

Innolight (300308 CH)

Solid 3Q results; Cloud capex may moderate in 2023E after record spending

Innolight delivered strong 3Q results, with revenue up 30.1% YoY and NP to shareholders up 64.2% YoY. Sales grew consecutive two quarters in 2Q/3Q (2.6%/22.9% QoQ), in line with our previous expectation that "sales will deliver steady QoQ growth" ([link](#)). NP to shareholders was above estimates, driven by higher GPM (29.7% in 3Q, up 2.5 ppt from 2Q), which was a result of a favorable product mix and FX tailwind. Despite a strong year of growth in 2022, we expect cloud capex may moderate in 2023 given persistent macro pressure. We maintain BUY and revised down TP to RMB38.5.

- **2022: 9M22 results confirmed our prediction of a year of strong demand** ([link](#)). AMZN/GOOG/FB/MSFT's capex reached a record of US\$39.5bn in 3Q. During 9M22, their capex increased 25.1% YoY, on top of 32.1% YoY in 2021. Looking into 4Q, we think overseas clients will continue their procurement. We maintain our topline forecast for 2022E (9M sales accounted for 73% of full-year est.), but raised the bottom line by 10%, driven by higher GPM of 28.1% (vs. prev. 26.3%) due to greater rev. contribution from high-end products.
- **2023: Cloud capex may moderate, after record datacenter spending.** Although overseas hyperscalers will continue to invest in technology infrastructure, the macro pressure (ongoing inflation and weak consumer spending) is likely to take a toll on these companies' future spending. Lightcounting projected optical components market will only grow 4% YoY in 2023E, following 17%/10%/14% YoY for 2020-22E. Given Innolight has already ranked No.1 (tie with II-VI) in the transceiver market, the upside from share gain will be limited (~90% of 2022E rev comes from optical modules of 100G and above). Therefore, we revised down our revenue forecasts for 2023/24E by 5%/8%, reflecting growth of 9.0%/9.2% YoY. The bottom line was down slightly by 1%/1%, a mixed impact from lowered sales and a higher margin.
- **We maintain our BUY rating and revised TP to RMB38.5.** The new TP is based on lower 24x 2023E P/E (vs. prev. 26x), reflecting moderating demand from overseas clients after a year of record capital investment. Potential risks include 1) potential capex cut from global cloud companies and 2) faster-than-expected tech advancement.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Turnover (RMB mn)	7,050	7,695	9,401	10,243	11,184
YoY growth (%)	48.2%	9.2%	22.2%	9.0%	9.2%
Gross margin (%)	25.4%	25.6%	28.0%	28.0%	28.0%
Net profit (RMB mn)	865	877	1,176	1,284	1,443
EPS (RMB)	1.23	1.21	1.47	1.61	1.80
YoY growth (%)	68.5%	-1.6%	21.4%	9.3%	12.3%
Consensus EPS (RMB)	NA	NA	1.48	1.72	0.00
PE (x)	24.6	25.0	20.6	18.9	16.8
Yield (%)	0.4%	0.7%	1.0%	1.1%	1.2%
ROE (%)	11.0%	7.6%	9.4%	9.5%	9.8%
Net gearing (%)	9.9%	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimate

BUY (Maintain)

Target Price	RMB 38.50
(Previous TP)	RMB 42.00)
Up/Downside	+27.2%
Current Price	RMB 30.28

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	23,757
Avg. 3mths t/o (RMB mn)	377.17
52W High/Low (RMB)	43.96/25.36
Total Issued Shares (mn)	801.0

Source: Bloomberg

Shareholding Structure

Zhongji Investment	11.74%
HKSC	10.14%
Wang Weixiu	8.02%

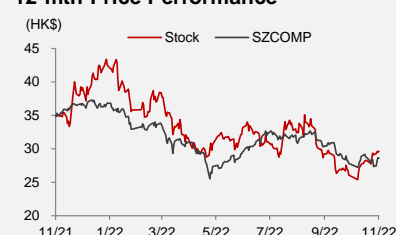
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	13.1%	9.8%
3-mth	-9.0%	-1.1%
6-mth	-3.7%	-8.1%

