

Sunny Optical Technology (2382.HK)

Attained target of product shipment

Hong Kong | TMT | Company report

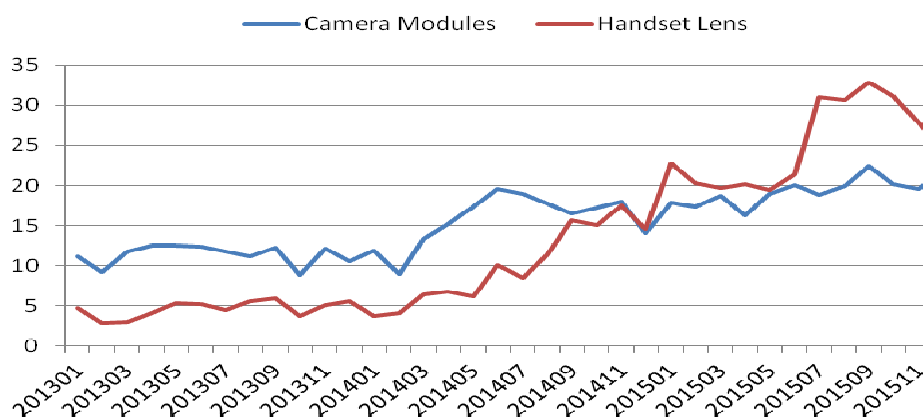
28 January 2016

Attained target of product shipment

In December 2015, the shipment of handset camera modules (HCM) by Sunny Optical Technology (referred as “Sunny Optical” or “the Company” hereinafter) bounced up from the decline trend in the two previous months and increased by 12.2% mom, to 21.6 million units. The Company is mainly benefitted from the boost of market share in the domestic market of smart phones. However, shipment of handset lens (HLS) dropped from 32.82 million units recorded in September to 24.30 million units, which is mainly due to the slowdown of sales of Samsung causing high inventory level, as Samsung took 45-50% of the Company’s lens. Taken into account of the gradual narrowing down of technological difference in cell phone camera lens production between Sunny Optical and the market leader, Largan Precision, we expect the Company could gain higher market shares in the Chinese market.

Based on the Company’s performance in 2015, the shipment of HCM and HLS reached 228 million units and 302 million units respectively, with yoy growth of 22% and 152% respectively, both achieved the targets set. It is worth to note that the Company’s HLS have made good progress in high-end aspects including 13MP, and its proportion of shipment to the Company’s total shipment amount is expected to reach more than 10% in H2. This is beneficial to the enhancement of profitability of the Company.

Increased shipment volume of Sunny Optical (mn units)



Source: Company reports, Phillip Securities (HK) Research

Sustained strong growth in vehicle lens sets

In 2015, the Company’s shipment of vehicle lens sets (VLS) reached 16.52 million, which increased substantially by 47% yoy and demonstrated the continued trend of high growth rate. In regard of VLS, the Company’s market share ranked the top globally and reached 30%+, which was mainly driven by the higher demand for driving safety around the world. Currently, advanced driver assistance systems (ADAS) have become one of the key development trends of the automobile industry and ADAS generally uses lens as a part of the sensor. Major producers of ADAS, including Continental, Valeo and Autoliv are the clients of Sunny Optical and thus the Company is expected to be benefitted from such trend. Sunny Optical has been engaged in this area for more than 10 years, and has accumulated solid experience and skills for product innovation. It is expected that the Company can maintain its leading position in this area as well as the high gross profit margin of 40%.

Accumulate (Maintain)

CMP: HKD 15.98

(Closing price as at 26 Jan 2016)

TARGET: HKD 17.00 (+6.4%)

COMPANY DATA

O/S SHARES (MN) :	1,097
MARKET CAP (HKDMN) :	17,530
52 - WK HI/LO (HKD):	19.94/ 10.38

SHARE HOLDING PATTERN , %

Sun Xu Company Limited :	38.42
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PRICE PERFORMANCE , %

	1M	3M	1Y
Sunny Optical	-8.21	-5.52	37.54
HSI	4.43	10.82	59.90

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	5813	8427	10578	12337
Net Profit	440	566	785	988
EPS, CNY	0.44	0.53	0.71	0.90
PER, x	30.4	25.4	18.9	15.0
BVPS, CNY	2.60	2.96	3.45	4.08
P/BV, x	5.2	4.6	3.9	3.3
ROE, %	18.4	18.5	22.3	23.9
Debt/Equity (%)	63.11	72.07	90.48	90.48

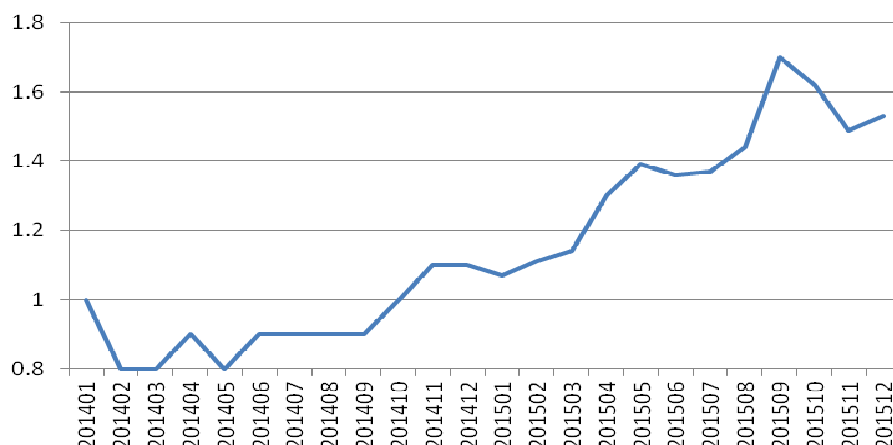
Source: Company reports, Phillip Securities Est.

