

Sunny Optical (2382 HK)

Conf-call takeaways: GPM recovery and ToF/Samsung upside

We hosted an investor call with Sunny Optical this week, and key discussions included 1) CCM/lens margin in 2H19E, 2) outlook on multi-cam /3D sensing (esp. ToF), 3) Samsung spec/shipment upside, and 4) auto camera module progress. We believe Sunny's technology leadership in CCM/auto lens and product offerings upgrade will continue to drive sustainable earnings growth. Sunny remains our sector top pick, given clear upgrade trend and strong earnings visibility. Reiterate Buy with TP HK\$114.

- CCM: GPM rebound and Samsung/ToF to take off in 2H19.** Mgmt. stated that major GPM challenges in 1H19 have been resolved in 2Q19, as production line upgrade and periscope-cam yield have been improving since May. In addition, 3D sensing module are picking up rapidly, and mgmt. expects most flagship models will adopt both front/rear-facing ToF in 2H19 for face recognition, depth data, AR applications and 3D modelling. Given Samsung's accelerated multi-cam upgrade (70% in FY19E, vs 28% in FY18), Sunny focuses on supplying dual-cam (no-split order) and mid/high-end CCM to Samsung, which will boost ASP/shipment growth in 2H19E.
- HLS: Stronger leadership in China; Apple order still distant.** Sunny is stepping up R&D efforts to strengthen handset lens leadership in China, and expects no major change in competitive environment in foreseeable future. Mgmt. stated that Apple remains Sunny's strategic target client, but do not expect breakthrough in collaboration in near term.
- 5G Outlook: functional/design upgrade and broader applications.** Backed by strong consumer demand for functional upgrade (large aperture, optical zooming, video lens), design changes (full-screen, under-display) and more applications (biological recognition, 3D sensing), mgmt. expressed strong confidence on CCM/HLS prospects in next few years. In particular, Sunny believes 5G adoption will boost smartphone replacement demand, and potential 5G applications (AR, robot, smart retail) will increase camera demand for display, recognition, positioning and detection.
- Reiterate BUY with TP HK\$114.** We expect margin recovery, multi-cam adoption, and continued HLS ASP hike to boost revenue/net profit growth of 44%/51% YoY in 2H19E. Our SOTP-based TP of HK\$114 implies 23.6x FY20E P/E. Upcoming catalysts include Mate 30 launch, share gain in Samsung, ToF adoption and strong monthly shipment.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	22,366	25,932	35,651	41,962	47,192
YoY growth (%)	53.1	15.9	37.5	17.7	12.5
Net income (RMB mn)	2,902	2,491	3,415	4,729	5,985
EPS (RMB)	2.7	2.3	3.1	4.3	5.5
YoY growth (%)	126.8	(14.6)	37.1	38.5	26.6
P/E (x)	34.4	40.3	29.4	21.2	16.8
P/B (x)	13.1	10.6	8.5	6.6	5.2
Yield (%)	0.3	0.7	1.0	1.4	1.7
ROE (%)	39	27	29	31	31

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$114.0
Up/Downside	+11.3%
Current Price	HK\$102.4

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	112,756
Avg 3 mths t/o (HK\$ mn)	722.26
52w High/Low (HK\$)	109.60/58.55
Total Issued Shares (mn)	1,096.8

Source: Bloomberg

Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	4.28%
WENJIAN WANG	3.08%

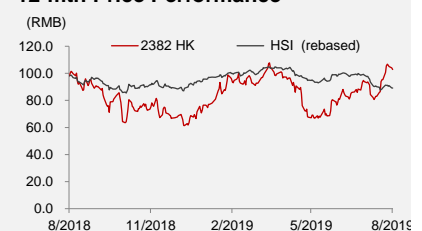
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.5%	21.2%
3-mth	53.0%	62.7%
6-mth	9.9%	23.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

