

# Sunny Optical (2382 HK)

## Solid recovery on track; Bumpy 4Q amid Huawei ban

Sunny Optical reported solid Aug shipment with HCM/HLS up 11%/19% MoM and 8%/22% YoY, driven by Huawei strong order pull-in ahead of 15 Sep and China market gradual recovery in 3Q20E. We expect bumpy 4Q20E outlook amid Huawei ban, but Xiaomi/Samsung/Oppo's recent aggressive move for share gain in China/Europe will drive restocking and partially offset the impact in 4Q20E. The stock now trades at attractive valuation of 19.7x FY21E P/E. We suggest to accumulate on recent weakness, as we expect near-term overhang to be removed after Huawei ban becomes effective on 15 Sep. Upcoming catalysts include stronger Xiaomi/Samsung orders in 4Q20E and Apple order win in 1H21E.

- **Solid HCM/HLS on Huawei order pull-in; VLS recovery on track.** Sunny's HCM (camera module) shipment grew 22% YoY /19% MoM, driven by Huawei order pull-in ahead of 15 Sep ban and Chinese brands/Samsung recovery. Sunny's HLS (handset lens sets) also posted solid growth with 8% YoY /19% MoM, backed by Samsung's 3Q20 recovery (No.1 supplier) and Xiaomi/Oppo's aggressive product launches in China/Europe. Sunny's VLS (vehicle lens) continued recovery with 8% YoY/ 11% MoM in Aug for four consecutive months as global automobile production resumed in 3Q20E.
- **Expect Huawei ban in 4Q20E offset by demand from Samsung/ Chinese brands.** While we believe Huawei impact will start to kick in after 15 Sep, we expect Samsung/Xiaomi's share gain and China market recovery will offset Huawei's order decline. For instance, it was reported that Samsung raised FY21E shipment target to 300mn (up 15% YoY), and Oppo increased 2H shipment target to 100mn (vs 47mn in 1H). Xiaomi also announced to aggressively push budget 5G phones in China and Europe.
- **Camera spec upgrade to resume in 1Q20E; iPad order win as catalyst in 1H21E.** While non-5G functions will remain under pressure given de-spec trend in 4Q20E, we expect cam upgrade cycle will resume in 1H21E after launch of Qualcomm Snapdragon entry-level 4-series 5G SoC in 1Q21E and Apple 5G iPhone with tri-cam/LiDAR 3D sensing. We also see potential iPad order win will drive shipment upside in 1H21E.
- **Huawei ban largely reflected; Reiterate BUY.** We believe Huawei impact is largely priced in after recent correction, and Apple-led 3D upgrade cycle will be positive to Sunny's outlook in FY21E. We recommend to accumulate the stock for multi/3D-cam and 5G/video-driven upgrade cycle in 2021. 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	3.99	5.17	6.31
P/E (x)	46.6	29.1	25.5	19.7	16.1
P/B (x)	12.3	9.0	6.9	5.4	4.2
Yield (%)	0.6	0.5	0.6	0.8	1.0
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	+25.2%
Current Price	HK\$118.3

### China Technology Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	129,757
Avg 3 mths t/o (HK\$ mn)	1,182.05
52w High/Low (HK\$)	151.00/ 90.00
Total Issued Shares (mn)	1,097

Source: Bloomberg

#### Shareholding Structure

SUN XU LTD	35.47%
JPMORGAN CHASE	5.66%
WENJIAN WANG	3.08%

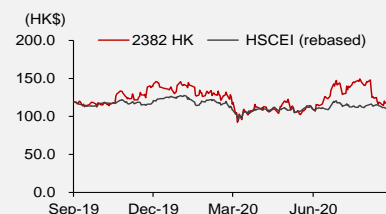
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-19.0%	-14.9%
3-mth	7.7%	8.6%
6-mth	-0.2%	-1.2%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

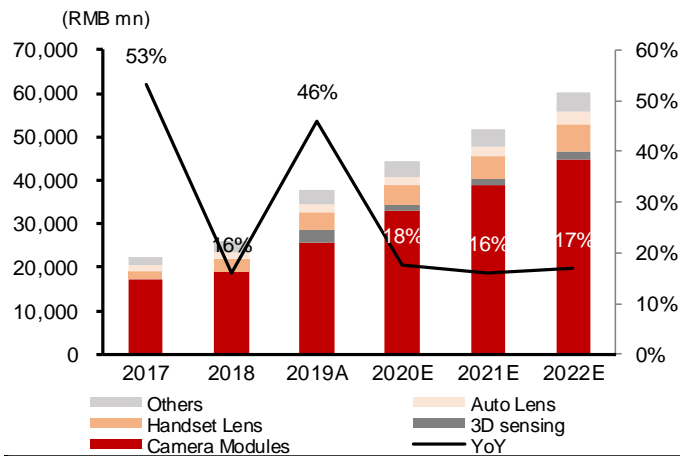
Auditor: Deloitte Touche Tohmatsu

#### Related Reports:

1. Sunny Optical (2382 HK) - Positive on Samsung HLS recovery and 3D sensing upcycle; Maintain BUY – 19 Aug 2020
2. Sunny Optical (2382 HK) - Look beyond ongoing volatility; Upgrade to BUY on 2H recovery - 26 Jun 2020
3. Sunny Optical (2382 HK) – Call takeaways: Leadership intact despite clouded outlook – 25 Mar 2020

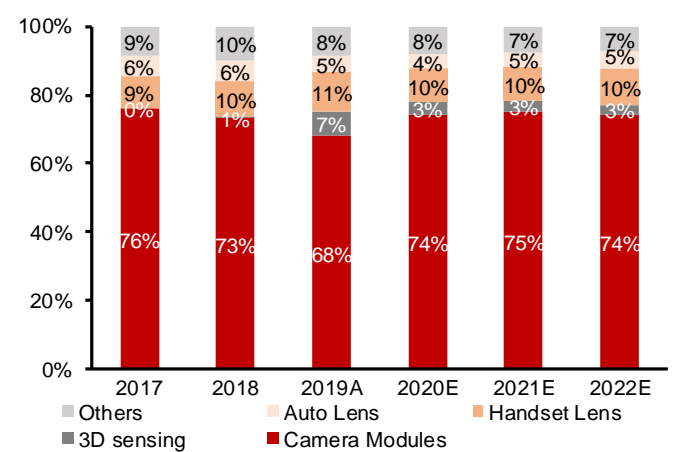
## Focus Charts

Figure 1: Sunny Optical revenue trend



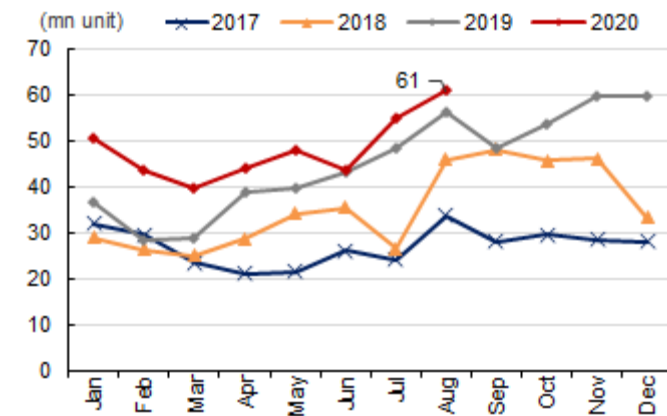
Source: Company data, CMBIS estimates

Figure 2: Sunny Optical revenue breakdown



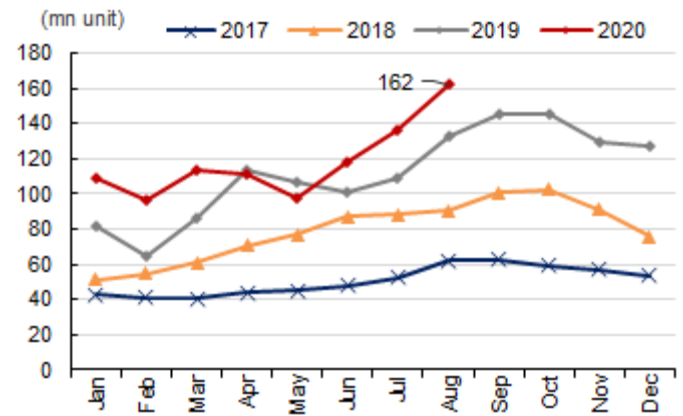
Source: Company data, CMBIS

Figure 3: Sunny HCM shipment trend



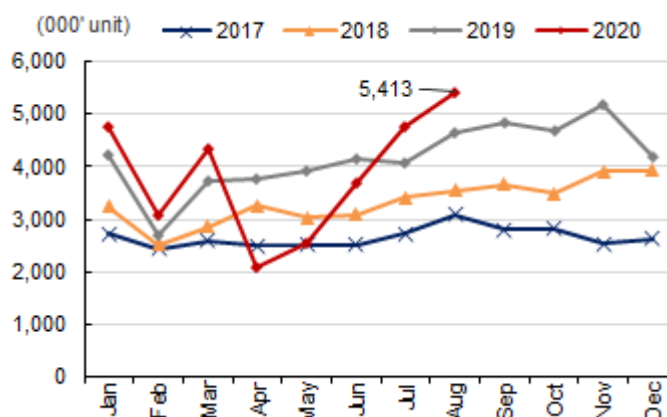
Source: Company data, CMBIS estimates

Figure 4: Sunny HLS shipment trend



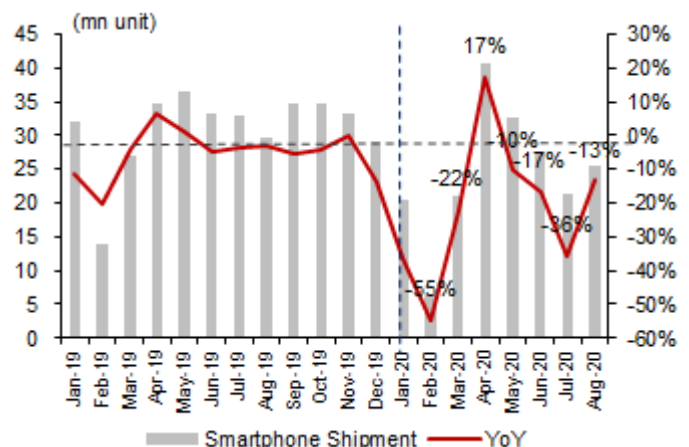
Source: Company data, CMBIS estimates

Figure 5: Sunny VLS shipment trend



Source: Company data, CMBIS estimates

Figure 6: China smartphone market recovery



Source: MIIT, CMBIS estimates

## Earnings forecasts

Figure 7: Major assumptions

	FY18	FY19	1H20	2H20E	FY20E	FY21E	FY22E
<b>Shipment volume (mn unit)</b>							
<b>Optical Components</b>							
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%
<b>Optoelectronic Products</b>							
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%
<b>Revenue (Rmb mn)</b>							
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
<b>Total Revenue</b>	<b>25,932</b>	<b>37,849</b>	<b>18,864</b>	<b>25,662</b>	<b>44,526</b>	<b>51,699</b>	<b>60,399</b>
...YoY (%)	15.9%	46.0%	21.1%	15.2%	17.6%	16.1%	16.8%
<b>Gross Margin</b>							
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	1H20	2H20E	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>25,932</b>	<b>15,575</b>	<b>22,274</b>	<b>37,849</b>	<b>18,864</b>	<b>25,662</b>	<b>44,526</b>	<b>51,699</b>	<b>60,399</b>
...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)
<b>Gross profit</b>	<b>4,913</b>	<b>2,864</b>	<b>4,887</b>	<b>7,751</b>	<b>3,676</b>	<b>5,272</b>	<b>8,948</b>	<b>10,875</b>	<b>13,071</b>
<b>GPM (%)</b>	<b>18.9%</b>	<b>18.4%</b>	<b>21.9%</b>	<b>20.5%</b>	<b>19.5%</b>	<b>20.5%</b>	<b>20.1%</b>	<b>21.0%</b>	<b>21.6%</b>
...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%
<b>Operating profit</b>	<b>3,077</b>	<b>1,789</b>	<b>3,017</b>	<b>4,806</b>	<b>2,246</b>	<b>3,267</b>	<b>5,513</b>	<b>7,050</b>	<b>8,601</b>
<b>OPM (%)</b>	<b>11.9%</b>	<b>11.5%</b>	<b>13.5%</b>	<b>12.7%</b>	<b>11.9%</b>	<b>12.7%</b>	<b>12.4%</b>	<b>13.6%</b>	<b>14.2%</b>
...YoY	-9.0%	18.3%	92.8%	56.2%	25.5%	8.3%	14.7%	27.9%	22.0%
<b>Net profit</b>	<b>2,491</b>	<b>1,431</b>	<b>2,560</b>	<b>3,991</b>	<b>1,749</b>	<b>2,796</b>	<b>4,545</b>	<b>5,902</b>	<b>7,230</b>
<b>NPM (%)</b>	<b>9.6%</b>	<b>9.2%</b>	<b>11.5%</b>	<b>10.5%</b>	<b>9.3%</b>	<b>10.9%</b>	<b>10.2%</b>	<b>11.4%</b>	<b>12.0%</b>
...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
<b>Total (RMB) /Implied P/E</b>		<b>5.39</b>	<b>24.6x</b>
<b>TP (HK\$)</b>			<b>148.0</b>

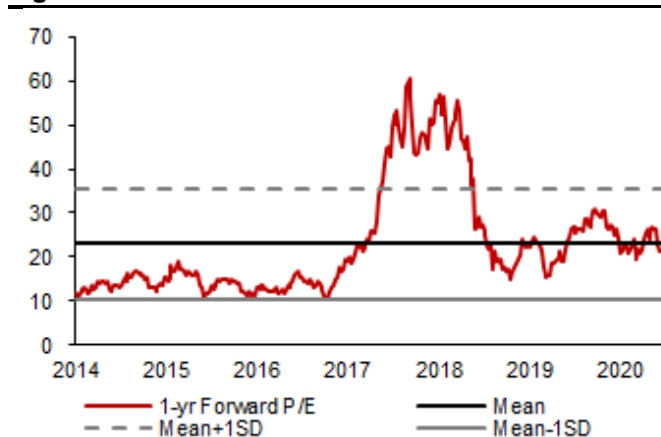
Sources: Company data, CMBIS

**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	17,577	118.3	148.0	25%	25.6	19.7	6.9	5.4	27.4	27.2
Q tech	1478 HK	Buy	1,411	9.3	16.6	78%	12.3	10.1	2.7	2.2	22.0	21.8
Cowell	1415 HK	NR	319	2.96	NA	NA	6.5	5.4	1.0	0.9	11.2	13.8
Truly	732 HK	NR	390	0.92	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,971	191.50	NA	NA	9.0	9.6	0.9	0.9	11.9	9.4
Largan	3008 TT	NR	16,504	3610.00	NA	NA	17.2	14.5	3.3	2.8	20.9	20.9
Lite-on	2301 TT	NR	3,695	46.35	NA	NA	10.0	10.0	1.4	1.3	14.3	13.8
Primax	4915 TT	NR	665	43.25	NA	NA	8.9	8.5	1.4	1.3	13.0	16.3
O-film	002456 CH	NR	5,855	14.86	NA	NA	29.5	21.7	3.6	3.1	12.3	14.5
Average							15.0	12.6	2.7	2.3	16.6	17.2

