Forward looking re

Company Name	Ticker	Mkt. Cap (MM)	Rating	Price	Price Target	Cons. Next FY	Current EPS Estimates 2015	2016	2017	Valuation (P/E) 2016	2017
Fuyao Glass	3606 HK	HK$52,563.6	BUY	HK$20.95	HK$24.00	RMB1.20	RMB1.10	RMB1.18	RMB1.24	15.3x	14.5x
Xinyi Glass	868 HK	HK$29,335.1	BUY	HK$7.48	HK$8.60	HK$0.72	HK$0.53	HK$0.79	HK$0.92	9.5x	8.1x

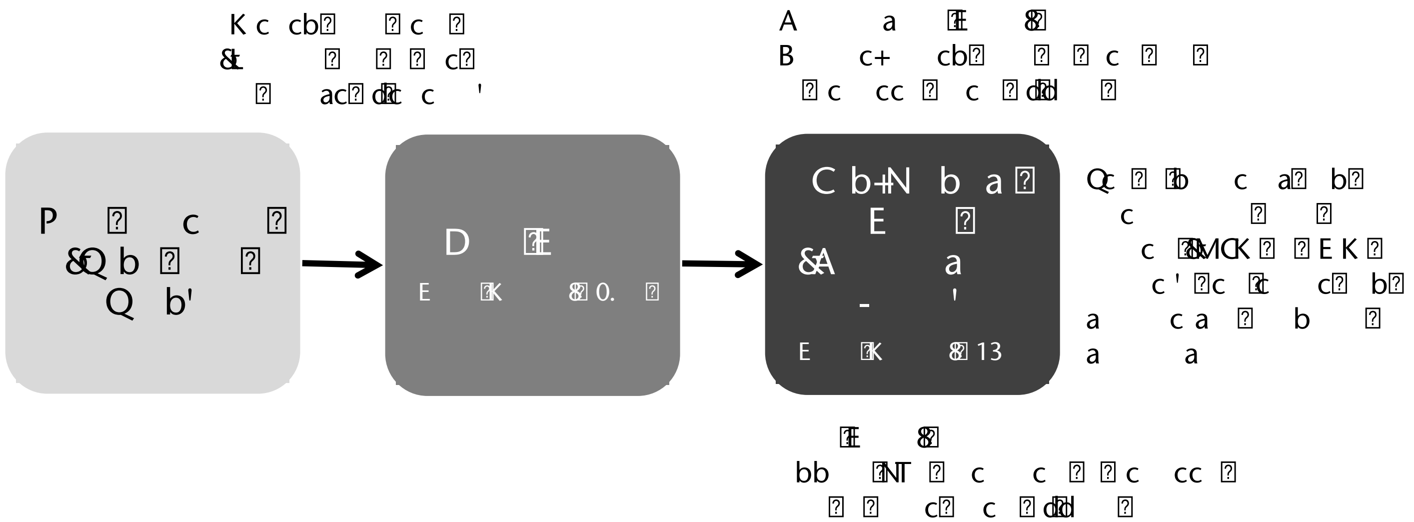
Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com

Initiating coverage of glass sector

Risks

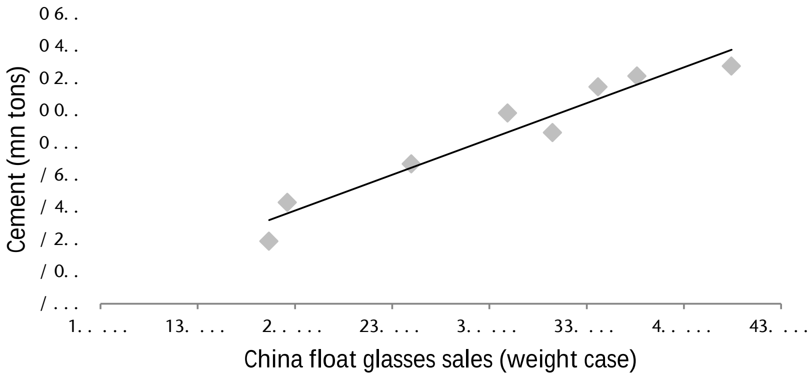
Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com

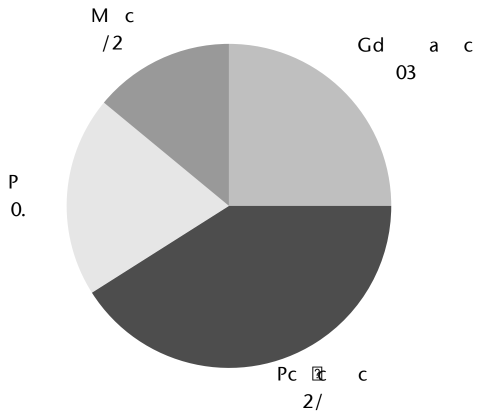
Industry overview

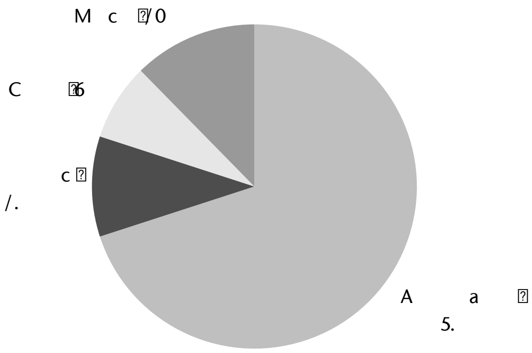


Float glass demand/supply dynamics

Float glass demand

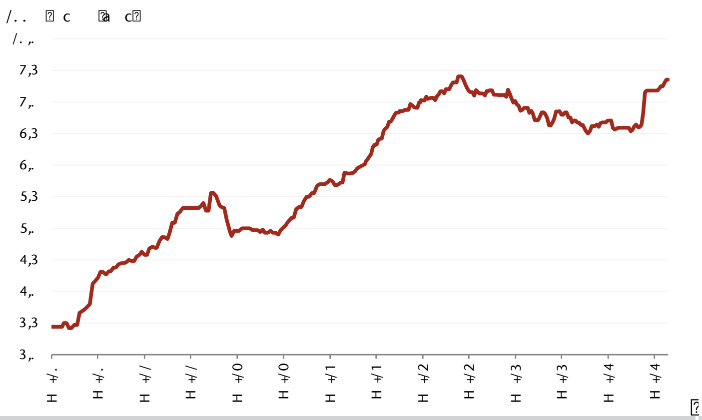


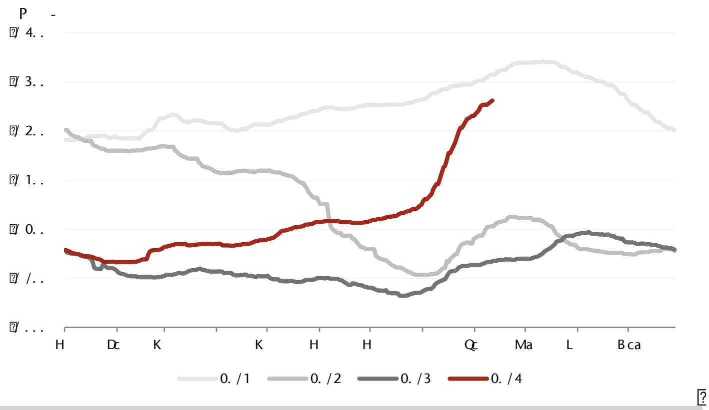


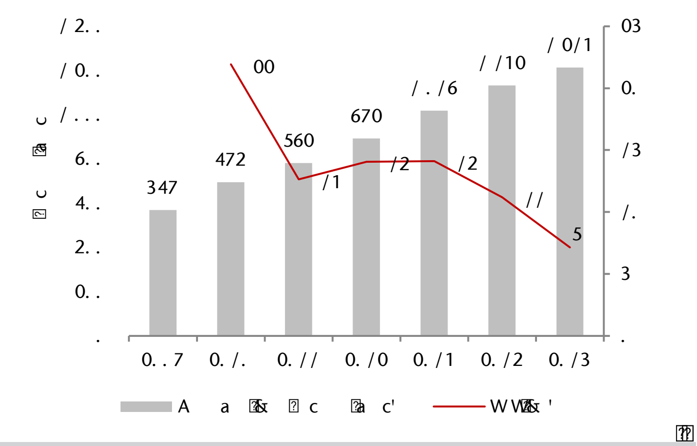


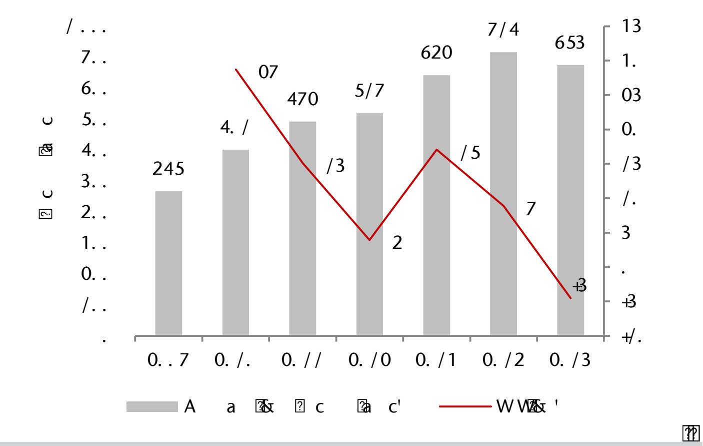
Float glass supply

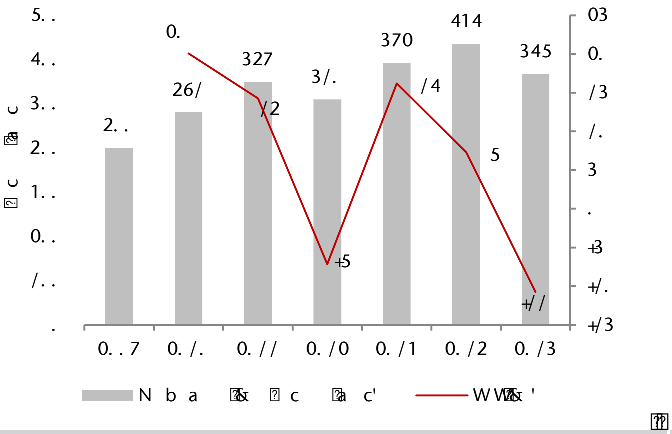
Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com

