DIGITIMES Research: Smartphone Tracker – 3Q 2018

China smartphone market and industry

Ashely Huang and Luke Lin, DIGITIMES Research, October 2018

China smartphone market

With the number of 4G users in China exceeding 1.1 billion, telecom operators are gradually cutting down their subsidies for new 4G phone purchase. Moreover, people are taking longer to upgrade their smartphones. As a result, despite a single-digit sequential growth, smartphone shipments to the China market in third-quarter 2018 dropped 6.9% on a year-over-year basis and will likely continue on the downward trend in the fourth quarter.

Based on surveys Digitimes Research conducted on the smartphone supply chains in Taiwan and China in August-October 2018, Huawei was the only one among the leading four China-based vendors to deliver a sequential growth of more than 20% in third-quarter 2018 shipments to China. Xiaomi and Oppo showed only single-digit sequential growth while BBK (brand name Vivo) exhibited a single-digit decline on quarter. Compared to the corresponding period of 2017, only Huawei and Xiaomi maintained growth while Oppo experienced a single-digit decline and BBK showed a two-digit drop.

Buoyed by Singles' Day shopping demand, smartphone shipments to China in fourth-quarter 2018 are likely to increase on a quarterly basis but decrease more than 10% on a yearly basis, causing China's share among the global market to dip to 25%. Furthermore, with Apple's iPhone XR entering the market in fourth-quarter, old iPhone models will go on sale for discounted prices. As a result, Apple's market share is estimated to surpass those of Oppo and BBK, making it the third largest brand in the China market in the fourth quarter.

Key factors affecting the China smartphone market

Key factors affecting China smartphone market shipments in third-quarter 2018:

Vendors (China-based/International brands)

International vendors:

iPhone XS and XS Max officially went on sale on September 21. The 64GB XS is priced at CNY8,699 and the 64GB XS Max at CNY9,599.

After the launch of new 2018 iPhones, the 64GB iPhone 8 originally priced at CNY5,888 are now available for CNY800 less and the 32GB iPhone 7 are available for CNY3,899 (down from CNY5,388 at launch).

China-based brand vendors:

Huawei: Honor Play 7 phones with a lower than CNY1,000 price tag continue to sell well. Huawei also launched multiple phones in the price range between CNY1,000 and CNY1,500, including Honor 9i, 6.5-inch Honor 8 and 7.12-inch Honor 8X.

Xiaomi: Phones priced lower than CNY1,000 continue to perform well, such as Hongmi 6A, Hongmi 6 and Hongmi 6 Pro. Xiaomi also marketed phones in the price range between CNY1,000 and CNY1,500, including Mi 8 Youth.

To combat Huawei, which has a massive number of phones on the market, and Xiaomi, which adopts a low-price strategy, Oppo and BBK are expanding toward tier-3/tier-4 cities and rural markets. Although they have also introduced phones priced lower than CNY1,000, their efforts have been ineffective.

Lenovo (including its Motorola brand), having delivered weak performance in China, marketed several phones priced around CNY1,000, such as the 6-inch K5 Note with a less-than CNY1,000 price tag and the 6.2-inch Z5 with a CNY1,200 price tag.

Table 1: Key vendor factors affecting smartphone shipments to China in 3Q18

Factor		Item	Analysis	Influence on shipments
Vendor	International brands	Apple	With 2018 new iPhones coming out, older Apple phones will go on sale for lower prices.	↑★★
		Samsung	The launch of flagship Note 9 could hardly boost shipments.	↓★
	China-based makers	Huawei	Multiple mid-range and low-end phones are performing well.	↑★★
		Xiaomi	Hongmi phones are hot-selling.	↑★
		Retail channel dominators	Oppo and BBK both experienced on-year decline in shipments.	↓★
		Smaller brands	Lenovo introduced multiple mid-range and low-end phones to grab market share.	↑★
		White box vendors	As telecom operators reduce subsidies and brand vendors scramble to market phones priced under CNY1,000, the white-box segment continues to be eroded.	↓★

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates positive influence.
Source: Digitimes Research, October 2018

Market/consumer requirements

Market/consumer demand:

A total of 42.5 million new 4G users were added in third-quarter 2018, down 35% from the corresponding period of 2017.

Table 2: Key trends affecting smartphone shipments to China in 3Q18

Factor		Item	Analysis	Influence on shipments
Demand	Telecom operator subsidies	Telecom operators encouraging 2G/3G to 4G user transition.	Telecom operators no longer offer subsidies at a large scale. The number of new 4G users is on a decline.	↓★
	Market/ product	Smartphones already have high penetration.	Smartphone markets in tier-1 and tier-2 cities have become saturated. Smartphone upgrade cycle is getting longer.	↓★

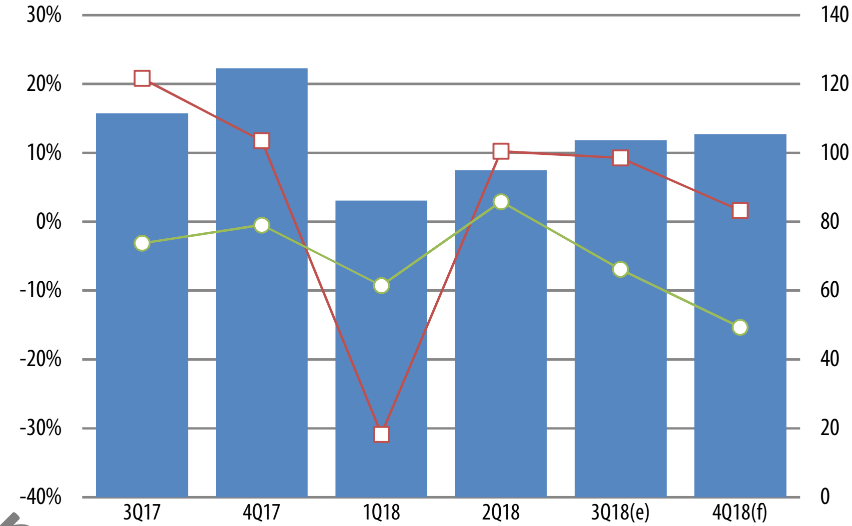
Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates positive influence.
Source: Digitimes Research, October 2018

Shipment breakdown

A total of 103.7 million smartphones were shipped to China in third-quarter 2018, up 9.2% on quarter but down 6.9% on year. The China market's share among the global total further trended downward.

According to Digitimes Research estimates, 105.4 million smartphones will be shipped to China in fourth-quarter 2018, up 1.6% on quarter and down 15.3% on year. China's share of the global smartphone market will further dip to 25.3%.

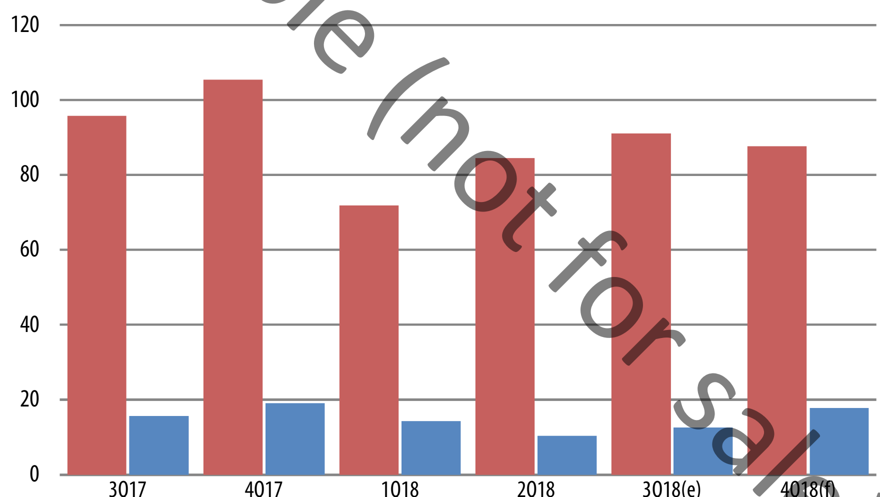
Chart 1: China smartphone market shipments, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
China shipment	111.4	124.5	86.1	94.9	103.7	105.4
Q/Q	20.8%	11.8%	-30.8%	10.2%	9.3%	1.6%
Y/Y	-3.1%	-0.5%	-9.3%	2.9%	-6.9%	-15.3%

Source: Digitimes Research, October 2018

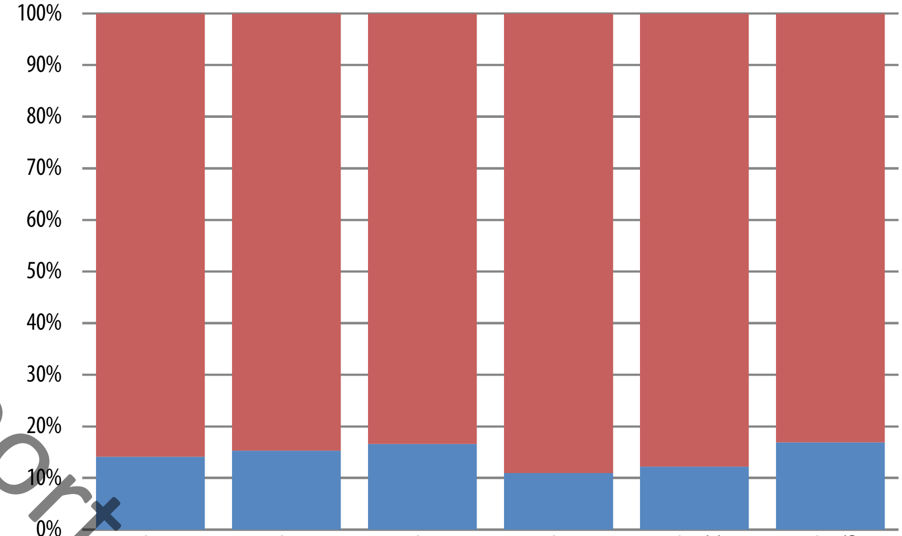
Chart 2: China smartphone market shipments - international and local brands, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
International	15.7	19.1	14.3	10.4	12.6	17.8
Local	95.7	105.4	71.8	84.5	91.1	87.6

Source: Digitimes Research, October 2018

Chart 3: China smartphone market share - international and local brands, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Local	85.9%	84.7%	83.4%	89.0%	87.8%	83.1%
International	14.1%	15.3%	16.6%	11.0%	12.2%	16.9%

Source: Digitimes Research, October 2018

China-based smartphone vendors

The leading four China-based vendors in terms of shipments to the domestic China market in third-quarter 2018 remained to be Huawei, Xiaomi, Oppo and BBK.

Among the four, only Huawei showed a significant on-year growth, leading Xiaomi, Oppo and BBK by widening distance.

