

AAC Tech (2018 HK)

Product upgrades and margin expansion to continue; Reiterate BUY

We hosted AAC Tech 4Q24 outlook investor call yesterday (28 Nov). Mgmt. is positive on continued spec upgrade in smartphone acoustics/optics/haptics in 2H24E and expects mild smartphone demand recovery to extend into FY25E. Mgmt. also reiterated FY24E guidance of 15% YoY revenue growth (excl. PSS), with GPM HoH expansion in 2H24E. By segment, mgmt. shared the latest updates: 1) Optics: high-end HLS mix to improve with higher OIS/periscope HCM shipment to Android customers, WLG order wins to boost sales upside into FY25/26E. 2) Acoustics: high-end order wins with multiple major customers. 3) Haptics/casing /hinges: continued spec upgrades on light-weighted designs and foldable phone penetration. 4) Heat dissipation: material innovation and AI smartphone upgrade demand. Overall, we lift our FY24-26E EPS forecasts by 6-8% to reflect strong product upgrade trends, better margin recovery and AI spec upgrade into FY25/26E. Our new TP of HK\$40.83 implies 19.6x FY25E P/E. Near-term catalysts include key customer product launches, spec upgrades and GPM expansion.

■ **Spec upgrades and better margins across all segments in 2H24E.** Mgmt. stated that AAC secured order wins in acoustic/haptics/optics/casing products in Apple/Android's latest flagship models in 2H24E, which will boost margins due to better spec and higher supply share. In particular, mgmt. maintained positive view on GPM expansion for both plastic lens and HCM in 2H24E, and breakeven target for optics biz is on track in 4Q24E. AAC's WLG business also secured order wins with customers from both smartphone and automotive clients, targeting 10kk unit shipment in FY25E.

■ **FY24E/2025 outlook: spec migration for iPhone 17 and Android AI phone.** Mgmt. is confident that sales momentum and margin expansion will sustain into FY25/26E, mainly driven by 1) share gains in optics HLS/HCM/WLG with GPM expansion, 2) spec upgrade (acoustics/haptics/heat/optics) for next-gen Apple/Android AI smartphones, 3) sales synergy with PSS auto acoustics. Overall, we expect AAC's earnings to grow 138%/27% YoY in FY24/25E.

■ **Our FY24-26E EPS forecasts are 5-9% above consensus; Maintain BUY.** We lift our FY24-26E EPS forecasts by 6-8% to reflect strong product upgrades, better margin profile and AI spec upgrade into FY25/26. Our new SOTP-based TP of HK\$40.83 implies 19.6x FY25E P/E. The stock now trades at 21.8x/17.2x FY24/25E P/E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	20,625	20,419	27,561	30,966	33,754
YoY growth (%)	16.7	(1.0)	35.0	12.4	9.0
Net profit (RMB mn)	821.3	740.4	1,764.3	2,234.4	2,636.5
YoY growth (%)	(37.6)	(9.9)	138.3	26.6	18.0
EPS (Reported) (RMB)	0.69	0.63	1.50	1.90	2.24
YoY growth (%)	(37.1)	(8.3)	138.3	26.6	18.0
Consensus EPS (RMB)	N/A	N/A	1.37	1.81	2.08
P/E (x)	47.7	52.0	21.8	17.2	14.6
P/B (x)	1.8	1.7	1.6	1.5	ns
Yield (%)	36.7	36.7	36.7	110.2	130.1
ROE (%)	3.7	3.3	7.6	9.1	10.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$40.83**
 (Previous TP) **HK\$37.80**
Up/Downside **16.3%**
Current Price **HK\$35.10**

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Stock Data

Mkt Cap (HK\$ mn)	42,049.8
Avg 3 mths t/o (HK\$ mn)	208.5
52w High/Low (HK\$)	36.60/16.62
Total Issued Shares (mn)	1198.0

