

Greater China Smartphone Sector

New iPhone sales solid; supply chain on track to enjoy strong 2H16

- iPhone 7/7 Plus initial sales are good while the 7 Plus has sold out; on track to meet our estimate of 78m for iPhone 7/7 Plus in 2H16
- Our research suggests total iPhone orders could see 5-8% upside in 4Q16 if sell-through remains strong
- Focus on component leaders with spec upgrades; Largan and AAC remain our top picks in the iPhone supply chain

 Negative Neutral **Positive**

Positive
 (unchanged)

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What's new: Our recent supply chain research in the market shows initial new iPhones sales are on track to meet our forecast, with total production volume up by 31% HoH in 2H16. We expect the strong pick-up in iPhone volume to provide positive revenue momentum for the supply chain.

What's the impact: Despite a lack of sales data from Apple, comments and inventory records from carriers and Apple stores on pre-orders and first weekend sales show strong initial demand for the iPhone 7 ("i7") and iPhone 7 Plus ("i7+"). In particular, the first batch of i7+ has sold out, according to Apple. This echoes our earlier view that dual-camera phones are an eye-catching point for consumers while the attractive pricing of the i7+ (USD769 vs. USD799; we estimated, USD799 for the Galaxy S7 edge or USD849 for the Note 7) should spur demand, as discussed in [Apple's new iPhone – Implication for the supply chain](#), published on 8 September 2016. We expect the 5.5" model to contribute 30-35% of new iPhone sales in 2H16 vs. 25-30% in 2H15. We hold a more optimistic view on i7/i7+ with forecast volume of 78m in 2H16, better than the consensus of 60-70m, on strong replacement demand from iPhone 6/6+ users. For 2H16, we expect total iPhone production volume to grow 31% HoH (vs. 10% HoH in 2015). Our recent research shows orders are on track to meet our forecast and we could see 5-8% upside for iPhone volume in 4Q16 if the sell-through remains strong despite a lack of confirmed orders as of yet. The strong ramp-up in shipments of i7/i7+ should provide near-term positive revenue momentum for the supply chain (Page 2), in our view.

What we recommend: In the Greater China smartphone space, **Largan (3008 TT, TWD3,820, Buy [1])** and **AAC (2018 HK, HKD82.55, Buy [1])** remain our top picks in the iPhone supply chain. Specifically, we like Largan's market-leading position, its ability to benefit from on-going spec upgrades and an expanding market arising from multi-camera adoption (see [The more the merrier: multi-cameras are the next mega trend in smartphones](#)). For AAC, we expect ASP upside in acoustics due to a rising adoption of waterproofing and receiver modules (see [Benefits from spec upgrade to accelerate from 2H16](#)) and upgrades of haptics in iPhones to provide solid earnings drivers in the coming years. The ramp-up in project/client wins from non-acoustic RF/mechanical products should also be a positive driver. The adoption of dual cameras in the i7+ should drive the penetration of multi-cameras in smartphones, and benefit our other top pick in the sector, although it is not in Apple's supply chain. Main risk to our positive sector rating: weaker-than-expected iPhone sell-through.

How we differ: We are more optimistic than the street on i7/i7+ volume in 2H16 and the benefits from spec upgrades to our preferred names.

Daiwa's preferred picks in Greater China smartphone sector

Company	Ticker	Daiwa rating	Mkt cap (USDbn)
Largan	3008 TT	Buy	16.2
AAC	2018 HK	Buy	13.3
Sunny	2382 HK	Outperform	5.4

Source: Daiwa; based on prices as of 20 September 2016

iPhone7/ 7 Plus: pre-order comments

Carriers/Retailers	Comments
T-Mobile (US)	CEO John Legere said iPhone 7 preorders hit record levels, totalling almost four times more than its previous record, the iPhone 6 in 2014.
AT&T (US)	CFO John Stephens said "The reality is as one of the biggest providers of the iPhone services, our sales are up. We have seen a real improvement, exceeding our expectations."
Verizon (US)	Executive VP Marni Walden said iPhone upgrade rates were more "business as usual" when he was asked about the margin impact of the iPhone 7 upgrade cycle.
Carphone Warehouse(UK)	General manager Aman Bhachu said "In the first 24 hours since the Apple iPhone 7 announcement we've seen visits to our iPhone pre-registration website increase by 71% compared to the iPhone 6S announcement last year, and by 28% on the iPhone 6 two years ago. Enthusiasm for the new iPhone appears to be at an all-time high."
EE (UK)	"We have seen unprecedented demand for the iPhone 7 and iPhone 7 Plus."
NTT Docomo (JP)	President Kazuhiro Yoshizawa said "We are seeing record-high pre-orders"

Source: Companies, Daiwa

iPhone7/ 7 Plus: availability in major carriers/ Apple store

Country	iPhone 7			iPhone 7 Plus			Carriers/Apple Store
	1-2 weeks	1-2 weeks	3-5 weeks	2-3 weeks	2-3 weeks	November	
US	1-2 weeks	1-2 weeks	3-5 weeks	2-3 weeks	2-3 weeks	November	Verizon
	1-2 weeks	1-2 weeks	3-5 weeks	2-3 weeks	2-3 weeks	November	Apple Store
UK	1-2 weeks	1-2 weeks	2-4 weeks	4-5 weeks	4-5 weeks	5-6 weeks	EE
	1-2 weeks	1-2 weeks	3-5 weeks	2-3 weeks	2-3 weeks	November	Apple Store
Hong Kong ²	2-3 weeks	2-3 weeks	Unavailable	4-6 weeks	4-6 weeks	Unavailable	Apple Store
Singapore	Available	Out of stock	Out of stock	Out of stock	Out of stock	Out of stock	Singtel
	1-2 weeks	1-2 weeks	3-5 weeks	2-3 weeks	2-3 weeks	November	Apple Store
Japan	Out of stock	Out of stock	Out of stock	Out of stock	Out of stock	Out of stock	NTT Docomo
	2-3 weeks	2-3 weeks	3-5 weeks	2-3 weeks	2-3 weeks	November	Apple Store
China	Limited amount	Limited amount	Limited amount	Unavailable	Unavailable	Unavailable	China mobile
	1-2 weeks	2-3 weeks	3-5 weeks	2-3 weeks	2-3 weeks	November	Apple Store

Source: Apple, Daiwa

Note: 1) Data as of 19 September 2016, the first weekend of iPhone sales since 16 September 2016. 2) Mobile Carriers in Hong Kong do not provide information on iPhone availability

iPhone: production volume by model

(m units)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16E	4Q16E	2014	2015	2016E
iPhone 4 & 4S	7.5	7.5	5.0	2.0	2.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	22.0	2.5	0.0
iPhone 5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iPhone 5C	6.5	5.0	4.0	3.0	2.5	1.0	0.5	0.0	0.0	0.0	0.0	0.0	18.5	4.0	0.0
iPhone 5S/6SE	26.5	24.0	13.0	6.0	8.0	4.5	4.0	2.5	6.0	9.0	8.0	6.0	69.5	19.0	29.0
iPhone 6 & 6 Plus	0.0	0.0	17.0	63.0	45.5	47.0	19.5	13.5	7.5	5.5	3.5	0.0	80.0	125.5	16.5
iPhone 6S & 6S Plus	0.0	0.0	0.0	0.0	0.0	0.0	22.0	60.0	33.5	28.5	14.0	8.5	0.0	82.0	84.5
iPhone 7 & 7 Plus	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.5	55.5	0.0	0.0	78.0
Total	40.5	36.5	39.0	74.0	58.0	53.0	46.0	76.0	47.0	43.0	48.0	70.0	190.0	233.0	208.0

Source: Daiwa estimates

Pan-Asia Apple iPhone 7/ 7 Plus supply chain

Part	Manufacturer
Semiconductor	
Processor	TSMC (2230 TT)
4G modem	Qualcomm (QCOM US), Intel (INTC US)
Cellular PA	Avago (AVGO US), Skyworks (SWKS US), Qorvo (QRVO US)
WiFi PA	Murata (6981 JP), TDK (6762 JP)
WiFi, Bluetooth, GPS	Broadcom (BRCM US)
Nand Flash	Samsung (005930 KS), Toshiba (6502 JP), Sandisk (SNDK US), SK Hynix (000660 KS)
Mobile DRAM	Samsung (005930 KS), SK Hynix (000660 KS), Micron (MU US)
PWM IC	Dialog semiconductor (DLG GR)
NFC	NXP (NXPI US)
Fingerprint Sensor	AuthenTec (Private)
SiP Module	ASE (2311 TT)
Gyro sensor	InvenSense (INVN US)
Display	
Incell TFT	LG Display (034220 KS), Japan Display (6740 JP), Sharp (6753 JP)
Display driver IC	Synaptics (SYNA US)
Forcetouch sensor	ADI (ADI US)
Forcetouch lamination	TPK (3673 TT), GIS (6456 TT)
Backlight module	Minebea (6479 JP), Radiant (6176 TT), e-Litecom (041520 KS)
Components	
Camera module	LG Innotek (011070 KS), Sharp (6753 JP), Cowell (1415 HK), Hon Hai (2317 TT)
Back camera lens	Largan (3008 TT), Kantatsu (Private), Genius Optical (3406 TT)
Front camera lens	Genius Optical (3406 TT), Largan (3008 TT)
VCM/OIS module	ALPS (6770 JP), Mitsumi (6767 JP)
CMOS Sensor	SONY (6758 JP)
Acoustic	AAC (2018 HK), Goertek (002241 CH), Merry (2439 TT), Knowles (KN US)
Haptics	AAC (2018 HK), Nidec (6594 JP), ALPS (6770 JP)
Metal casing	Hon Hai (2317 TT), Foxconn Tech (2354 TT), Catcher (2474 TT), Jabil (JBL US)
Crystal	TXC (3042 TT), Seiko Epson (6724 JP), NDK(6779 JP), Daishinku (6962 JP), Kyocera (6971 JP)
MLCC	Murata (6981 JP), SEMCO (009150 KS), Taiyo Yuden (6976 JP), TDK (6762 JP)
Connector, cable and charger	Luxshare (02475 CH), Cheng Uei (2392 TT), Longwell (6290 TT), Well shin (3501 TT), Plastron (6185 TT)
Flexible PCB	ZD Tech (4958 TT), NOK (7240 JP), Flexium (6269 TT), Fujikura (5803 JP), Sumitomo (5802 JP), Career (6153 TT), Interflex (051370 KS), MFLX (MFLX US)
Battery cell	LG Chemical (051910 KS), Samsung SDI (006400 KS), TDK/ATL (6762 JP), Tianjin Lishen (Private)
Battery packaging	Desay (000049 CH), Simplo (6121 TT), Sunwoda (300207 CH)
Assembly	
	Hon Hai (2317 TT), Pegatron (4938 TT)

Source: Companies, Daiwa

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