

COMPANY UPDATE

Sunny Optical (2382 HK)

Takeaways From Taiwan NDR

We hosted an NDR with Sunny Optical in Taiwan last week. Questions were mostly related to impacts from the trade war, the vehicle business, handset business' recovery and some upcoming prospects such as XR and robotics vision. Overall the investors have turned more positive on Sunny's outlook compared with half a year ago, but we also believe that investors would prefer a bit more visibility on trade deals before turning positive on the market. Maintain BUY. Target price: HK\$100.00.

WHATS NEW

- **Tariff exposure relatively low at single-digit percentage of revenue.** This includes: a) ~3% direct exposure to the US from the vehicle lens set business; b) low single-digit % exposure from the Apple supply chain; c) low single-digit % exposure from Samsung supply chain (Samsung has ~10% exposure to the US market); and d) low single-digit % exposure from VR headset. Overall, total exposure on the revenue side is around 6-8%, which is relatively low when compared with other Apple supply chain players. On the supply side, Sunny Optical (Sunny) procures its components and equipment from a combination of Chinese, Japanese, and European companies, so the impact from China's retaliatory tariffs towards the US is also minimal.
- **Sunny's clients have not made significant changes in their plans towards the trade war so far.** Orders from clients have had no changes, similar to what we understand so far – basically most brands and vendors with exposure to the US are maintaining a wait-and-see stance – which is reasonable given the rapidly evolving geopolitical landscape in recent months. There have also been no requests to shift capacity as yet, likely due to concerns with the meaningfully higher cost in the US market. Nevertheless, Sunny stated that the company is open to discussions, should there be requests from their clients, although the company did state its concerns about profitability if the supply chain is to be moved to the US.
- **Vehicle business expected to maintain elevated growth in next few years.** Another common question raised by investors was about Sunny's guidance on vehicle business; some believe management's guidance of +15-20% shipment volume for VLS and +40% revenue growth for vehicle camera modules are on the conservative side, as its peers, primarily from the domestic market, have guided for a higher growth rate on the back of an accelerated penetration of autonomous driving.

According to Sunny, its slower growth guidance is primarily due to a higher base. The global vehicle camera market is expected to grow at a single-digit % in 2025, and the 15-20% shipment guidance for VLS already represents share gains on top of its world-leading share of 32%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2023	2024	2025F	2026F	2027F
Net turnover	31,681	38,294	43,456	48,407	53,072
EBITDA	3,812	5,681	7,488	8,283	9,171
Operating profit	1,807	3,525	4,275	4,718	5,255
Net profit (rep./act.)	1,099	2,699	3,412	3,819	4,280
Net profit (adj.)	1,099	2,699	3,412	3,819	4,280
EPS (Fen)	100.7	248.2	313.7	351.1	393.5
PE (x)	56.8	23.0	18.2	16.3	14.5
P/B (x)	3.4	3.0	2.7	2.5	2.2
EV/EBITDA (x)	16.3	10.9	8.3	7.5	6.8
Dividend yield (%)	0.3	0.8	1.0	1.1	1.2
Net margin (%)	3.5	7.0	7.9	7.9	8.1
Net debt/(cash) to equity (%)	(32.9)	6.0	(8.8)	(19.2)	(32.3)
Interest cover (x)	10.3	4.0	7.1	10.2	12.1
ROE (%)	5.0	11.4	13.1	13.1	13.2
Consensus net profit	-	-	3,367	4,049	4,798
UOBKH/Consensus (x)	-	-	1.01	0.94	0.89

Source: Sunny Optical, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$62.90
Target Price	HK\$100.00
Upside	+59.0%

COMPANY DESCRIPTION

Sunny Optical is engaged in the design, manufacturing and sales of optical and optical-related products. These products include glass/plastic lenses, lens sets, camera modules for mobile phones and digital cameras, microscopes and other analytical instrument.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	2382 HK
Shares issued (m):	1,097
Market cap (HK\$m):	68,987
Market cap (US\$m):	8,902
3-mth avg daily t'over (US\$m):	145.2

