

Innolight (300308 CH)

Mgmt. call takeaways: Expect strong demand from digital infrastructure

We had a mgmt. call with Innolight yesterday, and the company confirmed the positive outlook in optical transceiver market, which is in-line with our recent sector report ([link](#)) as we saw optimistic Capex guidance from overseas Cloud companies. Given that ~70% of its sales came from overseas Datacom market, we expect Innolight to deliver 27%/23% earnings growth in 2022/23E. Maintain BUY with adjusted TP of RMB45.60 based on revised earnings.

- **4Q21 NP grew 12%/29% YoY/QoQ, suggesting recovery in demand.** Innolight announced FY21 preliminary results. FY21 net profit is expected to grow -7.6-+8.6% YoY to RMB800mn-940mn. Implied mid-point 4Q21 net profit is expected to reach RMB297mn (+12% YoY, 29% QoQ), suggesting recovery in demand.
- **Optimistic Cloud Capex.** In 4Q21, we saw Amazon, Meta and Microsoft all posted record Capex, and guided very positive outlook for Capex. Google expects a meaningful increase in Capex and servers will be the largest driver of spend in technical infrastructure. Meta expects 85% YoY growth in Capex, which is primarily driven by investments in data centers, servers, network infrastructure, and office facilities.
- **Outlook remains positive as demand in 200G/400G ramps up.** In 2022, we expect hyperscale CSPs to ramp the deployment of 200G/400G optical modules. Main drivers are still from overseas demand, such as Google, Meta, Amazon, etc. Domestic demand will also increase as the bid has completed in 2H21. Looking forward, we are positive in optical transceiver market, given Cloud companies are increasing investments to support their cloud services and AI-related business and enterprises are digitalizing.
- **Maintain BUY; adjusted TP to RMB45.6.** We maintain BUY and adjusted our target price to RMB43 based on revised earnings and roll-over 30x FY22E P/E, slightly above average 1-year historical forward P/E. Potential risks include weaker capex from global cloud companies, slower deployment of 5G infrastructure and ASP pressure.

Earnings Summary

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E	FY23E
Turnover (RMB mn)	4,758	7,050	7,769	9,792	11,503
YoY growth (%)	-7.7%	48.2%	10.2%	26.0%	17.5%
Gross margin (%)	27.1%	25.4%	24.7%	25.1%	25.5%
Net profit (RMB mn)	513	865	851	1,084	1,336
EPS (RMB)	0.73	1.23	1.19	1.52	1.87
YoY growth (%)	-46.3%	68.5%	-3.0%	27.4%	23.3%
Consensus EPS (RMB)	NA	NA	1.20	1.56	1.92
PE (x)	49.1	29.1	30.1	23.6	19.1
PB (x)	3.6	3.2	3.0	2.7	2.5
Yield (%)	0.0%	0.0%	1.2%	1.5%	1.9%
Roe (%)	7.4%	11.0%	9.8%	11.5%	12.9%
Net gearing (%)	Net cash	9.9%	15.0%	20.7%	32.9%

Source: Company data, CMBIS estimate

BUY (Maintain)

Target Price RMB 45.60
 (Previous TP RMB 49.27)
Up/Downside +27.2%
Current Price RMB 35.85

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Stock Data

Mkt. Cap. (RMB mn)	28,891
Avg. 3mths t/o (RMB mn)	352
52W High/Low (RMB)	52.33/31.31
Total Issued Shares (mn)	800.1

Source: Bloomberg

Shareholding Structure

Zhongji Investment	11.74%
HKSC	10.14%
Wang Weixiu	8.02%

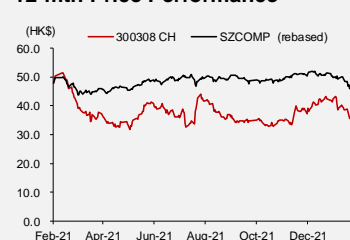
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-15.3%	-9.1%
3-mth	2.6%	8.0%
6-mth	-14.1%	-8.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PWC Zhong Tian

4Q21 Earnings Review

Figure 1: P&L forecasts

RMB mn	FY19A	FY20A	1Q21A	2Q21A	3Q21A	4Q21E	FY21E	FY22E	FY23E
Revenue	4,758	7,050	1,472	1,826	2,024	2,447	7,769	9,792	11,503
...YoY	-7.7%	48.2%	11%	-5%	3%	33%	10.2%	26.0%	17.5%
Cost of sales	3,468	5,257	1,102	1,391	1,528	1,829	5,850	7,333	8,570
Gross profit	1,290	1,793	370	435	496	618	1,919	2,459	2,933
...YoY	(8.3%)	39.0%	12%	-11%	4%	25%	7.1%	28.1%	19.2%
GPM (%)	27.1%	25.4%	25%	24%	25%	25%	24.7%	25.1%	25.5%
SG&A	329	477	109	120	122	148	498	617	714
...% of rev	6.9%	6.8%	7%	7%	6%	6%	6.4%	6.3%	6.2%
R&D	362	506	120	108	125	153	505	637	748
...% of rev	7.6%	7.2%	8%	6%	6%	6%	6.5%	6.5%	6.5%
Operating profit	576	990	148	223	241	319	932	1,201	1,479
...YoY	-15.5%	71.7%	-14.6%	-13.2%	-10.2%	9.9%	-5.8%	28.9%	23.1%
OPM (%)	12.1%	14.0%	10%	12%	12%	13%	12.0%	12.3%	12.9%
Net profit	513	865	133	208	219	291	851	1,084	1,336
...YoY	-17.6%	68.6%	-13.4%	-1.8%	-6.6%	9.4%	-1.7%	27.4%	23.3%
NPM (%)	10.8%	12.3%	9.0%	11.4%	10.8%	11.9%	10.9%	11.1%	11.6%

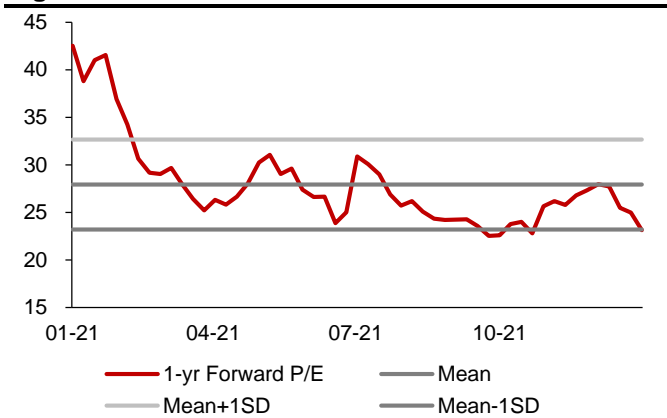
Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	7,769	9,792	11,503	7,908	9,934	11,750	-2%	-1%	-2%
Gross Profit	1,919	2,459	2,933	2,022	2,576	3,061	-5%	-5%	-4%
Operating Profit	932	1,201	1,479	1,027	1,368	1,670	-9%	-12%	-11%
Net profit	851	1,084	1,336	892	1,188	1,446	-5%	-9%	-8%
EPS (RMB)	1.19	1.52	1.87	1.20	1.56	1.92	0%	-3%	-2%
Gross Margin	24.7%	25.1%	25.5%	25.6%	25.9%	26.0%	-0.9 ppt	-0.8 ppt	-0.6 ppt
Operating Margin	12.0%	12.3%	12.9%	13.0%	13.8%	14.2%	-1 ppt	-1.5 ppt	-1.4 ppt
Net Margin	10.9%	11.1%	11.6%	11.3%	12.0%	12.3%	-0.3 ppt	-0.9 ppt	-0.7 ppt

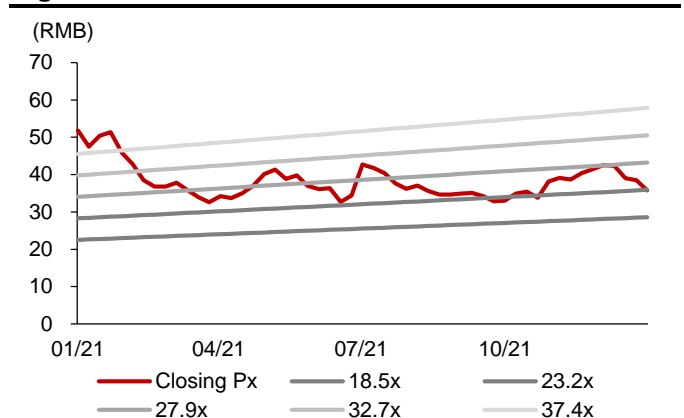
Source: Company data, CMBIS estimates

Figure 3: 12M forward P/E chart



Source: Company data, CMBIS estimates

Figure 4: 12M forward P/E band



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	4,758	7,050	7,769	9,792	11,503
Cost of sales	(3,468)	(5,257)	(5,850)	(7,333)	(8,570)
Gross profit	1,290	1,793	1,919	2,459	2,933
Selling exp	(55)	(107)	(70)	(89)	(104)
Admin exp	(275)	(370)	(427)	(529)	(610)
R&D exp	(362)	(506)	(505)	(637)	(748)
Finance costs	(17)	(64)	(75)	(90)	(113)
Other operating exp.	1,422	1,850	2,065	2,602	3,029
Operating profit	576	990	932	1,201	1,479
Other non-oper exp.	0	(3)	(1)	(3)	(3)
Pre-tax profit	577	987	931	1,198	1,476
Income tax expense	(63)	(111)	(71)	(102)	(125)
Minority interests		11	9	13	15
Net profit to shareholders	513	865	851	1,084	1,336

