

Sunny Optical (2382 HK)

CMBI Corp Day takeaways: Positive on high-end upgrade, AI phone, ADAS hybrid lens and AR Glass outlook

We hosted Sunny Optical at CMBI Technology Corporate Day on 25 Jun, with strong client interest and positive takeaways. Key highlights: 1) smartphone market: mgmt. raised global/China smartphone shipment forecast by 1.7%/1.1% to 1.17bn/ 276mn (+3.5%/0.4% YoY) at Investor Day in Jun; 2) HCM/HLS: ASP/GPM recovery on track in 2024 driven by spec upgrade (e.g. AI phones), easing competition, high-end customer share gains and higher utilisation; 3) auto VLS: 40%+ GPM maintained and auto module growth to drive profitability; and 4) XR biz: diffractive waveguide to become mainstream in XR devices and positive on AR Glass as the next computing platform. Overall, we believe Sunny will benefit from the next AI-driven spec upgrade cycle given its technology leadership, strong product roadmap and strong client base. The stock now trades at 36x/26x FY24/25E P/E, and our SOTP-based TP of HK\$47.31 implies 25.9x FY25E P/E.

- **Smartphone: HCM/HLS ASP/GPM upside on easing competition, high-end spec upgrade and better mix; AI phones to boost replacement cycle.** Mgmt. reiterated their positive view on smartphone shipment recovery and raised 2024 global/China smartphone shipment forecast by 1.7%/1.1% to 1.17bn/276mn (+3.5%/0.4% YoY) on its Investor Day in June. For ASP/GPM, mgmt. expected high-end spec upgrade, stabilized competition, and global share gains will drive ASP/GPM recovery in 2H24E. In addition, mgmt. expected improving HLS/HCM UTR (70-80% now) in 2H24E given no capacity expansion, and gave HLS/HCM GPM guidance of 20%+/5%+, implying further upside in 2H24E. For 2025/26E, mgmt. expected AI smartphones to boost the replacement cycle, resulting in cam spec upgrade opportunities including 3D and deep perception interactive lenses.
- **Automotive: VLS GPM of ~40% in 2024; auto modules momentum to drive profitability.** While slower customer demand and cost reduction still weigh on auto segment, mgmt. remains positive on improving cost efficiency and high-end orders to drive business growth in 2024. In terms of product pipeline, 1M/2M/3M/5M hybrid ADAS started mass production and 8M hybrid ADAS will enter mass production in 2024, which is positive to potential US client wins. Overall, mgmt. expects stable VLS GPM at ~40% in 2024 and strong growth of higher-ASP auto modules will drive profitability ahead.
- **XR: AR Glass to become next computing platform, backed by diffractive waveguide and optomechanical systems.** Mgmt. is positive on AR glass to become the next computing platform for consumers, and optical components will account for 50%+ of total BOM costs. Sunny is investing heavily in related technologies including diffractive waveguide and optomechanical systems, and we think it is well positioned to capture opportunities with global AR/VR leaders.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	33,197	31,681	36,545	40,524	43,473
YoY growth (%)	(11.5)	(4.6)	15.4	10.9	7.3
Net profit (RMB mn)	2,407.8	1,099.4	1,351.2	1,837.9	2,193.6
YoY growth (%)	(51.8)	(54.3)	22.9	36.0	19.4
EPS (Reported) (RMB)	2.20	1.01	1.24	1.68	2.01
Consensus EPS (RMB)	2.20	1.20	2.21	2.97	4.20
P/E (x)	20.1	43.9	35.7	26.3	22.0
P/B (x)	2.2	2.1	2.0	2.0	1.9
Yield (%)	2.2	1.0	1.2	1.7	2.0
ROE (%)	11.2	4.9	5.8	7.6	8.6
Net gearing (%)	(22.6)	(45.5)	34.1	(42.4)	24.3

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price HK\$47.31
Up/Downside (0.5%)
Current Price HK\$47.55

China Technology

Alex NG

(852) 3900 0881
alexng@cmbi.com.hk

Hanqing LI

lihanqing@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	52,162.4
Avg 3 mths t/o (HK\$ mn)	557.2
52w High/Low (HK\$)	80.20/34.45
Total Issued Shares (mn)	1097.0

Source: FactSet

Shareholding Structure

Sun Xu Ltd	35.5%
JP Morgan Chase & Co	4.9%

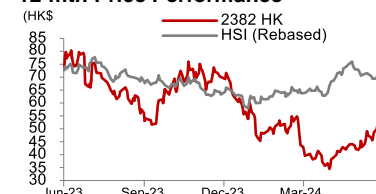
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	12.5%	17.2%
3-mth	10.6%	0.8%
6-mth	-32.2%	-38.7%

Source: FactSet

12-mth Price Performance



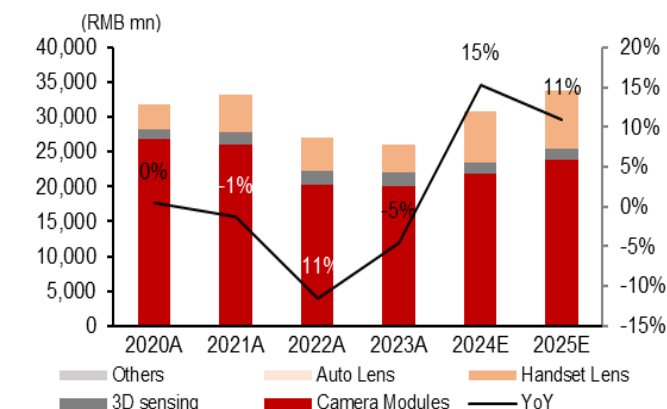
Source: FactSet

Related Reports:

- Investor Day takeaways: High-end upgrade to accelerate in 2H24E; Edge AI to drive long-term growth— 20 Jun 2024 ([link](#))
- Expectations reset on conservative guidance; Maintain HOLD – 22 Mar 2024 ([link](#))
- 2023 profit warning worse than feared; Maintain HOLD on earnings downside – 1 Jan 2024 ([link](#))
- Positive on shipment recovery and upgrade trend; Maintain Hold on fair valuation - 13 Oct 2023 ([link](#))

