

# AAC Tech (2018 HK)

## 1H25 in-line despite GPM dip; Solid outlook intact on AI-driven upgrade cycle in 2H25E

AAC's 1H25 revenue/NP (+18%/63% YoY) were in-line with our/consensus estimates on solid sale growth and one-off fair value gains (PSS), despite lower GPM at 20.7% (vs 21.5%/22.5% in 1H24/2H24) given seasonality and product transitions. During the earnings call, mgmt. guided a solid set of sales (2H growth higher than 1H growth) and GPM (FY25E GPM above FY24), which should ease investor concerns over GPM miss and demand uncertainties. We believe the market concern is overdone and recommend to accumulate on corrections, as we see AAC as the major beneficiary of AI-driven spec upgrade cycle (acoustics/optics/MEMS/VC), capturing opportunities in AI/foldable phones/AI glasses/robotics. We adjusted our estimates to factor in 1H results, stronger VC/optics and lower GPM. Our new SOTP-based TP of HK\$60.55 implies 25.3x FY25E P/E. Near-term catalysts include AI phone/glasses launch, order wins and GPM recovery.

■ **1H25 results in-line; optics GPM and VC the bright spots.** AAC's 1H25 revenue/NP grew 18%/63% YoY, driven by ED&PM/Optics/MEMS (+27%/20%/56% YoY), despite lower GPM at 20.7% on weaker acoustics GPM at 27.2% (vs 30.0%/30.4% in 1H24/2H24). By segment, 1) **acoustics**: sales rose 2% YoY with lower GPM due to product transition; 2) **auto PSS**: sales jumped 14% YoY with weaker GPM at 23.9%; 3) **optics**: revenue was up 19.7% YoY with upbeat GPM at 10.2% driven by plastic HLS GPM at 30%+ and HCM upgrade (32MP+ mix at 34%, OIS +150%); 4) **ED & PM**: sales rose 27% YoY driven by VC/NB casing (+45%/18% YoY); 5) **sensor & semi**: sales grew 57% YoY with GPM of 12.1%, given new product MP for overseas customers.

■ **Solid 2H25E outlook: GPM recovery, acoustics/VC/optics/MEM spec upgrade.** We are positive on mgmt.'s upbeat guidance for 2025, which should ease market concerns on 2H GPM/demand. 1) **Acoustics**: new product MP will boost GPM rebound in 2H25E. 2) **ED & PM**: ED sales will grow 18-20% YoY in FY25E (VC up 3-4 times, NB/casing stable share), and EM will grow 15-20% YoY with GPM of 30%+. 3) **Optics**: sales to grow 20% YoY with GPM at 10-15% in FY25E, with plastic HLS GPM at 30%+, WLG shipment of 10-15mn/20mn in FY25/26E and HCM GPM at 4-6%; 4) **MEMS & sensors**: FY25E sales grew 100% YoY with GPM at 15-20%.

■ **Recommend BUY on recent corrections; LT growth opportunities in AI/foldable SP/AI glasses/robotics.** On top of AI/foldable phone upgrade, we are positive on AAC's non-handset biz: 1) AR glasses (optical waveguide) project wins and target mass production in 2026; 2) auto PSS order win in domestic flagship SUV project (32 speakers) and client win in the EU; 3) drones/action cameras; 4) robotics dexterous hand mass production with multiple design wins.

### Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	20,419	27,328	32,848	37,596	41,623
YoY growth (%)	(1.0)	33.8	20.2	14.5	10.7
Net profit (RMB mn)	740.4	1,797.2	2,514.6	3,186.9	3,734.6
YoY growth (%)	(9.9)	142.7	39.9	26.7	17.2
EPS (Reported) (RMB)	0.63	1.53	2.17	2.75	3.22
YoY growth (%)	(8.3)	143.8	41.6	26.7	17.2
Consensus EPS (RMB)	na	na	2.05	2.45	2.82
P/E (x)	63.9	26.2	18.5	14.6	12.5
P/B (x)	2.1	2.0	1.8	1.7	1.5
Yield (%)	24.9	59.7	84.6	130.1	152.4
ROE (%)	3.3	7.9	10.4	12.1	12.8

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$60.55
(Previous TP)	HK\$63.54)
Up/Downside	38.5%
Current Price	HK\$43.72

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### Stock Data

Mkt Cap (HK\$ mn)	52,376.6
Avg 3 mths t/o (HK\$ mn)	232.7
52w High/Low (HK\$)	53.85/28.15
Total Issued Shares (mn)	1198.0

Source: FactSet

### Shareholding Structure

Wu Chunyuan	21.9%
Pan Zhengmin	19.5%

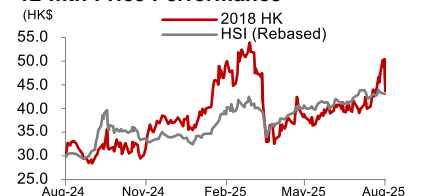
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	9.6%	9.1%
3-mth	12.8%	7.1%
6-mth	-12.6%	-18.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Reports:

1. AAC Tech (2018 HK) –1H25 preview: structural upgrade cycle across multiple segments ([link](#))
2. AAC Tech (2018 HK) –Takeaways from mgmt. visit: Multiple growth drivers from optics, automotive and robotics ([link](#))
3. AAC Tech (2018 HK) - Beneficiary of edge AI upgrade cycle; Raise TP to HK\$58.78 ([link](#))
4. AAC Tech (2018 HK) - Multiple growth drivers and improving margin to continue into 2025; Raise TP to HK\$53.48 ([link](#))
5. AAC Tech (2018 HK) - Product upgrades and margin expansion to continue; Reiterate BUY ([link](#))

## 1H25 results review

Figure 1: 1H25 results review

RMB mn	1H24	2H24	1H25	HoH	YoY	CMBI		Consensus	
						1H25E	Diff %	1H25E	Diff %
Revenue	11,247	16,081	13,318	-17%	18%	13,889	-4%	13,376	0%
Gross profit	2,418	3,624	2,754	-24%	14%	3,164	-13%	3,046	-10%
Operating profit	605	1,474	776	-47%	28%	997	-22%	1,020	-24%
Adj. net profit	537	1,260	876	-31%	63%	892	-2%	858	2%
Adj. EPS (RMB)	0.46	1.07	0.76	-30%	65%	0.76	-1%	0.73	4%
Gross margin	21.5%	22.5%	20.7%	-1.9 ppt	-0.8 ppt	22.8%	-2.1 ppt	22.8%	-2.1 ppt
Operating margin	5.4%	9.2%	5.8%	-3.3 ppt	0.4 ppt	7.2%	-1.4 ppt	7.6%	-1.8 ppt
Adj. net margin	4.8%	7.8%	6.6%	-1.3 ppt	1.8 ppt	6.4%	0.1 ppt	6.4%	0.2 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	32,848	37,596	41,623	32,645	36,599	39,638	1%	3%	5%
Gross profit	7,386	8,919	10,102	7,636	8,876	9,750	-3%	0%	4%
Net profit	2,515	3,187	3,735	2,683	3,218	3,611	-6%	-1%	3%
EPS (RMB)	2.17	2.75	3.22	2.29	2.74	3.08	-5%	0%	5%
Gross margin	22.5%	23.7%	24.2%	23.4%	24.2%	24.6%	-0.9 ppt	-0.5 ppt	-0.3 ppt
Net margin	7.7%	8.5%	9.0%	8.2%	8.8%	9.1%	-0.6 ppt	-0.3 ppt	-0.1 ppt

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	32,848	37,596	41,623	31,105	34,716	38,785	6%	8%	7%
Gross profit	7,386	8,919	10,102	7,282	8,287	9,379	1%	8%	8%
Net profit	2,515	3,187	3,735	2,415	2,889	3,328	4%	10%	12%
EPS (RMB)	2.17	2.75	3.22	2.05	2.45	2.82	6%	12%	14%
Gross margin	22.5%	23.7%	24.2%	23.4%	23.9%	24.2%	-0.9 ppt	-0.2 ppt	0.1 ppt
Net margin	7.7%	8.5%	9.0%	7.8%	8.3%	8.6%	-0.1 ppt	0.2 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: P&L forecast

