

Equity Research  
Technology/ China

# AAC Tech (2018 HK)

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## Company Update

### HOLD

Downgraded

Close price: HK\$19.12

Target Price: HK\$20.50 (+7.2%)

Previous TP HK\$42.50

### Key Data

HKEx code	2018 HK
12 Months High (HK\$)	60.00
12 Month Low (HK\$)	15.78
3M Avg Dail Vol. (mn)	9.11
Issue Share (mn)	1,208.50
Market Cap (HK\$mn)	23,106.52
Fiscal Year	12/2021
Major shareholder (s)	CEO Mr. PAN Benjamin Zhengmin(41.15%)

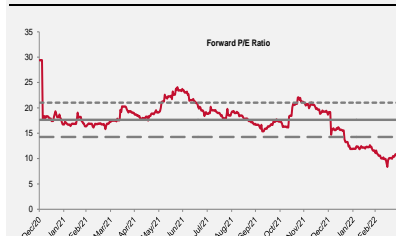
Source: Company data, Bloomberg, OP Research  
Closing price are as of 28/03/2022

### Price Chart



	1mth	3mth	6mth
Absolute %	-14.1	-38.6	-48.9
Rel. MSCI CHINA %	-4.3	-23.9	-28.0

### 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.

## Earnings challenges remain in FY22E

- Chip shortage hurts AAC's earnings in 2H21. Optics suffered the most.
- Uncertain recovery path of the smartphone market.
- Downgraded to Hold with new TP of HK\$20.50

**A disappointing results.** AAC's net profit declined 12.6% yoy to RMB1.32bn on the back of 3.1% yoy increase of revenue to RMB17.67bn. The Company's earnings significantly deteriorated in 2H21 due to weak orders from Android brands under the growing chip shortage. In 4Q21, net profit tumbled 72% yoy to RMB212mn with GPM declining 7.6p.p. to 20.5%. Inventory risk is rising. Inventory day turnover day has increased to 133 days, from 108 days in FY20.

**Optics turned to report gross loss in 4Q21.** In 4Q21, revenue from optics down 4.2% yoy to RMB513mn with GPM declining 23.5p.p. to -2.1%, mainly due to the ASP decline of plastic lens and the one-off impairment. Even AAC has established integrated optical solutions from lens to camera modules during the year, the poor product mix (6P lens shipment volume accounted for 12% only) disallowed AAC to mitigate the impact of price wars on low-end products. AAC will focus on camera modules and WLG hybrid-lens this year. The Company said it will mass produce 1G6P high-end hybrid-lens projects from 2H22.

**Slow recovery of Acoustics.** The ASP pressure offset demand driven by the overseas customer in 4Q21. During the 4Q, GPM for Acoustics and EDPM were 26.8% and 19.8%, declined 5.0p.p./8.0p.p. on yoy basis. AAC is actively expanding the application of acoustics and EDPM beyond smartphone. The Company has obtained several automotive acoustics projects which will be installed in the upcoming new energy car models by leading domestic new energy car manufacturers.

**Downgraded to HOLD with new TP HK\$20.50**, which is based on 15x of PER in FY22E (40% discount to 5-year historical PER of 25x). We tune down EPS forecast by 41.7%/29.1% to HK\$1.36/ HK\$1.87 for FY22E/23E amid a much weaker earnings outlook near term. We see smartphone shipments decline to continue through the 1H22 under supply and logistic challenges. AAC will continue to suffer from ASP pressure and weak demand from Android brands.

### Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	17,140	17,667	19,107	21,035	23,351
Growth (%)	-4.2	+3.1	+8.2	+10.1	+11.0
Net profit	1,507	1,316	1,362	1,869	2,255
Growth (%)	-32.2	-12.6	+3.5	+37.2	+20.7
Diluted EPS (HK\$)	1.50	1.32	1.36	1.87	2.26
EPS growth (%)	-31.9	-11.9	+3.5	+37.2	+20.7
Change to previous EPS (%)			-41.7	-29.1	
Consensus EPS (HK\$)	-	-	1.674	2.161	2.457
ROE (%)	7.3	5.9	5.9	7.7	8.7
P/E (x)	12.8	14.5	14.0	10.2	8.5
P/B (x)	0.9	0.9	0.8	0.8	0.7
Yield (%)	1.6	1.0	1.4	2.0	2.4
DPS (HK\$)	0.30	0.20	0.27	0.37	0.45

Source: Bloomberg, OP Research

## Exhibit 2: Earnings Review for FY21

(RMB mn)	Forecast	Actual	% Chg	OP Comments
Revenue	18,266	17,667	-	3.3 Mainly due to weaker than expected demand especially from Android customers
Gross margin	26.3%	24.7%	-	1.6 Mainly due to ASP pressure
Net Profit	1,626	1,315	-	19.1
Diluted adj. EPS (HK\$)	1.610	1.318	-	18.1

Source: OP Research

## Exhibit 3: Earnings Revision

(RMB mn)	FY22E			FY23E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	19,107	22,092	-13.5	21,035	23,468	-10.4	
Gross margin	25.3%	27.4%	-2.1	26.8%	28.4%	-1.6	
Net profit	1,362	2,357	-42.2	1,869	2,634	-29.1	
Diluted EPS (HK\$)	1.36	2.34	-41.7	1.87	2.62	-28.5	

Source: Company, OP research

## Exhibit 4: Peers Comparison

				3-mth													
Company	Ticker	Price	Mkt cap (US\$m)	avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	PER 3-Yr EPS Cagr (%)	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	19.12	2,951	27.7	14.5	14.0	10.2	19.7	0.7	1.0	1.4	0.9	0.8	5.9	5.9	-14.1	-38.6
HSI		21,684.97			8.2	10.5	9.2	-0.6	-16.2	2.9	3.3	0.9	1.1	10.8	10.4	-4.5	-6.9
HSCEI		7,396.25			7.8	8.6	7.5	4.5	1.9	3.0	3.6	0.8	1.0	10.2	11.9	-7.8	-9.7
CSI300		4,148.47			15.3	12.3	10.6	32.7	0.4	2.0	2.5	1.9	1.7	12.8	13.9	-9.5	-16.3
Adjusted sector avg*					20.4	17.5	15.4	30.9	1.0	1.1	0.7	4.0	4.3	18.5	16.3	-20.6	-29.5
Sunny Optical	2382 HK	124.90	17,499	142.0	22.3	19.0	15.6	17.4	1.1	0.9	1.0	5.4	4.3	26.8	24.4	-33.1	-48.6
Byd Electronic	285 HK	17.14	4,933	22.6	5.8	10.8	7.6	0.2	52.1	1.7	1.0	1.3	1.3	21.6	12.1	-21.7	-37.1
Truly Intl Hldgs	732 HK	2.34	983	8.2	5.6	4.6	3.3	N/A	N/A	2.1	N/A	0.7	N/A	13.3	13.1	-13.3	-8.2
Goertek Inc -A	002241 CH	37.00	19,846	331.5	41.6	28.7	21.5	34.0	0.8	0.4	0.6	4.8	5.1	18.9	18.9	-15.5	-30.5
Luxshare Preci-A	002475 CH	32.75	36,361	412.7	31.8	29.9	21.7	22.7	1.3	0.3	0.4	7.1	6.5	25.1	22.6	-24.6	-32.0
Handong Getto-A	002655 CH	11.75	664	29.6	90.4	58.8	28.0	80.1	0.7	N/A	N/A	6.9	7.2	13.9	11.9	-15.2	-37.5
Merry Elec	2439 TT	83.00	626	2.0	15.4	11.7	10.4	N/A	N/A	6.1	6.9	1.5	1.5	9.7	11.5	1.7	-12.5

Sources: Bloomberg, OP research

## Financial Summary

Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
<b>Income Statement (RMB mn)</b>					
Acoustics	7,560	8,582	9,012	9,913	10,905
Optical	1,634	2,389	2,144	2,429	2,884
EDPM	6,847	5,639	6,888	7,577	8,334
Mems	1,083	1,013	1,063	1,116	1,228
Others	16	43	0	0	0
<b>Turnover</b>	<b>17,140</b>	<b>17,667</b>	<b>19,107</b>	<b>21,035</b>	<b>23,351</b>
YoY%	-4	+3	+8	+10	+11
COGS	-12,913	-13,302	-14,269	-15,396	-16,942
<b>Gross profit</b>	<b>4,227</b>	<b>4,365</b>	<b>4,838</b>	<b>5,639</b>	<b>6,409</b>
Gross margin	24.7%	24.7%	25.3%	26.8%	27.4%
Other income	591	298	200	248	248
Selling & distribution	-285	-333	-344	-358	-397
Admin	-672	-824	-860	-841	-887
R&D	-1,920	-1,726	-1,900	-2,100	-2,300
Other opex	0	0	0	0	0
<b>Total opex</b>	<b>-2,878</b>	<b>-2,882</b>	<b>-3,104</b>	<b>-3,299</b>	<b>-3,584</b>
<b>Operating profit (EBIT)</b>	<b>1,941</b>	<b>1,781</b>	<b>1,934</b>	<b>2,588</b>	<b>3,073</b>
Operating margin	11.3%	10.1%	10.1%	12.3%	13.2%
Provisions	0	0	0	0	0
Interest Income	59	49	49	49	49
Finance costs	-353	-415	-426	-426	-426
Profit after financing costs	1,648	1,414	1,557	2,210	2,695
Associated companies & JVs	0	-1	0	0	0
Pre-tax profit	1,648	1,413	1,557	2,210	2,695
Tax	-147	-120	-156	-276	-337
Minority interests	6	23	-39	-66	-104
<b>Net profit</b>	<b>1,507</b>	<b>1,316</b>	<b>1,362</b>	<b>1,869</b>	<b>2,255</b>
YoY%	-32	-13	+4	+37	+21
<b>Adjusted net profit</b>	<b>1,359</b>	<b>1,315</b>	<b>1,362</b>	<b>1,869</b>	<b>2,255</b>
YoY%	-37	-3	+4	+37	+21
Adjusted net margin	7.9%	7.4%	7.1%	8.9%	9.7%
<b>EBITDA</b>	<b>4,292</b>	<b>4,438</b>	<b>4,602</b>	<b>5,295</b>	<b>5,814</b>
EBITDA margin	25.0%	25.1%	24.1%	25.2%	24.9%
<b>Adjusted EPS (HK\$)</b>	<b>1.50</b>	<b>1.32</b>	<b>1.36</b>	<b>1.87</b>	<b>2.26</b>
YoY%	-32	-12	+4	+37	+21
<b>DPS (HK\$)</b>	<b>0.30</b>	<b>0.20</b>	<b>0.27</b>	<b>0.37</b>	<b>0.45</b>
Year to Dec	FY20	FY21E	FY22E	FY23E	FY24E
<b>Cash Flow (RMB mn)</b>					
EBITDA	4,292	4,438	4,602	5,295	5,814
Chg in working cap	-527	-2,099	-38	-725	-830
Others	89	-290	0	0	0
Operating cash	3,854	2,050	4,564	4,570	4,984
Tax	-262	-147	-120	-156	-276
<b>Net cash from operations</b>	<b>3,593</b>	<b>2,196</b>	<b>4,445</b>	<b>4,414</b>	<b>4,708</b>
Capex	-4,736	-3,550	-3,000	-3,000	-3,000
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Interest received	53	50	49	49	49
Others	1,421	-746	0	0	0
<b>Investing cash</b>	<b>-3,262</b>	<b>-4,246</b>	<b>-2,951</b>	<b>-2,951</b>	<b>-2,951</b>
FCF	331	-2,050	1,493	1,463	1,756
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Interests paid	-300	-294	-415	-426	-426
Dividends paid	-107	-403	-200	-272	-374
Net change in bank loans	356	0	0	0	0
Others	2,632	1,309	0	0	0
<b>Financing cash</b>	<b>2,582</b>	<b>612</b>	<b>-615</b>	<b>-699</b>	<b>-800</b>
<b>Net change in cash</b>	<b>2,913</b>	<b>-1,438</b>	<b>878</b>	<b>764</b>	<b>956</b>
Exchange rate or other Adj	-187	51	0	0	0
Opening cash	4,814	7,540	6,051	6,929	7,693
<b>Closing cash</b>	<b>7,540</b>	<b>6,051</b>	<b>6,929</b>	<b>7,693</b>	<b>8,649</b>
<b>CFPS (HK\$)</b>	<b>3.57</b>	<b>2.20</b>	<b>4.45</b>	<b>4.42</b>	<b>4.71</b>

Sources: Company, OP Research

Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
<b>Ratios</b>					
Gross margin (%)	24.7	24.7	25.3	26.8	27.4
Operating margin (%)	11.7	10.1	10.1	12.3	13.2
Net margin (%)	8.8	7.5	7.1	8.9	9.7
Selling & dist'n exp/Sales (%)	1.7	1.9	1.8	1.7	1.7
Admin exp/Sales (%)	3.9	4.7	4.5	4.0	3.8
Payout ratio (%)	22.2	15.2	20.0	20.0	20.0
Effective tax (%)	8.9	8.5	10.0	12.5	12.5
Total debt/equity (%)	38.8	42.4	40.4	38.0	35.4
Net debt/equity (%)	3.8	15.5	11.0	7.3	3.3
Current ratio (x)	1.8	1.9	1.9	2.0	2.1
Quick ratio (x)	1.4	1.3	1.4	1.4	1.5
Inventory T/O (days)	113	156	140	140	140
AR T/O (days)	110	124	116	116	116
AP T/O (days)	147	169	156	156	156
Cash conversion cycle (days)	76	112	100	100	100
Asset turnover (x)	0.5	0.4	0.4	0.5	0.5
Financial leverage (x)	1.8	1.8	1.8	1.8	1.8
EBIT margin (%)	11.7	10.1	10.1	12.3	13.2
Interest burden (x)	0.8	0.8	0.8	0.9	0.9
Tax burden (x)	0.9	0.9	0.9	0.8	0.8
<b>Return on equity (%)</b>	<b>7.3</b>	<b>5.9</b>	<b>5.9</b>	<b>7.7</b>	<b>8.7</b>

