

# Sunny Optical (2382 HK)

## A bumpy ride to year end; Downgrade to HOLD

We downgrade the stock to HOLD as we expect multiple headwinds will drag Sunny's HCM/HLS biz in 2H21E, 1) continued camera de-spec and AAC's aggressive pricing into 2H21E, 2) reduced high-end HLS demand from Android camp due to iPhone 13 cycle, cancellation of Samsung's Galaxy and Huawei's weakness, 3) weaker smartphone sales amid COVID-19 variants. While we expect an upbeat 1H21 (+12%/48% revenue/NP) and stronger auto/AR/infra-red lens biz, current valuation at 35x/29x FY21/22E looks fair given lower visibility into 2H21E. We also see potential risk on downward revision of HLS FY21E guidance (+5% YTD, vs +15-20% guidance). We lowered our FY21-23E EPS by 1-5% and new SOTP-based TP of HK\$215.2 implies 28x FY22E P/E.

- Emerging headwinds in 2H21E.** While we expect Sunny's HCM to remain solid into 2H21E given share gain from O-Film, we see warning signs of Sunny's handset lens slowdown in 2H21E, given 1) camera de-spec (less cam per phone) and AAC's aggressive lens pricing, 2) lower high-end HLS demand from Sunny's clients due to iPhone 13 cycle, cancellation of Samsung's Galaxy series, and weaker Huawei's flagship sales. Despite order win in iPad/iPhone's lens (4kk/5kk per month by 4Q21E), we see the new orders are too small to move the needle. Overall, we expect 2H21E revenue/net profit to grow 16%/1% YoY (vs +12%/48% YoY in 1H21E).
- Limited impact from semi shortage; Samsung/Xiaomi shipment to slow down YoY in 2H21E.** We expect limited impact from recent semi supply shortage, and semi cost hike can be transferred to clients. However, we believe Samsung/Xiaomi shipment will slow down in 2H21E given high base in 2H20, cancellation of Galaxy series, COVID-19 impact on Samsung supply chain in Vietnam and new Honor's comeback.
- Fairly valued. Downgrade to HOLD on near-term challenges.** Trading at 35x/29x FY21/22E P/E, we think the stock is fairly valued. While we remain positive on Sunny's long-term outlook in auto lens/module/lidar and AR/VR opportunities, we see near-term challenges in 2H21E given weaker Samsung/Xiaomi demand and HLS ASP pressure amid de-spec/competition. We recommend to stay on sidelines in the meantime and revisit the stock when HLS demand/ASP stabilizes. Our new SOTP-based TP of HK\$215.2 implies 28x FY22E P/E.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	37,849	38,002	43,335	49,509	57,336
YoY growth (%)	46.0	0.4	14.0	14.2	15.8
Net income (RMB mn)	3,991	4,882	5,758	6,982	8,416
EPS (RMB)	3.65	4.47	5.27	6.39	7.70
YoY growth (%)	60.1	22.4	18.0	21.2	20.5
Consensus EPS (RMB)	NA	3.99	5.38	6.62	7.97
P/E (x)	50.8	41.5	35.2	29.0	24.1
P/B (x)	15.7	12.0	9.3	7.3	5.8
Yield (%)	0.3	0.4	0.4	0.5	0.6
ROE (%)	31.4	29.0	26.5	25.2	24.1
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### HOLD (Down)

Target Price	HK\$215.2
(Previous TP	HK\$254.3)
Up/Downside	-4%
Current Price	HK\$223.2

### China Technology Sector

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### Stock Data

Mkt Cap (HK\$ mn)	244,817
Avg 3 mths t/o (HK\$ mn)	1,418.87
52w High/Low (HK\$)	259.40 112.1
Total Issued Shares (mn)	1,097
Source: Bloomberg	

### Shareholding Structure

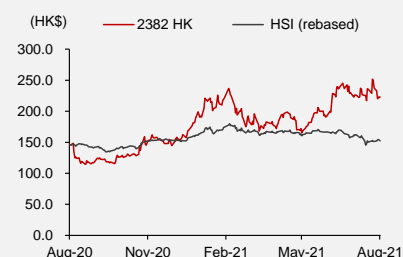
SUN XU LTD	35.47%
JPMORGAN CHASE	5.75%
WENJIAN WANG	3.04%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-1.2%	2.5%
3-mth	29.1%	37.4%
6-mth	0.0%	13.8%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

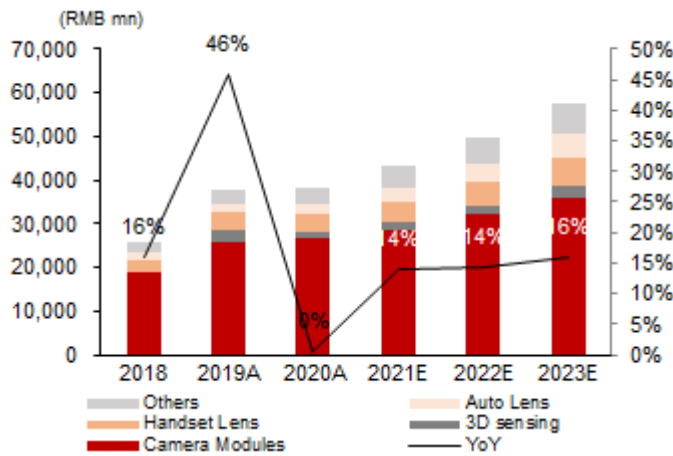
Auditor: Deloitte Touche Tohmatsu

### Related Reports:

- Entering next phase of growth; Lift TP to HK\$254 – 19 Mar 2021
- Lacklustre 2H20E mostly priced in; Share gain and restocking demand to drive shipment upside – 14 Oct 2020

