

Sunny Optical Technology

Bloomberg: 2382 HK Equity | Reuters: 2382.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Oct 2022

BUY

Last Traded Price (11 Oct 2022): HK\$73.65 (HSI : 16,832)
 Price Target 12-mth: HK\$94.80 (29% upside) (Prev HK\$144.20)

Analysts

Jim Au +852 3668 4172 jimau@dbs.com

Tsz Wang Tam +852 36684195 tszwangtam@dbs.com

What's New

- Cut handset lens shipment growth from -14%/19% to -17%/8% for FY22/FY23
- Forecast of other losses enlarged from Rmb27m to Rmb147m due to unrealised loss from depreciation of RMB against USD
- Cut FY22/23/24F net profit by 11%/13%/10% to factor in changes in shipment forecast and exchange losses
- TP lowered to HK\$94.8 on a lower FY22F EPS; maintain BUY based on its undemanding valuations

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2021A	2022F	2023F	2024F
Turnover	37,497	34,368	40,051	48,638
EBITDA	7,434	5,605	6,900	8,790
Pre-tax Profit	5,635	3,464	4,771	6,519
Net Profit	4,988	3,075	4,232	5,707
Net Pft (Pre Ex) (core profit)	4,894	3,212	4,279	5,736
Net Profit Gth (Pre-ex) (%)	4.7	(34.4)	33.2	34.1
EPS (RMB)	4.56	2.81	3.87	5.21
EPS (HK\$)	4.99	3.08	4.23	5.71
Core EPS (RMB)	4.47	2.93	3.91	5.24
Core EPS (HK\$)	4.90	3.21	4.28	5.74
EPS Gth (%)	2.3	(38.4)	37.6	34.9
Core EPS Gth (%)	4.6	(34.4)	33.2	34.1
Diluted EPS (HK\$)	4.99	3.08	4.23	5.71
DPS (HK\$)	1.00	1.00	0.61	0.84
BV Per Share (HK\$)	20.63	22.63	26.24	31.09
PE (X)	14.8	23.9	17.4	12.9
CorePE (X)	15.0	22.9	17.2	12.8
P/Cash Flow (X)	11.3	15.9	10.8	10.4
P/Free CF (X)	18.5	31.6	17.7	19.3
EV/EBITDA (X)	8.8	11.3	8.6	6.3
Net Div Yield (%)	1.4	1.4	0.8	1.1
P/Book Value (X)	3.6	3.3	2.8	2.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	26.8	14.2	17.3	19.9
Earnings Rev (%)		(11)	(13)	(10)
Consensus EPS (RMB)		2.87	4.14	5.29
Other Broker Recs:		B:31	S:1	H:10

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

More dependent on Apple products and EVs

Investment Thesis

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

Strong vehicle lens demand 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 an increase in EV shipments (CAGR at c.33.8%) and the number of cameras per car. The revenue share from vehicle products will increase to 21% 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. The number of product patents applied for has surpassed that of the company's peers, and Sunny Optical continues to improve its competitive edge in technological knowhow.

Valuation:

We lowered our TP to HK\$94.8 on a lower FY22F EPS, pegged to FY22F PE of 28x, in line with historical average. Sunny Optical is set to deliver an earnings growth of 38.7% in FY23, based on its progressive development in optical components for EVs and further penetration into the iPhone and Samsung supply chains, despite us lowering its earnings estimates.

Where we differ:

We expect Sunny Optical to enter Apple's iPhone value chain with a 22%/25% shipment share in FY22/23F, resulting in higher ASP and margins.

Key Risks to Our View:

(1) Weaker-than-expected consumer sentiment on smartphones globally, thereby affecting shipments and (2) further 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 (HKm/US\$m)	80,794 / 10,292
Major Shareholders (%)	
Sun Xu Ltd.	35.5
Free Float (%)	64.5
3m Avg. Daily Val. (US\$m)	77.6
GICS Industry: Information Technology / Technology Hardware & Equipment	



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WHAT'S NEW

Handset-related shipment dragged by headwinds; other drivers remain strong

Review on shipment

The global smartphone shipment has been hampered by prolonged weakness in consumer sentiment and declined 9% in 1H22. This also dragged down the handset lens demand and their shipment.

