

Sunny Optical Tech. (Group) Co. Ltd. (2382 HK)

Benefit from smartphone and vehicle demand; initiate with BUY

- Sunny Optical Technology (Group) Co. Ltd. (the “Company” or “Sunny”) is expected to benefit from consumers’ upgrade to high-end optical lens and rising multi-camera demand from smartphone and vehicles.
- Driven by optical lenses required for 5G smartphones and safety system of vehicles, we forecast revenue to grow at a CAGR of 16.9% in 2019-22E.
- Gross profit margin is projected to edge up by 0.7ppt YoY to 21.2% in 2021E, thanks to high-end camera demand from smartphones.
- Net profit to grow at a CAGR of 20.0% in 2019-22E.
- Initiate BUY with TP of HK\$220.0, which represents 36.5x/29.8x 2021-22E P/E.

Overall revenue to grow at a CAGR of 16.9% in 2019-22E. Sunny is expected to benefit from optical lens upgrade and multi-optical lens demand from smartphones and vehicles. Vehicles are equipped with more cameras to improve safety and parking efficiency. Driven by higher product shipments and ASP, the Company’s revenue is expected to grow at a CAGR of 16.9% in 2019-22E.

Sunny’s gross margin is expected to benefit from better product mix with more high-end camera shipments. The Company’s gross margin rose 1.5ppt YoY to 20.5% in 2019. We expect more distinguished camera features, such as larger aperture and higher megapixels cameras, to enhance margins. Driven by high-end camera in smartphones and vehicles, we forecast gross margin to edge up by 0.7ppt YoY to 21.2% in 2021E.

Net profit is forecast to grow at a CAGR of 20.0% in 2019-22E. The Company’s net profit was supported with better gross margin and solid revenue growth. Net margin would rise 1.0ppt YoY to 10.8% in 2021E.

Valuation. We initiate the Company with **BUY** and TP of HK\$220.0, which represents 36.5x/29.8x 2021-22E P/E.

Risks: (1) Slowdown in 5G network development; (2) Revenue highly dependent on optical lens shipments; (3) Business may be affected by international trade tensions; (4) Heavy reliance on Android smartphone makers.

Results and Valuation

FY ended Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	25,932	37,849	43,559	51,989	60,491
Chg (% YoY)	15.9%	46.0%	15.1%	19.4%	16.4%
Net profit (RMB mn)	2,491	3,991	4,297	5,627	6,894
Chg (% YoY)	(14.2%)	60.2%	7.7%	30.9%	22.5%
EPS (RMB)	2.279	3.648	3.918	5.130	6.285
Chg (% YoY)	(14.6%)	60.1%	7.4%	30.9%	22.5%
BPS (RMB)	8.45	11.47	14.65	18.85	23.99
Chg (% YoY)	22.7%	35.8%	27.7%	28.7%	27.3%
P/E (x)	68.2	43.2	38.4	29.3	23.9
P/B (x)	18.4	13.7	10.3	8.0	6.3
ROAE (%)	29.6%	36.3%	29.6%	30.2%	28.9%
ROAA (%)	12.9%	14.9%	13.0%	14.8%	15.7%
DPS (RMB)	0.568	0.728	0.712	0.932	1.142
Dividend Yield (%)	0.37%	0.46%	0.47%	0.62%	0.76%

*Exchange rate assumption for FY20E-22E: HKD 1 = RMB 0.85

Source(s): Bloomberg, ABCI Securities estimates

Company Report Initiation

Jan 5, 2021

Rating: BUY

TP: HK\$220.0

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Share price (HK\$)	177.0
Est. share price return	24.3%
Est. dividend yield	0.62%
Est. total return	24.9%

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$)	182.8/89.2
Issued shares (mn)	1,096.8
Market cap (HK\$ mn)	194,133.6
Avg daily turnover (HK\$ mn)	172.7

Major shareholder(s)

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

Source(s): Company, ABCI Securities estimates

Share Performance (%)

