

China smartphone market and industry

China smartphone market 3

Shipment breakdown 3

Key factors affecting the China smartphone market 3

Vendors (China-based/International brands) 3

Table 1: Key vendor factors affecting 4Q15 smartphone shipments in China 4

Market/Customer requirements 4

Table 2: Key trends affecting smartphone shipments to China in 4Q15 4

Shipment breakdown 5

Chart 1: China smartphone market shipments, 3Q14-1Q16 (m units) 5

China-based smartphone vendors 5

Chart 2: China smartphone market shipments, by China-based players, 3Q14-1Q16 (m units) 6

Chart 3: China smartphone market shipment share, by China-based players, 3Q14-1Q16 7

Chart 4: China smartphone market shipment growth by quarter by China-based players, 3Q14-1Q16 8

International vendors 8

Chart 5: International brand smartphone shipments in China market, 3Q14-1Q16 (m units) 9

Chart 6: China smartphone market shipments by international brands, 3Q14-1Q16 (m units) 9

Chart 7: China smartphone market shipment share by international brands, 3Q14-1Q16 10

Chart 8: China smartphone market quarterly shipment growth by international brands, 3Q14-1Q16 11

Shipments and market share of all vendors 11

Chart 9: China smartphone market shipments by all vendors, 3Q14-1Q16 (m units) 12

Chart 10: China smartphone market shipment share by all vendors, 3Q14-1Q16 13

China telecom carriers 13

Chart 11: China telecom carrier subscriber data, 4Q14-4Q15 (m users) 14

Chart 12: China telecom carrier subscriber share, 4Q14-4Q15 14

Chart 13: China telecom carriers' number of 3G + 4G subscribers, 2Q14-4Q15 (m users) 15

Chart 14: China telecom carriers' share of 3G + 4G subscribers, 2Q14-4Q15 (m users) 15

Chart 15: China telecom carriers' number of increased 3G + 4G subscribers, 2Q14-4Q15 (m users) 16

Chart 16: China telecom carriers' share of increased 3G + 4G subscribers, 2Q14-4Q15 (m users) 16

Luke Lin, DIGITIMES Research, February 2016

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China smartphone industry 17

Key factors affecting the China smartphone market 17

Supply side 17

Table 3: Key factors affecting the 4Q15 China smartphone industry (Supply) 18

Demand side 18

Table 4: Key factors affecting the 4Q15 China smartphone industry (Demand) 18

Shipment breakdown 19

Chart 17: China smartphone industry shipments, 3Q14-1Q16 (m units) 19

Shipments by maker 19

Chart 18: Shipments by China players, 3Q14-1Q16 (m units) 20

Chart 19: Shipment share by China players, 3Q14-1Q16 21

Chart 20: Q/Q shipment growth by China players, 3Q14-1Q16 22

Chart 21: Y/Y shipment growth by China players, 3Q14-1Q16 23

Exports 23

Chart 22: China smartphone industry's export shipments, 3Q14-1Q16 (m units) 24

Chart 23: Export shipments by China player, 3Q14-1Q16 (m units) 25

Chart 24: Export shipment share by China player, 4Q15 26

Extra charts 27

Chart 25: China smartphone market shipments - international and local brands, 3Q14-1Q16 (m units) 27

Chart 26: China smartphone market share - international and local brands, 3Q14-1Q16 (m units)

27

Report sample (not for sale)

China smartphone market

Shipment breakdown

According to Digitimes Research's interviews with China-based smartphone supply chain vendors conducted in December and analysis on industry and market data, China Mobile continued with promotional plans pushing 2G subscribers to directly upgrade to 4G service, driving the number of total new 4G/3G users in China to reach 54.5 million in the fourth quarter, maintaining a single-quarter growth of over 50 million users. As entry-level and low-cost entry-level to mid-range 4G phones continued to sell well and international brand Apple and China-based makers such as Huawei were launching new high-end and mid-to-high range models, encouraging existing smartphone users to make new purchases; total 4Q15 smartphone shipments in China reached 119 million units, up 11.5% on quarter.

In terms of shipment shares by the vendors in the fourth quarter, Apple held the largest share, 19.1%, leading all others by a wide distance. Xiaomi, Huawei, BBK and Oppo follow at second, third, fourth and fifth place, respectively. Samsung dropped to sixth and Meizu, taking up a 5% share, ranked No. 7. Lenovo and ZTE used to be tier-1 players but continue to deliver lackluster sales and their respective shares keep falling to only slightly above 2%.

Looking forward to the first quarter of 2016, with both China-based makers and international brands aggressively spreading out their new products including all low, mid, and high cost models on the market in the fourth quarter of 2015, the market will have to digest some of the accumulated inventory in the first quarter. As such, Digitimes Research estimates shipments will decline by more than 20% on quarter and rise by close to 5% on year.

Key factors affecting the China smartphone market

Key factors affecting China smartphone shipments in fourth-quarter 2015:

Vendors (China-based/International brands)

International vendors: Apple aggressively spread its new iPhone 6s/6s Plus - which went on sale in China in late September - on the market in the fourth quarter. Samsung's high-end Galaxy S6 and Note 5 were pressured by Apple and therefore shipment performance relied on sales of mid-range and low-cost models with high CP (cost/performance) ratio and mid-to-high level specs.

China-based makers: Huawei launched a host of high-end, mid-range and entry-level phones in the fourth quarter, which boosted shipments with these new products hitting the market. Xiaomi pushed up year-end shipments with sales of Hongmi Note 2 launched in the middle of the third quarter and Hongmi Note 3 introduced in the fourth quarter. BBK, Oppo and Meizu backed by Alibaba, received success in their operations in the retail channel and cultivation of brand image so fourth quarter shipments maintained at high levels. Lenovo's local sales in China remained sluggish and shipments continued to drop. A number of small vendors with manufacturing operations based in southern China marketed phones running Alibaba Yun OS. As they were backed by Alibaba's subsidies, they were able to deliver a combined monthly shipment of two million entry-level 4G phones in the fourth quarter.

Table 1: Key vendor factors affecting 4Q15 smartphone shipments in China

Factor	Item	Analysis	Influence on shipments	
Vendor	International brands / China-based makers	Samsung	High-end phones were squeezed out of the market by Apple's new models. Samsung relies on sales of low-end and mid-range phones with high CP value to boost shipments	↓ ★★★
		Apple	iPhone 6s/6s Plus aggressively hit the market.	↑ ★★★★★
		Xiaomi	Sales of Hongmi Note 2 and Note 3 boost year-end shipments.	↑ ★★★★★
		Lenovo	Sales continue to slump and shipments keep falling.	↓ ★
		Huawei	New high-end, mid-range and entry-level phones hitting the market drives up shipments.	↑ ★★★★★
		Tier-2 vendors	BBK, Oppo and Meizu continue to deliver rising shipment numbers.	↑ ★★★★★
		White box vendors	4G phones running Alibaba's Yun OS from small vendors based in southern China show rising sales.	↑ ★

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

Source: Digitimes Research, February 2016

Market/Customer requirements

Market/consumer demand:

By offering phone purchase subsidy and subscription plan discount, China Mobile attracted a large number of 2G users to upgrade to 4G service, which boosted sales of low-cost and entry-level 4G phones.

China already has a high smartphone penetration rate and a saturated smartphone market, so it is more and more reliant on existing users making new phone purchase. Market growth is obviously slowing down.

Consumers and market focus on new products from Apple, Huawei, Xiaomi, Oppo and BBK, seriously squeezing other vendors out of the market.

Table 2: Key trends affecting smartphone shipments to China in 4Q15

Factor	Item	Analysis	Influence on shipments
Demand / customer	Telecom operators encourage 2G users to upgrade to 4G.	2G users in rural villages upgrading to 4G service boosts sales of entry-level and low-cost phones.	↑ ★
	Smartphones already have high penetration.	The saturating market is more and more reliant on existing users making new purchases.	↓ ★
	4G phones are common and prices are falling.	China-based makers are all switching to 4G models with CP ratios of low-cost phones on the rise.	↑ ★★
	The center of attention on new products focus on certain brands.	Consumers focus attention on products of a few makers. Other brands have difficulty catching market attention.	↓ ★

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

Source: Digitimes Research, February 2015

Shipment breakdown

In the fourth quarter of 2015, China added 54.5 million new 3G/4G users, fewer than the 58.9 million users added in the second quarter. More than 10 million of the newly added users upgraded directly from 2G to 4G, continuingly driving up the shipment volume of mid-to-low cost and entry-level 4G phones. In addition, with international brand Apple launching the new iPhone 6s/6s Plus and China-based makers spreading low-cost to high-end products on the market in the quarter, total shipments in China reached 119 million units, up 13.7% on year and 11.5% on quarter.

Based on Digitimes Research's estimates, as China-based makers and international brands all made their products widely available on the market in the fourth quarter, the market will take some time to digest the excess inventory in the first quarter of 2016. As such, shipments will likely fall to 91.4 million units, down 23.2% on quarter and up 4.8% on year, a higher yearly growth compared to that seen in the corresponding period of 2014.

Chart 1: China smartphone market shipments, 3Q14-1Q16 (m units)



Source: Digitimes Research, February 2016

China-based smartphone vendors

The top four China-based smartphone makers in terms of domestic shipments are respectively Xiaomi, Huawei, BBK and Oppo, each delivering more than 10 million phones in the fourth quarter of 2015.

