

# AAC Tech (2018 HK)

## Solid outlook for PSS merger & optics margin recovery; Maintain HOLD on fair valuation

AAC reported FY23 revenue of RMB20.4bn (-1.0% YoY) and net income of RMB740mn (-9.9% YoY), above consensus estimates mainly due to exchange gains and other income. FY23 GPM came in at 16.9%, largely in line, and 2H23 GPM recovered to 19.2% (+1.4ppts YoY/+5.1ppts HoH), driven by demand recovery and product upgrades. For FY24E, mgmt. guided 10-15% YoY sales growth (+20-30% YoY including PSS), driven by: 1) an optics GPM turnaround in 2H24E on market recovery, spec upgrades and WLG ramp-up; 2) auto biz PSS integration to bring auto synergy; 3) acoustics/haptics/casing/hinges to benefit from model launches and market share gains, and 4) AI phone upgrades in acoustics and cooling parts. Overall, we lift our FY24/25E EPS by 29/50% to reflect the PSS deal and stronger margin and business outlook. While we are positive on AAC's business outlook, the stock now trades at 20.2x/16.2x FY24/25E P/E, which is fair in our view. Maintain Hold with a new SOTP-based TP of HK\$22.44, implying 18.0x FY24E P/E

■ **FY23 earnings beat on across-the-board margin recovery.** By segment, acoustics/ED&PM/optics/MEMS revenue posted -15%/+13%/+13%/-18% YoY changes. In particular, optics segment reported narrowing loss in 2H23 due to improving ASP/margin and premium product ramp-up. Mgmt. stated that plastic lenses turned profitable in 1Q24 and guided a positive GPM in 2H24/FY24E. ED&PM delivered solid growth supported by further share gains for haptics/metal frames/foldable phone hinges. FY23 GPM came in at 16.9% with strong margin recovery in 2H23 across the segments, benefiting from demand recovery and product upgrades.

■ **FY24E outlook: optics margin improvement, ED&PM upgrade and PSS consolidation.** For FY24E, mgmt. guided 10-15% YoY sales growth (+20-30% YoY including PSS), driven by 1) optics margin to turn positive in 2H24/FY24E on better HCM GPM, ASP hikes and an improving scale; 2) accelerated growth in acoustics/haptics/casing/foldable phone hinges; 3) PSS consolidation to boost sales synergy in auto acoustics business. Overall, we estimate FY24E revenue/net profit to grow +30%/+82% YoY.

■ **Recent rally reflected most positives; maintain HOLD on fair valuation.** For FY24E, while we are positive on AAC's earnings recovery, we believe the recent rally has reflected its positives and its current valuation at 20.2x/16.2x FY24/25E P/E is fair. Maintain HOLD with a new SOTP-based TP of HK\$22.44, implying 18.0x FY24E P/E. Near-term catalysts include key customer's new model launch and customer share gains.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	20,625	20,419	26,462	29,392	30,685
YoY growth (%)	16.7	(1.0)	29.6	11.1	4.4
Net profit (RMB mn)	821.3	740.4	1,350.5	1,678.6	1,891.4
YoY growth (%)	(37.6)	(9.9)	82.4	24.3	12.7
EPS (Reported) (RMB)	0.69	0.63	1.15	1.43	1.61
YoY growth (%)	(37.1)	(8.3)	82.4	24.3	12.7
Consensus EPS (RMB)	0.69	0.54	1.03	1.33	1.88
P/E (x)	22.3	25.2	20.2	16.2	14.4
P/B (x)	0.8	0.8	1.2	1.1	ns
Yield (%)	78.6	75.9	51.9	117.2	132.1
ROE (%)	3.7	3.3	5.9	7.0	7.5

