



CICC
中国国际金融有限公司
CHINA INTERNATIONAL CAPITAL
CORPORATION LIMITED

Company Update

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Auto & Parts

RESEARCH

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ACCUMULATE

Xinyi Glass (868.HK)

Strong Fundamentals Intact Despite Legal Setback

Financial highlights

(HKD Mn)	2007A	2008A	2009A	2010E	2011E
Revenue	2,775	3,894	3,958	5,067	6,030
+/-	43.5%	40.4%	1.6%	28.0%	19.0%
EBIT	726	768	832	1,090	1,420
+/-	76.9%	5.7%	8.4%	31.0%	30.3%
Net income	671	709	774	982	1,215
EPS(HK\$)	0.39	0.42	0.44	0.55	0.69
+/-	60.9%	7.9%	3.8%	27.0%	23.7%
PE	18.74	17.72	16.25	12.80	10.34
PB	3.11	2.88	2.38	2.17	1.95
EV/EBITDA	14.48	12.73	11.90	9.52	7.62
ROE	16.6%	16.2%	14.6%	16.9%	18.9%
ROCE	15.6%	14.5%	13.1%	15.3%	17.2%
Dividend Yield	1.9%	2.8%	2.9%	3.7%	4.6%
P/OCFPS	26.30	10.76	14.66	10.12	8.80

Share information

	H share
Bloomberg code	868 HK
Share price	HK\$7.09
Target price	HK\$8.7
Daily turnover (mn shs)	6.1
52wk high/low	7.61/3.93
Issued shares (mn)	1,773
Free float (mn)	1,773
Market cap (HK\$ mn)	12,571
Major shareholders (%)	Realbest (19.97%)

Recent price performance

	Last week	1m	3m	YTD
[868.HK]	+1.87	+6.63	-2.07	+0.43
[CICC H-share Index]	+5.36	+6.44	-3.39	-0.77
[CICC Auto&Parts Index]	+2.33	+9.01	+3.27	+10.75

52wk performance



Source: Company data, Bloomberg, CICC Research

What's new:

A United States court granted judgment in favor of Saint-Gobain against Xinyi Glass for infringements of certain patents held by Saint-Gobain in the US with payment of US\$24.19 million (or HK\$188.68mn). Xinyi Glass plans to appeal.

Negative impact on 2010 earnings could be 8.8%. The company provided a reserve of HK\$85.3mn in the 2009 P&L after receiving the first unfavorable verdict in November 2009. Therefore, we expect another reserve of HK\$103.3mn will be provided for 2010.

Export momentum unchanged. The lawsuit could have a negative impact on the company's business in North America. However, it is also performing aggressive exploration and exporting to other countries (Australia, Africa and the Middle East), which could largely offset the negative impact. Exports to these countries surged 20.3% to HK\$794.8mn in 2009, accounting for 20.1% of total revenue vs. 14.7% from North America.

Short term stock price pressure expected, since: 1). payment is larger than expected; 2) market could have more concerns that overseas expansion will run into similar problems in the future.

Valuation and recommendation:

We lower our earnings forecast by 8.8% for 2010 to factor in the lawsuit's impact. We maintain our target price of HK\$8.7/share. Current stock price is 12.8x 2010 P/E, still lower than the peers' average of 13.7x. Investors are advised to ACCUMULATE the counter when the stock price tumbles due to the event.

Risks:

Further unfavorable developments in this lawsuit.

Figure 1: Earnings forecast revision

HK\$ MN	2009A	2010E			2011E		
	Actual	Before	After	Change	Before	After	Change
Revenue	3,958	5,067	5,067	0.0%	6,030	6,030	0.0%
COGS	2,496	3,259	3,259	0.0%	3,891	3,891	0.0%
Gross profit	1,462	1,808	1,808	0.0%	2,140	2,140	0.0%
Other income	34	53	53	0.0%	63	63	0.0%
Selling expenses	268	343	343	0.0%	409	409	0.0%
G&A	323	380	380	0.0%	440	440	0.0%
Other gains	13	56	56	0.0%	66	66	0.0%
Financial expenses	8	20	20	0.0%	20	20	0.0%
PBT	824	1,174	1,070	-8.8%	1,400	1,400	0.0%
Income tax	47	94	86	-8.8%	182	182	0.0%
Minority interests	-3	-2	-2	-8.8%	-3	-3	0.0%
Net income	774	1,077	982	-8.8%	1,216	1,215	0.0%
EPS (HK\$)	0.44	0.61	0.55	-8.8%	0.69	0.69	0.0%

Source: Company data, CICC Research

Figure 2: Historical and forecasted financial data

Income Statement(HK\$ mn)	2006A	2007A	2008A	2009A	2010E	2011E
Turnover	1,933	2,775	3,894	3,958	5,067	6,030
Cost of goods sold	-1,233	-1,702	-2,683	-2,496	-3,259	-3,891
Gross profit	700	1,072	1,211	1,462	1,808	2,140
Other revenues	10	18	38	34	53	63
Selling & distribution costs	-211	-286	-318	-268	-343	-409
General & admin expenses	-111	-135	-209	-323	-380	-440
Other gains	22	57	46	13	56	66
EBITDA	508	869	1,000	1,115	1,428	1,817
EBIT	410	726	768	832	1,090	1,420
Net interest income/(expense)	-8	-25	-15	-8	-20	-20
Profit before taxation	402	703	753	824	1,070	1,400
Taxation	-16	-30	-42	-47	-86	-182
Profit after taxation	386	673	711	777	984	1,218
Minority interests	2	-2	-2	-3	-2	-3
Net profit	388	671	709	774	982	1,215
Weighted EPS (HK\$)	0.24	0.39	0.42	0.44	0.55	0.69
DPS (HK\$)	0.11	0.13	0.20	0.21	0.26	0.33
Balance Sheet(HK\$ mn)	2006A	2007A	2008A	2009A	2010E	2011E
Cash & cash equivalents	162	310	444	649	368	123
Trade & other receivables	569	675	661	697	1,042	1,027
Inventories	371	511	612	432	931	697
Total current assets	1,189	1,559	1,765	1,843	2,433	1,941
Intangible asset	0	81	90	80	79	78
Net fixed assets	2,043	3,718	4,627	5,272	6,036	6,740
Investment	12	12	16	17	17	17
Non-current assets	2,056	3,811	4,733	5,369	6,132	6,835
Trade and other payables	571	626	879	521	1,307	876
Current tax liabilities	12	14	22	22	22	22
ST loans	335	424	722	772	822	822
Current liabilities	919	1,065	1,623	1,318	2,152	1,723
Shareholder's funds	2,248	4,045	4,369	5,288	5,804	6,442
Minority interests	-	2	20	22	24	26
Cashflow Statement(HK\$ mn)	2006A	2007A	2008A	2009A	2010E	2011E
Operating cashflow	366	440	1,124	837	1,243	1,429
Investment cashflow	-469	-1,430	-927	-928	-1,100	-1,100
Financing cashflow	124	1,107	-62	296	-423	-575
Cash & cash equivalent EB	162	310	444	649	368	123
Ratios	2006A	2007A	2008A	2009A	2010E	2011E
Gross margin	36%	39%	31%	37%	36%	35%
ROE	17%	17%	16%	15%	17%	19%
ROA	12%	12%	11%	11%	11%	14%
ROCE	17%	16%	15%	13%	15%	17%
Debt/Equity	0.16	0.19	0.16	0.19	0.22	0.19
Current ratio	1.3	1.5	1.1	1.4	1.1	1.1
Quick ratio	0.9	1.0	0.7	1.1	0.7	0.7
Receivables turnover days	89.2	81.8	62.6	62.6	62.6	62.6

Source: Company data, CICC Research

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Company	Category	Price 10-4-5	Market Cap																					CAGR			
			MN USD	06A	07A	08A	09E	10E	11E	06A	07A	08A	09E	10E	11E	06A	07A	08A	09E	10E	11E	07-11					
China A-Share Listcos																											
Weichai Power A	CV	73.10	8,509	92.0	30.2	31.5	17.9	16.2	14.6	20.4	9.5	7.6	5.1	3.8	3.0	54.3	15.5	16.1	10.6	9.8	9.0	205%	-4%	76%	10%	11%	20%
CNHTC Jinan Truck	CV	28.42	1,746	53.1	16.6	25.2	27.9	17.2	14.5	9.0	5.9	4.8	4.2	3.4	2.8	16.4	8.2	13.3	12.5	9.1	7.9	220%	-34%	-10%	62%	19%	3%
Yutong Bus	CV	19.03	1,449	44.8	26.2	18.6	17.6	14.9	12.5	7.9	3.7	5.9	4.6	4.4	4.1	25.0	14.1	16.4	13.0	11.4	10.8	71%	41%	6%	18%	18%	20%
Begii Foton Motor	CV	21.65	2,907	n.a.	51.3	57.4	19.1	15.7	13.6	13.3	10.4	6.6	4.9	3.8	3.1	86.4	26.9	35.6	12.3	9.9	8.4	n.m.	-11%	200%	22%	16%	39%
King Long Motor	CV	9.89	641	28.6	16.0	22.3	26.8	20.2	17.7	4.5	3.5	3.2	2.9	2.6	2.3	9.2	7.5	10.5	9.8	7.8	7.0	78%	-28%	-17%	33%	14%	-2%
Jiangling Motor	CV	22.07	2,791	31.6	25.1	24.3	18.0	15.2	13.2	6.3	5.4	4.7	3.9	3.3	2.7	20.0	18.7	20.7	14.4	12.9	12.1	26%	3%	35%	19%	15%	17%
Dongfeng Automobile	CV	6.52	1,910	25.9	26.6	41.3	41.0	16.5	13.0	2.6	2.5	2.5	2.4	2.1	1.9	15.5	13.3	52.0	53.6	23.6	15.4	-3%	-36%	1%	148%	27%	20%
Jianghuai Auto	CV/PV	10.55	1,992	33.0	41.4	238.1	40.5	15.8	13.4	4.5	3.4	3.4	3.1	2.7	2.4	19.3	18.6	25.4	14.4	9.8	8.9	-20%	-83%	488%	156%	18%	33%
Chang'an Auto A	PV	12.71	4,330	57.1	44.5	1,222.1	27.5	15.0	12.8	4.3	3.9	3.9	3.4	2.8	2.3	27.2	n.a.	n.a.	35.8	23.8	32.4	28%	-96%	4343%	83%	18%	37%
FAW Car	PV	22.80	5,436	106.8	67.1	34.1	22.8	17.8	15.7	6.9	6.4	5.7	4.9	4.1	3.4	52.4	27.0	25.3	22.3	20.1	17.4	59%	97%	50%	28%	13%	44%
FAW Xiali	PV	9.91	2,316	48.0	92.1	158.1	89.4	68.7	60.6	4.8	4.8	4.8	4.7	4.4	4.1	99.9	n.a.	n.a.	n.a.	n.a.	n.a.	-48%	-42%	77%	30%	13%	11%
SAIC Motor	PV	21.14	20,301	97.2	29.9	389.3	21.0	14.1	12.4	4.4	3.7	4.0	3.3	2.8	2.5	57.1	36.4	108.3	28.6	24.9	19.7	71%	-92%	1753%	49%	14%	24%
Dongan Auto Engine	Parts	15.86	1,074	20.64	48.6	45.7	26.6	24.0	11.5	4.6	4.1	3.8	3.4	2.9	1.4	75.5	66.0	61.0	58.5	70.9	66.9	71%	6%	72%	11%	109%	43%
Zhongding Sealing Parts	Parts	15.50	966	n.a.	54.9	49.4	33.0	20.8	17.3	n.a.	12.9	13.7	7.9	5.7	4.3	n.a.	38.8	27.3	18.0	14.4	12.6	n.m.	11%	50%	59%	20%	33%
Huayu Automotive	Parts	9.95	3,765	43.9	22.3	24.1	17.5	15.7	14.0	4.7	2.3	3.4	2.2	1.9	1.7	232.5	138.8	54.2	45.1	40.3	34.4	97%	-8%	38%	11%	12%	12%
FAWAY	Parts	27.23	844	n.m.	120.1	30.4	16.2	13.6	11.8	5.3	5.1	4.3	3.7	3.1	2.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	295%	88%	19%	15%	78%	
Fuyao Glass	Parts	13.01	3,818	42.4	28.4	105.9	23.3	15.3	12.4	9.2	7.4	8.0															

*Figure 4: Historical P/E and P/B bands***P/E****P/B**

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