

Sunny Optical (2382 HK)

Entering next phase of growth; Lift TP to HK\$254

We raise our SOTP-based TP to HK\$254.3 (32.0x FY22E P/E), following Sunny's FY20 beat (record-high GPM) and strong product roadmap in next 2-3 years. We believe Sunny is well positioned to 1) strengthen leadership amid HCM/HLS industry consolidation and weakness from O-Film/Kantatsu/Genius, 2) benefit from auto recovery and strong ADAS demand (VLS 27% CAGR), and 3) capture opportunities in VR/AR, robotic vision and intelligent equipment. Backed by auto/handset recovery and further share gain, we expect upside on Sunny's guidance of stable ASP/GPM and 20-25%/15-20%/20-25% growth for HCM/HSL/VLS. We recommend to add on recent correction. Reiterate BUY.

- FY20 beat on record-high GPM despite de-spec headwinds.** Sunny FY20 net profit grew 22% YoY to RMB4.9bn, 14%/13% above our/consensus estimates, thanks to record-high GPM of 22.9% (+2.4ppt YoY) and FX gain of RMB225mn (vs RMB118mn loss in FY19). Given de-spec headwinds in 2H20, lower HCM/HLS ASP (-11%/-20% YoY in 2H20) led to flattish FY20 revenue, 14%/11% below our/consensus estimates. That said, we expect spec upgrade will resume in 2H21E (5G SoC cost down) and order win in iPad/iPhone will boost HLS ASP in the long term.
- Global No. 1 target on track; Positive guidance with stable ASP/GPM.** We are impressed by mgmt's confidence to achieve stable ASP/GPM for HCM/HLS despite FX volatility and de-spec trend. Sunny also guided 20-25%/15-20%/20-25% YoY for HCM/HSL/VLS in FY21E, which is conservative in our view. CAPEX will be RMB3bn in FY21E. RMB0.8bn/1bn/0.8bn will be invested in HCM/HLS/VLS, and RMB0.8bn will be for Yuyao HQ and Vietnam/India plants. Backed by further share gain ahead, we are confident Sunny will become global No.1 across HCM/HLS/VLS in 2021.
- Limited impact from semi shortage; iPad order win as catalyst in 1H21.** Mgmt. expected limited impact from recent semi supply shortage, and semi cost hike can be transferred to clients. In addition, given recent weakness of Kantatsu and Genius, we believe Sunny is poised to expand into Apple supply chain in 1H21E, which will boost HLS shipment upside in FY21/22E.
- Reiterate BUY; Raise TP to HK\$254.3.** We recommend to look beyond near-term industry headwinds, and we are positive on Sunny's outlook in 2021 backed by HCM share gain from O-Film, strong ADAS demand and iPad/iPhone order win. We maintain BUY and rollover our SOTP-based TP to HK\$254.3 based on 32.0x FY22E P/E (vs prior FY21E target multiple).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	37,849	38,002	43,052	51,488	60,906
YoY growth (%)	46.0	0.4	13.3	19.6	18.3
Net income (RMB mn)	3,991	4,882	5,795	7,213	8,867
EPS (RMB)	3.65	4.47	5.30	6.60	8.11
YoY growth (%)	60.1	22.4	18.7	24.5	22.9
Consensus EPS (RMB)	NA	3.99	5.29	6.54	9.13
P/E (x)	44.5	36.4	30.7	24.6	20.0
P/B (x)	13.8	10.5	8.1	6.4	5.0
Yield (%)	0.4	0.4	0.5	0.6	0.8
ROE (%)	31.4	29.0	26.6	25.8	24.9
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$254.3
(Previous TP)	HK\$148.0)
Up/Downside	+30%
Current Price	HK\$195.8

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	214,763
Avg 3 mths t/o (HK\$ mn)	1,470.63
52w High/Low (HK\$)	241.80/ 90.00
Total Issued Shares (mn)	1,097
Source: Bloomberg	

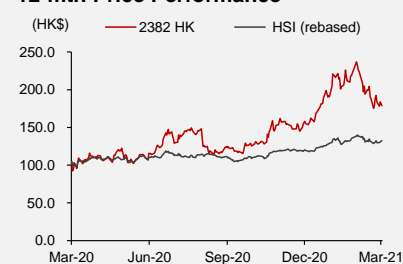
Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	5.66%
WENJIAN WANG	3.08%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-23.0%	-17.6%
3-mth	13.2%	4.0%
6-mth	43.3%	20.2%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

