DIGITIMES Research: China Smartphone Tracker – 2Q 2014

China smartphone market and industry

Anthony Chen, DIGITIMES Research, July 2014

Introduction

This report is broken into two sections; the first covers the China smartphone market, including shipments from international players and China-based players. The second section covers the China smartphone industry and covers shipments from local makers in the domestic market and export shipments.

A delay in the launch schedule for low-cost 4G smartphones resulted in a mere 4.8% increase in second quarter shipments in the China market. However, with telecom operators planning on increasing their subsidies in the second half of the year, demand will be stimulated.

Xiaomi is the new leader in the China smartphone market, maintaining shipments above 10 million units in the local market thanks to the success of its entry-level model, Hongmi. Coolpad held its leading position in 4G smartphone sales, shipping 9.8 million units in the quarter and ranking No. 2 in terms of overall shipments. Other China-based smartphone vendors have been unable to market many new 4G models, and they were mostly priced over CNY1000 in the second quarter, due to chipmakers delaying shipment of 4G application processors (AP) to the third quarter, causing the second quarter market to underperform.

For the China smartphone industry, stimulated by high price-performance models from the local market and an expanding export scale, quarterly shipments increased 24.6% in the second quarter for the China smartphone industry. In the second half of 2014, average quarterly shipments will be over 110 million units.

According to Digitimes Research, in the second quarter of 2014, Xiaomi's shipment, benefitted from its Hongmi line reached 14.8 million units, and topping all local makers. Huawei and Coolpad, the two new brands, adopted strategies of brand development and aggressively involving themselves in the 4G market and their shipments reached 1.35 million and 1.01 million units, respectively, ranking 2nd and 3rd among local vendors.

China smartphone market

A delay in the launch schedule for low-cost 4G smartphones resulted in a mere 4.8% increase in second quarter shipments in the China market. However, with telecom operators planning on increasing their subsidies in the second half of the year, demand will be stimulated.

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International vendors, Samsung in particular, showed a significant decline in China shipments due to the booming availability of local smartphones with a strong cost/performance (CP) ratio, driving consumers to opt for smartphones with similar specs and user experience at a more affordable cost.

The China smartphone market underperformed in the second quarter, showing only a 4.8% growth on quarter and a 4.4 % increase on year due to low availability of affordable 4G models, Digitimes Research indicated. China-based manufacturers had to sacrifice 3G shipments to make way for their product transitions. Although the sales of tier-1 makers' sub-brand models with a high CP ratio (CP ratio stands for cost to performance ratio, a good CP ratio means a lower priced product performs well compared to higher priced products) performed up to expectations and tier-2 brands were able to maintain shipments without declining, but the second quarter numbers were only on par with previous levels. Looking forward to the second half of 2014, upstream chipmakers will be able to provide adequate supply of 4G APs for timely launch of new products by smartphone vendors and telecom operators in order to reach their planned end target for 4G sales. Service providers will also ease restrictions on tri-mode smartphones, increase their subsidies and offer more affordable 4G rates to push subscribers to upgrade their services, driving third quarter and fourth quarter shipments to 100 million and 112 million units, respectively.

Key factors affecting the China smartphone market

Vendors

International vendors:

Samsung saw a quarterly decline in the China market for the first time in the second quarter as the Galaxy S5 did not receive a favorable response from the market after its launch in March and the product was unable to compete with local vendors' high CP models.

Apple's iPhone 5S and iPhone 5C showed weakening sales as they have been in the market for three quarters. Apple's shipments are expected to resume growth momentum after new products are launched in September.

Tier-1 China-based vendors:

Xiaomi's second quarter shipments hit a new record to reach 12.9 million units, surpassing Samsung and Apple to grab the top place in the China market thanks to its hot-selling Hongmi series.

Shipments of Coolpad's 4G models in the second quarter climbed to a peak from April to the beginning of May, then starting to weaken at the end of May. Also, Coolpad faced a window in June and July in its product transition to low-cost 4G solutions. Digitimes Research expects that Coolpad will see its shipments resume in the latter half of the third quarter.

In the second quarter Lenovo was still trying to deplete its 3G inventory and was unable to offer new 4G products. Key player models with high CP ratios contributed little to shipment levels.

Huawei's new products - Ascend P7, Mate, and MediaPad X1 all provided 4G options. Furthermore, entry-level and mid-range products had less inventory pressure. Its sub-brand Honor series was a hot-selling product, with shipments increasing by over 20% on quarter.

Tier-2 China-based vendors:

Transition to new 4G spec models started in the second quarter, making up for the sales slump of 3G smartphones in the previous quarter. Tier-2 vendors were able to show quarterly shipment increases of 1-2 million units.

White-box vendors: 3G models from white-box vendors were not in competition with branded smartphones. In addition, MediaTek and Leadcore have yet to deliver low-cost tri-mode solutions for white-box 4G smartphones. Therefore, shipments to the local market by white-box vendors continued to drop.

Table 1: Key vendor factors affecting smartphone 2Q14 shipments in China

Factor	Company	Analysis	Influence on shipments
Vendors	Samsung	Samsung showed a significant decline in second quarter China shipments. The new flagship model Galaxy S5 was not well-received by the market. Entry-level to mid-range models lost ground to local makers' high CP products.	★★★★ ↓
	Apple	Sales of the iPhone 5S and 5C showed signs of weakening as the products have been around for three quarters. The new product launch in September is expected to stimulate demand.	★↓
	Xiaomi	Xiaomi maintained quarterly shipments of 10 million units thanks to a product line expansion of its large-screened Hongmi Note.	★★★★ ↑
	Coolpad	Coolpad's April shipments reached a new high. Though starting to weaken at the end of May, shipments were still able to maintain momentum.	★★★ ↑
	Lenovo	Lenovo was still trying to deplete inventory of its 3G products and did not launch new 4G smartphones.	★★ ↓
	Huawei	Huawei's new high-end smartphones adopted processors from HiSilicon, also a member of Huawei Group. Sales of Huawei's sub-brand, the Honor series, are on the rise.	★★★ ↑
	Second-tier vendors	Product transitions were completed in the second quarter. Shipments climbed by a small percentage.	★★ ↑
	White-box vendors	Local market conditions of 3G smartphones were unfavorable. In addition, white-box vendors lacked suitable low-cost solutions for their new 4G models and thus were unable to launch 4G products in this quarter, resulting in China shipments continuing to drop.	★ ↓

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates a positive influence.
Source: Digitimes Research, July 2014

Market/Customer requirements

From June, three major Telecom operators lowered their 4G rates in accordance with China government regulations so users get more data traffic at a lower charge and are thus more willing to upgrade. However, as chipmakers of low-cost 4G processors and baseband IC delayed shipments until the third quarter, the selection of 4G products were limited in the second quarter. Market interests were only lukewarm as a result.

The specs of high CP ratio products stayed within high-definition 5- to 5.5-inch screens, mostly 3G models adopting the MediaTek MT6592 8-core processor, with those products only keeping a competitive edge by continued price cuts. Consumers would be willing to make a switch after the launch of 4G products by various vendors in the third quarter.

Table 2: Key trends affecting smartphone shipments to China in 2Q14

Factors	Item	Analysis	Influence on shipments
Market／Customers	4G rate adjustment	Starting in June, three major Telecom operators lowered 4G rates in compliance with government regulations, thus providing more appealing rates on phone usage and data transmission to attract additional subscriptions and new phone purchases.	★★ ↑
	Intense promotion through online channels	China vendors keep rolling out promotion activities using online sales channels each week. From the second half of June, there were various promotions for the summer season.	★★★ ↑
	Enhanced product specs appealing to consumers	The continued improvement of specs for high CP models gradually slowed in the second quarter. The competitive edge for vendors could only be maintained by price cuts. Sales would increase after the selection of 4G models is more complete and then consumers will be more willing to switch to new phones.	★ ↑

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates a positive influence.

Source: Digitimes Research, July 2014

Shipment breakdown

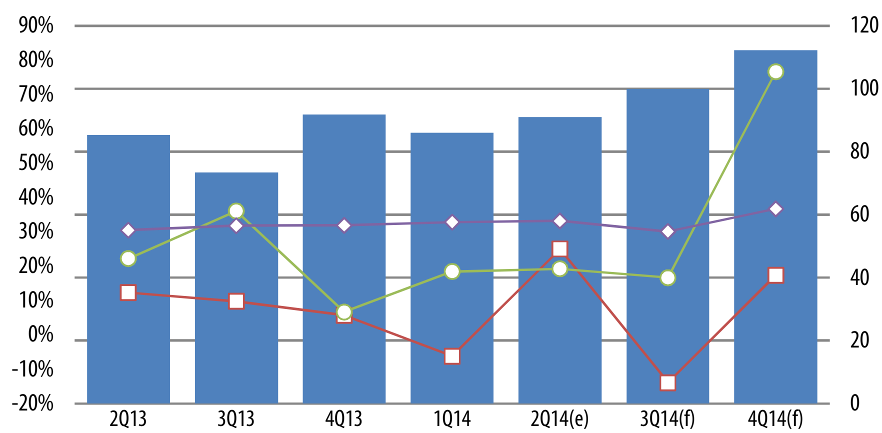
AP makers did not deliver low-cost 4G solutions in the second quarter, causing delays in the launch of new products, so shipments in the China market only reached 91 million units in the second quarter, up close to 5 million units from the previous quarter and a mere 5.7% increase on quarter.

Digitimes Research forecasts the second half of 2014 will see the China smartphone market reach 212 million units in shipments, increasing by 28.5% from the same period last year, accounting for 54.5% of total yearly shipments. This is mainly because:

Chipmakers including MediaTek and Leadcore will start mass production of 4G chips in the third quarter so local China vendors will be able to launch low-priced 4G smartphones.