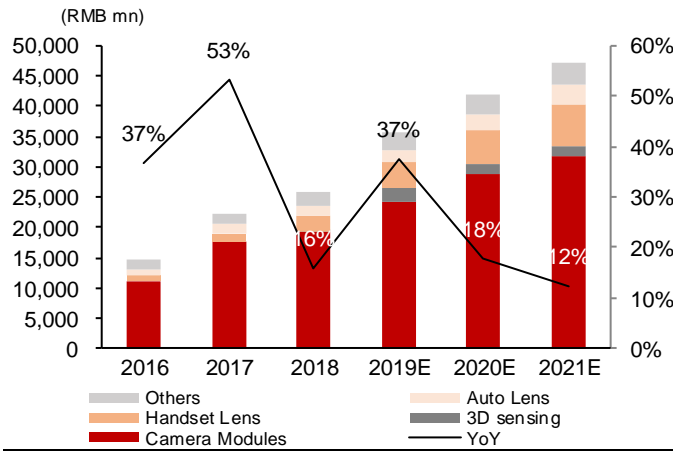
Auditor: Deloitte Touche Tohmatsu

Related Reports:

- Sunny Optical (2382 HK) – Strong 1H19; Accelerated lens upgrade cycle – 15 Aug 2019
- Sunny Optical (2382 HK) – 1H Preview – 12 Aug 2019
- Sunny Optical (2382 HK) – Riding on O-film weakness; Lift TP to HK\$96.3 – 10 Jul 2019

Focus Charts

Figure 1: Sunny revenue trend



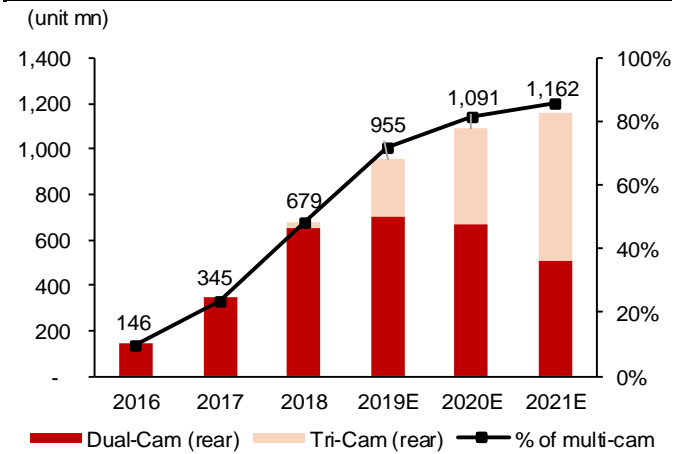
Source: Company data, CMBIS estimates

Figure 2: CCM suppliers client mapping

	Market Share	Apple	Samsung	Huawei	Xiaomi	OPPO	VIVO
O-Film	15.6%	X		X	X	X	X
Sunny	13.0%		X	X	X	X	X
Q-tech	7.0%			X	X	X	X
Truly	5.5%				X	X	X
LGI	5.0%	X					
SEMCO	3.0%		X		X		X
Lite-on	2.2%		X	X	X	X	X
Sharp	3.4%	X					
Cowell	2.9%	X					

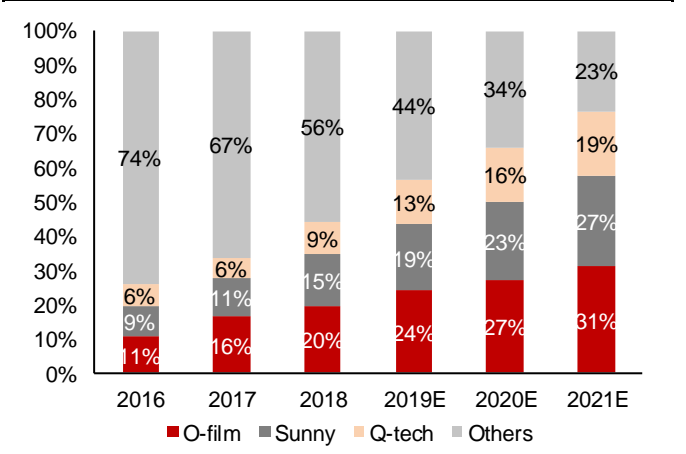
Source: TSR, CMBIS, *market share estimate in 2018

