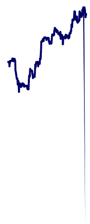
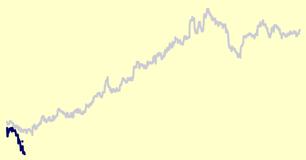
Xinyi Glass

HK$6.97 - BUY



Change in earnings



Financials

Year to 31 December	15A	16A	17CL	18CL	19CL
Revenue (HK$m)	11,460	12,848	14,278	15,228	15,990
Rev forecast change (%)	-	-	*3.9*	*4.4*	*5.2*
Adjusted net profit (HK$m)	1,734	3,055	3,733	4,192	4,660
NP forecast change (%)	-	-	*(0.7)*	*0.3*	*2.0*
[redacted]		76.5	93.4	105.1	116.8
CL/consensus	(43.0)				

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Figure 2

SCI99.com

LSA

Figure 5

Source: NBS, CLSA

Figure 6

Source: WIND, CLSA

Figure 7

Source: WIND, CLSA

XYG announced that the holder of its CB requested to convert HK$531m of the CB yesterday. Together with the exercise of 2 x HK$7m CB last week, the bondholder exercised CB of p

Figure 8

- Automobile glass products	3,806	3,794	0.3%	3,879	3,827	1.4%
- Construction glass	2,638	2,435	8.4%	2,722	2,398	13.5%
- Float glass (inc. electronic glass)	7,815	7,304	7.0%	8,552	8,005	6.8%
- Wind farm	19	210	-91.1%	75	350	-78.7%
- Automobile glass products	50.2%	52.4%	-2.2 ppt	51.2%	52.0%	-0.8 ppt
- Construction glass	39.4%	39.6%	-0.3 ppt	38.8%	38.6%	0.3 ppt
- Float glass (inc. electronic glass)	31.6%	30.9%	0.7 ppt	33.2%	32.6%	0.5 ppt
- Wind farm	70.3%	70.3%	0.0 ppt	70.3%	70.3%	0.0 ppt

Source: CLSA

Figure 9

Average 17-18CL EPS (HK$)	1.05
Target multiple (x)	9.0
Average 16-17CL BVPS (HK$)	3.78
Target multiple (x)	1.9

Source: CLSA

Figure 10

Net profit of Xinyi Glass		3,733	4,192
Less: after-tax share of profits of Xinyi Solar		(590)	(643)
Non-solar profit	(a)	3,143	3,550
Current market cap of Xinyi Glass	(b)	27,810	27,810
Current market cap of Xinyi Solar	(c)	17,965	17,965

