

Profit warning update made investors' heartbroken

Rating	Sell	Maintain
Target	HK\$3.03	From HK\$4.26
Current	HK\$5.50	Upside.-45.0%

Loss expected in 1H18 due to RMB depreciation, components shortage and slow product optimization; Earnings visibility still low

Q Tech issued an updated profit warning alert after market close last Friday (Jul 13) which expects a net loss ~RMB50 mn in 1H18 vs. profit before tax (PBT) in 1H18 would drop $\geq 50\%$ Yoy mentioned in the announcement on May 10. **Management attributed that to i) ~3.8% RMB depreciation during in May and June; ii) slower CCM sales dragged by raw materials and components shortage and iii) slow product optimization in both CCM (mainly supplying low margin 2MP CCM to Huawei) and fingerprint recognition modules.** In addition, we continue to believe the **i) adoption of more aggressive pricing strategy; ii) lower than expected CCM product yield dragged by wider adoption of integrated lens set (MOC) which Q Tech is still on the learning curve; iii) lower than expected utilization rate due to weakened market demand while Q Tech has expanded their capacity by >50%;**

Q Tech's total CCM shipped though accelerated to 22.4% Yoy/27.4% QoQ to 58.9mn and brought 1H18 total shipment to 102.8mn (+23.6% Yoy, accounted for 54% of our estimates. The CCM growth was well ahead of our FY18E forecast (190mn shipment, +10%). However, the ≥ 10 MP shipment only accounted for 38.0%/36.2% of the total shipment in May and June (vs. record low at 32.3% in Jun 2017), while ≤ 8 MP CCM shipment made up ~60% of total in 1H18 vs. 44.5% in 4Q17 after tapping into Huawei's supply chain (mainly supplying low margin 2MP CCM). Though Q Tech is reported to be the sole supplier for OPPO Find X's 25M P O-face recognition front camera module, while also being the 2nd tier supplier for vivo NEX's 8MP front camera module, we expect the contribution to Q-tech would be minimal. We also noted that Q tech is reported to have already shipped 3D structured light camera module samples to Huawei and target to be one of the suppliers (other suppliers include Sunny Optical and O-film) for the rumoured Mate 20 (expected to be unveiled in late 2018).

On-screen FPC plays the majority in FY18E with ASP pressure

In 1H18, Q-Tech shipped 45.1mn pieces of FPC (+31.6% Yoy) which accounted for 46.6% of our FY18E estimates (volume +20% in FY18E) and vs. 42.50% in 1H17. Q Tech has started to ship small amount of optical/under screen FPC to clients in 2Q18, however, we expect FPC would make up the majority of FY18E shipment. We noticed that the adoption of optical/under screen FPC by Chinese brands' flagships has been gradual (**adopted in Vivo X20 plus UD, X21 UD, NEX flagship, Huawei Mate RS Porsche Design, Xiaomi Mi 6, Mi 8 Explorer Edition and OPPO's Find X**) and due to lack of product upgrades for on screen FPCs, we still expect ASP would still face downside pressure in FY18E/19E.

Slash FY18E-20E mainly on lower GM assumption; Maintain Sell

We further cut Q-tech's FY18E/FY19E/20E diluted EPS by 65.2%/27.1%/26.4% earnings, by factoring in lower sales forecast and GM assumption, we expect Q-tech's FY17-20E diluted EPS to grow -7.6% CAGR (vs. ~83% CAGR in FY15-FY17). We slashed Q Tech's TP from HK\$4.26 to HK\$3.03 (which implies FY19E 11.1x PE) and 45% discount (same as in our last update in May 2018) to leading players including Sunny Optical (2382.HK), O-Film (002456 CH) and LG Innotek (011070 KS) to leading players' average PE at 20.2x. Given its unattractive valuation and in view of blurred visibility on Q Tech's CCM business, **we believe this profit warning update further shreds investors' confidence in Q Tech, we reiterate Q-tech's Sell rating.**

Company Update

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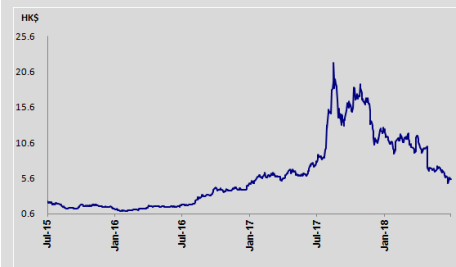
Trading data

52-Week Range (HK\$)	23.25/4.66
3 Mth Avg Daily Vol (m)	7.48
No. of Shares (m)	1,131.7
Market Cap (HK\$m)	6,224.5
Major Shareholders (%)	He Ning Ning (68.58%)
Auditors	KPMG
Result Due	1H18:Aug 2018

