

Q-Tech (1478 HK)

Jan shipment beat; Focus on high-end smartphone recovery in 1H24E

Q-Tech reported a strong Jan shipment recovery in mobile/non-mobile camera modules and fingerprint modules thanks to strong smartphone demand, high-end product ramp-up and customers' project cycle. Following a weak 2023, we are positive that Android recovery and spec upgrade in 1H24E should drive smartphone CCM growth, and non-mobile CCM (auto/ARVR/IoT) should remain steady thanks to a customer order rebound, new product launches and mass production. We trim FY24/25E EPS by 33/36% mainly to reflect weak FY23E earnings preannouncement (down 35-45% YoY) and mild shipment/GPM recovery in FY24/25E. We estimate FY24/25E EPS to grow 283%/39% YoY, backed by shipment/GPM recovery. Trading at 8.5x FY24E P/E (1sd below 5-year avg.), the stock is extremely attractive, in our view. Maintain BUY with new TP of HK\$3.74 (valuation rolled over to 10x FY24E P/E).

- Jan shipment beat on strong demand rebound.** Q-Tech reported strong Jan shipments with mobile CCM volume growth of 11% MoM/90% YoY, in which high-end 32M+ CCM climbed 5% MoM/143% YoY. Mgmt. attributed the strong growth to a smartphone demand rebound, mid-to-high-end CCM product ramp-up and customers' project cycle. For non-smartphone CCMs, shipments jumped 22% MoM/413% YoY on stronger auto CCM demand. FPM shipments increased 13% MoM/112% YoY thanks to smartphone recovery and market share gains. Overall, we believe smartphone recovery and Android restocking are well on track, and Q-Tech is set to benefit from the industry trend in FY24E.
- High-end smartphone CCM the bright spot; steady non-mobile CCM growth.** After a prolonged weak smartphone market in 2023, we expect an industry recovery in 2024 driven by Huawei high-end models' comeback and inventory restocking. We expect Q-Tech's high-end CCM (32M+) sales contribution to climb to 43% in FY24E (vs. 42%/30% in FY23/22). In addition, spec upgrade including OIS and periscope should drive the ASP upside in 2024. For non-mobile biz, we expect steady automobile CCM sales on NEV customer and domestic Tier-1 customer order wins, and mass production of ARVR/IoT products (DJI, smart watch, sweeping robots) in 2024.
- Expect solid earnings recovery in FY24/25E; maintain BUY.** We believe the market has priced in Q-Tech's 2023 earnings weakness, and Android recovery and spec upgrade in 1H24E should be positive catalysts. We cut FY24/25E EPS by 33/36% to factor in FY23 earnings preannouncement and mild ASP/shipment recovery. Trading at 8.5x FY24E P/E (1-sd below 5-yr avg.), the stock is extremely attractive, in our view. Maintain BUY with new TP of HK\$3.74, based on 10.0x FY24E P/E.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	18,663	13,759	13,343	13,818	15,412
YoY growth (%)	7.3	(26.3)	(3.0)	3.6	11.5
Net profit (RMB mn)	862.8	170.2	96.2	368.0	513.1
EPS (Reported) (RMB)	0.73	0.15	0.08	0.31	0.43
YoY growth (%)	1.8	(80.2)	(44.0)	282.7	39.4
Consensus EPS (RMB)	0.74	0.15	0.12	0.31	0.45
P/E (x)	15.3	31.4	32.4	8.5	6.1
P/B (x)	2.8	1.1	0.6	0.6	0.6
Yield (%)	0.0	0.0	0.6	2.4	3.3
ROE (%)	20.3	3.6	2.0	7.4	9.6
Net gearing (%)	(0.8)	26.6	34.2	22.0	20.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$3.74
(Previous TP)	HK\$3.60
Up/Downside	30.9%
Current Price	HK\$2.86

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Stock Data

Mkt Cap (HK\$ mn)	3,389.1
Avg 3 mths t/o (HK\$ mn)	19.2
52w High/Low (HK\$)	5.48/2.56
Total Issued Shares (mn)	1185.0

