

Q Technology (1478 HK)

Positive profit alert on product mix; Lift TP to HK\$16.0

Q-tech announced positive 1H20 profit alert, stating net profit to climb 50-90% YoY, which is well above 23%/37% YoY for our/consensus estimates, thanks to better HCM product mix and higher margin on automation. Despite FY20E HCM shipment guidance cut to “-5% to +5% YoY growth” from “20% YoY growth” due to COVID-19 impact, we believe improving product mix will continue to drive ASP/margin expansion in 2H20E, offsetting slower near-term shipment growth. We lifted FY20-22E EPS by 3-5%, and derived new TP of HK\$16.0 based on rollover 18x FY21E P/E (vs 22x FY20E P/E prev.). Reiterate BUY.

- Strong 1H20 on better product mix and higher margin** Q-tech expected 1H20 net profit growth of 50-90% YoY, well ahead of our/consensus estimate of 23%/37% YoY, given better HCM product mix and improving margin with higher automation and lower depreciation. We expect 1H20E revenue/net profit to grow 27%/63% YoY, and GPM improved to 9% in 1H20 from 8.2% in 1H19. Despite flattish HCM shipment in 1H20, we estimate HCM ASP growth of 52% YoY, thanks to 10MP+/32MP+ pixel mix reaching 73%/28% in 1H20 (vs 59%/12% in 2H19).
- HCM guidance revision to “-5% to +5% YoY growth” largely expected.** Q-tech’s 6M20 HCM shipment was flattish at -1% YoY, behind previous guidance of 20% YoY, while 6M20 FPM shipment came in at 6% YoY. Given sluggish smartphone demand in 1H20 and peers’ conservative comment (Cunty, Lagan), we are not surprised by HCM shipment guidance revision. Overall, we are positive on Q-tech’s efforts on product mix enhancement, and we expect pixel upgrade and periscope adoption to drive HCM ASP growth at 7% CAGR in FY20-22E.
- Newmax’s synergy and Samsung HCM to provide further upside.** We believe Q-tech’s lens business, Newmax, will continue to deliver solid results in FY20E, backed by accelerated integration in product/client portfolio, lens capacity expansion and spec upgrade (6P/7P) for FPM/CCM clients. In addition, we expect Q-tech will expand into Samsung HCM in 2H20E-1H21E, which will boost HCM growth in FY21E.
- Maintain BUY; Raise TP to HK\$16.0.** We revised up FY20E-21E EPS by 3-5% to factor in stronger 1H20, better margin and HCM outlook. Our new TP of HK\$16.0 is based on rollover 18x FY21E P/E (from 22x FY20E P/E prev.). Catalysts include Samsung HCM order win and 3D sensing adoption.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	8,135	13,170	15,849	19,290	22,363
YoY growth (%)	2.5	61.9	20.3	21.7	15.9
Net income (RMB mn)	14	542	723	906	1,074
EPS (RMB cents)	1.3	47.6	63.4	79.5	94.2
YoY growth (%)	-96.8	3627.6	33.2	25.4	18.5
Consensus EPS (RMB)	NA	48.7	59.8	75.8	87.4
P/E (x)	837.3	22.5	16.9	13.4	11.3
P/B (x)	5.6	4.3	3.5	2.9	2.4
Yield (%)	-	0.8	1.2	1.5	1.8
ROE (%)	0.7	18.9	20.8	21.4	20.9
Net gearing (%)	56	48	51	49	48

Source: Company data, Bloomberg, CMBIS estimate

BUY (Maintain)

Target Price	HK\$16.0
(Previous TP)	HK\$14.8
Up/Downside	+33.9%
Current Price	HK\$11.9

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	14,020
Avg. 3mths t/o (HK\$mn)	79.58
52W High/Low (HK\$)	14.78/ 6.05
Total Issued Shares (mn)	1,172

Source: Bloomberg

Shareholding Structure

He Ningning	64.28%
Vanguard Group Inc.	1.12%
Wang Jianqiang	0.95%

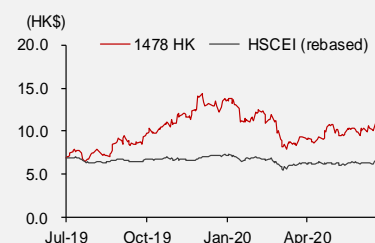
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	20.3%	11.8%
3-mth	28.0%	18.8%
6-mth	-13.4%	-6.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports:

