

Q Technology (1478 HK)

Investor concern overdone; Maintain BUY

Q-tech hosted a conference call discussing business outlook after 1H21 positive profit alert (+40-60% YoY) and CCM shipment guidance revision (+25% YoY vs +30% prior). Mgmt. expects India market recovery, better CCM mix and margin improvement are on track in 2H21E, and auto/IoT camera module will be next growth drivers. With share price decline of 14.5% yesterday, we believe Q-tech is oversold as the stock is now trading at 11.2x FY22E P/E, below average P/E and 60% discount to Sunny Optical. We trimmed our FY21-23E EPS by 2-7% to factor lower volume and better GPM. We expect 2Q21 to mark a bottom, and seasonal restocking and Honor/India recovery will benefit Q-tech. Reiterate BUY.

- FY21E CCM shipment guidance revised to +25% YoY (vs +30% prior).** While Q-tech announced an upbeat 1H21 profit alert with 40-60% YoY NP growth, mgmt. revised down its CCM FY21E shipment guidance to 25% YoY (from 30% YoY) mainly due to India COVID-19 impact in 2Q21. That said, mgmt. maintained global smartphone market growth forecast of 5-8% YoY in FY21E, and expect CCM upgrade will continue despite lower high-end smartphone demand due to Huawei's weakness. Overall, we expect Q-tech CCM shipment to grow 27% YoY in 2H21E, vs 24% YoY in 1H21.
- India market recovery and margin improvement are on track.** Mgmt. indicated Q-tech will benefit from India demand recovery and seasonal restocking in 3Q21E, and GPM improvement is also on track in FY21E as 1) 32MP mix reached 34% in 1H21 (vs 24% in FY20), 2) higher CCM utilization in 1H21, and 3) continued automation for labor cost saving.
- Auto/IoT CCM and vertical integration to accelerate.** Mgmt. reiterated long-term strategy for auto/IoT CCM and vertical integration. For auto CCM, Q-tech partnered with Tier-1 suppliers to enter auto supply chain, and mgmt. is confident to leverage its COB manufacturing capability in auto CCM products. For IoT, Q-tech plans to expand into drone, VR and vacuum cleaner robot markets.
- Expectation reset; Maintain BUY with TP of HK\$21.5 (49% upside).** Despite near-term pressure on guidance revision, we believe share price should gradually find a bottom and offer a good opportunity to accumulate the stock. Our new TP of HK\$21.5 is based on same 20x FY21E P/E. Catalysts include 3Q21 strong shipment and A-share spin-off progress.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	13,170	17,400	21,374	24,873	28,894
YoY growth (%)	61.9	32.1	22.8	16.4	16.2
Net income (RMB mn)	542	840	1,041	1,250	1,499
EPS (RMB cents)	47.6	71.9	89.1	107.0	128.3
YoY growth (%)	3627.6	51.1	24.0	20.1	19.8
Consensus EPS (RMB)	48.7	72.6	94.8	114.0	130.0
P/E (x)	25.1	16.6	13.4	11.2	9.3
P/B (x)	4.8	3.7	3.0	2.5	2.0
Yield (%)	0.8	4.2	1.5	1.8	2.1
ROE (%)	18.9	22.2	22.5	22.3	22.0
Net gearing (%)	48	35	50	50	49

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$21.5
(Previous TP)	HK\$23.0
Up/Downside	+49.2%
Current Price	HK\$14.4

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	17,021
Avg. 3mths t/o (HK\$m)	82.11
52W High/Low (HK\$)	18.20/ 8.05
Total Issued Shares (mn)	1,182

Source: Bloomberg

Shareholding Structure

He Ningning	64.28%
Vanguard Group	1.15%
Harvest Fund Mgmt.	1.01%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	7.6%	12.8%
3-mth	-7.0%	-1.5%
6-mth	-15.2%	-8.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports:

