

Sunny Optical (2382 HK)

1H22 profit warning worse than expected; 3Q destocking a major overhang

Sunny announced 1H22 profit warning with net profit decline of 45-50% YoY, and mid-point is 28%/26% below our/consensus estimates. Mgmt attributed the miss to COVID-19 impact, chip shortage, Russia-Ukraine conflicts and rising inflation in 1H22, which resulted in weak smartphone demand, camera de-spec, weaker auto lens/modules and RMB201mn unrealized FX loss (US\$600mn bond) on RMB depreciation. While we remain positive on Sunny's auto lens recovery in 2H22E and technology leadership, we believe sluggish smartphone products will continue into 3Q22E given inventory correction in Android camp and global macro uncertainties. We trimmed FY22-24E EPS by 14-19% to reflect 1H22 miss and lower ASP/shipment. Our new EPS are 24-28% below consensus. Trading at 28.8x/22.4x FY22/23E P/E, we think the stock is fairly valued. Maintain HOLD with lowered SOTP-based TP of HK\$108.6 (rolled over to FY23E).

- 1H22 earnings decline of 45-50% YoY; Demand weakness across the board.** Sunny expected 1H22 earnings to decline 45-50% YoY and reach RMB1,344mn-1,478mn, which are well below our/consensus expectations. Excluding unrealized FX loss of RMB201mn, net profit would drop 40% YoY. While 1H22 HCM/HLS shipment decline of 20%/9% YoY is already priced in, we believe ASP/margin pressure is worse than expected due to de-spec and intense competition.
- Inventory correction and de-spec trend to continue into 3Q22E.** We think HCM/HSL June shipment decline of 21%/16% YoY and 19%/20% MoM reflected demand weakness and inventory correction will persist into 3Q22E. In addition, Largan's recent comment and our recent check suggested that component destocking, Android weakness and macro uncertainties will lead to component pressure in 3Q22E. We trimmed FY22-24 EPS by 14-19% to factor in lower HCM/HSL shipment and ASP/margin.
- Our FY22-24E are 24-28% below consensus; Expect headwinds to continue.** While we are positive on Sunny's product roadmap and technology leadership, Sunny's high exposure to handset segment (79% of sales, vs 8% for auto-related) will continue to weigh on earnings amid smartphone slowdown in 2022. Trading at 28.8x/22.4x FY22/23E P/E, we think the stock is fairly valued, and maintain HOLD with new SOTP-based TP of HK\$108.6 (23.2x FY23E P/E).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	38,002	37,497	31,850	35,449	42,940
YoY growth (%)	0.4	(1.3)	(15.1)	11.3	21.1
Net income (RMB mn)	4,882	4,993	3,496	4,244	5,444
EPS (RMB)	4.47	4.57	3.20	3.88	4.98
YoY growth (%)	22.4	2.3	(30.0)	21.4	28.3
Consensus EPS (RMB)	NA	4.56	4.44	5.58	6.74
P/E (x)	20.7	20.2	28.9	23.8	18.6
P/B (x)	6.0	4.8	4.3	3.7	3.2
Yield (%)	0.8	1.0	0.7	0.8	1.1
ROE (%)	29.0	23.9	14.7	15.6	17.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$108.6
(Previous TP	HK\$108.8)
Up/Downside	-3%
Current Price	HK\$111.4

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Stock Data

Mkt Cap (HK\$ mn)	122,189
Avg 3 mths t/o (HK\$ mn)	862.66
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	-2.9%	-1.4%
3-mth	0.5%	4.3%
6-mth	-49.3%	-40.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

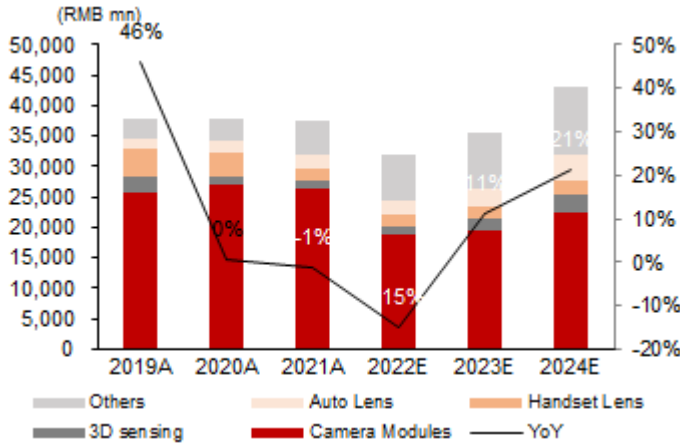
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Related Reports:

1) Jun shipment worse than feared; Trim TP to reflect 3Q destocking – 11 Jul 2022

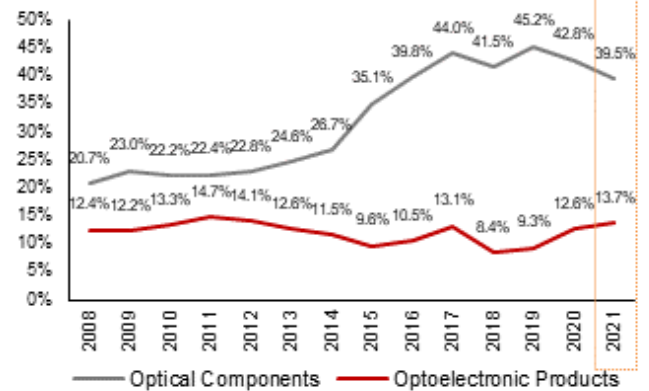
Focus Charts

Figure 1: Sunny Optical revenue trend



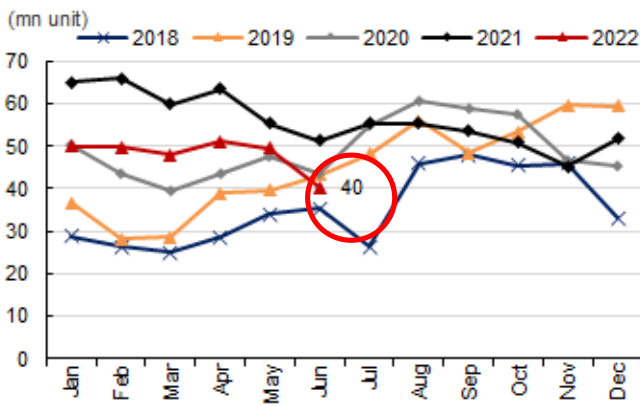
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



