

China Technology Sector

Accessing potential risks of recent power shortage to China tech supply chain

Given recent power outages announced in Jiangsu and Guangdong provinces, [media](#) reported that some factories are required to limit energy consumption and halt production this week until 30 Sep or early Oct. Although we believe one-week production disruption will not lead to significant impact on supply chain, this incident remains a major overhang to the sector given that 3Q21 is restocking peak season for most downstream products. In this report, we have compiled a list of production locations of major A/H tech companies (Fig 1, 2), and identified names with high exposure to these regions based on NDRC's dual control system on energy consumption and energy intensity. Overall, we remain conservative on the sector in near term, given concerns on weak iPhone13 sell-through and lack of near-term catalysts. We suggest investors accumulate deep-value names by mid-Oct, after more clarity on sell-through and power shortage incident.

- Accessing plant exposure in Jiangsu and Guangdong.** Jiangsu (Kunshan, Suzhou) is major manufacturing hub for handset/PC components, such as semi, CCL/PCB, casing, connector and camera module. Based on our analysis, listed companies with higher exposure to Jiangsu region include AAC Tech, FIT Hon Teng, Q-tech and Everwin. For Guangdong, many handset/PC OEM and component companies have production capacity in Shenzhen and Dongguan. Listed cos with higher exposure to Guangdong include O-Film, BYDE, Cowell, TK Group and Lenovo.
- Near-term overhang on power shortage and sell-through weakness.** As technology supply chain is highly integrated and globalized, we believe recent power shortage may lead to supply chain disruption in 4Q21E if the situation worsens and persists into October. In the past two months, sector weakness was mainly due to slower-than-expected order restocking amid global handset demand weakness and semi shortage due to COVID-19 lockdown in SouthEast Asia, such as Malaysia and Vietnam.
- Awaiting for more visibility on iPhone 13 sales and power suspension.** Overall, we maintain our conservative view in 2H21E as stated in our [iPhone 13 note](#), given concerns on weak consumer demand, semi shortage and lack of near-term catalysts. We suggest investors revisit deep-value names in mid-Oct, when there is more visibility on iPhone 13 sell-through and impact from power shortage incidents. We prefer Apple names with share gain, such as BYDE for Apple share gain and iPad/Watch components, and we maintain HOLD on AAC Tech for margin concerns and Sunny Optical for fair valuation.

Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY21E	P/E (x) FY22E	P/B (x) FY21E	ROE FY21E
AAC Tech	2018 HK	Hold	5,752	37.10	45.3	22%	19.2	17.3	1.8	9.1
Sunny Optical	2382 HK	Hold	28,634	203.20	210.1	3%	36.9	28.9	11.8	25.2
BYDE	285 HK	Buy	8,120	27.95	49.5	77%	14.3	10.0	2.6	15.5
Q-tech	1478 HK	Buy	1,722	11.32	22.0	94%	11.1	9.3	3.1	23.1
TK Group	2283 HK	Buy	322	3.01	4.1	36%	4.7	4.7	1.9	20.0

Source: Bloomberg, CMBIS estimates

OUTPERFORM
(Maintain)

China Technology Sector

Alex Ng
(852) 3900 0881
alexng@cmbi.com.hk

Lily Yang
(852) 3916 3716
lilyyang@cmbi.com.hk

Related Reports

Apple Launch Event: iPhone 13/Watch 7 largely inline; no new AirPods 3 slightly disappointing - 15 Sep 2021

Focus Charts

Figure 1: Production location of tech supply chain and exposure to NDRC's dual control system

