

## Sunny Optical (2382 HK)

**Buy** (maintained)

Target price: HK\$15.69



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Upbeat guidance for 2015

**What's new?** Sunny Optical's management has given upbeat guidance for growth in 2015, reinforcing market expectation of over 30% YoY earnings growth during the year.

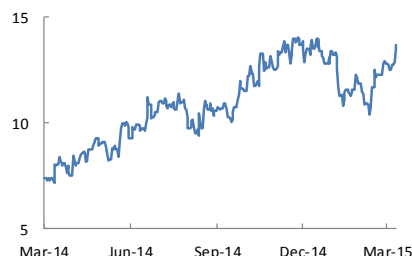
**Strong volume growth for core handset camera modules to continue in 2015** Sales in the company's core optoelectronic division, which accounted for 81% of sales, mainly of handset camera modules (HCM), grew 53% YoY in 2014, driven by robust volume growth of 42% YoY during the year. Management is upbeat on the outlook for 2015 and has given guidance for 20-30% YoY volume growth for HCMs this year, underpinned by demand from China's smartphone market. The company's top five customers are **Huawei, Xiaomi, Lenovo, Oppo** and **Coolpad** (2369 HK, Underperform). Huawei is its single largest customer, accounting for about 16% of group sales. We believe this target is achievable given the robust shipment growth targets at its key smartphone customers. Sunny's HCM shipments in Jan-Feb 2015 was strong (+68% YoY; see figure 6).

**We expect a moderate expansion of blended gross profit margin in 2015** The company's blended gross profit margin has been on a downtrend due to rapid change in sales mix since 2011. Sales of optoelectronic products accounted 81% of sales in 2014, up from 45% in 2011. Blended gross profit margin was on a downtrend as HCM products have a low-teen gross profit margin (11.5% in 2014), compared to 26.7% for optical components and 36.8% for optical instruments divisions. Nonetheless, we expect the downtrend to cease in 2014 as management has given guidance that 1) GPM for HCMs bottomed out in 2014, and; 2) GPM for optical components will continue to improve by over two percentage points in 2015. We expect a moderate increase in blended gross profit margin to 15.6% in 2015, up from 15.3% in 2014 (see figure 2).

**We expect over 30% YoY earnings growth in 2015** We have raised our 2015 earnings forecast by 3% after revising up our sales estimates. Overall, we expect Sunny Optical to deliver 29% top-line growth to Rmb10.9bn and 33% YoY earnings growth to Rmb753m in 2015. The stock is trading at 15.4x 2015E P/E. We raise our target price from HK\$15.05 to HK\$15.69 (17% upside), based on an unchanged 18x 2015 target P/E and our revised 2015 EPS estimates. We reiterate our Buy rating.

**Key risks** Slowdown in China's smartphone market; poor production yields for its in-house lens sets.

### Stock performance (HK\$)



Source: Bloomberg

### Key data

Mar 10 close (HK\$)	13.46
Share in issue (m)	1,097
Major shareholder	Ye Liaoning (42.4%)
Market cap (HK\$b)	14.8
3M avg. vol. (m)	5.1
52W high/low (HK\$)	14.50 / 7.02

Source: Bloomberg

### Stock valuation

	Turnover (Rmb m)	YoY chg (%)	Net profit (Rmb m)	EPS (Rmb)	YoY chg (%)	P/E (x)	P/B (x)	Dividend Yield (%)	ROE (%)	Net gearing (%)
2013	5,813	46	441	0.44	23	24.7	3.8	1.1	18.5	cash
2014	8,426	45	566	0.52	20	20.5	3.6	1.4	18.6	cash
2015E	10,880	29	753	0.70	33	15.4	3.1	1.9	21.4	cash
2016E	12,370	14	833	0.77	11	14.0	2.7	2.1	20.5	cash
2017E	13,501	9	912	0.84	9	12.7	2.3	2.4	20.5	cash

Sources: Company data, GF Securities (HK)

Note: Calculated based on diluted shares.

Figure 1: 2014 results summary

(Rmb m)	2013	2014	YoY chg	1H13	2H13	1H14	2H14	YoY chg	Remarks
<b>Turnover by segment</b>									
Optical components	1,164	1,403	20%	633	531	671	731	38%	
Optoelectronic products	4,416	6,803	54%	2,144	2,272	3,139	3,665	61%	Mostly handset camera modules
Optical instruments	233	221	-5%	102	130	114	106	-18%	
<b>Total turnover</b>	<b>5,813</b>	<b>8,426</b>	<b>45%</b>	<b>2,786</b>	<b>3,027</b>	<b>3,836</b>	<b>4,591</b>	<b>52%</b>	
<b>Gross profit</b>	<b>967</b>	<b>1,289</b>	<b>33%</b>	<b>440</b>	<b>527</b>	<b>562</b>	<b>728</b>	<b>38%</b>	
Gross margin (%)	16.6	15.3		15.8	17.4	14.6	15.9		Blended GPM declined due to rise in low-margin handset camera modules
Other income/gains	50	70		22	28	39	31		
OPEX	(505)	(712)	41%	(224)	(281)	(293)	(420)	49%	
<b>Operating profit</b>	<b>512</b>	<b>647</b>	<b>26%</b>	<b>238</b>	<b>274</b>	<b>308</b>	<b>339</b>	<b>24%</b>	
Op. margin (%)	8.8	7.7		8.5	9.1	8.0	7.4		
<b>Pre-tax income</b>	<b>505</b>	<b>634</b>	<b>26%</b>	<b>236</b>	<b>269</b>	<b>301</b>	<b>333</b>	<b>24%</b>	
Taxation	(64)	(73)		(41)	(23)	(47)	(26)		
Effective tax (%)	13	11		17	9	16	8		
MI	(0)	5		2	(2)	3	2		
<b>Net profit</b>	<b>441</b>	<b>566</b>	<b>29%</b>	<b>197</b>	<b>244</b>	<b>257</b>	<b>310</b>	<b>27%</b>	Largely in line with street's estimate of Rmb265m
Net margin (%)	7.6	6.7		7.1	8.1	6.7	6.7		

Sources: Company data, GF Securities (HK)

Figure 2: blended gross profit margin

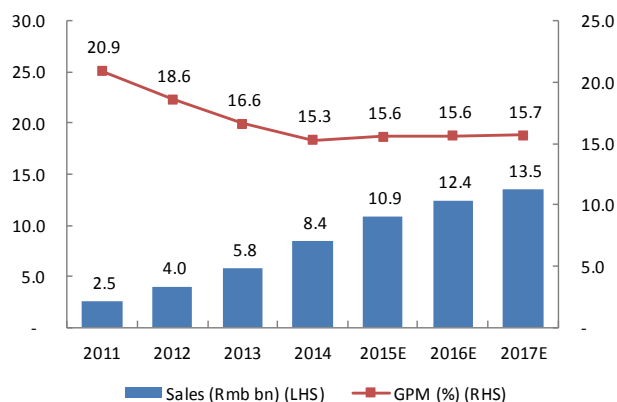
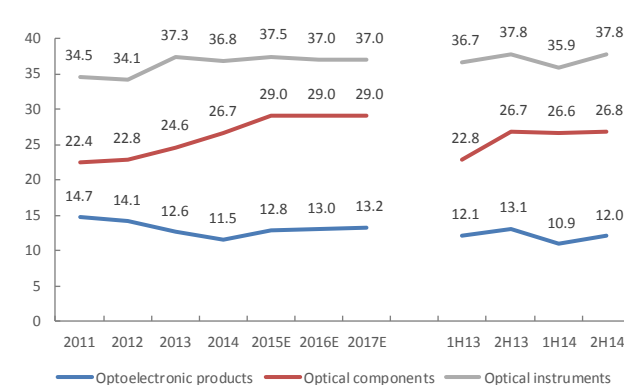


Figure 3: Gross profit margin by product (%)



Sources: Company data, GF Securities (HK)

Figure 4: Revenue by product

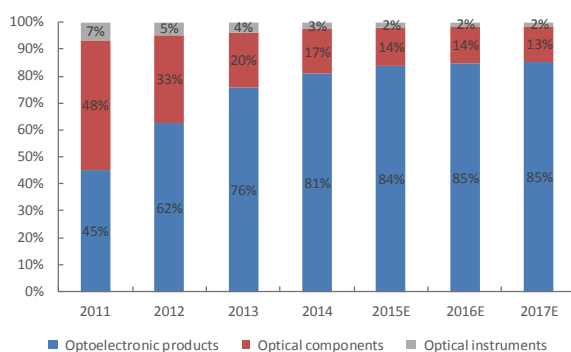
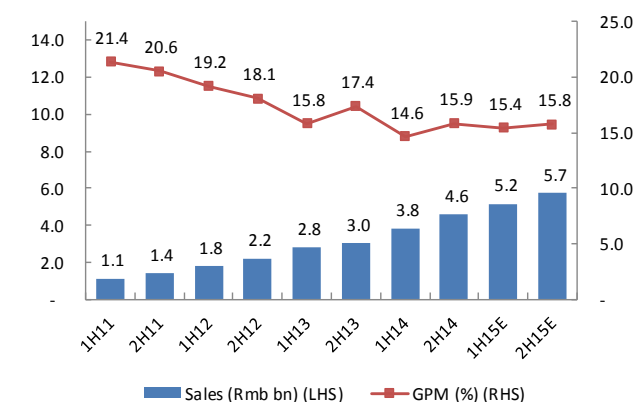


