

Equity Research  
TMT/China

# Q Tech (1478 HK)

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## Company Update

### SELL

UNCHANGED

Close price: HK\$6.07

Target Price: HK\$5.00 (-18%)

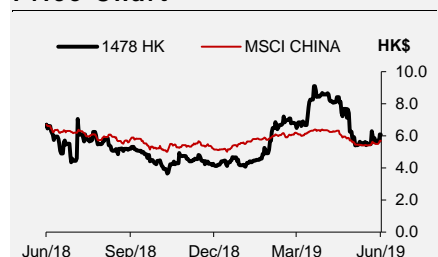
Prior TP HK\$5.00

### Key Data

HKEx code	1478 HK
12 Months High (HK\$)	11.56
12 Month Low (HK\$)	3.58
3M AvgDail Vol. (mn)	6.96
Issue Share (mn)	1,141.91
Market Cap (HK\$mn)	6,931.37
Fiscal Year	12/2018
Major shareholder (s)	He Ningning (65.90%)

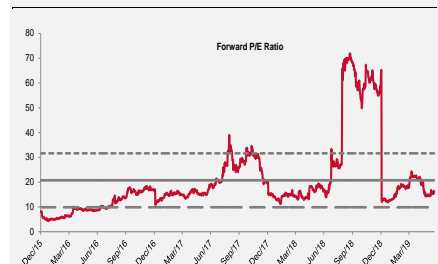
Source: Company data, Bloomberg, OP Research  
Closing price are as of 20/06/2019

### Price Chart



	1mth	3mth	6mth
Absolute %	2.2	-11.1	47.3
Rel. MSCI CHINA %	0.8	-4.6	36.8

### 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.

## Kunshan reverse road show takeaways

- **Key takeaways from Kunshan reverse roadshow:** (1) the impact from Huawei's dropped shipments is expected to be mitigated by more higher-end order allocation; (2) investment in automation is expected to create near-term late-mover advantage to help product mix upgrade. (3) no revision on FY19E guidance but more cautious on FY20E capex plan.
- **Q Tech announced profit surprise with 1H19E PBT c. RMB150-180mn thanks to recovery of GPM and turnaround of Newmax, in-line with our expectation.**
- **Maintain SELL with TP HK\$ 5.00 unchanged based on same 12x FY20E P/E.**

**Key takeaways:** (1) **Impact from Huawei and O-Film.** Q Tech does expect negative influences in CCM orders for June to August from Huawei incident, but the impact is controllable and better than expected thanks to (1) increased participation in Huawei's higher end orders; (2) mitigation from short-term market share gain due to O-Film's negative financial stance; (3) increasingly balanced client base (the mgmt expects even contribution from HMOV in terms of revenue by the end of FY19E). In addition, the company is actively seeking cooperation with Korean prospect client.

(2) **Capex and automation.** The company maintains full-year guidance on capex (RMB700mn) with the exclusion of potential additional investment in Newmax (3630 TT, NR). Currently the company's utilization rate is at a "satisfactory level" with monthly CCM capacity of 42KK, which will be expanded to 50KK by FY19E year-end in order to fulfill needs of new orders. Additional capacity in 2H comes from the new Kunshan factory to be commissioned in Sept and new factory in India. Due to the great external uncertainty, the mgmt is considering a more moderate capacity expansion plan in FY20E.

(3) **GPM improvement and product mix upgrade:** The mgmt see 3 major contributors to 1H19E yoy margin improvement, ranked by importance as follows; (1) decrease of unit labor cost thanks to higher level of automation; (2) reduced depreciation overhead thanks to larger shipments and higher utilization rate; (3) higher value added from high-end products. Q Tech maintains its FY19E product mix guidance (over 50% 10M+ CCM penetration and over 40% under-panel FPM penetration), implying there will be a noticeable improvement in 10M+ shipments in 2H19E.

**Maintain SELL.** We maintain our SELL on Q-Tech with TP HK\$5.0 unchanged based on same 12x FY20E PE.

**Risks:** 1) Better than expected GPM recovery; 2) Faster ramp up of Newmax lens set business, 3) Higher than expected yield rate for new products.

