

Xinyi Solar (968 HK)

Uncertainties to remain in 2H21E

XYS released positive profit alert, expecting 1H21E earnings to surge 100-120% to HK\$2.8-3.1bn. We think the outstanding 1H21E earnings would be in line with consensus expectation (HK\$5.9bn in FY21E). Share price experienced strong rebound during the past month on the back of increasing expectation that PV glass price will rebound in 4Q21E with improving downstream demand. We think the trend cannot sustain, as we believe PV glass capacity is in an early phase of releasing cycle. We trimmed FY21-23E earnings by 26.0-34.2% to reflect fierce pricing competition in capacity release cycle. Trading at 22.7x/19.5x FY21/22E PER, we think YYS is fully priced. We cut TP by 20.2% to HK\$15.00, and maintain HOLD.

- Positive profit alert in line with consensus estimates.** Strong 1H21E earnings outlook was driven by 1) PV glass ASP growth; 2) increased product shipment; and 3) improving product efficiency which offset energy and material costs hike. 1H21E earnings will be largely flat as 2H20, and we expect earnings to decline HoH in 2H21E given that PV glass price experienced significant cut from Apr 2021. PV glass price (3.2mm) is now at only RMB22/sqm, down 47.6% compared with year high in Jan-Feb. YYS also benefited from potential earnings impacts due to PV glass price decline in 2H21E.
- PV glass pricing outlook: to stay flat in 2H21E.** We think PV glass industry is now facing increasing pressure as the industry is in a capacity release cycle while PV installation is cooling off due to supply chain pricing disruption. By mid-Jun, we estimate solar glass capacity is sufficient to fulfill 203GW global module supply, and leading players such as YYS and Flat Glass (6865 HK/601865 CH) are adding considerable new capacity in 2H21E. We expect capacity expansion cycle will continue in 2022E, leaving oversupply pressure to the market. We expect leading players to maintain aggressive PV glass pricing strategy in 2H21E to sustain market share and to suppress rival's capacity expansion pace.
- Trim FY21-23E earnings by 26.0-34.2%.** We cut our FY21-23E earnings forecast by 32.1%/26.0%/34.2% to HK\$5.8/6.7/7.7bn. Our earnings revision is mainly based on 1) ASP cut by 10.9-18.4% given oversupply status, and 2) we trim FY22/23E sales volume by 3.7%/12.9% based on more conservative capacity addition assumption. Our revised earnings are in line with consensus estimates.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK\$ mn)	9,096	12,316	16,901	20,379	23,528
YoY growth (%)	18.6	35.4	37.2	20.6	15.4
Net income (HK\$ mn)	2,416	4,561	5,802	6,743	7,668
EPS (HK\$)	0.30	0.55	0.66	0.77	0.87
EPS CHG (%)	22	83	18.9	16	14
Consensus EPS (HK\$)	N/A	N/A	0.68	0.71	0.84
P/E (x)	49.3	27.0	22.7	19.5	17.2
P/B (x)	8.5	5.0	4.5	4.0	3.5
Yield (%)	0.9	1.7	2.1	2.5	2.8
ROE (%)	17.3	18.4	19.7	20.3	20.5
Net gearing (%)	40.3	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$15.00
(Previous TP)	HK\$18.80)
Up/Downside	+0.4%
Current Price	HK\$14.94

China Solar Sector

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Stock Data

Mkt Cap (HK\$ mn)	131,637
Avg 3 mths t/o (HK\$ mn)	851.5
52w High/Low (HK\$)	24.8/6.67
Total Issued Shares (mn)	8,811

