

Q-Tech (1478 HK)

Earnings recovery has just begun; Raise TP to HK\$6.47

Q-tech announced (11 Jul) a positive 1H24 profit alert, stating 400-500% YoY net profit growth (to RMB109-130mn), which tracks 29-34% and 40-47% of our and consensus FY24E estimates. The upbeat results were mainly driven by 1) a rising share of high-end CCM, 2) auto/IoT CCM growth, 3) rising UTR, and 4) better profitability of the associate (Newmax). For 2H24E, we remain positive on Android flagship model launches, high-end spec upgrade, auto/IoT CCM and FPM recovery to drive profitability. We raise FY25-26E EPS by 2-12% to factor in 1H24 earnings, stronger GPM and Newmax's better profitability. Trading at 14.3x/10.3x FY24/25E P/E, we think the stock is attractive. Maintain BUY with a new TP of HK\$6.47, based on a rolled-over 13x FY25E P/E (vs prior 11x P/E).

■ **1H24 net profit jumped 400-500% on better mix, strong auto/IoT CCM shipments and improving GPM.** Q-Tech preannounced 1H24 net profit growth of 400-500% YoY (to RMB109-130mn), mainly due to: 1) global smartphone recovery and share gains in major clients; 2) non-mobile (auto/IoT) CCM growth of 100% YoY with an improving UTR; 3) share of high-end CCM (32M+) sales reaching 49% in 1H24 (vs 42% in FY23); and 4) narrowing loss of an associate (Newmax in our view). Overall, 1H24 CCM growth/high-end ramp-up/GPM recovery exceeded expectations, and we look forward to guidance revision during 1H24 earnings call in Aug.

■ **2H24E outlook: high-end spec upgrade, rapid growth in non-mobile CCM, and FPM recovery.** Looking ahead to 2H24E, we believe high-end spec upgrade (larger resolution, OIS and periscope) and flagship model launches will boost high-end CCM sales contribution (vs 45% target), driving moderate ASP growth in 2H24E. As for GPM, we expect the recovery to be on track in 2H24E, given rising UTR of 70-80% in FY24E, based on company guidance (vs. 60-70% in 1H24). For non-mobile CCM, we expect rapid growth in auto CCM driven by Huawei and overseas customer orders, while IoT CCM will deliver rapid growth thanks to order wins. For FPM, we are positive on ultrasonic FPM, customers' orders and rising ASP (by 100%+ YoY) to drive segment recovery.

■ **Our FY24-26E EPS are 36-45% above consensus; Raise TP to HK\$6.47.** We are positive on new model launches and high-end spec upgrade to boost ASP/earnings recovery in 2H24E, while non-mobile CCM and FPM segment recovery is another profit driver in FY24-25E. We raise FY25-26E EPS by 2-12% and lift our TP to HK\$6.47, based on a rolled-over 13x FY25E P/E (vs prior 11x). Trading at 14.3x/10.3x FY24/25E P/E, we think the stock is attractive. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	13,759	12,531	17,025	17,593	19,503
YoY growth (%)	(26.3)	(8.9)	35.9	3.3	10.9
Net profit (RMB mn)	170.2	83.5	386.3	536.1	657.5
EPS (Reported) (RMB cents)	14.50	6.90	32.61	45.26	55.50
YoY growth (%)	(80.2)	(52.4)	372.7	38.8	22.6
Consensus EPS (RMB)	0.15	0.12	0.23	0.33	0.41
P/E (x)	32.1	67.4	14.3	10.3	8.4
P/B (x)	1.1	1.1	1.1	1.0	0.9
Yield (%)	0.0	0.0	1.4	1.9	2.4
ROE (%)	3.6	1.7	7.7	10.0	11.3
Net gearing (%)	26.6	26.0	19.3	15.8	5.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$6.47
(Previous TP)	HK\$3.93)
Up/Downside	29.6%
Current Price	HK\$4.99

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Stock Data

Mkt Cap (HK\$ mn)	5,913.2
Avg 3 mths t/o (HK\$ mn)	16.1
52w High/Low (HK\$)	4.99/2.56
Total Issued Shares (mn)	1185.0

