

AAC Tech (2018 HK)

1H23 worse than expected on slow recovery; Maintain HOLD

AAC announced 1H23 profit warning, stating 1H23 net profit of RMB 122mn-157mn (down 55-65% YoY), well below our/consensus expectations. Mgmt. attributed the weakness to 1) slower operating efficiency improvement from re-organisation, 2) weak smartphone demand and intensified competition, and 3) temporary inferior product mix on expanded product portfolio. We trimmed FY23-25E EPS by 18-45% to reflect 1H23 results and slower earnings recovery. While we are positive on 2H seasonal strength in new iPhone launches and AAC's non-smartphone product outlook, we expect limited near-term catalysts and the stock is fairly valued at 28x/17x FY23/24E P/E. We maintain Hold with new rolled-over SOTP-based TP of HK\$14.74, implying 14.6x FY24E P/E.

- **1H23 profit warning on demand weakness and slower efficiency on re-organisation.** AAC preannounced 1H23 net profit decline of 55-65% YoY (RMB 122mn-157mn), mainly dragged by smartphone demand weakness and slower efficiency on re-organization. The miss is largely in-line with 1H23 profit warnings from AAC's peers (Sunny: 65-70% YoY decline, Q-tech: 60-80% YoY decline). We estimate AAC's 1H23 revenue/net profit to decrease 8%/60% YoY to RMB 8,649mn/141mn. By segment, we expect acoustics/optics revenue to drop 11%/34% YoY while ED&PM segment climbed 12% YoY in 1H23.
- **2H23E outlook: Eyes on margin recovery, automotive and AR/VR.** Looking ahead, despite industry headwinds in near term, we believe the market will focus on 1) margin recovery in 2H23E, especially optical lens/HCM, 2) progress of automotive acoustics and LiDAR projects with leading Chinese EV customers and tier-ones, and 3) mass production of new 3P VR pancake module. We are also positive on AAC's share gain potential of newly acquired Toyo's PM business and new project wins with Apple in Vietnam factories.
- **Maintain HOLD on fair valuation; Lack of catalysts in near term.** Despite new iPhone launches and automotive acoustics roll-outs in 2H23E, we believe overhang remains on lens/HCM margin improvement and Android destocking progress. Our FY23-25E EPS are 23-37% below consensus. We maintain HOLD with new SOTP-based TP of HK\$14.74, implying 14.6x FY24E P/E. Trading at 16.9x FY24E P/E, we think the stock is fairly valued given limited catalysts in near term.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	17,667	20,625	19,325	21,163	21,912
YoY growth (%)	3.1	16.7	(6.3)	9.5	3.5
Net profit (RMB mn)	1,316.3	821.3	650.4	1,076.2	1,093.8
YoY growth (%)	(12.6)	(37.6)	(20.8)	65.5	1.6
EPS (Reported) (RMB)	1.09	0.69	0.54	0.90	0.91
YoY growth (%)	(12.6)	(37.1)	(20.8)	65.5	1.6
Consensus EPS (RMB)	na	na	0.86	1.16	1.41
P/E (x)	13.9	22.2	28.0	16.9	16.6
P/B (x)	0.8	0.8	0.8	0.8	0.8
Yield (%)	3.6	0.8	0.8	3.0	3.0
ROE (%)	5.9	3.7	2.9	4.7	4.7

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$14.74
(Previous TP)	HK\$15.58)
Up/Downside	(13.6%)
Current Price	HK\$17.06

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Stock Data

Mkt Cap (HK\$ mn)	20,965.0
Avg 3 mths t/o (HK\$ mn)	66.3
52w High/Low (HK\$)	22.30/11.14
Total Issued Shares (mn)	1198.0

Source: FactSet

Shareholding Structure

Wu Chunyuan	21.9%
Pan Zhengmin	19.5%

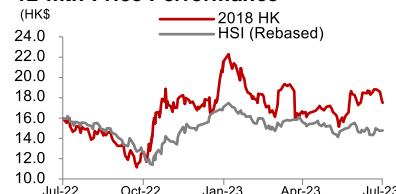
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.7%	1.1%
3-mth	6.3%	11.9%
6-mth	-18.8%	-6.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