### Exhibit 1: Forecast and valuation

Year to Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	7,939	8,135	12,807	15,732	18,089
Growth (%)	59	2	57	23	15
Net Profit	436	14	294	405	566
Growth (%)	129	(97)	1,945	38	40
Diluted EPS (HK\$)	0.467	0.015	0.303	0.417	0.582
EPS growth (%)	118	(97)	1,894	38	40
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK\$)			0.392	0.509	
ROE (%)	23.5	0.7	13.1	15.6	18.3
P/E (x)	13.4	413.8	20.7	15.1	10.8
P/B (x)	2.7	2.8	2.5	2.1	1.8
Yield (%)	1.5	0.0	0.0	0.0	0.0
DPS (HK\$)	0.096	0.000	0.000	0.000	0.000

Source: Bloomberg, OP Research

## Financial Summary

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Income Statement (RMB mn)</b>					
Compact camera module	5,896	6,273	10,715	13,741	16,022
Fingerprint module	2,035	1,832	2,061	1,961	2,036
Others	8	30	30	30	30
<b>Turnover</b>	<b>7,939</b>	<b>8,135</b>	<b>12,807</b>	<b>15,732</b>	<b>18,089</b>
YoY%	59	2	57	23	15
			(11,934)		
COGS	(7,056)	(7,782)		(14,595)	(16,640)
<b>Gross profit</b>	<b>883</b>	<b>353</b>	<b>873</b>	<b>1,137</b>	<b>1,449</b>
Gross margin	11.1%	4.3%	6.8%	7.2%	8.0%
Other income	11	83	17	12	12
Selling & distribution	(16)	(19)	(30)	(35)	(40)
Admin	(65)	(81)	(114)	(134)	(152)
R&D	(270)	(266)	(373)	(465)	(568)
Other opex	0	0	0	0	0
<b>Total opex</b>	<b>(351)</b>	<b>(366)</b>	<b>(517)</b>	<b>(634)</b>	<b>(761)</b>
<b>Operating profit (EBIT)</b>	<b>543</b>	<b>70</b>	<b>373</b>	<b>515</b>	<b>701</b>
Operating margin	6.8%	0.9%	2.9%	3.3%	3.9%
Provisions	0	0	0	0	0
Finance costs	(17)	(44)	(46)	(46)	(46)
Profit after financing costs	526	26	327	469	655
Associated companies & JVs	(17)	(25)	0	0	0
Pre-tax profit	510	1	327	469	655
Tax	(73)	13	(33)	(63)	(88)
Minority interests	0	0	0	0	0
<b>Net profit</b>	<b>436</b>	<b>14</b>	<b>294</b>	<b>405</b>	<b>566</b>
YoY%	129	(97)	1,945	38	40
Net margin	5.5%	0.2%	2.3%	2.6%	3.1%
<b>EBITDA</b>	<b>655</b>	<b>248</b>	<b>650</b>	<b>864</b>	<b>1,107</b>
EBITDA margin	8.3%	3.0%	5.1%	5.5%	6.1%
<b>EPS (RMB)</b>	<b>0.389</b>	<b>0.013</b>	<b>0.252</b>	<b>0.347</b>	<b>0.485</b>
YoY%	116	(97)	1,894	38	40
DPS (HK\$)	0.096	0.000	0.000	0.000	0.000
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Cash Flow (RMB mn)</b>					
EBITDA	655	248	650	864	1,107
Chg in working cap	1,583	(444)	89	(147)	(148)
Others	59	36	0	0	0
<b>Operating cash</b>	<b>2,297</b>	<b>(160)</b>	<b>738</b>	<b>718</b>	<b>959</b>
Interests paid	0	0	0	0	0
Tax	(75)	(13)	(2)	(33)	(63)
<b>Net cash from operations</b>	<b>2,222</b>	<b>(173)</b>	<b>736</b>	<b>685</b>	<b>895</b>
Capex	(949)	(522)	(768)	(629)	(543)
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	2	3
Others	(47)	9	0	0	0
<b>Investing cash</b>	<b>(2,119)</b>	<b>387</b>	<b>(761)</b>	<b>(627)</b>	<b>(540)</b>
<b>FCF</b>	<b>103</b>	<b>214</b>	<b>(25)</b>	<b>58</b>	<b>356</b>
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
<b>Financing cash</b>	<b>312</b>	<b>(584)</b>	<b>(46)</b>	<b>(46)</b>	<b>(46)</b>
<b>Net change in cash</b>	<b>414</b>	<b>(370)</b>	<b>(71)</b>	<b>12</b>	<b>310</b>
Exchange rate or other Adj	(14)	5	0	0	0
Opening cash	65	465	100	29	40
<b>Closing cash</b>	<b>465</b>	<b>100</b>	<b>29</b>	<b>40</b>	<b>350</b>
<b>CFPS (HK\$)</b>	<b>2.379</b>	<b>(0.182)</b>	<b>0.757</b>	<b>0.704</b>	<b>0.921</b>