Telecom operators will strive to reach the targets for increase in new subscribership and end sales by offering more appealing rate options for users to choose and expand their subsidy scale, which is expected to boost sales.

Chart 1: China smartphone market shipments, 2Q13-4Q14 (m units)



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Shipments	85.3	73.4	91.8	86.1	91.0	99.9	112.2
Q/Q	17.3%	-13.9%	25.0%	-6.2%	5.7%	9.8%	12.3%
Y/Y	76.6%	16.6%	19.2%	18.4%	6.7%	36.0%	22.2%
WW share	36.7%	30.1%	33.2%	32.8%	31.9%	31.8%	30.5%

Source: Digitimes Research, July 2014

China telecom carriers

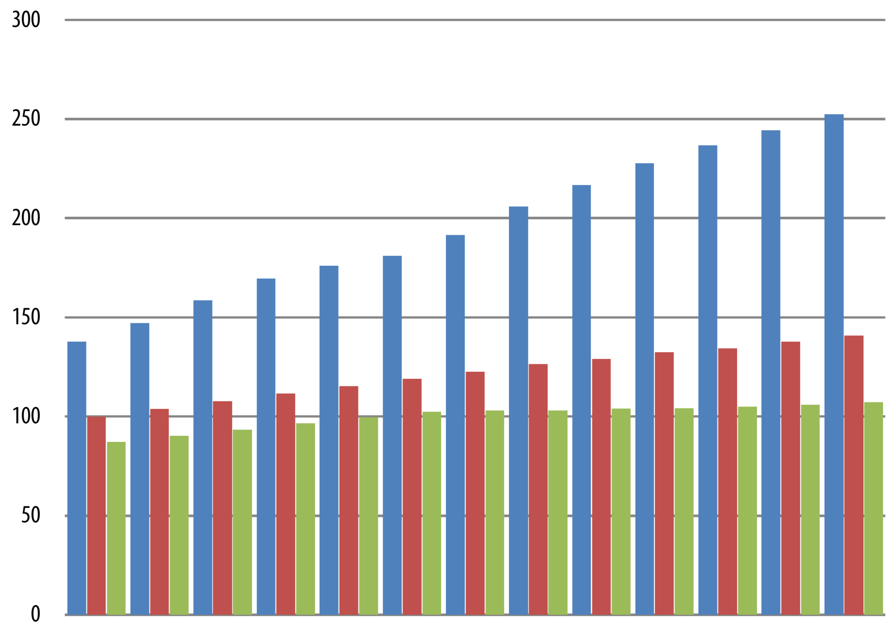
Business conditions of the three major telecom operators in the second quarter according to Digitimes Research were as follows:

China Mobile's monthly increase of 3G and 4G subscribers first dropped and then rose in the second quarter. The number of new 3G subscribers gradually decreased from 7 million in April to 2.2 million in June. Monthly growth of new 4G subscribers remained at 70% in the second quarter. There were 5.8 million new 4G subscribers in June, surpassing new 3G subscribers for the first time. Consumers are now taking actions to switch to 4G service instead of holding out.

China Unicom and China Telecom obtained FDD-LTE 4G experimental network licenses at the end of June and will have both TD and FDD licenses in the future, therefore giving them a chance to compete with China Mobile, who was first to have obtained a TD license. However, the increase in new subscribers for both China Unicom and China Telecom is still being affected by China Mobile getting ahead of the game in 4G deployment. It would be difficult for their 3G business to go back to the level before the end of 2013.

The total increase in new 3G/4G subscribers of the three major China telecom operators was 12 million in the second quarter, representing stagnating growth compared to the previous quarter

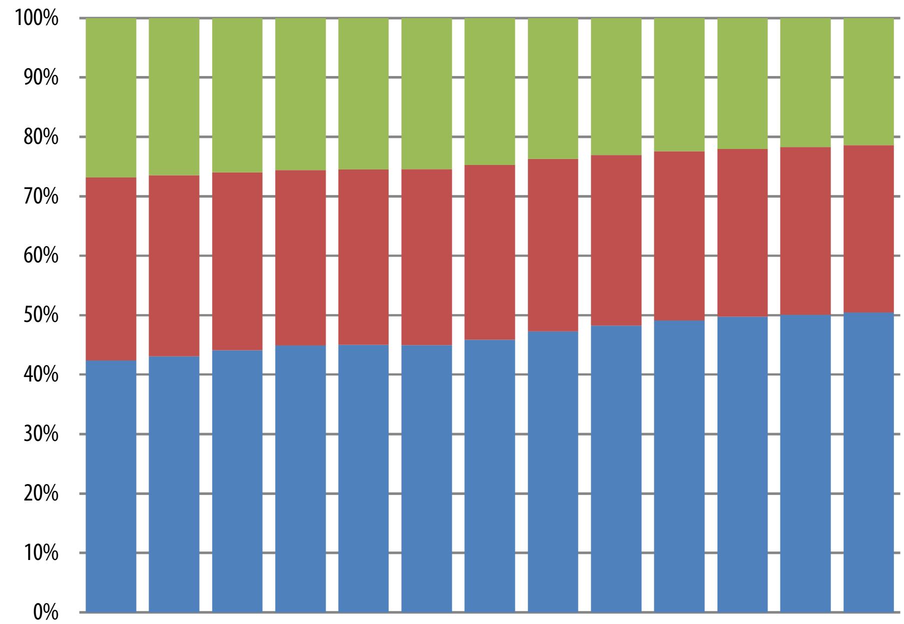
Chart 2: China telecom carrier subscriber data, June 2013-June 2014 (m users)



	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
China Mobile	137.9	147.1	158.7	169.5	176.0	181.1	191.6	205.9	216.7	227.8	236.8	244.4	252.5
China Unicom	100.0	103.9	107.8	111.6	115.4	119.1	122.6	126.5	129.0	132.3	134.4	137.8	140.8
China Telecom	87.3	90.4	93.4	96.5	99.6	102.4	103.1	103.1	103.9	104.1	105.0	106.0	107.2

Source: Digitimes Research, July 2014

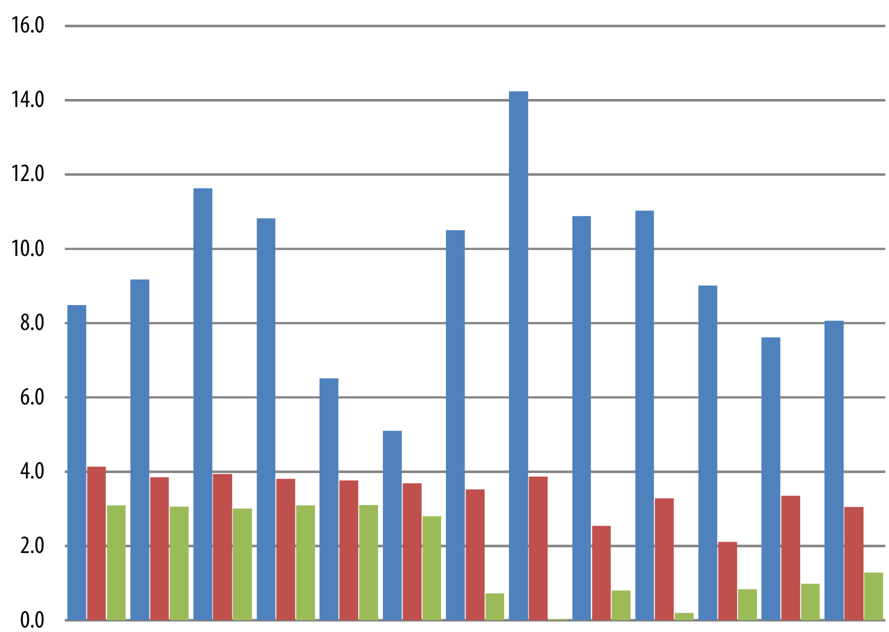
Chart 3: China telecom carrier subscriber share, June 2013-June 2014



	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
China Telecom	26.9%	26.5%	25.9%	25.6%	25.5%	25.4%	24.7%	23.7%	23.1%	22.4%	22.0%	21.7%	21.4%
China Unicom	30.8%	30.4%	30.0%	29.6%	29.5%	29.6%	29.4%	29.0%	28.7%	28.5%	28.2%	28.2%	28.1%
China Mobile	42.4%	43.1%	44.1%	44.9%	45.0%	45.0%	45.9%	47.3%	48.2%	49.1%	49.7%	50.1%	50.4%

Source: Digitimes Research, July 2014

Chart 4: China telecom carriers' number of increased subscribers June 2013-June 2014 (m users)



	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
China Mobile	8.5	9.2	11.6	10.8	6.5	5.1	10.5	14.2	10.9	11.0	9.0	7.6	8.1
China Unicom	4.1	3.9	3.9	3.8	3.8	3.7	3.5	3.9	2.5	3.3	2.1	3.3	3.1
China Telecom	3.1	3.1	3.0	3.1	3.1	2.8	0.7	0.0	0.8	0.2	0.8	1.0	1.3

Source: Digitimes Research, July 2014

China-based smartphone vendors

Xiaomi shipments reached 13.7 million units, setting a record for the company and propelling it to the top maker in the market.

Coolpad delayed shipping 4G smartphones from the first quarter to the first half of May. This reduced its overall shipments, but its quarterly total in the China market managed to reach 9.8 million units, ranking it No. 2 among China players.

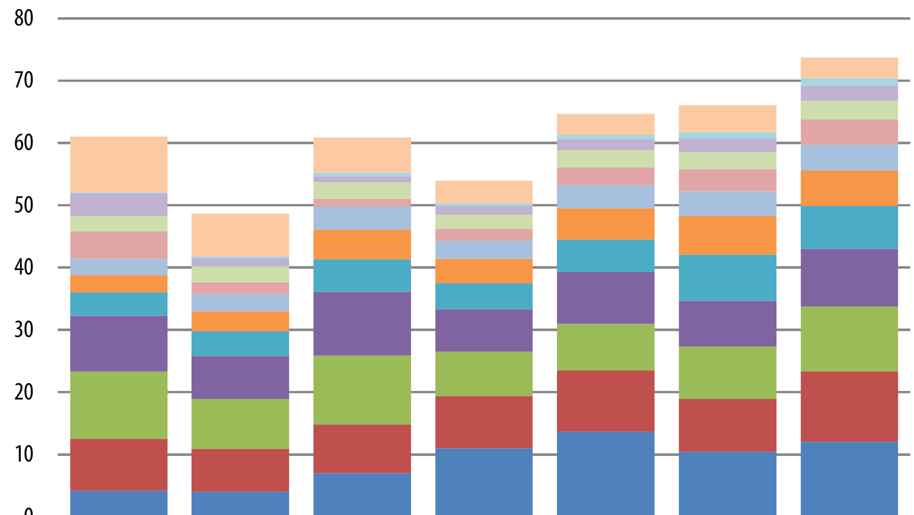
Huawei launched its new Ascend P7 and Mate, adopting 4G spec and its sub-brand Honor series maintained steady sales, resulting in a quarterly growth of 1.5 million units in terms of domestic shipments.

Lenovo was unable to effectively deplete its 3G sales channel inventory, thus limiting shipments.

Quarterly shipments from OPPO and Vivo broke the five million unit mark.

Second quarter shipments in China by white-box vendors dipped to 3.4 million units, a new low for the segment.

Chart 5: China smartphone market shipments, by China-based players, 2Q13-4Q14 (m units)



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Others	8.9	6.8	5.7	3.7	3.4	4.4	3.3
TCL	0.2	0.3	0.5	0.4	0.7	1.0	1.3
K-Touch	3.6	1.3	1.0	1.4	1.7	2.2	2.3
HiSense	2.5	2.6	2.7	2.3	2.8	2.7	3.0
ZTE	4.4	1.9	1.2	1.9	2.9	3.6	4.1
Gionee	2.6	2.7	3.7	2.9	3.7	3.9	4.1
BBK	2.8	3.2	4.8	3.9	5.0	6.2	5.7
Oppo	3.7	4.0	5.2	4.2	5.2	7.4	6.9
Huawei	9.0	6.9	10.2	6.8	8.3	7.4	9.2
Lenovo	10.8	8.0	11.1	7.1	7.5	8.4	10.5
Coolpad	8.3	6.9	7.8	8.4	9.8	8.5	11.3
Xiaomi	4.2	4.0	7.0	11.0	13.7	10.4	12.0

Source: Digitimes Research, July 2014

2H forecast

Xiaomi will maintain quarterly shipments above 10 million units, with its yearly total reaching 47.1 million units, topping the China market.

Lenovo and Coolpad will be in close competition in third quarter shipments and both will reach 10 million units in the fourth quarter.

Huawei will be closely followed by Oppo in the third quarter but its fourth quarter shipments will extend the lead over tier-2 vendors and reach 9.2 million units.

Sequential growth

ZTE showed a quarterly growth of 52.6% as it established a sub-brand to sell new smartphones. TCL's local market shipments continued to rise, growing by 75% on quarter.

Huawei effectively depleted inventory of 3G entry-level models from last quarter, and its quarterly shipments increase by 22.1% in this quarter.

Lenovo was slow in the deployment of new 4G products and high CP ratio models. Shipments in the quarter were unable to quickly rebound. Quarterly growth was a mere 5.6%.

Coolpad and Xiaomi held the first and second place positions in second quarter shipments, with quarterly increases of about 17%.

Tier-2 vendors including Oppo, Vivo, and Gionee became major shipment forces in the second quarter for 4G models as they shifted their product focus to boost 4G smartphone sales.

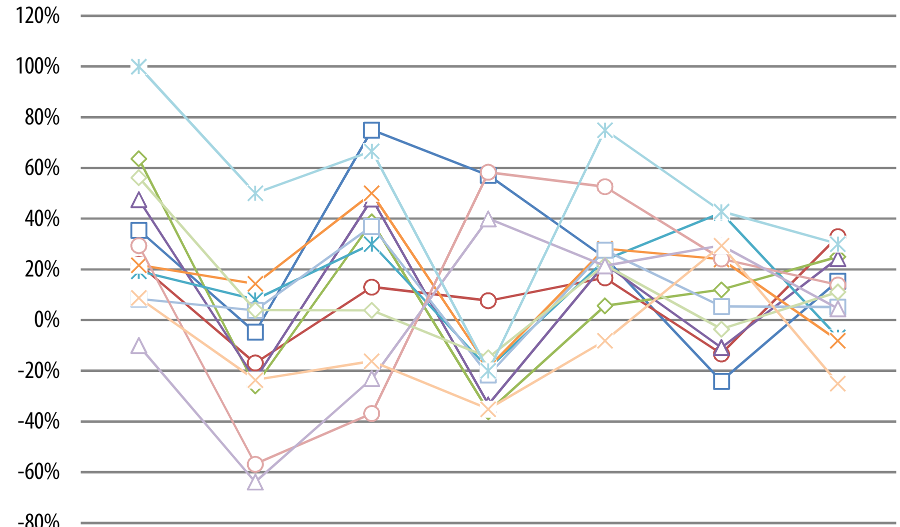
The market share of white-box vendors continued to drop by 8.1% on quarter as they faced price cutting pressure from sub-brand products from tier-1 smartphone makers and the lack of low-cost 4G platform solutions for them to choose.

In the third quarter, the China market will grow to nearly 100 million units. However, as competition gets fierce, Huawei, Coolpad, and Xiaomi will show a slight decline, and Lenovo will see only 12% quarterly growth.

Among tier-2 vendors, OPPO and TCL are expected to show 40% quarterly growth, and ZTE, K-touch, and Vivo can enjoy 20-30% expansion on quarter. White-box vendors will see quarterly growth reaching 29.4%, as they will be able to wedge into the market before low-cost branded smartphones will be launched by larger vendors, and benefitting from China Mobile lifting restrictions on tri-mode 4G smartphones.

Products from various vendors will get into position in the fourth quarter as telecom operators aggressively promote their 4G business. Huawei, Lenovo, and Coolpad will all show quarterly growth of over 24%. Xiaomi and other vendors however will see their growth limited by the three leaders who try to raise their China shipment levels. Quarterly shipments by white-box vendors will drop by 25% as they face price cutting pressure from brand vendors.

Chart 6: China smartphone market shipment growth by quarter, by China-based players, 2Q13-4Q14



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Xiaomi	35.5%	-4.8%	75.0%	57.1%	24.5%	-24.1%	15.4%
Coolpad	22.1%	-16.9%	13.0%	7.7%	16.7%	-13.3%	32.9%
Lenovo	63.6%	-25.9%	38.8%	-36.0%	5.6%	12.0%	25.0%
Huawei	47.5%	-23.3%	47.8%	-33.3%	22.1%	-10.8%	24.3%
Oppo	19.4%	8.1%	30.0%	-19.2%	23.8%	42.3%	-6.8%
BBK	21.7%	14.3%	50.0%	-18.8%	28.2%	24.0%	-8.1%
Gionee	8.3%	3.8%	37.0%	-21.6%	27.6%	5.4%	5.1%
ZTE	29.4%	-56.8%	-36.8%	58.3%	52.6%	24.1%	13.9%
HiSense	56.3%	4.0%	3.8%	-14.8%	21.7%	-3.6%	11.1%
K-Touch	-10.0%	-63.9%	-23.1%	40.0%	21.4%	29.4%	4.5%
TCL	100.0%	50.0%	66.7%	-20.0%	75.0%	42.9%	30.0%
Others	8.8%	-23.6%	-16.2%	-35.1%	-8.1%	29.4%	-25.0%

Source: Digitimes Research, July 2014

International vendors

Shipments in the second quarter of 2014 by international brand vendors slipped by 18.1% on quarter, causing their market share in the China market to drop below 30% as Samsung's shipments dipped and some consumers were holding out for the launch of Apple's new iPhone in September.

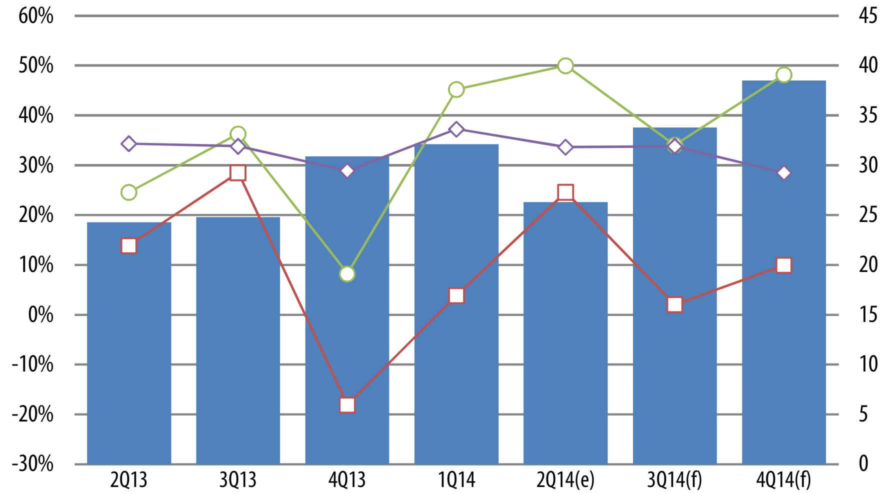
Samsung took first place among international brand vendors in terms of China smartphone shipments in the second quarter, followed by Apple in second place.

Samsung's second quarter China shipments dipped by 3.4 million units but its quarterly shipments are expected to rebound to above 15 million units in the second half of the year after the vendor adjusts its product strategies and pricing policies.

