COMPANY NOTE

Target | Estimate Change

China | Industrials | Basic Materials

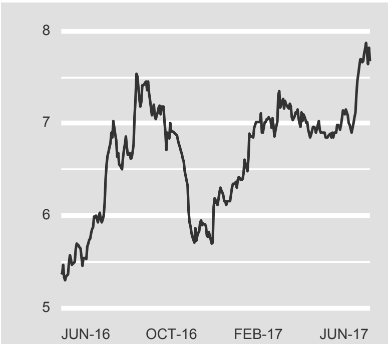
12 June 2017

Jefferies

Xinyi Glass (868 HK)

HKD	*Prev.*	2016A	*Prev.*	2017E	*Prev.*	2018E	*Prev.*	2019E
Rev. (MM)	--	12,848.0	*14,194.0*	14,405.0	*14,711.0*	14,877.0	--	15,282.0
Operating Profit (MM)	--	2,837.0	*2,981.0*	3,313.0	*3,196.0*	3,631.0	--	3,723.0
Net Profit	--	3,213.0	*3,399.0*	3,672.0	*3,649.0*	4,011.0	--	4,129.0
ROE	--	24.4%	*22.6%*	24.0%	*21.4%*	22.9%	--	20.9%
DPS	--	0.40	*0.42*	0.46	*0.45*	0.50	--	0.51
Cons. EPS	--	--	*0.92*	0.93	*0.99*	1.01	--	1.03
EPS								
FY Dec	--	0.83	*0.88*	0.95	*0.94*	1.03	--	1.06
FY P/E		9.3x		8.1x		7.4x		7.2x

Price Performance



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

Xinyi Glass

Target Investment Thesis

- Float glass capacity to reach 5.4mt by YE2018
- Float glass ASP to increase by 13% and stay flat in 2017 and 2018
- Gross margin expanded to ~37% for FY17
- Target price: HK$9.3 based on SOTP valuation methodology, valuing its glass business at 10x 2018 PE and Xinyi Solar stake at current market price

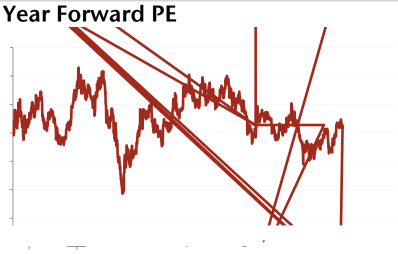
Upside Scenario

- Float glass capacity to ramp up faster than expected
- Float glass ASP to increase by 16% and 5% in 2017 and 2018
- Gross margin expanded to >37% for FY16
- Target price: HK$11.0 based on SOTP valuation methodology, valuing its glass business at 12x 2018 PE and Xinyi Solar stake at current market price

Downside Scenario

- Float glass capacity to ramp up slower than expected
- Float glass ASP to increase by 8% in 2017 and stars to decline 2018
- Gross margin contracted to <37% for FY16
- Target price: HK$7.6 based on SOTP valuation methodology, valuing its glass business at 8x 2018 PE and Xinyi Solar stake at current market price

1 Year Forward PE



Source: Bloomberg, Jefferies estimates

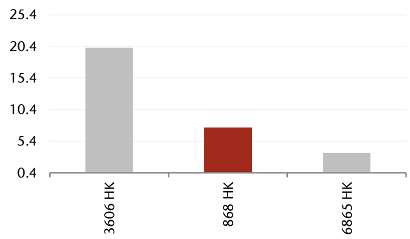
Financial Model Drivers

Revenue CAGR (FY16-19E)	6%
EBIT CAGR (FY16-19E)	9%

Other Considerations

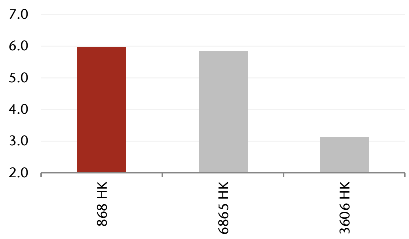
- Soda ash price hike due to environmental regulation
- Policy to lower natural gas cost
- Property curbing measures that could negatively impact demand

