

## Stay focused on long term growth

Rating	<b>BUY</b>	Maintain
Target Price	<b>HKD 139.04</b>	From: HK\$156.66
Current price	<b>HKD 119.70</b>	Upside:+16.2%

### De-spec drove 1H22 net profit to the low end of profit warning

Sunny's 1H22 revenue and net income arrived at RMB 16,971mn/1,357mn (-14.4%/-49.5% Yoy), in which the net profit was at the low end of the profit warning as announced in mid-July. The weak 1H22 result was driven by **i) dampened smartphone end demand, which led to ASP and GM pressure in 1H22. Sunny's blended GM came in at 20.8% (~1ppts lower than Bloomberg FY22E consensus) due to HLS and HCM margin pressure; ii) net losses of RMB56mn (vs. ~RMB8mn gain in 1H21) mainly contributed by net FX loss (non-cash item) due to RMB depreciation and loss in FV of derivative and debt instruments which outweighed gain on disposal of subsidiary (RMB55mn) and government grants (RMB142mn in 1H22).**

### Handset related business headwind persists but with bright spots

Handset related sales dropped 19.5% Yoy to RMB12.8bn on the back of weak smartphone end demand, de-spec continues to rising BOM cost (chip shortage) and competition from new players which dragged ASP. Both optical components (mainly HLS) and optoelectronics (mostly HCM) shipment volume dropped 9.1%/20.1% Yoy to ~910mn/289mn respectively, while revenue each fell 1.3%/19.1% Yoy.

Sunny's optical components and optoelectronics' GM each slipped 4.1ppts/3.2 ppts Yoy to 35.5%/11.6%. Management though guided GM would under pressure in 2H22, we continued to identify some meaning pictures in Sunny's product mix. Sunny's high-end product contribution continue to make good progress with 6P+ lens contribution further increased to 30.0% in 1H22 (vs. 23.0/24.7%/25.6% in FY19-FY21), thanks to tapping into US smartphone client supply chain. In addition, periscopes and large image size (> 1/1.7") camera modules took up 13.7% of HCM shipment volume (vs. 6%/10.3%/6.7% in FY19-FY21). These show Sunny's previous efforts and capability in providing premium products to international customers.

As expected, Sunny guided down FY22E HLS and HCM shipment volume, but the magnitude was larger than our expectation. Sunny guided shipment to drop 15%/20% Yoy respectively (vs.+5-10% Yoy/+10-15% Yoy in FY21 result). Though this reflects Management's more conservative stance in 2H22, we rather view this as a kind of managing market expectation, any upbeat in actual shipment would serve as a +ve catalyst. Meanwhile, we still expect Sunny's share allocation in US client (HLS) and Samsung (supplying flagship HCM) is still on upward trajectory. Based on 7M22 shipment and assuming market condition would be similar to FY21, we now model -10%/-20% Yoy growth in HLS/HCM shipment forecasts (vs. +10%/+15% Yoy in our last update in Mar 2022).

### FY22E CAPEX guidance maintained, focus on long term growth

Sunny continues to invest in product R&D and technology upgrades. In 1H22, Sunny's R&D expense was up 11% Yoy and accounted for 8.7% of total revenue (vs. 5.9%/6.6%/7.0% in FY19-FY21) and 1H22 CAPEX came in at ~RMB1,364mn. We still expect Sunny R&D expense would maintain at >7% in FY22E and Management stucked with RMB3.0bn FY22E CAPEX guidance, in which ~30% would be used in AR/VR (sales took up ~4.0% vs. 3.0% in 1H21) and LiDAR etc, while ~23%/~16%/10% of it will be allocated to HLS capacity expansion (for US smartphone customer), HCM automation and VLS capacity expansion respectively, while the remaining would be allocated to Vietnam plant.

## Result Takeaway

19 August 2022

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### Trading data

52-Week Range (HK\$)	258.00/93.55
3 Mth Avg Daily Vol (m)	7.28
No of Shares (m)	1,096.85
Market Cap (HK\$m)	132,129.3
Major Shareholders (%)	Wang Wenjian (38.6%)
Auditors	Deloitte
Result Due	FY22E: Mar 2023

### Company description

Founded in 1984, Sunny Optical (SO) is a leading integrated optical products manufacturer mainly for digital camera and handset. The company dominates in China handset market with ~50% market share. It focuses heavily on domestic OEMs (Huawei, Vivo, Oppo, Xlaomi), with customers in Korea (Samsung) and Japan (Sony, Panasonic and Nikon).

### Price chart



Sources: Bloomberg, CIRC

## Automotive products: Continued R&D and diversify product offerings

Despite VLS shipment only barely grew 0.8% Yoy to 37.6mn units in 1H21 due to chip shortages, vehicle related products (incl. both VLS+ vehicle camera modules) sales still managed to grow 6.9% Yoy to RMB1,724mn and accounted for 10.2% of total revenue (vs. 5.0%/8.1% in 1H20/1H21), thanks to increasing pace in auto camera adoption. Sunny also lowered its FY22E VLS shipment guidance to increase 10-15% Yoy (vs. 20-30% Yoy in FY21 result). Sunny's 7M22 volume shipment arrived at ~44mn units, and largely on track based on previous low-end guidance, we now model 15% Yoy VLS shipment growth (~78mn units by end-2022).

Sunny also provided updates on automotive business development, which includes **i) maintain automotive CCM revenue to reach RMB1bn in FY22E, and ii) more product offerings (e.g. vehicle camera modules, ADAS lens sets, hybrid surrounding-view lens sets and modules, and completed R&D on 5MP hybrid in-cabin monitoring lens sets, OMS modules)**. Meanwhile, management is still confident in LiDAR, head-up display (HUD) growth potential. We believe Sunny would continue to benefit from increasing automotive CCM and ADAS penetration, thanks to their leadership in VLS (No.1 with >30% global market share) and leading supplier in automotive CCM

## Lower FY22E-24E EPS, Maintain BUY on clear mid-term product roadmap

With 1H22 sales and net profit only reached 42.4%/25.8% of our FY22E estimates, we lower Sunny's FY22E-24E EPS estimates by 39.2%/37.9%/26.3%, due to lower sales forecast and GM assumption, as near-term smartphone CCM competition and optical products de-spec in smartphone continue to drag on the ASP of HLS and HCM.

Nevertheless, we still believe Sunny's leadership in HLS and HCM remains intact, and continue to diversify away from smartphones. Sunny is trading at FY23E 25.8x PE (~11% below Sunny's 5-year average), we expect Sunny's EPS to grow 29.4% CAGR in FY22E-24E and they have a clear mid-term product roadmap which plays a part in Sunny's new growth engine, we maintain Sunny's rating at BUY with new TP at HK\$139.04, which implies FY23E 30.0x PE and ~1.0x PEG.

Exhibit 1: Sunny Optical's shipment volume & sales (1H19-1H22)

Shipment Volume (Mn Units)	1H19	2H19	1H20	2H20	1H21	2H21	1H22	hoh	yoy
<b>Optical components</b>	<b>615.3</b>	<b>869.0</b>	<b>700.9</b>	<b>977.8</b>	<b>825.0</b>	<b>838.1</b>	<b>769.8</b>	<b>-8.1%</b>	<b>-6.7%</b>
Spherical lenses	12.1	17.7	12.8	17.7	19.1	22.2	16.9	-23.8%	-11.5%
Handset lens sets	553.7	789.4	645.4	884.4	717.1	722.5	651.6	-9.8%	-9.1%
Vehicle lens sets	22.5	27.6	20.5	35.7	37.3	30.7	37.6	22.7%	0.8%
Other lens sets	27.0	34.3	22.3	39.9	51.5	62.8	63.7	1.4%	23.6%
<b>Optoelectronic products</b>	<b>240.5</b>	<b>352.5</b>	<b>287.3</b>	<b>349.2</b>	<b>390.4</b>	<b>342.1</b>	<b>315.4</b>	<b>-7.8%</b>	<b>-19.2%</b>
Handset camera modules	215.2	325.3	268.6	324.3	361.2	312.5	288.7	-7.6%	-20.1%
Others (incl. 3D sensing products such as structured light and ToF)	25.4	27.2	18.7	25.0	29.1	29.7	26.7	-10.0%	-8.5%
<b>Optical instruments</b>	<b>89.6</b>	<b>107.7</b>	<b>87.6</b>	<b>107.8</b>	<b>117.5</b>	<b>137.4</b>	<b>133.1</b>	<b>-3.1%</b>	<b>13.2%</b>
	89.6	107.7	87.6	107.8	117.5	137.4	133.1	-3.1%	13.2%
<b>Total</b>	<b>945.5</b>	<b>1,329.3</b>	<b>1,075.9</b>	<b>1,434.8</b>	<b>1,332.9</b>	<b>1,317.6</b>	<b>1,218.2</b>	<b>-7.5%</b>	<b>-8.6%</b>
<b>Segment Revenue (RMB mn)</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>	<b>2H20</b>	<b>1H21</b>	<b>2H21</b>	<b>1H22</b>	<b>hoh</b>	<b>yoy</b>
Optical Components	3,773.7	5,041.7	3,863.5	5,317.6	4,343.9	4,432.2	4,399.0	-0.7%	1.3%
Optoelectronic Products	11,679.5	17,068.9	14,873.8	13,620.4	15,307.8	13,025.7	12,370.9	-5.0%	-19.2%
Optical instruments	121.7	163.2	126.4	200.0	181.7	205.6	201.8	-1.8%	11.1%
<b>Total</b>	<b>15,574.9</b>	<b>22,273.8</b>	<b>18,863.8</b>	<b>19,138.0</b>	<b>19,833.4</b>	<b>17,663.4</b>	<b>16,971.8</b>	<b>-3.9%</b>	<b>-14.4%</b>
<b>ASP (RMB per units)</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>	<b>2H20</b>	<b>1H21</b>	<b>2H21</b>	<b>1H22</b>	<b>hoh</b>	<b>yoy</b>
Optical Components	6.1	5.8	5.5	5.4	5.3	5.3	5.7	8.1%	8.5%
Optoelectronic Products	48.6	48.4	51.8	39.0	39.2	38.1	39.2	3.0%	0.0%

