COMPANY NOTE

Estimate Change

China | Industrials | Basic Materials

1 March 2017

Jefferies

EQUITY RESEARCH CHINA

Xinyi Glass (868 HK)

Solid FY16 Results and Stable Outlook

BUY

Price target HK$8.60

Price HK$7.28^

Bloomberg: 868 HK

Reuters: 868.HK

Key Takeaway

As preannounced in December 2016, Xinyi Glass' FY16 NPAT increased by 52%, driven by strong margin expansion. Under the current supply/demand dynamics, management is confident that it can pass through the rise in cost (energy + soda ash) and maintain a stable margin. Xinyi Glass is now trading at 8x 2017E P/E, with close to 6% dividend yield; reiterate Buy.

FY16 earnings review. As preannounced in December 2016, Xinyi Glass' FY16 NPAT grew by 52% YoY, driven by 1) reduction in natural gas price and other stringent cost control measure; 2) increase in sales volumes of float glass.

Maintain optimistic outlook. Management expects a healthy and stable supply/demand dynamics in 2017 with little new capacity coming into the market. As a result, we believe XYG can continue to pass through the higher energy/material cost to customer and maintain a stable margin.

Cost to decline. Natural gas price could be lower than the original level when the temporary price hike ends in mid-March, according to management. It also believes that soda ash prices have already peaked and should gradually decline; we expect soda ash cost in 1H17 to be 5-15% higher vs the same period last year.

Increase in volumes, driven by new capacity in Malaysia. The 1,200t/day capacity in Malaysia commenced operations in Jan; we expect the margin for the Malaysian facility to be higher than the domestic market due to higher ASP, lower transportation cost; this could avoid import tariff in the South East Asia market.

Stable dividend payout. FY dividend was HK$0.4/share (vs HK$0.27/share in 2015) with payout ratio maintained at around 48%. In addition, management is considering spinning off its solar farm business from Xinyi Solar (968 HK, HKD2.71, NC).

Changes in estimates. We revise down our FY16/17 earnings estimates by about 6%, as we cut our earnings assumption for Xinyi Solar by about 20%, reflecting its weaker-than-expected FY16 results.

Valuation/Risks

We maintain Buy with a PT of HK$8.6 based on SOTP valuation methodology, valuing

HKD	*Prev.*	2015A	*Prev.*	2016E	*Prev.*	2017E	*Prev.*	2018E
Rev. (MM)	--	11,460.0	*12,896.0*	12,848.0	*13,936.0*	14,194.0	*14,380.0*	14,711.0
Operating Profit (MM)	--	1,518.0	*2,635.0*	2,837.0	--	2,981.0	*3,073.0*	3,196.0
Net Profit	--	2,113.0	*3,070.0*	3,213.0	*3,580.0*	3,399.0	*3,837.0*	3,649.0
ROE	--	16.6%	*20.8%*	24.4%	*21.3%*	22.6%	*20.3%*	21.4%
DPS	--	0.27	*0.39*	0.40	*0.45*	0.42	*0.49*	0.45
Cons. EPS	--	--	--	--	*0.84*	0.92	*0.93*	0.99
EPS								
FY Dec	*0.53*	0.54	*0.79*	0.83	*0.92*	0.88	*0.98*	0.94
FY P/E		13.5x		8.8x		8.3x		7.7x

Financial Summary

Net Debt (MM):	**HK$4,911.0**

Market Data

52 Week Range:	**HK$7.73 - HK$3.65**
Total Entprs. Value (MM):	**HK$33,461.7**
Market Cap. (MM):	**HK$28,550.7**
Shares Out. (MM):	**3,921.8**
Float (MM):	**1,759.8**
Avg. Daily Vol.:	**11,124,660**

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Price Performance

^Prior trading day's closing price unless otherwise noted.

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We revise our volume and gross margins slightly to incorporate FY16 results and lower our earnings assumption for its associate (Xinyi Solar) by about 20% to reflect the weaker-than-expected FY16 results. In summary

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We value Xinyi Glass based on SOTP valuation methodology, valuing its glass business (float/auto/construction glass) at 11x 2017E earnings and Xinyi Solar at the current market price. Our PT of HK$8.6 implies 10x 2017E P/E and 2.2x 2017E P/B, slightly above the historical average.

