

Q Tech (1478 HK)

Yuji Fung

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Company Update

BUY

UNCHANGED

Close price: **HK\$12.58**

Target Price: **HK\$15.90 (+26%)**

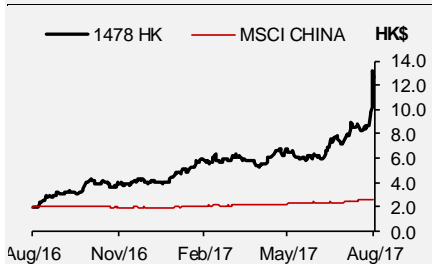
Prior TP **HK\$7.80**

Key Data

HKEx code	1478
12 Months High (HK\$)	14.88
12 Month Low (HK\$)	1.91
3M AvgDail Vol. (mn)	8.62
Issue Share (mn)	1,095.60
Market Cap (HK\$mn)	13,782.61
Fiscal Year	12/2016
Major shareholder (s)	He Ningning (68.56%)

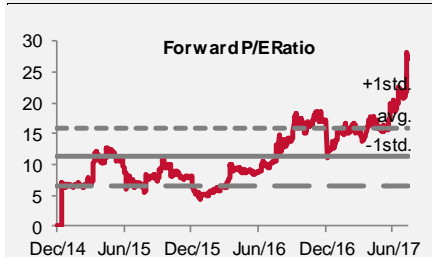
Source: Company data, Bloomberg, OP Research
Closing price are as of 11/08/2017

Price Chart



	1mth	3mth	6mth
Absolute %	62.1	95.1	116.9
Rel. MSCI CHINA %	55.8	81.5	93.3

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.

1H17 up on GPM and ASP

- Q-Tech released its 1H17 results with sales up 109% yoy to RMB3.6bn and net profit up 145% yoy to RMB202mn, better than market expected.
- We revised up our FY17/18E earnings by 32.4%/20.8% to reflect better GPM and ASP driven by higher 13MP+ HCM contribution and economies of scale.
- Reiterate BUY with TP revised up to HK\$15.9 based on rolled forward 25x FY18E PE.

1H17 results up on GPM and ASP. Q-Tech released its 1H17 results with sales up 109% yoy to RMB3.6bn. 1H17 HCM and Fingerprint module ASP improved by 35.5%/1.3% yoy to RMB30.9/RMB30.1, better than market expected. 13MP+ HCM contribution increased to 43.5% in 1H17 compared to 14% in 1H16. As a result of better product mix and economies of scale, 1H17 GPM improved by 2.8ppt to 12.1%. 1H17 net profit was up 145% yoy to RMB202mn.

We revised up our FY17/18E earnings by 32.4%/20.8% to RMB497mn/RMB604mn. We revised down our FY17E HCM shipment by 4% to 213mn units, representing 20% yoy growth, lower than mgmt. guided 25% while we revised up our FY17/18E fingerprint module shipments by 33.3%/15.6% to 80mn/104mn units given latest shipment figures. We also revised up our FY17E HCM ASP by 11.3% to RMB29 to reflect better than expected contribution of 13MP+ HCM shipments. We maintain our Dual-cam penetration at 10%/20% for FY17/18E. As a result, we revised up our FY17/18E revenue by 13.2%/5.6% to RMB8.5bn/RMB10.2bn and we also revised up our FY17/18E GPM by 2ppt/1.6ppt to 11.1%/10.9% hence we revised up our FY17/18E earnings by 32.4%/20.8% to RMB497mn/604mn.

Reiterate BUY. We reiterate our BUY rating on Q-Tech with TP revised up to HK\$15.9 based on rolled forward 25x FY18E PE given (1) solid ramp up of 13MP+ HCM, (2) accelerate growth on Dual-cam module in 2H17E to drive ASP, (3) better economies of scale to support 11%+ GPM

Risks: 1) slowdown in China smartphone shipments growth; 2) lower than expected dual camera penetration; 3) ASP erosion of CCM and fingerprint modules.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	2,202	4,991	8,528	10,162	12,506
Growth (%)	2	127	71	19	23
Net Profit	102	191	497	604	814
Growth (%)	(48)	87	160	22	35
Diluted EPS (HK\$)	0.122	0.215	0.521	0.634	0.855
EPS growth (%)	(67)	76	143	22	35
Change to previous EPS (%)			32.4	20.8	
Consensus EPS (HK\$)			0.471	0.649	0.832
ROE (%)	8.7	13.7	27.6	26.4	28.1
P/E (x)	105.5	59.9	24.7	20.3	15.0
P/B (x)	8.6	7.5	5.8	4.6	3.6
Yield (%)	0.0	0.3	0.7	0.9	1.2
DPS (HK\$)	0.000	0.039	0.095	0.115	0.155