Source: Company data, CIRC

**Exhibit 2: We cut Sunny's FY22E-24E earnings on lower sales forecasts and GM assumption**

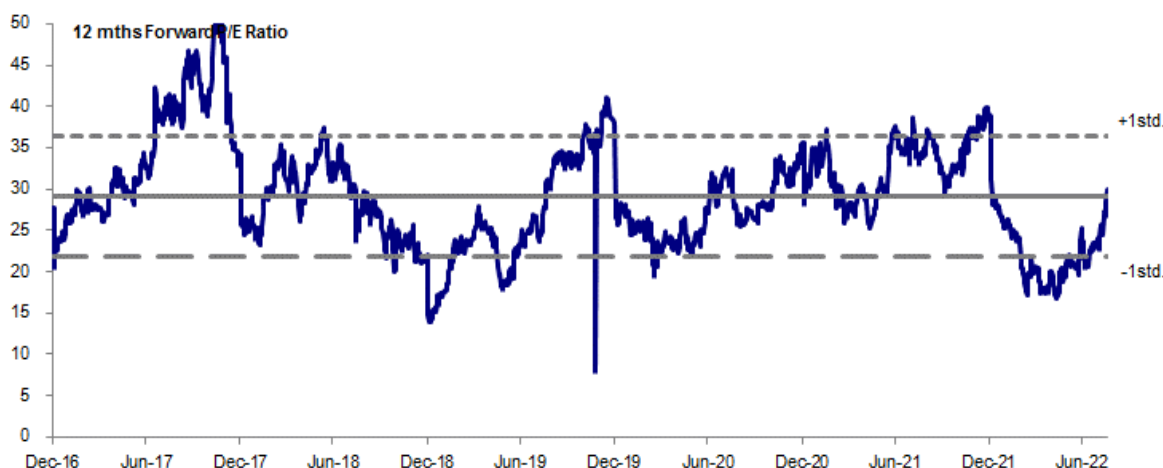
	FY22E(old)	FY22E(new)	Diff	FY23E(old)	FY23E(new)	Diff	FY24E(old)	FY24E(new)	Diff
Revenue	39,946	32,993	-17.4%	43,702	36,004	-17.6%	48,555	40,366	-16.9%
GM	23.1%	20.3%	-280bps	24.0%	22.5%	-150bps	24.9%	23.6%	-130bps
Operating profit	6,162	3,829	-37.9%	7,204	5,152	-28.5%	8,368	6,214	-25.7%
Net Profit	5,255	3,193	-39.2%	6,191	4,379	-29.3%	7,235	5,333	-26.3%
EPS (RMB)	4.80	2.91	-39.2%	6.44	4.00	-37.9%	6.60	4.87	-26.3%

