DIGITIMES Research: China Smartphone Tracker – 4Q 2016

China smartphone market and industry

Report sample (not for sale)

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China smartphone market

Digitimes Research collected data from assorted players in the smartphone supply chain and distribution sales chain in Greater China area in December 2016 and we estimate shipments in China's smartphone market in the fourth quarter of 2016 reached 124.2 million units showing on-quarter growth of 8% and on-year growth of 5.3%.

China Mobile continued to encourage users to switch from 2G/3G to 4G with subsidies on procuring new 4G devices in December 2016 while small-size brands and white-box makers (mostly in the Southern China region) and even some larger brands continued to develop a price-friendly and entry-level 4G device market. The combined shipments from international firms showed a rebound in growth as Apple began sales of the iPhone 7 and iPhone 7 Plus.

The top five firms in China's smartphone market in fourth-quarter 2016 (based on sales volume) were Oppo, BBK (brand name Vivo), Apple, Huawei, and Gionee. In particular, Oppo and BBK continued to be ranked first and second place. Xiaomi, who has been a regular within the top five spots, fell out of the top five in the fourth quarter of 2016 due to continued falling sales.

Digitimes Research predicts that since inventories are estimated to have been high at the end of 2016, so shipments in first-quarter 2017 are going to fall to 100 million units, showing an on-quarter drop of 19.3% and an on-year decrease. The top three firms based on market share are expected to be Oppo, BBK, and Huawei.

Key factors affecting the China smartphone market

Key factors affecting China smartphone market shipments in fourth-quarter 2016:

Vendors (China-based/International brands)

International vendors:

Fourth-quarter 2016 was the first full quarter for the new iPhone 7 and iPhone 7 Plus and the overall shipments by Apple increased significantly.

Samsung continued to be affected by Galaxy Note 7 defects, hence sales and shipments continued to drop.

China-based brand vendors:

Compared to third-quarter 2016, Huawei saw shipments increase due to the launch of a new flagship model.

For Xiaomi, the Hongmi series continued to experience a sales drop plus inconsistent shipments of new models Mi Mix and Mi Note due to component shortages affected fourth-quarter 2016 shipments and the vendor showed a significant decrease.

Oppo and BBK continued to expand physical retail shops in first-tier cities so their shipments continued to increase.

Shipments from small-size brands and white-box makers that are mostly located in Southern China and mainly use Alibaba Cloud OS increased in the fourth quarter 2016.

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Table 1: Key vendor factors affecting 4Q16 smartphone shipments in China

Factor		Item	Analysis	Influence on shipments
Vendor	International brands	Samsung	Continued to be affected by the Galaxy Note 7 defects hence sales and shipments decreased	↓★
		Apple	Fourth-quarter 2016 was the first full quarter of iPhone 7 and iPhone 7 Plus hence the firm saw overall shipments increase.	↑★★★
	China-based makers	Xiaomi	Sales of Hongmi series continued to fall while new models faced inconsistent shipments.	↓★★
		Huawei	New flagship model was introduced and this stimulated domestic shipments.	↑★★★
		Retail channel dominators	Oppo and BBK continued to expand physical shops in first-tier cities.	↑★★★★
		White box vendors	Shipments of low-cost 4G phones with YunOS by small vendors continued to increase	↑★★

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates a positive influence.
Source: Digitimes Research, February 2017

Market/Customer requirements

Market/consumer demand:

China Mobile continued to encourage users to switch from 2G/3G to 4G with subsidies on procuring new 4G devices in December 2016 plus small-size brands and white-box makers (mostly in the Southern China region) and some brands continued to develop for the price-friendly and entry-level 4G device market.

Growth is limited as the penetration rate of smartphones is already high in first- and second-tier cities and sales can only be generated through consumers switching devices.

Table 2: Key trends affecting smartphone shipments to China in 4Q16

Factor		Item	Analysis	Influence on shipments
Demand	Telecom operator subsidies	Telecom operators were encouraging 2G/3G to 4G user transition.	China Mobile continued to encourage users to switch from 2G/3G to 4G with subsidies on procuring new 4G devices in December 2016 plus small-size brands and white-box makers (mostly in the Southern China region) and some brands continued to develop the price-friendly and entry-level 4G device market.	↑★★★
	Market/ product	Smartphones already have high penetration.	Sales growth is difficult for first- and second-tier cities.	↓★
		Low-price 4G models enhanced specs while prices stay the same	China-based firms continue to improve price-performance ratio of low-price entry-level 4G devices.	↑★★

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates a positive influence.
Source: Digitimes Research, February 2017

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Shipment breakdown

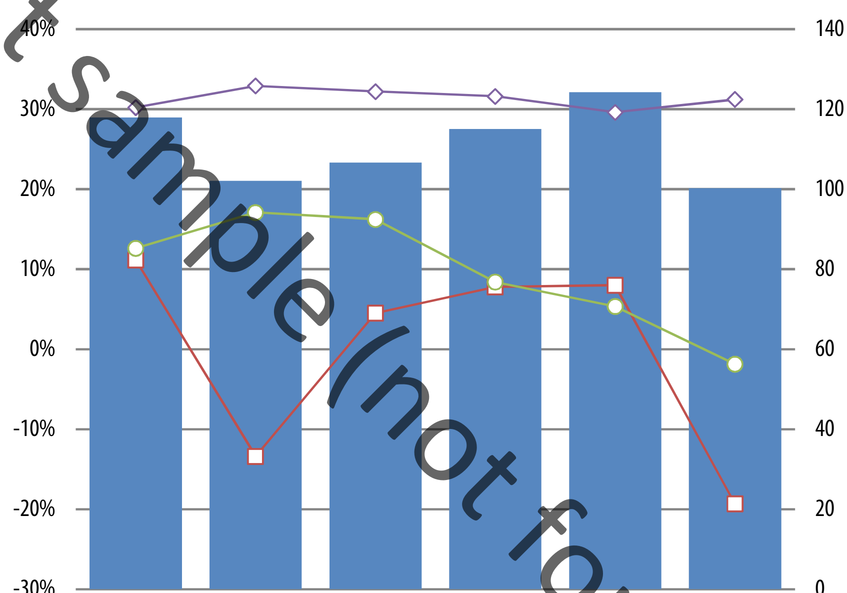
In fourth-quarter 2016, China's smartphone shipments reached 124.2 million units with an on-quarter increase of 8% and an on-year increase of 5.3%. However, the shipment share in the global market fell to 29.6%.

Top three telecom carriers saw the combined total of new 4G users reach 84.40 million in fourth-quarter 2016, lower than the 86 million in third-quarter 2016.

Among China-based firms, some brands, small-size brands and white-box makers from Southern China continued to increase shipments of entry-level to mid-range 4G handsets and by the end of the fourth quarter of 2016, inventory level in the distribution channels increased significantly. This is due to market competition.

Digitimes Research believes as inventory level at the end of 2016 were high, shipments of China smartphones in first-quarter 2017 will be lower compared to first-quarter 2016. The figure is expected to be around 100 million units with an on-quarter drop of 19.3%.

Chart 1: China smartphone market shipments, 4Q15-1Q17 (m units)



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
China shipment	117.9	102.1	106.7	115.0	124.2	100.2
Q/Q	11.1%	-13.4%	4.5%	7.8%	8.0%	-19.3%
Y/Y	12.6%	17.1%	16.2%	8.4%	5.3%	-1.9%
WW share	30.2%	32.9%	32.2%	31.6%	29.6%	31.2%

Source: Digitimes Research, February 2017

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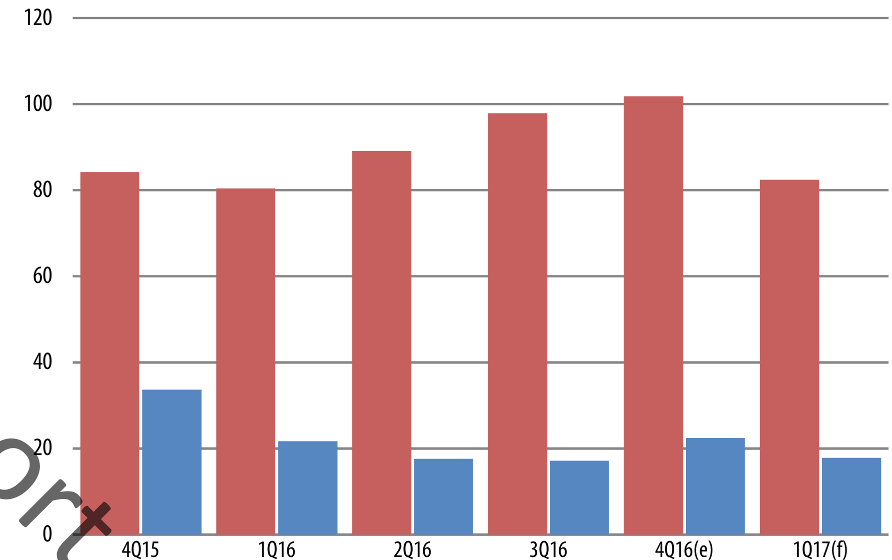
Chart 2: China smartphone market shipments - international and local brands, 4Q15-1Q17 (m units)



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
International	33.7	21.7	17.6	17.1	22.4	17.8
Local	84.2	80.4	89.1	97.9	101.8	82.4

Source: Digitimes Research, February 2017

Chart 3: China smartphone market share - international and local brands, 4Q15-1Q17 (m units)

	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Local	71.4%	78.7%	83.5%	85.1%	82.0%	82.2%
International	28.6%	21.3%	16.5%	14.9%	18.0%	17.8%

Source: Digitimes Research, February 2017

Report sample (not for sale)

China-based smartphone vendors

Top five China-based firms based on domestic shipments in fourth-quarter 2016 were Oppo, BBK, Huawei, Gionee, and Xiaomi. Top two firms both saw shipments exceeding 20 million units.

Oppo and BBK continued to expand retail shops in first-tier cities and in fourth-quarter 2016, the firms saw domestic shipments reach 25.2 million units and 23.2 million units respectively.

