

AAC Tech (2018 HK)

3Q22 beat boosted by seasonal demand pull-in

AAC's 3Q22 earnings with 28% YoY growth is 10% above consensus estimates, mainly due to seasonal demand pull-in of iPhone and strong ED&PM segment. Revenue grew 27% YoY to RMB 5.37bn, above expectations, and blended GPM improved slightly QoQ to 19.0% on better ED&PM margin. Mgmt. guided 4Q22 revenue to grow QoQ driven by acoustics and ED&PM, and FY23E CAPEX will further decline to RMB1.5-2bn (vs RMB2bn in FY22). Overall, while AAC's overall GPM started to stabilise in 3Q22, we think smartphone market weakness and loss-making optics segment will continue to drag earnings recovery in the near term. The stock now trades at 15.1x FY23E P/E, which is fair in our view. Maintain Hold with new SOTP-based TP rolled over to HK\$15.4, implying 13.0x FY23E P/E.

■ **Ongoing destocking for optics business; strong performance for EMD&PM segment.** By segment, 3Q22 acoustics grew 5.6% YoY on seasonal demand pull-in by overseas major clients. Optics revenue grew 45% YoY to RMB567mn and became loss-making with -14% GPM due to competition and lower utilization. While mgmt. believes meaningful inventory destocking will persist into 4Q22E, but smartphone outlook remains conservative in FY23E. EM&PM revenue grew 47% YoY to RMB 2.06bn and GPM improved to 21.5% (+1.3ppts YoY, +0.4ppts QoQ), due to proprietary "acoustic+haptic" combo products and newly launched x-axis haptics motors for Android customers.

■ **More updates on diversification strategy in automotive and AR/VR.** AAC guided meaningful growth in automotive acoustics next year since the Company has confirmed multiple cases from leading China EV customers and tier-ones. In addition, AAC's new product 3P VR pancake module will finish product line establishment within the year. However, mgmt. expected CAPEX to further drop to RMB1.5-2bn in FY23E (vs -40% YoY to RMB2bn in FY22), given less investment into optics business.

■ **Fair valuation at 15.1x FY23E P/E; Maintain HOLD.** We believe optics competition will remain intense given smartphone weakness, lack of upgrade and capacity oversupply. We trimmed FY22-24E EPS by 12-14% mainly for lower margins. We rolled over our SOTP-based TP to HK\$15.4, implying 13.0x FY23E P/E. Trading at 15.1x FY23E P/E, the stock is fairly valued in our view.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	17,140	17,667	20,380	20,734	21,581
YoY growth (%)	(4.2)	3.1	15.4	1.7	4.1
Net profit (RMB mn)	1,506.7	1,316.3	801.5	1,288.8	1,416.7
YoY growth (%)	(32.2)	(12.6)	(39.1)	60.8	9.9
EPS (Reported) (RMB)	1.25	1.09	0.66	1.07	1.17
YoY growth (%)	(32.1)	(12.6)	(39.1)	60.8	9.9
Consensus EPS (RMB)	na	na	0.73	0.96	1.18
P/E (x)	34.2	32.4	24.2	15.1	13.7
P/B (x)	2.4	1.9	0.9	0.8	0.8
Yield (%)	146.1	154.4	206.3	331.8	364.7
ROE (%)	7.3	5.9	3.5	5.6	6.0

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **HK\$15.40**

(Previous TP **HK\$14.0**)

Up/Downside **-11.0%**

Current Price **HK\$17.40**

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Stock Data

Mkt Cap (HK\$ mn)	20,845.2
Avg 3 mths t/o (HK\$ mn)	13.9
52w High/Low (HK\$)	36.55/11.14
Total Issued Shares (mn)	1198.0

Source: FactSet

Shareholding Structure

Wu Chunyuan	21.9%
Pan Zhengmin	19.5%

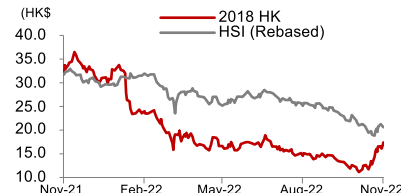
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	42.9%	52.9%
3-mth	19.3%	45.5%
6-mth	4.4%	27.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

