

Sunny Optical (2382 HK)

Call takeaways: Leadership intact despite clouded outlook

We hosted an investor call with Sunny's mgmt. recently, and investor questions mainly focus on 1) near-term COVID-19 impact, 2) clients' project pipeline, 3) 5G smartphone demand and 4) camera upgrade trend. Overall, we remain positive on Sunny's industry leadership and strong product pipeline across all segments. We maintain Hold mainly due to demand uncertainty from COVID-19. Our SOTP-based TP of HK\$115 implies 25.4x FY20E P/E.

- FY20E guidance: HLS/HCM +10%/+15% YoY shipment with stable ASP.** In view to recent COVID-19 headwinds, Sunny's conservative guidance on HLS/HCM shipment growth is prudent in our view. Mgmt. indicated that 1) production now returned to normal operations, 2) client order is recovering, and 3) supply of raw materials is stable. While some investors expressed concerns about Sunny's weaker HLS guidance (+10%) compared to HCM (+15%), mgmt. explained that 1) HCM is a more fragmented market where Sunny can accelerate share gain during industry downturn, 2) Samsung's HCM share allocation will further increase in FY20E, and 3) new factory in India will start shipment for OVM in FY20E.
- Industry leadership to strengthen amid industry consolidation.** Sunny is confident to continue share gain in HLS/HCM markets in FY20E given solid product pipeline and diversified client base. Mgmt. estimated Sunny's share in global HLS/HCM market reached 27%/13% only in FY19, implying significant upside for further share gain. Mgmt. expected efficiency and automation upgrade rather than capacity expansion will be their priority in FY20E. While we see potential order cuts in April if China demand cannot improve rapidly in 2Q20E, we remain positive on Sunny's capability to ride through the demand shock in near term.
- 5G smartphones to drive next stage of camera upgrade.** We expected slower handset camera upgrade due to delayed 5G flagship ramp in 1H20E, but Sunny remains the key beneficiary of spec upgrade in imaging/video/3D cameras in next 3-5 years. Mgmt. expected China's recent policy push for 5G network deployment will drive 5G phone adoption in 2H20E.
- Industry trend remains intact; Maintain Hold on valuation.** In longer term, we like Sunny for multi/3D-cam and 5G/video-driven upgrade trend, but COVID-19 impact on potential order cuts and weaker consumer spending will remain overhang for the stock in near term. Hence, we think Sunny's valuation at 22.9x FY20E P/E is fair, in-line with historical average.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	25,932	37,849	40,905	50,542	63,283
YoY growth (%)	15.9	46.0	8.1	23.6	25.2
Net income (RMB mn)	2,491	3,991	4,435	5,796	7,520
EPS (RMB)	2.3	3.65	4.05	5.30	6.87
YoY growth (%)	(14.6)	60.1	11.1	30.7	29.7
Consensus EPS (RMB)	NA	NA	4.30	5.52	6.76
P/E (x)	40.7	25.4	22.9	17.5	13.5
P/B (x)	10.8	7.9	6.1	4.7	3.6
Yield (%)	0.7	0.6	0.7	0.9	1.1
ROE (%)	26.8	31.4	26.9	27.0	27.0

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$115.0
(Previous TP)	HK\$115.0)
Up/Downside	+11%
Current Price	HK\$103.4

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	113,414
Avg 3 mths t/o (HK\$ mn)	607.63
52w High/Low (HK\$)	146.1/66.49
Total Issued Shares (mn)	1,097
Source: Bloomberg	

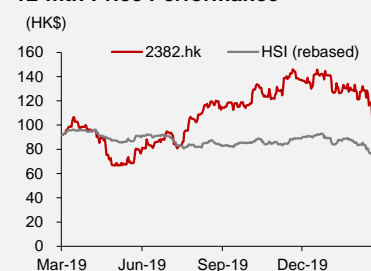
Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	4.50%
WENJIAN WANG	3.08%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-22.4%	-15.7%
3-mth	-24.7%	-18.7%
6-mth	-8.3%	-12.6%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