Company description

Established in 1997 and listed in HKEx in 2014, Q-tech is a leading PRC-based camera module manufacturer focusing on mid-to-high end camera module market for Chinese branded smart phone and tablet PC manufacturers. Q-tech was one of the first few manufacturers in China to use the COB (chip on board) and COF (chip on flex) assembly technologies in the manufacture of camera modules. Current customer portfolio includes leading Chinese smartphone players such as vivo, OPPO and Huawei etc

Price chart



Sources: Bloomberg, CIRC

Exhibit 1: Earnings forecast revision for FY18E-20E earnings

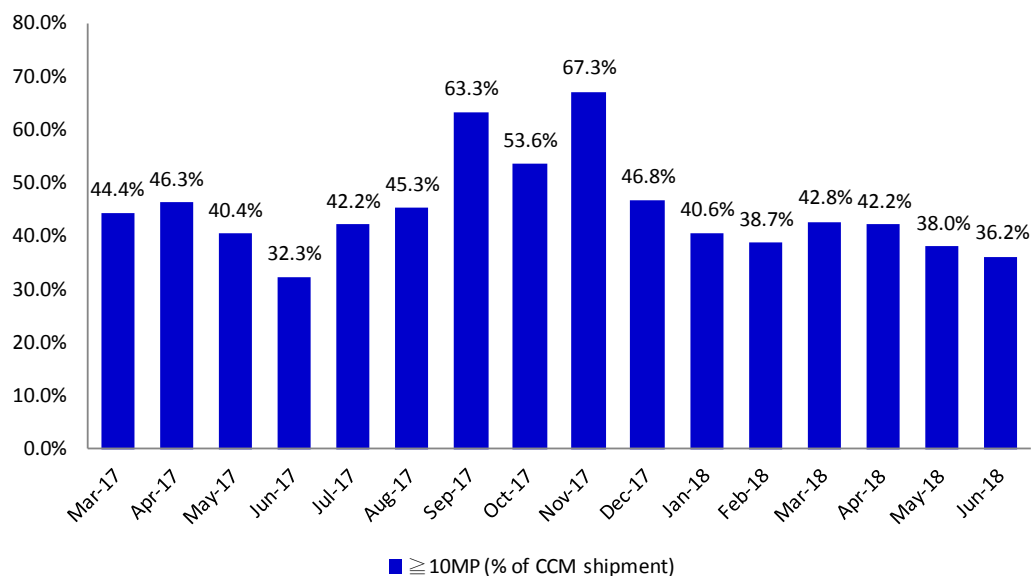
	FY18 (old)	FY18 (new)	Diff	FY19(old)	FY19 (new)	Diff	FY20E (old)	FY20E (new)	Diff
Revenue	8,526	8,289	-2.8%	9,739	9,060	-7.0%	11,122	10,897	-2.0%
GP	836	580	-30.6%	950	803	-15.5%	1,137	980	-13.8%
GM	9.8%	7.0%	-280bps	9.8%	8.9%	-90bps	10.2%	9.0%	-80bps
Net Profit	315	109	-65.2%	354	258	-27.1%	468	344	-26.4%
Diluted EPS	0.281	0.098	-65.2%	0.316	0.230	-27.1%	0.42	0.31	-26.4%

Source: CIRL estimates

Exhibit 2: Q Tech's shipment from 1Q16-2Q18

Product Shipment (k pieces)		1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
≤ 8MP (k units)		27,033	35,032	31,217	39,093	18,597	28,250	23,739	18,816	25,819	36,111
	Yoy(%)	-	-	-	-	-31.2%	-19.4%	-24.0%	-51.9%	38.8%	27.8%
	QoQ(%)	-	29.6%	-10.9%	25.2%	-52.4%	51.9%	-16.0%	-20.7%	37.2%	39.9%
≥ 10 MP (k units)		3,126	7,231	11,184	19,949	17,655	18,686	23,486	23,460	17,950	22,876
	Yoy(%)	-	-	-	-	464.8%	158.4%	110.0%	17.6%	1.7%	22.4%
	QoQ(%)	-	131.3%	54.7%	78.4%	-11.5%	5.8%	25.7%	-0.1%	-23.5%	27.4%
Total CCM		30,159	42,263	42,401	59,042	36,252	46,936	47,225	42,276	43,769	58,987
	Yoy(%)	-	-	-	-	20.2%	11.1%	11.4%	-28.4%	20.7%	25.7%
	QoQ(%)	-	40.1%	0.3%	39.2%	-38.6%	29.5%	0.6%	-10.5%	3.5%	34.8%
≥ 10 MP % of CCM shipment		10.4%	17.1%	26.4%	33.8%	48.7%	39.8%	49.7%	55.5%	41.0%	38.8%
Fingerprint recognition module		353	967	3,263	16,421	16,032	18,289	19,488	26,919	20,993	24,179
	Yoy(%)	-	-	-	269167.2%	4441.6%	1791.3%	497.2%	63.9%	30.9%	32.2%
	QoQ(%)	5788.4%	173.9%	237.4%	403.2%	-2.4%	14.1%	6.6%	38.1%	-22.0%	15.2%
Total		30,512	43,230	45,664	75,463	52,284	65,225	66,713	69,195	64,762	83,166

