

## Company Report

### Sunny Optical (2382 HK)

#### NDR takeaway

- Chipset shortage impact limited and expected, GM outlook stable
- Sunny targets to expand its market share and widen leadership; increasing capacity for future growth
- Maintain NEUTRAL as we believe shares are fairly priced

#### Shortage impact limited; stable GM outlook

We hosted a Sunny Optical investor call on Apr 14. Management remains confident for its 2021 shipments guidance, which has factored in impacts from the ongoing component shortage. Overall chipset supply is tight, but impact to its customers is limited given their bargaining power from scale advantage. Camera upgrades this year focus on: 1) large-size CIS, 2) stabilization (sensor shift, dual-OIS, gimbal), 3) optical zoom (continuous zoom, periscope). Sunny's 2H20 GM (26%) was a positive surprise, and the company aims to keep GM stable for full-year 2021.

#### 2021 outlook by product segment

**HLS:** Sunny guides for 15-20% shipments growth (vs. industry's ~10%), furthering its 30%+ market share (global no.1) this year. It targets for stable GM (40-45%) and ASP through efficiency and mix improvement. Competition is more severe at the lower-end. Plastic lens performance is improving (100MP/7P now possible), while cheaper than glass lens.

**VLS:** Targets for 20-25% shipments growth (vs. industry's ~15%), also global no.1 with 30%+ market share. GM should be stable at 40%+, with ASP of USD5 (backup camera) to USD10 (ADAS lens). Customers now include both overseas Tier-1 and Chinese EV makers. Module shipments began in 2H18, with limited sales but better ASP/GM compared to CCM.

**CCM:** Aims to outgrow industry with 20-25% shipments growth in 2021. ASP fell in 2020 (industry de-spec, Huawei impact), but should be stable in 2021 vs. 2H20 (higher than 4Q20) form specs upgrade. Periscope and large-size shipment mix will continue to rise (vs. 5.8%/10.3% in 2019/20). Targets to maintain GM at 12% in 2021 (production optimization).

**Capacity:** Plans 2021 capex of RMB3bn, including: RMB1bn for facilities in Yuyao/Vietnam/India, RMB1bn for HLS (160kk→180kk), RMB0.2bn for VLS (6kk→7.5kk); and RMB0.8bn for CCM (75kk→100kk). Cooperation with a new overseas customer just started; will focus on improving yield for now with no expectation of shipments in 2022/23.

#### Financials

RMB mn	2018	2019	2020	2021E	2022E
Revenue	25,932	37,849	38,002	44,502	54,622
yoy	16%	46%	0%	17%	23%
Gross margin	18.9%	20.5%	22.9%	22.8%	23.0%
Net profit	2,491	3,991	4,872	5,843	7,261
yoy	-14%	60%	22%	20%	24%
EPS (RMB)	2.27	3.64	4.45	5.34	6.63
P/E	25.8x	32.7x	33.9x	30.4x	24.4x
P/B	7.0x	10.4x	9.9x	8.3x	6.5x
ROE	29.8%	36.6%	33.4%	30.7%	29.8%

Sources: Company data, CMS (HK) estimates; share price as of Apr 19, 2021

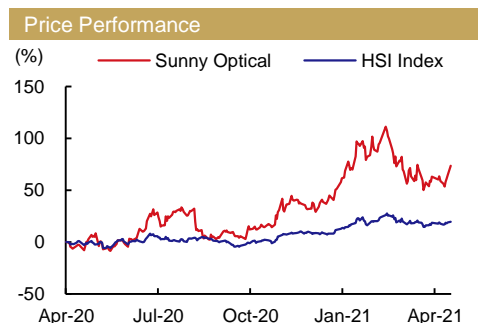
Kevin CHEN                      Clint SU  
+852 3189 6125                      +852 3189 6635  
kevinchen@cmschina.com.hk      clintsu@cmschina.com.hk

#### WHAT'S NEW

NDR takeaway

### NEUTRAL

Previous	NEUTRAL
Price (Apr 19, 2021)	HKD194.6
12-month Target Price (Potential up/downside)	HKD190.0 (-2%)
Previous	HKD190.0



Source: Bigdata, as of Apr 19, 2021

%	1m	6m	12m
Sunny Optical	5.8	54.8	73.5
HSI	0.3	20.5	19.4

Sector: Hardware Technology	
Hang Seng Index (Apr 19, 2021)	29,106
HSCEI (Apr 19, 2021)	11,093
Key Data	
52-week range (HKD)	101.1 - 241.8
Market cap (HKD mn)	213,447
Avg. daily volume (mn)	4.67
BVPS (HKD)	17.98
Shareholding Structure	
Sun Xu Ltd	35.47%
No. of shares outstanding (mn)	1,094
Free float	64.53%

