

AAC Tech (2018 HK)

Takeaways from mgmt. visit: Multiple growth drivers from optics, automotive and robotics

We visited AAC's mgmt. in Shenzhen recently, and overall we are positive on AAC's business outlook and revenue growth in 2025, driven by: 1) optics: spec upgrade in plastic lens (6P/7P) and HCM (OIS/ telescope), as well as WLG flagship order wins in 2H25E; 2) Precision mechanics: VC adoption in AI phone and hinge order wins across overseas/Chinese clients; 3) Electromagnetic drive: haptics upgrade and robotics order wins; 4) automotive acoustics: share gains in overseas OEMs and Chinese EV brands (Li, Xiaomi, Geely, etc), and expanding product portfolio (speaker, microphone, algorithm). In addition, we expect acoustics upgrade (master-level SLS/Combo) and optics' improving mix (6P+/WLG) will drive margin expansion into 2025/26E. Maintain BUY and SOTP-based target price of HK\$58.78.

- **Strong 2025 outlook across multiple segments.** Mgmt. reiterated its revenue guidance of 10-15% YoY growth in 2025. For smartphone, mgmt. highlighted AAC's leading market position in 1) major US client: major share in acoustics (speakers/MEMs), haptics and VC components, and 2) Android clients: major share in flagship models for mid-frame casing, master-level SLS, x-axis haptics and WLG lens projects. In particular, key growth drivers in 2025 will come from 1) **optics** upgrade to high-end spec (7P/WLG lens, OIS/telescope HCM), 2) **VC** adoption by high-end models of the major US client, 3) **automotive acoustics'** client base expansion and order wins, 4) **MEMs** microphone upgrade for AI smartphones.
- **Emerging drivers from robotics, AI glasses and automotives.** AAC has expanded into new strategic markets with a solid product roadmap. For **robotics**, AAC has an established product portfolio in robot actuators, and already started mass production and shipment to several top-tier robotics customers. For **AI glasses**, AAC is the sole supplier of specific speakers for several major Chinese brands. For **automotives**, AAC recently announced plans to acquire a 53.7% stake of a Chinese automotive microphone module company, Hebei Chuguang Auto Parts, for RMB288mn (2024 revenue of RMB252mn), which will further strengthen its automotive product offerings.
- **Valuation/Key risks.** We believe AAC is well-positioned to capture multiple trends in AI smartphones (optics/VC/MEMs), foldable phones (hinges/casing), automotive acoustics (speakers/MEMs) and robotics (actuators/EM). Trading at 15.8x/13.3x FY25/26E P/E, the stock is attractive in our view, vs 39%/18% EPS growth in FY25/26E. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	20,419	27,328	32,566	35,113	37,561
YoY growth (%)	(1.0)	33.8	19.2	7.8	7.0
Net profit (RMB mn)	740.4	1,797.2	2,488.6	2,943.0	3,230.1
YoY growth (%)	(9.9)	142.7	38.5	18.3	9.8
EPS (Reported) (RMB)	0.63	1.53	2.12	2.51	2.75
YoY growth (%)	(8.3)	143.8	38.5	18.3	9.8
Consensus EPS (RMB)	0.63	1.44	1.90	2.25	2.25
P/E (x)	53.2	21.8	15.8	13.3	12.1
P/B (x)	1.8	1.7	1.6	ns	ns
Yield (%)	29.9	71.8	120.5	142.6	156.5
ROE (%)	3.3	7.9	10.3	11.2	11.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$58.78
Up/Downside 61.3%
Current Price HK\$36.65

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Stock Data

Mkt Cap (HK\$ mn)	43,667.1
Avg 3 mths t/o (HK\$ mn)	411.8
52w High/Low (HK\$)	53.85/24.05
Total Issued Shares (mn)	1198.0