RMB mn	FY24	1H25	2H25E	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>27,328</b>	<b>13,318</b>	<b>19,746</b>	<b>32,848</b>	<b>37,596</b>	<b>41,623</b>
... YoY	33.8%	18.4%	22.8%	20.2%	14.5%	10.7%
Cost of sales	(21,286)	(10,565)	(14,904)	(25,469)	(28,686)	(31,530)
<b>Gross profit</b>	<b>6,042</b>	<b>2,754</b>	<b>4,842</b>	<b>7,379</b>	<b>8,910</b>	<b>10,092</b>
GPM (%)	22.1%	20.7%	24.5%	22.5%	23.7%	24.2%
... YoY	75.0%	13.9%	33.6%	22.1%	20.7%	13.3%
SG&A	(1,940)	(980)	(1,323)	(2,303)	(2,650)	(2,955)
... % of rev	-7.1%	-7.4%	-6.7%	-7.0%	-7.1%	-7.1%
R&D	(2,022)	(998)	(1,303)	(2,301)	(2,820)	(3,122)
... % of rev	-7.4%	-7.5%	-6.6%	-7.0%	-7.5%	-7.5%
<b>Operating profit</b>	<b>2,080</b>	<b>776</b>	<b>2,215</b>	<b>2,775</b>	<b>3,439</b>	<b>4,015</b>
OPM (%)	7.6%	5.8%	11.2%	8.4%	9.1%	9.6%
... YoY	354.9%	28.2%	50.3%	33.4%	23.9%	16.7%
<b>Income Tax</b>	<b>(227)</b>	<b>(162)</b>	<b>(412)</b>	<b>(574)</b>	<b>(726)</b>	<b>(850)</b>
Effective Tax Rate	11.4%	15.6%	17.0%	19.0%	19.0%	19.0%
<b>Net profit</b>	<b>1,797</b>	<b>876</b>	<b>2,073</b>	<b>2,515</b>	<b>3,187</b>	<b>3,735</b>
NPM (%)	6.6%	6.6%	10.5%	7.7%	8.5%	9.0%
... YoY	142.7%	63.1%	64.5%	39.9%	26.7%	17.2%

Source: Company data, CMBIGM estimates

Figure 5: Revenue breakdown

RMB mn	FY24	1H25	2H25E	FY25E	FY26E	FY27E
<b>Revenue</b>						
Acoustics	8,214	3,523	5,126	8,649	10,384	12,000
PSS	3,516	1,738	2,114	3,852	4,045	4,247
Sensor & semi	773	608	845	1,453	1,817	2,271
ED&PM	9,710	4,634	8,154	12,788	15,329	16,904
Optics	5,000	2,648	3,494	6,142	6,068	6,260
Plastic lens	1,191	413	1,091	1,505	1,754	1,930
HCM/WLG	3,809	2,234	2,403	4,637	4,314	4,330
Others	115	167	12	180	180	180
<b>Total</b>	<b>27,328</b>	<b>13,318</b>	<b>19,746</b>	<b>33,064</b>	<b>37,823</b>	<b>41,861</b>
<b>Revenue mix</b>						
Acoustics	30%	26%	26%	26%	27%	29%
PSS	13%	13%	11%	12%	11%	10%
Sensor & semi	3%	5%	4%	4%	5%	5%
ED&PM	36%	35%	41%	39%	41%	40%
Optics	18%	20%	18%	19%	16%	15%
Plastic lens	4%	3%	6%	5%	5%	5%
HCM/WLG	14%	17%	12%	14%	11%	10%
Others	0%	1%	0%	1%	0%	0%
<b>YoY Growth (%)</b>						
Acoustics	10%	2%	8%	5%	20%	16%
PSS		14%	-	10%	5%	5%
Sensor & semi	-25%	56%	120%	88%	25%	25%
ED&PM	18%	27%	35%	32%	20%	10%
Optics	38%	20%	25%	23%	-1%	3%
Plastic lens	2%	16%	31%	26%	17%	10%
HCM/WLG	55%	20%	23%	22%	-7%	0%
Others	405%	635%	151%	56%	0%	0%
<b>Total</b>	<b>34%</b>	<b>18%</b>	<b>23%</b>	<b>21%</b>	<b>14%</b>	<b>11%</b>
<b>Gross profit margin</b>						
Acoustics	30.2%	27.2%	33.0%	30.6%	31.0%	31.5%
PSS	24.8%	23.9%	25.5%	24.8%	25.0%	25.5%
Sensor & semi	15.6%	12.1%	18.0%	15.5%	15.5%	16.0%
ED&PM	23.3%	22.9%	23.9%	23.5%	24.0%	24.0%
Optics	6.5%	10.2%	14.5%	12.7%	12.9%	14.1%
Others	-10.6%	-5.0%	-5.0%	-13.8%	-5.0%	-5.0%
<b>Total</b>	<b>22.1%</b>	<b>20.7%</b>	<b>24.5%</b>	<b>23.0%</b>	<b>23.7%</b>	<b>24.3%</b>

