

AAC Tech (2018 HK)

FY25 in-line; auto/thermal/edge AI and margin recovery to drive earnings growth in 2026-27E

AAC's FY25 revenue/net profit (+16%/+40% YoY) are broadly in-line with our/consensus estimates, driven by improving profitability in optics and robust growth in auto/thermal businesses, despite weaker GPM dragged by acoustics margin. During earnings call, mgmt. provided detailed positive 2026 guidance, (16-17% YoY as in 2025, stable GPM), new growth drivers (thermal/auto/XR/AI hardware) and opportunity in AI server thermal M&A, which should ease market concerns on 2026 growth outlook amid smartphone headwinds. We adjusted our estimates to reflect FY25 results, industry headwinds and stronger thermal/optics/auto business. Our new SOTP-based TP of HK\$55.27 implies 20.0x rollover FY26E P/E. Near-term catalysts include AI phone/glasses launch, AR optical waveguides ramp-up and auto PSS order wins.

■ **FY25 in-line; optics profitability and thermal the bright spots.** AAC's FY25 revenue grew 16.4% YoY to RMB 31.8bn and NP surged 39.8% YoY to RMB 2.51bn, while GPM slightly missed at 22.1% (vs 22.5%/22.8% our/consensus) due to acoustics product mix changes. In particular, thermal VC and sensor & semi delivered robust growth of 400%/103% YoY, while acoustics/auto/optics grew 2%/16%/15% YoY. In addition, optics business showed impressive profitability improvement to 11.5% (vs 6.5% in 2024), backed by share gains in high-end lenses (7P/WLG/periscope/OIS).

■ **2026E outlook: Positive revenue guidance with auto/thermal as key drivers.** Mgmt. provided a solid set of guidance across business lines for 2026E: 1) company: +16-17% YoY and stable GPM; 2) Acoustics: +5-10% YoY, better GPM, 3) optics: plastic lens flat shipment with 5-10% ASP hike and module GPM 4-5%, 4) PM: +30% YoY, better GPM, 5) Auto PSS: +15-20% YoY, better GPM, 6) MEMS: +15-20% YoY, better GPM. Overall, we believe AAC is well-positioned to capture emerging AI opportunities with edge AI, AR/VR glasses, AI server and robotics entering a long-term innovation cycle.

■ **More growth drivers ahead; Maintain BUY.** On top of near-term AI/foldable phone upgrade, we are positive on AAC's accelerated expansion into high-growth non-handset segments: 1) automotive with 53.7% stake in Hebei First Light; 2) AR waveguide with acquisition of Dispelix, 3) AI server liquid cooling with acquiring Jyunde. Our new SOTP-based TP of HK\$55.27 implies 20.0x FY26E P/E. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	20,419	27,328	31,817	36,693	41,378
YoY growth (%)	(1.0)	33.8	16.4	15.3	12.8
Net profit (RMB mn)	740.4	1,797.2	2,512.0	2,899.9	3,388.9
YoY growth (%)	(9.9)	142.7	39.8	15.4	16.9
EPS (Reported) (RMB)	0.63	1.53	2.18	2.51	2.94
YoY growth (%)	(8.3)	143.8	42.0	15.4	16.9
Consensus EPS (RMB)	na	na	2.09	2.48	2.89
P/E (x)	45.0	18.5	13.0	11.3	9.6
P/B (x)	1.5	1.4	1.3	1.2	1.1
Yield (%)	35.3	84.8	0.0	168.6	197.1
ROE (%)	3.3	7.9	10.5	11.1	11.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$55.27
(Previous TP)	HK\$60.55)
Up/Downside	71.5%
Current Price	HK\$32.22

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Stock Data

Mkt Cap (HK\$ mn)	38,599.6
Avg 3 mths t/o (HK\$ mn)	166.6
52w High/Low (HK\$)	52.25/32.22
Total Issued Shares (mn)	1198.0

