

Q Technology (1478 HK)

Stronger CCM outlook in 2021; Raise TP to HK\$23.0

Q-tech's FY20 net profit grew 55% YoY to RMB840mn, in-line with positive profit alert earlier, mainly driven by 52% CCM ASP hike despite 3% shipment decline. GPM further improved 1ppt to 10.2%, due to better product mix and scale benefits. Looking in 2021, we are positive on mgmt. guidance of 30% YoY CCM/FPM shipment growth and 30%+ high-end 32MP CCM mix. We raised our FY21-22E EPS by 13-14% to reflect better GPM and CCM share gain. We also lifted our TP to HK\$23.0 based on same 20X FY21E P/E. Trading at 12.9x FY21E P/E with 18% FY21-23E EPS CAGR, we think the stock is attractive. Reiterate BUY.

- **Results in-line; Better GPM is a positive sign of improving landscape.** Q-tech revenue/net profit growth of 32%/50% is largely in-line, backed by 47% YoY CCM growth despite 24% YoY FPM decline. By 2H20, revenue/ net profit grew 6%/40% YoY, due to slower CCM ASP hike on Huawei ban (+22% YoY, vs +100% in 1H) and stronger GPM of 12.1% (vs 8.3% in 1H). We expect higher GPM will sustain into 2021, given spec upgrade recovery, better efficiency/automation, and improving landscape on O-Film weakness.
- **2021: 30%+ YoY volume growth and high-end share gain.** On the back of post-COVID-19 recovery, we expect Q-tech will benefit from strong rebound of global smartphone shipment and spec upgrade cycle. Mgmt. guided 30% YoY growth for both CCM/FPM and 30% CCM 32MP mix, thanks to high-end CCM share gain, India expansion, and Samsung order win. We are positive on Q-tech's product roadmap in miniaturization, 3D sensing and periscope optical zoom, and we expect steady HCM ASP at 3% FY21-23E CAGR.
- **Proposed A-share spin-off to accelerate Auto/IoT CCM and vertical integration.** Mgmt. reiterated long-term roadmap for auto/IoT CCM and vertical integration strategy through spin-off to A-share listing. For auto CCM, Q-tech started to build production capacity since 2018 (2kk/yr in 2020), and it targets to accelerate expansion of ADAS products and MP of DMS/ODS projects in 2021. In addition, Q-tech will start mass production of 13MP-64MP CCM under Project Apollo in 2021 to offer turnkey solutions by integrating with Neamax and other related companies (e.g. VCM, connector, FPCB).
- **Reiterate BUY; Lift TP to HK\$23.0 (56% upside).** We revised up FY21E-22E EPS by 13-14% to factor in stronger GPM and CCM share gain. Our new TP of HK\$23.0 is based on same 18x FY21E P/E. Catalysts include Samsung HCM order win and A-share spin-off progress.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	13,170	17,400	22,436	25,643	30,088
YoY growth (%)	61.9	32.1	28.9	14.3	17.3
Net income (RMB mn)	542	840	1,116	1,273	1,544
EPS (RMB cents)	47.6	71.9	95.5	109.0	132.1
YoY growth (%)	3627.6	51.1	32.8	14.1	21.3
Consensus EPS (RMB)	48.7	67.7	87.0	104.7	140.0
P/E (x)	25.8	17.1	12.9	11.3	9.3
P/B (x)	4.9	3.8	3.1	2.5	2.1
Yield (%)	0.7	4.1	1.6	1.8	2.2
ROE (%)	18.9	22.2	23.8	22.3	22.3
Net gearing (%)	48	35	50	50	49

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$23.0
(Previous TP)	HK\$18.8
Up/Downside	+55.5%
Current Price	HK\$14.8

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	17,349
Avg. 3mths t/o (HK\$mn)	151.99
52W High/Low (HK\$)	18.20/ 8.05
Total Issued Shares (mn)	1,172

Source: Bloomberg

Shareholding Structure

He Ningning	64.28%
Vanguard Group	1.15%
Harvest Fund Mgmt.	1.01%

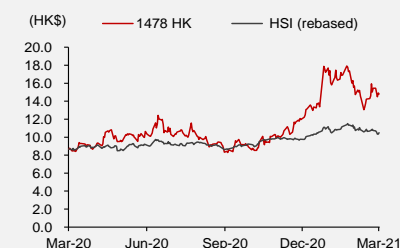
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-4.8%	2.6%
3-mth	24.7%	18.0%
6-mth	79.3%	49.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

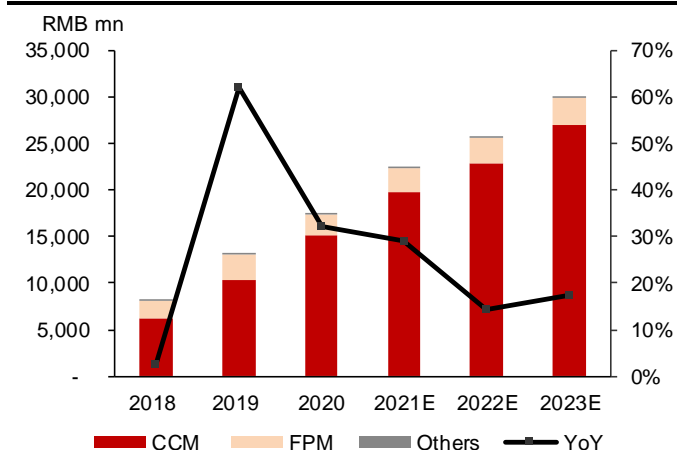
Auditor: KPMG

Related Reports:

1. Positive profit alert on ASP/GPM hike; Lift TP to HK\$18.8 – 18 Jan 2021
2. Strong 1H20 on HCM product mix; Reiterate BUY – 18 Aug 2020
3. Positive profit alert on product mix; Lift TP to HK\$16.0 - 14 Jul 2020