Source: Company data, CMBIGM

## Valuation

### Maintain BUY with new TP of HK\$60.55

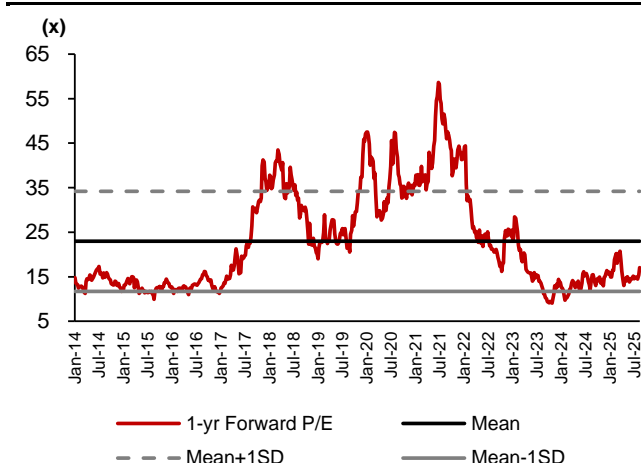
Our new TP of HK\$60.55 is based on SOTP to reflect business diversification with different growth profiles and visibility. Our TP is based on weighted-average target P/E multiple of 25.3x FY25E P/E. We assign 25x/25x P/E to AAC's acoustics/MEMS, 25x P/E to PSS, 25x P/E to ED & PM, and 28x P/E to optics, same as prior target multiples we adopted. Near-term catalysts include AI phone/glasses launch, order wins and GPM recovery

**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	19.07	P/E target multiple	25x	19.07	0.76
Acoustics-PSS	6.48	P/E target multiple	25x	6.48	0.26
MEMS	1.62	P/E target multiple	25x	1.62	0.06
ED & PM	21.66	P/E target multiple	25x	21.66	0.87
Optics	6.26	P/E target multiple	28x	6.26	0.22
<b>TP (RMB)</b>	<b>55.10</b>		<b>25.3x</b>		<b>2.18</b>
<b>TP (HK\$)</b>	<b>60.55</b>				

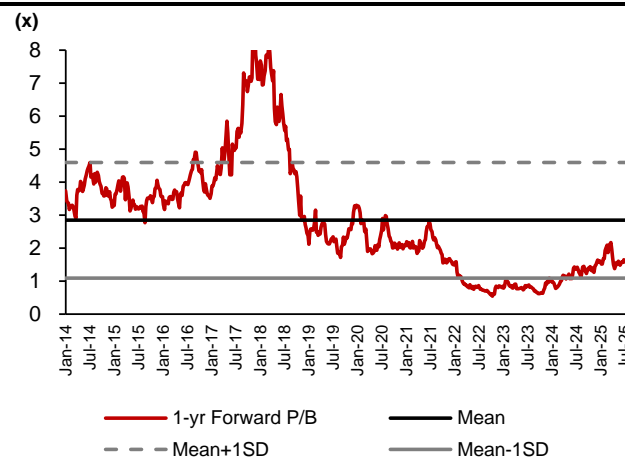
Sources: Company data, CMBIGM estimates

**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	32,848	37,596	41,623
Cost of goods sold	(16,850)	(16,967)	(21,286)	(25,469)	(28,686)	(31,530)
Gross profit	3,775	3,452	6,042	7,379	8,910	10,092
Selling expense	(448)	(443)	(670)	(797)	(902)	(999)
Admin expense	(1,036)	(978)	(1,270)	(1,506)	(1,748)	(1,956)
R&D expense	(1,546)	(1,573)	(2,022)	(2,301)	(2,820)	(3,122)
Operating profit	745	457	2,080	2,775	3,439	4,015
Other income	525	591	411	622	752	832
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)	(371)	(371)	(371)
Foreign exchange gain/loss	(6)	14	22	0	0	0
Other income/expense	0	152	(105)	0	0	0
Others	0	0	0	0	0	0
Pre-tax profit	861	823	1,990	3,026	3,820	4,476
Income tax	(231)	(252)	(227)	(574)	(726)	(850)
After tax profit	629	571	1,764	2,452	3,094	3,626
Minority interest	(192)	(170)	(34)	(63)	(93)	(109)
Net profit	821	740	1,797	2,515	3,187	3,735

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	17,116	16,527	20,902	21,454	35,110	35,356
Cash & equivalents	6,814	6,825	7,538	4,266	17,440	14,462
Account receivables	5,531	6,653	9,371	10,604	12,356	13,140
Inventories	4,401	2,992	3,938	6,529	5,260	7,698
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	44,872	55,618	52,501
Current liabilities	9,055	10,129	14,403	10,517	18,775	12,742
Short-term borrowings	1,833	1,464	1,728	1,728	1,728	1,728
Account payables	4,959	5,796	9,558	5,621	13,835	7,765
Tax payable	118	101	252	302	346	383
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	19,697	27,955	21,922
Share capital	98	97	97	97	97	97
Other reserves	21,559	21,784	22,657	24,778	27,359	30,384
Total shareholders equity	22,196	22,371	23,117	25,175	27,663	30,580
Minority interest	539	490	362	300	207	98
Total equity and liabilities	40,343	38,911	46,700	44,872	55,618	52,501

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	861	823	1,990	3,026	3,820	4,476
Depreciation & amortization	2,776	2,843	0	0	0	0
Tax paid	(304)	(246)	(76)	(523)	(682)	(813)
Change in working capital	420	1,247	112	(7,761)	7,731	(9,292)
Others	619	(34)	3,176	5,010	5,202	5,365
<b>Net cash from operations</b>	<b>4,372</b>	<b>4,633</b>	<b>5,203</b>	<b>(249)</b>	<b>16,071</b>	<b>(265)</b>
<b>Investing</b>						
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
<b>Net cash from investing</b>	<b>(2,349)</b>	<b>(1,512)</b>	<b>(3,485)</b>	<b>(2,258)</b>	<b>(1,920)</b>	<b>(1,632)</b>
<b>Financing</b>						
Dividend paid	(144)	(118)	(281)	(394)	(606)	(710)
Net borrowings	222	(376)	0	0	0	0
Share repurchases	(144)	(118)	(281)	(394)	(606)	(710)
Others	(1,373)	(2,559)	(462)	22	234	338
<b>Net cash from financing</b>	<b>(1,439)</b>	<b>(3,171)</b>	<b>(1,025)</b>	<b>(765)</b>	<b>(977)</b>	<b>(1,081)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	6,051	6,814	6,825	7,538	4,266	17,440
Exchange difference	178	61	0	0	0	0
<b>Cash at the end of the year</b>	<b>6,814</b>	<b>6,825</b>	<b>7,538</b>	<b>4,266</b>	<b>17,440</b>	<b>14,462</b>
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Revenue	16.7%	(1.0%)	33.8%	20.2%	14.5%	10.7%
Gross profit	(13.5%)	(8.6%)	75.0%	22.1%	20.7%	13.3%
Operating profit	(49.7%)	(38.7%)	354.9%	33.4%	23.9%	16.7%
Net profit	(37.6%)	(9.9%)	142.7%	39.9%	26.7%	17.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Gross profit margin	18.3%	16.9%	22.1%	22.5%	23.7%	24.2%
Operating margin	3.6%	2.2%	7.6%	8.4%	9.1%	9.6%
Return on equity (ROE)	3.7%	3.3%	7.9%	10.4%	12.1%	12.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Current ratio (x)	1.9	1.6	1.5	2.0	1.9	2.8
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	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
P/E	58.6	63.9	26.2	18.5	14.6	12.5
P/E (diluted)	na	63.9	26.2	18.5	14.6	12.5
P/B	2.2	2.1	2.0	1.8	1.7	1.5
Div yield (%)	29.9	24.9	59.7	84.6	130.1	152.4

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



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