Group 2018 P/E



Source: Bloomberg, Jefferies estimates

Group 2017 Dividend yield (%)



Source: Bloomberg, Jefferies estimates

Ratings / Price Target

3606 HK	Buy	HK$24.0
6865 HK	NC	NC

- Capacity closure and restriction to build new capacity
- Float glass price rise during peak season in end of 3Q

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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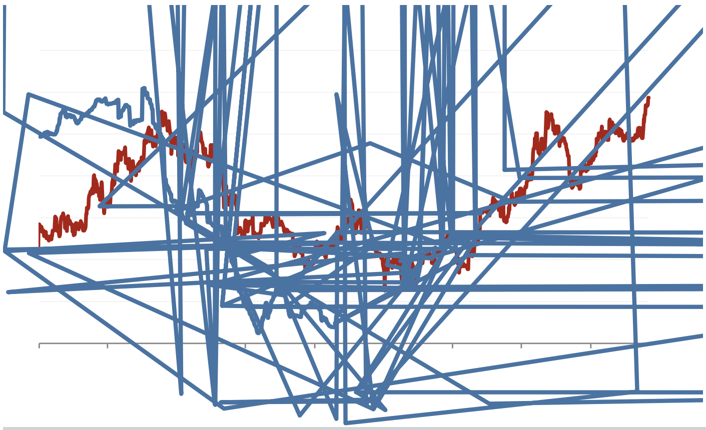
We revised up our volume and gross margins to incorporate current glass margin spread and the new Malaysia capacity. We revise up our FY17/18 earnings estimates by about 8%/10%, as we price in higher volume and GP/t of the float glass business.

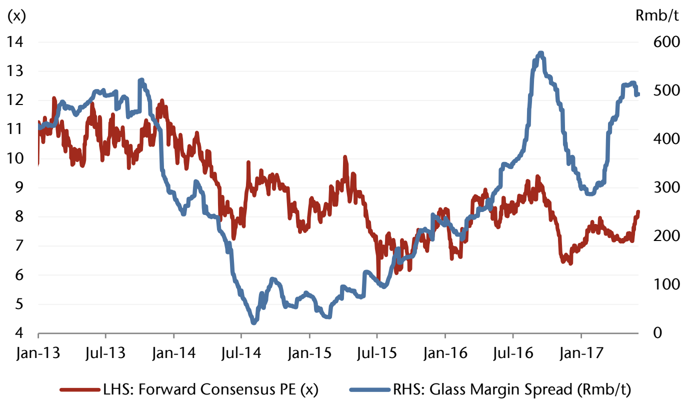
		Old		New		Changes	
		2017E	2018E	2017E	2018E	2017E	2018E
Revenue	*HK$ m*	14,194	14,711	14,405	14,877	1.5%	1.1%
Gross profit	*HK$ m*	4,994	5,283	5,357	5,741	7.3%	8.7%
Operating profit	*HK$ m*	2,981	3,196	3,313	3,631	11.2%	13.6%
NPAT	*HK$ m*	3,399	3,649	3,672	4,011	8.1%	9.9%
Diluted EPS	*HK$*	0.86	0.92	0.93	1.01	8.0%	9.8%

Source: Company data, Jefferies estimate

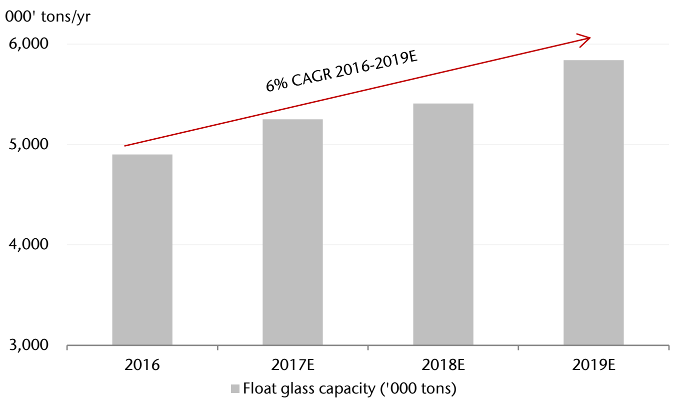
XYG's share price has been moving closely with glass margin (Chart 1) in the past three years, but has not priced in the volume growth driven by the new Malaysia capacity as well as we the structural supply side improvement in the domestic market, in our view. Shares of XYG are now trading at 7x forward PE with 6% dividend yield, attractively valued.



