

AAC Tech (2018 HK)

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Company Update

BUY

Unchanged

Close price: HK\$42.15

Target Price: HK\$56.50 (+34.0%)

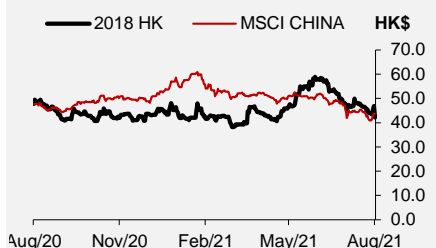
Previous TP HK\$61.30

Key Data

HKEx code	2018 HK
12 Months High (HK\$)	60.00
12 Month Low (HK\$)	37.80
3M Avg Dail Vol. (mn)	7.90
Issue Share (mn)	1,208.50
Market Cap (HK\$m)	50,938.28
Fiscal Year	12/2020
Major shareholder (s)	CEO Mr. PAN Benjamin Zhengmin (40.98%)

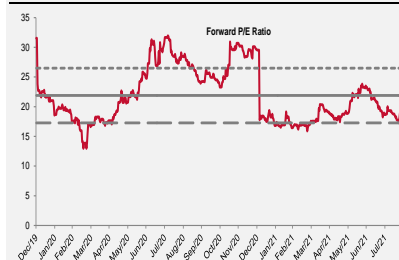
Source: Company data, Bloomberg, OP Research
Closing price are as of 26/08/2021

Price Chart



	1mth	3mth	6mth
Absolute %	-11.0	-10.6	-1.3
Rel. MSCI CHINA %	-10.9	+4.5	+20.6

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.

Optics segment stood strong against headwinds in 21Q2

- 21Q2 net profit up 45.2% YoY to RMB389mn on the back of 0.9% YoY growth of revenue to RMB4.32bn. 21H1 dividend equaled HK\$0.2.
- GPM declined 6.1p.p. qoq to 25.0% during the industry low season
- Optic business remained resilient, production of camera modules ramped up
- Maintain Buy with TP trim to HK\$56.50, representing PER of 26.1x/19.3x in FY21E/22E

AAC's earnings growth softened in 21Q2 amid weak smartphone shipments especially in China (smartphone shipment volume declined 10% yoy to 79.0mn unit, according to IDC). On quarterly basis, AAC's GPM declined 6.1p.p. to 25.0% which was mainly due to (1) lower ASP of products sold to major customers, (2) underutilization of production capacities for overseas plants due to resurgence of pandemic, and (3) the up-stream's chip shortage.

Optics segment stayed strong. Despite the 20% qoq revenue growth in overall optics business, plastic lens reported a relatively mild decline in GPM (-2.9p.p. qoq to 33.4%) as lower unit cost partly offset decline in ASP. At the same time, production volume of camera modules ramped up that the average monthly shipment volume grew 57.1% qoq to ~6mn. The first smartphone model equipped with WLG hybrid lens has been well-received by customers and attracted market attention. AAC has joined forces with smartphone brands to explore solutions for WLG hybrid lens, including the high specification products such as 1G5P and 1G6P. We expect more Android brands will adopt WLG hybrid lens solution in future. We see AAC's integrated optical solutions and the WLG camera hybrid lens technology would help close the gap with first-tier lens makers like Sunny Optical (2382 HK), expand market share and boost earnings.

Maintain Buy and trim the target price to HKD 56.50, which represents PER of 26.1x/19.3x in FY21E/22E. We lower our net profit forecast for AAC in FY21E by 8.2% to RMB 2.18bn, to factor weaker-than-expected GPM. We see the margin pressure will gradually ease in 21H2E as the rising competition in Chinese smartphone market will force Android brands to upgrade specs. We are impressed by the robust optics business and we see the growing adoption of hybrid lens solutions by smartphone brands will serve as major re-rating catalysts. On the other hand, we see the promotion of small cavity speaker module and the reduction of product SKUs will improve profit margins of acoustics in near term.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	17,884	17,140	19,442	22,326	24,127
Growth (%)	-1.4	-4.2	13.4	14.8	8.1
Adjusted net profit	2,160	1,359	2,182	2,946	3,215
Growth (%)	-42.9	-37.1	+60.6	+35.0	+9.1
Diluted EPS (HK\$)	2.14	1.35	2.17	2.93	3.19
EPS growth (%)	-44.9	-36.8	+60.6	+35.0	+9.1
Consensus EPS (HK\$)			2.38	2.96	3.49
Change to previous EPS (%)			-8.2	-1.1	-2.7
ROE (%)	11.6	7.3	9.6	11.8	11.7
P/E (x)	19.7	31.2	19.5	14.4	13.2
P/B (x)	2.2	2.0	1.9	1.7	1.5
Yield (%)	0.9	0.7	1.0	1.4	1.5
DPS (HK\$)	0.400	0.300	0.433	0.585	0.638