Source: Company data, CIRL

Exhibit 3: Q Tech's ≥10MP CCM shipment % in May and June came down again and near its record low





Source: Company data, CIRL

Exhibit 4: Q Tech's revenue breakdown

	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17
Revenue (RMB, Mn)	965	1,196	869	1,334	1,727	3,264	3,605	4,334
Yoy(%)	-	-	-10.0%	11.5%	98.8%	144.7%	108.7%	32.8%
HoH(%)	-	23.9%	-27.4%	53.5%	29.5%	89.0%	10.4%	20.2%
Camera module shipment ('k units)	-	-	36,990	61,360	72,432	105,392	83,188	89,501
Fingerprint recognition module shipment ('k units)	-	-	0	6	1,320	19,684	34,321	46,407
Volume ('k units)	35,129	47,604	36,990	61,385	75,478	122,470	117,760	135,908
Yoy(%)	-	-	5.3%	28.9%	104.0%	99.5%	56.0%	11.0%
HoH(%)	-	35.5%	-22.3%	66.0%	23.0%	62.3%	-3.8%	15.4%
GP	168	184	112	129	161	261	434	448
GM(%)	17.4%	15.4%	12.8%	9.7%	9.3%	8.0%	12.1%	10.3%
Camera module								
Camera module revenue (Mn RMB)					1,651	2,621	2,571	3,538
Yoy(%)					-	-	55.7%	35.0%
HoH(%)					-	58.7%	-1.9%	37.6%
Camera module ASP (RMB)					22.8	24.9	30.9	39.5
Yoy(%)					-	-	35.5%	59.0%
HoH(%)					-	9.1%	24.3%	27.9%
<13 MP					1,255.6	1,307.8	829.1	849.6
≥ 13 MP					430.0	1,278.9	1,744.8	2,685.1
<13MP (% of total revenue)					72.7%	40.1%	23.0%	19.6%
≥ 13 MP(% of total revenue)					24.9%	39.2%	48.4%	62.0%
Fingerprint Recognition module								
Fingerprint recognition revenue (RMB)					39.2	679.5	1,033.1	1,007.3
Yoy(%)					-	-	2535.1%	48.2%
HoH(%)					-	1633.3%	52.0%	-2.5%
Fingerprint recognition module ASP (RMB)					29.7	34.5	30.1	21.7
Yoy(%)					-	-	1.3%	-37.1%
HoH(%)					-	16.2%	-12.8%	-27.9%
Blended ASP(RMB)	27.5	25.1	23.5	21.7	22.9	26.7	30.6	31.9
Yoy(%)	-	-	-14.5%	-13.5%	-2.6%	22.7%	33.8%	19.6%
HoH(%)		-8.5%	-6.5%	-7.5%	5.3%	16.5%	14.9%	4.2%
Fingerprint Recognition module (% of total revenue)					2.3%	20.8%	28.7%	23.2%

