



## Zhongji Innolight Co. (300308.SZ): 400G transceiver adopted by AT&T's high-speed network; Buy

### News

AT&T recently announced the launch of its first 400-Gigabit transport network between Dallas and Atlanta ([announcement](#)), in preparation for the rising data demand from the 5G and broadband network. Notably, the network adopted Innolight's 400GB transceiver products, which were installed in the router and transponder to connect between the packet and optical technologies. According to the announcement, the transceiver supplied by Innolight conforms with the QSFP-DD MSA and is capable of transporting 400G signals on up to 2km of single-mode fiber. In addition, AT&T also stated that the company will begin deploying 400G across the network in 2020.

### Tina Hou

+86(21)2401-8694 | [tina.hou@ghsl.cn](mailto:tina.hou@ghsl.cn)  
Beijing Gao Hua Securities Company Limited

### Implication

We believe the adoption by AT&T's high-speed transport network has demonstrated Innolight's leading technology capability with 400G transceiver products, as well as its application scenario across both telecom and datacom markets. We expect 400G to be the main revenue and profit driver for Innolight over the next three years, growing at a CAGR of 155% and accounting for 37% of total revenue by 2021E. At the same time, we expect improving gross margin and operating margin (1.0ppt per annum) trends for Innolight as it (1) exercises bargaining power over its suppliers, (2) improves yield for 400G products, and (3) moves a majority of production to its Tongling factory.

### Valuation and risks

Our 12-m target price at Rmb48 remains unchanged, still based on 36x 2020E PE. Key risks: 1) weaker demand from cloud and 5G capex; 2) competition from Silicon Photonics, an emerging technology.

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**300308.SZ**12m Price Target: **Rmb48.00**Price: **Rmb43.20**Upside: **11.1%****Buy****GS Forecast**

		12/18	12/19E	12/20E	12/21E
Market cap: Rmb30.8bn / \$4.4bn	Revenue (Rmb mn)	5,156.3	4,796.4	6,096.8	7,683.5
Enterprise value:	EBITDA (Rmb mn)	1,007.6	976.3	1,285.8	1,693.0
Rmb29.6bn / \$4.2bn	EPS (Rmb)	0.94	0.77	1.32	1.79
3m ADTV:	P/E (X)	43.4	55.8	32.7	24.1
Rmb279.9mn / \$39.5mn	P/B (X)	5.7	4.5	4.1	3.5
China	Dividend yield (%)	0.3	0.2	0.4	0.5
A-share Telecoms and Equipment	N debt/EBITDA (ex lease,X)	0.7	(1.3)	(1.2)	(1.2)
M&A Rank: 3	CROCI (%)	25.6	12.4	17.2	20.0
Leases incl. in net debt & EV?:	FCF yield (%)	0.2	1.7	1.3	1.9
No					
		6/19	9/19	12/19E	--
	EPS (Rmb)	0.15	0.21	0.27	

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 28 Nov 2019 close.

# Disclosure Appendix

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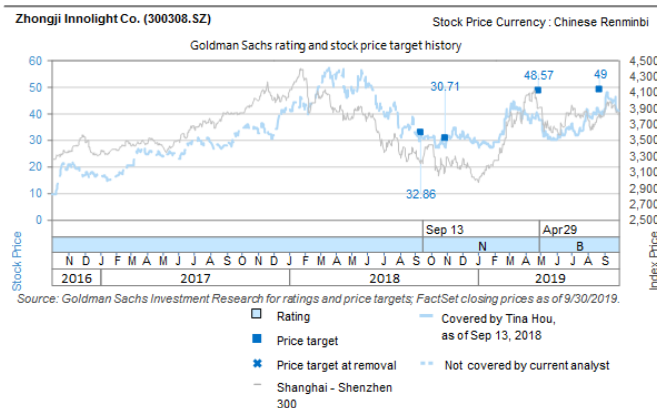
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