

Q Tech (1478 HK)

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Company Update

SELL

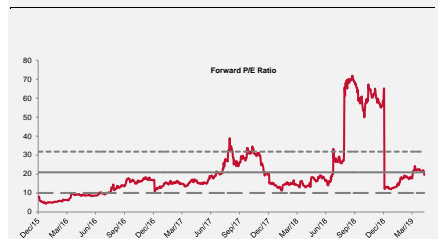
UNCHANGED
Close price: HK\$7.43
Target Price: HK\$5.70 (-23%)
Prior TP HK\$5.70
Key Data

HKEx code	1478	HK
12 Months High (HK\$)	11.56	
12 Month Low (HK\$)	3.58	
3M AvgDail Vol. (mn)	7.70	
Issue Share (mn)	1,141.91	
Market Cap (HK\$mn)	8,484.36	
Fiscal Year	12/2018	
Major shareholder (s)	He Ningning	(66.46%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 08/05/2019

Price Chart


	1mth	3mth	6mth
Absolute %	-18.3	65.1	73.6
Rel. MSCI CHINA %	-13.8	60.1	58.4

PE

Company Profile

Q Technology is a leading PRC-based manufacturer focusing on mid-to-high end camera module and fingerprint module market for Chinese branded smart phone and tablet PC manufacturers.

CCM shipments growth implies market share gain

- Q Tech saw April shipments of CCM/FPM up 96.1%/ down 10% yoy to 37.9mn/6.7mn pcs, of which penetration of 10M+CCM/under-panel FPM reached 50%/54% respectively.
- We believe the robust growth in shipments of 10M+ CCM products indicates market share gain from O-Film, likely at the cost of thin GPM.
- Maintain SELL with TP HK\$5.70 unchanged based on 12x FY20E P/E.

April saw 134% yoy growth in 10M+ CCM shipments. Q Tech kept upbeat growth momentum in CCM shipments with total CCM sales volume up 96.1% yoy to 37.9mn, of which 10M+ CCM increased 68.5%/133.9% yoy to 18.8mn/19.1mn pcs respectively, resulting in 6ppts/8ppts mom/yoy improvement in the penetration of 10M+ CCM to 50%. For FPM, sales volume retreated by 10% yoy to 6.7mn pcs, as the new under-panel FPM products (which contributed 54% of the sales volume) partially offset the shrinkage in capacitive FPM business. By the end of April 2019, Q Tech had achieved 33.3%/28.5% of OP full-year CCM/FPM shipments target, largely in line with expectations.

Strong CCM growth implies market share gain from O-Film. The shipments growth of 10M+ CCM continued the high speed in March 2019 and reached the peak in the last 19 months since Sept 2017, which we believe is due to the market share gain in medium-level orders from O-Film. However, we are conservative on the market share gain as that may come at the cost of thin GPM which Sunny Optical (2382 HK, HOLD) has experienced similar dramatic drop in CCM GPM in FY13 for the ramping up of Huawei order to boost its CCM shipments level.

Maintain SELL. We updated the FY18 cash flow in our model and maintain our TP at HK\$5.70 based on 12x FY20E P/E given near-term margin pressure.

Risks: 1) Better than expected GPM recovery; 2) Faster ramp up of Newmax lens set business, 3) Higher than expected yield rate for new products.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	7,939	8,135	12,875	14,724	17,554
Growth (%)	59	2	58	14	19
Net Profit	436	14	388	459	830
Growth (%)	129	(97)	2,598	18	81
Diluted EPS (HK\$)	0.467	0.015	0.399	0.472	0.853
EPS growth (%)	118	(97)	2,531	18	81
Change to previous EPS (%)			(1.4)	(0.7)	
Consensus EPS (HK\$)			0.394	0.517	
ROE (%)	23.5	0.7	16.9	16.9	24.7
P/E (x)	15.9	489.6	18.6	15.7	8.7
P/B (x)	3.2	3.3	2.8	2.4	1.9
Yield (%)	1.3	0.0	0.0	0.0	0.0
DPS (HK\$)	0.096	0.000	0.000	0.000	0.000