Source: Company data, Bloomberg, CMBIGM estimates

**HOLD (Maintain)**

**Target Price** HK\$22.44  
 (Previous TP) HK\$14.04  
**Up/Downside** (10.2%)  
**Current Price** HK\$25.00

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### Stock Data

Mkt Cap (HK\$ mn)	29,950.0
Avg 3 mths t/o (HK\$ mn)	120.0
52w High/Low (HK\$)	25.00/13.00
Total Issued Shares (mn)	1198.0

Source: FactSet

### Shareholding Structure

Wu Chunyuan	21.9%
Pan Zhengmin	19.5%

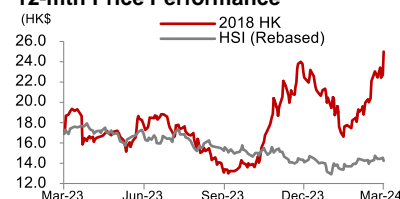
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	29.5%	31.4%
3-mth	11.4%	10.3%
6-mth	86.6%	104.2%

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](#)).

## 2H23 Results Review

Figure 1: 2H23 results review

RMB mn	2H22	2H23	YoY	Consensus	
				2H23E	Diff %
Revenue	11,213	11,200	0%	11,456	-2%
Gross profit	1,992	2,155	8%	2,152	0%
Operating profit	350	486	39%	539	-10%
Adj. net profit	471	590	25%	477	24%
Adj. EPS (RMB)	0.39	0.50	28%	0.41	21%
Gross margin	17.8%	19.2%	1.5 ppt	18.8%	0.5 ppt
Operating margin	3.1%	4.3%	1.2 ppt	4.7%	-0.4 ppt
Adj. net margin	4.2%	5.3%	1.1 ppt	4.2%	1.1 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 1: Revenue breakdown

RMB mn	1H22	2H22	FY22	1H23	2H23	FY23	FY24E	FY25E
<b>Revenue</b>								
Acoustics	4,139	4,709	8,848	3,323	4,176	7,499	11,970	14,009
MEMS components	479	778	1,256	494	531	1,025	1,128	1,297
ED&PM	2,931	4,345	7,276	3,620	4,626	8,245	9,165	9,911
Optics	1,852	1,365	3,217	1,771	1,856	3,627	4,172	4,146
Plastic lens	394	334	728	345	521	851	1,034	1,260
HCM/WLG	1,458	1,031	2,489	1,426	1,335	2,776	3,138	2,886
Others	10	17	27	11	12	23	28	28
<b>Total</b>	<b>9,412</b>	<b>11,213</b>	<b>20,625</b>	<b>9,219</b>	<b>11,200</b>	<b>20,419</b>	<b>26,462</b>	<b>29,392</b>
<b>Revenue mix</b>								
Acoustics	44%	42%	43%	36%	37%	37%	45%	48%
MEMS components	5%	7%	6%	5%	5%	5%	4%	4%
ED&PM	31%	39%	35%	39%	41%	40%	35%	34%
Optics	20%	12%	16%	19%	17%	18%	16%	14%
Plastic lens	4%	3%	4%	4%	5%	4%	4%	4%
HCM/WLG	15%	9%	12%	15%	12%	14%	12%	10%
Others	0%	0%	0%	0%	0%	0%	0%	0%
<b>YoY Growth (%)</b>								
Acoustics	0%	6%	3%	-20%	-11%	-15%	60%	17%
MEMS components	-8%	58%	24%	3%	-32%	-18%	10%	15%
ED&PM	20%	36%	29%	23%	6%	13%	11%	8%
Optics	25%	50%	35%	-4%	36%	13%	15%	-1%
Others	-59%	-22%	-38%	-12%	-30%	-16%	23%	0%
<b>Total</b>	<b>9%</b>	<b>24%</b>	<b>17%</b>	<b>-2%</b>	<b>0%</b>	<b>-1%</b>	<b>30%</b>	<b>11%</b>
<b>Gross profit margin</b>								
Acoustics	27.1%	29.1%	28.1%	25.5%	30.7%	28.4%	28.5%	27.5%
MEMS components	13.7%	10.4%	11.6%	11.3%	15.7%	13.6%	15.0%	14.0%
ED&PM	20.4%	21.9%	21.3%	19.3%	20.7%	20.1%	21.5%	20.0%
Optics	-0.6%	-29.7%	-13.0%	-17.0%	-9.2%	-13.0%	-0.5%	3.6%
Others	91.6%	-15.3%	23.0%	-22.5%	1.9%	-9.5%	-10.0%	-10.0%
<b>Total</b>	<b>18.9%</b>	<b>17.8%</b>	<b>18.3%</b>	<b>14.1%</b>	<b>19.2%</b>	<b>16.9%</b>	<b>20.1%</b>	<b>20.6%</b>

