

Sunny Optical (2382 HK)

Headwinds to persist into 1H22E; Maintain HOLD

We revised down our SOTP-based TP to HK\$125.7, as we expect ASP/margin downside on HCM/HLS segments given intensified competition with AAC/Q-tech in both HCM/HLS products during industry downturn. Our FY22-24E EPS are 20-25% below consensus estimates. While we are positive on Sunny's auto lens/modules leadership and potential market opportunity, Sunny's high exposure to handset segment (79% of sales, vs 7.9% for auto-related) will be a major drag to revenue growth and profitability during handset industry slowdown in 2022. We think the stock is fairly valued at 24.9x FY22E P/E, compared to 2.7%/19% EPS growth in FY22/23E. Maintain HOLD.

- 2022 guidance: HCM/HLS/VLS solid shipment growth with margin pressure.** Mgmt. guided +10-15%/ 5-10%/ 20-30% YoY volume growth for HCM/HLS/VLS, mainly driven by Apple's handset lens, Samsung's HCM, and auto lens recovery in 2H22E. However, we believe de-spec trend and aggressive expansion target from peers (AAC/Q-tech on 5P HLS/ low-end HCM) will lead to more intense competition in 2022. Despite sluggish HCM/HLS volume demand, AAC targeted 120-150kk/m HLS capacity (vs 180kk/m Sunny) and 20kk/m HCM capacity (vs 75kk/m Sunny), while Q-tech targeted double-digit shipment growth in HCM.
- Android destocking and de-spec trend as major overhang in 1H22E.** In near term, we expect HCM/HLS shipment weakness to persist into 2Q22 on high base and weak Android demand due to share loss to iPhone 5G SE. We now estimate HCM/HLS will deliver muted shipment growth with 9%/3% ASP decline in 1H22E, implying -17% YoY earnings decline in 1H22E.
- Positive LT opportunities in AR/VR, auto cam module and LiDAR.** Sunny targeted RMB3bn CAPEX in 2022 with 1) RMB1bn for emerging segments, including AR/VR (+50% YoY), auto cam module (RMB1bn sales target) and LiDAR (20 projects on hand), 2) RMB700mn for HLS expansion for Apple, 3) RMB500mn for HCM/HLS automation, 4) RMB 300mn VLS capacity expansion, and 5) RMB500mn for new plants in India/Vietnam.
- Fair valuation on near-term headwinds; Maintain HOLD.** Trading at 24.9x FY22E P/E, we think the stock is fairly valued with 2.7% FY22E EPS growth. While we are positive on LT outlook for Sunny, we remain conservative in near term given earnings uncertainty and industry headwinds. Maintain HOLD with new SOTP-based TP of HK\$125.7 (22.2x FY22E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	38,002	37,497	40,226	46,553	54,639
YoY growth (%)	0.4	(1.3)	7.3	15.7	17.4
Net income (RMB mn)	4,882	4,993	5,128	6,110	7,294
EPS (RMB)	4.47	4.57	4.69	5.59	6.68
YoY growth (%)	22.4	2.3	2.7	19.2	19.4
Consensus EPS (RMB)	NA	4.97	6.03	7.45	8.35
P/E (x)	26.2	25.6	24.9	20.9	17.5
P/B (x)	7.6	6.1	5.1	4.2	3.5
Yield (%)	0.6	0.8	0.8	0.9	1.1
ROE (%)	29.0	23.9	20.4	20.3	20.2
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$125.7
(Previous TP)	HK\$140.5)
Up/Downside	-11%
Current Price	HK\$140.8

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	158,824
Avg 3 mths t/o (HK\$ mn)	1,086.01
52w High/Low (HK\$)	259.4/ 113.9
Total Issued Shares (mn)	1,097
Source: Bloomberg	

Shareholding Structure

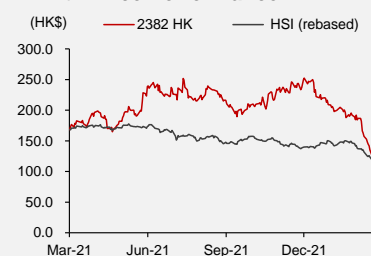
SUN XU LTD	35.47%
JPMORGAN CHASE	5.73%
WENJIAN WANG	3.04%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-26.6%	-21.6%
3-mth	-43.6%	-41.0%
6-mth	-34.9%	-27.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

