

Sunny Optical (2382 HK)

Positive on Samsung HLS recovery and 3D sensing upcycle; Maintain BUY

Sunny Optical's 1H20 net profit grew 22% YoY, largely in-line, while revenue grew 21% YoY, 16%/6% above our/market estimates, thanks to better HCM ASP offsetting HLS ASP decline. We think lower VLS/HCM guidance is well expected amid COVID-19 impact and macro uncertainties, and we are positive on HLS ASP/margin recovery in 2H20E driven by higher utilization and Xiaomi/Samsung restocking. We believe Sunny is well positioned to expand market share and regain growth sooner than peers in 2H20E, and Apple-led 3D cam upgrade cycle will be positive to Sunny's outlook in FY21E. We raised FY20-22E EPS by 2-8% to reflect better HCM ASP and Samsung HCM upside. Reiterate BUY with SOTP-based TP of HK\$148, implying 24.6x FY21E P/E.

- Conservative guidance due to COVID-19 and Huawei uncertainties.** We think slower spec upgrade and weaker shipment in 2H20E is well expected as mgmt. discussed during investor day in June. Sunny targets VLS/ HCM shipment to grow 5%/10% YoY (from 20%/15%) in FY20E and guided stable ASP/margin for HLS/HCM in 2H20E. While HLS/HCM shipment will remain volatile due to seasonality in 3Q20E, we expect Xiaomi/ Samsung restocking will offset Huawei share loss impact in 2H20E. In addition, we expect cam upgrade cycle will re-accelerate in FY21E driven by Apple 5G iPhone with tri-cam/LiDAR 3D sensing and lower 5G cost pressure in 2021. We estimate HLS ASP will narrow decline to 4% YoY in 2H20E and return to 4% YoY growth in FY21E, while HCM ASP will grow 11%/2% YoY in 2H20/FY21E.
- Positive outlook on Samsung HCM share gain, VLS recovery and Vietnam/India expansion.** Mgmt. expected to accelerate HCM gain share in Samsung's mid/high-end models in 2H20/FY21E and target to become its No.1/2 supplier in the long term. In particular, Sunny will build new HCM plants for Samsung in Vietnam and expand capacity for Chinese brands in India. As for VLS, mgmt. expects both volume and margin will recover in 2H20E given demand recovery and overseas factory resumption.
- Leadership remains intact; Reiterate BUY on 2H recovery.** We believe 2H20E weakness is largely reflected in price following recent correction. We recommend to look beyond the trough and accumulate the stock for multi/3D-cam and 5G/video-driven upgrade cycle in 2021. We lifted FY20-22E EPS by 2-8% mainly to reflect better HCM ASP and Samsung HCM share gain, and our SOTP-based TP of HK\$148 implies 24.6x FY21E P/E.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	25,932	37,849	44,526	51,699	60,399
YoY growth (%)	15.9	46.0	17.6	16.1	16.8
Net income (RMB mn)	2,491	3,991	4,545	5,902	7,230
EPS (RMB)	2.3	3.65	4.15	5.39	6.61
YoY growth (%)	(14.6)	60.1	13.9	29.8	22.5
Consensus EPS (RMB)	NA	NA	4.14	5.34	6.48
P/E (x)	52.8	33.0	29.0	22.3	18.2
P/B (x)	14.0	10.2	7.9	6.1	4.7
Yield (%)	0.6	0.5	0.5	0.7	0.9
ROE (%)	26.8	31.4	27.4	27.2	25.9
Net Gearing (%)	2	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$148.0
(Previous TP)	HK\$148.0)
Up/Downside	+10.4%
Current Price	HK\$134.2

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	147,636
Avg 3 mths t/o (HK\$ mn)	1,070.73
52w High/Low (HK\$)	151.0/ 90.0
Total Issued Shares (mn)	1,097

Source: Bloomberg

Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	4.50%
WENJIAN WANG	3.08%

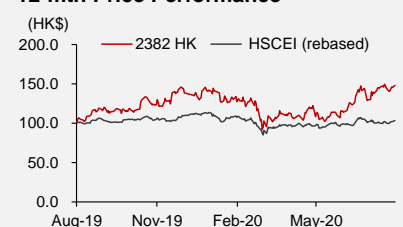
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.1%	12.1%
3-mth	21.0%	12.7%
6-mth	10.6%	16.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