Source: Company data, CMBIGM estimates

## Earnings Revision

Figure 2: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	26,462	29,392	30,685	21,227	22,110	N/A	25%	33%	N/A
Gross profit	5,323	6,068	6,383	4,093	4,322	N/A	30%	40%	N/A
Operating profit	1,454	1,770	1,989	989	1,090	N/A	47%	62%	N/A
Net profit	1,350	1,679	1,891	1,049	1,124	N/A	29%	49%	N/A
EPS (RMB)	1.15	1.43	1.61	0.89	0.95	N/A	29%	50%	N/A
Gross margin	20.1%	20.6%	20.8%	19.3%	19.5%	N/A	0.8 ppt	1.1 ppt	N/A
Operating margin	5.5%	6.0%	6.5%	4.7%	4.9%	N/A	0.8 ppt	1.1 ppt	N/A
Net margin	5.1%	5.7%	6.2%	4.9%	5.1%	N/A	0.2 ppt	0.6 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	26,462	29,392	30,685	23,916	26,516	28,194	11%	11%	9%
Gross Profit	5,323	6,068	6,383	4,561	5,209	5,616	17%	16%	14%
Operating Profit	1,454	1,770	1,989	1,316	1,668	2,782	11%	6%	-29%
Net profit	1,350	1,679	1,891	1,226	1,575	2,007	10%	7%	-6%
EPS (RMB)	1.15	1.43	1.61	1.03	1.33	1.88	11%	7%	-14%
Gross Margin	20.1%	20.6%	20.8%	19.1%	19.6%	19.9%	1 ppt	1 ppt	0.9 ppt
Operating Margin	5.5%	6.0%	6.5%	5.5%	6.3%	9.9%	0 ppt	-0.3 ppt	-3.4 ppt
Net Margin	5.1%	5.7%	6.2%	5.1%	5.9%	7.1%	0 ppt	-0.2 ppt	-1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: P&L forecast

RMB mn	FY22	1H23	2H23	FY23	FY24E	FY25E
Revenue	20,625	9,219	11,200	20,419	26,462	29,392
...YoY	16.7%	-2.0%	-0.1%	-1.0%	29.6%	11.1%
Cost of sales	(16,850)	(7,922)	(9,046)	(16,967)	(21,144)	(23,330)
Gross profit	3,775	1,297	2,155	3,452	5,318	6,062
GPM (%)	18.3%	14.1%	19.2%	16.9%	20.1%	20.6%
...YoY	-13.5%	-27.2%	8.2%	-8.6%	54.1%	14.0%
SG&A	(1,483)	(651)	(770)	(1,421)	(1,852)	(2,057)
...% of rev	-7.2%	-7.1%	-6.9%	-7.0%	-7.0%	-7.0%
R&D	(1,546)	(675)	(898)	(1,573)	(2,011)	(2,234)
...% of rev	-7.5%	-7.3%	-8.0%	-7.7%	-7.6%	-7.6%
Operating profit	745	(29)	486	457	1,454	1,770
OPM (%)	3.6%	-0.3%	4.3%	2.2%	5.5%	6.0%
...YoY	-49.7%	-107.4%	38.9%	-38.7%	218.2%	21.7%
Income tax	-231	(127)	-125	-252	-391	-487
Effective tax rate	26.9%	72.8%	19.3%	30.7%	25.0%	25.0%
Net profit	821	150	590	740	1,350	1,679
NPM (%)	4.0%	1.6%	5.3%	3.6%	5.1%	5.7%
...YoY	-37.6%	-57.1%	25.2%	-9.9%	82.4%	24.3%

