

Q Tech (1478 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$7.35

Target Price: HK\$9.20 (+25%)

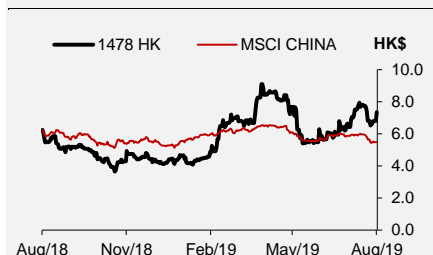
Prior TP HK\$7.40

Key Data

HKEx code	1478	HK
12 Months High (HK\$)	11.56	
12 Month Low (HK\$)	3.58	
3M AvgDail Vol. (mn)	7.02	
Issue Share (mn)	1,141.91	
Market Cap (HK\$mn)	6,794.34	
Fiscal Year	12/2018	
Major shareholder (s)	He Ningning (65.90%)	

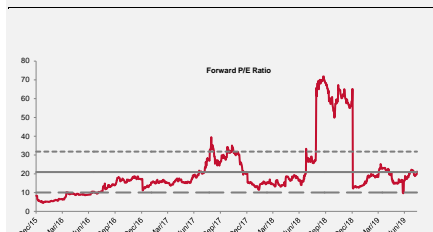
Source: Company data, Bloomberg, OP Research
Closing price are as of 12/08/2019

Price Chart



	1mth	3mth	6mth
Absolute %	14.5	3.1	40.0
Rel. MSCI CHINA %	21.4	11.4	49.4

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.

Comeback with upbeat margin

- Q Tech released its 1H19 result with sales up 57.8% yoy to RMB5.06bn and net profit recovered to RMB181mn. GPM was up 7ppts yoy to 8.2%, beat market expectations.
- We revise up our FY19/20E earnings estimate by 66.6%/29.4% to RMB490mn/RMB621mn respectively to reflect better margin outlook.
- Reiterate BUY with TP revised up to HK\$9.20 from HK\$7.40 based on same 15x FY20E P/E as earning growth momentum picking up.

1H19 results beat on margin. Q Tech released its 1H19 results with sales up 57.8% yoy to RMB5,061mn, missing our estimate by 7% mainly due to (1) lower than expected ASP enhancement from increased penetration of 10MP+ CCM which (2) partially offset better than expected ASP on FPM business. 1H19 GPM was up 7ppts yoy/1.8ppts qoq to 8.2%, better than our expectations, thanks to (1) 1.2ppts qoq improvement on CCM business to 7.6% and substantial increase of 3.2ppts qoq on its FPM to 10.1% driven by a solid ramp up of high margin under-glass FPM sales volume in 1H19 which accounted for 51% of 1H19 FPM shipments. Net profit beat our estimate by 22% and up 175% hoh to RMB181mn, thanks to the turnaround and RMB25mn shared profit of associate contribution from its Taiwan lens set arm, Newmax Tech. The company revised its FY19E CCM shipment target growth from 30% to 50%, in line with our previous full year shipment targets of 50%.

Revise up FY19/20E earnings estimate by 66.6%/29.4% to RMB490mn/ RMB621mn to reflect better than expected overall margin outlook and market share gain in CCM. We maintain our FY19/20E CCM shipments growth at 50%/30% yoy to 396mn/515mn pcs while we cut our CCM ASP assumption by 15.3%/15.0% to RMB23/RMB26 to reflect separable procurement mode. As a result, we cut our FY19/20E revenue estimates by 9.7%/11.5% yoy to RMB11.6bn/RMB15.5bn and we lift our FY19/20E earnings estimates by 66.6%/29.4% to RMB490mn/ RMB621mn, to reflect 1.4ppts/1.3ppts improvement on FY19/20E GPM to 8.2%/8.5% and RMB49mn/RMB61mn share profit of associate contribution from Newmax.

