

# Sunny Optical (2382 HK)

## 1H21 in-line; Remain HOLD on volume/ASP downside

Sunny Optical 1H21 net profit grew 54% YoY, largely in-line with expectations, while revenue climbed 5% YoY, 6%/3% below our/consensus estimates, mainly driven by HCM/HLS ASP decline of 17%/26% YoY in 1H21. The only positives in 1H21 are strong auto lens (+70%YoY) and better HCM GPM of 14.8% (vs 12.0% CMBI), due to O-Film weakness and better utilization. As highlighted in our [downgrade note](#) last week, we believe camera de-spec trend and AAC's aggressive pricing strategy will continue to drag HCM/HLS shipment/ASP in 2H21E. We also see potential risk on downward revision of HLS FY21E guidance (+5% YTD, vs +15-20% guidance). We think current valuation at 34x/28x FY21/22E is fair given lower 2H21E visibility. Maintain HOLD. We will revise our forecasts after analyst briefing this morning.

- 1H21 in-line; lower ASP and better GPM.** Sunny 1H21 revenue grew 5% YoY, which missed our/consensus estimates by 6%/3% due to weaker HCM/HSL ASP of 17%/26% YoY decline. 1H21 net profit growth of 54% YoY is largely in-line, supported by stronger HCM GPM of 14.8% (vs 11.1%/14.2% in 1H20/2H20). By segment, optoelectronic (HCM, 3D/auto module) grew 3% YoY, in-line with our forecasts, while optical components (handset/auto lens) grew 12% YoY, 26% below our estimates given lower ASP and more internal sourcing for HCM.
- Emerging headwinds with HLS shipment/ASP downside in 2H21E.** While we expect HCM biz to remain solid into 2H21E given share gain from O-Film, we see potential downside risk on Sunny's HLS revenue slowdown in 2H21E, given lower high-end lens demand (Samsung/Huawei high-end weakness) and ASP pressure on camera de-spec trend and AAC's aggressive pricing strategy. In addition, recent COVID-19 pandemic in Vietnam will impact supply chain of Samsung which is Sunny's largest handset lens client. Overall, we expect 2H21E revenue/net profit to grow 16%/1% YoY (vs 5%/54% YoY in 1H20).
- Maintain HOLD; Lower earnings visibility into 2H21E.** Trading at 34x/28x FY21/22E P/E, we think the stock is fairly valued. Looking into 2H21E, we expect near-term challenges on shipment demand and ASP downside due to de-spec trend and intense competition. We recommend to revisit the stock when auto camera starts to pick up and HLS ASP stabilizes. Our 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)	49.3	40.2	34.1	28.1	23.3
P/B (x)	15.3	11.6	9.0	7.1	5.6
Yield (%)	0.3	0.4	0.5	0.6	0.7
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 (Maintain)

Target Price	HK\$215.2
(Previous TP)	HK\$215.2)
Up/Downside	-1%
Current Price	HK\$216.6

### China Technology Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	237,578
Avg 3 mths t/o (HK\$ mn)	1,435.27
52w High/Low (HK\$)	259.40/ 112.10
Total Issued Shares (mn)	1,097

Source: Bloomberg

#### Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	5.75%
WENJIAN WANG	3.04%

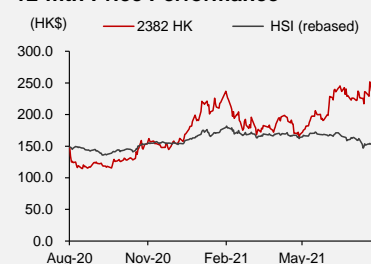
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-4.2%	2.5%
3-mth	28.5%	37.6%
6-mth	-8.5%	7.4%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

