

Sunny Optical (2382 HK)

Wait for better entry point, Maintain Hold

We trimmed our FY20/21E EPS by 3%/8% to reflect Sunny's conservative FY20E guidance, lower order visibility and slower upgrade pace amid COVID-19 outbreak. We believe the Company will benefit from video-cam/3D sensing trend in 5G era and rising adoption of ADAS in long term, but we think Sunny's 23.2x FY20E P/E is fair valuation with a balanced risk/reward. Our new FY20/21 EPS are 9%/7% below consensus. Maintain HOLD and lowered our SOTP-based TP to HK\$115.

- 2H19 beat on higher ASP/margins.** Sunny posted a strong 2H19 revenue/net profit growth of 60%/95% YoY, which are 5%/22% above our estimates and 10%/23% above consensus. The beat was due to better HCM/HLS ASP (+18%/13% YoY) and rapid GPM recovery to 21.9% in 2H19 (vs 19.6% our est.). By segment, optical components (auto/handset lens) grew 50% YoY and optoelectronic segment (HCM) grew 64% YoY in 2H19. We believe better ASP/margin was a result of better product mix, improving landscape on O-Film weakness and better yield with automation upgrade.
- Conservative guidance on order uncertainty and slower upgrade pace.** With no HCM/HLS capacity expansion plan in FY20E, mgmt. guided FY20E CAPEX of RMB3bn mainly for automation and new Vietnam/India plants. Sunny also targeted 15%/10%/20% YoY growth for HCM/HLS/VLS, which is below our estimates of 17%/24%/25% YoY. Despite limited production disruption from COVID-19, Sunny expected order visibility will remain low in near term since prolonged COVID-19 outbreak will lead to overseas demand weakness and potential slower spec upgrade. We also expect potential order cuts in April if China demand cannot improve rapidly in 2Q20E.
- Positive secular trend of imaging/video/3D sensing upgrade in 5G era.** We remain confident that Sunny Optical can continue HCM/HSL share gain and benefit from camera upgrade and opportunities in autonomous driving. However, we think project launch delays, potential order cuts and weaker consumer spending due to COVID-19 will remain overhangs for the stock.
- Fair valuation with limited upside; Maintain Hold.** Our new SOTP-based TP of HK\$115 is based on lowered target multiples of 20x/28x/30x for CCM/HLS/VLS (vs prev. 25x/30x/40x). Given outlook uncertainties ahead, Sunny's valuation at 23.2x FY20E P/E is fair in our view, and we recommend investors to stay on the sidelines until higher visibility of demand recovery. In longer term, we continue to like Sunny as the beneficiary of multi/3D-cam and 5G/video-driven upgrade trend, but we think recent order uncertainties will put the stock under pressure in near term.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	25,932	37,849	40,905	50,542	63,283
YoY growth (%)	15.9	46.0	8.1	23.6	25.2
Net income (RMB mn)	2,491	3,991	4,435	5,796	7,520
EPS (RMB)	2.3	3.65	4.05	5.30	6.87
YoY growth (%)	(14.6)	60.1	11.1	30.7	29.7
Consensus EPS (RMB)	NA	3.24	4.44	5.71	7.30
P/E (x)	41.3	25.8	23.2	17.8	13.7
P/B (x)	10.9	8.0	6.2	4.8	3.7
Yield (%)	0.7	0.6	0.7	0.9	1.1
ROE (%)	26.8	31.4	26.9	27.0	27.0

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$115.0
(Previous TP	HK\$131.0)
Up/Downside	+10%
Current Price	HK\$104.9

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	115,060
Avg 3 mths t/o (HK\$ mn)	1,209.57
52w High/Low (HK\$)	149.20/65.15
Total Issued Shares (mn)	1,097
Source: Bloomberg	

Shareholding Structure

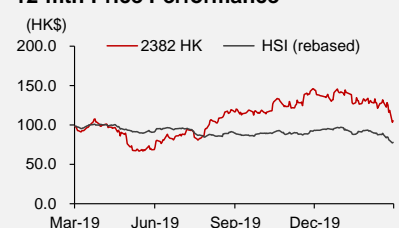
SUN XU LTD	35.47%
JPMORGAN CHASE	4.50%
WENJIAN WANG	3.08%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-20.7%	-4.4%
3-mth	-29.3%	-15.7%
6-mth	-12.4%	3.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports:

