

Q Technology (1478 HK)

Positive profit alert on ASP/GPM hike; Lift TP to HK\$18.8

Q-tech announced positive profit alert, stating FY20E NP growth of 40-60% YoY, with mid-point 5%/13% above our/consensus estimates. Mgmt. attributed strong growth to 1) significant CCM ASP increase on better product mix and 2) improving GPM on better CCM product mix and upgraded production automation. We raised our FY20-22E EPS by 1-4% to reflect better GPM/ASP and OVX/Samsung shipment upside. We also lifted our TP to HK\$18.8 based on higher 20X FY21E P/E (vs 18x prev.) for higher sector valuation and proposed A-share spin-off. Trading at 14.2x FY21E P/E, we think the stock is attractive. Reiterate BUY.

- FY20E positive profit alert on 40-60% YoY NP growth.** Q-tech stated FY20E NP to grow 40-60% YoY, with mid-point net profit (+50% YoY) 5%/13% above our/consensus estimates. We estimate FY20E CCM revenue growth of 45% YoY to RMB15.0bn, driven by 50% YoY ASP growth despite 3% YoY shipment decline due to COVID-19 and Huawei slowdown impact. As for FPM (fingerprint module), we estimate revenue to drop 25% YoY to RMB2.1bn mainly due to 10%/17% YoY shipment/ASP decline.
- Smartphone recovery on track; OVX/Samsung HCM shipment upside.** On the back of post-COVID-19 smartphone recovery, we expect Q-tech will benefit from global smartphone growth of 7%/2% YoY and China smartphone growth 16%/5% YoY in FY21/22E, driven by strong demand of sub-RMB1k 5G phones. For Q-tech's major clients, we estimate Oppo/Vivo/Xiaomi to grow 23%/25%/34% YoY to 145mn/138mn/200mn in FY21E, and we believe Q-tech will also expand share in Samsung CCM in FY21E. We are positive on Q-tech's CCM roadmap in miniaturization, 3D sensing and periscope optical zoom, and we expect HCM ASP to grow 6% FY20-22E CAGR.
- Proposed A-share spin-off; Component tightness to alleviate in 1Q21E.** Q-tech earlier announced the proposed spin-off of Kunshan Q-tech China, which focuses on CCM for smartphone, vehicle and IoT. We expect the funding could enhance CCM capacity/R&D and accelerate auto/IoT product pipeline in FY22E-23E. In addition, mgmt. expected recent component shortage will gradually alleviate given low seasonality in 1Q21E.
- Reiterate BUY; Lift TP to HK\$18.8 (41% upside).** We revised up FY20E-22E EPS by 1-4% to factor in stronger FY20E and higher HCM GPM/ASP. Our new TP of HK\$18.8 is based on higher 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)	8,135	13,170	17,104	20,202	23,614
YoY growth (%)	2.5	61.9	29.9	18.1	16.9
Net income (RMB mn)	14	542	804	961	1,087
EPS (RMB cents)	1.3	47.6	70.6	84.3	95.4
YoY growth (%)	-96.8	3627.6	48.2	19.5	13.1
Consensus EPS (RMB)	NA	48.7	63.3	74.4	89.9
P/E (x)	939.9	25.2	17.0	14.2	12.6
P/B (x)	6.3	4.8	3.8	3.1	2.6
Yield (%)	-	0.7	1.2	1.4	1.6
ROE (%)	0.7	18.9	22.6	22.0	20.7
Net gearing (%)	56	48	51	49	48

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$18.8
(Previous TP)	HK\$16.6)
Up/Downside	+40.5%
Current Price	HK\$13.38

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	15,685
Avg. 3mths t/o (HK\$m)	88.12
52W High/Low (HK\$)	14.10/ 7.71
Total Issued Shares (mn)	1,172

Source: Bloomberg

Shareholding Structure

He Ningning	64.28%
Vanguard Group Inc.	1.11%
Wang Jianqiang	0.95%

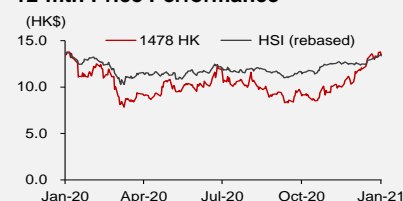
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	21.6%	11.6%
3-mth	47.7%	24.9%
6-mth	17.2%	4.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