Reiterate BUY on earnings growth momentum resumed. We reiterate our BUY rating on Q Tech with TP revised up to HK\$9.20 from HK\$7.40 based on same 15x FY20E PE, implying 25% potential upside, given (1) solid upbeat of CCM/FPM margin in 1H19, (2) CCM segment likely enjoy ASP/GPM expansion from 2H19E onwards, and (3) market share gain in high end CCM market

Risks: 1) RMB depreciating more than expected; 2) political risk on trade war, 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	11,564	15,515	17,615
Growth (%)	59	2	42	34	14
Net Profit	436	14	490	621	791
Growth (%)	129	(97)	3,306	27	27
Diluted EPS (HK\$)	0.467	0.015	0.481	0.609	0.776
EPS growth (%)	118	(97)	3,069	27	27
Change to previous EPS (%)			58.9	23.4	
Consensus EPS (HK\$)			0.359	0.485	
ROE (%)	23.5	0.7	20.9	21.4	21.9
P/E (x)	15.7	484.3	15.3	12.1	9.5
P/B (x)	3.2	3.3	2.8	2.3	1.8
Yield (%)	1.3	0.0	0.0	0.0	0.0
DPS (HK\$)	7,939	8,135	11,564	15,515	17,615

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	396	396	0.0	515	515	0.0	
Fingerprint shipment	86	86	0.0	77	77	0.0	
ASP (RMB per pcs)							
HCM ASP	23	27	(15.3)	26	30	(15.0)	
Fingerprint ASP	29	24	19.1	30	25	16.6	Assumed 50% shipment penetration of under-glass FPM in FY19E
Revenue by segment (RMB mn)							
Compact camera module	9,080	10,715	(15.3)	13,198	15,533	(15.0)	
Fingerprint module	2,454	2,061	19.1	2,287	1,961	16.6	
Revenue	11,564	12,807	(9.7)	15,515	17,524	(11.5)	
Gross profit	952	873	9.0	1,320	1,258	4.9	
Gross margin	8.2%	6.8%	1.4	8.5%	7.2%	1.3	
Opex	(437)	(517)	(15.4)	(661)	(669)	(1.2)	
EBIT	536	373	43.7	693	601	15.3	
Net Profit	490	294	66.6	621	480	29.4	Revised up profit contribution of Newmax from ZERO in FY19/20E to RMB49/61mn
Diluted EPS (HK\$)	0.481	0.303	58.9	0.609	0.493	23.4	

