

# 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%  |

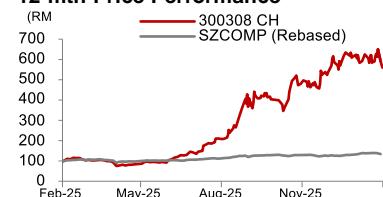
Source: Bloomberg

### Share Performance

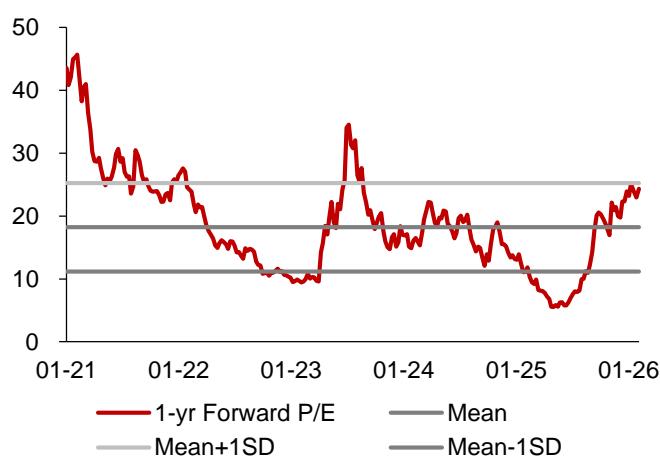
|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -8.2%    | -13.5%   |
| 3-mth | 17.2%    | 8.5%     |
| 6-mth | 168.7%   | 119.4%   |

Source: FactSet

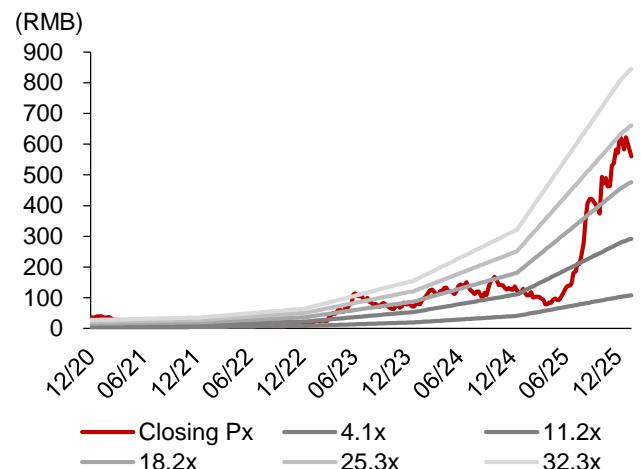
### 12-mth Price Performance



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<br>US\$(mn) | Price<br>(LC) | FY25E       | FY26E       | FY27E       | Performance (%)<br>Daily | Performance (%)<br>YTD |
|-------------------------|-----------|---------------------|---------------|-------------|-------------|-------------|--------------------------|------------------------|
| <b>Domestic players</b> |           |                     |               |             |             |             |                          |                        |
| 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                  |
|                         |           |                     |               | <b>70.0</b> | <b>32.5</b> | <b>23.8</b> | <b>(2.3)</b>             | <b>(1.4)</b>           |
| <b>Overseas players</b> |           |                     |               |             |             |             |                          |                        |
| 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                  |
|                         |           |                     |               | <b>97.2</b> | <b>40.4</b> | <b>27.9</b> | <b>(1.8)</b>             | <b>5.9</b>             |

Source: Bloomberg data, CMBIGM estimates

Note: Data as of 4 Feb

## Financial Summary

| INCOME STATEMENT                    | 2022A          | 2023A          | 2024A          | 2025E          | 2026E          | 2027E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>YE 31 Dec (RMB mn)</b>           |                |                |                |                |                |                |
| <b>Revenue</b>                      | <b>9,642</b>   | <b>10,718</b>  | <b>23,862</b>  | <b>38,054</b>  | <b>83,794</b>  | <b>112,154</b> |
| Cost of goods sold                  | (6,816)        | (7,182)        | (15,796)       | (22,060)       | (45,109)       | (60,218)       |
| <b>Gross profit</b>                 | <b>2,826</b>   | <b>3,536</b>   | <b>8,067</b>   | <b>15,995</b>  | <b>38,685</b>  | <b>51,936</b>  |
| <b>Operating expenses</b>           | <b>(1,499)</b> | <b>(1,042)</b> | <b>(2,017)</b> | <b>(2,334)</b> | <b>(3,626)</b> | <b>(3,646)</b> |
| 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            |
| <b>Operating profit</b>             | <b>1,327</b>   | <b>2,494</b>   | <b>6,050</b>   | <b>13,661</b>  | <b>35,059</b>  | <b>48,290</b>  |
| Other income                        | 28             | 2              | 5              | 7              | 16             | 22             |
| Other expense                       | (4)            | (4)            | (2)            | (8)            | (18)           | (24)           |
| <b>Pre-tax profit</b>               | <b>1,352</b>   | <b>2,492</b>   | <b>6,052</b>   | <b>13,660</b>  | <b>35,057</b>  | <b>48,287</b>  |
| Income tax                          | (118)          | (285)          | (681)          | (2,040)        | (5,597)        | (7,709)        |
| <b>After tax profit</b>             | <b>1,234</b>   | <b>2,208</b>   | <b>5,372</b>   | <b>11,620</b>  | <b>29,460</b>  | <b>40,579</b>  |
| Minority interest                   | 10             | 34             | 200            | 670            | 1,686          | 2,221          |
| <b>Net profit</b>                   | <b>1,224</b>   | <b>2,174</b>   | <b>5,171</b>   | <b>10,950</b>  | <b>27,774</b>  | <b>38,357</b>  |
| BALANCE SHEET                       | 2022A          | 2023A          | 2024A          | 2025E          | 2026E          | 2027E          |
| <b>YE 31 Dec (RMB mn)</b>           |                |                |                |                |                |                |
| <b>Current assets</b>               | <b>9,587</b>   | <b>11,319</b>  | <b>18,196</b>  | <b>30,189</b>  | <b>62,685</b>  | <b>101,898</b> |
| 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          |
| <b>Non-current assets</b>           | <b>6,970</b>   | <b>8,687</b>   | <b>10,671</b>  | <b>13,443</b>  | <b>16,928</b>  | <b>21,731</b>  |
| 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          |
| <b>Total assets</b>                 | <b>16,557</b>  | <b>20,007</b>  | <b>28,866</b>  | <b>43,633</b>  | <b>79,614</b>  | <b>123,629</b> |
| <b>Current liabilities</b>          | <b>3,264</b>   | <b>4,360</b>   | <b>6,497</b>   | <b>8,928</b>   | <b>15,243</b>  | <b>19,963</b>  |
| 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            |
| <b>Non-current liabilities</b>      | <b>1,224</b>   | <b>872</b>     | <b>2,076</b>   | <b>2,657</b>   | <b>4,042</b>   | <b>5,735</b>   |
| 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          |
| <b>Total liabilities</b>            | <b>4,488</b>   | <b>5,232</b>   | <b>8,573</b>   | <b>11,586</b>  | <b>19,285</b>  | <b>25,698</b>  |
| 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          |
| <b>Total shareholders equity</b>    | <b>11,945</b>  | <b>14,261</b>  | <b>19,134</b>  | <b>30,218</b>  | <b>56,814</b>  | <b>92,195</b>  |
| Minority interest                   | 124            | 513            | 1,159          | 1,829          | 3,515          | 5,736          |
| <b>Total equity and liabilities</b> | <b>16,557</b>  | <b>20,007</b>  | <b>28,866</b>  | <b>43,633</b>  | <b>79,614</b>  | <b>123,629</b> |

| CASH FLOW  | 2022A          | 2023A          | 2024A          | 2025E          | 2026E          | 2027E          |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>YE 31 Dec (RMB mn)</b>                            |                |                |                |                |                |                |
| <b>Operating</b>                                     |                |                |                |                |                |                |
| 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          |
| <b>Net cash from operations</b>                      | <b>2,449</b>   | <b>1,897</b>   | <b>3,165</b>   | <b>8,277</b>   | <b>17,072</b>  | <b>32,866</b>  |
| <b>Investing</b>                                     |                |                |                |                |                |                |
| 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            |
| <b>Net cash from investing</b>                       | <b>(1,553)</b> | <b>(1,176)</b> | <b>(2,935)</b> | <b>(2,266)</b> | <b>(3,456)</b> | <b>(4,411)</b> |
| <b>Financing</b>                                     |                |                |                |                |                |                |
| 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              |
| <b>Net cash from financing</b>                       | <b>(1,641)</b> | <b>(316)</b>   | <b>1,492</b>   | <b>(430)</b>   | <b>(735)</b>   | <b>(3,051)</b> |
| <b>Net change in cash</b>                            |                |                |                |                |                |                |
| 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         |
| <b>Cash at the end of the year</b>                   | <b>2,809</b>   | <b>3,234</b>   | <b>4,988</b>   | <b>10,587</b>  | <b>23,726</b>  | <b>49,027</b>  |
| GROWTH   | 2022A          | 2023A          | 2024A          | 2025E          | 2026E          | 2027E          |
| <b>YE 31 Dec</b>                                     |                |                |                |                |                |                |
| 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          |
| <b>YE 31 Dec</b>                                     |                |                |                |                |                |                |
| 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          |
| <b>YE 31 Dec</b>                                     |                |                |                |                |                |                |
| Current ratio (x)                                    | 2.9            | 2.6            | 2.8            | 3.4            | 4.1            | 5.1            |
| VALUATION  | 2022A          | 2023A          | 2024A          | 2025E          | 2026E          | 2027E          |
| <b>YE 31 Dec</b>                                     |                |                |                |                |                |                |
| 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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|                       |   |
|-----------------------|---|
| <b>BUY</b>            | : Stock with potential return of over 15% over next 12 months                                       |
| <b>HOLD</b>           | : Stock with potential return of +15% to -10% over next 12 months                                   |
| <b>SELL</b>           | : Stock with potential loss of over 10% over next 12 months   |
| <b>NOT RATED</b>      | : Stock is not rated by CMBIGM  |
| <b>OUTPERFORM</b>     | : Industry expected to outperform the relevant broad market benchmark over next 12 months           |
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