

Innolight (300308 CH)

Record revenue and earnings coupled with significant margin expansion; Maintain BUY

Innolight delivered exceptionally strong 2Q25 results. Quarterly revenue was a record RMB8.1bn, up 36%/ 22% YoY/QoQ, driven by robust demand for high-end optical modules. Net profit surged to RMB2.4bn, up 79%/52% YoY/QoQ, beating BBG consensus by 28%. Both GPM and NPM hit record highs at 41.5%/29.7%, outperforming consensus by 5.7ppt/7.2ppt. Innolight announced its first interim dividend of RMB0.4 per share, boosting shareholder returns. **Maintain BUY and raise TP to RMB415**, based on 30x rollover 2026E P/E (previously 27x 2025E P/E), as we revise up earnings forecasts to reflect our positive outlook on the company, indicating sustained momentum in AI-driven demand and mgmt.'s superior execution.

- **Sequential revenue improvement driven by optical transceivers' sales increase** (up 40%/98% YoY/QoQ). Mgmt. highlighted strong shipments of 800G products, with 1.6T commencing ramp-up in 2Q and shipment to accelerate through 2H25. Notably, the company's silicon photonics (SiPh) based 1.6T solutions are gaining traction with leading cloud customers.
- **AI capex cycle to support sustained growth.** Overseas revenue (86% of 1H25 sales) remained the primary growth driver. Per Bloomberg consensus, combined capex from key hyperscalers (Amazon/Google/Meta/Microsoft) is projected to grow 53%/17% YoY to US\$329/350bn in 2025/26E, revised up by 5.7%/5.6% vs. consensus in May 2025. We raise our 2025/26E revenue forecasts by 5%/5%, respectively, factoring in stronger-than-expected AI infrastructure investments. We project 2025E revenue to increase 60%/32% YoY.
- **Significant margin expansion due to robust 800G/1.6T shipments and SiPh adoption.** In 1H, optical transceivers' GPM rose 6.1ppt YoY to 40.0%, while NPM increased by 5.8ppt YoY to 29.7%. The record margins were driven by 1) a higher sales contribution of 800G/1.6T products, 2) increasing adoption of higher-margin SiPh solutions, and 3) efficient supply-chain management (raw material inventory rose 17% QoQ in 2Q). 1.6T products, predominantly shipped in SiPh form, yield a better margin than earlier generations. We lift 2025/26E GPM projections to 43.0%/42.7% from 39%/38%, anticipating further margin expansion as 1.6T shipments scale up and SiPh solutions increase. Mass production of 1.6T products in 2H should support sequential margin improvements.
- **Maintain BUY, with TP adjusted to RMB415**, based on 30x rollover 2026E P/E, equivalent to 1-SD above 5-year historical avg, justified by Innolight's leadership in a fast-growing AI optical market. Our NP forecasts for 2025/26E are revised up by 28%/30%, on higher revenue and GPM assumptions. Key risks include lower-than-expected AI capex, geopolitical/tariff uncertainties, supply chain disruptions and intensified competitions, etc.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	10,718	23,862	38,252	50,642	61,262
YoY growth (%)	11.2	122.6	60.3	32.4	21.0
Gross margin (%)	33.0	33.8	43.0	42.7	42.9
Net profit (RMB mn)	2,173.5	5,171.5	11,690.6	15,284.5	18,198.2
YoY growth (%)	77.6	137.9	126.1	30.7	19.1
EPS (Reported) (RMB)	2.00	4.72	10.66	13.94	16.60
P/E (x)	179.5	76.1	33.7	25.8	21.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB415.00
 (Previous TP) RMB225.00)
Up/Downside 15.6%
Current Price RMB359.03

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Stock Data

Mkt Cap (RMB mn)	398,918.2
Avg 3 mths t/o (RMB mn)	8,517.3
52w High/Low (RMB)	359.03/71.99
Total Issued Shares (mn)	1111.1

Source: FactSet

Shareholding Structure

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

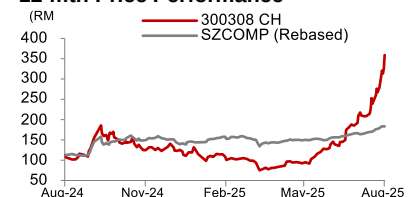
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	87.1%	70.2%
3-mth	287.6%	213.4%
6-mth	255.9%	196.5%