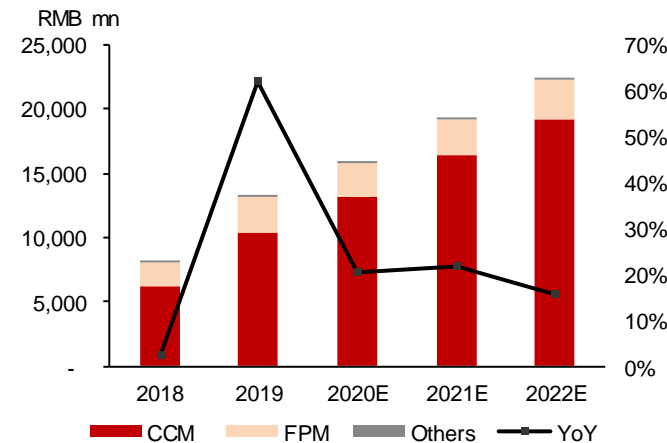
- Q-tech (1478 HK, Buy) - FY19 beats; Multi/3D-cam remain core growth drivers 10 Mar 2020
- Q-tech (1478 HK, Buy) -- Multiple growth engines in 2020; Raise TP to HK\$16.7 – 12 Dec 2019

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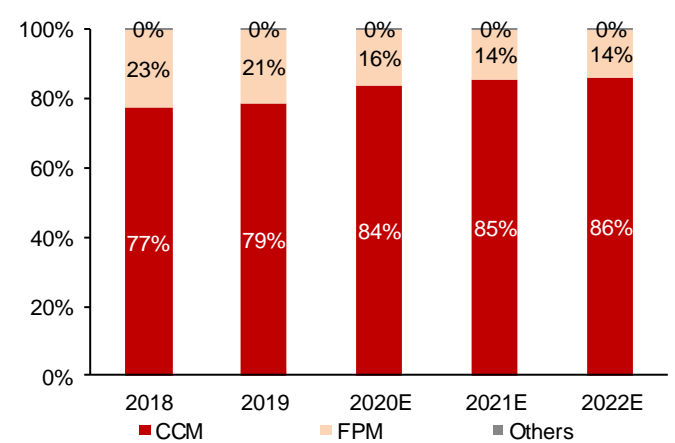
Focus Charts