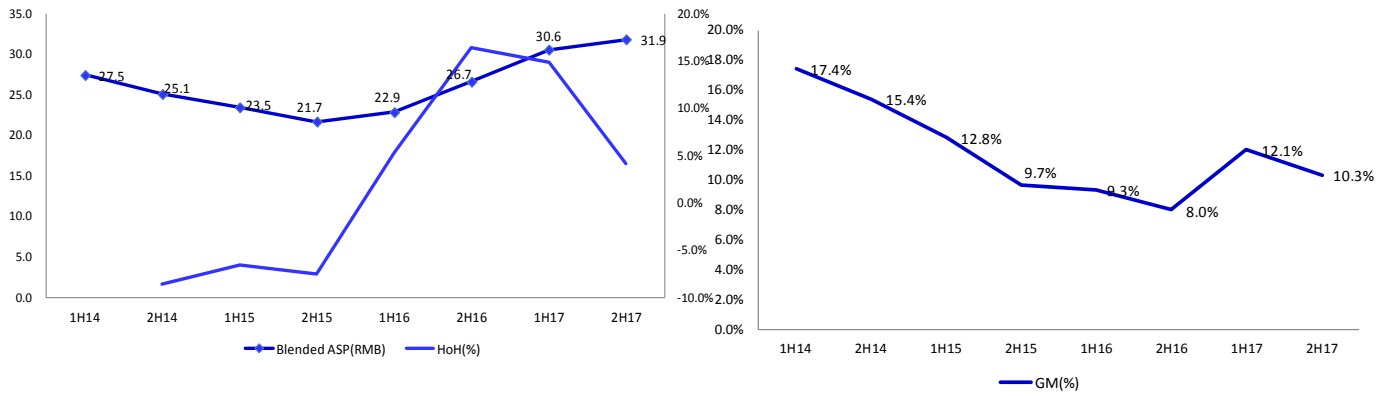
Source: Company data, CIRL estimates

Exhibit 5: Under display FPC being adopted in Chinese leading brands' flagships

		vivo X20 Plus UD	vivo X21 Plus UD	Huawei Mate RS Porsche Design
				
Network	Technology	GSM / CDMA / HSPA / LTE	GSM / CDMA / HSPA / LTE	GSM / HSPA / LTE
	2G bands	GSM 900 / 1800 - SIM 1 & SIM 2 CDMA 800 & TD-SCDMA	GSM 850 / 900 / 1800 / 1900 - SIM 1 & SIM 2 CDMA 800 & TD-SCDMA	GSM 850 / 900 / 1800 / 1900 - SIM 1 & SIM 2
	3G Network	HSDPA 850 / 900 / 1900 / 2100	HSDPA 850 / 900 / 1900 / 2100	HSDPA 850 / 900 / 1900 / 2100
	4G Network	LTE band 1(2100), 2(1900), 3(1800), 4(1700/2100), 5(850), 8(900), 38(2600), 39(1900), 40(2300), 41(2500)	LTE band 1(2100), 2(1900), 3(1800), 5(850), 8(900), 34(2000), 38(2600), 39(1900), 40(2300), 41(2500)	LTE
	Speed	HSPA, LTE-A (2CA)	HSPA, LTE	HSPA, LTE
	GPRS	Yes	Yes	Yes
	EDGE	Yes	Yes	Yes
Launch	Announced	2018, January	2018, March	2018, March
	Status	Available. Released 2018, January	Available. Released 2018, March	Available. Released 2018, April
Body	Dimensions	155.3 x 80.1 x 7.5 mm (6.11 x 3.15 x 0.30 in)	154.5 x 74.8 x 7.4 mm (6.08 x 2.94 x 0.29 in)	152.9 x 72.5 x 8.5 mm (6.02 x 2.85 x 0.33 in)
	Weight	181.5 g (6.42 oz)	156.2 g (5.50 oz)	183 g (6.46 oz)
	Build	Front glass, aluminum body	Front glass, aluminum body	
Display	SIM	Hybrid Dual SIM (Nano-SIM, dual stand-by)	Hybrid Dual SIM (Nano-SIM, dual stand-by)	Hybrid Dual SIM (Nano-SIM, dual stand-by)
	Type	Super AMOLED capacitive touchscreen, 16M colors	Super AMOLED capacitive touchscreen, 16M colors	AMOLED capacitive touchscreen, 16M colors
	Size	6.43 inches, 106.7 cm ² (~85.8% screen-to-body ratio)	6.28 inches, 98.4 cm ² (~85.2% screen-to-body ratio)	6.0 inches, 92.6 cm ² (~83.5% screen-to-body ratio)
	Resolution	1080 x 2160 pixels, 18:9 ratio (~376 ppi density)	1080 x 2280 pixels, 19:9 ratio (~402 ppi density)	1440 x 2880 pixels, 18:9 ratio (~538 ppi density)
	Multitouch	Yes	Yes	Yes
		- Funtouch 3.2	- Funtouch OS 4.0	- EMUI 8.1
Platform	OS	Android 7.1.1 (Nougat)	Android 8.1 (Oreo)	Android 8.1 (Oreo)
	Chipset	Qualcomm SDM660 Snapdragon 660	Qualcomm SDM660 Snapdragon 660	Hisilicon Kirin 970
	CPU	Octa-core (4x2.2 GHz Kryo 260 & 4x1.8 GHz Kryo 260)	Octa-core (4x2.2 GHz Kryo 260 & 4x1.8 GHz Kryo 260)	Octa-core (4x2.4 GHz Cortex-A73 & 4x1.8 GHz Cortex-A53)
	GPU	Adreno 512	Adreno 512	Mali-G72 MP12
Memory	Card slot	microSD, up to 256 GB (uses SIM 2 slot)	microSD, up to 256 GB (uses SIM 2 slot)	No
	Internal	128 GB, 4 GB RAM	128 GB, 6 GB RAM	256/512 GB, 6 GB RAM