Source: CIRL estimates

**Exhibit 3: Financial statement**

Income statement						Cash flow					
Year to Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	Year to Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	38,002	37,497	32,993	36,004	40,366	Pre-tax profit	5,643	5,635	3,602	4,941	6,018
Gross profit (reported)	8,698	8,736	6,686	8,099	9,518	Taxes paid	(406)	182	(579)	(370)	(508)
EBITDA	7,505	7,606	5,412	6,880	8,152	Depreciation	1,628	1,760	1,584	1,728	1,938
Depreciation	(1,628)	(1,760)	(1,584)	(1,728)	(1,938)	Associates	(0)	(19)	(0)	(0)	(0)
EBIT	5,877	5,846	3,829	5,152	6,214	CFO bef. WC change	6,865	7,558	4,607	6,299	7,448
Net interest income (exp.)	(234)	(230)	(226)	(211)	(196)	Change in working cap	609	641	551	(613)	(493)
Associates	0	19	0	0	0	<b>Cashflow from operation</b>	<b>7,474</b>	<b>8,198</b>	<b>5,158</b>	<b>5,686</b>	<b>6,955</b>
Exceptionals/others	0	0	0	0	0	CAPEX	(2,798)	(2,589)	(2,793)	(2,691)	(2,742)
<b>Profit before tax</b>	<b>5,643</b>	<b>5,635</b>	<b>3,602</b>	<b>4,941</b>	<b>6,018</b>	<b>Free cash flow</b>	<b>4,676</b>	<b>5,609</b>	<b>2,365</b>	<b>2,995</b>	<b>4,213</b>
Tax expenses	(703)	(579)	(370)	(508)	(618)	Dividends	(974)	(998)	(639)	(876)	(1,067)
Minority interest	(68)	(67)	(40)	(54)	(66)	Balance sheet adj.	0	0	0	(0)	(0)
<b>Net profit</b>	<b>4,872</b>	<b>4,989</b>	<b>3,193</b>	<b>4,379</b>	<b>5,333</b>	Share issued	0	0	0	0	0
Dividends	-974	-998	-639	-876	-1,067	Others	147	0	359	(237)	(191)
<b>Balance sheet</b>						<b>Net cash flow</b>	<b>3,848</b>	<b>4,611</b>	<b>2,085</b>	<b>1,882</b>	<b>2,955</b>
Year to Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	Net cash (debt) start	2,760	6,608	11,220	13,305	15,187
Cash & equiv	12,575	16,574	18,660	20,541	23,496	Net cash (debt) at year-end	6,608	11,220	13,305	15,187	18,142
Trade receivables	8,212	8,103	7,130	7,780	8,723	<b>Ratios</b>					
Other receivables	0	0	0	0	0	<b>Year to Dec (RMB mn)</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Inventories	5,783	4,911	4,435	4,982	5,610	<b>Growth rate (%)</b>					
Other current assets	1,729	1,729	1,729	1,729	1,729	Revenue	0.4	(1.3)	(12.0)	9.1	12.1
Fixed assets	7,338	8,167	9,377	10,339	11,144	EBITDA	24.5	1.3	(28.8)	27.1	18.5
Intangible assets	0	0	0	0	0	EBIT	22.3	(0.5)	(34.5)	34.6	20.6
Investment, associates etc	421	440	440	440	440	Net profit	22.1	2.4	(36.0)	37.2	21.8
<b>Total assets</b>	<b>36,058</b>	<b>39,924</b>	<b>41,769</b>	<b>45,812</b>	<b>51,142</b>	EPS	22.1	2.4	(36.0)	37.2	21.8
Account payables	10,733	10,534	9,636	10,221	11,299	<b>Margins (%)</b>					
Other payables	0	0	0	0	0	Gross margin (reported)	22.9	23.3	20.3	22.5	23.6
Short-term debt	2,071	1,539	1,539	1,539	1,539	EBITDA	19.7	20.3	16.4	19.1	20.2
Other current liabs	1,310	1,045	836	974	1,084	EBIT	15.5	15.6	11.6	14.3	15.4
Long-term debts	3,896	3,816	3,816	3,816	3,816	Net margin	12.8	13.3	9.7	12.2	13.2
Deferred tax and others	1,305	2,189	2,189	2,189	2,189	<b>Other ratios</b>					
Other long-term liabs	0	0	0	0	0	ROE (%)	29.1	24.0	13.4	16.2	17.1
<b>Total liabilities</b>	<b>19,315</b>	<b>19,123</b>	<b>18,016</b>	<b>18,739</b>	<b>19,927</b>	ROA (%)	13.5	12.5	7.6	9.6	10.4
Share capital	105	105	105	105	105	Net gearing (%)	(39.5)	(53.9)	(56.0)	(56.1)	(58.1)
Reserves	16,492	20,483	23,396	26,662	30,737	Interest coverage (x)	25.1	25.4	16.9	24.4	31.7
<b>Shareholders' equity</b>	<b>16,597</b>	<b>20,588</b>	<b>23,501</b>	<b>26,767</b>	<b>30,842</b>	Receivables days	78.9	78.9	78.9	78.9	78.9
Minorities	146	213	252	307	373	Payables days	133.7	133.7	133.7	133.7	133.7
<b>Total equity</b>	<b>16,743</b>	<b>20,801</b>	<b>23,754</b>	<b>27,073</b>	<b>31,215</b>	Inventory days	72.0	62.3	61.5	65.2	66.4
Net cash (debt)	6,608	11,220	13,305	15,187	18,142	Effective tax rate (%)	12.5	10.3	10.3	10.3	10.3

Source: Company data, CIRL estimates

**Exhibit 4: Sunny Optical's 12-month forward P/E Ratio**


Source: Bloomberg, CIRL

**Exhibit 5: Peer valuation comparison**

	bloomberg code	Mkt Cap (HKD mn)	Price (HKD)	Share Price Movement (%)			P/E(x)						P/B (x)						Yield (%)					
				1M	3M	YTD	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY19	FY20	FY21E	FY22E	FY23E	FY24E
<b>HK Listed Peers</b>																								
LENOVO GROUP	992 HK	84,776	6.99	(2.6)	(15.5)	(22.0)	17.8	16.0	9.6	5.6	5.6	5.5	3.1	3.4	2.5	2.2	1.6	1.3	4.0%	4.0%	6.0%	6.5%	5.9%	7.3%
BYD ELECTRONIC	285 HK	48,669	21.60	(5.9)	38.3	(24.3)	26.8	8.0	13.5	18.6	12.6	9.9	2.6	1.8	1.6	1.6	1.4	1.3	0.4%	1.3%	0.8%	0.6%	0.8%	1.1%
AAC TECHNOLOGIES	2018 HK	18,079	14.96	(6.6)	(11.6)	(51.4)	7.2	10.6	10.3	14.9	11.2	9.0	0.8	0.7	0.7	0.7	0.6	0.6	2.7%	2.0%	2.3%	1.6%	1.9%	2.4%
COWELL	1415 HK	14,594	17.46	34.3	137.6	32.9	63.7	44.1	33.1	25.1	18.5	13.5	5.5	7.5	5.8	4.5	3.7	3.0	10.9%	41.4%	0.7%	0.6%	1.8%	1.2%
FIH MOBILE LTD	2038 HK	8,201	1.03	(1.9)	7.3	(24.3)	-87.6	-6.2	64.4	-128.8	21.9	13.2	0.5	0.5	0.5	0.6	0.6	0.5	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Q TECHNOLOGY GRO	1478 HK	5,745	4.85	4.1	(9.2)	(51.9)	9.0	6.0	4.1	12.8	7.5	5.4	1.8	1.3	1.0	1.0	0.9	0.8	2.1%	1.0%	3.2%	1.3%	1.1%	1.7%
TRULY INTL HLDGS	732 HK	5,507	1.68	(11.6)	(23.3)	(47.3)	9.8	11.0	4.3	4.3	3.4	-	0.7	0.6	-	0.5	0.4	-	0.0%	0.0%	0.0%	5.8%	7.7%	0.0%
SAS DRAGON HLDG	1184 HK	2,284	3.65	4.3	(18.0)	(29.8)	9.7	8.7	-	-	-	-	1.4	1.2	-	-	-	-	1.1%	5.9%	0.0%	0.0%	0.0%	0.0%
JU TENG INTL HDG	3336 HK	1,692	1.41	(5.4)	8.5	9.3	8.9	9.3	8.3	7.1	4.9	3.6	0.3	0.3	0.3	0.2	0.2	0.2	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
TK GROUP HOLDING	2283 HK	1,525	1.83	(2.7)	(24.1)	(26.8)	5.1	7.3	5.1	4.6	3.6	2.9	1.3	1.1	0.9	0.8	0.7	0.7	7.7%	5.5%	8.2%	8.2%	12.0%	15.8%
COOLPAD	2369 HK	1,495	0.11	(19.9)	(39.8)	(71.7)	5.3	-1.8	-	-	-	-	0.8	0.5	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TONGDA GROUP HLD	698 HK	1,244	0.13	(8.6)	(1.5)	(48.8)	2.3	2.6	2.4	4.1	3.2	2.6	0.2	0.1	0.1	0.1	0.1	0.1	7.4%	0.0%	7.8%	6.3%	7.0%	7.0%
CHINA DISPLAY OP	334 HK	877	0.42	6.4	0.0	(18.6)	14.6	30.7	-	-	-	-	1.3	1.2	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SIM TECH GROUP	2000 HK	701	0.32	(1.6)	12.5	(30.0)	-10.1	-19.6	-	-	-	-	0.4	0.3	-	-	-	-	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%
KA SHUI INTL HLD	822 HK	465	0.52	(27.8)	(11.9)	(34.2)	5.2	3.7	-	-	-	-	0.5	0.4	-	-	-	-	0.0%	5.8%	0.0%	0.0%	0.0%	0.0%
WILLAS-ARRAY ELE	854 HK	361	4.12	(1.4)	(1.4)	4.3	-18.4	-4.8	-	-	-	-	0.5	0.6	-	-	-	-	4.9%	0.0%	0.0%	0.0%	0.0%	0.0%
VESON HOLDINGS L	1399 HK	305	0.28	1.8	(1.8)	(9.7)	5.1	-5.2	-	-	-	-	0.3	0.3	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
WAI CHI HOLD	1305 HK	295	1.36	(6.2)	(9.3)	7.9	8.0	9.7	-	-	-	-	0.4	0.4	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PANASIALUM HOLDI	2078 HK	257	0.21	3.9	(6.1)	(16.1)	-0.5	0.3	-	-	-	-	1.1	0.2	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
VITAL INNOVATION	6133 HK	213	0.25	9.6	5.0	(13.8)	-33.4	-1.9	-	-	-	-	0.3	0.3	-	-	-	-	40.8%	0.0%	0.0%	0.0%	0.0%	0.0%
SKY LIGHT HOLDIN	3882 HK	130	0.14	4.6	(12.3)	(23.6)	-1.5	-2.0	-	-	-	-	0.5	0.6	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Average</b>		<b>9,401</b>		<b>(1.6)</b>	<b>1.1</b>	<b>(23.3)</b>	<b>13.2</b>	<b>12.0</b>	<b>15.5</b>	<b>10.8</b>	<b>9.2</b>	<b>7.3</b>	<b>1.2</b>	<b>1.1</b>	<b>1.5</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>	<b>7.7%</b>	<b>8.2%</b>	<b>4.5%</b>	<b>4.2%</b>	<b>5.0%</b>	<b>5.4%</b>
<b>SUNNY OPTICAL</b>	<b>2382 HK</b>	<b>131,293</b>	<b>119.70</b>	<b>7.7</b>	<b>5.3</b>	<b>(51.5)</b>	<b>28.3</b>	<b>23.2</b>	<b>22.7</b>	<b>35.4</b>	<b>25.8</b>	<b>21.2</b>	<b>9.0</b>	<b>6.8</b>	<b>5.5</b>	<b>4.8</b>	<b>4.2</b>	<b>1.2</b>	<b>0.7%</b>	<b>0.8%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>1.2%</b>
<b>Lens/ lens set company</b>																								
LARGAN PRECISION	3008 TT	71,014	532.07	2.3	25.6	(17.4)	10.0	11.0	13.5	13.8	15.5	14.6	2.2	1.8	1.7	1.8	1.7	1.6	3.7%	3.8%	4.1%	3.5%	3.2%	3.1%
LITE-ON TECH	2301 TT	41,612	17.70	16.9	6.8	6.1	17.3	15.6	10.7	11.2	10.1	8.6	2.2	2.0	1.9	2.1	2.0	1.9	4.5%	5.4%	6.6%	6.5%	7.2%	9.0%
GENIUS ELEC	3406 TT	12,436	110.34	(6.3)	18.4	(20.2)	17.5	15.3	19.4	18.1	14.2	13.0	3.5	2.9	2.6	2.5	2.3	2.1	1.3%	2.4%	2.1%	2.3%	2.7%	2.9%
HIMAX TECHNO-ADR	HIMX US	9,571	54.91	7.0	(25.7)	(56.2)	-87.6	26.2	2.8	4.4	7.0	5.8	2.8	2.5	1.4	1.4	1.4	1.4	0.0%	3.4%	19.4%	14.7%	14.4%	12.7%
<b>Average</b>		<b>33,658</b>		<b>5.0</b>	<b>6.3</b>	<b>(21.9)</b>	<b>14.9</b>	<b>17.0</b>	<b>11.6</b>	<b>11.9</b>	<b>11.7</b>	<b>10.5</b>	<b>2.7</b>	<b>2.3</b>	<b>1.9</b>	<b>2.0</b>	<b>1.8</b>	<b>1.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>		