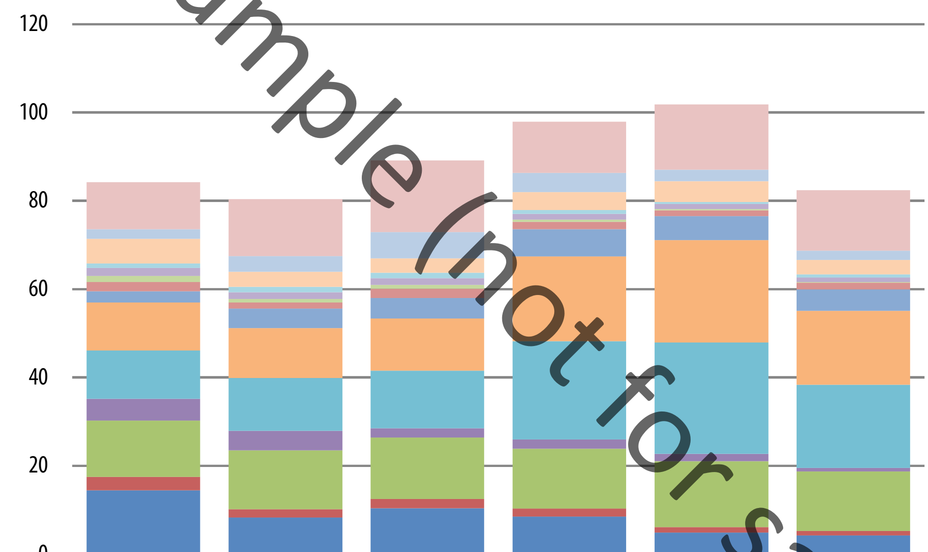
Huawei introduced a new flagship handset in fourth-quarter 2016 hence fourth-quarter 2016 domestic shipments grew on quarter and reached 14.9 million units.

Gionee had shipments beyond market demand in third-quarter 2016 causing inventory to be high hence fourth-quarter 2016 shipments fell to 5.4 million units.

Xiaomi saw fourth-quarter 2016 shipments fell to 4.9 million units as the low price Hongmi series faced declining sales in China plus the company had inconsistent shipments of new models Mix and Note 2.

Oppo and BBK are expected to see shipments in first-quarter 2017 show on-quarter decreases compared to fourth-quarter 2016 but the on-year increases are expected to be significant.

Chart 4: China smartphone market shipments, by China-based players, 4Q15-1Q17 (m units)

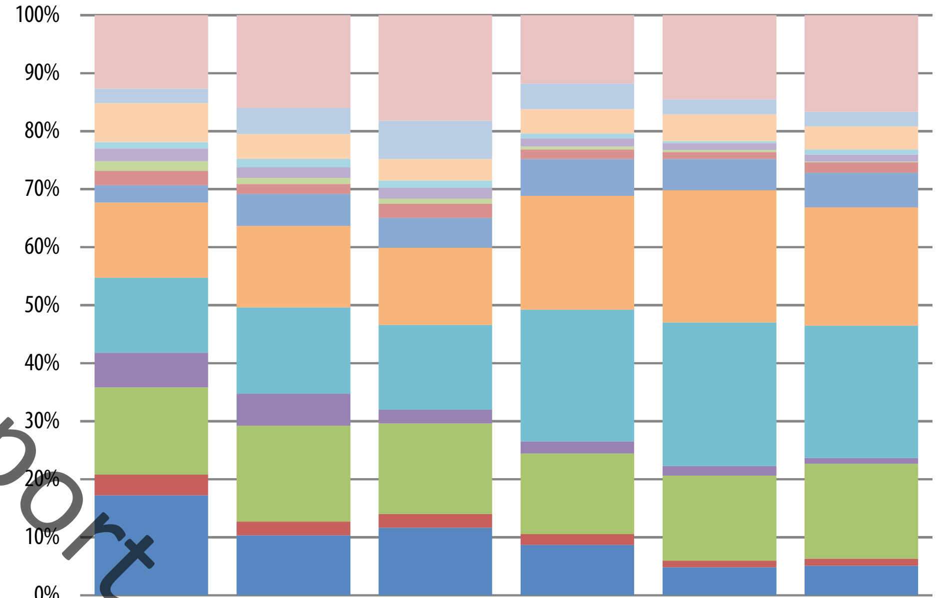


	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Others	10.7	12.9	16.2	11.6	14.8	13.7
LeEco	2.1	3.6	5.9	4.3	2.6	2.1
Meizu	5.6	3.4	3.3	4.1	4.7	3.3
TCL	1.0	1.2	1.2	0.8	0.4	0.7
HiSense	1.8	1.5	1.6	1.4	1.2	1.0
K-Touch	1.4	0.8	0.8	0.5	0.3	0.1
ZTE	2.1	1.4	2.1	1.6	1.3	1.5
Gionee	2.5	4.4	4.6	6.2	5.4	4.9
BBK	10.9	11.3	11.9	19.2	23.2	16.8
Oppo	10.9	12.0	13.0	22.2	25.2	18.8
Coolpad	5.0	4.4	2.1	2.1	1.7	0.8
Huawei	12.7	13.3	13.9	13.6	14.9	13.5
Lenovo	3.0	1.9	2.1	1.8	1.2	1.0
Xiaomi	14.5	8.3	10.4	8.5	4.9	4.2

Source: Digitimes Research, February 2017

Report sample (not for sale)

Chart 5: China smartphone market shipment share, by China-based players, 4Q15-1Q17



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Others	12.7%	16.0%	18.2%	11.8%	14.5%	16.6%
LeEco	2.5%	4.5%	6.6%	4.4%	2.6%	2.5%
Meizu	6.7%	4.2%	3.7%	4.2%	4.6%	4.0%
TCL	1.2%	1.5%	1.3%	0.8%	0.4%	0.8%
HiSense	2.1%	1.9%	1.8%	1.4%	1.2%	1.2%
K-Touch	1.7%	1.0%	0.9%	0.5%	0.3%	0.1%
ZTE	2.5%	1.7%	2.4%	1.6%	1.3%	1.8%
Gionee	3.0%	5.5%	5.2%	6.3%	5.3%	5.9%
BBK	12.9%	14.1%	13.4%	19.6%	22.8%	20.4%
Oppo	12.9%	14.9%	14.6%	22.7%	24.8%	22.8%
Coolpad	5.9%	5.5%	2.4%	2.1%	1.7%	1.0%
Huawei	15.1%	16.5%	15.6%	13.9%	14.6%	16.4%
Lenovo	3.6%	2.4%	2.4%	1.8%	1.2%	1.2%
Xiaomi	17.2%	10.3%	11.7%	8.7%	4.8%	5.1%

Source: Digitimes Research, February 2017

Among firms that focus on the China market, Xiaomi and LeTV saw fourth-quarter 2016 shipments show severe on-quarter decrease of 42.4% and 39.5% respectively.

In first-quarter 2017, Xiaomi and LeTV are expected to see shipments show on-quarter drops again by 14% and 19% respectively.

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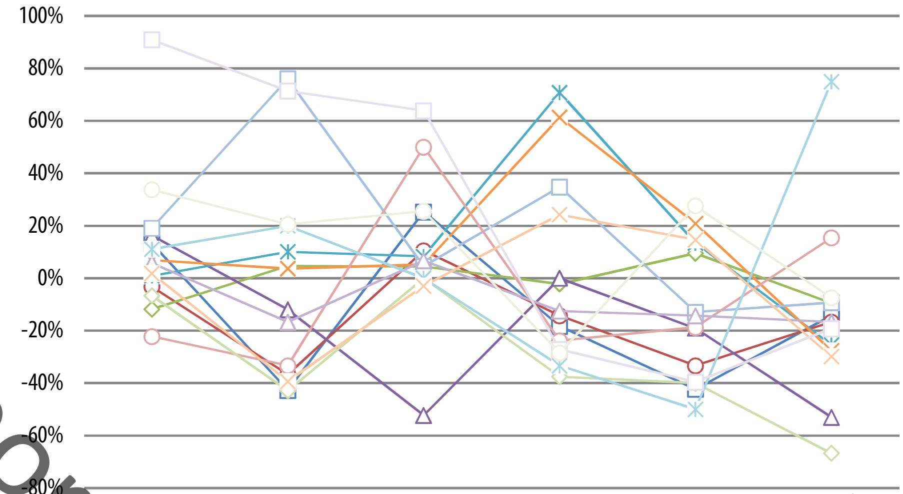
Chart 6: China smartphone market shipment growth by quarter by China-based players, 4Q15-1Q17



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Xiaomi	13.3%	-42.8%	25.3%	-18.3%	-42.4%	-14.3%
Lenovo	-3.2%	-36.7%	10.5%	-14.3%	-33.3%	-16.7%
Huawei	-11.8%	4.7%	4.5%	-2.2%	9.6%	-9.4%
Coolpad	16.3%	-12.0%	-52.3%	0.0%	-19.0%	-52.9%
Oppo	0.9%	10.1%	8.3%	70.8%	13.5%	-25.4%
BBK	6.9%	3.7%	5.3%	61.3%	20.8%	-27.6%
Gionee	19.0%	76.0%	4.5%	34.8%	-12.9%	-9.3%
ZTE	-22.2%	-33.3%	50.0%	-23.8%	-18.8%	15.4%
K-Touch	-6.7%	-42.9%	0.0%	-37.5%	-40.0%	-66.7%
HiSense	5.9%	-16.7%	6.7%	-12.5%	-14.3%	-16.7%
TCL	11.1%	20.0%	0.0%	-33.3%	-50.0%	75.0%
Meizu	1.8%	-39.3%	-2.9%	24.2%	14.6%	-29.8%
LeEco	90.9%	71.4%	63.9%	-27.1%	-39.5%	-19.2%
Others	33.8%	20.6%	25.6%	-28.4%	27.6%	-7.4%

Source: Digitimes Research, February 2017

International vendors

The combined shipments of international brands to the China market in fourth-quarter 2016 showed on-quarter growth of 31%, reaching 22.4 million units. The shipment share of international brands in the China market returned to 18% but is still far smaller compared to the shipment share of 28.6% in fourth-quarter 2015.

Digitimes Research predicts as the initial effect of Apple's new model wanes in first-quarter 2017, shipments of international brands to the China market will fall to 17.8 million units.

