

Q-Tech (1478 HK)

Corp Day Takeaways: Expect 4Q22E QoQ improvement; non-handset to accelerate in 2023

We hosted an investor call with Q-Tech during our Corporate Day on 28 Nov. Despite no clear sign of smartphone demand recovery, mgmt. expects 4Q CCM ASP/shipment to improve QoQ due to seasonality. 4Q GPM will remain flat given competition and slower spec upgrade. Looking into 2023, mgmt. remains positive on: 1) camera spec upgrade (e.g. OIS, SMA and periscope lens) to drive ASP; 2) AR/VR see-through and pancake lens shipment; and 3) new energy vehicle products in 2023. Reiterate BUY with TP of HK\$5.60.

- Smartphone CCM: stable shipment and GPM in 4Q; spec upgrade to drive ASP in FY23E.** Q-tech guided 4Q CCM shipment/GPM to improve QoQ with stable inventory level. Mgmt. also expects Samsung CCM to maintain steady growth driven by main camera order win and spec improvement. Despite industry headwinds and macro uncertainties, mgmt. remains positive on smartphone camera spec upgrade trend including OIS, SMA and periscope lens to drive ASP upside in 2023.
- Auto CCM: expect double digit sales mix in FY23E.** Q-tech won over 20 certified OEM/Tier-1 auto customers with projects in operation. Overall, mgmt. remains positive on auto CCM business progress and guided sales contribution to increase from 4-5% in FY22E to double digit in FY23E. Mgmt. expects business inflection point in FY23-24E when new energy vehicle shipment volume increases significantly.
- IoT and AR/VR to accelerate growth.** Despite loss-making optical lens business, Newmax, mgmt. believes more IoT cameras will increase capacity utilization and drive further integration with parentco. In addition, mgmt. remains positive on VR outlook in 2023 driven by Pico 4 VR product, see-through and pancake lens ramp-up, and order wins from HTC and iQIYI.
- Worst is likely over in 2H; Attractive risk-reward at trough valuation.** Mgmt. expects limited impact from recent COVID-19 in China on supply and logistics, and there is no sign of deteriorating demand in China in 4Q22E. Overall, we believe the worst is likely over and remain positive on Q-tech's non-handset business expansion in 2023E. Trading at 7.4x FY23E P/E, we believe the stock is extremely attractive. Maintain BUY with TP of HK\$5.60. Catalysts include 4Q shipment improvement, auto CCM and A-share spin-off.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	17,400	18,663	15,207	15,623	17,720
YoY growth (%)	32.1	7.3	(18.5)	2.7	13.4
Net profit (RMB mn)	840.1	862.8	273.3	552.7	943.5
EPS (Reported) (RMB)	0.72	0.73	0.23	0.47	0.80
YoY growth (%)	51.1	1.8	(68.3)	102.2	70.7
Consensus EPS (RMB)	0.00	74.01	56.43	78.19	99.00
P/E (x)	12.8	15.3	14.9	7.4	4.3
P/B (x)	2.8	2.8	0.8	0.8	0.7
Yield (%)	5.4	0.0	1.3	2.7	4.6
ROE (%)	25.3	20.3	5.7	10.7	16.4
Net gearing (%)	(23.2)	(0.8)	(24.6)	(3.7)	(30.9)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$5.60**
 (Previous TP) HK\$5.60
Up/Downside **48.1%**
Current Price **HK\$3.78**

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Stock Data

Mkt Cap (HK\$ mn)	4,479.3
Avg 3 mths t/o (HK\$ mn)	3.7
52w High/Low (HK\$)	11.96/2.90
Total Issued Shares (mn)	1185.0

Source: FactSet

Shareholding Structure

HE Ningning	63.6%
Harvest Fund Management Co Ltd	2.7%

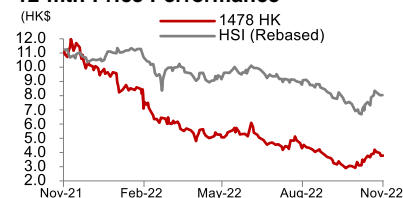
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	20.8%	4.2%
3-mth	-14.1%	-2.4%
6-mth	-26.2%	-15.3%

