

Sunny Optical Tech (2382 HK)

Shipments and ASP to drop in 2022E

- Sunny Optical Technology (Group) Co. Ltd. (the “Company” or “Sunny”) product shipments are hindered by chip shortage, surge in COVID-19 variant, and weak smartphone shipments
- Product ASP is expected to be affected by products’ downgraded specification and configuration of smartphone camera
- We lower 2022E net profit by 22.2%
- Recommend **SELL** with TP of HK\$ 95.0, which represents 19.3x/18.5x 2022E/23E P/E

We lower 2022E revenue by 23.2% due to lower product ASP and weak shipments. Product ASP is affected by downgraded specification and configuration of smartphone camera. The surge in COVID-19 variant is expected to continue to affect production and dent product shipments.

YoY decline in ASP and shipments of major products. We expect the product shipments of optical components/ optoelectronic products to lower by 7.0%/ 9.5% YoY in 2022E. The ASPs of optical components/ optoelectronic products are forecast to lower by 2.5%/ 4.0% YoY in 2022E.

Returns to drop in 2022E. We expect ROA and ROE in 2022E to fall by 2.4ppt/6.9ppt to 11.0%/19.5% due to a drop in net profit. Due to higher operating expenses and decline in revenue, we forecast Sunny to record an 11.4% YoY drop in 2022E net profit.

Valuation. We recommend **SELL** with TP of HK\$95.0, which represents 19.3x/18.5x 2022E/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) Supply risk of core components; (5) Geographical and customer concentration risks.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	38,002	37,497	33,013	34,719	37,534
Chg (% YoY)	0.4%	(1.3%)	(12.0%)	5.2%	8.1%
Net profit (RMB mn)	4,872	4,988	4,419	4,609	4,989
Chg (% YoY)	22.1%	2.4%	(11.4%)	4.3%	8.2%
EPS (RMB)	4.458	4.565	4.029	4.202	4.548
Chg (% YoY)	22.2%	2.4%	(11.8%)	4.3%	8.2%
BPS (RMB)	15.13	18.77	22.00	25.36	25.36
Chg (% YoY)	32.2%	24.0%	17.2%	15.3%	0.0%
P/E (x)	20.4	19.9	22.6	21.6	20.0
P/B (x)	6.0	4.8	4.1	3.6	3.6
ROE (%)	33.0%	26.4%	19.5%	17.5%	17.7%
ROA (%)	14.7%	13.4%	11.0%	10.6%	10.7%
DPS (RMB)	0.888	0.909	0.803	0.837	0.906
Dividend Yield (%)	0.98%	1.00%	0.88%	0.92%	1.00%

*Exchange rate assumption for FY22E-24E: HKD 1 = RMB 0.82

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 19, 2022

Rating: SELL

TP: HK\$ 95.0

Analyst : Ricky Lai
Tel: (852) 2147 8895
rickylai@abci.com.hk

Share price (HK\$)	110.80
Est. share price return	(14.26%)
Est. dividend yield	0.88%
Est. total return	(13.38%)
Last Rating & TP	HOLD, HK\$200.0
Previous Report Date	Nov 4, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	259.4/105.6
Issued shares (mn)	1,096.8
Market cap (HK\$ mn)	121,525
Avg daily turnover (HK\$ mn)	986.0

Major shareholder(s)

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

Source(s): Company

Share Performance (%)

	Absolute	Relative*
1-mth	(31.7)	(28.5)
3-mth	(50.2)	(44.9)
6-mth	(41.0)	(28.6)

*Relative to HSI

Source(s): Bloomberg



Lower 2022E revenue by 23.2%

Chips shortage and weak smartphone shipment growth are affecting Sunny's optoelectronic product shipments. Handset camera modules recorded three consecutive months of decline, down 23.3%/24.6%/20.1% YoY in Jan-Mar.