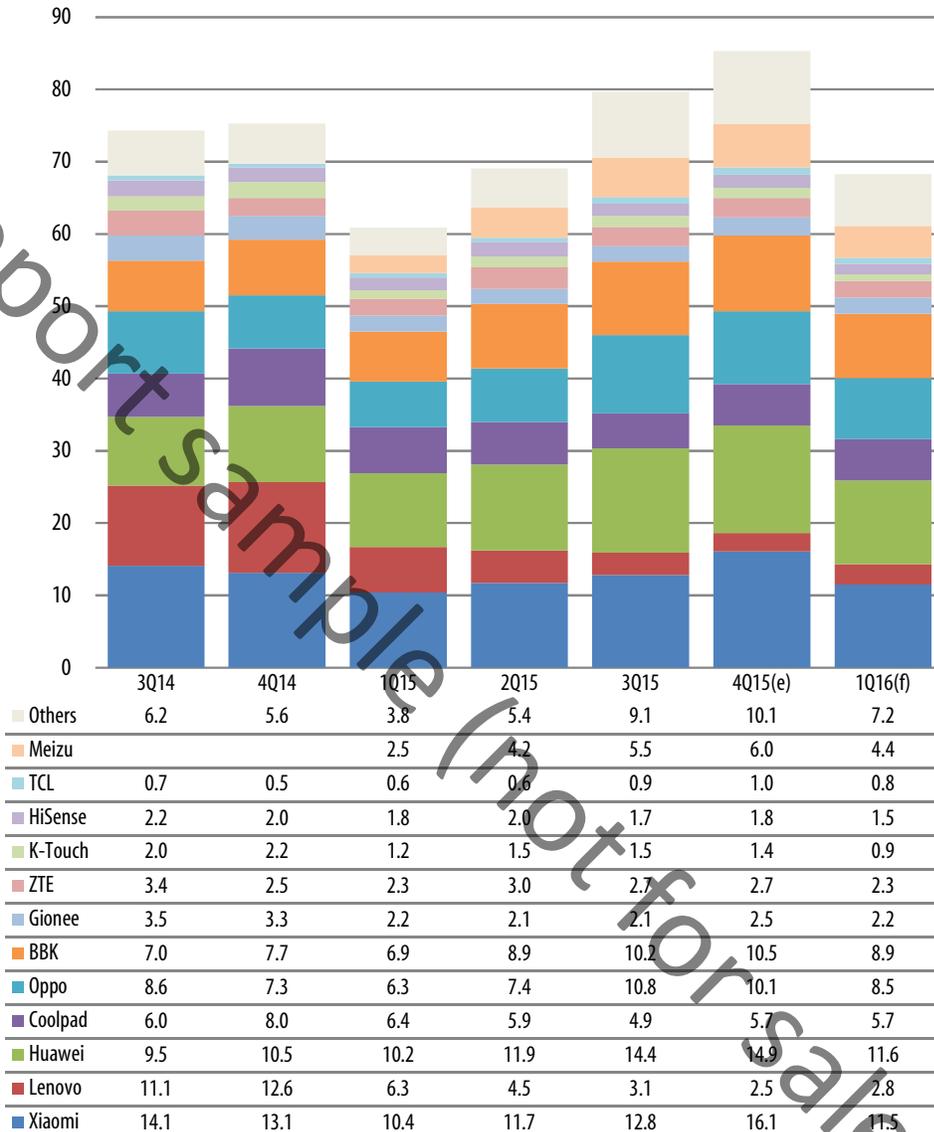
Xiaomi, benefiting from the hot-selling Hongmi Note 2 going on sale in mid-third quarter and the newly launched Hongmi Note 3 hitting the market, boosted year-end shipments to 16.1 million units.

Huawei launched a host of new products in the fourth quarter, including high-end Mate S and Mate 8, mid-range G7 Plus as well as low-cost Huawei Enjoy 5/5S and Honor Play 5X, driving total shipments to further grow from the third quarter numbers to 14.9 million units.

BBK and Oppo, focusing operations on physical retail channels, respectively shipped 10.5 million and 10.1 million units in the fourth quarter, carrying on with their impressive summer sales performance from the previous quarter.

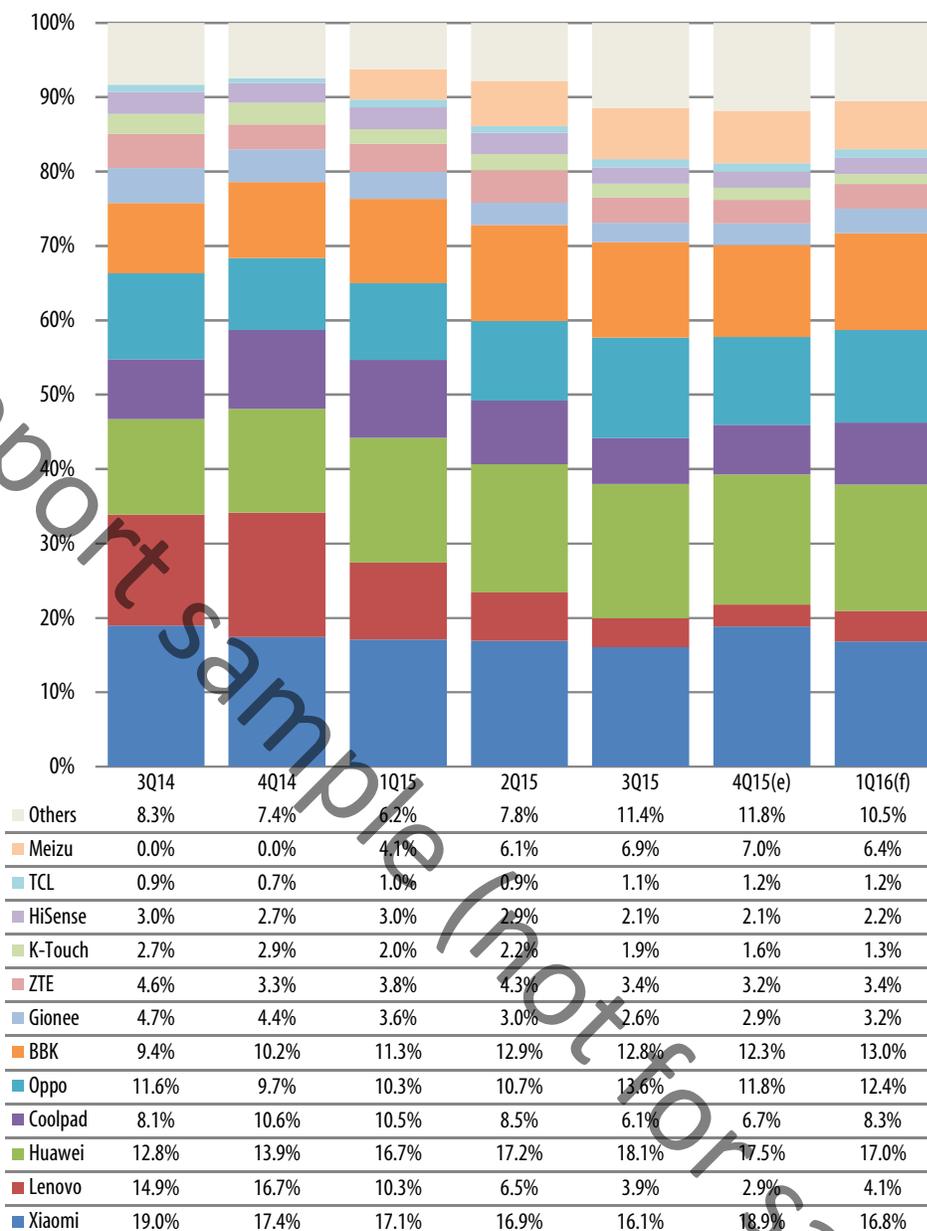
With sales still slumping, Coolpad, Lenovo and ZTE that used to be tier-1 brands in China underperformed rising star Meizu. Lenovo and ZTE in particular shipped fewer than 3 million units in the fourth quarter.

Chart 2: China smartphone market shipments, by China-based players, 3Q14-1Q16 (m units)



Note: Lenovo numbers do not include those of Motorola Mobility.

Source: Digitimes Research, February 2016

Chart 3: China smartphone market shipment share, by China-based players, 3Q14-1Q16

Source: Digitimes Research, February 2016

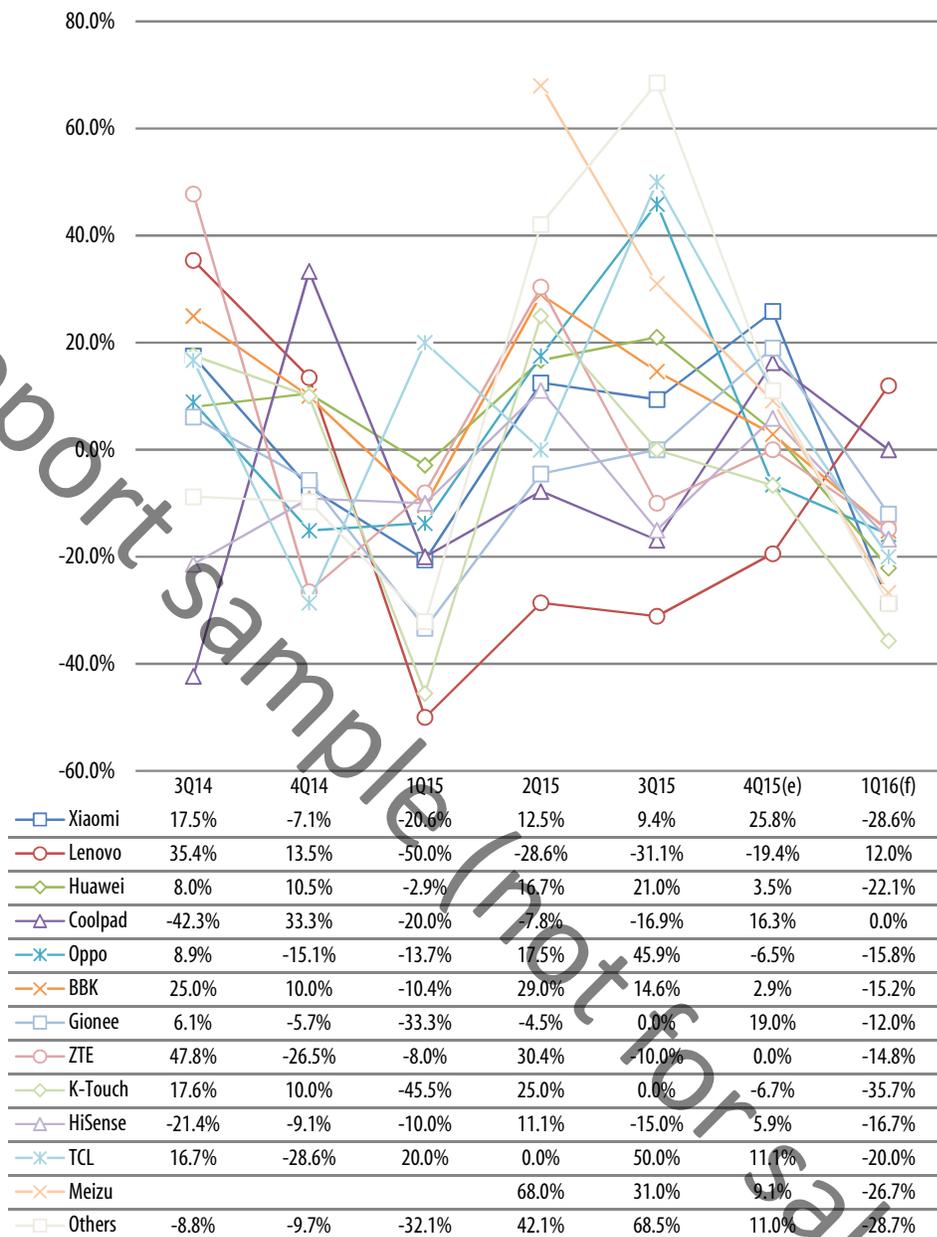
Most China-based makers showed continued quarterly growth in domestic shipments in the fourth quarter of 2015.

Xiaomi delivered far-below-expectation shipment numbers in the first three quarters of 2015 and therefore aggressively boosted shipments to the China local market in the fourth quarter so quarterly growth reached 25.8%.

