

Gradually back on the right track

Rating	BUY	Upgrade
Target price	HK\$5.44	
Current price	HK\$4.63	Upside: +17.5%

■ **1H24 in-line with profit alert, thanks to GM improvement and stable OPEX ratio**

QT's 1H24 net profit arrived at near the mid-point of the profit alert (issued in mid-Jul), revenue and net profit each soared 40.1%/453.9% Yoy to RMB7,675mn/RMB115mn, and reached 51%/38% of market FY24E consensus. The robust 1H24 result was attributed to **i) improved smartphone demand led to CCM shipment volume and QT's market share increase in global smartphone OEMs; ii) Though GM a slight miss (market consensus :5.6%), blended GM was up 1.8ppts Yoy to 5.2%, thanks to higher utilization rate and better product mix; iii) Non-smartphone segment ramp-up and iv) share of Newmax loss narrowed by 51% to RMB14mn. QT did not declare interim dividend.**

■ **FY24E shipment guidance maintained; Improved competitive landscape and product mix to drive ASP; Non-smartphone CCM (automotive+ IoT) shipment volume growth continue to outperform**

QT's CCM revenue soared 44.5% Yoy to RMB7,215mn mainly driven by both ASP and smartphone CCM shipment volume growth (+10.5% Yoy /+30.8% Yoy). Improved smartphone demand and product mix (i.e. higher mix of. \geq 32MP and other CCM) drove CCM GM rebounded 2.0 ppt Yoy/0.7 ppts QoQ to 5.6% (vs. 5.7%/3.6%/3.6%/4.9% in 1H22/2H22/1H23/2H23)

A recap that QT has reclassified its CCM shipment data from FY22 (which currently includes <32MP, \geq 32MP and other CCM). In 7M24, QT's total CCM shipment (incl both smartphone + non-smartphone) was up 26.8% Yoy to ~255mn units and smartphone CCM contributed ~249mn units (+25.8% Yoy). We model QT's FY24E total CCM shipment would be ~430mn units (+15.0% Yoy), in which non-smartphone CCM (IoT+ auto CCM) shipment would contribute ~3% (>10mn units) of total CCM shipment.

In 1H24, \geq 32MP CCM shipment rocketed 71.4% and took up 49.2% of total CCM shipment, in which the contribution further reached 52%/51% in May and Jun, Management also shared during the result that OIS and periscope CCM each accounted for 12.0%/0.7% of total CCM shipment and expect increasing contribution going forward. QT did not provide any update on its previous guidance (i.e. >5% Yoy shipment growth for smartphone CCM, \geq 32MP CCM to account for >45% of total CCM shipment in FY24E), but feel comfortable that \geq 32MP CCM contribution would continue to stay ahead of guidance in 2H24E and FY24E

Management continued to spend quite some time during the result, striving to deliver message to investors that new replacement cycle and faster CCM upgrades. CCM's ASP showed back-to-back Yoy/HoH increase since 2H19, and reached ~RMB32.6 in 1H24 (+10.5% Yoy /+1.3% HoH), We expect the end demand and GM recovery pace would be gradual.

QT doubled their non-smartphone CCM shipment in 1H24 at 5.5mn units and accounted for ~2.5% of total CCM shipment, QT previous guidance on non-smartphone CCM shipment would grow by >50% Yoy. This reflects QT continued to make good progress in non-smartphone segment. In IoT, QT has successfully obtained qualification from renowned US Internet giant in 1H24, as well as a leading wearable camera company, while continue to supply CCM modules to DJI, ECOVACS (603486 CH), Roborock (688169 CH).

Result Takeaway

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Trading data

52-Week Range (HK\$)	5.25/2.48
3 Mth Avg Daily Vol (m)	5.44
No. of Shares (m)	1,184.54
Market Cap (HK\$m)	5484.4
Major Shareholders (%)	He Ning Ning (63.74%)
Auditors	KPMG
Result Due	FY24E: Mar 2025

Company description

Established in 1997 and listed in HKEx in 2014, Q-tech (QT) is a leading PRC-based camera module manufacturer focusing on mid-to-high end camera module market for Chinese branded smart phone and tablet PC manufacturers. Q-tech was one of the first few manufacturers in China to use the COB (chip on board) and COF (chip on flex) assembly technologies in the manufacture of camera modules. Current customer portfolio includes leading Chinese smartphone players such as vivo, OPPO and Huawei etc

