

Xinyi Glass (XYG)

868.HK / 868 HK

China

Auto parts / Construction materials

Earnings top consensus, aggressive plans ahead

► XYG results in-line

	2H17			2017		Act vs Cons
Revenue (HK\$m)	8,051	15.6%	20.6%	14,728	12.1%	-0.3%
Gross profit (HK\$m)	3,015	15.2%	24.1%	5,444	48.7%	-0.1%
GPM	37.4%	-0.1 ppt	1.1 ppt	37.0%	0.7 ppt	0.1 ppt
Net profit (HK\$m)	2,378	28.9%	45.4%	4,014	52.1%	9.5%
Basic EPS (HK¢)	59.2	28.9%	42.2%	101.1	53.6%	7.8%
DPS (HK¢)	28.0	21.7%	40.0%	48.0	20.0%	3.0%

Source: Company data, Bloomberg

- **New auto glass plant in the works** XYG unveiled its plan to build an automobile glass production site in Beihai, Guangxi Province, housing 4m pcs of annual capacity. The site is expected to start production in 2019, bringing in at least HK\$300m incremental revenue. The new capacity will serve non-windshield glass parts such as HUD in cars, sun roofs and new orders from overseas automakers.

- **Soda ash prices continue to decline** Two factors may contribute to the expected decline in soda ash prices: 1) increasing mining of trona, source of natural soda ash, by miners in the US; 2) float glass production lines continue to downsize or shut down amid environmental policies. We expect soda ash prices to remain around RMB1,600/tonne in 2018.

- **Property market still strong for now** Per table below, the pipeline for new properties remains strong. We estimate float glass price to average around RMB1,630/tonne in 2018.

In millions of sqm	2017	YoY
Works-in progress	7,815	3.0%
Works commenced	1,787	7.0%
Works completed	1,015	-4.4%
GFA sold	1,694	7.7%
Land bought	255	15.8%

Source: National Bureau of Statistics

- **New TP = HK\$13.16, 10% upside** Our new revenue and NP forecasts for 2018/19/20 are HK\$17.3b/19.3b/21.4b and HK\$5.4b/5.80b/6.33b respectively. Our TP is derived from SOTP method (see next page) with a 15% holding discount. On a blended P/E basis, XYG is trading at 9.1x 2018F P/E.

Earnings Forecasts & Valuation Summary

Year ended 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (HK\$m)	12,848	14,728	17,276	19,301	21,432
EBITDA (HK\$m)	4,165	5,014	6,436	6,958	7,493
Net profit (HK\$m)	3,213	4,014	5,402	5,796	6,328
Fully diluted EPS (HK cents)	81.2	99.9	131.0	140.5	153.4
PE (x)	7.8	11.9	9.1	8.5	7.8
EV/EBITDA (x)	7.2	6.0	4.7	4.3	4.0
Yield (%)	6.31	7.57	10.58	11.37	12.41
ROE (%)	24.4	22.0	28.3	26.7	25.6
P/B (x)	1.9	1.4	1.3	1.2	1.0

Source: Company data, Sunwah Kingsway Research estimates

LONG

Maintain

HK\$11.94*

Target price: HK\$13.16

Prior TP: HK\$11.86

Upside: 10%

HSI: 31,498.60

*Closing price as at 26 Feb 2018

Share Data

52week Hi/Lo (HK\$)	12.80/6.37
Avg. daily t/o (US\$m)	21.1
Market cap. (US\$m)	6,132
Total issued shares (m)	4,018.4
Public float (%) *	52.45%
Auditor	PWC
Major shareholder:	
Mr. Lee Yin Yee	21.61%
Mr. Tung Ching Sai	9.88%
Mr. Tung Ching Bor	8.25%
Mr. Lee Sing Din	7.81%

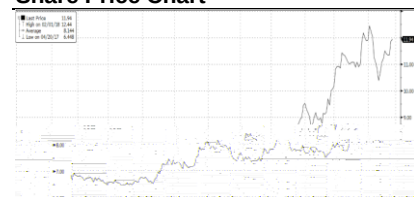
* The conversion of CBs issued to Och-Ziff was not factored in the calculation of public float.

