

Xinyi Solar [0968.HK]

2014 earnings largely in line; Positive management guidance; Reiterate BUY

Xinyi Solar (XYS)'s net profit came in at HK\$493m, up 62% YoY, in line with the pre-announced profit alert released in last December (+50% to 70%). Positive management guidance during the analyst meeting reaffirms our bullish stance on YYS's growth story, on the back of a potential recovery of solar glass pricing, cost reduction on the decline in natural gas price as well as aggressive target on solar farm construction. Reiterate **BUY** with TP of HK\$3.38 (based on 19x 2015E PER).

- **We expect margin to recover starting 2015E.** The PV processed glass's gross margin dropped to 31.2% in 2H14 (versus 36.9% in 2H13 and 35.9% in 1H14), due to pricing pressure on solar glass as well as high energy cost. However, management is confident on solar glass pricing recovery this year due to (1) continuous growth of global demand for solar glass; (2) limited new capacity addition in the market (other than the commencement of YYS's two production lines [900t x 2]). On the cost side, NDRC's latest round of natural gas tariff revision will help YYS to significantly reduce cost, given that most of YYS's production capacities are using the gas based on "incremental gas price" which will be reduced by RMB0.44m³ starting April 1, 2015. On the other hand, YYS's new production line in Malaysia (900t) is expected to be completed in mid-2016, which will help further lower the energy cost.
- **Solar power generation to reach 500GWh this year.** YYS completed 250MW and 38.1MW of ground mounted solar farm and distributive solar power plants (self-use) respectively in 2014. While the revenue from solar power generation was only at a lower than expected HK\$31m in 2014, management explained that it was due to the management of revenue recognition in order to enjoy a full year preferential tax treatment starting this year. Management expects the solar power generation to reach 500Gwh this year, with gross margin of ~65% (Depreciation will be included in cost of sales).
- **Potential solar farms disposal may offer additional upside on our estimates.** YYS targets to add another 1GW of project this year, above our expectation. Most new solar farms will be located near YYS's solar glass production base. Average solar project capex will be RMB6-7/watt (below industry average), with utilization hours of 1100-1300. This, coupled with low borrowing costs in Hong Kong, will help YYS achieve an equity IRR of 20% (high end of industry range based on our estimates). YYS will sell some solar farm projects to reduce funding pressure and enhance return.
- **Total capex of HK\$4bn this year.** Of which more than HK\$3.6bn is budgeted for solar farm installation while the balance will be for solar glass business.
- **Risks:** (1) Cyclical nature of solar glass segment; (2) policy risk; (3) unexpected energy cost hike; (4) rising gearing ratio.

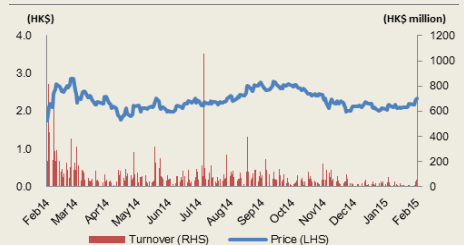
Solar Power Sector

BUY

Close: HK\$2.37 (Mar 2, 2015)

Target Price: HK\$3.38 (+43%)

Share Price Performance



Market Cap	US\$1,858m
Shares Outstanding	6,080m
Auditor	PWC
Free Float	33%
52W range	HK\$1.75-2.95
3M average daily T/O	US\$3.2m
Major Shareholding	Management (35.66%) Xinyi Glass (31.21%)

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Figure 1: Earnings projection

(HK\$ m)	2012	2013	2014	2015E	2016E
Income statement					
Revenue	1,533	1,968	2,410	4,688	5,536
Solar glass	1,533	1,968	2,379	3,235	3,398
Solar power generation	0	0	31	531	846
Solar EPC	0	0	0	923	1,292
Cost of sales	(1,269)	(1,375)	(1,649)	(3,021)	(3,519)
Solar glass	(1,269)	(1,375)	(1,644)	(2,063)	(2,141)
Solar farm	0	0	(4)	(186)	(296)
Solar EPC	0	0	0	(773)	(1,082)
Gross profit	264	592	761	1,667	2,018
Solar glass	264	592	735	1,172	1,258
Solar farm	0	0	27	345	550
Solar EPC	0	0	0	150	210
Other income	40	63	87	85	85
Other gain/(loss), net	2	0	(13)	0	0
S&D expenses	(72)	(124)	(98)	(173)	(188)
Administrative expenses	(93)	(162)	(160)	(258)	(288)
EBIT	143	369	577	1,321	1,627
D&A	110	100	94	322	482
EBITDA	253	468	671	1,643	2,108
Net finance income/(expenses)	1	2	(5)	(70)	(126)
Pretax profit	144	370	572	1,251	1,500
Income tax	(24)	(67)	(79)	(173)	(210)
Net profit	120	304	493	1,078	1,290
Recurring net profit	120	304	493	1,078	1,290
EPS (HK\$)	0.03	0.07	0.08	0.18	0.21
Recurring EPS	0.03	0.07	0.08	0.18	0.21