Source: FactSet

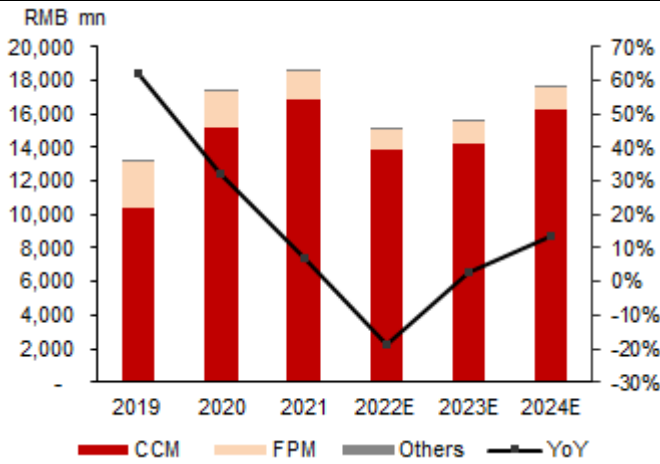
12-mth Price Performance



Source: FactSet

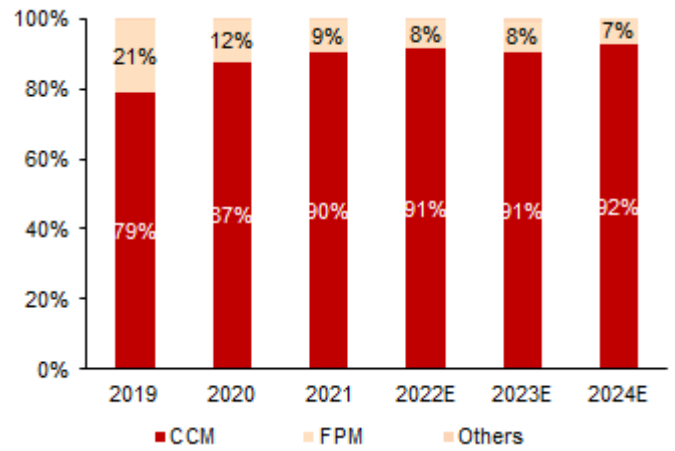
Focus Charts

Figure 1: Revenue growth trend



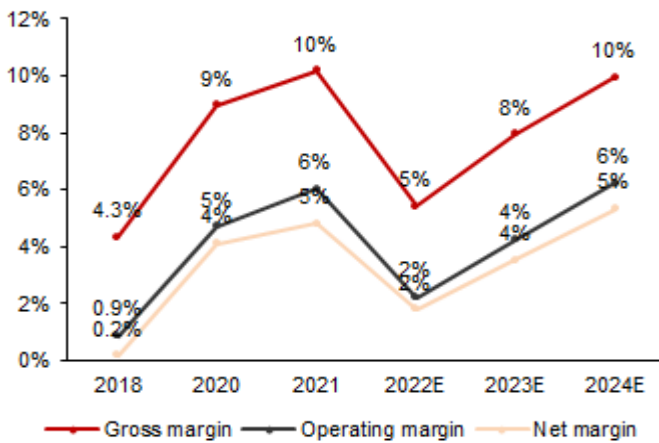
Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown



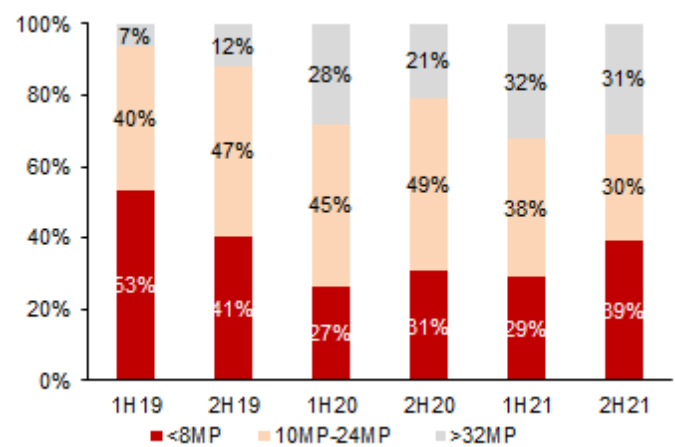
Source: Company data, CMBIGM estimates

Figure 3: Margins trend



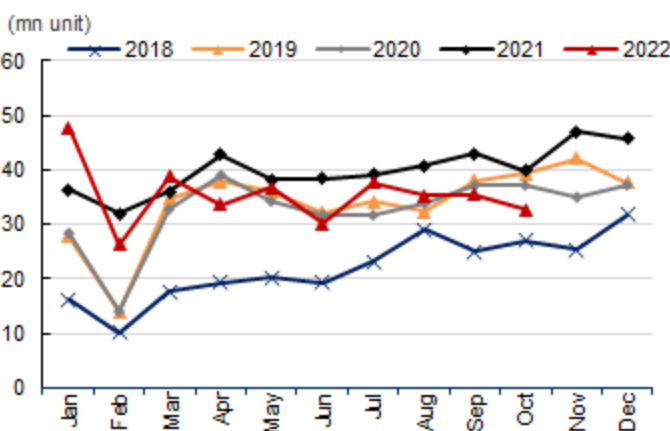
Source: Company data, CMBIGM estimates

Figure 4: CCM shipment mix



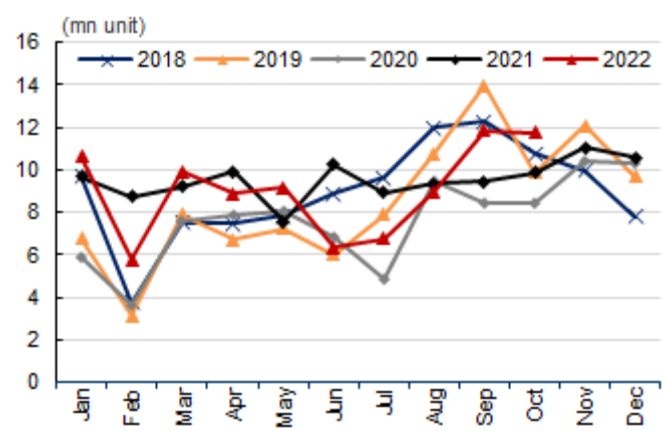
Source: Company data, CMBIGM estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIGM estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIGM estimates

Figure 7: P&L forecast

RMB mn	FY19	FY20	FY21	1H22	2H22E	FY22E	FY23E	FY24E
Revenue	8,135	17,400	18,663	7,095	8,004	15,207	15,623	17,720
...YoY	2.5%	32.1%	7.3%	-24.0%	-14.2%	-18.5%	2.7%	13.4%
Cost of sales	(7,782)	(15,630)	(16,901)	(6,719)	(7,556)	(14,275)	(14,382)	(15,958)
Gross profit	353	1,771	1,762	376	449	824	1,241	1,762
GPM (%)	4.3%	10.2%	9.4%	5.3%	5.6%	5.4%	7.9%	9.9%
...YoY	-60.0%	50.1%	-0.5%	-65.3%	-34.0%	-53.2%	50.5%	42.0%
SG&A	(100)	(179)	(184)	(78)	(80)	(158)	(156)	(177)
...% of rev	-1.2%	-1.0%	-1.0%	-1.1%	-1.0%	-1.0%	-1.0%	-1.0%
R&D	(266)	(590)	(642)	(261)	(260)	(521)	(516)	(585)
...% of rev	-3.3%	-3.4%	-3.4%	-3.7%	-3.3%	-3.4%	-3.3%	-3.3%
Operating profit	70	1,046	1,039	185	152	337	663	1,106
OPM (%)	0.9%	6.0%	5.6%	2.6%	1.9%	2.2%	4.2%	6.2%
...YoY	-87.1%	68.9%	-0.7%	-73.6%	-55.1%	-67.6%	96.6%	66.9%
Profit of associates.	(25)	(23)	(52)	(18)	(10)	(28)	20	30
Net profit	14	840	863	166	105	273	553	944
NPM (%)	0.2%	4.8%	4.6%	2.3%	1.3%	1.8%	3.5%	5.3%
...YoY	-96.7%	54.9%	2.7%	-71.5%	-62.8%	-68.3%	102.2%	70.7%

Source: Company data, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	FY19	FY20	FY21	1H22	2H22E	FY22E	FY23E	FY23E
CCM Revenue	10,360	15,202	16,875	6,502	7,277	13,887	14,164	16,315
...YoY	65%	47%	11%	-23%	-14%	-18%	2%	15%
Shipment (mn)	406	392	479	213	250	463	494	552
...YoY	54%	-3%	22%	-5%	-2%	-3%	7%	12%
ASP (RMB)	25.5	38.7	35.2	30.5	29.1	30.0	28.7	29.5
...YoY	7%	52%	-9%	-19%	-12%	-15%	-4%	3%
FPM Revenue	2,759	2,101	1,675	551	635	1,186	1,325	1,272
...YoY	51%	-24%	-20%	-40%	-16%	-29%	12%	-4%
Shipment (mn)	102	92	115	51	58	109	120	126
...YoY	-5%	-10%	25%	-9%	-2%	-5%	10%	5%
ASP (RMB)	27.1	22.8	14.6	10.9	10.9	10.9	11.1	10.1
...YoY	58%	-16%	-36%	-34%	-14%	-25%	2%	-9%
Others	51	97	112	42	92	134	134	134
...YoY	66%	91%	16%	107%	0%	19%	0%	0%
Total	13,170	17,400	18,663	7,095	8,004	15,207	15,623	17,720
...YoY	62%	32%	7%	-24%	-14%	-19%	3%	13%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP of HK\$5.6 (48% upside)