Source: FactSet

Shareholding Structure

Wu Chunyuan	21.9%
Pan Zhengmin	19.5%

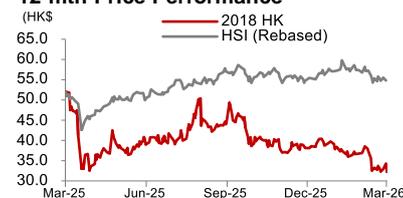
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.7%	-8.8%
3-mth	-14.8%	-13.4%
6-mth	-28.2%	-24.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

2025 results review

Figure 1: 2025 results review

RMB mn	2023	2024	2025	YoY	CMBI		Consensus	
					2025E	Diff %	2025E	Diff %
Revenue	20,419	27,328	31,817	16%	32,848	-3%	32,061	-1%
Gross profit	3,452	6,042	7,016	16%	7,386	-5%	7,307	-4%
Operating profit	457	2,080	2,589	24%	2,775	-7%	2,758	-6%
Net profit	740	1,797	2,512	40%	2,515	0%	2,448	3%
EPS (RMB)	0.63	1.53	2.18	42%	2.17	0%	2.09	4%
Gross margin	16.9%	22.1%	22.1%	-0.1 ppt	22.5%	-0.4 ppt	22.8%	-0.7 ppt
Operating margin	2.2%	7.6%	8.1%	0.5 ppt	8.4%	-0.3 ppt	8.6%	-0.5 ppt
Adj. net margin	3.6%	6.6%	7.9%	1.3 ppt	7.7%	0.2 ppt	7.6%	0.3 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Earnings revision

Figure 2: CMBIGM earnings revisions

RMB mn	New		Old		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	36,693	41,378	37,596	41,623	-2%	-1%
Gross profit	8,275	9,653	8,919	10,102	-7%	-4%
Net profit	2,900	3,389	3,187	3,735	-9%	-9%
EPS (RMB)	2.51	2.94	2.75	3.22	-9%	-9%
Gross margin	22.5%	23.3%	23.7%	24.2%	-1.2 ppt	-0.9 ppt
Net margin	8.5%	8.7%	9.1%	9.6%	-0.6 ppt	-0.9 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM		Consensus		Diff (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	36,693	41,378	36,114	39,775	2%	4%
Gross profit	8,275	9,653	8,515	9,546	-3%	1%
Net profit	2,900	3,389	2,910	3,390	0%	0%
EPS (RMB)	2.51	2.94	2.48	2.89	1%	2%
Gross margin	22.5%	23.3%	23.6%	24.0%	-1 ppt	-0.7 ppt
Net margin	8.5%	8.7%	9.6%	10.2%	-1 ppt	-1.4 ppt

Source: Bloomberg, Company data, CMBIGM estimates

Figure 4: P&L forecast

RMB mn	FY24	1H25	2H25	FY25	FY26E	FY27E
Revenue	27,328	13,318	18,499	31,817	36,693	41,378
... YoY	33.8%	18.4%	15.0%	16.4%	15.3%	12.8%
Cost of sales	(21,286)	(10,565)	(14,236)	(24,801)	(28,426)	(31,735)
Gross profit	6,042	2,754	4,262	7,016	8,267	9,644
GPM (%)	22.1%	20.7%	23.0%	22.1%	22.5%	23.3%
... YoY	75.0%	13.9%	17.6%	16.1%	17.8%	16.6%
SG&A	(1,940)	(980)	(1,136)	(2,116)	(2,458)	(2,938)
... % of rev	-7.1%	-7.4%	-6.1%	-6.6%	-6.7%	-7.1%
R&D	(2,022)	(998)	(1,313)	(2,311)	(2,679)	(3,103)
... % of rev	-7.4%	-7.5%	-7.1%	-7.3%	-7.3%	-7.5%
Operating profit	2,080	776	1,813	2,589	3,130	3,602
OPM (%)	7.6%	5.8%	9.8%	8.1%	8.5%	8.7%
... YoY	354.9%	28.2%	23.0%	24.5%	20.9%	15.1%
Income Tax	(227)	(162)	(186)	(347)	(402)	(470)
Effective Tax Rate	11.4%	15.6%	10.0%	12.0%	12.5%	12.5%
Net profit	1,797	876	1,636	2,512	2,900	3,389
NPM (%)	6.6%	6.6%	8.8%	7.9%	7.9%	8.2%
... YoY	142.7%	63.1%	29.8%	39.8%	15.4%	16.9%

