

Sunny Optical (2382 HK)

NDR takeaways: a bumpy 1H23 ahead; Auto/VR/AR business to drive long-term growth

We hosted a NDR for investors with Sunny Optical on 27 Mar. Mgmt. reiterated 2023 shipment guidance with gradual recovery but ASP/GPM of handset-related products were under pressure in 1H23E given camera de-spec trend. Looking ahead, mgmt. is positive on 1) demand recovery in 3Q23E on smartphone replacement cycle, 2) AR/VR growth of 30% YoY in FY23E and 3) rising ADAS adoption to drive ASP/GPM upside in FY24-25E. Trading at 28.1x/24.3x FY23/24E P/E, we think the stock is fairly valued. Maintain HOLD with SOTP-based TP of HK\$86.75.

■ **2023: Handset ASP/GPM under pressure; demand recovery in 3Q23E.** Mgmt. highlighted 2023 guidance and business outlook: **1) HCM:** 5% YoY shipment growth but ASP under pressure; GPM to maintain at 5-8%; **2) HLS:** 5% YoY shipment growth with de-spec in 1H23E weighing on ASP; GPM to stay at 20-25% level; **3) auto cam:** 15% YoY VLS shipment growth with stable ASP and GPM to maintain at 40%; VCM revenue to grow 100% YoY to reach RMB 2bn in FY23E; **4) VR/AR** revenue to grow 30% YoY. Overall, despite sluggish global smartphone shipment (forecast of single-digit decline) in 2023, mgmt. remains positive on 3Q demand recovery driven by smartphone replacement cycle and better-than-expected HCM/HLS shipment driven by Samsung and Apple product ramp-up.

■ **Limited order visibility in near term; Positive on ADAS/LiDAR adoption.** Mgmt. reiterated that there is no clear change in order visibility and 1H23E remains challenging due to inventory correction and de-spec trend. Mgmt. expects auto camera adoption to increase gradually due to 1) long product development cycle, 2) rising ADAS camera adoption in Europe, US, Japan and South Korea on pixel upgrade and 3) competition from Chinese new energy vehicle acceleration, which will drive ASP and margin upside in FY24-25E. In addition, despite higher cost and various LiDAR tech roadmap in the market, mgmt. remains certain on LiDAR to pair with level 4 autonomous vehicles and Sunny is actively exploring business opportunities.

■ **Valuation/Key risks.** While we are positive on Sunny's product roadmap and technology leadership, we believe its bumpy outlook in 1H23E will continue to weigh on the stock. Trading at 28.1x/24.3x FY23/24E P/E, we think the stock is fairly valued. Maintain HOLD with SOTP-based TP of HK\$86.75.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	37,497	33,197	35,763	40,427	42,729
YoY growth (%)	(1.3)	(11.5)	7.7	13.0	5.7
Net profit (RMB mn)	5,061.1	2,474.1	3,305.3	3,829.3	4,299.5
YoY growth (%)	2.2	(51.1)	33.6	15.9	12.3
EPS (Reported) (RMB)	4.57	2.20	2.94	3.40	3.82
Consensus EPS (RMB)	4.58	2.48	3.44	4.31	4.59
P/E (x)	38.3	46.8	28.1	24.3	21.6
P/B (x)	9.2	5.1	3.8	3.4	3.1
Yield (%)	0.5	0.9	1.5	1.8	2.0
ROE (%)	26.8	11.5	14.3	15.2	15.6
Net gearing (%)	(16.1)	(22.6)	(0.8)	(25.4)	(12.9)

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price HK\$86.75
 (Previous TP HK\$86.75)
Up/Downside (7.9%)
Current Price HK\$94.20

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Stock Data

Mkt Cap (HK\$ mn)	103,337.4
Avg 3 mths t/o (HK\$ mn)	97.0
52w High/Low (HK\$)	137.00/67.55
Total Issued Shares (mn)	1097.0