Source: FactSet

Shareholding Structure

Wu Chunyuan	21.9%
Pan Zhengmin	19.5%

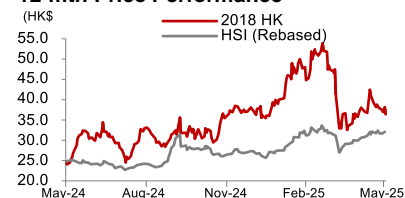
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.9%	-6.8%
3-mth	-18.6%	-19.9%
6-mth	4.1%	-13.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. AAC Tech (2018 HK) - Beneficiary of edge AI upgrade cycle; Raise TP to HK\$58.78 ([link](#))
2. AAC Tech (2018 HK) - Multiple growth drivers and improving margin to continue into 2025; Raise TP to HK\$53.48 ([link](#))
3. AAC Tech (2018 HK) - Product upgrades and margin expansion to continue; Reiterate BUY ([link](#))
4. AAC Tech (2018 HK) - Riding on new upgrade cycle; Upgrade to BUY ([link](#))
5. AAC Tech (2018 HK) - Solid outlook for PSS merger & optics margin recovery; Maintain HOLD on fair valuation ([link](#))

Earnings forecasts

Figure 1: Revenue breakdown

RMB mn	FY23	FY24	FY25E	FY26E	FY27E
Acoustics	7,499	8,214	9,466	10,490	11,453
PSS	-	3,516	4,431	4,652	4,885
Sensor & semi	1,025	773	1,083	1,245	1,432
ED&PM	8,245	9,710	11,891	12,795	13,683
Optics	3,627	5,000	5,672	5,908	6,086
Plastic lens	1,170	1,191	1,559	1,779	1,957
HCM/WLG	2,457	3,809	4,113	4,130	4,130
Others	23	115	23	23	23
Total	20,419	27,328	32,566	35,113	37,561
Revenue mix					
Acoustics	37%	30%	29%	30%	30%
PSS	0%	13%	14%	13%	13%
Sensor & semi	5%	3%	3%	4%	4%
ED&PM	40%	36%	37%	36%	36%
Optics	18%	18%	17%	17%	16%
Plastic lens	6%	4%	5%	5%	5%
HCM/WLG	12%	14%	13%	12%	11%
Others	0%	0%	0%	0%	0%
YoY Growth (%)					
Acoustics	-15%	10%	15%	11%	9%
PSS	-	-	26%	5%	5%
Sensor & semi	-18%	-25%	40%	15%	15%
ED&PM	13%	18%	22%	8%	7%
Optics	13%	38%	13%	4%	3%
Others	-16%	405%	-80%	0%	0%
Total	-1%	34%	19%	8%	7%
Gross profit margin					
Acoustics	28.4%	30.2%	31.5%	31.5%	31.5%
PSS	-	24.8%	25.0%	25.0%	25.0%
Sensor & semi	13.6%	15.6%	16.5%	16.8%	16.8%
ED&PM	20.1%	23.3%	23.2%	23.2%	23.1%
Optics	-13.0%	6.5%	8.9%	12.5%	12.9%
Others	-9.5%	-10.6%	-5.0%	-5.0%	-5.0%
Total	16.9%	22.1%	23.1%	23.9%	24.0%

Source: Company data, CMBIGM estimates

Figure 2: P&L forecast

RMB mn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	20,419	27,328	32,566	35,113	37,561
... YoY	-1.0%	33.8%	19.2%	7.8%	7.0%
Cost of sales	(16,967)	(21,286)	(25,042)	(26,737)	(28,548)
Gross profit	3,452	6,042	7,524	8,376	9,013
GPM (%)	16.9%	22.1%	23.1%	23.9%	24.0%
... YoY	-8.6%	75.0%	24.5%	11.3%	7.6%
SG&A	(1,421)	(1,940)	(2,312)	(2,475)	(2,629)
... % of rev	-7.0%	-7.1%	-7.1%	-7.1%	-7.0%
R&D	(1,573)	(2,022)	(2,442)	(2,633)	(2,817)
... % of rev	-7.7%	-7.4%	-7.5%	-7.5%	-7.5%
Operating profit	457	2,080	2,770	3,267	3,566
OPM (%)	2.2%	7.6%	8.5%	9.3%	9.5%
... YoY	-38.7%	354.9%	33.2%	18.0%	9.2%
Net profit	740	1,797	2,489	2,943	3,230
NPM (%)	3.6%	6.6%	7.6%	8.4%	8.6%
... YoY	-9.9%	142.7%	38.5%	18.3%	9.8%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP of HK\$58.78

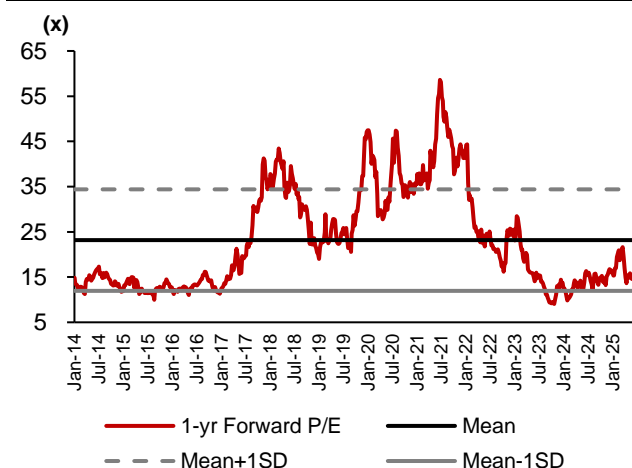
Our TP of HK\$58.78 is based on SOTP to reflect business diversification with different growth profiles and visibility. Our TP is based on weighted-average target P/E multiple of 25.2x FY25E P/E. We assign 25x/25x P/E to AAC's acoustics/MEMS, 25x P/E to PSS, 25x P/E to ED & PM, and 28x P/E to optics, in-line with HK-listed peers. The stock now trades at 15.8x/13.3x FY25/26E P/E. Near-term catalysts include AI/foldable phone launches, AI glasses, auto acoustics order wins, and GPM expansion.

Figure 3: AAC Tech – SOTP valuation

Business segment	Value per share (RMB)	Valuation Methodology	Target P/E	% of FY25E Profit	FY25E EPS (RMB)
Acoustics-Traditional	21.03	P/E target multiple	25x	40%	0.84
Acoustics-PSS	7.81	P/E target multiple	25x	15%	0.31
MEMS	1.26	P/E target multiple	25x	2%	0.05
ED & PM	19.42	P/E target multiple	25x	37%	0.78
Optics	3.97	P/E target multiple	28x	7%	0.14
TP (RMB)	53.49		25.2x		2.12
TP (HK\$)	58.78				

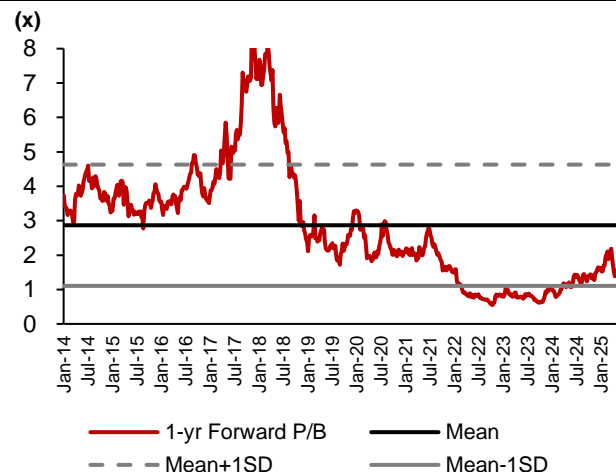
Source: Company data, CMBIGM estimates

Figure 4: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 5: 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	32,566	35,113	37,561
Cost of goods sold	(16,850)	(16,967)	(21,286)	(25,042)	(26,737)	(28,548)
Gross profit	3,775	3,452	6,042	7,524	8,376	9,013
Selling expense	(448)	(443)	(670)	(782)	(843)	(901)
Admin expense	(1,036)	(978)	(1,270)	(1,531)	(1,633)	(1,728)
R&D expense	(1,546)	(1,573)	(2,022)	(2,442)	(2,633)	(2,817)
Operating profit	745	457	2,080	2,770	3,267	3,566
Other income	525	591	411	648	702	751
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)	(420)	(420)	(420)
Foreign exchange gain/loss	(6)	14	22	22	22	22
Other income/expense	0	152	(105)	0	0	0
Others	0	0	0	0	0	0
Pre-tax profit	861	823	1,990	3,020	3,572	3,920
Income tax	(231)	(252)	(227)	(604)	(714)	(784)
After tax profit	629	571	1,764	2,416	2,857	3,136
Minority interest	(192)	(170)	(34)	(72)	(86)	(94)
Net profit	821	740	1,797	2,489	2,943	3,230

