

Q-Tech (1478 HK)

NDR takeaways: demand recovery and spec upgrade to drive ASP/margin in 2H23E

We hosted an NDR investor call with Q-Tech on 29 Jun. Mgmt. expressed positive view on 3Q23 shipment and guided QoQ recovery for handset CCM business, driven mainly by encouraging inventory digestion, demand rebound and ASP hike on spec upgrade across all models. For non-smartphone CCM (10%+ sales mix), mgmt. maintained guidance of 50%+ YoY growth in FY23E driven by IoT and auto ramp-up. Overall, we believe the worst is over and revenue/margin will improve in 2H23E on spec upgrade and shipment recovery. Trading at 6.7x/5.0x FY23/24E P/E, we believe the stock is attractive. Maintain BUY with TP of HK\$5.2, based on 10x FY23E P/E.

■ **Smartphone CCM: ongoing spec upgrade across all models; Expect ASP/margin recovery in 2H23E.** Despite market's cautious view on smartphone shipment in 2H23E, mgmt. is confident that HCM shipment recovery will continue into 3Q23E, thanks to inventory restocking and demand recovery in China. Q-tech is also positive on 2H23E ASP QoQ recovery on spec upgrade across high/mid/low-end models: 1) 32M+ HCM; 2) periscope-cam in Android after Honor's recent launches and, 3) higher OIS adoption (20-30% in FY23E vs. 10% in FY22). In addition, mgmt. guided GPM HoH improvement in 2H23E mainly driven by spec upgrade and better utilization.

■ **Non-smartphone CCM: IoT and auto to drive 50% YoY growth.** While FPM segment will remain sluggish with below 10% of sales mix, mgmt. guided auto/IoT CCM sales mix of 10%+ and revenue growth of 50%+ YoY in FY23E, mainly driven by: 1) shipment ramp-up of IoT (70% of non-sp sales mix) such as DJI drone, smart watch and sweeping robots, and 2) strong demand for automobile CCM.

■ **The worst is over and demand recovery is here; Maintain BUY with TP of HK\$5.2.** We believe the worst is likely over and supply chain is set to start restocking given 3Q23E demand recovery. As Chinese leading CCM supplier, Q-tech will benefit from shipment recovery and spec upgrade in 2H23E (OIS/periscope). The stock is currently trading at 6.7x FY23E P/E, 1-sd below 5-year forward P/E, which is attractive in our view. We maintain BUY with TP of HK\$5.2, based on 10x FY23E PE. Upcoming catalysts include shipment QoQ recovery, new product launches and non-smartphone CCM order wins.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	18,663	13,759	15,080	16,658	20,036
YoY growth (%)	7.3	(26.3)	9.6	10.5	20.3
Net profit (RMB mn)	862.8	170.2	510.8	688.3	904.8
EPS (Reported) (RMB)	0.73	0.15	0.43	0.58	0.76
YoY growth (%)	1.8	(80.2)	197.6	34.7	31.5
Consensus EPS (RMB)	na	na	0.28	66	0.87
P/E (x)	15.3	31.4	6.7	5.0	3.8
P/B (x)	2.8	1.1	0.7	0.6	0.5
Yield (%)	0.0	0.0	3.0	4.0	5.3
ROE (%)	20.3	3.6	10.3	12.6	14.9
Net gearing (%)	(0.8)	26.6	33.8	12.3	16.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$5.20**
 (Previous TP) **HK\$5.20**
Up/Downside **70.0%**
Current Price **HK\$3.06**

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Stock Data

Mkt Cap (HK\$ mn)	3,780.2
Avg 3 mths t/o (HK\$ mn)	3.7
52w High/Low (HK\$)	6.09/2.90
Total Issued Shares (mn)	1185.0

Source: FactSet

Shareholding Structure

HE Ningning	63.6%
Harvest Fund Management Co Ltd	2.5%

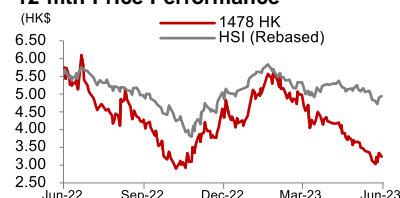
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.4%	-8.7%
3-mth	-35.4%	-31.1%
6-mth	-26.7%	-28.3%

Source: FactSet

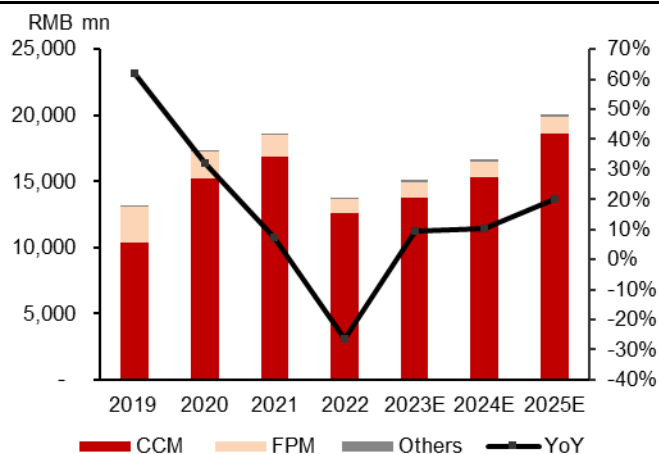
12-mth Price Performance



Source: FactSet

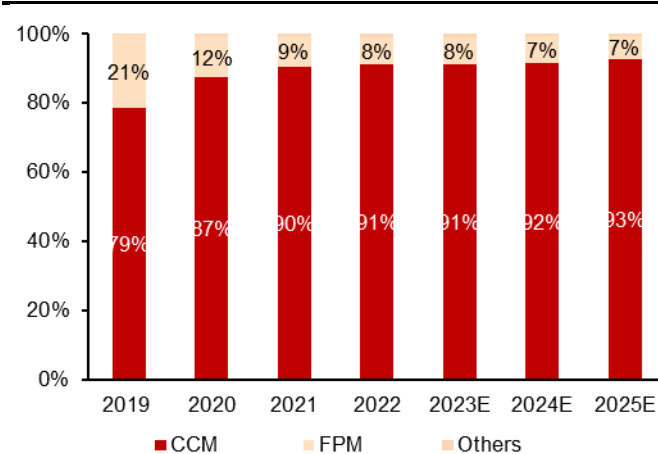
Focus Charts

Figure 1: Revenue growth trend



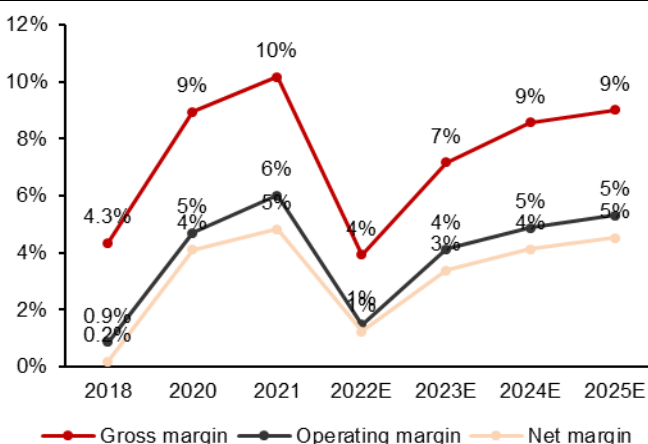
Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown



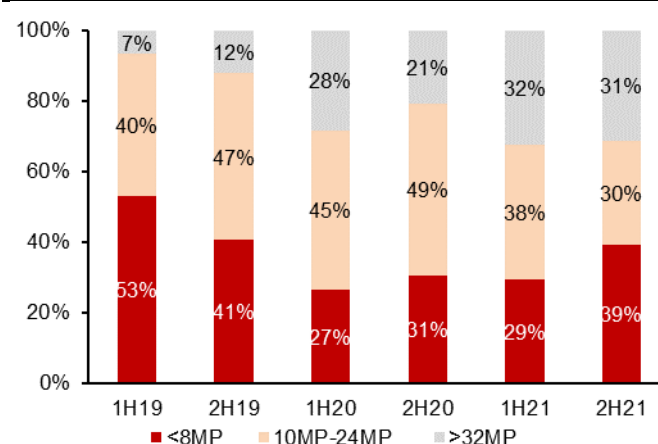
Source: Company data, CMBIGM estimates

Figure 3: Margins trend



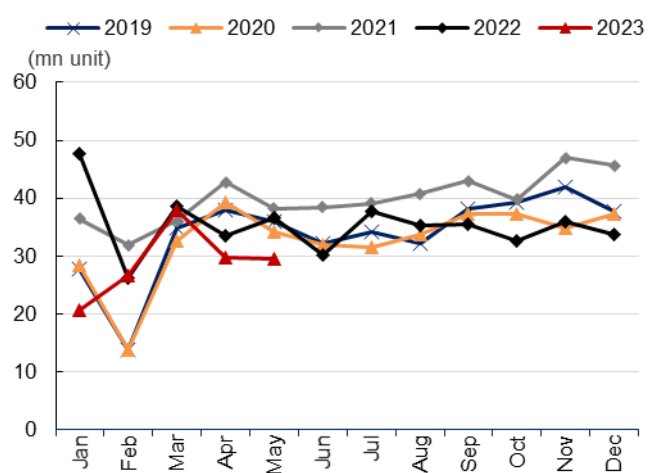
Source: Company data, CMBIGM estimates

Figure 4: CCM shipment mix



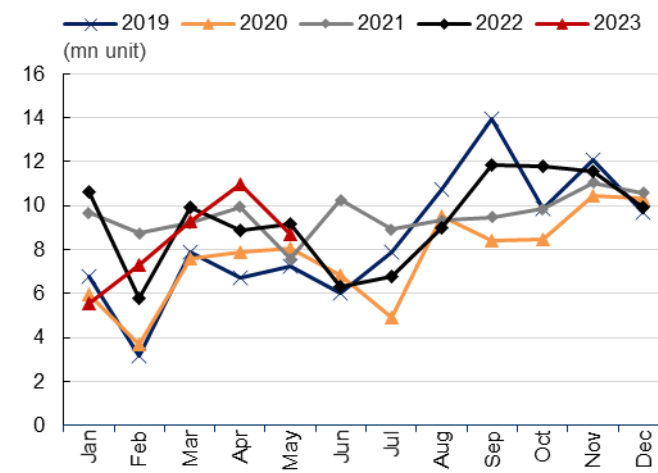
Source: Company data, CMBIGM estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIGM estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP of HK\$5.2 (70% upside)

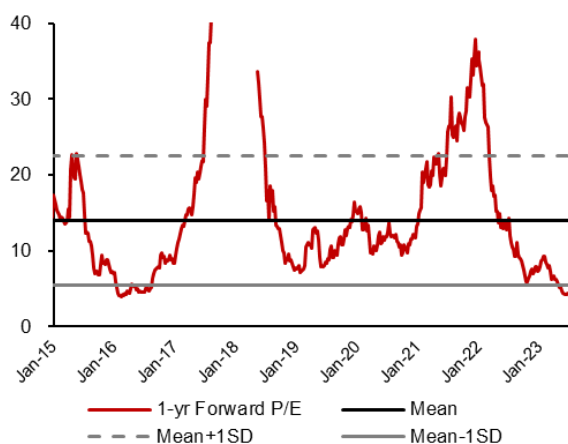
Our TP of HK\$5.2 is based on 10x FY23E PE. We remain positive on non-handset CCM (including automotive and AR/VR) to drive earnings growth in the long run. Upcoming catalysts include shipment recovery, product launches and non-smartphone CCM order wins.

