

Q Tech (1478 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$4.60

Target Price: HK\$5.40 (+17%)

Prior TP HK\$5.75

Key Data

HKEx code	1478	HK
12 Months High (HK\$)	13.28	
12 Month Low (HK\$)	3.58	
3M AvgDail Vol. (mn)	2.85	
Issue Share (mn)	1,131.72	
Market Cap (HK\$mn)	5,205.92	
Fiscal Year	12/2017	
Major shareholder (s)	He Ningning (66.39%)	

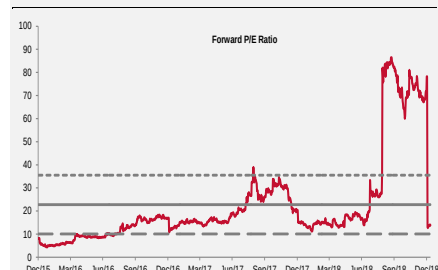
Source: Company data, Bloomberg, OP Research
Closing price as of 10/01/2019

Price Chart



	1mth	3mth	6mth
Absolute %	4.5	2.7	-16.4
Rel. MSCI CHINA %	3.8	1.5	-1.8

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.

FY18E results preview

- We preview Q-Tech FY18E results with sales up 5% yoy to RMB8.37bn and net profit turnaround to RMB88mn, with RMB140mn net profit in 2H18E.
- FY18 CCM/FPM shipments up 52.6%/33.2% yoy to 264mn /108mn pcs, mainly due to low base and gradual pick up in momentum in 2H18E.
- Maintain BUY with TP fine-tuned to HK\$5.40 from HK\$5.75 based on same 15x FY19E PE to reflect lower ASP assumption on FPM.

2H18E results likely turnaround. We forecast Q-Tech FY18E revenue/net profit up 5% yoy/turnaround to RMB8.37bn/RMB88mn with GPM of 4.9%, implying a HoH improvement of GPM from 1.2% in 1H18 to 7.2% in 2H18E, thanks to (1) on track pick up of CCM shipments growth momentum, and (2) increased 10MP above CCM penetration in 2H18E. We estimate Q-Tech 2H18E revenue/net profit to be RMB5,167mn/RMB140mn as compared to RMB3,207mn/RMB51mn loss in 1H18. We expect Q-Tech to pick up its revenue growth momentum with a stable recovery of GPM from FY19E onwards while we revised down our FY19E revenue/net profit estimates by 1.3%/4.8% to RMB10.0bn/RMB352mn to reflect a lower ASP assumption on its FPM products due to price erosion and the ramp up of under panel FPM takes time.

Dec shipments showed on track pick up. Q-Tech saw its Dec CCM shipments up 25.4% mom/122.3% yoy to 31.74mn, of which 10MP and above CCM penetration increased to 44% versus 42% a month ago. Full year CCM shipments were up 52.6% yoy to 263.89mn pcs, of which 10MP and above shipments up 37.7% yoy to 114.72mn pcs. We attribute such robust growth to the low base a year ago and the industry norm shift to ship two single CCMs for dual-cam which dramatically increased the shipments number at cost of lower ASP and margin. For FPM, Dec shipments were down 4.5% yoy to 7.78mn pcs and full year shipments up 33.2% yoy to 107.55mn pcs. We expect the FPM shipment growth to decelerate in FY19E due to slowdown in smartphone shipment growth and increasing adoption of under-glass/under-panel FPM which Q-Tech may take time to ramp up the product line to mitigate the slowdown in demand for its traditional FPM products.

Maintain BUY. We maintain our BUY rating on Q-Tech with TP fine-tuned to HK\$5.40 from HK\$5.75 based on same 15x FY19E PE mainly to reflect lower assumption on its FY19E FPM ASP.