3Q22 Results Review

Figure 1: 3Q22 results review

RMB mn						CMBI		Consensus	
	3Q21	2Q22	3Q22	QoQ	YoY	3Q22E	Diff %	3Q22E	Diff %
Revenue	4,246	4,516	5,373	19%	27%	4,457	21%	4,871	10%
Gross Profit	964	826	1,022	24%	6%	954	7%	960	6%
Operating Profit	239	185	218	18%	-9%	263	-17%	278	-21%
Net profit	183	145	234	61%	28%	216	8%	213	10%
EPS (RMB)	0.15	0.12	0.20	61%	29%	0.18	9%	0.20	-1%
Margin (%)									
Gross Margin	22.7%	18.3%	19.0%	0.7 ppt	-3.7 ppt	21.4%	-3.1 ppt	19.7%	-0.7 ppt
Operating Margin	5.6%	4.1%	4.1%	0 ppt	-1.6 ppt	5.9%	-1.8 ppt	5.7%	-1.6 ppt
Net Margin	4.3%	3.2%	4.4%	1.1 ppt	0 ppt	4.9%	-1.6 ppt	4.4%	0 ppt
Growth (%)									
Revenue (YoY)	-6%	5%	27%			5%		15%	
Revenue (QoQ)	-1%	-8%	19%			-1%		8%	
Operating profit (YoY)	-36%	-46%	-9%			10%		16%	
Net profit (YoY)	-57%	-63%	28%			18%		16%	

Source: Company data, Bloomberg, CMBIGM

Figure 2: Revenue breakdown

RMB mn	FY21	1Q22	2Q22	3Q22	4Q22E	FY22E	FY23E	FY24E
Revenue								
Dynamic components	8,582	2,230	1,909	2,320	2,202	8,662	8,878	9,348
MEMS components	1,013	237	241	421	262	1,162	1,278	1,406
Haptics & RF	5,639	1,501	1,431	2,050	2,449	7,431	7,241	7,321
Others (incl. optics)	2,433	928	934	582	682	3,126	3,337	3,507
Optics	2,389	924	929	567	663	3,082	3,301	3,471
Others	43	4	6	15	19	44	36	36
Total	17,667	4,896	4,516	5,373	5,596	20,380	20,734	21,581
Revenue mix								
Dynamic components	49%	46%	42%	43%	39%	43%	43%	43%
MEMS components	6%	5%	5%	8%	5%	6%	6%	7%
Haptics & RF	32%	31%	32%	38%	44%	36%	35%	34%
Others (incl. optics)	14%	19%	21%	11%	12%	15%	16%	16%
YoY Growth (%)								
Dynamic components	14%	6%	-6%	5%	-2%	1%	2%	5%
MEMS components	-6%	-16%	1%	66%	10%	15%	10%	10%
Haptics & RF	-18%	22%	17%	47%	36%	32%	-3%	1%
Others (incl. optics)	47%	35%	14%	47%	28%	28%	7%	5%
Optics	46%	36%	0%	44%	29%	29%	7%	5%
Total	3%	14%	5%	27%	16%	15%	2%	4%
Gross profit margin								
Dynamic components	29.7%	26.6%	27.0%	26.9%	27.5%	27.0%	28.0%	28.0%
MEMS components	15.1%	14.1%	15.0%	7.4%	10.0%	10.9%	13.0%	14.0%
Haptics & RF	21.6%	19.6%	16.1%	21.5%	19.8%	19.5%	18.6%	18.7%
Others (incl. optics)	18.3%	3.9%	4.8%	-12.7%	-10.7%	-2.1%	7.7%	7.6%
Optics	17.2%	3.5%	4.5%	-14.0%	-11.5%	22.0%	15.0%	7.5%
Total	24.7%	19.5%	18.3%	19.0%	18.7%	18.9%	20.5%	20.6%

Source: Company data, CMBIGM

Key takeaways from analyst call:

3Q22 Review:

- 3Q22 revenue RMB 5.37bn, +26.5% YoY, GPM 19.0%, -3.7ppts YoY.
- Net profit RMB 234mn, +27.5% YoY.
- Boosted by seasonal demand pull-in of overseas consumer electronics customers and strong performance of EMD&PM segment.

Optics:

- 3Q22 revenue RMB 567mn, +45.1% YoY, -39.0% QoQ. GPM -14%, plastic lens GPM --2%.
- Shipment: 3Q plastic lens shipment dropped 24.9% QoQ.
- DOI: 4-5 months, to reach 3-4 months in next year, slower-than-expected destocking progress so far due to weak demand by Android customers in 2H22.
- From the perspective of China Android smartphone market, lens price could further drop but not by a large extent.
- Strategic focus on WLG hybrid lens: MP 1G5P and 1G6P in Q3. Annual shipment target cut from 5kk to ~3kk due to lower high-end product demand.
- Target to ship 7P product in 4Q22.
- Chongqing factory 3Q22 successfully ramped, capacity 1.5kk/month.
- New product 3P VR Pancake module will finish product line establishment within the year.

Acoustics:

- 3Q22 revenue RMB 2.32bn, +5.6% YoY.
- GPM 26.9%, +0.5 ppts YoY, -0.8ppts QoQ.

EMD&PM:

- 3Q22 revenue RMB 2.06bn, +47.3% YoY, +43.6% QoQ.
- GPM 21.5%, +1.3 ppts YoY, +0.4 ppts QoQ.
- "Acoustics+Haptic" combo product received positive feedback from customers.
- Newly launched ultra-wide x-axis haptics motor drove the high-speed shipment growth from Android smartphone customers.
- PM: benefited from key customer foldable smartphone demand boom. Targeted double-digit YoY growth in FY23.

MEMS:

- 3Q22 revenue RMB 421mn, +66.1% YoY, +74.7% QoQ.
- GPM 7.4%, -7.9 ppts YoY, -5.9 ppts QoQ, mainly due to change in product mix and higher chip cost of the new product.

Earnings Revision

Figure 3: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	20,380	20,734	21,581	20,057	20,578	21,410	2%	1%	1%
Gross Profit	3,854	4,265	4,454	3,948	4,635	4,857	-2%	-8%	-8%
Operating Profit	843	1,296	1,364	986	1,400	1,491	-15%	-7%	-9%
Net profit	801	1,289	1,417	936	1,497	1,611	-14%	-14%	-12%
EPS (RMB)	0.66	1.07	1.17	0.77	1.24	1.33	-14%	-14%	-12%
Gross Margin	18.9%	20.5%	20.6%	19.7%	22.5%	22.7%	-0.8 ppt	-2 ppt	-2 ppt
Operating Margin	4.1%	6.2%	6.3%	4.9%	6.8%	7.0%	-0.8 ppt	-0.6 ppt	-0.6 ppt
Net Margin	3.9%	6.2%	6.6%	4.7%	7.3%	7.5%	-0.7 ppt	-1.1 ppt	-1 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	20,380	20,734	21,581	19,663	21,831	24,009	4%	-5%	-10%
Gross Profit	3,854	4,265	4,454	3,858	4,496	5,050	0%	-5%	-12%
Operating Profit	843	1,296	1,364	1,072	1,417	1,717	-21%	-9%	-21%
Net profit	801	1,289	1,417	891	1,190	1,456	-10%	8%	-3%
EPS (RMB)	0.66	1.07	1.17	0.73	0.96	1.18	-10%	11%	0%
Gross Margin	18.9%	20.5%	20.6%	19.6%	20.6%	21.0%	-0.7 ppt	0 ppt	-0.4 ppt
Operating Margin	4.1%	6.2%	6.3%	5.5%	6.5%	7.1%	-1.3 ppt	-0.2 ppt	-0.8 ppt
Net Margin	3.9%	6.2%	6.6%	4.5%	5.5%	6.1%	-0.6 ppt	0.8 ppt	0.5 ppt

Source: Bloomberg, CMBIGM estimates

Figure 5: P&L forecast

RMB mn	FY21	1Q22	2Q22	3Q22	4Q22E	FY22E	FY23E	FY24E
Revenue	17,667	4,896	4,516	5,373	5,596	20,380	20,734	21,581
...YoY	3.1%	14.1%	4.6%	26.5%	16.3%	15.4%	1.7%	4.1%
Cost of sales	(13,302)	(3,939)	(3,690)	(4,351)	(4,550)	(16,530)	(16,473)	(17,132)
Gross profit	4,365	957	826	1,022	1,045	3,850	4,261	4,450
GPM (%)	24.7%	19.5%	18.3%	19.0%	18.7%	18.9%	20.5%	20.6%
...YoY	3.3%	-28.4%	-23.4%	6.0%	6.1%	-11.8%	10.7%	4.4%
SG&A	(1,156)	(331)	(329)	(397)	(341)	(1,399)	(1,306)	(1,360)
...% of rev	-6.5%	-6.8%	-7.3%	-7.4%	-6.1%	-6.9%	-6.3%	-6.3%
R&D	(1,726)	(387)	(341)	(377)	(504)	(1,608)	(1,659)	(1,727)
...% of rev	-9.8%	-7.9%	-7.5%	-7.0%	-9.0%	-7.9%	-8.0%	-8.0%
Operating profit	1,483	239	185	218	200	843	1,296	1,364
OPM (%)	8.4%	4.9%	4.1%	4.1%	3.6%	4.1%	6.2%	6.3%
...YoY	9.8%	-62.6%	-45.9%	-8.8%	-23.3%	-43.1%	53.7%	5.2%
Income Tax	(120)	(54)	(89)	(80)	(22)	-245	-191	-210
Effective Tax Rate	8.5%	21.6%	50.3%	29.5%	10.0%	26.7%	15.0%	15.0%
Net profit	1,316	205	145	234	218	801	1,289	1,417
NPM (%)	7.5%	4.2%	3.2%	4.4%	3.9%	3.9%	6.2%	6.6%
...YoY	-12.6%	-61.4%	-62.8%	27.5%	2.6%	-39.1%	60.8%	9.9%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with new TP HK\$15.4