Source: Bloomberg

12-mth Price Performance

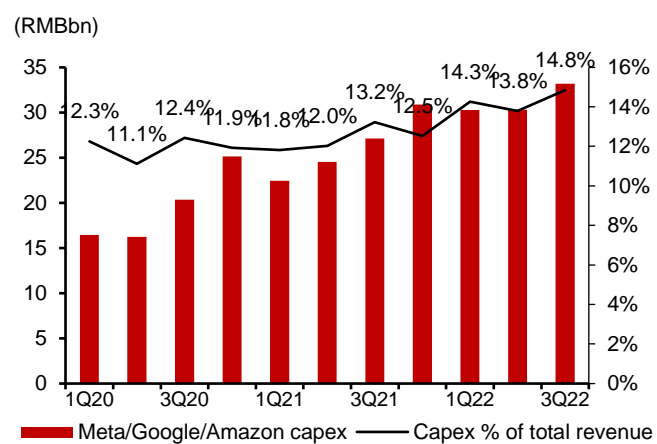


Source: Bloomberg

Auditor: PWC Zhong Tian

Focus chart

Figure 1: Big four cloud companies' capex intensity ratio (1Q20-3Q22)



Source: Company filings, Bloomberg, CMBIGM estimates

Figure 2: Top 10 transceiver suppliers (2010/2016/2018/2021)

2010	2016		2018	2021
Finisar	Finisar	1	Finisar	II-VI & Innolight (tie)
Opnext	Hisense	2	Innolight	
Sumitomo	Accelink	3	Hisense	Huawei (HiSilicon)
Avago	Acacia	4	Accelink	Cisco(Acacia)
Source Photonics	FOIT(Avago)	5	FOIT(Avago)	Hisense
Fujitsu	Oclaro	6	Lumentum/Oclaro	Broadcom (Avago)
JDSU	Innolight	7	Acacia	Eoptolink
Emcore	Sumitomo	8	Intel	Accelink
WTD	Lumentum	9	AOi	Molex
NeoPhotonics	Source Photonics	10	Sumitomo	Intel

Source: Lightcounting, CMBIGM estimates

3Q22 Earnings Review

Figure 3: 3Q22 results review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY
Revenue	1,472	1,826	2,024	2,373	2,089	2,142	2,634	22.9%	30.1%
Gross Profit	370	435	496	667	549	584	783	34.0%	57.8%
Operating Profit	148	223	241	350	233	292	410	40.5%	69.8%
Net profit	133	208	219	317	217	275	360	30.9%	64.2%
EPS (RMB)	0.19	0.29	0.31	0.42	0.27	0.34	0.27	-20.6%	-12.9%
Gross Margin	25.1%	23.8%	24.5%	28.1%	26.3%	27.3%	29.7%	2.5 ppt	5.2 ppt
Operating Margin	10.1%	12.2%	11.9%	14.8%	11.2%	13.6%	15.6%	1.9 ppt	3.6 ppt
Net Margin	9.0%	11.4%	10.8%	13.4%	10.4%	12.8%	13.7%	0.8 ppt	2.8 ppt

Source: Company data, CMBIGM estimates

Figure 4: P&L forecasts

RMB mn	FY20A	FY21A	1Q22A	2Q22A	3Q22A	4Q22E	FY22E	FY23E	FY24E
Revenue	7,050	7,695	2,089	2,142	2,634	2,536	9,401	10,243	11,184
...YoY	48.2%	9.2%	42%	17%	30%	7%	22.2%	9.0%	9.2%
Cost of sales	5,257	5,727	1,540	1,558	1,851	1,818	6,766	7,373	8,051
Gross profit	1,793	1,968	549	584	783	718	2,635	2,870	3,133
...YoY	39.0%	9.8%	49%	34%	58%	8%	33.9%	8.9%	9.2%
GPM (%)	25.4%	25.6%	26%	27%	30%	28%	28.0%	28.0%	28.0%
SG&A	477	507	155	127	167	159	608	650	700
...% of rev	6.8%	6.6%	7%	6%	6%	6%	6.5%	6.3%	6.3%
R&D	506	541	154	195	212	207	768	837	891
...% of rev	7.2%	7.0%	7%	9%	8%	8%	8.2%	8.2%	8.0%
Operating profit	990	963	233	292	410	346	1,280	1,399	1,571
...YoY	71.7%	-2.7%	57.3%	30.6%	69.8%	-1.2%	33.0%	9.3%	12.3%
OPM (%)	14.0%	12.5%	11%	14%	16%	14%	13.6%	13.7%	14.1%
Net profit	865	877	217	275	360	323	1,176	1,284	1,443
...YoY	68.6%	1.3%	63.4%	32.4%	64.2%	2.0%	34.0%	9.3%	12.3%
NPM (%)	12.3%	11.4%	10.4%	12.8%	13.7%	12.7%	12.5%	12.5%	12.9%

