

Xinyi Solar (0968.HK)

The businesses of photovoltaic glass and solar power electricity generation advance side by side

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Hong Kong | Public Utility | Company report

Substantial Growth in 2015

Xinyi Solar realized revenue of HKD4.75 billion in 2015, representing an increase of 97.1% compared to 2014. The revenue of photovoltaic glass products grew to HKD3.91 billion with an increase of 64.4%, mainly because of: i) thanks to the rise of downstream demands, Chinese photovoltaic glass market grew strongly in 2015; and ii) The newly increased capacity of the second half of 2014 had comprehensive and efficient operations throughout 2015 to obtain additional market shares, resulting in an increase of sales by about 77.0% than 2014. Besides, the revenue of solar power electricity generation increased by 922.9% to HKD310 million. It is noteworthy that, six photovoltaic power plants were connected to the grid in the second half of 2015, so the operating result of this part could not be fully reflected in 2015. It is estimated that the revenue of solar power electricity generation will have a substantial increase in 2016.

The gross profit recorded HKD1.71 billion, 124.8% more than 2014. The gross profit margin increased from 31.6% in 2014 to 36% in 2015, mainly due to: i) The scale economic effects of expansion of capacity of photovoltaic glass business and the improvement of production processes. ii) The optimization of product structure (The company gradually reduces its sales proportion of photovoltaic raw glass and focuses on photovoltaic processed glass which has higher gross profit margin.). And iii) the increased contribution of solar power electricity generation which had higher margin than that of photovoltaic glass business. It is estimated that if the production capacity can be further expanded, the scale effects of processed glass may further drive the growth of gross profit margin. The net profit attributed to the parent company was HKD1.21 billion, increased by 144.6% than 2014. The EPS was HKD0.1853.

Buy (Maintain)

CMP: HKD 3.00

(Closing price as at 22 June 2016)

TARGET: HKD 4.10 (+36%)

COMPANY DATA

O/S SHARES (MN) :	6749
MARKET CAP (HKDMN) :	20246
52 - WK HI/LO (HKD):	3.50/2.07

SHARE HOLDING PATTERN, %

Xinyi Glass Holdings Ltd. :	26.36
Realbest Investment Ltd.	10.75

PRICE PERFORMANCE, %

	1M	3M	1Y
Xinyi Solar	3.95	8.77	-
HSI	4.75	0.87	-

KEY FINANCIALS

CNY mn	FY14	FY15	FY16F	FY17F
Net Sales	2410	4750	6127	8944
Net Profit	493	1206	1776	2654
EPS, HKD	0.08	0.19	0.27	0.41
PER, x	35.71	16.22	10.99	7.36
BVPS, HKD	0.54	0.85	1.25	1.52
P/BV, x	5.5	3.5	2.4	2.0
ROE, %	17.6	26.6	23.7	29.5
Debt/Equity, %	74.4	84.8	85.2	92.3

Source: Company reports, Phillip Securities Est.

Research Department
(+ 86 21 51699400-110)
research@phillip.com.cn

Significant Expansion of Production Capacity within the Next Two Years

The production bases of the company are located in Wuhu, Anhui and Tianjin. In 2011, there were only four production lines for photovoltaic raw glass with a production capacity of 2,000 tonnes/day. In the second half of 2014, the company expanded its production capacity in photovoltaic glass by adding two production lines for ultra-clear photovoltaic raw glass with a production capacity of 900 tonnes/day. Moreover, in 2015, it upgraded a production line for photovoltaic raw glass with a production capacity of 500 tonnes/day to 600 tonnes/day. Currently, the company's production capacity is 3,900 tonnes/day. The company plans to continue to expand its production capacity within the next two years. It intends to build a production line for photovoltaic glass with a production capacity of 900 tonnes/day in Malaysia (which will be put into production in the fourth quarter of 2016) and two production lines for photovoltaic glass with a respective production capacity of 1000 tonnes/day in Anhui (which will be put into production in the fourth quarter of 2016 and the first quarter of 2017, respectively). It is expected that the production capacity of the company will expand to 6,800 tonnes/day by the middle of 2017. The company believes that since the photovoltaic industry has developed by a compound growth rate of over 20% in the past few years, and the newly increased production lines in Anhui will be put into production gradually in two years, the industry can absorb the increased production capacity and will not suffer from a significant impact in terms of the balance of supply and demand.

