

# Innolight (300308 CH)

## Data center demand to remain resilient in 2H22

Innolight announced a positive profit alert. 1H22 NP to shareholders is expected to grow 32.03-55.51% YoY to RMB450mn-RMB530mn. 1H22 NP excluding extraordinary items is expected to grow 29.85-55.82% YoY. Mid-point NP of RMB490mn is estimated to account for 44.2% of FY22 NP, in line with our previous forecast. The mgmt. attributed the growth to surging data demand (for 400G/200G optical modules) and continuous capital expansion from datacenter clients. We maintain BUY rating with unchanged TP of RMB45.60.

- **1H22 results in line with our previous forecasts.** Mid-point 2Q NP to shareholders is expected to grow 31.2% YoY and 25.4% QoQ. The Company also mentioned GPM increased in 1H22, driven by favorable product mix (higher % of 400G/200G in terms of shipment), effective cost mgmt. and impact from FX changes. We think 2Q results are in line with our previous forecasts. This positive profit alert confirmed our view that optical transceiver industry is one of a few sectors that managed to maintain their steady growth.
- **Datacenter demand to remain resilient in 2H22 despite concerns over demand and spending cut.** As earning season is coming, the market is looking for more clarity over demand/supply. We expect mobile and PC demand to remain weak, and the supply chain will continue to face challenges from inventory adjustment. However, we believe data center and auto markets will continue to outperform due to resilient demand. Although there are signs of capex cut, we maintain our positive outlook. We think cloud companies' infrastructure capex will be one of the last to be affected, given these spending will support business to outperform during tough economy.
- **Reiterate BUY with unchanged TP of RMB45.60.** Innolight is a major beneficiary of cloud capex growth. Product mix will continue to improve as clients will deploy 800G optical modules starting from year end or early 2023. Maintain BUY. TP of RMB45.60 is equivalent to 26x 23E P/E, close to historical 2-year average (25x).
- **Potential risks** include weaker capex from global cloud companies, slower deployment of 5G infrastructure and faster-than-expected tech advancement.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21A	FY22E	FY23E
Turnover (RMB mn)	4,758	7,050	7,695	9,908	11,426
YoY growth (%)	-7.7%	48.2%	9.2%	28.8%	15.3%
Gross margin (%)	27.1%	25.4%	25.6%	26.6%	26.4%
Net profit (RMB mn)	513	865	877	1,095	1,352
EPS (RMB)	0.73	1.23	1.21	1.37	1.69
YoY growth (%)	-46.3%	68.5%	-1.6%	13.1%	23.5%
Consensus EPS (RMB)	NA	NA	NA	1.56	1.92
PE (x)	41.6	24.7	25.1	22.2	18.0
Yield (%)	0.3%	0.4%	0.7%	0.9%	1.1%
ROE (%)	7.4%	11.0%	7.6%	8.8%	10.0%
Net gearing (%)	Net cash	9.9%	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimates

## BUY (Maintain)

Target Price	RMB45.60
(Previous TP	RMB45.60)
Up/Downside	+51.6%
Current Price	RMB30.08

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### Stock Data

Mkt. Cap. (RMB mn)	24,054
Avg. 3mths t/o (RMB mn)	296
52W High/Low (RMB)	45.38/28.45
Total Issued Shares (mn)	799.7
Source: Bloomberg	

### Shareholding Structure

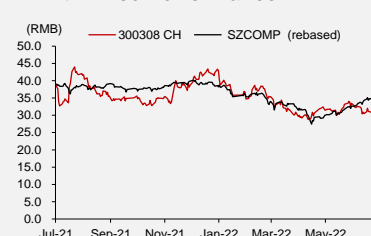
Zhongji Investment	11.74%
HKSC	9.31%
Wang Weixiu	8.02%
Source: Bloomberg	

### Share Performance

	Absolute	Relative
1-mth	-10.4%	-15.8%
3-mth	-2.9%	-9.0%
6-mth	-30.8%	-23.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PWC Zhong Tian**

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>4,758</b>	<b>7,050</b>	<b>7,695</b>	<b>9,908</b>	<b>11,426</b>
Cost of sales	(3,468)	(5,257)	(5,727)	(7,277)	(8,412)
<b>Gross profit</b>	<b>1,290</b>	<b>1,793</b>	<b>1,968</b>	<b>2,631</b>	<b>3,014</b>
Selling exp	(55)	(107)	(73)	(88)	(105)
Admin exp	(275)	(370)	(434)	(604)	(673)
R&D exp	(362)	(506)	(541)	(697)	(803)
Finance costs	(17)	(64)	(84)	(136)	(99)
Other operating exp.	1,422	1,850	2,137	2,982	3,242
<b>Operating profit</b>	<b>576</b>	<b>990</b>	<b>963</b>	<b>1,174</b>	<b>1,453</b>
Other non-oper exp.	0	(3)	(3)	1	(2)
<b>Pre-tax profit</b>	<b>577</b>	<b>987</b>	<b>960</b>	<b>1,175</b>	<b>1,451</b>
Income tax expense	(63)	(111)	(73)	(90)	(112)
Minority interests		11	10	(11)	(13)
<b>Net profit to shareholders</b>	<b>513</b>	<b>865</b>	<b>877</b>	<b>1,095</b>	<b>1,352</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20	FY21A	FY22E	FY23E
<b>Net profit</b>	513	876	886	1,084	1,339
Depreciation/amortization	172	251	321	383	435
Change in working capital	(360)	(1,096)	(587)	542	(1,078)
Others	243	(10)	193	86	160
<b>Net cash from operating</b>	<b>569</b>	<b>22</b>	<b>813</b>	<b>2,094</b>	<b>857</b>
Capex	(759)	(956)	(840)	(1,005)	(999)
Other	(1,180)	83	(379)	(949)	222
<b>Net cash from investing</b>	<b>(1,939)</b>	<b>(873)</b>	<b>(1,219)</b>	<b>(1,953)</b>	<b>(777)</b>
Share issuance	1,524	0	2,665	7	0
Net borrowing	(116)	(121)	(168)	(306)	(351)
Other	149	1,421	(233)	(161)	196
<b>Net cash from financing</b>	<b>1,557</b>	<b>1,300</b>	<b>2,264</b>	<b>(460)</b>	<b>(155)</b>
<b>Net change in cash</b>	<b>187</b>	<b>449</b>	<b>1,859</b>	<b>(319)</b>	<b>(76)</b>
Cash at beginning of the year	1,041	1,236	1,648	3,489	3,153
Exchange difference	8	(37)	(17)	(17)	(17)
<b>Cash at the end of year</b>	<b>1,236</b>	<b>1,648</b>	<b>3,489</b>	<b>3,153</b>	<b>3,060</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Current assets</b>	<b>5,991</b>	<b>7,982</b>	<b>10,022</b>	<b>10,522</b>	<b>11,686</b>
Cash & equivalents	1,236	1,679	3,515	3,173	3,082
Account receivables	1,133	1,514	1,997	1,170	1,961
Inventory	2,504	3,774	3,799	4,175	4,582
Prepayment	65	40	72	73	84
Other current assets	1,054	973	638	1,930	1,977
<b>Non-current assets</b>	<b>4,500</b>	<b>5,634</b>	<b>6,543</b>	<b>6,919</b>	<b>7,283</b>
PPE	1,950	2,726	3,152	3,545	3,785
Deferred tax assets	28	38	46	52	55
Other non-current assets	2,522	2,870	3,345	3,322	3,444
<b>Total assets</b>	<b>10,491</b>	<b>13,616</b>	<b>16,565</b>	<b>17,441</b>	<b>18,969</b>
<b>Current liabilities</b>	<b>2,826</b>	<b>3,772</b>	<b>3,166</b>	<b>2,818</b>	<b>2,858</b>
ST borrowings	652	1,041	794	867	743
Account payables	1,259	1,367	1,205	1,290	1,384
Tax payable	12	35	68	57	70
Other current liabilities	903	1,329	1,098	604	662
<b>Non-current liabilities</b>	<b>739</b>	<b>1,850</b>	<b>1,796</b>	<b>2,116</b>	<b>2,495</b>
LT borrowings	466	1,430	1,262	1,557	1,885
Deferred tax liability	73	154	277	287	314
Other non-current liabilities	200	267	258	272	296
<b>Total liabilities</b>	<b>3,565</b>	<b>5,622</b>	<b>4,962</b>	<b>4,934</b>	<b>5,353</b>
Share capital	713	713	800	800	800
Reserve	5,064	5,147	7,799	7,799	7,799
Retained earnings	1,294	2,090	2,861	3,756	4,859
Other	(145)	(61)	29	49	67
Minority interest	0	104	114	103	90
<b>Total equity</b>	<b>6,926</b>	<b>7,993</b>	<b>11,603</b>	<b>12,507</b>	<b>13,616</b>
<b>Total liabilities and equity</b>	<b>10,491</b>	<b>13,616</b>	<b>16,565</b>	<b>17,441</b>	<b>18,969</b>

### Key ratios

YE 31 Dec	FY19A	FY20	FY21A	FY22E	FY23E
<b>Revenue mix</b>					
High-end optical module		6,703	7,261	9,229	10,432
Access network module		161	327	572	887
High-end equipment		186	107	107	107
<b>Growth (%)</b>					
Revenue	-7.7%	48.2%	9.2%	28.8%	15.3%
Gross profit	-8.3%	39.0%	9.8%	33.7%	14.5%
Operating profit	-15.5%	71.7%	-2.7%	21.9%	23.8%
Adj. net profit	-17.6%	68.6%	1.3%	24.8%	23.5%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	27.1%	25.4%	25.6%	26.6%	26.4%
Operating margin	12.1%	14.0%	12.5%	11.8%	12.7%
Net profit margin	10.8%	12.3%	11.4%	11.0%	11.8%
<b>Balance sheet ratio</b>					
Gear ratio	Net cash	9.9%	Net cash	Net cash	Net cash
Current ratio (x)	2.1	2.1	3.2	3.7	4.1
Receivable turnover days	76	69	83	58	50
Inventory turnover days	(243)	(218)	(241)	(200)	(190)
Payable turnover days	(108)	(91)	(82)	(63)	(58)
<b>Profitability (%)</b>					
ROE	7.4%	11.0%	7.6%	8.8%	10.0%
ROA	4.9%	6.4%	5.3%	6.3%	7.1%
<b>Per share data (RMB)</b>					
EPS	0.73	1.23	1.21	1.37	1.69
DPS	0.08	0.12	0.22	0.27	0.34
BVPS	9.85	11.21	15.85	15.50	16.90

Source: Company data, CMBIGM estimates

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<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
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