

# Q-Tech (1478 HK)

## CMBI Corp Day takeaways: ASP/GPM upside driven by Android recovery and spec upgrade

We hosted Q-tech at CMBI Technology Corporate Day on 26 Jun. Key takeaways include: 1) smartphone CCM: mgmt. is positive on GPM recovery in FY24E driven by Android recovery, higher UTR and better product mix and; 2) non-smartphone CCM: accelerated growth in auto CCM thanks to Huawei and overseas tier-1 customers' order wins; 3) FPM: profit breakdown on track given rising adoption of ultrasonic FPM and rising ASP. Overall, we expect high-end Android recovery and spec upgrade will boost ASP/earnings upside in FY24E. Trading at 11.9x/8.7x FY24/25E P/E, we think the stock remains attractive (vs 18x P/E 8-yr hist. avg). Maintain BUY with TP under review.

- Smartphone CCM: GPM recovery on track thanks to Android recovery, high-end spec upgrade and rising UTR/ASP.** Mgmt. reiterated their guidance on 1) smartphone CCM shipment growth of 5% YoY and 2) high-end CCM (32M and above) CCM sales mix to reach 45%+ in 2024, mainly driven by Android recovery and high-end spec upgrade (e.g. periscope and OIS). In addition, mgmt. is positive on GPM recovery thanks to improving UTR (70-80% in FY24E, vs. 60-70% in 1H24), ASP hike (mid-single digit YoY) and better product mix. As for AI smartphone, mgmt. believes it will stimulate smartphone replacement cycle but will take time for supply chain to embrace new technologies for optics upgrade, such as 3D photo shoot, image correction & discrimination and multispectral cameras.
- Non-smartphone CCM: accelerated growth with sales mix to reach 12% in FY24E.** Mgmt. expects auto CCM to accelerate growth with sales mix to reach 6-7% in FY24E (vs.1.2% in FY23) thanks to Huawei and overseas tier-1 customers' orders. Additionally, IoT CCM remains rapid growth thanks to order wins and capacity ramp-up. Overall, mgmt. guided non-smartphone sales mix to reach 12% in FY24E, vs 7-8% in FY23.
- FPM: ultrasonic fingerprint is the bright spot; Target to turn profitable in FY24E.** Q-tech's ultrasonic FPM shipment started in April and mgmt. expected shipment to reach 1kk/month in 2H24E driven by major customer orders including Vivo and OPPO. Mgmt. expects encouraging ASP is likely to drive FPM segment to turn profitable due to ASP hike by 100%+. Overall, mgmt. expects stable sales mix of 7-8% with minor upgrade for FPM applications in the future.
- Earnings recovery on track in FY24E; Maintain BUY.** We expect high-end Android recovery and spec upgrade will boost ASP/earnings upside in FY24E, and non-smartphone CCM/ultrasonic FPM segments will continue to accelerate growth in FY24/25E. Trading at 11.9x/8.7x 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)	0.15	0.12	0.28	0.41	0.38
P/E (x)	26.6	55.9	11.9	8.7	7.8
P/B (x)	1.0	0.9	0.9	0.8	0.8
Yield (%)	0.0	0.0	1.7	2.3	2.6
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** Under Review  
**Up/Downside** -  
**Current Price** HK\$4.15

### China Technology

**Alex NG**  
 (852) 3900 0881  
 alexng@cmbi.com.hk

**Hanqing LI**  
 lihanqing@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	4,917.8
Avg 3 mths t/o (HK\$ mn)	16.0
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%

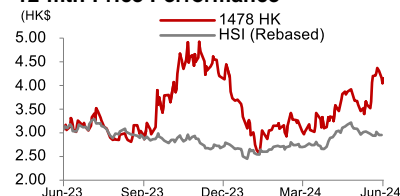
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	12.8%	17.4%
3-mth	37.9%	26.7%
6-mth	-1.4%	-11.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Reports:

- 1Q24 shipment rebound on track; Auto & IoT as next growth drivers – 11 Apr 2024 ([link](#))
- Jan shipment beat; Focus on high-end smartphone recovery in 1H24E – 8 Feb 2024 ([link](#))
- Expect better client demand in 2H; high-end CCM to drive ASP/GPM upside – 8 Aug 2023 ([link](#))
- 1H23 profit warning; Maintain BUY on 2H gradual recovery – 19 Jul 2023 ([link](#))

