

Xinyi Solar (968.HK)

Leader in the Solar Glass Industry

Hong Kong | New Energy | Update Report

23 November 2015

The company is the world's largest solar glass manufacturer. With reported revenue of RMB1.88 billion in 2014, it was the world and China's second largest solar glass producer, accounting for global and domestic market shares of 17.1% and 23.7% respectively. As the company significantly expanded its production capacity in 2014 to reach 3,800 tonnes, it has become the largest global and national producer, with market shares of 20.2% and 27.5% respectively. It is expected that the revenue of the company will be the highest among global players in 2015.

Rapid Growth of the Solar Glass Industry

Following the rapid growth of the photovoltaic industry, the production volume of solar glass has also increased annually. In 2010, the production volume of China's solar glass was 99 million sq.m. and it has already increased to 275 million sq. m. by the end of 2014, representing a CAGR of 28.9%. In the next 5 years, with the expected installed capacity of solar plants maintaining at 18GW per year, the production volume of solar glass will also increase mildly, though the pace of increase may slow.

Capacity Expansion being a Catalyst of Profit Growth

In 2015H1, the reported revenue of the company surged by 106.5% yoy to HKD2.05 billion. Net profit attributable to shareholders jumped by 200% yoy to HKD601 million and EPS was HKD0.0943. The 1,800 tonnes of new capacity that commenced operation since 2014H1 contributed to the remarkable increase in profit and secured the company's leading position in the solar glass industry. The gross margin of the company's solar glass business improved from 33.7% in the same period of last year to 35.5%. Although the selling prices of solar glass fell in 2015H1, economies of scale from the increased capacity helped boost the gross margin.

Valuation

As of 2015H1, the company has 280MW of solar plants in operation and targets to increase its aggregate installed capacity to 1GW by the end of 2015, which will be a new catalyst of profit growth. The company's new production line in Malaysia will commence operation next year. We believe that as the solar glass industry is highly competitive, the company is unlikely to further increase its domestic production capacity. It will re-invest its profits from glass production to build more solar farms and eventually be a solar power operator. We recommend a "BUY" rating, with a target price of HKD4.35, which is equivalent to a prospective 2016 P/E of 15x. (Closing price as at 19 Nov 2015)

Buy

CMP: HKD 3.15

(Closing price as at 19 Nov 2015)

TARGET: HKD 4.35

COMPANY DATA

O/S SHARES(MN) :	6749
MARTKET CAP (HKD BN) :	212.59
52-WK HI/LO (HKD) :	1.97/ 3.97

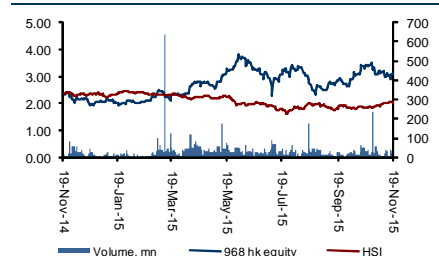
SHARE HOLDING PARTTEN , %

Xinyi Group (Glass) Company Limited	27.03
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PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
968HK	-7.23	13.24	27.27
HSI	-3.38	17.46	32.34

PRICE & HSI



Source: Phillip Securities (HK) Research

Key Financial Summary	12/13	12/14	12/15F	12/16F
FYE				
Operating Profit (RMB 000)	369	577	1,455	2,192
Net Profit, adj. (RMB 000)	304	493	1,237	1,864
EPS, adj. (RMB)	0.07	0.08	0.19	0.29
P/E (X)	45.0	39.4	16.6	10.9
BVPS (RMB)	0.41	0.50	0.65	0.72
P/B (X)	7.7	6.3	4.8	4.4
DPS (RMB)	0.02	0.04	0.08	0.12
Div. Yield	0.6%	1.3%	2.5%	3.8%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

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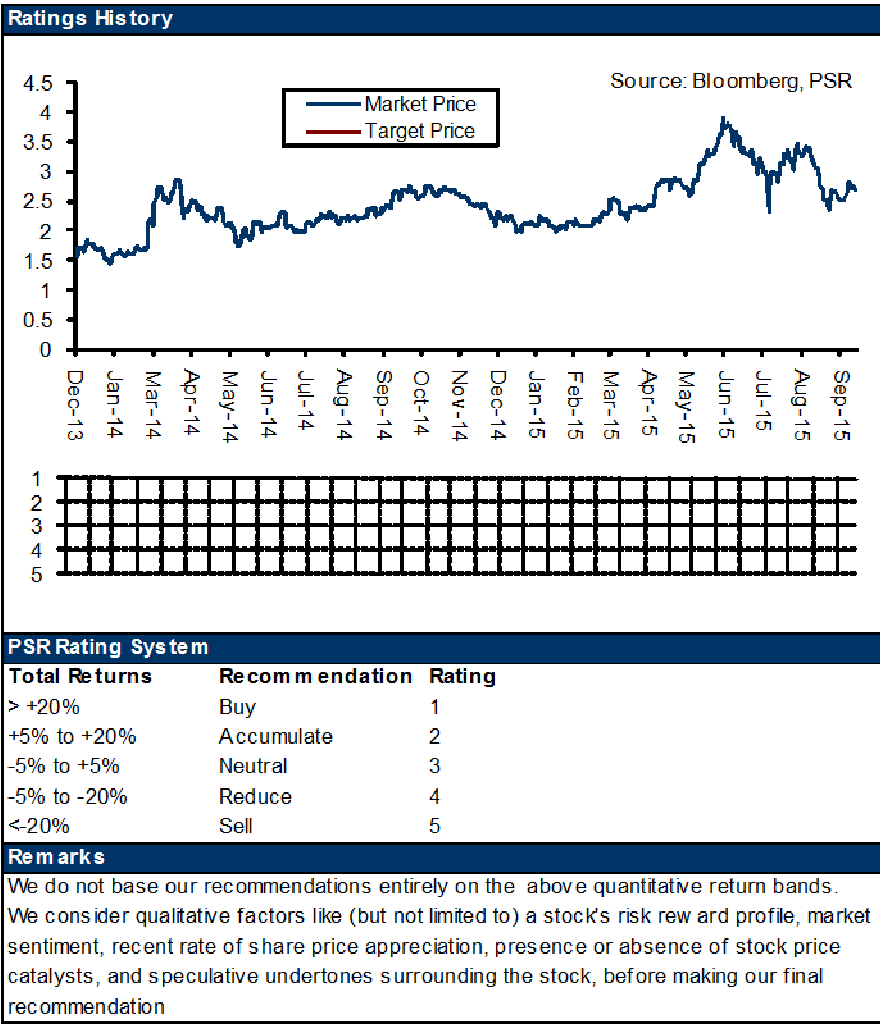
Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X)	105.0	45.0	39.4	16.6	10.9
P/B (X)	16.6	7.7	6.3	4.8	4.4
Dividend Payout ratio	0.00%	28.57%	50.00%	42.11%	41.38%
Dividend Yield	0.00%	0.63%	1.27%	2.54%	3.81%
Per share data (HKD)					
EPS, reported	0.03	0.07	0.08	0.19	0.29
EPS, adj.	0.03	0.07	0.08	0.19	0.29
DPS	0.00	0.02	0.04	0.08	0.12
BVPS	0.19	0.41	0.50	0.65	0.72
Growth					
Revenue		28.4%	22.5%	100.6%	29.6%
Operating income		158.0%	56.4%	152.2%	50.7%
Net Income, adj.		153.3%	62.2%	150.9%	50.7%
Key Ratios					
Gross profit margin	9.33%	18.75%	23.94%	30.09%	34.99%
Net profit margin	7.83%	15.45%	20.46%	25.58%	29.76%
Return on average equity	18.00%	18.50%	25.50%	31.20%	31.00%
Income statement (mn HKD)					
Operating revenue	1,533	1,968	2,410	4,835	6,264
Operating profit	143	369	577	1,455	2,192
Net profit attributable to equity holders	120	304	493	1,237	1,864

Source: PSR

(Financial figures as at 19 Nov 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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