Major smartphone vendors like Samsung announced its 3Q earning guidance which its operating profit is expected to decline by 31.7% y-o-y to c. KRW 10.8T. Profit drop for the first time over the past three years due to the bad chips sales caused by prolonged weak demand for consumer electronics such as smartphones and PCs. This indicates that weak global consumer electronics shipment had persisted in 3Q.

Sunny Optical has announced its Sep 22 shipment volume yesterday after market close. Handset lens sets shipment declined 27.9%, fell behind the management guidance of a 15.0% decline in 2022 because of the continued weak demand for smartphones.

We are more cautious on shipment growth for the android smartphone and its components. We expect weak demand in global smartphone market, especially for android models, to last till end-2022 and impact the handset lens demand due to the intensified geopolitical risks in Europe and the economic slowdown in China, both of which have weakened consumer sentiment for smartphones globally.

We cut our handset lens shipment forecast from a 14.2% decline to a 16.7% decline in FY22 and an 18.6% increase to an 7.9% increase in FY23, implying a 25% y-o-y decline in 4Q22. We also cut our forecast for module shipment from a 19.2% decline to a 24.9% decline in FY22, implying a 28% y-o-y decrease in 4Q22.

Review on FX impact

Through our discussion with consumer electronics vendors and other handset component makers, we found the actual impact of RMB depreciation taking place in various areas of their businesses. We then evaluate the risk of RMB depreciation on Sunny Optical.

We expect the impact from the depreciation of the RMB against the USD to persist in 2022. We expect limited exchange risk on the margin as the major clients and the manufacture are China based.

However, Sunny Optical is going to incur an exchange loss from its US\$ 600m bond. We have revised down Sunny

Optical's shipment forecast and adjusted the foreign exchange loss accordingly.

Therefore, our forecast for other losses has been enlarged from Rmb27m to Rmb147m due to the unrealised loss arising from the depreciation of the RMB against the USD.

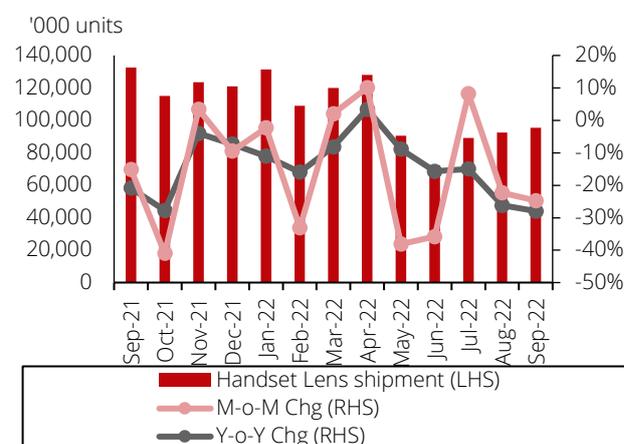
We accordingly cut FY22/23/24F net profit by 10.8%/13%/9.5% to factor in the above-mentioned changes in the shipment forecast and other assumptions on gains & losses.

Meanwhile, we maintain the positive revenue growth forecast for auto-related products and AR/VR products in 2022 on the back of the persisting strong EV sales in China and its penetration into AR products. Meanwhile, as the company's progressive penetration into the Apple value continues, this will partially smoothen the profit fluctuation arising from handset revenue during the smartphone downturn.

Valuation

Sunny Optical is trading at 20.9x FY22F PE, c.1SD below its five-year average forward PE. We lowered our TP to HK\$94.8 on a lower FY22F EPS, pegged to a target PE of 28.0x FY22F PE, which is in line with its historical valuation. Despite the earnings cut, we still expect a solid earnings growth of 38.7% in FY23 based on its progressive development in EV optical components and further penetration into the iPhone and Samsung supply chains. Maintain BUY, based on its undemanding valuations after a 70% share price correction YTD.