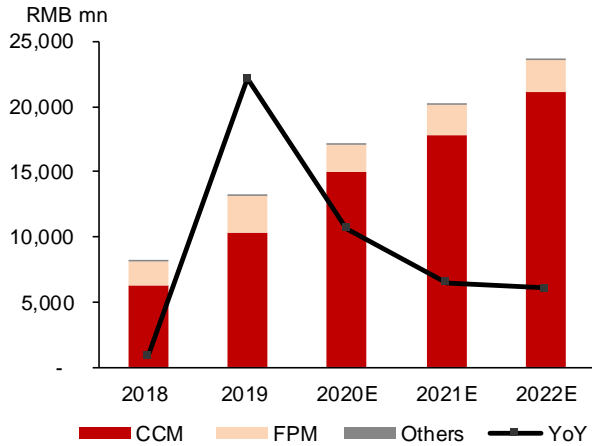
Auditor: KPMG

Related Reports:

- Q-tech (1578, Buy) - Strong 1H20 on HCM product mix; Reiterate BUY - 18 Aug 2020
- Q-tech (1478 HK, Buy) - Positive profit alert on product mix; Lift TP to HK\$16.0 - 14 Jul 2020
- Q-tech (1478 HK, Buy) - FY19 beats; Multi/3D-cam remain core growth drivers - 10 Mar 2020

