

AAC Tech (2018 HK)

Multiple growth drivers and improving margin to continue into 2025; Raise TP to HK\$53.48

AAC reported a positive profit alert with 2024 earnings growth of 130-145% YoY to RMB 1.7bn-1.82bn, with mid-point in-line with our estimates and 5% above consensus. The strong results were driven by global smartphone recovery, spec upgrade across segments (acoustics/MEMS/haptics/thermal/optics), auto acoustics PSS integration and improving efficiency. Looking ahead to 2025, we believe AAC will continue to benefit from content value increase in AI/foldable phones (acoustics/MEMS/thermal/haptics/hinge/optics), AI smart glasses (MEMS/acoustics), and order wins in auto acoustics (Xiaomi/HW/Li/XPeng). We raise FY24-26E EPS by 1-4% for spec upgrade and improving margins in optics/acoustics/MEMS, and we lift our SOTP-based TP to HK\$53.48, implying 25.2x FY25E P/E. Catalysts include AI/foldable phone launches, new AI glasses and auto acoustics order wins. Maintain BUY.

- **Positive 2024 profit alert driven by spec upgrade, PPS and improving margins.** AAC posted a positive FY24E profit alert, stating earnings growth of 130-145% YoY, backed by recovery in global smartphone market, spec upgrade and a better product mix across various segments, auto acoustics (PSS) consolidation and enhanced operating efficiency.
- **2025 outlook: AI/foldable phones, iPhone 17, AI smart glasses, PSS order wins.** Mgmt. expected 10%+ YoY sales growth in 2025 with GPM target of 22-25%. We expect AAC will benefit from 1) **AI phones** boosting VC adoption and MEMS upgrade, 2) **foldable phones** for hinge/ acoustics/haptics upgrade, 3) **new iPhone 17 Air** to drive modularization of acoustics/MEMS/haptics, 4) **AI smart glasses** for MEMS microphone growth, 5) optics upgrade to 7P/WLG hybrid lens and share gain in HLS/HCM/WLG with GPM expansion, and 6) **PSS's** domestic client/order wins (e.g. Xiaomi/HW/ Li/XPeng) on top of its leadership in the overseas market. Overall, we expect AAC's earnings to grow 28%/21% in FY25E/26E.
- **Multiple catalysts ahead; Raise TP to HK\$53.48.** We are positive on AAC given its solid earnings growth, backed by content value increase in AI/foldable phones (acoustics/MEMS/thermal/haptics/hinge/optics), a better product mix and improving margins in acoustics/optics segments. We lift our FY24-26E EPS forecasts by 1-4% to reflect AI/foldable phone spec upgrade in acoustics/haptics/MEMS/optics and a better margin profile. Our new SOTP-based TP of HK\$53.48 implies 25.2x FY25E P/E. Maintain BUY. Upcoming catalysts include AI/foldable phone launches, new AI glasses and auto acoustics order wins.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	20,625	20,419	27,613	31,383	34,183
YoY growth (%)	16.7	(1.0)	35.2	13.7	8.9
Net profit (RMB mn)	821.3	740.4	1,776.3	2,273.4	2,751.0
YoY growth (%)	(37.6)	(9.9)	139.9	28.0	21.0
EPS (Reported) (RMB)	0.69	0.63	1.51	1.93	2.34
YoY growth (%)	(37.1)	(8.3)	139.9	28.0	21.0
Consensus EPS (RMB)	0.69	0.63	1.40	1.83	2.13
P/E (x)	63.6	69.4	28.9	22.6	18.7
P/B (x)	2.4	2.3	2.2	2.0	ns
Yield (%)	27.5	27.5	27.5	84.1	101.8
ROE (%)	3.7	3.3	7.7	9.2	10.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$53.48
(Previous TP)	HK\$40.83)
Up/Downside	14.9%
Current Price	HK\$46.55

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Stock Data

Mkt Cap (HK\$ mn)	55,766.9
Avg 3 mths t/o (HK\$ mn)	238.0
52w High/Low (HK\$)	48.90/17.46
Total Issued Shares (mn)	1198.0

