

Sunny Optical (2382 HK)

1H23 profit warning worse than feared; Maintain Hold

Sunny announced a 1H23 profit warning, stating 1H23 net profit of RMB407-475mn, down 65-70% YoY. The midpoint is 64%/60% below our/consensus estimates, mainly due to 1) a non-cash FX loss of RMB161.5mn on US\$400mn/277mn USD bonds/loans, 2) smartphone demand weakness, and 3) ASP/margin pressure on camera de-spec. We trimmed FY23-25E EPS by 4-38% to reflect 1H23 results and slower margin recovery. While we are positive on Sunny's 2H23E earnings recovery and non-smartphone outlook, we think the stock is fairly valued at 39.3x/24.9x FY23/24E P/E. Maintain HOLD with new rolled over SOTP-based TP of HK\$78.09 (implied 24.9x FY24E P/E).

■ **1H23 profit warning on lower GPM and FX headwinds.** While 1H23 revenue weakness (our est. -19% YoY) is largely within expectations given 21%/12% HLS/HCM shipment decline, 1H23 net profit decline of 65-70% YoY is worse than feared given margin/ASP pressure and non-cash FX loss of RMB161.5mn on USD bond/loans. By segment, we estimate HCM/HLS revenue to drop 20%/-6% YoY on weaker shipment and lower ASP, while VLS revenue will climb 29% YoY driven by easing semi shortage and demand recovery. We estimate lower GPM of 17.6% (vs our prior est. 18.6%) given sales mix changes and lower utilization. Overall, we estimate revenue/net profit decline of 19%/66% YoY to RMB13.7bn/460mn in 1H23.

■ **2H23E recovery on track: HCM/HLS to resume YoY growth; VLS steady growth; XR driven by Pancake and new models.** Looking into 2H23E, we expect smartphone inventory to return to healthy level in 3Q23E and shipment to normalise in 4Q23E. We forecast: 1) HCM/HLS shipment of 16%/30% YoY in 2H23E driven by Android HoH recovery and Apple lens share gain; 2) VLS shipment with steady growth of 10% YoY off high base and improving ASP thanks to easing pricing pressure and NEV subsidy succession; 3) XR revenue growth of 22% YoY driven by Meta Quest 3 and pancake products.

■ **Slower margin recovery a miss; Maintain HOLD on fair valuation.** Despite a weak 1H23, we expect HCM/HLS recovery in 2H23E driven by Apple share gain and product launches, and steady VLS shipment growth. We estimate revenue/net profit to resume growth with 9%/28% YoY in 2H23E. We remain positive on Sunny's technology leadership and non-smartphone upside in the long term. Trading at 24.9x FY24E P/E, we believe the stock is fairly valued and maintain HOLD with new SOTP-based TP of HK\$78.09 (implied 24.9x FY24E P/E).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	37,497	33,197	31,480	36,010	39,690
YoY growth (%)	(1.3)	(11.5)	(5.2)	14.4	10.2
Net profit (RMB mn)	4,993.2	2,407.8	1,801.1	2,847.4	3,553.0
YoY growth (%)	2.3	(51.8)	(25.2)	58.1	24.8
EPS (Reported) (RMB)	4.57	2.20	1.65	2.60	3.25
Consensus EPS (RMB)	4.58	2.48	2.73	3.53	4.39
P/E (x)	38.3	46.8	43.8	27.7	22.2
P/B (x)	9.2	5.1	3.4	3.2	2.9
Yield (%)	0.5	0.9	1.0	1.6	2.0
ROE (%)	26.5	11.2	7.9	11.8	13.6
Net gearing (%)	(16.1)	(22.6)	(0.3)	(21.3)	(9.5)

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$78.09
(Previous TP)	HK\$78.09)
Up/Downside	0.1%
Current Price	HK\$78.00

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Stock Data

Mkt Cap (HK\$ mn)	85,566.0
Avg 3 mths t/o (HK\$ mn)	356.9
52w High/Low (HK\$)	123.20/67.55
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	-4.6%	0.8%
3-mth	-13.0%	-6.5%
6-mth	-26.0%	-15.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

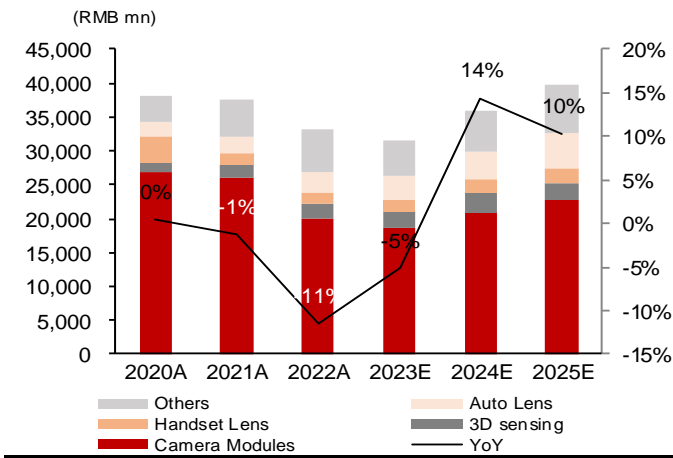
1) 1H23 preview: : Better ASP to offset shipment weakness; Focus on demand recovery in 2H23E ([link](#))

2) NDR takeaways: a bumpy 1H23 ahead; Auto/VR/AR biz to drive long-term growth 28 Mar 2023 ([link](#))

3) Strong auto/XR pipeline to weather smartphone headwinds – 22 Mar 2023 ([link](#))

Focus Charts

Figure 1: Sunny Optical revenue trend



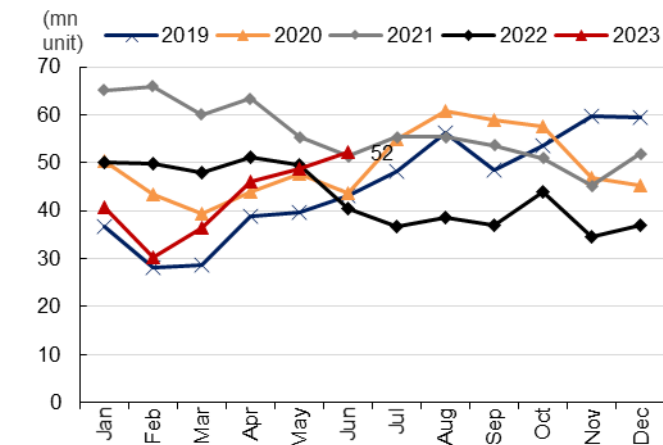
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



