

Equity Research | China | Technology

13 December 2017

Cooling growth weighs on valuation

- SunnyOp's shipments of major products in Nov-17 came in below our expectation, echoing a lacklustre month for smartphone shipments in China which saw a 22% YoY decline.
- Huawei has recently unveiled the Dian Yun Depth Camera manufactured by SunnyOp, which marks another milestone for SunnyOp as a pioneer in 3D sensing module for Chinese brands.
- We have trimmed our 18E/19E revenue and profit estimates by 4.3%/7.1% and 11.5%/14.5% respectively and lowed our DCF-based PT to HKD115 (from HKD143). Maintain HOLD.

Nov-17 shipments below our expectation on customer inventory adjustment. SunnyOp's HLS/VLS/HCM shipment volume grew 42.9%/19.5%/0.5% YoY respectively in Nov-17. However, on a MoM basis, HLS/VLS/HCM shipments declined 3.0%/3.9%/10.1% respectively, which was mainly due to customer inventory adjustment. For the Jan-Nov 2017 period, shipment growth of HLS/VLS/HCM remained strong at 68.5%/41.8%/23.5% YoY respectively, which suggests that SunnyOp has mostly likely continued to gain domestic market share, in our view.

Lacklustre smartphone shipments in China in a traditionally strong month. According to CAICT, China's YTD (Jan-Nov) smartphone shipments contracted by 8.7% YoY (Android camp contracted by 8.3% YoY), whilst shipments in Nov-17 have dropped 21.7% YoY. Traditionally, Nov has been a strong month for smartphone shipments in China, posting 42.6%/32.3% MoM growth in Nov-16/Nov-15, which contrasts with an only 12.7% MoM growth in Nov-17. In our view, growing market saturation and lack of innovations in flagship models were to blame for the sluggish demand. We do not see any major drivers of a pickup in China's smartphone shipments in the near-term, which might weigh on the margins of upstream suppliers.

Still a front-runner in 3D sensing and next generation optics. Huawei Dian Yun Depth Camera's debut marks another milestone of SunnyOp's penetration into China 3D sensing supply chain with its module manufacturing capability. Though the component is still a plug-in solution, we see SunnyOp could leverage on its miniaturization capability to provide embedded solutions in 1H18, which grants SunnyOp ample room in the thriving 3D sensing market. In addition, with hybrid lens sets becoming trendy, SunnyOp is currently in mass production (since Aug-17) of 1G5P hybrid lens using molding glass process. Though we consider the process less cost-efficient than WLO/WLG ('Wafer Level Optics/Glass'), SunnyOp's extensive experience in glass lens and proven manufacturing capability (e.g., VLS) bode well for its front-runner position of the next generation optics.

Fair valuation. We have trimmed our FY18E/19E revenue and profit estimates by 4.3%/7.1% and 11.5%/14.5% respectively and lowered our DCF-based price target to HKD115 (from HKD143), representing FY18E 35.1x PER and 11.7x PBR. SunnyOp's growth potential and technology advantage have been reflected in its current valuation. Maintain Hold.

Sunny Optical (2382 HK)

Hold

(unchanged)

Price Target	HK\$115
(Revision)	(-19.6%)
(upside)	(7.1%)

EPS	2017E	2018E
revision	-4.5%	-11.5%

Close price	HKD107.4
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Market cap.	HKD117,818mn
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Free float	61.1%
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52-week range	HKD32.4 – 152.6
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3-mth ave. T/O	HKD1,207.4mn
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Price as of 13-December-2017

Stock rel HSI performance (%)

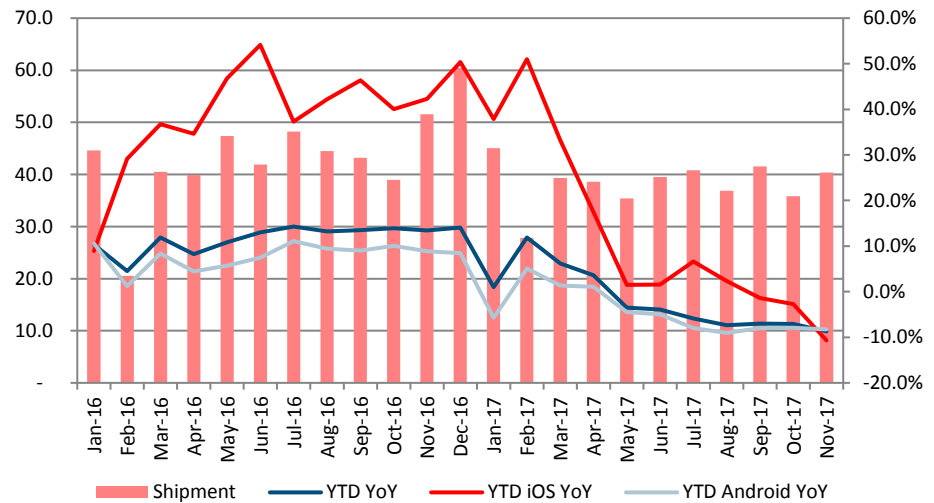


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Figure 1: China Smartphone shipment (mn units)