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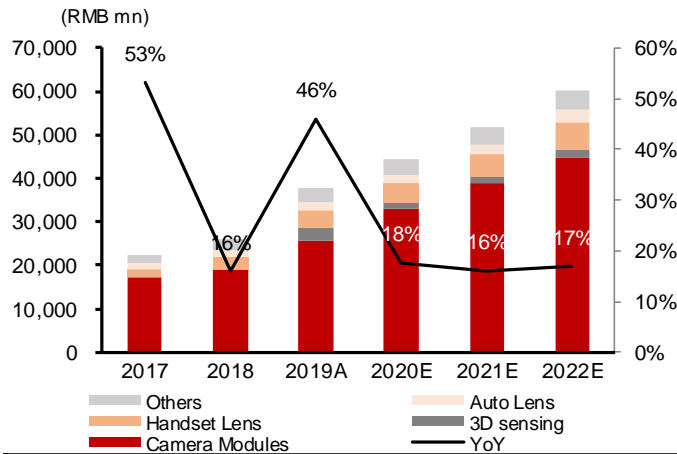
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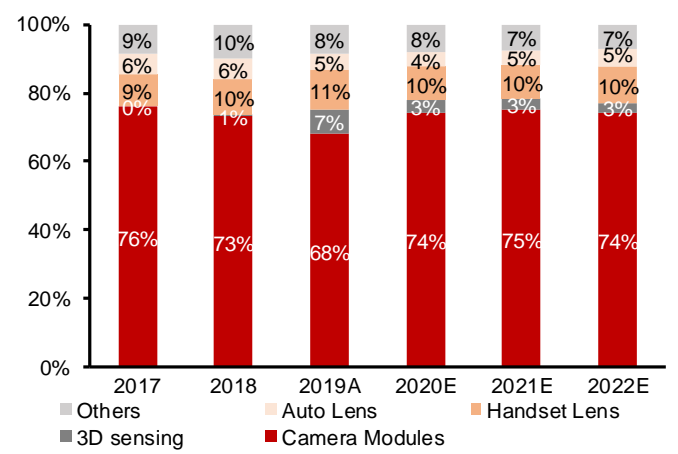
Focus Charts

Figure 1: Sunny Optical revenue trend



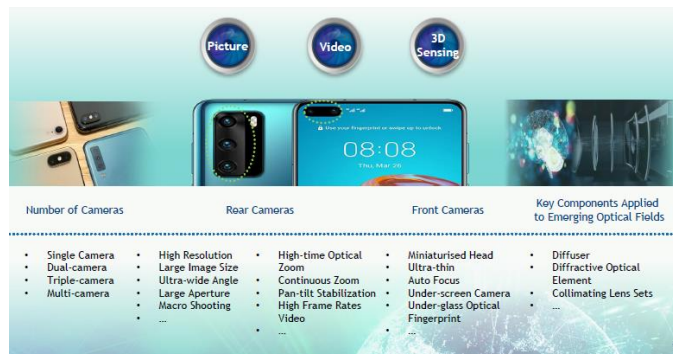
Source: Company data, CMBIS estimates

Figure 2: Sunny Optical revenue breakdown



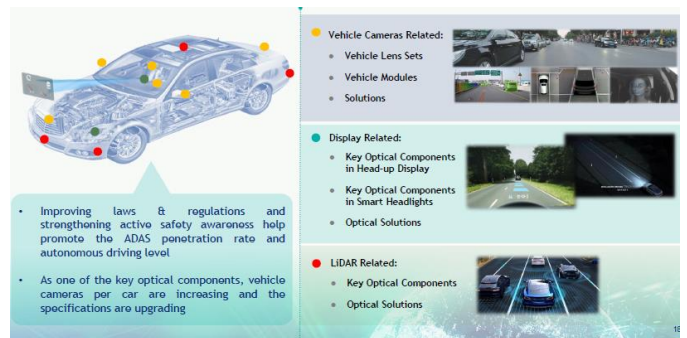
Source: Company data, CMBIS

Figure 3: Cam upgrade in picture, video & 3D sensing



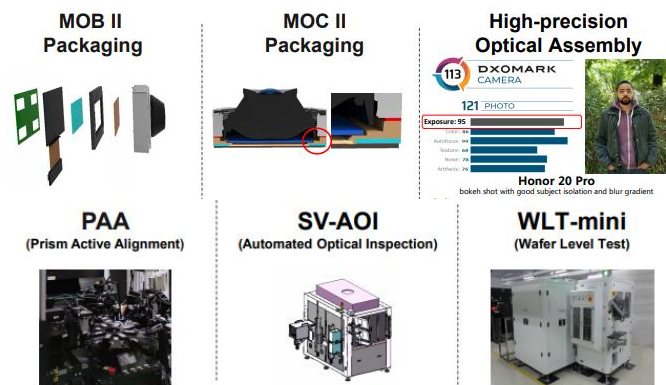
Source: Company data, CMBIS estimates

Figure 4: Sunny's automotive optical applications



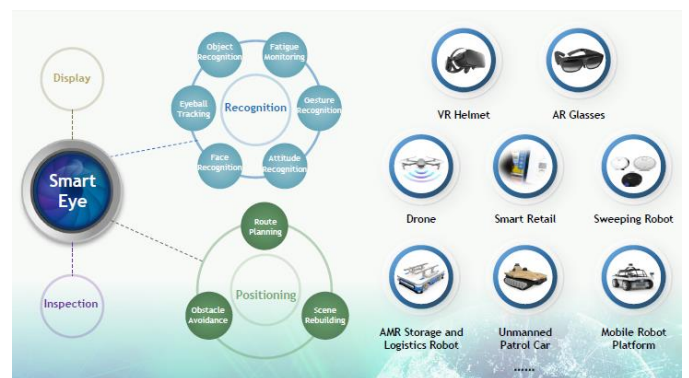
Source: Company data, CMBIS estimates

Figure 5: Sunny's packaging/processing capability



Source: Company data, CMBIS estimates

Figure 6: Sunny's new market opportunities



Source: Company data, CMBIS estimates

Earnings forecasts

Figure 7: Major assumptions

	FY18	FY19	1H20	2H20E	FY20E	FY21E	FY22E
Shipment volume (mn unit)							
Optical Components							
Handset lens sets	951	1,343	645	884	1,530	1,759	2,074
...YoY(%)	56%	41%	17%	12%	14%	15%	18%
Vehicle lens sets	40	50	21	32	52	62	77
...YoY(%)	25%	25%	-9%	15%	4%	18%	25%
Optoelectronic Products							
Handset camera modules	425	540	269	351	620	713	820
...YoY(%)	31%	27%	25%	8%	15%	15%	15%
Other optoelectronic (3D sensing)	10	49	16	29	44	52	63
...YoY(%)	27%	388%	-29%	5%	-10%	18%	20%
Revenue (Rmb mn)							
Optical Components	6,023	8,815	3,864	5,528	9,392	10,754	13,067
Optoelectronic Products	19,609	28,748	14,874	20,009	34,882	40,696	47,058
Optical instruments	300	285	126	126	252	249	274
Total Revenue	25,932	37,849	18,864	25,662	44,526	51,699	60,399
...YoY (%)	15.9%	46.0%	21.1%	15.2%	17.6%	16.1%	16.8%
Gross Margin							
Optical Components	41.5%	45.2%	41.5%	42.5%	42.1%	44.3%	44.8%
Optoelectronic products	8.4%	9.3%	11.1%	11.6%	11.4%	11.8%	11.9%
Optical instruments	40.5%	41.3%	38.6%	41.0%	39.8%	41.3%	41.3%

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	18,864	25,662	44,526	51,699	60,399
...YoY	15.9%	30.0%	59.6%	46.0%	21.1%	15.2%	17.6%	16.1%	16.8%
Cost of sales	(21,019)	(12,711)	(17,387)	(30,098)	(15,187)	(20,390)	(35,578)	(40,824)	(47,328)
Gross profit	4,913	2,864	4,887	7,751	3,676	5,272	8,948	10,875	13,071
GPM (%)	18.9%	18.4%	21.9%	20.5%	19.5%	20.5%	20.1%	21.0%	21.6%
...YoY	2.3%	23.4%	88.5%	57.8%	28.4%	7.9%	15.5%	21.5%	20.2%
SG&A	(644)	(388)	(541)	(929)	(469)	(622)	(1,091)	(1,241)	(1,450)
...% of rev	-2.5%	-2.5%	-2.4%	-2.5%	-2.5%	-2.4%	-2.5%	-2.4%	-2.4%
R&D	(1,362)	(827)	(1,383)	(2,209)	(1,068)	(1,540)	(2,608)	(2,999)	(3,503)
...% of rev	-5.3%	-5.3%	-6.2%	-5.8%	-5.7%	-6.0%	-5.9%	-5.8%	-5.8%
Operating profit	3,077	1,789	3,017	4,806	2,246	3,267	5,513	7,050	8,601
OPM (%)	11.9%	11.5%	13.5%	12.7%	11.9%	12.7%	12.4%	13.6%	14.2%
...YoY	-9.0%	18.3%	92.8%	56.2%	25.5%	8.3%	14.7%	27.9%	22.0%
Net profit	2,491	1,431	2,560	3,991	1,749	2,796	4,545	5,902	7,230
NPM (%)	9.6%	9.2%	11.5%	10.5%	9.3%	10.9%	10.2%	11.4%	12.0%
...YoY	-14.2%	21.3%	95.3%	60.2%	22.2%	9.2%	13.9%	29.8%	22.5%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with TP HK\$148

