

# Q Technology (1478 HK)

## Corp Day Takeaways: Headwinds remain, Auto/IoT the brighter spot

We hosted an investor call with Q Tech during our Technology Corporate Day. While mgmt. is confident on 100%+ YoY growth in IoT/Auto CCM, they stated that previous guidance of 10% YoY in CCM and 20%+ YoY in FPM will be challenging to achieve due to ongoing smartphone weakness. In particular, mgmt. remains cautious on demand recovery in July and August due to weak seasonality, while holding a positive view on auto CCM progress and IoT upside. We maintain BUY on Q-Tech with TP of HK\$8.6 (based on 10x FY22E P/E).

- Smartphone CCM: steady growth despite margin/ASP pressure.** Despite industry headwinds, mgmt. expected to expand India capacity from 6KK/m to 8KK/m by end of 2022. Mgmt. believes CCM order will maintain steady growth backed by leading market position and strong customer relationship despite margin/ASP pressure on de-spec cycle.
- Auto/IoT CCM: sales mix to reach 5% in FY22E.** Overall, mgmt. is positive on progress on Auto/IoT CCM order win, and sales contribution will increase from 2-3% currently to 5% in FY22E. For auto CCM, Q-tech delivered projects for XPeng, Geely and SGMW. GPM will remain at low single digit for now and target to reach company's average in FY23E. For IoT CCM, Q-tech started small amount of shipments clients in Mainland China (VR products) and Taiwan.
- Fingerprint Module (FPM): market share gain to continue.** FPM shipment in May was up 3.2% QoQ and 21.1% YoY, better than expected and mgmt. attributed it to the production resumption after lockdown and continuous market share gain. Smaller suppliers were squeezed out of the market due to intense competition, and large customers are consolidating their supply chains with top-2 FPM suppliers
- No impact from inflationary cost and FX; Maintain BUY.** Mgmt. expected limited pressure from inflation, and Q-Tech has agreement with customers to pass on the higher cost as FX fluctuates. Overall, we believe 3Q22 will be trough for Q-tech, and we remain positive on Q-tech strategy to expand into Auto/IoT CCM businesses. Maintain BUY with TP of HK\$8.6 (based on 10x FY22E P/E).

### 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)	6.3	6.2	6.3	5.3	4.3
P/B (x)	1.4	1.1	1.0	0.9	0.7
Yield (%)	11.0		3.2	3.8	4.7
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\$8.6)
Up/Downside	+58%
Current Price	HK\$5.5

### China Technology Sector

**Alex Ng**  
 (852) 3900 0881  
 alexng@cmbi.com.hk

**Hanqing Li**  
 lihanqing@cmbi.com.hk

### Stock Data

Mkt. Cap. (HK\$m)	7,127
Avg. 3mths t/o (HK\$m)	21.84
52W High/Low (HK\$)	17.46/ 5.84
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	16.7%	3.7%
3-mth	-10.1%	-15.2%
6-mth	-53.3%	-38.3%