Sources: Company data, Bloomberg

#### Related Research

1. Sunny Optical (2382 HK) - 2H20 GM a surprise; stay NEUTRAL on valuation (NEUTRAL) (Mar 18, 2021)
2. Sunny Optical (2382 HK) - Positives priced-in; lift TP while D/G to NEUTRAL (NEUTRAL) (Jan 20, 2021)
3. Sunny Optical (2382 HK) - 1H20 results met; uncertainties likely priced-in (BUY) (Aug 18, 2020)
4. Sunny Optical (2382 HK) - Expect solid 1H20 results; stay positive & raise TP (BUY) (Jul 29, 2020)
5. Sunny Optical (2382 HK) - Solid June shipments reflecting near term strength (BUY) (Jul 13, 2020)
6. Sunny Optical (2382 HK) - 2020 Investor Day takeaway (BUY) (Jun 25, 2020)

## Sunny Optical NDR takeaway

### ■ Handset lens set (HLS) market share took the top spot

- Shipment guidance for HLS in 2021: 15-20% yoy growth
- Expects overall handset lens industry grow ~10% in 2021, with smartphone market back to high-single-digit growth and multi-cam adoption continue to increase
- HLS gross margin expected to be in the range of 40-45% in 2021, largely stable; ASP expected to be flat
- According to the company, Sunny's global market share reached 30%, surpassing Largan (3008 TT) and becoming the largest HLS supplier worldwide in terms of shipment; but margin still fell behind Largan

### ■ Vehicle lens set (VLS) continue to dominate the market

- Shipment guidance for VLS in 2021: 20-25% yoy growth
- Global market share in 2020 reached over 30%, ranked No. 1 since 2012
- Expects the overall vehicle lens market grow at ~15% in 2021
- VLS gross margin and ASP are generally stable, with product cycle much longer
- ASP range from USD5 to USD10; lower-end products (such as those used on parking camera) close to USD5, and higher-end products (such as those used on ADAS for sensing) close to USD10
- ADAS-related lens occupied over 50% market share, with gross margin higher than 40%

### ■ Handset camera module (CCM) benefit from production optimization and automation

- Shipment guidance for CCM in 2021: 20-25% yoy growth (expect outperform overall market)
- Target to gain more market share
- ASP under pressure, due to 1) camera de-spec as a result of pandemic; 2) external impact on the large domestic customer in 2H (particularly 4Q); 3) CCM has 10-15% price-erosion every year
- Target to maintain ASP flattish at 2H20 level (higher than that of 4Q20) in 2021
- Shipment percentage of periscope and large image size module reached 10.3% in 2020 (vs. 5.8% in 2019)
- CCM gross margin in 2020 exceeded 12%, which is quite good under the intense market competition, due mainly to production optimization and automation; target to maintain GM flattish

### ■ CAPEX & Capacity plan for 2021

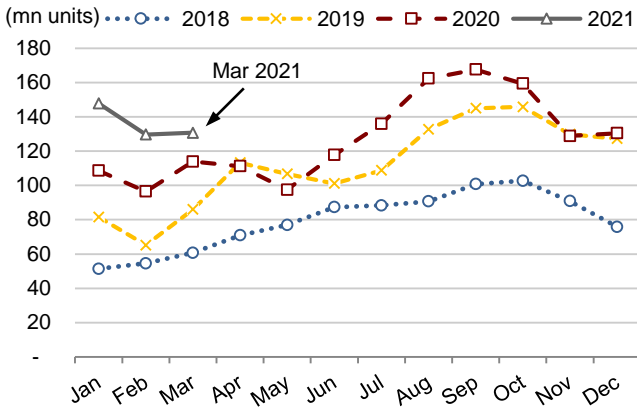
- CAPEX budget for 2021: RMB3.0bn, including:
  - HLS: RMB1,000mn
  - VLS: RMB200mn
  - CCM: RMB800mn
  - Others: RMB1,000mn, mainly on facility (in Yuyao, Vietnam and India)
- Capacity expansion plan (end-2020 → end-2021)
  - HLS: 160kk/month → 180kk/month
  - VLS: 6kk/month → 7.5kk/month
  - CCM: 75kk/month → 100kk/month

### ■ Competition intense; camera upgrade trend continue

- Competition in mid-spec products are always high; low-end (new entrants like AAC normally starts from) is not Sunny's main focus
- Large image size, high magnification zoom (including periscope) are popular this year, with handful of case work in process
- Process of entry in the large US customer on track, further details not yet available
- Sensor and chipset shortage impact limited, as main customers are industry leaders with high bargaining power; guidance above has already take shortage impact into consideration
- Vehicle camera module started from 2H18, currently ASP and gross margin are better than CCM

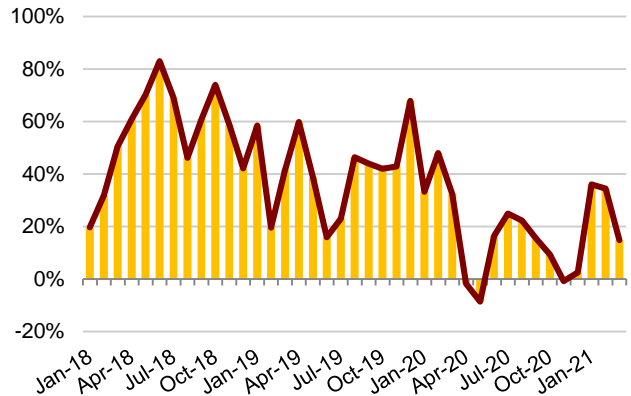
### Sunny shipment data

Figure 1: Sunny HLS shipment trend



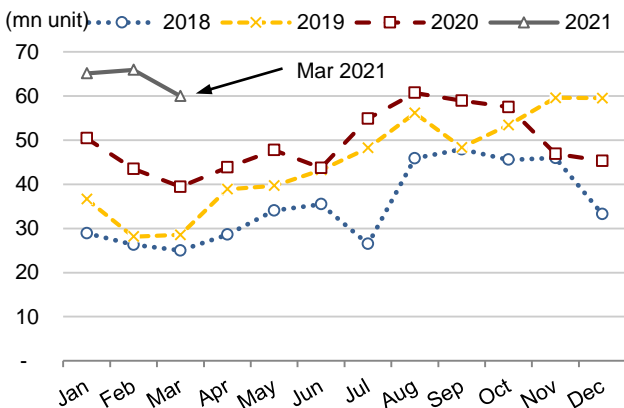
Sources: Company data, CMS (HK); as of Mar 2021

Figure 2: Sunny HLS shipment yoy growth trend



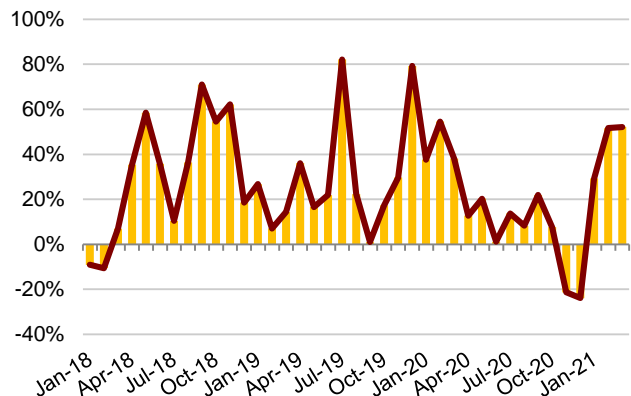
Sources: Company data, CMS (HK); as of Mar 2021

Figure 3: Sunny CCM shipment trend



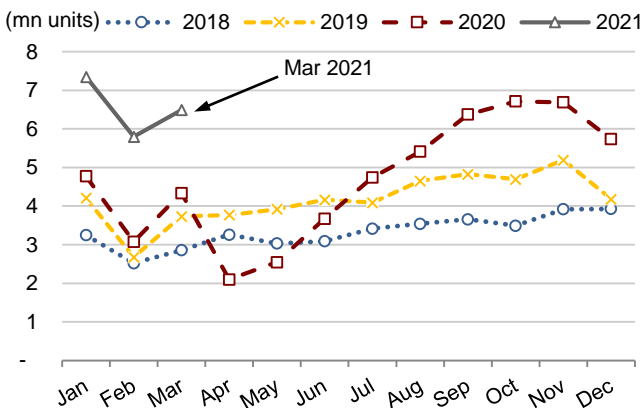
Sources: Company data, CMS (HK); as of Mar 2021

Figure 4: Sunny CCM shipment yoy growth trend



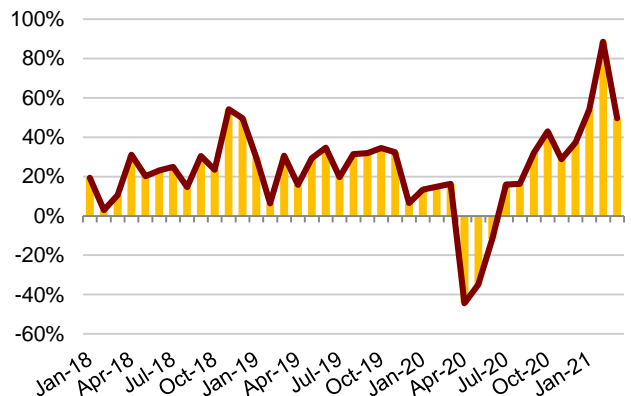
Sources: Company data, CMS (HK); as of Mar 2021

Figure 5: Sunny VLS shipment trend



Sources: Company data, CMS (HK); as of Mar 2021

Figure 6: Sunny VLS shipment yoy growth trend



Sources: Company data, CMS (HK); as of Mar 2021

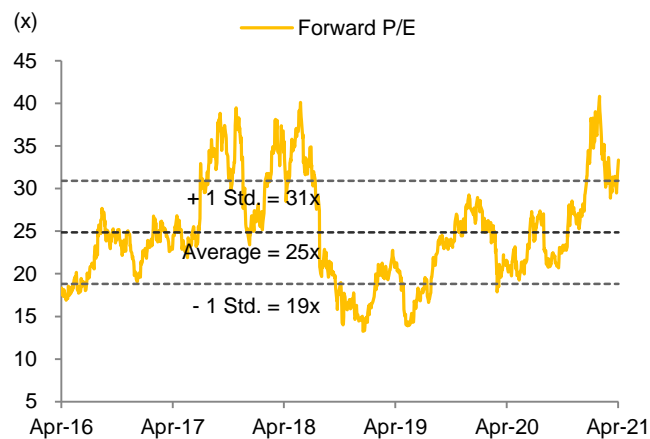
Figure 7: Sunny Optical capacity and shipment outlook for 2021 (kk units)

Product	2020			2021			
	Monthly capacity	Shipments Full-year	yoy	Target capacity	Shipments Jan-Mar	yoy	Shipments guidance
Handset lens set (HLS)	160	1,530	14%	180	408	28%	+15-20% yoy
Handset camera module (CCM)	75	593	10%	100	191	43%	+20-25% yoy
Vehicle lens set (VLS)	6	56	12%	7.5	19.6	61%	+20-25% yoy

Sources: Company data, CMS (HK)

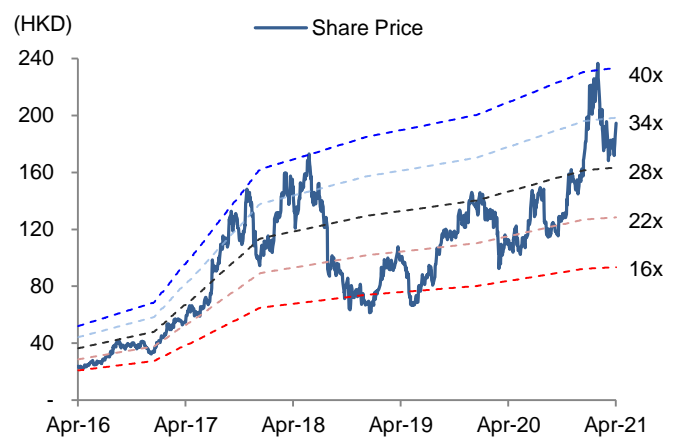
## Valuation

Figure 8: Sunny Optical forward P/E



Sources: Bloomberg, CMS (HK); as of Apr 19, 2021

Figure 9: Sunny Optical forward P/E band



Sources: Bloomberg, CMS (HK); as of Apr 19, 2021

Figure 10: Valuation comparison

Company	Ticker	Price Crncy	Share Price	Market Cap (USD bn)	P/E (x)		P/B (x)		EV/EBITDA (x)		ROE		Div. yield		Net D/E
					2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E	
<b>Optical Hardware</b>															
Sunny Optical	2382 HK	HKD	194.60	27.5	30.4	24.4	8.3	6.5	20.6	16.7	31%	30%	0.8%	1.0%	19%
AAC Tech	2018 HK	HKD	46.95	7.3	18.2	14.4	2.0	1.8	8.2	7.0	12%	13%	1.1%	1.4%	4%
Q Tech	1478 HK	HKD	15.48	2.4	13.6	11.2	3.2	2.5	8.3	7.0	25%	24%	1.2%	1.2%	-20%
Cowell	1415 HK	HKD	4.77	0.5	7.1	5.9	1.4	1.2	3.9	3.3	27%	26%	4.2%	4.6%	-30%
Largan	3008 TT	TWD	3,090	14.7	16.2	14.5	2.6	2.4	8.6	7.8	17%	18%	2.7%	3.0%	-73%
Lite-On	2301 TT	TWD	63.50	5.3	12.6	11.6	1.8	1.7	5.7	5.3	15%	16%	5.8%	6.5%	-62%
O-Film	002456 CH	CNY	8.67	3.6	17.1	14.2	1.9	1.7	7.9	7.5	12%	13%	0.3%	0.4%	n.a.
SEMCO	009150 KS	KRW	199,000	13.3	16.7	14.8	2.3	2.0	7.4	6.8	15%	15%	0.8%	0.9%	5%
LG Innotek	011070 KS	KRW	216,500	4.6	9.3	8.8	1.7	1.4	4.0	3.9	21%	18%	0.3%	0.3%	43%
<b>Average</b>					<b>15.7</b>	<b>13.3</b>	<b>2.8</b>	<b>2.4</b>	<b>8.3</b>	<b>7.2</b>	<b>19%</b>	<b>19%</b>	<b>1.9%</b>	<b>2.1%</b>	<b>-14%</b>

Note: Stocks rated by CMS (HK) include: Sunny Optical (2382 HK, NEUTRAL, TP: HKD190), AAC Tech (2018 HK, BUY, TP: HKD55); Others are non-rated by CMS (HK) with forecasts based on Bloomberg consensus

Sources: Company data, Bloomberg, CMS (HK) estimates; share prices as of Apr 19, 2021