Source: Company data, CMBIGM estimates

Figure 5: Revenue breakdown

RMB mn	FY24	1H25	2H25	FY25	FY26E	FY27E
Revenue						
Acoustics	8,214	3,523	4,829	8,352	9,150	11,492
PSS	3,516	1,738	2,379	4,117	4,940	5,187
Sensor & semi	773	608	963	1,571	1,964	2,513
ED&PM	9,710	4,634	7,140	11,774	14,336	15,507
Optics	5,000	2,648	3,078	5,725	6,024	6,398
Plastic lens	1,191	413	1,274	1,688	1,880	2,068
HCM/WLG	3,809	2,234	1,804	4,038	4,144	4,330
Others	115	167	111	278	278	278
Total	27,328	13,318	18,499	31,817	36,692	41,376
Revenue mix						
Acoustics	30%	26%	26%	26%	25%	28%
PSS	13%	13%	13%	13%	13%	13%
Sensor & semi	3%	5%	5%	5%	5%	6%
ED&PM	36%	35%	39%	37%	39%	37%
Optics	18%	20%	17%	18%	16%	15%
Plastic lens	4%	3%	7%	5%	5%	5%
HCM/WLG	14%	17%	10%	13%	11%	10%
Others	0%	1%	1%	1%	1%	1%
YoY Growth (%)						
Acoustics	10%	2%	2%	2%	10%	26%
PSS		14%	-	16%	20%	5%
Sensor & semi	-25%	56%	151%	103%	25%	28%
ED&PM	18%	27%	18%	21%	22%	8%
Optics	38%	20%	10%	15%	5%	6%
Plastic lens	2%	16%	52%	42%	11%	10%
HCM/WLG	55%	20%	-8%	6%	3%	4%
Others	405%	635%	2188%	230%	0%	0%
Total	34%	18%	15%	16%	15%	13%
Gross profit margin						
Acoustics	30.2%	27.2%	27.9%	27.6%	27.6%	28.0%
PSS	24.8%	23.9%	23.7%	23.8%	24.0%	24.5%
Sensor & semi	15.6%	12.1%	14.9%	13.8%	14.0%	16.0%
ED&PM	23.3%	22.9%	25.5%	24.5%	24.2%	24.7%
Optics	6.5%	10.2%	12.6%	11.5%	13.7%	14.7%
Others	-10.6%	-5.0%	-3.4%	-10.1%	-5.0%	-5.0%
Total	22.1%	20.7%	23.0%	22.1%	22.5%	23.3%

Source: Company data, CMBIGM

Valuation

Maintain BUY with new TP of HK\$55.27

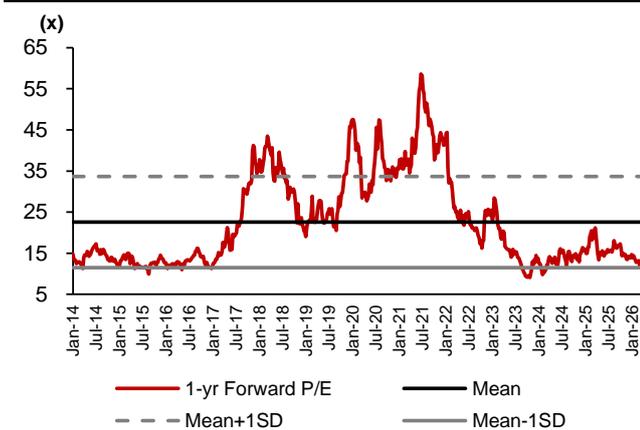
Our new TP of HK\$55.27 is based on SOTP to reflect business diversification with different growth profiles and visibility. Our TP is based on weighted-average target P/E multiple of 20.0x FY26E P/E, 11% below historical P/E mean of 22.5x, given near-term headwinds on auto/smartphone industry. We assign 20x/20x P/E to acoustics/MEMS, 20x P/E to PSS, 20x P/E to ED & PM, and 20x P/E to optics (rollover from prior 25x, 25x, 25x, 28x 2025 P/E) due to smartphone/auto industry uncertainties mentioned above. Near-term catalysts include AI phone/glasses launch, AR optical waveguide ramp-up and auto PSS order wins.