Source: FactSet

Shareholding Structure

Wu Chunyuan	21.9%
Pan Zhengmin	19.5%

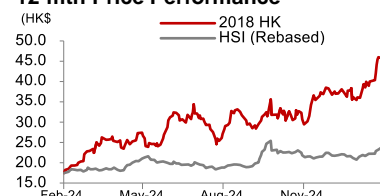
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	31.3%	13.6%
3-mth	49.9%	36.2%
6-mth	71.8%	35.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. AAC Tech (2018 HK)- Product upgrades and margin expansion to continue; Reiterate BUY ([link](#))
2. AAC Tech (2018 HK)-Riding on new upgrade cycle; Upgrade to BUY ([link](#))
3. AAC Tech (2018 HK)-Solid outlook for PSS merger & optics margin recovery; Maintain HOLD on fair valuation ([link](#))
4. AAC Tech (2018 HK)-1H23 worse than expected on slow recovery; Maintain HOLD ([link](#))

Earnings Revision

Figure 1: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	27,613	31,383	34,183	27,549	30,966	33,754	0%	1%	1%
Gross profit	6,256	7,219	8,112	6,232	7,118	7,923	0%	1%	2%
Net profit	1,776	2,273	2,751	1,762	2,234	2,637	1%	2%	4%
EPS (RMB)	1.51	1.93	2.34	1.50	1.90	2.24	1%	2%	4%
Gross margin	22.6%	23.0%	23.7%	22.6%	23.0%	23.4%	0 ppt	0 ppt	0.3 ppt
Operating margin	6.9%	7.7%	8.5%	6.8%	7.7%	8.2%	0 ppt	0 ppt	0.3 ppt
Net margin	6.4%	7.2%	8.0%	6.4%	7.2%	7.8%	0 ppt	0 ppt	0.2 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	27,613	31,383	34,183	26,060	29,409	32,492	6%	7%	5%
Gross profit	6,256	7,219	8,112	5,810	6,881	7,649	8%	5%	6%
Net profit	1,776	2,273	2,751	1,670	2,196	2,537	6%	4%	8%
EPS (RMB)	1.51	1.93	2.34	1.40	1.83	2.13	8%	5%	10%
Gross margin	22.6%	23.0%	23.7%	22.3%	23.4%	23.5%	0.3 ppt	-0.4 ppt	0.2 ppt
Operating margin	6.9%	7.7%	8.5%	7.9%	9.2%	9.5%	-1 ppt	-1.5 ppt	-1 ppt
Net margin	6.4%	7.2%	8.0%	6.4%	7.5%	7.8%	0 ppt	-0.2 ppt	0.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: P&L forecast

RMB mn	FY22	FY23	1H24	2H24E	FY24E	FY25E	FY26E
Revenue	20,625	20,419	11,247	16,366	27,613	31,383	34,183
... YoY	16.7%	-1.0%	22.0%	46.1%	35.2%	13.7%	8.9%
Cost of sales	(16,850)	(16,967)	(8,829)	(12,534)	(21,363)	(24,171)	(26,079)
Gross profit	3,775	3,452	2,418	3,832	6,250	7,212	8,104
GPM (%)	18.3%	16.9%	21.5%	23.4%	22.6%	23.0%	23.7%
... YoY	-13.5%	-8.6%	86.4%	77.9%	81.1%	15.4%	12.4%
SG&A	(1,483)	(1,421)	(863)	(1,227)	(2,090)	(2,291)	(2,495)
... % of rev	-7.2%	-7.0%	-7.7%	-7.5%	-7.6%	-7.3%	-7.3%
R&D	(1,546)	(1,573)	(949)	(1,309)	(2,259)	(2,511)	(2,700)
... % of rev	-7.5%	-7.7%	-8.4%	-8.0%	-8.2%	-8.0%	-7.9%
Operating profit	745	457	605	1,296	1,901	2,410	2,908
OPM (%)	3.6%	2.2%	5.4%	7.9%	6.9%	7.7%	8.5%
... YoY	-49.7%	-38.7%	-2169.5%	166.4%	315.9%	26.8%	20.6%
Income Tax	-231	-252	(112)	(340)	(452)	(659)	(797)
Effective Tax Rate	26.9%	30.7%	17.8%	24.0%	22.1%	25.0%	25.0%
Net profit	821	740	537	1,239	1,776	2,273	2,751
NPM (%)	4.0%	3.6%	4.8%	7.6%	6.4%	7.2%	8.0%
... YoY	-37.6%	-9.9%	257.3%	110.0%	139.9%	28.0%	21.0%

