

# Xinyi Solar (968 HK)

## Accelerating capacity expansion in 2022

XYS' 1H21 earnings was HK\$3.07bn, up 118.4% YoY, close to high end of positive profit alert. Mgmt. intends to accelerate capacity expansion by putting 8x1,000 tonnes melting capacity to commence operation in 2022, reflecting 58% capacity growth in the year. In 2H21, we still see uncertainty for demand recovery, and we also think unexpected Beihai silica sand quality could bring challenge to short term cost outlook. We trimmed 2021/22 earnings by 11.5%/15.9%. We think YYS is fully priced. Maintain HOLD with TP unchanged at HK\$15.0.

- 1H21 net profit surged 118.4% YoY.** Revenue surged 74.7% YoY to HK\$8.1bn on the back of increasing PV glass sales volume and significantly higher ASP (22.7% higher for 3.2mm PV glass). Gross profit also increased 104.2% YoY to HK\$4.47bn with overall GPM expanded 8.0ppt to 55.4%. Major expenses remained largely stable, while finance costs exhibited significant reduction due to lower interest rate. Net profit was HK\$3.07bn, up 118.5% YoY, reaching the upper end of positive profit alert. YYS declared an interim dividend of HK\$0.17, reflecting 48.8% payout ratio of a 1H21 EPS of HK\$0.3487.
- Accelerating capacity expansion pace.** YYS' revised capacity plan in 2022 would be a surprise to the market, in our view. The Company added 3,000 melting tonnes in 7M21, and planning to have another 1,000 melting capacity to commence operation in Sep. For 2022, YYS officially announced its capacity expansion plan of 8x1,000 melting tonnes capacity, four of which will be in Zhangjiagang (张家港), and the remaining four will be in Wuhu. Mgmt. intends to put those new production line commence operation by the end of 3Q22, reflecting a capacity growth of 58% in 2022. In full output, we estimate those 8,000 tonnes new capacity can release more than 66GW PV glass supply, which could potentially weigh on PV glass price together with other new supplies from rivals.
- Facing short term costs pressure.** PV glass segment read high GPM of 51.2% during 1H21 on the back of high ASP. Looking ahead in 2H21E, we think YYS is not only facing pricing pressures from PV supply chain disruption, but also facing challenges from increasing costs from fuel, silica sand and soda ash. To our surprise, YYS entered into connected transaction with Xinyi Glass (868 HK, NR) for Beihai silica sand supply due to unsuitable silica sand quality for PV glass manufacturing. We think that may bring short term costs pressure to YYS as the Company needs to import more resources to sustain capacity expansion.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK\$ mn)	9,096	12,316	15,956	19,229	22,278
YoY growth (%)	18.6	35.4	29.6	20.5	15.9
Net income (HK\$ mn)	2,416	4,561	5,135	5,673	6,657
EPS (HK\$)	0.30	0.55	0.58	0.64	0.76
EPS CHG (%)	22	83	5.2	11	17
Consensus EPS (HK\$)	N/A	N/A	0.68	0.70	0.83
P/E (x)	53.8	29.4	27.9	25.3	21.5
P/B (x)	9.3	5.4	5.0	4.5	4.0
Yield (%)	0.9	1.6	1.7	1.9	2.2
ROE (%)	17.3	18.4	17.8	17.7	18.6
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\$15.00)
Up/Downside	-7.9%
Current Price	HK\$16.28

### China Solar Sector

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### Stock Data

Mkt Cap (HK\$ mn)	144,715
Avg 3 mths t/o (HK\$ mn)	826.4
52w High/Low (HK\$)	24.8/6.67
Total Issued Shares (mn)	8,889

Source: Bloomberg

### Shareholding Structure

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

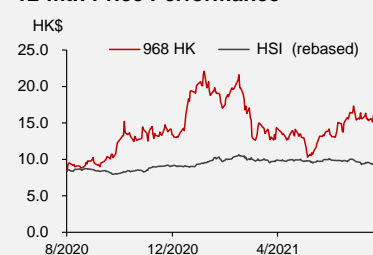
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-6.9%	3.4%
3-mth	20.0%	32.8%
6-mth	-10.9%	-0.8%
12-mth	84.0%	74.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