Camera	Primary	Dual: 12 MP, f/1.8 + 5 MP, autofocus, LED flash	Dual: 12 MP (f/1.8, 1/2.5", 1.4µm, Dual Pixel PDAF) + 5 MP (f/2.4), phase detection autofocus, LED flash	Triple: 40 MP (f/1.8, 1/1.7", OIS) + 20 MP B/W (f/1.6) + 8 MP (f/2.4), Leica optics, 3x optical zoom, phase detection and laser autofocus, dual-LED dual-tone flash
	Features	Geo-tagging, touch focus, face detection, HDR, panorama	Geo-tagging, touch focus, face detection, HDR, panorama	Geo-tagging, touch focus, face detection, HDR, panorama
	Video	1080p@30fps	1080p@30fps	2160p@30fps, 1080p, 720p@960fps
	Secondary	12 MP, f/2.0	12 MP, f/2.0, 1080p	24 MP, autofocus, f/2.0, 1080p
Sound	Alert types	Vibration; MP3, WAV ringtones	Vibration; MP3, WAV ringtones	Vibration; MP3, WAV ringtones
	Loudspeaker	Yes	Yes	Yes
	3.5mm jack	Yes	Yes	No
		- 32-bit/192kHz audio - Active noise cancellation with dedicated mic	- 32-bit/192kHz audio - Active noise cancellation with dedicated mic	- 32-bit/384kHz audio - Active noise cancellation with dedicated mic
Comms	WLAN	Wi-Fi 802.11 a/b/g/n/ac, dual-band, WiFi Direct, hotspot	Wi-Fi 802.11 a/b/g/n/ac, dual-band, WiFi Direct, hotspot	Wi-Fi 802.11 a/b/g/n/ac, dual-band, WiFi Direct, hotspot
	Bluetooth	5.0, A2DP, LE	5.0, A2DP, LE	4.2, A2DP, LE, EDR, aptX HD
	GPS	Yes, with A-GPS	Yes, with A-GPS, GLONASS	Yes, with A-GPS, GLONASS
	NFC	-	-	Yes
	Infrared port	No	No	No
	Radio	No	FM radio	FM radio
	USB	microUSB 2.0, USB On-The-Go	microUSB 2.0, USB On-The-Go	2.0, Type-C 1.0 reversible connector
Features	Sensors	Fingerprint (under display), accelerometer, proximity, compass	Fingerprint (under display), accelerometer, proximity, compass	Fingerprints (rear-mounted and under display), accelerometer, gyro, proximity, compass
	Messaging	SMS(threaded view), MMS, Email, Push Email	SMS(threaded view), MMS, Email, Push Email	SMS(threaded view), MMS, Email, Push Email, IM
	Browser	HTML5	HTML5	HTML5
	Java	No	No	No
		- Fast battery charging 5V/4.5A	- Fast battery charging	- Fast battery charging 4.5V/5A (58% in 30 min)
		- MP4/H.264 player - MP3/WAV/eAAC+/FLAC player	- MP4/H.264 player - MP3/WAV/eAAC+/FLAC player	- Qi wireless charging - XviD/MP4/H.264/WMV player
		- Document viewer - Photo/video editor	- Document viewer - Photo/video editor	- MP3/eAAC+/MMA/WAV/Flac player - Document viewer - Photo/video editor
Battery	Non-removable Li-Ion 3900 mAh battery	Non-removable Li-Ion 3200 mAh battery	Non-removable Li-Po 4000 mAh battery	
Misc.	Colors	Matte Black, Gold, Rose gold	Black, Ruby Red	Black, Red
	Price	About 550 EUR	About 550 EUR	About 1600 EUR

