

# Sunny Optical Technology

Bloomberg: 2382 HK Equity | Reuters: 2382.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Mar 2022

## BUY

Last Traded Price (24 Mar 2022): HK\$129.40 (HSI : 21,946)  
Price Target 12-mth: HK\$200 (55% upside) (Prev HK\$275)

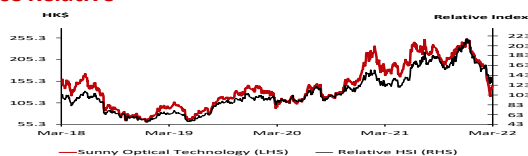
### Analyst

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### What's New

- FY21 net profit increased by 2.4% y-o-y to Rmb 4.9 bn, below market expectations of 6.4% growth
- Cut FY22/23F handset lens shipment growth from 21%/15% to 9%/10% due to weaker smartphone demand
- Reduced FY22/23F net profit by 26%/21% due to lower margins from lens sets and slowed shipment growth
- Maintain BUY, TP lowered to HK\$200; EPS CAGR still strong at 33.2% despite earnings cut

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2021A	2022F	2023F	2024F
Turnover	37,497	44,768	54,534	62,165
EBITDA	7,434	9,056	11,575	13,665
Pre-tax Profit	5,635	6,967	9,285	11,159
Net Profit	4,988	6,061	8,074	9,693
Net Pft (Pre Ex) (core profit)	4,894	6,106	8,121	9,722
Net Profit Gth (Pre-ex) (%)	4.7	24.8	33.0	19.7
EPS (RMB)	4.56	5.54	7.38	8.86
EPS (HK\$)	5.60	6.80	9.06	10.87
Core EPS (RMB)	4.47	5.58	7.42	8.88
Core EPS (HK\$)	5.49	6.85	9.11	10.91
EPS Gth (%)	2.3	21.5	33.2	20.0
Core EPS Gth (%)	4.6	24.7	33.0	19.7
Diluted EPS (HK\$)	5.60	6.80	9.06	10.87
DPS (HK\$)	1.12	1.12	1.36	1.81
BV Per Share (HK\$)	23.13	28.71	36.66	45.88
PE (X)	23.1	19.0	14.3	11.9
CorePE (X)	23.6	18.9	14.2	11.9
P/Cash Flow (X)	17.7	14.4	12.0	10.7
P/Free CF (X)	29.0	23.2	19.6	17.6
EV/EBITDA (X)	14.4	11.3	8.4	6.7
Net Div Yield (%)	0.9	0.9	1.0	1.4
P/Book Value (X)	5.6	4.5	3.5	2.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	26.8	26.2	27.8	26.5
Earnings Rev (%)		(27)	(23)	New
Consensus EPS (RMB)		5.87	7.20	7.73
Other Broker Recs:		B:34	S:1	H:12

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## EV growth & Apple gains not in price

### Investment Thesis

**Good progress for more Apple shipments.** Sunny Optical is well positioned to replace Ofilm, after it was cut off in early 2021, to supply to Apple. Apple's shipment will still be a strong driver for handset lens shipment growth and improving product mix in long term despite the near-term headwind in the android market.

### Strong vehicle lens and camera module demand remain intact.

This is due to rising EV and autonomous driving penetration (from 13.0% to 34.2%) during 2020-2025E in China, led by increase in EV shipments (CAGR at c.33.8%) and number of cameras per car. Vehicle products' revenue share will increase to 17% in FY24 from 8% in FY21.

**Higher-than-peers investment in R&D.** R&D cost-to-sales has been rising, from 4.8% in FY16 to 7.1% in FY21. Product patents applied have surpassed its peers, and Sunny Optical continues to improve its competitive edge in technological know-how.

### Valuation:

We lowered our TP to HK\$ 200 on a lower FY22F EPS, still pegged to an unchanged FY22F PE of 30x, which is c. 1SD above its 5-yr average. Sunny Optical is set to deliver strong EPS CAGR of 33.2% in FY21-24 despite lowering our earnings estimates.

### Where we differ:

We expect Sunny Optical to enter Apple's iPhone value chain with 25%/25% shipment share in FY22/23F. Our FY22/23F EPS projections are 31%/27% higher than the market as we expect vehicle lens and high-end product shipment share to expand, resulting in higher ASP and margins.

### Key Risks to Our View:

(1) Chips shortage persists longer than expected, leading to lower global smartphone shipments and (2) longer handset specification downgrade caused by supply chain woes for android smartphones leading to potentially lower product ASP.

### At A Glance

Issued Capital (m shrs)	1,097
Mkt Cap (HK\$m/US\$m)	154,458 / 19,742
Major Shareholders (%)	
Sun Xu Ltd.	35.5
Free Float (%)	64.5
3m Avg. Daily Val. (US\$m)	138.81
GICS Industry: Information Technology / Technology Hardware & Equipment	



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## Sunny Optical Technology

### WHAT'S NEW

#### Margin contracted on weaker demand, smartphone growth expected to resume in 2H22

##### FY21 result highlight

**FY21 results below.** FY21 revenue declined 7.3% y-o-y to Rmb37.5 bn, below market expectations of 2.7% growth. Optical component and Optoelectronic product revenue declined 4.4%/0.6% y-o-y due to 1) decrease in shipment volume caused by weaker demand for Android smartphones since 2H21; 2) lower component ASP that was due to worse-than-expected global sales of high-end Android smartphones.

**Gross margin expanded by only 0.4ppt y-o-y to 23.3%,** largely dragged by margin contraction in optical components segment. Optoelectronics' gross margin increased to 13.7%, up 1.1ppt y-o-y, from 12.6%, mainly due to optimization of manufacturing process like increasing automation and simplification in the product procedure. Optical components' margin dropped 3.3ppts y-o-y to 39.5%, on lower ASP due to fierce competition in both domestic and overseas markets, and specification downgrade in the Android smartphone market.

**Net profit increased slightly by 2.4% y-o-y to Rmb 4.9 bn,** compared to market expectations of 6.4% growth, mainly due to the gross margin contraction in the optical component business. EPS was Rmb4.56.

##### Our view

**We expect weak demand for android phones will continue** to impact handset lens and compact camera module (CCM) shipment growth for 1H22. However, we maintain the view that resumption of global smartphone shipment growth will be later in 2022, as the handset chip shortage is likely to be resolved from 2H22 onwards. This should boost overall CCM demand.

However, the incremental lens shipment for Apple and CCM shipment for Samsung will start contributing in FY22 and boost both handset lens set and handset module shipments. These should partly help to compensate for the slower growth in the android smartphone market since 2H21.

**We lower FY22/23F handset lens shipment growth from 20.5%/ 14.8% to 9.4%/ 10.0%** and cut FY22/23F handset CCM shipment growth from 19.8%/14.85% to 11.4%/10.1%

to reflect the weaker demand for lens and CCM in the android smartphone market.

The impact of fierce competition among peers and mild smartphone specification degrading on optical components' gross margin is expected to continue in 1H22 and to the whole of FY22. However, we expect a progressive recovery of gross margins in this segment along with the increasing share of shipments from Apple from FY23 which should have higher gross margin.

We expect CCM's margin to continue to expand along with the optimization of production processes like increasing automation and better product mix besides more mid-high-end shipments order from Samsung.

The supply chain woes caused by the auto chips shortage and global commodity price disorder is likely to delay the growth of vehicle related products for EVs and autonomous driving. We expect vehicle related products' revenue share to grow from 8% in FY21 to 17.2% in FY24.

**Cut FY22/23F revenue and net profit by 15.1%/ 14.6% and 25.5% and 21.1%** to factor the above-mentioned changes in shipment growth in various segments and gross margin trend.

##### Valuation

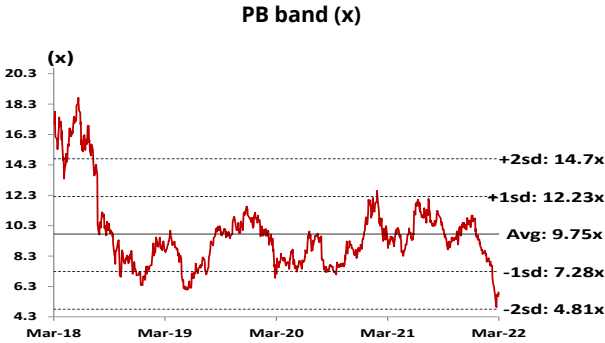
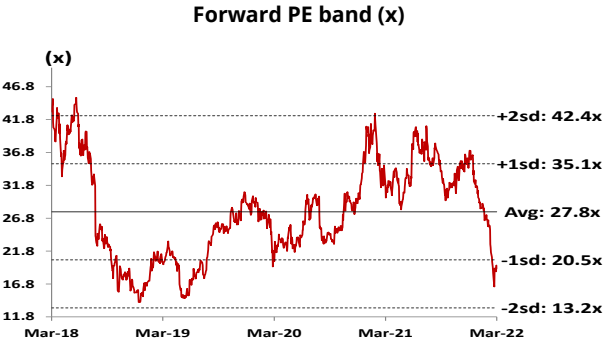
Sunny Optical is trading at 20.6x FY22F PE, below its 5-year average forward PE of 25.7x. We lowered our TP to HK\$ 200 on lower FY22F EPS, still pegged to an unchanged target PE of 30x FY22F PE, which is c. 1SD above its 5-yr average. Despite the earnings cut, we still expect EPS CAGR to be strong at 33.2% in FY21-24 because of 1) penetration to iPhone products and 2) first mover advantage in smartphone player's EV development. Maintain BUY.

##### Company Background

Established in 1984 and listed in 2007, Sunny Optical is the world's leading integrated optical component supplier for smartphones, vehicles, and digital cameras. (1) Optoelectronic products (i.e. handset camera modules), (2) optical components (i.e. handset lens sets, vehicle lens sets, digital camera lens sets), and (3) optical instruments accounted for 70%, 28% and 1% of its FY20 revenue respectively.

### Sunny Optical Technology

#### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Sunny Optical Technology

### Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
Optical Components Shipment ('000 units)	1,678.7	1,663.1	1,834.0	2,057.7	2,363.8
ASP (RMB)	5.5	5.3	5.1	6.1	6.1
Gross Margin (%)	42.8	39.5	40.8	43.6	44.2
Overall Gross Margin (%)	22.9	23.3	24.0	24.8	25.5

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Revenues (RMB m)</b>					
Optical Components	9,181	8,776	10,811	12,526	14,350
Optoelectronic Products	28,494	28,334	33,540	41,566	47,346
Optical Instruments	326	387	417	442	469
<b>Total</b>	<b>38,002</b>	<b>37,497</b>	<b>44,768</b>	<b>54,534</b>	<b>62,165</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	38,002	37,497	44,768	54,534	62,165
Cost of Goods Sold	(29,304)	(28,761)	(34,018)	(41,004)	(46,298)
<b>Gross Profit</b>	<b>8,698</b>	<b>8,736</b>	<b>10,750</b>	<b>13,530</b>	<b>15,867</b>
Other Opng (Exp)/Inc	(3,531)	(3,674)	(4,337)	(4,945)	(5,599)
<b>Operating Profit</b>	<b>5,167</b>	<b>5,062</b>	<b>6,413</b>	<b>8,585</b>	<b>10,268</b>
Other Non Opg (Exp)/Inc	463	593	647	733	818
Associates & JV Inc	0	19	19	19	19
Net Interest (Exp)/Inc	(187)	(133)	(69)	(6)	83
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	199	94	(44)	(47)	(29)
<b>Pre-tax Profit</b>	<b>5,643</b>	<b>5,635</b>	<b>6,967</b>	<b>9,285</b>	<b>11,159</b>
Tax	(703)	(579)	(840)	(1,119)	(1,345)
Minority Interest	(68)	(68)	(66)	(92)	(121)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>4,872</b>	<b>4,988</b>	<b>6,061</b>	<b>8,074</b>	<b>9,693</b>
Net Profit before Except.	4,672	4,894	6,106	8,121	9,722
EBITDA	7,258	7,434	9,056	11,575	13,665
<b>Growth</b>					
Revenue Gth (%)	0.4	(1.3)	19.4	21.8	14.0
EBITDA Gth (%)	15.9	2.4	21.8	27.8	18.1
Opg Profit Gth (%)	12.0	(2.0)	26.7	33.9	19.6
Net Profit Gth (%)	22.1	2.4	21.5	33.2	20.0
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	22.9	23.3	24.0	24.8	25.5
Opg Profit Margin (%)	13.6	13.5	14.3	15.7	16.5
Net Profit Margin (%)	12.8	13.3	13.5	14.8	15.6
ROAE (%)	33.4	26.8	26.2	27.8	26.5
ROA (%)	14.7	13.4	14.3	15.7	15.5
ROCE (%)	20.9	17.3	18.1	20.0	19.4
Div Payout Ratio (%)	20.0	20.0	16.5	15.0	16.6
Net Interest Cover (x)	27.7	38.0	93.4	1,550.8	NM

