

Company Report

Sunny Optical (2382 HK)

2019 Investor Day takeaway – Day 2

- Site visits on Day 2 demonstrated strong design and production capabilities; capacity expansions on track
- Negative impacts from Huawei order cut likely less-than-feared. Reiterate BUY as investor concerns subdued

Capacity expansions remain on track

We visited several facilities in Yuyao, Zhejiang Province on Day 2 of the Sunny Optical 2019 Investor Day. The company maintains its target to expand HLS (handset lens set) capacity (120kk→140kk by end-2019) at its new West City (城西) site, which now accounts for >50% of total HLS capacity. For HCM (handset camera module), capacity remains at 65kk for this year. Construction for West City (Phase 2) should complete by year-end with production to start in 2020. The Phase 2 plant will have 2x floor space (230mu site area, vs. 120mu for Phase 1), which improves efficiency with different sections of the production line being integrated.

Maintains full-year product mix target; impacts limited

Management maintains its expectation to raise its high-end product mix (16/20MP+, 6P+, large aperture) to 10-20% of shipment in 2019 (from single-digit % in 2018), despite likely near-term disruptions. US sanctions mainly impact Huawei in the overseas markets (~50% Huawei's handset sales). Sunny Optical continues to gain tractions at the Korean customer (now its No.1 supplier in HLS, HCM shipment began in 2018), and will target to become the leading supplier in 2-3 years.

Rising industry barriers favorable for Sunny Optical

The company remains confident in its core competencies, believing it will benefit from rising barriers for handset camera industry (patent arsenal, production know-how, and established scale). New wafer-level solutions such as WLO/WLG may be more suitable for sensing than imaging, given the lower resolution. Longer-term, Sunny targets to become a smart-eye solution provider, thus confident in its margin expansion over time.

Investor confidence restored; BUY

Sunny Optical shares surged 10% today, after yesterday's 5% gain. We believe the investor event helped boost market confidence. Maintaining guidance indicates limited impact from recent disruptions. We maintain our positive view and expect further shares upside driven by margin recovery. Reiterate BUY with TP at HK\$105 (based on 20x 2020E P/E).

Financials

RMB mn	2017	2018	2019E	2020E	2021E
Revenue	22,366	25,932	34,030	42,062	49,762
Growth (%)	53.1%	15.9%	31.2%	23.6%	18.3%
Net profit	2,902	2,491	3,820	5,027	6,045
Growth (%)	128.3%	-14.2%	53.4%	31.6%	20.2%
EPS (RMB)	2.66	2.27	3.48	4.59	5.52
DPS (RMB)	0.66	0.57	0.87	1.15	1.38
P/E (x)	32.6	25.8	19.6	14.9	12.4
P/B (x)	12.6	7.0	6.0	4.5	3.5
ROE (%)	46.9%	29.8%	35.3%	34.7%	32.0%

Sources: Company data, CMS (HK) estimates; priced at 2019/6/19

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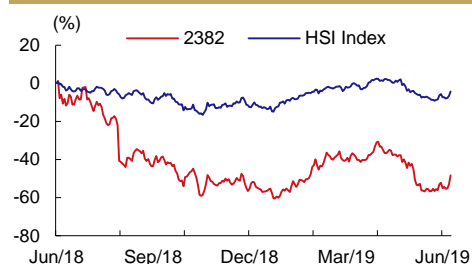
WHAT'S NEW

Sunny Optical Investor Day 2019

BUY

Previous	BUY
Price (2019/6/19)	HK\$79.50
12-month Target Price (Potential up/downside)	HK\$105 (+32%)
Previous	HK\$105

Price Performance



Source: Bigdata, as of 2019/6/19

%	1m	6m	12m
2382 HK	10.9	16.7	(48.3)
HSI	0.1	0.1	(4.3)

Sector: Hardware Technology

Hang Seng Index (2019/6/19)	28202
HSCEI (2019/6/19)	10765

Key Data

52-week range (HK\$)	58.55-161.0
Market cap (HK\$ mn)	86,821
Avg. daily volume (mn)	9.28
BVPS (HK\$)	7.3

