

Sunny Optical (2382 HK)

Positive profit alert alleviates GPM concerns; Upgrade to BUY

We upgrade Sunny Optical to BUY and raise our TP to HK\$67.88 following 1H24 positive profit alert of 140-150% YoY growth, as we think Sunny's GPM recovery, iPhone share gain and hybrid/periscope cam adoption are tracking ahead of expectations. We revised up our FY24-25E EPS by 46-82% to reflect stronger GPM, iPhone share gain (18%/25% in 2024/25E, vs 15% in 2023), iPhone order wins (front-cam/TOF in 2024, hybrid lens in 2025) and periscope-cam adoption in Android flagships. We also believe AI smartphone launches will accelerate upgrade cycle in 2H24E. Our new FY24/26E EPS are 4-26% above consensus, and our new SOTP-based TP of HK\$67.88 implies 25.2x FY25E.

- 1H24 earnings growth of 140-150% YoY, ahead of expectations.** Sunny Optical announced a positive profit alert for 1H24, and expected to report 1H24 earnings growth of 140-150% YoY, driven by stronger GPM/ASP growth on better product mix and smartphone market recovery. Mid-point of 1H24 earnings range at RMB1,070mn is 98%/32% above our/consensus estimates. In particular, we believe the strong beat was due to better HCM/HSL GPM recovery (7%/22% in 1H24E, vs 4.4%/18% in 2H23), well above prior conservative guidance.
- 2H24/2025 Outlook: iPhone share gain/upgrade, Android periscope-cam, AI smartphone cycle and Quest 3 Lite.** Following a challenging smartphone market in 2022/23, we expect Sunny is well-positioned to capture demand/spec upgrade by iPhone/Android clients in 2H24E/2025: 1) iPhone share gain/ upgrade in 2024 (front-cam: 15-20% share; 32MP); 2) iPhone TOF order win in 2024; 3) iPhone main-cam (hybrid lens) in 2025; 4) periscope-cam adoption in Android flagship models, and 5) AR/VR recovery with Meta AR glasses and Quest 3 Lite in 2H24E (Quest 6mn, vs 3-4mn in 2023).
- Margin recovery/spec upgrade faster than expected; Upgrade to BUY.** We raise our FY24-25E EPS by 46-82% to reflect Sunny's iPhone share gain/upgrade, HCM/HLS shipment, GPM rebound and AR/VR recovery. Our new SOTP-based TP is lifted to HK\$67.88, implying 25.2x FY25E (vs 33.8x 10-year hist. P/E). Upcoming catalysts include iPhone16 launch, Android AI phones and stronger monthly shipments.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	33,197	31,681	39,816	44,259	48,555
YoY growth (%)	(11.5)	(4.6)	25.7	11.2	9.7
Net profit (RMB mn)	2,407.8	1,099.4	2,458.5	2,709.1	3,314.7
YoY growth (%)	(51.8)	(54.3)	123.6	10.2	22.4
EPS (Reported) (RMB)	2.20	1.01	2.25	2.48	3.04
Consensus EPS (RMB)	-	-	1.79	2.39	2.87
P/E (x)	20.4	44.6	19.9	18.1	14.8
P/B (x)	2.2	2.1	2.0	1.9	1.7
Yield (%)	2.1	1.0	2.2	2.4	2.9
ROE (%)	11.2	4.9	10.4	10.7	12.3
Net gearing (%)	(22.6)	(45.5)	(23.6)	0.4	(30.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Up)

Target Price	HK\$67.88
(Previous TP)	HK\$47.31)
Up/Downside	40.7%
Current Price	HK\$48.25

China Technology

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Stock Data

Mkt Cap (HK\$ mn)	52,930.3
Avg 3 mths t/o (HK\$ mn)	625.7
52w High/Low (HK\$)	75.90/34.45
Total Issued Shares (mn)	1097.0

Source: FactSet

Shareholding Structure

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

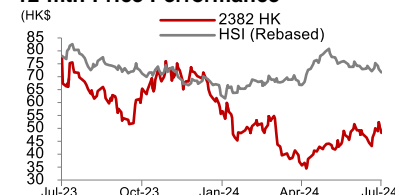
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.2%	-1.8%
3-mth	35.3%	26.1%
6-mth	-14.8%	-25.1%

