

Sunny Optical (2382 HK)

Record-high Aug shipment; Strength continues into 4Q19E

Sunny's CCM/HSL shipment in Aug reached record-high of 56kk/ 132kk unit (+22%/46% YoY, 30%/31% MoM), mainly driven by Huawei recovery, Mate 30 order pull-in and Samsung Note10/A-series momentum, in our view. We expect Huawei/Samsung's multi-cam adoption and new product launches will continue to boost volume/ASP growth in 4Q19E. We raised our FY19-21E EPS by 1-7% to reflect better HLS shipment/margin. Our SOTP-based TP was lifted to HK\$140 for higher segment target multiples, which implies 27.5x FY20E P/E.

- CCM/HLS: Huawei recovery and Samsung A-series to boost shipment.**
 Sunny's CCM/HLS maintained strong growth of 22%/46% in Aug (vs 82%/23% in Jul), thanks to Huawei recovery, Samsung share gain and flagship restocking. Our check suggested that 1) Huawei is regaining share in EU/China in 3Q19, 2) Samsung's A-series models (A50, A10, A30) continue rapid global expansion (now 78% of Samsung mix), 3) Huawei share in China will exceed 45% in 4Q19E at the expense of Xiaomi/ Vivo. We believe these trends are positive in Sunny's ASP/shipment growth in 2H19E.
- Beneficiary of Samsung/Huawei's aggressive multi-cam adoption.**
 Being the major CCM/HLS supplier to Samsung/Huawei, we believe Sunny will benefit from their strategy of aggressive multi-cam adoption. Samsung and Huawei are the only major brands adopting quad-cam YTD (5%/18% in Jul), and our study suggested Samsung/Huawei's multi-cam penetration reached 75%/86% in Jul (vs 67% industry average). We expect Samsung A-series and Huawei Honor series will become major drivers in 4Q19E.
- Mate 30 launch and China 5G rollout as upcoming catalysts.** Huawei is scheduled to launch Mate 30 series at Munich on 19 Sep, which will feature Kirin 990 SoC with 5G modem, fast wireless charging, triple-camera with 5x optical zoom and a 3D ToF camera for depth sensing. In addition, we expect China 5G service to launch in Oct, which will boost smartphone replacement and non-mobile 5G applications (AR, robot, smart retails) in next 3-5 years.
- Reiterate BUY and raised TP to HK\$140.** We revised up FY19-21E EPS by 1-7% and lifted SOTP-based TP to HK\$140 for higher segment target multiples (22x/30x/35 for CCM/HLS/VLS). Implied FY20E P/E of 27.5x is 18% above 5-yr avg. P/E and 26% below 1-sd plus avg. P/E, which is justified for product upcycle in our view. We expect GPM recovery, multi-cam adoption, and ASP hike to drive 47%/53% YoY sales/NP growth in 2H19E. Sunny remains our top pick, given clear upgrade trend and strong earnings visibility.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	22,366	25,932	36,097	42,905	48,484
YoY growth (%)	53.1	15.9	39.2	18.9	13.0
Net income (RMB mn)	2,902	2,491	3,434	4,984	6,420
EPS (RMB)	2.7	2.3	3.1	4.6	5.9
YoY growth (%)	126.8	(14.6)	37.9	45.1	28.8
P/E (x)	39.5	46.2	33.5	23.1	17.9
P/B (x)	15.1	12.2	9.7	7.5	5.8
Yield (%)	0.3	0.6	0.9	1.3	1.6
ROE (%)	39	27	29	33	32

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$140.0
(Previous TP)	HK\$114.0)
Up/Downside	+19%
Current Price	HK\$117.5

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Stock Data

Mkt Cap (HK\$ mn)	129,319
Avg 3 mths t/o (HK\$ mn)	774.01
52w High/Low (HK\$)	120.40/58.55
Total Issued Shares (mn)	1,096.8

Source: Bloomberg

Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	4.28%
WENJIAN WANG	3.08%

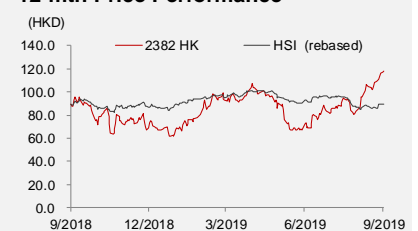
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	42.3%	38.2%
3-mth	63.7%	69.0%
6-mth	27.2%	34.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

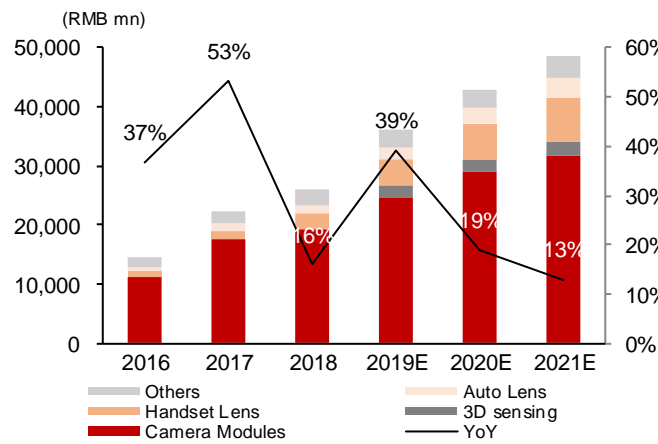
Auditor: Deloitte Touche Tohmatsu

Related Reports:

- Sunny Optical (2382 HK) – Conf-call takeaways: GPM recovery and ToF/Samsung upside – 29 Aug 2019
- Sunny Optical (2382 HK) – Strong 1H19; Accelerated lens upgrade cycle – 15 Aug 2019
- Sunny Optical (2382 HK) – 1H Preview – 12 Aug 2019

Focus Charts

Figure 1: Sunny revenue trend



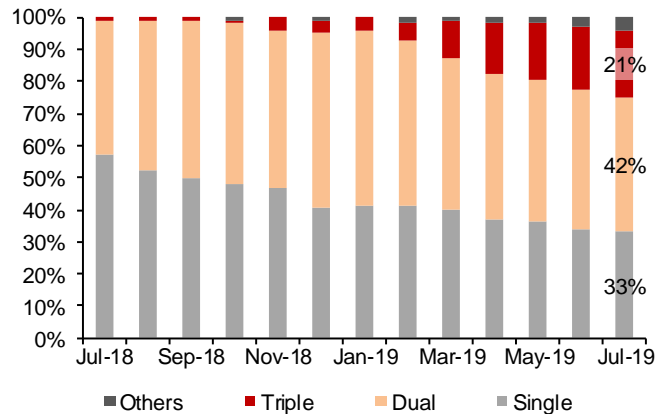
Source: Company data, CMBIS estimates

Figure 2: CCM suppliers client mapping

	Market Share	Apple	Samsung	Huawei	Xiaomi	OPPO	VIVO
O-Film	15.6%	X		X	X	X	X
Sunny	13.0%		X	X	X	X	X
Q-tech	7.0%			X	X	X	X
Truly	5.5%				X	X	X
LGI	5.0%	X					
SEMCO	3.0%		X		X		X
Lite-on	2.2%		X	X	X	X	X
Sharp	3.4%	X					
Cowell	2.9%	X					

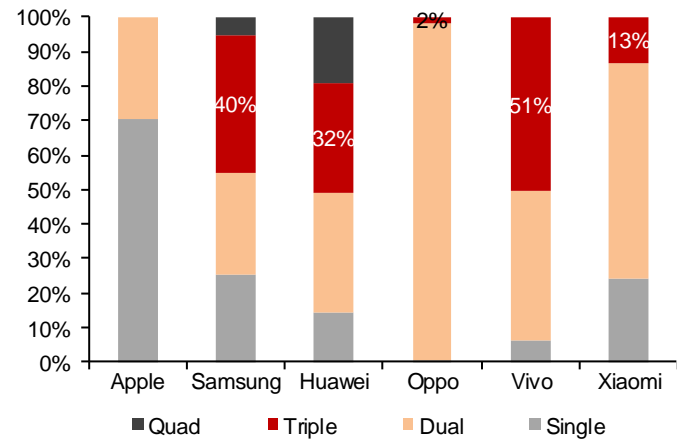
Source: TSR, CMBIS, *market share estimate in 2018

Figure 3: Global smartphone multi-cam adoption



Source: Counterpoint, CMBIS estimates

Figure 4: Multi-cam penetration by brand in July



Source: Counterpoint, CMBIS estimates

Figure 5: Huawei Mate 30 to adopt quad-cam



Source: Company data, CMBIS estimates

Figure 6: Sunny's handset lens sets



Source: Company data, CMBIS estimates

Our FY20-21E EPS are 7-12% above consensus

Figure 7: CMBI estimates vs consensus

(RMB mn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	36,097	42,905	48,484	35,651	41,962	47,192	1%	2%	3%
Gross profit	6,863	9,234	11,277	6,807	8,871	10,683	1%	4%	6%
Operating profit	4,212	5,973	7,641	4,190	5,682	7,144	1%	5%	7%
Net profit	3,434	4,984	6,420	3,415	4,729	5,985	1%	5%	7%
EPS (RMB)	3.14	4.56	5.87	3.13	4.33	5.48	1%	5%	7%
Gross margin	19.0%	21.5%	23.3%	19.1%	21.1%	22.6%	-0.1%	0.4%	0.6%
Operating margin	11.7%	13.9%	15.8%	11.8%	13.5%	15.1%	-0.1%	0.4%	0.6%
Net Margin	9.5%	11.6%	13.2%	9.6%	11.3%	12.7%	-0.1%	0.3%	0.6%