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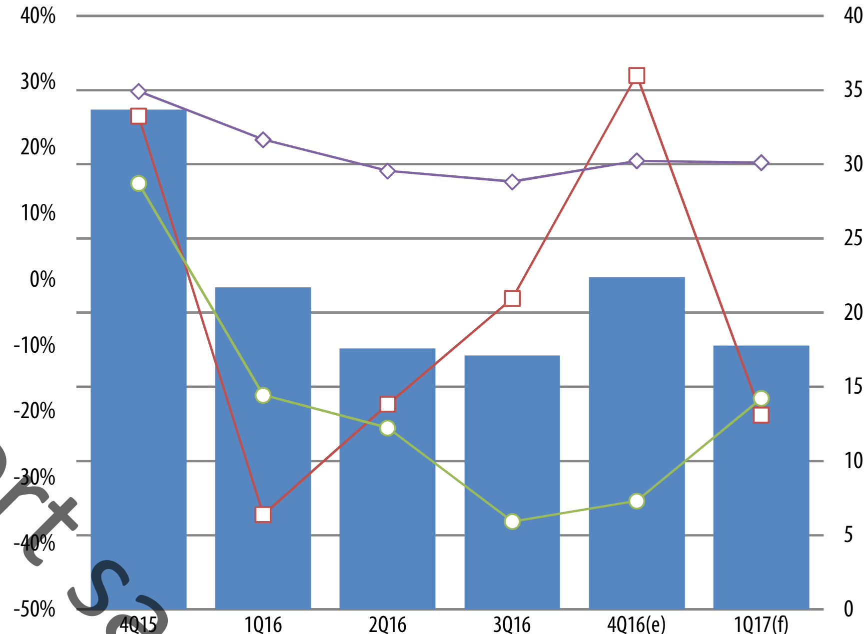
Chart 7: International brand smartphone shipments in China market, 4Q15-1Q17 (m units)



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Shipments	33.7	21.7	17.6	17.1	22.4	17.8
Q/Q	24.8%	-35.6%	-18.9%	-2.8%	31.0%	-20.5%
Y/Y	14.6%	-17.5%	-22.5%	-36.7%	-33.5%	-18.0%
Market share	28.6%	21.3%	16.5%	14.9%	18.0%	17.8%

Source: Digitimes Research, February 2017

Fourth-quarter 2016 was the first full quarter for Apple's iPhone 7 and iPhone 7 Plus hence the firm saw shipments returned to 16.4 million units but still far fewer compared to shipments in fourth-quarter 2015.

Digitimes Research predicts as demand for iPhone 7 and iPhone 7 Plus isn't strong in China, Apple may see first-quarter 2017 shipments fall to 12.4 million units.

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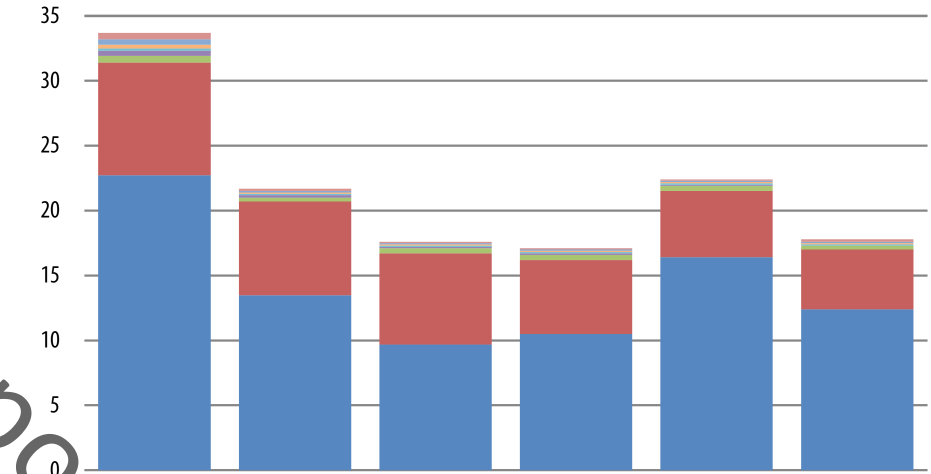
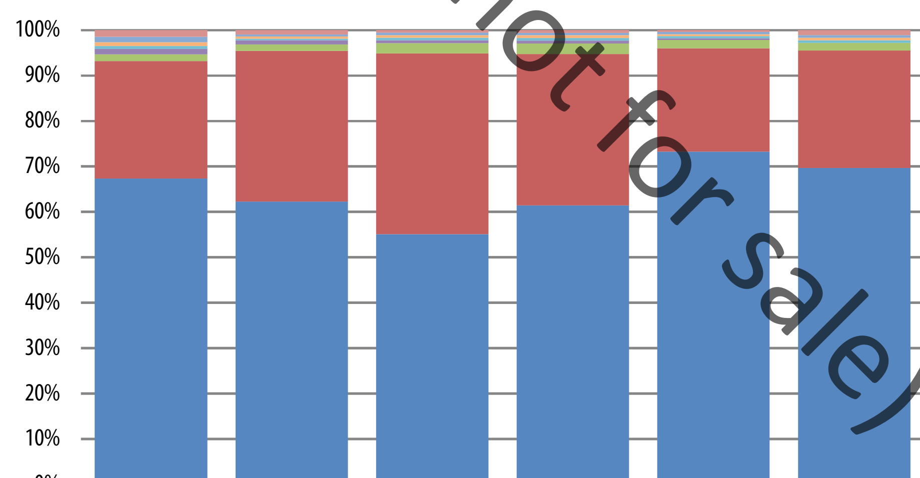
Chart 8: China smartphone market shipments by international brands, 4Q15-1Q17 (m units)



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Others	0.5	0.2	0.1	0.1	0.1	0.2
Motorola	0.4	0.1	0.1	0.1	0.1	0.1
LG	0.3	0.1	0.1	0.1	0.1	0.1
Sony	0.2	0.1	0.1	0.1	0.1	0.1
Microsoft	0.4	0.2	0.1	0.1	0.1	0.0
HTC	0.5	0.3	0.4	0.4	0.4	0.3
Samsung	8.7	7.2	7.0	5.7	5.1	4.6
Apple	22.7	13.5	9.7	10.5	16.4	12.4

Source: Digitimes Research, February 2017

Chart 9: China smartphone market shipment share by international brands, 4Q15-1Q17



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Others	1.5%	0.9%	0.6%	0.6%	0.4%	1.1%
Motorola	1.2%	0.5%	0.6%	0.6%	0.4%	0.6%
LG	0.9%	0.5%	0.6%	0.6%	0.4%	0.6%
Sony	0.6%	0.5%	0.6%	0.6%	0.4%	0.6%
Microsoft	1.2%	0.9%	0.6%	0.6%	0.4%	0.0%
HTC	1.5%	1.4%	2.3%	2.3%	1.8%	1.7%
Samsung	25.8%	33.2%	39.8%	33.3%	22.8%	25.8%
Apple	67.4%	62.2%	55.1%	61.4%	73.2%	69.7%

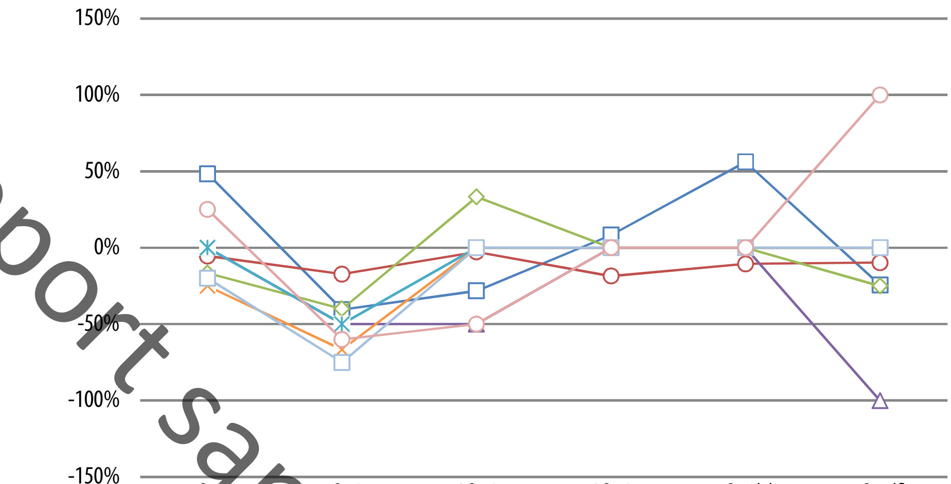
Source: Digitimes Research, February 2017

Report sample (not for sale)

Compared to third-quarter 2016, Apple saw shipments in fourth-quarter 2016 increase by 56.2% on quarter while other international brands showed flat growth and even declines.

Apple's shipments in first-quarter 2017 are expected to show an on-quarter drop of 24% as the previous quarter is a higher base and the popularity of new models begin to decrease.

Chart 10: China smartphone market quarterly shipment growth by international brands, 4Q15-1Q17



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Apple	48.4%	-40.5%	-28.1%	8.2%	56.2%	-24.4%
Samsung	-5.4%	-17.2%	-2.8%	-18.6%	-10.5%	-9.8%
HTC	-16.7%	-40.0%	33.3%	0.0%	0.0%	-25.0%
Microsoft	0.0%	-50.0%	-50.0%	0.0%	0.0%	-100.0%
Sony	0.0%	-50.0%	0.0%	0.0%	0.0%	0.0%
LG	-25.0%	-66.7%	0.0%	0.0%	0.0%	0.0%
Motorola	-20.0%	-75.0%	0.0%	0.0%	0.0%	0.0%
Others	25.0%	-60.0%	-50.0%	0.0%	0.0%	100.0%

Source: Digitimes Research, February 2017

Shipments and market share of all vendors

The Oppo and BBK shipment shares were 20.3% and 18.7% respectively, ranking first and second in the market.

Apple saw its shipment share return to 13.2%, back to third place. Huawei's shipment share was 12%, and the vendor fell to the fourth place.

Gionee's shipment share was 4.3%, making it the last member of the top five.

Xiaomi saw its shipment share drop to 3.9%, and the vendor fell out of the top five and even trailed Samsung, which was facing a large amount of negative press in the fourth quarter.

Digitimes Research believes the top three firms based on shipment share in first-quarter 2017 will be Oppo, BBK and Huawei.