- Xinyi Solar (968 HK) – “Uncertainties to remain in 2H21E” – 21 Jun 2021
- Xinyi Solar (968 HK) – “Price war brewing” – 2 Mar 2021

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- Improving PV model demand outlook in Jul.** XYS maintains optimistic PV installation outlook in China. Mgmt. expressed that order flow has been picking up as module manufacturers are boosting capacity utilization rates to prepare for demand recovery in 4Q21E. PV glass inventory stayed healthy with ~1-month's volume, according to mgmt. We think the pricing relationship along the PV supply chain is still a key to demand recovery in China, and we still think the uncertainty is high.
- Maintain HOLD rating.** Based on XYS' 1H21 performance and capacity expansion plan, we trimmed 2021-23E ASP assumptions by 0.8%/6.1%/6.1% respectively. We also lifted XYS' PV glass cost outlook in 2021E slightly by 5% to reflect material costs pressures. We cut 2021-22E earnings outlook by 11.5%/15.9% to HK\$5,135/5,673mn respectively, and lifted 2023E earnings by 5.7% on the back of production output growth. Trading at 25.3x FY22E PER, we think XYS' value is fully priced. Our TP is maintained at HK\$15.0. Maintain HOLD rating.

Figure 1: 1H21 earnings summary

(HK\$ mn)	1H20A	2H20A	FY20	1H21A	2H21E	FY21E	1H21 YoY%
<b>Revenue</b>	<b>4,623</b>	<b>7,693</b>	<b>12,316</b>	<b>8,075</b>	<b>7,881</b>	<b>15,956</b>	<b>74.7%</b>
Solar glass manufacturing	3,488	6,504	9,992	6,598	6,614	13,212	89.2%
Solar power generation	1,101	1,222	2,324	1,477	1,267	2,744	34.1%
EPC services	34	(34)	-	-	-	-	-100.0%
<b>Cost of Sales</b>	<b>(2,434)</b>	<b>(3,298)</b>	<b>(5,732)</b>	<b>(3,605)</b>	<b>(4,886)</b>	<b>(8,492)</b>	<b>48.1%</b>
Gross profit	2,189	4,395	6,584	4,470	2,995	7,465	104.2%
Gross profit margin	47.3%	57.1%	53.5%	55.4%	38.0%	46.8%	8.0ppt
Other income	71	120	191	123	66	189	73.9%
Other(losses)/gains, net	(1)	(50)	(51)	9	(14)	(5)	-775.4%
Selling and marketing expenses	(136)	(180)	(317)	(250)	(239)	(490)	83.8%
... as % to revenue	2.9%	2.3%	2.6%	3.1%	3.0%	3.1%	0.2ppt
Administrative expenses	(208)	(340)	(548)	(356)	(342)	(698)	71.1%
... as % to revenue	4.5%	4.4%	4.5%	4.4%	4.3%	4.4%	-0.1ppt
<b>Operating profit</b>	<b>1,914</b>	<b>3,945</b>	<b>5,859</b>	<b>3,996</b>	<b>2,466</b>	<b>6,462</b>	<b>108.8%</b>
Finance income	22	39	61	71	(0)	71	225.0%
Finance costs	(116)	(74)	(191)	(67)	(57)	(124)	-42.4%
Share profits	19	17	36	19	22	41	-0.6%
<b>Profit before income Tax</b>	<b>1,838</b>	<b>3,926</b>	<b>5,764</b>	<b>4,019</b>	<b>2,432</b>	<b>6,450</b>	<b>118.6%</b>
Income tax expense	(225)	(510)	(735)	(613)	(193)	(806)	172.2%
Effective tax rate	12.3%	13.0%	12.8%	15.3%	7.9%	12.5%	3.0ppt
<b>Profit after tax</b>	<b>1,613</b>	<b>3,410</b>	<b>5,023</b>	<b>3,405</b>	<b>2,238</b>	<b>5,643</b>	<b>111.2%</b>
Less: Minority interests	206	256	462	333	176	509	61.5%
<b>Net income</b>	<b>1,406</b>	<b>3,154</b>	<b>4,561</b>	<b>3,072</b>	<b>2,062</b>	<b>5,135</b>	<b>118.4%</b>
Net margin	30.4%	41.0%	37.0%	38.0%	26.2%	32.2%	7.6ppt

Source: Company data, CMBIS estimates

**Figure 2: Earnings revision**

	Old			New			Change%		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
PV glass ASP (RMB/sqm, VAT excl.)	25.3	24.5	24.5	25.1	23.0	23.0	-0.8%	-6.1%	-6.1%
PV glass sales volume (mn sqm )	526	666	778	495	662	777	-5.9%	-0.5%	0.0%
Revenue (HK\$, mn)	16,901	20,379	23,528	15,956	19,229	22,278	-5.6%	-5.6%	-5.3%
Net income(HK\$, mn)	5,802	6,743	7,668	5,135	5,673	6,657	-11.5%	-15.9%	-13.2%
EPS(HK\$)	0.66	0.77	0.87	0.58	0.64	0.76	-11.5%	-15.9%	-13.2%
<b>Consensus earnings</b>							Our est. vs. consensus		
Net profit (HK\$, mn)				5,741	6,090	7,176	-10.6%	-6.9%	-7.2%
EPS(HK\$)				0.68	0.70	0.83	-13.6%	-8.3%	-8.7%

Source: CMBIS estimates

## 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
<b>Revenue</b>	<b>9,096</b>	<b>12,316</b>	<b>15,956</b>	<b>19,229</b>	<b>22,278</b>	<b>EBIT</b>	<b>3,314</b>	<b>5,853</b>	<b>6,462</b>	<b>7,004</b>	<b>8,179</b>
Solar glass sales	6,767	9,992	13,212	16,212	19,023	Depreciation and amortization	795	855	1,122	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)	(1,395)	(863)	(678)
EPC services	101	-	-	-	-	Taxation	(281)	(502)	(959)	(724)	(846)
<b>Cost of sales</b>	<b>(5,185)</b>	<b>(5,732)</b>	<b>(8,492)</b>	<b>(10,947)</b>	<b>(12,598)</b>	Others	(427)	(503)	(687)	(793)	(895)
<b>Gross profit</b>	<b>3,912</b>	<b>6,584</b>	<b>7,465</b>	<b>8,282</b>	<b>9,680</b>	<b>Net cash from operating</b>	<b>1,583</b>	<b>3,496</b>	<b>4,543</b>	<b>5,958</b>	<b>7,273</b>
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)	(490)	(645)	(753)	Others	(904)	-	-	-	-
Admin and other exps	(427)	(548)	(698)	(818)	(933)	<b>Net cash from investment</b>	<b>(2,262)</b>	<b>(4,596)</b>	<b>(4,605)</b>	<b>(3,172)</b>	<b>(2,819)</b>
<b>EBIT</b>	<b>3,314</b>	<b>5,853</b>	<b>6,462</b>	<b>7,004</b>	<b>8,179</b>	Equity raised	2,091	9,165	-	-	0
Financial income	49	61	71	69	86	Change of Debts	(2,086)	(570)	467	590	517
Financial cost	(304)	(191)	(124)	(153)	(184)	Dividend paid	(765)	(1,381)	(2,730)	(2,594)	(2,959)
Share profit	33	36	41	43	45	Others	2,887	1,106	509	559	615
Pre-tax profit	<b>3,093</b>	<b>5,758</b>	<b>6,450</b>	<b>6,963</b>	<b>8,125</b>	<b>Net cash from financing</b>	<b>2,127</b>	<b>8,321</b>	<b>(1,754)</b>	<b>(1,444)</b>	<b>(1,827)</b>
Income tax	(294)	(735)	(806)	(731)	(853)	<b>Net change in cash</b>	<b>1,447</b>	<b>7,221</b>	<b>(1,816)</b>	<b>1,342</b>	<b>2,627</b>
Minority interests	(382)	(462)	(509)	(559)	(615)	Cash at the beginning	784	2,221	9,291	7,475	8,817
<b>Net profit</b>	<b>2,416</b>	<b>4,561</b>	<b>5,135</b>	<b>5,673</b>	<b>6,657</b>	Exchange difference	(10)	(151)	-	-	-
						<b>Cash at the end of the year</b>	<b>2,221</b>	<b>9,291</b>	<b>7,475</b>	<b>8,817</b>	<b>11,445</b>

