

Q-Tech (1478 HK)

1H24 earnings recovery on fast track; reiterate BUY

Q-tech announced in-line 1H24 results driven by strong CCM/FPM growth and GPM improvement on smartphone demand rebound, share gains, an increasing UTR and a better high-end product mix. For 2H24/2025, we remain positive on high-end spec upgrade to drive ASP/GPM, auto CCM sales growth to accelerate under rising NEV penetration and ultra-sound FPM upgrade in smartphones. We slightly adjust down FY24-25E EPS by 1-8% to factor in 1H24 results and 2H seasonality, and our new EPS is 19-24% above consensus. The stock now trades at 12.4x/8.3x FY24/25E P/E, which is attractive, vs. our estimated 335%/50% YoY EPS growth in FY24/25E. Our new TP of HK\$6.43 is based on the same 13x FY25E P/E. Maintain BUY.

■ **1H24 results in-line; strong shipments with improving GPM on smartphone clients' share gain, UTR hike and better product mix.** Q-tech 1H24 revenue growth of 40% YoY was largely in-line with market expectation, driven by strength across all segments with 30%/100%/17% YoY in smartphone CCM/auto & IoT CCM/FPM shipments. GPM improved 1.8ppts YoY and 0.7ppts QoQ to 5.2%, and mgmt. attributed the increase to: 1) global smartphone market rebound and share gain in major smartphone brands; 2) higher-margin auto and IoT CCM shipment growth; 3) an improving UTR; 4) share of high-end products (32MP+) sales rose to 49.2% in 1H24, in which share of OIS/periscope CCM sales reached 12%/ 0.7% and periscope recorded 100%+ YoY growth. Overall, NP growth of 431% YoY was in-line with prior profit alert on revenue growth and GPM improvement.

■ **2H24E/2025 outlook: high-end products to boost ASP/GPM; auto CCM to accelerate; ultra-sound FPM upgrade.** Q-Tech also announced that 1) smartphone CCM shipment in July recorded 5.5% YoY and 1.5% MoM growth, suggesting on-going Android recovery and inventory restocking; 2) FPM CCM in July achieved 58% YoY and 8.3% MoM growth given the smartphone demand rebound and market share gains. For 2H24E/2025, we are positive on a rising share of high-end CCM sales to drive better ASP/GPM on high-end spec upgrade especially in OIS/periscope. We also expect rising UTR/GPM given better customer demand under the smartphone replacement cycle. As for non-mobile CCM, we expect auto CCM biz will accelerate driven by rising NEV penetration, increasing demand for ADAS/surround view/smart cockpit camera modules and domestic/overseas Tier-1 customers' project wins. In addition, we remain positive on ultrasound FPM's application upgrade in smartphones.

■ **Maintain BUY.** We are positive on high-end upgrade to drive ASP/earnings improvement and auto CCM/ultra-sound FPM to drive overall growth in 2H24/2025. We slightly revise down our FY24-25E EPS by 1-8% (but still above consensus by 19-24%) to factor in 1H24 results and 2H seasonality. Our new TP of HK\$6.43 is based on the same 13x FY25E P/E. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	13,759	12,531	16,196	17,628	19,539
YoY growth (%)	(26.3)	(8.9)	29.3	8.8	10.8
Net profit (RMB mn)	170.2	83.5	355.8	533.2	654.4
EPS (Reported) (RMB cents)	14.50	6.90	30.04	45.01	55.25
YoY growth (%)	(80.2)	(52.4)	335.3	49.9	22.7
Consensus EPS (RMB)	-	-	0.25	0.36	0.45
P/E (x)	25.7	54.1	12.4	8.3	6.8
P/B (x)	0.9	0.9	0.9	0.8	0.7
Yield (%)	0.0	0.0	1.1	2.4	3.0
ROE (%)	3.6	1.7	7.1	10.0	11.2
Net gearing (%)	26.6	26.0	17.0	16.7	3.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$6.43
 (Previous TP) HK\$6.47)
Up/Downside 58.8%
Current Price HK\$4.05

China Technology

Alex NG
 (852) 3900 0881
 alexng@cmbi.com.hk

Hanqing LI
 lihanqing@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	4,799.3
Avg 3 mths t/o (HK\$ mn)	23.1
52w High/Low (HK\$)	5.12/2.56
Total Issued Shares (mn)	1185.0