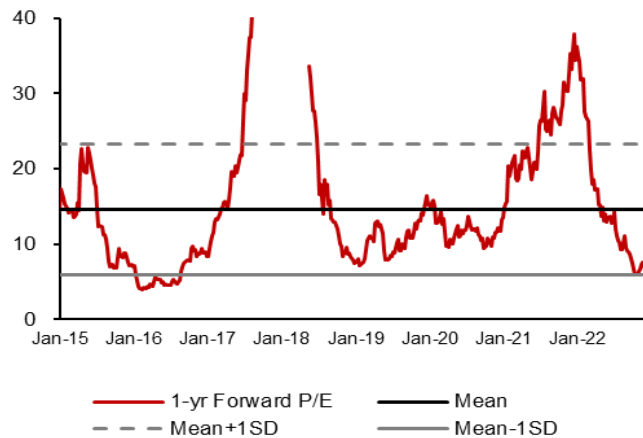
Overall, we believe the worst is over and we remain positive on Q-tech's non-handset business expansion. Maintain BUY with TP of HK\$5.60. Catalysts include 4Q shipment improvement, auto CCM and A-share spin-off.

Figure 9: 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	571	3.77	5.60	48%	14.9	7.4	0.8	0.8	5.7	10.7	
FIT Hon Teng	6088 HK	BUY	1,388	1.49	1.84	23%	7.3	6.5	0.5	0.5	6.9	7.4	
AAC Tech	2018 HK	HOLD	2,624	17.02	15.40	-10%	23.1	14.3	0.8	0.8	3.5	5.6	
Sunny Optical	2382 HK	HOLD	11,784	83.95	102.30	22%	30.1	20.4	3.6	3.1	11.8	15.3	
Tongda	698 HK	BUY	158	0.13	0.22	73%	4.2	3.2	0.1	0.1	2.3	3.0	
BYDE	285 HK	HOLD	6,733	23.35	20.39	-13%	28.7	17.0	1.8	1.7	6.4	9.9	
TK Group	2283 HK	BUY	177	1.66	3.38	104%	4.0	3.2	0.8	0.7	18.6	20.7	
FIH	2038 HK	NR	833	0.82	NA	NA	-	17.5	-	-	-	2.8	
Truly	732 HK	NR	538	1.31	NA	NA	4.5	3.7	0.4	0.3	8.2	9.2	
SMIC	981 HK	NR	23,521	16.58	NA	NA	9.4	14.0	0.8	0.8	9.9	9.0	
YOFC	6869 HK	NR	2,578	13.38	NA	NA	8.2	6.8	0.9	0.8	10.8	11.4	
Ju Teng	3336 HK	NR	197	1.28	NA	NA	-	-	-	-	-	-	
Cowell	1415 HK	NR	1,333	12.44	NA	NA	16.6	12.2	3.2	2.6	22.2	24.6	
Average								13.7	10.5	1.2	1.1	9.7	10.8

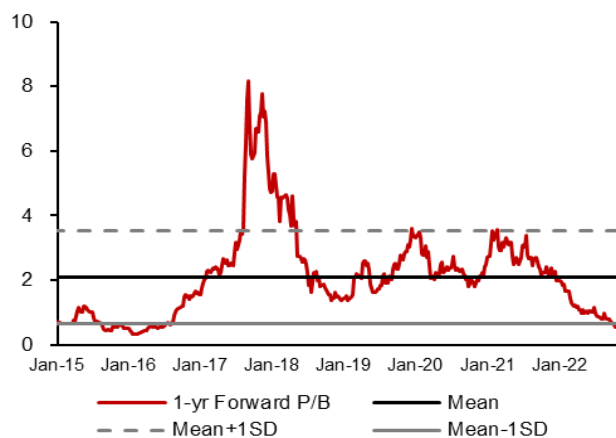
Source: Bloomberg, CMBIGM, * TP under review

Figure 10: 12M forward P/E band



Source: Company data, CMBIGM

Figure 11: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	13,170	17,400	18,663	15,207	15,623	17,720
Cost of goods sold	(11,990)	(15,630)	(16,901)	(14,275)	(14,382)	(15,958)
Gross profit	1,180	1,771	1,762	824	1,241	1,762
Operating expenses	(560)	(724)	(723)	(487)	(578)	(656)
Selling expense	(15)	(26)	(23)	(21)	(23)	(27)
Admin expense	(128)	(153)	(161)	(137)	(133)	(151)
R&D expense	(396)	(590)	(642)	(521)	(516)	(585)
Others	(21)	44	104	191	94	106
Operating profit	620	1,046	1,039	337	663	1,106
Share of (losses)/profits of associates/JV	40	(23)	(52)	(28)	20	30
Others	(53)	(54)	(30)	(44)	(48)	(52)
Pre-tax profit	607	970	957	265	635	1,084
Income tax	(65)	(130)	(94)	8	(83)	(141)
Minority interest	0	0	0	0	0	0
Net profit	542	840	863	273	553	944

