

AAC Tech (2018 HK)

4Q22 Preview: earnings recovery remains bumpy; Maintain HOLD

AAC will report 4Q22 results on 23 Mar. We estimate 4Q revenue/net profit to increase 16%/18% YoY to RMB 5,579mn/250mn, slightly below consensus, mainly driven by stronger demand in Apple's acoustics/haptics and Toyo's PM sales contribution despite pressure in optics segment. By segment, we expect acoustics/ED&PM/optics to grow 2%/31%/29% YoY in 4Q22E. Looking ahead, given Android's ongoing inventory destocking and Apple's weak seasonality in 1H23E, we believe demand weakness and loss-making optics segment will drag earnings recovery for AAC in the near term. The stock is now trading at 16.4 x FY23E P/E, which is fair in our view. Maintain Hold with SOTP-based TP HK\$15.62, implying 14.1x FY23E P/E.

- **4Q22 Preview: strong EMD&PM and slower optics recovery.** Backed by iPhone 14 cycle in 4Q22E, we estimate acoustics/haptics segment will grow 2%/12% YoY in 4Q22E, while Android's sluggish demand and intense competition led to weakness in optics segment with low utilization and ASP/margin pressure. As for PM segment, driven by sales contribution from newly acquired Toyo's NB casing and improving product mix, we expect revenue will jump 110% YoY. Overall, we expect 4Q22E revenue/net profit to grow 16%/18% YoY to RMB 5,579mn/250mn.
- **2023 outlook: Eyes on margin recovery, automotive and AR/VR.** Looking ahead, despite industry headwinds in 1H23E, we believe the market will focus on 1) margin recovery of multiple segments, especially optical lens/ HCM, 2) progress of automotive acoustics projects with leading Chinese EV customers and tier-ones, and 3) mass production of new 3P VR pancake module in 2023E. In addition, we are positive on share gain potential of newly acquired Toyo's PM business.
- **Maintain HOLD on fair valuation at 16.2x FY23E P/E.** While we are positive on 4Q22 earnings recovery, we believe intense competition in optics, Android's destocking and Apple's seasonal weakness in 1H23E will be major overhang for the stock. We maintain HOLD with new SOTP-based TP of HK\$15.62, implying 14.1x FY23E P/E. Trading at 16.4x FY23E P/E, the stock is fairly valued in our view.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	17,140	17,667	20,364	20,909	21,744
YoY growth (%)	(4.2)	3.1	15.3	2.7	4.0
Net profit (RMB mn)	1,506.7	1,316.3	834.2	1,188.5	1,299.2
YoY growth (%)	(32.2)	(12.6)	(36.6)	42.5	9.3
EPS (Reported) (RMB)	1.25	1.09	0.69	0.98	1.08
YoY growth (%)	(32.1)	(12.6)	(36.6)	42.5	9.3
Consensus EPS (RMB)	na	na	0.68	0.98	1.27
P/E (x)	34.2	32.4	23.1	16.2	14.9
P/B (x)	0.0	0.0	0.0	0.0	0.0
Yield (%)	146.1	154.4	216.0	307.8	336.5
ROE (%)	7.3	5.9	3.7	5.2	5.5

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **HK\$15.62**
 (Previous TP) HK\$15.4)
Up/Downside **(13.8%)**
Current Price **HK\$18.12**

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Stock Data

Mkt Cap (HK\$ mn)	21,707.8
Avg 3 mths t/o (HK\$ mn)	18.7
52w High/Low (HK\$)	22.30/11.14
Total Issued Shares (mn)	1198.0

Source: FactSet

Shareholding Structure

Wu Chunyuan	22.0%
Pan Zhengmin	19.6%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.5%	-7.2%
3-mth	4.1%	-4.6%
6-mth	23.1%	14.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

4Q22 Results Preview

Figure 1: 4Q22 results preview

RMB mn	CMBIGM					Consensus	
	4Q21	3Q22	4Q22E	QoQ	YoY	4Q22E	Diff %
Revenue	4,812	5,373	5,579	4%	16%	5,457	2%
Gross profit	986	1,022	1,081	6%	10%	1,102	-2%
Operating profit	261	218	255	17%	-2%	305	-16%
Adj. net profit	212	234	250	7%	18%	257	-3%
Adj. EPS (RMB)	0.18	0.20	0.21	6%	18%	0.22	-6%
Gross margin	20.5%	19.0%	19.4%	0.4 ppt	-1.1 ppt	20.2%	-0.8 ppt
Operating margin	5.4%	4.1%	4.6%	0.5 ppt	-0.9 ppt	5.6%	-1 ppt
Adj. net margin	4.4%	4.4%	4.5%	0.1 ppt	0.1 ppt	4.7%	-0.2 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Revenue breakdown

RMB mn	FY21	1Q22	2Q22	3Q22	4Q22E	FY22E	FY23E	FY24E
Revenue								
Dynamic components	8,582	2,230	1,909	2,320	2,288	8,748	8,905	9,359
MEMS components	1,013	237	241	421	262	1,162	1,278	1,406
Haptics & RF	5,639	1,501	1,431	2,050	2,350	7,331	7,554	7,636
Others (incl. optics)	2,433	928	934	582	679	3,123	3,173	3,343
Optics	2,389	924	929	567	659	3,079	3,136	3,306
Others	43	4	6	15	19	44	36	36
Total	17,667	4,896	4,516	5,373	5,579	20,364	20,909	21,744
Revenue mix								
Dynamic components	49%	46%	42%	43%	41%	43%	43%	43%
MEMS components	6%	5%	5%	8%	5%	6%	6%	6%
Haptics & RF	32%	31%	32%	38%	42%	36%	36%	35%
Others (incl. optics)	14%	19%	21%	11%	12%	15%	15%	15%
YoY Growth (%)								
Dynamic components	14%	6%	-6%	5%	2%	2%	2%	5%
MEMS components	-6%	-16%	1%	66%	10%	15%	10%	10%
Haptics & RF	-18%	22%	17%	47%	31%	30%	3%	1%
Others (incl. optics)	47%	35%	14%	47%	27%	28%	2%	5%
Optics	46%	36%	0%	44%	29%	29%	2%	5%
Total	3%	14%	5%	27%	16%	15%	3%	4%
Gross profit margin								
Dynamic components	29.7%	26.6%	27.0%	26.9%	27.0%	26.9%	26.9%	27.0%
MEMS components	15.1%	14.1%	15.0%	7.4%	9.0%	10.7%	13.0%	14.0%
Haptics & RF	21.6%	19.6%	16.1%	21.5%	21.9%	20.7%	18.3%	18.6%
Others (incl. optics)	18.3%	3.9%	4.8%	-12.7%	-10.9%	-3.4%	6.4%	6.4%
Optics	17.2%	3.5%	4.5%	-14.0%	-11.8%	-2.7%	6.3%	6.2%
Total	24.7%	19.5%	18.3%	19.0%	19.4%	19.1%	19.8%	20.0%

