

AAC Technologies (2018 HK)

1Q21 in-line with better acoustics; Maintain HOLD on fair valuation

AAC's 1Q21 revenue/net profit grew 21%/918% YoY, in-line with our estimates and its positive profit alert earlier, mainly driven by stronger acoustics and optics (+21%/176% YoY) and slower haptics & casing (-39% YoY). Blended GPM of 31.1% (+8ppt YoY/+3.1 ppt QoQ) was a positive surprise, well above 26.9%/26.1% for our/consensus estimates. Mgmt. expected Android acoustics and plastic lens/HCM will continue to drive revenue and margin expansion in 2021E. However, we think semi shortage and COVID-19 in India will drag smartphone demand in 2Q21E, while plastic lens ASP, HCM ramp and WLG initial yield will cap AAC's margin upside in FY21E. Our new FY21-23E EPS are 3-21% below consensus. Maintain Hold with new SOTP-based TP HK\$48.3 (roll-over to FY22E) given fair valuation at 19.2x/17.4x FY21/22E P/E.

- **1Q21 in-line; stronger acoustics/optics but weaker haptics/casing.** By segment, acoustics was stronger than expected with 21% YoY growth given US client's peak season and better Android demand, and optics grew 176% YoY backed by shipment/ASP growth of +115/-6% YoY. For haptics & casings, revenue declined 27% YoY due to US client's ASP pressure and metal casing decline. For GPM, acoustics was a beat at 37.4% (vs 26% in 1Q20) and ED&PM slightly improved 25.5% (vs 23.6% in 1Q20), while optics was on track at 27.8% (plastics lens 36.3%; HCM single digit). Looking ahead, we see plastic lens pricing, expansion in lower-margin HCM and WLG's initial lower yield will limit optics GPM improvement in FY21E.
- **Near-term headwinds: semi shortage, de-spec trend and COVID-19 in India.** While AAC shipped 146kk in 1Q21 (flatish vs 4Q20), we are cautious on recent semi shortage (esp. CIS, SoC) and COVID-19 in India will slow down plastic lens demand in 2Q21E. In addition, recent de-spec trend and intense competition with Sunny/Largan will slow down lens ASP/GPM growth in FY21E, while expansion into lower-margin HCM and initial ramp of WLG lens will also be a margin drag in 2H21E.
- **Our FY21-23E EPS is 3-21% below consensus; Maintain HOLD.** We think 2021 will remain a slow year for smartphone spec upgrade given semi cost hike and sluggish high-end demand. We revised up FY21-23E EPS by 4-7% for better acoustics/optics margin, but our FY21-23E EPS remain 3-21% below consensus for more conservative spec upgrade and margin in FY22/23E. Our new SOTP-based TP is HK\$48.3, implying 19.9x FY22E P/E. Trading at 19.2x/17.4x FY21/22E P/E, the stock is fairly valued in our view.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	17,884	17,140	18,358	21,371	22,932
YoY growth (%)	(1.4)	(4.2)	7.1	16.4	7.3
Net income (RMB mn)	2,222	1,507	2,223	2,455	2,755
EPS (RMB)	1.84	1.25	1.84	2.03	2.28
YoY growth (%)	(41.1)	(32.1)	47.6	10.4	12.2
Consensus EPS (RMB)	1.84	1.27	1.89	2.35	2.89
P/E (x)	19.2	28.3	19.2	17.4	15.5
P/B (x)	2.2	2.0	1.9	1.8	1.7
Yield (%)	3.6	1.8	2.6	2.9	3.2
ROE (%)	11.5	6.9	9.7	10.2	10.8

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$48.3
(Previous TP)	HK\$48.0
Up/Downside	14%
Current Price	HK\$42.55

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	51,422
Avg. 3mths t/o (HK\$m)	415.71
52W High/Low (HK\$)	63.95/ 37.81
Total Issued Shares (mn)	1,209

