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## IT Hardware

# China May Handsets – Below Seasonal Overall; iPhone Strong

### May Below Seasonal Growth M/M

**Weaker seasonality:** China's MIIT (Ministry of Industry and Information Technology) released monthly handset data for May. Following a weaker April, China May smartphone shipments declined 16% sequentially, 18% below the 3-year average growth of +2% for the month (2017-2019, to exclude the Covid-19 impact in 2020). Monthly units for total handset were down 32% Y/Y, following a 32% Y/Y decline in April and continued the downdraft trend we saw in much of 2020. **We recently did a round of channel checks with industry participants in China and highlighted the weak May Day holiday sales with iPhone holding in better on component supply than the Chinese vendors** (see our channel checks note [IT Hardware: China Smartphone Checks](#), 6/1/2021).

**5G penetration down:** 5G penetration sharply declined 520bps in May to 72.6%, a reversal from the steady 5G rise over the last 12 months, where the penetration was only 46% a year ago. **Our channel partners have indicated 5G saturation in our recent checks, and this seems to be playing out.** 5G phones have represented ~73% of new models introduced YTD in 2021, compared to an average of ~53% for the full year 2020. At 26% of new models introduced YTD, 4G shipments increased by 5% sequentially, but down nearly 65% Y/Y.

### AAPL Implications

**700bps Gain in May Market Share for iPhone:** We estimate 3.5M iPhone shipments in the month of May, up 1M vs. April's seasonally strong 2.5M level. This was up 41% sequentially, vs. normal May seasonal growth level of +55% M/M for 2017-2019. We estimate that iPhone units were up 38% Y/Y in May, a positive reversal vs. a 24% Y/Y decline in April. We also estimate that iPhone market share rose to 16% in the month, 700 bps above the April level of 9%, still a decline from the 20% level seen in Q420, however, an improvement above the 11% level in Q121 and 12% average for 2020. **From our conversations with Chinese channel partners, we believe Apple is better positioned to deal with the component shortage issues than the Chinese. Our recent analysis on Taiwan Suppliers also indicated better June-Q for AAPL** ([AAPL Supplier Tracker - May Sub-Seasonal But Q2 Looks Good](#), 6/14/2021).

The iPhone 12 cycle has been strong. We expect the strong IP12 cycle to benefit the June Q. We have seen this trend before with AAPL, and believe the next two cycles may prove challenging with units potentially down Y/Y in FY22 and FY23. China has been a little different than the global pattern where one strong year is followed by two weak years (see our latest note [Smartphone: Q1 Review and Raising 2021 Unit Growth Rate](#), 5/5/2021). In China, iPhone units have never rebounded from the iPhone 6/6 Plus highs, and in 2020 were 50% below the peak level of 2015. **We do not make changes to our estimates for AAPL, and maintain our Equal Weight rating.**

### China MIIT Handset Data: May 2021

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Source: Barclays Research, MIIT (China Academy of Telecommunication Research).

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#### Mentioned Stocks (Ticker, Date, Price)

**Apple, Inc.** (AAPL, 15-Jun-2021, USD 129.64), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M/N

Other Material Conflicts: One of the Research Analysts on the fundamental equity coverage team (and/or a member of his or her household) has a long position in Vanguard Information Technology Index Fund (NYSEARCA:VGT) which primary holding is in Apple Inc. (NASDAQ: AAPL).

**Valuation Methodology:** We rate AAPL Equal Weight with a price target of \$134. While many are excited about Services and Wearables, we remain cautious on high Street expectations for the 5G iPhone cycle. We believe EPS growth will come mostly from buybacks. Our \$134 PT is based on a 25x P/E multiple on our CY22e EPS estimate of \$5.37.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** 1) iPhone growth. Apple market share peaked several years ago, and the company has not had a hit phone in a few years. 5G iPhones could help AAPL regain share after Huawei sanctions, but the hefty valuation already prices in a very successful iPhone 5G cycle, leading to more downside than upside risks. 2) Installed base impact on Services. Services have been a great growth business, but if the installed base grows more slowly or starts to shrink the segment could be materially affected. 3) Valuation. AAPL is trading at all time high multiples despite little operating income growth, falling gross and operating margins, and share losses in the core business. 4) Regulation. We expect to see increasing regulatory scrutiny on AAPL's practices in its App Store. Increasing regulation could lead to a change in its business model, or lower cut from app developers.

#### Ratings and Price Target History:

Apple, Inc.

Currency=USD



Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
18-May-2021	124.85		134.00
29-Apr-2021	133.48		138.00
28-Jan-2021	137.09		136.00
14-Jan-2021	128.91		116.00
31-Aug-2020	129.04		100.00
31-Jul-2020	106.26		100.00
25-Jun-2020	91.21		81.50
01-May-2020	72.27		72.00
26-Mar-2020	64.61		67.00
18-Feb-2020	79.75		74.25
29-Jan-2020	81.09		76.00
31-Oct-2019	62.19		59.00
16-Oct-2019	58.59		56.00
10-Sep-2019	54.18		51.75
07-Aug-2019	49.76	Equal Weight	48.00
17-Jul-2018	47.86	Coverage Dropped	

On 16-Jun-2018, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 40.25.

Source: Bloomberg, Barclays Research

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