

Company Report

Sunny Optical (2382 HK)

Promising outlook with accelerating upgrade trend

- Positive FY15 guidance to reaffirm strong shipment growth ahead
- Better profitability on fast-growing handset lens (Samsung, China OEM), auto lens (ADAS, regulations) and new applications (3D, AR)
- New FY15E/16E EPS 7-9% above consensus; Maintain BUY

HCM leadership to benefit from spec migration demand

We believe Sunny's technology leadership and continued R&D efforts will allow the company to benefit from HCM upgrade demand in China smartphones in 1H15. Mgmt guided 20-30% yoy volume growth in FY15E and ASP uptrend with higher adoption of advanced features. We believe Sunny's self-developed active-alignment (AA) equipment would widen the technology gap with peers, especially for 13MP+ products with OIS and dual cameras. We expect HCM FY15E/16E revenue growth of 33%/18% YoY, backed by strong shipment of 232mn/273mn (+25%/17% YoY).

Strong handset/auto lens business to drive GM upside

Following strong Jan/Feb handset/auto lens shipment (+68%/447% yoy), mgmt expects full-year growth of +50%/40% yoy to 180mn/16mn units with higher ASP, given mass production of 13MP and rampup of infrared vehicle lens sets. With higher contribution from handset/auto lenses (GPM: ~30%/40%) and improving HCM profitability, we expect Sunny's blended GPM to recover to 15.9%/16.6% in 1H15/2H15, vs 15.3% in FY14. We believe the two segments will deliver 33%/30% sales CARG FY15-17E, accounting for 34% of FY17E gross profit (vs 19% in FY13).

Valuation and risks

We slightly revised down our FY15-16E EPS to reflect lower HCM GPM in FY15/FY16. We maintain BUY on improving outlook with favourable upgrade tailwinds and strengthening industry leadership. Our revised SOTP-based TP of HK\$16.21 implies 16.4x FY15E P/E. Trading at 13.5x FY15 P/E (vs peers' 15x P/E), we believe Sunny's HCM leadership and strong handset/auto lens momentum will support further re-rating. Catalysts include monthly shipment data and faster spec migration. Downside risks include slower smartphone shipment and higher HCM competition.

Financials

RMB mn	2013	2014	2015E	2016E	2017E
Revenue	5,813	8,426	11,340	13,647	15,973
Growth (%)	46%	45%	35%	20%	17%
Net profit	440	566	825	1,014	1,256
Growth (%)	27%	29%	46%	23%	24%
EPS (RMB)	0.44	0.53	0.77	0.95	1.17
DPS (RMB)	0.11	0.12	0.18	0.22	0.28
P/E (x)	23.4	19.6	13.5	10.9	8.8
P/B (x)	3.6	3.4	2.9	2.4	2.0
ROE (%)	15.4%	17.4%	21.2%	21.0%	22.3%

Source: Company data, CMS (HK) estimates

Alex Ng
852-31896125
nglh@cmschina.com.hk

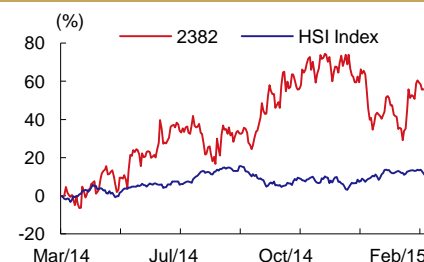
WHAT'S NEW

TP//Estimate revised

BUY

Previous	BUY
Price	HK\$13.46
12-month Target Price (Potential upside)	HK\$16.21 (20%)
Previous	HK\$16.7

Price Performance



Source: Bigdata

%	1m	6m	12m
2382 HK	21.5	18.8	78.8
HSI	(2.6)	(3.3)	7.3

Hardware Technology

Hang Seng Index	23897
HSCEI	11508

Key Data

52-week range (HK\$)	7.21-14.5
Market cap (HK\$ mn)	14165.7
Avg. daily volume	685.09
BVPS (HK\$)	2.56

Shareholdings Structure

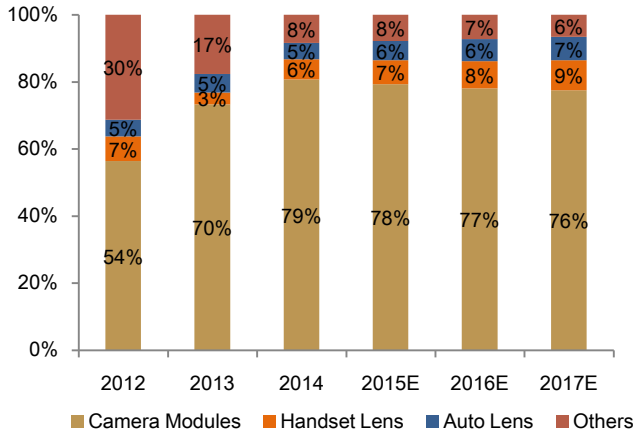
Sun Xu Limited	38.44%
Wellington Management Limited	4.98%
Value Partners Limited	4.97%
No. of shares outstanding	1097.0M
Free float	61.10%

Related Research

1. Sunny Optical (2382 HK) –Re-accelerating growth on multiple uptrends; Upgrade to BUY with TP HK\$16.7 (12/08/2014)

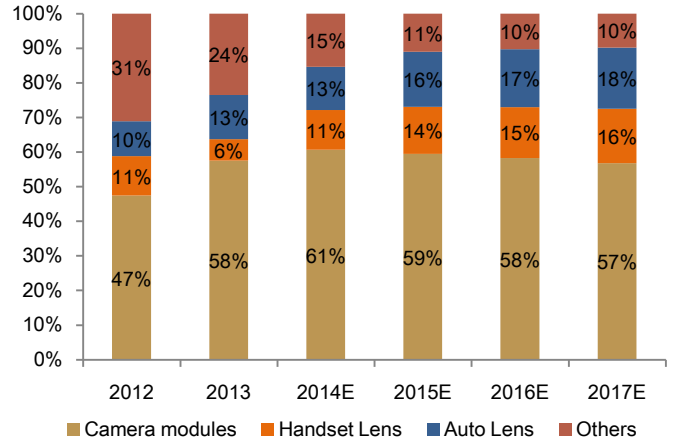
Focus charts

Figure 1: Sunny's revenue breakdown (HCM, handset lens, auto lens)



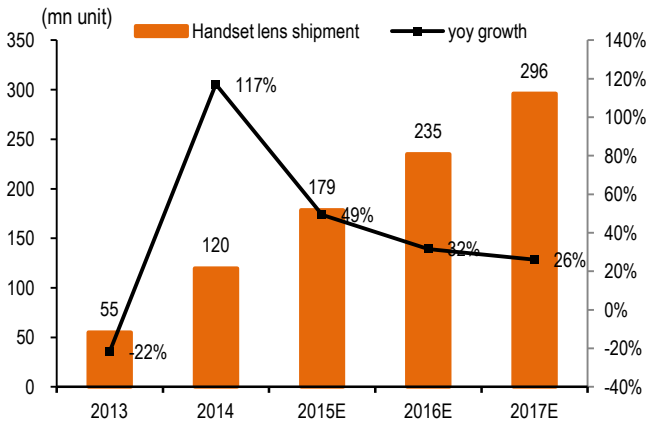
Source: Company, CMS (HK)

Figure 2: Handset/vehicle lenses will contribute 34% of FY17E gross profit



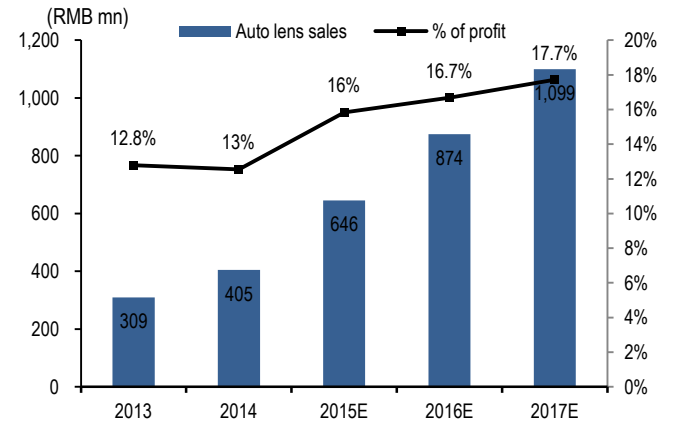
Source: Company, CMS (HK)

