

# Horizon Insights

# China Demand Monthly Report

Horizon Insights

2023/12

*Horizon Insights, Shanghai, Beijing, Houston,  
Singapore, Hong Kong*

**Tech, Manufacturing, Healthcare,  
Consumption, Market Strategy, FICC**

# The China Demand Series Reports



The China Demand Monthly Report is a new series of reports from Horizon Insights that provides insights into the latest trends in China's consumer, manufacturing, technology, and healthcare industries.

Each report is based on monthly research, observation, and data analysis by Horizon Insights' industry analysts. The reports cover a wide range of topics, including:

- **Consumer trends:** changes in consumer spending, preferences, and behavior
- **Manufacturing trends:** changes in supply chains, technology, and innovation
- **Technology trends:** new technologies, startups, and investment trends
- **Healthcare trends:** changes in healthcare policy, technology, and innovation

The reports also identify the implications of these trends for US companies with significant exposure to the Chinese market. We believe that the China Demand Monthly Report provides a valuable resource for overseas investors who want to understand the latest trends in China's economy and industries. The reports provide a comprehensive and objective overview of the Chinese market, and they can help investors make informed decisions about their investments.

# Key Takeaway for December China Demand Report

In our December report on China's demand trends, we observed a steady recovery in the consumer sector, with notable increases in new energy vehicle demand and a warming trend in the smartphone market. On the supply side, the rise of Chinese competitors in manufacturing is reshaping the competitive landscape.

- **As for Consumer spending**, the apparel category has seen nearly a 20% year-over-year growth due to low base demand, with men's and outdoor apparel outperforming. However, the growth of sportswear is under pressure due to discounting and inventory reduction. In this context, Nike and the premium brand Tapestry have shown divergent market performances in China. Additionally, China's food and beverage chain sector continued its modest growth in November, in line with Starbucks' accelerated expansion in the Chinese market. Walmart has also made significant breakthroughs in developing its presence among China's middle-class consumers.
- **In manufacturing**, the steady growth in China's new energy vehicle demand and Tesla's strong performance in China are noteworthy. However, in the construction machinery sector, although the demand in China remains stable, Caterpillar faces tough competition.
- **In the tech sector**, the resurgence of the Chinese smartphone market poses new challenges for Apple, especially with Huawei's comeback. The semiconductor industry saw a moderate increase in chip demand, but Texas Instruments (TI) is involved in a price war in China.
- **In healthcare**, China's pilot projects in medical equipment leasing are favorable for the performance of high-end devices like GE Healthcare. Finally, Illumina's developments in China in 2023 highlight the growing competitiveness of the Chinese market.

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- **GE Health** Sees Rising Domestic Rivalry;
- **Illumina** Dropped to the Second Behind Chinese Competitor



01

# Modest Improvement in China's November Consumption Sector

# Modest Improvements in China's November Consumption Sector

The overall sentiment of the surveyed industries improved slightly in November.

Sector	November Sales	December Expectations	November Inventory	Note
Beer	<p>Down, 67% UP, 25% Flat, 8%</p>	<p>Down, 34% UP, 58% Flat, 8%</p>	<p>Down, 42% UP, 50% Flat, 8%</p>	Survey of 12 distributors and sales
Frozen Food	<p>Down, 18% UP, 73% Flat, 9%</p>	<p>Down, 18% UP, 82% Flat, 0%</p>	<p>Down, 28% UP, 64% Flat, 8%</p>	Survey of 11 distributors and sales
Clothes	<p>Down, 9% UP, 91% Flat, 0%</p>	<p>Down, 27% UP, 55% Flat, 18%</p>	<p>Down, 67% UP, 25% Flat, 8%</p>	Survey of 11 distributors and sales
Chain-store Catering	<p>Down, 41% UP, 42% Flat, 17%</p>	<p>Down, 41% UP, 42% Flat, 17%</p>		Survey of 12 experts, including KFC, Tasting, Mixue, Luckin, Juewei, Haidilao

# 01 November Apparel Survey: Double-digit Growth with Pressure in Sportswear

**Industry Demand:** In November, clothes brand performance diverged significantly across regions due to low base numbers in some areas and varying temperature drops. However, overall, brands saw healthy YoY growth exceeding 20%. Outdoor and youth-oriented strategies are the primary product directions for menswear brands in 2024.

**Competition Landscape:** Sportswear inventories are currently above healthy levels, which leads to heavier discounts compared to the past three years, intensifying competition.

## Men's Wear and Sportswear Brand Tracking and Outlook:

### Men's Wear

**Top menswear brands are experiencing strong demand and inventory control, with a collective focus on outdoor and youth-oriented products in 2024.**

**Baoxiniao (002154):** Q4 saw Haggis and Baoxiniao brands maintain 20-30% growth, with inventories within healthy ranges. Haggis' order book remains at 10%+/7%, with outdoor collections as a key focus for 2024. Baoxiniao is expected to further strengthen its non-premium business segments.

**Biyin Lefen:** Demand has remained high throughout Q4 in surveyed regions, with 2024 order book expectations exceeding 20-30%. However, stagnant sales of sportswear products in the surveyed areas introduce some uncertainty for new items.

### Sportswear Market

**Inventory pressure in sportswear remains a key concern for management; outdoor and basketball are key areas for new product development in 2024.**

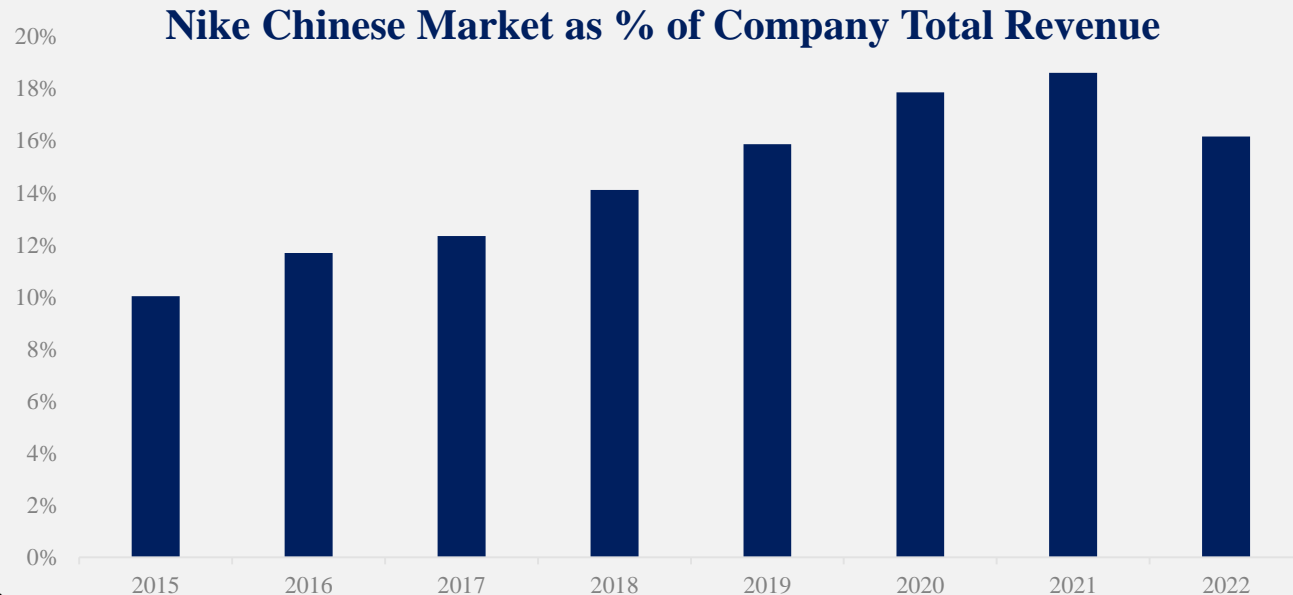
**Li Ning (LNNGY):** Mixed Q4 growth, high inventory in some areas. Focus on outdoor, high-end basketball, and mass-market running shoes in 2024.

**Anta (02020.HK)** cautious for 2024: low 2023 purchases, controlled inventory/discounts, focus on outdoor, mid-high-end basketball, and running shoes.

# Nike's Challenge in the Chinese Market

Despite its strong brand presence, Nike continues to navigate challenges due to the competitive market conditions and evolving consumer preferences in China.

- **Sales Slowdown:** There have been challenges with a slowdown in sales in the Chinese market, which is partly attributed to broader market dynamics and the competitive landscape in China.
- **Competition from Local Brands:** The company faces strong competition from local Chinese sportswear brands like Anta and Li-Ning. These brands offer competitive pricing and have a deep understanding of local consumer preferences.
- **Hyper-Localization Strategy:** Nike has focused on adapting its products and marketing to align with the preferences of the Chinese consumer base, especially targeting the Gen Z demographic.



