

## Sunny Optical Tech (2382 HK)

### Product shipments affected by chip shortage

- Sunny Optical Technology (Group) Co. Ltd. (the “Company” or “Sunny”) is affected by chip shortage problem from both of smartphone makers (CPU, GPU) and its internal manufacturing (optical lens module chip)
- The Company’s product shipment growth has been slowing in recent months, affecting revenue growth. We lower 2021E revenue by 26.2% due to sluggish smartphone shipments and chip shortage
- Sunny’s ROA and ROE in 2021E are estimated to go down by 1.6ppt/6.7ppt to 13.1%/26.3%
- Recommend HOLD with TP of HK\$ 200.0, which represents 36.7x/32.0x 2021-22E P/E.

#### We lower 2021E revenue by 26.2% due to sluggish smartphone shipments and chip shortage.

The emergence of COVID-19 variants has led to a new wave of shutdowns in overseas countries, disrupting smartphone production. Affected by chip shortage and weak overseas market demand, we lower Sunny’s revenue by 26.2% in 2021E. We expect the chip shortage problem to be solved in 3Q22.

**Sunny’s ROA and ROE are expected to drop in 2021E.** We expect net profit growth in 2021E to be 1.6%; ROA and ROE in the same period would fall by 1.6ppt/6.7ppt to 13.1%/26.3%.

**We lower 2021E net profit by 12.1%.** We trim 2021E net profit by 12.1% due to the lowered optical lens shipments forecasts. Net margin is project to edge up by 0.1ppt YoY to 12.9% in 2021E on improved gross margin amid weak revenue growth.

**Valuation.** We downgrade our rating to **HOLD** with TP of HK\$200.0, which represents 36.7x/32.0x 2021E/22E P/E.

**Risks:** (1) Slowdown in 5G network development; (2) Revenue highly dependent on optical lens shipments; (3) Heavy reliance on smartphone makers.

#### Results and Valuation

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	37,849	38,002	38,356	42,982	49,184
Chg (% YoY)	46.0%	0.4%	0.9%	12.1%	14.4%
Net profit (RMB mn)	3,991	4,872	4,948	5,677	6,648
Chg (% YoY)	60.2%	22.1%	1.6%	14.7%	17.1%
EPS (RMB)	3.648	4.458	4.528	5.195	6.083
Chg (% YoY)	60.1%	22.2%	1.6%	14.7%	17.1%
BPS (RMB)	11.47	15.19	18.81	22.97	27.84
Chg (% YoY)	35.8%	32.4%	23.9%	22.1%	21.2%
P/E (x)	47.4	38.8	38.2	33.3	28.4
P/B (x)	15.1	11.4	9.2	7.5	6.2
ROE (%)	36.3%	33.0%	26.3%	24.5%	23.6%
ROA (%)	14.9%	14.7%	13.1%	13.2%	13.7%
DPS (RMB)	0.728	0.888	0.902	1.035	1.212
Dividend Yield (%)	0.42%	0.51%	0.52%	0.60%	0.70%

\*Exchange rate assumption for FY21E-23E: HKD 1 = RMB 0.83

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Nov 4, 2021

Rating: HOLD

TP: HK\$ 200.0

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Share price (HK\$)	208.40
Est. share price return	(4.00%)
Est. dividend yield	0.52%
Est. total return	(3.48%)
Last Rating & TP (H/A shr)	BUY, HK\$220.0
Previous Report Date	Jan 5, 2021

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$)	259.4/113.8
Issued shares (mn)	1,096.8
Market cap (HK\$ mn)	228,573.1
Avg daily turnover (HK\$ mn)	996.0