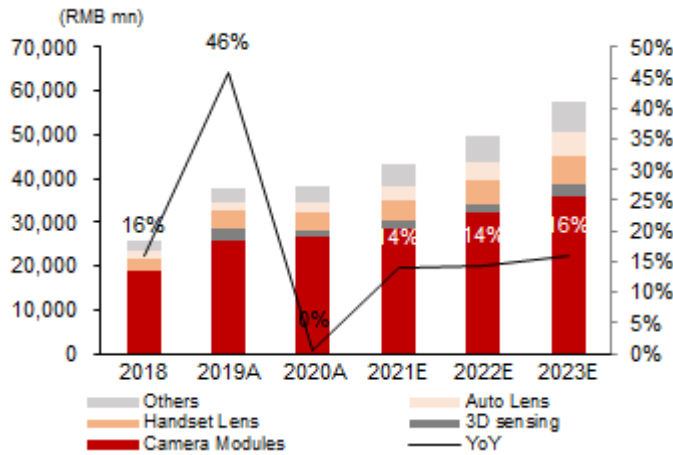
Auditor: Deloitte Touche Tohmatsu

#### Related Reports:

- A bumpy ride to year end; Downgrade to HOLD – 13 Aug 2021
- 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

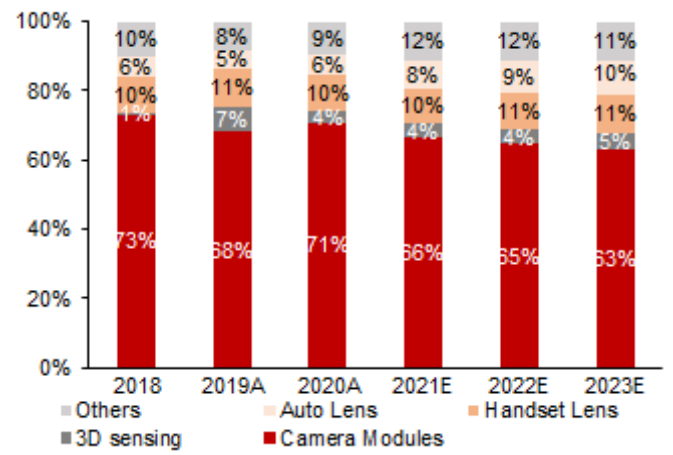
## Focus Charts

**Figure 1: Sunny Optical revenue trend**



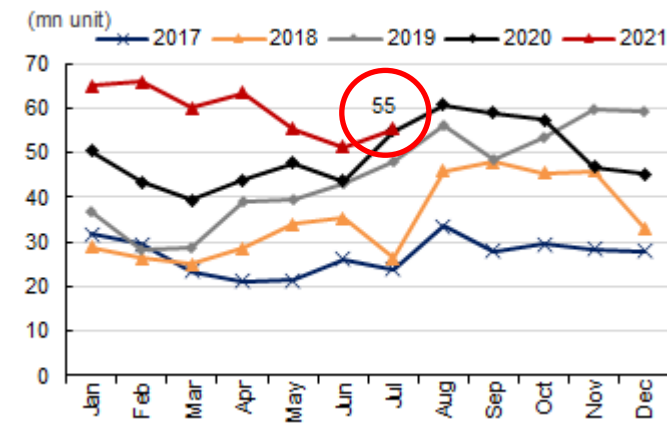
Source: Company data, CMBIS estimates

**Figure 2: Sunny Optical revenue breakdown**



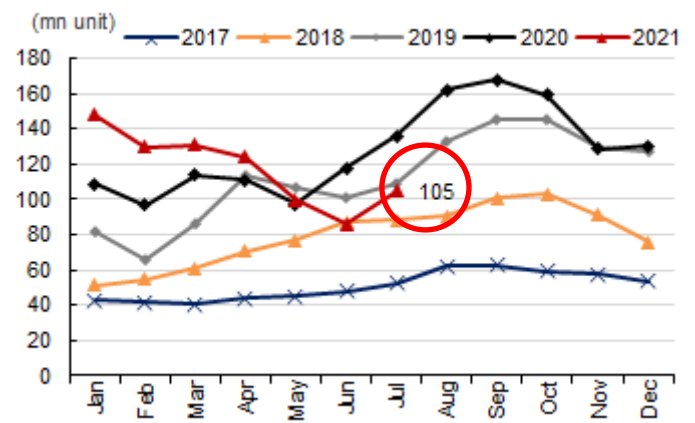
Source: Company data, CMBIS estimates

**Figure 3: Sunny HCM shipment trend**



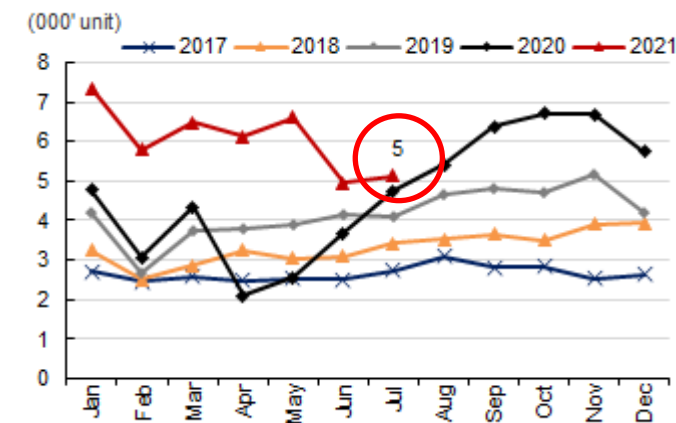
Source: Company data, CMBIS estimates

**Figure 4: Sunny HLS shipment trend**



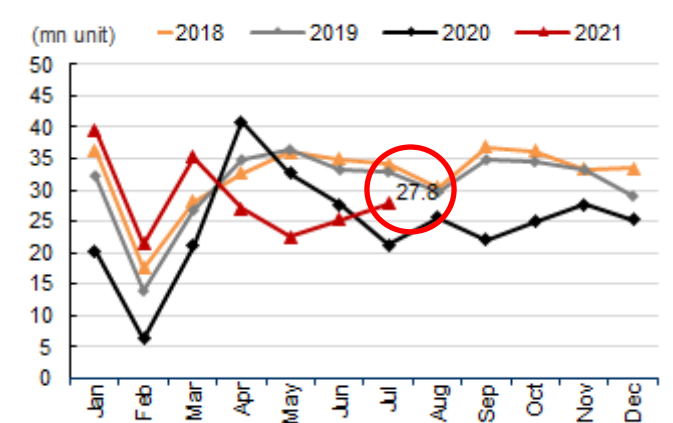
Source: Company data, CMBIS estimates

**Figure 5: Sunny VLS shipment trend**



Source: Company data, CMBIS estimates

**Figure 6: China smartphone market trend**



Source: MIIT, CMBIS estimates

## 1H21 Results Review:

Figure 7: 1H21 results review

RMB mn	1H20	2H20	1H21E	YoY	CMBI		Consensus	
					1H21E	Diff (%)	1H21E	Diff (%)
Revenue	18,864	19,138	19,833	5%	21,147	-6%	20,529	-3%
Gross profit	3,676	5,022	4,946	35%	4,643	7%	4,695	5%
Operating profit	2,246	3,630	3,345	49%	3,116	7%	2,963	13%
Net profit	1,749	3,133	2,688	54%	2,589	4%	2,584	4%
EPS (RMB)	1.60	2.86	2.46	54%	2.37	4%	2.30	7%
Gross margin	19.5%	26.2%	24.9%	5.5 ppt	22.0%	3 ppt	22.9%	2.1 ppt
Operating margin	11.9%	19.0%	16.9%	5 ppt	14.7%	2.1 ppt	14.4%	2.4 ppt
Net margin	9.3%	16.4%	13.6%	4.3 ppt	12.2%	1.3 ppt	12.6%	1 ppt