Sunny Optical earnings forecast

Figure 11: Sunny Optical earnings forecast

(RMB mn)	1H18	2H18	1H19	2H19	1H20	2H20	1H21E	2H21E	1H22E	2H22E	2017	2018	2019	2020	2021E	2022E
<b>Revenue</b>	<b>11,976</b>	<b>13,955</b>	<b>15,575</b>	<b>22,274</b>	<b>18,864</b>	<b>19,138</b>	<b>20,575</b>	<b>23,927</b>	<b>25,091</b>	<b>29,531</b>	<b>22,366</b>	<b>25,932</b>	<b>37,849</b>	<b>38,002</b>	<b>44,502</b>	<b>54,622</b>
yoy	19%	13%	30%	60%	21%	-14%	9%	25%	22%	23%	53%	16%	46%	0%	17%	23%
<b>Gross profit</b>	<b>2,320</b>	<b>2,593</b>	<b>2,864</b>	<b>4,887</b>	<b>3,676</b>	<b>5,022</b>	<b>4,526</b>	<b>5,623</b>	<b>5,570</b>	<b>6,999</b>	<b>4,803</b>	<b>4,913</b>	<b>7,751</b>	<b>8,698</b>	<b>10,149</b>	<b>12,569</b>
OPEX	(824)	(1,182)	(1,215)	(1,924)	(1,537)	(1,994)	(1,728)	(2,106)	(2,057)	(2,569)	(1,762)	(2,006)	(3,138)	(3,531)	(3,834)	(4,627)
<b>Operating profit</b>	<b>1,496</b>	<b>1,411</b>	<b>1,649</b>	<b>2,963</b>	<b>2,139</b>	<b>3,028</b>	<b>2,798</b>	<b>3,517</b>	<b>3,513</b>	<b>4,430</b>	<b>3,041</b>	<b>2,907</b>	<b>4,612</b>	<b>5,167</b>	<b>6,315</b>	<b>7,942</b>
Non-op gain/loss	(84)	28	11	(73)	(15)	492	120	196	141	209	278	(56)	(62)	476	315	350
<b>Pretax income</b>	<b>1,412</b>	<b>1,439</b>	<b>1,661</b>	<b>2,890</b>	<b>2,123</b>	<b>3,519</b>	<b>2,918</b>	<b>3,713</b>	<b>3,653</b>	<b>4,639</b>	<b>3,318</b>	<b>2,851</b>	<b>4,550</b>	<b>5,643</b>	<b>6,631</b>	<b>8,292</b>
Tax expense	(223)	(116)	(228)	(303)	(234)	(468)	(379)	(408)	(475)	(557)	(404)	(339)	(531)	(703)	(788)	(1,032)
<b>Net income (after minority)</b>	<b>1,180</b>	<b>1,311</b>	<b>1,433</b>	<b>2,558</b>	<b>1,749</b>	<b>3,123</b>	<b>2,538</b>	<b>3,305</b>	<b>3,178</b>	<b>4,082</b>	<b>2,902</b>	<b>2,491</b>	<b>3,991</b>	<b>4,872</b>	<b>5,843</b>	<b>7,261</b>
yoy	2%	-25%	21%	95%	22%	22%	45%	6%	25%	24%	128%	-14%	60%	22%	20%	24%
<b>Diluted EPS (RMB)</b>	<b>1.08</b>	<b>1.20</b>	<b>1.31</b>	<b>2.33</b>	<b>1.60</b>	<b>2.85</b>	<b>2.32</b>	<b>3.02</b>	<b>2.90</b>	<b>3.73</b>	<b>2.66</b>	<b>2.27</b>	<b>3.64</b>	<b>4.45</b>	<b>5.34</b>	<b>6.63</b>
<b>Margins</b>																
<b>Gross margin</b>	<b>19.4%</b>	<b>18.6%</b>	<b>18.4%</b>	<b>21.9%</b>	<b>19.5%</b>	<b>26.2%</b>	<b>22.0%</b>	<b>23.5%</b>	<b>22.2%</b>	<b>23.7%</b>	<b>21.5%</b>	<b>18.9%</b>	<b>20.5%</b>	<b>22.9%</b>	<b>22.8%</b>	<b>23.0%</b>
<b>Operating margin</b>	<b>12.5%</b>	<b>10.1%</b>	<b>10.6%</b>	<b>13.3%</b>	<b>11.3%</b>	<b>15.8%</b>	<b>13.6%</b>	<b>14.7%</b>	<b>14.0%</b>	<b>15.0%</b>	<b>13.6%</b>	<b>11.2%</b>	<b>12.2%</b>	<b>13.6%</b>	<b>14.2%</b>	<b>14.5%</b>
OPEX ratio	6.9%	8.5%	7.8%	8.6%	8.2%	10.4%	8.4%	8.8%	8.2%	8.7%	7.9%	7.7%	8.3%	9.3%	8.6%	8.5%