Source: CLSA

Figure 11

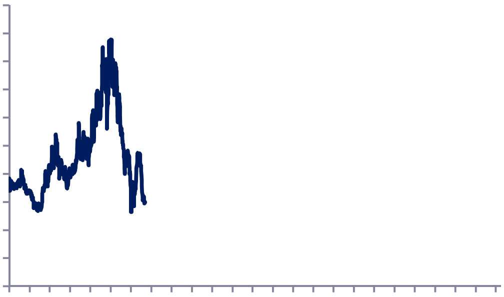

Figure 12

Source: CLSA, Datastream

Figure 13

Source: CLSA, Datastream

Figure 14

Xinyi Glass	868 HK	6.97	3,495	10.7	BUY	8.35	20%	7.2	1.8	6.8	6.4	26.2	11.8	0.6	37	0	1	8	46
Fuyao Glass - H	3606 HK	27.55	8,221	5.1				16.5	3.0	3.6	9.6	18.5	9.3	1.8	0	4	21	21	57
China Glass	3300 HK	0.85	198	0.1											47	(4)	5	(8)	(14)
Luoyang Glass	1108 HK	5.06	1,010	1.8											106	(9)	(5)	(4)	0
CSG Holding	000012 CH	10.02	2,443	39.9				17.8							73	(8)	(12)	(14)	(12)
Fuyao Glass - A	600660 CH	22.14	8,221	51.0				15.2	2.7	3.9	9.7	18.5	11.9	1.3	0	(2)	19	26	54
Yaohua Pilkington	600819 CH	7.12	902	17.2											48	(14)	(13)	(8)	4
Shandong Jinjing	600586 CH	4.97	1,052	18.4											57	(1)	9	7	9
AVIC Sanxin	002163 CH	8.21	957	37.3											287	(19)	(12)	1	9
Xiuqiang Glasswork	300160 CH	9.10	789	27.9				25.3	3.3	0.6	14.9	14.2	16.5	1.5		(24)	(23)	(23)	(43)
Changzhou Almaden	002623 CH	28.63	664	14.1				35.2							39	(28)	(21)	(46)	(13)
Zhuzhou Kibing	601636 CH	4.39	1,658	25.0				11.5	1.5		6.7	14.3	19.4	0.6	56	(1)	3	16	25
Taiwan Glass	1802 TT	15.80	1,524	3.8											44	(9)	16	21	20
Asahi Glass	5201 JP	992.00	10,427	39.4	O-PF	1,025.00	3%	17.6	1.1	2.1	4.9	6.0	1.9	9.1	25	12	20	43	62
Nippon Sheet Glass	5202 JP	905.00	724	11.7				9.6	0.6	0.6	6.8	9.8	43.2	0.2	333	15	12	13	9
Central Glass	4044 JP	491.00	935	3.9				9.9	0.6	2.2	5.5	5.5	7.0	1.4	23	7	(4)	22	(17)
Hankuk Glass Industries	002000 KS	26,150.00	232	0.0											(21)	(4)	(2)	(1)	(5)
Cie de St-Gobain	SGO FP	51.02	30,980	80.4				16.9	1.4	2.6	7.7	8.4	12.2	1.4	29	7	11	31	33
PPG Industries Inc	PPG US	109.20	28,027	175.5				16.9	5.1	1.5	11.3	33.8	9.9	1.7	52	4	8	18	1
Turkiye Sise	SISE TI	4.42	2,549	4.6				11.2	1.0	3.0	6.5	9.8	8.9	1.3	13	8	9	43	32
Trakya Cam Sanayii	TRKCM TI	3.56	931	1.8				10.1	0.9	4.9	7.6	8.9	12.0	0.8	32	10	14	42	89
Corning	GLW US	28.76	26,466	172.8				16.3	1.6	2.2	8.5	9.7	7.2	2.3	(8)	7	8	28	57

Source: Bloomberg, CLSA

We value XYG using a blended PE and PB approach. We apply a target multiple of 9x to 18CL EPS and a target multiple of 1.9x to 17CL BVPS, in line with the historical averages.

Key risks include: 1) Weakening of the property market or even the auto market. Demand for float glass and construction glass is highly dependent on the property market. Besides, despite being a stable business, the auto glass segment is correlated to the global number of vehicles in use, and any significant slowdown in the global auto industry may also affect the segment's performance. 2) Further tightening of credit. Tightening of credit also affects developers' cash flows and progress in construction of property projects. 3) Incremental production costs. A significant surge in natural gas, international crude oil prices and other raw material costs may affect XYG's gross margin if it cannot pass on incremental costs by raising ASP. 4) More capacity additions in the market.

Op Ebitda	2,313	3,664	4,378	4,951	5,429
Op Ebit	1,518	2,837	3,471	3,944	4,346
Interest income	40	51	49	29	31
Interest expense	(90)	(128)	(96)	(80)	(53)
Other items	912	1,063	962	1,036	1,149
Taxation	(266)	(607)	(650)	(733)	(810)
Minorities/Pref divs	0	(3)	(3)	(3)	(3)

Operating adjustments	-	-	-	-	-
Depreciation/amortisation	795	827	906	1,008	1,083
Working capital changes	(207)	(426)	(186)	(104)	(83)
Net interest/taxes/other	(421)	(784)	(747)	(814)	(862)
Capital expenditure	(1,967)	(1,853)	(2,500)	(1,500)	(1,500)
Acq/inv/disposals	-	-	-	-	-
Int, invt & associate div	951	1,112	1,008	1,062	1,177
Increase in loans	16	1,646	(1,328)	(1,493)	(1,848)
Dividends	(1,029)	(1,622)	(1,804)	(2,027)	(2,253)
Net equity raised/other	812	(267)	(446)	-	-
Exch rate movements	-	-	-	-	-

