

AAC Tech (2018 HK)

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Company Update

HOLD

Unchanged

Close price: HK\$14.62

Target Price: HK\$14.70 (+0.5%)

Previous TP HK\$20.50

Key Data

HKEx code	2018 HK
12 Months High (HK\$)	48.25
12 Month Low (HK\$)	13.42
3M Avg Dail Vol. (mn)	7.31
Issue Share (mn)	1,208.50
Market Cap (HK\$mn)	17,668.27
Fiscal Year	12/2021
Major shareholder (s)	CEO Mr. PAN Benjamin Zhengmin(41.20%)

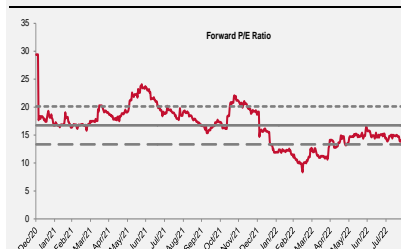
Source: Company data, Bloomberg, OP Research
Closing price are as of 30/08/2022

Price Chart



	1mth	3mth	6mth
Absolute %	-3.7	-15.6	-29.9
Rel. MSCI CHINA %	-3.8	-11.6	-16.4

PE



Company Profile

AAC Technologies is an all-rounded solution-provider for smart mobile devices. It offers advanced miniaturized solutions for components like Acoustics, Haptics to the consumer electronics industry worldwide.

Headwinds likely to persist in 2H22E

- 1H22 net profit dropped 62.0% yoy to RMB350mn on the back of 9.3% yoy increase in revenue to RMB9.41bn. No dividend was declared.
- Price pressure expected to prolong in 2H22E under the weak smartphone market, squeezing profit margins and earnings
- Maintain HOLD with new TP of HK\$14.70

Weak earning in 2Q22, due to the off-season and the pandemic. In 2Q22, revenue increased 4.6% yoy to RMB4.52bn while net profit tumbled 62.8% yoy to RMB145mn. AAC suffered from price pressures under the weak smartphone market. GPM was 18.3% in 2Q22, down 6.7p.p. yoy. The GPM has fallen below 20% for the 2 consecutive quarters. The company strictly managed Capex and R&D expenses (-23% yoy), but the effort was offset by the higher effective tax rate (50.3% in 2Q22) due to the loss of the optics business.

Acoustics and EDPM were relatively stable, optics became the major drag. By segment, acoustics' revenue declined 6.4% yoy due to the weakened demand from Android brands; revenue from EDPM rose 17.4% thanks to the increase in total shipment of android haptics products (+49% yoy) and a significant revenue contribution from Toyo Precision. GPM for acoustics and EDPM were 27.7% and 21.2%, down 0.7%/0.9% yoy, due to ASP pressure for acoustics and haptics. Optical business is especially vulnerable to the industry downturn, given the lack of high-end products (6P lens only account for 10% of the total shipment). In 2Q22, revenue from optics rose 14.9% yoy, but it reported gross losses. The company focuses on gaining market share in the optics market at the expense of weak margin. The higher sales from CCM (total shipment +117% yoy) would further deteriorate the optics product mix. Besides, Optics business suffered from destocking pressure. The company has written-off some plastic lens inventories, causing 15p.p. decline of GPM to -7.5%.

Maintain HOLD with new TP HK\$14.70. The new TP is based on PER of 18x in FY22E, which represents 30% discount to the 5-year average PER of 25x. We cut our EPS forecast for AAC by 39.4%/36.6% to HK\$0.82/1.19 in FY22E/23E, to reflect the continuation of ASP pressure and lower sales as a result of the weak smartphone shipment. The new iPhone series will boost AAC's acoustics sales, but it is not enough to offset the earnings drag from optics. Besides, we are conservative on the demand of high-end handset components such as the WLG hybrid lens solution due to lack of upgrades.

Risks: (1) Prolonged weakness in smartphone demand, (2) intensifying competitions

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	17,140	17,667	19,941	21,498	23,710
Growth (%)	-4	+3	+13	+8	+10
Net profit	1,359	1,315	851	1,225	1,659
Growth (%)	-37	-3	-35	+44	+35
Diluted EPS (HK\$)	1.50	1.32	0.82	1.19	1.61
EPS growth (%)	-31.9	-11.9	-37	+44	+35
Consensus EPS (HK\$)			0.90	1.18	1.46
Change to previous EPS (%)			-39.4	-36.6	-26.4
ROE (%)	7.3	5.9	3.7	5.2	6.8
P/E (x)	9.8	11.1	17.7	12.3	9.1
P/B (x)	0.7	0.7	0.7	0.6	0.6
Yield (%)	2.1	1.4	1.2	1.7	2.3
DPS (HK\$)	0.300	0.200	0.170	0.245	0.332

Source: Bloomberg, OP Research

Exhibit 2: 1H22's earnings Review

	1H21	1H22	Change	Remark
Profitability Data (in RMB mn)				
			(%)	
Revenue	8,609	9,412	+9.3%	
Gross profit	2,415	1,783	-26.2%	Mainly due to decline of gross margin for acoustics and optics
Net Profit	921	350	-62.0%	The effective tax rate for AAC has increased significantly to 33.6% in 1H22, in contrast to 5.4% in 1H21. The company explained it was due to the loss making optics business
EPS(in RMB)	0.76	0.29	-61.7%	
Profitability Ratios (%)				
			(% point)	
GPM	28.1%	18.9%	-9.3%	Mainly due to margin decrease in acoustics and optics businesses
NPM	10.7%	3.7%	-7.0%	The better opex control has offset decline in GPM
Operating ratio (% to revenue)				
Distribution and selling expenses	1.7%	2.2%	+0.5%	
Administrative expenses	4.6%	4.8%	+0.2%	
Research and development costs	10.4%	7.7%	-2.7%	The Company has optimized the use of R&D resources

Source: Company, OP research

Exhibit 3: AAC's quarterly results from 1Q20 to 2Q22

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ	YoY
Revenue	3,560	4,277	4,520	4,783	4,292	4,317	4,246	4,812	4,896	4,516	-7.8%	+4.6%
Gross profit	823	995	1,067	1,342	1,337	1,078	964	986	957	826	-13.7%	-23.4%
GPM	23.1%	23.3%	23.6%	28.1%	31.1%	25.0%	22.7%	20.5%	19.5%	18.3%	-	-
Net Profit	53	268	430	756	532	389	183	212	205	145	-29.3%	-62.8%
NPM	1.5%	6.3%	9.5%	15.8%	12.4%	9.0%	4.3%	4.4%	4.2%	3.2%	-1.0p.p	-5.8p.p.
EPS(RMB)	0.04	0.22	0.36	0.63	0.44	0.32	0.15	0.18	0.17	0.12	-29.4%	-62.4%

Source: Company, OP research

Exhibit 4: Segment performance in 2Q22

Business	Rev			GPM			Remark
	2Q21	2Q22	Change	2Q21	2Q22	% Change	
Acoustics	2,041	1,910	-6.4%	28.4%	27.7%	-0.7%	Overseas customer was stable while demand from Android smartphones weakened
Optics	808	929	+14.9%	22.0%	-2.1%	-24.1%	The increase shipment of camera modules was offset by lower ASP. AAC said it has recorded impairment loss. Inventory has increased in 1H22.
Electromagnetic drives and Precision mechanics	1,218	1,431	+17.4%	22.1%	21.2%	-0.9%	The increase in revenue in Q2 was mainly due to (1) increase in the total shipment of Android haptics and (2) revenue contribution from Toyo Precision.
Sensor and Semiconductor ("MEMS")	238	241	+1.3%	15.8%	13.2%	-2.6%	Revenue increase was driven by increase of market share

Source: Company, OP research

Exhibit 5: Earnings Revision

(RMB mn)	FY22E			FY23E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	19,941	19,107	+4.4	21,498	21,035	+2.2	
Gross profit	3,909	4,838	-19.2	4,632	5,639	-17.9	
Gross margin	19.6%	25.3%	-5.7	21.5%	26.8%	-5.3	Mainly due to margin decrease in acoustics and optics businesses
Net profit	851	1,362	-37.5	1,225	1,869	-34.5	
Diluted EPS (HK\$)	0.82	1.360	-39.4	1.19	1.870	-36.6	

Source: Company, OP research

Exhibit 6: Peers Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER3-Yr FY2 (x) Cagr (%)	EPS (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
AAC Technologies	2018 HK	14.62	2,251	15.2	11.1	17.7	12.3	(3.4)	(5.23)	1.4	1.2	0.70	0.67	5.9	3.7	-3.7	-15.6
HSI		19,949.03			7.6	10.4	9.1	-2.9	-3.6	3.5	3.5	0.8	1.1	10.9	10.4	-1.0	-6.8
HSCEI		6,840.17			6.3	8.8	7.9	-3.9	-2.3	3.7	3.7	0.7	1.0	11.4	11.7	-0.7	-7.8
CSI300		4,075.79			14.9	13.2	11.3	14.7	0.9	2.2	2.4	1.9	1.7	12.6	13.1	-2.3	-0.4
Adjusted sector avg*					20.0	20.8	16.8	18.8	0.8	2.2	2.4	3.8	3.3	14.2	15.0	-0.1	1.4
Sunny Optical	2382 HK	107.10	14,967	107.6	20.6	30.1	20.9	5.7	5.3	1.0	0.8	5.0	4.5	18.7	15.4	0.9	-11.3
Byd Electronic	285 HK	20.55	5,899	37.0	17.6	18.6	12.5	22.2	0.8	0.6	0.5	1.7	1.6	5.4	8.7	2.0	26.1
Truly Intl Hldgs	732 HK	1.72	718	1.7	4.1	4.4	3.5	N/A	N/A	5.8	5.6	0.5	0.5	12.0	10.6	-2.3	-21.1
Goertek Inc -A	002241 CH	32.42	16,042	377.2	25.1	19.9	15.7	25.0	0.8	0.6	0.8	3.7	3.4	17.2	17.5	1.9	-12.4
Luxshare Preci-A	002475 CH	37.83	38,818	402.2	37.5	26.6	20.1	32.3	0.8	0.3	0.3	6.9	5.8	22.2	22.7	11.4	22.0
Handong Getto-A	002655 CH	13.03	691	33.6	72.4	34.3	20.0	77.1	0.4	N/A	N/A	7.3	6.2	9.9	18.0	-4.5	6.7
Merry Elec	2439 TT	81.50	584	2.3	15.1	11.6	11.7	9.0	1.3	4.9	6.4	1.6	1.4	13.7	12.2	1.0	-0.2

Sources: Bloomberg, OP research

Financial Summary

Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
Income Statement (RMB mn)					
Acoustics	7,560	8,583	8,585	9,014	9,916
Optical	1,634	2,385	4,010	4,455	4,962
EDPM	6,847	5,644	6,318	6,950	7,645
Mems	1,083	1,013	1,028	1,079	1,187
Others	16	42	0	0	0
Turnover	17,140	17,667	19,941	21,498	23,710
YoY%	-4	+3	+13	+8%	+10
COGS	-12,913	-13,302	-16,032	-16,866	-18,348
Gross profit	4,227	4,365	3,909	4,632	5,362
Gross margin	24.7%	24.7%	19.6%	21.5%	22.6%
Other income	650	298	365	297	365
Selling & distribution	-285	-333	-399	-408	-427
Admin	-672	-824	-897	-860	-901
R&D	-1,920	-1,726	-1,600	-1,840	-2,000
Other opex	0	0	0	0	0
Total opex	-2,878	-2,882	-2,896	-3,108	-3,328
Operating profit (EBIT)	2,000	1,781	1,378	1,821	2,399
Operating margin	11.7%	10.1%	6.9%	8.5%	10.1%
Provisions	0	0	0	0	0
Interest Income	0	49	0	0	0
Finance costs	-353	-415	-426	-426	-426
Profit after financing costs	1,648	1,414	951	1,394	1,973
Associated companies & JVs	0	-1	0	0	0
Pre-tax profit	1,648	1,413	951	1,394	1,973
Tax	-147	-120	-209	-209	-296
Minority interests	6	23	108	40	-18
Net profit	1,507	1,316	851	1,225	1,659
YoY%	-32.2	-12.6	-35	+44	+35
Adjusted net profit	1,359	1,316	851	1,225	1,659
YoY%	-37.1	-3.2	-35	+44	+35
Adjusted net margin	7.9%	7.4%	4.3%	5.7%	7.0%
EBITDA	4,292	4,438	4,046	4,527	5,140
EBITDA margin	25.0%	25.1%	20.3%	21.1%	21.7%
Adjusted EPS (RMB)	1.12	1.09	0.70	1.01	1.37
YoY%	-36.8	-11.9	-37	+44	+35
DPS (HK\$)	0.30	0.20	0.17	0.25	0.33

Year to Dec	FY20	FY21E	FY22E	FY23E	FY24E
Cash Flow (RMB mn)					
EBITDA	4,292	4,329	4,046	4,527	5,140
Chg in working cap	-527	-2,123	-445	-632	-820
Others	89	207	0	0	0
Operating cash	3,854	2,413	3,600	3,895	4,320
Tax	-262	-217	-120	-209	-209
Net cash from operations	3,593	2,196	3,481	3,687	4,111
Capex	-4,736	-3,342	-3,000	-3,000	-3,000
Investments	0	-62	0	0	0
Dividends received	0	0	0	0	0
Interest received	53	39	49	49	49
Others	1,421	-881	0	0	0
Investing cash	-3,262	-4,246	-2,951	-2,951	-2,951
FCF	331	-2,050	529	735	1,160
Issue of shares	0	0	0	0	0
Buy-back	0	-211	0	0	0
Interests paid	-300	-303	-415	-426	-426
Dividends paid	-107	-403	-200	-170	-245
Net change in bank loans	356	0	0	0	0
Others	2,632	1,531	0	0	0
Financing cash	2,582	613	-615	-597	-671
Net change in cash	2,913	-1437	-86	139	488
Exchange rate or other Adj	-187	52	0	0	0
Opening cash	4,814	7,540	6,051	5,965	6,104
Closing cash	7,540	6,051	5,965	6,104	6,593
CFPS (HK\$)	3.57	2.20	3.37	3.57	3.98

Sources: Company, OP Research

Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
Ratios					
Gross margin (%)	24.7	24.7	19.6	21.5	22.6
Operating margin (%)	11.4	10.1	6.9	8.5	10.1
Net margin (%)	8.8	7.5	4.3	5.7	7.0
Selling & dist'n exp/Sales (%)	1.7	1.9	2.0	1.9	1.8
Admin exp/Sales (%)	3.9	4.7	4.5	4.0	3.8
Payout ratio (%)	20.1	15.2	20.0	20.0	20.0
Effective tax (%)	8.9	8.5	21.9	15.0	15.0
Total debt/equity (%)	38.8	42.4	41.5	39.9	37.8
Net debt/equity (%)	3.8	15.5	15.5	14.3	11.7
Current ratio (x)	1.8	1.9	1.8	1.8	1.9
Quick ratio (x)	1.4	1.3	1.2	1.2	1.2
Inventory T/O (days)	108	133	145	145	145
AR T/O (days)	114	116	116	116	116
AP T/O (days)	151	156	156	156	156
Cash conversion cycle (days)	72	93	105	105	105
Asset turnover (x)	0.5	0.4	0.5	0.5	0.5
Financial leverage (x)	1.8	1.8	1.9	1.9	1.9
EBIT margin (%)	11.4	10.1	6.9	8.5	10.1
Interest burden (x)	0.8	0.8	0.7	0.8	0.8
Tax burden (x)	0.9	0.9	0.9	0.9	0.8
Return on equity (%)	7.3	5.9	3.7	5.2	6.8

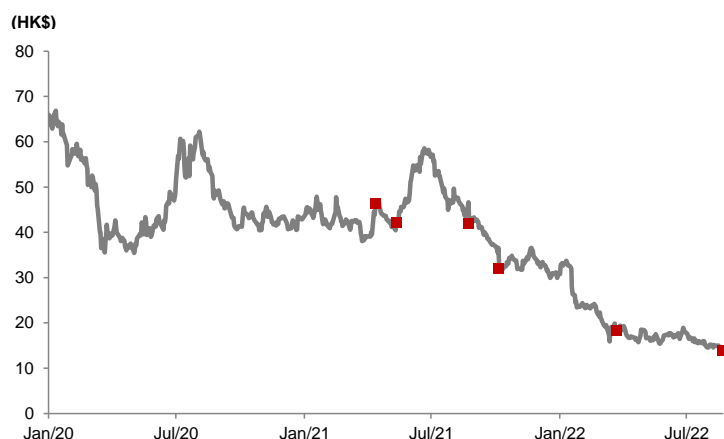
Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
Balance Sheet (RMB mn)					
Fixed assets	18,592	19,987	20,321	20,616	20,876
Goodwill	164	220	220	220	220
Intangible assets	373	384	384	384	384
Right-of-use assets	1,896	2,034	2,034	2,034	2,034
Deposits	576	317	317	317	317
Other non-current assets	459	1,125	1,124	1,123	1,122
Non-current assets	22,062	24,067	24,400	24,693	24,953
Inventories	3,995	5,695	6,369	6,700	7,289
AR	5,176	6,013	6,315	6,808	7,508
Prepayments & deposits	0	0	0	0	0
Other current assets	138	195	195	195	195
Cash	7,540	6,051	5,965	6,104	6,593
Current assets	16,850	17,955	18,844	19,807	21,585
AP	5,205	6,148	6,841	7,197	7,829
Tax	167	165	209	209	296
Accruals & other payables	0	0	0	0	0
Bank loans & leases	3,349	2,902	2,902	2,902	2,902
Lease liabilities	494	242	242	242	242
Other current liabilities	166	211	211	211	211
Current liabilities	9,380	9,668	10,405	10,761	11,480
Bank loan & notes	5,055	6,573	6,573	6,573	6,573
Lease liabilities	317	452	452	452	452
Deferred tax & others	2,339	2,827	2,827	2,827	2,827
Non-current liabilities	7,711	9,852	9,852	9,852	9,852
Total net assets	21,808	22,502	22,987	23,887	25,205
Shareholder's equity	21,159	21,811	22,404	23,344	24,645
Share capital	98	98	98	98	98
Reserves	21,061	21,912	22,305	23,246	24,547
MI	662	691	583	543	561
BVPS (HK\$)	21.0	21.8	21.7	22.6	23.9

