Electrical Equipment
Equity – China

Yingli Green Energy (YGE)

Neutral (V)

Target price (USD)	**19.00**
Share price (USD)	**16.99**
Potential total return (%)	**11.8**

Performance	1M	3M	12M
Absolute (%)	12.1	-31.4	7.8
Relative^ (%)	10.0	-6.4	68.5

Index^	SSE COMPOSITE IDX
RIC	YGE.N
Bloomberg	YGE US
Market cap (USDm)	2,005
Enterprise value (USDm)	1296
Free float (%)	100

Note: (V) = volatile (please see disclosure appendix)

Reiterate Neutral (V): Margin to fall in 2H08

- **2Q net profit is 10% above our estimate/consensus, thanks to higher shipments/ASP, despite FX loss on strong RMB**
- **2008 full year revenue guidance raised 8.5% and output guidance raised 6%, based on stronger 2Q results**
- **The company guided down on margin in 3Q. Uncertainty on the selling price erosion range in 2009 remains our main concern. Target price adjusted to USD19 (from USD17)**

Stronger-than-expected 2Q results. 2Q net profit of USD30m came in 10% higher than our estimate and consensus despite an FX loss on the strong renminbi. This is due largely to (1) 25% qoq shipment increase on higher utilization rate/ yield rate and a contribution from new production line and shorter shipping time at the end of the quarter; and (2) an ASP 2% higher than our estimate, resulting a better gross margin.

Raised 2008 full year guidance. As a consequence, the company has revised up its 2008 revenue guidance from USD969-1,020m to USD1,053-1,106m (vs. our forecast of USD1,101m), up 8.5%. Full year output guidance is now 270-280MW (vs. our estimate of 277MW), up 6% from 255-265MW.

2H08 margin pressure remains our main concern. The company guided down to a 3Q gross margin of 22-23% (vs. 25.8% in 2Q) based on a lower selling price (as the Spain portion fell to 15% in 2H from 30% in 2Q) and slightly higher blended polysilicon cost. As the company expects a flattish 2008 gross margin at 23.5%, we estimate that the margin will fall sequentially in 2H08. We are concerned about the module price, as prices for most 2009 sales contracts are not yet fixed, given expected deterioration in the module price in 2H08 due to excess industry supply in 2009.

Reiterate Neutral (V), adjust TP to USD19. We lift our DCF-based target price to USD19 based on our revised 2008/2009 earnings estimates and roll forward to 2009. We remain Neutral (V) on margin concerns heading into 2H despite the strong 2Q results.

Financials for Yingli

	2007a	2008e	2009e	2010e
Revenue (US m)	556	1,108	1,492	1,592
Net profit (US m)	53	176	235	253
EPS (USD)	0.55	1.31	1.75	1.88
PE	31.0	12.1	9.0	8.4
PB	2.5	5.4	3.5	2.5

Source: Company data, HSBC estimates

7 August, 2008

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Financials & valuation

Financial statements

Year to	12/2007a	12/2008e	12/2009e	12/2010e
Profit & loss summary (USDm)				
Revenue	556	1,108	1,492	1,592
EBITDA	110	233	371	427
Depreciation & amortisation	-17	-45	-95	-89
Operating profit/EBIT	93	188	276	339
Net interest	0	0	0	0
PBT	82	175	268	331
HSBC PBT	82	175	268	317
Taxation	-2	1	-32	-63
Net profit	53	176	235	267
HSBC net profit	53	176	235	253
Cash flow summary (USDm)				
Cash flow from operations	-64	212	254	399
Capex	-134	-275	-65	-50
Cash flow from investment	181	-275	-65	-50
Dividends	0	0	0	0
Change in net debt	16	-750	-321	-437
FCF equity	-199	-63	156	286
Balance sheet summary (USDm)				
Intangible fixed assets	151	151	151	151
Tangible fixed assets	203	433	403	365
Current assets	698	1,587	2,070	2,542
Cash & others	133	883	1,204	1,641
Total assets	1,052	2,171	2,624	3,058
Operating liabilities	227	345	390	397
Gross debt	173	173	173	173
Net debt	40	-710	-1,031	-1,468
Shareholders funds	549	437	672	926
Invested capital	692	944	1,031	1,020

Ratio, growth and per share analysis

Year to	12/2007a	12/2008e	12/2009e	12/2010e
Y-o-y % change				
Revenue	469.4	99.0	34.7	6.7
EBITDA	474.3	111.9	59.4	15.2
Operating profit	443.9	101.8	46.6	22.9
PBT	514.8	114.6	52.9	23.6
HSBC EPS	695.8	138.9	33.9	7.6
Ratios (%)				
Revenue/IC (x)	1.2	1.4	1.5	1.6
ROIC	20.1	23.1	24.6	26.7
ROE	15.5	35.7	42.4	31.7
ROA	11.3	10.9	9.8	9.4
EBITDA margin	19.7	21.0	24.8	26.8
Operating profit margin	16.7	17.0	18.5	21.3
EBITDA/net interest (x)				
Net debt/equity	7.3	-162.4	-153.4	-158.5
Net debt/EBITDA (x)	0.4	-3.1	-2.8	-3.4
CF from operations/net debt				
Per share data (USD)				
EPS reported (diluted)	0.55	1.31	1.75	1.99
HSBC EPS (diluted)	0.55	1.31	1.75	1.88
DPS	0.00	0.00	0.00	0.00
NAV	5.63	3.25	5.00	6.89

Key forecast drivers

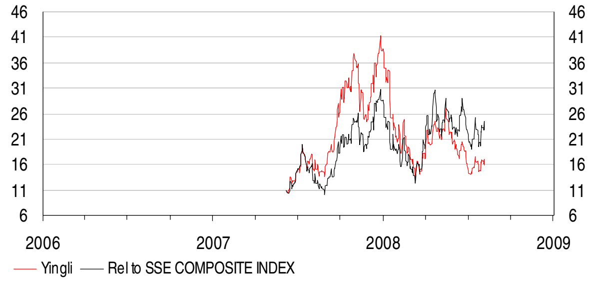
Year to	12/2007a	12/2008e	12/2009e	12/2010e
Year end capacity	200	400	600	850
Total output	142	277	462	635
Net Sales	556	1,108	1,492	1,592

Valuation data

Year to	12/2007a	12/2008e	12/2009e	12/2010e
EV/sales	3.7	1.2	0.7	0.3
EV/EBITDA	18.6	5.6	2.6	1.3
EV/IC	3.0	1.4	0.9	0.5
PE*	28.9	12.1	9.0	8.4
P/NAV	2.8	4.9	3.2	2.3
FCF yield (%)	-9.9	-3.1	7.8	14.2
Dividend yield (%)	0.0	0.0	0.0	0.0

Note: * = Based on HSBC EPS (diluted)

Price relative



Source: HSBC

Note: price at close of 06 Aug 2008

2Q results summary

(USDm)	NT$m	Actual % qoq	% y-o-y	HSBC	Diff %	Notes
Revenue	290	27.3%	144.7%	228	27.2%	2Q actual shipment is 25% higher than our estimate, plus ASP is 2% higher than our estimates.
Gross profit	75	33.4%	177.4%	50	49.0%	
Gross margin (%)	25.8%			22.0%	17.1%	Better-than-expected pricing in 2Q.
Operating profit	58	43.1%	197.6%	35	62.9%	
Operating margin (%)	19.9%			15.5%	28.1%	
Pre-tax profit	43	-6.2%	164.5%	29	46.4%	Foreign currency exchange loss due to the appreciation of RMB against both the Euro and the US dollar which resulted in a loss upon the revaluation at the end of the quarter of accounts receivables and raw material prepayments partially offset by a gain from the revaluation of short term borrowings.
Net profit	30	-5.3%	217.9%	27	10.3%	
EPS (US$)	0.24	-5.3%	85.6%	0.20	16.0%	
Output (MW)	68.18	24.8%	122.5%	54.63	24.8%	
ASP (US$)	4.25	1.9%	10.4%	4.17	1.9%	

Source: HSBC estimates

Results, forecasts and consensus estimates

	2Q08a			3Q08e		
(US m)	Previous	Actual	Consensus	Previous	New	Consensus
Revenue	228	290	234	234	281	264
Growth (%)	0.1%	27.3%	3.0%	2.8%	-3.1%	12.9%
Gross Margin (%)	22.0%	25.8%		19.5%	23.0%	
Op Margin (%)	15.5%	19.9%	17.0%	13.0%	16.6%	18.0%
EPS	0.20	0.24	0.21	0.20	0.35	0.24
Output (MW)	54.6	68.2		60.9	68.5	
Blended ASP (US$)	4.17	4.25		3.85	4.10	

Source: Company data, HSBC estimates

2008 and 2009 forecasts versus consensus

	2008e			2009e		
(US m)	Previous	New	Consensus	Previous	New	Consensus
Revenue	973	1,108	1,038	1,489	1,492	1,728
Growth (%)	74.9%	99.0%	87.0%	53.0%	34.7%	66.5%
Gross Margin (%)	21.2%	23.3%		24.8%	24.9%	
Op Margin (%)	14.6%	17.0%	17.0%	18.2%	18.5%	20.0%
EPS	0.98	1.31	0.95	1.73	1.75	2.02
Output (MW)	249.0	277.3		460.8	461.6	
Blended ASP (US$)	3.91	4.00		3.23	3.23	

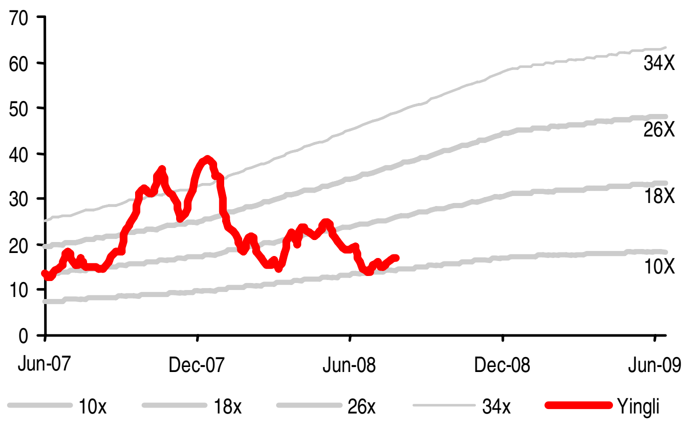
Source: HSBC estimates

Valuation and rating

We revise up our 2008 and 2009 earnings estimates 34% and 1%, respectively, based on higher shipment and margin post 2Q results. Our new target price of USD19 (raised from USD17 on our revised forecasts) is based on a terminal growth rate assumption of 2.4% (raised from 2.36%) and a WACC projection of 10.9%, assuming a cost of equity of 21.2% (considering company-specific corporate tax rate, target gearing, and asset beta). We set the cost of equity higher than Motech's 15% because we use the China local risk-free rate and market premium (7.5% for China vs 6% for Taiwan), as the operations are based in China. Higher gearing also results in higher cost of equity. The target price translates to 11x 2009F earnings, compared with the stock's historical range of 10-35x forward earnings.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10% above and below the hurdle rate for US stocks of 11.5%. For Yingli, this translates into a Neutral band of 1.5% to 21.5% around the current share price. Our target price of USD19 for Yingli implies a potential total return of roughly 12%, which is within the Neutral band; thus, we have a Neutral (V) rating on Yingli stock.

Yingli's forward PE band



Source: Reuters, HSBC forecasts

Risks

Potential upside risks include higher output in 2H08 due to expanded capacity, following the halt to capacity expansion in 3Q07. Successfully diversifying the customer base would be another positive upside risk, in our view.

Major downside risks:

- If module ASPs fall faster than polysilicon prices, Yingli may be unable to maintain its gross margin target of 23-24% for the rest of the year. This is because 2H08 demand should be mostly from Germany, where module prices are not as high as in Spain.
- Around 56% of polysilicon should still come from Xinguang in 2H08. This polysilicon may be at a limited discount to the spot price, but should be around 70-100% higher than the contract price, so a higher proportion of polysilicon from Xinguang in 2H might result in lower gross margin.
- Spain represented 58% of Yingli's total revenue in 2007. The country will introduce a lower feed-in tariff in September 2008, so demand is likely to drop significantly. This could hurt Yingli's revenue, but the company guides that Spain will represent less than 50% of its total revenue in 2H08, falling below 40% in 2009e. Failing to decrease the company's exposure to Spain will be the key downside risk, in our view.

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Disclosure appendix

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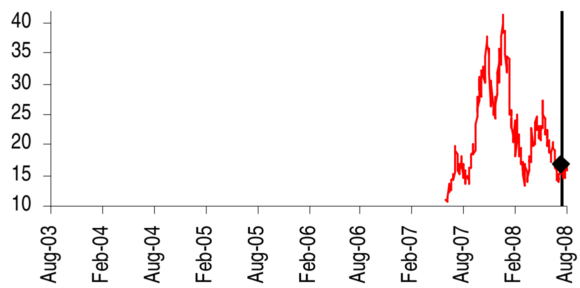
Neutral (Hold)	33%	(17% of these provided with Investment Banking Services)
Underweight (Sell)	14%	(9% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Yingli (YGE.N) Share Price performance USD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Neutral (V)	16 July 2008
Target Price	**Value**	**Date**
Price 1	17.00	16 July 2008

Source: HSBC

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