Figure 7: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Q tech	1478 HK	Buy	463	3.06	5.20	70%	6.7	5.0	0.7	0.6	10.3	12.6
FIT Hon Teng	6088 HK	Buy	1,349	1.45	2.18	50%	9.1	7.3	0.5	0.5	5.6	6.7
AAC Tech	2018 HK	Hold	2,820	18.44	15.58	-16%	16.9	15.2	0.9	0.9	5.2	5.7
Sunny Optical	2382 HK	Hold	10,827	77.35	86.75	12%	23.6	20.4	3.2	2.9	13.4	14.1
Tongda	698 HK	Buy	118	0.10	0.20	111%	2.6	2.4	0.1	0.1	2.9	4.7
BYDE	285 HK	Hold	6,843	23.80	24.48	3%	16.3	13.3	1.7	1.5	10.4	11.4
TK Group	2283 HK	Buy	156	1.47	3.38	130%	2.8	3.8	0.6	0.6	20.7	17.8
FIH	2038 HK	NR	808	0.80	NA	NA	20.4	10.2	0.5	0.4	2.2	4.4
Truly	732 HK	NR	367	0.91	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	29,331	20.40	NA	NA	26.0	20.3	1.0	0.9	3.9	4.5
YOFC	6869 HK	NR	2,544	11.68	NA	NA	6.1	5.3	0.7	0.7	12.6	12.8
Ju Teng	3336 HK	NR	202	1.32	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	1,563	14.42	NA	NA	15.7	11.0	3.4	2.6	23.6	26.7
Average							13.3	10.4	1.2	1.1	10.0	11.0

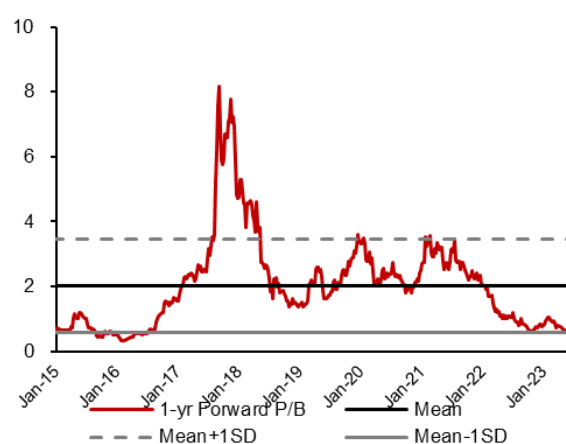
Source: Bloomberg, CMBIGM

Figure 8: 12M forward P/E band



Source: Company data, CMBIGM

Figure 9: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	17,400	18,663	13,759	15,080	16,658	20,036
Cost of goods sold	(15,630)	(16,901)	(13,218)	(13,900)	(15,231)	(18,229)
Gross profit	1,771	1,762	541	1,180	1,427	1,807
Operating expenses	(724)	(723)	(338)	(558)	(616)	(741)
Selling expense	(26)	(23)	(14)	(23)	(25)	(30)
Admin expense	(153)	(161)	(142)	(128)	(142)	(170)
R&D expense	(590)	(642)	(470)	(498)	(550)	(661)
Others	44	104	288	90	100	120
Operating profit	1,046	1,039	204	622	811	1,065
Share of (losses)/profits of associates/JV	(23)	(52)	(37)	20	30	30
Others	(54)	(30)	(60)	(55)	(50)	(55)
Pre-tax profit	970	957	107	587	791	1,040
Income tax	(130)	(94)	63	(76)	(103)	(135)
Minority interest	0	0	0	0	0	0
Net profit	840	863	170	511	688	905

