

IT Hardware

Handset: Apple-linked And Premium Suppliers To Widen Their Lead Amid The Downturn

Highlights

- Companies with Apple and premium exposure remained relatively more resilient than those with Android mass-market and low-end/mid-range exposure, although earnings outcomes still depended on product mix and execution. Cowell reported in-line revenue but a 37.6% net profit beat versus consensus; Lens' revenue fell 7.4% yoy but net profit beat consensus by 48.7%; BYDE's revenue beat consensus by 6.3% but net profit missed by 46.4%.
- OEM commentary remains less negative than supplier guidance. Xiaomi expects the pace of memory cost increases to slow in 4Q26, whereas AAC, Sunny and Q Tech continue to flag handset pressure, with Sunny expecting OEM order cuts through 2027. This divergence keeps us cautious about the 2027 Android shipment outlook.
- Diversification into AI devices and infrastructure components is providing a meaningful buffer. Sunny and Q Tech's AIoT products are starting to contribute to a meaningful portion of their top- and bottom lines. Lens, BYDE and AAC are also expecting AI server components contribution to pick up from 2H26.
- We prefer Apple suppliers over Android suppliers on stronger relative shipments, more resilient margins and a multi-year specification upgrade cycle. Within this framework, we favour Cowell for its iPhone camera-content and share gains, HL for its current AI-PCB growth and potential Apple capex upside, and Sunny Optical for its premium handset positioning and fast-growing AIoT businesses.

Analysis

- Performance of handset supply chain diverged.** Within our coverage, Sunny Optical (Sunny), Cowell, and Han's Laser (HL) registered strong earnings growth while beating market's expectations; Lens Tech (Lens) and Xiaomi saw meaningful yoy declines in earnings but earnings were better than feared; AAC registered a decent yoy growth but growth was materially below expectations; while Q Tech and BYD Electronic (BYDE) missed expectations with sluggish yoy growth. Overall, we identified that: a) players with exposure to premium smartphone segments are generally better off; b) players with exposure to the iPhone supply chain are also significantly more resilient than pure Android players; c) almost all supply chain players are accelerating its efforts to diversify out of smartphones, and are treating AI infra and AI device related-products as the next growth driver; and d) with the exception of Apple, OEMs remained in a much worse situation than their suppliers as they are most directly hit by the cost hikes.

Peer Comparison

Company	Ticker	Rec*	Price 3 Sep 26 (lcy)	Target Price (lcy)	Upside To TP (%)	Last Year End	PE 2026F (x)	PE 2027F (x)	PE 2028F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (lcy m)	Price/ NAV ps (x)
Sunny Optical	2382 HK	BUY	69.10	106.0	53.4	Dec-25	15.7	13.8	11.6	1.4	13.3	74,556	2.3
Xiaomi	1810 HK	HOLD	26.36	26.2	(0.6)	Dec-25	25.6	21.7	16.7	0.0	7.9	679,017	2.1
AAC	2018 HK	BUY	42.00	47.8	13.8	Dec-25	15.9	14.0	11.5	0.9	10.0	48,495	1.8
Q Tech	1478 HK	HOLD	5.45	6.7	23.3	Dec-25	10.6	10.9	8.3	2.6	15.0	6,506	1.0
BYD Electronic	285 HK	SELL	23.86	14.5	(39.2)	Dec-25	26.5	16.3	12.5	1.0	5.0	53,761	1.8
Cowell	1415 HK	BUY	23.90	48.0	98.3	Dec-25	10.0	7.9	6.4	2.0	31.4	20,759	2.7
Lens Tech-H	6613 HK	BUY	22.40	43.1	92.4	Dec-25	20.5	15.1	11.3	2.4	8.4	118,244	11.9
Lens Tech-A	300433 CH	BUY	33.27	48.4	45.5	Dec-25	34.9	25.7	19.3	1.4	8.4	175,624	19.5
Han's Laser	002008 CH	BUY	92.85	153.2	65.0	Dec-25	30.0	23.6	19.1	0.7	15.6	95,599	5.4

