

Sunny Optical (2382 HK)

2H21 first take: worse-than-expected GPM pressure

Sunny's 2H21 revenue/net profit declined 8%/26% YoY, which are 1%/6% and 17%/12% below CMBI and consensus estimate. 2H21 miss was mainly due to lower-than-expected blended GPM of 21.5% (vs 23.4%/23.5% for CMBI/BBG est.). By segment, HCM GPM declined to 12.4% in 2H21 (vs 14.8 in 1H21) and auto/handset lens GPM declined to 35.9% in 2H21 (vs 42.9% in 1H21). We think the stock will be under pressure in the near term as we expect 1) continued de-spec trend in 1H22E, 2) Android de-stocking and share loss to iPhone SE 5G in 2Q22, and 3) intense competition with AAC/Newmax on 5P and Largan on 6P/7P. We think current valuation at 23.5x FY22E P/E looks stretched given the headwinds. Analyst briefing will be hosted at 10am today, and we will look for 2022 shipment/ASP guidance and business outlook on emerging segments (AR/VR/auto CCM).

- 2H21E miss on handset CCM/lens margin pressure.** 2H21 revenue/NP declined 8%/26% YoY, and GPM declined to 21.5% in 2H21 from 24.9% in 1H21. In particular, handset/auto lens GPM reached 35.9% in 2H21, which is below 40% level for the first time since 2H15. We attribute lower lens margin to intense competition with AAC/ Newmax/ Largan on the back of camera de-spec and industry slowdown. We note that both AAC and Q-tech reported disappointing 2H21/4Q21 results due to lower ASP/margin for HCM/HLS segments.
- Expect de-spec trend and destocking to continue into 2Q22E.** In near term, we expect shipment weakness to persist into 2Q22 on high base and weak Android demand following launch of lower-priced iPhone 5G SE. We note quad/triple-cam penetration decreased to 65% in Jan 2022, vs 69%/71% by 3Q/2Q21, based on Counterpoint. We now estimate HCM/HLS will deliver muted growth with 10%/3% ASP decline in 1H22E.
- Fair valuation on industry headwinds; Maintain HOLD.** Trading at 23.5x FY22E P/E, we think the stock is fairly valued with 12% EPS growth in FY22E. While we are positive on LT outlook for Sunny, we maintain conservative in near term given earnings downside and industry headwinds in 2022. Maintain HOLD with SOTP-based TP of HK\$140.5 (22.8x FY22E P/E).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	37,849	38,002	37,497	39,348	45,039
YoY growth (%)	46.0	0.4	(1.3)	4.9	14.5
Net income (RMB mn)	3,991	4,882	4,993	5,596	6,818
EPS (RMB)	3.65	4.47	4.57	5.12	6.24
YoY growth (%)	60.1	22.4	2.3	12.0	21.8
Consensus EPS (RMB)	NA	NA	4.97	6.24	7.73
P/E (x)	32.9	26.9	26.3	23.5	19.3
P/B (x)	10.2	7.8	6.3	5.1	4.2
Yield (%)	0.5	0.6	0.7	0.7	0.8
ROE (%)	31.4	29.0	23.9	21.6	21.5
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$140.5
(Previous TP)	HK\$140.5)
Up/Downside	-3%
Current Price	HK\$144.6

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	158,824
Avg 3 mths t/o (HK\$ mn)	1,072.45
52w High/Low (HK\$)	259.4/ 113.9
Total Issued Shares (mn)	1,097

Source: Bloomberg

Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	5.73%
WENJIAN WANG	3.04%

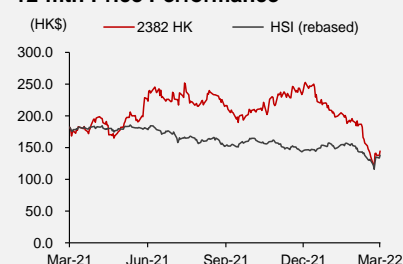
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-27.3%	-17.2%
3-mth	-41.9%	-37.2%
6-mth	-36.4%	-27.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

