

Xinyi Solar (968 HK)

Price war brewing

XYS realized net profit of HK\$4,561mn in FY20, up 88.7% YoY, close to the high end of positive profit alert and in line with consensus estimates. Mgmt. guided accelerating capacity expansion pace, leading to 41.3% effective melting capacity growth. However, as with increasing new capacity, we expect a price war brewing within the year, which may bring valuation pressure to YYS. In 2021E, we expect net profit to increase by 87.3% YoY on the back of PV glass sales volume and ASP growth. Trading at 17.6x forward P/E, we believe upside is largely priced in. We revised FY21/22E earnings projection by +7.1%/-0.5% respectively to HK\$8,543mn/9,112mn, and maintain our TP unchanged at HK\$18.80. Downgrade to Hold rating.

- FY20 net profit surged 88.7% YoY.** Revenue increased by 35.4% YoY mainly driven by sales volume and ASP increase. We estimate solar glass sales in terms of sales areas increased by 40.4% YoY, and ASP increased by 8.6% YoY. Major expenses remained in good control, and the Company managed to reduce finance costs by 37.1% YoY in FY20. Net profit read HK\$4,561mn, up 88.7% YoY, in line with consensus estimates. YYS declared a final dividend of 17 HK cents, maintaining full year dividend payout of 46%.
- Top tiered profitability.** GPM of solar glass was up 16.9ppt YoY to 49.0%, reflecting YYS' outstanding costs control capability. We believe increasing penetration of bifacial and large size module will enhance YYS' advantages, as YYS is leading the pace in launching new products to meet market demand. In 2021E, we expect PV glass ASP to increase 7.1% YoY, which will likely to sustain even higher GPM of 54.4%.
- Accelerating capacity expansion pace.** Mgmt. guided effective melting output to increase 43.5% YoY through releasing new capacity at a faster pace. In view of tight PV glass supply, YYS accelerated capacity addition pace from 1,000t for each quarter to 1,000t in Jan/Mar and the remaining by 1H21. Based on the revised output guidance, we estimate PV glass sales area will increase by 51.6% in 2021. YYS plans another 4x1,000t new production line in 2022, and prepares 12x1,000t from 2023 onwards.
- Brewing for a price war.** Mgmt. expects PV glass price to resume normal from unexpected high level. In Mar, PV glass price exhibited a mild decline by c.4.8%(3.2mm from RMB42/sq m to RMB40/sq m). YYS saw chance for PV glass price to fall below RMB30/sq m, implying potential price cut of 25% by year-end. For pricing outlook in 2022, since more new capacity to release output, mgmt. expects pricing competition may become fierce.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK\$ mn)	9,096	12,316	20,090	23,244	29,383
YoY growth (%)	18.6	35.4	63.1	15.7	26.4
Net income (HK\$ mn)	2,416	4,561	8,543	9,112	11,653
EPS (HK\$)	0.30	0.55	0.97	1.03	1.32
EPS CHG (%)	22	83	75	7	28
Consensus EPS (HK\$)	N/A	N/A	0.768	0.861	1.155
P/E (x)	56.3	30.8	17.6	16.5	12.9
P/B (x)	9.7	5.7	4.8	4.1	3.5
Yield (%)	0.8	1.5	2.7	2.9	3.7
ROE (%)	17.3	18.4	27.1	25.0	27.1
Net gearing (%)	40.3	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price	HK\$18.80
(Previous TP)	HK\$18.80)
Up/Downside	+10.2%
Current Price	HK\$17.06

China Solar Sector

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Stock Data

Mkt Cap (HK\$ mn)	150,286
Avg 3 mths t/o (HK\$ mn)	1,065
52w High/Low (HK\$)	24.8/3.63
Total Issued Shares (mn)	8,809

Source: Bloomberg

Shareholding Structure

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

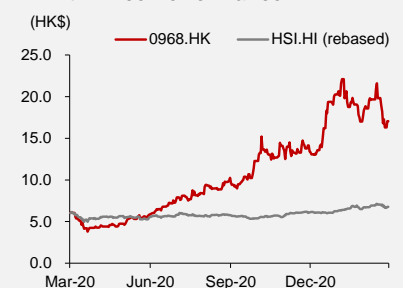
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.1%	-7.7%
3-mth	27.3%	14.7%
6-mth	66.3%	41.8%
12-mth	183.5%	153.1%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: PwC

Related Reports

- Xinyi Solar (968 HK) - FY20E earnings to surge 75% - 95% YoY" - 16 Dec 2020
- Xinyi Solar (968 HK) - Another price hike to boost FY20/21E earnings" - 7 Oct 2020
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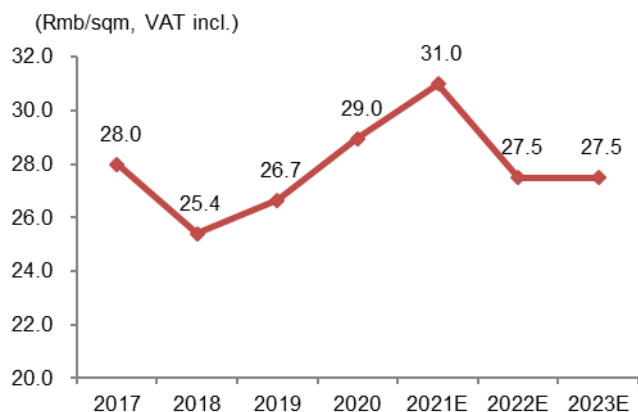
- Valuation may be curbed by pricing outlook.** Based on mgmt. guidance update, we revised FY21/22E earnings projection by +7.1%/-0.5% respectively to HK\$8,543mn/9,112mn. Our projection indicates EPS growth of 75% in 2021E. In view of potential uncertain PV glass pricing outlook, however, we expect XYS' valuation will be curbed. Trading at 17.6x 2021E PER, we think XYS' share price upside is largely priced in. We maintain our TP unchanged at HK\$18.80, reflecting 19.4x PER in 2021E. Downgrade to HOLD rating.
- Risks:** 1) upside: better-than-expected policy support in the 14th FYP; 2) downside: PV glass price declines at faster-than-expected pace.

Figure 1: FY20 results summary

(HKD mn)	Actual vs. Est				
	2019	2020	YoY Change	2020E	Diff (%)
Revenue	9,096	12,316	35.4%	12,221	0.8%
Solar glass segment	6,767	9,992	47.7%	9,940	0.5%
Solar power generation	2,228	2,324	4.3%	2,150	8.1%
EPC services	101	101	0.0%	131	-23.1%
Cost of sales	(5,185)	(5,732)	10.6%	(5,868)	-2.3%
Gross profit	3,912	6,584	68.3%	6,354	3.6%
Gross profit margin	43.0%	53.5%	10.5ppt	52.0%	1.5ppt
Other Income	131	191	46.0%	139	37.2%
Other gain/(losses),net	(5)	(51)	n/a	(5)	922.9%
Selling and marketing expenses	(282)	(317)	12.5%	(399)	-20.7%
Administrative and other operating expenses	(427)	(548)	28.3%	(523)	4.7%
Exceptional	(14)	(5)	n/a	-	n/a
Operating profit - EBIT	3,314	5,853	76.6%	5,565	5.2%
Bargain purchase	-	-	n/a	-	n/a
Finance income	49	61	23.3%	30	99.1%
Finance costs	(304)	(191)	-37.1%	(223)	-14.4%
Share profit	33	36	6.4%	33	6.4%
Exceptional	-	-	n/a	-	n/a
Profit before income tax	3,093	5,758	86.2%	5,406	6.5%
Income tax expenses	(294)	(735)	150.0%	(568)	29.5%
Profit after tax	2,799	5,023	79.5%	4,838	3.8%
Effective tax rate	9.5%	12.8%	3.3ppt	10.5%	2.3ppt
Minority interest	382	462	21.0%	420	10.0%
Net Income	2,416	4,561	88.7%	4,418	3.2%
Net profit margin	26.6%	37.0%	10.5ppt	36.1%	0.9ppt
EPS (HK\$, cent)	30.3	55.4	83.0%	54.34	1.9%