	Absolute	Relative*
1-mth	28.0	19.8
3-mth	15.0	8.3
6-mth	45.3	42.3

*Relative to HSI

Source(s): Bloomberg, ABCI Securities



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Sunny Optical Technology (Group) Co. Ltd. (2382 HK, BUY)

China Telecom Sector

Jan 5, 2021

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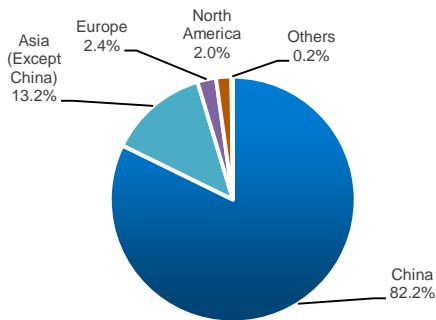
Company Overview

Sunny Optical Technology (Group) Co. Ltd. (the "Company" or "Sunny") was listed on HKEx (2382 HK) in 2007 and is one of the constituents of Hang Seng Index. Sunny's core businesses are manufacturing optical lenses and modules for smartphones, electronic devices, instruments, and vehicles. Sunny's business can be classified into three major segments, which include optical components, optoelectronic products, and optical instruments.

Over 76.0% of its total revenue came from optoelectronic products business in 2019

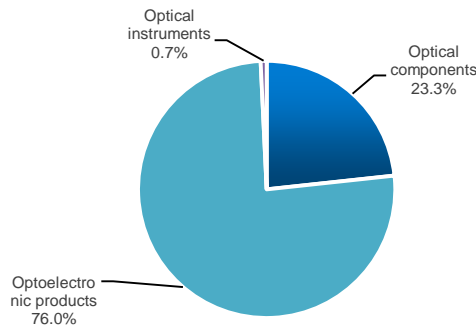
Optoelectronic products business segment is the Company's major business segment, which accounted for 76.0% of total revenue in 2019. Due to the rise in domestic smartphone makers in recent years, Sunny's revenue from China was as high as 82.2% in 2019. Sunny's optical lenses are mostly being used in smartphones and related products, which accounted for 86.6% of its revenue in 2019.

Exhibit 1: Revenue breakdown by region in 2019



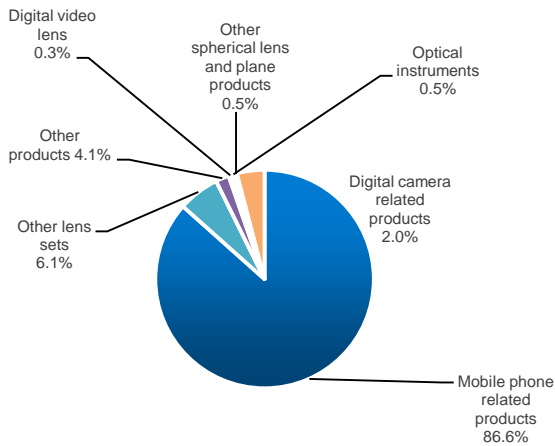
Source(s): the Company, ABCI Securities

Exhibit 2: Revenue breakdown by business segment in 2019



Source(s): the Company, ABCI Securities

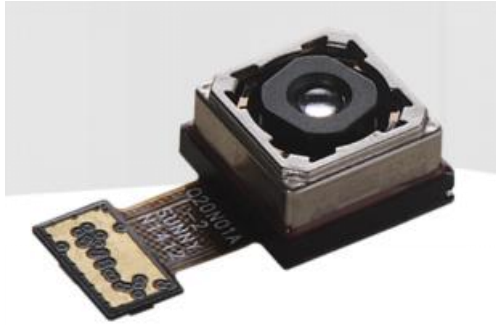
Exhibit 3: Revenue breakdown by product in 2019



Source(s): the Company, ABCI Securities



Exhibit 4: Smartphone camera module



Source(s): the Company, ABCI Securities

Exhibit 5: Vehicle camera



Source(s): the Company, ABCI Securities

Exhibit 6: Optical instrument



Source(s): the Company, ABCI Securities

Exhibit 7: Multi-camera smartphone



Source(s): the Company, ABCI Securities



Industry analysis

Global smartphone shipments dropped 1.3% YoY in 3Q20

According to IDC data on Oct 29, 2020, global smartphone shipments fell 1.3% YoY in 3Q20. Shipment growth in 3Q20 was better than the 16% YoY decline in 2Q20 because of the re-opening of regions and loosening of certain pandemic restriction measures. However, cases of COVID-19 are rebounding in many countries in 4Q20, which can potentially delay the recovery of smartphone shipment.

