

Q Technology (01478.HK)

1H21 profits exceed expectations, Future upgrade logic remains unchanged
Hong Kong | TMT Hardware | Update Report

10 September 2021

Investment Summary

Q Technology announced the company's interim results as of 30 June 2021. During the period, the revenue was approximately RMB 9.336 billion (+6.1% yoy), the gross profit was approximately RMB 1.083 billion (+47.9%), the gross profit margin was approximately 11.6%, an increase of about 3.3 ppts compared with about 8.3% in the same period. The company's net profit was about RMB 571 million (+70.1% yoy), which was higher than the 40%-60% guidance range of the company's positive profit forecast. In addition, excluding the company's initiative to impair the goodwill of Newmax Technology and the asset restructuring costs arising from the spon-off of Kunshan Q Technology China to A-share listing, the company's net profit will increase by 82.9% yoy. The company's net profit growth was mainly attributable to steady growth in the company's camera module sales, continuous improvement of its customer structure and the optimization of its camera module product structure.

1H21 Camera module shipments are lower than the company's expectations, Increasing proportion of high-end products

The company's 1H21 camera module shipments were approximately 224 million units (+24.2% yoy). The company lowered the camera shipment target for 2021 given at the beginning of the year, from a yoy growth of not less than 30% to 25%, mainly due to insufficient supply of key components in the smartphone supply chain. For 2H21, the company remains optimistic, given camera module shipments a growth rate of 25.7% yoy and 19.2% mom growth. In terms of production capacity, the company maintains its monthly production target of 65kk at the end of 2021.

In terms of product structure, the company's sales of 32 megapixel and above camera module products accounted for an increase of about 4.2 ppts to 32.4% of the total sales, which was slightly higher than the company's target of its shipment volume for the year not less than 30% of the total sales. However, the sales ratio of camera module products with 10 megapixel and above dropped by about 2.7 ppts yoy to about 70.8%. As a result, the company's average unit price of camera modules in the first half of the year fell by approximately 12.4% yoy from approximately RMB 42.8 in the same period to RMB 37.5 but it has increased by 6.5% from the average unit price of RMB 35.2 in the second half of 2020, reflecting a mom increase of camera module products. The unit price has returned to the upgrade track. We believe that the trend of lowering regulations and allocations of mobile phones in the second half of the year still exists, and the company is still under pressure to increase unit prices. However, the second half of the year is expected to enter the peak season of the traditional mobile phone supply chain and drive the sales of camera module products to increase mom. In addition, the unit price of the module continues to be close to the average unit price of the industry leader Sunny Optical (approximately RMB 39.2) and the industry recognition has been verified.

Buy (Upgrade)

CMP HKD 12.72
(Closing price as of 8 September)
Target HKD 21.20 (+66.67%)

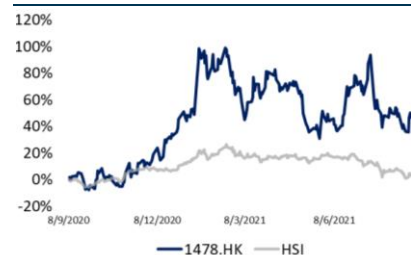
COMPANY DATA

O/S SHARES (MN) :	1,181.99
MARKET CAP (HKD B) :	15.035
52 - WK HI/LO (HKD):	18.15/11.80

SHARE HOLDING PATTERN, %

He Ningning	63.75%
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PRICE VS. HSI



Source: Wind, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	13,170	17,400	22,219	28,032
Net Profit	542	840	1,175	1,461
EPS, CNY	0.48	0.72	1.01	1.25
P/E, x	31.7	19.7	14.2	11.4
BVPS, CNY	1.87	2.52	3.24	4.12
P/BV, x	6.0	4.4	3.5	2.7
DPS (HKD cent)	0.1	0.05	0.15	0.13
Div. Yield (%)	1.30	0.46	0.87	0.8

Source: Company reports, Phillip Securities Est.

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Towards three strategic objectives for five-year

For the next five-year plan, the company has put forward three strategic goals in terms of industry positioning, new segments and vertical integration: 1) To rank top 2 in terms of sales volume of CCm and FPM as well as top 5 in terms of sales volume in automotive CCM. 2) To pursue progress in the new segments such as automotive, AR/VR, smart home and target a quarter of revenue contribution coming from these new segments. 3) With module packaging and testing as the cornerstone, reach out and further integrate with upstream supply chain for the purpose to provide leading total intelligent vision system solution. We believe that the company's short-, medium-, and long-term customer marketing goals are clear. In addition, the smart phone camera upgrade logic remains unchanged, and the company continues to optimize the camera module product structure. Car cameras with high ASP are in the incremental market and are expected to replicate the mobile phone sales logic. Car camera modules have been certified by many car companies, including Geely automobile, BGMW, XPENG Motors. The company is also actively deploying in the IoT field and cultivating 6 types of segmented application, including drones, wearables, smart home, smart panel, laptop, AR/VR.