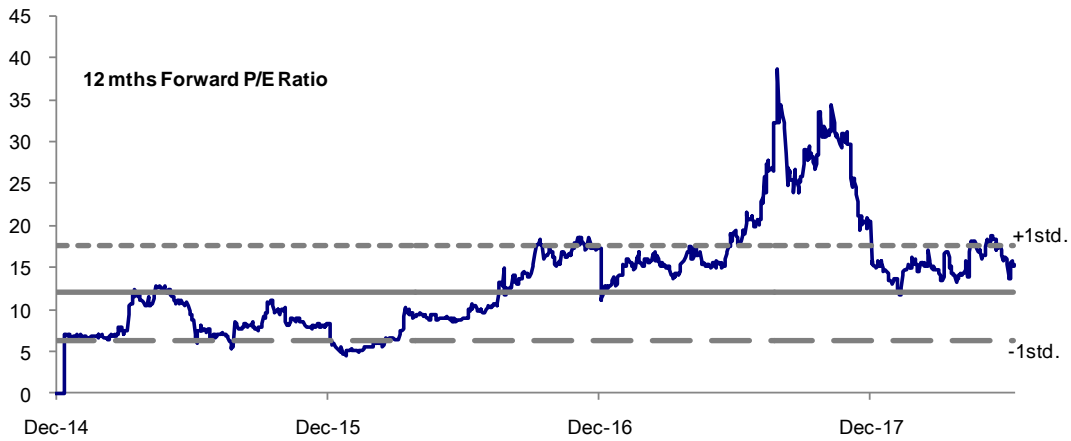
Source: GSMArena, CIRL

Exhibit 6: Q Tech's CCM ASP growth slows down accompanied by GM pressure in 2H17



Source: Company data, CIRL

Exhibit 8: Q Tech's 12 month Forward P/E Ratio



Source: Bloomberg, CIRL

Exhibit 7: Peers comparison

	bloomberg code	Reporting Currency	Year End	Mkt Cap (HKD mn)	Price (HKD)	3M	YTD	PE (x)					Yield (%)				
								FY16	FY17	FY18E	FY19E	FY20E	FY16	FY17	FY18E	FY19E	FY20E
HK Listed Peers																	
LENOVO GROUP	992 HK	USD	03/2018	48,179	4.01	(0.7)	(9.1)	-44.6	10.6	-121.5	12.8	8.7	5.4%	4.6%	4.1%	5.0%	5.9%
SUNNY OPTICAL	2382 HK	CNY	12/2017	166,744	152.00	(2.6)	52.2	110.6	49.4	34.8	25.2	19.7	0.2%	0.5%	0.7%	1.0%	1.2%
AAC TECHNOLOGIES	2018 HK	CNY	12/2017	132,343	108.30	(24.5)	(22.3)	28.2	21.6	17.7	14.3	12.0	1.3%	1.9%	2.1%	2.6%	3.1%
FIH MOBILE LTD	2038 HK	USD	12/2017	9,469	1.17	(27.3)	(50.8)	8.5	-2.3	-1.5	24.9	13.6	3.4%	0.0%	0.0%	0.0%	0.0%
FIT HON TENG LTD	6088 HK	USD	12/2017	23,905	3.55	10.6	(32.9)	15.2	15.4	13.7	12.0	12.3	1.8%	2.0%	2.0%	2.1%	2.2%
BYD ELECTRONIC	285 HK	CNY	12/2017	24,470	10.86	(18.5)	(36.2)	16.9	8.2	7.8	6.7	5.7	0.8%	2.0%	2.1%	2.6%	3.2%
TONGDA GROUP HLD	698 HK	HKD	12/2017	10,390	1.65	3.1	(17.5)	9.4	9.8	7.9	6.5	5.6	3.0%	3.1%	4.1%	4.8%	5.8%
TRULY INTL HLDGS	732 HK	HKD	12/2017	4,369	1.40	(29.6)	(58.6)	7.0	65.7	7.4	4.7	3.6	6.5%	2.9%	3.9%	6.2%	9.1%
CHINA DISPLAY OP	334 HK	HKD	12/2017	1,315	0.63	(21.3)	(43.2)	11.0	9.5	0.6	6.6	6.0	0.0%	4.4%	3.7%	4.8%	5.9%
COOLPAD	2369 HK	HKD	12/2016	3,624	0.72	0.0	0.0	-0.8	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
TONGDA GROUP HLD	698 HK	HKD	12/2017	10,390	1.65	3.1	(17.5)	9.4	9.8	7.9	6.5	5.6	3.0%	3.1%	4.1%	4.8%	5.8%
JU TENG INTL HDG	3336 HK	HKD	12/2017	1,595	1.39	(26.8)	(45.5)	3.1	19.9	5.7	6.8	6.8	6.6%	3.1%	3.3%	3.5%	2.3%
TONGDA HONG TAI	2363 HK	HKD	12/2017	274	1.45	(5.2)	N/A	-	9.2	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
VITAL MOBILE HOL	6133 HK	CNY	12/2017	259	0.31	(16.4)	(22.8)	13.0	-2.0	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
SKY LIGHT HOLDIN	3882 HK	HKD	12/2017	591	0.69	(31.0)	(50.7)	10.5	-1.2	9.9	8.6	6.3	0.0%	0.0%	4.3%	5.8%	8.7%
COWELL	1415 HK	USD	12/2017	1,364	1.64	(19.2)	(37.9)	6.2	6.4	6.2	5.7	5.0	2.7%	6.2%	4.0%	4.5%	5.2%
WAI CHI HOLD	1305 HK	HKD	12/2017	215	0.99	(2.9)	(23.3)	33.0	9.9	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
TK GROUP HOLDING	2283 HK	HKD	12/2017	5,133	6.16	(0.5)	26.2	24.6	17.1	12.9	10.7	9.3	2.0%	2.9%	3.5%	4.4%	5.1%