Source: FactSet

Shareholding Structure

Wu Chunyuan	21.9%
Pan Zhengmin	19.5%

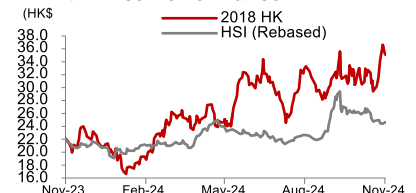
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.5%	14.3%
3-mth	6.4%	-2.8%
6-mth	39.8%	35.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. AAC Tech (2018 HK)-Riding on new upgrade cycle; Upgrade to BUY ([link](#))
2. AAC Tech (2018 HK)-Solid outlook for PSS merger & optics margin recovery; Maintain HOLD on fair valuation ([link](#))
3. AAC Tech (2018 HK)-1H23 worse than expected on slow recovery; Maintain HOLD ([link](#))
4. AAC Tech (2018 HK)-4Q22 slightly below; recovery remains bumpy ([link](#)).

Earnings Revision

Figure 1: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	27,561	30,966	33,754	26,791	30,864	33,647	3%	0%	0%
Gross profit	6,236	7,118	7,923	6,019	6,914	7,729	4%	3%	3%
Net profit	1,764	2,234	2,637	1,665	2,070	2,482	6%	8%	6%
EPS (RMB)	1.50	1.90	2.24	1.41	1.76	2.11	6%	8%	6%
Gross margin	22.6%	23.0%	23.4%	22.4%	22.4%	22.9%	0.2 ppt	0.6 ppt	0.5 ppt
Net margin	6.4%	7.2%	7.8%	6.2%	6.7%	7.4%	0.2 ppt	0.5 ppt	0.4 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	27,561	30,966	33,754	26,069	29,927	32,535	6%	3%	4%
Gross profit	6,236	7,118	7,923	5,961	7,140	7,881	5%	0%	1%
Net profit	1,764	2,234	2,637	1,611	2,142	2,448	10%	4%	8%
EPS (RMB)	1.50	1.90	2.24	1.37	1.81	2.08	9%	5%	8%
Gross margin	22.6%	23.0%	23.4%	22.9%	23.9%	24.2%	-0.3 ppt	-0.9 ppt	-0.8 ppt
Net margin	6.4%	7.2%	7.8%	6.2%	7.2%	7.5%	0.2 ppt	0.1 ppt	0.3 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	16,314	27,561	30,966	33,754
...YoY	16.7%	-1.0%	22.0%	45.7%	35.0%	12.4%	9.0%
Cost of sales	(16,850)	(16,967)	(8,829)	(12,503)	(21,332)	(23,855)	(25,839)
Gross profit	3,775	3,452	2,418	3,812	6,229	7,111	7,915
GPM (%)	18.3%	16.9%	21.5%	23.4%	22.6%	23.0%	23.4%
...YoY	-13.5%	-8.6%	86.4%	76.9%	80.5%	14.2%	11.3%
SG&A	(1,483)	(1,421)	(863)	(1,224)	(2,087)	(2,261)	(2,464)
...% of rev	-7.2%	-7.0%	-7.7%	-7.5%	-7.6%	-7.3%	-7.3%
R&D	(1,546)	(1,573)	(949)	(1,305)	(2,255)	(2,477)	(2,667)
...% of rev	-7.5%	-7.7%	-8.4%	-8.0%	-8.2%	-8.0%	-7.9%
Operating profit	745	457	605	1,283	1,888	2,373	2,784
OPM (%)	3.6%	2.2%	5.4%	7.9%	6.9%	7.7%	8.2%
...YoY	-49.7%	-38.7%	N/A	163.8%	313.1%	25.7%	17.3%
Income Tax	-231	-252	-112	-337	-449	-648	-764
Effective Tax Rate	26.9%	30.7%	17.8%	24.0%	22.1%	25.0%	25.0%
Net profit	821	740	537	1,227	1,764	2,234	2,637
NPM (%)	4.0%	3.6%	4.8%	7.5%	6.4%	7.2%	7.8%
...YoY	-37.6%	-9.9%	257.3%	108.0%	138.3%	26.6%	18.0%

