

# AAC Technologies (2018 HK)

## 4Q20 beat on one-off gain; Optics ASP/GPM weaker than expected

AAC's 4Q20 net profit (-0.1% YoY) was 4%/32% higher than consensus/our estimates, mainly due to deferred tax asset of RMB95mn. On operating level, 4Q revenue declined 10% YoY and GPM dropped 1ppt YoY to 28.1%, given continued pressure in acoustics, MEMS and haptics & casing. While 4Q optics shipment growth of 55% YoY remains on track, weaker lens ASP/GPM suggested intensified competition amid ongoing de-spec trend. We expect slower 6P/WLG ramp and HCM expansion will drag AAC's GPM in FY21E. Therefore, we lowered FY21-22E EPS by 1-7%, and our FY21-23E EPS are 28-34% below consensus. Maintain Hold with new SOTP-based TP HK\$45.3 given fair valuation at 21.8x FY21E P/E and slower optics improvement.

- **4Q20 operating level below; GPM slightly improved QoQ.** AAC's flattish 4Q20 net profit was higher than expectation due to one-off tax asset of RMB95mn recognized, while revenue fell 10% YoY given sales pressure across all traditional segments (acoustics, MEMS, haptics & casings). GPM was in-line at 28.1% (+4.5ppt QoQ, -1ppt YoY), driven by better acoustics/ED&PM margin.
- **Optics: weaker ASP/GPM amid de-spec trend.** Although 4Q plastic lens shipment reached 70-80kk/m in 4Q20 (vs 40-50kk/m in 3Q), we are cautious on optics GPM miss (21.4%, vs 30% guidance) and ASP decline of 10% YoY (vs +3% YoY in 3Q) due to weaker 6P mix (6-7% in 2H20). Given ongoing de-spec trend and intense competition with Sunny/Largan, we expect AAC's optics ASP/GPM improvement will be slower than expected. In addition, HCM expansion and WLG ramp in 1H21E will be a margin drag in the near term.
- **2021 outlook: lack of upgrade across all segments.** Mgmt. guided 2021 CAPEX will be 10-15% lower than RMB5.09bn in 2020, due to significant reduction in optics investment. In our view, 2021 will remain a slow year for smartphone spec upgrade given semi cost hike, and we expect ASP/GPM pressure to continue across haptics, acoustics, casings and plastic lens.
- **Our FY21-23E EPS are 25-34% below consensus; Maintain HOLD.** We trimmed FY21-22E EPS by 1-7% for lower ASP/margin for optics. Our new SOTP-based TP is HK\$45.3, implying 24.9x FY21E P/E. Trading at 21.8x FY21E P/E, the stock is fairly valued in our view. Upside risks include better optics margin and stronger WLG adoption.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	17,884	17,140	19,039	20,297	21,425
YoY growth (%)	(1.4)	(4.2)	11.1	6.6	5.6
Net income (RMB mn)	2,222	1,507	1,826	2,250	2,474
EPS (RMB)	1.84	1.25	1.51	1.86	2.05
YoY growth (%)	(41.1)	(32.1)	21.2	23.3	10.0
Consensus EPS (RMB)	1.84	1.27	2.16	2.64	3.10
P/E (x)	17.9	26.4	21.8	17.7	16.1
P/B (x)	2.1	1.8	1.7	1.7	1.6
Yield (%)	3.8	1.9	2.3	2.8	3.1
ROE (%)	11.5	6.9	8.0	9.4	9.9

Source: Company data, Bloomberg, CMBIS estimates

### HOLD (Maintain)

Target Price	HK\$45.3
(Previous TP)	HK\$43.2)
Up/Downside	14%
Current Price	HK\$39.65

### China Technology Sector

**Alex Ng**  
 (852) 3900 0881  
 alexng@cmbi.com.hk

### Stock Data

Mkt. Cap. (HK\$m)	47,917
Avg. 3mths t/o (HK\$m)	472.58
52W High/Low (HK\$)	63.95/ 35.81
Total Issued Shares (mn)	1,209

Source: Bloomberg

### Shareholding Structure

Chunyuan Wu	21.75%
Zhengmin Pan	19.24%
JPMorgan Chase	10.42%

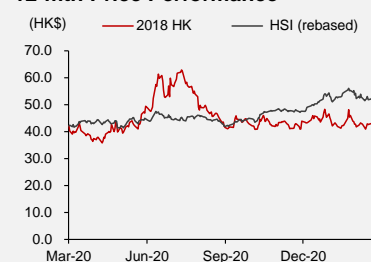
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-7.3%	0.0%
3-mth	-9.7%	-14.6%
6-mth	-4.6%	-20.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Deloitte Touche Tohmatsu**

### Related Reports:

1. 3Q20 another miss; Optics likely to improve but hard to move the needle – 16 Nov 2020
2. Further strategic investments into AAC Optics; Expect ASP/margin pressure to persist – 12 Oct 2020
3. 2Q20 another miss; Maintain Hold on slower optics in near term - 25 Aug 2020

## 4Q20 Results Review

Figure 1: 4Q20 results review

RMB mn	4Q19	3Q20	4Q20	QoQ	YoY	CMBIS 4Q20E	Diff %	Consensus 4Q20E	Diff %
Revenue	5,305	4,520	4,783	6%	-10%	5,325	-10%	5,410	-12%
Gross Profit	1,539	1,067	1,342	26%	-13%	1,489	-10%	1,344	0%
Operating Profit	801	376	617	64%	-23%	752	-18%	594	4%
Net profit	757	430	756	76%	-0.1%	724	4%	571	32%
EPS (RMB )	0.63	0.36	0.63	76%	0.0%	0.60	4%	0.47	32%
<b>Margin (%)</b>									
Gross Margin	29.0%	23.6%	28.1%		-1 ppt	28.0%	0.1 ppt	24.8%	3.2 ppt
Operating Margin	15.1%	8.3%	12.9%		-2.2 ppt	14.1%	-1.2 ppt	11.0%	1.9 ppt
Net Margin	14.3%	9.5%	15.8%		1.5 ppt	13.6%	2.2 ppt	10.5%	5.3 ppt
<b>Growth (%)</b>									
Revenue (YoY)	10%	-10%	-10%			0%		2%	
Revenue (QoQ)	6%	27%	12%			-3%		26%	
Operating profit	-29%	-55%	-23%			-6%		-26%	
Net profit	-27%	-38%	0%			-4%		-25%	

Source: Company data, Bloomberg, CMBIS

Figure 2: Revenue breakdown

RMB mn	FY19	1Q20	2Q20	3Q20	4Q20	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>									
Dynamic components	8,167	1,421	1,908	2,159	2,072	7,560	7,705	7,775	7,980
MEMS components	929	199	259	368	257	1,083	1,191	1,310	1,441
Haptics & RF	7,694	1,691	1,725	1,515	1,917	6,847	7,256	7,432	7,798
Others (incl. optics)	1,094	249	385	478	538	1,650	2,887	3,780	4,206
Optics	1,070	245	380	474	535	1,634	2,867	3,760	4,185
Others	24	4	5	4	2	16	21	21	21
<b>Total</b>	<b>17,884</b>	<b>3,560</b>	<b>4,277</b>	<b>4,520</b>	<b>4,783</b>	<b>17,140</b>	<b>19,039</b>	<b>20,297</b>	<b>21,425</b>
<b>Revenue mix</b>									
Dynamic components	46%	40%	45%	48%	43%	44%	40%	38%	37%
MEMS components	5%	6%	6%	8%	5%	6%	6%	6%	7%
Haptics & RF	43%	47%	40%	34%	40%	40%	38%	37%	36%
Others (incl. optics)	6%	7%	9%	11%	11%	10%	15%	19%	20%
<b>YoY Growth (%)</b>									
Dynamic components	-6%	-24%	8%	-5%	-8%	-7%	2%	1%	3%
MEMS components	14%	29%	14%	27%	-1%	17%	10%	10%	10%
Haptics & RF	-5%	11%	11%	-28%	-22%	-11%	6%	2%	5%
Others (incl. optics)	92%	32%	41%	47%	55%	51%	75%	31%	11%
Optics	95%	62%	43%	52%	57%	53%	75%	31%	11%
<b>Total</b>	<b>-1%</b>	<b>-5%</b>	<b>12%</b>	<b>-10%</b>	<b>-10%</b>	<b>-4%</b>	<b>11%</b>	<b>7%</b>	<b>6%</b>
<b>Gross profit margin</b>									
Dynamic components	31.0%	26.0%	26.4%	26.6%	32.0%	27.9%	27.4%	27.5%	27.5%
MEMS components	27.5%	16.5%	16.1%	19.0%	17.7%	17.5%	21.0%	22.5%	23.0%
Haptics & RF	29.6%	23.6%	22.8%	20.1%	28.0%	23.8%	23.3%	23.8%	23.4%
Others (incl. optics)	3.2%	9.5%	13.8%	24.7%	19.5%	18.2%	26.0%	33.0%	35.0%
<b>Total</b>	<b>28.6%</b>	<b>23.1%</b>	<b>23.3%</b>	<b>23.6%</b>	<b>28.1%</b>	<b>24.7%</b>	<b>25.2%</b>	<b>26.9%</b>	<b>27.2%</b>

Source: Company data, CMBIS

## Earnings Revision

Figure 3: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY20E	FY21E	FY22E
Revenue	19,039	20,297	21,425	19,829	20,348	na	-4%	0%	na
Gross Profit	4,809	5,457	5,829	5,124	5,518	na	-6%	-1%	na
Operating Profit	1,986	2,448	2,684	2,184	2,521	na	-9%	-3%	na
Net profit	1,826	2,250	2,474	1,973	2,276	na	-7%	-1%	na
EPS (RMB)	1.51	1.86	2.05	1.63	1.88	na	-7%	-1%	na
Gross Margin	25.2%	26.9%	27.2%	25.8%	27.1%	na	-0.6 ppt	-0.2 ppt	na
Operating Margin	10.4%	12.1%	12.5%	11.0%	12.4%	na	-0.6 ppt	-0.3 ppt	na
Net Margin	9.6%	11.1%	11.5%	9.9%	11.2%	na	-0.4 ppt	-0.1 ppt	na

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	19,039	20,297	21,425	21,014	24,430	24,119	-9%	-17%	-11%
Gross Profit	4,809	5,457	5,829	5,911	7,187	7,655	-19%	-24%	-24%
Operating Profit	1,986	2,448	2,684	2,986	3,320	4,182	-33%	-26%	-36%
Net profit	1,826	2,250	2,474	2,539	3,193	3,752	-28%	-30%	-34%
EPS (RMB)	1.51	1.86	2.05	2.16	2.64	3.10	-30%	-29%	-34%
Gross Margin	25.2%	26.9%	27.2%	28.1%	29.4%	31.7%	-2.9 ppt	-2.6 ppt	-4.6 ppt
Operating Margin	10.4%	12.1%	12.5%	14.2%	13.6%	17.3%	-3.8 ppt	-1.5 ppt	-4.8 ppt
Net Margin	9.6%	11.1%	11.5%	12.1%	13.1%	15.6%	-2.5 ppt	-2 ppt	-4 ppt

Source: Bloomberg, CMBIS estimates

Figure 5: P&L forecast

RMB mn	FY19	1Q20	2Q20	3Q20	4Q20	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>17,884</b>	3,560	4,277	4,520	4,783	<b>17,140</b>	<b>19,039</b>	<b>20,297</b>	<b>21,425</b>
...YoY	-1.4%	-5.1%	12.1%	-9.8%	-9.8%	-4.2%	11.1%	6.6%	5.6%
Cost of sales	(12,777)	(2,737)	(3,282)	(3,453)	(3,441)	(12,913)	(14,235)	(14,845)	(15,601)
<b>Gross profit</b>	<b>5,107</b>	<b>823</b>	<b>995</b>	<b>1,067</b>	<b>1,342</b>	<b>4,227</b>	<b>4,804</b>	<b>5,452</b>	<b>5,823</b>
GPM (%)	28.6%	23.1%	23.3%	23.6%	28.1%	24.7%	25.2%	26.9%	27.2%
...YoY	-24.3%	-27.1%	4.2%	-28.1%	-12.8%	-17.2%	13.6%	13.5%	6.8%
SG&A	(918)	(239)	(240)	(239)	(240)	(957)	(990)	(1,055)	(1,103)
...% of rev	-5.1%	-6.7%	-5.6%	-5.3%	-5.0%	-5.6%	-5.2%	-5.2%	-5.2%
R&D	(1,717)	(489)	(494)	(452)	(485)	(1,920)	(1,828)	(1,949)	(2,035)
...% of rev	-9.6%	-13.7%	-11.5%	-10.0%	-10.1%	-11.2%	-9.6%	-9.6%	-9.5%
<b>Operating profit</b>	<b>2,472</b>	<b>95</b>	<b>262</b>	<b>376</b>	<b>617</b>	<b>1,350</b>	<b>1,986</b>	<b>2,448</b>	<b>2,684</b>
OPM (%)	13.8%	2.7%	6.1%	8.3%	12.9%	7.9%	10.4%	12.1%	12.5%
...YoY	-42.0%	-80.5%	-25.9%	-54.6%	-23.0%	-45.4%	47.1%	23.3%	9.7%
<b>Income Tax</b>	<b>(330)</b>	<b>(77)</b>	<b>(40)</b>	<b>(69)</b>	<b>39</b>	<b>(147)</b>	<b>(248)</b>	<b>(306)</b>	<b>(336)</b>
Effective Tax Rate	12.9%	59.3%	13.1%	14.0%	-5.5%	8.9%	12.0%	12.0%	12.0%
<b>Net profit</b>	<b>2,222</b>	<b>53</b>	<b>268</b>	<b>430</b>	<b>756</b>	<b>1,507</b>	<b>1,826</b>	<b>2,250</b>	<b>2,474</b>
NPM (%)	12.4%	1.5%	6.3%	9.5%	15.8%	8.8%	9.6%	11.1%	11.5%
...YoY	-41.5%	-87.8%	-20.8%	-38.1%	-0.1%	-32.2%	21.2%	23.3%	10.0%

Source: Company data, CMBIS

## Valuation

### Maintain HOLD with new TP HK\$45.3

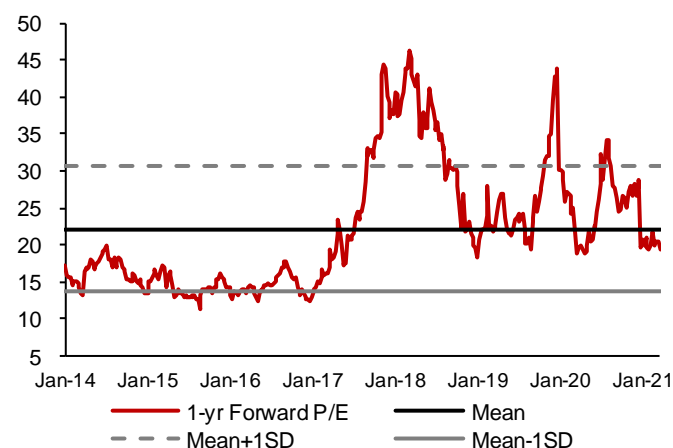
We derived our new TP of HK\$ 45.3 based on SOTP to reflect business diversification with different growth profiles and visibility. Our new TP is based on weighted-average target P/E multiple of 24.9x FY21E EPS and valuation of optics segment at RMB 17.9bn. We assign 20x P/E to AAC's core businesses, including acoustics, MEMS, haptics and mechanical RF, in-line with HK-listed peers.

**Figure 6: AAC Tech – SOTP valuation**

Business segment	Value per share (RMB)	Valuation Methodology	Target P/E	% of FY21E Profit	FY21E EPS (RMB)
Acoustics	13.3	P/E target multiple	20x	42%	0.66
MEMS	1.6	P/E target multiple	20x	5%	0.08
ED & PM	10.6	P/E target multiple	20x	34%	0.53
Optics	12.1	82% of RMB 17.9bn			0.24
<b>TP (RMB)</b>	<b>37.6</b>		<b>24.9x</b>		<b>1.51</b>
<b>TP (HK\$)</b>	<b>45.3</b>				

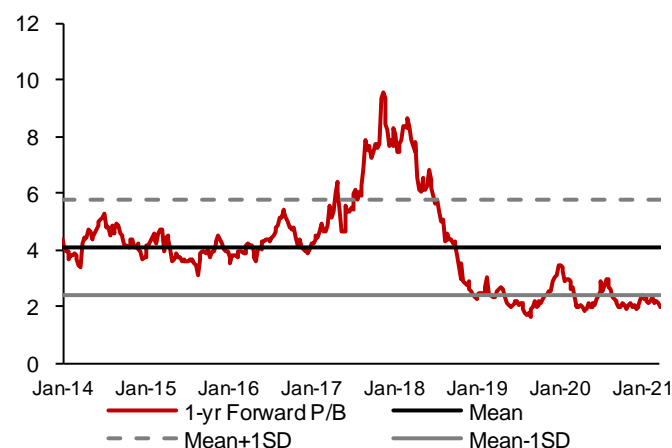
Sources: Company data, CMBIS

**Figure 7: 12M forward P/E band**



Source: Company data, CMBIS

**Figure 8: 12M forward P/B band**



Source: Company data, CMBIS

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	17,884	17,140	19,039	20,297	21,425
COGS	(12,777)	(12,913)	(14,235)	(14,845)	(15,601)
<b>Gross profit</b>	<b>5,107</b>	<b>4,227</b>	<b>4,804</b>	<b>5,452</b>	<b>5,823</b>
Selling and marketing	(275)	(285)	(305)	(325)	(343)
Administrative	(643)	(672)	(685)	(731)	(761)
R&D	(1,717)	(1,920)	(1,828)	(1,949)	(2,035)
<b>Operating profit</b>	<b>2,472</b>	<b>1,350</b>	<b>1,986</b>	<b>2,448</b>	<b>2,684</b>
Financial cost	(248)	(353)	(353)	(353)	(353)
Other income/(losses)	329	650	434	452	469
<b>Pre-tax profit</b>	<b>2,552</b>	<b>1,648</b>	<b>2,067</b>	<b>2,548</b>	<b>2,801</b>
Tax	(330)	(147)	(248)	(306)	(336)
Minority interest	-	(6)	(7)	(8)	(9)
<b>Net profit</b>	<b>2,222</b>	<b>1,507</b>	<b>1,826</b>	<b>2,250</b>	<b>2,474</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profit before taxation</b>	<b>2,552</b>	<b>1,648</b>	<b>2,067</b>	<b>2,548</b>	<b>2,801</b>
Depreciation	1,529	3,409	3,467	3,834	4,147
Change in working capital	(509)	(231)	(1,006)	(320)	(248)
Others	(109)	(1,233)	123	59	27
<b>Net cash from operating</b>	<b>3,464</b>	<b>3,593</b>	<b>4,651</b>	<b>6,121</b>	<b>6,727</b>
Capex	(3,000)	(3,262)	(4,327)	(3,678)	(3,126)
Other	68	-	-	-	-
<b>Net cash from investing</b>	<b>(2,932)</b>	<b>(3,262)</b>	<b>(4,327)</b>	<b>(3,678)</b>	<b>(3,126)</b>
Net borrowings					
Interest paid	(248)	(353)	(353)	(353)	(353)
Dividend paid	(1,531)	(753)	(913)	(1,125)	(1,237)
Other	-	3,688	-	-	-
<b>Net cash from financing</b>	<b>(1,779)</b>	<b>2,582</b>	<b>(1,265)</b>	<b>(1,478)</b>	<b>(1,590)</b>
<b>Net change in cash</b>	<b>(1,247)</b>	<b>2,913</b>	<b>(941)</b>	<b>966</b>	<b>2,012</b>
Cash at beg of year	4,059	5,512	7,540	6,599	7,565
Exchange difference					
<b>Cash at end of year</b>	<b>5,512</b>	<b>7,540</b>	<b>6,599</b>	<b>7,565</b>	<b>9,577</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Current assets</b>					
Cash & equivalents	14,808	16,850	17,008	18,112	21,129
Trade and other rev.	5,512	7,540	6,599	7,565	9,577
Inventories	5,576	5,176	8,415	6,163	9,249
Other current assets	3,664	3,995	1,855	4,246	2,166
	55	138	138	138	138
<b>Non-current assets</b>					
PPE	19,400	22,062	22,922	22,765	21,744
Lease prepayments	16,911	18,592	19,452	19,295	18,274
Intangible assets					
Other non-curr. assets	434	373	373	373	373
<b>Total assets</b>	<b>2,055</b>	<b>3,096</b>	<b>3,096</b>	<b>3,096</b>	<b>3,096</b>
	<b>34,207</b>	<b>38,911</b>	<b>39,929</b>	<b>40,877</b>	<b>42,873</b>
<b>Current liabilities</b>					
Short-term borrowings	7,711	9,380	9,491	9,323	10,091
Trade & other payables	1,876	3,349	3,349	3,349	3,349
Tax payables	5,474	5,205	5,298	5,117	5,874
Other current liabilities	178	167	185	198	209
	182	660	660	660	660
<b>Non-current liabilities</b>					
Government grants	7,136	7,711	7,711	7,711	7,711
Deferred tax liabilities	209	604	604	604	604
Other non-current liab.	65	49	49	49	49
<b>Total liabilities</b>	<b>6,861</b>	<b>7,058</b>	<b>7,058</b>	<b>7,058</b>	<b>7,058</b>
	<b>14,846</b>	<b>17,090</b>	<b>17,202</b>	<b>17,033</b>	<b>17,802</b>
Share capital					
Reserves	98	98	98	98	98
Minority interest	19,253	21,061	21,974	23,099	24,336
<b>Shareholders' equity</b>	<b>10</b>	<b>662</b>	<b>655</b>	<b>647</b>	<b>637</b>
<b>Total equity &amp; liabilities</b>	<b>19,361</b>	<b>21,821</b>	<b>22,727</b>	<b>23,844</b>	<b>25,071</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Dynamic components	45.7	44.1	40.5	38.3	37.2
MEMS (microphone)	5.2	6.3	6.3	6.5	6.7
Electro. (haptics)	43.0	39.9	38.1	36.6	36.4
Other	6.1	9.6	15.2	18.6	19.6
<b>Growth (%)</b>					
Revenue	(1.4)	(4.2)	11.1	6.6	5.6
Gross profit	(24.3)	(17.2)	13.6	13.5	6.8
Operating Income	(42.0)	(45.4)	47.1	23.3	9.7
Net profit	(41.5)	(32.2)	21.2	23.3	10.0
<b>Profitability (%)</b>					
Gross Margin	28.6	24.7	25.2	26.9	27.2
Operating Margin	13.8	7.9	10.4	12.1	12.5
Net margin	12.4	8.8	9.6	11.1	11.5
<b>Balance sheet ratios</b>					
Net debt/total equity (x)	0.0	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	1.8	1.8	1.9	2.1
Receivable turnover days	87.8	87.8	90.0	90.0	90.0
Inventory turnover days	88.6	88.6	75.0	75.0	75.0
Payable turnover days	84.7	84.7	70.0	70.0	70.0
<b>Returns (%)</b>					
ROE	11.5	6.9	8.0	9.4	9.9
ROA	6.5	3.9	4.6	5.5	5.8
<b>Per share data (RMB)</b>					
EPS	1.84	1.25	1.51	1.86	2.05
DPS	1.27	0.62	0.76	0.93	1.02

Source: Company data, CMBIS estimates

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## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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