

Q-Tech (1478 HK)

Beneficiary of China smartphone subsidies; Raise TP to HK\$6.79

We raised TP to HK\$6.79 based on same 13x FY25E P/E, as we believe Q-tech will benefit from accelerated Android demand thanks to China national handset subsidy rollout in 1H25E. We revised up our FY25-26E EPS forecasts by 6-12% to factor in better Android demand in FY25/26E and FY24 positive profit alert. Looking into 2025, we are positive on China smartphone subsidy, Q-tech's non-mobile CCM (auto/ AR&VR) and ultrasound FPM biz ramp-up. We estimate Q-tech's net profit to grow 102%/30% YoY in FY25/26E. Trading at 11.4x FY25E P/E, we think the stock is attractive. Reiterate BUY.

■ **2025 outlook: Android demand, China subsidies, auto/AR&VR CCM, ultrasound FPM.** Looking into 2025, we are positive on China national subsidies to boost smartphone replacement cycle, and we expect Android smartphones are the key beneficiaries given price cap at RMB6,000. We expect Q-tech's high exposure to Android clients and focus on high-end spec upgrade including OIS/periscope will boost its shipment/ASP in 2025. As for non-mobile CCM, we are positive on rising NEV/ADAS penetration, AR/VR/IoT market. Ultrasound FPM is also another growth driver in FY25E. Overall, we forecast net profit to grow 102%/30% YoY in FY25/26E.

■ **FY24 positive profit alert of 200-280% YoY on high-end HCM demand, better FPM and rising UTR.** Q-tech preannounced FY24 net profit growth of 200-280% YoY, largely in-line with market expectations. Mgmt. attributed the increase to: 1) CCM/FPM share gains and sales improvement driven by smartphone, smart driving and IoT market under AI trend; 2) improving high-end HCM (32MP+) and FPM product mix led to GPM improvement; 3) rising UTR on CCM/FPM demand recovery and spec upgrade; 4) narrowing loss of an associate (Newmax in our view). As for tax dispute in India, India Q-tech received a rectification order on 9 Jan with a reduction of additional tax payable to RMB110mn (vs original amount of RMB152mn). Overall, we look forward to mgmt. updates on CCM/FPM business outlook and guidance during their FY24 earnings call in mid-Mar.

■ **Reiterate BUY.** On the back of China smartphone subsidy and Android share gains, we are positive on Q-tech's Android high-end CCM ASP/GPM, non-mobile CCM ramp-up and ultra-sound FPM improvement in 2025. We revised up our FY25-26E EPS forecasts by 6-12%, above consensus by 24%/33%. Our new TP of HK\$6.79 is based on same 13x FY25E P/E. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	13,759	12,531	16,612	19,134	21,531
YoY growth (%)	(26.3)	(8.9)	32.6	15.2	12.5
Net profit (RMB mn)	170.2	83.5	278.3	563.2	730.6
EPS (Reported) (RMB cents)	14.50	6.90	23.49	47.54	61.68
YoY growth (%)	(80.2)	(52.4)	240.5	102.4	29.7
Consensus EPS (RMB)	0.00	0.00	0.28	0.39	0.48
P/E (x)	37.5	78.7	23.1	11.4	8.8
P/B (x)	1.3	1.3	1.3	1.2	1.1
Yield (%)	0.0	0.0	0.5	1.8	2.3
ROE (%)	3.6	1.7	5.6	10.6	12.6
Net gearing (%)	26.6	26.0	19.2	19.9	7.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$6.79
(Previous TP	HK\$6.43)
Up/Downside	17.7%
Current Price	HK\$5.77

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Stock Data

Mkt Cap (HK\$ mn)	6,837.5
Avg 3 mths t/o (HK\$ mn)	54.3
52w High/Low (HK\$)	6.97/2.56
Total Issued Shares (mn)	1185.0

Source: FactSet

Shareholding Structure

HE Ningning	63.6%
Harvest Fund Management Co Ltd	2.7%

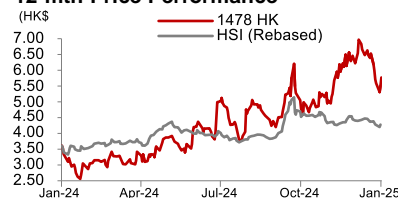
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.7%	-7.5%
3-mth	20.5%	26.9%
6-mth	14.9%	7.4%