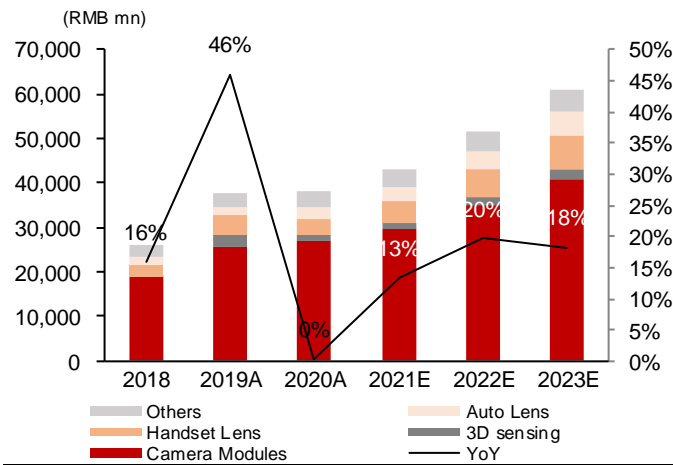
Auditor: Deloitte Touche Tohmatsu

Related Reports:

- Lacklustre 2H20E mostly priced in; Share gain and restocking demand to drive shipment upside – 14 Oct 2020
- Positive on Samsung HLS recovery and 3D sensing upcycle; Maintain BUY – 19 Aug 2020
- Look beyond ongoing volatility; Upgrade to BUY on 2H recovery - 26 Jun 2020

