



Company Report: Sunny Optical (02382 HK)

公司报告: 舜宇光学 (02382 HK)

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Huge Market Opportunities, "Accumulate" 巨大的市场空间, "收集"

- **We expect Sunny Optical to maintain strong shipments growth in 4Q19.** Due to the notable trend of specification upgrade in terms of optics for smartphones, including multiple cameras, 3D sensors, and periscope-style zoom technology, we expect handset lens sets and optoelectronic products to maintain strong shipments growth in 4Q19. Due to huge market opportunities for the vehicle imaging field, we expect vehicle lens sets to maintain strong shipments growth in 4Q19.
- **We expect 5G to help drive the smartphone market from 2020.** Several 5G smartphones have already been released to the market. Due to relatively high selling prices and insufficient 5G network coverage, we expect 5G smartphone shipments in 4Q19 to be relatively low. However, with the decline in selling prices of 5G smartphones as well as continuous improvements in network coverage, we expect 5G smartphone shipments to achieve rapid growth from 2020.
- **We think that Apple is very likely to incorporate Sunny Optical into its supply chain in the future.** Due to Sunny Optical's leading position in the optical lens market, we expect Apple to include Sunny Optical in their lens supplier list in the future in order to reduce supply risk and improve bargaining power.
- **We revise up TP from HK\$112.00 to HK\$128.00 but downgrade the Company's investment rating from "Buy" to "Accumulate".** We have revised up our FY19-FY21 EPS forecast by 1.4%/ 1.8%/ 5.6%, respectively. The TP represents 37.0x, 26.3x and 20.5x FY19-FY21 PER.
- **我们预计舜宇光学 2019 第四季度将维持强劲的出货量增长。**由于智能手机在光学方面的规格升级趋势显著(包括多摄, 3D 感应, 潜望式变焦技术), 我们预计手机镜头和光电产品将在 2019 年第四季度保持强劲的出货量增长。由于车载成像领域的巨大市场空间, 我们预计车载镜头在 2019 年第四季度将保持强劲的出货量增长。
- **我们预计 5G 将从 2020 年开始推动智能手机市场。**若干款 5G 智能手机已经发放市场。由于相对较高的售价和 5G 网络覆盖不足, 我们预计 2019 年第四季度 5G 智能手机的出货量将较少。但是, 随着 5G 智能手机售价的下降以及网络覆盖的不断完善, 我们预计 5G 智能手机的出货量将从 2020 年开始实现快速的增长。
- **我们认为苹果将来很有可能将舜宇光学纳入其供应链。**由于舜宇光学在光学镜头市场的领先地位, 我们预计苹果未来会将舜宇光学纳入镜头的供应商名单, 以降低供应风险并提高议价能力。
- **我们将目标价从 112.00 港元上调至 128.00 港元, 但将公司的投资评级由"买入"下调至"收集"。**我们分别上调 2019-2021 财年的每股盈利预测 1.4%/ 1.8%/ 5.6%。目标价相当于 37.0 倍、26.3 倍和 20.5 倍 2019-2021 财年市盈率。

Rating:

Accumulate
Downgraded

评级:

收集 (下调)

6-18m TP 目标价:

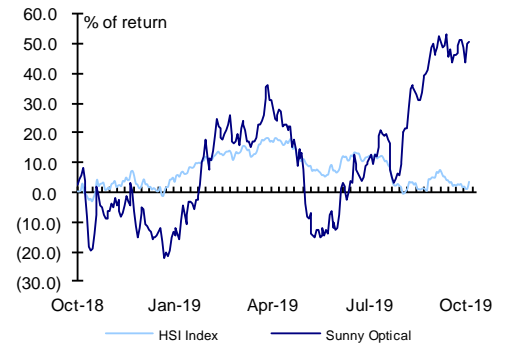
HK\$128.00
HK\$112.00

Share price 股价:

HK\$115.000

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. %			
绝对变动 %	-3.7	33.7	45.7
Rel. % to HS Index			
相对恒指变动 %	-0.6	40.6	42.9
Avg. Share price(HK\$)			
平均股价 (港元)	116.6	104.0	86.5

