Sunny Optical (2382 HK)

NDR Takeaways: 2026 Guidance Reiterated With Pan-IoT And AR Glasses Driving Growth

Highlights

- At the non-deal roadshow for Sunny held in Taipei last week, investors' key focuses were primarily related to Sunny's progress in optical interconnect components, share gains and design wins from the US smartphone client, concerns about Android businesses, as well as opportunities from the fast-growing pan-IoT business.
- Sunny is upbeat on the edge-AI driven Pan-IoT business, expects the XR business to recover in 2027 and targets stable growth in the automotive business. The smartphone business will continue to face headwinds but targets flattish yoy growth in 2026-27 on share gains and specs upgrades.
- Maintain BUY and target price of HK$106.00, pegged to 21.1x 2027F PE.

Analysis

- **Management targets flattish revenue growth for handset business in 2026-27.** Management highlighted industry expectations of a 10-20% yoy decline in smartphone shipment volume in 2026, with 2H26 seeing an accelerated decline given a higher impact from cost hikes during the period. The trend will continue into 2027 and shipment volume may decline by another double-digit % yoy. The silver lining is that Sunny Optical (Sunny) sees sustained demand for high-end/flagship products with stronger-than-expected demand from the Chinese Android brand's recent launches. Sunny is also targeting to expand its share in the premium brands, including Huawei, Samsung and Apple which should perform significantly better than the mass-market focused Chinese Android brands. Notably, Sunny had managed to become one of the two major suppliers of the key US client's main camera lens + variable aperture supplier alongside Largan (3008 TT/Not) which implies share gain vs the previous generation. That said, additional new design wins for the flagship smartphone products in the US client are likely pushed back to 2028/29, and instead the growth from this client will come from the expanded adoption of variable aperture specs to more SKUs.
- As such, the company is still targeting a flattish smartphone revenue growth, with share gains and specs upgrades offsetting sharp volume declines. Margins will remain range bound between 25-30% for lens and 6-8% for modules, although the overall tone seems to lean towards the lower bound of the range in the near future.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	38,294	43,229	46,244	50,445	55,492
EBITDA	5,751	8,069	8,198	9,264	10,701
Operating profit	3,525	5,687	4,779	5,435	6,462
Net profit (rep./act.)	2,699	4,639	4,093	4,659	5,545
Net profit (adj.)	2,699	3,720	4,093	4,659	5,545
EPS (Fen)	248.2	426.5	376.3	428.4	509.8
PE (x)	21.6	12.5	14.3	12.5	10.5
P/B (x)	3.2	2.7	2.4	2.2	2.1
EV/EBITDA (x)	9.0	6.3	6.2	5.6	4.8
Dividend yield (%)	0.8	1.7	1.5	1.7	2.0
Net margin (%)	7.0	10.7	8.9	9.2	10.0
Net debt/(cash) to equity (%)	6.0	(14.8)	(22.8)	(30.6)	(42.2)
Interest cover (x)	4.0	7.1	13.0	23.1	26.3
ROE (%)	11.4	13.8	13.3	13.7	14.7
Consensus net profit	-	-	4,025	4,800	5,563
UOBKH/Consensus (x)	-	-	1.02	0.97	1.00

Source: Sunny Optical, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$62.70
Target Price	HK$106.00
Upside	+69.1%

Stock Data

Sector	Electronic Components
Bloomberg ticker	2382 HK
Shares issued (m)	1,079
Market cap (HK$m)	67,651
Market cap (US$m)	8,673
3-mth avg daily t'over (US$m)	100.8

Price Performance (%)

52-week high/low: HK$91.40/HK$51.50

1mth	3mth	6mth	1yr	YTD
(5.3)	3.0	16.7	(26.2)	(4.3)

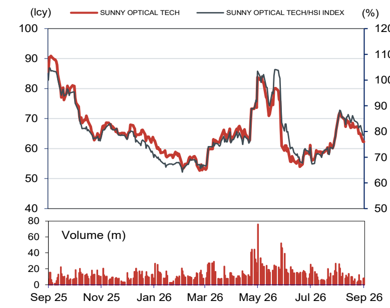
Major Shareholders (%)

Sun Xu	35.6

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	29.61
FY26 Net Cash/Share (Rmb)	6.67

Price Chart



Source: Bloomberg

Company Description

Sunny Optical designs, develops, manufactures and sells optical and optical-related products - handset and vehicle lens sets, camera modules, AR/VR modules and optical instruments.