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	5,226	8,686	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	6,286	9,944	11,405	12,373
Optics	1,771	1,856	3,627	2,213	2,550	4,762	4,848	5,195
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	1,550	3,408	3,216	3,333
Others	11	12	23	5	12	17	23	23
Total	9,219	11,200	20,419	11,247	16,314	27,561	30,966	33,754
Revenue mix								
Acoustics	36%	37%	37%	31%	32%	32%	31%	32%
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%	39%	36%	37%	37%
Optics	19%	17%	18%	20%	16%	17%	16%	15%
Plastic lens	4%	7%	6%	3%	6%	5%	5%	6%
HCM/WLG	16%	9%	12%	17%	10%	12%	10%	10%
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%	37%	31%	2%	7%
Others	10%	-30%	-16%	-54%	19%	-25%	0%	0%
Total	-2%	0%	-1%	22%	46%	35%	12%	9%
Gross profit margin								
Acoustics	25.5%	30.7%	28.4%	29.9%	32.0%	31.2%	31.0%	31.0%
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%	16.0%	16.0%
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%	9.9%	7.5%	9.7%	12.4%
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%	23.4%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$40.83

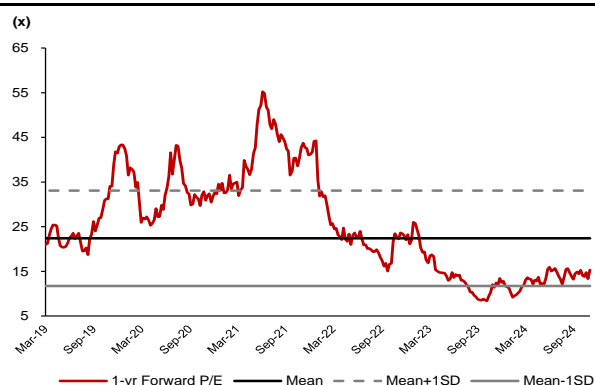
Our new TP of HK\$ 40.83 is based on SOTP to reflect business diversification with different growth profiles and visibility. Our TP is based on weighted-average target P/E multiple of 19.6x FY25E P/E. We assign 20x/15x P/E to AAC's acoustics/MEMS, 18x P/E to PSS, 20x P/E to ED & PM, and 20x P/E to optics, in-line with HK-listed peers. The stock now trades at 21.8x/17.2x FY24/25E P/E. Near-term catalysts include key customer product launches, spec upgrades and GPM expansion.

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	15.83	P/E target multiple	20x	42%	0.79
Acoustics-PSS	4.73	P/E target multiple	18x	14%	0.26
MEMS	0.76	P/E target multiple	15x	3%	0.05
ED & PM	13.35	P/E target multiple	20x	35%	0.67
Optics	2.49	P/E target multiple	20x	7%	0.12
TP (RMB)	37.16		19.6x		1.90
TP (HK\$)	40.83				

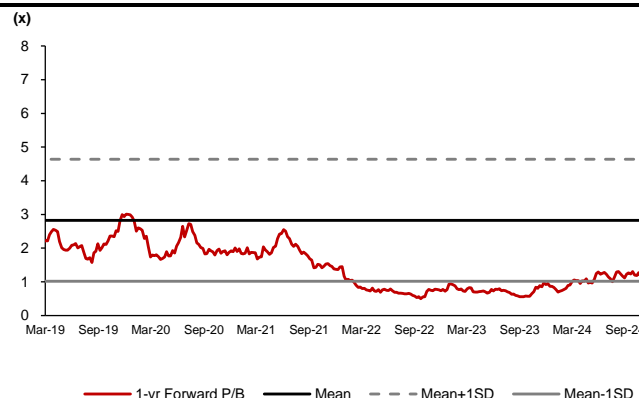
Sources: Company data, CMBIGM estimates

Figure 6: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 7: 12M forward P/B band