Source: FactSet

Shareholding Structure

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

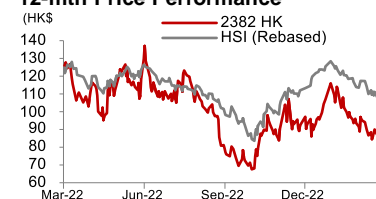
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.8%	4.8%
3-mth	3.4%	3.5%
6-mth	18.6%	8.2%

Source: FactSet

12-mth Price Performance



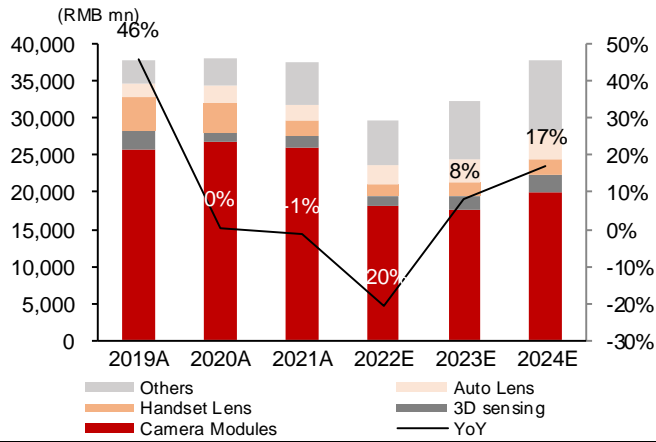
Source: FactSet

Related Reports:

- 1) Strong auto/XR pipeline to weather smartphone headwinds – 22 Mar 2023 ([link](#))
- 2) 2H22 first take: weakness in-line; awaiting recovery – 21 Mar 2023 ([link](#))
- 3) FY22E preview; Bumpy recovery in 2023 – 15 Mar 2023 ([link](#))

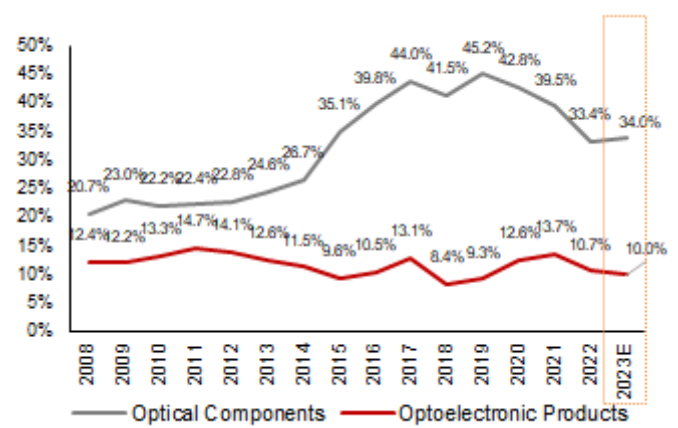
Focus Charts

Figure 1: Sunny Optical revenue trend



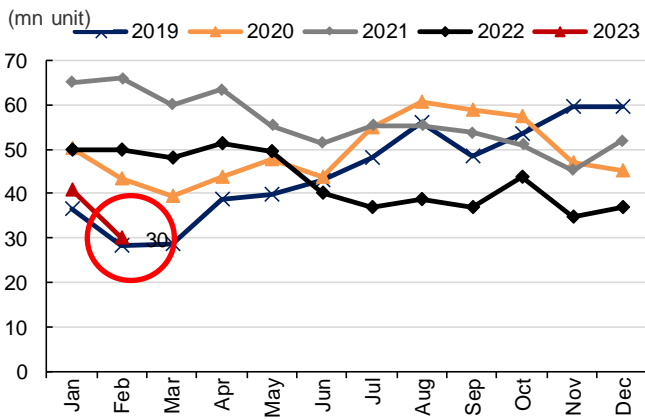
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