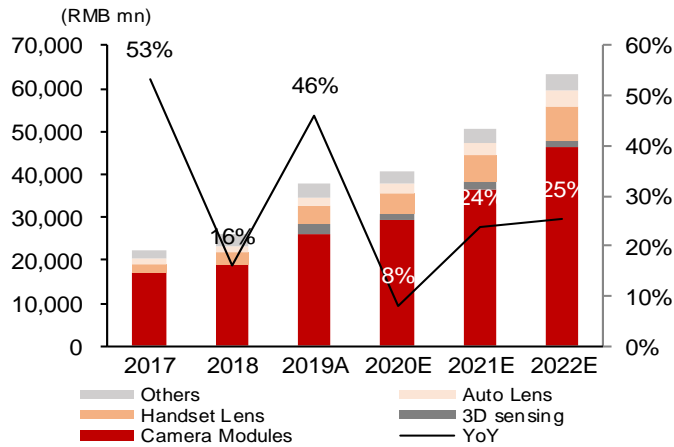
Auditor: Deloitte Touche Tohmatsu

Related Reports:

- Sunny Optical (2382 HK) – Wait for better entry point – 18 Mar 2020
- Sunny Optical (2382 HK) – Downgrade to Hold on fair valuation, but long-term prospect remains intact – 26 Feb 2020
- China Tech – Implications of China Jan smartphone shipment – 25 Feb 2020

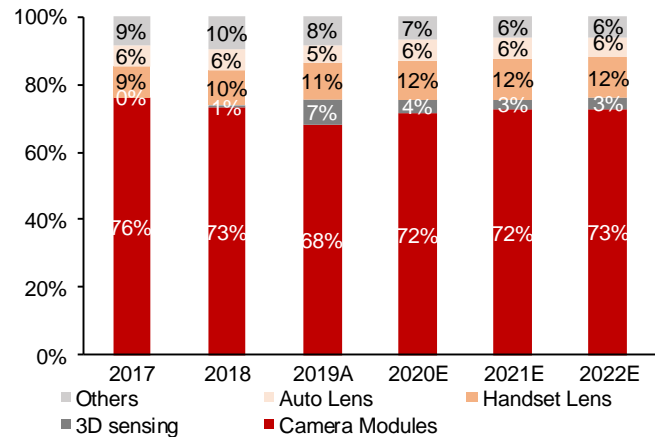
Focus Charts

Figure 1: Sunny Optical revenue trend



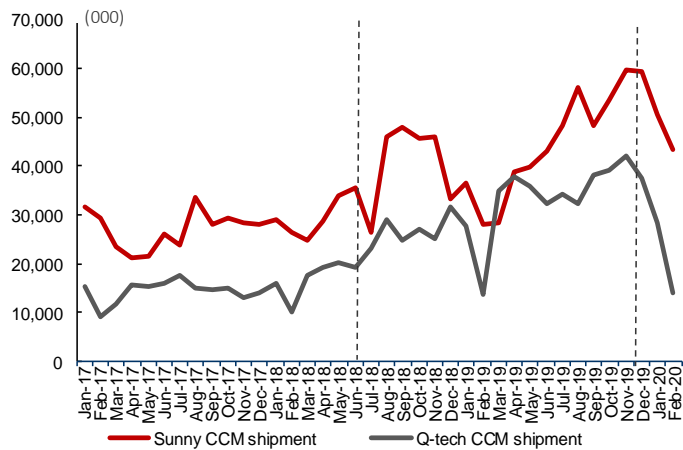
Source: Company data, CMBIS estimates

Figure 2: Sunny Optical revenue breakdown



Source: Company data, CMBIS

Figure 3: Sunny and Q-tech HCM shipment trend



Source: Company data, CMBIS estimates

Figure 4: Sunny's handset camera upgrade trend



Source: Company data, CMBIS estimates

Figure 5: Sunny's vehicle lens potential



Source: Company data, CMBIS estimates

Figure 6: Sunny's opportunities in drone/AR/VR



Source: Company data, CMBIS estimates

Earnings forecasts

Figure 7: Major assumptions

	FY18	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Shipment volume (mn unit)							
Optical Components							
Handset lens sets	951	1,343	609	908	1,517	1,826	2,214
...YoY(%)	56%	41%	10%	15%	13%	20%	21%
Vehicle lens sets	40	50	27	34	61	76	95
...YoY(%)	25%	25%	20%	23%	22%	24%	25%
Optoelectronic Products							
Handset camera modules	425	540	247	374	622	726	861
...YoY(%)	31%	27%	15%	15%	15%	17%	19%
Other optoelectronic (3D sensing)	10	49	18	29	46	55	65
...YoY(%)	27%	388%	-20%	5%	-6%	18%	20%
Revenue (Rmb mn)							
Optical Components	6,023	8,815	4,176	5,301	9,478	11,740	14,607
Optoelectronic Products	19,609	28,748	12,185	18,983	31,168	38,516	48,362
Optical instruments	300	285	134	126	260	286	314
Total Revenue	25,932	37,849	16,495	24,410	40,905	50,542	63,283
...YoY (%)	15.9%	46.0%	5.9%	9.6%	8.1%	23.6%	25.2%
Gross Margin							
Optical Components	41.5%	45.2%	44.2%	45.5%	44.9%	45.8%	46.3%
Optoelectronic products	8.4%	9.3%	8.5%	9.8%	9.3%	9.7%	10.1%
Optical instruments	40.5%	41.3%	41.0%	41.5%	41.2%	41.2%	41.2%

Source: Company data, CMBIS estimates

Figure 8: P&L forecast

RMB mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Revenue	25,932	15,575	22,274	37,849	16,495	24,410	40,905	50,542	15,575
...YoY	15.9%	30.0%	59.6%	46.0%	5.9%	9.6%	8.1%	23.6%	30.0%
Cost of sales	(21,019)	(12,711)	(17,387)	(30,098)	(13,086)	(19,421)	(32,508)	(39,841)	(12,711)
Gross profit	4,913	2,864	4,887	7,751	3,409	4,989	8,398	10,701	2,864
GPM (%)	18.9%	18.4%	21.9%	20.5%	20.7%	20.4%	20.5%	21.2%	18.4%
...YoY	2.3%	23.4%	88.5%	57.8%	19.0%	2.1%	8.3%	27.4%	23.4%
SG&A	(644)	(388)	(541)	(929)	(445)	(592)	(1,037)	(1,264)	(388)
...% of rev	-2.5%	-2.5%	-2.4%	-2.5%	-2.7%	-2.4%	-2.5%	-2.5%	-2.5%
R&D	(1,362)	(827)	(1,383)	(2,209)	(874)	(1,465)	(2,339)	(2,931)	(827)
...% of rev	-5.3%	-5.3%	-6.2%	-5.8%	-5.3%	-6.0%	-5.7%	-5.8%	-5.3%
Operating profit	3,077	1,789	3,017	4,806	2,221	3,082	5,302	6,911	1,789
OPM (%)	11.9%	11.5%	13.5%	12.7%	13.5%	12.6%	13.0%	13.7%	11.5%
...YoY	-9.0%	18.3%	92.8%	56.2%	24.1%	2.1%	10.3%	30.3%	18.3%
Net profit	2,491	1,431	2,560	3,991	1,804	2,631	4,435	5,796	1,431
NPM (%)	9.6%	9.2%	11.5%	10.5%	10.9%	10.8%	10.8%	11.5%	9.2%
...YoY	-14.2%	21.3%	95.3%	60.2%	26.1%	2.8%	11.1%	30.7%	21.3%

Source: Company data, CMBIS estimates

Valuation

Maintain HOLD with TP HK\$115

We maintain HOLD rating with TP HK\$115. We derived our 12-month TP from SOTP valuation methodology and our new TP is based on weighted-average target P/E multiple of 25.4x FY20E 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 9: Sunny Optical – SOTP valuation

Business segment	% of FY20E Profit	FY20E EPS (RMB)	Target P/E
Camera modules	34.5%	1.40	20x
Handset lenses	52.6%	2.13	28x
Vehicle lenses	11.8%	0.48	30x
Others	1.1%	0.04	25x
Total (RMB) /Implied P/E		4.05	25.4x
TP (HK\$)			115.0

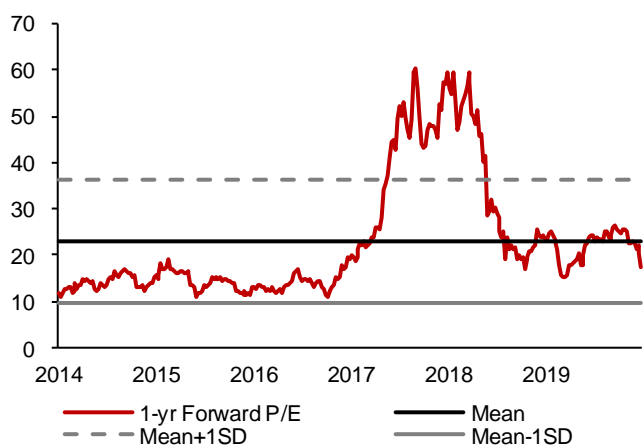
Sources: Company data, CMBIS

Figure 10: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	
Sunny Optical	2382 HK	Hold	14,627	103.4	115.0	11%	22.9	17.5	6.1	4.7	26.9	27.0	
Q tech	1478 HK	Buy	1,257	8.42	14.8	76%	16.9	13.3	3.2	2.7	18.9	20.0	
Cowell	1415 HK	NR	135	1.26	NA	NA	4.4	3.3	0.4	0.4	9.7	13.1	
Truly	732 HK	NR	330	0.78	NA	NA	-	-	-	-	-	-	
Catcher	2474 TT	NR	4,870	191.5	NA	NA	8.5	7.1	0.9	0.8	11.4	12.7	
Largan	3008 TT	NR	16,227	3665.0	NA	NA	14.2	12.5	3.2	2.7	24.8	24.5	
Lite-on	2301 TT	NR	3,038	39.35	NA	NA	11.0	9.6	1.2	1.1	11.0	11.8	
Primax	4915 TT	NR	541	36.5	NA	NA	6.5	6.0	1.1	0.8	14.6	15.0	
O-film	002456 CH	NR	5,596	14.57	NA	NA	74.7	23.7	4.3	3.8	5.7	14.8	
Average								19.9	11.6	2.6	2.1	15.4	17.4

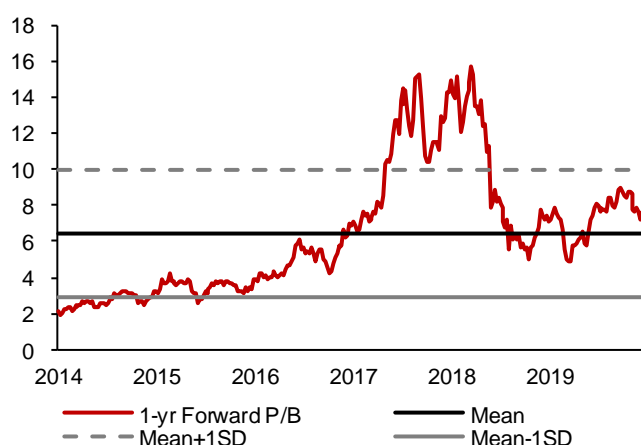
Source: Bloomberg, CMBIS

Figure 11: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 12: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	25,932	37,849	40,905	50,542	63,283
Cost of sales	(21,019)	(30,098)	(32,508)	(39,841)	(49,627)
Gross profit	4,913	7,751	8,398	10,701	13,656
Selling expenses	(210)	(279)	(311)	(404)	(506)
Admin expenses	(434)	(650)	(727)	(859)	(1,076)
R&D expenses	(1,362)	(2,209)	(2,339)	(2,931)	(3,670)
Other income	467	406	499	556	696
Other gain/ losses	(293)	(201)	(218)	(152)	(190)
Operating profit	3,077	4,806	5,302	6,911	8,910
Financial costs	(202)	(250)	(250)	(275)	(303)
Investment income	(24)	(6)	(6)	(6)	(6)
Pre-tax profit	2,851	4,550	5,046	6,630	8,601
Income tax expense	(339)	(531)	(582)	(796)	(1,032)
NCI	22	28	29	38	49
Net profit	2,491	3,991	4,435	5,796	7,520