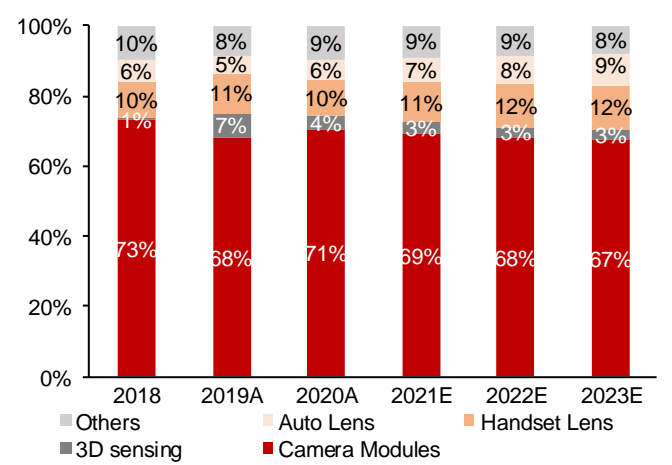
Focus Charts

Figure 1: Sunny Optical revenue trend



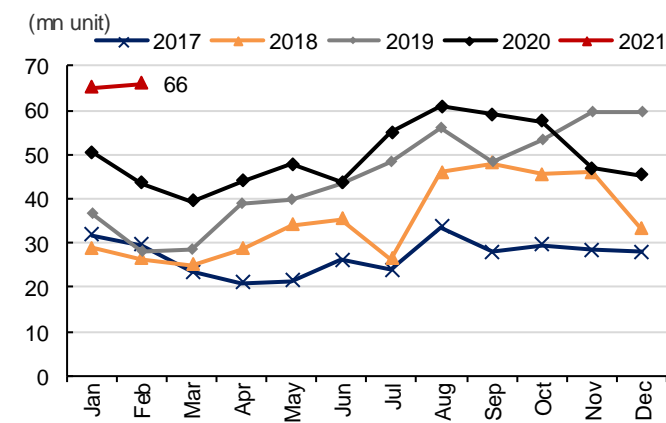
Source: Company data, CMBIS estimates

Figure 2: Sunny Optical revenue breakdown



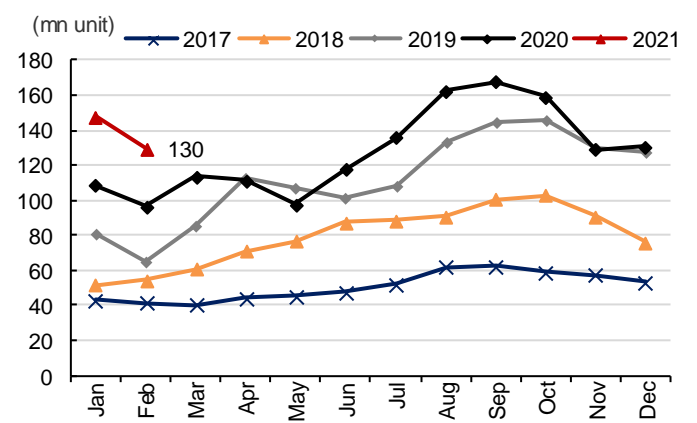
Source: Company data, CMBIS estimates

Figure 3: Sunny HCM shipment trend



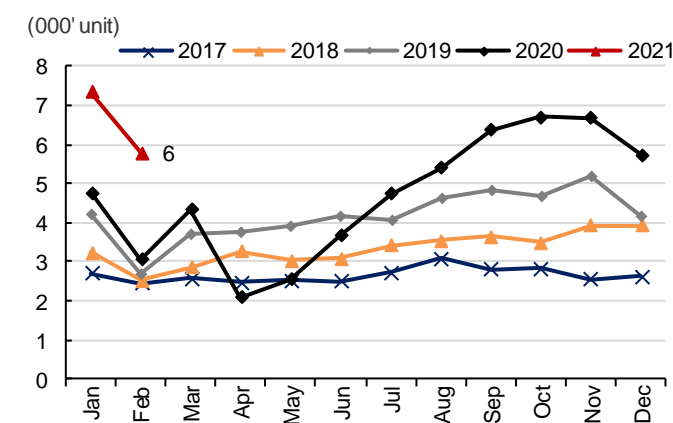
Source: Company data, CMBIS estimates

Figure 4: Sunny HLS shipment trend



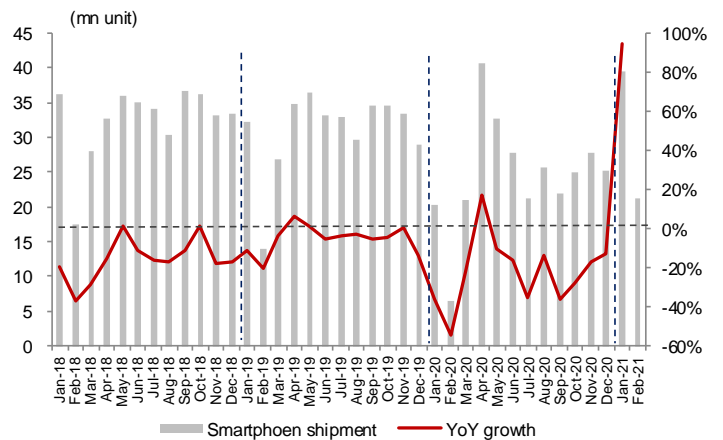
Source: Company data, CMBIS estimates

Figure 5: Sunny VLS shipment trend



Source: Company data, CMBIS estimates

Figure 6: China smartphone market trend



Source: MIIT, CMBIS estimates

FY20 Results Review:

Figure 7: FY20 results review

RMB mn	FY18	FY19	FY20	YoY	CMBI		Consensus	
					FY20E	Diff (%)	FY20E	Diff (%)
Revenue	25,932	37,849	38,002	0.4%	44,061	-14%	42,551	-11%
Gross profit	4,913	7,751	8,698	12%	8,676	0%		
Operating profit	3,077	4,806	5,877	22%	5,227	12%	4,960	18%
Net profit	2,491	3,991	4,882	22%	4,290	14%	4,314	13%
EPS (RMB)	2.28	3.65	4.47	22%	3.92	14%	3.99	12%
Gross margin	18.9%	20.5%	22.9%	2.4 ppt	19.7%	3.2 ppt	20.0%	2.9 ppt
Operating margin	11.9%	12.7%	15.5%	2.8 ppt	11.9%	11 ppt	11.7%	3.8 ppt
Net margin	9.6%	10.5%	12.8%	2.3 ppt	9.7%	3.1 ppt	10.1%	2.7 ppt

Source: Company data, CMBIS estimates

Figure 8: FY20 revenue breakdown

RMB mn	1H19	2H19	1H20	2H20	YoY	FY19	FY20	YoY
Optical comp (VLS, HLS)	3,774	5,042	3,864	5,318	5%	8,815	9,181	4%
Auto lens shipment (mn unit)	22	28	21	36	29%	50	56	12%
... ASP (Rmb)	41.6	34.7	36.8	42.8	23%	37.8	40.6	7%
Handset lens Shipment (mn unit)	5,537	7,894	6,454	8,844	12%	13,432	15,298	14%
... ASP (Rmb)	5.2	4.5	4.2	4.0	-11%	4.8	4.1	-14%
Optoelectronic (HCM)	11,680	17,069	14,874	13,620	-20%	28,748	28,494	-1%
HCM shipment (mn unit)	215	325	269	324	0%	540	593	10%
... ASP (Rmb)	46.8	48.4	53.0	39.0	-20%	47.8	45.3	-5%
Optical instruments	122	163	126	200	23%	285	326	15%
Total Revenue	15,575	22,274	18,864	19,138	-14%	37,849	38,002	0.4%
Gross Margin								
Optical comp (VLS, HLS)	44.1%	46.1%	41.5%	43.7%	-2.4 ppt	45.2%	42.8%	-2.4 ppt
Optoelectronic (HCM)	5.9%	11.7%	11.1%	14.2%	2.6 ppt	9.3%	12.6%	3.3 ppt
Optical instruments	41.2%	41.4%	38.6%	46.3%	4.9 ppt	41.3%	39.2%	-2.1 ppt
Blended GPM	18.4%	21.9%	19.5%	26.2%	4.3 ppt	20.5%	22.9%	2.4 ppt

Source: Company data, CMBIS estimates

2021 guidance:

Shipment:

- HLS: +15-20% YoY; now Global No.1
- HCM: +20-25% YoY; target Global No.1 in 2021
- VLS: +20-25% YoY

ASP:

- HLS: stable YoY (vs SD decline in FY20)
- HCM: down YoY, stable vs 2H20 (vs down YoY in FY20)
- VLS: stable YoY (vs stable in FY20)

GPM: stable YoY across all segments

- Video-related upgrade and product differentiation
- Industry consolidation, economy of scale, efficiency, automation

Opex ratio: maintain 8-8.5% level (vs 9.3% in FY20)

CAPEX (Rmb3bn)

- HLS/ HCM/ VLS = Rmb1bn/ RMB0.8bn/ RMB0.8bn
- Yuyao HQ, Vietnam (Samsung) & India (XOV) plants = Rmb1bn

Capacity Plan:

- HLS: 180kk/m (vs 160kk/m in FY20)
- VLS: 7.5kk/m (vs 6kk/m in FY20)
- HCM: 100k/m (vs 75kk in FY20)

Earnings Revision

Figure 9: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	43,052	51,488	60,906	51,529	59,096	NA	-16%	-13%	NA
Gross Profit	9,986	12,116	14,597	10,763	12,727	NA	-7%	-5%	NA
Operating Profit	6,908	8,563	10,492	6,949	8,354	NA	-1%	3%	NA
Net profit	5,795	7,213	8,867	5,814	7,014	NA	0%	3%	NA
EPS (RMB)	5.30	6.60	8.11	5.31	6.41	NA	0%	3%	NA
Gross Margin	23.2%	23.5%	24.0%	20.9%	21.5%	NA	2.3%	2.0%	NA
Operating Margin	16.0%	16.6%	17.2%	13.5%	14.1%	NA	2.6%	2.5%	NA
Net Margin	13.5%	14.0%	14.6%	11.3%	11.9%	NA	2.2%	2.1%	NA

Source: Company data, CMBIS estimates

Figure 10: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	43,052	51,488	60,906	51,721	61,270	69,038	-17%	-16%	-12%
Gross Profit	9,986	12,116	14,597	10,757	13,063	16,305	-7%	-7%	-10%
Operating Profit	6,908	8,563	10,492	6,401	7,835	NA	8%	9%	NA
Net profit	5,795	7,213	8,867	5,731	7,096	10,004	1%	2%	-11%
EPS (RMB)	5.30	6.60	8.11	5.29	6.54	9.13	0%	1%	-11%
Gross Margin	23.2%	23.5%	24.0%	20.8%	21.3%	23.6%	2.4 ppt	2.2 ppt	0.4 ppt
Operating Margin	16.0%	16.6%	17.2%	12.4%	12.8%	NA	3.7 ppt	3.8 ppt	NA
Net Margin	13.5%	14.0%	14.6%	11.1%	11.6%	14.5%	2.4 ppt	2.4 ppt	0.1 ppt

