

Sunny Optical (2382 HK)

Soft HLS/HCM in Aug; Still awaiting turning point

Sunny Optical reported Aug HLS/HCM shipment with 26%/30% YoY decline (vs -15%/-34% in Jul), which we believe was weak due to sluggish smartphone demand and Android inventory destocking. Despite solid VLS recovery in Aug (+29% YoY), our below-consensus EPS (14%/12% below in FY22/23E) mainly reflected our concerns on worsening HCM/HLS demand and margin pressure in 4Q22E. Although we see potential upside in iPhone HLS, AR/VR and auto modules in 2H22E, we expect high sales exposure to Android clients (75%+ of sales) will continue to weigh on the stock in near term. Trading at 35.9x/24.3x FY22/23E P/E, we think the stock is fairly valued. Maintain HOLD.

- Weak HLS/HCM shipment in Aug; iPhone HLS orders hard to move the needle.** Sunny reported Aug HLS/HCM shipment of 92.6mn/38.7mn, -26%/-30% YoY (vs -15%/-34% in Jul). 8M22 HLS/HCM shipment reached 833mn/364mn, -12%/-23% YoY (vs full-year guidance -15/-20% YoY). Overall, we expect Android ongoing destocking will continue to drag HCM/HLS recovery in 2H22E, as Sunny's iPhone HLS business (6% of full-year shipment) is growing but would not move the needle at this stage.
- Positive outlook for auto lens/cam module and AR/VR.** VLS shipment for Aug reached 7.0mn unit (+29% YoY /9% MoM), and 8M22 shipment came in at 51.1mn, +6.7% YoY, as auto demand is gradually recover on ADAS demand and low base in 2H21. In addition, we are positive on auto lens ASP upside on pixel upgrade, and mgmt. guided for RMB10bn revenue for auto camera module on LiDAR/AU-HUD order wins. For AR/VR, mgmt. expected robust growth in VR products and guided 50% YoY revenue growth for VR/AR segment in 2022.
- Valuation/Key risks.** While we are positive on Sunny's product roadmap and technology leadership, recent smartphone inventory destocking and Sunny's high exposure to handset segment (79% of sales, vs 8% for auto-related) will continue to weigh on the stock in near term. We think the stock is fairly valued at 35.9x/24.3x FY22/23E P/E. Maintain HOLD with SOTP-based TP of HK\$102.3 (23.0x FY23E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	38,002	37,497	34,253	39,141	44,853
YoY growth (%)	0.4	(1.3)	(8.7)	14.3	14.6
Net profit (RMB mn)	4,950.3	5,061.1	2,781.6	4,109.3	4,925.0
YoY growth (%)	23.2	2.2	(45.0)	47.7	19.9
EPS (Reported) (RMB)	4.47	4.57	2.50	3.69	4.43
Consensus EPS (RMB)	NA	NA	2.91	4.20	5.38
P/E (x)	25.5	38.3	35.9	24.3	20.3
P/B (x)	7.4	9.2	4.2	3.7	3.2
Yield (%)	0.6	0.5	0.5	0.8	1.0
ROE (%)	33.5	26.8	12.6	16.6	17.3
Net gearing (%)	(4.6)	(19.5)	(20.0)	(21.8)	(30.4)

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$102.30
(Previous TP)	HK\$102.30)
Up/Downside	0.5%
Current Price	HK\$101.80

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Stock Data

Mkt Cap (HK\$ mn)	111,674.6
Avg 3 mths t/o (HK\$ mn)	112.6
52w High/Low (HK\$)	252.60/95.30
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	-12.2%	-9.3%
3-mth	-12.8%	-1.6%
6-mth	-29.7%	-23.5%

Source: FactSet

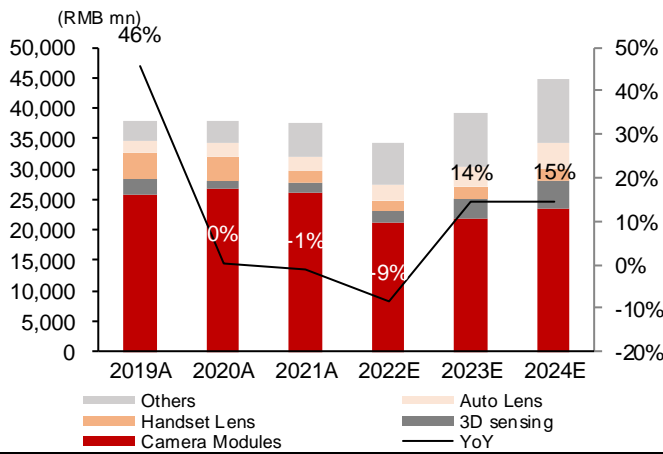
12-mth Price Performance



Source: FactSet

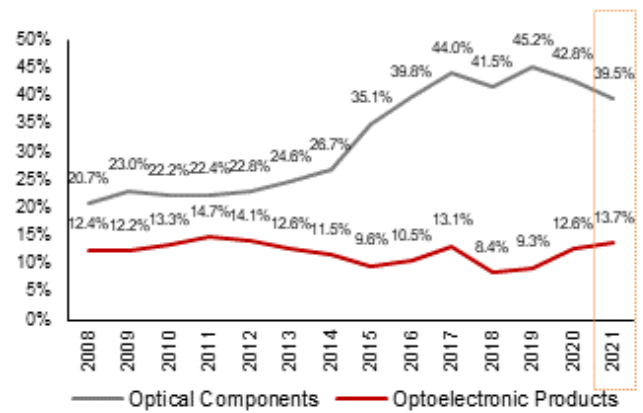
Focus Charts

Figure 1: Sunny Optical revenue trend



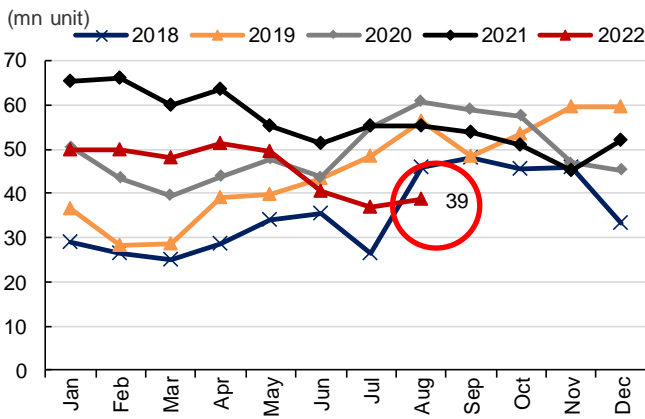
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



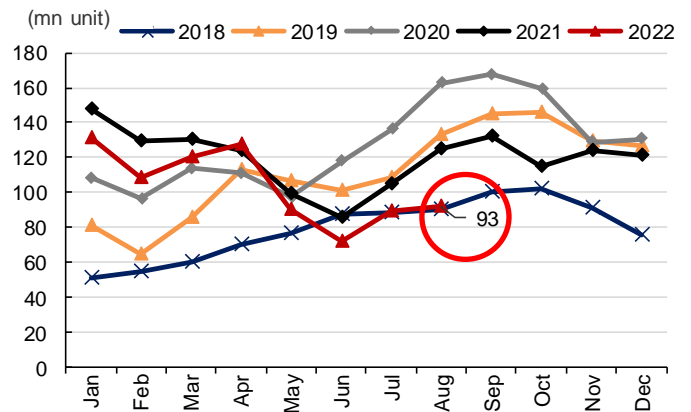
Source: Company data, CMBIGM estimates

Figure 3: Sunny HCM shipment trend



Source: Company data, CMBIGM estimates

Figure 4: Sunny HLS shipment trend



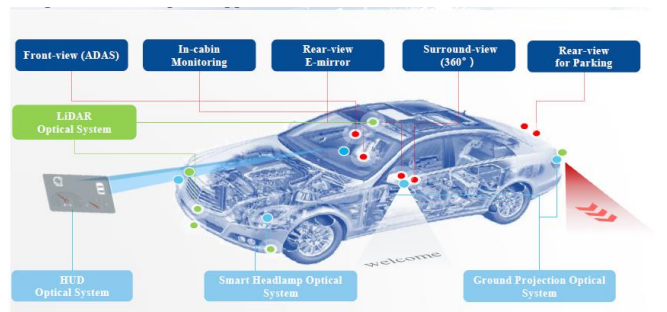
Source: Company data, CMBIGM estimates

Figure 5: Sunny next-gen handset camera products



Source: Company data, CMBIGM estimates

Figure 6: Sunny opportunities in vehicle cameras



Source: Counterpoint, CMBIGM estimates

Earnings Forecasts:

Figure 7: P&L forecast

RMB mn	FY20	FY21	1H22	2H22E	FY22E	FY23E	FY24E
Revenue	38,002	37,497	16,972	17,282	34,253	39,141	44,853
...YoY	0.4%	-1.3%	-14.4%	-2.2%	-8.7%	14.3%	14.6%
Cost of sales	(29,304)	(28,761)	(13,449)	(14,027)	(27,476)	(30,950)	(35,231)
Gross profit	8,698	8,736	3,522	3,255	6,777	8,191	9,622
GPM (%)	22.9%	23.3%	20.8%	18.8%	19.7%	20.9%	21.5%
...YoY	12.2%	0.4%	-28.8%	-14.1%	-22.4%	20.9%	17.5%
SG&A	(1,032)	(1,032)	(601)	(570)	(1,172)	(1,096)	(1,256)
...% of rev	-2.7%	-2.8%	-3.5%	-3.3%	-3.4%	-2.8%	-2.8%
R&D	(2,499)	(2,642)	(1,468)	(1,469)	(2,937)	(2,857)	(3,274)
...% of rev	-6.6%	-7.0%	-8.7%	-8.5%	-8.6%	-7.3%	-7.3%
Other gain & loss	698	252	698	252	537	449	-
Operating profit	5,877	5,851	1,798	1,665	3,463	4,903	5,855
OPM (%)	15.5%	15.6%	10.6%	9.6%	10.1%	12.5%	13.1%
...YoY	22.3%	-0.4%	-46.3%	-33.6%	-40.8%	41.6%	19.4%
Net profit	4,882	4,993	1,358	1,373	2,731	4,035	4,836
NPM (%)	12.8%	13.3%	8.0%	7.9%	8.0%	10.3%	10.8%
...YoY	22.3%	2.3%	-49.5%	-40.4%	-45.3%	47.7%	19.9%

Source: Company data, CMBIGM estimates

Figure 8: Major assumptions

	FY20	FY21	FY22E	FY23E	FY24E
Shipment volume (mn unit)					
Optical Components					
Handset lens sets	1,530	1,440	1,222	1,345	1,479
...YoY(%)	14%	-6%	-15%	10%	10%
Vehicle lens sets	56	68	77	92	111
...YoY(%)	12%	21%	13%	20%	20%
Optoelectronic Products					
Handset camera modules	593	674	539	578	636
...YoY(%)	10%	14%	-20%	7%	10%
Other optoelectronic (3D sensing)	41	59	70	101	146
...YoY(%)	-18%	45%	18%	45%	45%
Optical Instruments					
Microscopic instruments	195	258	287	316	348
...YoY(%)	-1%	32%	11%	10%	10%
Revenue (RMB mn)					
Optical Components	9,181	8,776	9,788	12,154	14,186
Optoelectronic Products	28,494	28,334	24,135	26,678	30,327
Optical instruments	326	387	330	310	341
Total Revenue	38,002	37,497	34,253	39,141	44,853
...YoY(%)	0.4%	-1.3%	-8.7%	14.3%	14.6%
Gross Margin					
Optical Components	42.8%	39.5%	34.7%	35.0%	35.0%
Optoelectronic products	12.6%	13.7%	10.3%	11.2%	11.9%
Optical instruments	39.2%	45.1%	45.1%	45.5%	45.5%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with TP of HK\$102.3

We maintain HOLD with TP of HK\$102.3. We derived our 12-month TP from SOTP valuation methodology and our TP is based on weighted-average target P/E multiple of 23.0x FY23E 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 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 9: Sunny Optical – SOTP valuation

Business segment	% of FY23E Profit	FY23E EPS (RMB)	Target P/E
Camera modules	36.6%	1.35	15x
Handset lenses	45.3%	1.67	25x
Vehicle lenses	16.5%	0.61	35x
Others	1.6%	0.06	25x
Total (RMB) /Implied P/E		3.69	23.0x
TP (HK\$)			102.3