Source: CAICT, CSCI Research

Figure 2: Peers comparison table

Company	Ticker	Ccy	Close (Local\$)	Mkt cap (US\$m)	EPS Growth (%)		ROE (%)		Net debt / Equity (%)		Gross Margin (%)		PER (x)		PBR (x)			
					FY1	FY2	FY1	FY2	FY1	FY2	Latest	FY1	FY0	FY1	FY2	FY0	FY2	
SUNNY OPTICAL	2382 HK Equity	HKD	107.4	15,092	105.8	46.0	43.1	44.6	(8.5)	(20.8)	20.6	21.7	50.1	37.6	25.8	17.5	14.1	9.8
Q TECHNOLOGY GRO	1478 HK Equity	HKD	12.6	1,766	146.2	46.4	26.9	31.2	8.9	(0.4)	11.7	11.9	37.0	23.6	16.1	6.7	5.7	4.3
AAC TECHNOLOGIES	2018 HK Equity	HKD	145.9	22,839	33.5	36.5	32.6	34.7	4.7	(0.2)	41.4	41.8	31.7	28.3	20.7	10.1	8.5	6.6
TRULY INTL HLDGS	732 HK Equity	HKD	4,400	19,648	18.0	42.3	31.4	34.4	n.a.	n.a.	68.8	70.2	22.9	22.0	15.5	7.0	6.3	4.9
TONGDA GROUP HLD	698 HK Equity	HKD	327.0	1,086	414.9	214.8	(4.5)	n.a.	n.a.	n.a.	38.5	39.9	41.5	67.4	21.4	4.8	n.a.	n.a.
BYD ELECTRONIC	285 HK Equity	HKD	2.7	287	73.5	22.0	15.3	16.3	n.a.	n.a.	10.9	11.6	8.2	5.8	4.8	0.9	0.8	0.7
FIT HON TENG LTD	6088 HK Equity	HKD	3.7	1,483	(58.0)	254.8	2.9	11.2	n.a.	n.a.	8.9	10.1	n.a.	44.2	12.4	1.6	1.5	1.4
COWELL	1415 HK Equity	HKD	2.0	1,527	1.7	30.9	20.6	23.0	29.9	22.8	25.4	26.0	12.5	11.1	8.5	2.4	2.1	1.8
LARGAN PRECISION	3008 TT Equity	TWD	16.8	4,838	115.4	18.9	20.0	20.0	(33.9)	(43.3)	11.9	12.6	16.3	11.9	10.0	2.5	2.2	1.9
GENIUS ELEC	3406 TT Equity	TWD	5.8	4,969	6.7	28.1	13.9	14.0	(26.3)	(28.8)	18.1	18.4	24.5	23.1	18.0	n.a.	2.4	2.1
O-FILM TECH CO-A	002456 CH Equity	CNY	21.8	8,924	98.8	47.4	16.1	19.7	52.1	45.7	12.3	13.0	50.0	39.7	26.9	6.6	6.0	5.0
SHENZHEN SUNWA-A	300136 CH Equity	CNY	52.7	7,822	88.5	52.9	37.9	39.0	n.a.	n.a.	33.2	32.9	56.4	50.4	33.0	19.8	17.3	11.4
Average					87.1	70.1	21.3	26.2	3.8	(3.6)	25.1	25.8	31.9	30.4	17.8	7.3	6.1	4.5

Source: Bloomberg (13-December-2017)

Income statement (RMBmn)

Year end: Dec	2015	2016	2017E	2018E	2019E
Revenue	10,696	14,612	22,938	28,737	34,408
COGS	(8,933)	(11,932)	(18,228)	(22,791)	(27,344)
Gross profit	1,763	2,680	4,710	5,945	7,064
Selling and marketing	(95)	(154)	(243)	(297)	(350)
R&D	(502)	(694)	(1,167)	(1,377)	(1,549)
Admin	(257)	(331)	(401)	(467)	(530)
Operating profit	909	1,501	2,899	3,805	4,636
Other income, net	54	73	75	78	82
EBIT	963	1,574	2,974	3,883	4,717
Net interest	23	30	27	23	37
Associates and JVs	(2)	(12)	(2)	(5)	(5)
Exceptional items	(123)	(145)	(168)	(183)	(202)
Pretax profit	862	1,446	2,831	3,718	4,547
Taxation	(99)	(175)	(376)	(523)	(682)
Net profit	764	1,272	2,455	3,195	3,865
Non controlling interests	(2)	(1)	(1)	(1)	(1)
Net profit for parent	762	1,271	2,454	3,194	3,864
Basic, basic (RMB)	0.71	1.18	2.24	2.91	3.52
Basic, diluted (RMB)	0.70	1.17	2.23	2.90	3.51
DPS (RMB)	0.21	0.29	0.56	0.73	0.88

