

China

Ind Goods & Services

Update on the solar glass segment

- We hosted an investors call with Xinyi Solar for an update on solar glass industry trends and the Company's operations.
- The Company issued a profit warning last week that 1H22 net profit is expected to drop 33% yoy to 43% yoy. Its industry peers may face even higher pressure on profitability.
- Xinyi Solar expects end demand to remain strong, and it mentioned that the tendering activities of some major project owners kicked off in Jun despite high module costs.
- However, higher costs remain a swing factor for the profitability of the Company and the industry.
- Management remains positive on the outlook, and its expansion, including silicon and solar power generation, remains on track.

Key takeaways from our discussion with Xinyi Solar

We hosted an online investors call with Xinyi Solar to get an update on solar glass industry trends and the Company's operations. Solar glass demand growth is faster than the new industry capacity increase, which resulted in three price hikes (to Rmb28.5/sqm for 3.2mm products) on a YTD basis. The latest price hike was led by smaller players, which are facing higher pressure on profitability. Despite the ASP hikes, the industry and Xinyi Solar are expected to report a yoy decline in net profit, given higher costs (mostly energy and soda ash). The higher energy costs are due to the escalation of the conflict between Russia and Ukraine. Xinyi Solar issued a profit warning last week that 1H22 net profit is expected to drop 33% yoy to 43% yoy. Xinyi Solar highlighted the main reasons: a) a 10–20% yoy decline in ASP in 1H22, and b) a significant increase in the cost of raw materials and energy (soda ash and natural gas). During the discussion, management mentioned that the Company's gross profit margin improved in 2Q22 vs. 1Q22 due to an ASP hike. Management mentioned that the Company expects to report better profitability than its peers, given higher exposure to premium products and continued improvement in its production process. The smaller industry players are expected to face even higher pressure on the profitability, as some of them procure raw materials on the spot market. Construction of the new capacity coming on stream in 2022 and 2023 started in 2020. However, the current market environment is expected to have an impact on the capacity expansion of other industry players after 2023, when we may see slower industry capacity growth. Xinyi Solar's capacity is expected to increase to 21800t/d by the end of 2022, up 34% yoy, and its capacity will increase 50% yoy in 2023. It is expected to expand its market share further from 35% in 2021.

Downstream PV installation remains strong

Xinyi Solar shared the view that the US tariff policy on solar panel components from Cambodia, Malaysia, Thailand and Vietnam is expected to have positive impact on the overall supply chain. According to Xinyi Solar, geographical diversification is one of the key step for modules and component suppliers, given the current global macro environment. The Company will continue to look for capacity expansion opportunities. Xinyi Solar mentioned that end demand (PV installation) is expected to remain strong (a 30% CAGR is achievable) in the coming years. For near-term demand, the Company also mentioned that tender activity by some major project owners kicked off in Jun despite module costs remaining at a high level. It is possible that in 2022, 100GW (released by the National Energy Association) of PV installation, up 95.9% yoy, will be met in the China market if module costs come down. Management highlighted that cost movement remains a swing factor for the Company's profitability in 2H22. According to management, energy costs are unlikely to move down in 2H22, given the current macro environment.

1.6mm solar glass production development

Regarding the discussion on 1.6mm solar glass products development, Xinyi Solar completed R&D and was capable of producing 1.6mm solar glass products several years ago. But Xinyi Solar believes that the growth potential of 2.0mm is higher than that of 1.6mm, as the strength of 1.6mm is not enough for module protection. Unless there is a major change in design by the module maker, 1.6mm solar glass products are unlikely to be mainstream. Since Xinyi Solar has know-how in producing 1.6mm solar glass products, we believe the Company will remain a beneficiary.

Management continues to have a positive outlook, and the Company's expansion, including silicon and solar power generation, remains on track. There is no change in its CAPEX plan for 2022. Given concerns about the supply/demand situation, we believe solar glass names such as Xinyi Solar are off some investors' radar. However, we maintain the view that as a leading competitive player, Xinyi Solar remains one of the key beneficiaries of growing global PV installation. The correction offers a revisit opportunity.

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Mar 2022		
632 companies under coverage for quarter ended on 31 Mar 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

RECOMMENDATION FRAMEWORK

Stock Ratings Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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