

Xinyi Energy (3868 HK)

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Company Update

BUY

Maintained

Close price: HK\$3.16

Target Price: HK\$4.20(+32.9%)

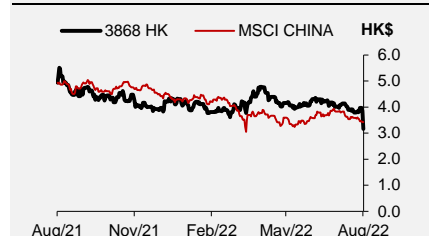
Prior TP: HK\$5.70

Key Data

HKEx code	3868 HK
12 Months High (HK\$)	5.84
12 Month Low (HK\$)	3.13
3M Avg Dail Vol. (mn)	3.78
Issue Share (mn)	7,298.40
Market Cap (HK\$mn)	23,062.94
Fiscal Year	12/2021
Major shareholder (s)	Xinyi Solar (48.75%)

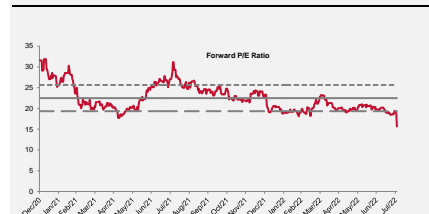
Source: Company data, Bloomberg, OP Research
Closing price are as of 02/08/2022

Price Chart



	1mth	3mth	6mth
Absolute %	-21.4	-24.7	-17.1
Rel. MSCI CHINA %	-10.8	-21.4	+1.2

PE



Company Profile

Xinyi Energy is principally engaged in operation of solar farms in China. As at the end of Jun 2022, the total approved capacity of solar farms reached 2,534MW.

Flat earnings growth in 1H22, slowing M&A pace due to high prices

- Net profit grew 0.4% yoy to HK\$623mn on the back of a 13.1% yoy increase in revenue to HK\$1.26bn.
- Distributable income up 7.1% yoy to HK\$563mn. Interim DPS amounted to HK\$0.077.
- We expect the growth of solar farm capacity may be 10-20% below the full year target of 1GW, if the prices of solar projects remains high in 2H22
- Maintain BUY and cut TP to HK\$4.20, representing 24.1x PER and 4.2% dividend yield in FY22E.

Flat earnings growth in 1H22. This is mainly due to (1) an increase in the effective tax rate (20.6% in 1H22, versus 14.2% in 1H21) when the tax concession for some of its solar farms (with total capacity of 1GW) expired this year, and (2) a contraction of gross profit margin by 1.4 p.p. to 72.7%. Xinyi Energy's interim DPS falls short of our expectations, only reaching 42.3% of the original projection for FY22E.

Strong operating cash flow. Xinyi Energy's operating cash flow jumped 101% yoy to HK\$598mn, of which HK\$180mn cash inflow from the rebate of value-added tax. The increased revenue contribution from subsidized-free solar farms should strengthen the cash flow and support acquisition of solar farms. Besides, it said the amount of government subsidies received since 2H22 is similar to last year.

High solar farm prices has become a stumbling block for expansion. Xinyi Energy has only acquired a 40MW solar farm in 1H22. It will complete the M&A of 650MW of solar farms from Xinyi Solar (968.HK) in 4Q22. Also, it may acquire more than 300MW of solar farms from independent third parties in 2H22. Of which, M&A of 130MW of solar farms was completed in Jul 2022. We think Xinyi Energy may slow its M&A pace due to high acquisition costs. The growth of solar farm capacity may below the full year target (1GW) by 10-20%. Looking forward, we anticipate the expected fall in solar panel costs will bring more M&A opportunities in FY23E.

Rising finance costs will harm the DPS outlook. We foresee Xinyi Energy will have to significantly increase gearing to meet the ambitious expansion target. The rising finance costs may harm DPS outlook in the near term. According to Xinyi Energy, the borrowing cost may increase to 2-3% in 2H22 from 1.62% in Jun 2022.