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	7,882	9,315	8,594	10,893	10,428	14,871
Cash & equivalents	1,984	1,743	1,349	629	1,933	1,892
Account receivables	3,589	4,446	3,436	5,203	4,340	7,138
Inventories	1,943	2,258	1,184	2,436	1,531	3,217
ST bank deposits	267	811	919	919	919	919
Other current assets	100	57	1,705	1,705	1,705	1,705
Non-current assets	3,521	3,733	3,691	3,801	3,926	4,143
PP&E	2,960	3,144	3,140	3,250	3,375	3,591
Intangibles	4	20	26	26	26	26
Other non-current assets	557	569	525	525	525	525
Total assets	11,403	13,048	12,285	14,694	14,355	19,014
Current liabilities	7,276	8,079	7,249	9,249	8,359	12,295
Short-term borrowings	1,104	1,708	2,616	2,381	2,634	2,967
Account payables	6,013	6,259	4,584	6,819	5,676	9,278
Tax payable	77	49	12	12	12	12
Other current liabilities	82	64	38	38	38	38
Non-current liabilities	0	0	0	0	0	0
Deferred income	138	200	248	248	248	248
Other non-current liabilities	25	0	7	7	7	7
Total liabilities	7,617	8,343	7,518	9,518	8,628	12,564
Share capital	9	9	9	9	9	9
Other reserves	3,776	4,690	4,753	5,162	5,712	6,436
Total shareholders equity	3,786	4,705	4,767	5,176	5,727	6,451
Minority interest	0	0	0	0	0	0
Total equity and liabilities	11,403	13,048	12,285	14,694	14,355	19,014

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	970	957	107	587	791	1,040
Depreciation & amortization	413	544	640	644	708	785
Change in working capital	2,177	(1,017)	324	(783)	624	(881)
Others	0	0	0	0	0	0
Net cash from operations	3,604	1,596	1,194	426	2,071	865
Investing						
Capital expenditure	(523)	(1,558)	(1,149)	(754)	(833)	(1,002)
Others	0	0	0	0	0	(1,247)
Net cash from investing	(696)	(880)	(1,149)	(754)	(833)	(1,002)
Financing						
Dividend paid	(107)	0	0	(102)	(138)	(181)
Net borrowings	(1,015)	604	908	(235)	253	333
Others	(193)	(1,546)	(60)	(55)	(50)	(55)
Net cash from financing	(1,315)	(942)	848	(392)	66	97
Net change in cash						
Cash at the beginning of the year	412	1,984	1,743	1,349	629	1,933
Exchange difference	(21)	(14)	(1,288)	0	0	0
Cash at the end of the year	1,984	1,743	1,349	629	1,933	1,892
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	32.1%	7.3%	(26.3%)	9.6%	10.5%	20.3%
Gross profit	50.1%	(0.5%)	(69.3%)	118.0%	21.0%	26.6%
Operating profit	68.9%	(0.7%)	(80.4%)	205.6%	30.4%	31.3%
Net profit	54.9%	2.7%	(80.3%)	200.1%	34.7%	31.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	10.2%	9.4%	3.9%	7.8%	8.6%	9.0%
Operating margin	6.0%	5.6%	1.5%	4.1%	4.9%	5.3%
Return on equity (ROE)	25.3%	20.3%	3.6%	10.3%	12.6%	14.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.0)	0.3	0.3	0.1	0.2
Current ratio (x)	1.1	1.2	1.2	1.2	1.2	1.2
Receivable turnover days	89.2	78.6	104.5	104.5	104.5	104.5
Inventory turnover days	45.0	45.4	47.5	47.5	47.5	47.5
Payable turnover days	139.5	132.5	149.7	149.7	149.7	149.7
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	12.8	15.3	31.4	6.7	5.0	3.8
P/B	2.8	2.8	1.1	0.7	0.6	0.5
Div yield (%)	5.4	0.0	0.0	3.0	4.0	5.3
EV	3,785.8	4,705.2	4,767.4	5,176.1	5,726.7	6,450.5
EV/Sales	0.2	0.3	0.3	0.3	0.3	0.3

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

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