Source: Bloomberg, OP Research

Exhibit 2: Revisions in Key Assumptions and Forecasts

(RMB mn)	FY17E			FY18E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Shipments (mn pcs)							
CCM shipments	213	222	(4.0)	255	255	0.2	
Fingerprint shipment	80	60	33.3	104	90	15.6	
ASP (RMB per pcs)							
HCM ASP	29	26	11.3	28	28	0.0	Mainly reflect higher than expected penetration of 13MP+ camera module
Fingerprint ASP	30	30	0.0	28	26	5.9	
Dual-cam Shipments (mn pcs)	21	22	(0.9)	51	51	0.1	
Dual-cam penetration (%)	10%	10%	0.0	20%	20%	0.0	
Revenue by segment (RMB mn)							
Compact camera module	6,127	5,732	6.9	7,263	7,251	0.2	
Fingerprint module	2,401	1,801	33.3	2,899	2,369	22.4	
Revenue	8,528	7,533	13.2	10,162	9,620	5.6	
Gross profit	947	688	37.7	1,108	890	24.4	
Gross margin	11.1%	9.1%	2.0	10.9%	9.3%	1.6	Mainly reflect better product mix and scale effect
Opex	(360)	(273)	32.0	(382)	(359)	6.6	
EBIT	592	430	37.8	719	571	26.0	
Net Profit	497	375	32.4	604	500	20.8	
Diluted EPS (HK\$)	0.521	0.394	32.4	0.634	0.525	20.8	

Source: Bloomberg, OP Research

Exhibit 3: Forecast and Valuation

(RMB mn)	1H14	2H14	1H15	2H15	1H16	2H16	1H17	1H17 YoY	2H17E	OP Comments
Revenue	965	1,196	869	1,334	1,727	3,264	3,605	109%	4,923	
COGS	(797)	(1,012)	(757)	(1,205)	(1,566)	(3,003)	(3,171)	103%	(4,410)	
Gross profit	168	184	112	129	161	261	434	169%	512	
Other income & gains	1	27	15	(23)	(2)	(25)	(11)	436%	17	
Selling exp	(2)	(3)	(2)	(4)	(3)	(6)	(7)	88%	(10)	
Admin exp	(9)	(13)	(10)	(17)	(12)	(29)	(51)	310%	(52)	
R&D	(33)	(40)	(36)	(39)	(52)	(73)	(123)	135%	(118)	
Listing exp	(9)	(8)	0	0	0	0	0	n.a.	0	
Other opex	0	0	0	0	0	0	0	n.a.	0	
Operating profit (EBIT)	116	146	78	47	91	129	244	167%	348	
Provision for other items	0	0	0	0	0	0	0	n.a.	0	
Finance costs	(10)	(13)	(6)	(4)	(1)	(4)	(4)	209%	(3)	
Profit after financing costs	106	133	72	43	90	124	240	166%	345	
Associated cos	0	0	0	0	0	0	0	n.a.	0	
Jointly controlled cos	0	0	0	0	0	0	0	n.a.	0	
Pre-tax profit	106	133	72	43	90	124	240	166%	345	
Tax	(17)	(27)	(9)	(4)	(8)	(16)	(38)	378%	(50)	
Minority interests	0	0	0	0	0	0	0	n.a.	0	
Net profit	89	107	63	39	82	109	202	145%	295	
HoH%										
Revenue		24%	-27%	54%	29%	89%	10%		37%	
Gross profit		10%	-39%	16%	25%	62%	66%		18%	
Net profit		20%	-41%	-38%	111%	32%	86%		46%	
YoY%										
Revenue			-10%	12%	99%	145%	109%		51%	
Gross profit			-34%	-30%	45%	102%	169%		96%	
Net profit			-29%	-63%	30%	178%	145%		172%	

