

Sunny Optical (2382 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$73.60

Target Price: HK\$96.00 (+30%)

Prior TP: HK\$98.00

Key Data

HKEx code	2382
12 Months High (HK\$)	174.90
12 Month Low (HK\$)	58.55
3M Avg Dail Vol. (mn)	8.87
Issue Share (mn)	1,096.85
Market Cap (HK\$m)	80,728.14
Fiscal Year	12/2018
Major shareholder (s)	WANG WENJIAN (38.54%)

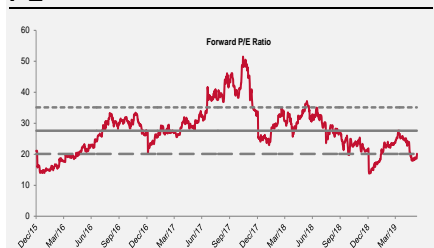
Source: Company data, Bloomberg, OP Research
Closing price are as of 11/06/2019

Price Chart



	1mth	3mth	6mth
Absolute %	-18.1	-21.4	-0.2
Rel. MSCI CHINA %	-11.4	-13.2	-1.6

PE



Company Profile

Sunny Optical is a leading integrated optical component manufacturing .The company is primary camera module supplier to most top tier domestic branded handset makers.

May shipments on track

- Sunny released May shipments with HCM/HLS/VLS up 16.6%/38.7%/29.3% yoy to 39.7mn/106.7mn/3.9mn respectively.
- We fine-tuned our FY19/20E earnings estimate to RMB3,315mn/RMB4,567mn to reflect latest shipments growth outlook
- Reiterate BUY with TP HK\$96.0 based on same 20x FY20E PE. We believe Sunny is more resilient in the Huawei issue than market expected thanks to its diversified client base especially its Korean client.

May shipments on track. Sunny released May shipments results with HCM/HLS/VLS each up 16.6%/38.7%/29.3% yoy to 39.7mn/106.7mn/3.9mn pcs respectively, of which sales volume of other optoelectronic products tripled yoy to 2.8mn pcs thanks to the increased volume of 3D structured light products and ToF products. By the end of May, Sunny's shipments have been well on track with cumulative sales volume for HCM/HLS/VLS each up 20.4%/43.9%/22.8% yoy.

We fine-tune our FY19/20E earnings estimates to RMB3,315mn/4,567mn. We revise up our FY19/20E optoelectronic products shipments by 9.1%/12.7% to 590mn/699mn respectively to reflect better than expected 3D products shipments growth. Thanks to the high pricing on 3D products, we fine-tune our optoelectronic products ASP by 10.5%/4.4% to RMB47/RMB47 in FY19/20E. As a result, our FY19/20E diluted EPS is fine-tuned down by 5.0%/1.2% to HK\$3.476/HK\$4.788 respectively to reflect change in our RMB/HKD assumption.

Reiterate BUY. We reiterate our BUY rating on Sunny with TP fine-tuned to HK\$96 from HK\$98 based on same 20x FY20E PE given (1) Sunny successfully penetrated into Korean based smartphone supply chain for its HCM segment in 2H18 which is likely partial offset the impact from Huawei Entity List, if any, as we believe the market share loss from Huawei will likely be gained by Samsung or other domestic smartphone brands, (2) high margin lens set and VLS business already contributed over 50% of net profit despite it shared only around 20% contribution in revenue, (3) recent drop in RMB/USD is likely to hurt its HCM segment margin but we think it has already been priced in, and completion automatization upgrade on HCM production line is likely to improve the HCM margin from 2H19E onwards which we believe will partially offset the weak RMB impact, if any.