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NPAT (2017E)	2,768
x Target multiple	11
Market Value (HK$ m)	30,452
÷ Shares outstanding (m)	3,882
Share price (HK$/share)	7.84
Current Share Price (HK$)	2.70
XYG's shareholdings	30%
Market value of Xinyi Solar's holdings	0.80
Target Price	8.64
$	
Latest price	7.28
Upside	*18%*

Source: Jefferies estimates

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Key risks to our estimates and PT: liquidity tightening policy, which could negatively impact new floor spaces started and construction demand; collapse in float glass prices due to more than expected new capacity in operation and slowdown in demand growth; intensifying competition of high quality float glass product; additional expenses due to overseas capacity expansion; trade disputes and currency fluctuations.

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														%		%
		$														
Fuyao Glass	3606 HK	7.2	24.20	24.00	Buy	-1%	18.1	17.2	2.9	2.7	8.4	7.5	17.0	16.8	4.1	4.5
Xinyi Glass	868 HK	3.7	7.28	8.60	Buy	18%	9.0	8.5	2.1	1.9	9.1	8.8	24.4	22.6	5.5	5.8
Flat Glass	6865 HK	0.4	1.69		NC		4.6	4.5	0.7	0.7	2.2	1.9	18.7	20.2	5.4	5.8
Fuyao Glass - A	600660 CH	7.2	19.39		NC		14.3	13.1	2.5	2.3	9.0	8.1	18.0	18.2	4.3	4.5
CSG Holdings	000012 CH	2.8	11.65		NC		25.9	23.3	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf
Zhuzhou Kibing Group	601636 CH	1.7	4.45		NC		16.9	14.8	1.9	1.7	7.7	7.0	12.0	11.8	nmf	nmf
Jinjing Group	600586 CH	1.0	4.88		NC		16.8	10.0	1.6	1.5	10.0	9.3	6.7	7.4	nmf	nmf

Source: Company data, Jefferies estimates, NC data from Bloomberg

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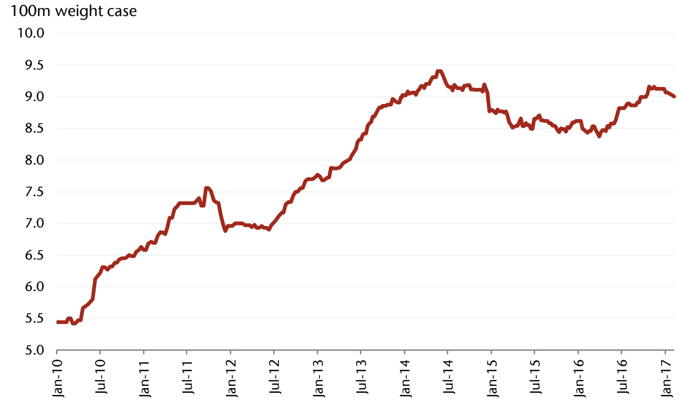

Source: Wind, Jefferies

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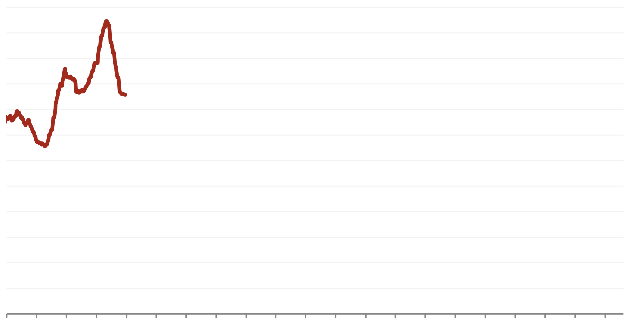