Maintain BUY and cut the TP to HK\$4.20, representing 24.1x PER and 4.2% dividend yield in FY22E. We assign a lower TP as a result of (1) narrowing yield spreads, (2) higher borrowing costs, (3) slowing M&A activities, and (4) the expected lower IRR of new acquisitions this year. We lower the DPS estimate by -3.3%/-7.6% to HK\$0.176/0.183 in FY22E/23E based on our conservative assumption that it will delay the acquisition of 200MW of solar farms from this year to next year. The shorter time period for receiving government subsidies will be a re-rating driver.

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,722	2,297	2,590	3,178	3,785
Growth (%)	+8	+33	+13	+23	+19
Net profit	922	1,232	1,264	1,517	1,804
Growth (%)	+4	+34	+3	+20	+19
Distributable Income	1,008	1,243	1,278	1,337	1,593
Growth (%)	+11	+23	+3	+5	+19
Diluted EPS (HK\$)	0.134	0.173	0.174	0.208	0.247
EPS growth (%)	-11	+29	+1	+19	+19
Change to previous EPS (%)			-14.5	-18.9	-13.0
Consensus EPS (HK\$)			0.202	0.239	0.273
ROE (%)	8.3	10.0	9.6	10.9	12.6
P/E (x)	23.5	18.2	18.1	15.2	12.8
P/B (x)	1.9	1.8	1.7	1.6	1.6
Yield (%)	4.6	5.5	5.6	5.8	6.9
DPS (HK\$)	0.145	0.174	0.176	0.183	0.218

Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

(HK\$ mn)	FY22E			FY23E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	2,590	2,684	-3.5	3,178	3,328	-4.5	Mainly due to slower-than expected M&A and depreciation of CNY against HKD.
Gross margin	72.0%	71.0%	+1.0p.p.	70.0%	69.4%	+0.6 p.p.	
Net profit	1,264	1,394	-9.3	1,517	1,709	-11.2	Mainly to reflect (1) the higher effective tax rate, and (2) the increase in finance costs
Distributable income	1,278	1,321	-3.2	1,337	1,445	-7.5	
Dividend (HK\$)	0.176	0.182	-3.3	0.183	0.198	-7.6	

Source: OP Research

Exhibit 3: Key assumptions revision

Approved Capacity of solar farms		Unit	FY22E	FY23E	FY24E
New		MW	3,294	4,494	5,494
Old		MW	3,494	4,494	5,294
Change (%)			-5.7%	-	+3.8%
Avg Tariff per kWh (hK\$, VAT included)					
New		HK\$	0.84	0.70	0.63
Old		HK\$	0.84	0.69	0.63
Change (%)			-	+1.4%	-

Source: Company, OP Research

Exhibit 4: Positive catalysts and risks of Xinyi Energy

Positive catalysts	Risks
<ul style="list-style-type: none"> Xinyi Energy has the first right to purchase >2.2GW of solar farms from Xinyi Solar(968.HK) Low net gearing(24.5% as in Jun 22) enables Xinyi Solar to have massive acquisition 	<ul style="list-style-type: none"> Higher cost for acquiring new solar farms Finance costs rises significantly under the Fed rate hike Delay in receipt of subsidies from the government

