

Xinyi Energy (3868 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$5.72

Target Price: HK\$6.50(+13.6%)

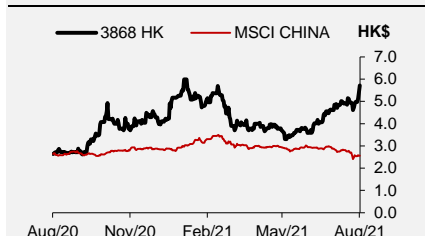
Prior TP: HK\$5.80

Key Data

HKEx code	3868 HK
12 Months High (HK\$)	6.29
12 Month Low (HK\$)	2.47
3M Avg Dail Vol. (mn)	11.06
Issue Share (mn)	7,110
Market Cap (HK\$mn)	40,669.19
Fiscal Year	12/2020
Major shareholder (s)	Xinyi Solar (50.05%)

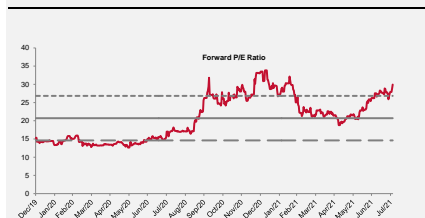
Source: Company data, Bloomberg, OP Research
Closing price are as of 04/08/2021

Price Chart



	1mth	3mth	6mth
Absolute %	+24.1	+59.8	+15.3
Rel. MSCI CHINA %	+35.2	+71.8	+38.0

PE



Company Profile

Xinyi Energy is principally engaged in operation of solar farms in China. As at the end of Feb 2020, the total approved capacity of solar farms reached 2,164MW.

More M&A coming in 21H2E

- 21H1 net profit rose 41.8% yoy to HK\$620.7mn
- Interim DPS HK\$0.074, +23.3% yoy
- Accelerated acquisition, will acquire 370MW of solar farms in 21H2E

21H1 results merely met expectation that rev/net profit rose 30.4%/41.8% to HK\$1.11 bn/HK\$620.7 mn. Positive included: (1) higher contribution from sales of electricity (46% in 21H1 verses 40% in FY20), (2) higher EBITDA margin (95.1% in 21H1 verses 94.1% in FY20), and (3) significant increase (+45.5% yoy) in operating cash flow. On the contrary, we see slow progress in government subsidies collection.

M&A guidance in FY21 revised up to 700MW from 600MW. Xinyi Energy said it will acquire 270MW/100MW solar farms from Xinyi Solar /third parties in 21H2E. We agree with the management view that Xinyi Energy could increase gearing and make more M&A thanks to: (1) stable cash inflow from grid-parity solar farm acquisitions and (2) very low borrowing cost (1.18% in 21H1). Regarding IRR of solar plants available in the market, we see the higher cost of developing solar plants in 21H1 and compulsory energy storage will only temporarily reduce IRR and availability of potential M&A target in 2022.

Maintain Buy with TP of HK\$6.50, representing 38.9x/35.5x PER and 2.5%/2.8% dividend yield in FY21E/22E. We see Xinyi Energy will accelerate M&A pace in the next few years, bringing capacity of solar farms/distributable income to grow at a CAGR of 24.4%/12.3% between FY20-23E. We also believe Xinyi Energy could maintain near 100% distribution ratio that it will deliver DPS of HK\$0.165/0.180/0.190 in FY21E/22E/23E.

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,593	1,722	2,278	2,631	3,001
Growth (%)	32.7	8.1	32.3	15.5	14.1
Net profit	891	922	1,258	1,381	1,578
Growth (%)	19.6	3.5	36.5	9.8	14.2
Distributable Income	907	1,008	1,250	1,384	1,429
Growth (%)	33.7	11.2	24.0	10.7	3.2
Diluted EPS (HK\$)	0.150	0.134	0.177	0.194	0.222
EPS growth (%)	n.a.	(10.6)	30.7	13.0	2.1
Consensus EPS (HK\$)			0.179	0.197	0.223
Change to previous EPS (%)			-0.9	+3.5	+5.4
ROE (%)	10.8	8.3	10.1	10.7	11.9
P/E (x)	38.1	42.6	32.3	29.5	25.8
P/B (x)	3.8	3.4	3.2	3.1	3.1
Yield (%)	2.4	2.5	2.9	3.1	3.3
DPS (HK\$)	0.135	0.145	0.165	0.180	0.190

Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

(HK\$ mn)	FY21E			FY22E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	2,278	2,299	-0.9	2,631	2,607	+0.9	Due to more than expected solar farm capacity in FY21E
Gross profit	1,690	1,716	-1.5	1,923	1,907	+0.9	
Gross margin	74.2%	74.6%	-0.4p.p.	73.1%	73.1%	0.0	Due to the lower GPM in 21H1
EBITDA	2,164	2,170	-0.3	2,503	2,461	+1.7	
Net profit	1,258	1,270	-0.9	1,381	1,334	+3.5	Due to increased interest expenses
Distributable income	1,250	1,315	-4.9	1,411	1,419	-0.6	
Dividend (HK\$)	0.165	0.166	-0.6	0.180	0.180	0.0	

Source: OP Research

Exhibit 3: Key assumptions revision

Approved Capacity of solar farms		Unit	FY20	FY21E	FY22E	FY23E
New		MW	1,834	2,534	3,034	3,534
Old		MW		2,434	2,934	3,334
Change (%)				+4.1%	+3.4%	+6.0%
Avg Tariff per kWh (VAT included)						
New		HK\$	0.95	0.94	0.81	0.73
Old		HK\$		0.95	0.83	0.75
Change (%)				-1.2%	-2.6%	-2.1%

Source: Company, OP Research

Exhibit 4: Positive and negative catalysts of Xinyi Energy

Positives	Negatives
<ul style="list-style-type: none"> Strong support from Xinyi Solar (968 HK). Xinyi Energy has preemptions to acquire 1450MW of solar farms from Xinyi Solar Possible new source of revenue from carbon-trading Very low financing cost (1.18% in 21 H1) to accelerate M&A pace Visible dividend payout 	<ul style="list-style-type: none"> Delay in receipt of subsidy from government Higher cost for acquiring new solar farms

Source: OP research

Exhibit 5: Peer Group Comparison

Company	Ticker	Price (US\$m)	Mkt cap	3-mth avg t/o	PER	PER	PER	3-Yr EPS Cagr	PEG	Div yld Hist	Div yld FY1	P/B	P/B	ROE Hist	ROE FY1	Sh px 1-mth	Sh px 3-mth
Xinyi Energy	3868 HK	5.72	5,231	6.2	39.9	30.3	27.6	18.2	1.67	2.5	2.9	3.4	3.2	8.3	10.1	24.1	55.9
HSI		26,426.55			11.0	12.6	11.2	3.3	3.78	2.4	2.8	1.06	1.24	9.6	9.8	-6.7	-7.5
HSCEI		9,419.25			11.6	10.3	9.1	12.7	0.81	2.6	3.0	1.01	1.24	8.8	12.0	-9.6	-12.5
CSI300		4,978.85			17.7	15.2	13.4	14.2	1.1	1.7	2.0	2.3	2.1	12.8	13.7	-2.0	-2.8
Adjusted sector avg*					14.6	14.0	11.9	0.0	0.0	2.5	3.2	1.3	0.8	9.1	6.8	12.2	30.7
China Longyuan-H	916 HK	14.94	15,444	29.1	21.1	17.1	14.9	18.2	0.9	1.0	N/A	1.9	N/A	9.5	N/A	13.9	33.6
Beijing Energy I	686 HK	0.26	736	0.1	18.9	N/A	N/A	N/A	N/A	N/A	N/A	1.8	N/A	5.6	N/A	-7.3	0.0
China Datang C-H	1798 HK	2.37	2,217	5.6	12.1	8.8	7.7	20.9	0.4	1.5	N/A	1.2	N/A	10.4	N/A	8.2	35.4
Gcl Newenergy	451 HK	0.40	1,071	3.5	N/A	25.3	20.5			N/A	0.0	0.9	1.1	(19.2)	2.1	41.1	73.2
Concord Ne	182 HK	0.60	646	0.9	6.1	5.0	4.5	13.6	0.4	5.0	6.4	0.6	0.5	10.9	11.5	5.3	11.1

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

Source: Bloomberg, OP Research

Financial Summary

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Income Statement (HK\$ mn)					
Sales of electricity	621	686	1,061	1,416	1,774
Tariff adjustment	967	1,027	1,208	1,207	1,218
Others	5	9	9	9	9
Turnover	1,593	1,722	2,278	2,631	3,001
YoY%	32.7%	8.1%	32.3%	15.5%	14.1%
COGS	-378	-475	-588	-708	-817
Gross profit	1,215	1,247	1,690	1,923	2,184
Gross margin	76.3%	72.4%	74.2%	73.1%	72.8%
Other income	7	11	4	4	5
Selling & distribution	0	0	0	0	0
Admin	-51	-45	-59	-68	-78
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	-51	-45	-59	-68	-78
Operating profit (EBIT)	1,171	1,213	1,634	1,859	2,111
Operating margin	73.5%	70.5%	71.8%	70.7%	70.4%
Provisions	0	0	0	0	0
Interest Income	29	41	27	27	27
Finance costs	-177	-166	-160	-189	-214
Profit after financing costs	1,022	1,089	1,502	1,698	1,925
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	1,022	1,089	1,502	1,698	1,925
Tax	-131	-166	-243	-317	-347
Minority interests	0	0	0	0	0
Net profit	891	922	1,258	1,381	1,578
YoY%	20	3	36	10	14
Distributable income	907	1,008	1,250	1,384	1,429
YoY%	34	11	24	11	3
EBITDA	1,509	1,621	2,164	2,503	2,855
EBITDA margin	94.7%	94.1%	95.0%	95.1%	95.1%
EPS (HK\$)	0.150	0.134	0.177	0.194	0.222
YoY%	n.a.	-11	31.6	9.8	14.2
DPS (HK\$)	0.135	0.145	0.165	0.180	0.190