Source: Wind, Bloomberg, Jefferies Estimate

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COGS	-8,328	-8,189	-9,200	-9,428	D&A	776	824	816	932
Gross profit	3,133	4,659	4,994	5,283	Change in working cap.	500	46	-128	-68
Opearting expenses	-1,615	-1,822	-2,013	-2,087	Other	-1,019	-1,542	-641	-690
Other gains - net	634	552	565	602	Capex	-2,105	-1,853	-2,500	-1,500
Share of results of assoc. & JCE's	317	563	630	693	Acquisitions and others	584	0	0	0
Finance costs	-90	-128	-139	-150					
					Equity raised/ (repaid)	-607	-1,467	0	0
Tax	-266	-607	-641	-690	Debt raised/ (repaid)	16	1,646	681	681
Profit	2,114	3,216	3,396	3,652	Dividends, interest and others	-33	-981	-1,553	-1,642
Minority interest	0	-3	3	-3					
Basic EPS (Rmb)	0.54	0.83	0.88	0.94	Exchange gain	-25	0	0	0
Diluted EPS (Rmb)	0.53	0.81	0.86	0.92					
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$									
Cash	1,298	2,763	3,475	5,530	Revenue Growth	5.5%	12.1%	10.5%	3.6%
Inventories	1,223	1,321	1,484	1,520	EBIT Growth	38.6%	86.9%	5.1%	7.2%
Receivables	2,381	2,377	2,626	2,722	EPS Growth	54.9%	53.6%	5.8%	7.4%
Other current assets	93	76	76	76	EBIT Margin	13.2%	22.1%	21.0%	21.7%
Fix assets	11,971	11,831	13,514	14,082	Net Profit Margin	18.4%	25.0%	23.9%	24.8%
Others assets	4,455	5,655	5,655	5,655	Payout Ratio	4904 1F2 2 8.52 Tf 0 0 1 452.5-2(5)-81			

Source: Company data, Jefferies estimates

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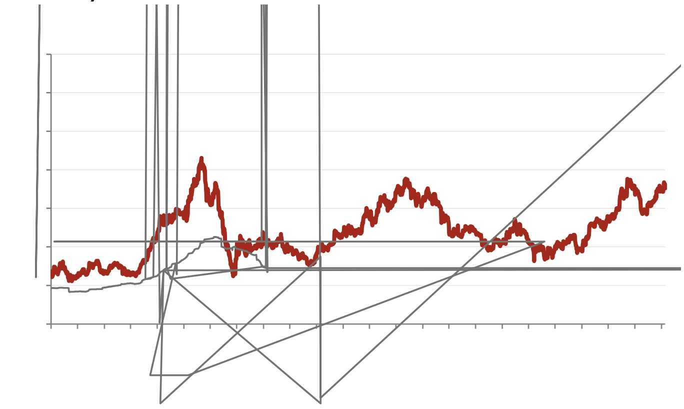

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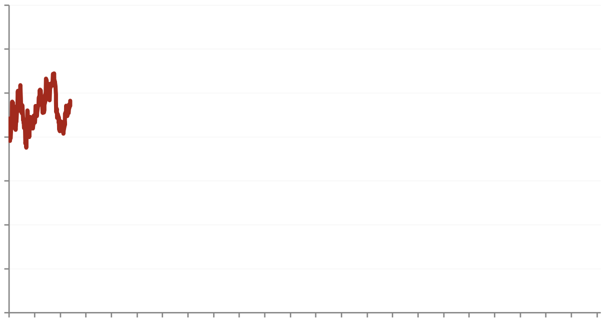

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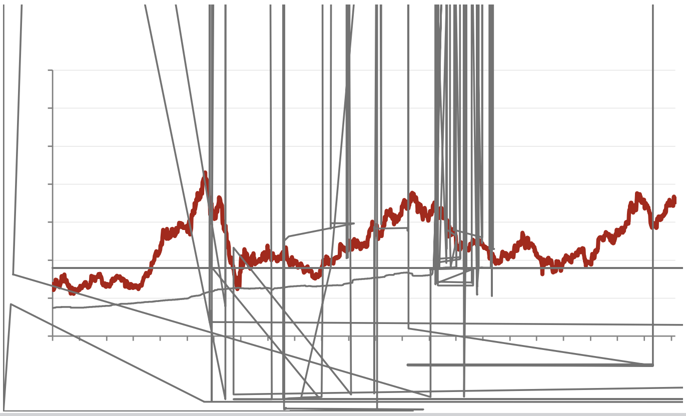