Source: Company data, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	1H23	2H23	FY23	1H24	2H24E	FY24E	FY25E	FY26E
Revenue								
Acoustics	3,323	4,176	7,499	3,460	5,220	8,680	9,572	10,672
PSS	-	-	-	1,522	1,603	3,125	3,937	4,134
Sensor & semi	494	531	1,025	389	637	1,026	1,180	1,358
ED&PM	3,620	4,626	8,245	3,658	6,281	9,939	11,405	12,373
Optics	1,771	1,856	3,627	2,213	2,614	4,827	5,265	5,624
Plastic lens	330	840	1,170	355	1,000	1,355	1,632	1,862
HCM/WLG	1,441	1,016	2,457	1,857	1,614	3,472	3,633	3,762
Others	11	12	23	5	12	17	23	23
Total	9,219	11,200	20,419	11,247	16,366	27,613	31,383	34,183
Revenue mix								
Acoustics	36%	37%	37%	31%	32%	31%	31%	31%
PSS	0%	0%	0%	14%	10%	11%	13%	12%
Sensor & semi	5%	5%	5%	3%	4%	4%	4%	4%
ED&PM	39%	41%	40%	33%	38%	36%	36%	36%
Optics	19%	17%	18%	20%	16%	17%	17%	16%
Plastic lens	4%	7%	6%	3%	6%	5%	5%	5%
HCM/WLG	16%	9%	12%	17%	10%	13%	12%	11%
Others	0%	0%	0%	0%	0%	0%	0%	0%
YoY Growth (%)								
Acoustics	-20%	-11%	-15%	4%	25%	16%	10%	11%
PSS	-	-	-	-	-	-	26%	5%
Sensor & semi	3%	-32%	-18%	-21%	20%	0%	15%	15%
ED&PM	23%	6%	13%	1%	36%	21%	15%	8%
Optics	-4%	36%	13%	25%	41%	33%	9%	7%
Others	10%	-30%	-16%	-54%	0%	-25%	34%	0%
Total	-2%	0%	-1%	22%	46%	35%	14%	9%
Gross profit margin								
Acoustics	25.5%	30.7%	28.4%	29.9%	32.0%	31.2%	31.5%	32.0%
PSS	-	-	-	25.0%	25.0%	25.0%	25.0%	25.0%
Sensor & semi	11.3%	15.7%	13.6%	16.4%	16.0%	16.2%	16.5%	16.8%
ED&PM	19.3%	20.7%	20.1%	22.9%	22.0%	22.3%	21.9%	21.9%
Optics	-17.0%	-9.2%	-13.0%	4.7%	10.6%	7.9%	9.8%	12.7%
Others	-22.5%	1.9%	-9.5%	-58.6%	-5.0%	-20.2%	-5.0%	-5.0%
Total	14.1%	19.2%	16.9%	21.5%	23.4%	22.6%	23.0%	23.7%

Source: Company data, CMBIGM

Valuation

Maintain BUY with new TP HK\$53.48

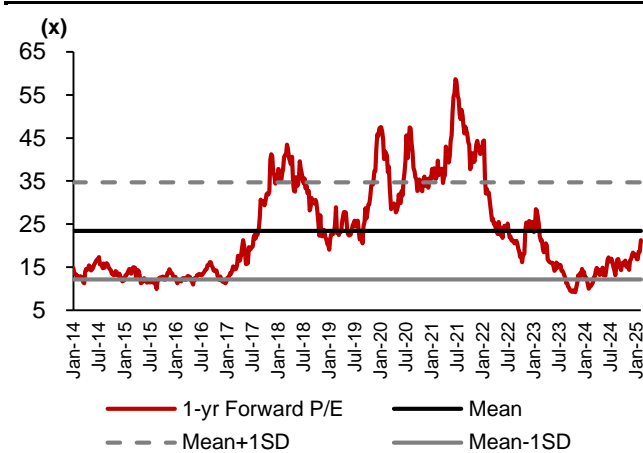
We lift our FY24-26E EPS forecasts by 1-4% to reflect of AI/foldable phone spec upgrade in acoustics/ haptics/MEMS/optics and a better margin profile. Our new TP of HK\$ 53.48 is based on SOTP to reflect business diversification with different growth profiles and visibility. Our TP is based on weighted-average target P/E multiple of 25.2x FY25E P/E. Following recent sector re-rating, we assign 25x/25x P/E to AAC's acoustics/MEMS, 25x P/E to PSS, 25x P/E to ED & PM, and 28x P/E to optics, in-line with HK-listed peers. Upcoming catalysts include AI/foldable phone launches, new AI glasses and auto acoustics order wins.

Figure 5: AAC Tech – SOTP valuation

Business segment	Value per share (RMB)	Valuation Methodology	Target P/E	% of FY25E Profit	FY25E EPS (RMB)
Acoustics-Traditional	20.17	P/E target multiple	25x	42%	0.81
Acoustics-PSS	6.59	P/E target multiple	25x	14%	0.26
MEMS	1.30	P/E target multiple	25x	3%	0.05
ED & PM	16.75	P/E target multiple	25x	35%	0.67
Optics	3.86	P/E target multiple	28x	7%	0.14
TP (RMB)	48.67		25.2		1.93
TP (HK\$)	53.48				

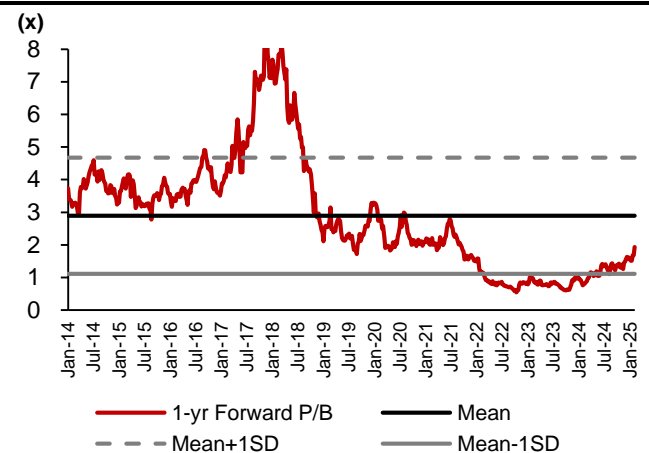
Sources: Company data, CMBIGM

Figure 6: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 7: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	17,667	20,625	20,419	27,613	31,383	34,183
Cost of goods sold	(13,302)	(16,850)	(16,967)	(21,363)	(24,171)	(26,079)
Gross profit	4,365	3,775	3,452	6,250	7,212	8,104
Selling expense	(333)	(448)	(443)	(706)	(753)	(820)
Admin expense	(824)	(1,036)	(978)	(1,384)	(1,538)	(1,675)
R&D expense	(1,726)	(1,546)	(1,573)	(2,259)	(2,511)	(2,700)
Operating profit	1,483	745	457	1,901	2,410	2,908
Other income	345	525	591	612	628	684
Other expense	0	0	0	(13)	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)	(0)	(0)	(0)
Net Interest income/(expense)	(415)	(403)	(391)	(464)	(420)	(420)
Foreign exchange gain/loss	1	(6)	14	18	18	18
Other income/expense	0	0	152	(8)	0	0
Others	0	0	0	0	0	0
Pre-tax profit	1,413	861	823	2,046	2,636	3,190
Income tax	(120)	(231)	(252)	(452)	(659)	(797)
After tax profit	1,293	629	571	1,594	1,977	2,392
Minority interest	(23)	(192)	(170)	(183)	(297)	(359)
Net profit	1,316	821	740	1,776	2,273	2,751