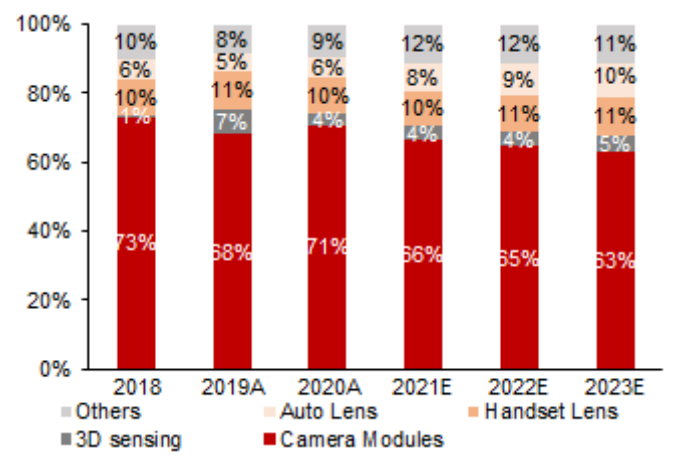
## Focus Charts

**Figure 1: Sunny Optical revenue trend**



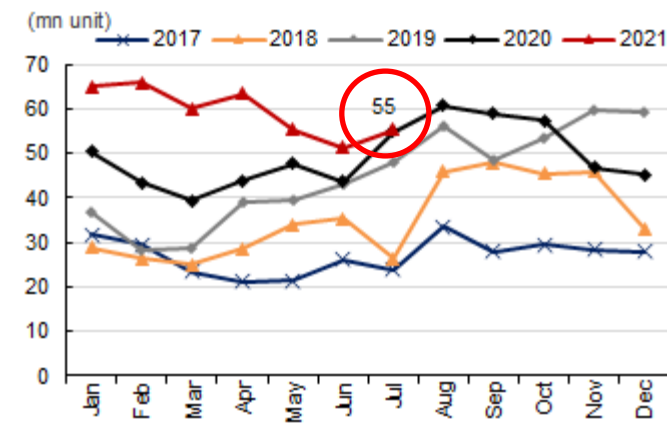
Source: Company data, CMBIS estimates

**Figure 2: Sunny Optical revenue breakdown**



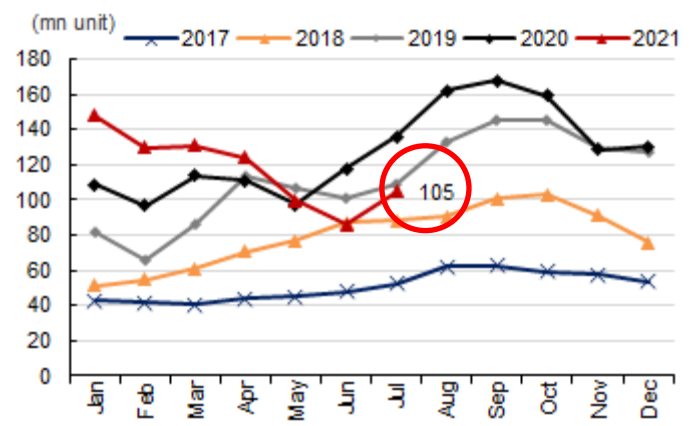
Source: Company data, CMBIS estimates

**Figure 3: Sunny HCM shipment trend**



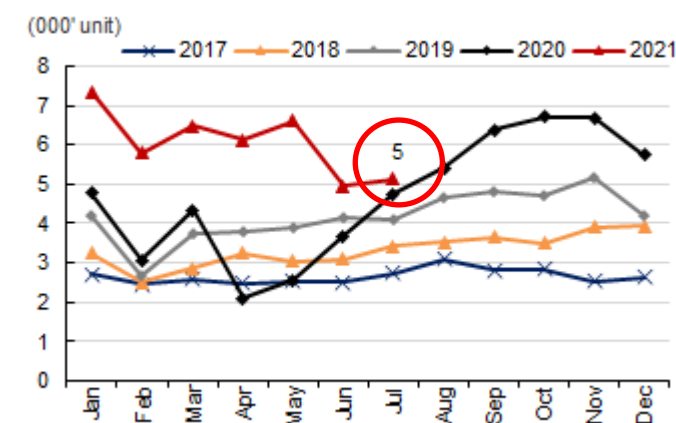
Source: Company data, CMBIS estimates

**Figure 4: Sunny HLS shipment trend**



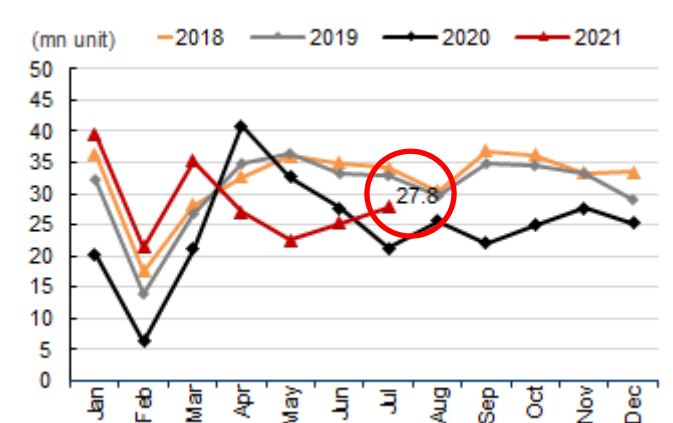
Source: Company data, CMBIS estimates

**Figure 5: Sunny VLS shipment trend**



Source: Company data, CMBIS estimates

**Figure 6: China smartphone market trend**



Source: MIIT, CMBIS estimates

## Earnings Revision

Figure 7: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	43,335	49,509	57,336	43,052	51,488	60,906	1%	-4%	-6%
Gross Profit	10,036	11,755	13,891	9,986	12,116	14,597	1%	-3%	-5%
Operating Profit	6,868	8,299	9,975	6,908	8,563	10,492	-1%	-3%	-5%
Net profit	5,758	6,982	8,416	5,795	7,213	8,867	-1%	-3%	-5%
EPS (RMB)	5.27	6.39	7.70	5.30	6.60	8.11	-1%	-3%	-5%
Gross Margin	23.2%	23.7%	24.2%	23.2%	23.5%	24.0%	0.0%	0.2%	0.3%
Operating Margin	15.8%	16.8%	17.4%	16.0%	16.6%	17.2%	-0.2%	0.1%	0.2%
Net Margin	13.3%	14.1%	14.7%	13.5%	14.0%	14.6%	-0.2%	0.1%	0.1%

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	43,335	49,509	57,336	44,877	53,964	64,295	-3%	-8%	-11%
Gross Profit	10,036	11,755	13,891	10,391	12,622	15,053	-3%	-7%	-8%
Operating Profit	6,868	8,299	9,975	6,450	7,928	NA	6%	5%	NA
Net profit	5,758	6,982	8,416	5,901	7,233	8,727	-2%	-3%	-4%
EPS (RMB)	5.27	6.39	7.70	5.38	6.62	7.97	-2%	-3%	-3%
Gross Margin	23.2%	23.7%	24.2%	23.2%	23.4%	23.4%	0 ppt	0.4 ppt	0.8 ppt
Operating Margin	15.8%	16.8%	17.4%	14.4%	14.7%	NA	1.5 ppt	2.1 ppt	NA
Net Margin	13.3%	14.1%	14.7%	13.1%	13.4%	13.6%	0.1 ppt	0.7 ppt	1.1 ppt

