

COMPANY UPDATE

Sunny Optical (2382 HK)

Takeaways From 2024 Investor Day

Sunny has turned more positive on the smartphone market in 2024, forecasting a 3.5% yoy growth in global smartphone sales. The company provided more clarity on its exposure to AI, highlighting the potential of XR applications, machine vision and smartphone optical component upgrades directly driven by AI smartphones. We remain confident in Sunny's recovery story in 2024-26, and the Investor Day should boost confidence in the market. Maintain BUY and target price of HK\$63.00.

WHATS NEW

- **As expected, Sunny has turned more positive towards the global smartphone market in 2024**, as it is now forecasting a 3.5% yoy growth in global smartphone sales in 2024, which is an increase of 1.7% compared to its forecast earlier in the year. It is also now more in line with market expectations (ie IDC now expects a 4.0% yoy growth).
- **HLS and HCM to start recovering in 2024**. Sunny expects the handset business to rebound by low single digit % in 2024, before growing more meaningfully at mid to high single digit % in 2025-27. The company aims to maintain its no.1 market share position in both the handset lens sets (HLS) and handset camera modules (HCM) markets, through share gains in the US and Korean client. According to TSR Research, Sunny had achieved a market share of 26% and 13% in the global HLS and HCM market as of Dec 23.
- **Smartphone specification upgrade trend to continue**. As seen from devices released in 1H24, manufacturers have incorporated various upgrades to their lineups, with key upgrades on the optics side including improvements in telephoto/periscope cameras, miniaturised modules, continuous aperture and larger sensors. Hybrid lenses are seeing a pick-up in adoption, taking centre stage as a key upgrade trend in the smartphone market. From 2026 onwards, optics hardware upgrades with direct correlation with AI smartphones should start to contribute to spec upgrades as well, facilitating a multi-year spec upgrade cycle again.
- **Sunny aims to continue expanding its lead in VLS**. In 2023, Sunny had an 80% penetration in global major EV brands. As EVs account for only 33% of the global vehicle lens set (VLS) shipments, there is still ample room for growth as Sunny continues building its relationship with key EV manufacturers and the EV market expands across the world.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	33,197	31,681	33,424	38,241	41,838
EBITDA	5,259	4,380	5,451	6,838	7,626
Operating profit	3,024	1,807	2,546	3,568	3,992
Net profit (rep./act.)	2,408	1,099	1,881	2,780	3,190
Net profit (adj.)	2,408	1,099	1,881	2,780	3,190
EPS (Fen)	220.3	100.7	172.2	254.5	292.1
PE (x)	21.3	46.6	27.3	18.4	16.1
P/B (x)	2.8	2.8	2.6	2.4	2.2
EV/EBITDA (x)	9.7	11.6	9.3	7.4	6.7
Dividend yield (%)	0.9	0.4	0.7	1.0	1.1
Net margin (%)	7.3	3.5	5.6	7.3	7.6
Net debt/(cash) to equity (%)	(3.4)	(32.9)	(42.7)	(44.3)	(62.1)
Interest cover (x)	25.4	10.3	4.0	6.9	10.4
ROE (%)	11.4	5.0	8.1	11.1	11.6
Consensus net profit	-	-	1,863	2,501	3,045
UOBKH/Consensus (x)	-	-	1.01	1.11	1.05

Source: Sunny Optical, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$51.65
Target Price	HK\$63.00
Upside	+22.0%

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):	56,648
Market cap (US\$m):	7,309
3-mth avg daily t'over (US\$m):	72.1

Price Performance (%)

52-week high/low	HK\$82.30/HK\$33.30			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
17.5	(5.7)	(28.0)	(37.2)	(27.1)

