

Sunny Optical (2382 HK)

Earnings upgrade cycle has just begun; Raise TP to HK\$102.89

Sunny pre-announced net profit of RMB 2.64bn-2.75bn for 2024, up 140-150% YoY, with mid-point beating our/Bloomberg consensus estimates by 10%/10%, mainly due to smartphone market recovery, high-end/AI smartphone demand, strong NEV demand and rising adoption of intelligence driving. For 2025, we believe Sunny will continue to benefit from China subsidies and AI spec upgrade, acceleration of intelligence driving, and booming edge AI devices (e.g. AI smart glasses). We expect earnings upgrade cycle to continue into 1H25E, and we raise FY25/26E earnings by 17%/14% to reflect the AI smartphone upgrade, intelligence driving trend and proliferation of edge AI. Our new FY25/26E EPS are 12%/12% ahead of consensus, and we lift our new SOTP-based TP to HK\$102.89, implying 30.3x FY25E P/E (in-line with 10-year avg. P/E). Upcoming catalysts include AI smartphone launches, AI smart glasses and rising ADAS adoption.

■ **2024 profit alert beat reaffirmed stronger earnings turnaround.** Sunny released a FY24E positive profit alert, stating earnings growth of 140-150% YoY to RMB 2.64bn-2.75bn. Company attributes the growth to smartphone market recovery (esp. high-end models, AI hardware), better product mix, stronger NEV demand, and rising adoption of vehicle lenses on intelligence driving trend.

■ **Multiple growth drivers: intelligence driving, AI smartphones, AI smart glasses.** Looking ahead to 2025, we expect Sunny will benefit from a growing number of vehicle sensors (e.g. cameras, LiDAR, radars) driven by rising ADAS adoption, evidenced by BYD's "God's Eye" coverage expansion to most models (12 cameras, 12 ultrasonic radars). In addition, we expect China national subsidies and new AI features will boost smartphone replacement demand and spec upgrade. We also expect Sunny will be a major camera supplier for new AI glasses from leading brands, such as Meta, Xiaomi and Samsung.

■ **More earnings upgrade ahead; Raise TP to HK\$102.9.** We believe recent stock rally reflected improving sector sentiment on the DeepSeek AI trend and BYD's "intelligence driving" event, and Sunny's earnings upgrade will continue to reflect faster ADAS adoption and edge AI cycle. We revise up FY25/26E EPS by 17%/14% on spec upgrade, intelligence driving trend and edge AI product launches. Our new SOTP-based TP of HK\$102.9 implies 30.3x FY25E P/E, largely in-line with 32.6x 10-year avg. forward P/E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	33,197	31,681	39,477	44,399	49,283
YoY growth (%)	(11.5)	(4.6)	24.6	12.5	11.0
Net profit (RMB mn)	2,407.8	1,099.4	2,714.0	3,415.0	4,034.6
YoY growth (%)	(51.8)	(54.3)	146.9	25.8	18.1
EPS (Reported) (RMB)	2.20	1.01	2.49	3.13	3.70
Consensus EPS (RMB)	na	na	2.25	2.80	3.34
P/E (x)	37.7	82.5	33.4	26.6	22.5
P/B (x)	4.1	4.0	3.7	3.4	3.1
Yield (%)	1.2	0.6	1.3	1.6	1.9
ROE (%)	11.2	4.9	11.5	13.4	14.5
Net gearing (%)	(22.6)	(45.5)	(22.5)	(0.4)	(29.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$102.89**

(Previous TP) **HK\$72.52**

Up/Downside **16.1%**

Current Price **HK\$88.60**

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Stock Data

Mkt Cap (HK\$ mn)	97,194.2
Avg 3 mths t/o (HK\$ mn)	849.6
52w High/Low (HK\$)	88.60/34.45
Total Issued Shares (mn)	1097.0

Source: FactSet

Shareholding Structure

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

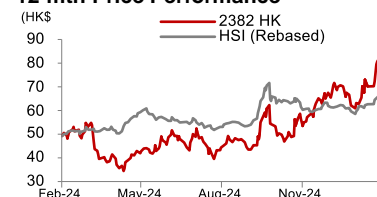
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	41.3%	23.2%
3-mth	57.1%	42.6%
6-mth	104.9%	60.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1) NDR takeaway: Guidance well on track; Positive outlook on future opportunities- 29 Nov 2024 ([link](#))