Figure 1: Revenue growth trend



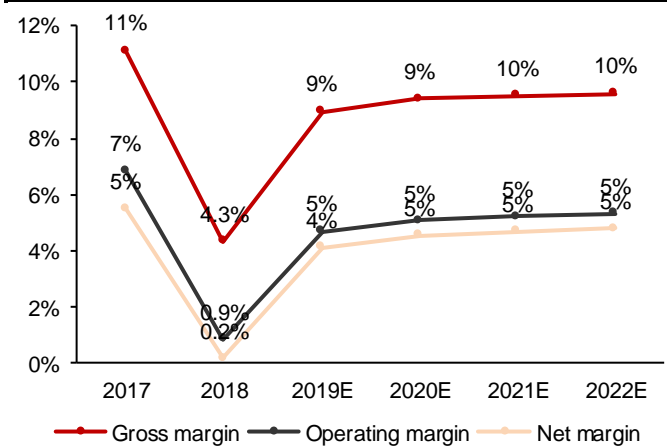
Source: Company data, CMBIS estimates

Figure 2: Revenue breakdown



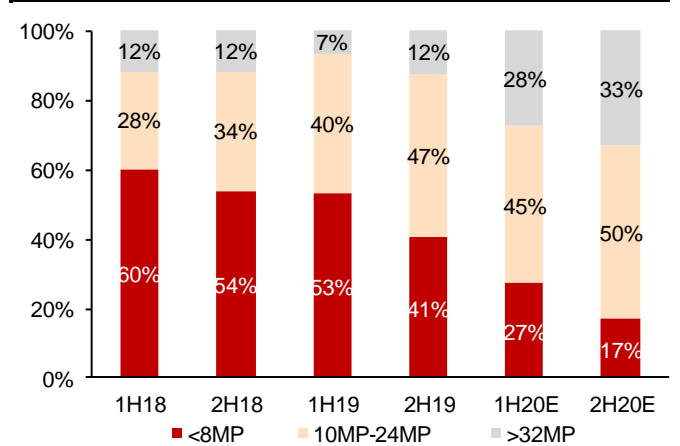
Source: Company data, CMBIS estimates

Figure 3: Margins is recovering in FY19-22E



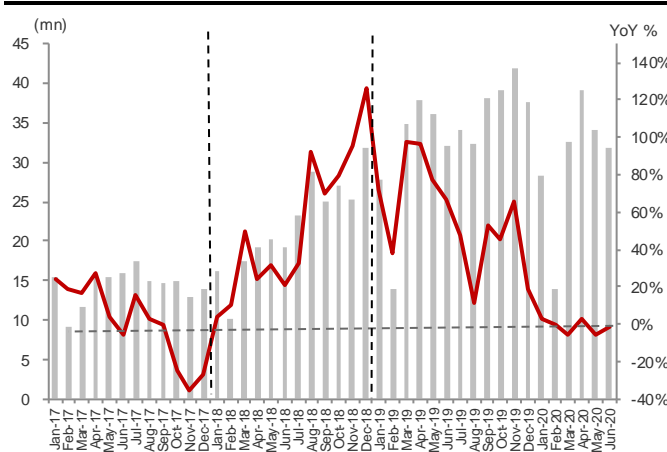
Source: Company data, CMBIS estimates

Figure 4: CCM shipment mix



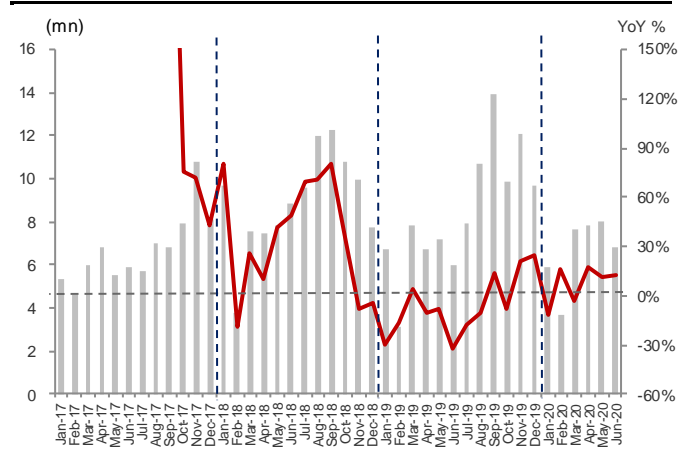
Source: Company data, CMBIS estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIS estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIS estimates

Earnings Revision

Our FY20-22E EPS are 5-8% above consensus

We raised FY20-22E EPS by 3-5% to reflect stronger 1H20, better margin and HCM outlook. Our FY20-22E EPS are 5-8% above consensus given our more positive view on Q-tech's CCM/FPM ASP, and Newmax outlook and profitability.

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	15,849	19,290	22,363	16,947	21,065	24,445	-6%	-8%	-9%
Gross profit	1,491	1,833	2,147	1,491	1,875	2,200	0%	-2%	-2%
Operating profit	804	1,007	1,190	763	973	1,154	5%	3%	3%
Net profit	723	906	1,074	688	878	1,027	5%	3%	5%
EPS (RMB)	63.4	79.5	94.2	60.4	77.1	90.2	5%	3%	5%
Gross margin	9.4%	9.5%	9.6%	8.8%	8.9%	9.0%	0.6 ppt	0.6 ppt	0.6 ppt
Operating margin	5.1%	5.2%	5.3%	4.5%	4.6%	4.7%	0.6 ppt	0.6 ppt	0.6 ppt
Net Margin	4.6%	4.7%	4.8%	4.1%	4.2%	4.2%	0.5 ppt	0.5 ppt	0.6 ppt