Source: Company data, CMBIGM estimates

Figure 5: Earnings revision

RMB mn	CMBIS			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,401	10,243	11,184	9,398	10,770	12,139	0%	-5%	-8%
Gross Profit	2,635	2,870	3,133	2,476	2,863	3,235	6%	0%	-3%
Operating Profit	1,280	1,399	1,571	1,167	1,406	1,584	10%	0%	-1%
Net profit	1,176	1,284	1,443	1,076	1,296	1,460	9%	-1%	-1%
EPS (RMB)	1.47	1.61	1.80	1.34	1.62	1.82	10%	-1%	-1%
Gross Margin	28.0%	28.0%	28.0%	26.3%	26.6%	26.6%	1.7 ppt	1.4 ppt	1.4 ppt
Operating Margin	13.6%	13.7%	14.1%	12.4%	13.1%	13.0%	1.2 ppt	0.6 ppt	1 ppt
Net Margin	12.5%	12.5%	12.9%	11.4%	12.0%	12.0%	1.1 ppt	0.5 ppt	0.9 ppt

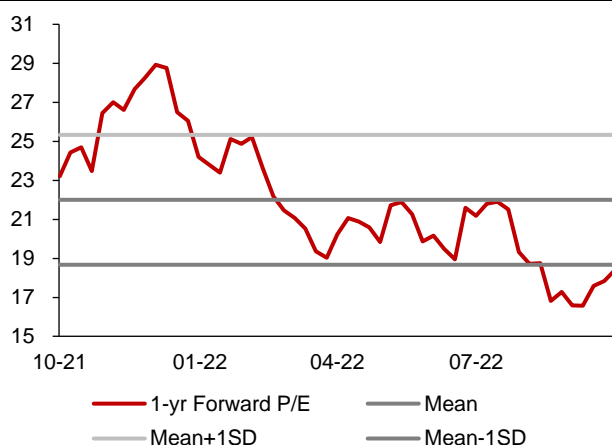
Source: Company data, CMBIGM estimates

Figure 6: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,401	10,243	11,184	9,676	11,395	13,241	-3%	-10%	-16%
Gross Profit	2,635	2,870	3,133	2,579	3,041	3,598	2%	-6%	-13%
Operating Profit	1,280	1,399	1,571	1,296	1,601	1,931	-1%	-13%	-19%
Net profit	1,176	1,284	1,443	1,157	1,414	1,676	2%	-9%	-14%
EPS (RMB)	1.47	1.61	1.80	1.45	1.80	2.11	1%	-11%	-14%
Gross Margin	28.0%	28.0%	28.0%	26.7%	26.7%	27.2%	1.4 ppt	1.3 ppt	0.8 ppt
Operating Margin	13.6%	13.7%	14.1%	13.4%	14.0%	14.6%	0.2 ppt	-0.4 ppt	-0.5 ppt
Net Margin	12.5%	12.5%	12.9%	12.0%	12.4%	12.7%	0.5 ppt	0.1 ppt	0.2 ppt

Source: Company data, CMBIGM estimates

Figure 7: 12M forward P/E chart



Source: Company data, CMBIGM estimates

Figure 8: 12M forward P/E band



Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	7,050	7,695	9,401	10,243	11,184
Cost of sales	(5,257)	(5,727)	(6,766)	(7,373)	(8,051)
Gross profit	1,793	1,968	2,635	2,870	3,133
Selling exp	(107)	(73)	(94)	(100)	(110)
Admin exp	(370)	(434)	(514)	(550)	(590)
R&D exp	(506)	(541)	(768)	(837)	(891)
Finance costs	(64)	(84)	34	(18)	(4)
Other operating exp.	1,850	2,137	2,697	2,975	3,156
Operating profit	990	963	1,280	1,399	1,571
Other non-oper exp.	(3)	(3)	(3)	(3)	(3)
Pre-tax profit	987	960	1,278	1,396	1,568
Income tax expense	(111)	(73)	(106)	(115)	(130)
Net profit	876	886	1,172	1,281	1,438
Minority interests	11	10	(4)	(4)	(4)
Net profit to shareholders	865	877	1,176	1,284	1,443

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	865	877	1,176	1,284	1,443
Depreciation/amortization	251	321	365	399	422
Change in working capital	(1,096)	(587)	93	243	(93)
Others	1	203	(45)	239	53
Net cash from operating	22	813	1,588	2,165	1,826
Capex	(956)	(840)	(658)	(716)	(782)
Other	83	(379)	(925)	158	144
Net cash from investing	(873)	(1,219)	(1,583)	(558)	(638)
Share issuance	0	2,665	7	0	0
Net borrowing	(121)	(168)	(246)	(302)	(326)
Other	1,421	(233)	(342)	250	84
Net cash from financing	1,300	2,264	(581)	(52)	(242)
Net change in cash	449	1,859	(576)	1,555	946
Cash at beginning of the year	1,236	1,648	3,489	2,896	4,434
Exchange difference	(37)	(17)	(17)	(17)	(17)
Cash at the end of year	1,648	3,489	2,896	4,434	5,362

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	7,982	10,022	10,506	11,709	13,004
Cash & equivalents	1,679	3,515	2,919	4,458	5,385
Account receivables	1,514	1,997	1,609	1,478	1,647
Inventory	3,774	3,799	4,543	4,345	4,478
Prepayment	40	72	66	73	79
Other current assets	973	638	1,369	1,355	1,415
Non-current assets	5,634	6,543	7,003	6,973	7,122
PPE	2,726	3,152	3,232	3,271	3,351
Deferred tax assets	38	46	50	52	57
Other non-current assets	2,870	3,345	3,722	3,649	3,714
Total assets	13,616	16,565	17,509	18,682	20,126
Current liabilities	3,772	3,166	2,925	2,702	2,868
ST borrowings	1,041	794	689	535	453
Account payables	1,367	1,205	1,576	1,454	1,634
Tax payable	35	68	48	64	62
Other current liabilities	1,329	1,098	612	649	719
Non-current liabilities	1,850	1,796	1,989	2,351	2,459
LT borrowings	1,430	1,262	1,455	1,764	1,836
Deferred tax liability	154	277	279	305	325
Other non-current liabilities	267	258	255	281	298
Total liabilities	5,622	4,962	4,914	5,053	5,327
Share capital	713	800	800	800	800
Reserve	5,147	7,799	7,799	7,799	7,799
Retained earnings	2,090	2,861	3,835	4,855	6,008
Other	(61)	29	51	68	88
Minority interest	104	114	111	107	102
Total equity	7,993	11,603	12,595	13,629	14,798
Total liabilities and equity	13,616	16,565	17,509	18,682	20,126

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
High-end optical module	6,703	7,261	9,092	9,886	10,771
Access network module	161	327	309	357	412
High-end equipment	186	107	0	0	0
Growth (%)					
Revenue	48.2%	9.2%	22.2%	9.0%	9.2%
Gross profit	39.0%	9.8%	33.9%	8.9%	9.2%
Operating profit	71.7%	-2.7%	33.0%	9.3%	12.3%
Adj. net profit	68.6%	1.3%	34.0%	9.3%	12.3%
Profit & loss ratio (%)					
Gross margin	25.4%	25.6%	28.0%	28.0%	28.0%
Operating margin	14.0%	12.5%	13.6%	13.7%	14.1%
Net profit margin	12.3%	11.4%	12.5%	12.5%	12.9%
Balance sheet ratio					
Gear ratio	9.9%	Net	Net	Net	Net
Current ratio (x)	2.1	3.2	3.6	4.3	4.5
Receivable turnover days	69	83	70	55	51
Inventory turnover days	(218)	(241)	(225)	(220)	(200)
Payable turnover days	(91)	(82)	(75)	(75)	(70)
Profitability (%)					
ROE	11.0%	7.6%	9.4%	9.5%	9.8%
ROA	6.4%	5.3%	6.7%	6.9%	7.2%
Per share data (RMB)					
EPS	1.23	1.21	1.47	1.61	1.80
DPS	0.12	0.22	0.29	0.32	0.36
BVPS	11.21	15.85	15.60	16.90	18.37

Source: Company data, CMBIGM estimates

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