Horizon Insights

China Demand Monthly Report

Horizon Insights

2024/01

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.

China Demand and Sector Observations

Based on our analysis of consumption, manufacturing, technology, and medical sectors, the Chinese economy exhibited a weak recovery in December 2023. While a minority of foreign brands (30%) saw marginal improvement, particularly in technology and consumer goods, a larger portion (over 50%) faced continued pressure due to weak demand and competition.

Consumption Sector: Domestic chain coffee brands are accelerating their expansion, and the price war is continuing, putting pressure on **Starbucks**' single-store profits. Demand for sportswear is weak, and **Nike**'s sales growth in China is unlikely to improve. **Estée Lauder'**s Hainan duty-free and online sales are weak, and its performance has not improved. **Walmart's** membership stores are expanding rapidly, and **Tapestry**, Coach's parent company, is expanding into the lower-tier market, with overall good performance.

Manufacturing Sector: China's auto consumption maintained a high growth trend in December, and the penetration rate of new energy vehicles continued to increase. However, the high-end development of domestic brands and the price war in new energy vehicles may affect **Tesla's** profits. In terms of engineering machinery, the demand for excavators in China was weak in 2023, and the accelerated overseas expansion of domestic brands may increase the global market competition pressure on **Caterpillar**.

Technology and Electronics: Chinese consumers' demand for mobile phone upgrades continues to rebound, but the competition in the middle and high-end market of domestic brands is intensifying. In December, **Apple's** market share in China fell to second place in the industry, and Xiaomi mobile phones surpassed it, putting Apple under great sales pressure in China. Benefited from the recovery of mobile phone demand and the launch of new products, **Qualcomm** may continue to make efforts in the middle and high-end mobile phone processor market by launching the world's first product with Xiaomi. Affected by the recovery of server demand, the price of storage chips continues to rise. Under the pattern of both volume and price rising, the performance of the industry leader **Micron** is improving. Although the demand for consumer chips has improved, the demand for chips used in core industries and automobiles is still weak, and the performance of analog chip giant **Texas Instruments** is still under pressure.

Medical Sector: In December, China's hospital bidding activities fell sharply year-on-year, and the orders and sales of leading companies changed. It is difficult to say that the demand for the medical industry as a whole has improved.
Since Q3 2023, the impact of the anti-corruption policy in the medical industry has continued, and the sales pressure in China for high-end medical equipment **GE Health** and testing giant **Illumina** has not diminished.

Key Content

01 Consumption

Starbucks: Increasing competition adds pressure on store profits;

Nike: Sportswear demand slow down with changing consumer preference;

Estée Lauder: Domestic brands are on the rise, and duty free retail remain as a drag;

Walmart: More Sam club stores will be opened;

Tapestry: Low-tier city expansion pays back although luxury sales are generally under pressure.

02 Manufacturing

Tesla: EV price wars at domestic market will dent Tesla's earnings;

Caterpillar: Lackluster sales push domestic companies to expand overseas.

03 Tech

Apple: Dec market share fell, as China's Smartphone demand rebounds with increasing competition;

Qualcomm: New models to help the company to compete in the mid-to-high-end market;

Micro: Storage chip demand recovers with sever market;

TI: Industrial and auto demand remains slow

04 Health Care

GE Health: Anti-corruption policy still puts pressure on medical demand;

Illumina: Downward Cycle and Short-term Policy Disruptions.

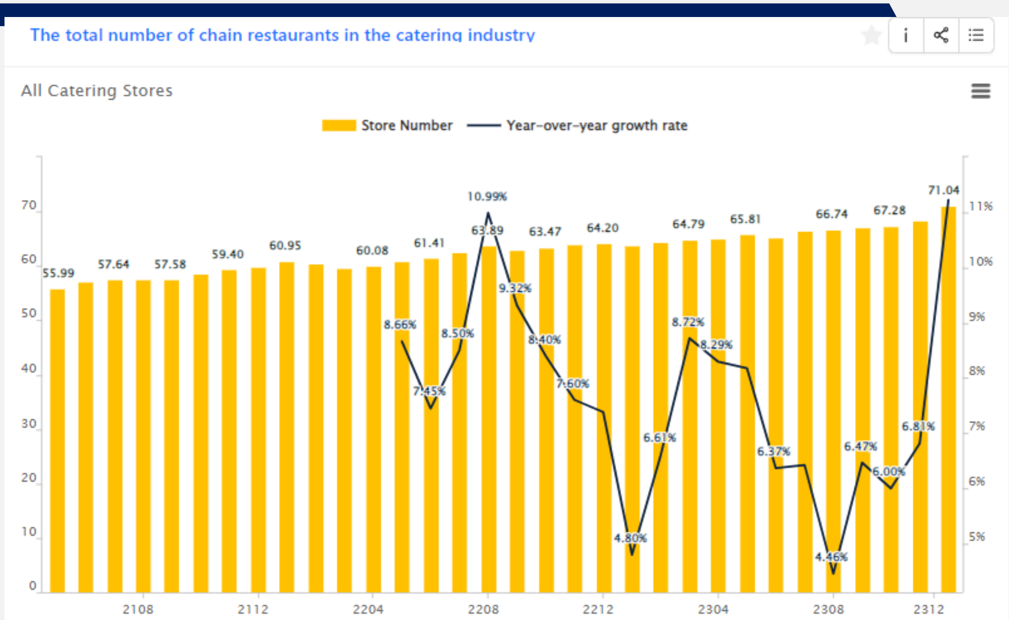
Major Change in December China Demand

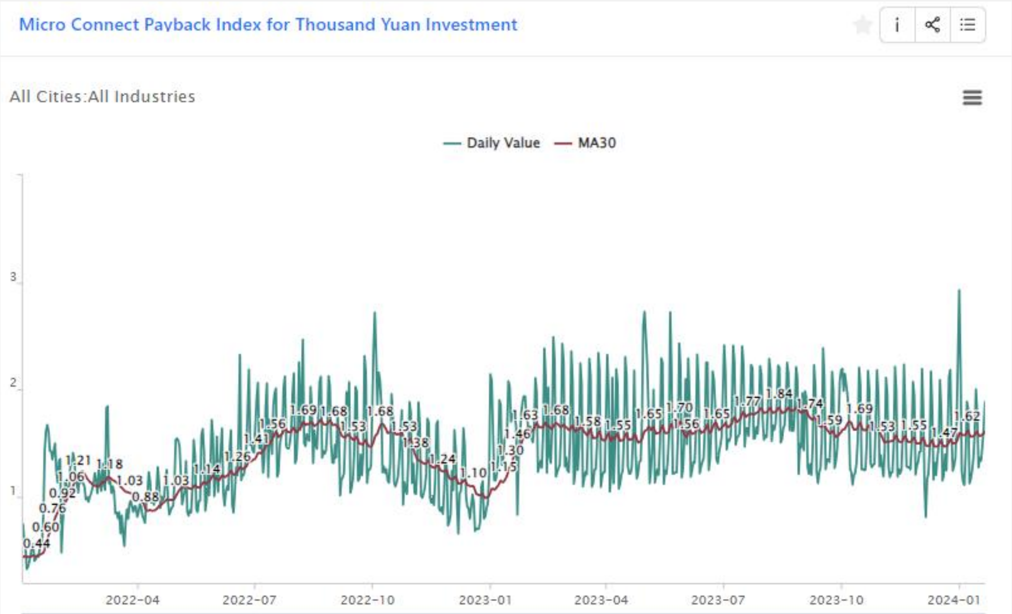
Sector	Company	China Rev	Demand	Price	Market Share	Prosperity
Consumption	Starbucks	9%	Recover	War	Downward Pressure	↓
	Nike	15%	Slowdown	Pressure	Downward Pressure	↓
	Tapestry	16%	Recover	---	Low-tier city Expansion	↑
	Est ée Lauder'	<35%	Improving	Pressure	Downward Pressure	↓
	Walmart	5%	Improving	Pressure	Subsector Expansion	↑
Manufacturing	Tesla	25%	Good	War	Downward Pressure	→
	Caterpillar	4%	Weak	War	Downward Pressure	→
Tech	Apple	19%	Rebound	---	Downward Pressure	↓
	TI	50%+	Weak	War	Dominant Player	↓
	Micron	11%	Rebound	Increase	No Change	↑
	Qualcomm	22%	Recover	---	Upward Trend	↑
Health Care	GE	15%	Decline	--	No Change	↓
	Illumina	9%	Decline	---	No Change	↓

01 Consumption

Chain Catering: Weak Demand and Intensified Competition

- **Weak demand recovery**: China's December catering revenue increased by 30% year-on-year, better than the previous value of 25.8%. Excluding the base effect, the two-year compound growth rate was 5.7%, lower than 7.3% in November. The overall catering and retail industry is in a state of weak recovery.
- **December sales generally missed expectations, but January sales expectations improved**: According to our latest consumer survey feedback, 75% of chain catering brands reported that December chain catering operations were below expectations, and 25% reported that they met expectations. Catering expectations for January improved, with 75% of companies expecting sales to increase and 25% expecting them to remain flat.
- **Supply expansion accelerates, single-store profit margin is under pressure**: According to the December survey, the competition in China's chain catering industry continues to heat up, with tea and coffee brands accelerating their expansion. China's local chain coffee brand **Luckin** is still expected to maintain an expansion rate of over 50% in 2024, but its same-store growth rate has slowed down since Q4 2023, and its single-store profit margin has also declined. As supply increases, companies reported a decline in operating profit margin, and the investment payback period of each brand has been extended. All companies have attached greater importance to member operations and digitalization.



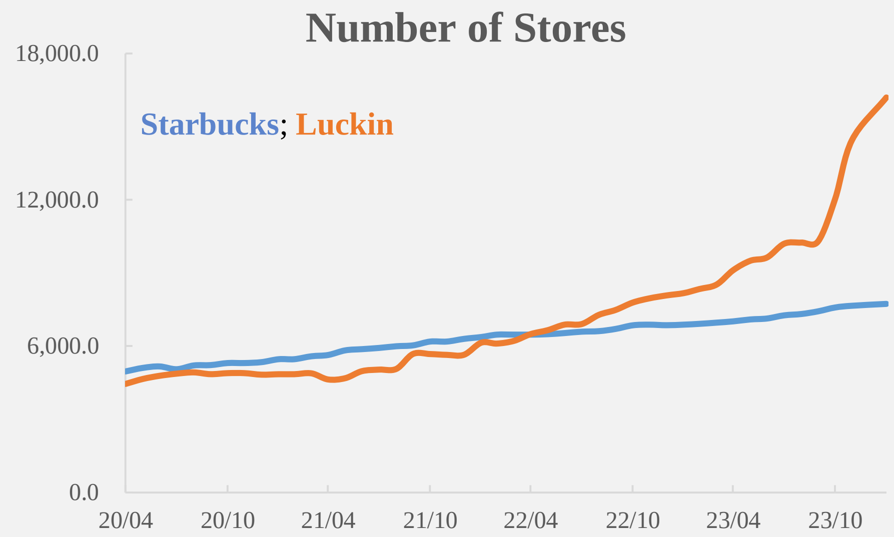


Horizon Insights
弘 则 研 究

Starbucks: Same-store Profits Are Under Pressure Amid Intensified Competition

China's chain coffee market is becoming increasingly competitive. Starbucks is expanding steadily in the Chinese market, but its single-store profits may be affected by price wars.

- **Luckin Coffee is accelerating its expansion**: According to our December grassroots survey feedback, Starbucks' main competitor in China, Luckin Coffee, expanded faster than planned in 2023. The total number of stores nationwide is expected to reach 220,000-250,000 by the end of 2024, and it is even possible to maintain an expansion rate of 70%-80%.
- **Single-store profits may decline due to industry price wars:** According to research feedback, due to the price war of Luckin Coffee's subsidy promotion, the operating profit margin of stores nationwide in the fourth quarter of 2023 may decline to around 20% (the overall level in the third quarter of 2023 was around 23%).



Company	December Survey Feedback
Luckin Coffee	1. Same-store operation: Since 23Q4, same-store growth has slowed down. In some regions, it has slowed down from 5%-8% in Q2 and Q3 to around 1%, and there is a possibility of same-store to contract in H2 of 2024. 2. New store operation: Due to the large number of new stores opened this year, the quality of new stores has declined, as evidenced by: 1) The investment return period has been extended, from 12-15 months for directly operated stores to about 18 months, and from 18-24 months for franchised stores to more than 2 years; 2) The success rate of new stores has declined. In some mature regions, 50% of the new stores this year did not reach the city's average level in terms of operating level in the third month after opening. 3. Profitability: 1) Affected by the decline in new store quality, the average single-store profitability of directly operated stores has declined. In some mature regions, the operating profit margins of stores from Q2 to Q4 were 28%,25%,22% and 23%. The overall operating profit margin of stores nationwide in 23Q4 is expected to decline to around 20% (the overall level in 23Q3 was around 23%).

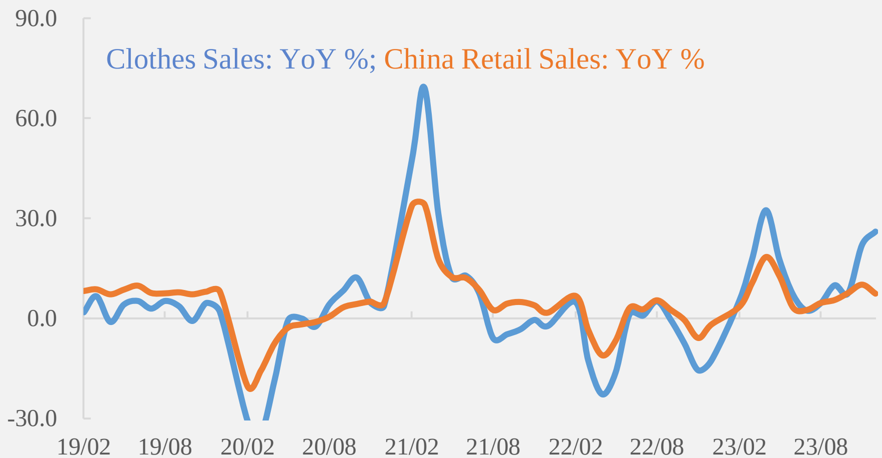
Horizon Insights 弘 则 研 究

Apparels：Chinese Sportswear Slowdown amid Preference Change

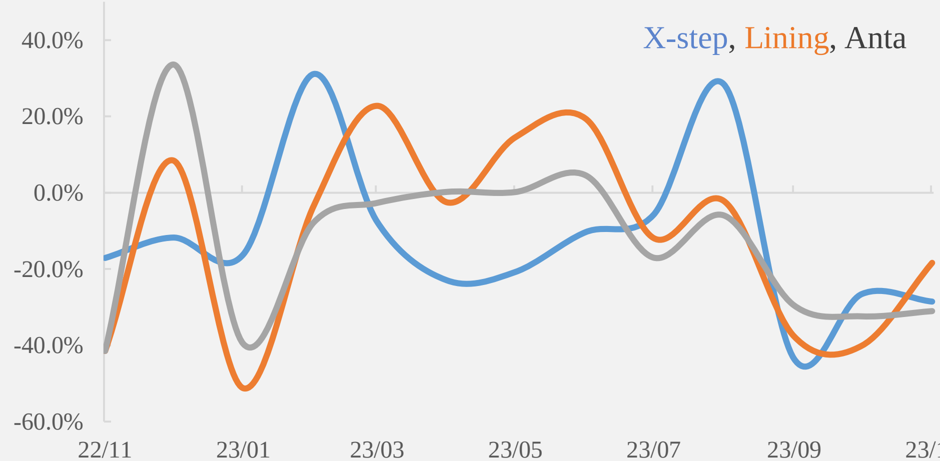
Overall, China's demand for textiles and clothing in China is continuing to recover. The outdoor clothing sub-sector is the growth spotlight among all consumer categories, and the main reason is the shift in consumer preferences towards specialization and functionality.

- Affected by the low base, China's shoe and clothing sales in December increased by 26% year-on-year, which is higher than the 7.4% growth of the total retail sales of social consumer goods.
- Among them, the Chinese sportswear market is experiencing a slowdown in demand, and the demand for sports and leisure attributes is cooling down, but the demand for functionality and specialization is increasing.
- Our December survey feedback also confirmed that outdoor clothing is the sector closest to the center of the market interests in the textile and clothing industry and even the entire consumer sector. Many clothing brands in the industry are also continuously increasing their investment in the outdoor sector.

China Retail and Clothes Sales



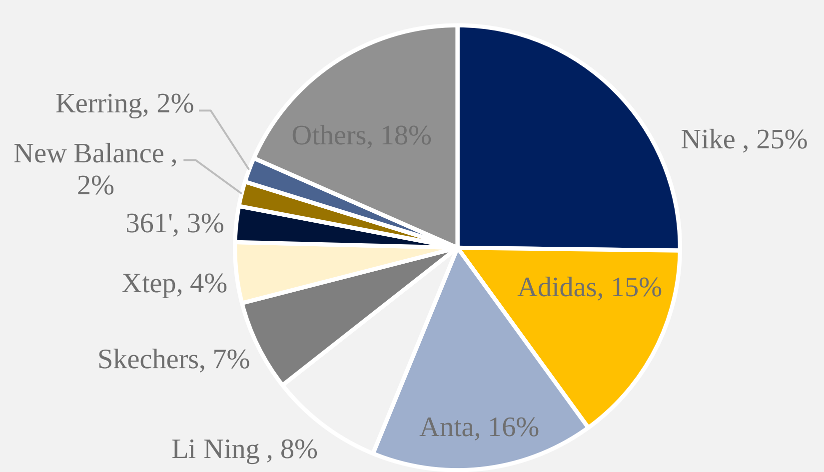
Sportswear T-mall Online Sales: YoY %



Nike: Slowing Demand & High-end Expansion Of Domestic Brands.

- **The competitive landscape is becoming increasingly intense**: On January 22nd, Anta's subsidiary, Amer Sports, plans to list on the NYSE, raising $1.8 billion. Since the acquisition of FILA in 2009, the strategy of brand acquisition has become a major avenue for Anta's revenue expansion.
- **Market share is declining, and Nike's transformation in the Chinese market is lackluster**: Since the Xinjiang cotton incident, Nike's market share in China has continued to decline, dropping from 25.6% in 2020 to 17% in 2022, while Adidas has also reduced to 11.2%. During the same period, domestic brands like Li Ning and Anta have risen strongly. From a competitive perspective, Li Ning and Xtep have already begun to seize Nike's high-end running shoe market. Although Nike monopolizes the high-end basketball shoe market, there are opportunities in the mid-to-high-end and mass markets.

2021 China Sport wear Market Share



Nike: Slowing Demand & High-end Expansion Of Domestic Brands.

- **The competitive landscape is becoming increasingly intense**: On January 22nd, Anta's subsidiary, Amer Sports, plans to list on the NYSE, raising $1.8 billion. Since the acquisition of FILA in 2009, the strategy of brand acquisition has become a major avenue for Anta's revenue expansion.
- **Market share is declining, and Nike's transformation in the Chinese market is lackluster**: Since the Xinjiang cotton incident, Nike's market share in China has continued to decline, dropping from 25.6% in 2020 to 17% in 2022, while Adidas has also reduced to 11.2%. During the same period, domestic brands like Li Ning and Anta have risen strongly. From a competitive perspective, Li Ning and Xtep have already begun to seize Nike's high-end running shoe market. Although Nike monopolizes the high-end basketball shoe market, there are opportunities in the mid-to-high-end and mass markets.

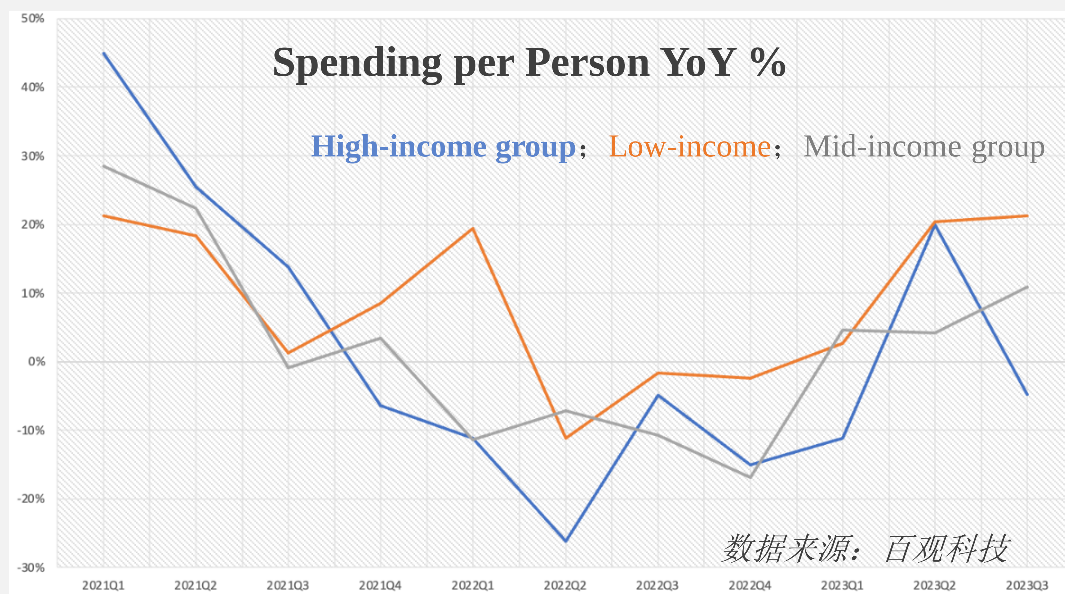
Nike and Other Sportswear Company Performance Comparison

Stock code	Name	Gross profit margin	Net profit margin ↓	Inventory Turnover	3-year Revenue Growth	ROE
2020.HK	Anta	63.27	17.48	1.45	102.09	17.97
2331.HK	Lining	48.78	15.08	3.16	126.81	15.75
LULU.O	LuLu Lemon	55.31	13.77	1.28	109.03	38.55
NKE.N	Nike	43.56	10.76	1.65	23.90	36.89

Luxury: Softening High-income Group Spending

In 2023, China's urban disposable income grew by 5.1%, which is still below the pre-pandemic growth of 8%. The pandemic continues to affect income growth. Notably, in Q3, spending by high-income Chinese decreased, impacting the luxury goods market.

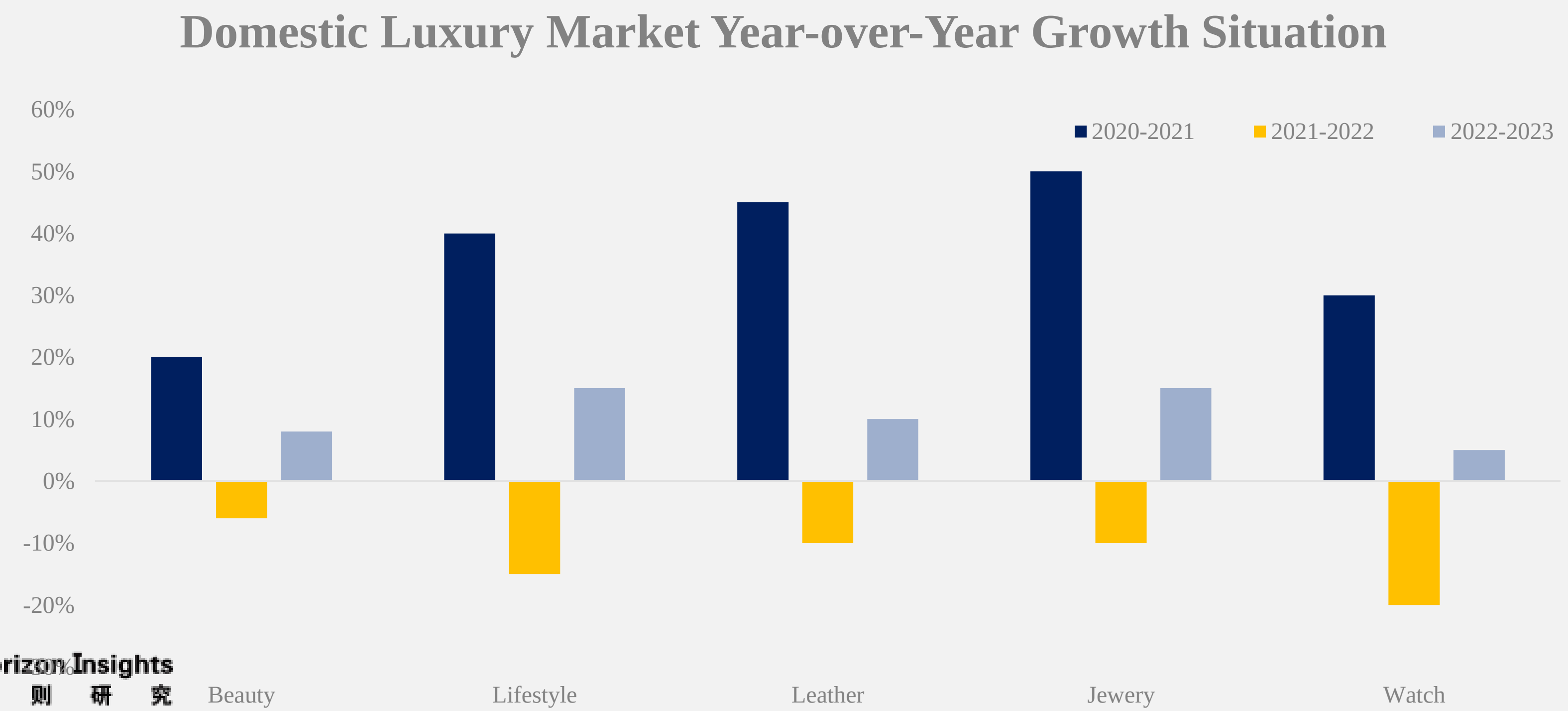
- **China's luxury market rebounded in 2023 but didn't reach 2021 levels**. The market grew 11% to 607.7 billion yuan, down 6% from 2021, with consumer confidence dropping in the latter half of the year.
- Domestic luxury spending's share in China rose to 58% in 2023, due to fewer Chinese traveling abroad.
- **Given the modest demand growth, China's luxury goods sector might shift its competitive strategies**. In the coming years, domestic consumption is expected to account for 60%-65% of the market, with brands possibly increasing discount practices.



Horizon Insights
弘 则 研 究

Tapestry: tapping into lower-tier markets, with Coach achieving growth against the trend

- **Brand growth disparity widens**: Bain & Company's "2023 Luxury Report," released on January 24th, suggests that economic factors are leading consumers to value the long-term investment potential of luxury goods more, with top-tier and some niche brands performing well. In terms of categories, fashion and lifestyle, leather goods, and jewelry are growing faster, with a year-on-year increase of 10-20% in 2023, followed by beauty products at 8%, and watches showing the weakest recovery at 5-10%, with significant brand differences.
- **Tapestry shines in lower-tier cities in China**: In Q3 of 2023, Tapestry, the parent company of Coach, saw a 9% sales increase in Greater China, outperforming the group's overall sales growth of 2%. Year-on-year growth was 3%, with Coach's global sales reaching $1.157 billion in last year's Q3, accounting for 76% of Tapestry Group's global sales. Coach has been expanding into China's third and fourth-tier markets since 2022.



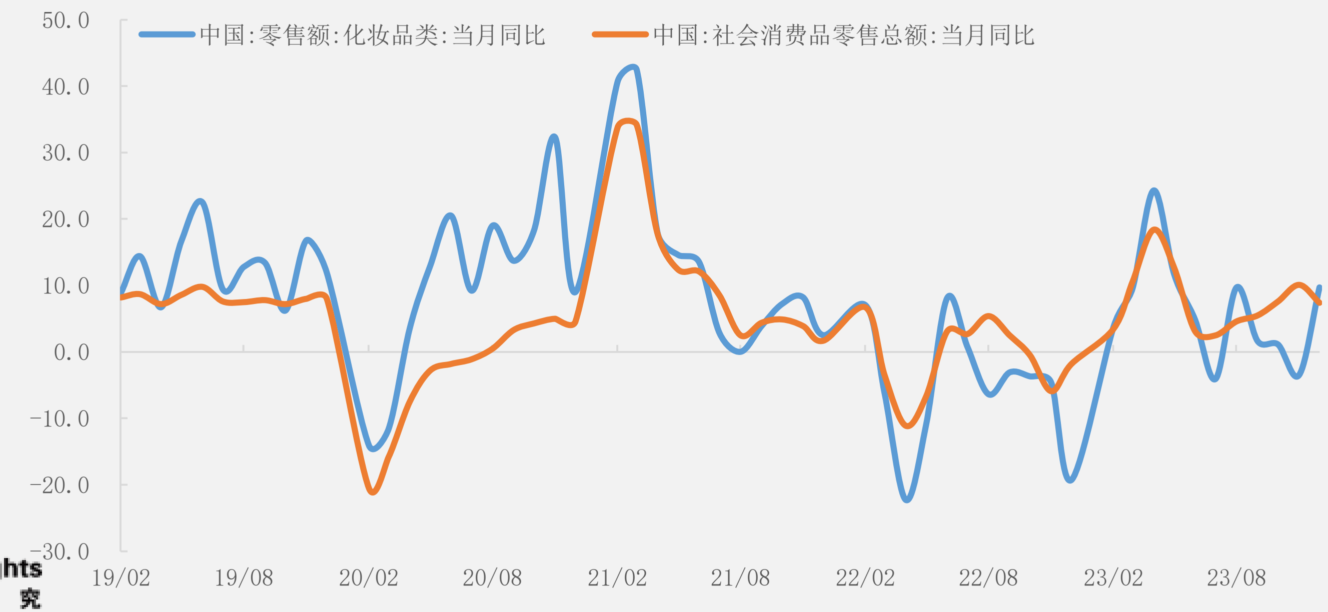
Horizon Insights
弘 则 研 究

Cosmetics：Tepid Recovery with the Rise of Domestic Brands

The overall recovery of cosmetics demand is weak: Affected by a low base, December saw a 9.7% year-on-year increase in China's cosmetics retail sales, an improvement over November's -3.5%. The fourth quarter's growth rate was 2.4%, slightly down from the third quarter's 4.2%. In 2023, China's cosmetics retail growth was higher in the first half and lower in the second, showing weak recovery momentum.

Domestic vs. Foreign Brands: In the environment of weak demand recovery, consumers increasingly seek the best value for money. Livestream selling, with its influential hosts and brand subsidies, is very popular. Domestic brands, sensitive to market shifts and flexible in marketing strategies, have a clear advantage. In contrast, foreign brands seem rigid in marketing and are lacking in product strength, marketing channels, and price competitiveness. This has led to skepticism in China about the high premiums charged by foreign cosmetics brands, generally putting foreign brands under pressure.

China Cosmetics Retail Sales YoY Growth



Horizon Insights 弘 则 研 究

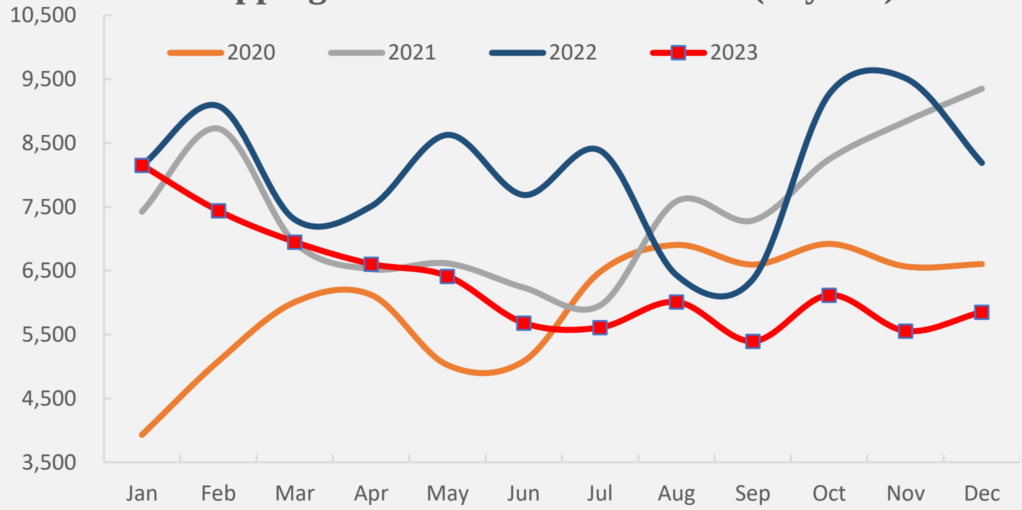
Est ée Lauder: Tepid Hainan Duty-free Consumption and Tmall Sales

- **Duty-free retail in China shows modest improvement: December 2023** saw a 16.7% rise in Hainan's offshore duty-free sales year-on-year. Yet, per capita spending dropped by 28.5% to 5,850 yuan, marking a slow recovery in China's duty-free tourism sector.

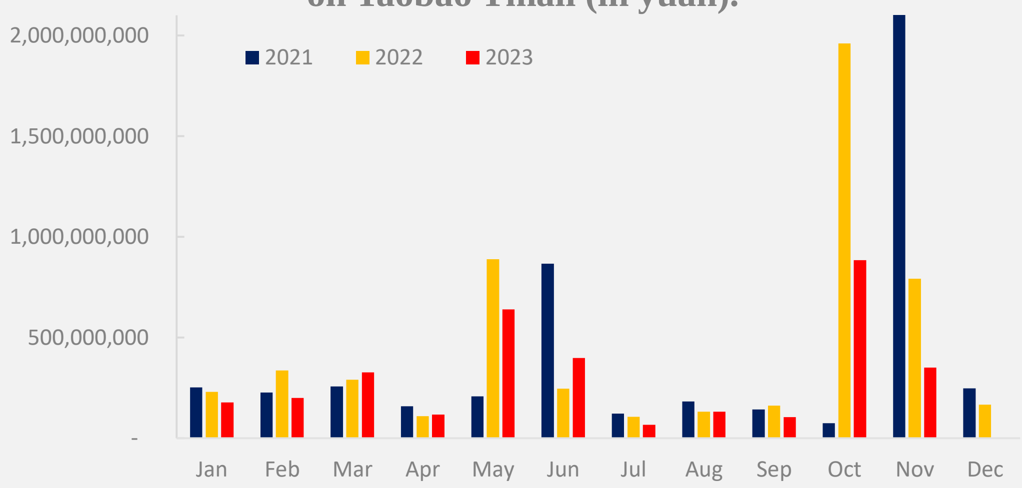
- **Est ée Lauder's Tmall sales continue to falter**: According to data, in November 2023, Est ée Lauder's Taobao Tmall sales amounted to 350 million yuan. The negative year-on-year growth continued to widen, with -56% in November, -55% in October, and -35% in September. The cumulative Tmall sales for the first 11 months decreased by 35% compared to the previous year, indicating significant pressure on growth.

- **Domestic competitors grow against the trend**: Focusing on online presence, the Chinese domestic functional cosmetics brand Pechoin achieved year-on-year Tmall sales growth of 21%, 38%, and 15% in the first three quarters of 2023, significantly outperforming Est ée Lauder's -18%, -48%, and -25% in the same periods.

Average per capita consumption for duty-free shopping on China's Hainan Island (in yuan).

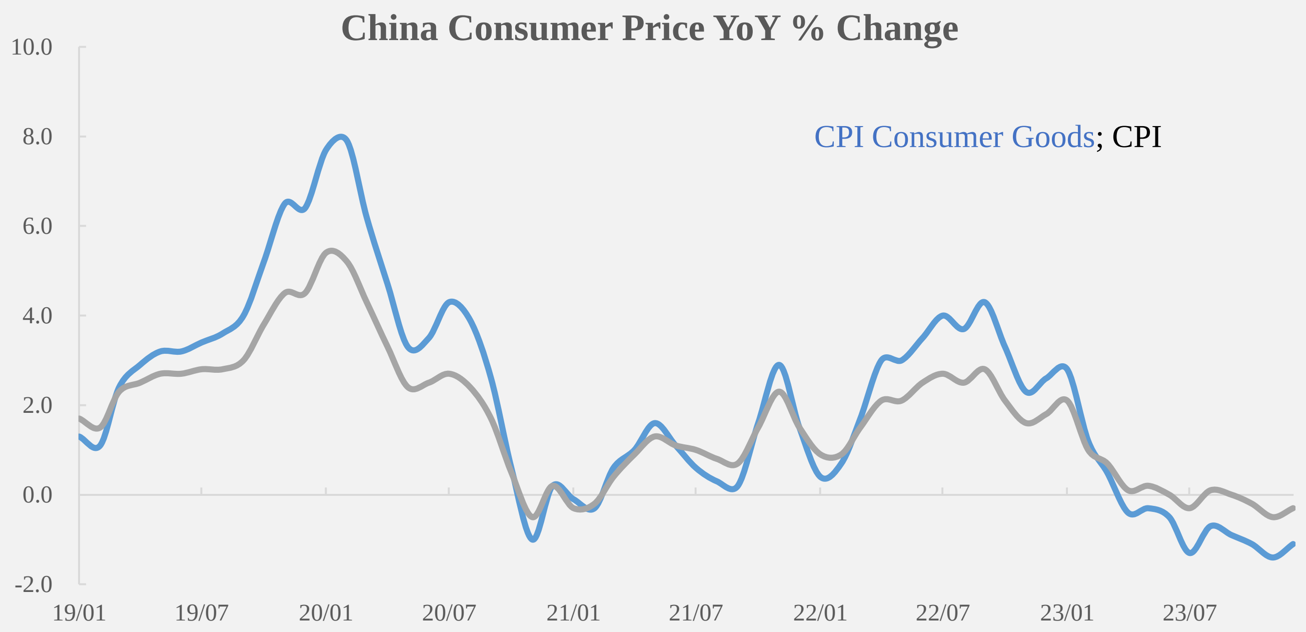


Average monthly sales of Est ée Lauder on Taobao Tmall (in yuan).



Supermarket: Easing of Deflationary Trends in the Horizon

- **Deflationary pressure slightly eases**: In December, China's Consumer Price Index (CPI) fell by 0.3% year-on-year, a slight improvement from -0.5% in November. The price index of consumer goods also improved, showing a negative growth of 1.1% year-on-year, an improvement from -1.4% in November.
- **Transformation of discount and membership stores**: With shifts in China's mass consumption trends, high-value-for-money goods are in demand. Consumers prefer quality over quantity, making discounts and bulk packaging emerging trends for store upgrades and transformations. Traditional large retailers are transitioning to membership store models, adapting to retail market changes through strategies like discounts, bulk packaging, and streamlined SKU (Stock Keeping Units).



Horizon Insights
弘 则 研 究

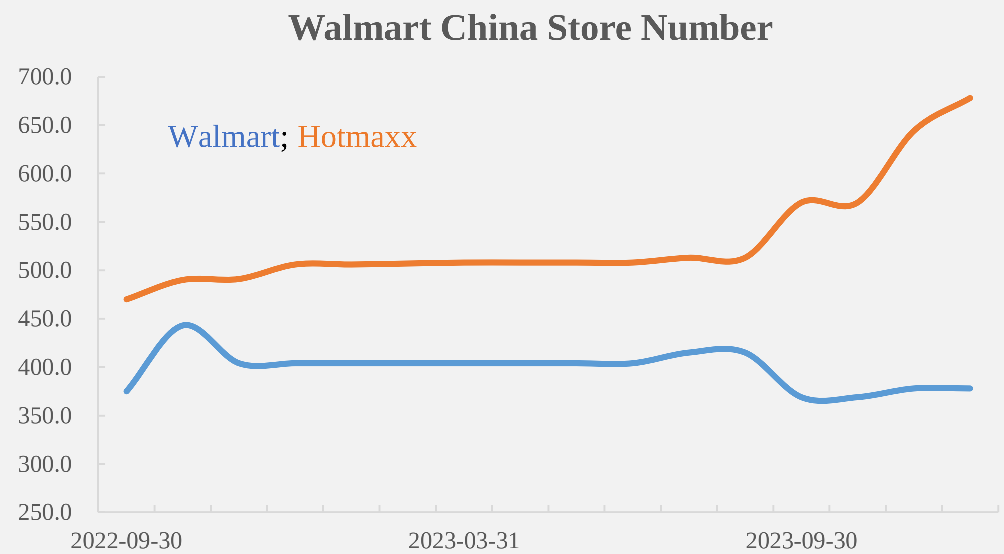
Walmart's Sam's Club to Accelerate Expansion in 2024