KA SHUI INTL HLD	822 HK	HKD	12/2017	344	0.39	(1.3)	(34.7)	5.8	10.1	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
SAS DRAGON HLDG	1184 HK	HKD	12/2017	1,590	2.54	4.5	(2.3)	7.9	5.2	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
PANASIALUM HOLDI	2078 HK	HKD	12/2017	1,032	0.86	0.0	0.0	-7.8	-6.6	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
SCUD GROUP LTD	1399 HK	CNY	12/2016	1,134	1.04	0.0	0.0	-8.2	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
SIM TECH GROUP	2000 HK	HKD	12/2017	819	0.32	(2.0)	(12.9)	10.6	7.3	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
WILLAS-ARRAY ELE	854 HK	HKD	03/2018	465	6.09	1.0	0.7	-6.4	12.3	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Average				19,036		(7.7)	(15.4)	19.2	18.2	34.7	10.4	8.3	2.8%	2.9%	3.2%	3.9%	4.6%
Q TECHNOLOGY GRO	1478 HK	CNY	12/2017	6,224	5.50	(52.6)	(50.0)	25.8	12.0	24.4	17.3	12.8	0.7%	1.5%	0.7%	1.0%	1.4%
Lens/ lens set company																	
LARGAN PRECISION	3008 TT	TWD	12/2017	173,024	1,289.87	45.7	25.4	31.6	26.0	25.2	19.8	17.0	1.2%	1.4%	1.5%	1.7%	2.1%
HIMAX TECHNO-ADR	3008 TT	USD	12/2017	10,509	61.06	8.7	(25.3)	26.2	49.0	94.2	27.5	25.9	3.1%	1.6%	2.6%	5.7%	10.4%
LITE-ON TECH	2301 TT	TWD	12/2017	22,480	9.61	(8.9)	(7.5)	9.9	33.2	10.5	9.7	9.4	7.0%	7.5%	7.3%	7.6%	7.7%
GENIUS ELEC	3406 TT	TWD	12/2017	13,150	131.80	39.2	91.1	-355.3	49.0	36.0	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Average				54,791		21.2	20.9	22.6	39.3	41.5	19.0	17.4	0.0	0.0	0.0	0.1	0.1
Camera module company																	
TRULY INTL HLDGS	732 HK	HKD	12/2017	4,369	1.40	(29.6)	(58.6)	7.0	17.9	7.4	4.7	3.6	6.5%	2.9%	3.9%	6.2%	9.1%
SUNNY OPTICAL	2382 HK	CNY	12/2017	166,744	152.00	(2.6)	52.2	110.6	49.3	34.8	25.2	19.7	0.2%	0.5%	0.7%	1.0%	1.2%
COWELL	1415 HK	USD	12/2017	1,364	1.64	(19.2)	(37.9)	6.2	4.2	6.2	5.7	5.0	2.7%	6.2%	4.0%	4.5%	5.2%
PRIMAX ELEC	4915 TT	TWD	12/2017	6,198	13.87	(11.7)	(31.4)	13.1	11.0	10.5	8.8	7.4	4.3%	5.1%	6.0%	7.7%	4.3%
LG INNOTEK CO LT	011070 KS	KRW	12/2017	26,215	1,107.60	30.1	11.1	38.1	17.9	22.4	12.3	10.6	0.2%	0.2%	0.2%	0.2%	0.2%
O-FILM TECH CO-A	002456 CH	CNY	12/2017	56,594	20.85	(12.8)	(13.5)	64.6	38.0	23.0	16.4	13.6	0.2%	0.4%	0.5%	0.7%	0.9%
Average				29,669		1.8	(11.3)	39.9	23.1	17.4	12.2	10.0	0.0	0.0	0.0	0.0	0.0
Q TECHNOLOGY GRO	1478 HK	CNY	12/2017	6,224	5.50	(52.6)	(50.0)	25.8	12.0	24.4	17.3	12.8	0.7%	1.5%	0.7%	1.0%	1.4%

Source: Bloomberg, CIRC

Exhibit 8: Financial statement

Income statement						Cash flow					
Year to Dec (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E	Year to Dec (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	4,991	7,939	8,289	9,060	10,897	Pre-tax profit	215	510	145	322	424
Gross profit (reported)	422	883	580	803	980	Taxes paid	(24)	(73)	(36)	(63)	(80)
EBITDA	284	679	344	536	673	Depreciation	(63)	(135)	(142)	(155)	(186)
Depreciation	63	135	142	155	186	Associates	0	17	40	40	40
EBIT	220	543	203	381	487	CFO bef. WC change	128	318	8	143	198
Net interest income (exp.)	(6)	(17)	(18)	(19)	(23)	Change in working cap	(337)	920	382	38	34
Associates	0	(17)	(40)	(40)	(40)	Cashflow from operation	(209)	1,238	390	182	232
Exceptionals/others	0	0	0	0	0	CAPEX	(363)	(896)	(550)	(485)	(485)
Profit before tax	215	510	145	322	424	Free cash flow	(572)	342	(160)	(303)	(253)
Tax expenses	(24)	(73)	(36)	(63)	(80)	Dividends	36	83	21	49	65
Minority interest	0	0	0	0	0	Balance sheet adj.	76	(786)	313	213	277
Net profit	191	436	109	258	344	Shares issued	0	0	0	0	0
Diluted EPS (RMB)	0.181	0.389	0.098	0.230	0.307	Others	0	0	0	0	0
Dividends	36	83	21	49	65	Net cash flow	(460)	(361)	174	(41)	89
Balance sheet						Net cash (debt) start	286	(174)	(535)	(361)	(402)
Year to Dec (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E	Net cash (debt) at year-end	(174)	(535)	(361)	(402)	(312)
Cash & equiv	161	543	717	25	115	Ratios					
Trade receivables	2,606	2,035	1,724	2,000	2,474	Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Other receivables	0	0	0	0	0	Growth rate (%)					
Inventories	799	688	879	784	942	Revenue	99.9	59.1	4.4	9.3	20.3
Other current assets	127	881	881	881	882	EBITDA	70.1	139.0	(49.3)	55.5	25.7
Fixed assets	720	1,481	1,889	2,219	2,517	EBIT	76.6	146.8	(62.7)	87.9	27.9
Intangible assets	1	1	1	1	1	Net profit	87.0	128.7	(74.9)	135.7	33.4
Investment, associates etc	105	471	425	448	436	Fully diluted EPS	85.1	115.7	(74.9)	135.7	33.4
Total assets	4,520	6,100	6,515	6,358	7,367	Margins (%)					
Account payables	2,593	2,830	3,092	3,312	3,978	Gross margin (reported)	8.5	11.1	7.0	8.9	9.0
Other payables	0	0	0	0	0	EBITDA	5.7	8.6	4.2	5.9	6.2
Short-term debt	335	1,078	1,078	427	427	EBIT	4.4	6.8	2.4	4.2	4.5
Other current liabs	10	26	26	26	26	Net margin	3.8	5.5	1.3	2.8	3.2
Long-term debts	0	0	0	0	0	Other ratios					
Deferred tax and others	2	6	6	6	6	ROE (%)	12.2	20.3	4.8	10.0	11.8
Other long-term liabs	12	15	15	15	15	ROA (%)	4.2	7.2	1.7	4.1	4.7
Total liabilities	2,952	3,955	4,216	3,785	4,451	Net gearing (%)	11.1	24.9	15.7	15.6	10.7
Share capital	9	9	9	9	9	Interest coverage (x)	39.7	32.1	11.5	19.7	21.0
Reserves	1,559	2,137	2,290	2,564	2,907	Receivables days	127.8	106.7	82.8	75.0	74.9
Shareholders' equity	1,568	2,146	2,299	2,572	2,916	Payables days	105.8	75.9	75.0	74.9	74.6
Minorities	0	0	0	0	0	Inventory days	40.3	38.5	37.1	36.8	31.8
Total equity	1,568	2,146	2,299	2,572	2,916	Effective tax rate (%)	11.1	13.9	19.2	17.5	17.2
Net cash (debt)	(174)	(535)	(361)	(402)	(312)						

Source: Company data, CIRL estimates

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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Analyst Certification

I, Hayman Chiu hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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