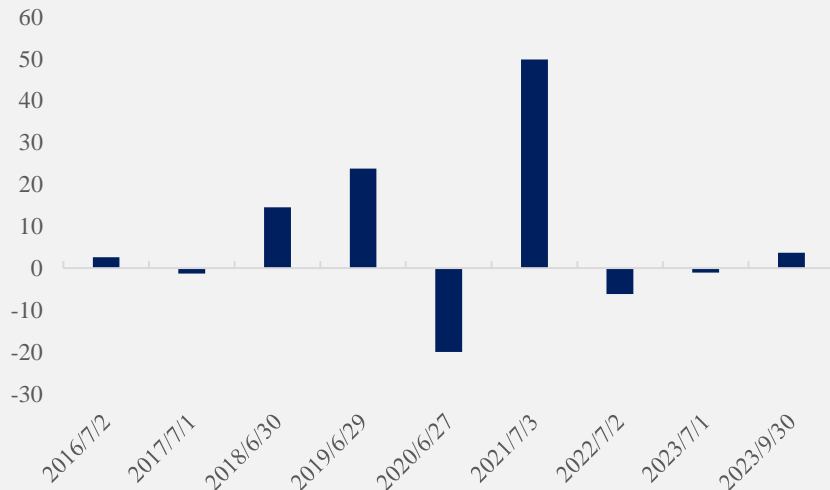


# Affordable luxury brand Tapestry Sees Continuous China Recovery

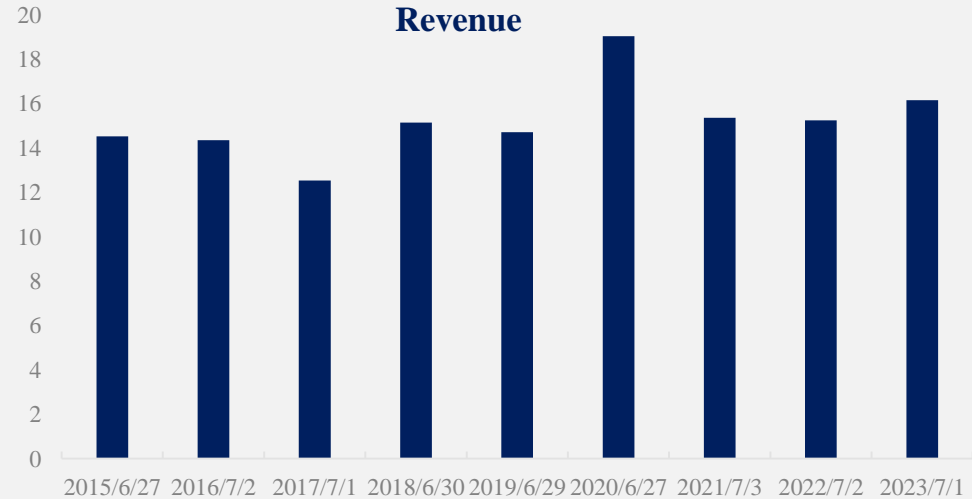
Tapestry, the parent company of luxury brands like Coach and Kate Spade, recently reported record first-quarter earnings per share, backed by 2% constant currency revenue growth, primarily driven by a 7% international gain, including a 9% increase in Greater China. The company expects mid-single-digit growth in China for the full year.

- Expansion Plans:** Tapestry plans to open 60 more stores in China by the end of 2025. This expansion is part of a larger strategy announced in 2022 to open 100 stores in China over three years. As of mid-2023, the company had already launched 37 new stores in the country. This expansion underlines Tapestry's commitment to the Chinese market and its aim to capitalize on the growing demand for luxury goods among Chinese consumers, especially Gen Z.
- Targeting Chinese Consumers:** Tapestry is focusing on the Chinese Gen Z demographic, who are highly digitally engaged and have a strong enthusiasm for premium brands. The company is leveraging its digital expertise to connect with consumers on their preferred shopping platforms.

### Tapestry China Revenue YoY %

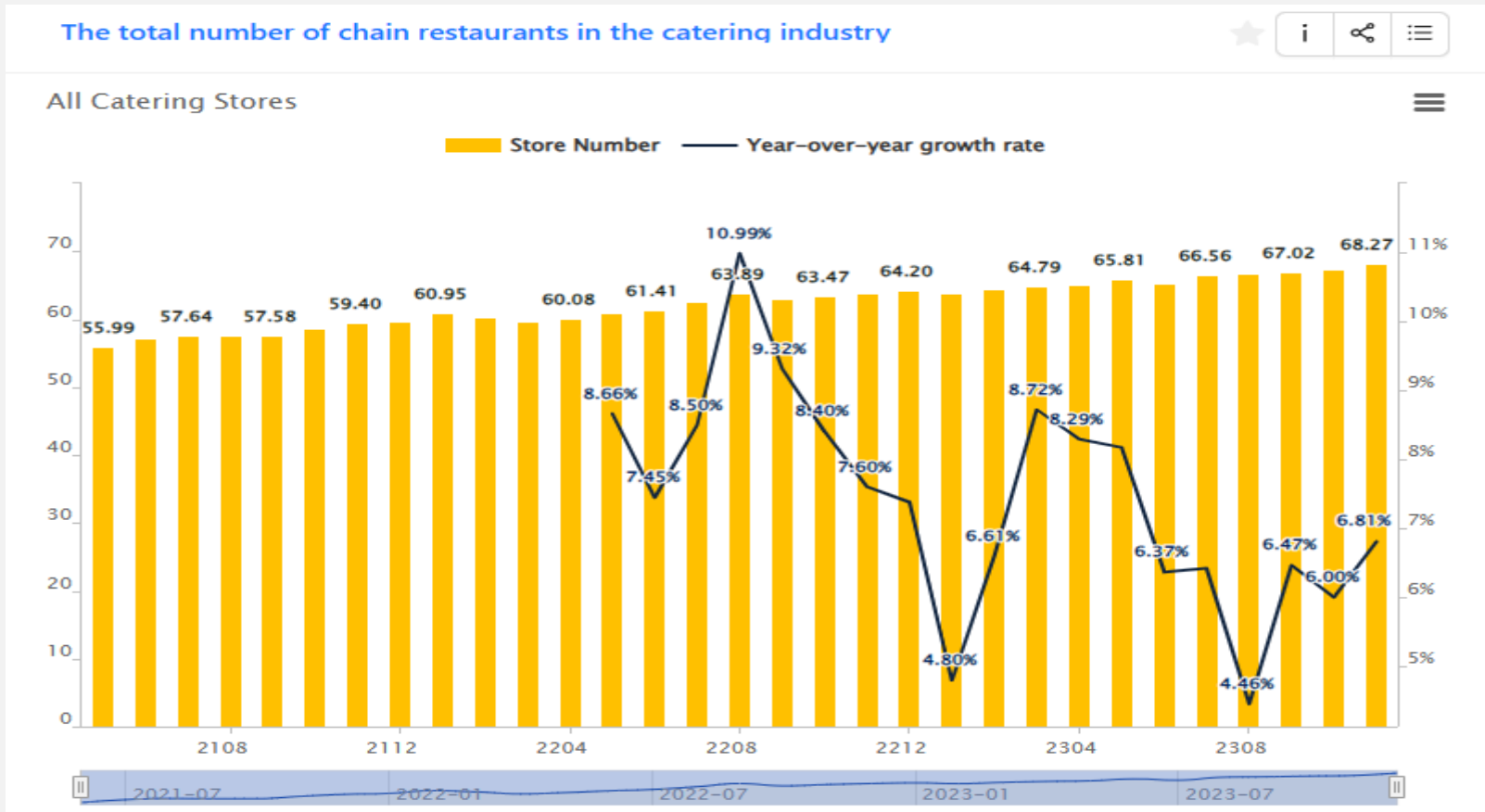


### Chinese Market Revenue as % Tapestry Total Revenue



## 02 China's F&B Chain Store Development Edged up Slightly in Nov

- In November, our store counts of catering chain stores grew by 6.8% from last year, up from October's 6%.
- Due to the impact of overall catering demand, consumer staples such as beer, condiments, and dairy products have performed relatively weakly since Q4, with generally high inventory and sales pressure.

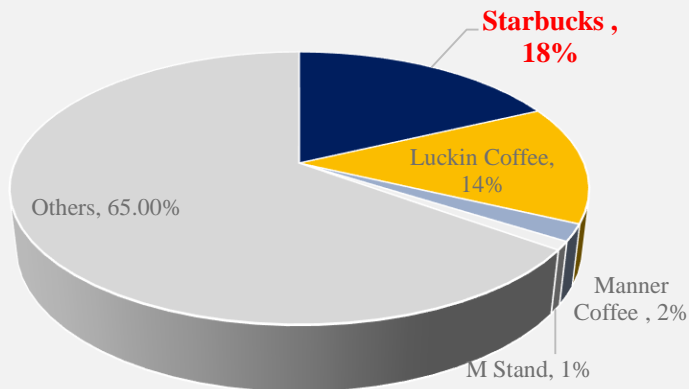


# Starbucks to Accelerate Store Openings amid Intense Competition

**Continuous Recovery Seen in Starbucks China Operation.** In fiscal year 2023 ended October 1, the net revenue of Starbucks in China amounted to approximately 3.1 billion U.S. dollars, an increase of 2.4% compared to the previous year. Starbucks is likely to remain the market leader in the short term, but Luckin Coffee and Manner Coffee are both well-positioned to challenge for market share in the future.

- Notably, sales at Chinese establishments that had been open for at least 13 months saw a remarkable 46% surge compared to the previous year, indicating a sustained recovery in one of Starbucks' crucial markets.
- With 6800 stores in China, Starbucks aim to have 9000 stores cross the country in 2025;
- Starbuck's revenue from the Chinese market accounts for 8.6% in 2023, down from 2022's 9.3% and 2021's 12.7%.

China Coffee Chain Store Market Share (2022)



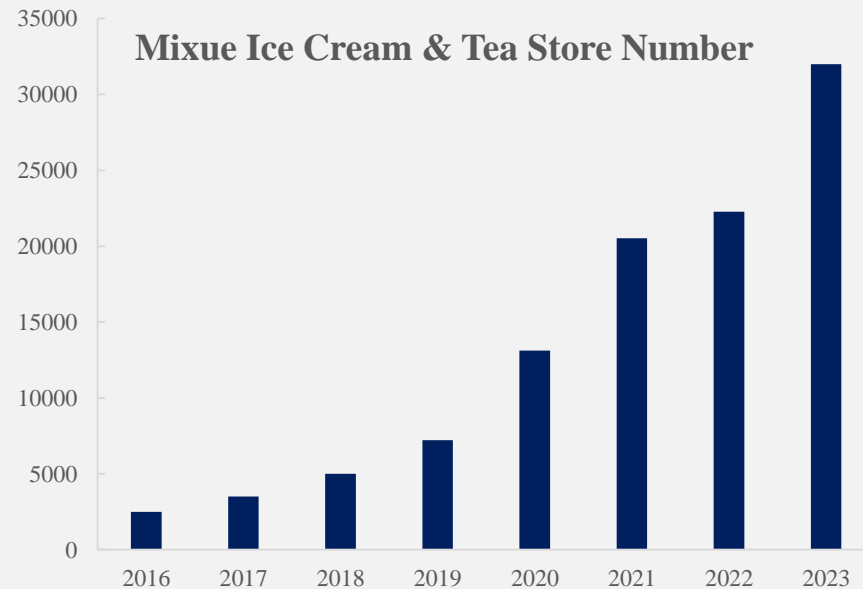
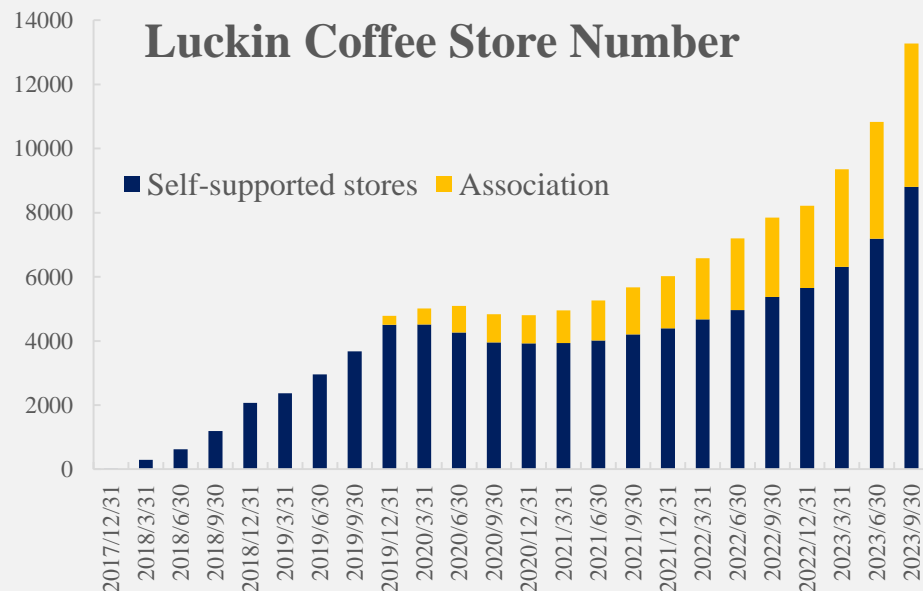
Starbucks China Operation



# Starbucks to Accelerate Store Openings amid Intense Competition

A vast fragment market, the competition in China's beverage chain store industry is quite fierce.

- Luckin Coffee, which focuses on cheaper price and small stores, now has 13273 stores in total.
- Mixue Ice Cream & Tea enjoys 30000 stores in total, one of the largest player in the sector.



# 03 Discount Chain Store Experience Continuous Momentum

## Horizon Insights Miniso Survey Update (December)

### November Performance:

**In line of expectations:** November GMV grew in line with forecasts. Product upgrades and improved user operations are expected to drive positive same-store sales growth in 2024.

**Domestic rebound:** Single-store GMV jumped 80% in November and, year-to-date, recovered to 80-85% of 2019 levels.

The market focuses on whether same-store sales can return to positive territory next year.

**Product updates:** Toy sales (mainly IP products) should increase by 1%, and fragrance sales by 2-3%, achieved by boosting SKU depth in these categories.

**User operation efficiency:** More precise private domain targeting will optimize "people packages" for each push, boosting sales growth from each campaign

### Competitor Impact:

**Minimal diversion:** KKV and Jiumu's impact on Miniso sales is weak and hasn't significantly impacted them.

**Second and third-tier brands:** Strong expansion by these brands is due to increased mall traffic post-pandemic and improved profit models from their own product upgrades.

1) Differing product categories and target customers:

2) Miniso's product strength advantage in some categories:

3) Large-scale procurement and powerful product development capabilities: Our surveyed Miniso stores in the same business districts were not significantly affected by these competitors. The average single-store diversion rate is around 10-20%. Considering competitors open 100-150 new stores per year, this only affects about 2-4% of Miniso's stores, minimizing the overall impact on same-store sales.

### Overseas Outlook:

**Continued recovery:** Overseas single-store sales climbed to 103% of 2019 levels in Q3 (vs. 92% in Q2), likely due to optimized product structures.

Direct market (US and Canada): Recovered to 225% and 131% of 2019 levels, respectively, leading global single-store growth.

198 new stores opened from January to September. An additional 100-200 expected between October and December, making the 250-350 annual target easily achievable.

### Next year's growth points:

**North America:** Operating margins in the US reached high single digits to low double digits in recent quarters. Further optimization can lead to even better margins and accelerate store openings.

**Southeast Asia:** Inventory issues are nearly resolved, and a large-scale product update is planned for next year, expected to drive rapid single-store growth.

# 03 Discount Chain Store Experience Continuous Momentum

## Overview of Major Chain Discount Retailers

Region	Brand	Basic Information	Market Value	Stock Price Performance
China	Miniso	A Chinese low-cost retailer and variety store chain specializing in household and consumer goods like cosmetics, stationery, toys, and kitchenware.	5.96 billion USD	Since its IPO on October 15, 2020, the market cap has seen a decrease from \$6.08 billion to \$5.96 billion
U.S.	Walmart	America's largest chain retailer, owns Sam's Club, a large chain membership warehouse supermarket for members, offering a variety of high-quality, low-cost products	409.6 billion USD	Since 2009, the stock price has risen nearly 4 times
	Costco	America's largest chain membership warehouse supermarket, with only about 4,000 SKUs, carefully selects 2-3 best-selling products for each category, aiming to provide the best price-to-quality experience.	240 billion USD	Since 2019, the stock price has risen more than 20 times, and it is still at an all-time high
	Target	America's second-largest retail department store group, positioned as a high-end discount retail store, with an average target customer age of around 40 years old, and will offer exclusive products	65.2 billion USD	Since 2009, the stock price has risen nearly 14 times at its highest
	Dollar General	America's large-scale discount store chain, with nearly 20,000 stores, mainly focuses on daily necessities, and targets small towns, no more than 5 miles from customers	28.8 billion USD	Since 2009, the stock price has risen about 12 times at its highest
	Dollar Tree	America's true one-dollar store in the town, with over 16,000 stores, targeting suburban middle-income consumers	28.3 billion USD	Since 2011, the stock price has risen more than 11 times at its highest
Japan	Pan Pacific International	Don Quijote, a large Japanese chain discount store, uses a model of displaying over 10,000 SKUs, a mix of low-priced tail goods and regular-priced discounts	2134.7 billion JPY	Since 2010, the stock price has risen nearly 4 times at its highest
	Seria	Japan's second-largest 100 yen shop, currently has about 2,000 stores, mainly sells high-quality and low-cost daily necessities and食品, with about 20,000 SKUs	201 billion JPY	Since 2010, the stock price has risen more than 60 times at its highest
	UNIQLO	Uniqlo's parent company, Uniqlo opened the clothing market with its simple style and high price-to-quality, 47% in Japan and 53% overseas in 2022	113223 billion JPY	Since 1997, the stock price has risen nearly 40 times
	Saizeriya	Positioned as delicious and cheap low-end Italian food, known as Italian-style Shaxian snacks, with a total of more than 1,500 stores	240 billion JPY	Since 2010, the stock price has risen about 3 times at its highest

# Walmart Turns its Tide in China Via its Sam Club Membership

- Struggle in Chinese Retail Market: Over 100 supercenters closed in the past 5 years.
- New Success from Sam's Club Popularity: over 4 million members by the end of 2022.
- Walmart's market share in China rose from 5.2% to 5.5% in 2023.





02

# Manufacturing New Energy Vehicle



# November Auto Market Survey: Slight Decline in Overall Prosperity

In November, China's automobile market experienced a slight decline in overall prosperity, particularly in the second half of the month, despite being a peak season for car sales.