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2017A	22,366	2,902	2.668	126.9	35.9	6.885	13.9	0.661	0.7	46.9
2018A	25,932	2,491	2.279	(14.6)	44.3	8.449	12.0	0.568	0.6	29.8
2019F	34,500	3,473	3.166	38.9	33.3	11.017	9.6	0.792	0.8	32.6
2020F	41,141	4,895	4.462	40.9	23.6	14.687	7.2	1.117	1.1	34.7
2021F	48,144	6,275	5.721	28.2	18.4	19.291	5.5	1.432	1.4	33.7
Shares in issue (m)	总股数 (m)		1,096.9		Major shareholder 大股东		Sun Xu Ltd.		35.5%	
Market cap. (HK\$ m)	市值 (HK\$ m)		126,143.5		Free float (%) 自由流通比率 (%)				64.5	
3 month average vol.	3 个月平均成交股数 ('000)		7,806.7		FY19 Net gearing (%) FY19 净负债/股东资金 (%)				21.6	
52 Weeks high/low (HK\$)	52 周高/低 (HK\$)		126.100 / 58.550		FY19 Est. NAV (HK\$) FY19 每股估值 (港元)				130.0	

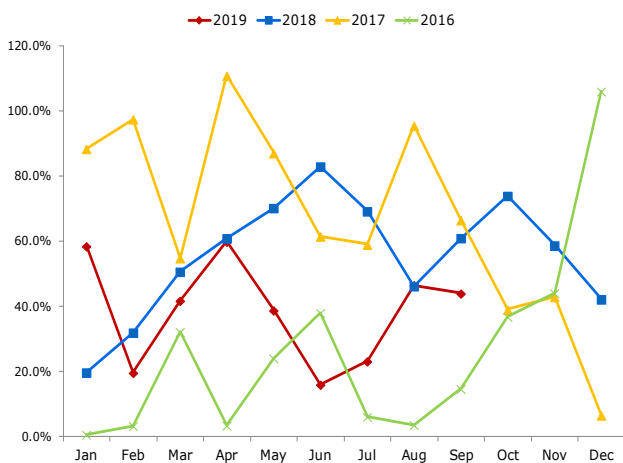
Source: the Company, Guotai Junan International.

We expect Sunny Optical ("the Company") to maintain strong shipments growth in 4Q19. Shipments of handset lens sets and handset camera modules increased by 38.0% yoy and 23.2% yoy, respectively, in Jan.-Sep. 2019, mainly due to the Company's rising market share. The Company's shipments of vehicle lens sets increased by 25.9% yoy, mainly due to the rapid development in the vehicle camera field. Due to the rapid growth in shipments of 3D products, such as structured light and time of flight, shipments of other optoelectronic products in Jan.-Sep. 2019 increased by 362.6% yoy. Due to the notable trend of specification upgrade in terms of optics for smartphone, including multiple cameras, 3D sensing, and periscope-style zoom technology, we expect handset lens sets and optoelectronic products to maintain strong shipments growth in 4Q19. Due to the huge market space for the vehicle imaging field, we expect vehicle lens sets to maintain strong shipments growth in 4Q19.

We expect 5G to help drive the smartphone market from 2020. Several 5G smartphones have already been released to the market. Some overseas markets have already provided 5G commercial services to consumers, and we expect that the three telecom operators in China will provide 5G commercial services to consumers in 4Q19. However, due to relatively high selling prices and insufficient 5G network coverage, we expect shipments of 5G smartphones in 4Q19 to be relatively low. However, with the decline in selling prices of 5G smartphones as well as continuous improvement in network coverage, we expect 5G smartphone shipments to achieve rapid growth from 2020.

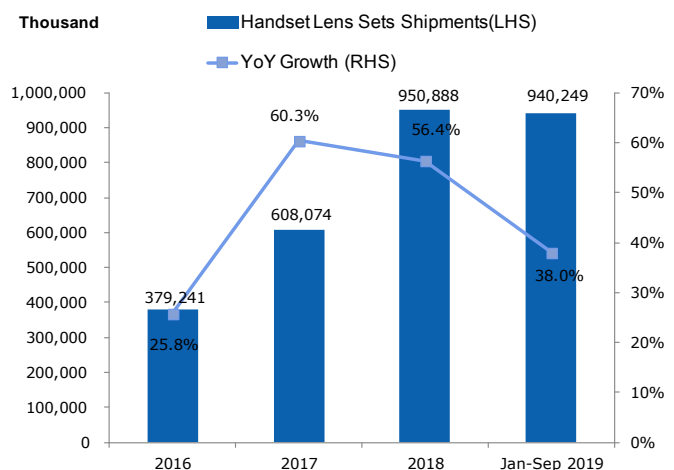
We think that Apple is very likely to incorporate Sunny Optical into its supply chain in the future. The introduction of more suppliers can reduce the supply risk of lens sets and increase the bargaining power of smartphone manufacturers. Due to Sunny Optical's leading position in the optical lens market, we expect Apple to include Sunny Optical into its lens supplier list.