Figure 6: AAC Tech – SOTP valuation

Business segment	Value per share (RMB)	Valuation Methodology	Target P/E	% of FY26E Profit	FY26E EPS (RMB)
Acoustics-Traditional	15.35	P/E target multiple	20x	31%	0.77
Acoustics-PSS	7.14	P/E target multiple	20x	14%	0.36
MEMS	1.67	P/E target multiple	20x	3%	0.08
ED & PM	21.10	P/E target multiple	20x	42%	1.06
Optics	5.03	P/E target multiple	20x	10%	0.25
TP (RMB)	50.29		20.0x		2.51
TP (HK\$)	55.27				

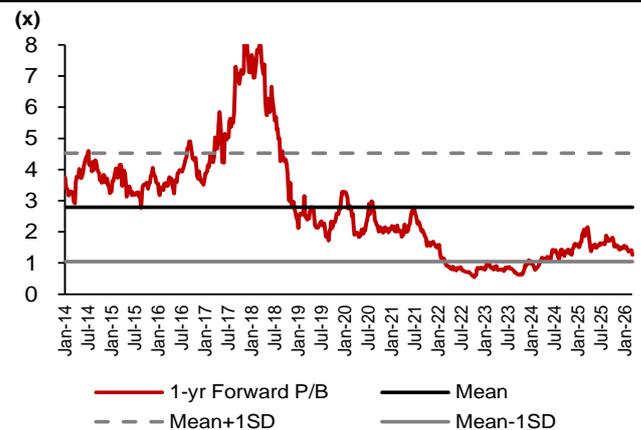
Sources: Company data, CMBIGM estimates

Figure 7: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 8: 12M forward P/B band



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	20,625	20,419	27,328	31,817	36,693	41,378
Cost of goods sold	(16,850)	(16,967)	(21,286)	(24,801)	(28,426)	(31,735)
Gross profit	3,775	3,452	6,042	7,016	8,267	9,644
Selling expense	(448)	(443)	(670)	(754)	(881)	(993)
Admin expense	(1,036)	(978)	(1,270)	(1,361)	(1,578)	(1,945)
R&D expense	(1,546)	(1,573)	(2,022)	(2,311)	(2,679)	(3,103)
Operating profit	745	457	2,080	2,589	3,130	3,602
Other income	525	591	411	442	550	621
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)	(0)	(0)	0	0	0
Net Interest income/(expense)	(403)	(391)	(417)	(395)	(395)	(395)
Foreign exchange gain/loss	(6)	14	22	(68)	(68)	(68)
Other income/expense	0	152	(105)	319	0	0
Others	0	0	0	0	0	0
Pre-tax profit	861	823	1,990	2,887	3,218	3,760
Income tax	(231)	(252)	(227)	(347)	(402)	(470)
After tax profit	629	571	1,764	2,539	2,815	3,290
Minority interest	(192)	(170)	(34)	27	(84)	(99)
Net profit	821	740	1,797	2,512	2,900	3,389
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	17,116	16,527	20,902	22,202	22,939	36,080
Cash & equivalents	6,814	6,825	7,538	8,612	1,381	18,091
Account receivables	5,531	6,653	9,371	8,982	14,331	12,021
Inventories	4,401	2,992	3,938	4,532	7,150	5,891
ST bank deposits	341	21	6	13	13	13
Financial assets at FVTPL	0	3	3	6	6	6
Other current assets	28	33	47	58	58	58
Non-current assets	23,227	22,384	25,798	26,776	23,865	20,504
PP&E	19,302	18,070	17,884	18,329	15,418	12,057
Deferred income tax	228	204	414	432	432	432
Investment in JVs & assos	3	286	3	3	3	3
Intangibles	564	589	1,706	1,639	1,639	1,639
Goodwill	275	275	2,093	2,283	2,283	2,283
Financial assets at FVTPL	186	413	450	650	650	650
Other non-current assets	2,668	2,546	3,180	3,384	3,384	3,384
Total assets	40,343	38,911	46,700	48,978	46,804	56,583
Current liabilities	9,055	10,129	14,403	14,854	10,415	17,548
Short-term borrowings	1,833	1,464	1,728	383	383	383
Account payables	4,959	5,796	9,558	11,682	7,217	14,324
Tax payable	118	101	252	173	200	225
Other current liabilities	1,823	2,363	479	379	379	379
Lease liabilities	292	389	489	514	514	514
Contract liabilities	30	16	63	105	105	105
Non-current liabilities	9,093	6,410	9,180	9,182	9,182	9,182
Long-term borrowings	1,727	1,726	3,883	5,592	5,592	5,592
Bond payables	6,088	3,662	3,721	2,025	2,025	2,025
Obligations under finance leases	485	381	634	699	699	699
Other non-current liabilities	793	641	932	858	858	858
Total liabilities	18,148	16,540	23,583	24,035	19,596	26,729
Share capital	98	97	97	97	97	97
Other reserves	21,559	21,784	22,657	24,260	26,608	29,354
Total shareholders equity	22,196	22,371	23,117	24,943	27,208	29,854
Minority interest	539	490	362	587	502	403
Total equity and liabilities	40,343	38,911	46,700	48,978	46,804	56,583

