AAC Technologies (2018 HK)

1H26: Earnings Miss On Weak Smartphone Shipments, But Expanding Guidance And Emerging Segments Support Outlook

Highlights

- 1H26 revenue and net profit missed expectations on weak smartphone shipment volumes and high opex.
- Emerging growth drivers set to deliver in the near term as non-smartphone diversification gains traction.
- Upgrade to BUY with a higher target price of HK$47.80.

1H26 Results

Year to 31 Dec (Rmbm)	1H25	2H25	1H26	yoy (%)	hoh (%)
Revenue	13,318	18,499	14,506	8.9	(21.6)
Acoustics and Electromagnetic Drives	7,967	6,012	7,931	(0.4)	31.9
Automotive Acoustics	1,815	2,382	2,235	23.1	(6.2)
Precision components and heat dissipation	2,891	4,002	3,251	12.5	(18.8)
Sensors and Semiconductors	608	963	858	41.0	(10.9)
Optics	2,648	3,078	2,047	(22.7)	(33.5)
Gross profit	2,754	4,262	3,244	17.8	(23.9)
Attributable NP	876	1,636	901	2.9	(44.9)
GPM (%)	20.7	23.0	22.4	1.7	(0.7)
Acoustics and Electromagnetic Drives	27.9	-	28.6	0.7	28.6
Automotive Acoustics	23.3	-	20.1	(3.2)	20.1
Precision components and heat dissipation	19.0	-	23.1	4.1	23.1
Sensors and Semiconductors	12.1	-	14.6	2.5	14.6
Optics	10.2	-	10.2	(0.1)	10.2

Note: Segment-level GPM (%) breakdowns are currently unavailable due to a shift in management's segment reporting structure

Source: AAC, UOB Kay Hian

Analysis

- **Top- and bottom line growth missed consensus expectations.** Revenue rose 8.9% yoy but fell 21.6% hoh to Rmb14.5b, missing consensus estimates by 5.6% due to weaker smartphone shipment volumes. Supported by premiumisation and an expanding share of higher-margin non-smartphone related revenue, gross margin expanded 1.7ppt yoy but compressed 0.7ppt hoh to 22.4%, slightly beating consensus estimates. Net profit grew by 2.9% yoy but dropped 44.9% hoh to Rmb901.3m, missing consensus estimates by 8.9% as R&D and selling costs drove operating expenses higher than expected.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	27,328	31,817	33,922	37,545	42,654
EBITDA	5,016	6,114	6,590	7,384	8,514
Operating profit	2,408	3,281	3,494	3,975	4,792
Net profit (rep./act.)	1,797	2,512	2,652	3,030	3,682
Net profit (adj.)	1,797	2,512	2,652	3,030	3,682
EPS (Fen)	152.8	217.5	229.7	262.3	318.8
PE (x)	22.3	15.7	14.9	13.0	10.7
P/B (x)	1.1	1.1	1.0	0.9	0.9
EV/EBITDA (x)	7.6	6.2	5.8	5.2	4.5
Dividend yield (%)	0.7	0.9	0.9	1.1	1.3
Net margin (%)	6.6	7.9	7.8	8.1	8.6
Net debt/(cash) to equity (%)	7.9	(2.5)	(8.4)	(15.1)	(22.7)
Interest cover (x)	5.8	8.3	7.9	8.1	8.6
ROE (%)	7.9	10.3	10.0	10.4	11.4
Consensus net profit	-	-	2,795	3,345	3,748
UOBKH/Consensus (x)	-	-	0.95	0.91	0.98

Source: AAC, Bloomberg, UOB Kay Hian

Analyst(s)

Johnny Yum
johnny.yum@uobkh.com
+852 2235 6760

Murphy Li
murphy.li@uobkh.com
+852 2826 4867

BUY (Upgraded)

Share Price	HK$39.12
Target Price	HK$47.80
Upside	+22.2%
Previous TP	HK$45.00

Stock Data

Sector	Information Technology
Bloomberg ticker	2018 HK
Shares issued (m)	1,199
Market cap (HK$m)	46,889
Market cap (US$m)	6,050
3-mth avg daily t'over (US$m)	37.9

Price Performance (%)

52-week high/low: HK$51.00/ HK$31.2

1mth	3mth	6mth	1yr	YTD
(1.0)	(6.0)	6.4	(22.3)	(0.1)

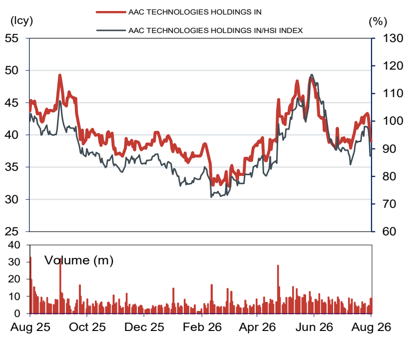
Major Shareholders (%)

Wu Chun Yuan	22.79

Balance Sheet Metrics

FY26 NAV/Share (HK$)	22.71
FY26 Net Cash/Share (HK$)	1.87

Price Chart



Source: Bloomberg

Company Description

AAC Technologies designs and manufactures miniature acoustic components. The company's products are used in mobile telecommunications, IT products, consumer electronics, home appliances, automobiles and medical devices.

- **2026 Guidance:**
  a) Total revenue to grow double-digit yoy, with gross margin expanding beyond 1H26's 22.4%.
  b) Acoustics and electromagnetic to drive revenue to grow single-digit yoy, with gross margin expanding beyond 1H26's 28.6%.
  c) Precision mechanics and heat dissipation revenue to grow 30% yoy, with gross margin expanding beyond 1H26's 23.1%.
  d) Optics: Camera lens revenue to fall 15-20% yoy with gross margin holding stable at about 30%, while camera module revenue to decline over 20% yoy with gross margin contracting to 3%. Overall segment gross margin to remain flat around 10-15%.
  e) Automotive acoustics revenue to rise 15-20% yoy, though gross margin will compress 2ppt yoy.
  f) Sensors and semiconductors revenue to grow 15-20% yoy, with gross margin exceeding 2025's 13.8%.
- **Management expects revenue from emerging products to accelerate considerably, reaching Rmb8b-9b in 2027.** These emerging segments will remain the key growth driver for AAC in the foreseeable future, which will more than offset the sustained weakness in traditional smartphone-related products. Guidance on notable segments is as follows:
  a) Vapour chamber and active cooling: Rmb5b combined.
  b) AI edge devices (eg, collaboration with OpenAI on new form factor consumer devices) and gimbal motor solutions (eg, Honor's robotic phone): Rmb1.5b combined.
  c) Liquid cooling (CDU and cold plate): Rmb600m-800m and Rmb200m-300m, respectively, totalling about Rmb1b.
  d) Humanoid/small robotics and desktop AI: Rmb300m-500m and Rmb100m-200m, respectively, totalling Rmb400m-700m.
  e) Display modules for AR glasses (waveguides and light engine): Rmb500m.
  f) Wafer-level glass for AI optical communications: Meaningful contribution at Rmb100m.

Valuation/ Recommendation

- **Upgrade to BUY with a higher target price of HK$47.80** as we roll over to 2027 estimates, now based on 15.7x 2027F PE. We believe the earnings miss is already priced in, as evidenced by share price weakness heading into the print. We are also increasingly optimistic about the significant growth acceleration across new business lines given the near-term visibility provided during the call.

Earnings Revision/Risk

- We fine-tuned our FY26/27/28 net profit estimates by +0.8%/+4.2%/-0.2% to Rmb2,652m/Rmb3,030m/Rmb3,682m, respectively.
- We revised down our acoustics revenue forecast on ASP pressure and sluggish Android demand, and slashed optics revenue estimates on steeper-than-expected shipment declines. We also raised our opex ratio assumptions to reflect higher R&D spending. However, these adjustments are more than offset by upgraded revenue and margin assumptions for precision components, heat dissipation, sensors, and semiconductor segments.

Share Price Catalyst

- None.

