27 Jun 2024

CMB International Global Markets | Equity Research | Company Update

Q-Tech (1478 HK)

CMBI Corp Day takeaways: ASP/GPM upside driven by Android recovery and spec upgrade

We hosted Q-tech at CMBI Technology Corporate Day on 26 Jun. Key takeaways include: 1) smartphone CCM: mgmt. is positive on GPM recovery in FY24E driven by Android recovery, higher UTR and better product mix and; 2) non-smartphone CCM: accelerated growth in auto CCM thanks to Huawei and overseas tier-1 customers' order wins; 3) FPM: profit breakdown on track given rising adoption of ultrasonic FPM and rising ASP. Overall, we expect high-end Android recovery and spec upgrade will boost ASP/earnings upside in FY24E. Trading at 11.9x/8.7x FY24/25E P/E, we think the stock remains attractive (vs 18x P/E 8-yr hist. avg). Maintain BUY with TP under review.

- **Smartphone CCM: GPM recovery on track thanks to Android recovery, high-end spec upgrade and rising UTR/ASP.** Mgmt. reiterated their guidance on 1) smartphone CCM shipment growth of 5% YoY and 2) high-end CCM (32M and above) CCM sales mix to reach 45%+ in 2024, mainly driven by Android recovery and high-end spec upgrade (e.g. periscope and OIS). In addition, mgmt. is positive on GPM recovery thanks to improving UTR (70-80% in FY24E, vs. 60-70% in 1H24), ASP hike (mid-single digit YoY) and better product mix. As for AI smartphone, mgmt. believes it will stimulate smartphone replacement cycle but will take time for supply chain to embrace new technologies for optics upgrade, such as 3D photo shoot, image correction & discrimination and multispectral cameras.
- **Non-smartphone CCM: accelerated growth with sales mix to reach 12% in FY24E.** Mgmt. expects auto CCM to accelerate growth with sales mix to reach 6-7% in FY24E (vs.1.2% in FY23) thanks to Huawei and overseas tier-1 customers' orders. Additionally, IoT CCM remains rapid growth thanks to order wins and capacity ramp-up. Overall, mgmt. guided non-smartphone sales mix to reach 12% in FY24E, vs 7-8% in FY23.
- **FPM: ultrasonic fingerprint is the bright spot; Target to turn profitable in FY24E.** Q-tech's ultrasonic FPM shipment started in April and mgmt. expected shipment to reach 1kk/month in 2H24E driven by major customer orders including Vivo and OPPO. Mgmt. expects encouraging ASP is likely to drive FPM segment to turn profitable due to ASP hike by 100%+. Overall, mgmt. expects stable sales mix of 7-8% with minor upgrade for FPM applications in the future.
- **Earnings recovery on track in FY24E; Maintain BUY.** We expect high-end Android recovery and spec upgrade will boost ASP/earnings upside in FY24E, and non-smartphone CCM/ultrasonic FPM segments will continue to accelerate growth in FY24/25E. Trading at 11.9x/8.7x 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	14,794	15,840	16,823
YoY growth (%)	(26.3)	(8.9)	18.1	7.1	6.2
Net profit (RMB mn)	170.2	83.5	385.6	523.6	588.8
EPS (Reported) (RMB cents)	14.50	6.90	32.55	44.20	49.71
YoY growth (%)	(80.2)	(52.4)	371.8	35.8	12.5
Consensus EPS (RMB)	0.15	0.12	0.28	0.41	0.38
P/E (x)	26.6	55.9	11.9	8.7	7.8
P/B (x)	1.0	0.9	0.9	0.8	0.8
Yield (%)	0.0	0.0	1.7	2.3	2.6
ROE (%)	3.6	1.7	7.7	9.8	10.2
Net gearing (%)	26.6	26.0	15.1	12.8	(1.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**Under Review**
Up/Downside	**-**
Current Price	**HK$4.15**