- **Vehicle – No guidance but expects stable market growth and sustained share gains.** Management puts industry growth in vehicle camera solutions at 10-15% yoy and expects to at least match the industry growth as an industry leader. Handset lens is seeing better momentum in China as more Chinese OEMs are shifting their focus from cost cutting to product quality/reliability, while the overseas camera module business should start to pick up as another growth driver in 2027. Margins are expected to remain stable for both products, estimated to be at 38-40% for vehicle lens, and 10-15% for vehicle modules.
- **XR to see better growth from 2027 driven by AR glasses launches from two customers.** After a sluggish 2026, Sunny's US customer is expected launch the new AR glass product in 4Q26 which should drive the segment's growth in 2027 alongside another US customer's AR glass launch. Content value TAM for each AR device is expected to reach US$200 per device which is around 50% of the device's BOM.
- **Pan-IoT products to grow at strong double digits every year on the back of edge AI's proliferation.** Sunny reiterated the 50% yoy growth in Pan-IoT revenue and highlighted robust growth from various products such as handheld devices, robots, and smart automation (warehouse automation from a global leading US-based e-commerce platform). Management highlighted that the strong growth seen in Pan-IoT is directly tied to the proliferation of AI-enabled smart features on edge products (eg, AI devices, embodied robots), which are now starting to pick up rapidly given the easy-to-use, rapidly expanding applications. While they cannot provide a solid growth number beyond 2026, they believe that a strong double-digit growth for the next few years should be easily achievable. Given that Pan-IoT segment has much higher margins (>30%, and contributes to >32% of total gross profit in 1H26), we expect the segment to be one of the largest growth drivers for Sunny Optical going forward.
- **Optical interconnect entry is defined as passive components, with first revenue in 2027.** Sunny plans to enter the market as a passive component supplier, and its products are now going through verification with the leading optical transceiver suppliers in China at the moment. Qualification will likely take 6-12 months. As such, there should be no revenue contribution in 2026 (since Sunny sent samples for qualification in August), while in 2027 there should be minimal contribution primarily from small batch shipments. The bottom line is that the business is still in the early stages of development with no finalised plans or meaningful capex investments. However, management did mention that most of the equipment and production know-how required for passive components overlap with Sunny's existing products, with the exception of some cutting and inspection tools, which gives the company strong confidence in scaling up production as well as outperforming competitors in terms of product quality.

Valuation/Recommendation

- **Maintain BUY and target price of HK$106.00,** based on 21.1x 2027F PE, pegged to 0.5SD below the 10-year forward mean.

Earnings Revision/Risk

- **No change to our 2026-28 forecasts.**

Share Price Catalyst

- Optical interconnect plan finalised, around Oct 26.
- AR glasses launches from both North American customers, 4Q26-2027.
- Vehicle spin-off completion, 2027.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	43,229	46,244	50,445	55,492
EBITDA	8,069	8,198	9,264	10,701
Depreciation & amortization	2,382	3,418	3,829	4,239
EBIT	5,687	4,779	5,435	6,462
Total other non-operating income	(6)	0	0	0
Associate contributions	172	172	172	172
Net interest income/(expense)	(436)	(207)	(207)	(207)
Pre-tax profit	5,416	4,744	5,400	6,427
Tax	(609)	(533)	(607)	(723)
Minorities	168	118	134	159
Net profit	4,639	4,093	4,659	5,545
Net profit (recurrent)	3,720	4,093	4,659	5,545

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	9,818	9,996	9,965	9,823
Other LT assets	7,034	7,364	7,824	8,377
Cash/ST investment	7,482	10,525	14,098	19,981
Other current assets	34,881	32,283	33,690	33,858
Total assets	59,215	60,168	65,577	72,039
ST debt	1,770	1,770	1,770	1,770
Other current liabilities	48,604	47,907	51,600	56,044
LT debt	3	3	3	3
Other LT liabilities	1,412	1,412	1,412	1,412
Shareholders' equity	29,149	32,190	35,651	39,771
Minority interest	616	616	616	616
Total liabilities & equity	59,215	60,168	65,577	72,039

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	6,080	7,843	7,840	10,371
Pre-tax profit	5,416	4,744	5,400	6,427
Tax	(609)	(533)	(607)	(723)
Depreciation/amortization	(2,382)	(3,418)	(3,829)	(4,239)
Associates	(172)	(172)	(172)	(172)
Working capital changes	(558)	511	(489)	715
Non-cash items	4,384	6,711	7,536	8,362
Other operating cashflows				
Investing	(999)	(4,366)	(3,972)	(4,047)
Capex (growth)	(2,931)	(3,500)	(3,000)	(3,000)
Investments	(2,010)	(270)	(376)	(451)
Proceeds from sale of assets	3,942	(596)	(596)	(596)
Others	-	-	-	-
Financing	(2,094)	(422)	(282)	(427)
Dividend payments	(526)	(1,192)	(1,052)	(1,198)
Issue of shares	-	-	-	-
Proceeds from borrowings	764	764	764	764
Loan repayment	-	-	-	-
Others/interest paid	(2,332)	6	6	6
Net cash inflow (outflow)	2,987	3,056	3,587	5,896
Beginning cash & cash equivalent	4,509	7,482	10,525	14,098
Changes due to forex impact	(13)	(13)	(13)	(13)
Ending cash & cash equivalent	7,482	10,525	14,098	19,981

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	19.7	19.2	19.7	20.4
Pre-tax margin	12.5	10.3	10.7	11.6
Net margin	10.7	8.9	9.2	10.0
ROA	6.6	6.9	7.4	8.1
ROE	13.8	13.3	13.7	14.7
Growth				
Turnover	12.9	7.0	9.1	10.0
Gross profit	21.6	4.2	12.2	13.7
Pre-tax profit	72.3	(12.4)	13.8	19.0
Net profit	71.9	(11.8)	13.8	19.0
Net profit (adj.)	37.8	10.0	13.8	19.0
EPS	71.9	(11.8)	13.8	19.0
Leverage				
Debt to total capital	5.4	5.3	4.8	4.4
Debt to equity	10.9	9.9	8.9	8.0
Net debt/(cash) to equity	(14.8)	(22.8)	(30.6)	(42.2)
Interest cover (x)	13.0	23.1	26.3	31.3