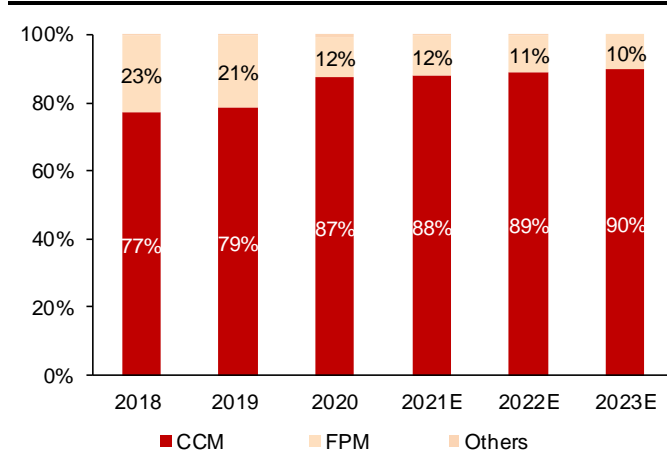
Focus Charts

Figure 1: Revenue growth trend



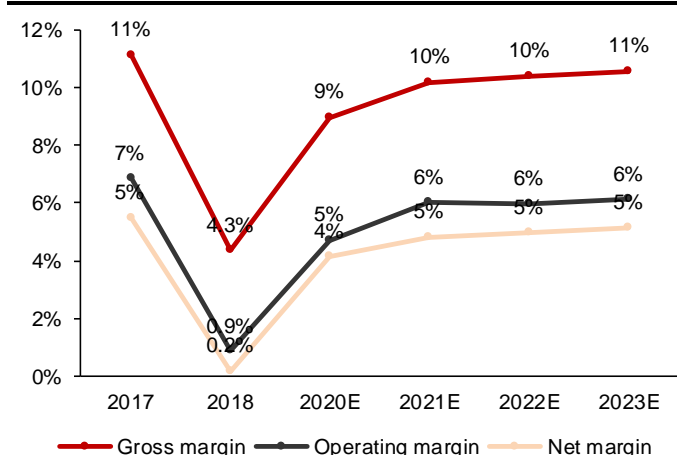
Source: Company data, CMBIS estimates

Figure 2: Revenue breakdown



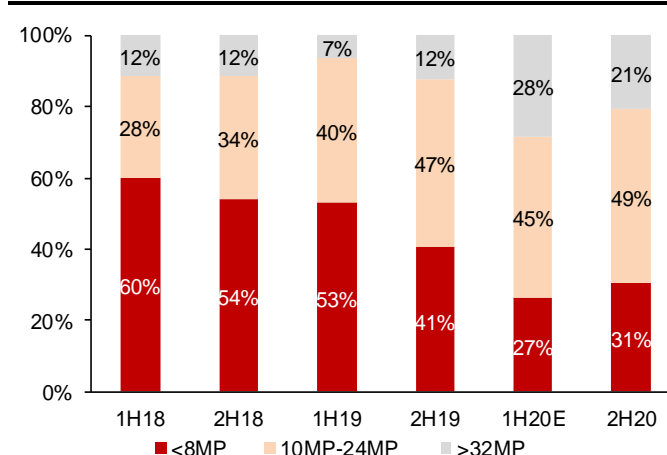
Source: Company data, CMBIS estimates

Figure 3: Margins is recovering in FY19-22E



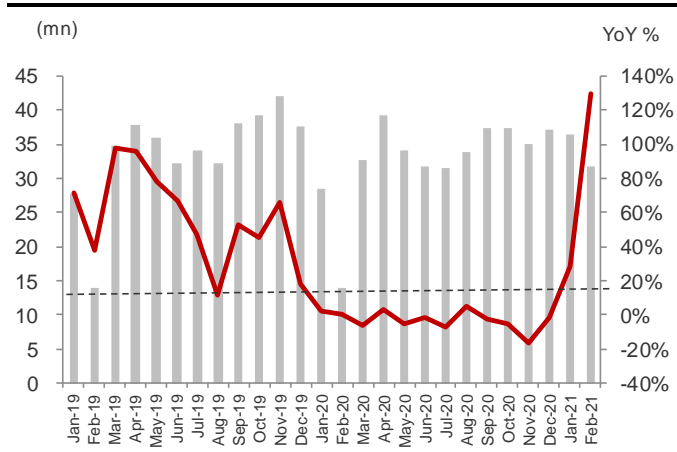
Source: Company data, CMBIS estimates

Figure 4: CCM shipment mix



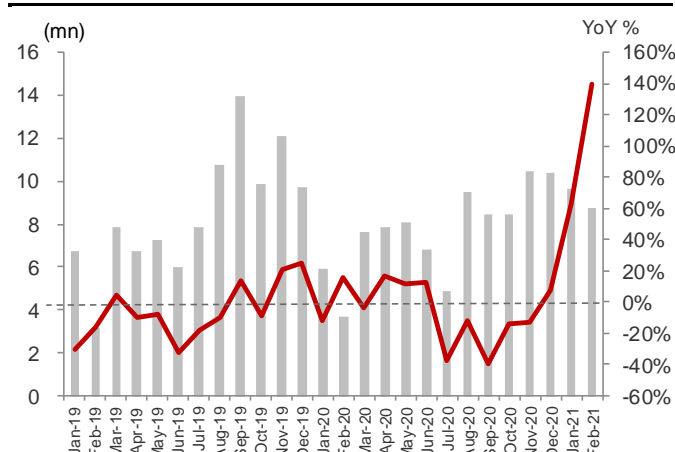
Source: Company data, CMBIS estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIS estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIS estimates

Earnings Revision

Our FY21-22E EPS are 4-10% above consensus

We revised up FY21-22E EPS by 13-14% to factor in stronger GPM and share gain. Our FY21-22E EPS are 4-10% above consensus given our more positive view on Q-tech's HCM GPM and Newmax outlook.

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	22,436	25,643	30,088	20,202	23,614	na	11%	9%	na
Gross profit	2,297	2,667	3,179	1,877	2,192	na	22%	22%	na
Operating profit	1,298	1,526	1,840	1,077	1,257	na	21%	21%	na
Net profit	1,116	1,273	1,544	961	1,087	na	16%	17%	na
EPS (RMB)	95.5	109.0	132.1	84.3	95.4	na	13%	14%	na
Gross margin	10.2%	10.4%	10.6%	9.3%	9.3%	na	0.9 ppt	1.1 ppt	na
Operating margin	5.8%	5.9%	6.1%	5.3%	5.3%	na	0.5 ppt	0.6 ppt	na
Net Margin	5.0%	5.0%	5.1%	4.8%	4.6%	na	0.2 ppt	0.4 ppt	na

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	22,436	25,643	30,088	22,535	26,583	30,424	0%	-4%	-1%
Gross profit	2,297	2,667	3,179	2,084	2,479	2,951	10%	8%	8%
Operating profit	1,298	1,526	1,840	1,173	1,412	1,552	11%	8%	19%
Net profit	1,116	1,273	1,544	1,021	1,229	1,638	9%	4%	-6%
EPS (RMB)	95.5	109.0	132.1	87.0	104.7	140.0	10%	4%	-6%
Gross margin	10.2%	10.4%	10.6%	9.2%	9.3%	9.7%	1 ppt	1.1 ppt	0.9 ppt
Operating margin	5.8%	5.9%	6.1%	5.2%	5.3%	5.1%	0.6 ppt	0.6 ppt	1 ppt
Net Margin	5.0%	5.0%	5.1%	4.5%	4.6%	5.4%	0.4 ppt	0.3 ppt	-0.3 ppt

Source: Company data, CMBIS estimates

Figure 9: Revenue breakdown

RMB mn	FY18	FY19	1H20	2H20	FY20	FY21E	FY22E	FY23E
CCM Revenue	6,273	10,360	7,719	7,484	15,202	19,707	22,824	26,935
...YoY	6%	65%	97%	16%	47%	30%	16%	18%
Shipment (mn)	264	406	180	212	392	510	587	663
...YoY	53%	54%	-1%	-5%	-3%	30%	15%	13%
ASP (RMB)	23.9	25.5	42.8	35.3	38.7	38.6	38.9	40.6
...YoY	-30%	7%	100%	22%	52%	0%	1%	4%
FPM Revenue	1,832	2,759	1,047	1,054	2,101	2,632	2,722	3,056
...YoY	-10%	51%	-7%	-36%	-24%	25%	3%	12%
Shipment (mn)	108	102	40	52	92	120	132	145
...YoY	33%	-5%	6%	-19%	-10%	30%	10%	10%
ASP (RMB)	17.1	27.1	26.2	20.2	22.8	22.0	20.7	21.1
...YoY	-32%	58%	-12%	-21%	-16%	-4%	-6%	2%
Others	30	51	36	61	97	97	97	97
...YoY		66%	64%	112%	91%	0%	0%	0%
Total	8,135	13,170	8,802	8,598	17,400	22,436	25,643	30,088
...YoY	2%	62%	74%	6%	32%	29%	14%	17%

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

RMB mn	FY18	FY19	1H20	2H20	FY20	FY21E	FY22E	FY23E
Revenue	8,135	13,170	8,802	8,598	17,400	22,436	25,643	30,088
...YoY	2.5%	61.9%	73.9%	6.0%	32.1%	28.9%	14.3%	17.3%
Cost of sales	(7,782)	(11,990)	(8,070)	(7,560)	(15,630)	(20,139)	(22,976)	(26,909)
Gross profit	353	1,180	732	1,039	1,771	2,297	2,667	3,179
GPM (%)	4.3%	9.0%	8.3%	12.1%	10.2%	10.2%	10.4%	10.6%
...YoY	-60.0%	234.1%	76.3%	35.8%	50.1%	29.7%	16.1%	19.2%
SG&A	(100)	(143)	(81)	(98)	(179)	(236)	(269)	(316)
...% of rev	-1.2%	-1.1%	-0.9%	-1.1%	-1.0%	-1.1%	-1.1%	-1.1%
R&D	(266)	(396)	(291)	(299)	(590)	(763)	(872)	(1,023)
...% of rev	-3.3%	-3.0%	-3.3%	-3.5%	-3.4%	-3.4%	-3.4%	-3.4%
Operating profit	70	620	419	627	1,046	1,298	1,526	1,840
OPM (%)	0.9%	4.7%	4.8%	7.3%	6.0%	5.8%	5.9%	6.1%
...YoY	-87.1%	784.8%	111.3%	48.9%	68.9%	24.1%	17.5%	20.6%
Profit of associates.	(25)	40	(15)	(8)	(23)	70	70	70
Net profit	14	542	336	505	840	1,116	1,273	1,544
NPM (%)	0.2%	4.1%	3.8%	5.9%	4.8%	5.0%	5.0%	5.1%
...YoY	-96.7%	3666.7%	85.5%	39.6%	54.9%	32.8%	14.1%	21.3%

