

Sunny Optical (2382 HK)

NDR takeaway: Guidance well on track; Positive outlook on future opportunities

We hosted Sunny Optical at 4Q outlook investor call this week. Mgmt. reiterated that 2024 guidance for HCM/HLS/VLS/auto module/XR businesses remains unchanged and has been well on track YTD. Mgmt. is also confident that new CEO and mgmt. team will continue to lead Sunny for sustainable long-term growth. In addition, mgmt. expected limited impact from the US new tariff plan given its business focus and established compliance system. Maintain BUY with TP of HK\$72.52, implying 24.9x FY25E P/E.

- **Smartphone: HLS/HCM guidance on track; Better mix/ASP hike/margin recovery in 2H24E.** Mgmt. reiterated FY24E guidance for HLS/HCM: 1) HLS: FY24E shipment to climb 5-10% YoY, ASP to improve HoH and GPM to reach 22-25% in 2H24E (vs. 20% in 1H24). 2) HCM: revenue YoY growth in FY24E with flattish shipment and ASP increase on better product mix. Overall, mgmt. expected smartphone demand recovery and high-end spec upgrade will drive Sunny's revenue growth and market share gains given technology leadership and global No.1 position in smartphone market.
- **Automotive/XR: solid business outlook.** For VLS, mgmt. reiterated HLS 2024 full-year guidance: 1) 10-15% YoY shipment growth, 2) stable ASP, 3) ~40% GPM. Mgmt. expected auto lens business will continue to grow in next few years given increasing number of cameras installed on EV and rising ADAS penetration. In addition, Sunny's focus on high-end product mix, technology advantage and scale capability will offset market pressure. As for auto module biz, mgmt. maintained guidance of 25% YoY revenue growth. For XR, mgmt. expected new product launches in 2H24E will boost order momentum and achieve 25% YoY sales growth in 2024.
- **Remain confident in mgmt. transition; no impact from the US new tariff plan.** Mgmt. reiterated that recent CEO appointment is solely based on Mr. Sun's decision and this is not related to any performance issues. In addition, mgmt. stated that the new CEO will continue to lead Sunny for future growth given his experience in strategic planning and R&D after seamless transition. Regarding the US new tariff plan, mgmt. expected limited impact given its focus on smartphone components and Sunny's established compliance system, and Sunny will continue to monitor the dynamics along supply chain.

Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|----------------------|---------|---------|---------|---------|---------|
| Revenue (RMB mn) | 33,197 | 31,681 | 39,765 | 43,167 | 47,468 |
| YoY growth (%) | (11.5) | (4.6) | 25.5 | 8.6 | 10.0 |
| Net profit (RMB mn) | 2,407.8 | 1,099.4 | 2,452.4 | 2,927.6 | 3,535.3 |
| YoY growth (%) | (51.8) | (54.3) | 123.1 | 19.4 | 20.8 |
| EPS (Reported) (RMB) | 2.20 | 1.01 | 2.25 | 2.68 | 3.24 |
| Consensus EPS (RMB) | na | na | 2.05 | 2.60 | 3.21 |
| P/E (x) | 26.2 | 57.2 | 25.6 | 21.5 | 17.8 |
| P/B (x) | 2.8 | 2.8 | 2.6 | 2.4 | 2.2 |
| Yield (%) | 1.7 | 0.8 | 1.7 | 2.0 | 2.4 |
| ROE (%) | 11.2 | 4.9 | 10.4 | 11.6 | 13.0 |
| Net gearing (%) | (22.6) | (45.5) | (22.6) | (0.4) | (30.0) |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$72.52
Up/Downside 17.3%
Current Price HK\$61.85

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Stock Data

| | |
|--------------------------|-------------|
| Mkt Cap (HK\$ mn) | 67,849.5 |
| Avg 3 mths t/o (HK\$ mn) | 683.4 |
| 52w High/Low (HK\$) | 74.15/34.45 |
| Total Issued Shares (mn) | 1097.0 |

Source: FactSet

Shareholding Structure

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

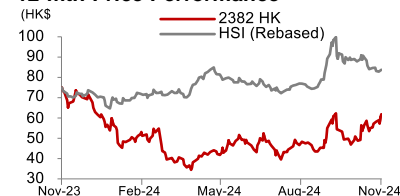
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 25.8% | 33.8% |
| 3-mth | 33.4% | 21.9% |
| 6-mth | 47.6% | 43.5% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- 1) CEO transition announced, Remain Confident in mgmt. and LT Opportunity – 26 Nov 2024 ([link](#))
- 2) Gearing up for new growth cycle; Raise TP to HK\$72.52 – 22 Aug 2024 ([link](#))
- 3) Positive profit alert alleviates GPM concerns; Upgrade to BUY – 22 Jul 2024 ([link](#))