<b>Net margin</b>	<b>9.9%</b>	<b>9.4%</b>	<b>9.2%</b>	<b>11.5%</b>	<b>9.3%</b>	<b>16.3%</b>	<b>12.3%</b>	<b>13.8%</b>	<b>12.7%</b>	<b>13.8%</b>	<b>13.0%</b>	<b>9.6%</b>	<b>10.5%</b>	<b>12.8%</b>	<b>13.1%</b>	<b>13.3%</b>
<b>Revenue split</b>																
Handset lens sets (HLS)	10%	10%	11%	11%	10%	13%	12%	12%	11%	12%	8%	10%	11%	11%	12%	11%
Handset camera modules (CCM)	75%	73%	75%	76%	78%	68%	73%	70%	73%	70%	77%	74%	76%	73%	72%	71%
Vehicle lens sets (VLS)	6%	6%	6%	4%	4%	9%	7%	8%	8%	9%	6%	6%	5%	6%	8%	9%
Others	9%	11%	8%	9%	8%	10%	9%	10%	8%	9%	9%	10%	8%	9%	9%	9%
<b>Gross margin</b>																
Handset lens sets (HLS)	43.0%	44.0%	45.0%	45.0%	40.0%	44.5%	43.0%	40.0%	40.0%	42.0%	45.1%	43.5%	45.0%	42.5%	41.4%	41.1%
Handset camera modules (CCM)	9.4%	7.3%	5.9%	11.7%	11.1%	14.5%	11.2%	11.5%	11.3%	11.6%	13.0%	8.3%	9.3%	12.7%	11.4%	11.5%
Vehicle lens sets (VLS)	43.5%	44.5%	45.0%	45.0%	35.0%	40.0%	42.0%	45.0%	44.0%	45.0%	46.7%	44.0%	45.0%	38.4%	43.7%	44.6%
<b>Segment</b>																
<b>Handset lens sets (HLS)</b>	<b>1,198</b>	<b>1,396</b>	<b>1,713</b>	<b>2,450</b>	<b>1,886</b>	<b>2,408</b>	<b>2,379</b>	<b>2,778</b>	<b>2,708</b>	<b>3,500</b>	<b>1,789</b>	<b>2,593</b>	<b>4,163</b>	<b>4,294</b>	<b>5,156</b>	<b>6,208</b>
yoy	49%	41%	43%	76%	10%	-2%	26%	15%	14%	26%	75%	45%	61%	3%	20%	20%
<b>HLS shipment (mn units)</b>	<b>402</b>	<b>549</b>	<b>554</b>	<b>789</b>	<b>645</b>	<b>884</b>	<b>839</b>	<b>991</b>	<b>965</b>	<b>1,189</b>	<b>608</b>	<b>951</b>	<b>1,343</b>	<b>1,530</b>	<b>1,829</b>	<b>2,153</b>
yoy	54%	58%	38%	44%	17%	12%	30%	12%	15%	20%	60%	56%	41%	14%	20%	18%
<b>HLS ASP (RMB)</b>	<b>3.0</b>	<b>2.5</b>	<b>3.1</b>	<b>3.1</b>	<b>2.9</b>	<b>2.7</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>	<b>2.9</b>	<b>2.9</b>	<b>2.7</b>	<b>3.1</b>	<b>2.8</b>	<b>2.8</b>	<b>2.9</b>
yoy	-3%	-11%	4%	22%	-6%	-12%	-3%	3%	-1%	5%	9%	-7%	14%	-9%	0%	2%
<b>Handset camera modules (CCM)</b>	<b>8,998</b>	<b>10,192</b>	<b>11,707</b>	<b>16,903</b>	<b>14,741</b>	<b>13,084</b>	<b>14,977</b>	<b>16,846</b>	<b>18,332</b>	<b>20,619</b>	<b>17,222</b>	<b>19,190</b>	<b>28,610</b>	<b>27,825</b>	<b>31,822</b>	<b>38,951</b>
yoy	15%	8%	30%	66%	26%	-23%	2%	29%	22%	22%	55%	11%	49%	-3%	14%	22%
<b>CCM shipment (mn units)</b>	<b>178</b>	<b>245</b>	<b>215</b>	<b>325</b>	<b>269</b>	<b>324</b>	<b>341</b>	<b>405</b>	<b>409</b>	<b>486</b>	<b>325</b>	<b>423</b>	<b>540</b>	<b>593</b>	<b>746</b>	<b>896</b>
yoy	16%	43%	21%	33%	25%	0%	27%	25%	20%	20%	20%	30%	28%	10%	26%	20%
<b>CCM ASP (RMB)</b>	<b>50</b>	<b>42</b>	<b>54</b>	<b>52</b>	<b>55</b>	<b>40</b>	<b>44</b>	<b>42</b>	<b>45</b>	<b>42</b>	<b>53</b>	<b>45</b>	<b>53</b>	<b>47</b>	<b>43</b>	<b>43</b>
yoy	-1%	-24%	8%	25%	1%	-22%	-20%	3%	2%	2%	29%	-15%	17%	-11%	-9%	2%