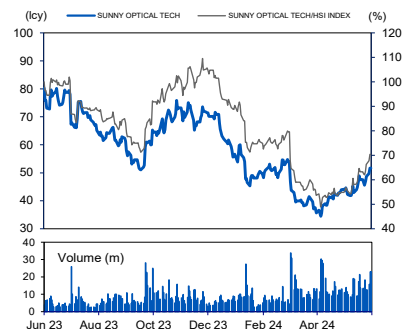
Major Shareholders

Sun Xu Ltd.	35.5
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FY24 NAV/Share (RMB) 21.91

FY24 Net Debt/Share (RMB) 9.35

PRICE CHART



Source: Bloomberg

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- Plenty of growth opportunities in automotive segment with emerging products – HUD.** Sunny is particularly interested in growing its market share in the Augmented Reality-Heads Up Display (AR-HUD) and automotive lighting markets. The company has managed to grow its AR-HUD revenue by more than 100% yoy in 2023, and is now expecting to increase market share from 3% in 2023 to 6% in 2024, in tandem with a 109% CAGR in 2022-27 (according to Trendforce). For smart headlamps, Sunny has several products in its lineup which have achieved mass production, and the company is expecting a significant leap in market penetration from 1% in 2023 to a whopping 18% in 2024, along with a 63.8% CAGR in 2022-27.
- Although the overseas LiDAR mass production was below expectations in 2023 due to intensifying diversification in the LiDAR development track, the market is still set for growth in the next 10 years. Notably, Sunny is focused on LiDAR optical components, and the assembly and module business which has provided product solutions for more than 60% of the 96 vehicle models in the market with LiDAR. The company has more than 15 projects set to commence mass production in 2024-25, which will provide a boost to sales revenue for the LiDAR business.
- Views on XR headsets.** Sunny has grouped existing offerings into two distinctive categories – full-function and light-function headsets. Meta, Google and Microsoft have gone down the light-function path, whereas Apple has chosen the full-function route with its Vision Pro. Ultimately, the choice of which development pathway to undertake depends on the resources and capabilities of the respective companies, as well as their target end-users. On Sunny's end, they are expecting that light-function headsets will prove to be more popular among consumers going forward.
- Management provided more clarity on opportunities from GenAI.** GenAI related exposure has become a key focus for both management's presentation and investors. According to management, Sunny has exposure to GenAI related opportunities across its different BUs. This includes smartphones – where GenAI functions will eventually require better hardware (ie higher resolution images) to better generate and process requests; extended reality (XR) – which is potentially one of the major end-terminals as an edge-AI device for applications at home, office, and integration with other devices (like vehicles); and machine vision – an area Sunny had been investing in for the past few years and will likely take off with the rise in popularity in humanoid robots.

#### STOCK IMPACT

- We believe a better explanation in Sunny's exposure to GenAI is positive for the company,** as the company was previously regarded as having limited exposure to the AI theme.
- Progress of the smartphone market's recovery is in line with investor's expectations – margins will be the next key indicator.** We believe Sunny raising its guidance on the smartphone market is generally in line with what the investors are expecting, and now the next key indicator should be the progress of its margins improvements which will likely be updated in its interim results in Jul-Aug 24.

#### EARNING REVISION/RISK

- Earnings revision: None.**

#### VALUATION/RECOMMENDATION

- Maintain BUY and target price of HK\$63.00,** based on 33.3x 2024F PE, pegged to 0.5SD below its five-year historical forward mean. With strong 1H24 shipment data coupled with the more positive outlook in the smartphone market, risks are leaning towards the upside for Sunny.