Company	Ticker	Components	Location of production base in China	2021年上半年各地区双控目标完成情况	
				Energy Intensity Target 能耗强度降低进度目标预警等级	Total Consumption Cap 能源消费总量控制目标预警等级
Optics					
Sunny Optical	2382 HK	Camera lens, module, auto lens	Yuyao, Zhejiang(浙江余姚) Zhongshan, Guangdong (广东中山) Shanghai (上海) Xinyang, Henan (河南信阳)		
O-film	002456 CH	Handset Camera, Touch Panel	Nanchang, Jiangxi (江西南昌) Hefei, Anhui (安徽合肥) Shenzhen, Guangdong (广东深圳) Suzhou, Jiangsu (江苏苏州) Tianjin (天津)		
Q Tech	1478 HK	Camera module, fingerprint	Kunshan, Jiangsu (江苏昆山)		
Truly	732 HK	Camera, Display	Shanwei / Huizhou, Guangdong (广东汕尾、惠州) Meishan, Sichuan (四川眉山)		
Holitech	002217 CH	Camera, Fingerprint module	Nanchang / J'ian, Jiangxi (江西南昌、江西吉安) Zibo, Shandong (山东淄博) Shenzhen, Guangdong (广东深圳)		
Cowell	1415 HK	Camera module	Dongguan, Guangdong (广东东莞)		
Acoustics/Haptics					
AAC Tech	2018 HK	Acoustics, Haptics, Lens	Changzhou / Shuyang / Suzhou, Jiangsu (江苏常州、沭阳、苏州) Shenzhen, Guangdong (广东深圳)		
Luxshare	002475 CH	AirPods, Watch, Acoustics/haptics	Guangdong (广东) Jiangxi (江西) Jiangsu (江苏) Anhui (安徽) Zhejiang (浙江) Shanxi (山西) Hebei (河北) Sichuan (四川) Taiwan (台湾)		
Goertek	002241 CH	Acoustics, AirPods, Watch, AR/VR, Wearables	Weifang, Shandong (山东潍坊)		
Connector					
FIT Hon Teng	6088 HK	Connectors (PC, mobile, comm)	Kunshan, Jiangsu (江苏昆山), Huaian, Jiangsu (江苏淮安) Shenzhen, Guangdong (广东深圳) Zhengzhou, Henan (河南郑州) Chongqing (重庆) Heze, Shandong (山东菏泽) Taiwan (台湾)		
Casing					
Lens Tech	300433 CH	Glass, Casing	Changsha, Hunan (湖南长沙)		
Tongda	698 HK	Metal/plastic casing waterproof	Shishi, Fujian (福建石狮), Xiamen, Fujian (福建厦门) Shanghai (上海) Shenzhen, Guangdong (广东深圳)		
TK Group	2283 HK	Plastic molding/precision	Shenzhen/ Huizhou/ Dongguan, Guangdong (广东深圳/惠州/东莞) Suzhou, Zhejiang (浙江苏州)		
Everwin	300115 CH	Casing	Yibin, Sichuan (四川宜宾) Liyang / Kunshan, Jiangsu (江苏溧阳、昆山) Ningde, Fujian (福建宁德) Shenzhen / Dongguan, Guangdong (广东深圳、东莞) Shanghai (上海)		

Source: Company data, NDRC, CMBIS

Figure 2: Production location of tech supply chain and exposure to NDRC's dual control system (cont.)

Company	Ticker	Components	Location of production base in China	2021 年上半年各地区 双控目标完成情况	
				Energy Intensity Target 能耗强度降低进 度目标预警等级	Total Consumption Cap 能源消费总量控 制目标预警等级
OEM/ODM					
BYDE	285 HK	OEM Assembly, Casing	Shenzhen / Huizhou, Guangdong (广东深圳、惠州) Xi'an, Shaanxi (陕西西安) Changsha, Hunan (湖南长沙)		
Panel					
BOE	000725 CH	Display Panel	Beijing (北京) Chengdu / Mianyang, Sichuan (四川成都、绵阳) Hefei, Anhui (安徽合肥) Ordos, Nei Mongol (内蒙古鄂尔多斯) Chongqing (重庆) Fuzhou, Fujian (福建福州) Wuhan, Hubei (湖北武汉) Kunming, Yunnan (云南昆明)		
Brands					
Xiaomi	1810 HK	Smartphone Brand	ODM: 南京英华达, 廊坊富士康, 小米北京工厂, 惠州比亚迪, 闻泰科技, 深圳宝安卓翼科技		
Lenovo	992 HK	PC Brand	Beijing (北京) Shanghai (上海) Hefei, Anhui (安徽合肥) Shenzhen (广东深圳), Huizhou, Guangdong (广东惠州) Wuhan, Hubei (湖北武汉) Xiamen, Fujian (福建厦门)		
Semi					
SMC	981 HK	Foundry	Shanghai (上海) Beijing (北京) Tianjin (天津) Shenzhen, Guangdong (广东深圳)		