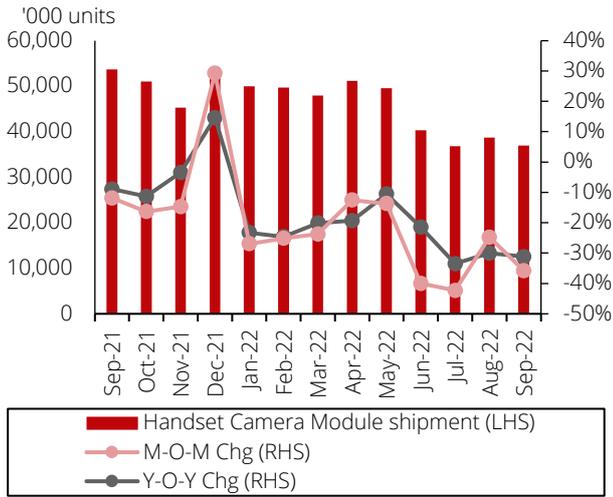
Handset Lens shipment



Source : Company data, DBS Research

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Handset Camera Module shipment



Source : Company data, DBS Research

Company Background

Established in 1984 and listed in 2007, Sunny Optical is the world's leading integrated optical component supplier for manufacturers of 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.

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
Optical Components Shipment ('000 units)	1,678.7	1,663.1	1,456.9	1,540.9	2,100.0
ASP (RMB)	5.5	5.3	5.1	6.7	6.7
Gross Margin (%)	42.8	39.5	33.0	35.7	37.3
Overall Gross Margin (%)	22.9	23.3	21.0	21.6	23.1

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (RMB m)					
Optical Components	9,181	8,776	9,518	10,348	14,046
Optoelectronic Products	28,494	28,334	24,405	29,224	34,084
Optical Instruments	326	387	444	479	508
Total	38,002	37,497	34,368	40,051	48,638

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	38,002	37,497	34,368	40,051	48,638
Cost of Goods Sold	(29,304)	(28,761)	(27,164)	(31,400)	(37,394)
Gross Profit	8,698	8,736	7,204	8,652	11,245
Other Opng (Exp)/Inc	(3,531)	(3,674)	(4,139)	(4,524)	(5,494)
Operating Profit	5,167	5,062	3,064	4,128	5,751
Other Non Opg (Exp)/Inc	463	593	613	733	818
Associates & JV Inc	0	19	20	20	20
Net Interest (Exp)/Inc	(187)	(133)	(96)	(63)	(41)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	199	94	(137)	(47)	(29)
Pre-tax Profit	5,643	5,635	3,464	4,771	6,519
Tax	(703)	(579)	(356)	(490)	(741)
Minority Interest	(68)	(68)	(33)	(48)	(71)
Preference Dividend	0	0	0	0	0
Net Profit	4,872	4,988	3,075	4,232	5,707
Net Profit before Except.	4,672	4,894	3,212	4,279	5,736
EBITDA	7,258	7,434	5,605	6,900	8,790
Growth					
Revenue Gth (%)	0.4	(1.3)	(8.3)	16.5	21.4
EBITDA Gth (%)	15.9	2.4	(24.6)	23.1	27.4
Opg Profit Gth (%)	12.0	(2.0)	(39.5)	34.7	39.3
Net Profit Gth (%)	22.1	2.4	(38.4)	37.6	34.9
Margins & Ratio					
Gross Margins (%)	22.9	23.3	21.0	21.6	23.1
Opg Profit Margin (%)	13.6	13.5	8.9	10.3	11.8
Net Profit Margin (%)	12.8	13.3	8.9	10.6	11.7
ROAE (%)	33.4	26.8	14.2	17.3	19.9
ROA (%)	14.7	13.4	7.7	9.7	11.2
ROCE (%)	20.9	17.3	9.3	11.2	13.2
Div Payout Ratio (%)	20.0	20.0	32.5	14.5	14.8
Net Interest Cover (x)	27.7	38.0	32.0	65.1	141.4