Figure 5: Half-yearly sales and blended gross profit margin



Sources: Company data, GF Securities (HK)

Figure 6: Monthly camera module shipments (m units)

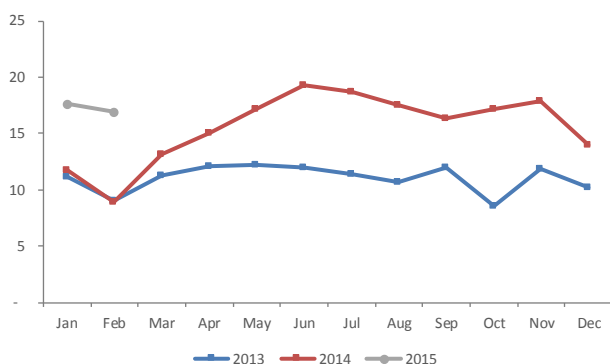
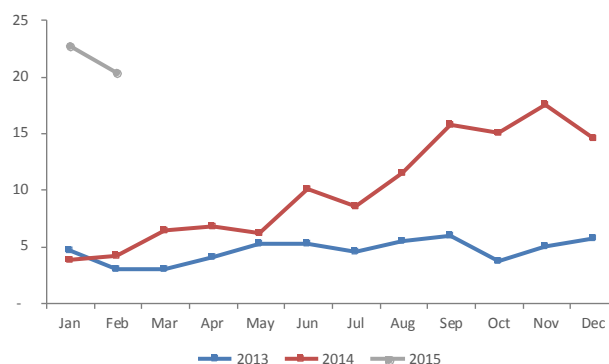


Figure 7: Monthly handset lens set shipments (m units)



Sources: Company data, GF Securities (HK)

Figure 8: Financial statements

Income Statement						Balance Sheet					
Year end Dec (Rmb m)	2013	2014	2015E	2016E	2017E	Year end Dec (Rmb m)	2013	2014	2015E	2016E	2017E
Optical components	1,164	1,403	1,576	1,702	1,788	Cash/ST Investments	709	766	915	1,242	1,660
Optoelectronic products	4,416	6,803	9,094	10,458	11,504	Account receivables	1,172	1,847	2,385	2,711	2,959
Optical instruments	233	221	210	210	210	Inventory	768	978	1,258	1,430	1,560
<b>Turnover</b>	<b>5,813</b>	<b>8,426</b>	<b>10,880</b>	<b>12,370</b>	<b>13,501</b>	Other Current Assets	1,118	1,118	1,118	1,118	1,118
Cost of sales	(4,846)	(7,137)	(9,183)	(10,439)	(11,387)	<b>Total current assets</b>	<b>3,766</b>	<b>4,709</b>	<b>5,675</b>	<b>6,501</b>	<b>7,297</b>
<b>Gross profit</b>	<b>967</b>	<b>1,289</b>	<b>1,697</b>	<b>1,931</b>	<b>2,114</b>	Prop, plant and equipment	785	935	1,056	1,158	1,260
Other income/gains	50	70	80	50	50	Intangible assets	0	0	0	0	0
Selling & distribution exp.	(88)	(89)	(114)	(136)	(149)	Other LT Assets	114	114	114	114	114
R&D	(251)	(392)	(499)	(557)	(608)	<b>Total Assets</b>	<b>4,665</b>	<b>5,757</b>	<b>6,845</b>	<b>7,773</b>	<b>8,671</b>
Admin exp.	(166)	(231)	(294)	(334)	(365)	ST Debt	489	489	489	489	489
Other expenses	-	-	-	-	-	Trade payables	1,257	1,955	2,516	2,860	3,120
<b>Operating profit</b>	<b>512</b>	<b>647</b>	<b>870</b>	<b>954</b>	<b>1,044</b>	Other Current Liabilities	36	36	36	36	36
Finance costs	(7)	(14)	(14)	(7)	(7)	<b>Total current liabilities</b>	<b>1,782</b>	<b>2,480</b>	<b>3,041</b>	<b>3,385</b>	<b>3,644</b>
Share of profits	(1)	1	-	-	-	LT Debt	-	-	-	-	-
<b>Pre-tax income</b>	<b>505</b>	<b>634</b>	<b>856</b>	<b>947</b>	<b>1,037</b>	Other LT Liab	23	23	23	23	23
Taxation	(64)	(73)	(103)	(114)	(124)	Minority Interests	10	5	5	5	5
MI	(0)	5	-	-	-	Shareholders' Equity	2,850	3,249	3,776	4,359	4,998
<b>Net profit</b>	<b>441</b>	<b>566</b>	<b>753</b>	<b>833</b>	<b>912</b>	<b>Total Equity &amp; liabilities</b>	<b>4,665</b>	<b>5,757</b>	<b>6,845</b>	<b>7,773</b>	<b>8,671</b>

