

# Innolight (300308 CH)

## Solid 3Q with intact near-term prospects; Maintain BUY

Innolight released its 3Q results. Revenue went up by 115.2% YoY/9.4% QoQ, while net profit went up by 104.4% YoY/3.3% QoQ, in-line with our expectations. Mgmt. attributed the slower sequential revenue growth (9.4% in 3Q24 vs. 31.3%/23% in 1Q/2Q24) to two main factors: 1) supply chain bottlenecks of key components (like DSPs & EMLs), and 2) unfavorable fluctuations in the USD/RMB exchange rate during 3Q. Excluding the impact of exchange rate movements, the company still achieved double-digit revenue growth in 3Q. GPM remained steady at 33.3% in 3Q24 (vs. 33.4%/33.5% in 2Q24/3Q23), while NPM was 21.4% (vs. 22.7%/22.5% in 2Q24/3Q23). We remain confident in the company's growth trajectory, driven by the ramp-up in 400G/800G shipments and the upcoming production ramp-up of 1.6T products. **Maintain BUY, with an adjusted TP of RMB186, reflecting 26.9x rollover 2025E P/E (previously 30x 2024E P/E).**

- Sequential slowdown due to exchange rate and supply chain issues:** The company highlighted that 3Q performance was negatively impacted by unfavourable USD/RMB exchange rate fluctuations. Excluding this impact (~RMB100mn), the company still posted double-digit sequential growth, continuing the strong growth momentum seen in previous quarters. Additionally, supply chain challenges related to key components constrained shipment growth, with mgmt. noting that order growth outpaced shipment growth, contributing to the slower-than-expected sequential revenue increase.
- Demand intact, 400G/800G shipments to ramp through 4Q24:** Mgmt. reiterated strong demand for the company's high-speed optical products, particularly 400G & 800G, which remain key growth drivers. Looking ahead to 2025, the company expects faster adoption of 800G products compared to 400G as customers progress towards newer tech. Additionally, mass shipments of 1.6T products will begin in the coming months. Mgmt. emphasized strong demand from overseas hyperscalers, which contributed to over half of the company's 400G/800G orders in 2024..
- Price increases in the optical supply chain driven by AI demand:** The recent announcement ([link](#)) by Marvell (MRVL US, NR) of price hikes across its entire product line due to sustained AI-driven demand could lead to higher raw material costs for Innolight. However, we believe the company is well-positioned to mitigate these impacts by passing on price increases to its customers, given the strong demand for its products that gives company the bargaining power.
- Maintain BUY, with TP adjusted to RMB186, corresponding to rollover 26.9x 2025E P/E, the same as its 5-year historical avg.** The stock is currently trading at 22.5x 2025E P/E. **Risks:** 1) China-US trade tensions, 2) rising raw material costs, and 3) weaker-than-expected ramp-up speed.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	9,642	10,718	24,269	34,149	41,026
YoY growth (%)	25.3	11.2	126.4	40.7	20.1
Gross margin (%)	29.3	33.0	33.3	32.3	31.4
Net profit (RMB mn)	1,224.0	2,173.5	5,276.3	7,624.6	9,252.7
YoY growth (%)	39.6	77.6	142.8	44.5	21.4
EPS (Reported) (RMB)	1.10	2.00	4.81	6.95	8.43
P/S (x)	13.0	11.7	5.2	3.7	3.1
P/E (x)	142.0	78.1	32.5	22.5	18.5

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB186.00

(Previous TP) RMB150.76)

**Up/Downside** 19.1%

**Current Price** RMB156.16

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### Stock Data

Mkt Cap (RMB mn)	125,365.2
Avg 3 mths t/o (RMB mn)	3,770.7
52w High/Low (RMB)	185.83/60.87
Total Issued Shares (mn)	802.8

Source: FactSet

### Shareholding Structure

Shandong Zhongji Investment Holdings Co.	11.3%
Wang Weixiu	6.2%

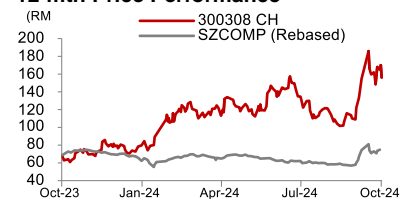
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	43.4%	9.7%
3-mth	19.3%	-4.5%
6-mth	38.8%	18.8%

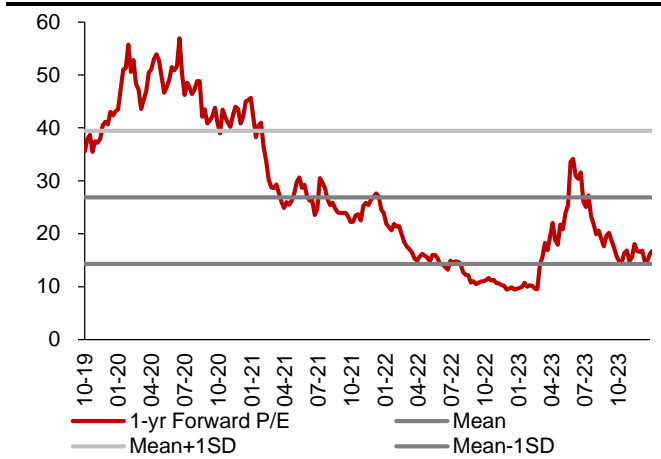
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### 12-mth Price Performance



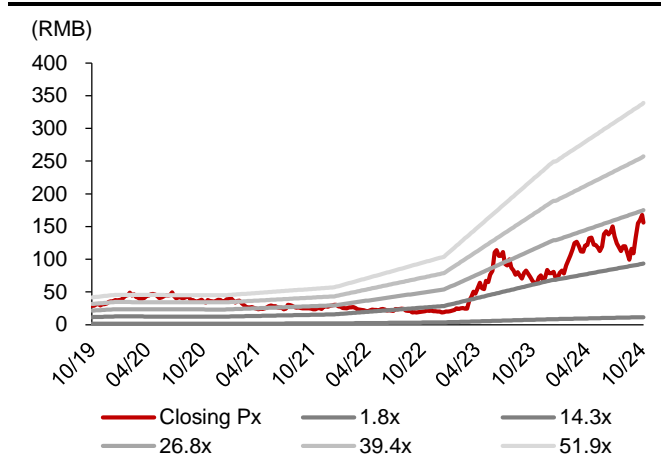
Source: FactSet

Figure 1: 1-yr forward PE band



Source: Company data, Bloomberg

Figure 2: PE chart



Source: Company data, Bloomberg

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>7,695</b>	<b>9,642</b>	<b>10,718</b>	<b>24,269</b>	<b>34,149</b>	<b>41,026</b>
Cost of goods sold	(5,727)	(6,816)	(7,182)	(16,183)	(23,133)	(28,124)
<b>Gross profit</b>	<b>1,968</b>	<b>2,826</b>	<b>3,536</b>	<b>8,087</b>	<b>11,016</b>	<b>12,901</b>
<b>Operating expenses</b>	<b>(1,005)</b>	<b>(1,499)</b>	<b>(1,042)</b>	<b>(1,843)</b>	<b>(1,933)</b>	<b>(1,910)</b>
Selling expense	(21)	(63)	(51)	(45)	(33)	(30)
SG&A expense	(507)	(598)	(558)	(853)	(1,036)	(1,150)
R&D expense	(541)	(767)	(739)	(988)	(817)	(732)
Others	64	(71)	306	44	(46)	2
<b>Operating profit</b>	<b>963</b>	<b>1,327</b>	<b>2,494</b>	<b>6,244</b>	<b>9,083</b>	<b>10,991</b>
Other income	1	28	2	5	7	9
Other expense	(4)	(4)	(4)	(2)	(2)	(3)
<b>Pre-tax profit</b>	<b>960</b>	<b>1,352</b>	<b>2,492</b>	<b>6,247</b>	<b>9,087</b>	<b>10,996</b>
Income tax	(73)	(118)	(285)	(776)	(1,181)	(1,408)
<b>After tax profit</b>	<b>886</b>	<b>1,234</b>	<b>2,208</b>	<b>5,471</b>	<b>7,906</b>	<b>9,589</b>
Minority interest	10	10	34	195	282	336
<b>Net profit</b>	<b>877</b>	<b>1,224</b>	<b>2,174</b>	<b>5,276</b>	<b>7,625</b>	<b>9,253</b>
<b>BALANCE SHEET</b>						
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>10,022</b>	<b>9,587</b>	<b>11,319</b>	<b>18,355</b>	<b>25,870</b>	<b>34,899</b>
Cash & equivalents	3,515	2,831	3,317	6,329	10,110	16,292
Account receivables	1,997	1,509	2,581	3,802	4,993	5,798
Inventories	3,799	3,888	4,295	6,701	8,890	10,527
Prepayment	72	64	59	140	197	237
Other current assets	638	1,295	1,067	1,384	1,680	2,045
<b>Non-current assets</b>	<b>6,543</b>	<b>6,970</b>	<b>8,687</b>	<b>10,109</b>	<b>11,840</b>	<b>13,616</b>
PP&E	3,152	3,217	3,948	4,657	5,582	6,526
Right-of-use assets	21	11	27	318	681	1,068
Deferred income tax	46	48	82	117	154	199
Intangibles	382	322	401	476	547	603
Goodwill	1,980	1,949	1,939	1,929	1,920	1,910
Other non-current assets	962	1,422	2,291	2,612	2,956	3,311
<b>Total assets</b>	<b>16,565</b>	<b>16,557</b>	<b>20,007</b>	<b>28,464</b>	<b>37,710</b>	<b>48,515</b>
<b>Current liabilities</b>	<b>3,166</b>	<b>3,264</b>	<b>4,360</b>	<b>6,802</b>	<b>8,755</b>	<b>10,925</b>
Short-term borrowings	794	385	62	194	314	502
Account payables	1,205	1,136	1,857	3,463	4,522	5,649
Tax payable	68	93	213	303	401	516
Other current liabilities	932	1,349	2,039	2,548	3,125	3,757
Contract liabilities	1	22	3	28	40	48
Accrued expenses	166	279	187	266	353	454
<b>Non-current liabilities</b>	<b>1,796</b>	<b>1,224</b>	<b>872</b>	<b>1,347</b>	<b>1,603</b>	<b>1,902</b>
Long-term borrowings	1,262	696	319	561	561	561
Bond payables	0	0	0	0	0	0
Deferred income	277	264	216	307	407	524
Other non-current liabilities	258	264	337	480	635	817
<b>Total liabilities</b>	<b>4,962</b>	<b>4,488</b>	<b>5,232</b>	<b>8,150</b>	<b>10,358</b>	<b>12,827</b>
Share capital	800	801	803	803	803	803
Retained earnings	2,861	3,893	5,870	10,696	17,323	25,166
Other reserves	7,828	7,251	7,589	8,107	8,236	8,394
<b>Total shareholders equity</b>	<b>11,489</b>	<b>11,945</b>	<b>14,261</b>	<b>19,606</b>	<b>26,362</b>	<b>34,363</b>
Minority interest	114	124	513	708	990	1,326
<b>Total equity and liabilities</b>	<b>16,565</b>	<b>16,557</b>	<b>20,007</b>	<b>28,464</b>	<b>37,710</b>	<b>48,515</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	960	1,352	2,492	6,247	9,087	10,996
Depreciation & amortization	436	493	525	550	719	922
Tax paid	(73)	(118)	(285)	(776)	(1,181)	(1,408)
Change in working capital	(587)	291	(830)	(1,733)	(1,846)	(860)
Others	77	432	(6)	(130)	(122)	(95)
<b>Net cash from operations</b>	<b>813</b>	<b>2,449</b>	<b>1,897</b>	<b>4,158</b>	<b>6,658</b>	<b>9,556</b>
<b>Investing</b>						
Capital expenditure	(840)	(792)	(1,704)	(1,736)	(1,982)	(2,198)
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	(139)	(93)	(71)
<b>Net cash from investing</b>	<b>(1,219)</b>	<b>(1,553)</b>	<b>(1,176)</b>	<b>(1,874)</b>	<b>(2,075)</b>	<b>(2,269)</b>
<b>Financing</b>						
Dividend paid	(168)	(233)	(207)	(411)	(929)	(1,319)
Net borrowings	(259)	(699)	(884)	419	120	188
Proceeds from share issues	2,665	33	(109)	433	0	0
Others	26	(742)	884	259	22	22
<b>Net cash from financing</b>	<b>2,264</b>	<b>(1,641)</b>	<b>(316)</b>	<b>700</b>	<b>(787)</b>	<b>(1,110)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,648	3,489	2,809	3,234	6,241	10,024
Exchange difference	(17)	64	20	0	0	0
Others	1,859	(745)	405	3,008	3,783	6,181
<b>Cash at the end of the year</b>	<b>3,489</b>	<b>2,809</b>	<b>3,234</b>	<b>6,241</b>	<b>10,024</b>	<b>16,206</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	9.2%	25.3%	11.2%	126.4%	40.7%	20.1%
Gross profit	9.8%	43.6%	25.1%	128.7%	36.2%	17.1%
Operating profit	(2.7%)	37.9%	87.9%	150.4%	45.5%	21.0%
Net profit	1.3%	39.6%	77.6%	142.8%	44.5%	21.4%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	25.6%	29.3%	33.0%	33.3%	32.3%	31.4%
Operating margin	12.5%	13.8%	23.3%	25.7%	26.6%	26.8%
Return on equity (ROE)	9.1%	10.4%	16.6%	31.2%	33.2%	30.5%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	3.2	2.9	2.6	2.7	3.0	3.2
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	180.7	142.0	78.1	32.5	22.5	18.5
P/E (diluted)	180.7	142.0	79.2	32.5	22.5	18.5

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

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