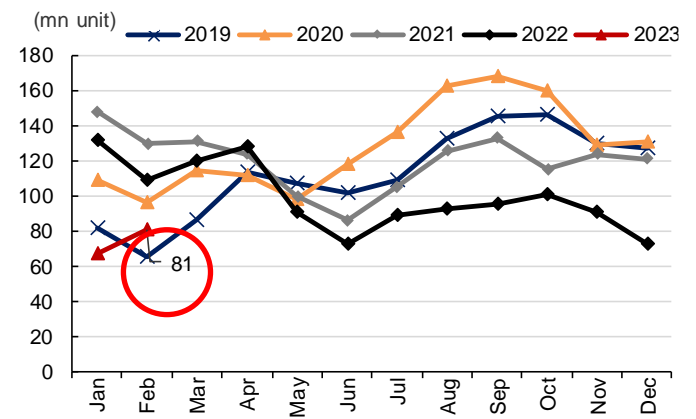
Source: Company data, CMBIGM estimates

Figure 3: Sunny HCM shipment trend



Source: Company data, CMBIGM estimates

Figure 4: Sunny HLS shipment trend



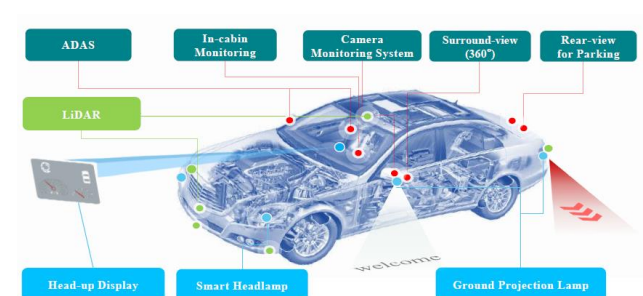
Source: Company data, CMBIGM estimates

Figure 5: Sunny next-gen handset camera products



Source: Company data, CMBIGM estimates

Figure 6: Sunny opportunities in vehicle cameras



Source: Counterpoint, CMBIGM estimates

Earnings Forecasts

Figure 7: P&L forecast

RMB mn	FY21	FY22	FY23E	FY24E	FY25E
Revenue	37,497	33,197	35,763	40,427	42,729
...YoY	-1.3%	-11.5%	7.7%	13.0%	5.7%
Cost of sales	(28,761)	(26,592)	(28,657)	(32,190)	(33,722)
Gross profit	8,736	6,605	7,106	8,237	9,008
GPM (%)	23.3%	19.9%	19.9%	20.4%	21.1%
...YoY	0.4%	-24.4%	7.6%	15.9%	9.4%
SG&A	(1,032)	(1,281)	(1,048)	(1,193)	(1,261)
...% of rev	-2.8%	-3.9%	-2.9%	-3.0%	-3.0%
R&D	(2,642)	(2,803)	(2,861)	(3,234)	(3,418)
...% of rev	-7.0%	-8.4%	-8.0%	-8.0%	-8.0%
Other gain & loss	252	537	151	418	-
Operating profit	5,851	3,014	4,084	4,712	5,282
OPM (%)	15.6%	9.1%	11.4%	11.7%	12.4%
...YoY	-0.4%	-48.5%	35.5%	15.4%	12.1%
Net profit	4,993	2,408	3,212	3,721	4,178
NPM (%)	13.3%	7.3%	9.0%	9.2%	9.8%
...YoY	2.3%	-51.8%	33.4%	15.9%	12.3%

Source: Company data, CMBIGM estimates

Figure 8: Major assumptions

	FY21	FY22	FY23E	FY24E	FY25E
Shipment volume (mn unit)					
Optical Components					
Handset lens sets	1,440	1,193	1,227	712	(0)
...YoY(%)	-6%	-17%	3%	-42%	-100%
Vehicle lens sets	68	79	94	64	0
...YoY(%)	21%	16%	19%	-32%	-100%
Optoelectronic Products					
Handset camera modules	674	517	530	307	(0)
...YoY(%)	14%	-23%	3%	-42%	-100%
Other optoelectronic (3D sensing)	59	51	54	34	0
...YoY(%)	45%	-14%	7%	-38%	-100%
Optical Instruments					
Microscopic instruments	258	320	352	177	0
...YoY(%)	32%	24%	10%	-50%	-100%
Revenue (RMB mn)					
Optical components	8,776	9,468	11,095	12,932	14,843
Optoelectronic products	28,334	23,326	24,329	27,123	27,476
Optical instruments	387	403	339	373	410
Total Revenue	37,497	33,197	35,763	40,427	42,729
...YoY(%)	-1.3%	-11.5%	7.7%	13.0%	5.7%
Gross Margin					
Optical components	39.5%	33.4%	34.0%	34.0%	34.0%
Optoelectronic products	13.7%	10.7%	10.0%	10.5%	10.5%
Optical instruments	45.1%	42.0%	45.5%	45.5%	45.5%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with TP of HK\$86.75