Risks: (1) ASP for lens set may be lower than expected, (2) political risks as trade war impacts on smartphone components

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	22,366.3	25,931.9	35,866.4	42,552.4	49,787.6
Growth (%)	53.1	15.9	38.3	18.6	17.0
Net Profit	2,901.6	2,490.9	3,315.3	4,567.0	5,641.6
Growth (%)	128.3	(14.2)	33.1	37.8	23.5
Diluted EPS (HK\$)	3.055	2.612	3.476	4.788	5.915
EPS growth (%)	127.6	(14.5)	33.1	37.8	23.5
Change to previous EPS (%)			(5.0)	(1.2)	
Consensus EPS (HK\$)			3.663	4.786	
ROE (%)	46.9	29.8	31.3	33.1	31.5
P/E (x)	24.1	28.2	21.2	15.4	12.4
P/B (x)	9.4	7.6	5.9	4.5	3.5
Yield (%)	1.1	0.9	1.2	1.6	2.0
DPS (HK\$)	0.812	0.662	0.881	1.214	1.499

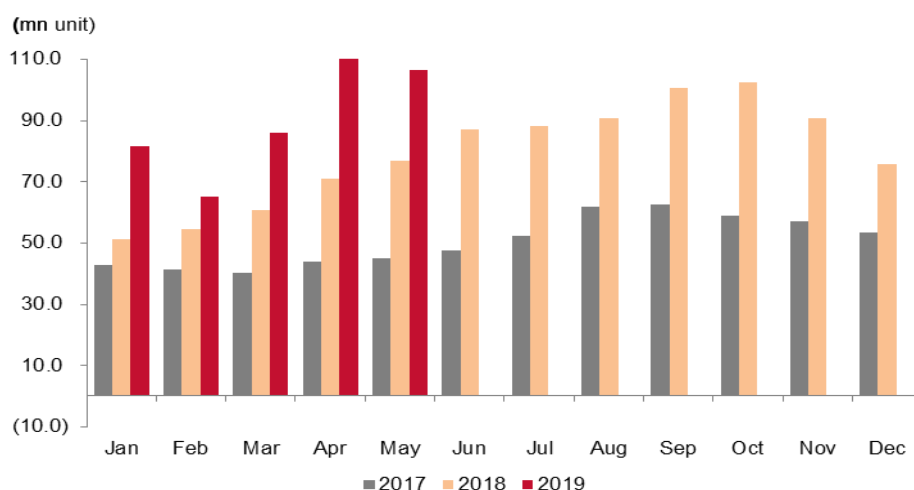
Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

(RMB mn)	FY19E			FY20E			FY21E		
	New	Old	% Chg	New	Old	% Chg	New	Old	% Chg
Shipments (mn pcs)									
Optical Components	1,381	1,381	0.0	1,650	1,650	0.0	1,899	1,899	0.0
Optoelectronic Products	590	540	9.1	699	621	12.7	818	713	14.7
Optical Instruments	0.226	0.226	0.0	0.246	0.246	0.0	0.267	0.267	0.0
ASP (RMB per pcs)									
Optical Components	6	6	(2.4)	6	6	(0.7)	6	6	0.3
Optoelectronic Products	47	43	10.5	47	45	4.4	47	47	0.6
Optical Instruments	1,272	1,200	6.0	1,272	1,200	6.0	1,272	1,200	6.0
Revenue by segment (RMB mn)									
Optical components	7,602	7,788	(2.4)	9,390	9,459	(0.7)	11,086	11,056	0.3
Optoelectronics	27,976	23,207	20.6	32,849	27,938	17.6	38,362	33,252	15.4
Optical instruments	288	272	6.0	313	295	6.0	340	320	6.0
GPM by segment									
Optical components	42.5%	43.9%	(1.3)	43.4%	44.4%	(0.9)	43.3%	44.4%	(1.1)
Optoelectronics	9.4%	9.5%	(0.1)	10.3%	10.3%	(0.0)	10.5%	10.8%	(0.3)
Optical instruments	40.0%	40.0%	0.0	40.0%	40.0%	0.0	40.0%	40.0%	0.0
Revenue	35,866	31,266	14.7	42,552	37,692	12.9	49,788	44,629	11.6
Gross profit	6,698	6,354	5.4	8,423	7,934	6.2	9,976	9,530	4.7
Gross margin	18.7%	20.3%	(1.6)	19.8%	21.1%	(1.3)	20.0%	21.4%	(1.3)
Opex	(2,906)	(2,586)	12.4	(3,207)	(3,004)	6.7	(3,727)	(3,432)	8.6
EBIT	4,101	4,135	(0.8)	5,526	5,367	2.9	6,749	6,763	(0.2)
Net Profit	3,315	3,345	(0.9)	4,567	4,428	3.1	5,642	5,654	(0.2)
Diluted EPS (HK\$)	3.476	3.660	(5.0)	4.788	4.845	(1.2)	5.915	6.186	(4.4)

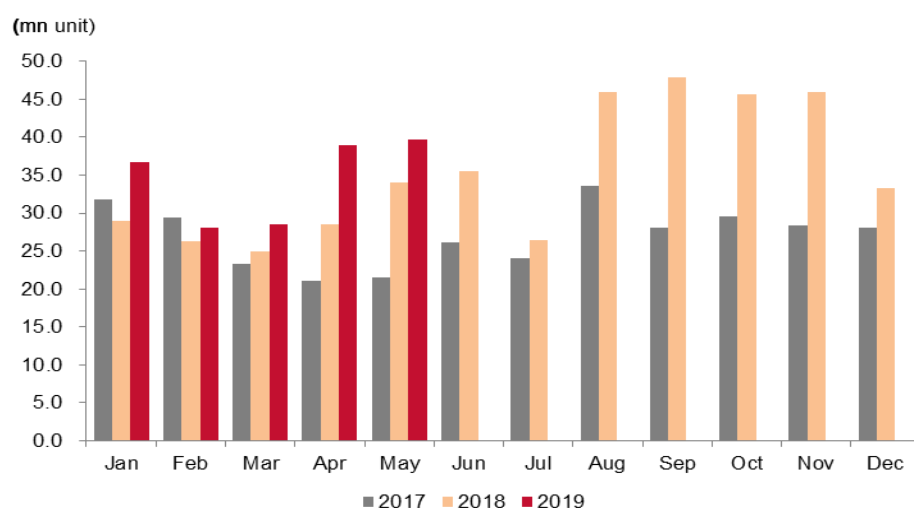
Source: OP Research

Exhibit 3: Handset Lens Sets (HLS) Shipments



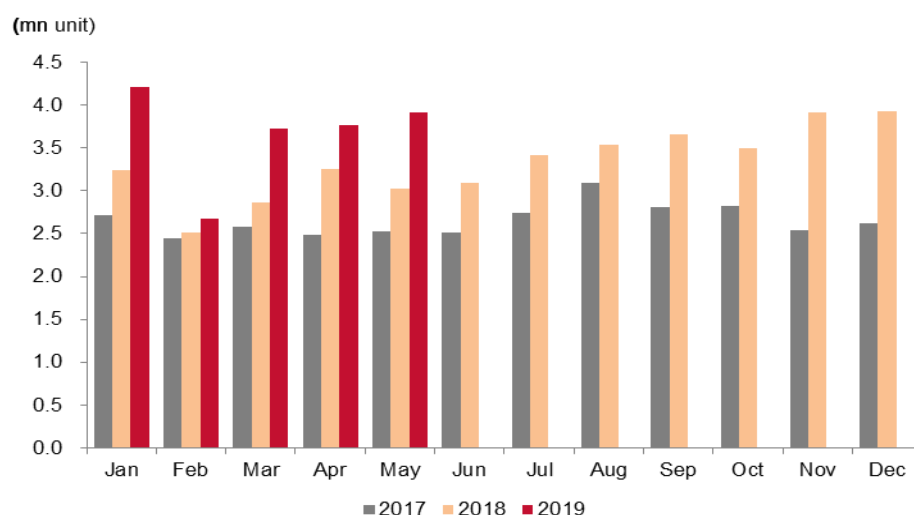
Source: Company, OP Research

Exhibit 4: Handset Camera Modules (HCM) Shipments



Source: Company, OP Research

Exhibit 5: Vehicle Lens Sets (VLS) Shipments



Source: Company, OP Research

Financial Summary

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Income Statement (RMB mn)					
Optical components	4,302	6,023	7,602	9,390	11,086
Optoelectronics	17,771	19,609	27,976	32,849	38,362
Optical instruments	294	300	288	313	340
Turnover	22,366	25,932	35,866	42,552	49,788
YoY%	53	16	38	19	17
COGS	(17,563)	(21,019)	(29,168)	(34,129)	(39,811)
Gross profit	4,803	4,913	6,698	8,423	9,976
Gross margin	21.5%	18.9%	18.7%	19.8%	20.0%
Other income	343	170	309	309	500
Selling & distribution	(205)	(210)	(298)	(351)	(394)
Admin	(389)	(434)	(599)	(685)	(793)
R&D	(1,168)	(1,362)	(2,009)	(2,170)	(2,539)
Other opex	0	0	0	0	0
Total opex	(1,762)	(2,006)	(2,906)	(3,207)	(3,727)
Operating profit (EBIT)	3,383	3,077	4,101	5,526	6,749
Operating margin	15.1%	11.9%	11.4%	13.0%	13.6%
Provisions	0	0	0	0	0
Interest Income	0	0	0	0	0
Finance costs	(49)	(202)	(325)	(325)	(325)
Profit after financing costs	3,334	2,875	3,775	5,200	6,424
Associated companies & JVs	(16)	(24)	(0)	(0)	(0)
Pre-tax profit	3,318	2,851	3,775	5,200	6,424
Tax	(404)	(339)	(434)	(598)	(739)
Minority interests	(13)	(22)	(26)	(35)	(43)
Net profit	2,902	2,491	3,315	4,567	5,642
YoY%	128	(14)	33	38	24
Net margin	13.0%	9.6%	9.2%	10.7%	11.3%
EBITDA	3,756	3,492	4,853	6,575	7,915
EBITDA margin	16.8%	13.5%	13.5%	15.5%	15.9%
EPS (RMB)	2.656	2.271	3.023	4.164	5.143
YoY%	128	(15)	33	38	24
DPS (HK\$)	0.812	0.662	0.881	1.214	1.499
Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Cash Flow (RMB mn)					
EBITDA	3,756	3,492	4,853	6,575	7,915
Chg in working cap	(1,126)	(203)	(2,140)	(952)	(971)
Others	102	542	0	0	0
Operating cash	2,732	3,830	2,713	5,623	6,944
Interest received	80	236	204	203	392
Tax	(295)	(262)	0	(434)	(598)
Net cash from operations	2,516	3,804	2,917	5,392	6,739
Capex	(1,142)	(2,134)	(3,228)	(2,979)	(3,485)
Investments	(77)	(3,225)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	23	55	0	0	0
Interests paid	(37)	(125)	(325)	(325)	(325)
Others	(571)	(432)	0	0	0
Investing cash	(1,803)	(5,860)	(3,553)	(3,304)	(3,810)
FCF	713	(2,056)	(636)	2,088	2,928
Issue of shares	0	0	0	0	0
Buy-back	(81)	(89)	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(315)	(722)	(623)	(840)	(1,158)
Net change in bank loans	444	88	0	0	0
Others	2	3,805	0	0	0
Financing cash	49	3,081	(623)	(840)	(1,158)
Net change in cash	762	1,025	(1,259)	1,248	1,771
Exchange rate or other Adj	(2)	2	0	0	0
Opening cash	467	1,227	2,254	995	2,243
Closing cash	1,227	2,254	995	2,243	4,014
CFPS (HK\$)	2.565	3.741	2.845	5.441	6.654

