

Q Tech (1478 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$12.48

Target Price: HK\$15.40 (+23%)

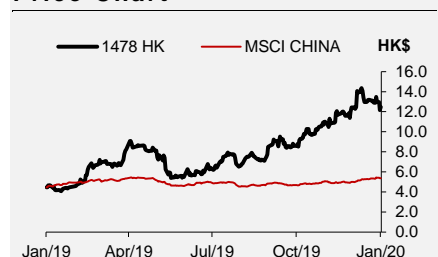
Prior TP HK\$15.40

Key Data

HKEx code	1478 HK
12 Months High (HK\$)	14.78
12 Month Low (HK\$)	4.03
3M AvgDail Vol. (mn)	8.37
Issue Share (mn)	1,157.48
Market Cap (HK\$mn)	14,445.30
Fiscal Year	12/2018
Major shareholder (s)	He Ningning (65.95%)

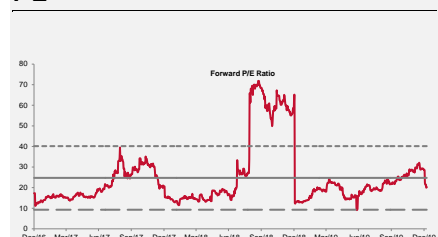
Source: Company data, Bloomberg, OP Research
Closing price are as of 07/01/2020

Price Chart



	1mth	3mth	6mth
Absolute %	0.5	46.5	88.2
Rel. MSCI CHINA %	-7.0	30.8	78.2

PE



Company Profile

Q Technology is a leading PRC-based manufacturer focusing on mid-to-high end camera module and fingerprint module market for Chinese branded smart phone and tablet PC manufacturers.

2019 full year shipments meet OP targets

- Q Tech reported December shipments with CCM/FPM sales volume up 18.7%/24.5% yoy to 37.7mn/9.7mn pcs. Full-year shipments meet OP targets.
- We expect continuous spec upgrade in 2020E led by higher penetration of 20M+ CCM, 3D and ultra-thin products.
- Maintain BUY with TP HK\$15.40 unchanged based on 15x FY21E P/E.

FY19E full-year shipments meet OP target. Q Tech reported 37.7mn/9.7mn pcs shipments for CCM/FPM products this December, up 18.7%/24.5% YoY mainly thanks to market share gain, down 10.3%/19.7% MoM due to product cycle effects and year-end inventory control at the downstream. Penetration of 10M+ CCM/under-glass FPM was 58%/53% respectively, in line with our expectations.

Q Tech has achieved full-year shipments of 406mn/102mn pcs for CCM/FPM products respectively, indicating yoy growth of 53.9%/decrease of 5.2% respectively, largely up to OP target of up 55%/down 10% yoy.

Spec upgrade expected to keep on in 2020E. Throughout 2019, Q Tech has achieved solid execution of product mix optimization strategy and lifted its high-end product (i.e. 10M+CCM, 3D module, under-glass FPM) penetration, which drives its margin recovery from 1.2% in 1H18 to 8.2% in 1H19. We expect such trend to keep on in 2020E with the introduction of ultra-high-end product (i.e. 20M+CCM, ultra-thin products), which would further improve the GPM and help mitigate the ASP erosion pressure.

Maintain BUY. We adjusted our FY19 shipment assumptions according to the actual reported figures. Our FY19/20E earnings estimates are kept unchanged. Maintain our BUY rating on Q Tech with TP HK\$15.40 unchanged based on 15x FY21E PE.

Risks: 1) RMB depreciating more than expected; 2) delay ramp up of non-China customers, 3) faster than expected ASP erosion; 4) slower ramp-up of the yield rate for ultra-high-end product.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	7,939	8,135	12,310	16,152	19,595
Growth (%)	59	2	51	31	21
Net Profit	436	14	514	744	1,058
Growth (%)	129	(97)	3,468	45	42
Diluted EPS (HK\$)	0.467	0.015	0.489	0.708	1.007
EPS growth (%)	118	(97)	3,121	45	42
Change to previous EPS (%)			0.0	(1.3)	
Consensus EPS (HK\$)			0.461	0.622	
ROE (%)	23.5	0.7	21.0	23.5	26.0
P/E (x)	26.6	819.7	25.5	17.6	12.4
P/B (x)	5.4	5.6	4.6	3.6	2.8
Yield (%)	0.8	0.0	0.0	0.0	0.0
DPS (HK\$)	0.096	0.000	0.000	0.000	0.000

