

Innolight (300308 CH)

2Q earnings reinforce AI infrastructure spend momentum

Innolight announced 1H25 preliminary earnings. 1H25 NP is guided to be RMB3.6bn-RMB4.4bn, up 53%-87% YoY. 2Q NP alone is estimated to be RMB2.0bn-RMB2.8bn, up 50%-107% YoY/27%-78% QoQ. 2Q NP beat Bloomberg consensus of RMB1.9bn by 9%-52%. According to the company, the strong results were driven by 1) robust topline growth on sustained AI demand ([report](#)) and 2) margin increases due to a favorable product mix (higher contribution from 800G and silicon photonics products) and yield improvement.

Reiterate BUY with TP raised to RMB225.

■ **Sequential revenue growth in recent quarters driven by robust AI infrastructure spend.** Innolight's revenue grew by 38% YoY/2% QoQ in 1Q. We expect 2Q NP to grow QoQ again, driven by 1) strong capex from overseas CSPs and new entrants, 2) strong demand for 400G/800G transceivers from ASIC/Ethernet datacenter needs. By data rate, revenue contribution from 800G/SiPh products continues to grow. Looking ahead, mgmt. expects AI-driven demand to remain elevated through 2026 with 800G volumes continuing to rise and 1.6T adoption accelerating. We noticed that **Eoptolink (300502 CH, NR)** also preannounced significant 2Q NP growth of 293%-386% YoY/35%-67% QoQ. In addition, **FII (601138 CH, NR)** preannounced 2Q NP growth of 48%-52% YoY/29%-32% QoQ. FII's mgmt. highlighted that AI server sales growth exceeded 60% YoY in 2Q, and 800G switch sales alone nearly tripled full-year sales in 2024. BBG consensus forecasts major overseas hyperscalers' (MSFT/AMZN/GOOG/META) capex to grow by 43% YoY and domestic Big Three's (Alibaba/Tencent/Baidu) capex to grow by 44% YoY in 2025E. As a key beneficiary riding the AI tailwind, we forecast Innolight's revenue to increase by 52.5% in 2025E.

■ **Further margin expansion on favourable product mix and better yields.** With higher 800G sales and incremental contribution from 1.6T, we expect Innolight's GPM to maintain sequential growth in 2Q/2H25 (3Q24/4Q24/1Q25: 33.6%/35.1%/36.7%). SiPh demand is growing, offsetting the impact of EML shortage and contributing to GPM. Innolight will provide SiPh solutions for 1.6T products as well, per mgmt., and we estimate NPM to reach a historical high in 2Q while remaining at a high level going forward (CMBI est.: 25%+). We expect the company's GPM to reach 38.7% in 2025E (vs. prev. 35.3%), due to better-than-expected GPM in 2Q. We have also revised up 2025E NP to RMB9.2bn (77% YoY vs. prev. 49% YoY).

■ **Reiterate BUY with TP raised to RMB225, based on 27x 2025E P/E (peers' avg. 2025E P/E is 28.1x), close to 0.5SD above its 5-yr avg. hist. forward P/E (21.8x).** We have raised our revenue/NP growth forecasts to 52.5%/77.3% YoY in 2025 on 1) higher 800G shipment volume, 2) milder annual ASP adjustments and 3) an enhanced GPM. We lift our target P/E to 27x vs. prior 21.5x given little impact from earlier tariffs. Key risks include slower-than-expected shipments, geopolitical uncertainties, supply chain shortage, etc.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	10,718	23,862	36,385	48,184	56,257
YoY growth (%)	11.2	122.6	52.5	32.4	16.8
Gross margin (%)	33.0	33.8	38.7	38.3	38.4
Net profit (RMB mn)	2,173.5	5,171.5	9,167.3	11,784.2	13,570.1
YoY growth (%)	77.6	137.9	77.3	28.5	15.2
EPS (Reported) (RMB)	2.00	4.72	8.34	10.72	12.35
P/E (x)	87.4	37.0	21.0	16.3	14.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB225.00

(Previous TP RMB151.00)

Up/Downside 31.8%

Current Price RMB 170.76

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Stock Data

Mkt Cap (RMB mn)	194,231.4
Avg 3 mths t/o (RMB mn)	5,001.8
52w High/Low (RMB)	185.83/71.99
Total Issued Shares (mn)	1111.1

Source: FactSet

Shareholding Structure

Shandong Zhongji Investment Holdings Co.	11.4%
Wang Weixiu	6.3%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	49.9%	41.5%
3-mth	118.0%	95.5%
6-mth	58.1%	41.9%