Figure 3: Handset lens shipment of 35% CARG FY15-17E



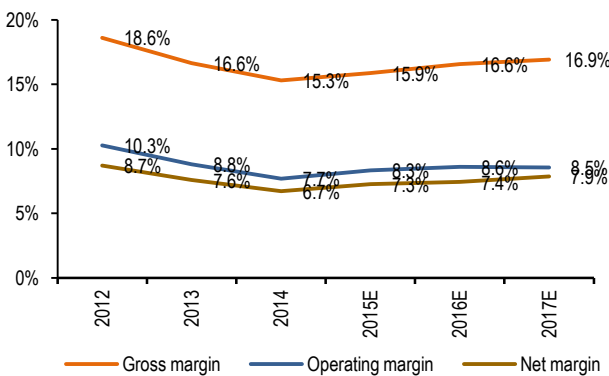
Source: Company, CMS (HK)

Figure 4: Vehicle lens revenue of 70% CARG FY15-17E



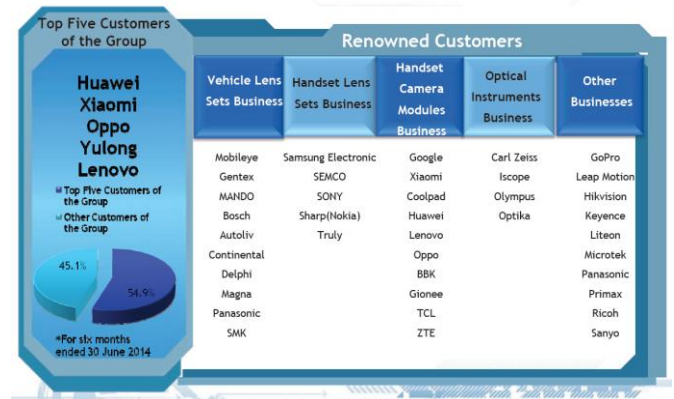
Source: Company, CMS (HK)

Figure 5: Expect margin to recover in FY15E



Source: Company, CMS (HK)

Figure 6: Well-diversified global client base



Source: Company, CMS (HK)

Earnings revisions

We fine-tuned FY15-16E net profit by -2%/-8% following softer HCM gross margin in FY14. However, we expect stronger shipment volume and improving profitability of handset camera module (HCM) and vehicle/handset lens in FY15/16E, backed by continued handset camera spec migration (13MP+, OIS) and multiple industry tailwinds of vehicle lens (US/EU safety regulations, Advanced Driver Assistance Systems (ADAS)).

- We lifted our FY15-16E revenue estimates by 6-10% mainly due to better HCM/handset lens volume and higher ASP of auto/handset lens, driven by faster camera spec upgrade, new client/project wins and rising vehicle camera penetration.
- We slightly fine-tuned our FY15-16E gross margin estimates to 15.9%/16.6% for weaker FY14 GPM followed by gradual recovery in FY15-16E given increasing contribution from higher-margin vehicle/handset lens and HCM margin rebound on advanced feature (OIS, 3D) adoption.
- Our FY15-17E EPS estimates are above consensus by 7-9%, as a result of higher gross margin estimates for higher sales mix of handset/vehicle lens.

Figure 7: Key Assumptions

(RMB mn)	1H14	2H14	1H15E	2H15E	1H16E	2H16E	2014	2015E	2016E	2017E
Optical Components	585	818	807	1,316	1,085	1,668	1,403	2,123	2,753	3,342
Handset lenses	152	338	249	550	351	746	491	798	1,097	1,412
Auto lenses	189	215	284	362	381	493	405	646	874	1,099
Optoelectronic Products	3,139	3,665	4,067	4,963	4,995	5,699	6,803	9,030	10,694	12,419
Handset camera modules	3,043	3,585	3,974	4,872	4,897	5,602	6,628	8,845	10,500	12,215
Optical instruments	113	108	100	87	108	92	221	187	200	212
Total Revenue	3,836	4,590	4,974	6,366	6,188	7,458	8,426	11,340	13,647	15,973
yoy growth	37.7%	51.6%	29.7%	38.7%	24.4%	17.2%	45.0%	34.6%	20.3%	17.0%
Gross Margin	14.6%	15.9%	14.9%	16.6%	15.7%	17.2%	15.3%	15.9%	16.6%	16.9%
Optical Components	26.6%	26.8%	30.5%	31.5%	31.0%	32.0%	26.7%	31.1%	31.6%	32.6%
Optoelectronic products	10.9%	12.0%	11.3%	12.3%	12.0%	12.6%	11.5%	11.8%	12.3%	12.4%
Optical instruments	35.9%	37.7%	35.8%	37.7%	35.8%	37.7%	36.8%	36.7%	36.7%	36.7%
Operating Margin	8.0%	7.4%	8.2%	8.4%	8.3%	8.8%	7.7%	8.3%	8.6%	9.0%