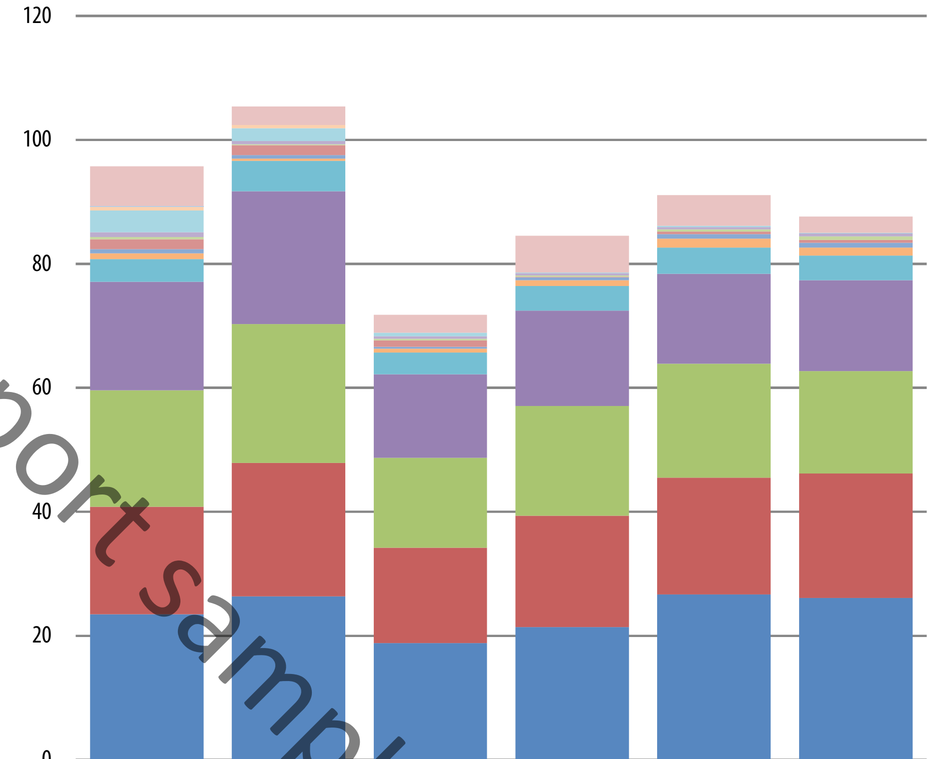
Compared to the corresponding period of 2017, Xiaomi's shipments increased 1.5 million units while Oppo and BBK experienced on-year declines, especially with BBK shipments down by 3 million units.

Targeting the domestic China market, Lenovo introduced multiple phones priced under CNY1,000 in the second quarter, for example, K5 Note, A5 and Z5 with a CNY1,000 price tag, which buoyed Lenovo's third-quarter shipments.

Going forward into fourth-quarter 2018, with the China market continuing to experience weak growth, China-based vendors will show declines in shipments from the prior year.

Compared to the corresponding period in 2017, Huawei's shipments will slip 300,000 units, Xiaomi 1.4 million units, and Oppo and BBK 6 million to 7 million units each.

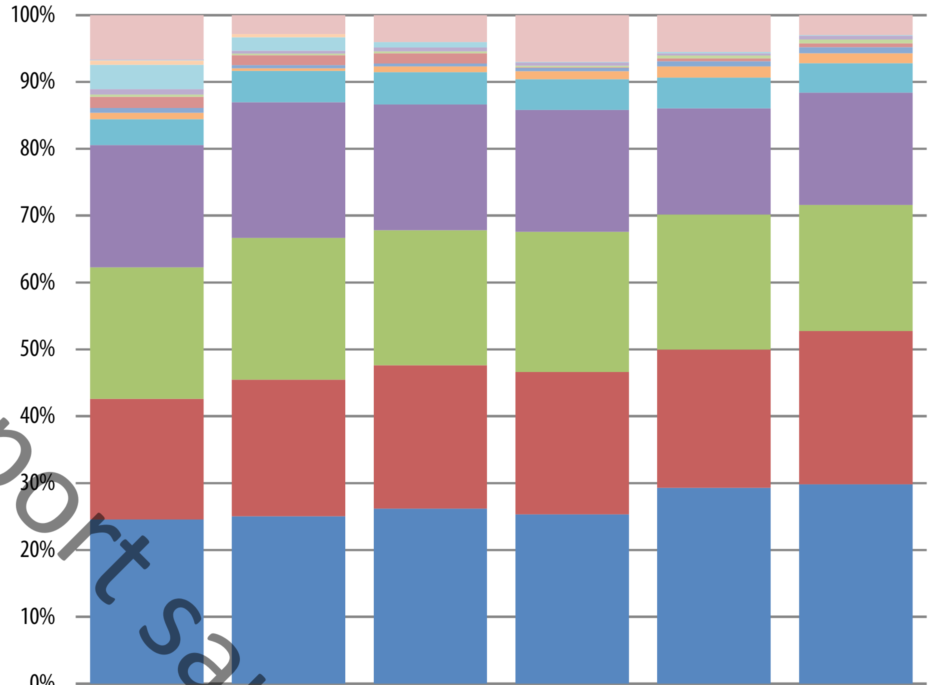
Chart 4: China smartphone market shipments, by China-based players, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Others	6.4	3.0	2.9	5.9	5.0	2.6
LeEco	0.1	0.0	0.0	0.0	0.0	0.0
K-Touch	0.6	0.5	0.0	0.0	0.0	0.0
Gionee	3.5	2.1	0.6	0.1	0.2	0.1
Hisense	0.8	0.5	0.4	0.4	0.3	0.5
TCL	0.3	0.2	0.2	0.2	0.4	0.5
ZTE	1.6	1.6	1.1	0.1	0.4	0.5
Coolpad	0.7	0.5	0.3	0.4	0.7	0.8
Lenovo	0.9	0.4	0.6	1.0	1.5	1.3
Meizu	3.7	4.9	3.5	3.9	4.2	3.9
BBK	17.5	21.4	13.5	15.4	14.5	14.7
Oppo	18.8	22.4	14.5	17.7	18.4	16.5
Xiaomi	17.3	21.5	15.4	18.0	18.8	20.1
Huawei	23.5	26.4	18.8	21.4	26.7	26.1

Source: Digitimes Research, October 2018

Chart 5: China smartphone market shipment share, by China-based players, 3Q17-4Q18



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Others	6.7%	2.8%	4.0%	7.0%	5.5%	3.0%
LeEco	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
K-Touch	0.6%	0.5%	0.0%	0.0%	0.0%	0.0%
Gionee	3.7%	2.0%	0.8%	0.1%	0.2%	0.1%
Hisense	0.8%	0.5%	0.6%	0.5%	0.3%	0.6%
TCL	0.3%	0.2%	0.3%	0.2%	0.4%	0.6%
ZTE	1.7%	1.5%	1.5%	0.1%	0.4%	0.6%
Coolpad	0.7%	0.5%	0.4%	0.5%	0.8%	0.9%
Lenovo	0.9%	0.4%	0.8%	1.2%	1.6%	1.5%
Meizu	3.9%	4.6%	4.9%	4.6%	4.6%	4.5%
BBK	18.3%	20.3%	18.8%	18.2%	15.9%	16.8%
Oppo	19.6%	21.3%	20.2%	20.9%	20.2%	18.8%
Xiaomi	18.1%	20.4%	21.4%	21.3%	20.6%	22.9%
Huawei	24.6%	25.0%	26.2%	25.3%	29.3%	29.8%

Source: Digitimes Research, October 2018

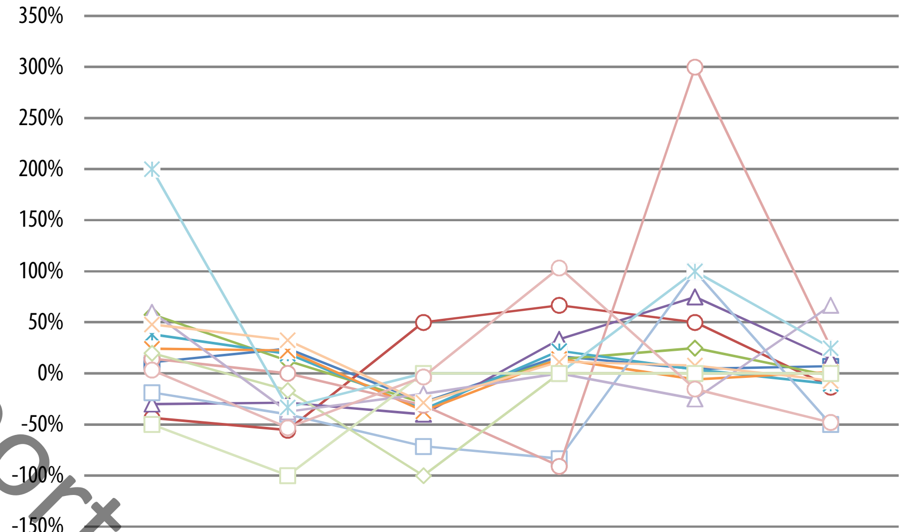
Among the four leading China-based vendors, only Huawei maintained a two-digit on-quarter growth, reaching 24.8%, in terms of third-quarter 2018 shipments to China.

Xiaomi and Oppo held onto a single-digit growth on quarter while BBK experienced a 5.8% decline sequentially.

As to fourth-quarter forecast, Huawei's shipments will dip 2.2% on quarter while Oppo's will slide about 10%.

Xiaomi and BBK will deliver a single-digit sequential growth in the fourth quarter as Xiaomi, specializing in online sales, will benefit from Singles' Day shopping and BBK has a lower base period in the third quarter.

Chart 6: China smartphone market shipment growth by quarter by China-based players, 3Q17-4Q18



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Xiaomi	10.9%	24.3%	-28.4%	16.9%	4.4%	6.9%
Lenovo	-43.8%	-55.6%	50.0%	66.7%	50.0%	-13.3%
Huawei	57.7%	12.3%	-28.8%	13.8%	24.8%	-2.2%
Coolpad	-30.0%	-28.6%	-40.0%	33.3%	75.0%	14.3%
Oppo	38.2%	19.1%	-35.3%	22.1%	4.0%	-10.3%
BBK	24.1%	22.3%	-36.9%	14.1%	-5.8%	1.4%
Gionee	-18.6%	-40.0%	-71.4%	-83.3%	100.0%	-50.0%
ZTE	14.3%	0.0%	-31.3%	-90.9%	300.0%	25.0%
K-Touch	20.0%	-16.7%	-100.0%	-	-	-
Hisense	60.0%	-37.5%	-20.0%	0.0%	-25.0%	66.7%
TCL	200.0%	-33.3%	0.0%	0.0%	100.0%	25.0%
Meizu	48.0%	32.4%	-28.6%	11.4%	7.7%	-7.1%
LeEco	-50.0%	-100.0%	-	-	-	-
Others	3.2%	-53.1%	-3.3%	103.4%	-15.3%	-48.0%

Source: Digitimes Research, October 2018

International vendors

International brands shipped a combined total of 12.6 million smartphones to China in third-quarter 2018, up 20% on quarter and down nearly 20% on year.