Balance sheet (RMBmn)

Year end: Dec	2015	2016	2017E	2018E	2019E
Cash	187	467	18	313	679
Short term investments	1,796	2,201	1,704	1,675	1,648
Accounts receivables	3,003	3,716	4,273	4,786	5,265
Inventory	897	2,828	3,535	4,066	4,513
Other current assets	134	106	308	338	372
Total current assets	6,017	9,318	9,838	11,179	12,476
PP&E	1,141	1,794	3,026	4,306	5,375
Intangible Assets	0	0	414	414	414
Associates and JVs	110	100	38	32	27
Other long term assets	368	425	990	1,097	1,201
Total long term assets	1,619	2,319	4,467	5,849	7,018
TOTAL ASSETS	7,636	11,637	14,305	17,028	19,494
Short term debt	683	904	1,519	1,215	243
Accounts payables	2,914	5,573	5,015	5,417	5,742
Other current liabilities	142	181	152	163	174
Total current liabilities	3,739	6,658	6,687	6,795	6,159
Long term debt	-	-	-	-	-
Deferred tax	19	34	75	82	90
Other long term liabilities	33	31	494	519	546
Total long term liabilities	52	65	568	601	636
TOTAL LIABILITIES	3,791	6,723	7,255	7,396	6,795
Shareholders' funds	3,831	4,895	7,031	9,612	12,678
Minority Interests	14	18	19	20	21
TOTAL LIAB AND EQUITY	7,636	11,637	14,305	17,028	19,494
Net cash / (debt)	(496)	(437)	(1,501)	(902)	436

Source: Company, CSCI Research estimates

Cash flow statement (RMBmn)

Year end: Dec	2015	2016	2017E	2018E	2019E
EBIT	963	1,574	2,974	3,883	4,717
Depreciation & amortisation	246	317	368	416	457
Net interest	23	30	27	23	37
Taxes paid	(99)	(175)	(376)	(523)	(682)
Changes in working capital	538	(142)	(1,617)	(707)	(665)
Others	30	12	(582)	(183)	(202)
Cash flow from operations	1,701	1,616	794	2,909	3,663
Capex	(283)	(792)	(1,600)	(1,696)	(1,526)
Acquisitions	-	-	-	-	-
Disposals	8	10	-	-	-
Others	(1,657)	(478)	60	-	-
Cash flow from investing	(1,932)	(1,260)	(1,540)	(1,696)	(1,526)
Dividends	(170)	(228)	(318)	(614)	(799)
Issue of shares	-	-	-	-	-
Change in debt	162	221	615	(304)	(972)
Others	(79)	(68)	-	-	-
Cash flow from financing	(87)	(76)	297	(917)	(1,771)
Change in cash	(318)	280	(449)	295	366
Free cash flow	(231)	356	(746)	1,213	2,137

Key ratios

Year end: Dec	2015	2016	2017E	2018E	2019E
Operating ratios					
EBIT margin (%)	9.0	10.8	13.0	13.5	13.7
Net margin (%)	7.1	8.7	10.7	11.1	11.2
Effective tax rate (%)	11.5	12.1	13.3	14.1	15.0
Revenue growth (%)	26.9	36.6	57.0	25.3	19.7
Net income growth (%)	34.5	66.8	93.1	30.1	21.0
EPS growth adj (%)	34.5	66.8	93.1	30.1	21.0
DPS growth (%)	34.2	39.4	92.9	30.1	21.0
Efficiency ratios					
ROE (%)	19.9	26.0	34.9	33.2	30.5
ROCE (%)	24.7	31.6	39.0	37.9	35.4
Asset turnover (x)	1.4	1.3	1.6	1.7	1.8
Op cash / EBIT (x)	1.8	1.0	0.3	0.7	0.8
Depreciation / CAPEX (x)	0.9	0.4	0.2	0.2	0.3
Accounts receivable days	92.0	83.9	63.6	57.5	53.3
Accounts payable days	95.2	129.8	106.0	83.5	74.5
Leverage ratios					
Net gearing (%)	12.9	8.9	21.3	9.4	(3.4)
Net debt / EBITDA (x)	(0.4)	(0.2)	(0.5)	(0.2)	0.1
Interest cover (x)	60.2	97.3	126.6	154.5	372.1
Current ratio (x)	1.6	1.4	1.5	1.6	2.0
Valuation					
PER (x)	136.7	88.3	46.0	35.1	28.9
EV/EBITDA (x)	81.2	57.0	37.7	25.6	20.9
PBR (x)	27.1	22.8	16.0	11.7	8.8
Dividend yield (x)	0.2	0.3	0.5	0.7	0.9



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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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