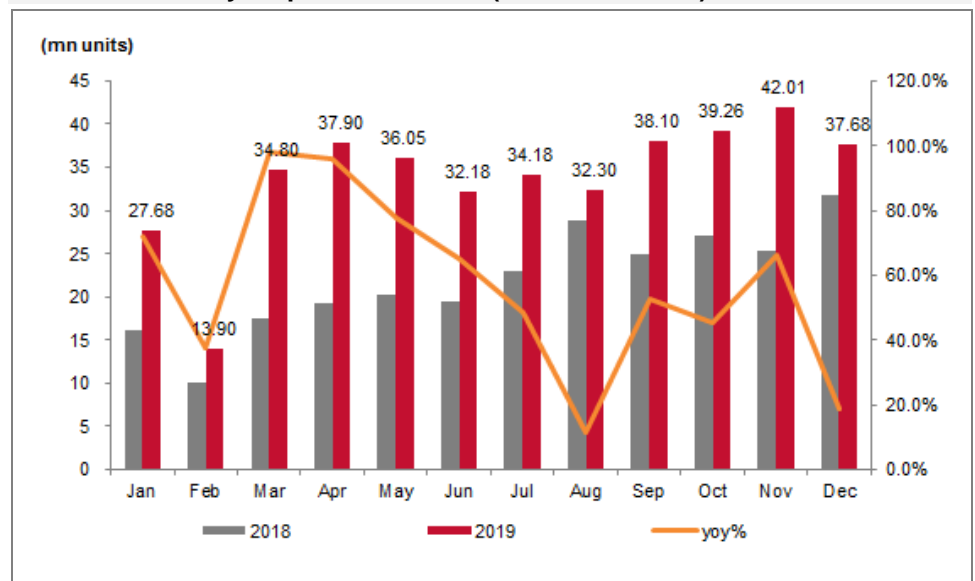
Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

(RMB mn)	FY19E			FY20E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Shipments (mn pcs)							
CCM shipments	406	409	(0.7)	532	532	0.0	Adjusted to the actual shipments
Fingerprint shipment	102	97	5.3	106	106	0.0	Adjusted to the actual shipments
ASP (RMB per pcs)							
HCM ASP	23	23	(0.0)	25	25	0.0	
Fingerprint ASP	28	28	0.0	29	29	0.0	
Revenue by segment (RMB mn)							
Compact camera module	9,435	9,505	(0.7)	13,060	13,060	0.0	
Fingerprint module	2,844	2,701	5.3	3,062	3,062	0.0	
Revenue	12,310	12,236	0.6	16,152	16,152	0.0	
Gross profit	1,015	1,006	0.9	1,418	1,418	0.0	
Gross margin	8.2%	8.2%	0.0	8.8%	8.8%	0.0	
Opex	(504)	(495)	1.8	(664)	(664)	0.0	
EBIT	533	533	0.0	794	794	0.0	
Net Profit	514	514	0.0	754	754	0.0	
Diluted EPS (HK\$)	0.489	0.489	0.0	0.717	0.717	0.0	

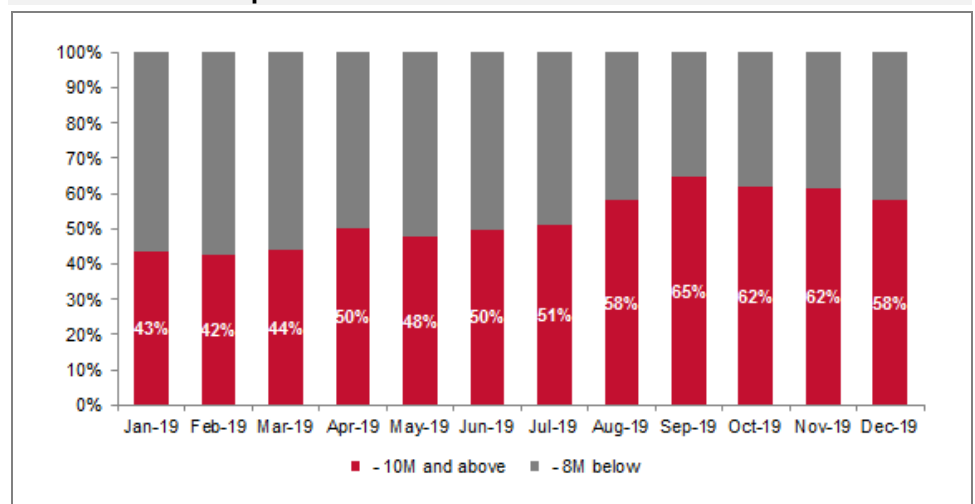
Source: OP Research

Exhibit 3: Monthly shipments of CCM (Camera module)



