



Equity Research | China | Glass

1 August 2017

A value proposition; reiterate buy

- On the back of improving domestic float glass market outlook and rising contribution from its Malaysia project, we remain optimistic on Xinyi Glass' long-term growth prospects.
- Management is upbeat on the float glass market outlook and revealed aggressive capacity expansion plans for coming few years.
- FY17E/18E earnings estimates revised up by 2.5%/5.5% and PT raised to HKD9.5 (prior HKD8.5), based on FY17E 10.0x PER. Trading at FY17E 8.2x PER and 5.9% dividend yield, Xinyi Glass' valuation is appealing. Reiterate Buy.

Solid interim results underpinned by excellent float glass product margins. Bottom line, excluding HKD367mn profit contribution from Xinyi Solar came in better than our expectation, thanks to robust sales of float glass products and higher ASP, riding on a 13.5% increase in sales area of commercial residential building in China and 4.6% increase in global sales of vehicles over the same period. Blended GPM improved to 36.4% from FY16's average of 36.3%, on solid float glass product margins albeit higher automotive and architectural glass expenses. However, management cited that GPM from Malaysia was 10% higher than that in the domestic market. An interim DPS of HKD0.2 was declared, translating into a 48.9% payout ratio, exceeding the historical average of the past five years.

Rapid capacity growth of China's float glass industry is over. Glass manufacturers have benefited significantly from the rising industry concentration in terms of higher bargaining power over the upstream and downstream manufacturers. According to the company, Xinyi Glass owned a 9.7% market share in terms of production capacity as of end-Jun 2017. On the demand side, consumption upgrade has led to an improving order outlook for high value-added processing glass products. Xinyi Glass' clientele includes Fuyao, Sanit-Gobain, Pilkington, and Asahi, etc.

We remain optimistic on Xinyi Glass' long-term growth prospects, on the back of: (1) its dominant position in a continuously improving domestic float glass market, (2) its global expansion strategy – management has revealed that it has planned to ramp up capacity by 50% by end-2020 from 5.25mn tons in 2017, and (3) its plan to increase the utilization rates of automotive glass and architectural glass production given the solid prospects of China's auto parts industry underpinned by a growing replacement demand for automotive parts and promotion of green materials in adopting double glazing and triple glazing Low-E glass products.

Appealing valuation; reiterate Buy. Net profit estimates for FY17E/FY18E revised by 2.5%/5.5%, respectively. As we foresee Xinyi Glass' float glass profitability to improve further going forward, we have revised up our price target to HKD9.5 (from HKD8.5), based on 10.0x PER to our EPS estimate of HKD0.95 for FY17E. Our new PT represents 22.4% upside potential, thus reiterate Buy.

Xinyi Glass (868 HK)

Buy

(unchanged)

Price Target	HK\$9.5
(Revision)	(+11.7%)
(upside)	(22.4%)

EPS	2017E	2018E
revision	(+2.5%)	(+5.5%)

Close price	HKD7.76
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Market cap.	HKD32,320 mn
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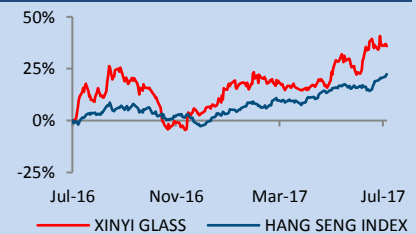
Free float	46.3%
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52-week range	HKD5.45 – 8.42
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3-mth ave. T/O	HKD68.2 mn
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Price as of 1 Aug 2017

Stock rel HSI performance (%)