Source: Company, OP Research

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Ratios</b>					
Gross margin (%)	11.1	4.3	6.8	7.2	8.0
Operating margin (%)	6.8	0.9	2.9	3.3	3.9
Net margin (%)	5.5	0.2	2.3	2.6	3.1
Selling & dist'n exp/Sales (%)	0.2	0.2	0.2	0.2	0.2
Admin exp/Sales (%)	0.8	1.0	0.9	0.8	0.8
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	49.1	42.0	35.0
Net debt/equity (%)	28.6	51.3	47.9	40.6	24.6
Current ratio (x)	1.05	0.99	0.96	0.99	1.04
Quick ratio (x)	0.88	0.83	0.78	0.80	0.85
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	1.73	1.72	1.71
Financial leverage (x)	2.86	2.95	3.30	3.52	3.43
EBIT margin (%)	6.8	0.9	2.9	3.3	3.9
Interest burden (x)	0.94	0.02	0.88	0.91	0.93
Tax burden (x)	0.86	10.83	0.90	0.87	0.87
<b>Return on equity (%)</b>	<b>23.5</b>	<b>0.7</b>	<b>13.1</b>	<b>15.6</b>	<b>18.3</b>
<b>ROIC (%)</b>	<b>20.3</b>	<b>3.5</b>	<b>10.0</b>	<b>11.9</b>	<b>14.9</b>
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Balance Sheet (RMB mn)</b>					
Fixed assets	1,481	1,889	2,382	2,667	2,809
Intangible assets & goodwill	1	1	1	1	1
Associated companies & JVs	258	229	229	229	229
Long-term investments	0	0	0	0	0
Other non-current assets	213	92	84	76	69
<b>Non-current assets</b>	<b>1,953</b>	<b>2,211</b>	<b>2,696</b>	<b>2,974</b>	<b>3,107</b>
Inventories	688	704	1,079	1,320	1,505
AR	2,035	3,031	4,211	5,172	5,947
Prepayments & deposits	0	0	0	0	0
Other current assets	959	394	394	394	394
Cash	465	100	29	40	350
<b>Current assets</b>	<b>4,147</b>	<b>4,229</b>	<b>5,712</b>	<b>6,926</b>	<b>8,195</b>
AP	2,830	3,061	4,695	5,742	6,546
Tax	8	2	33	63	88
Accruals & other payables	0	28	38	47	54
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
<b>Current liabilities</b>	<b>3,934</b>	<b>4,270</b>	<b>5,944</b>	<b>7,030</b>	<b>7,867</b>
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
<b>Non-current liabilities</b>	<b>20</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>
<b>Total net assets</b>	<b>2,146</b>	<b>2,103</b>	<b>2,398</b>	<b>2,803</b>	<b>3,369</b>
<b>Shareholder's equity</b>	<b>2,146</b>	<b>2,103</b>	<b>2,398</b>	<b>2,803</b>	<b>3,369</b>
Share capital	9	9	9	9	9
Reserves	2,137	2,094	2,389	2,794	3,360
<b>BVPS (HK\$)</b>	<b>2.31</b>	<b>2.23</b>	<b>2.54</b>	<b>2.97</b>	<b>3.57</b>
Total debts	1,078	1,178	1,178	1,178	1,178
Net cash/(debts)	(613)	(1,078)	(1,150)	(1,138)	(828)