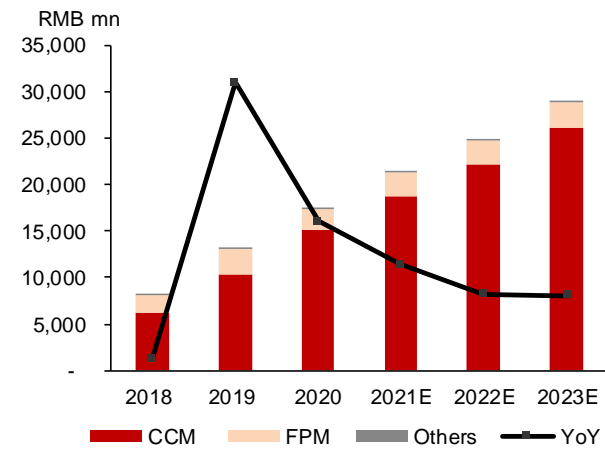
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- Positive profit alert on ASP/GPM hike; Lift TP to HK\$18.8 – 18 Jan 2021

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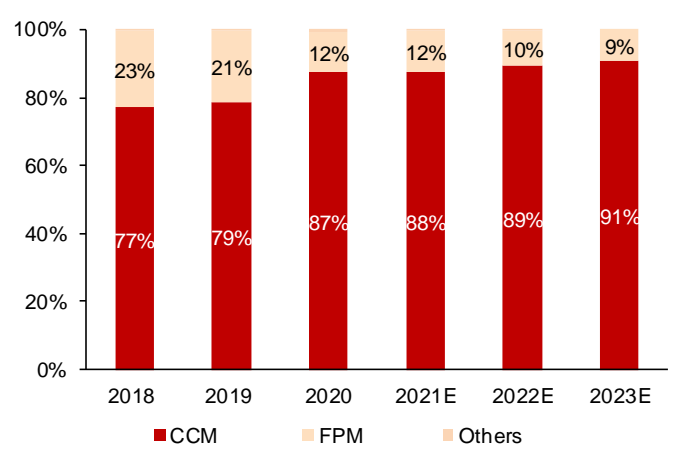
Focus Charts