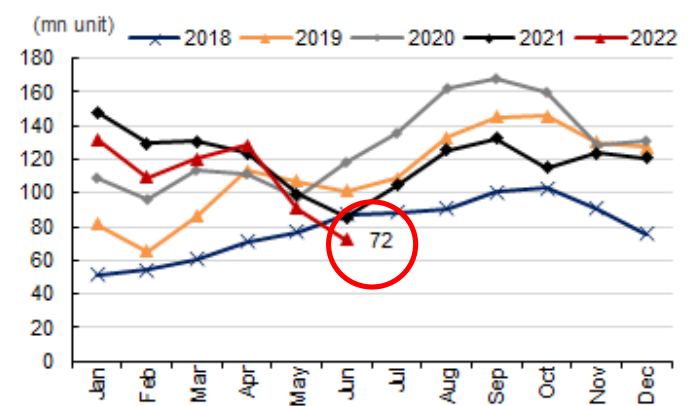
Source: Company data, CMBIGM estimates

Figure 3: Sunny HCM shipment trend



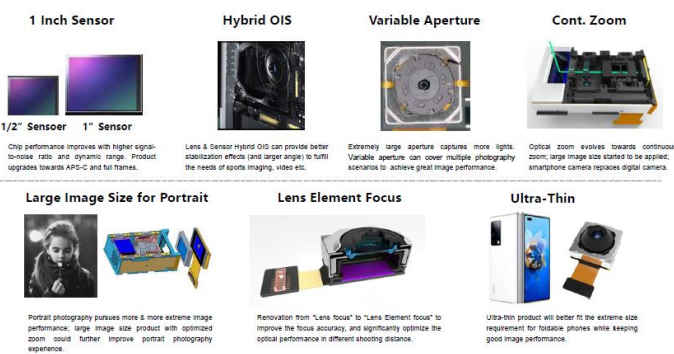
Source: Company data, CMBIGM estimates

Figure 4: Sunny HLS shipment trend



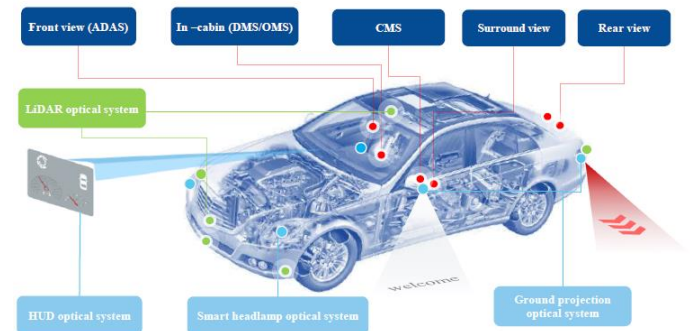
Source: Company data, CMBIGM estimates

Figure 5: Sunny next-gen handset camera products



Source: Company data, CMBIGM estimates

Figure 6: Sunny opportunities in vehicle cameras



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	31,850	35,449	42,940	35,024	40,620	47,672	-9%	-13%	-10%
Gross profit	7,003	8,038	10,059	7,852	9,483	11,539	-11%	-15%	-13%
Operating profit	4,275	5,156	6,568	5,232	6,282	7,782	-18%	-18%	-16%
Net profit	3,496	4,244	5,444	4,342	5,234	6,513	-19%	-19%	-16%
EPS (RMB)	3.20	3.88	4.98	3.97	4.79	5.96	-19%	-19%	-16%
Gross margin	22.0%	22.7%	23.4%	22.4%	23.3%	24.2%	-0.4%	-0.7%	-0.8%
Operating margin	13.4%	14.5%	15.3%	14.9%	15.5%	16.3%	-1.5%	-0.9%	-1.0%
Net margin	11.0%	12.0%	12.7%	12.4%	12.9%	13.7%	-1.4%	-0.9%	-1.0%

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	31,850	35,449	42,940	39,292	45,469	53,322	-19%	-22%	-19%
Gross profit	7,003	8,038	10,059	8,687	10,524	12,865	-19%	-24%	-22%
Operating profit	4,275	5,156	6,568	5,094	6,434	8,087	-16%	-20%	-19%
Net profit	3,496	4,244	5,444	4,820	5,997	7,345	-27%	-29%	-26%
EPS (RMB)	3.20	3.88	4.98	4.44	5.58	6.74	-28%	-30%	-26%
Gross margin	22.0%	22.7%	23.4%	22.1%	23.1%	24.1%	-0.1 ppt	-0.5 ppt	-0.7 ppt
Operating margin	13.4%	14.5%	15.3%	13.0%	14.2%	15.2%	0.5 ppt	0.4 ppt	0.1 ppt
Net margin	11.0%	12.0%	12.7%	12.3%	13.2%	13.8%	-1.3 ppt	-1.2 ppt	-1.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 9: P&L forecast

RMB mn	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
Revenue	38,002	37,497	15,435	16,415	31,850	35,449	42,940
...YoY	0.4%	-1.3%	-22.2%	-7.1%	-15.1%	11.3%	21.1%
Cost of sales	(29,304)	(28,761)	(12,084)	(12,763)	(24,847)	(27,411)	(32,881)
Gross profit	8,698	8,736	3,351	3,652	7,003	8,038	10,059
GPM (%)	22.9%	23.3%	21.7%	22.2%	22.0%	22.7%	23.4%
...YoY	12.2%	0.4%	-32.3%	-3.6%	-19.8%	14.8%	25.1%
SG&A	(1,032)	(1,032)	(420)	(455)	(875)	(968)	(1,172)
...% of rev	-2.7%	-2.8%	-2.7%	-2.8%	-2.7%	-2.7%	-2.7%
R&D	(2,499)	(2,642)	(1,019)	(1,215)	(2,233)	(2,481)	(3,006)
...% of rev	-6.6%	-7.0%	-6.6%	-7.4%	-7.0%	-7.0%	-7.0%
Other gain & loss	698	252	698	252	537	427	-
Operating profit	5,877	5,851	1,865	2,410	4,275	5,156	6,568
OPM (%)	15.5%	15.6%	12.1%	14.7%	13.4%	14.5%	15.3%
...YoY	22.3%	-0.4%	-44.3%	-3.8%	-26.9%	20.6%	27.4%
Net profit	4,882	4,993	1,466	2,030	3,496	4,244	5,444
NPM (%)	12.8%	13.3%	9.5%	12.4%	11.0%	12.0%	12.7%
...YoY	22.3%	2.3%	-45.5%	-12.0%	-30.0%	21.4%	28.3%