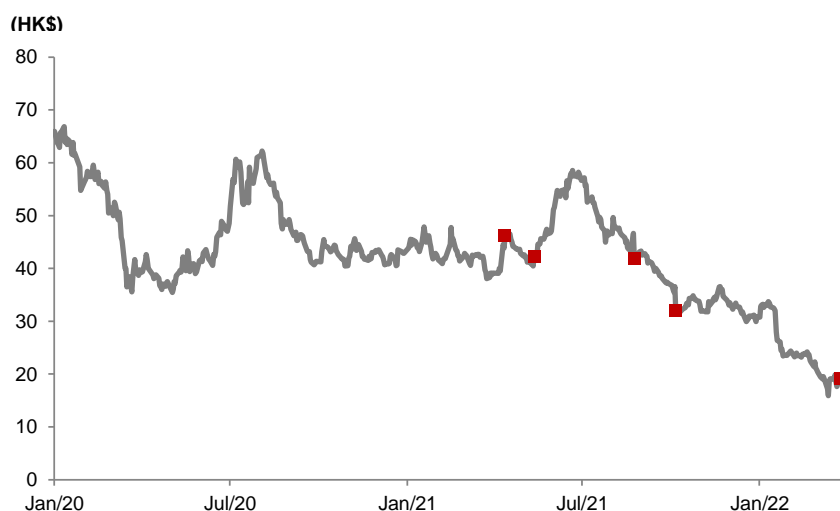
Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
<b>Balance Sheet (RMB mn)</b>					
Fixed assets	18,592	19,987	20,321	20,616	20,876
Goodwill	164	220	220	220	220
Intangible assets	373	384	384	384	384
Right-of-use assets	1,896	2,034	2,034	2,034	2,034
Deposits	576	317	317	317	317
Other non-current assets	459	1,125	1,124	1,123	1,122
<b>Non-current assets</b>	<b>22,062</b>	<b>24,067</b>	<b>24,400</b>	<b>24,693</b>	<b>24,953</b>
Inventories	3,995	5,695	5,473	5,905	6,498
AR	5,176	6,013	6,051	6,661	7,395
Prepayments & deposits	0	0	0	0	0
Other current assets	138	195	195	195	195
Cash	7,540	6,051	6,929	7,693	8,649
<b>Current assets</b>	<b>16,850</b>	<b>17,955</b>	<b>18,648</b>	<b>20,455</b>	<b>22,738</b>
AP	5,205	6,148	6,088	6,570	7,229
Tax	167	165	156	276	337
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
<b>Current liabilities</b>	<b>9,380</b>	<b>9,668</b>	<b>9,599</b>	<b>10,201</b>	<b>10,921</b>
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
<b>Non-current liabilities</b>	<b>7,711</b>	<b>9,852</b>	<b>9,852</b>	<b>9,852</b>	<b>9,852</b>
<b>Total net assets</b>	<b>21,808</b>	<b>22,502</b>	<b>23,596</b>	<b>25,095</b>	<b>26,917</b>
<b>Shareholder's equity</b>	<b>21,159</b>	<b>21,811</b>	<b>22,866</b>	<b>24,299</b>	<b>26,017</b>
Share capital	98	98	98	98	98
Reserves	21,061	21,713	22,768	24,201	25,919
MI	662	691	730	795	899
<b>BVPS (HK\$)</b>	<b>21.0</b>	<b>21.8</b>	<b>22.9</b>	<b>24.3</b>	<b>26.0</b>

## Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
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
31/08/2021	Tian Lun Gas	1600	Mixed 21H1 results, expecting margins to improve in 21H2E	BUY	John Siah
27/08/2021	AAC Tech	2018	Optics segment stood strong against headwinds in 21Q2	BUY	John Siah
25/08/2021	361 Degrees	1361	Strong earnings expected to continue in 21H2E	BUY	John Siah
09/08/2021	Edvantage Group	382	Promising growth to continue in FY22E	BUY	John Siah
09/08/2021	China Edu Group	839	Another landmark M&A	BUY	John Siah
09/08/2021	New Higher Edu	2001	SY21/22 growth on track	BUY	John Siah
06/08/2021	Innovent Bio	1801	Sintilimab on track to become RMB10 bn drug	BUY	Kevin Tam
05/08/2021	Greentown Mgmt	9979	Safe sail inside the Storm	BUY	John Siah
05/08/2021	Xinyi Energy	3868	More M&A coming in 21H2E	BUY	John Siah
30/07/2021	SF REIT	2191	First logistics REITs in HK, riding the e-commerce wave	NR	John Siah
27/07/2021	China Edu Sector	-	Private Higher Edu will not be the next K12 tutoring	-	John Siah
13/07/2021	HKTV	1137	Edging up GMV with enabler business kicking off	BUY	Kevin Tam
07/07/2021	Xinyi Energy	3868	Fast growing solar farms with promising dividend outlook	BUY	John Siah
02/07/2021	Yidu Tech	2158	Getting closer to breakeven	BUY	Kevin Tam
24/06/2021	Greentown Mgmt	9979	21H1 net profit expected to up more than 70% YoY	BUY	John Siah

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

(as of 28/03/2022)



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\$ 19.12

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