

Q-Tech (1478 HK)

1Q24 shipment rebound on track; Auto & IoT as next growth drivers

We recently spoke to Q-Tech's mgmt. and we maintain our positive view on high-end Android recovery to drive ASP/shipment upside in FY24E. Q-tech also expected GPM improvement in 1H24E thanks to better product mix and easing competition. For 1Q24, Q-Tech posted impressive growth of 23%/179% YoY in mobile/non-mobile CCM shipment, thanks to inventory restocking, customers' project cycles and auto/IoT order wins. We raised our FY24/25E EPS by 2-5% to factor in better ASP/shipment. Trading at 9.7x/7.1x FY24/25E P/E, we think the stock is attractive (vs 18x P/E for 8-yr hist. avg.). Maintain BUY with new TP of HK\$3.93, based on 11.0x FY24E P/E (vs 10x prior) for higher earnings visibility. Catalysts include product launches and better monthly shipment.

- 1Q24 shipment recovery on track due to restocking and order cycles.** Q-Tech reported 1Q24 mobile CCM shipment of 23% YoY and high-end 32M+ CCM mix of 45% (vs 42% in FY23). For Mar 23, mgmt. attributed strong MoM growth of 32% to post-CNY seasonal rebound and customers' project cycle. For non-mobile CCM, 1Q24 shipment jumped 179% YoY thanks to auto/IoT CCM demand. Overall, we are positive on high-end Android and auto/IoT momentum into 2Q24E backed by product launches.
- 2024 Outlook: CCM GPM recovery; auto/IoT CCM the bright spots.** Looking into 2024, mgmt. guided mobile CCM shipment to grow 5%+ YoY, driven by Android recovery, order wins and spec upgrade (OLS/periscope/Iris diaphragm). Additionally, mgmt. expected 32M+ CCM mix of 45%+ (vs 42% in FY23), and industry GPM will recover driven by demand recovery and easing competition. For auto CCM, mgmt. guided 100-200% YoY given order wins from domestic tier-1 and overseas clients. For IoT CCM, mgmt. expected growth will come from DJI projects. Overall, mgmt. guided non-smartphone CCM shipment to jump 50%+ YoY in FY24E.
- 2023 results in-line.** Revenue/net profit decline of 9%/52% YoY in FY23 was mainly due to soft smartphone demand and GPM pressure. However, 2H23 revenue recovered to 6% YoY (vs -23% YoY in 1H23) and 2H23 GPM improved 1.1pts HoH to 4.5% thanks to restocking and better product mix.
- Expect earnings recovery in FY24/25E; Maintain BUY.** While 2H23 GPM recovery and shipment rebound have been priced in, we expect high-end Android recovery and spec upgrade will boost further ASP/earnings upside in FY24E. Our FY24-26E EPS are 8-31% above consensus. Trading at 9.7x/7.1x FY24/25E P/E, we think the stock is attractive. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	13,759	12,531	14,794	15,840	16,823
YoY growth (%)	(26.3)	(8.9)	18.1	7.1	6.2
Net profit (RMB mn)	170.2	83.5	385.6	523.6	588.8
EPS (Reported) (RMB cents)	14.50	6.90	32.55	44.20	49.71
YoY growth (%)	(80.2)	(52.4)	371.8	35.8	12.5
Consensus EPS (RMB)	N/A	N/A	0.28	0.41	0.38
P/E (x)	21.8	45.8	9.7	7.1	6.4
P/B (x)	0.8	0.8	0.7	0.7	0.6
Yield (%)	0.0	0.0	2.1	2.8	3.1
ROE (%)	3.6	1.7	7.7	9.8	10.2
Net gearing (%)	26.6	26.0	15.1	12.8	(1.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$3.93
(Previous TP)	HK\$3.74
Up/Downside	15.1%
Current Price	HK\$3.42

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Stock Data

Mkt Cap (HK\$ mn)	4,052.7
Avg 3 mths t/o (HK\$ mn)	9.3
52w High/Low (HK\$)	4.92/2.56
Total Issued Shares (mn)	1185.0