Source: Bloomberg, OP Research

Financial Summary

Year to Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Income Statement (RMB mn)					
Compact camera module	2,202	4,275	6,127	7,263	9,343
Fingerprint module	0	716	2,401	2,899	3,163
Others	0	0	0	0	0
Turnover	2,202	4,991	8,528	10,162	12,506
YoY%	2	127	71	19	23
COGS	(1,962)	(4,569)	(7,581)	(9,054)	(11,095)
Gross profit	241	422	947	1,108	1,411
	10.9%	8.5%	11.1%	10.9%	11.3%
Gross margin					
Other income	(8)	(27)	6	(7)	(0)
Selling & distribution	(6)	(10)	(17)	(21)	(24)
Admin	(28)	(41)	(103)	(126)	(147)
R&D	(74)	(125)	(241)	(236)	(273)
Listing exp	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	(108)	(176)	(360)	(382)	(445)
Operating profit (EBIT)	125	220	592	719	966
Operating margin	5.7%	4.4%	6.9%	7.1%	7.7%
Provisions	0	0	0	0	0
Finance costs	(10)	(6)	(8)	(8)	(8)
Profit after financing costs	115	215	584	711	958
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	115	215	584	711	958
Tax	(13)	(24)	(88)	(107)	(144)
Minority interests	0	0	0	0	0
Net profit	102	191	497	604	814
YoY%	(48)	87	160	22	35
Net margin	4.6%	3.8%	5.8%	5.9%	6.5%
EBITDA	157	281	689	840	1,102
EBITDA margin	7.1%	5.6%	8.1%	8.3%	8.8%
EPS (RMB)	0.098	0.181	0.438	0.533	0.718
YoY%	(67)	85	143	22	35
DPS (HK\$)	0.000	0.039	0.095	0.115	0.155
Year to Dec					
Cash Flow (RMB mn)					
EBITDA	157	281	689	840	1,102
Chg in working cap	203	(328)	(207)	(188)	(297)
Others	2	13	0	0	0
Operating cash	362	(34)	483	652	805
Interests paid	0	0	0	0	0
Tax	(38)	(5)	(10)	(88)	(107)
Net cash from operations	324	(39)	472	564	698
Capex	(137)	(409)	(341)	(203)	(250)
Investments	125	(26)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	2	0	0	0	0
Interests received	13	5	2	4	10
Others	1	(1)	0	0	0
Investing cash	4	(430)	(340)	(199)	(240)
FCF	328	(468)	133	365	458
Issue of shares	11	143	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(42)	0	(35)	(87)	(106)
Net change in bank loans	(654)	(24)	0	0	0
Interest paid	(14)	(6)	(8)	(8)	(8)
Others	80	133	0	0	0
Financing cash	(618)	246	(43)	(95)	(114)
Net change in cash	(290)	(223)	90	270	345
Exchange rate or other Adj	19	5	0	0	0
Opening cash	553	282	65	154	425
Closing cash	282	65	154	425	769
CFPS (HK\$)	0.387	(0.043)	0.496	0.592	0.733

Source: Company, OP Research

Year to Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Ratios					
Gross margin (%)	10.9	8.5	11.1	10.9	11.3
Operating margin (%)	5.7	4.4	6.9	7.1	7.7
Net margin (%)	4.6	3.8	5.8	5.9	6.5
Selling & dist'n exp/Sales (%)	0.3	0.2	0.2	0.2	0.2
Admin exp/Sales (%)	1.2	0.8	1.2	1.2	1.2
Payout ratio (%)	0.0	18.2	18.2	18.2	18.2
Effective tax (%)	11.1	11.1	15.0	15.0	15.0
Total debt/equity (%)	11.7	21.4	16.5	13.2	10.3
Net debt/equity (%)	cash	17.3	8.9	Net	Net
Current ratio (x)	2.01	1.26	1.21	1.25	1.30
Quick ratio (x)	1.73	0.99	0.92	0.96	1.01
Inventory T/O (days)	39	64	65	65	65
AR T/O (days)	147	191	170	170	170
AP T/O (days)	116	207	207	207	207
Cash conversion cycle (days)	70	47	28	28	28
Asset turnover (x)	1.03	1.53	1.51	1.36	1.38
Financial leverage (x)	1.83	2.34	3.14	3.26	3.13
EBIT margin (%)	5.7	4.4	6.9	7.1	7.7
Interest burden (x)	0.92	0.97	0.99	0.99	0.99
Tax burden (x)	0.89	0.89	0.85	0.85	0.85
Return on equity (%)	8.7	13.7	27.6	26.4	28.1
ROIC (%)	9.4	13.4	24.9	26.2	31.1
Year to Dec					
Balance Sheet (RMB mn)					
Fixed assets	421	720	963	1,042	1,147
Intangible assets & goodwill	1	1	1	1	0
Associated companies & JVs	0	0	0	0	0
Long-term investments	0	0	0	0	0
Other non-current assets	32	105	104	104	103
Non-current assets	454	826	1,068	1,147	1,251
Inventories	209	799	1,350	1,612	1,976
AR	889	2,606	3,972	4,733	5,825
Prepayments & deposits	0	0	0	0	0
Other current assets	156	224	224	224	224
Cash	282	65	154	425	769
Current assets	1,537	3,694	5,700	6,993	8,793
AP	622	2,593	4,302	5,138	6,297
Tax	2	10	88	107	144
Accruals & other payables	0	0	0	0	0
Bank loans & leases	142	335	335	335	335
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	766	2,939	4,725	5,580	6,776
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Deferred tax & others	7	14	14	14	14
MI	0	0	0	0	0
Non-current liabilities	7	14	14	14	14
Total net assets	1,218	1,568	2,029	2,546	3,255
Shareholder's equity	1,218	1,568	2,029	2,546	3,255
Share capital	8	9	9	9	9
Reserves	1,209	1,559	2,021	2,538	3,246
BVPS (HK\$)	1.50	1.72	2.20	2.77	3.53
Total debts	142	335	335	335	335
Net cash/(debts)	140	(271)	(181)	89	434

