

Q Technology (1478 HK)

1H22 weakness mostly priced in; Maintain BUY

Q-tech's FY21 NP grew 2.7% YoY to RMB282mn, in-line with prelim. financials disclosed last month, mainly driven by 22% CCM shipment growth, 9% CCM ASP decline and HK\$51.68mn loss of Newmax JV. Looking in 2022, mgmt. guided 1) mobile CCM volume of double-digit growth, 2) IoT/auto CCM volume of 100%+ YoY, and 3) 20%+ for FPM shipment. After factoring in 1H22 weakness on destocking and better outlook for IoT/Auto CCM, we estimate revenue/NP to decline 7%/54% YoY in 1H22E and then rebound at 13%/101% YoY in 2H22E. Trading at 7.2x FY22E P/E (1-sd below hist. avg), we believe the stock has reflected 1H22 headwinds, and current price offers an attractive risk/reward. Maintain BUY with new TP of HK\$8.6 (lowered 10X FY22E P/E, 20% discount to 5-yr avg).

- FY21 results in-line; Lower GPM reflected slower upgrade and intense competition.** Q-tech revenue/NP growth of 7%/2% is largely in-line, as disclosed in prelim financials last month. By segment, CCM shipment grew 22% with 9% ASP decline, and FPM shipment grew 25% YoY with 36% ASP decline. GPM declined 80bps HoH to 7.3% in 2H21, due to sluggish high-end demand and early ramp of Samsung CCM. We expect easing margin pressure in 2H22E as Samsung orders and auto/IoT CCM start to ramp.
- 2022: mobile CCM of DD growth and auto/IoT CCM of 100%+ YoY.** Despite 1H22 industry headwinds, mgmt. guided double-growth growth for mobile CCM and 100%+ YoY for IoT/auto CCM, implying strong recovery in 2H22E driven by Samsung order ramp, channel restocking in 3Q22 and India expansion (8kk/m max). Mgmt. reiterated long-term roadmap for auto/IoT CCM and vertical integration strategy through spin-off to A-share listing.
- Positive progress in auto CCM (ADAS, DMS/ODS) and IoT (drone/AR/VR).** Q-tech started to build auto CCM capacity since 2018, and it delivered ADAS/In-carbin projects for SGMW, Geely (Zeekr 001), XPeng (P5, G9) and Foton Daimler in 2021. It also passed qualification with Continental, SH Auto, BJ EV and Dongfeng Vehicle, and expected MP in the short term.
- 1H22 weakness mostly priced in; Maintain BUY.** We trimmed FY22-23E EPS by 34-35% to factor in 1H22 weakness and lower margin in early ramp of Samsung/auto orders. Our new TP of HK\$8.6 is based on 10x FY22E P/E (20% discount to 5-yr avg). Current valuation at 7.2x FY22E P/E is close to 1-sd below historical average, implying attractive risk/reward. Catalysts include 2Q22 shipment recovery, Samsung/auto CCM and A-share spin-off.

Earnings Summary

(YE 31 Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (RMB mn)	17,400	18,663	19,241	20,132	21,502
YoY growth (%)	32.1	7.3	3.1	4.6	6.8
Net income (RMB mn)	840	863	846	1,006	1,244
EPS (RMB cents)	71.9	73.2	71.7	85.3	105.5
YoY growth (%)	51.1	1.8	-2.0	18.9	23.7
Consensus EPS (RMB)	72.6	96.6	115.3	136.0	145.0
P/E (x)	7.2	7.0	7.2	6.0	4.9
P/B (x)	1.6	1.3	1.1	1.0	0.8
Yield (%)	9.7		2.8	3.3	4.1
ROE (%)	22.2	18.3	15.7	16.3	17.3
Net gearing (%)	35	38	48	47	47

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$8.6
(Previous TP)	HK\$23.8
Up/Downside	+39.4%
Current Price	HK\$6.2

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	7,328
Avg. 3mths t/o (HK\$m)	21.99
52W High/Low (HK\$)	17.46/ 5.90
Total Issued Shares (mn)	1,182

Source: Bloomberg

Shareholding Structure

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

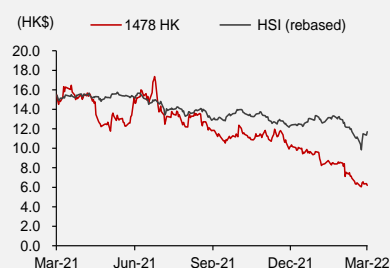
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-24.7%	-14.2%
3-mth	-37.0%	-31.8%
6-mth	-58.7%	-43.6%

Source: Bloomberg

12-mth Price Performance

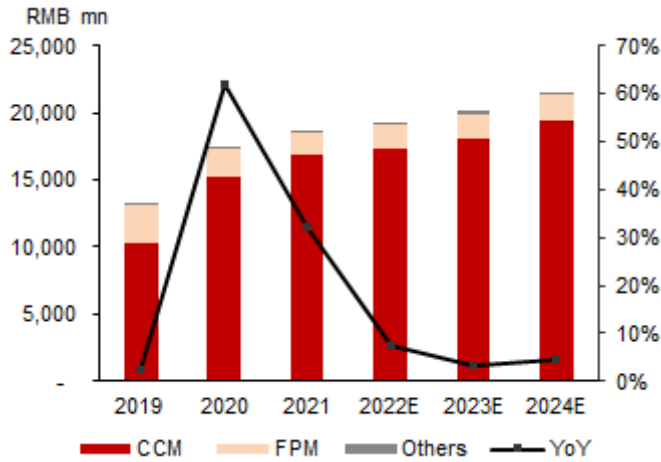


Source: Bloomberg

Auditor: KPMG

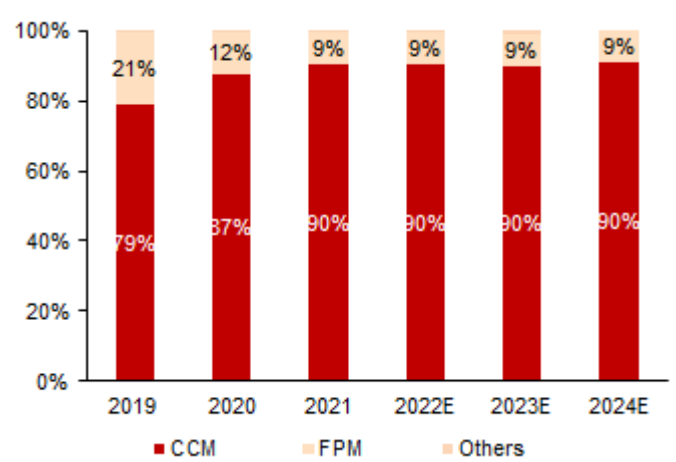
Focus Charts

Figure 1: Revenue growth trend



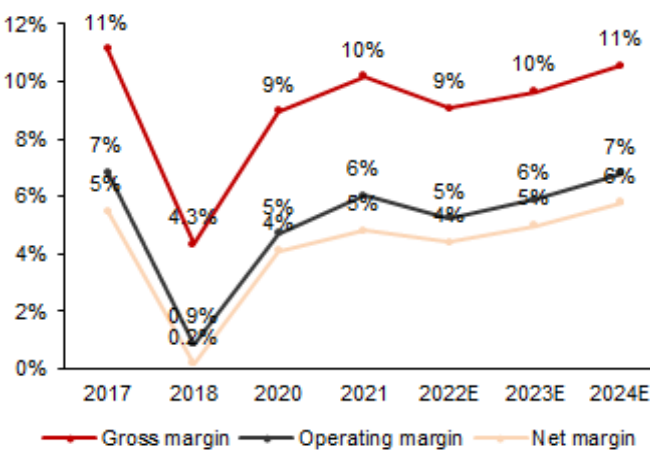
Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown



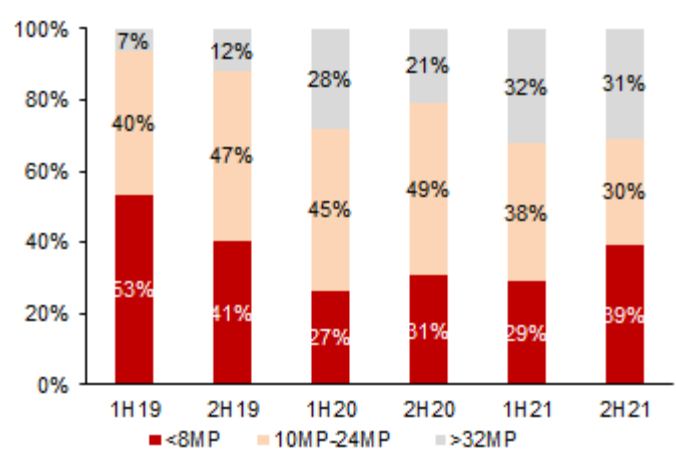
Source: Company data, CMBIGM estimates

Figure 3: Margins trend



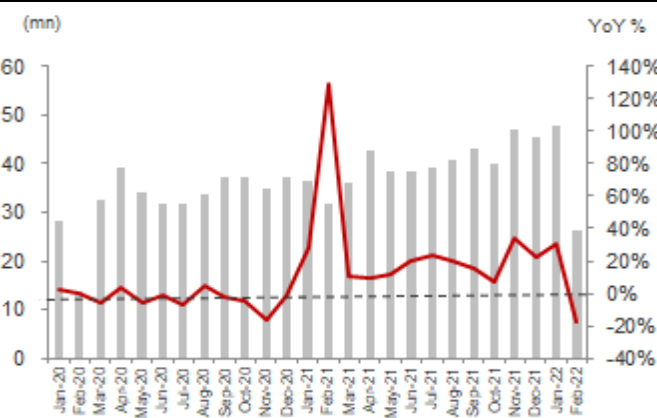
Source: Company data, CMBIGM estimates

Figure 4: CCM shipment mix



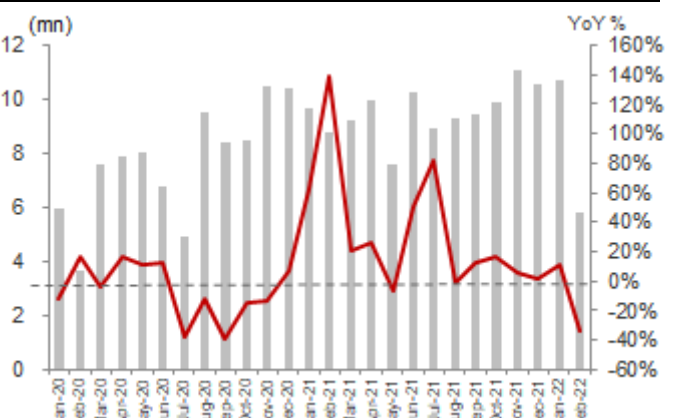
Source: Company data, CMBIGM estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIGM estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIGM estimates

Key takeaways from analyst call:

2021 Review:

- Historical-high revenue in 2021 (+7.3% YoY) due to CCM market share gain.
- GPM down 4.3ppt HoH to 7.3% in 2H21, due to 1) slower high-end Android demand, 2) lower pricing strategy with a major overseas customer during early stage, 3) lack of CCM innovation, 4) FPM spec slowdown and intense competition, 5) early stage of automotive/IoT business expansion, 6) higher expense for minimum wage and social security payment in China in 2H21.