Figure-1: Sunny Optical's Monthly Handset Lens Sets Shipments YoY Growth



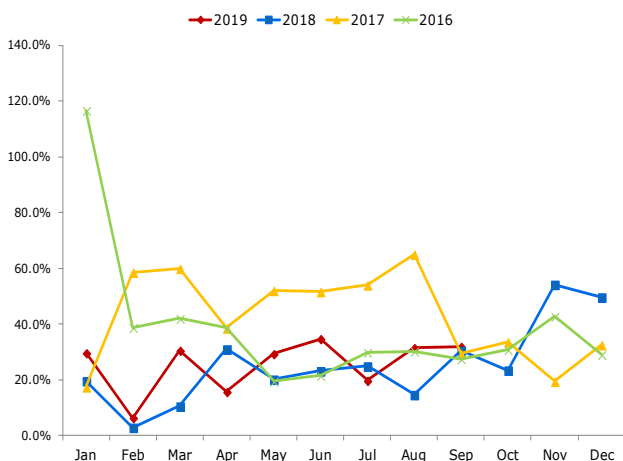
Source: the Company, Guotai Junan International.

Figure-2: Sunny Optical's Handset Lens Sets Shipments and YoY Growth



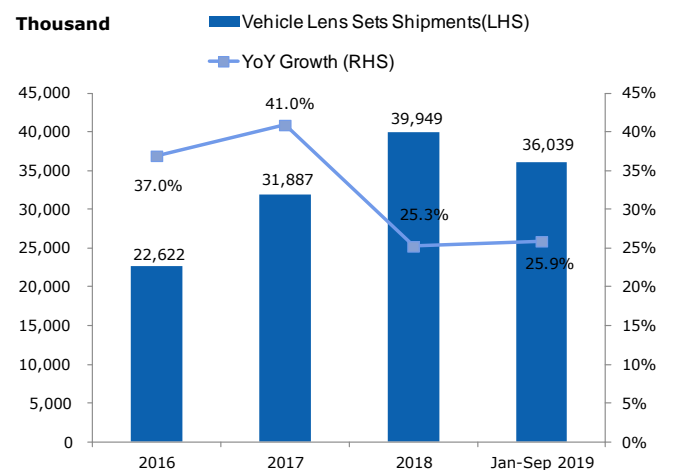
Source: the Company, Guotai Junan International.

Figure-3: Sunny Optical's Monthly Vehicle Lens Sets Shipments YoY Growth



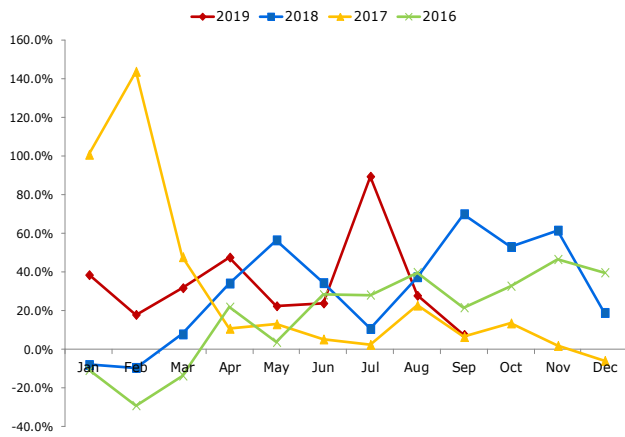
Source: the Company, Guotai Junan International.

Figure-4: Sunny Optical's Vehicle Lens Sets Shipments and YoY Growth



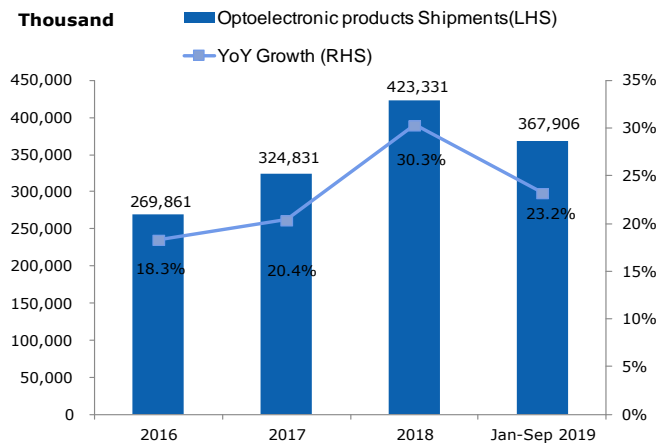
Source: the Company, Guotai Junan International.

