

## Strategy stays intact with decent FY25E guidance

Rating	<b>BUY</b>	Maintain
Target Price	<b>HKD 92.60</b>	From: HK\$70.09
Current price	<b>HKD 72.95</b>	Upside: +27.0%

### ■ FY24 net profit slight beat driven by end demand recovery and GM improvement

Sunny's FY24 result was ahead of market consensus, with revenue and net income came in at RMB38,294mn/2,699mn respectively (+20.9%/+145%Yoy), net income arrived at the high-end of the profit alert (+140-150% Yoy) in early Feb and 4.4% above Bloomberg consensus. Sunny's FY24 revenue and net profit were above our forecasts by 5%/11% respectively.

We attributed Sunny's result beat to the following factors: **i) smartphone end demand gradual recovery (esp. flagship models), which drove up ASP and GM. Blended GM beat our estimate by 0.7 ppt and came in 18.3% (vs. 1H24 at 17.2% and 2H24 GM at 19.3%, similar to 2H22 level, thanks to HLS and optoelectronics margin improvement on spec upgrade; ii) lower effective tax rate offset higher interest cost.**

### ■ Quality growth strategy stays intact with decent FY25E HLS+HCM shipment guidance, GM upside potential in HLS and HCM;

Sunny continue to uphold its global leading position in HLS and HCM with 30.8%/12.1% market share in 2024. Handset related sales grew 20.2% Yoy to RMB25.1bn on the back of gradual pick up on smartphone end demand, while spec upgrade and lesser competition help improve both ASP and GM. Optical components (mainly HLS) and optoelectronics (mostly HCM) shipment volume arrived at 1,324mn/533mn units (+13.1%/-5.9% Yoy) respectively.

Sunny's optical components and optoelectronics' GM each rebounded 3.5ppts Yoy to 31.9%/9.0%. Optical components' GM stayed above 30% level for the 3<sup>rd</sup> consecutive HoH, which we believe Sunny benefit from the recovery in premium smartphone market, which drove up both ASP and GM, meanwhile improved yield rate also benefits HCM's GM. We view Management's FY25E GM guidance a decent one, with HLS/VLS/HCM GM at ~32%/~40%/8.5% respectively.

For shipment guidance, Sunny guided HLS/HCM to grow 5%/5-10% Yoy, with ASP upside on HLS, while HCM ASP would be stable Yoy. HLS shipment guidance came slightly below our estimates (+ve high single Yoy) while HCM shipment guidance was a slight surprise to us (+ve low single Yoy). Management continues focusing on improving product mix which would benefit both ASP and GM in the medium term. We still expect global smartphone shipment continue its gradually recovery in FY25E, mainly driven by top-tier clients' flagship model with AI features.

We still see the shipment pace would be similar to that in FY19-FY24, Sunny's YTD (2M25) HLS and HCM shipment reached ~15%/~13% of our FY25E shipment forecasts (HLS: +5% Yoy/ HCM + ~8% Yoy). Management remains positive on long term prospects (incl. variable aperture, hybrid lens, OIS and sensor-shift stabilization), meanwhile AI technology and foldables would lead the growth of high-end smartphones and promote a new round of replacement cycle in the medium term.

## Result Takeaway

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**Hayman Chiu**

hayman.chiu@cinda.com.hk  
(852) 2235 7677

### Trading data

52-Week Range (HK\$)	96.15/33.30
3 Mth Avg Daily Vol (m)	13.78
No of Shares (m)	1,094.8
Market Cap (HK\$m)	82,384.1
Major Shareholders (%)	Wang Wenjian (38.5%)
Auditors	Deloitte
Result Due	1H25E: Aug 2025

### 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).



Sources: Bloomberg, CIRC

Sunny's high-end handset product shipment (i.e. 6P+ lens, periscopes and large image size modules) posted a steady growth in FY24, and volume contribution was still stable at ~25%, its higher ASP plays an important role in driving sales growth, we view this not as a sign of stabilization in high end product shipment, but also on the right track for Management's 'quality-growth' strategy:

- Sunny's high-end product contribution made good progress in recent years with increasing contribution from 6P+ lens (23.0%/24.7%/25.6%/32% in FY19-Y23). In FY24, shipment grew 11.5% Yoy (vs. 1H23/1H24: -32.9%/+23.2% yoy) to 337mn units (25.4% contribution, vs. 25.7%/25.8%/25.6%/25.6% in 1H23/FY23/1H24).
- Periscopes and large image size (> 1/1.5") camera modules rose 27.5% Yoy to ~24mn units (vs. 10.9%/66.5% in 1H23/1H24) and took up ~4.5% of HCM shipment volume (vs. 6%/10.3%/6.7%/13.7%/7.6%/7.6% in FY19-1H24).

