

Q Technology (1478 HK)

1H profit warning in-line; Trim TP to reflect uncertainty

Q-Tech's 1H22 profit warning with earnings decline of 50-70% YoY is largely in-line with our estimates (-55% YoY). Mgmt. attributed the decline to 1) CCM/FPM shipment/ASP decline due to sluggish smartphone demand; 2) lower utilization due to lockdown; 3) higher operating costs; 4) labor cost hike in Suzhou; and 5) lower GPM with IoT/auto CCM under development. While we remain cautious on smartphone recovery in 2H22E, we are positive on Q-tech's auto/IoT CCM in 2023E. We trimmed FY22-24E EPS by 3-19% to reflect smartphone uncertainty. We believe risk-reward is attractive with valuation at 7.2x/5.3x FY22/23E P/E. We maintain BUY with new TP of HK\$7.0 (based on same 10x FY22E P/E).

- 1H22E profit warning in-line on smartphone CCM weakness.** Q-tech stated 1H22E NP decline of 50-70% YoY, with mid-point decline 5% below our estimates (-55% YoY). We estimate 1H22E revenue to drop 26% YoY, driven by 5%/8% YoY decline in CCM/FPM shipment and 23%/26% decline in CCM/FPM ASP. Looking into 2H22E, we believe recent inventory destocking of Android camp will lead to sluggish CCM/FPM shipment in 3Q22E, and we expect demand to recover gradually in 4Q22E driven by CCM capacity expansion in India, Samsung's CCM order win and FPM share gain.
- Outlook: Auto/IoT CCM to ramp up in 2023/24E.** We are positive on Auto/IoT CCM order win, and we expect sales contribution to increase from 2-3% currently to 7%/14% in FY23/24E. For auto CCM, Q-tech started to deliver projects for XPeng, Geely and SGMW, while for IoT CCM, Q-tech started shipments to clients in Mainland China (VR client) and Taiwan. Overall, we estimate revenue/net profit will grow 3%/62% YoY in 2H22E and 13%/37% YoY in FY23E.
- Maintain BUY with new TP of HK\$7.0.** While we believe smartphone demand weakness remains the major overhang in 3Q22E, we are optimistic about auto/IoT CCM opportunity in FY23/24E. We believe current valuation at 7.2x/5.3x FY22/23E P/E offers good risk/reward, as we estimate 36%/28% YoY EPS growth in FY23/24E driven by steady share gain and auto/IoT CCM ramp. Maintain BUY with new TP of HK\$7.0 (based on same 10x FY22E P/E).

Earnings Summary

(YE 31 Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (RMB mn)	17,400	18,663	16,592	18,855	21,917
YoY growth (%)	32.1	7.3	-11.1	13.6	16.2
Net income (RMB mn)	840	863	687	944	1,206
EPS (RMB cents)	71.9	73.2	58.3	80.1	102.3
YoY growth (%)	51.1	1.8	-20.4	37.4	27.7
Consensus EPS (RMB)	n/a	n/a	64.5	85.4	106.8
P/E (x)	5.9	5.8	7.2	5.3	4.1
P/B (x)	1.3	1.0	0.9	0.8	0.7
Yield (%)	11.9	0	2.8	3.8	4.9
ROE (%)	22.2	18.3	13.1	15.7	17.3
Net gearing (%)	35	38	48	47	47

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$7.0**
(Previous TP **HK\$8.6**)
Up/Downside **+38%**
Current Price **HK\$5.0**

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	6,017
Avg. 3mths t/o (HK\$m)	11.869
52W High/Low (HK\$)	17.46/ 4.74
Total Issued Shares (mn)	1,185

Source: Bloomberg

Shareholding Structure

He Ningning	63.61%
Harvest Fund Mgmt.	2.72%
Vanguard Group	1.23%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-6.6%	-6.0%
3-mth	-9.6%	-9.0%
6-mth	-46.6%	-42.3%

