

# Sunny Optical (2382 HK)

## Lacklustre 2H20E mostly priced in; Share gain and restocking demand to drive shipment upside

We believe negative impacts from Huawei ban and cam de-spec in 2H20E have been mostly priced in as Sunny's corrected 15%+ in past two months. Backed by Xiaomi/OPPO restocking and Samsung recovery in 4Q20E, we believe Sunny's HCM/HLS/VLS shipment will likely beat mgmt. guidance of 10%/5%/10% YoY in FY20E (vs 21%/18%/3% YoY YTD). In addition, given ongoing high-end demand weakness, we think Sunny is well positioned to accelerate share gain and benefit from strong pipeline from Xiaomi/Oppo/Samsung in 4Q20E. We slightly revised TP to HK\$146.1 after lowering FY20-22E EPS by 1-6% for slower ASP upgrade but higher shipment. We suggest to accumulate on recent weakness, as we expect shipment upside and Apple-led 3D-cam upcycle cycle will be positive to the stock in 4Q20E.

- Solid HCM/HLS despite Huawei ban; VLS recovery on track.** Sunny delivered solid Sep shipment with HCM/HLS up 22%/16% YoY and -3%/+3% MoM, driven by Chinese brands restocking and Samsung recovery despite Huawei order slowdown. Sunny's VLS (vehicle lens) accelerated with 32% YoY/ 18% MoM growth in Sep (vs +16% YoY in Aug) as global automobile production continued to recover in 4Q20E.
- Expect 4Q20E restocking to beat shipment guidance.** Despite Huawei ban impact to emerge in 4Q20E, we expect Xiaomi/Oppo's strong orders on share gain and Samsung overseas demand will offset Huawei decline. As of 9M20, Sunny's HCM/HLS shipment grew 21%/18% YoY, well ahead of full-year guidance of 10%/10% YoY. To reflect weaker demand of Chinese flagship models, we forecast weaker HCM/HLS ASP of -8%/+5% YoY in 2H20E (vs -18%/+13% YoY in 1H20).
- Camera spec upgrade to resume in 1Q20E; iPad order win as catalyst in 1H21E.** While non-5G functions will remain under cost pressure in 4Q20E, we expect camera upgrade will resume in 1H21E after mass production of Qualcomm Snapdragon entry-level 4-series 5G SoC in 1Q21E and iPhone 12 adopting multi-cam/LiDAR 3D camera. We also see potential order wins of iPad/iPhone will boost HLS shipment upside in 2021E.
- Accumulate ahead of 3D-cam/ToF cycle in 2021; Reiterate BUY.** We believe Huawei impact is largely priced in after recent correction, and Apple-led 3D upgrade cycle will be positive to Sunny in FY21E. We recommend to accumulate the stock for multi/3D-cam and 5G/video-driven upgrade cycle in 2021. Our new SOTP-based TP of HK\$146.1 implies 24.7x FY21E P/E.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	25,932	37,849	43,956	51,529	59,096
YoY growth (%)	15.9	46.0	16.1	17.2	14.7
Net income (RMB mn)	2,491	3,991	4,292	5,814	7,014
EPS (RMB)	2.3	3.65	3.92	5.31	6.41
YoY growth (%)	(14.6)	60.1	7.5	35.5	20.6
Consensus EPS (RMB)	NA	NA	3.97	5.15	6.30
P/E (x)	49.8	31.1	28.9	21.4	17.7
P/B (x)	13.2	9.6	7.5	5.8	4.5
Yield (%)	0.6	0.5	0.5	0.7	0.9
ROE (%)	26.8	31.4	26.2	27.2	25.6
Net Gearing (%)	2	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$146.1
(Previous TP	HK\$148.0)
Up/Downside	+15.4%
Current Price	HK\$126.6

### China Technology Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	137,984
Avg 3 mths t/o (HK\$ mn)	1,034.71
52w High/Low (HK\$)	151.00/ 90.00
Total Issued Shares (mn)	1,097

Source: Bloomberg

#### Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	5.66%
WENJIAN WANG	3.08%