We expect product ASP to be affected by the downgraded specification and configuration of smartphone camera. For 2022E, we expect the ASP of optical components/ optoelectronic products/ optical instruments to lower by 2.5%/ 4.0%/ 5.5%, respectively. Still, we expect the overall gross margin to improve in 2022E-24E thanks to machine automation while net profit margin would be stable at 13.3%-13.4% in 2022E-24E on higher R&D expenses/revenue ratio.

Exhibit 1: 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	1,600.8	1,648.9
YoY	13.1%	(0.9%)	(7.0%)	3.5%	3.0%
ASP (RMB)	5.5	5.3	5.1	5.1	5.2
YoY	(7.9%)	(3.5%)	(2.5%)	(1.0%)	3.0%
Optoelectronic products (2)					
Shipments (mn)	633.4	732.5	662.9	714.0	746.1
YoY	7.4%	15.6%	(9.5%)	7.7%	4.5%
ASP (RMB)	45.0	38.7	37.1	36.5	38.0
YoY	(7.7%)	(14.0%)	(4.0%)	(1.6%)	4.0%
Optical instruments (3)					
Shipments (mn)	0.195	0.255	0.306	0.340	0.365
YoY	(1.0%)	30.5%	20.0%	11.0%	7.5%
ASP (RMB)	1,670.7	1,519.4	1,435.9	1,407.1	1,456.4
YoY	15.7%	(9.1%)	(5.5%)	(2.0%)	3.5%

Source(s): Company, 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 2: Changes in financial estimates

	OLD			NEW			CHANGE		
(RMB mn)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	42,982	49,184	N/A	33,013	34,719	37,534	(23.2%)	(29.4%)	N/A
Net Profit	5,677	6,648	N/A	4,419	4,609	4,989	(22.2%)	(30.7%)	N/A
EPS (RMB)	5.195	6.083	N/A	4.029	4.202	4.548	(22.4%)	(30.9%)	N/A

Source(s): ABCI Securities estimates



Recommend SELL with TP at HK\$95.0

We derive the Company's TP at HK\$95.0 based on the DCF model analysis (WACC: 12.7%; perpetuity growth rate: 2.0%). Our TP represents 19.3x/18.5x 2022E/23E P/E.

Exhibit 3: Peer Comparison Table

				P/E				P/B				ROE	ROA
Ticker		Price*	20A	21A	22E	23E	20A	21A	22E	23E	22E	22E	
Q Tech	1478 HK	HKD	5.69	6.8	6.2	5.7	4.3	1.4	1.1	0.9	0.8	17.5	6.3
AAC Tech	2018 HK	HKD	17.04	11.9	12.7	10.5	8.3	0.8	0.8	0.7	0.7	6.8	3.6
Sunny Optical	2382 HK	HKD	110.80	21.2	19.4	16.4	13.4	5.9	4.6	3.7	3.0	24.1	12.9
Cowell e	1415 HK	HKD	7.25	18.4	15.6	10.5	7.7	3.1	2.6	1.9	1.5	20.3	11.6
Goertek	002241 CH	RMB	33.10	36.1	24.9	19.3	15.3	5.3	3.9	3.4	2.8	18.2	8.6
Luxshare	002475 CH	RMB	30.06	27.0	25.6	18.6	14.7	7.0	5.5	4.4	3.4	24.9	10.0
OFILM Group	002456 CH	RMB	6.29	n.a.	13.3	18.2	16.7	2.3	2.0	2.0	1.8	4.1	9.0
Largan	3008 TT	TWD	1,630.00	8.8	11.6	11.4	10.7	1.5	1.5	1.4	1.3	12.5	10.3
Average				18.6	16.2	13.8	11.4	3.4	2.8	2.3	1.9	16.0	9.0

*Based on closing price on Apr 14, 2022

Source(s): Bloomberg



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 Company'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. Reduced demand for optoelectronic products would adversely affect the Company's revenue.

Shortage of chips

Sunny's business is being affected by chip shortage problem from both the smartphone makers and its internal manufacturing.

Generated most of its revenue from China

Sunny generated over 77.0% of its revenue from China in 2021. If there is any change in customer demand from China, the Company would be affected.

Customer concentration risk

The largest customer and top 3 customers accounted 20.4% and 49.1% of total revenue in 2021, respectively. The business performance of Sunny's major customers will affect business performance of Sunny.



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	7,958	8,154	8,650
Optoelectronic products revenue	28,494	28,334	24,616	26,087	28,352
Optical instruments revenue	326	387	439	478	532
Total revenue	38,002	37,497	33,013	34,719	37,534
Cost of revenue	(29,304)	(28,761)	(25,255)	(26,421)	(28,413)
Gross profit	8,698	8,736	7,758	8,298	9,121
Selling and distribution expenses	(313)	(274)	(231)	(243)	(263)
R&D expenses	(2,499)	(2,642)	(2,377)	(2,569)	(2,815)
Admin expenses	(719)	(758)	(667)	(701)	(758)
Finance costs	(234)	(230)	(171)	(154)	(139)
Others (*)	710	803	680	577	490
Profit before tax	5,643	5,635	4,992	5,207	5,636
Tax	(703)	(579)	(513)	(535)	(579)
Profit after tax	4,940	5,056	4,479	4,672	5,057
Shareholders' profit	4,872	4,988	4,419	4,609	4,989
Non-controlling interests	68	68	60	63	68
EPS (RMB)	4.458	4.565	4.029	4.202	4.548
DPS (RMB)	0.888	0.909	0.803	0.837	0.906

Source(s): Company, ABCI Securities estimates

* include Other income, Other gains and losses, Share of result 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	3,251	3,986	3,762
Total non-current assets	9,809	10,785	11,969	13,141	13,374
Bank balance and cash	2,842	5,605	7,902	10,314	12,866
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	29,931	32,099	34,514
Total assets	35,438	38,774	41,900	45,239	47,889
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	4,098
Total non-current liabilities	5,201	6,005	6,219	6,447	9,691
Total liabilities	18,612	17,879	17,413	17,006	19,655
Total equity	16,826	20,895	24,487	28,233	28,233

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021E	2022E	2023E	2024E
Operating profit before tax	5,643	5,635	4,992	5,207	5,636
Others	1,517	1,344	325	339	218
Operating cash flow	7,160	6,979	5,317	5,546	5,854
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)	(880)	(918)	(994)
Others	574	(254)	(161)	(144)	(129)
Financing cash flow	(222)	(1,241)	(1,041)	(1,062)	(1,123)
Net increase in cash and cash equivalents	962	2,836	2,362	2,470	2,605
Cash & cash equivalents at beginning of year	1,917	2,842	5,605	7,902	10,314
FX change effect	(37)	(73)	(65)	(59)	(53)
Cash & cash equivalents at end of year	2,842	5,605	7,902	10,314	12,866

Source(s): Company, 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%)	(12.0%)	5.2%	8.1%
Gross profit	12.2%	0.4%	(11.2%)	7.0%	9.9%
Net profit	22.1%	2.4%	(11.4%)	4.3%	8.2%
<u>Profitability ratios:</u>					
ROE	33.0%	26.4%	19.5%	17.5%	17.7%
ROA	14.7%	13.4%	11.0%	10.6%	10.7%
<u>Costs ratio:</u>					
R&D expenses/ revenue	6.6%	7.0%	7.2%	7.4%	7.5%
Selling & distribution expenses/ revenue	0.8%	0.7%	0.7%	0.7%	0.7%
Administrative expenses/ revenue	1.9%	2.0%	2.0%	2.0%	2.0%
<u>Margins:</u>					
Gross profit margin	22.9%	23.3%	23.5%	23.9%	24.3%
Net profit margin	12.8%	13.3%	13.4%	13.3%	13.3%

Source(s): Company, 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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: 852) 2868 2183