Source: Company, DBS HK

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Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	8,034	8,848	9,280	9,979	11,090
Invt in Associates & JVs	2	202	202	202	202
Other LT Assets	1,773	1,735	1,699	1,750	1,823
Cash & ST Invt	11,634	15,059	16,716	21,699	26,284
Inventory	5,783	5,482	5,594	5,076	5,945
Debtors	8,212	7,449	7,127	8,131	9,980
Other Current Assets	0	0	0	0	0
Total Assets	35,438	38,774	40,618	46,836	55,324
ST Debt	2,071	1,539	1,539	2,539	3,539
Creditors	10,872	10,054	9,768	11,110	13,341
Other Current Liab	469	281	173	210	277
LT Debt	4,142	4,688	4,547	4,368	4,238
Other LT Liabilities	1,059	1,317	1,585	1,939	2,325
Shareholder's Equity	16,597	20,588	22,665	26,283	31,145
Minority Interests	229	307	341	389	460
Total Cap. & Liab.	35,438	38,774	40,618	46,836	55,324
Non-Cash Wkg. Capital	2,655	2,596	2,780	1,887	2,308
Net Cash/(Debt)	5,422	8,832	10,630	14,792	18,507
Debtors Turn (avg days)	85.7	76.2	77.4	69.5	68.0
Creditors Turn (avg days)	146.9	141.4	143.2	129.7	126.8
Inventory Turn (avg days)	72.1	76.1	80.0	66.3	57.2
Asset Turnover (x)	1.1	1.0	0.9	0.9	1.0
Current Ratio (x)	1.9	2.4	2.6	2.5	2.5
Quick Ratio (x)	1.5	1.9	2.1	2.2	2.1
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	37.7	38.8	42.2
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

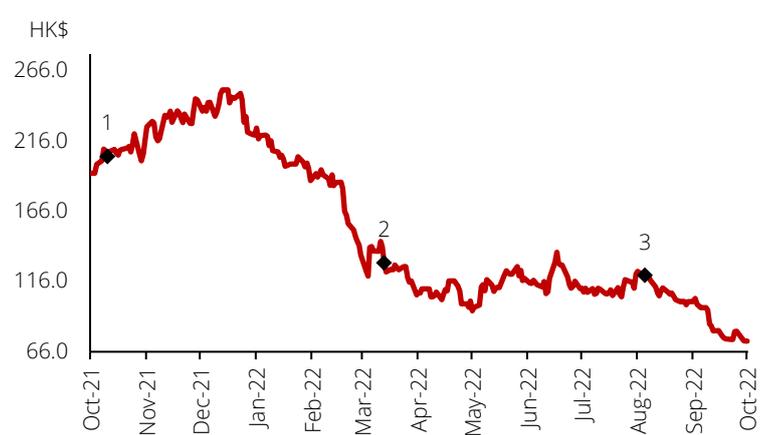
Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	5,643	5,635	3,464	4,771	6,519
Dep. & Amort.	1,628	1,760	1,908	2,019	2,202
Tax Paid	(703)	(579)	(356)	(490)	(741)
Assoc. & JV Inc/(loss)	0	(19)	(20)	(20)	(20)
(Pft)/ Loss on disposal of FAs	(187)	(99)	147	45	30
Chg in Wkg.Cap.	609	59	(184)	893	(421)
Other Operating CF	(166)	(256)	(330)	(382)	(470)
Net Operating CF	6,824	6,500	4,629	6,836	7,100
Capital Exp.(net)	(2,592)	(2,518)	(2,297)	(2,681)	(3,281)
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	668	657	734
Net Investing CF	(5,491)	(2,643)	(1,400)	(2,181)	(2,431)
Div Paid	(796)	(974)	(998)	(614)	(845)
Chg in Gross Debt	638	14	(140)	820	870
Capital Issues	(151)	0	0	0	0
Other Financing CF	(63)	(135)	(87)	(51)	(22)
Net Financing CF	(372)	(1,094)	(1,226)	155	3
Currency Adjustments	(37)	0	0	0	0
Chg in Cash	925	2,763	2,004	4,810	4,671
Opg CFPS (RMB)	5.69	5.89	4.40	5.43	6.87
Free CFPS (RMB)	3.87	3.64	2.13	3.80	3.49

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	21-Oct-21	HK\$209.20	HK\$275.00	BUY
2	24-Mar-22	HK\$129.40	HK\$200.00	BUY
3	16-Aug-22	HK\$120.50	HK\$144.20	BUY

Source: DBS HK

Analyst: Jim Au

Tsz Wang Tam

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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

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DBS Bank (Hong Kong) Limited

13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

Sunny Optical Technology

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam

13th Floor One Island East,

18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Paul Yong

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand