

InnoLight (300308 CH)

1Q24 results set stage for accelerated growth in 2024

Innolight has recently released results for FY23 and 1Q24, exceeding both our and market's expectations. For FY23, the company's revenue grew by 11.2% YoY to RMB10.7bn, with net profit soaring by 77.6% YoY to RMB2.2bn. 1Q saw even more impressive growth, with revenue up by 163.6% YoY to RMB4.8bn and net profit increasing by an astonishing 303.8% YoY to RMB1.0bn. we attribute the impressive results largely to strong demand for its high-speed optical transceivers (esp. 400G & 800G), making up over 90% of its total revenue in FY23. We revise up our earnings forecasts and raise TP for Innolight to RMB183, corresponding to the same 30x 2024E P/E. Maintain BUY.

- Accelerated 1Q growth due to higher 400G shipments; 800G is expected to ramp up production and contribute greater revenue in the following quarters. 1Q24 revenue grew 164% YoY and 31% QoQ, partially due to higher-than-expected shipments of 400G transceivers, driven by strong overseas demand (particularly from Ethernet). We expect 800G shipments to accelerate starting in 2Q24, as production capacity expands on schedule (supply) and investment in AI infrastructure continues (demand). Mgmt. also noted that the company's 1.6T product is currently undergoing certification at clients and is expected to begin production in 2H.
- Innolight's accelerated 1Q24 growth suggests 1) the impact from supply chain bottleneck was milder-than-anticipated and high-speed transceivers were delivered on time, and 2) the demand from AI continues to be strong. Therefore, we raise our revenue forecasts by 25%/44% for 2024/25E. We slightly revise down GPM forecasts by 0.2ppt and 0.3ppt, as 1Q24's GPM was lowered by 1) an unfavourable mix in high-speed transceivers revenue (i.e., higher share of 400G revenue) and 2) a regular pricing adjustment. Overall we expect GPM to improve QoQ as 800G shipments pick up pace. We are optimistic that GPM will sustain a robust level of 33.8% in 2024E.
- Maintain BUY, with new TP at RMB183. We revise up revenue forecasts by 25%/44% and NP forecasts by 35%/59% for 2024E/2025E. The new TP is based on the same 30x 2024E P/E, which is close to 5-year historical average of forward P/E (29x). We maintain a positive outlook on Innolight, given 1) the strong 400G/800G demand from hyperscalers, 2) the company is effectively scaling up 800G production with improved supply of key components, 3) pricing adjustment is better-than-feared (no severe margin erosion due to competition, demonstrating the company's dominant industry leadership), and 4) USD/RMB tailwind (85% revenue from overseas markets). We think Innolight will remain the industry leader in high-speed optical transceivers and continue to ride the tailwind of the Al boom. Risks: 1) Intensified geopolitical tensions, 2) slower-than-expected new product ramp-up speed, and 3) further delay in US interest rate cut.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E				
Revenue (RMB mn)	9,642	10,718	22,594	29,657	31,870				
YoY growth (%)	25.3	11.2	110.8	31.3	7.5				
Gross margin (%)	29.3	33.0	33.8	32.7	31.4				
Net profit (RMB mn)	1,224.0	2,173.5	4,904.4	6,319.3	6,446.2				
YoY growth (%)	39.6	77.6	125.6	28.8	2.0				
EPS (Reported) (RMB)	1.54	2.80	6.11	7.87	8.03				
P/S (x)	13.2	11.9	5.6	4.3	4.0				
P/E (x)	102.8	56.6	25.9	20.1	19.7				
Source: Company data, Bloomberg, CMBIGM estimates									

BUY (Maintain)

 Target Price
 RMB183.00

 (Previous TP
 RMB136.00)

 Up/Downside
 15.6%

 Current Price
 RMB158.36

China Semi

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)	127,131.4
Avg 3 mths t/o (RMB mn)	4,660.4
52w High/Low (RMB)	179.99/72.54
Total Issued Shares (mn)	802.8

Source: FactSet

Shareholding Structure

Shandong Zhongji Investment	11.3%
Holdings Co.	
Wang Weixiu	6.2%
0 5 1	

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-5.6%	0.3%
3-mth	41.9%	36.2%
6-mth	68.3%	81.6%

Source: FactSet



Source: FactSet

Figure 1: 1-yr forward P/E

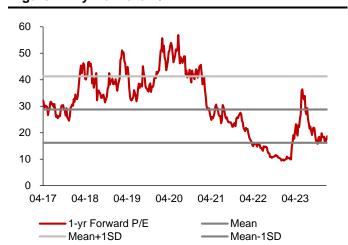
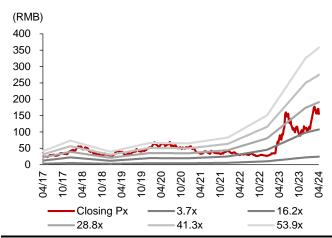


Figure 2: P/E band



Source: Company data, CMBIGM estimates

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs. consensus

	CMBI estimates			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	22,594	29,657	31,870	24,539	30,758	36,417	-8%	-4%	-12%
Gross profit	7,636	9,704	9,993	7,974	9,983	12,290	-4%	-3%	-19%
Net profit	4,904	6,319	6,446	4,460	5,564	7,369	10%	14%	-13%
EPS (RMB)	6.11	7.87	8.03	5.39	6.75	8.99	13%	17%	-11%
Gross margin	33.8%	32.7%	31.4%	32.5%	32.5%	33.7%	1.3 ppt	0.3 ppt	-2.4 ppt
Net margin	21.7%	21.3%	20.2%	18.2%	18.1%	20.2%	3.5 ppt	3.2 ppt	0 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimate revision

rigare ii eiiibiei		• • • • • • • • • • • • • • • • • • • •							
		New			Old		Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	22,594	29,657	31,870	18,074	20,524	NA	25%	44%	NA
Gross profit	7,636	9,704	9,993	6,144	6,782	NA	24%	43%	NA
Net profit	4,904	6,319	6,446	3,645	3,978	NA	35%	59%	NA
EPS (RMB)	6.11	7.87	8.03	4.54	4.96	NA	35%	59%	NA
Gross margin	33.8%	32.7%	31.4%	34.0%	33.0%	NA	-0.2 ppt	-0.3 ppt	NA
Net margin	21.7%	21.3%	20.2%	20.2%	19.4%	NA	1.5 ppt	1.9 ppt	NA

Source: Company data, CMBIGM estimates



Financial Summary

Revenue							
Rowan	INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
Cost of pools sold (5,727) (6,818) (7,182) (14,957) (9,794) 9,793 Operating expenses (1,005) (1,499) (1,402) (1,505) (2,377) (2,517) SGAR oxpenses (507) (508) (558) (353) (1,007) (1,178) SGAR oxpenses (507) (508) (558) (353) (1,007) (1,178) SGAR oxpenses (64) (717) (306) (250) (238) (200) Other oxpense (4) (77) (308) (5573) (7,377) (7,476) Other income 1 28 2 26 34 37 Other expense (4) (4) (4) (4) (90 (90 7,52 Other supprofit 960 1,352 2,492 2,599 7,362 7,512 Income tax (73) (118) (286) (797) (202) 7,512 Income tax (70) 80 1,322 2,024	YE 31 Dec (RMB mn)						
Grose profit 1,868 2,826 3,536 7,636 0,740 9,935 Deling sepenses (1,005) (1,409) (1,106) (2,37) (2,517) (2,617) (2,617) (2,617) (2,617) (2,617) (2,617) (2,617) (1,106) (2,107) (2,117) (2,117) (2,117) (2,117) (2,117) (2,117) (1,178) (2,117) (1,178) (2,117) (1,178) (2,117) (2,1		•	9,642	•	· · · · · · · · · · · · · · · · · · ·	-	•
Operating expenses (1,005) (1,409) (1,42) (1,63) (2,37) (2,17) (2,23) (23) (23) (23) (23) (23) (23) (23) (23) (23) (23) (23) (23) (23) (23) (1,139) (1,139) (1,139) (1,139) (1,139) (1,219) (1,300) (1,400) (1,300) (1,400) (1,300) (1,400) (1,400) (1,400) (1,400) (1,400) (1,400) (1,400) </td <td>•</td> <td>* ' '</td> <td> ,</td> <td></td> <td>, , ,</td> <td>, ,</td> <td></td>	•	* ' '	,		, , ,	, ,	
Salling oxenes (21) (63) (51) (168) (218) (224) RAD expense (541) (787) (733) (1,212) (1,307) (1,178) RAD expense (541) (787) (733) (212) (1,300) (1,332) Oberating profit 683 1,327 2,494 5,573 7,227 7,476 Oberating profit 980 1,152 2,492 5,573 7,227 7,476 Oberating profit 980 1,152 2,492 5,593 7,362 7,512 Income tax (73) (118) (285) (707) (928) (849) After tax profit 886 1,234 2,028 4,933 6,533 6,563 BALANCE SHEET 2024 2024 2023A 2024E 2025E VES 1Dec (RIMS mr) 1 3 4 8 1,117 1,117 1,117 1,117 1,117 1,117 1,117 1,117 1,117 1,117 1,117		•	· ·	•		•	-
SGSA expense (507) (598) (598) (1,957) (1,179) (1,179) (1,179) (1,179) (1,179) (1,179) (1,179) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (1,300) (200) <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>							
RAD expense (541) (767) (739) (1,212) (1,300) (1,395) Operating profit 963 1,327 2,494 5,673 7,327 7,476 Other income 1 28 2 26 34 37 7,476 Other repense (4) (4) (4) (4) (5) 0 <td></td> <td></td> <td>` '</td> <td></td> <td>` '</td> <td>` '</td> <td>, ,</td>			` '		` '	` '	, ,
Ohners 64 (71) 306 250 238 290 Operating profit 963 1.327 2.94 5.673 7.327 7.476 Other income 1 28 2 26 34 37 Other opense (4) (4) (4) (9) (0) (0) (0) Other opense (4) (4) (4) (4) (9) (0) (0) (0) Person (73) (118) (285) (569) 7.362 7.512 Income lax (73) (118) (280) 4.933 6.433 6.643 Maccomin (10) (10) 34 2.88 1.14 1.17 1.17 1.17 4.98 1.14 1.17 1.17 1.18 1.14 1.17 6.44 6.78 6.14 3.18 1.11 1.17 4.95 4.93 6.44 6.78 6.14 4.95 6.30 4.95 7.93 6.24 6.22	-	` ,	, ,	, ,			,
Operating profit 963 1.327 2,494 5,673 7,327 7,476 Other expense (4) (4) (4) (0) (0) (0) Other expense (4) (4) (4) (0) (0) (0) Income lax (73) (118) (245) (5,698) 7,362 (7,512 Income lax (73) (118) (22,508) 5,989 7,362 (7,512 After tax profit 886 1,234 2,208 4,993 6,433 6,563 Minority interest 10 10 4 48 814 117 Note profit 877 1,224 2023A 2024E 2025E 2026E VE 3 Dec (RMB mr) 2021A 2022A 2023A 2024E 2025E 2026E VE 3 Dec (RMB mr) 1,502 9,587 11,319 15,896 19,526 21,673 Current asset 10,022 9,587 11,319 15,896 19,526 21,674	•	, ,	` '	٠, ,	,	,	,
Oher incomene 1 28 2 26 34 37 Other expense (4) (4) (4) (0) <			` '				
Other expense (4) (4) (4) (0) (0) (0) Pre-tax profit 99 1,352 2,42 5,699 7,382 7,512 Income tax (73) (118) 2,286 4,933 6,433 6,634 After tax profit 886 1,234 2,208 4,938 6,433 6,636 Minority interest 10 1 2,428 4,994 6,319 6,446 BALANCE SHEET 2021A 2022A 2023A 2024E 2025E 2026E YE 31 Doc (RMB mr) 3,515 2,831 3,317 4,455 4,890 7,946 Current assets 10,022 9,587 11,319 15,896 19,526 2,817 Cash & equivilents 3,515 2,831 3,317 4,455 4,890 7,946 Cash & equivilents 3,515 2,831 3,317 4,455 4,890 7,948 Care Acquivilents 3,199 3,888 4,295 6,360 8,400			· ·	•	· · · · · · · · · · · · · · · · · · ·	-	-