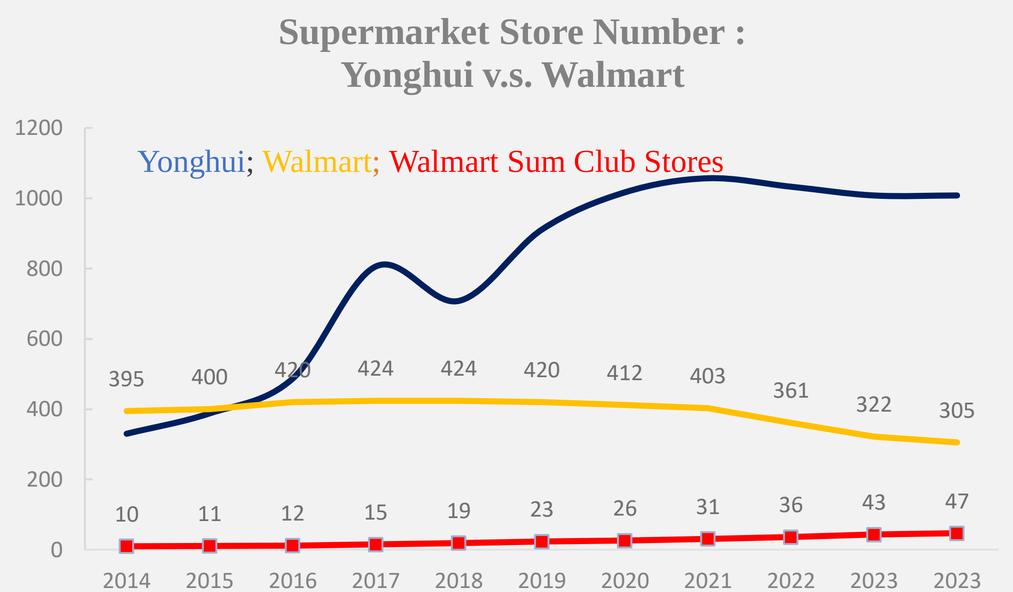
Transforming Walmart China: Amidst competition from e-commerce and offline rivals, Walmart China's two main formats - hypermarkets and Sam's Club - are experiencing contrasting fates. Sam's Club is accelerating its expansion, adopting an offensive and defensive strategy, while hypermarkets are opting to contract and simultaneously transform and upgrade.

Sam's Club: A Breakthrough in Industry Homogeneity: While the number of Walmart China's hypermarket stores is shrinking, in May 2020 (corresponding to Walmart's fiscal Q2 2021), Walmart China achieved continuous growth in sales and efficiency, bolstered by the strong growth of Sam's Club and e-commerce, despite mid-term disruptions caused by the pandemic.

Focusing on the middle class, accelerating expansion in first and second-tier cities: Walmart China's official WeChat account anticipates 6-7 new Sam's Club stores opening annually. Since the start of 2024, Sam's Club has confirmed locations in Tianjin and Foshan Daliang. Additionally, recruitment announcements have been made for new stores in Nanjing, Chengdu, Wuhan, and Quanzhou, indicating imminent openings. Evidently, Sam's Club is speeding up its advancement, hastening its layout in existing and first and second-tier cities.

Horizon Insights 弘 则 研 究





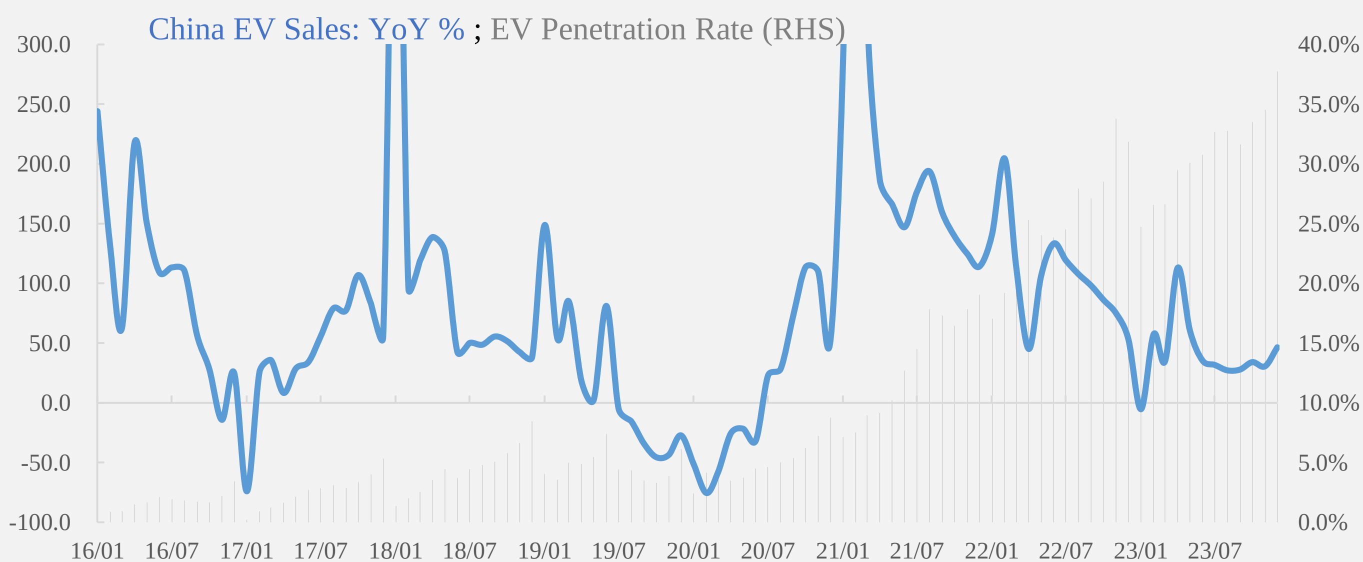
02 Manufacturing

Automotive: Robust Growth and Soaring Penetration of New Energy Vehicles

- **Continued Increase in New Energy Vehicle Penetration**: In December, China's automotive sales remained high, with a year-on-year growth of 23.5%, slightly lower than November's 27.6%. New energy vehicles saw a year-on-year growth of 46.4% in the same month, surpassing the previous month's 30.5%. Currently, the penetration rate of new energy vehicles in China has increased by approximately 8 percentage points compared to 2022.

- **Intensifying Competition**: By the end of 2023, the automotive market had entered a "price war," with major brands using "New Year's promotions" to attract consumers. Price discounts, competition in smart features, and ecological battles were ongoing, and domestic new players were also entering the "luxury car" segment. The overall trend in the industry was the introduction of high-end new models, and the issue of high prices for new energy vehicles briefly trended on social media.

China EV Car Sales and Penetration Rate



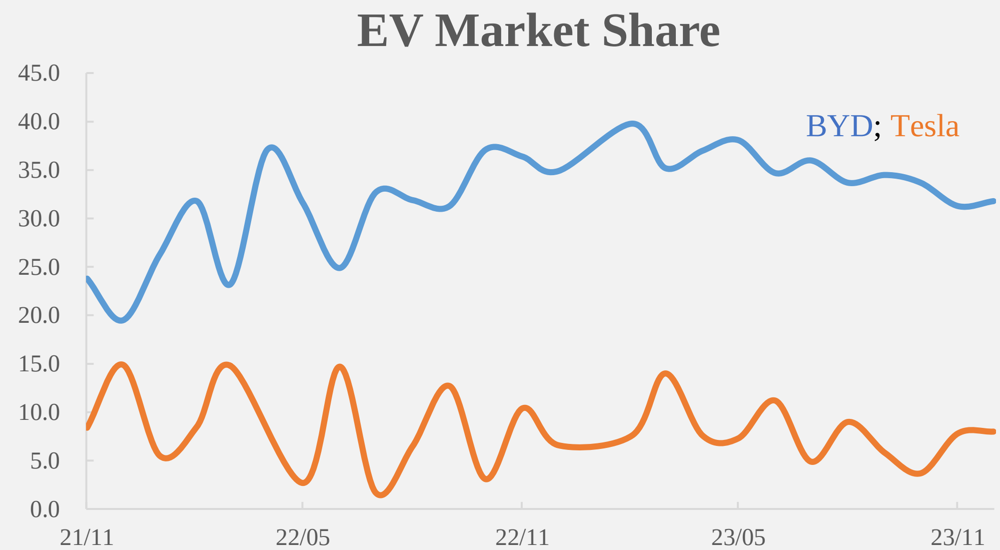
Horizon Insights
弘 则 研 究

Tesla in China: Cutting Prices to Drive Sales, Revenue Share Stays Steady

Steady Market Share in the Short Term: Tesla China sold 74,000 vehicles in December, representing approximately 8% of the market share, a slight increase from November's 7.8%. In 2023, Tesla's sales in China reached 602,700 vehicles, a year-on-year increase of 37.3%, with a market share of 7.8%. In 2022, Tesla's monthly market share could exceed 10%.

Intense Competitive Pressure: Benefiting from record-breaking sales of new energy vehicles, BYD's net profit saw a significant increase in 2023, expected to be between 29 and 31 billion RMB, a year-on-year growth of 75%-87%.

Price Wars Continue to Impact Profitability: In response to ongoing price competition from Chinese companies, Tesla China once again lowered the price of the Model 3 on January 12, 2024. In September 2023, Tesla had previously raised prices for its main model, the "Model 3," by 10%.



Tesla Model 3 China Store Price（Unit：10,000 Yuan）

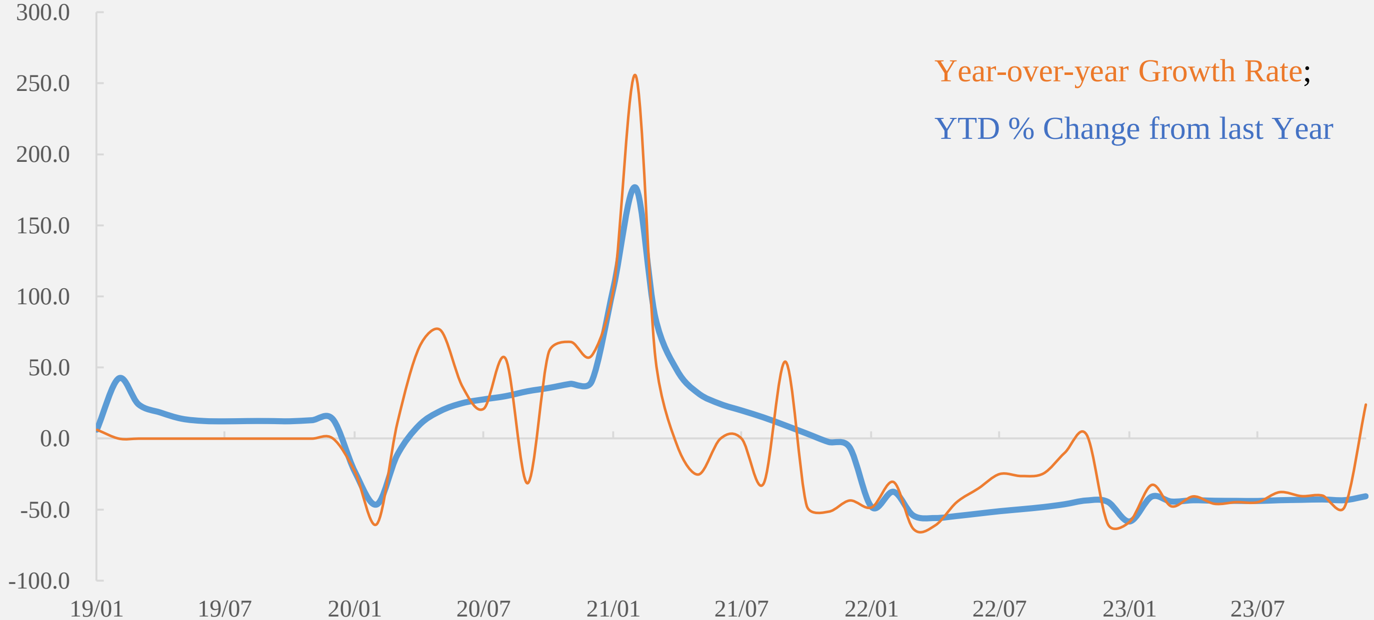
Horizon Insights
弘 则 研 究

Construction Machinery: Few New Projects, Prolonged Payments, Slow Excavator Sales

- **Sluggish Sales**: Excavator sales and construction activities saw a slight improvement in December, mainly due to year-end transactions and rush orders before the Chinese New Year, which is a typical seasonal occurrence. Dealers anticipate a decline in sales in January and February, as the outlook for new projects remains subdued.

- **Weak Profitability for Dealers**: Prices and sales conditions continue to loosen, and the so-called joint price increases have had little effect. The manufacturers are reluctant to offer policy support, putting significant pressure on dealers' cash flows.

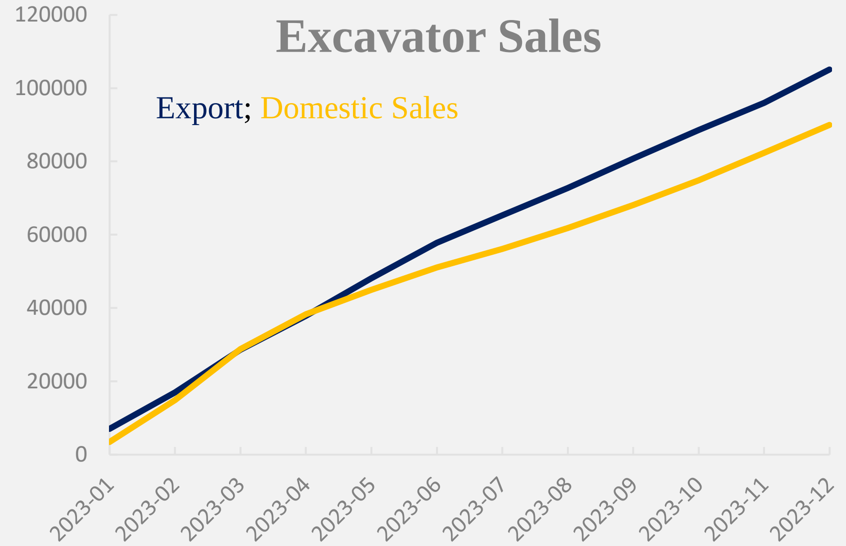
Domestic Excavator Sales: YoY % Change



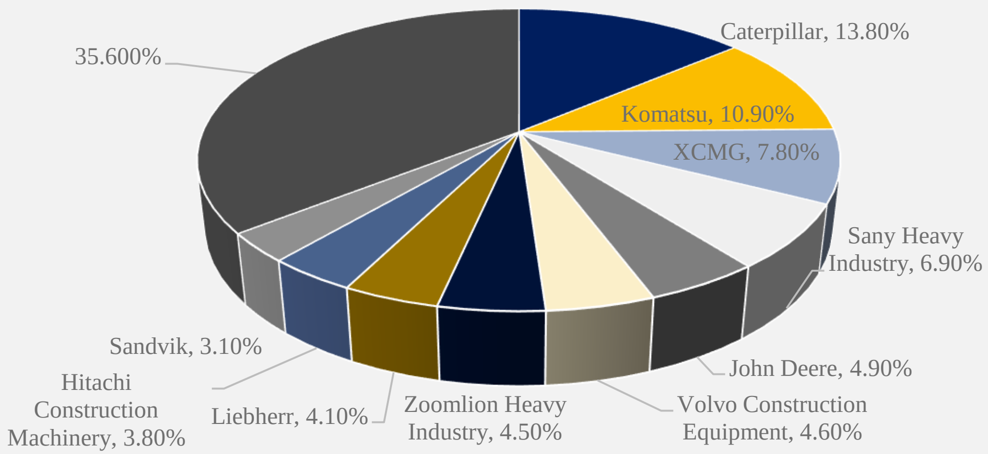
Horizon Insights
弘 则 研 究

Caterpillar: Declining Excavator Demand, Domestic Brands Expanding Overseas

- **Declining Domestic Demand**, **Strong Exports**: Due to the downturn in China's real estate sector, domestic excavator sales in China saw a 25% year-on-year decline in 2023, with no improvement compared to 2022. Meanwhile, Chinese excavator exports grew by 15% year-on-year, a decrease from the peak of 40% in 2022. Notably, in the second half of 2023, Chinese excavator exports exceeded domestic sales, leading to an acceleration of overseas expansion by domestic brands.
- Currently, Caterpillar holds the highest global market share in construction machinery, double that of Chinese construction machinery manufacturers XCMG and Sany Heavy Industry.



Global Construction Machinery Market Share 2022.



Horizon Insights
弘 则 研 究

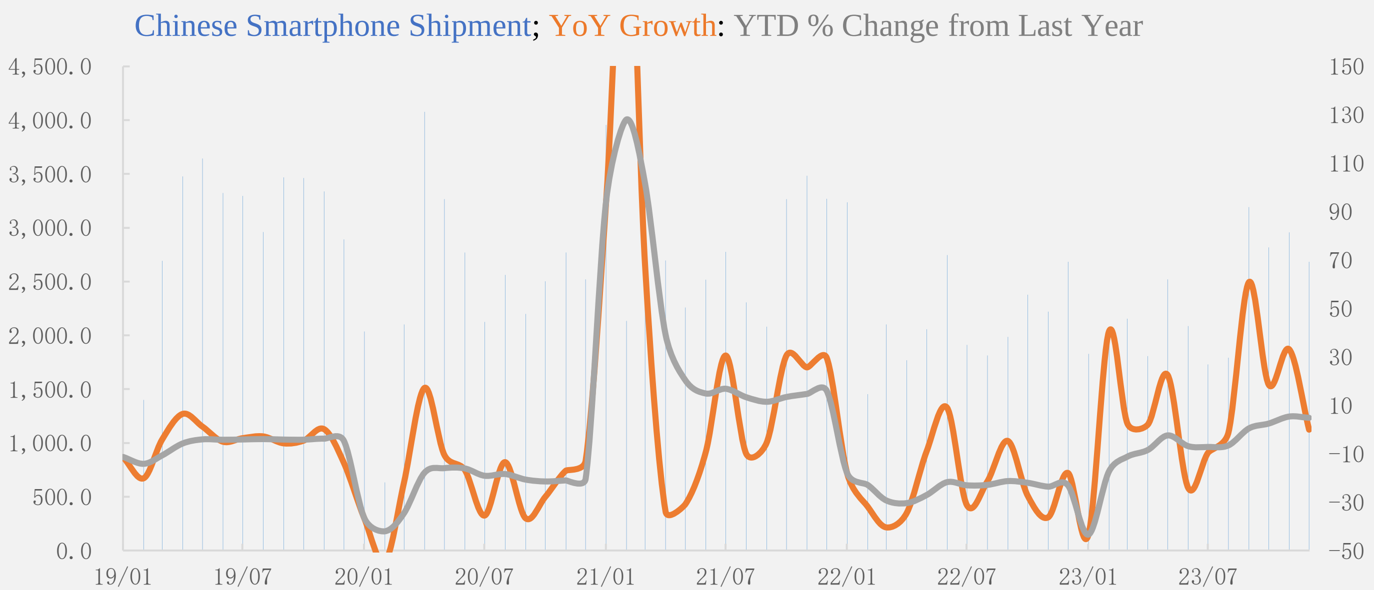
Horizon Insights 弘 则 研 究

03 Tech

Smartphones: Industry Chain Recovery, Intense Competition in the High-End Market

- In December 2023, the shipment of smartphones in China saw a marginal year-on-year decline (-0.01%), but for the full year, there was a cumulative year-on-year growth of 4.8%, indicating a gradual improvement in overall smartphone demand.
- During the fourth quarter of 2023, Apple led the market with 17.5 million shipments, experiencing a 6% year-on-year growth. Honor followed closely with a 16% market share, shipping 11.7 million units and securing the second position. Vivo shipped 11.3 million units, moving up to third place. Huawei, with 10.4 million units shipped, made a comeback to the top five rankings, thanks to flagship product shipments that increased by 47% year-on-year. Xiaomi's new models in the digital series performed well in the fourth quarter, shipping 9.5 million units and maintaining the fifth position.

China Smartphone Shipment



Apple: Deteriorating Competitive Landscape

- In Q4 2023, Apple's revenue saw a slight increase of 1%. Greater China, as its third-largest market, experienced a decline in revenue with a year-on-year decrease of 13% in December.
- Pressure on Sales in China: In terms of the market, in December, Xiaomi surpassed Apple, claiming the top spot in China with a 16.5% market share, while Apple ranked second with 15.9%, experiencing a significant year-on-year decline of 17.7%. Honor and vivo secured the third and fourth positions, respectively.
- In the high-end smartphone market, Apple, Huawei, and Xiaomi maintained their positions as the top three, accounting for over 80% of the total market share.

2023 China Smartphone Shipment

Dec	Nov	Brand	Shipment 2023/12	2023/12 Mkt Share	YoY %	Shipment 2022/12
1	2	Xiaomi (Redmi)	348.09	16.5%	25.8%	276.80
2	1	Apple	336.21	15.9%	-17.7%	408.34
3	3	Honor	335.21	15.9%	12.4%	298.33
4	5	vivo	326.02	15.5%	-9.6%	360.80
5	6	OPPO (realme)	322.34	15.3%	-23.8%	423.00
6	4	Huawei	294.11	14.0%	59.2%	184.80
Others	Others	Others	146.18	6.9%	31.6%	111.06

Qualcomm launched new Snapdragon products, with Xiaomi leading the global debut, sparking a mid-range market competition.