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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Valuation table

2018 earnings excluding XYS operations (HK\$'m)	4,392
Implied EPS (HK¢)	109.4
Multiplied by: P/E ratio of XYG operations	12x
XYG operations contribution	13.12
Add: Share of XYS TP	2.36
Standalone value (HK\$)	15.48
Conglomerate discount	15.0%
Target price (HK\$)	13.16

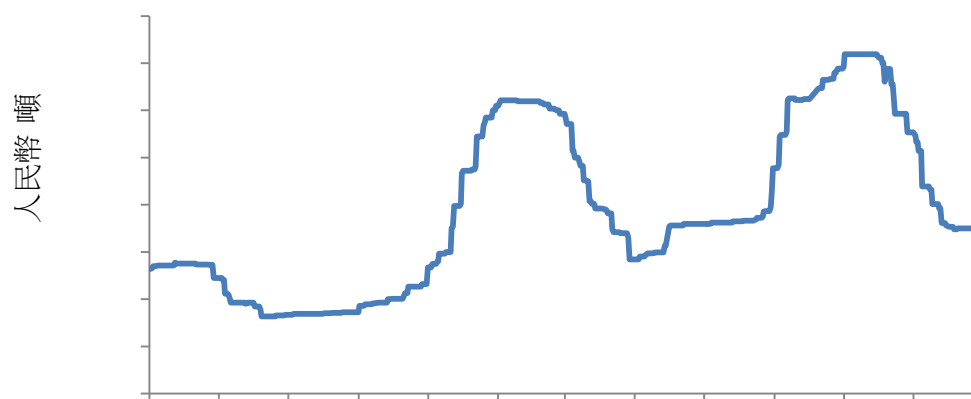
Source: Sunwah Kingsway Research estimates

Earnings revisions

	2018F	2019F	2020F
Revenue (HK\$'m) - new	17,276	19,301	21,432
old	17,129	19,096	N/A
change	0.9%		

Average China Soda Ash price since Mar 2016

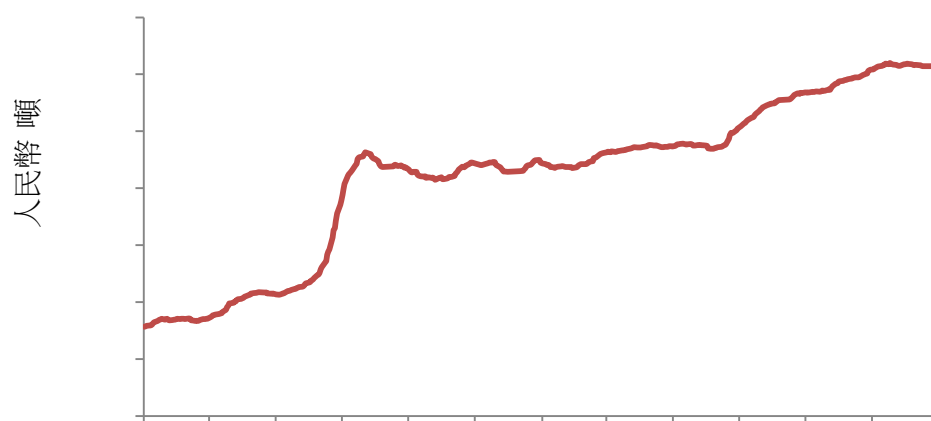
中國平均純鹼價格



Source: Wind

National float glass price since Mar 2016

中國浮法玻璃價格



Source: Wind

Financial forecasts

Years ended 31 Dec	2016	2017	2018F	2019F	2020F	Years ended 31 Dec	2016	2017	2018F	2019F	2020F
Income statement (HK\$m)						Ratios					
Revenue	12,848	14,728	17,276	19,301	21,432	Gross margin (%)	36.3	37.0	43.4	42.3	41.3
COGS	(8,189)	(9,283)	(9,782)	(11,144)	(12,586)	EBITDA margin (%)	32.4	34.0	37.3	36.0	35.0
Gross Profit	4,659	5,444	7,494	8,157	8,846	Net margin (%)	25.0	27.3	31.3	30.0	29.5
Other income	342	377	215	215	215	Selling & dist'n/Sales (%)	4.8	4.6	4.4	4.5	4.5
Other gains, net	159	317	0	0	0	Admin/Sales (%)	9.4	9.3	8.3	8.3	8.3
Selling & marketing costs	(620)	(675)	(753)	(869)	(964)	Payout ratio (%)	15.9	14.5	15.7	16.6	16.4
Admin expense	(1,202)	(1,370)	(1,441)	(1,610)	(1,788)	Total debt/equity (%)	58.2	46.4	38.8	36.4	25.8
Gain on spin-off	0	0	0	0	0	Net debt/equity (%)	37.2	29.7	32.2	31.7	21.5
Operating profit	3,338	4,093	5,515	5,894	6,308	Current ratio (x)	1.1	1.5	1.0	1.0	1.1
Add back: Depreciation	797	846	920	1,064	1,184	Quick ratio (x)	0.9	1.2	0.7	0.7	0.8
Add back: Amortization	30	75	0	0	0	Inventory T/O days	57	59	61	61	61
EBITDA	4,165	5,014	6,436	6,958	7,493	A/R T/O days	68	68	80	80	80
Depreciation & Amortization	(827)	(921)	(920)	(1,064)	(1,184)	A/P T/O days	98	95	84	84	84
Finance income	51	55	27	24	23	Working capital days	26	31	57	57	57
Finance costs	(128)	(151)	(147)	(141)	(132)	Asset turnover (x)	0.53	0.49	0.55	0.56	0.56
Share of P/L of assos	563	700	1,010	1,175	1,369	Financial leverage (x)	1.82	1.66	1.64	1.60	1.56
Profit before tax	3,823	4,696	6,406	6,951	7,568	EBIT margin (%)	26.0	27.8	31.9	30.5	29.4
Income tax expense	(607)	(682)	(1,003)	(1,155)	(1,240)	Interest burden (x)	1.1	1.1	1.2	1.2	1.2
Profit for the year	3,216	4,014	5,402	5,796	6,328	Tax burden (x)	0.84	0.85	0.84	0.83	0.84
Less: MI	(3)	(0)	0	0	0	Return on equity (%)	24.4	22.0	28.3	26.7	25.6
Net profit	3,213	4,014	5,402	5,796	6,328						
Basic EPS (HK Cents)	82.78	101.14	134.51	144.31	157.57						
Diluted EPS (HK Cents)	81.19	99.92	130.96	140.51	153.41						
Cash flow (HK\$m)						Balance Sheet (HK\$m)					
EBITDA	4,165	5,014	6,436	6,958	7,493	Leasehold land & land use rights	1,121	3,427			
Non-cash adjustments	86	(18)	0	0	0	PPE	11,831	12,929			
Changes in working capital	(218)	(758)	(805)	(545)	(581)	Investment properties	547	1,205			
Operating cash	4,032	4,238	5,631	6,413	6,912	Prepmt for PPE & land use rights	608	300			
Taxes paid	(342)	(562)	(1,176)	(1,152)	(1,237)	Intangible assets	72	70			
Interest paid	(126)	(151)	(147)	(141)	(132)	AFS financial assets	39	52			
Net cash from operations	3,565	3,525	4,308	5,120	5,543	Investment in asso	3,258	4,416			
Interest received	51	55	27	24	23	Loans to an assp	49	27			
CAPEX	(1,756)	(3,366)	(3,000)	(3,000)	(2,500)	Other non-current assets	0	0			
Disposals of assets	18	0	0	0	0	Non-current assets	17,524	22,426			
Acquisition/disposal of subsidia	(618)	0	0	0	0	Inventories	1,321	1,698			
Change in non-demand deposits	(4)	(4)	7	0	0	Loans to assos + amt due from asso					

Source: Company data, Sunwah Kingsway Research Estimates

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