Per-tax profit 960 1,352 2,492 5,699 7,362 7,512 1		•					
Income tax	•			` '	. ,		, ,
Materiax profit 886	-		· ·	•	•	-	-
Minority interest 10		` '	` '	, ,	, ,	٠, ,	, ,
Net profit 877 1,224 2,174 4,904 6,319 6,446 BALANCE SHEET 2021A 2022A 2023A 2024E 2025E 2026E YE 31 Dec (RMB mr) Current assets 10,022 9,587 11,319 15,896 19,526 2,1873 Cash à equivalents 3,515 2,831 3,317 4,455 4,890 7,946 Account receivables 1,997 1,509 2,581 3,609 4,516 4,215 Inventories 3,799 3,888 4,285 6,660 8,400 7,783 Prepayment 72 64 59 130 171 184 Other current assets 6,543 6,970 8,687 11,585 15,113 18,522 PPAE 3,152 3,217 3,948 5,887 3,831 10,931 Right-Of-use assets 21 11 27 298 610 897 Deferred income tax 46 48 82 13	•		· ·	•	· · · · · · · · · · · · · · · · · · ·	-	-
BALANCE SHEET 2021A 2022A 2023A 2024E 2025E 2026E VE 31 Dec (RMB mn) Current assets 10,022 9,587 11,319 15,896 19,526 21,873 Cash & equivalents 3,515 2,831 3,317 4,455 4,890 7,946 Account receivables 1,1997 1,509 2,581 3,609 4,516 4,215 Inventories 3,799 3,888 4,295 6,360 8,400 7,783 Prepayment 72 64 59 130 171 184 Other current assets 6,33 1,295 1,67 1,343 1,549 1,745 Non-current assets 6,543 6,970 8,687 11,585 15,113 18,532 PRAE 3,152 3,217 3,948 5,867 6,381 1,933 Right-Or-use assets 21 11 27 298 610 897 Deferred income tex 46 48 862 1313	•						
Page	Not prom	0//	1,227	2,114	4,304	0,010	0,440
Page	BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
Current assets 10,022 9,587 11,319 15,866 19,526 21,873 Cash & equivalents 3,515 2,831 3,517 4,455 4,950 7,946 Account receivables 1,997 1,509 2,581 3,609 4,516 4,215 Inventories 3,799 3,888 4,295 6,300 8,400 7,783 Prepayment 72 64 59 130 1,549 1,745 Other current assets 6,543 6,970 8,687 11,585 15,113 18,522 PRE 3,152 3,217 3,948 5,887 8,381 19,526 PRE 3,152 3,217 3,948 5,887 8,381 19,526 PRE 3,152 3,217 3,948 5,887 8,381 19,526 PRE 3,166 48 82 21 13 142 66 Incertural incertural assets 362 322 401 504 4,343 3,362							
Cash & equivalents 3,515 2,831 3,317 4,455 4,890 7,946 Account receivables 1,997 1,509 2,581 3,609 4,516 4,215 Inventories 3,799 3,888 4,295 6,360 8,400 7,783 Prepayment 72 64 59 130 171 184 Other current assets 6,543 6,970 8,687 11,585 15,113 18,532 PRAE 3,152 3,217 3,948 5,887 8,381 10,931 Eight-Of-use assets 21 11 27 298 610 897 Deferred income tax 46 48 82 113 142 165 Intargibles 382 322 401 504 626 747 Codwill 1,980 1,949 1,939 1,929 1,940 1,939 1,949 1,939 1,949 1,940 1,940 1,940 1,940 1,940 1,940	· ,	10.022	9.587	11.319	15.896	19.526	21.873
Account receivables 1,997 1,509 2,581 3,609 4,516 4,215 Inventories 3,799 3,888 4,295 6,360 8,400 7,783 Prepayment 72 64 59 13.00 171 184 Other current assets 638 1,295 1,067 1,343 1,549 1,745 Non-current assets 6,543 6,970 8,687 1,387 15,113 18,552 PPAE 3,152 3,217 3,948 5,887 8,381 10,931 Right-of-use assets 21 11 27 298 610 897 Deferred income tax 46 48 82 113 142 165 Intangibles 382 322 401 504 626 747 Goodwill 1,980 1,949 1,939 1,929 1,920 1,910 Other nor-current assets 362 3,261 4,360 6,325 7,661 7,742		<u>-</u>	· ·	•	•		· ·
Prepayment 72 64 59 130 171 184 Other current assets 638 1,295 1,067 1,343 1,549 1,745 Non-current assets 6,543 6,970 8,687 11,585 15,113 18,585 PRE 3,152 3,217 3,948 5,887 8,381 10,931 Right-of-use assets 21 11 27 298 610 897 Deferred income tax 46 48 82 113 142 1656 Deferred income tax 46 48 82 113 142 1656 Obdefined income tax 46 1,980 1,949 1,939 1,929 1,920 1,910 1,910 Obdefined income tax 46 48 82 1,929 1,920 1,910 1,910 1,910 1,910 1,910 1,910 1,910 1,910 1,910 1,910 1,910 1,910 1,910 1,910 1,910 1,910	•						
Other current assets 638 1,295 1,067 1,343 1,549 1,745 Non-current assets 6,543 6,970 8,687 11,585 15,13 18,532 PPAE 3,543 3,217 3,948 5,887 8,381 10,931 Right-of-use assets 21 111 27 298 610 897 Deferred income tax 46 48 82 113 142 165 Intangibles 382 322 401 504 626 747 Goodwill 1,980 1,949 1,939 1,929 1,920 1,910 Other non-current assets 962 1,422 2,291 2,854 3,435 3,882 Total assets 3,66 3,264 4,360 6,325 7,661 7,742 Current liabilities 3,166 3,264 4,360 6,325 7,661 7,742 Short-term borrowings 1,205 1,136 1,557 3,060 3,499 3,693 <td>Inventories</td> <td>3,799</td> <td>3,888</td> <td>4,295</td> <td>6,360</td> <td>8,400</td> <td>7,783</td>	Inventories	3,799	3,888	4,295	6,360	8,400	7,783
