

Xinyi Solar (968 HK)

NDR takeaway: bullish demand outlook

SUMMARY. We had post-results NDR with XYS mgmt. Investors were interested in XYS' capacity expansion, margin improvement and PV glass pricing outlook in 4Q19 and 2020. Mgmt. released bullish outlook for global PV demand, and explained details about XYS' expansion strategy as well as means to further solidify its costs leadership.

- **Aggressive capacity expansion reflects bullish demand outlook.** XYS released 2020 effective PV glass output target to increase 42.1% YoY during 1H19 results briefing. Mgmt. expects solid PV demand growth in 4Q19 to be driven by China, and overseas installation will also expand rapidly to support capacity release in 1H20. Moreover, XYS' intention of expanding market shares also explained why target capacity growth is substantially higher than consensus market demand growth of 15-20% in 2020. We believe XYS' plan reflects a bullish demand outlook at the high end.
- **Satisfied with current PV glass pricing.** Pricing at RMB26-27/sqm, XYS makes ~30% GPM from PV glass sales. Mgmt. explained GPM led ahead peers except Flat Glass (6865 HK) by 10ppt from 1) energy efficiency, 2) economies of scale, and 3) all-round costs control. Mgmt. expected cost advantages will be further solidified through in-house silica supply from Guangxi. The industry has been facing costs pressures from silica sand, as the material accounts for ~15% of production costs. Investing in in-house silica supply will help XYS reduce silica costs by ~30%. As XYS is about to release large scale capacity in 2020 with superior profitability, mgmt. is satisfied with current PV glass product pricing, while peers may urge for a price hike.
- **Intending to add 1GW solar farm in 2019-20.** XYS had obtained 470MW and 70MW grid-parity and tariff-bidding projects. Most of grid-parity projects are ground-mounted, and subsidy intensity for tariff bidding projects is only RMB2-3cent/KWh. At current RMB4/watt project development costs, mgmt. saw no difference from returns level for those two project types with levered equity IRR of ~10%. Mgmt. also expected another 10% solar farm development costs cut in 2020/21, making grid-parity projects more profitable.
- **Maintain HOLD.** We maintain forecasts and rating unchanged, and we see improving market sentiment on 1) optimistic 4Q19 PV glass pricing, and 2) 2020 shipment growth and costs reduction.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (HK\$ mn)	9,527	7,672	8,952	11,791	14,960
Net income (HK\$ mn)	2,332	1,863	2,216	2,533	3,558
EPS (HK\$)	0.33	0.25	0.28	0.31	0.44
YoY growth (%)	11	(24)	12	13	41
P/E (x)	13.4	17.5	15.7	13.8	9.9
P/B (x)	3.2	3.2	2.7	2.4	2.1
Yield (%)	3.4	2.8	3.1	3.5	4.9
ROE (%)	23.9	18.3	17.2	17.6	21.6
Net gearing (%)	64.7	76.5	41.3	47.8	33.1

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$4.08
(Previous TP	HK\$4.08)
Up/Downside	- 0.7%
Current Price	HK\$4.11

China Solar Sector

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Stock Data

Mkt Cap (HK\$ mn)	33,118
Avg 3 mths t/o (HK\$ mn)	136.3
52w High/Low (HK\$)	4.58/2.03
Total Issued Shares (mn)	8,058

Source: Bloomberg

Shareholding Structure

Xinyi Group Glass Co Ltd	26.5%
Yin Yee Lee	34.3%
Free float	39.2%

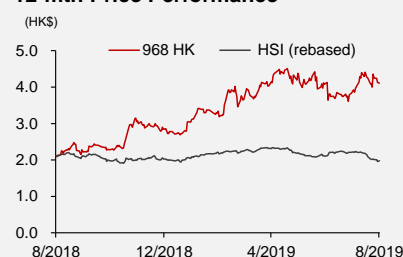
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.0%	22.6%
3-mth	-1.7%	9.3%
6-mth	23.4%	38.6%
12-mth	88.1%	106.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