Figure-5: Sunny Optical's Monthly Optoelectronic products Shipments YoY Growth



Source: the Company, Guotai Junan International.

Figure-6: Sunny Optical's Optoelectronic products Shipments and YoY Growth



Source: the Company, Guotai Junan International.

Profit Estimates

We revise up our FY19-FY21 EPS forecasts by 1.4%/ 1.8%/ 5.6%, respectively. We revise up FY19-FY21 revenue forecasts by 0.7%/ 0.4%/ 1.2%, respectively, based on our forecast on shipments and average selling prices. We revise up FY19-FY21 gross margin forecasts by 0.2 ppt/ 0.2 ppt/ 0.6 ppt, respectively. We revise FY19-FY21 shareholders' net profit forecasts by 1.4%/ 1.8%/ 5.6%, respectively, to reflect our forecasts on revenue and gross margin.

Table-1: Financial Estimations Revisions

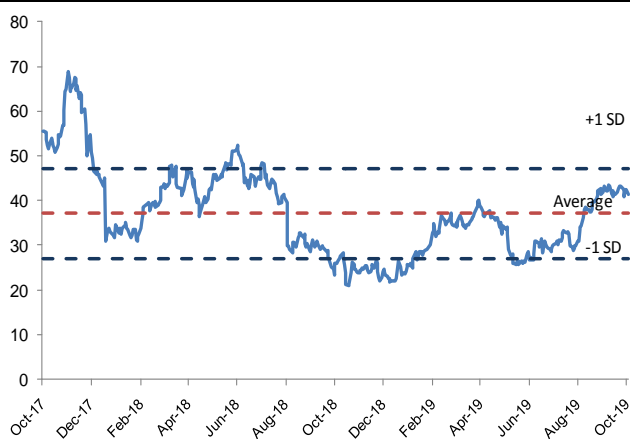
RMB (Million)	OLD			NEW			CHANGE		
	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F
Total revenue	34,275	40,960	47,554	34,500	41,141	48,144	0.7%	0.4%	1.2%
Shareholders' net profit	3,425	4,807	5,939	3,473	4,895	6,275	1.4%	1.8%	5.6%
EPS (RMB)	3.122	4.382	5.415	3.166	4.462	5.721	1.4%	1.8%	5.6%

Source: the Company, Guotai Junan International.

Valuation

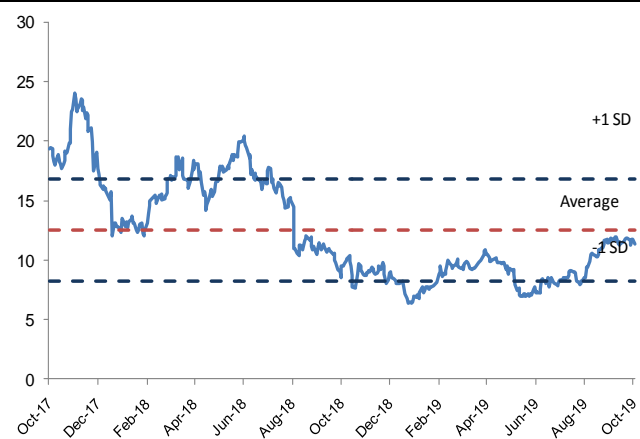
We revise up target price from HK\$112.00 to HK\$128.00, but downgrade the Company's investment rating from "Buy" to "Accumulate". Given the broad market space for optics in smartphones and vehicles, the approach of 5G, as well as the possibility of being included in Apple's industry chain, we revise up TP from HK\$112.00 to HK\$128.00. The TP represents 37.0x, 26.3x and 20.5x FY19-FY21 PER.

Figure-7: Sunny Optical's PE Graph



Source: Bloomberg, Guotai Junan International.

Figure-8: Sunny Optical's PB Graph



Source: Bloomberg, Guotai Junan International.

