

Q Technology (1478 HK)

Strong 1H20 on HCM product mix; Reiterate BUY

Q-tech's 1H20 net profit grew 85% YoY to RMB336mn, reaching high-end of its profit alert (up 50-90% YoY) and beating our/consensus estimate by 14%/30%. The beat was mainly driven by higher camera module revenue (+97% YoY) with better product mix (ASP +100% YoY, vs +52% our est.). We believe improving product mix will continue to drive ASP/margin expansion in 2H20E. We raised FY20-22E EPS by 1-7% to reflect better ASP and margin. Our new TP of HK\$16.6 (43% upside) is based on same 18x FY21E P/E. Reiterate BUY.

- **1H20 NP reaching high-end of profit alert; HCM ASP up 100% YoY.** 1H20 net profit growth of 85% YoY is at high-end of guidance (+50-90% YoY) in positive profit alert, backed by 74% YoY revenue growth and 10bps GPM improvement. HCM (handset camera module) ASP hike of 100% YoY is the major surprise, mainly driven by better 32MP+ mix of 28% (vs 6.5% in 1H19). Despite COVID-19 impact on utilization in 1Q20, GPM held steady at 8.3% in 1H20 (vs 8.2% in 1H19). As for FPM (fingerprint module), revenue dropped 7% YoY due to 7% volume growth offset by 12% ASP decline.
- **FY20E guidance unchanged; HCM spec upgrade intact ahead.** Mgmt. maintained HCM shipment guidance of “-5% to 5% YoY growth” in FY20E and HCM 10MP+/32MP+ pixel mix of 60%+/25%+. We are positive on Q-tech's HCM capacity expansion in India (10kk/m by end-2020) and product roadmap in miniaturization, 3D sensing, and periscope optical zoom. We expect pixel upgrade and periscope adoption to drive HCM ASP growth at 21% YoY in 2H20E and 3% CAGR in FY20-22E.
- **New Newmax CEO to enhance integration; Samsung HCM shipment upside.** Despite Newmax's 1H20 net loss of NT\$186mn due to COVID-19 impact, mgmt. is confident to enhance Newmax's LT core competency and recent CEO appointment of ex-Liteon general manager will accelerate technology development and vertical integration with Q-tech. In addition, we expect Q-tech will expand into Samsung HCM in 2H20E-1H21E, which will boost HCM growth in FY21E.
- **Reiterate BUY; Lift TP to HK\$16.6 (43% upside).** We revised up FY20E-22E EPS by 1-7% to factor in stronger 1H20 and higher HCM ASP. Our new TP of HK\$16.6 is based on same 18x FY21E P/E. Catalysts include Samsung HCM order win and 3D sensing adoption.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	8,135	13,170	18,151	20,805	23,317
YoY growth (%)	2.5	61.9	37.8	14.6	12.1
Net income (RMB mn)	14	542	777	940	1,081
EPS (RMB cents)	1.3	47.6	68.1	82.5	94.8
YoY growth (%)	-96.8	3627.6	43.2	21.1	15.0
Consensus EPS (RMB)	NA	48.7	59.8	75.8	87.4
P/E (x)	813.4	21.8	15.2	12.6	11.0
P/B (x)	5.4	4.1	3.3	2.7	2.3
Yield (%)	-	0.9	1.3	1.6	1.8
ROE (%)	0.7	18.9	22.0	21.8	20.7
Net gearing (%)	56	48	51	49	48

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$16.6
(Previous TP	HK\$16.0)
Up/Downside	+42.9%
Current Price	HK\$11.58

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	11,980
Avg. 3mths t/o (HK\$mn)	79.34
52W High/Low (HK\$)	14.78/ 6.86
Total Issued Shares (mn)	1,172

Source: Bloomberg

Shareholding Structure

He Ningning	64.28%
Vanguard Group Inc.	1.12%
Wang Jianqiang	0.95%

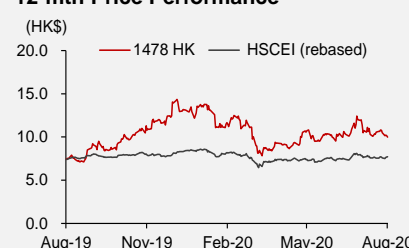
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-16.3%	-13.6%
3-mth	-6.9%	-10.6%
6-mth	-12.9%	-7.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports:

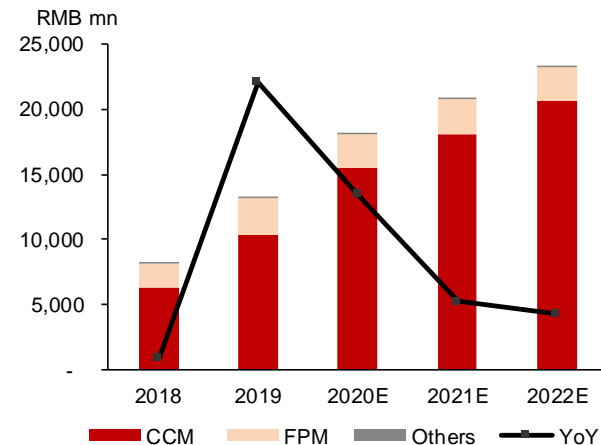
1. Q-tech (1478 HK, Buy) – Positive profit alert on product mix; Lift TP to HK\$16.0 - 14 July 2020
2. Q-tech (1478 HK, Buy) - FY19 beats; Multi/3D-cam remain core growth drivers 10 Mar 2020

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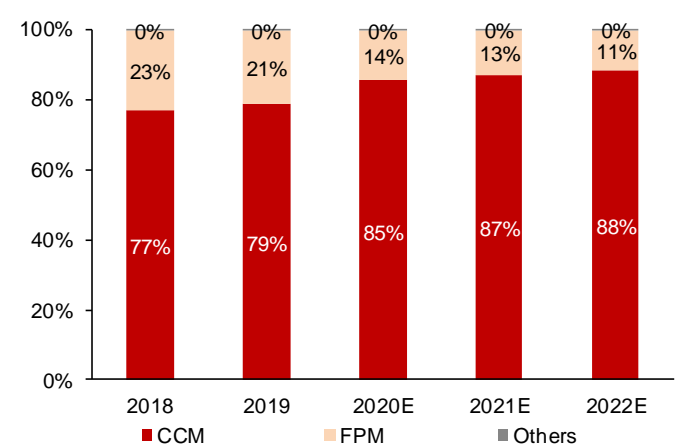
Focus Charts

Figure 1: Revenue growth trend



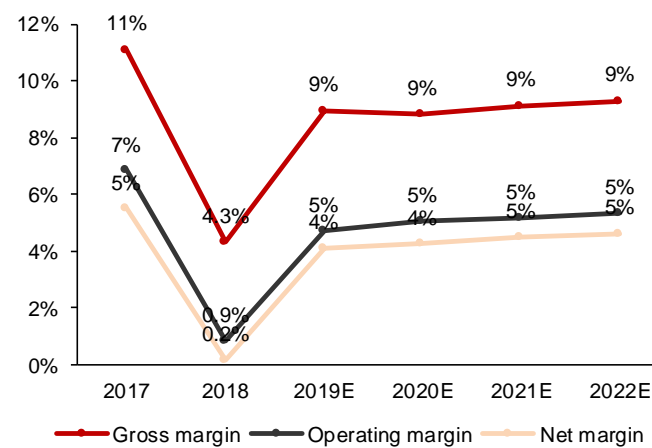
Source: Company data, CMBIS estimates

Figure 2: Revenue breakdown



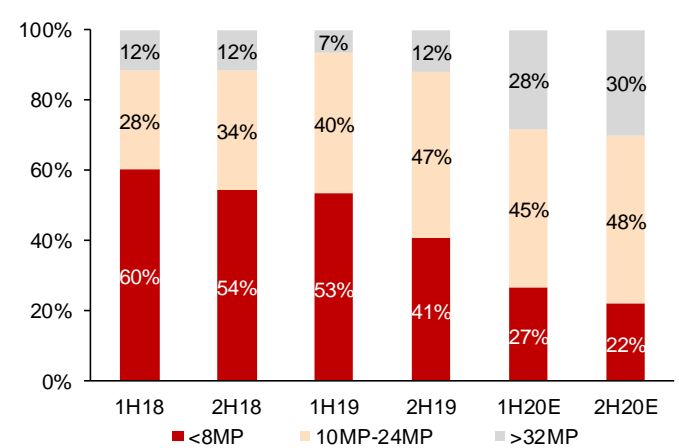
Source: Company data, CMBIS estimates

Figure 3: Margins is recovering in FY19-22E



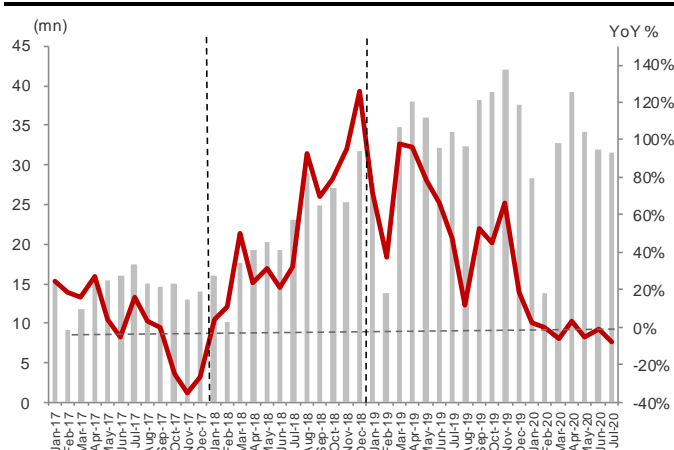
Source: Company data, CMBIS estimates

Figure 4: CCM shipment mix



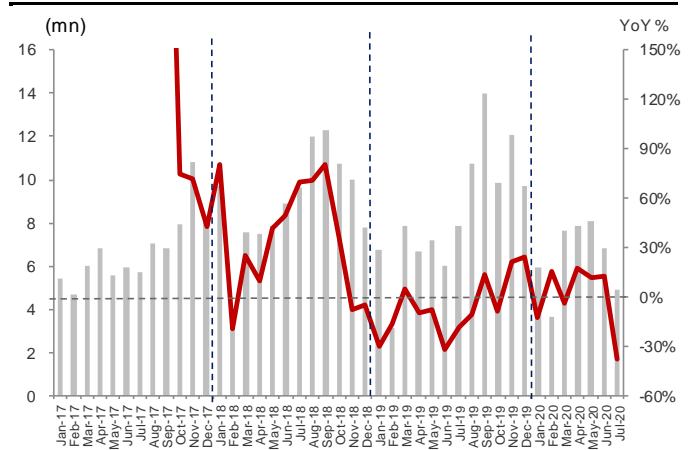
Source: Company data, CMBIS estimates

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 8-14% above consensus

We raised FY20-22E EPS by 1-7% to reflect stronger 1H20 and higher HCM ASP. Our FY20-22E EPS are 8-14% above consensus given our more positive view on Q-tech's HCM ASP and Newmax outlook.

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	18,151	20,805	23,317	15,849	19,290	22,363	15%	8%	4%
Gross profit	1,607	1,902	2,172	1,491	1,833	2,147	8%	4%	1%
Operating profit	920	1,078	1,249	804	1,007	1,190	15%	7%	5%
Net profit	777	940	1,081	723	906	1,074	7%	4%	1%
EPS (RMB)	68.1	82.5	94.8	63.4	79.5	94.2	7%	4%	1%
Gross margin	8.9%	9.1%	9.3%	9.4%	9.5%	9.6%	-0.6 ppt	-0.4 ppt	-0.3 ppt
Operating margin	5.1%	5.2%	5.4%	5.1%	5.2%	5.3%	0 ppt	0 ppt	0 ppt
Net Margin	4.3%	4.5%	4.6%	4.6%	4.7%	4.8%	-0.3 ppt	-0.2 ppt	-0.2 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	18,151	20,805	23,317	16,831	20,465	23,395	8%	2%	0%
Gross profit	1,607	1,902	2,172	1,835	1,835	2,097	-12%	4%	4%
Operating profit	920	1,078	1,249	784	1,002	1,162	17%	8%	8%
Net profit	777	940	1,081	685	869	1,006	13%	8%	7%
EPS (RMB)	68.1	82.5	94.8	59.8	75.8	87.4	14%	9%	8%
Gross margin	8.9%	9.1%	9.3%	8.9%	9.0%	9.0%	0 ppt	0.2 ppt	0.4 ppt
Operating margin	5.1%	5.2%	5.4%	4.9%	4.9%	5.0%	0.2 ppt	0.3 ppt	0.4 ppt
Net Margin	4.3%	4.5%	4.6%	4.2%	4.2%	4.3%	0 ppt	0.3 ppt	0.3 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	7,777	15,496	18,126	20,634
...YoY	6%	52%	74%	65%	97%	21%	50%	17%	14%
Shipment (mn)	264	183	224	406	180	224	404	464	511
...YoY	53%	78%	39%	53%	-1%	0%	-1%	15%	10%
ASP (Rmb)	23.9	21.5	28.8	25.5	42.8	34.8	38.4	39.0	40.4
...YoY	-30%	-15%	26%	7%	100%	21%	50%	2%	3%
FPM Revenue	1,832	1,122	1,637	2,759	1,047	1,544	2,588	2,614	2,619
...YoY	-10%	81%	35%	51%	-7%	-6%	-6%	1%	0%
Shipment (mn)	108	38	64	102	40	66	106	111	117
...YoY	33%	-16%	3%	-5%	6%	3%	4%	5%	5%
ASP (Rmb)	17.1	29.7	25.5	27.1	26.2	23.3	24.4	23.5	22.4
...YoY	-32%	116%	31%	58%	-12%	-8%	-10%	-4%	-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	9,349	18,151	20,805	23,317
...YoY	2%	58%	65%	62%	74%	15%	38%	15%	12%

Source: Company data, CMBIS

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	9,349	18,151	20,805	23,317
...YoY	2.5%	57.8%	64.5%	61.9%	73.9%	15.3%	37.8%	14.6%	12.1%
Cost of sales	(7,782)	(4,646)	(7,344)	(11,990)	(8,070)	(8,475)	(16,545)	(18,904)	(21,145)
Gross profit	353	415	765	1,180	732	875	1,607	1,902	2,172
GPM (%)	4.3%	8.2%	9.4%	9.0%	8.3%	9.4%	8.9%	9.1%	9.3%
...YoY	-60.0%	963.1%	143.5%	234.1%	76.3%	14.4%	36.2%	18.4%	14.2%
SG&A	(100)	(48)	(95)	(143)	(81)	(103)	(184)	(210)	(236)
...% 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)	(299)	(590)	(676)	(758)
...% of rev	-3.3%	-2.8%	-3.2%	-3.0%	-3.3%	-3.2%	-3.3%	-3.3%	-3.3%
Operating profit	70	199	421	620	419	501	920	1,078	1,249
OPM (%)	0.9%	3.9%	5.2%	4.7%	4.8%	5.4%	5.1%	5.2%	5.4%
...YoY	-87.1%	-1473.3%	398.5%	784.8%	111.3%	18.9%	48.5%	17.1%	15.9%
Profit of associates.	(25)	25	15	40	(15)	35	20	100	100
Net profit	14	181	362	542	336	441	777	940	1,081
NPM (%)	0.2%	3.6%	4.5%	4.1%	3.8%	4.7%	4.3%	4.5%	4.6%
...YoY	-96.7%	-452.6%	450.4%	3666.7%	85.5%	22.0%	43.2%	21.1%	15.0%

Source: Company data, CMBIS

Valuation

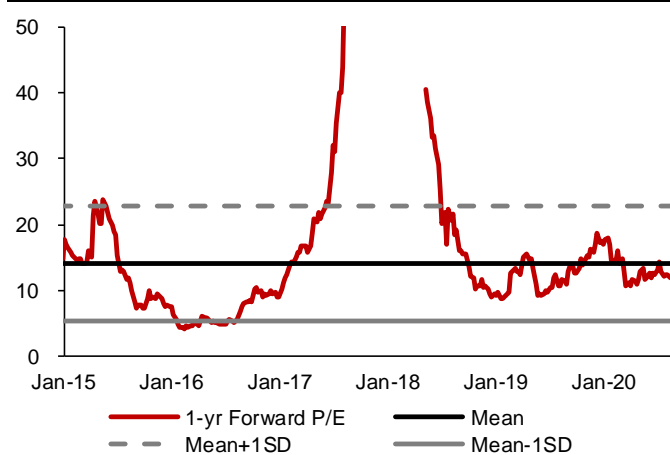
Reiterate BUY; Raised TP to HK\$16.6 (43% upside)

Our new 12m TP of HK\$ 16.6 is based on same 18x FY21E P/E. We believe Q-tech will deliver 18% EPS CAGR FY20-22E, and Newmax integration will accelerate revenue/cost synergy with Q-tech in long term. Upcoming catalysts include Samsung HCM order win and 3D sensing adoption.

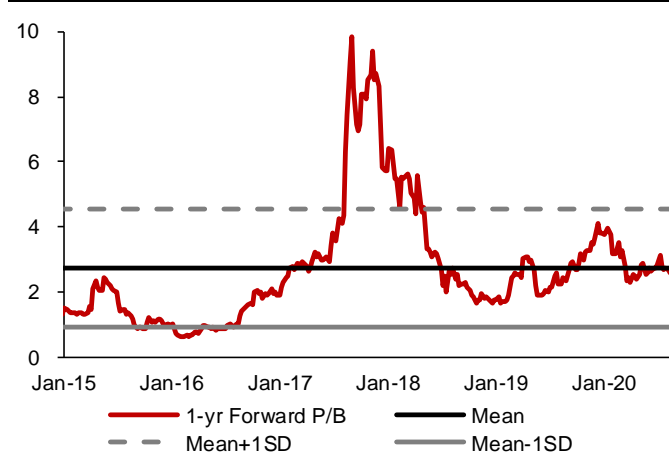
Figure 11: Peers' valuation

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	1,752	11.58	16.60	43%	15.3	12.6	3.4	2.7	22.0	21.8
FIT Hon Teng	6088 HK	Buy	2,665	3.00	4.10	39%	17.6	10.8	1.2	1.1	6.6	9.9
AAC Tech	2018 HK	Hold	8,857	56.80	45.30	-20%	35.9	26.5	3.1	2.8	8.5	10.7
Sunny Optical	2382 HK	Buy	20,974	148.20	148.00	0%	34.5	25.3	9.0	6.9	25.9	27.2
Tongda	698 HK	Hold	376	0.45	0.50	11%	20.5	6.3	0.4	0.4	2.2	7.1
BYDE	285 HK	Buy	9,434	32.45	*22.20	NA	39.9	30.0	3.6	3.3	9.0	10.9
TK Group	2283 HK	Buy	227	2.11	2.33	10%	3.8	3.3	1.4	1.4	35.7	41.7
FIH	2038 HK	NR	963	0.91	NA	NA	-	13.0	0.5	0.5	0.9	3.5
Truly	732 HK	NR	382	0.90	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	38,637	27.15	NA	NA	81.5	94.7	2.0	1.9	3.3	2.1
YOFC	6869 HK	NR	2,477	14.34	NA	NA	12.8	10.3	1.0	0.9	8.7	9.7
O-net	877 HK	NR	672	6.24	NA	NA	23.5	18.4	2.0	1.9	7.1	9.1
Ju Teng	3336 HK	NR	393	2.61	NA	NA	8.3	9.3	0.4	0.4	5.5	4.8
Cowell	1415 HK	NR	342	3.19	NA	NA	7.0	5.8	1.0	1.0	11.2	13.8
Average							25.0	20.5	2.2	1.9	11.3	13.3

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	18,151	20,805	23,317
COGS	(7,782)	(11,990)	(16,545)	(18,904)	(21,145)
Gross profit	353	1,180	1,607	1,902	2,172
Selling and marketing	(19)	(15)	(20)	(23)	(26)
Administrative	(81)	(128)	(164)	(187)	(210)
R&D	(266)	(396)	(590)	(676)	(758)
Other operating exp.	83	(21)	87	62	70
Operating profit	70	620	920	1,078	1,249
Financial cost	(44)	(53)	(64)	(72)	(77)
Share profit/loss of asso.	(25)	40	20	100	100
Pre-tax profit	1	607	876	1,106	1,271
Tax	13	(65)	(100)	(166)	(191)
Net profit	14	542	777	940	1,081

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Profit before taxation	1	607	876	1,106	1,271
Depreciation	236	291	347	427	516
Change in working capital	(444)	(241)	(783)	347	(751)
Others	(173)	2,400	404	1,785	923
Net cash from operating	(173)	2,400	404	1,785	923
Capex	(490)	(1,106)	(998)	(1,040)	(1,166)
Other	-	-	-	-	-
Net cash from investing	387	(1,271)	(998)	(1,040)	(1,166)
Net borrowings	(346)	91	427	290	411
Dividend paid	(92)	(103)	(108)	(155)	(188)
Other	(146)	(805)	(64)	(72)	(77)
Net cash from financing	(584)	(817)	255	63	145
Net change in cash	(370)	311	(340)	808	(98)
Cash at beginning of the year	465	100	412	72	880
Exchange difference	5	-	-	-	-
Cash at the end of the year	100	412	72	880	782

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Current assets	4,229	7,363	19,508	11,629	23,817
Cash & equivalents	100	412	72	880	782
Trade receivables	3,031	4,919	13,978	7,682	16,593
Inventories	704	1,913	5,339	2,947	6,322
Pledged bank deposits	288	93	93	93	93
Other current assets	105	26	26	26	26
Non-current assets	2,211	3,272	3,924	4,537	5,187
PPE	1,889	2,704	3,356	3,969	4,619
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	23,432	16,166	29,004
Current liabilities	4,270	7,543	19,672	11,621	23,566
Bank borrowings	1,178	1,270	1,697	1,987	2,398
Trade payables	3,061	5,935	17,636	9,295	20,829
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	19,897	12,072	23,791
Share capital	9	9	9	9	9
Reserves	2,094	2,858	3,526	4,311	5,203
Minority interest	-	-	-	-	-
Shareholders' equity	2,103	2,867	3,535	4,320	5,212
Total equity and liabilities	6,440	10,635	23,432	16,391	29,004

Key ratios

YE 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
Sales mix (%)					
Camera modules	77	79	85	87	88
Fingerprint modules	23	21	14	13	11
Growth (%)					
Revenue	2.5	61.9	37.8	14.6	12.1
Gross profit	(60.0)	234.1	36.2	18.4	14.2
Operating profit	(87.1)	784.8	48.5	17.1	15.9
Net profit	(96.7)	3,666.7	43.2	21.1	15.0
Profit & loss ratio (%)					
Gross margin	4.3	9.0	8.9	9.1	9.3
Operating margin	0.9	4.7	5.1	5.2	5.4
Net profit margin	0.2	4.1	4.3	4.5	4.6
Balance sheet ratio					
Net debt/total equity (x)	0.5	0.30	0.46	0.26	0.31
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	22.0	21.8	20.7
ROA	0.2	5.1	3.3	5.8	3.7
Per share data (RMB)					
EPS	0.01	0.48	0.68	0.82	0.95
DPS		0.09	0.14	0.16	0.19

Source: Company data, CMBIS estimates

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SELL : Stock with potential loss of over 10% over next 12 months
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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UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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