

Xinyi Solar (968 HK)

Solid fundamentals support rebound potential

We communicated with YYS on the impacts of coronavirus outbreak. YYS is subject to limited impact from delay of work resumption to 10 Feb, and the Company maintained solar glass production during CNY holidays. For downstream demand, we see mild impacts at current stage as solar glass price remains stable and YYS still has room to build up inventory to absorb potential impacts. New capacity may be subject to slight delay, which would limit additional supply in 1H20. Overall, we think YYS' fundamentals remain largely intact, and those solid fundamentals support share price rebound potential.

■ **Maintaining production during CNY holidays.** YYS delayed work resumption to 10 Feb following Anhui government's instruction for coronavirus outbreak control. Based on continuous production and highly automated production lines, however, YYS maintained production during CNY holidays. According to mgmt., solar glass pricing in Feb will be decided after return to work, but at current stage, mgmt. expected pricing to remain stable. According to SCI99, one solar glass manufacturer in Jiangsu offered price quotation at RMB29.5/28/sq m for 3.2/2.0-2.5mm products on 3 Feb respectively, also implying stable pricing outlook despite the impact from coronavirus control.

■ **Downstream demand impacts look mild.** YYS is not explicitly concerned about downstream demand, as 1) some downstream module manufacturers maintain production during CNY holidays, and 2) most module manufacturers will resume production from 3 Feb/10 Feb. According to mgmt., solar glass producers on average had 1-2 weeks inventory before CNY holidays, implying a tight supply situation. We believe YYS and peers have room to absorb 10-15 days output through inventory building, and we think downstream demand impact looks mild at current stage.

■ **New capacity may be subject to slight delay.** YYS will have 4x1,000 tonnes new melting capacity commence operation in 2Q20 and 3Q20. We think those new production line may have slight delay due to delay work resumption and transportation control. We also observe some manufacturer delayed furnace ignition from cold repair to Apr. We believe new supply will be very limited in 1H20, implying solar glass supply to remain tight during the period.

■ **Fundamentals is largely intact, reiterate BUY.** YYS' share price declined 8.7% from historical high of HK\$6.32 right before CNY holidays, due to the panic sale led by coronavirus outbreak. We think solar glass sector and YYS' fundamentals remained largely intact at current stage, share price decline creates a good entry point. **We reiterate BUY on YYS, TP maintains unchanged at HK\$6.62.**

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (HK\$ mn)	9,527	7,672	9,492	12,054	16,024
YoY growth (%)	58.6	(19.5)	23.7	27.0	32.9
Net income (HK\$ mn)	2,332	1,863	2,500	3,417	4,569
EPS (HK\$)	0.33	0.25	0.31	0.42	0.57
YoY growth (%)	11	(24)	26	35	34
P/E (x)	16.9	22.1	17.5	13.0	9.7
P/B (x)	4.0	4.0	3.4	2.9	2.5
Yield (%)	2.7	2.2	2.7	3.7	4.9
ROE (%)	23.9	18.3	19.2	22.5	25.6
Net gearing (%)	64.7	76.5	35.1	48.9	33.2

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$6.62
(Previous TP	HK\$6.62)
Up/Downside	+14.7%
Current Price	HK\$5.77

China Solar Sector

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Stock Data

Mkt Cap (HK\$ mn)	46,633
Avg 3 mths t/o (HK\$ mn)	150.3
52w High/Low (HK\$)	6.23/3.14
Total Issued Shares (mn)	8,082

Source: Bloomberg

Shareholding Structure

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

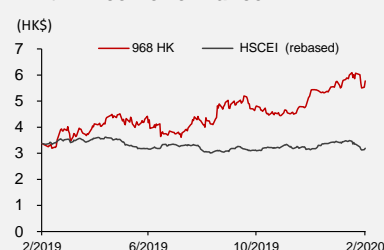
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.0%	5.2%
3-mth	24.3%	28.6%
6-mth	30.1%	31.1%
12-mth	64.1%	76.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. "Xinyi Solar (968 HK) - Thrilling demand driving up solar glass price" – 8 Jan 2020
2. "Xinyi Solar (968 HK) - NDR takeaway: bullish demand outlook" – 15 Aug 2019
3. "Xinyi Solar (968 HK) -1H results slightly missed; heading to strong 2H" – 9 Aug 2019

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	9,527	7,672	9,492	12,054	16,024
Solar glass sales	5,746	5,562	7,079	9,437	12,816
Solar power generation	1,474	1,920	2,243	2,396	2,920
EPC services	2,307	189	170	221	287
Cost of sales	(6,122)	(4,711)	(5,313)	(6,509)	(8,854)
Gross profit	3,405	2,960	4,180	5,545	7,170
Other Income	181	176	155	155	155
Other gain/(losses),net	0	(8)	(5)	(5)	(5)
Selling & marketing exps	(239)	(271)	(326)	(408)	(553)
Admin and other exps	(433)	(413)	(474)	(559)	(714)
EBIT	2,914	2,443	3,530	4,728	6,053
Financial income	14	10	25	40	48
Financial cost	(179)	(256)	(276)	(320)	(366)
Exceptional	-	-	-	-	-
Pre-tax profit	2,789	2,246	3,323	4,492	5,778
Income tax	(265)	(205)	(349)	(472)	(607)
Minority interests	(192)	(179)	(474)	(603)	(603)
Net profit	2,332	1,863	2,500	3,417	4,569

Cash flow summary

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	2,914	2,443	3,530	4,728	6,053
Depreciation and amortization	551	707	836	1,012	1,258
Change in working capital	(1,765)	(255)	(754)	(744)	1,182
Taxation	(242)	(237)	(328)	(472)	(607)
Others	(160)	(348)	(584)	(840)	(878)
Net cash from operating	1,298	2,310	2,700	3,685	7,009
Capex	(3,729)	(2,248)	(1,997)	(5,063)	(3,589)
Joint ventures investments	(63)	17	(457)	(603)	(603)
Others	1,302	-	-	-	-
Net cash from investment	(2,490)	(2,230)	(2,454)	(5,666)	(4,192)
Equity raised	2,572	(456)	1,200	-	-
Change of Debts	1,267	837	989	2,017	1,071
Dividend paid	(999)	(1,095)	(922)	(1,420)	(1,917)
Others	(1,137)	(65)	2,924	603	603
Net cash from financing	1,703	(778)	4,191	1,200	(243)
Net change in cash	511	(698)	4,437	(781)	2,574
Cash at the beginning	843	1,381	682	5,119	4,338
Exchange difference	26	-	-	-	-
Cash at the end of the year	1,381	682	5,119	4,338	6,912

Balance sheet

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	15,301	17,089	18,518	23,402	26,226
Fixed assets	14,240	15,804	16,953	20,991	23,310
Land use rights	344	320	333	346	358
Inv. in JV and Associate	453	433	894	1,497	2,100
Others	264	532	339	568	458
Current assets	7,467	6,803	12,049	12,746	15,626
Cash	1,381	784	5,119	4,338	6,912
Account receivable	4,167	4,154	4,685	5,632	5,459
Inventory	374	430	531	708	961
Amount due from	-	4	-	-	-
Others	1,545	1,432	1,715	2,068	2,294
Current liabilities	6,241	6,737	5,905	7,474	9,173
Trade and other payable	2,941	2,780	2,900	3,863	5,241
Amount due	67	102	18	18	18
Current income tax liabilities	88	48	60	60	60
Borrowings	3,145	3,773	2,927	3,533	3,854
Others	-	34	-	-	-
Non-current liabilities	4,846	5,096	6,902	8,314	9,063
Borrowings	4,787	4,997	6,831	8,243	8,992
Other payables	59	89	54	54	54
Deferred tax liabilities	-	11	17	17	17
Total net assets	11,680	12,059	17,761	20,361	23,616
Minority Interest	1,559	1,625	4,549	5,152	5,755
Shareholders' equity	10,121	10,434	13,212	15,209	17,861

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Solar glass sales	60.3	72.5	74.6	78.3	80.0
Solar power generation	15.5	25.0	23.6	19.9	18.2
EPC services	24.2	2.5	1.8	1.8	1.8
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	35.7	38.6	44.0	46.0	44.7
Pre-tax margin	29.3	29.3	35.0	37.3	36.1
Net margin	24.5	24.3	26.3	28.3	28.5
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	1.7	1.7
Quick ratio (x)	1.1	0.9	2.0	1.6	1.6
Cash ratio (x)	0.2	0.1	0.9	0.6	0.8
Debtors turnover days	118.5	197.9	169.9	156.2	126.3
Inventory turnover days	19.7	31.1	33.0	34.7	34.4
Creditors turnover days	163.3	221.6	195.1	189.6	187.7
Total debt / equity ratio (%)	67.9	72.7	54.9	57.8	54.4
Net debt / equity ratio (%)	64.7	76.5	35.1	48.9	33.2
Returns (%)					
ROE	23.0	17.9	18.9	22.5	25.6
ROA	10.2	7.8	8.2	9.5	10.9
Per share					
EPS (HK\$)	0.33	0.25	0.31	0.42	0.57
DPS (HK\$)	0.15	0.12	0.15	0.20	0.27
BVPS (HK\$)	1.36	1.36	1.63	1.88	2.21

Source: Company data, CMBIS estimates

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