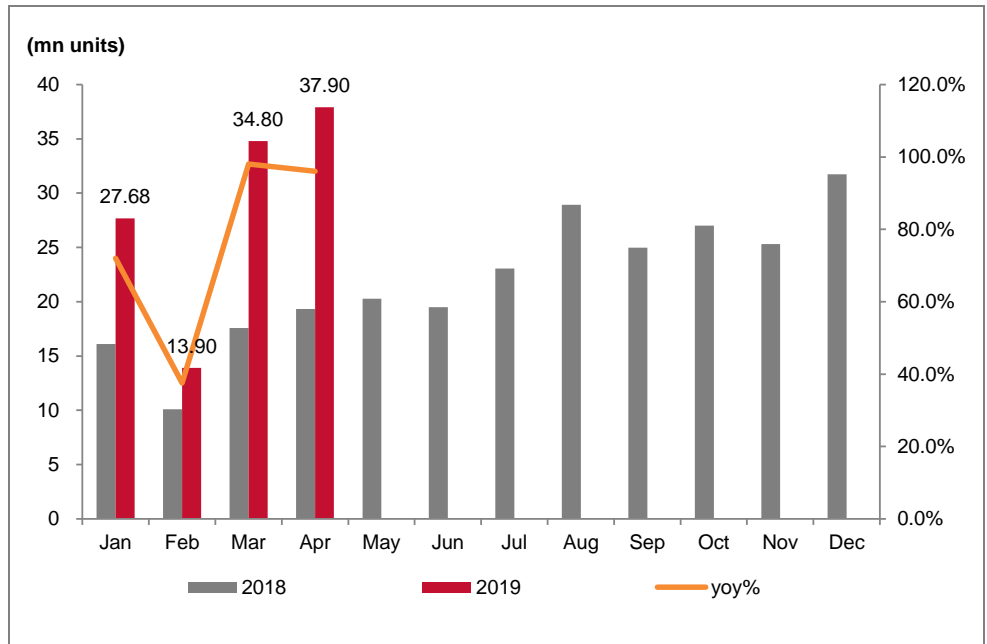
Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

(RMB mn)	FY19E			FY20E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Shipments (mn pcs)							
CCM shipments	343	343	0.0	395	395	0.0	
Fingerprint shipment	86	86	0.0	77	77	0.0	
ASP (RMB per pcs)							
HCM ASP	31	31	0.0	32	32	0.0	
Fingerprint ASP	24	24	0.0	25	25	0.0	
Revenue by segment (RMB mn)							
Compact camera module	10,783	10,783	0.0	12,732	12,732	0.0	
Fingerprint module	2,061	2,061	0.0	1,961	1,961	0.0	
Revenue	12,875	12,875	0.0	14,724	14,724	0.0	
Gross profit	979	979	0.0	1,175	1,175	0.0	
Gross margin	7.6%	7.6%	0.0	8.0%	8.0%	0.0	
Opex	(518)	(512)	1.2	(614)	(609)	0.9	We updated the FY18 cash flow
EBIT	478	484	(1.2)	577	581	(0.7)	
Net Profit	388	394	(1.4)	459	463	(0.7)	
Diluted EPS (HK\$)	0.399	0.405	(1.4)	0.472	0.476	(0.7)	

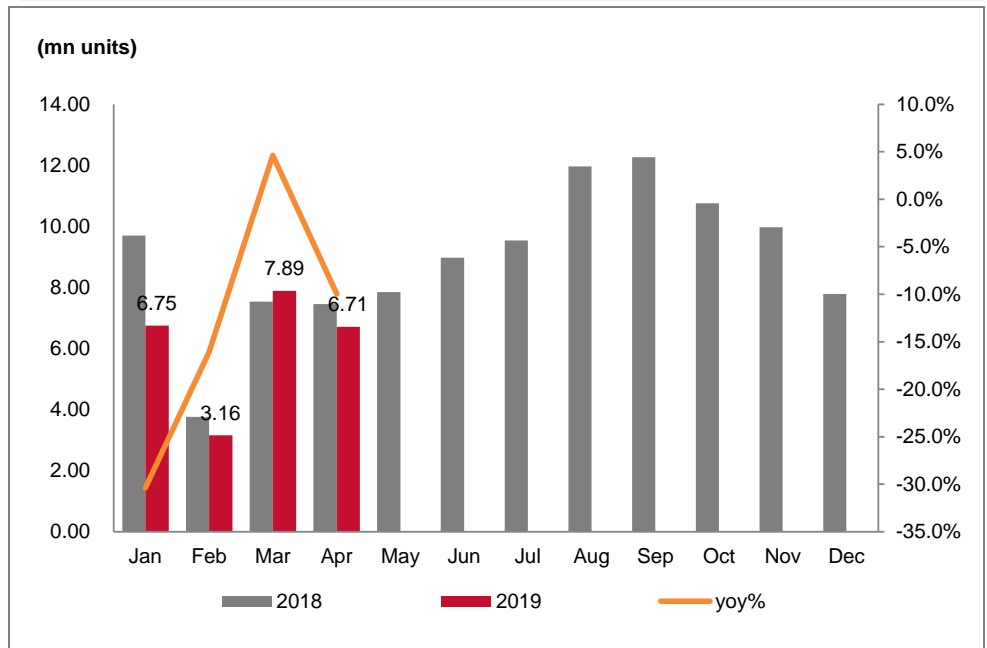
Source: Company, OP Research

Exhibit 3: Monthly shipments of CCM (Camera module)



Source: Company, OP Research

Exhibit 4: Monthly shipments of FPM (Fingerprint module)



Source: Company, OP Research

Financial Summary

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Income Statement (RMB mn)					
Compact camera module	5,896	6,273	10,783	12,732	15,488
Fingerprint module	2,035	1,832	2,061	1,961	2,036
Others	8	30	30	30	30
Turnover	7,939	8,135	12,875	14,724	17,554
YoY%	59	2	58	14	19
COGS	(7,056)	(7,782)	(11,896)	(13,548)	(15,827)
Gross profit	883	353	979	1,175	1,728
Gross margin	11.1%	4.3%	7.6%	8.0%	9.8%
Other income	11	83	17	16	27
Selling & distribution	(16)	(19)	(30)	(34)	(39)
Admin	(65)	(81)	(114)	(131)	(151)
R&D	(270)	(266)	(374)	(449)	(559)
Other opex	0	0	0	0	0
Total opex	(351)	(366)	(518)	(614)	(749)
Operating profit (EBIT)	543	70	478	577	1,006
Operating margin	6.8%	0.9%	3.7%	3.9%	5.7%
Provisions	0	0	0	0	0
Finance costs	(17)	(44)	(46)	(46)	(46)
Profit after financing costs	526	26	432	531	960
Associated companies & JVs	(17)	(25)	0	0	0
Pre-tax profit	510	1	432	531	960
Tax	(73)	13	(43)	(72)	(130)
Minority interests	0	0	0	0	0
Net profit	436	14	388	459	830
YoY%	129	(97)	2,598	18	81
Net margin	5.5%	0.2%	3.0%	3.1%	4.7%
EBITDA	655	248	754	921	1,393
EBITDA margin	8.3%	3.0%	5.9%	6.3%	7.9%
EPS (RMB)	0.389	0.013	0.333	0.394	0.711
YoY%	116	(97)	2,531	18	81
DPS (HK\$)	0.096	0.000	0.000	0.000	0.000
Cash Flow (RMB mn)					
EBITDA	655	248	754	921	1,393
Chg in working cap	1,583	(444)	55	(102)	(232)
Others	59	36	0	0	0
Operating cash	2,297	(160)	809	819	1,161
Interests paid	0	0	0	0	0
Tax	(75)	(13)	(2)	(43)	(72)
Net cash from operations	2,222	(173)	807	776	1,090
Capex	(949)	(522)	(772)	(589)	(527)
Investments	(1,141)	873	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	18	26	7	7	17
Others	(47)	9	0	0	0
Investing cash	(2,119)	387	(765)	(582)	(510)
FCF	103	214	42	194	580
Issue of shares	185	55	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	0	0	0	0	0
Net change in bank loans	218	(346)	0	0	0
Interest paid	(54)	(136)	(46)	(46)	(46)
Others	(37)	(156)	0	0	0
Financing cash	312	(584)	(46)	(46)	(46)
Net change in cash	414	(370)	(4)	147	534
Exchange rate or other Adj	(14)	5	0	0	0
Opening cash	65	465	100	96	243
Closing cash	465	100	96	243	777
CFPS (HK\$)	2.379	(0.182)	0.830	0.798	1.120

Source: Company, OP Research

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	11.1	4.3	7.6	8.0	9.8
Operating margin (%)	6.8	0.9	3.7	3.9	5.7
Net margin (%)	5.5	0.2	3.0	3.1	4.7
Selling & dist'n exp/Sales (%)	0.2	0.2	0.2	0.2	0.2
Admin exp/Sales (%)	0.8	1.0	0.9	0.9	0.9
Payout ratio (%)	20.5	0.0	0.0	0.0	0.0
Effective tax (%)	13.9	(50.5)	10.0	13.5	13.5
Total debt/equity (%)	50.2	56.0	47.3	39.9	31.2
Net debt/equity (%)	28.6	51.3	43.4	31.7	10.6
Current ratio (x)	1.05	0.99	0.98	1.01	1.10
Quick ratio (x)	0.88	0.83	0.79	0.83	0.92
Inventory T/O (days)	36	33	33	33	33
AR T/O (days)	94	136	120	120	120
AP T/O (days)	146	144	144	144	144
Cash conversion cycle (days)	(17)	25	9	9	9
Asset turnover (x)	1.50	1.30	1.72	1.62	1.67
Financial leverage (x)	2.86	2.95	3.25	3.33	3.13
EBIT margin (%)	6.8	0.9	3.7	3.9	5.7
Interest burden (x)	0.94	0.02	0.90	0.92	0.95
Tax burden (x)	0.86	10.83	0.90	0.87	0.87
Return on equity (%)	23.5	0.7	16.9	16.9	24.7
ROIC (%)	20.3	3.5	12.7	13.4	21.6
Balance Sheet (RMB mn)					
Fixed assets	1,481	1,889	2,386	2,632	2,762
Intangible assets & goodwill	1	1	1	1	1
Associated companies & JVs	258	229	229	229	229
Long-term investments	0	0	0	0	0
Other non-current assets	213	92	84	76	69
Non-current assets	1,953	2,211	2,700	2,939	3,061
Inventories	688	704	1,076	1,225	1,431
AR	2,035	3,031	4,233	4,841	5,771
Prepayments & deposits	0	0	0	0	0
Other current assets	959	394	394	394	394
Cash	465	100	96	243	777
Current assets	4,147	4,229	5,798	6,703	8,373
AP	2,830	3,061	4,680	5,330	6,226
Tax	8	2	43	72	130
Accruals & other payables	0	28	39	44	53
Bank loans & leases	1,078	1,178	1,178	1,178	1,178
CB & othe debts	0	0	0	0	0
Other current liabilities	18	0	0	0	0
Current liabilities	3,934	4,270	5,940	6,624	7,587
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	20	66	66	66	66
MI	0	0	0	0	0
Non-current liabilities	20	66	66	66	66
Total net assets	2,146	2,103	2,492	2,951	3,781
Shareholder's equity	2,146	2,103	2,492	2,951	3,781
Share capital	9	9	9	9	9
Reserves	2,137	2,094	2,483	2,942	3,772
BVPS (HK\$)	2.31	2.23	2.64	3.13	4.01
Total debts	1,078	1,178	1,178	1,178	1,178
Net cash/(debts)	(613)	(1,078)	(1,082)	(935)	(401)

Exhibit 5: Peer Group Comparison

Company	Ticker	Price	3-mth			PER FY1	PER FY2	EPS FY1	EPS FY2	YoY%	YoY% Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE		Shpx 1-mth %	Shpx 3-mth %
			Mkt cap (US\$m)	avg t/o	PER Hist (x)																	ROE Hist (%)	ROE FY1 (%)		
Q Technology Gro	1478 HK	7.43	1,081	6.9	489.6	18.6	15.7	2,531.5	18.3	283.1	0.1	0.0	0.0	3.3	2.8	38.3	12.6	51.3	4.3	(9,670.0)	0.7	16.9	(18.3)	62.2	
HSI		29,003.20			11.1	11.3	10.4	(1.4)	8.0	5.1	2.21	3.4	3.6	1.29	1.24							11.6	11.0	(3.6)	3.8
HSCEI		11,097.37			9.0	8.5	7.9	5.1	8.2	7.2	1.18	3.7	4.0	1.07	1.01							12.0	11.9	(5.9)	1.3
CSI300		3,667.46			13.6	11.7	10.4	15.5	12.6			2.2	2.7	1.66	1.53							12.3	13.0	(9.6)	12.9
Adjusted sector avg*					25.3	12.9	10.9	44.0	15.5	46.6	0.5	2.8	3.5	2.5	3.0	8.0	6.9	25.0	13.8	3.1	9.1	12.5	(10.0)	12.0	
Sunny Optical	2382 HK	90.65	12,668	106.8	34.4	24.0	18.6	43.4	28.7	30.0	0.80	0.9	1.1	9.30	6.95	21.1	16.5	0.0	18.9	9.6	29.8	32.9	(12.8)	12.1	
Truly Intl Hldgs	732 HK	1.23	515	3.9	52.1	5.0	5.0	946.6	(0.8)	140.9	0.04	N/A	4.2	0.53	0.46	5.1	3.6	82.7	9.5	0.4	1.0	5.8	(15.8)	7.0	
Cowell	1415 HK	1.66	176	1.2	12.4	8.8	8.1	41.2	8.3	19.5	0.45	3.1	6.6	0.54	0.52	1.3	1.1	0.0	9.8	2.6	4.2	5.7	(2.9)	52.3	
Ofilm Group Co-A	002456 CH	12.07	4,828	259.7	N/A	14.5	11.7	N/A	23.6	(264.6)	N/A	0.4	0.9	3.89	2.65	20.4	9.2	175.2	12.1	(1.2)	(12.1)	20.0	(17.9)	16.3	
Huizhou Speed -A	300322 CH	12.57	754	59.7	83.8	38.6	25.0	117.3	54.3	69.1	0.56	0.2	0.4	8.28	6.96	N/A	23.5	53.9	21.3	3.6	13.3	16.5	(10.6)	19.1	
Crucialtec Co Lt	114120 KS	1,175.00	66	2.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.90	N/A	(4.7)	N/A	38.6	(8.8)	(64.1)	(63.4)	N/A	8.3	13.5	
Lite-On Tech	2301 TT	43.30	3,274	8.2	12.7	12.9	11.7	(1.9)	10.7	0.3	44.25	6.7	6.4	1.36	1.35	5.4	4.8	0.0	13.1	3.8	11.5	10.5	(4.5)	(4.3)	
Primax Elec	4915 TT	60.60	875	11.2	14.7	12.3	10.0	20.0	22.3	19.9	0.62	5.3	4.9	2.33	1.88	7.6	6.2	0.0	12.0	2.8	15.9	16.7	(5.6)	20.2	

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
03/05/2019	Xtep Intl	1368	Xtep sets about the inception of its own FILA	BUY	Dallas Cai/Megan Jin
03/05/2019	361 Degrees Intl	1361	1Q19E saw lukewarm sales growth	BUY	Megan Jin
25/04/2019	TCL Electronics	1070	1Q19E business update on track	BUY	Yuji Fung/Dallas Cai
24/04/2019	CH Display OPT	334	1Q19E operations in line with expectations	BUY	Yuji Fung/Dallas Cai
23/04/2019	Zhongyu Gas	3633	Comeback with dollar margin improvement	NR	Megan Jin
18/04/2019	Li Ning	2331	Upbeat 1Q19E sales performance	HOLD	Dallas Cai/Megan Jin
15/04/2019	Anta Sports	2020	1Q19E retail performance in line	BUY	Dallas Cai/Megan Jin
10/04/2019	Q Tech	1478	March saw improving product mix	SELL	Yuji Fung/Dallas Cai
09/04/2019	Xtep Intl	1368	1Q19 operations on track	BUY	Dallas Cai/Megan Jin
09/04/2019	China Youzan	8083	Introducing Tencent as strategic investor	BUY	Yuji Fung/Dallas Cai
04/04/2019	Regal Intl Airport	357	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
02/04/2019	Tianlun Gas	1600	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
01/04/2019	Truly Int'l	732	FY18 earnings miss on GPM and loss from associate	BUY	Yuji Fung/Dallas Cai
28/03/2019	China Youzan	8083	FY18 saw narrower loss than expected	BUY	Yuji Fung/Dallas Cai
27/03/2019	Sinosoft Tech	1297	FY18 results in line	BUY	Yuji Fung/Dallas Cai
26/03/2019	Q Tech	1478	Downgrade to SELL as margin recovery was priced in	SELL	Yuji Fung/Dallas Cai
25/03/2019	Li Ning	2331	FY18 saw sustainable high-quality growth	HOLD	Dallas Cai/Megan Jin
22/03/2019	Chinasoft Intl	354	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
21/03/2019	Sunny Optical	2382	Downgrade on fair value	HOLD	Yuji Fung/Dallas Cai
21/03/2019	Tongda	698	GPM likely bottom out	BUY	Yuji Fung/Dallas Cai
21/03/2019	Ju Teng Intl	3336	On secular trend of metal casing adoption	BUY	Yuji Fung/Dallas Cai
20/03/2019	CH Display OPT	334	FY18 revenue beat, earnings in line	BUY	Yuji Fung/Dallas Cai
20/03/2019	Ausnutria Dairy	1717	Margin expansion story continues	BUY	Dallas Cai
20/03/2019	TCL Electronics	1070	Promising FY19E ahead	BUY	Yuji Fung/Dallas Cai
18/03/2019	361 Degrees Intl	1361	Rebranding strategies to bear fruit in 2020E	BUY	Yuji Fung/Dallas Cai
15/03/2019	Kingdee Intl	268	FY18 results up to expectations	HOLD	Yuji Fung/Dallas Cai
13/03/2019	Xtep Intl	1368	Growth momentum likely keeps up in FY19E	BUY	Dallas Cai/Megan Jin

Historical recommendations and target price: Q Tech (1478 HK)

(as of 08/05/2019)



Date	Rating	TP (HK\$)	CLOSE (HK\$)	Date	Rating	TP (HK\$)	CLOSE (HK\$)
1 10 Jul 2018	SELL	4.90	5.70	6 11 Dec 2018	BUY	5.75	4.40
2 18 Jul 2018	SELL	4.10	4.35	7 11 Jan 2019	BUY	5.40	4.65
3 25 Jul 2018	HOLD	7.36	7.05	8 20 Feb 2019	BUY	7.00	5.66
4 31 Aug 2018	HOLD	5.75	5.07	9 26 Mar 2019	SELL	5.70	6.61
5 09 Nov 2018	BUY	5.75	4.28	10 10 Apr 2019	SELL	5.70	9.09

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