Q Technology Group (1478 HK)

1H26: Margin Pressure And Elevated R&D Weigh On Earnings; Automotive Remains The Clearest Growth Driver

Highlights

- Revenue rose 12.4% yoy to Rmb9.9b, but net profit fell 10.5% yoy to Rmb276m as gross margin contracted 0.8ppt yoy to 6.6% and R&D expenses increased 24.2% yoy.
- Management highlighted smart driving, AI glasses, robotics and optical interconnect as key future growth drivers, with smart driving and AI glasses likely to remain the most visible near-term opportunities. Maintain HOLD. Target price: HK$6.70.

1H26 Results

Year to 31 Dec (Rmbm)	1H25	2H25	1H26	yoy (%)	hoh (%)
Revenue	8,832	12,045	9,923	12.4	(17.6)
Gross profit	654	964	652	(0.4)	(32.4)
Net profit	308	1,185	276	(10.5)	(76.7)
Margin (%)					
GPM	7.4	8.0	6.6	(0.8)	(1.4)
NPM	3.5	9.8	2.8	(0.7)	(7.1)
ASP (Rmb/unit)					
CCM	41.5	40.4	36.5	(11.9)	(9.6)
Fingerprint module	8.8	10.0	8.5	(3.4)	(15.6)

Source: Q Tech, UOB Kay Hian

Analysis

- **Bottom line was weighed down by margin compression and elevated opex.** Revenue grew 12.4% yoy but declined 17.6% hoh to Rmb9.9b, broadly in line with consensus expectation. Gross margin contracted 0.8ppt yoy and 1.4ppt hoh to 6.6%, around 1ppt below consensus, primarily due to an unfavourable product mix shift, lower contribution from higher-end camera modules and ASP pressure in the mobile camera business. R&D expenses rose 24.2% yoy to Rmb346.7m, driven by increased investment in emerging businesses. As a result, net profit declined to Rmb276.0m, down 10.5% yoy and 76.7% hoh, missing consensus estimate by 14.8%.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	16,151	20,877	21,610	21,685	23,523
EBITDA	1,104	2,180	1,249	1,269	1,521
Operating profit	649	1,739	754	735	921
Net profit	279	1,494	555	540	710
Net profit (adj.)	279	1,494	555	540	710
EPS (fen)	23.6	126.1	46.9	45.6	60.0
P/E (x)	23.8	4.5	12.0	12.3	9.4
P/BV (x)	1.6	1.3	2.2	2.1	1.9
EV/EBITDA (x)	7.9	4.0	7.0	6.9	5.7
Dividend yield (%)	0.0	8.0	2.3	2.2	2.9
Net margin (%)	1.7	7.2	2.6	2.5	3.0
Net debt to equity (%)	17.8	30.5	87.1	68.8	79.0
Interest cover (x)	7.3	21.3	7.6	7.7	9.3
ROE (%)	5.5	23.3	15.0	14.1	17.1
Consensus net profit	-	-	948	1,090	929
UOBKH/Consensus (x)	-	-	0.59	0.50	0.76

Source: Q Tech, Bloomberg, UOB Kay Hian

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HOLD (Maintained)

Share Price	HK$6.18
Target Price	HK$6.70
Upside	8.4%
Previous TP	HK$9.10

Stock Data

Sector	Information Technology
Bloomberg ticker	1478 HK
Shares issued (m)	1,190
Market cap (HK$m)	7,351
Market cap (US$m)	949
3-mth avg daily t'over (US$m)	6

Price Performance (%)

52-week high/low: HK$16.99/ HK$5.91

1mth	3mth	6mth	1yr	YTD
(11.3)	(17.5)	(33.0)	(59.1)	(24.0)

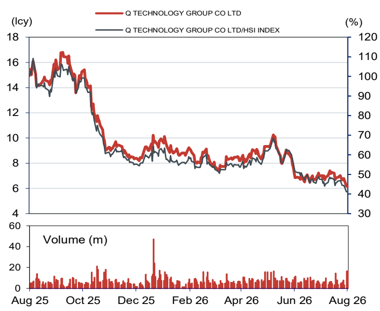
Major Shareholders (%)

He Ningning	63.1

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	5.42
FY26 Net Cash/Share (Rmb)	1.64

Price Chart



Source: Bloomberg

Company Description

Q Technology Group is a China-based camera module manufacturer focusing on mid-to-high end camera module market for Chinese branded smartphone, tablet, and PC manufacturers.

- **Non-handset to be key drivers, smartphone products remain suppressed.** Management reiterated its start-of-year target of no less than 50% yoy volume growth for its non-handset businesses (IoT and automotive combined), with 1H26 delivering 52.3% yoy growth, and guided for automotive product revenue growth of over 50% in 2027. For 2H26, it is positive on IoT and automotive ASPs and volumes hoh, on easing drone restrictions and a key customer's hot-selling pocket gimbal camera, while handsets could remain pressured by elevated memory prices.
- **Embodied intelligence remains at an early stage but is strategically important.** Q Technology Group (Q Tech) has already moved beyond standalone camera modules into integrated perception systems, with RGB-D products and high-precision stereo-camera solutions incorporating embedded IMUs currently in mass production. The company is supplying leading robotics customers, and working alongside major AI chip and vision-platform providers. While current order sizes remain relatively small, with some below 10,000 units, management sees robotics as a significant long-term opportunity as sensor content per robot increases.
- **Optical interconnect is positioned as a long-term growth platform leveraging existing capabilities.** Management believes many of the core technologies required for optical interconnect products are highly transferable from Q Tech's existing camera and LiDAR businesses. Rather than competing solely as an optical-module assembler, the company intends to focus on higher-value components such as fibre array units, microlens arrays and Faraday rotators, while targeting next-generation NPO/CPO architectures. Management emphasised that commercialisation remains a long-term opportunity and did not provide a revenue or mass-production timeline.