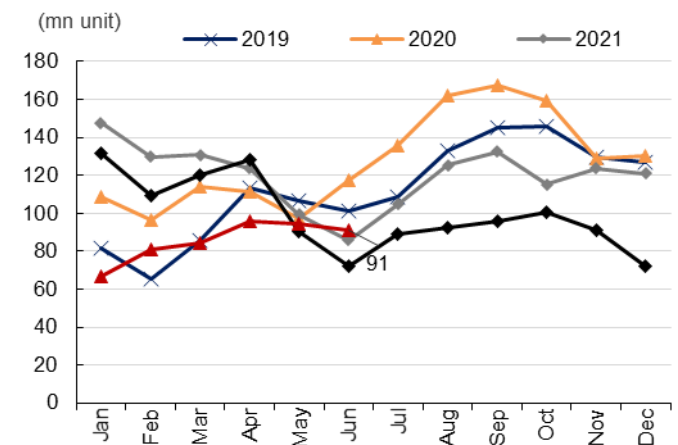
Source: Company data, CMBIGM estimates

Figure 3: Sunny HCM shipment trend



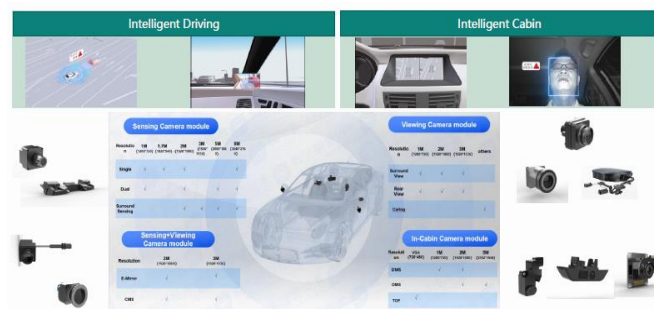
Source: Company data, CMBIGM estimates

Figure 4: Sunny HLS shipment trend



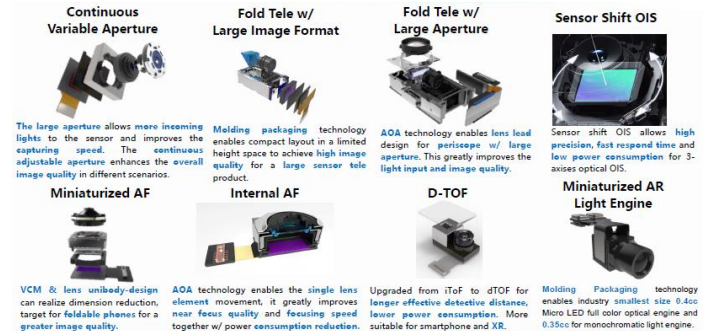
Source: Company data, CMBIGM estimates

Figure 5: Sunny's roadmap in automotive modules



Source: Company, CMBIGM

Figure 6: Upgrade trend for next-gen cameras



Source: Company, CMBIGM

Earnings Revision

Figure 7: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	31,480	36,010	39,690	33,896	38,282	40,672	-7%	-6%	-2%
Gross profit	5,685	6,979	8,040	6,533	7,483	8,164	-13%	-7%	-2%
Operating profit	2,441	3,713	4,579	3,685	4,221	4,698	-34%	-12%	-3%
Net profit	1,801	2,847	3,553	2,899	3,334	3,716	-38%	-15%	-4%
EPS (RMB)	1.65	2.60	3.25	2.65	3.05	3.40	-38%	-15%	-4%
Gross margin	18.1%	19.4%	20.3%	19.3%	19.5%	20.1%	-1.2 ppt	-0.2 ppt	0.2 ppt
Operating margin	7.8%	10.3%	11.5%	10.9%	11.0%	11.6%	-3.1 ppt	-0.7 ppt	0 ppt
Net margin	5.7%	7.9%	9.0%	8.6%	8.7%	9.1%	-2.8 ppt	-0.8 ppt	-0.2 ppt

Source: Company data, CMBIGM estimates

Figure 8: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	31,480	36,010	39,690	36,083	40,864	46,348	-13%	-12%	-14%
Gross profit	5,685	6,979	8,040	7,220	8,704	10,216	-21%	-20%	-21%
Operating profit	2,441	3,713	4,579	3,122	4,112	5,104	-22%	-10%	-10%
Net profit	1,801	2,847	3,553	3,007	3,882	4,819	-40%	-27%	-26%
EPS (RMB)	1.65	2.60	3.25	2.73	3.53	4.39	-40%	-26%	-26%
Gross margin	18.1%	19.4%	20.3%	20.0%	21.3%	22.0%	-1.9 ppt	-1.9 ppt	-1.8 ppt
Operating margin	7.8%	10.3%	11.5%	8.7%	10.1%	11.0%	-0.9 ppt	0.2 ppt	0.5 ppt
Net margin	5.7%	7.9%	9.0%	8.3%	9.5%	10.4%	-2.6 ppt	-1.6 ppt	-1.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 9: P&L forecast

RMB mn	FY21	FY22	1H23E	2H23E	FY23E	FY24E	FY25E
Revenue	37,497	33,197	13,733	17,747	31,480	36,010	39,690
...YoY	-1.3%	-11.5%	-19.1%	9.4%	-5.2%	14.4%	10.2%
Cost of sales	(28,761)	(26,592)	(11,376)	(14,419)	(25,795)	(29,031)	(31,649)
Gross profit	8,736	6,605	2,357	3,328	5,685	6,979	8,040
GPM (%)	23.3%	19.9%	17.2%	18.8%	18.1%	19.4%	20.3%
...YoY	0.4%	-24.4%	-33.1%	8.0%	-13.9%	22.8%	15.2%
SG&A	(1,032)	(1,281)	(542)	(621)	(1,164)	(1,152)	(1,171)
...% of rev	-2.8%	-3.9%	-4.0%	-3.5%	-3.7%	-3.2%	-3.0%
R&D	(2,642)	(2,803)	(1,209)	(1,384)	(2,593)	(2,917)	(3,175)
...% of rev	-7.0%	-8.4%	-8.8%	-7.8%	-8.2%	-8.1%	-8.0%
Other gain & loss	252	537	789	353	151	444	885
Operating profit	5,851	3,014	675	1,766	2,441	3,713	4,579
OPM (%)	15.6%	9.1%	4.9%	10.0%	7.8%	10.3%	11.5%
...YoY	-0.4%	-48.5%	-62.5%	45.2%	-19.0%	52.1%	23.3%
Net profit	4,993	2,408	460	1,341	1,801	2,847	3,553
NPM (%)	13.3%	7.3%	3.3%	7.6%	5.7%	7.9%	9.0%
...YoY	2.3%	-51.8%	-66.1%	27.7%	-25.2%	58.1%	24.8%

Source: Company data, CMBIGM estimates

Figure 10: Major assumptions

	FY21	FY22	FY23E	FY24E	FY25E
Shipment volume (mn unit)					
Optical Components					
Handset lens sets	1,440	1,193	1,216	1,338	1,445
...YoY(%)	-6%	-17%	2%	10%	8%
Vehicle lens sets	68	79	93	109	129
...YoY(%)	21%	16%	17%	18%	18%
Optoelectronic Products					
Handset camera modules	674	517	519	561	589
...YoY(%)	14%	-23%	0%	8%	5%
Other optoelectronic (3D sensing)	59	51	37	41	45
...YoY(%)	45%	-14%	-26%	10%	10%
Optical Instruments					
Microscopic instruments	258	320	341	375	412
...YoY(%)	32%	24%	7%	10%	10%
Revenue (RMB mn)					
Optical components	8,776	9,468	9,116	10,483	11,971
Optoelectronic products	28,334	23,326	21,968	25,099	27,255
Optical instruments	387	403	396	428	464
Total Revenue	37,497	33,197	31,480	36,010	39,690
...YoY(%)	-1.3%	-11.5%	-5.2%	14.4%	10.2%
Gross Margin					
Optical components	39.5%	33.4%	30.6%	32.6%	34.0%
Optoelectronic products	13.7%	10.7%	9.4%	10.3%	10.5%
Optical instruments	45.1%	42.0%	44.0%	46.0%	46.0%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with new TP of HK\$78.09

We maintain HOLD with new TP of HK\$78.09. We derived our 12-month TP from SOTP valuation methodology and our TP is based on weighted-average target P/E multiple of 24.8x FY24E 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 18x P/E to its CCM business to reflect its China's 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 FY24E Profit	FY24E EPS (RMB)	Target P/E
Camera modules	36.9%	0.96	18x
Handset lenses	35.7%	0.93	25x
Vehicle lenses	24.7%	0.64	35x
Others	2.7%	0.07	25x
Total (RMB) /Implied P/E		2.60	24.9x
TP (HK\$)			78.1