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	15,849	19,290	22,363	16,831	20,465	23,395	-6%	-6%	-4%
Gross profit	1,491	1,833	2,147	1,835	1,835	2,097	-19%	0%	2%
Operating profit	804	1,007	1,190	784	1,002	1,162	2%	1%	2%
Net profit	723	906	1,074	685	869	1,006	6%	4%	7%
EPS (RMB)	63.4	79.5	94.2	59.8	75.8	87.4	6%	5%	8%
Gross margin	9.4%	9.5%	9.6%	8.9%	9.0%	9.0%	0.5 ppt	0.5 ppt	0.6 ppt
Operating margin	5.1%	5.2%	5.3%	4.9%	4.9%	5.0%	0.2 ppt	0.3 ppt	0.4 ppt
Net Margin	4.6%	4.7%	4.8%	4.2%	4.2%	4.3%	0.3 ppt	0.5 ppt	0.5 ppt

Source: Company data, CMBIS estimates

Figure 9: Revenue breakdown

RMB mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
CCM Revenue	6,273	3,917	6,443	10,360	5,896	7,360	13,256	16,470	19,226
...YoY	6%	52%	74%	65%	51%	14%	28%	24%	17%
Shipment (mn)	264	183	224	406	180	224	404	464	511
...YoY	53%	78%	39%	53%	-1%	0%	-1%	15%	10%
ASP (Rmb)	23.9	21.5	28.8	25.5	32.7	32.9	32.8	35.5	37.7
...YoY	-30%	-15%	26%	7%	52%	14%	29%	8%	6%
FPM Revenue	1,832	1,122	1,637	2,759	999	1,544	2,543	2,769	3,087
...YoY	-10%	81%	35%	51%	-11%	-6%	-8%	9%	12%
Shipment (mn)	108	38	64	102	40	66	106	111	117
...YoY	33%	-16%	3%	-5%	6%	3%	4%	5%	5%
ASP (Rmb)	17.1	29.7	25.5	27.1	25.0	23.3	24.0	24.9	26.4
...YoY	-32%	116%	31%	58%	-16%	-8%	-11%	4%	6%
Others	30	22	29	51	22	29	51	51	51
...YoY	-	-	-	66%	-	-	0%	0%	0%
Total	8,135	5,061	8,109	13,170	6,917	8,932	15,849	19,290	22,363
...YoY	2%	58%	65%	62%	37%	10%	20%	22%	16%

Source: Company data, CMBIS

Figure 10: P&L forecast

RMB mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Revenue	8,135	5,061	8,109	13,170	6,917	8,932	15,849	19,290	22,363
...YoY	2.5%	57.8%	64.5%	61.9%	36.7%	10.2%	20.3%	21.7%	15.9%
Cost of sales	(7,782)	(4,646)	(7,344)	(11,990)	(6,294)	(8,064)	(14,358)	(17,457)	(20,216)
Gross profit	353	415	765	1,180	623	868	1,491	1,833	2,147
GPM (%)	4.3%	8.2%	9.4%	9.0%	9.0%	9.7%	9.4%	9.5%	9.6%
...YoY	-60.0%	963.1%	143.5%	234.1%	50.1%	13.5%	26.4%	22.9%	17.2%
SG&A	(100)	(48)	(95)	(143)	(82)	(105)	(187)	(228)	(264)
...% of rev	-1.2%	-1.0%	-1.2%	-1.1%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
R&D	(266)	(139)	(257)	(396)	(194)	(286)	(480)	(579)	(671)
...% of rev	-3.3%	-2.8%	-3.2%	-3.0%	-2.8%	-3.2%	-3.0%	-3.0%	-3.0%
Operating profit	70	199	421	620	327	477	804	1,007	1,190
OPM (%)	0.9%	3.9%	5.2%	4.7%	4.7%	5.3%	5.1%	5.2%	5.3%
...YoY	-87.1%	-1473.3%	398.5%	784.8%	64.7%	13.1%	29.7%	25.3%	18.2%
Profit of associates.	(25)	25	15	40	44	66	110	130	150
Net profit	14	181	362	542	295	427	723	906	1,074
NPM (%)	0.2%	3.6%	4.5%	4.1%	4.3%	4.8%	4.6%	4.7%	4.8%
...YoY	-96.7%	-452.6%	450.4%	3666.7%	63.3%	18.2%	33.2%	25.4%	18.5%

