



Sunny Optical Tech (2382 HK)

Business affected by weak smartphone shipments in 2023

- Sunny Optical Technology (Group) Co. Ltd. (the “Group” or “Sunny”) is affected by weak smartphone shipments
- We lower optoelectronic products revenue forecast by 4.2% in 2023E
- We lower gross profit margin forecast from 20.9% to 20.6% in 2023E
- Higher R&D expenses for product innovations
- Recommend HOLD with TP of HK\$ 93.0, which represents 29.5x 2023E P/E

Optoelectronic products revenue to be affected by weak smartphone shipments in 2023E.

We lower the segment's revenue forecast by 4.2% for 2023E due to the weak smartphone shipments expected for 2023E. After revision, we expect the segment revenue to grow 3.3% YoY to RMB24.1bn in 2023E. Optoelectronic products is the Group's core business unit which accounted for 70.3% of total revenue in 2022.

Stronger vehicle lens shipments to support optical components revenue. Due to stronger vehicle lens demand for parking assistance, autonomous driving, and surveillance, we revise up optical components revenue estimate in 2023E by 26.9%. After revision, we expect the segment revenue to grow 8.0% YoY to RMB10.2bn in 2023E.

We lower our gross margin forecast. In 2022, gross margin dipped 3.4ppt YoY to 19.9% due to downgrade in camera specification and depreciation of RMB. We adjust down our gross margin forecast from 20.9% to 20.6% for 2023E. Gross margin is expected to improve 19.9% in 2022 to 22.3% in 2025E.

Valuation. We recommend **HOLD** with TP of HK\$ 93.0, which represents 29.5x 2023E 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	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	37,497	33,197	34,784	37,995	40,214
Chg (% YoY)	(1.3%)	(11.5%)	4.8%	9.2%	5.8%
Net profit (RMB mn)	4,988	2,408	3,115	3,703	4,043
Chg (% YoY)	2.4%	(51.7%)	29.4%	18.9%	9.2%
EPS (RMB)	4.565	2.203	2.840	3.376	3.686
Chg (% YoY)	2.4%	(51.8%)	28.9%	18.9%	9.2%
BPS (RMB)	18.77	19.91	21.60	23.61	25.81
Chg (% YoY)	24.0%	6.1%	8.5%	9.3%	9.3%
P/E (x)	18.7	38.8	30.1	25.3	23.2
P/B (x)	4.6	4.3	4.0	3.6	3.3
ROE (%)	26.4%	11.2%	13.5%	14.7%	14.7%
ROA (%)	13.4%	5.9%	7.0%	7.9%	8.1%
DPS (RMB)	0.959	0.891	1.149	1.366	1.491
Dividend Yield (%)	1.1%	1.0%	1.3%	1.6%	1.7%

*Exchange rate assumption for FY23E-25E: HKD 1 = RMB 0.9

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 3, 2023

Rating: HOLD

TP: HK\$ 93.0

Analyst : Ricky Lai

Tel: (852) 2147 8895

rickylai@abci.com.hk

Share price (HK\$)	94.95
Est. share price return	(2.1%)
Est. dividend yield	1.3%
Est. total return	(0.8%)
Last Rating & TP	HOLD, HK\$90.00
Previous Report Date	Sept 16, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	138.3 / 65.0
Issued shares (mn)	1,096.8
Market cap (HK\$ mn)	104,141.6
Avg daily turnover (HK\$ mn)	1,286.0

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

Net profit dropped 51.7% YoY in 2022

Sunny's 2022 revenue decreased 11.5% YoY due to falling sales in handset and digital camera related products. Gross margin lowered 3.4ppt YoY to 19.9% due to downgrading specifications in smartphone and depreciation of RMB in 2022. The decline in revenue and gross margin resulted in a 51.7% YoY drop in net profit.

Exhibit 1: Sunny's revenue breakdown by major products analysis:

RMB (mn)	2021	2022	YoY
Handset related products	29,598	23,277	(21.4%)
Vehicle related products	2,961	4,108	38.7%
Augmented reality ("AR")/virtual reality ("VR") related products	1,345	2,062	53.3%
Digital camera related products	1,004	852	(15.1%)
Other lens sets	490	495	1.0%
Optical instruments	274	334	21.9%
Other spherical lens and plane products	142	254	78.9%
Other products	1,683	1,815	7.8%

Source(s): Group

2023E revenue to grow 4.8%

In 2022, revenue contributed from vehicle-related products improved 38.7% YoY due to higher vehicle lens demand for parking assistance, autonomous driving, and surveillance. We revise up 2023E optical components revenue by 26.9% because of the expected increase in contributions from vehicle-related products.

Smartphone shipments, however, are expected to be weak in 2023E, affecting shipments of optoelectronic products. As such, we lower 2023E optoelectronic products revenue by 4.2%. On the other hand, we expect Sunny's optical instruments shipments in 2023E would benefit from the growing demand for vehicle automatic production process. We revise up 2023E optical instruments revenue by 4.4%. Consequently, 2023E overall revenue is revised up by 3.4%.

Exhibit 2: Sunny's products and ASP forecasts

	2021	2022	2023E	2024E	2025E
Optical components (1)					
Shipments (mn)	1,663.1	1,429.4	1,293.6	1,196.6	1,148.7
YoY	(0.9%)	(14.1%)	(9.5%)	(7.5%)	(4.0%)
ASP (RMB)	5.3	6.6	7.9	9.0	9.7
YoY	(3.5%)	25.5%	19.0%	14.0%	8.0%
Optoelectronic products (2)					
Shipments (mn)	732.5	567.2	545.1	575.1	589.4
YoY	15.6%	(22.6%)	(3.9%)	5.5%	2.5%
ASP (RMB)	38.7	41.1	44.2	46.4	48.3
YoY	(14.0%)	6.3%	7.5%	5.0%	4.1%
Optical instruments (3)					
Shipments (mn)	0.255	0.320	0.416	0.490	0.539
YoY	30.5%	25.4%	30.0%	18.0%	10.0%
ASP (RMB)	1,519.4	1,262.4	1,180.3	1,121.3	1,082.1
YoY	(9.1%)	(16.9%)	(6.5%)	(5.0%)	(3.5%)

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



Higher R&D expenses

R&D expenses/revenue ratio increased from 7.0% in 2021 to 8.4% in 2022 on vehicle lens, AR and VR related products. In 2022, R&D expenses grew 6.1% YoY to RMB2.8 bn. We revise up 2023E R&D expenses by 14.3%/15.0% to RMB3.0bn/RMB3.3bn for 2023-24E. R&D expenses/revenue ratio is expected to increase 0.1ppt YoY to 8.5% for 2023E.

Exhibit 3: Changes in financial estimates

	OLD			NEW			CHANGE		
(RMB mn)	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	33,645	36,228	N/A	34,784	37,995	40,214	3.4%	4.9%	N/A
Net Profit	3,063	3,578	N/A	3,115	3,703	4,043	1.7%	3.5%	N/A
EPS (RMB)	2.792	3.262	N/A	2.840	3.376	3.686	1.7%	3.5%	N/A

Source(s): ABCI Securities estimates

The Group recorded RMB488mn gain in Others item in 2022, compared to RMB803mn gain in 2021, due to RMB241.9mn foreign exchange loss in 2022. Gross margin is expected to improve from 19.9% in 2022 to 22.3% in 2025E, due to stabilization in RMB and improvement in global economic environment. In 2023E, we forecast the Group to recognize 29.4% growth in net profit with just 4.8% growth in revenue, because of gross margin improvement.

Recommend HOLD with TP at HK\$93.0

We revise up 2023-24E net profit by 1.7%/3.5% due to the upward revision in revenue forecast. We derive the Group's TP at HK\$93.0, based on the DCF model analysis (WACC: 12.3%; perpetuity growth rate: 2.1%). We revise up TP from HK\$90.0 to HK\$93.0, upward revision of net profit estimation. Our TP represents 29.5x 2023E P/E. Maintain HOLD.



Financial Statements

Consolidated income statement (2021A-2025E)

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Optical components revenue	8,776	9,468	10,196	10,752	11,147
Optoelectronic products revenue	28,334	23,326	24,097	26,694	28,483
Optical instruments revenue	387	403	490	550	584
Total revenue	37,497	33,197	34,784	37,995	40,214
Cost of sales	(28,761)	(26,592)	(27,618)	(29,712)	(31,246)
Gross profit	8,736	6,605	7,165	8,283	8,968
Selling and distribution expenses	(274)	(353)	(379)	(414)	(438)
R&D expenses	(2,642)	(2,803)	(2,957)	(3,268)	(3,487)
Admin expenses	(758)	(929)	(960)	(1,052)	(1,114)
Finance costs	(230)	(293)	(139)	(167)	(176)
Others (*)	803	488	758	765	773
Profit for the year	5,635	2,715	3,488	4,147	4,527
Income tax expense	(579)	(241)	(309)	(368)	(402)
Profit after tax	5,056	2,474	3,179	3,779	4,125
Shareholders' profit	4,988	2,408	3,115	3,703	4,043
Non-controlling interests	68	66	64	76	83
EPS (RMB)	4.565	2.203	2.840	3.376	3.686
DPS (RMB)	0.959	0.891	1.149	1.366	1.491

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. The Group recorded RMB488mn gain in Others item in 2022, compared to RMB803mn gain in 2021, due to RMB241.9mn foreign exchange loss in 2022.