Source: Company data, CMBIS estimates

Figure 8: 1H21 results review

RMB mn	1H20	2H20	1H21	YoY	HoH	CMBI	
						1H21E	Diff (%)
<b>Optical Comp (Auto/ handset lens)</b>	<b>3,864</b>	<b>5,318</b>	<b>4,344</b>	<b>12%</b>		<b>5,865</b>	<b>-26%</b>
Auto lens shipment (mn unit)	21	36	37	82%		37	
... ASP (RMB)	38.8	41.6	36.2	-7%	-13%	42.0	-14%
Handset lens Shipment (mn unit)	6,454	8,844	7,171	11%		7,171	
... ASP (RMB)	4.2	4.0	3.5	-17%	-11%	4.0	-12%
<b>Optoelectronic (HCM, 3D)</b>	<b>14,874</b>	<b>13,620</b>	<b>15,308</b>	<b>3%</b>		<b>15,147</b>	<b>1%</b>
HCM Shipment (mn unit)	269	324	361	34%		361	
... ASP (RMB)	53.0	39.0	39.4	-26%	1%	38.9	1%
3D sensing Shipment (mn unit)	10.5	19.7	19.1	81%		23.9	
... ASP (RMB)	46.2	42.9	42.9	-7%	0%	39.6	8%
<b>Optical instruments</b>	<b>126</b>	<b>200</b>	<b>182</b>	<b>44%</b>		<b>135</b>	<b>34%</b>
<b>Total Revenue</b>	<b>18,864</b>	<b>19,138</b>	<b>19,833</b>	<b>5%</b>		<b>21,147</b>	<b>-6%</b>
<b>Gross Margin</b>							
Optical Comp (Auto/ handset lens)	41.5%	43.7%	42.9%	1.4 ppt	-0.8 ppt	40.0%	2.9 ppt
Optoelectronic (HCM, 3D)	11.1%	14.2%	14.8%	3.7 ppt	0.6 ppt	12.0%	2.8 ppt
Optical instruments	38.6%	46.3%	44.2%	5.6 ppt	-2.1 ppt	40.0%	4.2 ppt
<b>Blended GPM</b>	<b>19.5%</b>	<b>26.2%</b>	<b>24.9%</b>	<b>5.5 ppt</b>	<b>-1.3 ppt</b>	<b>22.0%</b>	<b>3 ppt</b>

Source: Company data, CMBIS estimates

Figure 9: P&amp;L forecast

RMB mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>37,849</b>	<b>38,002</b>	<b>19,833</b>	<b>22,188</b>	<b>43,335</b>	<b>49,509</b>	<b>57,336</b>
...YoY	46.0%	0.4%	5.1%	15.9%	14.0%	14.2%	15.8%
Cost of sales	(30,098)	(29,304)	(14,887)	(16,794)	(33,299)	(37,754)	(43,444)
<b>Gross profit</b>	<b>7,751</b>	<b>8,698</b>	<b>4,946</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>24.9%</b>	<b>24.3%</b>	<b>23.2%</b>	<b>23.7%</b>	<b>24.2%</b>
...YoY	57.8%	12.2%	34.5%	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%	-2.7%	-2.5%	-2.5%	-2.4%	-2.4%
R&D	(2,209)	(2,499)	(1,321)	(1,331)	(2,558)	(2,896)	(3,325)
...% of rev	-5.8%	-6.6%	-6.7%	-6.0%	-5.9%	-5.9%	-5.8%
Other Gain & Loss	205	698	252	244	233	244	-
<b>Operating profit</b>	<b>4,806</b>	<b>5,877</b>	<b>3,345</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>16.9%</b>	<b>16.9%</b>	<b>15.8%</b>	<b>16.8%</b>	<b>17.4%</b>
...YoY	56.2%	22.3%	48.9%	3.3%	16.9%	20.8%	20.2%
<b>Net profit</b>	<b>3,991</b>	<b>4,882</b>	<b>2,688</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>13.6%</b>	<b>14.3%</b>	<b>13.3%</b>	<b>14.1%</b>	<b>14.7%</b>
...YoY	60.2%	22.3%	53.7%	1.2%	18.0%	21.2%	20.5%