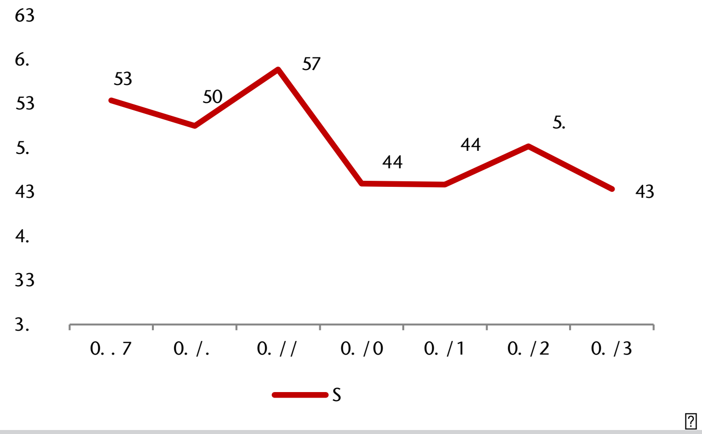






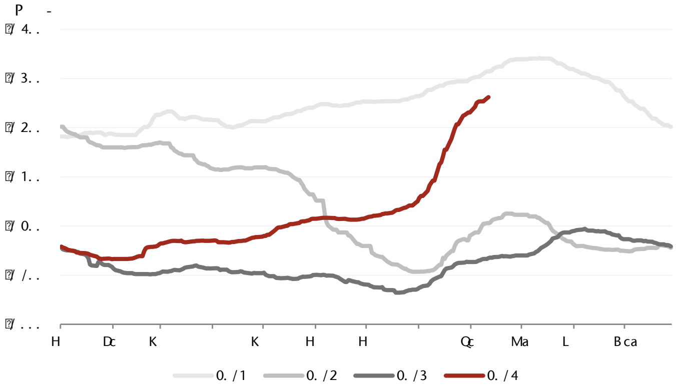






Glasses prices – ASP

Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com



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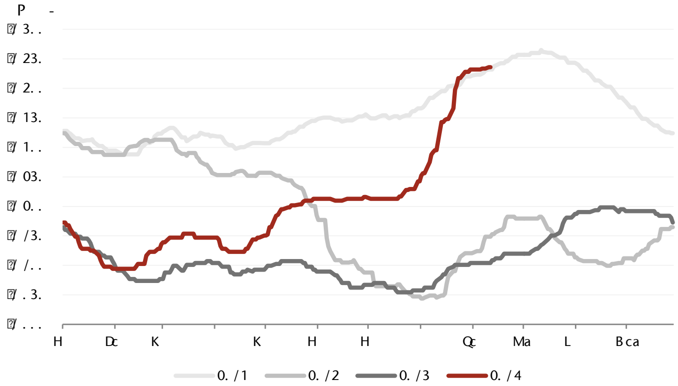

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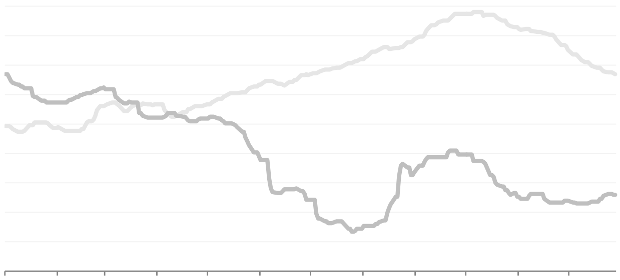

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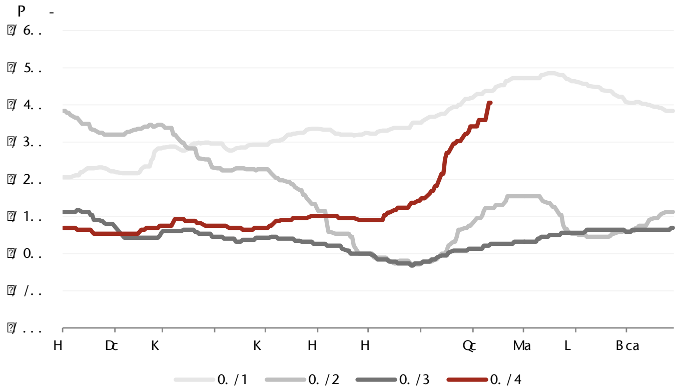

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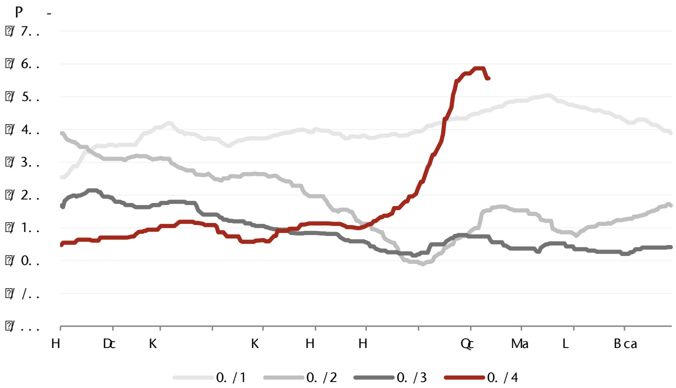

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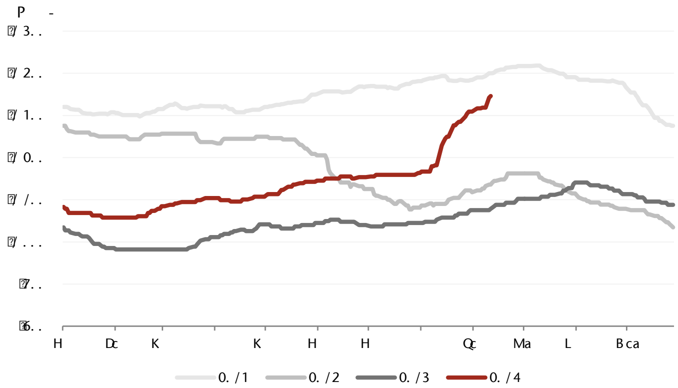

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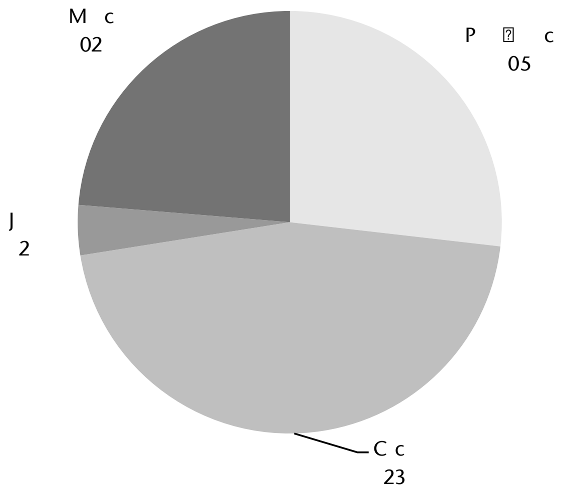
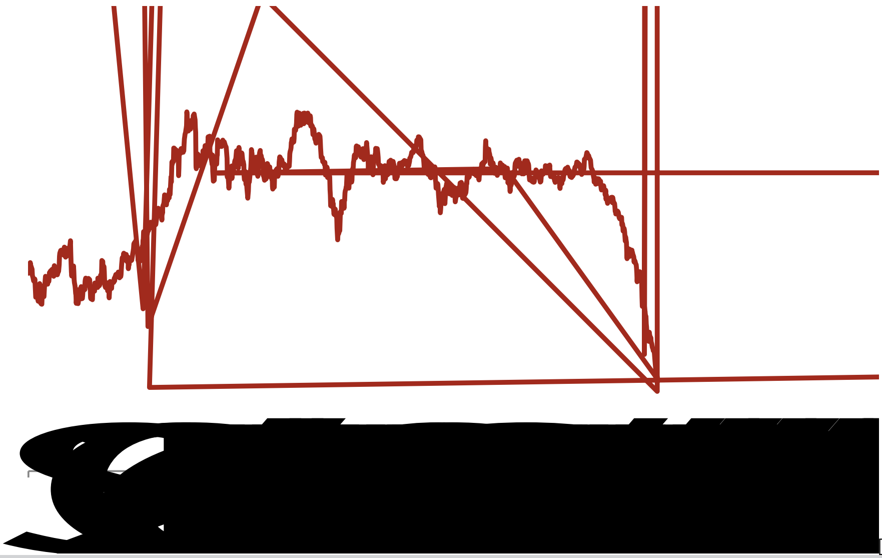
Cost of float glass





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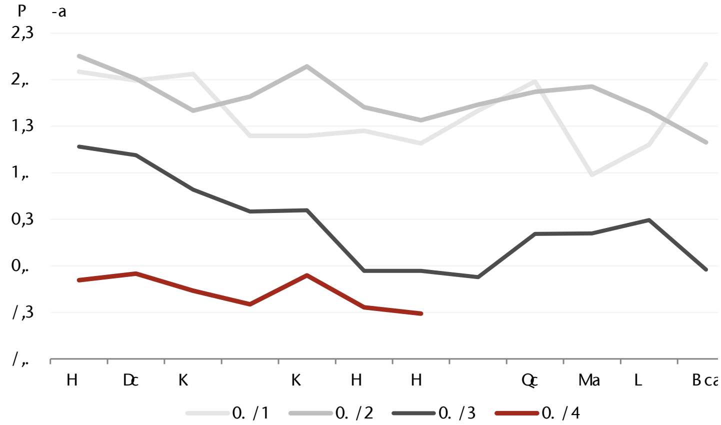
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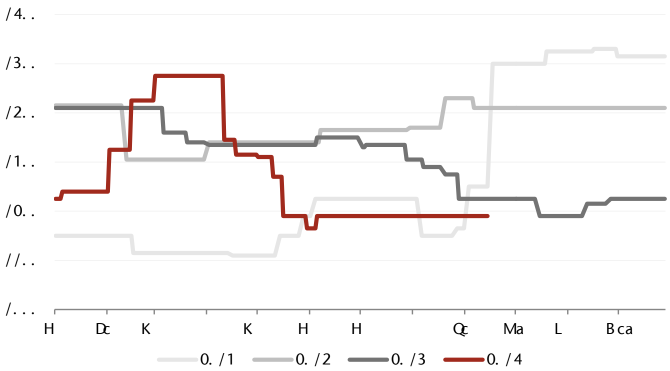
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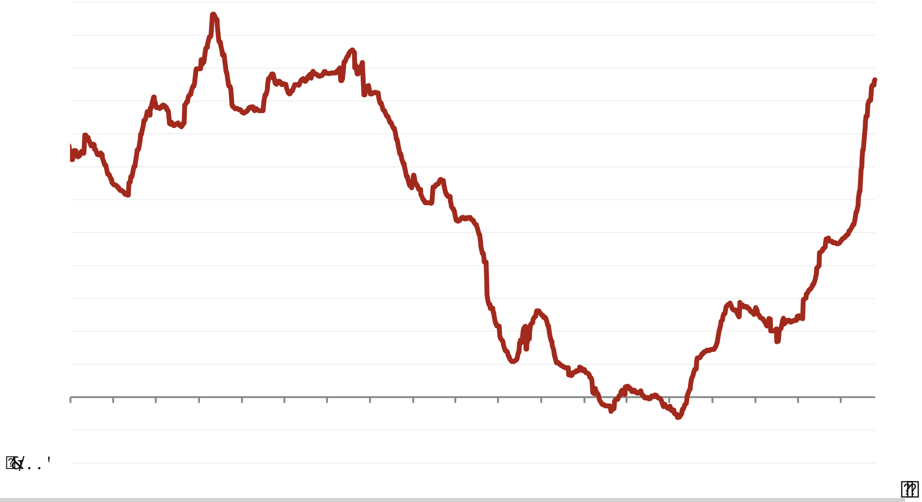