New iPhone XS and XS Max entering the market in September and old iPhones going on sale for lower prices boosted Apple's shipments, buoying international brands' shipments to China by 20.9% on quarter.

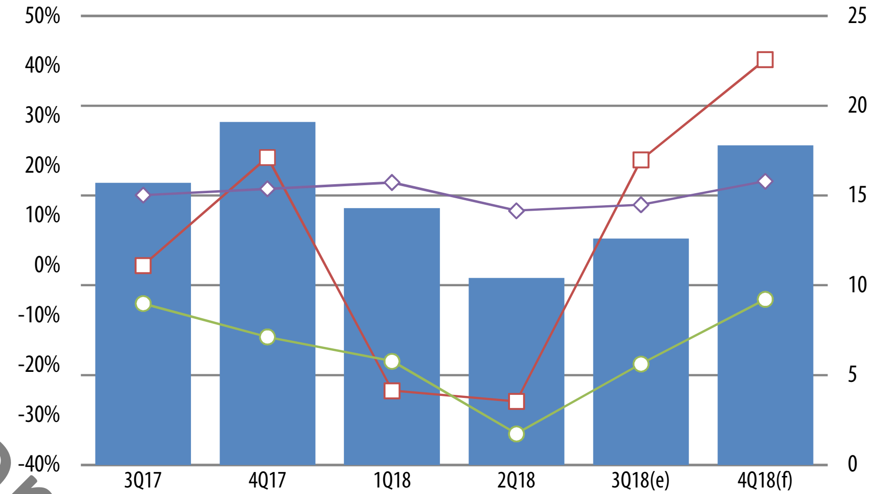
As Samsung phones continued to perform poorly in China, shipments by international brands slid 19.7% on year.

Apple is the only international brand still being able to ship more than 10 million phones to the China market, so the launch of new iPhones in the third quarter buoyed the market share of international brands in China to 12.2%.

iPhone XS and XS Max hit the market in late third-quarter and iPhone XR went on sale in late October. The availability of new 2018 iPhones will push international brands' fourth-quarter shipments to China to 17.8 million phones, up more than 40% on quarter.

With Samsung's shipments still showing no sign of recovery, shipments by international brands to the China market will exhibit a 7% decline on year in fourth-quarter 2018.

Chart 7: International brand smartphone shipments in China market, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Shipments	15.7	19.1	14.3	10.4	12.6	17.8
Q/Q	0.0%	21.7%	-25.1%	-27.3%	21.2%	41.3%
Y/Y	-7.6%	-14.3%	-19.2%	-33.8%	-19.7%	-6.8%
Market share	14.1%	15.3%	16.6%	11.0%	12.2%	16.9%

Source: Digitimes Research, October 2018

With new iPhones hitting the market in third-quarter 2018, Apple shipped a total of 11.5 million new and old iPhones to China, moderately lower than the level seen in the corresponding period of 2017.

As Apple rolled out new iPhone XS and XS Max while promoting old iPhones for discounted prices, its shipments increased 30% on quarter.

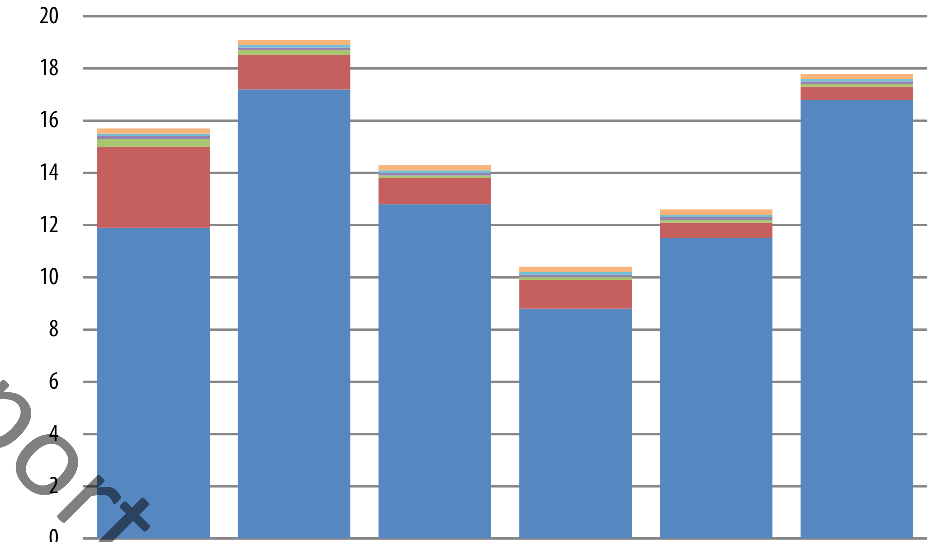
New 2018 iPhones are more expensive than iPhone 8/8 Plus launched in the corresponding period in 2017 by CNY2,800 - CNY3,700, causing Apple's third-quarter 2018 shipments to dip 3.4% on year.

In terms of fourth-quarter forecast, thanks to new iPhone XR hitting the market, Apple's shipments will likely reach 16.8 million units, counting both new and old iPhones.

New iPhone XR officially went on sale on October 26. The 65GB model is priced at CNY6,499. As all three new 2018 iPhones come with price tags higher than those launched in 2017, Apple's total shipments are expected to fall slightly below the level seen in the corresponding period of 2017.

Sales of Samsung phones in China continue on a downward trend. Third-quarter shipments fell short of the one million unit mark, totaling only 600,000 units. Whole-year 2018 shipments are estimated to only come to 3 million units.

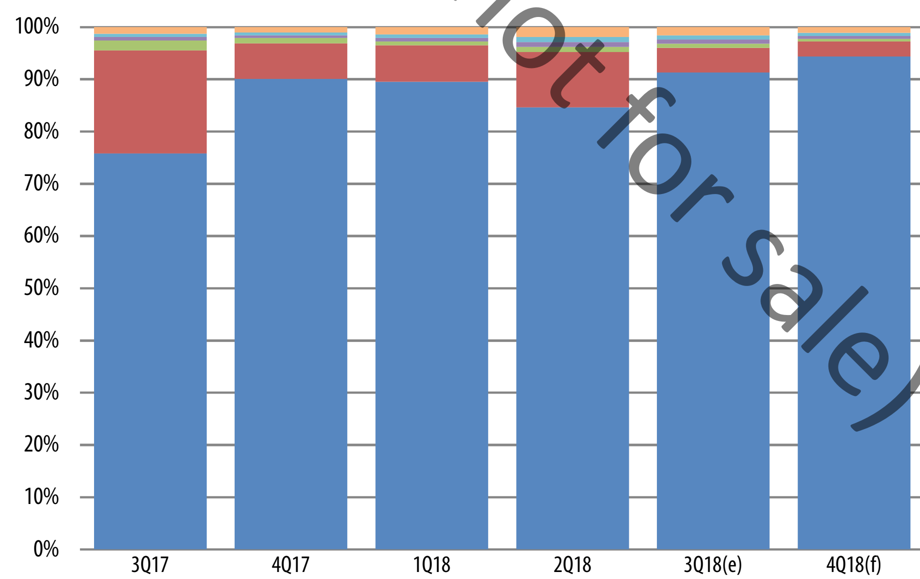
Chart 8: China smartphone market shipments by international brands, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Others	0.2	0.2	0.2	0.2	0.2	0.2
LG	0.1	0.1	0.1	0.1	0.1	0.1
Sony	0.1	0.1	0.1	0.1	0.1	0.1
HTC	0.3	0.2	0.1	0.1	0.1	0.1
Samsung	3.1	1.3	1.0	1.1	0.6	0.5
Apple	11.9	17.2	12.8	8.8	11.5	16.8

Source: Digitimes Research, October 2018

Chart 9: China smartphone market shipment share by international brands, 3Q17-4Q18



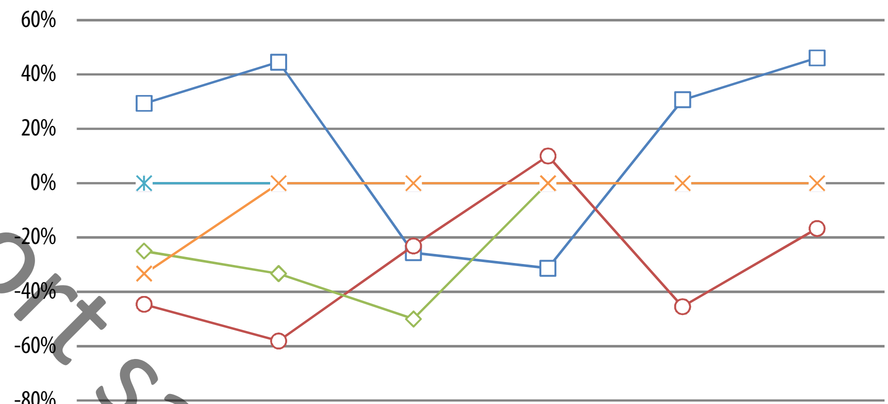
	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Others	1.3%	1.0%	1.4%	1.9%	1.6%	1.1%
LG	0.6%	0.5%	0.7%	1.0%	0.8%	0.6%
Sony	0.6%	0.5%	0.7%	1.0%	0.8%	0.6%
HTC	1.9%	1.0%	0.7%	1.0%	0.8%	0.6%
Samsung	19.7%	6.8%	7.0%	10.6%	4.8%	2.8%
Apple	75.8%	90.1%	89.5%	84.6%	91.3%	94.4%

Source: Digitimes Research, October 2018

Buoyed by the two new iPhones launched in third-quarter 2018, Apple enjoyed a 30% sequential growth in shipments to China, comparable to the sequential growth seen in the corresponding period of 2017.

With the roll-out of iPhone XR, Apple's fourth-quarter 2018 shipments are estimated to grow more than 40% on quarter.

Chart 10: China smartphone market quarterly shipment growth by international brands, 3Q17-4Q18



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Apple	29.3%	44.5%	-25.6%	-31.3%	30.7%	46.1%
Samsung	-44.6%	-58.1%	-23.1%	10.0%	-45.5%	-16.7%
HTC	-25.0%	-33.3%	-50.0%	0.0%	0.0%	0.0%
Sony	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LG	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Others	-33.3%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Digitimes Research, October 2018

Shipments and market share of all vendors

The leading five brands in the China market in terms of third-quarter 2018 shipments are Huawei, Xiaomi, Oppo, BBK and Apple. The rankings remained unchanged from the prior quarter.

Compared to second-quarter 2018, only Huawei and Apple showed on-quarter growth in their market shares, up respectively by 3.2pp and 1.8pp.

Xiaomi and Oppo both experienced an on-quarter decline of 0.9pp in their market shares while BBK's market share slid 2.2pp on quarter.