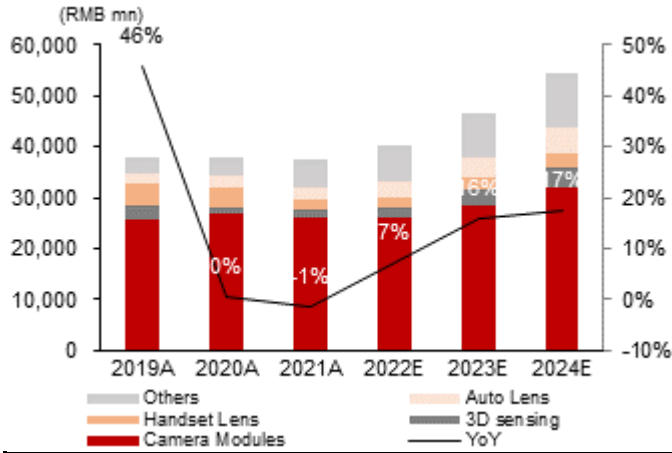
Auditor: Deloitte Touche Tohmatsu

Related Reports:

- 2H21 first take: worse-than-expected GPM pressure – 23 Mar 2022
- Headwinds not fully priced in; Maintain Hold – 10 Mar 2022

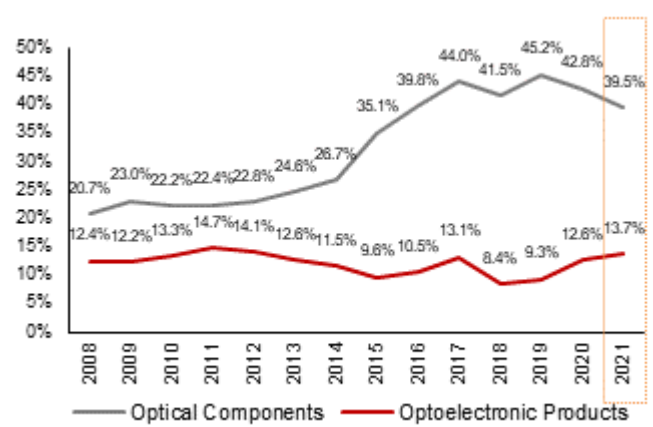
Focus Charts

Figure 1: Sunny Optical revenue trend



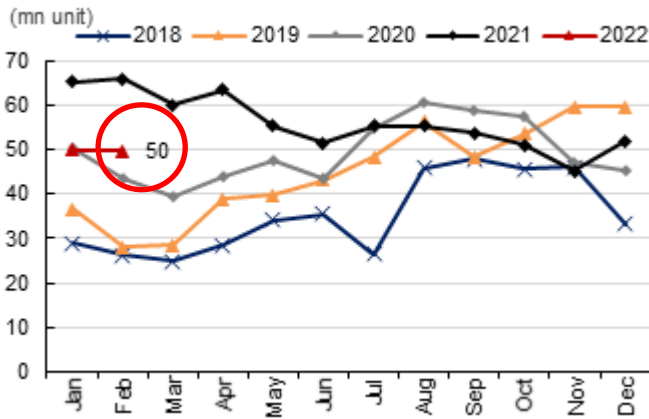
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



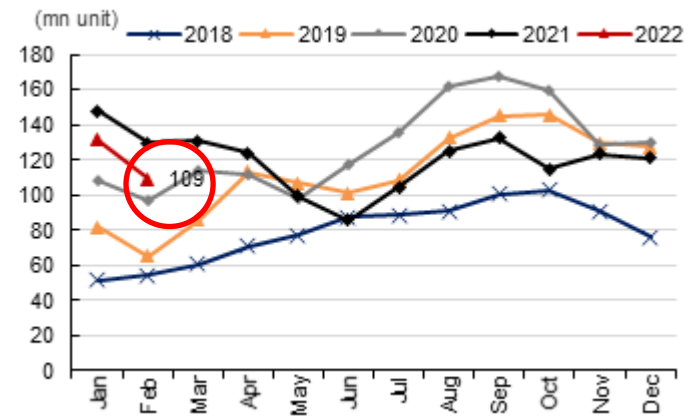
Source: Company data, CMBIGM estimates

Figure 3: Sunny HCM shipment trend



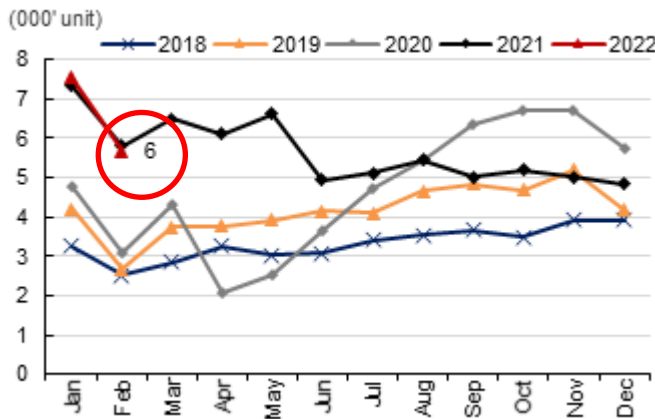
Source: Company data, CMBIGM estimates

Figure 4: Sunny HLS shipment trend



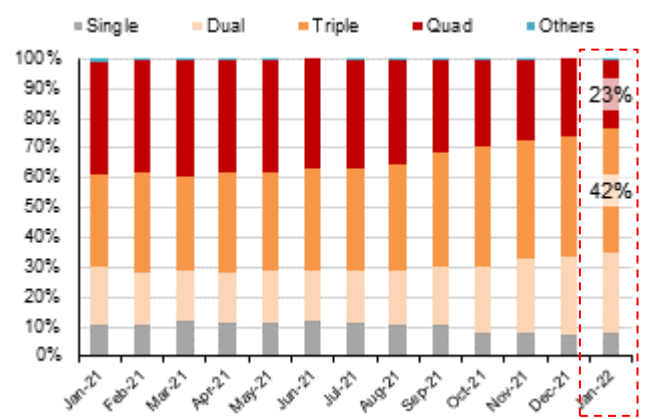
Source: Company data, CMBIGM estimates

Figure 5: Sunny VLS shipment trend



Source: Company data, CMBIGM estimates

Figure 6: China smartphone market trend



Source: Counterpoint, CMBIGM estimates

Key takeaways from analyst call:

2021 Review:

- Revenue declined 1.3% YoY, due to 1) HLS shipment decline, 2) de-spec leading to HLS ASP decrease.
- GPM was 23.3%, up 0.4pts YoY.
- HLS shipment down 5.9% YoY, reaching 1,439mn units
- VLS shipment up 21.0% YoY, Top 1 globally with market share of 34%
- HCM shipment up 13.6% YoY, reaching 673mn units

2022 Guidance on HCM/HLS/VLS:

- HLS: +5-10% YoY, driven by Apple share gain
- VLS: +20-30% YoY, wider range due to chip shortage uncertainty
- HCM: +10-15 % YoY, driven by Samsung share gain

2022 Guidance on other products:

- AR/VR revenue to grow 50% YoY
- Auto cam module revenue to reach RMB1bn
- Operating expense to maintain at 9% of total revenue
- Total capex to be RMB\$3bn with breakdown below:
 - 1) RMB1bn for AR/VR, vehicle camera and LiDAR areas
 - 2) RMB700mn for handset lens, mainly used for Apple shipment ramp
 - 3) RMB500mn for smartphone camera to improve automation level
 - 4) RMB300mn for vehicle capacity expansion to meet market demand
 - 5) RMB500mn for new infrastructure construction in new bases in Vietnam and India

Capacity expansion plan:

- HLS: from 180KK/m to 190KK/m
- VLS: from 7.5KK/m to 8KK/m
- HCM (excluding auto module): maintains at 75KK/m

2H21 Results Review

Figure 7: 2H21 results review

RMB mn	1H20	2H20	1H21E	2H21E	YoY	CMBI		Consensus	
						2H21E	Diff (%)	2H21E	Diff (%)
Revenue	18,864	19,138	19,833	17,663	5%	17,920	-1%	21,224	-17%
Gross profit	3,676	5,022	4,946	3,790	35%	4,185	-9%	4,990	-24%
Operating profit	2,246	3,630	3,345	2,506	49%	2,858	-12%	3,056	-18%
Net profit	1,749	3,133	2,688	2,305	54%	2,440	-6%	2,620	-12%
EPS (RMB)	1.60	2.86	2.46	2.11	54%	2.23	-6%	2.43	-13%
Gross margin	19.5%	26.2%	24.9%	21.5%	5.5 ppt	23.4%	-1.9 ppt	23.5%	-2.1 ppt
Operating margin	11.9%	19.0%	16.9%	14.2%	5 ppt	16.0%	-1.8 ppt	14.4%	-0.2 ppt
Net margin	9.3%	16.4%	13.6%	13.1%	4.3 ppt	13.6%	-0.6 ppt	12.3%	0.7 ppt

Source: Company data, CMBIGM estimates

Figure 8: FY21 revenue breakdown

RMB mn	1H20	2H20	1H21	2H21E	YoY	HoH	CMBIGM	
							2H21E	Diff (%)
Optical Comp (Auto/ handset lens)	3,864	5,318	4,344	4,432	-17%		5,089	-13%
Auto lens shipment (mn unit)	21	36	37	31	-14%		31	
... ASP (RMB)	38.8	48.1	36.2	41.5	-14%	15%	41.5	0%
Handset lens Shipment (mn unit)	6,454	8,844	7,171	7,225	-18%		7,225	
... ASP (RMB)	4.2	4.0	3.5	3.4	-14%	-3%	3.4	0%
Optoelectronic (HCM, 3D)	14,874	13,620	15,308	13,026	-4%		12,714	2%
HCM Shipment (mn unit)	269	324	361	312	-4%		312	
... ASP (RMB)	53.0	39.0	39.4	38.3	-2%	-3%	37.3	3%
3D sensing Shipment (mn unit)	10.5	19.7	19.1	19.1	-3%		19.1	
... ASP (RMB)	46.2	42.9	42.9	36.3	-15%	-15%	36.3	0%
Optical instruments	126	200	182	206	3%		117	76%
Total Revenue	18,864	19,138	19,833	17,663	-8%		17,920	-1%
Gross Margin								
Optical Comp (Auto/ handset lens)	41.5%	43.7%	42.9%	35.9%	-7.8 ppt	-7 ppt	40.0%	-4.1 ppt
Optoelectronic (HCM, 3D)	11.1%	14.2%	14.8%	12.4%	-1.8 ppt	-2.4 ppt	12.0%	0.4 ppt
Optical instruments	38.6%	46.3%	44.2%	49.3%	3.1 ppt	5.1 ppt	42.0%	7.3 ppt
Blended GPM	19.5%	26.2%	24.9%	21.5%	-4.8 ppt	-3.5 ppt	23.4%	-1.9 ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 9: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	40,226	46,553	54,639	39,348	45,039	NA	2%	3%	NA
Gross Profit	9,024	10,960	12,988	9,424	11,203	NA	-4%	-2%	NA
Operating Profit	6,064	7,292	8,682	6,658	8,082	NA	-9%	-10%	NA
Net profit	5,128	6,110	7,294	5,596	6,818	NA	-8%	-10%	NA
EPS (RMB)	4.69	5.59	6.68	5.12	6.24	NA	-8%	-10%	NA
Gross Margin	22.4%	23.5%	23.8%	24.0%	24.9%	NA	-1.5%	-1.3%	NA
Operating Margin	15.1%	15.7%	15.9%	16.9%	17.9%	NA	-1.8%	-2.3%	NA
Net Margin	12.7%	13.1%	13.3%	14.2%	15.1%	NA	-1.5%	-2.0%	NA

Source: Company data, CMBIGM estimates

Figure 10: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	40,226	46,553	54,639	48,006	56,484	64,762	-16%	-18%	-16%
Gross Profit	9,024	10,960	12,988	11,567	13,876	15,812	-22%	-21%	-18%
Operating Profit	6,064	7,292	8,682	7,185	8,849	9,405	-16%	-18%	-8%
Net profit	5,128	6,110	7,294	6,575	8,074	9,344	-22%	-24%	-22%
EPS (RMB)	4.69	5.59	6.68	6.03	7.45	8.35	-22%	-25%	-20%
Gross Margin	22.4%	23.5%	23.8%	24.1%	24.6%	24.4%	-1.7 ppt	-1 ppt	-0.6 ppt
Operating Margin	15.1%	15.7%	15.9%	15.0%	15.7%	14.5%	0.1 ppt	0 ppt	1.4 ppt
Net Margin	12.7%	13.1%	13.3%	13.7%	14.3%	14.4%	-0.9 ppt	-1.2 ppt	-1.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: P&L forecast

RMB mn	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
Revenue	38,002	37,497	19,923	20,303	40,226	46,553	54,639
...YoY	0.4%	-1.3%	0.5%	14.9%	7.3%	15.7%	17.4%
Cost of sales	(29,304)	(28,761)	(15,700)	(15,501)	(31,201)	(35,593)	(41,651)
Gross profit	8,698	8,736	4,223	4,802	9,024	10,960	12,988
GPM (%)	22.9%	23.3%	21.2%	23.7%	22.4%	23.5%	23.8%
...YoY	12.2%	0.4%	-14.6%	26.7%	3.3%	21.4%	18.5%
SG&A	(1,032)	(1,032)	(534)	(536)	(1,070)	(1,248)	(1,464)
...% of rev	-2.7%	-2.8%	-2.7%	-2.6%	-2.7%	-2.7%	-2.7%
R&D	(2,499)	(2,642)	(1,235)	(1,482)	(2,717)	(3,166)	(3,715)
...% of rev	-6.6%	-7.0%	-6.2%	-7.3%	-6.8%	-6.8%	-6.8%
Other Gain & Loss	698	252	698	252	537	528	-
Operating profit	5,877	5,851	2,752	3,312	6,064	7,292	8,682
OPM (%)	15.5%	15.6%	13.8%	16.3%	15.1%	15.7%	15.9%
...YoY	22.3%	-0.4%	-17.7%	32.1%	3.6%	20.2%	19.1%
Net profit	4,882	4,993	2,241	2,887	5,128	6,110	7,294
NPM (%)	12.8%	13.3%	11.2%	14.2%	12.7%	13.1%	13.3%
...YoY	22.3%	2.3%	-16.6%	25.2%	2.7%	19.1%	19.4%

Source: Company data, CMBIGM estimates

Figure 12: Major assumptions

	FY20	FY21	FY22E	FY23E	FY24E
Shipment volume (mn unit)					
Optical Components					
Handset lens sets	1,530	1,440	1,533	1,718	1,926
...YoY(%)	14%	-6%	7%	12%	12%
Vehicle lens sets	56	68	81	103	130
...YoY(%)	12%	21%	19%	26%	27%
Optoelectronic Products					
Handset camera modules	593	674	743	829	912
...YoY(%)	10%	14%	10%	12%	10%
Other optoelectronic (3D sensing)	41	59	85	124	179
...YoY(%)	-18%	45%	45%	45%	45%
Optical Instruments					
Microscopic instruments	195	258	284	312	343
...YoY(%)	-1%	32%	10%	10%	10%
Revenue (RMB mn)					
Optical Components	9,181	8,776	10,932	13,065	15,608
Optoelectronic Products	28,494	28,334	29,016	33,184	38,695
Optical instruments	326	387	277	305	335
Total Revenue	38,002	37,497	40,226	46,553	54,639
...YoY(%)	0.4%	-1.3%	7.3%	15.7%	17.4%
Gross Margin					
Optical Components	42.8%	39.5%	38.6%	41.5%	41.8%
Optoelectronic products	12.6%	13.7%	12.7%	12.6%	12.7%
Optical instruments	39.2%	45.1%	46.4%	46.4%	46.4%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with new TP of HK\$125.7

We maintain HOLD with lowered TP HK\$125.7. We derived our 12-month TP from SOTP valuation methodology and our TP is based on weighted-average target P/E multiple of 22.2x 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 lower 15x P/E to its CCM business to reflect its China No.1 position, product upcycle and advanced technology capacity. We assign 35x P/E for its vehicle lens business to reflect the high-margin and high-growth industry nature of vehicle lens (25% CAGR FY20-23E) and Sunny's No.1 global market share. We apply a 25x P/E to its handset lens segment given secular upgrade trend and continued share gains from peers.