We maintain BUY with TP HK\$148. We derived our 12-month TP from SOTP valuation methodology and our new TP is based on weighted-average target P/E multiple of 24.6x FY21E 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 FY21E Profit	FY21E EPS (RMB)	Target P/E
Camera modules	44.0%	2.37	20x
Handset lenses	45.7%	2.47	28x
Vehicle lenses	9.3%	0.50	30x
Others	1.0%	0.06	25x
Total (RMB) /Implied P/E		5.39	24.6x
TP (HK\$)			148.0

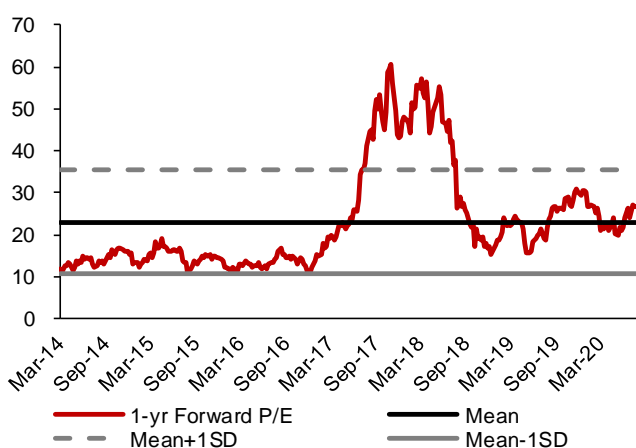
Sources: Company data, CMBIS

Figure 10: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY20E	P/E (x) FY21E	P/B (x) FY20E	P/B (x) FY21E	ROE (%) FY20E	ROE (%) FY21E
Sunny Optical	2382 HK	Buy	19,134	134.2	148.0	10%	29.0	22.3	7.9	6.1	27.4	27.2
Q tech	1478 HK	Buy	1,664	11.0	16.6	51%	20.7	14.5	3.9	3.2	18.9	22.0
Cowell	1415 HK	NR	338	3.15	NA	NA	16.9	6.9	1.0	1.0	8.6	11.2
Truly	732 HK	NR	382	0.90	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	5,337	206.00	NA	NA	12.6	10.2	1.0	1.0	8.5	10.0
Largan	3008 TT	NR	16,950	3715.00	NA	NA	17.6	17.7	3.9	3.4	24.1	21.0
Lite-on	2301 TT	NR	3,815	47.95	NA	NA	12.0	10.4	1.5	1.4	12.1	14.3
Primax	4915 TT	NR	625	40.95	NA	NA	7.9	8.6	1.3	1.3	15.5	13.8
O-film	002456 CH	NR	7,656	19.69	NA	NA	101.5	39.1	5.8	4.9	5.9	12.4
Average							27.8	17.4	3.6	3.0	15.7	16.3