2022 Guidance:

- Mobile CCM shipment to achieve double digit growth YoY
- FPM shipment to grow 20%+ YoY
- Other CCM to grow 100%+ YoY
- 2022 Capex will be flattish YoY (RMB 0.9bn)
- Capacity expansion plan
 - 1) Smartphone CCM: India capacity to increase from 5.5KK/m to 8KK/m by end of 2022; Kunshan capacity to increase moderately
 - 2) Automotive CCM: one of the production lines is under construction and will be put into use in the near future

Compact Camera module (CCM):

- Shipment increased 22.1% YoY, with mobile CCM up 21.5% YoY and non-mobile CCM up 423.8% YoY
- 32MP and above accounted for 31.7% of shipment (vs 24.2% in 2020)
- 8MP and below accounted for 34.6% of shipment (vs 28.7% in 2020)
- ASP was RMB 35.21, down 9.1% YoY, due to sluggish Android high-end demand
- Mgmt. is confident 32MP+ mix will maintain at 30% in 2022 (vs 31.7% in 2021)

Fingerprint module (FPM)

- Shipment reached 115mn, up 24.6% YoY, much higher than smartphone shipment
- ASP was RMB14.62, down 36% YoY, due to:
 - 1) decrease in raw material costs such as chips for optical under-glass FPM;
 - 2) mature stage of mobile FPM market with product upgrade slowdown

Earnings Revision

Lowred FY22-23E EPS by 34-35% to reflect 1H22 weakness and new client early ramp

We lowered FY22-23E EPS by 34-35% to factor in 1H22 destocking and margin impact on new client ramp from Samsung smartphone and automobile CCM. Our EPS are 27-38% below consensus, but we think recent share price has reflected 1H22 weakness.

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY22E	2023E	2024E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	19,241	20,132	21,502	25,643	30,088	n/a	-25%	-33%	n/a
Gross profit	1,744	1,943	2,266	2,667	3,179	n/a	-35%	-39%	n/a
Operating profit	1,010	1,188	1,460	1,526	1,840	n/a	-34%	-35%	n/a
Net profit	846	1,006	1,244	1,273	1,544	n/a	-34%	-35%	n/a
EPS (RMB)	71.7	85.3	105.5	109.0	132.1	n/a	-34%	-35%	n/a
Gross margin	9.1%	9.7%	10.5%	10.4%	10.6%	n/a	-1.3 ppt	-0.9 ppt	n/a
Operating margin	5.3%	5.9%	6.8%	5.9%	6.1%	n/a	-0.7 ppt	-0.2 ppt	n/a
Net Margin	4.4%	5.0%	5.8%	5.0%	5.1%	n/a	-0.6 ppt	-0.1 ppt	n/a

Source: Company data, CMBIGM estimates

Figure 8: CMBI estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY22E	2023E	2024E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	19,241	20,132	21,502	24,219	27,702	31,279	-21%	-27%	-31%
Gross profit	1,744	1,943	2,266	2,724	3,149	3,352	-36%	-38%	-32%
Operating profit	1,010	1,188	1,460	1,673	1,963	2,017	-40%	-39%	-28%
Net profit	846	1,006	1,244	1,395	1,649	1,707	-39%	-39%	-27%
EPS (RMB)	71.7	85.3	105.5	115.3	136.0	145.0	-38%	-37%	-27%
Gross margin	9.1%	9.7%	10.5%	11.2%	11.4%	10.7%	-2.2 ppt	-1.7 ppt	-0.2 ppt
Operating margin	5.3%	5.9%	6.8%	6.9%	7.1%	6.4%	-1.7 ppt	-1.2 ppt	0.3 ppt
Net Margin	4.4%	5.0%	5.8%	5.8%	6.0%	5.5%	-1.4 ppt	-1 ppt	0.3 ppt

