

# Sunny Optical (2382 HK)

## 2H22 first take: weakness in-line; awaiting recovery

Sunny's 2H22 net profit decline of 54% YoY is in-line with expectations, while revenue exceeds our/consensus estimates by 25%/9%, mainly due to better ASP and product mix. 2H22 GPM came in at 19.0%, vs 20.8% in 1H22 due to lower HCM/HLS/VLS GPM. We expect 1H23E outlook will remain under pressure given on-going inventory correction, smartphone demand recovery uncertainty and global EV sales slowdown. Despite bumpy recovery in 2023, we are positive on VCM/periscope/AR/VR to drive growth in longer term. Trading at 24.2x FY23E P/E, we think the stock is fairly valued. Analyst briefing will be hosted at 10:30am today, and we will look for 2023 shipment/ASP guidance and business outlook on AR/VR/auto CCM business.

- **2H22 weakness in-line; HCM/HLS margin under pressure.** 2H22 revenue/NP declined 8%/54% YoY, largely in-line with expectations. GPM dropped to 19.0% in 2H22 from 21.5% in 2H21, dragged by HLS GPM decline of 4.4ppts and HCM GPM drop of 2.7ppts. Despite weak shipment, HCM/VLS ASP came in better than expected, but we estimate HLS dropped 34% YoY/31% HoH, mainly due to competition and cam de-spec trend.
- **A bumpy demand recovery in the near term.** We expect HCM/HLS shipment weakness to persist into 1H23E on high base and inventory correction. We suggest to focus on management's 2023 shipment guidance during earnings call, which might give us some color on demand recovery in 2H23E. We noted that Q-Tech announced conservative capex plan on smartphone capacity expansion, which implies bumpy demand recovery in 2023 in our view.
- **Key questions for mgmt. at investor meeting.** 1) HLS market share and upgrade with US major customers; 2) periscope cam outlook in Android camp; 3) Sunny's view VLS demand given slower global auto sales 4) auto module order wins and capacity expansion; and 5) AR/VR outlook given major customer weakness.
- **Maintain HOLD with TP of HK\$92.51.** While we are positive on Sunny's industry leadership, product roadmap and opportunities in auto camera/VCM/AR/VR, we believe inventory destocking and high exposure to handset segment will remain the overhang for the stock. Trading at 24.2x FY23E P/E, we think the stock is fairly valued. Maintain HOLD with SOTP-based TP of HK\$92.51.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	38,002	37,497	29,813	32,213	37,781
YoY growth (%)	0.4	(1.3)	(20.5)	8.0	17.3
Net profit (RMB mn)	4,950.3	5,061.1	2,454.2	3,625.5	4,405.0
YoY growth (%)	23.2	2.2	(51.5)	47.7	21.5
EPS (Reported) (RMB)	4.47	4.57	2.20	3.26	3.96
Consensus EPS (RMB)	0.00	4.57	2.71	3.76	4.86
P/E (x)	25.5	38.3	35.8	24.2	19.9
P/B (x)	7.4	9.2	3.8	3.3	2.9
Yield (%)	0.6	0.5	0.5	0.8	1.0
ROE (%)	33.5	26.8	11.2	14.9	16.0
Net gearing (%)	(4.6)	(16.1)	(22.1)	(21.6)	(30.2)

Source: Company data, Bloomberg, CMBIGM estimates

## HOLD (Maintain)

**Target Price** HK\$92.51  
 (Previous TP) HK\$92.51  
**Up/Downside** 6.4%  
**Current Price** HK\$86.95

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### Stock Data

Mkt Cap (HK\$ mn)	98,730.0
Avg 3 mths t/o (HK\$ mn)	97.0
52w High/Low (HK\$)	144.60/67.55
Total Issued Shares (mn)	1097.0

Source: FactSet

### Shareholding Structure

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

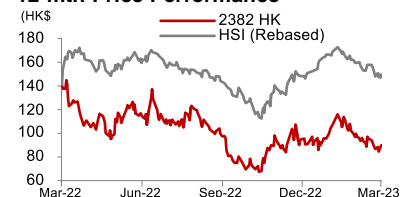
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-7.6%	-1.1%
3-mth	-4.4%	-4.7%
6-mth	-7.7%	-11.3%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Reports:

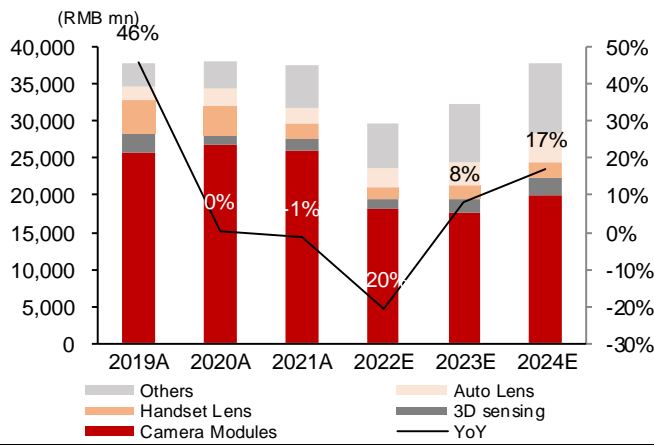
1) FY22E preview; Bumpy recovery in 2023 – 15 Mar 2023 ([link](#))

2) Shipment weakness likely to persist into 1Q23E; Maintain HOLD – 11 Jan 2023 ([link](#))

3) Soft HLS/HCM in Aug; Still awaiting turning point – 13 Sep 2022 ([link](#))