Risks: 1) Weaker than expected GPM recovery; 2) Slower ramp up of Newmax lens set business, 3) Lower than expected yield rate for new products.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	4,991	7,939	8,374	10,071	12,910
Growth (%)	127	59	5	20	28
Net Profit	191	436	88	352	549
Growth (%)	87	129	(80)	299	56
Diluted EPS (HK\$)	0.215	0.467	0.091	0.362	0.565
EPS growth (%)	76	118	(81)	299	56
Change to previous EPS (%)			80.0	(4.8)	
Consensus EPS (HK\$)			0.061	0.346	
ROE (%)	13.7	23.5	4.1	15.2	20.2
P/E (x)	21.4	9.8	51.3	12.9	8.2
P/B (x)	2.7	2.0	2.0	1.8	1.5
Yield (%)	0.8	2.1	0.4	1.6	2.5
DPS (HK\$)	0.039	0.096	0.019	0.074	0.116

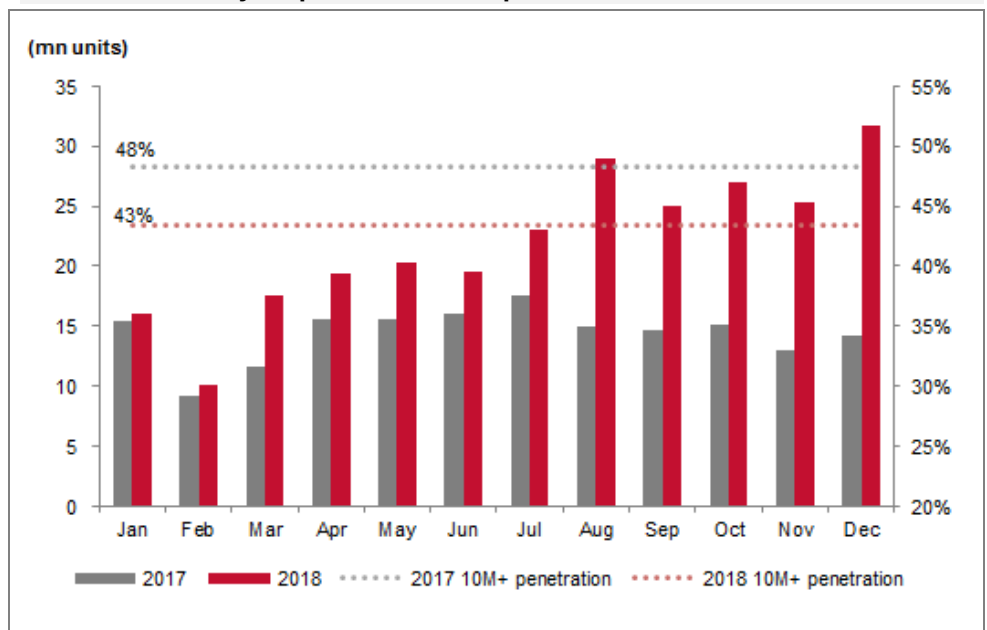
Source: Bloomberg, OP Research

Exhibit 2: Earnings revisions

(RMB mn)	FY18E			FY19E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Shipments (mn pcs)							
CCM shipments	264	224	17.5	258	258	0.0	Update on latest shipment results
Fingerprint shipment	108	101	6.6	121	121	0.0	Update on latest shipment results
ASP (RMB per pcs)							
HCM ASP	26	26	0.0	32	32	0.0	As we expect a slower penetration of under panel FPM
Fingerprint ASP	15	17	(12.4)	14	15	(7.3)	
Revenue by segment (RMB mn)							
Compact camera module	6,808	5,792	17.5	8,346	8,346	0.0	
Fingerprint module	1,565	1,677	(6.7)	1,726	1,861	(7.3)	
Revenue	8,374	7,469	12.1	10,071	10,207	(1.3)	
Gross profit	409	353	15.7	849	872	(2.7)	
Gross margin	4.9%	4.7%	0.2	8.4%	8.5%	(0.1)	
Opex	(345)	(335)	3.1	(425)	(426)	(0.2)	
EBIT	176	130	34.8	483	504	(4.1)	
Net Profit	88	49	80.0	352	370	(4.8)	
Diluted EPS (HK\$)	0.091	0.050	80.0	0.362	0.380	(4.8)	

