

Sunny Optical (2382 HK)

2H22 demand weakness affirmed; Technology leadership remains intact

We maintain HOLD and revised down our TP to HK\$117.9 mainly to reflect slower smartphone demand in 2H22E, while we remain positive on Sunny's product roadmap for vehicle/Metaverse cameras and leadership in core platform technology and process capability. During Sunny's 2022 Investor Day, mgmt. highlighted 1) smartphone weakness and cam de-spec to persist in 2H22E, 2) Apple's HLS to scale up with multiple projects in 2023, 3) 70% market share in China NEV vehicle lens in 2021, 4) LiDAR projects to bear fruit in 2024, and 5) XR device/ camera shipment to exceed 50mn/350mn in 2025.

- Sunny's view on smartphone market.** Key highlights: 1) Mgmt. estimated 2022 global/China smartphone shipment to decline 7.9%/16.9% YoY to 1.22bn/260mn, which are 10.9%/17.1% lower than original forecast in early 2022. 2) Higher cost pressure due to weak demand and intense competition will lead to continued de-spec trend and declining number of cameras per phone. 3) Foldable smartphone becomes market trend with strong product pipeline, focusing on ultra-thin cameras and better experience of image performance. 4) Sunny will focus on profitability improvement through integrated design of lens/VCM/modules, global supply capability with factories in Vietnam and India, and product expansion into XR and AIoT.
- LT opportunities in vehicle cameras, LiDAR and Metaverse.** Sunny is confident that 2022 VLS shipment will grow at a similar rate in 2021 (i.e. 20% YoY), implying strong rebound in 2H22E (vs -3% YoY in 5M22). As for NEV, mgmt. stated Sunny closely partners with major NEV brands, and secured No.1 position in Chinese NEVs vehicle lens market with 70%+ market share in 2021. In addition, Sunny works with 20+ global leading LiDAR/Tier-1 players and over 10 projects (among 20+ project pipeline) will commence mass production in 2022-23E, delivering meaningful revenue in 2024. Sunny forecasts XR device will grow 35% CARG to reach 50mn shipment in 2025E, while XR cameras will grow 48% CAGR to exceed 350mn units in 2025E, backed by max. 12 cam per device (6 perception cam, 6 interaction cam).
- Fair valuation on NT headwinds; Maintain HOLD.** While we are positive on Sunny's technology leadership and potential market opportunity, Sunny's high exposure to handset segment (79% of sales, vs 8% for auto-related) will be a major drag to growth and profitability during smartphone slowdown in 2022. Trading at 20.9x FY22E P/E, we think the stock is fairly valued. Maintain HOLD with new SOTP-based TP of HK\$117.9 (22.6x FY22E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	38,002	37,497	35,752	41,632	49,104
YoY growth (%)	0.4	(1.3)	(4.7)	16.4	17.9
Net income (RMB mn)	4,882	4,993	4,730	5,745	6,866
EPS (RMB)	4.47	4.57	4.33	5.26	6.28
YoY growth (%)	22.4	2.3	(5.3)	21.5	19.5
Consensus EPS (RMB)	NA	4.56	4.77	5.91	7.04
P/E (x)	20.2	19.8	20.9	17.2	14.4
P/B (x)	5.8	4.7	4.0	3.4	2.8
Yield (%)	0.8	1.0	0.9	1.1	1.4
ROE (%)	29.0	23.9	19.1	19.5	19.6
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

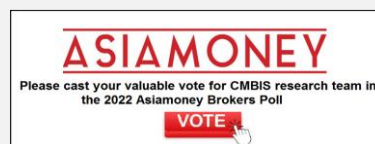
Target Price	HK\$117.9
(Previous TP	HK\$125.7)
Up/Downside	+8%
Current Price	HK\$108.9

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Stock Data

Mkt Cap (HK\$ mn)	119,447
Avg 3 mths t/o (HK\$ mn)	809.52
52w High/Low (HK\$)	259.40/ 93.55
Total Issued Shares (mn)	1,097
Source:	Bloomberg

Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	4.86%
WENJIAN WANG	3.04%
Source:	HKEx

Share Performance

	Absolute	Relative
1-mth	-8.4%	-9.7%
3-mth	-25.7%	-22.5%
6-mth	-55.7%	-51.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

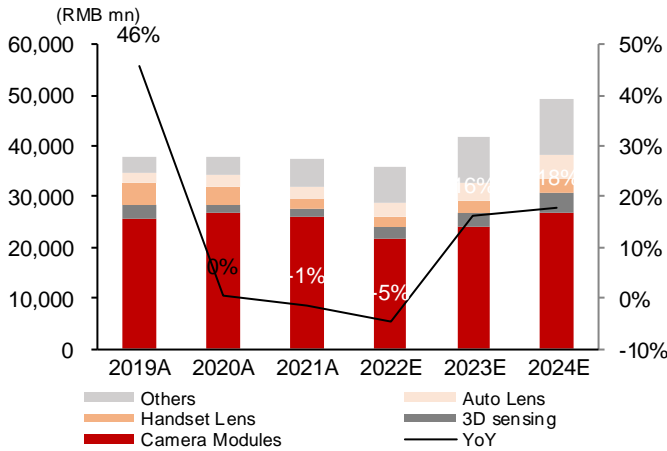
Auditor: Deloitte Touche Tohmatsu

Related Reports:

1) Headwinds to persist into 1H22E; Maintain HOLD – 24 Mar 2022

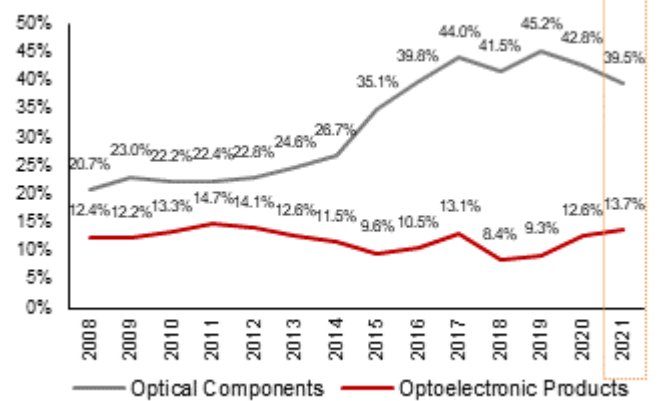
Focus Charts

Figure 1: Sunny Optical revenue trend



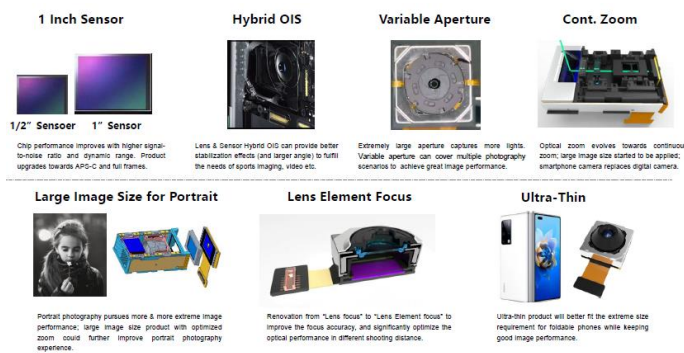
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



