

Sunny Optical (2382 HK)

Jun shipment worse than feared; Trim TP to reflect 3Q destocking

Sunny's June HCM/HSL shipment decline of 21%/16% YoY and 19%/20% MoM reflected worse-than-expected smartphone demand and continued inventory destocking after 618 Festival. While we remain positive on Sunny's auto lens recovery (+25.3% YoY in Jun), product roadmap and technology leadership, we believe sluggish HCM/HSL will continue into 3Q22E given inventory correction in Android camp and global macro uncertainties in 2H22E. We trimmed FY22-24E EPS by 5-9% to reflect lower smartphone demand, and our new EPS are 14-17% below consensus. Trading at 24.3x FY22E P/E, we think the stock is fairly valued. Maintain HOLD with lowered SOTP-based TP of HK\$108.8.

- Expect demand weakness to persist into 3Q22E.** Sunny's June HCM/HSL shipment declined 21%/16% YoY and 19%/20% MoM, which is below market expectations, in our view. We believe it reflects demand weakness and inventory correction to continue in June following 618 Festival. Our recent check also suggested that high inventory level, soft Android demand and macro weakness will lead to inventory correction in 3Q22E. We trimmed FY22-24 EPS by 5-9% to factor in lower HCM/HSL shipment.
- 1H22E preview: revenue/NP to decline 17%/27% YoY.** HCM/HSL shipment declined 9%/20% YoY in 1H22 due to COVID-19 impact in China and ASP pressure on de-spec trend. We estimate 1H22 revenue/NP to drop 17%/27% YoY to RMB16.4bn/1,957mn. Looking into 2H22E, mgmt. guided 1) smartphone weakness and cam de-spec to persist in 2H22E, 2) Apple's HLS to scale up with multiple projects in 2023, 3) higher cost pressure due to weak demand and intense competition will accelerate de-spec trend in 2H22E, 4) LiDAR projects to bear fruit in 2024, and 5) XR device/ camera shipment to exceed 50mn/350mn in 2025.
- Our FY22-24E are 14-17% below consensus; Maintain HOLD.** While we remain positive on Sunny's product roadmap and technology leadership, Sunny's high exposure to handset segment (79% of sales, vs 8% for auto-related) will continue to weigh on earnings amid smartphone slowdown in 2022. Trading at 24.3x FY22E P/E, we think the stock is fairly valued. Maintain HOLD with new SOTP-based TP of HK\$108.8 (22.7x FY22E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	38,002	37,497	35,024	40,620	47,672
YoY growth (%)	0.4	(1.3)	(6.6)	16.0	17.4
Net income (RMB mn)	4,882	4,993	4,342	5,234	6,513
EPS (RMB)	4.47	4.57	3.97	4.79	5.96
YoY growth (%)	22.4	2.3	(13.1)	20.6	24.4
Consensus EPS (RMB)	NA	4.56	4.68	5.80	6.91
P/E (x)	21.6	21.1	24.3	20.2	16.2
P/B (x)	6.2	5.0	4.3	3.7	3.1
Yield (%)	0.8	0.9	0.8	1.0	1.2
ROE (%)	29.0	23.9	17.8	18.2	19.1
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **HK\$108.8**
 (Previous TP **HK\$117.9**)
 Up/Downside **-6%**
 Current Price **HK\$116.3**

China Technology Sector

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

Lily Yang, Ph.D
 (852) 3916 3716
 lilyyang@cmbi.com.hk

Hanqing Li
 lihanqing@cmbi.com.hk



Stock Data

Mkt Cap (HK\$ mn)	127,564
Avg 3 mths t/o (HK\$ mn)	861.27
52w High/Low (HK\$)	259.40/ 93.55
Total Issued Shares (mn)	1,097
Source:	Bloomberg

Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	4.86%
WENJIAN WANG	3.04%
Source:	HKEx

Share Performance

	Absolute	Relative
1-mth	-0.4%	0.2%
3-mth	-0.2%	0.5%
6-mth	-47.7%	-43.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

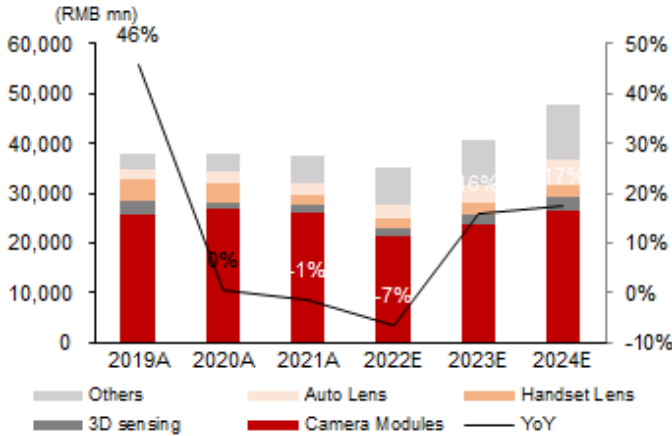
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Related Reports:

1) 2H22 demand weakness affirmed; Technology leadership remains intact – 24 Jun 2022

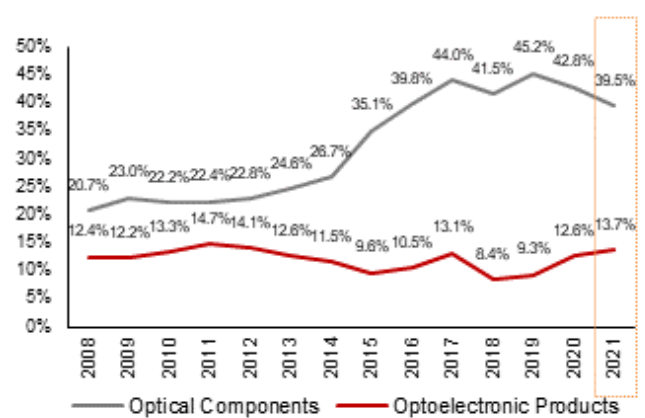
Focus Charts

Figure 1: Sunny Optical revenue trend



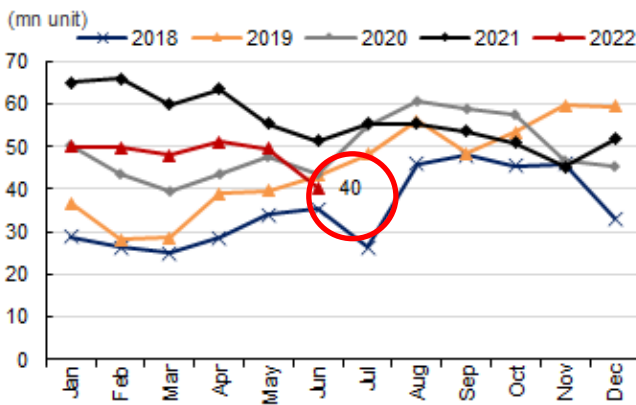
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



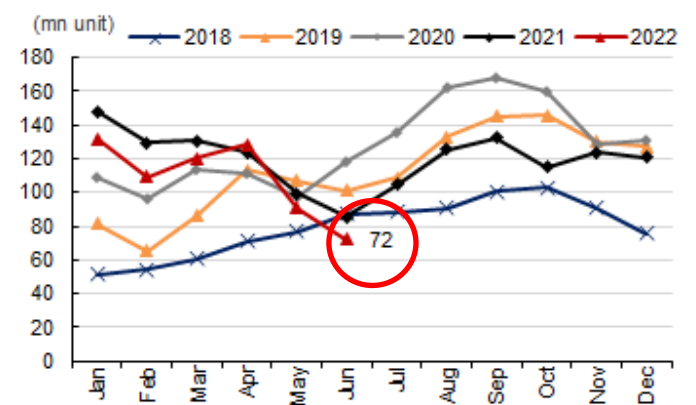
Source: Company data, CMBIGM estimates

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

1 Inch Sensor

1/2" Sensor 1" Sensor

Chip performance improves with higher signal-to-noise ratio and dynamic range. Product upgrade towards AP-C and full frames.

Hybrid OIS

Lens & Sensor Hybrid OIS can provide better stabilization effects (and larger angle) to fulfill the needs of sports imaging, video, etc.

Variable Aperture

Extremely large aperture captures more lights. Variable aperture can cover multiple photography scenarios to achieve great image performance.

Cont. Zoom

Optical zoom evolves towards continuous zoom, large image size started to be applied; smartphone camera replaces digital camera.

Large Image Size for Portrait

Portrait photography pursues more & more extreme image performance, large image size product with optimized zoom could further improve portrait photography experience.

Lens Element Focus

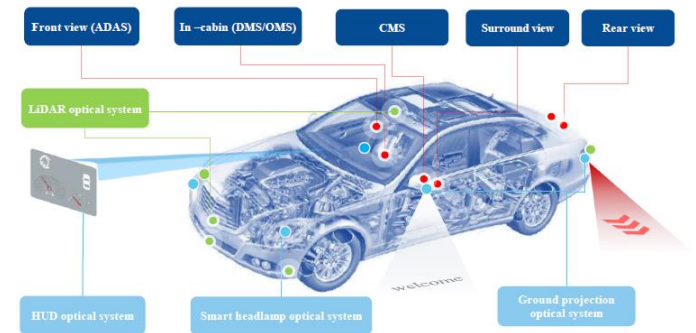
Revolution from "Lens focus" to "Lens Element focus" to improve the focus accuracy, and significantly optimize the optical performance in different shooting distance.

Ultra-Thin

Ultra-thin product will better fit the extreme size requirement for foldable phones while keeping good image performance.

Source: Company data, CMBIGM estimates

Figure 6: Sunny opportunities in vehicle cameras



Source: Counterpoint, CMBIGM estimates

Earnings Revision

Figure 7: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	35,024	40,620	47,672	35,752	41,632	49,104	-2%	-2%	-3%
Gross profit	7,852	9,483	11,539	8,236	10,154	12,061	-5%	-7%	-4%
Operating profit	5,232	6,282	7,782	5,605	6,873	8,192	-7%	-9%	-5%
Net profit	4,342	5,234	6,513	4,730	5,745	6,866	-8%	-9%	-5%
EPS (RMB)	3.97	4.79	5.96	4.33	5.26	6.28	-8%	-9%	-5%
Gross margin	22.4%	23.3%	24.2%	23.0%	24.4%	24.6%	-0.6%	-1.0%	-0.4%
Operating margin	14.9%	15.5%	16.3%	15.7%	16.5%	16.7%	-0.7%	-1.0%	-0.4%
Net margin	12.4%	12.9%	13.7%	13.2%	13.8%	14.0%	-0.8%	-0.9%	-0.3%

Source: Company data, CMBIGM estimates

Figure 8: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	35,024	40,620	47,672	40,236	46,442	54,182	-13%	-13%	-12%
Gross profit	7,852	9,483	11,539	9,039	10,886	13,203	-13%	-13%	-13%
Operating profit	5,232	6,282	7,782	5,354	6,692	8,202	-2%	-6%	-5%
Net profit	4,342	5,234	6,513	5,049	6,204	7,476	-14%	-16%	-13%
EPS (RMB)	3.97	4.79	5.96	4.68	5.80	6.91	-15%	-17%	-14%
Gross margin	22.4%	23.3%	24.2%	22.5%	23.4%	24.4%	0 ppt	-0.1 ppt	-0.2 ppt
Operating margin	14.9%	15.5%	16.3%	13.3%	14.4%	15.1%	1.6 ppt	1.1 ppt	1.2 ppt
Net margin	12.4%	12.9%	13.7%	12.5%	13.4%	13.8%	-0.2 ppt	-0.5 ppt	-0.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 9: P&L forecast

RMB mn	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
Revenue	38,002	37,497	16,418	18,606	35,024	40,620	47,672
...YoY	0.4%	-1.3%	-17.2%	5.3%	-6.6%	16.0%	17.4%
Cost of sales	(29,304)	(28,761)	(12,786)	(14,386)	(27,172)	(31,137)	(36,133)
Gross profit	8,698	8,736	3,632	4,221	7,852	9,483	11,539
GPM (%)	22.9%	23.3%	22.1%	22.7%	22.4%	23.3%	24.2%
...YoY	12.2%	0.4%	-26.6%	11.4%	-10.1%	20.8%	21.7%
SG&A	(1,032)	(1,032)	(440)	(515)	(955)	(1,089)	(1,278)
...% of rev	-2.7%	-2.8%	-2.7%	-2.8%	-2.7%	-2.7%	-2.7%
R&D	(2,499)	(2,642)	(1,018)	(1,377)	(2,395)	(2,762)	(3,242)
...% of rev	-6.6%	-7.0%	-6.2%	-7.4%	-6.8%	-6.8%	-6.8%
Other gain & loss	698	252	698	252	537	484	-
Operating profit	5,877	5,851	2,420	2,812	5,232	6,282	7,782
OPM (%)	15.5%	15.6%	14.7%	15.1%	14.9%	15.5%	16.3%
...YoY	22.3%	-0.4%	-27.7%	12.2%	-10.6%	20.1%	23.9%
Net profit	4,882	4,993	1,957	2,384	4,342	5,234	6,513
NPM (%)	12.8%	13.3%	11.9%	12.8%	12.4%	12.9%	13.7%
...YoY	22.3%	2.3%	-27.2%	3.4%	-13.0%	20.6%	24.4%

Source: Company data, CMBIGM estimates

Figure 10: Major assumptions

	FY20	FY21	FY22E	FY23E	FY24E
Shipment volume (mn unit)					
Optical Components					
Handset lens sets	1,530	1,440	1,374	1,540	1,725
...YoY(%)	14%	-6%	-5%	12%	12%
Vehicle lens sets	56	68	79	100	127
...YoY(%)	12%	21%	16%	27%	27%
Optoelectronic Products					
Handset camera modules	593	674	617	688	757
...YoY(%)	10%	14%	-8%	12%	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	10,801	12,886	15,374
Optoelectronic Products	28,494	28,334	23,941	27,425	31,957
Optical instruments	326	387	281	310	341
Total Revenue	38,002	37,497	35,024	40,620	47,672
...YoY(%)	0.4%	-1.3%	-6.6%	16.0%	17.4%
Gross Margin					
Optical Components	22.9%	23.3%	22.4%	23.3%	24.2%
Optoelectronic products	42.8%	39.5%	36.5%	38.5%	40.5%
Optical instruments	12.6%	13.7%	12.3%	12.3%	12.3%
Optical instruments	39.2%	45.1%	46.4%	46.4%	46.4%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with new TP of HK\$108.8

We maintain HOLD with lowered TP of HK\$108.8. We derived our 12-month TP from SOTP valuation methodology and our TP is based on weighted-average target P/E multiple of 22.6x FY22E 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 11: Sunny Optical – SOTP valuation

Business segment	% of FY22E Profit	FY22E EPS (RMB)	Target P/E
Camera modules	37.4%	1.49	15x
Handset lenses	46.4%	1.84	25x
Vehicle lenses	14.7%	0.58	35x
Others	1.5%	0.06	25x
Total (RMB) /Implied P/E		3.97	22.7x
TP (HK\$)			108.8

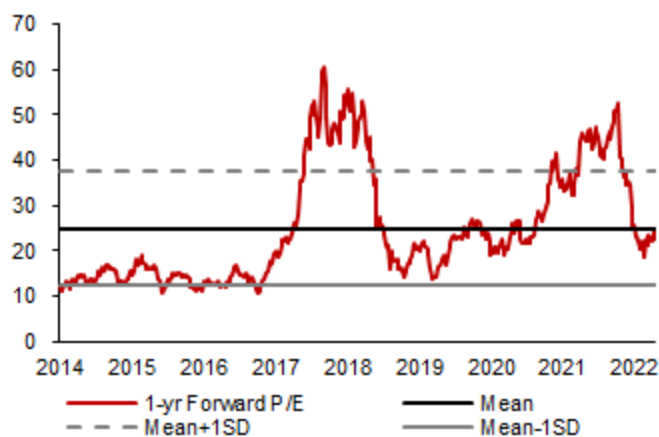
Sources: Company data, CMBIGM estimates

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 (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sunny Optical	2382 HK	HOLD	16,253	108.8	125.7	-6%	24.3	20.2	4.3	3.7	17.8	18.2
Q tech	1478 HK	BUY	767	5.08	7.0	38%	7.2	5.3	0.9	0.8	13.1	15.7
Cowell	1415 HK	NR	1,202	11.30	NA	NA	16.2	12.0	2.9	2.4	20.3	23.2
Truly	732 HK	NR	870	2.08	NA	NA	4.5	3.7	-	-	12.2	13.4
Catcher	2474 TT	NR	3,932	160.50	NA	NA	14.4	14.7	0.8	0.8	5.3	5.2
Largan	3008 TT	NR	8,378	1870.00	NA	NA	13.5	13.9	1.6	1.5	12.6	11.7
Lite-on	2301 TT	NR	4,514	57.20	NA	NA	10.2	8.8	1.8	1.7	17.5	18.8
Primax	4915 TT	NR	937	61.30	NA	NA	10.0	8.9	1.7	1.5	17.2	17.3
O-film	002456 CH	NR	3,124	6.42	NA	NA	-	-	2.6	2.6	(8.6)	(4.3)
Average							12.2	11.0	2.1	1.9	12.5	13.0

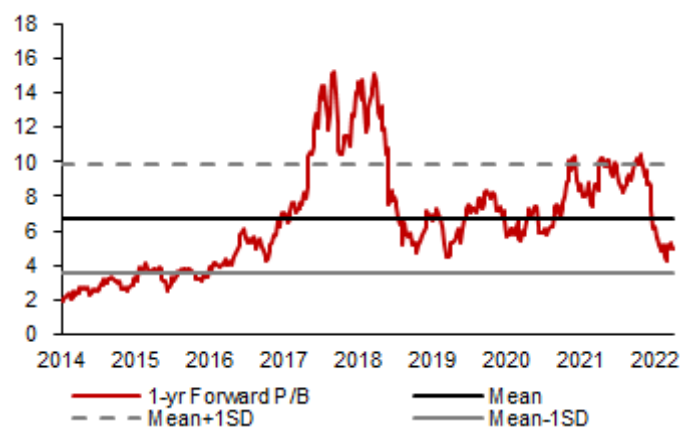
Source: Bloomberg, CMBIGM estimates

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	38,002	37,497	35,024	40,620	47,672
Cost of sales	(29,304)	(28,761)	(27,172)	(31,137)	(36,133)
Gross profit	8,698	8,736	7,852	9,483	11,539
Selling expenses	(313)	(274)	(253)	(297)	(348)
Admin expenses	(719)	(758)	(703)	(792)	(930)
R&D expenses	(2,499)	(2,642)	(2,395)	(2,762)	(3,242)
Other income	510	690	660	609	715
Other gain/ losses	187	99	70	41	48
Operating profit	5,877	5,851	5,232	6,282	7,782
Financial costs	(224)	(230)	(253)	(279)	(306)
Investment income	0	19	19	19	19
Pre-tax profit	5,653	5,640	4,998	6,023	7,495
Income tax expense	(703)	(579)	(591)	(711)	(884)
NCI	68	68	65	78	97
Net profit	4,882	4,993	4,342	5,234	6,513

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	5,643	5,640	4,998	6,023	7,495
Depreciation/amortisation	1,570	1,638	1,753	2,053	2,353
Change in working capital	115	200	(167)	(954)	(459)
Others	(168)	(499)	(334)	(442)	(591)
Net cash from operating	7,160	6,979	6,250	6,680	8,798
Capex	(2,271)	(2,498)	(3,000)	(3,000)	(3,000)
Other	(3,705)	5,400	0	0	0
Net cash from investing	(5,976)	2,902	(3,000)	(3,000)	(3,000)
Net borrowings	1,017	0	0	0	0
Dividend paid	(796)	(974)	(847)	(1,021)	(1,271)
Purchase of shares	(151)	0	0	0	0
Other	(291)	2,215	(253)	(279)	(306)
Net cash from financing	(222)	1,241	(1,100)	(1,300)	(1,577)
Net change in cash	962	11,122	2,150	2,380	4,221
Cash at beginning of the year	1,917	2,842	5,605	7,755	10,136
Exchange difference	(37)	(8,358)	0	0	0
Cash at the end of the year	2,842	5,605	7,755	10,136	14,357

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	25,630	27,989	27,840	36,160	39,030
Cash & equivalents	2,842	5,605	7,755	10,136	14,357
Financial assets	8,480	8,314	8,314	8,314	8,314
Deposits	238	1,112	1,112	1,112	1,112
Account receivables	8,212	7,448	7,179	9,785	10,125
Inventories	5,783	5,482	3,451	6,785	5,094
Other current assets	74	28	28	28	28
Non-current assets	9,809	10,785	12,015	13,000	13,695
Prepaid lease					
PPE	7,513	8,303	9,550	10,497	11,144
Interest in associates	2	202	202	202	202
Other non-curr. assets	2,293	2,280	2,263	2,301	2,349
Total assets	35,438	38,774	39,854	49,160	52,724
Current liabilities	13,411	11,873	9,395	14,409	12,634
ST borrowings	2,071	1,539	1,539	1,539	1,539
Account payables	10,733	9,869	7,402	12,389	10,578
Other current liabilities	9,223	15,493	21,519	20,823	27,973
Non-current liabilities	5,201	6,005	6,005	6,005	6,005
LT borrowings		700	700	700	700
Others	5,201	5,305	5,305	5,305	5,305
Total liabilities	18,612	17,879	15,400	20,414	18,639
Share capital	105	105	105	105	105
Reserves	16,492	20,483	23,978	28,191	33,434
Minority interest	229	307	372	450	546
Shareholders' equity	16,826	20,895	24,455	28,746	34,085
Total equity & liabilities	35,438	38,774	39,854	49,160	52,724

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Optical components	24.2	23.4	30.8	31.7	32.3
Optoelectronic products	75.0	75.6	68.4	67.5	67.0
Optical instruments	0.9	1.0	0.8	0.8	0.7
Growth (%)					
Revenue	0.4	(1.3)	(6.6)	16.0	17.4
Gross profit	12.2	0.4	(10.1)	20.8	21.7
Operating profit	22.3	(0.4)	(10.6)	20.1	23.9
Net profit	22.3	2.3	(13.0)	20.6	24.4
Profit & loss ratio (%)					
Gross margin	22.9	23.3	22.4	23.3	24.2
Operating margin	15.5	15.6	14.9	15.5	16.3
Net profit margin	12.8	13.3	12.4	12.9	13.7
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	2.4	3.0	2.5	3.1
Receivable turnover days	85.7	76.2	76.2	76.2	76.2
Inventory turnover days	68.1	68.1	60.0	60.0	60.0
Payable turnover days	137.4	137.4	116.0	116.0	116.0
Profitability (%)					
ROE	29.0	23.9	17.8	18.2	19.1
ROA	13.8	12.9	10.9	10.6	12.4
Per share data (RMB)					
EPS	4.47	4.57	3.97	4.79	5.96
DPS	0.73	0.89	0.78	0.93	1.16

Source: Company data, CMBIGM estimates

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HOLD	: Stock with potential return of +15% to -10% over next 12 months
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NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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CMB International Global Markets Limited

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

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