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Cash Flow (HK\$ mn)					
EBITDA	1,509	1,621	2,164	2,503	2,855
Chg in working cap	-234	-155	-958	116	-2,202
Others	78	-194	0	0	0
Operating cash	1,353	1,272	1,206	2,618	653
Interests paid	-101	-56	-83	-78	-106
Tax	-132	-145	-243	-317	-347
Net cash from operations	1,120	1,071	879	2,224	199
Capex and Investment	-2,182	-1,251	-2,600	-2,150	-2,050
Dividends received	0	0	0	0	0
Interest received	29	41	27	27	27
Others	-15	-44	0	0	0
Investing cash	-2,169	-1,254	-2,573	-2,123	-2,023
FCF	-1,049	-183	-1,693	101	-1,823
Issue of shares	3,895	894	0	0	0
Buy-back	0	0	0	0	0
Dividends paid	-654	-979	-1,008	-1,176	-1,280
Net change in bank loans	-870	-90	2,649	977	3,086
Others	-91	-28	0	0	0
Financing cash	2,280	-203	1,641	-199	1,806
Net change in cash	1,232	-385	-52	-98	-17
Exchange rate or other Adj	-22	67	0	0	0
Opening cash	421	1,631	1,312	1,261	1,163
Closing cash	1,631	1,312	1,261	1,163	1,146
CFPS (HK\$)	0.249	-0.067	-0.007	-0.014	-0.002

Source: Company, OP Research

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Ratios					
Gross margin (%)	76.3	72.4	74.2	73.1	72.8
Operating margin (%)	73.5	70.5	71.8	70.7	70.4
Net margin (%)	55.9	53.5	55.2	52.5	52.6
Selling & dist'n exp/Sales (%)	0.0	0.0	0.0	0.0	0.0
Admin exp/Sales (%)	3.2	2.6	2.6	2.6	2.6
Payout ratio (%)	89.8	107.9	93.4	92.7	85.6
Effective tax (%)	12.8	15.3	16.2	18.7	18.0
Total debt/equity (%)	19.3	15.7	36.7	43.5	65.8
Net debt/equity (%)	3.3	4.7	26.9	34.6	57.2
Current ratio (x)	1.6	1.4	1.5	1.5	2.6
Quick ratio (x)	1.6	1.4	1.5	1.5	2.6
Inventory T/O (days)	0	0	0	0	0
AR T/O (days)	699	830	809	705	672
AP T/O (days)	375	553	500	500	500
Cash conversion cycle (days)	325	277	309	205	172
Asset turnover (x)	0.1	0.1	0.1	0.1	0.1
Financial leverage (x)	1.4	1.5	1.5	1.7	1.8
EBIT margin (%)	73.5	70.5	71.8	70.7	70.4
Interest burden (x)	0.9	0.9	0.9	0.9	0.9
Tax burden (x)	0.9	0.8	0.8	0.8	0.8
Return on equity (%)	10.8	8.3	10.1	10.7	11.9

