

Q Tech (1478 HK)

Yuji Fung

+852 2135 0236

yuji.fung@oriental-patron.com.hk

Dallas Cai

+852 2135 0248

dallas.cai@oriental-patron.com.hk

Company Update

BUY

UNCHANGED
Close price: HK\$10.88

Target Price: HK\$15.40 (+42%)

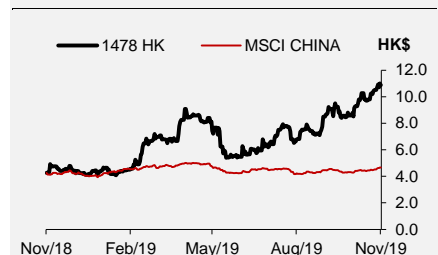
Prior TP HK\$15.40

Key Data

HKEx code	1478 HK
12 Months High (HK\$)	11.56
12 Month Low (HK\$)	4.03
3M AvgDail Vol. (mn)	8.19
Issue Share (mn)	1,142.48
Market Cap (HK\$mn)	12,430.14
Fiscal Year	12/2018
Major shareholder (s)	He Ningning (65.95%)

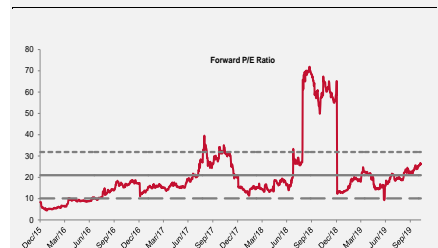
Source: Company data, Bloomberg, OP Research
Closing price are as of 08/11/2019

Price Chart



	1mth	3mth	6mth
Absolute %	27.7	59.8	41.9
Rel. MSCI CHINA %	18.5	48.2	41.7

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.

Another month of robust growth in October

- **October CCM/FPM shipments changed +45.3%/-8.5% yoy to 39.3mn/9.8mn respectively with 10M+ CCM penetration hitting 62%.**
- **We fine-tune our FY19/20E earnings estimate by 3.6%/9.0% to RMB561mn/RMB747mn respectively.**
- **Maintain BUY with TP HK\$15.40 unchanged based on 15x FY21E P/E.**

October shipments kept robust growth momentum. Q Tech kept up robust CCM shipments growth in October with 10M+/8M- products up 84.8%/8.1% yoy to 24.2mn/15.0mn pcs respectively, implying a 10M+ penetration ratio of 62%. FPM sales volume retreated by 8.5% yoy to 9.8mn pcs, of which under-glass FPM products still kept solid yoy growth of 101.3% to 4.2mn pcs. YTD cumulative shipments for CCM/FPM have reached 326.4mn/80.2mn pcs respectively, implying +57.8%/-10.7% yoy change and counting for 80%/83% of OP full-year targets. We are confident the company will meet its FY19E shipment targets.

We revise up our FY19/20E earnings estimates by 3.6%/9.0% to RMB561mn/RMB747mn respectively. We fine-tuned our FY19/20E CCM shipment by 3.3%/3.3% to 409mn/515mn pcs and we tuned down Newmax share profit yoy growth to 15% from 20% in FY20E to reflect the new production capacity is likely fully ramp in late FY20E. As a result, our FY19/20E diluted EPS was revised up by 1.8%/7.1% respectively to HK\$0.541/HK\$0.720.

Maintain BUY. We maintain our BUY rating on Q Tech with TP HK\$15.40 unchanged based on 15x FY21E PE (vs previously 18x FY21E P/E) as the contribution from lens set business will ramp-up slower than expected due to capacity restrictions.

Risks: 1) RMB depreciating more than expected; 2) delay ramp up of non-China customers, 3) substantial erosion on under-glass FPM ASP/GPM.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	7,939	8,135	12,236	16,152	19,595
Growth (%)	59	2	50	32	21
Net Profit	436	14	561	747	1,063
Growth (%)	129	(97)	3,798	33	42
Diluted EPS (HK\$)	0.467	0.015	0.541	0.720	1.024
EPS growth (%)	118	(97)	3,464	33	42
Change to previous EPS (%)			1.8	7.1	
Consensus EPS (HK\$)			0.418	0.551	
ROE (%)	23.5	0.7	23.5	24.6	27.0
P/E (x)	23.3	716.9	20.1	15.1	10.6
P/B (x)	4.7	4.9	4.1	3.2	2.5
Yield (%)	0.9	0.0	0.0	0.0	0.0
DPS (HK\$)	0.096	0.000	0.000	0.000	0.000