Source: Company, OP Research

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	21.5	18.9	18.7	19.8	20.0
Operating margin (%)	15.1	11.9	11.4	13.0	13.6
Net margin (%)	13.0	9.6	9.2	10.7	11.3
Selling & dist'n exp/Sales (%)	0.9	0.8	0.8	0.8	0.8
Admin exp/Sales (%)	1.7	1.7	1.7	1.6	1.6
Payout ratio (%)	26.6	25.3	25.3	25.3	25.3
Effective tax (%)	12.1	11.8	11.5	11.5	11.5
Total debt/equity (%)	18.1	60.3	46.7	35.6	27.7
Net debt/equity (%)	1.7	35.9	38.4	21.3	7.7
Current ratio (x)	1.5	1.9	1.7	1.8	1.8
Quick ratio (x)	1.2	1.6	1.4	1.4	1.5
Inventory T/O (days)	54	53	53	53	53
AR T/O (days)	92	88	100	100	100
AP T/O (days)	128	123	123	123	123
Cash conversion cycle (days)	18	18	31	31	31
Asset turnover (x)	1.6	1.3	1.4	1.3	1.3
Financial leverage (x)	2.2	2.3	2.4	2.3	2.1
EBIT margin (%)	15.1	11.9	11.4	13.0	13.6
Interest burden (x)	1.0	0.9	0.9	0.9	1.0
Tax burden (x)	0.9	0.9	0.9	0.9	0.9
Return on equity (%)	46.9	29.8	31.3	33.1	31.5
ROIC (%)	45.7	26.8	24.9	27.4	29.2
Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Balance Sheet (RMB mn)					
Fixed assets	2,640	4,572	6,932	8,745	10,759
Intangible assets & goodwill	392	349	261	174	86
Associated companies & JVs	125	101	101	101	101
Long-term investments	129	0	0	0	0
Other non-current assets	804	1,062	1,062	1,062	1,062
Non-current assets	4,091	6,084	8,355	10,081	12,008
Inventories	2,622	3,074	4,266	4,991	5,822
AR	5,666	6,231	9,826	11,658	13,640
Prepayments & deposits	165	240	332	394	461
Other current assets	1,956	4,968	4,968	4,968	4,968
Cash	1,227	2,254	995	2,243	4,014
Current assets	11,635	16,768	20,388	24,255	28,906
AP	6,183	7,064	9,803	11,470	13,380
Tax	101	0	434	598	739
Accruals & other payables	0	0	0	0	0
Bank loans & leases	1,348	1,482	1,482	1,482	1,482
CB & othe debts	4	9	9	9	9
Other current liabilities	69	122	122	122	122
Current liabilities	7,705	8,677	11,850	13,682	15,732
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	4,080	4,080	4,080	4,080
Deferred tax & others	502	807	807	807	807
MI	31	54	80	115	158
Non-current liabilities	532	4,941	4,966	5,001	5,045
Total net assets	7,489	9,234	11,926	15,653	20,137
Shareholder's equity	7,489	9,234	11,926	15,653	20,137
Share capital	105	105	105	105	105
Reserves	7,383	9,129	11,821	15,548	20,032
BVPS (HK\$)	7.85	9.68	12.50	16.41	21.11
Total debts	1,352	5,571	5,571	5,571	5,571
Net cash/(debts)	(125)	(3,317)	(4,576)	(3,329)	(1,558)

Exhibit 6: Peer Group Comparison

			Mkt	3-mth	PER	PER	PER	EPS	EPS															
			cap	avg t/o	Hist	FY1	FY2	FY1	FY2															
Company	Ticker	Price (US\$m)	(US\$m)	(x)	(x)	(x)	YoY%	YoY%	Cagr (%)	PEG (x)	Hist (%)	(%)	(x)	(x)	Hist	Cur Yr	Hist (%)	Hist (%)	Hist (%)	(%)	FY1 (%)	1-mth %	3-mth %	
Sunny Optical	2382 HK	73.60	10,303	98.1	28.2	21.2	15.4	33.1	37.8	28.6	0.74	0.9	1.2	7.60	5.89	24.1	17.6	35.9	21.5	13.0	29.8	31.3	(18.9)	(20.0)
HSI		27,789.3			10.9	11.0	10.2	(0.5)	7.9	5.5	2.01	3.5	3.8	1.23	1.20					11.3	10.9	(2.7)	(2.5)	
HSCEI		10,620.13			8.6	8.3	7.7	2.6	8.1	6.4	1.31	3.7	4.1	1.02	0.99					12.0	11.9	(2.8)	(5.8)	
CSI300		3,719.28			13.7	11.9	10.6	15.2	12.9			2.2	2.6	1.7	1.6					12.3	13.0	(0.3)	(0.3)	
Adjusted sector avg*					26.9	11.2	9.7	28.6	13.8	46.1	0.6	0.6	2.1	2.4	1.7	10.2	6.5	74.0	18.0	4.2	7.4	13.3	(12.8)	(18.4)
Largan Precision	3008 TT	3,575.00	15,273	112.8	19.7	16.8	14.3	16.8	17.6	17.6	0.96	2.0	2.3	4.25	3.76	12.0	10.2	0.0	68.8	48.8	24.3	24.1	(19.8)	(20.4)
Genius Elec	3406 TT	353.00	1,126	148.7	37.6	27.3	N/A	38.1	N/A	N/A	N/A	1.0	N/A	4.48	N/A	13.9	N/A	21.0	38.7	11.8	12.3	N/A	(10.1)	10.7
Lg Innotek Co Lt	011070 KS	98,500.00	1,972	17.1	14.3	14.9	10.4	(4.3)	43.4	15.0	1.00	0.3	0.3	1.12	1.02	4.9	4.4	71.1	10.8	2.0	6.9	7.1	(12.4)	(9.6)
Ofilm Group Co-A	002456 CH	8.19	3,214	219.3	N/A	10.9	8.6	N/A	27.6	(249.3)	N/A	0.6	1.2	2.64	1.92	15.7	7.6	175.2	12.1	(1.2)	(12.1)	17.5	(16.2)	(44.7)
Holitech Techn-A	002217 CH	6.03	2,718	72.7	14.0	8.6	10.2	64.0	(16.3)	20.9	0.41	0.6	N/A	1.64	1.47	9.8	N/A	93.9	18.9	8.1	11.9	12.5	6.7	(25.7)
Truly Intl Hldgs	732 HK	1.15	483	1.7	48.7	4.9	5.1	887.3	(3.4)	130.8	0.04	N/A	4.5	0.50	0.45	4.9	3.7	82.7	9.5	0.4	1.0	5.2	(5.7)	(20.7)

