

Xinyi Solar (968 HK)

Production of the PV Glass Giant Continued to Expand

Hong Kong | Industrial Goods | Initiation Report

13 May 2024

Investment Summary

Company Profile

Xinyi Solar Holdings Limited (hereinafter referred to as "Xinyi Solar" or the "Company"), established in 2006, is the world's largest photovoltaic (PV) glass manufacturer and one of the two oligopolies in the industry. Major products include ultra-clear patterned solar glass (raw and tempered), anti-reflective coating glass, and back glass.

The parent company, Xinyi Glass Holdings Limited (Xinyi Glass) (868.HK), is a global leader in automotive glass, float glass, and architectural glass. It entered the field of PV glass in 2006, by raising HKD191 million through a placement, and then constructed multiple production bases successively in Anhui, Tianjin, Malaysia, and Beihai. Xinyi Solar was spun off from the parent company and got listed in the way of introduction in 2013. Then, it raised HKD11.78 billion for capacity expansion through seven placements or rights issues.

The Company began the operations of solar farms in 2014, set foot in the Engineering, Procurement, and Construction (EPC) of solar farms in 2015, and span off its subsidiary operating solar farms-- Xinyi Energy Holdings Limited (Xinyi Energy) (3868.HK)--for listing in 2019. As of December 31, 2023, the Company held 51.6% of shares in Xinyi Energy. The Company (with a shareholding ratio of 52%) and Xinyi Glass (48%) jointly established Xinyi Crystalline Silicon in 2021 to march into the crystalline silicon production industry. Meanwhile, the Company was included in the Hang Seng Indices in the same year. Lee Yin Yee, the de facto controller of Xinyi Solar, and the other eight shareholders act in concert, who directly and indirectly hold 49.24% of shares in the Company in total.

The Company's revenue mainly comes from two core business, namely the sales of PV glass and the operations of solar farms. They contributed to 88.5% and 11.2% of the total revenue, respectively, (according to the 2023 annual report) and 71% and 29% of the gross profit, respectively. Polysilicon business (under development and construction) and EPC business are not core business. At present, Xinyi Solar has four major PV glass production bases, which are located in Wuhu City of Anhui Province, Beihai City of Guangxi Province, Zhangjiagang City of Jiangsu Province, Tianjin City in China, and Malaysia, as well as 13 solar farms.

BUY (Initiation)

CMP HKD 5.86

(Closing price as at 9 May)

TARGET HKD 7.26 (+23.9%)

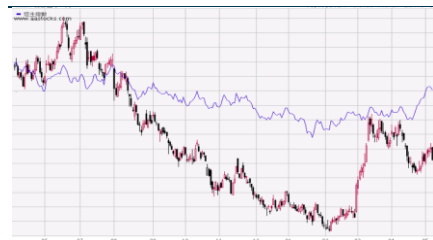
COMPANY DATA

O/S SHARES (MN) :	8910
MARKET CAP (HKD MN) :	52212
52 - WK HI/LO (HKD):	9.65/3.42

SHARE HOLDING PATTERN, %

LEE Yin Yee, M.H.	49.24
-------------------	-------

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY22	FY23	FY24E	FY25E
Net Sales	20544	26629	33015	40218
Net Profit	717	4187	5378	6741
EPS, CNY	0.43	0.47	0.60	0.76
P/E, x	13.6	12.5	9.7	7.8
BVPS, CNY	3.34	3.59	3.97	4.45
P/BV, x	1.8	1.6	1.5	1.3
DPS (CNY)	0.20	0.23	0.28	0.35
Div. Yield (%)	3.4%	3.8%	4.8%	6.0%

Source: Company reports, Phillip Securities Est.

Research Analyst

ZhangJing (+ 86 021-62116752/62116753)

zhangjing@phillip.com.cn

Competitive Advantages: Continue to Consolidate the Advantages in Scale and Leadership