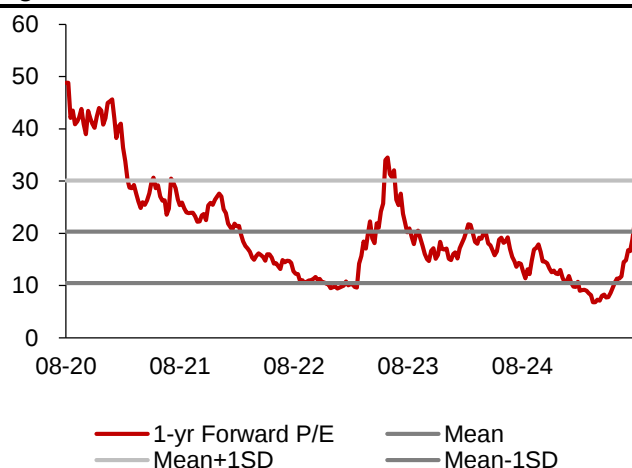
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12-mth Price Performance



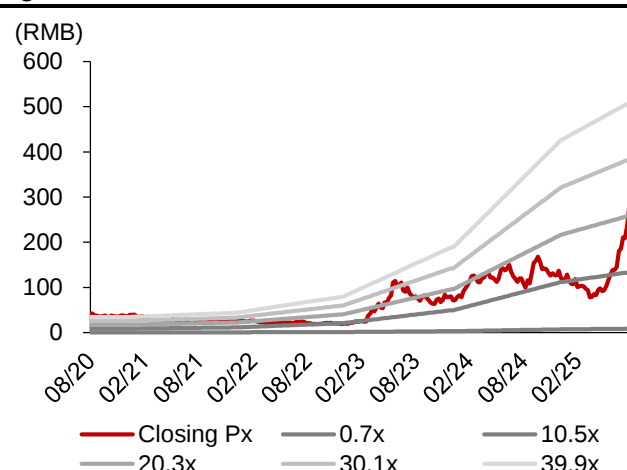
Source: FactSet

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	38,252	50,642	61,262	36,385	48,184	56,257	5.1%	5.1%	8.9%
Gross profit	16,436	21,642	26,306	14,081	18,454	21,603	16.7%	17.3%	21.8%
Net profit	11,691	15,284	18,198	9,167	11,784	13,570	27.5%	29.7%	34.1%
EPS (RMB)	10.66	13.94	16.60	8.34	10.72	12.35	27.8%	30.0%	34.4%
Gross margin	43.0%	42.7%	42.9%	38.7%	38.3%	38.4%	4.3 ppt	4.4 ppt	4.5 ppt
Net margin	30.6%	30.2%	29.7%	25.2%	24.5%	24.1%	5.4 ppt	5.7 ppt	5.6 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	38,252	50,642	61,262	36,429	50,723	59,663	5.0%	-0.2%	2.7%
Gross profit	16,436	21,642	26,306	13,709	19,192	22,539	19.9%	12.8%	16.7%
Net profit	11,691	15,284	18,198	9,188	13,166	15,390	27.2%	16.1%	18.3%
EPS (RMB)	10.66	13.94	16.60	8.26	12.01	13.91	29.1%	16.1%	19.3%
Gross margin	43.0%	42.7%	42.9%	37.6%	37.8%	37.8%	5.3 ppt	4.9 ppt	5.2 ppt
Net margin	30.6%	30.2%	29.7%	25.2%	26.0%	25.8%	5.3 ppt	4.2 ppt	3.9 ppt

Source: Bloomberg consensus, CMBIGM estimates

Figure 5: Peers table

Company	Ticker	Mkt Cap (US\$mn)	Price (LC)	P/E (x)			EPS (US\$)		
				FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Domestic peers									
Eoptolink	300502 CH	48,755	349.90	41.4	29.3	23.0	1.18	1.67	2.12
Suzhou TFC	300394 CH	20,794	190.72	67.3	49.6	40.6	0.40	0.54	0.66
Accelink	002281 CH	7,672	67.80	53.6	41.0	34.7	0.18	0.23	0.27
Huagong Tech	000988 CH	9,172	65.04	35.7	28.0	21.8	0.25	0.33	0.42
Avg.				49.5	37.0	30.0	0.5	0.7	0.9

Source: Bloomberg, CMBIGM; data as of 11 a.m., 29 Aug 2025

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	9,642	10,718	23,862	38,252	50,642	61,262
Cost of goods sold	(6,816)	(7,182)	(15,796)	(21,817)	(28,999)	(34,957)
Gross profit	2,826	3,536	8,067	16,436	21,642	26,306
Operating expenses	(1,499)	(1,042)	(2,017)	(2,433)	(3,546)	(4,778)
Selling expense	(63)	(51)	(47)	(121)	(164)	(198)
SG&A expense	(598)	(558)	(879)	(940)	(1,099)	(1,334)
R&D expense	(767)	(739)	(1,244)	(1,453)	(2,134)	(3,075)
Others	(71)	306	153	81	(149)	(171)
Operating profit	1,327	2,494	6,050	14,002	18,096	21,528
Other income	28	2	5	13	17	21
Other expense	(4)	(4)	(2)	(1)	(1)	(1)
Pre-tax profit	1,352	2,492	6,052	14,015	18,112	21,547
Income tax	(118)	(285)	(681)	(1,717)	(2,174)	(2,613)
After tax profit	1,234	2,208	5,372	12,298	15,938	18,935
Minority interest	10	34	200	607	654	737
Net profit	1,224	2,174	5,171	11,691	15,284	18,198

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	9,587	11,319	18,196	31,072	46,838	65,203
Cash & equivalents	2,831	3,317	5,054	12,025	24,356	37,391
Account receivables	1,509	2,581	4,604	7,972	8,677	11,464
Inventories	3,888	4,295	7,051	10,282	12,758	15,015
Prepayment	64	59	80	112	148	179
Other current assets	1,295	1,067	1,407	680	899	1,153
Non-current assets	6,970	8,687	10,671	12,376	13,937	15,967
PP&E	3,217	3,948	5,820	6,595	7,553	8,620
Right-of-use assets	11	27	34	128	236	350
Deferred income tax	48	82	222	376	526	703
Intangibles	322	401	378	352	340	343
Goodwill	1,949	1,939	1,939	1,939	1,939	1,939
Other non-current assets	1,422	2,291	2,279	2,986	3,342	4,012
Total assets	16,557	20,007	28,866	43,448	60,775	81,171
Current liabilities	3,264	4,360	6,497	8,195	10,048	12,217
Short-term borrowings	385	62	1,426	1,348	1,259	1,795
Account payables	1,136	1,857	2,991	4,182	5,352	6,140
Tax payable	93	213	244	878	1,229	1,641
Other current liabilities	1,349	2,039	1,545	1,567	1,899	2,230
Contract liabilities	22	3	10	10	13	16
Accrued expenses	279	187	282	211	295	394
Non-current liabilities	1,224	872	2,076	2,969	3,763	4,697
Long-term borrowings	696	319	606	979	979	979
Bond payables	0	0	0	0	0	0
Deferred income	264	216	270	429	600	802
Other non-current liabilities	264	337	1,200	1,561	2,184	2,917
Total liabilities	4,488	5,232	8,573	11,165	13,811	16,914
Share capital	801	803	1,121	1,111	1,111	1,111
Retained earnings	3,893	5,870	10,624	21,623	35,476	51,825
Other reserves	7,251	7,589	7,388	7,783	7,956	8,164
Total shareholders equity	11,945	14,261	19,134	30,517	44,544	61,100
Minority interest	124	513	1,159	1,766	2,420	3,156
Total equity and liabilities	16,557	20,007	28,866	43,448	60,775	81,171

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,352	2,492	6,052	14,015	18,112	21,547
Depreciation & amortization	493	525	713	689	763	901
Tax paid	(118)	(285)	(681)	(1,717)	(2,174)	(2,613)
Change in working capital	291	(830)	(3,210)	(5,387)	(1,772)	(4,006)
Others	432	(6)	290	923	708	818
Net cash from operations	2,449	1,897	3,165	8,523	15,637	16,647
Investing						
Capital expenditure	(792)	(1,704)	(2,866)	(1,841)	(2,159)	(2,489)
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	230	112	131
Net cash from investing	(1,553)	(1,176)	(2,935)	(1,611)	(2,047)	(2,358)
Financing						
Dividend paid	(233)	(207)	(399)	(622)	(1,321)	(1,710)
Net borrowings	(699)	(884)	1,685	243	(89)	536
Proceeds from share issues	33	(109)	246	254	0	0
Others	(742)	884	(40)	(0)	1	1
Net cash from financing	(1,641)	(316)	1,492	(125)	(1,408)	(1,173)
Net change in cash						
Cash at the beginning of the year	3,489	2,809	3,234	4,988	11,971	24,303
Exchange difference	64	20	39	(10)	(10)	(10)
Others	(745)	405	1,715	6,994	12,342	13,045
Cash at the end of the year	2,809	3,234	4,988	11,971	24,303	37,338
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	25.3%	11.2%	122.6%	60.3%	32.4%	21.0%
Gross profit	43.6%	25.1%	128.1%	103.7%	31.7%	21.5%
Operating profit	37.9%	87.9%	142.6%	131.4%	29.2%	19.0%
Net profit	39.6%	77.6%	137.9%	126.1%	30.7%	19.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	29.3%	33.0%	33.8%	43.0%	42.7%	42.9%
Operating margin	13.8%	23.3%	25.4%	36.6%	35.7%	35.1%
Return on equity (ROE)	10.4%	16.6%	31.0%	47.1%	40.7%	34.5%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.9	2.6	2.8	3.8	4.7	5.3
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	326.4	179.5	76.1	33.7	25.8	21.6
P/E (diluted)	326.4	182.1	77.5	33.7	25.8	21.6

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

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