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	2,851	4,550	5,046	6,630	8,601
Depreciation/amortisation	819	1,171	1,191	1,509	1,828
Change in working capital	(203)	(1,213)	454	(2,081)	(41)
Others	100	152	(338)	(541)	(756)
Net cash from operating	3,568	4,662	6,353	5,517	9,631
Capex	(2,104)	(3,242)	(3,000)	(3,500)	(3,500)
Other	(3,395)	(314)	0	0	0
Net cash from investing	(5,499)	(3,556)	(3,000)	(3,500)	(3,500)
Net borrowings	88	0	0	0	0
Dividend paid	(725)	(623)	(692)	(905)	(1,174)
Purchase of shares	(78)	0	0	0	0
Other	3,672	(818)	(250)	(275)	(303)
Net cash from financing	2,957	(1,441)	(943)	(1,180)	(1,477)
Net change in cash	1,025	(336)	2,410	837	4,655
Cash at beginning of the year	1,227	2,254	1,917	4,327	5,164
Exchange difference	2	0	0	0	0
Cash at the end of the year	2,254	1,919	4,327	5,164	9,819

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	16,768	22,446	22,422	31,982	36,256
Cash & equivalents	2,254	1,917	4,327	5,164	9,819
Financial assets	4,760	5,663	5,663	5,663	5,663
Deposits	235	21	21	21	21
Account receivables	6,231	9,630	7,512	13,668	12,852
Inventories	3,074	5,146	4,829	7,396	7,832
Other current assets	214	69	69	69	69
Non-current assets	6,084	8,247	10,066	12,091	13,807
Prepaid lease	214	0	0	0	0
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	1,690	1,724	1,768
Total assets	22,852	30,693	32,488	44,072	50,063
Current liabilities	8,677	12,630	10,654	17,308	16,904
ST borrowings	1,482	1,119	1,119	1,119	1,119
Account payables	7,064	11,322	9,341	15,983	15,561
Other current liabilities	5,628	5,622	11,375	9,663	16,479
Non-current liabilities	4,887	5,336	5,336	5,336	5,336
LT borrowings	4,887	5,336	5,336	5,336	5,336
Others	4,887	5,336	5,336	5,336	5,336
Total liabilities	13,564	17,967	15,990	22,645	22,240
Share capital	105	105	105	105	105
Reserves	9,129	12,448	16,191	21,082	27,428
Minority interest	54	173	202	241	290
Shareholders' equity	9,288	12,726	16,498	21,428	27,823
Total equity & liabilities	22,852	30,693	32,488	44,072	50,063

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Optical components	23.2	23.3	23.2	23.2	23.1
Optoelectronic products	75.6	76.0	76.2	76.2	76.4
Optical instruments	1.2	0.8	0.6	0.6	0.5
Growth (%)					
Revenue	15.9	46.0	8.1	23.6	25.2
Gross profit	2.3	57.8	8.3	27.4	27.6
Operating profit	(9.0)	56.2	10.3	30.3	28.9
Net profit	(14.2)	60.2	11.1	30.7	29.7
Profit & loss ratio (%)					
Gross margin	18.9	20.5	20.5	21.2	21.6
Operating margin	11.9	12.7	13.0	13.7	14.1
Net profit margin	9.6	10.5	10.8	11.5	11.9
Balance sheet ratio					
Net debt/total equity (x)	0.0	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	1.8	2.1	1.8	2.1
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
Profitability (%)					
ROE	26.8	31.4	26.9	27.0	27.0
ROA	10.9	13.0	13.7	13.2	15.0
Per share data (RMB)					
EPS	2.28	3.65	4.05	5.30	6.87
DPS	0.66	0.57	0.63	0.83	1.07

Source: Company data, CMBIS estimates

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