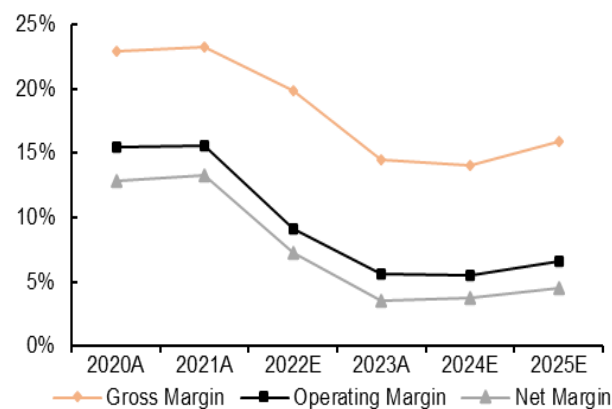
Focus Charts

Figure 1: Sunny Optical revenue trend



Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



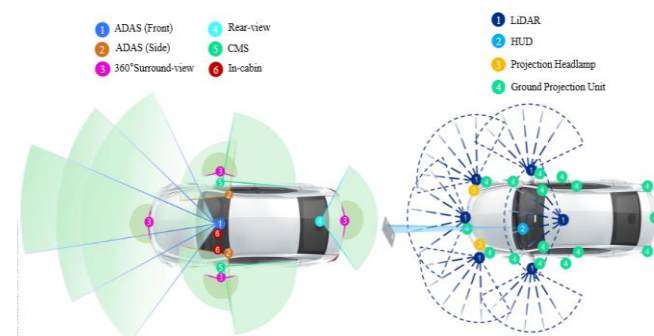
Source: Company data, CMBIGM estimates

Figure 3: Sunny's product upgrade trends



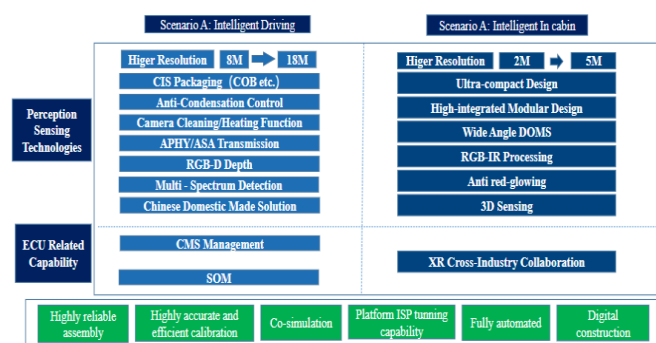
Source: Company data, CMBIGM

Figure 4: Rapid progress of auto camera market



Source: Company data, CMBIGM

Figure 5: Technologies in automotive modules



Source: Company data, CMBIGM

Figure 6: Edge-side AI to drive phone switching



Source: Company data, CMBIGM

Earnings Forecasts

Figure 7: P&L forecast

RMB mn	FY22	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Revenue	33,197	31,681	16,365	20,180	36,545	40,524	43,473
...YoY	-11.5%	-4.6%	14.6%	16.0%	15.4%	10.9%	7.3%
Cost of sales	(26,592)	(27,091)	(14,085)	(17,312)	(31,397)	(34,095)	(36,091)
Gross profit	6,605	4,590	2,280	2,869	5,148	6,429	7,383
GPM (%)	19.9%	14.5%	13.9%	14.2%	14.1%	15.9%	17.0%
...YoY	-24.4%	-30.5%	7.0%	16.6%	12.2%	24.9%	14.8%
SG&A	(1,281)	(1,425)	(655)	(848)	(1,502)	(1,702)	(1,695)
...% of rev	-3.9%	-4.5%	-4.0%	-4.2%	-4.1%	-4.2%	-3.9%
R&D	(2,803)	(2,566)	(1,309)	(1,594)	(2,903)	(3,242)	(3,260)
...% of rev	-8.4%	-8.1%	-8.0%	-7.9%	-7.9%	-8.0%	-7.5%
Other gain & loss	537	151	504	572	637	1,172	703
Operating profit	3,014	1,785	844	1,180	2,024	2,657	3,129
OPM (%)	9.1%	5.6%	5.2%	5.8%	5.5%	6.6%	7.2%
...YoY	-48.5%	-40.8%	6.4%	19.0%	13.4%	31.3%	17.8%
Net profit	2,408	1,099	541	811	1,351	1,838	2,194
NPM (%)	7.3%	3.5%	3.3%	4.0%	3.7%	4.5%	5.0%
...YoY	-51.8%	-54.3%	23.8%	22.3%	22.9%	36.0%	19.4%

Source: Company data, CMBIGM estimates

Figure 8: Major assumptions

	FY22	FY23	FY24E	FY25E	FY26E
Shipment volume (mn units)					
Optical components					
Handset lens sets	1,193	1,171	1,232	1,330	1,437
...YoY (%)	-17%	-2%	5%	8%	8%
Vehicle lens sets	79	91	101	116	134
...YoY (%)	16%	15%	11%	15%	15%
Optoelectronic products					
Handset camera modules	517	567	588	617	648
...YoY (%)	-23%	10%	4%	5%	5%
Other optoelectronic (AR/VR/3D)	51	32	35	39	43
...YoY (%)	-14%	-36%	10%	10%	10%
Optical instruments					
Microscopic instruments	320	251	276	304	334
...YoY (%)	24%	-21%	10%	10%	10%
Revenue (RMB mn)					
Optical components	9,468	9,555	10,478	11,932	13,312
Optoelectronic products	23,326	21,599	25,612	28,109	29,647
Optical instruments	403	527	456	483	514
Total Revenue	33,197	31,681	36,545	40,524	43,473
...YoY (%)	-11.5%	-4.6%	15.4%	10.9%	7.3%
Gross margin					
Optical components	33.4%	28.4%	28.5%	30.0%	30.0%
Optoelectronic products	10.7%	5.5%	5.3%	6.6%	7.5%
Optical instruments	42.0%	41.2%	46.0%	46.0%	46.0%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with TP of HK\$47.31

We maintain HOLD with SOTP-based TP of HK\$47.31. We derive our 12-month TP from the SOTP methodology and weighted-average target P/E multiple of 25.9x FY25E EPS, to reflect Sunny's diversification in multiple businesses with different growth profiles, and visibility of product upcycles across different segments.

We assign 18x P/E to its CCM business to reflect its China's No.1 position, product upcycle and advanced technology capacity. We assign 35x P/E to its vehicle lens business to reflect the high-margin and high-growth industry nature of vehicle lenses (25% CAGR FY20-23E) and Sunny's No.1 global market share. We apply a 25x P/E to its handset lens segment given the secular upgrade trend and continued share gains from peers.