Exhibit 4: Peer Group Comparison

Company	Ticker	Price	3-mth			PER FY1	PER FY2	EPS FY1	EPS FY2	YoY%	YoY% Cagr (%)	PEG (x)	DivyldHi st (%)	Divyld P/B Hist FY1 (%)	P/B FY1	EbitdaHi (x)	EV/	EV/	Net	Gross	Net	ROE (%)	FY1 (%)	Shpx 1-mth %	Shpx 3-mth %
			st	Cur Yr	gearing Hist (%)												margin Hist (%)	margin Hist (%)							
Q Technology Gro	1478 HK	12.58	1,763	8.9	59.9	23.2	18.7	158.6	24.0	54.5	0.42	0.3	0.8	7.46	5.74	50.5	19.6	17.3	8.5	3.8	13.7	29.2	69.3	91.5	
HSI		26,883.51			14.0	12.7	11.7	10.1	8.8	9.5	1.34	3.3	3.3	1.33	1.28						9.5	10.0	3.9	7.0	
HSCEI		10,572.97			8.7	8.3	7.6	5.4	8.7	8.0	1.04	3.8	3.6	1.03	0.94						11.7	11.3	1.5	3.1	
CSI300		3,647.35			16.0	14.1	12.5	13.5	13.0	12.9	1.09	2.0	2.1	1.91	1.74						11.9	12.4	(0.6)	8.7	
Adjusted sector avg*					37.5	22.6	17.3	51.1	29.7	30.2	0.7	1.7	1.9	3.5	2.9	22.9	14.5	41.6	13.5	2.8	15.4	14.3	(6.3)	5.9	
Sunny Optical	2382 HK	96.50	13,540	73.8	70.0	40.1	29.1	74.6	37.9	47.0	0.85	0.3	0.6	18.44	13.37	49.4	30.7	0.0	18.3	8.7	29.1	37.6	31.9	46.7	
Truly Intl Hldgs	732 HK	2.42	900	3.8	12.1	10.4	8.2	16.4	27.0	22.9	0.45	3.3	3.4	N/A	0.92	5.6	5.2	75.6	9.9	2.6	N/A	9.8	(10.0)	(8.0)	
Cowell	1415 HK	3.25	346	7.7	12.2	6.8	5.5	79.4	23.0	32.4	0.21	2.5	2.9	1.16	0.99	6.2	4.3	0.0	8.3	3.1	9.8	15.3	2.2	34.3	
Shenzhen O-Fil-A	002456 CH	18.67	7,604	99.3	67.7	33.3	23.6	103.1	41.3	53.9	0.62	0.2	0.4	6.04	4.75	36.2	23.5	68.9	11.3	2.7	10.9	15.7	4.7	20.8	
Huizhou Speed -A	300322 CH	11.82	722	2.0	73.9	43.0	33.3	71.9	29.1	37.4	1.15	0.3	0.2	8.09	7.10	56.1	27.8	76.5	18.6	3.9	10.1	15.1	(30.6)	(30.7)	
Crucialtec Co Lt	114120 KS	2,995.00	153	2.6	449.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.39	N/A	19.0	N/A	111.9	16.8	0.1	(17.7)	N/A	(9.8)	(30.9)	
Lite-On Tech	2301 TT	44.00	3,388	11.2	10.9	11.1	10.4	(1.7)	6.7	3.8	2.87	6.6	6.5	1.44	1.27	3.8	4.4	0.0	13.6	4.1	13.3	11.9	(12.2)	(10.5)	
Primax Elec	4915 TT	68.50	1,003	6.6	15.6	13.7	11.4	14.0	20.0	14.1	0.97	3.6	4.1	2.86	2.47	6.7	6.0	0.0	11.3	3.0	19.0	17.8	11.7	25.7	

