

AAC Tech (2018 HK)

1H23 weakness in-line; Maintain HOLD on fair valuation

AAC's 1H23 net profit of RMB 150mn (-57.1% YoY) was in-line with previous profit warning (RMB 122mn-157mn), mainly due to 1) global smartphone market weakness, 2) intensified competition in acoustics/optics, 3) lower GPM on sales mix shift in ED&PM. For 2H23E, we believe AAC's revenue/earnings should recover sequentially given inventory restocking, stabilizing optics ASP/margin, client wins in ED&PM and product upgrade in multiple segments. To reflect GPM weakness on product mix shift and lower optics margin, we trimmed FY23/24E EPS by 6/1% and our EPS are 36%/20% below consensus. While we are positive on seasonal strength in 2H23E and AAC's non-smartphone product outlook, the stock is now trading at 27.6x/15.7x FY23/24E P/E, which is fair in our view. Maintain HOLD with new SOTP-based TP of HK\$14.04, implying 14.1x FY24E P/E.

- **1H23 in-line with profit warning; weaker GPM dragged by inferior product mix and loss-making optics segment.** AAC's 1H23 revenue/net profit of RMB 9.22bn/150mn was largely in-line with profit warning. By segment, acoustics/ED&PM/optics/MEMS delivered -20%/23%/-4%/3% YoY growth. In particular, optics segment reported narrowing loss in 1H23 due to improving ASP/margin and premium product ramp-up, and mgmt. guided plastics lens will turn profitable in 2H23E. ED&PM delivered solid sales growth supported by share gain of haptics/metal frame and ramp-up of Toyo Precision and Yangzhou fab. 1H23 blended GPM further declined to 14.1% (vs. 17.8%/18.9% in 2H22/1H22), mainly due to weak smartphone market, loss-making optics and change in product mix.
- **2H23E outlook: eyes on better optics margin, ED&PM client wins, product launches and PSS M&A progress.** Looking ahead, despite industry headwinds and near-term margin pressure, mgmt. guided 1) margin recovery with product upgrade across segments, especially optics (lens/HCM/6P lens/3P VR Pancake), 2) projects wins in automotive acoustics and LiDAR optical components, as well as PSS integration synergy, and 3) Toyo's product ramp-up and share gain upside.
- **Maintain HOLD on fair valuation and limited near-term catalysts.** Looking into 2H23E, we are positive on optical lens/HCM improvement on Android's restocking, better acoustics/haptics on Apple's seasonal strength, and steady product roll-out in automotive acoustics. However, trading at 15.7x FY24E P/E, we think the stock is fairly valued. Maintain HOLD with new SOTP-based TP of HK\$14.04, implying 14.1x FY24E P/E.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	17,667	20,625	19,563	21,227	22,110
YoY growth (%)	3.1	16.7	(5.2)	8.5	4.2
Net profit (RMB mn)	1,316.3	821.3	597.5	1,049.1	1,123.8
YoY growth (%)	(12.6)	(37.6)	(27.3)	75.6	7.1
EPS (Reported) (RMB)	1.09	0.69	0.51	0.89	0.95
YoY growth (%)	(12.6)	(37.1)	(26.3)	75.6	7.1
Consensus EPS (RMB)	NA	NA	0.79	1.11	1.35
P/E (x)	32.4	22.3	27.6	15.7	14.7
P/B (x)	1.9	0.8	0.7	0.7	0.7
Yield (%)	154.4	78.6	86.0	318.0	340.6
ROE (%)	5.9	3.7	2.7	4.6	4.9

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$14.04
(Previous TP)	HK\$14.74)
Up/Downside	(6.5%)
Current Price	HK\$15.02

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Stock Data

Mkt Cap (HK\$ mn)	17,994.0
Avg 3 mths t/o (HK\$ mn)	74.0
52w High/Low (HK\$)	22.30/11.14
Total Issued Shares (mn)	1198.0

Source: FactSet

Shareholding Structure

Wu Chunyuan	21.9%
Pan Zhengmin	19.5%

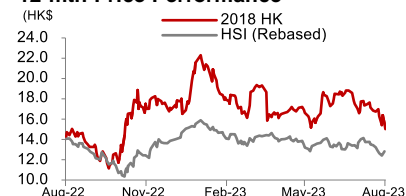
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.8%	-3.5%
3-mth	-9.6%	-5.6%
6-mth	-16.1%	-6.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. AAC Tech (2018 HK)-1H23 worse than expected on slow recovery; Maintain HOLD ([link](#))
2. AAC Tech (2018 HK)-4Q22 slightly below; recovery remains bumpy ([link](#)).