## Earnings Forecasts

Figure 1: P&L forecast

RMB mn	FY21	FY22	FY23	1H24E	2H24E	FY24E	FY25E
<b>Revenue</b>	<b>18,663</b>	<b>13,759</b>	<b>12,531</b>	<b>6,789</b>	<b>8,005</b>	<b>14,794</b>	<b>15,840</b>
...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
<b>Gross profit</b>	<b>1,762</b>	<b>541</b>	<b>509</b>	<b>434</b>	<b>525</b>	<b>959</b>	<b>1,184</b>
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%
<b>Operating profit</b>	<b>1,039</b>	<b>204</b>	<b>289</b>	<b>224</b>	<b>277</b>	<b>500</b>	<b>622</b>
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
<b>Net profit</b>	<b>863</b>	<b>170</b>	<b>84</b>	<b>166</b>	<b>220</b>	<b>386</b>	<b>524</b>
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 2: Revenue breakdown

RMB mn	FY20	FY21	FY22	FY23	1H24E	2H24E	FY24E	FY25E
<b>CCM Revenue</b>	<b>15,202</b>	<b>16,875</b>	<b>12,561</b>	<b>11,562</b>	<b>6,276</b>	<b>7,403</b>	<b>13,679</b>	<b>14,761</b>
...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%
<b>FPM Revenue</b>	<b>2,101</b>	<b>1,675</b>	<b>1,064</b>	<b>781</b>	<b>424</b>	<b>510</b>	<b>934</b>	<b>897</b>
...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%
<b>Total</b>	<b>17,400</b>	<b>18,663</b>	<b>13,759</b>	<b>12,531</b>	<b>6,789</b>	<b>8,005</b>	<b>14,794</b>	<b>15,840</b>
...YoY	32%	7%	-26%	-9%	24%	2%	18%	7%

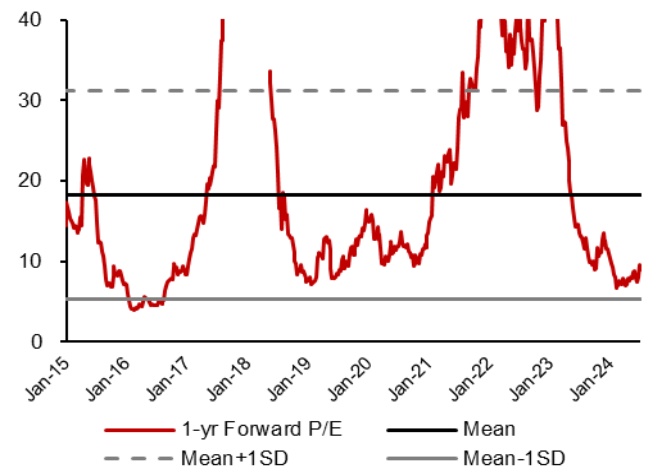
Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with TP under review

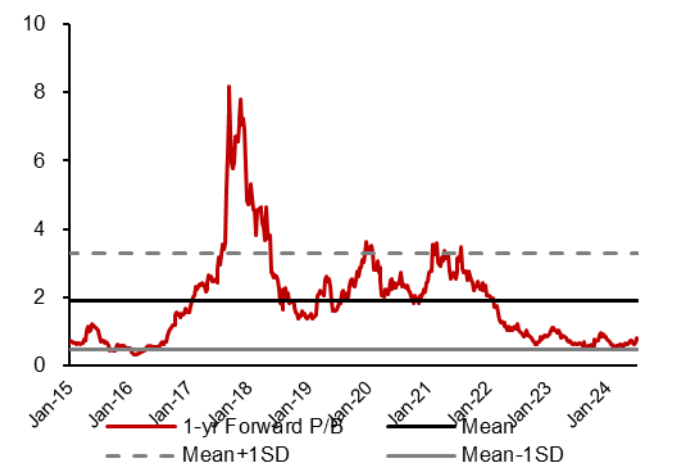
We remain positive on non-handset CCM (including automotive and IoT) to drive earnings growth in the long run. Upcoming catalysts include shipment recovery, product launches and non-smartphone CCM order wins.

**Figure 3: 12M forward P/E band**



Source: Company data, CMBIGM

**Figure 4: 12M forward P/B band**



Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>18,663</b>	<b>13,759</b>	<b>12,531</b>	<b>14,794</b>	<b>15,840</b>	<b>16,823</b>
Cost of goods sold	(16,901)	(13,218)	(12,022)	(13,835)	(14,656)	(15,607)
<b>Gross profit</b>	<b>1,762</b>	<b>541</b>	<b>509</b>	<b>959</b>	<b>1,184</b>	<b>1,216</b>
<b>Operating expenses</b>	<b>(723)</b>	<b>(338)</b>	<b>(220)</b>	<b>(459)</b>	<b>(562)</b>	<b>(365)</b>
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
<b>Operating profit</b>	<b>1,039</b>	<b>204</b>	<b>289</b>	<b>500</b>	<b>622</b>	<b>851</b>
Share of (losses)/profits of associates/JV	(52)	(37)	(50)	30	30	30
Others	(30)	(60)	(171)	(87)	(50)	(205)
<b>Pre-tax profit</b>	<b>957</b>	<b>107</b>	<b>68</b>	<b>443</b>	<b>602</b>	<b>677</b>
Income tax	(94)	63	15	(58)	(78)	(88)
Minority interest	0	0	0	0	0	0
<b>Net profit</b>	<b>863</b>	<b>170</b>	<b>84</b>	<b>386</b>	<b>524</b>	<b>589</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>9,315</b>	<b>8,594</b>	<b>11,107</b>	<b>10,270</b>	<b>10,900</b>	<b>12,363</b>
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
<b>Non-current assets</b>	<b>3,733</b>	<b>3,691</b>	<b>3,836</b>	<b>3,852</b>	<b>3,860</b>	<b>3,852</b>
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
<b>Total assets</b>	<b>13,048</b>	<b>12,285</b>	<b>14,943</b>	<b>14,123</b>	<b>14,760</b>	<b>16,215</b>
<b>Current liabilities</b>	<b>8,079</b>	<b>7,249</b>	<b>9,666</b>	<b>8,538</b>	<b>8,756</b>	<b>9,740</b>
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
<b>Non-current liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Deferred income	200	248	213	213	213	213
Other non-current liabilities	0	7	5	5	5	5
<b>Total liabilities</b>	<b>8,343</b>	<b>7,518</b>	<b>10,111</b>	<b>8,983</b>	<b>9,201</b>	<b>10,185</b>
Share capital	9	9	9	9	9	9
Other reserves	4,690	4,753	4,822	5,131	5,550	6,021
<b>Total shareholders equity</b>	<b>4,705</b>	<b>4,767</b>	<b>4,832</b>	<b>5,140</b>	<b>5,559</b>	<b>6,030</b>
Minority interest	0	0	0	0	0	0
<b>Total equity and liabilities</b>	<b>13,048</b>	<b>12,285</b>	<b>14,943</b>	<b>14,123</b>	<b>14,760</b>	<b>16,215</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
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
<b>Net cash from operations</b>	<b>1,596</b>	<b>1,194</b>	<b>513</b>	<b>1,386</b>	<b>1,012</b>	<b>1,947</b>
<b>Investing</b>						
Capital expenditure	(1,558)	(1,149)	(1,046)	(740)	(792)	(841)
Others	0	0	0	0	0	0
<b>Net cash from investing</b>	<b>(880)</b>	<b>(1,149)</b>	<b>(1,046)</b>	<b>(740)</b>	<b>(792)</b>	<b>(841)</b>
<b>Financing</b>						
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)
<b>Net cash from financing</b>	<b>(942)</b>	<b>848</b>	<b>1,364</b>	<b>(1,951)</b>	<b>38</b>	<b>(106)</b>
<b>Net change in cash</b>						
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
<b>Cash at the end of the year</b>	<b>1,743</b>	<b>1,349</b>	<b>2,893</b>	<b>1,588</b>	<b>1,847</b>	<b>2,847</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
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%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
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%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
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
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	5.3	26.6	55.9	11.9	8.7	7.8
P/B	1.0	1.0	0.9	0.9	0.8	0.8
Div yield (%)	0.0	0.0	0.0	1.7	2.3	2.6
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.

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## 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

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.