Source: FactSet

Shareholding Structure

HE Ningning	63.6%
Harvest Fund Management Co Ltd	2.7%

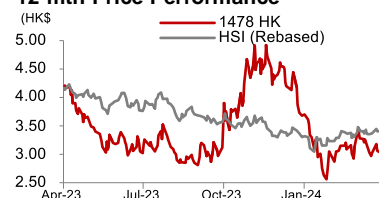
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.3%	4.3%
3-mth	-7.6%	-13.2%
6-mth	8.6%	11.9%

Source: FactSet

12-mth Price Performance



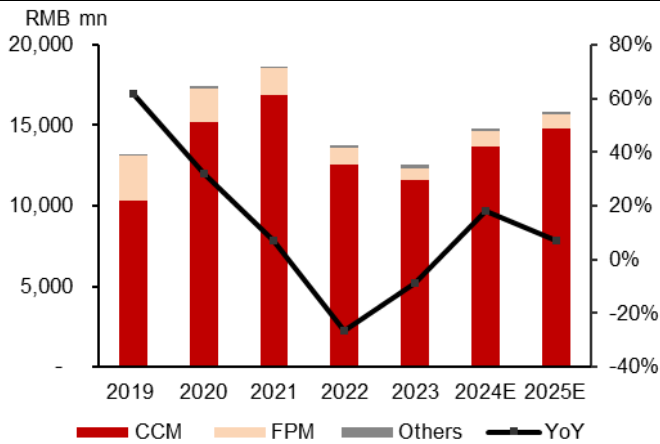
Source: FactSet

Related Reports:

- 1) Jan shipment beat; Focus on high-end smartphone recovery in 1H24E – 8 Feb 2024 ([link](#))
- 2) Expect better client demand in 2H; high-end CCM to drive ASP/GPM upside – 8 Aug 2023 ([link](#))
- 3) 1H23 profit warning; Maintain BUY on 2H gradual recovery – 19 Jul 2023 ([link](#))

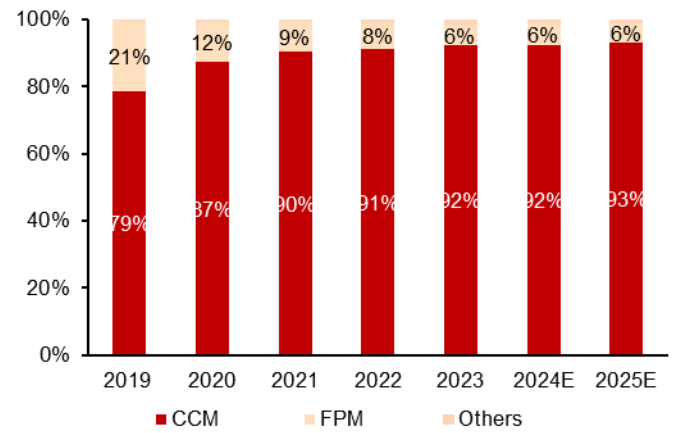
Focus Charts

Figure 1: Revenue growth trend



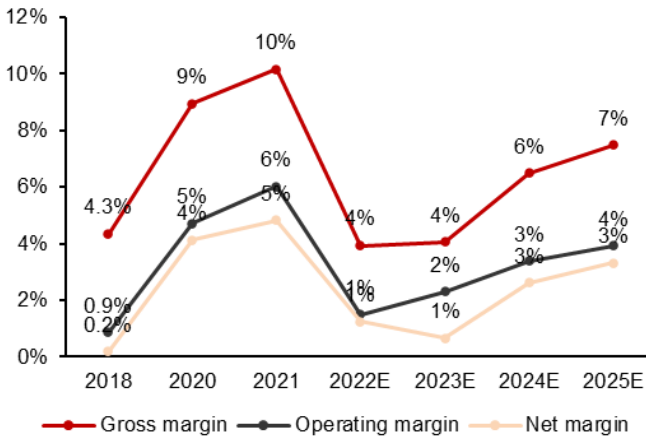
Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown



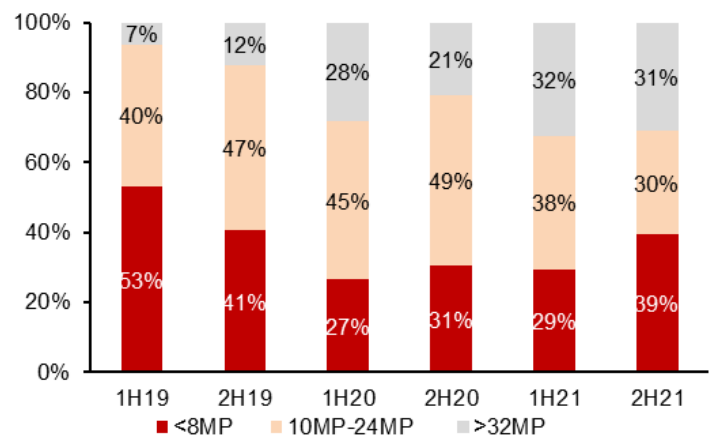
Source: Company data, CMBIGM estimates

Figure 3: Margins trend



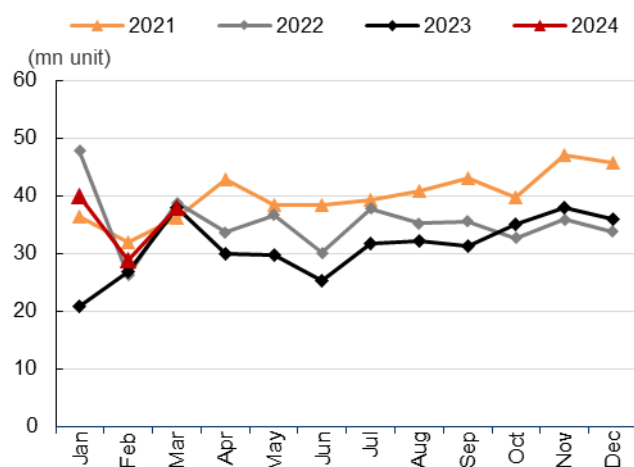
Source: Company data, CMBIGM estimates

Figure 4: CCM shipment mix



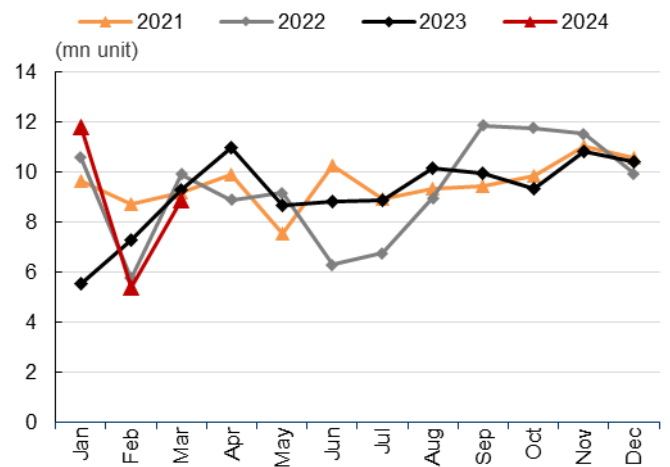
Source: Company data, CMBIGM estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIGM estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIGM estimates

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	14,794	15,840	16,823	13,818	15,412	na	7%	3%	na
Gross profit	959	1,184	1,216	954	1,156	na	1%	2%	na
Operating profit	500	622	851	450	609	na	11%	2%	na
Net profit	386	524	589	368	513	na	5%	2%	na
EPS (RMB)	32.6	44.2	49.7	31.1	43.3	na	5%	2%	na
Gross margin	6.5%	7.5%	7.2%	6.9%	7.5%	na	-0.4 ppt	0 ppt	na
Operating margin	3.4%	3.9%	5.1%	3.3%	4.0%	na	0.1 ppt	0 ppt	na
Net Margin	2.6%	3.3%	3.5%	2.7%	3.3%	na	-0.1 ppt	0 ppt	na

Source: Company data, CMBIGM estimates

Figure 8: CMBI estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	14,794	15,840	16,823	13,673	15,105	16,768	8%	5%	0%
Gross profit	959	1,184	1,216	859	1,077	1,118	12%	10%	9%
Operating profit	500	622	851	384	571	797	30%	9%	7%
Net profit	386	524	589	319	475	450	21%	10%	31%
EPS (RMB)	32.6	44.2	49.7	28.1	40.8	38.0	16%	8%	31%
Gross margin	6.5%	7.5%	7.2%	6.3%	7.1%	6.7%	0.2 ppt	0.3 ppt	0.6 ppt
Operating margin	3.4%	3.9%	5.1%	2.8%	3.8%	4.8%	0.6 ppt	0.1 ppt	0.3 ppt
Net Margin	2.6%	3.3%	3.5%	2.3%	3.1%	2.7%	0.3 ppt	0.2 ppt	0.8 ppt

