

Innolight (300308 CH)

A clear beneficiary of global AI infrastructure capex; remains our top pick in 2026

2025 has proven a standout year for optical transceiver suppliers with high AI exposure, with domestic industry leader Innolight delivering stellar 9M25 results: Revenue and net profit soared 44%/90% YoY, while 3Q25 gross margin expanded 9ppt to 43% from a year ago. Strong financials fueled a share price rally, with Innolight's stock surging 380%+ YTD as of Dec 11. **Looking ahead into 2026**, we double down on AI as one of our key themes, underpinned by an unabated AI infrastructure investment cycle and a sustained mix shift to higher-value solutions (i.e., 1.6T). **We reiterate our BUY rating for Innolight and lift our TP to RMB707**, driven by an upgraded hyperscaler capex outlook.

- **Capex outlook: upward revisions in consensus continue.** The US Big Four hyperscalers (Google, Microsoft, Meta, Amazon) ramped capex aggressively: **US\$230bn in 2024 (+55% YoY)**, **US\$259bn in 9M25 (+65% YoY)**, with 2025 full-year capex projected by Bloomberg consensus to reach **US\$367bn (+59% YoY)**. Bloomberg consensus points to another **35% YoY growth in 2026**, pushing capex to **US\$495bn**. Despite a modest 14% consensus growth for 2027 and lingering AI bubble debates, we remain bullish that AI infrastructure investment will continue to grow, with upward revision potentials: **2025 Big Four capex growth consensus was 33% in Jan and revised to 59% in Nov**. Historically, post-earnings quarterly adjustments have consistently lifted consensus estimates as spending visibility improves.
- **Supply chain capacity expansion underway.** Mgmt. previously flagged tight supply of key optical components such as EMLs (electro-absorption modulated lasers). Although we expect the tightness to continue into 2026, we believe Innolight is well prepared for the challenges, given capacity expansions of EMLs and rising SiPho adoptions: **Lumentum to increase unit output by 40% over the coming quarters**, despite already being sold out through long-term agreements with downstream leaders.
- **The US allowed the exports of Nvidia's H200 to China on Dec 8: A catalyst for next AI compute upcycle in China.** Per [Reuters](#), the H200 delivers ~6x the performance as H20, lifting the compute ceiling for Chinese hyperscalers. This should translate into structurally higher requirements for networking components, with Innolight and other leading domestic AI infra vendors standing out as key downstream beneficiaries of the higher compute baseline.
- **Reiterate BUY on Innolight, with TP adjusted to RMB707, based on the same 28x 2026E P/E**, at a premium to historical 5-year avg (27x) given its absolute leadership in the optical transceiver industry. We revise up our revenue forecasts by 14% for 2026 on higher consensus capex from previous updates (21% upward revision in November). We also lift GPM to 46.2% (vs. prior 44.3%), given a favorable mix shift towards 1.6T and rising adoption of SiPho and margin resilience given persist tightness of supply chain. **Potential risks** include lower capex, geopolitical uncertainties, and lower price due to competition.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	10,718	23,862	38,054	83,794	112,154
YoY growth (%)	11.2	122.6	59.5	120.2	33.8
Gross margin (%)	33.0	33.8	42.0	46.2	46.3
Net profit (RMB mn)	2,173.5	5,171.5	10,950.3	27,774.1	38,357.3
YoY growth (%)	77.6	137.9	111.7	153.6	38.1
EPS (Reported) (RMB)	2.00	4.72	9.95	25.23	34.85
P/E (x)	291.0	123.3	58.5	23.1	16.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB707.00
(Previous TP RMB591.00)
Up/Downside 21.5%
Current Price RMB582.00

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Stock Data

Mkt Cap (RMB mn)	646,660.2
Avg 3 mths t/o (RMB mn)	18,021.4
52w High/Low (RMB)	616.00/71.99
Total Issued Shares (mn)	1111.1

Source: FactSet

Shareholding Structure

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

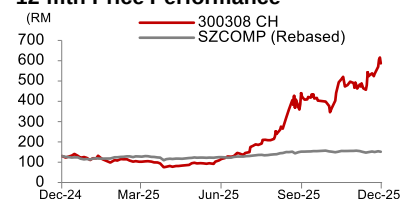
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	18.4%	20.0%
3-mth	37.9%	37.3%
6-mth	401.7%	311.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

