

# Sunny Optical (2382 HK)

## Investor Day takeaways: High-end upgrade to accelerate in 2H24E; Edge AI to drive long-term growth

We attended Sunny Optical's Investor Day at its Yuyao headquarters. Overall, while shipment guidance remained unchanged, we are encouraged by Sunny's positive view on smartphone recovery and accelerated upgrade in high-end models in 2H24E. Key highlights include 1) global No.1 position across smartphone HCM/HLS and auto lens sets, 2) breakthroughs in high-end ADAS/LiDAR/HUD markets (esp hybrid auto lens), 3) opportunities in visual inputs and edge AI (AI phone, robotics). In addition, mgmt. shared insights on components upgrade driven by edge AI in the long term. We are positive on Sunny's technology leadership and product roadmap, and we believe better shipment and easing competition will drive GPM recovery in 2H24E. The stock now trades at 39x/29x FY24/25E, and we maintain HOLD with SOTP-based TP of HK\$47.31, implying 25.9x FY25E P/E

- Smartphone shipment recovery on track; High-end upgrade to accelerate in 2H24E.** Key discussions include: 1) 2024 shipment guidance unchanged; 2) HLS: expect global smartphone demand to recover mildly in FY24E driven by AI phone upgrade; 2) HCM: next-gen upgrade will focus on variable aperture, module/motor/lens integration, 1.4-inch large bottom telephoto and continuous optical zoom etc. 3) VLS: No.1 market share in ADAS (~50% globally); 8M hybrid ADAS mass production in 2024; 17M auto ADAS lens are ready for mass production; 15 LiDAR projects in 2024-25; rising penetration of AU-HUD and fast growth in PGU biz; 4) smartphone market: Global/China market to grow 3.5%/0.4% YoY and foldable phone to climb 38.8% YoY in 2024.
- Positive on edge AI opportunities in smartphone/auto/ARVR/robots.** In the longer term, mgmt. is positive on edge-side AI to drive traditional hardware upgrade including: 1) smartphone: upgrade cycle of AI smartphones which require higher level of 2D/3D image details and dynamic image quality, and computing power upgrade for image recognition and semantic segmentation, and use cases for personal assistant, creative design and work substitution; 2) smart car: multiple sensors for smart driving and smart cabin is the key trend; 3) AR/VR: upgrade of end-to-end AI in MR as daily productivity tools; 4) robotics: robots with moving organs, general AI and multi-application adaptation and Sunny is working closely with customers for development.
- Product upgrade to drive GPM recovery in FY24E.** We are positive on Sunny's technology leadership, product roadmap and global client base with Apple/Huawei. Given better shipment and easing competition, we expect GPM to recover in 2H24E driven by demand recovery and better product mix. The stock now trades at 39x/29x FY24/25E, and we maintain HOLD with SOTP-based TP of HK\$47.31, implying 25.9x FY25E P/E.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	33,197	31,681	36,545	40,524	43,473
YoY growth (%)	(11.5)	(4.6)	15.4	10.9	7.3
Net profit (RMB mn)	2,407.8	1,099.4	1,351.2	1,837.9	2,193.6
YoY growth (%)	(51.8)	(54.3)	22.9	36.0	19.4
EPS (Reported) (RMB)	2.20	1.01	1.24	1.68	2.01
Consensus EPS (RMB)	-	-	2.21	2.97	4.20
P/E (x)	21.9	48.0	39.1	28.7	24.1
P/B (x)	2.4	2.3	2.2	2.1	2.0
Yield (%)	2.0	1.0	1.1	1.5	1.8
ROE (%)	11.2	4.9	5.8	7.6	8.6
Net gearing (%)	(22.6)	(45.5)	34.1	(42.4)	24.3

Source: Company data, Bloomberg, CMBIGM estimates

## HOLD (Maintain)

**Target Price** HK\$47.31  
**Up/Downside** (9.0%)  
**Current Price** HK\$52.00

### China Technology

**Alex NG**  
 (852) 3900 0881  
 alexng@cmbi.com.hk

**Hanqing LI**  
 lihanqing@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	57,044.0
Avg 3 mths t/o (HK\$ mn)	571.6
52w High/Low (HK\$)	80.30/34.45
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	18.3%	25.5%
3-mth	-3.4%	-13.4%
6-mth	-27.2%	-34.8%

