

Equity Research
Renewable Energy/ China

Xinyi Energy (3868 HK)

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Company Update

HOLD

Downgrade

Close price: HK\$1.94

Target Price: HK\$2.12(+9.3%)

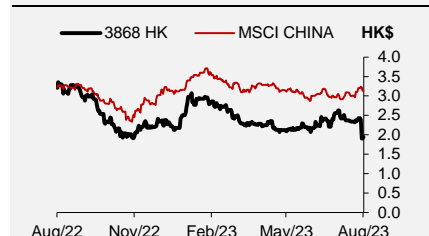
Prior TP: HK\$3.00

Key Data

HKEx code	3868 HK
12 Months High (HK\$)	3.57
12 Month Low (HK\$)	1.77
3M Avg Dail Vol. (mn)	10.38
Issue Share (mn)	8,184.45
Market Cap (HK\$mn)	15,877.82
Fiscal Year	12/2022
Major shareholder (s)	Xinyi Solar (51.27%)

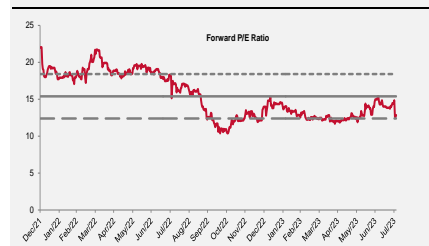
Source: Company data, Bloomberg, OP Research
Closing price are as of 3 Aug 2023

Price Chart



	1mth	3mth	6mth
Absolute %	-24.2	-9.3	-32.2
Rel. MSCI CHINA %	-27.6	-8.2	-20.9

PE



Company Profile

Xinyi Energy is principally engaged in operation of solar farms in China. As at the end of Jun 2023, the total approved capacity of solar farms reached 3,314MW.

1H23 net profit in-line, dividend payout ratio cut to 49%

- 1H23 net profit declined 9.0% yoy to HK\$566.9mn on the back of 2.4% yoy increase in revenue to HK\$1.289bn. Interim DPS amounted to HK\$0.034, down 55.8%. Interim DPS represent payout ratio of 49%.
- XYE unexpectedly cut the dividend payout ratio to around 45-50% in the near future. It used to adopt a nearly full dividend payout policy in the past.
- XYE will acquire more solar farms. The company expects a significant decline in construction cost from 2Q will enhance the IRR of solar farms available to acquire in the future.
- Downgrade to HOLD and cut TP to HK\$2.12, representing 15.0x PER and 3.4% dividend yield in FY23E.

1H23 earnings in-line, rising finance costs drag on profit. The significant increase in borrowing costs (due to an upsurge in HIBOR this year under the Fed rate hike) in the offshore market is the main reason for the slight decline in net profit in 1H23. XYE raised debt in China (which has a much lower borrowing rate of ~3%) to lower the overall financing costs. Onshore loans accounted for 10% of the total borrowing as of Jun 2023. For the solar farm operations, XYE reported a 26.1% increase in total electricity generation in 1H23, but it was offset by the RMB depreciation, the more contribution from subsidy-free solar farms, and the decline in tariff adjustment. Overall revenue rose only 2.4%.

No longer adopt a nearly full dividend payout policy. XYE unexpectedly cut the dividend payout ratio to 45-50% (similar to payout ratio of its parentco XYG(968.HK) and XYG(868.HK)). The reason of adopting a lower payout ratio is due to (1) the preparation to acquire sizable solar farm projects in the future, (2) the significant increase in borrowing costs, and (3) uncertainties relating to the receipt of tariff adjustment subsidies (no tariff adjustment subsidies were received in 1H23). We believe XYE is likely to keep this payout ratio to sustain in the near term.

The decline in construction costs for solar farms from 2023Q2 should make the return of solar farms available for M&A in the future more attractive. XYE acquired a solar farm with approved capacity of 300MW in 1H23. The company maintained the growth target in terms of approved capacity (700-1,000MW) in FY23. We think XYE may accelerate the expansion amid better return of solar farm projects, but it may be too early to preview XYE's M&A pace in the next 1-2 years.