Source: FactSet

Shareholding Structure

HE Ningning	63.6%
Harvest Fund Management Co Ltd	2.7%

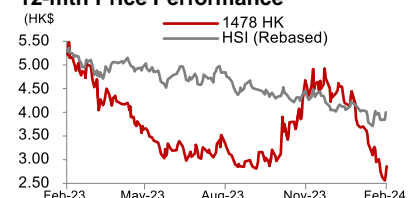
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-23.3%	-21.2%
3-mth	-37.7%	-31.5%
6-mth	-13.9%	4.7%

Source: FactSet

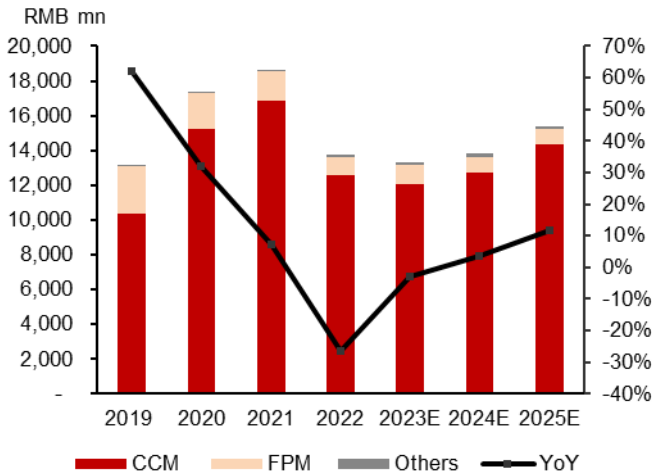
12-mth Price Performance



Source: FactSet

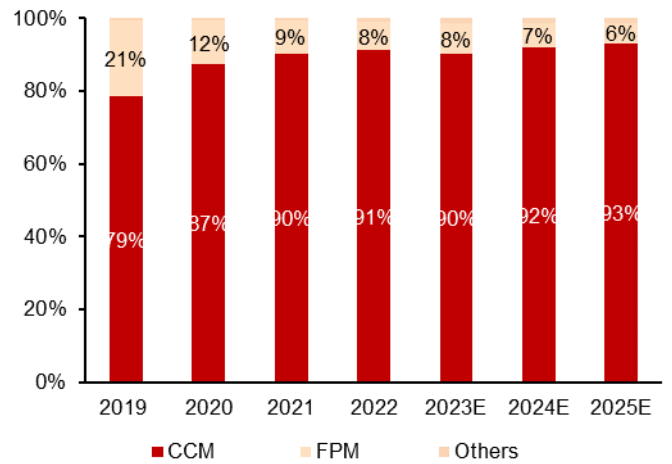
Focus Charts

Figure 1: Revenue growth trend



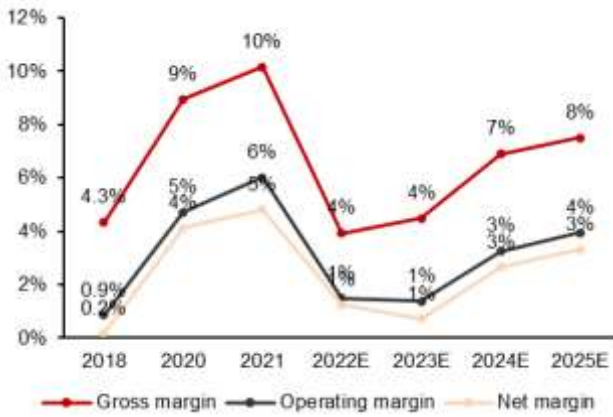
Source: Company data, CMBIGM estimates
Note: CCM – CMOS camera modules; FPM – fingerprint modules

