

Sunny Optical Technology

Handset lens business ready to take off

Resolution migration in handset lenses to drive ASP expansion

We believe Sunny Optical's progress in upgrading its handset lens product mix could be quicker than our previous expectation, and the higher contribution from 13mpx with more advanced features could drive ASP expansion. We are impressed by its diversified product portfolio of high-end handset lenses, including wide aperture (F1.8 or F1.9), thinner form factor, OIS, and even 16mpx/20mpx products, which have already received positive feedback from clients and will likely see strong growth after passing qualification. We raise our handset lens revenue by 26%/106% in 2015E/16E to 7%/10% of total sales and 15%/20% of earnings. After factoring in the upside from handset lenses, our 2015E/16E earnings are 7%/22% higher than consensus.

Camera modules to show gradual margin improvement

Our recent checks suggest China's smartphone volumes are in line with expectations and all the leading China handset OEMs are sticking with their aggressive targets. As handset OEMs still view advanced camera functions as a key differentiating factor, we believe Sunny Optical's technological know-how in the optical industry and vertically integrated camera module business could help it maintain its dominant position in mid-to high-end models. Its 1Q camera module shipments are outperforming the industry, implying it is gaining share, and its upgraded product mix could support margin improvement.

More diversified product mix to support margin expansion

We have been highlighting that Sunny Optical could show an upward margin trend with the improving profitability of its handset camera modules as well as the increasing contribution from handset and vehicle lenses with higher margins. With accelerating progress in its handset lenses, we believe their contribution could be higher than our previous expectation and help deliver stronger margin improvement. Therefore, we raise our 2015E/16E gross margin to 16.6%/17.5% from 16.3%/16.4%.

Valuation: Reiterate Buy; raising PT to HK\$18 from HK\$14

We raise our 2015E/16E/17E EPS forecast to Rmb0.78/1.06/1.21 from Rmb0.70/0.84/0.94. We derive our PT using UBS's DCF-based VCAM tool with a WACC of 8.8%.

Equities

China
Consumer Electronics

12-month rating **Buy**

12m price target **HK\$18.00**
Prior: HK\$14.00

Price **HK\$14.62**

RIC: 2382.HK **BBG:** 2382 HK

Trading data and key metrics

52-wk range HK\$15.04-7.53

Market cap. HK\$15.5bn/US\$2.00bn

Shares o/s 1,063m (ORD)

Free float 49%

Avg. daily volume ('000) 5,691

Avg. daily value (m) HK\$70.5

Common s/h equity (12/15E) Rmb3.93bn

P/BV (12/15E) 3.2x

Net debt / EBITDA (12/15E) NM

EPS (UBS, diluted) (Rmb)

	From	To	% ch	Cons.
12/15E	0.70	0.78	11.17	0.73
12/16E	0.84	1.06	26.15	0.87
12/17E	0.94	1.21	29.50	1.06

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Highlights (Rmbm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	3,984	5,813	8,426	11,813	14,135	14,813	15,174	15,427
EBIT (UBS)	363	462	577	981	1,338	1,522	1,666	1,779
Net earnings (UBS)	344	432	582	847	1,155	1,315	1,439	1,537
EPS (UBS, diluted) (Rmb)	0.35	0.43	0.54	0.78	1.06	1.21	1.33	1.42
DPS (Rmb)	0.11	0.11	0.12	0.16	0.24	0.32	0.37	0.40
Net (debt) / cash	141	220	3	129	644	1,326	2,075	2,889
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	9.1	7.9	6.8	8.3	9.5	10.3	11.0	11.5
ROIC (EBIT) %	22.1	20.9	19.8	28.3	34.0	35.6	36.5	36.6
EV/EBITDA (core) x	5.1	10.1	10.7	9.6	7.1	6.0	5.4	4.6
P/E (UBS, diluted) x	7.7	15.2	15.0	15.0	11.0	9.6	8.8	8.2
Equity FCF (UBS) yield %	(0.5)	6.3	(7.7)	2.4	6.2	8.3	9.2	10.0
Net dividend yield %	3.9	1.6	1.5	1.3	2.0	2.8	3.1	3.4

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK\$14.62 on 20 Mar 2015 20:26 HKT

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Investment Thesis

Sunny Optical Technology

Investment case

We believe Sunny Optical is a major beneficiary of growth in China's smartphone handset OEMs and could secure a dominant share of the domestic mid-range to high-end OEM smartphone handset market with its technological lead over domestic peers. We think an increasing contribution from high-resolution modules could boost blended ASP and improve profitability. In addition, we think an increasing contribution from higher-margin products, including handset lenses and vehicle lenses, could help improve its blended margin in the long term.

Upside scenario

In our upside scenario, we assume the OIS model could account for 30% of Sunny Optical's 13mpx camera modules (versus 16% in our base case), and the higher contribution from the OIS model could help improve its gross margin for camera modules. Its 2015E earnings could be 10% higher than our base case. We estimate a valuation per share of HK\$19.8, implying 18.4x 2015E PE (the same as our base case).

