

Sunny Optical (2382 HK)

Expectations reset on conservative guidance; Maintain HOLD

Sunny Optical (Sunny)'s FY23 net profit was largely in-line with profit warning, but 2H23 GPM of 14.1% (vs 19% in 2H22) was below expectations due to more intense competition despite spec upgrade and more high-end models in 2H23. For 2024 guidance, while mgmt. is conservative on HCM/HLS/VLS shipment, Sunny is positive on smartphone ASP, high-end HLS ramp-up, stable VLS/XR growth, and better GPM recovery in 2H24E. We trimmed FY24/25E EPS by 35%/27% to factor in weak 2023 GPM and conservative guidance. Trading at 34.8x/25.6x FY24/25E P/E, the stock is fair valued, and we expect near-term pressure on stock price given expectations reset. Maintain HOLD with new SOTP-based TP of HK\$47.31, implying 25.9x FY25E P/E.

- 2023 results in-line; lower HLS/HCM GPM on competition and cost hike.**
 Sunny announced FY23 revenue decline of 4.6% YoY, in line with market expectation, driven by -35%/+18%/-0.5% growth for HLS/VLS/HCM, in our view. NP decline of 54.3% YoY is also in-line with its profit warning earlier, dragged by lower HLS/HCM GPM due to weak smartphone demand, intense competition and cost pressure in 2H23.
- Conservative 2024 shipment guidance with better mix and ASP upgrade.**
 Mgmt. guided for 2024 shipment/ASP: 1) HLS: 5% YoY shipment driven by high-end clients with rising ASP; GPM to recover to 20% (vs. 10-15%/15-20% in 1H23/2H23); 2) VLS: 10% YoY shipment with steady ASP; GPM to maintain at 40%; 3) HCM: flattish shipment and ASP recovery due to product mix change with more focus on complex products including long-lens periscope, internal focus, large image size and actuator-lens set integration camera; GPM to reach 5%+ in 2024.
- Positive on 2H24E: High-end HLS, stable VLS/XR growth and better product mix.** Looking into 2024, mgmt. expected to focus on higher-margin HLS products to maintain global leading market share. For auto business, mgmt. guided VLS sales to reach RMB 2bn in FY24E and remain positive on AR-HUD/LiDAR/lights rising penetration in new automotive models. For XR, mgmt. guided 15% YoY sales growth driven by VisionPro's encouraging impact and VR/MR see-through/smart glass outperformance. Overall, we expect non-smartphone & better product mix to drive GPM recovery in 2H24E.
- Maintain HOLD on fair valuation after expectation reset.** We remain positive on Sunny's technology leadership, solid product roadmap and Apple/Huawei exposure, and we expect better GPM in FY24E driven by demand recovery, better product mix and non-smartphone growth. We lower our FY24/25E EPS by 35%/27% to factor in conservative 2024 guidance. Trading at 34.8x/25.6x FY24/25E P/E, the valuation is fair in our view. We maintain HOLD with new SOTP-based TP of HK\$47.31 (rollover to FY25E), implying 25.9x FY25E P/E.

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)	46.8	70.1	34.8	25.6	21.5
P/B (x)	5.1	3.4	2.0	1.9	1.8
Yield (%)	0.9	0.7	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
(Previous TP	HK\$50.71)
Up/Downside	1.0%
Current Price	HK\$46.85

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Stock Data

Mkt Cap (HK\$ mn)	51,394.5
Avg 3 mths t/o (HK\$ mn)	390.4
52w High/Low (HK\$)	97.50/45.30
Total Issued Shares (mn)	1097.0

Source: FactSet

Shareholding Structure

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

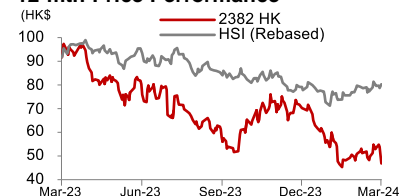
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.4%	-8.4%
3-mth	-33.3%	-34.3%
6-mth	-16.5%	-12.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

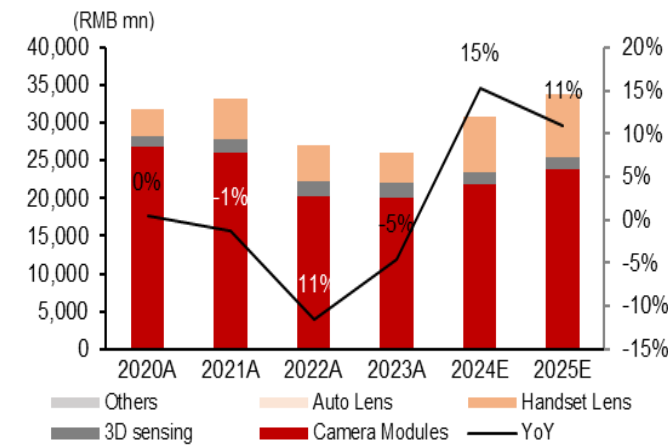
1) 2023 profit warning worse than feared; Maintain HOLD on earnings downside – 1 Jan 2024 ([link](#))

2) Positive on shipment recovery and upgrade trend; Maintain Hold on fair valuation – 13 Oct 2023 ([link](#))

3) Expect shipment recovery on track in 2H23E; Maintain Hold on margin overhang – 25 Aug 2023 ([link](#))

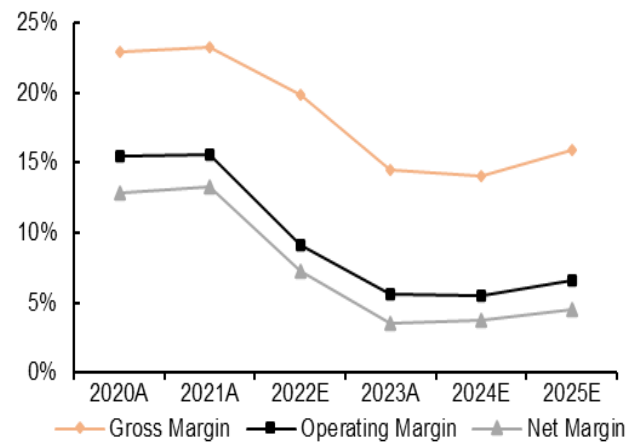
Focus Charts

Figure 1: Sunny Optical's revenue trend



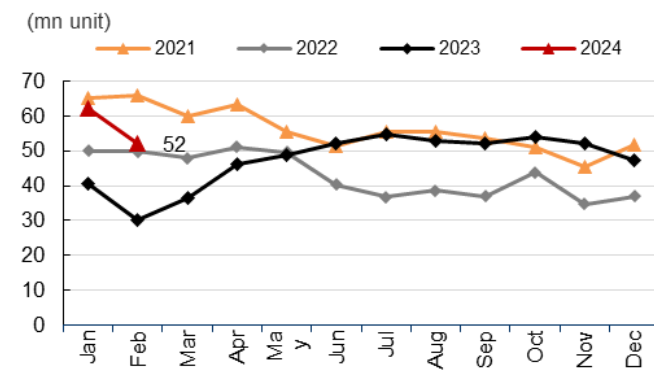
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical's GPM trend



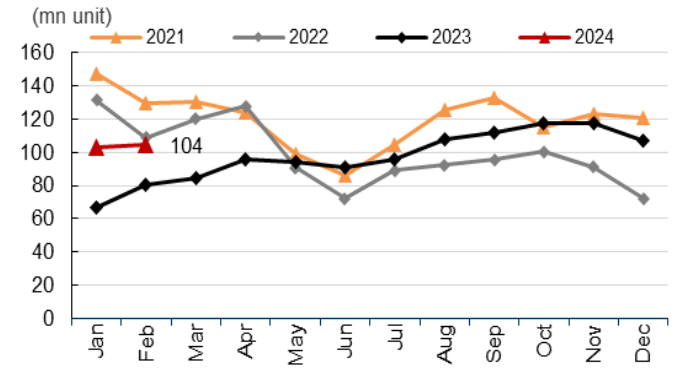
Source: Company data, CMBIGM estimates

Figure 3: Sunny's HCM shipment trend



Source: Company data, CMBIGM estimates

Figure 4: Sunny's HLS shipment trend



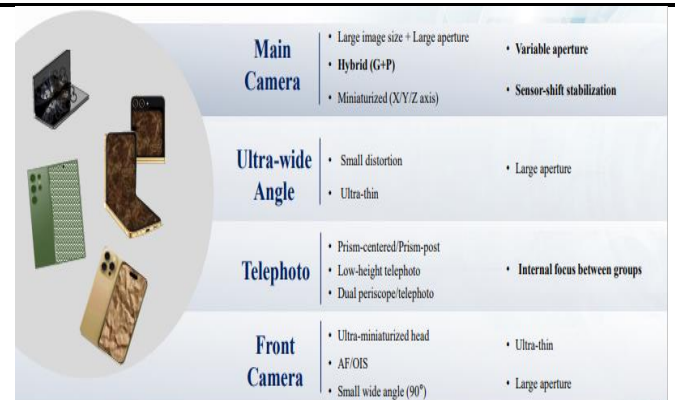
Source: Company data, CMBIGM estimates

Figure 5: Sunny's roadmap in automotive products



Source: Company, CMBIGM

Figure 6: Upgrade trend for next-gen cameras



Source: Company, CMBIGM

2H23 Results Review

Figure 7: 2H23 results preview

RMB mn	1H22	2H22	1H23	2H23	YoY	CMBI		Consensus	
						2H23E	Diff (%)	2H23E	Diff (%)
Revenue	16,972	16,225	14,279	17,403	7%	18,149	-4%	18,256	-5%
Gross profit	3,522	3,083	2,131	2,460	-20%	2,763	-11%	3,040	-19%
Operating profit	1,798	1,216	794	991	-19%	1,021	-3%	818	21%
Net profit	1,358	1,050	437	663	-37%	702	-6%	811	-18%
EPS (RMB)	1.24	0.96	0.40	0.61	-37%	0.64	-6%	0.78	-22%
Gross margin	20.8%	19.0%	14.9%	14.1%	-4.9 ppt	15.2%	-1.1 ppt	16.7%	-2.5 ppt
Operating margin	10.6%	7.5%	5.6%	5.7%	-1.8 ppt	5.6%	0.1 ppt	4.5%	1.2 ppt
Net margin	8.0%	6.5%	3.1%	3.8%	-2.7 ppt	3.9%	-0.1 ppt	4.4%	-0.6 ppt

Source: Company data, CMBIGM estimates

Figure 8: FY23 revenue breakdown

RMB mn	1H22	2H22	1H23	2H23	YoY	FY22	FY23	YoY
Optical comp (VLS, HLS)	4,399	5,069	4,318	5,237	3%	9,468	9,555	1%
Auto lens shipment (mn unit)	38	41	47	44	6%	79	91	15%
... ASP (RMB)	35.8	42.7	40.9	40.0	-6%	39.4	40.5	3%
Handset lens Shipment (mn unit)	6,516	5,410	5,128	6,581	22%	11,926	11,708	-2%
... ASP (RMB)	4.0	4.7	3.5	2.5	-47%	4.3	2.9	-32%
Optoelectronic (HCM)	12,371	10,955	9,737	11,863	8%	23,326	21,599	-7%
HCM shipment (mn unit)	289	228	255	313	37%	517	567	10%
... ASP (RMB)	39.3	39.2	34.3	36.6	-7%	39.2	35.5	-9%
3D sensing Shipment (mn unit)	19.1	14.4	4.1	9.8	-32%	33.5	13.9	-58%
... ASP (Rmb)	34.5	97.6	113.5	143.3	47%	61.6	134.5	118%
Optical instruments	202	202	224	303	50%	403	527	31%
Total Revenue	16,972	16,225	14,279	17,403	7%	33,197	31,681	-5%
Gross Margin								
Optical comp (VLS, HLS)	35.5%	31.5%	26.0%	30.5%	-0.9 ppt	33.4%	28.4%	-5 ppt
Optoelectronic (HCM)	11.6%	9.7%	6.9%	4.4%	-5.3 ppt	10.7%	5.5%	-5.2 ppt
Optical instruments	44.6%	46.3%	42.7%	44.6%	-1.7 ppt	42.0%	41.2%	-0.8 ppt
Blended GPM	20.8%	19.0%	14.9%	14.1%	-4.9 ppt	19.9%	14.5%	-5.4 ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 9: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	36,545	40,524	43,473	36,198	39,859	na	1%	2%	na
Gross profit	5,148	6,429	7,383	6,223	7,266	na	-17%	-12%	na
Operating profit	2,024	2,657	3,129	2,904	3,512	na	-30%	-24%	na
Net profit	1,351	1,838	2,194	2,078	2,538	na	-35%	-28%	na
EPS (RMB)	1.24	1.68	2.01	1.90	2.32	na	-35%	-27%	na
Gross margin	14.1%	15.9%	17.0%	17.2%	18.2%	na	-3.1 ppt	-2.4 ppt	na
Operating margin	5.5%	6.6%	7.2%	8.0%	8.8%	na	-2.5 ppt	-2.3 ppt	na
Net margin	3.7%	4.5%	5.0%	5.7%	6.4%	na	-2 ppt	-1.8 ppt	na