Figure 3: Multi-cam shipment is increasing



Source: Company data, CMBIS estimates

Figure 4: Top 3 CCM suppliers are gaining shares



Source: Company data, CMBIS estimates

Figure 5: Sunny's handset lens sets



Source: Company data, CMBIS estimates

Figure 6: Ample room in autonomous driving



Source: Company data, CMBIS estimates

Figure 7: Major assumptions

	FY16	FY17	FY18	FY19E	FY20E	FY21E
Shipment volume (mn unit)						
Optical Components						
Handset lens sets	379	608	951	1,257	1,599	1,940
...YoY(%)	26%	60%	56%	32%	27%	21%
Vehicle lens sets	23	32	40	50	62	75
...YoY(%)	37%	41%	25%	25%	23%	22%
Optoelectronic Products						
Handset camera modules	270	325	425	529	646	768
...YoY(%)	18%	20%	31%	24%	22%	19%
Other optoelectronic (3D sensing)	5	8	10	40	50	60
...YoY(%)	25%	76%	27%	293%	26%	20%
Revenue (Rmb mn)						
Optical Components	2,956	4,302	6,023	8,642	10,844	13,142
Optoelectronic Products	11,403	17,777	19,609	26,741	30,823	33,725
Optical instruments	253	294	300	268	295	324
Total Revenue	14,612	22,372	25,932	35,651	41,962	47,192
...YoY (%)	36.6%	53.1%	15.9%	37.5%	17.7%	12.5%
Gross Margin						
Optical Components	39.8%	44.0%	41.5%	44.3%	44.9%	45.4%
Optoelectronic products	10.5%	13.1%	8.4%	7.0%	8.3%	8.9%
Optical instruments	40.4%	43.2%	40.5%	41.6%	42.5%	42.5%

Source: Company data, CMBIS estimates

Figure 8: P&L forecast

RMB mn	FY17	FY18	1H19	2H19E	FY19E	FY20E	FY21E
Revenue	22,366	25,932	15,575	20,076	35,651	41,962	47,192
...YoY	53.1%	15.9%	30.0%	43.9%	37.5%	17.7%	12.5%
Cost of sales	(17,563)	(21,019)	(12,711)	(16,133)	(28,844)	(33,091)	(36,509)
Gross profit	4,803	4,913	2,864	3,943	6,807	8,871	10,683
GPM (%)	21%	19%	18%	20%	19%	21%	23%
...YoY	79.2%	2.3%	23.4%	52.0%	38.5%	30.3%	20.4%
SG&A	(594)	(644)	(388)	(518)	(906)	(1,049)	(1,180)
...% of rev	-2.7%	-2.5%	-2.5%	-2.6%	-2.5%	-2.5%	-2.5%
R&D	(1,168)	(1,362)	(827)	(1,205)	(2,031)	(2,392)	(2,643)
...% of rev	-5.2%	-5.3%	-5.3%	-6.0%	-5.7%	-5.7%	-5.6%
Operating profit	3,383	3,077	1,789	2,401	4,190	5,682	7,144
OPM (%)	15.1%	11.9%	11.5%	12.0%	11.8%	13.5%	15.1%
...YoY	129.4%	-9.0%	18.3%	53.4%	36.2%	35.6%	25.7%
Net profit	2,902	2,491	1,431	1,984	3,415	4,729	5,985
NPM (%)	13.0%	9.6%	9.2%	9.9%	9.6%	11.3%	12.7%
...YoY	128.3%	-14.2%	21.3%	51.3%	37.1%	38.5%	26.6%

Source: Company data, CMBIS estimates

Valuation

Reiterate BUY with TP of HK\$114

We derived our 12-month TP from SOTP valuation methodology and our TP of HK\$114 is based on weighted-average target P/E multiple of 23.6x FY20E EPS, in order to reflect 1) Sunny's diversification in multiple businesses with different growth profiles, and 2) higher visibility of product upcycles across different segments.

We assign 18x P/E to its CCM business, in-line with the target multiple we apply to HK-listed component leader, 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 (20% CAGR FY19-21E) and Sunny's no.1 global market share, compared to global ADAS peers' 25x forward P/E. We apply a 25x P/E to its handset lens segment given its continued share gains from peers and robust shipment momentum (20% sales CAGR FY19-21E).

