March 1, 2017

Xinyi Glass (XYG) reported decent 2016 results, in line with market expectations and a previous positive profit alert. The impact of slower turnover growth was fully offset by better-than-expected profitability. However, the contribution from Xinyi Solar (XYS) was lower than expected, which dragged XYG's overall performance. XYG's top-line growth in 2016 was driven mainly by a 29.6% YoY increase in sales of float glass products. Sales of both auto glass products and construction glass products were slower than expected. The blended gross margin was 36.3% in 2016, up from 27.3% in 2015 and the highest since 2011. Management released positive guidance on the outlook for all three of the Company's product segments and believes that concerns about rising production costs are somewhat overdone. Growth in sales of auto glass products and construction glass products is expected to pick in 2017 after a slowdown in 2016 as the impact of some negative factors faded away. Expanding the Company's global footprint is one of the key focuses of XYG going forward, as management has identified growth opportunities. The operating performance of its production plant in Malaysia reported good results, and the Company kicked off the construction of the 2nd phase of its Malaysian production plant, which should commence operation in 2H 2018. XYG management also shared the view that the Chinese government will control the float glass

China, we expect XYG to post solid top- and bottom-line growth in 2017-18E. News on supply side reform, softening raw material costs and a new expansion plan by both XYG and Xinyi Solar (XYS) are share price catalysts. XYG's share price came under pressure yesterday after its 2016 results announcement, which in our view, offers a good buying opportunity for investors. XYG is now trading at 7.3x 2016 PER. With its undemanding valuation, we maintain our BUY call on XYG with a target price of HK$.8.69 (based on 9x 2016E PER, lower than its historical average and the average of its listed peers).

Investment Highlights

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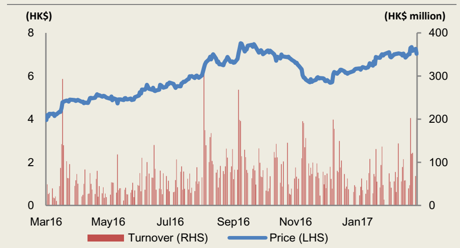

Sources: Bloomberg, CGIS Research

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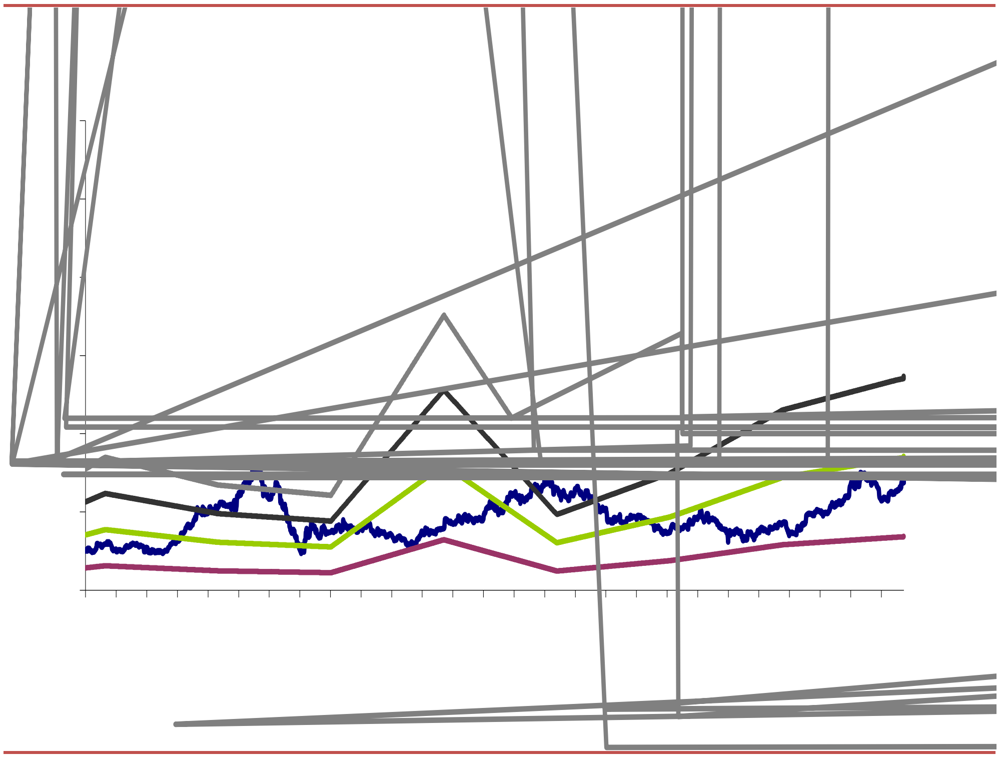

