

# Innolight (300308 CH)

## Solid 1H24 results w/ steady margin; Key investor call takeaway w/ strong demand outlook in 2H24

Innolight has released 1H24 results, with revenue surging by 170% YoY to RMB10.8bn and net profit growing by 284% YoY to RMB2.4bn. The company's 1H24 revenue/NP accounted for 45%/43% of our FY24E forecast. GPM improved further to 33% in 1H24. NPM rose to 22% (+6.5ppt YoY) in 1H24 on enhanced operational efficiency. From a quarterly standpoint, 2Q24 revenue/NP rose by 175%/271% YoY and 23%/34% QoQ, while GPM and NPM were 33.4%/23% (vs. 32.8%/21% in 1Q24 and 33%/20% in FY23). We maintain our bullish outlook on Innolight, driven by the sustained strong demand for its 800G/400G products and its strategic positioning to capitalize on the long-term AI momentum. Reiterate BUY with unchanged TP at RMB150.76, based on the same 30x 2024E P/E (both unchanged).

- **Key 1H24 earnings call takeaways.** Mgmt. reiterated a strong demand outlook for 2H24, as the company will continue to expand capacity to meet downstream demand. From the latest earnings releases, CSP3 (Amazon, Microsoft and Google) and Meta's capex grew by more than 50% YoY in 1H24 and is projected to grow by 39%/13% in 2024/25E, which confirms that the AI infrastructure investment theme remains intact. Given the tailwind, we believe the company's 400G+ product shipments will continue to increase. We maintain our revenue forecasts for Innolight at RMB24/34bn in FY24/25E (123%/43% YoY), driven by AI investing momentum, capacity expansion, and increasing shipments of 1.6T products in 2H24.
- **GPM improved sequentially to 33% in Q2 (up 0.7ppt from Q1) on favourable product mix (higher shipments of 800G/400G products), improving yield and cost optimization.** FX rate had a limited impact in 2Q. The GPM improvement should alleviate some market concerns over a further decline in product ASPs. Looking forward, we expect Innolight's GPM to remain at ~33% in FY24E.
- **Reiterate BUY with unchanged TP at RMB150.76.** We believe the market demand, both overseas and domestic, for Innolight's high-speed optical products will remain robust in the near term, paving the way for a solid growth trajectory for the company. We expect hyperscalers (CSP3 & Meta) to continue their investments in datacenter infrastructure. Nvidia is set to release its 2QFY25 earnings after market close on Aug 28th. We believe Nvidia's earnings will act as a key market catalyst especially for the AI infrastructure sector that has been under the spotlight over the past few months. Potential risks include: 1) intensified geopolitical tensions, 2) slower-than-expected new product ramp-up progress, 3) a slowdown in cloud capital spending, and 4) supply chain bottleneck.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	9,642	10,718	23,877	34,149	41,026
YoY growth (%)	25.3	11.2	122.8	43.0	20.1
Gross margin (%)	29.3	33.0	33.2	32.3	31.4
Net profit (RMB mn)	1,224.0	2,173.5	5,462.1	8,127.3	9,497.7
YoY growth (%)	39.6	77.6	151.3	48.8	16.9
EPS (Reported) (RMB)	1.10	2.00	5.03	7.48	8.74
P/E (x)	109.0	60.0	23.9	16.0	13.7

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price RMB150.76  
Up/Downside 25.7%  
Current Price RMB119.92

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### Stock Data

Mkt Cap (RMB mn) 134,454.3  
Avg 3 mths t/o (RMB mn) 3,141.0  
52w High/Low (RMB) 157.53/60.87  
Total Issued Shares (mn) 1121.2  
Source: FactSet

### Shareholding Structure

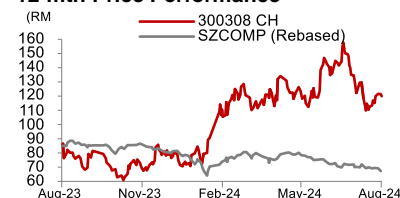
Shandong Zhongji Investment Holdings Co. 11.3%  
Wang Weixiu 6.2%  
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-8.4%	-4.7%
3-mth	-3.4%	12.5%
6-mth	13.6%	26.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	7,695	9,642	10,718	23,877	34,149	41,026
Cost of goods sold	(5,727)	(6,816)	(7,182)	(15,959)	(23,133)	(28,124)
Gross profit	1,968	2,826	3,536	7,917	11,016	12,901
Operating expenses	(1,005)	(1,499)	(1,042)	(1,651)	(1,709)	(2,002)
Selling expense	(21)	(63)	(51)	(118)	(121)	(137)
SG&A expense	(507)	(598)	(558)	(608)	(644)	(679)
R&D expense	(541)	(767)	(739)	(1,161)	(1,254)	(1,257)
Others	64	(71)	306	236	311	71
Operating profit	963	1,327	2,494	6,266	9,307	10,899
Other income	1	28	2	28	40	48
Other expense	(4)	(4)	(4)	(0)	(0)	(0)
Pre-tax profit	960	1,352	2,492	6,294	9,346	10,946
Income tax	(73)	(118)	(285)	(732)	(1,070)	(1,272)
After tax profit	886	1,234	2,208	5,562	8,276	9,674
Minority interest	10	10	34	100	149	177
Net profit	877	1,224	2,174	5,462	8,127	9,498

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	10,022	9,587	11,319	18,095	26,200	35,001
Cash & equivalents	3,515	2,831	3,317	6,332	10,165	16,643
Account receivables	1,997	1,509	2,581	3,699	5,096	5,694
Inventories	3,799	3,888	4,295	6,549	9,042	10,375
Prepayment	72	64	59	138	197	237
Other current assets	638	1,295	1,067	1,378	1,700	2,051
Non-current assets	6,543	6,970	8,687	10,319	12,072	13,844
PP&E	3,152	3,217	3,948	4,878	5,804	6,750
Right-of-use assets	21	11	27	313	677	1,065
Deferred income tax	46	48	82	116	157	200
Intangibles	382	322	401	476	546	602
Goodwill	1,980	1,949	1,939	1,929	1,920	1,910
Other non-current assets	962	1,422	2,291	2,606	2,969	3,318
Total assets	16,565	16,557	20,007	28,414	38,272	48,845
Current liabilities	3,166	3,264	4,360	6,663	8,872	10,812
Short-term borrowings	794	385	62	167	301	487
Account payables	1,205	1,136	1,857	3,390	4,596	5,575
Tax payable	68	93	213	302	407	519
Other current liabilities	932	1,349	2,039	2,511	3,171	3,725
Contract liabilities	1	22	3	28	40	48
Accrued expenses	166	279	187	266	358	457
Non-current liabilities	1,796	1,224	872	1,346	1,618	1,911
Long-term borrowings	1,262	696	319	561	561	561
Bond payables	0	0	0	0	0	0
Deferred income	277	264	216	307	413	527
Other non-current liabilities	258	264	337	479	645	823
Total liabilities	4,962	4,488	5,232	8,009	10,490	12,722
Share capital	800	801	803	803	803	803
Retained earnings	2,861	3,893	5,870	10,878	17,969	25,970
Other reserves	7,828	7,251	7,589	8,111	8,249	8,411
Total shareholders equity	11,489	11,945	14,261	19,792	27,020	35,184
Minority interest	114	124	513	613	762	938
Total equity and liabilities	16,565	16,557	20,007	28,414	38,272	48,845

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	960	1,352	2,492	6,294	9,346	10,946
Depreciation & amortization	436	493	525	550	710	921
Tax paid	(73)	(118)	(285)	(732)	(1,070)	(1,272)
Change in working capital	(587)	291	(830)	(1,585)	(2,138)	(566)
Others	77	432	(6)	(156)	(156)	(132)
<b>Net cash from operations</b>	<b>813</b>	<b>2,449</b>	<b>1,897</b>	<b>4,371</b>	<b>6,692</b>	<b>9,897</b>
<b>Investing</b>						
Capital expenditure	(840)	(792)	(1,704)	(1,708)	(1,982)	(2,198)
Acquisition of subsidiaries/ investments	(1,529)	(5,967)	(3,971)	0	0	0
Net proceeds from disposal of short-term investments	1,109	5,167	4,435	0	0	0
Others	42	40	65	(139)	(93)	(72)
<b>Net cash from investing</b>	<b>(1,219)</b>	<b>(1,553)</b>	<b>(1,176)</b>	<b>(1,846)</b>	<b>(2,076)</b>	<b>(2,270)</b>
<b>Financing</b>						
Dividend paid	(168)	(233)	(207)	(383)	(925)	(1,364)
Net borrowings	(259)	(699)	(884)	391	134	187
Proceeds from share issues	2,665	33	(109)	433	0	0
Others	26	(742)	884	22	22	22
<b>Net cash from financing</b>	<b>2,264</b>	<b>(1,641)</b>	<b>(316)</b>	<b>463</b>	<b>(770)</b>	<b>(1,155)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,648	3,489	2,809	3,234	6,245	10,079
Exchange difference	(17)	64	20	0	0	0
Others	1,859	(745)	405	3,011	3,835	6,478
<b>Cash at the end of the year</b>	<b>3,489</b>	<b>2,809</b>	<b>3,234</b>	<b>6,245</b>	<b>10,079</b>	<b>16,557</b>

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

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