

AAC Tech (2018 HK)

Beneficiary of edge AI upgrade cycle; Raise TP to HK\$58.78

AAC delivered 2H24 revenue/NP growth of 44%/114% YoY, with earnings 2%/8% above our/consensus estimates, thanks to strength across all segments and strong GPM at 22.5% (vs 19.2%/21.5% in 2H23/1H24). Looking into 2025, we are positive on AAC as a major beneficiary of spec upgrade (acoustics/optics/MEMS/VC) for AI smartphones/AI glasses and global share gains in auto acoustics. Overall, we lift our FY25-26E EPS estimates by 10%/7% to factor in FY24 results, better GPM outlook and spec upgrade opportunities across multiple edge AI devices in 2025-26. Our new SOTP-based TP of HK\$58.78 implies 25.2x FY25E P/E. Reiterate BUY. Near-term catalysts include AI glasses/phone upgrade, auto client wins and GPM expansion.

■ **Strong 2H24 driven by all segments and GPM improvement.** AAC posted strong 2H24 earnings of 114% YoY growth, in-line with prior profit alert. 2H24 revenue growth of 44% YoY was ahead of our/consensus by 2%/8% driven by strength across all segments 1) acoustics: 14% YoY due to demand recovery, key customers' share gains and high-end acoustic penetration; 2) ED&PM: 31% YoY driven by x-axis motors, metal hinges, and vapor chambers in flagship and foldable phones; 3) Optics: 50% YoY thanks to spec high-end lens upgrade (6P/WLG) and HCM shipment/ASP growth (32MP/periscope). 2H24 GPM continued to improve 5.2ppts YoY to 22.5% (vs 19.2%/21.5% in 2H23/1H24), thanks to optics turnaround and ED&PM/acoustics recovery.

■ **2025 Outlook: spec upgrade in AI smartphones, AI glasses and edge AI devices, and penetration of auto acoustics/optics.** For 2025, mgmt. guided double-digit revenue growth (~10-15% YoY). By segment: 1) ED&PM (haptics/VC/hinges): EM growth of mid-to-high teens with GPM of above 30%, and PM growth of 18-20% YoY with GPM at high double-digit; 2) Optics (6P/WLG/32MP): mid-to-high teens with stable GPM at 25%+; 3) MEMS & sensors (AI/mic): 30-50% YoY with GPM at mid-to-high double-digit; 4) Acoustics (SLS/combo): stable growth at low-to-mid single-digit with GPM at 30%+. In addition, mgmt. highlighted MEMS mic/sensor outlook in 2025, driven by high-end MEMS mic spec upgrade, AI glasses equipped with more sensors, auto MEMS mic penetration and accelerated growth for sensors in edge AI devices.

■ **Expect for another strong year in 2025; Lift TP to HK\$58.78.** We lift our FY25-26E EPS estimates by 10-7% to reflect FY24 results, better GPM outlook and spec upgrade in edge AI devices in 2025-2026. Our new SOTP-based TP of HK\$58.78 implies 25.2x FY25E P/E. The stock now trades at 22.8x/19.3x FY25/26E P/E, compared to 39%/18% YoY EPS growth. Maintain 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)	N/A	N/A	1.90	2.25	2.25
P/E (x)	77.1	31.6	22.8	19.3	17.6
P/B (x)	2.6	2.5	2.3	ns	ns
Yield (%)	20.6	49.5	83.2	98.4	108.0
ROE (%)	3.3	7.9	10.3	11.2	11.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$58.78
(Previous TP)	HK\$53.48)
Up/Downside	12.9%
Current Price	HK\$52.05

China Technology

Alex NG

(852) 3900 0881
alexng@cmbi.com.hk

Hanqing LI

lihanqing@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	62,355.9
Avg 3 mths t/o (HK\$ mn)	303.4
52w High/Low (HK\$)	53.85/22.70
Total Issued Shares (mn)	1198.0

Source: FactSet

Shareholding Structure

Wu Chunyuan	21.9%
Pan Zhengmin	19.5%

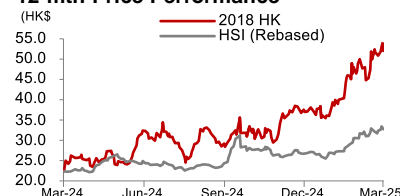
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.2%	-1.0%
3-mth	40.7%	14.5%
6-mth	83.3%	38.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. AAC Tech (2018 HK) - Multiple growth drivers and improving margin to continue into 2025; Raise TP to HK\$53.48 ([link](#))
2. AAC Tech (2018 HK) - Product upgrades and margin expansion to continue; Reiterate BUY ([link](#))
3. AAC Tech (2018 HK) - Riding on new upgrade cycle; Upgrade to BUY ([link](#))
4. AAC Tech (2018 HK) - Solid outlook for PSS merger & optics margin recovery; Maintain HOLD on fair valuation ([link](#))
5. AAC Tech (2018 HK) - 1H23 worse than expected on slow recovery; Maintain HOLD ([link](#))