Exhibit 8: Global smartphone shipments in 3Q20

	Shipments (mn)	YoY growth	Market share
Samsung (5930 KS)	80.4	2.9%	22.7%
Huawei	51.9	(22.0%)	14.7%
Xiaomi (1810 HK)	46.5	42.0%	13.1%
Apple (AAPL US)	41.6	(10.6%)	11.8%
Vivo	31.5	4.2%	8.9%
Others	101.7	(2.4%)	28.8%

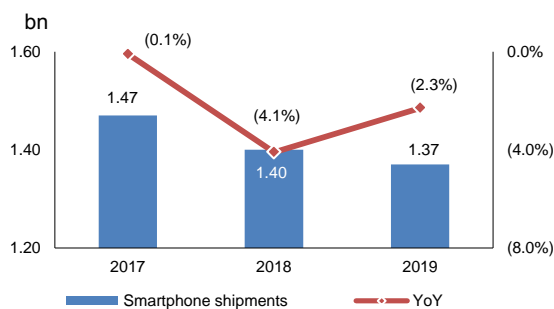
Remark: Data are preliminary and subject to change

Source(s): IDC (Quarterly mobile phone tracker, Oct 29, 2020)

IDC forecasts global smartphone shipments to drop by 9.5% YoY in 2020E

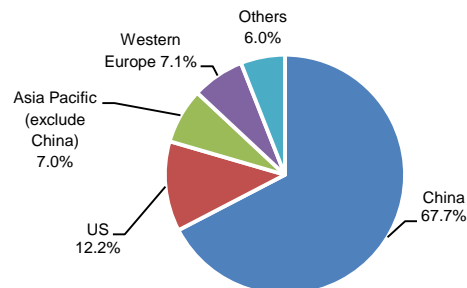
According to IDC data announced on Aug 27, 2020, global smartphone shipments are expected to drop by 9.5% YoY to 1.2bn in 2020E due to the COVID-19 pandemic suppressing economic growth and expenditure worldwide. Many smartphone makers have launched their 5G smartphone models in 2020. IDC expects China to be the largest market for 5G smartphone with a 67.7% market share, followed by the US's 12.2%. Consumers will prefer the mid-to-low range models amid the pandemic-induced economic slowdown. IDC expects the fastest growth to occur in the US\$ 400-600 average selling price (ASP) price band for 2020; also, the ASP for 5G smartphones will drop to US\$ 465 in 2024.

Exhibit 9: Global smartphone shipment and growth



Source(s): IDC

Exhibit 10: 5G Smartphone market share estimates for 2020



Source(s): IDC

The number of cameras per smartphone rises

The number of cameras per smartphone has increased to improve use experience in taking pictures and videos, in addition to supporting 3D-sensing feature. 3D sensing camera can recognize users facially and unlock smartphones. Users are more willing to share their pictures and short videos on social networking platforms to connect with friends and peers. Increased functions and better user experience have boosted demand for optical lenses. Consumers are seeking for quality smartphone cameras with large image size, larger aperture, and higher megapixels with miniaturized structure. Multi-camera smartphones with multi-focal length lenses are becoming more popular.