Source: FactSet

Shareholding Structure

HE Ningning	63.6%
Harvest Fund Management Co Ltd	2.7%

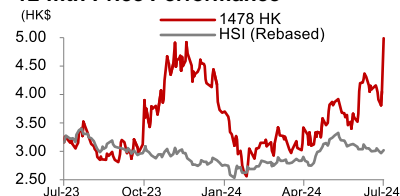
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	41.8%	44.5%
3-mth	44.6%	38.7%
6-mth	34.9%	23.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1) ASP/GPM upside driven by Android recovery and spec upgrade – 27 Jun 2024 ([link](#))

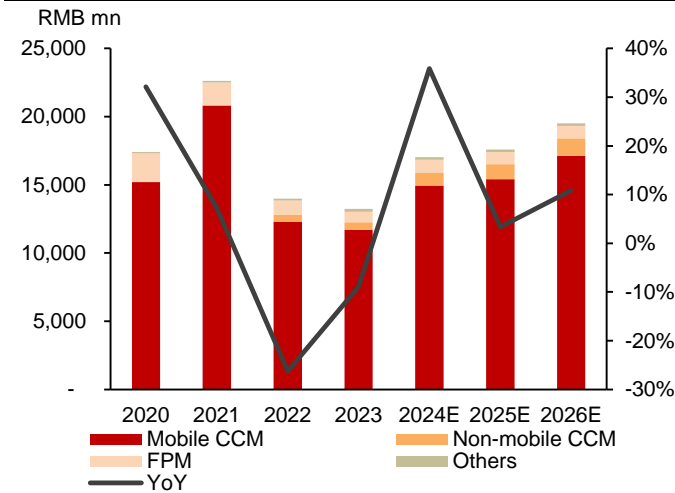
2) 1Q24 shipment rebound on track; Auto & IoT as next growth drivers – 11 Apr 2024 ([link](#))

3) Jan shipment beat; Focus on high-end smartphone recovery in 1H24E – 8 Feb 2024 ([link](#))

4) Expect better client demand in 2H; high-end CCM to drive ASP/GPM upside – 8 Aug 2023 ([link](#))

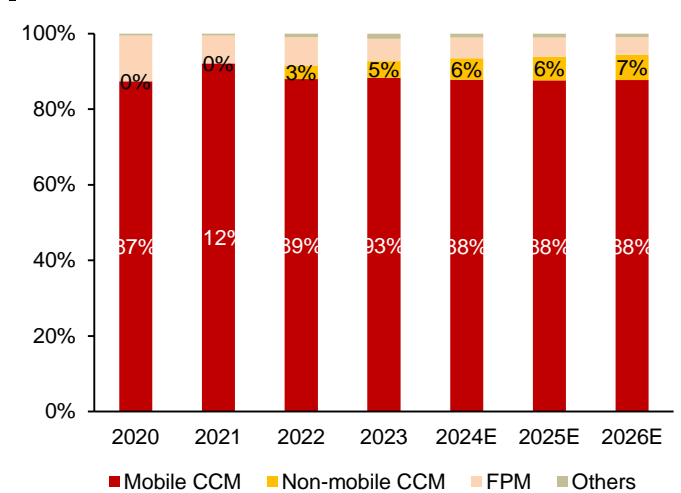
Focus Charts

Figure 1: Revenue growth trend



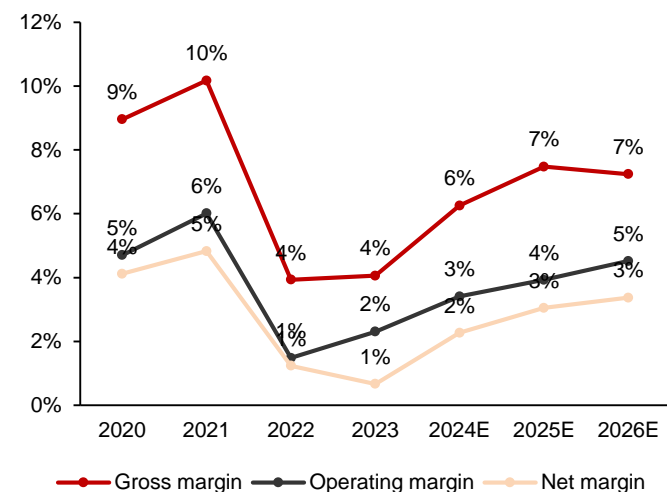
Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown



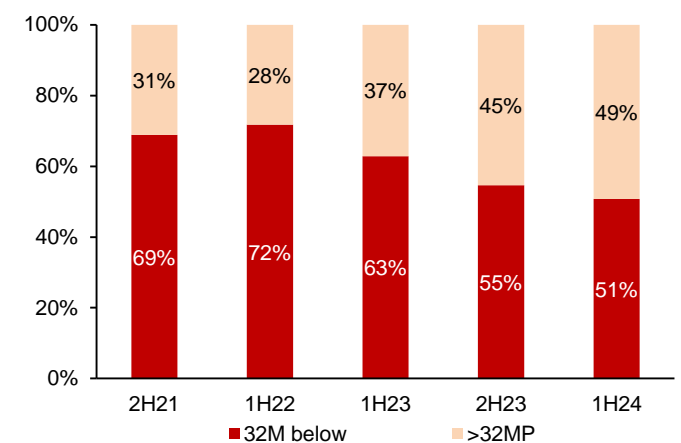
Source: Company data, CMBIGM estimates

Figure 3: Margins trend



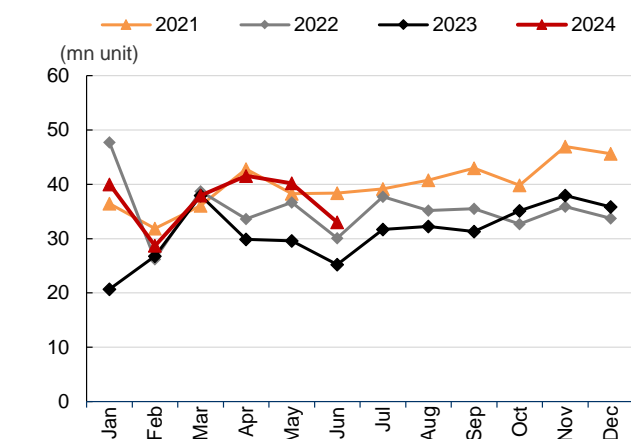
Source: Company data, CMBIGM estimates

Figure 4: CCM shipment mix



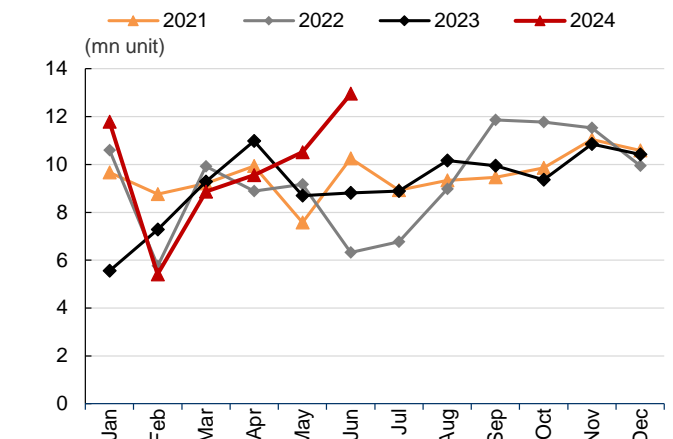
Source: Company data, CMBIGM estimates

Figure 5: CCM monthly shipments



Source: Company data, CMBIGM estimates

Figure 6: FPM monthly shipments



Source: Company data, CMBIGM estimates

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,025	17,593	19,503	14,794	15,840	16,823	15%	11%	16%
Gross profit	1,065	1,315	1,412	959	1,184	1,216	11%	11%	16%
Operating profit	581	691	882	500	622	851	16%	11%	4%
Net profit	386	536	657	386	524	589	0%	2%	12%
EPS (RMB)	32.6	45.3	55.5	32.6	44.2	49.7	0%	2%	12%
Gross margin	6.3%	7.5%	7.2%	6.5%	7.5%	7.2%	-0.2 ppt	0 ppt	0 ppt
Operating margin	3.4%	3.9%	4.5%	3.4%	3.9%	5.1%	0 ppt	0 ppt	-0.5 ppt
Net margin	2.3%	3.0%	3.4%	2.6%	3.3%	3.5%	-0.3 ppt	-0.3 ppt	-0.1 ppt

