

Last Closing: HK\$13.46

Upside: +18.9%

Target Price: HK\$16.00 ↑

Technology Sector

## Sunny Optical (2382.HK)

**FY14 results in line; positive 2015 outlook**

UP MP OP

### Financial Highlights

YE 31 Dec (RMBm)	FY12	FY13	FY14	FY15E	FY16E
Revenue	3,984	5,813	8,426	11,450	13,725
Net Profit	346	440	566	794	933
Net EPS (RMB)	0.346	0.435	0.516	0.724	0.850
YoY Growth (%)	61	26	19	40	17
PER	31.8	25.3	21.4	15.2	13.0
DPS (HK\$)	0.13	0.16	0.19	0.26	0.31
Dividend Yield (%)	1.0	1.2	1.4	2.0	2.3

Source: Company data, BOCOM Int'l estimates

- Results largely in line.** Sunny Optical's net profit increased by 28.5% YoY to RMB566m in FY14, largely in line with our estimate. Revenue surged by 45% YoY to RMB8.4bn, mainly driven by the key Optoelectronics Products (up 54% YoY). Blended gross margin expanded to 15.9% in 2H14 from 14.6% in 1H14, mainly supported by margin recovery across Optoelectronics Products (10.9% in 1H vs. 12% in 2H) and Optical Instrument (35.9% in 1H vs. 37.7% in 2H). A final dividend of RMB0.155 was recommended, implying 30% payout ratio, similar to historical level.
- HLS and VLS as key growth drivers in 2015.** Handset Lens Set (HLS) and Vehicle Lens Set (VLS) continued the healthy growth momentum in 2014, with shipment volume soaring by 117% and 100% YoY, respectively. Looking forward to 2015, HLS will continue the robust growth trend, with shipment growth at 50%+ as per management guidance. In addition, the proportion of high resolution (8MP, 10MP+) reached 19% and 2% in 2014, respectively, and is expected to further advance in 2015. For VLS, Sunny is on the way to further enhancing its leading market position. As boosted by HLS and VLS, management expects gross margin for Optical Component to achieve a 2-ppt expansion in 2015.
- HCM growth to normalize ahead.** Handset Camera Module (HCM)'s shipment surged by 41% YoY to 187mn units in 2014, with the proportion of high resolution (8MP and 10MP+) reaching 24.7% and 15.7%, respectively. Looking forward, shipment growth is expected to normalize at 20-30% in 2015, which is in line with the slowdown in the overall smartphone market. Meanwhile, with further enhancement in high resolution and high end features (like dual camera and OIS), average selling price will continue the uptrend in 2015 with gross margin stabilized at current levels.
- Maintain BUY rating and raise target price to HK\$16.0.** In view of the positive 2015 outlook as supported by the key HCM market and HLS & VLS markets, Sunny intends to incur RMB400m CAPEX in 2015 (RMB100m in HLS capacity expansion, RMB150m in HCM, and RMB30-50m in VLS capacity expansion). We raise our FY15/16E net profit forecasts by 5.7%/6.7% to reflect the better growth outlook and gross margin assumption. We maintain Buy rating on the counter and lift target price to HK\$16.0, rolling forward to 18X FY15E P/E.



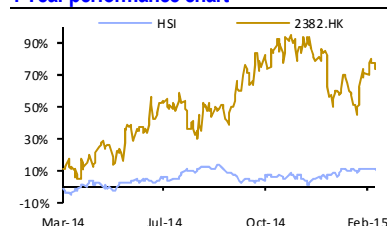
- Results largely in line
- HLS and VLS as key growth drivers in 2015
- Maintain BUY rating and raise target price to HK\$16.0

### Stock data

52w High	14.50
52w Low	7.02
Market cap (HK\$m)	14,765.62
Issued shares (mn)	1,097.00
Avg daily vol (m)	4.52
1-mth change (%)	24.86
YTD change (%)	0.60
50d MA	12.03
200d MA	11.65
14-day RSI	68.3

Source: Company data, Bloomberg

### 1 Year performance chart



Source: Company data, Bloomberg

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**Figure 1: FY2014 Results Highlights**