Source: Company data, CMBIGM estimates

Figure 9: P&L forecast

RMB mn	FY19	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
Revenue	8,135	17,400	18,663	8,684	10,557	19,241	20,132	21,502
...YoY	2.5%	32.1%	7.3%	-7.0%	13.2%	3.1%	4.6%	6.8%
Cost of sales	(7,782)	(15,630)	(16,901)	(8,007)	(9,490)	(17,497)	(18,190)	(19,235)
Gross profit	353	1,771	1,762	677	1,067	1,744	1,943	2,266
GPM (%)	4.3%	10.2%	9.4%	7.8%	10.1%	9.1%	9.7%	10.5%
...YoY	-60.0%	50.1%	-0.5%	-37.5%	57.1%	-1.0%	11.4%	16.6%
SG&A	(100)	(179)	(184)	(87)	(106)	(192)	(201)	(215)
...% of rev	-1.2%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
R&D	(266)	(590)	(642)	(282)	(343)	(625)	(664)	(710)
...% of rev	-3.3%	-3.4%	-3.4%	-3.3%	-3.3%	-3.3%	-3.3%	-3.3%
Operating profit	70	1,046	1,039	334	676	1,010	1,188	1,460
OPM (%)	0.9%	6.0%	5.6%	3.8%	6.4%	5.3%	5.9%	6.8%
...YoY	-87.1%	68.9%	-0.7%	-52.3%	99.2%	-2.8%	17.6%	22.9%
Profit of associates.	(25)	(23)	(52)	(10)	20	10	20	30
Net profit	14	840	863	261	585	846	1,006	1,244
NPM (%)	0.2%	4.8%	4.6%	3.0%	5.5%	4.4%	5.0%	5.8%
...YoY	-96.7%	54.9%	2.7%	-55.1%	107.4%	-2.0%	18.9%	23.7%

Source: Company data, CMBIGM estimates

Figure 10: Revenue breakdown

RMB mn	FY19	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY23E
CCM Revenue	10,360	15,202	16,875	7,625	9,659	17,284	18,073	19,369
...YoY	65%	47%	11%	-9%	14%	2%	5%	7%
Shipment (mn)	406	392	479	226	307	533	584	630
...YoY	54%	-3%	22%	1%	20%	11%	10%	8%
ASP (RMB)	25.5	38.7	35.2	33.7	31.5	32.4	30.9	30.8
...YoY	7%	52%	-9%	-10%	-5%	-8%	-5%	-1%
FPM Revenue	2,759	2,101	1,675	966	806	1,772	1,875	1,948
...YoY	51%	-24%	-20%	5%	6%	6%	6%	4%
Shipment (mn)	102	92	115	64	71	135	148	156
...YoY	-5%	-10%	25%	15%	20%	18%	10%	5%
ASP (RMB)	27.1	22.8	14.6	15.2	11.3	13.2	12.7	12.5
...YoY	58%	-16%	-36%	-8%	-11%	-10%	-4%	-1%
Others	51	97	112	92	92	184	184	184
...YoY	66%	91%	16%	-	-	64%	0%	0%
Total	13,170	17,400	18,663	8,684	10,557	19,241	20,132	21,502
...YoY	62%	32%	7%	-7%	13%	3%	5%	7%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$8.6 (39% upside)

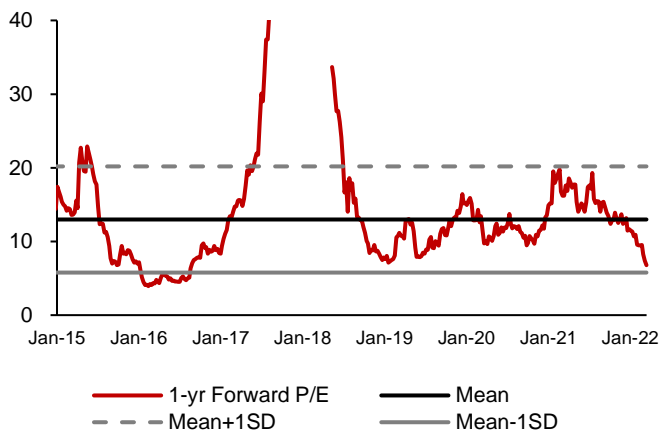
Our new 12m TP of HK\$ 8.6 is based on lowered 10x FY21E P/E. We believe smartphone recovery proposed A-share spin-off, stronger share gain and Newmax integration will drive earnings growth in long run. Upcoming catalysts include Samsung order ramp and A-share spin-off.

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 (%)		
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	
Q tech	1478 HK	Buy	964	6.2	8.6	39%	7.2	6.0	1.1	1.0	2.8	3.3	
FIT Hon Teng	6088 HK	Buy	1,085	1.19	1.76	48%	6.7	5.7	0.4	0.4	6.0	6.9	
AAC Tech	2018 HK	Hold	2,931	18.98	*37.40	NA	10.1	7.9	0.9	0.7	8.6	-	
Sunny Optical	2382 HK	Hold	19,287	137.60	140.50	2%	24.1	19.8	5.2	4.3	21.6	21.6	
Tongda	698 HK	Buy	200	0.16	*0.56	NA	2.7	2.4	0.2	0.2	-	-	
BYDE	285 HK	Hold	5,361	18.62	26.44	42%	10.2	7.3	1.4	1.2	13.2	15.9	
TK Group	2283 HK	Buy	243	2.28	*4.10	NA	3.5	3.5	1.5	1.5	41.7	41.7	
FIH	2038 HK	NR	1,062	1.04	NA	NA	16.6	11.1	0.5	0.5	2.9	4.3	
Truly	732 HK	NR	971	2.31	NA	NA	4.6	3.3	-	-	13.1	16.8	
SMIC	981 HK	NR	27,611	17.42	NA	NA	10.5	11.5	0.9	0.8	9.1	7.8	
YOFC	6869 HK	NR	2,275	10.72	NA	NA	7.6	6.7	0.6	0.6	8.3	9.1	
Ju Teng	3336 HK	NR	212	1.38	NA	NA	6.9	5.5	0.2	0.2	3.6	4.4	
Cowell	1415 HK	NR	818	7.67	NA	NA	10.3	7.5	2.1	1.7	22.8	25.9	
Average								9.2	7.4	1.3	1.1	13.4	11.9

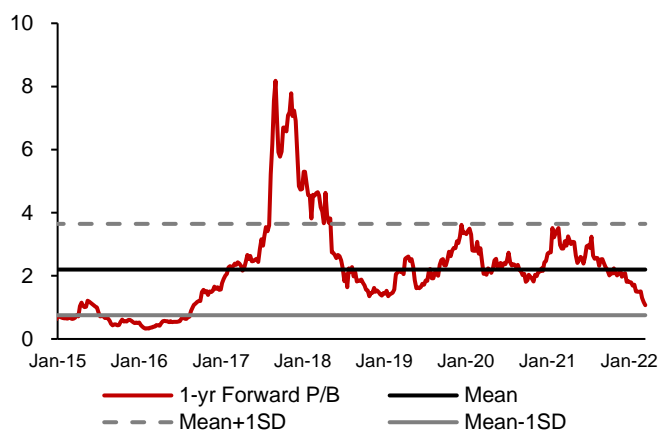
Source: Bloomberg, CMBIGM, * TP under review

Figure 12: 12M forward P/E band



Source: Company data, CMBIGM

Figure 13: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	17,400	18,663	19,241	20,132	21,502
COGS	(15,630)	(16,901)	(17,497)	(18,190)	(19,235)
Gross profit	1,771	1,762	1,744	1,943	2,266
Selling and marketing	(26)	(23)	(29)	(30)	(32)
Administrative	(153)	(161)	(164)	(171)	(183)
R&D	(590)	(642)	(625)	(664)	(710)
Other operating exp.	44	104	84	111	118
Operating profit	1,046	1,039	1,010	1,188	1,460
Financial cost	(54)	(30)	(48)	(52)	(60)
Share profit/loss of asso.	(23)	(52)	10	20	30
Pre-tax profit	970	957	972	1,156	1,430
Tax	(130)	(94)	(126)	(150)	(186)
Net profit	840	863	846	1,006	1,244

Cash flow summary

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Profit before taxation	970	957	972	1,156	1,430
Depreciation	413	498	572	649	732
Change in working capital	2,177	(1,017)	963	(1,016)	926
Others					
Net cash from operating	3,604	1,596	2,428	691	2,961
Capex	(523)	(1,558)	(962)	(1,007)	(1,075)
Other					
Net cash from investing	(696)	(880)	(962)	(1,007)	(1,075)
Net borrowings	(1,015)	604	768	370	458
Dividend paid	(107)		(169)	(201)	(249)
Other	(193)	(1,546)	(48)	(52)	(60)
Net cash from financing	(1,315)	(942)	551	117	149
					50
Net change in cash	1,593	(226)	2,017	(199)	2,036
Cash at beginning of the year	412	1,984	1,743	3,760	3,561
Exchange difference	(21)	(14)			
Cash at the end of the year	1,984	1,743	3,760	3,561	5,597

Balance sheet

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Current assets	7,882	9,315	10,557	11,689	13,243
Cash & equivalents	1,984	1,743	3,760	3,561	5,597
Trade receivables	3,589	4,446	3,838	4,830	4,427
Inventories	1,943	2,258	2,091	2,430	2,351
Pledged bank deposits	267	811	811	811	811
Other current assets	100	57	57	57	57
Non-current assets	3,521	3,733	4,124	4,481	4,824
PPE	2,960	3,144	3,535	3,892	4,236
Lease payments					
Intangible assets	4	20	20	20	20
Other non-current assets	557	569	569	569	569
Total assets	11,403	13,048	14,680	16,171	18,068
Current liabilities	7,276	8,079	9,035	9,720	10,622
Bank borrowings	1,104	1,708	2,476	2,846	3,304
Trade payables	6,013	6,259	6,446	6,762	7,206
Tax payable	77	49	49	49	49
Other current liabilities	82	64	64	64	64
Non-current liabilities	341	264	264	264	264
Deferred income	138	200	200	200	200
Deferred tax liability	25	-	-	-	-
Total liabilities	7,617	8,343	9,298	9,984	10,886
Share capital	9	9	9	9	9
Reserves	3,776	4,690	5,367	6,171	7,167
Minority interest	-	-	-	-	-
Shareholders' equity	3,786	4,705	5,382	6,186	7,182
Total equity and liabilities	11,403	13,048	14,680	16,171	18,068

Key ratios

YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
Sales mix (%)					
Camera modules	87	90	90	90	90
Fingerprint modules	12	9	9	9	9
Growth (%)					
Revenue	32.1	7.3	3.1	4.6	6.8
Gross profit	50.1	(0.5)	(1.0)	11.4	16.6
Operating profit	68.9	(0.7)	(2.8)	17.6	22.9
Net profit	54.9	2.7	(2.0)	18.9	23.7
Profit & loss ratio (%)					
Gross margin	10.2	9.4	9.1	9.7	10.5
Operating margin	6.0	5.6	5.3	5.9	6.8
Net profit margin	4.8	4.6	4.4	5.0	5.8
Balance sheet ratio					
Net debt/total equity (x)	(0.23)	(0.01)	(0.24)	(0.12)	(0.32)
Current ratio (x)	1.1	1.2	1.2	1.2	1.2
Receivable turnover days	89	79	79	79	79
Inventory turnover days	45	45	45	45	45
Payable turnover days	140	133	133	133	133
Profitability (%)					
ROE	22.2	18.3	15.7	16.3	17.3
ROA	7.4	6.6	5.8	6.2	6.9
Per share data (RMB)					
EPS	0.72	0.73	0.72	0.85	1.06
DPS	0.50	0	0.14	0.17	0.21

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

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CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

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