Figure 9: Sunny Optical – SOTP valuation

Business segment	% of FY25E Profit	FY25E EPS (RMB)	Target P/E
Camera modules	28.7%	0.48	18x
Handset lenses	39.2%	0.66	25x
Vehicle lenses	28.6%	0.48	35x
Others	3.5%	0.06	25x
Total (RMB) /Implied P/E		1.68	25.9x
TP (HK\$)			47.31

Source: Company data, CMBIGM estimates

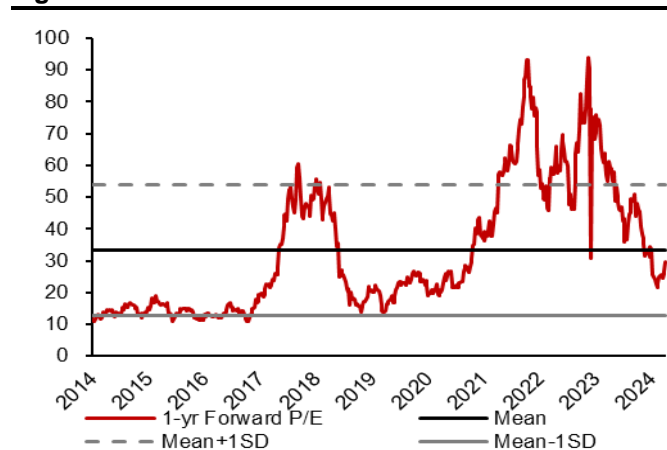
Figure 10: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY24E	P/E (x) FY25E	P/B (x) FY24E	P/B (x) FY25E	ROE (%) FY24E	ROE (%) FY25E
Sunny Optical	2382 HK	HOLD	7,293	47.55	47.3	-9%	35.7	26.3	2.0	2.0	5.8	7.6
Q tech	1478 HK	BUY	663	4.4	3.9	-10%	11.9	8.9	0.9	0.8	7.6	9.4
Cowell	1415 HK	NR	2,604	23.70	NA	NA	25.3	14.5	5.1	3.8	21.9	28.4
Truly	732 HK	NR	381	0.94	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,849	230.50	NA	NA	12.9	15.2	1.0	1.0	7.5	6.2
Largan	3008 TT	NR	10,874	2635.00	NA	NA	15.8	15.6	2.0	1.8	12.6	12.2
Lite-on	2301 TT	NR	7,694	106.00	NA	NA	17.2	14.5	2.8	2.7	15.8	17.3
Primax	4915 TT	NR	1,574	110.00	NA	NA	17.6	15.0	2.7	2.5	15.0	16.4
O-film	002456 CH	NR	3,663	8.16	NA	NA	46.1	29.9	6.5	6.2	8.2	12.1
Average							23.0	17.7	2.9	2.6	11.8	13.7

Source: Bloomberg, CMBIGM estimates

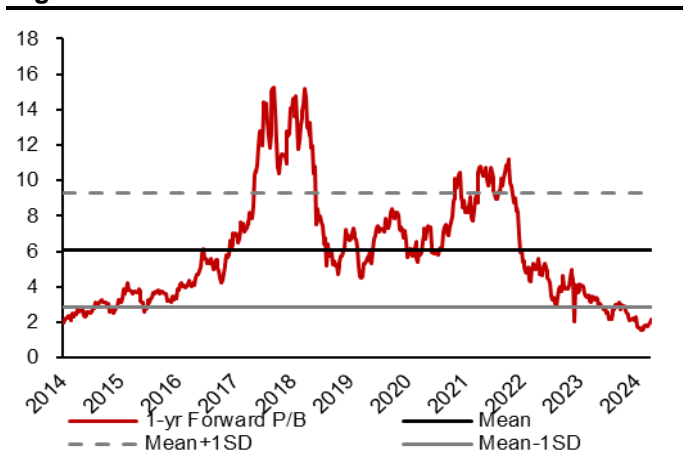
Note: Data as of 25 Jun 2024 market close

Figure 11: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 12: 12M forward P/B band



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	37,497	33,197	31,681	36,545	40,524	43,473
Cost of goods sold	(28,761)	(26,592)	(27,091)	(31,397)	(34,095)	(36,091)
Gross profit	8,736	6,605	4,590	5,148	6,429	7,383
Selling expense	(274)	(353)	(415)	(439)	(486)	(435)
Admin expense	(758)	(929)	(1,010)	(1,064)	(1,216)	(1,261)
R&D expense	(2,642)	(2,803)	(2,566)	(2,903)	(3,242)	(3,260)
Others	789	504	1,208	1,281	1,172	703
Operating profit	5,851	3,014	1,785	2,024	2,657	3,129
Share of (losses)/profits of associates/JV	19	(6)	23	23	23	23
Net Interest income/(expense)	(230)	(293)	(449)	(449)	(494)	(543)
Pre-tax profit	5,640	2,715	1,358	1,597	2,185	2,608
Income tax	(579)	(241)	(208)	(184)	(262)	(313)
Minority interest	68	66	51	63	85	102
Net profit	4,993	2,408	1,099	1,351	1,838	2,194
Net dividends	974	1,048	505	588	800	955

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	27,989	30,646	35,144	20,250	38,180	24,148
Cash & equivalents	5,605	7,033	13,085	(5,413)	13,179	(3,692)
Account receivables	7,448	7,205	7,855	9,517	9,746	10,919
Inventories	5,482	4,721	5,137	7,078	6,187	7,854
ST bank deposits	1,112	485	1,324	1,324	1,324	1,324
Financial assets at FVTPL	8,314	10,086	7,113	7,113	7,113	7,113
Other current assets	28	1,115	631	631	631	631
Non-current assets	10,785	12,356	15,153	17,244	17,503	17,456
PP&E	8,303	10,120	9,927	11,987	12,221	12,154
Other non-current assets	2,481	2,236	5,226	5,257	5,283	5,302
Total assets	38,774	43,001	50,297	37,494	55,683	41,604
Current liabilities	11,873	19,337	21,287	6,447	23,513	8,093
Short-term borrowings	1,539	1,990	699	699	699	699
Account payables	9,869	12,917	20,325	5,481	22,543	7,121
Other current liabilities	15,493	8,757	7,987	24,868	8,929	25,692
Non-current liabilities	6,005	1,482	6,129	6,129	6,129	6,129
Long-term borrowings	700	30	1,965	1,965	1,965	1,965
Other non-current liabilities	5,305	1,452	4,164	4,164	4,164	4,164
Total liabilities	17,879	20,819	27,415	12,576	29,642	14,222
Share capital	105	105	105	105	105	105
Other reserves	20,483	21,733	22,318	23,091	24,129	25,368
Total shareholders equity	20,895	22,182	22,882	23,654	24,777	26,118
Minority interest	307	344	459	458	543	644
Total equity and liabilities	38,774	43,001	50,297	36,229	54,419	40,340

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,640	2,715	1,358	1,597	2,185	2,608
Depreciation & amortization	1,638	1,816	2,166	2,466	2,766	3,066
Change in working capital	200	4,053	6,342	(18,447)	17,724	(18,262)
Others	(499)	(1,207)	324	239	210	214
Net cash from operations	6,979	7,377	10,190	(14,145)	22,886	(12,374)
Investing						
Capital expenditure	(2,498)	(3,633)	(3,500)	(3,000)	(3,000)	(3,000)
Others	(403)	(201)	0	0	0	0
Net cash from investing	(2,902)	(3,834)	(3,500)	(3,000)	(3,000)	(3,000)
Financing						
Dividend paid	(974)	(1,048)	(505)	(588)	(800)	(955)
Net borrowings	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(267)	(1,111)	(449)	(449)	(494)	(543)
Net cash from financing	(1,241)	(2,159)	(954)	(1,037)	(1,294)	(1,498)
Net change in cash						
Cash at the beginning of the year	2,842	5,605	7,033	12,769	(5,413)	13,179
Exchange difference	(73)	44	0	0	0	0
Cash at the end of the year	5,605	7,033	12,769	(5,413)	13,179	(3,692)
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	(1.3%)	(11.5%)	(4.6%)	15.4%	10.9%	7.3%
Gross profit	0.4%	(24.4%)	(30.5%)	12.2%	24.9%	14.8%
Operating profit	(0.4%)	(48.5%)	(40.8%)	13.4%	31.3%	17.8%
Net profit	2.3%	(51.8%)	(54.3%)	22.9%	36.0%	19.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	23.3%	19.9%	14.5%	14.1%	15.9%	17.0%
Operating margin	15.6%	9.1%	5.6%	5.5%	6.6%	7.2%
Return on equity (ROE)	26.5%	11.2%	4.9%	5.8%	7.6%	8.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.5)	0.3	(0.4)	0.2
Current ratio (x)	2.4	1.6	1.7	3.1	1.6	3.0
Receivable turnover days	76.2	80.6	86.8	86.8	86.8	86.8
Inventory turnover days	71.5	70.0	66.4	71.0	71.0	71.0
Payable turnover days	130.7	156.4	223.9	150.0	150.0	150.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	9.7	20.1	43.9	35.7	26.3	22.0
P/B	2.3	2.2	2.1	2.0	2.0	1.9
Div yield (%)	2.0	2.2	1.0	1.2	1.7	2.0
EV	20,895.3	22,182.4	22,881.6	23,653.7	24,777.0	26,117.7
EV/Sales	0.6	0.7	0.7	0.6	0.6	0.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.