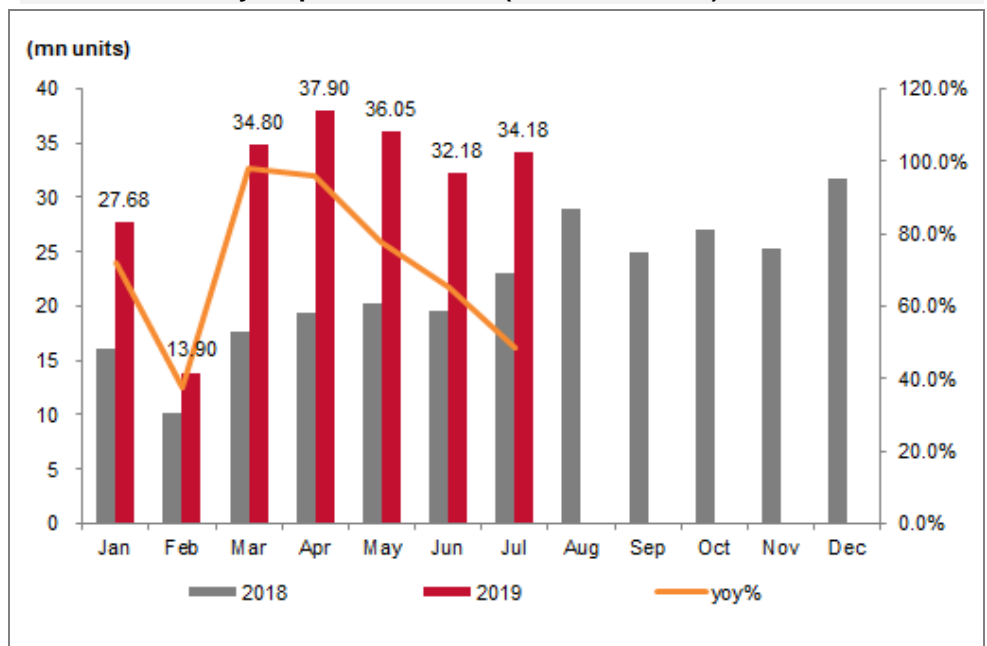
Source: OP Research

Exhibit 3: 1H19E results review

RMB mn	1H18	2H18A	1H19A	1H19E	Act. vs Est.
Revenue	3,207	4,928	5,061	5,451	-7%
COGS	(3,168)	(4,614)	(4,646)	(5,124)	-9%
Gross profit	39	314	415	327	27%
Other income & gains	94	(11)	(29)	80	-137%
Selling exp	(9)	(9)	(6)	(10)	-41%
Admin exp	(39)	(42)	(42)	(50)	-16%
R&D	(99)	(167)	(139)	(164)	-15%
Listing exp	0	0	0	0	n.a.
Other opex	0	0	0	0	n.a.
Operating profit (EBIT)	(14)	84	199	183	8%
Provision for other items	0	0	0	0	n.a.
Finance costs	(21)	(23)	(23)	(23)	2%
Profit after financing costs	(36)	62	175	160	9%
Associated cos	(25)	0	25	5	400%
Jointly controlled cos	0	0	0	0	n.a.
Pre-tax profit	(61)	62	200	165	21%
Tax	9	4	(19)	(17)	16%
Minority interests	0	0	0	0	n.a.
Net profit	(51)	66	181	149	22%
HoH%					
Revenue	-26%	54%	3%	11%	n.a.
Gross profit	-91%	704%	32%	4%	n.a.
Net profit	-122%	-228%	175%	126%	n.a.
YoY%					
Revenue	-11%	14%	58%	70%	n.a.
Gross profit	-91%	-30%	963%	737%	n.a.
Net profit	-125%	-72%	-453%	-390%	n.a.
Key ratios					
					(in ppts)
GPM	1.2%	6.4%	8.2%	6.0%	2.20
Selling exp	0.3%	0.2%	0.1%	0.2%	(0.07)
Admin exp	1.2%	0.9%	0.8%	0.9%	(0.09)
R&D	3.1%	3.4%	2.8%	3.0%	(0.25)
EIT	26.2%	-6.0%	11.0%	10.0%	0.97
Net margin	-1.6%	1.3%	3.6%	2.7%	0.84

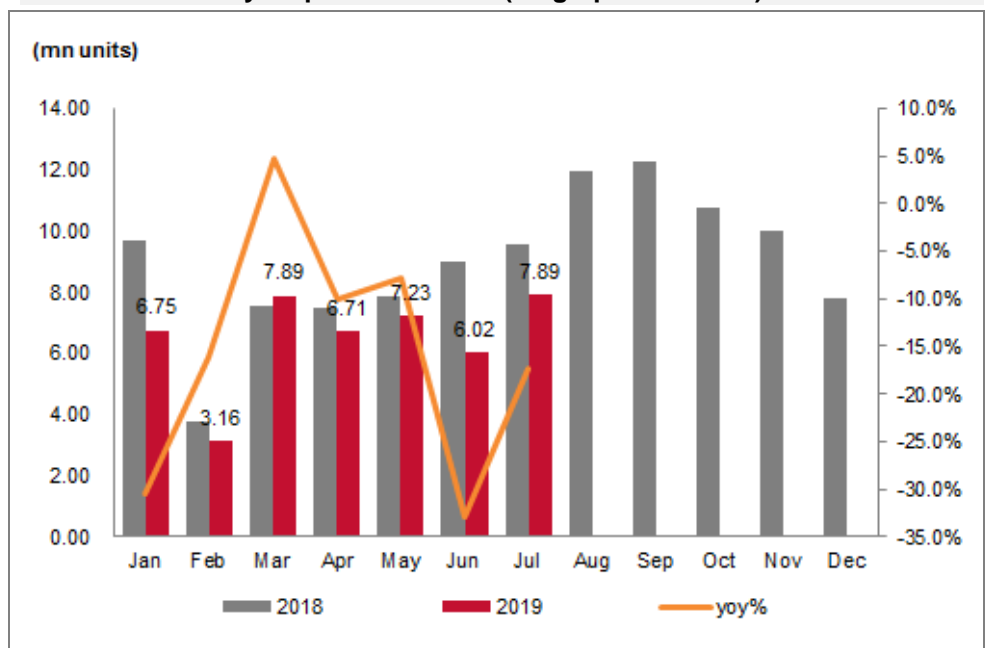
Source: Company, OP Research

Exhibit 4: Monthly shipments of CCM (Camera module)