Source: FactSet

Shareholding Structure

HE Ningning	63.6%
Harvest Fund Management Co Ltd	2.7%

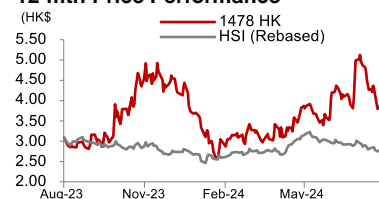
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-19.3%	-13.8%
3-mth	6.0%	17.5%
6-mth	31.9%	21.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1) Earnings recovery has just begun; Raise TP to HK\$6.47 – 12 Jul 2024 [\(link\)](#)

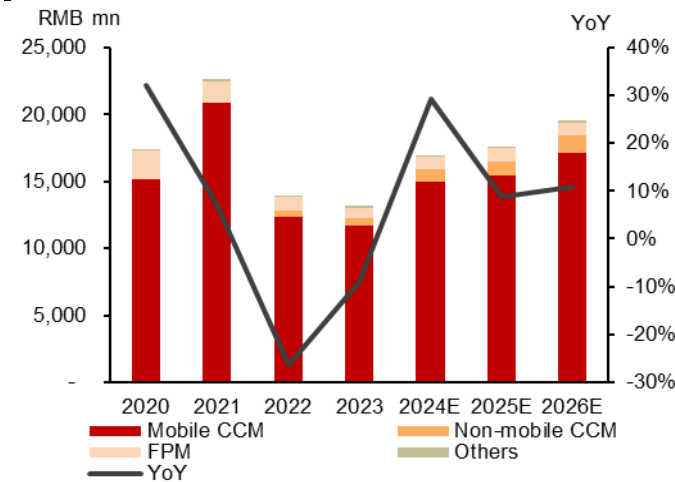
2) ASP/GPM upside driven by Android recovery and spec upgrade – 27 Jun 2024 [\(link\)](#)

3) 1Q24 shipment rebound on track; Auto & IoT as next growth drivers – 11 Apr 2024 [\(link\)](#)

4) Jan shipment beat; Focus on high-end smartphone recovery in 1H24E – 8 Feb 2024 [\(link\)](#)

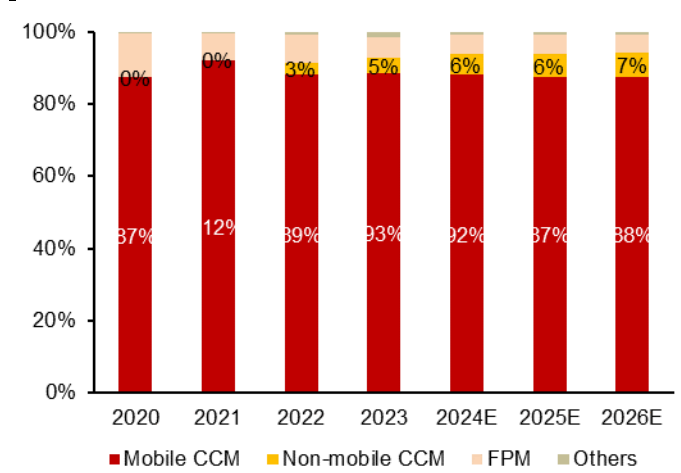
Focus Charts

Figure 1: Revenue growth trend



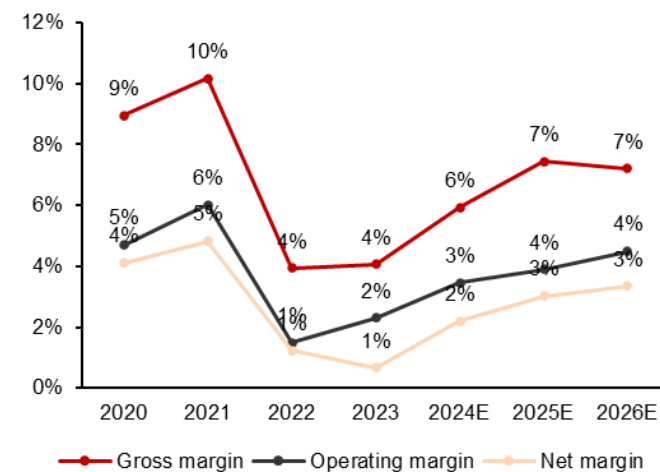
Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown



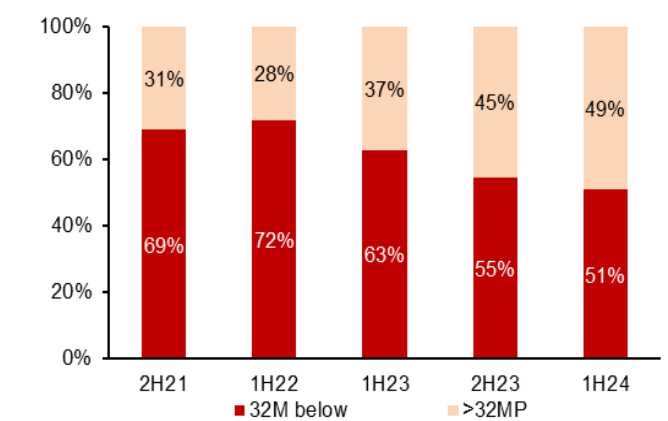
Source: Company data, CMBIGM estimates

Figure 3: Margins trend



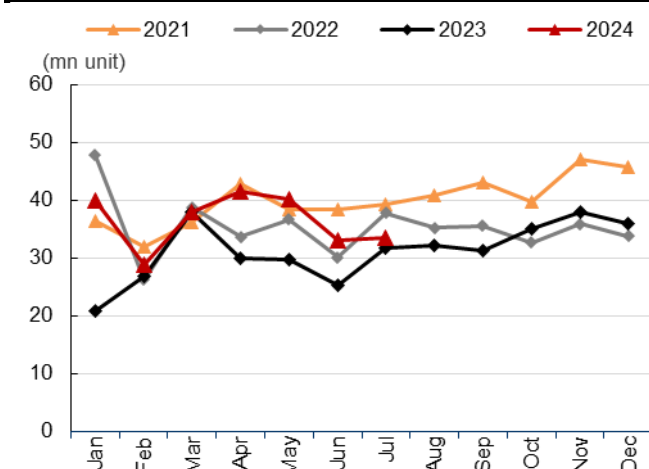
Source: Company data, CMBIGM estimates

Figure 4: CCM shipment mix



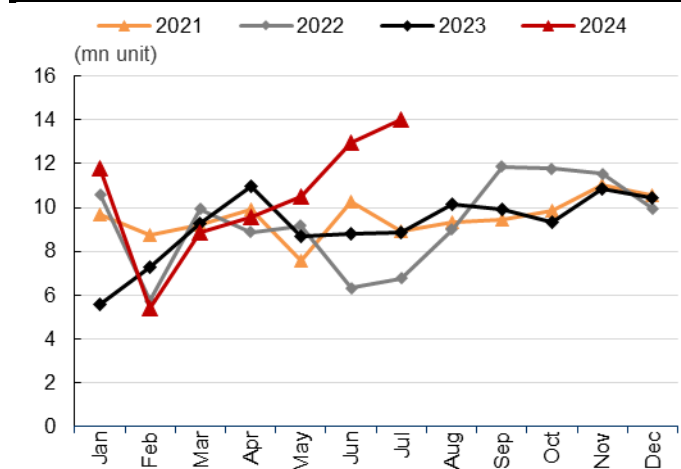
Source: Company data, CMBIGM estimates

Figure 5: CCM monthly shipments



Source: Company data, CMBIGM estimates

Figure 6: FPM monthly shipments



Source: Company data, CMBIGM estimates

1H24 Review

Figure 7: 1H24 results review

RMB mn	1H23	1H24	YoY	CMBI		Consensus	
				1H24	Diff %	1H24	Diff %
Revenue	5,477	7,675	40.1%	8,504	-10%	7,842	-2%
Gross Profit	188	400	112.5%	506	-21%	439	-9%
Operating Profit	103	221	114.8%	242	-9%	163	35%
Net profit	22	115	431.2%	129	-11%	121	-5%
EPS (RMB cents)	1.8	9.7	438.9%	10.9	-11%	9.0	8%
Gross margin	3.4%	5.2%	1.8 ppt	5.9%	-0.7 ppt	5.6%	-0.4 ppt
Operating margin	1.9%	2.9%	1 ppt	2.8%	0 ppt	2.1%	0.8 ppt
Net margin	0.4%	1.5%	1.1 ppt	1.5%	0 ppt	1.5%	0 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Earnings Revision