Figure 1: Revenue growth trend



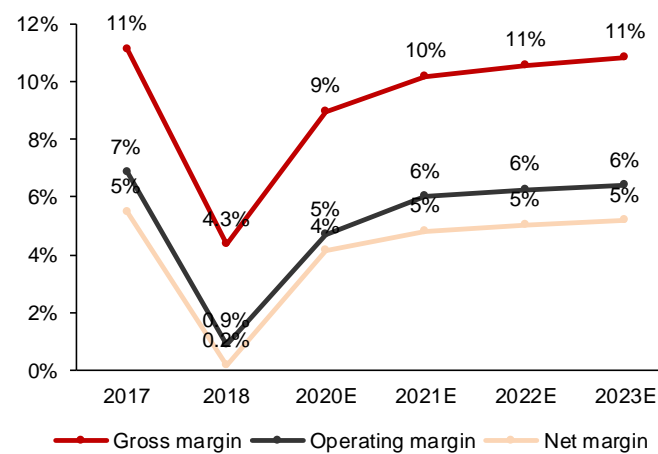
Source: Company data, CMBIS estimates

Figure 2: Revenue breakdown



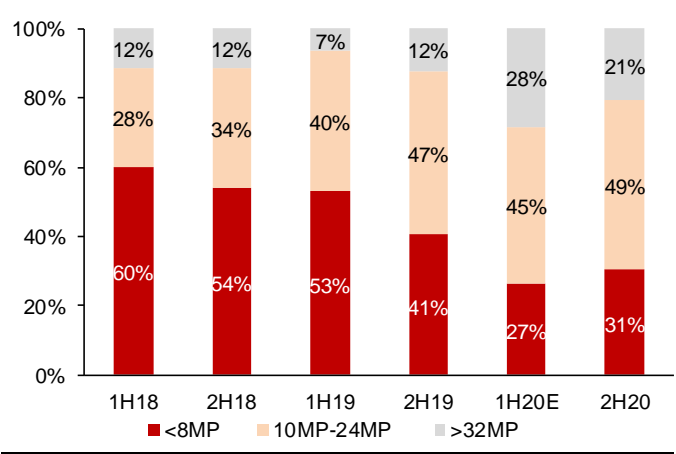
Source: Company data, CMBIS estimates

Figure 3: Margins is recovering in FY19-23E



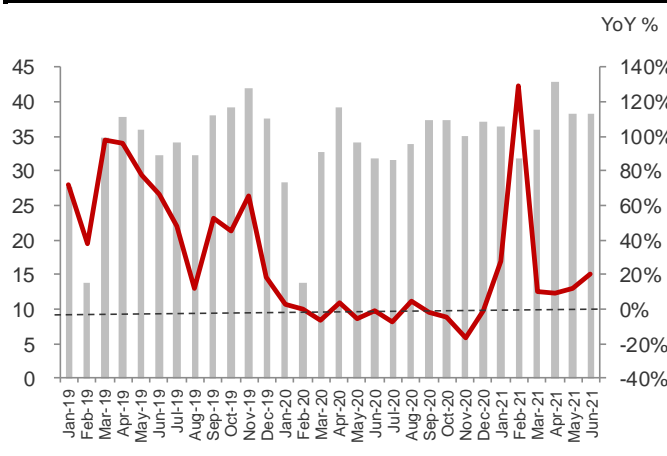
Source: Company data, CMBIS estimates

Figure 4: CCM shipment mix



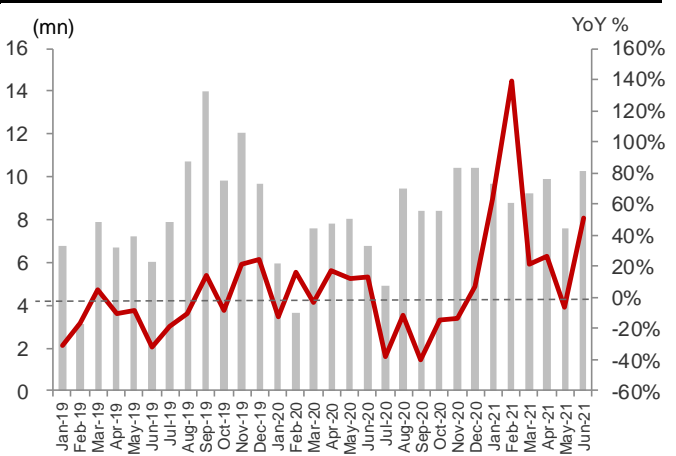
Source: Company data, CMBIS estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIS estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIS estimates

Earnings Revision

Our FY21-23E EPS are 1-6% below consensus

We trimmed FY21-23E EPS by 2-7% to factor in better GPM and lower CCM shipment guidance. Our FY21-23E EPS are 1-6% below consensus given our slightly more conservative Q-tech's CCM shipment.

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	21,374	24,873	28,894	22,436	25,643	30,088	-5%	-3%	-4%
Gross profit	2,267	2,631	3,132	2,297	2,667	3,179	-1%	-1%	-1%
Operating profit	1,318	1,559	1,849	1,298	1,526	1,840	2%	2%	0%
Net profit	1,041	1,250	1,499	1,116	1,273	1,544	-7%	-2%	-3%
EPS (RMB)	89.1	107.0	128.3	95.5	109.0	132.1	-7%	-2%	-3%
Gross margin	10.6%	10.6%	10.8%	10.2%	10.4%	10.6%	0.4 ppt	0.2 ppt	0.3 ppt
Operating margin	6.2%	6.3%	6.4%	5.8%	5.9%	6.1%	0.4 ppt	0.3 ppt	0.3 ppt
Net Margin	4.9%	5.0%	5.2%	5.0%	5.0%	5.1%	-0.1 ppt	0.1 ppt	0.1 ppt

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	21,374	24,873	28,894	21,975	25,892	28,820	-3%	-4%	0%
Gross profit	2,267	2,631	3,132	2,299	2,707	3,011	-1%	-3%	4%
Operating profit	1,318	1,559	1,849	1,341	1,584	2,075	-2%	-2%	-11%
Net profit	1,041	1,250	1,499	1,136	1,360	1,557	-8%	-8%	-4%
EPS (RMB)	89.1	107.0	128.3	94.8	114.0	130.0	-6%	-6%	-1%
Gross margin	10.6%	10.6%	10.8%	10.5%	10.5%	10.4%	0.1 ppt	0.1 ppt	0.4 ppt
Operating margin	6.2%	6.3%	6.4%	6.1%	6.1%	7.2%	0.1 ppt	0.2 ppt	-0.8 ppt
Net Margin	4.9%	5.0%	5.2%	5.2%	5.3%	5.4%	-0.3 ppt	-0.2 ppt	-0.2 ppt

Source: Company data, CMBIS estimates

Figure 9: Revenue breakdown

RMB mn	FY18	FY19	FY20	1H21E	2H21E	FY21E	FY22E	FY23E
CCM Revenue	6,273	10,360	15,202	8,922	9,820	18,742	22,214	26,160
...YoY	6%	65%	47%	16%	31%	23%	19%	18%
Shipment (mn)	264	406	392	224	270	493	567	641
...YoY	53%	54%	-3%	24%	27%	26%	15%	13%
ASP (RMB)	23.9	25.5	38.7	39.9	36.4	38.0	39.2	40.8
...YoY	-30%	7%	52%	-7%	3%	-2%	3%	4%
FPM Revenue	1,832	2,759	2,101	1,226	1,309	2,536	2,562	2,638
...YoY	-10%	51%	-24%	17%	24%	21%	1%	3%
Shipment (mn)	108	102	92	55	65	121	128	138
...YoY	33%	-5%	-10%	39%	25%	31%	6%	8%
ASP (RMB)	17.1	27.1	22.8	22.1	20.1	21.0	20.1	19.1
...YoY	-32%	58%	-16%	-16%	-1%	-8%	-5%	-5%
Others	30	51	97	48	48	97	97	97
...YoY		66%	91%	34%	-20%	0%	0%	0%
Total	8,135	13,170	17,400	10,196	11,178	21,374	24,873	28,894
...YoY	2%	62%	32%	16%	30%	23%	16%	16%

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

RMB mn	FY18	FY19	FY20	1H21E	2H21E	FY21E	FY22E	FY23E
Revenue	8,135	13,170	17,400	10,196	11,178	21,374	24,873	28,894
...YoY	2.5%	61.9%	32.1%	15.8%	30.0%	22.8%	16.4%	16.2%
Cost of sales	(7,782)	(11,990)	(15,630)	(9,133)	(9,974)	(19,107)	(22,241)	(25,762)
Gross profit	353	1,180	1,771	1,063	1,204	2,267	2,631	3,132
GPM (%)	4.3%	9.0%	10.2%	10.4%	10.8%	10.6%	10.6%	10.8%
...YoY	-60.0%	234.1%	50.1%	45.3%	15.9%	28.0%	16.1%	19.0%
SG&A	(100)	(143)	(179)	(107)	(117)	(224)	(259)	(301)
...% of rev	-1.2%	-1.1%	-1.0%	-1.1%	-1.1%	-1.1%	-1.0%	-1.0%
R&D	(266)	(396)	(590)	(336)	(358)	(694)	(808)	(954)
...% of rev	-3.3%	-3.0%	-3.4%	-3.3%	-3.2%	-3.2%	-3.3%	-3.3%
Operating profit	70	620	1,046	589	729	1,318	1,559	1,849
OPM (%)	0.9%	4.7%	6.0%	5.8%	6.5%	6.2%	6.3%	6.4%
...YoY	-87.1%	784.8%	68.9%	40.5%	16.2%	25.9%	18.3%	18.6%
Profit of associates.	(25)	40	(23)	(10)	(10)	(20)	30	30
Net profit	14	542	840	461	580	1,041	1,250	1,499
NPM (%)	0.2%	4.1%	4.8%	4.5%	5.2%	4.9%	5.0%	5.2%
...YoY	-96.7%	3666.7%	54.9%	37.5%	14.9%	24.0%	20.1%	19.8%

Source: Company data, CMBIS estimates

Valuation

Reiterate BUY with new TP of HK\$21.5 (49% upside)

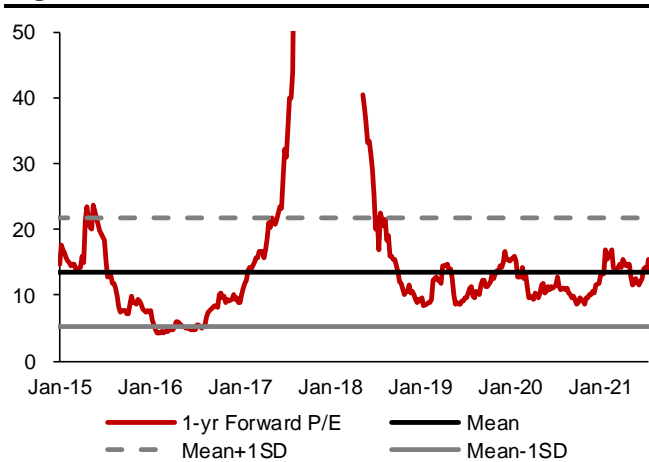
Our new 12m TP of HK\$ 21.5 is based on same 20x FY21E P/E. We believe smartphone recovery, proposed A-share spin-off, share gain and Newmax integration will drive earnings growth in long run. Upcoming catalysts include 3Q21E shipment, Samsung HCM order win and A-share spin-off.

Figure 11: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	
Q tech	1478 HK	Buy	2,190	14.40	21.5	49%	13.4	11.2	3.0	2.5	22.5	22.3	
FIT Hon Teng	6088 HK	Buy	1,517	1.71	3.6	112%	7.0	7.6	0.7	0.6	8.9	7.8	
AAC Tech	2018 HK	Hold	7,784	50.05	45.3	-9%	29.7	16.6	2.5	2.4	8.0	12.2	
Sunny Optical	2382 HK	Buy	31,364	222.20	254.3	14%	37.6	28.0	12.9	10.0	26.6	29.6	
Tongda	698 HK	Buy	379	0.46	0.6	23%	5.7	5.1	0.4	0.4	7.7	7.7	
BYDE	285 HK	Buy	12,686	43.75	55.0	26%	15.4	13.8	5.1	3.3	21.2	19.4	
TK Group	2283 HK	Buy	318	2.97	4.1	38%	4.6	6.2	1.9	1.9	41.7	22.2	
FIH	2038 HK	NR	1,117	1.08	NA	NA	-	17.4	0.7	0.7	-	4.2	
Truly	732 HK	NR	974	2.30	NA	NA	-	-	-	-	-	-	
SMIC	981 HK	NR	31,892	21.40	NA	NA	28.7	34.0	1.3	1.2	5.0	3.9	
YOFC	6869 HK	NR	1,912	9.29	NA	NA	11.3	8.8	0.6	0.7	5.5	6.7	
Ju Teng	3336 HK	NR	252	1.63	NA	NA	5.3	5.5	0.3	0.3	6.1	5.3	
Cowell	1415 HK	NR	526	4.90	NA	NA	9.0	7.2	1.6	1.3	22.9	23.3	
Average								15.3	13.4	2.7	2.2	16.1	13.9

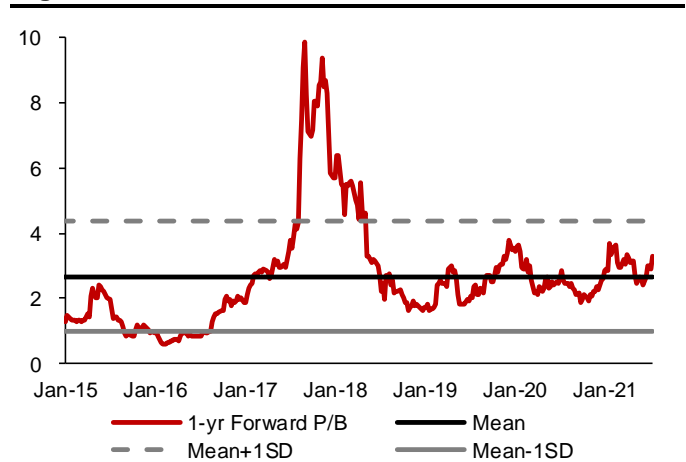
Source: Bloomberg, CMBIS, * TP under review

Figure 12: 12M forward P/E band



Source: Company data, CMBIS

Figure 13: 12M forward P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,170	17,400	21,374	24,873	28,894
COGS	(11,990)	(15,630)	(19,107)	(22,241)	(25,762)
Gross profit	1,180	1,771	2,267	2,631	3,132
Selling and marketing	(15)	(26)	(32)	(37)	(43)
Administrative	(128)	(153)	(192)	(221)	(257)
R&D	(396)	(590)	(694)	(808)	(954)
Other operating exp.	(21)	44	(31)	(5)	(29)
Operating profit	620	1,046	1,318	1,559	1,849
Financial cost	(53)	(54)	(73)	(118)	(116)
Share profit/loss of asso.	40	(23)	(20)	30	30
Pre-tax profit	607	970	1,225	1,471	1,763
Tax	(65)	(130)	(184)	(221)	(264)
Net profit	542	840	1,041	1,250	1,499

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	607	970	1,225	1,471	1,763
Depreciation	302	413	432	528	639
Change in working capital	1,497	2,177	(1,440)	1,366	(1,494)
Others	-	-	-	-	-
Net cash from operating	2,400	3,604	106	3,262	760
Capex	(1,133)	(523)	(1,200)	(1,244)	(1,445)
Other	-	-	-	-	-
Net cash from investing	(1,271)	(696)	(1,200)	(1,244)	(1,445)
Net borrowings	(1,086)	(1,015)	1,021	460	551
Dividend paid	-	(107)	(208)	(250)	(300)
Other	270	(193)	(73)	(118)	(116)
Net cash from financing	(817)	(1,315)	740	92	135
Net change in cash	311	1,593	(355)	2,110	(550)
Cash at beginning of the year	100	412	1,984	1,629	3,739
Exchange difference	0	(21)	0	0	0
Cash at the end of the year	412	1,984	1,629	3,739	3,189

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	7,363	7,882	11,598	12,116	15,988
Cash & equivalents	412	1,984	1,629	3,739	3,189
Trade receivables	4,919	3,589	6,835	5,295	8,796
Inventories	1,913	1,943	2,768	2,716	3,637
Pledged bank deposits	93	267	267	267	267
Other current assets	26	100	100	100	100
Non-current assets	3,272	3,521	4,289	5,005	5,811
PPE	2,704	2,960	3,728	4,444	5,250
Lease payments					
Intangible assets	5	4	4	4	4
Other non-current assets	563	557	557	557	557
Total assets	10,635	11,403	15,887	17,121	21,799
Current liabilities	7,543	7,276	10,928	11,161	14,640
Bank borrowings	1,270	1,104	2,125	2,585	3,136
Trade payables	5,935	6,013	8,644	8,418	11,345
Tax payable	49	77	77	77	77
Other current liabilities	290	82	82	82	82
Non-current liabilities	225	341	341	341	341
Deferred income	130	138	138	138	138
Deferred tax liability	5	25	25	25	25
Total liabilities	7,768	7,617	11,268	11,502	14,981
Share capital	9	9	9	9	9
Reserves	2,858	3,776	4,609	5,610	6,809
Minority interest	-	-	-	-	-
Shareholders' equity	2,867	3,786	4,619	5,619	6,818
Total equity and liabilities	10,635	11,403	15,887	17,121	21,799

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Camera modules	79	87	88	89	91
Fingerprint modules	21	12	12	10	9
Growth (%)					
Revenue	61.9	32.1	22.8	16.4	16.2
Gross profit	234.1	50.1	28.0	16.1	19.0
Operating profit	784.8	68.9	25.9	18.3	18.6
Net profit	3,666.7	54.9	24.0	20.1	19.8
Profit & loss ratio (%)					
Gross margin	9.0	10.2	10.6	10.6	10.8
Operating margin	4.7	6.0	6.2	6.3	6.4
Net profit margin	4.1	4.8	4.9	5.0	5.2
Balance sheet ratio					
Net debt/total equity (x)	0.30	(0.23)	0.11	(0.21)	(0.01)
Current ratio (x)	1.0	1.1	1.1	1.1	1.1
Receivable turnover days	110	89	89	89	89
Inventory turnover days	40	45	45	45	45
Payable turnover days	137	140	140	140	140
Profitability (%)					
ROE	18.9	22.2	22.5	22.3	22.0
ROA	5.1	7.4	6.6	7.3	6.9
Per share data (RMB)					
EPS	0.48	0.72	0.89	1.07	1.28
DPS	0.09	0.50	0.18	0.21	0.26

Source: Company data, CMBIS estimates

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OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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