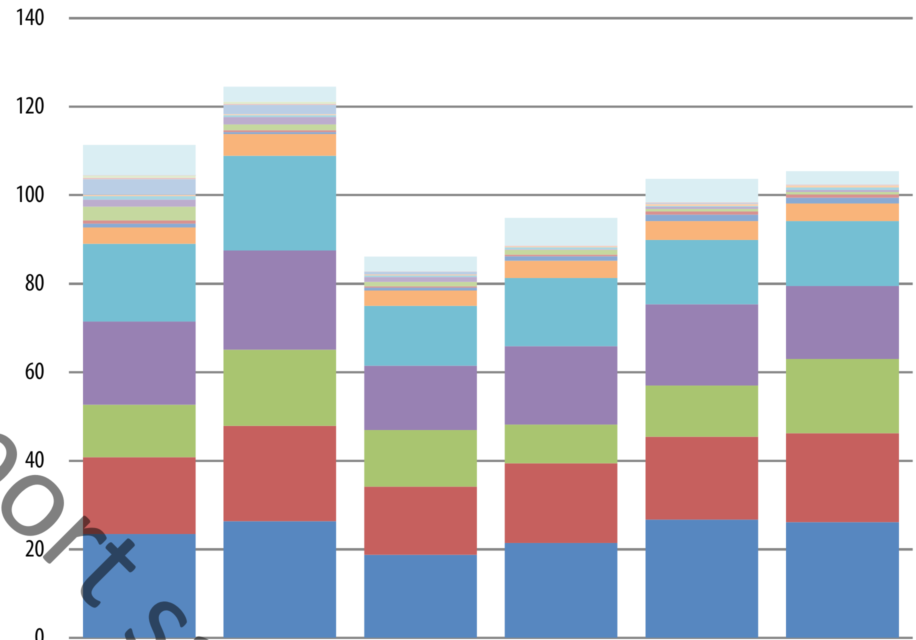
The top five brands accounted for a combined 86.6% market share in third-quarter 2018, up 6.6pp from the corresponding period of 2017.

Compared to the corresponding period of 2017, Huawei showed the most significant increase in its market share, up 4.6pp, followed by Xiaomi, up 2.6pp and Oppo, slightly up 0.8pp. BBK, on the other hand, saw its market share slide 1.7pp.

Apple's market share edged up 0.4pp from the year before.

With new iPhone XR entering the market in fourth-quarter 2018 and old iPhones going on sale for lower prices, Apple's market share in China will likely expand to 15.9%, up 2.1pp on year and up 4.8pp on quarter. Apple's share of shipments is likely to exceed those of Oppo and BBK in fourth-quarter 2018, making it the third largest brand in the China smartphone market.

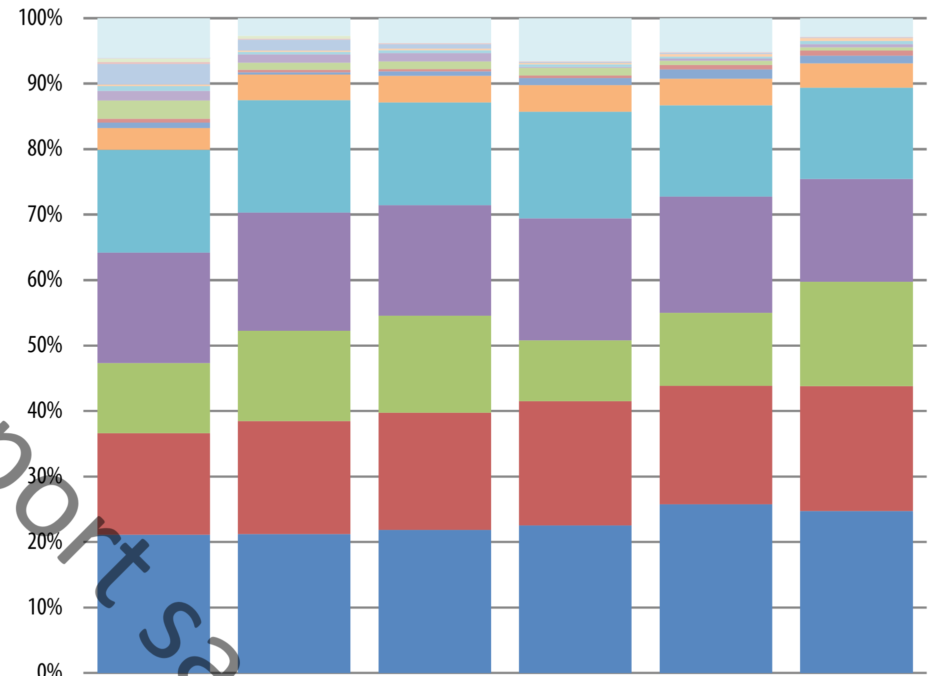
Chart 11: China smartphone market shipments by all vendors, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Others	6.8	3.4	3.3	6.3	5.4	3.0
LeEco	0.1	0.0	0.0	0.0	0.0	0.0
K-Touch	0.6	0.5	0.0	0.0	0.0	0.0
HTC	0.3	0.2	0.1	0.1	0.1	0.1
Gionee	3.5	2.1	0.6	0.1	0.2	0.1
TCL	0.3	0.2	0.2	0.2	0.4	0.5
Hisense	0.8	0.5	0.4	0.4	0.3	0.5
ZTE	1.6	1.6	1.1	0.1	0.4	0.5
Samsung	3.1	1.3	1.0	1.1	0.6	0.5
Coolpad	0.7	0.5	0.3	0.4	0.7	0.8
Lenovo	0.9	0.4	0.6	1.0	1.5	1.3
Meizu	3.7	4.9	3.5	3.9	4.2	3.9
BBK	17.5	21.4	13.5	15.4	14.5	14.7
Oppo	18.8	22.4	14.5	17.7	18.4	16.5
Apple	11.9	17.2	12.8	8.8	11.5	16.8
Xiaomi	17.3	21.5	15.4	18.0	18.8	20.1
Huawei	23.5	26.4	18.8	21.4	26.7	26.1

Source: Digitimes Research, October 2018

Chart 12: China smartphone market shipment share by all vendors, 3Q17-4Q18



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Others	6.1%	2.7%	3.8%	6.6%	5.2%	2.8%
LeEco	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
K-Touch	0.5%	0.4%	0.0%	0.0%	0.0%	0.0%
HTC	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%
Gionee	3.1%	1.7%	0.7%	0.1%	0.2%	0.1%
TCL	0.3%	0.2%	0.2%	0.2%	0.4%	0.5%
Hisense	0.7%	0.4%	0.5%	0.4%	0.3%	0.5%
ZTE	1.4%	1.3%	1.3%	0.1%	0.4%	0.5%
Samsung	2.8%	1.0%	1.2%	1.2%	0.6%	0.5%
Coolpad	0.6%	0.4%	0.3%	0.4%	0.7%	0.8%
Lenovo	0.8%	0.3%	0.7%	1.1%	1.4%	1.2%
Meizu	3.3%	3.9%	4.1%	4.1%	4.1%	3.7%
BBK	15.7%	17.2%	15.7%	16.2%	14.0%	13.9%
Oppo	16.9%	18.0%	16.8%	18.7%	17.7%	15.7%
Apple	10.7%	13.8%	14.9%	9.3%	11.1%	15.9%
Xiaomi	15.5%	17.3%	17.9%	19.0%	18.1%	19.1%
Huawei	21.1%	21.2%	21.8%	22.6%	25.7%	24.8%

Source: Digitimes Research, October 2018

China telecom carriers

The total number of 4G users in China exceeded 1.1 billion in July 2018. However, only 42.5 million new users were added in third-quarter 2018, down 35% compared to the level seen in the corresponding period of 2017.

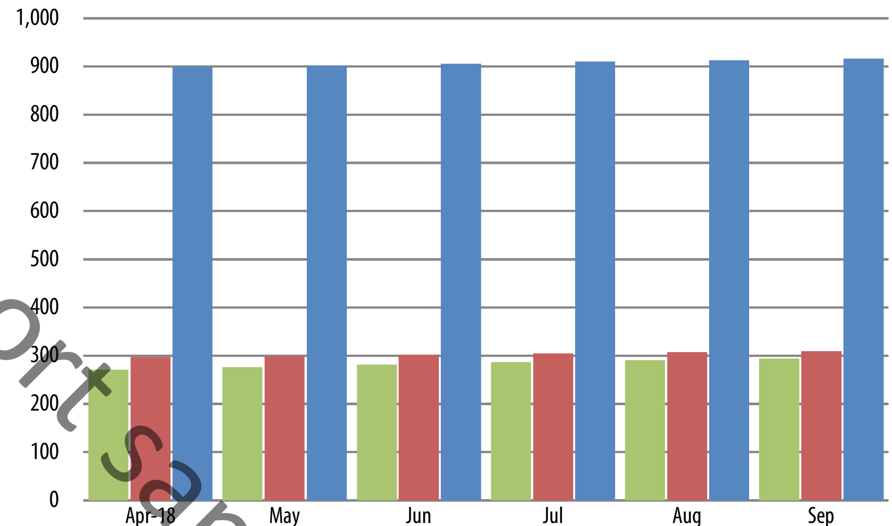
Each of the three leading telecom operators added between 10 million and 19 million new 4G users in third-quarter 2018. China Mobile added the most new users (18.5 million), followed by China Telecom (13.2 million).

Compared to the corresponding period of 2017, China Unicom experienced the largest decline in the number of new 4G users, reaching 50%, followed by China Mobile, 34% and China Telecom, 15%.

As China Mobile has become less aggressive with its subsidy policy for new 4G users than before, its share of 4G users among all those in China slid to 61% in third-quarter 2018, down from 65% in third-quarter 2017.

China Telecom's 4G users accounted for 20.2% of those in China, up 2.6pp on year.