Shareholding Structure

Sun Xu Ltd	35.47%
No. of shares outstanding (mn)	1,092
Free float	64.53%

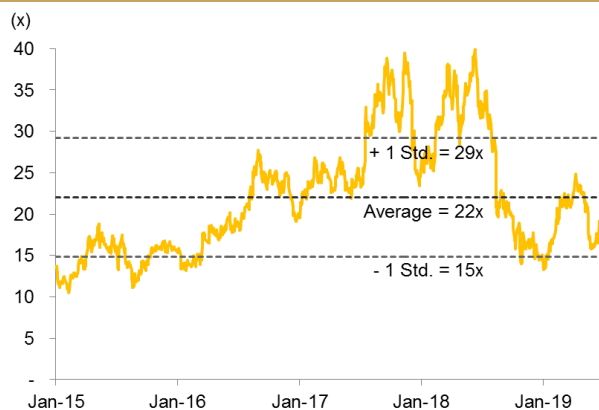
Sources: Company data, Bloomberg

Related Research

1. Sunny Optical (2382 HK) - 2019 Investor Day takeaway – Day 1 (BUY) 2019/6/19
2. Sunny Optical (2382 HK) - April shipments beat; BUY on share price correction (BUY) 2019/5/10
3. Sunny Optical (2382 HK) – 2018 results inline; near term margin uncertainties (BUY) 2019/3/20
4. Sunny Optical (2382 HK) - 2018 profit warning; triple-camera to drive 2019 recovery (BUY) 2019/2/14
5. Sunny Optical (2382 HK) - Strong 2019 recovery on rising triple-camera sales (BUY) 2019/1/14
6. Sunny Optical (2382 HK) - Lower TP to HKD120 on growing demand uncertainties (BUY) 2018/10/16

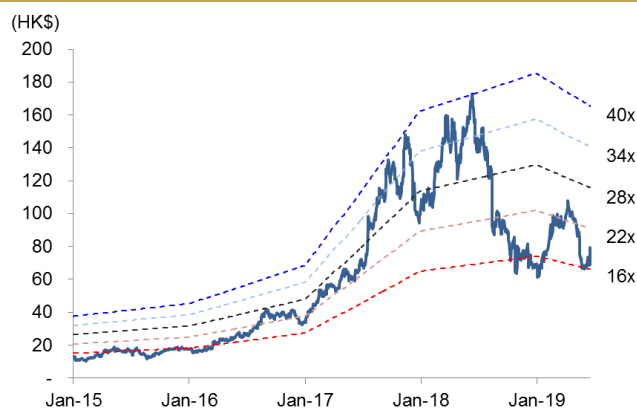
Valuation and key risks

Figure 1: Sunny Optical forward P/E



Sources: Bloomberg, CMS (HK); as of 2019/6/19

Figure 2: Sunny Optical forward P/E band



Sources: Bloomberg, CMS (HK); as of 2019/6/19

Key risks

Key downside risks to our BUY rating include smartphone industry deceleration, disappointing triple-camera adoption rate, customers splitting triple-camera orders into multiple single-cameras, intensifying competition, vehicle lens demand slowdown, yield-rate issues.

Financial Summary

Balance Sheet

RMB mn	2017	2018	2019E	2020E	2021E
Current assets	11,635	16,768	20,048	23,916	27,713
Cash & equivalents	1,227	2,254	2,593	4,213	5,372
S/T investments	1,952	4,760	4,571	4,523	4,511
Accounts receivable	5,666	6,231	8,313	9,895	11,646
Inventories	2,622	3,074	4,117	4,830	5,729
Pledged bank deposits	140	215	250	259	261
Other current assets	28	234	204	196	195
Non-current assets	4,091	6,084	8,028	9,078	9,832
PP&E – net	2,586	4,523	6,364	7,388	8,135
Equity investments	125	101	104	105	106
Intangible assets	392	349	354	356	356
Deposit payments	595	401	475	493	498
Other non-current assets	393	710	730	736	737
Total assets	15,726	22,852	28,076	32,994	37,545
Current liabilities	7,705	8,677	10,732	12,385	13,750
S/T debt	1,348	1,482	1,482	1,282	882
Accounts payable	6,183	7,064	9,116	10,969	12,734
Taxes payable	101	0	0	0	0
Other current liabilities	73	131	133	134	134
Non-current liabilities	502	4,887	4,857	4,049	2,447
L/T debt	0	4,080	4,080	3,280	1,680
Other L/T liabilities	502	807	777	769	767
Total liabilities	8,207	13,564	15,589	16,434	16,197
Common stocks	105	105	105	105	105
Total reserves	7,383	9,129	12,328	16,401	21,189
Treasury stock	0	0	0	0	0
Capital adjusted	0	0	0	0	0
Minorities	31	54	54	54	54
Total equity and liabilities	15,726	22,852	28,076	32,994	37,545

Cashflow Statement

RMB mn	2017	2018	2019E	2020E	2021E
CF from operating activities	2,436	3,568	3,835	5,988	6,840
Pre-tax income	3,318	2,851	4,336	5,684	6,837
Depreciation & amortization	533	815	1,090	1,404	1,680
Changes in W/C	(1,163)	(137)	(1,072)	(442)	(885)
Investment gains	(50)	(111)	0	0	0
Others	(202)	150	(519)	(658)	(792)
CF from investing activities	(1,686)	(5,499)	(2,875)	(2,414)	(2,424)
Capital expenditure	(1,765)	(2,617)	(3,000)	(2,500)	(2,500)
Investments	224	(2,480)	185	46	12
Others	(145)	(402)	(61)	40	65
CF from financing activities	12	2,957	(621)	(1,955)	(3,257)
Dividend paid	(318)	(725)	(621)	(955)	(1,257)
Share issued (cancelled)	0	0	0	0	0
Debt issued (repaid)	444	3,920	0	(1,000)	(2,000)
Others	(113)	(238)	0	0	0
Net cash flow	760	1,027	339	1,620	1,160

Sources: Company data, CMS (HK) estimates

Profit & Loss Statement

RMB mn	2017	2018	2019E	2020E	2021E
Revenues	22,366	25,932	34,030	42,062	49,762
Cost of sales	(17,563)	(21,019)	(27,342)	(33,323)	(39,324)
Gross profit	4,803	4,913	6,688	8,739	10,437
R&D expenses	(1,168)	(1,362)	(1,808)	(2,211)	(2,637)
S&M expenses	(205)	(210)	(272)	(336)	(398)
G&A expenses	(389)	(434)	(568)	(855)	(1,018)
Operating profit	3,041	2,907	4,040	5,337	6,384
Interest income	81	209	212	218	230
Interest expense	(49)	(202)	(207)	(172)	(91)
Other non-op items	245	(63)	291	302	314
Pretax income	3,318	2,851	4,336	5,684	6,837
Tax expense	(404)	(339)	(516)	(657)	(792)
Net income (bef min)	2,914	2,513	3,820	5,027	6,045
Minorities	(13)	(22)	0	0	0
Net income (aft min)	2,902	2,491	3,820	5,027	6,045
Basic EPS (RMB)	2.67	2.28	3.50	4.60	5.53
Diluted EPS (RMB)	2.66	2.27	3.48	4.59	5.52

Financial Ratio

	2017	2018	2019E	2020E	2021E
YoY growth rate					
Revenue	53.1%	15.9%	31.2%	23.6%	18.3%
Op profit	102.6%	-4.4%	39.0%	32.1%	19.6%
Net profit	128.3%	-14.2%	53.4%	31.6%	20.2%
Profitability					
Gross margin	21.5%	18.9%	19.7%	20.8%	21.0%
Op margin	13.6%	11.2%	11.9%	12.7%	12.8%
Net margin	13.0%	9.6%	11.2%	12.0%	12.1%
ROE	46.9%	29.8%	35.3%	34.7%	32.0%
Liquidity					
Debt to equity	17.9%	59.9%	44.5%	27.6%	12.0%
Net debt to equity	1.6%	35.6%	23.8%	2.1%	-13.2%
Current ratio	1.5	1.9	1.9	1.9	2.0
Quick ratio	1.2	1.6	1.5	1.5	1.6
Operating efficiency					
Asset turnover	1.6	1.3	1.3	1.4	1.4
Inventory turnover	6.4	7.4	7.6	7.4	7.4
AR turnover	4.8	4.4	4.7	4.6	4.6
AP turnover	3.0	3.2	3.4	3.3	3.3
Per share ratios (RMB)					
EPS	2.66	2.27	3.48	4.59	5.52
Net Cash PS	(0.11)	(3.02)	(2.71)	(0.32)	2.56
FCF PS	0.61	0.87	0.76	3.18	3.96
EBITDA PS	3.50	3.34	4.95	6.43	7.64
Valuation ratios					
P/E	32.6	25.8	19.6	14.9	12.4
P/B	12.6	7.0	6.0	4.5	3.5
EV/EBITDA	24.7	18.4	14.3	10.7	8.6

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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