

Q Technology (1478 HK)

Multiple growth engines in 2020; Raise TP to HK\$16.7

Q-tech issued a positive profit alert, stating FY19E NP of RMB500-520mn, with mid-point 19%/22% above consensus/our estimates. The beat was driven by 1) higher CCM/FPM GPM on better mix and scale, 2) improved labor cost after upgrading production automation, and 3) better profitability of Newmax. We raised FY19-21E EPS by 22-26% to reflect better GPM/expense, higher product ASP and better Newmax outlook. We believe Q-tech is poised to benefit from multi-cam/3D sensing trend and accelerate share gain from O-Film in 2020E. Our new TP HK\$16.7 is based on higher 25x FY20E P/E (upcycle P/E), implying 34% upside.

- **CCM: multi-cam/3D sensing, share gain and better automation.** Given rapid adoption of tri/quad-cam by HOVX new models, we expect strong CCM demand to continue with 35%/22% YoY volume growth into FY20-21E (vs +47% YoY in FY19E). In addition, we believe Q-tech is well positioned to benefit from ASP hike due to ultra-high-end pixel (48MP+), periscope-cam, and SL/ToF 3D modules for IoT/AR/VR applications in FY20E.
- **FPM: higher UD adoption and large-area/LCD in 2020E.** We believe FPM ASP will continue improvement backed by increasing penetration of under-display solution (49%/75%/90% in FY19/20/21E). Looking ahead, we expect spec upgrade will focus on large-area/half-screen/LCD UD solutions, which will benefit industry leaders such as Q-tech.
- **Newmax's synergy began to bear fruit.** Q-tech's acquired lens business, Newmax, continued to deliver strong momentum and operating leverage. We are positive on its earnings upside given Q-tech's accelerated integration with Newmax's product/client portfolio, as well as Newmax's capacity expansion and spec upgrade (6P/7P) for FPM/CCM clients in FY20E.
- **Our EPS is 16-18% above consensus; Lifted TP to HK\$16.7.** On the back of HOVX's multi-cam adoption and share gain on O-film weakness, we revised up our FY19E-21E EPS by 22-26% to factor in better 2019, higher ASP and better Newmax outlook. We raised TP to HK\$16.7, based on upcycle 25x FY20E P/E (from 18x P/E). Catalysts include flagship rollout and China 5G subs ramp.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	7,939	8,135	11,727	15,579	17,679
YoY growth (%)	59.1	2.5	44.2	32.8	13.5
Net income (RMB mn)	436	14	507	674	813
EPS (RMB cents)	39.8	1.3	44.9	59.8	72.1
YoY growth (%)	116.3	-96.8	3418.1	33.1	20.6
P/E (x)	28.0	873.9	24.8	18.7	15.5
P/B (x)	5.6	5.8	4.8	4.0	3.3
Yield (%)	0.7	-	0.8	1.1	1.3
ROE (%)	20.3	0.7	19.4	21.2	21.1
Net gearing (%)	29	51	66	49	49

Source: Company data, CMBIS estimate

BUY (Maintain)

Target Price	HK\$16.7
(Previous TP)	HK\$9.52
Up/Downside	+34.0%
Current Price	HK\$12.44

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	14,212
Avg. 3mths t/o (HK\$m)	72.01
52W High/Low (HK\$)	12.82/4.03
Total Issued Shares (mn)	1,142

Source: Bloomberg

Shareholding Structure

He Ningning	65.95%
Vanguard Group Inc.	1.07%
Wang Jianqiang	0.97%

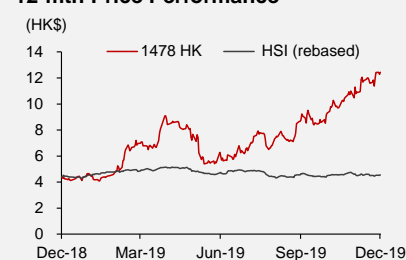
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	12.9%	18.1%
3-mth	41.6%	43.0%
6-mth	95.5%	104.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

