

AAC Technologies (2018 HK)

Not out of the woods yet; more downside to 2022 earnings

AAC's 4Q21 net profit decline of 72% YoY is in-line with its profit warning (down 71-79% YoY), mainly due to optics weakness and margin pressure across all segments. Blended GPM reached historical-low at 20.5% (vs 22.7% in 3Q21, 29% in 4Q20), given loss-making in optics business (4Q GPM -2.1%) and lack of upgrade in acoustics/haptics/casings. On the back of Android weakness and intensified competition in HCM/HLS in 1H22E, we remain cautious and expect more earnings downside in 1H22E. We cut FY22-23 EPS by 31-36% to factor in optics ASP/margin contraction and continued de-spec trend. We now estimate 2Q21/2Q22E net profit will decline 40%/30% YoY, and our FY22-24E EPS are 30-36% below consensus. Maintain Hold and cut SOTP-based TP to HK\$18.8 (14.4x FY22E P/E).

- 4Q21 GPM pressure across all segments; optics became loss-making.** By segment, 4Q21 acoustics grew 8.3% YoY on Apple peak season, and MEMS/haptics & casings declined 7%/6% YoY given lack of upgrade. We are also disappointed by optics segment with 4% YoY decline and lower GPM at 2.1% (vs 15% in 3Q), due to one-time write-off and plastic lens ASP pressure. Plastic lens shipment dropped 31% YoY to 116mn (vs -50% YoY in 3Q) and lower-margin HCM grew 57% YoY, based on our estimates. Looking ahead, we remain cautious on plastic lens/HCM pricing, WLG demand and overall profitability. We now estimate optics will decline 14%/18% YoY in 1Q/2Q22E.
- More updates on AR/VR and automotive strategic market.** AAC recently announced strategic partnership with Dispelix for AR/VR see-through waveguide displays, and expected mass production in 2023-24. As for automotive, AAC invested into lbeo and SWIR Vision to enhance automobile WLG lens/LiDAR solutions, and targeted 10 project wins in 2022 and mass production in 2023-24.
- Industry headwinds to persist into 1H21E; Maintain HOLD.** We believe optics competition to intensify on the back of smartphone demand weakness and lack of upgrade. We trimmed FY22-23E EPS by 31-36% for lower margin and optics revenue. Our FY22-24E EPS remain 30-36% below consensus. Our new SOTP-based TP is HK\$18.8, implying 14.4x FY22E P/E. Trading at 14.2x FY22E P/E, the stock is fairly valued in our view.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	17,140	17,667	18,216	20,739	21,532
YoY growth (%)	(4.2)	3.1	3.1	13.9	3.8
Net income (RMB mn)	1,507	1,316	1,304	1,545	1,644
EPS (RMB)	1.25	1.09	1.08	1.28	1.36
YoY growth (%)	(32.1)	(12.6)	(1.0)	18.5	6.4
Consensus EPS (RMB)	1.27	1.19	1.54	1.95	0.00
P/E (x)	12.3	14.1	14.2	12.0	11.3
P/B (x)	0.8	0.8	0.8	0.8	0.8
Yield (%)	4.1	3.6	3.5	4.2	4.4
ROE (%)	6.9	5.8	5.6	6.5	6.7

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$18.8
(Previous TP)	HK\$37.4)
Up/Downside	+12%
Current Price	HK\$18.46

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	40,726
Avg. 3mths t/o (HK\$m)	272.50
52W High/Low (HK\$)	60.00/ 31.15
Total Issued Shares (mn)	1,209

Source: Bloomberg

Shareholding Structure

Chunyuan Wu	21.75%
Zhengmin Pan	19.24%
JPMorgan Chase	10.59%

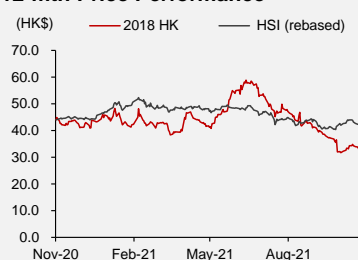
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.8%	5.1%
3-mth	-28.5%	-24.5%
6-mth	-18.2%	-9.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports:

