

Sunny Optical Tech (2382 HK)

Downgrade in smartphone camera specification and weak shipments challenge outlook

- Sunny Optical Technology (Group) Co. Ltd. (the “Group” or “Sunny”) is affected by weak smartphone shipments, drop in product ASP and higher operating costs
- Revenue to be affected by products’ downgraded specification and configuration of smartphone camera
- Gross margin to lower by 3.5ppt YoY to 19.8% in 2022E. Slash 2022-23E net profit by 40.9%/33.5%
- Recommend **HOLD** with TP of HK\$ 90.0, which represents 32.9x/28.0x 2022-23E P/E

Lower 2022-23E revenue by 1.7%/3.1% to reflect impacts from lower product ASP and weak shipments. Product ASP is affected by downgraded specification and configuration of smartphone camera. We expect product shipments of optical components/ optoelectronic products to lower by 7.0%/ 9.5% YoY for 2022E. ASPs of optical components/ optoelectronic products would be down 3.0%/ 6.0% YoY in 2022E.

Gross margin to lower 3.5ppt YoY to 19.8% in 2022E. Gross margin of handset lens sets and handset camera modules are affected by weak smartphone shipments and downgrade in specification and configuration of smartphone camera. Due to higher operating expenses and decline in revenue, 2022E net profit would fall 47.7% YoY.

ROA and ROE to drop in 2022E. We expect 2022E ROA/ ROE to fall 6.8ppt/14.5ppt YoY to 6.6%/11.9% due to reduced net profit.

Valuation. We recommend **HOLD** with TP of HK\$ 90.0, which represents 32.9x/28.0x 2022-23E P/E.

Risks: (1) Slowdown in 5G network development; (2) Revenue highly dependent on optoelectronic products shipments; (3) Heavy reliance on smartphone makers; (4) Concentration risks.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	38,002	37,497	32,452	33,645	36,228
Chg (% YoY)	0.4%	(1.3%)	(13.5%)	3.7%	7.7%
Net profit (RMB mn)	4,872	4,988	2,611	3,063	3,578
Chg (% YoY)	22.1%	2.4%	(47.7%)	17.3%	16.8%
EPS (RMB)	4.458	4.565	2.380	2.792	3.262
Chg (% YoY)	22.2%	2.4%	(47.9%)	17.3%	16.8%
BPS (RMB)	15.13	18.77	20.65	22.86	25.43
Chg (% YoY)	32.2%	24.0%	10.0%	10.7%	11.3%
P/E (x)	19.3	18.8	36.1	30.8	26.3
P/B (x)	5.7	4.6	4.2	3.8	3.4
ROE (%)	33.0%	26.4%	11.9%	12.6%	13.3%
ROA (%)	14.7%	13.4%	6.6%	7.4%	8.2%
DPS (RMB)	0.891	0.959	0.500	0.586	0.685
Dividend Yield (%)	1.04%	1.12%	0.58%	0.68%	0.80%

*Exchange rate assumption for FY22E-24E: HKD 1 = RMB 0.87

Source(s): Bloomberg, ABCI Securities estimates

Company Report Sep 16, 2022 Rating: HOLD TP:HK\$ 90.0

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Share price (HK\$)	98.75
Est. share price return	(8.86%)
Est. dividend yield	0.58%
Est. total return	(8.28%)
Last Rating & TP	SELL, HK\$ 95.00
Previous Report Date	Apr 19, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	256.9 / 92.4
Issued shares (mn)	1,096.8
Market cap (HK\$ mn)	108,309.0
Avg daily turnover (HK\$ mn)	1,086.0

Major shareholder(s)

Sun Yang	35.49%
JP Morgan Chase & Co.	5.68%
Hu Sanmu	0.23%

Source(s): Group

Share Performance (%)

	Absolute	Relative*
1-mth	(3.7%)	(2.5%)
3-mth	(16.9%)	(5.2%)
6-mth	(10.6%)	0.5%

*Relative to HSI

Source(s): Bloomberg



2022E revenue to drop by 13.5% YoY

Sunny recorded 8 consecutive months of YoY decline in its optoelectronic products shipments. Optoelectronic products contributed for over 72.9% of total revenue in 1H22, which is the Group's core business. The significant drop in optoelectronic products shipments is expected to affect its revenue growth in 2022E. We think the drop in shipments were due to slowdown in economic growth which extend the life cycle of smartphone and affect smartphone shipments. Anemic economic growth and overseas inflation would crunch smartphone camera ASP and shipments. As such, we revise down 2022-23E revenue by 1.7%/3.1%.