Downside scenario

In our downside scenario, we assume Sunny Optical could lose share to local peers like Truly and O-Film in mid-range/high-end camera modules in 2015, and resolution migration could slow. Increasing competition could lead to lower shipments and rising margin pressure. Under this scenario, 2015 earnings could be 20% lower than our base case. In addition, valuation could de-rate. In this case, we estimate a downside valuation per share of HK\$10, implying 12.8x 2015E PE (versus 18.4x in our base case).

Upcoming catalysts

Strong camera module shipments in 1H15, increasing 13mpx+, dual camera and OIS shipments, and rising handset lens shipments could be positive catalysts for the share price. Weaker camera module and lens shipments in 1H15 and slower growth in handset lens shipments could be negative catalysts.

12-month rating

Buy

12m price target

HK\$18.00

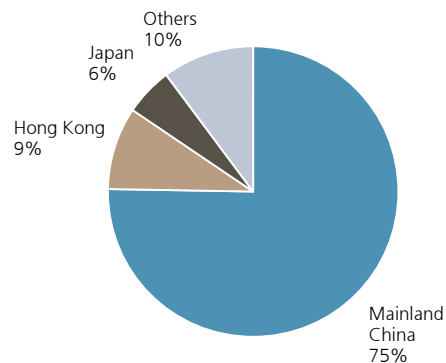
Business description

Founded in 1984, Sunny Optical designs, researches and manufactures optical-related products used in handsets, digital cameras, automobiles, optical instruments, etc. Its product categories are optical components, optoelectronic products, and optical instruments. It is a leading optical product manufacturer in China in terms of revenue. Its major clients include Huawei, Xiaomi, Oppo, Yulong, Lenovo, Coolpad, Samsung and Sony.

Industry outlook

China's smartphone market could outgrow the overall smartphone market in 2015. China's handset OEMs could launch models with 13mpx and above cameras to catch up with their competitors as well as differentiate their products. We expect to see increasing competition in 8mpx and below camera modules, while 13mpx and above are thought to have higher entry barriers.

Revenues by region (%)



Source: Company data, based on 2013 financials

Gross profit by product segment

Rmb m	2011	2012	2013	2014	2015E
Optical Components	253	299	283	377	651
Optoelectronic products	176	351	553	781	1,187
Optical Instruments	61	62	86	81	81
Others	33	29	45	50	40
Total	523	741	967	1,289	1,959

Source: Company data and UBS estimates

Resolution migration in handset lenses to drive ASP expansion

We believe Sunny Optical's progress in upgrading its handset lens product mix could be quicker than our previous expectation, and higher 13mpx shipments could drive its ASP expansion and further enhance its industry position.

Sunny Optical's external handset lens shipments started to ramp up strongly from 3Q14, and its external handset lens shipments almost tripled to 74.6m units from 25.7m units in 2013. However, the main growth driver in 2014 was the 5mpx (~50-60% of its total handset lenses), especially the wide angle handset lens used in front cameras, while 13mpx handset lenses only accounted for ~2% of total shipments in 2014. Therefore, we were more conservative on ASP expansion for its handset lenses and waited for more progress in its high-end handset lens production.

We see the company started to offer a more diversified product portfolio of high-end handset lenses, including wide aperture (F1.8 or F1.9), thinner form factor, OIS, and even 16mpx/20mpx products, and they have received positive feedback from handset OEMs. We believe its own technology improvement in handset lenses combined with Konica Minolta's (KMI) IP support helped the company successfully develop more high-end products. The company is confident that its handset lens technology is already better than Korean handset lens makers.

While 5mpx wide-angle front-end handset lenses could remain the main driver of volume, we expect high-resolution/spec products to post big increases after they pass clients' qualification process. We now estimate its 13mpx handset lens contribution could reach 18% of its total shipments in 2015 vs. our previous estimate of 10%. With a higher contribution from high-resolution products, we estimate its handset lens blended ASP could increase by 16% YoY (versus -3% YoY previously) Overall, we raise our handset lens revenue by 26%/106% in 2015/16E to 7%/10% of total sales and 15%/20% of earnings

Although there could still be volatility in monthly shipments due to clients' product transitions and a different launch schedule for new model launches, we are positive about Sunny Optical's handset lens development in the long term. Its current handset lens capacity is 22m units per month based on 5mpx. The company plans to spend Rmb100m in capex to expand handset lens capacity, especially for high-end products, and targets expanding to 25m units per month this year.

Camera modules to show gradual margin improvement

Our recent checks suggest China's smartphone volumes are in line with expectations and all the leading China handset OEMs are sticking with their aggressive targets. Huawei and Xiaomi are Sunny Optical's top 2 clients in terms of revenue, and both companies target achieving smartphone shipments of 100m units in 2015.

As handset OEMs still view advanced camera function as a key differentiating factor, we believe Sunny Optical's technological know-how in the optical industry and vertically integrated camera module business could help it maintain its dominant position in mid-range to high-end models. We point out that Sunny Optical is the only local handset camera module maker that can make handset lenses in-house. This allows it to manage the entire production process and

identify issues at an early stage. It can also quickly adjust production, including equipment and workforce, to fulfil clients' requirements. This is an important competitive advantage for the company.