Figure 2: Revenue breakdown



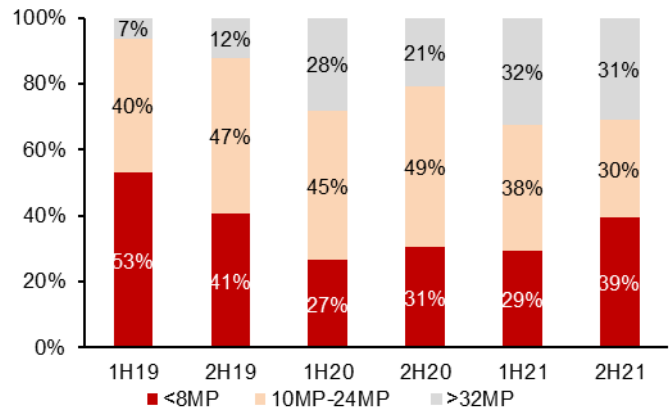
Source: Company data, CMBIGM estimates

Figure 3: Margin trend



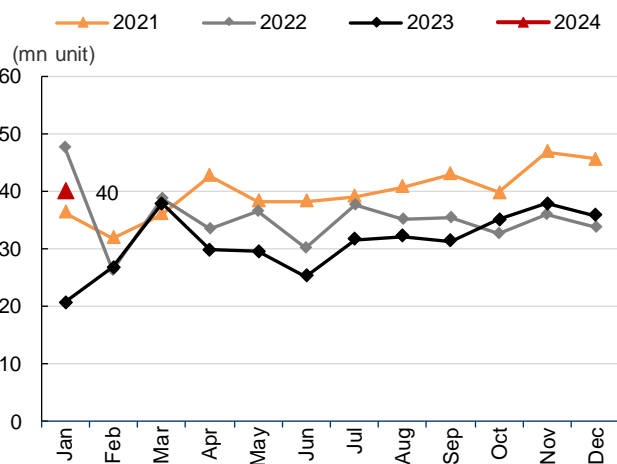
Source: Company data, CMBIGM estimates

Figure 4: CCM shipment mix



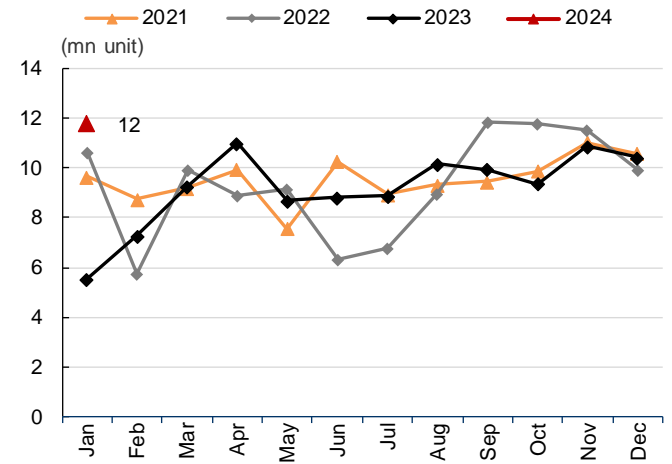
Source: Company data, CMBIGM estimates
Note: 2022 and 2023 data were not disclosed by the company

Figure 5: CCM monthly shipments



Source: Company data, CMBIGM estimates

Figure 6: FPM monthly shipments



Source: Company data, CMBIGM estimates

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY23E	2024E	2025E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	13,343	13,818	15,412	13,393	14,757	17,275	0%	-6%	-11%
Gross profit	602	954	1,156	820	1,233	1,539	-27%	-23%	-25%
Operating profit	185	450	609	481	694	899	-62%	-35%	-32%
Net profit	96	368	513	354	579	762	-73%	-36%	-33%
EPS (RMB)	8.1	31.1	43.3	29.9	48.9	64.4	-73%	-36%	-33%
Gross margin	4.5%	6.9%	7.5%	6.1%	8.4%	8.9%	-1.6 ppt	-1.5 ppt	-1.4 ppt
Operating margin	1.4%	3.3%	4.0%	3.6%	4.7%	5.2%	-2.2 ppt	-1.5 ppt	-1.3 ppt
Net Margin	0.7%	2.7%	3.3%	2.6%	3.9%	4.4%	-1.9 ppt	-1.3 ppt	-1.1 ppt

Source: Company data, CMBIGM estimates

Figure 8: CMBI estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY23E	2024E	2025E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	13,343	13,818	15,412	12,436	13,827	15,340	7%	0%	0%
Gross profit	602	954	1,156	572	892	1,123	5%	7%	3%
Operating profit	185	450	609	163	402	593	13%	12%	3%
Net profit	96	368	513	141	356	519	-32%	3%	-1%
EPS (RMB)	8.1	31.1	43.3	12.1	31.3	44.7	-33%	-1%	-3%
Gross margin	4.5%	6.9%	7.5%	4.6%	6.4%	7.3%	-0.1 ppt	0.5 ppt	0.2 ppt
Operating margin	1.4%	3.3%	4.0%	1.3%	2.9%	3.9%	0.1 ppt	0.3 ppt	0.1 ppt
Net Margin	0.7%	2.7%	3.3%	1.1%	2.6%	3.4%	-0.4 ppt	0.1 ppt	-0.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 9: P&L forecast

