



Rating  
**Buy**

Asia  
China

Technology  
Hardware & Equipment

Company  
**Sunwoda Battery  
Alert**

Reuters 300207.SZ    Bloomberg 300207 SZ    Exchange SHZ    Ticker 300207

Date  
15 August 2017

## Results

Price at 14 Aug 2017 (CNY)	12.00
Price target - 12mth (CNY)	14.50
52-week range (CNY)	16.15 - 10.92
HANG SENG INDEX	26,884

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## iPhone 8 momentum is coming through strongly

### Good results and optimistic 2H17 outlook on iPhone 8 strength

Sunwoda released better 2Q17 operating results thanks to sequential handset (iPhone/China smartphone) battery share gains and initial penetration of the iPad supply chain. Management anticipates 30-35% YoY EPS growth in 2H17, propelled by iPhone 8 strength. We expect Sunwoda's iPhone allocation to rise to 35-45% in 2017-2018 vs. 20% in 2016. Driven by continued ASP increases stimulated by dual cell battery proliferation, we expect Sunwoda's iPhone revenue CAGR to ramp to 40%+ in 2017-2020. Sunwoda is one of our top picks in the iPhone supply chain, featuring both an ASP and an order allocation gain story. We believe its continued iPad share gains and increase in organic EV orders should ensure its long-term growth outlook. Reiterating Buy.

### 2Q17 operating results tracking ahead of our expectations

Sunwoda reported 2Q17 earnings of RMB109mn (+5% YoY, +50% QoQ) on revenue of RMB3.3bn (+76% YoY, +47% QoQ). Operating profit of RMB166mn (+130% QoQ, 39% YoY) was 20% higher than our estimate thanks to strong handset/iPad battery share gains at major customers (Huawei, OPPO and Apple, in our view). PC battery margin dropped to 12% in 2Q17 vs. 15-16% previously; management attributes the unfavorable result to lower yield resulting from new iPad battery production. After the initial learning curve, Sunwoda expects PC GPM to return to normal levels starting 3Q17. The company also anticipates continued iPad allocation gains from 10-15% in 2017 to 30-40% in 2018, supporting a 100% PC revenue CAGR in 2017-2018.

### Major beneficiary of iPhone 8 battery spec upgrade

Sunwoda indicates that its development process for the iPhone 8 battery (upgraded to dual cell vs. single cell in iPhone 7) is nearly complete. Management is confident of winning a 50% share in both iPhone 8 and the new 5.5" LCD iPhone in 2H17. Due to the meaningful iPhone 8 spec upgrade, Sunwoda anticipates a 50-100% increase in battery ASP, with 15-16% GPM vs. its historical average of 13-14%. Sunwoda also expects some of its Android handset customers to follow Apple's new battery design (dual cell) given rising power consumption needs and safety concerns about single cell design. The company believes the ASP hike/share expansion at almost all of its handset customers will help it deliver a 30%+ earnings CAGR in 2017-2018.

### Valuation and risks

We fine-tune our model but keep our forecasts largely unchanged. We base our RMB14.5 target price on 24x 2018E P/E, or 0.9x PEG (vs. China IT industry average of 25-30x P/E, or 1.2x PEG), which we believe is reachable given the strong sector outlook. Risks: iPhone share loss, slower China EV demand, unfavorable FX.

### Key changes

Sales (FYE)	11,965 to 14,100	↑	17.8%
Op prof margin (FYE)	5.7 to 4.9	↓	-15.3%
Net profit (FYE)	594.4 to 593.4	↓	-0.2%

Source: Deutsche Bank

### Stock data

Market cap (CNYm)	14,717
Market cap (USDm)	2,207
Shares outstanding (m)	1,249.8
Major shareholders	-
Free float (%)	0
Avg daily value traded (USDm)	20.3

Source: Deutsche Bank