AAC Tech (2018 HK) – 4Q22 slightly below; recovery remains bumpy – 24 Mar 2023 ([link](#))

1H23 Results Preview

Figure 1: 1H23 results preview

RMB mn	CMBIGM			Consensus	
	1H22	1H23E	YoY	1H23E	Diff %
Revenue	9,412	8,649	-8%	9,418	-8%
Gross profit	1,783	1,580	-11%	1,673	-6%
Operating profit	395	257	-35%	307	-16%
Adj. net profit	350	141	-60%	301	-53%
Adj. EPS (RMB)	0.29	0.12	-60%	0.25	-53%
Gross margin	18.9%	18.3%	-0.7 ppt	17.8%	0.5 ppt
Operating margin	4.2%	3.0%	-1.2 ppt	3.3%	-0.3 ppt
Adj. net margin	3.7%	1.6%	-2.1 ppt	3.2%	-1.6 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Revenue breakdown

RMB mn	1H22	2H22	FY22	1H23E	2H23E	FY23E	FY24E
Revenue							
Acoustics	4,139	4,709	8,848	3,686	4,444	8,130	8,286
MEMS components	479	778	1,256	455	855	1,310	1,507
ED&PM	2,931	4,345	7,276	3,284	4,106	7,390	8,133
Optics	1,852	1,365	3,217	1,214	1,254	2,468	3,210
Plastic lens	394	334	728	300	340	640	1,014
HCM/WLG	1,458	1,031	2,489	914	914	1,828	2,196
Others	10	17	27	10	17	27	27
Total	9,412	11,213	20,625	8,649	10,677	19,325	21,163
Revenue mix							
Acoustics	44%	42%	43%	43%	42%	42%	39%
MEMS components	5%	7%	6%	5%	8%	7%	7%
ED&PM	31%	39%	35%	38%	38%	38%	38%
Optics	20%	12%	16%	14%	12%	13%	15%
Plastic lens	4%	3%	4%	3%	3%	3%	5%
HCM/WLG	15%	9%	12%	11%	9%	9%	10%
Others	0%	0%	0%	0%	0%	0%	0%
YoY Growth (%)							
Acoustics	0%	6%	3%	-11%	-6%	-8%	2%
MEMS components	-8%	58%	24%	-5%	10%	4%	15%
ED&PM	20%	36%	29%	12%	-5%	2%	10%
Optics	25%	50%	35%	-34%	-8%	-23%	30%
Others	-59%	-22%	-38%	-24%	2%	0%	0%
Total	9%	24%	17%	-8%	-5%	-6%	10%
Gross profit margin							
Acoustics	27.1%	29.1%	28.1%	27.1%	27.5%	27.3%	27.2%
MEMS components	13.7%	10.4%	11.6%	10.0%	10.0%	10.0%	10.0%
ED&PM	20.4%	21.9%	21.3%	19.6%	19.8%	19.7%	19.6%
Optics	-0.6%	-29.7%	-13.0%	-8.8%	-4.5%	-6.6%	8.4%
Others	91.6%	-15.3%	23.0%	-10.0%	-10.0%	-10.0%	10.0%
Total	18.9%	17.8%	18.3%	18.3%	19.3%	18.9%	20.2%