Figure 8: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	16,196	17,628	19,539	17,025	17,593	19,503	-5%	0%	0%
Gross profit	959	1,313	1,409	1,065	1,315	1,412	-10%	0%	0%
Operating profit	559	687	878	581	691	882	-4%	0%	0%
Net profit	356	533	654	386	536	657	-8%	-1%	0%
EPS (RMB cent)	30.0	45.0	55.2	32.6	45.3	55.5	-8%	-1%	0%
Gross margin	5.9%	7.4%	7.2%	6.3%	7.5%	7.2%	-0.3 ppt	0 ppt	0 ppt
Operating margin	3.5%	3.9%	4.5%	3.4%	3.9%	4.5%	0 ppt	0 ppt	0 ppt
Net Margin	2.2%	3.0%	3.3%	2.3%	3.0%	3.4%	-0.1 ppt	0 ppt	0 ppt

Source: Company data, CMBIGM estimates

Figure 9: CMBI estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	16,196	17,628	19,539	14,775	15,910	17,097	10%	11%	14%
Gross profit	959	1,313	1,409	915	1,111	1,245	5%	18%	13%
Operating profit	559	687	878	364	461	561	53%	49%	57%
Net profit	356	533	654	303	435	526	17%	23%	24%
EPS (RMB cent)	30.0	45.0	55.2	25.2	36.2	44.5	19%	24%	24%
Gross margin	5.9%	7.4%	7.2%	6.2%	7.0%	7.3%	-0.3 ppt	0.5 ppt	-0.1 ppt
Operating margin	3.5%	3.9%	4.5%	2.5%	2.9%	3.3%	1 ppt	1 ppt	1.2 ppt
Net Margin	2.2%	3.0%	3.3%	2.1%	2.7%	3.1%	0.1 ppt	0.3 ppt	0.3 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Earnings Forecasts

Figure 10: P&L forecast

RMB mn	FY21	FY22	FY23	1H24	2H24E	FY24E	FY25E	FY26E
Revenue	18,663	13,759	12,531	7,675	8,521	16,196	17,628	19,539
...YoY	7.3%	-26.3%	-8.9%	40.1%	20.8%	29.3%	8.8%	10.8%
Cost of sales	(16,901)	(13,218)	(12,022)	(7,275)	(7,962)	(15,237)	(16,315)	(18,129)
Gross profit	1,762	541	509	400	559	959	1,313	1,409
GPM (%)	9.4%	3.9%	4.1%	5.2%	6.6%	5.9%	7.4%	7.2%
...YoY	-0.5%	-69.3%	-6.0%	112.5%	74.5%	88.5%	36.9%	7.3%
SG&A	(184)	(156)	(169)	(93)	(84)	(178)	(176)	(195)
...% of rev	-1.0%	-1.1%	-1.3%	-1.2%	-1.0%	-1.1%	-1.0%	-1.0%
R&D	(642)	(470)	(436)	(286)	(256)	(542)	(573)	(488)
...% of rev	-3.4%	-3.4%	-3.5%	-3.7%	-3.0%	-3.3%	-3.3%	-2.5%
Operating profit	1,039	204	289	221	339	559	687	878
OPM (%)	5.6%	1.5%	2.3%	2.9%	4.0%	3.5%	3.9%	4.5%
...YoY	-0.7%	-80.4%	42.0%	114.8%	81.7%	93.5%	22.9%	27.7%
Gain/loss of asso..	(52)	(37)	(50)	(14)	20	6	20	20
Net profit	863	170	84	115	241	356	533	654
NPM (%)	4.6%	1.2%	0.7%	1.5%	2.8%	2.2%	3.0%	3.3%
...YoY	2.7%	-80.3%	-50.9%	431.2%	289.0%	325.9%	49.9%	22.7%

Source: Company data, CMBIGM estimates

Figure 11: Revenue breakdown

RMB mn	FY21	FY22	FY23	1H24	2H24E	FY24E	FY25E	FY26E
CCM Revenue	16,875	12,561	11,562	7,215	7,919	15,134	16,514	18,406
...YoY	11%	-26%	-8%	45%	13%	31%	9%	11%
Shipments (mn units)	479	424	374	221	217	438	457	487
...YoY	22%	-12%	-12%	31%	6%	17%	4%	6%
ASP (RMB)	35.2	29.6	30.9	32.6	36.5	34.5	36.1	37.8
...YoY	-9%	-16%	4%	11%	6%	12%	5%	5%
FPM Revenue	1,675	1,064	781	395	510	904	956	975
...YoY	-20%	-37%	-27%	0%	-31%	16%	6%	2%
Shipments (mn units)	115	112	110	59	62	121	124	126
...YoY	25%	-3%	-1%	17%	2%	10%	2%	2%
ASP (RMB)	14.6	9.5	7.1	6.7	8.2	7.5	7.7	7.7
...YoY	-36%	-35%	-26%	-14%	17%	5%	4%	0%
Others	112	134	188	66	92	158	158	158
...YoY	16%	19%	40%	-27%	-113%	-16%	0%	0%
Total	18,663	13,759	12,531	7,675	8,521	16,196	17,628	19,539
...YoY	7%	-26%	-9%	40%	8%	29%	9%	11%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$6.43