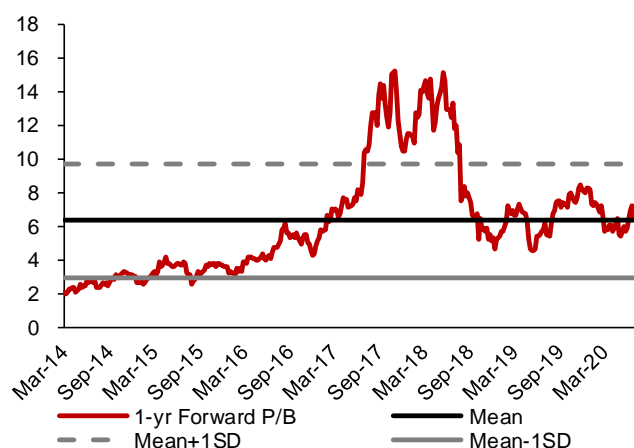
Source: Bloomberg, CMBIS

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	44,526	51,699	60,399
Cost of sales	(21,019)	(30,098)	(35,578)	(40,824)	(47,328)
Gross profit	4,913	7,751	8,948	10,875	13,071
Selling expenses	(210)	(279)	(306)	(362)	(423)
Admin expenses	(434)	(650)	(785)	(879)	(1,027)
R&D expenses	(1,362)	(2,209)	(2,608)	(2,999)	(3,503)
Other income	467	406	527	569	664
Other gain/ losses	(293)	(201)	(263)	(155)	(181)
Operating profit	3,077	4,806	5,513	7,050	8,601
Financial costs	(202)	(250)	(247)	(271)	(298)
Investment income	(24)	(6)	(3)	(3)	(3)
Pre-tax profit	2,851	4,550	5,263	6,775	8,299
Income tax expense	(339)	(531)	(661)	(799)	(979)
NCI	22	28	56	73	90
Net profit	2,491	3,991	4,545	5,902	7,230

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	2,851	4,550	5,263	6,775	8,299
Depreciation/amortisation	819	1,171	1,191	1,509	1,828
Change in working capital	(203)	(1,213)	(54)	(1,227)	(281)
Others	100	152	(429)	(544)	(700)
Net cash from operating	3,568	4,662	5,971	6,514	9,147
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)	(710)	(921)	(1,129)
Purchase of shares	(78)	0	0	0	0
Other	3,672	(818)	(247)	(271)	(298)
Net cash from financing	2,957	(1,441)	(956)	(1,193)	(1,427)
Net change in cash	1,025	(336)	2,015	1,821	4,220
Cash at beginning of the year	1,227	2,254	1,917	3,932	5,753
Exchange difference	2	0	0	0	0
Cash at the end of the year	2,254	1,919	3,932	5,753	9,973

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	16,768	22,446	24,486	30,898	36,169
Cash & equivalents	2,254	1,917	3,932	5,753	9,973
Financial assets	4,760	5,663	5,663	5,663	5,663
Deposits	235	21	21	21	21
Account receivables	6,231	9,630	9,030	12,636	12,676
Inventories	3,074	5,146	5,771	6,756	7,767
Other current assets	214	69	69	69	69
Non-current assets	6,084	8,247	10,079	12,095	13,797
Prepaid lease	214				
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	1,703	1,728	1,758
Total assets	22,852	30,693	34,565	42,992	49,966
Current liabilities	8,677	12,630	12,610	15,983	16,765
ST borrowings	1,482	1,119	1,119	1,119	1,119
Account payables	7,064	11,322	11,292	14,656	15,427
Other current liabilities	5,628	5,622	9,544	11,235	16,655
Non-current liabilities	4,887	5,336	5,336	5,336	5,336
LT borrowings					
Others	4,887	5,336	5,336	5,336	5,336
Total liabilities	13,564	17,967	17,946	21,320	22,102
Share capital	105	105	105	105	105
Reserves	9,129	12,448	16,284	21,265	27,366
Minority interest	54	173	230	303	393
Shareholders' equity	9,288	12,726	16,619	21,673	27,864
Total equity & liabilities	22,852	30,693	34,565	42,992	49,966

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Optical components	23.2	23.3	21.1	20.8	21.6
Optoelectronic products	75.6	76.0	78.3	78.7	77.9
Optical instruments	1.2	0.8	0.6	0.5	0.5
Growth (%)					
Revenue	15.9	46.0	17.6	16.1	16.8
Gross profit	2.3	57.8	15.5	21.5	20.2
Operating profit	(9.0)	56.2	14.7	27.9	22.0
Net profit	(14.2)	60.2	13.9	29.8	22.5
Profit & loss ratio (%)					
Gross margin	18.9	20.5	20.1	21.0	21.6
Operating margin	11.9	12.7	12.4	13.6	14.2
Net profit margin	9.6	10.5	10.2	11.4	12.0
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	1.9	1.9	2.2
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	27.4	27.2	25.9
ROA	10.9	13.0	13.2	13.7	14.5
Per share data (RMB)					
EPS	2.28	3.65	4.15	5.39	6.61
DPS	0.66	0.57	0.65	0.84	1.03

Source: Company data, CMBIS estimates

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