



## Company Report: Xinyi Solar (00968 HK)

公司报告: 信义光能 (00968 HK)

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# Global Solar Investment Set for Strong Growth, Maintain "Buy"

全球对太阳能的投资将持续强劲，维持“买入”

- **We maintain our rating of "Buy" and our TP of HK\$17.60.** Our revised EPS forecasts from 2022-2024 are HK\$0.471, HK\$0.616 and HK\$0.710. The TP translates to 37.3x/ 28.6x/ 24.8x 2022-2024 PER.
- **Net earnings in 1H2022 dropped 38.0% YoY to HK\$1,905 mn.** The net profit in the first half of the year was consistent with the Company's prior issued profit warning. During 1H2022, revenue from solar glass was up YoY by 22.6% to HK\$8.09 bn and that from solar farm was up YoY by 5.5% to HK\$1.56 bn. Consolidated gross margin in 1H2022 was down 21.3 ppt YoY to 34.1% due to the significant decline in the gross margin of the solar glass segment, with its gross margin dropping YoY by 24.5 ppt to 26.7% as a result of double-digit percentage selling price decline and higher production cost. The Company announced that it will start the preparation for the issuance of A-shares on Shenzhen Stock Exchange's ChiNext Board.
- **New solar installations globally are to set to experience strong growth from 2022 to 2024.** As a result of aggressive capacity expansion in the industry, we estimate that the market supply of poly-silicon in 2022-2024 to be 900 kt/ 1,200 kt/ 1,500 kt, respectively. Amid the global consensus of carbon neutrality and the surging supply of poly-silicon, we expect global new solar capacity addition from 2022 to 2024 to be 250 GW/ 350 GW/ 450 GW, growing YoY by 49%/ 40%/ 29%, respectively. The significant global growth in new solar installations in the next few years will form solid support on demand for solar glass.
- **Catalysts:** faster-than-expected commission of poly-silicon new capacity, stronger-than-expected global solar installations, and the setting of new restrictions on capacity expansion within the solar glass industry.
- **我们维持“买入”的评级以及 17.60 港元的目标价。**我们经调整的 2022 至 2024 年每股盈利预测为 0.471 港元 / 0.616 港元 / 0.710 港元。目标价相当于 37.3 倍 / 28.6 倍 / 24.8 倍 2022 至 2024 年市盈率。
- **2022 上半年净利润同比下降 38.0% 至 1,905 百万港元。**公司于 2022 上半年的盈利与其早前发布的盈利警告结果一致。期内，公司光伏玻璃的收入同比上升 22.6% 至 80.9 亿港元，而光伏电站收入则同比升 5.5% 至 15.6 亿港元。期内的综合毛利率同比下降 21.3 个百分点至 34.1%，主要是由于受到玻璃价格双位数下滑和较高生产成本的影响，公司光伏玻璃板块的毛利率于期内同比大跌 24.5 个百分点至 26.7%。公司宣布其将启动于深交所创业板发行 A 股的上市准备工作。
- **全球新增太阳能装机将于 2022 至 2024 年出现强劲增长。**由于行业内积极的产能扩张，我们估计 2022 至 2024 年多晶硅的市场供应量将分别达到 900 千吨 / 1,200 千吨 / 1,500 千吨。在全球碳中和共识和多晶硅供应激增的情况下，我们预计 2022 至 2024 年全球新增太阳能装机将分别为 250 吉瓦 / 350 吉瓦 / 450 吉瓦，分别同比增长 49% / 40% / 29%。未来几年全球新增太阳能装机的显著增长将为太阳能玻璃的需求提供强有力的支撑。
- **催化剂:** 多晶硅新产能投产快于预期，全球太阳能新增装机量强于预期，太阳能玻璃行业对于产能扩张出台新限制。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**HK\$17.60**

Revised from 原目标价:

HK\$17.60

Share price 股价:

HK\$12.200

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	4.0	6.4	(22.6)
Rel. % to HS Index 相对恒指变动 %	14.2	13.3	2.6
Avg. Share price(HK\$) 平均股价 (港元)	12.4	12.7	14.0

