

Innolight (300308 CH)

Data center demand to remain resilient in 2H22

Innolight announced a positive profit alert. 1H22 NP to shareholders is expected to grow 32.03-55.51% YoY to RMB450mn-RMB530mn. 1H22 NP excluding extraordinary items is expected to grow 29.85-55.82% YoY. Mid-point NP of RMB490mn is estimated to account for 44.2% of FY22 NP, in line with our previous forecast. The mgmt. attributed the growth to surging data demand (for 400G/200G optical modules) and continuous capital expansion from datacenter clients. We maintain BUY rating with unchanged TP of RMB45.60.

- **1H22 results in line with our previous forecasts.** Mid-point 2Q NP to shareholders is expected to grow 31.2% YoY and 25.4% QoQ. The Company also mentioned GPM increased in 1H22, driven by favorable product mix (higher % of 400G/200G in terms of shipment), effective cost mgmt. and impact from FX changes. We think 2Q results are in line with our previous forecasts. This positive profit alert confirmed our view that optical transceiver industry is one of a few sectors that managed to maintain their steady growth.
- **Data center demand to remain resilient in 2H22 despite concerns over demand and spending cut.** As earning season is coming, the market is looking for more clarity over demand/supply. We expect mobile and PC demand to remain weak, and the supply chain will continue to face challenges from inventory adjustment. However, we believe data center and auto markets will continue to outperform due to resilient demand. Although there are signs of capex cut, we maintain our positive outlook. We think cloud companies' infrastructure capex will be one of the last to be affected, given these spending will support business to outperform during tough economy.
- **Reiterate BUY with unchanged TP of RMB45.60.** Innolight is a major beneficiary of cloud capex growth. Product mix will continue to improve as clients will deploy 800G optical modules starting from year end or early 2023. Maintain BUY. TP of RMB45.60 is equivalent to 26x 23E P/E, close to historical 2-year average (25x).
- **Potential risks** include weaker capex from global cloud companies, slower deployment of 5G infrastructure and faster-than-expected tech advancement.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21A	FY22E	FY23E
Turnover (RMB mn)	4,758	7,050	7,695	9,908	11,426
YoY growth (%)	-7.7%	48.2%	9.2%	28.8%	15.3%
Gross margin (%)	27.1%	25.4%	25.6%	26.6%	26.4%
Net profit (RMB mn)	513	865	877	1,095	1,352
EPS (RMB)	0.73	1.23	1.21	1.37	1.69
YoY growth (%)	-46.3%	68.5%	-1.6%	13.1%	23.5%
Consensus EPS (RMB)	NA	NA	NA	1.56	1.92
PE (x)	41.6	24.7	25.1	22.2	18.0
Yield (%)	0.3%	0.4%	0.7%	0.9%	1.1%
ROE (%)	7.4%	11.0%	7.6%	8.8%	10.0%
Net gearing (%)	Net cash	9.9%	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimates

BUY (Maintain)

Target Price	RMB45.60
(Previous TP	RMB45.60)
Up/Downside	+51.6%
Current Price	RMB30.08

China Technology Sector

Lily Yang, Ph.D
 (852) 3916 3716
 lilyyang@cmbi.com.hk

Alex Ng
 (852) 3900 0881
 alexng@cmbi.com.hk

Lana Lin
 (852) 3761 8912
 lanalin@cmbi.com.hk

ASIAMONEY

Please cast your valuable vote for CMBIS research team in the 2022 Asiamoney Brokers Poll



Stock Data

Mkt. Cap. (RMB mn)	24,054
Avg. 3mths t/o (RMB mn)	296
52W High/Low (RMB)	45.38/28.45
Total Issued Shares (mn)	799.7
Source: Bloomberg	

Shareholding Structure

Zhongji Investment	11.74%
HKSC	9.31%
Wang Weixiu	8.02%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	-10.4%	-15.8%
3-mth	-2.9%	-9.0%
6-mth	-30.8%	-23.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PWC Zhong Tian

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	4,758	7,050	7,695	9,908	11,426
Cost of sales	(3,468)	(5,257)	(5,727)	(7,277)	(8,412)
Gross profit	1,290	1,793	1,968	2,631	3,014
Selling exp	(55)	(107)	(73)	(88)	(105)
Admin exp	(275)	(370)	(434)	(604)	(673)
R&D exp	(362)	(506)	(541)	(697)	(803)
Finance costs	(17)	(64)	(84)	(136)	(99)
Other operating exp.	1,422	1,850	2,137	2,982	3,242
Operating profit	576	990	963	1,174	1,453
Other non-oper exp.	0	(3)	(3)	1	(2)
Pre-tax profit	577	987	960	1,175	1,451
Income tax expense	(63)	(111)	(73)	(90)	(112)
Minority interests		11	10	(11)	(13)
Net profit to shareholders	513	865	877	1,095	1,352