Huawei is Sunny Optical's top client, accounting for ~16% of Sunny Optical's total revenue. Huawei has an aggressive target of reaching total smartphone shipments of 100m units (up 25% YoY from 80m units targeted in 2014), with 60% overseas. Recent higher-end devices, including the mate 7 and Honor series, are selling well to the point of facing some supply issues. We have highlighted that Sunny Optical is one of the main camera module suppliers for Huawei's Honor 6+ dual camera. New features like dual camera design could drive additional demand and increase barriers to entry given their higher technological requirements.

Xiaomi is Sunny Optical's second-biggest client, accounting for 10-15% of Sunny Optical's total revenue. We point out Sunny Optical is the main camera module supplier for Redmi Note and Redmi 2 and could benefit from overall volume growth.

We note that Sunny Optical's 1Q camera module shipments are outperforming the industry (UBS-e +6.8% QoQ), implying it is gaining share, and its upgraded product mix could support margin improvement. We are confident the company is on track to deliver its 20-30% shipment growth target with a gradual improvement of margin driven by upgraded product mix. Although the potential roll-out of OIS technology is happening more slowly than our previous expectation, we expect resolution migration, the increasing contribution from high-end camera module products (eg, dual camera, wide aperture, thinner form factor), and increased economies of scale to help Sunny Optical gradually improve the gross margin of its camera module business.

More diversified product mix to support margin expansion

We have been highlighting that Sunny Optical could show an improving margin trend with the improving profitability of its handset camera modules as well as the increasing contribution from handset and vehicle lenses with higher margins.

For its handset camera modules, we see gross margin increasing to 12% in 2H14 from the trough of 10.9% in 1H14 and expect them to show gradual improvement to 12.2%/12.5% in 1H/2H15. Despite increasing competition, we believe Sunny Optical could secure its dominant position in Chinese handset OEMs' mid-range to high-end models with its technological advantages over local peers and more flexible production as well as faster response time than non-China-based module makers.

For handset lenses, we point out its increasing scale, improving yield rate and upgraded product mix could lead to better gross margin. We raise our gross margin for handset lenses to 34.8%/36% from 32.4%/32% in 2015E/16E. Overall, we raise our 2015E/16E gross margin assumptions to 16.6%/17.5% from 16.3%/16.4% previously.

Reiterate Buy; raising PT to HK\$18 from HK\$14

We raise our 2015E/16E/17E EPS to Rmb0.78/1.06/1.21 from Rmb0.70/0.84 /0.94.

We raise our 2015E/16E/17E revenue by 4.3%/9.3%/9.8% mainly to factor in higher handset lens revenue and stronger camera module revenue due to its share gains. Given the higher contribution from handset lenses, we raise our

2015E/16E/17E gross margin to 16.6%/17.5%/18.1% from 16.3%/16.4%/16.7%. We fine-tune our 2015E/16E/17E opex ratio to 8.3%/8%/7.9% from 8.5%/8.2%/8.0% to reflect higher operating leverage. Overall, we raise our 2015E/16E/17E earnings by 11.2%/26.2%/29.5%.

We maintain our Buy rating and derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool, assuming a WACC of 8.8%. Besides the changes to our forecast, we fine-tune our Yr10/15/25 EBIT margin assumptions to 9.3%/8.8%/7% from 8.3%/8%/6% to reflect its improving margin trend and raise our price target to HK\$18 from HK\$14. Our price target implies 18.4x 2015E PE.

Figure 1: Forecast changes

CNY m	Old			New			Change		
	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Sales	11,331	12,933	13,493	11,813	14,135	14,813	4.3%	9.3%	9.8%
Gross profit	1,845	2,124	2,258	1,959	2,470	2,687	6.2%	16.3%	19.0%
Operating income	883	1,061	1,176	981	1,338	1,522	11.1%	26.1%	29.4%
Pre tax income	881	1,059	1,174	979	1,336	1,520	11.2%	26.2%	29.5%
Net income	762	916	1,016	847	1,155	1,315	11.2%	26.2%	29.5%
Pre-x EPS (RMB\$)	0.72	0.86	0.96	0.80	1.09	1.24	11.2%	26.2%	29.5%
All in EPS (RMB\$)	0.72	0.86	0.96	0.80	1.09	1.24	11.2%	26.2%	29.5%
Diluted pre-x EPS (RMB)	0.70	0.84	0.94	0.78	1.06	1.21	11.2%	26.2%	29.5%
Diluted all-in EPS (RMB)	0.70	0.84	0.94	0.78	1.06	1.21	11.2%	26.2%	29.5%
Margins									
Gross margin	16.3%	16.4%	16.7%	16.6%	17.5%	18.1%			
OPEX	-8.5%	-8.2%	-8.0%	-8.3%	-8.0%	-7.9%			
Operating margin	7.8%	8.2%	8.7%	8.3%	9.5%	10.3%			
Pre tax margin	7.8%	8.2%	8.7%	8.3%	9.4%	10.3%			
Net margin	6.7%	7.1%	7.5%	7.2%	8.2%	8.9%			