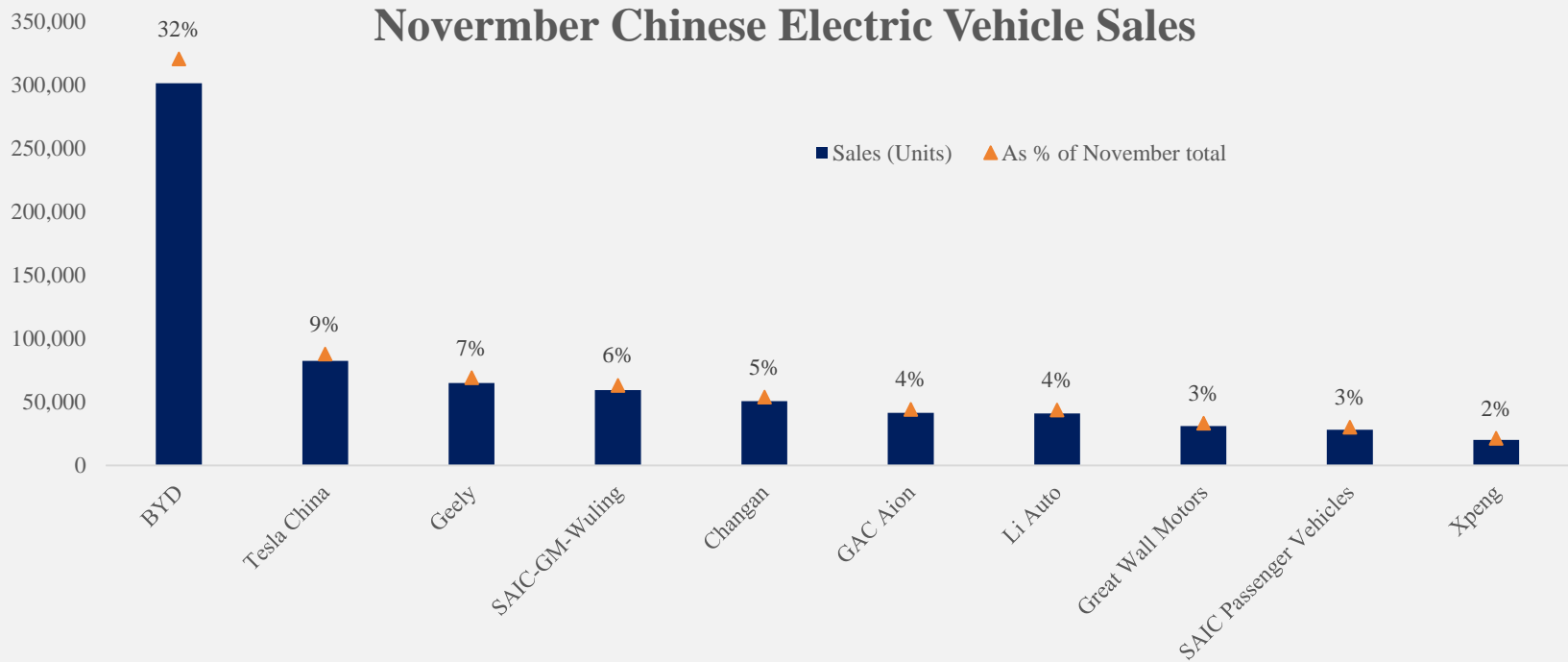
- **Sales Trend:** Notable decrease in industry prosperity with some manufacturers reporting lower terminal sales compared to previous months.
- **New Model Launches:** Guangzhou Auto Show introduced new models like Xiaopeng X9 and Zhijie S7, boosting industry interest and consumer spending, supported by manufacturer discounts.
- **Performance of Brands:** New car brands gained popularity with record sales, while established brands like BYD faced sales declines and high inventory-to-sales ratios.
- **Dealer Outlook:** Dealers generally optimistic about future sales, expecting continued promotions and discounts towards the year-end.

## Specific Company and Model Performance:

- **NIO:** Sales in first-tier cities declined, while resilience was noted in second and third-tier cities. Sales of ES8 slightly rebounded, while ET5 and ES6 maintained stable sales.
- **Nezha (Hozon):** Increased production of Nezha X and AYA models led to a gradual increase in sales, although Nezha S experienced a slight decline due to competition from other new models.
- **Great Wall WEY:** Blue Mountain model sales declined due to weak price competitiveness and chaotic terminal pricing. The Tank model showed more stability.
- **BYD:** Tang, Han Dmi, and Song Plus models saw sales declines, influenced by competitive models and expectations of upcoming model upgrades. Song Plus also experienced a noticeable drop in sales.
- **Changan Deep Blue:** S7 performed well with increasing sales, while the 03 model remained lukewarm.

# Will BYD Become a Key Competitor For Tesla Globally?

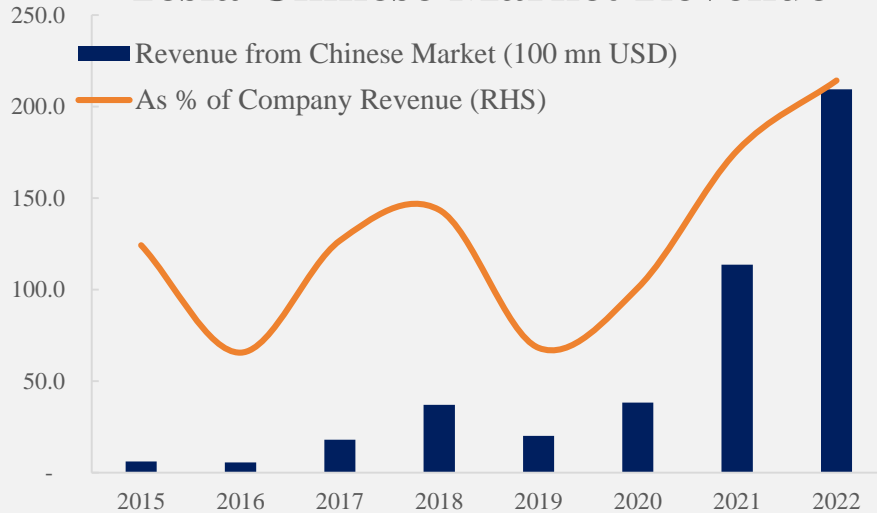
- In the absence of purchase subsidy, China's electric vehicle market continues to grow at a modest pace in Nov.
- With 8.5 million units of EVs to be sold in 2023, the share of EV in China's auto market is about to rise to 36%;
- Strong export and domestic demand are the reason.



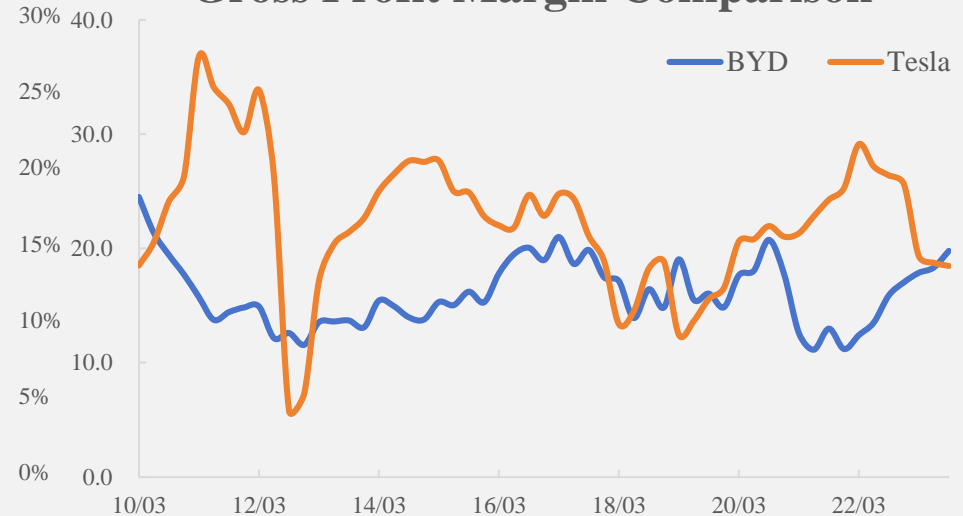
# Tesla's Success in China Continues Despite Weak Macro Economy

- About 25% of Tesla's revenue generated from the Chinese market, the company has one of the largest exposure to the Chinese economy among all SPX 500 companies.
- In Q3 of 2023, Tesla's gross profit margin has lagged that of BYD, due to the company's price cut strategy.
- Although not yet competing in the same price range, the rise of BYD raised the question that will BYD take off Tesla in the future?

## Tesla Chinese Market Revenue



## Gross Profit Margin Comparison





02

# Manufacturing II : Construction Machinery

# From Mining Truck to See China's Construction Machinery Market

## Dec Survey Shows Replacement and State-owned mine restructuring to help demand remain stable in 2024.

- **Sales to increased in Q4.** As coal mining groups to complete their annual budgets for 2023, mining truck demand may edge up after a lukewarm Q3.
- **2024 Market Outlook.** Ranging from dozens to 200 units per year, China's demand for large mining truck shows little link with the coal production. Mining truck market demand in China is mainly driven by two factors: the need to update mining equipment (dozens of trucks) and the state-owned mines restructuring from subcontracting to self-operation (hundred of trucks). According to our survey, the market expects demand to remain roughly flat in 2024 compared to 2023. Currently, there is no demand surge in China's mining fleet due to large-scale autonomous driving.

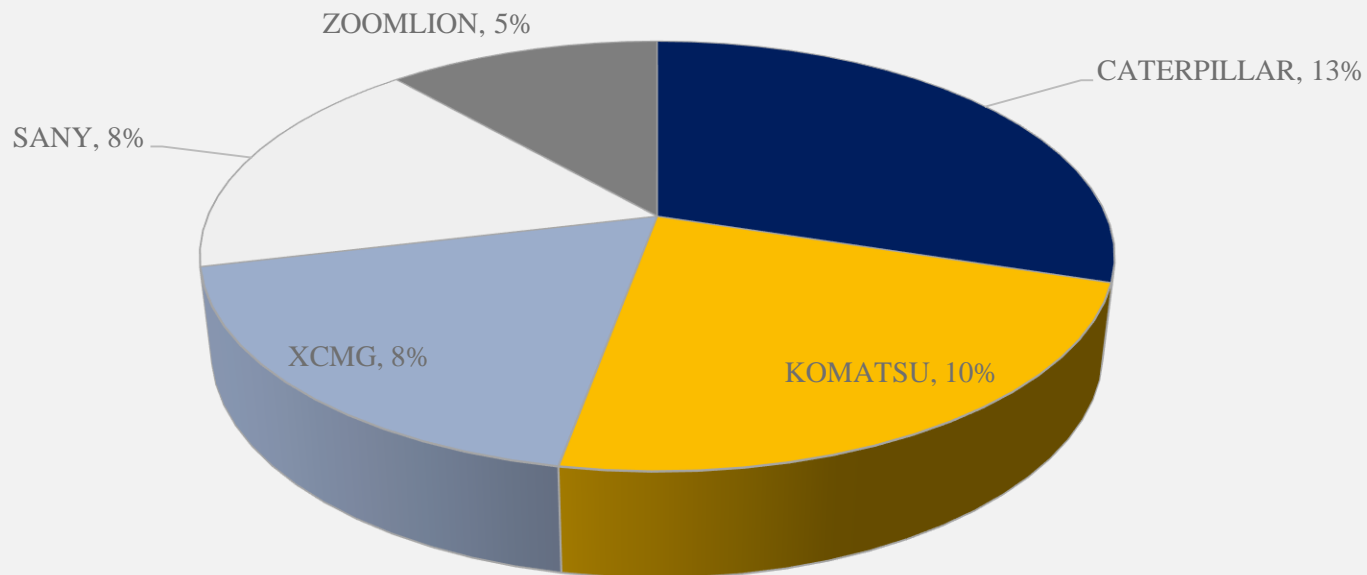
## Different Competition Landscape: The market share of Caterpillar and Komatsu depend on which customers they are willing to compete for.

