

Xinyi Glass (XYG)

868.HK / 868 HK

China

Auto parts / Construction materials

Malaysia phase 2 and non-float glass upturn drive 2017

- ▶ **Auto and construction glass may rebound in 2017** – XYG's management expects sales volume for both automobile and construction glass to grow 5-10% YoY. We forecast ASP of auto and construction glass to increase 4% and ~10% respectively. To recap, 2H16 auto glass sales fell 7% YoY and 11.7% HoH due to anti-dumping issues in Brazil (comprises 3-4% of auto glass sales) and restructuring of a US customer.
- ▶ **Building 2 more lines in Malaysia** – XYG announced the building of 2 float glass production lines in its Malaysia plant, targeting to commence production in 2Q18. Our latest 2H18 revenue and gross profit forecasts for Malaysia operations are HK\$768m/HK\$346m; and for full-year 2018 are HK\$1.05b/ HK\$473m respectively.
- ▶ **Probable upside to CAPEX guidance** – XYG provided 2017F CAPEX guidance of HK\$2.5b, which includes building the 2 Malaysian lines and PPE replacements in China. The guidance does not include a new factory under consideration in a third country. If such a factory is to be built, XYG's CAPEX for 2017 may well go above HK\$3b.
- ▶ **New TP = HK\$7.75, 6% upside** – Our new revenue and NP forecasts for 2017/18/19 are HK\$14.8b/15.4b/15.8b and HK\$4.06b/4.23b/4.41b respectively. Our TP is derived from 7x P/E from XYG's float, architectural and automobile glass earnings and its holding value of 29.53% in Xinyi Solar (XYS) (968 HK – HK\$2.71 – LONG – TP=HK\$3.49) with our target price. (Our target price on XYS is 9.2x FY17 PE). On a blended P/E basis, XYG is trading at 7x 2017F P/E.
- ▶ **Downside risks** – 1) Sharp declines in float glass prices; 2) USD strengthening hurting auto glass exports; 3) slowdown in property market.

Earnings Forecasts & Valuation Summary

Year ended 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (HK\$m)	11,460	12,848	14,808	15,358	15,808
EBITDA (HK\$m)	2,908	4,165	4,987	5,295	5,537
Net profit (HK\$m)	2,113	3,213	4,063	4,227	4,413
Fully diluted EPS (HK cents)	53.1	81.2	101.8	106.0	110.6
PE (x)	11.9	7.8	6.2	6.0	5.7
EV/EBITDA (x)	10.1	7.0	5.9	5.5	5.3
Yield (%)	4.18	6.31	8.23	8.56	8.94
ROE (%)	16.6	24.4	24.4	22.2	20.4
P/B (x)	1.4	1.9	1.5	1.3	1.1

Source: Company, Sunwah Kingsway Research estimates

LONG

Maintain

HK\$7.28*

Target price: HK\$7.75

Prior TP: HK\$7.55

Upside: 6%

HSI: 23,776.49

*Closing price as at 1 Mar 2017

Share Data

52week Hi/Lo (HK\$)	7.73/3.65
Avg. daily t/o (US\$m)	9.68
Market cap. (US\$m)	3,650
Total issued shares (m)	3,892.8
Public float (%) *	52.3%
Auditor	PWC
Major shareholder:	
Mr. Lee Yin Yee	21.75%
Mr. Tung Ching Sai	9.72%
Mr. Tung Ching Bor	8.42%
Mr. Lee Sing Din	7.81%

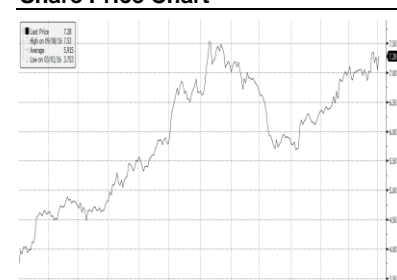
* The conversion of CBs issued to Och-Ziff was not factored in the calculation of public float.

Source: HKEx & Bloomberg

Company Profile

Xinyi is one of the largest glass makers in China. The company produces auto glass, construction glass and float glass.

Share Price Chart



Source: Bloomberg

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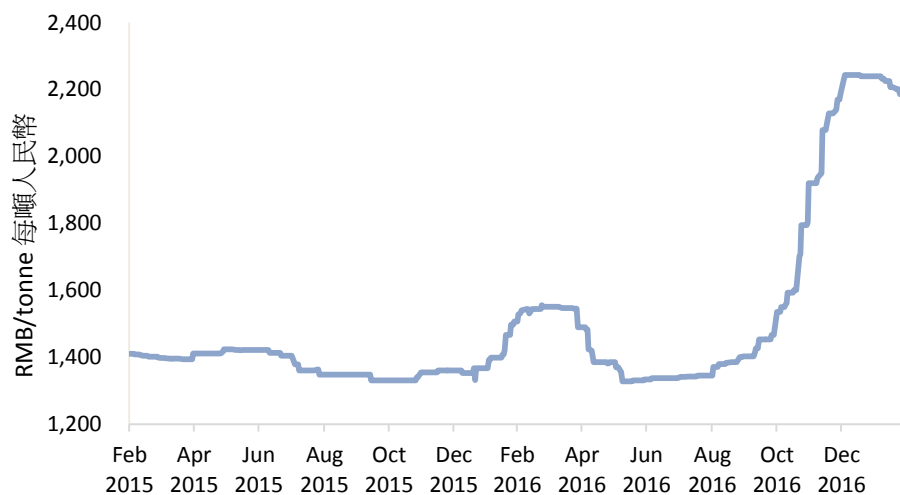
Earnings revisions

	2017F	2018F	2019F
Revenue (HK\$m) - new	14,808	15,358	15,808
old	15,566	15,815	N/A
change	-4.9%	-2.9%	N/A
Gross profit (HK\$m)	5,830	6,089	6,306
old	6,081	6,163	N/A
change	-4.1%	-1.2%	N/A
Net profit (HK\$m)	4,063	4,227	4,413
old	4,004	4,117	N/A
change	1.5%	2.7%	N/A
Basic EPS (HK cents)	104.7	108.9	113.7
old	103.2	106.1	N/A
change	1.4%	2.7%	N/A

Source: Sunwah Kingsway Research estimates

Average China Soda Ash price since Mar 2015

Avg China soda ash prices 中國平均純鹼價格



Source: Wind

National float glass price since Mar 2015

China float glass price 中國浮法玻璃價格



Source: Wind

Financial forecasts

Years ended 31 Dec	2015A	2016A	2017F	2018F	2019F	Years ended 31 Dec	2015A	2016A	2017F	2018F	2019F
Income statement (HK\$m)						Ratios					
Revenue	11,460	12,848	14,808	15,358	15,808	Gross margin (%)	27.3	36.3	39.4	39.6	39.9
COGS	(8,328)	(8,189)	(8,978)	(9,269)	(9,502)	EBITDA margin (%)	25.4	32.4	33.7	34.5	35.0
Gross Profit	3,133	4,659	5,830	6,089	6,306	Net margin (%)	18.4	25.0	27.4	27.5	27.9
Other income	215	342	215	215	215	Selling & dist'n/Sales (%)	5.9	4.8	4.5	4.5	4.5
Other gains, net	379	159	0	0	0	Admin/Sales (%)	8.2	9.4	8.3	8.3	8.3
Selling & marketing costs	(680)	(620)	(666)	(691)	(711)	Payout ratio (%)					
Admin expense	(935)	(1,202)	(1,235)	(1,281)	(1,319)	Effective tax (%)	11.2	15.9	15.1	16.7	16.6
Gain on spin-off	0	0	0	0	0						
Operating profit	2,113	3,338	4,143	4,331	4,491	Total debt/equity (%)	47.4	58.2	39.1	30.8	24.8
Add back: Depreciation	763	797	844	964	1,046	Net debt/equity (%)	37.2	37.2	34.9	26.7	19.6
Add back: Amortization	32	30	0	0	0	Current ratio (x)	1.0	1.1	1.0	1.0	1.1
EBITDA	2,908	4,165	4,987	5,295	5,537	Quick ratio (x)	0.7	0.9	0.7	0.7	0.7
Depreciation & Amortization	(795)	(827)	(844)	(964)	(1,046)						
Finance income	40	51	18	8	10	Inventory T/O days	59	57	61	61	61
Finance costs	(90)	(128)	(131)	(114)	(104)	A/R T/O days	78	68	80	80	80
Share of PL of assos	317	563	758	847	895	A/P T/O days	90	98	84	84	84
Profit before tax	2,380	3,823	4,788	5,072	5,292	Working capital days	47	26	57	57	57
Income tax expense	(266)	(607)	(725)	(845)	(880)						
Profit for the year	2,114	3,216	4,063	4,227	4,413	Asset turnover (x)	0.53	0.53	0.55	0.53	0.50
Less: MI	(0)	(3)	0	0	0	Financial leverage (x)	1.68	1.82	1.61	1.52	1.46
Net profit	2,113	3,213	4,063	4,227	4,413	EBIT margin (%)	18.4	26.0	28.0	28.2	28.4
						Interest burden (x)	1.1	1.1	1.2	1.2	1.2
Basic EPS (HK Cents)	53.88	82.78	104.69	108.93	113.70	Tax burden (x)	0.89	0.84	0.85	0.83	0.83
Diluted EPS (HK Cents)	53.11	81.19	101.84	105.96	110.60	Return on equity (%)	16.6	24.4	24.4	22.2	20.4
As at 31 Dec	2015A	2016E	2017F	2018F	2019F	As at 31 Dec	2015A	2016A			
Cash flow (HK\$m)						Balance Sheet (HK\$m)					
EBITDA	2,908	4,165	4,987	5,295	5,537	Leasehold land & land use rights	1,206	1,121			
Non-cash adjustments	29	(25)	0	0	0	PPE	11,971	11,831			
Changes in working capital	375	281	(686)	2	22	Investment properties	437	547			
Operating cash	3,311	4,420	4,301	5,298	5,559	Prepmt for PPE & land use rights	172	608			
Taxes paid	(223)	(754)	(989)	(1,050)	(1,085)	Intangible assets	75	72			
Interest paid	(115)	(128)	(131)	(114)	(104)	AFS financial assets	85	39			
Net cash from operations	2,974	3,539	3,181	4,133	4,370	Investment in asso	2,535	3,258			
						Loans to an assp	29	49			
Interest received	22	51	18	8	10	Other non-current assets	0	0			
CAPEX	(1,914)	(1,853)	(2,500)	(1,700)	(1,700)	Non-current assets	16,510	17,524			
Disposals of assets	18	0	0	0	0						
Acquisition/disposal of subsidia	277	(295)	0	0	0	Inventories	1,223	1,321			
Change in non-demand deposits	(1)	(4)	4	0	0	Loans to assos + amt due from asso	8	33			
Advances to associates	2	0	0	0	0	Trade & other receivables	2,381	2,377			
Dividends from associates	129	249	277	327	347	Non-demand deposits	1	5			
Net change in investment proper	(53)	0	0	0	0	Cash & cash equiv.	1,298	2,763			
Others	(1)	0	0	0	0	Current assets	4,911	6,499			
Investing cash	(1,520)	(1,852)	(2,202)	(1,365)	(1,343)						
						Total assets	21,422	24,022			
FCF	1,454	1,687	980	2,768	3,027						
						Amt due to asso	0	0			
Net issue/(repurchase) of share	1	(264)	0	0	0	Trade & other payables	2,112	2,297			
Net issue/(redemption) of debt s	0	0	0	(620)	0	Current tax payable	333	538			
Net changes in bank loans	(18)	1,646	(1,181)	0	(500)	Bank and other borrowings	2,514	3,165			
Dividends	(608)	(1,320)	(1,871)	(2,057)	(2,181)	Current liabilities	4,959	6,000			
Others	0	0	0	0	0						
Financing cash	(625)	62	(3,052)	(2,677)	(2,681)	Bank borrowings	2,894	3,889			
						Other borrowings - CBs	620	620			
Net change in cash	829	1,749	(2,072)	91	346	Deferred tax liabilities	159	218			
Cash and cash equiv b/f	831	1,298	2,763	691	782	Deferred government grants	0	0			
FX adjustments	(25)	0	0	0	0	Other payables	63	48			
Cash and cash equiv c/f	1,636	3,047	691	782	1,128	MI	7	66			
						Non-current liabilities	3,744	4,841			
						Total net assets	12,718	13,181			
						Shareholders' equity	12,718	13,181			
						Issued capital	392	389			
						Reserves	3,886	1,330			
						Other retained earnings	8,440	11,462			

Source: Company data, Sunwah Kingsway Research Estimates

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