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	7,363	7,882	9,315	7,734	10,445	10,260
Cash & equivalents	412	1,984	1,743	3,475	2,668	4,706
Account receivables	4,919	3,589	4,446	2,101	4,625	3,004
Inventories	1,913	1,943	2,258	1,290	2,285	1,682
ST bank deposits	93	267	811	811	811	811
Other current assets	26	100	57	57	57	57
Non-current assets	3,272	3,521	3,733	3,937	4,102	4,304
PP&E	2,704	2,960	3,144	3,349	3,514	3,715
Intangibles	5	4	20	20	20	20
Other non-current assets	563	557	569	569	569	569
Total assets	10,635	11,403	13,048	11,672	14,548	14,564
Current liabilities	7,543	7,276	8,079	6,484	8,918	8,179
Short-term borrowings	1,270	1,104	1,708	2,265	2,468	2,816
Account payables	5,935	6,013	6,259	4,107	6,337	5,251
Tax payable	49	77	49	49	49	49
Other current liabilities	290	82	64	64	64	64
Non-current liabilities	0	0	0	0	0	0
Deferred income	130	138	200	200	200	200
Other non-current liabilities	5	25	0	0	0	0
Total liabilities	7,768	7,617	8,343	6,748	9,182	8,443
Share capital	9	9	9	9	9	9
Other reserves	2,858	3,776	4,690	4,909	5,351	6,106
Total shareholders equity	2,867	3,786	4,705	4,924	5,366	6,121
Minority interest	0	0	0	0	0	0
Total equity and liabilities	10,635	11,403	13,048	11,672	14,548	14,564

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	607	970	957	265	635	1,084
Depreciation & amortization	302	413	498	556	616	684
Change in working capital	1,497	2,177	(1,017)	1,160	(1,288)	1,138
Others	0	0	0	0	0	0
Net cash from operations	2,400	3,604	1,596	2,034	(72)	2,818
Investing						
Capital expenditure	(1,133)	(523)	(1,558)	(760)	(781)	(886)
Others	0	0	0	0	0	0
Net cash from investing	(1,271)	(696)	(880)	(760)	(781)	(886)
Financing						
Dividend paid	0	(107)	0	(55)	(111)	(189)
Net borrowings	(1,086)	(1,015)	604	557	203	347
Others	270	(193)	(1,546)	(44)	(48)	(52)
Net cash from financing	(817)	(1,315)	(942)	459	45	107
Net change in cash						
Cash at the beginning of the year	100	412	1,984	1,743	3,475	2,668
Exchange difference	0	(21)	(14)	0	0	0
Cash at the end of the year	412	1,984	1,743	3,475	2,668	4,706
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	61.9%	32.1%	7.3%	(18.5%)	2.7%	13.4%
Gross profit	234.1%	50.1%	(0.5%)	(53.2%)	50.5%	42.0%
Operating profit	784.8%	68.9%	(0.7%)	(67.6%)	96.6%	66.9%
Net profit	3,666.7%	54.9%	2.7%	(68.3%)	102.2%	70.7%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	9.0%	10.2%	9.4%	5.4%	7.9%	9.9%
Operating margin	4.7%	6.0%	5.6%	2.2%	4.2%	6.2%
Return on equity (ROE)	21.8%	25.3%	20.3%	5.7%	10.7%	16.4%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	0.3	(0.2)	(0.0)	(0.2)	(0.0)	(0.3)
Current ratio (x)	1.0	1.1	1.2	1.2	1.2	1.3
Receivable turnover days	110.2	89.2	78.6	78.6	78.6	78.6
Inventory turnover days	39.8	45.0	45.4	45.4	45.4	45.4
Payable turnover days	136.9	139.5	132.5	132.5	132.5	132.5
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	14.7	12.8	15.3	14.9	7.4	4.3
P/B	2.8	2.8	2.8	0.8	0.8	0.7
Div yield (%)	1.3	5.4	0.0	1.3	2.7	4.6
EV	2,867.0	3,785.8	4,705.2	4,923.9	5,366.0	6,120.8
EV/Sales	0.2	0.2	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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