#### Major shareholder(s)

He Ningning	64.19%
Wang Jianqiang	0.99%
Hu Sanmu	0.23%

Source(s): Company

#### Share Performance (%)

	Absolute	Relative*
1-mth	(3.1)	1.7
3-mth	(8.4)	9.5
6-mth	25.7	43.1

\*Relative to HSI

Source(s): Bloomberg

#### 1-Yr Share performance (HK\$)



Source(s): Bloomberg

## Slowdown in product shipments

Sunny's handset lens recorded four consecutive months of YoY shipment decline since June 2021 and handset camera modules underwent two consecutive months of YoY shipment decline since Aug 2021, both due to the shortage of chips from smartphone makers (CPU, GPU) and its internal manufacturing (optical lens module chip), and overseas market affected by COVID-19 variants. Widespread infection of COVID-19 variants has led to a new wave of shutdown in overseas market, disrupting production. We expect the chip shortage problem to be solved in 3Q22. We forecast Sunny's ASP of optoelectronic products to lower by 3.5% in 2021E due to lackluster demand for high-end smartphones. The Company generated over 79.9% of total revenue from mobile phone-related products in 1H21; hence, we lower 2021E/22E revenue forecasts by 26.2%/17.3%.

### Exhibit 1: Sunny's product shipments in Jan-Sept 2021:

mn	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept
<b>Handset lens sets</b>	<b>147.7</b>	<b>129.7</b>	<b>130.7</b>	<b>123.7</b>	<b>99.4</b>	<b>85.8</b>	<b>104.8</b>	<b>125.4</b>	<b>132.6</b>
YoY	36.1%	34.4%	14.8%	11.3%	2.0%	(27.1%)	(22.9%)	(22.8%)	(20.8%)
MoM	13.3%	(12.2%)	0.8%	(5.3%)	(19.7%)	(13.7%)	22.1%	19.7%	5.8%
<b>Vehicle lens sets</b>	<b>7.4</b>	<b>5.8</b>	<b>6.5</b>	<b>6.1</b>	<b>6.6</b>	<b>4.9</b>	<b>5.1</b>	<b>5.5</b>	<b>5.0</b>
YoY	53.9%	88.5%	49.6%	191.8%	159.7%	34.6%	8.0%	0.9%	(21.4%)
MoM	28.1%	(21.1%)	12.0%	(5.7%)	8.0%	(25.2%)	3.6%	6.6%	(8.3%)
<b>Handset camera modules</b>	<b>65.1</b>	<b>65.9</b>	<b>60.0</b>	<b>63.4</b>	<b>55.4</b>	<b>51.4</b>	<b>55.3</b>	<b>55.3</b>	<b>53.7</b>
YoY	29.2%	51.6%	52.1%	44.7%	16.0%	17.5%	0.8%	(8.9%)	(8.9%)
MoM	43.8%	1.2%	(9.0%)	5.7%	(12.7%)	(7.3%)	7.7%	0.02%	(3.0%)

Source(s): Company

According to China Academy of Information and Communications Technology (CAICT), domestic mobile phone shipments have shown five months of YoY decline since Apr 2021. The weak domestic mobile phone shipments were due to chip shortage. The weak domestic mobile phones shipments are expected to persist until mid-2022, which in turn will affect shipments of the upper stream electronic component suppliers, including the optical lens suppliers.

### Exhibit 2: Domestic mobile phones shipments in Jan- Sep 2021:

mn	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep
<b>Domestic mobile phones shipments</b>	<b>40.1</b>	<b>21.8</b>	<b>36.1</b>	<b>27.5</b>	<b>23.0</b>	<b>25.7</b>	<b>28.7</b>	<b>24.3</b>	<b>21.4</b>
<b>YoY</b>	<b>32.8%</b>	<b>240.9%</b>	<b>65.9%</b>	<b>(34.1%)</b>	<b>(32.0%)</b>	<b>(10.4%)</b>	<b>28.6%</b>	<b>(9.7%)</b>	<b>(8.1%)</b>

Source(s): CAICT



**Exhibit 3: Sunny's products and ASP forecasts**

	2019	2020	2021E	2022E	2023E
<b>Optical components</b>					
Shipments (mn)	1,484.4	1,678.7	1,620.0	1,701.0	1,922.1
YoY	37.5%	13.1%	(3.5%)	5.0%	13.0%
ASP (RMB)	5.9	5.5	5.6	5.7	5.8
YoY	6.5%	(7.9%)	2.0%	2.8%	1.5%
<b>Optoelectronic products</b>					
Shipments (mn)	589.7	633.4	665.1	725.0	797.5
YoY	36.0%	7.4%	5.0%	9.0%	10.0%
ASP (RMB)	48.8	45.0	43.4	45.1	46.9
YoY	7.8%	(7.7%)	(3.5%)	3.9%	4.0%
<b>Optical instruments</b>					
Shipments (mn)	0.197	0.195	0.254	0.292	0.318
YoY	(5.3%)	(1.0%)	30.0%	15.0%	9.0%
ASP (RMB)	1,443.7	1,670.7	1,762.6	1,815.5	1,851.8
YoY	0.4%	15.7%	5.5%	3.0%	2.0%