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	17,955	17,116	16,527	22,427	25,815	32,684
Cash & equivalents	6,051	6,814	6,825	6,418	12,369	14,073
Account receivables	6,013	5,531	6,653	10,165	9,243	11,983
Inventories	5,695	4,401	2,992	5,787	4,146	6,571
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
Non-current assets	24,067	23,227	22,384	20,628	18,248	15,338
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
Total assets	42,022	40,343	38,911	43,055	44,063	48,022
Current liabilities	9,668	9,055	10,129	12,821	12,285	14,374
Short-term borrowings	2,902	1,833	1,464	1,464	1,464	1,464
Account payables	6,148	4,959	5,796	8,453	7,898	9,973
Tax payable	165	118	101	136	155	168
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
Non-current liabilities	9,852	9,093	6,410	6,410	6,410	6,410
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
Total liabilities	19,520	18,148	16,540	19,231	18,695	20,784
Share capital	98	98	97	97	97	97
Other reserves	21,713	21,559	21,784	23,419	25,261	27,489
Total shareholders equity	22,502	22,196	22,371	23,824	25,369	27,238
Minority interest	691	539	490	307	11	(348)
Total equity and liabilities	42,022	40,343	38,911	43,055	44,063	48,022

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,413	861	823	2,046	2,636	3,190
Depreciation & amortization	2,802	2,776	4,413	0	0	0
Tax paid	(217)	(304)	(246)	(417)	(640)	(784)
Change in working capital	(528)	420	1,247	(3,650)	2,008	(3,090)
Others	(1,274)	619	(1,604)	4,877	5,058	5,250
Net cash from operations	2,196	4,372	4,633	2,856	9,061	4,566
Investing						
Capital expenditure	(1,176)	(625)	(1,141)	(2,657)	(2,258)	(1,920)
Acquisition of subsidiaries/ investments	(860)	(195)	(305)	0	0	0
Net proceeds from disposal of short-term investments	0	(131)	(213)	0	0	0
Others	(2,211)	(1,398)	148	0	0	0
Net cash from investing	(4,246)	(2,349)	(1,512)	(2,657)	(2,258)	(1,920)
Financing						
Dividend paid	(403)	(144)	(141)	(141)	(432)	(523)
Net borrowings	(2,653)	222	(376)	0	0	0
Share repurchases	(403)	(144)	(141)	(141)	(432)	(523)
Others	4,072	(1,373)	(2,512)	(323)	12	103
Net cash from financing	613	(1,439)	(3,171)	(606)	(852)	(943)
Net change in cash						
Cash at the beginning of the year	7,540	6,051	6,814	6,825	6,418	12,369
Exchange difference	(52)	178	61	0	0	0
Cash at the end of the year	6,051	6,814	6,825	6,418	12,369	14,073
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	3.1%	16.7%	(1.0%)	35.2%	13.7%	8.9%
Gross profit	3.3%	(13.5%)	(8.6%)	81.1%	15.4%	12.4%
Operating profit	9.8%	(49.7%)	(38.7%)	315.9%	26.8%	20.6%
Net profit	(12.6%)	(37.6%)	(9.9%)	139.9%	28.0%	21.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	24.7%	18.3%	16.9%	22.6%	23.0%	23.7%
Operating margin	8.4%	3.6%	2.2%	6.9%	7.7%	8.5%
Return on equity (ROE)	5.9%	3.7%	3.3%	7.7%	9.2%	10.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
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
YE 31 Dec						
P/E	40.0	63.6	69.4	28.9	22.6	18.7
P/E (diluted)	na	na	na	28.9	22.6	18.7
P/B	2.3	2.4	2.3	2.2	2.0	ns
Div yield (%)	124.9	27.5	27.5	27.5	84.1	101.8

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

Disclosures & Disclaimers

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CMBIGM Ratings

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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