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	1,338	1,472	1,649
...YoY(%)	14%	-6%	-7%	10%	12%
Vehicle lens sets	56	68	73	91	115
...YoY(%)	12%	21%	7%	25%	26%
Optoelectronic Products					
Handset camera modules	593	674	586	644	709
...YoY(%)	10%	14%	-13%	10%	10%
Other optoelectronic (3D sensing)	41	59	70	101	146
...YoY(%)	-18%	45%	18%	45%	45%
Optical Instruments					
Microscopic instruments	195	258	287	316	348
...YoY(%)	-1%	32%	11%	10%	10%
Revenue (RMB mn)					
Optical Components	9,181	8,776	10,427	12,122	14,601
Optoelectronic Products	28,494	28,334	21,141	23,018	27,999
Optical instruments	326	387	281	310	341
Total Revenue	38,002	37,497	31,850	35,449	42,940
...YoY(%)	0.4%	-1.3%	-15.1%	11.3%	21.1%
Gross Margin					
Optical Components	42.8%	39.5%	34.8%	35.3%	37.3%
Optoelectronic products	12.6%	13.7%	11.8%	12.1%	12.2%
Optical instruments	39.2%	45.1%	45.8%	46.4%	46.4%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with new TP of HK\$108.6

We maintain HOLD with lowered TP of HK\$108.6, as we rollovered to FY23E. We derived our 12-month TP from SOTP valuation methodology and our TP is based on weighted-average target P/E multiple of 23.2x FY23E 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 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 FY23E Profit	FY23E EPS (RMB)	Target P/E
Camera modules	34.5%	1.34	15x
Handset lenses	47.3%	1.84	25x
Vehicle lenses	16.5%	0.64	35x
Others	1.7%	0.06	25x
Total (RMB) /Implied P/E		3.88	23.2x
TP (HK\$)			108.6

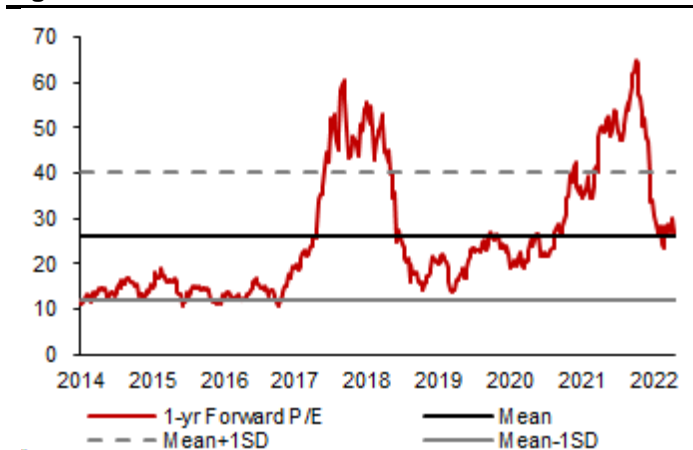
Sources: Company data, CMBIGM estimates

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	15,566	111.4	108.6	-3%	28.9	23.8	4.3	3.7	14.7	15.6
Q tech	1478 HK	BUY	711	4.7	7.0	49%	7.3	5.3	0.9	0.8	13.0	15.7
Cowell	1415 HK	NR	1,275	11.98	NA	NA	17.1	12.7	3.1	2.5	20.3	23.2
Truly	732 HK	NR	795	1.90	NA	NA	4.8	3.8	0.5	0.5	10.6	12.4
Catcher	2474 TT	NR	4,112	168.50	NA	NA	15.2	15.6	0.8	0.8	5.3	5.1
Largan	3008 TT	NR	8,503	1905.00	NA	NA	13.6	14.4	1.7	1.6	12.5	11.6
Lite-on	2301 TT	NR	4,520	57.50	NA	NA	10.3	9.0	1.8	1.8	17.4	18.8
Primax	4915 TT	NR	921	60.50	NA	NA	9.8	8.8	1.6	1.5	17.2	17.3
O-film	002456 CH	NR	2,932	6.08	NA	NA	-	-	2.3	2.3	(5.9)	(2.1)
Average							13.7	11.9	1.9	1.8	11.7	13.1