For automotive CCM products, sales volume was up 15x Yoy in 1H24 (~2mn units, >30% of non-smartphone CCM shipment volume, with total capacity reaching 1mn units/month. QT has already obtained qualifications from >20 customers and with >10 projects under mass production, which includes 6 of the top 15 automobile enterprises (by NEV sales volume). Q tech not only has shipped CCM used in ADAS/ in-Cabin systems to renowned clients including SGW, Geely, XPeng, but also passed the qualification certification from other automotive Tier-1 supplier (both overseas and domestic) and OEMs namely Continental, BYD, Nio, Aito and Aion etc. These mark QT initial success to diversify CCM product mix and exploring business opportunities in non-smartphone segment, which include other segments of automotive intelligent vision industry chain, e.g. automotive lens, LIDAR module, HUD and millimeter wave radar.

QT target themselves as Tier -1.5 player provide both hardware and software solutions to Tier-1. With reference to Truly (732.HK), automotive CCM would enjoy both higher ASP and GM in the long run. However, as QT's non-smartphone arm, it is still ramping up and takes time to achieve economy of scale, we expect non-smartphone GM would stay below company average in FY24E-25E.

FPM GM improved HoH on better product mix, ultrasonic FPM to drive ASP and margin

In 1H24, FPM segment revenue growth was flattish Yoy at RMB395mn (5.1% of total revenue), on the back of 14.3% Yoy drop in ASP and 16.7% Yoy increase in shipment volume at 50.6mn units. Segment GM though remained at negative territory at -3.7%, but significantly improved 5.8ppt HoH on higher UGFP volume mix (71.6% vs. 58.5% in 1H23) and initial shipment of ultrasonic FPM in 2Q24. QT began to ship ultrasonic FPM in Apr 24 and currently accounted for <1% of total FPM shipment, based on our previous channel check, ultrasonic FPM was adopted on OEM's flagship smartphone.

As YTD (as of end -Jul) shipment volume took up ~50% on average of full year shipment in FY18-FY23, we expect the progress would be similar in FY24E with shipment at ~120mn units, in which UGFP and ultrasonic FPM would account for >70%/low single digit of FPM shipment. With increasing ultrasonic FPM contribution in 2H24E and FY25E, we see both ASP and GM still have room to improve.

Expect FY24E-26E earnings to grow 31% CAGR, quality growth to drive earnings; Non-smartphone segment still takes time to bear fruit; Upgrade to BUY with new TP HK\$5.44

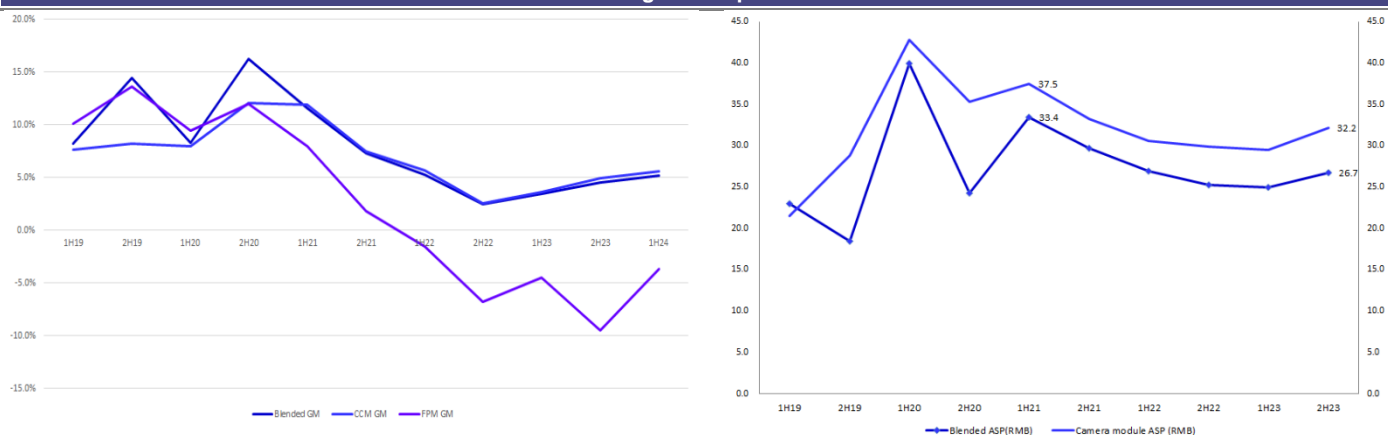
We expect QT's FY24E-26E sales and net profit to grow 13.0%/31.5% CAGR, driven by gradual sales and GM recovery, as management continue to focus on long term quality growth, while non-smartphone segment is still ramping up and contribution would be minimal in FY24E/25E. Our latest FY24E-26E net profit forecasts are 3.4%/4.5%/0.2% lower than latest Bloomberg consensus.