Sources: Bloomberg, CGIS Research estimates

7.04	**3531.0**	**7.3**	**6.5**	**n.a.**	**7.5**	**6.8**	**n.a.**	**2.1**	**1.8**	**16.9**	**22.9**	**14.8**	**15.7**	**5.7**	**6.8**	0.4	21.8	5.4	92.2
2.7	2373.8	7.6	6.7	n.a.	6.9	5.8	n.a.	3.0	2.2	26.6	31.1	13.5	12.6	5.1	6.0	1.5	3.0	-14.4	30.3
1.5	103.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.8	n.a.	-7.5	n.a.	0.1	n.a.	0.0	n.a.	9.6	5.7	-7.5	n.a.
0.9	209.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.8	n.a.	-20.0	n.a.	-6.6	n.a.	0.0	n.a.	7.1	0.0	-18.2	11.1
5.7	387.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.4	n.a.	29.0	n.a.	18.7	n.a.	0.0	n.a.	9.4	2.0	23.3	36.3
24.2	7275.2	15.6	14.2	12.8	9.0	8.1	7.3	3.0	2.8	20.6	18.2	11.5	12.5	3.5	4.1	5.0	2.5	18.6	56.5
1.7	391.9	4.6	4.5	3.6	2.2	1.9	1.6	1.0	0.7	20.5	18.7	9.9	6.1	4.8	5.4	-0.6	-7.1	-19.9	37.4
		9.3	**8.4**	**8.2**	**6.0**	**5.3**	**4.4**	**3.7**	**1.9**	**11.5**	**22.6**	**7.8**	**10.4**	**2.2**	**5.2**	**5.3**	**1.0**	**-3.0**	**34.3**
19.5	7275.2	14.4	13.1	12.1	9.0	8.1	7.7	2.7	2.5	20.6	18.1	11.5	13.3	n.a.	4.4	3.9	3.4	18.6	49.0
11.6	2806.7	25.8	23.3	n.a.	n.a.	n.a.	n.a.	3.0	n.a.	7.7	n.a.	n.a.	n.a.	n.a.	n.a.	2.3	-16.1	-4.3	21.1
4.4	1686.2	17.9	15.5	13.3	7.7	7.0	6.3	2.1	1.9	3.3	12.0	3.8	4.5	n.a.	n.a.	4.4	1.6	-0.1	40.9
10.2	1198.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.4	n.a.	-27.3	n.a.	-1.7	n.a.	n.a.	n.a.	10.1	20.3	28.6	49.3
9.1	1129.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.0	n.a.	-12.0	n.a.	-2.9	n.a.	n.a.	n.a.	10.3	21.4	14.5	52.3
n.a.	387.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	29.0	4.5	18.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
		19.4	**17.3**	**12.7**	**8.3**	**7.6**	**7.0**	**4.4**	**2.2**	**3.6**	**11.5**	**5.9**	**8.9**	**n.a.**	**4.4**	**6.2**	**6.1**	**11.5**	**42.5**
17.55	1666.8	n.a.	43.9	n.a.	n.a.	n.a.	n.a.	1.1	1.1	-10.2	1.5	-2.8	-1.3	n.a.	n.a.	33.0	30.0	35.0	37.1
3.89	2205.6	12.1	10.3	9.3	7.3	6.1	5.7	1.0	1.0	11.0	8.8	3.9	4.6	n.a.	2.7	-3.7	17.2	13.7	24.2
3.02	776.8	5.4	9.2	8.0	8.0	6.8	5.9	0.9	0.8	6.1	16.6	9.1	8.7	n.a.	4.3	-2.3	7.5	20.3	75.3
58.54	1677.0	20.3	16.7	14.5	10.1	8.3	7.4	3.7	3.5	13.7	n.a.	12.2	n.a.	0.9	0.9	2.6	22.7	21.0	46.6
918.00	9710.3	18.0	16.6	14.1	6.3	6.0	5.9	1.0	1.0	3.9	5.6	2.4	3.9	n.a.	2.1	9.3	23.6	39.5	67.8
698.00	3096.0	23.5	21.9	17.4	5.8	5.7	5.2	0.7	0.7	1.9	3.0	0.7	2.3	n.a.	2.3	7.2	14.4	34.5	30.0
513.00	982.6	11.3	10.8	10.2	6.5	5.9	5.5	0.7	0.6	7.2	5.7	3.1	n.a.	n.a.	2.1	7.8	17.9	23.7	47.0