Source: Company data, CMBIGM

Earnings Revision

Figure 3: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	19,325	21,163	21,912	21,393	22,418	23,398	-10%	-6%	-6%
Gross Profit	3,647	4,274	4,409	4,318	4,511	4,696	-16%	-5%	-6%
Operating Profit	794	1,201	1,227	1,083	1,144	1,182	-27%	5%	4%
Net profit	650	1,076	1,094	1,179	1,312	1,376	-45%	-18%	-20%
EPS (RMB)	0.54	0.90	0.91	0.98	1.09	1.15	-45%	-18%	-20%
Gross Margin	18.9%	20.2%	20.1%	20.2%	20.1%	20.0%	-1.3 ppt	0.1 ppt	0.1 ppt
Operating Margin	4.1%	5.7%	5.6%	5.1%	5.1%	5.0%	-1 ppt	0.6 ppt	0.6 ppt
Net Margin	3.4%	5.1%	5.0%	5.5%	5.9%	5.9%	-2.1 ppt	-0.8 ppt	-0.9 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	19,325	21,163	21,912	22,066	24,382	26,922	-12%	-13%	-19%
Gross Profit	3,647	4,274	4,409	4,323	5,045	5,660	-16%	-15%	-22%
Operating Profit	794	1,201	1,227	1,187	1,615	1,909	-33%	-26%	-36%
Net profit	650	1,076	1,094	1,040	1,397	1,695	-37%	-23%	-35%
EPS (RMB)	0.54	0.90	0.91	0.86	1.16	1.41	-37%	-23%	-35%
Gross Margin	18.9%	20.2%	20.1%	19.6%	20.7%	21.0%	-0.7 ppt	-0.5 ppt	-0.9 ppt
Operating Margin	4.1%	5.7%	5.6%	5.4%	6.6%	7.1%	-1.3 ppt	-0.9 ppt	-1.5 ppt
Net Margin	3.4%	5.1%	5.0%	4.7%	5.7%	6.3%	-1.3 ppt	-0.6 ppt	-1.3 ppt

Source: Bloomberg, CMBIGM estimates

Figure 5: P&L forecast

RMB mn	1H22	2H22	FY22	1H23E	2H23E	FY23E	FY24E	FY25E
Revenue	9,412	11,213	20,625	8,649	10,677	19,325	21,163	21,912
... YoY	9.3%	23.8%	16.7%	-8.1%	-4.8%	-6.3%	9.5%	3.5%
Cost of sales	(7,629)	(9,221)	(16,850)	(7,068)	(8,613)	(15,682)	(16,893)	(17,508)
Gross profit	1,783	1,992	3,775	1,580	2,064	3,644	4,270	4,404
GPM (%)	18.9%	17.8%	18.3%	18.3%	19.3%	18.9%	20.2%	20.1%
... YoY	-26.2%	2.2%	-13.5%	-11.4%	3.6%	-3.5%	17.2%	3.2%
SG&A	(660)	(823)	(1,483)	(640)	(747)	(1,387)	(1,481)	(1,534)
... % of rev	-7.0%	-7.3%	-7.2%	-7.4%	-7.0%	-7.2%	-7.0%	-7.0%
R&D	(727)	(819)	(1,546)	(683)	(779)	(1,463)	(1,587)	(1,643)
... % of rev	-7.7%	-7.3%	-7.5%	-7.9%	-7.3%	-7.6%	-7.5%	-7.5%
Operating profit	395	350	745	257	537	794	1,201	1,227
OPM (%)	4.2%	3.1%	3.6%	3.0%	5.0%	4.1%	5.7%	5.6%
... YoY	-59.8%	-30.1%	-49.7%	-35.0%	53.3%	6.5%	51.3%	2.2%
Income Tax	-142	-89	-231	-29	-90	-119	-183	-186
Effective Tax Rate	33.6%	20.4%	26.9%	17.0%	15.0%	15.4%	14.5%	14.5%
Net profit	350	471	821	141	509	650	1,076	1,094
NPM (%)	3.7%	4.2%	4.0%	1.6%	4.8%	3.4%	5.1%	5.0%
... YoY	-62.0%	19.2%	-37.6%	-59.6%	8.0%	-20.8%	65.5%	1.6%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with new TP HK\$14.74