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	513	876	860	1,097	1,351
Depreciation/amortization	172	251	329	416	488
Change in working capital	(360)	(1,096)	(508)	(211)	(1,909)
Others	243	(10)	98	96	161
Net cash from operating	569	22	779	1,397	90
Capex	(759)	(956)	(809)	(1,080)	(1,106)
Other	(1,180)	83	(566)	48	51
Net cash from investing	(1,939)	(873)	(1,375)	(1,032)	(1,054)
Share issuance	1,524	0	0	0	0
Net borrowing	(116)	(121)	(176)	(408)	(515)
Other	149	1,421	487	666	1,025
Net cash from financing	1,557	1,300	311	257	510
Net change in cash	187	449	(285)	623	(455)
Cash at beginning of the	1,041	1,236	1,648	1,353	1,965
Exchange difference	8	(37)	(10)	(10)	(10)
Cash at the end of year	1,236	1,648	1,353	1,965	1,500

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	5,991	7,982	8,028	10,492	11,313
Cash & equivalents	1,236	1,679	1,387	1,998	1,533
Account receivables	1,133	1,514	1,813	2,123	2,652
Inventory	2,504	3,774	3,924	5,205	5,871
Prepayment	65	40	68	79	97
Other current assets	1,054	973	836	1,088	1,159
Non-current assets	4,500	5,634	6,828	7,338	7,862
PPE	1,950	2,726	3,282	3,715	4,083
Deferred tax assets	28	38	74	69	85
Other non-current assets	2,522	2,870	3,472	3,554	3,694
Total assets	10,491	13,616	14,856	17,830	19,175
Current liabilities	2,826	3,772	4,359	5,992	6,053
ST borrowings	652	1,041	1,539	2,297	3,076
Account payables	1,259	1,367	1,248	2,223	1,721
Tax payable	12	35	36	44	47
Other current liabilities	903	1,329	1,537	1,427	1,209
Non-current liabilities	739	1,850	1,736	2,290	2,615
LT borrowings	466	1,430	1,161	1,676	1,919
Deferred tax liability	73	154	263	259	309
Other non-current liabilities	200	267	312	355	387
Total liabilities	3,565	5,622	6,096	8,282	8,668
Share capital	713	713	713	713	713
Reserve	5,064	5,147	5,147	5,147	5,147
Retained earnings	1,294	2,090	2,769	3,443	4,260
Other	(145)	(61)	17	119	246
Minority interest	0	104	113	126	141
Total equity	6,926	7,993	8,760	9,548	10,507
Total liabilities and equity	10,491	13,616	14,856	17,830	19,175

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix					
High-end optical module	4,631	6,510	6,912	8,827	10,465
Access network module	0	354	615	675	690
High-end equipment	127	186	242	290	348
Growth (%)					
Revenue	-7.7%	48.2%	10.2%	26.0%	17.5%
Gross profit	-8.3%	39.0%	7.1%	28.1%	19.2%
Operating profit	-15.5%	71.7%	-5.8%	28.9%	23.1%
Adj. net profit	-17.6%	68.6%	-1.7%	27.4%	23.3%
Profit & loss ratio (%)					
Gross margin	27.1%	25.4%	24.7%	25.1%	25.5%
Operating margin	12.1%	14.0%	12.0%	12.3%	12.9%
Net profit margin	10.8%	12.3%	10.9%	11.1%	11.6%
Balance sheet ratio					
Gear ratio	Net	9.9%	15.0%	20.7%	32.9%
Current ratio (x)	2.1	2.1	1.8	1.8	1.9
Receivable turnover days	76	69	78	73	76
Inventory turnover days	(243)	(218)	(248)	(233)	(241)
Payable turnover days	(108)	(91)	(82)	(86)	(84)
Profitability (%)					
ROE	7.4%	11.0%	9.8%	11.5%	12.9%
ROA	4.9%	6.4%	5.7%	6.1%	7.0%
Per share data (RMB)					
EPS	0.73	1.23	1.19	1.52	1.87
DPS	0.00	0.00	0.42	0.54	0.66
BVPS	9.85	11.21	12.12	13.21	14.54

Source: Company data, CMBIS estimates

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