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	9,080	13,198	15,249
Fingerprint module	2,035	1,832	2,454	2,287	2,335
Others	8	30	30	30	30
Turnover	7,939	8,135	11,564	15,515	17,615
YoY%	59	2	42	34	14
COGS	(7,056)	(7,782)	(10,612)	(14,195)	(16,045)
Gross profit	883	353	952	1,320	1,570
Gross margin	11.1%	4.3%	8.2%	8.5%	8.9%
Other income	11	83	22	33	42
Selling & distribution	(16)	(19)	(26)	(37)	(42)
Admin	(65)	(81)	(102)	(140)	(158)
R&D	(270)	(266)	(309)	(483)	(539)
Other opex	0	0	0	0	0
Total opex	(351)	(366)	(437)	(661)	(739)
Operating profit (EBIT)	543	70	536	693	872
Operating margin	6.8%	0.9%	4.6%	4.5%	5.0%
Provisions	0	0	0	0	0
Finance costs	(17)	(44)	(46)	(46)	(46)
Profit after financing costs	526	26	490	647	826
Associated companies & JVs	(17)	(25)	49	61	77
Pre-tax profit	510	1	539	708	903
Tax	(73)	13	(49)	(87)	(111)
Minority interests	0	0	0	0	0
Net profit	436	14	490	621	791
YoY%	129	(97)	3,306	27	27
Net margin	5.5%	0.2%	4.2%	4.0%	4.5%
EBITDA	655	248	809	1,018	1,245
EBITDA margin	8.3%	3.0%	7.0%	6.6%	7.1%
EPS (RMB)	0.389	0.013	0.418	0.529	0.675
YoY%	116	(97)	3,207	27	27
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	809	1,018	1,245
Chg in working cap	1,583	(444)	93	(202)	(123)
Others	59	36	0	0	0
Operating cash	2,297	(160)	902	816	1,122
Interests paid	0	0	0	0	0
Tax	(75)	(13)	(2)	(49)	(87)
Net cash from operations	2,222	(173)	900	767	1,034
Capex	(949)	(522)	(694)	(621)	(528)
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	19	27
Others	(47)	9	0	0	0
Investing cash	(2,119)	387	(687)	(602)	(501)
FCF	103	214	213	165	533
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)	167	119	487
Exchange rate or other Adj	(14)	5	0	0	0
Opening cash	65	465	100	267	386
Closing cash	465	100	267	386	873
CFPS (HK\$)	2.379	(0.182)	0.883	0.752	1.014

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	11.1	4.3	8.2	8.5	8.9
Operating margin (%)	6.8	0.9	4.6	4.5	5.0
Net margin (%)	5.5	0.2	4.2	4.0	4.5
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	0.9
Payout ratio (%)	20.5	0.0	0.0	0.0	0.0
Effective tax (%)	13.9	(50.5)	10.0	13.5	13.5
Total debt/equity (%)	50.2	56.0	45.4	36.7	29.4
Net debt/equity (%)	28.6	51.3	35.1	24.6	7.6
Current ratio (x)	1.05	0.99	1.00	1.04	1.11
Quick ratio (x)	0.88	0.83	0.82	0.85	0.92
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	1.59	1.70	1.61
Financial leverage (x)	2.86	2.95	3.09	3.15	3.03
EBIT margin (%)	6.8	0.9	4.6	4.5	5.0
Interest burden (x)	0.94	0.02	1.01	1.02	1.04
Tax burden (x)	0.86	10.83	0.91	0.88	0.88
Return on equity (%)	23.5	0.7	20.9	21.4	21.9
ROIC (%)	20.3	3.5	14.4	16.0	18.1
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Balance Sheet (RMB mn)					
Fixed assets	1,481	1,889	2,311	2,596	2,732
Intangible assets & goodwill	1	1	1	1	1
Associated companies & JVs	258	229	279	340	417
Long-term investments	0	0	0	0	0
Other non-current assets	213	92	84	76	69
Non-current assets	1,953	2,211	2,674	3,013	3,218
Inventories	688	704	960	1,284	1,451
AR	2,035	3,031	3,802	5,101	5,791
Prepayments & deposits	0	0	0	0	0
Other current assets	959	394	394	394	394
Cash	465	100	267	386	873
Current assets	4,147	4,229	5,422	7,165	8,509
AP	2,830	3,061	4,175	5,584	6,312
Tax	8	2	49	87	111
Accruals & other payables	0	28	35	47	53
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	5,437	6,896	7,655
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	2,594	3,215	4,006
Shareholder's equity	2,146	2,103	2,594	3,215	4,006
Share capital	9	9	9	9	9
Reserves	2,137	2,094	2,585	3,206	3,997
BVPS (HK\$)	2.31	2.23	2.61	3.24	4.03
Total debts	1,078	1,178	1,178	1,178	1,178
Net cash/(debts)	(613)	(1,078)	(911)	(792)	(305)

Source: Company, OP Research

Exhibit 6: Peer Group Comparison

																EV/	EV/	Net	Gross			ROE	ROE						
3-mth																													
Mkt cap avg t/oPER HistPER FY1PER FY2EPS FY1EPS 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)	(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	7.35	1,070	6.0	484.3	15.3	12.1	3,069.3	26.6	271.1	0.1	0.0	0.0	3.3	2.8	38.0	11.5	51.3	4.3	(9,670.0)	0.7	20.9	14.5	(4.2)					
HSI		25,824.72			10.3	10.4	9.6	(0.8)	7.5	4.9	2.12	3.8	4.0	1.16	1.13					11.3	10.9	(9.3)	(9.5)						
HSCEI		9,997.94			8.2	8.1	7.5	1.6	7.7	6.1	1.32	3.9	4.2	0.98	0.99					11.9	12.2	(7.3)	(8.5)						
CSI300		3,699.11			13.8	12.0	10.6	14.7	13.7			2.3	2.5	1.72	1.59					12.5	13.2	(2.9)	(0.8)						
Adjusted sector avg*					22.6	13.4	10.6	(11.3)	143.2	45.2	0.6	4.0	4.5	2.4	3.7	7.5	20.3	31.5	13.8	3.1	9.8	9.7	0.8	(10.1)					
Sunny Optical	2382 HK	86.00	12,025	88.7	33.9	25.3	19.2	(44.5)	219.4	29.5	0.86	0.7	N/A	9.19	N/A	20.8	N/A	0.0	18.9	9.6	29.8	N/A	0.0	(5.2)					
Truly Intl Hldgs	732 HK	0.97	407	0.6	41.1	4.2	4.3	887.3	(3.4)	130.8	0.03	N/A	N/A	0.42	0.38	4.7	3.5	82.7	9.5	0.4	1.0	5.1	(13.4)	(20.5)					
Cowell	1415 HK	1.28	136	0.2	9.6	9.1	6.3	5.9	44.4	20.8	0.43	8.7	8.6	0.42	0.40	0.1	0.1	0.0	9.8	2.6	4.2	5.8	(7.2)	(22.4)					
Ofilm Group Co-A	002456 CH	8.42	3,237	147.6	N/A	16.9	11.2	N/A	295.8	(244.5)	N/A	N/A	N/A	2.62	N/A	16.8	N/A	175.2	12.1	(1.2)	(13.5)	N/A	3.3	(13.8)					
Huizhou Speed -A	300322 CH	18.08	1,042	46.5	120.5	52.9	36.2	128.0	46.2	69.1	0.77	0.2	0.4	11.21	10.31	42.6	34.3	99.4	21.3	3.6	18.9	18.3	17.3	38.2					
Crucialtec Co Lt	114120 KS	889.00	48	0.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.71	N/A	(4.4)	N/A	38.6	(8.8)	(64.1)	(43.2)	N/A	(24.0)	(20.3)					
Lite-On Tech	2301 TT	46.40	3,450	8.4	13.6	12.9	12.3	(68.9)	256.6	5.3	2.42	6.3	N/A	1.56	N/A	6.1	27.5	0.0	13.1	3.8	13.2	N/A	(0.9)	7.8					
Primax Elec	4915 TT	60.00	852	11.7	14.6	12.3	10.4	(77.0)	510.6	15.7	0.78	4.0	N/A	2.19	N/A	8.7	36.1	0.0	12.0	2.8	15.2	N/A	6.8	3.4					