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Stock Data

Mkt Cap (HK$ mn)	4,917.8
Avg 3 mths t/o (HK$ mn)	16.0
52w High/Low (HK$)	4.92/2.56
Total Issued Shares (mn)	1185.0

Source: FactSet

Shareholding Structure

HE Ningning	63.6%
Harvest Fund Management Co Ltd	2.7%

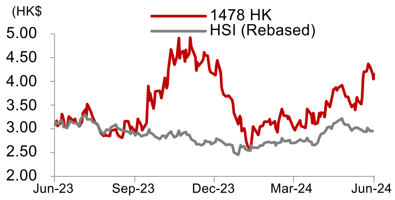
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	12.8%	17.4%
3-mth	37.9%	26.7%
6-mth	-1.4%	-11.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

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

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

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

4) 1H23 profit warning; Maintain BUY on 2H gradual recovery – 19 Jul 2023 (link)

Earnings Forecasts

Figure 1: P&L forecast

RMB mn	FY21	FY22	FY23	1H24E	2H24E	FY24E	FY25E
Revenue	**18,663**	**13,759**	**12,531**	**6,789**	**8,005**	**14,794**	**15,840**
…YoY	*7.3%*	*-26.3%*	*-8.9%*	*24.0%*	*13.5%*	*18.1%*	*7.1%*
Cost of sales	-16,901	-13,218	-12,022	-6,355	-7,480	-13,835	-14,656
Gross profit	**1,762**	**541**	**509**	**434**	**525**	**959**	**1,184**
GPM (%)	*9.4%*	*3.9%*	*4.1%*	*6.4%*	*6.6%*	*6.5%*	*7.5%*
…YoY	*-0.5%*	*-69.3%*	*-6.0%*	*130.7%*	*63.7%*	*88.5%*	*23.4%*
SG&A	-184	-156	-169	-68	-80	-148	-158
…% of rev	*-1.0%*	*-1.1%*	*-1.3%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*
R&D	-642	-470	-436	-204	-240	-444	-515
…% of rev	*-3.4%*	*-3.4%*	*-3.5%*	*-3.0%*	*-3.0%*	*-3.0%*	*-3.3%*
Operating profit	**1,039**	**204**	**289**	**224**	**277**	**500**	**622**
OPM (%)	*5.6%*	*1.5%*	*2.3%*	*3.3%*	*3.5%*	*3.4%*	*3.9%*
…YoY	*-0.7%*	*-80.4%*	*42.0%*	*117.9%*	*48.4%*	*73.1%*	*24.2%*
Profit of associates.	**(52)**	***(37)***	**(50)**	**10**	**20**	**30**	**30**
Net profit	**863**	**170**	**84**	**166**	**220**	**386**	**524**
NPM (%)	*4.6%*	*1.2%*	*0.7%*	*2.4%*	*2.7%*	*2.6%*	*3.3%*
…YoY	*2.7%*	*-80.3%*	*-50.9%*	*663.1%*	*255.8%*	*361.6%*	*35.8%*

Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown

RMB mn	FY20	FY21	FY22	FY23	1H24E	2H24E	FY24E	FY25E
CCM Revenue	**15,202**	**16,875**	**12,561**	**11,562**	**6,276**	**7,403**	**13,679**	**14,761**
…YoY	**47%**	**11%**	**-26%**	**-8%**	**26%**	**5%**	**18%**	**8%**
Shipment (mn)	392	479	424	374	187	217	404	421
…YoY	*-3%*	*22%*	*-12%*	*-12%*	*11%*	*6%*	*8%*	*4%*
ASP (RMB)	38.7	35.2	29.6	30.9	33.5	34.2	33.9	35.0
…YoY	*52%*	*-9%*	*-16%*	*4%*	*14%*	*-1%*	*9%*	*3%*
FPM Revenue	**2,101**	**1,675**	**1,064**	**781**	**424**	**510**	**934**	**897**
…YoY	***-24%***	***-20%***	***-37%***	***-27%***	***7%***	***-31%***	***20%***	***-4%***
Shipment (mn)	92	115	112	110	52	62	114	116
…YoY	*-10%*	*25%*	*-3%*	*-1%*	*2%*	*2%*	*3%*	*2%*
ASP (RMB)	22.8	14.6	9.5	7.1	8.2	8.2	8.2	7.7
…YoY	*-16%*	*-36%*	*-35%*	*-26%*	*5%*	*17%*	*16%*	*-6%*
Others	97	112	134	188	90	92	182	(6,331)
…YoY	91%	16%	19%	40%	0%	-113%	-3%	-3577%
Total	**17,400**	**18,663**	**13,759**	**12,531**	**6,789**	**8,005**	**14,794**	**15,840**
…YoY	***32%***	***7%***	***-26%***	***-9%***	***24%***	***2%***	***18%***	***7%***