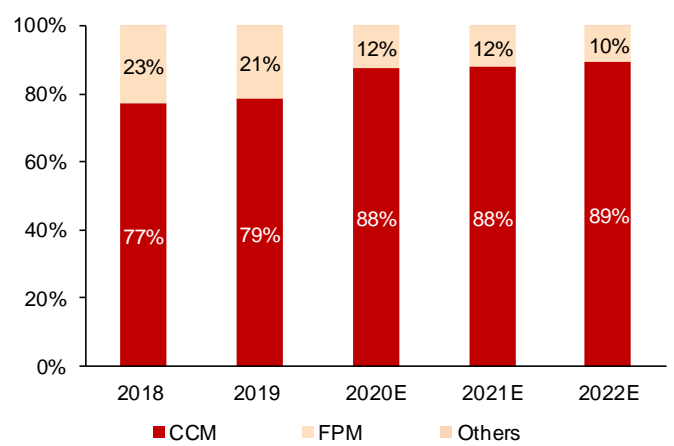
Focus Charts

Figure 1: Revenue growth trend



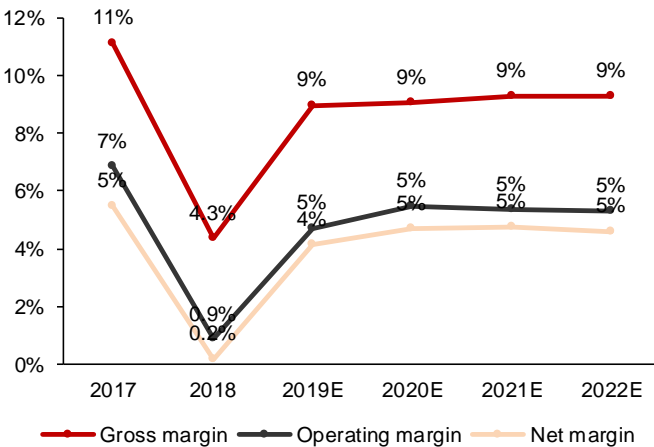
Source: Company data, CMBIS estimates

Figure 2: Revenue breakdown



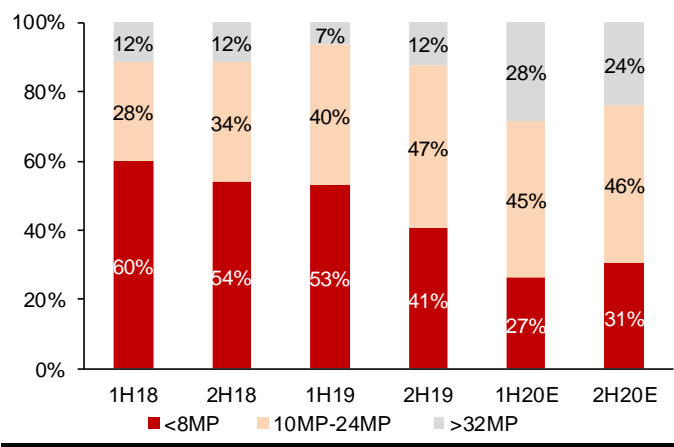
Source: Company data, CMBIS estimates

Figure 3: Margins is recovering in FY19-22E



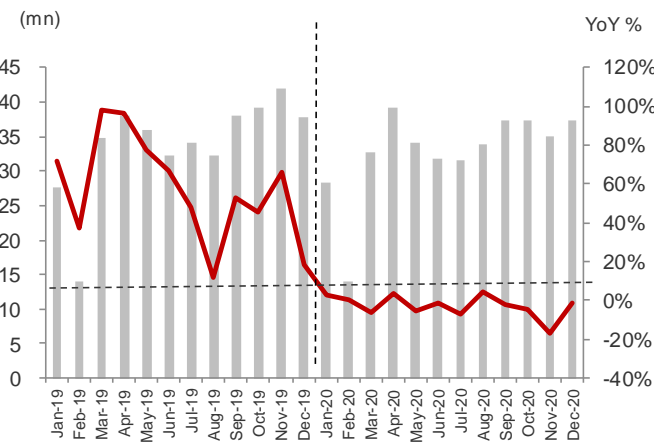
Source: Company data, CMBIS estimates

Figure 4: CCM shipment mix



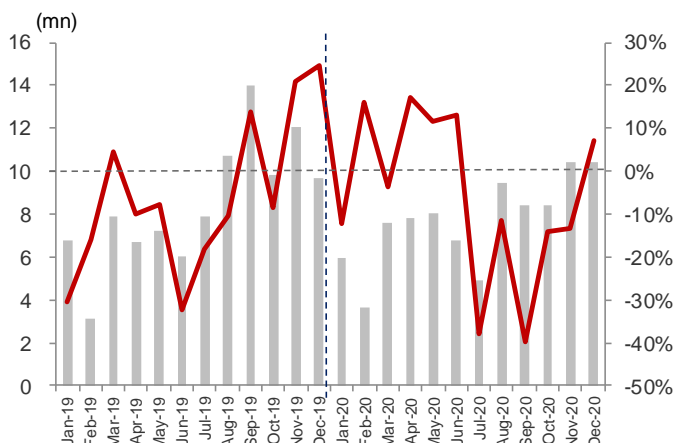
Source: Company data, CMBIS estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIS estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIS estimates

Earnings Revision

Our FY20-22E EPS are 6-13% above consensus

We revised up FY20E-22E EPS by 1-4% to factor in stronger FY20E and higher HCM GPM/ASP. Our FY20-22E EPS are 6-13% above consensus given our more positive view on Q-tech's HCM ASP/GPM and Newmax outlook.

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	17,104	20,202	23,614	18,151	20,805	23,317	-6%	-3%	1%
Gross profit	1,547	1,877	2,192	1,607	1,902	2,172	-4%	-1%	1%
Operating profit	935	1,077	1,257	920	1,078	1,249	2%	0%	1%
Net profit	804	961	1,087	777	940	1,081	3%	2%	1%
EPS (RMB)	70.6	84.3	95.4	68.1	82.5	94.8	4%	2%	1%
Gross margin	9.0%	9.3%	9.3%	8.9%	9.1%	9.3%	0.1 ppt	0.2 ppt	0 ppt
Operating margin	5.5%	5.3%	5.3%	5.1%	5.2%	5.4%	0.4 ppt	0.1 ppt	-0.1 ppt
Net Margin	4.7%	4.8%	4.6%	4.3%	4.5%	4.6%	0.4 ppt	0.3 ppt	0 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	17,104	20,202	23,614	18,725	21,884	25,152	-9%	-8%	-6%
Gross profit	1,547	1,877	2,192	1,937	1,937	2,248	-20%	-3%	-2%
Operating profit	935	1,077	1,257	839	1,043	1,182	11%	3%	6%
Net profit	804	961	1,087	721	884	1,046	12%	9%	4%
EPS (RMB)	70.6	84.3	95.4	63.3	74.4	89.9	11%	13%	6%
Gross margin	9.0%	9.3%	9.3%	8.6%	8.9%	8.9%	0.4 ppt	0.4 ppt	0.3 ppt
Operating margin	5.5%	5.3%	5.3%	4.8%	4.8%	4.7%	0.7 ppt	0.6 ppt	0.6 ppt
Net Margin	4.7%	4.8%	4.6%	4.0%	4.0%	4.2%	0.7 ppt	0.7 ppt	0.4 ppt

Source: Company data, CMBIS estimates

Figure 9: Revenue breakdown

RMB mn	FY18	1H19	2H19	FY19	1H20	2H20E	FY20E	FY21E	FY22E
CCM Revenue	6,273	3,917	6,443	10,360	7,719	7,256	14,975	17,760	21,100
...YoY	6%	52%	74%	65%	97%	13%	45%	19%	19%
Shipment (mn)	264	183	224	406	180	212	392	451	496
...YoY	53%	78%	39%	53%	-1%	-5%	-3%	15%	10%
ASP (RMB)	23.9	21.5	28.8	25.5	42.8	34.2	38.2	39.4	42.5
...YoY	-30%	-15%	26%	7%	100%	19%	50%	3%	8%
FPM Revenue	1,832	1,122	1,637	2,759	1,047	1,017	2,062	2,376	2,449
...YoY	-10%	81%	35%	51%	-7%	-38%	-25%	15%	3%
Shipment (mn)	108	38	64	102	40	52	92	101	109
...YoY	33%	-16%	3%	-5%	6%	-19%	-10%	10%	8%
ASP (RMB)	17.1	29.7	25.5	27.1	26.2	19.5	22.4	23.5	22.4
...YoY	-32%	116%	31%	58%	-12%	-23%	-17%	5%	-5%
Others	30	22	29	51	36	29	67	65	65
...YoY	-	-	-	66%	64%	0%	33%	-4%	0%
Total	8,135	5,061	8,109	13,170	8,802	8,302	17,104	20,202	23,614
...YoY	2%	58%	65%	62%	74%	2%	30%	18%	17%

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

RMB mn	FY18	1H19	2H19	FY19	1H20	2H20E	FY20E	FY21E	FY22E
Revenue	8,135	5,061	8,109	13,170	8,802	8,302	17,104	20,202	23,614
...YoY	2.5%	57.8%	64.5%	61.9%	73.9%	2.4%	29.9%	18.1%	16.9%
Cost of sales	(7,782)	(4,646)	(7,344)	(11,990)	(8,070)	(7,487)	(15,557)	(18,324)	(21,422)
Gross profit	353	415	765	1,180	732	815	1,547	1,877	2,192
GPM (%)	4.3%	8.2%	9.4%	9.0%	8.3%	9.8%	9.0%	9.3%	9.3%
...YoY	-60.0%	963.1%	143.5%	234.1%	76.3%	6.6%	31.1%	21.4%	16.8%
SG&A	(100)	(48)	(95)	(143)	(81)	(91)	(172)	(204)	(239)
...% of rev	-1.2%	-1.0%	-1.2%	-1.1%	-0.9%	-1.1%	-1.0%	-1.0%	-1.0%
R&D	(266)	(139)	(257)	(396)	(291)	(249)	(540)	(657)	(767)
...% of rev	-3.3%	-2.8%	-3.2%	-3.0%	-3.3%	-3.0%	-3.2%	-3.3%	-3.3%
Operating profit	70	199	421	620	419	516	935	1,077	1,257
OPM (%)	0.9%	3.9%	5.2%	4.7%	4.8%	6.2%	5.5%	5.3%	5.3%
...YoY	-87.1%	-1473.3%	398.5%	784.8%	111.3%	22.5%	50.9%	15.2%	16.7%
Profit of associates.	(25)	25	15	40	(15)	45	30	100	100
Net profit	14	181	362	542	336	468	804	961	1,087
NPM (%)	0.2%	3.6%	4.5%	4.1%	3.8%	5.6%	4.7%	4.8%	4.6%
...YoY	-96.7%	-452.6%	450.4%	3666.7%	85.5%	29.6%	48.2%	19.5%	13.1%