* 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	Stock Code	Title	Rating	Analyst
09/08/2017	TCL Multimedia	1070	1H17 results in line	BUY	Yuji Fung
08/08/2017	CH Display OPT	334	1H17 Results beat expectations	BUY	Yuji Fung
07/08/2017	Dynagreen Environmental	1330	Tongzhou Phase Two off launch-pad	BUY	Bruce Yeung
27/07/2017	China Securities Sector	-	Preliminary 1H17 results	BUY	Bruce Yeung/Daisy Wang
20/07/2017	Canvest	1381	Fast and Fabulous	BUY	Bruce Yeung/Daisy Wang
11/07/2017	Dynagreen Environmental	1330	Positive catalyst ahead	BUY	Bruce Yeung/Daisy Wang
30/06/2017	GTJA	2611	Catching the momentum	BUY	Bruce Yeung/Daisy Wang
28/06/2017	Chinasoft Intl	354	1H17E result preview	BUY	Yuji Fung
13/06/2017	Q Tech	1478	Product mix continues to improve in May	BUY	Yuji Fung
12/06/2017	CH Display OPT	334	Promising prospects from share deal	BUY	Yuji Fung
12/06/2017	Sunny Optical	2382	Momentum in May pushes shipment	BUY	Yuji Fung
31/05/2017	Truly Intl	732	1Q17 results up to expectations	BUY	Yuji Fung
26/05/2017	C Cheng	1486	Le Mariage	BUY	Bruce Yeung
11/05/2017	Q Tech	1478	CCM shipment growth accelerated in April	BUY	Chloe Liu/Yuji Fung
11/05/2017	China Securities Sector	-	1Q17 review looking rosy	BUY	Bruce Yeung/Daisy Wang
10/05/2017	Sunny Optical	2382	Strong growth in April HLS shipments	BUY	Chloe Liu/Yuji Fung
09/05/2017	Kingdom Holdings	528	Heilongjiang plant kicks off in 3Q17E	HOLD	Bruce Yeung
08/05/2017	HNA Holding	521	Transforming story for OBOR	NR	Bruce Yeung/Daisy Wang
08/05/2017	Truly Intl	732	April sales in line	BUY	Chloe Liu/Yuji Fung
28/04/2017	TCL Multimedia	1070	Solid 1Q17 results	BUY	Chloe Liu/Yuji Fung
27/04/2017	China Securities Sector	-	Geared for 2017	BUY	Bruce Yeung/Daisy Wang
12/04/2017	Chunli Medical	1858	Transition on the way	BUY	Chloe Liu/Yuji Fung
11/04/2017	Sunny Optical	2382	Robust growth continues in Mar17	HOLD	Chloe Liu/Yuji Fung
11/04/2017	Q Tech	1478	1Q17 shipments beat on product mix upgrade	BUY	Chloe Liu/Yuji Fung
11/04/2017	CH Display OPT	334	Strong Mar17 sales	BUY	Chloe Liu/Yuji Fung
03/04/2017	Sinosoft Tech	1297	Solid FY16 results	BUY	Chloe Liu/Yuji Fung
29/03/2017	Chinasoft Intl	354	Solid FY16 results on rising sales	BUY	Chloe Liu/Yuji Fung

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

(as of 11/08/2017)

(HK\$)



Date	Rating	TP	Close	Date	Rating	TP	Close		
1	20 Sep 2016	Initial BUY	4.63	3.22	4	17 Mar 2017	BUY	7.80	6.04
2	11 Oct 2016	BUY	4.90	4.11	5	13 Jun 2017	BUY	7.80	6.16
3	11 Jan 2017	BUY	6.30	4.87	6				

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