Non-current assets 6,543 6,970 8,687 11,585 15,113 18,532 PPAE 3,152 3,217 3,948 5,887 8,361 0.937 Right-of-use assets 21 11 27 298 610 897 Deferred income tax 46 48 82 113 142 165 Intangibles 382 322 401 5.09 1,920 1,910 Goodwill 1,980 1,949 1,939 1,929 1,920 1,910 Other non-current assets 962 1,422 2,291 2,854 3,435 3,882 Total assets 3,66 3,264 4,360 6,325 7,661 7,742 Short-term borrowings 794 385 62 357 517 374 Account payables 1,205 1,136 1,857 3,060 3,499 3,930 2,331 2,917 2,830 Other current liabilities 1 2 2 3<	Prepayment	72	64	59	130	171	184
PP&E 3,152 3,217 3,948 5,887 8,381 10,931 Right-of-use assets 21 11 27 298 610 897 Deferred income tax 46 48 82 113 142 166 Intangibles 382 322 401 504 626 747 Goodwill 1,980 1,949 1,939 1,929 1,920 1,910 Other non-current assets 962 1,422 2,291 2,854 3,435 3,885 Total assets 16,565 16,575 20,007 27,881 34,639 40,405 Current liabilities 3,166 3,264 4,360 6,325 7,661 7,742 Short-term borrowings 794 385 62 357 517 374 Accruent payables 1,205 1,136 1,857 3,060 3,493 3,693 Contract liabilities 1 20 3 23 23 29 388	Other current assets	638	1,295	1,067	1,343	1,549	1,745
Right-of-use assets 21 111 27 298 610 897 Deferred income tax 46 48 82 113 142 165 Intangibles 382 322 401 504 626 747 Goodwill 1,980 1,949 1,939 1,929 1,920 1,910 Other non-current assets 962 1,422 2,291 2,854 3,435 3,882 Total assets 962 1,657 20,007 27,481 34,639 40,405 Current liabilities 3,166 3,264 4,360 6,325 7,661 7,742 Short-term borrowings 794 385 62 357 517 374 Account payables 68 93 213 292 368 429 Other current liabilities 1 22 3 26 35 37 Cortract liabilities 1 22 3 26 35 37 Non-current	Non-current assets	6,543	6,970	8,687	11,585	15,113	18,532
Deferred income tax 46 48 82 113 142 168 Intangibles 382 322 401 504 626 747 Goodwill 1,980 1,949 1,939 1,929 1,920 1,910 Other non-current assets 962 1,422 2,291 2,854 3,435 3,882 Total assets 16,565 16,557 20,007 27,481 34,639 40,405 Current liabilities 3,166 3,264 4,360 6,325 7,661 7,742 Short-term borrowings 794 385 62 357 517 374 Account payables 1,205 1,136 1,857 3,060 3,499 3,693 Other current liabilities 932 1,349 2,039 2,931 2,917 2,830 Corract labilities 1,66 279 187 257 324 378 Accrued expenses 1,66 279 187 257 324 378	PP&E	3,152	3,217	3,948	5,887	8,381	10,931
Intangibles 382 322 401 504 626 747 Goodwill 1,980 1,949 1,939 1,929 1,920 1,910 Other non-current assets 962 1,422 2,091 2,854 34,639 3,882 Total assets 16,565 16,557 20,007 27,481 34,639 40,405 Current liabilities 3,166 3,264 4,360 6,325 7,661 7,742 Short-term borrowings 7,94 385 62 357 517 374 Account payables 1,205 1,136 1,857 3,060 3,499 3,693 Tax payable 68 93 213 292 368 429 Other current liabilities 1 24 2,039 2,331 2,917 2,830 Contract liabilities 1 24 27 324 378 Contract liabilities 1,796 1,224 872 1,320 1,518 1,677 Long-term borrowings 1,262 696 319 561 561 561 Bond payables 0 0 0 0 0 Deferred income 277 264 216 297 374 436 Other non-current liabilities 258 264 337 463 584 681 Total liabilities 3,000 801 803 803 803 803 Retained earnings 2,861 3,893 5,870 10,331 15,737 21,037 Other reserves 14,88 7,251 7,899 8,101 8,205 8,113 Other reserves 3,822 3,842 3,842 Other reserves 3,823 3,842 3,843 Other reserves 3,824 3,835 3,870 3,331 3,573 21,037 Other reserves 3,824 3,425 3,425 3,425 Other reserves 3,824 3,425 3,425 Other reserves 3,824 3,425 3,425 3,425 Other reserves 3,824 3,425 3,425 Other reserves 3,424 3,425 3,425 Other reserves 3,424 3,425 3,425 Other reserves 3,424 3,42	Right-of-use assets	21	11	27	298	610	897
Goodwill 1,980 1,949 1,939 1,929 1,920 1,910 Other non-current assets 962 1,422 2,291 2,854 3,435 3,882 Total assets 16,565 16,565 20,007 27,481 34,639 40,405 Current liabilities 3,166 3,264 4,360 6,325 7,661 7,742 Short-term borrowings 794 385 62 357 517 374 Account payables 1,205 1,136 1,857 3,060 3,499 3,693 Account payables 68 93 213 292 368 429 Other current liabilities 1 22 33 26 35 37 Contract liabilities 1 22 33 26 35 37 Accrued expenses 166 279 187 257 324 378 Non-current liabilities 1,796 1,224 872 1,320 1,518 1,671	Deferred income tax			82			