Huawei, BBK and Oppo, with their brand and high-end phones continuing to sell well in China, only showed single-digit quarterly growth or even slight decline in the fourth quarter due to the higher base in the previous quarter.

Lenovo, still facing slumping sales in China, saw shipments decline by nearly 20% on quarter.

Chart 4: China smartphone market shipment growth by quarter by China-based players, 3Q14-1Q16



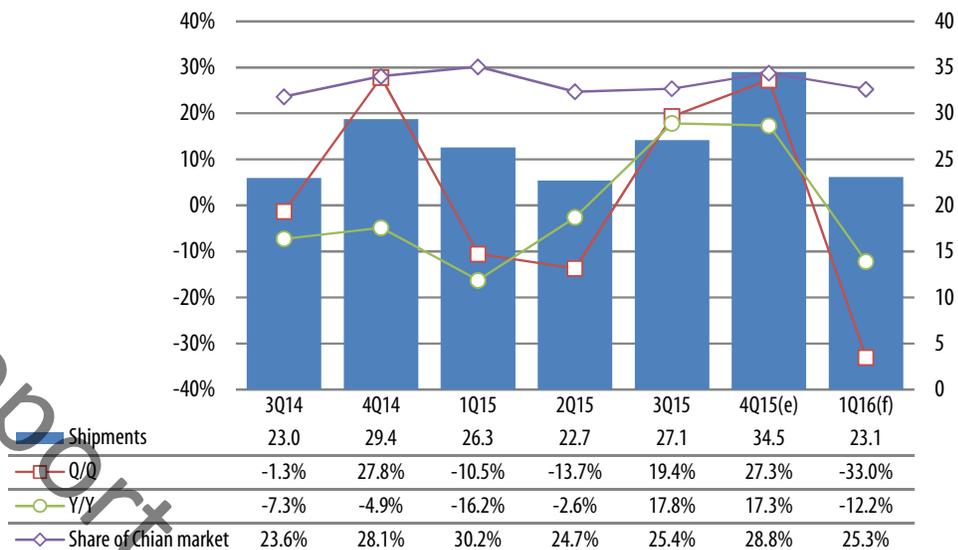
Source: Digitimes Research, February 2016

International vendors

With the China smartphone demand continuously trending up in the fourth quarter of 2015, Apple shipments grew by nearly 50% on quarter, driving the shipments by international brands to reach 33.7 million units, up by 24.8% on quarter, and their share in the China market to go back up to 28.3%.

Digitimes Research expects shipments by international brands to drop to 23.1 million units as demand for iPhone 6s/6s Plus will likely significantly slow down, impacting Apple shipments, in the first quarter of 2016.

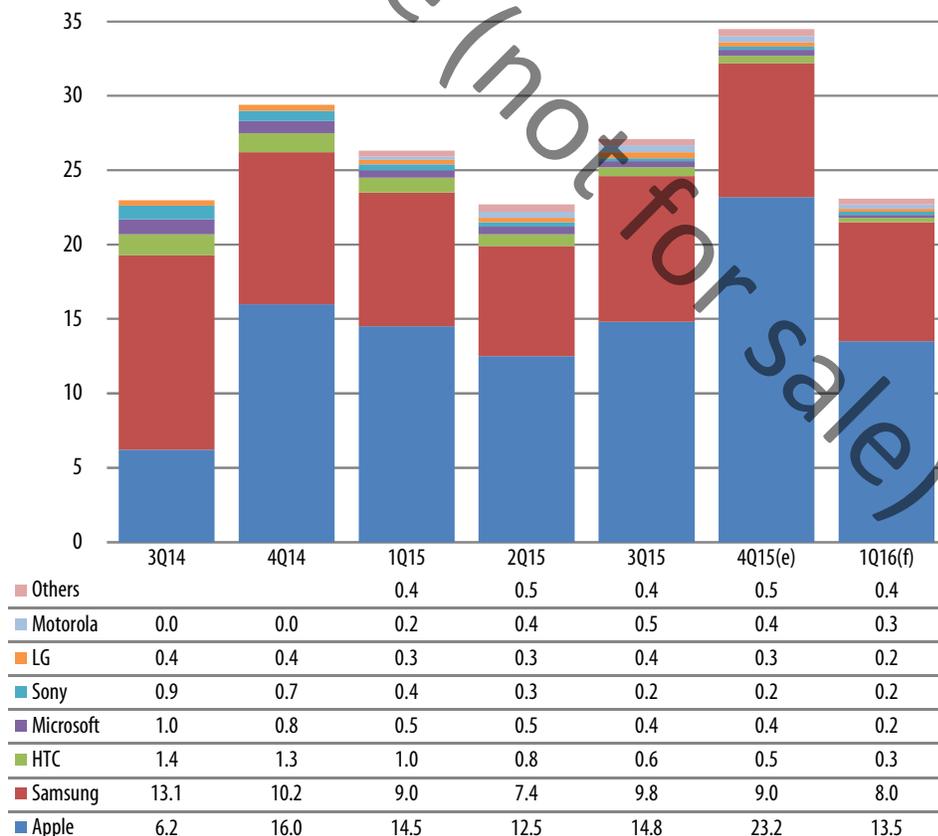
Chart 5: International brand smartphone shipments in China market, 3Q14-1Q16 (m units)



Source: Digitimes Research, February 2016

In terms of shipments to the China market by international smartphone brands in the fourth quarter of 2015, Apple and Samsung together account for over 93% of the shipments.

Chart 6: China smartphone market shipments by international brands, 3Q14-1Q16 (m units)

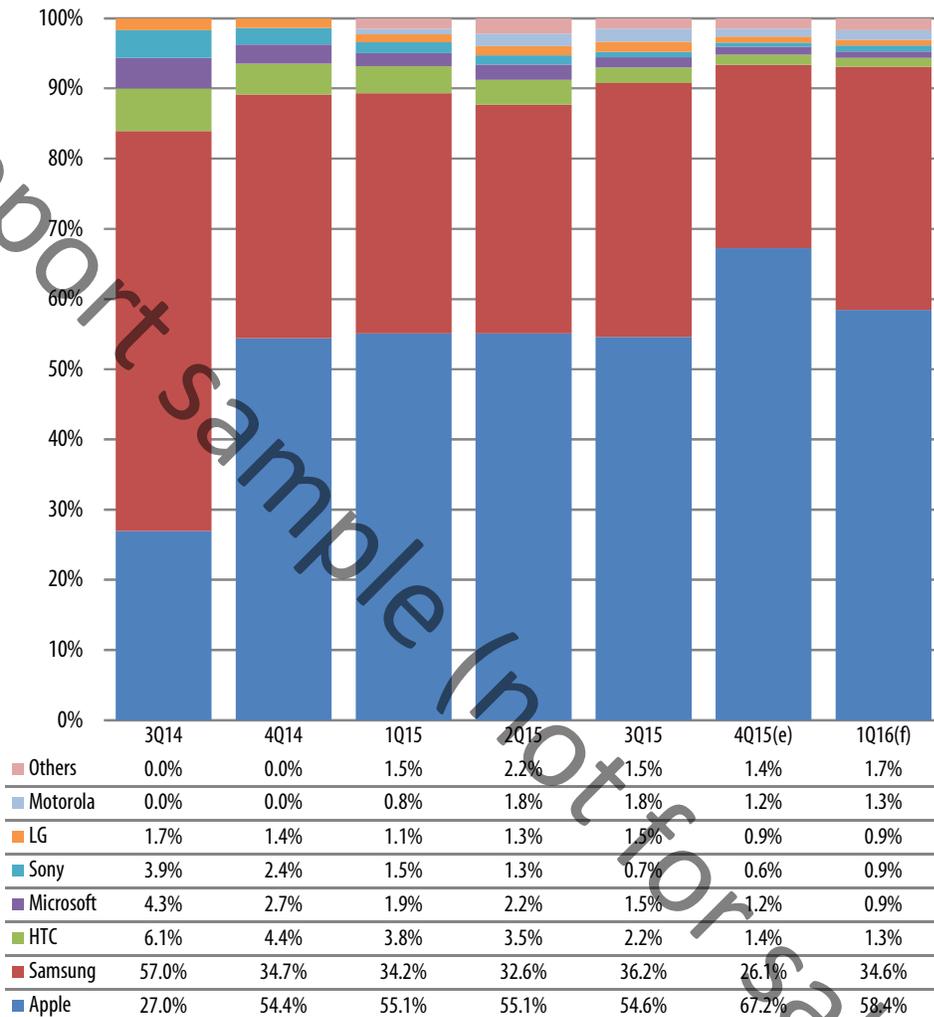


Source: Digitimes Research, February 2016

Apple aggressively spread its iPhone 6s/6s Plus officially going on sales in China in late September on the market in the fourth quarter, boosting shipments to 22.7 million units.

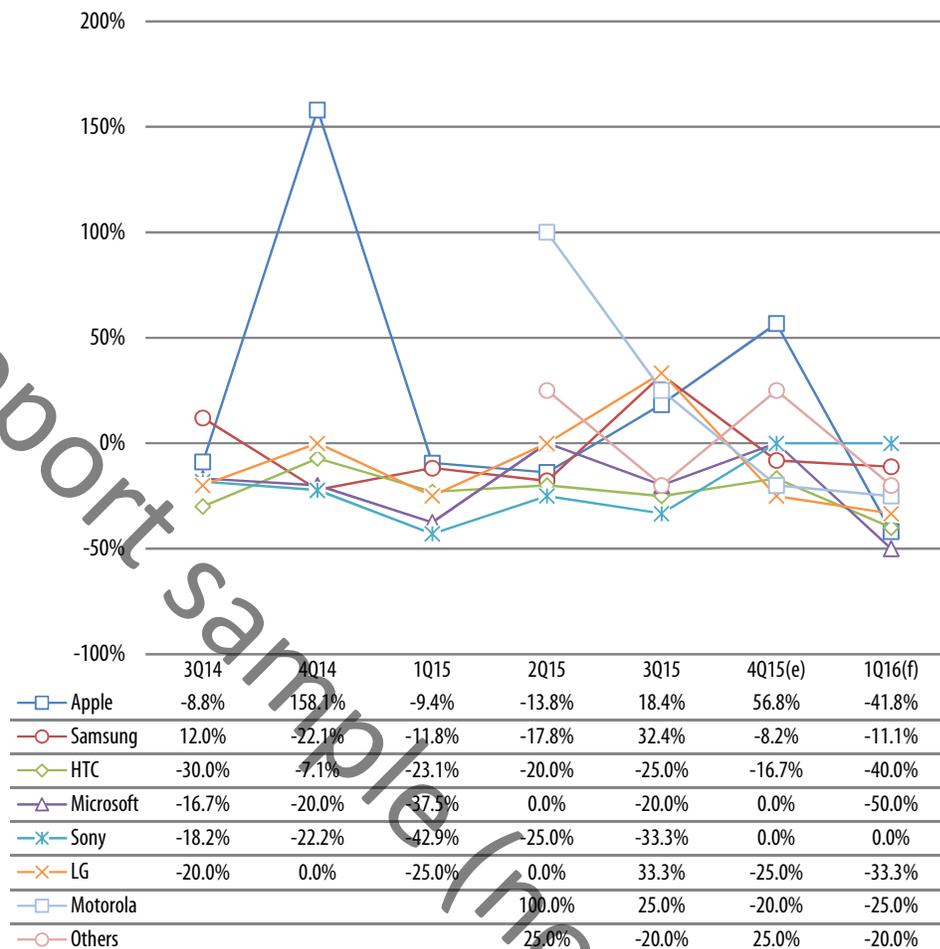
Samsung received limited results with its efforts to boost sales in China. After shipping more than 9 million units in the previous quarter, fourth quarter shipments fell back to 8.7 million units as its high-end models faced pressure from Apple and it could only attempt to increase sales of mid-range and entry-level phones.