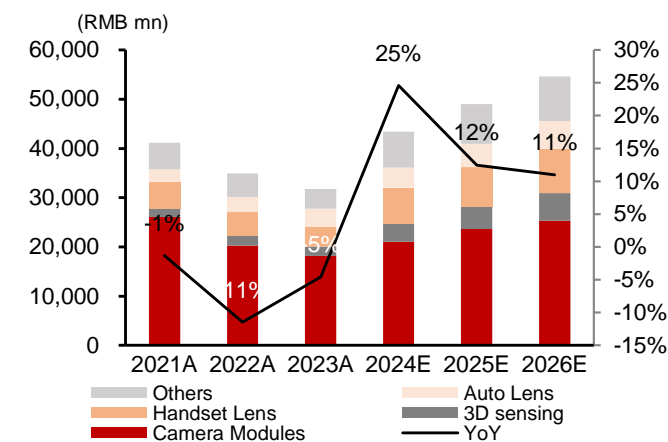
2) CEO transition announced, Remain Confident in mgmt. and LT Opportunity – 26 Nov 2024 ([link](#))

3) Gearing up for new growth cycle; Raise TP to HK\$72.52 – 22 Aug 2024 ([link](#))

4) Positive profit alert alleviates GPM concerns; Upgrade to BUY – 22 Jul 2024 ([link](#))

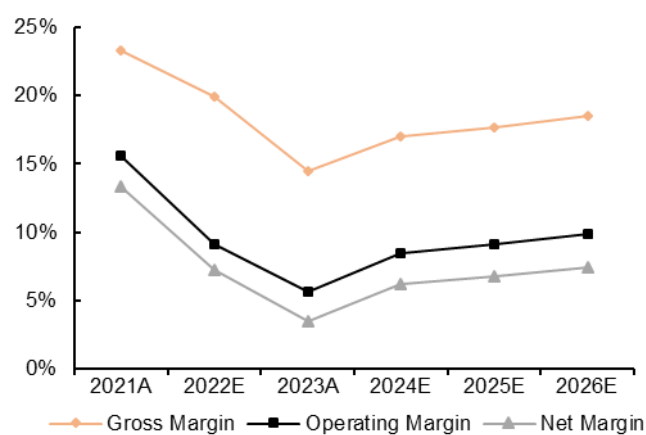
Focus Charts

Figure 1: Sunny Optical revenue trend



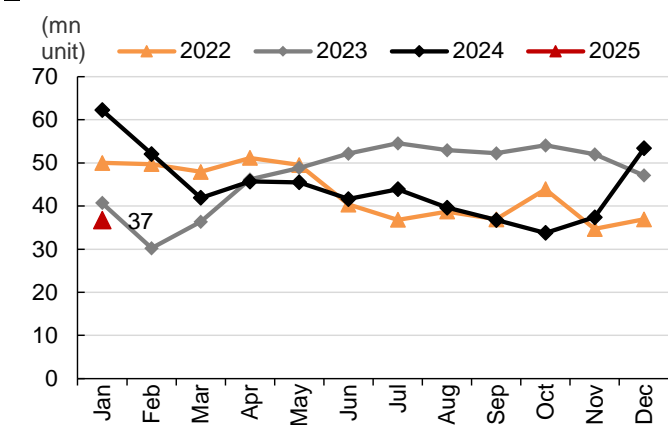
Source: Company data, CMBIGM estimates

Figure 2: Sunny Optical GPM trend



Source: Company data, CMBIGM estimates

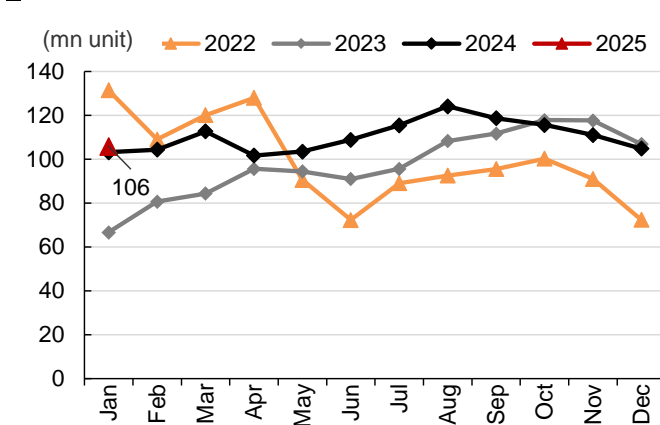
Figure 3: Sunny's HCM shipment



Source: Company data, CMBIGM estimates

Note: HCM – handset camera modules

Figure 4: Sunny's HLS shipment



Source: Company data, CMBIGM estimates

Note: HLS – handset lens sets

Figure 5: Technologies in automotive modules



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	39,477	44,399	49,283	39,765	43,167	47,468	-1%	3%	4%
Gross profit	7,050	8,181	9,411	6,767	7,632	8,763	4%	7%	7%
Operating profit	3,667	4,529	5,260	3,360	3,953	4,669	9%	15%	13%
Net profit	2,714	3,415	4,035	2,452	2,928	3,535	11%	17%	14%
EPS (RMB)	2.49	3.13	3.70	2.25	2.68	3.24	11%	17%	14%
Gross margin	17.9%	18.4%	19.1%	17.0%	17.7%	18.5%	0.8 ppt	0.7 ppt	0.6 ppt
Operating margin	9.3%	10.2%	10.7%	8.5%	9.2%	9.8%	0.8 ppt	1 ppt	0.8 ppt
Net margin	6.9%	7.7%	8.2%	6.2%	6.8%	7.4%	0.7 ppt	0.9 ppt	0.7 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	39,477	44,399	49,283	38,574	43,123	47,569	2%	3%	4%
Gross profit	7,050	8,181	9,411	6,822	7,948	8,963	3%	3%	5%
Operating profit	3,667	4,529	5,260	2,570	3,295	3,945	43%	37%	33%
Net profit	2,714	3,415	4,035	2,442	3,036	3,599	11%	12%	12%
EPS (RMB)	2.49	3.13	3.70	2.25	2.80	3.34	10%	12%	11%
Gross margin	17.9%	18.4%	19.1%	17.7%	18.4%	18.8%	0.2 ppt	0 ppt	0.3 ppt
Operating margin	9.3%	10.2%	10.7%	6.7%	7.6%	8.3%	2.6 ppt	2.6 ppt	2.4 ppt
Net margin	6.9%	7.7%	8.2%	6.3%	7.0%	7.6%	0.5 ppt	0.7 ppt	0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 9: P&L forecast

RMB mn	FY22	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Revenue	33,197	31,681	18,860	20,616	39,477	44,399	49,283
...YoY	-11.5%	-4.6%	32.1%	18.5%	24.6%	12.5%	11.0%
Cost of sales	-26,592	-27,091	(15,614)	(16,813)	(32,426)	(36,219)	(39,872)
Gross profit	6,605	4,590	3,246	3,804	7,050	8,181	9,411
GPM (%)	19.9%	14.5%	17.2%	18.5%	17.8%	18.4%	19.1%
...YoY	-24.4%	-30.5%	52.4%	54.6%	53.6%	16.0%	15.0%
SG&A	(1,281)	(1,425)	(790)	(866)	(1,655)	(1,727)	(1,917)
...% of rev	-3.9%	-4.5%	-4.2%	-4.2%	-4.2%	-3.9%	-3.9%
R&D	(2,803)	(2,566)	(1,468)	(1,546)	(3,015)	(3,219)	(3,573)
...% of rev	-8.4%	-8.1%	-7.8%	-7.5%	-7.6%	-7.3%	-7.3%
Other gain & loss	537	151	504	572	637	1,295	1,339
Operating profit	3,014	1,785	1,526	2,140	3,667	4,529	5,260
OPM (%)	9.1%	5.6%	8.1%	10.4%	9.3%	10.2%	10.7%
...YoY	-48.5%	-40.8%	92.3%	115.9%	105.4%	23.5%	16.1%
Net profit	2,408	1,099	1,079	1,635	2,714	3,415	4,035
NPM (%)	7.3%	3.5%	5.7%	7.9%	6.9%	7.7%	8.2%
...YoY	-51.8%	-54.3%	147.1%	146.7%	146.9%	25.8%	18.1%

Source: Company data, CMBIGM estimates

Figure 10: Major assumptions

	FY22	FY23	FY24E	FY25E	FY26E
Shipment volume (mn units)					
Optical Components					
Handset lens sets	1,193	1,171	1,324	1,411	1,524
...YoY(%)	-17%	-2%	13%	7%	8%
Vehicle lens sets	79	91	102	119	141
...YoY(%)	16%	15%	13%	16%	18%
Optoelectronic Products					
Handset camera modules	517	567	534	561	589
...YoY(%)	-23%	10%	-6%	5%	5%
Other optoelectronic (AR/VR/3D)	51	32	55	65	79
...YoY(%)	-14%	-36%	70%	20%	20%
Optical Instruments					
Microscopic instruments	320	251	225	234	257
...YoY(%)	24%	-21%	-10%	4%	10%
Revenue (RMB mn)					
Optical components	9,468	9,555	12,367	13,473	15,154
Optoelectronic products	23,326	21,599	26,693	30,502	33,682
Optical instruments	403	527	417	424	447
Total Revenue	33,197	31,681	39,477	44,399	49,283
...YoY(%)	-11.5%	-4.6%	24.6%	12.5%	10.2%
Gross Margin					
Optical components	19.9%	14.5%	17.8%	18.4%	18.5%
Optical components	33.4%	28.4%	31.9%	32.7%	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 new TP of HK\$102.89

We maintain BUY with new SOTP-based TP of HK\$102.89. We derive our 12-month TP from the SOTP methodology and weighted-average target P/E multiple of 30.3x FY25E EPS, to reflect Sunny's diversification in multiple businesses with different growth profiles, and visibility of product upcycles across different segments.

We assign 28x P/E to its CCM business to reflect its global No.1 position, AI product upcycle and technology leadership. We assign 38x P/E for its vehicle lens business to reflect high-margin and high-growth industry nature of vehicle lens, Sunny's No.1 global market share and accelerated ADAS adoption. We apply a 28x P/E to its handset lens segment given the 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	33.7%	1.06	28x
Handset lenses	40.5%	1.27	28x
Vehicle lenses	23.3%	0.73	38x
Others	2.4%	0.08	25x
Total (RMB) /Implied P/E		3.13	30.3
TP (HK\$)			102.89

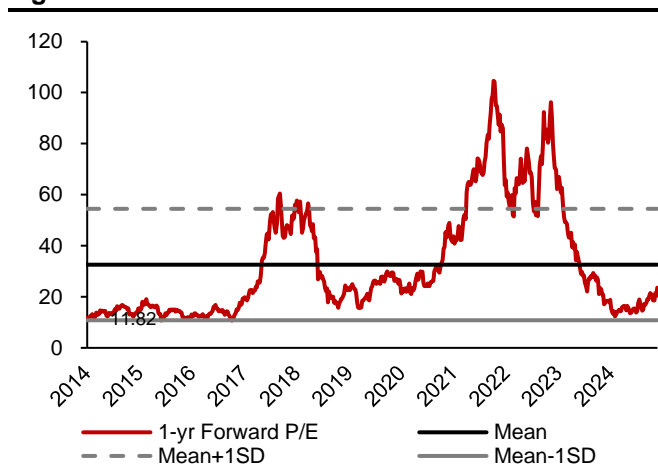
Source: Company data, CMBIGM estimates

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	12,455	88.60	102.89	16%	31.9	25.4	3.5	3.3	11.1	12.9
Q tech	1478 HK	Buy	1,258	8.27	6.79	-18%	32.3	15.5	1.7	1.6	5.4	10.3
Cowell	1415 HK	NR	3,289	29.70	NA	NA	31.5	17.9	6.3	4.7	22.6	28.8
Truly	732 HK	NR	536	1.32	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,111	198.50	NA	NA	10.8	12.9	0.9	0.9	7.7	6.2
Largan	3008 TT	NR	10,950	2695.00	NA	NA	15.2	14.5	2.0	1.8	13.3	13.1
Lite-on	2301 TT	NR	7,717	108.00	NA	NA	19.9	16.2	2.9	2.7	14.5	16.8
Primax	4915 TT	NR	1,215	85.70	NA	NA	14.9	13.0	2.2	2.0	14.3	15.6
O-film	002456 CH	NR	6,322	13.96	NA	NA	130.5	51.7	11.1	10.7	6.0	12.2
Average							36.3	21.4	3.8	3.4	11.7	14.3

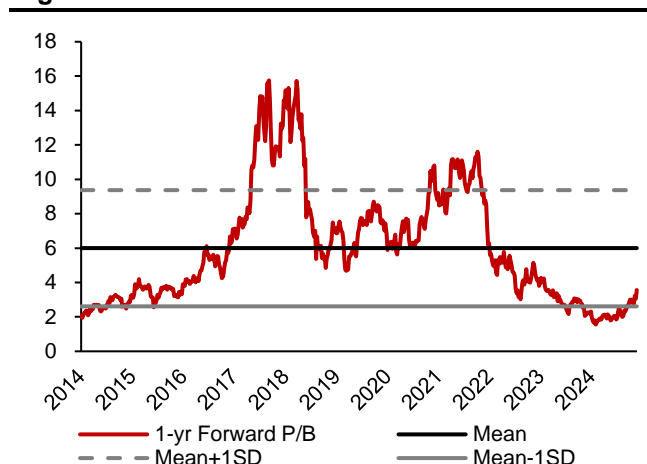
Source: Bloomberg, CMBIGM estimates. Data as of 12 Feb close.

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	39,477	44,399	49,283
Cost of goods sold	(28,761)	(26,592)	(27,091)	(32,426)	(36,219)	(39,872)
Gross profit	8,736	6,605	4,590	7,050	8,181	9,411
Selling expense	(274)	(353)	(415)	(453)	(484)	(537)
Admin expense	(758)	(929)	(1,010)	(1,203)	(1,243)	(1,380)
R&D expense	(2,642)	(2,803)	(2,566)	(3,015)	(3,219)	(3,573)
Others	789	504	1,208	1,313	1,295	1,339
Operating profit	5,851	3,014	1,785	3,667	4,529	5,260
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	3,164	4,027	4,757
Income tax	(579)	(241)	(208)	(348)	(483)	(571)
Minority interest	68	66	51	102	129	152
Net profit	4,993	2,408	1,099	2,714	3,415	4,035
Net dividends	974	1,048	505	1,181	1,486	1,756

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	9,450	10,013	11,591
Inventories	5,482	4,721	5,137	6,234	7,856	7,656
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	17,957	13,755	20,968
Short-term borrowings	1,539	1,990	699	699	699	699
Account payables	9,869	12,917	20,325	16,988	12,781	19,990
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	24,085	19,884	27,097
Share capital	105	105	105	105	105	105
Other reserves	20,483	21,733	22,318	23,851	25,780	28,059
Total shareholders equity	20,895	22,182	22,882	24,517	26,574	29,005
Minority interest	307	344	459	561	689	841
Total equity and liabilities	38,774	43,001	50,297	48,602	46,458	56,102

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,640	2,715	1,358	3,164	4,027	4,757
Depreciation & amortization	1,638	2,048	2,437	2,364	2,664	2,964
Change in working capital	200	4,053	6,342	(6,030)	(6,391)	5,831
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)	(1,181)	(1,486)	(1,756)
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)	(1,672)	(1,977)	(2,246)
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%)	24.6%	12.5%	11.0%
Gross profit	0.4%	(24.4%)	(30.5%)	53.6%	16.0%	15.0%
Operating profit	(0.4%)	(48.5%)	(40.8%)	105.4%	23.5%	16.1%
Net profit	2.3%	(51.8%)	(54.3%)	146.9%	25.8%	18.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	23.3%	19.9%	14.5%	17.9%	18.4%	19.1%
Operating margin	15.6%	9.1%	5.6%	9.3%	10.2%	10.7%
Return on equity (ROE)	26.5%	11.2%	4.9%	11.5%	13.4%	14.5%
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	1.9	2.1	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	18.2	37.7	82.5	33.4	26.6	22.5
P/B	4.3	4.1	4.0	3.7	3.4	3.1
Div yield (%)	1.1	1.2	0.6	1.3	1.6	1.9
EV	20,895.3	22,182.4	22,881.6	24,516.8	26,574.4	29,005.3
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.

Disclosures & Disclaimers

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CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
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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