- 3Q21 in-line; Remain cautious on 4Q21 recovery - 12 Nov 2021
- 1Q21 in-line with better acoustics; Maintain HOLD on fair valuation - 17 May 2021

4Q21 Results Review

Figure 1: 4Q21 results review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
Revenue	3,560	4,277	4,520	4,783	4,292	4,317	4,246	4,812	-2%	1%
Gross Profit	823	995	1,067	1,342	1,337	1,078	964	986	-11%	-27%
Operating Profit	95	262	376	617	640	342	239	261	-30%	-58%
Net profit	53	268	430	756	536	385	188	188	-51%	-75%
EPS (RMB)	0.04	0.22	0.36	0.63	0.44	0.32	0.15	0.18	-52%	-72%
Margin (%)										
Gross Margin	23.1%	23.3%	23.6%	28.1%	31.1%	25.0%	22.7%	20.5%	-2.2 ppt	-7.6 ppt
Operating Margin	2.7%	6.1%	8.3%	12.9%	14.9%	7.9%	5.6%	5.4%	-0.2 ppt	-7.5 ppt
Net Margin	1.5%	6.3%	9.5%	15.8%	12.5%	8.9%	4.3%	4.4%	0.1 ppt	-11.4 ppt
Growth (%)										
Revenue (YoY)	-5%	12%	-10%	-10%	21%	1%	-6%	1%		
Revenue (QoQ)	-33%	-76%	27%	12%	-10%	-75%	-1%	11%		
Operating profit (YoY)	-81%	-26%	-55%	-23%	574%	31%	-36%	-58%		
Net profit (YoY)	-88%	-21%	-38%	0%	918%	44%	-57%	-72%		

Source: Company data, Bloomberg, CMBIGM

Figure 2: Revenue breakdown

RMB mn	FY20	1Q21	2Q21	3Q21	4Q21	FY21	FY22E	FY23E
Revenue								
Dynamic components	7,560	2,096	2,042	2,200	2,244	8,582	8,630	8,878
MEMS components	1,083	283	238	254	238	1,013	1,115	1,226
Haptics & RF	6,847	1,228	1,219	1,395	1,797	5,639	5,636	7,241
Others (incl. optics)	1,650	685	818	397	532	2,433	2,835	3,394
Optics	1,634	674	808	395	513	2,389	2,791	3,351
Others	16	11	10	3	19	43	43	43
Total	17,140	4,292	4,317	4,246	4,812	17,667	18,216	20,739
Revenue mix								
Dynamic components	44%	49%	47%	52%	47%	49%	47%	43%
MEMS components	6%	7%	6%	6%	5%	6%	6%	6%
Haptics & RF	40%	29%	28%	33%	37%	32%	31%	35%
Others (incl. optics)	10%	16%	19%	9%	11%	14%	16%	16%
YoY Growth (%)								
Dynamic components	-7%	48%	7%	2%	8%	14%	1%	3%
MEMS components	17%	42%	-8%	-31%	-7%	-6%	10%	10%
Haptics & RF	-11%	-27%	-29%	-8%	-6%	-18%	0%	28%
Others (incl. optics)	51%	175%	112%	-17%	-1%	47%	17%	20%
Optics	53%	176%	113%	-17%	-4%	46%	17%	20%
Total	-4%	21%	0.9%	-6%	1%	3%	3%	14%
Gross profit margin								
Dynamic components	27.9%	37.4%	28.4%	26.3%	26.9%	29.7%	29.0%	29.0%
MEMS components	17.5%	16.7%	15.8%	15.3%	12.5%	15.1%	15.5%	16.0%
Haptics & RF	23.8%	25.5%	22.1%	20.3%	19.8%	21.6%	23.1%	22.3%
Others (incl. optics)	18.2%	28.1%	21.4%	14.0%	4.0%	18.3%	10.8%	15.4%
Optics	18.6%	27.8%	22.0%	15.0%	-2.1%	17.2%	22.0%	15.0%
Total	24.7%	31.1%	25.0%	22.7%	20.5%	24.7%	23.5%	23.7%

Source: Company data, CMBIGM

Key takeaways from analyst call:

4Q21 Review:

- FY21 revenue reached RMB17.67bn, +3.1% YoY, GPM 24.7%. Net profit was RMB1.32bn, -12.6% YoY.
- 4Q21 revenue reached RMB 4.81bn, +0.6% YoY, GPM 20.5%. 4Q21 net profit was RMB 212mn, -72% YoY.
- 4Q21 results was impacted by supply chain disruption, rising operational cost in China and weaker demand due to chip shortage. Lower GPM was attributed to fierce competition in domestic and overseas market.

Optics segment:

- FY21 revenue reached RMB 2.39bn, +46.2% YoY. GPM 17.2%, -1.6 ppts YoY.
- 4Q21 revenue was RMB 513mn, -4.2% YoY. GPM -2.1%, -23.5 ppts YoY due to one-off adjustments and plastic lens price decline.
- **Smartphone market:** 2022 global shipment to be flat or low single-digit growth.
- **Shipment:** 4Q plastic lens recovered 52.7% QoQ, with 6P mix of 12%.
- **Gross margin:**
 - Plastic lens: 4Q GPM dropped 30.8 ppts to -6.1% due to one-off adjustment and lower price. 10 ppts margin drop was attributed to weak ASP. Target 25% in 2022.
 - Module: 4Q GPM is low single-digit, target 5-10% range in 2022.
- **DOI:** 4Q level was 6-7 months. Current DOI at 4-5 months. Target <3 months by the end of 2022.
- **Capacity:** Lens annual capacity is 120-150kk with no more expansion plan this year. Module annual capacity is currently 250kk, and target 270kk-300kk in 2022.
- **Future strategy:**
 - WLG hybrid lens: focus on 1G6P high-end projects targeted delivery in 2H22.
 - Camera module: 6kk/m shipment in Q4, +13.9% QoQ. Expect more shipment in 1Q22 with higher mix of higher-end products.
 - Partnership with Dispelix: multiple design-in projects with Dispelix in next 1-2 years< Expect mass production at the end of 2023 or the beginning of 2024.

Acoustics segment:

- FY21 Revenue reached RMB 8.58bn, +13.5% YoY. GPM 29.7%, up 1.8 ppts YoY.
- 4Q21 revenue was RMB 2.24bn, +8.4% YoY.
- **Gross margin:** FY21 GPM 29.7%, up 1.8 ppts YoY. 4Q21 GPM was 26.8%, down 5 ppts YoY mainly due to ASP pressure.
- **Future strategy:**
 - Revenue and GPM of Android acoustics products will increase steadily in 2022 with stereo design further penetration into mid-to-low end models.
 - Total acoustic solution: Obtained overall acoustic solution project from a leading domestic new energy vehicle OEM.
 - Mass production of first auto project by 2022, and revenue contribution in 2023. 5-10 project pipelines in negotiation.

EMD&PM segment:

- FY21 revenue reached RMB 5.64bn, -17.7% YoY. GPM 21.6%, -2.1 ppts YoY.
- 4Q21 revenue was RMB 1.8bn, -6.2% YoY. GPM 19.8%, -8.0 ppts YoY.
- FY21 haptic driver shipment for Android reached 67mn units, +235% YoY.
- **Gross margin:** FY21 GPM was 21.6%, down 2.1 ppts YoY. 4Q21 GPM was 19.8%, down 8 ppts YoY, given lower ASP of haptic products for two major customers.
- **Future strategy:**
 - Expect multifold growth for Android haptics in 2022, with x-axis haptics product to expand to lower-end products.
 - Meaningful progress on client diversification after Huawei event, booming shipment to Korean customer expected in 2022.

- Newly launched ultra-wide x-axis haptics motor can be used in applications including tablet, smart automotive, smart glasses and ARVR.
- Leveraging on Toyo Precision's experience in serving European and American customers, the Group will continue to expand customer base to improve revenue and overall profitability.

MEMS segment:

- FY21 revenue reached RMB 1.01bn, -6.4% YoY. GPM 15.1%, -2.4 pts YoY.
- 4Q21 revenue reached RMB 238mn, -7.1% YoY. GPM 12.5%, -5.2 pts YoY.
- **Gross margin:** decline due to lower ASP from major customer and increased mix of low-end products.
- **Future strategy:**
 - Maintain stable and high market share in smartphone market.
 - Expand into other markets such as TWS, smartphone speakers, tablets and automotive markets.

Strategic layout in automotive market:

- **Automotive acoustics:** working with a leading Chinese electric vehicle OEM to co-develop products for mass production at the end of 2022. Obtained an acoustics software and tuning project for high-end automotive OEM and the products are under development.
- **Automotive lens and LiDAR sensor:** Product portfolio covered front view, OMS and DMS vehicle lens. Development of more premium products is in progress.

Earnings Revision

Figure 3: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	18,216	20,739	21,532	20,485	21,978	NA	-11%	-6%	NA
Gross Profit	4,289	4,911	5,125	5,439	5,830	NA	-21%	-16%	NA
Operating Profit	1,443	1,650	1,740	2,289	2,483	NA	-37%	-34%	NA
Net profit	1,304	1,545	1,644	2,026	2,217	NA	-36%	-30%	NA
EPS (RMB)	1.08	1.28	1.36	1.68	1.83	NA	-36%	-30%	NA
Gross Margin	23.5%	23.7%	23.8%	26.5%	26.5%	NA	-3 ppt	-2.8 ppt	NA
Operating Margin	7.9%	8.0%	8.1%	11.2%	11.3%	NA	-3.3 ppt	-3.3 ppt	NA
Net Margin	7.2%	7.4%	7.6%	9.9%	10.1%	NA	-2.7 ppt	-2.6 ppt	NA

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	18,216	20,739	21,532	20,228	22,954	20,046	-10%	-10%	7%
Gross Profit	4,289	4,911	5,125	5,336	6,173	5,320	-20%	-20%	-4%
Operating Profit	1,443	1,650	1,740	2,128	2,647	2,769	-32%	-38%	-37%
Net profit	1,304	1,545	1,644	1,860	2,344	2,560	-30%	-34%	-36%
EPS (RMB)	1.08	1.28	1.36	1.54	1.95	2.13	-30%	-34%	-36%
Gross Margin	23.5%	23.7%	23.8%	26.4%	26.9%	26.5%	-2.9 ppt	-3.2 ppt	-2.8 ppt
Operating Margin	7.9%	8.0%	8.1%	10.5%	11.5%	13.8%	-2.6 ppt	-3.6 ppt	-5.7 ppt
Net Margin	7.2%	7.4%	7.6%	9.2%	10.2%	12.8%	-2 ppt	-2.8 ppt	-5.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 5: P&L forecast

RMB mn	FY21	1Q22E	2Q22E	3Q22E	4Q22E	FY22E	FY23E	FY24E
Revenue	17,667	4,228	4,162	4,542	5,284	18,216	20,739	21,532
... YoY	3.1%	-1.5%	-3.6%	7.0%	9.8%	3.1%	13.9%	3.8%
Cost of sales	(13,302)	(3,206)	(3,189)	(3,490)	(4,046)	(13,931)	(15,833)	(16,412)
Gross profit	4,365	1,022	972	1,052	1,238	4,284	4,906	5,120
GPM (%)	24.7%	24.2%	23.4%	23.2%	23.4%	23.5%	23.7%	23.8%
... YoY	3.3%	-23.5%	-9.8%	9.1%	25.6%	-1.8%	14.5%	4.4%
SG&A	(1,156)	(245)	(241)	(263)	(306)	(1,057)	(1,224)	(1,270)
... % of rev	-6.5%	-5.8%	-5.8%	-5.8%	-5.8%	-5.8%	-5.9%	-5.9%
R&D	(1,726)	(414)	(408)	(445)	(518)	(1,785)	(2,032)	(2,110)
... % of rev	-9.8%	-9.8%	-9.8%	-9.8%	-9.8%	-9.8%	-9.8%	-9.8%
Operating profit	1,483	363	323	343	414	1,443	1,650	1,740
OPM (%)	8.4%	8.6%	7.8%	7.6%	7.8%	7.9%	8.0%	8.1%
... YoY	9.8%	-43.3%	-5.6%	43.3%	58.4%	-2.7%	14.4%	5.4%
Income Tax	(120)	(36)	(30)	(31)	(43)	(139)	(165)	(176)
Effective Tax Rate	8.5%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Net profit	1,316	320	267	296	421	1,304	1,545	1,644
NPM (%)	7.5%	7.6%	6.4%	6.5%	8.0%	7.2%	7.4%	7.6%
... YoY	-12.6%	-40.3%	-30.7%	61.4%	98.6%	-1.0%	18.5%	6.4%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with new TP HK\$18.8

