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The Dawn of the Global Smartphone Market

Smartphone shipments are still in a downtrend, but they will recover when the global economy stabilizes.

According to IDC, the global provider of market intelligence for the IT and telecom sector, global smartphone shipments fell by 9.7% YoY to 302mn units in 3Q22, a fifth consecutive quarter of decline. Since 2018, global smartphone shipments have been on a downtrend, except in 2021 when working from home revitalized demand. In 3Q22, Apple was the only brand to have delivered a positive growth in shipments (+1.6% YoY), while Android brands Xiaomi, Oppo and Vivo were reported to have recorded steep sales declines of more than 20% YoY. According to the latest IDC forecasts, shipments of smartphones are expected to decline by 6.5% YoY to 1.27bn units in 2022E from 1.36bn units in 2021. IDC forecasts the market to rebound in 2023, with an estimated growth of 5.2% YoY to possibly reach 1.34bn units. Global shipments are expected by IDC to reach 1.46bn units in 2026, translating into a 2021-26 Compounded Annual Growth Rate of 1.4%. The growth would be low but still positive, driven by further transition into 5G and by emerging markets demand.

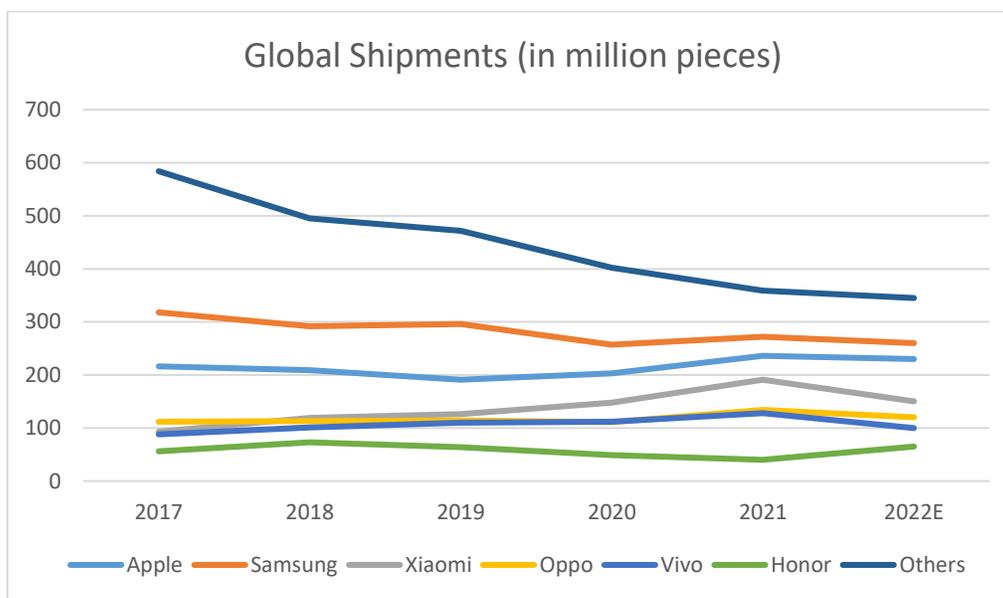
Smartphone shipments within the China market were down 11.9% YoY to 71.1m units in 3Q22, per IDC data, a sixth consecutive quarterly drop. The decline was narrower than the previous quarter (-14.7% YoY decline in 2Q22), partly supported by Apple's iPhone 14 series and Huawei's Mate 50 series new launch (but Huawei's contribution remains very limited).

Meanwhile, smartphone inventory has shown a significant increase due to the impact of Covid-related policies in China, to logistic issues, and to rising raw material costs that are impacting the components and assembly segments. IDC forecasts smartphone shipments in China in 2022 to be 288m, down 12.5% YoY.

A recovery of the sector can be expected for next year as a result of an easing of Covid-related containment policies in China, a gradual economic recovery, a recovery in replacement demand and the end of the current destocking pattern.

Global smartphone shipments - by vendor						
(mn units)	2017	2018	2019	2020	2021	2022E
Apple	216	209	191	203	236	230
Samsung	318	292	296	257	272	260
Xiaomi	93	119	126	148	191	150
Oppo	112	113	114	111	134	120
Vivo	88	101	110	112	128	100
Honor	56	73	64	49	40	65
Others	584	495	472	402	359	345
Total	1467	1402	1373	1282	1360	1270

Source: IDC



Source: IDC

What is causing the sluggish demand?

Macroeconomic downturn: The rise in inflation, geopolitical risks, foreign exchange rate volatility and repeated pandemic outbreaks have increased uncertainty in the outlook for a global economic recovery. These factors are weighing on end-demand in global smartphone markets. According to IDC, the Central and Eastern Europe (CEE) regions

showed a 36.5% YoY decline in smartphone shipments in 2Q22 as the Russia-Ukraine war impacted the region. China's shipments declined by 14.3% YoY, while Asia Pacific (excluding Japan and China), which accounts for nearly half of all shipments of smartphones worldwide also declined by 2.2% YoY in 2Q22. Nearly all regions saw low to mid-single digit shipment declines, based on the IDC data.

