

Innolight (300308 CH)

Corporate Day takeaways

We hosted a conference call with Innolight mgmt. after market close yesterday. The stock price declined 4.9% yesterday, possibly due to investors' fear over media report about potential capex cut from key client (although news on Twitter clearly stated order cut was over VR/AR devices). During the call, Innolight reaffirmed the orders for optical transceivers from overseas clients remain unchanged. This matches with the conclusions from our recent expert call ([link](#)) that the demand for optical transceivers from overseas cloud companies remain steady for 2022. We maintain BUY rating with TP of RMB45.6.

- Market concerns over potential capex cut from overseas cloud companies.** At the beginning of the year, leading cloud companies gave a very opportunistic capex outlook. 1Q22 cloud capex continued to grow at 29.4% YoY. Google's 1Q22 capex grew the most among the four cloud companies, with 64.7% YoY and 53.5% QoQ. The Company reiterated its plan to invest aggressively in 2022. Meta expected its 2022 capex to be in the range of US\$29-34bn, unchanged from prior estimate. Microsoft expected a sequential increase in capex as the Company continues to make investments so as to meet growing global demand for its cloud services. However, concerns are growing among investors as they worry these companies may lower their budgeted capex considering tough macros. Amazon has indicated overcapacity earlier and planned to lower operation's capital expenditures for 2022 (mainly to offset previous aggressively built fulfillment centers, etc.).
- We still maintain our positive outlook for the cloud companies' capex,** based on the following reasons. 1) We should note that Amazon's allocation to infrastructure capex (primarily supporting AWS) will still grow, from 40% (TTM as of 1Q22) to 50% in FY22E. 2) Datacenter infrastructure and AI-related projects are likely among the last to cut, given these businesses are expected to outperform during tough economy. The growth of AWS/Google cloud/Microsoft cloud was 36.6%/43.8%/26% YoY vs. -1.8%/23.0%/18.4% YoY for their total revenue in 1Q22, suggesting cloud business positively contributed to their respective revenue growth.
- Reiterate BUY with TP of RMB45.6.** We believe Innolight is a major beneficiary of cloud capex growth. Maintain BUY. Potential risks include weaker capex from global cloud companies, slower deployment of 5G infrastructure and faster-than-expected tech advancement.

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)	41.6	24.7	25.1	22.2	18.0
Yield (%)	0.3%	0.4%	0.7%	0.9%	1.1%
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 **+50.0%**
 Current Price **RMB30.39**

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Stock Data

Mkt. Cap. (RMB mn)	24,302
Avg. 3mths t/o (RMB mn)	255
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%

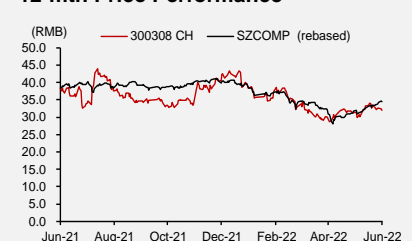
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	2.0%	-5.8%
3-mth	-5.4%	-4.8%
6-mth	-24.4%	11.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PWC Zhong Tian

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	4,758	7,050	7,695	9,908	11,426
Cost of sales	(3,468)	(5,257)	(5,727)	(7,277)	(8,412)
Gross profit	1,290	1,793	1,968	2,631	3,014
Selling exp	(55)	(107)	(73)	(88)	(105)
Admin exp	(275)	(370)	(434)	(604)	(673)
R&D exp	(362)	(506)	(541)	(697)	(803)
Finance costs	(17)	(64)	(84)	(136)	(99)
Other operating exp.	1,422	1,850	2,137	2,982	3,242
Operating profit	576	990	963	1,174	1,453
Other non-oper exp.	0	(3)	(3)	1	(2)
Pre-tax profit	577	987	960	1,175	1,451
Income tax expense	(63)	(111)	(73)	(90)	(112)
Minority interests		11	10	(11)	(13)
Net profit to shareholders	513	865	877	1,095	1,352

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Net profit	513	876	886	1,084	1,339
Depreciation/amortization	172	251	321	383	435
Change in working capital	(360)	(1,096)	(587)	542	(1,078)
Others	243	(10)	193	86	160
Net cash from operating	569	22	813	2,094	857
Capex	(759)	(956)	(840)	(1,005)	(999)
Other	(1,180)	83	(379)	(949)	222
Net cash from investing	(1,939)	(873)	(1,219)	(1,953)	(777)
Share issuance	1,524	0	2,665	7	0
Net borrowing	(116)	(121)	(168)	(306)	(351)
Other	149	1,421	(233)	(161)	196
Net cash from financing	1,557	1,300	2,264	(460)	(155)
Net change in cash	187	449	1,859	(319)	(76)
Cash at beginning of the year	1,041	1,236	1,648	3,489	3,153
Exchange difference	8	(37)	(17)	(17)	(17)
Cash at the end of year	1,236	1,648	3,489	3,153	3,060

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Current assets	5,991	7,982	10,022	10,522	11,686
Cash & equivalents	1,236	1,679	3,515	3,173	3,082
Account receivables	1,133	1,514	1,997	1,170	1,961
Inventory	2,504	3,774	3,799	4,175	4,582
Prepayment	65	40	72	73	84
Other current assets	1,054	973	638	1,930	1,977
Non-current assets	4,500	5,634	6,543	6,919	7,283
PPE	1,950	2,726	3,152	3,545	3,785
Deferred tax assets	28	38	46	52	55
Other non-current assets	2,522	2,870	3,345	3,322	3,444
Total assets	10,491	13,616	16,565	17,441	18,969
Current liabilities	2,826	3,772	3,166	2,818	2,858
ST borrowings	652	1,041	794	867	743
Account payables	1,259	1,367	1,205	1,290	1,384
Tax payable	12	35	68	57	70
Other current liabilities	903	1,329	1,098	604	662
Non-current liabilities	739	1,850	1,796	2,116	2,495
LT borrowings	466	1,430	1,262	1,557	1,885
Deferred tax liability	73	154	277	287	314
Other non-current liabilities	200	267	258	272	296
Total liabilities	3,565	5,622	4,962	4,934	5,353
Share capital	713	713	800	800	800
Reserve	5,064	5,147	7,799	7,799	7,799
Retained earnings	1,294	2,090	2,861	3,756	4,859
Other	(145)	(61)	29	49	67
Minority interest	0	104	114	103	90
Total equity	6,926	7,993	11,603	12,507	13,616
Total liabilities and equity	10,491	13,616	16,565	17,441	18,969

Key ratios

YE 31 Dec	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue mix					
High-end optical module		6,703	7,261	9,229	10,432
Access network module		161	327	572	887
High-end equipment		186	107	107	107
Growth (%)					
Revenue	-7.7%	48.2%	9.2%	28.8%	15.3%
Gross profit	-8.3%	39.0%	9.8%	33.7%	14.5%
Operating profit	-15.5%	71.7%	-2.7%	21.9%	23.8%
Adj. net profit	-17.6%	68.6%	1.3%	24.8%	23.5%
Profit & loss ratio (%)					
Gross margin	27.1%	25.4%	25.6%	26.6%	26.4%
Operating margin	12.1%	14.0%	12.5%	11.8%	12.7%
Net profit margin	10.8%	12.3%	11.4%	11.0%	11.8%
Balance sheet ratio					
Gear ratio	Net	9.9%	Net	Net	Net
Current ratio (x)	2.1	2.1	3.2	3.7	4.1
Receivable turnover days	76	69	83	58	50
Inventory turnover days	(243)	(218)	(241)	(200)	(190)
Payable turnover days	(108)	(91)	(82)	(63)	(58)
Profitability (%)					
ROE	7.4%	11.0%	7.6%	8.8%	10.0%
ROA	4.9%	6.4%	5.3%	6.3%	7.1%
Per share data (RMB)					
EPS	0.73	1.23	1.21	1.37	1.69
DPS	0.08	0.12	0.22	0.27	0.34
BVPS	9.85	11.21	15.85	15.50	16.90

Source: Company data, CMBIGM estimates

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HOLD : Stock with potential return of +15% to -10% over next 12 months
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NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
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