We derived our new TP of HK\$ 15.4 based on SOTP to reflect business diversification with different growth profiles and visibility. We rollover to adopt FY23E target multiples, and our new TP is based on weighted-average target P/E multiple of 13.0x FY23E P/E. We assign 13x P/E to AAC's acoustics/MEMS, 13x P/E to haptics & mechanical RF, and 15x P/E to optics, in-line with HK-listed peers.

Figure 6: AAC Tech – SOTP valuation

Business segment	Value per share (RMB)	Valuation Methodology	Target P/E	% of FY23E Profit	FY23E EPS (RMB)
Acoustics	8.09	P/E target multiple	13x	58%	0.62
MEMS	0.42	P/E target multiple	10x	4%	0.04
ED & PM	4.39	P/E target multiple	13x	32%	0.34
Optics	0.97	P/E target multiple	15x	6%	0.06
TP (RMB)	13.9		13.0x		1.07
TP (HK\$)	15.4				

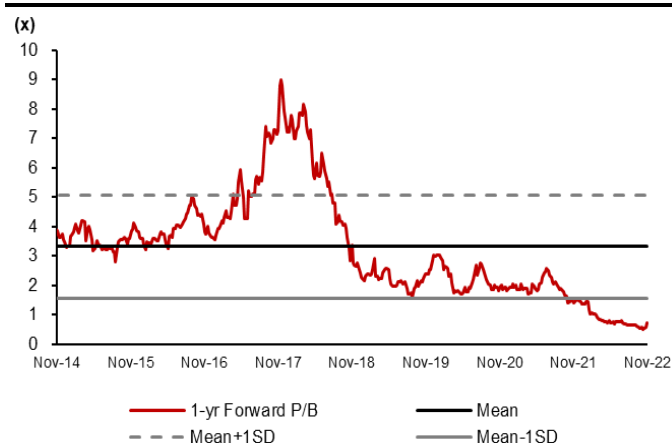
Sources: Company data, CMBIGM

Figure 7: 12M forward P/E band



Source: Company data, CMBIGM

Figure 8: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	17,884	17,140	17,667	20,380	20,734	21,581
Cost of goods sold	(12,777)	(12,913)	(13,302)	(16,530)	(16,473)	(17,132)
Gross profit	5,107	4,227	4,365	3,850	4,261	4,450
Selling expense	(275)	(285)	(333)	(427)	(394)	(410)
Admin expense	(643)	(672)	(824)	(972)	(912)	(950)
R&D expense	(1,717)	(1,920)	(1,726)	(1,608)	(1,659)	(1,727)
Operating profit	2,472	1,350	1,483	843	1,296	1,364
Other income	247	502	345	470	373	432
Other expense	0	0	0	0	0	0
Gain/loss on financial assets at FVTPL	19	0	0	0	0	0
Investment gain/loss	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	0	0	(1)	(1)	(1)	(1)
Net Interest income/(expense)	(248)	(353)	(415)	(390)	(390)	(390)
Foreign exchange gain/loss	63	148	1	(5)	(5)	(5)
Other income/expense	0	0	0	0	0	0
Others	0	0	0	0	0	0
Pre-tax profit	2,552	1,648	1,413	917	1,273	1,399
Income tax	(330)	(147)	(120)	(245)	(191)	(210)
After tax profit	2,222	1,501	1,293	673	1,082	1,189
Minority interest	0	(6)	(23)	(129)	(207)	(228)
Net profit	2,222	1,507	1,316	801	1,289	1,417