- Sunny Optical (2382 HK) – Downgrade to Hold on fair valuation, but long-term prospect remains intact – 26 Feb 2020
- China Tech – Implications of China Jan smartphone shipment – 25 Feb 2020
- Sunny Optical (2382 HK) – Softer Sep shipment ahead of 5G transition – 14 Oct 2019

2H19 Results Review

Figure 1: 2H19 results review

RMB mn	1H18	2H18	1H19	2H19	YoY	CMBI 2H19E	Diff (%)	Consensus 2H19E	Diff (%)
Revenue	11,976	13,955	15,575	22,274	60%	21,182	5%	20,228	10%
Gross profit	2,320	2,593	2,864	4,887	88%	4,153	18%	3,928	24%
Operating profit	1,513	1,565	1,789	3,017	93%	2,526	19%	2,319	30%
Net profit	1,180	1,311	1,431	2,560	95%	2,093	22%	2,087	23%
EPS (HKD)	1.08	1.20	1.31	2.34	95%	1.92	22%	1.93	21%
Gross margin	19.4%	18.6%	18.4%	21.9%	3.4 ppt	19.6%	2.3 ppt	19.4%	2.5 ppt
Operating margin	12.6%	11.2%	11.5%	13.5%	2.3 ppt	11.9%	1.6 ppt	11.5%	2.1 ppt
Net margin	9.9%	9.4%	9.2%	11.5%	2.1 ppt	9.9%	1.6 ppt	10.3%	1.2 ppt

Source: Company data, CMBIS estimates

Figure 2: 2H19 results breakdown

RMB mn	1H18	2H18	1H19	2H19	YoY	CMBI 2H19E	Diff (%)
Optical Component (Auto/ handset lens)	2,656	3,367	3,774	5,042	50%	4,909	3%
... Auto lens ASP (Rmb)	39.9	38.2	41.6	34.7	-9%	41.0	-15%
... Handset lens ASP (Rmb)	5.2	3.9	5.2	4.5	13%	5.2	-14%
Optoelectronic Products (CCM)	9,187	10,422	11,680	17,069	64%	16,099	6%
... CCM ASP (Rmb)	49.4	41.1	46.8	48.4	18%	45.4	7%
Optical instruments	133	167	122	163	-2%	174	-6%
Gross Margin							
Optical Components	42.0%	41.1%	44.1%	46.1%	5 ppt	44.5%	1.6 ppt
Optoelectronic products	9.4%	7.5%	5.9%	11.7%	4.1 ppt	7.8%	3.9 ppt
Optical instruments	38.3%	42.1%	41.2%	41.4%	-0.8 ppt	42.0%	-0.6 ppt
Blended GPM	19.4%	18.6%	18.4%	21.9%	3.4 ppt	19.6%	2.3 ppt

Source: Company data, CMBIS estimates

Earnings Revision

Our FY20-21E EPS are 9%/7% below consensus

Figure 3: CMBI earnings revisions

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	40,905	50,542	41,382	47,619	-1%	6%
Gross profit	8,398	10,701	8,628	11,006	-3%	-3%
Operating profit	5,302	6,911	5,450	7,482	-3%	-8%
Net profit	4,435	5,796	4,585	6,263	-3%	-7%
EPS (RMB)	4.05	5.30	4.20	5.73	-3%	-8%
Gross margin	20.5%	21.2%	20.8%	23.1%	-0.3%	-1.9%
Operating margin	13.0%	13.7%	13.2%	15.7%	-0.2%	-2.0%
Net Margin	10.8%	11.5%	11.1%	13.2%	-0.2%	-1.7%

Source: Company data, CMBIS estimates

Figure 4: CMBI estimates vs consensus

(RMB mn)	CMBI		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	40,905	50,542	44,298	52,804	-8%	-4%
Gross profit	8,398	10,701	9,006	11,206	-7%	-5%
Operating profit	5,302	6,911	5,423	7,053	-2%	-2%
Net profit	4,435	5,796	4,879	6,258	-9%	-7%
EPS (RMB)	4.05	5.30	4.44	5.71	-9%	-7%
Gross margin	20.5%	21.2%	20.3%	21.2%	0.2 ppt	0 ppt
Operating margin	13.0%	13.7%	12.2%	13.4%	0.7 ppt	0.3 ppt
Net Margin	10.8%	11.5%	11.0%	11.9%	-0.2 ppt	-0.4 ppt

Source: Company data, CMBIS estimates

Figure 5: Major assumptions

	FY18	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Shipment volume (mn unit)							
Optical Components							
Handset lens sets	951	1,343	1,517	1,826	1,517	1,826	2,214
...YoY(%)	56%	41%	149%	92%	13%	20%	21%
Vehicle lens sets	40	50	61	76	61	76	95
...YoY(%)	25%	25%	91%	89%	22%	24%	25%
Optoelectronic Products							
Handset camera modules	425	540	622	726	622	726	861
...YoY(%)	31%	27%	91%	71%	15%	17%	19%
Other optoelectronic (3D sensing)	10	49	46	55	46	55	65
...YoY(%)	27%	388%	480%	441%	-6%	18%	20%
Revenue (Rmb mn)							
Optical Components	6,023	8,815	4,176	5,301	9,478	11,740	14,607
Optoelectronic Products	19,609	28,748	12,185	18,983	31,168	38,516	48,362
Optical instruments	300	285	134	126	260	286	314
Total Revenue	25,932	37,849	16,495	24,410	40,905	50,542	63,283
...YoY (%)	15.9%	46.0%	5.9%	9.6%	8.1%	23.6%	25.2%
Gross Margin							
Optical Components	41.5%	45.2%	44.2%	45.5%	44.9%	45.8%	46.3%
Optoelectronic products	8.4%	9.3%	8.5%	9.8%	9.3%	9.7%	10.1%
Optical instruments	40.5%	41.3%	41.0%	41.5%	41.2%	41.2%	41.2%

Source: Company data, CMBIS estimates

Figure 6: P&L forecast

RMB mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Revenue	25,932	15,575	22,274	37,849	16,495	24,410	40,905	50,542	15,575
...YoY	15.9%	30.0%	59.6%	46.0%	5.9%	9.6%	8.1%	23.6%	30.0%
Cost of sales	(21,019)	(12,711)	(17,387)	(30,098)	(13,086)	(19,421)	(32,508)	(39,841)	(12,711)
Gross profit	4,913	2,864	4,887	7,751	3,409	4,989	8,398	10,701	2,864
GPM (%)	18.9%	18.4%	21.9%	20.5%	20.7%	20.4%	20.5%	21.2%	18.4%
...YoY	2.3%	23.4%	88.5%	57.8%	19.0%	2.1%	8.3%	27.4%	23.4%
SG&A	(644)	(388)	(541)	(929)	(445)	(592)	(1,037)	(1,264)	(388)
...% of rev	-2.5%	-2.5%	-2.4%	-2.5%	-2.7%	-2.4%	-2.5%	-2.5%	-2.5%
R&D	(1,362)	(827)	(1,383)	(2,209)	(874)	(1,465)	(2,339)	(2,931)	(827)
...% of rev	-5.3%	-5.3%	-6.2%	-5.8%	-5.3%	-6.0%	-5.7%	-5.8%	-5.3%
Operating profit	3,077	1,789	3,017	4,806	2,221	3,082	5,302	6,911	1,789
OPM (%)	11.9%	11.5%	13.5%	12.7%	13.5%	12.6%	13.0%	13.7%	11.5%
...YoY	-9.0%	18.3%	92.8%	56.2%	24.1%	2.1%	10.3%	30.3%	18.3%
Net profit	2,491	1,431	2,560	3,991	1,804	2,631	4,435	5,796	1,431
NPM (%)	9.6%	9.2%	11.5%	10.5%	10.9%	10.8%	10.8%	11.5%	9.2%
...YoY	-14.2%	21.3%	95.3%	60.2%	26.1%	2.8%	11.1%	30.7%	21.3%

Source: Company data, CMBIS estimates

Valuation

Maintain HOLD with new TP HK\$115

We maintain HOLD rating with new TP HK\$115. We derived our 12-month TP from SOTP valuation methodology and our new TP is based on weighted-average target P/E multiple of 25.4x FY20E 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 20x P/E to its CCM business, given its China No.1 position, product upcycle and advanced technology capacity. We assign 30x 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 28x P/E to its handset lens segment given secular upgrade trend, continued share gains from peers and robust shipment momentum (18% sales CAGR FY19-21E).

Figure 7: Sunny Optical – SOTP valuation

Business segment	% of FY20E Profit	FY20E EPS (RMB)	Target P/E
Camera modules	34.5%	1.40	20x
Handset lenses	52.6%	2.13	28x
Vehicle lenses	11.8%	0.48	30x
Others	1.1%	0.04	25x
Total (RMB) /Implied P/E		4.05	25.4x
TP (HK\$)			115.0

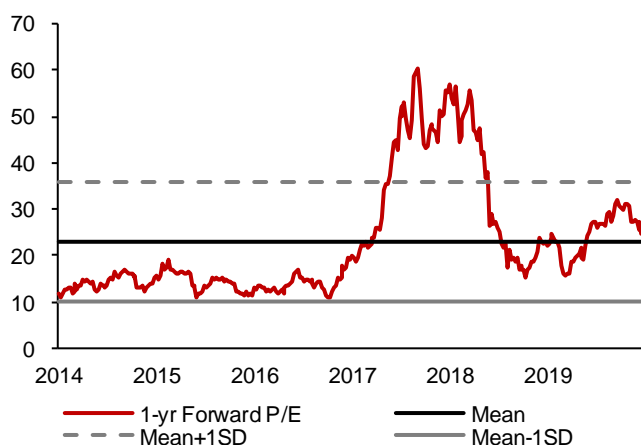
Sources: Company data, CMBIS

Figure 8: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY20E	P/E (x) FY21E	P/B (x) FY20E	P/B (x) FY21E	ROE (%) FY20E	ROE (%) FY21E
Sunny Optical	2382 HK	Hold	14,816	104.9	115.0	10%	23.2	17.8	6.2	4.5	26.9	27.0
Q tech	1478 HK	Buy	1,334	9.0	14.8	65%	16.9	13.3	3.2	2.7	18.9	20.0
Cowell	1415 HK	NR	143	1.34	NA	NA	7.2	4.7	0.4	0.4	8.6	9.7
Truly	732 HK	NR	356	0.84	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,804	188.50	NA	NA	11.5	8.2	0.9	0.9	8.5	11.5
Largan	3008 TT	NR	16,574	3735.00	NA	NA	17.7	14.3	3.9	3.3	24.1	24.9
Lite-on	2301 TT	NR	3,049	39.40	NA	NA	9.8	11.0	1.2	1.2	12.1	11.0
Primax	4915 TT	NR	583	39.30	NA	NA	7.6	7.0	1.2	1.2	15.5	14.6
O-film	002456 CH	NR	5,740	14.83	NA	NA	76.1	25.5	4.4	3.9	5.7	14.9
Average							22.1	13.1	3.0	2.5	15.3	17.4

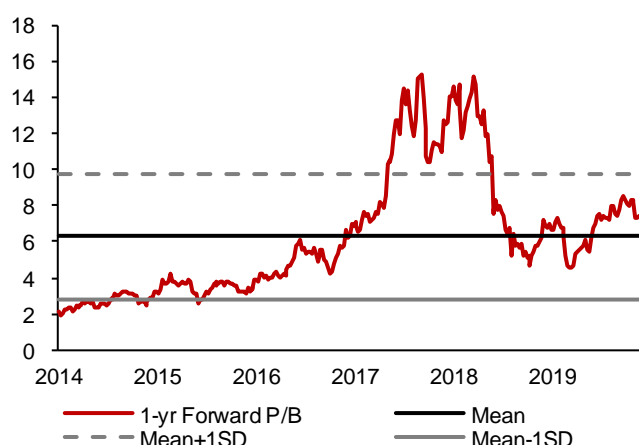
Source: Bloomberg, CMBIS

Figure 9: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 10: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	25,932	37,849	40,905	50,542	63,283
Cost of sales	(21,019)	(30,098)	(32,508)	(39,841)	(49,627)
Gross profit	4,913	7,751	8,398	10,701	13,656
Selling expenses	(210)	(279)	(311)	(404)	(506)
Admin expenses	(434)	(650)	(727)	(859)	(1,076)
R&D expenses	(1,362)	(2,209)	(2,339)	(2,931)	(3,670)
Other income	467	406	499	556	696
Other gain/ losses	(293)	(201)	(218)	(152)	(190)
Operating profit	3,077	4,806	5,302	6,911	8,910
Financial costs	(202)	(250)	(250)	(275)	(303)
Investment income	(24)	(6)	(6)	(6)	(6)
Pre-tax profit	2,851	4,550	5,046	6,630	8,601
Income tax expense	(339)	(531)	(582)	(796)	(1,032)
NCI	22	28	29	38	49
Net profit	2,491	3,991	4,435	5,796	7,520