Source: Bloomberg

### 12-mth Price Performance

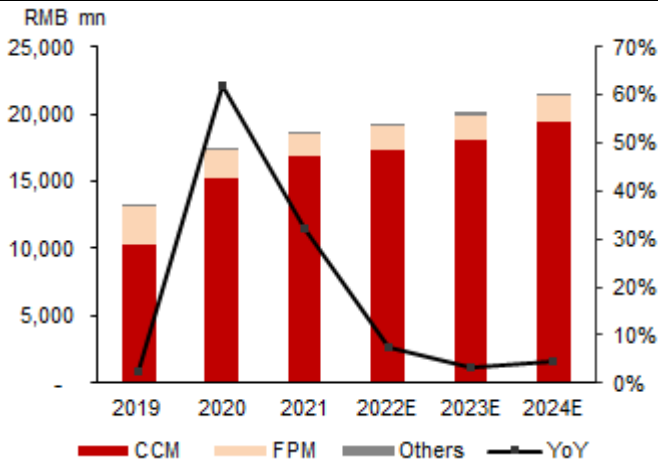


Source: Bloomberg

Auditor: KPMG

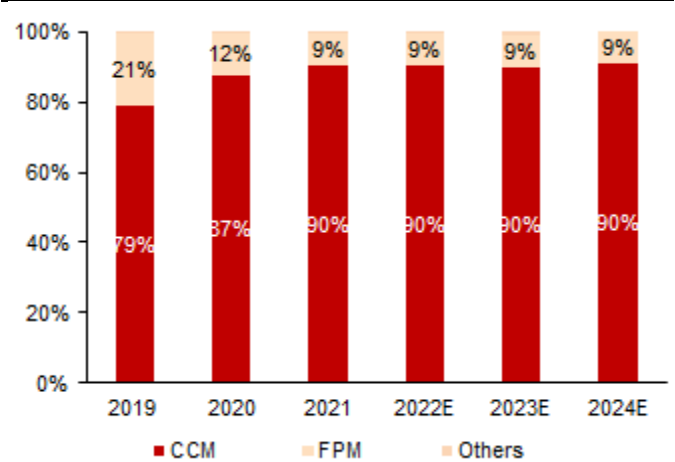
**Focus Charts**

**Figure 1: Revenue growth trend**



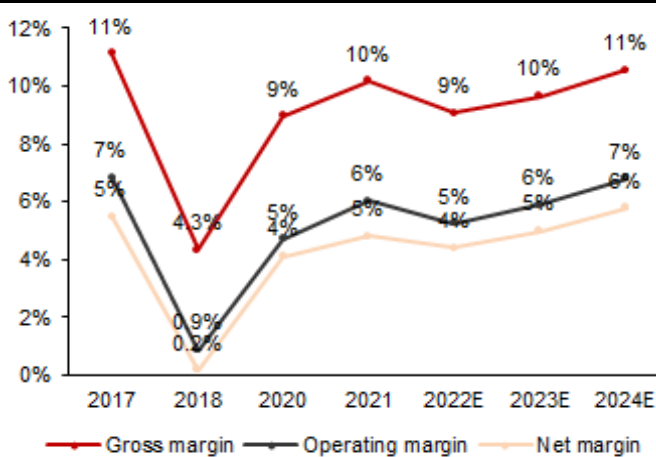
Source: Company data, CMBIGM estimates

**Figure 2: Revenue breakdown**



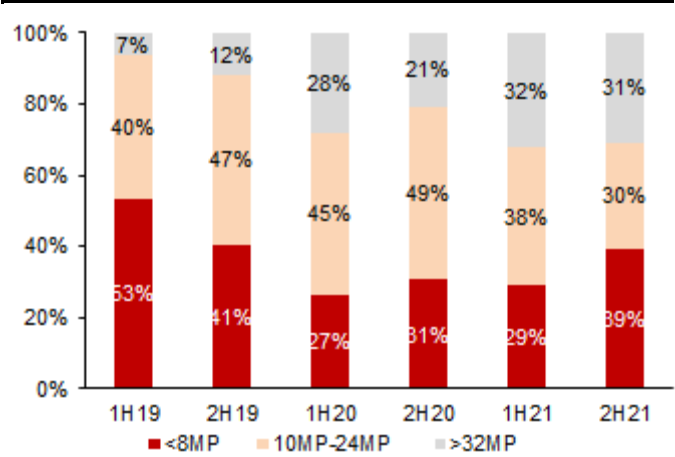
Source: Company data, CMBIGM estimates

**Figure 3: Margins trend**



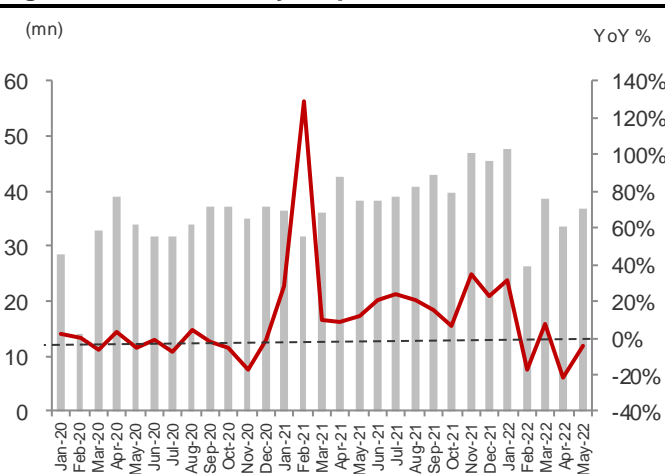
Source: Company data, CMBIGM estimates

**Figure 4: CCM shipment mix**



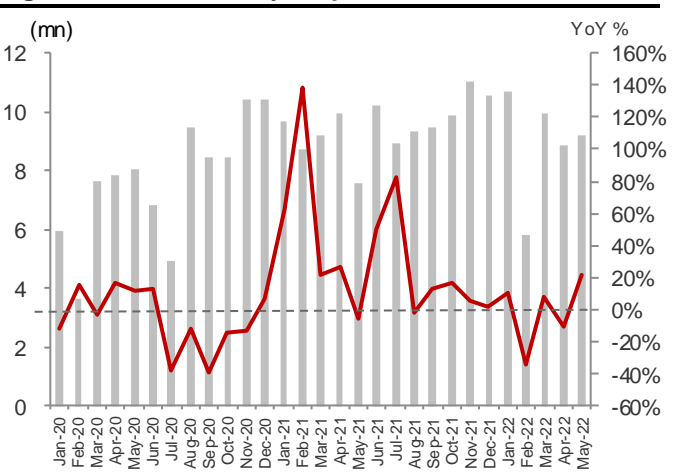
Source: Company data, CMBIGM estimates

**Figure 5: CCM monthly shipment**



Source: Company data, CMBIGM estimates

**Figure 6: FPM monthly shipment**



Source: Company data, CMBIGM estimates

Figure 7: P&amp;L forecast

RMB mn	FY19	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>8,135</b>	<b>17,400</b>	<b>18,663</b>	<b>8,684</b>	<b>10,557</b>	<b>19,241</b>	<b>20,132</b>	<b>21,502</b>
...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)
<b>Gross profit</b>	<b>353</b>	<b>1,771</b>	<b>1,762</b>	<b>677</b>	<b>1,067</b>	<b>1,744</b>	<b>1,943</b>	<b>2,266</b>
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%
<b>Operating profit</b>	<b>70</b>	<b>1,046</b>	<b>1,039</b>	<b>334</b>	<b>676</b>	<b>1,010</b>	<b>1,188</b>	<b>1,460</b>
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
<b>Net profit</b>	<b>14</b>	<b>840</b>	<b>863</b>	<b>261</b>	<b>585</b>	<b>846</b>	<b>1,006</b>	<b>1,244</b>
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 8: Revenue breakdown

RMB mn	FY19	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY23E
<b>CCM Revenue</b>	<b>10,360</b>	<b>15,202</b>	<b>16,875</b>	<b>7,625</b>	<b>9,659</b>	<b>17,284</b>	<b>18,073</b>	<b>19,369</b>
...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%
<b>FPM Revenue</b>	<b>2,759</b>	<b>2,101</b>	<b>1,675</b>	<b>966</b>	<b>806</b>	<b>1,772</b>	<b>1,875</b>	<b>1,948</b>
...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%
<b>Total</b>	<b>13,170</b>	<b>17,400</b>	<b>18,663</b>	<b>8,684</b>	<b>10,557</b>	<b>19,241</b>	<b>20,132</b>	<b>21,502</b>
...YoY	62%	32%	7%	-7%	13%	3%	5%	7%

Source: Company data, CMBIGM estimates

## Valuation

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

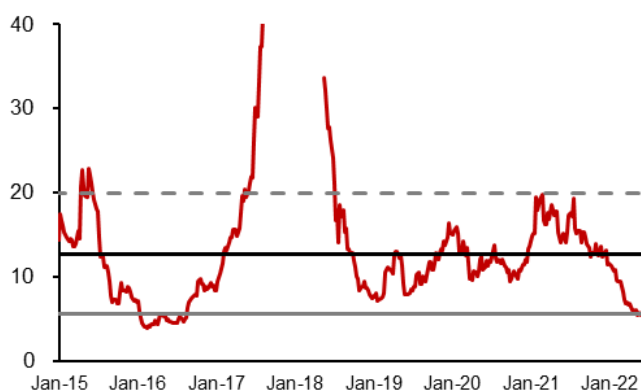
Our 12m TP of HK\$ 8.6 is based on 10x FY21E P/E. We believe smartphone recovery proposed A-share spin-off, stronger share gain and Newmax integration will drive earnings growth in long run. Upcoming catalysts include Samsung order ramp and A-share spin-off.

Figure 9: 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	824	5.46	8.60	58%	6.3	5.3	1.0	0.9	15.7	16.3	
FIT Hon Teng	6088 HK	Buy	981	1.08	1.76	63%	6.1	5.2	0.4	0.4	6.0	6.9	
AAC Tech	2018 HK	Hold	2,648	17.20	14.00	-19%	20.3	14.2	0.8	0.8	4.0	5.6	
Sunny Optical	2382 HK	Hold	16,055	114.90	125.70	9%	22.0	18.4	4.5	3.7	20.4	20.3	
Tongda	698 HK	Buy	188	0.15	0.23	51%	3.0	2.5	0.1	0.1	3.8	4.3	
BYDE	285 HK	Hold	5,637	19.64	12.45	-37%	22.3	13.2	1.5	1.4	6.9	10.6	
TK Group	2283 HK	Buy	223	2.10	3.38	61%	5.1	4.0	1.0	0.8	18.6	20.7	
FIH	2038 HK	NR	1,046	1.03	NA	NA	18.7	11.9	0.5	0.5	2.7	4.0	
Truly	732 HK	NR	930	2.22	NA	NA	4.8	4.0	-	-	12.2	13.4	
SMIC	981 HK	NR	27,513	18.86	NA	NA	11.2	9.0	1.0	0.9	9.7	7.8	
YOFC	6869 HK	NR	2,234	11.20	NA	NA	7.8	7.0	0.7	0.6	9.1	9.7	
Ju Teng	3336 HK	NR	232	1.52	NA	NA	7.6	5.2	0.3	0.3	3.5	5.0	
Cowell	1415 HK	NR	778	7.32	NA	NA	10.5	7.8	1.9	1.6	20.3	23.2	
Average								11.3	8.5	1.1	1.0	10.2	11.0

