

# Xinyi Solar (968 HK)

## FY20E earnings to surge 75% - 95% YoY

XYS announced positive profit alert with earnings guidance to increase 75%-95% YoY in FY20E. The strong earnings performance would be driven by 1) unexpected high PV glass ASP, 2) increasing PV glass output and sales, and 3) improving product mix. We lift FY20E earnings by 14.7% mainly on 5.1% increase on full year PV glass ASP outlook, and we expect YYS' outstanding performance to sustain in FY21E on the back of ASP to increase by 12.7% YoY. **We lift our FY21/22 earnings outlook by 26.4%/33.2% to HK\$7,957/9,149mn. Our DCF TP is lifted by 21.3% to HK\$18.80 per share. Reiterate BUY rating.**

- **Positive profit alert.** YYS announced positive profit alert after market close on 15 Dec. Based on 11M20 performance, YYS expected FY20E net profit to increase 75%-95% YoY. The Company attributed the strong earnings growth mainly to PV glass sales volume increase and price hike in 2H20. YYS' earnings guidance was substantially higher than consensus estimate for FY20E (consensus FY20E earnings: +59% YoY).
- **Earnings outlook beat due to product mix.** We estimate 2.0mm product to account for 35% of YYS' total PV glass shipment, and we believe the significant surge of thin product penetration rate would be the key reason boosting earnings growth. We estimate GPM of the PV glass segment to exceed 48% in 2020E.
- **Strong performance to sustain in 2021E.** We expect PV glass supply to remain tight in 2021E. We expect PV glass price to decline 6% for each two months as new capacity to release, and estimate ASP at RMB32.5/sq m in 2021E, implying a 12.7% ASP hike. We also expect 2.0mm product proportion to increase to 55% as bifacial module to become more popular. Together with YYS' effective capacity release, we estimate PV glass sales volume to increase by 33.5% YoY, and GPM to expand further to 56.7% in 2021E.
- **Lift DCF TP by 21.3% to HK\$18.80; reiterate BUY.** Based on revised assumptions, we lift 2020-22E earnings forecast by 14.7%/26.4%/33.2% to HK\$4,418/7,957/9,149mn respectively. Our DCF TP is also revised up by 21.3% to HK\$18.80, reflecting 34.6x/20.1x FY20/21E PER. We think YYS' positive earnings alert reaffirms promising earnings outlook, and market sentiment will be ignited again. We reiterate our BUY stance on YYS.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	7,672	9,096	12,221	18,373	22,511
YoY growth(%)	(19.5)	18.6	34.4	50.3	22.5
Net income (HK\$ mn)	1,863	2,416	4,418	7,957	9,149
EPS (HK\$)	0.25	0.30	0.54	0.94	1.08
EPS CHG (%)	(24)	22	80	72	15
Consensus EPS (HK\$)	N/A	N/A	0.46	0.62	0.73
P/E (x)	57.3	47.1	26.2	15.2	13.3
P/B (x)	10.5	8.1	6.2	4.9	4.1
Yield (%)	0.9	1.0	1.8	3.1	3.6
ROE (%)	18.3	17.3	23.7	32.4	30.9
Net gearing (%)	76.5	40.3	16.4	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$18.80
(Previous TP	HK\$15.50)
Up/Downside	+31.8%
Current Price	HK\$14.26

### China Solar Sector

**Robin Xiao**  
 (852) 3900 0849  
 robinxiao@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	121,336
Avg 3 mths t/o (HK\$ mn)	660
52w High/Low (HK\$)	15.22/3.63
Total Issued Shares (mn)	8,509

Source: Bloomberg

### Shareholding Structure

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

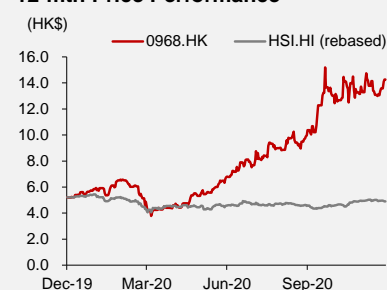
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	8.4%	9.1%
3-mth	44.0%	35.9%
6-mth	114.2%	99.0%
12-mth	174.3%	188.0%

