

# Sunny Optical (2382 HK)

## 1H22 first take: in-line with profit warning; 2H22 guidance the key to watch

Sunny's 1H22 net profit decline of 49.5% YoY is in-line with its profit warning earlier (45-50% YoY decline), mainly due to smartphone weakness and camera de-spec trend. 1H22 GPM came in at 20.8%, vs 24.9% in 1H21 and 21.5% in 2H21, due to margin pressure in both HCM/HLS. Sunny also recorded RMB142mn govt. grants (vs RMB48mn in 1H21). We believe 3Q22E outlook is mixed for Sunny since Android's ongoing destocking will be a drag to HCM shipment in 3Q22E, while iPhone 14 stock pull-in will drive HLS recovery in 3Q22E. Trading at 31.1x/27.3x FY22/23E P/E, we think the stock is fairly valued. Sunny will host an analyst meeting on 16 Aug, and we will look for 2H22E guidance and business update on AR/VR/auto-related products.

■ **1H22 in-line with profit warning; HLS/HCM margin under pressure.** 1H22 revenue was RMB17.0bn, down 14.4% YoY, due to 1) shipment/ASP decline on sluggish smartphone demand and de-spec trend, and 2) less-than-expected growth in auto lens/module shipment. Net profit of RMB1.4bn (-49.5%) is in-line with previous profit warning, while 1H22 GPM declined to 20.8%, down 4.1ppts YoY, due to lower utilization and intense competition in both HSL/HCM segments.

■ **Jul shipment: HSL MoM recovery and VLS solid growth.** Sunny reported July's shipment data earlier, with HLS/VLS recovery of 23%/4% MoM and HCM decline of 9% MoM. We believe Sunny's weak HCM shipment reflected Android ongoing destocking and HLS recovery was driven by order pull-in for iPhone 14 launch in Sep. While we believe demand weakness and inventory de-stocking will persist in 3Q22E, we are positive on HSL sequential recovery into 4Q22E backed by iPhone 14 and market share gain. In addition, we remain positive on VLS's solid growth given rising ADAS adoption and its global leading market position.

■ **Valuation/Key risks.** 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 and macro uncertainties in 2H22E. Trading at 31.1x/27.3x FY22/23E P/E, we think the stock is fairly valued. We will review our forecasts/TP after earnings call on 16 Aug.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	38,001.8	37,496.9	31,849.6	35,449.4	42,940.4
YoY growth (%)	0.4	(1.3)	(15.1)	11.3	21.1
EPS (Reported)(RMB)	4.5	4.6	3.2	3.9	5.0
YoY growth (%)	22.4	2.3	(30.0)	21.4	28.3
Consensus EPS (RMB)	0.0	4.6	3.9	5.1	6.1
P/E (x)	25.5	38.3	33.1	27.3	21.2
P/B (x)	7.4	9.2	4.9	4.3	3.6
Yield (%)	0.6	0.5	0.6	0.7	0.9
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\$108.60**  
 (Previous TP) HK\$108.60  
**Up/Downside** **(11.9%)**  
**Current Price** **HK\$123.20**

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### Stock Data

Mkt Cap (HK\$ mn)	135,150.4
Avg 3 mths t/o (HK\$ mn)	114.3
52w High/Low (HK\$)	252.60/95.30
Total Issued Shares (mn)	1097.0

Source: FactSet

### Shareholding Structure

Sun Xu Ltd	35.5%
JP Morgan Chase & Co	4.9%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	10.8%	14.5%
3-mth	29.3%	24.2%
6-mth	-34.5%	-19.1%

Source: FactSet

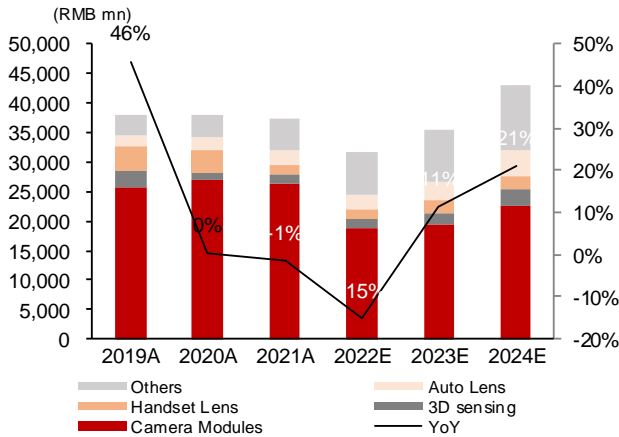
### 12-mth Price Performance



Source: FactSet

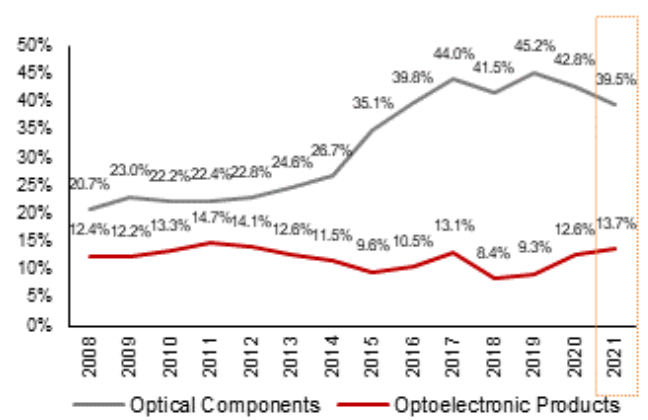
## Focus Charts

Figure 1: Sunny Optical revenue trend



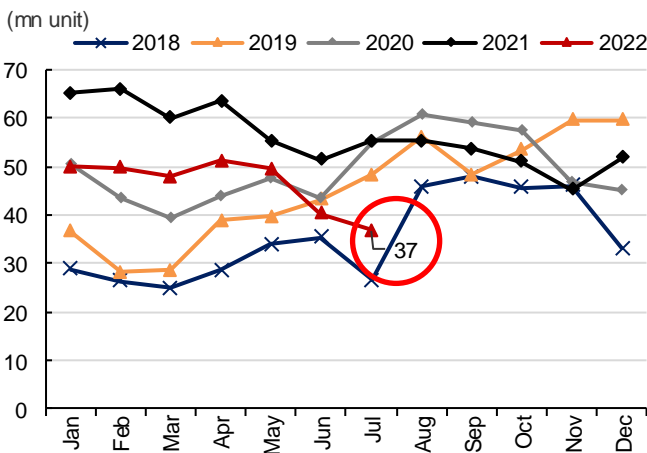
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



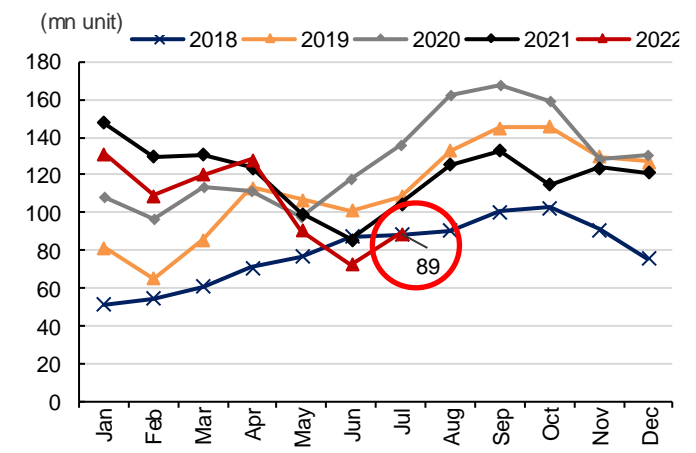
Source: Company data, CMBIGM estimates

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

**1 Inch Sensor**

1/2" Sensor 1" Sensor

Chip performance improves with higher signal-to-noise ratio and dynamic range. Product upgrades towards APS-C and full frames.

**Hybrid OIS**

Lens & Sensor Hybrid OIS can provide better stabilization effects (and larger angle) to fulfill the needs of sports imaging, video etc.

**Variable Aperture**

Extremely large aperture captures more lights. Variable aperture can cover multiple photography scenarios to achieve great image performance.

**Cont. Zoom**

Optical zoom evolves towards continuous zoom; large image size started to be applied; smartphone camera replaces digital camera.

**Large Image Size for Portrait**

Portrait photography pursues more & more extreme image performance, large image size product with optimized zoom could further improve portrait photography experience.

**Lens Element Focus**

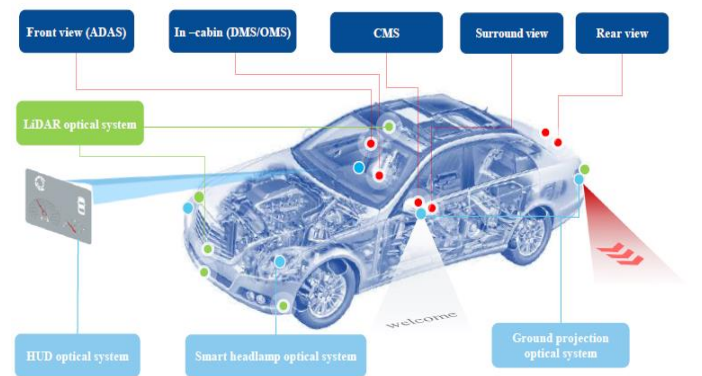
Retrovision from "Lens focus" to "Lens Element focus" to improve the focus accuracy, and significantly optimize the optical performance in different shooting distance.

**Ultra-Thin**

Ultra-thin product will better fit the extreme size requirement for foldable phones while keeping good image performance.

Source: Company data, CMBIGM estimates

Figure 6: Sunny opportunities in vehicle cameras



Source: Counterpoint, CMBIGM estimates

## 1H22 Review:

Figure 7: 1H22 Result Review

RMB mn	2H20	1H21	2H21	1H22	YoY	CMBI		Consensus	
						1H22E	Diff (%)	1H22E	Diff (%)
Revenue	19,138	19,833	17,663	16,972	-14%	15,435	10%	17,620	-4%
Gross profit	5,022	4,946	3,790	3,522	-29%	3,351	5%	3,642	-3%
Operating profit	3,630	3,345	2,506	1,798	-46%	1,865	-4%	1,948	-8%
Net profit	3,133	2,688	2,305	1,358	-49%	1,466	-7%	1,612	-16%
EPS (RMB)	2.86	2.46	2.11	1.24	-50%	1.34	-7%	1.58	-21%
Gross margin	26.2%	24.9%	21.5%	20.8%	-4.2 ppt	21.7%	-1 ppt	20.7%	0.1 ppt
Operating margin	19.0%	16.9%	14.2%	10.6%	-6.3 ppt	12.1%	-1.5 ppt	11.1%	-0.5 ppt
Net margin	16.4%	13.6%	13.1%	8.0%	-5.6 ppt	9.5%	-1.5 ppt	9.2%	-1.1 ppt

Source: Company data, CMBIGM estimates

Figure 8: P&L breakdown

RMB mn	2H20	1H21	2H21	1H22	CMBI		Consensus	
					1H22E	Diff	1H22E	Diff
<b>Revenue</b>	<b>19,138</b>	<b>19,833</b>	<b>17,663</b>	<b>16,972</b>	<b>15,435</b>	<b>10.0%</b>	<b>17,620</b>	<b>-3.7%</b>
...YoY	-14.1%	5.1%	-7.7%	-14.4%	-22.2%		-11.2%	
Cost of sales	(14,116)	(14,887)	(13,874)	(13,449)	(12,084)			
<b>Gross profit</b>	<b>5,022</b>	<b>4,946</b>	<b>3,790</b>	<b>3,522</b>	<b>3,351</b>	<b>5.1%</b>	<b>3,642</b>	<b>-3.3%</b>
GPM (%)	26.2%	24.9%	21.5%	20.8%	21.7%		20.7%	
...YoY	2.8%	34.5%	-24.5%	-28.8%	-32.3%		-26.4%	
<b>Operating profit</b>	<b>3,630</b>	<b>3,345</b>	<b>2,506</b>	<b>1,798</b>	<b>1,865</b>	<b>-3.6%</b>	<b>1,948</b>	<b>-7.7%</b>
OPM (%)	19.0%	16.9%	14.2%	10.6%	12.1%		11.1%	
...YoY	20.3%	48.9%	-31.0%	-46.3%	-44.3%		-41.8%	
<b>Net profit</b>	<b>3,133</b>	<b>2,688</b>	<b>2,305</b>	<b>1,358</b>	<b>1,466</b>	<b>-7.4%</b>	<b>1,612</b>	<b>-15.8%</b>
NPM (%)	16.4%	13.6%	13.1%	8.0%	9.5%		9.2%	
...YoY	22.4%	53.7%	-26.4%	-49.5%	-45.5%		-40.0%	

Source: Company data, CMBIGM estimates

Figure 9: P&L breakdown

RMB mn	2H20	1H21	2H21	1H22	YoY	HoH	CMBI	
							1H22E	Diff (%)
<b>Optical Comp (Auto/ handset lens)</b>	<b>5,318</b>	<b>4,344</b>	<b>4,432</b>	<b>4,399</b>	<b>1%</b>		<b>5,051</b>	<b>-13%</b>
Auto lens shipment (mn unit)	36	37	31	38	1%		38	
... ASP (Rmb)	40.3	36.2	34.9	36.2	0%	4%	35.0	3%
Handset lens Shipment (mn unit)	8,844	7,171	7,225	6,516	-9%		6,516	
... ASP (Rmb)	3.9	3.5	3.1	2.9	-16%	-4%	3.1	-4%
<b>Optoelectronic (HCM, 3D, AR/VR)</b>	<b>13,620</b>	<b>15,308</b>	<b>13,026</b>	<b>12,371</b>	<b>-19%</b>		<b>11,214</b>	<b>10%</b>
HCM Shipment (mn unit)	324	361	312	289	-20%		289	
... ASP (Rmb)	39.0	39.4	38.4	39.1	-1%	2%	35.7	9%
3D sensing Shipment (mn unit)	19.7	19.1	19.1	14.6	-24%		11.5	
... ASP (Rmb)	42.9	42.9	39.6	50.0	17%	26%	39.6	26%
<b>Optical instruments</b>	<b>200</b>	<b>182</b>	<b>206</b>	<b>202</b>	<b>11%</b>		<b>153</b>	<b>32%</b>
<b>Total Revenue</b>	<b>19,138</b>	<b>19,833</b>	<b>17,663</b>	<b>16,972</b>	<b>-14%</b>		<b>16,418</b>	<b>3%</b>
<b>Gross Margin</b>								
Optical Comp (Auto/ handset lens)	43.7%	42.9%	35.9%	35.5%	-7.4 ppt	-0.4 ppt	36.0%	-0.5 ppt
Optoelectronic (HCM, 3D)	14.2%	14.8%	12.4%	11.6%	-3.2 ppt	-0.8 ppt	12.0%	-0.4 ppt
Optical instruments	46.3%	44.2%	49.3%	44.6%	0.4 ppt	-4.7 ppt	45.0%	-0.4 ppt
<b>Blended GPM</b>	<b>26.2%</b>	<b>24.9%</b>	<b>21.5%</b>	<b>20.8%</b>	<b>-4.2 ppt</b>	<b>-0.7 ppt</b>	<b>23.4%</b>	<b>-2.6 ppt</b>

Source: Company data, CMBIGM estimates

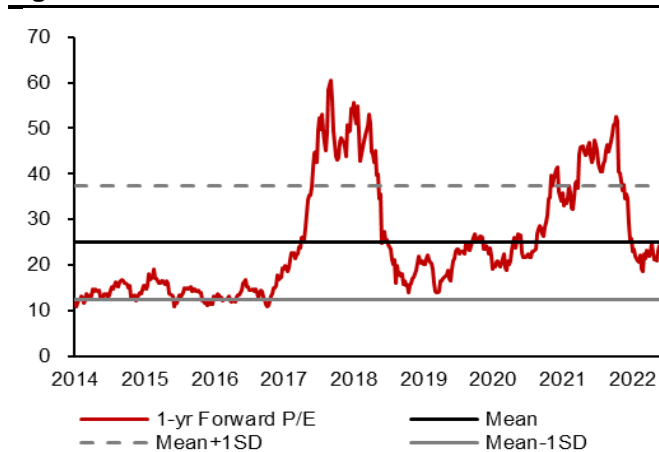
## Valuation

Figure 10: 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	16,864	123.2	108.6	-12%	33.1	27.3	4.9	4.3	14.7	15.6
Q tech	1478 HK	Buy	730	4.8	5.6	16%	18.8	9.2	1.0	1.0	5.5	10.3
Cowell	1415 HK	NR	1,813	17.00	NA	NA	24.4	18.1	4.3	3.6	20.3	23.2
Truly	732 HK	NR	694	1.66	NA	NA	4.2	3.4	0.5	0.4	10.6	12.4
Catcher	2474 TT	NR	4,255	175.00	NA	NA	14.7	16.4	0.8	0.8	5.6	4.8
Largan	3008 TT	NR	9,206	2070.00	NA	NA	14.1	15.7	1.8	1.7	13.2	11.6
Lite-on	2301 TT	NR	5,350	68.30	NA	NA	11.3	10.2	2.1	2.1	18.4	19.4
Primax	4915 TT	NR	1,048	69.10	NA	NA	11.0	9.9	1.9	1.7	17.4	17.6
O-film	002456 CH	NR	3,021	6.28	NA	NA	-	523.3	2.6	2.5	(11.4)	(1.6)
<b>Average</b>							<b>16.5</b>	<b>70.4</b>	<b>2.2</b>	<b>2.0</b>	<b>10.5</b>	<b>12.6</b>

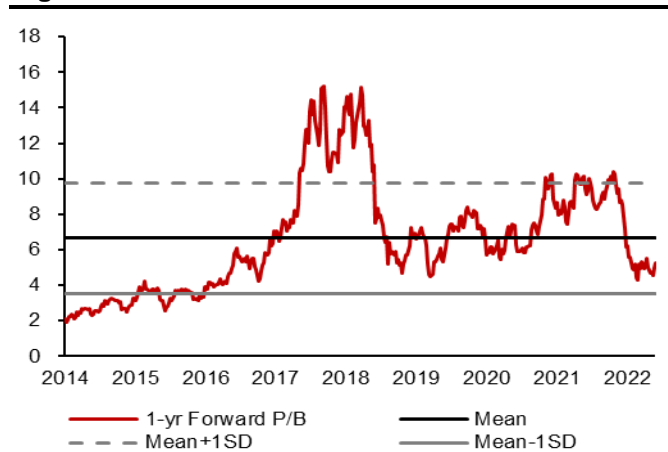
Source: Bloomberg, CMBIGM estimates

Figure 11: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 12: 12M forward P/B band



Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>37,849</b>	<b>38,002</b>	<b>37,497</b>	<b>31,850</b>	<b>35,449</b>	<b>42,940</b>
Cost of goods sold	(30,098)	(29,304)	(28,761)	(24,847)	(27,411)	(32,881)
<b>Gross profit</b>	<b>7,751</b>	<b>8,698</b>	<b>8,736</b>	<b>7,003</b>	<b>8,038</b>	<b>10,059</b>
Selling expense	(279)	(313)	(274)	(233)	(259)	(313)
Admin expense	(650)	(719)	(758)	(641)	(709)	(859)
R&D expense	(2,209)	(2,499)	(2,642)	(2,233)	(2,481)	(3,006)
Others	205	698	789	380	567	687
<b>Operating profit</b>	<b>4,806</b>	<b>5,877</b>	<b>5,851</b>	<b>4,275</b>	<b>5,156</b>	<b>6,568</b>
Investment gain/loss	(6)	0	19	19	19	19
Others	(250)	(224)	(230)	(253)	(279)	(306)
<b>Pre-tax profit</b>	<b>4,550</b>	<b>5,653</b>	<b>5,640</b>	<b>4,040</b>	<b>4,896</b>	<b>6,281</b>
Income tax	(531)	(703)	(579)	(491)	(588)	(754)
Minority interest	28	68	68	54	65	83
<b>Net profit to shareholders</b>	<b>3,991</b>	<b>4,882</b>	<b>4,993</b>	<b>3,496</b>	<b>4,244</b>	<b>5,444</b>
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>22,446</b>	<b>25,630</b>	<b>27,989</b>	<b>25,676</b>	<b>33,778</b>	<b>35,485</b>
Cash & equivalents	1,917	2,842	5,605	7,681	9,047	12,564
Account receivables	9,630	8,212	7,448	5,853	8,952	8,982
Inventories	5,146	5,783	5,482	2,687	6,325	4,485
ST bank deposits	21	238	1,112	1,112	1,112	1,112
Financial assets at FVTPL	5,663	8,480	8,314	8,314	8,314	8,314
Other current assets	69	74	28	28	28	28
<b>Non-current assets</b>	<b>8,247</b>	<b>9,809</b>	<b>10,785</b>	<b>11,993</b>	<b>12,964</b>	<b>13,662</b>
PP&E	6,567	7,513	8,303	9,550	10,497	11,144
Other non-current assets	1,680	2,295	2,481	2,443	2,467	2,518
<b>Total assets</b>	<b>30,693</b>	<b>35,438</b>	<b>38,774</b>	<b>37,669</b>	<b>46,742</b>	<b>49,147</b>
<b>Current liabilities</b>	<b>12,630</b>	<b>13,411</b>	<b>11,873</b>	<b>7,901</b>	<b>13,493</b>	<b>11,433</b>
Short-term borrowings	1,119	2,071	1,539	1,539	1,539	1,539
Account payables	11,322	10,733	9,869	5,924	11,499	9,401
Other current liabilities	5,622	9,223	15,493	22,305	20,211	26,774
<b>Non-current liabilities</b>	<b>5,336</b>	<b>5,201</b>	<b>6,005</b>	<b>6,005</b>	<b>6,005</b>	<b>6,005</b>
Long-term borrowings	0	0	700	700	700	700
Other non-current liabilities	5,336	5,201	5,305	5,305	5,305	5,305
<b>Total liabilities</b>	<b>17,967</b>	<b>18,612</b>	<b>17,879</b>	<b>13,906</b>	<b>19,498</b>	<b>17,438</b>
Share capital	105	105	105	105	105	105
Other reserves	12,448	16,492	20,483	23,297	26,713	31,095
<b>Total shareholders equity</b>	<b>12,726</b>	<b>16,826</b>	<b>20,895</b>	<b>23,763</b>	<b>27,244</b>	<b>31,709</b>
Minority interest	173	229	307	361	426	509
<b>Total equity and liabilities</b>	<b>30,693</b>	<b>35,438</b>	<b>38,774</b>	<b>37,669</b>	<b>46,742</b>	<b>49,147</b>
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>4,550</b>	<b>5,643</b>	<b>5,640</b>	<b>4,040</b>	<b>4,896</b>	<b>6,281</b>
Depreciation & amortization	1,227	1,570	1,638	1,753	2,053	2,353
Change in working capital	(1,477)	115	200	446	(1,162)	(288)
Others	361	(168)	(499)	(227)	(315)	(461)
<b>Net cash from operations</b>	<b>4,662</b>	<b>7,160</b>	<b>6,979</b>	<b>6,011</b>	<b>5,472</b>	<b>7,885</b>
<b>Investing</b>						

Capital expenditure	(2,760)	(2,271)	(2,498)	(3,000)	(3,000)	(3,000)
Others	(796)	(3,705)	5,400	0	0	0
<b>Net cash from investing</b>	<b>(3,556)</b>	<b>(5,976)</b>	<b>2,902</b>	<b>(3,000)</b>	<b>(3,000)</b>	<b>(3,000)</b>
<b>Financing</b>						
Dividend paid	(623)	(796)	(974)	(682)	(828)	(1,062)
Net borrowings	(382)	1,017	0	0	0	0
Share repurchases	(170)	(151)	0	0	0	0
Others	(266)	(291)	2,215	(253)	(279)	(306)
<b>Net cash from financing</b>	<b>(1,441)</b>	<b>(222)</b>	<b>1,241</b>	<b>(935)</b>	<b>(1,106)</b>	<b>(1,368)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,254	1,917	2,842	5,605	7,681	9,047
Exchange difference	(2)	(37)	(8,358)	0	0	0
<b>Cash at the end of the year</b>	<b>1,917</b>	<b>2,842</b>	<b>5,605</b>	<b>7,681</b>	<b>9,047</b>	<b>12,564</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	46.0%	0.4%	(1.3%)	(15.1%)	11.3%	21.1%
Gross profit	57.8%	12.2%	0.4%	(19.8%)	14.8%	25.1%
Operating profit	56.2%	22.3%	(0.4%)	(26.9%)	20.6%	27.4%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	20.5%	22.9%	23.3%	22.0%	22.7%	23.4%
Operating margin	12.7%	15.5%	15.6%	13.4%	14.5%	15.3%
Net profit margin	10.5%	12.8%	13.3%	11.0%	12.0%	12.7%
Return on assets (ROA)	13.0%	13.8%	12.9%	9.3%	9.1%	11.1%
Return on equity (ROE)	31.4%	29.0%	23.9%	14.7%	15.6%	17.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.1)	(0.0)	(0.0)	(0.1)	(0.2)	(0.2)
Current ratio (x)	1.8	1.9	2.4	3.2	2.5	3.1
Receivable turnover days	76.5	85.7	76.2	76.2	76.2	76.2
Inventory turnover days	49.8	68.1	68.1	60.0	60.0	60.0
Payable turnover days	111.5	137.4	137.4	116.0	116.0	116.0
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	24.0	25.5	38.3	33.1	27.3	21.2
P/B	7.4	7.4	9.2	4.9	4.3	3.6
Div yield (%)	0.6%	0.6%	0.5%	0.6%	0.7%	0.9%
EV	12,726.2	16,826.1	20,895.3	23,762.7	27,243.7	31,708.8
EV/Sales	0.3	0.4	0.6	0.7	0.8	0.7

Note: The calculation of net cash includes financial assets. Source: Company data, CMBIGM estimates

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