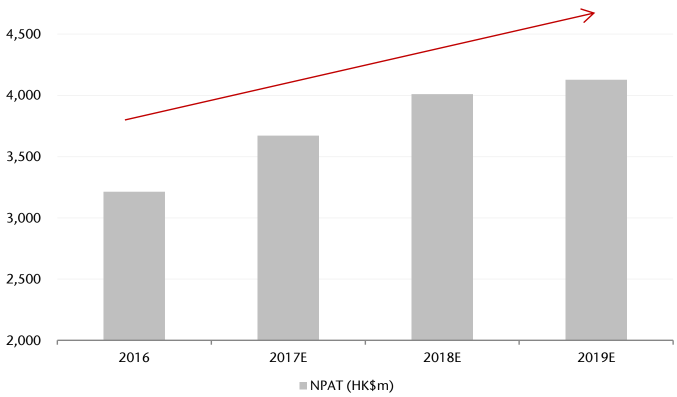
Source: Wind, Bloomberg, Jefferies Estimate



Source: Wind, Bloomberg, Jefferies Estimate



Source: Company data, Jefferies Estimate



Source: Company data, Jefferies Estimate

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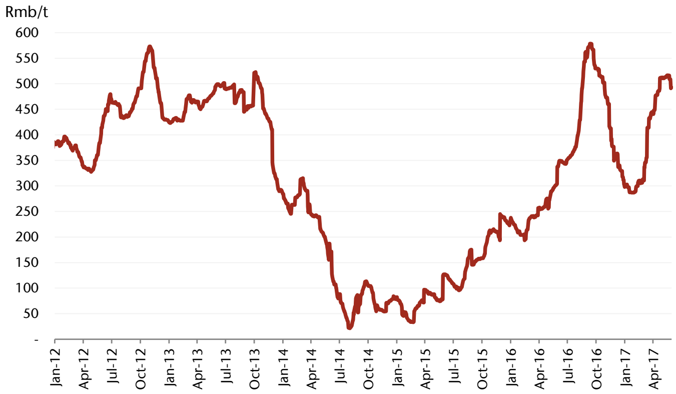
Source: Wind, Jefferies

Source: Wind, Bloomberg, Jefferies Estimate



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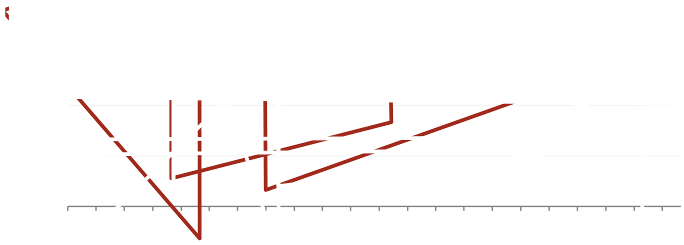

Source: Wind, Bloomberg, Jefferies Estimate

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PT of HK$8.6

We value Xinyi Glass based on SOTP valuation methodology, valuing its glass business (float/auto/construction glass) at 10x 2018E earnings and Xinyi Solar at the current market price. Our PT of HK$9.3 implies 9x 2018E P/E and 2.1x 2018E P/B, in-line with the historical average.

Sd td Bg m	
Ag o po i nonp od i Bg m pnd m	
NPAT (2018E)	3,330
x Target multiple	10
Market Value (HK$ m)	33,298
÷ Shares outstanding (m)	
[illegible]	

Source: Jefferies estimates

Risks

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.