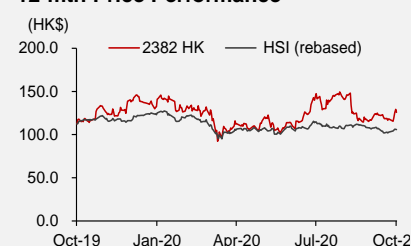
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	7.2%	8.7%
3-mth	-14.7%	-7.3%
6-mth	11.8%	12.7%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

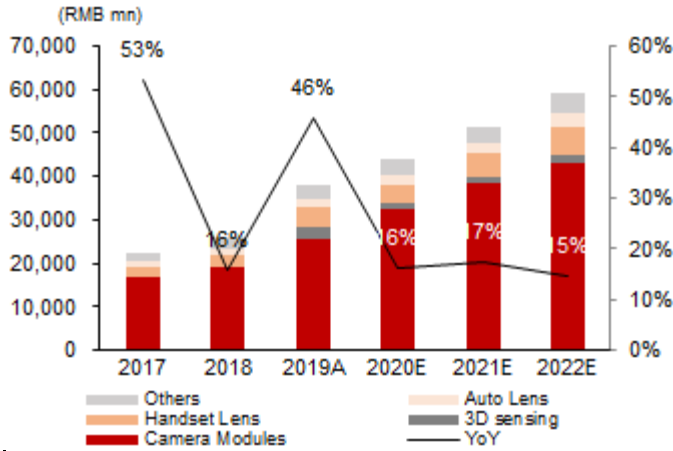
Auditor: Deloitte Touche Tohmatsu

#### Related Reports:

- Sunny Optical (2382 HK) - Positive on Samsung HLS recovery and 3D sensing upcycle; Maintain BUY – 19 Aug 2020
- Sunny Optical (2382 HK) - Look beyond ongoing volatility; Upgrade to BUY on 2H recovery - 26 Jun 2020
- Sunny Optical (2382 HK) – Call takeaways: Leadership intact despite clouded outlook – 25 Mar 2020

