



Rating
Buy

Asia
China

Technology
Hardware & Equipment

Company
Sunway Alert

Reuters 300136.SZ Bloomberg 300136 CS Exchange SHZ Ticker 300136

Date
31 January 2018

Forecast Change

Price at 30 Jan 2018 (CNY)	34.34
Price target - 12mth (CNY)	50.00
52-week range (CNY)	60.00 - 25.85
Shenzhen Index	1,997

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2017 result preview missed, due to Chinese OEM weakness and forex

2017 net profit up 78%-88%, but trailing the expectation of ~100% growth...

Sunway released 2017 result preview and expects net profit to reach RMB950mn to RMB1bn (up 79% YoY to 88% YoY). Despite being a stellar result, this figure missed DBE/market expectation (of 100% growth) by ~10%.

...due to order/ASP cuts from some clients, forex, finance costs and others

Sunway attribute the miss to 1) order cuts and ASP erosion from some clients (we expect to Oppo, Vivo and tier-two Chinese OEMs) leading to slower top-line growth and margin decline in 4Q17, 2) the surge in forex loss (due to RMB appreciation against USD), and interest expense (to finance the Changzhou plants), and 3) RMB100mn+ YoY increase in opex (due to aggressive business expansion). Our prior Sunway earnings model had properly factored in the increase in opex (the third factor), but we underestimated the negative impacts from first two factors.

Positive long-term outlook unchanged

We remain positive on Sunway, as the progress of winning multiple iPhone component projects stays on track, including 1) Lightning connectors (as the 3rd supplier in 2018), 2) VCM cases, and dual cam supporting frame (as the key supplier), and 3) market share gains in EMI shielding cases. Also, it could likely gain share in Samsung's wireless charging module in 2018 too.

Valuation and investment risks

We trim 2017/18/19 EPS forecasts by 10%/4%/4% to price in 4Q17 non-op loss and softer outlook for Chinese clients, and trim TP from RMB52 to RMB50. Our new TP is still based on 33.5x 2018 PER, or 0.8x PEG (in line with regional peers). Risks: market share loss, slow spec upgrade, and iPhone weakness.

Figure 1: Earnings revision

P/L Revision	2016	2017E	2018E	2019E	(%)
(TWDm)		Old New	Old New	Old New	2017E 2018E 2019E
Net sales	2,413	3,798 3,715	5,758 5,751	8,188 8,279	-2.2 -0.1 1.1
Gross profits	703	1,401 1,316	2,070 1,978	2,939 2,851	-6.1 -4.4 -3.0
Op. profit	478	1,056 967	1,604 1,495	2,317 2,197	-8.4 -6.7 -5.2
Pre-tax profits	542	1,208 1,095	1,682 1,614	2,406 2,322	-9.4 -4.1 -3.5
Net profit	532	1,071 960	1,514 1,452	2,173 2,098	-10.4 -4.1 -3.5
Key ratio (%)					
Gross margin	29.1	35.3 35.4	36.0 34.4	35.9 34.4	
Ope. Margin	19.8	27.8 26.0	27.9 26.0	28.3 26.5	

Source: Deutsche Bank estimates, company data

Key changes			
TP	52.00 to 50.00	↓	-3.8%
Sales (FYE)	3,798 to 3,715	↓	-2.2%
Op profit margin (FYE)	27.8 to 26.0	↓	-6.4%
Net profit (FYE)	1,071.1 to 960.1	↓	-10.4%

Source: Deutsche Bank

Key data			
FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	2,413	3,715	5,751
Net Profit (CNYm)	531.6	960.1	1,452.2
DB EPS (CNY)	0.56	0.98	1.49
PER (x)	45.1	34.9	23.1
Yield (net) (%)	0.1	0.3	0.4

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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