

Innolight (300308 CH)

Solid 1Q25 earnings w/ strong beat on margins

Innolight has announced 1Q25 results. Revenue was up 38% YoY and 2% QoQ to RMB6.7bn, driven by continued global cloud capex and growing demand for 400G/800G optical transceivers. NP was up 57% YoY and 12% QoQ to RMB1.6bn, driven by growth in orders and a better margin. GPM improved to 36.7% (vs. 32.8%/35.1% in 1Q24/4Q24), significantly above BBG consensus of 31.9% despite that 1Q GPM was normally lower due to seasonality and price adjustments. Mgmt. attributed the 1Q25 margin beat to 1) a favourable product mix (greater revenue contribution from 800G), 2) operation optimization, and 3) margin improvements from overseas factories. Maintain BUY on Innolight, as the company is a key AI beneficiary. We revise TP to RMB151 based on 21.5x 2025E P/E (vs. prior 27x), at par with the peers' average and reflecting rising geopolitical uncertainties and lower sector sentiment.

- Expect solid 400G/800G demand from overseas/domestic CSPs in 2025; 1.6T shipments to accelerate starting in 2Q.** Mgmt. remains confident in 800G sales, as overseas customers have largely transitioned from 400G to 800G deployments. While 400G shipments declined temporarily, the company noted a pickup in domestic demand, supported by rising domestic cloud capex, driving a recovery in 400G shipments in the coming quarters. 1.6T contribution was lower than expected in 1Q but is forecasted to grow sequentially, per mgmt. We expect Innolight's revenue to increase by 47% in FY25 (vs. 123% YoY in FY24), driven by continued cloud spending on AI infrastructure.
- We project the company's GPM to stay at around 35%-36% in FY25/26E, driven by continued 800G shipments, 1.6T ramp-up, and annual price adjustments.** The company's 1Q GPM was up 1.6ppt QoQ (vs. -3.2ppt/-2.6ppt for 1Q23/1Q24) and beat our estimate by 4.8ppt. We forecast its FY25 GPM to be 35.3%.
- Tariff risks mitigated by offshore capacity.** Mgmt. noted minimal tariff exposure with all shipments now coming from its 70k sqm Thailand facility, which manufactures high-end 400G/800G products and benefits from zero-tariff treatment under the current trade rules. However, we maintain a cautious stance in light of ongoing geopolitical uncertainty.
- Maintain BUY with TP adjusted to RMB151.** We believe Innolight's fundamentals are intact, with revenue/NP revised up slightly by 3%/1% for FY25. The company remains a key beneficiary of AI infrastructure investment and enjoys growth potential from both overseas and domestic cloud capex. New TP is based on 21.5x 2025E P/E (vs. prior 27x), which is peers avg. The company's stock is currently trading at 11.4x 2025E P/E, which is lower than 1SD-below historical 5-years avg. of 12.8x, undemanding in our view. **Risks:** 1) future tariff uncertainty that may affect the company's operations; 2) rising raw material costs, and 3) slower-than-expected ramp-up speed.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	10,718	23,862	35,008	46,545	55,142
YoY growth (%)	11.2	122.6	46.7	33.0	18.5
Gross margin (%)	33.0	33.8	35.3	35.9	36.0
Net profit (RMB mn)	2,173.5	5,171.5	7,721.8	10,263.5	12,033.4
YoY growth (%)	77.6	137.9	49.3	32.9	17.2
EPS (Reported) (RMB)	2.00	4.72	7.02	9.34	10.95
P/S (x)	6.1	2.7	1.9	1.4	1.2
P/E (x)	40.6	17.2	11.6	8.7	7.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB151.00
(Previous TP)	RMB186.00)
Up/Downside	86.0%
Current Price	RMB81.19

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Stock Data

Mkt Cap (RMB mn)	65,179.3
Avg 3 mths t/o (RMB mn)	4,066.5
52w High/Low (RMB)	185.83/71.99
Total Issued Shares (mn)	802.8

Source: FactSet

Shareholding Structure

Shandong Zhongji Investment Holdings Co.	11.5%
Wang Weixiu	6.3%

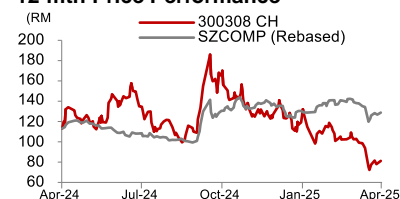
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-20.8%	-14.4%
3-mth	-32.1%	-31.1%
6-mth	-50.8%	-50.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

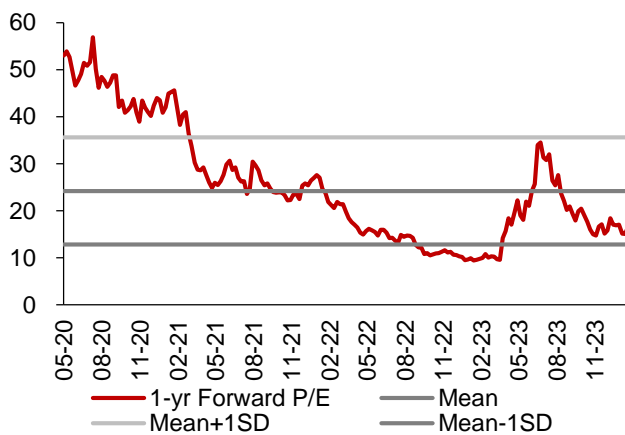
RMBmn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	35,008	46,545	55,142	34,149	41,026	NA	3%	13%	NA
Gross profit	12,365	16,697	19,847	11,030	12,882	NA	12%	30%	NA
Net profit	7,722	10,263	12,033	7,625	9,253	NA	1%	11%	NA
EPS (RMB)	7.02	9.34	10.95	6.95	8.43	NA	1%	11%	NA
Gross margin	35.3%	35.9%	36.0%	32.3%	31.4%	NA	3 ppt	4.5 ppt	NA
Net margin	22.1%	22.1%	21.8%	22.3%	22.6%	NA	-0.3 ppt	-0.5 ppt	NA

Source: Company data, CMBIGM estimates

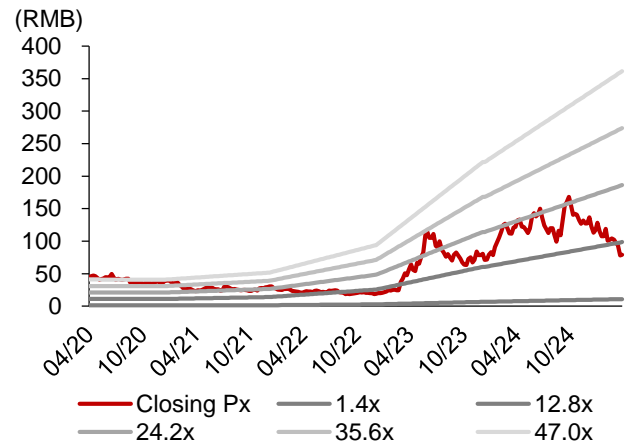
Figure 2: CMBIGM estimates vs. Bloomberg consensus

RMBmn	CMBIGM			BBG Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	35,008	46,545	55,142	39,111	46,778	40,530	-10%	0%	36%
Gross profit	12,365	16,697	19,847	13,330	15,854	11,621	-7%	5%	71%
Net profit	7,722	10,263	12,033	8,533	9,818	NA	-10%	5%	NA
EPS (RMB)	7.02	9.34	10.95	7.96	9.41	9.59	-12%	-1%	14%
Gross margin	35.3%	35.9%	36.0%	34.1%	33.9%	28.7%	1.2 ppt	2 ppt	7.3 ppt
Net margin	22.1%	22.1%	21.8%	21.8%	21.0%	12.9%	0.2 ppt	1.1 ppt	8.9 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: P/E band

Source: Bloomberg, CMBIGM estimates

Figure 4: P/E chart

Source: Bloomberg, CMBIGM estimates

Figure 5: Comps table

Company	Ticker	Mkt Cap US\$(mn)	Price (LC)	P/E (x)		P/S (x)		EPS (US\$)	
				FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
TFC	300394 CH	5,114	68.50	16.5	12.6	6.3	4.8	0.56	0.73
Eoptolink	300502 CH	7,871	81.42	13.4	9.6	3.8	2.9	0.83	1.16
Huagong	000988 CH	5,363	39.18	24.0	19.0	2.5	2.1	0.22	0.28
Accelink	002281 CH	4,649	42.86	32.3	25.5	3.2	2.6	0.18	0.23
Average				21.5	16.7	4.0	3.1	0.4	0.6

Source: Bloomberg, CMBIGM estimates

Note: Data as of 22 Apr close

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	9,642	10,718	23,862	35,008	46,545	55,142
Cost of goods sold	(6,816)	(7,182)	(15,796)	(22,642)	(29,847)	(35,295)
Gross profit	2,826	3,536	8,067	12,365	16,697	19,847
Operating expenses	(1,499)	(1,042)	(2,017)	(2,799)	(3,986)	(4,948)
Selling expense	(63)	(51)	(47)	(56)	(74)	(88)
SG&A expense	(598)	(558)	(879)	(1,014)	(1,273)	(1,487)
R&D expense	(767)	(739)	(1,244)	(1,761)	(2,600)	(3,326)
Others	(71)	306	153	32	(39)	(48)
Operating profit	1,327	2,494	6,050	9,566	12,711	14,899
Other income	28	2	5	6	7	9
Other expense	(4)	(4)	(2)	(0)	(0)	(0)
Pre-tax profit	1,352	2,492	6,052	9,572	12,719	14,908
Income tax	(118)	(285)	(681)	(1,450)	(1,958)	(2,318)
After tax profit	1,234	2,208	5,372	8,122	10,761	12,590
Minority interest	10	34	200	400	498	556
Net profit	1,224	2,174	5,171	7,722	10,263	12,033

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	9,587	11,319	18,196	27,161	37,985	50,119
Cash & equivalents	2,831	3,317	5,054	12,037	19,164	28,974
Account receivables	1,509	2,581	4,604	5,371	6,361	7,236
Inventories	3,888	4,295	7,051	8,829	11,287	12,501
Prepayment	64	59	80	102	136	161
Other current assets	1,295	1,067	1,407	821	1,037	1,247
Non-current assets	6,970	8,687	10,671	11,861	13,121	14,652
PP&E	3,217	3,948	5,820	6,473	7,300	8,192
Right-of-use assets	11	27	34	119	218	320
Deferred income tax	48	82	222	239	314	397
Intangibles	322	401	378	348	330	324
Goodwill	1,949	1,939	1,939	1,939	1,939	1,939
Other non-current assets	1,422	2,291	2,279	2,742	3,020	3,480
Total assets	16,557	20,007	28,866	39,021	51,107	64,771
Current liabilities	3,264	4,360	6,497	8,676	10,244	11,759
Short-term borrowings	385	62	1,426	1,824	1,998	2,081
Account payables	1,136	1,857	2,991	4,453	5,360	6,244
Tax payable	93	213	244	408	534	677
Other current liabilities	1,349	2,039	1,545	1,674	1,937	2,230
Contract liabilities	22	3	10	9	12	15
Accrued expenses	279	187	282	308	404	511
Non-current liabilities	1,224	872	2,076	2,484	3,065	3,722
Long-term borrowings	696	319	606	608	608	608
Bond payables	0	0	0	0	0	0
Deferred income	264	216	270	371	487	617
Other non-current liabilities	264	337	1,200	1,504	1,970	2,497
Total liabilities	4,488	5,232	8,573	11,160	13,309	15,480
Share capital	801	803	1,121	1,105	1,105	1,105
Retained earnings	3,893	5,870	10,624	17,702	27,018	37,811
Other reserves	7,251	7,589	7,388	7,496	7,618	7,762
Total shareholders equity	11,945	14,261	19,134	26,302	35,741	46,678
Minority interest	124	513	1,159	1,559	2,057	2,613
Total equity and liabilities	16,557	20,007	28,866	39,021	51,107	64,771

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,352	2,492	6,052	9,572	12,719	12,719
Depreciation & amortization	493	525	713	738	810	950
Tax paid	(118)	(285)	(681)	(1,450)	(1,958)	(1,958)
Change in working capital	291	(830)	(3,210)	(825)	(2,312)	(915)
Others	432	(6)	290	549	408	474
Net cash from operations	2,449	1,897	3,165	8,585	9,668	11,269
Investing						
Capital expenditure	(792)	(1,704)	(2,866)	(1,685)	(1,984)	(2,240)
Acquisition of subsidiaries/ investments	(5,967)	(3,971)	(2,725)	0	0	0
Net proceeds from disposal of short-term investments	5,167	4,435	2,619	0	0	0
Others	40	65	37	110	110	127
Net cash from investing	(1,553)	(1,176)	(2,935)	(1,575)	(1,874)	(2,113)
Financing						
Dividend paid	(233)	(207)	(399)	(653)	(935)	(1,211)
Net borrowings	(699)	(884)	1,685	396	174	83
Proceeds from share issues	33	(109)	246	(1)	0	0
Others	(742)	884	(40)	0	0	0
Net cash from financing	(1,641)	(316)	1,492	(258)	(761)	(1,128)
Net change in cash						
Cash at the beginning of the year	3,489	2,809	3,234	4,988	11,963	19,090
Exchange difference	64	20	39	0	0	0
Others	(745)	405	1,715	6,975	7,127	9,810
Cash at the end of the year	2,809	3,234	4,988	11,963	19,090	28,900
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	25.3%	11.2%	122.6%	46.7%	33.0%	18.5%
Gross profit	43.6%	25.1%	128.1%	53.3%	35.0%	18.9%
Operating profit	37.9%	87.9%	142.6%	58.1%	32.9%	17.2%
Net profit	39.6%	77.6%	137.9%	49.3%	32.9%	17.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	29.3%	33.0%	33.8%	35.3%	35.9%	36.0%
Operating margin	13.8%	23.3%	25.4%	27.3%	27.3%	27.0%
Return on equity (ROE)	10.4%	16.6%	31.0%	34.0%	33.1%	29.2%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.9	2.6	2.8	3.1	3.7	4.3
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	73.8	40.6	17.2	11.6	8.7	7.4
P/E (diluted)	73.8	41.2	17.5	11.6	8.7	7.4

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

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