Apple relied on existing products including the iPhone 5S, iPhone 5C, and iPhone 4S for second quarter sales. Quarterly shipments therefore dropped below 10 million units. However, with a new product launch planned in the second half of the year, fourth quarter shipments are expected to come close to Samsung, narrowing the gap to 300,000 units.

Shipments by HTC, Nokia, and Sony usually vary with the trends in the China market. Their fourth quarter China shipments may be able to surpass two million units each.

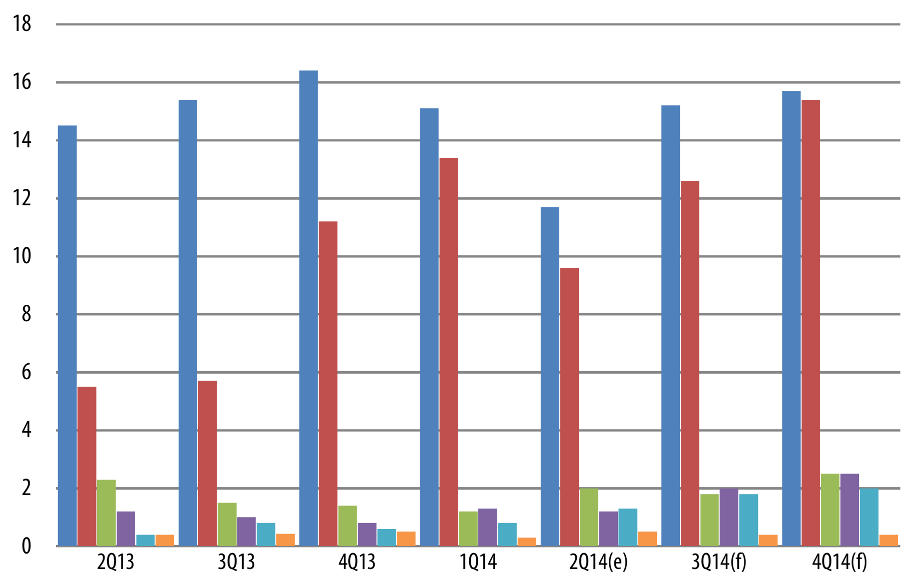
Chart 7: International brand smartphone shipments in China market, 2Q13-4Q14 (m units)



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Shipments	24.3	24.8	30.9	32.1	26.3	33.8	38.5
Q/Q	10.0%	2.1%	24.6%	3.9%	-18.1%	28.5%	13.9%
Y/Y	48.2%	34.1%	50.0%	45.2%	8.2%	36.3%	24.6%
WW share	28.5%	33.8%	33.7%	37.3%	28.9%	33.8%	34.3%

Source: Digitimes Research, July 2014

Chart 8: China smartphone market shipments, by international brands, 2Q13-4Q14 (m units)



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Samsung	14.5	15.4	16.4	15.1	11.7	15.2	15.7
Apple	5.5	5.7	11.2	13.4	9.6	12.6	15.4
HTC	2.3	1.5	1.4	1.2	2.0	1.8	2.5
Nokia	1.2	1.0	0.8	1.3	1.2	2.0	2.5
Sony	0.4	0.8	0.6	0.8	1.3	1.8	2.0
LG	0.4	0.4	0.5	0.3	0.5	0.4	0.4

Source: Digitimes Research, July 2014

Shipments

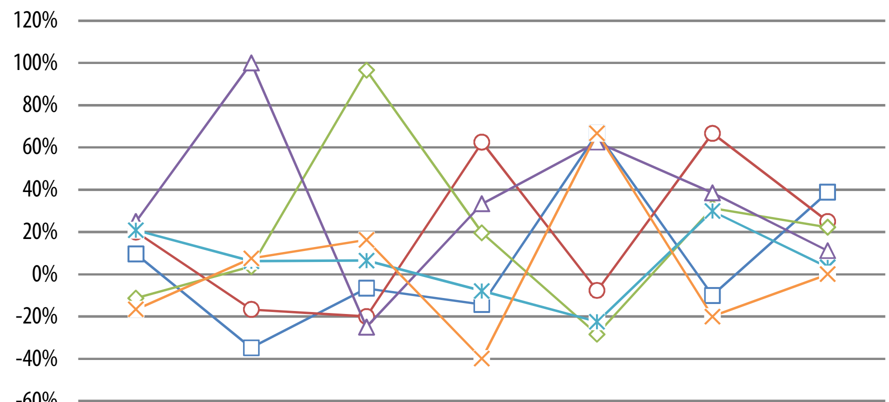
Samsung's second quarter shipments dipped 22.5% on quarter as sales of the new Galaxy S5 underperformed, products priced below CNY1,500 lost ground to Chinese sub-brands with a high CP ratio, and products priced above CNY2,000 fell behind tier-2 local vendors OPPO and Vivo as well as other international brands.

HTC, on the other hand, enjoyed a 66.7% growth on quarter thanks to over-performing entry-level to mid-range models in addition to new flagship smartphones. With steady and sure sales strategies, Sony and LG were able to hold on to certain growth momentum due to a lower base period.

In the second half of the year, Samsung will be able to boost shipments in the first half of the third quarter as China vendors have yet to launch 4G smartphones in large quantities. Apple will be able to raise shipments in the latter half of the third quarter attributing to a new product launch. Samsung and Apple are expected to see 31.3% and 22.9% quarterly growth respectively.

Apple's new iPhone will enter the China market in September and will contribute to its fourth quarter numbers, driving fourth quarter quarterly growth to 22.2%. Samsung, however, will only show fourth quarter quarterly growth of 3.3% as it faces challenges from both Apple and local China-based vendors.

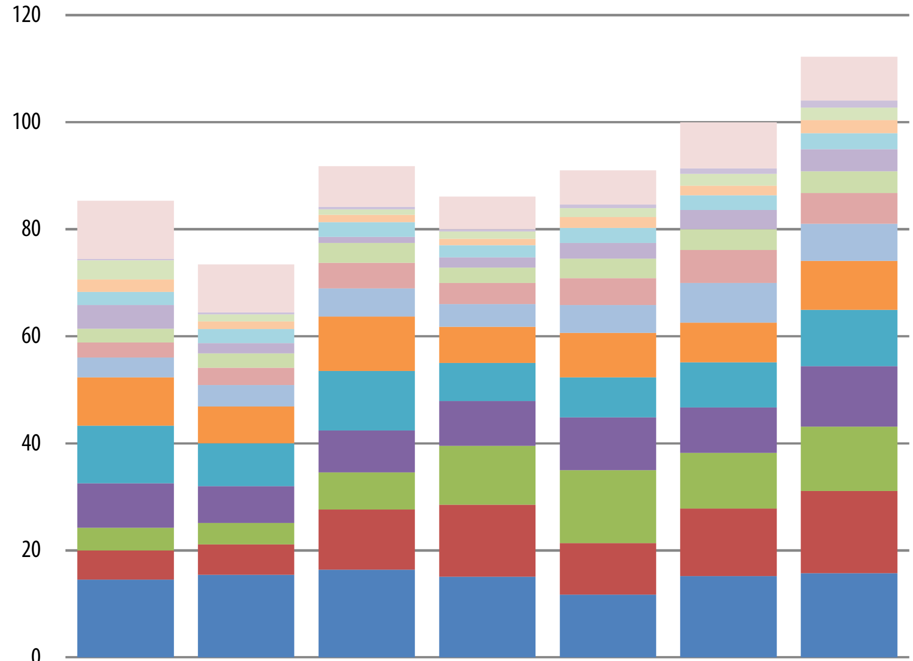
Chart 9: China smartphone market quarterly shipment growth, by international brands, 2Q13-4Q14



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
HTC	9.5%	-34.8%	-6.7%	-14.3%	66.7%	-10.0%	38.9%
Nokia	20.0%	-16.7%	-20.0%	62.5%	-7.7%	66.7%	25.0%
Apple	-11.3%	3.6%	96.5%	19.6%	-28.4%	31.3%	22.2%
Sony	25.0%	100.0%	-25.0%	33.3%	62.5%	38.5%	11.1%
Samsung	20.8%	6.2%	6.5%	-7.9%	-22.5%	29.9%	3.3%
LG	-16.7%	7.5%	16.3%	-40.0%	66.7%	-20.0%	0.0%

Source: Digitimes Research, July 2014

Chart 10: China smartphone market shipments, by all vendors, 2Q13-4Q14



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Others	10.9	9.0	7.6	6.1	6.4	8.6	8.2
TCL	0.2	0.3	0.5	0.4	0.7	1.0	1.3
K-Touch	3.6	1.3	1.0	1.4	1.7	2.2	2.3
HTC	2.3	1.5	1.4	1.2	2.0	1.8	2.5
HiSense	2.5	2.6	2.7	2.3	2.8	2.7	3.0
ZTE	4.4	1.9	1.2	1.9	2.9	3.6	4.1
Gionee	2.6	2.7	3.7	2.9	3.7	3.9	4.1
BBK	2.8	3.2	4.8	3.9	5.0	6.2	5.7
Oppo	3.7	4.0	5.2	4.2	5.2	7.4	6.9
Huawei	9.0	6.9	10.2	6.8	8.3	7.4	9.2
Lenovo	10.8	8.0	11.1	7.1	7.5	8.4	10.5
Coolpad	8.3	6.9	7.8	8.4	9.8	8.5	11.3
Xiaomi	4.2	4.0	7.0	11.0	13.7	10.4	12.0
Apple	5.5	5.7	11.2	13.4	9.6	12.6	15.4
Samsung	14.5	15.4	16.4	15.1	11.7	15.2	15.7

Source: Digitimes Research, July 2014

Market share

Samsung's China sales faced challenges from China-based vendors' sub-brand models with high CP ratios and thus its market share in the second quarter dropped by 3.5 percentage points on quarter. The third quarter has a chance to see a slight rebound. However, as Apple will launch a new iPhone model in the fourth quarter, suppressing sales of Samsung's mid-to-high priced products, Samsung's share is going to dip to 14% again, outperforming Apple by merely 0.3 percentage points but still ranked No.1 among international vendors.