Source: OP research

Exhibit 5: Peer Group Comparison

Company	Ticker	Price (US\$m)	Mkt 3-mth		PER	PER	PER	3-Yr EPS	PEG	Div yld		P/B	P/B	ROE	ROE	Sh px	Sh px
			cap	avg t/o						Hist	FY1						
			(US\$m)	(US\$m)	Hist (x)	FY1 (x)	FY2 (x)	Cagr (%)	(x)	(%)	(%)	Hist (x)	FY1 (x)	(%)	(%)	1-mth	3-mth
Xinyi Energy	3868 HK	3.16	2,938	2.0	18.2	18.1	15.2	12.5	1.44	5.5	5.6	1.8	1.7	10.0	9.6	-21.4	-24.7
HSI		19,689.21			7.2	10.2	8.9	(3.7)	-2.75	3.5	+3.5	+0.8	+1.1	+11.1	+10.3	-9.9	-6.6
HSCEI		6,702.07			6.1	8.6	7.6	(3.4)	-2.54	3.8	+3.8	+0.7	+1.0	+11.2	+11.6	-12.6	-8.2
CSI300		4,107.02			15.3	13.2	11.3	15.8	0.8	2.1	+2.4	+1.9	+1.7	+12.4	+13.2	-8.1	+2.3
Adjusted sector avg*					9.1	11.4	9.0	17.7	0.4	2.5	+3.4	+0.8	+0.8	+10.8	+8.1	-21.2	-17.0
China Longyuan-H	916 HK	11.80	19,731	29.9	13.3	11.3	9.5	17.3	0.6	1.5	+1.7	+1.4	+1.2	+11.4	+11.5	-22.2	-23.5
Beijing Energy I	686 HK	0.22	640	0.1	7.7	N/A	N/A	N/A	N/A	N/A	N/A	+0.7	N/A	+9.9	N/A	-8.2	-13.8
China Datang C-H	1798 HK	1.89	1,751	3.8	9.0	7.1	5.9	23.1	0.3	1.9	+2.6	+0.9	+0.8	+10.6	+9.4	-29.2	-37.2
Gcl Newenergy	451 HK	0.13	346	2.8	N/A	22.2	15.9	15.9	N/A	N/A	N/A	+0.3	+0.5	-11.1	+0.3	-36.1	-6.5
Concord Ne	182 HK	0.70	800	1.3	6.4	5.2	4.6	14.4	0.4	4.3	+6.0	+0.7	+0.6	+11.5	+11.1	-10.3	-4.1

* 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	1,338	1,937	2,555
Tariff adjustment	1,027	1,218	1,242	1,231	1,220
Others	9	10	10	10	10
Turnover	1,722	2,297	2,590	3,178	3,785
YoY%	+8	+33	+13	+23	+19
COGS	-475	-617	-724	-954	-1,170
Gross profit	1,247	1,679	1,866	2,224	2,615
Gross margin	72.4%	73.1%	72.0%	70.0%	69.1%
Other income	11	1	14	17	20
Selling & distribution	0	0	0	0	0
Admin	-45	-55	-65	-76	-87
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	-45	-55	-65	-76	-87
Operating profit (EBIT)	1,213	1,626	1,815	2,165	2,548
Operating margin	70.5%	70.8%	70.1%	68.1%	67.3%
Provisions	0	0	0	0	0
Interest Income	41	19	19	19	19
Finance costs	-166	-188	-254	-339	-395
Profit after financing costs	1,089	1,456	1,580	1,845	2,172
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	1,089	1,456	1,580	1,845	2,172
Tax	-166	-222	-313	-326	-365
Minority interests	0	-3	-3	-3	-3
Net profit	922	1,232	1,264	1,517	1,804
YoY%	+4	+34	+3	+20	+19
Net profit Margin	53.5%	53.7%	48.8%	47.7%	47.7%
Distributable income	1,008	1,243	1,278	1,337	1,593
YoY%	+11	+23	+3	+5	+19
EBITDA	1,621	2,158	2,468	3,019	3,592
EBITDA margin	94.1%	93.9%	95.3%	95.0%	94.9%
EPS (HK\$)	0.134	0.173	0.174	0.208	0.247
YoY%	-11	+29	+1	+19	+19
DPS (HK\$)	0.145	0.174	0.176	0.183	0.218
Cash Flow (HK\$ mn)					
EBITDA	1,621	2,185	2,468	3,019	3,592
Chg in working cap	-155	-702	-448	-2,345	-610
Others	-194	23	180	0	0
Operating cash	1,272	1,505	2,200	674	2,982
Interests paid	-56	-35	-88	-154	-289
Tax	-145	-246	-313	-326	-365
Net cash from operations	1,071	1,225	1,798	194	2,328
Capex and Investment	-1,251	-3,128	-3,550	-4,650	-3,750
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	-3,531	-4,631	-3,731
Issue of shares	894	0	780	0	0
Buy-back	0	0	0	0	0
Dividends paid	-979	-1,130	-1,237	-1,278	-1,337
Net change in bank loans	-90	3,005	2,190	5,715	2,740
Others	-28	-225	0	0	0
Financing cash	-203	1,649	1,733	4,437	1,403
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	72.0	70.0	69.1
Operating margin (%)	70.5	70.8	70.1	68.1	67.3
Net margin (%)	53.5	53.7	48.8	47.7	47.7
Selling & dist'n exp/Sales (%)	0.0	0.0	0.0	0.0	0.0
Admin exp/Sales (%)	2.6	2.4	2.5	2.4	2.3
Payout ratio (%)	107.9	100.3	101.1	88.1	88.3
Effective tax (%)	15.3	15.2	19.8	17.7	16.8
Total debt/equity (%)	15.7	39.1	52.0	91.1	106.1
Net debt/equity (%)	4.6	30.1	43.9	83.2	98.6
Current ratio (x)	1.4	1.3	1.4	2.3	2.4
Quick ratio (x)	1.4	1.3	1.4	2.3	2.4
Inventory T/O (days)	0	0	0	0	0
AR T/O (days)	830	800	825	775	738
AP T/O (days)	553	492	490	490	490
Cash conversion cycle (days)	277	308	335	285	248
Asset turnover (x)	0.1	0.1	0.1	0.1	0.1
Financial leverage (x)	1.5	1.6	1.7	1.9	2.2
EBIT margin (%)	70.5	70.8	70.1	68.1	67.3
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	9.6	10.9	12.6
Balance Sheet (HK\$ mn)					
Fixed assets	10,998	13,838	16,439	20,235	22,945
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	17,664	21,460	24,170
Inventories	0	0	0	0	1
AR	3,916	5,031	5,852	6,752	7,652
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	6,959	7,859	8,759
AP	720	831	972	1,281	1,571
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	4,845	3,400	3,690
Bank loans	653	2,844	5,034	10,749	13,489
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	6,127	11,843	14,582
Total net assets	12,010	12,560	13,651	14,077	14,657
Shareholder's equity	12,005	12,553	13,641	14,064	14,641
Share capital	71	71	71	71	71
Reserves	11,934	12,482	13,570	13,993	14,570
MI	5	8	10	13	15
BVPS (HK\$)	1.69	1.77	1.87	1.93	2.01