Source: Bloomberg

12-mth Price Performance

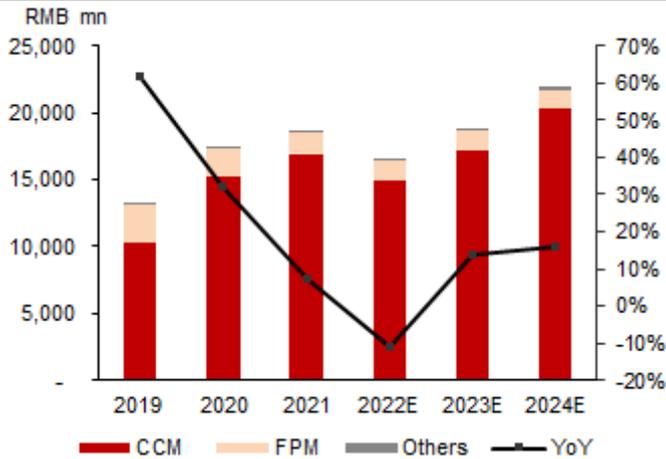


Source: Bloomberg

Auditor: KPMG

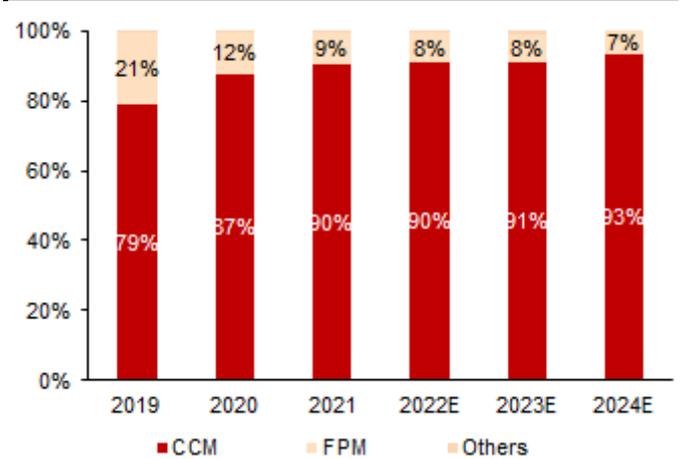
Focus Charts

Figure 1: Revenue growth trend



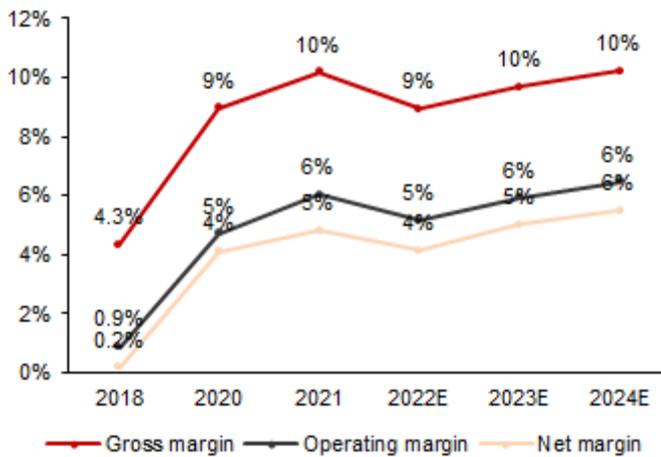
Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown



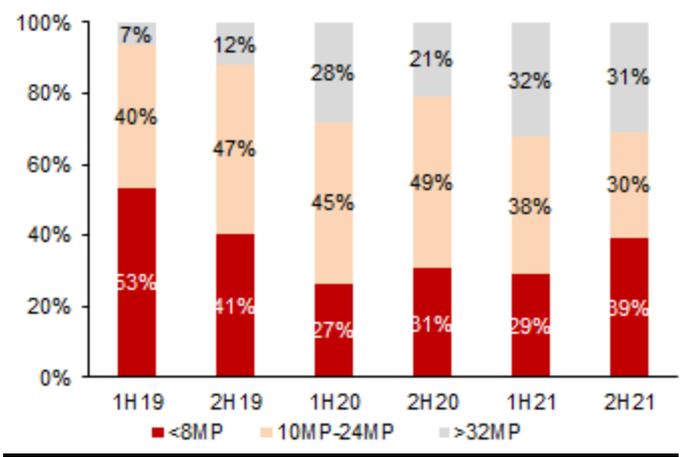
Source: Company data, CMBIGM estimates

Figure 3: Margins trend



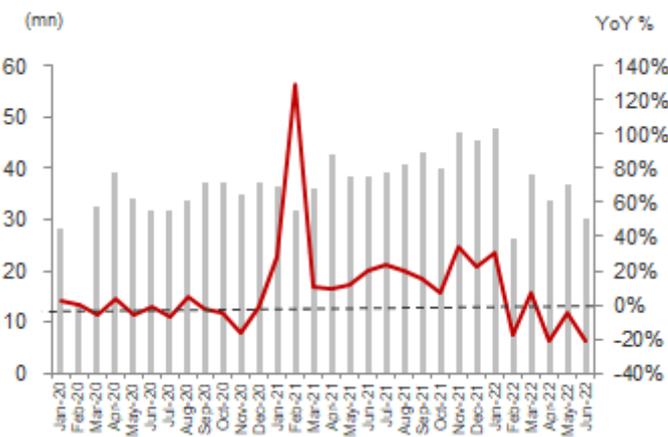
Source: Company data, CMBIGM estimates

Figure 4: CCM shipment mix



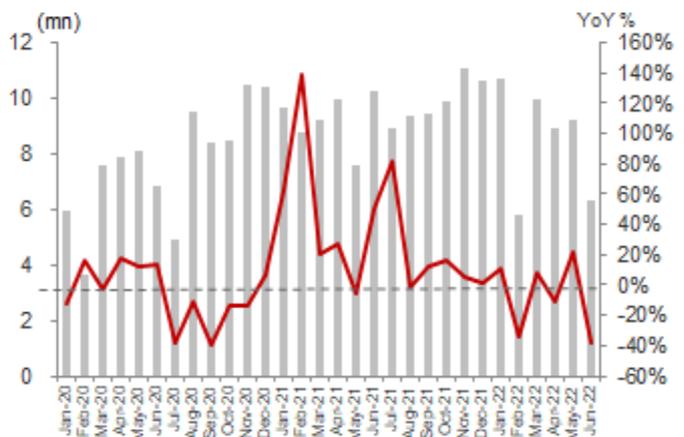
Source: Company data, CMBIGM estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIGM estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIGM estimates

Earnings Revision

Lowred FY22-24E EPS by 3-19% to reflect smartphone weakness

We lowered FY22-24E EPS by 3-19% to factor in 2H22 destocking and margin impact on new client ramp up from Samsung smartphone and automobile CCM. Our EPS are 4-10% below consensus, but we think recent share price has reflected 2H22E weakness.

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY22E	2023E	2024E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	16,592	18,855	21,917	19,241	20,132	21,502	-14%	-6%	2%
Gross profit	1,481	1,823	2,236	1,744	1,943	2,266	-15%	-6%	-1%
Operating profit	857	1,116	1,415	1,010	1,188	1,460	-15%	-6%	-3%
Net profit	687	944	1,206	846	1,006	1,244	-19%	-6%	-3%
EPS (RMB)	58.3	80.1	102.3	71.7	85.3	105.5	-19%	-6%	-3%
Gross margin	8.9%	9.7%	10.2%	9.1%	9.7%	10.5%	-0.1 ppt	0 ppt	-0.3 ppt
Operating margin	5.2%	5.9%	6.5%	5.3%	5.9%	6.8%	-0.1 ppt	0 ppt	-0.3 ppt
Net Margin	4.1%	5.0%	5.5%	4.4%	5.0%	5.8%	-0.3 ppt	0 ppt	-0.3 ppt

Source: Company data, CMBIGM estimates

Figure 8: CMBI estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY22E	2023E	2024E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	16,592	18,855	21,917	19,383	21,949	25,219	-14%	-14%	-13%
Gross profit	1,481	1,823	2,236	1,667	2,058	2,480	-11%	-11%	-10%
Operating profit	857	1,116	1,415	880	1,161	1,441	-3%	-4%	-2%
Net profit	687	944	1,206	749	995	1,250	-8%	-5%	-3%
EPS (RMB)	58.3	80.1	102.3	64.5	85.4	106.8	-10%	-6%	-4%
Gross margin	8.9%	9.7%	10.2%	8.6%	9.4%	9.8%	0.3 ppt	0.3 ppt	0.4 ppt
Operating margin	5.2%	5.9%	6.5%	4.5%	5.3%	5.7%	0.6 ppt	0.6 ppt	0.7 ppt
Net Margin	4.1%	5.0%	5.5%	3.9%	4.5%	5.0%	0.3 ppt	0.5 ppt	0.5 ppt