Gross margin of handset lens sets and handset camera modules were affected by weak smartphone shipments and downgrade in specification and configuration of smartphone camera. Overall gross margin is expected to lower by 3.5ppt YoY to 19.8% in 2022E.

We forecast Sunny's net profit will be affected by declined revenue, lower gross margin and higher R&D expenses/ revenue ratio. The R&D expenses/ revenue ratio is expected to rise 1.8ppt YoY to 8.8% in 2022E. With all the factors combined, net profit would drop 47.7%.

Exhibit 1: Sunny's monthly shipments in Jan to Aug 2022

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Optical components (1)								
Shipments (mn)	153.0	125.0	138.1	148.1	112.3	93.3	109.3	111.8
YoY	(8.5%)	(14.3%)	(6.7%)	5.1%	(5.3%)	(10.8%)	(11.3%)	(23.0%)
Optoelectronic products (2)								
Shipments (mn)	53.4	52.5	52.7	55.9	54.8	46.0	41.2	43.4
YoY	(24.7%)	(25.8%)	(18.1%)	(18.2%)	(8.1%)	(18.3%)	(31.9%)	(28.7%)
Optical instruments (3)								
Shipments (mn)	0.030	0.016	0.017	0.020	0.025	0.025	0.027	0.046
YoY	57.4%	24.6%	(15.5%)	(16.4%)	7.3%	23.5%	23.4%	113.4%

Source(s): Group

Note: (1) Including Spherical glass lenses, Handset lens sets, Vehicle lens sets, Other lens sets

(2) Including Handset camera modules, Other optoelectronic products

(3) Including Microscopic instruments

Exhibit 2: Sunny's products and ASP forecasts

	2020	2021	2022E	2023E	2024E
Optical components (1)					
Shipments (mn)		1,678.7	1,663.1	1,546.7	1,585.4
YoY		13.1%	(0.9%)	(7.0%)	2.5%
ASP (RMB)		5.5	5.3	5.1	5.1
YoY		(7.9%)	(3.5%)	(3.0%)	(1.0%)
Optoelectronic products (2)					
Shipments (mn)		633.4	732.5	662.9	702.7
YoY		7.4%	15.6%	(9.5%)	6.0%
ASP (RMB)		45.0	38.7	36.4	35.8
YoY		(7.7%)	(14.0%)	(6.0%)	(1.6%)
Optical instruments (3)					
Shipments (mn)		0.195	0.255	0.306	0.340
YoY		(1.0%)	30.5%	20.0%	11.0%
ASP (RMB)		1,670.7	1,519.4	1,413.1	1,384.8
YoY		15.7%	(9.1%)	(7.0%)	(2.0%)

Source(s): Group, ABCI Securities estimates

Note: (1) Including Spherical glass lenses, Handset lens sets, Vehicle lens sets, Other lens sets

(2) Including Handset camera modules, Other optoelectronic products

(3) Including Microscopic instruments



Exhibit 3: Changes in financial estimates

(RMB mn)	OLD			NEW			CHANGE		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	33,013	34,719	37,534	32,452	33,645	36,228	(1.7%)	(3.1%)	(3.5%)
Net Profit	4,419	4,609	4,989	2,611	3,063	3,578	(40.9%)	(33.5%)	(28.3%)
EPS (RMB)	4.029	4.202	4.548	2.380	2.792	3.262	(40.9%)	(33.6%)	(28.3%)

Source(s): ABCI Securities estimates

Recommend HOLD with TP at HK\$90.00

We derive the Group's TP at HK\$90.00 based on the DCF model analysis (WACC: 12.6%; perpetuity growth rate: 2.0%). Our TP represents 32.9x/28.0x 2022-23E P/E.

Risk factors

Our forecasts may deviate from actual results

Our forecasts rely on a number of assumptions. The actual results may deviate from our estimates.

Slowdown in 5G network development may affect earnings

The Group's business may be affected if there are any changes in 5G network development progress.

Over-dependence risk

Most of Sunny's revenue is generated from optoelectronic products. The Group generated over 72.9% of total revenue from optoelectronic products in 1H22. Reduced demand for optoelectronic products will adversely affect the Group's revenue.

Generated most of its revenue from China

Sunny generated over 67.8% of its revenue from China in 1H22. Changes in customer demand from may result in significant financial impacts.

Concentration risk

The Group generated over 75.2% of total revenue from handset-related products in 1H22. Slowdown in handset shipments will affect the Group's revenue negatively.