1H23 Results Review

Figure 1: 1H23 results review

RMB mn	1H22	1H23	YoY	CMBIGM 1H23E	Diff %
Revenue	9,412	9,219	-2%	8,649	7%
Gross profit	1,783	1,297	-27%	1,580	-18%
Operating profit	395	-29	-107%	257	-111%
Adj. net profit	350	150	-57%	141	7%
Adj. EPS (RMB)	0.29	0.13	-56%	0.12	11%
Gross margin	18.9%	14.1%	-4.9 ppt	18.3%	-4.2 ppt
Operating margin	4.2%	-0.3%	-4.5 ppt	3.0%	-3.3 ppt
Adj. net margin	3.7%	1.6%	-2.1 ppt	1.6%	0 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Revenue breakdown

RMB mn	1H22	2H22	FY22	1H23	2H23E	FY23E	FY24E	FY25E
Revenue								
Acoustics	4,139	4,709	8,848	3,323	4,213	7,536	8,884	9,215
MEMS components	479	778	1,256	494	855	1,349	1,552	1,785
ED&PM	2,931	4,345	7,276	3,620	4,008	7,628	7,846	8,164
Optics	1,852	1,365	3,217	1,771	1,250	3,021	2,918	2,918
Plastic lens	394	334	728	345	336	681	878	878
HCM/WLG	1,458	1,031	2,489	1,426	914	2,340	2,041	2,041
Others	10	17	27	11	17	28	28	28
Total	9,412	11,213	20,625	9,219	10,344	19,563	21,227	22,110
Revenue mix								
Acoustics	44%	42%	43%	36%	41%	39%	42%	42%
MEMS components	5%	7%	6%	5%	8%	7%	7%	8%
ED&PM	31%	39%	35%	39%	39%	39%	37%	37%
Optics	20%	12%	16%	19%	12%	15%	14%	13%
Plastic lens	4%	3%	4%	4%	3%	3%	4%	4%
HCM/WLG	15%	9%	12%	15%	9%	12%	10%	9%
Others	0%	0%	0%	0%	0%	0%	0%	0%
YoY Growth (%)								
Acoustics	0%	6%	3%	-20%	-11%	-15%	18%	4%
MEMS components	-8%	58%	24%	3%	10%	7%	15%	15%
ED&PM	20%	36%	29%	23%	-8%	5%	3%	4%
Optics	25%	50%	35%	-4%	-8%	-6%	-3%	0%
Others	-59%	-22%	-38%	-12%	1%	3%	0%	0%
Total	9%	24%	17%	-2%	-8%	-5%	9%	4%
Gross profit margin								
Acoustics	27.1%	29.1%	28.1%	25.5%	26.0%	25.8%	25.8%	25.8%
MEMS components	13.7%	10.4%	11.6%	11.3%	10.0%	10.5%	10.0%	10.0%
ED&PM	20.4%	21.9%	21.3%	19.3%	18.9%	19.1%	19.1%	19.0%
Optics	-0.6%	-29.7%	-13.0%	-17.0%	-10.3%	-14.2%	4.8%	7.1%
Others	91.6%	-15.3%	23.0%	-22.5%	-10.0%	-14.7%	10.0%	10.0%
Total	18.9%	17.8%	18.3%	14.1%	17.5%	15.9%	19.3%	19.5%