Other non-current assets 962 1,422 2,91 2,854 3,435 3,882 Total assets 16,565 16,557 20,007 27,481 34,639 40,405 Current liabilities 3,166 3,264 4,360 6,325 7,661 7,742 Short-term borrowings 794 385 62 357 517 374 Account payables 1,205 1,136 1,857 3,600 3,499 3,693 Tax payable 68 93 213 292 368 429 Other current liabilities 31 22 3 26 35 37 Contract liabilities 1 22 3 26 35 37 Accrued expenses 166 279 187 257 324 378 Non-current liabilities 1,796 1,224 872 1,320 1,518 1,677 Bond payables 0 0 0 0 0 0 0	Intangibles		322				
Current liabilities 3,166 3,264 4,360 6,325 7,661 7,742 Short-term borrowings 794 385 62 357 517 374 Account payables 1,205 1,136 1,857 3,060 3,499 3,693 Tax payable 68 93 213 292 368 429 Other current liabilities 932 1,349 2,039 2,331 2,917 2,830 Contract liabilities 1 22 3 26 35 37 Accrued expenses 166 279 187 257 324 378 Non-current liabilities 1,796 1,224 872 1,320 1,518 1,677 Long-term borrowings 1,262 696 319 561 561 561 Bond payables 0 0 0 0 0 0 0 Other non-current liabilities 258 264 337 463 584 681 </td <td>Goodwill</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	Goodwill						
Current liabilities 3,166 3,264 4,360 6,325 7,661 7,742 Short-term borrowings 794 385 62 357 517 374 Account payables 1,205 1,136 1,857 3,060 3,499 3,693 Tax payable 68 93 213 292 368 429 Other current liabilities 932 1,349 2,039 2,331 2,917 2,830 Contract liabilities 1 22 3 26 35 37 Accrued expenses 166 279 187 257 324 378 Non-current liabilities 1,796 1,224 872 1,320 1,518 1,677 Long-term borrowings 1,262 696 319 561 561 561 Bond payables 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0							*
Short-term borrowings 794 385 62 357 517 374 Account payables 1,205 1,136 1,857 3,060 3,499 3,693 Tax payable 68 93 213 292 368 429 Other current liabilities 932 1,349 2,039 2,331 2,917 2,830 Contract liabilities 1 22 3 26 35 37 Accrued expenses 166 279 187 257 324 378 Non-current liabilities 1,796 1,224 872 1,320 1,518 1,677 Long-term borrowings 1,262 696 319 561 561 561 Bond payables 0	Total assets	16,565	16,557	20,007	27,481	34,639	40,405
Account payables 1,205 1,136 1,857 3,060 3,499 3,693 Tax payable 68 93 213 292 368 429 Other current liabilities 932 1,349 2,039 2,331 2,917 2,830 Contract liabilities 1 22 3 26 35 37 Accrued expenses 166 279 187 257 324 378 Non-current liabilities 1,796 1,224 872 1,320 1,518 1,677 Long-term borrowings 1,262 696 319 561 561 561 Bond payables 0 0 0 0 0 0 0 0 Deferred income 277 264 216 297 374 436 681 Other non-current liabilities 258 264 337 463 584 681 Total liabilities 4,962 4,488 5,232 7,645 9,179 </td <td>Current liabilities</td> <td>3,166</td> <td>3,264</td> <td>4,360</td> <td>6,325</td> <td>7,661</td> <td>7,742</td>	Current liabilities	3,166	3,264	4,360	6,325	7,661	7,742
Account payables 1,205 1,136 1,857 3,060 3,499 3,693 Tax payable 68 93 213 292 368 429 Other current liabilities 932 1,349 2,039 2,331 2,917 2,830 Contract liabilities 1 22 3 26 35 37 Accrued expenses 166 279 187 257 324 378 Non-current liabilities 1,796 1,224 872 1,320 1,518 1,677 Long-tern borrowings 1,262 696 319 561 561 561 Bond payables 0 0 0 0 0 0 0 Deferred income 277 264 216 297 374 436 Other non-current liabilities 258 264 337 463 584 681 Total liabilities 4,962 4,488 5,232 7,645 9,179 9,420	Short-term borrowings	<u>-</u>	· ·	•	•	-	· ·
Other current liabilities 932 1,349 2,039 2,331 2,917 2,830 Contract liabilities 1 22 3 26 35 37 Accrued expenses 166 279 187 257 324 378 Non-current liabilities 1,796 1,224 872 1,320 1,518 1,677 Long-term borrowings 1,262 696 319 561 561 561 Bond payables 0	5	1,205	1,136	1,857	3,060	3,499	3,693
Contract liabilities 1 22 3 26 35 37 Accrued expenses 166 279 187 257 324 378 Non-current liabilities 1,796 1,224 872 1,320 1,518 1,677 Long-term borrowings 1,262 696 319 561 561 561 Bond payables 0 0 0 0 0 0 0 0 Deferred income 277 264 216 297 374 436 Other non-current liabilities 258 264 337 463 584 681 Total liabilities 4,962 4,488 5,232 7,645 9,179 9,420 Share capital 800 801 803 803 803 803 Retained earnings 2,861 3,893 5,870 10,331 15,737 21,037 Other reserves 7,828 7,251 7,589 8,101 8,205 8,313<	Tax payable	68	93	213	292	368	429
