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CMB International Global Markets | Equity Research | Company Update

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InnoScience (2577 HK)

1H26 takes a breather as mix and margins improved

InnoScience's 1H26 results missed Bloomberg consensus, with revenue rising 50.6% YoY to RMB834mn. GPM improved to 11.6% from 6.8%/7.7% in 1H/2H25, driven by higher utilization, product upgrades and a richer mix, while operating cash flow turned positive. Higher-value applications generated revenue of RMB532mn, up 70% YoY, lifting contribution to 64% from c.57% in 1H25. We expect revenue to remain 2H-weighted, consistent with historical seasonality. We adjust FY26/27E revenue forecasts by -0.1%/18.2% on broader design conversion and capacity ramp-up. We lower our 2026E/27E GPM forecasts by 7.0ppt/1.9ppt, reflecting stable ASPs and mgmt.'s preference of prioritizing market share gains. **Maintain BUY with our FY27E-based TP revised to HK$74.2, from the prev. FY26E-based HK$75, on an unchanged 35x FY30E P/E.**

- **Industrial applications remain the largest near-term revenue contributor.** Industrial and energy-storage revenue grew 83% YoY, driven by GaN adoption in battery-management and factory-automation systems, while household-appliance revenue increased by 924% YoY from a low base. Auto-grade chip shipments rose 103% YoY, supported by initial production of a 6.6kW OBC plus 3.5kW DC/DC solution, although revenue remained a low-single-digit share of sales. Robotics shipments increased 50% YoY. The mix improvement is therefore genuine but not yet AI-led as established industrial and battery applications provide greater volume visibility, though they carry lower margins than AIDC and robotics. We believe further margin expansion will depend on utilization gain, new platform adoption, and rising contribution from higher-value products.
- **AIDC represents the more important medium-term upside.** AIDC shipments rose 183% YoY in 1H26, supported by more than 100 design-ins across over 20 cloud-service providers. Mgmt. indicated that 100V GaN devices for secondary power conversion had entered production deliveries, while lower-voltage products targeting GPU core power remained under system-level validation. The industry's transition towards higher-density 800VDC and ±400V power architectures should expand the addressable opportunity for GaN across multiple conversion stages. We therefore expect industrial, energy storage and other applications to drive near-term growth, with AIDC becoming a more meaningful earnings contributor as product qualifications are completed and customer programmes enter volume production.
- **Maintain BUY**, as we view InnoScience as one of the purest listed GaN power semi platforms with material AIDC optionality. We roll our valuation forward to FY27E and revise TP to HK$74.2, applying 35x FY30E P/E (when earnings should normalize) and discounting at a 12.0% COE. The multiple implies a modest premium to peers' 29.5x FY27E average, justified by its pure-play GaN exposure and stronger growth outlook. **Key risks** include: Weaker demand than expected, geopolitical uncertainties; etc.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	828	1,213	2,079	3,607	5,332
YoY growth (%)	39.8	46.4	71.4	73.5	47.8
Gross margin (%)	(19.5)	7.3	15.5	31.5	37.7
Net profit (RMB mn)	(1,045.7)	(840.5)	(641.4)	40.8	635.5
YoY growth (%)	na	na	na	na	1,457.3
EPS (Reported) (RMB cents)	(127.64)	(95.40)	(70.43)	4.48	69.78
P/E (x)	ns	ns	ns	874.2	56.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$74.20**
(Previous TP	HK$75.00)
Up/Downside	**62.4%**
Current Price	**HK$45.70**

China Semiconductors

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Stock Data

Mkt Cap (HK$ mn)	41,815.5
Avg 3 mths t/o (HK$ mn)	543.7
52w High/Low (HK$)	101.60/36.94
Total Issued Shares (mn)	915.0

Source: FactSet

Shareholding Structure

Weiwei Luo	31.1%
CMB Growth	13.4%

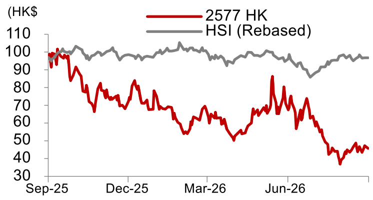
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	17.0%	18.5%
3-mth	-35.7%	-36.6%
6-mth	-33.1%	-30.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff.		
RMBmn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	2,079	3,607	5,332	2,081	3,051	4,455	-0.1%	18.2%	19.7%
Gross profit	322	1,135	2,010	468	1,019	1,804	-31.3%	11.4%	11.4%
Net profit	(641)	41	636	(565)	(110)	590	13.5%	-137.2%	7.8%
EPS (RMB)	-0.70	0.04	0.70	(0.64)	(0.12)	0.67	N/A	N/A	2.9 ppt
Gross margin	15.5%	31.5%	37.7%	22.5%	33.4%	40.5%	-7 ppt	-1.9 ppt	-2.8 ppt
Net margin	-30.9%	1.1%	11.9%	-27.1%	-3.6%	13.2%	-3.7 ppt	4.7 ppt	-1.3 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

	CMBIGM			BBG Consensus			Diff.		
RMBmn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	2,079	3,607	5,332	2,120	3,834	6,220	-1.9%	-5.9%	-14.3%
Gross profit	322	1,135	2,010	406	1,286	2,530	-20.7%	-11.7%	N/A
Net profit	(641)	41	636	(473)	282	1,107	N/A	N/A	-42.6%
EPS (RMB)	-0.70	0.04	0.70	-0.56	0.24	0.30	N/A	N/A	131.8%
Gross margin	15.5%	31.5%	37.7%	19.1%	33.5%	40.7%	-3.7 ppt	-2.1 ppt	N/A
Net margin	-30.9%	1.1%	11.9%	-22.3%	7.4%	17.8%	-8.6 ppt	-6.2 ppt	-5.9 ppt

Source: Bloomberg consensus, CMBIGM estimates

Figure 3: 2029-2030E forecast update and TP derivation

	New			Old		Diff.	
RMBmn	2027E	2029E	2030E	2029E	2030E	2029E	2030E
Revenue	**3,607**	**7,324**	**9,562**	**6,173**	**7,899**	**+18.6%**	**+21.0%**
YoY%	*73.5%*	*37.3%*	*30.6%*	*38.6%*	*28.0%*	*-1.3pp*	*+2.6pp*
Gross Profit	**1,135**	**3,035**	**4,315**	**2,788**	**3,822**	**+8.8%**	**+12.9%**
YoY%	*252.8%*	*51.0%*	*42.2%*	*54.6%*	*37.1%*	*-3.6pp*	*+5.1pp*
GPM%	*31.5%*	*41.4%*	*45.1%*	*45.2%*	*48.4%*	*-3.8pp*	*-3.3pp*
Net Profit	**41**	**1,398**	**2,336**	**1,568**	**2,606**	**-10.9%**	**-10.4%**
YoY%	*-106.4%*	*119.9%*	*67.1%*	*165.8%*	*66.2%*	*-45.9pp*	*+0.9pp*
NPM%	*1.1%*	*19.1%*	*24.4%*	*25.4%*	*33.0%*	*-6.3pp*	*-8.6pp*
Target P/E			**35x**				
Equity value (HK$mn)			**94,839**				
Cost of Equity			*12.0%*				
HK$/CNY	0.86						
TP (HK$)	**74.2**						

Source: CMBIGM estimates

Figure 4: Peers table

		Mkt Cap	P/E (x)		EPS (US$)		GPM%	
Company	Ticker	US$(mn)	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Silan Micro	600460 CH	8,188	55.6	38.5	0.09	0.13	20.2	22.6
CR Micro	688396 CH	11,715	60.4	43.4	0.15	0.20	28.3	29.7
STM	STM US	44,999	37.0	19.1	1.36	2.63	36.2	39.8
Infineon	IFX GY	86,402	28.1	19.0	2.34	3.44	42.0	45.3
Navitas	NVTS US	3,000	-	-	-0.15	-0.16	39.6	41.1
Power Integration	POWI US	2,878	37.0	27.4	1.39	1.87	54.3	54.6
		Avg.	***43.6***	***29.5***	***0.86***	***1.35***	***36.8***	***38.8***