2H24 Results Review

Figure 1: 2H24 results review

RMB mn	1H23	2H23	1H24	2H24	HoH	YoY	CMBI		Consensus	
							2H24	Diff %	2H24	Diff %
Revenue	9,219	11,200	11,247	16,081	43%	44%	16,366	-2%	15,153	6%
Gross profit	1,297	2,155	2,418	3,624	50%	68%	3,832	-5%	3,592	1%
Operating profit	(29)	486	605	1,474	144%	203%	1,296	14%	1,440	2%
Adj. net profit	150	590	537	1,260	135%	114%	1,239	2%	1,167	8%
Adj. EPS (RMB)	0.13	0.50	0.46	1.07	135%	114%	1.06	2%	1.06	1%
Gross margin	14.1%	19.2%	21.5%	22.5%	1 ppt	3.3 ppt	23.4%	-0.9 ppt	23.7%	-1.2 ppt
Operating margin	-0.3%	4.3%	5.4%	9.2%	3.8 ppt	4.8 ppt	7.9%	1.3 ppt	9.5%	-0.3 ppt
Adj. net margin	1.6%	5.3%	4.8%	7.8%	3.1 ppt	2.6 ppt	7.6%	0.3 ppt	7.7%	0.1 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Earnings Revision

Figure 2: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	32,566	35,113	37,561	31,383	34,183	na	4%	3%	na
Gross Profit	7,532	8,384	9,022	7,219	8,112	na	4%	3%	na
Net profit	2,489	2,943	3,230	2,273	2,751	na	9%	7%	na
EPS (RMB)	2.12	2.51	2.75	1.93	2.34	na	10%	7%	na
Gross Margin	23.1%	23.9%	24.0%	23.0%	23.7%	na	0.1 ppt	0.1 ppt	na
Net Margin	7.6%	8.4%	8.6%	7.2%	8.0%	na	0.4 ppt	0.3 ppt	na

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	32,566	35,113	37,561	29,679	32,967	34,028	10%	7%	10%
Gross Profit	7,532	8,384	9,022	6,986	7,889	7,756	8%	6%	16%
Net profit	2,489	2,943	3,230	2,285	2,683	2,777	9%	10%	16%
EPS (RMB)	2.12	2.51	2.75	1.90	2.25	2.25	12%	11%	22%
Gross Margin	23.1%	23.9%	24.0%	23.5%	23.9%	22.8%	-0.4 ppt	-0.1 ppt	1.2 ppt
Net Margin	7.6%	8.4%	8.6%	7.7%	8.1%	8.2%	-0.1 ppt	0.2 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: P&L forecast

RMB mn	FY23	1H24	2H24	FY24	FY25E	FY26E	FY27E
Revenue	20,419	11,247	16,081	27,328	32,566	35,113	37,561
... YoY	-1.0%	22.0%	43.6%	33.8%	19.2%	7.8%	7.0%
Cost of sales	(16,967)	(8,829)	(12,457)	(21,286)	(25,042)	(26,737)	(28,548)
Gross profit	3,452	2,418	3,624	6,042	7,524	8,376	9,013
GPM (%)	16.9%	21.5%	22.5%	22.1%	23.1%	23.9%	24.0%
... YoY	-8.6%	86.4%	68.2%	75.0%	24.5%	11.3%	7.6%
SG&A	(1,421)	(863)	(1,077)	(1,940)	(2,312)	(2,475)	(2,629)
... % of rev	-7.0%	-7.7%	-6.7%	-7.1%	-7.1%	-7.1%	-7.0%
R&D	(1,573)	(949)	(1,073)	(2,022)	(2,442)	(2,633)	(2,817)
... % of rev	-7.7%	-8.4%	-6.7%	-7.4%	-7.5%	-7.5%	-7.5%
Operating profit	457	605	1,474	2,080	2,770	3,267	3,566
OPM (%)	2.2%	5.4%	9.2%	7.6%	8.5%	9.3%	9.5%
... YoY	-38.7%	-2169.5%	203.1%	354.9%	33.2%	18.0%	9.2%
Income Tax	(252)	(112)	(115)	(227)	(604)	(714)	(784)
Effective Tax Rate	30.7%	17.8%	8.4%	11.4%	20.0%	20.0%	20.0%
Net profit	740	537	1,260	1,797	2,489	2,943	3,230
NPM (%)	3.6%	4.8%	7.8%	6.6%	7.6%	8.4%	8.6%
... YoY	-9.9%	257.3%	113.6%	142.7%	38.5%	18.3%	9.8%