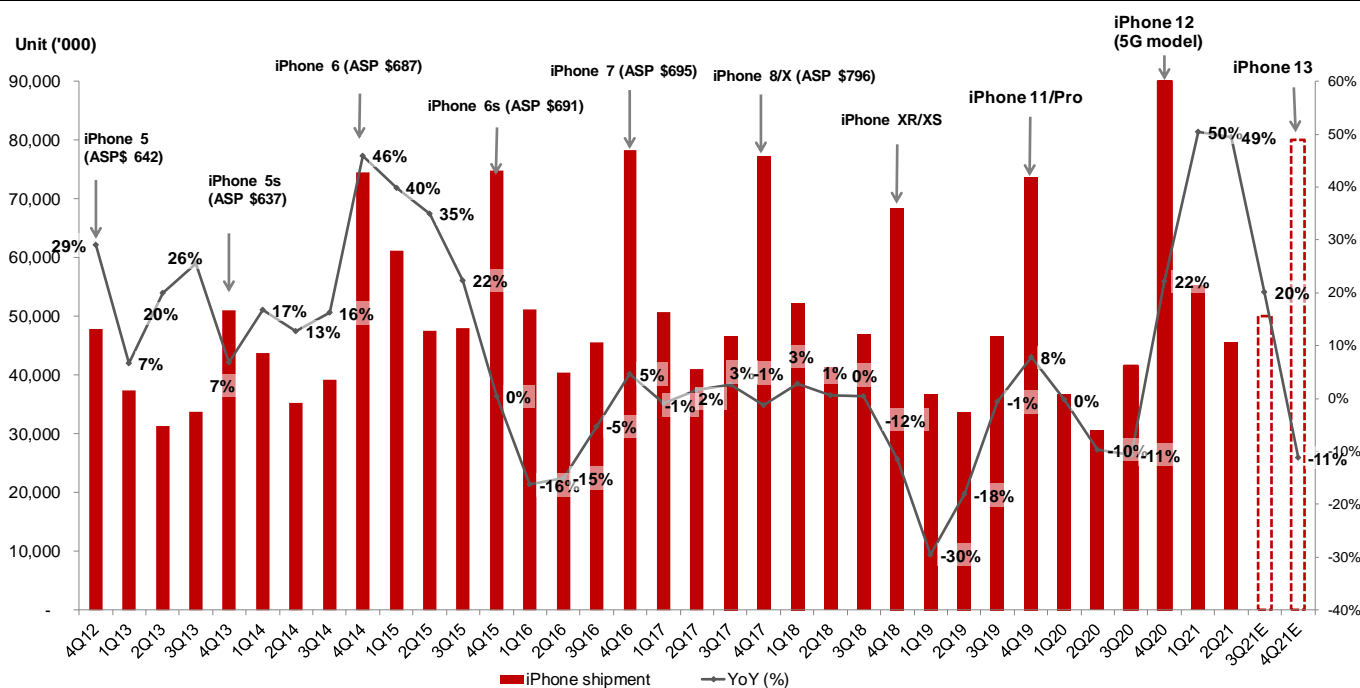
Source: Company data, NDRC, CMBIS

Figure 3: Supply chain mapping and sales mix exposure (2021)

Company	Ticker	Apple	Huawei	Samsung	Other CN brands	Others	Major Products
AAC Tech	2018 HK	45%	5%	25%	20%	5%	Acoustics, haptics, optics, casing
FIT Hon Teng	6088 HK	40%	3%			57%	Connector, wireless charging, accessories
Sunny Optical	2382 HK	2%	5%	15%	63%	15%	Camera module, handset lens sets, auto lens/module
BYDE	285 HK	40%	5%	10%	30%	15%	Metal/glass/plastics casing, ODM/OEM, e-cigarette
Tongda	698 HK	20%	5%	10%	35%	25%	Metal/plastic casing, waterproof
Q-Tech	1478 HK		5%		85%	15%	Cam module/lens, fingerprint modules, auto cam module
TK Group	2283 HK	10%				90%	Plastic molding, plastic precision
Truly	732 HK			3%	62%	35%	Camera modules, fingerprint, display modules
Cowell	1415 HK	90%		5%		5%	Camera Module
Luxshare	002475 CN	60%	10%	3%		27%	Wireless, AirPods, Watch, acoustics/haptics, EMS
Goertek	002241 CN	45%	5%	10%	15%	25%	Acoustics, AirPods, Watch, AR/VR, Wearables
Sunway	300136 CH	45%	5%	10%	30%	10%	Antenna, wireless charging, connector, RF
Lens Tech	300433 CN	50%	5%	10%	20%	15%	Glass/metal casing, EMS

Source: Company data, CMBIS estimates

Figure 4: Apple's iPhone shipment by quarter (CY)