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
01/08/2022	Greentown Mgmt	9979	Impressive growth trajectory in 1H22 despite industry headwinds	BUY	John Siah
20/07/2022	361 Degrees	1361	Retail sales in 2Q2022 remained robust, even under COVID lockdown	BUY	John Siah
11/07/2022	Truly Int'l	732	Automotive display missed in 1H22 on weak car sales	BUY	John Siah
07/07/2022	EVA Holdings	838	Kicking off a new growth cycle	BUY	John Siah
04/05/2022	China Edu Group	839	1H22 results showed strong organic growth of higher schools	BUY	John Siah
29/04/2022	Edvantage Group	382	1H22 earnings remains robust despite higher costs	BUY	John Siah
28/04/2022	New Higher Edu	2001	Mixed 1H22 results amid investments to deliver quality education	BUY	John Siah
08/04/2022	Tian Lun Gas	1600	Strong gas sales offsetting by weak dollar margin, more details for rural solar development	BUY	John Siah
06/06/2022	Truly's Int'l	732	Mixed outlook for FY22E	BUY	John Siah
06/04/2022	HK Tech Venture	1137	Compelling growth story despite weak near-term profit	BUY	John Siah
29/03/2022	361 Degrees	1361	FY21 earnings beat on strong GPM	BUY	John Siah
29/03/2022	AAC Tech	2018	Earnings challenges remain in FY22E	HOLD	John Siah
29/03/2022	Greentown Mgmt	9979	Aligning with new trends in China property market	BUY	John Siah
02/03/2022	Xinyi Energy	3868	Ambitious expansion plan for FY22E	BUY	John Siah
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

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

(as of 02/08/2022)



	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

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