Downgrade to HOLD and cut the TP to HK\$2.12, representing 15.0x PER and a 3.4% dividend yield in FY23E. While we see it is wise for XYE to lower the dividend payment and prepare for future M&A opportunities under a high financing cost, we believe XYE's stock price will underperform the market due to a less generous dividend policy.

Risks: (1) Offshore finance costs rises significantly under the Fed rate hike; (2) Delay in receipt of government subsidies

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,297	2,315	2,661	3,050	3,560
Growth (%)	+33.4	+0.8	+14.9	+14.6	+16.7
Net profit	1,232	971	1,109	1,313	1,580
Growth (%)	+33.7	-21.2	+14.1	+18.4	+20.4
Diluted EPS (HK\$)	0.173	0.134	0.142	0.152	0.179
EPS growth (%)	+28.9	-22.6	+5.8	+7.4	+17.4
Change to previous EPS (%)			-4.8	-10.5	
Consensus EPS (HK\$)			0.153	0.179	0.202
ROE (%)	10.0	8.0	8.3	8.7	10.0
P/E (x)	11.2	12.8	26.9	25.2	18.1
P/B (x)	1.1	1.2	1.1	1.0	1.0
Yield (%)	9.0	7.8	3.7	4.0	5.5
DPS (HK\$)	0.174	0.151	0.072	0.077	0.107

Source: Bloomberg, OP Research

Exhibit 2: 1H23 Earnings review

	1H23	1H22	Yoy%	Remarks
Profitability Data (in HK\$ mn)				
Revenue	1,288.6	1,257.8	+2.4%	
Profit attributable to shareholders	566.9	623.1	-9.0%	
Dividend				
DPS (HK\$)	0.034	0.077	-55.8%	Xinyi Energy slashed the dividend payout. For 1H23, the dividend payout ratio was 49%. In the past, it distributed most of its profit to shareholders by cash dividend.
Profitability ratio (%)				
Gross Margin	70.2%	72.7%	-2.5p.p.	
Operating ratio (%)				
Admin expenses to revenue	2.2%	2.6%	-0.4p.p.	
Effective tax rate	21.8%	20.6%	+1.2p.p.	Mainly due to the increased contribution from old projects
Key operating figures				
Approved Capacity of solar farms(MW)	3,314MW	3,014MW	+300MW	

Source: The Company, OP research

Exhibit 3: Earnings revision

(HK\$ mn)	FY23E			FY24E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	2,661	2,727	-2.4	3,050	3,246	-6.0	Mainly due to the slower-than-expected expansion of solar farms
Gross margin	69.9%	70.2%	-0.3	69.0%	70.0%	-1.0	
Net profit	1,109	1,165	-1.8	1,313	1,467	-10.5	
Dividend (HK\$)	0.072	0.174	-58.6	0.077	0.210	-63.3	We anticipate XYE to adopt a lower dividend payout ratio in the next few years especially when the offshore borrowing cost remain high

Source: OP Research

Exhibit 4: Key assumptions revision

Approved Capacity of solar farms	Unit	FY23E	FY24E	FY25E
New	MW	3,714	4,714	5,714
Old	MW	3,894	4,894	5,814
Change (%)		-4.6%	-3.7%	-1.7%

Source: Company, OP Research

Exhibit 5: Positive catalysts and risks of Xinyi Energy

Positive catalysts	■	The parentco, Xinyi Solar, has 2.1GW of project reserves for XYE to acquire as at Jun 2023	Risks	■	Offshore finance costs rises significantly under the Fed rate hike.
	■	We expect a higher IRR for solar farm investment in the future, mainly driven by the significant fall in the construction cost of solar farms in 23Q2.		■	Delay in receipt of government subsidies

Source: OP research

Exhibit 6: Peer Group Comparison

Company	Ticker	Price	Mkt	3-mth	PER	PER	PER	3-Yr EPS	PEG	Div yld		P/B		ROE		Sh px	
			cap	avg t/o						Hist	FY1	Hist	FY1	Hist	FY1	1-mth	3-mth
		(US\$m)	(US\$m)		(x)	(x)	(x)	Cagr (%)	(x)	(%)	(%)	(x)	(x)	(%)	(%)	%	%
Xinyi Energy	3868 HK	1.94	2,034	3.0	14.5	13.7	12.7	10.1	1.4	5.9	3.7	1.2	1.1	8.0	8.3	-24.2	-9.3
HSI		19,420.87			9.8	9.7	8.8	6.3	1.53	3.7	3.7	1.1	1.1	10.8	11.0	+0.0	-2.6
HSCEI		6,652.16			8.7	8.9	8.0	6.4	1.39	3.4	3.5	1.0	1.0	11.3	11.4	+0.6	-1.0
CSI300		4,004.98			14.2	12.7	11.0	13.7	0.9	2.5	2.5	1.7	1.6	12.0	12.6	+2.7	-0.6
Adjusted sector avg*					9.7	6.0	5.1	19.8	0.4	3.6	3.7	0.6	0.7	11.1	11.3	+0.8	+0.6
China Longyuan-H	916 HK	7.18	17,275	17.6	11.2	7.0	5.8	30.4	0.2	1.8	2.9	0.9	0.7	7.8	11.2	-12.5	-11.6
China Datang C-H	1798 HK	0.21	594	0.1	15.8	N/A	N/A	N/A	N/A	4.8	N/A	0.7	N/A	4.5	N/A	+4.0	+11.3
Concord Ne	182 HK	2.50	2,329	4.8	5.7	6.1	5.4	7.9	0.8	2.2	2.3	2.1	0.9	20.2	11.8	-6.0	-20.1
Beijing Energy I	686 HK	0.66	99	0.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.1	N/A	-23.2	N/A	+20.0	+33.3
Gcl Newenergy	451 HK	0.63	696	0.6	5.8	4.8	4.0	20.9	0.2	5.6	5.9	0.6	0.5	11.8	10.8	-1.6	-10.0

* Outliners and "N/A" entries are excl. from the calculation of averages

Source: Bloomberg, OP Research

Financial Summary

Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Income Statement (HK\$ mn)					
Sales of electricity	1,068	1,279	1,568	1,985	2,514
Tariff adjustment	1,218	1,027	1,084	1,055	1,036
Others	10	10	10	10	10
Turnover	2,297	2,315	2,661	3,050	3,560
YoY%	+33.4	+0.8	+14.9	+14.6	+16.7
COGS	-617	-681	-800	-944	-1,114
Gross profit	1,679	1,634	1,861	2,105	2,446
Gross margin	73.1%	70.6%	69.9%	69.0%	68.7%
Other income	1	-22	14	16	19
Selling & distribution	0	0	0	0	0
Admin	-55	-72	-80	-85	-93
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	-55	-72	-80	-85	-93
Operating profit (EBIT)	1,626	1,541	1,796	2,036	2,372
Operating margin	70.8%	66.6%	67.5%	66.8%	66.6%
Provisions	0	0	0	0	0
Interest Income	19	2	2	2	2
Finance costs	-188	-270	-389	-389	-420
Profit after financing costs	1,456	1,272	1,408	1,648	1,954
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	1,456	1,272	1,408	1,648	1,954
Tax	-222	-298	-297	-333	-371
Minority interests	-3	-3	-3	-3	-3
Net profit	1,232	971	1,109	1,313	1,580
YoY%	+33.7	-21.2	+14.1	+18.4	+20.4
Net profit Margin	53.7%	42.0%	41.7%	43.0%	44.4%
Distributable income	1,243	1,111	1,213	1,384	1,741
YoY%	+23.3	-10.6	+9.2	+14.1	+25.8
EBITDA	2,158	2,140	2,542	2,915	3,399
EBITDA margin	93.9%	92.4%	95.5%	95.6%	95.5%
EPS (HK\$)	0.173	0.133	0.142	0.152	0.179
YoY%	+28.9	-22.6	+5.8	+7.4	+17.4
DPS (HK\$)	0.174	0.151	0.072	0.077	0.107
Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Cash Flow (HK\$ mn)					
EBITDA	2,185	2,140	2,542	2,915	3,399
Chg in working cap	-702	1,141	-1,822	-157	-83
Others	23	51	0	0	0
Operating cash	1,505	3,333	720	2,758	3,316
Interests paid	-35	-103	-164	-336	-389
Tax	-246	-330	-297	-333	-371
Net cash from operations	1,225	2,899	259	2,089	2,556
Capex and Investment	-3,128	-1,547	-2,850	-3,250	-3,150
Dividends received	0	0	0	0	0
Interest received	19	2	2	2	2
Others	0	15	0	0	0
Investing cash	-3,109	-1,530	-2,848	-3,248	-3,148
Issue of shares	0	780	1,628	0	0
Buy-back	0	0	0	0	0
Dividends paid	-1,130	-857	-833	-728	-969
Net change in bank loans	3,005	62	1,795	1,888	1,561
Others	-225	-561	0	0	0
Financing cash	1,649	-576	2,590	1,160	592
Net change in cash	-235	793	0	0	0
Exchange rate or other Adj	27	-107	0	0	0
Opening cash	1,312	1,105	1,791	1,791	1,791
Closing cash	1,105	1,791	1,791	1,791	1,791
CFPS (HK\$)	-0.033	0.109	0.000	0.000	0.000

Source: Company, OP Research

Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Ratios					
Gross margin (%)	73.1	70.6	69.9	69.0	68.7
Operating margin (%)	70.8	66.6	67.5	66.8	66.6
Net margin (%)	53.7	42.0	41.7	43.0	44.4
Selling & dist'n exp/Sales (%)	0.0	0.0	0.0	0.0	0.0
Admin exp/Sales (%)	2.4	3.1	3.0	2.8	2.6
Payout ratio (%)	100.3	114.3	50.8	50.5	60.1
Effective tax (%)	15.2	23.4	21.1	20.2	19.0
Total debt/equity (%)	39.1	42.4	45.8	56.1	63.5
Net debt/equity (%)	30.1	26.9	33.7	44.5	52.4
Current ratio (x)	1.3	1.0	1.5	1.5	1.5
Quick ratio (x)	1.3	1.0	1.5	1.5	1.5
Inventory T/O (days)	0	0	0	0	0
AR T/O (days)	800	537	542	509	462
AP T/O (days)	492	364	360	360	360
Cash conversion cycle (days)	308	173	182	149	102
Asset turnover (x)	0.1	0.1	0.1	0.1	0.1
Financial leverage (x)	1.6	1.7	1.6	1.6	1.7
EBIT margin (%)	70.8	66.6	67.5	66.8	66.6
Interest burden (x)	0.9	0.8	0.8	0.8	0.8
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Return on equity (%)	10.0	8.0	8.3	8.7	10.0
Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Balance Sheet (HK\$ mn)					
Fixed assets	13,838	13,573	16,597	18,972	21,102
Goodwill	445	373	373	373	373
Financial assets	0	0	0	0	0
Right-of-use assets	699	688	688	688	688
Other non-current assets	81	107	107	107	107
Non-current assets	15,063	14,740	17,764	20,139	22,269
Inventories	0	0	0	1	2
AR	5,031	3,408	3,952	4,252	4,502
Contracted assets	0	0	0	0	0
Prepayments & deposits	0	0	0	0	0
Other current assets	3	1	1	1	1
Cash	1,105	1,791	1,791	1,791	1,791
Current assets	6,139	5,200	5,744	6,044	6,294
AP	831	679	789	932	1,099
Tax	51	53	53	53	53
Accruals & other payables	0	0	0	0	0
Bank loans	2,036	2,892	2,892	2,892	2,892
Amount due to parent co	1,754	1,388	0	0	0
Other current liabilities	32	86	86	86	86
Current liabilities	4,704	5,099	3,820	3,963	4,130
Bank loans	2,844	2,061	3,856	5,744	7,305
Other payable	66	57	57	57	57
Deferred tax & others	1,027	961	961	961	961
Non-current liabilities	3,937	3,079	4,874	6,762	8,323
Total net assets	12,560	11,762	14,814	15,459	16,110
Shareholder's equity	12,553	11,753	14,802	15,444	16,093
Share capital	71	74	74	74	74
Reserves	12,482	11,679	14,728	15,370	16,019
MI	8	9	12	14	17
BVPS (HK\$)	1.77	1.61	1.81	1.89	1.97

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
31/07/2023	Edvantage Group	382	9M22/23 operating results in-line with expectation	BUY	31/07/2023
03/07/2023	China Water Affairs	855	FY22/23 earnings slightly declined, pipeline direct drinking water shines	BUY	03/07/2023
22/05/2023	Newborn Town	9911	Fine-tuning content ecology to further monetize new social networking products	BUY	22/05/2023
05/05/2023	China Edu Group	839	FY1H23 results up to expectations	BUY	05/05/2023
04/05/2023	Edvantage Group	382	FY1H23 results showed the strong organic growth	BUY	04/05/2023
27/04/2023	New Higher Edu	2001	FY1H23 results in-line	BUY	27/04/2023
19/04/2023	361 Degrees	1361	2023Q1 sales bounced as expected	BUY	19/04/2023
24/03/2023	Micro Connect	-	Releasing the investment value of SMEs in China through technological innovation(中/ENG)	NR	24/03/2023
02/03/2023	Xinyi Energy	3868	FY22 results miss, expecting a rebound for FY23E	BUY	02/03/2023
24/02/2023	Edvantage Group	382	FY23Q1 operations on track	BUY	24/02/2023
13/02/2023	Newborn Town	9911	More social apps expecting to begin bearing fruit	BUY	13/02/2023
02/02/2023	China Water Affairs	855	Tapping into opportunities in the direct drinking water market	BUY	02/02/2023
18/01/2023	361 Degrees	1361	The worst has likely passed	BUY	18/01/2023
05/12/2022	China Edu Group	839	Higher vocational education leads the growth	BUY	05/12/2022
05/12/2022	New Higher Edu	2001	FY22 results slightly beat, emphasis on quality education	BUY	05/12/2022
29/11/2022	Edvantage Group	382	FY22 earnings beat, moderate growth ahead	BUY	29/11/2022
20/10/2022	361 Degrees	1361	Lockdown may impact sales in Q4	BUY	20/10/2022
20/10/2022	Greentown Mgmt	9979	Impressive new contracts growth in Q3 under severe headwinds	BUY	20/10/2022
16/09/2022	EVA Holdings	838	Decent earnings outlook supported by strong order backlogs	BUY	16/09/2022
02/09/2022	Tian Lun Gas	1600	1H22 results missed, tough near-term outlook	HOLD	02/09/2022
31/07/2023	Edvantage Group	382	9M22/23 operating results in-line with expectation	BUY	31/07/2023

Historical recommendations and target price: Xinyi Energy (3868 HK)

(as of 03 Aug 2023)

(HK\$)



	Date	Rating	TP	Close
1	7 Jul 2021	BUY	HK\$5.80	HK\$4.84
2	5 Aug 2021	BUY	HK\$6.50	HK\$5.72
3	2 Mar 2022	BUY	HK\$5.70	HK\$4.20
4	3 Aug 2022	BUY	HK\$4.20	HK\$3.16
5	1 Mar 2023	BUY	HK\$3.00	HK\$2.52
6	4 Aug 2023	HOLD	HK\$2.12	HK\$1.94

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Buy (B)	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
Sell (S)	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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