Price Performance (%)

52-week high/low HK\$96.15 / HK\$33.30

1mth	3mth	6mth	1yr	YTD
(15.0)	10.0	60.5	79.0	11.8

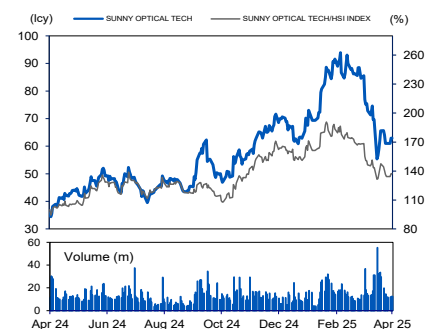
Major Shareholders

	%
Sun Xu Ltd.	35.5

FY25 NAV/Share (RMB) 25.29

FY25 Net Debt/Share (RMB) 2.20

PRICE CHART



Source: Bloomberg

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Also, its VLS business has a domestic/overseas split of 30%/70% currently. The domestic market is in fact seeing a significantly higher growth of 20-30%, but given that the company has a much larger exposure to the overseas market which is taking the approach of a more gradual upgrade trend, its overall growth is relatively slower at the moment. For the vehicle camera module guidance, Sunny saw a 50% increase in order bookings in the past half year to Rmb15b, with growth primarily coming from European and Japanese OEMs, which is expected to be realised in the next 2-3 years. Going forward, driven by the elevated order backlog and accelerated penetration of ADAS, Sunny expects growth for VLS and vehicle camera modules to remain elevated at 10-20% and 30-40% per year in the next few years respectively.

- **Handset business – specification upgrades to carry over to mid-range phones.** Sunny see the specs upgrade trend to continue in 2025. Flagship phones will continue to see meaningful upgrades, with notable upgrades including large image size, more advanced periscope camera, and multi-group telephoto lens. On the other hand, Sunny's integrated HCM solution ie self-developed lens+voice coil motors (VCM) received positive reception from clients, with shipments expected to double in 2025 to 20m units (~4% of total HCM shipments in 2025). Sunny stated that due to higher ASP, higher yield and better cost structure, some of these integrated HCM solutions had managed to record double-digit % margins, which is a positive surprise to us as we were expecting HCM margins to remain at the mid-high single digit % range.
- Guidance for the smartphone business remains largely unchanged. HLS shipment is expected to grow at around 5% yoy, ASP to expand slightly yoy, and margins to reach 25-30%; HCM shipment is expected to grow 5-10% yoy, ASP to remain flattish, and margins are expected to reach 8-10%.
- **Extended reality (XR) business will see momentum pick up due to smart glasses.** Management stated that smart glasses are expected to see a significant growth in volume this year to around 10m units, which is expected to offset the decline in VR headset shipments this year. Smart glasses expected to be a transition product in the next 3-5 years before AR glasses technology becomes more mature.
- **Robotic vision is a long-term prospect, but near-term contribution will remain minimal.** Sunny is working with a wide range of AI robot and humanoid robot makers in the development/supply of robotics vision. Sunny stated that current robotics vision technology is similar to that of ADAS level 1, requiring both sensors and vision recognition, and expects non-humanoid AI robots (eg robotic arm, cobots) to see a more meaningful pick-up in shipment volume before humanoid robots. Nevertheless, given the relatively smaller scale, contribution to revenue/earnings is expected to be limited in the foreseeable future.

STOCK IMPACT

- **Investors generally like Sunny's position as the world's leading optical component provider** and its exposure to multiple themes with prosperous outlook. Given Sunny's relatively lower exposure to tariff risks, we believe there is potential for the company to be viewed as a defensive play against the current geopolitical landscape.

EARNING REVISION/RISK

- **Earnings revision:** None.
- **Risk:** If more countries work with the US and impose tariffs on Chinese goods, Sunny's exposure to geopolitical risks will increase significantly. Do note that this scenario is very unlikely at this point.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of HK\$100.00**, based on 29.0x 2025F PE, equivalent to 0.5SD below its five-year historical forward mean.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2024	2025F	2026F	2027F
Net turnover	38,294	43,456	48,407	53,072
EBITDA	5,681	7,488	8,283	9,171
Depreciation & amortization	2,157	3,214	3,565	3,916
EBIT	3,525	4,275	4,718	5,255
Total other non-operating income	(0)	0	(0)	(0)
Associate contributions	118	118	118	118
Net interest income/(expense)	(499)	(419)	(389)	(389)
Pre-tax profit	3,144	3,974	4,448	4,984
Tax	(367)	(463)	(519)	(581)
Minorities	78	98	110	123
Net profit	2,699	3,412	3,819	4,280

CASH FLOW

Year to 31 Dec (Rmbm)	2024	2025F	2026F	2027F
Operating	3,455	7,504	7,222	8,933
Pre-tax profit	3,144	3,974	4,448	4,984
Tax	(367)	(463)	(519)	(581)
Depreciation/amortization	(2,157)	(3,214)	(3,565)	(3,916)
Associates	(118)	(118)	(118)	(118)
Working capital changes	(1,542)	1,060	13	903
Non-cash items	4,496	6,266	6,963	7,661
Other operating cashflows				
Investing	(10,437)	(3,847)	(3,836)	(3,822)
Capex (growth)	(3,000)	(3,000)	(3,000)	(3,000)
Investments	(191)	(250)	(240)	(226)
Proceeds from sale of assets	(598)	(597)	(596)	(596)
Others	(6,647)	-	-	-
Financing	(1,575)	244	105	26
Dividend payments	(217)	(526)	(665)	(744)
Issue of shares	-	-	-	-
Proceeds from borrowings	764	764	764	764
Loan repayment	-	-	-	-
Others/interest paid	(2,121)	6	6	6
Net cash inflow (outflow)	(8,556)	3,901	3,491	5,137
Beginning cash & cash equivalent	13,085	4,509	8,390	11,861
Changes due to forex impact	(20)	(20)	(20)	(20)
Ending cash & cash equivalent	4,509	8,390	11,861	16,978

BALANCE SHEET

Year to 31 Dec (Rmbm)	2024	2025F	2026F	2027F
Fixed assets	10,525	9,941	9,007	7,721
Other LT assets	5,813	6,214	6,598	6,961
Cash/ST investment	4,509	8,390	11,861	16,978
Other current assets	32,961	34,086	36,769	38,342
Total assets	53,807	58,631	64,236	70,002
ST debt	926	926	926	926
Other current liabilities	43,223	47,955	52,792	57,225
LT debt	120	120	120	120
Other LT liabilities	5,363	5,177	5,177	5,177
Shareholders' equity	24,765	27,512	30,586	34,032
Minority interest	528	528	528	528
Total liabilities & equity	53,807	58,631	64,236	70,002

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	18.3	18.6	18.8	19.1
Pre-tax margin	8.2	9.1	9.2	9.4
Net margin	7.0	7.9	7.9	8.1
ROA	5.2	6.1	6.2	6.4
ROE	11.4	13.1	13.1	13.2
Growth				
Turnover	20.9	13.5	11.4	9.6
EBITDA	52.6	15.6	12.6	11.1
Pre-tax profit	131.5	26.4	11.9	12.1
Net profit	145.5	26.4	11.9	12.1
Net profit (adj.)	145.5	26.4	11.9	12.1
EPS	146.5	26.4	11.9	12.1
Leverage				
Debt to total capital	11.3	11.1	10.2	9.3
Debt to equity	25.4	24.2	21.7	19.6
Net debt/(cash) to equity	(32.9)	6.0	(8.8)	(19.2)
Interest cover (x)	4.0	7.1	10.2	12.1

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