### PROFIT & LOSS

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>31,681</b>	<b>33,424</b>	<b>38,241</b>	<b>41,838</b>
EBITDA	4,380	5,451	6,838	7,626
Depreciation & amortization	2,573	2,904	3,269	3,634
<b>EBIT</b>	<b>1,807</b>	<b>2,546</b>	<b>3,568</b>	<b>3,992</b>
Total other non-operating income	(22)	0	0	(0)
Associate contributions	23	23	23	23
Net interest income/(expense)	(449)	(370)	(342)	(285)
<b>Pre-tax profit</b>	<b>1,358</b>	<b>2,198</b>	<b>3,249</b>	<b>3,729</b>
Tax	(208)	(264)	(390)	(447)
Minorities	51	54	79	91
<b>Net profit</b>	<b>1,099</b>	<b>1,881</b>	<b>2,780</b>	<b>3,190</b>

### CASH FLOW

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>9,824</b>	<b>6,399</b>	<b>4,800</b>	<b>9,754</b>
Pre-tax profit	1,358	2,198	3,249	3,729
Tax	(208)	(264)	(390)	(447)
Depreciation/amortization	(2,573)	(2,904)	(3,269)	(3,634)
Associates	(23)	(23)	(23)	(23)
Working capital changes	6,002	1,639	(1,245)	2,925
Non-cash items	5,268	5,752	6,478	7,204
Other operating cashflows				
<b>Investing</b>	<b>(4,563)</b>	<b>(3,690)</b>	<b>(3,850)</b>	<b>(3,785)</b>
Capex (growth)	(2,500)	(3,000)	(3,000)	(3,000)
Investments	(1,464)	(92)	(253)	(189)
Proceeds from sale of assets	(599)	(598)	(597)	(596)
Others	-	-	-	-
<b>Financing</b>	<b>265</b>	<b>553</b>	<b>398</b>	<b>220</b>
Dividend payments	(505)	(217)	(372)	(550)
Issue of shares	-	-	-	-
Proceeds from borrowings	764	764	764	764
Loan repayment	-	-	-	-
Others/interest paid	6	6	6	6
<b>Net cash inflow (outflow)</b>	<b>5,526</b>	<b>3,263</b>	<b>1,348</b>	<b>6,190</b>
Beginning cash & cash equivalent	7,033	12,603	15,910	17,302
Changes due to forex impact	44	44	44	44
<b>Ending cash &amp; cash equivalent</b>	<b>12,603</b>	<b>15,910</b>	<b>17,302</b>	<b>23,536</b>

### BALANCE SHEET

Year to 31 Dec (RMBm)	2023	2024F	2025F	2026F
<b>Fixed assets</b>	<b>8,569</b>	<b>8,395</b>	<b>7,856</b>	<b>6,952</b>
Other LT assets	6,584	5,371	5,772	6,072
Cash/ST investment	13,085	15,910	17,302	23,536
Other current assets	22,059	22,673	26,586	25,604
<b>Total assets</b>	<b>50,297</b>	<b>52,349</b>	<b>57,516</b>	<b>62,164</b>
ST debt	699	699	699	699
Other current liabilities	41,612	43,199	48,838	52,840
LT debt	193	193	193	193
Other LT liabilities	5,376	5,193	5,193	5,193
Shareholders' equity	22,423	23,932	26,162	28,721
Minority interest	459	459	459	459
<b>Total liabilities &amp; equity</b>	<b>50,297</b>	<b>52,349</b>	<b>57,516</b>	<b>62,164</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	14.5	16.2	17.5	18.8
Pre-tax margin	4.3	6.6	8.5	8.9
Net margin	3.5	5.6	7.3	7.6
ROA	2.4	3.7	5.1	5.3
ROE	5.0	8.1	11.1	11.6
<b>Growth</b>				
Turnover	(4.6)	5.5	14.4	9.4
EBITDA	(30.5)	18.1	23.7	17.6
Pre-tax profit	(50.0)	61.9	47.8	14.8
Net profit	(54.3)	71.1	47.8	14.8
Net profit (adj.)	(54.3)	71.1	47.8	14.8
EPS	(54.3)	71.1	47.8	14.8
<b>Leverage</b>				
Debt to total capital	14.6	11.3	10.9	9.9
Debt to equity	28.8	25.4	23.8	21.8
Net debt/(cash) to equity	(3.4)	(32.9)	(42.7)	(44.3)
Interest cover (x)	10.3	4.0	6.9	10.4

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