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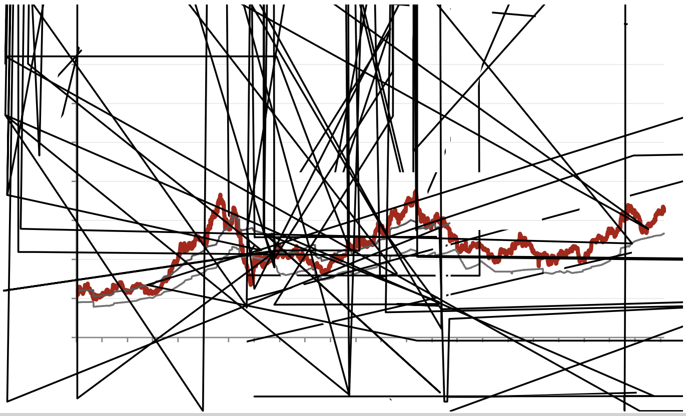

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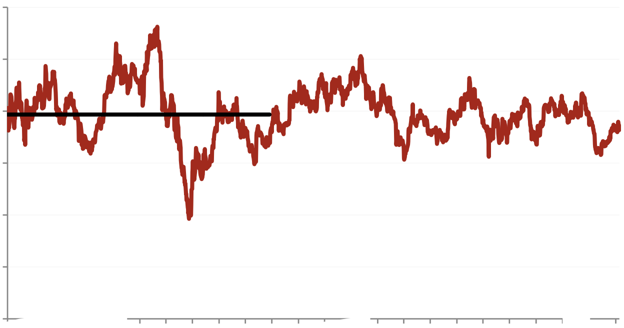

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Company Description

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.

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

Recommendation Published	, 05:48 ET. March 1, 2017
Recommendation Distributed	, 05:48 ET. March 1, 2017

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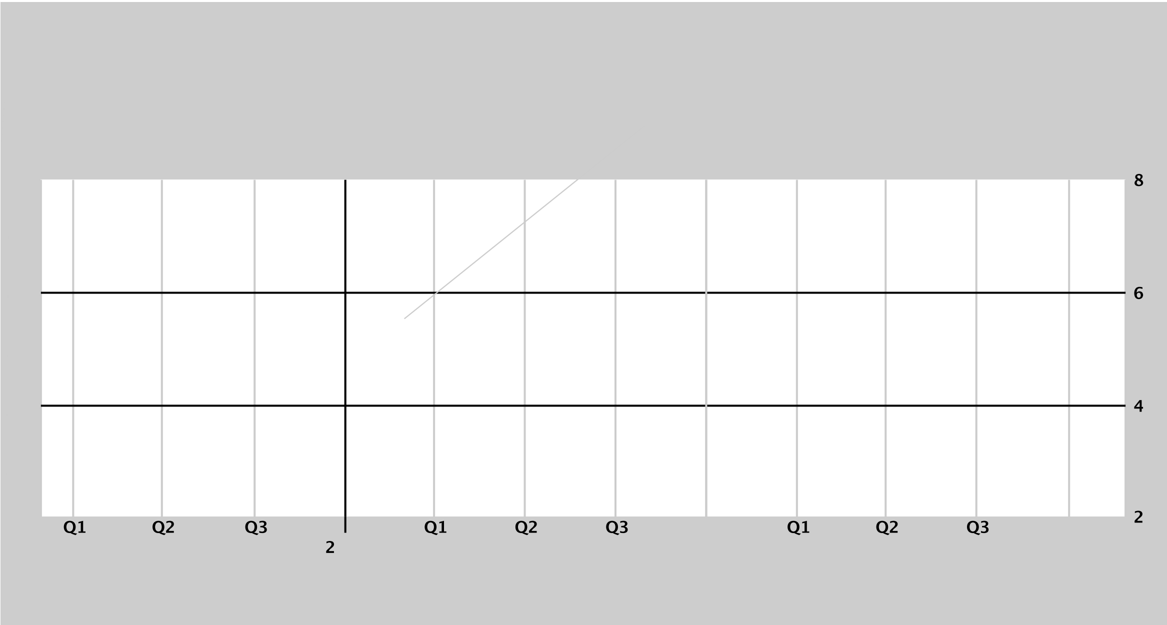
Other Companies Mentioned in This Report

- Fuyao Glass Industry Group Co., Ltd. (3606 HK: HK$24.20, BUY)
- Xinyi Glass Holdings Limited (868 HK: HK$7.28, BUY)



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BUY	1101	50.37%	338	30.70%
HOLD	910	41.63%	176	19.34%
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