

# Innolight (300308 CH)

## Strong 4Q21/1Q22 results; Reiterate BUY

Innolight announced FY21 and 1Q22 results. FY21 revenue/NP grew 9.2%/1.3% YoY to RMB7.7bn/RMB877mn. 1Q22's revenue/NP grew 41.9%/63.4% YoY to RMB2.1bn/RMB217mn. We think the results are solid and largely in-line with our expectations. We maintain our positive outlook on overseas Cloud demand and believe Innolight will continue to gain share in the optical transceiver market. Reiterate BUY, with unchanged TP of RMB45.6.

- Innolight's solid 4Q21/1Q22 results are largely within our expectations.** FY21 revenue was 1% lower than our previous estimate and net profit to shareholders was 3% higher than our estimate. 1Q22 revenue/NP accounted for 21%/20% of our full year forecasts. We expect 2Q22-4Q22 sales will deliver steady QoQ growth, following a similar trend as in 2021. GPM improved to 28.1% in 4Q21 from 24.5% in Q3, mainly due to favorable product mix as hyperscale CSPs are ramping up the deployments for 200G/400G optical modules. However, GPM in 1Q22 dropped to 26.3% as a result of continuing component shortage and increasing costs affected by domestic partial lockdown.
- Outlook remains positive given the demand from overseas Cloud companies stays strong.** In our previous report ([Link](#)), we pointed out that Amazon, Meta and Microsoft all posted record Capex, and guided very positive budgets for this year to support their cloud services and AI-related businesses. We maintain our positive outlook for Innolight. According to Omdia, Innolight had taken up 12% market share in the optical transceiver market (ranked No. 2). The Company has gained the most share among the top 10 players, mainly driven by the increasing sales of its 200G and 400G optical module products.
- Reiterate BUY with unchanged TP of RMB45.6.** We maintain BUY and keep our target price at RMB45.6. Potential risks include weaker capex from global cloud companies, slower deployment of 5G infrastructure and worse-than-expected component shortage.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21A	FY22E	FY23E
Turnover (RMB mn)	4,758	7,050	7,695	9,908	11,426
YoY growth (%)	-7.7%	48.2%	9.2%	28.8%	15.3%
Gross margin (%)	27.1%	25.4%	25.6%	26.6%	26.4%
Net profit (RMB mn)	513	865	877	1,095	1,352
EPS (RMB)	0.73	1.23	1.21	1.37	1.69
YoY growth (%)	-46.3%	68.5%	-1.6%	13.1%	23.5%
Consensus EPS (RMB)	NA	NA	NA	1.56	1.92
PE (x)	39.4	23.4	23.8	21.0	17.0
PB (x)	2.9	2.6	1.8	1.9	1.7
Yield (%)	0.3%	0.4%	0.8%	1.0%	1.2%
ROE (%)	7.4%	11.0%	7.6%	8.8%	10.0%
Net gearing (%)	Net cash	9.9%	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimates

### BUY (Maintain)

Target Price	RMB45.60
(Previous TP)	RMB45.60)
Up/Downside	+57.0%
Current Price	RMB29.04

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### Stock Data

Mkt. Cap. (RMB mn)	23,222
Avg. 3mths t/o (RMB mn)	197
52W High/Low (RMB)	45.38/28.45
Total Issued Shares (mn)	799.7

Source: Bloomberg

### Shareholding Structure

Zhongji Investment	11.74%
HKSC	9.31%
Wang Weixiu	8.02%

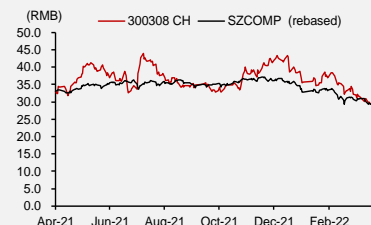
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-14.6%	-4.4%
3-mth	-26.1%	-7.6%
6-mth	-12.3%	10.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PWC Zhong Tian**

### Related Reports

- Mgmt. call takeaways: Expect strong demand from digital infrastructure ([Link](#))
- Optical Transceiver: Implications from recent 4Q21 results ([Link](#))

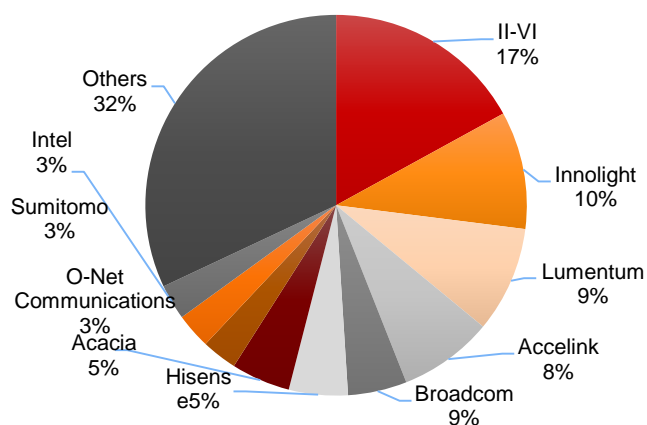
## 4Q21 Earnings Review

Figure 1: P&L forecasts

RMB mn	FY19A	FY20A	1Q21A	2Q21A	3Q21A	4Q21A	FY21E	1Q22A	FY22E	FY23E
<b>Revenue</b>	<b>4,758</b>	<b>7,050</b>	<b>1,472</b>	<b>1,826</b>	<b>2,024</b>	<b>2,373</b>	<b>7,695</b>	<b>2,089</b>	<b>9,908</b>	<b>11,426</b>
...YoY	-7.7%	48.2%	11%	-5%	3%	29%	9.2%	42%	28.8%	15.3%
Cost of sales	3,468	5,257	1,102	1,391	1,528	1,706	5,727	1,540	7,277	8,412
<b>Gross profit</b>	<b>1,290</b>	<b>1,793</b>	<b>370</b>	<b>435</b>	<b>496</b>	<b>667</b>	<b>1,968</b>	<b>549</b>	<b>2,631</b>	<b>3,014</b>
...YoY	(8.3%)	39.0%	12%	-11%	4%	35%	9.8%	49%	33.7%	14.5%
GPM (%)	27.1%	25.4%	25%	24%	25%	28%	25.6%	26%	26.6%	26.4%
SG&A	329	477	109	120	122	158	507	155	692	778
...% of rev	6.9%	6.8%	7%	7%	6%	7%	6.6%	7%	7.0%	6.8%
R&D	362	506	120	108	125	189	541	154	697	803
...% of rev	7.6%	7.2%	8%	6%	6%	8%	7.0%	7%	7.0%	7.0%
<b>Operating profit</b>	<b>576</b>	<b>990</b>	<b>148</b>	<b>223</b>	<b>241</b>	<b>350</b>	<b>963</b>	<b>233</b>	<b>1,174</b>	<b>1,453</b>
...YoY	-15.5%	71.7%	-14.6%	-13.2%	-10.2%	20.6%	-2.7%	57.3%	21.9%	23.8%
OPM (%)	12.1%	14.0%	10%	12%	12%	15%	12.5%	11%	11.8%	12.7%
<b>Net profit</b>	<b>513</b>	<b>865</b>	<b>133</b>	<b>208</b>	<b>219</b>	<b>317</b>	<b>877</b>	<b>217</b>	<b>1,095</b>	<b>1,352</b>
...YoY	-17.6%	68.6%	-13.4%	-1.8%	-6.6%	19.3%	1.3%	63.4%	24.8%	23.5%
NPM (%)	10.8%	12.3%	9.0%	11.4%	10.8%	13.4%	11.4%	10.4%	11.0%	11.8%

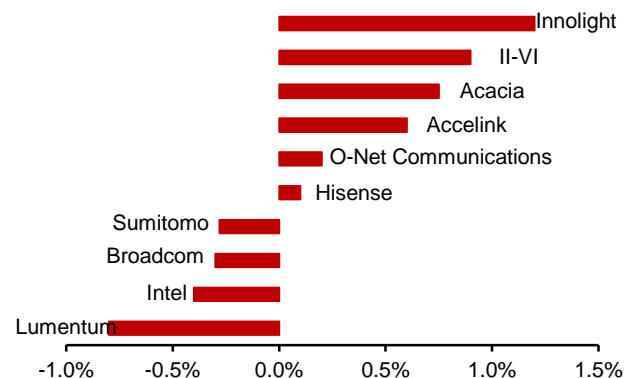
Source: Company data, CMBIGM estimates

Figure 2: Top Ten Optical Module Manufacturers



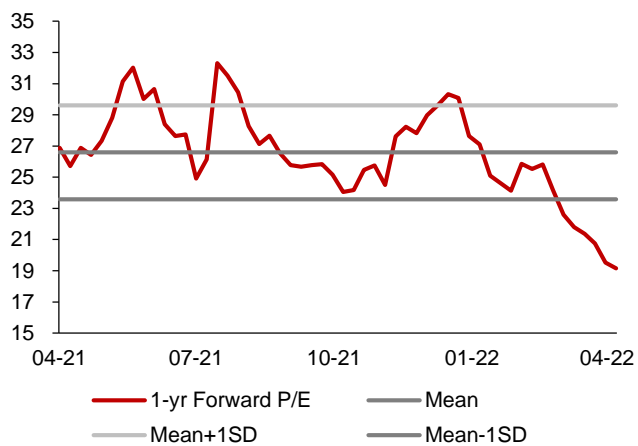
Source: Omdia, CMBIGM estimates

Figure 3: Market Share Change in 2021



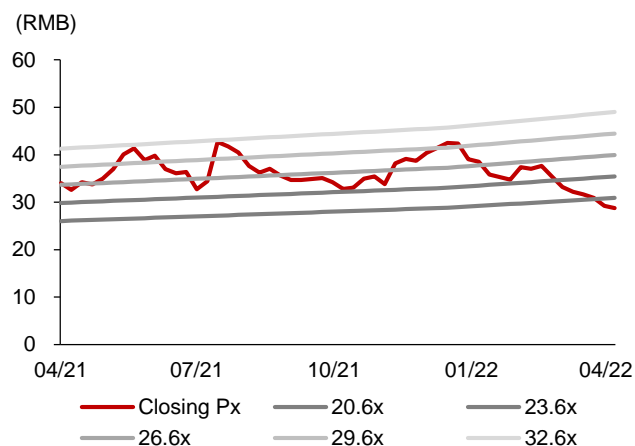
Source: Omdia, CMBIGM estimates

**Figure 4: 12M forward P/E chart**



Source: Company data, CMBIGM estimates

**Figure 5: 12M forward P/E band**



Source: Company data, CMBIGM estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>4,758</b>	<b>7,050</b>	<b>7,695</b>	<b>9,908</b>	<b>11,426</b>	<b>Net profit</b>	513	876	886	1,084	1,339
Cost of sales	(3,468)	(5,257)	(5,727)	(7,277)	(8,412)	Depreciation/amortization	172	251	321	383	435
<b>Gross profit</b>	<b>1,290</b>	<b>1,793</b>	<b>1,968</b>	<b>2,631</b>	<b>3,014</b>	Change in working capital	(360)	(1,096)	(587)	542	(1,078)
Selling exp	(55)	(107)	(73)	(88)	(105)	Others	243	(10)	193	86	160
Admin exp	(275)	(370)	(434)	(604)	(673)	<b>Net cash from operating</b>	<b>569</b>	<b>22</b>	<b>813</b>	<b>2,094</b>	<b>857</b>
R&D exp	(362)	(506)	(541)	(697)	(803)	Capex	(759)	(956)	(840)	(1,005)	(999)
Finance costs	(17)	(64)	(84)	(136)	(99)	Other	(1,180)	83	(379)	(949)	222
Other operating exp.	1,422	1,850	2,137	2,982	3,242	<b>Net cash from investing</b>	<b>(1,939)</b>	<b>(873)</b>	<b>(1,219)</b>	<b>(1,953)</b>	<b>(777)</b>
<b>Operating profit</b>	<b>576</b>	<b>990</b>	<b>963</b>	<b>1,174</b>	<b>1,453</b>	Share issuance	1,524	0	2,665	7	0
Other non-oper exp.	0	(3)	(3)	1	(2)	Net borrowing	(116)	(121)	(168)	(306)	(351)
<b>Pre-tax profit</b>	<b>577</b>	<b>987</b>	<b>960</b>	<b>1,175</b>	<b>1,451</b>	Other	149	1,421	(233)	(161)	196
Income tax expense	(63)	(111)	(73)	(90)	(112)	<b>Net cash from financing</b>	<b>1,557</b>	<b>1,300</b>	<b>2,264</b>	<b>(460)</b>	<b>(155)</b>
Minority interests		11	10	(11)	(13)	<b>Net change in cash</b>	<b>187</b>	<b>449</b>	<b>1,859</b>	<b>(319)</b>	<b>(76)</b>
<b>Net profit to shareholders</b>	<b>513</b>	<b>865</b>	<b>877</b>	<b>1,095</b>	<b>1,352</b>	Cash at beginning of the	1,041	1,236	1,648	3,489	3,153
						Exchange difference	8	(37)	(17)	(17)	(17)
						<b>Cash at the end of year</b>	<b>1,236</b>	<b>1,648</b>	<b>3,489</b>	<b>3,153</b>	<b>3,060</b>
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>5,991</b>	<b>7,982</b>	<b>10,022</b>	<b>10,522</b>	<b>11,686</b>	<b>Revenue mix</b>					
Cash & equivalents	1,236	1,679	3,515	3,173	3,082	High-end optical module		6,703	7,261	9,229	10,432
Account receivables	1,133	1,514	1,997	1,170	1,961	Access network module		161	327	572	887
Inventory	2,504	3,774	3,799	4,175	4,582	High-end equipment		186	107	107	107
Prepayment	65	40	72	73	84	<b>Growth (%)</b>					
Other current assets	1,054	973	638	1,930	1,977	Revenue	-7.7%	48.2%	9.2%	28.8%	15.3%
<b>Non-current assets</b>	<b>4,500</b>	<b>5,634</b>	<b>6,543</b>	<b>6,919</b>	<b>7,283</b>	Gross profit	-8.3%	39.0%	9.8%	33.7%	14.5%
PPE	1,950	2,726	3,152	3,545	3,785	Operating profit	-15.5%	71.7%	-2.7%	21.9%	23.8%
Deferred tax assets	28	38	46	52	55	Adj. net profit	-17.6%	68.6%	1.3%	24.8%	23.5%
Other non-current assets	2,522	2,870	3,345	3,322	3,444	<b>Profit &amp; loss ratio (%)</b>					
<b>Total assets</b>	<b>10,491</b>	<b>13,616</b>	<b>16,565</b>	<b>17,441</b>	<b>18,969</b>	Gross margin	27.1%	25.4%	25.6%	26.6%	26.4%
<b>Current liabilities</b>	<b>2,826</b>	<b>3,772</b>	<b>3,166</b>	<b>2,818</b>	<b>2,858</b>	Operating margin	12.1%	14.0%	12.5%	11.8%	12.7%
ST borrowings	652	1,041	794	867	743	Net profit margin	10.8%	12.3%	11.4%	11.0%	11.8%
Account payables	1,259	1,367	1,205	1,290	1,384	<b>Balance sheet ratio</b>					
Tax payable	12	35	68	57	70	Gear ratio	Net	9.9%	Net	Net	Net
Other current liabilities	903	1,329	1,098	604	662	Current ratio (x)	2.1	2.1	3.2	3.7	4.1
<b>Non-current liabilities</b>	<b>739</b>	<b>1,850</b>	<b>1,796</b>	<b>2,116</b>	<b>2,495</b>	Receivable turnover days	76	69	83	58	50
LT borrowings	466	1,430	1,262	1,557	1,885	Inventory turnover days	(243)	(218)	(241)	(200)	(190)
Deferred tax liability	73	154	277	287	314	Payable turnover days	(108)	(91)	(82)	(63)	(58)
Other non-current liabilities	200	267	258	272	296	<b>Profitability (%)</b>					
<b>Total liabilities</b>	<b>3,565</b>	<b>5,622</b>	<b>4,962</b>	<b>4,934</b>	<b>5,353</b>	ROE	7.4%	11.0%	7.6%	8.8%	10.0%
Share capital	713	713	800	800	800	ROA	4.9%	6.4%	5.3%	6.3%	7.1%
Reserve	5,064	5,147	7,799	7,799	7,799	<b>Per share data (RMB)</b>					
Retained earnings	1,294	2,090	2,861	3,756	4,859	EPS	0.73	1.23	1.21	1.37	1.69
Other	(145)	(61)	29	49	67	DPS	0.08	0.12	0.22	0.27	0.34
Minority interest	0	104	114	103	90	BVPS	9.85	11.21	15.85	15.50	16.90
<b>Total equity</b>	<b>6,926</b>	<b>7,993</b>	<b>11,603</b>	<b>12,507</b>	<b>13,616</b>						
<b>Total liabilities and equity</b>	<b>10,491</b>	<b>13,616</b>	<b>16,565</b>	<b>17,441</b>	<b>18,969</b>						

Source: Company data, CMBIGM estimates

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