Sunny Optical (2382 HK)

1H26: Solid Beat, AIoT Products Emerge As Key Growth Driver

Highlights

- 1H26 revenue rose 11.5% yoy to Rmb21.9b and net profit grew 9.9% yoy to Rmb1.81b, beating consensus by 8.2% and 17.6% respectively.
- AIoT products are emerging as a major growth driver through 2026-28, offsetting the sustained deterioration in the handset business.
- Maintain BUY. Lower target price to HK$106.00, based on 21.1x 2027F PE.

1H26 Results

Year to 31 Dec (Rmbm)	1H25	2H25	1H26	yoy (%)	hoh (%)
Revenue	19,652	23,577	21,906	11.5	(7.1)
Gross profit	3,894	4,621	4,269	9.6	(7.6)
Operating profit	2,022	3,664	2,388	18.1	(34.8)
Net profit	1,646	2,993	1,808	9.9	(39.6)
Margins (%)					
Gross margin	19.8	19.6	19.5	(0.3)	(0.1)
Operating margin	10.3	15.5	10.9	0.6	(4.6)
Net margin	8.4	12.7	8.3	(0.1)	(4.4)

Source: Sunny Optical, UOB Kay Hian

Analysis

- **Non-handset segments led strong top- and bottom line beat.** Revenue rose 11.5% yoy to Rmb21.9bn, 8.2% above consensus, but declined 7.1% hoh due to seasonality. Growth was driven entirely by the non-handset segments: a) other products (+88.5% yoy); b) XR (+11.0% yoy); and c) vehicle products (+10.6% yoy), while handset revenue slipped 0.8% yoy against weaker global smartphone shipments. Gross margin contracted 0.3ppt yoy and 0.1ppt hoh to 19.5%, broadly in line with consensus of 19.3%, as a 2.0ppt/3.1ppt yoy erosion in handset/vehicle-related products gross margin was partly offset by the other products segment, which has a much higher than average margin at 34.4% (+1.3ppt yoy). Coupled with a solid cost control, net profit rose 9.9% yoy to Rmb1.8b, 17.6% ahead of consensus.

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)	22.1	12.8	14.6	12.8	10.7
P/B (x)	3.3	2.8	2.5	2.3	2.1
EV/EBITDA (x)	9.2	6.5	6.4	5.7	4.9
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$64.10
Target Price	HK$106.00
Upside	+65.4%
Previous TP	HK$125.80

Stock Data

Sector	Electronic Components
Bloomberg ticker	2382 HK
Shares issued (m)	1,095
Market cap (HK$m)	70,177
Market cap (US$m)	9,055
3-mth avg daily t'over (US$m)	155.7

Price Performance (%)

52-week high/low				HK$91.40 / HK$51.50
1mth	3mth	6mth	1yr	YTD
9.3	(14.7)	10.0	(23.3)	(2.2)

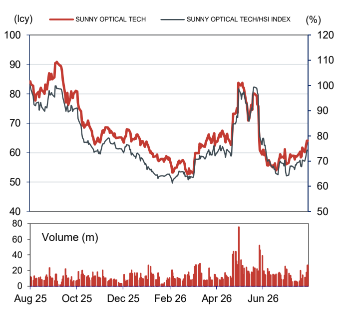
Major Shareholders (%)

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.

- **Guidance on full-year headline numbers unchanged at 7% yoy growth for both revenue and net profit.** Growth will be mainly driven by IoT products (other products), and better opex controls.
- **Pan-IoT's growth is even stronger than our anticipation,** and management is now guiding for a 50% yoy revenue growth in "other products" for 2026, which is much stronger than what we expected. Given the segment's profitability (~34% gross margin), it will also provide a meaningful boost to the product mix as well. We are also expecting the strong growth momentum to sustain through 2027-28 and become the one single big growth driver for Sunny Optical (Sunny), as a lot of the demand growth is driven by the expansion of AI-related applications.

Key subsegments includes robot vision, warehouse logistics AMR, industrial equipment vision, AI microscopy, semi inspection tools and even glass substrates.

- **Handset business TAM continues to deteriorate** as Sunny sees sustained order cuts from OEM clients through 2H26-2027 amid supply shortages and mounting component costs. Flagship/high-end smartphones will remain resilient in both ASPs and margins as every brand is moving towards the premium segment; but low-mid-end phones are likely to see worsening pressure through the period. Margins are expected to remain under pressure as well given steeper price cuts for the mainstream products, but the silver-lining is that progress in the key overseas client remains solid and we remain confident in Sunny achieving further design wins for the said client's 2027 launches.
- **Sunny to participate in AI optical interconnect products as a core component supplier,** and the company had finished R&D on a wide range of components (see sidebar). However, the company also believes that it will take quite a while before CPO's adoption will be meaningful enough to start contributing meaningfully to optical suppliers such as Sunny.

Optical interconnect components include Glass V-Groove substrate, Micro lens array, Resin lens, Z-block WDM, Etched silicon lens, Aspheric Cylindrical lens, Aspheric ferrule lens

Valuation/Recommendation

- **Maintain BUY, trim target price to HK$106.00.** We roll over to 2027 estimates, and our target price of HK$106.00 is based on 21.1x 2027F PE, pegged to 0.5SD below mean. We now have a lower PE multiple, as we expect the handset business to remain sluggish for a longer period of time.

Earnings Revision/Risk

- We raise our 2026-28 net profit estimates by 3.1%/2.5%/5.7% to Rmb4.1b/Rmb4.7b/Rmb5.6b respectively. We have factored in: a) much higher "other products" revenue and margin assumptions, b) better opex controls, c) adjustments to XR-related products revenue, and d) lower handset revenue and margin assumptions.

Changes To 2026-28 Estimates

Year to 31 Dec	-------------- Old estimates-----------			------------ New estimates ----------			------------- Differences (%) ----------		
(Rmbm)	2026F	2027F	2028F	2026F	2027F	2028F	2026F	2027F	2028F
Revenue	47,031	51,517	56,611	46,244	50,445	55,492	(1.7)	(2.1)	(2.0)
Handset related products	29,412	30,752	32,232	27,286	27,152	27,773	(7.2)	(11.7)	(13.8)
Vehicle related products	7,872	9,218	10,973	7,872	9,218	10,973	0.0	0.0	0.0
XR related products	2,000	2,600	3,380	2,200	2,750	3,300	10.0	5.8	(2.4)
Other products	7,747	8,947	10,027	8,886	11,325	13,447	14.7	26.6	34.1
Gross margin (%)	19.1	19.3	19.7	19.2	19.7	20.4	0.1	0.4	0.7
Handset related products	13.7	13.5	13.4	12.1	11.6	11.7	(1.7)	(1.9)	(1.7)
Vehicle related products	30.9	31.1	31.4	30.3	29.8	30.1	(0.6)	(1.3)	(1.3)
XR related products	20.0	20.0	20.0	12.0	16.0	16.0	(8.0)	(4.0)	(4.0)
Other products	27.0	27.0	27.0	33.0	32.0	31.5	6.0	5.0	4.5
EBIT	4,636	5,305	6,117	4,779	5,435	6,462	3.1	2.5	5.6
Adjusted net profit	3,970	4,547	5,248	4,093	4,659	5,545	3.1	2.5	5.7

Source: Sunny Optical, UOB Kay Hian

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