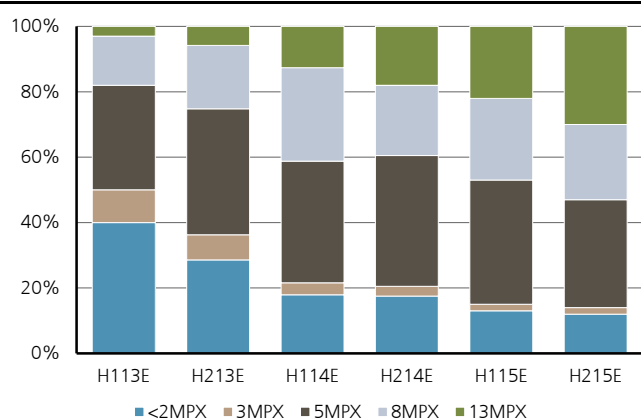
Source: UBS estimates

Figure 2: Sunny Optical P&L

CNY m	H113	H213	H114	H214	H115E	H215E	2012	2013	2014	2015E	2016E
Sales	2,786	3,027	3,836	4,590	5,248	6,566	3,984	5,813	8,426	11,813	14,135
Optical Components	564	599	585	818	872	1,107	1,309	1,163	1,403	1,979	2,708
Optoelectronic products	2,120	2,298	3,139	3,665	4,264	5,344	2,491	4,418	6,803	9,609	11,189
Optical Instruments	102	130	113	108	111	114	185	233	221	225	239
Gross profit	440	527	562	728	854	1,105	741	967	1,289	1,959	2,470
Operating profit	216	246	269	308	434	547	363	462	577	981	1,338
Pre-Tax profit	235	269	301	333	433	546	397	504	634	979	1,336
Net profit	197	244	257	309	375	472	346	440	566	847	1,155
Reported EPS (RMB\$)	0.19	0.24	0.25	0.30	0.35	0.44	0.36	0.44	0.55	0.80	1.09
Pre-ex EPS (RMB\$)	0.20	0.25	0.24	0.29	0.35	0.44	0.36	0.45	0.53	0.80	1.09
Diluted EPS post-exep	0.19	0.24	0.24	0.29	0.35	0.44	0.35	0.44	0.52	0.78	1.06
Diluted EPS pre-exep	0.19	0.24	0.25	0.29	0.35	0.44	0.35	0.43	0.54	0.78	1.06
Margins %											
Gross margin	15.8%	17.4%	14.6%	15.9%	16.3%	16.8%	18.6%	16.6%	15.3%	16.6%	17.5%
Operating margin	7.8%	8.1%	7.0%	6.7%	8.3%	8.3%	9.1%	7.9%	6.8%	8.3%	9.5%
Pre tax margin	8.5%	8.9%	7.8%	7.3%	8.3%	8.3%	10.0%	8.7%	7.5%	8.3%	9.4%
Net margin	7.1%	8.0%	6.7%	6.7%	7.1%	7.2%	8.7%	7.6%	6.7%	7.2%	8.2%

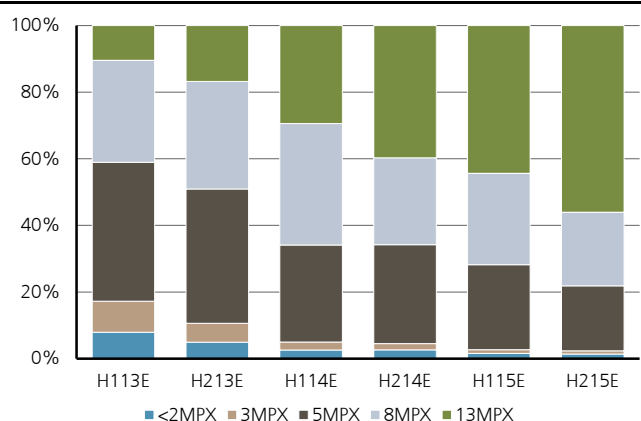
Source: Company data, UBS estimates

Figure 3: Sunny Optical shipments by resolution



Source: UBS estimates

Figure 4: Sunny Optical revenue by resolution



Source: UBS estimates

Figure 5: UBS-VCAM valuation summary for Sunny Optical [2382.HK]

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
EBIT	981	1,338	1,522	1,666	1,779	1,841	1,790	1,744	1,702	1,663
D&A*	301	351	368	377	383	409	411	415	421	429
Capex	(420)	(400)	(380)	(400)	(400)	(323)	(329)	(336)	(346)	(358)
Chg. in w.kg. cap.	(401)	(301)	(231)	(226)	(226)	(42)	(49)	(61)	(73)	(87)
Tax (operating)	(132)	(181)	(206)	(225)	(240)	(249)	(242)	(235)	(230)	(225)
Other	(169)	(116)	(34)	(18)	(13)	(15)	(20)	(24)	(29)	(34)
Free Cash Flow	159	691	1,040	1,174	1,284	1,622	1,563	1,503	1,445	1,389
<i>growth</i>		334.6%	50.5%	12.9%	9.4%	26.3%	-3.6%	-3.8%	-3.8%	-3.9%

Valuation	
PV of explicit cash flow	9,714
PV of terminal value (yr. 15)	5,306
Enterprise Value	15,020
<i>% terminal</i>	35%
Associates & other	63
- Minority interests	6
Surplus cash**	94
- Debt***	522
Equity value	14,649
Shares outstanding [m]	1,084.9
Equity per share (HK\$/sh)	16.70
Cost of equity	8.8%
Dividend yield	1.4%
1-year Price Target (HK\$/sh)	18.00