Source: Company, CMS (HK)

Figure 8: Estimate revisions

(HKD mn)	New		Old		Change (%)	
	2015E	2016E	2015E	2016E	2015E	2016E
Revenue	11,340	13,647	10,340	12,884	10%	6%
Gross profit	1,799	2,261	1,740	2,222	3%	2%
Operating profit	943	1,173	1,002	1,302	-6%	-10%
Net profit	825	1,014	845	1,100	-2%	-8%
EPS (HKD)	0.771	0.948	0.785	1.03	-2%	-8%
Gross margin	15.9%	16.6%	16.80%	17.20%	-0.9%	-0.6%
Operating margin	8.3%	8.6%	9.69%	10.11%	-1.4%	-1.5%
Net Margin	7.3%	7.4%	8.17%	8.54%	-0.9%	-1.1%

Source: Company, CMS (HK)

Estimates vs Consensus

Figure 9: CMS (HK) estimates vs street

(RMB mn)	CMS (HK)			Consensus			Diff (%)		
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
Revenue	11,340	13,647	15,973	10,800	13,000	14,889	5%	5%	7%
Gross profit	1,799	2,261	2,703	1,712	2,083	2,367	5%	9%	14%
Operating profit	943	1,173	1,439	875	1,100	1,308	8%	7%	10%
Net profit	825	1,014	1,256	767	938	1,203	8%	8%	4%
EPS (RMB)	0.771	0.948	1.174	0.719	0.867	1.100	7%	9%	7%
Gross margin	15.9%	16.6%	16.9%	15.8%	16.0%	15.9%			
Operating margin	8.3%	8.6%	9.0%	8.1%	8.5%	8.8%			
Net margin	7.3%	7.4%	7.9%	7.1%	7.2%	8.1%			

Source: CMS (HK), Bloomberg

Valuation

Reiterate BUY; SOTP to reflect value of high-growth/high-margin vehicle/handset lens business

We continue to derive our 12-month TP (HK\$16.21) from SOTP valuation methodology (based on a weighted-average target P/E multiple of 16.4x FY15 EPS), in order to reflect Sunny's diversification in multiple businesses with different growth profiles.

We assign 15x P/E to its HCM business, in-line with the target multiple we apply to HK-listed component leader AAC Tech, given its China No.1 position and advanced technology capacity. We assign 25x P/E for its vehicle lens business to reflect high-margin high-growth industry nature of vehicle lens (40% CARG FY14-16) and Sunny's No.1 global market share (~30% in FY14E). We apply a 15x P/E to its handset lens segment given its promising outlook and robust shipment momentum (39% CARG FY14-16), in-line with TW-listed lens peers (Largan).

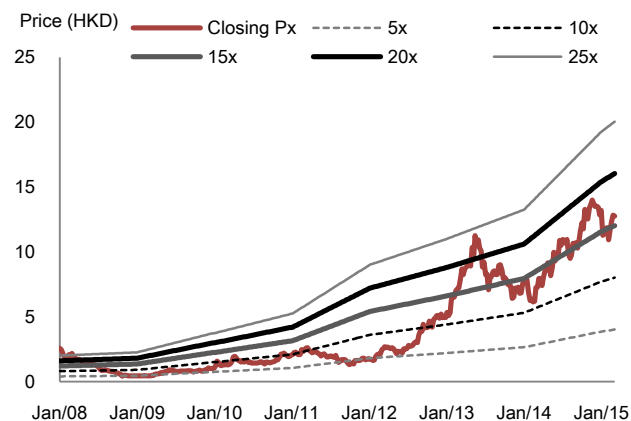
We believe key downside risks include slower smartphone demand, greater ASP/margin pressure on HCM competition and weaker vehicle lens shipment.

