

Xinyi Energy (3868 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$4.20

Target Price: HK\$5.70(+35.7%)

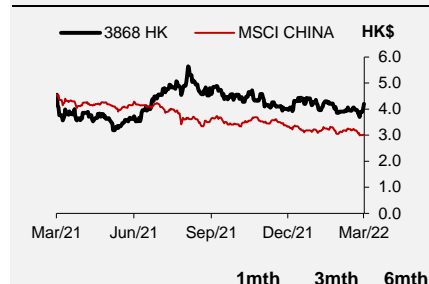
Prior TP: HK\$6.50

Key Data

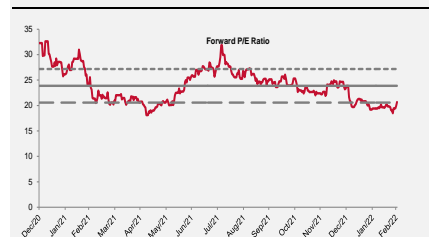
HKEx code	3868 HK
12 Months High (HK\$)	5.84
12 Month Low (HK\$)	3.21
3M Avg Dail Vol. (mn)	5.81
Issue Share (mn)	7,110.00
Market Cap (HK\$mn)	29,861.99
Fiscal Year	12/2021
Major shareholder (s)	Xinyi Solar (50.05%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 01/03/2022

Price Chart



PE



Company Profile

Xinyi Energy is principally engaged in operation of solar farms in China. As at the end of Dec 2021, the total approved capacity of solar farms reached 2,494MW.

Ambitious expansion plan for FY22E

- FY21 DPS amounted to HK\$0.174(Interim DPS: HK\$0.074, final DPS: HK\$0.10), beating our projection of HK\$0.165
- Rev/distributable income rose 33.4%/23.3% yoy to HK\$2.30bn/1.24bn
- Planning to acquire 1,000MW of solar projects in FY22E. Total approved capacity will increase by 40% yoy to 3,494MW
- Maintain Buy with new TP of HK\$5.70

FY21 DPS above our expectations, which is mainly due to higher-than-expected distribution ratio. Meanwhile, revenue/distributable income are in-line with our forecast. Positive included: (1) higher contribution from sales of electricity (46.5% in FY21 verses 39.8% in FY20), and (2) operating cash inflow increased by +14.4% yoy to HK\$1.23bn. Long subsidy collection remains the major concern. It received RMB371mn of tariff subsidy in FY21, down 14.7% yoy.

More grid-parity projects. Xinyi Energy acquired 8 solar farm projects with approved capacity of 660MW in 2021, boosting the total capacity by 36% to 2,494MW. The Company focuses on acquiring solar farm projects with little or no subsidy. In 2021, 77% of the newly added capacity was from grid-bidding and grid-parity projects. As at Dec 21, grid-bidding and grid-parity projects accounted for 32.9% of Xinyi Energy solar farms' total approved capacity. Grid-parity projects have similar profitability to subsidized projects, suggesting by the improvement in GPM (+0.7p.p. to 73.1%) in FY21.

Ambitious expansion plan for FY22E. Xinyi Energy plans to acquire 1,000MW of solar projects (most of them will be grid-parity projects) in 2022, which is expected to complete in 2H22. We think Xinyi Energy can tolerate a higher level of gearing when executing its ambitious expansion plan, given: (1) stable cash inflow from new grid-parity projects, (2) very low borrowing costs (annual effective borrowing rate was 1.21% as at Dec 21), and (3) the below industry average net gearing ratio (30.1%) in Dec 21.

Maintain Buy with new TP of HK\$5.70, representing 27.9x/22.3x PER and 3.4%/3.8% dividend yield in FY22E/23E. Under the ambitious expansion plan, we project Xinyi Energy's net profit/DPS to grow at CAGR of 17.8%/11.9% from FY21 to FY24E. We believe Xinyi Energy has the financial muscle to acquire more solar farms while maintaining near 100% distribution ratio. We expect it will deliver DPS of HK\$0.194/0.217/0.244 in FY22E/23E/24E.

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,722	2,297	2,798	3,469	3,905
Growth (%)	+8.1	+33.4	+21.8	+24.0	+12.6
Net profit	922	1,232	1,453	1,821	2,016
Growth (%)	+3.5	+33.7	+17.9	+25.3	+10.7
Distributable Income	1,008	1,243	1,377	1,545	1,733
Growth (%)	+11.2	+23.3	+10.8	+12.2	+12.1
Diluted EPS (HK\$)	0.134	0.173	0.204	0.256	0.283
EPS growth (%)	-10.6	+28.9	+17.9	+25.3	+10.7
Change to previous EPS (%)			+5.2	+15.3	
Consensus EPS (HK\$)			0.206	0.241	0.274
ROE (%)	8.3	10.0	11.4	13.8	14.7
P/E (x)	31.3	24.2	20.6	16.4	14.8
P/B (x)	2.5	2.4	2.3	2.2	2.1
Yield (%)	3.5	4.1	4.6	5.2	5.8
DPS (HK\$)	0.145	0.174	0.194	0.217	0.244

Source: Bloomberg, OP Research

Exhibit 2: Earnings review

Year ended Aug(RMB mn)	Forecast	Actual	Diff (%)	OP Comments
Revenue	2,278	2,297	+0.8	
Gross margin	74.2%	73.1%	-1.1p.p.	
Net profit	1,258	1,232	-2.1	Due to the higher finance costs and lower GPM
Distributable income	1,250	1,243	-0.6	
DPS (HK\$)	0.165	0.174	+5.5	Due to higher than expected distribution ratio (Actual :100%,Our forecast:94%) in the FY21

Sources: Company, OP Research

Exhibit 3: Earnings revision

(HK\$ mn)	FY22E			FY23E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	2,798	2,631	+6.3	3,469	3,001	+15.6	Mainly thanks to the ambitious expansion plan in FY22E
Gross margin	72.2%	73.1%	-0.9p.p.	71.5%	72.8%	-1.3 p.p.	
Net profit	1,453	1,381	+5.2	1,821	1,578	+15.4	
Distributable income	1,377	1,411	-2.4	1,545	1,429	+8.2	Due to the increase in borrowings, which is a drag on growth of distributable income
Dividend (HK\$)	0.194	0.180	+7.8	0.217	0.190	+14.2	Xinyi Energy is likely to maintain 100% distribution ratio

Source: OP Research

Exhibit 4: Key assumptions revision

Approved Capacity of solar farms		Unit	FY21	FY22E	FY23E
New		MW	2,494	3,494	4,494
Old		MW	2,534	3,034	3,534
Change (%)			-1.6%	+15.2%	+27.2%
Avg Tariff per kWh (hK\$, VAT included)					
New		HK\$	0.89	0.87	0.72
Old		HK\$	0.94	0.81	0.73
Change (%)			-7.4%	+7.6%	-0.9%

Source: Company, OP Research

Exhibit 5: Positive catalysts and risks of Xinyi Energy

Positive catalysts		Risks
■ Possible new source of revenue from carbon-trading		■ Delay in receipt of subsidy from government
■ Massive M&A to boost DPS growth		■ Higher cost for acquiring new solar farms
		■ Significant increase in financing cost

Source: OP research

Exhibit 6: Peer Group Comparison

Company	Ticker	Price (US\$m)	Mkt 3-mth		PER	PER	PER	3-Yr EPS Cagr (%)	PEG (x)	Div yld		P/B	P/B	ROE	ROE	Sh px	Sh px
			cap	avg t/o						Hist (%)	FY1 (%)						
Xinyi Energy	3868 HK	4.20	3,821	3.1	24.2	20.6	16.4	17.8	1.15	4.1	4.6	2.4	2.3	10.0	11.4	+7.7	+5.8
HSI		22,761.71			8.8	10.7	9.4	N/A	N/A	2.6	3.3	0.9	1.1	10.6	10.4	-4.4	-3.8
HSCEI		8,053.04			8.3	8.6	7.7	0.9	10.12	2.9	3.5	0.9	1.0	10.6	12.1	-3.6	-4.4
CSI300		4,619.69			16.7	13.7	11.8	N/A	N/A	1.8	2.2	2.2	1.9	13.0	13.8	+1.2	-4.6
Adjusted sector avg*					17.1	13.4	9.4	0.0	0.0	2.0	2.0	1.1	1.1	10.4	7.4	+0.7	-2.0
China Longyuan-H	916 HK	16.32	27,523	48.5	22.4	17.4	14.6	21.4	0.8	0.9	1.1	1.9	1.8	11.3	10.4	+3.7	-0.1
Beijing Energy I	686 HK	0.265	760	0.1	19.1	N/A	N/A	N/A	N/A	N/A	N/A	0.8	N/A	9.9	N/A	+1.9	+1.9
China Datang C-H	1798 HK	3.100	2,885	15.3	19.6	12.8	9.7	35.9	0.4	1.2	1.8	1.4	1.4	9.5	7.1	-1.6	-1.3
Gcl Newenergy	451 HK	0.195	526	1.5	N/A	17.5	8.3	8.3	N/A	N/A	-	0.4	0.5	-17.9	1.0	+12.7	-32.8
Concord Ne	182 HK	0.740	848	2.5	7.3	6.0	4.8	21.0	0.3	4.1	5.2	0.8	0.6	10.9	11.4	-1.3	-8.6

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

Source: Bloomberg, OP Research

Financial Summary

Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
Income Statement (HK\$ mn)					
Sales of electricity	686	1,068	1,492	2,163	2,622
Tariff adjustment	1,027	1,218	1,296	1,296	1,273
Others	9	10	10	10	10
Turnover	1,722	2,297	2,798	3,469	3,905
YoY%	+8.1	+33.4	+21.8	+24.0	+12.6
COGS	-475	-617	-777	-989	-1,139
Gross profit	1,247	1,679	2,021	2,480	2,766
Gross margin	72.4%	73.1%	72.2%	71.5%	70.8%
Other income	11	1	15	19	21
Selling & distribution	0	0	0	0	0
Admin	-45	-55	-62	-69	-78
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	-45	-55	-62	-69	-78
Operating profit (EBIT)	1,213	1,626	1,974	2,429	2,709
Operating margin	70.5%	70.8%	70.6%	70.0%	69.4%
Provisions	0	0	0	0	0
Interest Income	41	19	19	19	19
Finance costs	-166	-188	-233	-281	-312
Profit after financing costs	1,089	1,456	1,760	2,167	2,416
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	1,089	1,456	1,760	2,167	2,416
Tax	-166	-222	-304	-344	-397
Minority interests	0	-3	-3	-3	-3
Net profit	922	1,232	1,453	1,821	2,016
YoY%	+3.5	+33.7	+17.9	+25.3	+10.7
Distributable income	1,008	1,243	1,377	1,545	1,733
YoY%	+11.1	+23.3	+10.8	+12.2	+12.1
EBITDA	1,621	2,158	2,655	3,316	3,733
EBITDA margin	94.1%	93.9%	94.9%	95.6%	95.6%
EPS (HK\$)	0.134	0.173	0.204	0.256	0.283
YoY%	-10.6	+28.9	+17.9	+25.3	+10.7
DPS (HK\$)	0.145	0.174	0.194	0.217	0.244
Cash Flow (HK\$ mn)					
EBITDA	1,621	2,158	2,655	3,316	3,733
Chg in working cap	-155	-628	-377	-2,219	-399
Others	-194	0	0	0	0
Operating cash	1,272	1,530	2,278	1,097	3,334
Interests paid	-56	-83	-88	-133	-231
Tax	-145	-222	-304	-344	-397
Net cash from operations	1,071	1,225	1,886	620	2,706
Capex and Investment	-1,251	-3,128	-4,150	-3,650	-2,850
Dividends received	0	0	0	0	0
Interest received	41	19	19	19	19
Others	-44	0	0	0	0
Investing cash	-1,254	-3,109	-4,131	-3,631	-2,831
FCF	-183	-1,884	-2,245	-3,011	-125
Issue of shares	894	0	0	0	0
Buy-back	0	0	0	0	0
Dividends paid	-979	-1,008	-1,237	-1,377	-1,545
Net change in bank loans	-90	3,017	3,483	4,388	1,670
Others	-28	-360	0	0	0
Financing cash	-203	1,649	2,246	3,011	125
Net change in cash	-385	-235	0	0	0
Exchange rate or other Adj	67	27	0	0	0
Opening cash	1,631	1,312	1,105	1,105	1,105
Closing cash	1,312	1,105	1,105	1,105	1,105
CFPS (HK\$)	-0.056	-0.033	0.000	0.000	0.000

Source: Company, OP Research

Year to Dec	FY20	FY21	FY22E	FY23E	FY24E
Ratios					
Gross margin (%)	72.4	73.1	72.2	71.5	70.8
Operating margin (%)	70.5	70.8	70.6	70.0	69.4
Net margin (%)	53.5	53.7	51.9	52.5	51.6
Selling & dist'n exp/Sales (%)	0.0	0.0	0.0	0.0	0.0
Admin exp/Sales (%)	2.6	2.4	2.2	2.0	2.0
Payout ratio (%)	107.9	100.3	94.8	84.9	85.9
Effective tax (%)	15.3	15.2	17.3	15.9	16.4
Total debt/equity (%)	15.7	39.1	65.3	95.0	103.1
Net debt/equity (%)	4.6	30.1	56.7	86.8	95.3
Current ratio (x)	1.4	1.3	1.4	2.2	2.3
Quick ratio (x)	1.4	1.3	1.4	2.2	2.3
Inventory T/O (days)	0	0	0	0	0
AR T/O (days)	830	800	763	695	673
AP T/O (days)	553	492	490	490	490
Cash conversion cycle (days)	277	308	273	205	183
Asset turnover (x)	0.1	0.1	0.1	0.1	0.1
Financial leverage (x)	1.5	1.6	1.8	2.0	2.2
EBIT margin (%)	70.5	70.8	70.6	70.0	69.4
Interest burden (x)	0.9	0.9	0.9	0.9	0.9
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Return on equity (%)	8.3	10.0	11.4	13.8	14.7
Balance Sheet (HK\$ mn)					
Fixed assets	10,998	13,838	17,011	19,774	21,604
Goodwill	362	445	445	445	445
Financial assets	0	0	0	0	0
Right-of-use assets	508	699	699	699	699
Other non-current assets	137	81	81	81	81
Non-current assets	12,005	15,063	18,236	20,999	22,829
Inventories	0	0	0	0	1
AR	3,916	5,031	5,852	6,602	7,202
Contracted assets	0	0	0	0	0
Prepayments & deposits	0	0	0	0	0
Other current assets	0	3	3	3	3
Cash	1,312	1,105	1,105	1,105	1,105
Current assets	5,229	6,139	6,960	7,710	8,310
AP	720	831	1,043	1,328	1,529
Tax	60	51	51	51	51
Accruals & other payables	0	0	0	0	0
Bank loans	1,210	2,036	2,036	2,036	2,036
Amount due to parent co	1,766	1,754	1,754	0	0
Other current liabilities	19	32	32	32	32
Current liabilities	3,775	4,704	4,916	3,448	3,648
Bank loans	653	2,844	6,327	10,715	12,385
Other payable	61	66	66	66	66
Deferred tax & others	734	1,027	1,027	1,027	1,027
Non-current liabilities	1,448	3,937	7,420	11,808	13,479
Total net assets	12,010	12,560	12,860	13,454	14,013
Shareholder's equity	12,005	12,553	12,850	13,441	13,997
Share capital	71	71	71	71	71
Reserves	11,934	12,482	12,778	13,370	13,926
MI	5	8	10	13	15
BVPS (HK\$)	1.69	1.77	1.81	1.89	1.97

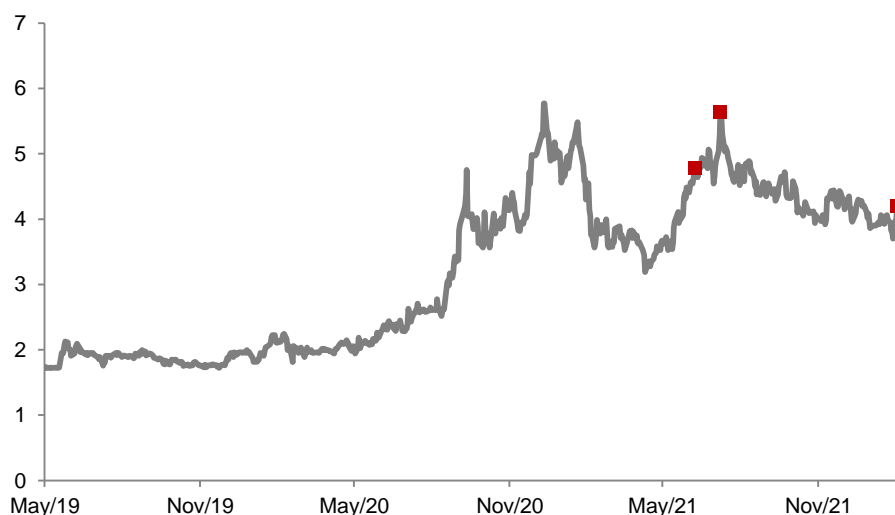
Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
25/02/2022	Tsaker Chem	1986	Battery business started to bear fruit	NR	John Siah
27/01/2022	Greentown Mgmt	9979	Resilient against headwinds	BUY	John Siah
21/01/2022	361 Degrees	1361	4Q21 retail sales beat expectation	BUY	John Siah
14/12/2021	Tian Lun Gas	1600	Embracing green energy, ambitious target for gas sales	BUY	John Siah
06/12/2021	New Higher Edu	2001	Aim for quality growth	BUY	John Siah
29/11/2021	China Edu Group	839	FY21 results in-line, expecting more M&A	BUY	John Siah
18/11/2021	Edvantage Group	382	FY21 results slightly beat our expectation	BUY	John Siah
26/10/2021	Truly Int'l	732	More added value of automotive display as a new earnings catalyst	BUY	John Siah
19/10/2021	China Edu Sector	-	Encourage private participation in vocational education	-	John Siah
11/10/2021	AAC Tech	2018	Sluggish 3Q21 earnings on weak smartphone market	BUY	John Siah
03/09/2021	HK Tech Venture	1137	Striving to become a global technology enabler	BUY	John Siah
31/08/2021	Tian Lun Gas	1600	Mixed 21H1 results, expecting margins to improve in 21H2E	BUY	John Siah
27/08/2021	AAC Tech	2018	Optics segment stood strong against headwinds in 21Q2	BUY	John Siah
25/08/2021	361 Degrees	1361	Strong earnings expected to continue in 21H2E	BUY	John Siah
09/08/2021	Edvantage Group	382	Promising growth to continue in FY22E	BUY	John Siah
09/08/2021	China Edu Group	839	Another landmark M&A	BUY	John Siah
09/08/2021	New Higher Edu	2001	SY21/22 growth on track	BUY	John Siah
06/08/2021	Innovent Bio	1801	Sintilimab on track to become RMB10 bn drug	BUY	Kevin Tam
05/08/2021	Greentown Mgmt	9979	Safe sail inside the Storm	BUY	John Siah
05/08/2021	Xinyi Energy	3868	More M&A coming in 21H2E	BUY	John Siah
30/07/2021	SF REIT	2191	First logistics REITs in HK, riding the e-commerce wave	NR	John Siah
27/07/2021	China Edu Sector	-	Private Higher Edu will not be the next K12 tutoring	-	John Siah
13/07/2021	HKTV	1137	Edging up GMV with enabler business kicking off	BUY	Kevin Tam
07/07/2021	Xinyi Energy	3868	Fast growing solar farms with promising dividend outlook	BUY	John Siah
02/07/2021	Yidu Tech	2158	Getting closer to breakeven	BUY	Kevin Tam
24/06/2021	Greentown Mgmt	9979	21H1 net profit expected to up more than 70% YoY	BUY	John Siah
11/06/2021	TCL Electronics	1070	Turnaround possible in 2H21E	BUY	Kevin Tam

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

(as of 01/03/2022)

(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

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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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