

InnoLight (300308 CH)

1Q24 results set stage for accelerated growth in 2024

InnoLight has recently released results for FY23 and 1Q24, exceeding both our and market's expectations. For FY23, the company's revenue grew by 11.2% YoY to RMB10.7bn, with net profit soaring by 77.6% YoY to RMB2.2bn. 1Q saw even more impressive growth, with revenue up by 163.6% YoY to RMB4.8bn and net profit increasing by an astonishing 303.8% YoY to RMB1.0bn. We attribute the impressive results largely to strong demand for its high-speed optical transceivers (esp. 400G & 800G), making up over 90% of its total revenue in FY23. We revise up our earnings forecasts and raise TP for InnoLight to RMB183, corresponding to the same 30x 2024E P/E. Maintain BUY.

- Accelerated 1Q growth due to higher 400G shipments; 800G is expected to ramp up production and contribute greater revenue in the following quarters.** 1Q24 revenue grew 164% YoY and 31% QoQ, partially due to higher-than-expected shipments of 400G transceivers, driven by strong overseas demand (particularly from Ethernet). We expect 800G shipments to accelerate starting in 2Q24, as production capacity expands on schedule (supply) and investment in AI infrastructure continues (demand). Mgmt. also noted that the company's 1.6T product is currently undergoing certification at clients and is expected to begin production in 2H.
- InnoLight's accelerated 1Q24 growth suggests** 1) the impact from supply chain bottleneck was milder-than-anticipated and high-speed transceivers were delivered on time, and 2) the demand from AI continues to be strong. Therefore, we raise our revenue forecasts by 25%/44% for 2024/25E. We slightly revise down GPM forecasts by 0.2ppt and 0.3ppt, as 1Q24's GPM was lowered by 1) an unfavourable mix in high-speed transceivers revenue (i.e., higher share of 400G revenue) and 2) a regular pricing adjustment. Overall we expect GPM to improve QoQ as 800G shipments pick up pace. We are optimistic that GPM will sustain a robust level of 33.8% in 2024E.
- Maintain BUY, with new TP at RMB183.** We revise up revenue forecasts by 25%/44% and NP forecasts by 35%/59% for 2024E/2025E. **The new TP is based on the same 30x 2024E P/E, which is close to 5-year historical average of forward P/E (29x).** We maintain a positive outlook on InnoLight, given 1) the strong 400G/800G demand from hyperscalers, 2) the company is effectively scaling up 800G production with improved supply of key components, 3) pricing adjustment is better-than-feared (no severe margin erosion due to competition, demonstrating the company's dominant industry leadership), and 4) USD/RMB tailwind (85% revenue from overseas markets). We think InnoLight will remain the industry leader in high-speed optical transceivers and continue to ride the tailwind of the AI boom. Risks: 1) Intensified geopolitical tensions, 2) slower-than-expected new product ramp-up speed, and 3) further delay in US interest rate cut.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	9,642	10,718	22,594	29,657	31,870
YoY growth (%)	25.3	11.2	110.8	31.3	7.5
Gross margin (%)	29.3	33.0	33.8	32.7	31.4
Net profit (RMB mn)	1,224.0	2,173.5	4,904.4	6,319.3	6,446.2
YoY growth (%)	39.6	77.6	125.6	28.8	2.0
EPS (Reported) (RMB)	1.54	2.80	6.11	7.87	8.03
P/S (x)	13.2	11.9	5.6	4.3	4.0
P/E (x)	102.8	56.6	25.9	20.1	19.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB183.00

(Previous TP) RMB136.00)

Up/Downside 15.6%

Current Price RMB158.36

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Stock Data

Mkt Cap (RMB mn)	127,131.4
Avg 3 mths t/o (RMB mn)	4,660.4
52w High/Low (RMB)	179.99/72.54
Total Issued Shares (mn)	802.8

Source: FactSet

Shareholding Structure

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

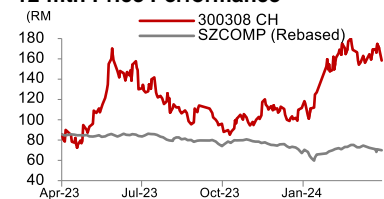
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-5.6%	0.3%
3-mth	41.9%	36.2%
6-mth	68.3%	81.6%