QT is trading at FY25E 12.0x PE (~30% discount to its average since its listing in 2014. We arrive QT's new TP at HK\$5.44, which translates to FY25E 14.1x PE (30% discount to Sunny Optical vs. 40% discount in our last update). QT is making their way to diversify sales and client mix, it still takes time for non-smartphone segment to bear fruit, while focusing on core business quality growth. We upgrade QT's rating from Neutral to BUY.

Exhibit 1: QT's revenue growth assumption in FY24E-26E

Year to Dec (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Segment Revenue					
CCM					
<32MP	10,604	8,638	9,164	9,722	10,314
≥32MP/Dual/multi cam	1,461	2,265	3,534	4,276	4,715
Others (IoT, auto CCM etc.)	496	659	1,289	2,128	3,159
Total CCM	12,561	11,562	13,987	16,126	18,202
Fingerprint recognition module					
Fingerprint recognition module (incl. UDFP & Ultrasonic FPM)	1,064	781	988	967	937
- UDFP	905	1,106	1,082	917	780
- Ultrasonic FPM		0	53	84	101
Total FP	1,064	781	988	967	937
Others (sales of prototype)	134	188	131	138	145
Group	13,759	12,531	15,107	17,230	19,284
Segment Revenue Growth					
<32MP	-26.2%	-18.5%	6.1%	6.1%	6.1%
≥32MP/Dual/multi cam	-36.5%	-26.5%	26.5%	-2.2%	-3.1%
Total CCM	-25.6%	-8.0%	21.0%	15.3%	12.9%
Fingerprint recognition module (incl. UDFP & Ultrasonic FPM)	-36.5%	-26.5%	26.5%	-2.2%	-3.1%
Group	-26.3%	-8.9%	20.6%	14.1%	11.9%

Source: Company data, CIRL estimates

Exhibit 2: Q Tech's 1H24 CCM GM and ASP showed further signs of improvement


Source: Company data, CIRL

Exhibit 3: Q Tech's quarterly shipment breakdown (1Q21-2Q24, reclassification from Jan 2022)

