

COMPANY RESULTS

Xinyi Solar Holdings (968 HK)

2023: In line; Solar Glass Sales Volume Grew 49.3% Yoy

Xinyi Solar reported 2023 earnings of HK\$4,187.1m, in line with our expectations. Riding on the solar module installation boom and capacity expansion in 2023, solar glass sales volume recorded a 49.3% yoy growth. Solar glass segment's gross margin declined to 21.4% (-2.4ppt) amid lower ASP and higher soda ash/energy costs. Capacity expansion in China is slowing down while the company is exploring opportunities in overseas market. Maintain BUY. Target price: HK\$5.50.

2023 RESULTS

Year to 31 Dec (HKDm)	2022	2023	% chg
Revenue	20,544	26,629	29.6
- Sales of solar glass	17,655	23,533	33.3
- Solar farm business	2,744	2,971	8.2
- Others	145	125	-13.3
Cost of sales	(14,386)	(19,539)	35.8
Gross profit	6,159	7,090	15.1
SG&A	(1,070)	(1,310)	22.3
Operating profit	5,318	5,893	10.8
Net finance cost	(168)	(349)	108.6
PBT	5,181	5,571	7.5
Tax	(835)	(871)	4.3
Minority interest	(526)	(513)	-2.3
Net Profit	3,820	4,187	9.6
Gross margin (%)	30.0	26.6	(3.4)
EBIT margin (%)	25.9	22.1	(3.8)
Net profit margin (%)	18.6	15.7	(2.9)

Source: Xinyi Solar Holdings, UOB Kay Hian

RESULTS

- In line.** Xinyi solar reported 2023 earnings of HK\$4,187.1m, representing 95% of our estimates but 9% above consensus estimates. The company has declared final dividend of HK\$0.15, with 2023 annual dividend being HK\$0.225 (2022: HK\$0.200).
- Solar glass sales volume (in tonnage) grew 49.3% yoy.** Riding on the solar module installation boom, especially in 2H23 (+20.3% hoh), and leveraging on the company's newly added production capacity, the company's 2023 solar glass sales volume/revenue was up 49.3%/33.3% yoy, not to forget the impact of the 5.5% yoy renminbi depreciation.

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2022	2023	2024F	2025F	2026F
Net turnover	20,544	26,629	32,002	38,346	39,561
EBITDA	5,328	7,883	9,856	11,773	12,221
Operating profit	5,328	6,150	7,493	9,267	9,580
Net profit (rep./act.)	3,820	4,187	5,307	6,582	6,803
Net profit (adj.)	3,820	4,187	5,307	6,582	6,803
EPS (Fen)	43.1	47.2	59.9	74.2	76.7
PE (x)	8.9	8.1	6.4	5.2	5.0
P/B (x)	1.1	1.1	1.0	0.9	0.8
EV/EBITDA (x)	9.8	6.6	5.3	4.4	4.3
Dividend yield (%)	5.2	5.9	7.5	9.2	9.6
Net margin (%)	18.6	15.7	16.6	17.2	17.2
Net debt/(cash) to equity (%)	12.1	27.2	32.6	29.7	23.1
Interest cover (x)	31.8	22.6	30.5	32.0	32.0
ROE (%)	12.7	13.6	15.9	18.1	17.0
Consensus net profit	-	-	5,217	6,534	6,916
UOBKH/Consensus (x)	-	-	1.02	1.01	0.98

Source: Xinyi Solar Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$3.83
Target Price	HK\$5.50
Upside	+43.6%
(Previous TP)	HK\$10.20)

COMPANY DESCRIPTION

Xinyi Solar is the world's largest photovoltaic glass manufacturer. The company specializes in photovoltaic glass production and photovoltaic power station development and construction.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	968 HK
Shares issued (m):	8,903.3
Market cap (HK\$m):	34,099.5
Market cap (US\$m):	4,356.6
3-mth avg daily t'over (US\$m):	12.4

Price Performance (%)

52-week high/low HK\$9.47/HK\$3.46

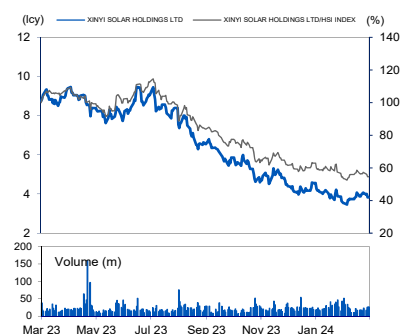
1mth	3mth	6mth	1yr	YTD
(1.3)	(18.5)	(41.2)	(54.3)	(16.0)

Major Shareholders

	%
Xinyi Group Glass Co Ltd	22.9
Lee Yin Yee	9.68

FY24 NAV/Share (HK\$)	3.91
FY24 Net Debt/Share (HK\$)	1.27

PRICE CHART



Source: Bloomberg

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- **Gross margin narrowed by 3.4ppt yoy to 26.6%.** Solar glass/solar farm segmental gross margin was down 2.4ppt/1.9ppt yoy to 21.4%/68.5% respectively. The decline in solar glass's gross margin was mainly due to: a) lower product ASP, and b) the price of soda ash and energy cost (natural gas) staying at high levels. Slimmer margins for solar farm was due to: a) electricity curtailment losses, and b) increase in operating costs due to higher energy storage requirements.

STOCK IMPACT

- **Solar glass price remains under pressure; inventory turnover improves.** Solar glass prices were less volatile in 2023 than in 2022, while its price outlook remains gloomy amid abundant supply and intense competition. Inventory turnover improved to 34 days in 2023 (2022/1H23: 50/37 days), the lowest in the past three years. The company also expects its inventory turnover in 1Q24 to be better than that in 1Q23.
- **Effective annual melting capacity grew 45.9% yoy.** The company's total melting capacity has increased by 6,000 tonnes/day, slower than previously guided as one new production line in Wuhu (1,000 tonnes/day) had been deferred to 2024. Effective annual melting capacity expanded to 7.841m tonnes (+45.9% yoy) in 2023.
- **Capacity expansion in China decelerating.** Six new solar glass production lines with daily melting capacity of 6,400 tonnes/day will commence production in 2024. It is worth noting that the company is adding only 4,000 tonnes/day of new capacity for China (vs 2023's 6,000 tonnes/day) while the upcoming new production lines in Malaysia is crucial to capture the robust demand growth for the US market. Effective annual melting capacity will further grow to 10.603m tonnes (+35.2% yoy) in 2024.

NEW PRODUCTION LINES IN THE PIPELINE

Year	Location	No. of new production lines	Daily Melting Capacity (tonnes/day)
Before 3Q24	Wuhu, Anhui	4	4,000
1H24	Malaysia	2	2,400
Total		6	6,400

Source: Xinyi Solar, UOB Kay Hian

- **2024 capex allocation at HK\$7.0b (-29.3% yoy).** Xinyi Solar has budgeted HK\$7.0b (-29.3% yoy) for capex in 2024, mainly due to lower capex required for their polysilicon project. Of the HK\$7.0b capex budget, HK\$4.51b is for the solar glass segment, HK\$0.99b is for the solar farm segment, and HK\$1.5b is for the 52%-owned Yunnan polysilicon project (60,000 tonnes/year).
- The company's new polysilicon plant is set to commence trial production in 2Q24 with production cost to stay high at the initial stage. As production output gradually ramps up and product quality achieves the desired level, the management is confident they will be able to compete in the industry and generate profit by leveraging on their relationship with the existing solar glass customers.

EARNINGS REVISION/RISK

- We cut our earnings forecasts for 2024/25 by -17%/-11% mainly to factor in lower domestic solar glass price forecasts.

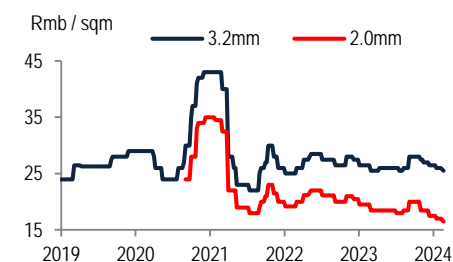
VALUATION/RECOMMENDATION

- **We maintain BUY on Xinyi Solar with a lower SOTP-based target price of HK\$5.50.** The requirement of going through hearing process for new solar glass production plants have successfully slowed down the pace of industry capacity expansion, enabling industry leaders like Xinyi Solar to solidify their market leading position. However, we are still concerned that industry leaders' capacity expansion in 2024 will likely outpace solar module demand growth in China, which could continue to cap the price upside for solar glass in China.

SHARE PRICE CATALYST

- Recovery of solar glass prices; moderation of domestic natural gas/soda ash prices.