Source: Bloomberg

Shareholding Structure

Chunyan Wu	21.75%
Zhengmin Pan	19.24%
JPMorgan Chase	10.10%

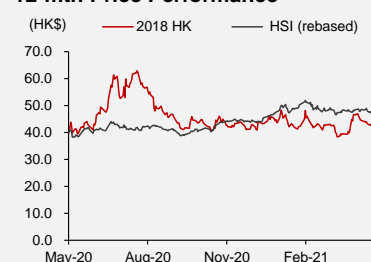
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.7%	-5.6%
3-mth	-5.4%	3.7%
6-mth	-2.5%	-8.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports:

- 1Q profit alert on normalised demand; Maintain HOLD on fair valuation – 13 Apr 2021
- 4Q20 beat on one-off gain; Optics ASP/GPM weaker than expected – 26 Mar 2021
- 3Q20 another miss; Optics likely to improve but hard to move the needle – 16 Nov 2020

1Q21 Results Review

Figure 1: 1Q21 results review

RMB mn	1Q20	4Q20	1Q21	QoQ	YoY	CMBIS 1Q21E	Diff %	Consensus 1Q21E	Diff %
Revenue	3,560	4,783	4,292	-10%	21%	4,263	1%	4,445	-3%
Gross Profit	823	1,342	1,337	0%	62%	1,114.27	20%	1,195	12%
Operating Profit	95	617	640	4%	574%	414	55%	484	32%
Net profit	53	756	536	-29%	918%	459	17%	530	1%
EPS (RMB)	0.04	0.63	0.44	-29%	919%	0.34	29%	0.44	1%
Margin (%)									
Gross Margin	23.1%	28.1%	31.1%	3.1 ppt	8 ppt	26.1%	5 ppt	26.9%	4.3 ppt
Operating Margin	2.7%	12.9%	14.9%	2 ppt	12.2 ppt	9.7%	5.2 ppt	10.9%	4 ppt
Net Margin	1.5%	15.8%	12.5%	-3.3 ppt	11 ppt	10.8%	1.7 ppt	11.9%	0.6 ppt
Growth (%)									
Revenue (YoY)	-5%	-10%	21%			20%		25%	
Revenue (QoQ)	-33%	12%	-10%			35%		-7%	
Operating profit	-81%	-23%	574%			335%		409%	
Net profit	-88%	0%	918%			771%		907%	

Source: Company data, Bloomberg, CMBIS

Figure 2: Revenue breakdown

RMB mn	FY20	1Q21	2Q21E	3Q21E	4Q21E	FY21E	FY22E	FY23E
Revenue								
Dynamic components	7,560	2,096	1,953	2,200	1,870	8,119	8,356	8,844
MEMS components	1,083	283	310	423	295	1,191	1,310	1,441
Haptics & RF	6,847	1,228	1,310	1,442	1,838	5,818	6,937	7,303
Others (incl. optics)	1,650	685	689	858	998	3,230	4,767	5,343
Optics	1,634	674	683	854	996	3,206	4,744	5,319
Others	16	11	6	4	3	24	24	24
Total	17,140	4,292	4,262	4,923	5,002	18,358	21,371	22,932
Revenue mix								
Dynamic components	44%	49%	46%	45%	37%	44%	39%	39%
MEMS components	6%	7%	7%	9%	6%	6%	6%	6%
Haptics & RF	40%	29%	31%	29%	37%	32%	32%	32%
Others (incl. optics)	10%	16%	16%	17%	20%	18%	22%	23%
YoY Growth (%)								
Dynamic components	-7%	48%	2%	2%	-10%	7%	3%	6%
MEMS components	17%	42%	20%	15%	15%	10%	10%	10%
Haptics & RF	-11%	-27%	-24%	-5%	-4%	-15%	19%	5%
Others (incl. optics)	51%	175%	79%	80%	86%	96%	48%	12%
Optics	53%	176%	80%	80%	86%	96%	48%	12%
Total	-4%	21%	0%	9%	5%	7%	16%	7%
Gross profit margin								
Dynamic components	27.9%	37.4%	33.0%	32.0%	30.0%	33.2%	32.0%	31.5%
MEMS components	17.5%	16.7%	17.0%	17.0%	17.0%	18.7%	18.0%	29.0%
Haptics & RF	23.8%	25.5%	23.2%	23.3%	24.3%	24.0%	23.3%	22.9%
Others (incl. optics)	18.2%	28.1%	27.7%	26.7%	24.2%	26.5%	27.5%	27.6%
Total	24.7%	31.1%	28.0%	27.2%	26.0%	28.2%	27.3%	27.7%

Source: Company data, CMBIS estimates

Earnings Revision

Figure 3: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY20E	FY21E	FY22E
Revenue	18,358	21,371	22,932	19,157	21,330	23,175	-4%	0%	-1%
Gross Profit	5,174	5,844	6,358	4,941	5,710	6,259	5%	2%	2%
Operating Profit	2,382	2,664	2,981	2,093	2,568	2,869	14%	4%	4%
Net profit	2,223	2,455	2,755	2,068	2,370	2,660	7%	4%	4%
EPS (RMB)	1.84	2.03	2.28	1.71	1.96	2.20	7%	4%	4%
Gross Margin	28.2%	27.3%	27.7%	25.8%	26.7%	27.0%	2.4 ppt	0.6 ppt	0.7 ppt
Operating Margin	13.0%	12.5%	13.0%	10.9%	12.0%	12.4%	2.1 ppt	0.4 ppt	0.6 ppt
Net Margin	12.1%	11.5%	12.0%	10.8%	11.1%	11.5%	1.3 ppt	0.4 ppt	0.5 ppt

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	18,358	21,371	22,932	19,856	22,685	26,984	-8%	-6%	-15%
Gross Profit	5,174	5,844	6,358	5,434	6,400	7,688	-5%	-9%	-17%
Operating Profit	2,382	2,664	2,981	2,417	3,083	4,021	-1%	-14%	-26%
Net profit	2,223	2,455	2,755	2,281	2,833	3,537	-3%	-13%	-22%
EPS (RMB)	1.84	2.03	2.28	1.89	2.35	2.89	-3%	-14%	-21%
Gross Margin	28.2%	27.3%	27.7%	27.4%	28.2%	28.5%	0.8 ppt	-0.9 ppt	-0.8 ppt
Operating Margin	13.0%	12.5%	13.0%	12.2%	13.6%	14.9%	0.8 ppt	-1.1 ppt	-1.9 ppt
Net Margin	12.1%	11.5%	12.0%	11.5%	12.5%	13.1%	0.6 ppt	-1 ppt	-1.1 ppt

Source: Bloomberg, CMBIS estimates

Figure 5: P&L forecast

RMB mn	FY20	1Q21	2Q21E	3Q21E	4Q21E	FY21E	FY22E	FY23E
Revenue	17,140	4,292	4,262	4,923	5,002	18,358	21,371	22,932
...YoY	-4.2%	20.6%	-0.3%	8.9%	4.6%	7.1%	16.4%	7.3%
Cost of sales	(12,913)	(2,955)	(3,071)	(3,582)	(3,702)	(13,310)	(15,533)	(16,580)
Gross profit	4,227	1,337	1,192	1,341	1,300	5,169	5,838	6,352
GPM (%)	24.7%	31.1%	28.0%	27.2%	26.0%	28.2%	27.3%	27.7%
...YoY	-17.2%	62.5%	19.7%	25.7%	-3.2%	22.3%	12.9%	8.8%
SG&A	(957)	(244)	(222)	(251)	(255)	(972)	(1,122)	(1,192)
...% of rev	-5.6%	-5.7%	-5.2%	-5.1%	-5.1%	-5.3%	-5.3%	-5.2%
R&D	(1,920)	(453)	(469)	(443)	(450)	(1,815)	(2,052)	(2,179)
...% of rev	-11.2%	-10.6%	-11.0%	-9.0%	-9.0%	-9.9%	-9.6%	-9.5%
Operating profit	1,350	640	501	647	594	2,382	2,664	2,981
OPM (%)	7.9%	14.9%	11.8%	13.1%	11.9%	13.0%	12.5%	13.0%
...YoY	-45.4%	573.7%	91.3%	72.1%	-3.7%	76.4%	11.9%	11.9%
Income Tax	(147)	(86)	(64)	(82)	(77)	(309)	(334)	(374)
Effective Tax Rate	8.9%	13.8%	12.0%	12.0%	12.0%	12.2%	12.0%	12.0%
Net profit	1,507	536	471	609	567	2,223	2,455	2,755
NPM (%)	8.8%	12.5%	11.1%	12.4%	11.3%	12.1%	11.5%	12.0%
...YoY	-32.2%	917.5%	76.0%	41.5%	-25.1%	47.6%	10.4%	12.2%

Source: Company data, CMBIS estimates

Valuation

Maintain HOLD with new TP HK\$48.3

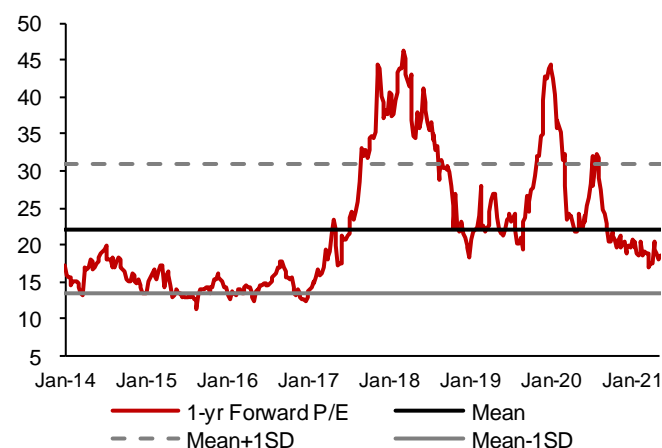
We derived our new TP of HK\$ 48.3 based on SOTP to reflect business diversification with different growth profiles and visibility. Our new TP is based on weighted-average target P/E multiple of 19.7x FY22E EPS (roll-over from FY21E) and valuation of optics segment at RMB 17.9bn. We assign 20x P/E to AAC's acoustics, MEMS, and 15x P/E to slower haptics & 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 FY22E Profit	FY22E EPS (RMB)
Acoustics	18.6	P/E target multiple	20x	46%	0.93
MEMS	1.6	P/E target multiple	20x	4%	0.08
ED & PM	8.4	P/E target multiple	15x	28%	0.56
Optics	12.1	82% of RMB 17.9bn			0.46
TP (RMB)	40.1		19.7x		2.03
TP (HK\$)	48.3				

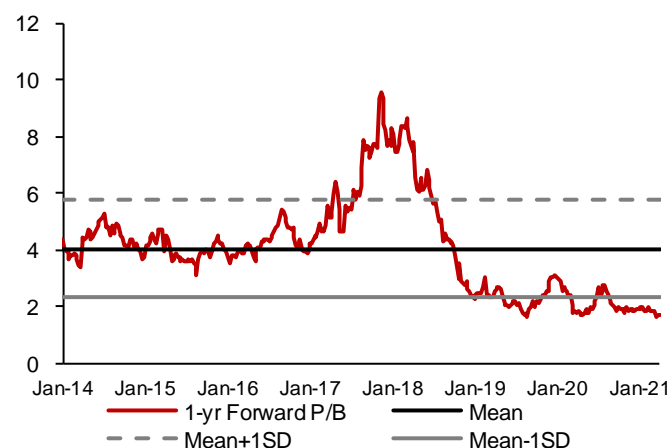
Sources: Company data, CMBIS estimates

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
Revenue	17,884	17,140	18,358	21,371	22,932
COGS	(12,777)	(12,913)	(13,310)	(15,533)	(16,580)
Gross profit	5,107	4,227	5,169	5,838	6,352
Selling and marketing	(275)	(285)	(296)	(342)	(367)
Administrative	(643)	(672)	(677)	(780)	(826)
R&D	(1,717)	(1,920)	(1,815)	(2,052)	(2,179)
Operating profit	2,472	1,350	2,382	2,664	2,981
Financial cost	(248)	(353)	(353)	(353)	(353)
Other income/(losses)	329	650	496	468	492
Pre-tax profit	2,552	1,648	2,525	2,780	3,120
Tax	(330)	(147)	(309)	(334)	(374)
Minority interest	-	(6)	(8)	(8)	(9)
Net profit	2,222	1,507	2,223	2,455	2,755