Source: FactSet

12-mth Price Performance



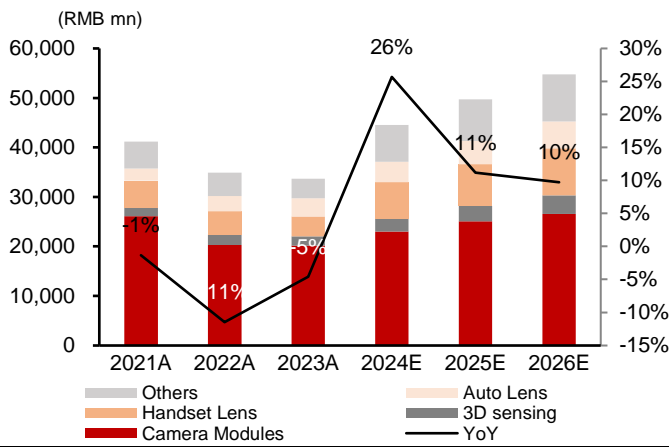
Source: FactSet

Related Reports:

- 1) CMBI Corp Day takeaways: Positive on high-end upgrade, AI phone, ADAS hybrid lens and AR Glass outlook – 26 Jun 2024 ([link](#))
- 2) Investor Day takeaways: High-end upgrade to accelerate in 2H24E; Edge AI to drive long-term growth– 20 Jun 2024 ([link](#))
- 3) Expectations reset on conservative guidance; Maintain HOLD – 22 Mar 2024 ([link](#))
- 4) 2023 profit warning worse than feared; Maintain HOLD on earnings downside – 1 Jan 2024 ([link](#))

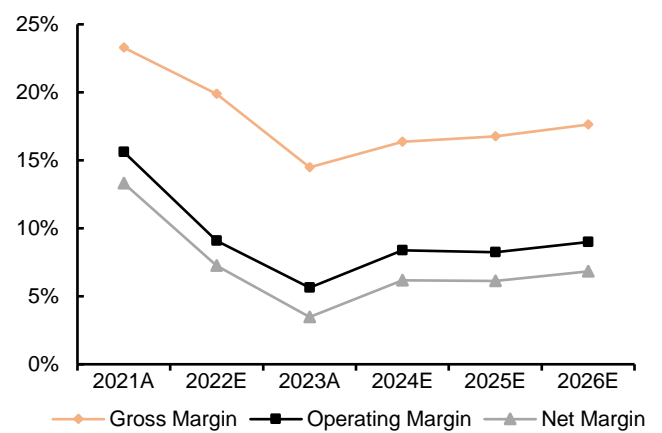
Focus Charts

Figure 1: Sunny Optical revenue trend



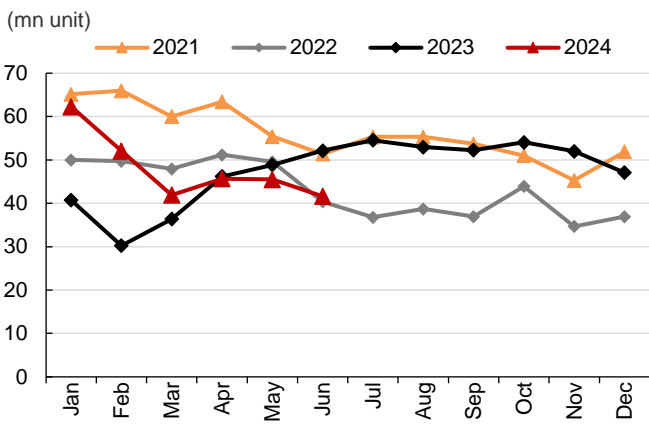
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



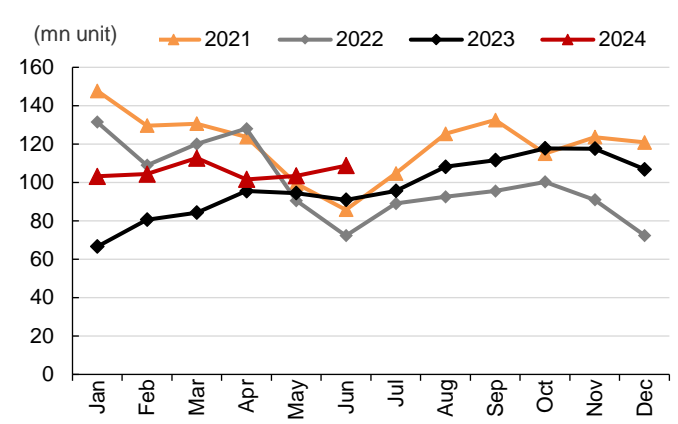
Source: Company data, CMBIGM estimates

Figure 3: Sunny's HCM shipment



Source: Company data, CMBIGM estimates

Figure 4: Sunny's HLS shipment



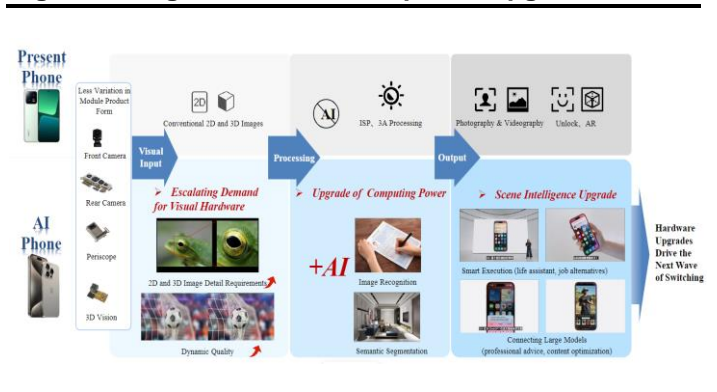
Source: Company data, CMBIGM estimates

Figure 5: Technologies in automotive modules

<p>Continuous Variable Aperture Module</p> <p>Continuous variable aperture achieves the ultimate imaging effect of the entire scene, correcting issues such as physical blurring with large apertures and full field depth with small apertures, using deep learning to correct.</p>	<p>Extremely Miniaturized Integrated Module</p> <p>The integrated design of the module actuator and lens, and the multiple integration of MOBY, MOB TV and AOA technology, enables the ultimate lens/shutter height of the module and the ultimate miniaturization of TV, which is widely applicable to ultra-thin and foldable phones.</p>	<p>Large Format Long Focal Length - Macro Module</p> <p>13.1μm extra large image sensor adoption, AOA technology to support separate lens group movement, significantly improves the amount of light intake and resolution, achieves extraordinary portrait image quality, multi-focal length telephoto, FCM macro results the first in the industry!</p>	<p>Continuous Optical Zoom Module</p> <p>13.4μm AOA technology, supporting full field length coverage to simultaneously meet the needs of portrait and telephoto photography, non-destructive zoom, 50% increase in risk details to meet the needs of users in various scenes.</p>
<p>Long stroke guide rod actuator</p> <p>Innovative guide rod structure, can realize ultra-long stroke, high precision and ultra-small drive distance. It can greatly improve the image performance contribution in the situation of the whole phone device, and ensure the far and near focus resolution.</p>	<p>Three-axis OIS Actuator</p> <p>The industry's unique single-layer ball type cross-roller, effectively reduces cross talk, achieve low frequency length module, achieve high-precision optical stabilization, provide high stability and high-quality photographic effect under the state of motion, and customers to expand the scale of mass production.</p>	<p>Periscope Actuator</p> <p>Multiple guide rod structure periscope actuator to achieve low dynamic tilt, combine with COA to reduce risk, combine SPN, high-precision control integration, modified structure, optical center, combine OIS auxiliary features, to achieve the extreme optical zoom system with ultra-thin, high resolution.</p>	<p>Micro-LED Optical Engine</p> <p>Molding package technology realizes the industry's smallest 0.1μm Micro led full-colored optical engine and 1.2μm micro-lens optical engine, and continues to expand mass production scale.</p>

Source: Company data, CMBIGM

Figure 6: Edge-side AI to drive phone upgrade



Source: Company data, CMBIGM

Earnings Revision

Figure 7: CMBIGM earnings revisions

RMB mn	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	39,816	44,259	48,555	36,545	40,524	43,473	9%	9%	12%
Gross profit	6,515	7,421	8,556	5,148	6,429	7,383	27%	15%	16%
Operating profit	3,334	3,649	4,369	2,024	2,657	3,129	65%	37%	40%
Net profit	2,458	2,709	3,315	1,351	1,838	2,194	82%	47%	51%
EPS (RMB)	2.25	2.48	3.04	1.24	1.68	2.01	82%	47%	51%
Gross margin	16.4%	16.8%	17.6%	14.1%	15.9%	17.0%	2.3 ppt	0.9 ppt	0.6 ppt
Operating margin	8.4%	8.2%	9.0%	5.5%	6.6%	7.2%	2.8 ppt	1.7 ppt	1.8 ppt
Net margin	6.2%	6.1%	6.8%	3.7%	4.5%	5.0%	2.5 ppt	1.6 ppt	1.8 ppt

Source: Company data, CMBIGM estimates

Figure 8: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	39,816	44,259	48,555	35,210	39,360	43,509	13%	12%	12%
Gross profit	6,515	7,421	8,556	5,867	6,957	7,918	11%	7%	8%
Operating profit	3,334	3,649	4,369	1,861	2,642	3,378	79%	38%	29%
Net profit	2,458	2,709	3,315	1,926	2,546	3,083	28%	6%	8%
EPS (RMB)	2.25	2.48	3.04	1.79	2.39	2.87	26%	4%	6%
Gross margin	16.4%	16.8%	17.6%	16.7%	17.7%	18.2%	-0.3 ppt	-0.9 ppt	-0.6 ppt
Operating margin	8.4%	8.2%	9.0%	5.3%	6.7%	7.8%	3.1 ppt	1.5 ppt	1.2 ppt
Net margin	6.2%	6.1%	6.8%	5.5%	6.5%	7.1%	0.7 ppt	-0.3 ppt	-0.3 ppt

Source: Bloomberg, CMBIGM estimates

Figure 9: P&L forecast

RMB mn	FY22	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Revenue	33,197	31,681	18,083	21,733	39,816	44,259	48,555
...YoY	-11.5%	-4.6%	26.6%	24.9%	25.7%	11.2%	9.7%
Cost of sales	-26,592	-27,091	(15,110)	(18,192)	(33,301)	(36,838)	(39,999)
Gross profit	6,605	4,590	2,974	3,541	6,515	7,421	8,556
GPM (%)	19.9%	14.5%	16.4%	16.3%	16.4%	16.8%	17.6%
...YoY	-24.4%	-30.5%	39.6%	43.9%	41.9%	13.9%	15.3%
SG&A	(1,281)	(1,425)	(723)	(869)	(1,593)	(1,722)	(1,889)
...% of rev	-3.9%	-4.5%	-4.0%	-4.0%	-4.0%	-3.9%	-3.9%
R&D	(2,803)	(2,566)	(1,392)	(1,608)	(3,001)	(3,209)	(3,520)
...% of rev	-8.4%	-8.1%	-7.7%	-7.4%	-7.5%	-7.3%	-7.3%
Other gain & loss	537	151	504	572	637	1,158	1,222
Operating profit	3,014	1,785	1,460	1,874	3,334	3,649	4,369
OPM (%)	9.1%	5.6%	8.1%	8.6%	8.4%	8.2%	9.0%
...YoY	-48.5%	-40.8%	84.0%	89.1%	86.8%	9.4%	19.7%
Net profit	2,408	1,099	1,059	1,400	2,458	2,709	3,315
NPM (%)	7.3%	3.5%	5.9%	6.4%	6.2%	6.1%	6.8%
...YoY	-51.8%	-54.3%	142.4%	111.2%	123.6%	10.2%	22.4%

Source: Company data, CMBIGM estimates

Figure 10: Major assumptions

	FY22	FY23	FY24E	FY25E	FY26E
Shipment volume (mn unit)					
Optical Components					
Handset lens sets	1,193	1,171	1,325	1,431	1,546
...YoY(%)	-17%	-2%	13%	8%	8%
Vehicle lens sets	79	91	104	119	137
...YoY(%)	16%	15%	14%	15%	15%
Optoelectronic Products					
Handset camera modules	517	567	618	648	681
...YoY(%)	-23%	10%	9%	5%	5%
Other optoelectronic (AR/VR/3D)	51	32	43	51	62
...YoY(%)	-14%	-36%	33%	20%	20%
Optical Instruments					
Microscopic instruments	320	251	221	243	267
...YoY(%)	24%	-21%	-12%	10%	10%
Revenue (RMB mn)					
Optical components	9,468	9,555	11,701	13,030	14,667
Optoelectronic products	23,326	21,599	27,723	30,817	33,452
Optical instruments	403	527	391	413	436
Total Revenue	33,197	31,681	39,816	44,259	48,555
...YoY(%)	-11.5%	-4.6%	25.7%	11.2%	9.5%
Gross Margin					
Optical components	33.4%	28.4%	31.0%	31.0%	32.0%
Optoelectronic products	10.7%	5.5%	7.6%	8.2%	8.5%
Optical instruments	42.0%	41.2%	46.0%	46.0%	46.0%