Figure 9: Sunny Optical – SOTP valuation

Business segment	% of FY20E Profit	FY20E EPS (RMB)	Target P/E
Camera modules	29.0%	1.25	18x
Handset lenses	42.9%	1.86	25x
Vehicle lenses	12.0%	0.52	30x
Others	16.1%	0.70	25x
Total (RMB) /Implied P/E		4.33	23.6x
TP (HK\$)			114.0

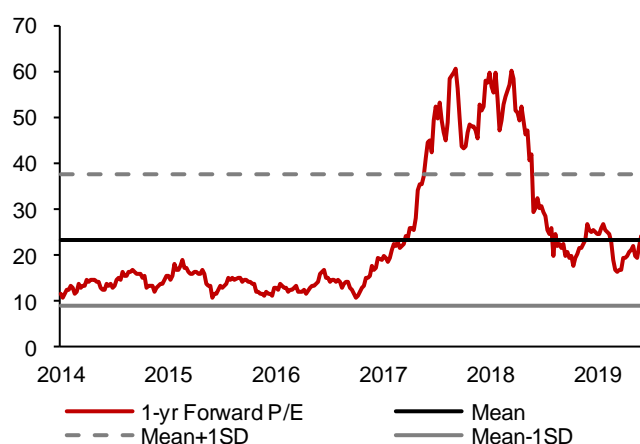
Sources: Company data, CMBIS

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 (%)		
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	
Sunny Optical	2382 HK	Buy	14,583	102.40	114.0	11%	29.4	21.2	8.5	6.6	28.8	31.2	
Q tech	1478 HK	Buy	1,040	7.14	9.5	33%	17.5	13.5	2.9	2.4	16.4	18.0	
Cowell	1415 HK	NR	123	1.16	NA	NA	8.2	5.7	0.4	0.4	5.8	5.8	
Truly	732 HK	NR	403	0.96	NA	NA	4.1	4.3	0.4	0.3	5.1	8.3	
Catcher	2474 TT	NR	5,302	216.00	NA	NA	11.0	8.9	1.0	1.0	9.6	11.5	
Largan	3008 TT	NR	16,434	3845.00	NA	NA	17.9	15.6	4.0	3.4	24.2	23.8	
Lite-on	2301 TT	NR	3,645	48.90	NA	NA	13.6	12.5	1.5	1.5	11.2	11.5	
Primax	4915 TT	NR	826	58.00	NA	NA	11.9	10.0	1.7	1.5	14.0	15.0	
O-film	002456 CH	NR	3,540	9.34	NA	NA	18.7	12.4	2.4	2.1	14.8	14.8	
Average								14.8	11.6	2.5	2.1	14.4	15.5

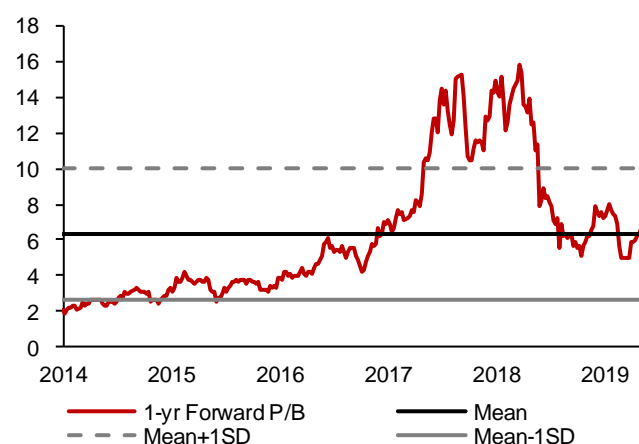
Source: Bloomberg, CMBIS

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)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	22,366	25,932	35,651	41,962	47,192
Cost of sales	(17,563)	(21,019)	(28,844)	(33,091)	(36,509)
Gross profit	4,803	4,913	6,807	8,871	10,683
Selling expenses	(205)	(210)	(287)	(336)	(378)
Admin expenses	(389)	(434)	(619)	(713)	(802)
R&D expenses	(1,168)	(1,362)	(2,031)	(2,392)	(2,643)
Other income	206	467	408	462	519
Other gain/ losses	136	(293)	(87)	(210)	(236)
Operating profit	3,383	3,077	4,190	5,682	7,144
Financial costs	(49)	(202)	(238)	(261)	(288)
Investment income	(16)	(24)	(17)	(17)	(17)
Pre-tax profit	3,318	2,851	3,936	5,404	6,839
Income tax expense	(404)	(339)	(501)	(648)	(821)
NCI	13	22	19	27	34
Net profit	2,902	2,491	3,415	4,729	5,985

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before taxation	3,318	2,851	3,936	5,404	6,839
Depreciation/amortisation	535	819	1,002	1,365	1,729
Change in working capital	(1,126)	(203)	(40)	(1,072)	114
Others	(290)	100	(279)	(397)	(542)
Net cash from operating	2,436	3,568	4,619	5,300	8,141
Capex	(1,128)	(2,104)	(4,000)	(4,000)	(4,000)
Other	(558)	(3,395)	0	0	0
Net cash from investing	(1,686)	(5,499)	(4,000)	(4,000)	(4,000)
Net borrowings	444	88	0	0	0
Dividend paid	(318)	(725)	(994)	(1,377)	(1,742)
Purchase of shares	(81)	(78)	0	0	0
Other	(33)	3,672	(238)	(261)	(288)
Net cash from financing	12	2,957	(1,232)	(1,638)	(2,030)
Net change in cash	762	1,025	(613)	(338)	2,111
Cash at beginning of the year	467	1,227	2,254	1,641	1,303
Exchange difference	(2)	2	0	0	0
Cash at the end of the year	1,227	2,254	1,641	1,303	3,414

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	11,635	16,768	21,349	19,767	26,364
Cash & equivalents	1,227	2,254	1,641	1,303	3,414
Financial assets	1,952	4,760	4,760	4,760	4,760
Deposits	160	235	235	235	235
Account receivables	5,666	6,231	8,722	8,879	10,916
Inventories	2,622	3,074	5,777	4,377	6,826
Other current assets	8	214	214	214	214
Non-current assets	4,091	6,084	9,098	11,743	14,022
Prepaid lease	163	214	214	214	214
PPE	2,586	4,523	7,521	10,155	12,426
Interest in associates	125	101	101	101	101
Other non-curr. assets	1,217	1,246	1,262	1,273	1,281
Total assets	15,726	22,852	30,447	31,510	40,387
Current liabilities	7,705	8,677	13,832	11,516	16,117
ST borrowings	1,348	1,482	1,482	1,482	1,482
Account payables	6,183	7,064	12,218	9,903	14,503
Other current liabilities	490	5,628	2,914	8,609	8,285
Non-current liabilities	502	4,887	4,887	4,887	4,887
LT borrowings	0	0	0	0	0
Others	502	4,887	4,887	4,887	4,887
Total liabilities	8,207	13,564	18,718	16,403	21,003
Share capital	105	105	105	105	105
Reserves	7,383	9,129	11,550	14,902	19,145
Minority interest	31	54	73	100	133
Shareholders' equity	7,519	9,288	11,728	15,107	19,384
Total equity & liabilities	15,726	22,852	30,447	31,510	40,387

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Optical components	19.2	23.2	24.2	25.8	27.8
Optoelectronic products	79.5	75.6	75.0	73.5	71.5
Optical instruments	1.3	1.2	0.8	0.7	0.7
Growth (%)					
Revenue	53.1	15.9	37.5	17.7	12.5
Gross profit	79.2	2.3	38.5	30.3	20.4
Operating profit	129.4	(9.0)	36.2	35.6	25.7
Net profit	128.3	(14.2)	37.1	38.5	26.6
Profit & loss ratio (%)					
Gross margin	21.5	18.9	19.1	21.1	22.6
Operating margin	15.1	11.9	11.8	13.5	15.1
Net profit margin	13.0	9.6	9.6	11.3	12.7
Balance sheet ratio					
Net debt/total equity (x)	0.1	0.0	Net cash	Net cash	0.0
Current ratio (x)	1.5	1.9	1.5	1.7	1.6
Receivable turnover days	77	77	76.6	76.6	76.6
Inventory turnover days	57	57	56.0	56.0	56.0
Payable turnover days	122	122	122.0	122.0	122.0
Profitability (%)					
ROE	38.6	26.8	29.1	31.3	30.9
ROA	18.5	10.9	11.2	15.0	14.8
Per share data (RMB)					
EPS	2.67	2.28	3.13	4.33	5.48
DPS	0.29	0.66	0.91	1.26	1.59

Source: Company data, CMBIS estimates

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