Source: Company data, CMBIGM

Earnings Revision

Figure 2: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	19,563	21,227	22,110	19,325	21,163	21,912	1%	0%	1%
Gross Profit	3,109	4,093	4,322	3,647	4,274	4,409	-15%	-4%	-2%
Operating Profit	301	989	1,090	794	1,201	1,227	-62%	-18%	-11%
Net profit	597	1,049	1,124	650	1,076	1,094	-8%	-2%	3%
EPS (RMB)	0.51	0.89	0.95	0.54	0.90	0.91	-6%	-1%	4%
Gross Margin	15.9%	19.3%	19.5%	18.9%	20.2%	20.1%	-3 ppt	-0.9 ppt	-0.6 ppt
Operating Margin	1.5%	4.7%	4.9%	4.1%	5.7%	5.6%	-2.6 ppt	-1 ppt	-0.7 ppt
Net Margin	3.1%	4.9%	5.1%	3.4%	5.1%	5.0%	-0.3 ppt	-0.2 ppt	0.1 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	19,563	21,227	22,110	21,657	23,971	26,520	-10%	-11%	-17%
Gross Profit	3,109	4,093	4,322	4,162	4,913	5,539	-25%	-17%	-22%
Operating Profit	301	989	1,090	1,103	1,605	1,885	-73%	-38%	-42%
Net profit	597	1,049	1,124	943	1,332	1,627	-37%	-21%	-31%
EPS (RMB)	0.51	0.89	0.95	0.79	1.11	1.35	-36%	-20%	-30%
Gross Margin	15.9%	19.3%	19.5%	19.2%	20.5%	20.9%	-3.3 ppt	-1.2 ppt	-1.4 ppt
Operating Margin	1.5%	4.7%	4.9%	5.1%	6.7%	7.1%	-3.6 ppt	-2 ppt	-2.2 ppt
Net Margin	3.1%	4.9%	5.1%	4.4%	5.6%	6.1%	-1.3 ppt	-0.6 ppt	-1.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: P&L forecast

RMB mn	FY22	1H23	2H23E	FY23E	FY24E	FY25E
Revenue	20,625	9,219	10,344	19,563	21,227	22,110
... YoY	16.7%	-2.0%	-7.8%	-5.2%	8.5%	4.2%
Cost of sales	(16,850)	(7,922)	(8,535)	(16,457)	(17,139)	(17,792)
Gross profit	3,775	1,297	1,809	3,106	4,089	4,318
GPM (%)	18.3%	14.1%	17.5%	15.9%	19.3%	19.5%
... YoY	-13.5%	-27.2%	-9.2%	-17.7%	31.6%	5.6%
SG&A	(1,483)	(651)	(724)	(1,375)	(1,507)	(1,570)
... % of rev	-7.2%	-7.1%	-7.0%	-7.0%	-7.1%	-7.1%
R&D	(1,546)	(675)	(755)	(1,430)	(1,592)	(1,658)
... % of rev	-7.5%	-7.3%	-7.3%	-7.3%	-7.5%	-7.5%
Operating profit	745	(29)	330	301	989	1,090
OPM (%)	3.6%	-0.3%	3.2%	1.5%	4.7%	4.9%
... YoY	-49.7%	-107.4%	-5.8%	-59.7%	229.2%	10.2%
Income Tax	-231	(127)	(58)	(185)	(174)	(189)
Effective Tax Rate	26.9%	72.8%	15.0%	33.0%	16.0%	16.0%
Net profit	821	150	447	597	1,049	1,124
NPM (%)	4.0%	1.6%	4.3%	3.1%	4.9%	5.1%
... YoY	-37.6%	-57.1%	-5.1%	-27.3%	75.6%	7.1%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with new TP HK\$14.04

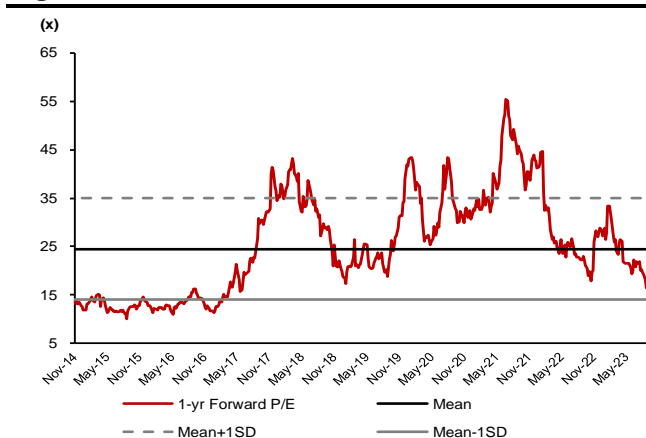
Our new TP of HK\$ 14.04 is based on SOTP to reflect business diversification with different growth profiles and visibility. Our TP is based on weighted-average target P/E multiple of 14.1x FY24E P/E. We assign 15x/10x P/E to AAC's acoustics/MEMS, 13x P/E to ED & PM, and 15x P/E to optics, in-line with HK-listed peers.

