

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	YE 31 Dec (RMB mn)	FY19A	FY20	FY21A	FY22E	FY23E
Revenue	4,758	7,050	7,695	9,908	11,426	Net profit	513	876	886	1,084	1,339
Cost of sales	(3,468)	(5,257)	(5,727)	(7,277)	(8,412)	Depreciation/amortization	172	251	321	383	435
Gross profit	1,290	1,793	1,968	2,631	3,014	Change in working capital	(360)	(1,096)	(587)	542	(1,078)
Selling exp	(55)	(107)	(73)	(88)	(105)	Others	243	(10)	193	86	160
Admin exp	(275)	(370)	(434)	(604)	(673)	Net cash from operating	569	22	813	2,094	857
R&D exp	(362)	(506)	(541)	(697)	(803)	Capex	(759)	(956)	(840)	(1,005)	(999)
Finance costs	(17)	(64)	(84)	(136)	(99)	Other	(1,180)	83	(379)	(949)	222
Other operating exp.	1,422	1,850	2,137	2,982	3,242	Net cash from investing	(1,939)	(873)	(1,219)	(1,953)	(777)
Operating profit	576	990	963	1,174	1,453	Share issuance	1,524	0	2,665	7	0
Other non-oper. exp.	0	(3)	(3)	1	(2)	Net borrowing	(116)	(121)	(168)	(306)	(351)
Pre-tax profit	577	987	960	1,175	1,451	Other	149	1,421	(233)	(161)	196
Income tax expense	(63)	(111)	(73)	(90)	(112)	Net cash from financing	1,557	1,300	2,264	(460)	(155)
Minority interests	11	10	(11)	(13)		Net change in cash	187	449	1,859	(319)	(76)
Net profit to shareholders	513	865	877	1,095	1,352	Cash at beginning of the year	1,041	1,236	1,648	3,489	3,153
						Exchange difference	8	(37)	(17)	(17)	(17)
						Cash at the end of year	1,236	1,648	3,489	3,153	3,060

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E	YE 31 Dec	FY19A	FY20	FY21A	FY22E	FY23E	
Current assets	5,991	7,982	10,022	10,522	11,686	Revenue mix						
Cash & equivalents	1,236	1,679	3,515	3,173	3,082	High-end optical module		6,703	7,261	9,229	10,432	
Account receivables	1,133	1,514	1,997	1,170	1,961	Access network module		161	327	572	887	
Inventory	2,504	3,774	3,799	4,175	4,582	High-end equipment		186	107	107	107	
Prepayment	65	40	72	73	84	Growth (%)						
Other current assets	1,054	973	638	1,930	1,977	Revenue		-7.7%	48.2%	9.2%	28.8%	15.3%
Non-current assets	4,500	5,634	6,543	6,919	7,283	Gross profit		-8.3%	39.0%	9.8%	33.7%	14.5%
PPE	1,950	2,726	3,152	3,545	3,785	Operating profit		-15.5%	71.7%	-2.7%	21.9%	23.8%
Deferred tax assets	28	38	46	52	55	Adj. net profit		-17.6%	68.6%	1.3%	24.8%	23.5%
Other non-current assets	2,522	2,870	3,345	3,322	3,444	Profit & loss ratio (%)						
Total assets	10,491	13,616	16,565	17,441	18,969	Gross margin		27.1%	25.4%	25.6%	26.6%	26.4%
Current liabilities	2,826	3,772	3,166	2,818	2,858	Operating margin		12.1%	14.0%	12.5%	11.8%	12.7%
ST borrowings	652	1,041	794	867	743	Net profit margin		10.8%	12.3%	11.4%	11.0%	11.8%
Account payables	1,259	1,367	1,205	1,290	1,384	Balance sheet ratio						
Tax payable	12	35	68	57	70	Net cash	9.9%	Net cash	Net cash	Net cash	Net cash	
Other current liabilities	903	1,329	1,098	604	662	Current ratio (x)		2.1	2.1	3.2	3.7	4.1
Non-current liabilities	739	1,850	1,796	2,116	2,495	Receivable turnover days		76	69	83	58	50
LT borrowings	466	1,430	1,262	1,557	1,885	Inventory turnover days		(243)	(218)	(241)	(200)	(190)
Deferred tax liability	73	154	277	287	314	Payable turnover days		(108)	(91)	(82)	(63)	(58)
Other non-current liabilities	200	267	258	272	296	Profitability (%)						
Total liabilities	3,565	5,622	4,962	4,934	5,353	ROE		7.4%	11.0%	7.6%	8.8%	10.0%
Share capital	713	713	800	800	800	ROA		4.9%	6.4%	5.3%	6.3%	7.1%
Reserve	5,064	5,147	7,799	7,799	7,799	EPS		0.73	1.23	1.21	1.37	1.69
Retained earnings	1,294	2,090	2,861	3,756	4,859	DPS		0.08	0.12	0.22	0.27	0.34
Other	(145)	(61)	29	49	67	BVPS		9.85	11.21	15.85	15.50	16.90
Total equity	6,926	7,993	11,603	12,507	13,616	Per share data (RMB)						
Total liabilities and equity	10,491	13,616	16,565	17,441	18,969							

Source: Company data, CMBIGM estimates

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