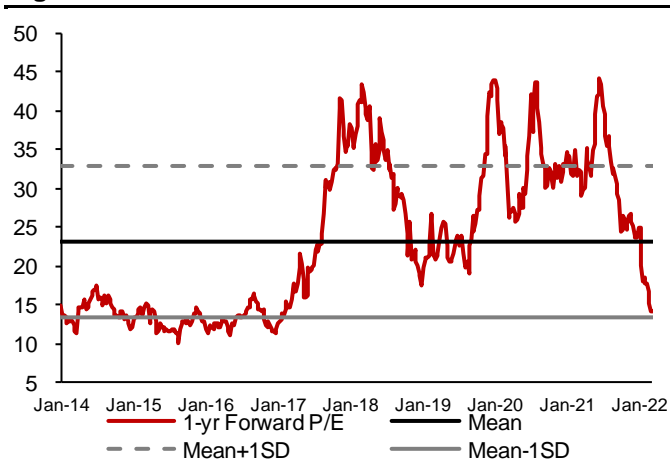
We derived our new TP of HK\$ 18.8 based on SOTP to reflect business diversification with different growth profiles and visibility. Our new TP is based on weighted-average target P/E multiple of 14.4x FY22E P/E. We assign 15x P/E to AAC's acoustics/MEMS, 12x P/E to haptics & mechanical RF, and 20x P/E to optics, in-line with HK-listed peers.

Figure 6: AAC Tech – SOTP valuation

Business segment	Value per share (RMB)	Valuation Methodology	Target P/E	% of FY22E Profit	FY22E EPS (RMB)
Acoustics	9.5	P/E target multiple	15x	58%	0.63
MEMS	0.7	P/E target multiple	15x	4%	0.04
ED & PM	3.9	P/E target multiple	12x	30%	0.33
Optics	1.55	P/E target multiple	20x	7%	0.08
TP (RMB)	15.6		18.5x		1.08
TP (HK\$)	18.8				

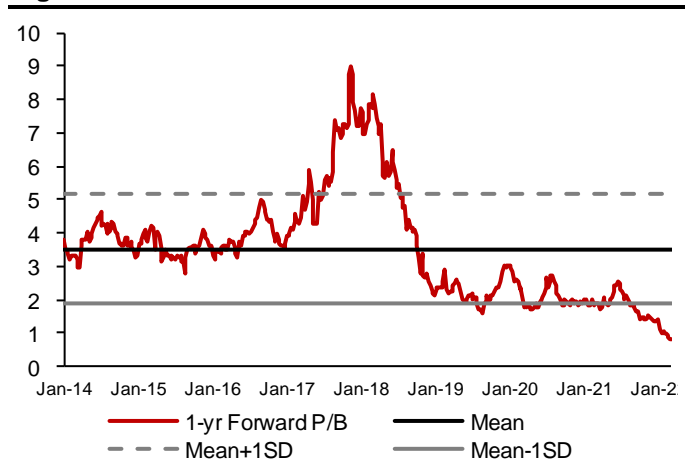
Sources: Company data, CMBIGM

Figure 7: 12M forward P/E band



Source: Company data, CMBIGM

Figure 8: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	17,140	17,667	18,216	20,739	21,532
COGS	(12,913)	(13,302)	(13,931)	(15,833)	(16,412)
Gross profit	4,227	4,365	4,284	4,906	5,120
Selling and marketing	(285)	(333)	(328)	(394)	(409)
Administrative	(672)	(824)	(729)	(830)	(861)
R&D	(1,920)	(1,726)	(1,785)	(2,032)	(2,110)
Operating profit	1,350	1,483	1,443	1,650	1,740
Financial cost	(353)	(415)	(415)	(415)	(415)
Other income/(losses)	650	346	365	415	431
Pre-tax profit	1,648	1,413	1,392	1,649	1,755
Tax	(147)	(120)	(139)	(165)	(176)
Minority interest	(6)	(23)	(51)	(60)	(64)
Net profit	1,507	1,316	1,304	1,545	1,644