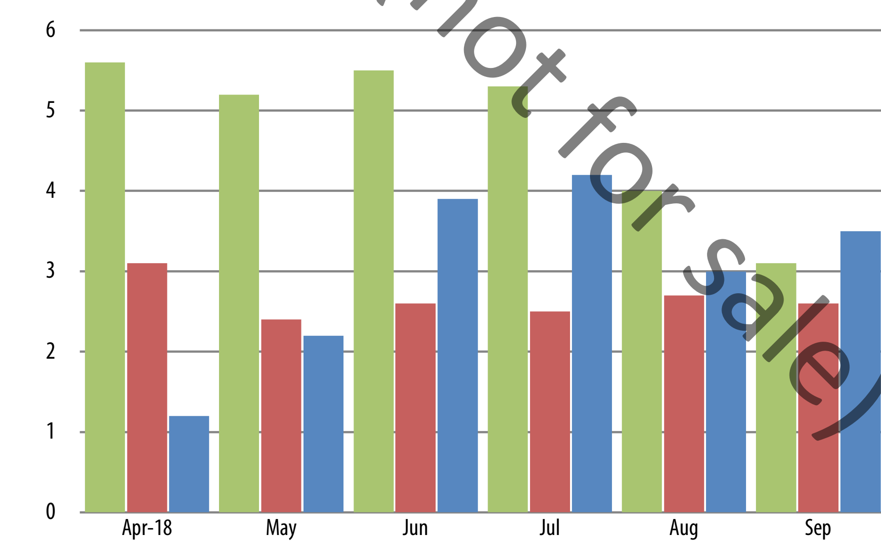
Chart 13: China telecom carriers' overall subscribers, Apr 2018-Sep 2018 (m users)



	Apr-18	May	Jun	Jul	Aug	Sep
China Mobile	899.7	901.9	905.8	910.0	913.0	916.5
China Unicom	297.0	299.4	302.0	304.5	307.2	309.8
China Telecom	270.9	276.1	281.6	286.9	290.9	294.0

Source: Digitimes Research, October 2018

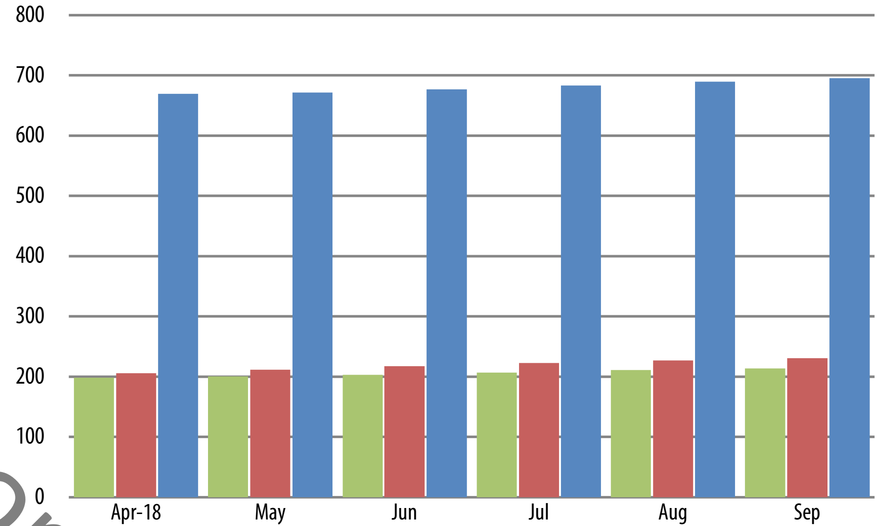
Chart 14: China telecom carriers' increased subscriber, Apr 2018-Sep 2018 (m users)



	Apr-18	May	Jun	Jul	Aug	Sep
China Mobile	1.2	2.2	3.9	4.2	3.0	3.5
China Unicom	3.1	2.4	2.6	2.5	2.7	2.6
China Telecom	5.6	5.2	5.5	5.3	4.0	3.1

Source: Digitimes Research, October 2018

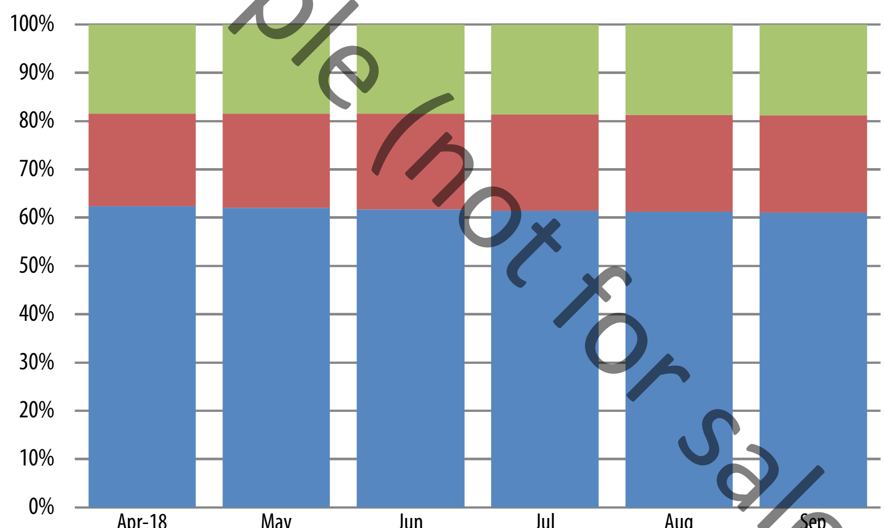
Chart 15: China telecom carriers' 4G subscribers, Apr 2018-Sep 2018 (m users)



	Apr-18	May	Jun	Jul	Aug	Sep
China Mobile	669.3	671.8	676.8	683.3	689.8	695.3
China Telecom	206.1	211.6	217.3	222.7	227.1	230.5
China Unicom	198.3	200.3	203.1	206.8	210.8	213.9

Source: Digitimes Research, October 2018

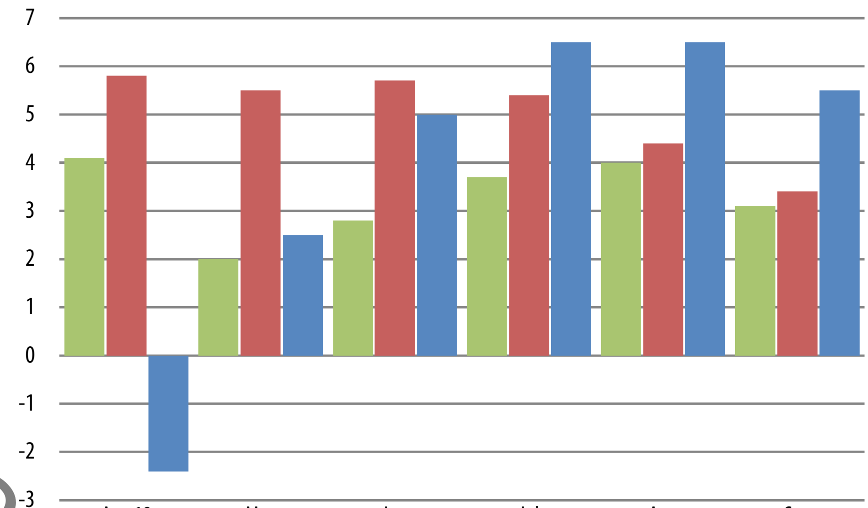
Chart 16: China telecom carriers' share of 4G subscribers, Apr 2018-Sep 2018



	Apr-18	May	Jun	Jul	Aug	Sep
China Unicom	18.5%	18.5%	18.5%	18.6%	18.7%	18.8%
China Telecom	19.2%	19.5%	19.8%	20.0%	20.1%	20.2%
China Mobile	62.3%	62.0%	61.7%	61.4%	61.2%	61.0%

Source: Digitimes Research, October 2018

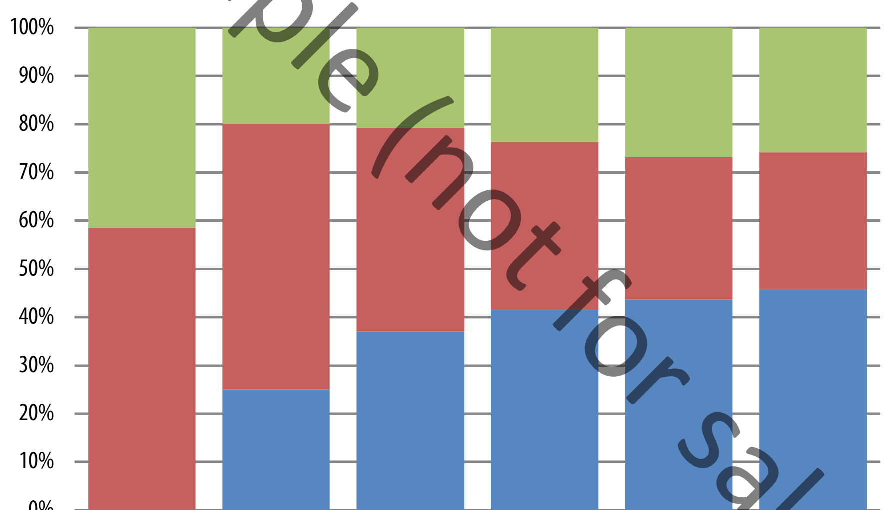
Chart 17: China telecom carriers' increased 4G subscribers, Apr 2017-Sep 2018 (m users)



	Apr-18	May	Jun	Jul	Aug	Sep
China Mobile	-2.4	2.5	5.0	6.5	6.5	5.5
China Telecom	5.8	5.5	5.7	5.4	4.4	3.4
China Unicom	4.1	2.0	2.8	3.7	4.0	3.1

Source: Digitimes Research, October 2018

Chart 18: China telecom carriers' share of increased 4G subscribers, Apr 2018-Sep 2018



	Apr-18	May	Jun	Jul	Aug	Sep
China Unicom	41.4%	20.0%	20.7%	23.7%	26.8%	25.8%
China Telecom	58.6%	55.0%	42.2%	34.6%	29.5%	28.3%
China Mobile		25.0%	37.0%	41.7%	43.6%	45.8%

Source: Digitimes Research, October 2018

China smartphone industry

Based on analyses on statistics gathered from surveys Digitimes Research conducted on the supply chains in Taiwan and China in August-October 2018, smartphone shipments by China-based vendors totaled 192 million units in third-quarter 2018, up 6.5% on year thanks to successful overseas expansions by some of the vendors. However, going into the fourth quarter, smartphone shipments by China-based vendors are estimated to show single-digit decline on year amid weakening domestic market demand and the roll-out of new iPhones.

Third-quarter 2018 growth from the level seen in the corresponding period of 2017 was mainly driven by Huawei. With Huawei aggressively rolling out phones priced under EUR200 in Europe, its third-quarter overseas shipments soared more than 7 million units from a year ago. Overseas sales also fueled Xiaomi's growth, which however was no comparison to the leaping growth seen in the corresponding period of 2017.

Oppo and BBK, sitting at the No. 3 and No. 4 spots among China-based vendors, showed moderate growth or slight decline on year in third-quarter 2018 shipments. They both encountered competition from Huawei and Xiaomi attempting to grab shares of their target market segments. As a result, they failed to perform up to expectations with their domestic shipments on the decline and their overseas shipments staying flat compared to the corresponding period of 2017.

Looking forward into fourth-quarter 2018, Huawei and Xiaomi will still show moderate on-year growth while Oppo and BBK will likely see their shipments plunge by 5 million to 7 million units on year.

Key factors affecting the China smartphone industry

Key factors affecting the China smartphone industry shipments in first-quarter 2017:

Supply side

Foundries' 8-inch fabs are still running at full capacity so providers of touch with display driver integration (TDDI) chips and integrated display and controller (IDC) chips are selective with who they supply products to, affecting shipments by some smartphone brands.

Brand vendors:

Huawei continues to bring a host of mid-range and low-cost phones on the market, threatening Oppo's and BBK's market shares in China as well as Lenovo's and ZTE's market shares abroad.