Source: FactSet

### 12-mth Price Performance



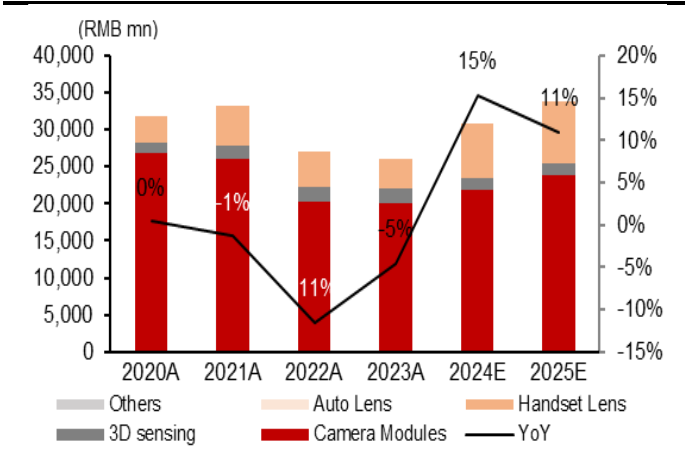
Source: FactSet

### Related Reports:

- Expectations reset on conservative guidance; Maintain HOLD – 22 Mar 2024 ([link](#))
- 2023 profit warning worse than feared; Maintain HOLD on earnings downside – 1 Jan 2024 ([link](#))
- Positive on shipment recovery and upgrade trend; Maintain Hold on fair valuation - 13 Oct 2023 ([link](#))