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20	FY21A	FY22E	FY23E
Net profit	513	876	886	1,084	1,339
Depreciation/amortization	172	251	321	383	435
Change in working capital	(360)	(1,096)	(587)	542	(1,078)
Others	243	(10)	193	86	160
Net cash from operating	569	22	813	2,094	857
Capex	(759)	(956)	(840)	(1,005)	(999)
Other	(1,180)	83	(379)	(949)	222
Net cash from investing	(1,939)	(873)	(1,219)	(1,953)	(777)
Share issuance	1,524	0	2,665	7	0
Net borrowing	(116)	(121)	(168)	(306)	(351)
Other	149	1,421	(233)	(161)	196
Net cash from financing	1,557	1,300	2,264	(460)	(155)
Net change in cash	187	449	1,859	(319)	(76)
Cash at beginning of the year	1,041	1,236	1,648	3,489	3,153
Exchange difference	8	(37)	(17)	(17)	(17)
Cash at the end of year	1,236	1,648	3,489	3,153	3,060

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Current assets	5,991	7,982	10,022	10,522	11,686
Cash & equivalents	1,236	1,679	3,515	3,173	3,082
Account receivables	1,133	1,514	1,997	1,170	1,961
Inventory	2,504	3,774	3,799	4,175	4,582
Prepayment	65	40	72	73	84
Other current assets	1,054	973	638	1,930	1,977
Non-current assets	4,500	5,634	6,543	6,919	7,283
PPE	1,950	2,726	3,152	3,545	3,785
Deferred tax assets	28	38	46	52	55
Other non-current assets	2,522	2,870	3,345	3,322	3,444
Total assets	10,491	13,616	16,565	17,441	18,969
Current liabilities	2,826	3,772	3,166	2,818	2,858
ST borrowings	652	1,041	794	867	743
Account payables	1,259	1,367	1,205	1,290	1,384
Tax payable	12	35	68	57	70
Other current liabilities	903	1,329	1,098	604	662
Non-current liabilities	739	1,850	1,796	2,116	2,495
LT borrowings	466	1,430	1,262	1,557	1,885
Deferred tax liability	73	154	277	287	314
Other non-current liabilities	200	267	258	272	296
Total liabilities	3,565	5,622	4,962	4,934	5,353
Share capital	713	713	800	800	800
Reserve	5,064	5,147	7,799	7,799	7,799
Retained earnings	1,294	2,090	2,861	3,756	4,859
Other	(145)	(61)	29	49	67
Minority interest	0	104	114	103	90
Total equity	6,926	7,993	11,603	12,507	13,616
Total liabilities and equity	10,491	13,616	16,565	17,441	18,969

Key ratios

YE 31 Dec	FY19A	FY20	FY21A	FY22E	FY23E
Revenue mix					
High-end optical module		6,703	7,261	9,229	10,432
Access network module		161	327	572	887
High-end equipment		186	107	107	107
Growth (%)					
Revenue	-7.7%	48.2%	9.2%	28.8%	15.3%
Gross profit	-8.3%	39.0%	9.8%	33.7%	14.5%
Operating profit	-15.5%	71.7%	-2.7%	21.9%	23.8%
Adj. net profit	-17.6%	68.6%	1.3%	24.8%	23.5%
Profit & loss ratio (%)					
Gross margin	27.1%	25.4%	25.6%	26.6%	26.4%
Operating margin	12.1%	14.0%	12.5%	11.8%	12.7%
Net profit margin	10.8%	12.3%	11.4%	11.0%	11.8%
Balance sheet ratio					
Gear ratio	Net cash	9.9%	Net cash	Net cash	Net cash
Current ratio (x)	2.1	2.1	3.2	3.7	4.1
Receivable turnover days	76	69	83	58	50
Inventory turnover days	(243)	(218)	(241)	(200)	(190)
Payable turnover days	(108)	(91)	(82)	(63)	(58)
Profitability (%)					
ROE	7.4%	11.0%	7.6%	8.8%	10.0%
ROA	4.9%	6.4%	5.3%	6.3%	7.1%
Per share data (RMB)					
EPS	0.73	1.23	1.21	1.37	1.69
DPS	0.08	0.12	0.22	0.27	0.34
BVPS	9.85	11.21	15.85	15.50	16.90

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.