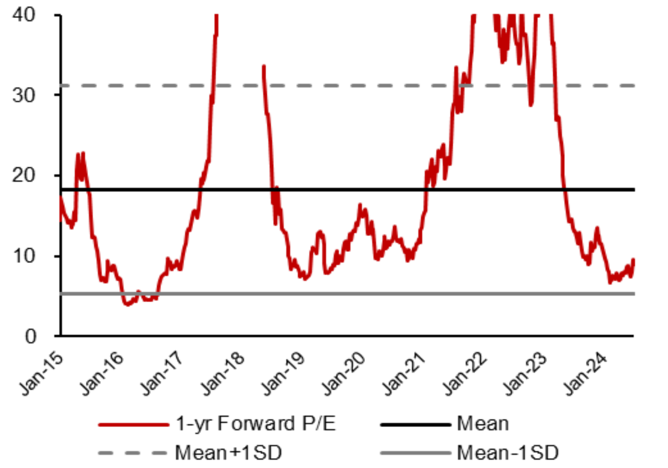
Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP under review

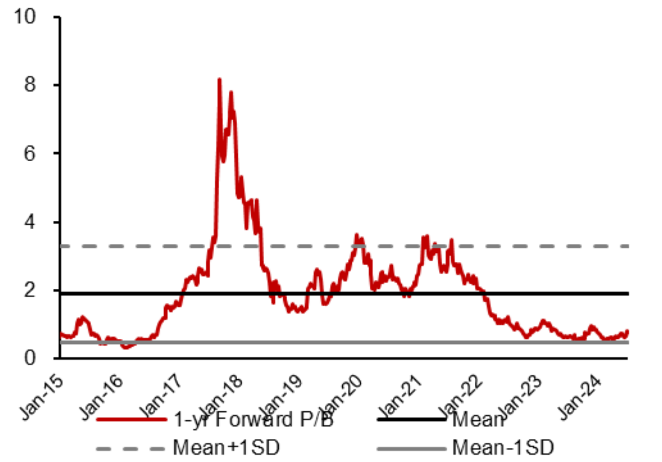
We remain positive on non-handset CCM (including automotive and IoT) to drive earnings growth in the long run. Upcoming catalysts include shipment recovery, product launches and non-smartphone CCM order wins.