Source: Company data, CMBIS estimates

Figure 5: Peers Comparison

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Optics												
Sunny Optical	2382 HK	Hold	28,634	203.20	210.1	3%	36.9	28.9	11.8	9.3	25.2	25.3
Q Tech	1478 HK	Buy	1,722	11.32	22.0	94%	11.1	9.3	3.1	2.6	23.1	22.8
Truly	732 HK	NR	942	2.23	NA	NA	5.6	4.1	-	-	-	-
Cowell	1415 HK	NR	519	4.84	NA	NA	8.9	7.1	1.6	1.3	18.8	20.6
Largan	3008 TT	NR	10,277	2125	NA	NA	13.4	11.7	2.0	1.8	14.9	15.6
Genius	3406 TT	NR	1,629	404	NA	NA	17.5	12.7	2.6	2.3	15.2	18.2
Primax	4915 TT	NR	817	50.20	NA	NA	9.3	8.2	1.5	1.4	16.1	17.3
Lite-On	2301 TT	NR	5,431	64.40	NA	NA	10.3	11.3	2.0	1.9	18.9	16.2
O-Film	002456 CH	NR	4,237	8.39	NA	NA	20.5	16.9	2.9	2.4	5.4	10.6
Samsung Elec	009150 KS	NR	10,976	175000	NA	NA	13.2	11.8	2.0	1.7	16.1	15.6
Lg Innotek	011070 KS	NR	4,086	204500	NA	NA	6.3	6.9	1.5	1.3	27.3	19.8
Partron	091700 KS	NR	427	9370	NA	NA	10.5	8.9	1.2	1.1	12.4	13.3
Average							13.6	11.5	2.9	2.5	17.6	17.8
Acoustics/Haptics												
AAC Tech	2018 HK	Hold	5,752	37.10	45.3	22%	19.2	17.3	1.8	1.8	9.1	9.7
Goertek	002241 CH	Buy	22,506	42.59	46.9	10%	31.8	25.0	7.6	6.5	20.3	20.4
Luxshare	002475 CH	Buy	37,876	34.85	*74.2	NA	19.7	21.1	6.6	5.1	25.0	26.0
Sunway	300136 CH	Buy	3,385	22.62	NA	NA	19.7	14.8	3.3	2.7	15.8	18.0
Merry	2439 TT	NR	690	90	NA	NA	15.9	11.0	1.7	1.6	9.2	12.9
Knowles	KN US	NR	1,757	19.10	NA	NA	13.5	12.7	-	-	-	-
Nidec	6594 JP	NR	67,003	12525	NA	NA	60.5	48.6	7.0	6.0	12.2	13.2
Alps Alpine	6770 JP	NR	2,370	1204	NA	NA	-	14.2	0.8	0.7	(0.2)	5.0
Average							25.8	20.6	4.1	3.5	13.2	8.4
Connector												
FIT Hon Teng	6088 HK	Buy	1,377	1.54	*3.6	NA	6.3	10.4	0.6	0.6	3.8	4.4
Luxshare	002475 CH	Buy	37,876	34.85	*74.2	NA	19.7	21.1	6.6	5.1	25.0	26.0
TE	TEL US	NR	46,225	140.93	NA	NA	21.8	19.9	4.6	4.1	22.2	22.3
Amphenol	APH US	NR	45,247	75.64	NA	NA	31.6	28.6	7.6	6.7	26.0	26.0
Average							19.9	20.0	4.8	4.1	20.7	12.1
EMS/OEM												
BYDE	285 HK	Buy	8,120	27.95	49.5	77%	14.3	10.0	2.6	2.2	15.5	18.5
Luxshare	002475 CH	Buy	37,876	34.85	*74.2	NA	19.7	21.1	6.6	5.1	25.0	26.0
Hon Hai Precision	2317 TT	NR	52,229	105.00	NA	NA	10.6	9.5	1.1	1.0	10.0	10.4
Pegatron	4938 TT	NR	6,316	65.60	NA	NA	8.6	9.6	1.0	1.0	11.7	10.1
Wistron	3231 TT	NR	2,847	27.20	NA	NA	8.8	8.4	1.0	0.9	11.7	11.9
Average							29.0	20.9	6.6	5.0	13.6	19.9
Casing												
BYDE	285 HK	Buy	8,120	27.95	49.5	77%	14.3	10.0	2.6	2.2	15.5	18.5
Tongda	698 HK	Buy	310	0.25	*0.6	NA	3.1	3.4	0.2	0.2	5.6	6.5
TK Group	2283 HK	Buy	322	3.01	4.1	36%	4.7	4.7	1.9	1.9	20.0	20.0
Ju Teng	3336 HK	NR	225	1.46	NA	NA	8.6	7.3	0.3	0.3	3.1	3.6
Everwin	300115 CH	NR	2,755	14.85	NA	NA	19.7	13.4	2.5	2.2	11.2	15.9
Lens Tech	300433 CH	NR	15,743	20.46	NA	NA	15.2	11.9	2.1	1.9	14.4	15.7
Chaozhou Three	300408 CH	NR	10,158	36.09	NA	NA	30.0	22.8	5.2	4.4	17.7	19.6
Catcher	2474 TT	NR	4,586	167.0	NA	NA	14.0	12.0	0.8	0.8	5.4	6.2
Jabil	JBL US	NR	8,887	60.94	NA	NA	11.0	10.2	4.1	3.6	41.7	37.2
Average							13.4	10.6	2.2	1.9	17.6	17.6

Source: Bloomberg, CMBIS estimates, * TP under review

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.) of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.