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	17,667	20,625	20,419	27,561	30,966	33,754
Cost of goods sold	(13,302)	(16,850)	(16,967)	(21,332)	(23,855)	(25,839)
Gross profit	4,365	3,775	3,452	6,229	7,111	7,915
Selling expense	(333)	(448)	(443)	(705)	(743)	(810)
Admin expense	(824)	(1,036)	(978)	(1,382)	(1,517)	(1,654)
R&D expense	(1,726)	(1,546)	(1,573)	(2,255)	(2,477)	(2,667)
Operating profit	1,483	745	457	1,888	2,373	2,784
Other income	345	525	591	611	619	675
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	2,032	2,591	3,057
Income tax	(120)	(231)	(252)	(449)	(648)	(764)
After tax profit	1,293	629	571	1,583	1,943	2,293
Minority interest	(23)	(192)	(170)	(181)	(291)	(344)
Net profit	1,316	821	740	1,764	2,234	2,637

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	17,955	17,116	16,527	22,398	25,617	32,533
Cash & equivalents	6,051	6,814	6,825	6,431	12,496	13,964
Account receivables	6,013	5,531	6,653	10,135	9,035	11,923
Inventories	5,695	4,401	2,992	5,774	4,029	6,590
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	43,026	43,865	47,871
Current liabilities	9,668	9,055	10,129	12,803	12,124	14,337
Short-term borrowings	2,902	1,833	1,464	1,464	1,464	1,464
Account payables	6,148	4,959	5,796	8,434	7,739	9,939
Tax payable	165	118	101	136	152	166
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	19,213	18,534	20,747
Share capital	98	98	97	97	97	97
Other reserves	21,713	21,559	21,784	23,407	25,217	27,352
Total shareholders equity	22,502	22,196	22,371	23,813	25,332	27,123
Minority interest	691	539	490	309	17	(327)
Total equity and liabilities	42,022	40,343	38,911	43,026	43,865	47,871

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,413	861	823	2,032	2,591	3,057
Depreciation & amortization	2,802	2,776	4,413	0	0	0
Tax paid	(217)	(304)	(246)	(414)	(631)	(750)
Change in working capital	(528)	420	1,247	(3,626)	2,149	(3,248)
Others	(1,274)	619	(1,604)	4,877	5,058	5,250
Net cash from operations	2,196	4,372	4,633	2,869	9,167	4,309
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)	(425)	(501)
Net borrowings	(2,653)	222	(376)	0	0	0
Share repurchases	(403)	(144)	(141)	(141)	(425)	(501)
Others	4,072	(1,373)	(2,512)	(323)	5	81
Net cash from financing	613	(1,439)	(3,171)	(606)	(845)	(921)
Net change in cash						
Cash at the beginning of the year	7,540	6,051	6,814	6,825	6,431	12,496
Exchange difference	(52)	178	61	0	0	0
Cash at the end of the year	6,051	6,814	6,825	6,431	12,496	13,964
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	3.1%	16.7%	(1.0%)	35.0%	12.4%	9.0%
Gross profit	3.3%	(13.5%)	(8.6%)	80.5%	14.2%	11.3%
Operating profit	9.8%	(49.7%)	(38.7%)	313.1%	25.7%	17.3%
Net profit	(12.6%)	(37.6%)	(9.9%)	138.3%	26.6%	18.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	24.7%	18.3%	16.9%	22.6%	23.0%	23.4%
Operating margin	8.4%	3.6%	2.2%	6.9%	7.7%	8.2%
Return on equity (ROE)	5.9%	3.7%	3.3%	7.6%	9.1%	10.1%
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	30.0	47.7	52.0	21.8	17.2	14.6
P/E (diluted)	na	na	na	21.8	17.2	14.6
P/B	1.8	1.8	1.7	1.6	1.5	ns
Div yield (%)	166.6	36.7	36.7	36.7	110.2	130.1

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

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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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