

COMPANY UPDATE

Sunny Optical (2382 HK)

Smartphone And Automobile Businesses To Support Growth In 2025

Sunny is expecting the smartphone market in 2025 to remain robust due to the ongoing spec upgrades and the recently-announced trade-in subsidy programme. In particular, the mid-to-high-end segment is likely to be the key volume driver. For the automobile business, the rapid advancements of ADAS systems are a boon for VLS shipments, which are expected to outpace vehicle shipments growth in the year. **Maintain BUY and target price of HK\$85.00.**

WHAT'S NEW

- We had a call with Sunny Optical (Sunny) earlier this week, and our takeaways are as follows:

STOCK IMPACT

- Smartphones – Slow and steady growth for 2025.** Sunny generally agrees with the market's recent expectation of a low-single-digit shipment growth for the smartphone market in 2025. However, there could be a further 2-3ppt upside specifically for the Chinese market (also from low-single-digit yoy growth), driven by the recently-announced National Development and Reform Commission (NDRC) trade-in subsidy programme for the purchases of 3C products. Similar to Q Tech's comment, Sunny believes the subsidy amounts are largely in line with industry expectations, as total subsidy (national subsidy + regional subsidy + platform discounts) can reach up to Rmb1,000-1,500.
- Further, Sunny believes that the ongoing specification upgrades trend will continue to be a key theme in 2025, with the upgrades trickling down to the mid-to-high-end (Rmb3,000-4,000) market. In particular, Sunny anticipates that smartphone players will begin incorporating the periscope camera for their mid-to-high-end devices this year. Do note that this segment of the smartphone market has the largest volume, which means this spec upgrade could spur a replacement cycle for devices in this price range and further improve the product mix for Sunny's handset business.
- In relation to the Apple business, 2025 is likely to be a better year with Sunny expected to increase its share in the Apple supply chain. While Sunny's current relationship with Apple is mostly for smartphone-related products, Sunny is hoping to obtain some business from other verticals within Apple which should help smooth out the utilisation rate in 1H25 during the low season.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	33,197	31,681	38,102	41,252	44,933
EBITDA	5,259	4,380	6,112	7,110	7,807
Operating profit	3,024	1,807	3,208	3,841	4,172
Net profit (rep./act.)	2,408	1,099	2,374	2,964	3,272
Net profit (adj.)	2,408	1,099	2,374	2,964	3,272
EPS (Fen)	220.3	100.7	217.3	271.4	299.6
PE (x)	19.3	42.3	29.2	23.4	21.2
P/B (x)	2.6	2.5	3.4	3.1	0.0
EV/EBITDA (x)	8.7	10.5	11.3	9.7	8.8
Dividend yield (%)	1.0	0.4	0.6	0.8	0.8
Net margin (%)	7.3	3.5	6.2	7.2	7.3
Net debt/(cash) to equity (%)	(3.4)	(32.9)	(45.9)	(55.1)	(61.9)
Interest cover (x)	25.4	10.3	4.0	7.0	9.6
ROE (%)	11.4	5.0	10.2	11.6	11.7
Consensus net profit	-	-	2,441	3,030	3,589
UOBKH/Consensus (x)	-	-	0.97	0.98	0.91

Source: Sunny Optical, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$69.85
Target Price	HK\$85.00
Upside	+21.7%

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):	76,610
Market cap (US\$m):	9,885
3-mth avg daily t'over (US\$m):	99.3

Price Performance (%)

52-week high/low HK\$73.00 / HK\$33.30

1mth	3mth	6mth	1yr	YTD
(2.5)	39.6	43.3	29.7	1.5

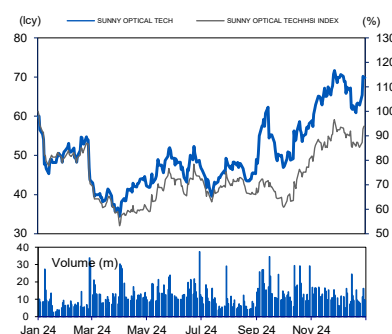
Major Shareholders %

Chairman and Employees	35.5
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FY24 NAV/Share (Rmb) 22.27

FY24 Net Cash/Share (Rmb) 10.18

PRICE CHART



Source: Bloomberg

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Automobile – Vehicle camera market to expand on the back of ADAS development.