Source: Bloomberg

### 12-mth Price Performance

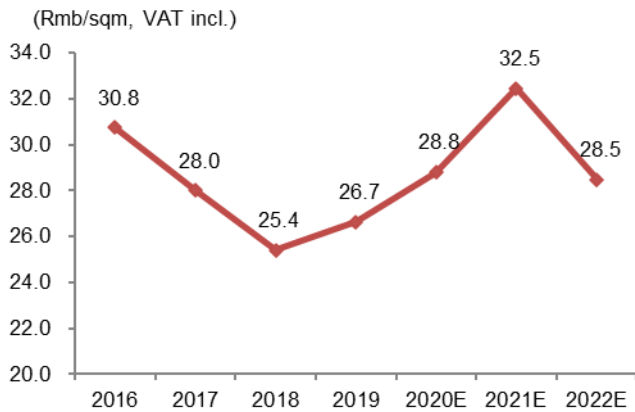


Source: Bloomberg

### Auditor: PwC

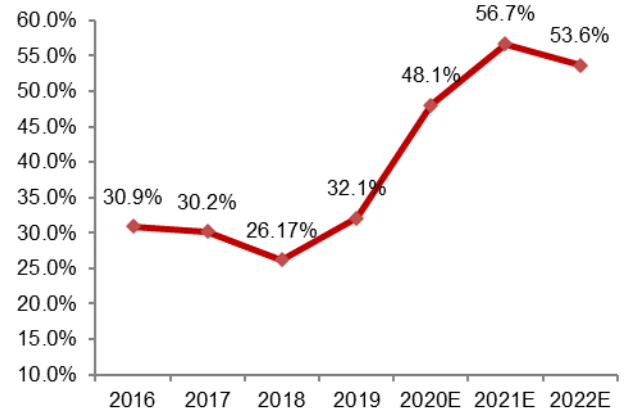
### Related Reports

1. Xinyi Solar (968 HK) - Another price hike to boost FY20/21E earnings" – 7 Oct 2020
2. Xinyi Solar (968 HK) - Price hike reflects strong PV glass demand" – 2 Sep 2020
3. Xinyi Solar (968 HK) - Shining 1H20 from PV glass sales" – 4 Aug 2020

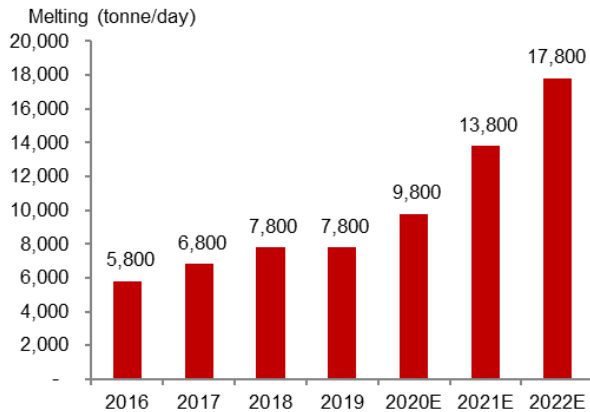
**Figure 1: Solar glass ASP estimates and projection**

Source: CMBIS estimates

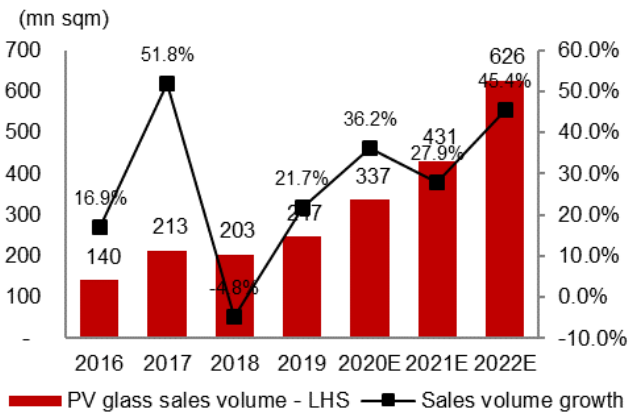
Note: 2016 - 19 ASP is estimated based on sales over shipment projection