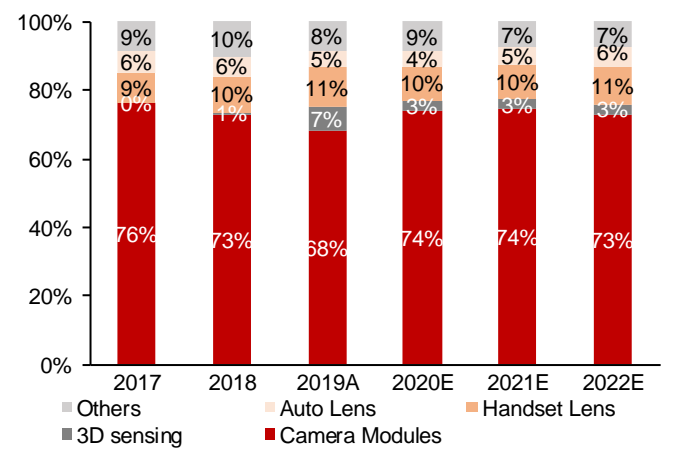
## Focus Charts

**Figure 1: Sunny Optical revenue trend**



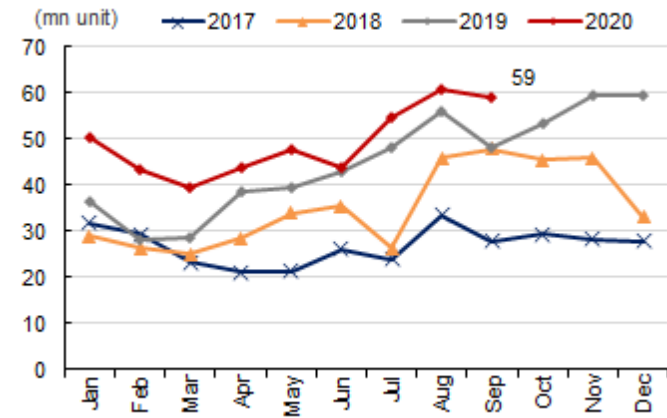
Source: Company data, CMBIS estimates

**Figure 2: Sunny Optical revenue breakdown**



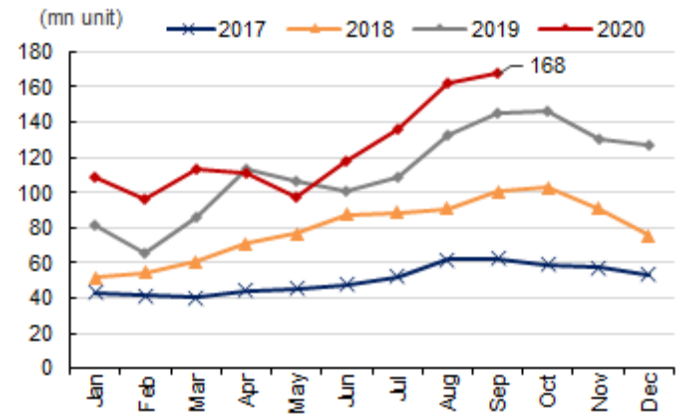
Source: Company data, CMBIS estimates

**Figure 3: Sunny HCM shipment trend**



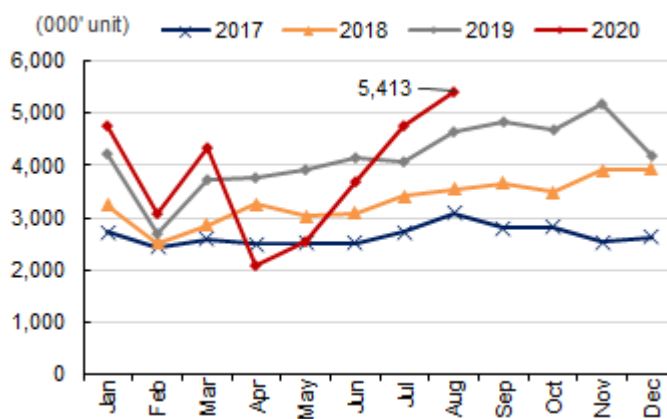
Source: Company data, CMBIS estimates

**Figure 4: Sunny HLS shipment trend**



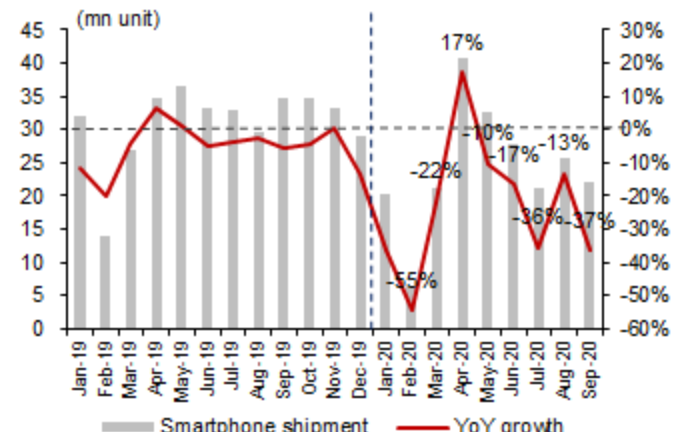
Source: Company data, CMBIS estimates

**Figure 5: Sunny VLS shipment trend**



Source: Company data, CMBIS estimates

**Figure 6: China smartphone market trend**



Source: MIIT, CMBIS estimates

## Earnings Revision

Figure 7: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	43,956	51,529	59,096	44,526	51,699	60,399	-1%	0%	-2%
Gross Profit	8,669	10,763	12,727	8,948	10,875	13,071	-3%	-1%	-3%
Operating Profit	5,228	6,949	8,354	5,513	7,050	8,601	-5%	-1%	-3%
Net profit	4,292	5,814	7,014	4,545	5,902	7,230	-6%	-1%	-3%
EPS (RMB)	3.92	5.31	6.41	4.15	5.39	6.61	-6%	-1%	-3%
Gross Margin	19.7%	20.9%	21.5%	20.1%	21.0%	21.6%	-0.4%	-0.1%	-0.1%
Operating Margin	11.9%	13.5%	14.1%	12.4%	13.6%	14.2%	-0.5%	-0.1%	-0.1%
Net Margin	9.8%	11.3%	11.9%	10.2%	11.4%	12.0%	-0.4%	-0.1%	-0.1%