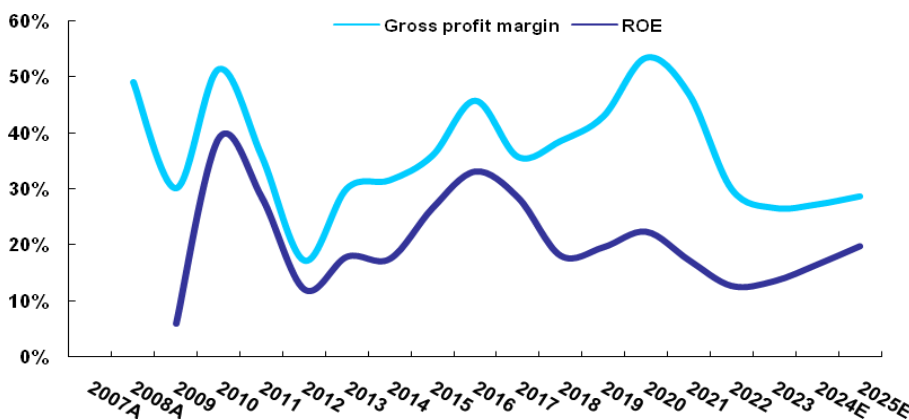
Xinyi Solar has deeply engaged in PV glass for more than a decade, and gained a leading position in several aspects (e.g. scale, technology, yield, revenue, and profitability) of PV glass, due to the forward-looking layout for technology R&D, the capital advantage brought by the early listing, and the capacity expansion plan going through cycles. Moreover, the glass business of the parent company has a synergistic effect on the Company, especially the advantage of scale in the centralized procurement of raw materials, energy costs, and transportation. The two major costs of PV glass lie in raw materials and fuel energy, each representing 30-40% of the production cost. Most of the plants of the two companies are adjacent, so they can strategically purchase bulk raw materials, such as quartz sand and sodium carbonate, together. The Company adopts piped natural gas and has signed long-term agreements to reduce costs. Additionally, the Company took the lead in the industry in using large-scale furnaces (with a daily capacity of 1,000 tons). Compared with smaller furnaces, larger ones can significantly reduce electricity and natural gas consumption per unit and also feature high automation and high yield.

Financial Analyst

From the listing in 2013 to 2023, Xinyi Photovoltaic quickly raised its revenue and net profit, thanks to the rapid growth of the PV industry. Meanwhile, its ten-year compound annual growth rates of the total revenue and the net profit were 29.8% and 30%, respectively. As of the end of 2023, its daily melting capacity of PV glass amounted to 25,800 tons, nearly 13 times the 2,000 tons at the end of 2013. At the end of 2023, the Company's cumulative grid-connected installed capacity reached 5,944MW, wherein 3,695MW was indirectly held through Xinyi Energy.

Over the past eight years, the gross profit margin maintained between 26% and 54%. Specifically, the fluctuations in the gross profit margin of solar farm operations business were relatively small and between 68% and 77%. Because of the greater impacts of the industry cycle, the fluctuations of PV glass business were between 21% and 50%. Especially, driven by short supply in 2020, the gross profit margin of PV glass used to reach 49%, and the diluted ROE was between 18% and 42%. However, the figures have fallen in recent years. Besides the impact of the industry cycle, the Company reduced financial leverage, and the asset-liability ratio declined from 55.8% in 2016 to 37.4% in 2023.

Gross Margin & ROE Trend



Source: Wnd, Phillip Securities Hong Kong Research

FY2023H1 Was Lower and Higher in H2; the Production of PV Glass Continued to Expand

The FY2023 result report revealed that, the Company's annual revenue stood at HKD26.63 billion, up by 29.6%yoy, and the annual net profit attributable to the parent company was HKD4.19 billion, rising by 9.6%yoy, exceeding the previous market expectations. In the second half of the year, the revenue reached HKD12.94 billion with yoy and hoh increases ratio of 29% and 16%. The net profit attributable to the parent company amounted to HKD2.51 billion. Different from the year-on-year decrease of 27% in the first half of the year, the figures in the second half sharply grew by 41% and 96%yoy and hoh.

The main reason for the lower and then higher results is that the PV glass business in the first half of the year was affected by the increased raw material and energy costs and the decreased average selling price (ASP). Yet, the sharp fall in the prices of polysilicon and PV components from the second quarter triggered the accelerated downstream demand for installed capacity in the second half of the year. Coupled with a slowdown in the growth of PV glass capacity, the supply and demand in the PV glass market was improved. Due to the declined ASP, higher raw material prices, and unfavorable exchange rate direction, the overall gross margin dropped by 3.4 percentage points to 26.6% from 30% in 2022.

Geographically, the revenue from the Chinese Mainland stood at HKD18,115 million, growing by 34.5%yoy and accounting for 77% of the total revenue. The revenue from the rest of Asia amounted to HKD4,496 million, which went up by 39%yoy and represented 19% of the total revenue. The revenue from North America and Europe was HKD904 million, which was the same as that of the previous year and accounted for 3.8% of the total revenue. Lastly, the revenue from the rest of the world amounted to HKD18 million, down by 66%yoy.

By segment, PV glass sales rose by 49.3%yoy. The Company's domestic market share of PV glass was 24.0% with an increase of 0.4 percentage points. As of the end of 2023, the capacity reached 25,800 tons. Furthermore, six new production lines of 1,000 tons each were added, two of which were put into operation in the first half of the year, and the rest four in the second half. Nevertheless, given the decreased ASP and foreign exchange losses, the revenue from PV glass climbed by 33%yoy to HKD23.5 billion, which was lower than the growth rate of the sales volume. Fortunately, benefiting from the volume growth following the rapid release of capacity and the improved supply and demand, the gross profit of the segment rose from 15.24% in the first half of the year to 26.41% in the second half. With respect to future planning, the Company will continue to maintain an aggressive pace of capacity expansion. A total of six production lines with a capacity of 6,400 tons are planned to be launched in 2024, including four in Anhui Province and two in Malaysia. Moreover, the Company intends to build new production lines in Yunnan and Jiangxi Provinces as well as Indonesia after 2025.

In regard to solar farms, the Company added 1,094MW of new grid-connected solar farms throughout the year, a record high. The cumulative grid-connected installed capacity stood at 5,944MW (including 5,541MW from centralized power plants and 78MW from distributed power plants). The revenue from this segment in the period was HKD3 billion, increasing by 8%yoy. The gross profit margin was 68.5% with a year-on-year decrease of 1.9 percentage points, mainly due to the loss of limited power supply arising from grid consumption and the higher operating costs because of the regulations for energy storage safety. Considering policy and market uncertainties, Xinyi Solar has decided to set up more prudent objectives for installed capacity, and planned to add 300MW of grid-connected capacity in 2024.

As a result, the Company's overall capital expenditure for 2024 is planned to be HKD7 billion, significantly declining from HKD9.9 billion in 2023, and a higher weight is given to PV glass business.

Investment Thesis

After two consecutive years of unprecedented growth, it is expected that the global PV installed capacity will continue to grow in 2024, but the growth rate will be slower or not as high as that in the past two years but still higher than the long-term historical average. However, PV glass is expected to grow faster than the PV installed capacity. For capacity expansion, Xinyi Solar adopts a positive attitude. It is expected that the cost advantage will be reinforced, and the leading position will be consolidated. Moreover, the Company's overseas capacity is expected to double this year, and its overseas products enjoy a high premium. If expanded smoothly, overseas products will become another growth point for the Company.

We are optimistic about the Company's future in consideration of the alleviated pressure in PV glass inventory, the stabilized selling price, and the weak prices of sodium carbonate and natural gas in the medium term. We estimate that the Company's earnings per share (EPS) in 2024 and 2025 will be HKD0.60 and HKD0.76. Taking into account the Company's leading advantage and new capacity to build, P/E ratios in 2024 and 2025 are expected to be 12x and 9.6x, with Target Price of 7.26 HKD, BUY rating.

(Closing price as at 9 May)

Risk

- Declining demand in the photovoltaic industry and price wars
- Rising raw material costs
- Overseas market risk
- Domestic policy risks

Peer Forward Valuation Trend comparison (6865.HK Vs 968.HK)





Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY21	FY22	FY23	FY24F	FY25F
Valuation Ratios					
P/E (X), adj.	10.5	13.6	12.5	9.7	7.8
P/B (X)	1.7	1.8	1.6	1.5	1.3
Dividend Payout Ratio (%)	48.2%	46.6%	47.8%	46.4%	46.3%
Dividend Yield (%)	4.6%	3.4%	3.8%	4.8%	6.0%
Per share data (HKD)					
EPS, (Basic)	0.56	0.43	0.47	0.60	0.76
EPS, (Diluted)	0.56	0.43	0.47	0.60	0.76
DPS	0.27	0.20	0.23	0.28	0.35
BVPS	3.41	3.34	3.59	3.97	4.45
Growth & Margins (%)					
Growth					
Revenue	30.4%	27.9%	29.6%	24.0%	21.8%
EBIT	11.3%	-18.4%	10.7%	25.9%	24.6%
Net Income, adj.	8.0%	74.5%	483.8%	28.5%	25.3%
Margins					
Gross margin	47.0%	30.0%	26.6%	27.1%	27.5%
EBIT margin	40.8%	26.0%	22.2%	22.6%	23.1%
Net Profit Margin	2.6%	3.5%	15.7%	16.3%	16.8%
Key Ratios					
ROE	17.3%	12.7%	13.6%	16.0%	18.0%
Income Statement (HKD mn)					
Revenue	16065	20544	26629	33015	40218
Gross profit	7549	6158	7090	8931	11064
EBIT	6552	5348	5921	7456	9291
Profit before tax	6568	5181	5571	7091	8894
Tax	-987	-835	-871	-1078	-1370
Profit for the period	5581	4346	4700	6013	7524
Minority interests	657	526	513	635	782
Total capital share	8891	8896	8903	8909	8916
Net profit	411	717	4187	5378	6741

Source: PSR

(Closing price as at 9 May)

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 ± 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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2024 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

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 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

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

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 (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

Level 10, 330 Collins Street
Melbourne VIC 3000

Tel (+61) 3 8633 9803 Fax (+61) 3 8633 9899

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm