

AAC Technology (02018.HK)

GPM fell in 2Q21 qoq in four major businesses,
FY21 net profit is still expected to reverse three-year negative growth
Hong Kong | TMT Hardware | Update Report

27 September 2021

Investment Summary

AAC Technology announced the company's interim results as of 30 June 2021. During the period, the Group's revenue was RMB 8.6 billion (+9.9% yoy and +0.6% qoq). The gross profit was 2.4 billion (+32.8% yoy) and the gross profit margin was 28.1% (+4.9 ppts yoy). The Q2 gross profit margin was 25.0% (-6.1 ppts qoq). The net profit was RMB 921 million (+187.4% yoy and -26.9% qoq). The net profit margin was 10.7% (+6.6 ppts) and the Q2 profit margin was 9.0% (-3.4 ppts qoq). The company's performance in the second quarter was lower than expected, mainly due to: 1) the recurring epidemic in the second quarter, especially in Vietnam, 2) the shortage of upstream chips and insufficient capacity utilization of the company's overseas factories, 3) the average unit price of major customer products decreased.

The gross profit margin of acoustic products significantly dropped mom, the volume shipment of acoustic products on the Android client continued to increase

In 2Q21, the company's acoustic business revenue was RMB 2 billion (+7.0% yoy and -2.6% qoq). The gross profit was RMB 580 million (15.1% yoy and -26.1 qoq) and the gross profit margin was 28.4% (+2.0 ppts yoy and -0.9 ppts mom). The main reasons are: 1) The overseas epidemics have affected the normal production of Vietnamese factories and reduced the capacity utilization rate. It is expected that the unfavorable lagging impact on production will continue in the third quarter; 2) The peak sales season of major customer Apple has passed which led the unit price of acoustic products decreased seasonally. The outlook for the acoustic gross margin in the second half of the year remains cautiously optimistic, mainly due to: 1) it is expected that the epidemic in Vietnam, Malaysia and other regions will ease in the fourth quarter, and production capacity will return to normal; 2) The second half of the year is the peak season for the traditional mobile phone market. The launch of new models of Apple mobile is expected to increase the acoustic gross profit margin; 3) The gross profit margin of the acoustic products of the Android client continued to improve from the previous month. The company upgraded the standardized small cavity acoustic module, and has penetrated into the customer's mid-to-high-end models. It helps to extend the life cycle of the product production platform and reduce unit costs through economies of scale to increase gross profit margin.

Revenue is growing rapidly in optical business, WLG technology enters the automotive industry

In 2Q21, the company's optical business revenue was RMB 807 million (+112.3% yoy and +19.7% qoq). The gross profit was RMB 178 million (+235.8% yoy and -5.3% qoq) and the gross profit margin was 22.0% (+8.2 ppts yoy and -5.8 ppts qoq). The gross profit margin of 2Q20 was 13.8% while the gross profit margin of the optics for the whole year reached 21.4% in 2020. The company's continued increase in gross profit margin in the optical business was mainly due to: 1) the market share of plastic lenses continued to grow. In 2Q21, the shipment volume of plastic lenses reached 171 million (+67.6% yoy and +9.6% qoq). At the same time, due to the further improvement of the company's operation and production management level, the unit cost of plastic lenses continued to decrease compared with the previous quarter, offsetting the adverse effects of the decline in average unit prices. However, the gross profit margin of plastic lenses in the second quarter still fell slightly by 2.9% to 33.4%; 2) The group continued to optimize the product structure and shipment volume, leaning toward higher-end products, of which 6P lens shipments accounted for 13.0%; 3) The WLG glass-plastic hybrid lens product (1G5P) was launched on the market and received positive feedback from customers. It is expected to accelerate the introduction of glass-plastic hybrid lens in high-end flagship mobile phone projects. It helps to increase the company's market share in the optical lens industry, and has been actively discussing the application of 1G5P and 1G6P in high-end mobile phones with customers.

Buy (Upgrade)

CMP HKD 38.55
(Closing price as of 23 Sep.)
Target HKD 49.95 (+29.6%)