* Outliners and "N/A" entries are excl. from the calculation of averages

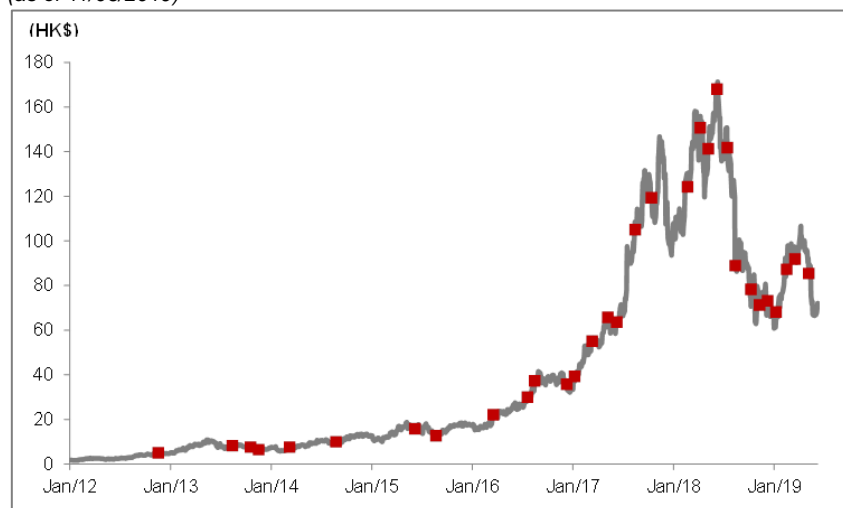
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
11/06/2019	361 Degrees Intl	1361	Chairman ups stakes in light of rebranding strategy	BUY	Megan Jin
11/06/2019	Ausnutria Dairy	1717	Penetrating into probiotics business	BUY	Dallas Cai/Megan Jin
11/06/2019	Q Tech	1478	May camera module shipments down MoM	SELL	Yuji Fung/Dallas Cai
04/06/2019	Truly Int'l	732	Introduction of new investor to Truly Opto	BUY	Yuji Fung/Dallas Cai
04/06/2019	Zhongyu Gas	3633	Takeaways from Henan site visit	NR	Megan Jin
24/05/2019	Truly Int'l	732	1Q19 saw margin pressure amidst sales recovery	BUY	Yuji Fung/Dallas Cai
15/05/2019	Ausnutria Dairy	1717	1Q19E saw a solid start	BUY	Dallas Cai/Megan Jin
10/05/2019	China Youzan	8083	E-commerce revenue doubled QoQ in 1Q19	BUY	Yuji Fung/Dallas Cai
10/05/2019	Sunny Optical	2382	HCM shipments growth regained traction	BUY	Yuji Fung/Dallas Cai
09/05/2019	Q Tech	1478	CCM shipments growth implies market share gain	SELL	Yuji Fung/Dallas Cai
03/05/2019	Xtep Intl	1368	Xtep sets about the inception of its own FILA	BUY	Dallas Cai/Megan Jin
03/05/2019	361 Degrees Intl	1361	1Q19E saw lukewarm sales growth	BUY	Megan Jin
25/04/2019	TCL Electronics	1070	1Q19E business update on track	BUY	Yuji Fung/Dallas Cai
24/04/2019	CH Display OPT	334	1Q19E operations in line with expectations	BUY	Yuji Fung/Dallas Cai
23/04/2019	Zhongyu Gas	3633	Comeback with dollar margin improvement	NR	Megan Jin
18/04/2019	Li Ning	2331	Upbeat 1Q19E sales performance	HOLD	Dallas Cai/Megan Jin
15/04/2019	Anta Sports	2020	1Q19E retail performance in line	BUY	Dallas Cai/Megan Jin
10/04/2019	Q Tech	1478	March saw improving product mix	SELL	Yuji Fung/Dallas Cai
09/04/2019	Xtep Intl	1368	1Q19 operations on track	BUY	Dallas Cai/Megan Jin
09/04/2019	China Youzan	8083	Introducing Tencent as strategic investor	BUY	Yuji Fung/Dallas Cai
04/04/2019	Regal Intl Airport	357	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
02/04/2019	Tianlun Gas	1600	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
01/04/2019	Truly Int'l	732	FY18 earnings miss on GPM and loss from associate	BUY	Yuji Fung/Dallas Cai
28/03/2019	China Youzan	8083	FY18 saw narrower loss than expected	BUY	Yuji Fung/Dallas Cai
27/03/2019	Sinosoft Tech	1297	FY18 results in line	BUY	Yuji Fung/Dallas Cai
26/03/2019	Q Tech	1478	Downgrade to SELL as margin recovery was priced in	SELL	Yuji Fung/Dallas Cai
25/03/2019	Li Ning	2331	FY18 saw sustainable high-quality growth	HOLD	Dallas Cai/Megan Jin

Historical recommendations and target price: Sunny Optical (2382 HK)

(as of 11/06/2019)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 10 May 2017	BUY	80.00	64.60	10 18 Jul 2018	BUY	190.00	142.00
2 12 Jun 2017	BUY	80.00	64.45	11 16 Aug 2018	BUY	107.00	89.75
3 18 Aug 2017	BUY	118.00	107.20	12 12 Oct 2018	BUY	107.00	78.95
4 16 Oct 2017	BUY	130.00	121.60	13 12 Nov 2018	BUY	107.00	71.90
5 23 Feb 2018	BUY	134.00	128.50	14 11 Dec 2018	BUY	107.00	73.80
6 28 Mar 2018	BUY	194.00	160.30	15 11 Jan 2019	BUY	98.00	68.75
7 11 Apr 2018	BUY	194.00	152.90	16 18 Feb 2019	BUY	98.00	84.85
8 10 May 2018	BUY	194.00	142.57	17 21 Mar 2019	HOLD	98.00	95.60
9 11 Jun 2018	BUY	194.00	169.70	18 10 May 2019	BUY	98.00	86.10

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