

Innolight (300308 CH)

Investors focusing on 800G transceivers ramp-up after 1H23 results

Innolight released 1H23 results. Total revenue was RMB4,004mn (-5.4% YoY), mixed impacts from increasing demand for AI-related transceivers and deteriorated demand for traditional datacenter products. NP was RMB613.8mn (24.6% YoY), mainly driven by higher GPM and operating cost optimization. 1H23 NP was close to the mid-point of the preliminary range. Maintain HOLD, with unchanged TP at RMB104.

- AI-related transceivers have offset non-AI transceivers.** Company's 2Q23 revenue showed sequential growth (17.9% QoQ) primarily attributed to heightened shipment of 800G transceivers. However, total revenue fell slightly in 1H23, as the Company pointed out that the demand for 200G/400G transceivers from datacenter was declining. **This trend aligns with our previous expectations that AI investment will likely cannibalize certain traditional server expenditures** and negatively affect sales of non-AI high speed transceivers. ([link](#))
- Margins stand out particularly.** GPM expanded to 31.1% in 2Q23 vs. 29.5%/29.3% in 1Q23/2022. NPM also increased to 16.8% in 2Q23 vs. 13.6%/12.7% in 1Q23/2022. The increase is mainly due to decrease in procurement costs and favorable product mix driven by increasing 800G products shipment.
- Maintain HOLD, with unchanged TP at RMB104.** We lowered 2023-25E revenue forecasts by 6%-11%, as non-AI weakness is greater than our previous expectations. 2023-25E GPM was adjusted to 30.5%-31.7%, reflecting favourable product mix as the Company is expected to deliver more high data rate transceivers that have higher margins. The net impacts from lower sales and higher GPM left NP almost unchanged. 1H23 total revenue/NP now accounted for 39%/42% of our full-year estimates.
- Potential upside/downside:** We believe investors are closely monitoring the scaling up of 800G transceiver capacity and the Company's ability to sustain the current performance, i.e., sequential sales growth and continuing margin expansion. Meanwhile, the deteriorated demand of 200G/400G transceivers for datacenter should be on investors' radar. While we regard Innolight's optical transceivers business positively, we believe the current valuation is full.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,695	9,642	10,177	13,133	15,110
YoY growth (%)	9.2	25.3	5.6	29.0	15.1
Gross margin (%)	25.6	29.3	30.5	31.2	31.7
Operating profit (RMB mn)	963	1,327	1,671	2,273	2,733
YoY growth (%)	(2.7)	37.9	25.9	36.1	20.2
Net profit (RMB mn)	877.0	1,224.0	1,468.6	2,011.4	2,410.2
YoY growth (%)	1.3	39.6	20.0	37.0	19.8
EPS (RMB)	1.21	1.54	1.83	2.51	3.01
P/E (x)	100.8	79.2	66.5	48.6	40.5
ROE (%)	7.6%	10.2%	11.0%	13.3%	13.9%

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	RMB104.00
Up/Downside	-2.84%
Current Price	RMB106.95

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Stock Data

Mkt Cap (RMB mn)	85,859.5
Avg 3 mths t/o (RMB mn)	5,354.8
52w High/Low (RMB)	170.00/25.39
Total Issued Shares (mn)	802.8

Source: FactSet

Shareholding Structure

Shandong Zhongji Investment Holdings Co.	11.3%
Wang Weixiu	6.2%

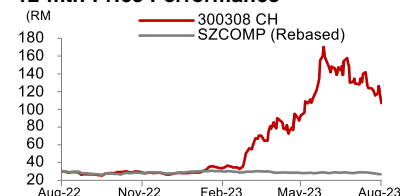
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-20.3%	-13.3%
3-mth	14.8%	22.3%
6-mth	206.7%	248.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

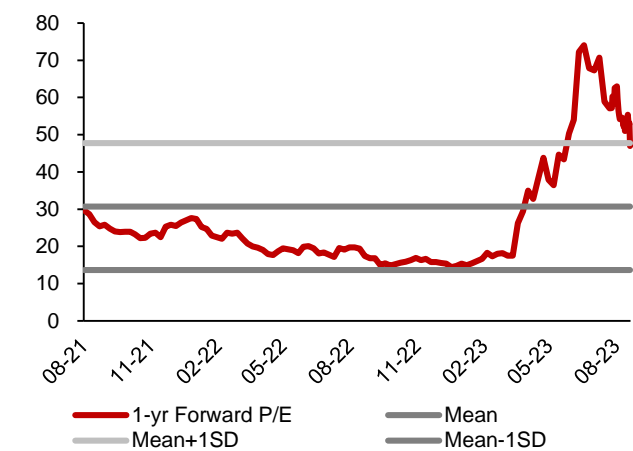
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	10,177	13,133	15,110	10,799	14,703	16,776	-6%	-11%	-10%
Gross Profit	3,100	4,097	4,795	3,193	4,388	5,012	-3%	-7%	-4%
Operating Profit	1,671	2,273	2,733	1,580	2,221	2,588	6%	2%	6%
Net profit	1,469	2,011	2,410	1,459	2,047	2,386	1%	-2%	1%
EPS (RMB)	1.83	2.51	3.01	1.82	2.56	2.98	1%	-2%	1%
Gross Margin	30.5%	31.2%	31.7%	29.6%	29.8%	29.9%	0.9 ppt	1.4 ppt	1.9 ppt
Operating Margin	16.4%	17.3%	18.1%	14.6%	15.1%	15.4%	1.8 ppt	2.2 ppt	2.7 ppt
Net Margin	14.4%	15.3%	16.0%	13.5%	13.9%	14.2%	0.9 ppt	1.4 ppt	1.7 ppt

Source: Company data, CMBIGM estimates

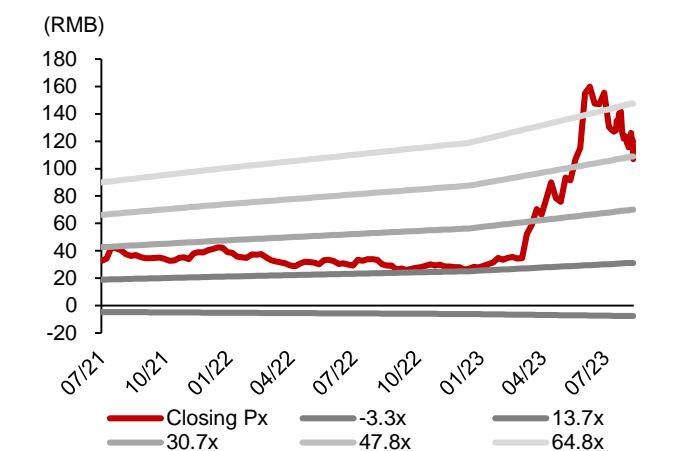
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	10,177	13,133	15,110	11,638	18,153	22,772	-13%	-28%	-34%
Gross Profit	3,100	4,097	4,795	3,465	5,513	6,929	-11%	-26%	-31%
Operating Profit	1,671	2,273	2,733	1,727	3,038	3,972	-3%	-25%	-31%
Net profit	1,469	2,011	2,410	1,582	2,635	3,423	-7%	-24%	-30%
EPS (RMB)	1.83	2.51	3.01	1.99	3.31	4.28	-8%	-24%	-30%
Gross Margin	30.5%	31.2%	31.7%	29.8%	30.4%	30.4%	0.7 ppt	0.8 ppt	1.3 ppt
Operating Margin	16.4%	17.3%	18.1%	14.8%	16.7%	17.4%	1.6 ppt	0.6 ppt	0.6 ppt
Net Margin	14.4%	15.3%	16.0%	13.6%	14.5%	15.0%	0.8 ppt	0.8 ppt	0.9 ppt

Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E band

Source: Bloomberg, CMBIGM estimates

Figure 4: 12M forward P/E chart

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	7,050	7,695	9,642	10,177	13,133	15,110
Cost of goods sold	(5,257)	(5,727)	(6,816)	(7,077)	(9,036)	(10,315)
Gross profit	1,793	1,968	2,826	3,100	4,097	4,795
Operating expenses	(803)	(1,005)	(1,499)	(1,429)	(1,824)	(2,062)
Selling expense	(107)	(73)	(91)	(105)	(129)	(152)
Admin expense	(370)	(434)	(507)	(452)	(584)	(672)
SG&A expense	(22)	(21)	(63)	(60)	(82)	(92)
R&D expense	(506)	(541)	(767)	(823)	(1,049)	(1,192)
Others	202	64	(71)	12	21	46
Operating profit	990	963	1,327	1,671	2,273	2,733
Other income	0	1	28	4	22	15
Other expense	(3)	(4)	(4)	(2)	(4)	(4)
Pre-tax profit	987	960	1,352	1,673	2,291	2,745
Income tax	(111)	(73)	(118)	(147)	(202)	(242)
After tax profit	876	886	1,234	1,525	2,089	2,503
Minority interest	11	10	10	57	78	93
Net profit	865	877	1,224	1,469	2,011	2,410
Adjusted net profit	764	728	1,037	1,414	1,942	2,340
BALANCE SHEET						
	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	7,982	10,022	9,587	10,523	13,136	14,506
Cash & equivalents	1,879	3,489	3,828	5,340	5,419	7,750
Restricted cash	31	25	22	24	23	23
Account receivables	1,990	2,534	1,677	1,873	2,630	2,538
Inventories	3,774	3,799	3,888	3,093	4,830	3,931
Prepayment	40	72	64	73	94	108
Contract assets	264	100	82	87	104	114
Contract obtaining costs	3	2	26	34	36	42
Non-current assets	5,634	6,543	6,970	7,373	7,990	8,704
PP&E	2,726	3,152	3,217	3,509	3,925	4,432
Right-of-use assets	0	21	11	5	5	6
Deferred income tax	38	46	48	55	63	70
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	360	382	322	262	202	144
Goodwill	1,915	1,980	1,949	1,917	1,886	1,854
Financial assets at FVTPL	481	721	960	1,056	1,160	1,271
Other non-current assets	114	242	463	569	748	926
Total assets	13,616	16,565	16,557	17,896	21,126	23,210
Current liabilities	3,772	3,166	3,264	2,481	3,637	2,874
Short-term borrowings	1,041	794	385	403	618	334
Account payables	2,070	1,515	1,560	1,711	2,533	2,033
Tax payable	35	68	93	85	109	115
Other current liabilities	69	101	37	57	57	68
Contract liabilities	378	522	910	13	17	19
Accrued expenses	179	166	279	212	303	304
Non-current liabilities	1,850	1,796	1,224	1,929	2,053	2,608
Long-term borrowings	1,430	1,262	696	1,385	1,395	1,893
Bond payables	29	0	0	0	0	0
Obligations under finance leases	0	9	2	3	3	4
Deferred income	154	277	264	271	328	356
Other non-current liabilities	238	248	261	270	326	354
Total liabilities	5,622	4,962	4,488	4,410	5,691	5,481
Share capital	713	800	801	801	801	801
Capital surplus	5,058	7,792	7,150	7,150	7,150	7,150
Retained earnings	2,090	2,861	3,893	5,184	6,979	9,097
Other reserves	28	36	102	171	248	330
Total shareholders equity	7,889	11,489	11,945	13,305	15,177	17,378
Minority interest	104	114	124	180	258	351
Total equity and liabilities	13,616	16,565	16,557	17,896	21,126	23,210

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	987	960	1,352	1,673	2,291	2,745
Depreciation & amortization	340	436	493	513	544	647
Tax paid	(111)	(73)	(118)	(147)	(202)	(242)
Change in working capital	(1,166)	(569)	286	653	(1,743)	346
Others	(29)	59	437	14	262	183
Net cash from operations	22	813	2,449	2,705	1,152	3,679
Investing						
Capital expenditure	(956)	(840)	(792)	(955)	(1,232)	(1,418)
Acquisition of subsidiaries/ investments	239	163	(1,063)	(5)	(3)	(1)
Net proceeds from disposal of short-term investments	8	(542)	302	31	31	31
Others	(164)	0	0	(1)	1	(0)
Net cash from investing	(873)	(1,219)	(1,553)	(930)	(1,204)	(1,387)
Financing						
Dividend paid	(121)	(168)	(233)	(247)	(280)	(360)
Net borrowings	0	41	60	0	0	0
Proceeds from share issues	1,421	(259)	(699)	(182)	226	214
Share repurchases	0	2,665	33	0	0	0
Others	0	(15)	(802)	102	120	120
Net cash from financing	1,300	2,264	(1,641)	(327)	67	(26)
Net change in cash						
Cash at the beginning of the year	1,236	1,648	3,489	2,809	4,321	4,400
Exchange difference	(37)	(17)	64	64	64	64
Others	449	1,859	(745)	1,448	15	2,266
Cash at the end of the year	1,648	3,489	2,809	4,321	4,400	6,731

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