RMB mn	FY20	FY21	FY22	1H23	2H23E	FY23E	FY24E	FY25E
Revenue	17,400	18,663	13,759	5,477	7,867	13,343	13,818	15,412
...YoY	32.1%	7.3%	-26.3%	-22.8%	18.0%	-3.0%	3.6%	11.5%
Cost of sales	-15,630	-16,901	-13,218	-5,288	(7,454)	(12,742)	(12,864)	(14,255)
Gross profit	1,771	1,762	541	188	413	602	954	1,156
GPM (%)	10.2%	9.4%	3.9%	3.4%	5.3%	4.5%	6.9%	7.5%
...YoY	50.1%	-0.5%	-69.3%	-49.9%	149.7%	11.1%	58.6%	21.2%
SG&A	-179	-184	-156	-80	(115)	(195)	(145)	(154)
...% of rev	-1.0%	-1.0%	-1.1%	-1.5%	-1.5%	-1.5%	-1.1%	-1.0%
R&D	-590	-642	-470	-194	(281)	(475)	(456)	(501)
...% of rev	-3.4%	-3.4%	-3.4%	-3.5%	-3.6%	-3.6%	-3.3%	-3.3%
Operating profit	1,046	1,039	204	103	82	185	450	609
OPM (%)	6.0%	5.6%	1.5%	1.9%	1.0%	1.4%	3.3%	4.0%
...YoY	68.9%	-0.7%	-80.4%	-44.4%	334.4%	-9.2%	143.3%	35.5%
Profit of associates.	(23)	(52)	(37)	-29	(7)	(36)	20	30
Net profit	840	863	170	22	74	96	368	513
NPM (%)	4.8%	4.6%	1.2%	0.4%	0.9%	0.7%	2.7%	3.3%
...YoY	54.9%	2.7%	-80.3%	-86.9%	1484.6%	-43.5%	282.7%	39.4%

Source: Company data, CMBIGM estimates

Figure 10: Revenue breakdown

RMB mn	FY19	FY20	FY21	FY22	1H23	2H23E	FY23E	FY24E
CCM Revenue	10,360	15,202	16,875	12,561	4,992	7,039	12,032	12,713
... YoY	65%	47%	11%	-26%	-23%	16%	-4%	6%
Shipment (mn)	406	392	479	424	169	204	374	393
... YoY	54%	-3%	22%	-12%	-21%	-3%	-12%	5%
ASP (Rmb)	25.5	38.7	35.2	29.6	29.5	34.5	32.2	32.3
... YoY	7%	52%	-9%	-16%	-3%	20%	9%	0%
FPM Revenue	2,759	2,101	1,675	1,064	395	735	1,130	923
... YoY	51%	-24%	-20%	-37%	-28%	43%	6%	-18%
Shipment (mn)	102	92	115	112	51	61	110	112
... YoY	-5%	-10%	25%	-3%	0%	0%	-1%	2%
ASP (Rmb)	27.1	22.8	14.6	9.5	7.8	7.0	10.2	8.2
... YoY	58%	-16%	-36%	-35%	-28%	-17%	7%	-20%
Others	51	97	112	134	90	92	182	182
... YoY	66%	91%	16%	19%	115%	0%	36%	0%
Total	13,170	17,400	18,663	13,759	5,477	7,867	13,343	13,818
... YoY	62%	32%	7%	-26%	-23%	18%	-3%	4%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$3.74

Our new TP of HK\$3.74 is based on a rolled-over 10x FY24E PE. We remain positive on non-handset CCM (including automotive and AR/VR) driving earnings growth in the long run. Upcoming catalysts include shipment recovery, product launches and non-smartphone CCM order wins.