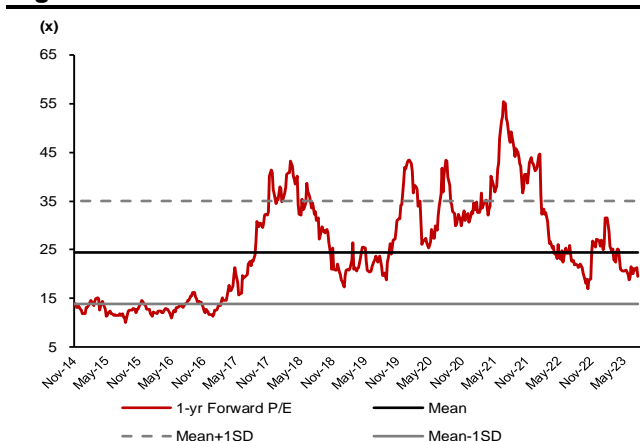
Our new TP of HK\$ 14.74 based on SOTP to reflect business diversification with different growth profiles and visibility. We rolled over our target multiple to FY24E and our TP is based on weighted-average target P/E multiple of 14.6x FY24E P/E. We assign 16x/10x P/E to AAC's acoustics/MEMS, 13x P/E to ED & PM, 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 FY24E Profit	FY24E EPS (RMB)
Acoustics	7.59	P/E target multiple	16x	53%	0.47
MEMS	0.32	P/E target multiple	10x	4%	0.03
ED & PM	4.35	P/E target multiple	13x	37%	0.33
Optics	0.86	P/E target multiple	15x	6%	0.06
TP (RMB)	13.12		14.6x		0.90
TP (HK\$)	14.74				

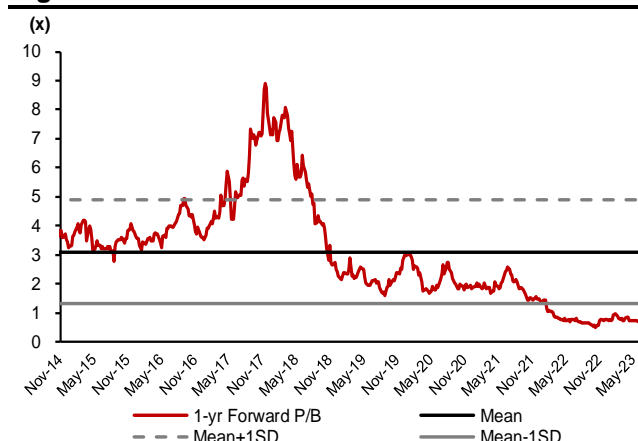
Sources: Company data, CMBIGM

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	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	17,140	17,667	20,625	19,325	21,163	21,912
Cost of goods sold	(12,913)	(13,302)	(16,850)	(15,682)	(16,893)	(17,508)
Gross profit	4,227	4,365	3,775	3,644	4,270	4,404
Selling expense	(285)	(333)	(448)	(404)	(444)	(460)
Admin expense	(672)	(824)	(1,036)	(984)	(1,037)	(1,074)
R&D expense	(1,920)	(1,726)	(1,546)	(1,463)	(1,587)	(1,643)
Operating profit	1,350	1,483	745	794	1,201	1,227
Other income	502	345	525	382	466	460
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	0	(1)	(1)	(1)	(1)	(1)
Net Interest income/(expense)	(353)	(415)	(403)	(403)	(403)	(403)
Foreign exchange gain/loss	148	1	(6)	0	0	0
Other income/expense	0	0	0	0	0	0
Others	0	0	0	0	0	0
Pre-tax profit	1,648	1,413	861	771	1,262	1,283
Income tax	(147)	(120)	(231)	(119)	(183)	(186)
After tax profit	1,501	1,293	629	652	1,079	1,097
Minority interest	(6)	(23)	(192)	2	3	3
Net profit	1,507	1,316	821	650	1,076	1,094

