SUNWAH KINGSWAY
新華滙富

Xinyi Glass (XYG)

868.HK / 868 HK

LONG

Maintain

China

Auto parts / Construction materials

Malaysia phase 2 and non-float glass upturn drive 2017

HK$7.28*

Target price: HK$7.75

Prior TP: HK$7.55

Upside: 6%

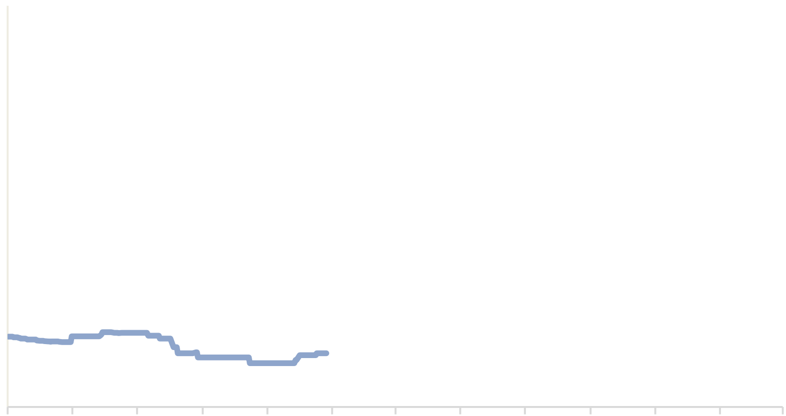
- **Auto and construction glass may rebound in 2017** XYG s management expects sales volume for both automobile and construction glass to grow 5-10% YoY. We forecast ASP of auto and construction glass to increase 4% and ~10% respectively. To recap, 2H16 auto glass sales fell 7% YoY and 11.7% HoH due to anti-dumping issues in Brazil (comprises 3-4% of auto glass [redacted]

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



Source: Wind

National float glass price since Mar 2015

Source: Wind

Financial forecasts

Years ended 31 Dec	2015A	2016A	2017F	2018F	2019F
Income statement (HK$'m)					
Revenue	**11,460**	**12,848**	**14,808**	**15,358**	**15,808**
COGS	(8,328)	(8,189)	(8,978)	(9,269)	(9,502)
Gross Profit	3,133	4,659	5,830	6,089	6,306
Other income	215	342	215	215	215
Other gains, net	379	159	0	0	0
Selling & marketing costs	(680)	(620)	(666)	(691)	(711)
Admin expense	(935)	(1,202)	(1,235)	(1,281)	(1,319)
Gain on spin-off	0	0	0	0	0
Operating profit	**2,113**	**3,338**	**4,143**	**4,331**	**4,491**
Add back: Depreciation	763	797	844	964	1,046
Add back: Amortization	32	30	0	0	0
EBITDA	**2,908**	**4,165**	**4,987**	**5,295**	**5,537**
Depreciation & Amortization	(795)	(827)	(844)	(964)	(1,046)
Finance income	40	51	18	8	10
Finance costs	(90)	(128)	(131)	(114)	(104)
Share of P/L of assos	317	563	758	847	895
Profit before tax	2,380	3,823	4,788	5,072	5,292
Income tax expense	(266)	(607)	(725)	(845)	(880)
Profit for the year	**2,114**	**3,216**	**4,063**	**4,227**	**4,413**
Less: MI	(0)	(3)	0	0	0
Net profit	**2,113**	**3,213**	**4,063**	**4,227**	**4,413**
Basic EPS (HK Cents)	53.88	82.78	104.69	108.93	113.70
Diluted EPS (HK Cents)	53.11	81.19	101.84	105.96	110.60

Years ended 31 Dec	2015A	2016A	2017F	2018F	2019F
Ratios					
Gross margin (%)	27.3	36.3	39.4	39.6	39.9
EBITDA margin (%)	25.4	32.4	33.7	34.5	35.0
Net margin (%)	18.4	25.0	27.4	27.5	27.9
Selling & dist'n/Sales (%)	5.9	4.8	4.5	4.5	4.5
Admin/Sales (%)	8.2	9.4	8.3	8.3	8.3
Payout ratio (%)					
Effective tax (%)	11.2	15.9	15.1	16.7	16.6
Total debt/equity (%)	47.4	58.2	39.1	30.8	24.8
Net debt/equity (%)	37.2	37.2	34.9	26.7	19.6
Current ratio (x)	1.0	1.1	1.0	1.0	1.1
Quick ratio (x)	0.7	0.9	0.7	0.7	0.7
Inventory T/O days	59	57	61	61	61
A/R T/O days	78	68	80	80	80
A/P T/O days	90	98	84	84	84
Working capital days	47	26	57	57	57
Asset turnover (x)	0.53	0.53	0.55	0.53	0.50
Financial leverge (x)	1.68	1.82	1.61	1.52	1.46
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
Tax burden (x)	0.89	0.84	0.85	0.83	0.83
Return on equity (%)	**16.6**	**24.4**	**24.4**	**22.2**	**20.4**

Years ended 31 Dec	2015A	2016E	2017F	2018F	2019F
Cash flow (HK$'m)					
EBITDA	2,908	4,165	4,987	5,295	5,537
Non-cash adjustments	29	(25)	0	0	0
Changes in w orking capital	375	281	(686)	2	22
Operating cash	**3,311**	**4,420**	**4,301**	**5,298**	**5,559**
Taxes paid	(223)	(754)	(989)	(1,050)	(1,085)
Interest paid	(115)	(128)	(131)	(114)	(104)
Net cash from operations	**2,974**	**3,539**	**3,181**	**4,133**	**4,370**
Interest received	22	51	18	8	10
CAPEX	(1,914)	(1,853)	(2,500)	(1,700)	(1,700)
Disposals of assets	18	0	0	0	0
Acquisition/disposal of subsidiai	277	(295)	0	0	0
Change in non-demand deposits	(1)	(4)	4	0	0
Advances to associates	2	0	0	0	0
Dividends from associates	129	249	277	327	347
Net change in investment propei	(53)	0	0	0	0
Others	(1)	0	0	0	0
Investing cash	**(1,520)**	**(1,852)**	**(2,202)**	**(1,365)**	**(1,343)**
FCF	**1,454**	**1,687**	**980**	**2,768**	**3,027**
Net issue/(repurchase) of share	1	(264)	0	0	0
Net issue/(redemption) of debt s	0	0	0	(620)	0
Net changes in bank loans	(18)	1,646	(1,181)	0	(500)
Dividends	(608)	(1,320)	(1,871)	(2,057)	(2,181)
Others	0	0	0	0	0
Financing cash	**(625)**	**62**	**(3,052)**	**(2,677)**	**(2,681)**
Net change in cash	829	1,749	(2,072)	91	346
Cash and cash equiv b/f	831	1,298	2,763	691	782
FX adjustments	(25)	0	0	0	0
Cash and cash equiv c/f	**1,636**	**3,047**	**691**	**782**	**1,128**

As at 31 Dec	2015A	2016A
Balance Sheet (HK$'m)		
Leasehold land & land use rights	1,206	1,121
PPE	11,971	11,831
Investment properties	437	547
Prepmt for PPE & land use rights	172	608
Intangible assets	75	72
AFS financial assets	85	39
Investment in asso	2,535	3,258
Loans to an assp	29	49
Other non-current assets	0	0
Non-current assets	**16,510**	**17,524**
Inventories	1,223	1,321
Loans to assos + amt due from asso	8	33
Trade & other receivables	2,381	2,377
Non-demand deposits	1	5
Cash & cash equiv.	1,298	2,763
Current assets	**4,911**	**6,499**
Total assets	**21,422**	**24,022**
Amt due to asso	0	0
Trade & other payables	2,112	2,297
Current tax payable	333	538
Bank and other borrow ings	2,514	3,165
Current liabilities	**4,959**	**6,000**
Bank borrow ings	2,894	3,889
Other borrow ings - CBs	620	620
Deferred tax liabilities	159	218
Deferred government grants	0	0
Other payables	63	48
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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