Source: Company data, CMBIGM

Earnings Revision

Figure 2: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	20,364	20,909	21,744	20,380	20,734	21,581	0%	1%	1%
Gross Profit	3,890	4,150	4,363	3,854	4,265	4,454	1%	-3%	-2%
Operating Profit	898	1,198	1,249	843	1,296	1,364	7%	-8%	-8%
Net profit	834	1,189	1,299	801	1,289	1,417	4%	-8%	-8%
EPS (RMB)	0.69	0.98	1.08	0.66	1.07	1.17	4%	-8%	-8%
Gross Margin	19.1%	19.8%	20.0%	18.9%	20.5%	20.6%	0.2 ppt	-0.7 ppt	-0.6 ppt
Operating Margin	4.4%	5.7%	5.7%	4.1%	6.2%	6.3%	0.3 ppt	-0.5 ppt	-0.6 ppt
Net Margin	4.1%	5.7%	6.0%	3.9%	6.2%	6.6%	0.2 ppt	-0.5 ppt	-0.6 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	20,364	20,909	21,744	20,215	22,433	24,825	1%	-7%	-12%
Gross Profit	3,890	4,150	4,363	3,913	4,583	5,244	-1%	-9%	-17%
Operating Profit	898	1,198	1,249	968	1,382	1,767	-7%	-13%	-29%
Net profit	834	1,189	1,299	809	1,175	1,535	3%	1%	-15%
EPS (RMB)	0.69	0.98	1.08	0.68	0.98	1.27	2%	0%	-16%
Gross Margin	19.1%	19.8%	20.0%	19.4%	20.4%	21.1%	-0.3 ppt	-0.6 ppt	-1.1 ppt
Operating Margin	4.4%	5.7%	5.7%	4.8%	6.2%	7.1%	-0.4 ppt	-0.4 ppt	-1.4 ppt
Net Margin	4.1%	5.7%	6.0%	4.0%	5.2%	6.2%	0.1 ppt	0.4 ppt	-0.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: P&L forecast

RMB mn	FY21	1Q22	2Q22	3Q22	4Q22E	FY22E	FY23E	FY24E
Revenue	17,667	4,896	4,516	5,373	5,579	20,364	20,909	21,744
... YoY	3.1%	14.1%	4.6%	26.5%	15.9%	15.3%	2.7%	4.0%
Cost of sales	(13,302)	(3,939)	(3,690)	(4,351)	(4,498)	(16,477)	(16,763)	(17,385)
Gross profit	4,365	957	826	1,022	1,081	3,886	4,146	4,358
GPM (%)	24.7%	19.5%	18.3%	19.0%	19.4%	19.1%	19.8%	20.0%
... YoY	3.3%	-28.4%	-23.4%	6.0%	9.7%	-11.0%	6.7%	5.1%
SG&A	(1,156)	(331)	(329)	(397)	(396)	(1,454)	(1,296)	(1,370)
... % of rev	-6.5%	-6.8%	-7.3%	-7.4%	-7.1%	-7.1%	-6.2%	-6.3%
R&D	(1,726)	(387)	(341)	(377)	(430)	(1,534)	(1,652)	(1,740)
... % of rev	-9.8%	-7.9%	-7.5%	-7.0%	-7.7%	-7.5%	-7.9%	-8.0%
Operating profit	1,483	239	185	218	255	898	1,198	1,249
OPM (%)	8.4%	4.9%	4.1%	4.1%	4.6%	4.4%	5.7%	5.7%
... YoY	9.8%	-62.6%	-45.9%	-8.8%	-2.2%	-39.4%	33.3%	4.3%
Income Tax	(120)	(54)	(89)	(80)	(47)	(269)	(177)	(193)
Effective Tax Rate	8.5%	21.6%	50.3%	29.5%	17.0%	27.7%	15.0%	15.0%
Net profit	1,316	205	145	234	250	834	1,189	1,299
NPM (%)	7.5%	4.2%	3.2%	4.4%	4.5%	4.1%	5.7%	6.0%
... YoY	-12.6%	-61.4%	-62.8%	27.5%	18.1%	-36.6%	42.5%	9.3%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with new TP HK\$15.62

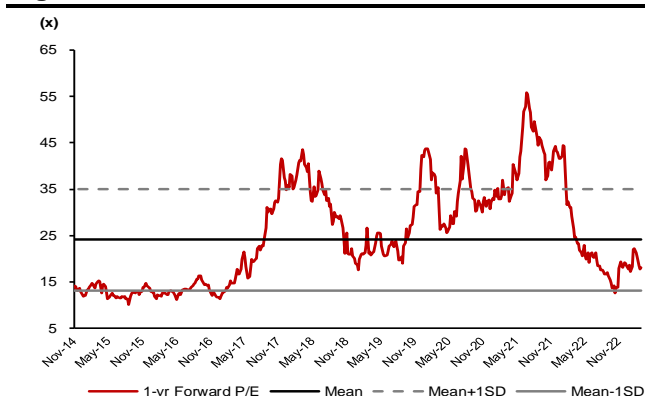
Our new TP of HK\$ 15.62 based on SOTP to reflect business diversification with different growth profiles and visibility. Our TP is based on weighted-average target P/E multiple of 14.1x FY23E P/E. We assign 15x/10x P/E to AAC's acoustics/MEMS, 13x P/E to haptics & mechanical RF, and 15x P/E to optics, in-line with HK-listed peers.