Source: Company data, CMBIGM estimates

Figure 9: P&L forecast

RMB mn	FY19	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
Revenue	8,135	17,400	18,663	6,886	9,706	16,592	18,855	21,917
...YoY	2.5%	32.1%	7.3%	-26.2%	4.1%	-11.1%	13.6%	16.2%
Cost of sales	(7,782)	(15,630)	(16,901)	(6,343)	(8,768)	(15,111)	(17,031)	(19,680)
Gross profit	353	1,771	1,762	543	938	1,481	1,823	2,236
GPM (%)	4.3%	10.2%	9.4%	7.9%	9.7%	8.9%	9.7%	10.2%
...YoY	-60.0%	50.1%	-0.5%	-49.8%	38.1%	-15.9%	23.1%	22.6%
SG&A	(100)	(179)	(184)	(62)	(97)	(159)	(189)	(219)
...% of rev	-1.2%	-1.0%	-1.0%	-0.9%	-1.0%	-1.0%	-1.0%	-1.0%
R&D	(266)	(590)	(642)	(224)	(315)	(539)	(622)	(723)
...% of rev	-3.3%	-3.4%	-3.4%	-3.3%	-3.3%	-3.3%	-3.3%	-3.3%
Operating profit	70	1,046	1,039	278	579	857	1,116	1,415
OPM (%)	0.9%	6.0%	5.6%	4.0%	6.0%	5.2%	5.9%	6.5%
...YoY	-87.1%	68.9%	-0.7%	-60.2%	70.5%	-17.5%	30.3%	26.7%
Profit of associates.	(25)	(23)	(52)	(10)	(10)	(20)	20	30
Net profit	14	840	863	213	474	687	944	1,206
NPM (%)	0.2%	4.8%	4.6%	3.1%	4.9%	4.1%	5.0%	5.5%
...YoY	-96.7%	54.9%	2.7%	-63.4%	68.2%	-20.3%	37.4%	27.7%

Source: Company data, CMBIGM estimates

Figure 10: Revenue breakdown

RMB mn	FY19	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY23E
CCM Revenue	10,360	15,202	16,875	6,169	8,840	15,008	17,188	20,302
...YoY	65%	47%	11%	-27%	4%	-11%	15%	18%
Shipment (mn)	406	392	479	213	286	499	557	630
...YoY	54%	-3%	22%	-5%	12%	4%	12%	13%
ASP (RMB)	25.5	38.7	35.2	29.0	30.9	30.1	30.9	32.2
...YoY	7%	52%	-9%	-23%	-7%	-15%	3%	4%
FPM Revenue	2,759	2,101	1,675	625	774	1,399	1,483	1,430
...YoY	51%	-24%	-20%	-32%	2%	-17%	6%	-4%
Shipment (mn)	102	92	115	51	65	116	127	134
...YoY	-5%	-10%	25%	-8%	10%	1%	10%	5%
ASP (RMB)	27.1	22.8	14.6	12.3	11.9	12.1	11.6	10.7
...YoY	58%	-16%	-36%	-26%	-7%	-17%	-4%	-8%
Others	51	97	112	92	92	184	184	184
...YoY	66%	91%	16%	359%	0%	64%	0%	0%
Total	13,170	17,400	18,663	6,886	9,706	16,592	18,855	21,917
...YoY	62%	32%	7%	-26%	4%	-11%	14%	16%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$7.0 (38% upside)

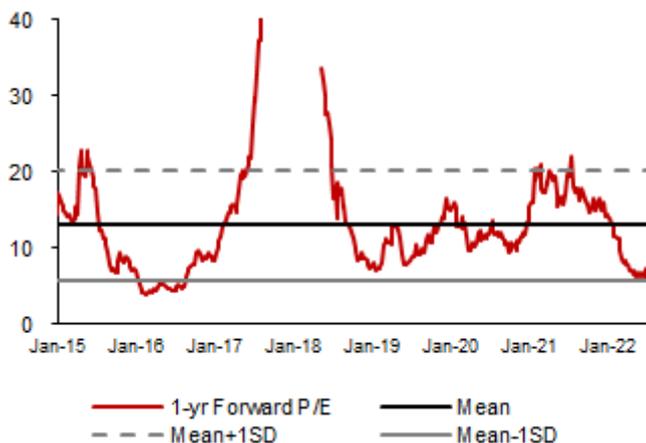
Our 12m TP of HK\$ 7.0 is based on 10x FY21E P/E. We believe smartphone recovery proposed A-share spin-off, stronger share gain and Newmax integration will drive earnings growth in long run. Upcoming catalysts include Samsung order ramp up and A-share spin-off.

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 (%)		
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	
Q tech	1478 HK	BUY	767	5.08	7.0	38%	7.2	5.3	0.9	0.8	13.1	15.7	
FIT Hon Teng	6088 HK	BUY	935	1.01	1.55	53%	6.5	5.8	0.4	0.3	5.4	5.8	
AAC Tech	2018 HK	HOLD	2,587	16.80	14.00	-17%	19.8	13.8	0.8	0.8	4.0	5.6	
Sunny Optical	2382 HK	HOLD	16,253	116.30	125.70	8%	22.2	18.7	4.5	3.8	20.4	20.3	
Tongda	698 HK	BUY	175	0.14	0.22	56%	3.5	2.4	0.1	0.1	3.1	4.5	
BYDE	285 HK	HOLD	6,588	22.95	12.45	-46%	26.1	15.5	1.8	1.6	6.9	10.6	
TK Group	2283 HK	BUY	200	1.88	3.38	80%	4.6	3.6	0.9	0.7	18.6	20.7	
FIH	2038 HK	NR	1,067	1.05	NA	NA	-	22.3	0.6	0.6	2.7	2.8	
Truly	732 HK	NR	870	2.08	NA	NA	4.5	3.7	-	-	12.2	13.4	
SMIC	981 HK	NR	25,863	17.50	NA	NA	10.6	11.5	0.9	0.8	9.6	7.9	
YOFC	6869 HK	NR	2,599	13.68	NA	NA	9.5	8.6	0.8	0.8	9.1	9.7	
Ju Teng	3336 HK	NR	234	1.53	NA	NA	7.7	5.3	0.3	0.3	3.5	5.0	
Cowell	1415 HK	NR	1,202	11.30	NA	NA	16.2	12.0	2.9	2.4	20.3	23.2	
Average								11.5	10.1	1.2	1.1	10.1	10.8

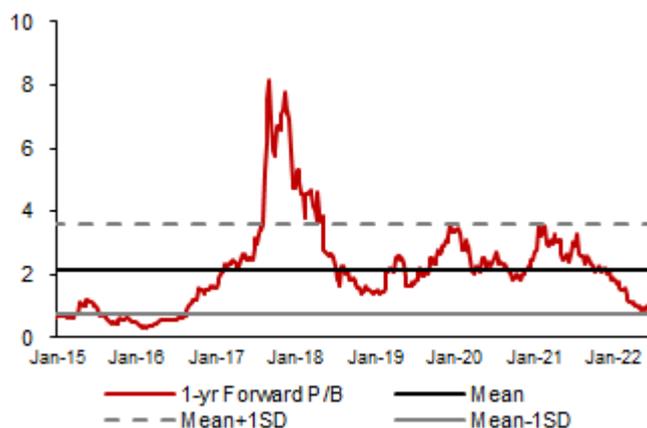
Source: Bloomberg, CMBIGM, * TP under review

Figure 12: 12M forward P/E band



Source: Company data, CMBIGM

Figure 13: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	17,400	18,663	16,592	18,855	21,917
COGS	(15,630)	(16,901)	(15,111)	(17,031)	(19,680)
Gross profit	1,771	1,762	1,481	1,823	2,236
Selling and marketing	(26)	(23)	(21)	(28)	(33)
Administrative	(153)	(161)	(138)	(160)	(186)
R&D	(590)	(642)	(539)	(622)	(723)
Other operating exp.	44	104	74	104	121
Operating profit	1,046	1,039	857	1,116	1,415
Financial cost	(54)	(30)	(47)	(51)	(58)
Share profit/loss of asso.	(23)	(52)	(20)	20	30
Pre-tax profit	970	957	790	1,086	1,386
Tax	(130)	(94)	(103)	(141)	(180)
Net profit	840	863	687	944	1,206

Cash flow summary

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Profit before taxation	970	957	790	1,086	1,386
Depreciation	413	498	561	634	718
Change in working capital	2,177	(1,017)	963	(1,020)	967
Others					
Net cash from operating	3,604	1,596	2,259	609	2,950
Capex	(523)	(1,558)	(830)	(943)	(1,096)
Other					
Net cash from investing	(696)	(880)	(830)	(943)	(1,096)
Net borrowings	(1,015)	604	710	348	444
Dividend paid	(107)	-	(137)	(189)	(241)
Other	(193)	(1,546)	(47)	(51)	(58)
Net cash from financing	(1,315)	(942)	525	108	145
Net change in cash	1,593	(226)	1,955	(226)	1,999
Cash at beginning of the year	412	1,984	1,743	3,698	3,472
Exchange difference	(21)	(14)	-	-	-
Cash at the end of the year	1,984	1,743	3,698	3,472	5,470

Balance sheet

YE 31 Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Current assets	7,882	9,315	8,761	12,496	12,510
Cash & equivalents	1,984	1,743	3,698	3,472	5,470
Trade receivables	3,589	4,446	2,697	5,420	4,016
Inventories	1,943	2,258	1,498	2,736	2,157
Pledged bank deposits	267	811	811	811	811
Other current assets	100	57	57	57	57
Non-current assets	3,521	3,733	4,001	4,310	4,688
PPE	2,960	3,144	3,413	3,721	4,099
Lease payments					
Intangible assets	4	20	20	20	20
Other non-current assets	557	569	569	569	569
Total assets	11,403	13,048	12,762	16,806	17,198
Current liabilities	7,276	8,079	7,243	10,531	9,958
Bank borrowings	1,104	1,708	2,417	2,765	3,209
Trade payables	6,013	6,259	4,714	7,654	6,637
Tax payable	77	49	49	49	49
Other current liabilities	82	64	64	64	64
Non-current liabilities	341	264	264	264	264
Deferred income	138	200	200	200	200
Deferred tax liability	25	-	-	-	-
Total liabilities	7,617	8,343	7,507	10,795	10,222
Share capital	9	9	9	9	9
Reserves	3,776	4,690	5,240	5,995	6,960
Minority interest	-	-	-	-	-
Shareholders' equity	3,786	4,705	5,255	6,011	6,976
Total equity and liabilities	11,403	13,048	12,762	16,806	17,198

Key ratios

YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
Sales mix (%)					
Camera modules	87	90	90	91	93
Fingerprint modules	12	9	8	8	7
Growth (%)					
Revenue	32.1	7.3	(11.1)	13.6	16.2
Gross profit	50.1	(0.5)	(15.9)	23.1	22.6
Operating profit	68.9	(0.7)	(17.5)	30.3	26.7
Net profit	54.9	2.7	(20.3)	37.4	27.7
Profit & loss ratio (%)					
Gross margin	10.2	9.4	8.9	9.7	10.2
Operating margin	6.0	5.6	5.2	5.9	6.5
Net profit margin	4.8	4.6	4.1	5.0	5.5
Balance sheet ratio					
Net debt/total equity (x)	(0.23)	(0.01)	(0.24)	(0.12)	(0.32)
Current ratio (x)	1.1	1.2	1.2	1.2	1.3
Receivable turnover days	89	79	79	79	79
Inventory turnover days	45	45	45	45	45
Payable turnover days	140	133	133	133	133
Profitability (%)					
ROE	22.2	18.3	13.1	15.7	17.3
ROA	7.4	6.6	5.4	5.6	7.0
Per share data (RMB)					
EPS	0.72	0.73	0.58	0.80	1.02
DPS	0.50	-	0.12	0.16	0.20

Source: Company data, CMBIGM estimates

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