CLSA

HK/China SMID caps

Sector outlook

Snoopin around

Timothy Lee, CFA

Alec So, CFA

ASP vs cost

Price hike to largely offset costs; more on capacity plans

31 October 2017

China

Small caps

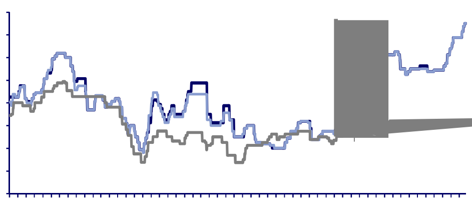
Xinyi Glass BUY

Xinyi Solar BUY

XYG - ASP hike to mostly overcome costs

More on capacity expansion

Product price quotes - XYG's float glass and XYS's solar glass



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For important disclosures please refer to page 18.

XYG

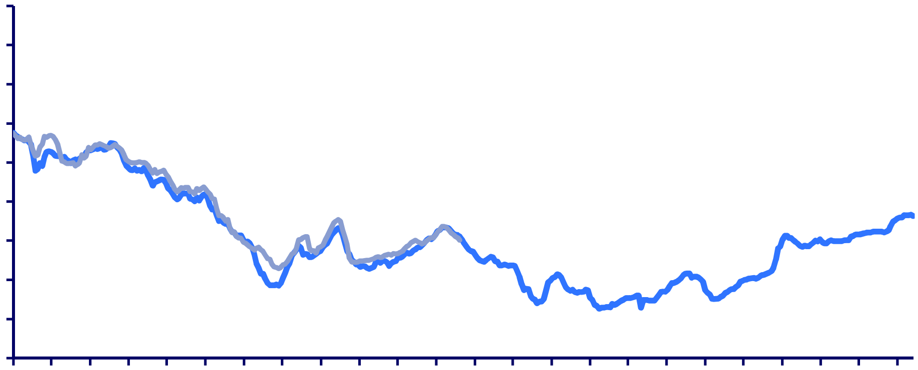
ASP hike to mostly overcome costs

ASP hike since 2H17 and strong season ...

... and from cost hike which is manageable

We expect float-glass GPM to expand in 2H17, despite auto/construction glasses could have some drag

Float-glass prices in various regional markets across China

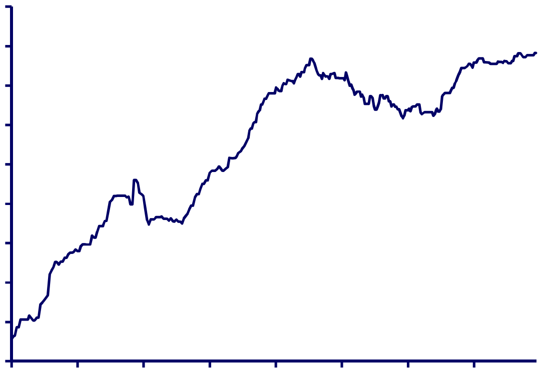


XYG's float-glass product price quotes (5mm clear glass)

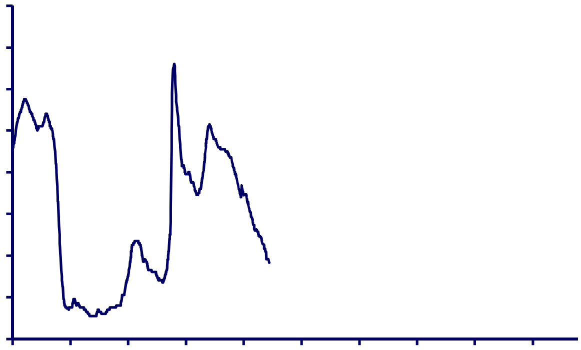
YTD property sales/new starts started to slow

Glass demand lags behind property sales

Float-glass capacity under operation in China (including lines just ignited and ultra-clear lines)



Domestic soda-ash prices



More on capacity expansion

中西

部地区外商投资优势产业目录 年修订

Our TP is based on a blended PE and PB approach, with higher multiples amid market rerating

Current market-cap implies 8.0x/6.9x its non-solar businesses earnings in 17/18CL

Earnings revisions

	17CL			18CL		
	New	Old	Change	New	Old	Change
Revenue (HK$ m)	14,747	14,336	2.9%	15,734	15,292	2.9%
Gross profit margin	36.3%	37.7%	-1.4 ppt	37.5%	38.6%	-1.1 ppt
Core profit (HK$ m)	3,682	3,745	-1.7%	4,137	4,161	-0.6%

XYG - Financials

Year to 31 December	15A	16A	17CL	18CL	19CL
Rev forecast change (%)	-	-	*2.9*	*2.9*	*2.9*
NP forecast change (%)	-	-	*(1.7)*	*(0.6)*	*(0.4)*

Valuation of Xinyi Glass

PE basis	
Fair value (HK$)	10.90
PB basis	
Fair value (HK$)	8.10
Average (HK$)	9.50
Implying 17/18CL PE	10.2x/9.2x

Valuation of Xinyi Glass's non-solar business

HK$m		FY17CL	FY18CL
M'cap of Xinyi Glass's non-solar business	(d) = (b) – 29.5%*(c)	24,124	24,124
PE of Xinyi Glass's non-solar business	(e) = (d)/(a)	8.0	6.9

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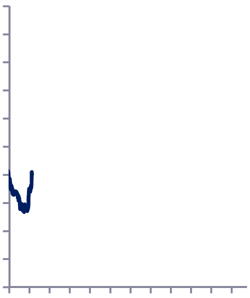
Xinyi Glass 12-month f



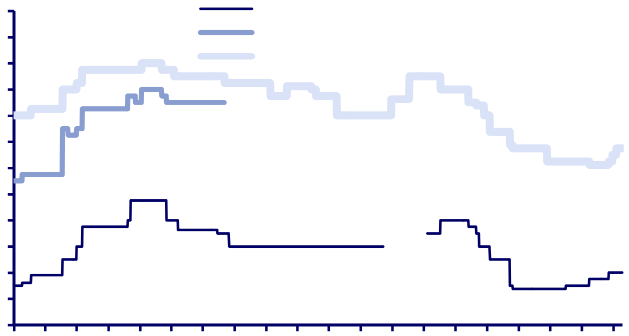
XYS

Solar glass bottomed out

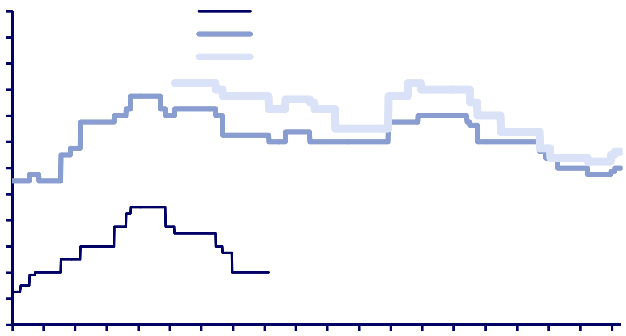
Solar-glass prices rebounded on better-than-expected demand and rising costs

We expect solar-glass GPM to expand in 2H17

Selling prices of XYS's solar glass – Wuhu plant



Selling prices of XYS's solar glass – Tianjin plant



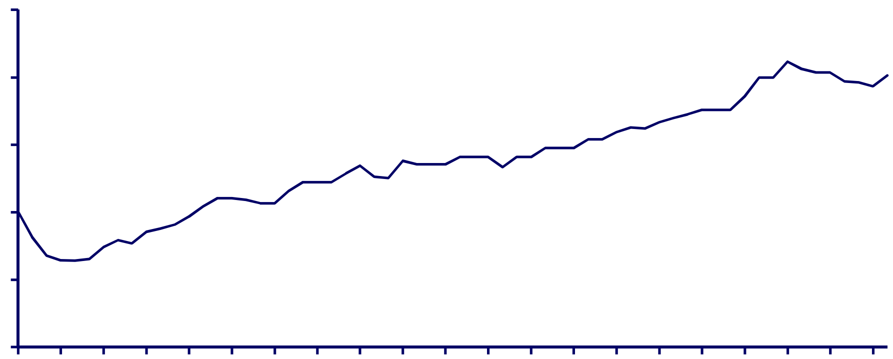
Ultra-clear PV raw glass producers globally

(t/d)	2014	15CL	16CL	17CL	18CL	Capacity commenced in 2011 or before

Total capacity (t/d)	14,490	16,410	21,300	23,480	27,980	4,150
YoY growth	*20.4%*	*13.3%*	*29.8%*	*10.2%*	*19.2%*	
Total capacity (m m^2)	661	749	972	1,071	1,277	
Effective capacity (m m^2)	317	393	456	542	623	
YoY growth	*29.5%*	*24.0%*	*16.1%*	*18.7%*	*14.9%*	
Assuming:						
Raw glass yield rate	*66%*	*68%*	*68%*	*68%*	*68%*	
Effective utilisation	*82%*	*82%*	*78%*	*78%*	*78%*	
Assuming new capacity launches mid-year						

YTD new capacity rollout for solar glass has been slower than original thought

Monthly operating solar-glass capacity in China



Slower solar-farm development

Slower solar-farm development affects earnings growth but better from cash perspective

XYS: Key solar-farm assumptions - under Xinyi Energy

	2014	2015	2016CL	2017CL	2018CL	2019CL	2020CL	2021CL	2022CL
Total capacity (MW)	250	620	1,464	1,804	2,204	2,604	2,604	2,604	2,604
Effective capacity (MW)	25	309	1,019	1,537	1,937	2,337	2,604	2,604	2,604
Total power generated (m kWh)[1]	30	307	1,116	1,675	1,946	2,503	2,759	2,720	2,692

	2014	2015	2016CL	2017CL	2018CL	2019CL	2020CL	2021CL	2022CL
Utilisation hours	845	1,000	1,107	1,106	1,104	1,104	1,103	1,103	1,103
Revenue (Rmb m)	24	250	914	1,347	1,513	1,802	1,924	1,899	1,880

ASP vs cost

XYS - Financials					
Year to 31 December	15A	16A	17CL	18CL	19CL
Rev forecast change (%)	-	-	*1.1*	*3.2*	*1.5*
NP forecast change (%)	-	-	*2.5*	*2.4*	*2.1*

We continue to use an SOTP valuation for XYS

Overall one-year valuation of HK$24.4bn

SOTP valuation summary - XYS	
(HK$m)	18CL earnings for glass/EPC, 18CL onwards projections for solar farm/DG DCF
Total valuation	24,403
Value per share	3.30
Implied 18CL PE (x)	10.9

Solar-glass segment valued at HK$12.7bn

Valuation of solar glass and EPC business - XYS	
(HK$m)	Avg 18-19CL
Net profit for Xinyi Solar	
Net profit for solar glass	1,594
Valuation of solar-glass business	12,748
Valuation of solar-EPC business	1,277

DCF valuation of the solar-farm business - XYS	2018CL	2019CL	2020CL	2021CL	2022CL
WACC:		DCF valuation			
		Enterprise value			12,806
		Equity value (Rmb m)			8,245
		Equity value (HK$ m)			9,984
WACC	7.8%	Value per share, Rmb			$1.11
Terminal growth	0.5%	Value per share, HK$			$1.34

DCF valuation of the DG business (25MW in Tianjin + 13.1MW in Wuhu) - XYS	2018CL	2019CL	2020CL	2021CL	2022CL
WACC:		DCF valuation			
		Enterprise value			417
		Equity value (Rmb m)			325
		Equity value (HK$ m)			394
WACC	7.8%	Value per share, Rmb			$0.04
Terminal growth	0.0%	Value per share, HK$			$0.05

evaluator The Global Equities Database

XYG - Summary financials

Year to 31 December	2015A	2016A	2017CL	2018CL	2019CL
Summary P&L forecast (HK$m)					
Revenue	11,460	12,848	14,747	15,734	16,533
Profit before tax	2,380	3,823	4,318	4,864	5,431
Net profit	2,113	3,213	3,682	4,137	4,635
Summary cashflow forecast (HK$m)					
Operating profit	1,518	2,837	3,361	3,893	4,266
Net operating cashflow	1,685	2,453	3,207	3,929	4,388
Free cashflow	(282)	600	207	1,929	2,388
Net investing cashflow	(1,016)	(741)	(1,913)	(903)	(754)
Net financing cashflow	(202)	(244)	(1,113)	(4,717)	(3,570)
Incr/(decr) in net cash	468	1,468	181	(1,691)	64
Opening cash	832	1,300	2,768	2,949	1,259
Closing cash	1,300	2,768	2,949	1,259	1,323
Summary balance sheet forecast (HK$m)					
Total assets	21,422	24,022	27,136	26,589	27,682
Total liabs & equity	21,422	24,022	27,136	26,589	27,682
Ratio analysis					

evaluator The Global Equities Database

XYS - Summary financials

Year to 31 December	2015A	2016A	2017CL	2018CL	2019CL
Summary P&L forecast (HK$m)					
Revenue	4,750	6,007	9,017	9,398	11,200
Profit before tax	1,332	2,382	2,687	2,943	3,646
Net profit	1,144	1,977	2,207	2,234	2,749
Summary cashflow forecast (HK$m)					
Operating profit	1,206	2,265	2,686	2,930	3,637
Net operating cashflow	846	671	1,840	3,188	3,496
Free cashflow	(2,736)	(4,139)	(1,322)	390	906
Net investing cashflow	(1,902)	(4,952)	(353)	(2,787)	(2,579)
Net financing cashflow	3,382	2,255	374	(1,227)	(556)
Incr/(decr) in net cash	2,326	(2,025)	1,862	(825)	360
Opening cash	543	2,869	843	2,705	1,880
Closing cash	2,869	843	2,705	1,880	2,240
Summary balance sheet forecast (HK$m)					
Total assets	12,735	16,786	22,799	24,241	27,137
Total liabs & equity	12,735	16,786	22,799	24,241	27,137
Ratio analysis					

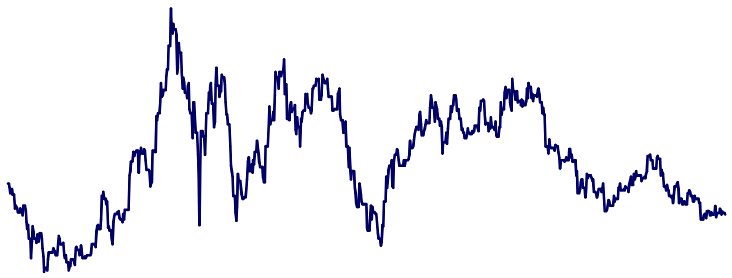
Research subscriptions

Companies mentioned

Analyst certification

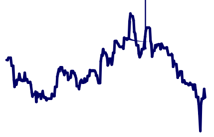
Important disclosures

Recommendation history of Xinyi Solar Holdings Ltd 968 HK



Date	Rec	Target	Date	Rec	Target

Recommendation history of Xinyi Glass Holdings Ltd 868 HK



Date	Rec	Target

Date	Rec	Target

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