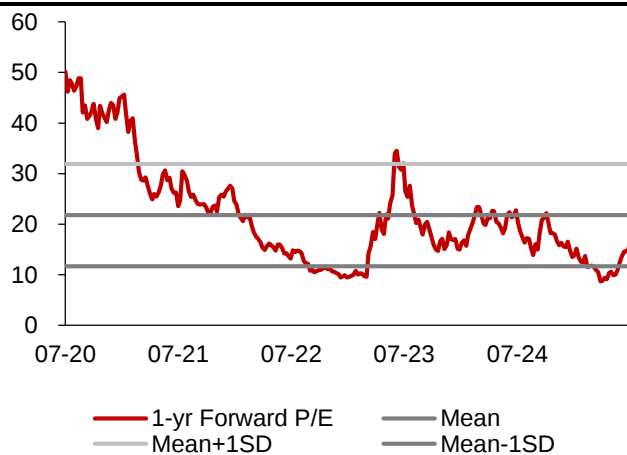
Source: FactSet

12-mth Price Performance



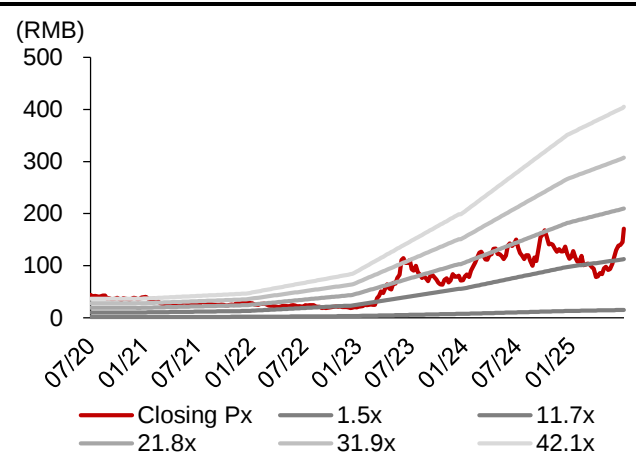
Source: FactSet

Figure 1: Forward P/E chart



Source: Company data, CMBIGM estimates

Figure 2: P/E band



Source: Company data, CMBIGM estimates

Figure 3: Earnings revision

RMBmn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	36,385	48,184	56,257	35,008	46,545	55,142	3.9%	3.5%	2.0%
Gross profit	14,093	18,466	21,611	12,358	16,710	19,851	14.0%	10.5%	8.9%
Net profit	9,167	11,784	13,570	7,722	10,264	12,033	18.7%	14.8%	12.8%
EPS (RMB)	8.34	10.72	12.35	7.02	9.34	10.95	18.8%	14.8%	12.7%
Gross margin	38.7%	38.3%	38.4%	35.3%	35.9%	36.0%	3.4 ppt	2.4 ppt	2.4 ppt
Net margin	25.2%	24.5%	24.1%	22.1%	22.1%	21.8%	3.1 ppt	2.4 ppt	2.3 ppt

Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs. Bloomberg consensus

RMBmn	CMBIGM			BBG Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	36,385	48,184	56,257	35,987	43,856	49,927	1.1%	9.9%	12.7%
Gross profit	14,093	18,466	21,611	12,449	15,195	17,179	13.2%	21.5%	25.8%
Net profit	9,167	11,784	13,570	8,227	10,142	11,456	11.4%	16.2%	18.5%
EPS (RMB)	8.34	10.72	12.35	7.17	8.89	10.24	16.3%	20.6%	20.5%
Gross margin	38.7%	38.3%	38.4%	34.6%	34.6%	34.4%	4.1 ppt	3.7 ppt	4 ppt
Net margin	25.2%	24.5%	24.1%	22.9%	23.1%	22.9%	2.3 ppt	1.3 ppt	1.2 ppt

Source: Bloomberg consensus, CMBIGM estimates

Figure 5: Peers table

Company	Ticker	Mkt Cap (US\$m)	Price (LC)	P/E (x)		GPM		NP YoY%	
				FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Innolight	300308 CH	26,434	170.8	21.0	16.3	38.7	38.3	77.3	28.5
TFC	300394 CH	9,771	90.2	32.0	24.1	54.9	54.1	41.7	32.7
Eoptolink	300502 CH	23,508	169.8	22.4	17.1	46.9	46.6	131.8	31.5
Huagong Tech	000988 CH	6,682	47.7	27.7	21.8	21.6	21.8	44.3	29.5
Accelink	002281 CH	5,336	47.5	37.5	28.8	24.5	25.3	2.7	33.2
Average				28.1	21.6	37.3	37.2	59.6	31.1

Source: Bloomberg consensus, CMBIGM estimates

Note: Earnings estimates for Innolight are CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	9,642	10,718	23,862	36,385	48,184	56,257
Cost of goods sold	(6,816)	(7,182)	(15,796)	(22,293)	(29,718)	(34,646)
Gross profit	2,826	3,536	8,067	14,093	18,466	21,611
Operating expenses	(1,499)	(1,042)	(2,017)	(2,744)	(3,870)	(4,805)
Selling expense	(63)	(51)	(47)	(58)	(77)	(90)
SG&A expense	(598)	(558)	(879)	(980)	(1,196)	(1,381)
R&D expense	(767)	(739)	(1,244)	(1,751)	(2,564)	(3,294)
Others	(71)	306	153	45	(34)	(41)
Operating profit	1,327	2,494	6,050	11,349	14,596	16,806
Other income	28	2	5	6	8	9
Other expense	(4)	(4)	(2)	(0)	(0)	(0)
Pre-tax profit	1,352	2,492	6,052	11,355	14,603	16,815
Income tax	(118)	(285)	(681)	(1,719)	(2,248)	(2,617)
After tax profit	1,234	2,208	5,372	9,636	12,356	14,198
Minority interest	10	34	200	469	571	628
Net profit	1,224	2,174	5,171	9,167	11,784	13,570