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	43,956	51,529	59,096	43,019	52,005	61,404	2%	-1%	-4%
Gross Profit	8,669	10,763	12,727	8,488	10,614	12,906	2%	1%	-1%
Operating Profit	5,228	6,949	8,354	4,976	6,244	7,400	5%	11%	13%
Net profit	4,292	5,814	7,014	4,342	5,600	6,855	-1%	4%	2%
EPS (RMB)	3.92	5.31	6.41	3.97	5.15	6.30	-1%	3%	2%
Gross Margin	19.7%	20.9%	21.5%	19.7%	20.4%	21.0%	0 ppt	0.5 ppt	0.5 ppt
Operating Margin	11.9%	13.5%	14.1%	11.6%	12.0%	12.1%	0.3 ppt	1.5 ppt	2.1 ppt
Net Margin	9.8%	11.3%	11.9%	10.1%	10.8%	11.2%	-0.3 ppt	0.5 ppt	0.7 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: Major assumptions

	FY18	FY19	1H20	2H20E	FY20E	FY21E	FY22E
<b>Shipment volume (mn unit)</b>							
<b>Optical Components</b>							
Handset lens sets	951	1,343	645	908	1,553	1,820	2,146
...YoY(%)	56%	41%	17%	15%	16%	17%	18%
Vehicle lens sets	40	50	21	33	53	66	83
...YoY(%)	25%	25%	-9%	18%	6%	25%	25%
<b>Optoelectronic Products</b>							
Handset camera modules	425	540	269	358	626	726	835
...YoY(%)	31%	27%	25%	10%	16%	16%	15%
Other optoelectronic (3D sensing)	10	49	16	29	44	52	63
...YoY(%)	27%	388%	-29%	5%	-10%	18%	20%
<b>Revenue (Rmb mn)</b>							
Optical Components	6,023	8,815	3,864	5,625	9,489	11,110	13,520
Optoelectronic Products	19,609	28,748	14,874	19,341	34,215	40,170	45,302
Optical instruments	300	285	126	126	252	249	274
<b>Total Revenue</b>	<b>25,932</b>	<b>37,849</b>	<b>18,864</b>	<b>25,092</b>	<b>43,956</b>	<b>51,529</b>	<b>59,096</b>
...YoY (%)	15.9%	46.0%	21.1%	12.7%	16.1%	17.2%	14.7%
<b>Gross Margin</b>							
Optical Components	41.5%	45.2%	41.5%	40.0%	40.6%	42.5%	42.5%
Optoelectronic products	8.4%	9.3%	11.1%	11.3%	11.2%	11.8%	11.9%
Optical instruments	40.5%	41.3%	38.6%	41.0%	39.8%	41.3%	41.3%

Source: Company data, CMBIS estimates

Figure 10: P&amp;L forecast

RMB mn	FY18	1H19	2H19	FY19	1H20	2H20E	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>25,932</b>	<b>15,575</b>	<b>22,274</b>	<b>37,849</b>	<b>18,864</b>	<b>25,092</b>	<b>43,956</b>	<b>51,529</b>	<b>59,096</b>
...YoY	15.9%	30.0%	59.6%	46.0%	21.1%	12.7%	16.1%	17.2%	14.7%
Cost of sales	(21,019)	(12,711)	(17,387)	(30,098)	(15,187)	(20,099)	(35,287)	(40,766)	(46,369)
<b>Gross profit</b>	<b>4,913</b>	<b>2,864</b>	<b>4,887</b>	<b>7,751</b>	<b>3,676</b>	<b>4,993</b>	<b>8,669</b>	<b>10,763</b>	<b>12,727</b>
<b>GPM (%)</b>	<b>18.9%</b>	<b>18.4%</b>	<b>21.9%</b>	<b>20.5%</b>	<b>19.5%</b>	<b>19.9%</b>	<b>19.7%</b>	<b>20.9%</b>	<b>21.5%</b>
...YoY	2.3%	23.4%	88.5%	57.8%	28.4%	2.2%	11.8%	24.1%	18.3%
SG&A	(644)	(388)	(541)	(929)	(469)	(608)	(1,078)	(1,237)	(1,418)
...% of rev	-2.5%	-2.5%	-2.4%	-2.5%	-2.5%	-2.4%	-2.5%	-2.4%	-2.4%
R&D	(1,362)	(827)	(1,383)	(2,209)	(1,068)	(1,556)	(2,624)	(2,989)	(3,428)
...% of rev	-5.3%	-5.3%	-6.2%	-5.8%	-5.7%	-6.2%	-6.0%	-5.8%	-5.8%
<b>Operating profit</b>	<b>3,077</b>	<b>1,789</b>	<b>3,017</b>	<b>4,806</b>	<b>2,246</b>	<b>2,982</b>	<b>5,228</b>	<b>6,949</b>	<b>8,354</b>
<b>OPM (%)</b>	<b>11.9%</b>	<b>11.5%</b>	<b>13.5%</b>	<b>12.7%</b>	<b>11.9%</b>	<b>11.9%</b>	<b>11.9%</b>	<b>13.5%</b>	<b>14.1%</b>
...YoY	-9.0%	18.3%	92.8%	56.2%	25.5%	-1.2%	8.8%	32.9%	20.2%
<b>Net profit</b>	<b>2,491</b>	<b>1,431</b>	<b>2,560</b>	<b>3,991</b>	<b>1,749</b>	<b>2,543</b>	<b>4,292</b>	<b>5,814</b>	<b>7,014</b>
<b>NPM (%)</b>	<b>9.6%</b>	<b>9.2%</b>	<b>11.5%</b>	<b>10.5%</b>	<b>9.3%</b>	<b>10.1%</b>	<b>9.8%</b>	<b>11.3%</b>	<b>11.9%</b>
...YoY	-14.2%	21.3%	95.3%	60.2%	22.2%	-0.7%	7.5%	35.5%	20.6%

Source: Company data, CMBIS estimates

## Valuation

### Maintain BUY with new TP HK\$146.1

We maintain BUY with new TP HK\$146.1. We derived our 12-month TP from SOTP valuation methodology and our new TP is based on weighted-average target P/E multiple of 24.7x FY21E 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 11: Sunny Optical – SOTP valuation**

Business segment	% of FY21E Profit	FY21E EPS (RMB)	Target P/E
Camera modules	43.9%	2.33	20x
Handset lenses	45.0%	2.39	28x
Vehicle lenses	10.1%	0.54	30x
Others	1.0%	0.05	25x
<b>Total (RMB) /Implied P/E</b>		<b>5.31</b>	<b>24.6x</b>
<b>TP (HK\$)</b>			<b>146.1</b>