- Rising Chinese challengers add pressure on Cat's long reign in traditional diesel trucks. Imitating Cat designs, Chinese trucks offer lower costs & improving quality at 50% the price (e.g., 220-ton: RMB 30M vs. RMB15-16M). Domestic engines & electric systems drive cost cuts.
- In addition to cost, overseas mining giants are more concerned with vehicle availability and reliability. While bidding activity matters more (In China, price is the most important factor in the evaluation of mining trucks. Even if a vehicle is very reliable, if the bid price is too high, the chances of winning the bid will be lower. Therefore, vehicle manufacturers in China have to adopt a low-cost strategy).

# From Mining Truck to Understand China's Construction Machinery

- China's construction machinery industry is highly competitive, with the top ten companies accounting for a total market share of about 65%.
- Caterpillar is the market leader with a share of about 13%, followed by Komatsu and XCMG with shares of 10% and 8%, respectively. SANY and Zoomlion have market shares of 7.5% and 5%, respectively.

China's construction machinery industry



# Competition with other Chinese Construction Machine Suppliers

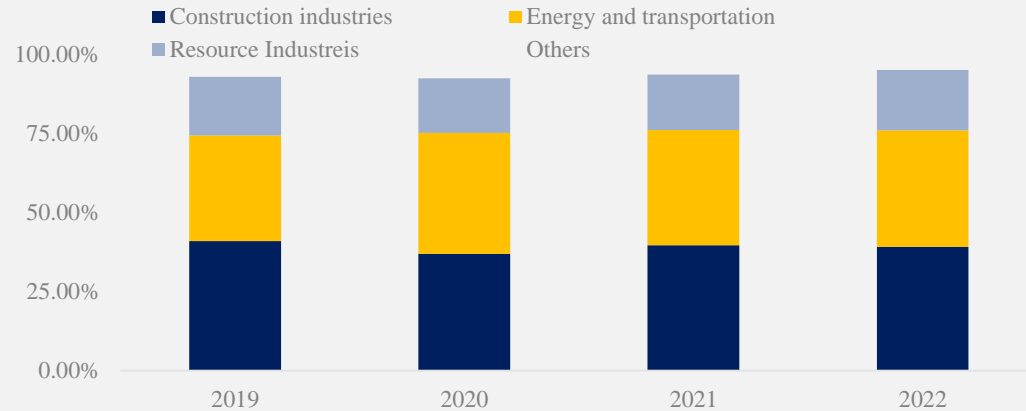
**In 2023, Caterpillar's situation in the Chinese market appears to be challenging.**

- The company has predicted a further drop in demand for above-10 tonne excavators in China, which typically accounts for 5% to 10% of its overall revenue.
- China's ongoing property crisis as well as slow economic recovery is the main reason.

**On the supply side, increasing competition from Chinese manufacturers is denting Caterpillar's share in the construction machinery industry.**

- In 2022, Chinese-made excavators experienced a significant growth in global demand, with a 59.8% increase year-over-year. This contrasts with Caterpillar's revenue growth of 16.5% during the same period.
- Additionally, Caterpillar's global market share in the construction machinery segment decreased from 15% in 2020 to 13% in 2022.
- This decline in market share could be partly attributed to the rapid growth of Chinese competitors like SANY Heavy Industry in key markets such as the US, UK, Brazil, and Canada.

## Caterpillar Product Matrix



## Caterpillar Asia Revenue as % of Total





03

## Tech: China's Smartphone Demand Recovery with the Help of Huawei's Return



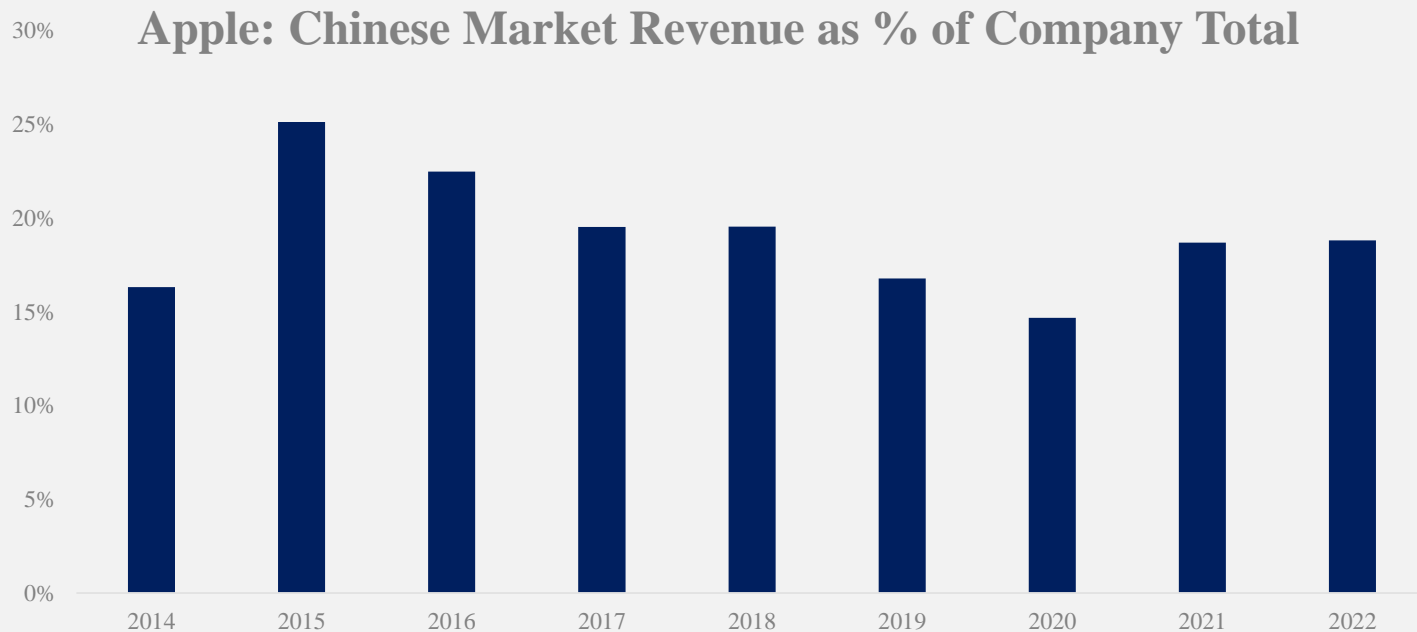
# November Smartphone Industry Survey Points to Huawei's Return

## November Smartphone Industry Survey Snapshot:

- **Recently, the overall demand for smartphones has rebounded.** With the return of Huawei and the launch of new products from other brands, users who have not changed their phones for a long time have begun to consider upgrading, driving Q4 to exceed expectations. The acceleration of upstream supply chain localization brings down costs, and the launch of self-developed systems by various mobile phone manufacturers that combine AI large models is expected to form a new wave of upgrade fever. Q1 2024 is expected to maintain the growth trend, and the channel merchants interviewed are optimistic about the demand in 2024.
- **Huawei aims to regain the top market share in China.** The large number of existing users is expected to bring about a short-term sales boom. In the high-end segment, Huawei's Kirin chip production capacity is gradually increasing. It is expected that the process will further leap in 2024, giving Huawei an absolute advantage in the high-end segment. In the mid-range market, Huawei is expected to re-establish its brand position among young consumers through its nova series. This is expected to have a significant impact on OV and Honor. Huawei is building an ecosystem through AI and the Harmony OS system. Combined with its "1+8+N" strategy, Huawei aims to be the top domestic player in 2026 and continue to break into overseas markets by bypassing Google's framework restrictions through its ecosystem.
- **Market Impact:** From the new user point of view, Huawei will get 17% new market from Honor. Apple accounts for 23%, and Oppo, Vivo and Xiaomi accounts for a total of 23%. From the existing user base, Huawei and Honor accounted for 52% in the peak period of 2019. After Huawei was sanctioned, Apple users were the ones who took over the most share of Huawei. The conversion rate of the previous generation of Apple users in Huawei accounted for 36% of the entire structure. According to Huawei's internal plan, it hopes to achieve brand return by the end of 2023, regain the lost market share in 2024-2025, and hope to reach the top of the domestic market in 2026. The overseas market is relatively troublesome, mainly due to the construction of the ecosystem. Otherwise, Huawei's share would return faster. Therefore, it is currently estimated that it will take 4-5 years after 2026 to regain the global market leader. The key factor is the software system ecosystem construction.

# Apple's Exposure to the Chinese Market

- Apple's revenue from the Chinese market increased from \$28 billion in 2010 to \$740 billion in 2022, an compound annual growth rate of 31% during the same period.
- The Chinese market accounting for 19% of Apple's total revenues over the past ten years, second only to America.
- Aside from Nvidia (26%) and Tesla (22%), Apple's revenue dependence on China is the greatest among the seven major US tech giants.



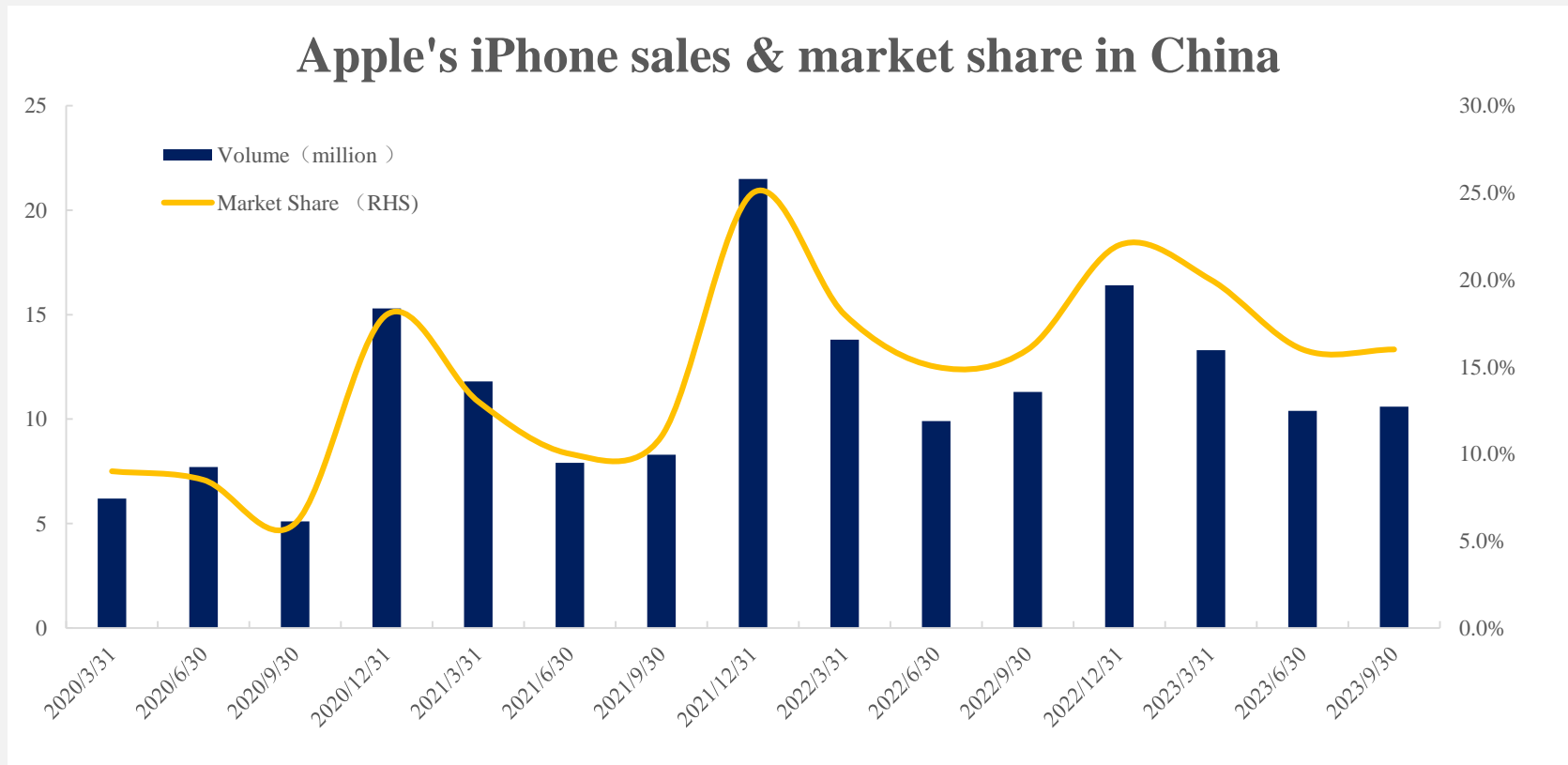
# Apple's Exposure to the Chinese Market

- By product, Apple has a dominant share in China's tablet and Bluetooth headphone markets;
- The iPhone, Apple's flagship product, boasts a significant share of China's high-end smartphone market (above \$800). However, Huawei's rising competition in this segment is challenging Apple's dominance, creating headwinds for its continued success in China.

Apple Product Matrix and Chinese Market Share			
Product	Market Size	Brand	Market Share
Smartphone	350 billion Yuan	Huawei	18%
		Xiaomi	16%
		<b>Apple</b>	<b>16%</b>
		Honor	16%
		Vivo & Oppo	29%
		Others	5%
Personal Computer	100 billion Yuan	Lenovo	36%
		HP	10%
		Huawei	9%
		Dell	8%
		<b>Apple</b>	<b>7%</b>
		Others	30%
Tablet	150 billion Yuan	<b>Apple</b>	<b>36%</b>
		Huawei	24%
		Honor	<b>9%</b>
		Xiaomi	8%
		Lenovo	8%
		Others	15%
Bluetooth Headphone	250 billion Yuan	<b>Apple</b>	<b>24%</b>
		Xiaomi	19%
		Huawei	11%
		Samsung	10%
		Vivo & Oppo	10%
		Others	27%

# Apple faces growing pressure as resurgent Huawei

- Competition heats up in China's premium smartphone segment as Huawei roars back.
- Although iPhone's market share in Q3 managed to stay at 16%, there were signs that the company's high-premium phone models start to lose charms among China's young. The lesser extent of scalper pricing for iPhones compared to Huawei also demonstrates a decline in the popularity of Apple products.



# Apple faces growing pressure as resurgent Huawei

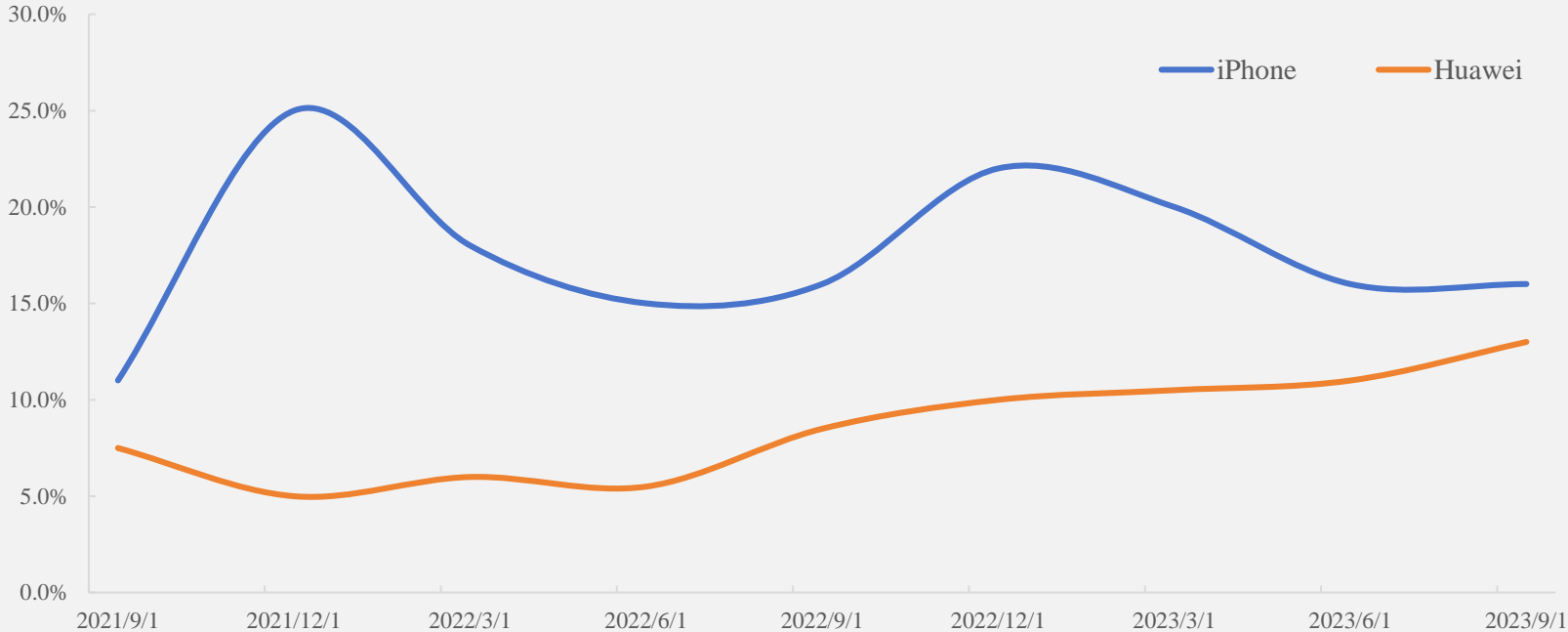
- China High-end Smartphone Sales Comparison.

Key Competitors of iPhone in the Target Price Range				
No.	Brand	Model	Sales (units)	Price (USD)
1	Apple	iPhone 15	242,200	831
2	Apple	iPhone 14 Pro Max	209,200	1,221
3	Apple	iPhone 14 Pro	198,700	1,159
4	Apple	iPhone 15 Pro	87,100	1,306
5	Apple	iPhone 15 Pro Max	58,000	1,489
6	Apple	iPhone 15 Plus	29,500	951
7	Apple	iPhone 14 Plus	22,500	824
8	Apple	iPhone 14	161	798
9	Apple	iPhone 13	64	645
10	Apple	iPhone 12	2	570
11	Huawei	Mate 60 Pro	147,000	904
12	Huawei	P60 Pro	52,200	903
13	Huawei	Mate X3	17,000	2,238
14	Huawei	Mate 50 Pro	12,800	826
15	Huawei	P60 Art	11,500	1,127
16	Huawei	Mate X5	11,300	1,768
17	Huawei	P60	78	636
18	Huawei	Mate 60	51	740
19	Huawei	Pocket S	17	741
20	Honor	Magic V2	32,200	1,153
21	Honor	Magic 5 Pro Plus	16	782
22	Honor	Magic 5 Pro	14	669
23	Xiaomi	MI 13 Ultra	14,200	833
24	Xiaomi	MIX Fold 3	12,200	1,227
25	Xiaomi	MI 13 Pro	20	702
26	OPPO	Find N3 Flip	16,100	868
27	OPPO	Find X6 Pro	11,900	827
28	vivo	X Flip	17	765
29	Samsung	Galaxy Z Fold5	13,600	1,670
30	Samsung	Galaxy Z Flip5	15,300	954
31	nubia	Red Magic 8S Pro	9	607

# Apple faces growing pressure as resurgent Huawei

- Competition erupts as Huawei claws its way back to the top.