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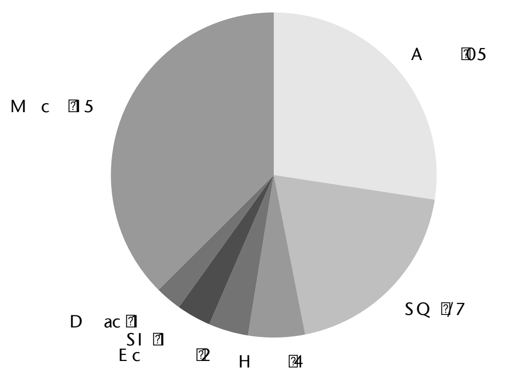
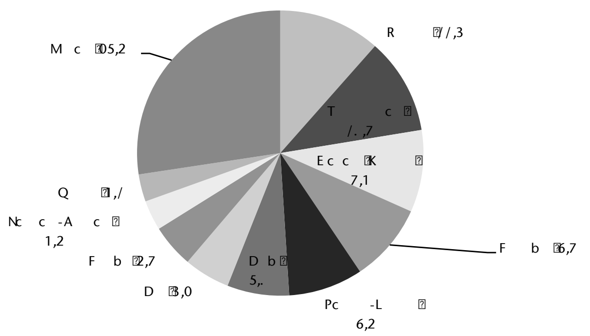
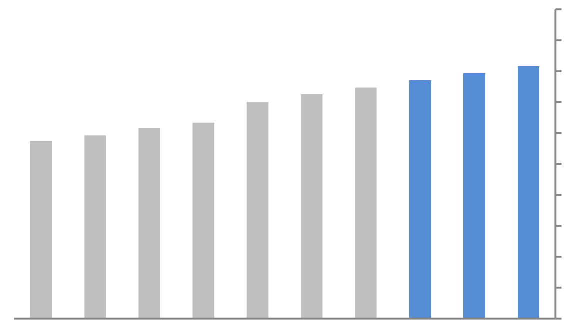
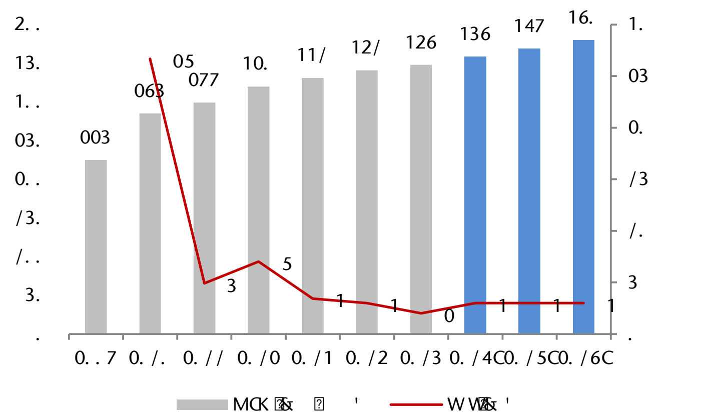
Global automotive glass industry



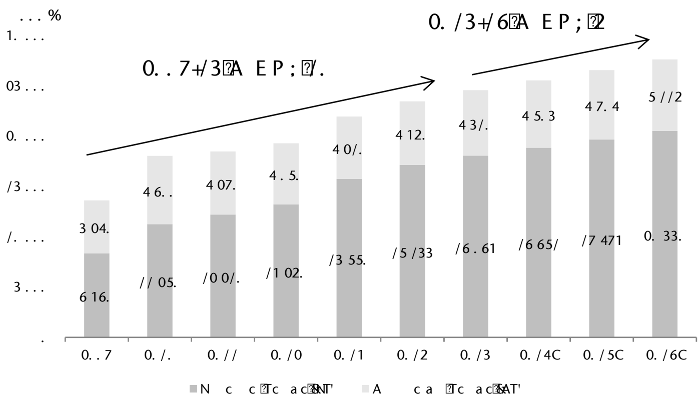


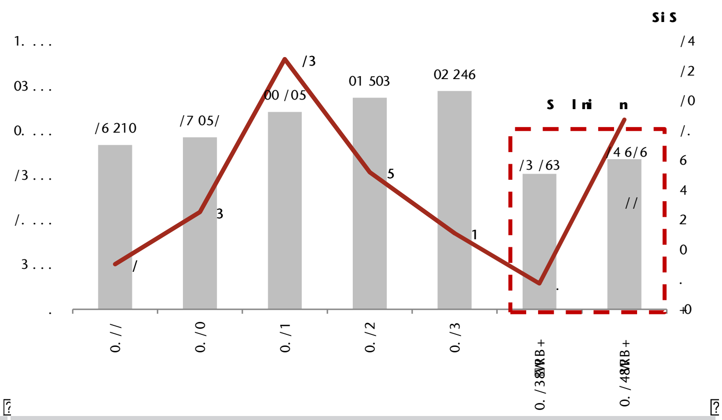
Expect global auto glass sales growth to be in line with auto sales





China’s automotive glass industry





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Penetration still low

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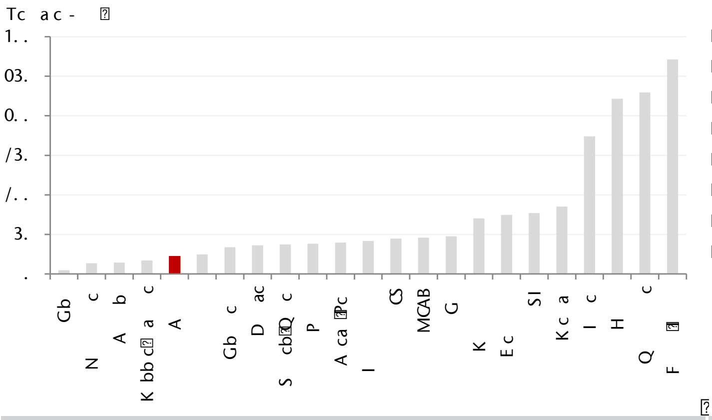

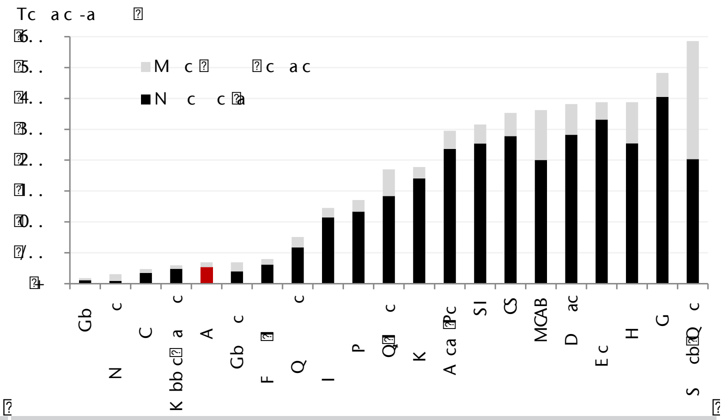

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China – expect auto glass to outgrow auto production

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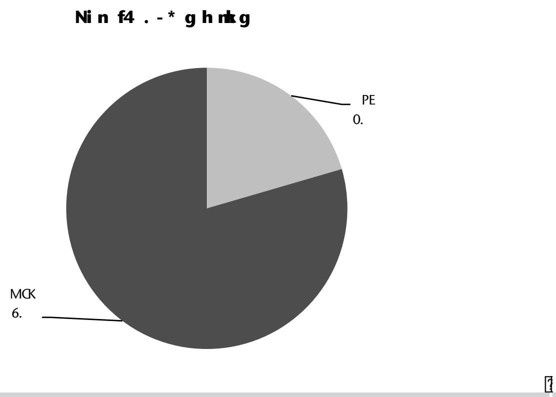

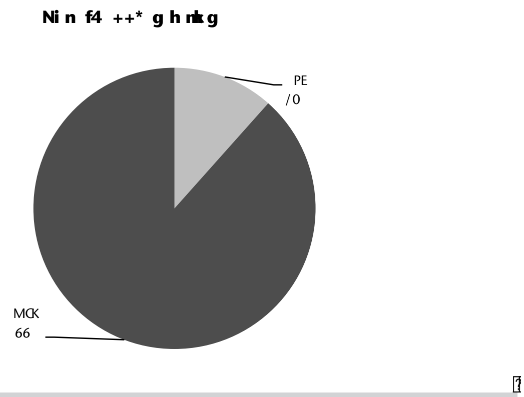

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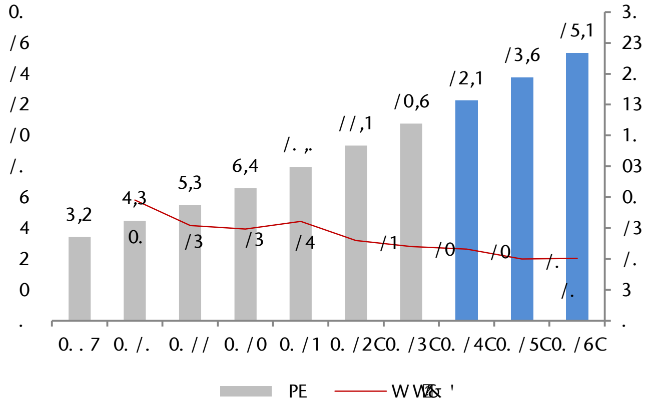
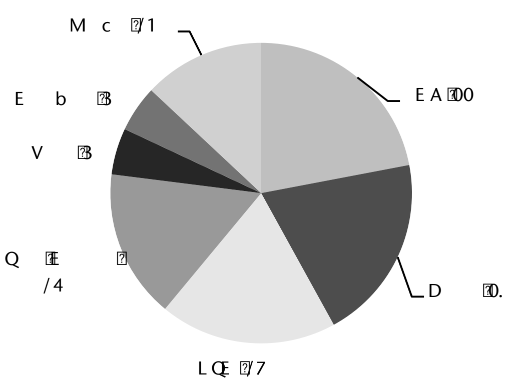
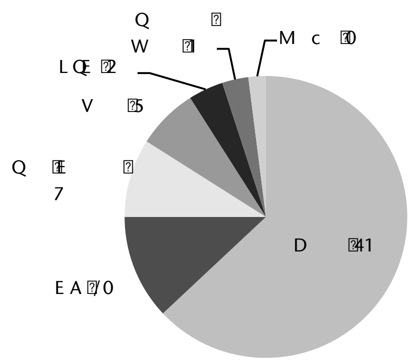