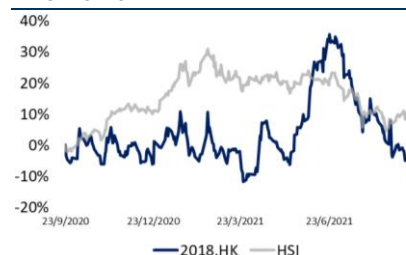
COMPANY DATA

O/S SHARES (MN) :	1,208.50
MARKET CAP (HKD BN) :	46.588
52 - WK HI/LO (HKD):	59.80/37.40

SHARE HOLDING PATTERN, %

Pan Benjamin Zhengmin	40.98%
J.P. Morgan Chase & Co.	10.18%
Jiang Jinzhi	5.09%

PRICE VS. HSI



Source: Wind, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	17,884	17,140	19,580	21,669
Net Profit	5,107	4,227	5,287	6,067
EPS, CNY cent	1.84	1.25	1.70	2.11
P/E, x	18.80	26.02	19.29	15.55
BVPS, CNY	16.00	18.06	19.50	21.26
P/BV, x	2.16	1.80	1.68	1.54
DPS (HKD cent)	0.40	0.30	0.40	0.50
Div. Yield (%)	1.04	0.78	1.03	1.29

Source: Company reports, Phillip Securities Est.

Research Analyst

Samuel Sung (+852 2277 6527)

samuelsung@phillip.com.hk

In June 2021, the company announced that it has completed its equity investment in Ibeo Automotive Systems GmbH (Ibeo) and have established a strategic partnership. Ibeo is a manufacturer with leading laser radar (LiDAR) technology. In 2020, it became the first company to be nominated by Great Wall Motors for mass production of solid-state LiDAR, and it has also become one of the major suppliers in the autonomous driving market. This transaction indicated the company has officially entered the automotive industry. The company is currently deploying new products such as in-cabin automotive lens development. It is also actively contacting mainstream (Tier 1) and new car manufacturers customers to improve the company's optical, especially proprietary wafer-level-glass (WLG) technology and its high-precision manufacturing platform and other processes can be better introduced into the automotive field.

Horizontal linear motor shipments increased for Android client's, the climbing stage of new product of metal frame

In 2Q21, the company's electromagnetic drives and precision mechanics, combined segment business achieved revenue of RMB 1.218 billion (-29.4% yoy and -0.8% qoq). The gross profit was RMB 270 million (-31.3% yoy and -13.7% qoq) and the gross profit margin was 22.1% (-0.6 ppts yoy and -3.4 ppts qoq). The market penetration rate of the company's haptic feedback solutions in 2Q21 has further increased. The Android client horizontal linear motor shipments have increased by more than 400 yoy. Through the integrated solution of "Hardware + algorithm", it can realize short-term start and stop, superimposed vibration tactile feedback, and provide customers with a differentiated tactile experience. It is expected to promote the needs of customers for product upgrades and update iterations, which will help drive the annual growth of horizontal linear motor shipments for the company.

In terms of precision structural parts, as the new metal frame products are still in the climbing stage, the gross profit margin has declined. On the other hand, they have successfully expanded more customers portfolios and imported into the laptop and tablet computer structural parts market. With the increase in the penetration rate of metal structural parts in multiple markets, it is estimated that its laptop and tablet computer business revenue will exceed 10% of the revenue of precision structural parts, bringing further room for growth in the company's segment business.

Increased the installed capacity of MEMS microphones, expanding multiple vertical fields

In 2Q21, the company's micro-electromechanical system device (MEMS) business revenue was RMB 238 million (-7.9% yoy and -15.9% qoq). The gross profit was RMB 38 million (-7.3% yoy and 19.1 qoq) and the gross profit margin was 15.8% (-0.2 ppts yoy and -0.8 ppts qoq). With the increase in the number of MEMS microphones installed on a single smart phone, and the popularization of wearable devices and smart home products, the market scale is expected to continue to expand. The company will seize the market opportunities of the continuous development of IoT, and the trend of specification upgrade requirements such as true wireless Bluetooth (TWS) headsets and laptop computers, and increase the market penetration rate of the company's MEMS products.

Company valuation

We lowered our net profit forecast for 2021/ 2022/ 2023 to RMB 2.053/ 2.546/ 3.300 billion, and the compound annual growth rate for 21-23 is 26.8%. The main consideration is that the company's annual gross profit margin failed to remain in the first quarter, but most of its business has begun to import the Android customer market, and it has also entered the automotive market in the fast-developing optical business. Therefore, the company maintains its 2021 P/E ratio of 25x, and lowers the target price from 63.0 to HKD 49.95, which corresponds to a stock-earnings ratio of 25.0x/ 20.2x/ 15.6x in 2021/ 2022/ 2023, and is upgraded to a buy rating.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	17,884	17,140	19,580	21,669	23,937
COGS	(12,777)	(12,913)	(14,294)	(15,602)	(16,756)
Gross Profit	5,107	4,227	5,287	6,067	7,181
S&A expense	(275)	(285)	(313)	(347)	(383)
R&D expense	(643)	(672)	(783)	(823)	(910)
Admin. expense	(1,717)	(1,920)	(1,958)	(2,167)	(2,394)
Other gains and losses	329	650	367	447	548
Operating Profit	2,801	2,000	2,599	3,177	4,042
Finance costs	(248)	(353)	(275)	(294)	(307)
Other income/ expense	-	-	-	-	-
Profit before tax	2,552	1,648	2,324	2,883	3,735
Income tax expense	(330)	(147)	(279)	(346)	(448)
NCI	0	6	8	10	12
Profit for the year	2,222	1,507	2,053	2,546	3,299
EPS (RMB)	1.84	1.25	1.70	2.11	2.73

Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	18.80	26.02	19.29	15.55	12.00
P/B ratio, x	2.16	1.80	1.68	1.54	1.39
Dividend Yield, %	1.04%	0.78%	1.03%	1.29%	1.66%

Per share data (RMB)

EPS	1.84	1.25	1.70	2.11	2.73
BVPS	16.00	18.06	19.50	21.26	23.55
DPS (HKD)	0.40	0.30	0.40	0.50	0.64

Growth & Margin

Growth					
Revenue Growth	-1.4%	-4.2%	14.2%	14.0%	10.0%
Gross Profit Growth	-24.3%	-17.2%	25.1%	14.8%	18.4%
Operating Profit Growth	-38.2%	-28.6%	29.9%	22.3%	27.2%
Net Profit Growth	-41.5%	-32.5%	36.2%	24.1%	29.6%
Margin					
Gross Profit Margin	28.6%	24.7%	27.0%	28.0%	30.0%
Operating Profit Margin	15.7%	11.7%	13.3%	14.7%	16.9%
Net Profit Margin	12.4%	8.8%	10.5%	11.8%	13.8%

Key Ratios

ROE	11.6%	7.3%	9.0%	10.3%	12.2%
ROA	6.9%	4.1%	5.1%	6.0%	7.2%

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Non Current Asset					
PPE	16,911	18,592	20,542	22,567	24,851
GoodWill	164	164	164	164	-
Intangible assets	434	373	325	276	227
Others	1,526	2,567	2,765	2,597	2,430
Total Non Current Assets	19,400	22,062	23,796	25,605	27,673
Current Asset					
Bank balances and cash	5,512	7,540	7,541	7,288	7,345
T/R	5,576	5,176	5,974	6,499	7,330
Inventories	3,664	3,995	4,120	4,463	4,864
Others	55	138	138	138	138
Total Current Assets	14,808	16,850	17,773	18,388	19,678
Total Assets	34,207	38,911	41,569	43,993	47,351
Non Current Liabilities					
Bond borrowings	3,850	2,543	2,543	2,543	2,543
Others	3,286	5,168	5,168	5,168	5,168

Total Non Current Liabilities	7,136	7,711	7,711	7,711	7,711
--------------------------------------	-------	-------	-------	-------	-------

Current Liabilities

Bank borrowings	1,876	3,349	3,349	3,349	3,349
T/P	5,474	5,205	6,123	6,418	6,999
Others	361	827	827	827	827
Total Current Liabilities	7,711	9,380	10,298	10,593	11,174

Equity

Share capital	98	98	98	98	98
Reserve	19,253	21,061	22,808	24,946	27,735
Non controlling interest	10	662	654	645	632
Total Equity	19,361	21,821	23,561	25,689	28,465
Total Liabilities and Equity	34,207	38,911	41,569	43,993	47,351

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
CFO	3,843	3,593	4,712	4,929	5,855
Profit before tax	2,552	1,648	2,324	2,883	3,735
D&A	2,176	2,478	2,397	2,670	2,912
Chg in working cap	(728)	(527)	(5)	(572)	(651)
Income tax paid	(370)	(262)	(279)	(346)	(448)
Others	(35)	(96)	-	-	-
CFI	(3,395)	(3,262)	(4,132)	(4,479)	(4,980)
Capex	(2,833)	(4,735)	(4,132)	(4,479)	(4,980)
Others	(562)	1,473	-	-	-
CFF	255	2,582	(580)	(702)	(818)
Interest paid	(233)	(300)	(275)	(294)	(307)
Dividend paid	(1,531)	(107)	(305)	(408)	(511)
Total bond issuance	(263)	356	-	-	-
Others	2,282	2,632	-	-	-
Net Change in Cash	704	2,913	1	(253)	57
Foreign exchange	51	(187)	-	-	-
Cash and CE at Y/E	4,814	7,540	7,541	7,288	7,345

Current Price as of: 23rd September

Source: PSHK

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2021 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

L Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm