

ACTION

**Removed from Asia Pacific Conviction Buy List
Singyes Solar (0750.HK)**

Equity Research

Off CL but maintain Buy on promising solar outlook

What happened

We maintain Buy on Singyes but remove from our Conviction List given relatively higher TP upside potential elsewhere in our solar coverage. We lower our 12m TP to HK\$14.4 (was HK\$16.7) on revising down 2014-15E EPS 6-8% on higher finance costs and lower margins due to ASP decreases as well as a lower TP multiple (2016E EPS is unchanged on the offset from cost reductions). We believe Singyes remains well positioned to leverage China's robust installation growth in 2015 driven by increased adoption of distributed generation (DG) projects, improving financing and declining funding costs for solar, and a potential Feed in Tariff cut in early 2016.

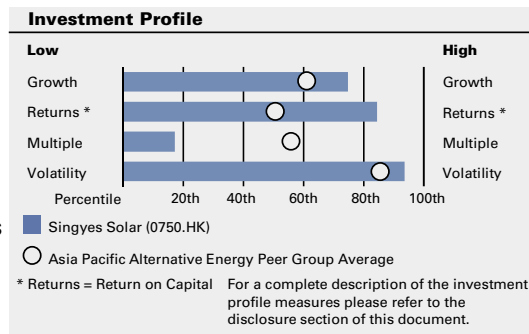
Current view

Since we added Singyes to CL on March 7, 2014, shares are down 5.7% vs. Hang Seng Index +6.6%, which we attribute to the oil price correction and slower-than-expected DG development in 2014. We still see ample room for earnings growth in 2015 and beyond mainly because of: **(1)** The strategic partnership with GCL New Energy creates additional order opportunities in 2015-16. GCL-New Energy targets to complete 2GW new installations in 2015 vs. 600MW currently installed. **(2)** Growing adoption of DG projects: China installed 10.6GW solar projects in 2014, 2GW of which is from DG projects. In 2015, NEA targets 15GW total solar installation, 8GW and 3GW of which will be DG and rooftop DG, respectively. NEA announced a distributed generation policy in Sep 2014 and we expect a full-year policy impact on 2015's installation. In particular, listed companies including Trina and Beijing Enterprises Water have announced their interest to scale up the DG solar investment. Over the long run, we expect Singyes will gradually enhance its exposure to downstream solar operations to generate more recurrent earnings. Separately, Singyes issued c.HK\$2bn of loans in senior notes and convertible bonds in 2H14, which we estimate bring c.HK\$50mn finance cost in 2H14. We lower the sector cash flow multiple in our 2015E EV/GCI vs. CROCI/WACC-based TP to 0.73X from 0.8X due to the sector's share price devaluation. Key risks: Margin pressure on EPC sales and slower solar installation in China.

INVESTMENT LIST MEMBERSHIP
Asia Pacific Buy List

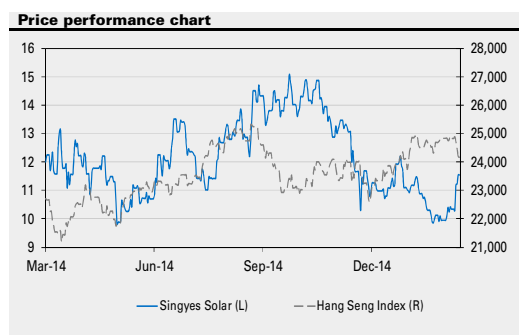
Coverage View: Neutral

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| Key data | Current |
|--------------------------------|-------------------|
| Price (HK\$) | 11.54 |
| 12 month price target (HK\$) | 14.40 |
| Market cap (HK\$ mn / US\$ mn) | 8,168.1 / 1,053.1 |
| Foreign ownership (%) | -- |

| | 12/13 | 12/14E | 12/15E | 12/16E |
|----------------------------|-------------|-------------|-------------|-------------|
| EPS (Rmb) New | 0.74 | 0.94 | 1.13 | 1.35 |
| EPS revision (%) | 0.0 | (8.2) | (5.8) | 0.1 |
| EPS growth (%) | 41.6 | 27.8 | 19.8 | 19.7 |
| EPS (dil) (Rmb) New | 0.74 | 0.94 | 1.13 | 1.35 |
| P/E (X) | 8.5 | 9.9 | 8.3 | 6.9 |
| P/B (X) | 1.6 | 2.0 | 1.6 | 1.3 |
| EV/EBITDA (X) | 6.3 | 7.3 | 5.6 | 4.6 |
| Dividend yield (%) | 1.2 | 1.0 | 1.2 | 1.4 |
| ROE (%) | 22.5 | 22.6 | 21.2 | 20.2 |
| CROCI (%) | 14.2 | 21.7 | 25.7 | 23.3 |



| Share price performance (%) | 3 month | 6 month | 12 month |
|-----------------------------|---------|---------|----------|
| Absolute | (1.0) | (20.4) | (3.8) |
| Rel. to Hang Seng Index | (1.7) | (16.9) | (9.6) |

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/06/2015 close.

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Singyes Solar: Summary Financials

| Profit model (Rmb mn) | 12/13 | 12/14E | 12/15E | 12/16E | Balance sheet (Rmb mn) | 12/13 | 12/14E | 12/15E | 12/16E |
|---|------------------|------------------|----------------|----------------|---------------------------------------|----------------|----------------|----------------|----------------|
| Total revenue | 4,150.5 | 5,544.8 | 6,766.0 | 8,420.2 | Cash & equivalents | 894.7 | 1,292.0 | 1,671.3 | 1,988.0 |
| Cost of goods sold | (3,162.1) | (4,225.7) | (5,161.5) | (6,512.5) | Accounts receivable | 2,030.8 | 1,671.0 | 1,668.3 | 1,845.5 |
| SG&A | (294.6) | (343.8) | (414.8) | (516.2) | Inventory | 76.6 | 115.8 | 141.4 | 178.4 |
| R&D | -- | -- | -- | -- | Other current assets | 464.4 | 400.0 | 140.0 | 80.0 |
| Other operating profit/(expense) | 0.0 | 0.0 | 0.0 | 0.0 | Total current assets | 3,466.6 | 3,478.8 | 3,621.1 | 4,091.9 |
| EBITDA | 760.1 | 1,084.5 | 1,342.6 | 1,567.5 | Net PP&E | 2,680.2 | 3,773.0 | 4,351.3 | 4,728.0 |
| Depreciation & amortization | (66.3) | (109.2) | (152.9) | (176.1) | Net intangibles | 1.7 | 1.7 | 1.7 | 1.7 |
| EBIT | 693.8 | 975.3 | 1,189.7 | 1,391.5 | Total investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest income | 24.4 | 31.3 | 45.2 | 58.5 | Other long-term assets | 152.3 | 314.7 | 458.9 | 632.0 |
| Interest expense | (135.3) | (192.6) | (251.5) | (264.8) | Total assets | 6,300.7 | 7,568.2 | 8,432.9 | 9,453.6 |
| Income/(loss) from uncons. subs. | 0.0 | 0.0 | 0.0 | 0.0 | Accounts payable | 1,293.0 | 578.9 | 565.6 | 535.3 |
| Others | 43.2 | 40.0 | 40.0 | 40.0 | Short-term debt | 869.6 | 569.6 | 569.6 | 569.6 |
| Pretax profits | 626.2 | 854.0 | 1,023.4 | 1,225.2 | Other current liabilities | 215.8 | 215.8 | 215.8 | 215.8 |
| Income tax | (135.9) | (187.9) | (225.1) | (269.5) | Total current liabilities | 2,378.4 | 1,364.3 | 1,351.1 | 1,320.8 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | Long-term debt | 681.3 | 2,181.3 | 2,181.3 | 2,181.3 |
| Net income pre-preferred dividends | 490.3 | 666.1 | 798.2 | 955.6 | Other long-term liabilities | 641.9 | 641.9 | 641.9 | 641.9 |
| Preferred dividends | 0.0 | 0.0 | 0.0 | 0.0 | Total long-term liabilities | 1,323.2 | 2,823.2 | 2,823.2 | 2,823.2 |
| Net income (pre-exceptionals) | 490.3 | 666.1 | 798.2 | 955.6 | Total liabilities | 3,701.6 | 4,187.5 | 4,174.3 | 4,143.9 |
| Post-tax exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | Preferred shares | 49.0 | 49.0 | 49.0 | 49.0 |
| Net income | 490.3 | 666.1 | 798.2 | 955.6 | Total common equity | 2,550.1 | 3,331.7 | 4,209.6 | 5,260.7 |
| EPS (basic, pre-exception) (Rmb) | 0.75 | 0.96 | 1.15 | 1.38 | Minority interest | 0.0 | 0.0 | 0.0 | 0.0 |
| EPS (basic, post-exception) (Rmb) | 0.75 | 0.96 | 1.15 | 1.38 | Total liabilities & equity | 6,300.7 | 7,568.2 | 8,432.9 | 9,453.6 |
| EPS (diluted, post-exception) (Rmb) | 0.74 | 0.94 | 1.13 | 1.35 | BVPS (Rmb) | 3.83 | 4.71 | 5.95 | 7.43 |
| DPS (Rmb) | 0.07 | 0.09 | 0.11 | 0.13 | | | | | |
| Dividend payout ratio (%) | 9.8 | 9.8 | 9.8 | 9.8 | | | | | |
| Free cash flow yield (%) | (21.2) | (11.7) | 6.9 | 6.1 | | | | | |
| | | | | | | | | | |
| Growth & margins (%) | 12/13 | 12/14E | 12/15E | 12/16E | Ratios | 12/13 | 12/14E | 12/15E | 12/16E |
| Sales growth | 34.0 | 33.6 | 22.0 | 24.4 | CROCI (%) | 14.2 | 21.7 | 25.7 | 23.3 |
| EBITDA growth | 39.4 | 42.7 | 23.8 | 16.8 | ROE (%) | 22.5 | 22.6 | 21.2 | 20.2 |
| EBIT growth | 41.3 | 40.6 | 22.0 | 17.0 | ROA (%) | 9.5 | 9.6 | 10.0 | 10.7 |
| Net income growth | 49.5 | 35.9 | 19.8 | 19.7 | ROACE (%) | 20.6 | 19.6 | 18.8 | 19.6 |
| EPS growth | 44.4 | 27.9 | 19.8 | 19.7 | Inventory days | 8.1 | 8.3 | 9.1 | 9.0 |
| Gross margin | 23.8 | 23.8 | 23.7 | 22.7 | Receivables days | 148.3 | 121.8 | 90.1 | 76.2 |
| EBITDA margin | 18.3 | 19.6 | 19.8 | 18.6 | Payable days | 104.4 | 80.8 | 40.5 | 30.9 |
| EBIT margin | 16.7 | 17.6 | 17.6 | 16.5 | Net debt/equity (%) | 25.2 | 43.2 | 25.4 | 14.4 |
| | | | | | Interest cover - EBIT (X) | 6.3 | 6.0 | 5.8 | 6.7 |
| | | | | | | | | | |
| Cash flow statement (Rmb mn) | 12/13 | 12/14E | 12/15E | 12/16E | Valuation | 12/13 | 12/14E | 12/15E | 12/16E |
| Net income pre-preferred dividends | 490.3 | 666.1 | 798.2 | 955.6 | P/E (analyst) (X) | 8.5 | 9.9 | 8.3 | 6.9 |
| D&A add-back | 66.3 | 109.2 | 152.9 | 176.1 | P/B (X) | 1.6 | 2.0 | 1.6 | 1.3 |
| Minorities interests add-back | 0.0 | 0.0 | 0.0 | 0.0 | EV/EBITDA (X) | 6.3 | 7.3 | 5.6 | 4.6 |
| Net (inc)/dec working capital | 74.7 | (393.5) | (36.2) | (244.6) | EV/GCI (X) | 1.3 | 1.5 | 1.4 | 1.2 |
| Other operating cash flow | (200.7) | 64.4 | 260.0 | 60.0 | Dividend yield (%) | 1.2 | 1.0 | 1.2 | 1.4 |
| Cash flow from operations | 430.6 | 446.2 | 1,175.0 | 947.1 | | | | | |
| Capital expenditures | (1,300.6) | (1,200.0) | (729.2) | (550.7) | | | | | |
| Acquisitions | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Divestitures | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Cash flow from investments | (1,300.6) | (1,200.0) | (729.2) | (550.7) | | | | | |
| Dividends paid (common & pref) | (35.9) | (49.0) | (66.5) | (79.7) | | | | | |
| Inc/(dec) in debt | 344.5 | 1,200.0 | 0.0 | 0.0 | | | | | |
| Common stock issuance (repurchase) | 244.3 | 0.0 | 0.0 | 0.0 | | | | | |
| Other financing cash flows | 513.8 | 0.0 | 0.0 | 0.0 | | | | | |
| Cash flow from financing | 1,066.7 | 1,151.0 | (66.5) | (79.7) | | | | | |
| Total cash flow | 196.6 | 397.3 | 379.3 | 316.7 | | | | | |

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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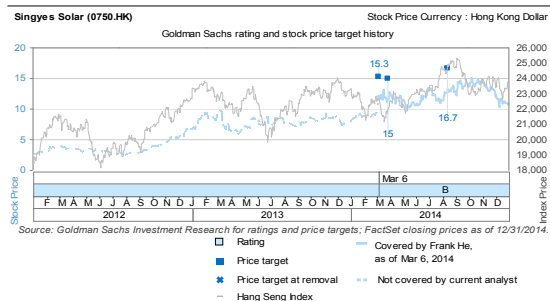
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|--------|---------------------|------|------|----------------------------------|------|------|
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