Source: Bloomberg

Shareholding Structure

Xinyi Group Glass Co Ltd	24.4%
Yin Yee Lee	32.1%
Free float	43.5%

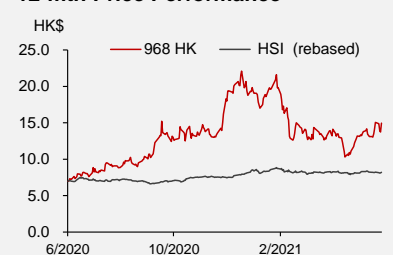
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	16.5%	15.1%
3-mth	10.2%	10.9%
6-mth	-7.8%	-15.2%
12-mth	118.1%	86.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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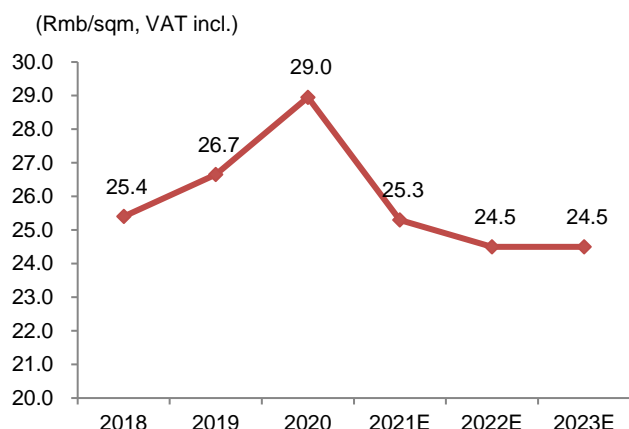
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- Fairly priced valuation.** XYs' share price experienced sharp rebound in the past month on the back of improving market sentiment, hoping for 1) a decline in Poly-Si price which will resume normal eventually; and 2) a rebound in PV installation in 4Q21E. However, given our supply-demand forecast, we are not optimistic on both fundamental improvements, given that wafer capacity expansion continues while NEA has relaxed grid-connection timeline for grid-parity projects granted in 2019/20. Trading at 22.7x/19.5x FY21/22E PER, we think XYs' value is fully priced. Our DCF based TP is cut by 20.2% from HK\$18.8 to HK\$15.0 per share. Maintain HOLD rating.

Figure 1: HK\$2.8-3.1bn earnings in 1H21E is largely flat as 2H20

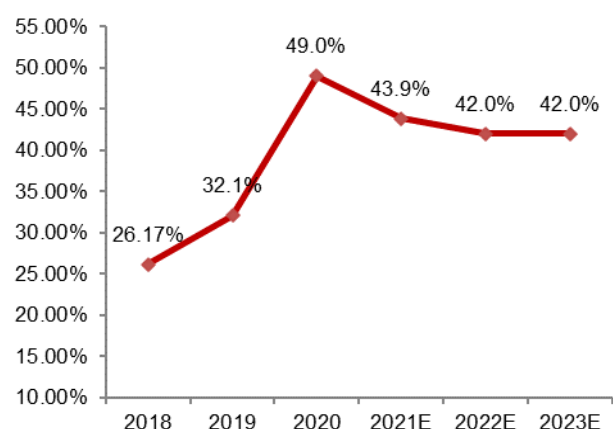
(HK\$ mn)	1H20A	2H20A	FY20
Revenue	4,623	7,693	12,316
Solar glass manufacturing	3,488	6,504	9,992
Solar power generation	1,101	1,222	2,324
EPC services	34	(34)	-
Cost of Sales	(2,434)	(3,298)	(5,732)
Gross profit	2,189	4,395	6,584
Gross profit margin	47.3%	57.1%	53.5%
Other income	71	120	191
Other(losses)/gains, net	(1)	(50)	(51)
Selling and marketing expenses	(136)	(180)	(317)
Administrative expenses	(208)	(340)	(548)
Operating profit	1,914	3,945	5,859
Finance income	22	39	61
Finance costs	(116)	(74)	(191)
Share profits	19	17	36
Share profits of associates			
Profit before income Tax	1,838	3,926	5,764
Income tax expense	(225)	(510)	(735)
Effective tax rate	12.3%	13.0%	12.8%
Profit after tax	1,613	3,411	5,023
Less: Minority interests	206	256	462
Net income	1,406	3,154	4,561
Net margin	30.4%	41.0%	37.0%

Source: Company data, CMBIS

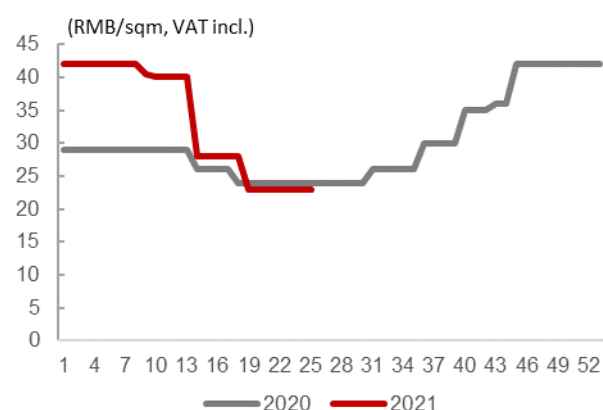
Figure 2: Solar glass ASP estimates and projection

Source: CMBIS estimates

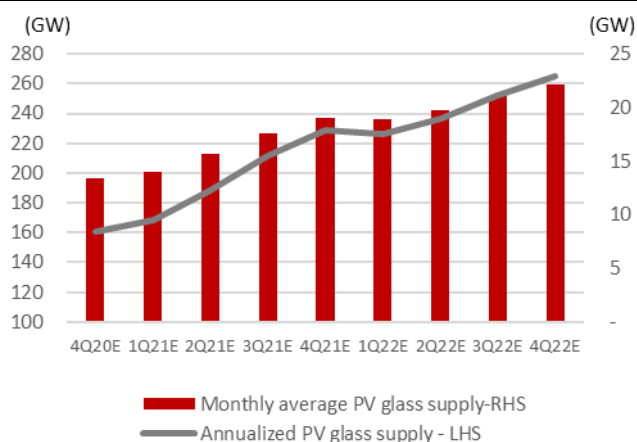
Note: 2018 - 20 ASP is estimated based on sales over shipment projection

Figure 3: XYS will maintain good GPM performance on the back of excellent costs control

Source: Company data, CMBIS estimates

Figure 4: We think 3.2mm PV glass price is likely to stay flat in the remaining of 2021

Source: Company data, CMBIS estimates

Figure 5: We think PV glass is heading to oversupply in 2022E

Source: CMBIS estimates

Figure 6: Earnings revision

	Old			New			Change%		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
PV glass ASP (RMB/sqm, VAT excl.)	31.0	27.5	27.5	25.3	24.5	24.5	-18.4%	-10.9%	-10.9%
PV glass sales volume (mn sqm)	526	691	893	526	666	778	0.0%	-3.7%	-12.9%
Revenue (HK\$, mn)	20,090	23,244	29,383	16,901	20,379	23,528	-15.9%	-12.3%	-19.9%
Net income (HK\$, mn)	8,543	9,112	11,653	5,802	6,743	7,668	-32.1%	-26.0%	-34.2%
EPS (HK\$)	0.97	1.03	1.32	0.66	0.77	0.87	-32.1%	-26.0%	-34.2%
Consensus earnings	Our est. vs. consensus								
Net profit (HK\$, mn)				5,942	6,259	7,388	-2.4%	7.7%	3.8%
EPS (HK\$)				0.68	0.71	0.84	-3.6%	8.0%	3.4%

Source: CMBIS estimates

Figure 7: Earnings revision

DCF Valuation	2022	2023	2024	2025	2026	2027	2028	2029	2030
Turnover (HK\$ mn)	20,379	23,528	29,480	31,409	34,093	36,724	39,304	41,836	44,322
Solar glass	17,363	20,273	26,254	27,967	30,420	32,805	35,122	37,374	39,561
Solar Farm	3,016	3,255	3,226	3,442	3,673	3,919	4,181	4,462	4,761
EPC	-	-	-	-	-	-	-	-	-
<i>Turnover growth</i>	20.6%	15.4%	25.3%	6.5%	8.5%	7.7%	7.0%	6.4%	5.9%
EBIT (HK\$ mn)	8,194	9,298	11,935	12,396	13,094	13,721	14,279	14,771	15,202
<i>EBIT margin(%)</i>	40.2%	39.5%	40.5%	39.5%	38.4%	37.4%	36.3%	35.3%	34.3%
Tax rate (%)	15.2%	15.4%	15.4%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%
Depreciation -HKD mn	1,200	1,320	1,353	1,467	1,585	1,707	1,832	1,961	2,094
Change in working capital	(1,739)	(1,102)	(2,083)	(386)	(429)	(421)	(413)	(405)	(398)
CAPEX (HKD mn)	(2,102)	(2,203)	(2,313)	(2,464)	(2,631)	(2,814)	(3,015)	(3,237)	(3,480)
Free cash flow	4,309	5,883	7,050	9,095	9,593	10,068	10,470	10,799	11,057
Years	1	2	3	4	5	6	7	8	9
Discount factor	0.92	0.84	0.77	0.71	0.65	0.60	0.55	0.50	0.46
Discount free cash flow	3,955	4,955	5,449	6,452	6,245	6,015	5,740	5,434	5,106
Terminal value	190,943								
Terminal EV/EBITDA	11.04								
Discounted terminal value	88,175								
Terminal perpetual growth	3%								

WACC Calculations

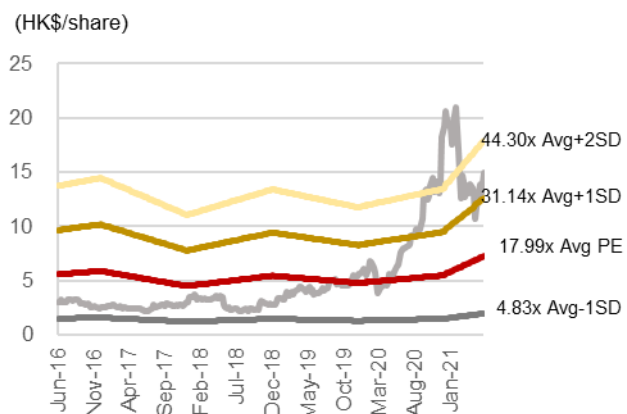
Cost of debt	4.0%
Tax rate	15.0%
After tax cost of debt	3.4%
Cost of equity	11.3%
Adjusted beta	1.00
Market risk premium	9.6%
Risk free rate	1.8%
% of debt financing	30.0%
WACC	9.0%

Valuations (HK\$ mn)

Discounted Terminal Value	88,175
Terminal perpetual growth(%)	3.0%
Terminal EV/EBITDA	11.04
Total discount FCF	49,350
Enterprise Value	137,525
Discount FCF(% of total)	35.9%
Terminal value (% of total)	64.1%
Add: Cash & cash equivalent	7,916
Less: Total debt	(7,317)
Non-controlling interest	(6,011)
Equity Value (HKD mn)	132,113
Fair value per share(HK\$)	15.00

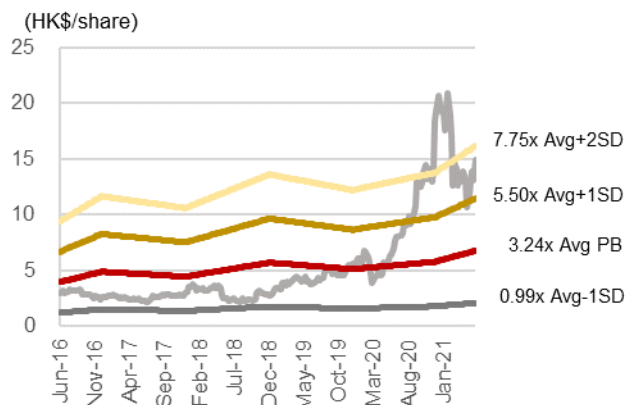
Source: CMBIS estimates

Figure 8: 5-yr PE Band



Source: Bloomberg, CMBIS

Figure 9: 5-yr PB band



Source: Bloomberg, CMBIS

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	9,096	12,316	16,901	20,379	23,528	EBIT	3,314	5,853	7,222	8,194	9,298
Solar glass sales	6,767	9,992	14,157	17,363	20,273	Depreciation and amortization	795	855	1,136	1,336	1,513
Solar power generation	2,228	2,324	2,744	3,016	3,255	Change in working capital	(1,818)	(2,208)	(1,480)	(916)	(690)
EPC services	101	-	-	-	-	Taxation	(281)	(502)	(1,054)	(850)	(965)
Cost of sales	(5,185)	(5,732)	(8,705)	(10,964)	(12,793)	Others	(427)	(503)	(685)	(787)	(884)
Gross profit	3,912	6,584	8,196	9,416	10,735	Net cash from operating	1,583	3,496	5,139	6,976	8,273
Other Income	131	191	189	189	189	Capex	(1,382)	(4,551)	(4,586)	(3,172)	(2,819)
Other gain/(losses),net	(5)	(51)	(5)	(5)	(5)	Joint ventures investments	23	(45)	(18)	-	-
Selling & marketing exps	(282)	(317)	(518)	(648)	(753)	Others	(904)	-	-	-	-
Admin and other exps	(427)	(548)	(640)	(758)	(869)	Net cash from investment	(2,262)	(4,596)	(4,605)	(3,172)	(2,819)
EBIT	3,314	5,853	7,222	8,194	9,298	Equity raised	2,091	9,165	-	-	-
Financial income	49	61	73	75	97	Change of Debts	(2,086)	(570)	467	590	517
Financial cost	(304)	(191)	(124)	(153)	(184)	Dividend paid	(765)	(1,381)	(2,890)	(3,011)	(3,459)
Share profit	33	36	41	43	45	Others	2,887	1,106	509	559	615
Pre-tax profit	3,093	5,758	7,212	8,159	9,255	Net cash from financing	2,127	8,321	(1,915)	(1,861)	(2,327)
Income tax	(294)	(735)	(902)	(857)	(972)	Net change in cash	1,447	7,221	(1,380)	1,943	3,127
Minority interests	(382)	(462)	(509)	(559)	(615)	Cash at the beginning	784	2,221	9,291	7,911	9,853
Net profit	2,416	4,561	5,802	6,743	7,668	Exchange difference	(10)	(151)	-	-	-
						Cash at the end of the year	2,221	9,291	7,911	9,853	12,980

Balance sheet						Key ratios					
YE 31 Dec (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	18,930	23,545	27,599	29,294	30,807	Sales mix (%)					
Fixed assets	16,711	20,406	23,857	25,693	26,999	Solar glass sales	74.4	81.1	83.8	85.2	86.2
Land use rights	-	-	-	-	-	Solar power generation	24.5	18.9	16.2	14.8	13.8
Inv. in JV and Associate	404	435	453	453	453	EPC services	1.1	-	-	-	-
Others	1,815	2,704	3,289	3,148	3,355	Total	100.0	100.0	100.0	100.0	100.0
Current assets	9,467	19,878	20,496	24,703	29,466	Profit & loss ratios (%)					
Cash	2,221	9,291	7,911	9,853	12,980	Gross margin	43.0	53.5	48.5	46.2	45.6
Account receivable	5,437	8,136	9,724	11,729	13,106	Pre-tax margin	34.0	46.8	42.7	40.0	39.3
Inventory	410	728	991	1,215	1,419	Net margin	26.6	37.0	34.3	33.1	32.6
Amount due from	6	1	-	-	-	Effective tax rate	9.5	12.8	12.5	10.5	10.5
Others	1,394	1,722	1,870	1,906	1,961	Balance sheet ratios					
Current liabilities	5,834	8,323	8,318	9,568	10,702	Current ratio (x)	1.6	2.4	2.5	2.6	2.8
Trade and other payable	2,220	3,378	4,247	5,209	6,082	Quick ratio (x)	1.6	2.3	2.3	2.5	2.6
Amount due	91	167	167	167	167	Cash ratio (x)	0.4	1.1	1.0	1.0	1.2
Current income tax liabilities	102	540	551	562	574	Debtors turnover days	192.4	201.1	192.9	192.1	192.6
Borrowings	3,389	4,057	3,317	3,595	3,845	Inventory turnover days	29.6	36.3	36.0	36.7	37.6
Others	32	181	35	35	35	Creditors turnover days	176.0	178.2	159.9	157.4	161.1
Non-current liabilities	3,989	3,076	4,332	4,693	5,009	Total debt / equity ratio (%)	42.7	23.4	20.6	20.0	19.1
Borrowings	3,921	2,752	4,000	4,357	4,670	Net debt / equity ratio (%)	40.3	(6.7)	(2.0)	(5.7)	(11.9)
Other payables	57	312	315	318	322	Returns (%)					
Deferred tax liabilities	12	12	17	17	17	ROE	17.0	17.2	19.7	20.3	20.5
Total net assets	18,573	32,025	35,445	39,737	44,562	ROA	8.5	10.5	12.1	12.5	12.7
Minority Interest	4,396	5,503	6,011	6,571	7,186	Per share					
Shareholders' equity	14,177	26,522	29,434	33,166	37,376	EPS (HK\$)	0.30	0.55	0.66	0.77	0.87
						DPS (HK\$)	0.14	0.26	0.32	0.37	0.42
						BVPS (HK\$)	1.85	3.28	3.34	3.76	4.24

Source: Company data, CMBIS estimates

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