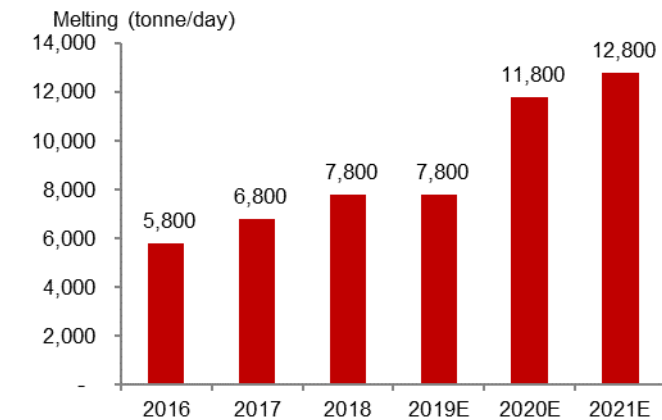
Related Reports

1. "Xinyi Solar (968 HK) -1H results slightly missed; heading to strong 2H" – 9 Aug 2019
2. "Xinyi Solar (968 HK) - Capacity expansion accelerating" – 27 May 2019
3. "China Renewables Sector- China officially launched RPS" – 16 May 2019;

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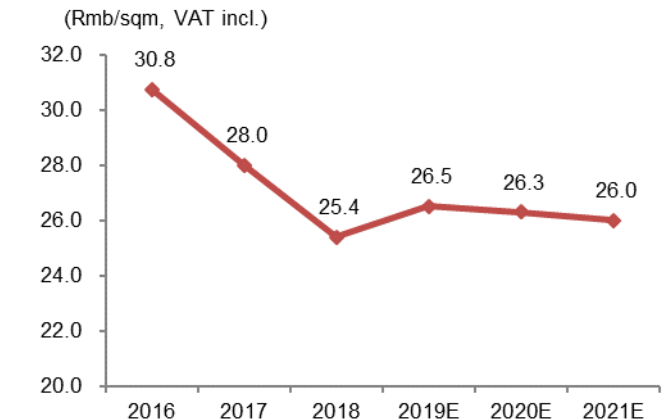
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Figure 1: XYS will have significant growth in melting capacity in the coming two years



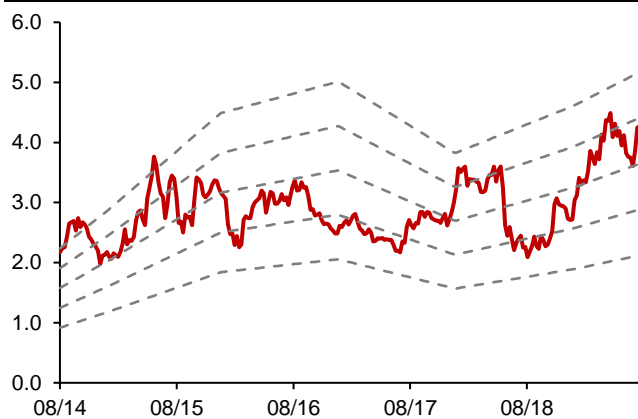
Source: Company data, CMBIS estimates

Figure 2: We believe PV glass ASP is supported by strong demand from China in 2H19E, but 2020/21E ASP may face pressure as new capacity releases



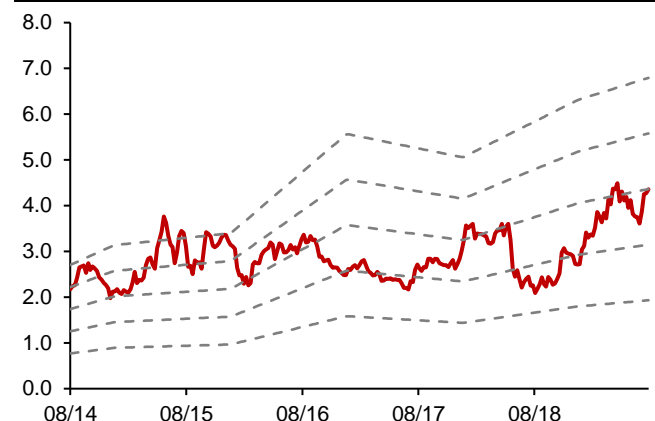
Source: Company data, CMBIS estimates

Figure 3: 12M forward P/E band



Source: Company data, CMBIS

Figure 4: 12M forward P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE Dec 31 (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	9,527	7,672	8,952	11,791	14,960
Solar glass sales	5,746	5,562	6,521	9,084	11,989
Solar power generation	1,474	1,920	2,260	2,486	2,684
EPC services	2,307	189	170	221	287
Cost of sales	(6,122)	(4,711)	(5,128)	(7,236)	(9,497)
Gross profit	3,405	2,960	3,824	4,555	5,463
Other Income	181	176	155	155	155
Other gain/(losses),net	0	(8)	(5)	(5)	(5)
Selling & marketing exps	(239)	(271)	(303)	(418)	(30)
Admin and other exps	(433)	(413)	(453)	(549)	(674)
EBIT	2,914	2,443	3,218	3,739	4,909
Financial income	14	10	23	39	48
Financial cost	(179)	(256)	(278)	(317)	(351)
Exceptional	-	-	-	-	-
Pre-tax profit	2,789	2,246	3,006	3,504	4,649
Income tax	(265)	(205)	(316)	(368)	(488)
Minority interests	(192)	(179)	(474)	(603)	(603)
Net profit	2,332	1,863	2,216	2,533	3,558

Cash flow summary

YE Dec 31 (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	2,914	2,443	3,218	3,739	4,909
Depreciation and amortization	551	707	836	1,038	1,217
Change in working capital	(1,765)	(255)	(877)	(412)	1,177
Taxation	(242)	(237)	(295)	(368)	(488)
Others	(160)	(246)	(690)	(838)	(863)
Net cash from operating	1,298	2,412	2,191	3,159	5,952
Capex	(3,729)	(2,248)	(2,386)	(3,528)	(3,072)
Joint ventures investments	(63)	17	(457)	(603)	(603)
Others	1,302	-	-	-	-
Net cash from investment	(2,490)	(2,230)	(2,843)	(4,131)	(3,675)
Equity raised	2,572	(456)	1,200	-	-
Change of Debts	1,267	837	1,183	1,403	916
Dividend paid	(999)	(1,095)	(854)	(1,140)	(1,462)
Others	(1,137)	(65)	2,924	603	603
Net cash from financing	1,703	(778)	4,453	866	57
Net change in cash	511	(597)	3,802	(105)	2,333
Cash at the beginning	843	1,381	784	4,586	4,481
Exchange difference	26	-	-	-	-
Cash at the end of the year	1,381	784	4,586	4,481	6,814

Balance sheet

YE Dec 31 (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	15,301	17,089	18,936	22,114	24,539
Fixed assets	14,240	15,804	17,341	19,818	21,661
Land use rights	344	320	333	346	358
Inv. in JV and Assos	453	433	894	1,497	2,100
Others	264	532	368	453	419
Current assets	7,467	6,803	11,388	12,654	15,033
Cash	1,381	784	4,586	4,481	6,814
Account receivable	4,167	4,154	4,555	5,597	5,285
Inventory	374	430	489	681	899
Amount due from	-	4	-	-	-
Others	1,545	1,432	1,758	1,895	2,035
Current liabilities	6,241	6,737	5,740	7,206	8,670
Trade and other payable	2,941	2,780	2,677	3,722	4,911
Amount due	67	102	18	18	18
Current income tax liabilities	88	48	60	60	60
Borrowings	3,145	3,773	2,986	3,407	3,681
Others	-	34	-	-	-
Non-current liabilities	4,846	5,096	7,038	8,020	8,661
Borrowings	4,787	4,997	6,967	7,949	8,590
Other payables	59	89	54	54	54
Deferred tax liabilities	-	11	17	17	17
Total net assets	11,680	12,059	17,546	19,542	22,241
Minority Interest	1,559	1,625	4,549	5,152	5,755
Shareholders' equity	10,121	10,434	12,997	14,390	16,486

Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Solar glass sales	60.3	72.5	72.9	77.0	80.1
Solar power generation	15.5	25.0	25.2	21.1	17.9
EPC services	24.2	2.5	1.9	1.9	1.9
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	35.7	38.6	42.7	38.6	36.5
Pre-tax margin	29.3	29.3	33.6	29.7	31.1
Net margin	24.5	24.3	24.8	21.5	23.8
Effective tax rate	9.5	9.1	10.5	10.5	10.5
Balance sheet ratios					
Current ratio (x)	1.2	1.0	2.0	1.8	1.7
Quick ratio (x)	1.1	0.9	1.9	1.7	1.6
Cash ratio (x)	0.2	0.1	0.8	0.6	0.8
Debtors turnover days	118.5	197.9	177.5	157.1	132.8
Inventory turnover days	19.7	31.1	32.7	29.5	30.4
Creditors turnover days	163.3	221.6	194.2	161.4	165.9
Total debt / equity ratio (%)	67.9	72.7	56.7	58.1	55.2
Net debt / equity ratio (%)	64.7	76.5	41.3	47.8	33.1
Returns (%)					
ROE	23.0	17.9	17.1	17.6	21.6
ROA	10.2	7.8	7.3	7.3	9.0
Per share					
EPS (HK\$)	0.33	0.25	0.28	0.31	0.44
DPS (HK\$)	0.15	0.12	0.13	0.15	0.21
BVPS (HK\$)	1.36	1.36	1.62	1.79	2.05

Source: Company data, CMBIS estimates

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