**Figure 2: We expect solar glass GPM to surge with product mix change towards 2.0mm PV glass**

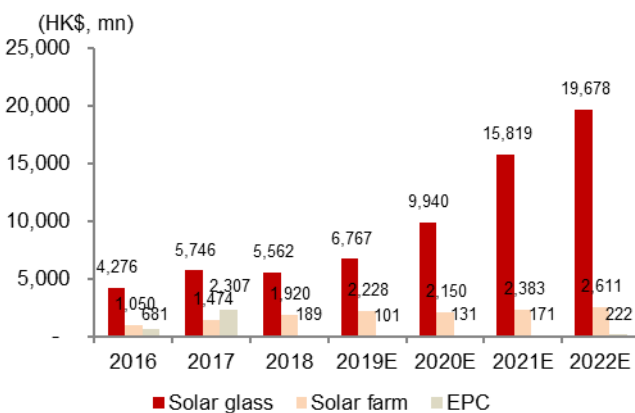
Source: Company data, CMBIS estimates

**Figure 3: Solar glass melting capacity**

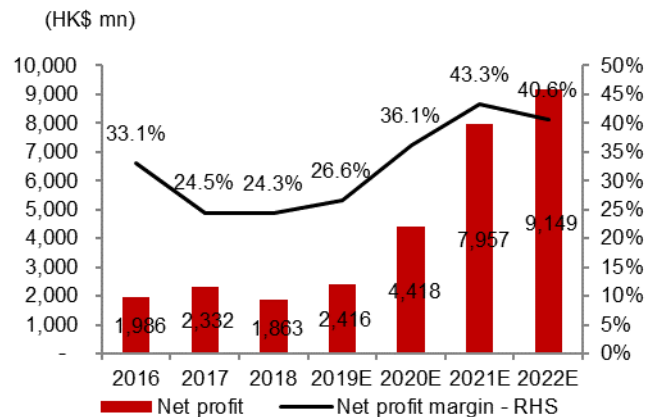
Source: Company data, CMBIS estimates

**Figure 4: PV glass sales projection**

Source: Company data, CMBIS estimates

**Figure 5: Segment revenue**

Source: Company data, CMBIS estimates

**Figure 6: Net profit vs. net profit margin**

Source: Company data, CMBIS estimates

**Figure 7: Earnings revision**

	Old			New			Change%		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
PV processed glass ASP (RMB/sqm, VAT excl.)	27.4	30.0	26.5	28.8	32.5	28.5	5.1%	8.2%	7.5%
PV glass sales volume (mn sqm)	337	450	628	347	490	694	3.0%	8.8%	10.4%
Revenue (HK\$, mn)	11,461	15,990	19,400	12,221	18,373	22,511	6.6%	14.9%	16.0%
Net income(HK\$, mn)	3,851	6,293	6,867	4,418	7,957	9,149	14.7%	26.4%	33.2%
EPS(HK\$)	0.47	0.74	0.81	0.54	0.94	1.08	14.7%	26.4%	33.2%
<b>Consensus earnings</b>							Our est. vs. consensus		
Net profit (HK\$, mn)				3,326	4,444	5,233	32.8%	79.0%	74.8%
EPS(HK\$)				0.41	0.54	0.64	32.5%	73.5%	69.1%

Source: CMBIS estimates

**Figure 8: Our DCF valuation**

DCF Valuation	2022	2023	2024	2025	2026	2027	2028	2029	2030
Turnover (HK\$ mn)	22,511	28,313	35,219	37,288	40,180	43,016	45,800	48,535	51,223
Solar glass	19,678	25,208	31,711	33,534	36,163	38,717	41,199	43,611	45,952
Solar Farm	2,611	2,817	3,191	3,405	3,633	3,876	4,136	4,413	4,708
EPC	222	289	318	349	384	423	465	512	563
Turnover growth	22.5%	25.8%	24.4%	5.9%	7.8%	7.1%	6.5%	6.0%	5.5%
EBIT (HK\$ mn)	10,933	13,623	14,021	14,408	15,045	15,597	16,068	16,462	16,783
EBIT margin(%)	48.6%	48.1%	39.8%	38.6%	37.4%	36.3%	35.1%	33.9%	32.8%
Tax rate (%)	15.2%	15.3%	15.4%	15.5%	15.5%	15.5%	15.5%	15.6%	15.6%
Depreciation -HKD mn	1,157	1,267	1,390	1,502	1,617	1,736	1,859	1,985	2,115
Change in working capital	(2,069)	(2,031)	(2,417)	(414)	(463)	(454)	(445)	(438)	(430)
CAPEX (HKD mn)	(2,088)	(2,188)	(2,296)	(2,446)	(2,611)	(2,792)	(2,991)	(3,210)	(3,451)
<b>Free cash flow</b>	<b>6,271</b>	<b>8,581</b>	<b>8,534</b>	<b>10,821</b>	<b>11,259</b>	<b>11,669</b>	<b>11,995</b>	<b>12,239</b>	<b>12,403</b>
Years	1	2	3	4	5	6	7	8	9
Discount factor	0.92	0.85	0.78	0.72	0.66	0.60	0.56	0.51	0.47
<b>Discount free cash flow</b>	<b>5,767</b>	<b>7,257</b>	<b>6,636</b>	<b>7,738</b>	<b>7,404</b>	<b>7,057</b>	<b>6,671</b>	<b>6,259</b>	<b>5,833</b>

<b>Terminal value</b>	<b>222,409</b>
<b>Terminal EV/EBITDA</b>	<b>11.77</b>
<b>Discounted terminal value</b>	<b>104,594</b>
<b>Terminal perpetual growth</b>	<b>3%</b>

**WACC Calculations**

Cost of debt	4.0%
Tax rate	15.0%
After tax cost of debt	3.4%
Cost of equity	12.3%
Adjusted beta	1.10
Market risk premium	9.6%
Risk free rate	1.8%
% of debt financing	40.0%
<b>WACC</b>	<b>8.7%</b>

**Valuations (HK\$ mn)**

<b>Discounted Terminal Value</b>	<b>104,594</b>
Terminal perpetual growth(%)	3.0%
Terminal EV/EBITDA	11.77
Total discount FCF	60,622
Enterprise Value	165,216
Discount FCF(% of total)	36.7%
Terminal value (% of total)	63.3%
Add: Cash & cash equivalent	8,903
Less: Total debt	(8,887)
Non-controlling interest	(5,279)
Equity Value (HKD mn)	159,953
<b>Fair value per share(HK\$)</b>	<b>18.80</b>

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>7,672</b>	<b>9,096</b>	<b>12,221</b>	<b>18,373</b>	<b>22,511</b>
Solar glass sales	5,562	6,767	9,940	15,819	19,678
Solar power generation	1,920	2,228	2,150	2,383	2,611
EPC services	189	101	131	171	222
<b>Cost of sales</b>	<b>(4,711)</b>	<b>(5,185)</b>	<b>(5,868)</b>	<b>(7,656)</b>	<b>(10,059)</b>
<b>Gross profit</b>	<b>2,960</b>	<b>3,912</b>	<b>6,354</b>	<b>10,717</b>	<b>12,451</b>
Other Income	176	131	139	139	139
Other gain/(losses),net	(8)	(5)	(5)	(5)	(5)
Selling & marketing exps	(271)	(282)	(399)	(552)	(770)
Admin and other exps	(413)	(427)	(523)	(738)	(882)
<b>EBIT</b>	<b>2,443</b>	<b>3,314</b>	<b>5,565</b>	<b>9,560</b>	<b>10,933</b>
Financial income	10	49	30	59	90
Financial cost	(256)	(304)	(223)	(246)	(266)
Exceptional	-	-	-	-	-
Pre-tax profit	<b>2,246</b>	<b>3,093</b>	<b>5,406</b>	<b>9,407</b>	<b>10,791</b>
Income tax	(205)	(294)	(568)	(988)	(1,133)
Minority interests	(179)	(382)	(420)	(462)	(509)
<b>Net profit</b>	<b>1,863</b>	<b>2,416</b>	<b>4,418</b>	<b>7,957</b>	<b>9,149</b>

### Cash flow summary

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>EBIT</b>	<b>2,443</b>	<b>3,314</b>	<b>5,565</b>	<b>9,560</b>	<b>10,933</b>
Depreciation and amortization	707	795	944	1,139	1,412
Change in working capital	(255)	(1,818)	(609)	397	(860)
Taxation	(237)	(281)	(560)	(986)	(1,131)
Others	(348)	(427)	(610)	(640)	(676)
<b>Net cash from operating</b>	<b>2,310</b>	<b>1,583</b>	<b>4,730</b>	<b>9,469</b>	<b>9,678</b>
Capex	(2,248)	(1,382)	(4,187)	(3,698)	(3,281)
Joint ventures investments	17	23	-	-	-
Others	(805)	(904)	-	-	-
<b>Net cash from investment</b>	<b>(3,035)</b>	<b>(2,262)</b>	<b>(4,187)</b>	<b>(3,698)</b>	<b>(3,281)</b>
Equity raised	(456)	2,087	2,688	-	-
Change of Debts	837	(2,086)	800	700	614
Dividend paid	(1,095)	(761)	(1,739)	(2,970)	(4,105)
Others	888	2,887	420	462	509
<b>Net cash from financing</b>	<b>174</b>	<b>2,127</b>	<b>2,170</b>	<b>(1,808)</b>	<b>(2,983)</b>
<b>Net change in cash</b>	<b>(551)</b>	<b>1,447</b>	<b>2,713</b>	<b>3,964</b>	<b>3,414</b>
Cash at the beginning	1,381	784	2,221	4,934	8,898
Exchange difference	(46)	(10)	-	-	-
<b>Cash at the end of the year</b>	<b>784</b>	<b>2,221</b>	<b>4,934</b>	<b>8,898</b>	<b>12,312</b>

### Balance sheet

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>17,089</b>	<b>18,930</b>	<b>22,335</b>	<b>24,909</b>	<b>26,805</b>
Fixed assets	15,804	16,711	19,954	22,513	24,382
Land use rights	320	-	-	-	-
Inv. in JV and Associate	433	404	404	404	404
Others	532	1,815	1,977	1,993	2,019
<b>Current assets</b>	<b>6,803</b>	<b>9,467</b>	<b>13,999</b>	<b>19,687</b>	<b>25,371</b>
Cash	784	2,221	4,934	8,898	12,312
Account receivable	4,154	5,437	6,444	7,518	9,268
Inventory	430	410	646	1,028	1,279
Amount due from	4	6	-	-	-
Others	1,432	1,394	1,976	2,243	2,512
<b>Current liabilities</b>	<b>6,737</b>	<b>5,834</b>	<b>7,369</b>	<b>9,760</b>	<b>11,415</b>
Trade and other payable	2,780	2,220	3,525	5,597	6,965
Amount due	102	91	91	91	91
Current income tax liabilities	48	102	104	106	109
Borrowings	3,773	3,389	3,614	3,931	4,216
Others	34	32	35	35	35
<b>Non-current liabilities</b>	<b>5,096</b>	<b>3,989</b>	<b>4,605</b>	<b>5,027</b>	<b>5,398</b>
Borrowings	4,997	3,921	4,533	4,956	5,327
Other payables	89	57	54	54	54
Deferred tax liabilities	11	12	17	17	17
<b>Total net assets</b>	<b>12,059</b>	<b>18,573</b>	<b>24,361</b>	<b>29,810</b>	<b>35,362</b>
<b>Minority Interest</b>	<b>1,625</b>	<b>4,396</b>	<b>4,817</b>	<b>5,279</b>	<b>5,788</b>
<b>Shareholders' equity</b>	<b>10,434</b>	<b>14,177</b>	<b>19,544</b>	<b>24,531</b>	<b>29,575</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Solar glass sales	72.5	74.4	81.3	86.1	87.4
Solar power generation	25.0	24.5	17.6	13.0	11.6
EPC services	2.5	1.1	1.1	0.9	1.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	38.6	43.0	52.0	58.3	55.3
Pre-tax margin	29.3	34.0	44.2	51.2	47.9
Net margin	24.3	26.6	36.1	43.3	40.6
Effective tax rate	9.1	9.5	10.5	10.5	10.5
<b>Balance sheet ratios</b>					
Current ratio (x)	1.0	1.6	1.9	2.0	2.2
Quick ratio (x)	0.9	1.6	1.8	1.9	2.1
Cash ratio (x)	0.1	0.4	0.7	0.9	1.1
Debtors turnover days	197.9	192.4	177.4	138.7	136.1
Inventory turnover days	31.1	29.6	32.9	39.9	41.9
Creditors turnover days	221.6	176.0	178.7	217.4	227.9
Total debt / equity ratio (%)	72.7	42.7	33.4	29.8	27.0
Net debt / equity ratio (%)	76.5	40.3	16.4	N.C	N.C
<b>Returns (%)</b>					
ROE	17.9	17.0	22.6	32.4	30.9
ROA	7.8	8.5	12.2	17.8	17.5
<b>Per share</b>					
EPS (HK\$)	0.25	0.30	0.54	0.94	1.08
DPS (HK\$)	0.12	0.14	0.26	0.45	0.52
BVPS (HK\$)	1.36	1.85	2.42	2.88	3.48

Source: Company data, CMBIS estimates

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<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

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## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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