

InnoLight (300308 CH)

True beneficiary in AI value chain

We think 2024 is set to be another solid year for both infrastructure investments and downstream demand continue to thrive. According to Bloomberg's consensus, CSP3 (comprising Amazon, Google, and Microsoft) along with Meta, are projected to ramp up their capex by 16.6%/7.6% YoY in 2024/2025E. We reaffirm our positive stance on optical transceiver players, specifically in light of their ongoing capacity expansion and production ramp-up of the high data rate optical modules, e.g., 400G/800G products. **We maintain BUY on InnoLight, with new TP of RMB136.**

Last week, TFC pre-announced its FY23 earnings, with NP growth of 68-88% YoY to RMB677-758mn. The robust performance was primarily driven by the lofty demand for AI computing power in data centers, boosting sales of TFC's high speed optical modules. TFC's performance underscored our confidence in InnoLight, one of our top picks as a true beneficiary in AI value chain.

Considering greater-than-expected ramp-up of TSMC's CoWoS capacity and continued strong investments in AI infrastructure, we expect InnoLight's 2024/25E revenue to come in better than our previous estimates. **We revised up revenue forecasts by 22%/31% and lifted GPM to 34% and 33% for 2023E/24E/25E (vs. prior 32%/32%). The new TP is based on 30x 2024E P/E**, which is close to 5-year historical average of forward P/E (vs. previously 35x, factoring in market sentiment).

We recommend investors pay special attention to the forthcoming earnings of CSP3 & Meta next week. The focus should be on their future projections for cloud revenue and capex guidelines, as these factors will be pivotal in understanding the industry's future direction.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,695	9,642	11,127	18,074	20,524
YoY growth (%)	9.2	25.3	15.4	62.4	13.6
Gross margin (%)	25.6	29.3	32.6	34.0	33.0
Operating profit (RMB mn)	963	1,327	2,302	4,087	4,471
YoY growth (%)	(2.7)	37.9	73.4	77.5	9.4
Net profit (RMB mn)	877.0	1,224.0	2,035.4	3,644.7	3,978.2
YoY growth (%)	1.3	39.6	66.3	79.1	9.2
P/S (x)	12.1	9.7	8.4	5.2	4.5
P/E (x)	32.6	20.6	45.7	25.5	23.4
ROE (%)	9.1	10.4	15.5	22.7	20.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB136.00
(Previous TP)	RMB109.30)
Up/Downside	17.3%
Current Price	RMB115.96

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Stock Data

Mkt Cap (RMB mn)	93,092.7
Avg 3 mths t/o (RMB mn)	2,730.1
52w High/Low (RMB)	170.00/28.91
Total Issued Shares (mn)	802.8

Source: FactSet

Shareholding Structure

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

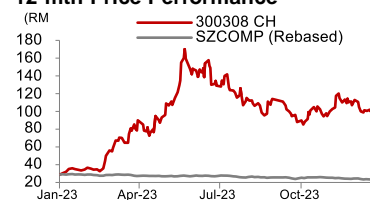
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	8.4%	14.1%
3-mth	29.0%	40.3%
6-mth	-10.1%	9.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM estimates vs. consensus

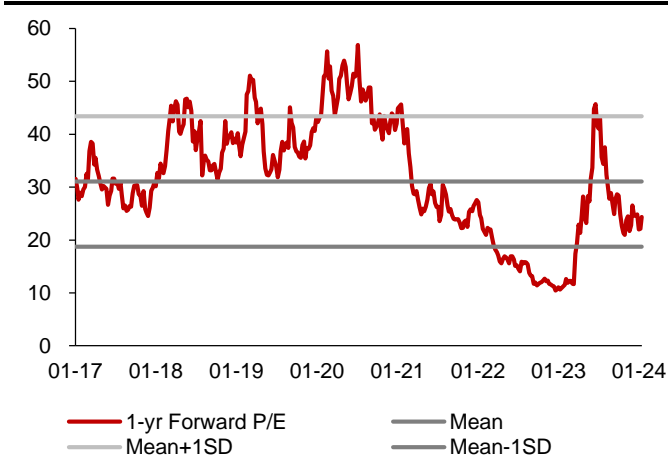
RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	11,127	18,074	20,524	11,566	23,216	28,240	-4%	-22%	-27%
Gross Profit	3,631	6,144	6,782	3,667	7,463	9,041	-1%	-18%	-25%
Net profit	2,035	3,645	3,978	1,979	4,034	4,972	3%	-10%	-20%
EPS (RMB)	2.54	4.54	4.96	2.46	4.95	6.11	3%	-8%	-19%
Gross Margin	32.6%	34.0%	33.0%	31.7%	32.1%	32.0%	0.9 ppt	1.8 ppt	1 ppt
Net Margin	18.3%	20.2%	19.4%	17.1%	17.4%	17.6%	1.2 ppt	2.8 ppt	1.8 ppt

Source: Company data, CMBIGM estimates

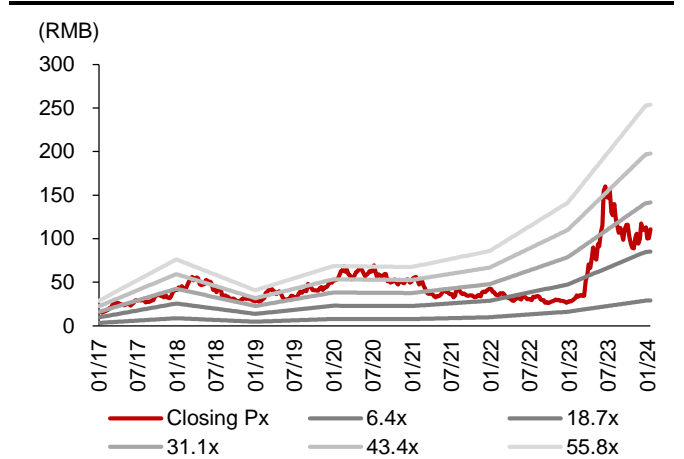
Figure 2: CMBIGM estimates vs. consensus

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	11,127	18,074	20,524	11,386	14,819	15,690	-2%	22%	31%
Gross Profit	3,631	6,144	6,782	3,656	4,707	4,980	-1%	31%	36%
Net profit	2,035	3,645	3,978	1,708	2,321	2,501	19%	57%	59%
EPS (RMB)	2.54	4.54	4.96	2.13	2.90	3.12	19%	57%	59%
Gross Margin	32.6%	34.0%	33.0%	32.1%	31.8%	31.7%	0.5 ppt	2.2 ppt	1.3 ppt
Net Margin	18.3%	20.2%	19.4%	15.0%	15.7%	15.9%	3.3 ppt	4.5 ppt	3.4 ppt

Source: Company data, CMBIGM estimates

Figure 3: 1-yr forward PE

Source: Bloomberg, CMBIGM

Figure 4: PE band

Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	7,050	7,695	9,642	11,127	18,074	20,524
Cost of goods sold	(5,257)	(5,727)	(6,816)	(7,496)	(11,930)	(13,742)
Gross profit	1,793	1,968	2,826	3,631	6,144	6,782
Operating expenses	(803)	(1,005)	(1,499)	(1,328)	(2,057)	(2,310)
Selling expense	(22)	(21)	(63)	(25)	(80)	(69)
SG&A expense	(477)	(507)	(598)	(575)	(918)	(1,052)
R&D expense	(506)	(541)	(767)	(676)	(1,080)	(1,206)
Others	202	64	(71)	(51)	21	16
Operating profit	990	963	1,327	2,302	4,087	4,471
Other income	0	1	28	2	28	17
Other expense	(3)	(4)	(4)	2	(2)	0
Pre-tax profit	987	960	1,352	2,306	4,113	4,489
Income tax	(111)	(73)	(118)	(242)	(431)	(471)
After tax profit	876	886	1,234	2,064	3,681	4,018
Minority interest	11	10	10	29	37	40
Net profit	865	877	1,224	2,035	3,645	3,978

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	7,982	10,022	9,587	12,139	15,981	18,823
Cash & equivalents	1,679	3,515	2,831	5,119	6,981	9,092
Account receivables	1,514	1,997	1,509	2,149	2,803	2,820
Inventories	3,774	3,799	3,888	3,711	4,787	5,378
Prepayment	40	72	64	111	181	205
Other current assets	973	638	1,295	1,049	1,229	1,328
Non-current assets	5,634	6,543	6,970	7,530	8,546	9,656
PP&E	2,726	3,152	3,217	3,564	4,274	5,133
Right-of-use assets	0	21	11	5	7	8
Deferred income tax	38	46	48	108	134	156
Intangibles	360	382	322	263	209	158
Goodwill	1,915	1,980	1,949	1,917	1,886	1,854
Other non-current assets	595	962	1,422	1,673	2,037	2,347
Total assets	13,616	16,565	16,557	19,669	24,527	28,480
Current liabilities	3,772	3,166	3,264	3,326	4,017	4,421
Short-term borrowings	1,041	794	385	58	141	157
Account payables	1,367	1,205	1,136	1,739	2,183	2,335
Tax payable	35	68	93	145	180	209
Other current liabilities	1,128	932	1,349	1,283	1,384	1,571
Contract liabilities	22	1	22	6	9	10
Accrued expenses	179	166	279	96	120	139
Non-current liabilities	1,850	1,796	1,224	1,857	2,556	2,505
Long-term borrowings	1,430	1,262	696	1,390	1,973	1,828
Bond payables	29	0	0	0	0	0
Deferred income	154	277	264	158	198	229
Other non-current liabilities	238	258	264	309	385	447
Total liabilities	5,622	4,962	4,488	5,184	6,573	6,926
Share capital	713	800	801	803	803	803
Retained earnings	2,090	2,861	3,893	5,743	9,075	12,529
Other reserves	5,086	7,828	7,251	7,787	7,887	7,992
Total shareholders equity	7,889	11,489	11,945	14,333	17,765	21,324
Minority interest	104	114	124	152	189	229
Total equity and liabilities	13,616	16,565	16,557	19,669	24,527	28,480

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	987	960	1,352	2,306	4,113	4,489
Depreciation & amortization	340	436	493	489	546	669
Tax paid	(111)	(73)	(118)	(242)	(431)	(471)
Change in working capital	(1,096)	(587)	291	563	(1,336)	(404)
Others	(99)	77	432	(321)	65	163
Net cash from operations	22	813	2,449	2,795	2,957	4,447
Investing						
Capital expenditure	(956)	(840)	(792)	(1,044)	(1,697)	(1,926)
Acquisition of subsidiaries/ investments	(3,728)	(1,529)	(5,967)	0	0	0
Net proceeds from disposal of short-term investments	3,959	1,109	5,167	577	0	0
Others	(147)	42	40	102	94	103
Net cash from investing	(873)	(1,219)	(1,553)	(365)	(1,603)	(1,823)
Financing						
Dividend paid	(121)	(168)	(233)	(239)	(347)	(566)
Net borrowings	1,421	(259)	(699)	(521)	667	(130)
Proceeds from share issues	0	2,665	33	461	0	0
Others	0	26	(742)	102	120	120
Net cash from financing	1,300	2,264	(1,641)	(198)	440	(575)
Net change in cash						
Cash at the beginning of the year	1,236	1,648	3,489	2,809	5,105	6,963
Exchange difference	(37)	(17)	64	64	64	64
Others	449	1,859	(745)	2,232	1,794	2,049
Cash at the end of the year	1,648	3,489	2,809	5,105	6,963	9,076

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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