Source: Company data, CMBIGM estimates

Figure 5: Revenue breakdown

RMB mn	FY23	1H24	2H24	FY24	FY25E	FY26E	FY27E
Revenue							
Acoustics	7,499	3,460	4,754	8,214	9,466	10,490	11,453
PSS	-	1,522	1,994	3,516	4,431	4,652	4,885
Sensor & semi	1,025	389	384	773	1,083	1,245	1,432
ED&PM	8,245	3,658	6,052	9,710	11,891	12,795	13,683
Optics	3,627	2,213	2,787	5,000	5,672	5,908	6,086
Plastic lens	1,170	355	836	1,191	1,559	1,779	1,957
HCM/WLG	2,457	1,857	1,952	3,809	4,113	4,130	4,130
Others	23	5	110	115	23	23	23
Total	20,419	11,247	16,081	27,328	32,566	35,113	37,561
Revenue mix							
Acoustics	37%	31%	30%	30%	29%	30%	30%
PSS	0%	14%	12%	13%	14%	13%	13%
Sensor & semi	5%	3%	2%	3%	3%	4%	4%
ED&PM	40%	33%	38%	36%	37%	36%	36%
Optics	18%	20%	17%	18%	17%	17%	16%
Plastic lens	6%	3%	5%	4%	5%	5%	5%
HCM/WLG	12%	17%	12%	14%	13%	12%	11%
Others	0%	0%	1%	0%	0%	0%	0%
YoY Growth (%)							
Acoustics	-15%	4%	14%	10%	15%	11%	9%
PSS	-	-	-	-	26%	5%	5%
Sensor & semi	-18%	-21%	-28%	-25%	40%	15%	15%
ED&PM	13%	1%	31%	18%	22%	8%	7%
Optics	13%	25%	50%	38%	13%	4%	3%
Others	-16%	-54%	806%	405%	-80%	0%	0%
Total	-1%	22%	44%	34%	19%	8%	7%
Gross profit margin							
Acoustics	28.4%	29.9%	30.4%	30.2%	31.5%	31.5%	31.5%
PSS	-	25.0%	24.6%	24.8%	25.0%	25.0%	25.0%
Sensor & semi	13.6%	16.4%	14.9%	15.6%	16.5%	16.8%	16.8%
ED&PM	20.1%	22.9%	23.4%	23.3%	23.2%	23.2%	23.1%
Optics	-13.0%	4.7%	7.9%	6.5%	8.9%	12.5%	12.9%
Others	-9.5%	-58.6%	-8.5%	-10.6%	-5.0%	-5.0%	-5.0%
Total	16.9%	21.5%	22.5%	22.1%	23.1%	23.9%	24.0%

Source: Company data, CMBIGM

Valuation

Maintain BUY with new TP of HK\$58.78

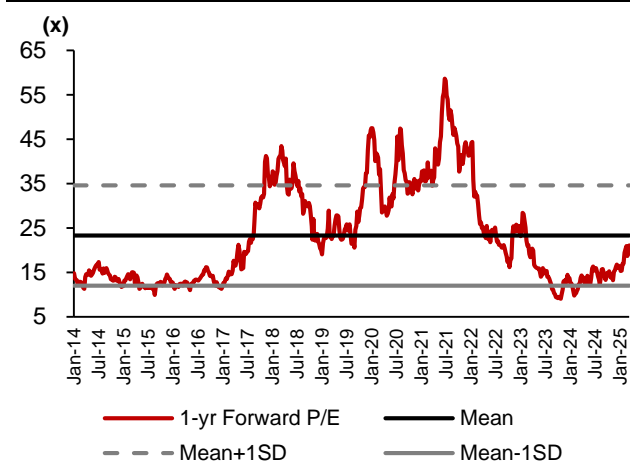
Our new TP of HK\$58.78 is based on SOTP to reflect business diversification with different growth profiles and visibility. Our TP is based on weighted-average target P/E multiple of 25.2x FY25E P/E. We assign 20x/15x P/E to AAC's acoustics/MEMS, 25x P/E to PSS, 25x P/E to ED & PM, and 28x P/E to optics, in-line with HK-listed peers. The stock now trades at 21.8x/17.2x FY24/25E P/E. Near-term catalysts include AI/foldable phone launches, new AI glasses, auto acoustics order wins, and GPM expansion.

Figure 6: 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				

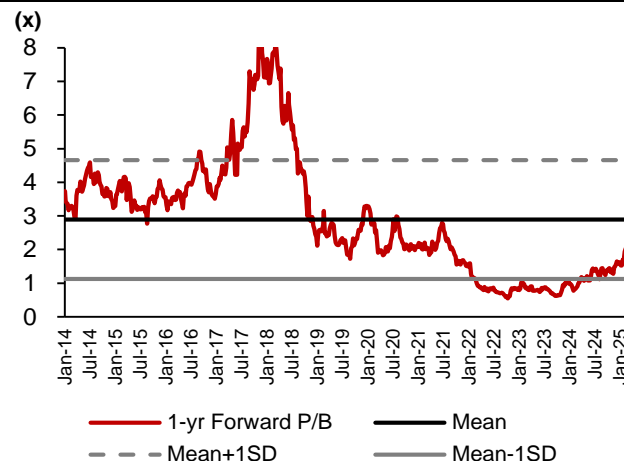
Sources: Company data, CMBIGM estimates

Figure 7: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 8: 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	70.7	77.1	31.6	22.8	19.3	17.6
P/E (diluted)	na	na	31.6	22.8	19.3	17.6
P/B	2.6	2.6	2.5	2.3	ns	ns
Div yield (%)	24.8	20.6	49.5	83.2	98.4	108.0

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

Disclosures & Disclaimers

Analyst Certification

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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