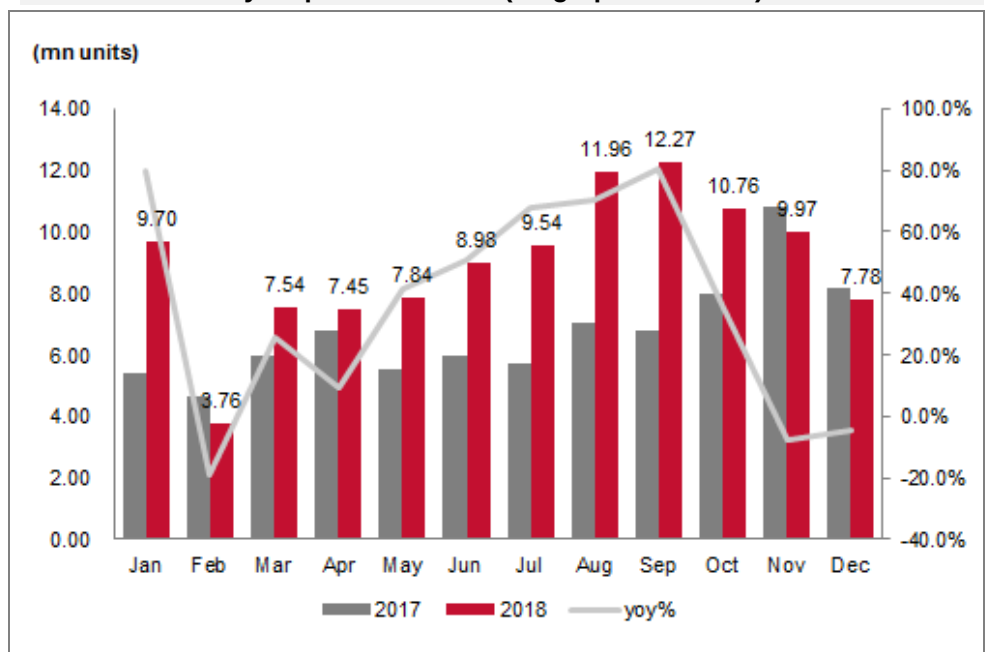
Source: OP Research

Exhibit 3: Monthly shipments of CCM/penetration of 10MP+



Source: Company, OP Research

Exhibit 4: Monthly shipments of FPM (Fingerprint module)



Source: Company, OP Research

Financial Summary

Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Income Statement (RMB mn)					
Compact camera module	4,275	5,907	6,808	8,346	10,999
Fingerprint module	716	2,032	1,565	1,726	1,912
Others	0	0	0	0	0
Turnover	4,991	7,939	8,374	10,071	12,910
YoY%	127	59	5	20	28
COGS	(4,569)	(7,056)	(7,965)	(9,222)	(11,761)
Gross profit	422	883	409	849	1,150
Gross margin	8.5%	11.1%	4.9%	8.4%	8.9%
Other income	(27)	11	112	59	66
Selling & distribution	(10)	(16)	(22)	(28)	(33)
Admin	(41)	(65)	(87)	(107)	(127)
R&D	(125)	(270)	(236)	(290)	(345)
Other opex	0	0	0	0	0
Total opex	(176)	(351)	(345)	(425)	(504)
Operating profit (EBIT)	220	543	176	483	711
Operating margin	4.4%	6.8%	2.1%	4.8%	5.5%
Provisions	0	0	0	0	0
Finance costs	(6)	(17)	(28)	(31)	(31)
Profit after financing costs	215	526	147	452	680
Associated companies & JVs	0	(17)	(39)	(39)	(39)
Pre-tax profit	215	510	108	413	641
Tax	(24)	(73)	(20)	(61)	(92)
Minority interests	0	0	0	0	0
Net profit	191	436	88	352	549
YoY%	87	129	(80)	299	56
Net margin	3.8%	5.5%	1.1%	3.5%	4.3%
EBITDA	283	655	339	682	959
EBITDA margin	5.7%	8.3%	4.1%	6.8%	7.4%
EPS (RMB)	0.181	0.389	0.076	0.302	0.471
YoY%	85	116	(81)	299	56
DPS (HK\$)	0.039	0.096	0.019	0.074	0.116
Cash Flow (RMB mn)					
EBITDA	283	655	339	682	959
Chg in working cap	(328)	202	164	(53)	43
Others	11	1,439	0	0	0
Operating cash	(34)	2,297	504	628	1,002
Interests paid	0	0	0	0	0
Tax	(5)	(75)	(8)	(20)	(61)
Net cash from operations	(39)	2,222	496	609	941
Capex	(409)	(949)	(461)	(504)	(646)
Investments	(26)	(1,141)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	5	18	32	44	51
Others	(1)	(47)	0	0	0
Investing cash	(430)	(2,119)	(428)	(460)	(595)
FCF	(468)	103	68	149	346
Issue of shares	143	185	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	0	0	(89)	(18)	(70)
Net change in bank loans	(24)	218	220	0	0
Interest paid	(6)	(54)	(28)	(31)	(31)
Others	133	(37)	0	0	0
Financing cash	246	312	103	(49)	(101)
Net change in cash	(223)	414	170	100	245
Exchange rate or other Adj	5	(14)	0	0	0
Opening cash	282	65	465	635	735
Closing cash	65	465	635	735	980
CFPS (HK\$)	(0.043)	2.379	0.510	0.626	0.967