Source: Bloomberg, CMBIS estimates

Figure 11: Major assumptions

	FY19	FY20	FY21E	FY22E	FY23E
Shipment volume (mn unit)					
Optical Components					
Handset lens sets	1,343	1,530	1,868	2,242	2,690
...YoY(%)	41%	14%	22%	20%	20%
Vehicle lens sets	50	56	73	95	119
...YoY(%)	25%	12%	31%	30%	25%
Optoelectronic Products					
Handset camera modules	540	593	749	879	1,023
...YoY(%)	27%	10%	26%	17%	16%
Other optoelectronic (3D sensing)	49	41	48	57	69
...YoY(%)	388%	-18%	18%	20%	20%
Optical Instruments					
Microscopic instruments	197	195	215	236	260
...YoY(%)	-5%	-1%	10%	10%	10%
Revenue (Rmb mn)					
Optical Components	8,815	9,181	11,356	14,111	17,225
Optoelectronic Products	28,748	28,494	31,487	37,146	43,427
Optical instruments	285	326	209	230	253
Total Revenue	37,849	38,002	43,052	51,488	60,906
...YoY(%)	46.0%	0.4%	13.3%	19.6%	18.3%
Gross Margin					
Optical Components	45.2%	42.8%	42.9%	43.4%	43.6%
Optoelectronic products	9.3%	12.6%	12.3%	11.9%	11.9%
Optical instruments	41.3%	39.2%	41.9%	41.9%	41.9%

Source: Company data, CMBIS estimates

Figure 12: P&L forecast

RMB mn	FY18	FY19	1H20	2H20	FY20	FY21E	FY22E	FY23E
Revenue	25,932	37,849	18,864	19,138	38,002	43,052	51,488	60,906
...YoY	15.9%	46.0%	21.1%	-14.1%	0.4%	13.3%	19.6%	18.3%
Cost of sales	(21,019)	(30,098)	(15,187)	(14,116)	(29,304)	(33,066)	(39,372)	(46,309)
Gross profit	4,913	7,751	3,676	5,022	8,698	9,986	12,116	14,597
GPM (%)	18.9%	20.5%	19.5%	26.2%	22.9%	23.2%	23.5%	24.0%
...YoY	2.3%	57.8%	28.4%	2.8%	12.2%	14.8%	21.3%	20.5%
SG&A	(644)	(929)	(469)	(563)	(1,032)	(1,055)	(1,210)	(1,425)
...% of rev	-2.5%	-2.5%	-2.5%	-2.9%	-2.7%	-2.5%	-2.4%	-2.3%
R&D	(1,362)	(2,209)	(1,068)	(1,431)	(2,499)	(2,583)	(3,012)	(3,533)
...% of rev	-5.3%	-5.8%	-5.7%	-7.5%	-6.6%	-6.0%	-5.9%	-5.8%
Other Gain & Loss	174	205	107	590	698	-	-	-
Operating profit	3,077	4,806	2,246	3,630	5,877	6,908	8,563	10,492
OPM (%)	11.9%	12.7%	11.9%	19.0%	15.5%	16.0%	16.6%	17.2%
...YoY	-9.0%	56.2%	25.5%	20.3%	22.3%	17.6%	24.0%	22.5%
Net profit	2,491	3,991	1,749	3,133	4,882	5,795	7,213	8,867
NPM (%)	9.6%	10.5%	9.3%	16.4%	12.8%	13.5%	14.0%	14.6%
...YoY	-14.2%	60.2%	22.2%	22.4%	22.3%	18.7%	24.5%	22.9%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY and lift TP HK\$254.3

We maintain BUY with new TP HK\$254.3. We derived our 12-month TP from SOTP valuation methodology and our new TP is based on weighted-average target P/E multiple of 32.0x 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 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 13: Sunny Optical – SOTP valuation