Source: Bloomberg, OP Research

Exhibit2: AAC Tech's 21Q2 segment results and our comment

	Acoustics	Optics	EDPM	MEMS
Revenue	RMB2,041mn (+7.0% yoy, -2.6% qoq)	RMB807mn (+112.3% yoy, +19.7% qoq)	RMB1,218mn (-29.4% yoy, -0.8% qoq)	RMB238mn (-7.9% yoy, -15.9% qoq)
GPM	28.4% (+2.0p.p. yoy, -9.0p.p. qoq)	22.0% (+8.2p.p. yoy, -5.8% qoq)	22.1% (-0.6p.p. yoy, -3.4% qoq)	15.8% (-0.2p.p. yoy, -0.8% qoq)
Comment	<p>1. Disruption of production of Vietnam plant may persist in Q3, dragging GPM of acoustics products.</p> <p>2. Promotion of standardize small cavity speaker module will be the key for GPM improvement</p>	<p>1. Lower cost partly offset ASP pressures on plastic lens. Proportion of high-end plastic lens (6P) slightly increased 13% in Q2 from 12% in Q1.</p> <p>2. GPM declined 5.8% qoq was due to the change of product mix (contribution from camera module(which has lower GPM) increased to 40% in Q2 from less than 30% in Q1)</p> <p>3. Integrated optical solution will increase customers' stickness and unlock value of optics business</p> <p>4. We expect more Android brands will adopt WLG hybrid lens in near future.</p>	<p>1. Adoption of x-axis haptics motors by Android brands (+400% yoy in Q2) can partly offset price pressure for electromagnetic drives</p>	<p>1. MEMS sales expect to grow with development of IoT and smart devices</p>
Our rate (Highest: 5 stars)	★★★	★★★★★	Haptic: ★★ Precision Mechanics: ★	★★

Sources: Company, OP research

Exhibit 3: Earnings Revision

(RMB mn)	FY21E			FY22E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	19,442	19,472	-0.1	22,326	22,408	-0.4	
Gross profit	5,408	5,726	-5.5	6,678	6,823	-2.1	
Gross margin	27.8%	29.4%	-1.6	29.9%	30.4%	-0.5	
EBIT	2,883	3,103	-7.1	3,824	3,859	-0.9	
Adj. net profit	2,182	2,378	-8.2	2,946	2,979	-1.1	
Diluted EPS (HK\$)	2.17	2.361	-8.2	2.93	2.958	-1.1	

Source: Company, OP research

Exhibit 4: Positive catalysts and Risks

Positive catalysts	<ul style="list-style-type: none"> Optical segment benefits from economies of scales Product optimisation to boost GPM 	Risks	<ul style="list-style-type: none"> Prolonged price pressure for smartphone components
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Sources: OP research