Earnings forecasts

Figure 1: P&L forecast

| RMB mn | FY22 | FY23 | 1H24 | 2H24E | FY24E | FY25E | FY26E |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 33,197 | 31,681 | 18,860 | 20,904 | 39,765 | 43,167 | 47,468 |
| ...YoY | -11.5% | -4.6% | 32.1% | 20.1% | 25.5% | 8.6% | 10.0% |
| Cost of sales | -26,592 | -27,091 | (15,614) | (17,384) | (32,997) | (35,535) | (38,705) |
| Gross profit | 6,605 | 4,590 | 3,246 | 3,521 | 6,767 | 7,632 | 8,763 |
| GPM (%) | 19.9% | 14.5% | 17.2% | 16.8% | 17.0% | 17.7% | 18.5% |
| ...YoY | -24.4% | -30.5% | 52.4% | 43.1% | 47.4% | 12.8% | 14.8% |
| SG&A | (1,281) | (1,425) | (790) | (878) | (1,668) | (1,679) | (1,846) |
| ...% of rev | -3.9% | -4.5% | -4.2% | -4.2% | -4.2% | -3.9% | -3.9% |
| R&D | (2,803) | (2,566) | (1,468) | (1,568) | (3,036) | (3,130) | (3,441) |
| ...% of rev | -8.4% | -8.1% | -7.8% | -7.5% | -7.6% | -7.3% | -7.3% |
| Other gain & loss | 537 | 151 | 504 | 572 | 637 | 1,129 | 1,194 |
| Operating profit | 3,014 | 1,785 | 1,526 | 1,834 | 3,360 | 3,953 | 4,669 |
| OPM (%) | 9.1% | 5.6% | 8.1% | 8.8% | 8.5% | 9.2% | 9.8% |
| ...YoY | -48.5% | -40.8% | 92.3% | 85.0% | 88.3% | 17.6% | 18.1% |
| Net profit | 2,408 | 1,099 | 1,079 | 1,373 | 2,452 | 2,928 | 3,535 |
| NPM (%) | 7.3% | 3.5% | 5.7% | 6.6% | 6.2% | 6.8% | 7.4% |
| ...YoY | -51.8% | -54.3% | 147.1% | 107.2% | 123.1% | 19.4% | 20.8% |

Source: Company data, CMBIGM estimates

Figure 2: Major assumptions

| | FY22 | FY23 | FY24E | FY25E | FY26E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Shipment volume (mn unit) | | | | | |
| Optical Components | | | | | |
| Handset lens sets | 1,193 | 1,171 | 1,306 | 1,391 | 1,502 |
| ...YoY(%) | -17% | -2% | 12% | 7% | 8% |
| Vehicle lens sets | 79 | 91 | 101 | 116 | 133 |
| ...YoY(%) | 16% | 15% | 12% | 14% | 15% |
| Optoelectronic Products | | | | | |
| Handset camera modules | 517 | 567 | 611 | 642 | 674 |
| ...YoY(%) | -23% | 10% | 8% | 5% | 5% |
| Other optoelectronic (AR/VR/3D) | 51 | 32 | 41 | 49 | 59 |
| ...YoY(%) | -14% | -36% | 27% | 20% | 20% |
| Optical Instruments | | | | | |
| Microscopic instruments | 320 | 251 | 203 | 210 | 230 |
| ...YoY(%) | 24% | -21% | -19% | 3% | 10% |
| Revenue (RMB mn) | | | | | |
| Optical components | 9,468 | 9,555 | 11,130 | 11,991 | 13,419 |
| Optoelectronic products | 23,326 | 21,599 | 28,237 | 30,774 | 33,626 |
| Optical instruments | 403 | 527 | 398 | 402 | 423 |
| Total Revenue | 33,197 | 31,681 | 39,765 | 43,167 | 47,468 |
| ...YoY(%) | -11.5% | -4.6% | 25.5% | 8.6% | 10.1% |
| Gross Margin | | | | | |
| Optical components | 33.4% | 28.4% | 31.9% | 32.3% | 33.0% |
| Optoelectronic products | 10.7% | 5.5% | 8.4% | 9.1% | 9.5% |
| Optical instruments | 42.0% | 41.2% | 47.7% | 46.0% | 46.0% |

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP of HK\$72.52

We maintain BUY with SOTP-based TP of HK\$72.52. We derived our 12-month TP from SOTP methodology and weighted-average target P/E multiple of 24.9x 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 3: Sunny Optical – SOTP valuation

| Business segment | % of FY25E Profit | FY25E EPS (RMB) | Target P/E |
|---------------------------------|-------------------|-----------------|--------------|
| Camera modules | 36.5% | 0.98 | 18x |
| Handset lenses | 36.7% | 0.98 | 25x |
| Vehicle lenses | 24.3% | 0.65 | 35x |
| Others | 2.5% | 0.07 | 25x |
| Total (RMB) /Implied P/E | | 2.68 | 24.9x |
| TP (HK\$) | | | 72.52 |