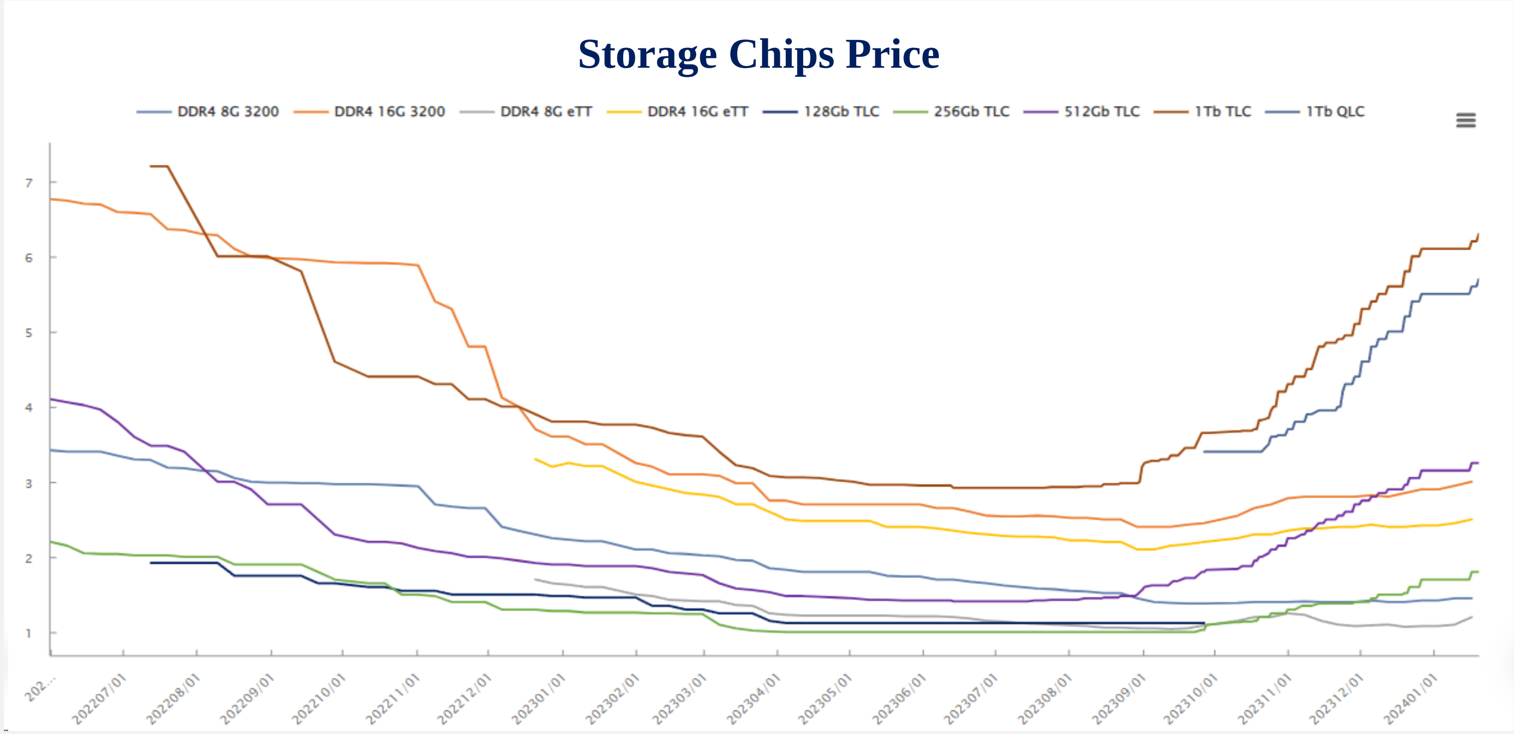
Qualcomm exceeded Q4 2023 revenue expectations, driven by recovering smartphone chip sales. Q1 2024 guidance also exceeded expectations. However, short-term smartphone customer inventory issues persist, affecting Qualcomm's profitability as mobile business dominates its revenue.

- Qualcomm's mobile business showed a clear recovery in Q4 2023, with a 16% revenue growth, compared to a 27% decline in Q3. This suggests consumers are upgrading smartphones faster. For 2023, the mobile division expects a decline of 0% to 10%, while the global smartphone industry is expected to remain flat or slightly grow in 2024 compared to 2023.
- Qualcomm will launch updated Snapdragon 7 and 8 series SoC products in March. Xiaomi, along with other manufacturers, will adopt the Snapdragon 8 Gen3 processor. Xiaomi's early adoption may give this mid-range processor a competitive edge in the market.
- Xiaomi's Xiaomi 14 series, featuring the Snapdragon 8 Gen processor, achieved significant success. Within 24 days of its launch, activations surpassed 2.27 million units, and by December, sales exceeded 3 million units. This made the Xiaomi 14 series the fastest-selling high-end Xiaomi smartphone, crossing 3 million in sales.

Storage Chips: Recovery in Consumer Electronics Boosts Storage Prosperity in Q4

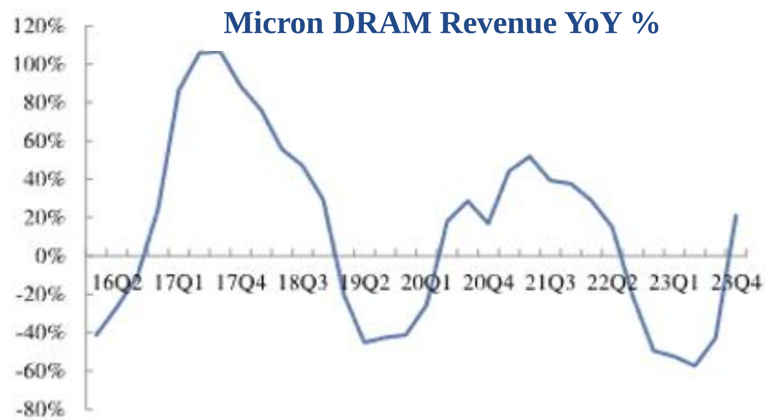
Turning Point Clear, Strong Server Demand Growth: Q4 saw a positive demand trend for mobile phones, PCs, and servers, with an overall tendency towards weak recovery in 2024. In the server sector, DRAM and NAND capacity are growing the fastest, with increases of up to 30% or more, benefiting from AI and DDR5 upgrades.

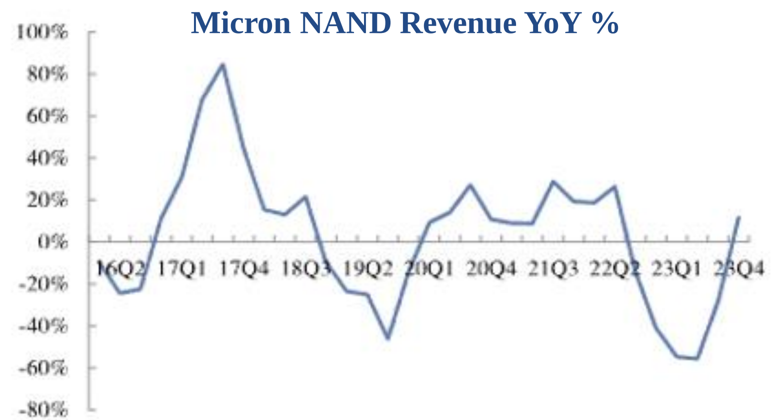
- **Prices**: Q4 continued the trend of price increases from Q3, with a moderate rise in DRAM prices and corresponding significant increases in NAND prices, which had previously experienced a steep decline. Price stability is expected in 24Q1, with the possibility of further increases in the second half of the year as demand picks up.
- **Utilization Rates**: The average utilization rates of the three major overseas manufacturers in the second half of the year were around 60-70%. Reductions in production in Q3 and Q4 have significantly narrowed, and the reduction in 24Q1 is nearing completion, with demand growth in Q2 likely to boost utilization rates.
- **Inventory**: Except for some NAND chips, inventories in terminals and channels have been cleared.

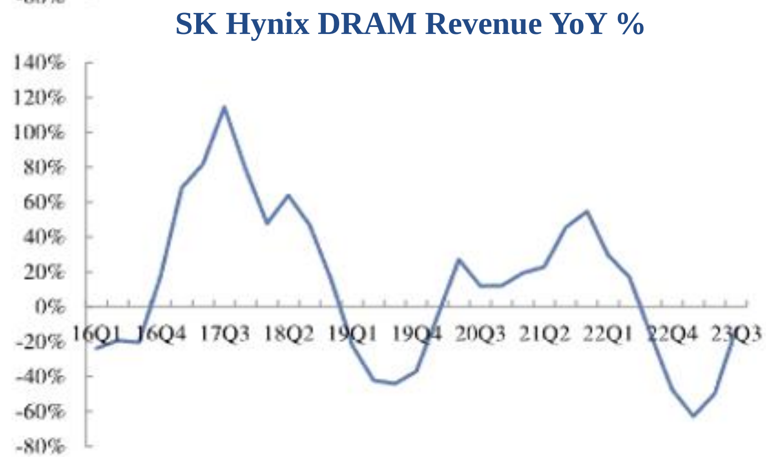


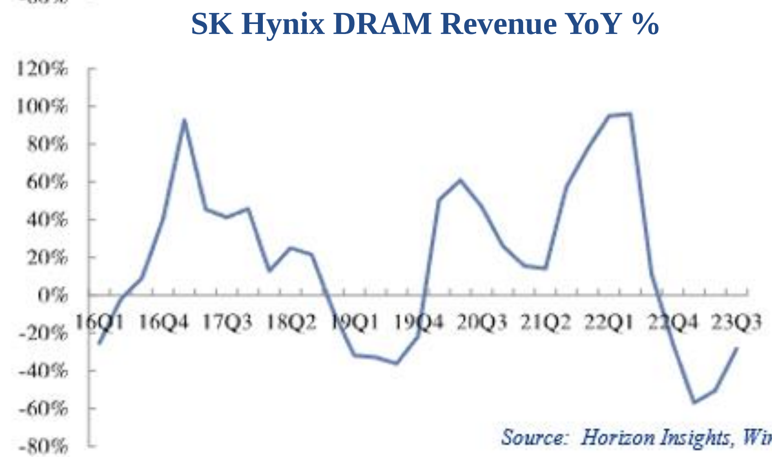
Micron: Revenue Growth Stabilizes and Industry Turning Point Becomes Clear

- Based on feedback from storage manufacturers in December, the shipment volume of major application markets such as smartphones, PCs, and servers in 2024 is expected to remain flat or see a slight single-digit percentage increase year-on-year. The overall recovery is relatively weak, with demand returning to normal seasonal fluctuations, gradually increasing from Q1 to Q4. However, due to the increase in the per-chip capacity of storage chips in end products, the annual shipment capacity of DRAM and NAND is expected to grow by 15% to 20%, with server DRAM and NAND expected to increase by more than 30% and 40%, respectively.
- The inventory of storage chip manufacturers in Q4 2023 decreased significantly compared to Q3, with DRAM approaching historic lows, while NAND high-layer products still have some inventory due to customer import timing, but it is expected to return to normal levels in Q2 2024. End customers are becoming more cautious in their stocking, and current inventory levels are also low. In terms of the production reduction pace of chip manufacturers, the quarterly reduction rate in the first half of 2023 exceeded 10%, but it narrowed down to 3% to 4% in Q4. It is expected that there will be a slight reduction in production in Q1 2024, and production may start to increase in Q2.





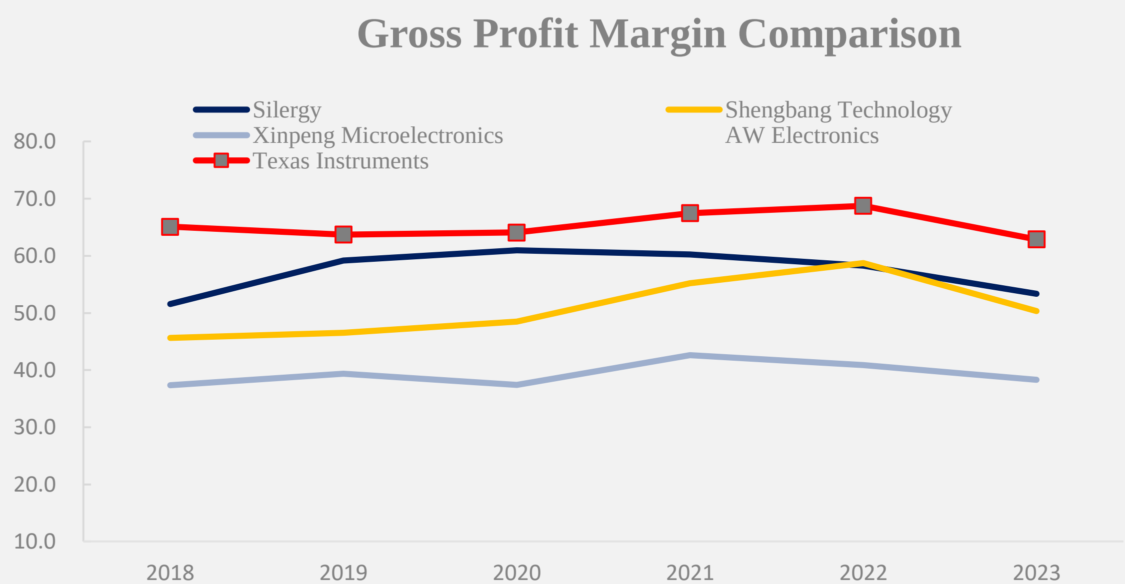




Source: Horizon Insights, Wind Info

TI: Weak Demand for Industrial and Automotive Chips, Consumer Electronics Stabilize

- December grassroots research in the Chinese market suggests potential improvements in demand for analog chips in 2024. Channel distributors have ambitious targets for 2024, expecting overall market growth. Consumer electronics are gradually rebounding, industrial demand remains relatively stable, and the automotive business is expected to continue growing. In the short term, the market expectations for the next six months to a year show limited improvement.
- Texas Instruments reported Q4 results below expectations, with increased inventory of automotive chips and weak demand in core segments. The prolonged downturn in demand for industrial and automotive chips was the primary reason. Texas Instruments expects Q1 revenue to be between \$3.45 billion and \$3.75 billion, lower than the analyst average estimate of \$4.09 billion. The projected earnings per share are \$0.96 to \$1.16, below the analyst estimate of \$1.42.
- Domestic competitor Shengbang Technology (300661) exceeded expectations due to a changing demand structure and recovery in smartphone demand. Shengbang announced on January 31 that its net profit attributable to shareholders of listed companies for 2023 is expected to be between ¥262 million and ¥332 million, beating market expectations. The company's expanding product portfolio and the recovery in consumer electronics were the main reasons for the higher-than-expected net profit.



04 Health Care

GE: Q4 Hospital CT Tender Quantity Declines Significantly, Order Demand Remains Weak

Tender activities lead orders and enterprise sales performance. In December, grassroots hospital research feedback indicates a significant decline in Q4 tender quantities, and overall demand for medical equipment remains weak:

- **CT Equipment**: Growth in 2023 is lower than expected. Q1 saw increased demand due to subsidized loan policies, but demand significantly declined in Q2. Starting from Q3, it was influenced by medical policies, leading to a sharp decline in Q4 tenders and orders.
- **MR Equipment**: Overall outlook is better than CT. It's influenced by subsidized loans and medical policies, but demand remains relatively stable with a trend of steady growth.
- **Ultrasound Equipment**: Sales in the first half of the year outperformed the second half. Weak demand in Q4 led to an increase in inventory levels. Demand increased gradually each quarter, but Q4 compared to Q3 remained relatively stable, performing better than CT and MR."

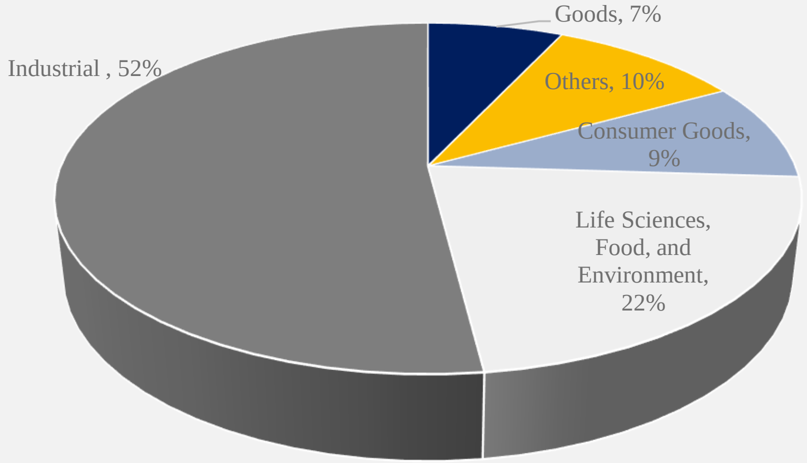
December Public Hospital Bidding Activity Survey

Product	Public hospital bidding 23Q4 YoY %	Public hospital bidding 23Q4 MoM %	24Q1 Expectation
CT	lower than the industry average growth rate	Negative MoM Growth	Expected to improve
	lower than the industry average growth rate	Negative MoM Growth	Expected to improve
MR	lower than the industry order growth rate	Negative MoM Growth	Better than CT bidding
	Big drop in new orders	Negative MoM Growth	Smooth Improvement
DR	lower than the industry average growth rate	lower than the industry order growth rate	Weaker than CT bidding
Ultrasound	lower than the industry average growth rate	Flat	No Improvement yet in horizon
Radiation	Big drop in new orders	Negative MoM Growth	Expected to improve

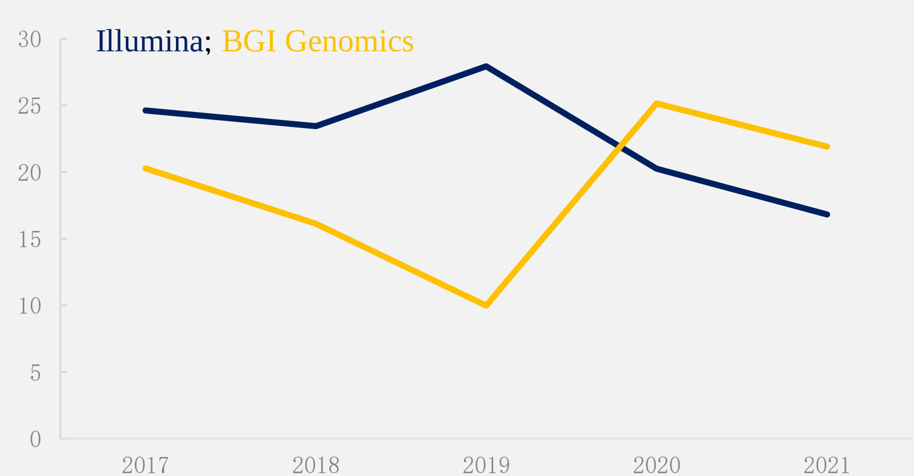
Illumina: Short-term disruptions compounded by a cyclical downturn

- Leading domestic testing company BGI Genomics forecasts a significant revenue decline for 2023, ranging from 86.3% to 90.04%, due to lower gross profit margins, increased R&D spending, and decreased testing income caused by the industry's downturn.
- The impact of short-term anti-corruption policies in the medical sector is diminishing. Recent months have seen an improvement in regulatory policies, with delayed bidding plans in some regions. Purchasing demand is gradually increasing, and Q4 is expected to be active in equipment bidding, potentially accelerating the inspection and testing sector's performance.
- In July 2023, the National Health Commission and 10 other departments launched a year-long anti-corruption campaign in the pharmaceutical industry. This campaign covers the entire medical industry, leading to project delays in the inspection and testing sector due to its comprehensive reach.

Downstream Demand in the Testing Industry



Net Sales Margin



Horizon Insights 弘则研究

Thanks

Disclaimer:

This report is for use by officially contracted clients of Horizon Insights(Shanghai) Investment Consulting Co., Ltd. and receiving the report doesn't make one a client. While the report strives for reliability, accuracy, and completeness based on legal and standard industry practices, there's no guarantee of the information's accuracy or completeness nor that the contents won't change post-publication. The information is for reference only and does not guarantee investment outcomes or share in profits or losses. It's not to be considered final advice in investment, legal, accounting, or tax matters, and is not a basis for moral, legal, or liability claims. The company is not liable for any losses incurred from using the report, with all risks borne by the user.

Address: Room 1206, Century Center Building, 210 Century Avenue, Pudong New District, Shanghai.