Exhibit 11: Multi-camera smartphone



Source(s): the Company

Exhibit 12: Smartphone with 3D sensing camera for facial recognition



Source(s): the Company

Vehicles are installed with more cameras to improve safety

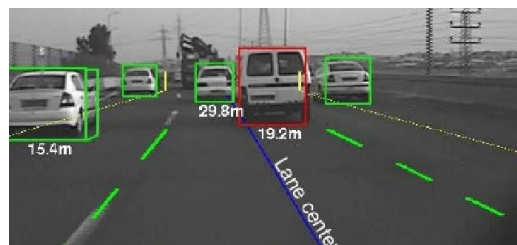
Nowadays, vehicles are equipped cameras to provide a much safer and pleasant driving experiences. The latest vehicle models are mostly equipped with advanced driver assistance systems (“ADAS”) that improve safety and collision prevention function. Due to increasing awareness of road safety, the penetration rate of ADAS has been increasing rapidly. Many countries are imposing new regulations to let all new vehicles to equip with road safety systems. Modern vehicles are equipped with more cameras for parking, obstacles detection, safety, security, and surveillance. Drivers can get the top-down view with better vision and surroundings when parking. Internal camera may also be installed to check for driver’s fatigue condition. Autonomous driving is expected to be the coming trend in the future, which requires even more cameras with the integration of AI and 5G telecom network.

Exhibit 13: Vehicle parking camera



Source(s): the Company

Exhibit 14: Vehicle with autonomous driving camera view



Source(s): the Company



Peer Comparison

Sunny's comparative peers in the market include Q Technology (1478 HK), Cowell e Holdings Inc (1415 HK) and Largan Precision (3008 TT). Compared to competitors, Sunny is more dependent on Android smartphone makers; in contrast, many competitors supplied product components to Apple (AAPL)'s iPhone. Q Technology recorded the highest revenue growth in 1H20 due to its increased contribution of fingerprint sensor module in shipment and new customer acquisition.

Sunny has the highest ROAE ratio but relative low ROAA ratio compared to its peers in 1H20, due to its financial leverage.

Exhibit 15: Key financial comparison table of Sunny, Cowell, Largan in 1H20

	Sunny 2382 HK	Cowell 1415 HK	Largan 3008 TT	Q Tech 1478 HK
Revenue (YoY growth)	21.1%	58.9%	8.0%	73.9%
Net profit (YoY growth)	22.2%	3,355.7%	1.0%	85.5%
Gross margin	19.5%	15.9%	69.2%	8.3%
Net margin	9.3%	9.2%	45.3%	3.8%
R&D expenses/ Total revenue	5.7%	15.8%	7.0%	3.3%
Total liabilities/ Total assets	55.9%	22.2%	23.5%	72.2%
ROAA	5.6%	6.6%	7.0%	4.2%
ROAE	12.8%	8.7%	9.2%	10.6%

Source(s): Companies



Financial forecasts

Sunny's products are being used in smartphones, vehicles, optical instruments, tablets, etc. It has three major business segments, including (1) optical components; (2) optoelectronic products; and (3) optical instruments.

Sunny has made a number of breakthroughs in optical lens innovations, which include the ultra-large image size and the 10-time optical zoom handset lens sets. As the proportion of higher pixel optical lens increases, so does the ASP. Sunny has started to mass produce the 64-megapixel large aperture (1/1.7") handset lens sets, the ultra-miniaturized head (head size is 1.865 mm) handset lens sets, and the five-time optical zoom handset lens sets. It has completed the development of AR head-up display and eight-megapixel (front, side, and rear view) lenses in vehicles.

(1) Optical components business

The optical components business accounted for 23.3% of the Company's total revenue in 2019. Sunny's optical components business mainly focuses on smartphone and vehicles optical lens. The optical components business produces spherical glass lenses, handset lens sets, vehicle lens sets, and other lens sets. The Company's optical components business revenue grew 46.4% YoY in 2019 and 2.4% YoY in 1H20, driven by mid and high-end smartphone market and vehicle market demand.

With the increasing demand of multi-camera demand from smartphone and vehicles, we expect Sunny's optical components business revenue to grow at a CAGR of 19.7% in 2019-22E.

(2) Optoelectronic products business

The optoelectronic products business is the Company's core business, which accounted for 76.0% of total revenue in 2019. In this business segment, its products mainly involve handset camera modules and other optoelectronic products. Sunny would customize optical lens assembly modules for customers' specified design in smartphones. The sizes of camera lens structure are getting slimmer and more miniaturized, which makes it more difficult to produce and design. The specifications of smartphone cameras are upgrading with higher pixels and larger aperture with multi-cameras. 3D-sensing cameras are becoming common in modern smartphone models.

The Company introduced the on-line assembly ("OLA"), which used automatic loading and unloading and material transfer methods to achieve automatic production from chip on board ("COB") to active alignment ("AA"). Sunny's self-developed automated array camera assembly ("ACA") has also been put into use, which can reduce the variance in the assembly process, improve the attachment precision, and achieve online production.

The Company's optoelectronic products business revenue grew 46.6% YoY in 2019 and 27.3% YoY in 1H20, driven by ASP improvement and shipment growth. We project Sunny's optoelectronic products business revenue to grow at a CAGR of 16.2% in 2019-22E.



(3) Optical instruments business

The optical instruments business accounted for 0.7% of the Company's total revenue in 2019. The optical instruments are mainly produced for scientific usage and research. The Company's optical instruments revenue dropped 5.0% YoY in 2019 and 3.9% YoY in 1H20, affected by fierce market competition and slowdown in market demand. Affected by the global economy downturn in 2020E, international corporations and enterprises may reduce expenses for scientific usage in 2020-21E. We estimate the Company's optical instruments revenue to decline at a CAGR of 2.5% in 2019-22E.

Exhibit 16: Sunny's product shipments and ASP estimates

	2018	2019	2020E	2021E	2022E
(1) Optical components					
Shipments (mn)	1,079.8	1,484.4	1,687.7	2,008.4	2,309.6
YoY	51.7%	37.5%	13.7%	19.0%	15.0%
ASP (RMB)	5.6	5.9	6.2	6.4	6.6
YoY	(7.7%)	6.5%	4.5%	3.5%	2.0%
(2) Optoelectronic products					
Shipments (mn)	433.5	589.7	653.4	757.9	864.0
YoY	30.2%	36.0%	10.8%	16.0%	14.0%
ASP (RMB)	45.2	48.8	50.2	51.2	52.2
YoY	(15.3%)	7.8%	3.0%	2.0%	1.9%
(3) Optical instruments					
Shipments (mn)	0.208	0.197	0.190	0.186	0.182
YoY	(0.8%)	(5.3%)	(3.5%)	(2.5%)	(2.0%)
ASP (RMB)	1,438.6	1,443.7	1,448.0	1,449.5	1,450.9
YoY	3.1%	0.4%	0.3%	0.1%	0.1%

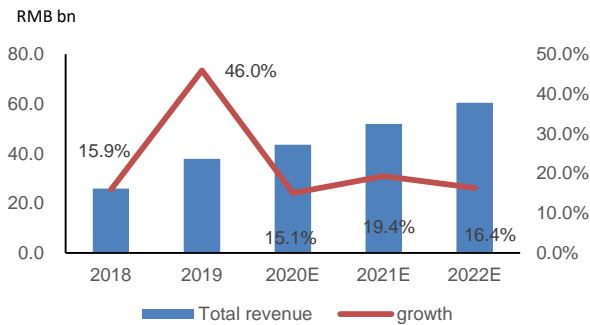
Source(s): Company, ABCI Securities estimates



Total revenue to grow at a CAGR of 16.9% in FY19-22E.

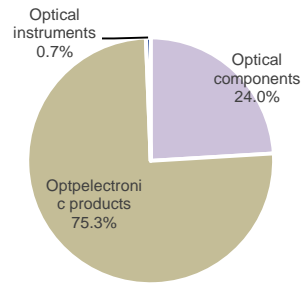
Total revenue grew 21.1% YoY in 1H20 because of solid demand from smartphones and vehicles. We expect the recent 5G smartphone replacement cycle to stimulate demand for multi-camera modules with better qualities (multiple focal lengths, higher pixels, and larger aperture, etc.). Driven by multi-camera demand in smartphones and vehicles with specifications upgrade, we forecast the Company's revenue to grow at a CAGR of 16.9% in FY19-22E.

Exhibit 17: Sunny's total revenue and growth



Source(s): the Company, ABCI Securities estimates

Exhibit 18: Sunny's total revenue breakdown for 2020E



Source(s): the Company, ABCI Securities estimates

Gross margin is expected to improve by 0.7ppt YoY in 2021E

The Company's gross margin raised 1.1ppt YoY to 19.5% in 1H20, driven by increased contribution of high-end camera lens. The latest smartphones are usually equipped with higher-pixel camera lens with more features which suits for users' preferences for selfies and social networking demand. We expect vehicle optical lens quality to upgrade in a bid to improve driving safety and for autonomous driving. Driven by high-end camera lens demand and better product mix, we forecast gross margin to edge up by 0.7ppt/ 0.4ppt YoY to 21.2%/21.6% in 2021-22E.

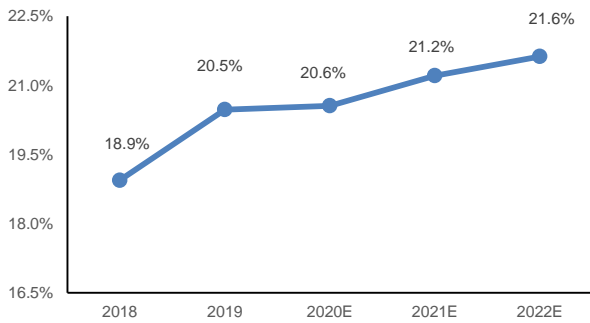
Exhibit 19: Sunny's gross profit margins of major business segments:

	2018	2019	1H19	1H20	2020E	2021E	2022E
Optical components	41.5%	45.2%	44.1%	41.5%	46.2%	46.7%	47.0%
Optoelectronic products	8.4%	9.3%	5.9%	11.1%	12.2%	12.6%	13.0%
Optical instruments	40.5%	41.3%	41.2%	38.6%	41.5%	41.7%	41.8%

Source(s): Company, ABCI Securities estimates

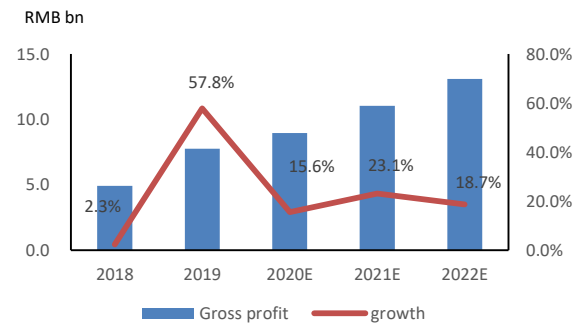


Exhibit 20: Sunny's gross margin



Source(s): the Company, ABCI Securities estimates

Exhibit 21: Sunny's gross profit and growth

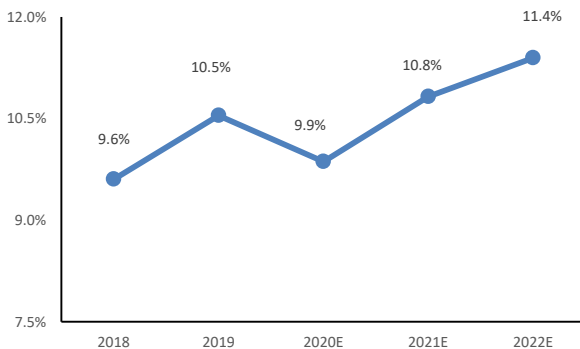


Source(s): the Company, ABCI Securities estimates

Net profit to grow at a CAGR of 20.0% in 2019-22E

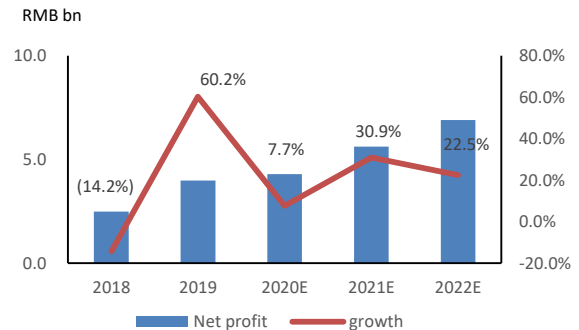
R&D expenses grew 29.2% YoY in 1H20, equivalent to 5.7% of revenue in 1H20 (up 0.4ppt YoY). R&D expenses-to-revenue ratio is expected to rise 0.8ppt YoY to 6.6% in 2020E due to the launch of high-end camera lenses. Thanks to cost-control effort amid significant rise in R&D expenses, Sunny's net margin rose 0.2ppt YoY to 9.4% in 1H20. We expect net margin to improve 1.0ppt YoY to 10.8% in 2021E on higher product ASP and scale effect of increased optical shipments. We forecast the Company's net profit to grow at a CAGR of 20.0% in 2019-22E.

Exhibit 22: Sunny's net margin



Source(s): the Company, ABCI Securities estimates

Exhibit 23: Sunny's net profit and growth



Source(s): the Company, ABCI Securities estimates



Valuations

Recommend BUY with TP at HK\$220.0

We derive the Company's TP at HK\$220.0 based on the DCF model analysis (WACC: 12.4%; perpetuity growth rate: 2.4%). Our TP represents 36.5x/29.8x 2021-22E P/E. We initiate the Company with a **BUY** rating.

Exhibit 24: Peers Comparison Table

Company	Ticker	Currency	Price*	P/E				P/B				ROE		ROA	
				19A	20E	21E	22E	19A	20E	21E	22E	20E	21E	20E	21E
Q Tech	1478 HK	HKD	13.58	17.9	12.9	10.8	9.1	3.5	2.7	2.3	1.9	22.8	22.7	6.2	6.3
AAC Tech	2018 HK	HKD	44.30	21.7	26.1	17.0	14.1	2.5	2.3	2.1	1.9	9.3	13.0	5.4	7.6
Sunny Optical	2382 HK	HKD	177.00	35.5	31.2	24.3	19.9	11.5	8.6	6.6	5.2	29.6	30.2	13.7	14.9
Cowell	1415 HK	HKD	5.82	14.2	7.1	5.8	5.1	1.2	1.7	1.5	1.4	21.1	29.5	14.6	19.8
Goertek	002241 CH	RMB	36.74	112.7	54.4	38.5	30.5	8.9	7.7	6.5	5.5	14.7	17.7	6.3	7.8
Luxshare	002475 CH	RMB	54.07	85.8	55.2	39.1	30.1	20.0	10.5	10.7	8.1	27.0	28.4	12.2	13.4
OFILM Group	002456 CH	RMB	13.36	88.1	33.6	24.8	19.2	4.8	4.2	3.6	3.0	12.0	14.3	3.2	4.1
Largan Precision	3008 TT	TWD	3,350.00	15.7	17.5	15.5	13.5	3.5	3.2	2.8	2.4	19.0	19.2	15.9	15.6
Average				49.0	29.8	22.0	17.7	7.0	5.1	4.5	3.7	19.4	21.9	9.7	11.2

*Based on closing price on Jan 4, 2020

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.

Business may be affected by trade tension

International trade tension or disputes may affect the Company's product shipments.

Over-dependence risk

Most of Sunny's revenue was generated from optical lens products. If there is a downturn in demand for optical lens, the Company's revenue would be significantly and adversely impacted.

Business may be affected if smartphone shipments slows down

Sunny generated over 86.6% of its revenue from mobile phone related products in 2019. If the mobile phone shipments slows down, the Company's revenue growth would be severely affected.



Financial Statements

Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Optical components revenue	6,023	8,815	10,474	12,900	15,132
Optoelectronic products revenue	19,609	28,748	32,809	38,819	45,095
Optical instruments revenue	300	285	276	269	264
Total revenue	25,932	37,849	43,559	51,989	60,491
Cost of revenue	(21,019)	(30,098)	(34,603)	(40,961)	(47,406)
Gross profit	4,913	7,751	8,956	11,028	13,085
Selling and distribution expenses	(210)	(279)	(321)	(312)	(302)
R&D expenses	(1,362)	(2,209)	(2,875)	(3,275)	(3,750)
Admin expenses	(434)	(650)	(749)	(893)	(1,040)
Finance costs	(202)	(250)	(189)	(170)	(153)
Others	146	188	76	37	20
Profit before tax	2,851	4,550	4,899	6,415	7,859
Tax	(339)	(531)	(572)	(749)	(917)
Profit after tax	2,513	4,019	4,327	5,666	6,942
Shareholders' profit	2,491	3,991	4,297	5,627	6,894
Non-controlling interests	22	28	30	40	48
EPS (RMB)	2.279	3.648	3.918	5.130	6.285
DPS (RMB)	0.568	0.728	0.712	0.932	1.142

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
PPE	4,523	6,567	9,752	13,257	17,041
Others	1,561	1,680	1,265	1,287	1,623
Total non-current assets	6,084	8,247	11,018	14,543	18,664
Bank balance and cash	2,254	1,917	1,726	1,553	1,398
Inventories	3,074	5,146	5,918	6,806	7,826
Others	11,440	15,383	16,589	17,894	19,307
Total current assets	16,768	22,446	24,232	26,253	28,531
Total assets	22,852	30,693	35,250	40,796	47,195
Trade and bill payables	7,064	11,322	12,001	12,721	13,484
Others	1,614	1,309	1,181	1,066	963
Total current liabilities	8,677	12,630	13,182	13,787	14,447
Deferred tax liabilities	403	685	719	755	793
Bond payable	4,080	4,156	4,364	4,582	4,811
Others	403	496	694	712	464
Total non-current liabilities	4,887	5,336	5,777	6,049	6,068
Total liabilities	13,564	17,967	18,959	19,836	20,515
Total equity	9,288	12,726	16,292	20,960	26,680

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Operating profit before tax	2,851	4,550	4,899	6,415	7,859
Others	717	111	(766)	(911)	(1,075)
Operating cash flow	3,568	4,662	4,132	5,504	6,785
CAPEX	(2,134)	(2,770)	(3,186)	(3,504)	(3,785)
Others	(3,365)	(786)	(239)	(212)	(187)
Investing cash flow	(5,499)	(3,556)	(3,424)	(3,716)	(3,972)
Dividends paid	(725)	(623)	(781)	(1,022)	(1,252)
Others	3,682	(818)	(112)	(101)	(91)
Financing cash flow	2,957	(1,441)	(893)	(1,123)	(1,343)
Net increase in cash and cash equivalents	1,025	(336)	(185)	665	1,470
Cash and cash equivalents at beginning of year	1,227	2,254	1,917	1,731	2,395
FX change effect	2	(2)	(1)	(1)	(1)
Cash and cash equivalents at end of year	2,254	1,917	1,731	2,395	3,864

Source(s): Company, ABCI Securities estimates

Financial ratios (2018A-2022E)

As of Dec 31	2018A	2019A	2020E	2021E	2022E
YoY Growth:					
Revenue	15.9%	46.0%	15.1%	19.4%	16.4%
Gross profit	2.3%	57.8%	15.6%	23.1%	18.7%
Net profit	(14.2%)	60.2%	7.7%	30.9%	22.5%
Profitability ratios:					
ROAE	29.6%	36.3%	29.6%	30.2%	28.9%
ROAA	12.9%	14.9%	13.0%	14.8%	15.7%
Costs ratio:					
R&D expenses/ revenue	5.3%	5.8%	6.6%	6.3%	6.2%
Selling and distribution expenses/ revenue	0.8%	0.7%	0.7%	0.6%	0.5%
Administrative expenses/ revenue	1.7%	1.7%	1.7%	1.7%	1.7%
Margins:					
Gross profit margin	18.9%	20.5%	20.6%	21.2%	21.6%
Net profit margin	9.6%	10.5%	9.9%	10.8%	11.4%

Source(s): Company, ABCI Securities estimates



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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-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 2008-19 CAGR at 10%)

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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