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	9,587	11,319	18,196	29,109	41,531	54,685
Cash & equivalents	2,831	3,317	5,054	13,787	22,478	33,797
Account receivables	1,509	2,581	4,604	5,764	6,381	7,490
Inventories	3,888	4,295	7,051	8,584	11,445	11,905
Prepayment	64	59	80	106	141	165
Other current assets	1,295	1,067	1,407	868	1,086	1,328
Non-current assets	6,970	8,687	10,671	11,990	13,365	14,962
PP&E	3,217	3,948	5,820	6,525	7,404	8,324
Right-of-use assets	11	27	34	123	225	329
Deferred income tax	48	82	222	252	337	427
Intangibles	322	401	378	349	335	331
Goodwill	1,949	1,939	1,939	1,939	1,939	1,939
Other non-current assets	1,422	2,291	2,279	2,802	3,126	3,613
Total assets	16,557	20,007	28,866	41,099	54,896	69,647
Current liabilities	3,264	4,360	6,497	9,140	10,898	11,999
Short-term borrowings	385	62	1,426	2,348	2,447	2,482
Account payables	1,136	1,857	2,991	4,338	5,432	5,958
Tax payable	93	213	244	430	574	728
Other current liabilities	1,349	2,039	1,545	1,690	1,999	2,267
Contract liabilities	22	3	10	10	13	15
Accrued expenses	279	187	282	325	433	550
Non-current liabilities	1,224	872	2,076	2,584	3,247	3,956
Long-term borrowings	696	319	606	608	608	608
Bond payables	0	0	0	0	0	0
Deferred income	264	216	270	391	523	663
Other non-current liabilities	264	337	1,200	1,584	2,116	2,685
Total liabilities	4,488	5,232	8,573	11,723	14,145	15,955
Share capital	801	803	1,121	1,105	1,105	1,105
Retained earnings	3,893	5,870	10,624	19,130	29,794	41,944
Other reserves	7,251	7,589	7,388	7,513	7,654	7,816
Total shareholders equity	11,945	14,261	19,134	27,748	38,553	50,864
Minority interest	124	513	1,159	1,627	2,199	2,827
Total equity and liabilities	16,557	20,007	28,866	41,099	54,896	69,647

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,352	2,492	6,052	11,355	14,603	16,815
Depreciation & amortization	493	525	713	714	796	949
Tax paid	(118)	(285)	(681)	(1,719)	(2,248)	(2,617)
Change in working capital	291	(830)	(3,210)	(1,089)	(2,093)	(791)
Others	432	(6)	290	625	488	521
Net cash from operations	2,449	1,897	3,165	9,886	11,547	14,877
Investing						
Capital expenditure	(792)	(1,704)	(2,866)	(1,751)	(2,054)	(2,286)
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	110	111	129
Net cash from investing	(1,553)	(1,176)	(2,935)	(1,641)	(1,943)	(2,157)
Financing						
Dividend paid	(233)	(207)	(399)	(662)	(1,106)	(1,388)
Net borrowings	(699)	(884)	1,685	920	99	35
Proceeds from share issues	33	(109)	246	(1)	0	0
Others	(742)	884	(40)	0	0	0
Net cash from financing	(1,641)	(316)	1,492	257	(1,007)	(1,354)
Net change in cash						
Cash at the beginning of the year	3,489	2,809	3,234	4,988	13,713	22,404
Exchange difference	64	20	39	0	0	0
Others	(745)	405	1,715	8,725	8,691	11,319
Cash at the end of the year	2,809	3,234	4,988	13,713	22,404	33,723
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	25.3%	11.2%	122.6%	52.5%	32.4%	16.8%
Gross profit	43.6%	25.1%	128.1%	74.7%	31.0%	17.0%
Operating profit	37.9%	87.9%	142.6%	87.6%	28.6%	15.1%
Net profit	39.6%	77.6%	137.9%	77.3%	28.5%	15.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	29.3%	33.0%	33.8%	38.7%	38.3%	38.4%
Operating margin	13.8%	23.3%	25.4%	31.2%	30.3%	29.9%
Return on equity (ROE)	10.4%	16.6%	31.0%	39.1%	35.5%	30.4%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.9	2.6	2.8	3.2	3.8	4.6
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	158.9	87.4	37.0	21.0	16.3	14.2
P/E (diluted)	158.9	88.7	37.8	21.0	16.3	14.2

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

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