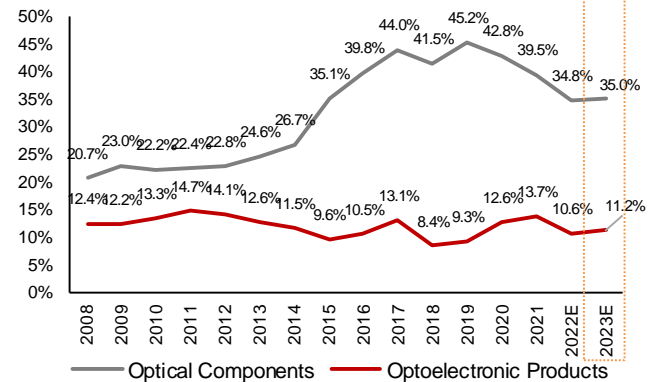
## Focus Charts

**Figure 1: Sunny Optical revenue trend**



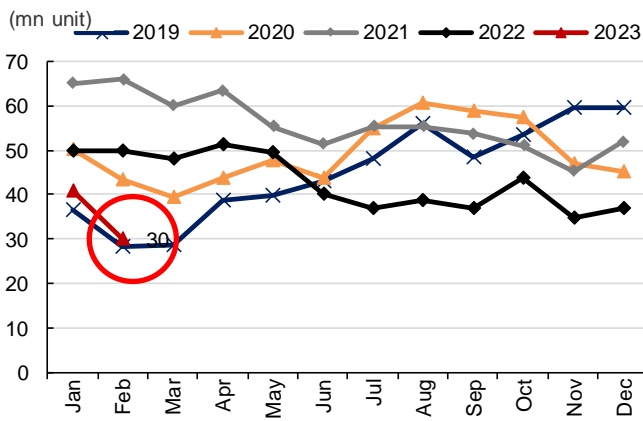
Source: Company data, CMBIGM estimates

**Figure 2: Sunny Optical GPM trend**



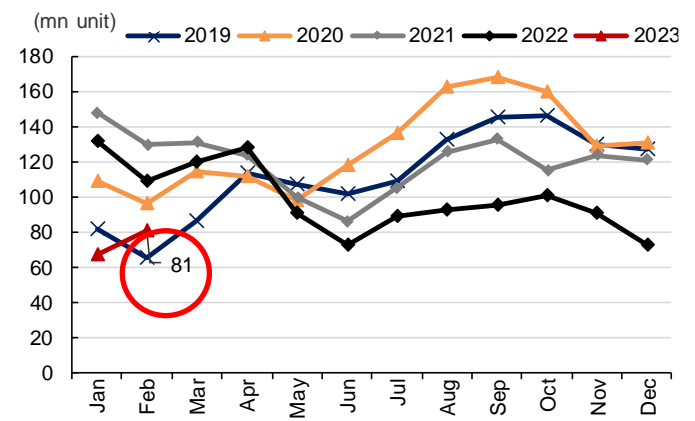
Source: Company data, CMBIGM estimates

**Figure 3: Sunny HCM shipment trend**



Source: Company data, CMBIGM estimates

**Figure 4: Sunny HLS shipment trend**



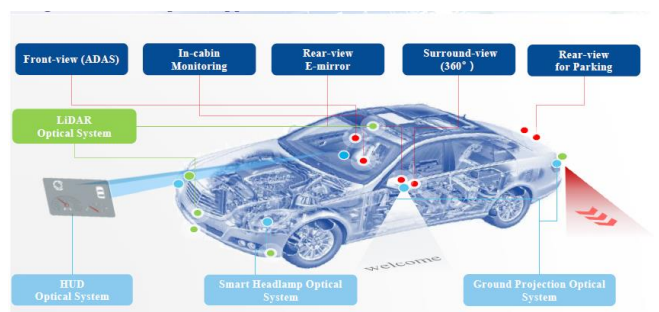
Source: Company data, CMBIGM estimates

**Figure 5: Sunny next-gen handset camera products**



Source: Company data, CMBIGM estimates

**Figure 6: Sunny opportunities in vehicle cameras**



Source: Counterpoint, CMBIGM estimates

## 2H22 Results Preview

Figure 7: 2H22 results preview

RMB mn	1H21	2H21	1H22	2H22	YoY	CMBI		Consensus	
						2H22E	Diff (%)	2H22E	Diff (%)
Revenue	19,833	17,663	16,972	16,225	-8%	12,841	26%	14,837	9%
Gross profit	4,946	3,790	3,522	3,083	-19%	2,642	17%	2,928	5%
Operating profit	3,345	2,506	1,798	1,216	-51%	1,319	-8%	1,330	-9%
Net profit	2,688	2,305	1,358	1,050	-54%	1,053	0%	1,125	-7%
EPS (RMB)	2.46	2.11	1.24	0.96	-54%	0.96	0%	0.99	-3%
Gross margin	24.9%	21.5%	20.8%	19.0%	-2.5 ppt	20.6%	-1.6 ppt	19.7%	-0.7 ppt
Operating margin	16.9%	14.2%	10.6%	7.5%	-6.7 ppt	10.3%	-2.8 ppt	9.0%	-1.5 ppt
Net margin	13.6%	13.1%	8.0%	6.5%	-6.6 ppt	8.2%	-1.7 ppt	7.6%	-1.1 ppt

Source: Company data, CMBIGM estimates

Figure 8: FY22 revenue breakdown

RMB mn	1H21	2H21	1H22	2H22E	YoY	FY21	FY22	YoY
<b>Optical comp (VLS, HLS)</b>	<b>4,344</b>	<b>4,432</b>	<b>4,399</b>	<b>5,069</b>	<b>14%</b>	<b>8,776</b>	<b>9,468</b>	<b>8%</b>
Auto lens shipment (mn unit)	37	31	38	41	35%	68	79	16%
... ASP (RMB)	35.1	33.6	35.1	43.6	30%	34.4	39.6	15%
Handset lens Shipment (mn unit)	7,171	7,225	6,516	5,410	-25%	14,395	11,926	-17%
... ASP (RMB)	3.6	3.1	3.0	2.1	-34%	3.3	2.6	-23%
<b>Optoelectronic (HCM)</b>	<b>15,308</b>	<b>13,026</b>	<b>12,371</b>	<b>10,955</b>	<b>-16%</b>	<b>28,334</b>	<b>23,326</b>	<b>-18%</b>
HCM shipment (mn unit)	361	312	289	228	-27%	674	517	-23%
... ASP (RMB)	39.3	38.3	38.9	41.1	8%	38.8	39.9	3%
<b>Optical instruments</b>	<b>182</b>	<b>206</b>	<b>202</b>	<b>202</b>	<b>-2%</b>	<b>387</b>	<b>403</b>	<b>4%</b>
<b>Total Revenue</b>	<b>19,833</b>	<b>17,663</b>	<b>16,972</b>	<b>16,225</b>	<b>-8%</b>	<b>37,497</b>	<b>29,813</b>	<b>-20%</b>
<b>Gross Margin</b>								
Optical comp (VLS, HLS)	42.9%	35.9%	35.5%	31.5%	-4.4 ppt	39.5%	33.4%	-6.1 ppt
Optoelectronic (HCM)	14.8%	12.4%	11.6%	9.7%	-2.7 ppt	13.7%	10.7%	-3.0 ppt
Optical instruments	44.2%	49.3%	44.6%	46.3%	-3 ppt	45.1%	42.0%	-3.1 ppt
<b>Blended GPM</b>	<b>24.9%</b>	<b>21.5%</b>	<b>20.8%</b>	<b>19.0%</b>	<b>-2.5 ppt</b>	<b>23.3%</b>	<b>19.9%</b>	<b>-3.4 ppt</b>