Figure 5: AAC Tech – SOTP valuation

Business segment	Value per share (RMB)	Valuation Methodology	Target P/E	% of FY23E Profit	FY23E EPS (RMB)
Acoustics	8.52	P/E target multiple	15x	58%	0.57
MEMS	0.39	P/E target multiple	10x	4%	0.04
ED & PM	4.26	P/E target multiple	13x	33%	0.33
Optics	0.73	P/E target multiple	15x	5%	0.05
TP (RMB)	13.9		14.1x		0.98
TP (HK\$)	15.6				

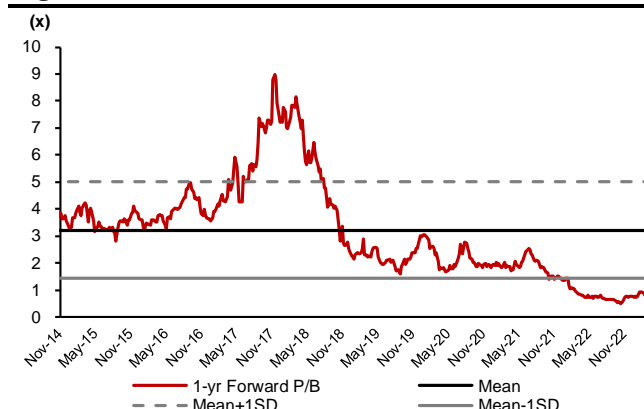
Sources: Company data, CMBIGM

Figure 6: 12M forward P/E band



Source: Company data, CMBIGM

Figure 7: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	17,884	17,140	17,667	20,364	20,909	21,744
Cost of goods sold	(12,777)	(12,913)	(13,302)	(16,477)	(16,763)	(17,385)
Gross profit	5,107	4,227	4,365	3,886	4,146	4,358
Selling expense	(275)	(285)	(333)	(443)	(397)	(413)
Admin expense	(643)	(672)	(824)	(1,010)	(899)	(957)
R&D expense	(1,717)	(1,920)	(1,726)	(1,534)	(1,652)	(1,740)
Operating profit	2,472	1,350	1,483	898	1,198	1,249
Other income	247	502	345	470	376	435
Other expense	0	0	0	0	0	0
Gain/loss on financial assets at FVTPL	19	0	0	0	0	0
Investment gain/loss	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	0	0	(1)	(1)	(1)	(1)
Net Interest income/(expense)	(248)	(353)	(415)	(390)	(390)	(390)
Foreign exchange gain/loss	63	148	1	(5)	(5)	(5)
Other income/expense	0	0	0	0	0	0
Others	0	0	0	0	0	0
Pre-tax profit	2,552	1,648	1,413	972	1,178	1,287
Income tax	(330)	(147)	(120)	(269)	(177)	(193)
After tax profit	2,222	1,501	1,293	703	1,001	1,094
Minority interest	0	(6)	(23)	(132)	(187)	(205)
Net profit	2,222	1,507	1,316	834	1,189	1,299