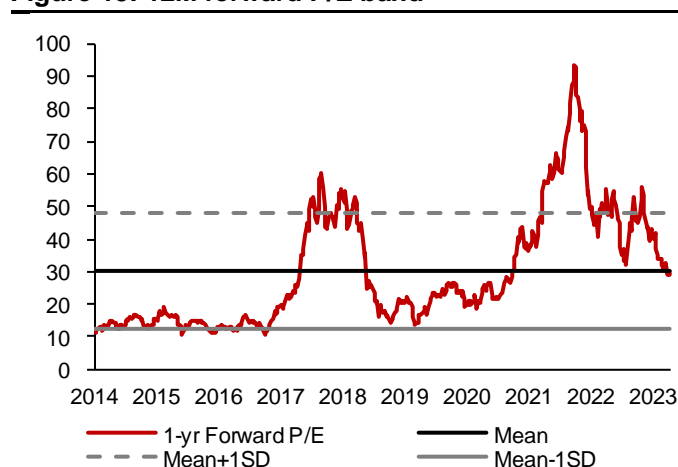
Source: Company data, CMBIGM estimates

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY23E	P/E (x) FY24E	P/B (x) FY23E	P/B (x) FY24E	ROE (%) FY23E	ROE (%) FY24E
Sunny Optical	2382 HK	Hold	10,959	78.0	78.1	0.1%	39.3	24.9	3.0	2.8	7.7	11.4
Q tech	1478 HK	Buy	487	3.2	3.6	12%	9.6	6.1	0.7	0.6	7.0	10.1
Cowell	1415 HK	NR	1,647	15.14	NA	NA	16.6	11.6	3.6	2.8	23.6	26.7
Truly	732 HK	NR	393	0.97	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	3,886	177.50	NA	NA	16.5	16.1	0.8	0.8	4.6	4.5
Largan	3008 TT	NR	9,749	2270.00	NA	NA	17.3	15.6	1.9	1.8	11.1	11.4
Lite-on	2301 TT	NR	10,403	136.50	NA	NA	24.4	20.3	3.8	3.6	15.6	18.8
Primax	4915 TT	NR	930	62.90	NA	NA	10.2	9.8	1.6	1.5	15.5	15.8
O-film	002456 CH	NR	2,690	5.96	NA	NA	-	-	8.2	8.2	(42.5)	(22.5)
Average							16.9	14.3	3.0	2.8	6.0	9.9

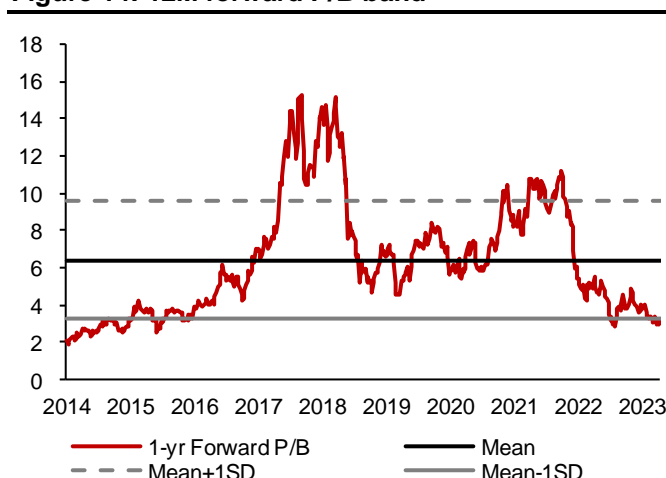
Source: Bloomberg, CMBIGM estimates

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	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	38,002	37,497	33,197	31,480	36,010	39,690
Cost of goods sold	(29,304)	(28,761)	(26,592)	(25,795)	(29,031)	(31,649)
Gross profit	8,698	8,736	6,605	5,685	6,979	8,040
Selling expense	(313)	(274)	(353)	(342)	(288)	(298)
Admin expense	(719)	(758)	(929)	(821)	(864)	(873)
R&D expense	(2,499)	(2,642)	(2,803)	(2,593)	(2,917)	(3,175)
Others	698	789	504	512	803	885
Operating profit	5,877	5,851	3,014	2,441	3,713	4,579
Share of (losses)/profits of associates/JV	0	19	(6)	(6)	(6)	(6)
Net Interest income/(expense)	(224)	(230)	(293)	(322)	(354)	(390)
Pre-tax profit	5,653	5,640	2,715	2,113	3,353	4,183
Income tax	(703)	(579)	(241)	(247)	(402)	(502)
Minority interest	68	68	66	65	103	128
Net profit	4,882	4,993	2,408	1,801	2,847	3,553
Net dividends	799	974	1,048	784	1,239	1,546
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	25,630	27,989	30,646	25,774	34,210	30,942
Cash & equivalents	2,842	5,605	7,033	2,083	7,339	4,608
Account receivables	8,212	7,448	7,205	6,690	9,205	8,315
Inventories	5,783	5,482	4,721	5,314	5,980	6,333
ST bank deposits	238	1,112	485	485	485	485
Financial assets at FVTPL	8,480	8,314	10,086	10,086	10,086	10,086
Other current assets	74	28	1,115	1,115	1,115	1,115
Non-current assets	9,809	10,785	12,356	13,676	14,245	14,507
PP&E	7,513	8,303	10,120	11,453	11,987	12,221
Other non-current assets	2,295	2,481	2,236	2,223	2,258	2,286
Total assets	35,438	38,774	43,001	39,450	48,455	45,449
Current liabilities	13,411	11,873	19,337	14,704	21,997	16,856
Short-term borrowings	2,071	1,539	1,990	1,990	1,990	1,990
Account payables	10,733	9,869	12,917	8,284	15,577	10,436
Other current liabilities	9,223	15,493	8,757	14,473	8,891	16,167
Non-current liabilities	5,201	6,005	1,482	1,482	1,482	1,482
Long-term borrowings	0	700	30	30	30	30
Other non-current liabilities	5,201	5,305	1,452	1,452	1,452	1,452
Total liabilities	18,612	17,879	20,819	16,186	23,479	18,338
Share capital	105	105	105	105	105	105
Other reserves	16,492	20,483	21,733	22,751	24,359	26,366
Total shareholders equity	16,826	20,895	22,182	23,265	24,976	27,112
Minority interest	229	307	344	409	512	640
Total equity and liabilities	35,438	38,774	43,001	39,450	48,455	45,449
CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,643	5,640	2,715	2,113	3,353	4,183
Depreciation & amortization	1,570	1,638	1,816	2,166	2,466	2,766
Change in working capital	115	200	4,053	(4,712)	4,113	(4,604)
Others	(168)	(499)	(1,207)	89	(83)	(141)
Net cash from operations	7,160	6,979	7,377	(344)	9,849	2,205
Investing						
Capital expenditure	(2,271)	(2,498)	(3,633)	(3,500)	(3,000)	(3,000)
Others	(3,705)	(403)	(201)	0	0	0
Net cash from investing	(5,976)	(2,902)	(3,834)	(3,500)	(3,000)	(3,000)
Financing						
Dividend paid	(796)	(974)	(1,048)	(784)	(1,239)	(1,546)
Net borrowings	1,017	0	0	0	0	0
Share repurchases	(151)	0	0	0	0	0
Others	(291)	(267)	(1,111)	(322)	(354)	(390)
Net cash from financing	(222)	(1,241)	(2,159)	(1,106)	(1,593)	(1,936)

Net change in cash

Cash at the beginning of the year	1,917	2,842	5,605	7,033	2,083	7,339
Exchange difference	(37)	(73)	44	0	0	0
Cash at the end of the year	2,842	5,605	7,033	2,083	7,339	4,608

GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
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YE 31 Dec

Revenue	0.4%	(1.3%)	(11.5%)	(5.2%)	14.4%	10.2%
Gross profit	12.2%	0.4%	(24.4%)	(13.9%)	22.8%	15.2%
Operating profit	22.3%	(0.4%)	(48.5%)	(19.0%)	52.1%	23.3%
Net profit	22.3%	2.3%	(51.8%)	(25.2%)	58.1%	24.8%

PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
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YE 31 Dec

Gross profit margin	22.9%	23.3%	19.9%	18.1%	19.4%	20.3%
Operating margin	15.5%	15.6%	9.1%	7.8%	10.3%	11.5%
Return on equity (ROE)	33.0%	26.5%	11.2%	7.9%	11.8%	13.6%

GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
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YE 31 Dec

Net debt to equity (x)	(0.0)	(0.2)	(0.2)	(0.0)	(0.2)	(0.1)
Current ratio (x)	1.9	2.4	1.6	1.8	1.6	1.8
Receivable turnover days	85.7	76.2	80.6	80.6	80.6	80.6
Inventory turnover days	68.1	71.5	70.0	71.0	71.0	71.0
Payable turnover days	137.4	130.7	156.4	150.0	150.0	150.0

VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
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YE 31 Dec

P/E	25.5	38.3	46.8	43.8	27.7	22.2
P/B	7.4	9.2	5.1	3.4	3.2	2.9
Div yield (%)	0.6	0.5	0.9	1.0	1.6	2.0
EV	16,826.1	20,895.3	22,182.4	23,264.9	24,976.2	27,111.5
EV/Sales	0.4	0.6	0.7	0.7	0.7	0.7

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

Disclosures & Disclaimers

Analyst Certification

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