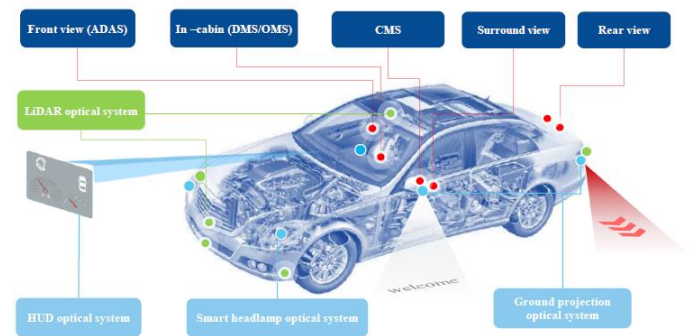
Source: Company data, CMBIGM estimates

Figure 3: Sunny next-gen handset camera products



Source: Company data, CMBIGM estimates

Figure 4: Sunny opportunities in vehicle cameras



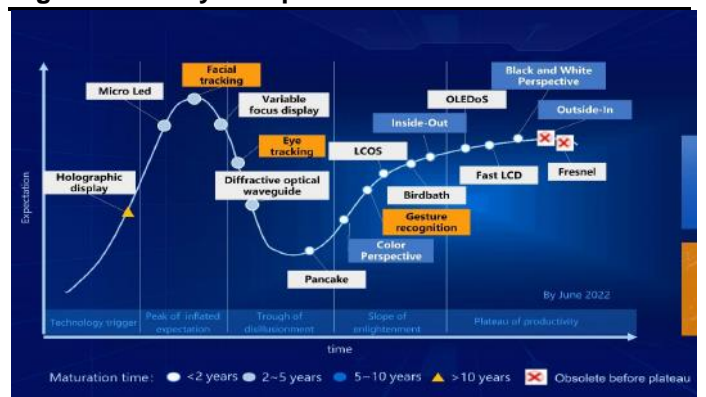
Source: Company data, CMBIGM estimates

Figure 5: Sunny LiDAR opportunity



Source: Company data, CMBIGM estimates

Figure 6: Sunny XR optical tech trend



Source: Counterpoint, CMBIGM estimates

Earnings Revision

Figure 7: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	35,752	41,632	49,104	40,226	46,553	54,639	-11%	-11%	-10%
Gross profit	8,236	10,154	12,061	9,024	10,960	12,988	-9%	-7%	-7%
Operating profit	5,605	6,873	8,192	6,064	7,292	8,682	-8%	-6%	-6%
Net profit	4,730	5,745	6,866	5,128	6,110	7,294	-8%	-6%	-6%
EPS (RMB)	4.33	5.26	6.28	4.69	5.59	6.68	-8%	-6%	-6%
Gross margin	23.0%	24.4%	24.6%	22.4%	23.5%	23.8%	0.6%	0.8%	0.8%
Operating margin	15.7%	16.5%	16.7%	15.1%	15.7%	15.9%	0.6%	0.8%	0.8%
Net margin	13.2%	13.8%	14.0%	12.7%	13.1%	13.3%	0.5%	0.7%	0.6%

Source: Company data, CMBIGM estimates

Figure 8: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	35,752	41,632	49,104	41,069	47,703	55,109	-13%	-13%	-11%
Gross profit	8,236	10,154	12,061	9,174	11,063	13,333	-10%	-8%	-10%
Operating profit	5,605	6,873	8,192	5,476	6,842	8,390	2%	0%	-2%
Net profit	4,730	5,745	6,866	5,134	6,316	7,592	-8%	-9%	-10%
EPS (RMB)	4.33	5.26	6.28	4.77	5.91	7.04	-9%	-11%	-11%
Gross margin	23.0%	24.4%	24.6%	22.3%	23.2%	24.2%	0.7 ppt	1.2 ppt	0.4 ppt
Operating margin	15.7%	16.5%	16.7%	13.3%	14.3%	15.2%	2.3 ppt	2.2 ppt	1.5 ppt
Net margin	13.2%	13.8%	14.0%	12.5%	13.2%	13.8%	0.7 ppt	0.6 ppt	0.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 9: P&L forecast

RMB mn	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
Revenue	38,002	37,497	17,096	18,657	35,752	41,632	49,104
...YoY	0.4%	-1.3%	-13.8%	5.6%	-4.7%	16.4%	17.9%
Cost of sales	(29,304)	(28,761)	(13,399)	(14,118)	(27,517)	(31,478)	(37,043)
Gross profit	8,698	8,736	3,697	4,539	8,236	10,154	12,061
GPM (%)	22.9%	23.3%	21.6%	24.3%	23.0%	24.4%	24.6%
...YoY	12.2%	0.4%	-25.3%	19.8%	-5.7%	23.3%	18.8%
SG&A	(1,032)	(1,032)	(458)	(493)	(951)	(1,116)	(1,316)
...% of rev	-2.7%	-2.8%	-2.7%	-2.6%	-2.7%	-2.7%	-2.7%
R&D	(2,499)	(2,642)	(1,060)	(1,362)	(2,422)	(2,831)	(3,339)
...% of rev	-6.6%	-7.0%	-6.2%	-7.3%	-6.8%	-6.8%	-6.8%
Other gain & loss	698	252	698	252	537	485	-
Operating profit	5,877	5,851	2,435	3,169	5,605	6,873	8,192
OPM (%)	15.5%	15.6%	14.2%	17.0%	15.7%	16.5%	16.7%
...YoY	22.3%	-0.4%	-27.2%	26.5%	-4.2%	22.6%	19.2%
Net profit	4,882	4,993	1,971	2,759	4,730	5,745	6,866
NPM (%)	12.8%	13.3%	11.5%	14.8%	13.2%	13.8%	14.0%
...YoY	22.3%	2.3%	-26.7%	19.7%	-5.3%	21.5%	19.5%

Source: Company data, CMBIGM estimates

Figure 10: Major assumptions

	FY20	FY21	FY22E	FY23E	FY24E
Shipment volume (mn unit)					
Optical Components					
Handset lens sets	1,530	1,440	1,418	1,589	1,781
...YoY(%)	14%	-6%	-1%	12%	12%
Vehicle lens sets	56	68	78	98	124
...YoY(%)	12%	21%	14%	27%	27%
Optoelectronic Products					
Handset camera modules	593	674	624	697	766
...YoY(%)	10%	14%	-7%	12%	10%
Other optoelectronic (3D sensing)	41	59	85	124	179
...YoY(%)	-18%	45%	45%	45%	45%
Optical Instruments					
Microscopic instruments	195	258	284	312	343
...YoY(%)	-1%	32%	10%	10%	10%
Revenue (RMB mn)					
Optical Components	9,181	8,776	10,647	12,720	15,189
Optoelectronic Products	28,494	28,334	24,828	28,607	33,580
Optical instruments	326	387	277	305	335
Total Revenue	38,002	37,497	35,752	41,632	49,104
...YoY(%)	0.4%	-1.3%	-4.7%	16.4%	17.9%
Gross Margin					
Optical Components	22.9%	23.3%	23.0%	24.4%	24.6%
Optoelectronic products	42.8%	39.5%	38.4%	41.5%	41.8%
Optical instruments	12.6%	13.7%	12.5%	12.6%	12.7%
Optical instruments	39.2%	45.1%	46.4%	46.4%	46.4%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with new TP of HK\$117.9

We maintain HOLD with lowered TP of HK\$117.9. We derived our 12-month TP from SOTP valuation methodology and our TP is based on weighted-average target P/E multiple of 22.6x 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 11: Sunny Optical – SOTP valuation

Business segment	% of FY22E Profit	FY22E EPS (RMB)	Target P/E
Camera modules	37.7%	1.63	15x
Handset lenses	47.1%	2.04	25x
Vehicle lenses	13.8%	0.60	35x
Others	1.4%	0.06	25x
Total (RMB) /Implied P/E		4.33	22.6x
TP (HK\$)			117.9

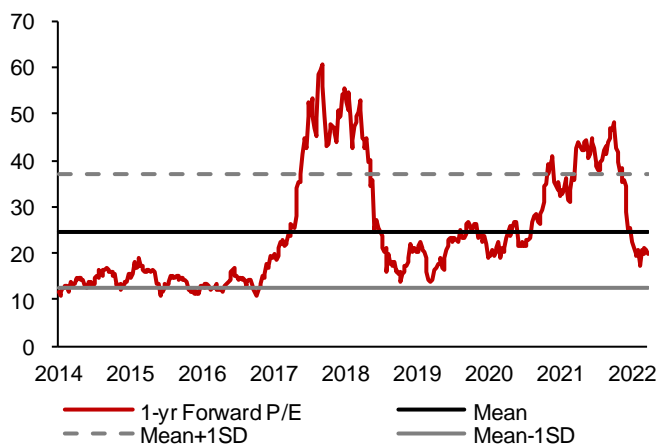
Sources: Company data, CMBIGM estimates

Figure 12: 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	15,218	108.9	117.9	8%	20.9	17.2	4.0	3.4	19.1	19.5	
Q tech	1478 HK	BUY	776	5.1	8.6	67%	6.4	7.7	1.0	0.9	15.8	11.4	
Cowell	1415 HK	NR	935	8.80	NA	NA	12.6	9.3	2.2	1.9	20.3	23.2	
Truly	732 HK	NR	1,006	2.40	NA	NA	5.2	4.3	-	-	12.2	13.4	
Catcher	2474 TT	NR	4,051	165.50	NA	NA	14.8	15.2	0.8	0.8	5.3	5.2	
Largan	3008 TT	NR	7,230	1615.00	NA	NA	11.6	12.1	1.4	1.3	12.4	11.4	
Lite-on	2301 TT	NR	4,597	58.30	NA	NA	11.4	9.6	-	-	15.9	19.6	
Primax	4915 TT	NR	864	56.60	NA	NA	9.3	8.3	1.6	1.4	17.1	17.2	
O-film	002456 CH	NR	2,867	5.90	NA	NA	-	-	2.4	2.3	(9.5)	(6.7)	
Average								11.5	10.5	2.0	1.7	12.2	12.8

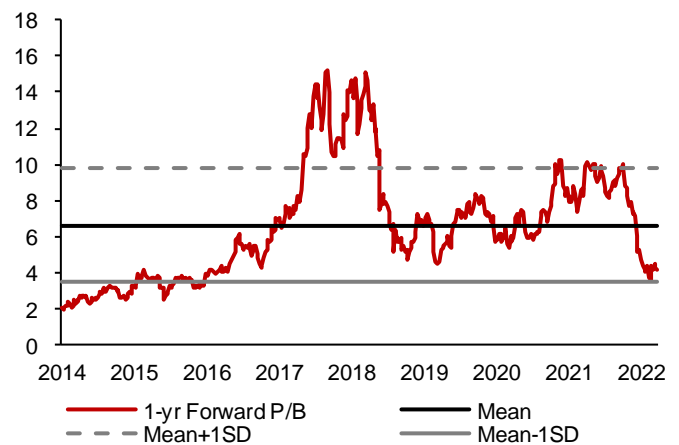
Source: Bloomberg, CMBIGM estimates

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	38,002	37,497	35,752	41,632	49,104
Cost of sales	(29,304)	(28,761)	(27,517)	(31,478)	(37,043)
Gross profit	8,698	8,736	8,236	10,154	12,061
Selling expenses	(313)	(274)	(253)	(304)	(358)
Admin expenses	(719)	(758)	(698)	(812)	(958)
R&D expenses	(2,499)	(2,642)	(2,422)	(2,831)	(3,339)
Other income	510	690	670	624	737
Other gain/ losses	187	99	72	42	49
Operating profit	5,877	5,851	5,605	6,873	8,192
Financial costs	(224)	(230)	(253)	(279)	(306)
Investment income	0	19	19	19	19
Pre-tax profit	5,653	5,640	5,370	6,613	7,904
Income tax expense	(703)	(579)	(568)	(780)	(933)
NCI	68	68	73	88	105
Net profit	4,882	4,993	4,730	5,745	6,866

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	5,643	5,640	5,370	6,613	7,904
Depreciation/amortisation	1,570	1,638	1,753	2,053	2,353
Change in working capital	115	200	(365)	(875)	(538)
Others	(168)	(499)	(312)	(512)	(640)
Net cash from operating	7,160	6,979	6,446	7,279	9,079
Capex	(2,271)	(2,498)	(3,000)	(3,000)	(3,000)
Other	(3,705)	5,400	-	-	-
Net cash from investing	(5,976)	2,902	(3,000)	(3,000)	(3,000)
Net borrowings	1,017	-	-	-	-
Dividend paid	(796)	(974)	(923)	(1,121)	(1,339)
Purchase of shares	(151)	-	-	-	-
Other	(291)	2,215	(253)	(279)	(306)
Net cash from financing	(222)	1,241	(1,176)	(1,399)	(1,646)
Net change in cash	962	11,122	2,271	2,880	4,433
Cash at beginning of the year	1,917	2,842	5,605	7,876	10,756
Exchange difference	(37)	(8,358)	-	-	-
Cash at the end of the year	2,842	5,605	7,876	10,756	15,189

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	25,630	27,989	28,378	36,898	40,642
Cash & equivalents	2,842	5,605	7,876	10,756	15,189
Financial assets	8,480	8,314	8,314	8,314	8,314
Deposits	238	1,112	1,112	1,112	1,112
Account receivables	8,212	7,448	7,483	9,904	10,604
Inventories	5,783	5,482	3,565	6,784	5,394
Other current assets	74	28	28	28	28
Non-current assets	9,809	10,785	12,020	13,007	13,704
Prepaid lease					
PPE	7,513	8,303	9,550	10,497	11,144
Interest in associates	2	202	202	202	202
Other non-curr. assets	2,293	2,280	2,268	2,308	2,359
Total assets	35,438	38,774	40,397	49,905	54,346
Current liabilities	13,411	11,873	9,617	14,412	13,221
ST borrowings	2,071	1,539	1,539	1,539	1,539
Account payables	10,733	9,869	7,621	12,387	11,159
Other current liabilities	9,223	15,493	21,620	21,567	28,427
Non-current liabilities	5,201	6,005	6,005	6,005	6,005
LT borrowings	-	700	700	700	700
Others	5,201	5,305	5,305	5,305	5,305
Total liabilities	18,612	17,879	15,623	20,417	19,227
Share capital	105	105	105	105	105
Reserves	16,492	20,483	24,290	28,914	34,441
Minority interest	229	307	380	468	573
Shareholders' equity	16,826	20,895	24,775	29,487	35,119
Total equity & liabilities	35,438	38,774	40,397	49,905	54,346

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Optical components	24.2	23.4	29.8	30.6	30.9
Optoelectronic products	75.0	75.6	69.4	68.7	68.4
Optical instruments	0.9	1.0	0.8	0.7	0.7
Growth (%)					
Revenue	0.4	(1.3)	(4.7)	16.4	17.9
Gross profit	12.2	0.4	(5.7)	23.3	18.8
Operating profit	22.3	(0.4)	(4.2)	22.6	19.2
Net profit	22.3	2.3	(5.3)	21.5	19.5
Profit & loss ratio (%)					
Gross margin	22.9	23.3	23.0	24.4	24.6
Operating margin	15.5	15.6	15.7	16.5	16.7
Net profit margin	12.8	13.3	13.2	13.8	14.0
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	2.4	3.0	2.6	3.1
Receivable turnover days	85.7	76.2	76.2	76.2	76.2
Inventory turnover days	68.1	68.1	60.0	60.0	60.0
Payable turnover days	137.4	137.4	116.0	116.0	116.0
Profitability (%)					
ROE	29.0	23.9	19.1	19.5	19.6
ROA	13.8	12.9	11.7	11.5	12.6
Per share data (RMB)					
EPS	4.47	4.57	4.33	5.26	6.28
DPS	0.73	0.89	0.84	1.03	1.23

Source: Company data, CMBIGM estimates

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