Business segment	% of FY22E Profit	FY22E EPS (RMB)	Target P/E
Camera modules	36.6%	2.42	25x
Handset lenses	47.9%	3.16	35x
Vehicle lenses	14.6%	0.96	40x
Others	0.9%	0.06	25x
Total (RMB) /Implied P/E		6.60	32.0x
TP (HK\$)			254.3

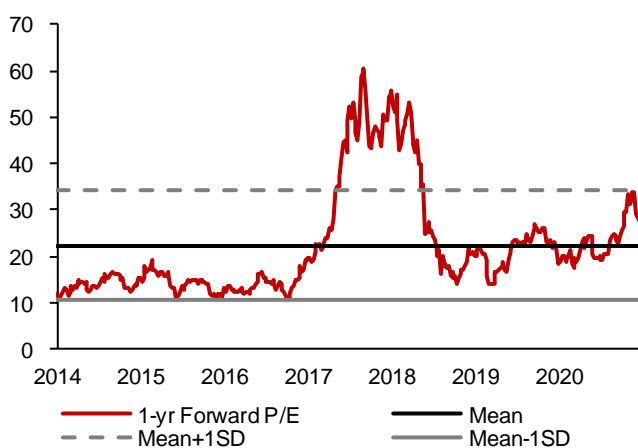
Sources: Company data, CMBIS estimates

Figure 14: 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	27,657	195.8	254.3	30%	36.4	30.7	10.5	8.1	29.0	26.6
Q tech	1478 HK	Buy	2,267	15.0	16.6	11%	19.8	16.3	4.3	3.6	22.0	21.8
Cowell	1415 HK	NR	597	5.56	NA	NA	10.1	8.2	2.4	2.2	21.1	29.5
Truly	732 HK	NR	606	1.43	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	5,450	203.00	NA	NA	9.6	12.2	1.0	0.9	16.5	7.3
Largan	3008 TT	NR	16,196	3425.00	NA	NA	18.4	16.9	3.2	2.8	18.6	18.1
Lite-on	2301 TT	NR	5,080	61.60	NA	NA	13.2	12.2	1.9	1.8	14.2	14.8
Primax	4915 TT	NR	1,032	64.80	NA	NA	14.6	12.2	2.0	1.9	13.9	15.6
O-film	002456 CH	NR	3,701	8.93	NA	NA	24.7	15.9	2.3	2.1	8.5	12.4
Average							18.7	15.9	3.6	3.0	18.0	18.3

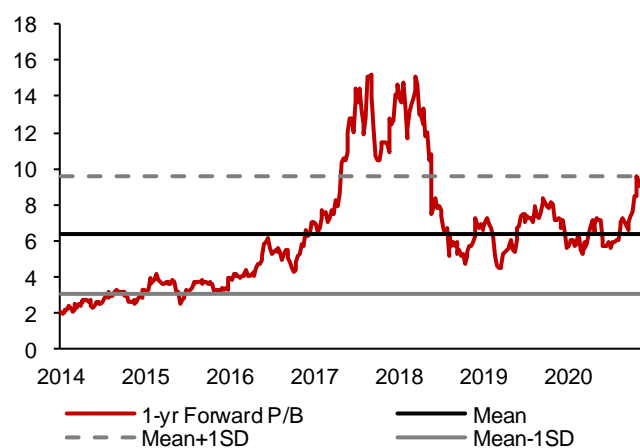
Source: Bloomberg, CMBIS estimates

Figure 15: 12M forward P/E band



Source: Bloomberg, CMBIS estimates

Figure 16: 12M forward P/B band



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	37,849	38,002	43,052	51,488	60,906
Cost of sales	(30,098)	(29,304)	(33,066)	(39,372)	(46,309)
Gross profit	7,751	8,698	9,986	12,116	14,597
Selling expenses	(279)	(313)	(323)	(366)	(432)
Admin expenses	(650)	(719)	(732)	(844)	(993)
R&D expenses	(2,209)	(2,499)	(2,583)	(3,012)	(3,533)
Other income	406	510	517	618	792
Other gain/ losses	(201)	187	43	51	61
Operating profit	4,806	5,877	6,908	8,563	10,492
Financial costs	(250)	(224)	(246)	(271)	(298)
Investment income	(6)	0	0	0	0
Pre-tax profit	4,550	5,653	6,662	8,292	10,194
Income tax expense	(531)	(703)	(786)	(978)	(1,203)
NCI	28	68	81	101	124
Net profit	3,991	4,882	5,795	7,213	8,867