We maintain HOLD with TP of HK\$86.75. We derived our 12-month TP from SOTP valuation methodology and our TP is based on weighted-average target P/E multiple of 24.5x 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 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 9: Sunny Optical – SOTP valuation

Business segment	% of FY23E Profit	FY23E EPS (RMB)	Target P/E
Camera modules	34.2%	1.01	18x
Handset lenses	44.7%	1.31	25x
Vehicle lenses	19.0%	0.56	35x
Others	2.0%	0.06	25x
Total (RMB) /Implied P/E		2.94	24.5x
TP (HK\$)			86.75

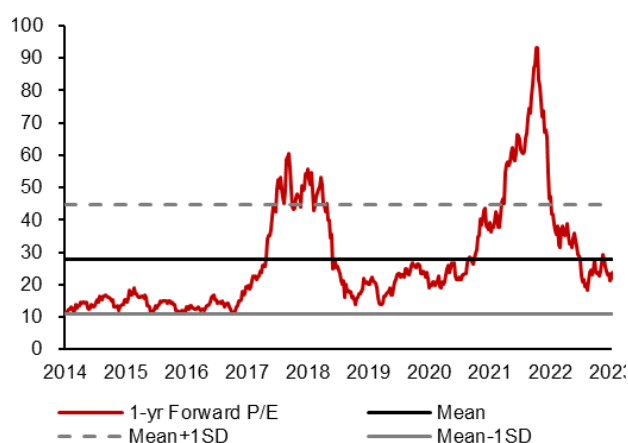
Source: Company data, CMBIGM estimates

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	13,170	94.2	86.8	-8%	28.1	24.3	3.8	3.4	14.3	15.2
Q tech	1478 HK	BUY	652	4.3	5.2	20%	9.0	6.7	0.9	0.8	9.8	12.0
Cowell	1415 HK	NR	2,141	19.96	NA	NA	8.4	6.0	4.7	3.6	22.7	26.4
Truly	732 HK	NR	435	1.08	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,454	189.00	NA	NA	21.0	17.3	0.8	0.8	4.0	4.5
Largan	3008 TT	NR	9,729	2210.00	NA	NA	17.0	17.1	1.8	1.8	10.7	11.3
Lite-on	2301 TT	NR	5,695	73.10	NA	NA	11.9	10.6	2.0	2.0	17.6	19.4
Primax	4915 TT	NR	917	60.50	NA	NA	9.5	8.8	1.6	1.5	16.3	16.8
O-film	002456 CH	NR	2,491	5.26	NA	NA	-	90.7	4.6	4.3	(13.2)	0.8
Average							15.1	22.7	2.5	2.3	10.2	13.2