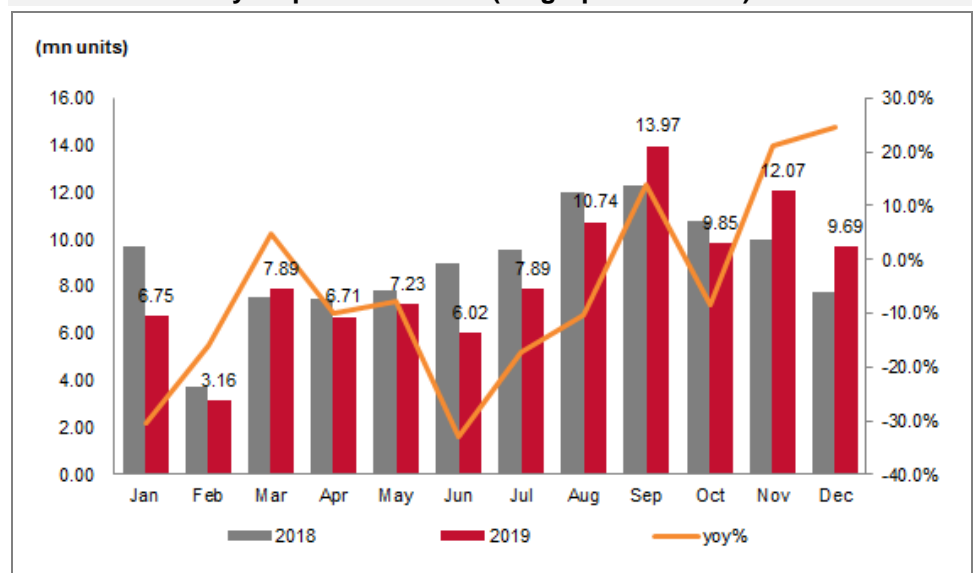
Source: Company, OP Research

Exhibit 4: CCM shipments mix



Source: Company, OP Research

Exhibit 5: Monthly shipments of FPM (Fingerprint module)



Source: Company, OP Research

Financial Summary

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Income Statement (RMB mn)					
Compact camera module	5,896	6,273	9,435	13,060	16,620
Fingerprint module	2,035	1,832	2,844	3,062	2,945
Others	8	30	30	30	30
Turnover	7,939	8,135	12,310	16,152	19,595
YoY%	59	2	51	31	21
COGS	(7,056)	(7,782)	(11,295)	(14,734)	(17,765)
Gross profit	883	353	1,015	1,418	1,831
Gross margin	11.1%	4.3%	8.2%	8.8%	9.3%
Other income	11	83	22	40	51
Selling & distribution	(16)	(19)	(27)	(38)	(44)
Admin	(65)	(81)	(113)	(154)	(177)
R&D	(270)	(266)	(365)	(483)	(539)
Other opex	0	0	0	0	0
Total opex	(351)	(366)	(504)	(675)	(761)
Operating profit (EBIT)	543	70	533	783	1,122
Operating margin	6.8%	0.9%	4.3%	4.8%	5.7%
Provisions	0	0	0	0	0
Finance costs	(17)	(44)	(46)	(46)	(46)
Profit after financing costs	526	26	487	737	1,075
Associated companies & JVs	(17)	(25)	93	107	128
Pre-tax profit	510	1	579	843	1,203
Tax	(73)	13	(66)	(99)	(145)
Minority interests	0	0	0	0	0
Net profit	436	14	514	744	1,058
YoY%	129	(97)	3,468	45	42
Net margin	5.5%	0.2%	4.2%	4.6%	5.4%
EBITDA	655	248	808	1,107	1,495
EBITDA margin	8.3%	3.0%	6.6%	6.9%	7.6%
EPS (RMB)	0.389	0.013	0.433	0.626	0.891
YoY%	116	(97)	3,320	45	42
DPS (HK\$)	0.096	0.000	0.000	0.000	0.000
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Cash Flow (RMB mn)					
EBITDA	655	248	808	1,107	1,495
Chg in working cap	1,583	(444)	57	(210)	(204)
Others	59	36	0	0	0
Operating cash	2,297	(160)	865	897	1,291
Interests paid	0	0	0	0	0
Tax	(75)	(13)	(2)	(66)	(99)
Net cash from operations	2,222	(173)	863	832	1,192
Capex	(949)	(522)	(739)	(646)	(588)
Investments	(1,141)	873	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	18	26	7	25	37
Others	(47)	9	0	0	0
Investing cash	(2,119)	387	(732)	(621)	(551)
FCF	103	214	131	211	641
Issue of shares	185	55	176	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	0	0	0	0	0
Net change in bank loans	218	(346)	0	0	0
Interest paid	(54)	(136)	(46)	(46)	(46)
Others	(37)	(156)	0	0	0
Financing cash	312	(584)	130	(46)	(46)
Net change in cash	414	(370)	261	165	595
Exchange rate or other Adj	(14)	5	0	0	0
Opening cash	65	465	100	361	526
Closing cash	465	100	361	526	1,121
CFPS (HK\$)	2.379	(0.182)	0.821	0.791	1.134