Source: Company, OP Research

Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Ratios					
Gross margin (%)	8.5	11.1	4.9	8.4	8.9
Operating margin (%)	4.4	6.8	2.1	4.8	5.5
Net margin (%)	3.8	5.5	1.1	3.5	4.3
Selling & dist'n exp/Sales (%)	0.2	0.2	0.3	0.3	0.3
Admin exp/Sales (%)	0.8	0.8	1.0	1.1	1.0
Payout ratio (%)	18.2	20.5	20.5	20.5	20.5
Effective tax (%)	11.1	13.9	13.5	13.5	13.5
Total debt/equity (%)	21.4	50.2	60.5	52.4	43.9
Net debt/equity (%)	17.3	28.6	30.9	22.7	10.7
Current ratio (x)	1.26	1.05	1.00	1.02	1.04
Quick ratio (x)	0.99	0.88	0.83	0.84	0.86
Inventory T/O (days)	64	36	36	36	36
AR T/O (days)	191	94	94	94	94
AP T/O (days)	207	146	146	146	146
Cash conversion cycle (days)	47	(17)	(17)	(17)	(17)
Asset turnover (x)	1.53	1.50	1.31	1.41	1.55
Financial leverage (x)	2.34	2.86	2.98	3.09	3.07
EBIT margin (%)	4.4	6.8	2.1	4.8	5.5
Interest burden (x)	0.97	0.94	0.62	0.86	0.90
Tax burden (x)	0.89	0.86	0.82	0.85	0.86
Return on equity (%)	13.7	23.5	4.1	15.2	20.2
ROIC (%)	13.4	20.3	5.5	14.3	19.5
Balance Sheet (RMB mn)					
Fixed assets	720	1,481	1,746	2,008	2,355
Intangible assets & goodwill	1	1	1	0	0
Associated companies & JVs	0	258	219	180	141
Long-term investments	0	0	0	0	0
Other non-current assets	105	213	213	212	212
Non-current assets	826	1,953	2,179	2,401	2,709
Inventories	799	688	777	899	1,147
AR	2,606	2,035	2,146	2,582	3,309
Prepayments & deposits	0	0	0	0	0
Other current assets	224	959	959	959	959
Cash	65	465	635	735	980
Current assets	3,694	4,147	4,517	5,175	6,396
AP	2,593	2,830	3,195	3,699	4,717
Tax	10	8	20	61	92
Accruals & other payables	0	0	0	0	0
Bank loans & leases	335	1,078	1,298	1,298	1,298
CB & othe debts	0	0	0	0	0
Other current liabilities	0	18	18	18	18
Current liabilities	2,939	3,934	4,531	5,076	6,125
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	14	20	20	20	20
MI	0	0	0	0	0
Non-current liabilities	14	20	20	20	20
Total net assets	1,568	2,146	2,145	2,479	2,959
Shareholder's equity	1,568	2,146	2,145	2,479	2,959
Share capital	9	9	9	9	9
Reserves	1,559	2,137	2,136	2,470	2,950
BVPS (HK\$)	1.72	2.31	2.27	2.63	3.14
Total debts	335	1,078	1,298	1,298	1,298
Net cash/(debts)	(271)	(613)	(663)	(563)	(318)

Exhibit 5: 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)	(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	4.60	664	1.6	10.0	51.3	12.9	(80.6)	298.8	6.5	7.86	2.1	0.4	2.02	2.05	8.9	17.5	28.6	11.1	5.5	23.5	4.1	8.7	(4.2)
HSI		26,521.43			10.1	10.1	9.3	(0.3)	9.2	(0.6)	(16.20)	3.8	4.0	1.24	1.14					12.3	11.2	3.0	1.3	
HSCEI		10,394.59			8.1	7.7	7.0	5.5	9.5	(2.1)	(3.59)	4.1	4.4	1.05	0.93					13.0	12.1	1.2	(0.5)	
CSI300		3,072.69			11.5	9.6	8.3	19.6	15.2	11.3	0.85	2.6	3.3	1.49	1.27					12.9	13.3	(2.3)	(6.4)	
Adjusted sector avg*					24.4	11.5	9.0	55.9	21.1	28.8	0.8	3.5	3.0	2.0	2.7	6.3	6.3	44.6	14.2	3.8	15.1	10.3	(0.1)	(7.3)
Sunny Optical	2382 HK	66.95	9,367	91.7	21.7	21.1	15.0	2.8	41.0	23.3	0.91	1.2	1.2	7.96	6.36	16.9	15.0	0.0	21.5	13.0	42.7	34.3	(3.5)	(11.9)
Truly Intl Hldgs	732 HK	0.91	382	0.7	42.7	6.5	3.6	557.3	78.6	119.4	0.05	N/A	2.9	0.37	0.35	5.1	3.5	68.1	9.8	0.3	4.1	2.6	(26.6)	(23.5)
Cowell	1415 HK	0.93	99	0.1	3.6	4.0	4.2	(9.1)	(6.7)	(1.0)	N/A	5.5	4.2	0.31	0.29	(0.4)	(0.6)	0.0	10.0	3.7	5.1	7.2	(9.7)	(6.1)
O-Film Tech Co-A	002456 CH	9.09	3,639	88.2	29.6	12.5	8.9	137.6	39.5	62.2	0.20	0.5	0.9	2.36	2.25	14.6	8.2	107.2	13.5	2.4	12.1	19.1	(11.1)	(28.1)
Huizhou Speed -A	300322 CH	10.78	647	11.3	77.0	60.9	47.5	26.4	28.2	32.0	1.90	0.3	0.3	7.10	6.61	31.0	28.7	87.6	19.1	2.8	13.3	8.5	16.3	16.3
Crucialtec Co Lt	114120 KS	1,075.00	63	1.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.61	N/A	(3.6)	N/A	93.7	(3.7)	(36.9)	(65.1)	N/A	(9.7)	(28.5)
Lite-On Tech	2301 TT	42.95	3,264	8.9	38.0	13.2	11.9	187.9	11.2	49.1	0.27	6.8	5.9	1.47	1.40	5.2	5.2	0.0	12.9	1.2	11.4	9.2	4.9	19.0
Primax Elec	4915 TT	49.85	725	4.2	10.7	11.9	10.5	(10.0)	13.1	7.2	1.64	6.4	5.9	2.02	1.79	6.6	6.8	0.0	12.3	3.4	17.1	15.2	12.4	4.3

* 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
08/01/2019	Chinasoft Intl	354	FY18E results preview	BUY	Yuji Fung/Dallas Cai
20/12/2018	Tian Lun Gas	1600	A different coal-to-gas tale from Henan	BUY	Yuji Fung/Dallas Cai
11/12/2018	Sunny Optical	2382	November saw resilient shipments	BUY	Yuji Fung/Dallas Cai
11/12/2018	Q Tech	1478	November shipments in line with expectations	BUY	Yuji Fung/Dallas Cai
10/12/2018	Anta Sports	2020	Acquisition of Amer comes to a deal	BUY	Dallas Cai
03/12/2018	China Youzan	8083	December foresight bears fruit	BUY	Yuji Fung/Dallas Cai
03/12/2018	Ju Teng Intl	3336	Positive profit alert for FY18E	BUY	Yuji Fung/Dallas Cai
26/11/2018	Truly Intl	732	3Q18 turnover flat as expected	BUY	Yuji Fung/Dallas Cai
19/11/2018	Ausnutria Dairy	1717	Nurturing by global layout	BUY	Dallas Cai
13/11/2018	361 Degrees Intl	1361	Introduce new investor to kids' wear business	BUY	Yuji Fung/Dallas Cai
12/11/2018	Sunny Optical	2382	Oct shipments up to expectations	BUY	Yuji Fung/Dallas Cai
12/11/2018	Q Tech	1478	Shipment growth looms on horizon	BUY	Yuji Fung/Dallas Cai
07/11/2018	China Youzan	8083	3Q18 results in line with expectations	BUY	Yuji Fung/Dallas Cai
02/11/2018	CH Display OPT	334	TCL Group ups stakes for turnaround and advance on opportunities	BUY	Yuji Fung/Dallas Cai
30/10/2018	TCL Electronics	1070	Revised up full year shipments target	BUY	Yuji Fung/Dallas Cai
26/10/2018	CH Display OPT	334	New client order lifts Sept shipments to record high	BUY	Yuji Fung/Dallas Cai
23/10/2018	Li Ning	2331	Solid set of 3Q18 operations data	BUY	Dallas Cai
23/10/2018	361 Degrees Intl	1361	3Q18 operations data in-line with expectations	BUY	Yuji Fung/Dallas Cai
16/10/2018	TCL Electronics	1070	3Q18 shipments set record high	BUY	Yuji Fung/Dallas Cai
12/10/2018	Sunny Optical	2382	Upbeat September handset-related shipments	BUY	Yuji Fung/Dallas Cai
12/10/2018	Anta Sports	2020	Solid 3Q18 operations data	BUY	Dallas Cai
09/10/2018	Xtep Intl	1368	Solid 3Q18 sales, worries on earnings	BUY	Dallas Cai
17/09/2018	CH Display OPT	334	Upgrade on new client orders to lift earnings	BUY	Yuji Fung/Dallas Cai
06/09/2018	Ju Teng Intl	3336	1H18 strong RMB puts GPM down	BUY	Yuji Fung/Dallas Cai
04/09/2018	Lifetech SCI	1302	1H18 results beat	BUY	Dallas Cai
04/09/2018	Truly Intl	732	1H18 results wide off mark	BUY	Yuji Fung/Dallas Cai
04/09/2018	Regal Intl Airport	357	1H18 results beat on the margins	HOLD	Yuji Fung

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

(as of 10/01/2019)

(HK\$)



Date	Rating	TP	CLOSE	Date	Rating	TP	CLOSE
1 27 Mar 2018	BUY	16.00	10.42	6 18 Jul 2018	SELL	4.10	4.35
2 10 Apr 2018	BUY	16.00	9.40	7 25 Jul 2018	HOLD	7.36	7.05
3 15 May 2018	SELL	4.90	6.53	8 31 Aug 2018	HOLD	5.75	5.07
4 11 Jun 2018	SELL	4.90	7.18	9 09 Nov 2018	BUY	5.75	4.28
5 10 Jul 2018	SELL	4.90	5.70	10 11 Dec 2018	BUY	5.75	4.40

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