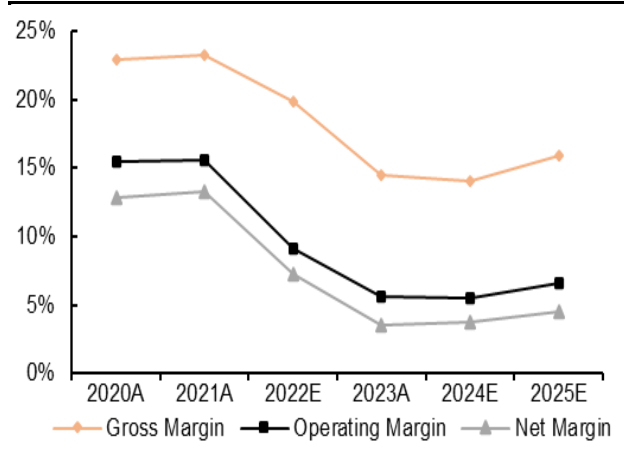
## Focus Charts

Figure 1: Sunny Optical revenue trend



Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



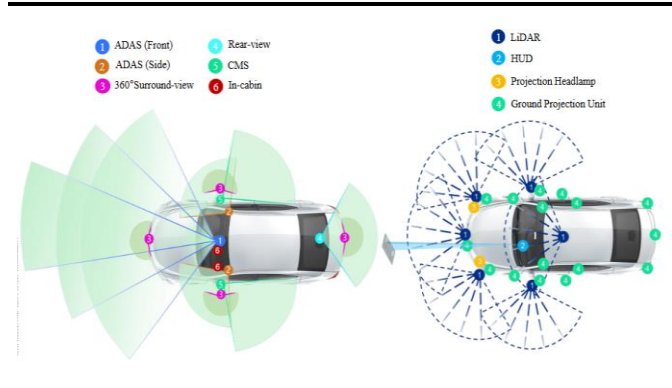
Source: Company data, CMBIGM estimates

Figure 3: Sunny's product upgrade trends



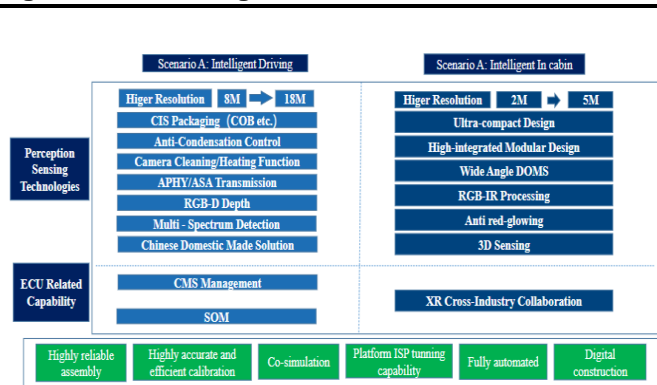
Source: Company data, CMBIGM estimates

Figure 4: Rapid progress of auto camera market



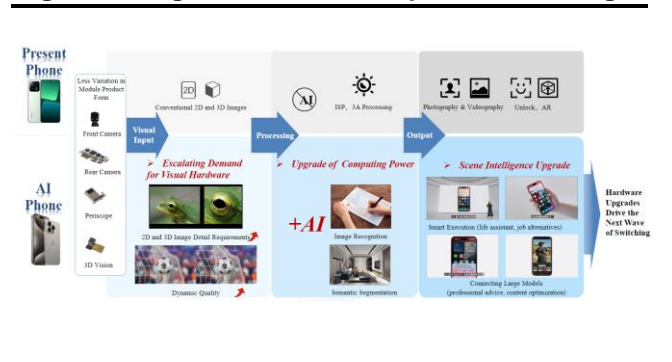
Source: Company data, CMBIGM estimates

Figure 5: Technologies in automotive modules



Source: Company, CMBIGM

Figure 6: Edge-side AI to drive phone switching



Source: Company, CMBIGM

## Earnings Forecasts

Figure 7: P&L forecast

RMB mn	FY22	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>33,197</b>	<b>31,681</b>	<b>16,365</b>	<b>20,180</b>	<b>36,545</b>	<b>40,524</b>	<b>43,473</b>
...YoY	-11.5%	-4.6%	14.6%	16.0%	15.4%	10.9%	7.3%
Cost of sales	-26,592	-27,091	-14,085	-17,312	-31,397	-34,095	-36,091
<b>Gross profit</b>	<b>6,605</b>	<b>4,590</b>	<b>2,280</b>	<b>2,869</b>	<b>5,148</b>	<b>6,429</b>	<b>7,383</b>
<b>GPM (%)</b>	<b>19.9%</b>	<b>14.5%</b>	<b>13.9%</b>	<b>14.2%</b>	<b>14.1%</b>	<b>15.9%</b>	<b>17.0%</b>
...YoY	-24.4%	-30.5%	7.0%	16.6%	12.2%	24.9%	14.8%
SG&A	(1,281)	(1,425)	(655)	(848)	(1,502)	(1,702)	(1,695)
...% of rev	-3.9%	-4.5%	-4.0%	-4.2%	-4.1%	-4.2%	-3.9%
R&D	(2,803)	(2,566)	(1,309)	(1,594)	(2,903)	(3,242)	(3,260)
...% of rev	-8.4%	-8.1%	-8.0%	-7.9%	-7.9%	-8.0%	-7.5%
Other gain & loss	537	151	504	572	637	1,172	703
<b>Operating profit</b>	<b>3,014</b>	<b>1,785</b>	<b>844</b>	<b>1,180</b>	<b>2,024</b>	<b>2,657</b>	<b>3,129</b>
<b>OPM (%)</b>	<b>9.1%</b>	<b>5.6%</b>	<b>5.2%</b>	<b>5.8%</b>	<b>5.5%</b>	<b>6.6%</b>	<b>7.2%</b>
...YoY	-48.5%	-40.8%	6.4%	19.0%	13.4%	31.3%	17.8%
<b>Net profit</b>	<b>2,408</b>	<b>1,099</b>	<b>541</b>	<b>811</b>	<b>1,351</b>	<b>1,838</b>	<b>2,194</b>
<b>NPM (%)</b>	<b>7.3%</b>	<b>3.5%</b>	<b>3.3%</b>	<b>4.0%</b>	<b>3.7%</b>	<b>4.5%</b>	<b>5.0%</b>
...YoY	-51.8%	-54.3%	23.8%	22.3%	22.9%	36.0%	19.4%