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VLS shipment volume of Sunny Optical (mn units)


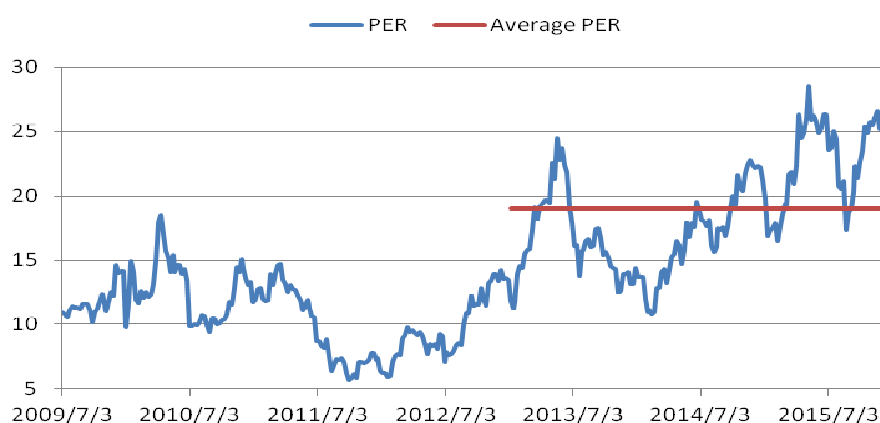
Source: Company reports, Phillip Securities (HK) Research

Optimistic prospect on innovative technologies

The technological pool of Sunny Optical is quite resourceful. For example, the Company's double camera modules have attracted clients including Huawei. With the growing demand for differentiation of original equipment manufacturer products, the design is getting more mature and is expected to gain popularity since 2H16. As the Company has completed the related research and obtained rich experience in production, it is expected to be benefitted from the demand for double camera modules. Moreover, in 2014, the Company was chosen by Google as the working partner for Project Tango, and was assigned to develop camera lens with 3D function. Recently, companies including Intel announced the Project Tango 3D smart phones co-developed with Google would be officially launched to the market later this year. This indicated that the technology in such area had been getting more mature and it would become the Company's new growth momentum.

Continued strengthening of its leading position

The excellent figures of product shipment demonstrated the Company's leading technological competence and the outstanding executive ability of the management. The innovative technologies may bring new growth momentum. We believe that Sunny Optical can manage to maintain the leading position in the smart phone industry amid the industrial plight. We grant it "Accumulate" rating, with a target price of HKD17, which is equivalent to a prospective 2015 P/E ratio of 20x. (Closing price as at 26 Jan 2016)

Historical P/E valuation


Source: Bloomberg, Phillip Securities (HK) Research

Risks

Slower than expected growth in smartphone shipment;
More intensive competition in HCM market.

Financials

Periodicity:	2012	2013	2014	2015F	2016F
Valuation Ratios					
Price Earnings	37.4x	30.4x	25.4x	18.9x	15.0x
Price to Book	7.0x	5.2x	4.6x	3.9x	3.3x
Dividend Yield	0.8%	0.9%	1.2%	1.6%	2.0%
Per share data(RMB)					
EPS Adjusted	0.36	0.44	0.53	0.71	0.90
Book Value Per Share	1.92	2.60	2.96	3.45	4.08
Dividends Per Share	0.11	0.12	0.16	0.22	0.27
Growth & Margin					
Revenue growth	59.5%	45.9%	45.0%	25.5%	16.6%
Gross profit growth	41.8%	30.5%	33.3%	33.3%	21.7%
Net profit growth	60.8%	27.1%	28.6%	38.7%	25.8%
Gross Margin	18.6%	16.6%	15.3%	16.2%	17.0%
Operating Margin	9.6%	8.5%	7.2%	8.2%	8.9%
Net Profit Margin	8.7%	7.6%	6.7%	7.4%	8.0%
Dividend Payout Ratio %	30.3%	30.1%	30.2%	30.8%	30.1%
Key ratios					
Return on Assets	12.9%	11.5%	11.0%	12.2%	12.5%
Return on Equity	19.3%	18.4%	18.5%	22.3%	23.9%
Liability ratio	35.7%	38.7%	41.9%	47.5%	47.5%
Effective Tax Rate	14.7%	12.7%	11.5%	12.0%	12.0%
Income Statement(RMB: mn)					
Revenue	3,984	5,813	8,427	10,578	12,337
- Cost of Goods Sold	3,243	4,846	7,137	8,859	10,245
Gross Profit	741	967	1,289	1,719	2,092
- Selling, General & Admin Expenses	377	505	715	903	1,055
Operating Income	381	494	610	863	1,093
- Interest Expense	3	7	14	14	15
- Foreign Exchange Losses (Gains)	-3	-7	16	15	15
- Net Non-Operating Losses (Gains)	-16	-11	-54	-50	-50
Pretax Income	397	505	634	884	1,113
- Income Tax Expense	58	64	73	106	134
Income Before XO Items	339	441	561	778	980
- Minority Interests	-7	0	-5	-7	-8
Net Profit	346	440	566	785	988

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 26 Jan 2016)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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