Source: Company data, CMBIS

Valuation

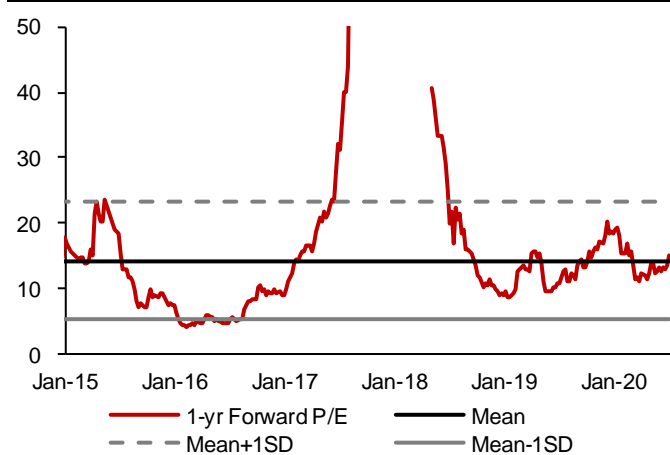
Reiterate BUY; Revised TP to HK\$16.0 (33.9% upside)

Our new 12m TP of HK\$ 16.0 is based on rollover 18x FY21E P/E (from 22x FY20E P/E). We believe Q-tech will deliver 22% EPS CAGR FY20-22E, and Newmax integration will accelerate revenue/cost synergy with Q-tech in long term. Upcoming catalysts include Samsung HCM order win and 5G product launches in 3Q20.

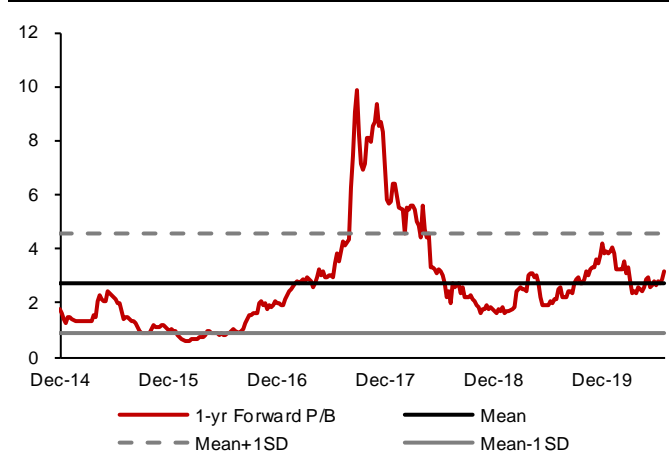
Figure 11: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Q tech	1478 HK	Buy	1,806	11.94	16.00	34%	17.0	13.4	3.5	2.9	20.7	21.5
FIT Hon Teng	6088 HK	Buy	3,995	4.50	4.16	-8%	26.5	16.2	1.7	1.6	6.6	9.9
AAC Tech	2018 HK	Sell	9,105	58.40	36.00	-38%	37.7	29.3	3.1	2.9	8.3	9.9
Sunny Optical	2382 HK	Buy	19,670	139.10	148.00	6%	32.4	23.7	8.4	6.4	25.9	27.2
Tongda	698 HK	Hold	385	0.47	0.50	8%	21.1	6.5	0.5	0.5	2.2	7.1
BYDE	285 HK	Buy	6,439	22.15	22.20	0%	27.2	20.5	2.4	2.2	9.0	10.9
TK Group	2283 HK	Buy	231	2.15	2.33	8%	3.9	3.3	1.4	1.4	35.7	41.7
FIH	2038 HK	NR	963	0.91	NA	NA	16.8	13.0	0.5	0.5	4.9	3.6
Truly	732 HK	NR	441	1.04	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	29,277	39.75	NA	NA	119.4	109.1	3.8	3.6	3.7	3.6
YOFC	6869 HK	NR	2,721	16.16	NA	NA	13.3	10.9	1.2	1.1	9.0	9.9
O-net	877 HK	NR	668	6.21	NA	NA	22.4	18.1	2.0	1.8	7.9	9.2
Ju Teng	3336 HK	NR	435	2.89	NA	NA	9.2	10.3	0.5	0.5	5.5	4.8
Cowell	1415 HK	NR	359	3.35	NA	NA	8.8	7.3	1.1	1.0	11.2	13.8
Average							27.4	21.7	2.3	2.0	11.6	13.3