Source: Company data, CMBIGM estimates

Figure 8: Major assumptions

	FY22	FY23	FY24E	FY25E	FY26E
<b>Shipment volume (mn unit)</b>					
<b>Optical components</b>					
Handset lens sets	1,193	1,171	1,232	1,330	1,437
...YoY(%)	-17%	-2%	5%	8%	8%
Vehicle lens sets	79	91	101	116	134
...YoY(%)	16%	15%	11%	15%	15%
<b>Optoelectronic products</b>					
Handset camera modules	517	567	588	617	648
...YoY(%)	-23%	10%	4%	5%	5%
Other optoelectronic (AR/VR/3D)	51	32	35	39	43
...YoY(%)	-14%	-36%	10%	10%	10%
<b>Optical instruments</b>					
Microscopic instruments	320	251	276	304	334
...YoY(%)	24%	-21%	10%	10%	10%
<b>Revenue (RMB mn)</b>					
Optical components	9,468	9,555	10,478	11,932	13,312
Optoelectronic products	23,326	21,599	25,612	28,109	29,647
Optical instruments	403	527	456	483	514
<b>Total Revenue</b>	<b>33,197</b>	<b>31,681</b>	<b>36,545</b>	<b>40,524</b>	<b>43,473</b>
...YoY(%)	-11.5%	-4.6%	15.4%	10.9%	7.3%
<b>Gross margin</b>					
Optical components	33.4%	28.4%	28.5%	30.0%	30.0%
Optoelectronic products	10.7%	5.5%	5.3%	6.6%	7.5%
Optical instruments	42.0%	41.2%	46.0%	46.0%	46.0%

Source: Company data, CMBIGM estimates

## Valuation

### Maintain HOLD with TP of HK\$47.31

We maintain HOLD with SOTP-based TP of HK\$47.31. We derived our 12-month TP from SOTP methodology and weighted-average target P/E multiple of 26.3x FY24E EPS, to reflect Sunny's diversification in multiple businesses with different growth profiles, and visibility of product upcycles across different segments.

We assign 18x P/E to its CCM business to reflect its China's 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 9: Sunny Optical – SOTP valuation

Business segment	% of FY25E Profit	FY25E EPS (RMB)	Target P/E
Camera modules	28.7%	0.48	18x
Handset lenses	39.2%	0.66	25x
Vehicle lenses	28.6%	0.48	35x
Others	3.5%	0.06	25x
<b>Total (RMB) /Implied P/E</b>		<b>1.68</b>	<b>25.9x</b>
<b>TP (HK\$)</b>			<b>47.31</b>

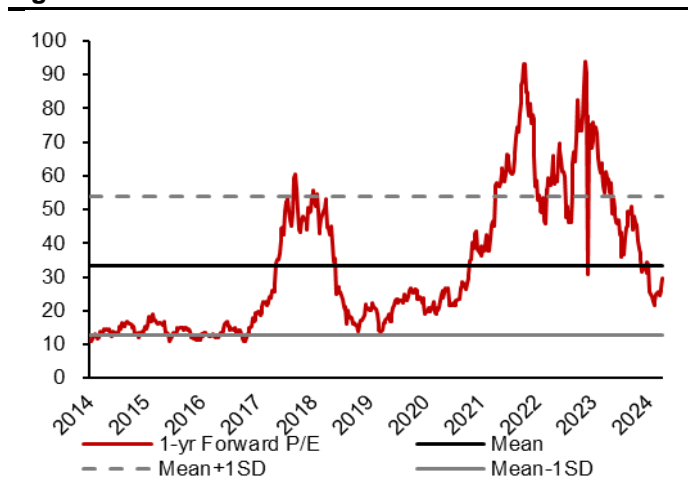
Source: Company data, CMBIGM estimates

### Figure 10: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY23E	P/E (x) FY24E	P/B (x) FY23E	P/B (x) FY24E	ROE (%) FY23E	ROE (%) FY24E
Sunny Optical	2382 HK	HOLD	7,293	52.0	47.3	-9%	37.6	27.8	2.2	2.1	5.7	7.4
Q tech	1478 HK	BUY	663	4.4	3.9	-10%	11.9	8.9	0.9	0.8	7.6	9.4
Cowell	1415 HK	NR	2,604	23.70	NA	NA	25.3	14.5	5.1	3.8	21.9	28.4
Truly	732 HK	NR	381	0.94	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,849	230.50	NA	NA	12.9	15.2	1.0	1.0	7.5	6.2
Largan	3008 TT	NR	10,874	2635.00	NA	NA	15.8	15.6	2.0	1.8	12.6	12.2
Lite-on	2301 TT	NR	7,694	106.00	NA	NA	17.2	14.5	2.8	2.7	15.8	17.3
Primax	4915 TT	NR	1,574	110.00	NA	NA	17.6	15.0	2.7	2.5	15.0	16.4
O-film	002456 CH	NR	3,663	8.16	NA	NA	46.1	29.9	6.5	6.2	8.2	12.1
<b>Average</b>							<b>23.0</b>	<b>17.7</b>	<b>2.9</b>	<b>2.6</b>	<b>11.8</b>	<b>13.7</b>