Source: Company data, CMBIGM estimates

Figure 9: P&L forecast

RMB mn	FY21	FY22	FY23	1H23	2H23	FY24E	FY25E
Revenue	18,663	13,759	12,531	6,789	8,005	14,794	15,840
...YoY	7.3%	-26.3%	-8.9%	24.0%	13.5%	18.1%	7.1%
Cost of sales	-16,901	-13,218	-12,022	-6,355	-7,480	-13,835	-14,656
Gross profit	1,762	541	509	434	525	959	1,184
GPM (%)	9.4%	3.9%	4.1%	6.4%	6.6%	6.5%	7.5%
...YoY	-0.5%	-69.3%	-6.0%	130.7%	63.7%	88.5%	23.4%
SG&A	-184	-156	-169	-68	-80	-148	-158
...% of rev	-1.0%	-1.1%	-1.3%	-1.0%	-1.0%	-1.0%	-1.0%
R&D	-642	-470	-436	-204	-240	-444	-515
...% of rev	-3.4%	-3.4%	-3.5%	-3.0%	-3.0%	-3.0%	-3.3%
Operating profit	1,039	204	289	224	277	500	622
OPM (%)	5.6%	1.5%	2.3%	3.3%	3.5%	3.4%	3.9%
...YoY	-0.7%	-80.4%	42.0%	117.9%	48.4%	73.1%	24.2%
Profit of associates.	(52)	(37)	(50)	10	20	30	30
Net profit	863	170	84	166	220	386	524
NPM (%)	4.6%	1.2%	0.7%	2.4%	2.7%	2.6%	3.3%
...YoY	2.7%	-80.3%	-50.9%	663.1%	255.8%	361.6%	35.8%

Source: Company data, CMBIGM estimates

Figure 10: Revenue breakdown

RMB mn	FY20	FY21	FY22	FY23	1H24E	2H24E	FY24E	FY25E
CCM Revenue	15,202	16,875	12,561	11,562	6,276	7,403	13,679	14,761
... YoY	47%	11%	-26%	-8%	26%	5%	18%	8%
Shipment (mn)	392	479	424	374	187	217	404	421
... YoY	-3%	22%	-12%	-12%	11%	6%	8%	4%
ASP (Rmb)	38.7	35.2	29.6	30.9	33.5	34.2	33.9	35.0
... YoY	52%	-9%	-16%	4%	14%	-1%	9%	3%
FPM Revenue	2,101	1,675	1,064	781	424	510	934	897
... YoY	-24%	-20%	-37%	-27%	7%	-31%	20%	-4%
Shipment (mn)	92	115	112	110	52	62	114	116
... YoY	-10%	25%	-3%	-1%	2%	2%	3%	2%
ASP (Rmb)	22.8	14.6	9.5	7.1	8.2	8.2	8.2	7.7
... YoY	-16%	-36%	-35%	-26%	5%	17%	16%	-6%
Others	97	112	134	188	90	92	182	(6,331)
... YoY	91%	16%	19%	40%	0%	-113%	-3%	-3577%
Total	17,400	18,663	13,759	12,531	6,789	8,005	14,794	15,840
... YoY	32%	7%	-26%	-9%	24%	2%	18%	7%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$3.93