Sources: Company data, CMBIS

Figure 8: CMBI estimates vs consensus

US\$ mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	36,097	42,905	48,484	34,327	41,984	48,910	5%	2%	-1%
Gross Profit	6,863	9,234	11,277	6,613	8,611	10,374	4%	7%	9%
Operating Profit	4,212	5,973	7,641	3,978	5,452	6,963	6%	10%	10%
Net profit	3,434	4,984	6,420	3,426	4,654	5,771	0%	7%	11%
EPS (RMB)	3.14	4.56	5.87	3.12	4.25	5.27	1%	7%	12%
Gross Margin	19.0%	21.5%	23.3%	19.3%	20.5%	21.2%	-0.3 ppt	1 ppt	2 ppt
Operating Margin	11.7%	13.9%	15.8%	11.6%	13.0%	14.2%	0.1 ppt	0.9 ppt	1.5 ppt
Net Margin	9.5%	11.6%	13.2%	10.0%	11.1%	11.8%	-0.5 ppt	0.5 ppt	1.4 ppt

Source: Company data, CMBIS

Figure 9: Major assumptions

	FY16	FY17	FY18	FY19E	FY20E	FY21E
Shipment volume (mn unit)						
Optical Components						
Handset lens sets	379	608	951	1,268	1,648	2,014
...YoY(%)	26%	60%	56%	33%	30%	22%
Vehicle lens sets	23	32	40	50	62	75
...YoY(%)	37%	41%	25%	25%	23%	22%
Optoelectronic Products						
Handset camera modules	270	325	425	534	652	775
...YoY(%)	18%	20%	31%	26%	22%	19%
Other optoelectronic (3D sensing)	5	8	10	43	55	67
...YoY(%)	25%	76%	27%	328%	27%	22%
Revenue (Rmb mn)						
Optical Components	2,956	4,302	6,023	8,680	11,292	13,871
Optoelectronic Products	11,403	17,777	19,609	27,149	31,318	34,289
Optical instruments	253	294	300	268	295	324
Total Revenue	14,612	22,372	25,932	36,097	42,905	48,484
...YoY (%)	36.6%	53.1%	15.9%	39.2%	18.9%	13.0%
Gross Margin						
Optical Components	39.8%	44.0%	41.5%	44.3%	45.3%	46.3%
Optoelectronic products	10.5%	13.1%	8.4%	7.0%	8.4%	8.9%
Optical instruments	40.4%	43.2%	40.5%	41.6%	42.5%	42.5%

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

RMB mn	FY17	FY18	1H19	2H19E	FY19E	FY20E	FY21E
Revenue	22,366	25,932	15,575	20,522	36,097	42,905	48,484
...YoY	53.1%	15.9%	30.0%	47.1%	39.2%	18.9%	13.0%
Cost of sales	(17,563)	(21,019)	(12,711)	(16,523)	(29,234)	(33,671)	(37,207)
Gross profit	4,803	4,913	2,864	3,999	6,863	9,234	11,277
GPM (%)	21.5%	18.9%	18.4%	19.5%	19.0%	21.5%	23.3%
...YoY	79.2%	2.3%	23.4%	54.2%	39.7%	34.6%	22.1%
SG&A	(594)	(644)	(388)	(529)	(918)	(1,073)	(1,212)
...% of rev	-2.7%	-2.5%	-2.5%	-2.6%	-2.5%	-2.5%	-2.5%
R&D	(1,168)	(1,362)	(827)	(1,231)	(2,058)	(2,446)	(2,715)
...% of rev	-5.2%	-5.3%	-5.3%	-6.0%	-5.7%	-5.7%	-5.6%
Operating profit	3,383	3,077	1,789	2,423	4,212	5,973	7,641
OPM (%)	15.1%	11.9%	11.5%	11.8%	11.7%	13.9%	15.8%
...YoY	129.4%	-9.0%	18.3%	54.8%	36.9%	41.8%	27.9%
Net profit	2,902	2,491	1,431	2,003	3,434	4,984	6,420
NPM (%)	13.0%	9.6%	9.2%	9.8%	9.5%	11.6%	13.2%
...YoY	128.3%	-14.2%	21.3%	52.8%	37.9%	45.1%	28.8%

Source: Company data, CMBIS estimates

Valuation

Reiterate BUY and raised TP to HK\$140

We derived our 12-month TP from SOTP valuation methodology and our TP of HK\$140 is based on weighted-average target P/E multiple of 27.5x FY20E EPS, in order to reflect 1) Sunny's diversification in multiple businesses with different growth profiles, and 2) higher visibility of product upcycles across different segments.