Source: Company data, CMBIGM estimates

## Valuation

### Maintain HOLD with TP of HK\$92.51

We maintain HOLD with TP of HK\$92.51. We derived our 12-month TP from SOTP valuation methodology and our TP is based on weighted-average target P/E multiple of 23.6x 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	33.7%	1.10	15x
Handset lenses	45.0%	1.47	25x
Vehicle lenses	19.3%	0.63	35x
Others	2.1%	0.07	25x
<b>Total (RMB) /Implied P/E</b>		<b>3.26</b>	<b>23.6x</b>
<b>TP (HK\$)</b>			<b>92.51</b>

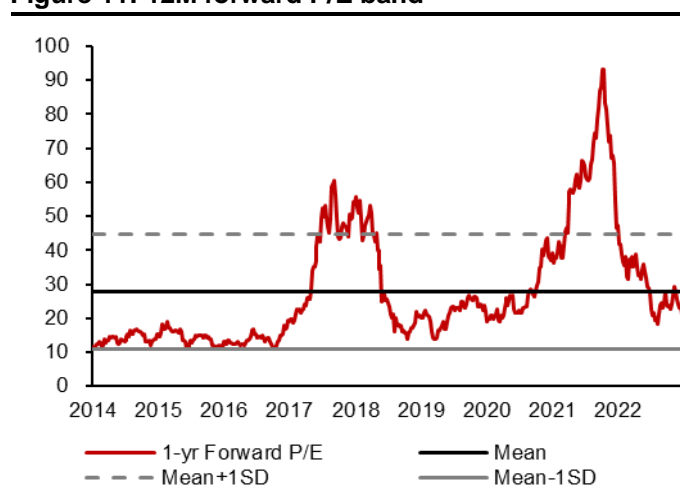
Sources: Company data, CMBIGM estimates

**Figure 10: Peers' valuation**

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY23E	P/E (x) FY24E	P/B (x) FY23E	P/B (x) FY24E	ROE (%) FY23E	ROE (%) FY24E
Sunny Optical	2382 HK	HOLD	12,160	87.0	92.5	6%	24.2	19.9	3.3	2.9	14.9	16.0
Q tech	1478 HK	BUY	627	4.2	5.2	25%	8.7	6.4	0.9	0.8	9.8	12.0
Cowell	1415 HK	NR	1,730	16.16	NA	NA	16.9	12.3	2.6	2.2	20.0	21.8
Truly	732 HK	NR	419	1.04	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,373	187.00	NA	NA	19.0	18.0	0.8	0.8	4.3	4.5
Largan	3008 TT	NR	9,743	2230.00	NA	NA	16.6	15.2	1.8	1.7	11.4	11.7
Lite-on	2301 TT	NR	5,399	69.80	NA	NA	11.4	10.1	1.9	1.9	17.6	19.4
Primax	4915 TT	NR	905	60.20	NA	NA	9.4	8.7	1.6	1.5	16.3	16.8
O-film	002456 CH	NR	2,373	5.01	NA	NA	-	86.4	4.4	4.1	(13.2)	0.8
<b>Average</b>							<b>15.1</b>	<b>22.1</b>	<b>2.2</b>	<b>2.0</b>	<b>10.0</b>	<b>12.7</b>