Source: Company data, CMBIGM estimates

Figure 8: CMBI estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,025	17,593	19,503	14,103	15,386	16,364	21%	14%	19%
Gross profit	1,065	1,315	1,412	877	1,081	1,181	21%	22%	20%
Operating profit	581	691	882	310	459	551	88%	51%	60%
Net profit	386	536	657	277	404	493	39%	33%	33%
EPS (RMB)	32.6	45.3	55.5	22.5	33.0	40.8	45%	37%	36%
Gross margin	6.3%	7.5%	7.2%	6.2%	7.0%	7.2%	0 ppt	0.4 ppt	0 ppt
Operating margin	3.4%	3.9%	4.5%	2.2%	3.0%	3.4%	1.2 ppt	0.9 ppt	1.2 ppt
Net margin	2.3%	3.0%	3.4%	2.0%	2.6%	3.0%	0.3 ppt	0.4 ppt	0.4 ppt

Source: Company data, CMBIGM estimates

Earnings Forecasts

Figure 9: P&L forecast

RMB mn	FY21	FY22	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Revenue	18,663	13,759	12,531	8,504	8,521	17,025	17,593	19,503
...YoY	7.3%	-26.3%	-8.9%	55.3%	20.8%	35.9%	3.3%	10.9%
Cost of sales	(16,901)	-13,218	(12,022)	(7,998)	(7,962)	(15,960)	(16,278)	(18,090)
Gross profit	1,762	541	509	506	559	1,065	1,315	1,412
GPM (%)	9.4%	3.9%	4.1%	5.9%	6.6%	6.3%	7.5%	7.2%
...YoY	-0.5%	-69.3%	-6.0%	168.6%	74.5%	109.3%	23.5%	7.4%
SG&A	(184)	-156	(169)	(85)	(84)	(169)	(176)	(195)
...% of rev	-1.0%	-1.1%	-1.3%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
R&D	(642)	-470	(436)	(255)	(256)	(511)	(572)	(488)
...% of rev	-3.4%	-3.4%	-3.5%	-3.0%	-3.0%	-3.0%	-3.3%	-2.5%
Operating profit	1,039	204	289	242	339	581	691	882
OPM (%)	5.6%	1.5%	2.3%	2.8%	4.0%	3.4%	3.9%	4.5%
...YoY	-0.7%	-80.4%	42.0%	135.7%	81.7%	100.9%	18.9%	27.6%
Gain/loss of asso..	(52)	(37)	(50)	6	20	26	20	20
Net profit	863	170	84	129	257	386	536	657
NPM (%)	4.6%	1.2%	0.7%	1.5%	3.0%	2.3%	3.0%	3.4%
...YoY	2.7%	-80.3%	-50.9%	495.8%	315.7%	362.5%	38.8%	22.6%

Source: Company data, CMBIGM estimates

Figure 10: Revenue breakdown

RMB mn	FY21	FY22	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
CCM revenue	16,875	12,561	11,562	7,990	7,919	15,909	16,514	18,406
...YoY	11%	-26%	-8%	60%	13%	38%	4%	11%
Shipment (mn)	479	424	374	221	217	438	457	487
...YoY	22%	-12%	-12%	31%	6%	17%	4%	6%
ASP (Rmb)	35.2	29.6	30.9	36.1	36.5	36.3	36.1	37.8
...YoY	-9%	-16%	4%	22%	6%	17%	0%	5%
FPM revenue	1,675	1,064	781	424	510	934	897	915
...YoY	-20%	-37%	-27%	7%	-31%	20%	-4%	2%
Shipment (mn)	115	112	110	52	62	114	116	118
...YoY	25%	-3%	-1%	2%	2%	3%	2%	2%
ASP (Rmb)	14.6	9.5	7.1	8.2	8.2	8.2	7.7	7.7
...YoY	-36%	-35%	-26%	5%	17%	16%	-6%	0%
Others	112	134	188	90	92	182	182	182
...YoY	16%	19%	40%	0%	-113%	-3%	0%	0%
Total	18,663	13,759	12,531	8,504	8,521	17,025	17,593	19,503
...YoY	7%	-26%	-9%	55%	8%	36%	3%	11%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$6.47

We remain positive on non-handset CCM (including automotive and IoT) to drive earnings growth in the long run. We raise FY25-26E EPS by 2-12% to factor in better 2H24 earnings, stronger GPM and Newmax's better profitability. We lift our TP to HK\$6.47, based on a rolled-over 13x FY25E P/E (vs prior 11x). Trading at 14.3x/10.3x FY24/25E P/E, we think the stock is attractive. Maintain BUY.