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	16,850	17,955	17,116	19,952	21,199	25,749
Cash & equivalents	7,540	6,051	6,814	9,965	8,598	14,854
Account receivables	5,176	6,013	5,531	7,574	7,332	8,229
Inventories	3,995	5,695	4,401	2,043	4,899	2,296
ST bank deposits	92	2	341	341	341	341
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	46	193	28	28	28	28
Non-current assets	22,062	24,067	23,227	22,206	20,451	18,071
PP&E	18,592	19,987	19,302	18,281	16,525	14,145
Deferred income tax	95	211	228	228	228	228
Investment in JVs & assos	0	4	3	3	3	3
Intangibles	373	384	564	564	564	564
Goodwill	164	220	275	275	275	275
Financial assets at FVTPL	0	50	186	186	186	186
Other non-current assets	2,837	3,210	2,668	2,668	2,668	2,668
Total assets	38,911	42,022	40,343	42,158	41,650	43,820
Current liabilities	9,380	9,668	9,055	10,361	9,311	10,932
Short-term borrowings	3,349	2,902	1,833	1,833	1,833	1,833
Account payables	5,205	6,148	4,959	6,203	5,135	6,749
Tax payable	167	165	118	180	198	205
Other current liabilities	151	188	1,823	1,823	1,823	1,823
Lease liabilities	494	242	292	292	292	292
Contract liabilities	15	22	30	30	30	30
Non-current liabilities	7,711	9,852	9,093	9,093	9,093	9,093
Long-term borrowings	2,543	330	1,727	1,727	1,727	1,727
Bond payables	2,512	6,573	6,088	6,088	6,088	6,088
Obligations under finance leases	317	452	485	485	485	485
Other non-current liabilities	2,339	2,497	793	793	793	793
Total liabilities	17,090	19,520	18,148	19,454	18,404	20,025
Share capital	98	98	98	98	98	98
Other reserves	21,061	21,713	21,559	22,065	22,603	23,150
Total shareholders equity	21,821	22,502	22,196	22,704	23,245	23,796
Minority interest	662	691	539	541	544	548
Total equity and liabilities	38,911	42,022	40,343	42,158	41,650	43,820

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,648	1,413	861	771	1,262	1,283
Depreciation & amortization	2,701	4,363	4,147	4,413	0	0
Tax paid	(262)	(217)	(279)	(56)	(166)	(179)
Change in working capital	(789)	(528)	579	1,559	(3,681)	3,319
Others	295	(2,835)	(936)	137	4,816	5,041
Net cash from operations	3,593	2,196	4,372	6,824	2,231	9,465
Investing						
Capital expenditure	(2,088)	(1,176)	(3,678)	(3,126)	(2,657)	(2,258)
Acquisition of subsidiaries/ investments	0	(860)	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(1,174)	(2,211)	1,328	0	0	0
Net cash from investing	(3,262)	(4,246)	(2,349)	(3,126)	(2,657)	(2,258)
Financing						
Dividend paid	(107)	(403)	(144)	(144)	(538)	(547)
Net borrowings	356	(2,653)	0	0	0	0
Share repurchases	(107)	(403)	(144)	(144)	(538)	(547)
Others	2,439	4,072	(1,151)	(259)	135	144
Net cash from financing	2,582	613	(1,439)	(547)	(941)	(950)
Net change in cash						
Cash at the beginning of the year	4,814	7,540	6,051	6,814	9,965	8,598
Exchange difference	(187)	(52)	0	0	0	0
Cash at the end of the year	7,540	6,051	6,814	9,965	8,598	14,854
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(4.2%)	3.1%	16.7%	(6.3%)	9.5%	3.5%
Gross profit	(17.2%)	3.3%	(13.5%)	(3.5%)	17.2%	3.2%
Operating profit	(45.4%)	9.8%	(49.7%)	6.5%	51.3%	2.2%
Net profit	(32.2%)	(12.6%)	(37.6%)	(20.8%)	65.5%	1.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	24.7%	24.7%	18.3%	18.9%	20.2%	20.1%
Operating margin	7.9%	8.4%	3.6%	4.1%	5.7%	5.6%
Return on equity (ROE)	7.3%	5.9%	3.7%	2.9%	4.7%	4.7%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.8	1.9	1.9	1.9	2.3	2.4
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	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	34.2	32.4	22.3	29.6	17.9	17.6
P/E (diluted)	34.2	32.4	22.3	29.6	17.9	17.6
P/B	2.4	1.9	0.8	0.8	0.8	0.8
Div yield (%)	146.1	154.4	78.6	74.7	279.5	284.0

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

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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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