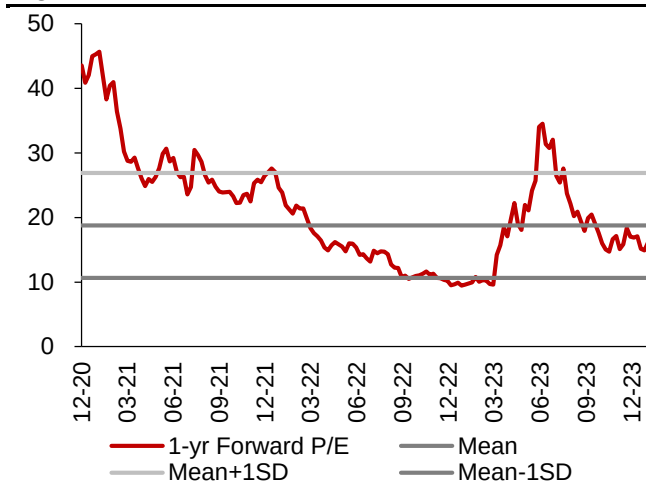
RMBmn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	38,054	83,794	112,154	37,931	73,398	105,669	0.3%	14.2%	6.1%
Gross profit	15,995	38,685	51,936	15,779	32,515	45,966	1.4%	19.0%	13.0%
Net profit	10,950	27,774	38,357	10,789	23,249	33,410	1.5%	19.5%	14.8%
EPS (RMB)	9.95	25.23	34.85	9.80	21.12	30.36	1.5%	19.5%	14.8%
Gross margin	42.0%	46.2%	46.3%	41.6%	44.3%	43.5%	0.4 ppt	1.9 ppt	2.8 ppt
Net margin	28.8%	33.1%	34.2%	28.4%	31.7%	31.6%	0.3 ppt	1.5 ppt	2.6 ppt

Source: Company data, CMBIGM estimates

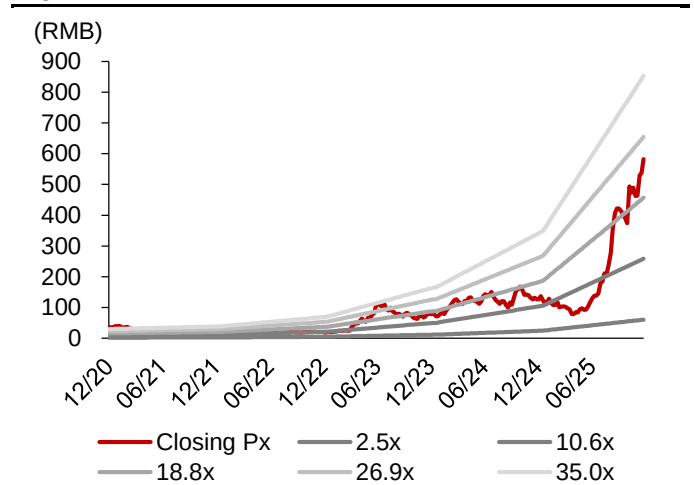
Figure 2: CMBIGM estimates vs. Bloomberg consensus

RMBmn	CMBIGM			BBG Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	38,054	83,794	112,154	36,561	46,350	53,321	4.1%	80.8%	110.3%
Gross profit	15,995	38,685	51,936	12,987	16,508	18,901	23.2%	134.3%	174.8%
Net profit	10,950	27,774	38,357	8,434	10,858	12,583	29.8%	155.8%	204.8%
EPS (RMB)	9.95	25.23	34.85	7.60	9.78	11.57	30.8%	158.1%	201.2%
Gross margin	42.0%	46.2%	46.3%	35.5%	35.6%	35.4%	6.5 ppt	10.6 ppt	10.9 ppt
Net margin	28.8%	33.1%	34.2%	23.1%	23.4%	23.6%	5.7 ppt	9.7 ppt	10.6 ppt