Figure 5: AAC Tech – SOTP valuation

Business segment	Value per share (RMB)	Valuation Methodology	Target P/E	% of FY24E Profit	FY24E EPS (RMB)
Acoustics	7.46	P/E target multiple	15x	56%	0.50
MEMS	0.34	P/E target multiple	10x	4%	0.03
ED & PM	4.23	P/E target multiple	13x	37%	0.33
Optics	0.46	P/E target multiple	15x	3%	0.03
TP (RMB)	12.49		14.1x		0.89
TP (HK\$)	14.04				

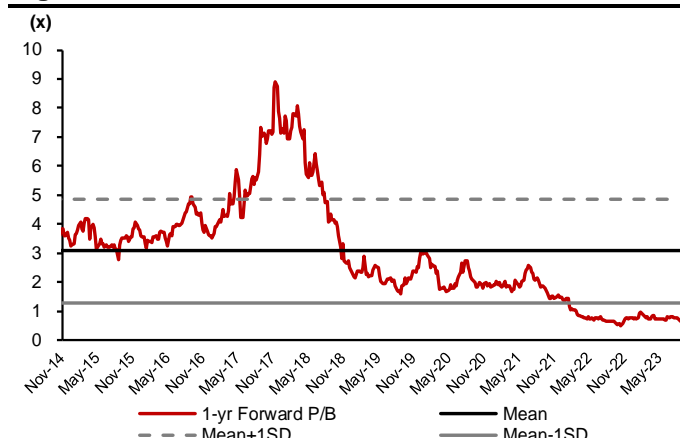
Sources: Company data, CMBIGM

Figure 6: 12M forward P/E band



Source: Company data, CMBIGM

Figure 7: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	17,140	17,667	20,625	19,563	21,227	22,110
Cost of goods sold	(12,913)	(13,302)	(16,850)	(16,457)	(17,139)	(17,792)
Gross profit	4,227	4,365	3,775	3,106	4,089	4,318
Selling expense	(285)	(333)	(448)	(423)	(467)	(486)
Admin expense	(672)	(824)	(1,036)	(952)	(1,040)	(1,083)
R&D expense	(1,920)	(1,726)	(1,546)	(1,430)	(1,592)	(1,658)
Operating profit	1,350	1,483	745	301	989	1,090
Other income	502	345	525	547	467	464
Other expense	0	0	0	0	0	0
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Investment gain/loss	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	0	(1)	(1)	(1)	(1)	(1)
Net Interest income/(expense)	(353)	(415)	(403)	(403)	(403)	(403)
Foreign exchange gain/loss	148	1	(6)	34	34	34
Other income/expense	0	0	0	85	0	0
Others	0	0	0	0	0	0
Pre-tax profit	1,648	1,413	861	562	1,086	1,184
Income tax	(147)	(120)	(231)	(185)	(174)	(189)
After tax profit	1,501	1,293	629	377	912	994
Minority interest	(6)	(23)	(192)	(221)	(137)	(129)
Net profit	1,507	1,316	821	597	1,049	1,124