* 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
31/07/2019	Ausnutria Dairy	1717	1H19E preview: investment thesis intact	BUY	Dallas Cai/Megan Jin
24/07/2019	Xtep Intl	1368	Upgrade on improved investor confidence	BUY	Dallas Cai/Megan Jin
23/07/2019	Anta Sports	2020	Upgrade on 1H19E profits surprise	BUY	Dallas Cai/Megan Jin
17/07/2019	361 Degrees Intl	1361	2Q19E online sales slowed on product mix shift	BUY	Megan Jin
15/07/2019	Xtep Intl	1368	2Q19E keeps up robust growth momentum	BUY	Dallas Cai/Megan Jin
12/07/2019	Anta Sports	2020	2Q19E operations on track	BUY	Dallas Cai/Megan Jin
10/07/2019	Anta Sports	2020	Clearing up Muddy Waters	BUY	Dallas Cai/Megan Jin
08/07/2019	Kingdee Intl	268	Downgrade on unexpected profit warning	SELL	Yuji Fung/Dallas Cai
01/07/2019	Q Tech	1478	Upgrade on better downstream demand outlook	BUY	Yuji Fung/Dallas Cai
25/06/2019	Li Ning	2331	Upgrade on surprise in revenue growth	BUY	Dallas Cai/Megan Jin
24/06/2019	361 Degrees Intl	1361	Rebranding starts from building basketball half-courts	BUY	Megan Jin
21/06/2019	Q Tech	1478	Kunshan reverse road show takeaways	SELL	Yuji Fung/Dallas Cai
19/06/2019	Sunny Optical	2382	Conference call takeaways	BUY	Yuji Fung/Dallas Cai
18/06/2019	TCL Electronics	1070	Overseas shipments keep steam	BUY	Yuji Fung/Dallas Cai
12/06/2019	Sunny Optical	2382	May shipments on track	BUY	Yuji Fung/Dallas Cai
11/06/2019	361 Degrees Intl	1361	President ups stakes in light of rebranding strategy	BUY	Megan Jin
11/06/2019	Ausnutria Dairy	1717	Penetrating into probiotics business	BUY	Dallas Cai/Megan Jin
11/06/2019	Q Tech	1478	May camera module shipments down MoM	SELL	Yuji Fung/Dallas Cai
04/06/2019	Truly Int'l	732	Introduction of new investor to Truly Opto	BUY	Yuji Fung/Dallas Cai
04/06/2019	Zhongyu Gas	3633	Takeaways from Henan site visit	NR	Megan Jin
24/05/2019	Truly Int'l	732	1Q19 saw margin pressure amidst sales recovery	BUY	Yuji Fung/Dallas Cai
15/05/2019	Ausnutria Dairy	1717	1Q19E saw a solid start	BUY	Dallas Cai/Megan Jin
10/05/2019	China Youzan	8083	E-commerce revenue doubled QoQ in 1Q19	BUY	Yuji Fung/Dallas Cai
10/05/2019	Sunny Optical	2382	HCM shipments growth regained traction	BUY	Yuji Fung/Dallas Cai
09/05/2019	Q Tech	1478	CCM shipments growth implies market share gain	SELL	Yuji Fung/Dallas Cai
03/05/2019	Xtep Intl	1368	Xtep sets about the inception of its own FILA	BUY	Dallas Cai/Megan Jin
03/05/2019	361 Degrees Intl	1361	1Q19E saw lukewarm sales growth	BUY	Megan Jin

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

(as of 12/08/2019)

(HK\$)



Date	Rating	TP (HK\$)	CLOSE (HK\$)	Date	Rating	TP (HK\$)	CLOSE (HK\$)
1 09 Nov 2018	BUY	5.75	4.28	6 10 Apr 2019	SELL	5.70	9.09
2 11 Dec 2018	BUY	5.75	4.40	7 09 May 2019	SELL	5.70	7.43
3 11 Jan 2019	BUY	5.40	4.65	8 11 Jun 2019	SELL	5.00	6.28
4 20 Feb 2019	BUY	7.00	5.66	9 21 Jun 2019	SELL	5.00	6.07
5 26 Mar 2019	SELL	5.70	6.61	10 01 Jul 2019	BUY	7.40	5.95

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