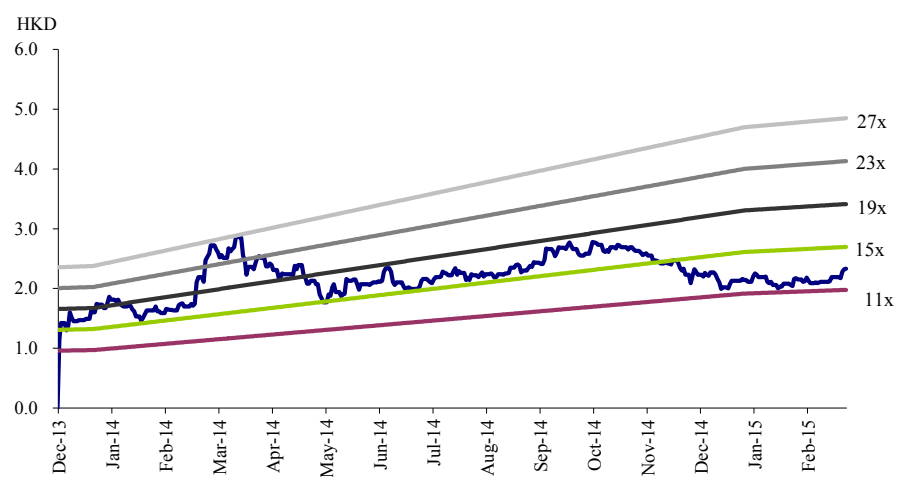
(HK\$ m)	2012	2013	2014	2015E	2016E
Balance sheet					
Non-current assets					
PP&E	1,655	1,368	3,685	7,367	8,889
Land use right	188	189	180	176	173
Investment in associate/JV	0	0	0	0	0
Others	22	55	296	296	296
Total non-current assets	1,865	1,612	4,162	7,840	9,358
Current assets					
Inventories	217	91	299	446	460
Trade and other receivables	521	499	733	1,323	1,104
Cash	54	279	543	498	957
Others	138	206	28	28	28
Total current assets	931	1,075	1,602	2,294	2,549
Total assets	2,796	2,687	5,764	10,134	11,908
Current liabilities					
Trade and other payables	190	350	1,121	1,859	1,612
Short term bank borrowings	0	0	143	1,143	1,643
Others	1,512	17	28	28	28
Total current liabilities	1,701	367	1,291	3,029	3,282
Non Current Liabilities					
Deferred tax liabilities	4	10	10	10	10
Long term bank borrowings	0	0	1,157	2,857	3,357
Others	25	0	0	0	0
Total non-current Liabilities	29	10	1,167	2,867	3,367
Equity					
Share capital	921	1,908	2,460	2,460	2,460
Retained earnings	144	403	846	1,778	2,799
	1,065	2,310	3,306	4,238	5,259
MI	0	0	0	0	0
Total equity	1,065	2,310	3,306	4,238	5,259
Total equity and liabilities	2,796	2,687	5,764	10,134	11,908
BVPS (HK\$)	-	0.41	0.54	0.70	0.86

(HK\$ m)	2012	2013	2014E	2015E	2016E
Cash flow statement					
Operating activities					
Pretax profit	144	370	572	1,251	1,500
D&A	110	100	96	322	482
Finance costs	0	0	7	76	135
Interest income	(1)	(2)	(2)	(6)	(9)
Change in working capital	(110)	224	329	1	(44)
Income tax paid	(61)	(44)	(79)	(173)	(210)
Others	4	5	(208)	0	0
Operating cash flow	87	654	715	1,471	1,854
Investing activities					
Capex on PP&E	(348)	(240)	(2,409)	(4,000)	(2,000)
Purchase of land use right	0	0	0	0	0
Interest received	1	2	2	6	9
Others	38	113	0	0	0
Investing cash flow	(309)	(125)	(2,407)	(3,994)	(1,991)
Financing activities					
Proceed from equity	0	0	779	0	0
Proceed from/(repayment of) borrowings	0	0	1,300	2,700	1,000
Dividends paid	0	0	(103)	(146)	(270)
Finance costs	0	0	(7)	(76)	(135)
Advance from related parties	242	(292)	0	0	0
Others	2	(13)	0	0	0
Financing cash flow	244	(305)	1,969	2,478	595
Net change in cash	22	224	264	(45)	459

	2012	2013	2014	2015E	2016E
Valuation					
PER (recurring earnings) (x)	-	32.3	28.1	13.4	11.2
Dividend yield	-	1.0%	1.1%	1.9%	2.2%
PBR (x)	-	5.8	4.4	3.4	2.7
EV/EBITDA (x)	-	32.4	22.6	9.2	7.2
Growth rate					
Revenue	24%	28%	22%	95%	18%
EBIT	-63%	158%	56%	129%	23%
EBITDA	-42%	85%	43%	145%	28%
Recurring net profit	-63%	153%	62%	119%	20%
Recurring EPS	-63%	114%	15%	111%	20%
Operating ratios					
Gross margin	17%	30%	32%	36%	36%
EBIT margin	9%	19%	24%	28%	29%
EBITDA margin	16%	24%	28%	35%	38%
Recurring net margin	8%	15%	20%	23%	23%
Asset turnover	0.54	0.72	0.57	0.59	0.50
Adjusted ROE	12%	18%	18%	29%	27%
Adjusted ROA	4%	11%	12%	14%	12%
Interest coverage	n/a	n/a	132.1	23.5	16.7
Net debt/equity	137%	Net cash	23%	83%	77%
Current ratio	0.55	2.93	1.24	0.76	0.78
Quick ratio	0.52	2.17	0.82	0.59	0.49
Days inventories	91	41	43	45	47
Days receivables	113	95	93	80	80
Days payables	82	72	163	180	180

Sources: Company, CGIHK Research estimates

Figure 2: XYZ PER band



Sources: Bloomberg, CGIHK Research estimates

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