Consolidated balance sheet (2021A-2025E)

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
PPE	8,303	10,120	10,879	11,423	11,994
Others	2,481	2,236	2,268	2,311	2,364
Total non-current assets	10,785	12,356	13,147	13,734	14,358
Cash and cash equivalents	5,605	7,033	10,079	12,608	15,308
Inventories	5,482	4,721	4,485	4,261	4,048
Others	16,902	18,891	17,676	17,652	17,735
Total current assets	27,989	30,646	32,240	34,521	37,090
Total assets	38,774	43,001	45,387	48,255	51,448
Trade and other payables	9,869	12,917	13,821	14,789	15,824
Others	2,005	6,420	6,092	5,813	5,578
Total current liabilities	11,873	19,337	19,914	20,602	21,402
Deferred tax liabilities	1,016	850	765	689	620
Bond payable	3,816	0	0	0	0
Others	1,174	632	641	657	674
Total non-current liabilities	6,005	1,482	1,406	1,346	1,294
Total liabilities	17,879	20,819	21,320	21,948	22,696
Total equity	20,895	22,182	24,067	26,307	28,753

Source(s): Group, ABCI Securities estimates



Consolidated cash flow statement (2021A-2025E)

As of Dec 31 (RMB mn)	2021A	2022E	2023E	2024E	2025E
Operating profit before tax	5,635	2,715	3,488	4,147	4,527
Others	1,344	4,662	4,687	3,994	4,388
Operating cash flow	6,979	7,377	8,175	8,141	8,915
CAPEX	(2,083)	(3,114)	(3,363)	(3,632)	(3,922)
Others	(819)	(720)	(411)	(365)	(519)
Investing cash flow	(2,902)	(3,834)	(3,774)	(3,997)	(4,442)
Dividends paid	(987)	(974)	(1,260)	(1,498)	(1,635)
Others	(254)	(1,185)	(135)	(152)	(170)
Financing cash flow	(1,241)	(2,159)	(1,395)	(1,650)	(1,805)
Net increase in cash and cash equivalents	2,836	1,384	3,006	2,494	2,668
Cash & cash equivalents at beginning of year	2,842	5,605	7,033	10,079	12,608
FX change effect	(73)	44	39	35	32
Cash & cash equivalents at end of year	5,605	7,033	10,079	12,608	15,308

Source(s): Group, ABCI Securities estimates

Financial ratios (2021A-2025E)

As of Dec 31	2021A	2022A	2023E	2024E	2025E
<u>YoY Growth:</u>					
Revenue	(1.3%)	(11.5%)	4.8%	9.2%	5.8%
Gross profit	0.4%	(24.4%)	8.5%	15.6%	8.3%
Net profit	2.4%	(51.7%)	29.4%	18.9%	9.2%
<u>Profitability ratios:</u>					
ROE	26.4%	11.2%	13.5%	14.7%	14.7%
ROA	13.4%	5.9%	7.0%	7.9%	8.1%
<u>Costs ratio:</u>					
R&D expenses/ revenue	7.0%	8.4%	8.5%	8.6%	8.7%
Selling & distribution expenses/ revenue	0.7%	1.1%	1.1%	1.1%	1.1%
Administrative expenses/ revenue	2.0%	2.8%	2.8%	2.8%	2.8%
<u>Margins:</u>					
Gross profit margin	23.3%	19.9%	20.6%	21.8%	22.3%
Net profit margin	13.3%	7.3%	9.0%	9.7%	10.1%

Source(s): Group, ABCI Securities estimates



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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 9\%$)
Hold	- Market return rate ($\sim 9\%$) \leq Stock return rate $<$ Market return rate ($\sim 9\%$)
Sell	Stock return $<$ - Market return ($\sim 9\%$)

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 2006 (HSI total return index 2006-22 averaged at 8.4%)

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