Valuation/Recommendation

- **Maintain HOLD and cut target price to HK$6.70,** as we roll over 2027 assumptions and slash our profit estimates. Our target price is based on an unchanged PE multiple of 12.7x, 0.5SD below the historical mean.

Earnings Revision/Risk

- We slash our 2026-28 estimates by 27.8%/33.7%/29.8% to Rmb555m/Rmb540m/Rmb710m respectively. We have: a) fine-tuned our shipment/ASP assumptions, b) trimmed our ASP/margin estimates for both products, and c) raised our R&D assumptions due to elevated spending.

Changes To 2026-28 Estimates

Year to 31 Dec	------------- Old estimates -------------			---------------------- New estimates ---------------------			--------------------- Differences (%) ----------------		
(Rmbm)	2026F	2027F	2028F	2026F	2027F	2028F	2026F	2027F	2028F
Revenue	20,585	20,533	23,643	21,610	21,685	23,523	5.0	5.6	(0.5)
Shipment (m units)									
Camera module	451.3	449.1	471.5	507.7	493.2	514.2	12.5	9.8	9.0
Fingerprint module	188.4	182.7	197.3	182.3	171.3	179.9	(3.2)	(6.2)	(8.8)
ASP (Rmb)									
Camera module	42.1	42.7	47.0	39.2	40.8	42.5	(6.9)	(4.4)	(9.4)
Fingerprint module	7.7	7.4	7.6	8.4	8.0	8.0	9.3	7.1	6.0
Margin (%)	7.8	8.0	8.2	6.4	6.3	6.9	(1.3)	(1.7)	(1.3)
Camera module	7.3	7.5	7.7	6.3	6.3	6.8	(1.0)	(1.2)	(0.9)
Fingerprint module	11.0	11.2	11.4	8.0	6.5	7.5	(3.0)	(4.7)	(3.9)
EBIT (Rmbm)	993	1,039	1,257	754	735	921	(24.0)	(29.3)	(26.7)
Net Profit (Rmbm)	769	814	1,012	555	540	710	(27.8)	(33.7)	(29.8)

Source: Q Tech, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	20,877	21,610	21,685	23,523
EBITDA	2,180	1,249	1,269	1,521
Depreciation & amortization	(441)	(494)	(534)	(593)
EBIT	1,739	754	735	921
Total other non-operating income	-	-	-	-
Associate contributions	-	-	-	-
Net interest income/(expense)	(103)	(164)	(164)	(164)
Pre-tax profit	1,661	618	601	790
Tax	(168)	(62)	(61)	(80)
Minorities	-	-	-	-
Net profit	1,494	555	540	710
Net profit (recurrent)	1,494	555	540	710

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	2,564	2,231	2,493	2,690
Other LT assets	2,394	2,053	2,048	2,043
Cash/ST investment	2,139	873	1,454	817
Other current assets	12,676	10,160	11,132	11,500
Total assets	19,773	15,316	17,127	17,050
ST debt	4,095	4,095	4,095	4,095
Other current liabilities	9,014	7,368	9,041	8,654
LT debt	-	-	-	-
Other LT liabilities	153	153	153	153
Shareholders' equity	6,416	3,700	3,838	4,148
Minority interest	-	-	-	-
Total liabilities & equity	19,773	15,316	17,127	17,050

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	1,739	754	735	921
Pre-tax profit	1,661	618	601	790
Tax	(168)	(62)	(61)	(80)
Depreciation/amortization	441	494	534	593
Associates	-	-	-	-
Working capital changes	855	(688)	701	(755)
Non-cash items	(1,050)	392	(1,041)	373
Other operating cashflows	-	-	-	-
Investing	(3,137)	(1,012)	(1,000)	(1,000)
Capex (growth)	(300)	(200)	(200)	(200)
Investments	(900)	(800)	(800)	(800)
Proceeds from sale of assets	-	-	-	-
Others	(1,937)	(12)	0	0
Financing	1,680	(755)	(330)	(326)
Dividend payments	-	(591)	(167)	(162)
Issue of shares	-	-	-	-
Proceeds from borrowings	3,000	3,000	3,000	3,000
Loan repayment	(3,000)	(3,000)	(3,000)	(3,000)
Others/interest paid	1,680	(164)	(164)	(164)
Net cash inflow (outflow)	690	(1,268)	580	(639)
Beginning cash & cash equivalent	1,447	2,139	873	1,454
Changes due to forex impact	2	2	2	2
Ending cash & cash equivalent	2,139	873	1,454	817

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	7.8	6.4	6.3	6.9
Pretax margin	8.0	2.9	2.8	3.4
Net margin	7.2	2.6	2.5	3.0
ROA	7.6	3.6	3.2	4.2
ROE	23.3	15.0	14.1	17.1
Growth				
Turnover	29.3	3.5	0.3	8.5
Gross profit	64.3	(14.0)	(1.3)	17.5
Pre-tax profit	261.0	(62.8)	(2.8)	31.5
Net profit	435.2	(62.8)	(2.8)	31.5
Net profit (adj)	435.2	(62.8)	(2.8)	31.5
EPS	435.2	(62.8)	(2.8)	31.5
Leverage				
Debt to total capital	20.7	26.7	23.9	24.0
Debt to equity	63.8	110.7	106.7	98.7
Net debt to equity	30.5	87.1	68.8	79.0
Interest cover (x)	21.3	7.6	7.7	9.3