Source: Company data, CMBIS estimates

Figure 10: 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	45.2%	42.8%	41.1%	42.3%	42.5%
Optoelectronic products	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

### Maintain HOLD with TP of HK\$215.2

We maintain HOLD with TP HK\$215.2. We derived our 12-month TP from SOTP valuation methodology and our 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 11: 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>

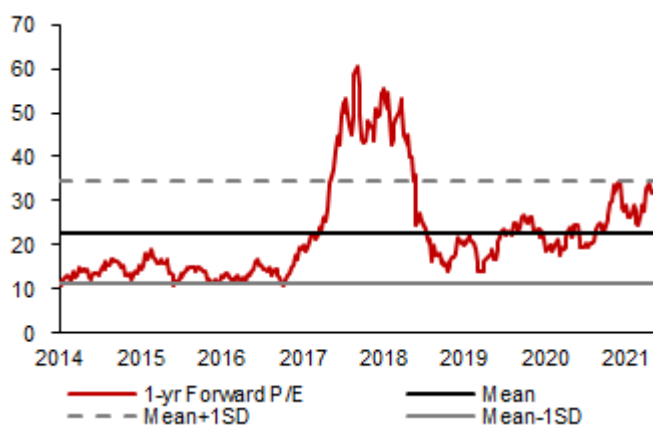
Sources: Company data, CMBIS estimates

**Figure 12: Peers' valuation**

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY20E	P/E (x) FY21E	P/B (x) FY20E	P/B (x) FY21E	ROE (%) FY20E	ROE (%) FY21E
Sunny Optical	2382 HK	Buy	30,520	216.6	215.2	-1%	24.1	28.1	9.1	7.1	26.5	25.2
Q tech	1478 HK	Buy	1,925	12.7	22.0	74%	12.4	9.1	3.5	2.9	23.1	24.1
Cowell	1415 HK	NR	508	4.74	NA	NA	8.7	7.0	1.6	1.3	22.9	23.3
Truly	732 HK	NR	1,175	2.78	NA	NA	7.5	5.3	-	-	-	-
Catcher	2474 TT	NR	4,869	178.00	NA	NA	14.3	12.5	0.8	0.8	5.7	6.4
Largan	3008 TT	NR	12,887	2675.00	NA	NA	16.6	14.4	2.4	2.2	15.2	15.9
Lite-on	2301 TT	NR	4,923	58.60	NA	NA	9.7	10.3	1.8	1.7	18.9	16.2
Primax	4915 TT	NR	819	50.50	NA	NA	9.2	7.9	1.5	1.4	16.1	17.3
O-film	002456 CH	NR	3,226	7.75	NA	NA	18.2	14.4	2.1	1.8	6.5	8.7
<b>Average</b>							<b>14.8</b>	<b>12.0</b>	<b>3.3</b>	<b>2.7</b>	<b>16.9</b>	<b>17.7</b>

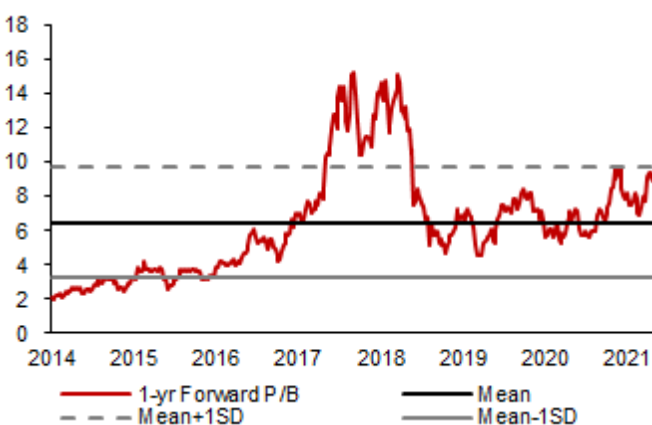
Source: Bloomberg, CMBIS estimates

**Figure 13: 12M forward P/E band**



Source: Bloomberg, CMBIS estimates

**Figure 14: 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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