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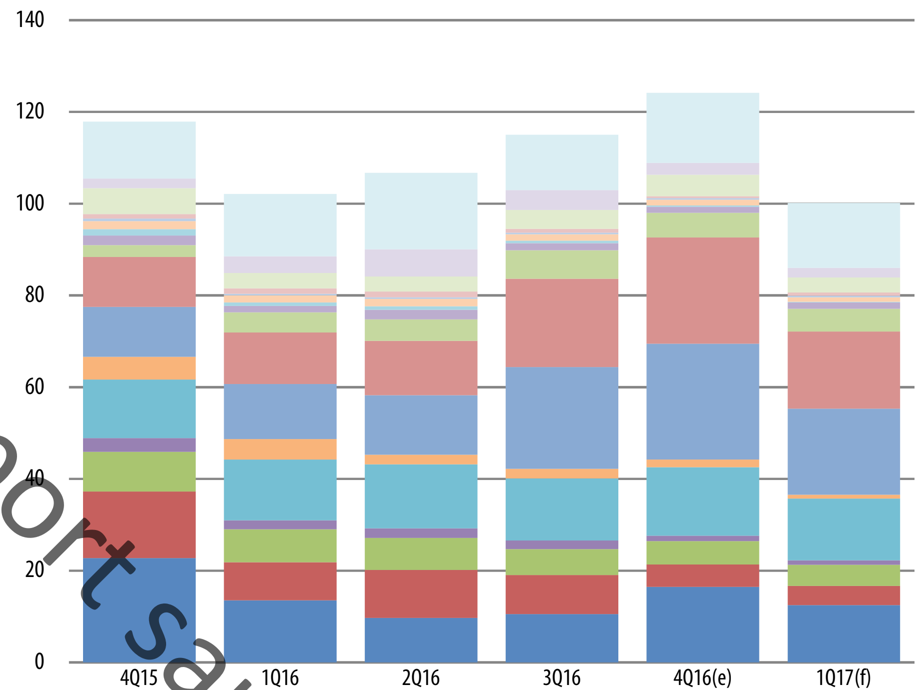
Chart 11: China smartphone market shipments by all vendors, 4Q15-1Q17 (m units)

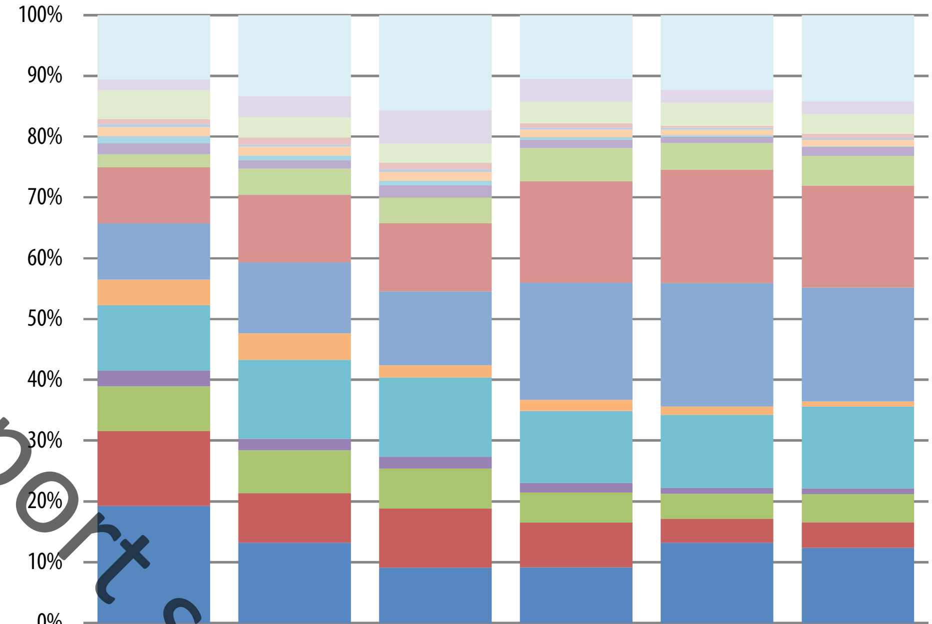


	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Others	12.5	13.6	16.7	12.1	15.3	14.2
LeEco	2.1	3.6	5.9	4.3	2.6	2.1
Meizu	5.6	3.4	3.3	4.1	4.7	3.3
TCL	1.0	1.2	1.2	0.8	0.4	0.7
HTC	0.5	0.3	0.4	0.4	0.4	0.3
HiSense	1.8	1.5	1.6	1.4	1.2	1.0
K-Touch	1.4	0.8	0.8	0.5	0.3	0.1
ZTE	2.1	1.4	2.1	1.6	1.3	1.5
Gionee	2.5	4.4	4.6	6.2	5.4	4.9
BBK	10.9	11.3	11.9	19.2	23.2	16.8
Oppo	10.9	12.0	13.0	22.2	25.2	18.8
Coolpad	5.0	4.4	2.1	2.1	1.7	0.8
Huawei	12.7	13.3	13.9	13.6	14.9	13.5
Lenovo	3.0	1.9	2.1	1.8	1.2	1.0
Samsung	8.7	7.2	7.0	5.7	5.1	4.6
Xiaomi	14.5	8.3	10.4	8.5	4.9	4.2
Apple	22.7	13.5	9.7	10.5	16.4	12.4

Source: Digitimes Research, February 2017

Report sample (not for sale)

Chart 12: China smartphone market shipment share by all vendors, 4Q15-1Q17



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Others	10.6%	13.3%	15.7%	10.5%	12.3%	14.2%
LeEco	1.8%	3.5%	5.5%	3.7%	2.1%	2.1%
Meizu	4.7%	3.3%	3.1%	3.6%	3.8%	3.3%
TCL	0.8%	1.2%	1.1%	0.7%	0.3%	0.7%
HTC	0.4%	0.3%	0.4%	0.3%	0.3%	0.3%
HiSense	1.5%	1.5%	1.5%	1.2%	1.0%	1.0%
K-Touch	1.2%	0.8%	0.7%	0.4%	0.2%	0.1%
ZTE	1.8%	1.4%	2.0%	1.4%	1.0%	1.5%
Gionee	2.1%	4.3%	4.3%	5.4%	4.3%	4.9%
BBK	9.2%	11.1%	11.2%	16.7%	18.7%	16.8%
Oppo	9.2%	11.8%	12.2%	19.3%	20.3%	18.8%
Coolpad	4.2%	4.3%	2.0%	1.8%	1.4%	0.8%
Huawei	10.8%	13.0%	13.0%	11.8%	12.0%	13.5%
Lenovo	2.5%	1.9%	2.0%	1.6%	1.0%	1.0%
Samsung	7.4%	7.1%	6.6%	5.0%	4.1%	4.6%
Xiaomi	12.3%	8.1%	9.7%	7.4%	3.9%	4.2%
Apple	19.3%	13.2%	9.1%	9.1%	13.2%	12.4%

Source: Digitimes Research, February 2017

Report sample (not for sale)

China telecom carriers

By the end of December 2016, China Mobile's 3G/4G users were 638 million with 54.30 million new 4G users in fourth-quarter 2016 alone. This figure is higher than the 52 million and 52.2 million new 4G users in second- and third-quarter 2016. However, the figure is lower compared to 64.20 million users in first-quarter 2016. The firm saw 3G users decreased by 16 million and this decrease is more significant than the decrease in third-quarter 2016. The fourth-quarter 2016 decrease is, however, less significant compared to the first and the second quarter of 2016.

The net increase of 3G/4G users was 38.40 million units in fourth-quarter 2016, slightly lower than the net increase of 38.70 million units in third-quarter 2016. The figure is far fewer compared to 47.40 million net new users in first-quarter 2016. The figure is only higher than the 32.40 million net new users in second-quarter 2016 and is flat compared to fourth-quarter 2015 net new users of 38.40 million.

China Mobile saw 2G users decrease by 33.20 million users in fourth-quarter 2016, with the decrease being more significant compared to the drop of 29.20 million users and 32 million users in second- and third-quarter 2016. However, the figure is 6.6 million smaller than the decrease of 39.80 million seen in the first-quarter 2016. In the fourth quarter of 2016, 3G users decreased by 16 million users while the total in the third quarter of 2016 was 13.5 million. The figure is significantly lower than the decrease of 19.7 million users in second quarter and slightly lower than the decrease of 16.8 million users in the first quarter of 2016.

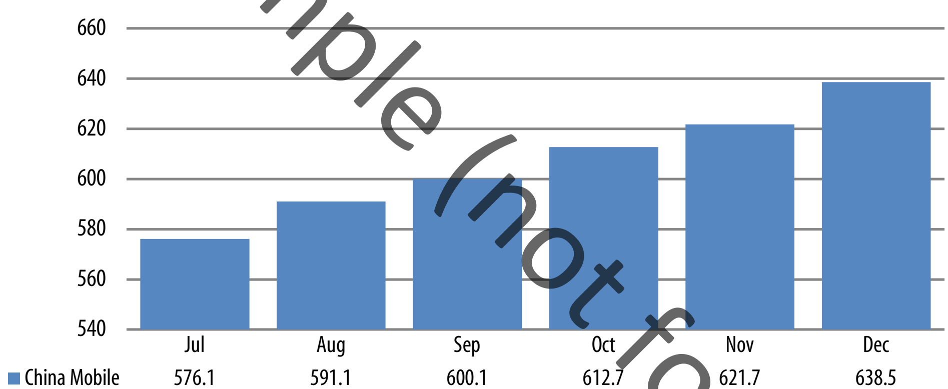
The percentage of users switching from 2G to 4G in fourth-quarter 2016 showed growth compared to the second quarter of 2016 and was flat compared third-quarter 2016. The figure is less compared to the first quarter of 2016. This means the device procurement subsidies China Mobile provided in fourth-quarter 2016 to 2G users to switch to 4G services only stimulated growth that was flat compared to the third quarter of 2016 and could not achieve the growth the firm saw in first-quarter 2016.

The data collected by Digitimes Research showed shipments of entry-level and low-price 4G handsets from small-size brands and white-box makers located in Southern China showed strong on-quarter growth. As sales and demand in this particular market did not show strong growth, this means inventory in the fourth quarter of 2016 increased.

Digitimes Research predicts shipments from small-size brands and white-box makers located in Southern China to the domestic market to show a decrease in first-quarter 2017. Shipments will not show the same on-quarter growth as first-quarter 2016 when the firms saw strong demand from third-tier and fourth-tier cities, and rural areas for these products during the Lunar New Year holidays.

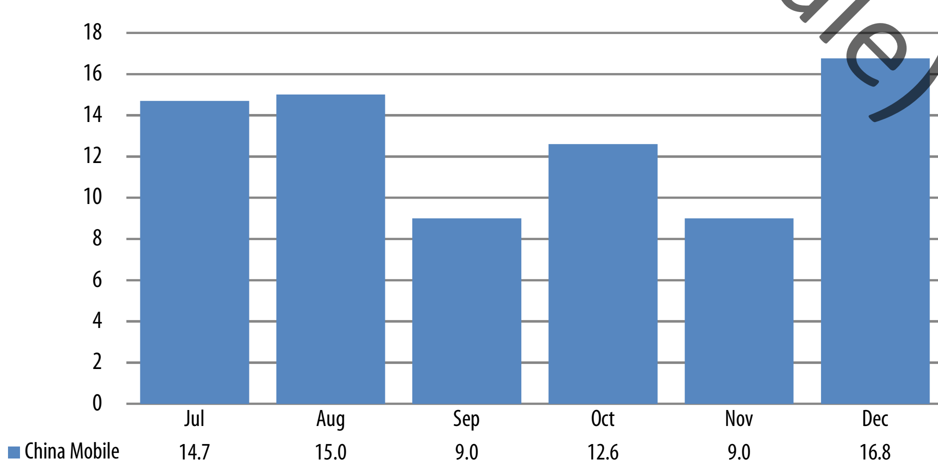
Report sample (not for sale)

Chart 13: China Mobile's number of 3G+4G subscribers, Jul-Dec 2016 (m users)



Source: Digitimes Research, February 2017

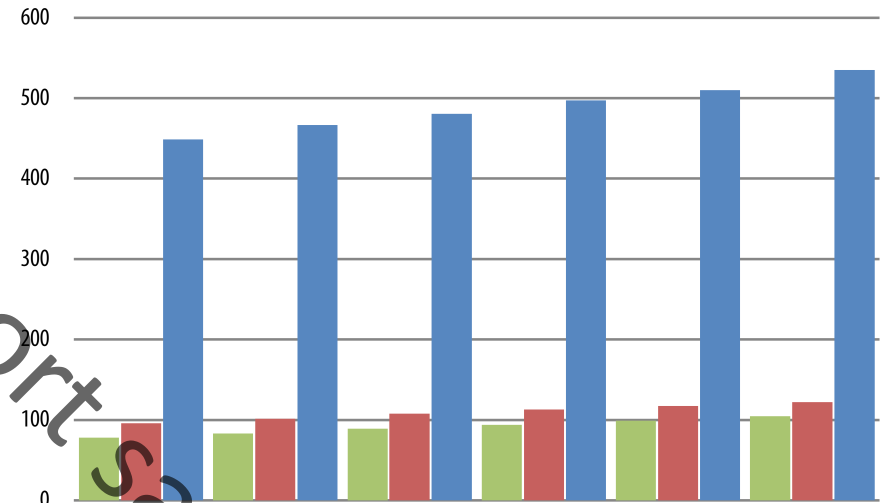
Chart 14: China Mobile's number of increased 3G+4G subscribers, Jul-Dec 2016 (m users)



Source: Digitimes Research, February 2017

China Mobile, China Unicom and China Telecom continue to promote 4G service and by the end of fourth-quarter 2016, the combined 4G users from the three firms exceeded 761 million. The new 4G users in fourth-quarter 2016 alone were 84.40 million. However, this figure is lower compared to new users of 86 million in third-quarter 2016.

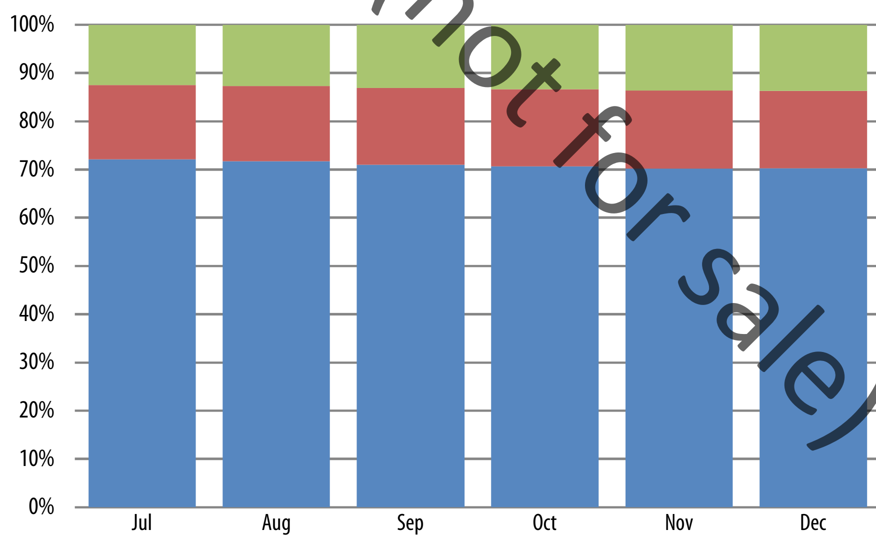
Chart 15: China telecom carriers' number of 4G subscribers, Jul-Dec 2016 (m users)



	Jul	Aug	Sep	Oct	Nov	Dec
China Mobile	448.8	466.6	480.7	497.3	509.8	535.0
China Telecom	95.8	101.4	107.5	113.0	117.3	121.9
China Unicom	77.8	82.9	88.9	94.0	99.0	104.6

Source: Digitimes Research, February 2017

Chart 16: China telecom carriers' share of 4G subscribers, Jul-Dec 2016

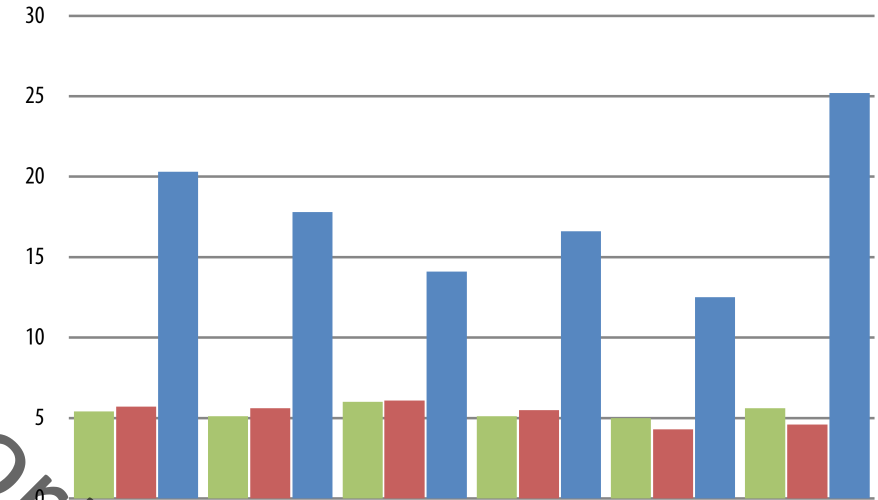


	Jul	Aug	Sep	Oct	Nov	Dec
China Unicom	12.5%	12.7%	13.1%	13.3%	13.6%	13.7%
China Telecom	15.4%	15.6%	15.9%	16.0%	16.2%	16.0%
China Mobile	72.1%	71.7%	71.0%	70.6%	70.2%	70.3%

Source: Digitimes Research, February 2017

Report sample (not for sale)

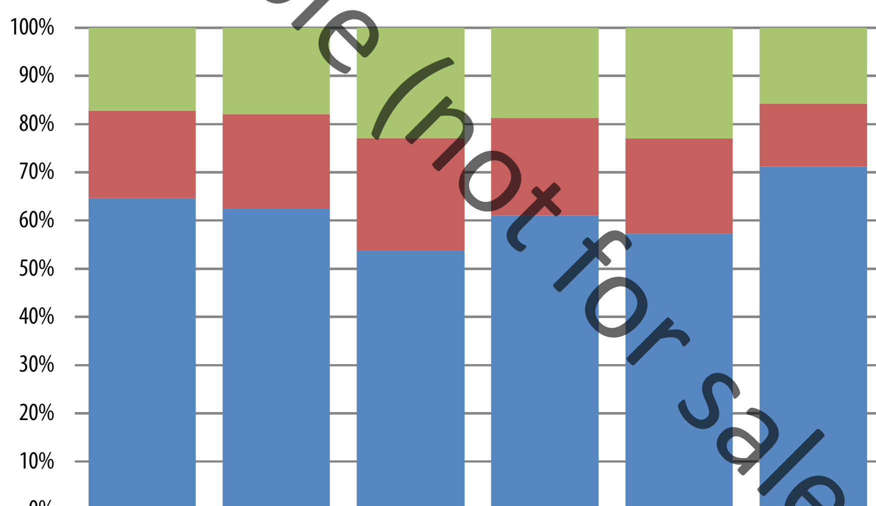
Chart 17: China telecom carriers' number of increased 4G subscribers, Jul-Dec 2016 (m users)



	Jul	Aug	Sep	Oct	Nov	Dec
China Mobile	20.3	17.8	14.1	16.6	12.5	25.2
China Telecom	5.7	5.6	6.1	5.5	4.3	4.6
China Unicom	5.4	5.1	6.0	5.1	5.0	5.6

Source: Digitimes Research, February 2017

Chart 18: China telecom carriers' share of increased 4G subscribers, Jul-Dec 2016



	Jul	Aug	Sep	Oct	Nov	Dec
China Unicom	17.2%	17.9%	22.9%	18.8%	22.9%	15.8%
China Telecom	18.2%	19.6%	23.3%	20.2%	19.7%	13.0%
China Mobile	64.6%	62.5%	53.8%	61.0%	57.3%	71.2%

Source: Digitimes Research, February 2017

Report sample (not for sale)

China smartphone industry

Digitimes Research interviewed dozens of firms in the greater China smartphone supply chain in December 2016 and January 2017, and believes that as China Mobile continued to encourage 2G and 3G users to switch to 4G by providing subsidies on procuring new handsets up to December 2016, the promotion stimulated demand for price-friendly and super low price 4G models in the domestic market. International markets entered the boom season and many China-based brands have been developing these markets for a while, hence shipments increased slightly.

Digitimes Research estimates overall fourth-quarter 2016 shipments from China-based smartphone firms were 181.8 million units with an on-quarter increase of 4.4% and an on-year increase of 12.8%. International market entered the boom season but the India market was negatively affected by the abolishment of old currency causing smartphone shipments and sales in this particular market to show on-quarter decreases. Overall shipments from China-based smartphone makers in fourth-quarter 2016 to the international market were 80 million units with an on-quarter increase of 4.7% and an on-year increase of 4.1%. The top five firms based on shipments were Huawei, Oppo, BBK (brand name is Vivo), ZTE and TCL with the top two makers each seeing shipments exceeding 30 million units.

International demand is expected to cool down in first-quarter 2017 and in particular, the negative effect of the abolishment of old currency in India causing the local market to experience a consumption decrease will continue to linger. This means China-based firms are expected to see international shipments to fall yearly. Digitimes Research predicts overall shipments from China-based firms in first-quarter 2017 to be 130.5 million units with an on-quarter decrease of 28.2%.

Key factors affecting the China smartphone industry

Key factors affecting the China smartphone industry shipments in second-quarter 2016:

Supply side

Price of key components such as display panels, copper clad substrates, NAND flash and DRAM increased steadily from October to November in 2016. The price increase began to narrow and by the second half of November 2016, the price increase ceased and some even fell slightly. The price increase affected shipments of entry-level to mid-range smartphones in the first-half of the fourth quarter of 2016.

Brand vendors:

The Hongmi series continued to see declining sales in China and the new Xiaomi models Mix and Note experienced inconsistent shipments due to a shortage of key components causing Xiaomi's overall fourth-quarter 2016 shipments to show a significant on-quarter decrease.

TCL's main international markets are Europe and America and demand has been rising, pushing the firm's fourth-quarter 2016 shipments to show an on-quarter increase.

Lenovo saw international shipments of brand models decrease.

Huawei saw international shipments increase significantly pushing its overall shipments upward.

Vendors focus more on retail channel:

Oppo and BBK continue to expand locations and shops in first-tier cities in China while international shipments have also been increasing.

Report sample (not for sale)

Table 3: Key factors affecting the 4Q16 China smartphone industry (Supply)

Factor		Item	Analysis	Influence on shipments
Supply	Supply chain	Component supply	Price of NAND flash, DRAM, display panels and copper clad substrates continued increasing from October to November 2016.	↓★★
	Brand vendors	Xiaomi	Hongmi series lacked strong shipments while new models saw inconsistent shipments.	↓★★
		TCL	Shipments to Europe and America continued to increase.	↑★
		Lenovo	On-quarter decrease in international shipments.	↓★
		Huawei	International market entered the boom season, hence shipments increased significantly.	↑★★★
		Retail channel dominators	Oppo and BBK continued to expand their presence in China's first-tier cities, while seeing international shipments increase pushing overall shipments upward.	↑★★★
	Small brand makers and white-box vendors	Overseas shipments	Smaller brands saw domestic sales increase but a weak India market caused international shipments to decrease.	↓★★

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates a positive influence.
Source: Digitimes Research, February 2017

Report sample (not for sale)

Demand side

Although its operation target has been reached, China Mobile continued to encourage 2G and 3G customers to switch to 4G by providing handset procurement subsidies in December 2016. This has increased demand for price-friendly and super low price 4G handsets.

The share of customers that buy handsets from physical shops increased affecting online sales of handsets.

Huawei and ZTE have had a presence in the mature markets of Europe and the US for a period of time and sales have been growing. In emerging markets, Oppo and BBK have successfully built up their brands, reputation and strong distribution channels in emerging markets such as India and Southeast Asia pushing sales to increase.

International markets, with the exception of India, such as Europe, America, Southeast Asia and Eastern Europe entered the boom season so shipments increased.

Table 4: Key factors affecting the 4Q16 China smartphone industry (Demand)

Factor		Item	Analysis	Influence on shipments
Demand	Domestic market	Telecom operators' sales strategies	Pushing 2G and 3G users to switch to 4G with handset procurement subsidies causing demand for low price 4G handsets to increase.	↑★★
		Online sales	Physical shops saw sales increase, affecting online stores.	↓★★
	Overseas markets	Emerging markets	Demand from other markets increased but could not make up for falling demand in India as the market experience negative effects due to policies.	↓★
		Mature markets	Firms with strong brands and distribution channels saw shipments increase.	↑★★
		Seasonality	International markets entered boom season.	↑★★

Note: The more stars, the higher the influence. ↓ indicates negative influence, ↑ indicates a positive influence.
Source: Digitimes Research, February 2017

Shipment breakdown

China smartphone makers saw fourth-quarter 2016 shipments reach 181.8 million units showing an on-quarter increase of 4.4% and an on-year increase of 12.8%. However, both increases are lower than the increases experienced in third-quarter 2016.

Digitimes Research collected information and data showing China's domestic market was positively affected by China Mobile as the firm continued to encourage 2G and 3G customers to switch to 4G by providing handset procurement subsidies up to December 2016. This increased demand for price-friendly and extremely low-priced 4G handsets.

Many international markets entered the boom season and many China-based brands have been developing these markets for a while resulting in increased international shipments.

International markets are expected to enter the low season in first-quarter 2017 and the India market continues to experience falling demand due to the abolishment of the old currency so overall international shipments from China-based firms are expected to show an on-year decrease.

Digitimes Research predicts overall shipments from China-based firms in first-quarter 2017 will fall to 130.5 million units with an on-quarter decrease of 28.2% and on-year decrease of 19.9%.

Report sample (not for sale)

Chart 19: China smartphone industry shipments, 4Q15-1Q17 (m units)

	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Shipments	161.1	129.1	151.9	174.2	181.8	130.5
Q/Q	13.7%	-19.9%	17.7%	14.7%	4.4%	-28.2%
Y/Y	23.6%	33.8%	28.0%	22.9%	12.8%	1.1%

Source: Digitimes Research, February 2017

Shipments by maker

The top five firms based on fourth-quarter 2016 shipments were Huawei, Oppo, BBK (brand name is Vivo), ZTE and TCL with the top two makers each seeing shipments exceeding 30 million units.

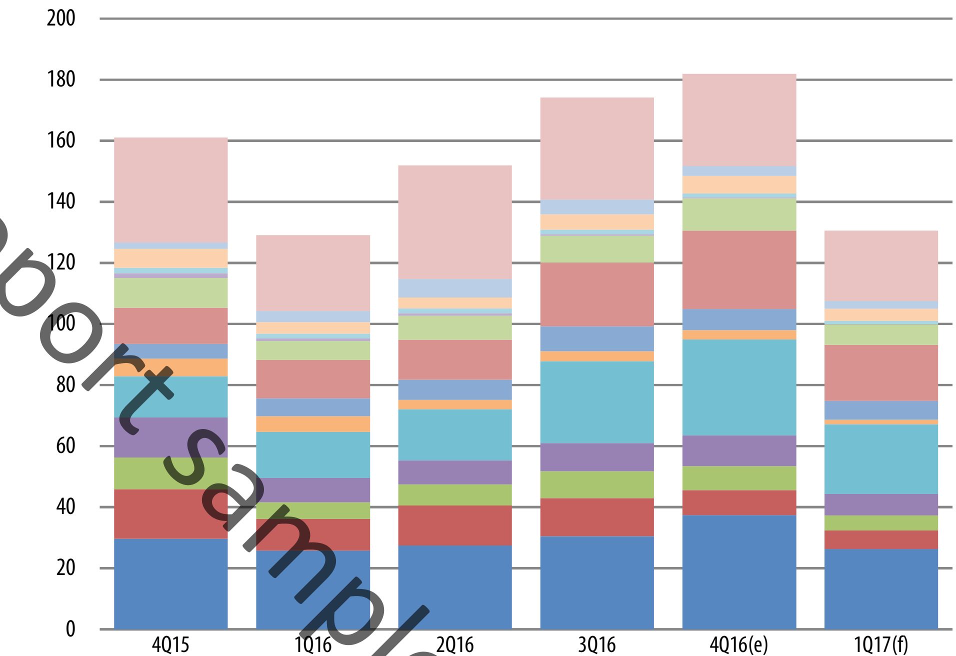
Huawei saw its fourth-quarter 2016 international shipments show an on-quarter increase of five million units pushing its overall shipments to 37.50 million units.

Oppo and BBK continued to expand their physical shops and distribution channels in first-tier cities in China while their international shipments are also increasing. Oppo and BBK saw overall shipments reach 31.5 million units and 25.6 million units respectively.

ZTE and TCL saw shipments returned to more than 10 million units as sales in main international markets such as Europe and America entered the boom season.

Digitimes Research predicts that in the first-quarter 2017, only Huawei, Oppo, and BBK will see shipments exceeding 10 million units.

Chart 20: Shipments by China players, 4Q15-1Q17 (m units)



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Others	34.4	24.9	37.1	33.5	30.1	23.0
LeEco	2.1	3.6	6.1	4.8	3.2	2.5
Meizu	6.2	3.8	3.6	5.1	5.8	4.0
HiSense	1.8	1.5	1.6	1.4	1.2	1.0
K-Touch	1.5	0.9	0.8	0.5	0.3	0.1
ZTE	9.8	6.2	7.8	8.8	10.7	6.7
BBK	11.8	12.5	13.2	20.9	25.6	18.4
Gionee	4.8	5.9	6.5	8.2	7.0	6.1
Coolpad	5.8	5.2	3.1	3.2	2.9	1.5
Oppo	13.5	15.0	16.8	26.8	31.5	22.8
TCL	13.1	8.0	7.8	9.3	10.1	7.0
Lenovo	10.4	5.4	6.9	8.7	7.8	5.1
Xiaomi	16.2	10.5	13.1	12.5	8.1	6.0
Huawei	29.7	25.7	27.5	30.5	37.5	26.3

Source: Digitimes Research, February 2017

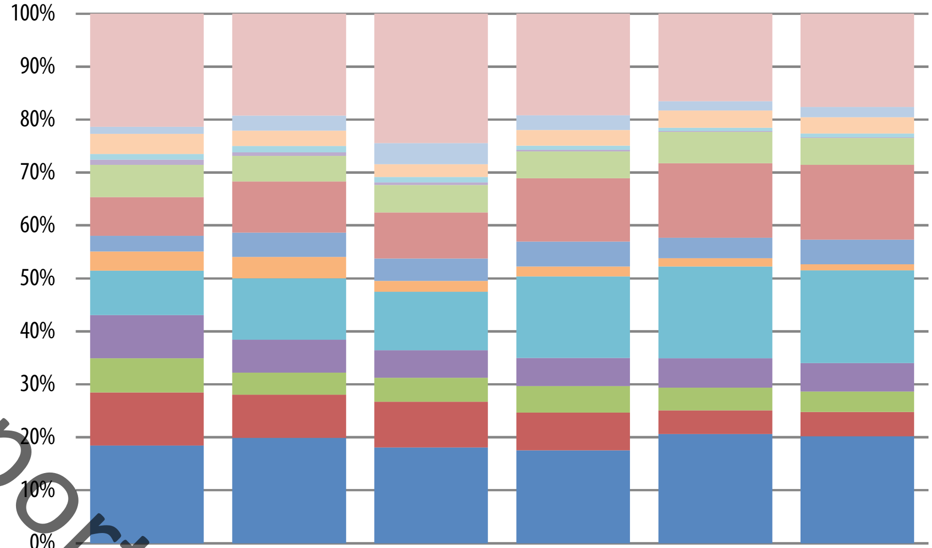
Report sample (not for sale)

Within the overall smartphone shipments in the fourth quarter of 2016 from China-based firms, the top five firms accounted for 63.5%, showing an increase from 57.4% in third-quarter 2016.

The top three makers were Huawei, Oppo and BBK with a combined share of 52%, showing an increase from a 45% share in the third quarter of 2016.

Digitimes Research predicts top five and top three makers will account for 62.2% and 51.7%, respectively, for overall first-quarter 2017 shipments. This means shipments are still centralized among brands.

Chart 21: Shipment share by China players, 4Q15-1Q17



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Others	21.4%	19.3%	24.4%	19.2%	16.6%	17.6%
LeEco	1.3%	2.8%	4.0%	2.8%	1.8%	1.9%
Meizu	3.8%	2.9%	2.4%	2.9%	3.2%	3.1%
HiSense	1.1%	1.2%	1.1%	0.8%	0.7%	0.8%
K-Touch	0.9%	0.7%	0.5%	0.3%	0.2%	0.1%
ZTE	6.1%	4.8%	5.1%	5.1%	5.9%	5.1%
BBK	7.3%	9.7%	8.7%	12.0%	14.1%	14.1%
Gionee	3.0%	4.6%	4.3%	4.7%	3.9%	4.7%
Coolpad	3.6%	4.0%	2.0%	1.8%	1.6%	1.1%
Oppo	8.4%	11.6%	11.1%	15.4%	17.3%	17.5%
TCL	8.1%	6.2%	5.1%	5.3%	5.6%	5.4%
Lenovo	6.5%	4.2%	4.5%	5.0%	4.3%	3.9%
Xiaomi	10.1%	8.1%	8.6%	7.2%	4.5%	4.6%
Huawei	18.4%	19.9%	18.1%	17.5%	20.6%	20.2%

Source: Digitimes Research, February 2017

In fourth-quarter 2016, among firms with sizable shipments, Xiaomi and LeEco showed on-quarter shipment decreases of 35.2% and 33.3%, respectively.

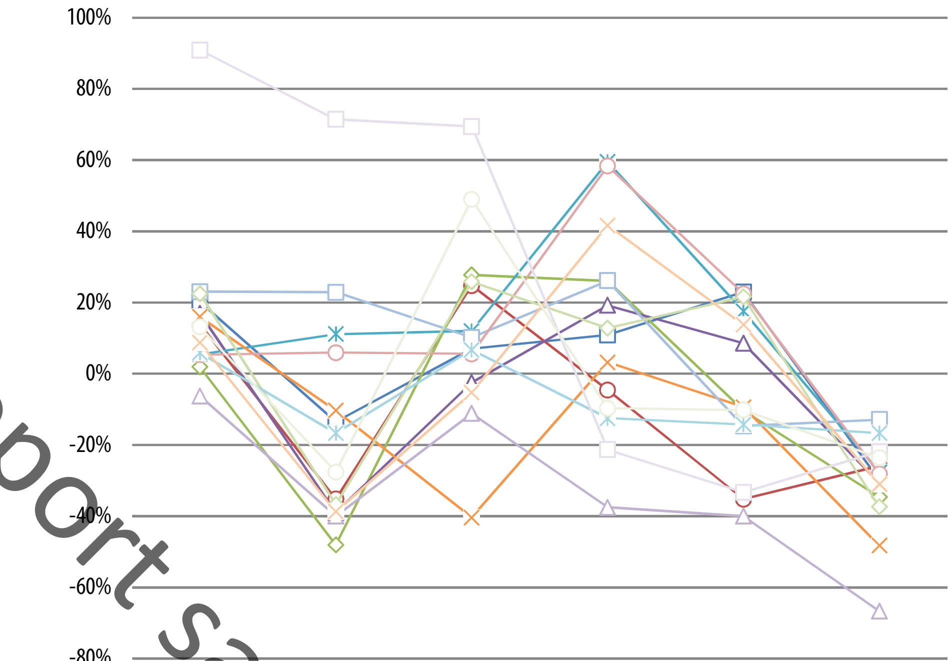
Xiaomi continued to see a lack of strong sales with its Hongmi series, while new models launched in fourth-quarter 2016 have been experiencing inconsistent shipments.

LeEco has been suspected of having an unstable financial status hence many firms in the supply chain refused to accept orders and have been lowering supply to the firm since third-quarter 2016.

Firms such as ZTE, Lenovo and TCL are expected to see significant on-quarter decreases in first-quarter 2017 shipments.

Report sample (not for sale)

Chart 22: Q/Q shipment growth by China players, 4Q15-1Q17



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Huawei	20.2%	-13.5%	7.0%	10.9%	23.0%	-29.9%
Xiaomi	14.1%	-35.2%	24.8%	-4.6%	-35.2%	-25.9%
Lenovo	2.0%	-48.1%	27.8%	26.1%	-10.3%	-34.6%
TCL	17.0%	-38.9%	-2.5%	19.2%	8.6%	-30.7%
Oppo	5.5%	11.1%	12.0%	59.5%	17.5%	-27.6%
Coolpad	16.0%	-10.3%	-40.4%	3.2%	-9.4%	-48.3%
Gionee	23.1%	22.9%	10.2%	26.2%	-14.6%	-12.9%
BBK	5.4%	5.9%	5.6%	58.3%	22.5%	-28.1%
ZTE	22.5%	-36.7%	25.8%	12.8%	21.6%	-37.4%
K-Touch	-6.3%	-40.0%	-11.1%	-37.5%	-40.0%	-66.7%
HiSense	5.9%	-16.7%	6.7%	-12.5%	-14.3%	-16.7%
Meizu	8.8%	-38.7%	-5.3%	41.7%	13.7%	-31.0%
LeEco	90.9%	71.4%	69.4%	-21.3%	-33.3%	-21.9%
Others	13.2%	-27.6%	49.0%	-9.7%	-10.1%	-23.6%

Source: Digitimes Research, February 2017

Oppo and BBK showed the most significant on-year increase for fourth-quarter 2016 shipments. The figures are 133.3% (Oppo) and 116.9% (BBK).

Huawei's 2015 shipments were massive but the firm continued to see an on-year shipment increase of 26.3% in fourth-quarter 2016.

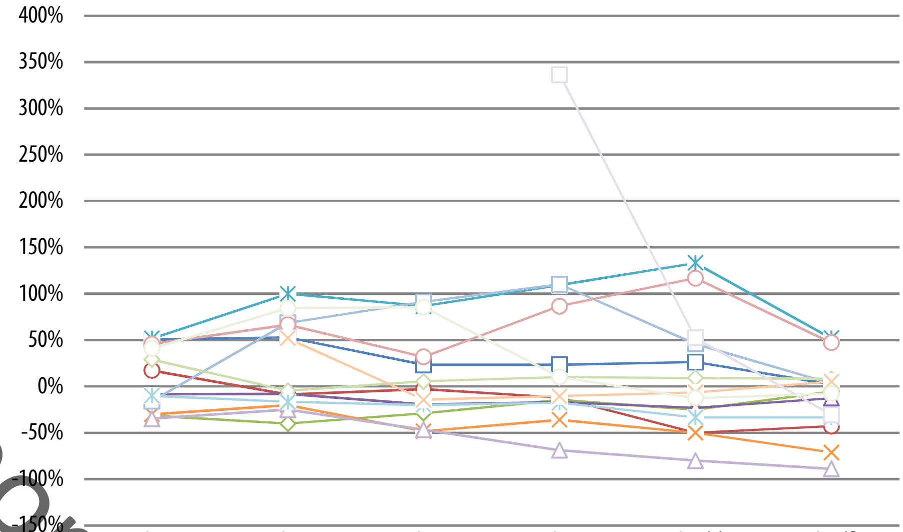
Among firms with sizable shipments, Coolpad, Xiaomi, TCL and Lenovo all showed a double-digit on-year decrease in fourth-quarter 2016 shipments.

Xiaomi and Coolpad both had an on-year decrease of 50%.

In first-quarter 2017 firms such as Coolpad, Xiaomi and LeEco are expected to see significant on-year decreases while Oppo and BBK are expected to see significant on-year increases.

Report sample (not for sale)

Chart 23: Y/Y shipment growth by China players, 4Q15-1Q17



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Huawei	50.8%	53.0%	23.3%	23.5%	26.3%	2.3%
Xiaomi	17.4%	-8.7%	-3.0%	-12.0%	-50.0%	-42.9%
Lenovo	-31.6%	-40.0%	-28.9%	-14.7%	-25.0%	-5.6%
TCL	-8.4%	-8.0%	-19.6%	-17.0%	-22.9%	-12.5%
Oppo	51.7%	100.0%	86.7%	109.4%	133.3%	52.0%
Coolpad	-30.1%	-20.0%	-48.3%	-36.0%	-50.0%	-71.2%
Gionee	-15.8%	68.6%	91.2%	110.3%	45.8%	3.4%
BBK	45.7%	66.7%	32.0%	86.6%	116.9%	47.2%
ZTE	28.9%	-4.6%	5.4%	10.0%	9.2%	8.1%
K-Touch	-34.8%	-25.0%	-46.7%	-68.8%	-80.0%	-88.9%
HiSense	-10.0%	-16.7%	-20.0%	-17.6%	-33.3%	-33.3%
Meizu		52.0%	-14.3%	-10.5%	-6.5%	5.3%
LeEco				336.4%	52.4%	-30.6%
Others	41.0%	84.4%	85.5%	10.2%	-12.5%	-7.6%

Source: Digitimes Research, February 2017

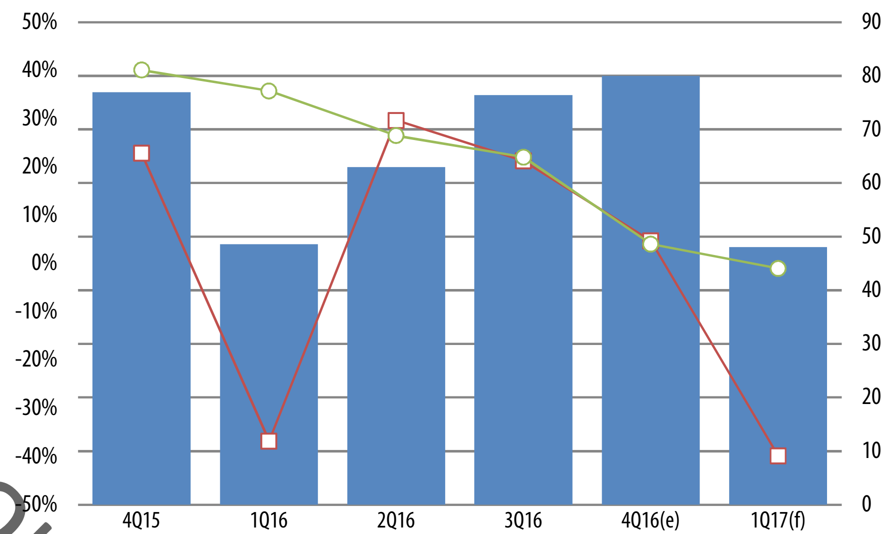
Report sample (not for sale)

Exports

International markets entered the boom season in fourth-quarter 2016 but the India market was negatively affected by the abolishment of old currency causing smartphone shipments and sales in this particular market to show on-quarter decreases. Overall shipments from China-based smartphone makers in fourth-quarter 2016 to the international market were 80 million units with a slight on-quarter increase of 4.7% and an on-year increase of 4.1%.

Digitimes Research forecasts China-based firms will see its first-quarter 2017 international shipments fall to 48.1 million units, showing an on-quarter decrease of 39.9%.

Chart 24: China smartphone industry's export shipments, 4Q15-1Q17 (m units)



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Shipments	76.9	48.6	63.0	76.4	80.0	48.1
Q/Q	22.8%	-36.8%	29.6%	21.3%	4.7%	-39.9%
Y/Y	40.1%	35.8%	26.5%	22.0%	4.0%	-1.0%

Source: Digitimes Research, February 2017

Compared to third-quarter 2016, Huawei saw international shipments in fourth-quarter 2016 increase on-quarter by 30%, reaching 22.6 million units, topping the list.

Digitimes Research believes Huawei to see international shipments fall significantly in first-quarter 2017 to less than 13 million units but the maker will continue to top the chart.

With Europe and America entering the boom season in fourth-quarter 2016, TCL and ZTE saw international shipments reach 9.7 million units and 9.4 million units respectively, ranking the makers second and third.

Digitimes Research forecasts that as Europe and America markets enter the low season, TCL and ZTE are expected to see first-quarter 2017 international shipments fall to 6.3 million units and 5.2 million units respectively.

Due to a consumption decrease in the India market, Lenovo saw international shipments fall to 6.6 million units in fourth-quarter 2016.

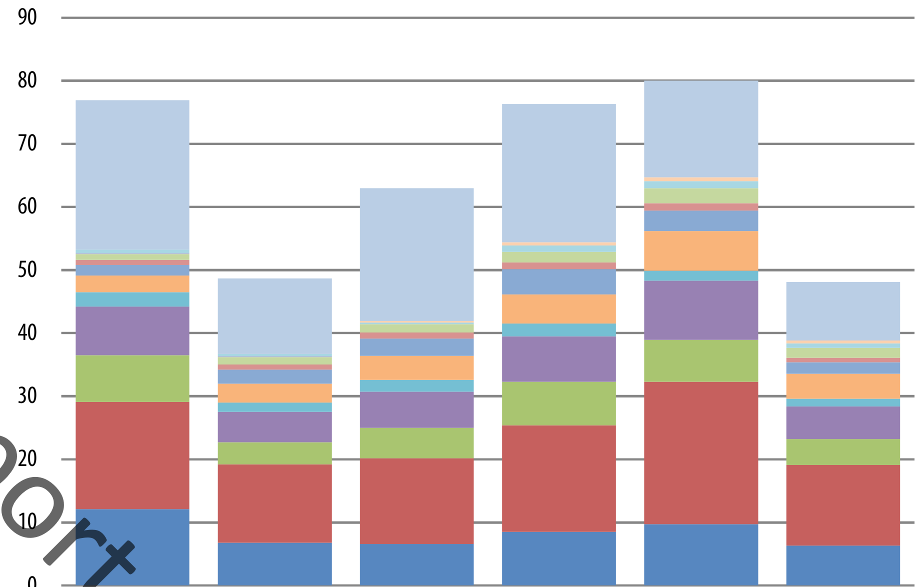
As international markets enter the low season and consumption slows in the India market (one of Lenovo's main markets), Digitimes Research predicts Lenovo will see first-quarter 2017 international shipments fall to 4.1 million units.

Oppo continues to expand its presence in emerging market such as Southeast Asia and India and in fourth-quarter 2016, the firm's international shipments reached six million units.

Oppo is expected to see international shipments fall to four million units in first-quarter 2017 due to falling demand in the international market.

Report sample (not for sale)

Chart 25: Export shipments by China player, 4Q15-1Q17 (m units)



	4Q15	1Q16	2Q16	3Q16	4Q16(e)	1Q17(f)
Others	23.7	12.0	21.1	21.9	15.3	9.3
LeEco	0.0	0.0	0.2	0.5	0.6	0.4
Meizu	0.6	0.4	0.3	1.0	1.1	0.7
K-Touch	0.1	0.1	0.0	0.0	0.0	0.0
BBK	0.9	1.2	1.3	1.7	2.4	1.6
Coolpad	0.8	0.8	1.0	1.1	1.2	0.7
Xiaomi	1.7	2.2	2.7	4.0	3.2	1.8
Oppo	2.6	3.0	3.8	4.6	6.3	4.0
Gionee	2.3	1.5	1.9	2.0	1.6	1.2
ZTE	7.7	4.8	5.7	7.2	9.4	5.2
Lenovo	7.4	3.5	4.8	6.9	6.6	4.1
Huawei	17.0	12.4	13.6	16.9	22.6	12.8
TCL	12.1	6.8	6.6	8.5	9.7	6.3

Source: Digitimes Research, February 2017

Report sample (not for sale)

In fourth-quarter 2016, most firms saw their share of total shipments going to international markets increase.

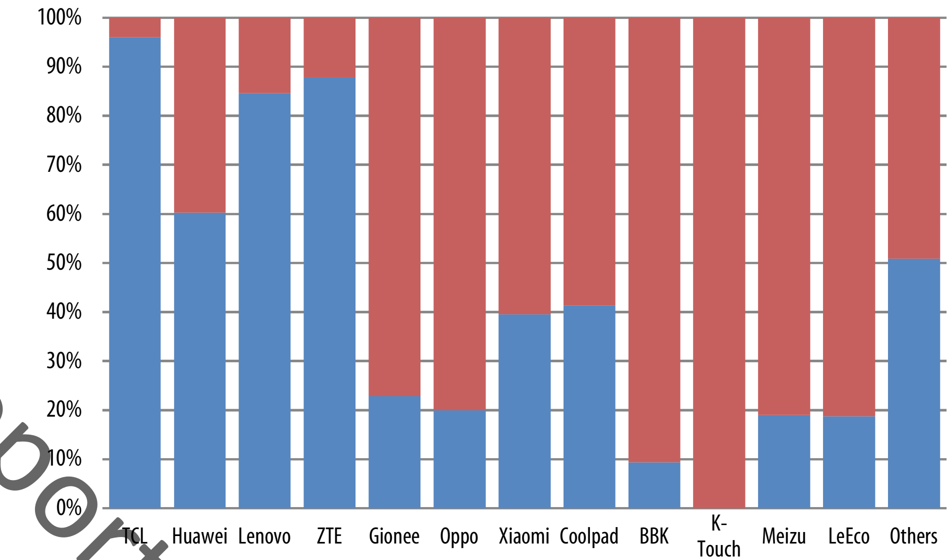
TCL, ZTE and Lenovo all saw their international shipment share reach above 80%. Huawei saw its international shipment share surpass 60%.

Xiaomi saw its sales in the China domestic market fall, hence its international shipment share increased to close to 40% in fourth-quarter 2016.

In the Others category, white-box makers, ODM and IDH firms that ship to international markets showed a lack of strong shipments to the India market in fourth-quarter 2016, hence shipments showed a significant on-quarter decrease. However, small-size brands saw an on-quarter increase in the domestic market.

Digitimes Research predicts that as international markets enter the low season in first-quarter 2017, most China-based firms are expected to see a falling share of international shipments as overseas brands and distribution channels are expected to be more conservative with orders.

Chart 26: Export shipment share by China player, 4Q16



	TCL	Huawei	Lenovo	ZTE	Gionee	Oppo	Xiaomi	Coolpad	BBK	K-Touch	Meizu	LeEco	Others
Domestic	4.0%	39.7%	15.4%	12.1%	77.1%	80.0%	60.5%	58.6%	90.6%	100.0%	81.0%	81.3%	49.2%
Export	96.0%	60.3%	84.6%	87.9%	22.9%	20.0%	39.5%	41.4%	9.4%	0.0%	19.0%	18.8%	50.8%

Source: Digitimes Research, February 2017

Report sample (not for sale)