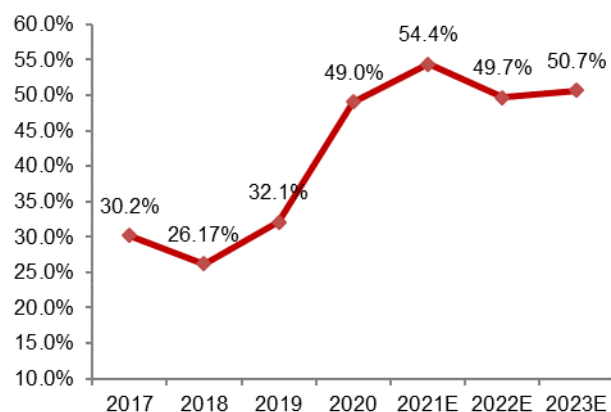
Source: Company data, CMBIS estimates

Figure 2: Solar glass ASP estimates and projection



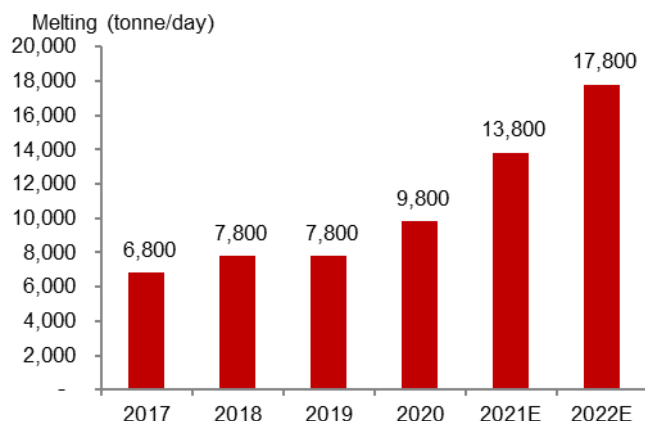
Source: CMBIS estimates
Note: 2016 - 19 ASP is estimated based on sales over shipment projection

Figure 3: We expect solar glass GPM to surge with product mix change towards 2.0mm PV glass



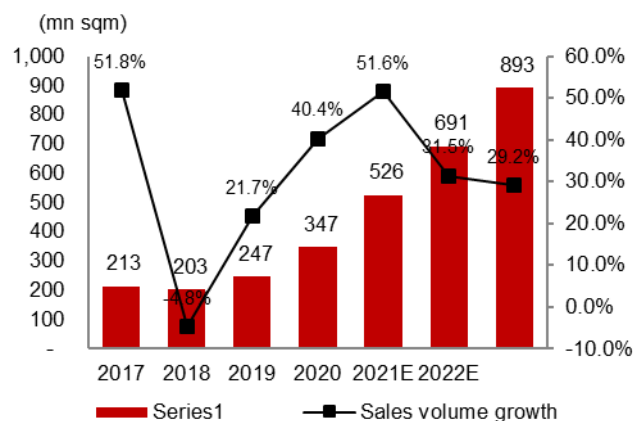
Source: Company data, CMBIS estimates

Figure 4: Solar glass melting capacity



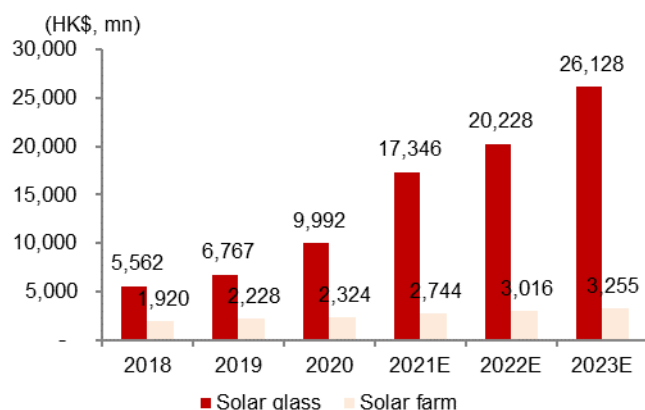
Source: Company data, CMBIS estimates

Figure 5: PV glass sales projection



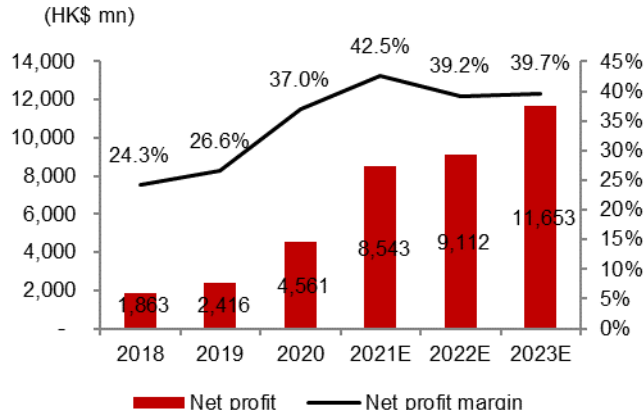
Source: Company data, CMBIS estimates

Figure 6: Segment revenue



Source: Company data, CMBIS estimates

Figure 7: Net profit vs. net profit margin

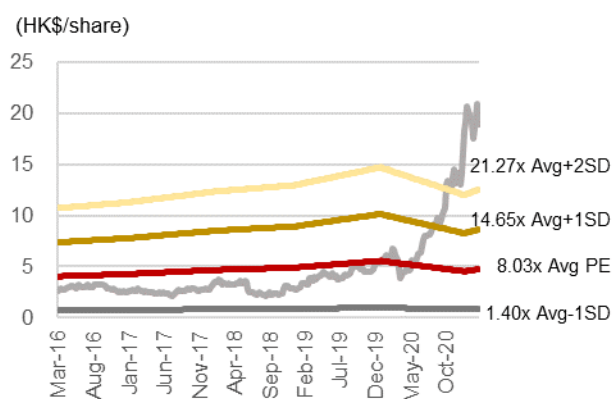


Source: Company data, CMBIS estimates

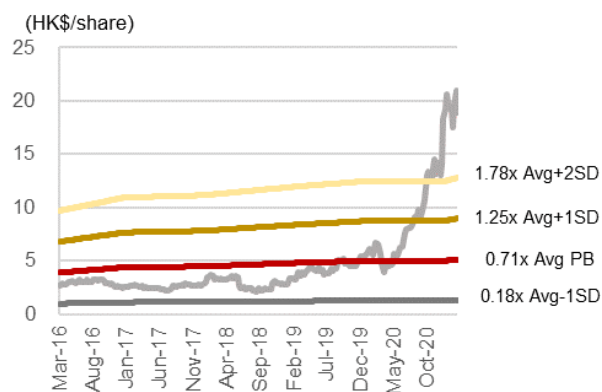
Figure 8: Earnings revision

	Old		New		Change%	
	2021E	2022E	2021E	2022E	2021E	2022E
PV processed glass ASP (RMB/sqm, VAT excl.)	32.5	28.5	31.0	27.5	-4.6%	-3.5%
PV glass sales volume (mn sqm)	490	694	526	691	7.3%	-0.4%
Revenue (HK\$, mn)	18,406	22,522	20,090	23,244	9.2%	3.2%
Net income(HK\$, mn)	7,979	9,154	8,543	9,112	7.1%	-0.5%
EPS(HK\$)	0.94	1.08	0.97	1.03	3.4%	-3.9%
Consensus earnings					Our est. vs. consensus	
Net profit (HK\$, mn)			6,610	7,520	29.2%	21.2%
EPS(HK\$)			0.77	0.86	26.3%	20.1%

Source: CMBIS estimates

Figure 9: 5-yr PE Band

Source: Bloomberg, CMBIS

Figure 10: 5-yr PB band

Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	9,096	12,316	20,090	23,244	29,383
Solar glass sales	6,767	9,992	17,346	20,228	26,128
Solar power generation	2,228	2,324	2,744	3,016	3,255
EPC services	101	-	-	-	-
Cost of sales	(5,185)	(5,732)	(8,666)	(11,086)	(13,936)
Gross profit	3,912	6,584	11,424	12,158	15,446
Other Income	131	191	189	189	189
Other gain/(losses),net	(5)	(51)	(5)	(5)	(5)
Selling & marketing exps	(282)	(317)	(518)	(671)	(857)
Admin and other exps	(427)	(548)	(744)	(851)	(1,058)
EBIT	3,314	5,853	10,347	10,821	13,716
Financial income	49	61	81	96	131
Financial cost	(304)	(191)	(124)	(153)	(184)
Share profit	33	36	41	43	45
Pre-tax profit	3,093	5,758	10,344	10,806	13,708
Income tax	(294)	(735)	(1,293)	(1,135)	(1,439)
Minority interests	(382)	(462)	(509)	(559)	(615)
Net profit	2,416	4,561	8,543	9,112	11,653

Cash flow summary

YE 31 Dec (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	3,314	5,853	10,347	10,821	13,716
Depreciation and amortization	795	855	1,136	1,366	1,643
Change in working capital	(1,818)	(2,208)	(1,767)	(973)	(1,048)
Taxation	(281)	(502)	(1,446)	(1,128)	(1,432)
Others	(427)	(503)	(678)	(767)	(850)
Net cash from operating	1,583	3,496	7,592	9,318	12,029
Capex	(1,382)	(4,551)	(4,586)	(3,172)	(2,819)
Joint ventures investments	23	(45)	(18)	-	-
Others	(904)	-	-	-	-
Net cash from investment	(2,262)	(4,596)	(4,605)	(3,172)	(2,819)
Equity raised	2,091	9,165	-	-	-
Change of Debts	(2,086)	(570)	467	590	517
Dividend paid	(765)	(1,381)	(3,548)	(4,237)	(4,984)
Others	2,887	1,106	509	559	615
Net cash from financing	2,127	8,321	(2,572)	(3,088)	(3,851)
Net change in cash	1,447	7,221	415	3,059	5,358
Cash at the beginning	784	2,221	9,291	9,707	12,765
Exchange difference	(10)	(151)	-	-	-
Cash at the end of the year	2,221	9,291	9,707	12,765	18,123

Balance sheet

YE 31 Dec (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	18,930	23,545	27,599	29,264	30,647
Fixed assets	16,711	20,406	23,857	25,663	26,839
Land use rights	-	-	-	-	-
Inv. in JV and Associate	404	435	453	453	453
Others	1,815	2,704	3,289	3,148	3,355
Current assets	9,467	19,878	23,536	28,818	37,068
Cash	2,221	9,291	9,707	12,765	18,123
Account receivable	5,437	8,136	10,744	12,731	15,155
Inventory	410	728	1,214	1,416	1,829
Amount due from	6	1	-	-	-
Others	1,394	1,722	1,870	1,906	1,961
Current liabilities	5,834	8,323	9,275	10,427	12,459
Trade and other payable	2,220	3,378	5,204	6,068	7,838
Amount due	91	167	167	167	167
Current income tax liabilities	102	540	551	562	574
Borrowings	3,389	4,057	3,317	3,595	3,845
Others	32	181	35	35	35
Non-current liabilities	3,989	3,076	4,332	4,693	5,009
Borrowings	3,921	2,752	4,000	4,357	4,670
Other payables	57	312	315	318	322
Deferred tax liabilities	12	12	17	17	17
Total net assets	18,573	32,025	37,528	42,962	50,247
Minority Interest	4,396	5,503	6,011	6,571	7,186
Shareholders' equity	14,177	26,522	31,517	36,392	43,061

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Solar glass sales	74.4	81.1	86.3	87.0	88.9
Solar power generation	24.5	18.9	13.7	13.0	11.1
EPC services	1.1	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	43.0	53.5	56.9	52.3	52.6
Pre-tax margin	34.0	46.8	51.5	46.5	46.7
Net margin	26.6	37.0	42.5	39.2	39.7
Effective tax rate	9.5	12.8	12.5	10.5	10.5
Balance sheet ratios					
Current ratio (x)	1.6	2.4	2.5	2.8	3.0
Quick ratio (x)	1.6	2.3	2.4	2.6	2.8
Cash ratio (x)	0.4	1.1	1.0	1.2	1.5
Debtors turnover days	192.4	201.1	171.5	184.3	173.2
Inventory turnover days	29.6	36.3	40.9	43.3	42.5
Creditors turnover days	176.0	178.2	180.7	185.6	182.1
Total debt / equity ratio (%)	42.7	23.4	19.5	18.5	16.9
Net debt / equity ratio (%)	40.3	N.C.	N.C.	N.C.	N.C.
Returns (%)					
ROE	17.0	17.2	27.1	25.0	27.1
ROA	8.5	10.5	16.7	15.7	17.2
Per share					
EPS (HK\$)	0.30	0.55	0.97	1.03	1.32
DPS (HK\$)	0.14	0.26	0.47	0.50	0.63
BVPS (HK\$)	1.85	3.28	3.58	4.13	4.89

Source: Company data, CMBIS estimates

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