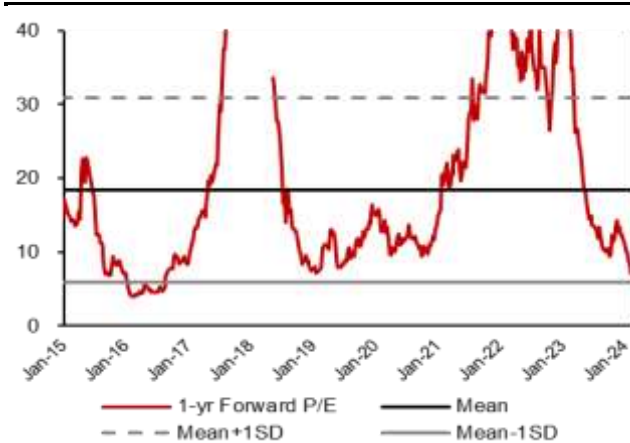
Figure 11: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	
Q tech	1478 HK	BUY	433	2.86	3.68	29%	32.4	8.5	0.6	0.6	2.0	7.4	
FIT Hon Teng	6088 HK	BUY	876	0.94	2.06	119%	6.5	5.1	0.3	0.3	5.3	6.2	
AAC Tech	2018 HK	HOLD	2,709	17.68	14.04	-21%	31.1	17.8	0.8	0.8	2.7	4.6	
Sunny Optical	2382 HK	HOLD	6,878	49.05	50.71	3%	41.9	23.2	2.1	2.0	5.0	8.6	
Tongda	698 HK	BUY	108	0.09	0.17	95%	4.8	3.0	0.1	0.1	2.3	3.5	
BYDE	285 HK	BUY	8,211	28.50	45.86	61%	14.6	10.7	2.0	1.7	13.4	15.7	
TK Group	2283 HK	Buy	144	1.35	3.09	129%	4.8	3.6	0.6	0.6	13.3	16.3	
FIH	2038 HK	NR	499	0.50	NA	NA	-	-	-	-	-	-	
Truly	732 HK	NR	267	0.66	NA	NA	-	-	-	-	-	-	
SMIC	981 HK	NR	22,551	14.12	NA	NA	16.4	20.5	0.7	0.7	4.5	3.0	
YOFC	6869 HK	NR	1,744	7.76	NA	NA	4.2	4.4	0.5	0.5	11.3	10.5	
Ju Teng	3336 HK	NR	199	1.30	NA	NA	-	-	-	-	-	-	
Cowell	1415 HK	NR	1,874	17.18	NA	NA	29.3	16.9	4.4	3.5	14.9	22.3	
Average								18.6	11.3	1.2	1.1	7.5	9.8

Source: Bloomberg, CMBIGM

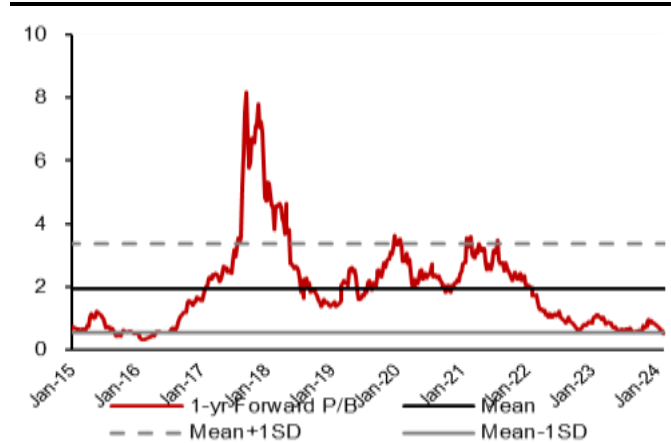
Note: Data as of 07 Feb 2024

Figure 12: 12M forward P/E band



Source: Company data, CMBIGM

Figure 13: 12M forward P/B band



Source: Company data, CMBIGM

Risks

Downside risks include slower smartphone demand recovery and intensifying market competition.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	17,400	18,663	13,759	13,343	13,818	15,412
Cost of goods sold	(15,630)	(16,901)	(13,218)	(12,742)	(12,864)	(14,255)
Gross profit	1,771	1,762	541	602	954	1,156
Operating expenses	(724)	(723)	(338)	(417)	(504)	(547)
Selling expense	(26)	(23)	(14)	(24)	(21)	(23)
Admin expense	(153)	(161)	(142)	(171)	(124)	(131)
R&D expense	(590)	(642)	(470)	(475)	(456)	(501)
Others	44	104	288	253	97	108
Operating profit	1,046	1,039	204	185	450	609
Share of (losses)/profits of associates/JV	(23)	(52)	(37)	(36)	20	30
Others	(54)	(30)	(60)	(55)	(47)	(50)
Pre-tax profit	970	957	107	94	423	590
Income tax	(130)	(94)	63	2	(55)	(77)
Minority interest	0	0	0	0	0	0
Net profit	840	863	170	96	368	513