844.00	679.8	14.0	10.0	8.2	6.8	6.6	6.7	0.8	1.0	1.0	5.3	-3.7	0.7	n.a.	0.0	-9.2	4.8	5.5	17.2
44.98	26470.0	15.9	14.0	12.3	7.1	6.6	6.0	1.3	1.3	7.0	7.9	3.0	3.6	n.a.	2.8	-1.2	9.9	14.4	25.7
102.45	26339.3	16.4	14.9	13.6	10.7	10.1	9.8	5.5	5.2	27.7	33.8	5.3	10.0	1.5	1.6	2.4	6.8	-3.2	6.1
27.65	25661.8	16.5	15.3	14.2	8.1	8.0	8.1	1.6	1.7	6.9	10.1	13.1	5.9	2.0	2.2	4.4	15.1	21.9	51.1
		15.3	**16.7**	**12.2**	**7.7**	**7.0**	**6.6**	**1.7**	**1.6**	**6.9**	**9.8**	**4.2**	**4.3**	**1.4**	**2.1**	**4.6**	**15.4**	**20.6**	**38.9**
27.05	16456.2	14.7	12.7	12.0	7.2	6.6	6.2	1.8	1.6	11.1	11.5	5.9	n.a.	1.8	2.1	7.6	20.5	24.1	75.2
5.66	3937.2	19.1	14.3	13.1	10.7	10.0	9.6	0.7	0.6	2.5	2.9	0.2	0.4	0.7	0.9	24.1	44.4	61.7	64.5
4.04	3400.5	16.2	11.8	10.6	8.8	7.7	7.5	1.0	1.0	3.7	5.8	1.0	3.1	n.a.	2.1	11.9	21.3	32.9	109.3
3.63	6885.5	12.3	9.9	9.3	11.8	10.1	9.6	0.4	0.8	5.8	7.0	2.2	n.a.	0.5	0.8	21.0	21.4	20.2	66.5
2.34	472.4	23.0	12.9	10.9	8.4	7.5	5.9	0.4	0.3	-3.1	0.9	-0.4	n.a.	2.4	1.5	21.2	24.5	28.6	49.0
		17.0	**12.3**	**11.2**	**9.4**	**8.4**	**7.7**	**0.8**	**0.9**	**4.0**	**5.6**	**1.8**	**1.8**	**1.4**	**1.5**	**17.2**	**26.4**	**33.5**	**72.9**
5.83	2330.4	8.5	7.5	6.8	5.2	4.6	4.3	1.6	1.4	17.7	17.8	10.2	n.a.	2.1	2.5	9.6	3.9	7.0	31.6
13.08	8055.1	31.3	23.8	20.5	15.5	13.3	12.8	0.9	0.9	1.5	2.9	0.3	n.a.	0.9	1.1	-2.8	10.3	46.0	61.3
3.87	9849.7	103.8	21.3	17.3	14.8	10.1	9.8	1.3	1.3	0.6	1.3	0.1	n.a.	0.0	0.0	-3.7	11.8	33.0	45.5
16.24	47786.5	11.2	10.0	10.0	5.6	5.2	5.3	0.9	0.9	5.9	8.2	3.2	4.8	2.2	3.3	-1.8	1.1	16.5	48.7
4.11	10276.6	27.6	14.8	14.1	13.2	10.8	11.0	0.6	0.6	-3.8	2.2	-0.8	1.1	0.0	0.6	1.0	5.1	10.8	58.1
6.24	6232.6	16.7	8.5	10.1	12.3	8.3	9.8	0.8	0.7	0.4	4.0	0.8	n.a.	n.a.	1.4	2.1	15.1	40.5	88.0
6.03	6242.3	26.0	20.0	14.5	10.1	9.2	8.2	0.9	0.9	-10.1	3.2	-5.0	n.a.	n.a.	0.7	0.8	37.7	58.3	90.2
2.97	3669.6	19.3	14.5	12.5	9.2	8.3	7.8	1.1	1.0	-23.0	5.5	-4.9	n.a.	0.0	0.5	3.8	45.6	63.2	118.4
9.85	5928.6	10.2	9.7	9.0	7.4	7.2	7.0	1.5	1.4	5.7	14.0	4.2	n.a.	1.5	2.9	9.7	45.3	58.8	90.6
7.04	4116.5	9.5	8.3	n.a.	10.0	8.7	n.a.	1.9	1.7	16.8	19.2	9.3	9.7	3.1	3.8	0.4	18.1	12.5	55.4
10.10	3096.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1	n.a.	6.6	n.a.	2.6	n.a.	n.a.	n.a.	13.5	31.2	48.1	85.3
		26.4	**13.9**	**12.8**	**10.2**	**8.5**	**8.4**	**1.1**	**1.1**	**1.4**	**7.6**	**1.7**	**3.0**	**1.1**	**1.7**	**3.0**	**20.5**	**35.9**	**70.3**

*Sources: Bloomberg, Company, CGIS Research estimates for covered stocks; *: 2016, 2017E & 2018E for PE, EV/EBITDA; 2016 & 2017E for P/B, ROE, ROE and Dividend yield.*