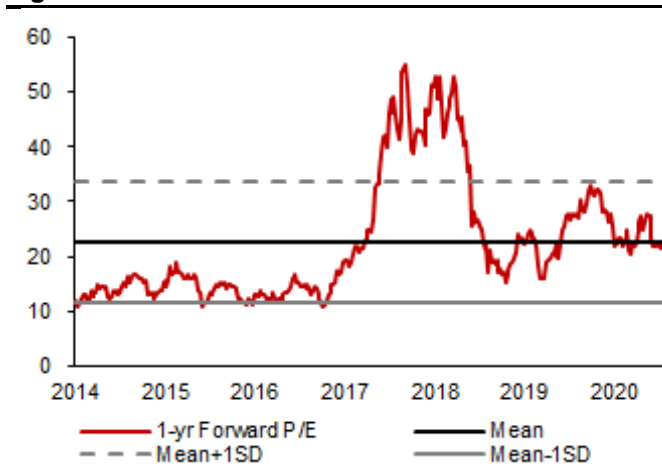
Sources: Company data, CMBIS estimates

**Figure 12: 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	Buy	17,917	126.6	146.1	15%	29.0	21.4	7.5	5.8	26.0	27.1
Q tech	1478 HK	Buy	1,473	9.7	16.6	70%	12.8	10.6	2.8	2.3	22.0	21.8
Cowell	1415 HK	NR	600	5.59	NA	NA	12.2	10.2	2.1	2.0	12.2	15.9
Truly	732 HK	NR	416	0.98	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,770	180.00	NA	NA	8.6	9.5	0.9	0.8	11.9	9.4
Largan	3008 TT	NR	13,863	2970.00	NA	NA	15.6	13.9	2.8	2.5	19.1	19.2
Lite-on	2301 TT	NR	3,720	45.70	NA	NA	9.9	9.9	1.4	1.3	14.2	13.8
Primax	4915 TT	NR	691	44.05	NA	NA	9.3	8.8	1.4	1.3	13.0	16.3
O-film	002456 CH	NR	6,127	15.34	NA	NA	30.3	22.4	3.7	3.2	12.3	14.5
<b>Average</b>							<b>16.0</b>	<b>13.3</b>	<b>2.8</b>	<b>2.4</b>	<b>16.3</b>	<b>17.3</b>