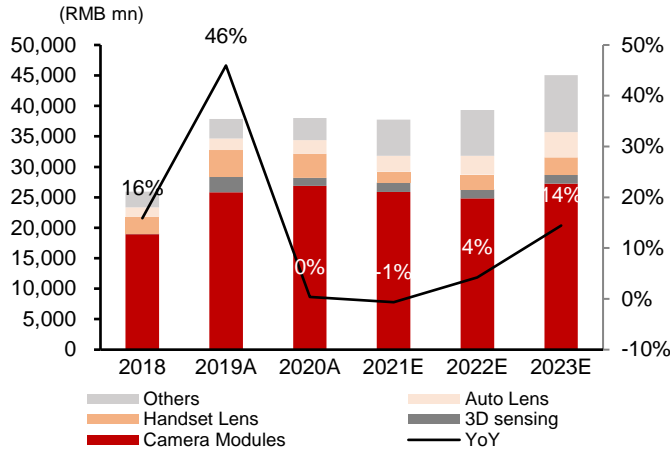
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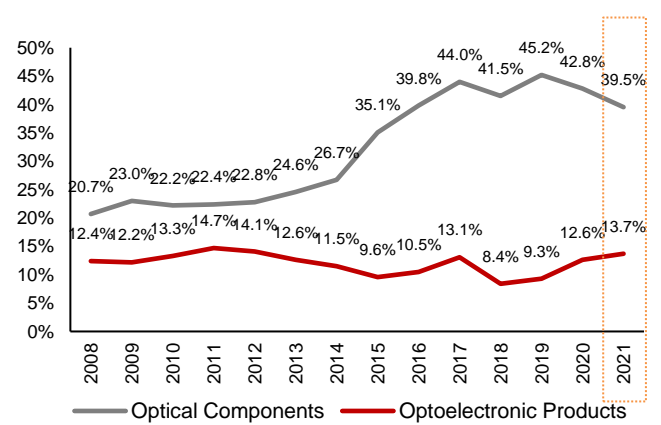
Focus Charts

Figure 1: Sunny Optical revenue trend



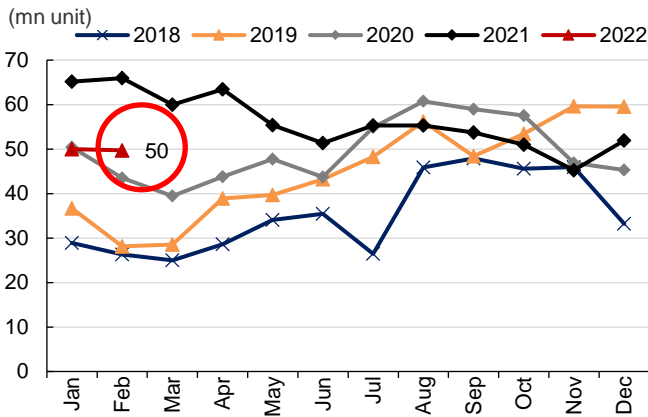
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



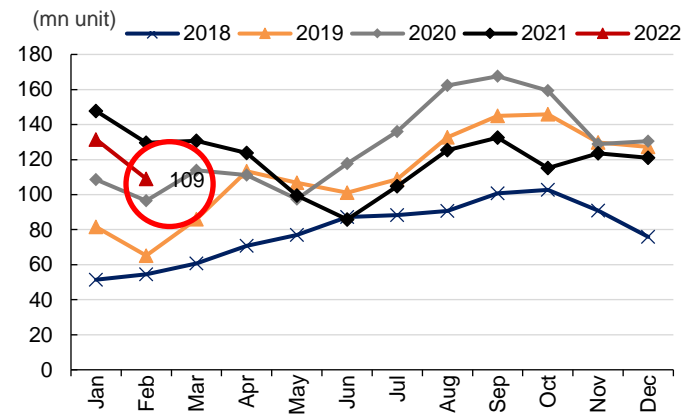
Source: Company data, CMBIGM estimates

Figure 3: Sunny HCM shipment trend



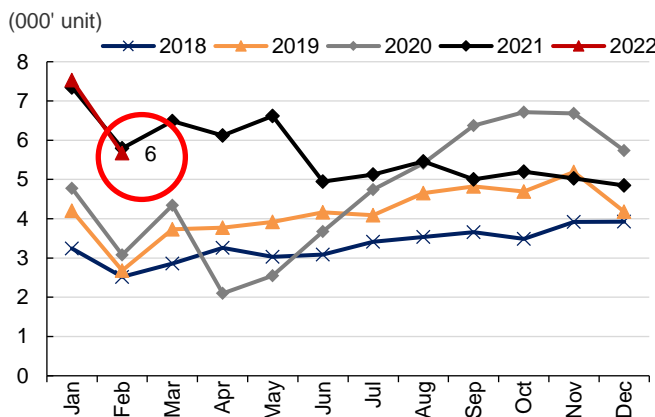
Source: Company data, CMBIGM estimates

Figure 4: Sunny HLS shipment trend



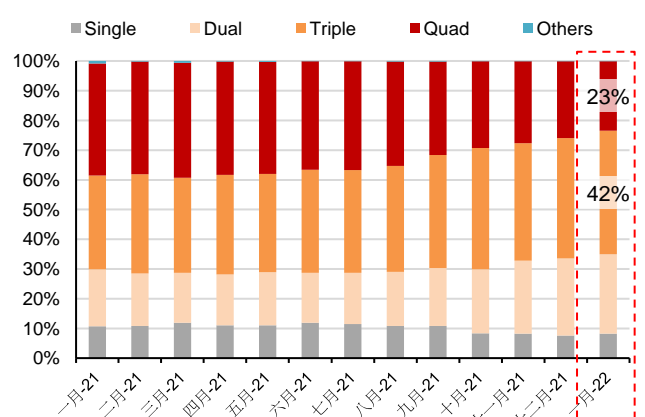
Source: Company data, CMBIGM estimates

Figure 5: Sunny VLS shipment trend



Source: Company data, CMBIGM estimates

Figure 6: China smartphone market trend



Source: Counterpoint, CMBIGM estimates

2H21 Results Review

Figure 7: 2H21 results review

RMB mn	1H20	2H20	1H21E	2H21E	YoY	CMBI		Consensus	
						2H21E	Diff (%)	2H21E	Diff (%)
Revenue	18,864	19,138	19,833	17,663	5%	17,920	-1%	21,224	-17%
Gross profit	3,676	5,022	4,946	3,790	35%	4,185	-9%	4,990	-24%
Operating profit	2,246	3,630	3,345	2,506	49%	2,858	-12%	3,056	-18%
Net profit	1,749	3,133	2,688	2,305	54%	2,440	-6%	2,620	-12%
EPS (RMB)	1.60	2.86	2.46	2.11	54%	2.23	-6%	2.43	-13%
Gross margin	19.5%	26.2%	24.9%	21.5%	5.5 ppt	23.4%	-1.9 ppt	23.5%	-2.1 ppt
Operating margin	11.9%	19.0%	16.9%	14.2%	5 ppt	16.0%	-1.8 ppt	14.4%	-0.2 ppt
Net margin	9.3%	16.4%	13.6%	13.1%	4.3 ppt	13.6%	-0.6 ppt	12.3%	0.7 ppt

Source: Company data, CMBIGM estimates

Figure 8: FY21 revenue breakdown

RMB mn	1H20	2H20	1H21	2H21E	YoY	HoH	CMBIGM	
							2H21E	Diff (%)
Optical Comp (Auto/ handset lens)	3,864	5,318	4,344	4,432	-17%		5,089	-13%
Auto lens shipment (mn unit)	21	36	37	31	-14%		31	
... ASP (Rmb)	38.8	48.1	36.2	41.5	-14%	15%	41.5	0%
Handset lens Shipment (mn unit)	6,454	8,844	7,171	7,225	-18%		7,225	
... ASP (Rmb)	4.2	4.0	3.5	3.4	-14%	-3%	3.4	0%
Optoelectronic (HCM, 3D)	14,874	13,620	15,308	13,026	-4%		12,714	2%
HCM Shipment (mn unit)	269	324	361	312	-4%		312	
... ASP (Rmb)	53.0	39.0	39.4	38.3	-2%	-3%	37.3	3%
3D sensing Shipment (mn unit)	10.5	19.7	19.1	19.1	-3%		19.1	
... ASP (Rmb)	46.2	42.9	42.9	36.3	-15%	-15%	36.3	0%
Optical instruments	126	200	182	206	3%		117	76%
Total Revenue	18,864	19,138	19,833	17,663	-8%		17,920	-1%
Gross Margin								
Optical Comp (Auto/ handset lens)	41.5%	43.7%	42.9%	35.9%	-7.8 ppt	-7 ppt	40.0%	-4.1 ppt
Optoelectronic (HCM, 3D)	11.1%	14.2%	14.8%	12.4%	-1.8 ppt	-2.4 ppt	12.0%	0.4 ppt
Optical instruments	38.6%	46.3%	44.2%	49.3%	3.1 ppt	5.1 ppt	42.0%	7.3 ppt
Blended GPM	19.5%	26.2%	24.9%	21.5%	-4.8 ppt	-3.5 ppt	23.4%	-1.9 ppt

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with TP of HK\$140.5

We maintain HOLD with TP HK\$140.5. We derived our 12-month TP from SOTP valuation methodology and our TP is based on weighted-average target P/E multiple of 22.8x 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 lower 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 FY22E Profit	FY22E EPS (RMB)	Target P/E
Camera modules	36.3%	1.86	15x
Handset lenses	48.4%	2.48	25x
Vehicle lenses	14.1%	0.72	35x
Others	1.2%	0.06	25x
Total (RMB) /Implied P/E		5.12	22.8x
TP (HK\$)			140.5

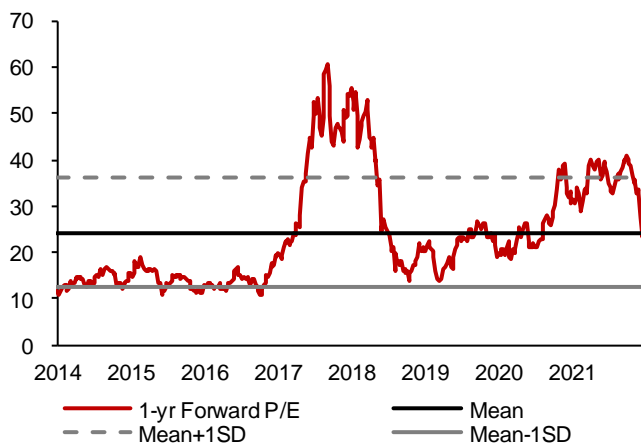
Sources: Company data, CMBIGM estimates

Figure 10: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	
Sunny Optical	2382 HK	Hold	20,262	144.6	140.5	-3%	25.3	20.8	5.5	4.5	21.6	21.6	
Q tech	1478 HK	Buy	936	6.2	8.6	39%	7.7	9.3	1.2	1.1	15.8	11.4	
Cowell	1415 HK	NR	836	7.84	NA	NA	10.5	7.7	2.1	1.8	22.8	25.9	
Truly	732 HK	NR	983	2.34	NA	NA	4.6	3.3	-	-	13.1	16.8	
Catcher	2474 TT	NR	3,937	147.50	NA	NA	12.2	11.1	0.7	0.7	5.9	6.1	
Largan	3008 TT	NR	9,331	1985.00	NA	NA	13.6	12.8	1.7	1.6	12.7	12.9	
Lite-on	2301 TT	NR	5,561	67.50	NA	NA	11.7	10.8	2.0	1.9	16.6	17.0	
Primax	4915 TT	NR	830	52.00	NA	NA	8.8	8.0	1.5	1.4	17.0	17.0	
O-film	002456 CH	NR	3,788	7.40	NA	NA	21.3	19.5	2.2	2.1	3.8	5.6	
Average								12.9	11.5	2.1	1.9	14.4	14.9

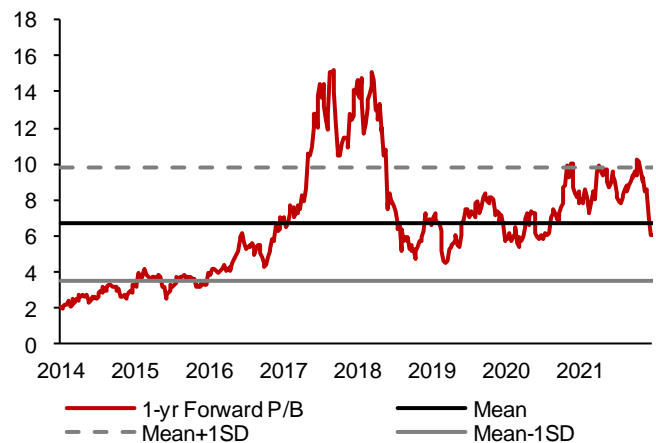
Source: Bloomberg, CMBIGM estimates, * TP under review

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

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	37,849	38,002	37,753	39,348	45,039
Cost of sales	(30,098)	(29,304)	(28,623)	(29,924)	(33,836)
Gross profit	7,751	8,698	9,131	9,424	11,203
Selling expenses	(279)	(313)	(281)	(287)	(329)
Admin expenses	(650)	(719)	(700)	(669)	(766)
R&D expenses	(2,209)	(2,499)	(2,396)	(2,322)	(2,657)
Other income	406	510	438	472	586
Other gain/ losses	(201)	187	12	39	45
Operating profit	4,806	5,877	6,204	6,658	8,082
Financial costs	(250)	(224)	(228)	(251)	(276)
Investment income	(6)	0	0	0	0
Pre-tax profit	4,550	5,653	5,976	6,408	7,807
Income tax expense	(531)	(703)	(797)	(756)	(921)
NCI	28	68	51	56	68
Net profit	3,991	4,882	5,128	5,596	6,818

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	4,550	5,643	5,976	6,408	7,807
Depreciation/amortisation	1,227	1,570	1,536	1,836	2,136
Change in working capital	(1,477)	115	(2,419)	2,069	(3,541)
Others	361	(168)	(570)	(501)	(630)
Net cash from operating	4,662	7,160	4,524	9,813	5,773
Capex	(2,760)	(2,271)	(3,000)	(3,000)	(3,000)
Other	(796)	(3,705)			
Net cash from investing	(3,556)	(5,976)	(3,000)	(3,000)	(3,000)
Net borrowings	(382)	1,017			
Dividend paid	(623)	(796)	(839)	(915)	(1,115)
Purchase of shares	(170)	(151)			
Other	(266)	(291)	(228)	(251)	(276)
Net cash from financing	(1,441)	(222)	(1,067)	(1,166)	(1,391)
Net change in cash	(336)	962	457	5,647	1,382
Cash at beginning of the year	2,254	1,917	2,842	3,299	8,946
Exchange difference	(2)	(37)			
Cash at the end of the year	1,917	2,842	3,299	8,946	10,328

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	22,446	25,630	25,232	32,910	36,219
Cash & equivalents	1,917	2,842	3,299	8,946	10,328
Financial assets	5,663	8,480	8,480	8,480	8,480
Deposits	21	238	238	238	238
Account receivables	9,630	8,212	9,513	8,961	12,185
Inventories	5,146	5,783	3,627	6,211	4,913
Other current assets	69	74	74	74	74
Non-current assets	8,247	9,809	11,271	12,443	13,338
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	2,292	2,301	2,332
Total assets	30,693	35,438	36,503	45,353	49,557
Current liabilities	12,630	13,411	10,135	14,249	12,682
ST borrowings	1,119	2,071	2,071	2,071	2,071
Account payables	11,322	10,733	7,460	11,560	9,946
Other current liabilities	5,622	9,223	16,837	17,473	24,857
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	15,336	19,450	17,883
Share capital	105	105	105	105	105
Reserves	12,448	16,492	20,782	25,463	31,165
Minority interest	173	229	280	335	403
Shareholders' equity	12,726	16,826	21,167	25,903	31,673
Total equity & liabilities	30,693	35,438	36,503	45,353	49,557

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Optical components	23.3	24.2	25.0	29.1	30.7
Optoelectronic products	76.0	75.0	74.2	70.2	68.6
Optical instruments	0.8	0.9	0.8	0.7	0.7
Growth (%)					
Revenue	46.0	0.4	(0.7)	4.2	14.5
Gross profit	57.8	12.2	5.0	3.2	18.9
Operating profit	56.2	22.3	5.6	7.3	21.4
Net profit	60.2	22.3	5.1	9.1	21.8
Profit & loss ratio (%)					
Gross margin	20.5	22.9	24.2	24.0	24.9
Operating margin	12.7	15.5	16.4	16.9	17.9
Net profit margin	10.5	12.8	13.6	14.2	15.1
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	2.5	2.3	2.9
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	24.2	21.6	21.5
ROA	13.0	13.8	14.0	12.3	13.8
Per share data (RMB)					
EPS	3.65	4.47	4.69	5.12	6.24
DPS	0.57	0.73	0.77	0.84	1.02

Source: Company data, CMBIGM estimates

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