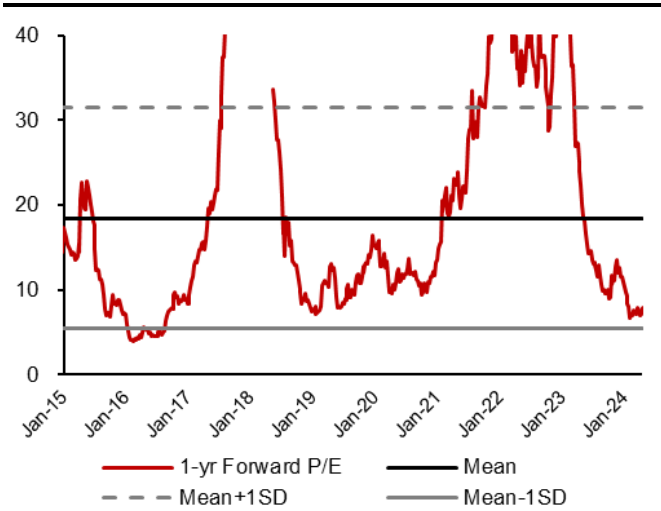
Our new TP of HK\$3.93 is based on higher 11x FY24E PE (vs prior 10x) for higher earnings visibility. We remain positive on non-handset CCM (including automotive and IoT) to drive earnings growth in the long run. Upcoming catalysts include shipment recovery, product launches and non-smartphone CCM order 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	517	3.42	3.93	15%	45.8	9.7	0.8	0.7	1.7	7.7	
FIT Hon Teng	6088 HK	BUY	2,271	2.44	2.42	-1%	17.3	12.2	0.9	0.9	5.1	7.0	
AAC Tech	2018 HK	HOLD	3,886	25.40	22.44	-12%	36.2	19.8	1.2	1.1	3.3	5.8	
Sunny Optical	2382 HK	HOLD	5,685	40.60	47.31	17%	34.7	19.2	1.7	1.6	5.0	8.6	
Tongda	698 HK	BUY	92	0.07	0.17	130%	4.1	2.6	0.1	0.1	2.3	3.5	
BYDE	285 HK	BUY	8,040	27.95	46.51	66%	14.0	10.2	1.9	3.0	13.7	29.0	
TK Group	2283 HK	BUY	160	1.50	2.79	86%	6.0	4.4	0.7	0.7	12.3	15.3	
FIH	2038 HK	NR	695	0.69	NA	NA	-	-	-	-	-	-	
Truly	732 HK	NR	355	0.88	NA	NA	-	-	-	-	-	-	
SMIC	981 HK	NR	22,729	14.70	NA	NA	17.1	31.8	0.7	0.7	4.5	2.3	
YOFC	6869 HK	NR	1,892	8.83	NA	NA	5.2	5.4	0.6	0.5	11.8	10.8	
Ju Teng	3336 HK	NR	164	1.07	NA	NA	-	-	-	-	-	-	
Cowell	1415 HK	NR	1,847	16.96	NA	NA	28.1	18.0	4.3	3.6	14.4	21.8	
Average								20.6	13.3	1.3	1.3	7.4	11.2