Source: Company, DBS HK

## Sunny Optical Technology

### Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	8,034	8,848	9,941	11,431	13,117
Invt in Associates & JVs	2	202	202	202	202
Other LT Assets	1,773	1,735	1,789	1,876	1,941
Cash & ST Invt	11,634	15,059	19,438	25,587	32,268
Inventory	5,783	5,482	5,594	6,612	8,095
Debtors	8,212	7,449	9,284	11,071	12,756
Other Current Assets	0	0	0	0	0
<b>Total Assets</b>	<b>35,438</b>	<b>38,774</b>	<b>46,248</b>	<b>56,779</b>	<b>68,378</b>
ST Debt	2,071	1,539	1,539	2,539	3,539
Creditors	10,872	10,054	12,237	14,514	16,523
Other Current Liab	469	281	292	368	432
LT Debt	4,142	4,688	4,547	4,368	4,238
Other LT Liabilities	1,059	1,317	1,608	2,011	2,466
Shareholder's Equity	16,597	20,588	25,651	32,515	40,595
Minority Interests	229	307	373	465	586
<b>Total Cap. &amp; Liab.</b>	<b>35,438</b>	<b>38,774</b>	<b>46,248</b>	<b>56,779</b>	<b>68,378</b>
Non-Cash Wkg. Capital	2,655	2,596	2,348	2,801	3,896
Net Cash/(Debt)	5,422	8,832	13,351	18,681	24,491
Debtors Turn (avg days)	85.7	76.2	68.2	68.1	69.9
Creditors Turn (avg days)	146.9	141.4	127.0	125.9	129.5
Inventory Turn (avg days)	72.1	76.1	63.1	57.5	61.4
Asset Turnover (x)	1.1	1.0	1.1	1.1	1.0
Current Ratio (x)	1.9	2.4	2.4	2.5	2.6
Quick Ratio (x)	1.5	1.9	2.0	2.1	2.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	41.7	40.4	49.7	53.4	54.2
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

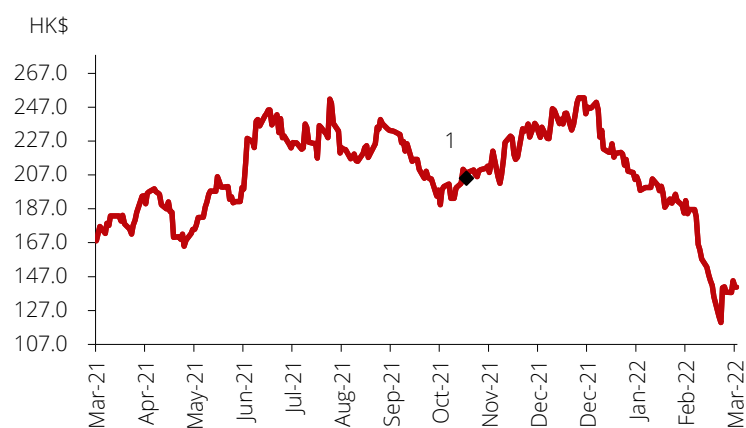
### Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	5,643	5,635	6,967	9,285	11,159
Dep. & Amort.	1,628	1,760	1,976	2,237	2,560
Tax Paid	(703)	(579)	(840)	(1,119)	(1,345)
Assoc. & JV Inc/(loss)	0	(19)	(19)	(19)	(19)
(Pft)/ Loss on disposal of FAs	(187)	(99)	54	45	30
Chg in Wkg.Cap.	609	59	248	(452)	(1,095)
Other Operating CF	(166)	(256)	(381)	(403)	(533)
<b>Net Operating CF</b>	<b>6,824</b>	<b>6,500</b>	<b>8,006</b>	<b>9,574</b>	<b>10,758</b>
Capital Exp.(net)	(2,592)	(2,518)	(3,026)	(3,690)	(4,214)
Other Invt.(net)	(3,541)	(518)	229	(157)	115
Invt in Assoc. & JV	(1)	(200)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	644	593	704	620	742
<b>Net Investing CF</b>	<b>(5,491)</b>	<b>(2,643)</b>	<b>(2,093)</b>	<b>(3,227)</b>	<b>(3,358)</b>
Div Paid	(796)	(974)	(998)	(1,211)	(1,613)
Chg in Gross Debt	638	14	(140)	820	870
Capital Issues	(151)	0	0	0	0
Other Financing CF	(63)	(135)	(48)	20	110
<b>Net Financing CF</b>	<b>(372)</b>	<b>(1,094)</b>	<b>(1,187)</b>	<b>(370)</b>	<b>(633)</b>
Currency Adjustments	(37)	0	0	0	0
Chg in Cash	925	2,763	4,725	5,977	6,767
Opg CFPS (RMB)	5.69	5.89	7.09	9.16	10.83
Free CFPS (RMB)	3.87	3.64	4.55	5.38	5.98

Source: Company, DBS HK

## Sunny Optical Technology

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	21-Oct-21	HK\$209.20	HK\$275.00	Buy

Source: DBS HK

Analyst: Jim Au

Tsz Wang Tam

## Sunny Optical Technology

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 24 Mar 2022 19:04:24 (HKT)

Dissemination Date: 24 Mar 2022 19:29:40 (HKT)

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## Sunny Optical Technology

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