Source: Bloomberg consensus as of 1 Sep

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**593**	**828**	**1,213**	**2,079**	**3,607**	**5,332**
Cost of goods sold	(955)	(990)	(1,125)	(1,757)	(2,472)	(3,322)
Gross profit	**(362)**	**(161)**	**89**	**322**	**1,135**	**2,010**
Operating expenses	**(621)**	**(800)**	**(842)**	**(874)**	**(964)**	**(1,107)**
Selling expense	(90)	(98)	(110)	(125)	(162)	(187)
Admin expense	(247)	(451)	(470)	(416)	(433)	(507)
R&D expense	(349)	(323)	(374)	(395)	(433)	(480)
Others	65	72	113	62	64	66
Operating profit	**(983)**	**(961)**	**(753)**	**(552)**	**171**	**903**
Other expense	(119)	(84)	(87)	(90)	(123)	(155)
Other gains/(losses)	0	0	0	0	0	0
Pre-tax profit	**(1,102)**	**(1,045)**	**(840)**	**(641)**	**48**	**748**
Income tax	(0)	(0)	(1)	0	(7)	(112)
After tax profit	**(1,102)**	**(1,046)**	**(841)**	**(641)**	**41**	**636**
Minority interest	0	0	0	0	0	0
Net profit	**(1,102)**	**(1,046)**	**(841)**	**(641)**	**41**	**636**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**1,112**	**2,460**	**4,333**	**4,082**	**5,110**	**5,840**
Cash & equivalents	329	1,525	879	723	1,105	1,043
Receivables	337	484	776	1,249	1,648	2,125
Inventories	417	444	897	1,202	1,439	1,746
ST bank deposits	9	6	8	8	8	8
Financial assets at FVTPL	20	0	0	900	909	918
Other current assets	0	0	1,772	0	0	0
Non-current assets	**3,480**	**3,087**	**2,738**	**3,178**	**3,863**	**4,503**
PP&E	3,061	2,742	2,372	2,813	3,531	4,165
Right-of-use assets	85	117	116	116	114	111
Intangibles	273	198	118	49	18	27
Other non-current assets	61	31	131	200	200	200
Total assets	**4,591**	**5,547**	**7,071**	**7,260**	**8,973**	**10,343**
Current liabilities	**926**	**996**	**820**	**1,579**	**2,890**	**3,443**
Short-term borrowings	508	522	336	836	1,964	2,336
Payables	410	462	472	732	914	1,092
Lease liabilities	8	11	11	11	12	15
Non-current liabilities	**1,701**	**1,580**	**2,040**	**2,052**	**2,308**	**2,405**
Long-term borrowings	1,546	1,401	1,894	1,928	2,178	2,243
Deferred income	126	119	85	71	73	90
Other non-current liabilities	29	59	61	54	57	72
Total liabilities	**2,627**	**2,576**	**2,860**	**3,631**	**5,198**	**5,848**
Share capital	801	879	915	915	915	915
Capital surplus	0	0	0	0	0	0
Other reserves	1,163	2,092	3,295	2,714	2,860	3,580
Total shareholders equity	**1,964**	**2,971**	**4,211**	**3,629**	**3,775**	**4,495**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**4,591**	**5,547**	**7,071**	**7,260**	**8,973**	**10,343**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(1,102)**	**(1,045)**	**(840)**	**(641)**	**48**	**748**
Depreciation & amortization	534	516	517	557	669	815
Tax paid	(0)	(0)	(1)	0	(7)	(112)
Change in working capital	(216)	(159)	(771)	(515)	(431)	(565)
Others	190	353	287	103	170	171
Net cash from operations	**(594)**	**(336)**	**(806)**	**(496)**	**449**	**1,056**
Investing						
Capital expenditure	(331)	(172)	(211)	(947)	(1,376)	(1,480)
Acquisition of subsidiaries/ investments	(1,493)	(338)	(453)	(900)	(9)	(9)
Net proceeds from disposal of short-term investments	2,138	360	453	0	0	0
Others	25	21	(1,762)	1,822	59	71
Net cash from investing	**338**	**(129)**	**(1,973)**	**(25)**	**(1,326)**	**(1,418)**
Financing						
Net borrowings	(32)	(129)	299	534	1,378	437
Proceeds from share issues	20	641	(39)	0	0	0
Share repurchases	0	0	0	(71)	0	0
Others	(115)	1,150	1,874	(97)	(119)	(138)
Net cash from financing	**(127)**	**1,662**	**2,134**	**365**	**1,259**	**300**
Net change in cash						
Cash at the beginning of the year	711	329	1,525	879	723	1,105
Exchange difference	0	(0)	(1)	0	0	0
Cash at the end of the year	**329**	**1,525**	**879**	**723**	**1,105**	**1,043**
GROWTH	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Revenue	335.3%	39.8%	46.4%	71.4%	73.5%	47.8%
Gross profit	na	na	na	262.6%	252.8%	77.0%
Operating profit	na	na	na	na	na	427.7%
Net profit	na	na	na	na	na	1,457.3%
PROFITABILITY	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Gross profit margin	(61.1%)	(19.5%)	7.3%	15.5%	31.5%	37.7%
Operating margin	(165.8%)	(116.0%)	(62.0%)	(26.5%)	4.7%	16.9%
Return on equity (ROE)	(44.8%)	(42.4%)	(23.4%)	(16.4%)	1.1%	15.4%
GEARING/LIQUIDITY/ACTIVITIES	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Current ratio (x)	1.2	2.5	5.3	2.6	1.8	1.7
VALUATION	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
P/E	ns	ns	ns	ns	874.2	56.1

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

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