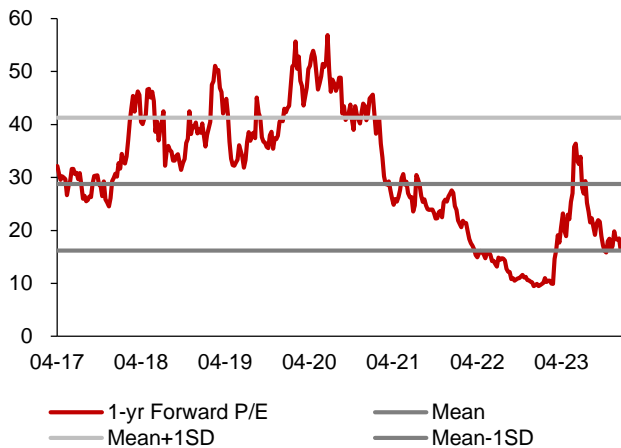
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12-mth Price Performance



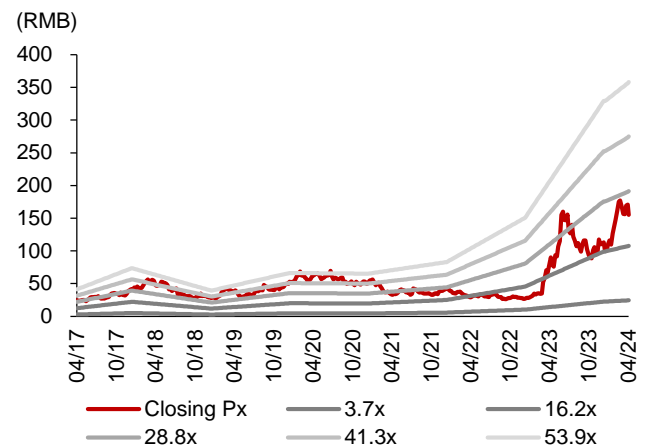
Source: FactSet

Figure 1: 1-yr forward P/E



Source: Company data, CMBIGM estimates

Figure 2: P/E band



Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs. consensus

RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	22,594	29,657	31,870	24,539	30,758	36,417	-8%	-4%	-12%
Gross profit	7,636	9,704	9,993	7,974	9,983	12,290	-4%	-3%	-19%
Net profit	4,904	6,319	6,446	4,460	5,564	7,369	10%	14%	-13%
EPS (RMB)	6.11	7.87	8.03	5.39	6.75	8.99	13%	17%	-11%
Gross margin	33.8%	32.7%	31.4%	32.5%	32.5%	33.7%	1.3 ppt	0.3 ppt	-2.4 ppt
Net margin	21.7%	21.3%	20.2%	18.2%	18.1%	20.2%	3.5 ppt	3.2 ppt	0 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimate revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	22,594	29,657	31,870	18,074	20,524	NA	25%	44%	NA
Gross profit	7,636	9,704	9,993	6,144	6,782	NA	24%	43%	NA
Net profit	4,904	6,319	6,446	3,645	3,978	NA	35%	59%	NA
EPS (RMB)	6.11	7.87	8.03	4.54	4.96	NA	35%	59%	NA
Gross margin	33.8%	32.7%	31.4%	34.0%	33.0%	NA	-0.2 ppt	-0.3 ppt	NA
Net margin	21.7%	21.3%	20.2%	20.2%	19.4%	NA	1.5 ppt	1.9 ppt	NA

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	7,695	9,642	10,718	22,594	29,657	31,870
Cost of goods sold	(5,727)	(6,816)	(7,182)	(14,957)	(19,953)	(21,877)
Gross profit	1,968	2,826	3,536	7,636	9,704	9,993
Operating expenses	(1,005)	(1,499)	(1,042)	(1,963)	(2,377)	(2,517)
Selling expense	(21)	(63)	(51)	(166)	(218)	(234)
SG&A expense	(507)	(598)	(558)	(835)	(1,097)	(1,178)
R&D expense	(541)	(767)	(739)	(1,212)	(1,300)	(1,395)
Others	64	(71)	306	250	238	290
Operating profit	963	1,327	2,494	5,673	7,327	7,476
Other income	1	28	2	26	34	37
Other expense	(4)	(4)	(4)	(0)	(0)	(0)
Pre-tax profit	960	1,352	2,492	5,699	7,362	7,512
Income tax	(73)	(118)	(285)	(707)	(928)	(949)
After tax profit	886	1,234	2,208	4,993	6,433	6,563
Minority interest	10	10	34	88	114	117
Net profit	877	1,224	2,174	4,904	6,319	6,446
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	10,022	9,587	11,319	15,896	19,526	21,873
Cash & equivalents	3,515	2,831	3,317	4,455	4,890	7,946
Account receivables	1,997	1,509	2,581	3,609	4,516	4,215
Inventories	3,799	3,888	4,295	6,360	8,400	7,783
Prepayment	72	64	59	130	171	184
Other current assets	638	1,295	1,067	1,343	1,549	1,745
Non-current assets	6,543	6,970	8,687	11,585	15,113	18,532
PP&E	3,152	3,217	3,948	5,887	8,381	10,931
Right-of-use assets	21	11	27	298	610	897
Deferred income tax	46	48	82	113	142	165
Intangibles	382	322	401	504	626	747
Goodwill	1,980	1,949	1,939	1,929	1,920	1,910
Other non-current assets	962	1,422	2,291	2,854	3,435	3,882
Total assets	16,565	16,557	20,007	27,481	34,639	40,405
Current liabilities	3,166	3,264	4,360	6,325	7,661	7,742
Short-term borrowings	794	385	62	357	517	374
Account payables	1,205	1,136	1,857	3,060	3,499	3,693
Tax payable	68	93	213	292	368	429
Other current liabilities	932	1,349	2,039	2,331	2,917	2,830
Contract liabilities	1	22	3	26	35	37
Accrued expenses	166	279	187	257	324	378
Non-current liabilities	1,796	1,224	872	1,320	1,518	1,677
Long-term borrowings	1,262	696	319	561	561	561
Bond payables	0	0	0	0	0	0
Deferred income	277	264	216	297	374	436
Other non-current liabilities	258	264	337	463	584	681
Total liabilities	4,962	4,488	5,232	7,645	9,179	9,420
Share capital	800	801	803	803	803	803
Retained earnings	2,861	3,893	5,870	10,331	15,737	21,037
Other reserves	7,828	7,251	7,589	8,101	8,205	8,313
Total shareholders equity	11,489	11,945	14,261	19,234	24,745	30,152
Minority interest	114	124	513	602	716	833
Total equity and liabilities	16,565	16,557	20,007	27,481	34,639	40,405

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	960	1,352	2,492	5,699	7,362	7,512
Depreciation & amortization	436	493	525	594	868	1,230
Tax paid	(73)	(118)	(285)	(707)	(928)	(949)
Change in working capital	(587)	291	(830)	(1,797)	(1,975)	924
Others	77	432	(6)	(185)	(164)	(155)
Net cash from operations	813	2,449	1,897	3,604	5,162	8,562
Investing						
Capital expenditure	(840)	(792)	(1,704)	(3,041)	(3,990)	(4,285)
Acquisition of subsidiaries/ investments	(1,529)	(5,967)	(3,971)	0	0	0
Net proceeds from disposal of short-term investments	1,109	5,167	4,435	0	0	0
Others	42	40	65	(106)	(68)	(39)
Net cash from investing	(1,219)	(1,553)	(1,176)	(3,147)	(4,057)	(4,324)
Financing						
Dividend paid	(168)	(233)	(207)	(386)	(840)	(1,071)
Net borrowings	(259)	(699)	(884)	582	160	(143)
Proceeds from share issues	2,665	33	(109)	433	0	0
Others	26	(742)	884	22	22	22
Net cash from financing	2,264	(1,641)	(316)	651	(659)	(1,192)
Net change in cash						
Cash at the beginning of the year	1,648	3,489	2,809	3,234	4,368	4,805
Exchange difference	(17)	64	20	0	0	0
Others	1,859	(745)	405	1,134	437	3,055
Cash at the end of the year	3,489	2,809	3,234	4,368	4,805	7,859

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

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