Source: Company, OP Research

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	11.1	4.3	8.2	8.8	9.3
Operating margin (%)	6.8	0.9	4.3	4.8	5.7
Net margin (%)	5.5	0.2	4.2	4.6	5.4
Selling & dist'n exp/Sales (%)	0.2	0.2	0.2	0.2	0.2
Admin exp/Sales (%)	0.8	1.0	0.9	1.0	0.9
Payout ratio (%)	20.5	0.0	0.0	0.0	0.0
Effective tax (%)	13.9	(50.5)	13.5	13.5	13.5
Total debt/equity (%)	50.2	56.0	42.2	33.3	25.6
Net debt/equity (%)	28.6	51.3	29.2	18.4	1.3
Current ratio (x)	1.05	0.99	1.02	1.06	1.14
Quick ratio (x)	0.88	0.83	0.84	0.87	0.95
Inventory T/O (days)	36	33	33	33	33
AR T/O (days)	94	136	120	120	120
AP T/O (days)	146	144	144	144	144
Cash conversion cycle (days)	(17)	25	9	9	9
Asset turnover (x)	1.50	1.30	1.64	1.67	1.65
Financial leverage (x)	2.86	2.95	3.07	3.05	2.92
EBIT margin (%)	6.8	0.9	4.3	4.8	5.7
Interest burden (x)	0.94	0.02	1.09	1.08	1.07
Tax burden (x)	0.86	10.83	0.89	0.88	0.88
Return on equity (%)	23.5	0.7	21.0	23.5	26.0
ROIC (%)	20.3	3.5	13.6	17.4	21.9
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Balance Sheet (RMB mn)					
Fixed assets	1,481	1,889	2,353	2,658	2,843
Intangible assets & goodwill	1	1	1	1	1
Associated companies & JVs	258	229	322	429	557
Long-term investments	0	0	0	0	0
Other non-current assets	213	92	84	76	69
Non-current assets	1,953	2,211	2,761	3,164	3,470
Inventories	688	704	1,022	1,333	1,607
AR	2,035	3,031	4,047	5,310	6,442
Prepayments & deposits	0	0	0	0	0
Other current assets	959	394	394	394	394
Cash	465	100	361	526	1,121
Current assets	4,147	4,229	5,824	7,563	9,563
AP	2,830	3,061	4,443	5,796	6,989
Tax	8	2	66	99	145
Accruals & other payables	0	28	37	48	59
Bank loans & leases	1,078	1,178	1,178	1,178	1,178
CB & othe debts	0	0	0	0	0
Other current liabilities	18	0	0	0	0
Current liabilities	3,934	4,270	5,725	7,123	8,371
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	20	66	66	66	66
MI	0	0	0	0	0
Non-current liabilities	20	66	66	66	66
Total net assets	2,146	2,103	2,794	3,537	4,596
Shareholder's equity	2,146	2,103	2,794	3,537	4,596
Share capital	9	9	185	185	185
Reserves	2,137	2,094	2,608	3,352	4,410
BVPS (HK\$)	2.31	2.23	2.73	3.45	4.49
Total debts	1,078	1,178	1,178	1,178	1,178
Net cash/(debts)	(613)	(1,078)	(817)	(652)	(58)

Exhibit 6: Peer Group Comparison

3-mth															EV/	EV/	Net	Gross	ROE		ROE			
		Mkt cap	avg t/o	PER Hist	PER FY1	PER FY2	EPS FY1	EPS FY2	EPS FY23-Yr	EPS	Div yld	Div yld	P/B Hist	P/B FY1	Ebitda	Ebitda	gearing	margin	Net margin	Hist	FY1	Shpx	Shpx	
Company	Ticker	Price	(US\$m)	(x)	(x)	(x)	YoY%	YoY%	Cagr (%)	PEG (x)	Hist (%)	FY1 (%)	(x)	(x)	Hist	Cur Yr	Hist (%)	Hist (%)	Hist (%)	(%)	(%)	1-mth %	3-mth %	
Q Technology Gro	1478 HK	12.48	1,858	12.7	822.3	25.5	17.6	3,120.8	44.8	304.8	0.08	0.0	0.0	5.6	4.6	61.4	18.9	51.3	4.3	(9,670.0)	0.7	21.0	0.5	45.3
HSI		28,322.06			11.1	10.7	9.9	3.2	8.2	8.3	1.30	3.5	3.8	1.24	1.14					11.2	10.6	7.0	9.9	
HSCEI		11,198.75			8.9	8.5	7.8	4.5	9.2	3.6	2.35	3.4	3.9	1.21	1.06					13.6	12.5	7.9	10.7	
CSI300		4,160.23			14.8	12.1	10.8	21.7	12.6			2.0	2.6	1.90	1.64					12.9	13.5	6.6	9.1	
Adjusted sector avg*					29.6	23.8	19.3	48.5	40.9	48.2	0.8	3.2	3.5	4.6	5.9	10.7	32.5	31.5	13.9	3.1	9.9	13.4	4.2	4.5
Sunny Optical	2382 HK	131.50	18,554	98.9	51.5	37.0	26.6	39.2	39.2	34.9	1.06	0.5	N/A	12.89	N/A	31.8	N/A	0.0	18.9	9.6	30.5	N/A	(5.2)	10.8
Truly Intl Hldgs	732 HK	1.23	520	0.8	52.1	9.8	5.3	429.7	84.0	122.5	0.08	N/A	N/A	0.51	N/A	4.5	N/A	82.7	9.5	0.4	2.7	N/A	19.4	8.8
Cowell	1415 HK	2.01	215	0.6	15.2	11.8	7.4	29.4	59.1	39.3	0.30	5.6	6.6	0.69	0.63	2.2	1.6	0.0	9.8	2.6	5.4	8.6	62.1	63.4
Ofilm Group Co-A	002456 CH	16.17	6,320	289.3	N/A	76.6	31.2	N/A	146.0	(251.6)	N/A	N/A	N/A	4.97	4.81	25.2	58.5	175.2	12.3	(1.2)	(17.9)	10.6	13.8	35.9
Huizhou Speed -A	300322 CH	21.00	1,231	94.1	140.0	59.5	42.4	135.3	40.2	65.7	0.90	0.1	0.5	12.79	12.23	47.9	38.4	99.4	21.8	3.6	17.5	21.1	3.6	(15.5)
Crucialtec Co Lt	114120 KS	915.00	52	0.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.76	N/A	(4.4)	N/A	38.6	(8.8)	(64.1)	(31.1)	N/A	0.2	(5.2)
Lite-On Tech	2301 TT	48.90	3,808	10.2	14.3	12.7	11.9	12.3	7.2	7.9	1.61	6.0	N/A	1.61	N/A	6.7	31.4	0.0	13.1	3.8	13.7	N/A	(0.4)	0.4
Primax Elec	4915 TT	61.20	910	13.5	14.9	11.8	10.2	26.1	15.6	19.0	0.62	3.9	N/A	2.30	N/A	9.0	N/A	0.0	12.0	2.8	17.5	N/A	(2.1)	(3.9)

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
31/12/2019	GT Service	2869	Introducing Longfor as 3rd largest shareholder	BUY	Dallas Cai/Yuji Fung
20/12/2019	Q Tech	1478	Top-up placement for CCM capacity expansion	BUY	Yuji Fung/Dallas Cai
17/12/2019	Aidigong	286	Transforming into a leading postpartum care player in China	NR	Yuji Fung
13/12/2019	Anta Sports	2020	Revealing higher visibility of post-M&A roadmap	BUY	Dallas Cai/Megan Jin
10/12/2019	Sunny Optical	2382	November saw strong HCM shipment growth	BUY	Yuji Fung/Dallas Cai
10/12/2019	Q Tech	1478	November shipments maintain full steam	BUY	Yuji Fung/Dallas Cai
03/12/2019	Xtep Intl	1368	Update on winter sales and new brand	BUY	Dallas Cai/Megan Jin
28/11/2019	Edvantage Group	382	Advantageous Educator in Greater Bay Area	BUY	Yuji Fung/Dallas Cai
14/11/2019	Ausnutria Dairy	1717	3Q results up to expectations	BUY	Dallas Cai/Megan Jin
14/11/2019	Anta Sports	2020	Dispose 5% of Amer for introduction of experienced investors	BUY	Dallas Cai/Megan Jin
11/11/2019	Sunny Optical	2382	October shipments in line with expectations	BUY	Yuji Fung/Dallas Cai
11/11/2019	Q Tech	1478	Another month of robust growth in October	BUY	Yuji Fung/Dallas Cai
30/10/2019	CH Display OPT	334	More shifting to processing mode in 3Q19	HOLD	Yuji Fung/Dallas Cai
22/10/2019	Li-Ning	2331	3Q19 saw solid retail performance	BUY	Dallas Cai/Megan Jin
21/10/2019	Q Tech	1478	Upgrade on diversified global footprint	BUY	Yuji Fung/Dallas Cai
18/10/2019	Xtep Intl	1368	3Q19 operations in line	BUY	Dallas Cai/Megan Jin
17/10/2019	Anta Sports	2020	3Q19 retail performance up to expectations	BUY	Dallas Cai/Megan Jin
17/10/2019	361 Degrees Intl	1361	3Q19 operations in line with expectations	BUY	Megan Jin
14/10/2019	Sunny Optical	2382	Another month of robust HLS growth	BUY	Yuji Fung/Dallas Cai
11/10/2019	Q Tech	1478	September saw robust shipment growth momentum	BUY	Yuji Fung/Dallas Cai
02/10/2019	China Prop Mgmt	-	Clear vision of promising secular growth	BUY	Dallas Cai/Yuji Fung
11/09/2019	Q Tech	1478	August saw product mix improving on track	BUY	Yuji Fung/Dallas Cai
10/09/2019	Sunny Optical	2382	Upgrade on HLS market share gain	BUY	Yuji Fung/Dallas Cai
05/09/2019	Sinosoft Tech	1297	1H19 saw softened growth	BUY	Yuji Fung/Dallas Cai
05/09/2019	Truly Int'l	732	1H19 saw loss from associate narrowing on track	BUY	Yuji Fung/Dallas Cai
02/09/2019	TCL Electronics	1070	1H19 earnings beat our expectations	BUY	Yuji Fung/Dallas Cai
27/08/2019	Anta Sports	2020	Positive surprise from OPM and Descente breakeven	BUY	Dallas Cai/Megan Jin

Historical recommendations and target price: Q Tech (1478 HK)

(as of 07/01/2020)

(HK\$)



Date	Rating	TP (HK\$)	CLOSE (HK\$)	Date	Rating	TP (HK\$)	CLOSE (HK\$)
1 11 Jun 2019	SELL	5.00	6.28	6 11 Oct 2019	BUY	10.00	9.15
2 21 Jun 2019	SELL	5.00	6.07	7 21 Oct 2019	BUY	15.40	10.28
3 01 Jul 2019	BUY	7.40	5.95	8 11 Nov 2019	BUY	15.40	10.88
4 13 Aug 2019	BUY	9.20	7.35	9 10 Dec 2019	BUY	15.40	12.44
5 10 Sep 2019	BUY	9.20	8.67	10 20 Dec 2019	BUY	15.40	13.40

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