Oppo and BBK, mainly targeting the China domestic market, have a hard time making up the loss in the domestic market with the gain in overseas markets. As a result, Oppo's shipments only showed moderate on-year growth while BBK's exhibited decline.

With the South American market showing signs of recovery and the launch of the KaiOS-based Alcatel Go Flip 2, TCL's overseas shipments maintained on-year growth.

Table 3: Key factors affecting the 3Q18 China smartphone industry (Supply)

Factor		Item	Analysis	Influence on shipments
Supply	Supply chain	Component supply	Costs of NAND Flash, LPDDR SDRAM and display panels are trending downward or remain steady. Costs of passive components including capacitors and resistors are rising at a more moderate rate or becoming steady.	↑★
			TDDI/IDC supply remains tight, affecting shipments by medium and small brands.	↓★
	Brand vendors	Huawei	Huawei targets domestic and overseas markets by launching a massive number of phones. Phones priced under EUR200 are performing well in Europe.	↑★★★
		Xiaomi	Hongmi phones continue to sell well in Europe and India.	↑★★
		Retail channel dominators	Oppo experienced weaker growth and only showed small on-quarter increase in shipments while BBK saw shipments drop.	↓★
		Transsion	Shipments by the three subsidiary brands of Transsion exhibited on-quarter decline.	↓★
		TCL	Sales in South America showed signs of recovery. In addition to the launch of KaiOS-based smartphones, TCL's shipments increased significantly from the prior quarter.	↑★
		Others	With the US lifting the trade ban on ZTE, shipments resumed in the third quarter.	↑★
	Small brand makers and white-box vendors	Overseas shipments	Demand from overseas emerging markets remains strong, buoying white-box phone shipments.	↑★

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates positive influence.
Source: Digitimes Research, October 2018

Demand side

Telecom operators' 4G subscribership is growing at a slowing rate. The leading three telecom operators added a combined total of 40 million new 4G users in third-quarter 2018, down 35% from the corresponding period of 2017.

Compared to the corresponding period of 2017, China Mobile's new 4G users added in third-quarter 2018 slid 30%, China Unicom 50% and China Telecom 15%.

With overseas markets including Europe, America, Southeast Asia and India gradually entering high season, shipments were ramping up.

Table 4: Key factors affecting the 3Q18 China smartphone industry (Demand)

Factor		Item	Analysis	Influence on shipments
Demand	Domestic market	Telecom operators' sales strategies	No longer offering large-scale subsidies for phone purchase, telecom operators' 4G subscribership is growing at a slowing rate.	↓★
	Overseas markets	Seasonality	Overseas markets are going into high season.	↑★

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates positive influence.
Source: Digitimes Research, October 2018

Shipment breakdown

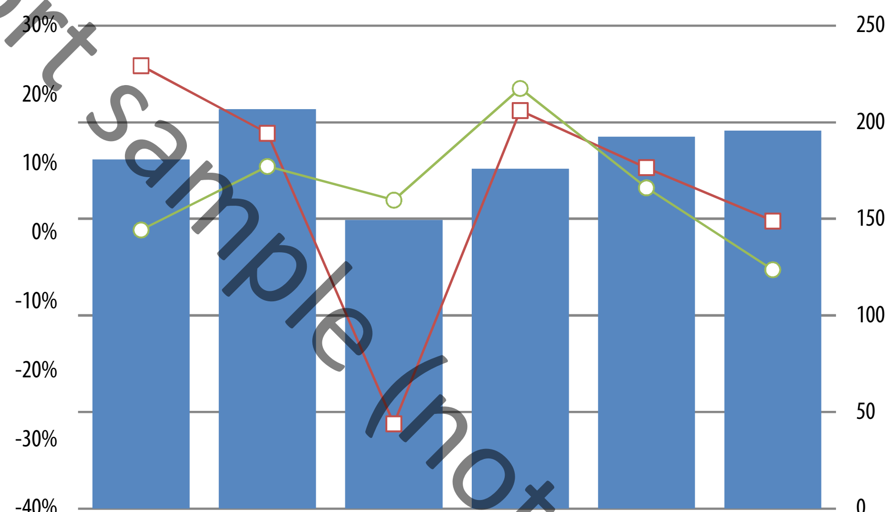
Based on analyses on statistics gathered from surveys Digitimes Research conducted on the supply chains in Taiwan and China in August-October 2018, smartphone shipments by China-based vendors totaled 192 million units in third-quarter 2018, up 6.5% on year and nearly 10% on quarter.

Year-over-year growth in the third quarter was mainly driven by Huawei, followed by Xiaomi. Oppo only showed limited growth while BBK experienced decline in shipments.

According to Digitimes Research estimates, smartphone shipments by China-based vendors will not be able to break through the 200 million unit mark in fourth-quarter 2018.

Although some China-based vendors will enjoy increasing overseas shipments thanks to fourth-quarter shopping season in markets abroad, China-based vendors will still struggle with the sluggish domestic market and competition from Apple.

Chart 19: China smartphone industry shipments, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Shipments	180.8	206.8	149.5	176	192.5	195.7
Q/Q	24.2%	14.4%	-27.7%	17.7%	9.4%	1.7%
Y/Y	0.4%	9.6%	4.7%	20.9%	6.5%	-5.4%

Source: Digitimes Research, October 2018

Shipments by maker

Huawei's low-cost and mid-range phones including Honor 7C (priced at CNY899 or EUR160 in Europe) and Honor Youth Edition (CNY1,399 or EUR180 in Europe) continue to perform well in both domestic and overseas markets, buoying its third-quarter smartphone shipments to exceed 50 million units, up 10 million units from the level seen in the corresponding period of 2017.

Xiaomi's shipments topped 30 million units in third-quarter 2018, up nearly 5 million units from the level seen in the corresponding period of 2017, mainly driven by sales of Hongmi phones.

Oppo's third-quarter shipments only increased one million units from the level seen in the corresponding period of 2017 while BBK's plunged nearly 3 million units.

Lenovo and Transsion both experienced decline on year with Lenovo's shipments down 1.5 million units and Transsion 700,000 units.

With phone sales in South America recovering and the launch of KaiOS-based Alcatel Go Flip 2, TCL's third-quarter shipments surged 2.3 million units from the level seen in the corresponding period of 2017.

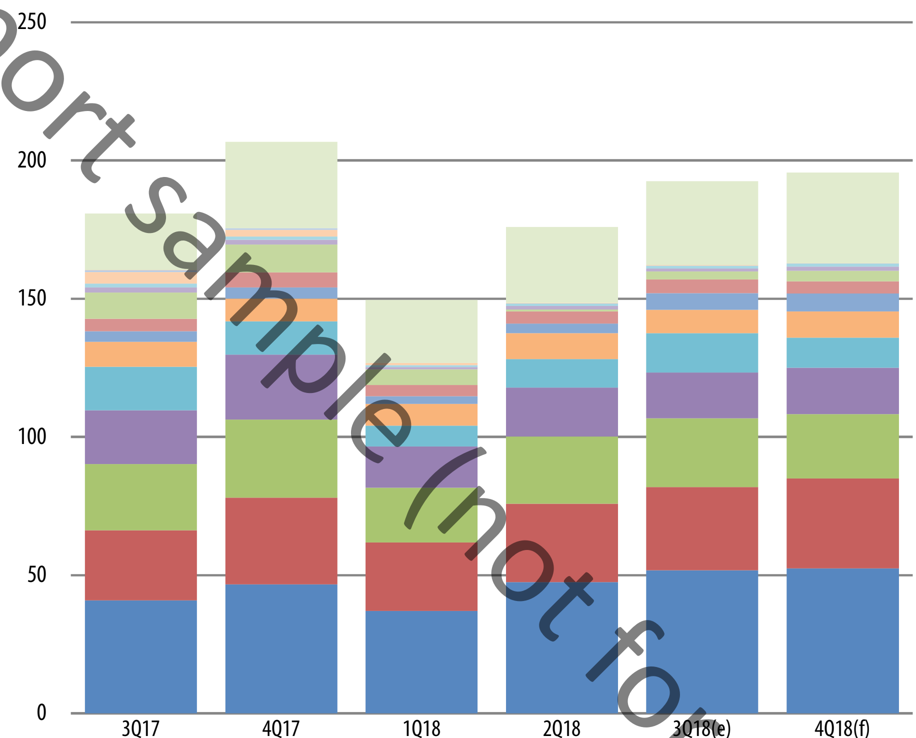
Meizu's third-quarter shipments increased 400,000 units from a year ago.

Going forward into fourth-quarter 2018, only Huawei can maintain strong growth momentum.

Among the other China-based vendors with noteworthy shipment volumes, Xiaomi and Transsion will be able to maintain on-year growth, each showing a moderate increase of 1.2 million units.

Oppo and BBK, mainly targeting the domestic China market, are likely to encounter on-year declines in fourth-quarter 2018, with shipments plunging 5 million units and 6.7 million units respectively. Their whole-year 2018 shipments are estimated to fall short of their 2017 levels.

Chart 20: Shipments by China players, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Others	20.5	31.4	22.7	27.5	30.3	32.8
LeEco	0.1	0.0	0.0	0.0	0.0	0.0
K-Touch	0.6	0.5	0.0	0.0	0.0	0.0
Gionee	4.2	2.4	0.9	0.2	0.3	0.2
Coolpad	1.3	1.2	0.6	1.0	0.9	1.1
Hisense	1.8	1.8	0.9	1.3	1.1	1.5
ZTE	9.6	10.0	5.7	0.6	3.0	3.8
Meizu	4.5	5.4	4.0	4.5	4.9	4.5
TCL	3.8	4.0	2.7	3.3	6.1	6.4
Transsion	9.0	8.3	8.0	9.5	8.3	9.5
Lenovo	15.8	12.1	7.5	10.2	14.3	10.9
BBK	19.4	23.5	14.9	17.8	16.5	16.8
Oppo	24.0	28.2	19.8	24.2	25.0	23.2
Xiaomi	25.4	31.3	24.8	28.4	30.1	32.5
Huawei	40.8	46.7	37.0	47.5	51.7	52.5

Source: Digitimes Research, October 2018

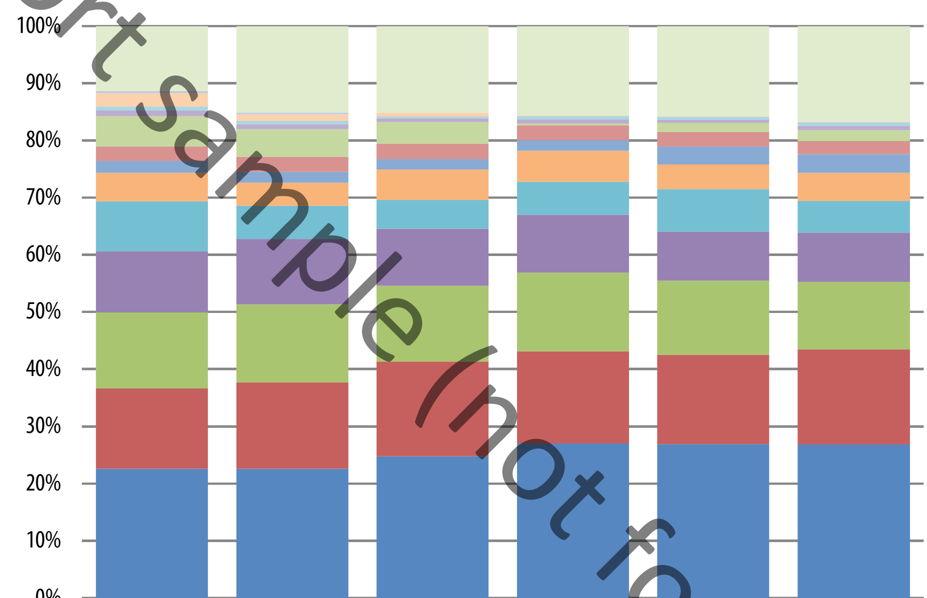
The top four China-based smartphone vendors in terms of third-quarter 2018 shipments are Huawei, Xiaomi, Oppo and BBK. They together account for a 64.1% share, higher than the 60.6% share seen in the corresponding period of 2017.