Figure 10: Sunny Optical – SOTP valuation

Business segment	% of FY15 Profit	FY15 EPS (RMB)	Target P/E
Camera modules	59.5%	0.46	15x
Vehicle lenses	15.8%	0.12	25x
Handset lenses	20.9%	0.16	15x
Others	3.8%	0.03	10x
Total/Implied		0.77	16.4x
TP (HKD)			16.2

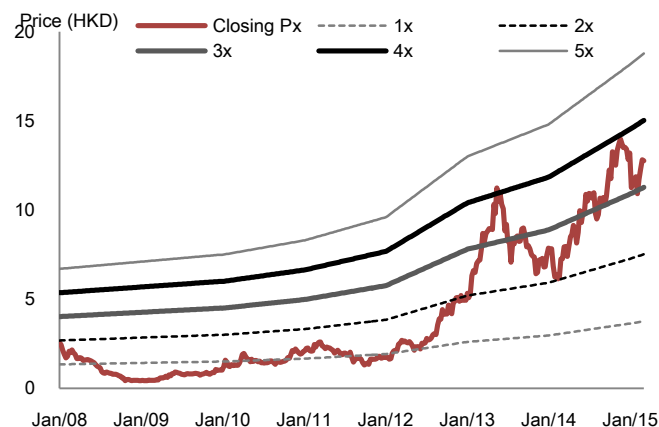
Source: Company, CMS (HK)

Figure 11: Forward P/E band



Source: Company, CMS (HK)

Figure 12: Forward P/B band



Source: Company, CMS (HK)

Peer Comparison

Figure 13: Sector valuation comparison

Company	Ticker	Rating	Mkt Cap (USD mn)	Current Price (local)	Target Price (HKD)	Upside (%)	P/E (x)		P/B (x)		ROE (%)	
							FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Sunny Optical	2382 HK	BUY	1,965	13.46	16.21	20%	14.42	11.69	3.06	2.55	21%	21%
AAC Tech	2018 HK	NEUTRAL	8,525	53.80	48.70	-9%	16.55	14.02	4.41	3.64	27%	27%
Truly Intl	732 HK	NEUTRAL	1,260	3.36	3.81	13%	6.00	5.01	1.03	0.89	17%	17%
BYD E	285 HK	NR	2,524	8.68	N/A	N/A	10.61	8.81	1.42	1.26	14%	14%
FIH	2038 HK	NR	3,648	3.63	N/A	N/A	16.13	14.62	0.85	0.80	5%	6%
Ju Teng	3336 HK	NR	724	4.87	N/A	N/A	6.51	5.95	0.76	0.69	12%	12%
TCL Comm	2618 HK	BUY	1,272	8.05	10.42	29%	6.95	6.12	1.73	1.52	27%	27%
Coolpad	2369 HK	NEUTRAL	776	1.40	1.55	11%	8.24	6.67	1.51	1.27	19%	19%
ZTE	763 HK	NR	10,264	17.42	N/A	N/A	14.55	12.98	1.70	1.52	13%	13%
Catcher	2474 TT	NR	7,343	299.00	N/A	N/A	11.77	10.58	2.26	1.94	21%	21%
Largan	3008 TT	NR	11,461	2,670.00	N/A	N/A	16.07	13.98	6.01	4.80	43%	43%

Source: CMS (HK), Bloomberg

Financial Summary

Statement of financial position

RMB million	2013	2014	2015E	2016E	2017E
Current Assets	3,766	4,204	5,359	6,169	7,553
Cash & equivalents	709	505	1,214	1,615	1,864
Trading investments	0	0	0	0	0
Trade notes	0	0	0	0	0
Trade receivables	1,172	2,388	2,272	2,663	3,113
Other receivables	20	0	0	0	0
Inventories	768	896	1,457	1,475	2,160
Other current assets	1,098	396	396	396	396
Non-current assets	899	1,389	1,564	1,710	1,877
Investment property	0	0	0	0	0
PPE	785	1,035	1,207	1,352	1,518
Intangible assets	0	0	0	0	0
Other non-current assets	114	354	356	358	359
Total assets	4,665	5,594	6,922	7,879	9,430
Liquid Liabilities	1,782	2,297	2,993	3,173	3,761
Bank loans	489	522	522	522	522
Trade payables	1,257	1,744	2,438	2,616	3,202
Prepaid Accounts	0	0	0	0	0
Other liquid liabilities	36	31	34	36	38
Long term Liabilities	23	46	46	46	46
Loans	0	0	0	0	0
Others	23	46	46	46	46
Total Liabilities	1,805	2,343	3,039	3,219	3,808
Issued capital	105	105	105	105	105
Capital reserves	0	0	0	0	0
Reserves	2,745	3,143	3,774	4,551	5,512
NCI	10	3	4	4	5
Parents	2,850	3,248	3,879	4,656	5,618
Total equity and liabilities	4,665	5,594	6,922	7,879	9,430