Table-2: Peers Comparison

Company	Ticker	Currency	Price	Market Cap		PER			PBR			ROE (%)	D/Y (%)	EV/EBITDA
				(HKD Mil)	19F	20F	21F	19F	20F	21F	19F	19F	19F	
HK Listed Companies														
Q Tech Group Co. Ltd.	01478 HK	HKD	9.440	10,785	23.8	18.2	14.8	3.9	3.2	2.7	17.5	0.5	13.6	
Sunny Optical	02382 HK	HKD	115.000	126,138	33.3	24.2	19.3	9.5	7.2	5.7	31.9	0.9	22.3	
Aac Technologies Holdings In	2018 HK	HKD	45.600	55,108	20.6	16.1	14.3	2.5	2.3	2.1	12.4	2.4	10.6	
Truly International Holdings	732 HK	HKD	1.050	3,454	4.5	4.6	4.0	0.5	0.4	0.4	5.1	n.a.	3.2	
Cowell E Holdings Inc.	01415 HK	HKD	1.290	1,073	12.6	6.9	5.6	0.4	0.4	0.4	5.1	6.1	n.a.	
Simple Average					19.0	14.0	11.6	3.4	2.7	2.3	14.4	2.5	12.4	
Weighted Average					28.6	21.1	17.3	7.0	5.5	4.4	25.0	1.4	18.2	
Taiwan Listed Companies														
Largan Precision Co. Ltd.	03008 TT	TWD	4,460.000	153,311	20.6	17.7	15.4	4.7	3.9	3.3	24.7	1.7	12.8	
Tung Thih Electronic Co Ltd	03552 TT	TWD	70.500	1,543	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Simple Average					20.6	17.7	15.4	4.7	3.9	3.3	24.7	1.7	12.8	
Weighted Average					20.6	17.7	15.4	4.7	3.9	3.3	24.7	1.7	12.8	
PRC Listed Companies														
O-Film Tech Co Ltd-A	002456 CH	CNY	11.880	35,765	29.8	18.3	19.5	3.0	2.7	2.8	12.4	0.2	10.2	
Hangzhou Hikvision Digital-A	002415 CH	CNY	30.970	321,167	22.3	17.9	14.8	6.4	5.2	4.2	29.8	2.1	19.1	
Zhejiang Dahua Technology-A	002236 CH	CNY	16.070	53,456	15.7	12.9	10.5	3.0	2.5	2.0	20.8	0.8	12.7	
Goertek Inc -A	002241 CH	CNY	18.700	67,341	46.9	36.0	29.9	3.7	3.4	3.1	8.0	0.5	19.4	
Luxshare Precision Industr-A	002475 CH	CNY	28.400	168,578	38.3	27.4	21.9	7.5	6.0	4.8	20.7	0.4	24.8	
Lens Technology Co Ltd-A	300433 CH	CNY	13.490	58,785	34.0	24.7	22.5	2.9	2.6	2.5	8.8	0.8	13.4	
Dongxu Optoelectronic Tech-A	000413 CH	CNY	5.460	34,055	14.8	13.0	10.1	0.9	0.9	0.9	6.0	5.1	n.a.	
Ningbo Joyson Electronic -A	600699 CH	CNY	16.180	23,346	15.8	13.3	10.7	1.4	1.3	1.2	9.2	0.9	6.0	
Zhejiang Crystal-Optech -A	002273 CH	CNY	16.000	19,987	35.5	28.1	23.0	4.1	3.7	3.3	10.9	0.7	n.a.	
Simple Average					28.1	21.3	18.1	3.7	3.2	2.8	14.1	1.3	15.1	
Weighted Average					28.5	21.6	18.0	5.3	4.4	3.7	20.9	1.4	18.7	
Overall Average					22.6	17.6	15.0	3.9	3.3	2.8	17.7	1.8	13.5	
Overall Weighted Average					25.9	20.1	16.9	5.7	4.6	3.8	23.5	1.5	16.6	