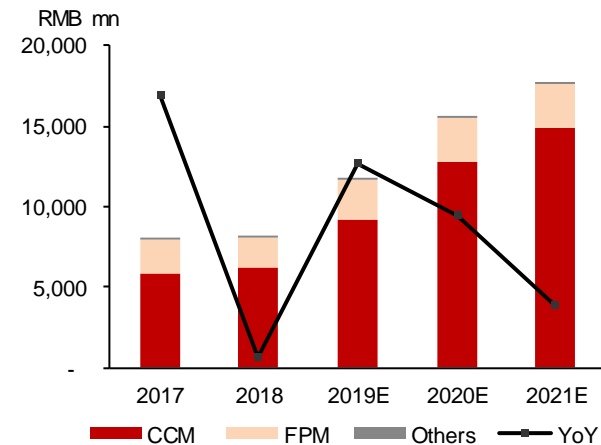
Auditor: KPMG

Related Reports:

1. Q-tech (1478 HK, Buy) – Strong 1H19 on ASP/Newmax; Lift TP to HK\$9.52 – 12 Aug 2019
2. Q-tech (1478 HK, Buy) – 1H19 preview – 12 Aug 2019
3. Q-tech (1478 HK, Hold) – near-term uncertainty on outlook – 18 Jun 2019

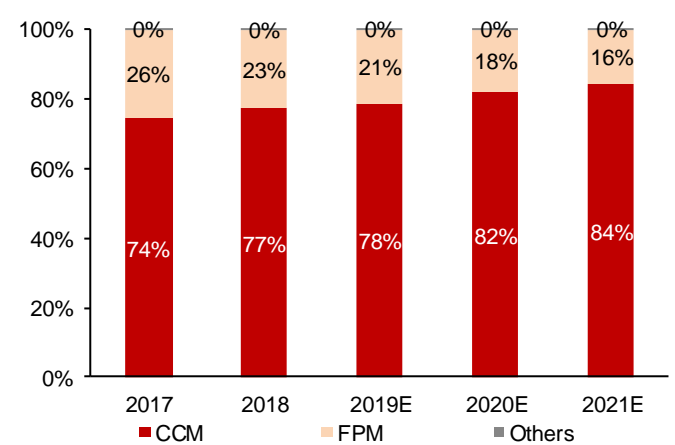
Focus Charts

Figure 1: Revenue growth trend



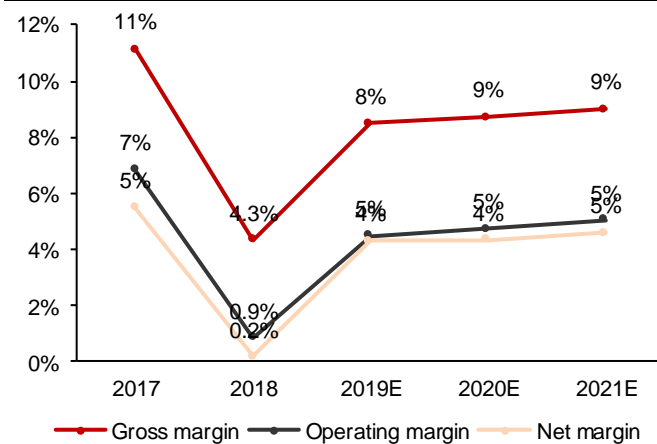
Source: Company data, CMBIS estimates

Figure 2: Revenue breakdown



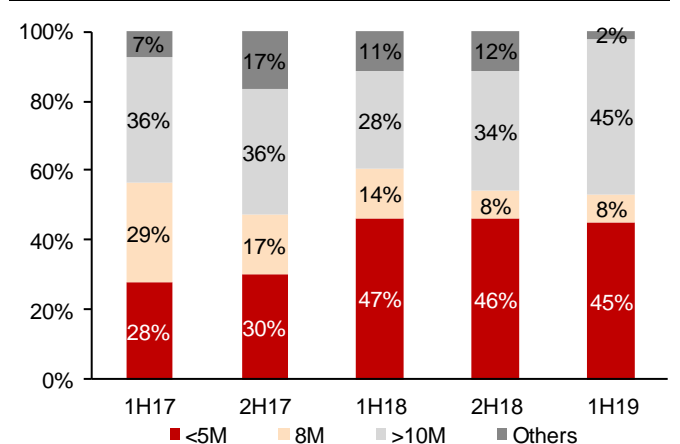
Source: Company data, CMBIS estimates

Figure 3: Margins set to recover in FY19-21E



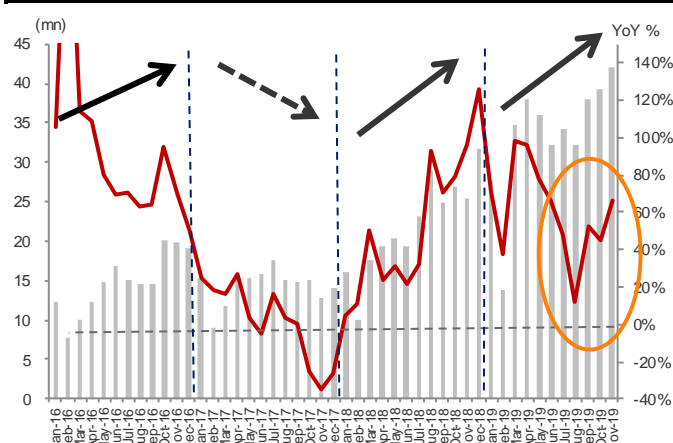
Source: Company data, CMBIS estimates

Figure 4: CCM shipment mix



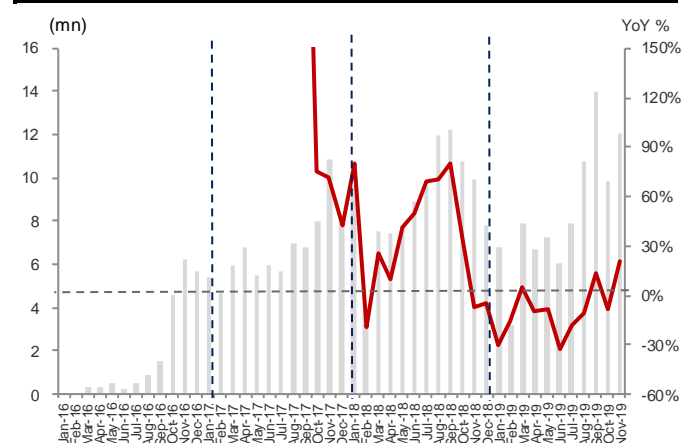
Source: Company data, CMBIS estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIS estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIS estimates

Earnings Revision

Our FY19-21E EPS are 16-18% above consensus

We raised FY19-21E EPS by 23%/26%/22% to reflect better CCM/FPM ASP and shipment as well as higher profits from Newmax. Our FY19-21E EPS are 16-18% above consensus given our more positive view on 1) Q-tech's share gain, 2) CCM/FPM ASP, and 3) Newmax outlook and profitability.

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	11,727	15,579	17,679	10,972	13,010	15,268	7%	20%	16%
Gross profit	995	1,355	1,591	912	1,132	1,374	9%	20%	16%
Operating profit	528	738	891	461	617	769	15%	20%	16%
Net profit	507	674	813	412	535	667	23%	26%	22%
EPS (RMB)	44.9	59.8	72.1	36.5	47.4	59.2	23%	26%	22%
Gross margin	8.5%	8.7%	9.0%	8.3%	8.7%	9.0%	0.2 ppt	0 ppt	0 ppt
Operating margin	4.5%	4.7%	5.0%	4.2%	4.7%	5.0%	0.3 ppt	0 ppt	0 ppt
Net Margin	4.3%	4.3%	4.6%	3.8%	4.1%	4.4%	0.6 ppt	0.2 ppt	0.2 ppt

Sources: Company data, CMBIS

Figure 8: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	11,727	15,579	17,679	11,815	14,683	17,578	-1%	6%	1%
Gross Profit	995	1,355	1,591	998	1,546	1,546	0%	-12%	3%
Operating Profit	528	738	891	486	635	784	9%	16%	14%
Net profit	507	674	813	428	570	699	18%	18%	16%
EPS (RMB cents)	44.9	59.8	72.1	37.7	49.5	61.9	19%	21%	17%
Gross Margin	8.5%	8.7%	9.0%	8.4%	8.6%	8.8%	0 ppt	0.1 ppt	0.2 ppt
Operating Margin	4.5%	4.7%	5.0%	4.1%	4.5%	4.5%	0.4 ppt	0.3 ppt	0.6 ppt
Net Margin	4.3%	4.3%	4.6%	3.6%	4.0%	4.0%	0.7 ppt	0.4 ppt	0.6 ppt