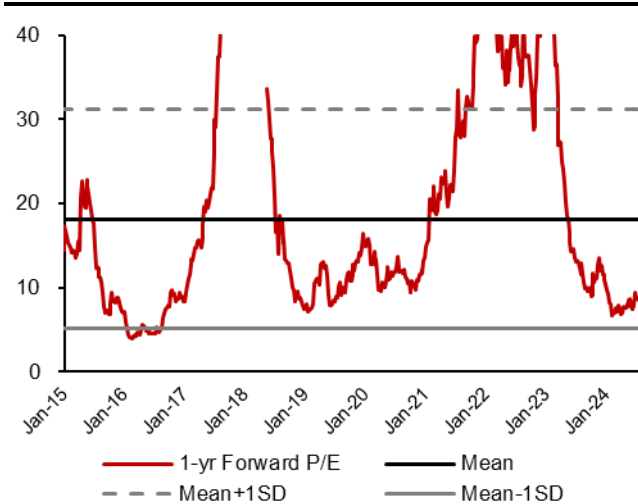
Upcoming catalysts include shipment recovery, product launches and non-smartphone CCM order wins.

Figure 11: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Q tech	1478 HK	Buy	757	4.99	6.47	30%	14.3	10.3	1.1	1.0	7.7	10.0
FIT Hon Teng	6088 HK	Buy	3,473	3.72	4.24	14%	17.6	11.5	1.3	1.2	7.2	10.2
AAC Tech	2018 HK	Hold	5,272	34.35	22.44	-35%	26.8	21.5	1.6	1.5	5.8	6.9
Sunny Optical	2382 HK	Hold	6,757	48.20	47.31	-2%	34.9	25.7	2.0	1.9	5.7	7.4
Tongda	698 HK	Buy	112	0.09	0.14	56%	3.9	3.1	0.1	0.1	3.1	3.8
BYDE	285 HK	Buy	10,719	37.15	45.15	22%	13.9	10.3	4.0	3.1	28.4	30.3
TK Group	2283 HK	Buy	190	1.78	2.79	57%	5.2	4.5	0.8	0.7	15.3	16.3
FIH	2038 HK	NR	888	0.88	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	437	1.08	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	27,032	18.18	NA	NA	44.8	25.3	0.9	0.9	2.1	3.1
YOFC	6869 HK	NR	1,700	7.99	NA	NA	7.1	5.8	0.5	0.4	7.0	7.9
Ju Teng	3336 HK	NR	198	1.29	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	2,764	25.15	NA	NA	27.1	15.5	5.4	4.0	21.8	28.3
Average							19.3	13.1	1.7	1.5	10.4	12.4

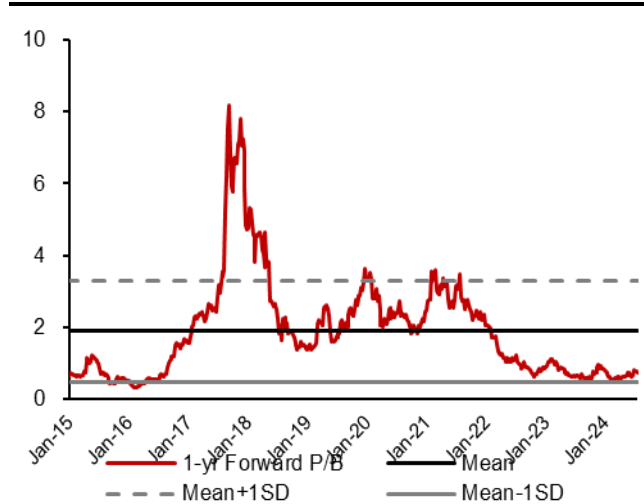
Source: Bloomberg, CMBIGM

Figure 12: 12M forward P/E band



Source: Company data, CMBIGM

Figure 13: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	18,663	13,759	12,531	17,025	17,593	19,503
Cost of goods sold	(16,901)	(13,218)	(12,022)	(15,960)	(16,278)	(18,090)
Gross profit	1,762	541	509	1,065	1,315	1,412
Operating expenses	(723)	(338)	(220)	(484)	(625)	(530)
Selling expense	(23)	(14)	(20)	(25)	(26)	(29)
Admin expense	(161)	(142)	(149)	(145)	(150)	(166)
R&D expense	(642)	(470)	(436)	(511)	(572)	(488)
Others	104	288	385	196	123	152
Operating profit	1,039	204	289	581	691	882
Share of (losses)/profits of associates/JV	(52)	(37)	(50)	26	20	20
Others	(30)	(60)	(171)	(166)	(95)	(128)
Pre-tax profit	957	107	68	441	616	773
Income tax	(94)	63	15	(54)	(80)	(116)
Minority interest	0	0	0	0	0	0
Net profit	863	170	84	386	536	657

