

Innolight (300308 CH)

Pluggables first, new architecture later

Innolight's share price has experienced heightened volatility yesterday (down 5% on 4 Feb), driven by a combination of market concerns around NPO/CPO adoption, hyperscaler network roadmap evolution, upstream suppliers' capacity expansion, etc., prompting mgmt. to hold an investor Q&A session to address these issues. We believe the core investment theme remains intact that pluggable modules will continue to dominate hyperscaler scale-out/scale-across deployments through 2026-27E, with the Company retaining a structurally irreplaceable role. Recent earnings from Lumentum (LITE US, NR) and Coherent (COHR US, NR) also reinforced a demand-driven industry backdrop, while practical constraints suggest that meaningful CPO adoption is unlikely before late-2027. Reiterate BUY on Innolight with TP unchanged at RMB707.

■ **Innolight's structural role in pluggable optical transceivers is intact, with optionality in NPO/CPO but no near-term displacement risk.** Per mgmt., high-speed pluggable modules continue to be the confirmed deployment standard for hyperscaler scale-out/scale-across networks, with customer roadmaps clearly centered on 800G/1.6T through 2026-27E. While the Company is actively engaged in NPO-like solutions or future CPO development, these efforts are complementary rather than substitutive, awaiting further reliability validation, serviceability, and ecosystem maturity which could all constrain early adoption, supporting our view that meaningful CPO adoption is a late-2027 event instead of a 2026 risk.

■ **Upstream capacity expansion eases supply-chain constraints.** Recent earnings from Lumentum and Coherent point to faster-than-expected expansion of upstream InP capacity, specifically EML and high-speed CW lasers, driven primarily by sustained demand from 800G and 1.6T pluggable modules. Lumentum outlined a plan to expand InP capacity by ~40% by 1H26E last year, noting that over 20% of this expansion has already been realized ahead of schedule, while Coherent indicated its InP wafer capacity expansion, supported by a transition to 6-inch wafers, which is also progressing faster than planned. Despite this accelerated ramp-up, neither company expects supply-demand balance to normalize in 2026-2027, as incremental capacity continues to be absorbed by end-market demand. Importantly, both companies characterized CPO as a constructive but staged opportunity, reiterating that material contribution is unlikely before 2027 or beyond.

■ **Maintain BUY on Innolight with TP unchanged at RMB707 (28x 2026E P/E).** The Company's earnings preview showed a 108% YoY net profit increase to RMB10.8bn (mid-point), in-line with our forecast of RMB10.9bn. Innolight remains the dominant supplier of 1.6T pluggable modules, with shipments set to accelerate through 2026-2027, while its SiPh solutions (already accounting for ~50% of 2025 shipments per mgmt.) will continue to support structural margin expansion. With order visibility extending into near-to-mid term, we see no structural risk in the company's earnings potential.

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)	280.0	118.6	56.3	22.2	16.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB707.00
Up/Downside 26.3%
Current Price RMB560.00

China Semiconductors

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Stock Data

Mkt Cap (RMB mn)	622,216.0
Avg 3 mths t/o (RMB mn)	18,922.1
52w High/Low (RMB)	649.00/71.99
Total Issued Shares (mn)	1111.1

Source: FactSet

Shareholding Structure

Shandong Zhongji Investment Holdings Co.	10.9%
Wang Weixiu	6.3%

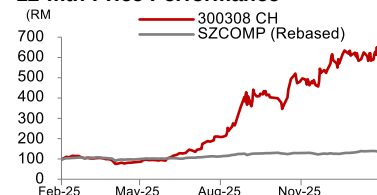
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.2%	-13.5%
3-mth	17.2%	8.5%
6-mth	168.7%	119.4%

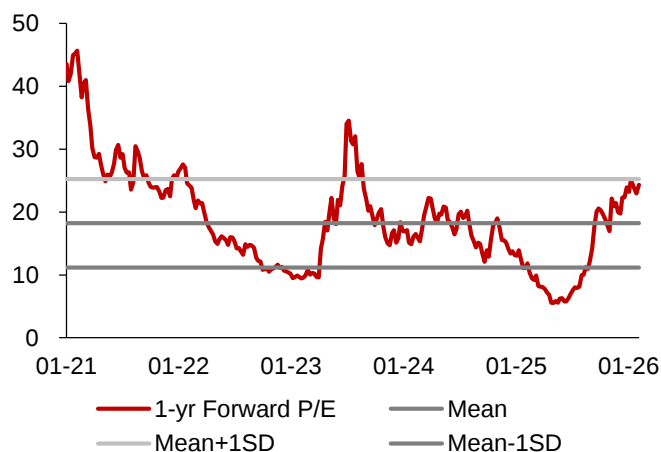
Source: FactSet

12-mth Price Performance



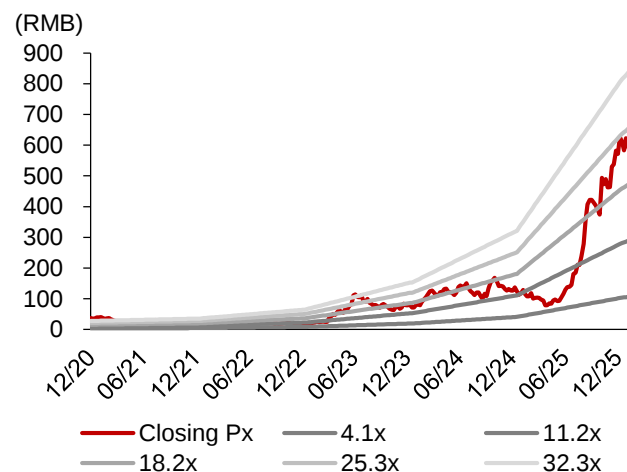
Source: FactSet

Figure 1: PE band



Source: Company data, CMBIGM estimates

Figure 2: PE chart



Source: Company data, CMBIGM estimates

Figure 3: Peers valuation

Company	Ticker	Mkt Cap US\$(mn)	Price (LC)	FY25E	P/E FY26E	FY27E	Performance (%) Daily	YTD
Domestic players								
Innolight	300308 CH	89,729	560.99	56.3	22.2	16.1	0.18	-8.20
Eoptolink	300502 CH	55,115	385.18	41.0	22.9	17.7	-3.51	-7.35
TFC	300394 CH	28,233	252.17	89.3	57.7	42.5	-5.39	31.34
CIG	603083 CH	4,844	104.37	141.0	20.8	11.1	-2.58	-20.28
Accelink	002281 CH	7,926	68.23	50.2	37.0	28.4	-2.07	-0.36
HG Tech	000988 CH	10,989	75.91	42.5	34.3	27.3	-0.71	-3.62
				70.0	32.5	23.8	(2.3)	(1.4)
Overseas players								
Lumentum	LITE US	33,240	465.54	236.0	64.5	36.4	7.00	18.04
Coherent	COHR US	39,559	211.00	60.2	40.5	32.4	-7.93	24.17
Marvell	MRVL US	64,344	73.73	47.2	26.0	20.8	-2.40	-11.04
Broadcom	AVGO US	1,460,549	308.05	45.6	30.7	21.8	-3.83	-7.45
				97.2	40.4	27.9	(1.8)	5.9

Source: Bloomberg data, CMBIGM estimates

Note: Data as of 4 Feb

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	509.1	280.0	118.6	56.3	22.2	16.1
P/E (diluted)	509.1	284.1	121.0	56.3	22.2	16.1

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

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