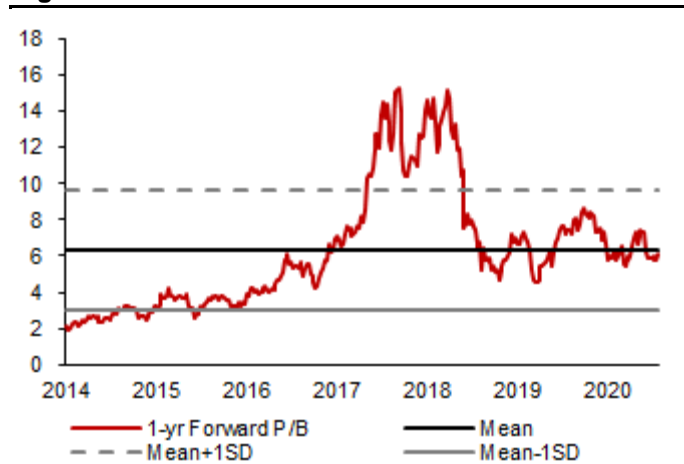
Source: Bloomberg, CMBIS estimates

**Figure 13: 12M forward P/E band**



Source: Bloomberg, CMBIS estimates

**Figure 14: 12M forward P/B band**



Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>25,932</b>	<b>37,849</b>	<b>43,956</b>	<b>51,529</b>	<b>59,096</b>
Cost of sales	(21,019)	(30,098)	(35,287)	(40,766)	(46,369)
<b>Gross profit</b>	<b>4,913</b>	<b>7,751</b>	<b>8,669</b>	<b>10,763</b>	<b>12,727</b>
Selling expenses	(210)	(279)	(303)	(361)	(414)
Admin expenses	(434)	(650)	(775)	(876)	(1,005)
R&D expenses	(1,362)	(2,209)	(2,624)	(2,989)	(3,428)
Other income	467	406	520	567	650
Other gain/ losses	(293)	(201)	(259)	(155)	(177)
<b>Operating profit</b>	<b>3,077</b>	<b>4,806</b>	<b>5,228</b>	<b>6,949</b>	<b>8,354</b>
Financial costs	(202)	(250)	(247)	(271)	(298)
Investment income	(24)	(6)	(3)	(3)	(3)
<b>Pre-tax profit</b>	<b>2,851</b>	<b>4,550</b>	<b>4,978</b>	<b>6,675</b>	<b>8,052</b>
Income tax expense	(339)	(531)	(633)	(788)	(950)
NCI	22	28	54	73	88
<b>Net profit</b>	<b>2,491</b>	<b>3,991</b>	<b>4,292</b>	<b>5,814</b>	<b>7,014</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before taxation</b>	<b>2,851</b>	<b>4,550</b>	<b>4,978</b>	<b>6,675</b>	<b>8,052</b>
Depreciation/amortisation	819	1,171	1,191	1,509	1,828
Change in working capital	(203)	(1,213)	89	(1,461)	132
Others	100	152	(399)	(533)	(668)
<b>Net cash from operating</b>	<b>3,568</b>	<b>4,662</b>	<b>5,859</b>	<b>6,190</b>	<b>9,343</b>
Capex	(2,104)	(3,242)	(3,000)	(3,500)	(3,500)
Other	(3,395)	(314)	-	-	-
<b>Net cash from investing</b>	<b>(5,499)</b>	<b>(3,556)</b>	<b>(3,000)</b>	<b>(3,500)</b>	<b>(3,500)</b>
Net borrowings	88	0	0	0	0
Dividend paid	(725)	(623)	(670)	(908)	(1,095)
Purchase of shares	(78)	0	0	0	0
Other	3,672	(818)	(247)	(271)	(298)
<b>Net cash from financing</b>	<b>2,957</b>	<b>(1,441)</b>	<b>(916)</b>	<b>(1,179)</b>	<b>(1,393)</b>
<b>Net change in cash</b>	<b>1,025</b>	<b>(336)</b>	<b>1,942</b>	<b>1,512</b>	<b>4,450</b>
Cash at beginning of the year	1,227	2,254	1,917	3,860	5,371
Exchange difference	2	0	0	0	0
<b>Cash at the end of the year</b>	<b>2,254</b>	<b>1,919</b>	<b>3,860</b>	<b>5,371</b>	<b>9,821</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Current assets</b>	<b>16,768</b>	<b>22,446</b>	<b>24,085</b>	<b>30,755</b>	<b>34,938</b>
Cash & equivalents	2,254	1,917	3,860	5,371	9,821
Financial assets	4,760	5,663	5,663	5,663	5,663
Deposits	235	21	21	21	21
Account receivables	6,231	9,630	8,791	12,803	11,962
Inventories	3,074	5,146	5,682	6,827	7,401
Other current assets	214	69	69	69	69
<b>Non-current assets</b>	<b>6,084</b>	<b>8,247</b>	<b>10,077</b>	<b>12,094</b>	<b>13,793</b>
Prepaid lease	214	-	-	-	-
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	1,701	1,727	1,753
<b>Total assets</b>	<b>22,852</b>	<b>30,693</b>	<b>34,162</b>	<b>42,849</b>	<b>48,730</b>
<b>Current liabilities</b>	<b>8,677</b>	<b>12,630</b>	<b>12,424</b>	<b>16,131</b>	<b>16,006</b>
ST borrowings	1,482	1,119	1,119	1,119	1,119
Account payables	7,064	11,322	11,107	14,804	14,669
Other current liabilities	5,628	5,622	9,512	10,795	16,937
<b>Non-current liabilities</b>	<b>4,887</b>	<b>5,336</b>	<b>5,336</b>	<b>5,336</b>	<b>5,336</b>
LT borrowings	4,887	5,336	5,336	5,336	5,336
Others	4,887	5,336	5,336	5,336	5,336
<b>Total liabilities</b>	<b>13,564</b>	<b>17,967</b>	<b>17,761</b>	<b>21,468</b>	<b>21,342</b>
Share capital	105	105	105	105	105
Reserves	9,129	12,448	16,070	20,976	26,895
Minority interest	54	173	227	300	388
<b>Shareholders' equity</b>	<b>9,288</b>	<b>12,726</b>	<b>16,402</b>	<b>21,381</b>	<b>27,388</b>
<b>Total equity &amp; liabilities</b>	<b>22,852</b>	<b>30,693</b>	<b>34,162</b>	<b>42,849</b>	<b>48,730</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Optical components	23.2	23.3	21.6	21.6	22.9
Optoelectronic products	75.6	76.0	77.8	78.0	76.7
Optical instruments	1.2	0.8	0.6	0.5	0.5
<b>Growth (%)</b>					
Revenue	15.9	46.0	16.1	17.2	14.7
Gross profit	2.3	57.8	11.8	24.1	18.3
Operating profit	(9.0)	56.2	8.8	32.9	20.2
Net profit	(14.2)	60.2	7.5	35.5	20.6
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	18.9	20.5	19.7	20.9	21.5
Operating margin	11.9	12.7	11.9	13.5	14.1
Net profit margin	9.6	10.5	9.8	11.3	11.9
<b>Balance sheet ratio</b>					
Net debt/total equity (x)	0.0	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	1.8	1.9	1.9	2.2
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
<b>Profitability (%)</b>					
ROE	26.8	31.4	26.2	27.2	25.6
ROA	10.9	13.0	12.6	13.6	14.4
<b>Per share data (RMB)</b>					
EPS	2.28	3.65	3.92	5.31	6.41
DPS	0.66	0.57	0.61	0.83	1.00

Source: Company data, CMBIS estimates

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