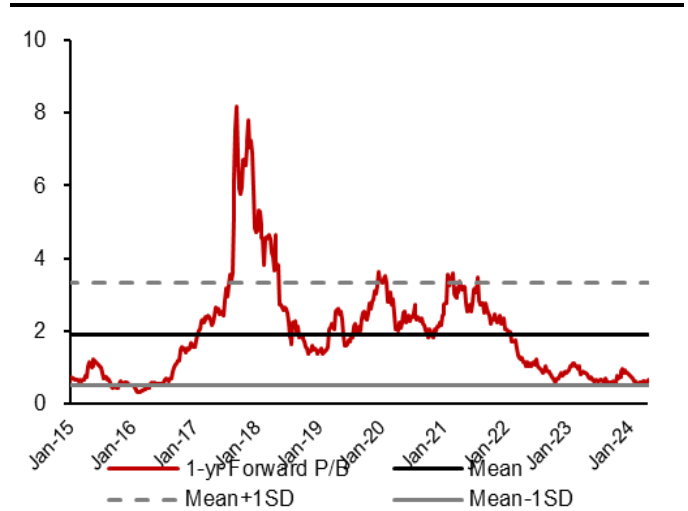
Source: Bloomberg, CMBIGM

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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	18,663	13,759	12,531	14,794	15,840	16,823
Cost of goods sold	(16,901)	(13,218)	(12,022)	(13,835)	(14,656)	(15,607)
Gross profit	1,762	541	509	959	1,184	1,216
Operating expenses	(723)	(338)	(220)	(459)	(562)	(365)
Selling expense	(23)	(14)	(20)	(22)	(24)	(25)
Admin expense	(161)	(142)	(149)	(126)	(135)	(135)
R&D expense	(642)	(470)	(436)	(444)	(515)	(336)
Others	104	288	385	133	111	131
Operating profit	1,039	204	289	500	622	851
Share of (losses)/profits of associates/JV	(52)	(37)	(50)	30	30	30
Others	(30)	(60)	(171)	(87)	(50)	(205)
Pre-tax profit	957	107	68	443	602	677
Income tax	(94)	63	15	(58)	(78)	(88)
Minority interest	0	0	0	0	0	0
Net profit	863	170	84	386	524	589
BALANCE SHEET						
	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	9,315	8,594	11,107	10,270	10,900	12,363
Cash & equivalents	1,743	1,349	2,893	1,588	1,847	2,847
Account receivables	4,446	3,436	4,201	4,816	4,838	5,415
Inventories	2,258	1,184	1,778	1,631	1,980	1,866
ST bank deposits	811	919	1,302	1,302	1,302	1,302
Other current assets	57	1,705	933	933	933	933
Non-current assets	3,733	3,691	3,836	3,852	3,860	3,852
PP&E	3,144	3,140	2,845	2,861	2,869	2,861
Intangibles	20	26	23	23	23	23
Other non-current assets	569	525	968	968	968	968
Total assets	13,048	12,285	14,943	14,123	14,760	16,215
Current liabilities	8,079	7,249	9,666	8,538	8,756	9,740
Short-term borrowings	1,708	2,616	4,152	2,364	2,557	2,774
Account payables	6,259	4,584	5,437	6,096	6,121	6,888
Tax payable	49	12	12	12	12	12
Other current liabilities	64	38	66	66	66	66
Non-current liabilities	0	0	0	0	0	0
Deferred income	200	248	213	213	213	213
Other non-current liabilities	0	7	5	5	5	5
Total liabilities	8,343	7,518	10,111	8,983	9,201	10,185
Share capital	9	9	9	9	9	9
Other reserves	4,690	4,753	4,822	5,131	5,550	6,021
Total shareholders equity	4,705	4,767	4,832	5,140	5,559	6,030
Minority interest	0	0	0	0	0	0
Total equity and liabilities	13,048	12,285	14,943	14,123	14,760	16,215

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	957	107	68	443	602	677
Depreciation & amortization	544	640	728	723	784	849
Change in working capital	(1,017)	324	(470)	190	(346)	305
Others	0	0	0	0	0	0
Net cash from operations	1,596	1,194	513	1,386	1,012	1,947
Investing						
Capital expenditure	(1,558)	(1,149)	(1,046)	(740)	(792)	(841)
Others	0	0	0	0	0	0
Net cash from investing	(880)	(1,149)	(1,046)	(740)	(792)	(841)
Financing						
Dividend paid	0	0	0	(77)	(105)	(118)
Net borrowings	604	908	1,536	(1,787)	193	217
Others	(1,546)	(60)	(171)	(87)	(50)	(205)
Net cash from financing	(942)	848	1,364	(1,951)	38	(106)
Net change in cash						
Cash at the beginning of the year	1,984	1,743	1,349	2,893	1,588	1,847
Exchange difference	(14)	(1,288)	713	0	0	0
Cash at the end of the year	1,743	1,349	2,893	1,588	1,847	2,847
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	7.3%	(26.3%)	(8.9%)	18.1%	7.1%	6.2%
Gross profit	(0.5%)	(69.3%)	(6.0%)	88.5%	23.4%	2.8%
Operating profit	(0.7%)	(80.4%)	42.0%	73.1%	24.2%	37.0%
Net profit	2.7%	(80.3%)	(50.9%)	361.6%	35.8%	12.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	9.4%	3.9%	4.1%	6.5%	7.5%	7.2%
Operating margin	5.6%	1.5%	2.3%	3.4%	3.9%	5.1%
Return on equity (ROE)	20.3%	3.6%	1.7%	7.7%	9.8%	10.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.0)	0.3	0.3	0.2	0.1	(0.0)
Current ratio (x)	1.2	1.2	1.1	1.2	1.2	1.3
Receivable turnover days	78.6	104.5	111.2	111.2	111.2	111.2
Inventory turnover days	45.4	47.5	45.0	45.0	45.0	45.0
Payable turnover days	132.5	149.7	152.1	152.1	152.1	152.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	4.3	21.8	45.8	9.7	7.1	6.4
P/B	0.8	0.8	0.8	0.7	0.7	0.6
Div yield (%)	0.0	0.0	0.0	2.1	2.8	3.1
EV	4,705.2	4,767.4	4,831.8	5,140.2	5,559.1	6,030.2
EV/Sales	0.3	0.3	0.4	0.3	0.4	0.4

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

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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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