Source: Bloomberg, CMBIGM estimates

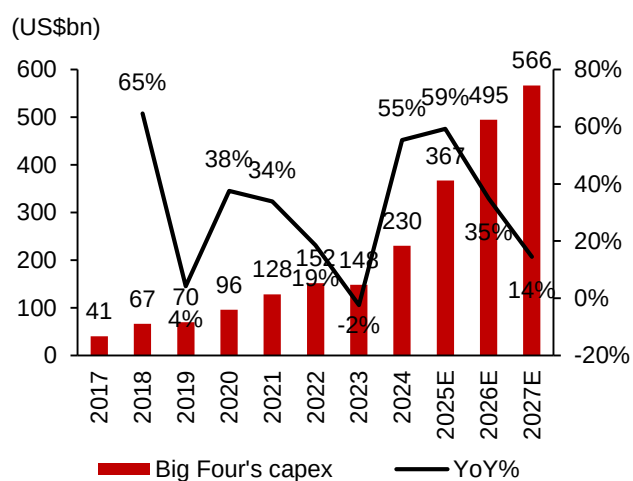
Figure 3: P/E chart

Source: Company data, CMBIGM estimates

Figure 4: P/E band

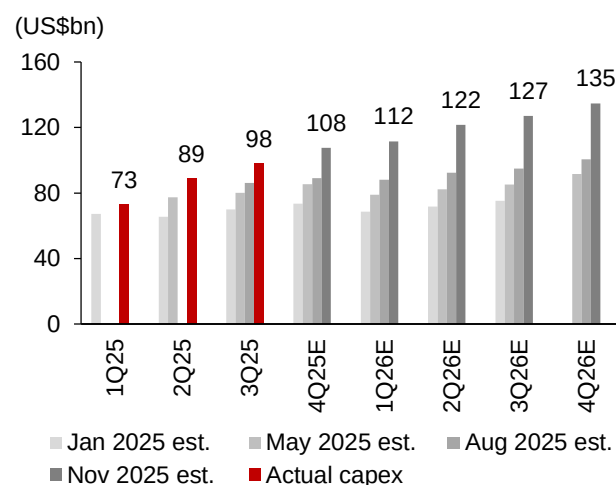
Source: Company data, CMBIGM estimates

Figure 5: The Big Four's capex rose 55% YoY in 2024; expected to grow 59%/35% YoY in 2025/26



Source: Company data, Bloomberg consensus, CMBIGM

Figure 6: Bloomberg consensus raised capex forecasts meaningfully during the year



Source: Company data, Bloomberg consensus, CMBIGM

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	9,642	10,718	23,862	38,054	83,794	112,154
Cost of goods sold	(6,816)	(7,182)	(15,796)	(22,060)	(45,109)	(60,218)
Gross profit	2,826	3,536	8,067	15,995	38,685	51,936
Operating expenses	(1,499)	(1,042)	(2,017)	(2,334)	(3,626)	(3,646)
Selling expense	(63)	(51)	(47)	(84)	(140)	(168)
SG&A expense	(598)	(558)	(879)	(1,032)	(1,474)	(1,707)
R&D expense	(767)	(739)	(1,244)	(1,535)	(2,281)	(2,730)
Others	(71)	306	153	317	270	960
Operating profit	1,327	2,494	6,050	13,661	35,059	48,290
Other income	28	2	5	7	16	22
Other expense	(4)	(4)	(2)	(8)	(18)	(24)
Pre-tax profit	1,352	2,492	6,052	13,660	35,057	48,287
Income tax	(118)	(285)	(681)	(2,040)	(5,597)	(7,709)
After tax profit	1,234	2,208	5,372	11,620	29,460	40,579
Minority interest	10	34	200	670	1,686	2,221
Net profit	1,224	2,174	5,171	10,950	27,774	38,357

