

Innolight (300308 CH)

2Q earnings reinforce AI infrastructure spend momentum

Innolight announced 1H25 preliminary earnings. 1H25 NP is guided to be RMB3.6bn-RMB4.4bn, up 53%-87% YoY. 2Q NP alone is estimated to be RMB2.0bn-RMB2.8bn, up 50%-107% YoY/27%-78% QoQ. 2Q NP beat Bloomberg consensus of RMB1.9bn by 9%-52%. According to the company, the strong results were driven by 1) robust topline growth on sustained AI demand ([report](#)) and 2) margin increases due to a favorable product mix (higher contribution from 800G and silicon photonics products) and yield improvement.

Reiterate BUY with TP raised to RMB225.

■ **Sequential revenue growth in recent quarters driven by robust AI infrastructure spend.** Innolight's revenue grew by 38% YoY/2% QoQ in 1Q. We expect 2Q NP to grow QoQ again, driven by 1) strong capex from overseas CSPs and new entrants, 2) strong demand for 400G/800G transceivers from ASIC/Ethernet datacenter needs. By data rate, revenue contribution from 800G/SiPh products continues to grow. Looking ahead, mgmt. expects AI-driven demand to remain elevated through 2026 with 800G volumes continuing to rise and 1.6T adoption accelerating. We noticed that **Eoptolink (300502 CH, NR)** also preannounced significant 2Q NP growth of 293%-386% YoY/35%-67% QoQ. In addition, **FII (601138 CH, NR)** preannounced 2Q NP growth of 48%-52% YoY/29%-32% QoQ. FII's mgmt. highlighted that AI server sales growth exceeded 60% YoY in 2Q, and 800G switch sales alone nearly tripled full-year sales in 2024. BBG consensus forecasts major overseas hyperscalers' (MSFT/AMZN/GOOG/META) capex to grow by 43% YoY and domestic Big Three's (Alibaba/Tencent/Baidu) capex to grow by 44% YoY in 2025E. As a key beneficiary riding the AI tailwind, we forecast Innolight's revenue to increase by 52.5% in 2025E.

■ **Further margin expansion on favourable product mix and better yields.** With higher 800G sales and incremental contribution from 1.6T, we expect Innolight's GPM to maintain sequential growth in 2Q/2H25 (3Q24/4Q24/1Q25: 33.6%/35.1%/36.7%). SiPh demand is growing, offsetting the impact of EML shortage and contributing to GPM. Innolight will provide SiPh solutions for 1.6T products as well, per mgmt., and we estimate NPM to reach a historical high in 2Q while remaining at a high level going forward (CMBI est.: 25%+). We expect the company's GPM to reach 38.7% in 2025E (vs. prev. 35.3%), due to better-than-expected GPM in 2Q. We have also revised up 2025E NP to RMB9.2bn (77% YoY vs. prev. 49% YoY).

■ **Reiterate BUY with TP raised to RMB225, based on 27x 2025E P/E (peers' avg. 2025E P/E is 28.1x), close to 0.5SD above its 5-yr avg. hist. forward P/E (21.8x).** We have raised our revenue/NP growth forecasts to 52.5%/77.3% YoY in 2025 on 1) higher 800G shipment volume, 2) milder annual ASP adjustments and 3) an enhanced GPM. We lift our target P/E to 27x vs. prior 21.5x given little impact from earlier tariffs. Key risks include slower-than-expected shipments, geopolitical uncertainties, supply chain shortage, etc.

Earnings Summary

| (YE 31 Dec) | FY23A | FY24A | FY25E | FY26E | FY27E |
|----------------------|---------|---------|---------|----------|----------|
| Revenue (RMB mn) | 10,718 | 23,862 | 36,385 | 48,184 | 56,257 |
| YoY growth (%) | 11.2 | 122.6 | 52.5 | 32.4 | 16.8 |
| Gross margin (%) | 33.0 | 33.8 | 38.7 | 38.3 | 38.4 |
| Net profit (RMB mn) | 2,173.5 | 5,171.5 | 9,167.3 | 11,784.2 | 13,570.1 |
| YoY growth (%) | 77.6 | 137.9 | 77.3 | 28.5 | 15.2 |
| EPS (Reported) (RMB) | 2.00 | 4.72 | 8.34 | 10.72 | 12.35 |
| P/E (x) | 87.4 | 37.0 | 21.0 | 16.3 | 14.2 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB225.00

(Previous TP RMB151.00)

Up/Downside 31.8%

Current Price RMB 170.76

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Stock Data

| | |
|--------------------------|--------------|
| Mkt Cap (RMB mn) | 194,231.4 |
| Avg 3 mths t/o (RMB mn) | 5,001.8 |
| 52w High/Low (RMB) | 185.83/71.99 |
| Total Issued Shares (mn) | 1111.1 |