Exhibit 5: Peers Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER3-Yr EPS FY2 (x)	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	42.15	6,542	52.2	31.2	19.5	14.4	33.3	0.6	0.7	1.0	2.0	1.9	7.3	9.6	-11.0	-10.6
HSI		25,415.69			10.1	12.2	10.9	1.5	8.4	2.7	2.9	1.0	1.2	9.8	9.8	-3.0	-12.9
HSCEI		8,937.29			10.5	9.8	8.6	10.9	0.9	2.8	3.2	0.9	1.2	8.9	12.0	-4.5	-17.7
CSI300		4,801.61			16.8	14.7	12.9	13.5	1.1	1.9	2.1	2.2	2.0	13.0	13.6	-2.5	-9.8
Adjusted sector avg*					28.2	22.5	17.2	21.3	1.2	0.5	2.0	5.4	5.3	20.2	20.5	-4.1	3.1
Sunny Optical	2382 HK	217.40	30,626	188.2	40.6	33.9	27.5	21.7	1.6	0.5	0.6	10.9	9.2	36.6	29.7	-3.6	13.8
Byd Electronic	285 HK	35.25	10,201	58.3	12.2	14.3	11.2	10.0	1.4	0.8	0.7	3.0	2.5	27.7	18.1	-10.1	-29.5
Truly Intl Hldgs	732 HK	2.61	1,103	9.0	17.1	7.1	5.0	59.5	0.1	N/A	4.6	0.9	N/A	5.8	N/A	-4.0	62.1
Goertek Inc -A	002241 CH	42.54	22,414	487.2	47.8	35.3	27.4	28.8	1.2	0.4	0.4	6.0	6.0	17.8	18.0	8.1	10.8
Luxshare Preci-A	002475 CH	37.22	40,387	547.3	36.1	29.0	21.8	27.6	1.0	0.3	0.4	8.5	7.2	29.0	26.5	-6.5	-4.9
Handong Getto-A	002655 CH	10.73	596	26.7	82.5	N/A	N/A	N/A	N/A	N/A	N/A	6.8	N/A	13.9	N/A	31.8	34.8
Merry Elec	2439 TT	98.90	743	4.7	15.5	15.7	10.6	18.2	0.9	5.1	5.2	1.9	1.8	10.4	10.0	-8.4	-6.3

Sources: Bloomberg, OP research

Exhibit 6: SOTP Valuation

	Methodology	Multiple	Value (HK\$ bn)	Per share (HK\$)
Optic	30% discount to EV/Revenue of Sunny Optical (2382 HK) in FY22E (3.8x)	2.6	12.81	10.6
Acoustics, EDPM, Mems and others	5 year avg P/E(24.2x) with 25% discount based on net profit in FY22E	18.2	55.51	45.9
				56.5

Source: Bloomberg, OP Research

Financial Summary

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Income Statement (RMB mn)					
Acoustics	8,167	7,560	8,792	9,671	10,445
Optical	1,070	1,634	3,262	4,933	5,627
EDPM	7,694	6,847	6,055	6,055	6,055
Mems	929	1,083	1,334	1,667	2,000
Others	24	16			
Turnover	17,884	17,140	19,442	22,326	24,127
YoY%	-1.4	-4.2	13.4	14.8	8.1
COGS	-12,777	-12,913	-14,035	-15,647	-16,756
Gross profit	5,107	4,227	5,408	6,678	7,371
Gross margin	28.6%	24.7%	27.8%	29.9%	30.6%
Other income	329	650	502	502	502
Selling & distribution	-275	-285	-311	-335	-362
Admin	-643	-672	-700	-804	-869
R&D	-1,717	-1,920	-2,016	-2,218	-2,440
Other opex	0	0	0	0	0
Total opex	-2,635	-2,878	-3,027	-3,357	-3,670
Operating profit (EBIT)	2,801	2,000	2,883	3,824	4,203
Operating margin	15.7%	11.7%	14.8%	17.1%	17.4%
Provisions	0	0	0	0	0
Interest Income	0	0	0	0	0
Finance costs	-248	-353	-356	-356	-356
Profit after financing costs	2,552	1,648	2,527	3,468	3,847
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	2,552	1,648	2,527	3,468	3,847
Tax	-330	-147	-316	-434	-481
Minority interests	0	6	-29	-89	-152
Net profit	2,222	1,507	2,182	2,946	3,215
YoY%	-41.2	-32.2	44.8	35.0	9.1
Adjusted net profit	2,160	1,359	2,182	2,946	3,215
YoY%	-42.9	-37.1	60.6	35.0	9.1
Adjusted net margin	12.1%	7.9%	11.2%	13.2%	13.3%
EBITDA	4,932	4,292	5,732	6,825	7,338
EBITDA margin	27.6%	25.0%	29.5%	30.6%	30.4%
Adjusted EPS (RMB)	1.78	1.12	1.81	2.44	2.66
YoY%	-44.9	-36.8	60.6	35.0	9.1
DPS (HK\$)	0.40	0.30	0.43	0.59	0.64
Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Cash Flow (RMB mn)					
EBITDA	4,994	4,292	5,732	6,825	7,338
Chg in working cap	-728	-527	-912	-877	-600
Others	-52	89	0	0	0
Operating cash	4,214	3,854	4,820	5,947	6,738
Tax	-370	-262	-147	-316	-434
Net cash from operations	3,843	3,593	4,673	5,632	6,304
Capex	-2,833	-4,736	-4,200	-4,000	-4,000
Investments	-85	0	0	0	0
Dividends received	0	0	0	0	0
Interest received	48	53	50	50	50
Others	-525	1,421	0	0	0
Investing cash	-3,395	-3,262	-4,150	-3,950	-3,950
FCF	449	331	523	1,682	2,355
Issue of shares	0	0	0	0	0
Buy-back	-277	0	0	0	0
Interests paid	-233	-300	-294	-356	-356
Dividends paid	-1,531	-107	-335	-436	-589
Net change in bank loans	2,443	356	950	0	0
Others	-147	2,632	0	0	0
Financing cash	255	2,582	321	-792	-945
Net change in cash	704	2,913	844	890	1,410
Exchange rate or other Adj	51	-187	0	0	0
Opening cash	4,059	4,814	7,540	8,384	9,274
Closing cash	4,814	7,540	8,384	9,274	10,684
CFPS (HK\$)	3.80	3.57	4.64	5.59	6.26

Sources: Company, OP Research

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Ratios					
Gross margin (%)	28.6	24.7	27.8	29.9	30.6
Operating margin (%)	15.7	11.7	14.8	17.1	17.4
Net margin (%)	12.4	8.8	11.2	13.2	13.3
Selling & dist'n exp/Sales (%)	1.5	1.7	1.6	1.5	1.5
Admin exp/Sales (%)	3.6	3.9	3.6	3.6	3.6
Payout ratio (%)	18.7	22.2	20.0	20.0	20.0
Effective tax (%)	12.9	8.9	12.5	12.5	12.5
Total debt/equity (%)	43.9	38.8	40.0	36.0	32.5
Net debt/equity (%)	15.4	3.8	4.0	0.2	Net cash
Current ratio (x)	1.9	1.8	2.0	2.1	2.2
Quick ratio (x)	1.4	1.4	1.6	1.6	1.8
Inventory T/O (days)	105	113	105	105	105
AR T/O (days)	114	110	110	110	110
AP T/O (days)	156	147	140	140	140
Cash conversion cycle (days)	62	76	75	75	75
Asset turnover (x)	0.6	0.5	0.5	0.5	0.5
Financial leverage (x)	1.7	1.8	1.8	1.8	1.7
EBIT margin (%)	15.7	11.7	14.8	17.1	17.4
Interest burden (x)	0.9	0.8	0.9	0.9	0.9
Tax burden (x)	0.9	0.9	0.9	0.8	0.8
Return on equity (%)	11.6	7.3	9.6	11.8	11.7