### Market Share Comparison With Huawei



# On the Supply Side, Apple's Entangling Tie with China

Chinese manufacturing facilities still make up a dominant share in Apple's top 200 supplier list.

- The number of Chinese manufacturing facilities still grew despite decoupling pressure from the U.S.
- The share of Japanese manufacturing spots, however, is on the rise, signaling a potential for friend-shoring trend.

## Apple supplier base by manufacturing facilities/locations

Year	2016		2020		2021		2022	
Location	Number	% of total	Number	% of total	Number	% of total	Number	% of total
China	346	44.5%	259	42.5%	262	35.8%	276	38.9%
Japan	126	16.2%	96	15.8%	101	13.8%	124	17.5%
US	78	10.0%	49	8.0%	74	10.1%	62	8.7%
Taiwan	41	5.3%	37	6.1%	72	9.8%	41	5.8%
South Korea	29	3.7%	30	4.9%	42	5.7%	36	5.1%
Thailand	19	2.4%	19	3.1%	22	3.0%	28	3.9%
Vietnam	18	2.3%	23	3.8%	27	3.7%	27	3.8%
Malaysia	23	3.0%	15	2.5%	24	3.3%	25	3.5%
Singapore	12	1.5%	14	2.3%	24	3.3%	21	3.0%
Philippines	19	2.4%	18	3.0%	18	2.5%	19	2.7%
India	1	0.1%	9	1.5%	11	1.5%	14	2.0%
Germany	10	1.3%	9	1.5%	11	1.5%	10	1.4%
Others	56	7.2%	31	5.1%	44	6.0%	26	3.7%
<b>Total</b>	<b>778</b>	<b>100.0%</b>	<b>609</b>	<b>100.0%</b>	<b>732</b>	<b>100.0%</b>	<b>709</b>	<b>100.0%</b>



3

## Tech II: Analog IC Sector in Price Wars



# Analog IC: TI Expansion Adds Pressure Amid Modest Growth

## Downstream Demand Changes from Our December Survey Feedback:

- **Automotive Sector:** Experiencing a slow season with a decrease in deliveries due to previous high orders. Some growth is expected, particularly in new energy vehicles, but domestic manufacturers are still not profitable. The market is competitive, with firms trying to gain share despite losses.
- **Energy Storage Market:** This market is in decline, with customer demand not being optimistic. This trend extends to other industrial sectors like electric motors and inverters, which are also seeing decreased demand and shipments.
- **Consumer Electronics:** There are signs of recovery after a period of low performance. Both domestic and international orders are picking up, indicating an improvement. The market is expected to slowly recover without explosive growth. Inventory levels are normalizing as customer demand increases.
- **Price and Inventory Situation:** Prices have fallen to 70-80% of their normal levels before the last two years' increases, now at just one-third to one-quarter of their peak prices. In a period of falling prices, clearing inventory, even at a loss, is essential. Inventory levels have improved significantly since the start of the year, with ongoing efforts to clear slow-moving items. Customers are slowly using up these stocks, and it's expected that inventory will be more effectively managed in the next one to two quarters.
- **Texas Instruments Supply Expansion:** Domestic manufacturers are countering TI's new capacity by improving their supply chains and finding cost-effective production methods. TI's cost advantage is limited, and while it focuses on major clients and not on price wars, lowering prices is easier than increasing them later. This situation offers domestic manufacturers opportunities to compete, especially in the general-purpose analog chip market.

The 2024 market outlook is optimistic with expected growth in consumer and automotive sectors, and stable industrial demand. The market should see slight improvement in the next 6-12 months. While leading manufacturers can adjust costs to counter price declines, smaller firms may struggle to profit.

# Texas Instruments' Price Wars And Its Impact in China

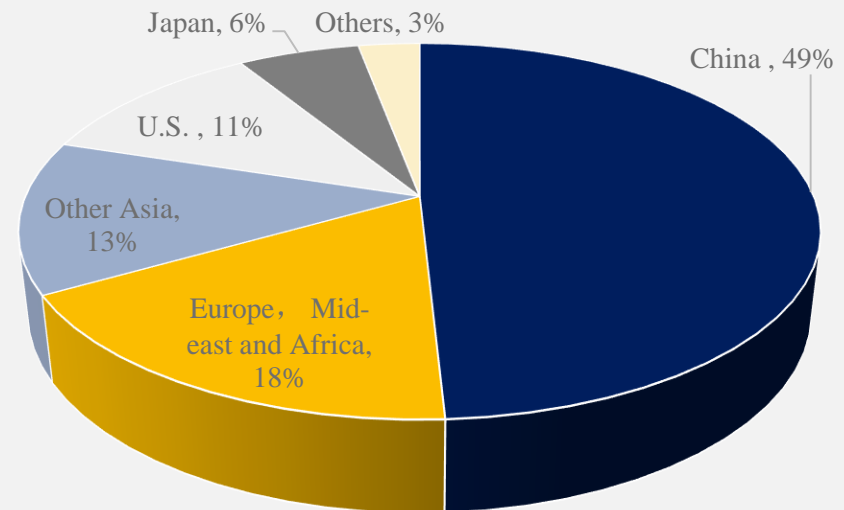
**Market Consolidation:** Previously, Texas Instruments (TI) did not engage in price wars with domestic manufacturers. TI now competes on price with domestic firms due to their growing alternatives, intensifying market competition. For domestic chip makers, supply chain and operational strengths are key. In 2-3 years, weaker firms may fail, leaving stronger ones to thrive.

**Consumer Electronics:** TI's new capacity challenges domestic manufacturers, who may struggle to compete if TI prioritizes market share over profits. This could lead to a significant reduction in domestic firms for a healthier market. Operational and supply chain capabilities are becoming crucial for survival.

**Industrial Market:** Domestic manufacturers find opportunities as secondary suppliers to big customers, with improved product quality narrowing the gap with international brands. Price competitiveness is a key advantage.

**Automotive Sector:** Domestic firms face challenges in automotive-grade production and higher overseas manufacturing costs. However, they are expected to become profitable in 3-5 years. Domestic brands are increasingly replacing international products in mid to low-end segments. The focus is on ensuring supply chain stability and gradually capturing market share from international giants.

TI Revenue Breakdown By Region

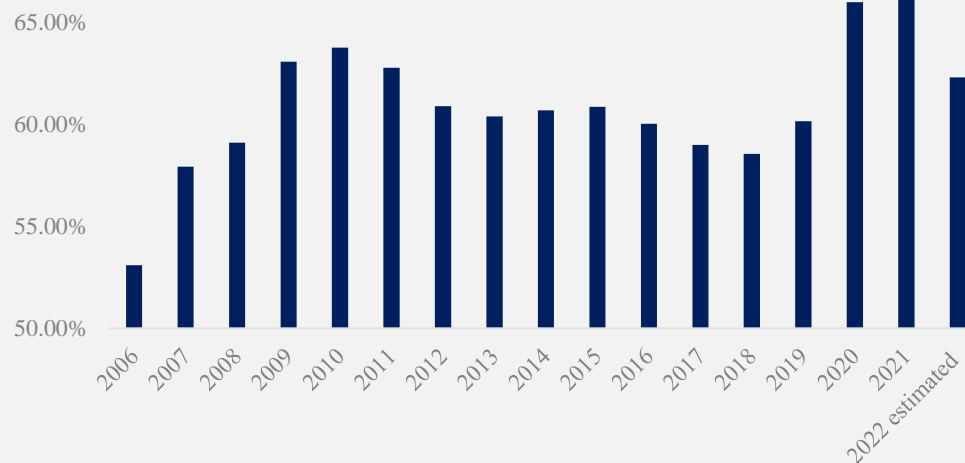


# TI to Embrace More Competition in the High-end Market

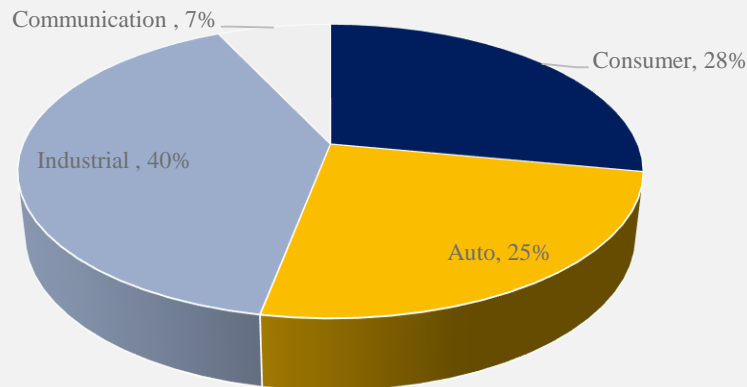
China's consumer electronics market is dominated by small players, and the impact of TI's new capacity release on domestic competition is uncertain. The only way out for domestic leaders is to constantly break through to the high-end.

- **Rising Competition:** In recent years, a number of domestic analog chip companies have emerged in China, including companies like Saintbond Micro, Sirip, Aiwei Electronics, Naxin Micro, Crystal Fong Mingyuan, XinHai Technology, Lixin Micro, XinPeng Micro, and Xidi Micro.
- **Battle in Consumer Electronics:** Most of these companies initially entered through the consumer electronics market. Therefore, during the recent downturn, they have been significantly affected, especially those closely linked to smartphone consumer applications and with revenue compositions exceeding 60% in this area.