		Hfo k	Kml	O nb o		Pknd o	K s		K s		DD s		M %		dqTdg %	
h k i t	Od f m	PN$ i	g g	g g	M	o nb o	- 2	- 3	- 2	- 3	- 2	- 3	- 2	- 3	- 2	- 3
Bg m C																
Fuyao Glass	3606 HK	9.7	31.50	24.00	Buy	-24%	22.4	20.2	3.8	3.5	11.1	9.9	16.8	17.5	3.1	3.5
Xinyi Glass	868 HK	3.9	7.67	9.30	Buy	21%	8.3	7.6	1.9	1.7	7.5	6.8	24.0	22.9	6.0	6.5
Flat Glass	6865 HK	0.3	1.51		NC		4.2	3.6	nmf	nmf	2.3	1.8	18.7	23.2	5.9	7.2
q mb							**1**	**/**	**- 4**	**- 1**	**2**	**1 -**	**4 3**	**- -**	**0**	**0 2**
Bg m																
Fuyao Glass - A	600660 CH	9.7	26.10		NC		18.7	16.3	3.3	3.0	11.8	10.1	18.5	18.6	3.2	3.6
CSG Holdings	000012 CH	2.3	9.23		NC		17.6	14.0	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf
Zhuzhou Kibing Group	601636 CH	1.7	4.29		NC		11.5	9.8	1.5	1.3	7.0	6.3	14.3	14.3	nmf	nmf
Jinjing Group	600586 CH	1.0	4.53		NC		9.2	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf
q mb							**/ .**	**. .**	**- /**	**- -**	**4 /**	**3 -**	**1 /**	**1 0**	**. -**	**. 1**

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

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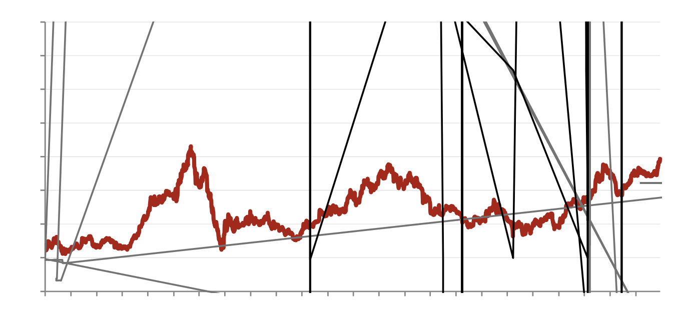
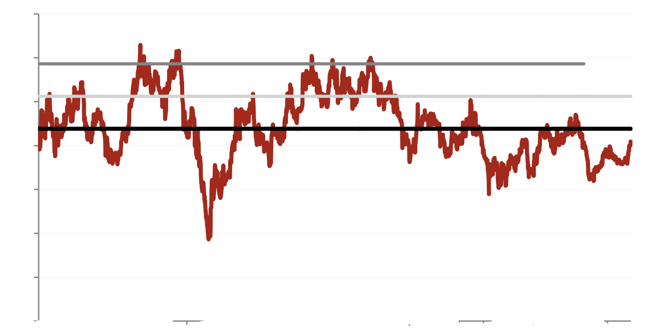
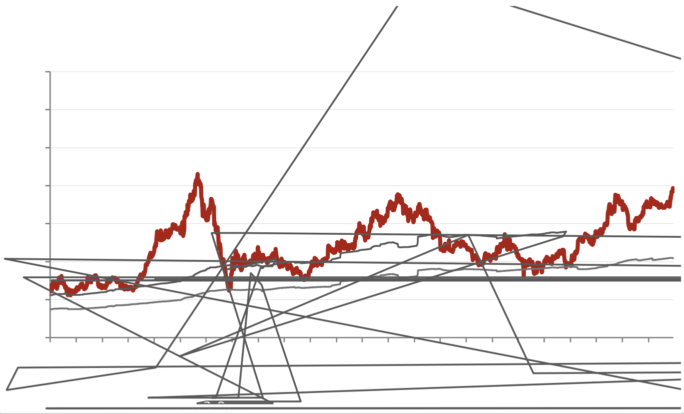


Source: Bloomberg, Jefferies



Source: Bloomberg, Jefferies



Source: Bloomberg, Jefferies

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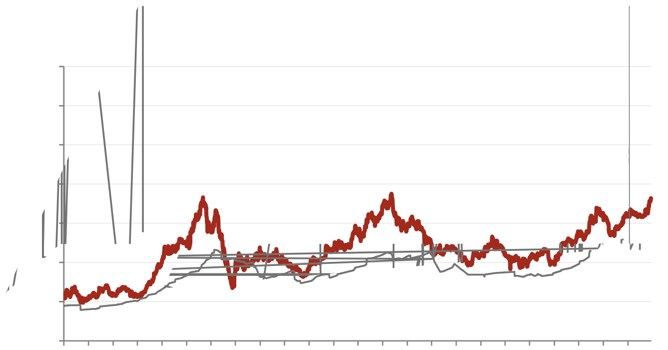

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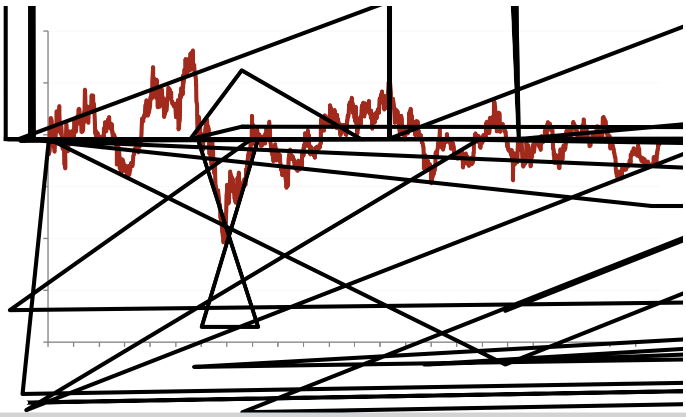

Source: Bloomberg, Jefferies

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D h no o h i o

CF$ h	**- 1**	**- 2**	**- 3**	**- 4**
M q i p	**- 3/3**	**/ / 0**	**/ 322**	**0 - 3-**
COGS	-8,189	-9,048	-9,136	-9,391
Gross profit	4,659	5,357	5,741	5,891
Opearting expenses	-1,822	-2,043	-2,110	-2,168
k mod b kmadb	**- 3. 2**	**. . .**	**. 1.**	**. 2- .**
Other gains - net	552	569	611	662
Share of results of assoc. & JCE's	563	619	681	681
Finance costs	-128	-139	-150	-162
Km o s kmadb	**. 3- .**	**/ . 1-**	**/ 22-**	**/ 4 /**
Tax	-607	-693	-758	-779
Profit	3,216	3,669	4,014	4,125

nc ag r

CF$ h	**- 1**	**- 2**	**- 3**	**- 4**
Kmadb a m o s	**. 3- .**	**/ . 1-**	**/ 22-**	**/ 4 /**
D&A	824	816	932	972
Change in working cap.	46	-186	-77	-44
Other	-1,542	-693	-758	-779
Aamh k mod i n	**. 0**	**/ .**	**/ 32**	**0 0-**
Capex	-1,853	-2,500	-1,500	-1,000
Acquisitions and others	0	0	0	0
Aamh d q nod b	**30.**	**- 0**	**0**	
Equity raised/ (repaid)	-1,467	0	0	0
Debt raised/ (repaid)	1,646	681	681	681
Dividends, interest and others	-981			

Source: Company data, Jefferies estimates

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Company Description

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

Recommendation Published	, 13:56 ET. June 11, 2017
Recommendation Distributed	, 14:15 ET. June 11, 2017

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BUY	1093	50.00%	336	30.74%
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UNDERPERFORM	167	7.64%	13	7.78%

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