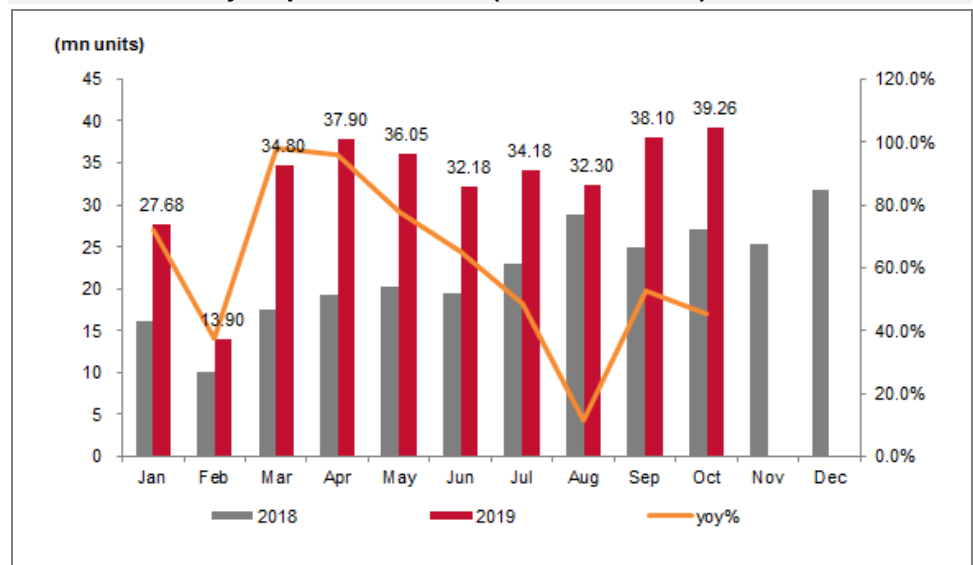
Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

(RMB mn)	FY19E			FY20E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Shipments (mn pcs)							
CCM shipments	409	396	3.3	532	515	3.3	
Fingerprint shipment	97	86	12.5	106	77	37.5	
ASP (RMB per pcs)							
HCM ASP	23	23	1.3	25	26	(4.2)	
Fingerprint ASP	28	29	(2.2)	29	30	(2.6)	
Revenue by segment (RMB mn)							
Compact camera module	9,505	9,080	4.7	13,060	13,198	(1.0)	
Fingerprint module	2,701	2,454	10.0	3,062	2,287	33.9	
Revenue	12,236	11,564	5.8	16,152	15,515	4.1	
Gross profit	1,006	952	5.6	1,418	1,320	7.4	
Gross margin	8.2%	8.2%	(0.0)	8.8%	8.5%	0.3	
Opex	(440)	(437)	0.6	(664)	(661)	0.4	
EBIT	588	536	9.6	786	693	13.5	
Net Profit	561	542	3.6	747	685	9.0	
Diluted EPS (HK\$)	0.541	0.532	1.8	0.720	0.672	7.1	

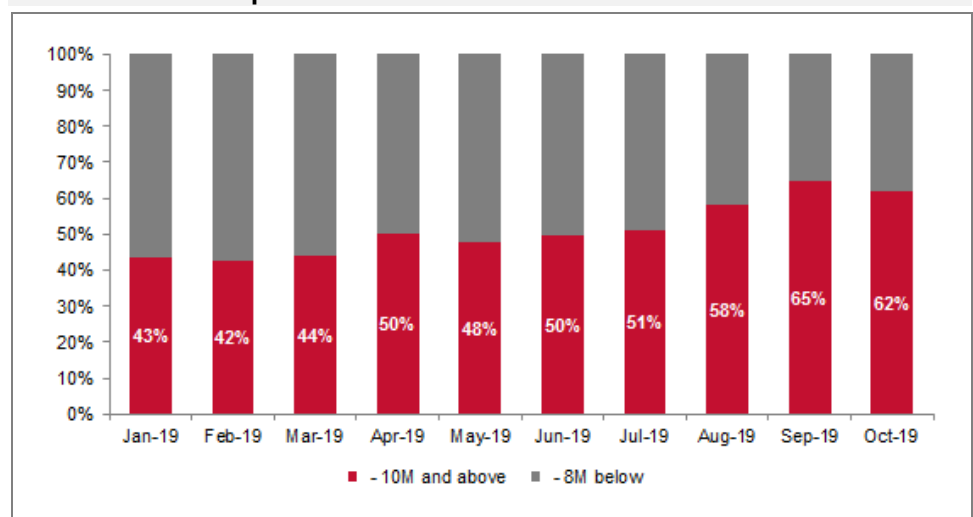
Source: OP Research

Exhibit 3: Monthly shipments of CCM (Camera module)