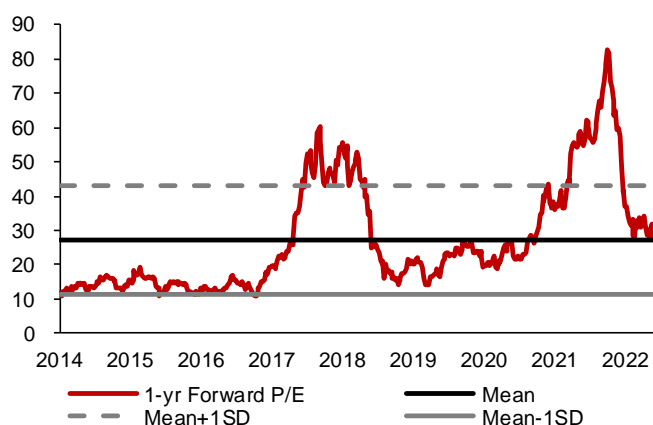
Sources: Company data, CMBIGM estimates

Figure 10: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	
Sunny Optical	2382 HK	HOLD	14,227	101.8	102.3	0%	36.5	24.7	4.3	3.8	11.8	15.3	
Q tech	1478 HK	BUY	628	4.2	5.6	35%	16.2	7.9	0.9	0.8	5.5	10.3	
Cowell	1415 HK	NR	1,783	16.72	NA	NA	23.9	15.2	4.2	-	21.4	27.3	
Truly	732 HK	NR	650	1.56	NA	NA	5.4	4.5	0.4	0.4	8.2	9.2	
Catcher	2474 TT	NR	3,968	171.50	NA	NA	14.3	15.9	0.8	0.8	5.7	4.8	
Largan	3008 TT	NR	8,644	2000.00	NA	NA	13.6	15.1	1.8	1.7	13.3	11.6	
Lite-on	2301 TT	NR	5,199	68.30	NA	NA	11.2	10.2	2.1	2.0	18.8	19.7	
Primax	4915 TT	NR	1,034	69.70	NA	NA	11.1	10.2	1.9	1.7	17.7	18.0	
O-film	002456 CH	NR	2,897	6.16	NA	NA	-	6,160.0	2.7	2.7	(12.0)	(1.2)	
Average								16.5	696.0	2.1	1.7	10.0	12.8

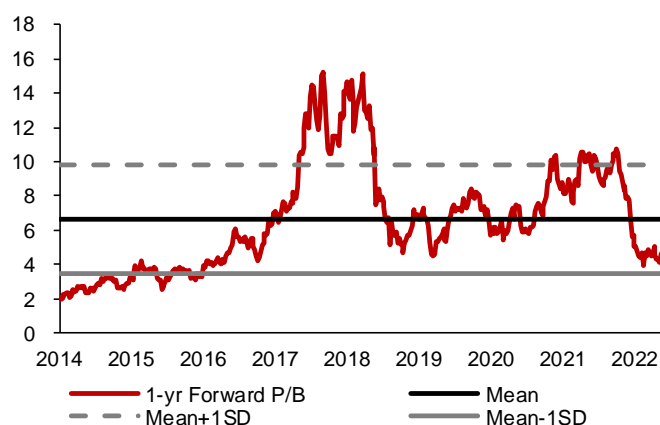
Source: Bloomberg, CMBIGM estimates

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	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	37,849	38,002	37,497	34,253	39,141	44,853
Cost of goods sold	(30,098)	(29,304)	(28,761)	(27,476)	(30,950)	(35,231)
Gross profit	7,751	8,698	8,736	6,777	8,191	9,622
Selling expense	(279)	(313)	(274)	(302)	(313)	(359)
Admin expense	(650)	(719)	(758)	(870)	(783)	(897)
R&D expense	(2,209)	(2,499)	(2,642)	(2,937)	(2,857)	(3,274)
Others	205	698	789	802	665	763
Operating profit	4,806	5,877	5,851	3,463	4,903	5,855
Share of (losses)/profits of associates/JV	(6)	0	19	20	20	20
Net Interest income/(expense)	(250)	(224)	(230)	(240)	(264)	(291)
Pre-tax profit	4,550	5,653	5,640	3,242	4,659	5,584
Income tax	(531)	(703)	(579)	(461)	(550)	(659)
Minority interest	28	68	68	50	74	89
Net profit	4,019	4,950	5,061	2,782	4,109	4,925
Net dividends	623	799	974	533	787	943
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	22,446	25,630	27,989	26,724	33,572	35,136
Cash & equivalents	1,917	2,842	5,605	6,861	8,004	11,480
Account receivables	9,630	8,212	7,448	6,857	9,490	9,243
Inventories	5,146	5,783	5,482	3,551	6,624	4,959
ST bank deposits	21	238	1,112	1,112	1,112	1,112
Financial assets at FVTPL	5,663	8,480	8,314	8,314	8,314	8,314
Other current assets	69	74	28	28	28	28
Non-current assets	8,247	9,809	10,785	12,009	12,990	13,675
PP&E	6,567	7,513	8,303	9,550	10,497	11,144
Other non-current assets	1,680	2,295	2,481	2,459	2,492	2,531
Total assets	30,693	35,438	38,774	38,733	46,561	48,811
Current liabilities	12,630	13,411	11,873	9,584	14,090	12,358
Short-term borrowings	1,119	2,071	1,539	1,539	1,539	1,539
Account payables	11,322	10,733	9,869	7,596	12,077	10,317
Other current liabilities	5,622	9,223	15,493	20,015	18,856	24,598
Non-current liabilities	5,336	5,201	6,005	6,005	6,005	6,005
Long-term borrowings	0	0	700	700	700	700
Other non-current liabilities	5,336	5,201	5,305	5,305	5,305	5,305
Total liabilities	17,967	18,612	17,879	15,589	20,095	18,363
Share capital	105	105	105	105	105	105
Other reserves	12,448	16,492	20,483	22,681	25,929	29,822
Total shareholders equity	12,726	16,826	20,895	23,144	26,466	30,448
Minority interest	173	229	307	357	432	521
Total equity and liabilities	30,693	35,438	38,774	38,733	46,561	48,811

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,550	5,643	5,640	3,242	4,659	5,584
Depreciation & amortization	1,227	1,570	1,638	1,753	2,053	2,353
Change in working capital	(1,477)	115	200	248	(1,224)	152
Others	361	(168)	(499)	(215)	(294)	(379)
Net cash from operations	4,662	7,160	6,979	5,029	5,194	7,710
Investing						
Capital expenditure	(2,760)	(2,271)	(2,498)	(3,000)	(3,000)	(3,000)
Others	(796)	(3,705)	5,400	0	0	0
Net cash from investing	(3,556)	(5,976)	2,902	(3,000)	(3,000)	(3,000)
Financing						
Dividend paid	(623)	(796)	(974)	(533)	(787)	(943)
Net borrowings	(382)	1,017	0	0	0	0
Share repurchases	(170)	(151)	0	0	0	0
Others	(266)	(291)	2,215	(240)	(264)	(291)
Net cash from financing	(1,441)	(222)	1,241	(773)	(1,051)	(1,234)
Net change in cash						
Cash at the beginning of the year	2,254	1,917	2,842	5,605	6,861	8,004
Exchange difference	(2)	(37)	(8,358)	0	0	0
Cash at the end of the year	1,917	2,842	5,605	6,861	8,004	11,480
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	46.0%	0.4%	(1.3%)	(8.7%)	14.3%	14.6%
Gross profit	57.8%	12.2%	0.4%	(22.4%)	20.9%	17.5%
Operating profit	56.2%	22.3%	(0.4%)	(40.8%)	41.6%	19.4%
Net profit	60.0%	23.2%	2.2%	(45.0%)	47.7%	19.9%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	20.5%	22.9%	23.3%	19.8%	20.9%	21.5%
Operating margin	12.7%	15.5%	15.6%	10.1%	12.5%	13.1%
Return on equity (ROE)	36.5%	33.5%	26.8%	12.6%	16.6%	17.3%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.0)	(0.2)	(0.2)	(0.2)	(0.3)
Current ratio (x)	1.8	1.9	2.4	2.8	2.4	2.8
Receivable turnover days	76.5	85.7	76.2	76.2	76.2	76.2
Inventory turnover days	49.8	68.1	68.1	60.0	60.0	60.0
Payable turnover days	111.5	137.4	137.4	116.0	116.0	116.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	24.0	25.5	38.3	35.9	24.3	20.3
P/B	7.4	7.4	9.2	4.2	3.7	3.2
Div yield (%)	0.6	0.6	0.5	0.5	0.8	1.0
EV	12,726.2	16,826.1	20,895.3	23,144.1	26,466.3	30,448.0
EV/Sales	0.3	0.4	0.6	0.7	0.7	0.7

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

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