Source: Bloomberg, UOB Kay Hian

Analyst(s)

Johnny Yum

johnny.yum@uobkh.com
+852 2235 6760

Murphy Li

murphy.li@uobkh.com
+852 2826 4867

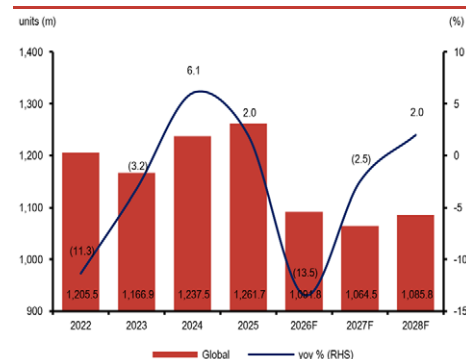
OVERWEIGHT (Maintained)

Sector Picks

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
Cowell	1415 HK	BUY	23.90	48.00
Han's Laser	002008 CH	BUY	92.85	153.20
Sunny Optical	2382 HK	BUY	69.10	106.00

Source: Bloomberg, UOB Kay Hian

Global Smartphone Shipment Forecast



Source: UOB Kay Hian

- **The Android smartphone business is not in a good position.** The general consensus is that smartphones will decline by double-digits this year, and remain overall sluggish in 2027, with all key brands focusing on the premium segment while low- and mid-end phones will see a drastic volume squeeze. However, generally the OEMs are a bit more positive regarding component costs, and expect the memory supply shortage to improve in 2027 which could at least lead to a significantly lower price hike, while the component suppliers stated that their communications with clients indicate that volume may decline by double-digit % in 2027 with lower-priced phone models becoming obsolete given the mounting component prices.

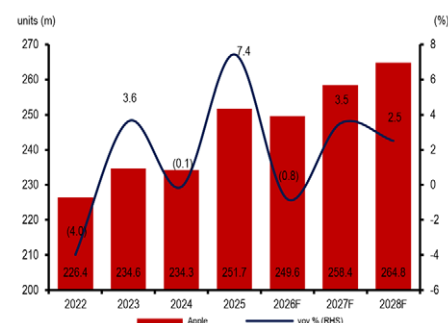
We are also increasingly concerned with the sustainability of premium segment-boosted revenue growth/margin expansion, as our checks show that while flagship model specs upgrades remain solid, volume may slow down more meaningfully towards end-26, and we are starting to play to players attempting to gain share in 2027 to maintain their run-rates, which we see as a sign of a weakening specs upgrade trend.

- **The Apple supply chain will be a lot more resilient.** As Apple maintains a firm stance to push for share gains in the smartphone market, specifications upgrades and pricing will remain aggressive through 2026-28. We have already seen better-than-expected pricing for both the iPhone 18 Pro/Pro Max and iPhone Duo (foldable) models and we expect the 20th anniversary iPhone design change to be implemented to the normal Pro/Pro Max models in 2027 along with metal casing material changes, upgrades to the vapour chamber, and 200MP large aperture cameras alongside upgrades for the front camera. Related supply chain players like Lens, Sunny and AAC should stand to benefit the most.
- **AI devices are emerging as the biggest growth driver.** AI devices, including a wide range of new products, including handheld cameras, drones, smart robots, automated factories/warehouse solutions, and even new form factored devices (eg OpenAI's smart-pin-like product), are picking up significantly thanks to a meaningful improvement in its technical capabilities in recent years. This is pushing the smart IoT categories to be a major growth driver for Sunny, Q Tech and AAC with all three players now expecting high double-digit growth in 2026. Names with stronger bargaining power and capabilities stand to achieve more design wins, such as Sunny Optical, and perhaps AAC.
- **AI-infra component businesses should start to pick up in 2H26.** Most handset supply chain players who had achieved design wins in the AI-infrastructure component business, notably AI server chassis and liquid cooling components, will start to see production ramp up in 2H26 with players like Lens, AAC, BYDE all guiding for anywhere from Rmb500m-1b contribution in revenue. Other addressable products, such as power supply, are likely to see more developments in 2027, while optical transceivers and interconnect related components will take another 2-3 years to be realised.
- **XR on the sidelines as growth pauses.** While newcomers such as AAC and Q Tech are guiding for faster growth from a lower base, we expect XR-related business to remain sluggish for the coming year as industry volume growth remains muted.

Valuation/Recommendation

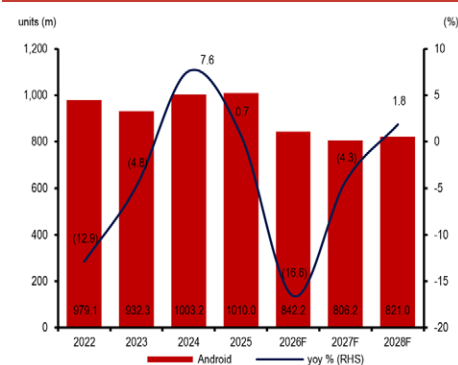
- **We expect global smartphone shipments to decline 13.5%/2.5% yoy in 2026/27 before recovering 2.0% in 2028.** Within this, iPhone shipments are forecast to register -0.8%/+3.5%/+2.5% growth in 2026-28, while Android declines 16.6%/4.3% in 2026/27 before recovering 1.8% in 2028. Note that we believe risks to our estimates lean on the downside as we do not expect the memory prices to weaken anytime soon, while other components (ie other semiconductors, MLCCs) are all seeing price hikes.

Apple Smartphone Shipment Forecast



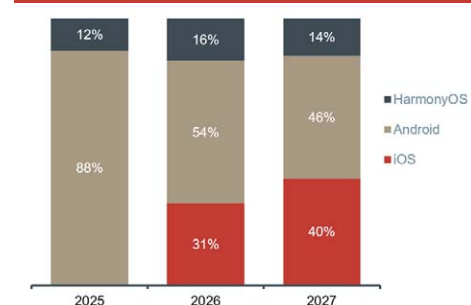
Source: UOB Kay Hian

Android Smartphone Shipment Forecast



Source: UOB Kay Hian

Foldable Market Share Forecast



Source: IDC, UOB Kay Hian

- **Cowell (1415 HK/BUY/Target: HK\$48.00).** We maintain our preference for Cowell, as its pure Apple supply chain exposure will help the company weather the ongoing smartphone downcycle a lot better than other component suppliers. We are also expecting Cowell's growth to re-accelerate in 2H27, driven by meaningful upgrades to next year's iPhone launches, as well as a potential entrance into the high value main camera. Our target price of HK\$48.00 is based on 19.8x 2026F PE, which is 1SD above its five-year historical forward mean.
- **Han's Laser (002008 CH/BUY/Target: Rmb153.20).** We expect Han's Laser to be the key supplier to Apple's 3D printers (3DP), which can potentially provide further upside to our Apple-related revenue assumption of Rmb4.2b in 2026, while the confirmation of its order wins is expected to be a key catalyst in the coming weeks. On top of that, we expect the PCB equipment business to continue benefitting from surging AI-PCB demand, as the company had managed to break into multiple world-leading AI-PCB suppliers such as Victory Giant, and WUS PCB. Our target price of Rmb153.20 is based on 39.9x 2027F PE, 1SD above its 10-year historical mean.
- **Sunny Optical (2382 HK/BUY/Target: HK\$106.00).** We like Sunny for its lower exposure to the low-end segment (<10% of revenue), its diversification into AIoT devices (>30% of gross profit in 1H26 and expected to grow >50% in 2026), as well as additional order wins in the Apple supply chain (+100% yoy in 2026 and further design wins in 2027, revenue contribution reaching high single-digit %/mid-teens in 2026-27 respectively). Sunny should be the most resilient name among our Android-exposed players. Our target price of HK\$106.00 is based on 21.1x 2027F PE, pegged to 0.5SD below five-year historical mean.

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