Company valuation

We raise our net profit forecast for 2021/2022/2023 to RMB 1.251/ 1.668/ 2.009 billion, and the CAGR for 21-23 is 26.75%, mainly considering the trend of future mobile phone upgrades, the company's continuous optimization of product portfolio which the product mix leads to an increase in gross profit margin, and the layout of emerging business. We maintain the company's 2021 price-earnings ratio of 17.0x and raise the target price to HK\$21.20, which corresponds to 17.0x/ 12.7x/ 10.6x per stock market in 2021/ 2022/ 2023, upgraded to "Buy". (Current Price as of: 8th September)

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	13,170	17,400	22,219	28,032	32,104
COGS	(11,990)	(15,630)	(19,775)	(24,892)	(28,380)
Gross Profit	33,877	86,861	234,046	352,579	240,571
S&D expense	(15)	(26)	(36)	(40)	(49)
Admin. expense	(128)	(153)	(211)	(262)	(295)
R&D expense	(396)	(590)	(753)	(915)	(1,074)
Other gains and losses	43	130	-	-	-
Other net loss	(64)	(86)	-	-	-
Operating Profit	620	1,046	1,444	1,924	2,305
Finance costs	(53)	(54)	(52)	(53)	(52)
Share of (loss)/profit of an associate	40	(23)	30	40	40
Profit before tax	607	970	1,422	1,911	2,293
Income tax	(65)	(130)	(171)	(243)	(283)
Profit for the year	542	840	1,251	1,668	2,010
Non-controlling interests	-	-	-	-	-
Net profit	542	840	1,251	1,668	2,010

Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	23.9	14.9	10.2	7.7	6.4
P/B ratio, x	4.5	3.3	2.7	2.1	1.7
Dividend Yield, %	0.79%	0.39%	1.96%	2.61%	3.15%

Per share data (RMB)

EPS	0.48	0.72	1.06	1.41	1.70
BVPS	2.52	3.24	4.05	5.18	6.54
DPS (HKD)	0.10	0.05	0.25	0.33	0.40

Growth & Margin

Growth					
Revenue Growth	62%	32%	28%	26%	15%
Gross Profit Growth	234%	50%	38%	28%	19%
Operating Profit Growth	785%	69%	38%	33%	20%
Net Profit Growth	3666.7%	54.9%	48.9%	33.3%	20.5%
Margin					
Gross Profit Margin	9.0%	10.2%	11.0%	11.2%	11.6%
Operating Profit Margin	4.7%	6.0%	6.5%	6.9%	7.2%
Net Profit Margin	4.1%	4.8%	5.6%	6.0%	6.3%

Key Ratios

ROE	21.8%	25.3%	29.2%	30.6%	29.0%
ROA	6.4%	7.6%	9.9%	10.7%	10.8%

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Non Current Asset					
PPE	2,704	2,960	3,301	3,579	3,945
Intangible assets	5	4	4	3	2
Others	563	557	557	557	557
Total Non Current Assets	3,272	3,521	3,861	4,139	4,505
Current Asset					
Inventory	1,913	1,943	2,122	2,820	3,254
Trade and other receivables	4,919	3,589	5,432	6,853	7,849
Bank balance and cash	412	1,984	2,097	3,017	4,131
Others	119	367	367	367	367
Total Current Assets	7,363	7,882	10,018	13,057	15,600
Total Assets	10,635	11,403	13,879	17,195	20,105
Non Current Liabilities					
Long-term bank borrowings	59	159	159	159	159
Others	166	182	182	182	182
Total Non-current Liabilities	225	341	341	341	341
Current Liabilities					
Short-term bank borrowings	1,270	1,104	1,104	1,104	1,104
Trade and other payables	5,935	6,013	7,488	9,470	10,772
Others	339	159	159	159	159
Total Current Liabilities	7,543	7,276	8,751	10,733	12,035
Equity					
Share Capital	9	9	9	9	9
Reserves	2,858	3,776	4,777	6,112	7,719
Non-controlling interests	-	-	-	-	-
Total equity	2,867	3,786	4,787	6,121	7,729
Total Liabilities and Equity	10,635	11,403	13,879	17,195	20,105

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
CFO	2400	3604	1204	2077	2463
Profit before taxation	607	970	1422	1911	2293
Interest expenses	53	54	52	53	52
D&A	291	385	449	493	528
Change in working capital	1,415	2,177	(547)	(137)	(128)
Others	67	140	-	-	-
CF	(1,271)	(696)	(789)	(770)	(895)
Capital expense	(1,137)	(523)	(789)	(770)	(895)
Others	(135)	(173)	-	-	-
CFF	-817	-1315	-302	-386	-454
Interest paid	(53)	(53)	(52)	(53)	(52)
Dividends paid	-	(107)	(250)	(334)	(402)
Total bond issuance	(1,086)	(1,015)	-	-	-
Others	323	(140)	-	-	-
Net Change in Cash	311	1593	113	920	1114
Foreign exchange	0.3	(21)	-	-	-
Cash and CE at Y/E	412	1,984	2,097	3,017	4,131

Current Price as of: 8th September

Source: PSHK

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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