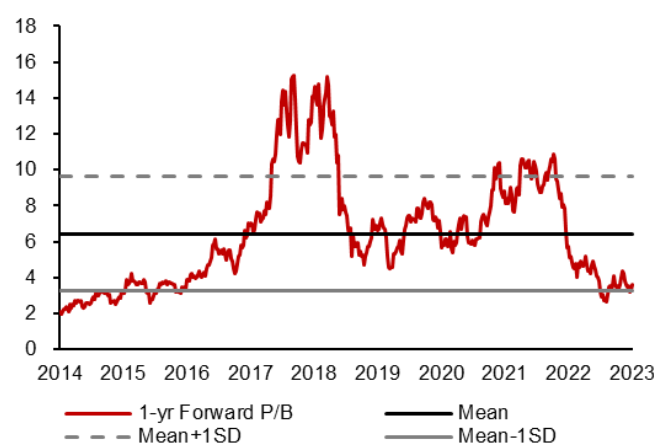
Source: Bloomberg, CMBIGM estimates

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	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	38,002	37,497	33,197	35,763	40,427	42,729
Cost of goods sold	(29,304)	(28,761)	(26,592)	(28,657)	(32,190)	(33,722)
Gross profit	8,698	8,736	6,605	7,106	8,237	9,008
Selling expense	(313)	(274)	(353)	(261)	(303)	(320)
Admin expense	(719)	(758)	(929)	(787)	(889)	(940)
R&D expense	(2,499)	(2,642)	(2,803)	(2,861)	(3,234)	(3,418)
Others	698	789	504	887	902	953
Operating profit	5,877	5,851	3,014	4,084	4,712	5,282
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	3,756	4,351	4,886
Income tax	(703)	(579)	(241)	(451)	(522)	(586)
Minority interest	68	68	66	93	108	121
Net profit	4,950	5,061	2,474	3,305	3,829	4,300
Net dividends	799	974	1,048	1,398	1,619	1,818
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	25,630	27,989	30,646	28,919	35,744	34,048
Cash & equivalents	2,842	5,605	7,033	2,223	8,698	5,740
Account receivables	8,212	7,448	7,205	8,581	9,264	9,597
Inventories	5,783	5,482	4,721	6,428	6,096	7,023
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	13,709	14,279	14,530
PP&E	7,513	8,303	10,120	11,453	11,987	12,221
Other non-current assets	2,295	2,481	2,236	2,256	2,292	2,310
Total assets	35,438	38,774	43,001	42,628	50,023	48,578
Current liabilities	13,411	11,873	19,337	17,056	22,241	18,314
Short-term borrowings	2,071	1,539	1,990	1,990	1,990	1,990
Account payables	10,733	9,869	12,917	10,636	15,822	11,895
Other current liabilities	9,223	15,493	8,757	12,946	9,970	16,379
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	18,538	23,723	19,796
Share capital	105	105	105	105	105	105
Other reserves	16,492	20,483	21,733	23,548	25,650	28,010
Total shareholders equity	16,826	20,895	22,182	24,090	26,300	28,781
Minority interest	229	307	344	437	545	667
Total equity and liabilities	35,438	38,774	43,001	42,628	50,023	48,578
CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,643	5,640	2,715	3,756	4,351	4,886
Depreciation & amortization	1,570	1,638	1,816	2,166	2,466	2,766
Change in working capital	115	200	4,053	(5,364)	4,835	(5,188)
Others	(168)	(499)	(1,207)	(148)	(204)	(214)
Net cash from operations	7,160	6,979	7,377	410	11,449	2,250
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)	(1,398)	(1,619)	(1,818)
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)	(1,720)	(1,974)	(2,208)

Net change in cash

Cash at the beginning of the year	1,917	2,842	5,605	7,033	2,223	8,698
Exchange difference	(37)	(73)	44	0	0	0
Cash at the end of the year	2,842	5,605	7,033	2,223	8,698	5,740

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

Revenue	0.4%	(1.3%)	(11.5%)	7.7%	13.0%	5.7%
Gross profit	12.2%	0.4%	(24.4%)	7.6%	15.9%	9.4%
Operating profit	22.3%	(0.4%)	(48.5%)	35.5%	15.4%	12.1%
Net profit	23.2%	2.2%	(51.1%)	33.6%	15.9%	12.3%

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

Gross profit margin	22.9%	23.3%	19.9%	19.9%	20.4%	21.1%
Operating margin	15.5%	15.6%	9.1%	11.4%	11.7%	12.4%
Return on equity (ROE)	33.5%	26.8%	11.5%	14.3%	15.2%	15.6%

	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)	(0.3)	(0.1)
Current ratio (x)	1.9	2.4	1.6	1.7	1.6	1.9
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

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

P/E	25.5	38.3	46.8	28.1	24.3	21.6
P/B	7.4	9.2	5.1	3.8	3.4	3.1
Div yield (%)	0.6	0.5	0.9	1.5	1.8	2.0
EV	16,826.1	20,895.3	22,182.4	24,090.0	26,300.0	28,781.5
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

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UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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