## TI Revenue Share from Asia Market (Japan Excluded)



## TI Revenue Share By End Market





4

## Healthcare: Medical Equipment May Benefit from China's Pilot Leasing Scheme

# Medical Equipment Demand May Improve with Guangdong's Pilot Scheme

To address the financial pressures of updating hospital equipment, Guangdong Province introduced a medical equipment leasing policy at the end of November. Initially starting with two hospitals, this policy is set to be implemented province-wide in Guangdong by 2024.

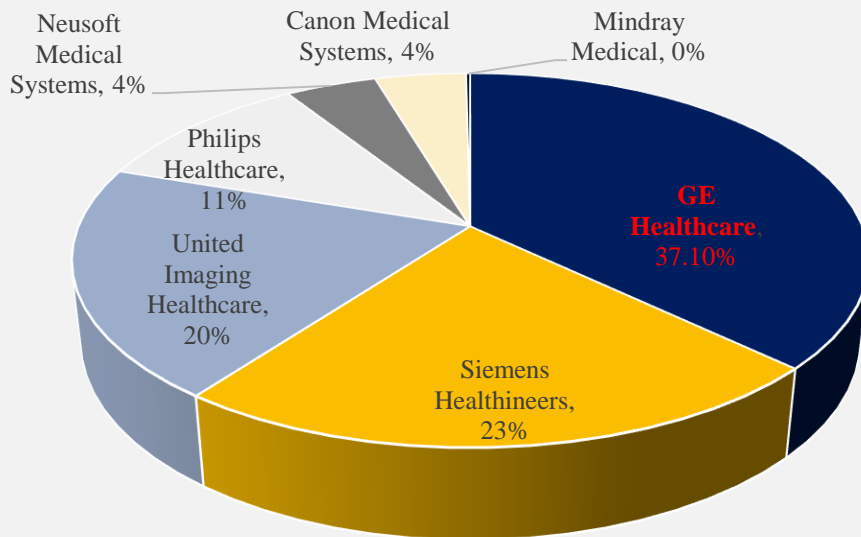
- **Scope of Equipment:** The policy primarily involves medical equipment purchased with provincial fiscal funding, such as **CT, MRI, and DR machines**. These pieces of equipment are usually expensive, and direct purchases can place a significant financial burden on many medical institutions.
- **Advantages of Leasing:** The leasing model can significantly alleviate the financial pressure on medical institutions. Hospitals can obtain the necessary equipment from leasing companies and pay rent during the use period, thus gaining the right to use the equipment.
- **Challenges and Risks:** Although this model has its advantages, it also comes with certain challenges and risks. For example, it's crucial to ensure the quality and safety of leased equipment and address issues of equipment upgrading and maintenance. Additionally, ensuring effective financial management by medical institutions to

Overall, this policy can to some extent alleviate the issues hospitals face with equipment procurement due to insufficient profitability and a lack of willingness to spend in this area, and it is expected to spark a nationwide trend in the financing and leasing of medical equipment. It also marks a significant change in the procurement model of medical equipment in public hospitals. avoid long-term financial burdens due to over-reliance on leasing is a challenge.

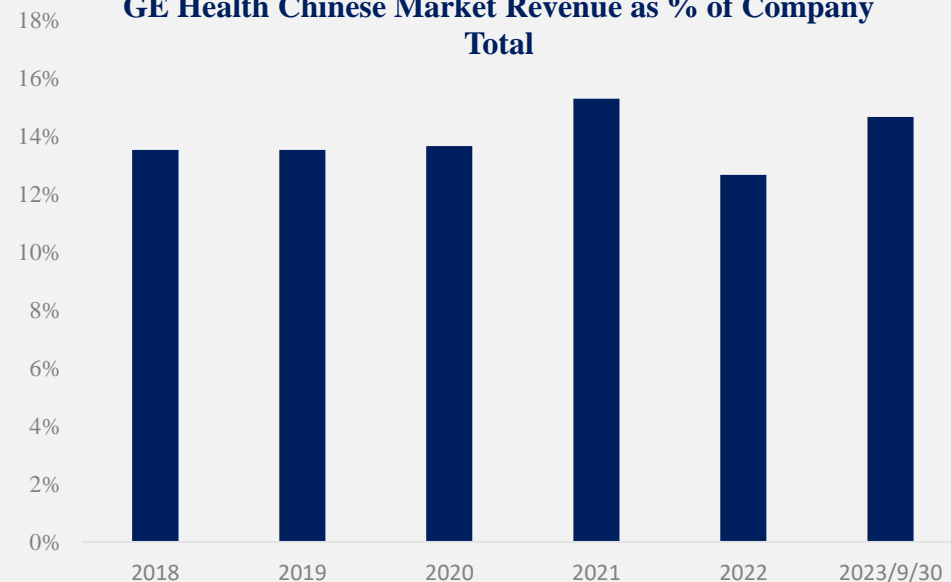
# GE Healthcare Accounts for 37% of China's High-end CT Market

- **Sector Leader:** With a combined market share of 70%, GE (37%) leads Siemens (23%) and Philip (11%), and takes a dominant role in China's high-end CT market.
- **Rising Domestic Competitor:** Eying China's booming medical imaging industry, United Imaging Healthcare is rising, with the hope of becoming a major player in the import-dominated market

China 2022 High-end CT Market Breakdown



GE Health Chinese Market Revenue as % of Company Total

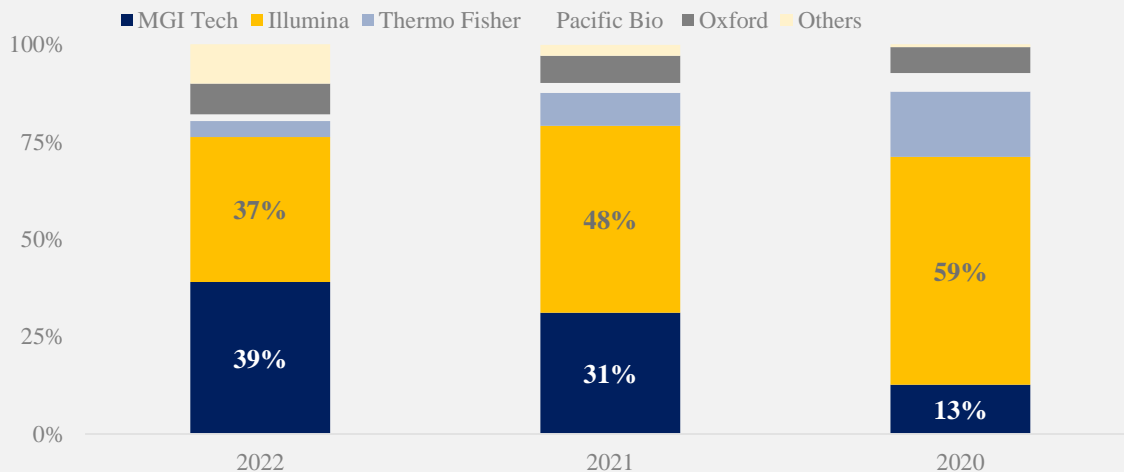


# Competitiveness is the key: How Illumina Dropped to the 2nd in China

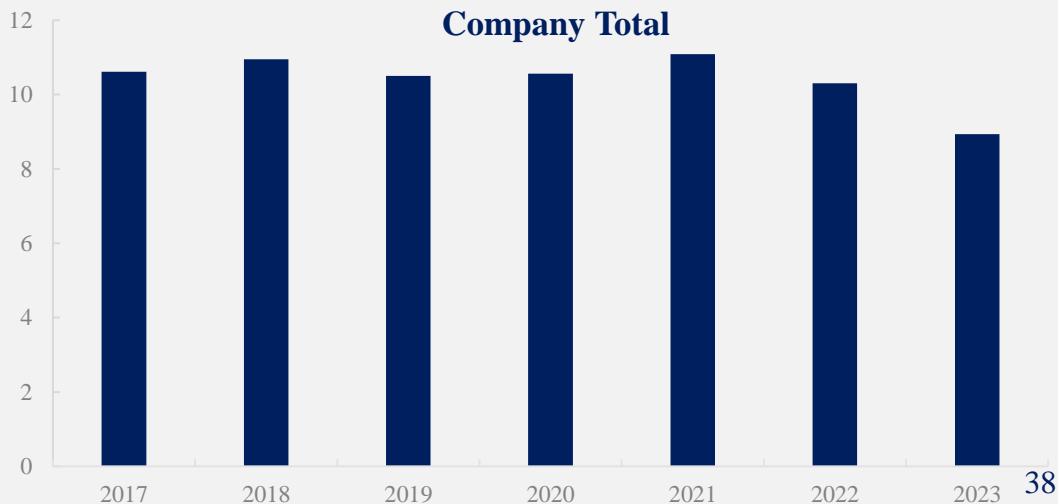
Despite the booming demand in China's sequencing market (CAR 19%), Illumina's losing its market share to domestic competitors of MGI Tech:

- R&D Powerhouse:** MGI Tech invests heavily in R&D, dedicating \$1.5 billion over the past three years (2021-2023). This translates to 15% of annual revenue, fueling the development of advanced instruments like the high-throughput, high-precision MGI Seq600 sequencer launched in 2023.
- Competitive Pricing:** MGI Tech undercuts rivals like Illumina on price. The MGI Seq600 costs \$1 million, nearly half the price of Illumina's HiSeq X Ten (\$2 million). This advantage stems from MGI Tech's larger scale and in-house manufacturing.

## China's Sequencing Instrument Market Breakdown



## Illumina Greater China Market Revenue as % of Company Total





# Thanks

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