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	14,808	16,850	17,955	18,412	18,952	22,458
Cash & equivalents	5,512	7,540	6,051	8,913	6,305	12,139
Account receivables	5,576	5,176	6,013	8,228	6,640	8,792
Inventories	3,664	3,995	5,695	1,076	5,813	1,332
ST bank deposits	11	92	2	2	2	2
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	44	46	193	193	193	193
Non-current assets	19,400	22,062	24,067	23,911	22,890	21,134
PP&E	16,911	18,592	19,987	19,831	18,810	17,054
Deferred income tax	0	95	211	211	211	211
Investment in JVs & assos	0	0	4	4	4	4
Intangibles	434	373	384	384	384	384
Goodwill	164	164	220	220	220	220
Financial assets at FVTPL	0	0	50	50	50	50
Other non-current assets	1,891	2,837	3,210	3,210	3,210	3,210
Total assets	34,207	38,911	42,022	42,323	41,842	43,592
Current liabilities	7,711	9,380	9,668	9,683	8,795	10,100
Short-term borrowings	1,876	3,349	2,902	2,902	2,902	2,902
Account payables	5,474	5,205	6,148	6,138	5,245	6,542
Tax payable	178	167	165	190	195	203
Other current liabilities	75	151	188	188	188	188
Lease liabilities	97	494	242	242	242	242
Contract liabilities	10	15	22	22	22	22
Non-current liabilities	7,136	7,711	9,852	9,852	9,852	9,852
Long-term borrowings	3,850	2,543	330	330	330	330
Bond payables	2,685	2,512	6,573	6,573	6,573	6,573
Obligations under finance leases	310	317	452	452	452	452
Other non-current liabilities	290	2,339	2,497	2,497	2,497	2,497
Total liabilities	14,846	17,090	19,520	19,535	18,648	19,952
Share capital	98	98	98	98	98	98
Other reserves	19,253	21,061	21,713	22,130	22,724	23,373
Total shareholders equity	19,361	21,821	22,502	22,788	23,194	23,639
Minority interest	10	662	691	560	372	168
Total equity and liabilities	34,207	38,911	42,022	42,323	41,842	43,592

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,552	1,648	1,413	972	1,178	1,287
Depreciation & amortization	2,476	2,701	3,834	4,147	4,413	0
Tax paid	(370)	(262)	(217)	(244)	(172)	(185)
Change in working capital	(751)	(789)	(528)	2,394	(4,041)	3,626
Others	(65)	295	(2,306)	77	124	4,802
Net cash from operations	3,843	3,593	2,196	7,346	1,502	9,530
Investing						
Capital expenditure	(1,544)	(2,088)	(1,176)	(3,678)	(3,126)	(2,657)
Acquisition of subsidiaries/ investments	0	0	(860)	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(1,850)	(1,174)	(2,211)	0	0	0
Net cash from investing	(3,395)	(3,262)	(4,246)	(3,678)	(3,126)	(2,657)
Financing						
Dividend paid	(1,531)	(107)	(403)	(417)	(594)	(650)
Net borrowings	(263)	356	(2,653)	0	0	0
Share repurchases	(1,531)	(107)	(403)	(417)	(594)	(650)
Others	3,580	2,439	4,072	27	204	260
Net cash from financing	255	2,582	613	(807)	(984)	(1,039)
Net change in cash						
Cash at the beginning of the year	4,059	4,814	7,540	6,051	8,913	6,305
Exchange difference	51	(187)	(52)	0	0	0
Cash at the end of the year	4,814	7,540	6,051	8,913	6,305	12,139
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	(1.4%)	(4.2%)	3.1%	15.3%	2.7%	4.0%
Gross profit	(24.3%)	(17.2%)	3.3%	(11.0%)	6.7%	5.1%
Operating profit	(42.0%)	(45.4%)	9.8%	(39.4%)	33.3%	4.3%
Net profit	(41.5%)	(32.2%)	(12.6%)	(36.6%)	42.5%	9.3%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	28.6%	24.7%	24.7%	19.1%	19.8%	20.0%
Operating margin	13.8%	7.9%	8.4%	4.4%	5.7%	5.7%
Return on equity (ROE)	11.6%	7.3%	5.9%	3.7%	5.2%	5.5%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	1.9	1.8	1.9	1.9	2.2	2.2
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	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	22.7	34.2	32.4	23.1	16.2	14.9
P/E (diluted)	22.7	34.2	32.4	23.1	16.2	14.9
P/B	0.0	0.0	0.0	0.0	0.0	0.0
Div yield (%)	303.3	146.1	154.4	216.0	307.8	336.5

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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