While Sunny expects 2025 vehicle shipment volume to be largely stable, the overall vehicle camera shipment growth is expected to be higher at 7-8% yoy due to rapid developments in the advanced driver assistance systems (ADAS) space. In 2024, Sunny gained some market share for its vehicle lens set (VLS) business, with the company already having a market share of over 30% at the start of the year. Although there might be some pressure from competitors, management believes that the improving product mix could more than offset the impact.

On the other hand, for vehicle modules, Sunny remains confident for revenue to grow by around 25% yoy in 2024 from a low base, with a more stable low-double-digit growth in the coming years. While margins may occasionally be volatile, Sunny expects this to stabilise once it receives more orders from foreign brands in 2025-26 which should help with better operating scale.

XR/VR – Expect decent revenue growth in 2024. With Meta’s robust sales in 2024 for its XR/VR offerings including the Meta Ray-Ban smart glasses and the Quest headsets, Sunny’s revenue in this segment has likely followed the same trajectory. For 2025, we expect Sunny’s shipment growth to remain closely tied to Meta’s performance in this business. However, Meta’s switch to using Fresnel lenses for its latest and more affordable VR headset, the Quest 3S, could impact the segment’s margins as the pancake lenses used in the Quest 3 carry higher margins compared with Fresnel lenses.

Robotics vision – Still in its infancy. While robotics/humanoids were the talk of the town at the Consumer Electronics Show (CES) 2025, Sunny believes the whole industry is still in its early days. We understand that Sunny has a team working and researching on this front, but there have yet to be any meaningful contribution from this business. Currently, the most common robots available in the market are robotic vacuums, which Sunny actually supplies for. However, the overall market size is relatively small.

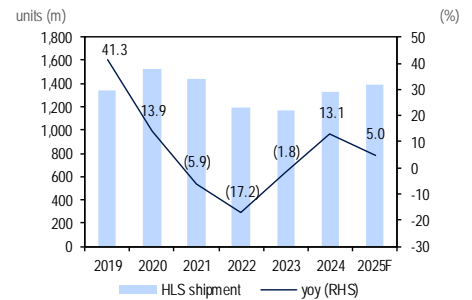
EARNINGS REVISION/RISKS

We maintain our earnings forecasts for 2024-26.

VALUATION/RECOMMENDATION

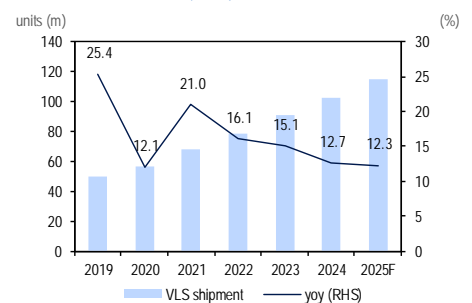
Maintain BUY and keep target price at HK\$85.00, now based on 28.5x 2025F PE, pegged to 0.5SD below its five-year historical forward mean. We expect Sunny to be one of the biggest beneficiaries of the ongoing smartphone spec upgrades trend which is trickling down to the mid-to-high-end segment, as well as the rising contribution from the automobile business.