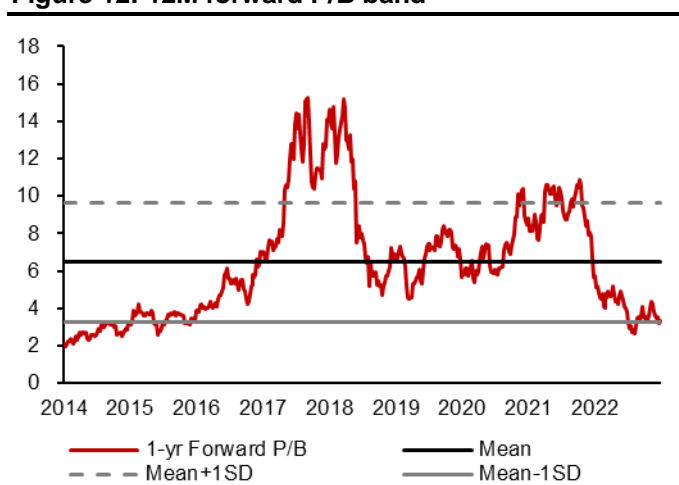
Source: Bloomberg, CMBIGM estimates

**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	29,813	32,213	37,781
Cost of goods sold	(30,098)	(29,304)	(28,761)	(23,649)	(25,192)	(29,366)
Gross profit	7,751	8,698	8,736	6,164	7,021	8,415
Selling expense	(279)	(313)	(274)	(266)	(235)	(283)
Admin expense	(650)	(719)	(758)	(772)	(709)	(793)
R&D expense	(2,209)	(2,499)	(2,642)	(2,560)	(2,384)	(2,758)
Others	205	698	789	558	670	691
Operating profit	4,806	5,877	5,851	3,117	4,364	5,272
Share of (losses)/profits of associates/JV	(6)	0	19	2	2	2
Net Interest income/(expense)	(250)	(224)	(230)	(240)	(264)	(291)
Pre-tax profit	4,550	5,653	5,640	2,879	4,101	4,983
Income tax	(531)	(703)	(579)	(424)	(476)	(578)
Minority interest	28	68	68	43	64	78
Net profit	4,019	4,950	5,061	2,454	3,626	4,405
Net dividends	623	799	974	470	695	844

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	22,446	25,630	27,989	24,035	31,701	31,571
Cash & equivalents	1,917	2,842	5,605	7,285	7,807	11,123
Account receivables	9,630	8,212	7,448	5,003	8,451	7,328
Inventories	5,146	5,783	5,482	2,293	5,989	3,665
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	11,979	12,942	13,627
PP&E	6,567	7,513	8,303	9,550	10,497	11,144
Other non-current assets	1,680	2,295	2,481	2,429	2,445	2,483
Total assets	30,693	35,438	38,774	36,014	44,643	45,198
Current liabilities	12,630	13,411	11,873	7,129	12,828	9,822
Short-term borrowings	1,119	2,071	1,539	1,539	1,539	1,539
Account payables	11,322	10,733	9,869	5,163	10,849	7,816
Other current liabilities	5,622	9,223	15,493	22,182	19,427	26,021
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	13,134	18,833	15,827
Share capital	105	105	105	105	105	105
Other reserves	12,448	16,492	20,483	22,423	25,290	28,773
Total shareholders equity	12,726	16,826	20,895	22,879	25,810	29,371
Minority interest	173	229	307	351	415	493
Total equity and liabilities	30,693	35,438	38,774	36,014	44,643	45,198

<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>4,550</b>	<b>5,643</b>	<b>5,640</b>	<b>2,879</b>	<b>4,101</b>	<b>4,983</b>
Depreciation & amortization	1,227	1,570	1,638	1,753	2,053	2,353
Change in working capital	(1,477)	115	200	928	(1,457)	413
Others	361	(168)	(499)	(170)	(216)	(298)
<b>Net cash from operations</b>	<b>4,662</b>	<b>7,160</b>	<b>6,979</b>	<b>5,390</b>	<b>4,481</b>	<b>7,451</b>
<b>Investing</b>						
Capital expenditure	(2,760)	(2,271)	(2,498)	(3,000)	(3,000)	(3,000)
Others	(796)	(3,705)	5,400	0	0	0
<b>Net cash from investing</b>	<b>(3,556)</b>	<b>(5,976)</b>	<b>2,902</b>	<b>(3,000)</b>	<b>(3,000)</b>	<b>(3,000)</b>
<b>Financing</b>						
Dividend paid	(623)	(796)	(974)	(470)	(695)	(844)
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)
<b>Net cash from financing</b>	<b>(1,441)</b>	<b>(222)</b>	<b>1,241</b>	<b>(710)</b>	<b>(959)</b>	<b>(1,135)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,254	1,917	2,842	5,605	7,285	7,807
Exchange difference	(2)	(37)	(8,358)	0	0	0
<b>Cash at the end of the year</b>	<b>1,917</b>	<b>2,842</b>	<b>5,605</b>	<b>7,285</b>	<b>7,807</b>	<b>11,123</b>

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



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