We assign 22x P/E to its CCM business, given 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 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 (20% sales CAGR FY19-21E).

Figure 11: Sunny Optical – SOTP valuation

Business segment	% of FY20E Profit	FY20E EPS (RMB)	Target P/E
Camera modules	28.5%	1.30	22x
Handset lenses	43.8%	2.00	30x
Vehicle lenses	11.5%	0.53	35x
Others	16.1%	0.73	25x
Total (RMB) /Implied P/E		4.56	27.5x
TP (HK\$)			140.0

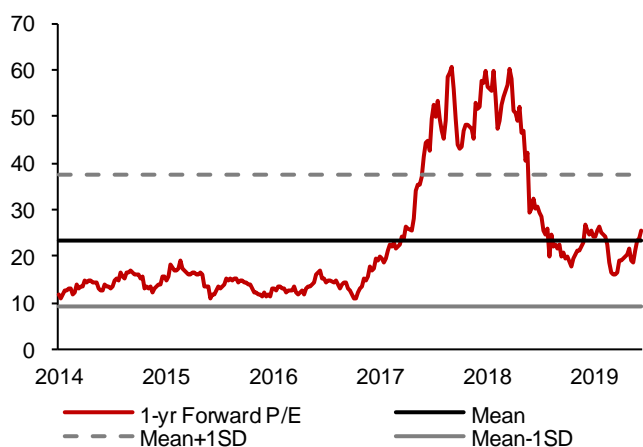
Sources: Company data, CMBIS

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	
Sunny Optical	2382 HK	Buy	16,481	117.5	140.0	19%	29.9	21.6	8.6	6.7	28.8	31.2	
Q tech	1478 HK	Buy	1,268	8.7	9.5	10%	17.5	13.5	2.9	2.4	16.4	18.0	
Cowell	1415 HK	NR	132	1.23	NA	NA	8.8	6.1	0.4	0.4	5.8	5.8	
Truly	732 HK	NR	424	1.00	NA	NA	4.3	4.4	0.4	0.4	5.0	8.4	
Catcher	2474 TT	NR	5,651	227	NA	NA	11.9	9.5	1.1	1.0	9.4	11.4	
Largan	3008 TT	NR	16,608	3990	NA	NA	18.0	15.7	4.0	3.4	24.3	23.9	
Lite-on	2301 TT	NR	3,668	49.40	NA	NA	13.6	12.5	1.5	1.5	11.2	11.5	
Primax	4915 TT	NR	873	60.30	NA	NA	12.6	10.5	1.7	1.5	14.0	15.0	
O-film	002456 CH	NR	4,056	10.75	NA	NA	21.3	14.2	2.7	2.4	13.2	14.8	
Average								15.3	12.0	2.6	2.2	14.3	15.5

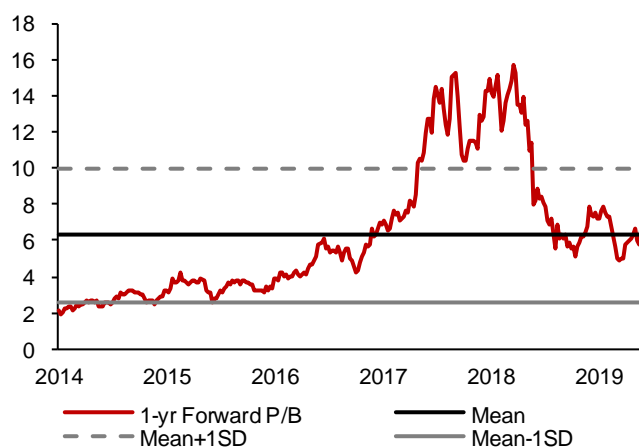
Source: Bloomberg, CMBIS

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	22,366	25,932	36,097	42,905	48,484
Cost of sales	(17,563)	(21,019)	(29,234)	(33,671)	(37,207)
Gross profit	4,803	4,913	6,863	9,234	11,277
Selling expenses	(205)	(210)	(291)	(343)	(388)
Admin expenses	(389)	(434)	(627)	(729)	(824)
R&D expenses	(1,168)	(1,362)	(2,058)	(2,446)	(2,715)
Other income	206	467	413	472	533
Other gain/ losses	136	(293)	(88)	(215)	(242)
Operating profit	3,383	3,077	4,212	5,973	7,641
Financial costs	(49)	(202)	(238)	(261)	(288)
Investment income	(16)	(24)	(17)	(17)	(17)
Pre-tax profit	3,318	2,851	3,958	5,695	7,336
Income tax expense	(404)	(339)	(504)	(683)	(880)
NCI	13	22	19	28	36
Net profit	2,902	2,491	3,434	4,984	6,420