Source: Company data, CMBIS estimates

Valuation

Reiterate BUY; Raised TP to HK\$18.8 (40.5% upside)

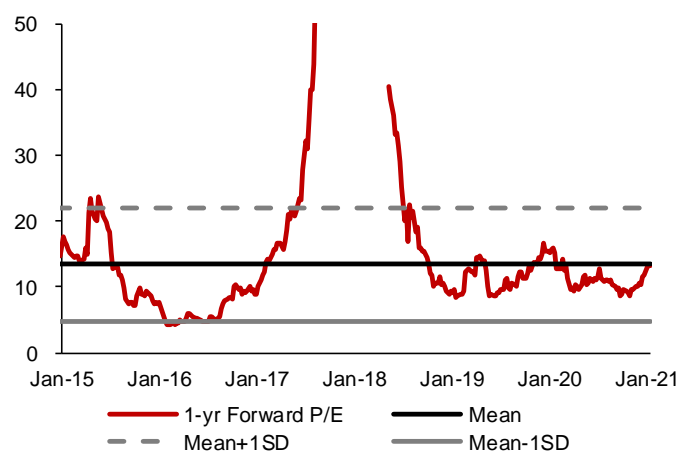
Our new 12m TP of HK\$ 18.8 is based on higher 20x FY21E P/E (vs. 18x prev.). We believe smartphone recovery proposed A-share spin-off and Newmax integration will drive earnings growth in long run. Upcoming catalysts include Samsung HCM order win and A-share spin-off.

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	2,023	13.38	18.80	41%	17.0	14.2	3.8	3.1	22.6	22.0
FIT Hon Teng	6088 HK	Buy	2,445	2.75	4.10	49%	14.6	10.0	1.1	1.0	7.3	9.8
AAC Tech	2018 HK	Hold	6,788	43.55	43.20	-1%	35.8	24.0	2.3	2.2	6.5	9.3
Sunny Optical	2382 HK	Buy	26,962	190.60	146.10*	-23%	43.6	32.2	11.3	8.7	26.0	27.1
Tongda	698 HK	Buy	526	0.63	0.56*	-11%	12.9	7.9	0.6	0.6	4.7	7.7
BYDE	285 HK	Buy	11,464	39.45	49.50	25%	14.5	13.0	3.6	2.9	25.1	22.4
TK Group	2283 HK	Buy	327	3.04	2.33*	-23%	5.5	4.7	2.0	2.0	35.7	41.7
FIH	2038 HK	NR	1,340	1.28	NA	NA	-	18.3	-	-	(5.6)	3.3
Truly	732 HK	NR	403	0.95	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	39,665	27.65	NA	NA	48.8	84.9	1.8	1.8	4.8	2.2
YOFC	6869 HK	NR	2,137	10.70	NA	NA	10.0	8.6	0.7	0.7	7.5	7.7
Ju Teng	3336 HK	NR	340	2.20	NA	NA	6.7	7.6	0.4	0.4	6.4	5.3
Cowell	1415 HK	NR	631	5.86	NA	NA	10.6	8.7	2.5	2.3	21.1	29.5
Average							20.0	19.5	2.8	2.3	13.0	15.2

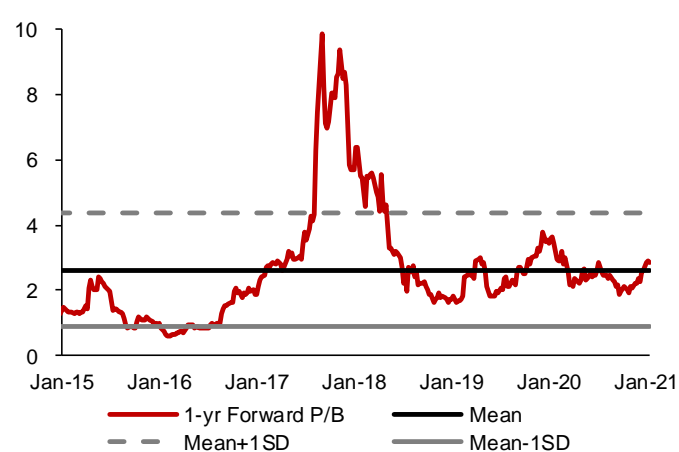
Source: Bloomberg, CMBIS, * TP under review

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	17,104	20,202	23,614
COGS	(7,782)	(11,990)	(15,557)	(18,324)	(21,422)
Gross profit	353	1,180	1,547	1,877	2,192
Selling and marketing	(19)	(15)	(19)	(22)	(26)
Administrative	(81)	(128)	(154)	(182)	(213)
R&D	(266)	(396)	(540)	(657)	(767)
Other operating exp.	83	(21)	101	61	71
Operating profit	70	620	935	1,077	1,257
Financial cost	(44)	(53)	(58)	(72)	(78)
Share profit/loss of asso.	(25)	40	30	100	100
Pre-tax profit	1	607	907	1,105	1,279
Tax	13	(65)	(103)	(144)	(192)
Net profit	14	542	804	961	1,087

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	1	607	907	1,105	1,279
Depreciation	236	291	342	420	511
Change in working capital	(444)	(241)	(667)	171	(669)
Others					
Net cash from operating	(173)	2,400	537	1,625	1,007
Capex	(490)	(1,106)	(941)	(1,010)	(1,181)
Other	-	-	-	-	-
Net cash from investing	387	(1,271)	(941)	(1,010)	(1,181)
Net borrowings	(346)	91	440	297	412
Dividend paid	(92)	(103)	(108)	(161)	(192)
Other	(146)	(805)	(58)	(72)	(78)
Net cash from financing	(584)	(817)	274	64	141
Net change in cash	(370)	311	(130)	678	(33)
Cash at beginning of the year	465	100	412	282	960
Exchange difference	5	-	-	-	-
Cash at the end of the year	100	412	282	960	928

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	4,229	7,363	18,195	12,350	23,751
Cash & equivalents	100	412	282	960	928
Trade receivables	3,031	4,919	12,888	8,144	16,440
Inventories	704	1,913	4,906	3,126	6,264
Pledged bank deposits	288	93	93	93	93
Other current assets	105	26	26	26	26
Non-current assets	2,211	3,272	3,871	4,461	5,131
PPE	1,889	2,704	3,303	3,893	4,563
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	22,065	16,811	28,882
Current liabilities	4,270	7,543	18,278	12,223	23,399
Bank borrowings	1,178	1,270	1,710	2,007	2,418
Trade payables	3,061	5,935	16,229	9,877	20,642
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	18,503	12,673	23,624
Share capital	9	9	9	9	9
Reserves	2,094	2,858	3,553	4,354	5,248
Minority interest	-	-	-	-	-
Shareholders' equity	2,103	2,867	3,562	4,363	5,257
Total equity and liabilities	6,440	10,635	22,065	17,036	28,882

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Camera modules	77	79	88	88	89
Fingerprint modules	23	21	12	12	10
Growth (%)					
Revenue	2.5	61.9	29.9	18.1	16.9
Gross profit	(60.0)	234.1	31.1	21.4	16.8
Operating profit	(87.1)	784.8	50.9	15.2	16.7
Net profit	(96.7)	3,666.7	48.2	19.5	13.1
Profit & loss ratio (%)					
Gross margin	4.3	9.0	9.0	9.3	9.3
Operating margin	0.9	4.7	5.5	5.3	5.3
Net profit margin	0.2	4.1	4.7	4.8	4.6
Balance sheet ratio					
Net debt/total equity (x)	0.5	0.30	0.40	0.24	0.28
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	22.6	22.0	20.7
ROA	0.2	5.1	3.6	5.7	3.8
Per share data (RMB)					
EPS	0.01	0.48	0.71	0.84	0.95
DPS	-	0.09	0.14	0.17	0.19

Source: Company data, CMBIS estimates

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NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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