Pricing and cost





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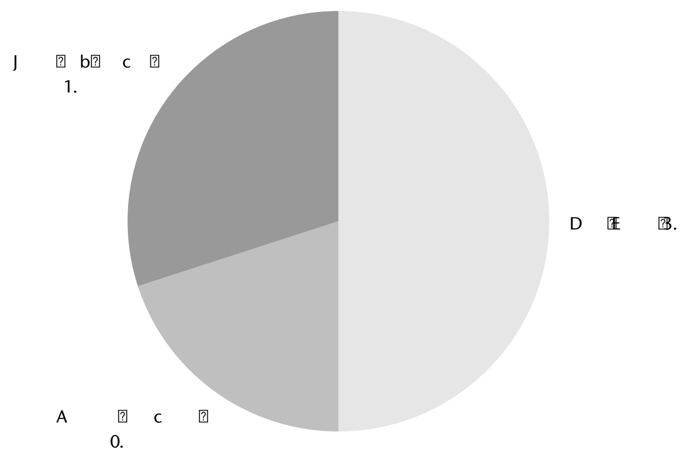
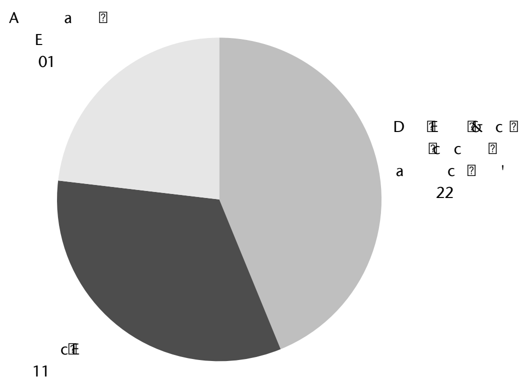
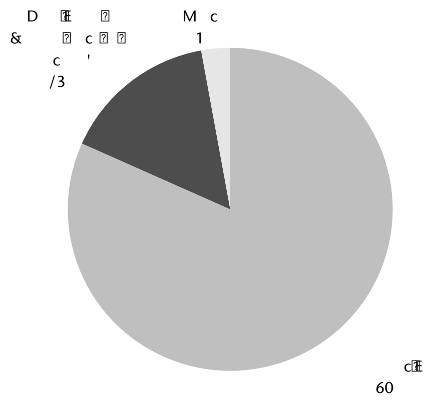
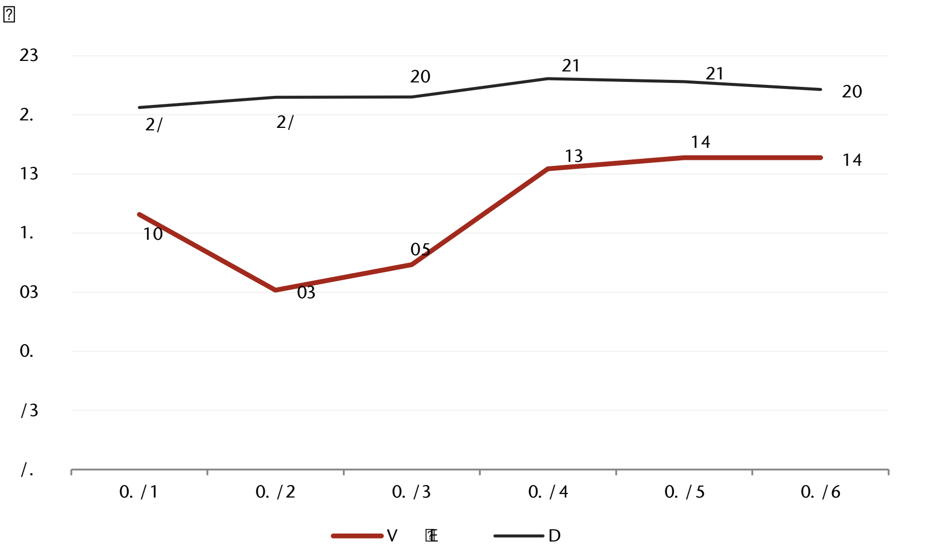
Construction glass overview

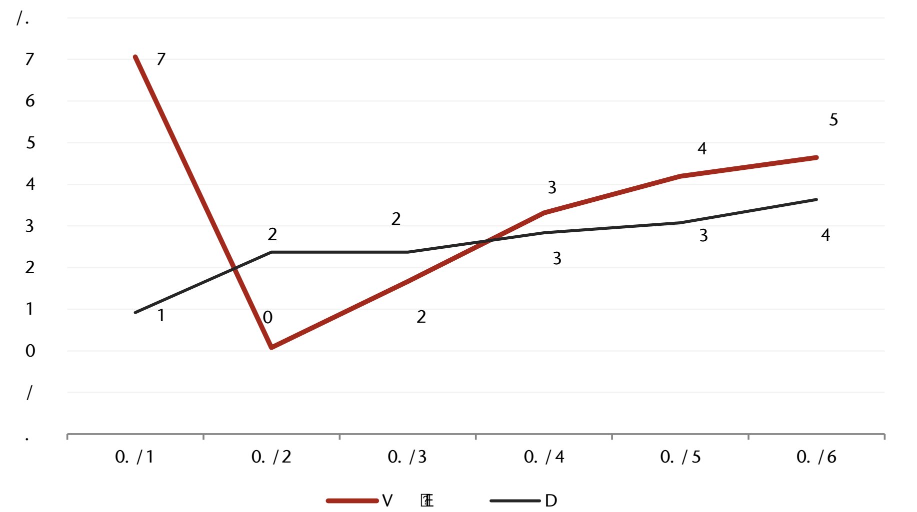


Financial comparison









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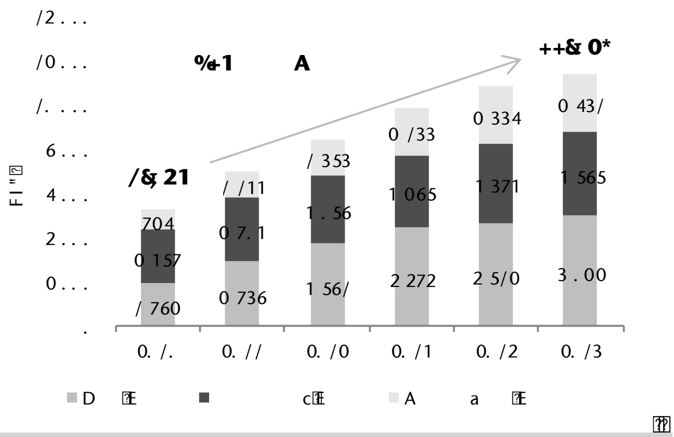
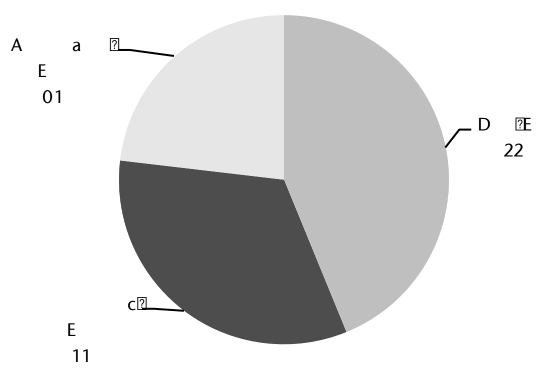
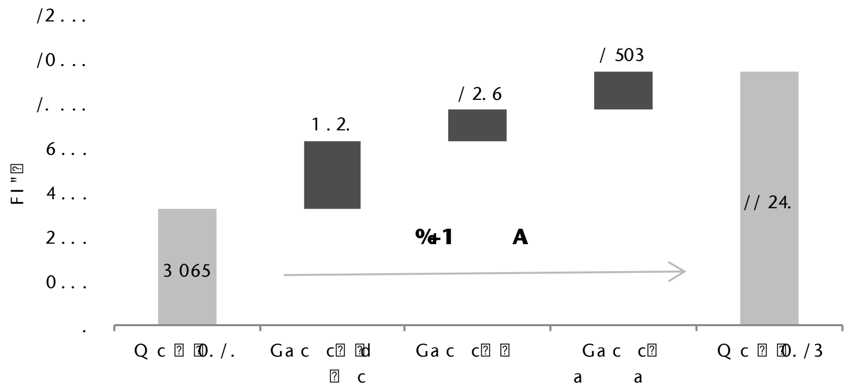
Jefferies

Xinyi Glass (868 HK, Buy, PT HK$8.6)

Business Update







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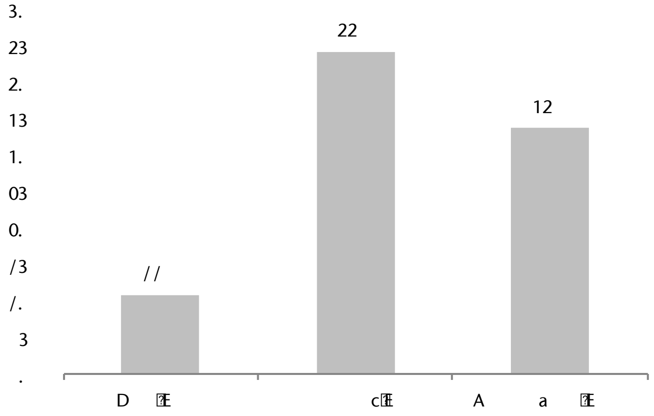

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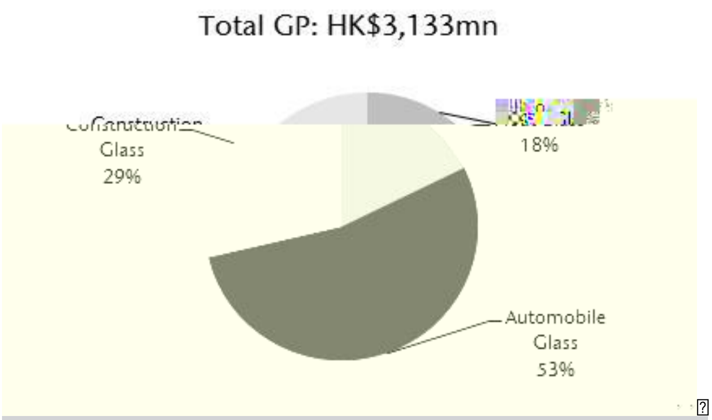

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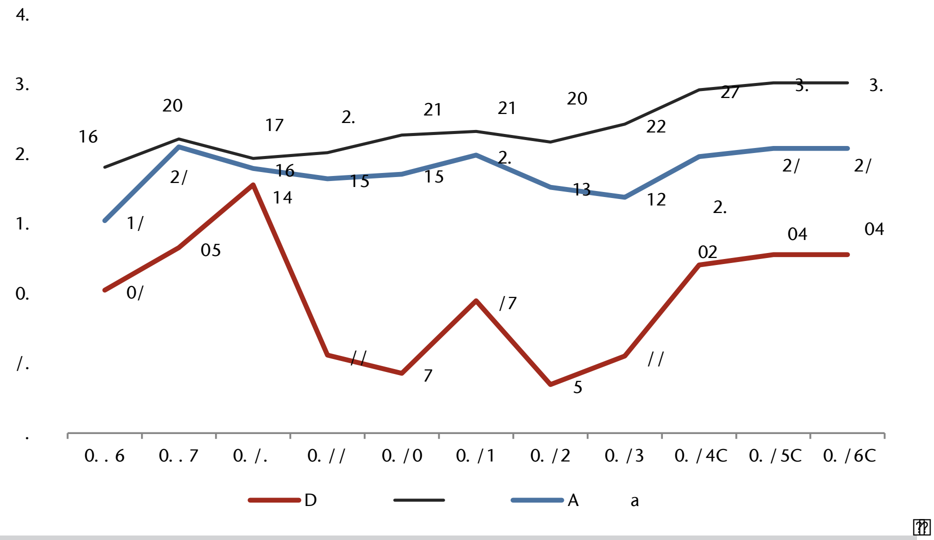

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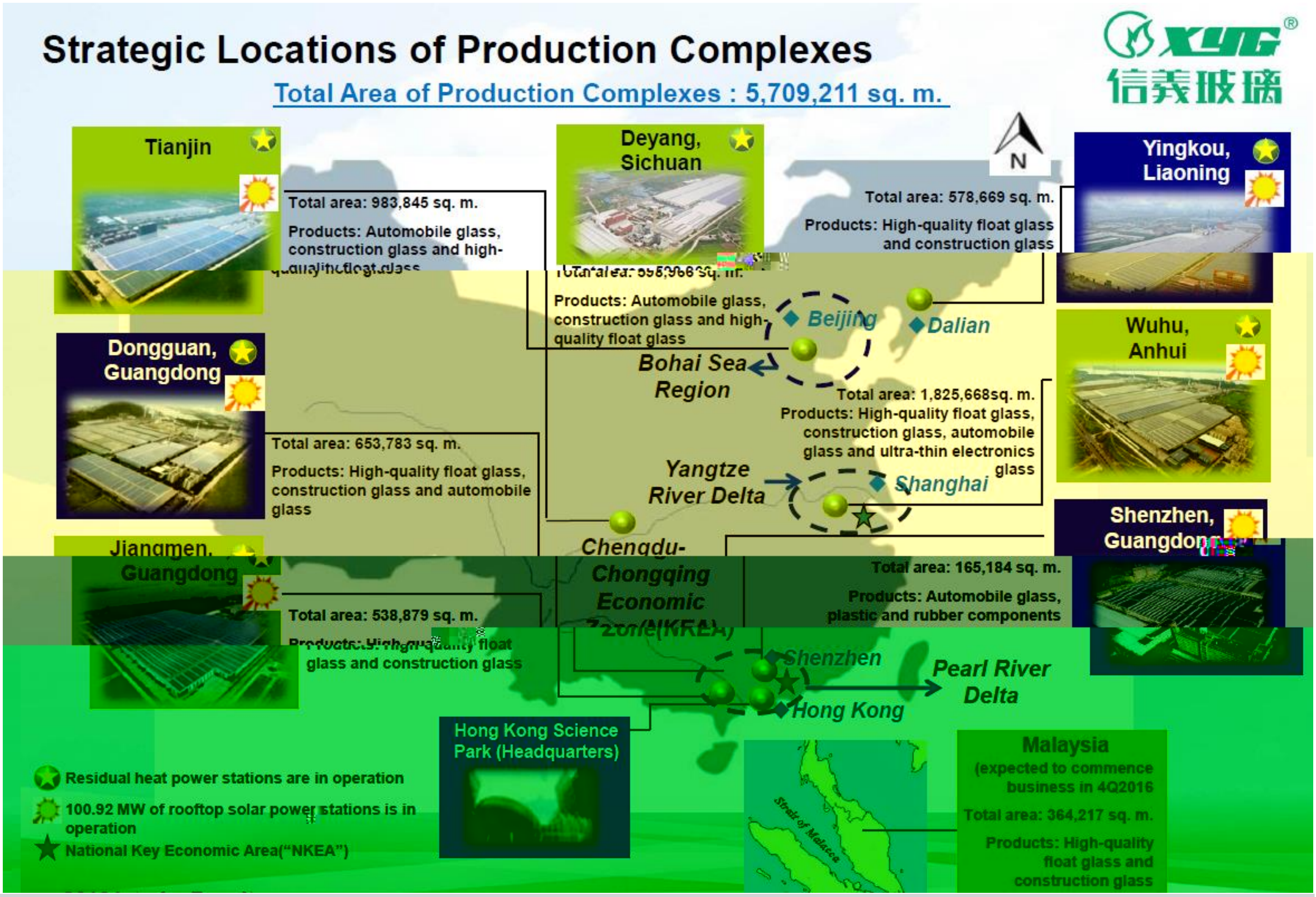
Jefferies

Production Complexes at Strategic Locations



Product differentiation

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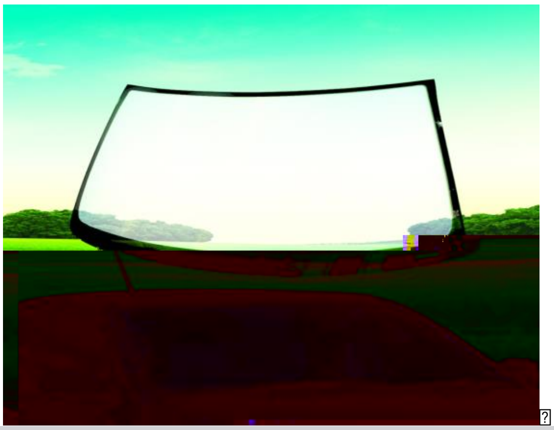

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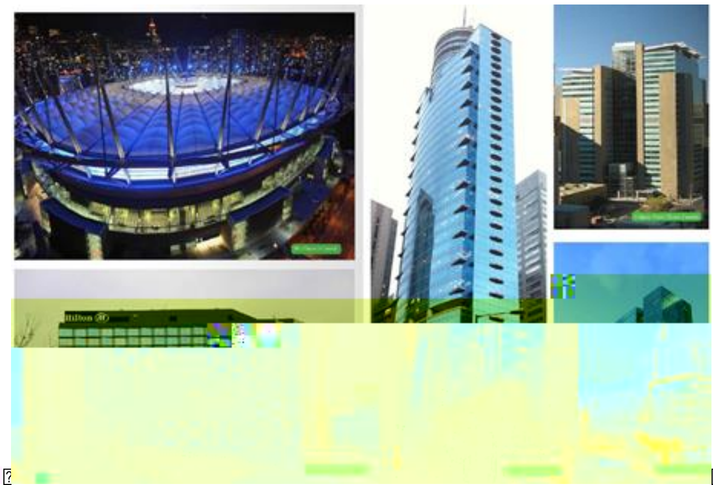

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PT of HK$8.6

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Risks

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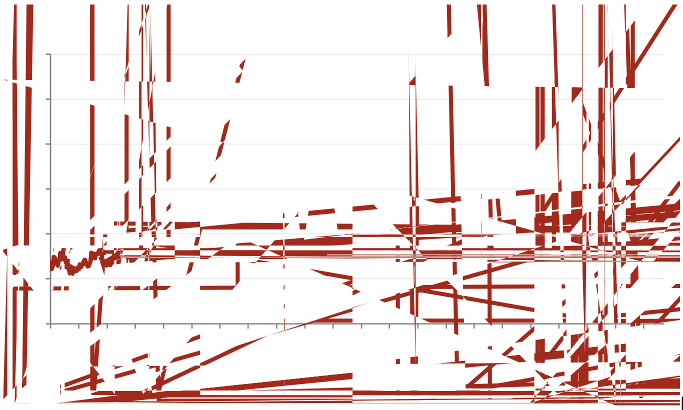

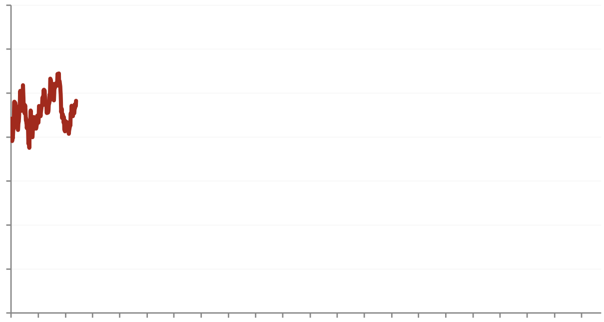

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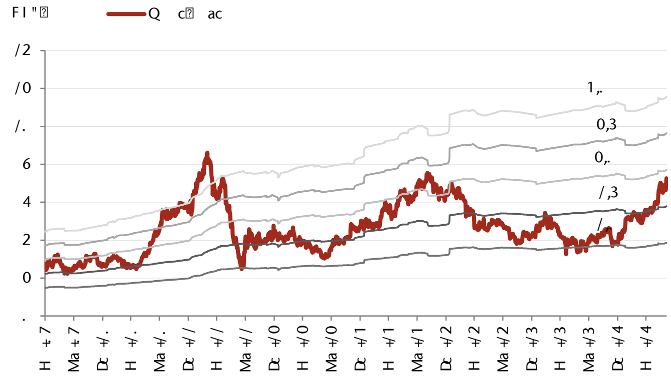

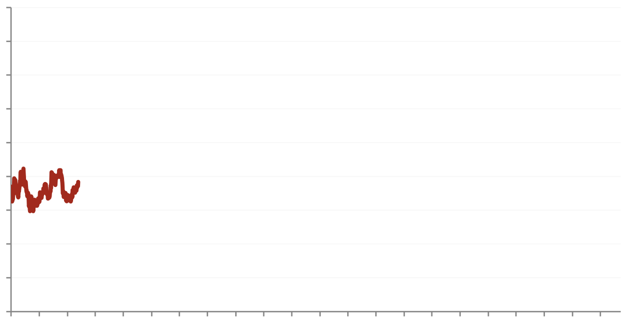

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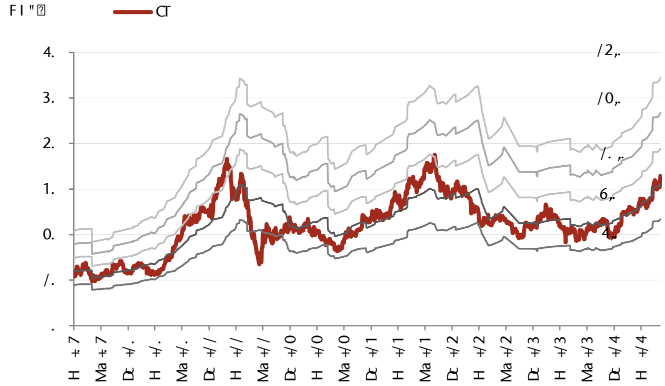

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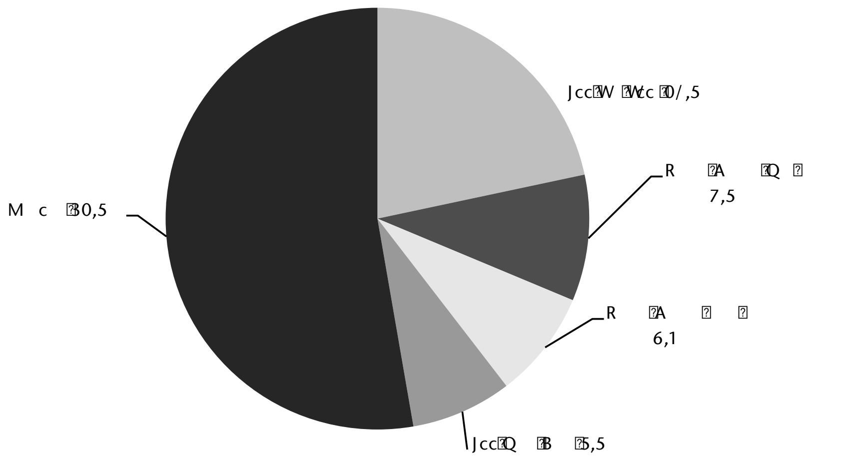
Shareholding structure



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Management Background

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Ch i g mm n g hn				
BE g	,*+/	,*+0	,*+1	,*+2
ho	++& 0*	+, &230	+- &3- 0	+. & 2*
AME Q	+6 106	+6 105	+6 643	+7 /3.
E d	1 /11	2 347	3 . 5/	3 01.
M c c c c	+/ 4/3	+/ 712	+0 . 7.	+0 /35
I I ndha li cn	+&/+2	,&0- /	,&32+	-& 1-
M c c	412	145	200	26/
Q c d c d a,$ HAC%	1/5	5. .	7. .	/ . 30
D ac a	+7.	+7/	+7/	+70
I 'n li cn	,& 2*	-&0++	.&+,	.&/+.
R	+044	+320	+410	+455
N d	0//2	1 . 5.	1 36.	1 615
K c c	.	.	.	.
H n li cn	,&+-	-& 1*	-&/2*	-&2- 1
aCNQ&P '	. ,32	. ,57	. ,70	. ,77
B cbCNQ&P '	. ,31	. ,57	. ,70	. ,76

nb fi				
BE g	,*+/	,*+0	,*+1	,*+2
li cn il n	,& 2*	-&0++	.&+,	.&/+.
B$	527	572	632	642
A c a ,	3. .	+076	+/37	+40
M c	+770	+320	+410	+455
li g i I nd hm	,&0- 1	-&/00	.& 10	.&0- 3
A c	+0 / . 3	+/ 5. .	+/ . . .	+/ . . .
a b c	362	.	.	.
li g ch mdha	'+&/,*	'+&1**	'+&**	'+&**
C cb-&c b'	+4. 5	.	.	.
Bc cb-&c b'	/4	1.	1.	1.
B bc b c c b c	+11	+/ . 17	+/ 3/.	+/ 54/
li g ch h dha	'0, /	'+&*3	'+& 2*	'+&1- +
H n nb fi	. 3,	2/0	+&130	+&3*3
C a c	+03	.	.	.
nb n h i l	+& 32	,&+//	-&3/*	/&2/3

f h nb n				
BE g	,*+/	,*+0	,*+1	,*+2
A	/ 076	0 /33	1 73.	3 637
G c c	/ 001	/ 001	/ 1. 0	/ 121
Pcac c	0 16/	0 46.	0 674	0 766
M c a c c	71	71	71	71
D c	//75/	/0 655	/1 . 00	/1 /36
M c c	2 233	2 233	2 233	2 233
Ni n f mmm	,+&,,	,-& 2,	,/&+3	,1&231
QR bc	0 3/2	0 3/2	0 3/2	0 3/2
M c a c c	0 223	0 223	0 360	0 432
JR bc	1 3/2	1 322	1 352	1 4. 2
M c R c	001	001	001	001
Ni n ffc dmc m	2&030	2&1,0	2&3,	2&3/
Q c bc %t	/0 5/6	/2 527	/4 6/7	/6 673
K c c	5	5	5	5
Ni n ffc dm kom	,+&,,	,-& 2,	,/&+3	,1&231

nd ch h c fg nlc m h f nm				
	,*+/	,*+0	,*+1	,*+2
Pc c cE	3,3	/0,3	6,/	1,0
C &E	16,4	51,4	/1,/	1,/
CNQE	32,7	25,.	/4,4	5,0
C &K	/1,0	0. ,2	0/,2	0/,2
Lc N d K	/6,2	01,6	03,5	04,5
N P	27,0	27,0	27,0	27,0
P fo nd h g nlc m				
NCP&'	/1,4	7,0	5,7	5,2
CT-C &B &'	/2,4	7,2	6,.	5,1
N ac &'	0,0	/,7	/,5	/,3
f h Mb n nd m				
PMC	/4,4	0. ,6	0/,1	0. ,1
PMAC	5,5	/0,.	/1,2	/1,4
Lc bc C	15,0	04,3	/0,5	/,2
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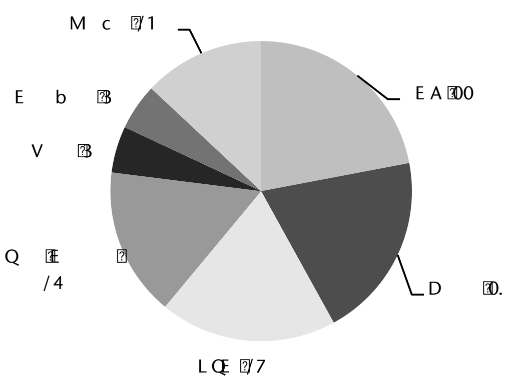
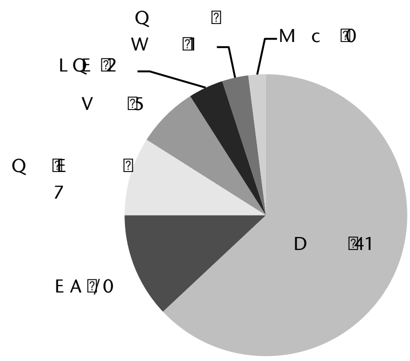
Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com

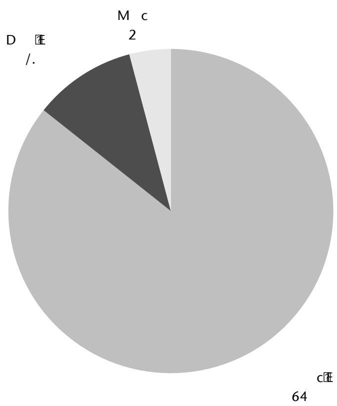
Fuyao Glass(3606 HK, Buy, PT HK$24.0)

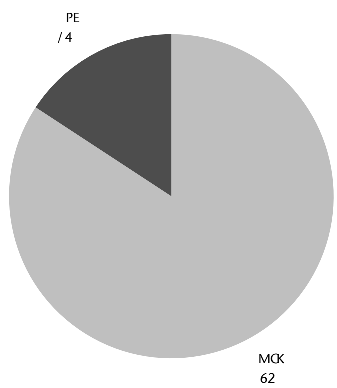
Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com

Business Update

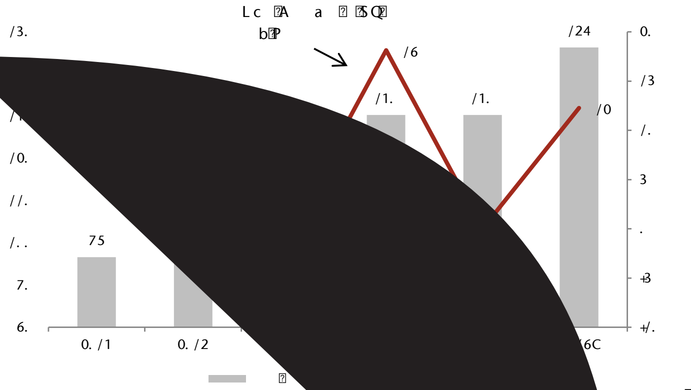


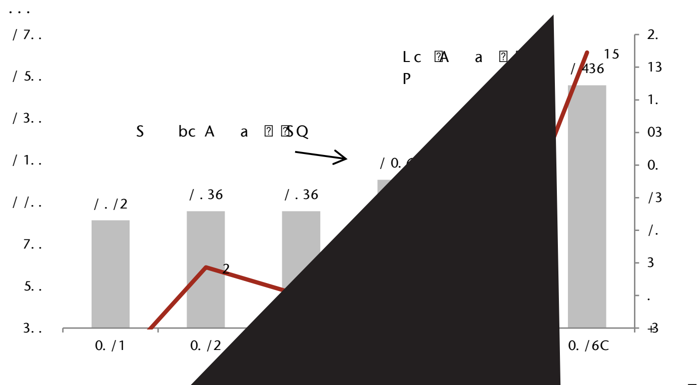


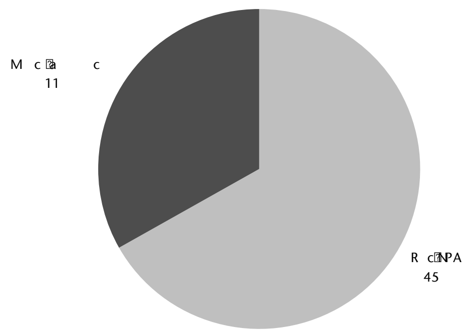


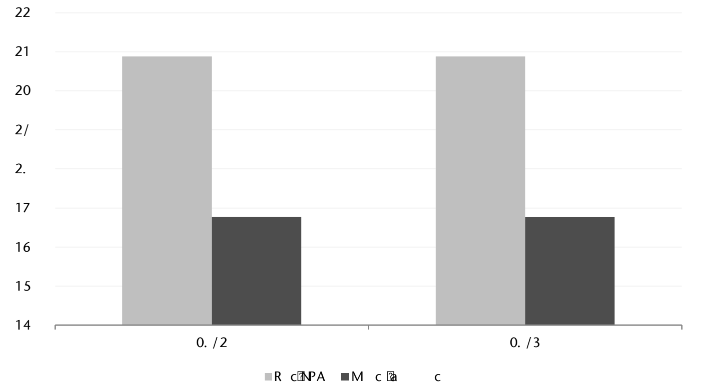


How to gain market share in auto market?

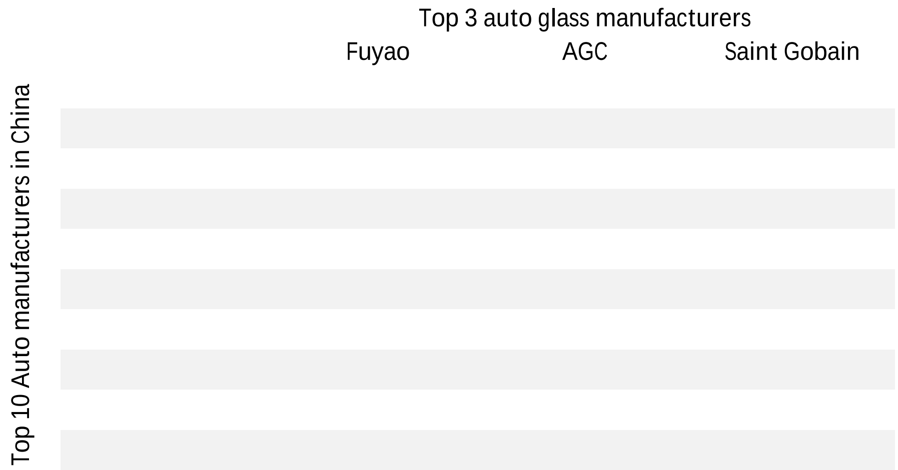


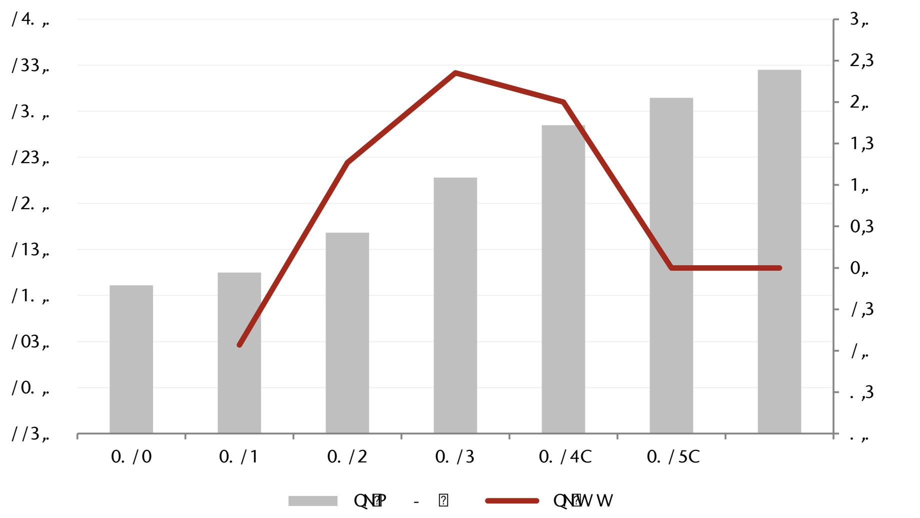






High Entry Barriers





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Rmb m		2015	2016E	2017E	2018E	2019E	2020E
Valuation		Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Group revenue		**13,573**	**15,483**	**17,623**	**20,253**	**20,719**	**20,719**
EBIT		**3,327**	**4,034**	**4,548**	**5,089**	**5,181**	**5,163**
NOPAT		2,851	3,457	3,866	4,326	4,404	4,388
Share of results from associates & JCE's, net of tax		6	6	6	6	6	6
Capex, net		- 3,343	- 3,000	- 3,000	- 2,000	- 2,000	- 2,000
Depreciation & amortization		1,021	1,247	1,446	1,622	1,667	1,706
Change in working capital		- 412	- 483	- 525	- 641	- 113	1
Free Cash Flow (FCF)		**122**	**1,227**	**1,792**	**3,312**	**3,963**	**4,101**
Discount factor			0	1	2	3	4
Discounted FCF		**122**	**1,227**	**1,645**	**2,793**	**3,068**	**2,916**
Group revenue, YoY	%	5.0%	14.1%	13.8%	14.9%	2.3%	0.0%
EBIT, YoY	%	-0.7%	21.3%	12.7%	11.9%	1.8%	-0.3%
FCF, YoY	%	-84.9%	903.2%	46.1%	84.8%	19.6%	3.5%
EBIT margin	%	24.5%	26.1%	25.8%	25.1%	25.0%	24.9%
Net capex as a % of revenue	%	-24.6%	-19.4%	-17.0%	-9.9%	-9.7%	-9.7%
Depreciation as a % of Capex	%	-30.6%	-41.6%	-48.2%	-81.1%	-83.3%	-85.3%
Normalised tax rate	%	14.3%	14.3%	15.0%	15.0%	15.0%	15.0%
DCF Parameters					**Parameters**		
WACC			8.9%		Terminal FCF growth		1.0%
NPV of FCF			11,648		Risk-free rate		3.2%
+ Terminal value			37,256		Market risk premium		7.2%
+ Net cash (debt), current			1,186		Beta		1.2
- Minority shares			- 6		Target Debt weight		40.0%
					Tax rate		25.0%
					Cost of debt (pre-tax)		6.0%
					FX		0.86
= Equity value			50,084				
/ Number of shares	mn		2,509				
= NPV per share	HK$		24.00				
Current share price			20.95				
Upside			15%				

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Risks

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Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com

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Af mri B																
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							4814	*4616*	*518*	*516*	*1*	*19*	*4 16*	*4 16*	*716*	*71*
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							4313	*19*	*513*	*41*	*16*	*14*	*531*	*5513*	*719*	*817*
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AQE □F b	. . . . /0□AF	0,7	//,1/		L A		06,/	00,1	0,5	0,4	/1,0	/. ,2	7,6	//,3	0,5	0,5
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E cc □ c	/53□F I	6,0	5,/7	2,1.	F b	+2.	/2,1	/. ,6	0,2	0,.	5,6	3,7	/5,1	/7,/	. ,7	/,0
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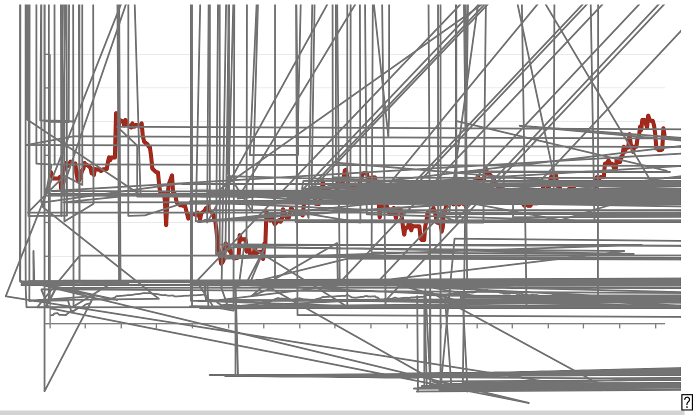
Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com



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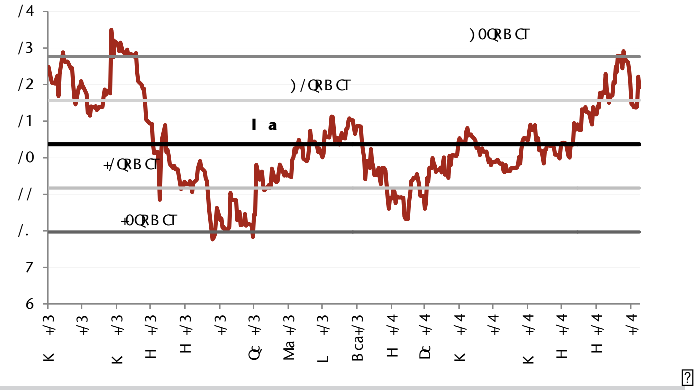

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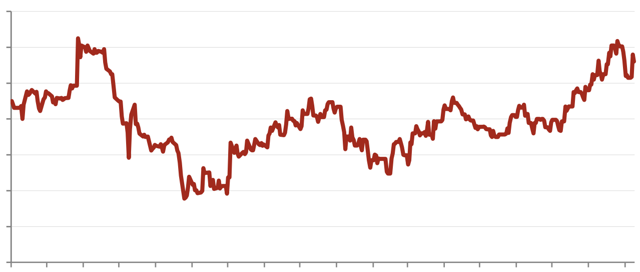

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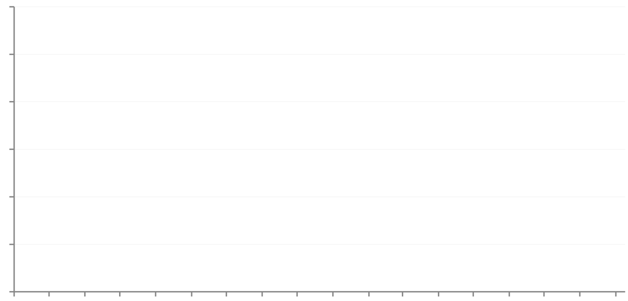

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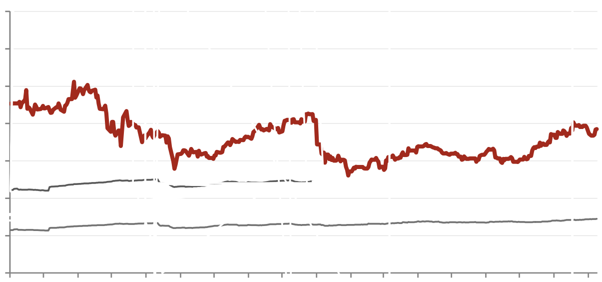

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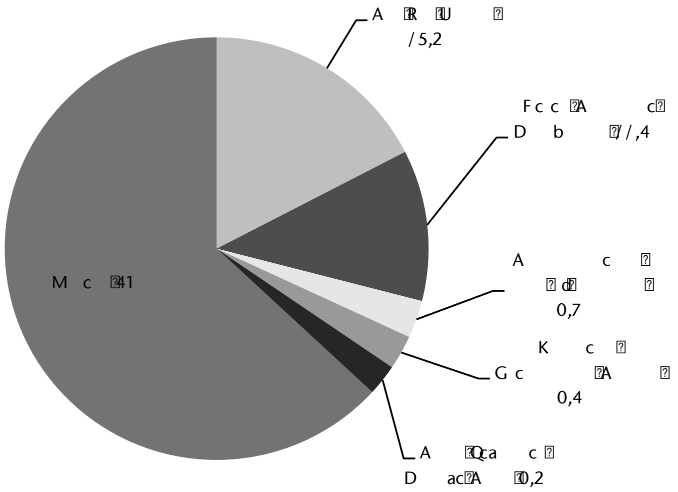
Shareholding structure



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Management background

[illegible]	[illegible]	47	[illegible]
[illegible]	[illegible]	23	[illegible]
[illegible]	[illegible]	22	[illegible]
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Appendix 1: Chemistry of Glass Making

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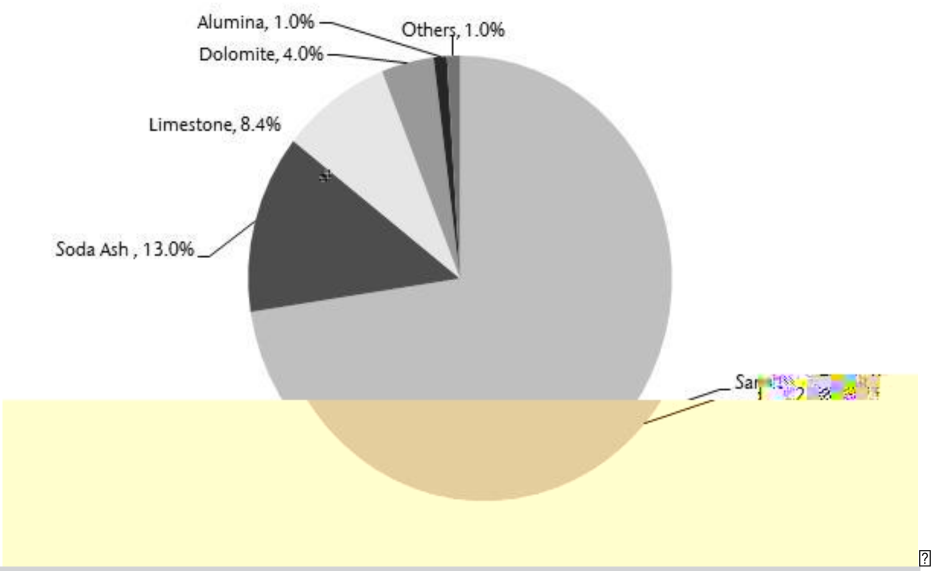

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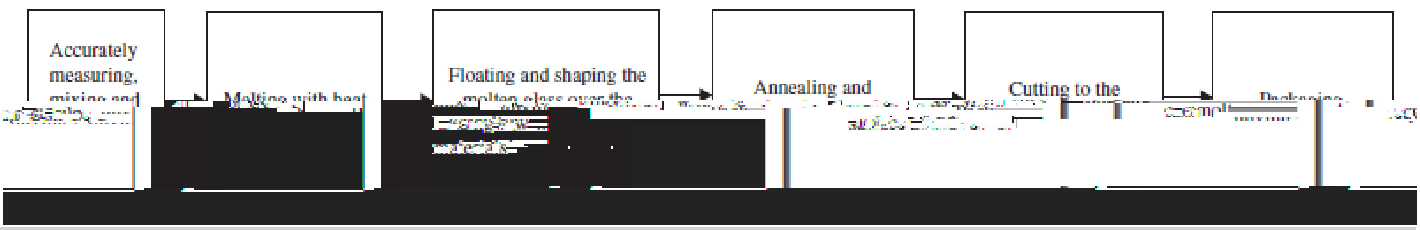

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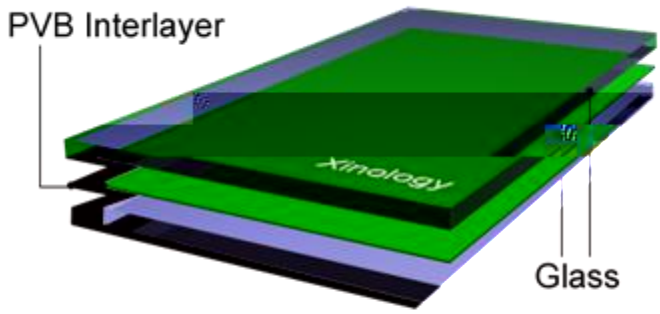

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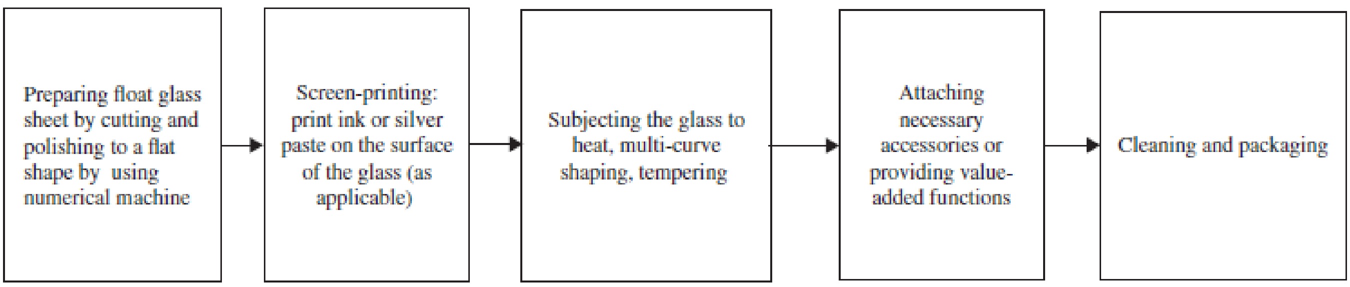

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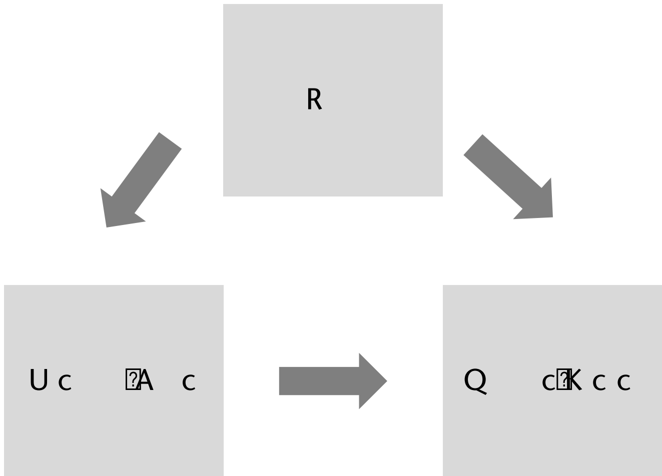
Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com

Appendix 2: Definition of Weight Case



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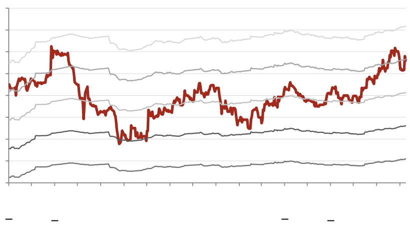

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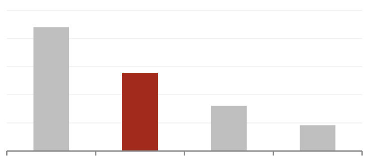

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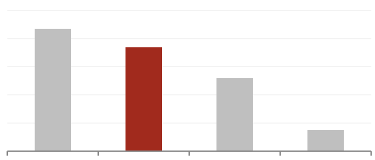

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Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com

Company Description

Xinyi Glass is engaged in the production and sales of a wide range of glass products, including automobile glass, energy saving construction glass, high quality float glass and other glass products. Its customers include companies in the business of automobile glass manufacturing, wholesale and distribution, curtain wall engineering and installing, construction and furniture glass manufacturing, and float glass wholesale and distribution. As of YE15, the company has ~5mt of float glass capacity.

Fuyao Glass engaged in design, manufacture, and sales of automotive grade float glass and auto glass. The Company provides globalized research and development, distribution and after-sales service. The company has manufacturing capacity in China, USA and Russia.

Analyst Certification:

I, Howard Lau, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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Johnson Leung owns a long position of Dongfeng Motor Group Co Ltd. common stock.

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Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com

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- Fuyao Glass Industry Group Co., Ltd. (3606 HK: HK$20.95, BUY)
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- Guangzhou Automobile (2238 HK: HK$10.74, HOLD)
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- Saint-Gobain (SGO FP: €38.07, BUY)
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Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com

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Howard Lau, Equity Analyst, +852 3743 8082, howard.lau@jefferies.com