Figure 13: Sunny Optical – SOTP valuation

Business segment	% of FY22E Profit	FY22E EPS (RMB)	Target P/E
Camera modules	40.8%	1.92	15x
Handset lenses	44.8%	2.10	25x
Vehicle lenses	13.1%	0.61	35x
Others	1.3%	0.06	25x
Total (RMB) /Implied P/E		4.69	22.2x
TP (HK\$)			125.7

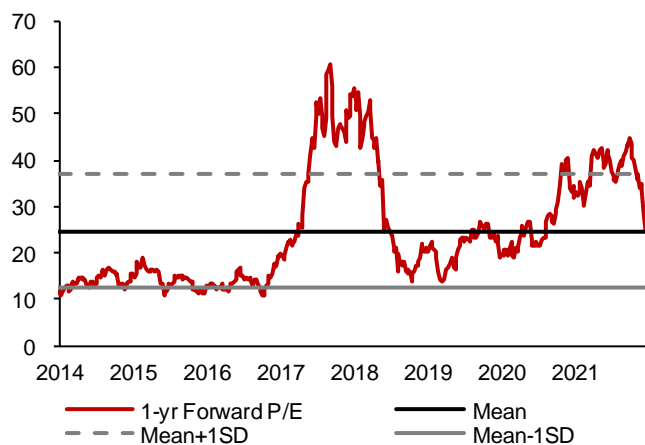
Sources: Company data, CMBIGM estimates

Figure 14: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	
Sunny Optical	2382 HK	Hold	19,737	140.8	125.7	-11%	24.9	20.9	5.1	4.2	20.4	20.3	
Q tech	1478 HK	Buy	912	6.0	8.6	42%	7.5	9.0	1.2	1.0	15.8	11.4	
Cowell	1415 HK	NR	855	8.02	NA	NA	10.8	7.9	2.2	1.8	22.8	25.9	
Truly	732 HK	NR	1,026	2.44	NA	NA	4.8	3.4	-	-	13.1	16.8	
Catcher	2474 TT	NR	3,932	147.50	NA	NA	12.2	11.1	0.7	0.7	5.9	6.1	
Largan	3008 TT	NR	9,390	2000.00	NA	NA	13.7	12.9	1.7	1.6	12.7	12.9	
Lite-on	2301 TT	NR	5,554	67.50	NA	NA	11.7	10.8	2.0	1.9	16.6	17.0	
Primax	4915 TT	NR	832	52.20	NA	NA	8.8	8.0	1.5	1.4	17.0	17.0	
O-film	002456 CH	NR	3,799	7.43	NA	NA	21.4	19.6	2.2	2.1	3.8	5.6	
Average								13.1	11.7	2.1	1.9	14.2	14.8

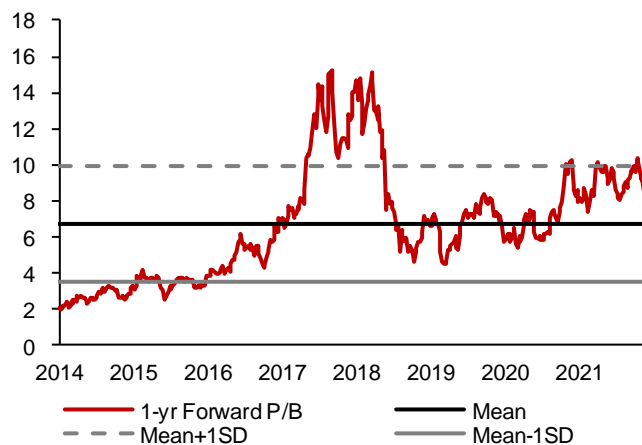
Source: Bloomberg, CMBIGM estimates

Figure 15: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 16: 12M forward P/B band



Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	38,002	37,497	40,226	46,553	54,639
Cost of sales	(29,304)	(28,761)	(31,201)	(35,593)	(41,651)
Gross profit	8,698	8,736	9,024	10,960	12,988
Selling expenses	(313)	(274)	(285)	(340)	(399)
Admin expenses	(719)	(758)	(785)	(908)	(1,065)
R&D expenses	(2,499)	(2,642)	(2,717)	(3,166)	(3,715)
Other income	510	690	746	698	820
Other gain/ losses	187	99	80	47	55
Operating profit	5,877	5,851	6,064	7,292	8,682
Financial costs	(224)	(230)	(253)	(279)	(306)
Investment income	0	19	19	19	19
Pre-tax profit	5,653	5,640	5,830	7,032	8,395
Income tax expense	(703)	(579)	(624)	(830)	(991)
NCI	68	68	77	92	110
Net profit	4,882	4,993	5,128	6,110	7,294