Source: Bloomberg, CMBIGM, \* TP under review

Figure 10: 12M forward P/E band



— 1-yr Forward P/E      — Mean  
 - - - Mean+1SD      — Mean-1SD

Source: Company data, CMBIGM

Figure 11: 12M forward P/B band



— 1-yr Forward P/B      — Mean  
 - - - Mean+1SD      — Mean-1SD

Source: Company data, CMBIGM

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>17,400</b>	<b>18,663</b>	<b>19,241</b>	<b>20,132</b>	<b>21,502</b>
COGS	(15,630)	(16,901)	(17,497)	(18,190)	(19,235)
<b>Gross profit</b>	<b>1,771</b>	<b>1,762</b>	<b>1,744</b>	<b>1,943</b>	<b>2,266</b>
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
<b>Operating profit</b>	<b>1,046</b>	<b>1,039</b>	<b>1,010</b>	<b>1,188</b>	<b>1,460</b>
Financial cost	(54)	(30)	(48)	(52)	(60)
Share profit/loss of asso.	(23)	(52)	10	20	30
<b>Pre-tax profit</b>	<b>970</b>	<b>957</b>	<b>972</b>	<b>1,156</b>	<b>1,430</b>
Tax	(130)	(94)	(126)	(150)	(186)
<b>Net profit</b>	<b>840</b>	<b>863</b>	<b>846</b>	<b>1,006</b>	<b>1,244</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Profit before taxation</b>	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					
<b>Net cash from operating</b>	<b>3,604</b>	<b>1,596</b>	<b>2,428</b>	<b>691</b>	<b>2,961</b>
Capex	(523)	(1,558)	(962)	(1,007)	(1,075)
Other					
<b>Net cash from investing</b>	<b>(696)</b>	<b>(880)</b>	<b>(962)</b>	<b>(1,007)</b>	<b>(1,075)</b>
Net borrowings	(1,015)	604	768	370	458
Dividend paid	(107)		(169)	(201)	(249)
Other	(193)	(1,546)	(48)	(52)	(60)
<b>Net cash from financing</b>	<b>(1,315)</b>	<b>(942)</b>	<b>551</b>	<b>117</b>	<b>149</b>
					50
<b>Net change in cash</b>	<b>1,593</b>	<b>(226)</b>	<b>2,017</b>	<b>(199)</b>	<b>2,036</b>
Cash at beginning of the year	412	1,984	1,743	3,760	3,561
Exchange difference	(21)	(14)			
<b>Cash at the end of the year</b>	<b>1,984</b>	<b>1,743</b>	<b>3,760</b>	<b>3,561</b>	<b>5,597</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>7,882</b>	<b>9,315</b>	<b>10,557</b>	<b>11,689</b>	<b>13,243</b>
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
<b>Non-current assets</b>	<b>3,521</b>	<b>3,733</b>	<b>4,124</b>	<b>4,481</b>	<b>4,824</b>
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
<b>Total assets</b>	<b>11,403</b>	<b>13,048</b>	<b>14,680</b>	<b>16,171</b>	<b>18,068</b>
<b>Current liabilities</b>	<b>7,276</b>	<b>8,079</b>	<b>9,035</b>	<b>9,720</b>	<b>10,622</b>
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
<b>Non-current liabilities</b>	<b>341</b>	<b>264</b>	<b>264</b>	<b>264</b>	<b>264</b>
Deferred income	138	200	200	200	200
Deferred tax liability	25	-	-	-	-
<b>Total liabilities</b>	<b>7,617</b>	<b>8,343</b>	<b>9,298</b>	<b>9,984</b>	<b>10,886</b>
Share capital	9	9	9	9	9
Reserves	3,776	4,690	5,367	6,171	7,167
Minority interest	-	-	-	-	-
<b>Shareholders' equity</b>	<b>3,786</b>	<b>4,705</b>	<b>5,382</b>	<b>6,186</b>	<b>7,182</b>
<b>Total equity and liabilities</b>	<b>11,403</b>	<b>13,048</b>	<b>14,680</b>	<b>16,171</b>	<b>18,068</b>

### Key ratios

YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Camera modules	87	90	90	90	90
Fingerprint modules	12	9	9	9	9
<b>Growth (%)</b>					
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
<b>Profit &amp; loss ratio (%)</b>					
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
<b>Balance sheet ratio</b>					
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
<b>Profitability (%)</b>					
ROE	22.2	18.3	15.7	16.3	17.3
ROA	7.4	6.6	5.8	6.2	6.9
<b>Per share data (RMB)</b>					
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

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## 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  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.