Figure 3: 12M forward P/E band



Source: Company data, CMBIGM

Figure 4: 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**	**14,794**	**15,840**	**16,823**
Cost of goods sold	(16,901)	(13,218)	(12,022)	(13,835)	(14,656)	(15,607)
Gross profit	**1,762**	**541**	**509**	**959**	**1,184**	**1,216**
Operating expenses	**(723)**	**(338)**	**(220)**	**(459)**	**(562)**	**(365)**
Selling expense	(23)	(14)	(20)	(22)	(24)	(25)
Admin expense	(161)	(142)	(149)	(126)	(135)	(135)
R&D expense	(642)	(470)	(436)	(444)	(515)	(336)
Others	104	288	385	133	111	131
Operating profit	**1,039**	**204**	**289**	**500**	**622**	**851**
Share of (losses)/profits of associates/JV	(52)	(37)	(50)	30	30	30
Others	(30)	(60)	(171)	(87)	(50)	(205)
Pre-tax profit	**957**	**107**	**68**	**443**	**602**	**677**
Income tax	(94)	63	15	(58)	(78)	(88)
Minority interest	0	0	0	0	0	0
Net profit	**863**	**170**	**84**	**386**	**524**	**589**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**9,315**	**8,594**	**11,107**	**10,270**	**10,900**	**12,363**
Cash & equivalents	1,743	1,349	2,893	1,588	1,847	2,847
Account receivables	4,446	3,436	4,201	4,816	4,838	5,415
Inventories	2,258	1,184	1,778	1,631	1,980	1,866
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**	**3,852**	**3,860**	**3,852**
PP&E	3,144	3,140	2,845	2,861	2,869	2,861
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**	**14,123**	**14,760**	**16,215**
Current liabilities	**8,079**	**7,249**	**9,666**	**8,538**	**8,756**	**9,740**
Short-term borrowings	1,708	2,616	4,152	2,364	2,557	2,774
Account payables	6,259	4,584	5,437	6,096	6,121	6,888
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**	**8,983**	**9,201**	**10,185**
Share capital	9	9	9	9	9	9
Other reserves	4,690	4,753	4,822	5,131	5,550	6,021
Total shareholders equity	**4,705**	**4,767**	**4,832**	**5,140**	**5,559**	**6,030**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**13,048**	**12,285**	**14,943**	**14,123**	**14,760**	**16,215**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**957**	**107**	**68**	**443**	**602**	**677**
Depreciation & amortization	544	640	728	723	784	849
Change in working capital	(1,017)	324	(470)	190	(346)	305
Others	0	0	0	0	0	0
Net cash from operations	**1,596**	**1,194**	**513**	**1,386**	**1,012**	**1,947**
Investing						
Capital expenditure	(1,558)	(1,149)	(1,046)	(740)	(792)	(841)
Others	0	0	0	0	0	0
Net cash from investing	**(880)**	**(1,149)**	**(1,046)**	**(740)**	**(792)**	**(841)**
Financing						
Dividend paid	0	0	0	(77)	(105)	(118)
Net borrowings	604	908	1,536	(1,787)	193	217
Others	(1,546)	(60)	(171)	(87)	(50)	(205)
Net cash from financing	**(942)**	**848**	**1,364**	**(1,951)**	**38**	**(106)**
Net change in cash						
Cash at the beginning of the year	1,984	1,743	1,349	2,893	1,588	1,847
Exchange difference	(14)	(1,288)	713	0	0	0
Cash at the end of the year	**1,743**	**1,349**	**2,893**	**1,588**	**1,847**	**2,847**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	7.3%	(26.3%)	(8.9%)	18.1%	7.1%	6.2%
Gross profit	(0.5%)	(69.3%)	(6.0%)	88.5%	23.4%	2.8%
Operating profit	(0.7%)	(80.4%)	42.0%	73.1%	24.2%	37.0%
Net profit	2.7%	(80.3%)	(50.9%)	361.6%	35.8%	12.5%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	9.4%	3.9%	4.1%	6.5%	7.5%	7.2%
Operating margin	5.6%	1.5%	2.3%	3.4%	3.9%	5.1%
Return on equity (ROE)	20.3%	3.6%	1.7%	7.7%	9.8%	10.2%

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	0.1	(0.0)
Current ratio (x)	1.2	1.2	1.1	1.2	1.2	1.3
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	5.3	26.6	55.9	11.9	8.7	7.8
P/B	1.0	1.0	0.9	0.9	0.8	0.8
Div yield (%)	0.0	0.0	0.0	1.7	2.3	2.6
EV	4,705.2	4,767.4	4,831.8	5,140.2	5,559.1	6,030.2
EV/Sales	0.3	0.3	0.4	0.3	0.4	0.4

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

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