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before taxation	3,318	2,851	3,958	5,695	7,336
Depreciation/amortisation	535	819	1,002	1,365	1,729
Change in working capital	(1,126)	(203)	(86)	(1,166)	104
Others	(290)	100	(283)	(433)	(602)
Net cash from operating	2,436	3,568	4,591	5,462	8,568
Capex	(1,128)	(2,104)	(4,000)	(4,000)	(4,000)
Other	(558)	(3,395)	0	0	0
Net cash from investing	(1,686)	(5,499)	(4,000)	(4,000)	(4,000)
Net borrowings	444	88	0	0	0
Dividend paid	(318)	(725)	(1,000)	(1,451)	(1,869)
Purchase of shares	(81)	(78)	0	0	0
Other	(33)	3,672	(238)	(261)	(288)
Net cash from financing	12	2,957	(1,237)	(1,712)	(2,156)
Net change in cash	762	1,025	(646)	(250)	2,412
Cash at beginning of the year	467	1,227	2,254	1,608	1,357
Exchange difference	(2)	2	0	0	0
Cash at the end of the year	1,227	2,254	1,608	1,357	3,769

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	11,635	16,768	21,622	20,089	27,208
Cash & equivalents	1,227	2,254	1,608	1,357	3,769
Financial assets	1,952	4,760	4,760	4,760	4,760
Deposits	160	235	235	235	235
Account receivables	5,666	6,231	8,909	9,087	11,249
Inventories	2,622	3,074	5,896	4,436	6,981
Other current assets	8	214	214	214	214
Non-current assets	4,091	6,084	9,099	11,744	14,024
Prepaid lease	163	214	214	214	214
PPE	2,586	4,523	7,521	10,155	12,426
Interest in associates	125	101	101	101	101
Other non-curr. assets	1,217	1,246	1,263	1,274	1,283
Total assets	15,726	22,852	30,721	31,833	41,233
Current liabilities	7,705	8,677	14,092	11,644	16,456
ST borrowings	1,348	1,482	1,482	1,482	1,482
Account payables	6,183	7,064	12,479	10,030	14,842
Other current liabilities	490	5,628	2,667	8,677	8,452
Non-current liabilities	502	4,887	4,887	4,887	4,887
LT borrowings					
Others	502	4,887	4,887	4,887	4,887
Total liabilities	8,207	13,564	18,979	16,530	21,343
Share capital	105	105	105	105	105
Reserves	7,383	9,129	11,564	15,097	19,647
Minority interest	31	54	73	101	138
Shareholders' equity	7,519	9,288	11,742	15,303	19,890
Total equity & liabilities	15,726	22,852	30,721	31,833	41,233

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Optical components	19.2	23.2	24.0	26.3	28.6
Optoelectronic products	79.5	75.6	75.2	73.0	70.7
Optical instruments	1.3	1.2	0.7	0.7	0.7
Growth (%)					
Revenue	53.1	15.9	39.2	18.9	13.0
Gross profit	79.2	2.3	39.7	34.6	22.1
Operating profit	129.4	(9.0)	36.9	41.8	27.9
Net profit	128.3	(14.2)	37.9	45.1	28.8
Profit & loss ratio (%)					
Gross margin	21.5	18.9	19.0	21.5	23.3
Operating margin	15.1	11.9	11.7	13.9	15.8
Net profit margin	13.0	9.6	9.5	11.6	13.2
Balance sheet ratio					
Net debt/total equity (x)	0.1	0.0	Net cash	Net cash	0.0
Current ratio (x)	1.5	1.9	1.5	1.7	1.7
Receivable turnover days	77	77	76.6	76.6	76.6
Inventory turnover days	57	57	56.0	56.0	56.0
Payable turnover days	122	122	122.0	122.0	122.0
Profitability (%)					
ROE	38.6	26.8	29.2	32.6	32.3
ROA	18.5	10.9	11.2	15.7	15.6
Per share data (RMB)					
EPS	2.67	2.28	3.14	4.56	5.87
DPS	0.29	0.66	0.91	1.33	1.71

Source: Company data, CMBIS estimates

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