SOLAR GLASS HISTORICAL PRICE



Source: PV Infolink, UOB Kay Hian

SOLAR GLASS PRODUCTION CAPACITY (TONNES/DAY)

Region	2022	2023
Wuhu	12,400	17,400
Tianjin	500	500
Beihai	2,000	2,000
Zhangjiagang	3,000	4,000
Malaysia	1,900	1,900
Total	19,800	25,800

Source: Xinyi Solar, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Net turnover	26,628.8	32,002.3	38,346.0	39,561.0
EBITDA	7,882.8	9,855.8	11,772.8	12,221.4
Deprec. & amort.	1,732.6	2,363.2	2,506.3	2,641.6
EBIT	6,150.2	7,492.5	9,266.5	9,579.8
Total other non-operating income	(257.5)	0.0	0.0	0.0
Associate contributions	28.1	28.1	28.1	28.1
Net interest income/(expense)	(349.4)	(323.1)	(368.0)	(381.4)
Pre-tax profit	5,571.4	7,197.6	8,926.6	9,226.5
Tax	(870.9)	(1,160.3)	(1,439.0)	(1,487.4)
Minorities	(513.4)	(730.2)	(905.6)	(936.0)
Net profit	4,187.1	5,307.0	6,582.0	6,803.0
Net profit (adj.)	4,187.1	5,307.0	6,582.0	6,803.0

CASH FLOW

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Operating	5,789.9	5,928.1	8,186.2	10,023.8
Pre-tax profit	5,571.4	7,197.6	8,926.6	9,226.5
Tax	(219.6)	(1,160.3)	(1,439.0)	(1,487.4)
Deprec. & amort.	1,732.6	2,363.2	2,506.3	2,641.6
Associates	(28.1)	(28.1)	(28.1)	(28.1)
Working capital changes	(1,412.2)	(2,444.3)	(1,779.6)	(328.7)
Other operating cashflows	145.8	0.0	0.0	0.0
Investing	(10,340.5)	(7,047.4)	(5,049.7)	(5,052.2)
Capex (growth)	(10,854.7)	(7,000.0)	(5,000.0)	(5,000.0)
Others	514.2	(47.4)	(49.7)	(52.2)
Financing	2,046.9	578.2	(3,235.0)	(2,264.0)
Dividend payments	(2,003.2)	(2,539.0)	(3,149.0)	(3,254.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	6,828.7	10,000.0	6,000.0	5,251.0
Loan repayment	(4,358.1)	(6,882.8)	(6,086.0)	(4,260.2)
Others/interest paid	1,579.5	0.0	0.0	0.0
Net cash inflow (outflow)	(2,503.7)	(541.1)	(98.5)	2,707.7
Beginning cash & cash equivalent	5,325.7	2,822.0	2,281.0	2,182.4
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	2,822.0	2,281.0	2,182.4	4,890.1

BALANCE SHEET

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Fixed assets	36,560.0	41,196.8	43,690.5	46,048.9
Other LT assets	4,051.4	4,126.8	4,204.6	4,285.0
Cash/ST investment	2,822.0	2,281.0	2,182.4	4,890.1
Other current assets	16,999.6	18,902.5	22,617.4	23,328.9
Total assets	60,433.0	66,507.1	72,694.9	78,552.8
ST debt	6,968.0	6,086.0	4,260.2	4,032.2
Other current liabilities	10,254.6	10,723.3	12,658.6	13,041.4
LT debt	4,545.0	7,534.1	9,273.8	10,492.7
Other LT liabilities	807.0	807.0	807.0	807.0
Shareholders' equity	31,974.6	34,742.6	38,175.6	41,723.9
Minority interest	5,883.8	6,614.0	7,519.7	8,455.7
Total liabilities & equity	60,433.0	66,507.1	72,694.9	78,552.8

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Growth	29.6	30.8	30.7	30.9
Turnover	20.9	22.5	23.3	23.3
EBITDA	15.7	16.6	17.2	17.2
Pre-tax profit	7.5	8.4	9.5	9.0
Net profit	13.6	15.9	18.1	17.0
Net profit (adj.)				
EPS				
Profitability	29.6	20.2	19.8	3.2
EBITDA margin	47.9	25.0	19.5	3.8
Pre-tax margin	7.5	29.2	24.0	3.4
Net margin	9.6	26.7	24.0	3.4
ROA	9.6	26.7	24.0	3.4
ROE	9.6	26.7	24.0	3.3
Leverage				
Debt to total capital	23.3	24.8	22.9	22.4
Debt to equity	36.0	39.2	35.5	34.8
Net debt/(cash) to equity	27.2	32.6	29.7	23.1
Interest cover (x)	22.6	30.5	32.0	32.0

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