Solar Power Electricity Generation Has Become A New Profit Growth Point

Since its engagement in the business of solar power electricity generation in 2014, the company continues to increase the investment in this area. As of the end of 2015, the company has a total of eight ground-based solar plants in operation with a total grid-connected capacity of 610MW. Two solar plants had started power generation in 2014 with a total electric energy production of 250MV, while the remaining six solar plants had been connected to the grid in 2015 with a total electric energy production of 360MV. It is expected that by the end of the year the grid-connected capacity will reach 1,750MW.

Valuation

The company has recently announced that the earnings in the first half of 2016 has grown by 70% to 90% year-on-year, mainly because i) The year-on-year increase of revenue of photovoltaic glass is about 50%. ii) The improvement of cost and production efficiency has promoted the gross profit margin of photovoltaic glass. And iii) The income of solar power electricity generation has increased. We give the company a target price of HKD 4.1, equivalent to 15x of P/E in 2016. (Closing price as at 22 June 2016)

Risk warnings

Decrease of the price of photovoltaic glass;

The newly installed capacity falls short of expectations.

Financials

FYE	2013	2014	2015	2016F	2017F
Valuation Ratios					
Price Earnings	41.10	35.71	16.22	10.99	7.36
Price to Book	7.4x	5.5x	3.5x	2.4x	2.0x
Dividend Yield	0.6%	1.3%	2.9%	4.4%	6.5%
Per share data(HKD)					
EPS Adjusted	0.07	0.08	0.19	0.27	0.41
Book Value Per Share	0.41	0.54	0.85	1.25	1.52
Dividends Per Share	0.02	0.04	0.09	0.13	0.20
Growth& Margin					
Revenue growth	28.3%	22.5%	97.1%	29.0%	46.0%
Gross Profit growth	124.2%	28.5%	124.8%	43.3%	46.0%
Net Profit growth	153.5%	62.3%	144.6%	47.3%	49.4%
Profitability Ratios					
Gross Margin	30.1%	31.6%	36.0%	40.0%	40.0%
Net Profit Margin	15.4%	20.5%	25.4%	29.0%	29.7%
Dividend Payout Ratio %	24.7%	47.6%	47.0%	48.0%	48.0%
Key Ratios					
Return on Assets	11.1%	11.7%	13.0%	12.8%	15.6%
Return on Equity	18.0%	17.6%	26.6%	23.7%	29.5%
Effective Tax Rate	18.0%	13.8%	13.5%	14.0%	14.0%
Liability ratio	14.0%	42.6%	45.9%	46.0%	48.0%
Income Statement(HKD: mn)					
Revenue	1,968	2,410	4,750	6,127	8,944
- Cost of Goods Sold	1,375	1,649	3,040	3,676	5,366
Gross Income	592	761	1,710	2,451	3,577
- Selling, General & Admin Expenses	287	259	504	656	957
Operating Income	368	590	1,421	2,095	3,120
- Interest Expense	0	7	21	25	30
- Net Non-Operating Losses (Gains)	-2	-2	-5	-5	-5
Pretax Income	370	572	1,394	2,065	3,085
- Income Tax Expense	67	79	188	289	432
Income Before XO Items	304	493	1,206	1,776	2,654
- Minority Interests	0	0	0	0	0
Net Profit	304	493	1,206	1,776	2,654

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 22 June 2016)

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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Contact Information (Regional Member Companies)

SINGAPORE**Phillip Securities Pte Ltd**

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG**Phillip Securities (HK) Ltd**

Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA**PT Phillip Securities Indonesia**

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND**Phillip Securities (Thailand) Public Co. Ltd**

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM**King & Shaxson Capital Limited**

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA**PhillipCapital Australia**

Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN**PhillipCapital Japan K.K.**

Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA**Phillip Financial Advisory (Shanghai) Co. Ltd**

No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE**King & Shaxson Capital Limited**

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES**Phillip Futures Inc**

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005