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2020A	12,316	4,561	0.554	82.8	22.0	3.011	4.1	0.249	2.0	22.4
2021A	16,065	4,924	0.556	0.4	21.9	3.409	3.6	0.270	2.2	17.3
2022F	21,988	4,192	0.471	(15.3)	25.9	3.646	3.3	0.225	1.8	13.4
2023F	28,586	5,484	0.616	30.8	19.8	3.990	3.1	0.297	2.4	16.1
2024F	35,553	6,323	0.710	15.3	17.2	4.370	2.8	0.343	2.8	17.0

Shares in issue (m) 总股数 (m)	8,895.6	Major shareholder 大股东	Xinyi Glass 23.2%
Market cap. (HK\$ m) 市值 (HK\$ m)	108,526.3	Free float (%) 自由流通比率 (%)	50.7
3 month average vol. 3 个月平均成交股数 ('000)	25,218.2	FY22 Net gearing (%) FY22 净负债/股东资金 (%)	13.7
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	19,360 / 10,840	FY22 Est. NAV (HK\$) FY22 每股估值 (港元)	20.5

Source: the Company, Guotai Junan International.

**Net earnings in 1H2022 dropped 38.0% YoY to HK\$1,905 mn.** Revenues of Xinyi Solar (the "Company") in 1H2022 went up YoY by 20.1% to HK\$9,698 mn while the net profit to equity holders of the Company plunged 38.0% YoY to HK\$1,905 mn. The net profit in the first half of the year was consistent with the Company's prior issued profit warning. During the reporting period, revenue from solar glass was up YoY by 22.6% to HK\$8.09 bn and that from the Company's solar farm was up YoY by 5.5% to HK\$1.56 bn. Consolidated gross margin for the period was down 21.3 ppt YoY to 34.1% due to the significant decline in gross margin of the solar glass segment, with its gross margin dropping YoY by 24.5 ppt to 26.7% in 1H2022. The gross margin of the solar farm dropped YoY by 1.0 ppt to 72.8% in 1H2022. The sharp decrease in solar glass gross margin in the first half of 2022 was mainly due to: 1) the average market price of solar glass products during the period recorded double-digit percentage decline compared to the same period last year despite the sales volume of solar glass having increased 44.6% YoY; 2) raw material and energy costs such as soda ash and natural gas increased significantly during the period (although production efficiency improved). The Company added 3,000 tons of new solar glass capacity and 42MW of solar farm capacity in 1H2022. By the end of 1H2022, Xinyi Solar's daily melting solar glass capacity and grid-connected solar farm capacity reached 16,800 tons (+42.4% YoY) and 4.115 GW (+15.9% YoY), respectively. The Company aims to further ramp up its solar glass capacity to 21,800 tons by the end of 2022 with another 12 production lines (with scale of between 1,000 tons and 1,200 tons) to be added in 2023 and onwards. Meanwhile, the 60,000 ton first phase poly-silicon production capacity in Qujing, Yunnan is expected to be brought into production in the second half of 2023, which is a bit ahead of the schedule. The company also announced yesterday that it will proceed with the preparation for the issuance of A-shares on the Shenzhen Stock Exchange's ChiNext Board. We believe that the A-share listing will accelerate Xinyi's growth in the coming years, and we remain upbeat on the outlook of Xinyi.

**Due to the increase in upstream poly-silicon supply, new solar installations globally are to set to experience strong growth from 2022 to 2024, boosting the demand for solar glass.** The 3.2 mm processed solar glass price started 2022 at RMB25/sq.m and gradually increased to RMB28.5/sq.m by June 2022, only to fall back to RMB27.5/sq.m in July 2022. The average selling price in 1H2022 was about 13% lower compared to that of 1H2021. Amid the current high inventory level of solar glass (industry average inventory level reached 19 days at the end of July 2022), we expect the 3.2 mm processed solar glass price to fluctuate between RMB27-RMB30/sq.m in 2H2022, which will be approximately 5%-10% higher than the market selling price in 2H2021. Although 3Q and 4Q are normally the peak seasons for the solar industry, new solar glass production capacity will continue to enter the market in the second half of 2022 following 18,450 tons/day of new capacity added in the first six months of the year. Nationwide solar glass capacity totaled 59,710 ton/day at the end of June 2022, up YoY by 66.1%, and is likely to end the year with a capacity of at least 70,000 ton/day. It is estimated that another 20,000-30,000 of new solar glass capacity may enter the market in 2023. We estimate that the mainstream 3.2 mm processed solar glass price to fluctuate in the range of RMB25-RMB28/sq.m in 2023 and 2024. Meanwhile, according to the forecast of an industry association (China Nonferrous Metals Industry Association - Silicon Branch), the total production capacity of poly-silicon in China will be increased to 1.2 million tons by the end of 2022 (up significantly from 0.52 million tons at the end of 2021), which can suffice the production of solar modules of approximately 350 GW. Poly-silicon consumed domestically in 2021 reached approximately 600 kt (kiloton). As a result of aggressive capacity expansion in the industry, we estimate the market supply of poly-silicon (inclusive of poly-silicon imports) in 2022-2024 to be 900 kt/ 1,200 kt/ 1,500 kt, respectively. Amid the global consensus of carbon neutrality and the surging supply of poly-silicon, we expect global new solar capacity addition from 2022 to 2024 to be 250 GW/ 350 GW/ 450 GW, growing YoY by 49%/ 40%/ 29%, respectively. Significant global growth in solar installations in the next few years will form solid support on demand for solar glass.

**We reiterate our investment rating of "Buy" with a TP of HK\$17.60.** To meet long-term demand for solar glass driven by rising global investment on solar energy in next few years, Xinyi Solar has scheduled to dramatically ramp up its solar glass production capacity from 2022 to 2024 by aiming to add approximately 21,000 tpd of solar glass capacity between 2022 and 2024, more than double its existing production capacity. With the new capacities coming online in 2022 and 2023, Xinyi Solar's solar glass sales volume is expected to increase YoY by more than 70% in 2022 and by more than 30% in 2023. We expect that the market leading position of Xinyi Solar will be maintained over time despite challenges brought by its peers. As we expect the solar glass price to reverse its course and return on an uptrend in 2023, we raise up our earnings estimates of Xinyi in 2023 and 2024. Our revised EPS estimates from 2022 to 2024 thus are HK\$0.471, HK\$0.616 and HK\$0.710, respectively. We maintain the investment rating of "Buy" and reiterate our TP of HK\$17.60. Our TP translates to 37.3x/ 28.6x/ 24.8x 2022-2024 PER or 4.8x/ 4.4x/ 4.0x 2022-2024 PBR, respectively.

**Catalysts and risk factors.** Catalysts include the faster-than-expected commission of poly-silicon new capacity, stronger-than-expected global solar installations overseas, and the setting of new restrictions on capacity expansion in the solar glass industry. Risks include a fall in global solar installations growth, a rise in raw material costs and overcapacity of solar glass.

**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (HK\$ m)	2020A	2021A	2022F	2023F	2024F
Total Revenue	12,316	16,065	21,988	28,586	35,553
COGS	(5,732)	(8,516)	(14,803)	(19,116)	(24,428)
Gross profit	6,584	7,548	7,186	9,470	11,125
Selling expense	(317)	(527)	(651)	(874)	(1,111)
Admin expense	(548)	(711)	(880)	(1,172)	(1,458)
Other income	191	278	241	248	256
Other gains / expenses	(56)	(74)	(96)	(124)	(162)
Operating Profit	5,853	6,514	5,800	7,547	8,650
Share of JV / affiliate	36	38	42	47	52
Net finance costs	(130)	16	(108)	(265)	(329)
Profit Before Tax	5,758	6,568	5,734	7,329	8,373
Income Tax	(735)	(987)	(860)	(1,099)	(1,256)
Profit After Tax	5,023	5,581	4,874	6,230	7,117
Non-controlling Interest	(462)	(657)	(682)	(746)	(794)
Shareholders' Profit / Loss	4,561	4,924	4,192	5,484	6,323
Basic EPS (HK\$)	0.554	0.556	0.471	0.616	0.710
DPS (HK\$)	0.249	0.270	0.225	0.297	0.343

Cash Flow Statement					
Year end 31 Dec (HK\$ m)	2020A	2021A	2022F	2023F	2024F
Operating activities					
Net income	4,561	4,924	4,192	5,484	6,323
D&A	856	1,120	1,446	1,795	2,233
Change in working capital	(1,512)	(3,036)	(539)	(4,267)	(3,518)
Others	380	621	250	326	380
Cash from Operating Activities	4,284	3,629	5,349	3,338	5,418
Investing activities					
Capital expenditure	(3,288)	(4,938)	(7,000)	(6,800)	(6,500)
Proceeds from disposal	1	2	37	45	53
Others	92	178	56	76	89
Cash from Investing Activities	(3,195)	(4,758)	(6,906)	(6,678)	(6,359)
Financing activities					
Debt raised / (repaid)	(570)	1,895	3,926	5,747	4,253
Dividend paid (common)	(444)	(301)	(1,992)	(2,357)	(2,869)
Capital injection from minority	893	0	0	0	0
Proceeds from stocks issued	6,562	53	85	100	104
Others	(555)	(2,453)	(444)	(480)	(505)
Cash from Financing Activities	5,887	(806)	1,575	3,011	983
Net Changes in Cash	6,977	(1,935)	18	(330)	42
Adjustments	93	102	0	0	0
Cash at Beg of Year	2,221	9,291	7,458	7,476	7,146
Cash at End of Year	9,291	7,458	7,476	7,146	7,189

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (HK\$ m)	2020A	2021A	2022F	2023F	2024F
PPE	20,406	24,844	30,207	35,012	39,073
Prepaid expense	1,021	980	1,225	1,532	1,914
Right-of-use assets	1,408	1,917	2,071	2,226	2,380
Others	711	504	669	759	765
Total Non-current Assets	23,545	28,246	34,173	39,529	44,132
Cash & Cash Equivalents	9,291	7,458	7,476	7,146	7,189
Inventories	728	2,045	2,203	3,288	4,568
Trade receivable	8,136	9,470	11,214	14,293	17,065
Others	1,723	1,851	1,950	3,062	3,771
Total Current Assets	19,878	20,825	22,843	27,789	32,593
Total Assets	43,423	49,070	57,016	67,318	76,725
Short-term debts	3,410	3,658	7,084	10,631	11,384
Trade payable	1,050	1,284	2,516	3,250	4,153
Accruals and other payables	2,328	2,434	2,556	2,684	2,818
Others	938	341	447	595	802
Total Current Liabilities	7,725	7,716	12,604	17,160	19,157
Long-term debts	2,703	4,350	4,850	7,050	10,550
Deferred tax liabilities	12	30	30	30	30
Others	959	1,076	1,132	1,191	1,253
Total Non-current Liabilities	3,674	5,457	6,013	8,272	11,834
Total Liabilities	11,399	13,173	18,617	25,432	30,990
Total Shareholders' Equity	26,522	30,312	32,444	35,527	38,945
Minority Interest	5,503	5,585	5,955	6,359	6,790
Total Equity	32,025	35,897	38,399	41,886	45,735
BPS (HK\$)	3.011	3.409	3.646	3.990	4.370

Financial Ratios					
	2020A	2021A	2022F	2023F	2024F
Gross margin (%)	53.5%	47.0%	32.7%	33.1%	31.3%
EBIT margin (%)	47.5%	40.6%	26.4%	26.4%	24.3%
EBITDA margin (%)	54.5%	47.5%	32.7%	32.5%	30.5%
PBT margin (%)	46.8%	40.9%	26.1%	25.6%	23.5%
Net margin (%)	37.0%	30.7%	19.1%	19.2%	17.8%
ROE (%)	22.4%	17.3%	13.4%	16.1%	17.0%
ROA (%)	12.7%	10.6%	7.9%	8.8%	8.8%
Net gearing (%)	Net cash	1.8%	13.7%	29.7%	37.9%
Inventory turnover (day)	46.4	87.7	54.3	62.8	68.3
AR turnover (day)	241.1	215.2	186.2	182.5	175.2
AP turnover (day)	66.8	55.0	62.1	62.1	62.1
EV / EBITDA (x)	17.1	15.6	17.1	13.9	12.4
EV / Sales (x)	9.3	7.4	5.6	4.5	3.8
Quick ratio (x)	2.5	2.4	1.6	1.4	1.5
Current ratio (x)	2.6	2.7	1.8	1.6	1.7

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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