

Company Report

Q Tech (1478 HK)

2019 Investor Day takeaway

- Management maintains 2019 growth targets despite disruptions N-T; CCM unit growth and FPM specs upgrade are key drivers
- Capacity expansion remains on track, increasing automation to help margin improvement
- Q Tech is a leading supplier of handset camera module (CCM) and fingerprint module (FPM) for Chinese OEMs

Full-year targets maintained amid near term disruptions

We attended Q Tech Investor Day in Kunshan on June 20. The company maintained its 2019 growth target (CCM: Shipment >30% growth, 10MP+ mix >50%; FPM underglass mix >40%), while seeing some disruptions in Jun-Aug. Similar to Sunny Optical (2382 HK), Q Tech expects the order decline at a key customer will be partly offset by growth at other handset makers, albeit at different specs. Q Tech believes its customer mix will be more evenly distributed in 2H19.

Capacity expansion plans remain on track

Q Tech continues to expand its CCM capacity from 35kk in 2018 to 50kk by end-2019, with capex plan unchanged at Rmb700mn (vs. RMB500 in 2018). Mass production at the Kunshan facility Phase 3 (site area 157mu) is on track to start in 3Q19. Management expects margin improvement through increasing production efficiency and automation (80% in 1H18 → 86% in 1H19), despite 2H19 uncertainties from FX movement and China-US trade conflicts. Product mix should continue to improve in 2H19.

Cautiously optimistic outlook for 2019

The company sees opportunities amid challenges this year, believing its investment in automation and vertical integration will help drive margins improvement over time. Q Tech targets to narrow gap with leading CCM vendors, and sees growing industry scale to create higher entry barriers for smaller players. Management remains positive on the handset camera / FPM industries as component upgrade (triple-camera, underglass FPM) will continue. Q Tech is also preparing solutions in 3D sensing (structural light, ToF) and automotive cameras for future opportunities.

Valuation

Q Tech shares now trade at 13 2019E P/E (0.3 std. above its 11x 5-year average) by Bloomberg consensus estimates.

Financials

RMB mn	2014	2015	2016	2017	2018
Revenue	2,161	2,202	4,991	7,939	8,135
YoY (%)	53%	2%	127%	59%	2%
Net profit	196	102	191	436	14
YoY (%)	20%	-48%	87%	129%	-97%
EPS (RMB)	0.30	0.10	0.18	0.39	0.01
Div Yield - TTM	0%	0%	1%	2%	0%
P/E (x) - TTM	6.0	13.7	19.8	23.5	309.0
P/B (x) - TTM	1.0	1.1	2.4	4.8	2.1
ROE (%)	28%	9%	14%	23%	1%

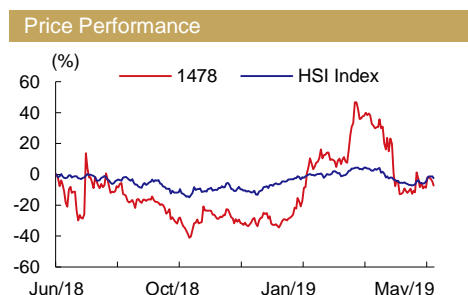
Sources: Company data, CMS (HK)

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N/R Notes

NON-RATED

Price (2019/06/25) HK\$5.75



Source: Bigdata; as of 2019/6/25

%	1m	6m	12m
1478.HK	9.6	48.6	(9.6)
HSI	4.2	11.2	(2.8)

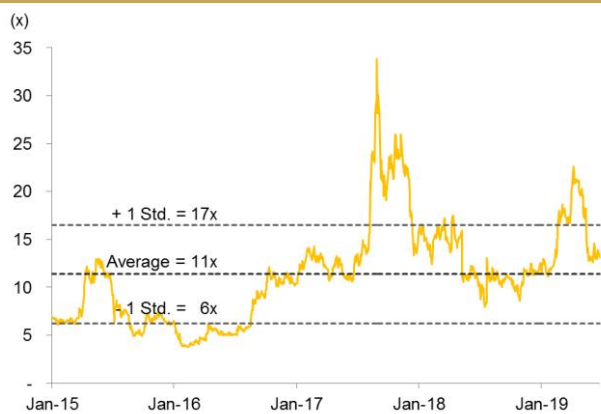
Sector: Hardware Technology	
Hang Seng Index (2019/6/25)	28186
HSCEI (2019/6/25)	10742
Key Data	
52-week range (HK\$)	3.58-11.56
Market cap (HK\$ mn)	6566
Avg. daily volume (mn)	5.86
BVPS (HK\$)	1.83
Shareholding Structure	
He Ningning	66.39%
Vanguard Group Inc	1.00%
No. of shares outstanding (mn)	1142
Free float	32.92%

Sources: Bloomberg

Valuations

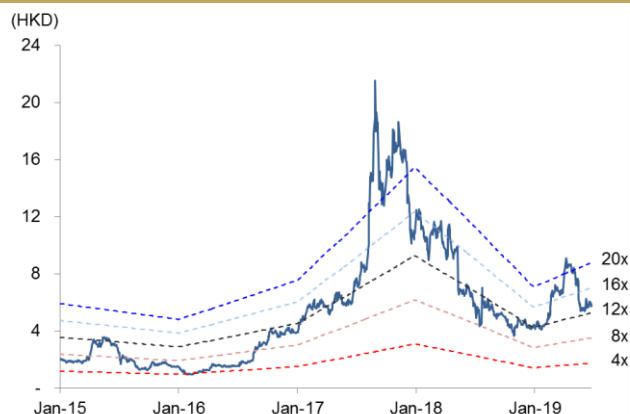
Q Tech shares rose 29% YTD, now trading at 13x 2019E P/E (0.3 std. above its 11x 5-year average) by Bloomberg consensus estimates.

Figure 1: Q Tech forward P/E



Sources: Bloomberg, CMS (HK); as of 2019/6/25

Figure 2: Q Tech forward P/E band



Sources: Bloomberg, CMS (HK); as of 2019/6/25

Financial Summary

Balance Sheet

RMB mn	2014	2015	2016	2017	2018
Current assets	1,943	1,537	3,694	4,147	4,229
Cash & equivalents	553	282	65	465	100
S/T investments	0	0	0	0	0
Accounts receivable	873	889	2,606	2,035	3,031
Inventories	142	209	799	688	704
Pledged band deposits	250	146	97	78	288
Other current assets	125	11	127	881	105
Non-current assets	360	454	826	1,953	2,211
PP&E – net	336	421	720	1,481	1,889
Investment in associate	0	0	0	258	229
Prepayments	19	27	100	193	63
Deposits	0	0	0	12	7
Other non-current assets	5	6	6	9	23
Total assets	2,303	1,991	4,520	6,100	6,440
Current liabilities	1,169	766	2,939	3,934	4,270
S/T debt	713	142	335	1,078	1,178
Accounts payable	445	622	2,593	2,830	3,061
Tax payable	12	2	10	8	2
Other current liabilities	0	0	0	18	29
Non-current liabilities	9	7	14	20	66
L/T debt	0	0	0	0	0
Other L/T liabilities	9	7	14	20	66
Total liabilities	1,178	773	2,952	3,955	4,336
Common stocks	8	8	9	9	9
Total reserves	1,116	1,209	1,559	2,137	2,094
Treasury stocks	0	0	0	0	0
Capital adjusted	0	0	0	0	0
Minority interests	0	0	0	0	0
Total equity and liabilities	2,303	1,991	4,520	6,100	6,440

Cashflow Statement

RMB mn	2014	2015	2016	2017	2018
CF from operating activities	304	324	(39)	2,222	(173)
Pretax income	239	115	215	510	1
Depreciation & amortization	31	42	64	136	218
Changes in Working Capital	78	186	(289)	1,519	(781)
Others	(45)	(19)	(29)	57	389
CF from investing activities	239	4	(430)	(2,119)	387
Capital expenditure	(158)	(137)	(409)	(949)	(493)
Investments	0	0	(26)	(1,176)	878
Others	398	141	5	6	2
CF from financing activities	(33)	(618)	246	312	(584)
Dividends paid	0	(42)	0	(37)	(92)
Share issued (cancelled)	551	11	143	185	55
Debt issued (repaid)	(33)	(654)	(24)	218	(346)
Others	(550)	67	127	(54)	(201)
Net cash flow	511	(271)	(217)	400	(365)

Sources: Company data, CMS (HK)

Profit & Loss Statement

RMB mn	2014	2015	2016	2017	2018
Revenue	2,161	2,202	4,991	7,939	8,135
Cost of sales	(1,809)	(1,962)	(4,569)	(7,056)	(7,782)
Gross profit	353	241	422	883	353
R&D expenses	(73)	(74)	(125)	(270)	(266)
S&M expenses	(6)	(6)	(10)	(16)	(19)
G&A expenses	(40)	(28)	(41)	(65)	(81)
Operating profit	234	133	247	532	(13)
Interest income	5	11	4	18	29
Interest expense	(23)	(10)	(6)	(17)	(44)
Other non-op items	23	(19)	(31)	(24)	29
Pretax income	239	115	215	510	1
Tax expense	(44)	(13)	(24)	(73)	13
Net income (bef min)	196	102	191	436	14
Minorities	0	0	0	0	0
Net income (aft min)	196	102	191	436	14
Diluted EPS (US cent)	0.30	0.10	0.18	0.39	0.01

Financial

	2014	2015	2016	2017	2018
YoY growth rate					
Revenue	53.2%	1.9%	126.6%	59.1%	2.5%
Operating profit	41.6%	-43.3%	86.3%	115.5%	n.a.
Net profit	19.8%	-47.8%	87.0%	128.7%	-96.7%
Profitability					
Gross margin	16.3%	10.9%	8.5%	11.1%	4.3%
Op margin	10.8%	6.0%	4.9%	6.7%	-0.2%
Net margin	9.0%	4.6%	3.8%	5.5%	0.2%
ROE	28.1%	8.7%	13.7%	23.5%	0.7%
Liquidity					
Debt to equity	63.4%	11.7%	21.4%	50.2%	56.0%
Net debt to equity	14.2%	-11.5%	17.3%	28.6%	51.3%
Current ratio	1.7	2.0	1.3	1.1	1.0
Quick ratio	1.5	1.7	1.0	0.9	0.8
Operating efficiency					
Asset turnover	1.1	1.0	1.5	1.5	1.3
Inventory turnover	13.4	11.2	9.1	9.5	11.2
AR turnover	2.5	2.5	2.9	3.4	3.2
AP turnover	2.7	3.7	2.8	2.6	2.6
Per share ratios (RMB)					
EPS	0.30	0.10	0.18	0.39	0.01
Net Cash PS	(0.24)	0.13	(0.26)	(0.55)	(0.95)
FCF PS	0.22	0.18	(0.42)	1.14	(0.58)
EBITDA PS	0.44	0.15	0.26	0.57	0.21
Valuation ratios					
P/E – TTM	6.0	13.7	19.8	23.5	309.0
P/B – TTM	1.0	1.1	2.4	4.8	2.1
EV/EBITDA – TTM	4.3	7.8	14.3	16.5	23.4

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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