Chart 7: China smartphone market shipment share by international brands, 3Q14-1Q16



Source: Digitimes Research, February 2016

Despite the continued increase in smartphone demand in China in the fourth quarter of 2015, Apple was the only international brand that was able to show a shipment growth, up 48.4% on quarter.

Chart 8: China smartphone market quarterly shipment growth by international brands, 3Q14-1Q16

Source: Digitimes Research, February 2016

Shipments and market share of all vendors

Apple led all other makers by a wide distance, holding a 19.1% share at the first place.

Xiaomi and Huawei, with a difference of 1 percentage point, respectively held the second and third place.

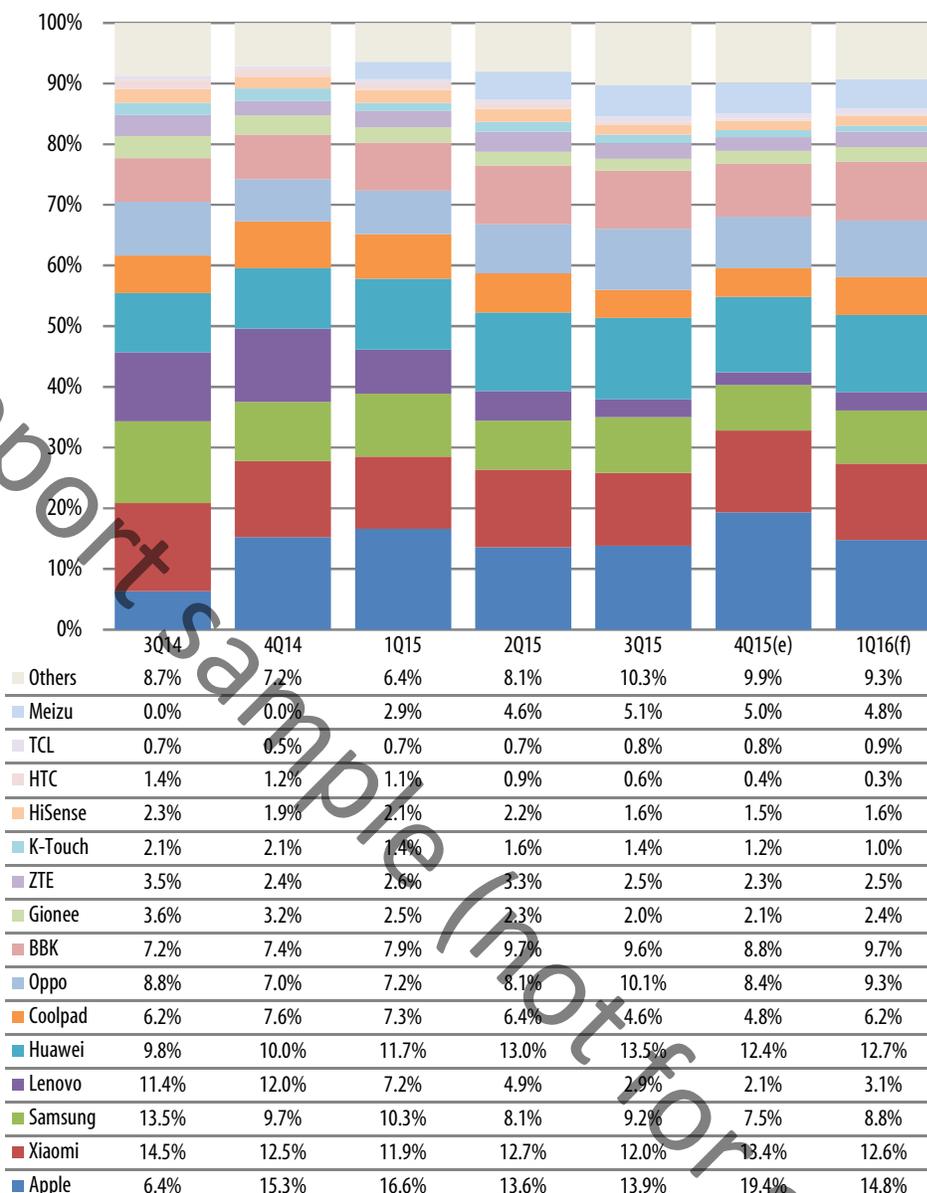
BBK and Oppo, taking up 8.8% and 8.5%, sit at the fourth and fifth place. Samsung fell to sixth.

Meizu, ranks No. 7, held a 5% share.

Shares of Lenovo and ZTE that used to be tier-1 players in the domestic market, continue to drop to 2.1% and 2.3% respectively.

Chart 9: China smartphone market shipments by all vendors, 3Q14-1Q16 (m units)


Source: Digitimes Research, February 2016

Chart 10: China smartphone market shipment share by all vendors, 3Q14-1Q16

Source: Digitimes Research, February 2016

China telecom carriers

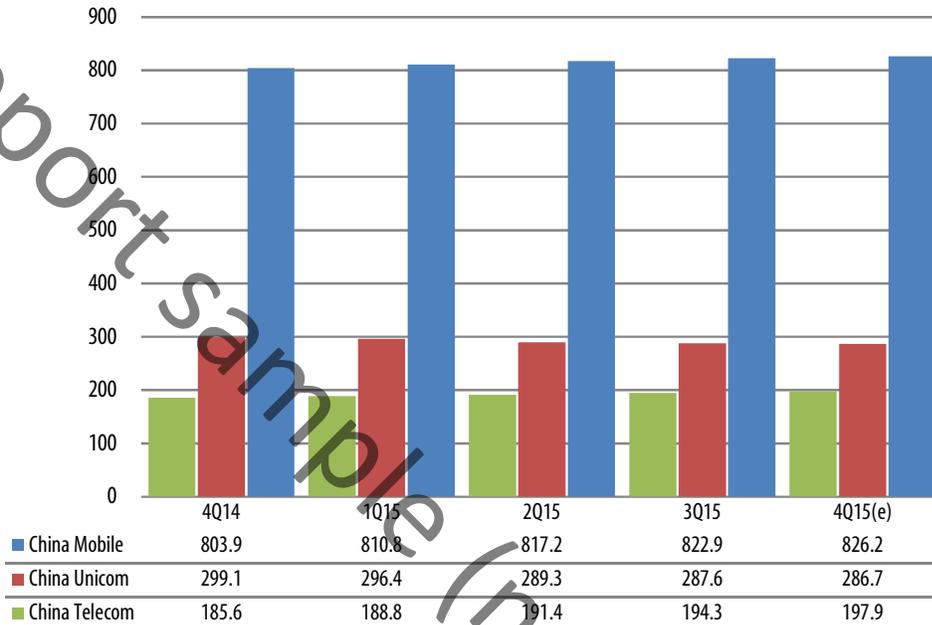
Note: China Mobile started to announce the number of 4G subscribers in February, 2014. China Unicom started to announce the number of 3G + 4G subscribers in April, 2014. China Telecom announces the number of 3G + 4G subscribers every month. Therefore, the figure shows the combined number of 3G + 4G subscribers.

As of the end of December, 2015, China Mobile added 222 million 4G subscribers in 2015, with accumulated 4G users exceeding 312 million. In the fourth quarter, China mobile gained 64.7 million 4G users but lost 25.9 million 3G subscribers, resulting in a net increase of 38.8 million 3G/4G users, slightly more than the 38.4 million users added in the third quarter but not comparable to the 42 million users added in the first quarter and the 50.4 million users added in the corresponding period in 2014.

China Unicom added 11.4 million 3G/4G subscribers in the fourth quarter, a significant drop from the 14.7 million users in the previous quarter. China Telecom added 4.3 million 3G/4G users, lower than the level of 5.8 million users in the third quarter.

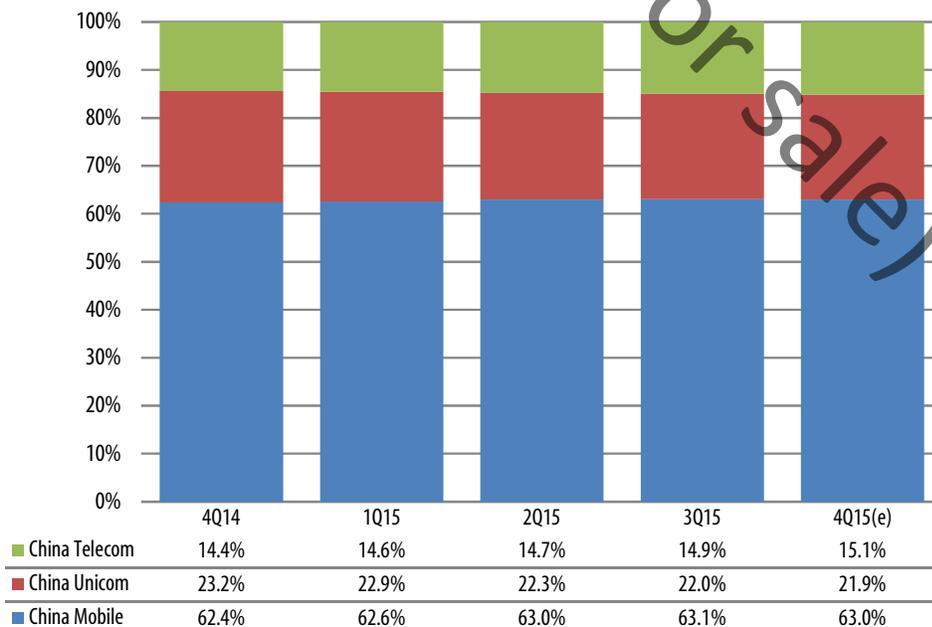
In the fourth quarter of 2015, China added a total of 54.5 million new 4G/3G users, lower than the 58.9 million users of the previous quarter but still considerably higher than the average level of the first half of the year. The number of 4G/3G users maintained a quarterly growth rate of 50 million, with a large portion coming from China Mobile's promotional plan driving 2G users to directly upgrade to 4G in the fourth quarter, boosting sales of entry-level and mid-to-low cost 4G phones.

Chart 11: China telecom carrier subscriber data, 4Q14-4Q15 (m users)

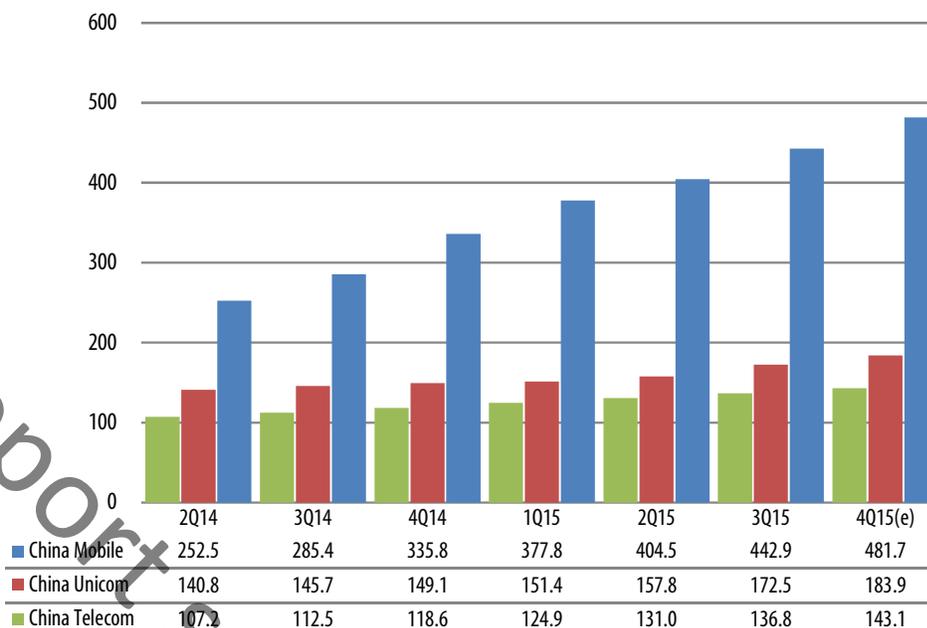


Source: Digitimes Research, February 2016

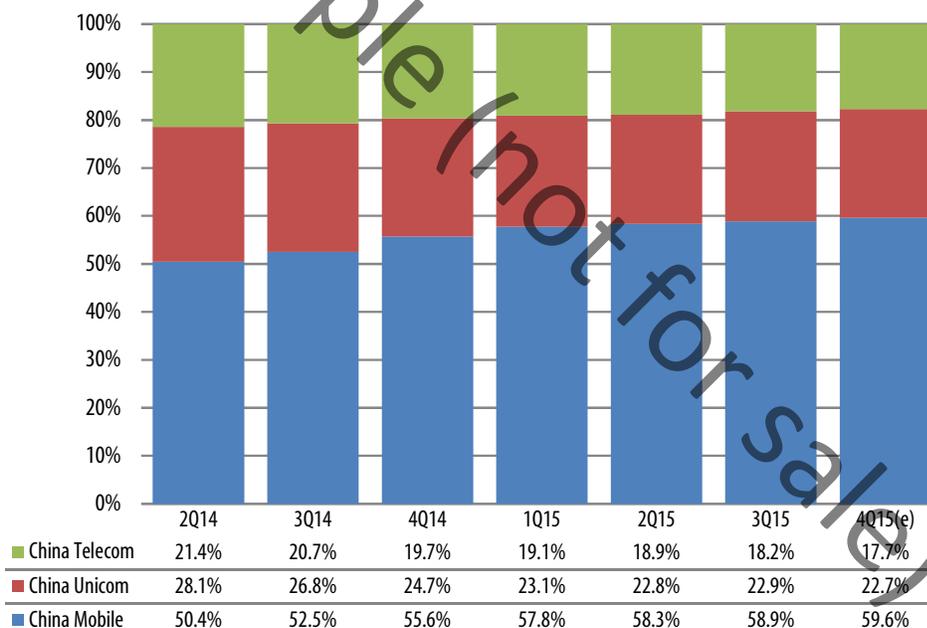
Chart 12: China telecom carrier subscriber share, 4Q14-4Q15



Source: Digitimes Research, February 2016

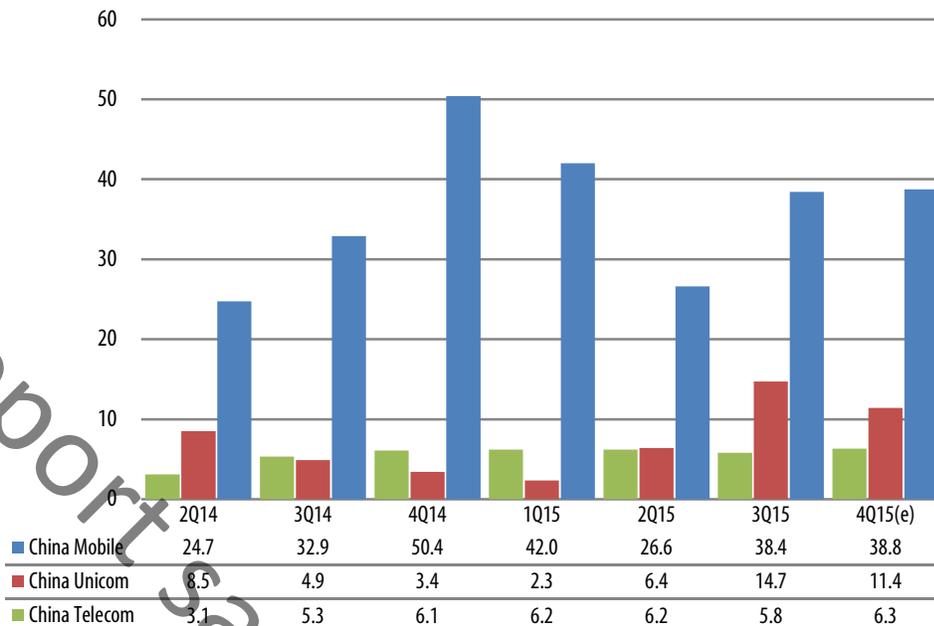
Chart 13: China telecom carriers' number of 3G+4G subscribers, 2014-4Q15 (m users)

Source: Digitimes Research, February 2016

Chart 14: China telecom carriers share of 3G+4G subscribers, 2014-4Q15 (m users)

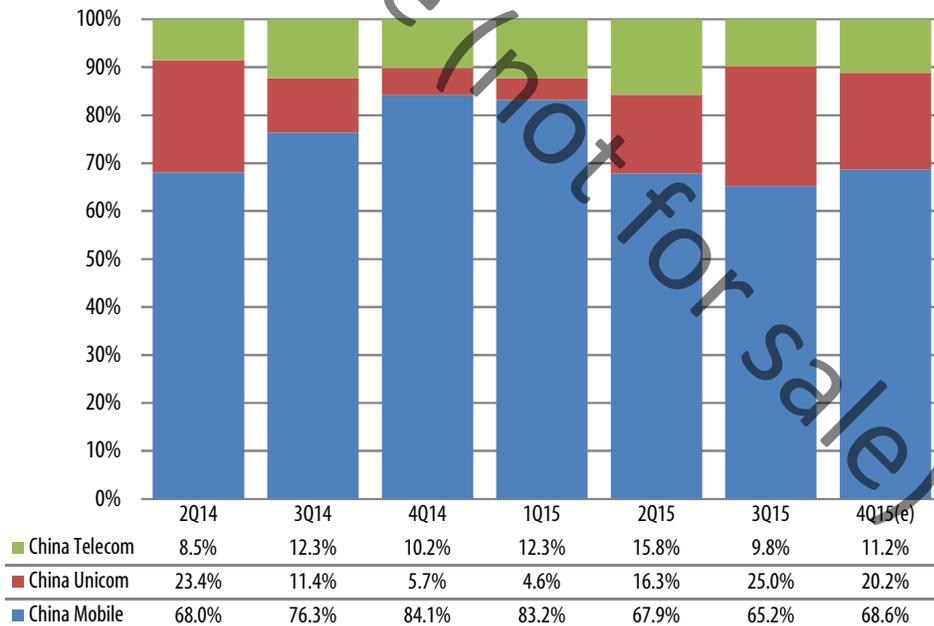
Source: Digitimes Research, February 2016

Chart 15: China telecom carriers' number of increased 3G+4G subscribers, 2014-4Q15 (m users)



Source: Digitimes Research, February 2016

Chart 16: China telecom carriers' share of increased 3G+4G subscribers, 2014-4Q15 (m users)



Source: Digitimes Research, February 2016

China smartphone industry

According to Digitimes Research's interviews within the upstream and downstream smartphone supply chain conducted in December 2015, the China domestic sales channels began to digest excess inventory at the end of the third quarter. Furthermore, China Mobile kicked off another round of subsidy promotion driving the transition from 2G to 4G in rural villages, boosting sales of ultra-low cost models. In addition, with the fourth quarter being a traditional high season in overseas markets, total shipments by China-based makers showed growth of 8.8% on quarter and 18.3% on year.

Based on Digitimes Research statistics, China-based makers shipped a total of 154.2 million smartphones in the fourth quarter of 2015. In terms of exports, with China brands gaining market share in India, SE Asia, East Europe, Russia and South America and orders from local brands in emerging markets also trending up, overseas shipments reached 69 million units, up 11.4% on quarter and 25.6% on year.

Huawei, Xiaomi, TCL, Oppo and BBK are the top five China-based makers, each shipping more than 10 million smartphones in the fourth quarter of 2015. Huawei, in first place, delivered a total of over 27 million units.

Looking forward to the first quarter of 2016, with the high season effect in overseas markets coming to an end and the China domestic market digesting part of the inventory the sales channels accumulated at the end of 2015, Digitimes Research expects smartphone shipments by China-based makers to drop by over 20% on quarter.

Key factors affecting the China smartphone market

Key factors affecting China smartphone shipments in second-quarter 2014:

Supply side

Brand makers: With sales of Hongmi Note 2 and Note 3, Xiaomi's year-end shipments were on the rise. TCL showed further growth momentum, benefiting from the high season effect in overseas markets. Lenovo's share of overseas shipments continued to expand but there was little improvement in its domestic sales, impacting its overall numbers. Huawei, with its lineup of high-end, mid-range and entry-level phones hitting the market one after another, delivered continued growth in total shipments.

Shipments by Oppo, BBK and Meizu further increased as their China domestic sales kept trending up.

With the ongoing price war between 3G and 4G smartphone chips and dropping costs of mobile DRAM as well as HD and FHD display panels, China-based makers are offering low-cost 4G phones with higher specs in both domestic and overseas markets.