Sources: Company data, CMS (HK) estimates

## Financial Summary

### Balance Sheet

RMB mn	2018	2019	2020	2021E	2022E
<b>Current assets</b>	<b>16,768</b>	<b>22,445</b>	<b>25,630</b>	<b>30,513</b>	<b>35,187</b>
Cash & equivalents	2,254	1,917	2,842	4,352	5,482
S/T investments	4,760	5,663	8,480	7,786	7,612
Accounts receivable	6,231	9,630	8,212	11,296	13,247
Inventories	3,074	5,146	5,783	6,829	8,610
Pledged bank deposits	215	6	3	4	4
Other current assets	234	83	309	248	232
<b>Non-current assets</b>	<b>6,084</b>	<b>8,248</b>	<b>9,809</b>	<b>10,758</b>	<b>11,767</b>
PP&E – net	4,523	6,567	7,513	8,429	9,429
Equity investments	101	1	2	2	1
Intangible assets	349	419	363	370	372
Deposit payments	401	315	359	374	377
Other non-current assets	710	946	1,571	1,584	1,587
<b>Total assets</b>	<b>22,852</b>	<b>30,693</b>	<b>35,438</b>	<b>41,271</b>	<b>46,953</b>
<b>Current liabilities</b>	<b>8,677</b>	<b>12,630</b>	<b>13,411</b>	<b>15,178</b>	<b>15,862</b>
S/T debt	1,482	1,119	2,071	1,871	1,671
Accounts payable	7,064	11,322	10,733	12,796	13,703
Taxes payable	0	50	315	250	233
Other current liabilities	131	140	292	262	255
<b>Non-current liabilities</b>	<b>4,887</b>	<b>5,336</b>	<b>5,201</b>	<b>4,396</b>	<b>3,594</b>
L/T debt	4,080	4,156	3,896	3,096	2,296
Other L/T liabilities	807	1,180	1,305	1,300	1,298
<b>Total liabilities</b>	<b>13,564</b>	<b>17,967</b>	<b>18,612</b>	<b>19,574</b>	<b>19,456</b>
Common stocks	105	105	105	105	105
Total reserves	9,129	12,448	16,492	21,363	27,163
Treasury stock	0	0	0	0	0
Capital adjusted	0	(0)	(0)	(0)	(0)
Minorities	54	173	229	229	229
<b>Total equity and liabilities</b>	<b>22,852</b>	<b>30,693</b>	<b>35,438</b>	<b>41,271</b>	<b>46,953</b>

### Cashflow Statement

RMB mn	2018	2019	2020	2021E	2022E
<b>CF from operating activities</b>	<b>3,568</b>	<b>4,662</b>	<b>7,160</b>	<b>5,809</b>	<b>6,862</b>
Pre-tax income	2,851	4,550	5,643	6,631	8,292
Depreciation & amortization	815	1,227	1,628	2,001	2,418
Changes in W/C	(203)	(1,426)	110	(2,067)	(2,825)
Investment gains	(76)	(32)	34	0	0
Others	181	342	(256)	(757)	(1,024)
<b>CF from investing activities</b>	<b>(5,499)</b>	<b>(3,556)</b>	<b>(5,976)</b>	<b>(2,327)</b>	<b>(3,271)</b>
Capital expenditure	(2,617)	(3,168)	(2,798)	(3,000)	(3,500)
Investments	(2,480)	(857)	(2,855)	695	174
Others	(402)	469	(323)	(21)	55
<b>CF from financing activities</b>	<b>2,957</b>	<b>(1,441)</b>	<b>(222)</b>	<b>(1,972)</b>	<b>(2,461)</b>
Dividend paid	(725)	(623)	(796)	(972)	(1,461)
Share issued (cancelled)	0	0	0	0	0
Debt issued (repaid)	3,920	(382)	1,017	(1,000)	(1,000)
Others	(238)	(437)	(443)	0	0
<b>Net cash flow</b>	<b>1,027</b>	<b>(337)</b>	<b>925</b>	<b>1,510</b>	<b>1,130</b>

Sources: Company data, CMS (HK) estimates; as of Apr 19, 2021

### Profit & Loss Statement

RMB mn	2018	2019	2020	2021E	2022E
<b>Revenues</b>	<b>25,932</b>	<b>37,849</b>	<b>38,002</b>	<b>44,502</b>	<b>54,622</b>
Cost of sales	(21,019)	(30,098)	(29,304)	(34,353)	(42,053)
<b>Gross profit</b>	<b>4,913</b>	<b>7,751</b>	<b>8,698</b>	<b>10,149</b>	<b>12,569</b>
R&D expenses	(1,362)	(2,209)	(2,499)	(2,718)	(3,282)
S&M expenses	(210)	(279)	(313)	(312)	(382)
G&A expenses	(434)	(650)	(719)	(804)	(963)
<b>Operating profit</b>	<b>2,907</b>	<b>4,612</b>	<b>5,167</b>	<b>6,315</b>	<b>7,942</b>
Interest income	37	45	64	71	77
Interest expense	(202)	(250)	(234)	(213)	(189)
Other non-op items	109	143	646	457	462
<b>Pretax income</b>	<b>2,851</b>	<b>4,550</b>	<b>5,643</b>	<b>6,631</b>	<b>8,292</b>
Tax expense	(339)	(531)	(703)	(788)	(1,032)
Net income (bef min)	2,513	4,019	4,940	5,843	7,261
Minorities	(22)	(28)	(68)	0	0
<b>Net income (aft min)</b>	<b>2,491</b>	<b>3,991</b>	<b>4,872</b>	<b>5,843</b>	<b>7,261</b>
Basic EPS (RMB)	2.28	3.65	4.45	5.34	6.63
<b>Diluted EPS (RMB)</b>	<b>2.27</b>	<b>3.64</b>	<b>4.45</b>	<b>5.34</b>	<b>6.63</b>