Source: FactSet

Shareholding Structure

| | |
|--|-------|
| Shandong Zhongji Investment Holdings Co. | 11.4% |
| Wang Weixiu | 6.3% |

Source: Bloomberg

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 49.9% | 41.5% |
| 3-mth | 118.0% | 95.5% |
| 6-mth | 58.1% | 41.9% |

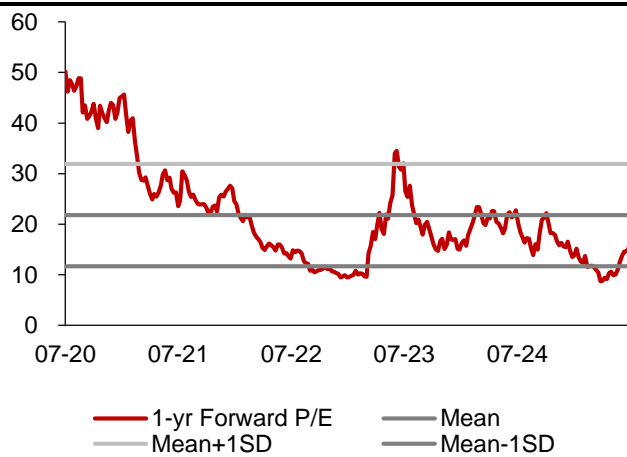
Source: FactSet

12-mth Price Performance



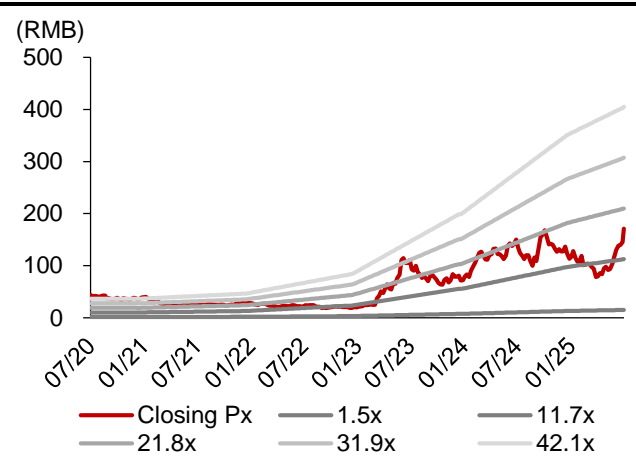
Source: FactSet

Figure 1: Forward P/E chart



Source: Company data, CMBIGM estimates

Figure 2: P/E band



Source: Company data, CMBIGM estimates

Figure 3: Earnings revision

| RMBmn | New | | | Old | | | Diff (%) | | |
|--------------|--------|--------|--------|--------|--------|--------|----------|---------|---------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Revenue | 36,385 | 48,184 | 56,257 | 35,008 | 46,545 | 55,142 | 3.9% | 3.5% | 2.0% |
| Gross profit | 14,093 | 18,466 | 21,611 | 12,358 | 16,710 | 19,851 | 14.0% | 10.5% | 8.9% |
| Net profit | 9,167 | 11,784 | 13,570 | 7,722 | 10,264 | 12,033 | 18.7% | 14.8% | 12.8% |
| EPS (RMB) | 8.34 | 10.72 | 12.35 | 7.02 | 9.34 | 10.95 | 18.8% | 14.8% | 12.7% |
| Gross margin | 38.7% | 38.3% | 38.4% | 35.3% | 35.9% | 36.0% | 3.4 ppt | 2.4 ppt | 2.4 ppt |
| Net margin | 25.2% | 24.5% | 24.1% | 22.1% | 22.1% | 21.8% | 3.1 ppt | 2.4 ppt | 2.3 ppt |

Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs. Bloomberg consensus

| RMBmn | CMBIGM | | | BBG Consensus | | | Diff (%) | | |
|--------------|--------|--------|--------|---------------|--------|--------|----------|---------|---------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Revenue | 36,385 | 48,184 | 56,257 | 35,987 | 43,856 | 49,927 | 1.1% | 9.9% | 12.7% |
| Gross profit | 14,093 | 18,466 | 21,611 | 12,449 | 15,195 | 17,179 | 13.2% | 21.5% | 25.8% |
| Net profit | 9,167 | 11,784 | 13,570 | 8,227 | 10,142 | 11,456 | 11.4% | 16.2% | 18.5% |
| EPS (RMB) | 8.34 | 10.72 | 12.35 | 7.17 | 8.89 | 10.24 | 16.3% | 20.6% | 20.5% |
| Gross margin | 38.7% | 38.3% | 38.4% | 34.6% | 34.6% | 34.4% | 4.1 ppt | 3.7 ppt | 4 ppt |
| Net margin | 25.2% | 24.5% | 24.1% | 22.9% | 23.1% | 22.9% | 2.3 ppt | 1.3 ppt | 1.2 ppt |

Source: Bloomberg consensus, CMBIGM estimates

Figure 5: Peers table

| Company | Ticker | Mkt Cap (US\$mn) | Price (LC) | P/E (x) | | GPM | | NP YoY% | |
|--------------|-----------|---------------------|---------------|---------|-------|-------|-------|---------|-------|
| | | | | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Innolight | 300308 CH | 26,434 | 170.8 | 21.0 | 16.3 | 38.7 | 38.3 | 77.3 | 28.5 |
| TFC | 300394 CH | 9,771 | 90.2 | 32.0 | 24.1 | 54.9 | 54.1 | 41.7 | 32.7 |
| Eoptolink | 300502 CH | 23,508 | 169.8 | 22.4 | 17.1 | 46.9 | 46.6 | 131.8 | 31.5 |
| Huagong Tech | 000988 CH | 6,682 | 47.7 | 27.7 | 21.8 | 21.6 | 21.8 | 44.3 | 29.5 |
| Accelink | 002281 CH | 5,336 | 47.5 | 37.5 | 28.8 | 24.5 | 25.3 | 2.7 | 33.2 |
| Average | | | | 28.1 | 21.6 | 37.3 | 37.2 | 59.6 | 31.1 |

Source: Bloomberg consensus, CMBIGM estimates

Note: Earnings estimates for Innolight are CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|--------------------|---------|---------|----------|----------|----------|----------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 9,642 | 10,718 | 23,862 | 36,385 | 48,184 | 56,257 |
| Cost of goods sold | (6,816) | (7,182) | (15,796) | (22,293) | (29,718) | (34,646) |
| Gross profit | 2,826 | 3,536 | 8,067 | 14,093 | 18,466 | 21,611 |
| Operating expenses | (1,499) | (1,042) | (2,017) | (2,744) | (3,870) | (4,805) |
| Selling expense | (63) | (51) | (47) | (58) | (77) | (90) |
| SG&A expense | (598) | (558) | (879) | (980) | (1,196) | (1,381) |
| R&D expense | (767) | (739) | (1,244) | (1,751) | (2,564) | (3,294) |
| Others | (71) | 306 | 153 | 45 | (34) | (41) |
| Operating profit | 1,327 | 2,494 | 6,050 | 11,349 | 14,596 | 16,806 |
| Other income | 28 | 2 | 5 | 6 | 8 | 9 |
| Other expense | (4) | (4) | (2) | (0) | (0) | (0) |
| Pre-tax profit | 1,352 | 2,492 | 6,052 | 11,355 | 14,603 | 16,815 |
| Income tax | (118) | (285) | (681) | (1,719) | (2,248) | (2,617) |
| After tax profit | 1,234 | 2,208 | 5,372 | 9,636 | 12,356 | 14,198 |
| Minority interest | 10 | 34 | 200 | 469 | 571 | 628 |
| Net profit | 1,224 | 2,174 | 5,171 | 9,167 | 11,784 | 13,570 |

| BALANCE SHEET | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 9,587 | 11,319 | 18,196 | 29,109 | 41,531 | 54,685 |
| Cash & equivalents | 2,831 | 3,317 | 5,054 | 13,787 | 22,478 | 33,797 |
| Account receivables | 1,509 | 2,581 | 4,604 | 5,764 | 6,381 | 7,490 |
| Inventories | 3,888 | 4,295 | 7,051 | 8,584 | 11,445 | 11,905 |
| Prepayment | 64 | 59 | 80 | 106 | 141 | 165 |
| Other current assets | 1,295 | 1,067 | 1,407 | 868 | 1,086 | 1,328 |
| Non-current assets | 6,970 | 8,687 | 10,671 | 11,990 | 13,365 | 14,962 |
| PP&E | 3,217 | 3,948 | 5,820 | 6,525 | 7,404 | 8,324 |
| Right-of-use assets | 11 | 27 | 34 | 123 | 225 | 329 |
| Deferred income tax | 48 | 82 | 222 | 252 | 337 | 427 |
| Intangibles | 322 | 401 | 378 | 349 | 335 | 331 |
| Goodwill | 1,949 | 1,939 | 1,939 | 1,939 | 1,939 | 1,939 |
| Other non-current assets | 1,422 | 2,291 | 2,279 | 2,802 | 3,126 | 3,613 |
| Total assets | 16,557 | 20,007 | 28,866 | 41,099 | 54,896 | 69,647 |
| Current liabilities | 3,264 | 4,360 | 6,497 | 9,140 | 10,898 | 11,999 |
| Short-term borrowings | 385 | 62 | 1,426 | 2,348 | 2,447 | 2,482 |
| Account payables | 1,136 | 1,857 | 2,991 | 4,338 | 5,432 | 5,958 |
| Tax payable | 93 | 213 | 244 | 430 | 574 | 728 |
| Other current liabilities | 1,349 | 2,039 | 1,545 | 1,690 | 1,999 | 2,267 |
| Contract liabilities | 22 | 3 | 10 | 10 | 13 | 15 |
| Accrued expenses | 279 | 187 | 282 | 325 | 433 | 550 |
| Non-current liabilities | 1,224 | 872 | 2,076 | 2,584 | 3,247 | 3,956 |
| Long-term borrowings | 696 | 319 | 606 | 608 | 608 | 608 |
| Bond payables | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred income | 264 | 216 | 270 | 391 | 523 | 663 |
| Other non-current liabilities | 264 | 337 | 1,200 | 1,584 | 2,116 | 2,685 |
| Total liabilities | 4,488 | 5,232 | 8,573 | 11,723 | 14,145 | 15,955 |
| Share capital | 801 | 803 | 1,121 | 1,105 | 1,105 | 1,105 |
| Retained earnings | 3,893 | 5,870 | 10,624 | 19,130 | 29,794 | 41,944 |
| Other reserves | 7,251 | 7,589 | 7,388 | 7,513 | 7,654 | 7,816 |
| Total shareholders equity | 11,945 | 14,261 | 19,134 | 27,748 | 38,553 | 50,864 |
| Minority interest | 124 | 513 | 1,159 | 1,627 | 2,199 | 2,827 |
| Total equity and liabilities | 16,557 | 20,007 | 28,866 | 41,099 | 54,896 | 69,647 |

| CASH FLOW | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 1,352 | 2,492 | 6,052 | 11,355 | 14,603 | 16,815 |
| Depreciation & amortization | 493 | 525 | 713 | 714 | 796 | 949 |
| Tax paid | (118) | (285) | (681) | (1,719) | (2,248) | (2,617) |
| Change in working capital | 291 | (830) | (3,210) | (1,089) | (2,093) | (791) |
| Others | 432 | (6) | 290 | 625 | 488 | 521 |
| Net cash from operations | 2,449 | 1,897 | 3,165 | 9,886 | 11,547 | 14,877 |
| Investing | | | | | | |
| Capital expenditure | (792) | (1,704) | (2,866) | (1,751) | (2,054) | (2,286) |
| 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 | 111 | 129 |
| Net cash from investing | (1,553) | (1,176) | (2,935) | (1,641) | (1,943) | (2,157) |
| Financing | | | | | | |
| Dividend paid | (233) | (207) | (399) | (662) | (1,106) | (1,388) |
| Net borrowings | (699) | (884) | 1,685 | 920 | 99 | 35 |
| 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 | 257 | (1,007) | (1,354) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 3,489 | 2,809 | 3,234 | 4,988 | 13,713 | 22,404 |
| Exchange difference | 64 | 20 | 39 | 0 | 0 | 0 |
| Others | (745) | 405 | 1,715 | 8,725 | 8,691 | 11,319 |
| Cash at the end of the year | 2,809 | 3,234 | 4,988 | 13,713 | 22,404 | 33,723 |
| GROWTH | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 31 Dec | | | | | | |
| Revenue | 25.3% | 11.2% | 122.6% | 52.5% | 32.4% | 16.8% |
| Gross profit | 43.6% | 25.1% | 128.1% | 74.7% | 31.0% | 17.0% |
| Operating profit | 37.9% | 87.9% | 142.6% | 87.6% | 28.6% | 15.1% |
| Net profit | 39.6% | 77.6% | 137.9% | 77.3% | 28.5% | 15.2% |
| PROFITABILITY | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 29.3% | 33.0% | 33.8% | 38.7% | 38.3% | 38.4% |
| Operating margin | 13.8% | 23.3% | 25.4% | 31.2% | 30.3% | 29.9% |
| Return on equity (ROE) | 10.4% | 16.6% | 31.0% | 39.1% | 35.5% | 30.4% |
| GEARING/LIQUIDITY/ACTIVITIES | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 31 Dec | | | | | | |
| Current ratio (x) | 2.9 | 2.6 | 2.8 | 3.2 | 3.8 | 4.6 |
| VALUATION | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 31 Dec | | | | | | |
| P/E | 158.9 | 87.4 | 37.0 | 21.0 | 16.3 | 14.2 |
| P/E (diluted) | 158.9 | 88.7 | 37.8 | 21.0 | 16.3 | 14.2 |

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

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