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	14,808	16,850	17,955	18,421	18,815	22,523
Cash & equivalents	5,512	7,540	6,051	8,890	6,422	12,171
Account receivables	5,576	5,176	6,013	8,238	6,526	8,788
Inventories	3,664	3,995	5,695	1,098	5,672	1,369
ST bank deposits	11	92	2	2	2	2
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	44	46	193	193	193	193
Non-current assets	19,400	22,062	24,067	23,911	22,890	21,134
PP&E	16,911	18,592	19,987	19,831	18,810	17,054
Deferred income tax	0	95	211	211	211	211
Investment in JVs & assos	0	0	4	4	4	4
Intangibles	434	373	384	384	384	384
Goodwill	164	164	220	220	220	220
Financial assets at FVTPL	0	0	50	50	50	50
Other non-current assets	1,891	2,837	3,210	3,210	3,210	3,210
Total assets	34,207	38,911	42,022	42,332	41,705	43,658
Current liabilities	7,711	9,380	9,668	9,705	8,641	10,113
Short-term borrowings	1,876	3,349	2,902	2,902	2,902	2,902
Account payables	5,474	5,205	6,148	6,160	5,092	6,556
Tax payable	178	167	165	190	194	201
Other current liabilities	75	151	188	188	188	188
Lease liabilities	97	494	242	242	242	242
Contract liabilities	10	15	22	22	22	22
Non-current liabilities	7,136	7,711	9,852	9,852	9,852	9,852
Long-term borrowings	3,850	2,543	330	330	330	330
Bond payables	2,685	2,512	6,573	6,573	6,573	6,573
Obligations under finance leases	310	317	452	452	452	452
Other non-current liabilities	290	2,339	2,497	2,497	2,497	2,497
Total liabilities	14,846	17,090	19,520	19,558	18,494	19,966
Share capital	98	98	98	98	98	98
Other reserves	19,253	21,061	21,713	22,113	22,758	23,466
Total shareholders equity	19,361	21,821	22,502	22,774	23,211	23,692
Minority interest	10	662	691	563	355	128
Total equity and liabilities	34,207	38,911	42,022	42,332	41,705	43,658

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,552	1,648	1,413	917	1,273	1,399
Depreciation & amortization	2,476	2,701	3,834	4,147	4,413	0
Tax paid	(370)	(262)	(217)	(219)	(188)	(202)
Change in working capital	(751)	(789)	(528)	2,384	(3,929)	3,505
Others	(65)	295	(2,306)	77	124	4,802
Net cash from operations	3,843	3,593	2,196	7,306	1,693	9,504
Investing						
Capital expenditure	(1,544)	(2,088)	(1,176)	(3,678)	(3,126)	(2,657)
Acquisition of subsidiaries/ investments	0	0	(860)	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(1,850)	(1,174)	(2,211)	0	0	0
Net cash from investing	(3,395)	(3,262)	(4,246)	(3,678)	(3,126)	(2,657)
Financing						
Dividend paid	(1,531)	(107)	(403)	(401)	(644)	(708)
Net borrowings	(263)	356	(2,653)	0	0	0
Share repurchases	(1,531)	(107)	(403)	(401)	(644)	(708)
Others	3,580	2,439	4,072	11	255	319
Net cash from financing	255	2,582	613	(791)	(1,034)	(1,098)
Net change in cash						
Cash at the beginning of the year	4,059	4,814	7,540	6,051	8,890	6,422
Exchange difference	51	(187)	(52)	0	0	0
Cash at the end of the year	4,814	7,540	6,051	8,890	6,422	12,171
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	(1.4%)	(4.2%)	3.1%	15.4%	1.7%	4.1%
Gross profit	(24.3%)	(17.2%)	3.3%	(11.8%)	10.7%	4.4%
Operating profit	(42.0%)	(45.4%)	9.8%	(43.1%)	53.7%	5.2%
Net profit	(41.5%)	(32.2%)	(12.6%)	(39.1%)	60.8%	9.9%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	28.6%	24.7%	24.7%	18.9%	20.5%	20.6%
Operating margin	13.8%	7.9%	8.4%	4.1%	6.2%	6.3%
Return on equity (ROE)	11.6%	7.3%	5.9%	3.5%	5.6%	6.0%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	1.9	1.8	1.9	1.9	2.2	2.2
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	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	22.7	34.2	32.4	24.2	15.1	13.7
P/E (diluted)	22.7	34.2	32.4	24.2	15.1	13.7
P/B	2.6	2.4	1.9	0.9	0.8	0.8
Div yield (%)	303.3	146.1	154.4	206.3	331.8	364.7

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

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