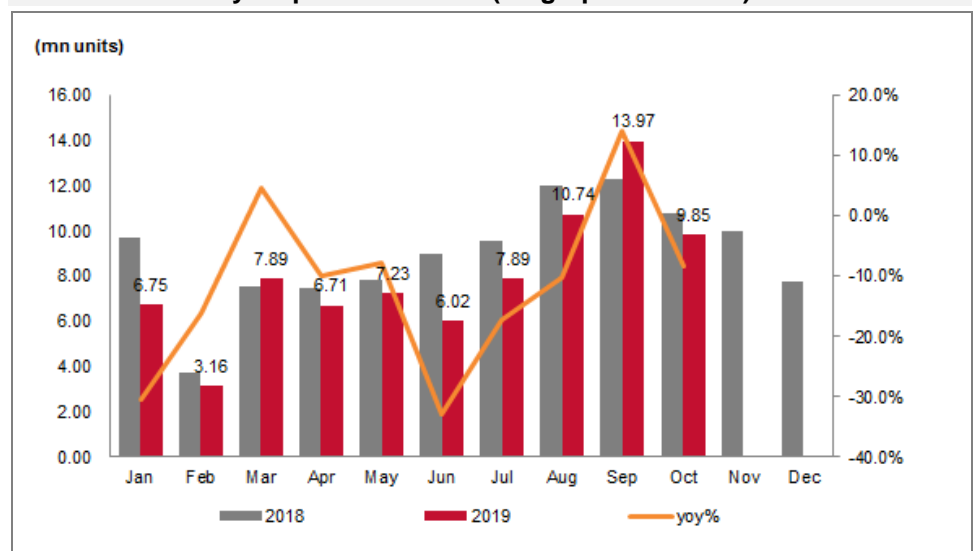
Source: Company, OP Research

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	9,505	13,060	16,620
Fingerprint module	2,035	1,832	2,701	3,062	2,945
Others	8	30	30	30	30
Turnover	7,939	8,135	12,236	16,152	19,595
YoY%	59	2	50	32	21
COGS	(7,056)	(7,782)	(11,230)	(14,734)	(17,765)
Gross profit	883	353	1,006	1,418	1,831
Gross margin	11.1%	4.3%	8.2%	8.8%	9.3%
Other income	11	83	22	32	43
Selling & distribution	(16)	(19)	(26)	(38)	(44)
Admin	(65)	(81)	(104)	(142)	(164)
R&D	(270)	(266)	(309)	(483)	(539)
Other opex	0	0	0	0	0
Total opex	(351)	(366)	(440)	(664)	(747)
Operating profit (EBIT)	543	70	588	786	1,127
Operating margin	6.8%	0.9%	4.8%	4.9%	5.7%
Provisions	0	0	0	0	0
Finance costs	(17)	(44)	(46)	(46)	(46)
Profit after financing costs	526	26	542	740	1,080
Associated companies & JVs	(17)	(25)	93	107	128
Pre-tax profit	510	1	634	847	1,208
Tax	(73)	13	(73)	(100)	(146)
Minority interests	0	0	0	0	0
Net profit	436	14	561	747	1,063
YoY%	129	(97)	3,798	33	42
Net margin	5.5%	0.2%	4.6%	4.6%	5.4%
EBITDA	655	248	862	1,118	1,508
EBITDA margin	8.3%	3.0%	7.0%	6.9%	7.7%
EPS (RMB)	0.389	0.013	0.479	0.637	0.906
YoY%	116	(97)	3,685	33	42
DPS (HK\$)	0.096	0.000	0.000	0.000	0.000
Cash Flow (RMB mn)					
EBITDA	655	248	862	1,118	1,508
Chg in working cap	1,583	(444)	61	(214)	(204)
Others	59	36	0	0	0
Operating cash	2,297	(160)	924	904	1,304
Interests paid	0	0	0	0	0
Tax	(75)	(13)	(2)	(73)	(100)
Net cash from operations	2,222	(173)	922	830	1,204
Capex	(949)	(522)	(734)	(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	17	28
Others	(47)	9	0	0	0
Investing cash	(2,119)	387	(727)	(629)	(560)
FCF	103	214	195	202	645
Issue of shares	185	55	0	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)	(46)	(46)	(46)
Net change in cash	414	(370)	149	156	599
Exchange rate or other Adj	(14)	5	0	0	0
Opening cash	65	465	100	249	404
Closing cash	465	100	249	404	1,003
CFPS (HK\$)	2.379	(0.182)	0.888	0.800	1.161

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	4.8	4.9	5.7
Net margin (%)	5.5	0.2	4.6	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	0.9	0.8
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	44.2	34.5	26.3
Net debt/equity (%)	28.6	51.3	34.9	22.7	3.9
Current ratio (x)	1.05	0.99	1.00	1.04	1.13
Quick ratio (x)	0.88	0.83	0.82	0.86	0.94
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	1.65	1.70	1.67
Financial leverage (x)	2.86	2.95	3.12	3.13	2.98
EBIT margin (%)	6.8	0.9	4.8	4.9	5.7
Interest burden (x)	0.94	0.02	1.08	1.08	1.07
Tax burden (x)	0.86	10.83	0.88	0.88	0.88
Return on equity (%)	23.5	0.7	23.5	24.6	27.0
ROIC (%)	20.3	3.5	15.0	17.5	22.1
Balance Sheet (RMB mn)					
Fixed assets	1,481	1,889	2,349	2,654	2,840
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	2,756	3,160	3,466
Inventories	688	704	1,016	1,333	1,607
AR	2,035	3,031	4,023	5,310	6,442
Prepayments & deposits	0	0	0	0	0
Other current assets	959	394	394	394	394
Cash	465	100	249	404	1,003
Current assets	4,147	4,229	5,681	7,441	9,445
AP	2,830	3,061	4,418	5,796	6,989
Tax	8	2	73	100	146
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	5,706	7,123	8,372
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	2,665	3,411	4,474
Shareholder's equity	2,146	2,103	2,665	3,411	4,474
Share capital	9	9	9	9	9
Reserves	2,137	2,094	2,656	3,402	4,465
BVPS (HK\$)	2.31	2.23	2.64	3.37	4.43
Total debts	1,078	1,178	1,178	1,178	1,178
Net cash/(debts)	(613)	(1,078)	(930)	(774)	(175)

Source: Company, OP Research

Exhibit 6: Peer Group Comparison

																EV/	EV/	Net	Gross			ROE	ROE								

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

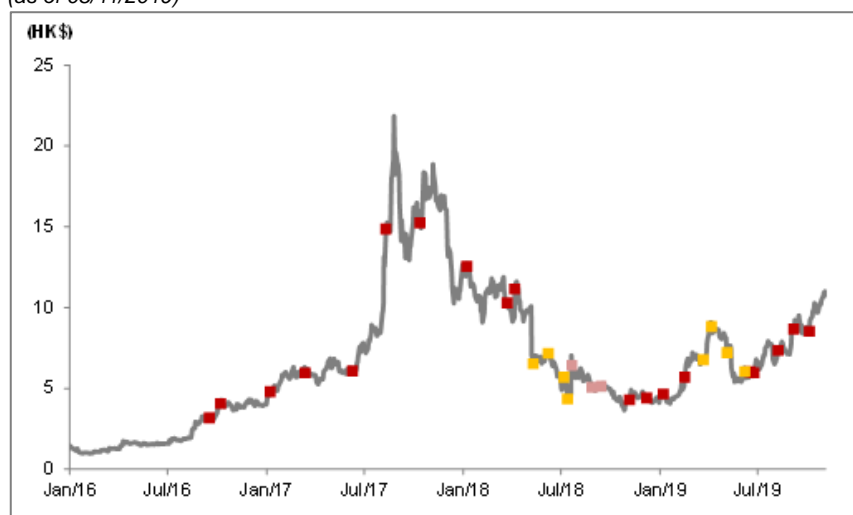
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
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
23/08/2019	Tian Lun Gas	1600	1H19 saw growth on track	BUY	Yuji Fung/Dallas Cai
23/08/2019	Ju Teng Intl	3336	1H19 results in line with expectations	BUY	Yuji Fung/Dallas Cai
22/08/2019	Xtep Intl	1368	1H19 earnings beat on non-core items	BUY	Dallas Cai/Megan Jin
22/08/2019	Tongda	698	1H19 saw GPM recovery as expected	BUY	Yuji Fung/Dallas Cai
21/08/2019	Chinasoft Intl	354	1H19 results in line with expectations	BUY	Yuji Fung/Dallas Cai
21/08/2019	361 Degrees Intl	1361	1H19 results in line	BUY	Megan Jin
21/08/2019	Edvantage Group	382	Pathway to the World	NR	Yuji Fung
20/08/2019	Regal Intl Airport	357	Franchise revenue retreated on competition	BUY	Yuji Fung/Dallas Cai
19/08/2019	Ausnutria Dairy	1717	Response to short-sell allegations	BUY	Dallas Cai/Megan Jin
16/08/2019	CH Display OPT	334	Downgrade on robust shipment growth at the cost of squeezed dollar margin	HOLD	Yuji Fung/Dallas Cai
16/08/2019	Kingdee Intl	268	1H19 results in line with previous profit warnings	SELL	Yuji Fung/Dallas Cai
16/08/2019	Sunny Optical	2382	Positive surprise on handset lens sets margin	BUY	Yuji Fung/Dallas Cai

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

(as of 08/11/2019)



Date	Rating	TP (HK\$)	CLOSE (HK\$)	Date	Rating	TP (HK\$)	CLOSE (HK\$)
1 26 Mar 2019	SELL	5.70	6.61	6 01 Jul 2019	BUY	7.40	5.95
2 10 Apr 2019	SELL	5.70	9.09	7 13 Aug 2019	BUY	9.20	7.35
3 09 May 2019	SELL	5.70	7.43	8 10 Sep 2019	BUY	9.20	8.67
4 11 Jun 2019	SELL	5.00	6.28	9 11 Oct 2019	BUY	10.00	9.15
5 21 Jun 2019	SELL	5.00	6.07	10 21 Oct 2019	BUY	15.40	10.28

TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

By accepting this report, you represent and warrant that you are entitled to receive such report in accordance with the restrictions set forth below and agree to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law or termination of such services provided to you.

Disclaimer

Research distributed in Hong Kong is intended only for institutional investors whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an institutional investor must not rely on this communication.

The information and material presented herein are not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Oriental Patron Securities Limited ("OPSL") and/or its associated companies and/or its affiliates (collectively "Oriental Patron") to any registration or licensing requirement within such jurisdiction.

The information and material presented herein are provided for information purposes only and are not to be used or considered as an offer or a solicitation to sell or an offer or solicitation to buy or subscribe for securities, investment products or other financial instruments, nor to constitute any advice or recommendation with respect to such securities, investment products or other financial instruments.

This research report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not to be relied upon in substitution for the exercise of independent judgment. Oriental Patron may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them. You should independently evaluate particular investments and you should consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities mentioned in this report.

Information and opinions presented in this report have been obtained or derived from sources believed by Oriental Patron to be reliable, but Oriental Patron makes no representation as to their accuracy or completeness and Oriental Patron accepts no liability for loss arising from the use of the material presented in this report where permitted by law and/or regulation. Further, opinions expressed in this report are subject to change without notice. Oriental Patron does not accept any liability whatsoever whether direct or indirect that may arise from the use of information contained in this report.

The research analyst(s) primarily responsible for the preparation of this report confirm(s) that (a) all of the views expressed in this report accurately reflects his or their personal views about any and all of the subject securities or issuers; and (b) that no part of his or their compensation was, is or will be, directly or indirectly, related to the specific recommendations or views he or they expressed in this report.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Oriental Patron, its directors, officers and employees may have investments in securities or derivatives of any companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.

General Disclosure

Oriental Patron, its directors, officers and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. Oriental Patron may, to the extent permitted by law, act upon or use the information presented herein, or the research or analysis on which they are based, before the material is published. One or more directors, officers and/or employees of Oriental Patron may be a director of the issuers of the securities mentioned in this report. Oriental Patron may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment or investment banking service to the issuers of the securities mentioned in this report.

Regulatory Disclosures as required by the Hong Kong Securities and Futures Commission

Oriental Patron (inclusive of OPSL) which are carrying on a business in Hong Kong in investment banking, proprietary trading or market making or agency broking are not a market maker in the securities of the subject companies mentioned in this report. Unless otherwise specified, Oriental Patron does not have any investment banking relationship with the companies mentioned in this report within the last 12 months. As at the date of this report, Oriental Patron do not have any interests in the subject company(ies) aggregating to an amount equal to or more than 1% of the subject company(ies) market capitalization.

Analyst Certification:

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

Rating and Related Definitions

Buy (B)	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
Sell (S)	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

Copyright © 2017 Oriental Patron Financial Group. All Rights Reserved

This report is being supplied to you strictly on the basis that it will remain confidential. Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of Oriental Patron. Oriental Patron accepts no liability whatsoever for the actions of third parties in this respect.

CONTACT

27/F, Two Exchange Square,

8 Connaught Place, Central, Hong Kong

www.oriental-patron.com.hk

yuji.fung@oriental-patron.com.hk

Tel: (852) 2135 0236

Fax: (852) 2135 0295