Xinyi Glass (XYG)

868.HK / 868 HK

China

Auto parts / Construction materials

LONG

Maintain

Profit alert no surprise

- **Profit expected to grow 40-55%** XYG announced it expects its FY16 net profit to grow 40-55% from 2015 s HK$2.11b, implying a range of HK$2.96b to HK$3.28b. Our previous forecast of HK$3.22b lies at the high end.
- **Float glass outlook stable in near term –** Latest float glass price is RMB1,437/metric ton, which is quite stable throughout 4Q16. We have not changed our assumptions for float glass operations.
- **Ample demand supports outlook –** Increases in works commenced and works in progress lent support to XYG s float glass (and low-e glass) demand (see table below). We assumed float glass price to be similar to 2H16 levels as works figures are still growing, albeit slightly slower, and the number of float glass production lines in use is stable at 236.

(In millions of sqm)	11M16	
Works-in-progress	7,451	2.9%
Works commenced	1,513	7.6%
Works completed	770	6.4%
GFA sold	1,358	24.3%

Source: National Bureau of Statistics

- **New TP = HK$7.55, 22% upside –** Our new revenue and NP forecasts for 2016/17/18 are HK$13.3b/15.6b/15.8b and HK$3.11b/4.00b/4.12b respectively. Our TP is derived from 7x P/E from XYG s float, architectural and automobile glasses and our target price on XYS multiplied by XYG s shareholding in XYS. On a blended P/E basis, XYG is trading at 7.3x 2017F P/E.

Earnings Forecasts & Valuation Summary

Year ended 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (HK$m)	10,861	11,460	13,323	15,566	15,815
EBITDA (HK$m)	2,138	2,908	3,907	4,874	4,997
Net profit (HK$m)	**1,364**	**2,113**	**3,111**	**4,004**	**4,117**
Fully diluted EPS (HK cents)	34.6	53.1	78.0	100.4	103.2
PE (x)	**17.9**	**11.7**	**7.9**	**6.2**	**6.0**
EV/EBITDA (x)	9.6	9.9	7.3	5.9	5.7
Yield (%)	2.42	4.27	6.08	8.31	8.55
ROE (%)	**11.1**	**16.6**	**21.7**	**23.6**	**21.1**
P/B (x)	1.2	1.4	1.7	1.4	1.2

Source: Company, Sunwah Kingsway Research estimates

HK$6.20*

Target price: HK$7.55

Prior TP: HK$8.46

Upside: 22%

HSI: 22,456.62

*Closing price as at 14 Dec 2016

Share Data

52week Hi/Lo (HK$)	7.73/3.65
Avg. daily t/o (US$m)	10.9
Market cap. (US$m)	3,111
Total issued shares (m)	3,891.5
Public float (%) *	52.55%
Auditor	PWC
Major shareholder:	
Mr. Lee Yin Yee	21.65%
Mr. Tung Ching Sai	9.67%
Mr. Tung Ching Bor	8.35%
Mr. Lee Sing Din	7.78%

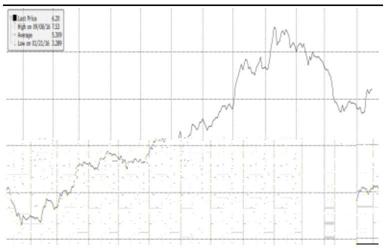
* The conversion of CBs issued to Och-Ziff was not factored in the calculation of public float.

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

	2016F	2017F	2018F
Revenue (HK$'m) -			

Financial forecasts

Years ended 31 Dec	2014A	2015A	2016F	2017F	2018F
Income statement (HK$'m)					
Revenue	**10,861**	**11,460**	**13,323**	**15,566**	**15,815**
COGS	(8,128)	(8,328)	(8,474)	(9,485)	(9,652)
Gross Profit	2,733	3,133	4,849	6,081	6,163
Other income	178	215	284	215	215
Other gains, net	220	379	0	0	0
Selling & marketing costs	(608)	(680)	(791)	(920)	(934)
Admin expense	(1,030)	(935)	(1,154)	(1,298)	(1,319)
Gain on spin-off	0	0	0	0	0
Operating profit	**1,494**	**2,113**	**3,188**	**4,078**	**4,125**
Add back: Depreciation	612	763	719	796	872
Add back: Amortization	32	32	0	0	0
EBITDA	**2,138**	**2,908**	**3,907**	**4,874**	**4,997**
Depreciation & Amortization	(644)	(795)	(719)	(796)	(872)
Finance income	53	40	13	13	14
Finance costs	(91)	(90)	(116)	(120)	(114)
Share of P/L of assos	138	317	565	828	898
Profit before tax	1,593	2,380	3,651	4,799	4,922
Income tax expense	(228)	(266)	(540)	(794)	(805)
Profit for the year	**1,365**	**2,114**	**3,111**	**4,004**	**4,117**
Less: MI	(1)	(0)	0	0	0
Net profit	**1,364**	**2,113**	**3,111**	**4,004**	**4,117**
Basic EPS (HK Cents)	34.78	53.88	83.00	108.27	111.42
Diluted EPS (HK Cents)	34.57	53.11	80.74	105.32	108.38

Years ended 31 Dec	2014A	2015A	2016F	2017F	2018F
Ratios					
Gross margin (%)	25.2	27.3	34.8	37.2	36.5
EBITDA margin (%)	19.7	25.4	27.9	29.4	29.0
Net margin (%)	12.6	18.4	22.8	24.7	24.5
Selling & dist'n/Sales (%)	5.6	5.9	5.9	5.9	5.9
Admin/Sales (%)	9.5	8.2	8.7	8.3	8.3
Payout ratio (%)					
Effective tax (%)	14.3	11.2	14.2	16.1	15.8
Total debt/equity (%)	48.8	47.4	45.7	38.7	30.6
Net debt/equity (%)	42.0	37.2	38.9	32.7	26.7
Current ratio (x)	1.0	1.0	1.0	1.2	1.1
Quick ratio (x)	0.7	0.7	0.7	0.8	0.8
Inventory T/O days	61	59	61	61	61
A/R T/O days	80	78	80	80	80
A/P T/O days	84	90	84	84	84
Working capital days	57	47	57	57	57
Asset turnover (x)	0.52	0.53	0.55	0.59	0.56
Financial leverge (x)	1.71	1.68	1.67	1.59	1.50
EBIT margin (%)	13.8	18.4	22.3	24.3	23.6
Interest burden (x)	1.1	1.1	1.2	1.2	1.2
Tax burden (x)	0.86	0.89	0.86	0.84	0.84
Return on equity (%)	**11.1**	**16.6**	**21.0**	**23.0**	**20.4**

Years ended 31 Dec	2014A	2015E	2016F	2017F	2018F
Cash flow (HK$'m)					
EBITDA	2,138	2,908	3,907	4,874	4,997
Non-cash adjustments	(220)	(331)	0	0	0
Changes in working capital	(202)	455	(534)	(536)	(102)
Operating cash	**1,716**	**3,032**	**3,374**	**4,338**	**4,895**
Taxes paid	(154)	(305)	(579)	(833)	(844)
Interest paid	(107)	(90)	(116)	(120)	(114)
Net cash from operations	**1,455**	**2,637**	**2,679**	**3,385**	**3,937**
Interest received	42	40	13	13	14
CAPEX	(1,715)	(1,967)	(1,700)	(1,700)	(1,700)
Disposals of assets	116	150	0	0	0
Acquisition/disposal of subsidiai	0	0	(295)	0	0
Change in non-demand deposits	(0)	(1)	0	0	0
Advances to associates	(25)	0	0	0	0
Dividends from associates	63	117	249	271	349
Net change in investment propei	(14)	0	0	0	0
Others	(44)	25	0	0	0
Investing cash	**(1,578)**	**(1,635)**	**(1,733)**	**(1,416)**	**(1,338)**
FCF	**(123)**	**1,001**	**946**	**1,969**	**2,600**
Net issue/(repurchase) of share	(3)	1	(264)	0	0
Net issue/(redemption) of debt s	(170)	0	0	0	(620)
Net changes in bank loans	1,003	72	465	0	0
Dividends	(902)	(608)	(1,320)	(1,781)	(2,030)
Others	0	0	0	0	0
Financing cash	**(72)**	**(535)**	**(1,119)**	**(1,781)**	**(2,650)**
Net change in cash	(195)	466	(173)	188	(50)
Cash and cash equiv b/f	1,042	831	1,298	1,125	1,313
FX adjustments	(17)	1	0	0	0
Cash and cash equiv c/f	**831**	**1,298**	**1,125**	**1,313**	**1,263**

As at 31 Dec	2014A	2015A
Balance Sheet (HK$'m)		
Leasehold land & land use rights	1,287	1,206
PPE	11,293	11,971
Investment properties	550	437
Prepmt for PPE & land use rights	624	172
Intangible assets	79	75
AFS financial assets	120	85
Investment in asso	2,243	2,535
Loans to an assp	34	29
Other non-current assets	0	0
Non-current assets	**16,229**	**16,510**
Inventories	1,478	1,223
Loans to assos + amt due from asso	8	8
Trade & other receivables	2,487	2,381
Non-demand deposits	1	1
Cash & cash equiv.	831	1,298
Current assets	**4,805**	**4,911**
Total assets	**21,034**	**21,422**
Amt due to asso	0	0
Trade & other payables	1,978	2,112
Current tax payable	294	333
Bank and other borrowings	2,529	2,514
Current liabilities	**4,801**	**4,959**
Bank borrowings	2,807	2,894
Other borrowings - CBs	676	620
Deferred tax liabilities	159	159
Deferred government grants	148	0
Other payables	107	63
MI	2	7
Non-current liabilities	**3,900**	**3,744**
Total net assets	**12,333**	**12,718**
Shareholders' equity	**12,333**	**12,718**
Issued capital	392	392
Reserves	5,548	3,886
Other retained earnings	6,393	8,441

Source: Company data, Sunwah Kingsway Research Estimates