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
26/08/2022	361 Degrees	1361	1H22 earnings beats, strong growth in e-commerce and kids' wear	BUY	John Siah
03/08/2022	Xinyi Energy	3868	Flat earnings growth in 1H22, slowing M&A pace due to high prices	BUY	John Siah
01/08/2022	Greentown Mgmt	9979	Impressive growth trajectory in 1H22 despite industry headwinds	BUY	John Siah
20/07/2022	361 Degrees	1361	Retail sales in 2Q2022 remained robust, even under COVID lockdown	BUY	John Siah
11/07/2022	Truly Int'l	732	Automotive display missed in 1H22 on weak car sales	BUY	John Siah
07/07/2022	EVA Holdings	838	Kicking off a new growth cycle	BUY	John Siah
04/05/2022	China Edu Group	839	1H22 results showed strong organic growth of higher schools	BUY	John Siah
29/04/2022	Edvantage Group	382	1H22 earnings remains robust despite higher costs	BUY	John Siah
28/04/2022	New Higher Edu	2001	Mixed 1H22 results amid investments to deliver quality education	BUY	John Siah
08/04/2022	Tian Lun Gas	1600	Strong gas sales offsetting by weak dollar margin, more details for rural solar development	BUY	John Siah
06/06/2022	Truly's Int'l	732	Mixed outlook for FY22E	BUY	John Siah
06/04/2022	HK Tech Venture	1137	Compelling growth story despite weak near-term profit	BUY	John Siah
29/03/2022	361 Degrees	1361	FY21 earnings beat on strong GPM	BUY	John Siah
29/03/2022	AAC Tech	2018	Earnings challenges remain in FY22E	HOLD	John Siah
29/03/2022	Greentown Mgmt	9979	Aligning with new trends in China property market	BUY	John Siah
02/03/2022	Xinyi Energy	3868	Ambitious expansion plan for FY22E	BUY	John Siah
25/02/2022	Tsaker Chem	1986	Battery business started to bear fruit	NR	John Siah
27/01/2022	Greentown Mgmt	9979	Resilient against headwinds	BUY	John Siah
21/01/2022	361 Degrees	1361	4Q21 retail sales beat expectation	BUY	John Siah
14/12/2021	Tian Lun Gas	1600	Embracing green energy, ambitious target for gas sales	BUY	John Siah
06/12/2021	New Higher Edu	2001	Aim for quality growth	BUY	John Siah
29/11/2021	China Edu Group	839	FY21 results in-line, expecting more M&A	BUY	John Siah
18/11/2021	Edvantage Group	382	FY21 results slightly beat our expectation	BUY	John Siah
26/10/2021	Truly Int'l	732	More added value of automotive display as a new earnings catalyst	BUY	John Siah
19/10/2021	China Edu Sector	-	Encourage private participation in vocational education	-	John Siah
11/10/2021	AAC Tech	2018	Sluggish 3Q21 earnings on weak smartphone market	BUY	John Siah
03/09/2021	HK Tech Venture	1137	Striving to become a global technology enabler	BUY	John Siah

Historical recommendations and target price: AAC Technology (2018 HK)

(as of 30/8/2022)



Date	Rating	TP	Close
1 14 Apr 2021	BUY	HK\$ 60.80	HK\$ 46.70
2 14 May 2021	BUY	HK\$ 61.30	HK\$ 42.55
3 27 Aug 2021	BUY	HK\$ 56.50	HK\$ 42.15
4 11 Oct 2021	BUY	HK\$ 42.50	HK\$ 31.95
5 28 Mar 2022	HOLD	HK\$ 20.50	HK\$ 18.58
6 31 Aug 2022	HOLD	HK\$ 14.70	HK\$ 14.62

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