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	4.0%	3.0%	3.0%
EBIT margin	9.3%	8.8%	7.0%
Capex/sales	2.0%	2.0%	2.0%
ROIC	22.3%	22.3%	19.0%

Valuation-Implied Metrics			
Fiscal year	2015E	2016E	1-yr Fwd.
EV / EBITDA	11.7x	8.9x	11.0x
EV / EBIT	15.3x	11.2x	14.2x
FCF Yield	1.1%	4.6%	1.8%
P / E (PV)	17.3x	12.7x	16.0x
P / E (Target)	18.6x	13.7x	17.3x

WACC	
Risk free rate	4.34%
ERP	5.0%
Beta	0.89
Debt / equity**	4.0%
Marg. tax rate	16.0%
Cost of equity	8.8%
Cost of debt	6.6%
WACC	8.8%

Terminal Assumptions	
VCH (years)	15
Impl. FCF gr.	0.5%
Incr. ROIC	8.6%
EV / EBITDA	7.9x

Figures in Rmb m, unless noted otherwise.

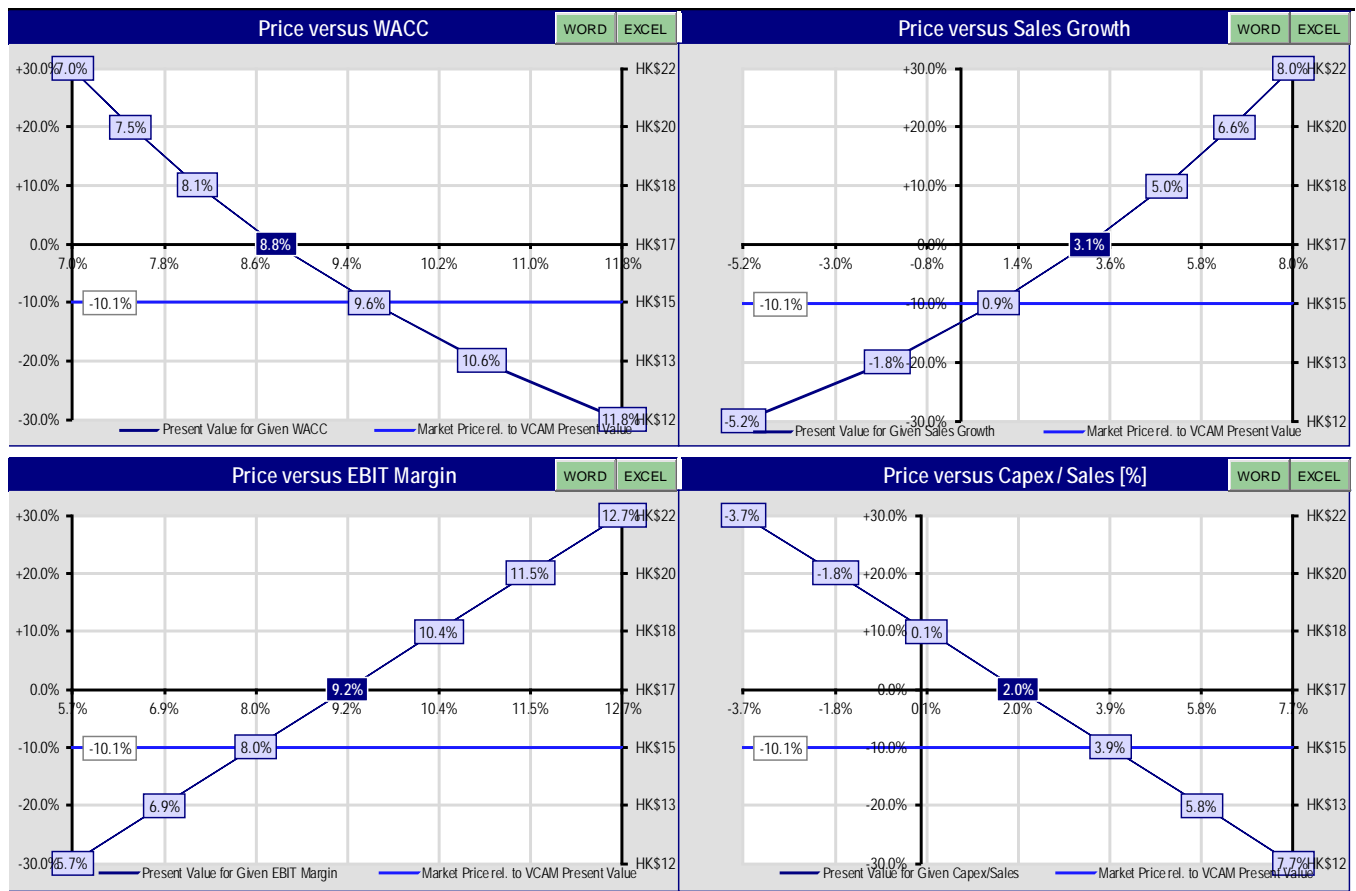
* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS estimates