Cash Flow Statement						Financial Ratio					
Year end Dec (Rmb m)	2013	2014	2015E	2016E	2017E		2013	2014	2015E	2016E	2017E
Pretax profit	505	634	856	947	1,037	<b>Margins</b>					
Tax Paid	(64)	(73)	(103)	(114)	(124)	Gross margin (%)	16.6	15.3	15.6	15.6	15.7
Depr/Amort	147	150	179	198	198	EBITDA margin (%)	11.3	9.5	9.6	9.3	9.2
Change in working capital	28	(187)	(257)	(155)	(118)	EBIT margin (%)	8.8	7.7	8.0	7.7	7.7
Others	52	-	-	-	-	Net margin (%)	7.6	6.7	6.9	6.7	6.8
<b>Operational cash flow</b>	<b>668</b>	<b>525</b>	<b>675</b>	<b>877</b>	<b>992</b>	<b>Return/Profitability</b>					
Capex	(319)	(300)	(300)	(300)	(300)	ROA (%)	11.5	10.9	12.0	11.4	11.1
Assoc, MI, Invsmt	(721)	-	-	-	-	ROE (%)	18.5	18.6	21.4	20.5	19.5
<b>Investment cash flow</b>	<b>(1,039)</b>	<b>(300)</b>	<b>(300)</b>	<b>(300)</b>	<b>(300)</b>	<b>Balance sheet</b>					
Net Change in Debt	386	-	-	-	-	Net gearing	cash	cash	cash	cash	cash
New Capital	617	-	-	-	-	Current ratio (x)	2.1	1.9	1.9	1.9	2.0
Dividend	(105)	(167)	(226)	(250)	(274)	<b>Working capital</b>					
Others	(61)	-	-	-	-	Days receivable	74	80	80	80	80
<b>Financing cash flow</b>	<b>838</b>	<b>(167)</b>	<b>(226)</b>	<b>(250)</b>	<b>(274)</b>	Days inventory	58	50	50	50	50
FX and others	(1)	-	-	-	-	Days payable	95	100	100	100	100
Chg in Cash	466	57	149	327	419	<b>Others</b>					
Beginning cash	244	709	766	915	1,242	Effective tax (%)	12.6	11.5	12.0	12.0	12.0
<b>Ending cash</b>	<b>709</b>	<b>766</b>	<b>915</b>	<b>1,242</b>	<b>1,661</b>	Dividend payout ratio (%)	27.8	29.6	30.0	30.0	30.0

Sources: Company data, GF Securities (HK)

## Rating definitions

Benchmark: Hong Kong Hang Seng Index

Time horizon: 12 months

Company ratings	
<b>Buy</b>	Stock expected to outperform benchmark by more than 15%
<b>Accumulate</b>	Stock expected to outperform benchmark by more than 5% but not more than 15%
<b>Hold</b>	Expected stock relative performance ranges between -5% and 5%
<b>Underperform</b>	Stock expected to underperform benchmark by more than 5%
Sector ratings	
<b>Positive</b>	Sector expected to outperform benchmark by more than 10%
<b>Neutral</b>	Expected sector relative performance ranges between -10% and 10%
<b>Cautious</b>	Sector expected to underperform benchmark by more than 10%

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