Source: Bloomberg.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Optical components Revenue	4,302	6,023	8,734	10,394	13,044	PP&E	2,586	4,523	6,052	7,401	8,592
Optoelectronic products Revenue	17,771	19,609	25,507	30,475	34,815	Prepay lease payments	163	214	0	0	0
Optical instruments Revenue	294	300	259	271	286	Intangible assets	392	349	457	558	650
Total Revenue	22,366	25,932	34,500	41,141	48,144	Interest in an associates	125	101	72	76	80
Cost of revenues	(17,563)	(21,019)	(27,841)	(32,455)	(37,433)	Deposit for acquisition of PPE	595	401	453	541	649
Gross profit	4,803	4,913	6,659	8,686	10,711	Others	230	496	922	1,001	1,092
Other income	206	467	403	421	579	Total Non-current Assets	4,091	6,084	7,955	9,577	11,063
Other gains & losses	136	(297)	(109)	(2)	(2)	Inventories	2,622	3,074	4,423	5,306	6,245
S&D expenses	(205)	(210)	(276)	(309)	(337)	Receivables & prepayment	5,666	6,231	8,109	9,727	11,450
R&D expenses	(1,168)	(1,362)	(1,897)	(2,345)	(2,889)	Financial assets at FVTPL	1,952	4,760	4,902	5,147	5,405
Admin expenses	(389)	(434)	(586)	(658)	(722)	Cash & Cash Equivalents	1,227	2,254	2,254	2,324	3,082
Operating Profit	3,383	3,077	4,193	5,793	7,341	Others	169	449	271	258	250
Share of result of an associate	(16)	(24)	(5)	(2)	(1)	Total Current Assets	11,635	16,768	19,959	22,763	26,432
Finance costs	(49)	(202)	(215)	(191)	(161)	Total Assets	15,726	22,852	27,914	32,340	37,495
Profit Before Tax	3,318	2,851	3,973	5,599	7,178	Trade and other payables	6,183	7,064	9,466	10,386	11,230
Income Tax	(404)	(339)	(497)	(700)	(897)	Borrowings	1,348	1,482	889	623	436
Profit After Tax	2,914	2,513	3,476	4,899	6,281	Others	175	131	183	192	202
Non-controlling Interest	(13)	(22)	(3)	(5)	(6)	Total Current Liabilities	7,705	8,677	10,538	11,200	11,868
Shareholders' Profit / Loss	2,902	2,491	3,473	4,895	6,275	Deferred tax liabilities	107	403	524	577	634
Basic EPS	2.668	2.279	3.166	4.462	5.721	Deferred income	45	70	72	74	77
						Bonds payable	0	4,080	4,038	3,634	2,907
						Others	350	333	476	504	533
						Total Non-current Liabilities	502	4,887	5,111	4,789	4,151
						Total Liabilities	8,207	13,564	15,649	15,989	16,018
						Share capital	105	105	105	105	105
						Reserves	7,383	9,129	11,979	16,004	21,054
						Total Shareholders' Equity	7,489	9,234	12,084	16,109	21,159
						Minority Interest	31	54	181	242	317
						Total Equity	7,519	9,288	12,265	16,351	21,476
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
Profit before tax	3,318	2,851	3,973	5,599	7,178	Gross profit margin (%)	21.5	18.9	19.3	21.1	22.2
D&A	535	819	1,221	1,672	2,191	Operating profit margin (%)	15.1	11.9	12.2	14.1	15.2
Change in working capital	(1,126)	(203)	(805)	(1,899)	(2,445)	Net profit margin (%)	13.0	9.6	10.1	11.9	13.0
Tax paid	(295)	(262)	(397)	(654)	(850)	ROA (%)	21.2	12.9	13.7	16.2	18.0
Others	5	363	(64)	(182)	(164)	ROE (%)	46.9	29.8	32.6	34.7	33.7
Cash from Operating Activities	2,436	3,568	3,927	4,536	5,910	Current ratio (x)	1.5	1.9	1.9	2.0	2.2
Investing activities						Quick ratio (x)	1.2	1.6	1.5	1.6	1.7
CAPEX	(1,718)	(2,491)	(2,690)	(3,008)	(3,413)	Debt to equity ratio (x)	17.9	59.9	40.2	26.0	15.6
Change in financial assets at FVTPL	75	(2,480)	(143)	(245)	(257)	Net gearing (%)	1.3	35.4	21.6	11.7	1.1
Others	(43)	(528)	439	239	245						
Cash from Investing Activities	(1,686)	(5,499)	(2,393)	(3,015)	(3,425)						
Dividend paid	(318)	(725)	(623)	(869)	(1,225)						
Change in borrowings	444	88	(593)	(267)	(187)						
Change in bond payable	0	3,832	0	0	0						
Others	(113)	(238)	(318)	(316)	(316)						
Cash from Financing Activities	12	2,957	(1,534)	(1,452)	(1,728)						
Net Changes in Cash	762	1,025	(0)	70	758						
Cash at Beg of Year	467	1,227	2,254	2,254	2,324						
FX change	(2)	2	0	0	0						
Cash at End of Year	1,227	2,254	2,254	2,324	3,082						

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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