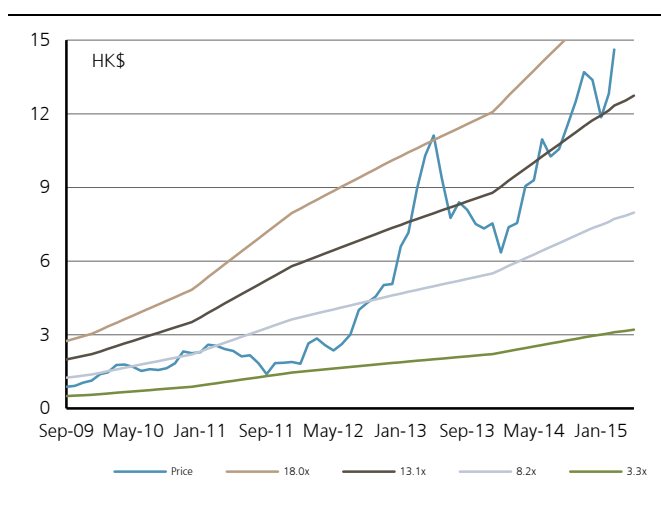
Figure 6: UBS-VCAM sensitivities for Sunny Optical [2382.HK]



Notes: Sensitivities are derived from assuming Sales Growth, EBIT Margin, or Capex / Sales is flat annually for years 6 through the VCH (year 15). Explicit estimates in years 1 through 5 do not vary, and always represent the assumptions on the Inputs Page. For each chart, one parameter is varied while the others are held constant. Those held constant are set as they appear on the Inputs Page.

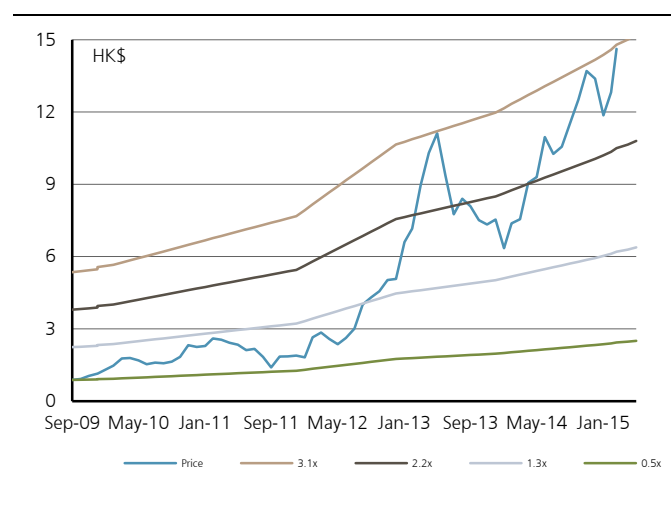
Source: UBS estimates

Figure 2: Sunny Optical PE band



Source: UBS estimates

Figure 3: Sunny Optical P/B band



Source: UBS estimates

We would like to thank Ark Huang, an employee of Evalueserve, for his assistance in preparing this research report. Evalueserve staff provides research support services to UBS.

Sunny Optical Technology (2382.HK)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Income statement (Rmbm)										
Revenues	3,984	5,813	8,426	11,813	40.2	14,135	19.7	14,813	15,174	15,427
Gross profit	741	967	1,289	1,959	51.9	2,470	26.1	2,687	2,843	2,976
EBITDA (UBS)	472	609	792	1,282	61.9	1,689	31.7	1,890	2,042	2,163
Depreciation & amortisation	(109)	(147)	(215)	(301)	40.2	(351)	16.6	(368)	(377)	(383)
EBIT (UBS)	363	462	577	981	70.0	1,338	36.3	1,522	1,666	1,779
Associates & investment income	9	23	38	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	22	11	36	(2)	-	(2)	0.0	(2)	(2)	(2)
Exceptionals (incl goodwill)	2	9	(16)	0	-	0	-	0	0	0
Profit before tax	397	504	634	979	54.4	1,336	36.4	1,520	1,664	1,777
Tax	(58)	(64)	(73)	(132)	-81.7	(180)	-36.4	(205)	(225)	(240)
Profit after tax	339	441	561	847	50.9	1,155	36.4	1,315	1,439	1,537
Preference dividends and Minorities	7	0	5	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	346	440	566	847	49.6	1,155	36.4	1,315	1,439	1,537
Net earnings (UBS)	344	432	582	847	45.4	1,155	36.4	1,315	1,439	1,537
Tax rate (%)	14.7	12.6	11.5	13.5	17.7	13.5	0.0	13.5	13.5	13.5
Per share (Rmb)										
EPS (UBS, diluted)	0.35	0.43	0.54	0.78	45.4	1.06	36.4	1.21	1.33	1.42
EPS (local GAAP, diluted)	0.35	0.44	0.52	0.78	49.6	1.06	36.4	1.21	1.33	1.42
EPS (UBS, basic)	0.36	0.44	0.55	0.80	45.4	1.09	36.4	1.24	1.35	1.45
Net DPS (Rmb)	0.11	0.11	0.12	0.16	28.1	0.24	52.7	0.32	0.37	0.40
Book value per share	1.99	2.68	3.06	3.70	20.9	4.55	23.0	5.46	6.45	7.49
Average shares (diluted)	978.47	1,012.08	1,084.83	1,084.83	0.0	1,084.83	0.0	1,084.83	1,084.83	1,084.83
Balance sheet (Rmbm)										
Cash and equivalents	243	709	525	650	24.0	1,166	79.2	1,848	2,596	3,410
Other current assets	2,024	3,057	3,680	4,757	29.3	5,542	16.5	5,933	6,193	6,467
Total current assets	2,267	3,766	4,204	5,408	28.6	6,708	24.0	7,781	8,789	9,878
Net tangible fixed assets	646	785	1,035	1,154	11.5	1,203	4.2	1,215	1,238	1,255
Net intangible fixed assets	0	0	0	0	0.0	0	0.0	0	0	0
Investments / other assets	89	114	354	354	0.0	354	0.0	354	354	354
Total assets	3,002	4,665	5,594	6,916	23.6	8,265	19.5	9,350	10,382	11,487
Trade payables & other ST liabilities	783	1,293	1,775	2,419	36.3	2,864	18.4	2,977	2,961	2,956
Short term debt	103	489	522	522	0.00	522	0.00	522	522	522
Total current liabilities	885	1,782	2,297	2,941	28.0	3,386	15.1	3,499	3,482	3,477
Long term debt	0	0	0	0	-	0	-	0	0	0
Other long term liabilities	185	23	46	46	0.0	46	0.0	46	46	46
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	1,070	1,805	2,343	2,987	27.5	3,432	14.9	3,545	3,529	3,524
Common s/h equity	1,922	2,850	3,248	3,926	20.9	4,830	23.0	5,802	6,850	7,960
Minority interests	10	10	3	3	0.0	3	0.0	3	3	3
Total liabilities & equity	3,002	4,665	5,594	6,916	23.6	8,265	19.5	9,350	10,382	11,487
Cash flow (Rmbm)										
Net income (before pref divs)	346	440	566	847	49.6	1,155	36.4	1,315	1,439	1,537
Depreciation & amortisation	109	147	215	301	40.2	351	16.6	368	377	383
Net change in working capital	(200)	9	(748)	(434)	42.0	(340)	21.7	(278)	(276)	(279)
Other operating	(17)	40	(241)	0	-	0	-	0	0	0
Operating cash flow	238	637	(209)	714	-	1,167	63.4	1,405	1,539	1,641
Tangible capital expenditure	(250)	(237)	(450)	(420)	6.7	(400)	4.8	(380)	(400)	(400)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	70	(802)	0	0	-	0	-	0	0	0
Investing cash flow	(180)	(1,039)	(450)	(420)	6.7	(400)	4.8	(380)	(400)	(400)
Equity dividends paid	(71)	(105)	(133)	(168)	-26.7	(252)	-49.6	(343)	(391)	(427)
Share issues / (buybacks)	(35)	(53)	0	0	-	0	-	0	0	0
Other financing	(3)	609	0	0	-	0	-	0	0	0
Change in debt & pref shares	23	386	0	0	-	0	-	0	0	0
Financing cash flow	(86)	838	(133)	(168)	-26.7	(252)	-49.6	(343)	(391)	(427)
Cash flow inc/(dec) in cash	(27)	435	(792)	126	-	515	309.4	682	749	814
FX / non cash items	19	31	607	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	(8)	466	(184)	126	-	515	309.4	682	749	814

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Sunny Optical Technology (2382.HK)