Source: Company data, CMBIS

Figure 9: Revenue breakdown

RMB mn	FY17	1H18	2H18	FY18	1H19	2H19E	FY19E	FY20E	FY21E
CCM Revenue	5,902	2,580	3,692	6,273	3,917	5,289	9,206	12,736	14,869
...YoY	38%	38%	38%	6%	52%	43%	47%	38%	17%
Shipment (mn)	172	103	161	264	183	228	410	554	676
...YoY	-3%	23%	81%	53%	78%	41%	53%	35%	22%
ASP (Rmb)	34.2	25.1	22.9	23.9	21.5	23.2	22.4	23.0	22.0
...YoY	42%	-19%	-38%	-30%	-15%	1%	-6%	2%	-4%
FPM Revenue	2,037	621	1,211	1,832	1,122	1,369	2,491	2,812	2,780
...YoY	184%	-40%	20%	-10%	81%	13%	36%	13%	-1%
Shipment (mn)	81	45	62	108	38	64	101	106	112
...YoY	285%	32%	34%	33%	-16%	2%	-6%	5%	5%
ASP (Rmb)	25.2	13.7	19.4	17.1	29.7	21.6	24.6	26.5	24.9
...YoY	-26%	-54%	-10%	-32%	116%	11%	44%	8%	-6%
Others	-	5	25	30	22	9	30	30	30
...YoY	-	-	-	-	-	-	0%	0%	0%
Total	7,939	3,207	4,928	8,135	5,061	6,666	11,727	15,579	17,679
...YoY	59%	-11%	14%	2%	58%	35%	44%	33%	13%

Source: Company data, CMBIS

Figure 10: P&L forecast

RMB mn	FY17	1H18	2H18	FY18	1H19	2H19E	FY19E	FY20E	FY21E
Revenue	7,939	3,207	4,928	8,135	5,061	6,666	11,727	15,579	17,679
...YoY	59.1%	-11.0%	13.7%	2.5%	57.8%	35.3%	44.2%	32.8%	13.5%
Cost of sales	(7,056)	(3,168)	(4,614)	(7,782)	(4,646)	(6,086)	(10,732)	(14,224)	(16,088)
Gross profit	883	39	314	353	415	580	995	1,355	1,591
GPM (%)	11.1%	1.2%	6.4%	4.3%	8.2%	8.7%	8.5%	8.7%	9.0%
...YoY	109.0%	-91.0%	-29.9%	-60.0%	963.1%	84.7%	181.8%	36.2%	17.4%
SG&A	(81)	(48)	(51)	(100)	(48)	(79)	(127)	(184)	(209)
...% of rev	-1.0%	-1.5%	-1.0%	-1.2%	-1.0%	-1.2%	-1.1%	-1.2%	-1.2%
R&D	(270)	(99)	(167)	(266)	(139)	(200)	(339)	(467)	(530)
...% of rev	-3.4%	-3.1%	-3.4%	-3.3%	-2.8%	-3.0%	-2.9%	-3.0%	-3.0%
Operating profit	543	(14)	84	70	199	329	528	738	891
OPM (%)	6.8%	-0.5%	1.7%	0.9%	3.9%	4.9%	4.5%	4.7%	5.0%
...YoY	146.8%	-105.9%	-71.8%	-87.1%	-1473.3%	289.8%	653.7%	39.9%	20.7%
Profit of associates.	(17)	(25)	0	(25)	25	70	95	110	130
Net profit	436	(51)	66	14	181	326	507	674	813
NPM (%)	5.5%	-1.6%	1.3%	0.2%	3.6%	4.9%	4.3%	4.3%	4.6%
...YoY	128.7%	-125.4%	-72.0%	-96.7%	-452.6%	395.9%	3418%	33.1%	20.6%

Source: Company data, CMBIS

Valuation

Reiterate BUY; Raised TP to HK\$16.7 (34% upside)

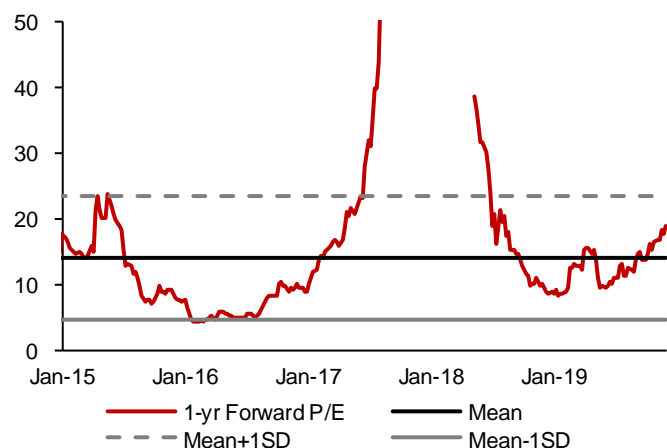
Our new 12m TP of HK\$ 16.7 is based on 25x FY20E P/E (from 18x P/E), in-line with leaders Sunny Optical and AAC Tech. We believe Q-tech will return to positive earnings growth in FY19E, and Newmax integration will accelerate revenue/cost synergy with Q-tech in long term. Upcoming catalysts include a new wave of 5G product launches in 1Q20.

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 (%)	
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Q tech	1478 HK	Buy	1,819	12.44	16.7	34%	24.8	18.7	4.8	4.0	21.2	21.1
FIT Hon Teng	6088 HK	Buy	2,370	2.73	3.77	38%	9.1	8.0	1.1	1.0	12.1	12.2
AAC Tech	2018 HK	Sell	10,017	64.75	29.61	-54%	35.9	27.3	3.6	3.3	9.9	12.0
Sunny Optical	2382 HK	Buy	19,587	139.50	140.00*	0%	39.9	27.4	11.5	8.9	28.9	32.4
Tongda	698 HK	Buy	523	0.63	0.91	44%	4.9	4.1	0.6	0.5	11.7	12.8
BYDE	285 HK	Buy	4,448	15.42	15.00*	-3%	21.0	16.3	1.8	1.7	8.8	10.3
TK Group	2283 HK	Buy	395	3.70	4.09	11%	8.0	6.7	2.4	2.4	29.7	35.7
FIH	2038 HK	NR	1,483	1.41	NA	NA	-	16.4	0.8	0.8	(16.2)	4.2
Truly	732 HK	NR	429	1.02	NA	NA	8.2	4.4	0.4	0.4	5.1	8.3
SMIC	981 HK	NR	7,209	11.14	NA	NA	50.9	52.8	1.2	1.2	2.6	2.5
YOFC	6869 HK	NR	2,455	13.36	NA	NA	12.3	9.2	1.0	0.9	8.4	9.3
O-net	877 HK	NR	453	4.28	NA	NA	14.9	12.5	1.4	1.3	8.7	10.4
Ju Teng	3336 HK	NR	300	2.01	NA	NA	10.7	8.2	0.4	0.4	2.5	4.1
Cowell	1415 HK	NR	134	1.26	NA	NA	12.4	6.7	0.4	0.4	5.1	5.2
Average							19.9	16.0	2.3	1.9	9.5	12.7

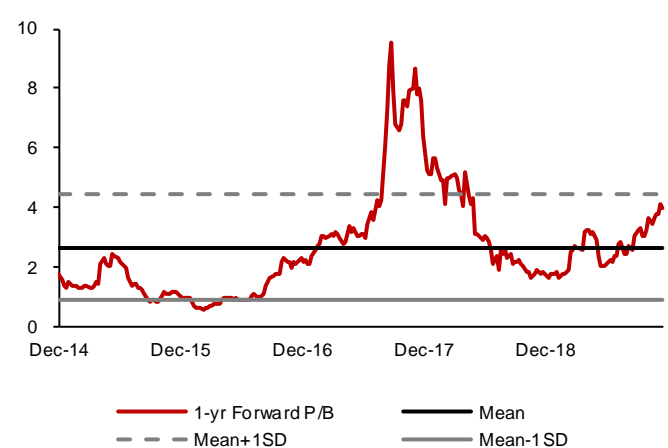
Source: Bloomberg, CMBIS, * TP under review

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)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	7,939	8,135	11,727	15,579	17,679
COGS	(7,056)	(7,782)	(10,732)	(14,224)	(16,088)
Gross profit	883	353	995	1,355	1,591
Selling and marketing	(16)	(19)	(18)	(28)	(32)
Administrative	(65)	(81)	(109)	(156)	(177)
R&D	(270)	(266)	(339)	(467)	(530)
Other operating exp.	11	83	(1)	34	39
Operating profit	543	70	528	738	891
Financial cost	(17)	(44)	(48)	(55)	(64)
Share profit/loss of asso.	(17)	(25)	95	110	130
Pre-tax profit	510	1	574	793	957
Tax	(73)	13	(68)	(119)	(143)
Net profit	436	14	507	674	813

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before taxation	510	1	574	793	957
Depreciation	136	236	230	290	358
Change in working capital	1,583	(444)	(801)	84	(488)
Others					
Net cash from operating	2,222	(173)	(16)	1,103	747
Capex	(949)	(490)	(586)	(779)	(884)
Other					
Net cash from investing	(2,119)	387	(586)	(779)	(884)
Net borrowings	218	(346)	125	223	248
Dividend paid	(37)	(92)	(3)	(101)	(135)
Other	130	(146)	(48)	(55)	(64)
Net cash from financing	312	(584)	74	66	49
Net change in cash	414	(370)	(528)	390	(88)
Cash at beginning of the year	65	465	100	(428)	(38)
Exchange difference	(14)	5			
Cash at the end of the year	465	100	(428)	(38)	(126)

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	4,147	4,229	4,200	6,702	5,919
Cash & equivalents	465	100	(428)	(38)	(126)
Trade receivables	2,035	3,031	2,880	4,973	3,939
Inventories	688	704	1,354	1,373	1,712
Pledged bank deposits	78	288	288	288	288
Other current assets	881	105	105	105	105
Non-current assets	1,953	2,211	2,568	3,057	3,583
PPE	1,481	1,889	2,245	2,734	3,261
Lease payments	17	52	52	52	52
Intangible assets	1	1	1	1	1
Other non-current assets	455	269	269	269	269
Total assets	6,100	6,440	6,768	9,758	9,502
Current liabilities	3,934	4,270	4,094	6,512	5,577
Bank borrowings	1,078	1,178	1,304	1,526	1,775
Trade payables	2,830	3,061	2,760	4,955	3,772
Tax payable	8	2	2	2	2
Other current liabilities	18	29	29	29	29
Non-current liabilities	20	66	66	66	66
Deferred income	15	66	66	66	66
Deferred tax liability	6	0	0	0	0
Total liabilities	3,955	4,336	4,160	6,578	5,643
Share capital	9	9	9	9	9
Reserves	2,137	2,094	2,598	3,171	3,849
Minority interest	-	-	-	-	-
Shareholders' equity	2,146	2,103	2,607	3,180	3,858
Total equity and liabilities	6,100	6,440	6,768	9,758	9,502

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Camera modules	74	77	78	82	84
Fingerprint modules	26	23	21	18	16
Growth (%)					
Revenue	59.1	2.5	44.2	32.8	13.5
Gross profit	109.0	(60.0)	181.8	36.2	17.4
Operating profit	146.8	(87.1)	653.7	39.9	20.7
Net profit	128.7	(96.7)	3,418.1	33.1	20.6
Profit & loss ratio (%)					
Gross margin	11.1	4.3	8.5	8.7	9.0
Operating margin	6.8	0.9	4.5	4.7	5.0
Net profit margin	5.5	0.2	4.3	4.3	4.6
Balance sheet ratio					
Net debt/total equity (x)	0.3	0.5	0.7	0.5	0.5
Current ratio (x)	1.1	1.0	1.0	1.0	1.1
Receivable turnover days	213	227	92	92	92
Inventory turnover days	38	65	35	35	35
Payable turnover days	140	276	99	99	99
Profitability (%)					
ROE	20.3	0.7	19.4	21.2	21.1
ROA	7.2	0.2	7.5	6.9	8.6
Per share data (RMB)					
EPS	0.40	0.01	0.45	0.60	0.72
DPS	0.08	0.00	0.09	0.12	0.14

Source: Company data, CMBIS estimates

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