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	4,550	5,653	6,662	8,292	10,194
Depreciation/amortisation	1,231	1,513	1,536	1,836	2,136
Change in working capital	(1,426)	192	(3,543)	1,518	(3,811)
Others	306	(199)	(526)	(684)	(879)
Net cash from operating	4,662	7,160	4,129	10,963	7,641
Capex	(2,760)	(2,538)	(3,000)	(3,000)	(3,000)
Other	(796)	(3,438)	-	-	-
Net cash from investing	(3,556)	(5,976)	(3,000)	(3,000)	(3,000)
Net borrowings	(382)	-	-	-	-
Dividend paid	(623)	(762)	(904)	(1,126)	(1,384)
Purchase of shares	(170)	N/A	N/A	N/A	N/A
Other	(266)	540	(246)	(271)	(298)
Net cash from financing	(1,441)	(222)	(1,151)	(1,397)	(1,682)
Net change in cash	(336)	962	(21)	6,566	2,959
Cash at beginning of the year	2,254	1,917	2,842	2,821	9,387
Exchange difference	(2)	(37)	-	-	-
Cash at the end of the year	1,917	2,842	2,821	9,387	12,346

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	22,446	25,630	28,702	38,208	44,930
Cash & equivalents	1,917	2,842	2,821	9,387	12,346
Financial assets	5,663	8,480	8,480	8,480	8,480
Deposits	21	238	238	238	238
Account receivables	9,630	8,212	12,001	12,172	16,423
Inventories	5,146	5,783	5,088	7,856	7,368
Other current assets	69	74	74	74	74
Non-current assets	8,247	9,809	11,300	12,509	13,424
Prepaid lease					
PPE	6,567	7,513	8,977	10,140	11,004
Interest in associates	1	2	2	2	2
Other non-curr. assets	1,680	2,293	2,321	2,367	2,418
Total assets	30,693	35,438	40,002	50,717	58,354
Current liabilities	12,630	13,411	13,004	17,531	17,560
ST borrowings	1,119	2,071	2,071	2,071	2,071
Account payables	11,322	10,733	10,284	14,742	14,693
Other current liabilities	5,622	9,223	14,644	16,374	24,030
Non-current liabilities	5,336	5,201	5,201	5,201	5,201
LT borrowings	-	-	-	-	-
Others	5,336	5,201	5,201	5,201	5,201
Total liabilities	17,967	18,612	18,204	22,732	22,761
Share capital	105	105	105	105	105
Reserves	12,448	16,492	21,382	27,469	34,952
Minority interest	173	229	310	411	536
Shareholders' equity	12,726	16,826	21,797	27,985	35,593
Total equity & liabilities	30,693	35,438	40,002	50,717	58,354

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Optical components	23.3	24.2	26.4	27.4	28.3
Optoelectronic products	76.0	75.0	73.1	72.1	71.3
Optical instruments	0.8	0.9	0.5	0.4	0.4
Growth (%)					
Revenue	46.0	0.4	13.3	19.6	18.3
Gross profit	57.8	12.2	14.8	21.3	20.5
Operating profit	56.2	22.3	17.6	24.0	22.5
Net profit	60.2	22.3	18.7	24.5	22.9
Profit & loss ratio (%)					
Gross margin	20.5	22.9	23.2	23.5	24.0
Operating margin	12.7	15.5	16.0	16.6	17.2
Net profit margin	10.5	12.8	13.5	14.0	14.6
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.8	1.9	2.2	2.2	2.6
Receivable turnover days	76.5	85.7	85.7	85.7	85.7
Inventory turnover days	49.8	68.1	60.0	60.0	60.0
Payable turnover days	111.5	137.4	116.0	116.0	116.0
Profitability (%)					
ROE	31.4	29.0	26.6	25.8	24.9
ROA	13.0	13.8	14.5	14.2	15.2
Per share data (RMB)					
EPS	3.65	4.47	5.30	6.60	8.11
DPS	0.57	0.70	0.83	1.03	1.27

Source: Company data, CMBIS estimates

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