Valuation (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	7.6	14.9	15.4	15.0	11.0	9.6	8.8	8.2
P/E (UBS, diluted)	7.7	15.2	15.0	15.0	11.0	9.6	8.8	8.2
P/CEPS	5.7	11.1	10.7	10.8	8.2	7.4	6.8	6.5
Equity FCF (UBS) yield %	(0.5)	6.3	(7.7)	2.4	6.2	8.3	9.2	10.0
Net dividend yield (%)	3.9	1.6	1.5	1.3	2.0	2.8	3.1	3.4
P/BV x	1.4	2.4	2.6	3.2	2.6	2.1	1.8	1.6
EV/revenues (core)	0.6	1.1	1.0	1.0	0.8	0.8	0.7	0.6
EV/EBITDA (core)	5.1	10.1	10.7	9.6	7.1	6.0	5.4	4.6
EV/EBIT (core)	6.7	13.3	14.6	12.5	8.9	7.5	6.6	5.5
EV/OpFCF (core)	4.6	8.8	9.6	8.8	6.6	5.6	5.0	4.2
EV/op. invested capital	1.5	2.8	2.9	3.5	3.0	2.7	2.4	2.0
Enterprise value (Rmbm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	2,574	6,319	8,602	12,404	12,404	12,404	12,404	12,404
Net debt (cash)	(156)	(180)	(112)	(66)	(386)	(985)	(1,359)	(2,482)
Buy out of minorities	15	10	6	3	3	3	3	3
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	2,432	6,149	8,497	12,341	12,020	11,422	11,047	9,925
Non core assets	(1)	0	(63)	(63)	(63)	(63)	(63)	(63)
Core enterprise value	2,431	6,149	8,435	12,278	11,958	11,359	10,985	9,862
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	59.5	45.9	45.0	40.2	19.7	4.8	2.4	1.7
EBITDA (UBS)	56.7	29.0	30.0	61.9	31.7	11.9	8.1	5.9
EBIT (UBS)	73.2	27.1	24.9	70.0	36.3	13.8	9.4	6.8
EPS (UBS, diluted)	54.0	21.4	25.8	45.4	36.4	13.8	9.4	6.8
Net DPS	47.9	0.0	15.2	28.1	52.7	36.4	13.8	9.4
Margins & Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Gross profit margin	18.6	16.6	15.3	16.6	17.5	18.1	18.7	19.3
EBITDA margin	11.9	10.5	9.4	10.9	11.9	12.8	13.5	14.0
EBIT margin	9.1	7.9	6.8	8.3	9.5	10.3	11.0	11.5
Net earnings (UBS) margin	8.6	7.4	6.9	7.2	8.2	8.9	9.5	10.0
ROIC (EBIT)	22.1	20.9	19.8	28.3	34.0	35.6	36.5	36.6
ROIC post tax	18.8	18.1	17.5	24.5	29.4	30.8	31.6	31.6
ROE (UBS)	19.2	18.1	19.1	23.6	26.4	24.7	22.7	20.8
Capital structure & Coverage (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net debt / EBITDA	(0.3)	(0.4)	(.0)	(0.1)	(0.4)	(0.7)	(1.0)	(1.3)
Net debt / total equity %	(7.3)	(7.7)	(0.1)	(3.3)	(13.3)	(22.8)	(30.3)	(36.3)
Net debt / (net debt + total equity) %	(7.9)	(8.3)	(0.1)	(3.4)	(15.4)	(29.6)	(43.4)	(56.9)
Net debt/EV %	(5.8)	(3.6)	(.0)	(1.0)	(5.4)	(11.7)	(18.9)	(29.3)
Capex / depreciation %	NM	160.6	NM	139.5	114.0	103.3	106.2	104.4
Capex / revenue %	6.3	4.1	5.3	3.6	2.8	2.6	2.6	2.6
EBIT / net interest	NM	NM	NM	NM	NM	NM	NM	NM
Dividend cover (UBS)	3.4	4.2	4.5	5.1	4.6	3.8	3.7	3.6
Div. payout ratio (UBS) %	29.4	24.1	22.1	19.4	21.8	26.1	27.1	27.8
Revenues by division (Rmbm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	3,984	5,813	8,426	11,813	14,135	14,813	15,174	15,427
Total	3,984	5,813	8,426	11,813	14,135	14,813	15,174	15,427
EBIT (UBS) by division (Rmbm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	363	462	577	981	1,338	1,522	1,666	1,779
Total	363	462	577	981	1,338	1,522	1,666	1,779

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+23.1%
Forecast dividend yield	1.3%
Forecast stock return	+24.4%
Market return assumption	9.3%
Forecast excess return	+15.1%

Statement of Risk

We believe risks for Sunny Optical are: 1) a potential component shortage could cap its China handset OEM smartphone growth; 2) slower than expected demand for China OEM smartphone handsets; and 3) the technology of local competitors could catch up faster than expected.

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Buy	FSR is > 6% above the MRA.	47%	37%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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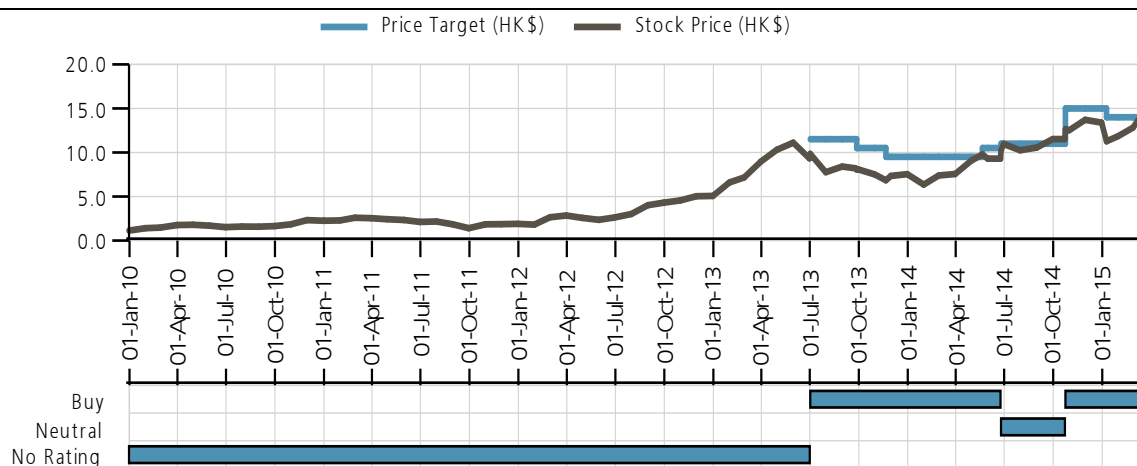
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Sunny Optical Technology	2382.HK	Buy	N/A	HK\$14.62	20 Mar 2015

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Sunny Optical Technology (HK\$)



Source: UBS; as of 20 Mar 2015

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