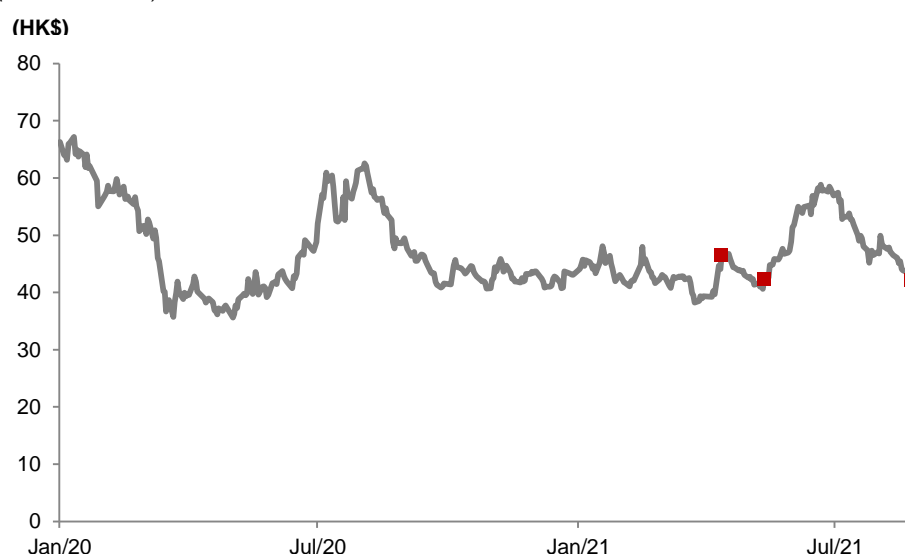
Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Balance Sheet (RMB mn)					
Fixed assets	16,911	18,592	20,057	21,170	22,150
Goodwill	164	164	164	164	164
Intangible assets	434	373	373	373	373
Right-of-use assets	1,072	1,896	1,896	1,896	1,896
Deposits	455	576	576	576	576
Other non-current assets	459	461	457	456	455
Non-current assets	19,400	22,062	23,525	24,637	25,616
Inventories	3,664	3,995	4,037	4,501	4,820
AR	5,576	5,176	5,859	6,728	7,271
Prepayments & deposits	0	0	0	0	0
Other current assets	55	138	138	138	138
Cash	5,512	7,540	8,384	9,274	10,684
Current assets	14,808	16,850	18,419	20,642	22,913
AP	5,474	5,205	5,383	6,002	6,427
Tax	178	167	316	434	481
Accruals & other payables	0	0	0	0	0
Bank loans & leases	1,876	3,349	2,738	2,738	2,738
Lease liabilities	97	494	494	494	494
Other current liabilities	86	166	166	166	166
Current liabilities	7,711	9,380	9,097	9,833	10,306
Bank loan & notes	6,535	5,055	6,623	6,623	6,623
Lease liabilities	310	317	317	317	317
Deferred tax & others	290	2,339	2,339	2,339	2,339
Non-current liabilities	7,136	7,711	9,279	9,279	9,279
Total net assets	19,347	21,808	23,568	26,167	28,944
Shareholder's equity	19,351	21,159	22,849	25,358	27,984
Share capital	98	98	98	98	98
Reserves	19,253	21,061	22,751	25,260	27,886
MI	10	662	691	780	932
BVPS (HK\$)	19.2	21.0	22.7	25.2	27.8

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
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
11/06/2021	TCL Electronics	1070	Turnaround possible in 2H21E	BUY	Kevin Tam
09/06/2021	Tian Lun Gas	1600	Zhuhai Port (000507.SZ) becomes new major shareholder	BUY	John Siah
03/06/2021	Tian Lun Gas	1600	Attractively valued with solid outlook	BUY	John Siah
25/05/2021	Yeahka	9923	Narrowed valuation premium on revised growth outlook	HOLD	Kevin Tam
20/05/2021	China Edu Sector	-	Policy risk on private higher education eased	-	John Siah
17/05/2021	AAC Tech	2018	Acoustic and optics led strong rebound in 21Q1	BUY	John Siah
12/05/2021	HKTv	1137	Convincing long term prospect despite sluggish near term GMV	BUY	Kevin Tam
30/04/2021	China Edu Group	839	Ready for more M&A	BUY	John Siah
22/04/2021	New Higher Edu	2001	More visible growth path	BUY	John Siah
22/04/2021	Edvantage Group	382	Fascinating growth story set to take off	BUY	John Siah
21/04/2021	Innovent Bio	1801	More convincing pipeline development	BUY	Kevin Tam
15/04/2021	AAC Tech	2018	Optical segment beginning to shine	BUY	John Siah
31/03/2021	HKTv	1137	FY20 bottom line fell short on fulfillment cost	BUY	Kevin Tam
29/03/2021	361 Degrees	1361	Encouraging recovery in 2H20, visible growth for FY21E	BUY	Kevin Tam

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

(as of 26/8/2021)



Date	Rating	TP	Close
1 14 Apr 2021	BUY	HKD 60.80	HKD 46.70
2 14 May 2021	BUY	HKD 61.30	HKD 42.55
3 27 Aug 2021	BUY	HKD 56.50	HKD 42.15

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