De-spec trend continues: New smartphone models only have very limited incremental upgrades nowadays, e.g some small improvements in the cameras or a slightly better screen. Following years of continuing upgrades of phone specifications, Android brands are now facing a dilemma about whether to pursue further features upgrades. What should be the next form factor? As the cost of components keeps on rising, a few models that were launched in 2022 have even shown signs of "de-spec", i.e. a downgrade of their specifications to remain price competitive. A number of Android flagship models launched this year saw some of their components such as display and camera being downgraded compared with prior models, with only the chipset being upgraded. Smartphone makers have shifted their focus from hardware to software upgrades.

Model	Xiaomi		OPPO		Samsung	
	Xiaomi 12	Xiaomi 12S	Find X3	Find X5	Galaxy S21 5G	Galaxy S22 5G
						
Main camera	Triple, 50MP, f/1.9, 1/1.56", PDAF, OIS	Triple, 50MP, f1/1.9, 1/1.28", PDAF, OIS	Quad, 50MP, f/1.8, 26mm(wide),1/1.56", PDAF, OIS	Triple, 50MP, f/1.8, 24mm(wide),1/1.56", PDAF, OIS	64MP, f/2.0, 1/1.72", PDAF, OIS	50mp, f/1.8, 1/1.56", Dual Pixel PDAF, OIS
Display	1080x2400 pixels	1080x2400 pixels	1440x3216 pixels	1080x2400 pixels	1080x2400 pixels	1080x2340 pixels
Chipset	Snapdragon 8 Gen 1 (4nm)	Snapdragon 8+ Gen 1 (4nm)	Snapdragon 870 5G (7nm)	Snapdragon 888 5G (5nm)	Snapdragon 888 5G (5nm)	Snapdragon 8 Gen 1 (4nm)
Battery	4500 mAh	4500 mAh	4500 mAh	4800 mAh	4000 mAh	3700 mAh
Release date	2021	2021	2021	2022	2021	2022
Release price in China	RMB 3699	RMB 3999	RMB 4499	RMB 3999	RMB 4999	RMB 4999
Note: Items in red indicate downgrades; items in blue indicate upgrades						

Source: JK Capital

Replacement cycles get longer: As of 2Q22, the global 5G smartphone penetration rate had reached 51%, according to Strategy Analytics, and this number had reached 84% in China. The demand for 5G smartphone replacement has declined after the initial fast

rollout in 2020-21, and as the slowdown weighs on the industry, 5G smartphone shipment forecasts have been revised down accordingly.

There are reasons for a longer replacement cycle, including a lack of innovation in smartphone features, continuous price increases and an absence of quality improvements. According to data from China Mobile Communications (CMCC), the replacement cycle of Chinese mobile phone users is lengthening after having reached a record low of 27.1 months (+10% YoY) in 1H21.

Supply chain players are hit by sluggish demand and move into new markets:

The smartphone market downturn continues to impact component manufacturers. To digest the excess inventory and to cope with a weakening demand, Android brands have cut their 2022 production orders to suppliers. To mitigate the negative impact of an end-market stagnation, smartphone manufacturers are moving rapidly into the IoT/ smart wearables, VR/AR (virtual reality/augmented reality) and automotive electronics sectors. Xiaomi even announced earlier this year that they would start making cars.

IoT, smart wearables, VR/AR and auto electronics:

Global shipments of smart wearable devices rose from 350mn units in 2019 to 450mn in 2020 and 530mn in 2021, according to IDC, growing at a CAGR of 24%. TWS (true wireless stereo) earphone shipments also rose rapidly, benefiting from more and more smartphones abandoning the standard 2.5mm headphone connector. Following a strong 2019-21 growth, demand gradually decreased amid the pandemic and a macroeconomic slowdown. Global shipments of smart wearable devices declined for the first time in 1Q22 and fell to 105mn units, down 3% YoY in 2Q22 (as per IDC).

Although the smart wearable device sector is currently plateauing, the penetration rate in some regions is still low. In India for instance, shipments of smart wearable devices in 1Q22 were 23.9mn units, according to IDC, representing an increase of 113% YoY. India is a strategic market for smart wearable maker Xiaomi, which entered the market in 2014 and ranked No. 1 with a market share of 20.4% in 2Q22 (according to IDC). Leveraging its local distribution channels and its sizeable smartphone market share, demand in India for Xiaomi's IoT products surged (IoT standing for "Internet of Things"). As of 3Q21, Xiaomi's Mi band held a market share of 49.8% in the India smart fitness band market, having led for several years and being well ahead of the second and third players Titan (16.7%) and

OnePlus (10.8%), according to data from IDC. When the economy recovers, we expect the IoT sector to also benefit, providing a second growth driver for smartphone companies.

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