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CMB International Global Markets | Equity Research | Company Update

Innolight (300308 CH)

3Q26 earnings: Solid fundamentals amid supply chain tightness

BUY (Maintain)

Target Price	**RMB1400.00**
Up/Downside	**153.2%**
Current Price	**RMB553.00**

Innolight reported 3Q26 revenue of RMB27.8bn, up 172% YoY/24.6% QoQ. Net profit reached RMB8.6bn, up 174% YoY/8.5% QoQ, while net profit excluding non-recurring items increased to RMB9.0bn, up 190% YoY/22.3% QoQ. GPM expanded to 46.6%, continuing to accelerate from 46.1%/46.4% in 1Q/2Q26, supported by strong 800G/1.6T shipments, a favorable product mix and operating leverage. Fair-value losses on equity investment and FX losses related to the H-share proceeds weighed on earnings, masking stronger underlying profitability. **We view the recent share price weakness as largely sentiment-driven rather than a reflection of operating performance, and maintain BUY with unchanged TP at RMB1400 (26x 2027E P/E).**

- **Demand visibility and margins remain solid.** The Company disclosed during earnings call that major overseas hyperscalers' orders already extend into 2027, while certain key clients have provided explicit demand guidance for 2028. Product pricing remained broadly stable in 3Q26, and the Company described the current pricing environment as healthy and customer quotations as rational. Although DSP supply remains tight, mgmt. indicated that the Company has sufficient supply to support deliveries, reinforced by strategic relationships and LTAs with core suppliers.
- **NPO is expected to ramp from 2H27E.** Mgmt. expects 2.4T/NPO/XPO to enter initial volume production in 2H27, followed by faster scale-up deployment in 2028. The Company has already commenced joint development and sample deliveries with select key clients. Optical interconnects currently account for only c.5% of global AI capex, per mgmt., while this share is expected to increase to c.10% or more over the long term as scale-out/-up/-across/-in applications expand. Mgmt. expects 200G-per-lane to remain mainstream through 2027-2028E, with 400G-per-lane solutions beginning to emerge in 2028E.
- **Maintain BUY.** Despite the recent share-price correction and geopolitical risk overhang, we see no imminent or material deterioration in Innolight's fundamentals or global leadership in high-speed optical interconnects. Order visibility, pricing, margins and supply-chain execution remain solid. **Key risks** include supply chain disruptions, change in tech upgrade roadmaps, geopolitical uncertainties, etc.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	23,862	38,240	106,599	175,373	234,707
YoY growth (%)	122.6	60.3	178.8	64.5	33.8
Gross margin (%)	33.8	42.0	46.6	47.7	47.9
Net profit (RMB mn)	5,171.5	10,797.3	36,006.7	59,809.4	82,085.6
YoY growth (%)	137.9	108.8	233.5	66.1	37.2
EPS (Reported) (RMB)	4.72	9.80	32.41	53.83	73.88
P/E (x)	117.2	56.4	17.1	10.3	7.5

Source: Company data, Bloomberg, CMBIGM estimates

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Stock Data

Mkt Cap (RMB mn)	616,705.6
Avg 3 mths t/o (RMB mn)	24,956.5
52w High/Low (RMB)	1382.33/456.80
Total Issued Shares (mn)	1115.2

