

Innolight (300308 CH)

Solid results despite supply chain constraints; expect for another strong year in 2025

Innolight released its FY24 prelim. results. The company expects NP to go up by 111.6%-166.9% to RMB4.6bn-5.8bn. Mid-point value of RMB5.2bn implies 139.2% YoY growth and is largely in-line with consensus and our estimate (3.2%/1.4% below, respectively). We continue to view Innolight as a key domestic beneficiary amid the ongoing AI infra. investment cycle driven by resilient demand for more computing power globally. Recent additional AI spending developments (i.e., \$60-65bn from Meta, \$12bn from ByteDance, and up to \$500bn Stargate project) show intensifying capex in AI. We also believe the recent fear of CPO solution becoming mainstream is overly concerned. Recent share price pullbacks provide excellent buying opportunities. **Maintain BUY on Innolight with TP unchanged at RMB186.0.**

- **4Q24 NP is expected to improve sequentially on margin expansion with favourable product mix, which is partially offset by the impact from supply chain bottleneck.** The company's mid-point NP grew by 64.9% YoY/3.8% QoQ in 4Q24, compared to 33.7%/3.3% QoQ in 2Q/3Q24. We think the sequential slowdown in growth in 2H24 was mainly due to EML shortage that caused a delay to shipments, while the demand for 400/800G optical transceivers remained strong. The impact of component shortage on 2H24 earnings was offset by margin upside (favourable product mix plus higher yield). Mgmt. expects this issue will be largely alleviated in 2H25.
- **800G to be the main growth driver in 2025, while 1.6T to ramp up sequentially.** In FY24, Innolight saw strong demand for its 400/800G products with product mix leaning heavier towards 400G. We anticipate a more favourable product mix with a higher portion of 800G sales in 2025, with additional contribution from 1.6T products. Mgmt. expects higher volume to come in 2026 as more cloud companies deploy 1.6T products. The company has also ramped up its 400G SiPh products throughout FY24, with 800G SiPh products expected to begin volume shipments in 1Q25.
- **Multiple major AI spending developments fuel AI infra. buildout momentum:** 1) \$500bn AI initiative Stargate Project in the next four years, 2) [\\$60-65bn capex](#) planned by Meta for 2025E, up as much as 70% YoY compared to 2024 (Bloomberg), largely driven by AI spending increase and deployment of a new datacenter. ByteDance also considered [US\\$12bn in AI capex](#) for 2025. [Reliance is reported to build the world's largest datacenter](#). These spending sprees indicate that demand for AI compute power is still in full swing with robust outlook. **AI networking products, such as optical transceivers, should continue to enjoy the AI tailwind.**
- **Imminent ramp-up + adoption of CPO solution seem to be overly concerned.** Admittedly, CPO normally reduces power consumption by [over 30%](#), there are still several technical hurdles to overcome to make it mainstream (i.e., low yield, high repair cost). From our communication with industry experts, we believe networking players are exploring LRO/LPO to achieve some power savings as at least one DSP is typically removed in these technical approaches. **Maintain BUY, with TP unchanged at RMB186, corresponding to ~27x FY25E P/E. The stock is currently trading at 18.5x FY25E P/E, which we believe underestimates the company's future growth potential.** Potential risks include: 1) China-US trade tensions, 2) rising raw material costs, and 3) slower-than-expected ramp-up speed.

BUY (Maintain)

Target Price RMB186.00
Up/Downside 45.0%
Current Price RMB128.25

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Stock Data

Mkt Cap (RMB mn)	102,959.1
Avg 3 mths t/o (RMB mn)	4,995.5
52w High/Low (RMB)	185.83/72.29
Total Issued Shares (mn)	802.8

Source: FactSet

Shareholding Structure

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

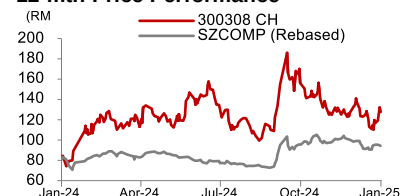
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-2.6%	0.4%
3-mth	-18.4%	-18.3%
6-mth	-1.6%	-21.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	9,642	10,718	24,269	34,149	41,026
YoY growth (%)	25.3	11.2	126.4	40.7	20.1
Gross margin (%)	29.3	33.0	33.3	32.3	31.4
Net profit (RMB mn)	1,224.0	2,173.5	5,276.3	7,624.6	9,252.7
YoY growth (%)	39.6	77.6	142.8	44.5	21.4
EPS (Reported) (RMB)	1.10	2.00	4.81	6.95	8.43
P/S (x)	10.7	9.6	4.2	3.0	2.5
P/E (x)	116.6	64.1	26.7	18.5	15.2

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	7,695	9,642	10,718	24,269	34,149	41,026
Cost of goods sold	(5,727)	(6,816)	(7,182)	(16,183)	(23,133)	(28,124)
Gross profit	1,968	2,826	3,536	8,087	11,016	12,901
Operating expenses	(1,005)	(1,499)	(1,042)	(1,843)	(1,933)	(1,910)
Selling expense	(21)	(63)	(51)	(45)	(33)	(30)
SG&A expense	(507)	(598)	(558)	(853)	(1,036)	(1,150)
R&D expense	(541)	(767)	(739)	(988)	(817)	(732)
Others	64	(71)	306	44	(46)	2
Operating profit	963	1,327	2,494	6,244	9,083	10,991
Other income	1	28	2	5	7	9
Other expense	(4)	(4)	(4)	(2)	(2)	(3)
Pre-tax profit	960	1,352	2,492	6,247	9,087	10,996
Income tax	(73)	(118)	(285)	(776)	(1,181)	(1,408)
After tax profit	886	1,234	2,208	5,471	7,906	9,589
Minority interest	10	10	34	195	282	336
Net profit	877	1,224	2,174	5,276	7,625	9,253

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	10,022	9,587	11,319	18,355	25,870	34,899
Cash & equivalents	3,515	2,831	3,317	6,329	10,110	16,292
Account receivables	1,997	1,509	2,581	3,802	4,993	5,798
Inventories	3,799	3,888	4,295	6,701	8,890	10,527
Prepayment	72	64	59	140	197	237
Other current assets	638	1,295	1,067	1,384	1,680	2,045
Non-current assets	6,543	6,970	8,687	10,109	11,840	13,616
PP&E	3,152	3,217	3,948	4,657	5,582	6,526
Right-of-use assets	21	11	27	318	681	1,068
Deferred income tax	46	48	82	117	154	199
Intangibles	382	322	401	476	547	603
Goodwill	1,980	1,949	1,939	1,929	1,920	1,910
Other non-current assets	962	1,422	2,291	2,612	2,956	3,311
Total assets	16,565	16,557	20,007	28,464	37,710	48,515
Current liabilities	3,166	3,264	4,360	6,802	8,755	10,925
Short-term borrowings	794	385	62	194	314	502
Account payables	1,205	1,136	1,857	3,463	4,522	5,649
Tax payable	68	93	213	303	401	516
Other current liabilities	932	1,349	2,039	2,548	3,125	3,757
Contract liabilities	1	22	3	28	40	48
Accrued expenses	166	279	187	266	353	454
Non-current liabilities	1,796	1,224	872	1,347	1,603	1,902
Long-term borrowings	1,262	696	319	561	561	561
Bond payables	0	0	0	0	0	0
Deferred income	277	264	216	307	407	524
Other non-current liabilities	258	264	337	480	635	817
Total liabilities	4,962	4,488	5,232	8,150	10,358	12,827
Share capital	800	801	803	803	803	803
Retained earnings	2,861	3,893	5,870	10,696	17,323	25,166
Other reserves	7,828	7,251	7,589	8,107	8,236	8,394
Total shareholders equity	11,489	11,945	14,261	19,606	26,362	34,363
Minority interest	114	124	513	708	990	1,326
Total equity and liabilities	16,565	16,557	20,007	28,464	37,710	48,515

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	960	1,352	2,492	6,247	9,087	10,996
Depreciation & amortization	436	493	525	550	719	922
Tax paid	(73)	(118)	(285)	(776)	(1,181)	(1,408)
Change in working capital	(587)	291	(830)	(1,733)	(1,846)	(860)
Others	77	432	(6)	(130)	(122)	(95)
Net cash from operations	813	2,449	1,897	4,158	6,658	9,556
Investing						
Capital expenditure	(840)	(792)	(1,704)	(1,736)	(1,982)	(2,198)
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	(139)	(93)	(71)
Net cash from investing	(1,219)	(1,553)	(1,176)	(1,874)	(2,075)	(2,269)
Financing						
Dividend paid	(168)	(233)	(207)	(411)	(929)	(1,319)
Net borrowings	(259)	(699)	(884)	419	120	188
Proceeds from share issues	2,665	33	(109)	433	0	0
Others	26	(742)	884	259	22	22
Net cash from financing	2,264	(1,641)	(316)	700	(787)	(1,110)
Net change in cash						
Cash at the beginning of the year	1,648	3,489	2,809	3,234	6,241	10,024
Exchange difference	(17)	64	20	0	0	0
Others	1,859	(745)	405	3,008	3,783	6,181
Cash at the end of the year	3,489	2,809	3,234	6,241	10,024	16,206
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	9.2%	25.3%	11.2%	126.4%	40.7%	20.1%
Gross profit	9.8%	43.6%	25.1%	128.7%	36.2%	17.1%
Operating profit	(2.7%)	37.9%	87.9%	150.4%	45.5%	21.0%
Net profit	1.3%	39.6%	77.6%	142.8%	44.5%	21.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	25.6%	29.3%	33.0%	33.3%	32.3%	31.4%
Operating margin	12.5%	13.8%	23.3%	25.7%	26.6%	26.8%
Return on equity (ROE)	9.1%	10.4%	16.6%	31.2%	33.2%	30.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	3.2	2.9	2.6	2.7	3.0	3.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	148.4	116.6	64.1	26.7	18.5	15.2
P/E (diluted)	148.4	116.6	65.1	26.7	18.5	15.2

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

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