### Financial Ratios

	2018	2019	2020	2021E	2022E
<b>Growth rate (yoy)</b>					
Revenue	15.9%	46.0%	0.4%	17.1%	22.7%
Op profit	-4.4%	58.7%	12.0%	22.2%	25.8%
Net profit	-14.2%	60.2%	22.1%	19.9%	24.3%
<b>Profitability</b>					
Gross margin	18.9%	20.5%	22.9%	22.8%	23.0%
Op margin	11.2%	12.2%	13.6%	14.2%	14.5%
Net margin	9.6%	10.5%	12.8%	13.1%	13.3%
ROE	29.8%	36.6%	33.4%	30.7%	29.8%
<b>Liquidity</b>					
Debt to equity	59.9%	41.4%	35.5%	22.9%	14.4%
Net debt to equity	35.6%	26.4%	18.6%	2.8%	-5.5%
Current ratio	1.9	1.8	1.9	2.0	2.2
Quick ratio	1.6	1.4	1.5	1.6	1.7
<b>Operating efficiency</b>					
Asset turnover	1.3	1.4	1.1	1.2	1.2
Inventory turnover	7.4	7.3	5.4	5.4	5.4
AR turnover	4.4	4.8	4.3	4.6	4.5
AP turnover	3.2	3.3	2.7	2.9	3.2
<b>Per share ratios (RMB)</b>					
EPS	2.27	3.64	4.45	5.34	6.63
Net Cash PS	(3.02)	(3.06)	(2.86)	(0.56)	1.38
FCF PS	0.87	1.36	3.99	2.57	3.07
EBITDA PS	3.49	5.46	6.80	8.02	9.89
<b>Valuation ratios (x)</b>					
P/E	25.8	32.7	33.9	30.4	24.4
P/B	7.0	10.4	9.9	8.3	6.5
EV/EBITDA	17.6	22.4	22.6	20.6	16.7

## Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

### Analyst Disclosure

The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

### Regulatory Disclosure

Please refer to the important disclosures on our website <http://www.newone.com.hk/cmshk/gb/disclosure.html> or <http://www.cmschina.com.hk/Research/Disclosure>.

### Disclaimer

This document is prepared by China Merchants Securities (HK) Co Limited. The information contained herein has been obtained from or is based on sources believed to be reliable. China Merchant Securities (HK) Co Limited, its holding company or affiliated companies, or any of its or their directors, officers or employees (collectively "CMS") do not represent or warrant, expressly or impliedly, that it is accurate, correct or complete and it should not be relied upon. CMS will not accept any responsibility or liability whatsoever for any use of or reliance upon this document or any of the content thereof.

This document is for information purpose only. Neither the information nor opinion expressed shall be construed, expressly or impliedly, as an advice, offer or solicitation of an offer, invitation, advertisement, inducement, recommendation or representation of any kind or form whatsoever to buy or sell any security, financial instrument or any investment or other specific product. The securities, instruments or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to participate in some or all of them. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. CMS is not registered as a broker-dealer in the United States and its products and services are not available to U.S. persons except as permitted under SEC Rule 15a-6.

Opinions, and associated estimates and forecasts, or any content and information in this document are only current as of the date of their publication and will be subject to change without prior notice. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realized. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Opinions expressed herein may differ or be contrary to those expressed by other business divisions or other members of CMS as a result of using different assumptions and/or criteria.

This document has been prepared without regard to the individual financial circumstances and investment

objectives of the persons who receive it. Use of any information herein shall be at the sole discretion and risk of the user. Investors are advised to independently evaluate particular investments and strategies, take financial and/or tax advice as to the implications (including tax) of investing in any of the securities or products mentioned in this document, and make their own investment decisions without relying on this publication.

CMS may have a long or short position, make markets, act as principal or agent, or engage in transactions in securities of companies referred to in this document and may also perform or seek to perform investment banking services or provide advisory or other services for those companies.

This document is for the use of intended recipients only and this document may not be reproduced, distributed or published in whole or in part for any purpose without the prior consent of CMS. CMS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document.

This document is for distribution only under such circumstances as may be permitted by applicable law. This document is not directed at you if CMS is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. In particular, this document is only made available to certain US persons to whom CMS is permitted to make available according to US securities laws, but cannot otherwise be made available, distributed or transmitted, whether directly or indirectly, into the US or to any US person.

In Hong Kong, this document is distributed by China Merchants Securities (HK) Co., Limited, which is a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571).

In South Korea, professional clients can get copies of this document (upon request) through China Merchants Securities (Korea) Co., Limited

In the United Kingdom, this document is distributed by China Merchants Securities (UK) Limited. This document is for distribution only to persons who: (i) are persons falling within the definition of "Investment Professionals" pursuant to Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"); (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Financial Promotion Order; or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "Relevant Persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

If there is any inconsistency or ambiguity between the English version and the Chinese version of this disclaimer, the English version shall prevail.

© China Merchant Securities (HK) Co., Limited. All rights reserved.

### Hong Kong

China Merchants Securities (HK) Co., Ltd.  
Address: 48/F, One Exchange Square, Central, Hong Kong  
Tel: +852 3189 6888 Fax: +852 3101 0828