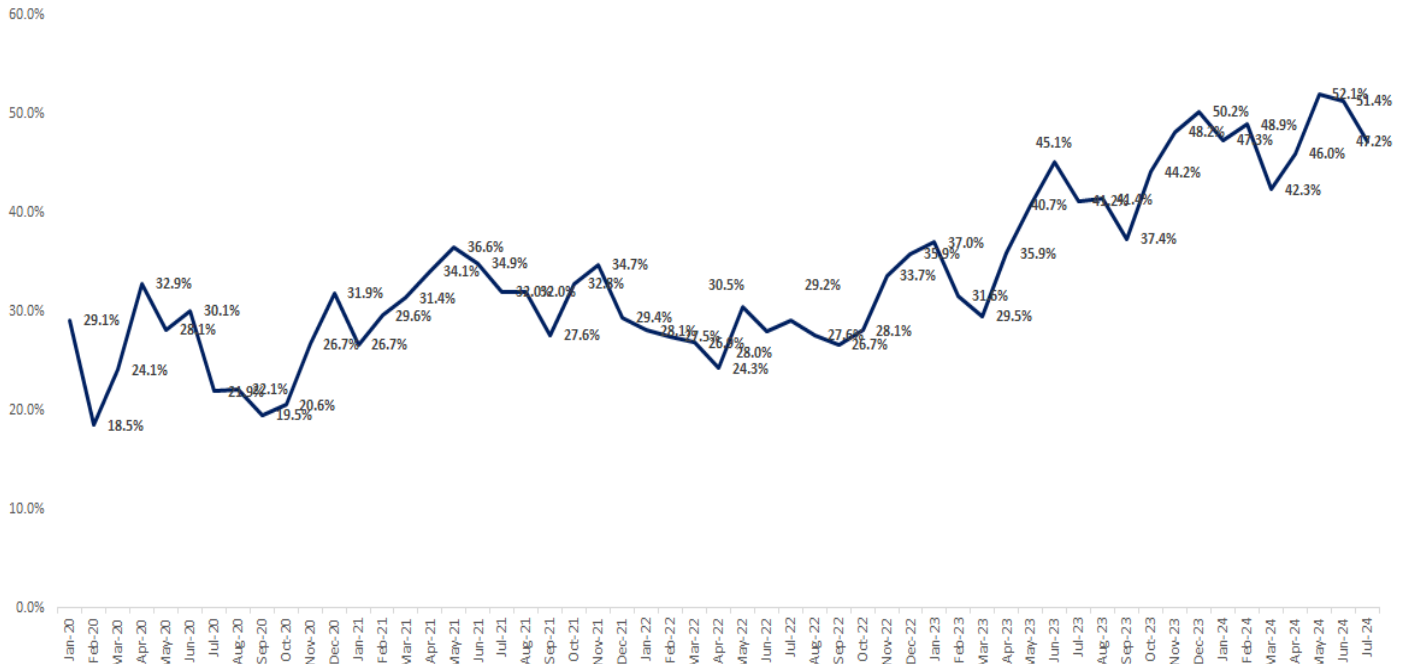
Product Shipment (k pieces)		1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Total smartphone CCM shipment	Yoy(%)	104,363	119,465	122,903	132,388	112,044	99,326	106,574	99,202	84,329	82,254	92,885	106,354	103,710	112,209
	QoQ(%)	39.1%	13.6%	19.6%	20.9%	7.4%	-16.9%	-13.3%	-25.1%	-24.7%	-17.2%	-12.8%	7.2%	23.0%	36.4%
<32MP CCM	Yoy(%)	73,890	77,492	86,223	89,629	81,184	71,835	76,878	66,841	57,364	49,119	55,724	55,796	56,006	56,477
	QoQ(%)	-4.7%	14.5%	2.9%	7.7%	-15.4%	-11.4%	7.3%	-6.9%	-15.0%	-2.5%	12.9%	14.5%	-2.5%	8.2%
>32MP CCM (dual+multi CCM+3D sensing)	Yoy(%)	71,991	41,353	35,910	41,674	30,860	27,491	29,696	32,361	26,965	33,135	37,161	50,558	47,704	55,732
	QoQ(%)	#DIV/0!	4.9%	11.3%	4.0%	-9.4%	-11.5%	7.0%	-13.1%	-14.2%	-14.4%	13.4%	0.1%	0.4%	0.8%
Other CCM (incl. auto, IoT etc)	Yoy(%)	534	608	615	1,108	594	1,064	1,846	3,115	1,044	1,683	2,383	2,526	2,910	2,554
	QoQ(%)	-	-	-	-	-57.1%	-33.5%	-17.3%	-22.3%	-12.6%	20.5%	25.1%	56.2%	76.9%	68.2%
Total CCM (smartphone+non-smartphone)	Yoy(%)	104,897	120,073	122,903	132,388	112,638	100,390	108,420	102,317	85,373	83,937	95,268	108,880	106,620	114,763
	QoQ(%)	-4.7%	14.5%	2.4%	7.7%	-14.9%	-10.9%	8.0%	-5.6%	-16.6%	-1.7%	13.5%	14.3%	-2.1%	7.6%
Non smartphone CCM %		0.5%	0.5%	0.5%	0.8%	0.5%	1.1%	1.7%	3.1%	1.2%	2.0%	2.6%	2.4%	2.8%	2.3%
Fingerprint module	UGFP	27,622	27,753	27,719	31,489	26,272	24,379	27,609	33,252	22,121	28,490	28,997	30,630	26,060	33,024
	Non UGFP	15,668	15,354	11,808	16,271	11,012	11,389	11,116	13,992	12,209	17,405	21,038	21,903	18,906	23,416
Ultrasonic FPM		11,954	12,399	15,911	15,218	15,260	12,990	16,493	19,260	9,912	11,085	7,959	8,727	7,154	9,214
Total Yoy(%)		60.6%	22.1%	21.5%	7.8%	-4.9%	-12.2%	-0.4%	5.6%	-15.8%	16.9%	5.0%	-7.9%	17.8%	15.9%
Total QoQ(%)		28.0%	0.5%	-0.1%	13.6%	-16.6%	-7.2%	13.2%	20.4%	-33.5%	28.8%	1.8%	5.6%	-14.9%	26.7%
UGFP % of total FPM		56.7%	55.3%	42.6%	51.7%	41.9%	46.7%	40.3%	42.1%	55.2%	61.1%	72.6%	71.5%	72.5%	70.9%

Source: Company data, CIRL

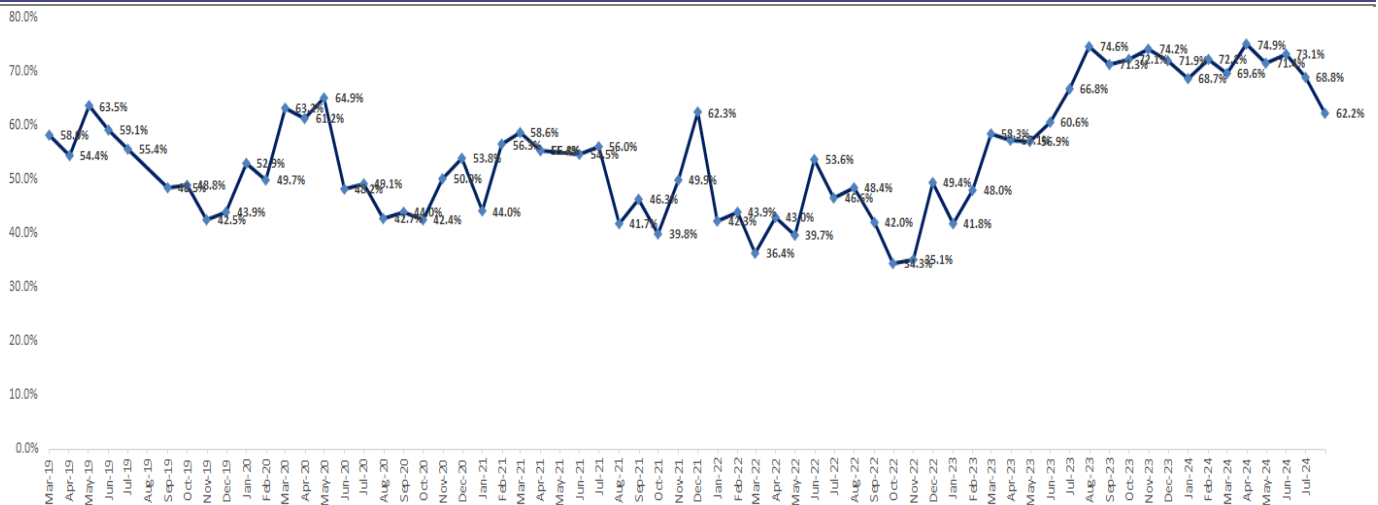
Exhibit 4: Q Tech's revenue breakdown in 1H19-1H24

	1H19	2H19	1H20	2H20	1H21	2H21	1H22	2H22	1H23	2H23	1H24
Revenue (RMB, Mn)	5,061	5,299	8,802	6,400	9,336	9,327	7,095	6,664	5,477	7,054	7,675
Yoy(%)	57.8%	5.9%	73.9%	20.8%	6.1%	45.7%	-24.0%	-28.5%	-22.8%	5.9%	40.1%
HoH(%)	1.1%	4.7%	66.1%	-27.3%	45.9%	-0.1%	-23.9%	-6.1%	-17.8%	28.8%	8.8%
Total Camera module shipment ('k units)	182,507	223,530	180,212	212,259	223,828	255,291	213,028	202,707	169,310	204,148	221,383
Fingerprint recognition module shipment ('k units)	37,748	64,203	39,926	52,015	55,375	59,208	50,651	60,861	50,611	59,627	59,084
Volume ('k units)	220,255	287,733	220,138	264,274	279,203	314,499	263,679	263,568	219,921	263,775	280,467
Yoy(%)	48.9%	23.7%	-0.1%	-8.2%	26.8%	19.0%	-5.6%	-16.2%	-16.6%	0.1%	27.5%
HoH(%)	-5.3%	30.6%	-23.5%	20.0%	5.6%	12.6%	-16.2%	0.0%	-16.6%	19.9%	6.3%
Blended GP	415	765	732	1,038	1,083	679	376	166	188	321	400
Blended GM	8.2%	14.4%	8.3%	16.2%	11.6%	7.3%	5.3%	2.5%	3.4%	4.5%	5.2%
Camera module (CCM)											
Camera module revenue (Mn RMB)	3,917	6,443	7,719	7,484	8,398	8,477	6,502	6,059	4,992	6,569	7,215
Yoy(%)	51.8%	69.6%	97.0%	16.2%	8.8%	13.3%	-22.6%	-28.5%	-23.2%	8.4%	44.5%
HoH(%)	3.1%	64.5%	19.8%	-3.0%	12.2%	0.9%	-23.3%	-6.8%	-17.6%	31.6%	9.8%
Camera module ASP (RMB)	21.5	28.8	42.8	35.3	37.5	33.2	30.5	29.9	29.5	32.2	32.6
Yoy(%)	-14.5%	22.2%	99.6%	22.3%	-12.4%	-5.8%	-18.6%	-10.0%	-3.4%	7.7%	10.5%
HoH(%)	-9.0%	34.3%	48.6%	-17.7%	6.4%	-11.5%	-8.1%	-2.1%	-1.4%	9.1%	1.3%
CCM GP	299	530	614	901	1,002	637.2	370	154.6	179	324.0	405
CCM GM	7.6%	8.2%	8.0%	12.0%	11.9%	7.5%	5.7%	2.6%	3.6%	4.9%	5.6%
Fingerprint Recognition module											
Fingerprint recognition revenue (RMB)	1,122	1,637	1,047	1,054	918	758	551	513	395	387	395
Yoy(%)	80.7%	35.2%	-6.6%	-35.6%	-12.4%	-28.1%	-40.0%	-32.3%	-28.3%	-24.6%	0.0%
HoH(%)	-7.4%	45.9%	-36.0%	0.6%	-12.9%	-17.4%	-27.3%	-6.9%	-23.1%	-2.1%	2.1%
Fingerprint recognition module ASP (RMB)	29.7	25.5	26.2	20.3	16.6	12.8	10.9	8.4	7.8	6.5	6.7
Yoy(%)	116.2%	50.8%	-11.7%	-20.5%	-36.8%	-36.9%	-34.4%	-34.1%	-28.3%	-23.1%	-14.3%
HoH(%)	75.7%	-14.2%	2.9%	-22.7%	-18.2%	-22.8%	-15.0%	-22.5%	-7.5%	-16.9%	3.0%
FPM GP	113	223	99	126	73	14	(8)	(35)	(18)	(37)	(14)
FPM GM	10.1%	13.6%	9.5%	12.0%	8.0%	1.8%	-1.5%	-6.7%	-4.5%	-9.5%	-3.7%
Blended ASP(RMB)	23.0	18.4	40.0	24.2	33.4	29.7	26.9	25.3	24.9	26.7	27.4
Yoy(%)	6.0%	-14.4%	74.0%	31.5%	-16.4%	22.5%	-19.5%	-14.7%	-7.5%	5.8%	9.9%
HoH(%)	6.8%	-19.8%	117.1%	-39.4%	38.1%	-11.3%	-9.3%	-6.0%	-1.5%	7.4%	2.3%
Fingerprint Recognition module (% of total revenue)	22.2%	30.9%	11.9%	16.5%	9.8%	8.1%	7.8%	7.7%	7.2%	5.5%	5.1%

Source: Company data, CIRL

Exhibit 5: Q Tech's ≥ 32 MP CCM shipment % (% of total CCM shipment) reached ~50% mark in May and Jun 24


Source: Company data (as of end-Jul 24), CIRL

Exhibit 6: Q Tech's UGFP contribution reached 70% of total shipment in Jul 23- May 24


Source: Company data (As of end-Jul 24), CIRL

Exhibit 7: Financial statement

Income statement						Cash flow						
Year to Dec (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E	Year to Dec (RMB mn)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	13,759	12,531	15,107	17,230	19,284	Pre-tax profit	957	107	68	335	481	579
Gross profit (reported)	541	509	885	1,125	1,295	Taxes paid	(94)	63	15	(40)	(58)	(70)
EBITDA	670	733	1,103	1,270	1,419	Depreciation	(498)	(460)	(436)	(525)	(599)	(671)
Depreciation	460	436	525	599	671	Associates	52	37	50	28	14	10
EBIT	204	289	574	667	744	CFO bef. WC change	416	(253)	(303)	(202)	(162)	(151)
Net interest income (exp.)	(60)	(171)	(211)	(172)	(154)	Change in working cap	(927)	409	(505)	(746)	(211)	(187)
Associates	(37)	(50)	(28)	(14)	(10)	Cashflow from operation	(510)	156	(808)	(948)	(373)	(338)
Exceptionals/others	0	0	0	0	0	CAPEX	(941)	(417)	(160)	(160)	(160)	(160)
Profit before tax	107	68	335	481	579	Free cash flow	(1,451)	(261)	(968)	(1,108)	(533)	(498)
Tax expenses	63	15	(40)	(58)	(70)	Dividends	0	0	0	0	0	0
Minority interest	(1)	2	0	0	0	Balance sheet adj.	1,261	(361)	794	830	1,184	1,331
Net profit	171	82	295	423	510	Shares issued	0	0	0	0	0	0
Diluted EPS (RMB)	0.145	0.069	0.249	0.357	0.430	Others	0	0	0	0	0	0
Dividends	0	0	0	0	0	Net cash flow	(190)	(623)	(174)	(278)	651	834
Balance sheet						Net cash (debt) start	997	796	174	(0)	(278)	373
Year to Dec (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E	Net cash (debt) at year-end	796	174	(0)	(278)	373	1,207
Cash & equiv	2,790	4,371	5,100	5,589	6,261	Ratios						
Trade receivables	3,436	4,201	4,985	5,686	6,359	Year to Dec	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Other receivables	0	0	0	0	0	Growth rate (%)						
Inventories	1,184	1,778	1,991	2,255	2,516	Revenue	7.3	(26.3)	(8.9)	20.6	14.1	11.9
Other current assets	1,184	757	746	746	746	EBITDA	7.6	(56.4)	9.3	50.6	15.2	11.7
Fixed assets	3,140	2,845	2,481	2,042	1,531	EBIT	(0.6)	(80.4)	42.0	98.7	16.2	11.5
Intangible assets	26	23	23	23	23	Net profit	2.8	(80.2)	(52.1)	259.7	43.6	20.5
Investment, associates etc	525	968	1,171	1,171	1,171	Fully diluted EPS	2.0	(80.1)	(52.1)	259.6	43.6	20.5
Total assets	12,285	14,943	16,496	17,511	18,607	Margins (%)						
Account payables	4,584	5,437	5,689	6,442	7,190	Gross margin (reported)	9.4	3.9	4.1	5.9	6.5	6.7
Other payables	0	0	0	0	0	EBITDA	8.2	4.9	5.8	7.3	7.4	7.4
Short-term debt	2,616	4,152	5,159	4,997	4,835	EBIT	5.6	1.5	2.3	3.8	3.9	3.9
Other current liabs	49	78	78	78	78	Net margin	4.6	1.2	0.7	2.0	2.5	2.6
Long-term debts	0	219	219	219	219	Other ratios						
Deferred tax and others	21	12	12	12	12	ROE (%)	18.3	3.6	1.7	5.7	7.6	8.4
Other long-term liabs	248	213	213	213	213	ROA (%)	6.6	1.4	0.5	1.8	2.4	2.7
Total liabilities	7,518	10,111	11,370	11,961	12,547	Net gearing (%)	(16.9)	(3.6)	0.0	5.4	(6.7)	(19.9)
Share capital	9	9	9	9	9	Interest coverage (x)	34.6	3.4	1.7	2.7	3.9	4.8
Reserves	4,753	4,822	5,117	5,540	6,050	Receivables days	78.6	104.5	111.2	111.0	113.0	114.0
Shareholders' equity	4,762	4,832	5,126	5,549	6,059	Payables days	68.4	64.2	83.5	74.1	73.8	73.7
Minorities	5	0	0	0	0	Inventory days	45.4	47.5	45.0	48.4	48.1	48.4
Total equity	4,767	4,832	5,126	5,549	6,059	Effective tax rate (%)	9.4	(43.9)	(13.1)	11.1	11.7	11.8
Net cash (debt)	174	(0)	(278)	373	1,207							

Source: Company data, CIRL estimates

Risk Factors

Downside risks include: 1) Upstream supply shock; 2) Smartphone end demand deteriorates; 3) Slower than expected multi cam CCM/ 3D sensing module/ UDFP adoption in Android camp and hence limit ASP upside; 4) Non-smartphone (IoT+automobile) ramp up longer than expected, 5) Increase pricing pressure arising from overseas players and domestic peers and 6) management execution

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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Analyst Certification

I, Hayman Chiu, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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