Source: Company data, CMBIGM estimates

Valuation

Upgrade to BUY with new TP of HK\$67.88

We upgrade to BUY with new SOTP-based TP of HK\$67.88. We derived our 12-month TP from SOTP methodology and weighted-average target P/E multiple of 25.2x FY25E 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 FY22-24E) 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 FY25E Profit	FY25E EPS (RMB)	Target P/E
Camera modules	33.9%	0.84	18x
Handset lenses	38.1%	0.95	25x
Vehicle lenses	25.3%	0.63	35x
Others	2.6%	0.07	25x
Total (RMB) /Implied P/E		2.48	25.2x
TP (HK\$)			67.88

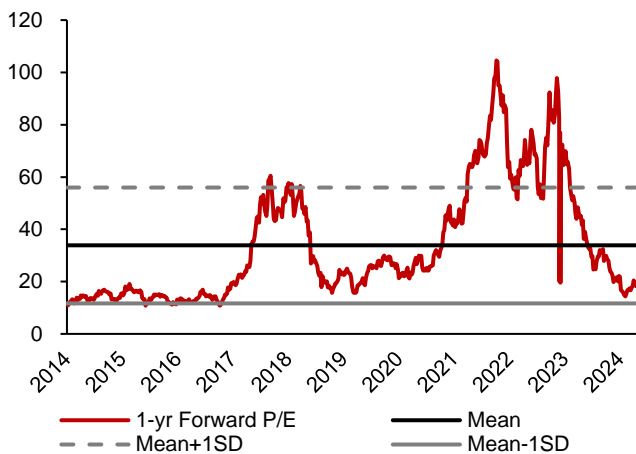
Source: Company data, CMBIGM estimates

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY24E	P/E (x) FY25E	P/B (x) FY24E	P/B (x) FY25E	ROE (%) FY24E	ROE (%) FY25E
Sunny Optical	2382 HK	BUY	6,763	48.3	67.88	41%	19.9	18.1	2.0	1.9	10.4	10.7
Q tech	1478 HK	BUY	739	4.9	6.5	33%	13.2	9.7	1.0	0.9	7.6	9.6
Cowell	1415 HK	NR	2,582	23.50	NA	NA	25.3	14.5	5.0	3.7	21.8	28.3
Truly	732 HK	NR	433	1.07	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,197	202.00	NA	NA	11.2	13.3	0.9	0.9	7.5	6.2
Largan	3008 TT	NR	11,820	2900.00	NA	NA	16.5	15.8	2.2	2.0	13.5	13.1
Lite-on	2301 TT	NR	7,850	109.50	NA	NA	18.4	15.6	2.9	2.7	15.7	17.3
Primax	4915 TT	NR	1,272	90.00	NA	NA	14.4	12.3	2.2	2.1	15.0	16.4
O-film	002456 CH	NR	3,717	8.17	NA	NA	40.9	25.1	6.4	6.1	5.0	11.1
Average							21.8	16.5	2.8	2.5	11.5	13.7

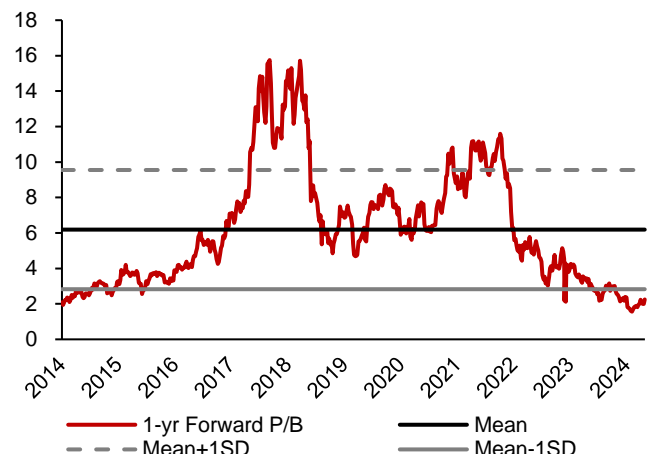
Source: Bloomberg, CMBIGM estimates

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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	37,497	33,197	31,681	39,816	44,259	48,555
Cost of goods sold	(28,761)	(26,592)	(27,091)	(33,301)	(36,838)	(39,999)
Gross profit	8,736	6,605	4,590	6,515	7,421	8,556
Selling expense	(274)	(353)	(415)	(434)	(482)	(529)
Admin expense	(758)	(929)	(1,010)	(1,158)	(1,239)	(1,360)
R&D expense	(2,642)	(2,803)	(2,566)	(3,001)	(3,209)	(3,520)
Others	789	504	1,208	1,413	1,158	1,222
Operating profit	5,851	3,014	1,785	3,334	3,649	4,369
Share of (losses)/profits of associates/JV	19	(6)	23	23	23	23
Net Interest income/(expense)	(230)	(293)	(449)	(449)	(449)	(449)
Pre-tax profit	5,640	2,715	1,358	2,907	3,222	3,942
Income tax	(579)	(241)	(208)	(334)	(387)	(473)
Minority interest	68	66	51	115	126	155
Net profit	4,993	2,408	1,099	2,458	2,709	3,315
Net dividends	974	1,048	505	1,070	1,179	1,442
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	27,989	30,646	35,144	33,636	29,221	39,497
Cash & equivalents	5,605	7,033	13,085	8,428	2,560	11,176
Account receivables	7,448	7,205	7,855	9,599	9,803	11,482
Inventories	5,482	4,721	5,137	6,541	7,790	7,771
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
Non-current assets	10,785	12,356	15,153	15,842	16,206	16,270
PP&E	8,303	10,120	9,927	10,563	10,899	10,935
Other non-current assets	2,481	2,236	5,226	5,278	5,307	5,334
Total assets	38,774	43,001	50,297	49,478	45,427	55,767
Current liabilities	11,873	19,337	21,287	18,964	13,257	21,570
Short-term borrowings	1,539	1,990	699	699	699	699
Account payables	9,869	12,917	20,325	17,995	12,283	20,592
Other current liabilities	15,493	8,757	7,987	11,820	19,188	12,906
Non-current liabilities	6,005	1,482	6,129	6,129	6,129	6,129
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
Total liabilities	17,879	20,819	27,415	25,093	19,386	27,698
Share capital	105	105	105	105	105	105
Other reserves	20,483	21,733	22,318	23,707	25,237	27,109
Total shareholders equity	20,895	22,182	22,882	24,385	26,041	28,068
Minority interest	307	344	459	573	700	854
Total equity and liabilities	38,774	43,001	50,297	49,478	45,427	55,767

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,640	2,715	1,358	2,907	3,222	3,942
Depreciation & amortization	1,638	2,048	2,437	2,364	2,664	2,964
Change in working capital	200	4,053	6,342	(5,479)	(7,164)	6,649
Others	(499)	(1,438)	324	70	38	(48)
Net cash from operations	6,979	7,377	10,461	(137)	(1,240)	13,508
Investing						
Capital expenditure	(2,498)	(3,864)	(2,245)	(3,000)	(3,000)	(3,000)
Others	(403)	30	0	0	0	0
Net cash from investing	(2,902)	(3,834)	(2,245)	(3,000)	(3,000)	(3,000)
Financing						
Dividend paid	(974)	(1,048)	(505)	(1,070)	(1,179)	(1,442)
Net borrowings	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(267)	(1,111)	(449)	(449)	(449)	(449)
Net cash from financing	(1,241)	(2,159)	(954)	(1,519)	(1,628)	(1,891)
Net change in cash						
Cash at the beginning of the year	2,842	5,605	7,033	13,085	8,428	2,560
Exchange difference	(73)	44	0	0	0	0
Cash at the end of the year	5,605	7,033	13,085	8,428	2,560	11,176
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	(1.3%)	(11.5%)	(4.6%)	25.7%	11.2%	9.7%
Gross profit	0.4%	(24.4%)	(30.5%)	41.9%	13.9%	15.3%
Operating profit	(0.4%)	(48.5%)	(40.8%)	86.8%	9.4%	19.7%
Net profit	2.3%	(51.8%)	(54.3%)	123.6%	10.2%	22.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	23.3%	19.9%	14.5%	16.4%	16.8%	17.6%
Operating margin	15.6%	9.1%	5.6%	8.4%	8.2%	9.0%
Return on equity (ROE)	26.5%	11.2%	4.9%	10.4%	10.7%	12.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.5)	(0.2)	0.0	(0.3)
Current ratio (x)	2.4	1.6	1.7	1.8	2.2	1.8
Receivable turnover days	76.2	80.6	86.8	80.0	80.0	80.0
Inventory turnover days	71.5	70.0	66.4	64.0	71.0	71.0
Payable turnover days	130.7	156.4	223.9	210.0	150.0	150.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	9.8	20.4	44.6	19.9	18.1	14.8
P/B	2.3	2.2	2.1	2.0	1.9	1.7
Div yield (%)	2.0	2.1	1.0	2.2	2.4	2.9
EV	20,895.3	22,182.4	22,881.6	24,384.9	26,041.5	28,068.4
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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