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	9,587	11,319	18,196	30,189	62,685	101,898
Cash & equivalents	2,831	3,317	5,054	10,637	23,776	49,077
Account receivables	1,509	2,581	4,604	7,907	17,346	22,600
Inventories	3,888	4,295	7,051	10,475	19,185	27,009
Prepayment	64	59	80	111	245	328
Other current assets	1,295	1,067	1,407	1,058	2,134	2,884
Non-current assets	6,970	8,687	10,671	13,443	16,928	21,731
PP&E	3,217	3,948	5,820	6,429	8,089	10,452
Right-of-use assets	11	27	34	127	323	554
Deferred income tax	48	82	222	629	1,147	1,782
Intangibles	322	401	378	351	375	447
Goodwill	1,949	1,939	1,939	1,939	1,939	1,939
Other non-current assets	1,422	2,291	2,279	3,968	5,055	6,558
Total assets	16,557	20,007	28,866	43,633	79,614	123,629
Current liabilities	3,264	4,360	6,497	8,928	15,243	19,963
Short-term borrowings	385	62	1,426	598	1,099	1,088
Account payables	1,136	1,857	2,991	5,470	9,360	12,087
Tax payable	93	213	244	1,138	2,077	3,225
Other current liabilities	1,349	2,039	1,545	1,552	2,395	3,083
Contract liabilities	22	3	10	10	22	30
Accrued expenses	279	187	282	159	290	450
Non-current liabilities	1,224	872	2,076	2,657	4,042	5,735
Long-term borrowings	696	319	606	979	979	979
Bond payables	0	0	0	0	0	0
Deferred income	264	216	270	288	526	816
Other non-current liabilities	264	337	1,200	1,391	2,537	3,940
Total liabilities	4,488	5,232	8,573	11,586	19,285	25,698
Share capital	801	803	1,121	1,111	1,111	1,111
Retained earnings	3,893	5,870	10,624	20,892	47,165	82,098
Other reserves	7,251	7,589	7,388	8,216	8,538	8,987
Total shareholders equity	11,945	14,261	19,134	30,218	56,814	92,195
Minority interest	124	513	1,159	1,829	3,515	5,736
Total equity and liabilities	16,557	20,007	28,866	43,633	79,614	123,629

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,352	2,492	6,052	13,660	35,057	48,287
Depreciation & amortization	493	525	713	733	600	787
Tax paid	(118)	(285)	(681)	(2,040)	(5,597)	(7,709)
Change in working capital	291	(830)	(3,210)	(4,526)	(14,070)	(9,957)
Others	432	(6)	290	451	1,081	1,458
Net cash from operations	2,449	1,897	3,165	8,277	17,072	32,866
Investing						
Capital expenditure	(792)	(1,704)	(2,866)	(2,707)	(3,571)	(4,556)
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	441	115	144
Net cash from investing	(1,553)	(1,176)	(2,935)	(2,266)	(3,456)	(4,411)
Financing						
Dividend paid	(233)	(207)	(399)	(620)	(1,237)	(3,040)
Net borrowings	(699)	(884)	1,685	(506)	500	(11)
Proceeds from share issues	33	(109)	246	696	0	0
Others	(742)	884	(40)	(0)	1	1
Net cash from financing	(1,641)	(316)	1,492	(430)	(735)	(3,051)
Net change in cash						
Cash at the beginning of the year	3,489	2,809	3,234	4,988	10,587	23,726
Exchange difference	64	20	39	(10)	(10)	(10)
Others	(745)	405	1,715	5,610	13,149	25,311
Cash at the end of the year	2,809	3,234	4,988	10,587	23,726	49,027
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	25.3%	11.2%	122.6%	59.5%	120.2%	33.8%
Gross profit	43.6%	25.1%	128.1%	98.3%	141.9%	34.3%
Operating profit	37.9%	87.9%	142.6%	125.8%	156.6%	37.7%
Net profit	39.6%	77.6%	137.9%	111.7%	153.6%	38.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	29.3%	33.0%	33.8%	42.0%	46.2%	46.3%
Operating margin	13.8%	23.3%	25.4%	35.9%	41.8%	43.1%
Return on equity (ROE)	10.4%	16.6%	31.0%	44.4%	63.8%	51.5%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.9	2.6	2.8	3.4	4.1	5.1
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	529.1	291.0	123.3	58.5	23.1	16.7
P/E (diluted)	529.1	295.2	125.7	58.5	23.1	16.7

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

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NOT RATED	: Stock is not rated by CMBIGM

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UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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