XR related revenue grew 38% Yoy to ~RMB2.6bn and took up 6.7 of total revenue (vs. 1.6%/3.6%/6.2%/5.9% in FY20-FY23). Sunny currently serves >30 AI glass customers and maintains global leading market share in optical display and imaging modules. Sunny expects revenue growth to be flattish as VR growth to be offset by decent AI/AR growth, while XR supply chain is immature.

#### ■ Automotive products: Slight upbeat on FY25E VLS shipment guidance, Strong CCM order book paves way for future growth;

Vehicle related products (incl. both VLS+ vehicle camera modules) sales rose 14.3% Yoy to RMB6,039mn and accounted for ~16.0% of total revenue (vs. 7.9%/12.4%/16.7% in FY21-FY23), on the back of VLS shipment grew ~13% Yoy to 102mn units. Sunny guided FY25E VLS shipment to grow 15-20% (vs. +10-15% VLS shipment guidance in FY24) Yoy, driven by pixel migration and higher ADAS density per car. Sunny's 2M25 shipment was on track to FY25E shipment guidance and arrived at ~21.6mn units (~18% of FY25E guidance vs. ~18.5% on average in FY19-FY24)

Sunny's automotive business outlook remains upbeat, driven by project wins, and increasing no. of cam adoption accompanied by more compact design (e.g. COB packaging technology on automotive CCM) with added value (e.g. active defogging), pixel migration etc. Sunny's **automotive CCM revenue grew 35.2% Yoy to ~RMB 2.1bn in FY24 (FY22-FY24 CAGR at 50%), and expects to reach RMB3bn in FY25E (+40% Yoy) thanks to project wins across customers in Europe and Asia. Sunny also shared that the order book on hand was ~RMB15bn, we believe the order book bodes well for Sunny's automotive CCM revenue growth in mid-long term.** We believe Sunny continue to benefit from increasing automotive CCM, LiDAR and ADAS penetration, thanks to their leadership in VLS (No.1 with >30% global market share) and leading supplier in automotive CCM.

#### ■ FY25E CAPEX mainly on HCM, automotive and infrastructure

Sunny continues to invest in product R&D and technology upgrades. R&D expense arrived at ~RMB2.9bn and accounted for 7.6% of total revenue (vs. 5.9%/6.6%/7.0%/8.4%/8.1% in FY19-FY23). We expect Sunny R&D expense would maintain at ~8% in FY25E/FY26E.

Sunny's FY24 CAPEX came in at RMB2,260mn (-9.1% Yoy), lower than its FY24E CAPEX at ~RMB3.0bn (+20% Yoy, similar to FY22 level). Sunny' FY25E CAPEX would be ~RMB 2.6bn in which ~40% would be used in XR (RMB 600mn R&D) and auto segment (RMB 400mn in total for lens and modules capacity expansion, each reaching 11kk/1.4kk/month (i.e. +1.6x /40% increment from current designed capacity), while RMB 800mn will be allocated to expanding infrastructure in Vietnam (including new factories) and China.

#### ■ Raise FY25E-26E EPS forecasts and introduce FY27E forecast; Quality growth + diversification strategy well on track; Maintain BUY

We raise Sunny's FY25E-26E net profit estimates by 16.1%/14.1%, on the back of higher sales and GM forecast, we also introduce FY27E estimates. We continue to expect a mild recovery in FY25E driven by top-tier smartphone clients. We still view Sunny's leadership in HLS and HCM remains intact, and their strategy to diversify away from smartphones is well on track, with non-smartphone revenue contribution (with auto+XR accounted for >60% of the non-smartphone sales) increased to >35% of total revenue in 2H24. After having risen by ~40% YTD, Sunny's share price has corrected ~24% since early March, as investors tends to lock in profits while Sunny's FY25E guidance on both HCM's ASP and GM disappointed the market further accelerated last 5 trading days' sell off (-14%).

Sunny is now trading at FY25E 23.0x PE (~15% below Sunny's 10-year average), we expect FY24-27E sales and net profit would grow 10.2%/18.7% CAGR on the back of **i) gradual global smartphone market recovery, ii) continued share gain in top-tier smartphone clients and iii) increasing non-smartphone contribution.** Sunny's clear mid-term product roadmap would continue to play a part in Sunny's new growth engine, we maintain Sunny's rating at BUY with new TP at HK\$92.60, which translates to FY25E 29.0x target PE. Sunny remains one of our sector top pick, we continue to advise investors to buy on dip and ride on smartphone market recovery.

**Exhibit 1: Sunny Optical's shipment volume & sales breakdown (1H21-2H24)**

Shipment Volume (Mn Units)	1H21	2H21	1H22	2H22	1H23	2H23	1H24	2H24
<b>Optical components ('000 units)</b>	<b>825.0</b>	<b>838.1</b>	<b>769.8</b>	<b>659.6</b>	<b>603.8</b>	<b>759.4</b>	<b>738.3</b>	<b>824.1</b>
Spherical lenses	19.1	22.2	16.9	12.3	11.4	11.9	12.0	14.3
Handset lens sets	717.1	722.5	651.6	541.0	512.8	658.1	634.4	690.0
Vehicle lens sets	37.3	30.7	37.6	41.3	47.1	43.7	53.2	49.1
Other lens sets	51.5	62.8	63.7	65.0	32.6	45.7	38.6	70.8
<b>Optoelectronic products ('000 units)</b>	<b>390.4</b>	<b>342.1</b>	<b>315.4</b>	<b>251.8</b>	<b>265.5</b>	<b>334.1</b>	<b>306.4</b>	<b>282.0</b>
HCM	361.2	312.5	288.7	228.0	254.6	312.9	289.0	244.9
Others (incl. 3D sensing products, e.g. structured light, TOF etc)	29.1	29.7	26.7	23.9	10.9	21.2	17.4	37.1
<b>Optical instruments</b>	<b>117.5</b>	<b>137.4</b>	<b>133.1</b>	<b>186.6</b>	<b>135.5</b>	<b>115.7</b>	<b>93.3</b>	<b>132.1</b>
	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	0.0
<b>Total</b>	<b>1,332.9</b>	<b>1,317.6</b>	<b>1,218.2</b>	<b>1,098.0</b>	<b>1,004.8</b>	<b>1,209.2</b>	<b>1,138.0</b>	<b>1,238.1</b>
<b>Segment Revenue (RMB mn)</b>	<b>1H21</b>	<b>2H21</b>	<b>1H22</b>	<b>2H22</b>	<b>1H23</b>	<b>2H23</b>	<b>1H24</b>	<b>2H24</b>
Optical components ('000 units)	4,343.9	4,432.2	4,399.0	5,068.5	4,317.9	5,237.2	5,480.4	6,227.6
Optoelectronic products ('000 units)	15,307.8	13,025.7	12,370.9	10,955.0	9,736.5	11,862.9	13,191.1	12,965.7
Optical instruments	181.7	205.6	201.8	201.6	224.1	302.6	188.7	241.0
<b>Total</b>	<b>19,833.4</b>	<b>17,663.4</b>	<b>16,971.8</b>	<b>16,225.2</b>	<b>14,278.6</b>	<b>17,402.7</b>	<b>18,860.2</b>	<b>19,434.3</b>
<b>Growth (Yoy%)</b>								
Optical components ('000 units)	12.4%	-16.7%	1.3%	14.4%	-1.8%	3.3%	26.9%	18.9%
Optoelectronic products ('000 units)	2.9%	-4.4%	-19.2%	-15.9%	-21.3%	8.3%	35.5%	9.3%
Optical instruments	43.7%	2.8%	11.1%	-1.9%	11.0%	50.1%	-15.8%	-20.4%
<b>Total</b>	<b>5.1%</b>	<b>-7.7%</b>	<b>-14.4%</b>	<b>-8.1%</b>	<b>-15.9%</b>	<b>7.3%</b>	<b>32.1%</b>	<b>11.7%</b>
<b>By product (RMB Mn)</b>								
Handset	15,852	13,745	12,756	10,521	9,689	11,246	13,029	12,127
Auto	1,614	1,347	1,725	2,383	2,471	2,812	2,877	3,162
XR	595	750	660	1,402	469	1,401	992	1,585
Others	1,772	1,822	1,831	1,920	1,649	1,944	1,962	2,560
<b>Total</b>	<b>19,833</b>	<b>17,663</b>	<b>16,972</b>	<b>16,225</b>	<b>14,279</b>	<b>17,403</b>	<b>18,860</b>	<b>19,434</b>
<b>Growth (Yoy%)</b>								
Handset	-4.7%	-11.3%	-19.5%	-23.5%	-24.0%	6.9%	34.5%	7.8%
Auto	72.4%	-14.5%	6.9%	76.9%	43.3%	18.0%	16.4%	12.5%
XR	425.7%	55.2%	10.9%	87.0%	-28.9%	-0.1%	111.4%	13.2%
Others	49.3%	14.7%	3.3%	5.4%	-9.9%	1.3%	19.0%	31.7%
<b>Total</b>	<b>5.1%</b>	<b>-7.7%</b>	<b>-14.4%</b>	<b>-8.1%</b>	<b>-15.9%</b>	<b>7.3%</b>	<b>32.1%</b>	<b>11.7%</b>
<b>Sales contribution (%)</b>								
Handset	79.9%	77.8%	75.2%	64.8%	67.9%	64.6%	69.1%	62.4%
Auto	8.1%	7.6%	10.2%	14.7%	17.3%	16.2%	15.3%	16.3%
XR	3.0%	4.2%	3.9%	8.6%	3.3%	8.0%	5.3%	8.2%
Others	8.9%	10.3%	10.8%	11.8%	11.6%	11.2%	10.4%	13.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company data, CIRL

**Exhibit 2: We lift FY24E-25E earnings forecasts and introduce FY27E estimates**

	FY25E(old)	FY25E(new)	Diff	FY26E(old)	FY26E(new)	Diff	FY27E	Yoy(%)
Revenue	40,751	42,230	3.6%	44,802	46,535	3.9%	51,225	10.1%
GM	17.9%	18.9%	+100bps	18.5%	19.5%	+100bps	20.1%	+60bps
Operating profit	3,768	4,151	10.1%	4,443	4,863	9.4%	4,517	15.5%
Net Profit	2,819	3,271	16.1%	3,373	3,850	14.1%	4,750	17.3%
EPS (RMB)	2.57	2.98	16.1%	3.08	3.51	14.1%	4.12	17.3%

Source: CIRL estimates

**Exhibit 3: Financial statement**

Income statement						Cash flow					
Year to Dec (RMB mn)	FY23A	FY24A	FY25E	FY26E	FY27E	Year to Dec (RMB mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	31,681	38,294	42,230	46,535	51,225	Pre-tax profit	1,358	3,144	3,810	4,555	5,345
Gross profit (reported)	4,590	7,006	7,997	9,093	10,275	Taxes paid	1,509	(208)	(367)	(444)	(592)
EBITDA	3,852	5,751	6,685	7,655	8,692	Depreciation	2,067	2,226	2,534	2,792	3,073
Depreciation	(2,067)	(2,226)	(2,534)	(2,792)	(3,073)	Associates	(23)	(118)	(131)	(144)	(158)
EBIT	1,785	3,525	4,151	4,863	5,619	CFO bef. WC change	4,911	5,044	5,847	6,759	7,668
Net interest income (exp.)	(449)	(499)	(472)	(452)	(432)	Change in working cap	6,342	(9,918)	(347)	(453)	(555)
Associates	23	118	131	144	158	<b>Cashflow from operation</b>	<b>11,253</b>	<b>(4,875)</b>	<b>5,500</b>	<b>6,306</b>	<b>7,112</b>
Exceptionals/others	0	0	0	0	0	CAPEX	(2,488)	(3,000)	(2,744)	(2,872)	(2,808)
Profit before tax	1,358	3,144	3,810	4,555	5,345	<b>Free cash flow</b>	<b>8,765</b>	<b>(7,875)</b>	<b>2,756</b>	<b>3,434</b>	<b>4,305</b>
Tax expenses	(208)	(367)	(444)	(592)	(695)	Dividends	(219)	(536)	(650)	(765)	(897)
Minority interest	(51)	(78)	(94)	(113)	(132)	Balance sheet adj.	0	0	0	0	0
<b>Net profit</b>	<b>1,099</b>	<b>2,699</b>	<b>3,271</b>	<b>3,850</b>	<b>4,517</b>	Share issued	(0)	0	0	0	0
Dividends	-219	-536	-650	-765	-897	Others	(296)	(317)	(114)	(115)	(133)
<b>Balance sheet</b>						<b>Net cash flow</b>	<b>8,251</b>	<b>(8,728)</b>	<b>1,992</b>	<b>2,555</b>	<b>3,274</b>
Year to Dec (RMB mn)	FY23A	FY24A	FY25E	FY26E	FY27E	Net cash (debt) start	13,794	22,045	13,317	15,309	17,864
Cash & equiv	22,744	14,016	16,008	18,563	21,837	Net cash (debt) at year-end	22,045	13,317	15,309	17,864	21,138
Trade receivables	7,855	8,275	9,126	10,056	11,069	<b>Ratios</b>					
Other receivables	0	0	0	0	0	<b>Year to Dec (RMB mn)</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Inventories	5,137	5,770	6,348	7,042	7,869	<b>Growth rate (%)</b>					
Other current assets	1,729	1,729	1,729	1,729	1,729	Revenue	(4.6)	20.9	10.3	10.2	10.1