Financial Statements

Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Optical components revenue	9,181	8,776	7,917	8,034	8,523
Optoelectronic products revenue	28,494	28,334	24,103	25,141	27,192
Optical instruments revenue	326	387	432	470	513
Total revenue	38,002	37,497	32,452	33,645	36,228
Cost of sales	(29,304)	(28,761)	(26,027)	(26,613)	(28,222)
Gross profit	8,698	8,736	6,426	7,032	8,006
Selling and distribution expenses	(313)	(274)	(276)	(269)	(290)
R&D expenses	(2,499)	(2,642)	(2,856)	(2,860)	(3,043)
Admin expenses	(719)	(758)	(746)	(774)	(833)
Finance costs	(234)	(230)	(171)	(154)	(139)
Others (*)	710	803	774	721	616
Profit before tax	5,643	5,635	3,151	3,696	4,317
Tax	(703)	(579)	(504)	(591)	(691)
Profit after tax	4,940	5,056	2,646	3,104	3,626
Shareholders' profit	4,872	4,988	2,611	3,063	3,578
Non-controlling interests	68	68	36	42	49
EPS (RMB)	4.458	4.565	2.380	2.792	3.262
DPS (RMB)	0.891	0.959	0.500	0.586	0.685

Source(s): Group, ABCI Securities estimates

* include Other income, Other gains and losses, Share of results of associates and Impairment losses under expected credit loss model, net of reversal



Consolidated balance sheet (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
PPE	7,513	8,303	8,718	9,154	9,612
Others	2,295	2,481	3,402	4,139	3,916
Total non-current assets	9,809	10,785	12,120	13,294	13,528
Bank balance and cash	2,842	5,605	6,253	7,372	9,791
Inventories	5,783	5,482	5,208	4,947	4,700
Others	17,005	16,902	16,821	16,838	16,949
Total current assets	25,630	27,989	28,282	29,157	31,440
Total assets	35,438	38,774	40,402	42,450	44,968
Trade and bill payables	10,733	9,869	9,375	8,906	8,461
Others	2,678	2,005	1,819	1,653	1,503
Total current liabilities	13,411	11,873	11,195	10,559	9,964
Deferred tax liabilities	889	1,016	1,067	1,120	1,176
Bond payable	3,896	3,816	4,006	4,207	4,417
Others	416	1,174	1,146	1,120	1,098
Total non-current liabilities	5,201	6,005	6,219	6,447	6,691
Total liabilities	18,612	17,879	17,413	17,006	16,655
Total equity	16,826	20,895	22,989	25,444	28,313

Source(s): Group, ABCI Securities estimates



Consolidated cash flow statement (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating profit before tax	5,643	5,635	3,151	3,696	4,317
Others	1,517	1,344	186	283	1,162
Operating cash flow	7,160	6,979	3,336	3,979	5,479
CAPEX	(2,333)	(2,589)	(2,796)	(3,020)	(3,261)
Others	(3,643)	(313)	882	1,006	1,135
Investing cash flow	(5,976)	(2,901)	(1,914)	(2,013)	(2,126)
Dividends paid	(796)	(987)	(548)	(643)	(751)
Others	574	(254)	(161)	(144)	(129)
Financing cash flow	(222)	(1,241)	(709)	(787)	(881)
Net increase in cash and cash equivalents	962	2,836	713	1,178	2,472
Cash & cash equivalents at beginning of year	1,917	2,842	5,605	6,253	7,372
FX change effect	(37)	(73)	(65)	(59)	(53)
Cash & cash equivalents at end of year	2,842	5,605	6,253	7,372	9,791

Source(s): Group, ABCI Securities estimates

Financial ratios (2020A-2024E)

As of Dec 31	2020A	2021A	2022E	2023E	2024E
<u>YoY Growth:</u>					
Revenue	0.4%	(1.3%)	(13.5%)	3.7%	7.7%
Gross profit	12.2%	0.4%	(26.4%)	9.4%	13.9%
Net profit	22.1%	2.4%	(47.7%)	17.3%	16.8%
<u>Profitability ratios:</u>					
ROE	33.0%	26.4%	11.9%	12.6%	13.3%
ROA	14.7%	13.4%	6.6%	7.4%	8.2%
<u>Costs ratio:</u>					
R&D expenses/ revenue	6.6%	7.0%	8.8%	8.5%	8.4%
Selling & distribution expenses/ revenue	0.8%	0.7%	0.9%	0.8%	0.8%
Administrative expenses/ revenue	1.9%	2.0%	2.3%	2.3%	2.3%
<u>Margins:</u>					
Gross profit margin	22.9%	23.3%	19.8%	20.9%	22.1%
Net profit margin	12.8%	13.3%	8.0%	9.1%	9.9%

Source(s): Group, ABCI Securities estimates



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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim +10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2009 (HSI total return index 2009-21 averaged at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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