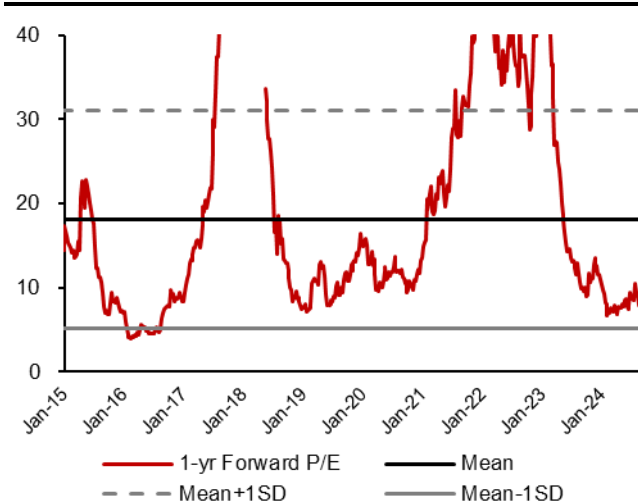
We remain positive on non-handset CCM (including automotive and IoT) to drive earnings growth in the long run. We slightly revise down our FY24-25E EPS by 1-8% (but still above consensus by 19-24%) to factor in 1H24 results and 2H seasonality. Our new TP of HK\$6.43 is based on 13x FY25E P/E (unchanged). Trading at 12.4x/8.3x FY24/25E P/E, we think the stock is attractive. Maintain BUY. Upcoming catalysts include shipment recovery, product launches and non-smartphone CCM order wins.

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Q tech	1478 HK	Buy	722	4.75	6.43	35%	12.4	8.3	0.9	0.8	7.1	10.0
FIT Hon Teng	6088 HK	Buy	2,115	2.26	4.24	88%	10.7	7.0	0.8	0.7	7.2	10.2
AAC Tech	2018 HK	Hold	4,170	27.10	22.44	-17%	21.1	17.0	1.2	1.2	5.8	6.9
Sunny Optical	2382 HK	Buy	6,233	44.35	67.88	53%	17.7	16.0	1.8	1.8	10.4	10.9
Tongda	698 HK	Buy	97	0.08	0.13	69%	4.9	3.5	0.1	0.1	2.2	2.9
BYDE	285 HK	Buy	8,490	29.35	45.28	54%	11.7	8.6	3.2	2.5	27.0	29.2
TK Group	2283 HK	Buy	195	1.82	2.79	53%	5.4	4.6	0.8	0.7	15.3	16.3
FIH	2038 HK	NR	769	0.76	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	390	0.96	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	26,446	16.80	NA	NA	27.0	19.1	0.8	0.8	2.9	4.0
YOFC	6869 HK	NR	1,725	8.13	NA	NA	7.2	5.9	0.5	0.4	7.0	7.9
Ju Teng	3336 HK	NR	185	1.20	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	2,364	21.45	NA	NA	23.1	13.2	4.6	3.4	21.8	28.3
Average							14.1	10.3	1.5	1.2	10.7	12.7

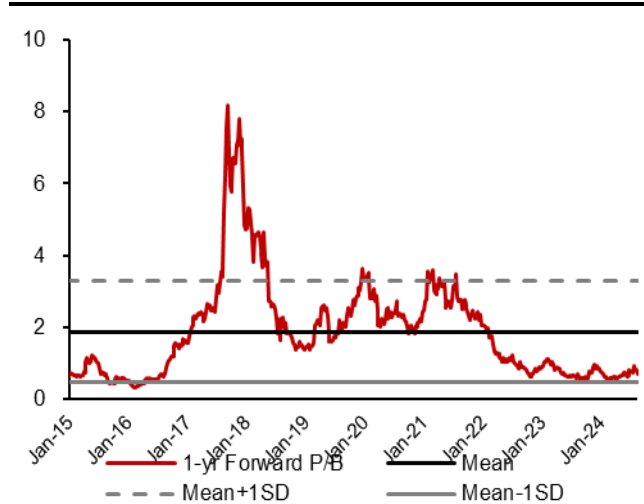
Source: Bloomberg, CMBIGM

Figure 13: 12M forward P/E band



Source: Company data, CMBIGM

Figure 14: 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	16,196	17,628	19,539
Cost of goods sold	(16,901)	(13,218)	(12,022)	(15,237)	(16,315)	(18,129)
Gross profit	1,762	541	509	959	1,313	1,409
Operating expenses	(723)	(338)	(220)	(400)	(626)	(531)
Selling expense	(23)	(14)	(20)	(23)	(26)	(29)
Admin expense	(161)	(142)	(149)	(155)	(150)	(166)
R&D expense	(642)	(470)	(436)	(542)	(573)	(488)
Others	104	288	385	320	123	152
Operating profit	1,039	204	289	559	687	878
Share of (losses)/profits of associates/JV	(52)	(37)	(50)	6	20	20
Others	(30)	(60)	(171)	(166)	(95)	(128)
Pre-tax profit	957	107	68	399	613	770
Income tax	(94)	63	15	(43)	(80)	(115)
Minority interest	0	0	0	0	0	0
Net profit	863	170	84	356	533	654

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	9,315	8,594	11,107	11,373	10,982	14,082
Cash & equivalents	1,743	1,349	2,893	1,491	1,630	2,589
Account receivables	4,446	3,436	4,201	5,670	5,074	6,835
Inventories	2,258	1,184	1,778	1,977	2,043	2,424
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	3,917	4,002	4,107
PP&E	3,144	3,140	2,845	2,926	3,011	3,116
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	15,290	14,984	18,190
Current liabilities	8,079	7,249	9,666	9,706	8,974	11,656
Short-term borrowings	1,708	2,616	4,152	2,364	2,560	2,801
Account payables	6,259	4,584	5,437	7,264	6,336	8,776
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	10,150	9,418	12,100
Share capital	9	9	9	9	9	9
Other reserves	4,690	4,753	4,822	5,130	5,556	6,080
Total shareholders equity	4,705	4,767	4,832	5,139	5,566	6,089
Minority interest	0	0	0	0	0	0
Total equity and liabilities	13,048	12,285	14,943	15,290	14,984	18,190

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	957	107	68	399	613	770
Depreciation & amortization	544	640	728	729	797	872
Change in working capital	(1,017)	324	(470)	159	(399)	299
Others	0	0	0	0	0	0
Net cash from operations	1,596	1,194	513	1,409	1,026	1,954
Investing						
Capital expenditure	(1,558)	(1,149)	(1,046)	(810)	(881)	(977)
Others	0	0	0	0	0	0
Net cash from investing	(880)	(1,149)	(1,046)	(810)	(881)	(977)
Financing						
Dividend paid	0	0	0	(48)	(107)	(131)
Net borrowings	604	908	1,536	(1,787)	196	241
Others	(1,546)	(60)	(171)	(166)	(95)	(128)
Net cash from financing	(942)	848	1,364	(2,002)	(5)	(18)
Net change in cash						
Cash at the beginning of the year	1,984	1,743	1,349	2,893	1,491	1,630
Exchange difference	(14)	(1,288)	713	0	0	0
Cash at the end of the year	1,743	1,349	2,893	1,491	1,630	2,589
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	7.3%	(26.3%)	(8.9%)	29.3%	8.8%	10.8%
Gross profit	(0.5%)	(69.3%)	(6.0%)	88.5%	36.9%	7.3%
Operating profit	(0.7%)	(80.4%)	42.0%	93.5%	22.9%	27.7%
Net profit	2.7%	(80.3%)	(50.9%)	325.9%	49.9%	22.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	9.4%	3.9%	4.1%	5.9%	7.4%	7.2%
Operating margin	5.6%	1.5%	2.3%	3.5%	3.9%	4.5%
Return on equity (ROE)	20.3%	3.6%	1.7%	7.1%	10.0%	11.2%
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	0.2	0.0
Current ratio (x)	1.2	1.2	1.1	1.2	1.2	1.2
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	5.1	25.7	54.1	12.4	8.3	6.8
P/B	0.9	0.9	0.9	0.9	0.8	0.7
Div yield (%)	0.0	0.0	0.0	1.1	2.4	3.0
EV	4,705.2	4,767.4	4,831.8	5,139.4	5,566.0	6,089.5
EV/Sales	0.3	0.3	0.4	0.3	0.3	0.3

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

Disclosures & Disclaimers

Analyst Certification

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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