Fixed assets	9,761	10,535	10,745	10,825	10,559	EBITDA	(22.3)	49.3	16.2	14.5	13.5
Intangible assets	0	0	0	0	0	EBIT	(40.8)	97.5	17.8	17.2	15.5
Investment, associates etc	456	575	705	849	1,007	Net profit	(54.3)	145.5	21.2	17.7	17.3
<b>Total assets</b>	<b>47,682</b>	<b>40,899</b>	<b>44,660</b>	<b>49,064</b>	<b>54,071</b>	EPS	(54.3)	145.5	21.2	17.7	17.3
Account payables	20,325	11,460	12,541	13,714	14,999	<b>Margins (%)</b>					
Other payables	0	0	0	0	0	Gross margin (reported)	14.5	18.3	18.9	19.5	20.1
Short-term debt	699	699	699	699	699	EBITDA	12.2	15.0	15.8	16.5	17.0
Other current liabs	674	832	910	1,058	1,161	EBIT	5.6	9.2	9.8	10.5	11.0
Long-term debts	0	0	0	0	0	Net margin	3.5	7.0	7.7	8.3	8.8
Deferred tax and others	3,231	3,231	3,231	3,231	3,231	<b>Other ratios</b>					
Other long-term liabs	0	0	0	0	0	ROE (%)	4.8	10.9	12.0	12.7	13.3
<b>Total liabilities</b>	<b>24,929</b>	<b>16,223</b>	<b>17,382</b>	<b>18,702</b>	<b>20,090</b>	ROA (%)	2.3	6.6	7.3	7.8	8.4
Share capital	105	105	105	105	105	Net gearing (%)	(96.9)	(54.0)	(56.1)	(58.8)	(62.2)
Reserves	22,318	24,163	26,671	29,641	33,128	Interest coverage (x)	4.0	7.1	8.8	10.8	13.0
<b>Shareholders' equity</b>	<b>22,423</b>	<b>24,268</b>	<b>26,776</b>	<b>29,746</b>	<b>33,234</b>	Receivables days	90.5	78.9	78.9	78.9	78.9
Minorities	330	408	502	615	747	Payables days	273.8	133.7	133.7	133.7	133.7
<b>Total equity</b>	<b>22,753</b>	<b>24,676</b>	<b>27,278</b>	<b>30,361</b>	<b>33,981</b>	Inventory days	69.2	67.3	67.7	68.7	70.1
Net cash (debt)	22,045	13,317	15,309	17,864	21,138	Effective tax rate (%)	15.3	11.7	11.7	13.0	13.0

Source: Company data, CIRL estimates

Exhibit 8: Sunny's 12 month Forward P/E Ratio



Source: Bloomberg, CIRC

## 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) non-smartphone products' shipment/ sales disappoints, 5) pricing pressure arising from overseas players and domestic peers and 6) RMB depreciation

## Rating Policy

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

## Analysts List

Hayman Chiu	Research Director	(852) 2235 7677	<a href="mailto:hayman.chiu@cinda.com.hk">hayman.chiu@cinda.com.hk</a>
Lewis Pang	Associate Director	(852) 2235 7847	<a href="mailto:lewis.pang@cinda.com.hk">lewis.pang@cinda.com.hk</a>
Edith Li	Senior Research Analyst	(852)2235 7515	<a href="mailto:edith.li@cinda.com.hk">edith.li@cinda.com.hk</a>
Tracy Chan	Senior Research Analyst	(852)2235 7170	<a href="mailto:tracy.chan@cinda.com.hk">tracy.chan@cinda.com.hk</a>

## 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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