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	5,643	5,640	5,830	7,032	8,395
Depreciation/amortisation	1,570	1,638	1,753	2,053	2,353
Change in working capital	115	200	(1,103)	(192)	(1,326)
Others	(168)	(499)	(375)	(563)	(699)
Net cash from operating	7,160	6,979	6,104	8,330	8,723
Capex	(2,271)	(2,498)	(3,000)	(3,000)	(3,000)
Other	(3,705)	5,400	-	-	-
Net cash from investing	(5,976)	2,902	(3,000)	(3,000)	(3,000)
Net borrowings	1,017	-	-	-	-
Dividend paid	(796)	(974)	(1,000)	(1,192)	(1,423)
Purchase of shares	(151)	-	-	-	-
Other	(291)	2,215	(253)	(279)	(306)
Net cash from financing	(222)	1,241	(1,254)	(1,470)	(1,729)
Net change in cash	962	11,122	1,851	3,860	3,994
Cash at beginning of the year	1,917	2,842	5,605	7,456	11,316
Exchange difference	(37)	(8,358)	-	-	-
Cash at the end of the year	2,842	5,605	7,456	11,316	15,309

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	25,630	27,989	31,037	37,786	44,260
Cash & equivalents	2,842	5,605	7,456	11,316	15,309
Financial assets	8,480	8,314	8,314	8,314	8,314
Deposits	238	1,112	1,112	1,112	1,112
Account receivables	8,212	7,448	9,352	10,091	12,729
Inventories	5,783	5,482	4,776	6,926	6,768
Other current assets	74	28	28	28	28
Non-current assets	9,809	10,785	12,050	13,040	13,742
Prepaid lease	-	-	-	-	-
PPE	7,513	8,303	9,550	10,497	11,144
Interest in associates	2	202	202	202	202
Other non-curr. assets	2,293	2,280	2,298	2,341	2,397
Total assets	35,438	38,774	43,087	50,827	58,002
Current liabilities	13,411	11,873	11,982	14,711	15,905
ST borrowings	2,071	1,539	1,539	1,539	1,539
Account payables	10,733	9,869	9,963	12,660	13,814
Other current liabilities	9,223	15,493	19,603	21,917	26,745
Non-current liabilities	5,201	6,005	6,005	6,005	6,005
LT borrowings	-	700	700	700	700
Others	5,201	5,305	5,305	5,305	5,305
Total liabilities	18,612	17,879	17,987	20,716	21,910
Share capital	105	105	105	105	105
Reserves	16,492	20,483	24,611	29,529	35,401
Minority interest	229	307	384	476	586
Shareholders' equity	16,826	20,895	25,101	30,111	36,092
Total equity & liabilities	35,438	38,774	43,087	50,827	58,002

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Optical components	24.2	23.4	27.2	28.1	28.6
Optoelectronic products	75.0	75.6	72.1	71.3	70.8
Optical instruments	0.9	1.0	0.7	0.7	0.6
Growth (%)					
Revenue	0.4	(1.3)	7.3	15.7	17.4
Gross profit	12.2	0.4	3.3	21.4	18.5
Operating profit	22.3	(0.4)	3.6	20.2	19.1
Net profit	22.3	2.3	2.7	19.1	19.4
Profit & loss ratio (%)					
Gross margin	22.9	23.3	22.4	23.5	23.8
Operating margin	15.5	15.6	15.1	15.7	15.9
Net profit margin	12.8	13.3	12.7	13.1	13.3
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	2.4	2.6	2.6	2.8
Receivable turnover days	85.7	76.2	76.2	76.2	76.2
Inventory turnover days	68.1	68.1	60.0	60.0	60.0
Payable turnover days	137.4	137.4	116.0	116.0	116.0
Profitability (%)					
ROE	29.0	23.9	20.4	20.3	20.2
ROA	13.8	12.9	11.9	12.0	12.6
Per share data (RMB)					
EPS	4.47	4.57	4.69	5.59	6.68
DPS	0.73	0.89	0.92	1.09	1.30

Source: Company data, CMBIGM estimates

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