

Innolight (300308 CH)

Investors focusing on 800G transceivers ramp-up after 1H23 results

Innolight released 1H23 results. Total revenue was RMB4,004mn (-5.4% YoY), mixed impacts from increasing demand for AI-related transceivers and deteriorated demand for traditional datacenter products. NP was RMB613.8mn (24.6% YoY), mainly driven by higher GPM and operating cost optimization. 1H23 NP was close to the mid-point of the preliminary range. Maintain HOLD, with unchanged TP at RMB104.

- AI-related transceivers have offset non-AI transceivers.** Company's 2Q23 revenue showed sequential growth (17.9% QoQ) primarily attributed to heightened shipment of 800G transceivers. However, total revenue fell slightly in 1H23, as the Company pointed out that the demand for 200G/400G transceivers from datacenter was declining. **This trend aligns with our previous expectations that AI investment will likely cannibalize certain traditional server expenditures** and negatively affect sales of non-AI high speed transceivers. ([link](#))
- Margins stand out particularly.** GPM expanded to 31.1% in 2Q23 vs. 29.5%/29.3% in 1Q23/2022. NPM also increased to 16.8% in 2Q23 vs. 13.6%/12.7% in 1Q23/2022. The increase is mainly due to decrease in procurement costs and favorable product mix driven by increasing 800G products shipment.
- Maintain HOLD, with unchanged TP at RMB104.** We lowered 2023-25E revenue forecasts by 6%-11%, as non-AI weakness is greater than our previous expectations. 2023-25E GPM was adjusted to 30.5%-31.7%, reflecting favourable product mix as the Company is expected to deliver more high data rate transceivers that have higher margins. The net impacts from lower sales and higher GPM left NP almost unchanged. 1H23 total revenue/NP now accounted for 39%/42% of our full-year estimates.
- Potential upside/downside:** We believe investors are closely monitoring the scaling up of 800G transceiver capacity and the Company's ability to sustain the current performance, i.e., sequential sales growth and continuing margin expansion. Meanwhile, the deteriorated demand of 200G/400G transceivers for datacenter should be on investors' radar. While we regard Innolight's optical transceivers business positively, we believe the current valuation is full.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,695	9,642	10,177	13,133	15,110
YoY growth (%)	9.2	25.3	5.6	29.0	15.1
Gross margin (%)	25.6	29.3	30.5	31.2	31.7
Operating profit (RMB mn)	963	1,327	1,671	2,273	2,733
YoY growth (%)	(2.7)	37.9	25.9	36.1	20.2
Net profit (RMB mn)	877.0	1,224.0	1,468.6	2,011.4	2,410.2
YoY growth (%)	1.3	39.6	20.0	37.0	19.8
EPS (RMB)	1.21	1.54	1.83	2.51	3.01
P/E (x)	100.8	79.2	66.5	48.6	40.5
ROE (%)	7.6%	10.2%	11.0%	13.3%	13.9%

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	RMB104.00
Up/Downside	-2.84%
Current Price	RMB106.95

China Technology

Lily YANG, Ph.D

(852) 3916 3716

lilyyang@cmbi.com.hk

Kevin ZHANG

(852) 3761 8727

kevinzhang@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	85,859.5
Avg 3 mths t/o (RMB mn)	5,354.8
52w High/Low (RMB)	170.00/25.39
Total Issued Shares (mn)	802.8

Source: FactSet

Shareholding Structure

Shandong Zhongji Investment Holdings Co.	11.3%
Wang Weixiu	6.2%

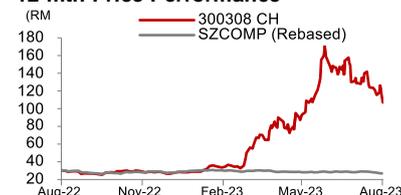
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-20.3%	-13.3%
3-mth	14.8%	22.3%
6-mth	206.7%	248.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

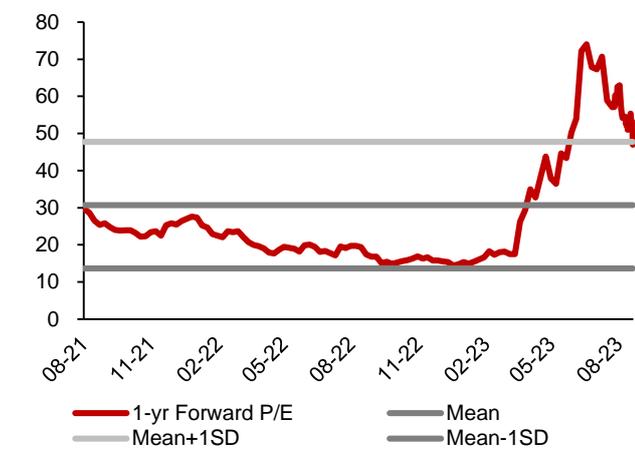
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	10,177	13,133	15,110	10,799	14,703	16,776	-6%	-11%	-10%
Gross Profit	3,100	4,097	4,795	3,193	4,388	5,012	-3%	-7%	-4%
Operating Profit	1,671	2,273	2,733	1,580	2,221	2,588	6%	2%	6%
Net profit	1,469	2,011	2,410	1,459	2,047	2,386	1%	-2%	1%
EPS (RMB)	1.83	2.51	3.01	1.82	2.56	2.98	1%	-2%	1%
Gross Margin	30.5%	31.2%	31.7%	29.6%	29.8%	29.9%	0.9 ppt	1.4 ppt	1.9 ppt
Operating Margin	16.4%	17.3%	18.1%	14.6%	15.1%	15.4%	1.8 ppt	2.2 ppt	2.7 ppt
Net Margin	14.4%	15.3%	16.0%	13.5%	13.9%	14.2%	0.9 ppt	1.4 ppt	1.7 ppt

Source: Company data, CMBIGM estimates

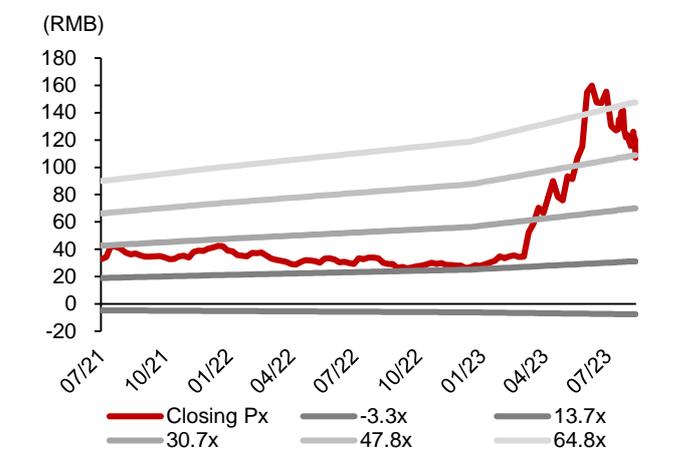
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	10,177	13,133	15,110	11,638	18,153	22,772	-13%	-28%	-34%
Gross Profit	3,100	4,097	4,795	3,465	5,513	6,929	-11%	-26%	-31%
Operating Profit	1,671	2,273	2,733	1,727	3,038	3,972	-3%	-25%	-31%
Net profit	1,469	2,011	2,410	1,582	2,635	3,423	-7%	-24%	-30%
EPS (RMB)	1.83	2.51	3.01	1.99	3.31	4.28	-8%	-24%	-30%
Gross Margin	30.5%	31.2%	31.7%	29.8%	30.4%	30.4%	0.7 ppt	0.8 ppt	1.3 ppt
Operating Margin	16.4%	17.3%	18.1%	14.8%	16.7%	17.4%	1.6 ppt	0.6 ppt	0.6 ppt
Net Margin	14.4%	15.3%	16.0%	13.6%	14.5%	15.0%	0.8 ppt	0.8 ppt	0.9 ppt

Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E band

Source: Bloomberg, CMBIGM estimates

Figure 4: 12M forward P/E chart

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	7,050	7,695	9,642	10,177	13,133	15,110
Cost of goods sold	(5,257)	(5,727)	(6,816)	(7,077)	(9,036)	(10,315)
Gross profit	1,793	1,968	2,826	3,100	4,097	4,795
Operating expenses	(803)	(1,005)	(1,499)	(1,429)	(1,824)	(2,062)
SG&A	(477)	(507)	(598)	(557)	(713)	(824)
Sales tax	(22)	(21)	(63)	(60)	(82)	(92)
R&D expense	(506)	(541)	(767)	(823)	(1,049)	(1,192)
Others	202	64	(71)	12	21	46
Operating profit	990	963	1,327	1,671	2,273	2,733
Other income	0	1	28	4	22	15
Other expense	(3)	(4)	(4)	(2)	(4)	(4)
Pre-tax profit	987	960	1,352	1,673	2,291	2,745
Income tax	(111)	(73)	(118)	(147)	(202)	(242)
After tax profit	876	886	1,234	1,525	2,089	2,503
Minority interest	11	10	10	57	78	93
Net profit	865	877	1,224	1,469	2,011	2,410

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	7,982	10,022	9,587	10,523	13,136	14,506
Cash & equivalents	1,679	3,515	2,831	4,345	4,423	6,754
Account receivables	1,514	1,997	1,509	1,113	2,271	1,622
Inventories	3,774	3,799	3,888	3,093	4,830	3,931
Prepayment	40	72	64	73	94	108
Other current assets	973	638	1,295	1,900	1,518	2,090
Non-current assets	5,634	6,543	6,970	7,373	7,990	8,704
PP&E	2,726	3,152	3,217	3,509	3,925	4,432
Right-of-use assets	0	21	11	5	5	6
Deferred income tax	38	46	48	55	63	70
Intangibles	360	382	322	262	202	144
Goodwill	1,915	1,980	1,949	1,917	1,886	1,854
Other non-current assets	595	962	1,422	1,626	1,909	2,198
Total assets	13,616	16,565	16,557	17,896	21,126	23,210
Current liabilities	3,772	3,166	3,264	2,481	3,637	2,874
Short-term borrowings	1,041	794	385	403	618	334
Account payables	1,367	1,205	1,136	687	1,294	967
Tax payable	35	68	93	85	109	115
Other current liabilities	1,128	932	1,349	1,082	1,296	1,134
Contract liabilities	22	1	22	13	17	19
Accrued expenses	179	166	279	212	303	304
Non-current liabilities	1,850	1,796	1,224	1,929	2,053	2,608
Long-term borrowings	1,430	1,262	696	1,385	1,395	1,893
Bond payables	29	0	0	0	0	0
Obligations under finance leases	0	9	2	3	3	4
Deferred income	154	277	264	271	328	356
Other non-current liabilities	238	248	261	270	326	354
Total liabilities	5,622	4,962	4,488	4,410	5,691	5,481
Share capital	713	800	801	801	801	801
Retained earnings	2,090	2,861	3,893	5,184	6,979	9,097
Other reserves	5,086	7,828	7,251	7,321	7,397	7,480
Total shareholders equity	7,889	11,489	11,945	13,305	15,177	17,378
Minority interest	104	114	124	180	258	351
Total equity and liabilities	13,616	16,565	16,557	17,896	21,126	23,210

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	987	960	1,352	1,673	2,291	2,745
Depreciation & amortization	340	436	493	513	544	647
Tax paid	(111)	(73)	(118)	(147)	(202)	(242)
Change in working capital	(1,096)	(587)	291	654	(1,694)	367
Others	(99)	77	432	13	213	162
Net cash from operations	22	813	2,449	2,705	1,152	3,679
Investing						
Capital expenditure	(956)	(840)	(792)	(955)	(1,232)	(1,418)
Acquisition of subsidiaries/ investments	(3,728)	(980)	(5,967)	0	0	0
Net proceeds from disposal of short-term investments	8	(542)	302	31	31	31
Others	3,803	1,143	4,904	63	71	78
Net cash from investing	(873)	(1,219)	(1,553)	(930)	(1,204)	(1,387)
Financing						
Dividend paid	(121)	(168)	(233)	(247)	(280)	(360)
Net borrowings	1,421	(259)	(699)	(182)	226	214
Proceeds from share issues	0	2,665	33	0	0	0
Others	0	26	(742)	102	120	120
Net cash from financing	1,300	2,264	(1,641)	(327)	67	(26)
Net change in cash						
Cash at the beginning of the year	1,236	1,648	3,489	2,809	4,321	4,400
Exchange difference	(37)	(17)	64	64	64	64
Others	449	1,859	(745)	1,448	15	2,266
Cash at the end of the year	1,648	3,489	2,809	4,321	4,400	6,731

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 CMBIS 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.