

Singyes Solar (750.HK)

Gear up for Upsurging Installations of PV Capacity

Hong Kong | New Energy | Update Report

20 May 2015

Results were well below what was expected

The Company's results for the year 2014 showed that its operating revenues registered RMB5.01 billion, up by 20% yoy; it recorded gross profit of RMB1.049 billion, up by 6.1% yoy with gross margin of 20.9% going down by 3 ppt from that in 2013. The profit attributable to its shareholders was RMB584 million, up by 19.1% yoy, with the earning per share of RMB0.84, which was much lower than expected.

Curtain wall business had a solid growth

The Company had a stable growth in the business of curtain wall and green buildings which reported the revenues of RMB1.67 billion, up by 21.9% yoy; it recorded a gross margin of 15.3%, down by 0.8 ppt yoy. Despite the current downturn of the property market, the Company underwent a fast growth in green building business. So it has identified green building as a business priority.

PV EPC projects delayed

The total revenue generated by PV EPC projects was RMB2.06 billion, up by 9.3% yoy. In 2014, only 240MW of EPC projects were completed, which was below what was expected on the market. The Company has set a target of 600MW for this year, with above-ground power plant and distributed power station accounting for 50% each. The business is expected to have a significant growth in this year and it is likely for on-grid electricity price to adjust downward two years later, like what happened to the wind power. The coming two years will witness the rushing installation of PV power plants and we are confident about the Company's growth of PV EPC construction scale.

New model helps drive profit margin

PV EPC projects has overall shown a declining gross margin. In case of Singyes Solar, its gross margin fell from 29.5% in 2013 to 26.7% in 2014. Therefore, the Company is introducing new model for EPC projects, i.e., in addition to the construction of PV power plants, it will also help investors look for projects, obtain travel permits and approval of relevant application documents. The management says that the new model is likely to bring their gross margin back to exceed 30%.

Increase the scale of self-owned power plants

Singyes Solar plans to scale up its own power plants in this year by completing the construction of up to 300MW power plants. By the end of 2014, the Company's installed capacity stood at 270MW. On one hand, the operation of its own power plants can provide the stable cash flow for its working capital. On the other hand, a low debt level can be achieved by selling its own power plants as well as afterwards helping the investors operate.

Valuation

National Energy Administration has adjusted this year's planned installation of PV capacity up to 17.8GW, of which 5GW was already completed by the end of Q1. Considering that there will be a upsurging installation of PV capacity in the next two years, the Company's EPC business is projected to double at least if construction goes well, plus the likely increase of orders. Coupled with the growth in green buildings, the operation of its own power plants and sales of new materials, it is expected that the Company's net profit can reach RMB790 million and RMB980 million respectively for the next two years. We set its target stock price at HK\$14.25, equivalent to 10 times earnings in the fiscal year 2015. A "Buy" rating is maintained.

Buy (Maintain)

CMP: HKD 11.80

(Closing price as at 18 May 2015)

TARGET: HKD 14.25

COMPANY DATA

O/S SHARES(MN) :	686
MARTKET CAP (HKD BN) :	82.17
52-WK HI/LO (HKD) :	9.72/ 15.28

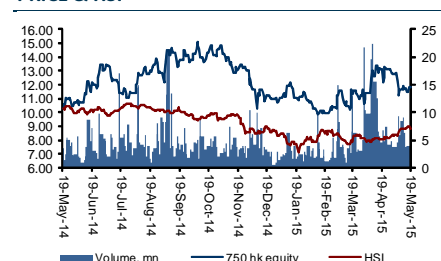
SHARE HOLDING PARTTEN , %

Strong Eagle Holdings Limited	35.28
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PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
750HK	-9.92	18.59	13.46
HSI	-9.7	7.48	-8.06

PRICE & HSI



Source: Phillip Securities (HK) Research

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Net Profit, adj. (RMB 000)	491	584	786	978
EPS, adj. (RMB)	0.75	0.84	1.13	1.41
P/E (X)	12.6	11.2	8.4	6.7
BV/PS (RMB)	3.98	4.52	5.66	7.07
P/B (X)	2.4	2.1	1.7	1.3
DPS (RMB)	0.09	0.09	0.10	0.12
Div. Yield	1.0%	1.0%	1.1%	1.3%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

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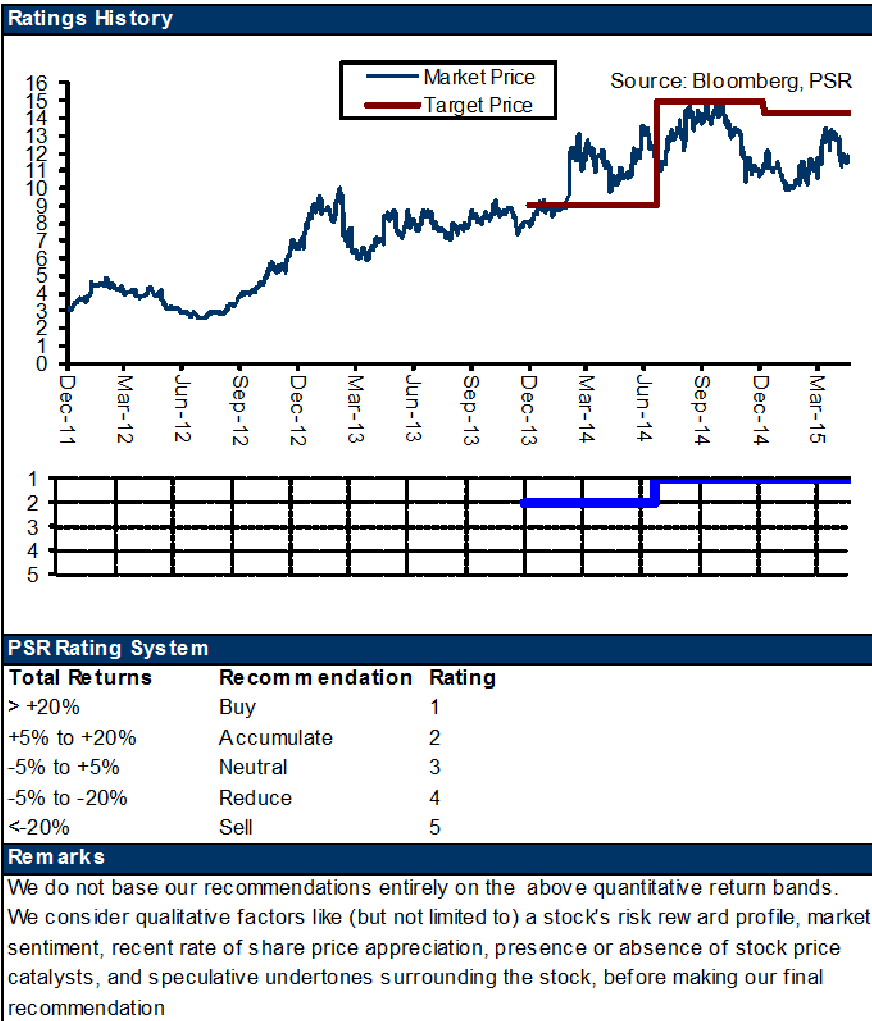
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Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14F	FY15F	FY16F
Valuation Ratios					
P/E (X)	18.2	12.6	11.2	8.4	6.7
P/B (X)	3.2	2.4	2.1	1.7	1.3
Dividend Payout ratio	13.44%	12.00%	10.69%	8.85%	8.51%
Dividend Yield	0.74%	0.95%	0.95%	1.06%	1.27%
Per share data (RMB)					
EPS, reported	0.52	0.75	0.84	1.13	1.41
EPS, adj.	0.52	0.75	0.84	1.13	1.41
DPS	0.07	0.09	0.09	0.10	0.12
BV/PS	2.92	3.98	4.52	5.66	7.07
Growth					
Revenue	28.7%	34.0%	20.7%	54.1%	17.0%
Net Income, adj.	13.0%	49.3%	19.1%	34.5%	24.4%
Key Ratios					
Gross profit margin	24.19%	23.81%	20.93%	22.00%	23.01%
Net profit margin	10.61%	11.82%	11.66%	10.18%	10.82%
Return on average assets	9.37%	9.47%	8.05%	7.98%	7.84%
Return on average equity	19.45%	22.08%	20.35%	22.25%	22.15%
Liability/asset	54.43%	58.75%	61.75%	65.84%	63.53%
Income statement (thousand RMB)					
	FY12	FY13	FY14F	FY15F	FY16F
Operating revenue	3,098	4,151	5,011	7,724	9,037
Cost of good sell	(2,348)	(3,162)	(3,962)	(6,025)	(6,958)
Gross profit	749	988	1,049	1,699	2,079
Other net profit	21	77	234	50	50
Administrative expenses	(197)	(219)	(271)	(107)	(118)
Selling expenses	(61)	(76)	(89)	(312)	(380)
Other cost	(3)	(34)	(102)	(102)	(102)
Interest expense	(89)	(111)	(238)	(280)	(350)
Profit before tax	420	627	699	948	1,179
Income tax	(93)	(136)	(114)	(161)	(200)
Net profit for the period	327	491	585	787	979
Minority interest	(2)	0	1	1	1
Net profit attributable to equity holders	329	491	584	786	978

(Financial figures as at 18 May 2015)



PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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