Source(s): Company, ABCI Securities estimates

**Exhibit 4: Changes in our financial estimates**

(RMB mn)	OLD			NEW			CHANGE		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
<b>Revenue</b>	51,989	51,989	N/A	38,356	42,982	49,184	(26.2%)	(17.3%)	N/A
<b>Net Profit</b>	5,627	5,627	N/A	4,948	5,677	6,648	(12.1%)	(9.0%)	N/A

Source(s): ABCI Securities estimates

**Downgrade to HOLD with TP at HK\$200.0**

We derive the Company's TP at HK\$200.0 based on the DCF model analysis (WACC: 12.6%; perpetuity growth rate: 2.3%). Our TP represents 36.7x/ 32.0x 2021-22E P/E.

**Exhibit 5: Peers Comparison Table**

Ticker	Price*	P/E				P/B				ROE	ROA		
		19A	20A	21E	22E	19A	20A	21E	22E	21E	21E		
Q Tech	1478 HK	HKD	11.08	21.9	14.6	9.8	8.2	4.3	3.1	2.4	1.9	26.1	9.6
AAC Tech	2018 HK	HKD	31.90	18.5	27.5	16.9	13.6	2.2	1.9	1.7	1.5	10.2	5.9
Sunny Optical	2382 HK	HKD	208.40	52.2	43.1	33.9	27.1	16.9	12.0	9.1	7.1	29.7	15.0
Cowell	1415 HK	HKD	6.39	17.8	12.4	9.0	7.2	1.6	2.1	1.6	1.3	18.8	12.4
Goertek	002241 CH	RMB	44.74	112.9	50.7	35.4	27.0	9.0	7.5	6.3	4.8	18.7	7.5
Luxshare	002475 CH	RMB	39.78	48.6	31.9	26.3	19.8	11.3	8.2	6.3	4.9	25.4	10.9
OFILM Group	002456 CH	RMB	7.82	43.6	n.a.	20.1	16.6	2.4	3.0	2.3	2.1	4.7	1.3
Largan Precision	3008 TT	TWD	2,070.00	11.2	13.0	14.9	13.1	2.5	2.3	2.2	2.0	14.9	12.6
<b>Average</b>				<b>40.9</b>	<b>27.6</b>	<b>20.8</b>	<b>16.6</b>	<b>6.3</b>	<b>5.0</b>	<b>4.0</b>	<b>3.2</b>	<b>18.5</b>	<b>9.4</b>

\*Based on closing price on Nov 3, 2021

Source(s): Bloomberg, ABCI Securities



## 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 optical lens products. Reduced demand for optical lens would adversely affect the Company's revenue.

### **Business may be affected if smartphone shipments slows down**

Sunny generated over 79.9% of its revenue from mobile phone-related products in 1H21. Reduced shipments of mobile phone would adversely affect the Company's revenue.

### **Shortage of chips**

Sunny's business is being affected by chip shortage problem from both of smartphone makers (CPU, GPU) and its internal manufacturing (optical lens module chip).



## Financial Statements

### Consolidated income statement (2019A-2023E)

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Optical components revenue	8,815	9,181	9,037	9,754	11,188
Optoelectronic products revenue	28,748	28,494	28,872	32,698	37,406
Optical instruments revenue	285	326	448	530	590
Total revenue	37,849	38,002	38,356	42,982	49,184
Cost of revenue	(30,098)	(29,304)	(29,410)	(32,838)	(37,404)
Gross profit	7,751	8,698	8,946	10,144	11,780
Selling and distribution expenses	(279)	(313)	(230)	(215)	(246)
R&D expenses	(2,209)	(2,499)	(2,416)	(2,665)	(3,000)
Admin expenses	(650)	(719)	(725)	(813)	(930)
Finance costs	(250)	(234)	(433)	(389)	(350)
Others	188	710	590	513	447
Profit before tax	4,550	5,643	5,732	6,576	7,701
Tax	(531)	(703)	(714)	(819)	(959)
Profit after tax	4,019	4,940	5,018	5,757	6,742
Shareholders' profit	3,991	4,872	4,948	5,677	6,648
Non-controlling interests	28	68	70	80	93
EPS (RMB)	3.648	4.458	4.528	5.195	6.083
DPS (RMB)	0.728	0.888	0.902	1.035	1.212

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2019A-2023E)

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
PPE	6,567	7,513	10,079	12,851	15,844
Others	1,680	2,295	2,488	2,683	3,498
Total non-current assets	8,247	9,809	12,568	15,534	19,342
Bank balance and cash	1,917	2,842	2,558	2,302	2,072
Inventories	5,146	5,783	6,651	7,648	8,795
Others	15,383	17,005	18,573	19,921	21,379
Total current assets	22,446	25,630	27,781	29,871	32,246
Total assets	30,693	35,438	40,348	45,405	51,588
Trade and bill payables	11,322	10,733	11,377	12,060	12,784
Others	1,309	2,678	2,431	2,209	2,011
Total current liabilities	12,630	13,411	13,808	14,269	14,794
Deferred tax liabilities	685	889	933	980	1,029
Bond payable	4,156	3,896	4,091	4,295	4,510
Others	496	416	656	371	344
Total non-current liabilities	5,336	5,201	5,680	5,647	5,883
Total liabilities	17,967	18,612	19,488	19,916	20,677
Total equity	12,726	16,826	20,844	25,453	30,851

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2019A-2023E)**

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Operating profit before tax	4,550	5,643	5,732	6,576	7,701
Others	111	1,517	(888)	(1,004)	(1,143)
Operating cash flow	4,662	7,160	4,844	5,571	6,558
CAPEX	(2,770)	(2,333)	(2,566)	(2,771)	(2,993)
Others	(786)	(3,643)	(80)	(70)	(60)
Investing cash flow	(3,556)	(5,976)	(2,647)	(2,841)	(3,053)
Dividends paid	(621)	(796)	(986)	(1,131)	(1,324)
Others	(820)	574	(207)	(186)	(168)
Financing cash flow	(1,441)	(222)	(1,193)	(1,317)	(1,492)
Net increase in cash and cash equivalents	(336)	962	1,004	1,413	2,013
Cash and cash equivalents at beginning of year	2,254	1,917	2,842	3,813	5,196
FX change effect	(2)	(37)	(33)	(30)	(27)
Cash and cash equivalents at end of year	1,917	2,842	3,813	5,196	7,181

Source(s): Company, ABCI Securities estimates

**Financial ratios (2019A-2023E)**

As of Dec 31	2019A	2020A	2021E	2022E	2023E
<u>YoY Growth:</u>					
Revenue	46.0%	0.4%	0.9%	12.1%	14.4%
Gross profit	57.8%	12.2%	2.9%	13.4%	16.1%
Net profit	60.2%	22.1%	1.6%	14.7%	17.1%
<u>Profitability ratios:</u>					
ROE	36.3%	33.0%	26.3%	24.5%	23.6%
ROA	14.9%	14.7%	13.1%	13.2%	13.7%
<u>Costs ratio:</u>					
R&D expenses/ revenue	5.8%	6.6%	6.3%	6.2%	6.1%
Selling and distribution expenses/ revenue	0.7%	0.8%	0.6%	0.5%	0.5%
Administrative expenses/ revenue	1.7%	1.9%	1.9%	1.9%	1.9%
<u>Margins:</u>					
Gross profit margin	20.5%	22.9%	23.3%	23.6%	24.0%
Net profit margin	10.5%	12.8%	12.9%	13.2%	13.5%

Source(s): Company, ABCI Securities estimates

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**Definition of equity rating**

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 ( $\sim 10\%$ )

Notes: 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 2008 (HSI total return index 2008-20 CAGR 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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