Source: FactSet

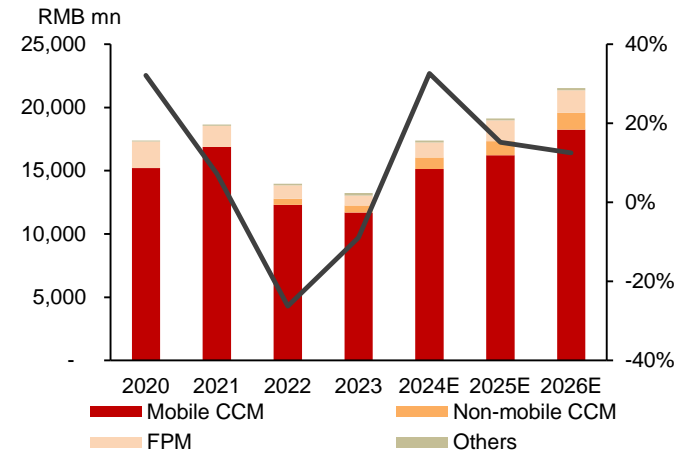
12-mth Price Performance



Source: FactSet

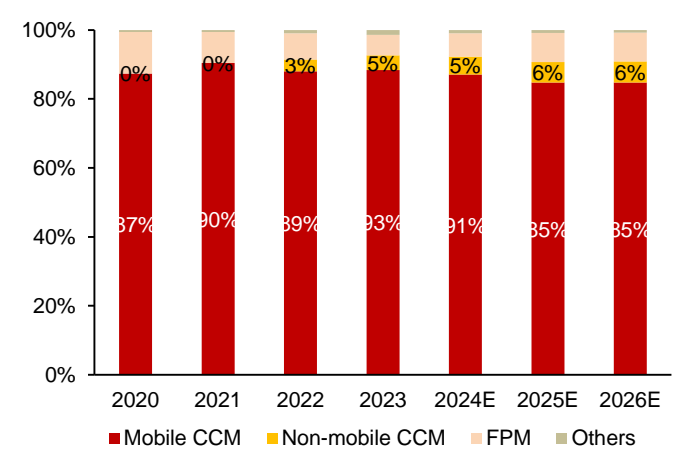
Focus Charts

Figure 1: Revenue growth trend



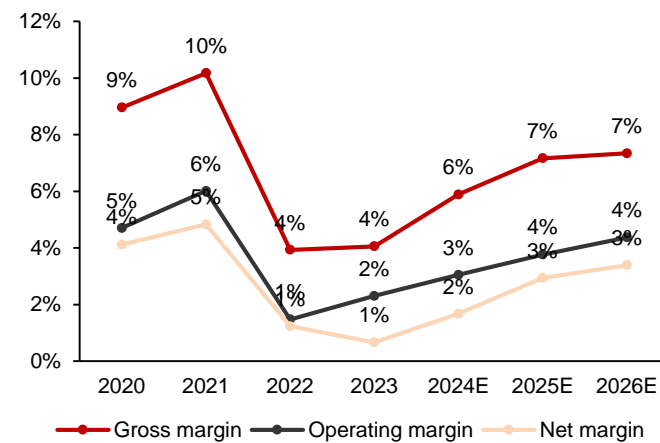
Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown



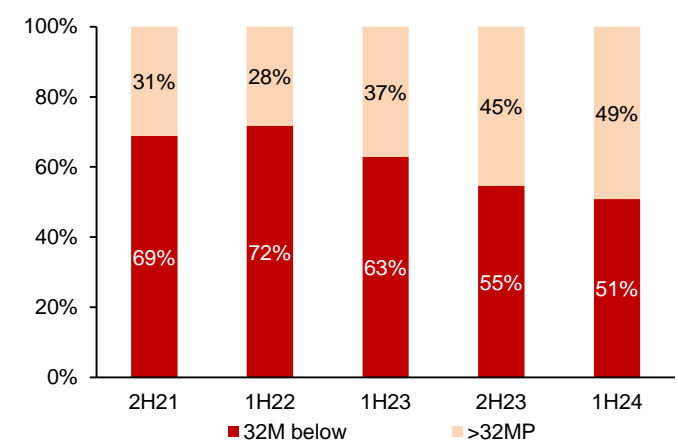
Source: Company data, CMBIGM estimates

Figure 3: Margins trend



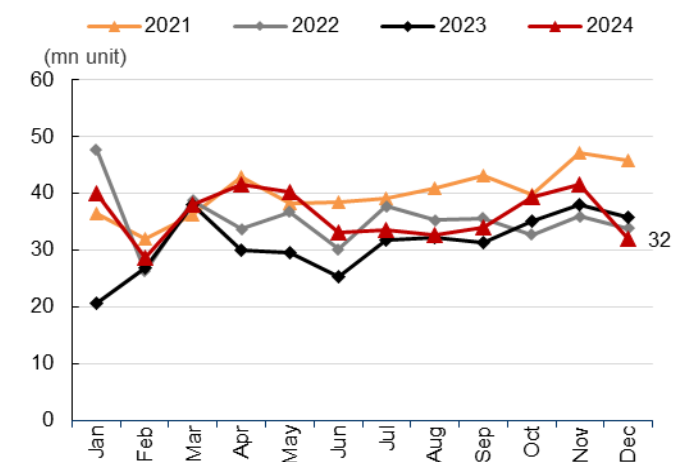
Source: Company data, CMBIGM estimates

Figure 4: CCM shipment mix



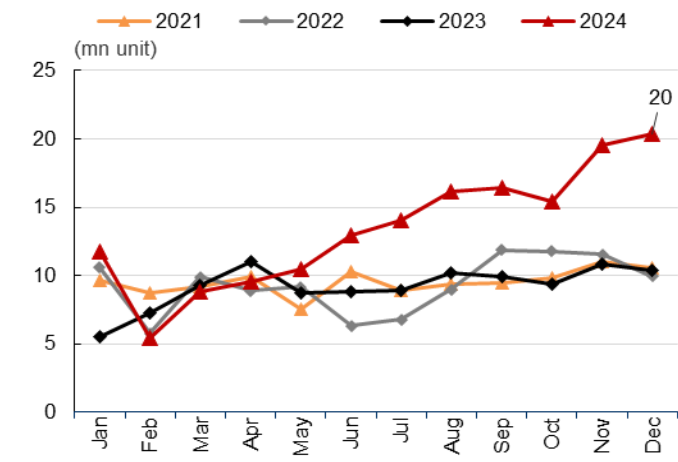
Source: Company data, CMBIGM estimates

Figure 5: CCM monthly shipment



Source: Company data, CMBIGM estimates

Figure 6: FPM monthly shipment



Source: Company data, CMBIGM estimates

Earnings Revision

Figure 7: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	16,612	19,134	21,531	16,196	17,628	19,539	3%	9%	10%
Gross profit	978	1,371	1,581	959	1,313	1,409	2%	4%	12%
Operating profit	506	721	941	559	687	878	-9%	5%	7%
Net profit	278	563	731	356	533	654	-22%	6%	12%
EPS (RMB)	23.5	47.5	61.7	30.0	45.0	55.2	-22%	6%	12%
Gross margin	5.9%	7.2%	7.3%	5.9%	7.4%	7.2%	0 ppt	-0.3 ppt	0.1 ppt
Operating margin	3.0%	3.8%	4.4%	3.5%	3.9%	4.5%	-0.4 ppt	-0.1 ppt	-0.1 ppt
Net Margin	1.7%	2.9%	3.4%	2.2%	3.0%	3.3%	-0.5 ppt	-0.1 ppt	0 ppt

Source: Company data, CMBIGM estimates

Figure 8: CMBI estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	16,612	19,134	21,531	16,607	18,311	20,035	0%	4%	7%
Gross profit	978	1,371	1,581	966	1,214	1,372	1%	13%	15%
Operating profit	506	721	941	325	492	579	56%	46%	63%
Net profit	278	563	731	322	455	548	-14%	24%	33%
EPS (RMB)	23.5	47.5	61.7	27.5	39.4	47.7	-15%	21%	29%
Gross margin	5.9%	7.2%	7.3%	5.8%	6.6%	6.8%	0.1 ppt	0.5 ppt	0.5 ppt
Operating margin	3.0%	3.8%	4.4%	2.0%	2.7%	2.9%	1.1 ppt	1.1 ppt	1.5 ppt
Net Margin	1.7%	2.9%	3.4%	1.9%	2.5%	2.7%	-0.3 ppt	0.5 ppt	0.7 ppt

Source: Company data, CMBIGM estimates

Earnings Forecasts

Figure 9: P&L forecast

RMB mn	FY21	FY22	FY23	1H24	2H24E	FY24E	FY25E	FY26E
Revenue	18,663	13,759	12,531	7,675	8,937	16,612	19,134	21,531
...YoY	7.3%	-26.3%	-8.9%	40.1%	26.7%	32.6%	15.2%	12.5%
Cost of sales	(16,901)	-13,218	(12,022)	-7,275	(8,359)	(15,634)	(17,763)	(19,950)
Gross profit	1,762	541	509	400	578	978	1,371	1,581
GPM (%)	9.4%	3.9%	4.1%	5.2%	6.5%	5.9%	7.2%	7.3%
...YoY	-0.5%	-69.3%	-6.0%	112.5%	80.3%	92.2%	40.2%	15.3%
SG&A	(184)	-156	(169)	-93	(114)	(207)	(220)	(226)
...% of rev	-1.0%	-1.1%	-1.3%	-1.2%	-1.3%	-1.2%	-1.2%	-1.1%
R&D	(642)	-470	(436)	-286	(304)	(590)	(593)	(581)
...% of rev	-3.4%	-3.4%	-3.5%	-3.7%	-3.4%	-3.6%	-3.1%	-2.7%
Operating profit	1,039	204	289	221	286	506	721	941
OPM (%)	5.6%	1.5%	2.3%	2.9%	3.2%	3.0%	3.8%	4.4%
...YoY	-0.7%	-80.4%	42.0%	114.8%	53.3%	75.2%	42.3%	30.6%
Gain/loss of asso..	(52)	(37)	(50)	-14	(11)	(25)	20	20
Net profit	863	170	84	115	163	278	563	731
NPM (%)	4.6%	1.2%	0.7%	1.5%	1.8%	1.7%	2.9%	3.4%
...YoY	2.7%	-80.3%	-50.9%	431.2%	163.7%	233.2%	102.4%	29.7%

Source: Company data, CMBIGM estimates

Figure 10: Revenue breakdown

RMB mn	FY21	FY22	FY23	1H24	2H24E	FY24E	FY25E	FY26E
CCM Revenue	16,875	12,561	11,562	7,990	8,059	15,274	17,348	19,577
...YoY	11%	-26%	-8%	60%	15%	32%	14%	13%
Shipment (mn)	479	424	374	221	213	434	458	488
...YoY	22%	-12%	-12%	31%	4%	16%	6%	6%
ASP (Rmb)	35.2	29.6	30.9	36.1	37.9	35.2	37.8	40.1
...YoY	-9%	-16%	4%	22%	10%	14%	8%	6%
FPM Revenue	1,675	1,064	781	424	786	1,181	1,628	1,795
...YoY	-20%	-37%	-27%	7%	103%	51%	38%	10%
Shipment (mn)	115	112	110	52	102	161	177	195
...YoY	25%	-3%	-1%	2%	71%	46%	10%	10%
ASP (Rmb)	14.6	9.5	7.1	8.2	7.7	7.3	9.2	9.2
...YoY	-36%	-35%	-26%	5%	10%	4%	25%	0%
Others	112	134	188	90	92	158	158	158
...YoY	16%	19%	40%	0%	-125%	-16%	0%	0%
Total	18,663	13,759	12,531	8,504	8,937	16,612	19,134	21,531
...YoY	7%	-26%	-9%	55%	19%	33%	15%	13%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$6.79

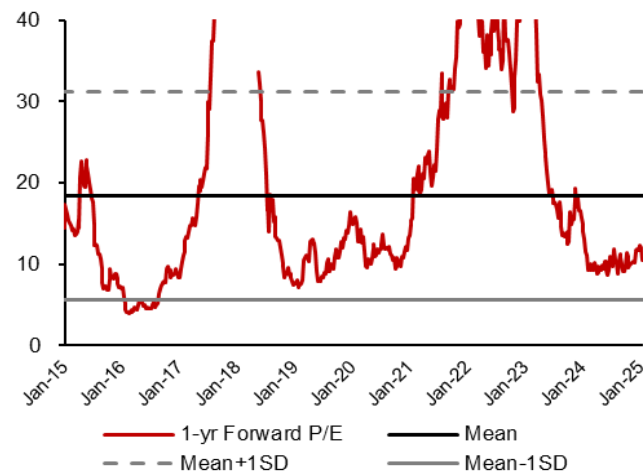
We remain positive on non-handset CCM (including automotive and IoT) to drive earnings growth in the long run. We revised up our FY25-26E EPS forecasts by 6-12% to factor in better Android demand and FY24 positive profit alert. Our new TP of HK\$6.79 is based on the same 13x FY25E P/E. Trading at 11.4x FY25E P/E, we think the stock is attractive. Maintain BUY. Upcoming catalysts include shipment recovery, product launches and non-smartphone CCM order wins.

Figure 11: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Q tech	1478 HK	BUY	945	5.77	6.79	18%	23.1	11.4	1.3	1.2	5.6	10.6
FIT Hon Teng	6088 HK	BUY	3,089	3.30	4.38	33%	16.4	9.8	1.2	1.0	7.0	10.6
AAC Tech	2018 HK	BUY	5,488	35.80	40.83	14%	21.4	16.9	1.6	1.5	7.4	8.8
Sunny Optical	2382 HK	BUY	8,758	62.30	72.52	16%	24.8	20.9	2.5	2.3	10.1	11.2
Tongda	698 HK	BUY	103	0.08	0.12	49%	27.3	4.1	0.1	0.1	0.4	2.7
BYDE	285 HK	BUY	10,951	37.85	44.41	17%	17.2	12.6	4.2	3.4	24.2	26.8
TK Group	2283 HK	BUY	225	2.10	2.82	34%	6.2	4.9	0.9	0.9	15.2	17.4
FIH	2038 HK	NR	820	0.81	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	495	1.22	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	55,830	37.50	NA	NA	65.9	41.5	1.8	1.7	2.8	4.0
YOFC	6869 HK	NR	2,228	13.16	NA	NA	12.1	9.9	0.8	0.7	6.9	8.3
Ju Teng	3336 HK	NR	134	0.87	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	3,100	28.00	NA	NA	29.7	17.0	5.9	4.4	22.6	28.8
Average							24.4	15.0	2.0	1.7	10.2	12.9

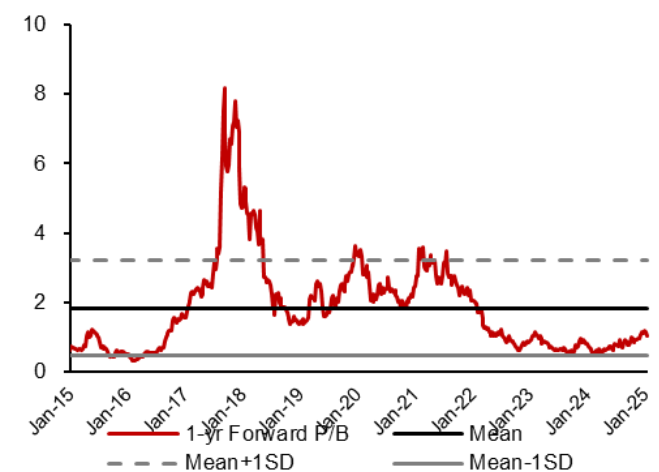
Source: Bloomberg, CMBIGM

Figure 12: 12M forward P/E band



Source: Company data, CMBIGM

Figure 13: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	18,663	13,759	12,531	16,612	19,134	21,531
Cost of goods sold	(16,901)	(13,218)	(12,022)	(15,634)	(17,763)	(19,950)
Gross profit	1,762	541	509	978	1,371	1,581
Operating expenses	(723)	(338)	(220)	(472)	(651)	(639)
Selling expense	(23)	(14)	(20)	(24)	(29)	(32)
Admin expense	(161)	(142)	(149)	(183)	(191)	(194)
R&D expense	(642)	(470)	(436)	(590)	(593)	(581)
Others	104	288	385	325	163	168
Operating profit	1,039	204	289	506	721	941
Share of (losses)/profits of associates/JV	(52)	(37)	(50)	(25)	20	20
Others	(30)	(60)	(171)	(170)	(93)	(102)
Pre-tax profit	957	107	68	311	647	860
Income tax	(94)	63	15	(33)	(84)	(129)
Minority interest	0	0	0	0	0	0
Net profit	863	170	84	278	563	731

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	9,315	8,594	11,107	11,594	11,715	14,586
Cash & equivalents	1,743	1,349	2,893	1,361	1,440	2,353
Account receivables	4,446	3,436	4,201	5,924	5,738	7,385
Inventories	2,258	1,184	1,778	2,075	2,302	2,613
ST bank deposits	811	919	1,302	1,302	1,302	1,302
Other current assets	57	1,705	933	933	933	933
Non-current assets	3,733	3,691	3,836	3,936	4,089	4,279
PP&E	3,144	3,140	2,845	2,945	3,098	3,288
Intangibles	20	26	23	23	23	23
Other non-current assets	569	525	968	968	968	968
Total assets	13,048	12,285	14,943	15,531	15,805	18,865
Current liabilities	8,079	7,249	9,666	10,009	9,832	12,308
Short-term borrowings	1,708	2,616	4,152	2,336	2,543	2,812
Account payables	6,259	4,584	5,437	7,595	7,211	9,418
Tax payable	49	12	12	12	12	12
Other current liabilities	64	38	66	66	66	66
Non-current liabilities	0	0	0	0	0	0
Deferred income	200	248	213	213	213	213
Other non-current liabilities	0	7	5	5	5	5
Total liabilities	8,343	7,518	10,111	10,453	10,277	12,752
Share capital	9	9	9	9	9	9
Other reserves	4,690	4,753	4,822	5,068	5,518	6,103
Total shareholders equity	4,705	4,767	4,832	5,077	5,528	6,112
Minority interest	0	0	0	0	0	0
Total equity and liabilities	13,048	12,285	14,943	15,531	15,805	18,865

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	957	107	68	311	647	860
Depreciation & amortization	544	640	728	730	804	887
Change in working capital	(1,017)	324	(470)	139	(426)	249
Others	0	0	0	0	0	0
Net cash from operations	1,596	1,194	513	1,317	1,035	1,968
Investing						
Capital expenditure	(1,558)	(1,149)	(1,046)	(831)	(957)	(1,077)
Others	0	0	0	0	0	0
Net cash from investing	(880)	(1,149)	(1,046)	(831)	(957)	(1,077)
Financing						
Dividend paid	0	0	0	(33)	(113)	(146)
Net borrowings	604	908	1,536	(1,816)	207	269
Others	(1,546)	(60)	(171)	(170)	(93)	(102)
Net cash from financing	(942)	848	1,364	(2,019)	1	21
Net change in cash						
Cash at the beginning of the year	1,984	1,743	1,349	2,893	1,361	1,440
Exchange difference	(14)	(1,288)	713	0	0	0
Cash at the end of the year	1,743	1,349	2,893	1,361	1,440	2,353
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	7.3%	(26.3%)	(8.9%)	32.6%	15.2%	12.5%
Gross profit	(0.5%)	(69.3%)	(6.0%)	92.2%	40.2%	15.3%
Operating profit	(0.7%)	(80.4%)	42.0%	75.2%	42.3%	30.6%
Net profit	2.7%	(80.3%)	(50.9%)	233.2%	102.4%	29.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	9.4%	3.9%	4.1%	5.9%	7.2%	7.3%
Operating margin	5.6%	1.5%	2.3%	3.0%	3.8%	4.4%
Return on equity (ROE)	20.3%	3.6%	1.7%	5.6%	10.6%	12.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.0)	0.3	0.3	0.2	0.2	0.1
Current ratio (x)	1.2	1.2	1.1	1.2	1.2	1.2
Receivable turnover days	78.6	104.5	111.2	111.2	111.2	111.2
Inventory turnover days	45.4	47.5	45.0	45.0	45.0	45.0
Payable turnover days	132.5	149.7	152.1	152.1	152.1	152.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	7.4	37.5	78.7	23.1	11.4	8.8
P/B	1.3	1.3	1.3	1.3	1.2	1.1
Div yield (%)	0.0	0.0	0.0	0.5	1.8	2.3
EV	4,705.2	4,767.4	4,831.8	5,077.4	5,527.9	6,112.4
EV/Sales	0.3	0.3	0.4	0.3	0.3	0.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

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CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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