Exhibit 5: Peer Group Comparison

3-mth															EV/	EV/	Net	Gross	ROE		ROE								
															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	6.07	887	6.4	413.8	20.7	15.1	1,894.4	37.7	237.2	0.1	0.0	0.0	2.8	2.5	33.1	12.7	51.3	4.3	(9,670.0)	0.7	13.1	5.9	(6.5)					
HSI		28,550.43			11.2	11.3	10.5	(1.0)	7.8	5.3	2.15	3.4	3.6	1.26	1.24						11.3	10.9	2.7	(2.6)					
HSCEI		10,922.39			8.9	8.7	8.0	2.5	8.3	6.7	1.29	3.5	3.9	1.10	1.06						12.3	12.2	2.7	(6.0)					
CSI300		3,828.52			14.3	12.4	10.9	14.8	13.8			2.1	2.5	1.78	1.64						12.4	13.2	5.8	(0.2)					
Adjusted sector avg*					23.8	11.9	10.1	42.0	15.2	44.6	0.5	3.6	3.7	2.3	2.0	7.0	6.5	31.5	13.8	3.1	8.6	11.9	5.9	(3.0)					
Sunny Optical	2382 HK	80.60	11,312	99.1	31.0	22.6	17.4	37.3	30.0	29.5	0.77	0.8	1.3	8.39	6.29	19.0	15.2	0.0	18.9	9.6	29.8	31.9	11.3	(15.7)					
Truly Intl Hldgs	732 HK	1.18	497	1.4	50.0	5.1	5.2	887.3	(3.4)	130.8	0.04	N/A	4.4	0.51	0.46	5.0	3.7	82.7	9.5	0.4	1.0	5.2	(2.5)	(9.9)					
Cowell	1415 HK	1.48	157	0.8	11.1	7.9	7.3	41.2	8.3	19.5	0.40	7.6	7.4	0.48	0.47	0.7	0.6	0.0	9.8	2.6	4.2	5.8	(8.6)	5.0					
Ofilm Group Co-A	002456 CH	7.98	3,160	197.6	N/A	10.7	8.4	N/A	27.3	(248.0)	N/A	0.6	1.2	2.57	1.87	15.5	7.6	175.2	12.1	(1.2)	(12.1)	17.5	3.4	(41.5)					
Huizhou Speed -A	300322 CH	14.22	844	50.0	94.8	43.6	28.3	117.3	54.3	68.9	0.63	0.2	0.4	9.76	7.88	33.3	26.2	99.4	21.3	3.6	10.8	16.5	7.9	(3.9)					
Crucialtec Co Lt	114120 KS	1,160.00	66	1.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.93	N/A	(5.2)	N/A	38.6	(8.8)	(64.1)	(43.2)	N/A	10.0	9.4					
Lite-On Tech	2301 TT	45.70	3,449	6.4	13.4	13.6	12.3	(1.9)	10.7	0.3	46.71	6.4	6.1	1.43	1.42	5.8	5.2	0.0	13.1	3.8	11.5	10.5	4.7	2.8					
Primax Elec	4915 TT	55.60	801	9.6	13.5	11.6	9.8	16.0	18.3	18.4	0.63	5.8	5.2	2.03	1.73	8.2	6.9	0.0	12.0	2.8	15.2	15.8	6.3	(8.7)					

\* 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
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
25/04/2019	TCL Electronics	1070	1Q19E business update on track	BUY	Yuji Fung/Dallas Cai
24/04/2019	CH Display OPT	334	1Q19E operations in line with expectations	BUY	Yuji Fung/Dallas Cai
23/04/2019	Zhongyu Gas	3633	Comeback with dollar margin improvement	NR	Megan Jin
18/04/2019	Li Ning	2331	Upbeat 1Q19E sales performance	HOLD	Dallas Cai/Megan Jin
15/04/2019	Anta Sports	2020	1Q19E retail performance in line	BUY	Dallas Cai/Megan Jin
10/04/2019	Q Tech	1478	March saw improving product mix	SELL	Yuji Fung/Dallas Cai
09/04/2019	Xtep Intl	1368	1Q19 operations on track	BUY	Dallas Cai/Megan Jin
09/04/2019	China Youzan	8083	Introducing Tencent as strategic investor	BUY	Yuji Fung/Dallas Cai
04/04/2019	Regal Intl Airport	357	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
02/04/2019	Tianlun Gas	1600	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
01/04/2019	Truly Int'l	732	FY18 earnings miss on GPM and loss from associate	BUY	Yuji Fung/Dallas Cai
28/03/2019	China Youzan	8083	FY18 saw narrower loss than expected	BUY	Yuji Fung/Dallas Cai

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

(as of 20/06/2019)

(HK\$)



Date	Rating	TP (HK\$)	CLOSE (HK\$)	Date	Rating	TP (HK\$)	CLOSE (HK\$)
1 25 Jul 2018	HOLD	7.36	7.05	6 20 Feb 2019	BUY	7.00	5.66
2 31 Aug 2018	HOLD	5.75	5.07	7 26 Mar 2019	SELL	5.70	6.61
3 09 Nov 2018	BUY	5.75	4.28	8 10 Apr 2019	SELL	5.70	9.09
4 11 Dec 2018	BUY	5.75	4.40	9 09 May 2019	SELL	5.70	7.43
5 11 Jan 2019	BUY	5.40	4.65	10 11 Jun 2019	SELL	5.00	6.28

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