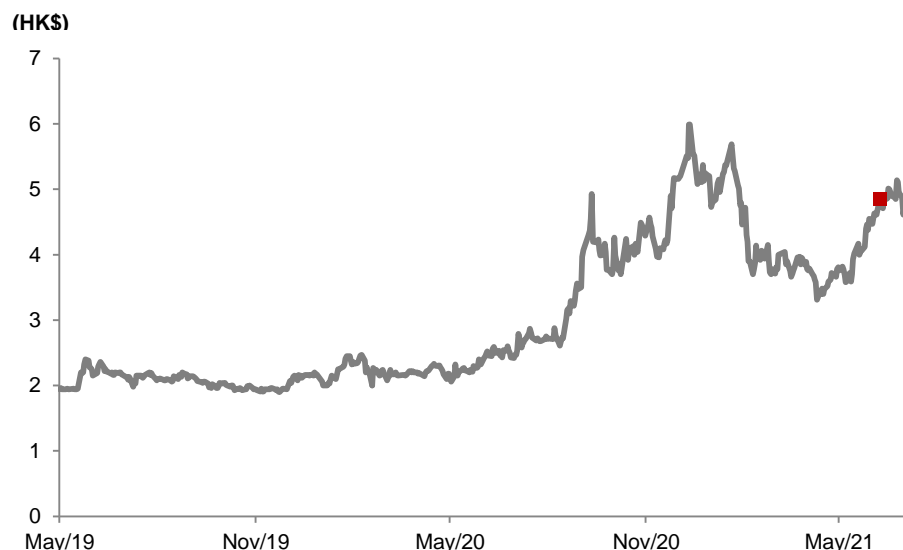
Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Balance Sheet (HK\$ mn)					
Fixed assets	9,496	10,998	13,751	15,199	16,432
Goodwill	330	362	433	433	433
Financial assets	0	0	0	0	0
Right-of-use assets	439	508	602	602	602
Other non-current assets	18	137	41	41	41
Non-current assets	10,283	12,005	14,827	16,275	17,509
Inventories	0	0	0	0	0
AR	3,052	3,916	5,049	5,084	5,524
Contracted assets	0	0	0	0	0
Prepayments & deposits	0	0	0	0	0
Other current assets	0	0	0	0	0
Cash	1,631	1,312	1,261	1,163	1,146
Current assets	4,684	5,229	6,310	6,247	6,670
AP	388	720	806	969	1,119
Tax	28	60	60	60	60
Accruals & other payables	0	0	0	0	0
Bank loans	727	1,210	1,377	1,377	1,377
Amount due to parent co	1,718	1,766	1,855	1,855	0
Other current liabilities	15	19	30	30	30
Current liabilities	2,876	3,775	4,127	4,291	2,586
Bank loans	1,226	653	3,303	4,279	7,366
Other payable	30	61	55	55	55
Deferred tax & others	641	734	832	832	832
Non-current liabilities	1,897	1,448	4,189	5,166	8,252
Total net assets	10,194	12,010	12,820	13,066	13,340
Shareholder's equity	10,194	12,005	12,815	13,060	13,334
Share capital	68	71	71	71	71
Reserves	10,126	11,934	12,744	12,989	13,263
MI	0	5	5	6	6
BVPS (HK\$)	1.51	1.69	1.80	1.84	1.88

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
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
09/06/2021	Tian Lun Gas	1600	Zhuhai Port (000507.SZ) becomes new major shareholder	BUY	John Siah
03/06/2021	Tian Lun Gas	1600	Attractively valued with solid outlook	BUY	John Siah
25/05/2021	Yeahka	9923	Narrowed valuation premium on revised growth outlook	HOLD	Kevin Tam
20/05/2021	China Edu Sector	-	Policy risk on private higher education eased	-	John Siah
17/05/2021	AAC Tech	2018	Acoustic and optics led strong rebound in 21Q1	BUY	John Siah
12/05/2021	HKTv	1137	Convincing long term prospect despite sluggish near term GMV	BUY	Kevin Tam
30/04/2021	China Edu Group	839	Ready for more M&A	BUY	John Siah
22/04/2021	New Higher Edu	2001	More visible growth path	BUY	John Siah
22/04/2021	Edvantage Group	382	Fascinating growth story set to take off	BUY	John Siah
21/04/2021	Innovent Bio	1801	More convincing pipeline development	BUY	Kevin Tam
15/04/2021	AAC Tech	2018	Optical segment beginning to shine	BUY	John Siah
31/03/2021	HKTv	1137	FY20 bottom line fell short on fulfillment cost	BUY	Kevin Tam
29/03/2021	361 Degrees	1361	Encouraging recovery in 2H20, visible growth for FY21E	BUY	Kevin Tam
25/03/2021	Greentown Mgmt	9979	Pure cash cow with surprise on dividend	BUY	John Siah
23/03/2021	Yeahka	9923	Payment driven growth thesis remains compelling	BUY	Kevin Tam
17/03/2021	Yidu Tech	2158	Digging the healthcare big data goldmine	BUY	Kevin Tam
22/02/2021	Razer	1337	A year of harvest	NR	John Siah
04/02/2021	HKTv	1137	Flat Jan GMV, but still upbeat on growth prospect	BUY	Kevin Tam
19/01/2021	Yeahka	9923	More conviction on marketing services driven growth	BUY	Kevin Tam
18/01/2021	Xtep Intl	1368	Channel inventory improvement on track	BUY	Megan Jin

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

(as of 04/08/2021)



	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

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Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
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Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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