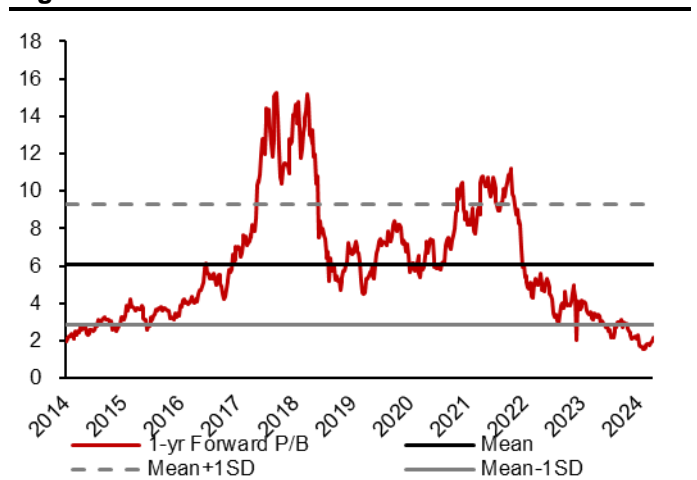
Source: Bloomberg, CMBIGM estimates

### 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	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>37,497</b>	<b>33,197</b>	<b>31,681</b>	<b>36,545</b>	<b>40,524</b>	<b>43,473</b>
Cost of goods sold	(28,761)	(26,592)	(27,091)	(31,397)	(34,095)	(36,091)
<b>Gross profit</b>	<b>8,736</b>	<b>6,605</b>	<b>4,590</b>	<b>5,148</b>	<b>6,429</b>	<b>7,383</b>
Selling expense	(274)	(353)	(415)	(439)	(486)	(435)
Admin expense	(758)	(929)	(1,010)	(1,064)	(1,216)	(1,261)
R&D expense	(2,642)	(2,803)	(2,566)	(2,903)	(3,242)	(3,260)
Others	789	504	1,208	1,281	1,172	703
<b>Operating profit</b>	<b>5,851</b>	<b>3,014</b>	<b>1,785</b>	<b>2,024</b>	<b>2,657</b>	<b>3,129</b>
Share of (losses)/profits of associates/JV	19	(6)	23	23	23	23
<b>Net Interest income/(expense)</b>	<b>(230)</b>	<b>(293)</b>	<b>(449)</b>	<b>(449)</b>	<b>(494)</b>	<b>(543)</b>
<b>Pre-tax profit</b>	<b>5,640</b>	<b>2,715</b>	<b>1,358</b>	<b>1,597</b>	<b>2,185</b>	<b>2,608</b>
Income tax	(579)	(241)	(208)	(184)	(262)	(313)
Minority interest	68	66	51	63	85	102
<b>Net profit</b>	<b>4,993</b>	<b>2,408</b>	<b>1,099</b>	<b>1,351</b>	<b>1,838</b>	<b>2,194</b>
Net dividends	974	1,048	505	588	800	955
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>27,989</b>	<b>30,646</b>	<b>35,144</b>	<b>20,250</b>	<b>38,180</b>	<b>24,148</b>
Cash & equivalents	5,605	7,033	13,085	(5,413)	13,179	(3,692)
Account receivables	7,448	7,205	7,855	9,517	9,746	10,919
Inventories	5,482	4,721	5,137	7,078	6,187	7,854
ST bank deposits	1,112	485	1,324	1,324	1,324	1,324
Financial assets at FVTPL	8,314	10,086	7,113	7,113	7,113	7,113
Other current assets	28	1,115	631	631	631	631
<b>Non-current assets</b>	<b>10,785</b>	<b>12,356</b>	<b>15,153</b>	<b>17,244</b>	<b>17,503</b>	<b>17,456</b>
PP&E	8,303	10,120	9,927	11,987	12,221	12,154
Other non-current assets	2,481	2,236	5,226	5,257	5,283	5,302
<b>Total assets</b>	<b>38,774</b>	<b>43,001</b>	<b>50,297</b>	<b>37,494</b>	<b>55,683</b>	<b>41,604</b>
<b>Current liabilities</b>	<b>11,873</b>	<b>19,337</b>	<b>21,287</b>	<b>6,447</b>	<b>23,513</b>	<b>8,093</b>
Short-term borrowings	1,539	1,990	699	699	699	699
Account payables	9,869	12,917	20,325	5,481	22,543	7,121
Other current liabilities	15,493	8,757	7,987	24,868	8,929	25,692
<b>Non-current liabilities</b>	<b>6,005</b>	<b>1,482</b>	<b>6,129</b>	<b>6,129</b>	<b>6,129</b>	<b>6,129</b>
Long-term borrowings	700	30	1,965	1,965	1,965	1,965
Other non-current liabilities	5,305	1,452	4,164	4,164	4,164	4,164
<b>Total liabilities</b>	<b>17,879</b>	<b>20,819</b>	<b>27,415</b>	<b>12,576</b>	<b>29,642</b>	<b>14,222</b>
Share capital	105	105	105	105	105	105
Other reserves	20,483	21,733	22,318	23,091	24,129	25,368
<b>Total shareholders equity</b>	<b>20,895</b>	<b>22,182</b>	<b>22,882</b>	<b>23,654</b>	<b>24,777</b>	<b>26,118</b>
Minority interest	307	344	459	458	543	644
<b>Total equity and liabilities</b>	<b>38,774</b>	<b>43,001</b>	<b>50,297</b>	<b>36,229</b>	<b>54,419</b>	<b>40,340</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	5,640	2,715	1,358	1,597	2,185	2,608
Depreciation & amortization	1,638	1,816	2,166	2,466	2,766	3,066
Change in working capital	200	4,053	6,342	(18,447)	17,724	(18,262)
Others	(499)	(1,207)	324	239	210	214
<b>Net cash from operations</b>	<b>6,979</b>	<b>7,377</b>	<b>10,190</b>	<b>(14,145)</b>	<b>22,886</b>	<b>(12,374)</b>
<b>Investing</b>						
Capital expenditure	(2,498)	(3,633)	(3,500)	(3,000)	(3,000)	(3,000)
Others	(403)	(201)	0	0	0	0
<b>Net cash from investing</b>	<b>(2,902)</b>	<b>(3,834)</b>	<b>(3,500)</b>	<b>(3,000)</b>	<b>(3,000)</b>	<b>(3,000)</b>
<b>Financing</b>						
Dividend paid	(974)	(1,048)	(505)	(588)	(800)	(955)
Net borrowings	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(267)	(1,111)	(449)	(449)	(494)	(543)
<b>Net cash from financing</b>	<b>(1,241)</b>	<b>(2,159)</b>	<b>(954)</b>	<b>(1,037)</b>	<b>(1,294)</b>	<b>(1,498)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,842	5,605	7,033	12,769	(5,413)	13,179
Exchange difference	(73)	44	0	0	0	0
<b>Cash at the end of the year</b>	<b>5,605</b>	<b>7,033</b>	<b>12,769</b>	<b>(5,413)</b>	<b>13,179</b>	<b>(3,692)</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	(1.3%)	(11.5%)	(4.6%)	15.4%	10.9%	7.3%
Gross profit	0.4%	(24.4%)	(30.5%)	12.2%	24.9%	14.8%
Operating profit	(0.4%)	(48.5%)	(40.8%)	13.4%	31.3%	17.8%
Net profit	2.3%	(51.8%)	(54.3%)	22.9%	36.0%	19.4%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	23.3%	19.9%	14.5%	14.1%	15.9%	17.0%
Operating margin	15.6%	9.1%	5.6%	5.5%	6.6%	7.2%
Return on equity (ROE)	26.5%	11.2%	4.9%	5.8%	7.6%	8.6%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.2)	(0.2)	(0.5)	0.3	(0.4)	0.2
Current ratio (x)	2.4	1.6	1.7	3.1	1.6	3.0
Receivable turnover days	76.2	80.6	86.8	86.8	86.8	86.8
Inventory turnover days	71.5	70.0	66.4	71.0	71.0	71.0
Payable turnover days	130.7	156.4	223.9	150.0	150.0	150.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	10.6	21.9	48.0	39.1	28.7	24.1
P/B	2.5	2.4	2.3	2.2	2.1	2.0
Div yield (%)	1.8	2.0	1.0	1.1	1.5	1.8
EV	20,895.3	22,182.4	22,881.6	23,653.7	24,777.0	26,117.7
EV/Sales	0.6	0.7	0.7	0.6	0.6	0.6

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



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## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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