Changes To 2026-28 Estimates

Year to 31 Dec	Old estimates			New estimates			Differences (%)		
(Rmbm)	2026F	2027F	2028F	2026F	2027F	2028F	2026F	2027F	2028F
Revenue	33,976	37,048	40,702	33,922	37,545	42,654	(0.2)	1.3	4.8
Acoustics and Electromagnetic Drives	15,153	15,487	16,171	13,944	14,641	15,812	(8.0)	(5.5)	(2.2)
Automotive Acoustics	4,826	5,303	5,833	4,826	5,303	6,257	0.0	0.0	7.3
Precision components and heat dissipation	7,137	8,921	10,706	8,616	10,339	12,407	20.7	15.9	15.9
Sensors and Semiconductors	1,885	2,168	2,428	2,042	2,655	3,186	8.3	22.5	31.2
Optics	4,866	4,769	4,865	4,294	4,208	4,292	(11.8)	(11.8)	(11.8)
GPM (%)	22.3	22.4	23.0	23.6	23.7	24.0	1.3	1.3	1.0
EBIT (Rmbm)	3,430	3,770	4,678	3,494	3,975	4,792	1.8	5.4	2.4
Net Profit (Rmbm)	2,630	2,909	3,688	2,652	3,030	3,682	0.8	4.2	(0.2)

Source: AAC, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	31,817	33,922	37,545	42,654
EBITDA	6,114	6,590	7,384	8,514
Deprec. & amort.	(2,833)	(3,096)	(3,409)	(3,722)
EBIT	3,281	3,494	3,975	4,792
Total other non-operating income	693	441	488	554
Associate contributions	0	-	-	-
Net interest income/(expense)	(395)	(444)	(491)	(558)
Pre-tax profit	2,887	3,050	3,484	4,234
Tax	(347)	(367)	(419)	(510)
Minorities	27	30	35	42
Net profit	2,512	2,652	3,030	3,682
Net profit (adj.)	2,512	2,652	3,030	3,682

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	18,329	19,124	19,698	20,052
Other LT assets	6,526	6,866	5,149	5,543
Cash/ST investment	8,612	10,243	12,419	15,360
Other current assets	15,512	14,498	18,337	20,664
Total assets	48,978	50,731	55,604	61,620
ST debt	383	383	383	383
Other current liabilities	14,471	13,921	16,148	18,940
LT debt	7,617	7,617	7,617	7,617
Other LT liabilities	1,565	1,591	1,635	1,698
Shareholders' equity	24,357	26,634	29,234	32,395
Minority interest	587	587	587	587
Total liabilities & equity	48,978	50,731	55,604	61,620

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	7,183	5,998	6,646	7,573
Pre-tax profit	2,887	3,050	3,484	4,234
Tax	(347)	(367)	(419)	(510)
Deprec. & amort.	(2,833)	(3,096)	(3,409)	(3,722)
Associates	(0)	-	-	-
Working capital changes	1,871	(225)	(318)	(431)
Non-cash items	5,606	6,636	7,309	8,002
Other operating cashflows	-	-	-	-
Investing	(3,952)	(3,548)	(3,550)	(3,553)
Capex (growth)	(3,544)	(3,544)	(3,544)	(3,544)
Investments	262	-	-	-
Proceeds from sale of assets	-	-	-	-
Others	(671)	(4)	(6)	(9)
Financing	(2,107)	(819)	(920)	(1,079)
Dividend payments	(356)	(376)	(429)	(521)
Issue of shares	(224)	-	-	-
Proceeds from borrowings	(1,332)	-	-	-
Loan repayment	-	-	-	-
Others/interest paid	(195)	(444)	(491)	(558)
Net cash inflow (outflow)	1,124	1,631	2,176	2,941
Beginning cash & cash equivalent	7,538	8,612	10,243	12,419
Changes due to forex impact	(50)	-	-	-
Ending cash & cash equivalent	8,612	10,243	12,419	15,360

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	22.1	23.6	23.7	24.0
Pre-tax margin	9.1	9.0	9.3	9.9
Net margin	7.9	7.8	8.1	8.6
ROA	5.1	5.2	5.4	6.0
ROE	10.3	10.0	10.4	11.4
Growth				
Turnover	16.4	6.6	10.7	13.6
EBITDA	16.1	14.1	11.1	15.3
Pre-tax profit	45.0	5.7	14.2	21.5
Net profit	39.8	5.6	14.2	21.5
Net profit (adj.)	39.8	5.6	14.2	21.5
EPS	42.3	5.6	14.2	21.5
Leverage				
Debt to total capital	24.3	22.7	21.2	19.5
Debt to equity	(2.5)	(8.4)	(15.1)	(22.7)
Net debt/(cash) to equity	(2.5)	(8.4)	(15.1)	(22.7)
Interest cover (x)	8.3	7.9	8.1	8.6