Table 3: Key factors affecting the 4Q15 China smartphone industry (Supply)

Factor		Item	Analysis	Influence on shipments
Supply	Supply chain	Component supply	Costs of chipset solutions, memory and display panels continue to drop.	↑ ★
	Brand makers	Xiaomi	Xiaomi boosts shipments with existing Hongmi Note and new models.	↑ ★★★
		TCL	High season effect in overseas markets boosts sales.	↑ ★★★
		Lenovo	The growth in overseas shipments is not enough to compensate for the drop in domestic sales.	↓ ★★★
		Huawei	Newly launched models hitting the market boost overall shipments.	↑ ★★★★★
	Rising stars	Oppo, BBK and Meizu, originally Tier-2 vendors, are performing well with shipment numbers on the rise.	↑ ★★★★★	
Small brand makers and white-box vendors	Overseas shipments	Overseas markets enter high season. Orders from local brands in emerging markets are showing growth.	↑ ★★★	

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

Source: Digitimes Research, February 2016

Demand side

China Mobile kicked off another round of promotion encouraging 2G users in rural villages to make the switch to 4G with subscription plans and phone purchase subsidies for 2G subscribers with a low budget to buy ultra-low cost entry-level 4G phones and upgrade to 4G service.

Smartphone vendors captured the Singles' Day (Nov 11) online shopping opportunities which resulted in a short-term sales boost. Off-line sales channels also seized the wave and offered discounts before and after Singles' Day to attract buyers.

Certain vendors saw sales in developed countries grow as a result of their efforts in enhancing brand image and product reputation.

Overseas markets entered their traditional high season, driving up shipments.

Table 4: Key factors affecting the 4Q15 China smartphone industry (Demand)

Factor		Item	Analysis	Influence on shipments
Demand	Domestic market	Telecom operators' sales strategies	Operators encouraging 2G subscribers to switch to 4G in rural villages drives up low-cost phone sales.	↑ ★★★
		Online sales	E-commerce promotion for Singles' Day shopping frenzy	↑ ★★★
	Overseas markets	Emerging markets	Demand for low-cost 3G and 4G smartphones continues to grow.	↑ ★★★★★
		Mature markets	Makers with positive brand image and product reputation see their sales grow.	↑ ★
		Seasonality	Overseas markets enter high season.	↑ ★★★★★

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

Source: Digitimes Research, February 2016

Shipment breakdown

According to Digitimes Research's interviews with the smartphone supply chain vendors, starting from the end of the third quarter, the China domestic market has mostly resolved issues of excess inventory from late 2014 to early 2015. Furthermore, China Mobile kicked off another round of promotions driving the transition from 2G to 4G in rural villages, boosting the sales of ultra-low cost models. In addition, with the fourth quarter being a traditional high season in overseas markets, total shipments by China-based makers reached 154.2 million units, up of 8.8% on quarter and 18.3% on year.

Looking forward to the first quarter of 2016, with the high season in overseas markets coming to an end and the China domestic market digesting part of the inventory the sales channels accumulated in the previous quarter in anticipation of year-end sales, Digitimes Research expects smartphone shipments by China-based vendors to drop by over 20% on quarter.

Chart 17: China smartphone industry shipments, 3Q14-1Q16 (m units)



Source: Digitimes Research, February 2016

Shipments by maker

The top five China-based smartphone makers in terms of fourth quarter shipments include Huawei, Xiaomi, TCL, Oppo and BBK, each delivering over 10 million units.

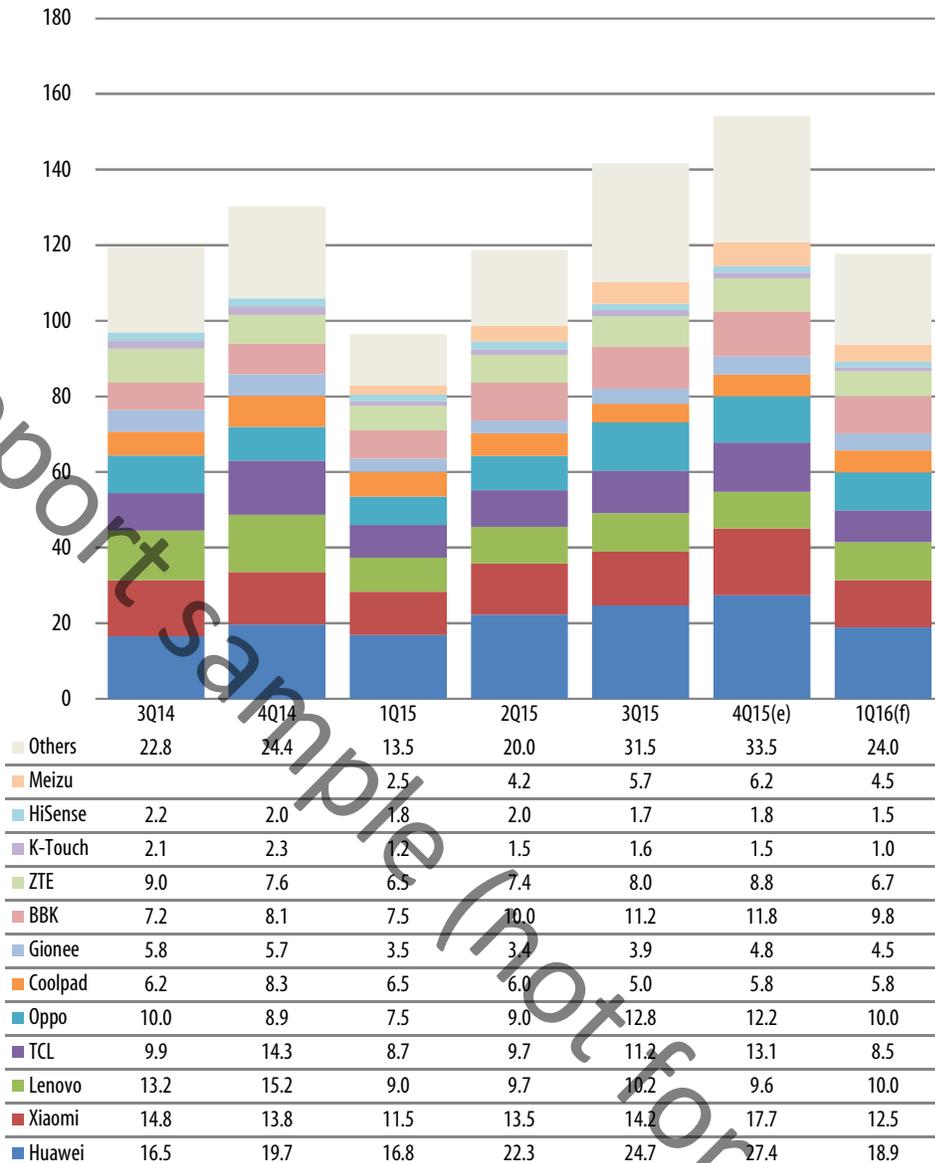
Huawei's quarterly shipments reached 27.4 million units, which can be attributed to new models hitting the market, including high-end Mate S and Mate 8, mid-range G7 Plus and entry-level Enjoy 5/5S and Honor Play 5X.

Benefitting from the steadily hot-selling Hongmi Note 2 launched in mid third quarter and the new Hongmi Note 3 hitting the market, Xiaomi recorded a total shipment of 17.7 million phones in this quarter.

TCL shipped 13.1 million units thanks to high season effects in overseas markets.

Oppo and BBK delivered growing physical channel sales in the local China market, respectively shipping 12.2 million and 11.8 million units.

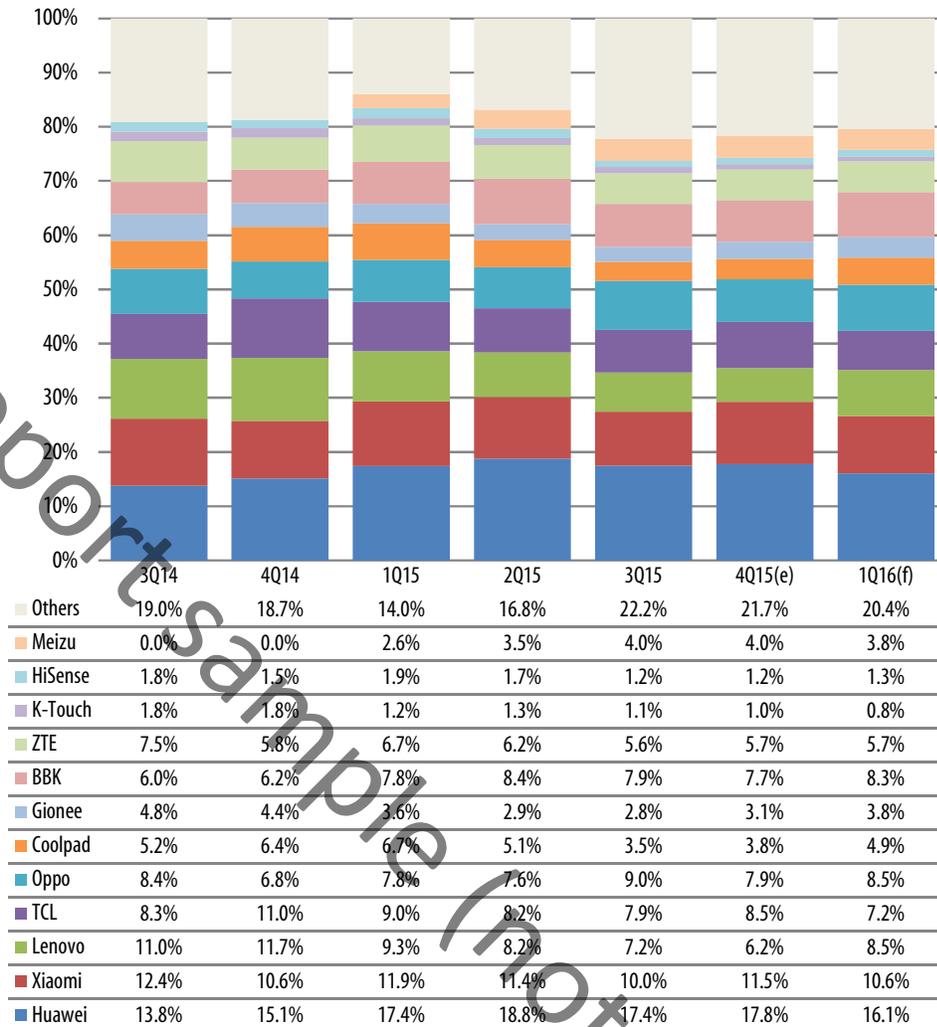
Digitimes Research expects Huawei, Xiaomi, Lenovo and Oppo to ship over 10 million units in the first quarter of 2016.

Chart 18: Shipments by China players, 3Q14-1Q16 (m units)

Source: Digitimes Research, February 2016

In terms of shipment shares for China-based smartphone makers in the fourth quarter of 2015, Huawei, holding a 17.8% share, ranked first. Xiaomi follows at second with an 11.5% share. TCL, Oppo and BBK respectively at third, fourth and fifth place, accounted for 8.5%, 7.9% and 7.7% of the shipments. The top five together take up a 53.3% share.

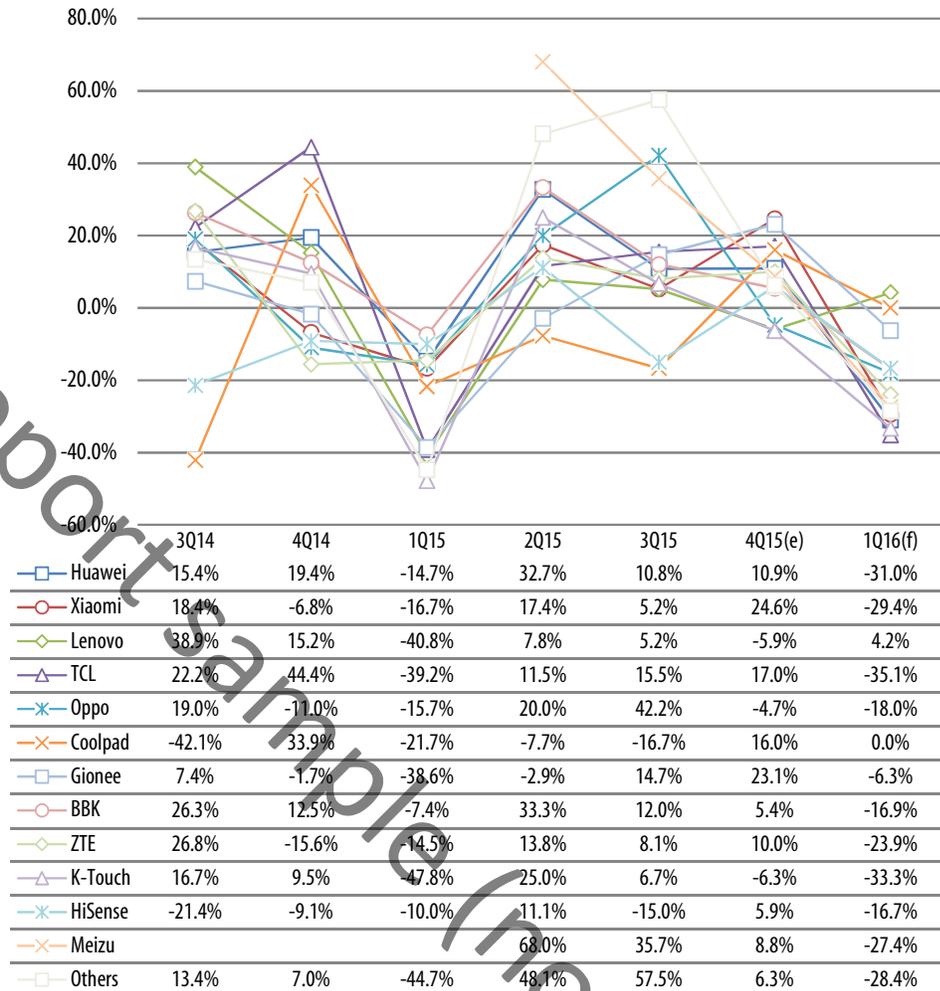
Chart 19: Shipment share by China players, 3Q14-1Q16



Source: Digitimes Research, February 2016

Most China-based smartphone makers saw their shipments grow in the fourth quarter of 2015. Among them, Xiaomi, Gionee, TCL, Coolpad, Huawei and ZTE delivered double-digit growth.

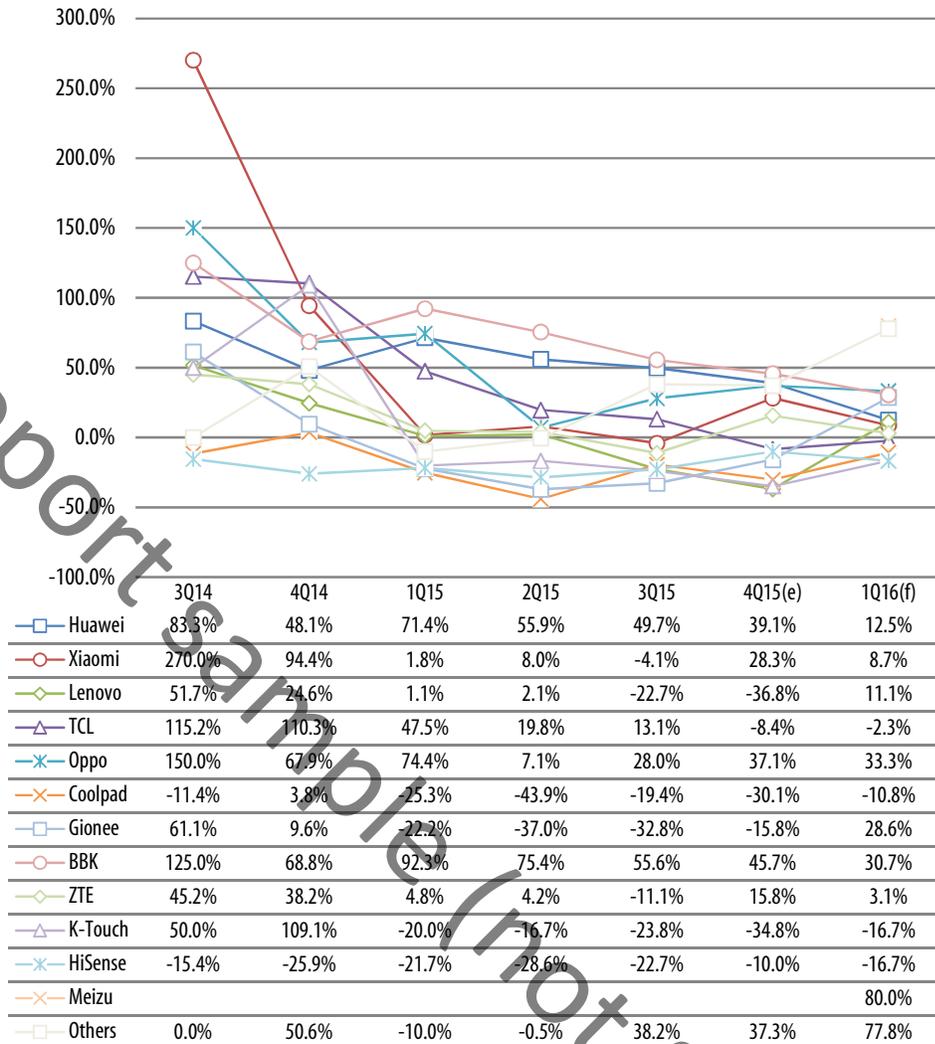
Chart 20: Q/Q shipment growth by China players, 3Q14-1Q16



Source: Digitimes Research, February 2016

BBK, Huawei and Oppo delivered yearly growth of 45.7%, 39.1% and 37.1% respectively in the fourth quarter of 2015 while Lenovo, Coolpad and K-Touch shipments slipped by over 30% on year.

Chart 21: Y/Y shipment growth by China players, 3Q14-1Q16

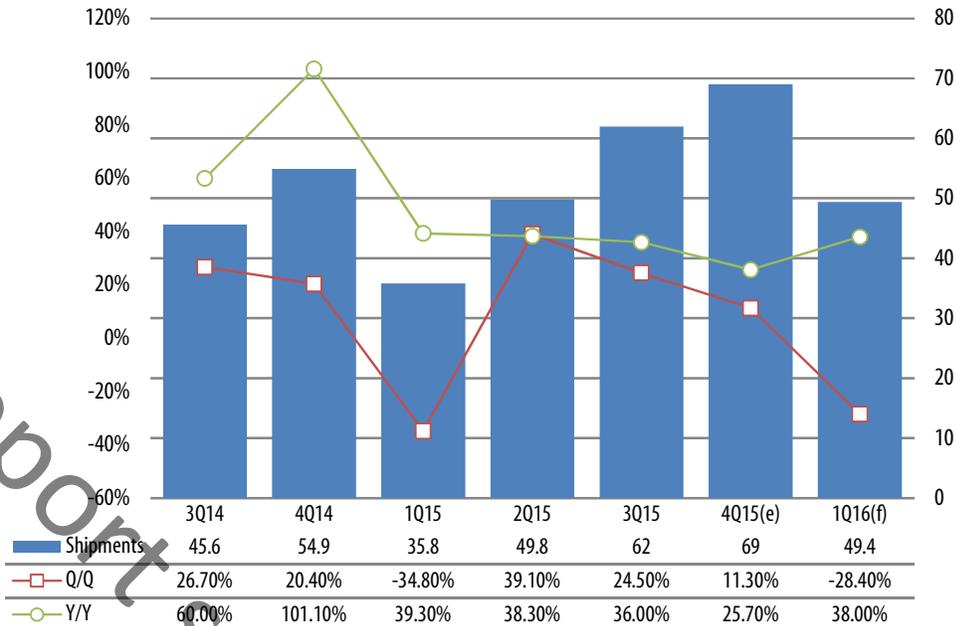


Source: Digitimes Research, February 2016

Exports

Overseas markets entered the high season in the fourth quarter of 2015. With China brands gaining market shares in India, SE Asia, East Europe, Russia and South America and orders from local brands in emerging markets also trending up, overseas shipments reached 69 million units, up 11.4% on quarter and 25.6% on year.

With the high season in overseas markets coming to an end, there will be a decrease in orders so Digitimes Research expects overseas shipments by China-based makers in the first quarter of 2016 to drop to 49.4 million units, down 28.4% on quarter.

Chart 22: China smartphone industry's export shipments, 3Q14-1Q16 (m units)

Source: Digitimes Research, February 2016

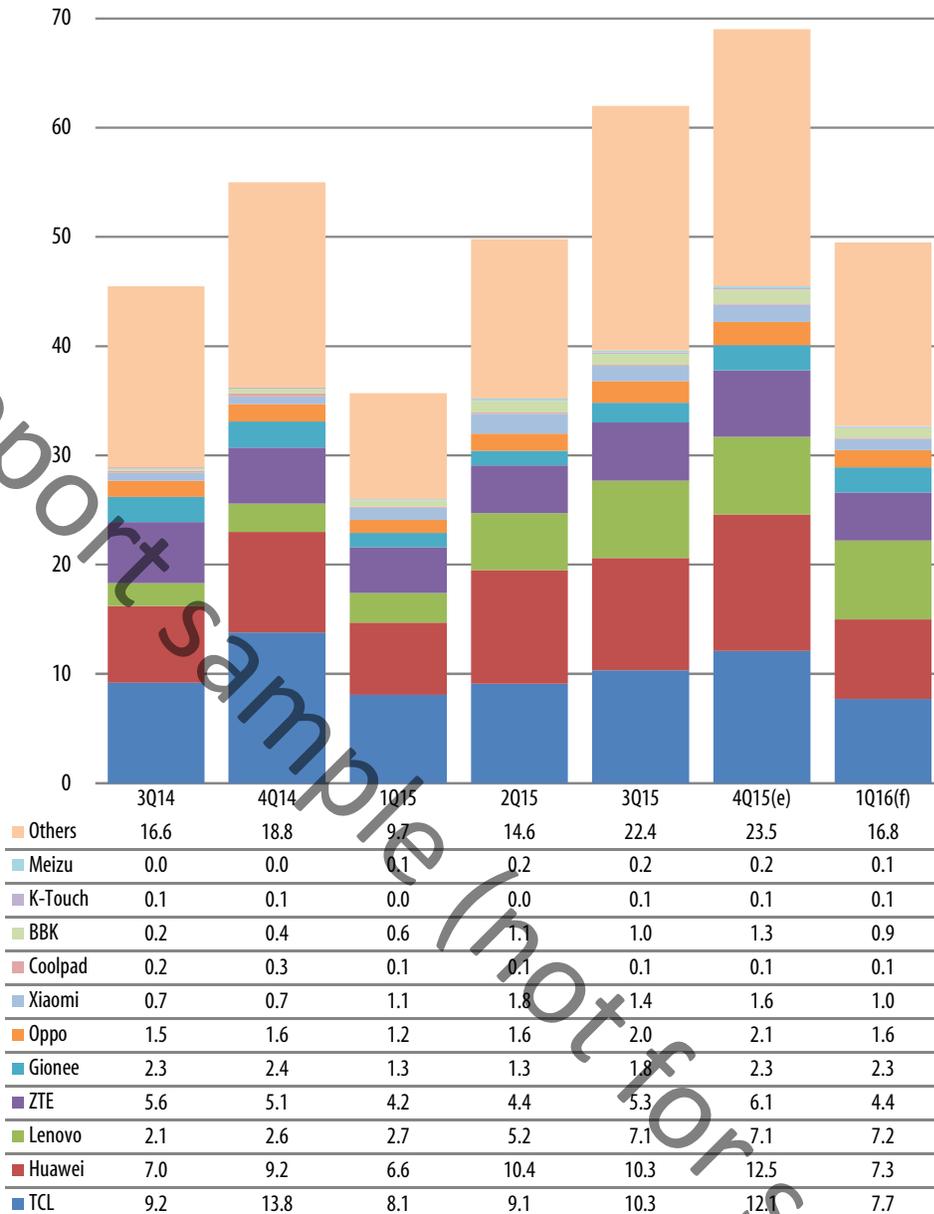
Most China-based makers' overseas shipments continued growing as overseas markets entered the traditional high season in the fourth quarter of 2015.

TCL, often the first-place holder in terms of overseas shipments, showed a yearly decrease in overall fourth quarter shipments. As TCL expanded operations in the China local market, its ranking dropped to second despite the 12.1 million overseas shipments.

Compared to the third quarter, Huawei increased its share of overseas shipments in the fourth quarter and grabbed the first place with 12.5 million units.

Looking forward to the first quarter of 2016, there will be a decrease in orders from overseas sales channels. Digitimes Research expects to see a significant quarterly decrease in overseas shipments by most China-based brands, ODM and IDH vendors.

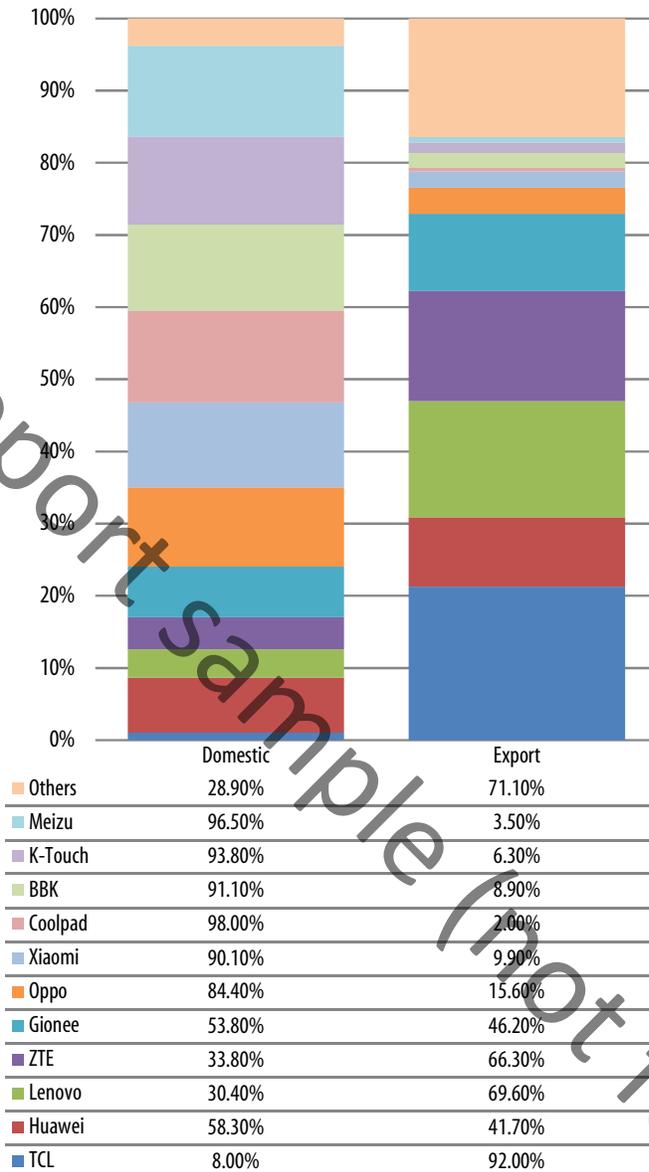
Chart 23: Export shipments by China player, 3Q14-1Q16 (m units)



Source: Digitimes Research, February 2016

As overseas smartphone markets entered the fourth quarter high season, most China-based makers had a higher percentage of overseas shipments compared to the previous quarter. Lenovo, with no obvious improvement in domestic sales, is actively targeting India, SE Asia and Russia so its overseas shipments grew to account for over 70% in the fourth quarter.

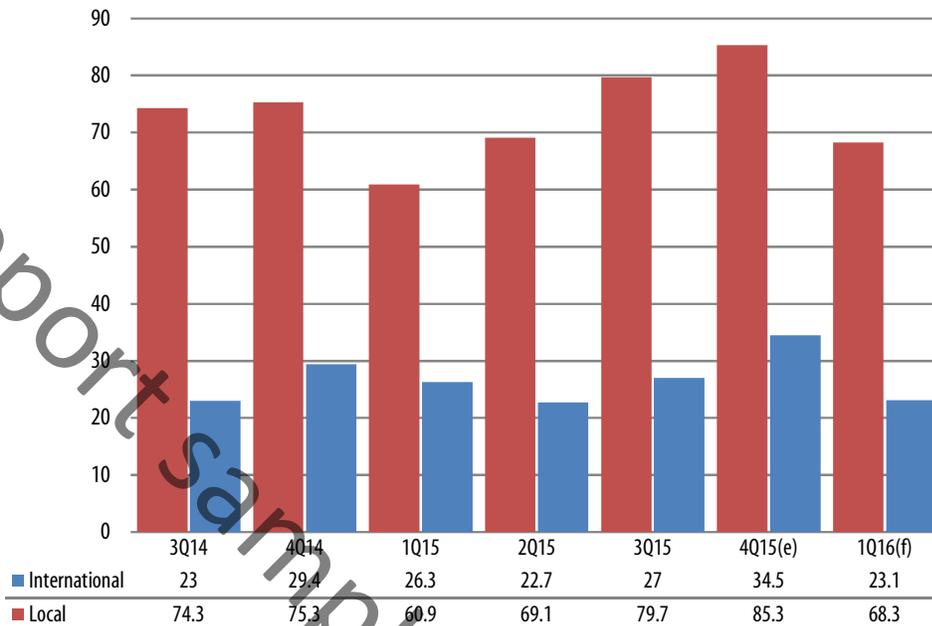
Looking forward to the first quarter of 2016, as overseas markets enter the low season, China-based makers are actively preparing inventory to respond to domestic demand arising from the Chinese New Year. Digitimes Research expects that most makers will see a shrinking share of overseas shipments in the first quarter.

Chart 24: Export shipment share by China player, 4Q15


Source: Digitimes Research, February 2016

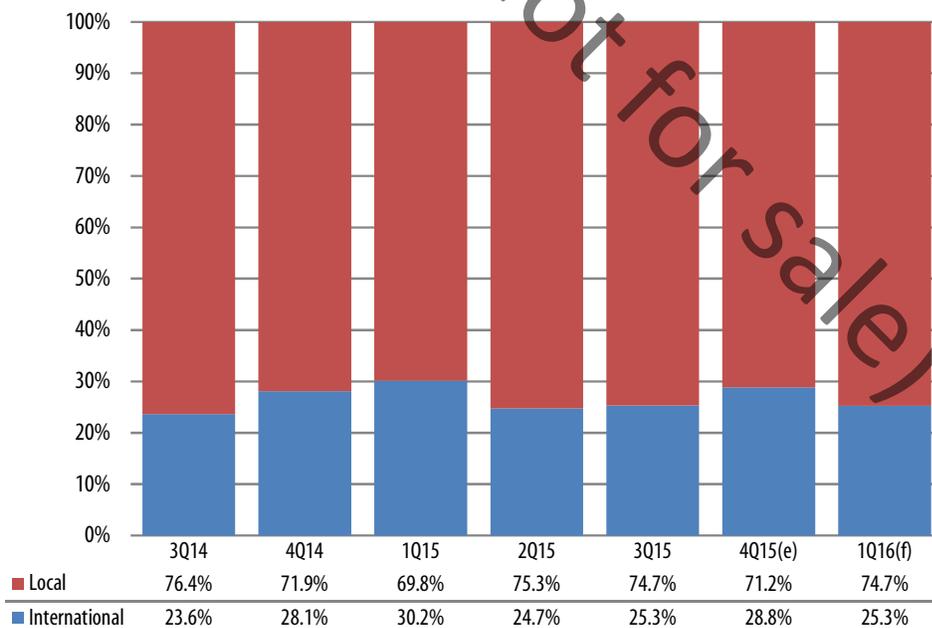
Extra charts

Chart 25: China smartphone market shipments - international and local brands, 3Q14-1Q16 (m units)



Source: Digitimes Research, February 2016

Chart 26: China smartphone market share - international and local brands, 3Q14-1Q16 (m units)



Source: Digitimes Research, February 2016