Source: Company data, CMBIS estimates

Valuation

Reiterate BUY; Raised TP to HK\$23.0 (56% upside)

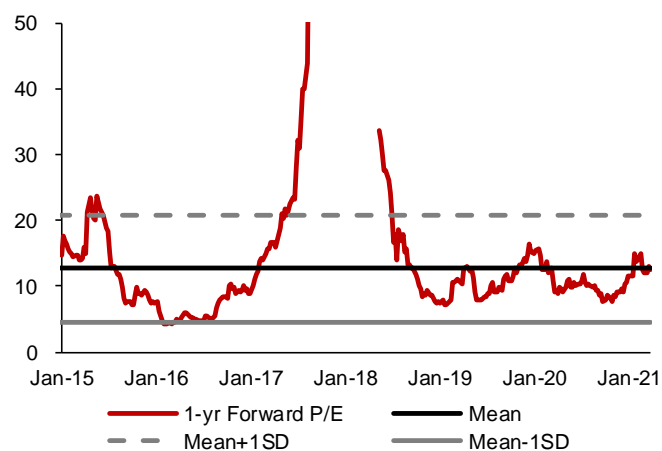
Our new 12m TP of HK\$ 23.0 is based on same 20x FY21E P/E. We believe smartphone recovery proposed A-share spin-off, stronger share gain and Newmax integration will drive earnings growth in long run. Upcoming catalysts include Samsung HCM order win and A-share spin-off.

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	2,233	14.80	23.00	56%	17.1	12.9	3.8	3.1	22.2	23.8
FIT Hon Teng	6088 HK	Buy	2,280	2.57	3.63	41%	18.6	10.6	1.0	0.9	5.5	8.9
AAC Tech	2018 HK	Sell	5,973	38.40	45.30	18%	27.6	22.8	1.9	1.8	6.9	8.0
Sunny Optical	2382 HK	Buy	24,932	176.60	254.30	44%	35.4	29.9	10.2	7.9	28.9	26.6
Tongda	698 HK	Hold	475	0.57	0.56	-2%	11.6	7.1	0.6	0.5	4.7	7.7
BYDE	285 HK	Buy	12,471	43.00	49.50	15%	15.8	14.1	4.0	3.2	25.1	22.4
TK Group	2283 HK	Buy	298	2.78	2.33	-16%	5.0	4.3	1.8	1.8	35.7	41.7
FIH	2038 HK	NR	1,176	1.13	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	567	1.34	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	34,463	24.15	NA	NA	42.0	63.4	1.6	1.5	4.7	2.4
YOFC	6869 HK	NR	1,947	9.88	NA	NA	9.8	8.7	0.7	0.6	7.1	7.0
Ju Teng	3336 HK	NR	332	2.15	NA	NA	6.5	6.5	0.4	0.4	6.4	6.1
Cowell	1415 HK	NR	512	4.77	NA	NA	8.6	6.7	2.0	1.4	21.1	27.0
Average							18.2	17.3	2.6	2.2	14.6	15.7

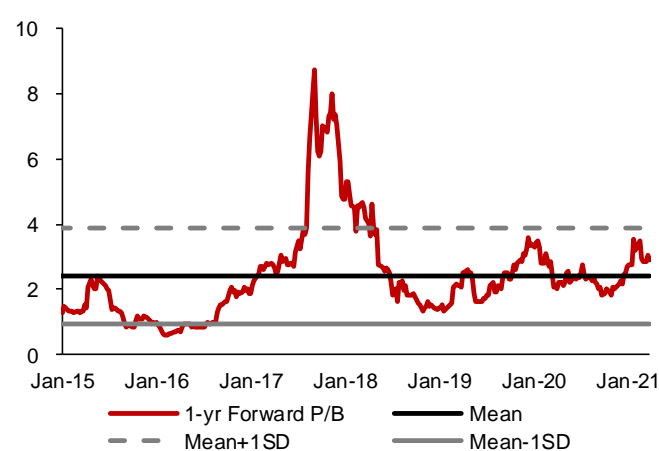
Source: Bloomberg, CMBIS, * TP under review

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)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,170	17,400	22,436	25,643	30,088
COGS	(11,990)	(15,630)	(20,139)	(22,976)	(26,909)
Gross profit	1,180	1,771	2,297	2,667	3,179
Selling and marketing	(15)	(26)	(34)	(38)	(45)
Administrative	(128)	(153)	(202)	(231)	(271)
R&D	(396)	(590)	(763)	(872)	(1,023)
Other operating exp.	(21)	44	0		(0)
Operating profit	620	1,046	1,298	1,526	1,840
Financial cost	(53)	(54)	(65)	(107)	(105)
Share profit/loss of asso.	40	(23)	70	70	70
Pre-tax profit	607	970	1,303	1,489	1,805
Tax	(65)	(130)	(188)	(216)	(262)
Net profit	542	840	1,116	1,273	1,544

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	607	970	1,303	1,489	1,805
Depreciation	291	340	432	531	646
Change in working capital	(241)	1,399	(1,421)	1,334	(1,454)
Others					
Net cash from operating	2,400	3,604	192	3,244	840
Capex	(1,099)	(957)	(1,200)	(1,282)	(1,504)
Other	-	-	-	-	-
Net cash from investing	(1,271)	(696)	(1,200)	(1,282)	(1,504)
Net borrowings	91	(166)	1,048	468	568
Dividend paid	(103)	(584)	(223)	(255)	(309)
Other	(805)	(565)	(65)	(107)	(105)
Net cash from financing	(817)	(1,315)	760	107	155
Net change in cash	311	1,593	(248)	2,069	(509)
Cash at beginning of the year	100	412	1,984	1,735	3,804
Exchange difference	0				
Cash at the end of the year	412	1,984	1,735	3,804	3,295

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	7,363	7,882	12,477	11,966	17,174
Cash & equivalents	412	1,984	1,735	3,804	3,295
Trade receivables	4,919	3,589	7,352	5,153	9,520
Inventories	1,913	1,943	3,023	2,643	3,993
Pledged bank deposits	93	267	267	267	267
Other current assets	26	100	100	100	100
Non-current assets	3,272	3,521	4,289	5,040	5,899
PPE	2,704	2,960	3,728	4,479	5,337
Lease payments					
Intangible assets	5	4	4	4	4
Other non-current assets	563	557	557	557	557
Total assets	10,635	11,403	16,766	17,007	23,072
Current liabilities	7,543	7,276	11,747	10,969	15,800
Bank borrowings	1,270	1,104	2,152	2,620	3,188
Trade payables	5,935	6,013	9,436	8,190	12,453
Tax payable	49	77	77	77	77
Other current liabilities	290	82	82	82	82
Non-current liabilities	225	341	341	341	341
Deferred income	130	138	138	138	138
Deferred tax liability	5	25	25	25	25
Total liabilities	7,768	7,617	12,087	11,310	16,141
Share capital	9	9	9	9	9
Reserves	2,858	3,776	4,669	5,687	6,922
Minority interest	-	-	-	-	-
Shareholders' equity	2,867	3,786	4,678	5,697	6,931
Total equity and liabilities	10,635	11,403	16,766	17,007	23,072

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Camera modules	79	87	88	89	90
Fingerprint modules	21	12	12	11	10
Growth (%)					
Revenue	61.9	32.1	28.9	14.3	17.3
Gross profit	234.1	50.1	29.7	16.1	19.2
Operating profit	784.8	68.9	24.1	17.5	20.6
Net profit	3,667	54.9	32.8	14.1	21.3
Profit & loss ratio (%)					
Gross margin	9.0	10.2	10.2	10.4	10.6
Operating margin	4.7	6.0	5.8	5.9	6.1
Net profit margin	4.1	4.8	5.0	5.0	5.1
Balance sheet ratio					
Net debt/total equity (x)	0.30	(0.23)	0.09	(0.21)	(0.02)
Current ratio (x)	1.0	1.1	1.1	1.1	1.1
Receivable turnover days	110	89	89	89	89
Inventory turnover days	40	45	45	45	45
Payable turnover days	137	140	140	140	140
Profitability (%)					
ROE	18.9	22.2	23.8	22.3	22.3
ROA	5.1	7.4	6.7	7.5	6.7
Per share data (RMB)					
EPS	0.48	0.72	0.95	1.09	1.32
DPS	0.09	0.50	0.19	0.22	0.26

Source: Company data, CMBIS estimates

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NOT RATED : Stock is not rated by CMBIS

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