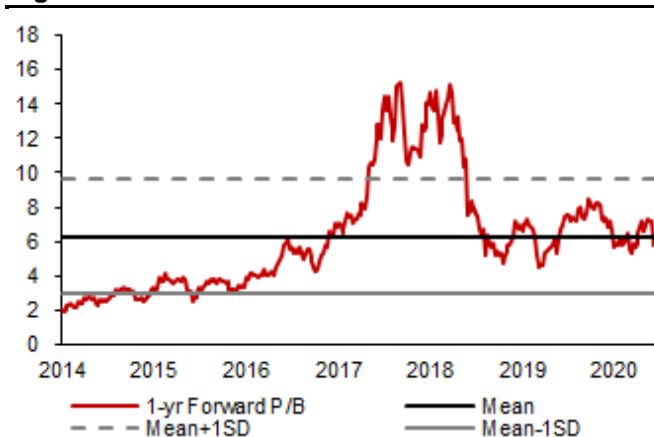
Source: Bloomberg, CMBIS

**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
<b>Revenue</b>	<b>25,932</b>	<b>37,849</b>	<b>44,526</b>	<b>51,699</b>	<b>60,399</b>
Cost of sales	(21,019)	(30,098)	(35,578)	(40,824)	(47,328)
<b>Gross profit</b>	<b>4,913</b>	<b>7,751</b>	<b>8,948</b>	<b>10,875</b>	<b>13,071</b>
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)
<b>Operating profit</b>	<b>3,077</b>	<b>4,806</b>	<b>5,513</b>	<b>7,050</b>	<b>8,601</b>
Financial costs	(202)	(250)	(247)	(271)	(298)
Investment income	(24)	(6)	(3)	(3)	(3)
<b>Pre-tax profit</b>	<b>2,851</b>	<b>4,550</b>	<b>5,263</b>	<b>6,775</b>	<b>8,299</b>
Income tax expense	(339)	(531)	(661)	(799)	(979)
NCI	22	28	56	73	90
<b>Net profit</b>	<b>2,491</b>	<b>3,991</b>	<b>4,545</b>	<b>5,902</b>	<b>7,230</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before taxation</b>	<b>2,851</b>	<b>4,550</b>	<b>5,263</b>	<b>6,775</b>	<b>8,299</b>
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)
<b>Net cash from operating</b>	<b>3,568</b>	<b>4,662</b>	<b>5,971</b>	<b>6,514</b>	<b>9,147</b>
Capex	(2,104)	(3,242)	(3,000)	(3,500)	(3,500)
Other	(3,395)	(314)	0	0	0
<b>Net cash from investing</b>	<b>(5,499)</b>	<b>(3,556)</b>	<b>(3,000)</b>	<b>(3,500)</b>	<b>(3,500)</b>
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)
<b>Net cash from financing</b>	<b>2,957</b>	<b>(1,441)</b>	<b>(956)</b>	<b>(1,193)</b>	<b>(1,427)</b>
<b>Net change in cash</b>	<b>1,025</b>	<b>(336)</b>	<b>2,015</b>	<b>1,821</b>	<b>4,220</b>
Cash at beginning of the year	1,227	2,254	1,917	3,932	5,753
Exchange difference	2	0	0	0	0
<b>Cash at the end of the year</b>	<b>2,254</b>	<b>1,919</b>	<b>3,932</b>	<b>5,753</b>	<b>9,973</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Current assets</b>	<b>16,768</b>	<b>22,446</b>	<b>24,486</b>	<b>30,898</b>	<b>36,169</b>
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
<b>Non-current assets</b>	<b>6,084</b>	<b>8,247</b>	<b>10,079</b>	<b>12,095</b>	<b>13,797</b>
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
<b>Total assets</b>	<b>22,852</b>	<b>30,693</b>	<b>34,565</b>	<b>42,992</b>	<b>49,966</b>
<b>Current liabilities</b>	<b>8,677</b>	<b>12,630</b>	<b>12,610</b>	<b>15,983</b>	<b>16,765</b>
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
<b>Non-current liabilities</b>	<b>4,887</b>	<b>5,336</b>	<b>5,336</b>	<b>5,336</b>	<b>5,336</b>
LT borrowings					
Others	4,887	5,336	5,336	5,336	5,336
<b>Total liabilities</b>	<b>13,564</b>	<b>17,967</b>	<b>17,946</b>	<b>21,320</b>	<b>22,102</b>
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
<b>Shareholders' equity</b>	<b>9,288</b>	<b>12,726</b>	<b>16,619</b>	<b>21,673</b>	<b>27,864</b>
<b>Total equity &amp; liabilities</b>	<b>22,852</b>	<b>30,693</b>	<b>34,565</b>	<b>42,992</b>	<b>49,966</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
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
<b>Growth (%)</b>					
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
<b>Profit &amp; loss ratio (%)</b>					
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
<b>Balance sheet ratio</b>					
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
<b>Profitability (%)</b>					
ROE	26.8	31.4	27.4	27.2	25.9
ROA	10.9	13.0	13.2	13.7	14.5
<b>Per share data (RMB)</b>					
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



# Disclosures & Disclaimers

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