Source: Bloomberg, CMBIS, * TP under review

Figure 12: 12M forward P/E band

Source: Company data, CMBIS

Figure 13: 12M forward P/B band

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	8,135	13,170	15,849	19,290	22,363
COGS	(7,782)	(11,990)	(14,358)	(17,457)	(20,216)
Gross profit	353	1,180	1,491	1,833	2,147
Selling and marketing	(19)	(15)	(29)	(35)	(40)
Administrative	(81)	(128)	(158)	(193)	(224)
R&D	(266)	(396)	(480)	(579)	(671)
Other operating exp.	83	(21)	(21)	(19)	(22)
Operating profit	70	620	804	1,007	1,190
Financial cost	(44)	(53)	(63)	(71)	(76)
Share profit/loss of asso.	(25)	40	110	130	150
Pre-tax profit	1	607	850	1,066	1,264
Tax	13	(65)	(128)	(160)	(190)
Net profit	14	542	723	906	1,074

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Profit before taxation	1	607	850	1,066	1,264
Depreciation	236	291	337	411	497
Change in working capital	(444)	(241)	(543)	17	(496)
Others					
Net cash from operating	(173)	2,400	580	1,405	1,151
Capex	(490)	(1,106)	(872)	(964)	(1,118)
Other					
Net cash from investing	387	(1,271)	(872)	(964)	(1,118)
Net borrowings	(346)	91	401	281	411
Dividend paid	(92)	(103)	(108)	(145)	(181)
Other	(146)	(805)	(63)	(71)	(76)
Net cash from financing	(584)	(817)	229	66	153
Net change in cash	(370)	311	(62)	506	187
Cash at beginning of the year	465	100	412	349	856
Exchange difference	5	0			
Cash at the end of the year	100	412	349	856	1,042

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Current assets	4,229	7,363	16,430	12,748	21,533
Cash & equivalents	100	412	349	856	1,042
Trade receivables	3,031	4,919	11,581	8,501	14,781
Inventories	704	1,913	4,381	3,272	5,590
Pledged bank deposits	288	93	93	93	93
Other current assets	105	26	26	26	26
Non-current assets	2,211	3,272	3,807	4,360	4,981
PPE	1,889	2,704	3,239	3,792	4,413
Lease payments	52				
Intangible assets	1	5	5	5	5
Other non-current assets	269	563	563	563	563
Total assets	6,440	10,635	20,237	17,108	26,514
Current liabilities	4,270	7,543	16,531	12,640	21,153
Bank borrowings	1,178	1,270	1,671	1,952	2,362
Trade payables	3,061	5,935	14,521	10,349	18,452
Tax payable	2	49	49	49	49
Other current liabilities	29	290	290	290	290
Non-current liabilities	66	225	225	450	225
Deferred income	66	130	130	130	130
Deferred tax liability	0	5	5	5	5
Total liabilities	4,336	7,768	16,756	13,090	21,379
Share capital	9	9	9	9	9
Reserves	2,094	2,858	3,472	4,234	5,126
Minority interest	-	-	-	-	-
Shareholders' equity	2,103	2,867	3,481	4,243	5,136
Total equity and liabilities	6,440	10,635	20,237	17,333	26,514

Key ratios

YE 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
Sales mix (%)					
Camera modules	77	79	84	85	86
Fingerprint modules	23	21	16	14	14
Growth (%)					
Revenue	2.5	61.9	20.3	21.7	15.9
Gross profit	(60.0)	234.1	26.4	22.9	17.2
Operating profit	(87.1)	784.8	29.7	25.3	18.2
Net profit	(96.7)	3,666.7	33.2	25.4	18.5
Profit & loss ratio (%)					
Gross margin	4.3	9.0	9.4	9.5	9.6
Operating margin	0.9	4.7	5.1	5.2	5.3
Net profit margin	0.2	4.1	4.6	4.7	4.8
Balance sheet ratio					
Net debt/total equity (x)	0.5	0.30	0.38	0.26	0.26
Current ratio (x)	1.0	1.0	1.0	1.0	1.0
Receivable turnover days	227	220	190	190	190
Inventory turnover days	65	80	80	80	80
Payable turnover days	276	274	260	260	260
Profitability (%)					
ROE	0.7	18.9	20.8	21.4	20.9
ROA	0.2	5.1	3.6	5.3	4.1
Per share data (RMB)					
EPS	0.01	0.48	0.63	0.80	0.94
DPS		0.09	0.13	0.16	0.19

Source: Company data, CMBIS estimates

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