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	16,850	17,955	17,116	20,007	20,577	25,543
Cash & equivalents	7,540	6,051	6,814	9,558	8,272	14,109
Account receivables	5,176	6,013	5,531	7,717	7,254	8,434
Inventories	3,995	5,695	4,401	2,362	4,682	2,630
ST bank deposits	92	2	341	341	341	341
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	46	193	28	28	28	28
Non-current assets	22,062	24,067	23,227	22,206	20,451	18,071
PP&E	18,592	19,987	19,302	18,281	16,525	14,145
Deferred income tax	95	211	228	228	228	228
Investment in JVs & assos	0	4	3	3	3	3
Intangibles	373	384	564	564	564	564
Goodwill	164	220	275	275	275	275
Financial assets at FVTPL	0	50	186	186	186	186
Other non-current assets	2,837	3,210	2,668	2,668	2,668	2,668
Total assets	38,911	42,022	40,343	42,213	41,028	43,613
Current liabilities	9,380	9,668	9,055	10,689	9,116	11,269
Short-term borrowings	3,349	2,902	1,833	1,833	1,833	1,833
Account payables	5,205	6,148	4,959	6,528	4,940	7,085
Tax payable	167	165	118	183	198	206
Other current liabilities	151	188	1,823	1,823	1,823	1,823
Lease liabilities	494	242	292	292	292	292
Contract liabilities	15	22	30	30	30	30
Non-current liabilities	7,711	9,852	9,093	9,093	9,093	9,093
Long-term borrowings	2,543	330	1,727	1,727	1,727	1,727
Bond payables	2,512	6,573	6,088	6,088	6,088	6,088
Obligations under finance leases	317	452	485	485	485	485
Other non-current liabilities	2,339	2,497	793	793	793	793
Total liabilities	17,090	19,520	18,148	19,782	18,209	20,362
Share capital	98	98	98	98	98	98
Other reserves	21,061	21,713	21,559	22,014	22,539	23,101
Total shareholders equity	21,821	22,502	22,196	22,431	22,818	23,251
Minority interest	662	691	539	319	182	53
Total equity and liabilities	38,911	42,022	40,343	42,213	41,028	43,613

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,648	1,413	861	562	1,086	1,184
Depreciation & amortization	2,701	4,363	4,147	4,413	0	0
Tax paid	(262)	(217)	(279)	(121)	(158)	(181)
Change in working capital	(789)	(528)	579	1,423	(3,445)	3,016
Others	295	(2,835)	(936)	138	4,816	5,042
Net cash from operations	3,593	2,196	4,372	6,415	2,299	9,060
Investing						
Capital expenditure	(2,088)	(1,176)	(3,678)	(3,126)	(2,657)	(2,258)
Acquisition of subsidiaries/ investments	0	(860)	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(1,174)	(2,211)	1,328	0	0	0
Net cash from investing	(3,262)	(4,246)	(2,349)	(3,126)	(2,657)	(2,258)
Financing						
Dividend paid	(107)	(403)	(144)	(142)	(525)	(562)
Net borrowings	356	(2,653)	0	0	0	0
Share repurchases	(107)	(403)	(144)	(142)	(525)	(562)
Others	2,439	4,072	(1,151)	(261)	121	159
Net cash from financing	2,582	613	(1,439)	(545)	(928)	(965)
Net change in cash						
Cash at the beginning of the year	4,814	7,540	6,051	6,814	9,558	8,272
Exchange difference	(187)	(52)	0	0	0	0
Cash at the end of the year	7,540	6,051	6,814	9,558	8,272	14,109
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(4.2%)	3.1%	16.7%	(5.2%)	8.5%	4.2%
Gross profit	(17.2%)	3.3%	(13.5%)	(17.7%)	31.6%	5.6%
Operating profit	(45.4%)	9.8%	(49.7%)	(59.7%)	229.2%	10.2%
Net profit	(32.2%)	(12.6%)	(37.6%)	(27.3%)	75.6%	7.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	24.7%	24.7%	18.3%	15.9%	19.3%	19.5%
Operating margin	7.9%	8.4%	3.6%	1.5%	4.7%	4.9%
Return on equity (ROE)	7.3%	5.9%	3.7%	2.7%	4.6%	4.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.8	1.9	1.9	1.9	2.3	2.3
Receivable turnover days	87.8	87.8	90.0	90.0	90.0	90.0
Inventory turnover days	88.6	88.6	75.0	75.0	75.0	75.0
Payable turnover days	84.7	84.7	70.0	70.0	70.0	70.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	34.2	32.4	22.3	27.6	15.7	14.7
P/E (diluted)	34.2	32.4	22.3	27.6	15.7	14.7
P/B	2.4	1.9	0.8	0.7	0.7	0.7
Div yield (%)	146.1	154.4	78.6	86.0	318.0	340.6

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

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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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