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	2,851	4,550	5,046	6,630	8,601
Depreciation/amortisation	819	1,171	1,191	1,509	1,828
Change in working capital	(203)	(1,213)	454	(2,081)	(41)
Others	100	152	(338)	(541)	(756)
Net cash from operating	3,568	4,662	6,353	5,517	9,631
Capex	(2,104)	(3,242)	(3,000)	(3,500)	(3,500)
Other	(3,395)	(314)	0	0	0
Net cash from investing	(5,499)	(3,556)	(3,000)	(3,500)	(3,500)
Net borrowings	88	0	0	0	0
Dividend paid	(725)	(623)	(692)	(905)	(1,174)
Purchase of shares	(78)	0	0	0	0
Other	3,672	(818)	(250)	(275)	(303)
Net cash from financing	2,957	(1,441)	(943)	(1,180)	(1,477)
Net change in cash	1,025	(336)	2,410	837	4,655
Cash at beginning of the year	1,227	2,254	1,917	4,327	5,164
Exchange difference	2	0	0	0	0
Cash at the end of the year	2,254	1,919	4,327	5,164	9,819

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	16,768	22,446	22,422	31,982	36,256
Cash & equivalents	2,254	1,917	4,327	5,164	9,819
Financial assets	4,760	5,663	5,663	5,663	5,663
Deposits	235	21	21	21	21
Account receivables	6,231	9,630	7,512	13,668	12,852
Inventories	3,074	5,146	4,829	7,396	7,832
Other current assets	214	69	69	69	69
Non-current assets	6,084	8,247	10,066	12,091	13,807
Prepaid lease	214	0	0	0	0
PPE	4,523	6,567	8,376	10,366	12,039
Interest in associates	101	1	1	1	1
Other non-curr. assets	1,246	1,680	1,690	1,724	1,768
Total assets	22,852	30,693	32,488	44,072	50,063
Current liabilities	8,677	12,630	10,654	17,308	16,904
ST borrowings	1,482	1,119	1,119	1,119	1,119
Account payables	7,064	11,322	9,341	15,983	15,561
Other current liabilities	5,628	5,622	11,375	9,663	16,479
Non-current liabilities	4,887	5,336	5,336	5,336	5,336
LT borrowings	4,887	5,336	5,336	5,336	5,336
Others	4,887	5,336	5,336	5,336	5,336
Total liabilities	13,564	17,967	15,990	22,645	22,240
Share capital	105	105	105	105	105
Reserves	9,129	12,448	16,191	21,082	27,428
Minority interest	54	173	202	241	290
Shareholders' equity	9,288	12,726	16,498	21,428	27,823
Total equity & liabilities	22,852	30,693	32,488	44,072	50,063

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Optical components	23.2	23.3	23.2	23.2	23.1
Optoelectronic products	75.6	76.0	76.2	76.2	76.4
Optical instruments	1.2	0.8	0.6	0.6	0.5
Growth (%)					
Revenue	15.9	46.0	8.1	23.6	25.2
Gross profit	2.3	57.8	8.3	27.4	27.6
Operating profit	(9.0)	56.2	10.3	30.3	28.9
Net profit	(14.2)	60.2	11.1	30.7	29.7
Profit & loss ratio (%)					
Gross margin	18.9	20.5	20.5	21.2	21.6
Operating margin	11.9	12.7	13.0	13.7	14.1
Net profit margin	9.6	10.5	10.8	11.5	11.9
Balance sheet ratio					
Net debt/total equity (x)	0.0	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	1.8	2.1	1.8	2.1
Receivable turnover days	84	76.5	76.5	76.5	76.5
Inventory turnover days	49	49.8	56.0	56.0	56.0
Payable turnover days	115	111.5	116.0	116.0	116.0
Profitability (%)					
ROE	26.8	31.4	26.9	27.0	27.0
ROA	10.9	13.0	13.7	13.2	15.0
Per share data (RMB)					
EPS	2.28	3.65	4.05	5.30	6.87
DPS	0.66	0.57	0.63	0.83	1.07

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

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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 CMBIS
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

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