Source: Company data, CMBIGM estimates

## Valuation

### Maintain HOLD with new TP of HK\$22.44

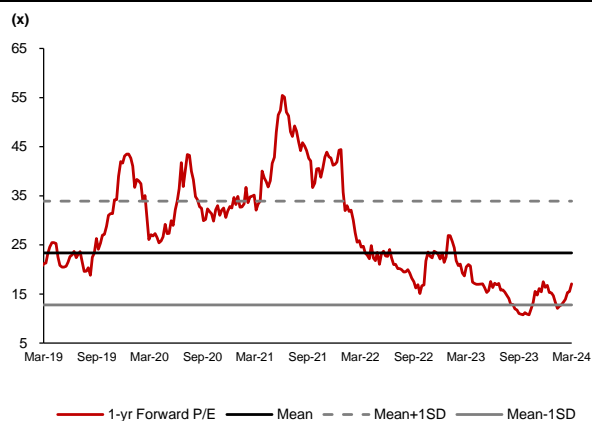
Our new TP of HK\$22.44 is based on SOTP to reflect business diversification with different growth profiles and visibility. Our TP is based on a weighted-average target P/E multiple of 18.0x FY24E P/E. We assign 20x/15x P/E to AAC's acoustics/MEMS, 15x P/E to ED & PM, and 15x P/E to optics, in line with HK-listed peers. While we are positive on AAC's business outlook, the stock now trades at 20.2x/16.2x FY24/25E P/E, which is fair in our view

**Figure 5: AAC Tech – SOTP valuation**

Business segment	Value per share (RMB)	Valuation Methodology	Target P/E	% of FY24E Profit	FY24E EPS (RMB)
Acoustics	13.81	P/E target multiple	20x	60%	0.69
MEMS	0.55	P/E target multiple	15x	3%	0.04
ED & PM	6.36	P/E target multiple	15x	37%	0.42
Optics	(0.07)	P/E target multiple	15x	0%	0.00
<b>TP (RMB)</b>	<b>20.65</b>		<b>18.0x</b>		<b>1.15</b>
<b>TP (HK\$)</b>	<b>22.44</b>				

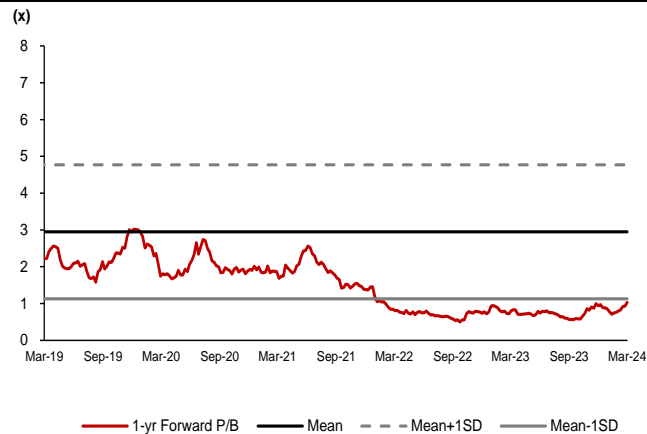
Sources: Company data, CMBIGM

**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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	17,667	20,625	20,419	26,462	29,392	30,685
Cost of goods sold	(13,302)	(16,850)	(16,967)	(21,144)	(23,330)	(24,309)
<b>Gross profit</b>	<b>4,365</b>	<b>3,775</b>	<b>3,452</b>	<b>5,318</b>	<b>6,062</b>	<b>6,377</b>
Selling expense	(333)	(448)	(443)	(582)	(647)	(675)
Admin expense	(824)	(1,036)	(978)	(1,270)	(1,411)	(1,412)
R&D expense	(1,726)	(1,546)	(1,573)	(2,011)	(2,234)	(2,301)
<b>Operating profit</b>	<b>1,483</b>	<b>745</b>	<b>457</b>	<b>1,454</b>	<b>1,770</b>	<b>1,989</b>
Other income	345	525	591	582	647	675
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	(1)	(1)	(0)	(2)	(2)	(2)
<b>Net Interest income/(expense)</b>	<b>(415)</b>	<b>(403)</b>	<b>(391)</b>	<b>(409)</b>	<b>(409)</b>	<b>(409)</b>
Foreign exchange gain/loss	1	(6)	14	(61)	(61)	(61)
Other income/expense	0	0	152	0	0	0
Others	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>1,413</b>	<b>861</b>	<b>823</b>	<b>1,566</b>	<b>1,946</b>	<b>2,193</b>
Income tax	(120)	(231)	(252)	(391)	(487)	(548)
<b>After tax profit</b>	<b>1,293</b>	<b>629</b>	<b>571</b>	<b>1,174</b>	<b>1,460</b>	<b>1,645</b>
Minority interest	(23)	(192)	(170)	(176)	(219)	(247)
<b>Net profit</b>	<b>1,316</b>	<b>821</b>	<b>740</b>	<b>1,350</b>	<b>1,679</b>	<b>1,891</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>17,955</b>	<b>17,116</b>	<b>16,527</b>	<b>21,779</b>	<b>24,504</b>	<b>30,399</b>
Cash & equivalents	6,051	6,814	6,825	6,505	11,861	13,804
Account receivables	6,013	5,531	6,653	9,520	8,696	10,439
Inventories	5,695	4,401	2,992	5,697	3,891	6,099
ST bank deposits	2	341	21	21	21	21
Financial assets at FVTPL	0	0	3	3	3	3
Other current assets	193	28	33	33	33	33
<b>Non-current assets</b>	<b>24,067</b>	<b>23,227</b>	<b>22,384</b>	<b>20,628</b>	<b>18,248</b>	<b>15,338</b>
PP&E	19,987	19,302	18,070	16,315	13,935	11,024
Deferred income tax	211	228	204	204	204	204
Investment in JVs & assos	4	3	286	286	286	286
Intangibles	384	564	589	589	589	589
Goodwill	220	275	275	275	275	275
Financial assets at FVTPL	50	186	413	413	413	413
Other non-current assets	3,210	2,668	2,546	2,546	2,546	2,546
<b>Total assets</b>	<b>42,022</b>	<b>40,343</b>	<b>38,911</b>	<b>42,408</b>	<b>42,753</b>	<b>45,737</b>
<b>Current liabilities</b>	<b>9,668</b>	<b>9,055</b>	<b>10,129</b>	<b>12,593</b>	<b>11,798</b>	<b>13,496</b>
Short-term borrowings	2,902	1,833	1,464	1,464	1,464	1,464
Account payables	6,148	4,959	5,796	8,231	7,420	9,113
Tax payable	165	118	101	130	145	151
Other current liabilities	188	1,823	2,363	2,363	2,363	2,363
Lease liabilities	242	292	389	389	389	389
Contract liabilities	22	30	16	16	16	16
<b>Non-current liabilities</b>	<b>9,852</b>	<b>9,093</b>	<b>6,410</b>	<b>6,410</b>	<b>6,410</b>	<b>6,410</b>
Long-term borrowings	330	1,727	1,726	1,726	1,726	1,726
Bond payables	6,573	6,088	3,662	3,662	3,662	3,662
Obligations under finance leases	452	485	381	381	381	381
Other non-current liabilities	2,497	793	641	641	641	641
<b>Total liabilities</b>	<b>19,520</b>	<b>18,148</b>	<b>16,540</b>	<b>19,003</b>	<b>18,208</b>	<b>19,906</b>
Share capital	98	98	97	97	97	97
Other reserves	21,713	21,559	21,784	22,993	24,353	25,885
<b>Total shareholders equity</b>	<b>22,502</b>	<b>22,196</b>	<b>22,371</b>	<b>23,404</b>	<b>24,545</b>	<b>25,830</b>
Minority interest	691	539	490	314	95	(152)
<b>Total equity and liabilities</b>	<b>42,022</b>	<b>40,343</b>	<b>38,911</b>	<b>42,408</b>	<b>42,753</b>	<b>45,737</b>