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	1,648	1,413	1,392	1,649	1,755
Depreciation	3,409	2,931	3,834	4,147	4,413
Change in working capital	(231)	(1,603)	3,502	(6,171)	5,796
Others	(1,233)	(544)	281	274	247
Net cash from operating	3,593	2,196	9,010	(100)	12,211
Capex	(3,262)	(4,327)	(3,678)	(3,126)	(2,657)
Other	-	81	-	-	-
Net cash from investing	(3,262)	(4,246)	(3,678)	(3,126)	(2,657)
Net borrowings	-	-	-	-	-
Interest paid	(353)	(415)	(415)	(415)	(415)
Dividend paid	(753)	(658)	(652)	(772)	(822)
Other	3,688	1,687	-	-	-
Net cash from financing	2,582	613	(1,067)	(1,188)	(1,237)
Net change in cash	2,913	(1,437)	4,265	(4,414)	8,317
Cash at beg of year	5,512	7,540	6,051	10,316	5,902
Exchange difference	-	-	-	-	-
Cash at end of year	7,540	6,051	10,316	5,902	14,219

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	16,850	17,955	17,473	20,171	22,370
Cash & equivalents	7,540	6,051	10,316	5,902	14,219
Trade and other rev.	5,176	6,013	6,932	7,596	7,688
Inventories	3,995	5,695	30	6,477	268
Other current assets	138	195	195	195	195
Non-current assets	22,062	24,067	23,911	22,890	21,134
PPE	18,592	19,987	19,831	18,810	17,054
Lease prepayments	-	-	-	-	-
Intangible assets	373	384	384	384	384
Other non-curr. assets	3,096	3,696	3,696	3,696	3,696
Total assets	38,911	42,022	41,384	43,061	43,504
Current liabilities	9,380	9,668	8,429	9,393	9,079
Short-term borrowings	3,349	2,902	2,902	2,902	2,902
Trade & other payables	5,205	6,148	4,903	5,844	5,523
Tax payables	167	165	170	194	201
Other current liabilities	660	453	453	453	453
Non-current liabilities	7,711	9,852	9,852	9,852	9,852
Government grants	604	700	700	700	700
Deferred tax liabilities	49	41	41	41	41
Other non-current liab.	7,058	9,111	9,111	9,111	9,111
Total liabilities	17,090	19,520	18,281	19,246	18,932
Share capital	98	98	98	98	98
Reserves	21,061	21,713	22,364	23,137	23,959
Minority interest	662	691	640	580	516
Shareholders' equity	21,821	22,502	23,103	23,815	24,573
Total equity & liabilities	38,911	42,022	41,384	43,061	43,504

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Dynamic components	44.1	48.6	47.4	42.8	43.4
MEMS (microphone)	6.3	5.7	6.1	5.9	6.3
Electro. (haptics)	39.9	31.9	30.9	34.9	34.0
Other	9.6	13.8	15.6	16.4	16.3
Growth (%)					
Revenue	(4.2)	3.1	3.1	13.9	3.8
Gross profit	(17.2)	3.3	(1.8)	14.5	4.4
Operating Income	(45.4)	9.8	(2.7)	14.4	5.4
Net profit	(32.2)	(12.6)	(1.0)	18.5	6.4
Profitability (%)					
Gross Margin	24.7	24.7	23.5	23.7	23.8
Operating Margin	7.9	8.4	7.9	8.0	8.1
Net margin	8.8	7.5	7.2	7.4	7.6
Balance sheet ratios					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.8	1.9	2.1	2.1	2.5
Receivable turnover days	87.8	87.8	90.0	90.0	90.0
Inventory turnover days	88.6	88.6	75.0	75.0	75.0
Payable turnover days	84.7	84.7	70.0	70.0	70.0
Returns (%)					
ROE	6.9	5.8	5.6	6.5	6.7
ROA	3.9	3.1	3.1	3.6	3.8
Per share data (RMB)					
EPS	1.25	1.09	1.08	1.28	1.36
DPS	0.62	0.54	0.54	0.64	0.68

Source: Company data, CMBIGM estimates

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