Apple's market share dipped to 10.4% in the second quarter, behind Samsung, Xiaomi, and Coolpad, due to the window period in the second quarter before product renewal. Shipments in fourth quarter will significantly increase thanks to contribution from new iPhone to enter the market in later half of September.

HTC launched multiple products encompassing entry-level, mid-range as well as high-end models in the second quarter, driving its market share up by 0.8 percentage point.

Xiaomi, surpassed Samsung and Apple, and led in market share in the local market, accounting for a share of 14.3%. However, Xiaomi will see its ranking drop to third place in the second half of 2014, accounting for over 10%, as competition among local vendors gets fierce, Samsung adjusts product strategies, and Apple launches the new iPhone.

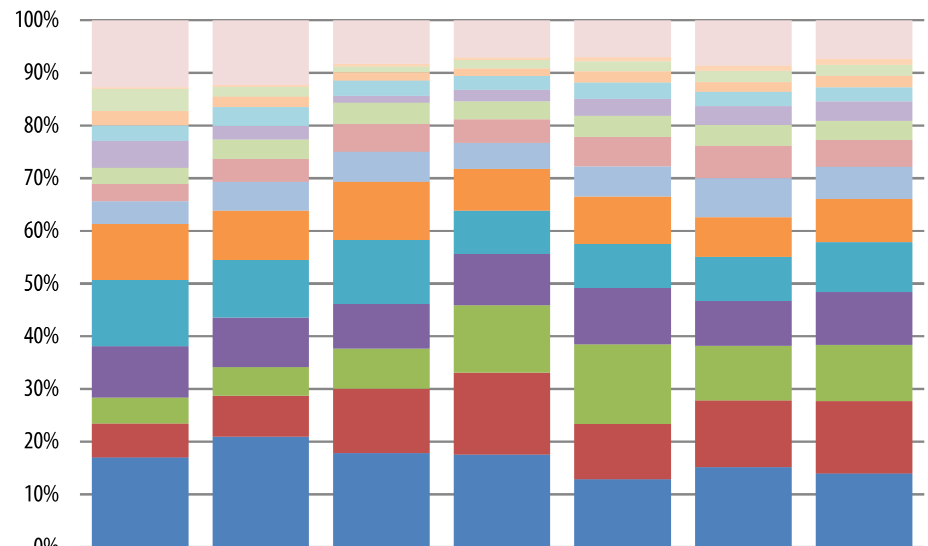
Huawei's market share rose by 1.3 percentage point on quarter due to it launching 4G smartphones in the second quarter.

Lenovo was not able to effectively deplete channel inventory for 3G smartphones and only launched one 4G model as of June. Its second quarter share grew by a mere single percentage point.

Although Coolpad's shipments reached a peak from April to the beginning of May, shipments dipped significantly in the latter half of May because sales still were not up to expectations and it switched to a new processor platform. Its share in the second quarter rose by 1.1 percentage point.

Tier-2 vendors including OPPO and Vivo are expected to see their market shares grow quarter after quarter to 6-7%, closing in on Huawei and Lenovo.

Chart 11: China smartphone market shipment share, by all vendors, 2Q13-4Q14



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Others	12.8%	12.3%	8.3%	7.1%	7.0%	8.6%	7.3%
TCL	0.2%	0.4%	0.5%	0.5%	0.8%	1.0%	1.2%
K-Touch	4.2%	1.8%	1.1%	1.6%	1.9%	2.2%	2.0%
HTC	2.7%	2.0%	1.5%	1.4%	2.2%	1.8%	2.2%
HiSense	2.9%	3.5%	2.9%	2.7%	3.1%	2.7%	2.7%
ZTE	5.2%	2.6%	1.3%	2.2%	3.2%	3.6%	3.7%
Gionee	3.0%	3.7%	4.0%	3.4%	4.1%	3.9%	3.7%
BBK	3.3%	4.4%	5.2%	4.5%	5.5%	6.2%	5.1%
Oppo	4.3%	5.4%	5.7%	4.9%	5.7%	7.4%	6.1%
Huawei	10.6%	9.4%	11.1%	7.9%	9.1%	7.4%	8.2%
Lenovo	12.7%	10.9%	12.1%	8.2%	8.2%	8.4%	9.4%
Coolpad	9.7%	9.4%	8.5%	9.8%	10.8%	8.5%	10.1%
Xiaomi	4.9%	5.4%	7.6%	12.8%	15.1%	10.4%	10.7%
Apple	6.4%	7.8%	12.2%	15.6%	10.5%	12.6%	13.7%
Samsung	17.0%	21.0%	17.9%	17.5%	12.9%	15.2%	14.0%

Source: Digitimes Research, July 2014

China smartphone industry

Stimulated by high price-performance models from the local market and an expanding export scale, quarterly shipments increased 24.6% in the second quarter for the China smartphone industry. In the second half of 2014, average quarterly shipments will be over 110 million units.

According to Digitimes Research, in the second quarter of 2014, Xiaomi's shipment, benefitted from its Hongmi line reached 14.8 million units, and topping all local makers. Huawei and Coolpad, the two new brands, adopted strategies of brand development and aggressively involving themselves in the 4G market and their shipments reached 1.35 million and 1.01 million units, respectively, ranking 2nd and 3rd among local vendors.

Some brands are still in the transition period of converting new models into 4G and were caught digesting 3G inventory, and as a result had a so-so performance in the second quarter.

In the second quarter, export shipments also grew significantly, by 10.2 million units more than the previous quarter. This could be mainly attributed to Huawei, TCL, and white-box brands’ exports growing by 30.2% over the previous quarter.

Because most vendors' plans to launch new cheap 4G models were postponed until the third quarter and purchasing of 4G phones was delayed, in the second half of 2014 sales in the China market are expected to grow.

As for exports, TCL and ZTE will continue to increase their shipments, while Huawei, Xiaomi, and Lenovo are actively involved in new emerging markets. The export proportion of all China venders is expected to approach 40%.

Digitimes Research estimates that in 2014 the China smartphone industry will ship 412 million units, an annual increase of 30.4%.

Key factors affecting the China smartphone industry

Digitimes Research looks back on the factors that affected Chinese shipment of smartphones in the second quarter of 2014:

In terms of supply:

MediaTek's 1+1 plan, with a baseband processor to go with the AP, completed its network verification. Its application processors (MT6732, MT6752) for 4G SoCs, are to enter into mass production by the end of August. Leadcore launched its 4G integrated chip (LC1860) in June. This caused China vendors' choice of chips for cheap 4G models to be limited, making it difficult for them to bring down costs.

Imbalance between supply and demand caused supply of Mobil Memory to become tight and prices continued to rise.

Except for Xiaomi's Hongmi series still maintaining shipment volumes, other brands are in the process of converting to 4G models, reducing the sales of 3G handsets, and digesting the inventory of old models. They can only increase their shipments by raising price-performance of their 3G models and developing overseas markets.

Most white-box smartphone design companies, after consolidation in the market, possess sufficient resources to cooperate with vendors. However, the proportion of research, development, and production of brand owners' export models by design companies increased; their shipment therefore increased indirectly. The exports proportion of white-box brands was reduced.

Table 3: Key supply factors affecting China players' smartphone industry

Item	Factor	Analysis	Influence on shipments
Production	Supply of components	Cheap 4G plans have not been launched by AP vendors.	★★★ ↓
		Memory price remains at high-end level.	★★★ ↓
Brand-name vendors	Xiaomi	Shipments of Hongmi series remain strong.	★★★★★ ↑
	Coolpad	Shipments reached a peak in April and declined in May. Inventory digestion of old models of 4G must be completed before new cheap models can be launched.	★★ ↓
	Lenovo	Lacking products that are above the mid-range, inventory of low-end 3G models is still high, slow in launching 4G new models.	★★★★ ↓
	Huawei	4G new models, AscendP7, Mate, etc., promoting sales; Honor series put into export markets.	★★★ ↑
	Second-tier vendors	In the process of transition to 4G and reduction of sales of 3G handsets.	★★★ ↓
White-box vendors	Independent design houses(IDH)	After some consolidations and eliminations, most vendors receive orders of whole phones from brand owners and overseas customers. Those brands that export phone models increased the proportion of commissioning design companies to develop and produce devices	★★ ↑

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates a positive influence.
Source: Digitimes Research, July 2014

In terms of demand:

Though subsidies by telecom operators are changing, in the second quarter cheap 4G handsets were not yet common. 4G models need to wait until the third quarter to be distributed in telecom stores.

China Mobile, which has restored its subsidies for 4G phones, is expected to further decrease its prices and lure more APs and smartphone vendors to launch 4G plans and models.

Demand for switching smartphones in emerging markets continues to rise. CP handsets in the local market have high export competitiveness, attracting more customers to buy them.

Table 4: Key demand factors affecting China players' smartphone industry

Item	Factor	Analysis	Influence on shipments
Domestic market	Telecoms	In the second quarter 4G cheap models were not common; telecom stores cannot distribute them in large volumes.	★★★ ↓
		China Mobile introduced subsidies for tri-mode models, in addition to 5-mode models.	★★★ ↑
	Online distribution channels	Sales boom of sub-brands by online stores continued. High CP models still appeal to customers.	★★ ↑
Overseas market	Exchange rate	The risk of exchange rates in emerging markets is insignificant.	★ ↑
	Demand for smartphones continues to grow	Demand in emerging markets for low-end smartphones to replace feature phones is increasing significantly. High CP phones in overseas markets are competitive.	★★★ ↑

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates a positive influence.
Source: Digitimes Research, July 2014

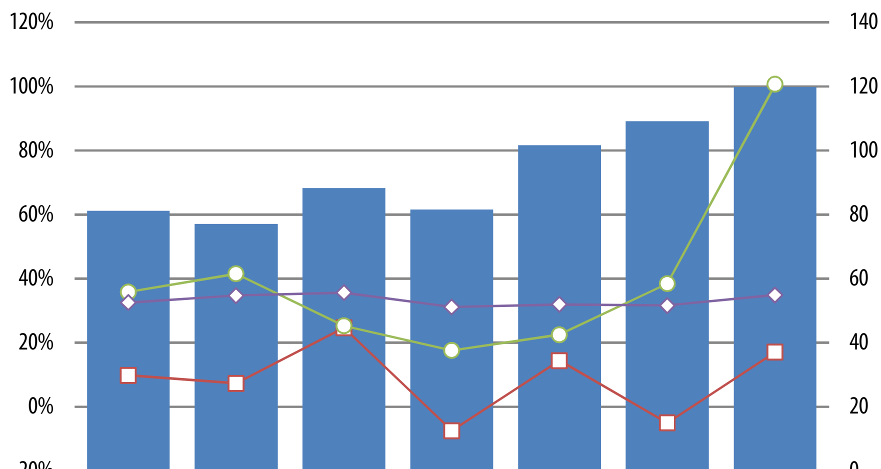
Shipment breakdown

In the second quarter of 2014, for baseband processors and APs, the choice was limited to Qualcomm and Marvell. Low price plans are not common. So Chinese smartphone vendors adopted high CP 3G models as their main shipment driver. On the other hand, customers are taking a wait-and-see attitude, waiting for 4G models, thus causing some vendors' inventory of 3G models to be still high in the past two quarters. Though the Chinese market was not as hot as expected, mid-range 4G smartphones and high CP 3G models still pushed shipment growth to almost 100 million units. Exports grew significantly by 100 million units over the previous quarter. Total shipments were 102 million units, increasing by 24.6% on a quarterly basis.

Digitimes Research estimates that in the second half of 2014, demand in the domestic market will warm up. From August on, 4G new models below CNY1,000 will hit store shelves in massive quantities. Shipments in the third and fourth quarters will reach 209 million units and 120 million units, respectively, increasing by 40% over the second half of last year, accounting for 32-35% of global shipments.

Digitimes Research estimates that China smartphone shipments will total 412 million units in 2014, increasing by 30.5% on a yearly basis.

Chart 12: China player smartphone shipments, 2Q13-4Q14 (m units)



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Shipments	81.2	77.1	88.2	81.6	101.7	109.1	119.8
Q/Q	17.0%	-5.0%	14.4%	-7.5%	24.6%	7.3%	9.8%
Y/Y	100.6%	38.4%	22.5%	17.6%	25.2%	41.5%	35.8%
WW share	34.9%	31.6%	31.9%	31.1%	35.6%	34.7%	32.5%

Source: Digitimes Research, July 2014

China vendors

Quarterly shipments for Xiaomi reached 14.8 million units, the best in the industry.

Huawei's sales of smartphones continued to grow steadily both in the domestic and overseas markets. Its shipments in the second quarter reached a new height, up to 13.5 million units.

Lenovo's shipments were still affected by the store inventory of 3G models in the Chinese market. Its pace of introduction of new phones was not as quick as that of other vendors, and shipments were only 9.7 million units.

Coolpad 4G models made its contributions to sales, which reached 10.1 million units, and exceeded 10 million for the first time.

TCL's export ratio remained over 90%, while the increasing shipment reflected the expanding demand for smartphones in overseas markets.

OPPO, GiONEE, and Vivo, with shipments of 3G models driving sales in the transition period to 4G, shipped between 5-6 million units.

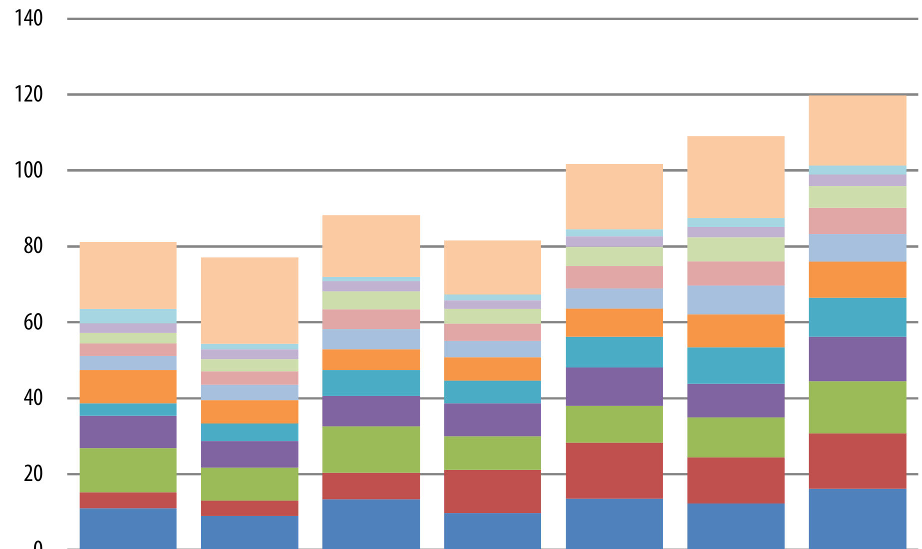
Digitimes Research estimates that in the second half of 2014, demand for 4G will expand in the China market. Huawei, Lenovo, and Coolpad, are expected to profit from it and their year-end quarterly shipments are expected to break 11 million units.

Xiaomi relies on its Hongmi series to boost shipments. In the second half of the third quarter, 4G models will be launched corresponding to demand in the local market.

Second-tier vendors will complete their shift to 4G models, thus boosting their shipments to 6-7 million units.

Shipments from white-box vendors, not benefiting from market demand for 4G, will mainly focus on exporting 3G models. Despite the growth in export shipments, they still face great competition in such South East Asian countries as India, Indonesia, Thailand, etc.

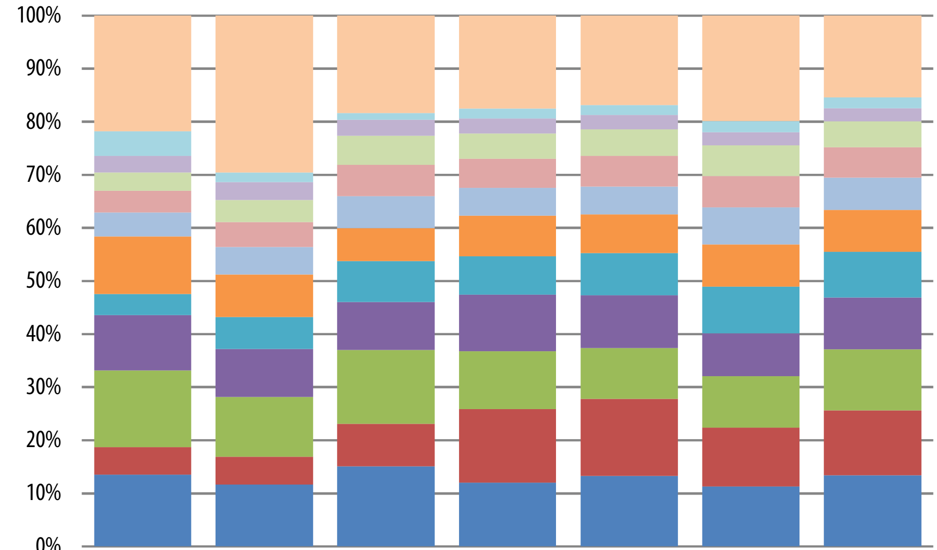
Chart 13: Shipments by China players, 2Q13-4Q14 (m units)



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Others	17.7	22.8	16.2	14.3	17.2	21.7	18.5
K-Touch	3.8	1.4	1.1	1.5	1.8	2.3	2.4
HiSense	2.5	2.6	2.7	2.3	2.8	2.7	3.0
BBK	2.8	3.2	4.8	3.9	5.1	6.3	5.8
Gionee	3.3	3.6	5.2	4.5	5.9	6.4	6.9
Oppo	3.7	4.0	5.3	4.3	5.3	7.6	7.2
ZTE	8.8	6.2	5.5	6.2	7.4	8.7	9.5
TCL	3.2	4.6	6.8	5.9	8.1	9.6	10.3
Coolpad	8.5	7.0	8.0	8.7	10.1	8.8	11.7
Lenovo	11.7	8.7	12.2	8.9	9.7	10.6	13.8
Xiaomi	4.2	4.0	7.1	11.3	14.8	12.1	14.6
Huawei	11.0	9.0	13.3	9.8	13.5	12.3	16.1

Source: Digitimes Research, July 2014

Chart 14: Shipment share by China player, 2Q13-4Q14



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Others	21.8%	29.6%	18.4%	17.5%	16.9%	19.9%	15.4%
K-Touch	4.7%	1.8%	1.2%	1.8%	1.8%	2.1%	2.0%
HiSense	3.1%	3.4%	3.1%	2.8%	2.8%	2.5%	2.5%
BBK	3.4%	4.2%	5.4%	4.8%	5.0%	5.8%	4.8%
Gionee	4.1%	4.7%	5.9%	5.5%	5.8%	5.9%	5.8%
Oppo	4.6%	5.2%	6.0%	5.3%	5.2%	7.0%	6.0%
ZTE	10.8%	8.0%	6.2%	7.6%	7.3%	8.0%	7.9%
TCL	3.9%	6.0%	7.7%	7.2%	8.0%	8.8%	8.6%
Coolpad	10.5%	9.1%	9.1%	10.7%	9.9%	8.1%	9.8%
Lenovo	14.4%	11.3%	13.8%	10.9%	9.5%	9.7%	11.5%
Xiaomi	5.2%	5.2%	8.0%	13.8%	14.6%	11.1%	12.2%
Huawei	13.5%	11.7%	15.1%	12.0%	13.3%	11.3%	13.4%

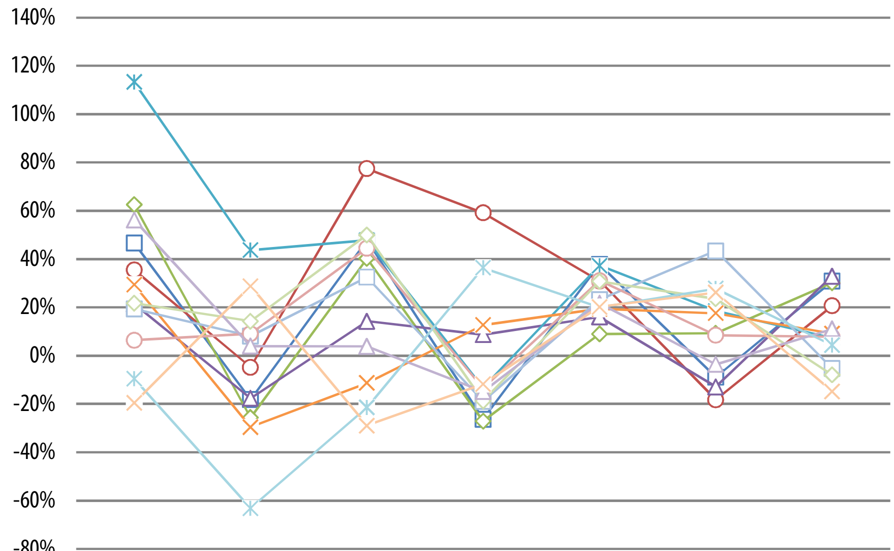
Source: Digitimes Research, July 2014

In the second quarter of 2014, Xiaomi, with its shipment accounting for 14.6%, sat tight in the top spot of the market. Huawei grew its share by 1.3 percentage points, ranking second. Coolpad's sales were sluggish since June, as it faced strong competition from other vendors in the China market.

In the second half of 2014, the rankings for the four largest vendors will be: Huawei, Xiaomi, Lenovo, and Coolpad. TCL will rank fifth, surpassing ZTE. The rest of second-tier vendors will account for 5-8% each.

The shipment proportion of white-box brands continued to decline in the second quarter. After consolidation in the market, larger smartphone design companies (IDH), in south China shifted into ODM mode and became OEMs for brand vendors. At the same time they increased capacity, and were capable of competing with rivals in east China. In the third-quarter, overseas customers will stock up for the peak season, thus hopefully raising the shipment proportion of white-box vendors to 19.9%. In the fourth quarter, the quarterly proportion of white-box vendors will decrease by 4.6 percentage points, mainly because overseas orders will start to decline in late November.

Chart 15: Q/Q shipment growth by China players, 2Q13-4Q14



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Huawei	46.7%	-18.2%	47.8%	-26.3%	37.8%	-8.9%	30.9%
Xiaomi	35.5%	-4.8%	77.5%	59.2%	31.0%	-18.2%	20.7%
Lenovo	62.5%	-25.6%	40.2%	-27.0%	9.0%	9.3%	30.2%
Coolpad	21.4%	-17.6%	14.3%	8.7%	16.1%	-12.9%	33.0%
TCL	113.3%	43.8%	47.8%	-13.2%	37.3%	18.5%	7.3%
ZTE	29.4%	-29.5%	-11.3%	12.7%	19.4%	17.6%	9.2%
Oppo	19.4%	8.1%	32.5%	-18.9%	23.3%	43.4%	-5.3%
Gionee	6.5%	9.1%	44.4%	-13.5%	31.1%	8.5%	7.8%
BBK	21.7%	14.3%	50.0%	-18.8%	30.8%	23.5%	-7.9%
HiSense	56.3%	4.0%	3.8%	-14.8%	21.7%	-3.6%	11.1%
K-Touch	-9.5%	-63.2%	-21.4%	36.4%	20.0%	27.8%	4.3%
Others	-19.5%	28.8%	-28.9%	-11.7%	20.3%	26.2%	-14.7%

Source: Digitimes Research, July 2014

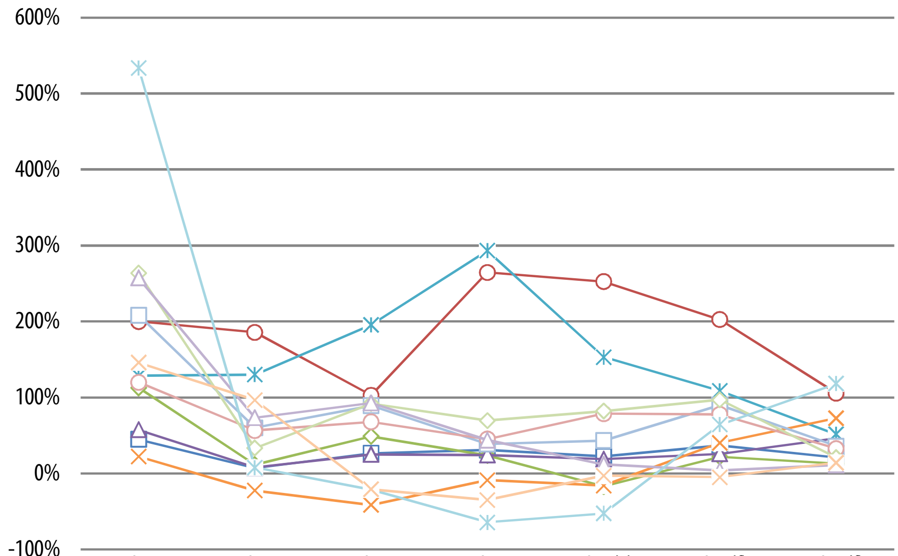
Sequential growth

In the second quarter of 2014, Huawei, Xiaomi, GioNEE, Vivo, and TCL maintained a 30% growth rate over the previous quarter. Among them, Xiaomi's Hongmi model sold like hot cakes. Plus Hongmi Note, a new model, entered the market, continuing its growth since the second half of 2014. Lenovo and Coolpad were limited because their shipments focused on the China market.

Digitimes Research estimates growth in the first half of the third quarter, growth will be slow, because 4G models will not be available as much as expected, and the release schedule of a great deal of new models will be delayed until the second half of August. Customers' wait-and-see attitude will cause inventory of 3G handsets to increase and the growth rate of most vendors will be below 10%. Only OPPO will excel, with its production line converted to 4G, brand visibility, and sound channels, and growth for the vendor will be 43.4% on a quarterly basis.

In the fourth quarter, telecom operators, actively developing their 4G users, will offer promotional prices. With 4G products gradually available, they are expected to attract more users to convert to 4G. The quarterly growth rates of Huawei, Lenovo, and Coolpad, who rely on telecom operators, will be about 30%.

Chart 16: Y/Y shipment growth by China players, 2Q13-4Q14



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Huawei	44.7%	7.1%	26.7%	30.7%	22.7%	36.7%	21.1%
Xiaomi	200.0%	185.7%	102.9%	264.5%	252.4%	202.5%	105.6%
Lenovo	112.7%	11.5%	48.8%	23.6%	-17.1%	21.8%	13.1%
Coolpad	57.4%	7.7%	25.0%	24.3%	18.8%	25.7%	46.3%
TCL	128.6%	130.0%	195.7%	293.3%	153.1%	108.7%	51.5%
ZTE	22.2%	-22.5%	-41.5%	-8.8%	-15.9%	40.3%	72.7%
Oppo	208.3%	60.0%	89.3%	38.7%	43.2%	90.0%	35.8%
Gionee	120.0%	56.5%	67.7%	45.2%	78.8%	77.8%	32.7%
BBK	263.6%	33.3%	92.0%	69.6%	82.1%	96.9%	20.8%
HiSense	257.1%	73.3%	92.9%	43.8%	12.0%	3.8%	11.1%
K-Touch	533.3%	7.7%	-21.4%	-64.3%	-52.6%	64.3%	118.2%
Others	145.8%	96.6%	-21.0%	-35.0%	-2.8%	-4.8%	14.2%

Source: Digitimes Research, July 2014

In the second quarter of 2014, yearly shipments of Xiaomi and TCL continued to grow. The yearly shipment growth rates of GioNEE and Vivo were about 80%. Lenovo didn't do as well as the same period last year, due to 3G inventory. Huawei and Coolpad's yearly growth rates remained at 20%.

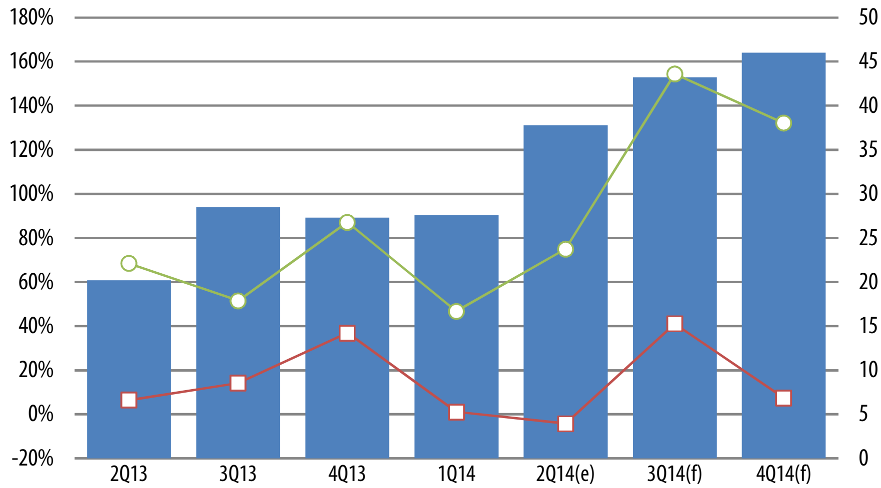
In the third quarter, only Xiaomi will enjoys a yearly growth rate of over 200%, due to its lower base period. OPPO and Vivo's growth rate will reach over 90% since they will ship a great volume of new 4G models, taking advantage of the summer break and quickly grabbing the student market.

As the China smartphone market becomes saturated, in the fourth quarter, most vendors' growth rate will be below 50%. Xiaomi, due to a small base period, will still maintain high growth. ZTE and K-Touch will gradually gain their footing, walking out of the darkness of their 2013's sharp drop in shipments. Exports for white-box vendors are expected to be better than last year, a positive yearly growth rate of 14.2%, the first time for five quarters.

Exports

Regarding exports, in the second half of 2014, mature markets will enter into their peak seasons with increasing shipments. Orders from emerging market will continue to increase as well. In the third and fourth quarter, exports will be 43.8 million units and 46.0 million units respectively, accounting for 40% of all shipments for China's smartphone industry.

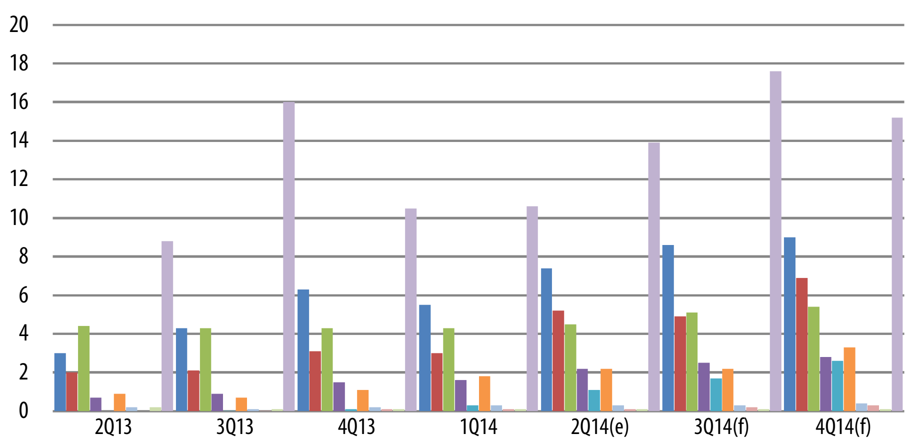
Chart 17: China smartphone players, export shipments, 2Q13-4Q14 (m units)



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Shipments	20.2	28.5	27.3	27.6	37.8	43.2	46.0
Q/Q	7.4%	41.1%	-4.2%	1.1%	37.0%	14.3%	6.5%
Y/Y	132.2%	154.5%	75.0%	46.8%	87.1%	51.6%	68.5%

Source: Digitimes Research, July 2014

Chart 18: China smartphone players, export shipments by maker, 2Q13-4Q14 (m units)



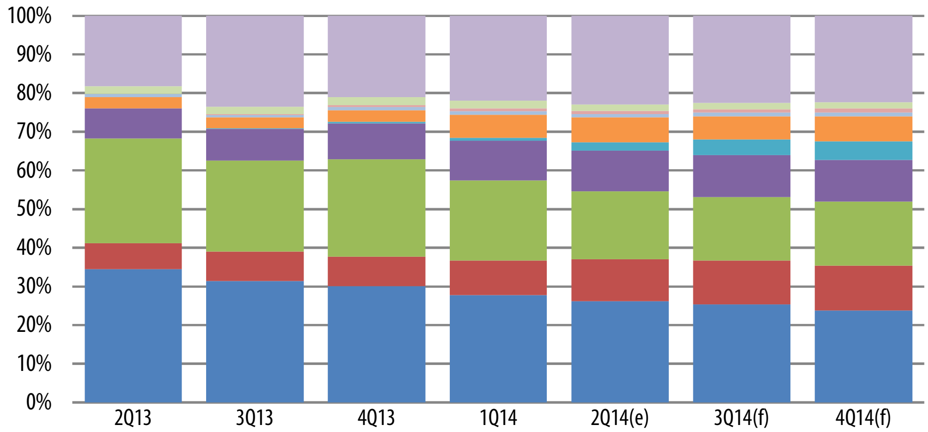
	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
TCL	3.0	4.3	6.3	5.5	7.4	8.6	9.0
Huawei	2.0	2.1	3.1	3.0	5.2	4.9	6.9
ZTE	4.4	4.3	4.3	4.3	4.5	5.1	5.4
Gionee	0.7	0.9	1.5	1.6	2.2	2.5	2.8
Xiaomi	0.0	0.0	0.1	0.3	1.1	1.7	2.6
Lenovo	0.9	0.7	1.1	1.8	2.2	2.2	3.3
Coolpad	0.2	0.1	0.2	0.3	0.3	0.3	0.4
Oppo	0.0	0.0	0.1	0.1	0.1	0.2	0.3
K-Touch	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Others	8.8	16.0	10.5	10.6	13.9	17.6	15.2

Source: Digitimes Research, July 2014

In the second quarter of 2014, late May was an off season, so shipments to overseas customers dropped. Huawei's exports reached 5.2 million units. Xiaomi's shipments were close to 1.2 million units to overseas markets, including Taiwan, Hong Kong, Singapore, and Malaysia.

The second half of 2014 is the peak season for overseas markets. Benefiting from soaring demand in emerging markets, white-box vendors' shipment will be over 15 million units. Brand vendors, such as Huawei, TCL, and ZTE, will further expand their exports scale in Europe, South America, United States, and South East Asia, since the peak season is imminent.

Chart 19: China smartphone players, export shipments by maker, 2Q13-4Q14 (m units)



	2Q13	3Q13	4Q13	1Q14	2Q14(e)	3Q14(f)	4Q14(f)
Others	49.7%	70.0%	65.0%	74.3%	80.3%	79.9%	82.1%
K-Touch	5.3%	5.5%	6.1%	6.5%	5.8%	5.8%	5.9%
Oppo	0.0%	0.9%	1.7%	2.5%	2.7%	3.1%	3.8%
Coolpad	2.4%	1.6%	2.7%	3.0%	3.2%	3.5%	3.8%
Lenovo	7.7%	8.5%	9.2%	20.2%	22.4%	21.1%	23.6%
Xiaomi	0.0%	0.5%	1.1%	2.7%	7.7%	14.3%	17.5%
Gionee	21.2%	24.4%	28.7%	34.5%	36.7%	38.5%	39.9%
ZTE	73.9%	69.9%	77.7%	69.7%	61.3%	58.4%	60.6%
Huawei	18.2%	22.8%	23.5%	30.3%	38.2%	40.1%	42.6%
TCL	93.8%	93.2%	92.8%	93.8%	91.5%	89.9%	87.4%

Source: Digitimes Research, July 2014

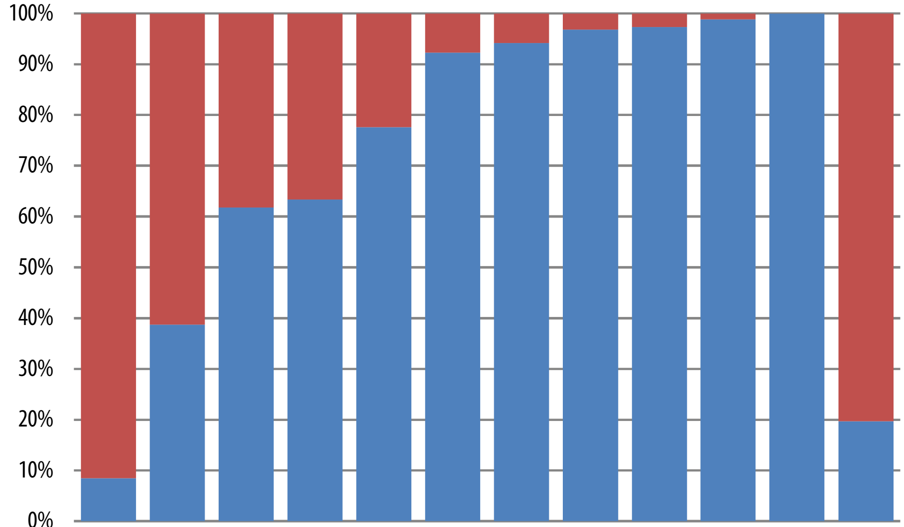
In the second quarter of 2014, in terms of the proportion of exports for China smartphone vendors, Huawei and Xiaomi aggressively expanded their overseas markets with positive results. Their exports increased by 8 percentage points and 5 percentage points, respectively, over the previous quarter.

As for second-tier vendors, GioNEE's shipment proportion remained unchanged. The exports of OPPO and Vivo, with an eye on South East Asia, were in their infancy.

In the first half of 2014, ZTE and TC focused on the China market, so the proportion of their domestic sales increased by almost 3 percentage points.

White-box vendors, with their increasingly limited space in the China market, relied more on customers from overseas emerging markets. Their export proportion reached 80.3%.

Chart 20: Mainland-Chinese smartphone vendors, overseas-shipment to domestic-shipment ratios, 1Q14



	TCL	ZTE	Huawei	Gionee	Lenovo	Xiaomi	K-Touch	Coolpad	Oppo	BBK	Hisense	Other
To Overseas	91.5%	61.3%	38.2%	36.7%	22.4%	7.7%	5.8%	3.2%	2.7%	1.2%	0.0%	80.3%
To China	8.5%	38.7%	61.8%	63.3%	77.6%	92.3%	94.2%	96.8%	97.3%	98.8%	100.0%	19.7%

Source: Digitimes Research, July 2014