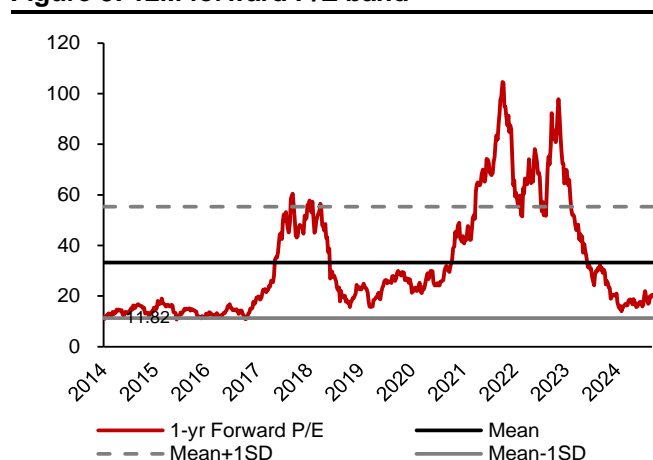
Source: Company data, CMBIGM estimates

Figure 4: 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 | 8,701 | 61.85 | 72.52 | 17% | 25.6 | 21.5 | 2.6 | 2.4 | 10.4 | 11.6 |
| Q tech | 1478 HK | BUY | 941 | 6.18 | 6.43 | 4% | 18.5 | 12.3 | 1.3 | 1.2 | 6.9 | 9.6 |
| Cowell | 1415 HK | NR | 2,694 | 24.40 | NA | NA | 27.7 | 16.2 | 5.3 | 4.0 | 21.0 | 26.9 |
| Truly | 732 HK | NR | 422 | 1.04 | NA | NA | - | - | - | - | - | - |
| Catcher | 2474 TT | NR | 4,098 | 196.00 | NA | NA | 10.3 | 12.2 | 0.9 | 0.9 | 7.9 | 6.4 |
| Largan | 3008 TT | NR | 10,029 | 2445.00 | NA | NA | 13.8 | 13.7 | 1.8 | 1.7 | 13.3 | 13.0 |
| Lite-on | 2301 TT | NR | 7,503 | 104.00 | NA | NA | 19.1 | 15.8 | 2.8 | 2.6 | 14.6 | 16.9 |
| Primax | 4915 TT | NR | 1,133 | 79.10 | NA | NA | 13.4 | 11.9 | 2.0 | 1.9 | 14.8 | 15.9 |
| O-film | 002456 CH | NR | 6,141 | 13.45 | NA | NA | 125.7 | 49.8 | 10.7 | 10.3 | 6.0 | 12.2 |
| Average | | | | | | | 31.8 | 19.2 | 3.4 | 3.1 | 11.9 | 14.1 |

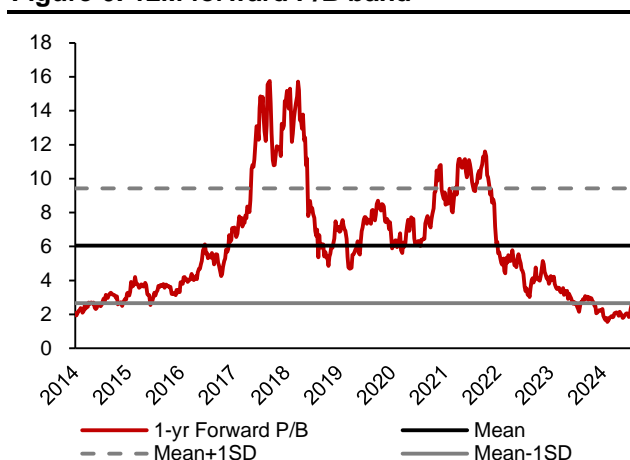
Source: Bloomberg, CMBIGM estimates

Figure 5: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 6: 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 | 39,765 | 43,167 | 47,468 |
| Cost of goods sold | (28,761) | (26,592) | (27,091) | (32,997) | (35,535) | (38,705) |
| Gross profit | 8,736 | 6,605 | 4,590 | 6,767 | 7,632 | 8,763 |
| Selling expense | (274) | (353) | (415) | (456) | (471) | (517) |
| Admin expense | (758) | (929) | (1,010) | (1,211) | (1,209) | (1,329) |
| R&D expense | (2,642) | (2,803) | (2,566) | (3,036) | (3,130) | (3,441) |
| Others | 789 | 504 | 1,208 | 1,324 | 1,129 | 1,194 |
| Operating profit | 5,851 | 3,014 | 1,785 | 3,360 | 3,953 | 4,669 |
| Share of (losses)/profits of associates/JV | 19 | (6) | 23 | (12) | (12) | (12) |
| Net Interest income/(expense) | (230) | (293) | (449) | (491) | (491) | (491) |
| Pre-tax profit | 5,640 | 2,715 | 1,358 | 2,858 | 3,450 | 4,167 |
| Income tax | (579) | (241) | (208) | (314) | (414) | (500) |
| Minority interest | 68 | 66 | 51 | 91 | 109 | 131 |
| Net profit | 4,993 | 2,408 | 1,099 | 2,452 | 2,928 | 3,535 |
| Net dividends | 974 | 1,048 | 505 | 1,067 | 1,274 | 1,538 |

| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 27,989 | 30,646 | 35,144 | 33,260 | 28,584 | 39,341 |
| Cash & equivalents | 5,605 | 7,033 | 13,085 | 8,181 | 2,781 | 11,144 |
| Account receivables | 7,448 | 7,205 | 7,855 | 9,576 | 9,346 | 11,462 |
| Inventories | 5,482 | 4,721 | 5,137 | 6,435 | 7,390 | 7,668 |
| 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 | 15,841 | 16,199 | 16,263 |
| 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 | 5,300 | 5,327 |
| Total assets | 38,774 | 43,001 | 50,297 | 49,101 | 44,783 | 55,604 |
| Current liabilities | 11,873 | 19,337 | 21,287 | 18,614 | 12,534 | 21,227 |
| Short-term borrowings | 1,539 | 1,990 | 699 | 699 | 699 | 699 |
| Account payables | 9,869 | 12,917 | 20,325 | 17,645 | 11,562 | 20,251 |
| Other current liabilities | 15,493 | 8,757 | 7,987 | 12,143 | 19,988 | 13,428 |
| 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 | 24,743 | 18,663 | 27,356 |
| Share capital | 105 | 105 | 105 | 105 | 105 | 105 |
| Other reserves | 20,483 | 21,733 | 22,318 | 23,703 | 25,357 | 27,354 |
| Total shareholders equity | 20,895 | 22,182 | 22,882 | 24,358 | 26,120 | 28,249 |
| Minority interest | 307 | 344 | 459 | 550 | 658 | 790 |
| Total equity and liabilities | 38,774 | 43,001 | 50,297 | 49,101 | 44,783 | 55,604 |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 5,640 | 2,715 | 1,358 | 2,858 | 3,450 | 4,167 |
| Depreciation & amortization | 1,638 | 2,048 | 2,437 | 2,364 | 2,664 | 2,964 |
| Change in working capital | 200 | 4,053 | 6,342 | (5,699) | (6,808) | 6,295 |
| Others | (499) | (1,438) | 324 | 132 | 58 | (33) |
| Net cash from operations | 6,979 | 7,377 | 10,461 | (346) | (636) | 13,393 |
| 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) | (1,067) | (1,274) | (1,538) |
| Net borrowings | 0 | 0 | 0 | 0 | 0 | 0 |
| Share repurchases | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | (267) | (1,111) | (449) | (491) | (491) | (491) |
| Net cash from financing | (1,241) | (2,159) | (954) | (1,558) | (1,765) | (2,029) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 2,842 | 5,605 | 7,033 | 13,085 | 8,181 | 2,781 |
| Exchange difference | (73) | 44 | 0 | 0 | 0 | 0 |
| Cash at the end of the year | 5,605 | 7,033 | 13,085 | 8,181 | 2,781 | 11,144 |
| GROWTH | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Revenue | (1.3%) | (11.5%) | (4.6%) | 25.5% | 8.6% | 10.0% |
| Gross profit | 0.4% | (24.4%) | (30.5%) | 47.4% | 12.8% | 14.8% |
| Operating profit | (0.4%) | (48.5%) | (40.8%) | 88.3% | 17.6% | 18.1% |
| Net profit | 2.3% | (51.8%) | (54.3%) | 123.1% | 19.4% | 20.8% |
| PROFITABILITY | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 23.3% | 19.9% | 14.5% | 17.0% | 17.7% | 18.5% |
| Operating margin | 15.6% | 9.1% | 5.6% | 8.5% | 9.2% | 9.8% |
| Return on equity (ROE) | 26.5% | 11.2% | 4.9% | 10.4% | 11.6% | 13.0% |
| 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 | 2.3 | 1.9 |
| 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 | 12.6 | 26.2 | 57.2 | 25.6 | 21.5 | 17.8 |
| P/B | 3.0 | 2.8 | 2.8 | 2.6 | 2.4 | 2.2 |
| Div yield (%) | 1.5 | 1.7 | 0.8 | 1.7 | 2.0 | 2.4 |
| EV | 20,895.3 | 22,182.4 | 22,881.6 | 24,358.0 | 26,120.3 | 28,248.5 |
| 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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HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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