Source: FactSet

Shareholding Structure

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

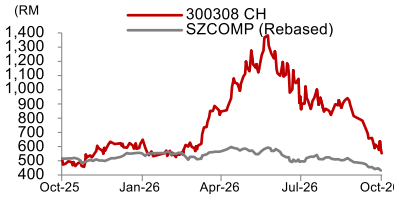
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-31.6%	-20.1%
3-mth	-36.0%	-26.2%
6-mth	-35.5%	-13.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**10,718**	**23,862**	**38,240**	**106,599**	**175,373**	**234,707**
Cost of goods sold	(7,182)	(15,796)	(22,166)	(56,958)	(91,683)	(122,363)
Gross profit	**3,536**	**8,067**	**16,074**	**49,641**	**83,690**	**112,343**
Operating expenses	**(1,042)**	**(2,017)**	**(2,477)**	**(5,028)**	**(11,164)**	**(12,805)**
Selling expense	(51)	(47)	(78)	(397)	(263)	(352)
SG&A expense	(558)	(879)	(987)	(2,194)	(3,673)	(5,150)
R&D expense	(739)	(1,244)	(1,615)	(2,632)	(8,769)	(11,735)
Others	306	153	202	196	1,541	4,433
Operating profit	**2,494**	**6,050**	**13,597**	**44,612**	**72,526**	**99,539**
Other income	2	5	10	4	7	9
Other expense	(4)	(2)	(7)	(9)	(15)	(21)
Pre-tax profit	**2,492**	**6,052**	**13,600**	**44,607**	**72,518**	**99,528**
Income tax	(285)	(681)	(2,020)	(6,107)	(9,561)	(13,122)
After tax profit	**2,208**	**5,372**	**11,580**	**38,501**	**62,957**	**86,406**
Minority interest	34	200	782	2,494	3,148	4,320
Net profit	**2,174**	**5,171**	**10,797**	**36,007**	**59,809**	**82,086**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**11,319**	**18,196**	**31,084**	**68,948**	**135,002**	**209,015**
Cash & equivalents	3,317	5,054	10,987	21,572	78,874	141,233
Account receivables	2,581	4,604	6,277	20,592	22,651	26,220
Inventories	4,295	7,051	12,681	24,771	30,490	36,559
Prepayment	59	80	134	299	492	658
Other current assets	1,067	1,407	1,005	1,714	2,495	4,347
Non-current assets	**8,687**	**10,671**	**14,205**	**20,722**	**31,078**	**44,226**
PP&E	3,948	5,820	7,081	13,140	18,275	25,535
Right-of-use assets	27	34	105	1,060	2,427	4,025
Deferred income tax	82	222	541	541	1,070	1,982
Intangibles	401	378	378	295	384	569
Goodwill	1,939	1,939	1,939	1,939	1,939	1,939
Other non-current assets	2,291	2,279	4,163	3,748	6,982	10,175
Total assets	**20,007**	**28,866**	**45,289**	**89,670**	**166,080**	**253,241**
Current liabilities	**4,360**	**6,497**	**11,558**	**19,361**	**35,985**	**41,760**
Short-term borrowings	62	1,426	301	913	3,279	3,113
Account payables	1,857	2,991	7,330	11,396	21,258	22,323
Tax payable	213	244	1,250	2,475	4,584	6,990
Other current liabilities	2,039	1,545	2,287	3,806	5,446	7,188
Contract liabilities	3	10	26	51	83	111
Accrued expenses	187	282	364	720	1,334	2,034
Non-current liabilities	**872**	**2,076**	**2,109**	**3,677**	**6,375**	**9,453**
Long-term borrowings	319	606	510	510	510	510
Bond payables	0	0	0	0	0	0
Deferred income	216	270	291	577	1,068	1,628
Other non-current liabilities	337	1,200	1,308	2,590	4,797	7,314
Total liabilities	**5,232**	**8,573**	**13,668**	**23,038**	**42,360**	**51,213**
Share capital	803	1,121	1,111	1,111	1,111	1,111
Retained earnings	5,870	10,624	20,248	52,188	105,167	177,838
Other reserves	7,589	7,388	8,406	8,984	9,943	11,261
Total shareholders equity	**14,261**	**19,134**	**29,765**	**62,282**	**116,222**	**190,210**
Minority interest	513	1,159	1,856	4,350	7,498	11,818
Total equity and liabilities	**20,007**	**28,866**	**45,289**	**89,670**	**166,080**	**253,241**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**2,492**	**6,052**	**13,600**	**44,607**	**72,518**	**99,528**
Depreciation & amortization	525	713	934	1,205	1,573	2,194
Tax paid	(285)	(681)	(2,020)	(6,107)	(9,561)	(13,122)
Change in working capital	(830)	(3,210)	(1,958)	(21,050)	3,749	(7,650)
Others	(6)	290	340	2,510	2,715	2,482
Net cash from operations	**1,897**	**3,165**	**10,896**	**21,166**	**70,994**	**83,432**
Investing						
Capital expenditure	(1,704)	(2,866)	(2,760)	(7,279)	(10,220)	(13,675)
Acquisition of subsidiaries/ investments	(3,971)	(2,725)	0	0	0	0
Net proceeds from disposal of short-term investments	4,435	2,619	0	0	0	0
Others	65	37	121	1,035	1,697	2,272
Net cash from investing	**(1,176)**	**(2,935)**	**(2,639)**	**(6,244)**	**(8,523)**	**(11,403)**
Financing						
Dividend paid	(207)	(399)	(1,083)	(3,630)	(6,034)	(8,279)
Net borrowings	(884)	1,685	(1,114)	612	2,366	(166)
Proceeds from share issues	(109)	246	205	0	0	0
Others	884	(40)	(152)	(1,150)	(1,317)	(1,317)
Net cash from financing	**(316)**	**1,492**	**(2,144)**	**(4,168)**	**(4,985)**	**(9,762)**
Net change in cash						
Cash at the beginning of the year	2,809	3,234	4,988	10,944	21,529	78,831
Exchange difference	20	39	(178)	0	0	0
Cash at the end of the year	**3,234**	**4,988**	**10,944**	**21,529**	**78,831**	**141,189**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	11.2%	122.6%	60.3%	178.8%	64.5%	33.8%
Gross profit	25.1%	128.1%	99.3%	208.8%	68.6%	34.2%
Operating profit	87.9%	142.6%	124.7%	228.1%	62.6%	37.2%
Net profit	77.6%	137.9%	108.8%	233.5%	66.1%	37.2%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	33.0%	33.8%	42.0%	46.6%	47.7%	47.9%
Operating margin	23.3%	25.4%	35.6%	41.9%	41.4%	42.4%
Return on equity (ROE)	16.6%	31.0%	44.2%	78.2%	67.0%	53.6%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	2.6	2.8	2.7	3.6	3.8	5.0

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	276.5	117.2	56.4	17.1	10.3	7.5
P/E (diluted)	280.5	119.4	57.0	17.1	10.3	7.5

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

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