Source: Company data, CMBIGM estimates

Figure 10: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	36,545	40,524	43,473	37,239	42,622	44,444	-2%	-5%	-2%
Gross profit	5,148	6,429	7,383	6,738	8,113	8,954	-24%	-21%	-18%
Operating profit	2,024	2,657	3,129	2,519	3,536	4,658	-20%	-25%	-33%
Net profit	1,351	1,838	2,194	2,366	3,197	4,401	-43%	-43%	-50%
EPS (RMB)	1.24	1.68	2.01	2.21	2.97	4.20	-44%	-43%	-52%
Gross margin	14.1%	15.9%	17.0%	18.1%	19.0%	20.1%	-4 ppt	-3.2 ppt	-3.2 ppt
Operating margin	5.5%	6.6%	7.2%	6.8%	8.3%	10.5%	-1.2 ppt	-1.7 ppt	-3.3 ppt
Net margin	3.7%	4.5%	5.0%	6.4%	7.5%	9.9%	-2.7 ppt	-3 ppt	-4.9 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: 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 12: Major assumptions

	FY22	FY23	FY24E	FY25E	FY26E
Shipment volume (mn unit)					
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 new TP of HK\$47.31

We maintain HOLD with new SOTP-based TP of HK\$47.31 to reflect earnings revisions. We derived our 12-month TP from SOTP methodology and weighted-average target P/E multiple of 26.3x FY24E 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 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 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

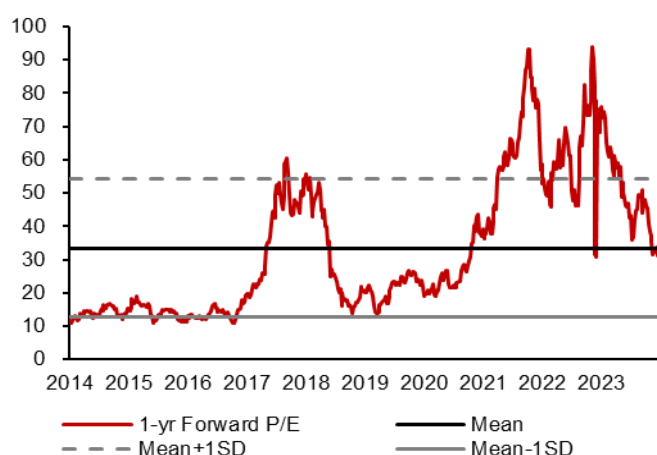
Source: Company data, CMBIGM estimates

Figure 14: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY23E	P/E (x) FY24E	P/B (x) FY23E	P/B (x) FY24E	ROE (%) FY23E	ROE (%) FY24E
Sunny Optical	2382 HK	HOLD	6,570	46.9	47.31	1%	70.1	34.8	3.4	2.0	4.9	5.8
Q tech	1478 HK	BUY	498	3.3	3.6	9%	11.8	6.1	0.7	0.6	5.9	10.3
Cowell	1415 HK	NR	1,918	17.58	NA	NA	29.2	17.3	4.5	3.6	14.4	22.3
Truly	732 HK	NR	303	0.75	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,783	224.00	NA	NA	12.7	17.3	0.9	0.9	7.2	4.9
Largan	3008 TT	NR	10,408	2485.00	NA	NA	17.9	15.6	2.0	1.9	11.5	12.4
Lite-on	2301 TT	NR	9,120	123.50	NA	NA	18.7	18.6	3.3	3.1	18.3	17.1
Primax	4915 TT	NR	1,260	86.70	NA	NA	15.2	14.2	2.3	2.1	14.7	14.5
O-film	002456 CH	NR	4,670	10.32	NA	NA	-	64.9	11.6	10.9	(11.0)	8.7
Average							21.0	23.5	3.4	3.1	8.2	12.0

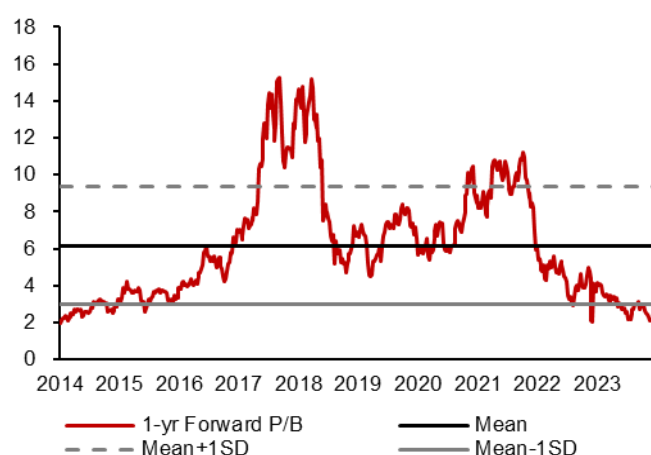
Source: Bloomberg, CMBIGM estimates

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	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	38.3	46.8	70.1	34.8	25.6	21.5
P/B	9.2	5.1	3.4	2.0	1.9	1.8
Div yield (%)	0.5	0.9	0.7	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.

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