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	2,552	1,648	2,332	2,684	3,012
Depreciation	1,529	3,409	3,467	3,834	4,147
Change in working capital	(509)	(231)	(1,063)	(731)	(199)
Others	(109)	(1,233)	101	52	9
Net cash from operating	3,464	3,593	4,837	5,839	6,969
Capex	(3,000)	(3,262)	(4,327)	(3,678)	(3,126)
Other	68	-	-	-	-
Net cash from investing	(2,932)	(3,262)	(4,327)	(3,678)	(3,126)
Net borrowings	(248)	(353)	(353)	(353)	(353)
Interest paid	(1,531)	(753)	(1,034)	(1,185)	(1,330)
Dividend paid	-	3,688	-	-	-
Other	-	-	-	-	-
Net cash from financing	(1,779)	2,582	(1,387)	(1,537)	(1,683)
Net change in cash	(1,247)	2,913	(876)	624	2,161
Cash at beg of year	4,059	5,512	7,540	6,664	7,288
Exchange difference	-	-	-	-	-
Cash at end of year	5,512	7,540	6,664	7,288	9,448

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	14,808	16,850	16,762	19,170	21,522
Cash & equivalents	5,512	7,540	7,149	6,971	10,178
Trade and other rev.	5,576	5,176	8,000	7,153	9,302
Inventories	3,664	3,995	1,475	4,908	1,905
Other current assets	55	138	138	138	138
Non-current assets	19,400	22,062	22,922	22,765	21,744
PPE	16,911	18,592	19,452	19,295	18,274
Lease prepayments					
Intangible assets	434	373	373	373	373
Other non-curr. assets	2,055	3,096	3,096	3,096	3,096
Total assets	34,207	38,911	39,684	41,935	43,266
Current liabilities	7,711	9,380	9,048	10,080	10,043
Short-term borrowings	1,876	3,349	3,349	3,349	3,349
Trade & other payables	5,474	5,205	4,861	5,864	5,812
Tax payables	178	167	179	208	223
Other current liabilities	182	660	660	660	660
Non-current liabilities	7,136	7,711	7,711	7,711	7,711
Government grants	209	604	604	604	604
Deferred tax liabilities	65	49	49	49	49
Other non-current liab.	6,861	7,058	7,058	7,058	7,058
Total liabilities	14,846	17,090	16,759	17,791	17,754
Share capital	98	98	98	98	98
Reserves	19,253	21,061	22,172	23,400	24,777
Minority interest	10	662	655	646	637
Shareholders' equity	19,361	21,821	22,925	24,144	25,512
Total equity & liabilities	34,207	38,911	39,684	41,935	43,266

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Dynamic components	45.7	44.1	44.2	39.1	38.6
MEMS (microphone)	5.2	6.3	6.5	6.1	6.3
Electro. (haptics)	43.0	39.9	31.7	32.5	31.8
Other	6.1	9.6	17.6	22.3	23.3
Growth (%)					
Revenue	(1.4)	(4.2)	7.1	16.4	7.3
Gross profit	(24.3)	(17.2)	22.3	12.9	8.8
Operating Income	(42.0)	(45.4)	76.4	11.9	11.9
Net profit	(41.5)	(32.2)	47.6	10.4	12.2
Profitability (%)					
Gross Margin	28.6	24.7	28.2	27.3	27.7
Operating Margin	13.8	7.9	13.0	12.5	13.0
Net margin	12.4	8.8	12.1	11.5	12.0
Balance sheet ratios					
Net debt/total equity (x)	0.0	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	1.8	1.9	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
Returns (%)					
ROE	11.5	6.9	9.7	10.2	10.8
ROA	6.5	3.9	5.6	5.9	6.4
Per share data (RMB)					
EPS	1.84	1.25	1.84	2.03	2.28
DPS	1.27	0.62	0.92	1.02	1.14

Source: Company data, CMBIS estimates

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