Accrued expenses 166 279 187 257 324 378 Non-current liabilities 1,796 1,224 872 1,320 1,518 1,677 Long-term borrowings 1,262 696 319 561 561 561 Bond payables 0 0 0 0 0 0 0 0 Deferred income 277 264 216 297 374 436 Other non-current liabilities 258 264 337 463 584 681 Total liabilities 4,962 4,488 5,232 7,645 9,179 9,420 Share capital 800 801 803 803 803 803 Retained earnings 2,861 3,893 5,870 10,331 15,737 21,037 Other reserves 7,828 7,251 7,589 8,101 8,205 8,313 Total shareholders equity 11,489 11,945 14,261 19,234	Other current liabilities	932	1,349	2,039	2,331	2,917	2,830
Non-current liabilities 1,796 1,224 872 1,320 1,518 1,677 Long-term borrowings 1,262 696 319 561 561 561 Bond payables 0 0 0 0 0 0 0 0 Deferred income 277 264 216 297 374 436 Other non-current liabilities 258 264 337 463 584 681 Total liabilities 4,962 4,488 5,232 7,645 9,179 9,420 Share capital 800 801 803 803 803 803 Retained earnings 2,861 3,893 5,870 10,331 15,737 21,037 Other reserves 7,828 7,251 7,589 8,101 8,205 8,313 Total shareholders equity 11,489 11,945 14,261 19,234 24,745 30,152 Minority interest 114 124 513 602	Contract liabilities	1	22	3	26	35	37
Long-term borrowings 1,262 696 319 561 561 561 Bond payables 0<	Accrued expenses	166	279	187	257	324	378
Bond payables 0 <	Non-current liabilities	1,796	1,224	872	1,320	1,518	1,677
Deferred income 277 264 216 297 374 436 Other non-current liabilities 258 264 337 463 584 681 Total liabilities 4,962 4,488 5,232 7,645 9,179 9,420 Share capital 800 801 803 803 803 803 Retained earnings 2,861 3,893 5,870 10,331 15,737 21,037 Other reserves 7,828 7,251 7,589 8,101 8,205 8,313 Total shareholders equity 11,489 11,945 14,261 19,234 24,745 30,152 Minority interest 114 124 513 602 716 833	Long-term borrowings	1,262	696	319	561	561	561
Other non-current liabilities 258 264 337 463 584 681 Total liabilities 4,962 4,488 5,232 7,645 9,179 9,420 Share capital 800 801 803 803 803 803 Retained earnings 2,861 3,893 5,870 10,331 15,737 21,037 Other reserves 7,828 7,251 7,589 8,101 8,205 8,313 Total shareholders equity 11,489 11,945 14,261 19,234 24,745 30,152 Minority interest 114 124 513 602 716 833	Bond payables	0	0	0	0	0	0
Total liabilities 4,962 4,488 5,232 7,645 9,179 9,420 Share capital 800 801 803 803 803 803 Retained earnings 2,861 3,893 5,870 10,331 15,737 21,037 Other reserves 7,828 7,251 7,589 8,101 8,205 8,313 Total shareholders equity 11,489 11,945 14,261 19,234 24,745 30,152 Minority interest 114 124 513 602 716 833	Deferred income	277	264	216	297	374	436
Share capital 800 801 803 803 803 803 Retained earnings 2,861 3,893 5,870 10,331 15,737 21,037 Other reserves 7,828 7,251 7,589 8,101 8,205 8,313 Total shareholders equity 11,489 11,945 14,261 19,234 24,745 30,152 Minority interest 114 124 513 602 716 833	Other non-current liabilities	258	264	337	463	584	681
Retained earnings 2,861 3,893 5,870 10,331 15,737 21,037 Other reserves 7,828 7,251 7,589 8,101 8,205 8,313 Total shareholders equity 11,489 11,945 14,261 19,234 24,745 30,152 Minority interest 114 124 513 602 716 833	Total liabilities	4,962	4,488	5,232	7,645	9,179	9,420
Retained earnings 2,861 3,893 5,870 10,331 15,737 21,037 Other reserves 7,828 7,251 7,589 8,101 8,205 8,313 Total shareholders equity 11,489 11,945 14,261 19,234 24,745 30,152 Minority interest 114 124 513 602 716 833	Share capital	800	801	803	803	803	803
Other reserves 7,828 7,251 7,589 8,101 8,205 8,313 Total shareholders equity 11,489 11,945 14,261 19,234 24,745 30,152 Minority interest 114 124 513 602 716 833	•						
Total shareholders equity 11,489 11,945 14,261 19,234 24,745 30,152 Minority interest 114 124 513 602 716 833	5						
Minority interest 114 124 513 602 716 833	Total shareholders equity						
	Minority interest	114	124	513	602	716	833
Total equity and habilities 16,555 16,557 20,007 27,461 34,659 40,405	Total equity and liabilities	16,565	16,557	20,007	27,481	34,639	40,405



CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	960	1,352	2,492	5,699	7,362	7,512
Depreciation & amortization	436	493	525	594	868	1,230
Tax paid	(73)	(118)	(285)	(707)	(928)	(949)
Change in working capital	(587)	291	(830)	(1,797)	(1,975)	924
Others	77	432	(6)	(185)	(164)	(155)
Net cash from operations	813	2,449	1,897	3,604	5,162	8,562
Investing						
Capital expenditure	(840)	(792)	(1,704)	(3,041)	(3,990)	(4,285)
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	(106)	(68)	(39)
Net cash from investing	(1,219)	(1,553)	(1,176)	(3,147)	(4,057)	(4,324)
Financing						
Dividend paid	(168)	(233)	(207)	(386)	(840)	(1,071)
Net borrowings	(259)	(699)	(884)	582	160	(143)
Proceeds from share issues	2,665	33	(109)	433	0	0
Others	26	(742)	884	22	22	22
Net cash from financing	2,264	(1,641)	(316)	651	(659)	(1,192)
Net change in cash						
Cash at the beginning of the year	1,648	3,489	2,809	3,234	4,368	4,805
Exchange difference	(17)	64	20	0	0	0
Others	1,859	(745)	405	1,134	437	3,055
Cash at the end of the year	3,489	2,809	3,234	4,368	4,805	7,859

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



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

SELL

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 CMBIGM 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.