Balance sheet						Key ratios					
YE 31 Dec (HK\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>18,930</b>	<b>23,545</b>	<b>27,613</b>	<b>29,308</b>	<b>30,820</b>	<b>Sales mix (%)</b>					
Fixed assets	16,711	20,406	23,870	25,707	27,012	Solar glass sales	74.4	81.1	82.8	84.3	85.4
Land use rights	-	-	-	-	-	Solar power generation	24.5	18.9	17.2	15.7	14.6
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	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current assets</b>	<b>9,467</b>	<b>19,878</b>	<b>19,692</b>	<b>23,184</b>	<b>27,406</b>	<b>Profit &amp; loss ratios (%)</b>					
Cash	2,221	9,291	7,475	8,817	11,445	Gross margin	43.0	53.5	46.8	43.1	43.5
Account receivable	5,437	8,136	9,422	11,326	12,668	Pre-tax margin	34.0	46.8	40.4	36.2	36.5
Inventory	410	728	925	1,135	1,332	Net margin	26.6	37.0	32.2	29.5	29.9
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	<b>Balance sheet ratios</b>					
<b>Current liabilities</b>	<b>5,834</b>	<b>8,323</b>	<b>8,034</b>	<b>9,223</b>	<b>10,327</b>	Current ratio (x)	1.6	2.4	2.5	2.5	2.7
Trade and other payable	2,220	3,378	3,964	4,864	5,707	Quick ratio (x)	1.6	2.3	2.3	2.4	2.5
Amount due	91	167	167	167	167	Cash ratio (x)	0.4	1.1	0.9	1.0	1.1
Current income tax liabilities	102	540	551	562	574	Debtors turnover days	192.4	201.1	200.8	196.9	196.6
Borrowings	3,389	4,057	3,317	3,595	3,845	Inventory turnover days	29.6	36.3	35.5	34.3	35.7
Others	32	181	35	35	35	Creditors turnover days	176.0	178.2	157.8	147.2	153.1
<b>Non-current liabilities</b>	<b>3,989</b>	<b>3,076</b>	<b>4,332</b>	<b>4,693</b>	<b>5,009</b>	Total debt / equity ratio (%)	42.7	23.4	20.9	20.6	19.9
Borrowings	3,921	2,752	4,000	4,357	4,670	Net debt / equity ratio (%)	40.3	(6.7)	(0.5)	(2.7)	(8.2)
Other payables	57	312	315	318	322	<b>Returns (%)</b>					
Deferred tax liabilities	12	12	17	17	17	ROE	17.0	17.2	17.8	17.7	18.6
<b>Total net assets</b>	<b>18,573</b>	<b>32,025</b>	<b>34,938</b>	<b>38,576</b>	<b>42,889</b>	ROA	8.5	10.5	10.9	10.8	11.4
<b>Minority Interest</b>	<b>4,396</b>	<b>5,503</b>	<b>6,011</b>	<b>6,571</b>	<b>7,186</b>	<b>Per share</b>					
<b>Shareholders' equity</b>	<b>14,177</b>	<b>26,522</b>	<b>28,927</b>	<b>32,006</b>	<b>35,703</b>	EPS (HK\$)	0.30	0.55	0.58	0.64	0.76
						DPS (HK\$)	0.14	0.26	0.28	0.31	0.36
						BVPS (HK\$)	1.85	3.28	3.28	3.63	4.05

Source: Company data, CMBIS estimates

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