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	7,882	9,315	8,594	9,538	8,783	11,687
Cash & equivalents	1,984	1,743	1,349	571	1,234	1,445
Account receivables	3,589	4,446	3,436	4,208	3,708	5,121
Inventories	1,943	2,258	1,184	2,134	1,216	2,497
ST bank deposits	267	811	919	919	919	919
Other current assets	100	57	1,705	1,705	1,705	1,705
Non-current assets	3,521	3,733	3,691	3,721	3,722	3,743
PP&E	2,960	3,144	3,140	3,170	3,170	3,191
Intangibles	4	20	26	26	26	26
Other non-current assets	557	569	525	525	525	525
Total assets	11,403	13,048	12,285	13,259	12,505	15,430
Current liabilities	7,276	8,079	7,249	8,146	7,097	9,612
Short-term borrowings	1,104	1,708	2,616	2,228	2,364	2,553
Account payables	6,013	6,259	4,584	5,868	4,684	7,010
Tax payable	77	49	12	12	12	12
Other current liabilities	82	64	38	38	38	38
Non-current liabilities	0	0	0	0	0	0
Deferred income	138	200	248	248	248	248
Other non-current liabilities	25	0	7	7	7	7
Total liabilities	7,617	8,343	7,518	8,415	7,366	9,881
Share capital	9	9	9	9	9	9
Other reserves	3,776	4,690	4,753	4,830	5,124	5,535
Total shareholders equity	3,786	4,705	4,767	4,844	5,139	5,549
Minority interest	0	0	0	0	0	0
Total equity and liabilities	11,403	13,048	12,285	13,259	12,505	15,430

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	970	957	107	94	423	590
Depreciation & amortization	413	544	640	637	690	750
Change in working capital	2,177	(1,017)	324	(437)	234	(368)
Others	0	0	0	0	0	0
Net cash from operations	3,604	1,596	1,194	351	1,339	945
Investing						
Capital expenditure	(523)	(1,558)	(1,149)	(667)	(691)	(771)
Others	0	0	0	0	0	0
Net cash from investing	(696)	(880)	(1,149)	(667)	(691)	(771)
Financing						
Dividend paid	(107)	0	0	(19)	(74)	(103)
Net borrowings	(1,015)	604	908	(388)	135	189
Others	(193)	(1,546)	(60)	(55)	(47)	(50)
Net cash from financing	(1,315)	(942)	848	(462)	15	37
Net change in cash						
Cash at the beginning of the year	412	1,984	1,743	1,349	571	1,234
Exchange difference	(21)	(14)	(1,288)	0	0	0
Cash at the end of the year	1,984	1,743	1,349	571	1,234	1,445
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	32.1%	7.3%	(26.3%)	(3.0%)	3.6%	11.5%
Gross profit	50.1%	(0.5%)	(69.3%)	11.1%	58.6%	21.2%
Operating profit	68.9%	(0.7%)	(80.4%)	(9.2%)	143.3%	35.5%
Net profit	54.9%	2.7%	(80.3%)	(43.5%)	282.7%	39.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	10.2%	9.4%	3.9%	4.5%	6.9%	7.5%
Operating margin	6.0%	5.6%	1.5%	1.4%	3.3%	4.0%
Return on equity (ROE)	25.3%	20.3%	3.6%	2.0%	7.4%	9.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.0)	0.3	0.3	0.2	0.2
Current ratio (x)	1.1	1.2	1.2	1.2	1.2	1.2
Receivable turnover days	89.2	78.6	104.5	104.5	104.5	104.5
Inventory turnover days	45.0	45.4	47.5	47.5	47.5	47.5
Payable turnover days	139.5	132.5	149.7	149.7	149.7	149.7
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	12.8	15.3	31.4	32.4	8.5	6.1
P/B	2.8	2.8	1.1	0.6	0.6	0.6
Div yield (%)	5.4	0.0	0.0	0.6	2.4	3.3
EV	3,785.8	4,705.2	4,767.4	4,844.3	5,138.7	5,549.2
EV/Sales	0.2	0.3	0.3	0.4	0.4	0.4

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

Disclosures & Disclaimers

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CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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