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,413	861	823	1,566	1,946	2,193
Depreciation & amortization	2,802	4,357	4,413	0	0	0
Tax paid	(217)	(304)	(269)	(362)	(472)	(542)
Change in working capital	(528)	420	1,135	(3,137)	1,820	(2,259)
Others	(1,274)	(962)	(1,469)	4,821	5,047	5,239
<b>Net cash from operations</b>	<b>2,196</b>	<b>4,372</b>	<b>4,633</b>	<b>2,888</b>	<b>8,341</b>	<b>4,630</b>
<b>Investing</b>						
Capital expenditure	(1,176)	(625)	(3,126)	(2,657)	(2,258)	(1,920)
Acquisition of subsidiaries/ investments	(860)	(195)	0	0	0	0
Net proceeds from disposal of short-term investments	0	(131)	0	0	0	0
Others	(2,211)	(1,398)	1,614	0	0	0
<b>Net cash from investing</b>	<b>(4,246)</b>	<b>(2,349)</b>	<b>(1,512)</b>	<b>(2,657)</b>	<b>(2,258)</b>	<b>(1,920)</b>
<b>Financing</b>						
Dividend paid	(403)	(144)	(141)	(141)	(319)	(359)
Net borrowings	(2,653)	222	0	0	0	0
Share repurchases	(403)	(144)	(141)	(141)	(319)	(359)
Others	4,072	(1,373)	(2,888)	(267)	(90)	(49)
<b>Net cash from financing</b>	<b>613</b>	<b>(1,439)</b>	<b>(3,171)</b>	<b>(550)</b>	<b>(727)</b>	<b>(768)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	7,540	6,051	6,814	6,825	6,505	11,861
Exchange difference	(52)	178	61	0	0	0
<b>Cash at the end of the year</b>	<b>6,051</b>	<b>6,814</b>	<b>6,825</b>	<b>6,505</b>	<b>11,861</b>	<b>13,804</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Revenue	3.1%	16.7%	(1.0%)	29.6%	11.1%	4.4%
Gross profit	3.3%	(13.5%)	(8.6%)	54.1%	14.0%	5.2%
Operating profit	9.8%	(49.7%)	(38.7%)	218.2%	21.7%	12.3%
Net profit	(12.6%)	(37.6%)	(9.9%)	82.4%	24.3%	12.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Gross profit margin	24.7%	18.3%	16.9%	20.1%	20.6%	20.8%
Operating margin	8.4%	3.6%	2.2%	5.5%	6.0%	6.5%
Return on equity (ROE)	5.9%	3.7%	3.3%	5.9%	7.0%	7.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Current ratio (x)	1.9	1.9	1.6	1.7	2.1	2.3
Receivable turnover days	87.8	87.8	87.8	90.0	90.0	90.0
Inventory turnover days	88.6	88.6	88.6	75.0	75.0	75.0
Payable turnover days	84.7	84.7	84.7	70.0	70.0	70.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
P/E	32.4	22.3	25.2	20.2	16.2	14.4
P/E (diluted)	32.4	22.3	25.2	20.2	16.2	14.4
P/B	1.9	0.8	0.8	1.2	1.1	ns
Div yield (%)	154.4	78.6	75.9	51.9	117.2	132.1

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



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