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	9,315	8,594	11,107	11,939	10,321	14,664
Cash & equivalents	1,743	1,349	2,893	1,374	1,683	2,488
Account receivables	4,446	3,436	4,201	6,175	4,548	7,339
Inventories	2,258	1,184	1,778	2,155	1,856	2,601
ST bank deposits	811	919	1,302	1,302	1,302	1,302
Other current assets	57	1,705	933	933	933	933
Non-current assets	3,733	3,691	3,836	3,955	4,035	4,136
PP&E	3,144	3,140	2,845	2,964	3,044	3,145
Intangibles	20	26	23	23	23	23
Other non-current assets	569	525	968	968	968	968
Total assets	13,048	12,285	14,943	15,895	14,356	18,800
Current liabilities	8,079	7,249	9,666	10,309	8,342	12,260
Short-term borrowings	1,708	2,616	4,152	2,365	2,562	2,804
Account payables	6,259	4,584	5,437	7,866	5,702	9,378
Tax payable	49	12	12	12	12	12
Other current liabilities	64	38	66	66	66	66
Non-current liabilities	0	0	0	0	0	0
Deferred income	200	248	213	213	213	213
Other non-current liabilities	0	7	5	5	5	5
Total liabilities	8,343	7,518	10,111	10,754	8,787	12,704
Share capital	9	9	9	9	9	9
Other reserves	4,690	4,753	4,822	5,131	5,560	6,086
Total shareholders equity	4,705	4,767	4,832	5,141	5,570	6,096
Minority interest	0	0	0	0	0	0
Total equity and liabilities	13,048	12,285	14,943	15,895	14,356	18,800

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	957	107	68	441	616	773
Depreciation & amortization	544	640	728	732	800	875
Change in working capital	(1,017)	324	(470)	78	(238)	139
Others	0	0	0	0	0	0
Net cash from operations	1,596	1,194	513	1,363	1,192	1,799
Investing						
Capital expenditure	(1,558)	(1,149)	(1,046)	(851)	(880)	(975)
Others	0	0	0	0	0	0
Net cash from investing	(880)	(1,149)	(1,046)	(851)	(880)	(975)
Financing						
Dividend paid	0	0	0	(77)	(107)	(131)
Net borrowings	604	908	1,536	(1,787)	197	242
Others	(1,546)	(60)	(171)	(166)	(95)	(128)
Net cash from financing	(942)	848	1,364	(2,030)	(5)	(18)
Net change in cash						
Cash at the beginning of the year	1,984	1,743	1,349	2,893	1,374	1,683
Exchange difference	(14)	(1,288)	713	0	0	0
Cash at the end of the year	1,743	1,349	2,893	1,374	1,683	2,488
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	7.3%	(26.3%)	(8.9%)	35.9%	3.3%	10.9%
Gross profit	(0.5%)	(69.3%)	(6.0%)	109.3%	23.5%	7.4%
Operating profit	(0.7%)	(80.4%)	42.0%	100.9%	18.9%	27.6%
Net profit	2.7%	(80.3%)	(50.9%)	362.5%	38.8%	22.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	9.4%	3.9%	4.1%	6.3%	7.5%	7.2%
Operating margin	5.6%	1.5%	2.3%	3.4%	3.9%	4.5%
Return on equity (ROE)	20.3%	3.6%	1.7%	7.7%	10.0%	11.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.0)	0.3	0.3	0.2	0.2	0.1
Current ratio (x)	1.2	1.2	1.1	1.2	1.2	1.2
Receivable turnover days	78.6	104.5	111.2	111.2	111.2	111.2
Inventory turnover days	45.4	47.5	45.0	45.0	45.0	45.0
Payable turnover days	132.5	149.7	152.1	152.1	152.1	152.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	6.3	32.1	67.4	14.3	10.3	8.4
P/B	1.2	1.1	1.1	1.1	1.0	0.9
Div yield (%)	0.0	0.0	0.0	1.4	1.9	2.4
EV	4,705.2	4,767.4	4,831.8	5,140.8	5,569.7	6,095.6
EV/Sales	0.3	0.3	0.4	0.3	0.3	0.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

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CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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