Statement of cash flows

RMB million	2013	2014	2015E	2016E	2017E
CF from OA	668	(312)	1,314	1,049	993
PBT	440	566	825	434	580
D&A	147	215	228	255	284
Finance costs	7	14	10	10	0
Investment income	0	0	0	0	0
Changes of WC	9	(857)	249	(232)	(549)
Others	(52)	(90)	(106)	(146)	(181)
CF from IA	(1,039)	(470)	(400)	(400)	(450)
Capital expenditure	(244)	(470)	(400)	(400)	(450)
Other investments	(795)	0	0	0	0
CF from FA	838	578	(204)	(248)	(295)
Borrowings	386	33	0	0	0
Share capital	(53)	0	0	0	0
Changes of reserves	0	0	0	0	0
Dividends	(105)	(133)	(193)	(238)	(295)
Others	1	1	(0)	(0)	0
Net cash flow	466	(204)	710	401	249

Source: Company, CMS(HK)

Statement of comprehensive income

RMB million	2013	2014	2015E	2016E	2017E
Revenues	5,813	8,426	11,340	13,647	15,973
Cost of sales	(4,846)	(7,137)	(9,541)	(11,386)	(13,270)
Selling exp	(88)	(89)	(130)	(171)	(200)
Admin exp	(166)	(231)	(310)	(370)	(424)
Op expenses	(455)	(643)	(856)	(1,088)	(1,264)
Op Profit	512	647	943	1,173	1,439
Fin. costs	(7)	(14)	(10)	(10)	0
Impairments	0	0	0	0	0
FV changes	0	0	0	0	0
Inv income	(1)	1	(0)	(0)	(0)
Non-op inc	0	0	0	0	0
Non-op exp	0	0	0	0	0
PBT	504	634	933	1,162	1,439
Taxes	(64)	(73)	(107)	(147)	(182)
PAT	441	561	826	1,015	1,257
NCI	0	(5)	1	1	1
Net profit	440	566	825	1,014	1,256
EPS (RMB)	0.44	0.53	0.77	0.95	1.17

Ratios

	2013	2014	2015E	2016E	2017E
YoY growth rate					
Revenue	46%	45%	35%	20%	17%
Op profit	25%	26%	46%	24%	23%
Net profit	27%	29%	46%	23%	24%
Profitability					
Gross margin	16.6%	15.3%	15.9%	16.6%	16.9%
NP margin	7.6%	6.7%	7.3%	7.4%	7.9%
ROE	15.4%	17.4%	21.2%	21.0%	22.3%
ROIC	15.3%	19.6%	25.7%	30.1%	32.1%
Liquidity					
D/A	10.5%	9.3%	7.5%	6.6%	5.5%
ND/A	-4.7%	0.3%	-10.0%	-13.9%	-14.2%
Liquid ratio	2.1	1.8	1.8	1.9	2.0
Quick ratio	1.7	1.4	1.3	1.5	1.4
Operating efficiency					
Asset turnover	1.5	2.0	2.1	2.2	2.1
Inventory turnover	6.3	8.0	6.5	7.7	6.1
AR turnover	5.0	3.5	5.0	5.1	5.1
AP turnover	4.1	3.0	4.2	4.3	4.3
Per share ratios (RMB)					
EPS	0.44	0.53	0.77	0.95	1.17
CFPS	0.67	(0.29)	1.23	0.98	0.93
BVPS	2.88	3.04	3.63	4.36	5.26
DPS	0.11	0.12	0.18	0.22	0.28
Valuation					
PE	23.4	19.6	13.5	10.9	8.8
PB	3.6	3.4	2.9	2.4	2.0
EV/EBITDA	19.0	14.2	10.5	8.9	7.2

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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China Merchants Securities (HK) Co., Ltd.

Address: 48/F, One Exchange Square, Central, Hong Kong

Tel: +852 3189 6888 Fax: +852 3101 0828