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	861	823	1,990	2,887	3,218	3,760
Depreciation & amortization	2,776	2,843	0	0	0	0
Tax paid	(304)	(246)	(76)	(426)	(376)	(445)
Change in working capital	420	1,247	112	1,928	(12,433)	10,677
Others	619	(34)	3,176	2,794	5,226	5,389
Net cash from operations	4,372	4,633	5,203	7,183	(4,366)	19,381
Investing						
Capital expenditure	(625)	(1,141)	(2,657)	(2,258)	(1,920)	(1,632)
Acquisition of subsidiaries/ investments	(195)	(305)	0	0	0	0
Net proceeds from disposal of short-term investments	(131)	(213)	0	0	0	0
Others	(1,398)	148	(828)	(1,694)	0	0
Net cash from investing	(2,349)	(1,512)	(3,485)	(3,952)	(1,920)	(1,632)
Financing						
Dividend paid	(144)	(118)	(281)	0	(551)	(644)
Net borrowings	222	(376)	0	0	0	0
Share repurchases	(144)	(118)	(281)	0	(551)	(644)
Others	(1,373)	(2,559)	(462)	(2,107)	156	249
Net cash from financing	(1,439)	(3,171)	(1,025)	(2,107)	(946)	(1,039)
Net change in cash						
Cash at the beginning of the year	6,051	6,814	6,825	7,538	8,612	1,381
Exchange difference	178	61	0	0	0	0
Cash at the end of the year	6,814	6,825	7,538	8,612	1,381	18,091
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	16.7%	(1.0%)	33.8%	16.4%	15.3%	12.8%
Gross profit	(13.5%)	(8.6%)	75.0%	16.1%	17.8%	16.6%
Operating profit	(49.7%)	(38.7%)	354.9%	24.5%	20.9%	15.1%
Net profit	(37.6%)	(9.9%)	142.7%	39.8%	15.4%	16.9%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	18.3%	16.9%	22.1%	22.1%	22.5%	23.3%
Operating margin	3.6%	2.2%	7.6%	8.1%	8.5%	8.7%
Return on equity (ROE)	3.7%	3.3%	7.9%	10.5%	11.1%	11.9%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	1.9	1.6	1.5	1.5	2.2	2.1
Receivable turnover days	87.8	87.8	87.8	87.8	90.0	90.0
Inventory turnover days	88.6	88.6	88.6	88.6	75.0	75.0
Payable turnover days	84.7	84.7	84.7	84.7	70.0	70.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	41.3	45.0	18.5	13.0	11.3	9.6
P/E (diluted)	na	45.0	18.5	13.0	11.3	9.6
P/B	1.5	1.5	1.4	1.3	1.2	1.1
Div yield (%)	42.4	35.3	84.8	0.0	168.6	197.1

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

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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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