Source: Bloomberg, CMBIS estimates

## 1H21 Results Preview:

Figure 9: 1H21 results preview

RMB mn	1H20	2H20	1H21E	YoY	CMBI	
					1H21E	Diff (%)
Revenue	18,864	19,138	21,147	12%	20,419	4%
Gross profit	3,676	5,022	4,643	26%	4,632	0%
Operating profit	2,246	3,630	3,116	39%	2,876	8%
Net profit	1,749	3,133	2,589	48%	2,528	2%
EPS (RMB)	1.60	2.86	2.37	48%	2.24	6%
Gross margin	19.5%	26.2%	22.0%	2.5 ppt	22.7%	-0.7 ppt
Operating margin	11.9%	19.0%	14.7%	2.8 ppt	14.1%	0.6 ppt
Net margin	9.3%	16.4%	12.2%	3 ppt	12.4%	-0.1 ppt

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

RMB mn	FY19	FY20	1H21E	2H21E	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>37,849</b>	<b>38,002</b>	<b>21,147</b>	<b>22,188</b>	<b>43,335</b>	<b>49,509</b>	<b>57,336</b>
...YoY	46.0%	0.4%	12.1%	15.9%	14.0%	14.2%	15.8%
Cost of sales	(30,098)	(29,304)	(16,504)	(16,794)	(33,299)	(37,754)	(43,444)
<b>Gross profit</b>	<b>7,751</b>	<b>8,698</b>	<b>4,643</b>	<b>5,394</b>	<b>10,036</b>	<b>11,755</b>	<b>13,891</b>
<b>GPM (%)</b>	<b>20.5%</b>	<b>22.9%</b>	<b>22.0%</b>	<b>24.3%</b>	<b>23.2%</b>	<b>23.7%</b>	<b>24.2%</b>
...YoY	57.8%	12.2%	26.3%	7.4%	15.4%	17.1%	18.2%
SG&A	(929)	(1,032)	(533)	(555)	(1,088)	(1,203)	(1,393)
...% of rev	-2.5%	-2.7%	-2.5%	-2.5%	-2.5%	-2.4%	-2.4%
R&D	(2,209)	(2,499)	(1,227)	(1,331)	(2,558)	(2,896)	(3,325)
...% of rev	-5.8%	-6.6%	-5.8%	-6.0%	-5.9%	-5.9%	-5.8%
Other Gain & Loss	205	698	233	244	233	244	-
<b>Operating profit</b>	<b>4,806</b>	<b>5,877</b>	<b>3,116</b>	<b>3,752</b>	<b>6,868</b>	<b>8,299</b>	<b>9,975</b>
<b>OPM (%)</b>	<b>12.7%</b>	<b>15.5%</b>	<b>14.7%</b>	<b>16.9%</b>	<b>15.8%</b>	<b>16.8%</b>	<b>17.4%</b>
...YoY	56.2%	22.3%	38.7%	3.3%	16.9%	20.8%	20.2%
<b>Net profit</b>	<b>3,991</b>	<b>4,882</b>	<b>2,589</b>	<b>3,169</b>	<b>5,758</b>	<b>6,982</b>	<b>8,416</b>
<b>NPM (%)</b>	<b>10.5%</b>	<b>12.8%</b>	<b>12.2%</b>	<b>14.3%</b>	<b>13.3%</b>	<b>14.1%</b>	<b>14.7%</b>
...YoY	60.2%	22.3%	48.0%	1.2%	18.0%	21.2%	20.5%

Source: Company data, CMBIS estimates

**Figure 11: Major assumptions**

	FY19	FY20	FY21E	FY22E	FY23E
<b>Shipment volume (mn unit)</b>					
<b>Optical Components</b>					
Handset lens sets	1,343	1,530	1,672	1,923	2,308
...YoY(%)	41%	14%	9%	15%	20%
Vehicle lens sets	50	56	80	100	125
...YoY(%)	25%	12%	43%	25%	25%
<b>Optoelectronic Products</b>					
Handset camera modules	540	593	728	800	901
...YoY(%)	27%	10%	23%	10%	13%
Other optoelectronic (3D sensing)	49	41	59	71	85
...YoY(%)	388%	-18%	46%	20%	20%
<b>Optical Instruments</b>					
Microscopic instruments	197	195	236	260	286
...YoY(%)	-5%	-1%	21%	10%	10%
<b>Revenue (Rmb mn)</b>					
Optical Components	8,815	9,181	12,271	14,745	17,911
Optoelectronic Products	28,748	28,494	30,830	34,507	39,142
Optical instruments	285	326	234	257	283
<b>Total Revenue</b>	<b>37,849</b>	<b>38,002</b>	<b>43,335</b>	<b>49,509</b>	<b>57,336</b>
...YoY(%)	46.0%	0.4%	14.0%	14.2%	15.8%
<b>Gross Margin</b>					
Optical Components	20.5%	22.9%	23.2%	23.7%	24.2%
Optoelectronic products	45.2%	42.8%	41.1%	42.3%	42.5%
Optical instruments	9.3%	12.6%	12.8%	12.2%	11.9%
Optical instruments	41.3%	39.2%	40.0%	41.7%	41.7%

Source: Company data, CMBIS estimates

## Valuation

### Downgrade to HOLD and trim TP to HK\$215.2

We downgrade it to HOLD with new TP HK\$215.2. We derived our 12-month TP from SOTP valuation methodology and our new TP is based on weighted-average target P/E multiple of 28.0x FY22E EPS, in order to reflect 1) Sunny's diversification in multiple businesses with different growth profiles, and 2) visibility of product upcycles across different segments.

We assign 20x P/E to its CCM business, given its China No.1 position, product upcycle and advanced technology capacity. We assign 40x P/E for its vehicle lens business to reflect the high-margin and high-growth industry nature of vehicle lens (25% CAGR FY19-21E) and Sunny's No.1 global market share. We apply a 30x P/E to its handset lens segment given secular upgrade trend, continued share gains from peers and robust shipment momentum (18% sales CAGR FY19-21E).

**Figure 12: Sunny Optical – SOTP valuation**

Business segment	% of FY22E Profit	FY22E EPS (RMB)	Target P/E
Camera modules	35.7%	2.28	20x
Handset lenses	47.6%	3.04	30x
Vehicle lenses	15.8%	1.01	40x
Others	1.0%	0.06	25x
<b>Total (RMB) /Implied P/E</b>		<b>6.39</b>	<b>28.0x</b>
<b>TP (HK\$)</b>			<b>215.2</b>