Compared to the corresponding period of 2017, Huawei's share went up 4.3pp and Xiaomi's share expanded 1.6pp. On the other hand, Oppo's share dipped 0.3pp and BBK's share slid 2.1pp, a more significant decline.

Huawei is bringing a massive number of phones on the market and offering some of them at slashed prices. Xiaomi is attempting to expand into tier-3/tier-4 cities and rural villages through price-cutting strategies. Oppo's and BBK's declines are an indication that Huawei's and Xiaomi's efforts are effectively eroding Oppo's and BBK's shares in their target market segments.

Looking into fourth-quarter 2018, Apple will introduce new iPhones and offer old iPhones at discounted prices to grab shares of the China market. Furthermore, ZTE will gradually resume shipments. It is expected that the top four China-based vendors will still account for an around 64% share, showing no significant increase.

Chart 21: Shipment share by China players, 3Q17-4Q18



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Others	11.3%	15.2%	15.2%	15.6%	15.7%	16.8%
LeEco	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
K-Touch	0.3%	0.2%	0.0%	0.0%	0.0%	0.0%
Gionee	2.3%	1.2%	0.6%	0.1%	0.2%	0.1%
Coolpad	0.7%	0.6%	0.4%	0.6%	0.5%	0.6%
Hisense	1.0%	0.9%	0.6%	0.7%	0.6%	0.8%
ZTE	5.3%	4.8%	3.8%	0.3%	1.6%	1.9%
Meizu	2.5%	2.6%	2.7%	2.6%	2.5%	2.3%
TCL	2.1%	1.9%	1.8%	1.9%	3.2%	3.3%
Transsion	5.0%	4.0%	5.4%	5.4%	4.3%	4.9%
Lenovo	8.7%	5.9%	5.0%	5.8%	7.4%	5.6%
BBK	10.7%	11.4%	10.0%	10.1%	8.6%	8.6%
Oppo	13.3%	13.6%	13.2%	13.8%	13.0%	11.9%
Xiaomi	14.0%	15.1%	16.6%	16.1%	15.6%	16.6%
Huawei	22.6%	22.6%	24.7%	27.0%	26.9%	26.8%

Source: Digitimes Research, October 2018

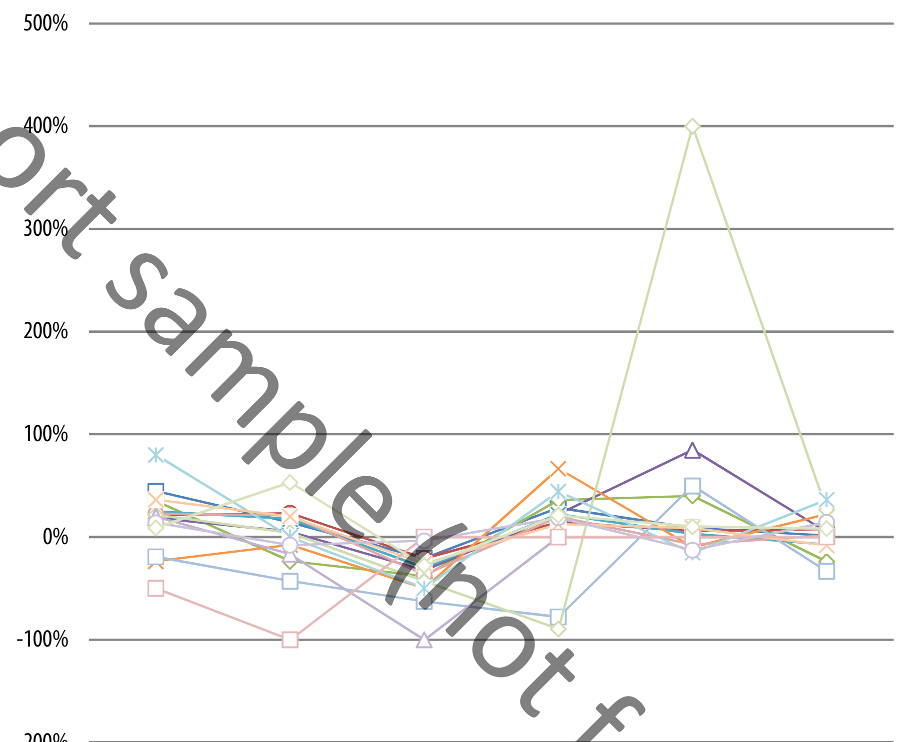
In anticipation of Singles' Day and overseas shopping demand, most vendors began early inventory preparation so most China-based vendors showed single-digit to double-digit sequential growth in third-quarter shipments.

With the US trade ban lifted, ZTE's shipments increased four-fold on quarter.

Thanks to recovering sales in South America and the launch of 4G semi-smartphones, TCL's shipments soared more than 80% on quarter.

For fourth-quarter outlook, among the top four China-based vendors, only Oppo will show a single-digit on-quarter decline and the other vendors, including Huawei, Xiaomi and BBK, will all maintain a single-digit on-quarter growth.

Chart 22: Q/Q shipment growth by China players, 3Q17-4Q18



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Huawei	44.7%	14.5%	-20.8%	28.4%	8.8%	1.5%
Xiaomi	21.0%	23.2%	-20.8%	14.5%	6.0%	8.0%
Lenovo	35.0%	-23.4%	-38.0%	36.0%	40.2%	-23.8%
TCL	18.8%	5.3%	-32.5%	22.2%	84.8%	4.9%
Oppo	25.0%	17.5%	-29.8%	22.2%	3.3%	-7.2%
Coolpad	-23.5%	-7.7%	-50.0%	66.7%	-10.0%	22.2%
Gionee	-19.2%	-42.9%	-62.5%	-77.8%	50.0%	-33.3%
BBK	22.8%	21.1%	-36.6%	19.5%	-7.3%	1.8%
ZTE	21.5%	4.2%	-43.0%	-89.5%	400.0%	26.7%
K-Touch	20.0%	-16.7%	-100.0%	-	-	-
Hisense	80.0%	0.0%	-50.0%	44.4%	-15.4%	36.4%
Meizu	36.4%	20.0%	-25.9%	12.5%	8.9%	-8.2%
LeEco	-50.0%	-100.0%	-	-	-	-
Transsion	13.9%	-7.8%	-3.6%	18.8%	-12.6%	14.5%
Others	9.0%	53.2%	-27.7%	21.1%	10.2%	8.3%

Source: Digitimes Research, October 2018

Among the top four China-based vendors, only Huawei and Xiaomi held on to double-digit on-year growth in third-quarter 2018. However, the increases were smaller than those seen in the corresponding period of 2017.

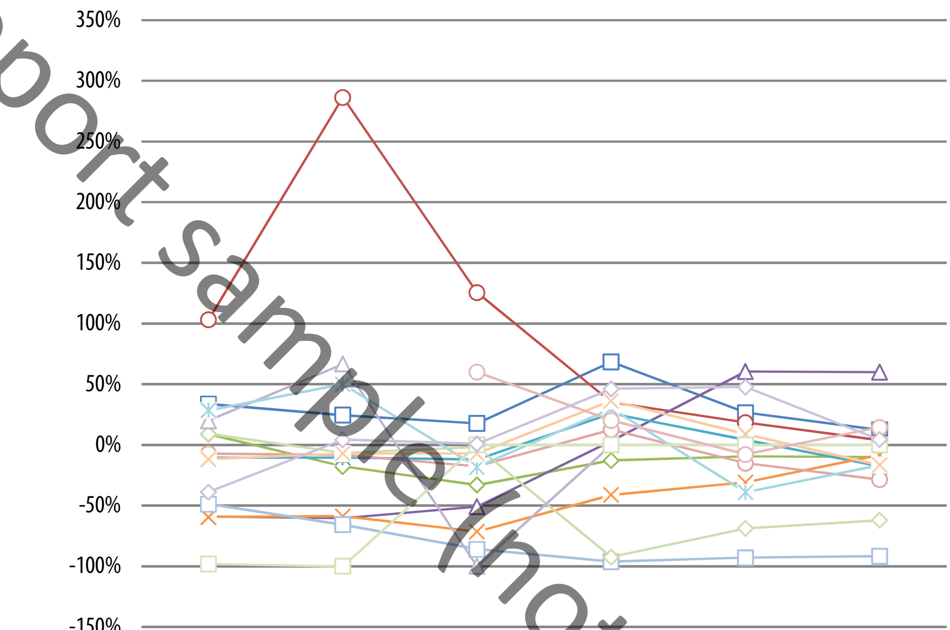
Oppo still maintained single-digit on-year growth while BBK experienced two-digit on-year decline.

Among the other China-based vendors with noteworthy shipment volumes, Lenovo and Transsion also showed single-digit on-year decline.

Looking into fourth-quarter 2018, Huawei and Xiaomi will benefit from overseas shopping season as they have already established presence in markets abroad. Their shipments will both ramp up more than 10% on year.

Oppo and BBK will encounter two-digit on-year declines amid sluggish domestic market demand and competition from Apple's new phones hitting the market and old phones going on sale for lower prices.

Chart 23: Y/Y shipment growth by China players, 3Q17-4Q18



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Huawei	33.8%	24.5%	17.8%	68.4%	26.7%	12.4%
Xiaomi	103.2%	286.4%	125.5%	35.2%	18.5%	3.8%
Lenovo	9.0%	-17.7%	-33.0%	-12.8%	-9.5%	-9.9%
TCL	-59.1%	-60.4%	-50.9%	3.1%	60.5%	60.0%
Oppo	-10.4%	-10.5%	-12.0%	26.0%	4.2%	-17.7%
Coolpad	-59.4%	-58.6%	-71.4%	-41.2%	-30.8%	-8.3%
Gionee	-48.8%	-65.7%	-85.9%	-96.2%	-92.9%	-91.7%
BBK	-7.2%	-8.2%	-17.7%	12.7%	-14.9%	-28.5%
ZTE	9.1%	-6.5%	-1.7%	-92.4%	-68.8%	-62.0%
K-Touch	20.0%	66.7%	-100.0%	-	-	-
Hisense	28.6%	50.0%	-18.2%	30.0%	-38.9%	-16.7%
Meizu	-11.8%	-6.9%	-7.0%	36.4%	8.9%	-16.7%
LeEco	-97.9%	-100.0%	-	-	-	-
Transsion			60.0%	20.3%	-7.8%	14.5%
Others	-38.8%	4.3%	0.9%	46.3%	47.8%	4.5%

Source: Digitimes Research, October 2018

Exports

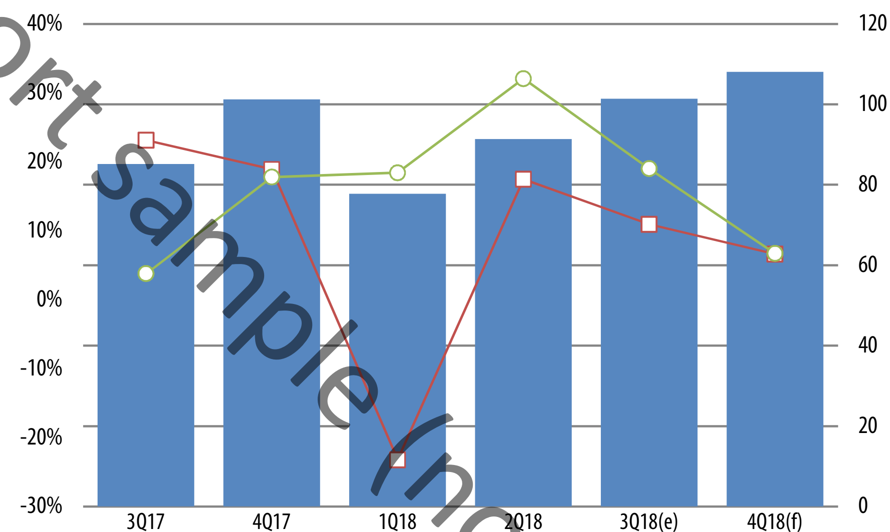
China-based smartphone vendors shipped a total of 101 million phones to overseas markets in third-quarter 2018, up nearly 20% on year and about 10% on quarter.

Huawei was the major contributor, followed by Xiaomi and TCL.

Shopping demand from Diwali in India and Thanksgiving as well as Christmas in Europe and America will continue to fuel growth of overseas shipments into the fourth quarter. Total fourth-quarter overseas shipments are estimated to top 108 million units, showing single-digit growth both sequentially and annually.

Huawei and Xiaomi will remain the major contributors to growth in overseas shipments in the fourth quarter.

Chart 24: China smartphone industry's export shipments, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Shipments	85.2	101.3	77.8	91.4	101.4	108.1
Q/Q	23.1%	18.9%	-23.2%	17.5%	10.9%	6.6%
Y/Y	3.8%	17.8%	18.4%	32.1%	19.0%	6.7%

Source: Digitimes Research, October 2018

Among the top four China-based vendors, only Huawei and Xiaomi exhibited significant on-year increase in overseas shipments in third-quarter 2018, up 7.7 million units and 3.2 million units respectively.

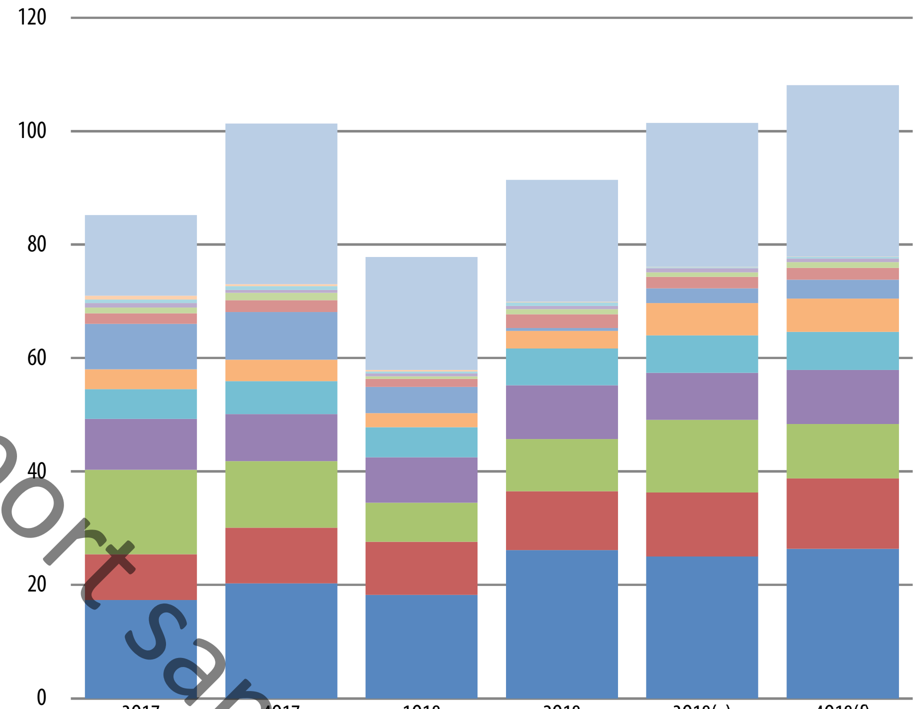
Blocked from the US market, Huawei focuses overseas efforts on Europe, followed by South America and Southeast Asia. It is expected Huawei will ramp up efforts toward the India market in an attempt to fuel its growth momentum.

Oppo's third-quarter shipments rose 1.4 million units on year while BBK's only edged up 100,000 units. Both vendors' overseas operations failed to perform up to expectations. Oppo marketed Realme 2 in India, which performed well, so its growth was more significant.

Xiaomi, not yet breaking into the US market, also targets Europe. For example, Xiaomi stores are coming to France. Xiaomi was mainly promoting Hongmi phones priced under EUR200, such as Hongmi 6A (EUR120) and Hongmi Note 5 (EUR200). Xiaomi will likely encounter pressure from Samsung in India as Samsung will promote its J series to compete with Xiaomi there.

With overseas markets entering high season, Lenovo was supposed to show shipment increase. However, with Huawei and Xiaomi grabbing its market shares in Europe and India, Lenovo's third-quarter shipments fell 2.1 million units compared to the corresponding period of 2017 and its fourth-quarter shipments will likely continue to show on-year decline.

Chart 25: Export shipments by China player, 3Q17-4Q18 (m units)



	3Q17	4Q17	1Q18	2Q18	3Q18(e)	4Q18(f)
Others	14.2	28.3	19.9	21.5	25.3	30.2
Gionee	0.7	0.3	0.3	0.1	0.1	0.1
Coolpad	0.6	0.7	0.3	0.6	0.2	0.3
Meizu	0.8	0.5	0.5	0.6	0.7	0.6
Hisense	1.0	1.3	0.5	0.9	0.8	1.0
BBK	1.9	2.1	1.4	2.4	2.0	2.1
ZTE	8.0	8.4	4.6	0.5	2.6	3.3
TCL	3.5	3.8	2.5	3.1	5.7	5.9
Oppo	5.2	5.8	5.3	6.5	6.6	6.7
Transsion	9.0	8.3	8.0	9.5	8.3	9.5
Lenovo	14.9	11.7	6.9	9.2	12.8	9.6
Xiaomi	8.1	9.8	9.4	10.4	11.3	12.4
Huawei	17.3	20.3	18.2	26.1	25.0	26.4

Source: Digitimes Research, October 2018

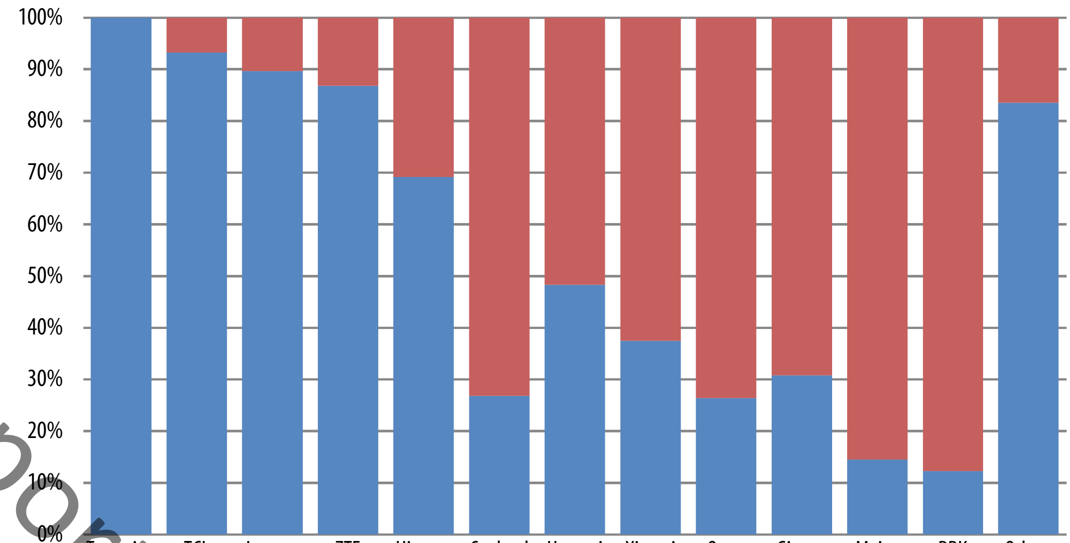
Among the top four China-based vendors, Huawei's ratio of overseas shipments remained steady at nearly 50% and Xiaomi's at nearly 40% in third-quarter 2018.

Overseas shipments by Oppo and BBK, still mainly targeting the domestic China market, accounted for less than 30% of their total shipments. In particular, BBK's ratio of overseas shipments was only slightly higher than 10%.

Looking into fourth-quarter 2018, amid a weakening domestic market, Huawei's ratio of overseas shipments will exceed half and Xiaomi's close to 40%.

Oppo's ratio of overseas shipments is estimated to edge up moderately but this is due to declining shipments to the domestic market.

Chart 26: Export shipment share by China player, 3Q18



	Transsion	TCL	Lenovo	ZTE	Hisense	Coolpad	Huawei	Xiaomi	Oppo	Gionee	Meizu	BBK	Others
Domestic	0.0%	6.7%	10.3%	13.2%	30.8%	73.2%	51.7%	62.5%	73.6%	69.2%	85.5%	87.7%	16.5%
Export	100.0%	93.3%	89.7%	86.8%	69.2%	26.8%	48.3%	37.5%	26.4%	30.8%	14.5%	12.3%	83.5%

Source: Digitimes Research, October 2018