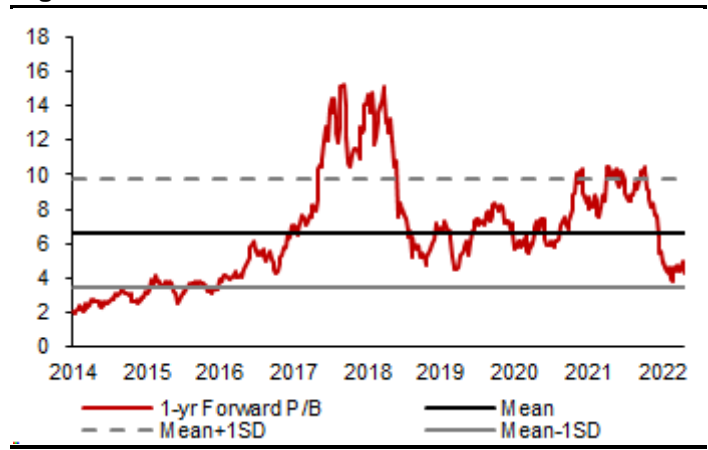
Source: Bloomberg, CMBIGM estimates

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	31,850	35,449	42,940
Cost of sales	(29,304)	(28,761)	(24,847)	(27,411)	(32,881)
Gross profit	8,698	8,736	7,003	8,038	10,059
Selling expenses	(313)	(274)	(233)	(259)	(313)
Admin expenses	(719)	(758)	(641)	(709)	(859)
R&D expenses	(2,499)	(2,642)	(2,233)	(2,481)	(3,006)
Other income	510	690	548	532	644
Other gain/ losses	187	99	(169)	35	43
Operating profit	5,877	5,851	4,275	5,156	6,568
Financial costs	(224)	(230)	(253)	(279)	(306)
Investment income	0	19	19	19	19
Pre-tax profit	5,653	5,640	4,040	4,896	6,281
Income tax expense	(703)	(579)	(491)	(588)	(754)
NCI	68	68	54	65	83
Net profit	4,882	4,993	3,496	4,244	5,444

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	5,643	5,640	4,040	4,896	6,281
Depreciation/amortisation	1,570	1,638	1,753	2,053	2,353
Change in working capital	115	200	446	(1,162)	(288)
Others	(168)	(499)	(227)	(315)	(461)
Net cash from operating	7,160	6,979	6,011	5,472	7,885
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)	(682)	(828)	(1,062)
Purchase of shares	(151)	-	-	-	-
Other	(291)	2,215	(253)	(279)	(306)
Net cash from financing	(222)	1,241	(935)	(1,106)	(1,368)
Net change in cash	962	11,122	2,076	1,366	3,517
Cash at beginning of the year	1,917	2,842	5,605	7,681	9,047
Exchange difference	(37)	(8,358)	-	-	-
Cash at the end of the year	2,842	5,605	7,681	9,047	12,564

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	25,630	27,989	25,676	33,778	35,485
Cash & equivalents	2,842	5,605	7,681	9,047	12,564
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	5,853	8,952	8,982
Inventories	5,783	5,482	2,687	6,325	4,485
Other current assets	74	28	28	28	28
Non-current assets	9,809	10,785	11,993	12,964	13,662
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	2,241	2,266	2,317
Total assets	35,438	38,774	37,669	46,742	49,147
Current liabilities	13,411	11,873	7,901	13,493	11,433
ST borrowings	2,071	1,539	1,539	1,539	1,539
Account payables	10,733	9,869	5,924	11,499	9,401
Other current liabilities	9,223	15,493	22,305	20,211	26,774
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	13,906	19,498	17,438
Share capital	105	105	105	105	105
Reserves	16,492	20,483	23,297	26,713	31,095
Minority interest	229	307	361	426	509
Shareholders' equity	16,826	20,895	23,763	27,244	31,709
Total equity & liabilities	35,438	38,774	37,669	46,742	49,147

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Optical components	24.2	23.4	32.7	34.2	34.0
Optoelectronic products	75.0	75.6	66.4	64.9	65.2
Optical instruments	0.9	1.0	0.9	0.9	0.8
Growth (%)					
Revenue	0.4	(1.3)	(15.1)	11.3	21.1
Gross profit	12.2	0.4	(19.8)	14.8	25.1
Operating profit	22.3	(0.4)	(26.9)	20.6	27.4
Net profit	22.3	2.3	(30.0)	21.4	28.3
Profit & loss ratio (%)					
Gross margin	22.9	23.3	22.0	22.7	23.4
Operating margin	15.5	15.6	13.4	14.5	15.3
Net profit margin	12.8	13.3	11.0	12.0	12.7
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	3.2	2.5	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	14.7	15.6	17.2
ROA	13.8	12.9	9.3	9.1	11.1
Per share data (RMB)					
EPS	4.47	4.57	3.20	3.88	4.98
DPS	0.73	0.89	0.62	0.76	0.97

Source: Company data, CMBIGM estimates

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