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	17,116	16,527	20,902	21,138	33,901	33,571
Cash & equivalents	6,814	6,825	7,538	4,283	18,096	14,451
Account receivables	5,531	6,653	9,371	10,447	11,115	11,968
Inventories	4,401	2,992	3,938	6,353	4,635	7,097
ST bank deposits	341	21	6	6	6	6
Financial assets at FVTPL	0	3	3	3	3	3
Other current assets	28	33	47	47	47	47
Non-current assets	23,227	22,384	25,798	23,418	20,508	17,146
PP&E	19,302	18,070	17,884	15,504	12,594	9,232
Deferred income tax	228	204	414	414	414	414
Investment in JVs & assos	3	286	3	3	3	3
Intangibles	564	589	1,706	1,706	1,706	1,706
Goodwill	275	275	2,093	2,093	2,093	2,093
Financial assets at FVTPL	186	413	450	450	450	450
Other non-current assets	2,668	2,546	3,180	3,180	3,180	3,180
Total assets	40,343	38,911	46,700	44,557	54,409	50,717
Current liabilities	9,055	10,129	14,403	10,317	17,871	11,657
Short-term borrowings	1,833	1,464	1,728	1,728	1,728	1,728
Account payables	4,959	5,796	9,558	5,423	12,954	6,717
Tax payable	118	101	252	300	323	346
Other current liabilities	1,823	2,363	479	479	479	479
Lease liabilities	292	389	489	489	489	489
Contract liabilities	30	16	63	63	63	63
Non-current liabilities	9,093	6,410	9,180	9,180	9,180	9,180
Long-term borrowings	1,727	1,726	3,883	3,883	3,883	3,883
Bond payables	6,088	3,662	3,721	3,721	3,721	3,721
Obligations under finance leases	485	381	634	634	634	634
Other non-current liabilities	793	641	932	932	932	932
Total liabilities	18,148	16,540	23,583	19,497	27,051	20,837
Share capital	98	97	97	97	97	97
Other reserves	21,559	21,784	22,657	24,673	27,057	29,673
Total shareholders equity	22,196	22,371	23,117	25,060	27,358	29,881
Minority interest	539	490	362	290	204	110
Total equity and liabilities	40,343	38,911	46,700	44,557	54,409	50,717

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	861	823	1,990	3,020	3,572	3,920
Depreciation & amortization	2,776	2,843	0	0	0	0
Tax paid	(304)	(246)	(76)	(556)	(691)	(761)
Change in working capital	420	1,247	112	(7,626)	8,581	(9,552)
Others	619	(34)	3,176	5,058	5,250	5,414
Net cash from operations	4,372	4,633	5,203	(104)	16,712	(980)
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)	0	0	0
Net cash from investing	(2,349)	(1,512)	(3,485)	(2,258)	(1,920)	(1,632)
Financing						
Dividend paid	(144)	(118)	(281)	(473)	(559)	(614)
Net borrowings	222	(376)	0	0	0	0
Share repurchases	(144)	(118)	(281)	(473)	(559)	(614)
Others	(1,373)	(2,559)	(462)	53	139	194
Net cash from financing	(1,439)	(3,171)	(1,025)	(893)	(979)	(1,034)
Net change in cash						
Cash at the beginning of the year	6,051	6,814	6,825	7,538	4,283	18,096
Exchange difference	178	61	0	0	0	0
Cash at the end of the year	6,814	6,825	7,538	4,283	18,096	14,451
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	16.7%	(1.0%)	33.8%	19.2%	7.8%	7.0%
Gross profit	(13.5%)	(8.6%)	75.0%	24.5%	11.3%	7.6%
Operating profit	(49.7%)	(38.7%)	354.9%	33.2%	18.0%	9.2%
Net profit	(37.6%)	(9.9%)	142.7%	38.5%	18.3%	9.8%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	18.3%	16.9%	22.1%	23.1%	23.9%	24.0%
Operating margin	3.6%	2.2%	7.6%	8.5%	9.3%	9.5%
Return on equity (ROE)	3.7%	3.3%	7.9%	10.3%	11.2%	11.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	1.9	1.6	1.5	2.0	1.9	2.9
Receivable turnover days	87.8	87.8	90.0	90.0	90.0	90.0
Inventory turnover days	88.6	88.6	75.0	75.0	75.0	75.0
Payable turnover days	84.7	84.7	70.0	70.0	70.0	70.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	48.8	53.2	21.8	15.8	13.3	12.1
P/E (diluted)	na	na	21.8	15.8	13.3	12.1
P/B	1.8	1.8	1.7	1.6	ns	ns
Div yield (%)	35.9	29.9	71.8	120.5	142.6	156.5

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

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