HANDBSET LENS SET (HLS) SHIPMENT



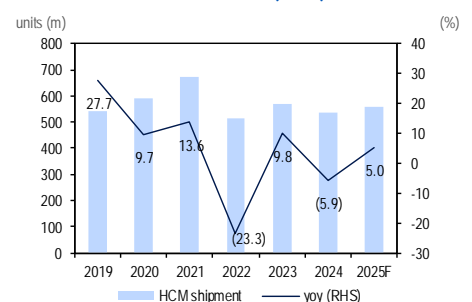
Source: Sunny, UOB Kay Hian

VEHICLE LENS SET (VLS) SHIPMENT



Source: Sunny, UOB Kay Hian

HANDBSET CAMERA MODULE (HCM) SHIPMENT



Source: Sunny, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	31,681	38,102	41,252	44,933
EBITDA	4,380	6,112	7,110	7,807
Deprec. & amort.	2,573	2,904	3,269	3,634
EBIT	1,807	3,208	3,841	4,172
Total other non-operating income	(22)	0	0	0
Associate contributions	23	23	23	23
Net interest income/(expense)	(449)	(456)	(399)	(370)
Pre-tax profit	1,358	2,774	3,464	3,824
Tax	(208)	(333)	(416)	(459)
Minorities	51	68	85	93
Net profit	1,099	2,374	2,964	3,272
Net profit (adj.)	1,099	2,374	2,964	3,272

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	9,824	7,146	6,999	7,035
Pre-tax profit	1,358	2,774	3,464	3,824
Tax	(208)	(333)	(416)	(459)
Depreciation/amortization	(2,573)	(2,904)	(3,269)	(3,634)
Associates	(23)	(23)	(23)	(23)
Working capital changes	6,002	1,693	768	125
Non-cash items	5,268	5,938	6,475	7,201
Other operating cashflows				
Investing	(4,563)	(3,935)	(3,763)	(3,789)
Capex (growth)	(2,500)	(3,000)	(3,000)	(3,000)
Investments	(1,464)	(337)	(166)	(193)
Proceeds from sale of assets	(599)	(598)	(597)	(596)
Others	-	-	-	-
Financing	265	553	301	184
Dividend payments	(505)	(217)	(469)	(586)
Issue of shares	-	-	-	-
Proceeds from borrowings	764	764	764	764
Loan repayment	-	-	-	-
Others/interest paid	6	6	6	6
Net cash inflow (outflow)	5,526	3,764	3,537	3,429
Beginning cash & cash equivalent	7,033	13,085	16,865	20,420
Changes due to forex impact	44	17	17	17
Ending cash & cash equivalent	12,603	16,865	20,420	23,866

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	8,569	8,395	7,856	6,952
Other LT assets	6,584	5,761	6,023	6,330
Cash/ST investment	13,085	16,865	20,420	23,866
Other current assets	22,059	24,811	25,729	27,629
Total assets	50,297	55,833	60,028	64,777
ST debt	699	699	699	699
Other current liabilities	41,612	49,148	52,629	56,697
LT debt	193	193	193	193
Other LT liabilities	5,376	5,193	5,193	5,193
Shareholders' equity	22,423	24,327	26,705	29,330
Minority interest	459	459	459	459
Total liabilities & equity	50,297	55,833	60,028	64,777

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	14.5	17.8	18.0	18.9
Pre-tax margin	4.3	7.3	8.4	8.5
Net margin	3.5	6.2	7.2	7.3
ROA	2.4	4.5	5.1	5.2
ROE	5.0	10.2	11.6	11.7
Growth				
Turnover	(4.6)	20.3	8.3	8.9
EBITDA	(30.5)	47.9	9.4	14.2
Pre-tax profit	(50.0)	104.3	24.9	10.4
Net profit	(54.3)	115.9	24.9	10.4
Net profit (adj.)	(54.3)	115.9	24.9	10.4
EPS	(54.3)	115.9	24.9	10.4
Leverage				
Debt to total capital	14.6	11.3	10.2	9.5
Debt to equity	28.8	25.4	23.4	21.3
Net debt/(cash) to equity	(3.4)	(32.9)	(45.9)	(55.1)
Interest cover (x)	10.3	4.0	7.0	9.6

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