Duncan Chan

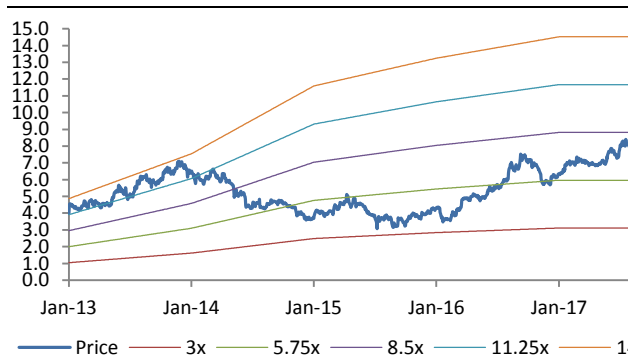
(CE No.: ALH659)

duncanchan@csci.hk +852 3465 5654

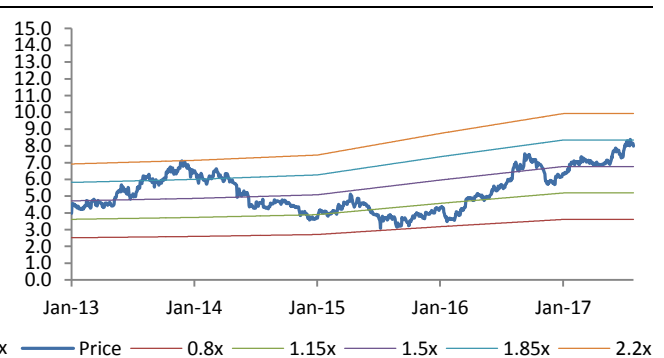
Figure 1: 1HFY17A results highlight

	Unit	1H 16	1H 17	% YoY	1H 17 A	1H 17 E	% deviated
Revenue	HKD mn	5,885	6,677	13.5	6,677	6,907	(3.3)
Cost of sales	HKD mn	(3,844)	(4,248)	10.5	(4,248)	(4,487)	(5.3)
Gross profit	HKD mn	2,041	2,429	19.0	2,429	2,418	0.5
GPM	%	34.7	36.4	-	36.4	35.0	-
Other income	HKD mn	104	141	36.0	141	141	0.3
Other gains - net	HKD mn	43	(45)	(206.0)	(45)	(24)	87.1
Distribution expenses	HKD mn	(351)	(334)	(5.0)	(334)	(382)	(12.7)
Administrative expense:	HKD mn	(533)	(586)	9.9	(586)	(606)	(3.3)
SG&A/revenue	%	15.0	13.8	-	13.8	14.3	-
Operating profit	HKD mn	1,304	1,605	23.1	1,605	1,504	6.7
OPM	%	22.2	24.0	-	24.0	21.8	-
Net financing costs	HKD mn	(44)	(50)	12.0	(50)	(50)	(0.4)
Share of profits less loss	HKD mn	312	368	17.8	368	364	1.1
Pre-tax profit	HKD mn	1,572	1,923	22.4	1,923	1,817	5.9
Taxation	HKD mn	(202)	(285)	41.1	(285)	(236)	21.2
ETR	%	2.9	14.8	-	14.8	13.0	-
Net profit	HKD mn	1,369	1,638	19.6	1,638	1,581	3.6
Minority interests	HKD mn	(0)	(2)	481.9	(2)	0	(681.9)
Attributable profit	HKD mn	1,369	1,636	19.5	1,636	1,580	3.5
NPM	%	23.3	24.5	-	24.5	22.9	-
A adjusting for XySolar	HKD mn	312	368	17.8	368	364	1.1
A adjusted net profit	HKD mn	1,097	1,323	20.6	1,323	1,264	4.6
Adjusted NPM	%	18.6	19.8	-	19.8	18.3	-

Source: Company, CSCI Research estimates

Figure 2: 12M forward PER


Source: Bloomberg, CSCI Research estimates

Figure 3: 12M forward PBR


Source: Bloomberg, CSCI Research estimates

Figure 4: Peer valuation

Company	Ticker	Ccy	Local(\$)	US(\$b)	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E
FUYAO GLASS IN-H	3606 HK	HKD	26.6	8.8	16.3	14.5	16.3	12.3	2.9	2.6	18.3	18.7	10.4	9.1	3.2	6.6
XINYI GLASS	868 HK	HKD	7.8	4.0	8.3	7.6	16.5	9.5	2.0	1.7	25.1	23.8	8.3	7.6	5.8	35.0
XINYI SOLAR HLDS	968 HK	HKD	2.5	2.4	7.6	6.9	15.6	10.7	2.1	1.7	30.2	27.5	7.0	6.0	6.0	61.8
LUOYANG GLASS-H	1108 HK	HKD	4.4	0.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
XINYI AUTOMOBILE	8328 HK	HKD	15	0.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CHINA GLASS HLDG	3300 HK	HKD	0.7	0.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FLAT GLASS GRO-H	6865 HK	HKD	13	0.3	3.7	3.2	(4.6)	19.4	N/A	N/A	18.7	23.2	19	15	5.8	N/A
Average					9.0	8.0	10.9	13.0	2.3	2.0	23.1	23.3	6.9	6.1	5.2	34.5

Source: Bloomberg

Income statement (HKD mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
Revenue	11,460	12,848	15,079	15,879	16,352
COGS	(8,328)	(8,189)	(9,561)	(10,104)	(10,430)
Gross profit	3,133	4,659	5,518	5,776	5,922
Selling expenses	(680)	(620)	(675)	(710)	(732)
General and administrative	(935)	(1,202)	(1,367)	(1,440)	(1,483)
Other opex	594	501	374	488	503
Operating profit	2,113	3,338	3,850	4,114	4,211
Net interest income	(50)	(77)	(86)	(96)	(79)
JVs and associates	317	563	656	791	825
Pretax profit	2,380	3,823	4,419	4,809	4,957
Taxation	(266)	(607)	(707)	(769)	(793)
Minority interests	(0)	(3)	(3)	(3)	(3)
Net profit	2,113	3,213	3,709	4,037	4,161
Net profit (adjusted)	2,113	3,213	3,709	4,037	4,161
EBIT	2,429	3,898	4,503	4,902	5,033
Depreciation & Amortization	(795)	(827)	(790)	(875)	(957)
EBITDA	3,224	4,724	5,293	5,778	5,990
Basic EPS (HKD)	0.54	0.82	0.95	1.03	1.06
Diluted EPS (HKD)	0.54	0.82	0.95	1.03	1.06
DPS (HKD)	0.26	0.40	0.46	0.50	0.52

Balance sheet (HKD mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
Cash	1,298	2,763	1,690	2,553	3,597
Short term investments	-	-	-	-	-
Accounts receivables	2,381	2,377	2,792	2,940	3,028
Inventory	1,223	1,321	1,485	1,569	1,620
Other current assets	93	76	76	76	76
Total current assets	4,995	6,537	6,043	7,138	8,320
PP&E	11,971	11,831	15,007	16,631	18,175
Intangible Assets	1,453	1,801	1,801	1,801	1,801
Total investments	2,972	3,804	3,804	3,804	3,804
Other long term assets	30	50	50	50	50
Total long term assets	16,426	17,486	20,662	22,287	23,830
TOTAL ASSETS	21,422	24,022	26,705	29,425	32,150
Short term debt	2,514	3,165	3,372	3,578	3,784
Accounts payables	2,112	2,297	2,574	2,720	2,808
Other current liabilities	333	538	538	538	538
Total current liabilities	4,959	6,000	6,484	6,836	7,130
Long term debt	3,514	4,509	4,803	5,097	5,390
Deferred tax	159	218	218	218	218
Bonds payable	-	-	-	-	-
Other long term liabilities	63	48	48	48	48
Total long term liabilities	3,737	4,775	5,069	5,363	5,657
TOTAL LIABILITIES	8,696	10,775	11,552	12,199	12,786
Shareholders' funds	12,718	13,181	15,084	17,155	19,290
Minority Interests	7	66	69	71	74
TOTAL LIAB AND EQUITY	21,422	24,022	26,705	29,425	32,150
Net cash / (debt)	(4,730)	(4,911)	(6,484)	(6,121)	(5,578)

Source: Company, Bloomberg, CSCI Research estimates

Cash flow statement (HKD mn)

Year end: Dec	2015	2016	2017E	2018E	2019E
EBIT	2,113	3,338	3,850	4,114	4,211
Depreciation & amortisation	795	827	790	875	957
Net interest	50	77	86	96	79
Taxes paid	(266)	(607)	(707)	(769)	(793)
Changes in working capital	375	(218)	(302)	(86)	(50)
Others	(430)	103	483	599	667
Cash flow from operations	2,637	3,520	4,200	4,829	5,070
Capex	(1,834)	(1,322)	(3,966)	(2,500)	(2,500)
Acquisitions	(130)	(1,232)	-	-	-
Disposals	292	18	-	-	-
Others	152	256	-	-	-
Cash flow from investing	(1,520)	(2,280)	(3,966)	(2,500)	(2,500)
Dividends	(608)	(1,321)	(1,806)	(1,966)	(2,027)
Issue of shares	-	-	-	-	-
Change in debt	(18)	1,611	500	500	500
Others	1	(66)	-	-	-
Cash flow from financing	(625)	225	(1,306)	(1,466)	(1,527)
Change in cash	492	1,465	(1,073)	863	1,044
Free cash flow	802	2,198	234	2,329	2,570

Key ratios

Year end: Dec	2015	2016	2017E	2018E	2019E
Operating ratios					
Gross margin	27.3	36.3	36.6	36.4	36.2
EBITDA margin (%)	28.1	36.8	35.1	36.4	36.6
Effective tax rate (%)	112	15.9	16.0	16.0	16.0
Revenue growth (%)	-	12.1	17.4	5.3	3.0
Net income growth (%)	-	52.1	15.4	8.8	3.1
EPS growth adj (%)	-	52.1	15.4	8.8	3.1
DPS growth (%)	-	52.1	15.4	8.8	3.1
Efficiency ratios					
ROE (%)	16.6	24.4	24.6	23.5	21.6
ROCE (%)	12.8	18.5	19.0	18.2	16.8
Asset turnover (x)	0.5	0.5	0.6	0.5	0.5
Op cash / EBIT (x)	12	11	11	12	12
Depreciation / CAPEX (x)	0.4	0.6	0.2	0.4	0.4
Accounts receivable days	77.5	67.6	62.6	65.9	66.6
Accounts payable days	89.6	98.3	93.0	95.6	96.7
Leverage ratios					
Net gearing (%)	37.2	37.3	43.0	35.7	28.9
Net debt / EBITDA (x)	15	10	12	11	0.9
Interest cover (x)	42.1	43.4	44.5	42.9	53.4
Current ratio (x)	10	1.1	0.9	10	12
Valuation					
PER (x)	14.4	9.5	8.2	7.5	7.3
EV/EBITDA (x)	110	7.5	7.0	6.3	6.0
PBR (x)	2.4	2.3	2.0	1.8	1.6
Dividend yield (x)	3.4	5.1	5.9	6.5	6.7



Research

LIU Taisheng, Steven
TMT
(852) 3465 5652
stevenliu@csci.hk

SO Lai Shan, Jennifer
Consumer
(852) 3465 5781
jenniferso@csci.hk

CHAN Ka Yeung, Duncan
Commodity
(852) 3465 5654
duncanchan@csci.hk

TIAN Yang
Automotive
(852) 3465 5775
tianyong@csci.hk

SUN Lingxiao, Roger
Industrials
(852) 3465 5785
rogersun@csci.hk

ZHU Kexin
Renewable energy
(852) 3465 5653
zhukexin@csci.hk

YAO Xue, Snowy
snowyyao@csci.hk
+852 3465 5675

SHEN Xiangfei, Thomas
(852) 3465 8689
thomasshen@csci.hk

XU Qiwen
(852) 3465 8690
xuqiwen@csci.hk

Institutional Sales & Trading

XIANG Xinrong, Ron
(852) 3465 5633
ronxiang@csci.hk

HO Wen Hao, Jack
(852) 3465 5685
jackho@csci.hk

WANG Zhuo, Gary
(852) 3465 8655
wangzhuo@csci.hk

HO Hung Wei
(852) 3465 5687
hohungwei@csci.hk

LEE Ying Ju, Rose
(852) 3465 5707
roselee@csci.hk

LI Jiageng, Mike
(852) 3465 5636
mikeli@csci.hk

XIA Tian
(852) 3465 5670
xiatian@csci.hk

XU Xiaowei, Vincent
(852) 3465 5795
vincentxu@csci.hk

LI Tianyi, Miranda
(852) 3465 8653
mirandali@csci.hk

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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China Securities (International) Research

18/F, Two Exchange Square, Central, Hong Kong

Tel: (852) 34655600 Fax: (852) 21809495

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