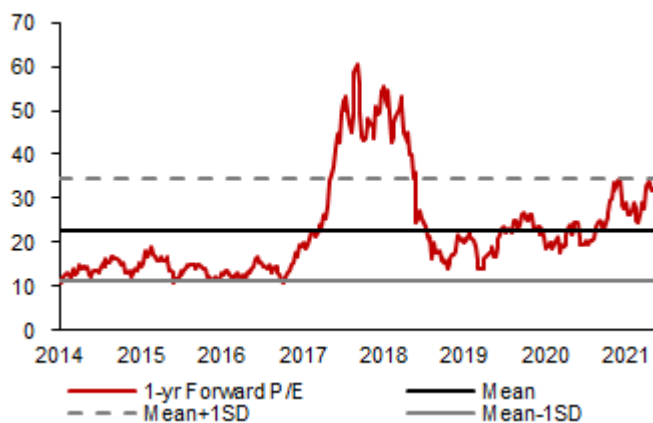
Sources: Company data, CMBIS estimates

**Figure 13: Peers' valuation**

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	
Sunny Optical	2382 HK	Buy	31,459	223.2	215.2	-44%	35.2	29.0	9.3	7.3	26.5	25.2	
Q tech	1478 HK	Buy	2,035	13.4	22.0	64%	13.2	9.6	3.7	3.0	23.1	24.1	
Cowell	1415 HK	NR	496	4.63	NA	NA	8.3	6.7	1.5	1.3	22.9	23.3	
Truly	732 HK	NR	1,188	2.81	NA	NA	8.5	5.6	-	-	-	-	
Catcher	2474 TT	NR	4,910	179.50	NA	NA	14.4	12.7	0.8	0.8	5.7	6.4	
Largan	3008 TT	NR	12,937	2685.00	NA	NA	16.6	14.1	2.4	2.2	15.7	16.3	
Lite-on	2301 TT	NR	5,150	61.20	NA	NA	10.2	10.8	1.8	1.8	18.9	16.2	
Primax	4915 TT	NR	825	50.90	NA	NA	9.3	8.0	1.5	1.4	16.1	17.3	
O-film	002456 CH	NR	3,274	7.87	NA	NA	18.5	14.6	2.1	1.9	6.5	8.7	
<b>Average</b>								<b>15.2</b>	<b>12.2</b>	<b>3.4</b>	<b>2.8</b>	<b>16.9</b>	<b>17.7</b>

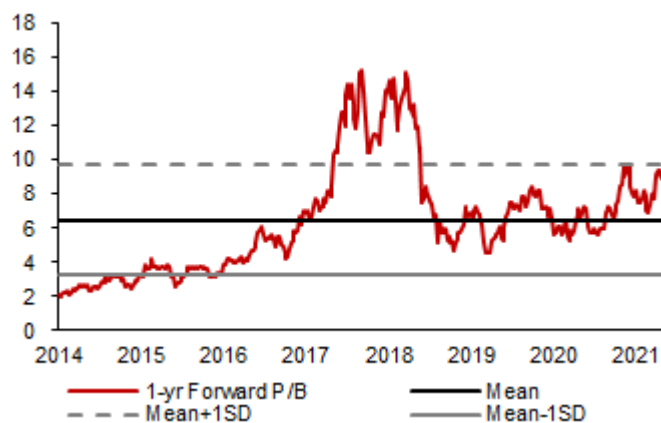
Source: Bloomberg, CMBIS estimates

**Figure 14: 12M forward P/E band**



Source: Bloomberg, CMBIS estimates

**Figure 15: 12M forward P/B band**



Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>37,849</b>	<b>38,002</b>	<b>43,335</b>	<b>49,509</b>	<b>57,336</b>
Cost of sales	(30,098)	(29,304)	(33,299)	(37,754)	(43,444)
<b>Gross profit</b>	<b>7,751</b>	<b>8,698</b>	<b>10,036</b>	<b>11,755</b>	<b>13,891</b>
Selling expenses	(279)	(313)	(314)	(361)	(419)
Admin expenses	(650)	(719)	(774)	(842)	(975)
R&D expenses	(2,209)	(2,499)	(2,558)	(2,896)	(3,325)
Other income	406	510	433	594	745
Other gain/ losses	(201)	187	43	50	57
<b>Operating profit</b>	<b>4,806</b>	<b>5,877</b>	<b>6,868</b>	<b>8,299</b>	<b>9,975</b>
Financial costs	(250)	(224)	(246)	(271)	(298)
Investment income	(6)	0	0	0	0
<b>Pre-tax profit</b>	<b>4,550</b>	<b>5,653</b>	<b>6,622</b>	<b>8,028</b>	<b>9,677</b>
Income tax expense	(531)	(703)	(781)	(947)	(1,142)
NCI	28	68	82	99	120
<b>Net profit</b>	<b>3,991</b>	<b>4,882</b>	<b>5,758</b>	<b>6,982</b>	<b>8,416</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profit before taxation</b>	4,550	5,653	6,622	8,028	9,677
Depreciation/amortisation	1,231	1,513	1,536	1,836	2,136
Change in working capital	(1,426)	192	(3,605)	2,073	(4,002)
Others	306	(199)	(520)	(659)	(822)
<b>Net cash from operating</b>	<b>4,662</b>	<b>7,160</b>	<b>4,033</b>	<b>11,279</b>	<b>6,990</b>
Capex	(2,760)	(2,538)	(3,000)	(3,000)	(3,000)
Other	(796)	(3,438)	-	-	-
<b>Net cash from investing</b>	<b>(3,556)</b>	<b>(5,976)</b>	<b>(3,000)</b>	<b>(3,000)</b>	<b>(3,000)</b>
Net borrowings	(382)	-	-	-	-
Dividend paid	(623)	(762)	(899)	(1,090)	(1,314)
Purchase of shares	(170)	-	-	-	-
Other	(266)	540	(246)	(271)	(298)
<b>Net cash from financing</b>	<b>(1,441)</b>	<b>(222)</b>	<b>(1,145)</b>	<b>(1,361)</b>	<b>(1,611)</b>
<b>Net change in cash</b>	<b>(336)</b>	<b>962</b>	<b>(112)</b>	<b>6,918</b>	<b>2,379</b>
Cash at beginning of the year	2,254	1,917	2,842	2,730	9,648
Exchange difference	(2)	(37)	-	-	-
<b>Cash at the end of the year</b>	<b>1,917</b>	<b>2,842</b>	<b>2,730</b>	<b>9,648</b>	<b>12,027</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>22,446</b>	<b>25,630</b>	<b>28,821</b>	<b>36,799</b>	<b>43,663</b>
Cash & equivalents	1,917	2,842	2,730	9,648	12,027
Financial assets	5,663	8,480	8,480	8,480	8,480
Deposits	21	238	238	238	238
Account receivables	9,630	8,212	12,134	11,111	15,808
Inventories	5,146	5,783	5,164	7,248	7,035
Other current assets	69	74	74	74	74
<b>Non-current assets</b>	<b>8,247</b>	<b>9,809</b>	<b>11,301</b>	<b>12,499</b>	<b>13,405</b>
Prepaid lease					
PPE	6,567	7,513	8,977	10,140	11,004
Interest in associates	1	2	2	2	2
Other non-curr. assets	1,680	2,293	2,323	2,356	2,399
<b>Total assets</b>	<b>30,693</b>	<b>35,438</b>	<b>40,122</b>	<b>49,298</b>	<b>57,068</b>
<b>Current liabilities</b>	<b>12,630</b>	<b>13,411</b>	<b>13,154</b>	<b>16,338</b>	<b>16,887</b>
ST borrowings	1,119	2,071	2,071	2,071	2,071
Account payables	11,322	10,733	10,432	13,565	14,049
Other current liabilities	5,622	9,223	14,466	17,324	24,062
<b>Non-current liabilities</b>	<b>5,336</b>	<b>5,201</b>	<b>5,201</b>	<b>5,201</b>	<b>5,201</b>
LT borrowings					
Others	5,336	5,201	5,201	5,201	5,201
<b>Total liabilities</b>	<b>17,967</b>	<b>18,612</b>	<b>18,355</b>	<b>21,539</b>	<b>22,087</b>
Share capital	105	105	105	105	105
Reserves	12,448	16,492	21,352	27,243	34,345
Minority interest	173	229	311	410	530
<b>Shareholders' equity</b>	<b>12,726</b>	<b>16,826</b>	<b>21,768</b>	<b>27,759</b>	<b>34,981</b>
<b>Total equity &amp; liabilities</b>	<b>30,693</b>	<b>35,438</b>	<b>40,122</b>	<b>49,298</b>	<b>57,068</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Optical components	23.3	24.2	28.3	29.8	31.2
Optoelectronic products	76.0	75.0	71.1	69.7	68.3
Optical instruments	0.8	0.9	0.5	0.5	0.5
<b>Growth (%)</b>					
Revenue	46.0	0.4	14.0	14.2	15.8
Gross profit	57.8	12.2	15.4	17.1	18.2
Operating profit	56.2	22.3	16.9	20.8	20.2
Net profit	60.2	22.3	18.0	21.2	20.5
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	20.5	22.9	23.2	23.7	24.2
Operating margin	12.7	15.5	15.8	16.8	17.4
Net profit margin	10.5	12.8	13.3	14.1	14.7
<b>Balance sheet ratio</b>					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.8	1.9	2.2	2.3	2.6
Receivable turnover days	76.5	85.7	85.7	85.7	85.7
Inventory turnover days	49.8	68.1	60.0	60.0	60.0
Payable turnover days	111.5	137.4	116.0	116.0	116.0
<b>Profitability (%)</b>					
ROE	31.4	29.0	26.5	25.2	24.1
ROA	13.0	13.8	14.4	14.2	14.7
<b>Per share data (RMB)</b>					
EPS	3.65	4.47	5.27	6.39	7.70
DPS	0.57	0.70	0.82	1.00	1.20

Source: Company data, CMBIS estimates

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