Cash & equivalents	1,300	2,768	1,142	1,218	1,279
Debtors	1,136	1,036	1,207	1,287	1,352
Inventories	1,223	1,321	1,371	1,431	1,477
Other current assets	1,337	1,412	1,858	1,858	1,858
Fixed assets	11,971	11,831	13,453	13,974	14,419
Intangible assets	1,281	1,193	1,164	1,135	1,108
Other term assets	3,174	4,462	4,462	4,462	4,462
Short-term debt	2,514	3,165	2,618	2,002	1,240
Creditors	740	789	824	861	888
Other current liabs	1,705	2,046	2,046	2,046	2,046
Long-term debt/CBs	3,514	4,509	3,729	2,852	1,766
Provisions/other LT liabs	223	266	266	266	266
Minorities/other equity	7	66	66	66	66
Shareholder funds	12,718	13,181	15,109	17,275	19,683

Revenue growth (% YoY)	5.5	12.1	11.1	6.7	5.0
Ebitda growth (% YoY)	33.0	58.4	19.5	13.1	9.7
Ebitda margin (%)	20.2	28.5	30.7	32.5	34.0
Net profit margin (%)	18.4	25.0	26.1	27.5	29.2
Dividend payout (%)	50.5	49.7	48.4	48.4	48.3
Effective tax rate (%)	11.2	15.9	14.8	14.9	14.8
Ebitda/net int exp (x)	46.1	47.7	92.2	97.8	252.8
Net debt/equity (%)	37.2	37.0	34.3	21.0	8.7
ROE (%)	16.9	24.8	26.4	25.9	25.2
ROIC (%)	8.7	15.7	18.2	19.0	20.3
EVA®/IC (%)	(2.9)	4.1	6.6	7.4	8.7

Source: CLSA

Xinyi Glass (868 HK - HK$6.97 - BUY)
Asahi Glass (5201 JP - ¥992 - OUTPERFORM)
AVIC Sanxin (N-R)
Central Glass (N-R)
Changzhou Almaden (N-R)
China Glass (N-R)
Cie de St-Gobain (N-R)
Corning (N-R)
CSG - A (N-R)
Fuyao Glass - A (N-R)
Fuyao Glass (N-R)
Hankuk Glass Industries (N-R)
Jinjing (N-R)
Kibing (N-R)
Luoyang Glass (N-R)
NSG (N-R)
Och-Ziff (N-R)
PPG (N-R)
Sise Cam (N-R)
SYP Glass - A (N-R)
Taiwan Glass (N-R)
Trakya Cam Sanayii (N-R)
Xinyi Solar (968 HK - HK$2.42 - BUY)
Xiuqiang Glasswork (N-R)

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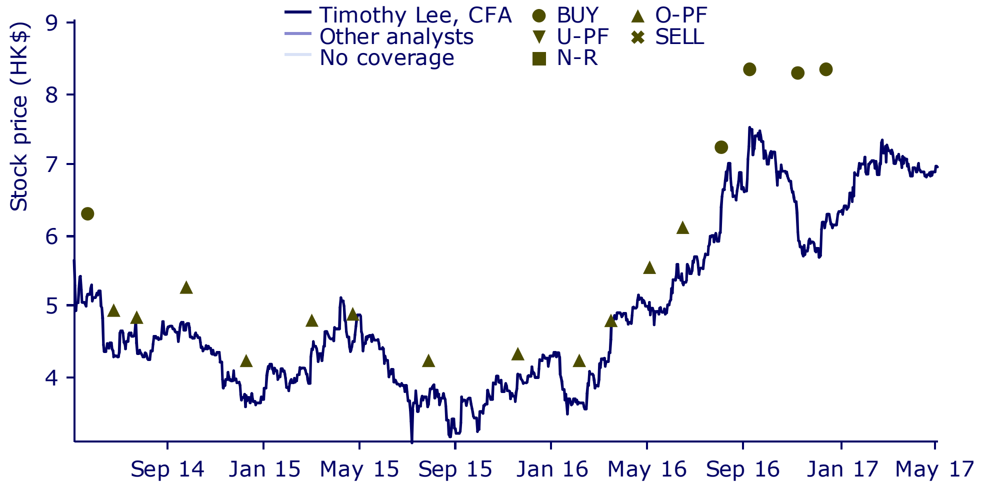
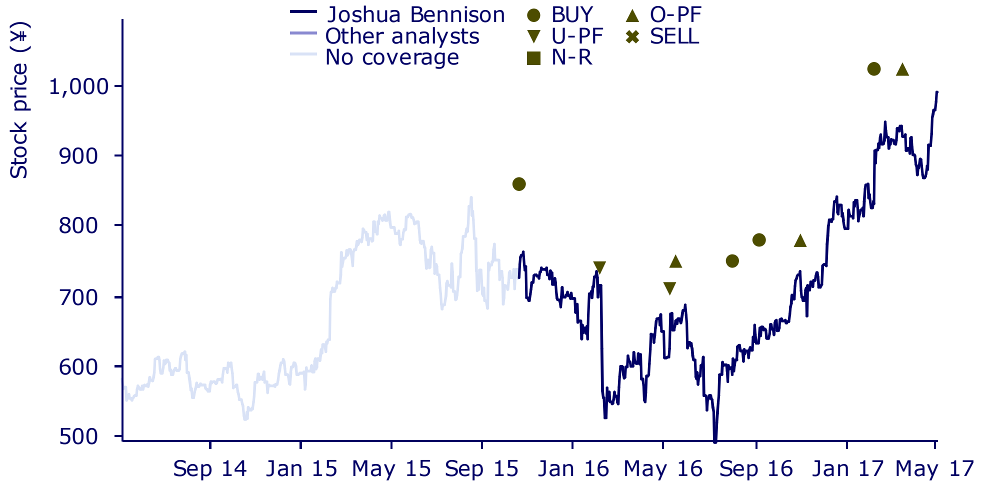


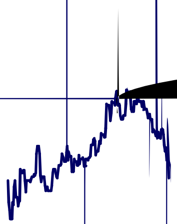
14 Dec 2016	BUY	8.35	29 Jul 2015	O-PF	4.24*
08 Nov 2016	BUY	8.30	24 Apr 2015	O-PF	4.90*
08 Sep 2016	BUY	8.35	03 Mar 2015	O-PF	4.81*
03 Aug 2016	BUY	7.25	10 Dec 2014	O-PF	4.23*
15 Jun 2016	O-PF	6.12*	25 Sep 2014	O-PF	5.28*
04 May 2016	O-PF	5.56*	24 Jul 2014	O-PF	4.85*
16 Mar 2016	O-PF	4.80*	25 Jun 2014	O-PF	4.95*
05 Feb 2016	O-PF	4.24*	23 May 2014	BUY	6.31*
19 Nov 2015	O-PF	4.33*			

Source: CLSA; * Adjusted for corporate action



17 Mar 2017	O-PF	1,025.00	17 May 2016	O-PF	750.00
07 Feb 2017	BUY	1,025.00	09 May 2016	U-PF	710.00
31 Oct 2016	O-PF	780.00	05 Feb 2016	U-PF	740.00
06 Sep 2016	BUY	780.00	20 Oct 2015	BUY	860.00
01 Aug 2016	BUY	750.00			

Source: CLSA



22 Apr 2017	BUY	3.00	19 Oct 2015	BUY	4.70
28 Feb 2017	BUY	3.40	12 Jun 2015	BUY	4.58
14 Dec 2016	BUY	3.50	27 May 2015	BUY	4.10
18 Oct 2016	BUY	3.90	24 Apr 2015	BUY	3.59
15 Jun 2016	BUY	4.20	12 Mar 2015	BUY	3.13
16 Mar 2016	BUY	4.00	04 Dec 2014	BUY	3.27
05 Feb 2016	BUY	4.10	25 Sep 2014	BUY	3.20
12 Jan 2016	BUY	4.60	24 Jul 2014	BUY	2.76
19 Nov 2015	BUY	4.70	25 Jun 2014	BUY	2.50
02 Nov 2015	BUY	4.60			

Source: CLSA

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