<b>Camera module company</b>																								
LG INNOTEK CO LT	011070 KS	48,730	2,058.97	0.6	(1.4)	(4.7)	70.8	31.3	8.3	7.2	6.4	6.4	3.3	2.8	2.2	1.8	1.5	1.2	0.1%	0.1%	0.2%	1.0%	1.2%	1.2%
OPILM GROUP CO-A	002456 CH	24,699	7.58	12.5	13.9	(32.4)	35.3	-9.3	-40.5	-28.6	541.5	32.1	1.9	1.6	2.0	2.7	2.6	2.4	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%
COWELL	1415 HK	14,594	17.46	34.3	137.6	32.9	63.7	44.1	33.1	25.1	18.5	13.5	5.5	7.5	5.8	4.5	3.7	3.0	0.8%	3.8%	0.7%	0.6%	1.8%	1.2%
PRIMAX ELEC	4915 TT	8,260	18.15	11.0	23.5	22.4	14.9	16.0	3.4	11.1	9.9	9.3	2.5	2.2	1.9	1.9	1.7	1.6	4.4%	4.5%	17.8%	5.4%	6.1%	6.4%
Q TECHNOLOGY GRO	1478 HK	5,745	4.85	4.1	(9.2)	(51.9)	9.0	6.0	4.1	12.8	7.5	5.4	1.8	1.3	1.0	1.0	0.9	0.8	1.7%	3.3%	3.2%	1.3%	1.1%	1.7%
TRULY INTL HLDGS	732 HK	5,507	1.68	(11.6)	(23.3)	(47.3)	9.8	11.0	4.3	4.3	3.4	-	0.7	0.6	-	0.5	0.4	-	0.0%	0.0%	0.0%	5.8%	7.7%	0.0%
<b>Average</b>		<b>6,504</b>		<b>1.2</b>	<b>(3.0)</b>	<b>(25.6)</b>	<b>33.9</b>	<b>21.7</b>	<b>10.6</b>	<b>12.1</b>	<b>97.9</b>	<b>13.3</b>	<b>1.7</b>	<b>1.4</b>	<b>1.4</b>	<b>1.1</b>	<b>1.0</b>	<b>1.2</b>	<b>3.0%</b>	<b>3.9%</b>	<b>10.5%</b>	<b>4.2%</b>	<b>4.9%</b>	<b>4.0%</b>
<b>SUNNY OPTICAL</b>	<b>2382 HK</b>	<b>131,293</b>	<b>119.70</b>	<b>7.7</b>	<b>5.3</b>	<b>(51.5)</b>	<b>28.3</b>	<b>23.2</b>	<b>22.7</b>	<b>35.4</b>	<b>25.8</b>	<b>21.2</b>	<b>9.0</b>	<b>6.8</b>	<b>5.5</b>	<b>4.8</b>	<b>4.2</b>	<b>1.2</b>	<b>0.7%</b>	<b>0.8%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>1.2%</b>

Source: Bloomberg, CIRL (Market data as of Aug 18)

## Risk Factors

Downside risks include: 1) Prolonged upstream component supply shock; 2) Further slowdown in PRC customers' smartphone shipment ;3) Slower than expected multi-lens/HCM adoption in Android camp; 4) 3D sensing products' shipment/ sales disappoints, 5) pricing pressure arising from overseas players and domestic peers and 6) RMB depreciation

## Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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## Analyst Certification

I, Hayman Chiu hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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