(RMBm)	FY13	FY14	YoY Chg (ppt)	2H13	1H14	2H14	YoY Chg (ppt)	HoH Chg (ppt)
<b>Revenue</b>	<b>5,813</b>	<b>8,426</b>	<b>45</b>	<b>3,027</b>	<b>3,836</b>	<b>4,590</b>	<b>52</b>	<b>20</b>
Gross profit	967	1,289	33	527	562	728	38	30
S&D expenses	-88	-89	2	-46	-43	-46	1	8
G&A expenses	-166	-231	39	-86	-101	-130	52	29
R&D expenses	-251	-392	56	-149	-149	-243	63	63
Finance costs	-7	-14	112	-5	-7	-7	41	-7
<b>Profit Before Taxation</b>	<b>504</b>	<b>634</b>	<b>26</b>	<b>269</b>	<b>301</b>	<b>333</b>	<b>24</b>	<b>11</b>
Income tax expenses	-64	-73	14	-23	-47	-26	12	-44
<b>Net Profit</b>	<b>440</b>	<b>566</b>	<b>29</b>	<b>244</b>	<b>257</b>	<b>309</b>	<b>27</b>	<b>20</b>
Net EPS (RMB)	0.44	0.52	19	0.24	0.23	0.28	16	20

Source: Company data, BOCOM Int'l

**Figure 2: FY2014 Key Margins and Ratios (%)**

Margins & Ratios (%)	FY13	FY14	YoY Chg (ppt)	2H13	1H14	2H14	YoY Chg (ppt)	HoH Chg (ppt)
Gross margin	16.6	15.3	-1.3	17.4	14.6	15.9	-1.5	1.2
EBIT margin	8.7	7.5	-1.2	8.9	7.8	7.3	-1.6	-0.6
S&D expenses to revenue	-1.5	-1.1	0.5	-1.5	-1.1	-1.0	0.5	0.1
G&A expenses to revenue	-2.9	-2.7	0.1	-2.8	-2.6	-2.8	0.0	-0.2
R&D expenses to revenue	-4.3	-4.7	-0.3	-4.9	-3.9	-5.3	-0.4	-1.4
OPEX to revenue ratio	-8.7	-8.5	0.2	-9.3	-7.6	-9.1	0.1	-1.5
Effective tax rate	-12.6	-11.5	1.1	-8.6	-15.6	-7.8	0.8	7.8
Net margin	7.6	6.7	-0.9	8.0	6.7	6.7	-1.3	0.0

Source: Company data, BOCOM Int'l

**Figure 3: FY2014 Segment revenue**

(RMBm)	FY13	FY14	YoY Chg (%)	2H13	1H14	2H14	YoY Chg (%)	HoH Chg (%)
Optical Component	1,164	1,403	21	600	585	818	36	40
Optoelectronic products	4,416	6,803	54	2,297	3,139	3,665	60	17
Optical Instrument	233	221	-5	131	113	108	-17	-4
<b>Total Revenue</b>	<b>5,813</b>	<b>8,426</b>	<b>45</b>	<b>3,027</b>	<b>3,836</b>	<b>4,590</b>	<b>52</b>	<b>20</b>

Source: Company data, BOCOM Int'l

**Figure 4: FY2014 Segment gross margin**

(Margins & Ratios %)	FY13	FY14	YoY Chg (ppt)	2H13	1H14	2H14	YoY Chg (ppt)	HoH Chg (ppt)
Optical Component	24.6	26.7	2.1	26.3	26.6	26.8	0.5	0.2
Optoelectronic products	12.6	11.5	-1.1	13.1	10.9	12.0	-1.0	1.1
Optical Instrument	37.3	36.8	-0.5	37.8	35.9	37.7	0.0	1.8
<b>Blended gross margin</b>	<b>16.6</b>	<b>15.3</b>	<b>-1.3</b>	<b>17.4</b>	<b>14.6</b>	<b>15.9</b>	<b>-1.5</b>	<b>1.2</b>

Source: Company data, BOCOM Int'l

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Buy: Expect more than 20% upside in 12 months

LT Buy: Expect more than 20% upside but longer than 12 months

Neutral: Expect low volatility

Sell: Expect more than 20% downside in 12 months

**Sector Rating**

Outperform ("OP"): Expect more than 10% upside in 12 months

Market perform ("MP"): Expect low volatility

Underperform ("UP"): Expect more than 10% downside in 12 months

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