1 March 2017

Industrial | Misc. Manufacturer

Xinyi Glass Holdings

TP Rises On An Even More Promising Outlook

Buy (Maintained)

Target Price:	HKD9.00
Price:	HKD7.04
Market Cap:	USD3,531m
Bloomberg Ticker:	868 HK

s given its continued margin expansion, improved industry supply discipline, and the ramp-up at its new plant in Malaysia. We maintain BUY call on the stock with a higher TP of HKD9.00 (from HKD8.40, 28% upside), still based on c.10x FY17F P/E, on par with its long-term average, after raising our FY17F-18F earnings by c.8%/2% respectively. The stock is currently trading at an undemanding 7.8x FY17F P/E (c.0.5SD below 10-year average) and offers an attractive 6.5% dividend yield.

GPM strength to continue. We expect overall GPM strength to continue on an improved industry supply/demand landscape, and continued ramp-up at its new plant in Malaysia (~7% of capacity at end-FY17F). For FY17, management has guided for 0-5% and 5-15% YoY increases in the cost of energy (~30% of COGS on our estimates) and soda ash (~10-15% of COGS) respectively, which we believe can be offset by ASP hikes. Based on our estimates, the national float glass price is up ~13% (YTD average vs 2016 average), which should help mitigate higher cost pressures.

Auto and construction glass sales to rebound. We expect auto and construction glass sales to rebound to single-digit growth levels in FY17, following the 1%/2% respective declines in FY16. This is because after flattish capacity growth in FY16, management guided for healthy effective capacity growth of 5-10% and ~10% for the auto and construction segments in FY17 respectively. Also, the negative impact on export auto glass orders due to the USD appreciation in FY16 may gradually fade, in our view.

FY16 earnings announced on 28 Feb were a modest beat due to margin strength

(HKDm)	2015	2016	YoY	2H16	YoY	Comments
Revenue	11,460	12,848	12%	6,963	13%	Strong growth in float glass sales.
Gross profit	3,133	4,659	49%	2,618	52%	
GPM (%)	27.3%	36.3%	8.9ppt	37.6%	9.7ppt	Lower material costs, energy costs and improved ASPs
Operating profit	2,113	3,338	58%	2,034	74%	
OPM (%)	18.4%	26.0%	7.5ppt	29.2%	10.3ppt	
PBT	2,380	3,823	61%	2,252	74%	
Reported NP	2,113	3,213	52%	1,844	58%	
NPM (%)	18.4%	25.0%	6.6ppt	26.5%	7.6ppt	GPM strength partially offset by a higher tax rate
Recurring NP	1,819	3,192	75%	1,839	88%	
Recurring NPM (%)	15.9%	24.8%	9.0ppt	26.4%	10.6ppt	

Source: Company data, RHB

Maintain BUY, with higher TP of HKD9.00. We increase our FY17F-18F earnings by ~8%/2% respectively and introduce our FY19 forecasts. Our higher TP of HKD9.00 is based on ~10x FY17F P/E (on par with ~10-year average), and supported by 2.4x FY17F P/BV (~1SD above 10-year average).

Share Data

Avg Daily Turnover (HKD/USD)	69.3m/8.93m
52-wk Price low/high (HKD)	3.97 - 7.53
Free Float (%)	53
Shares outstanding (m)	3,922
Estimated Return	28%

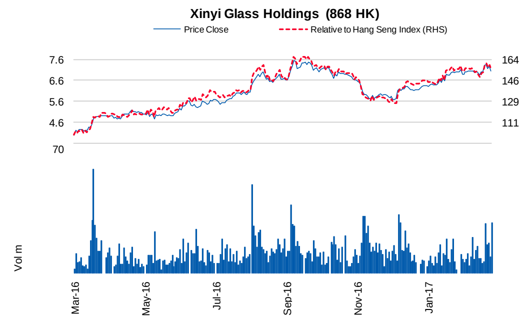
Shareholders (%)

Chairman LEE Yin Yee	21.3
Other management staff	25.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.0	0.4	19.3	2.2	81.4
Relative	3.1	(1.2)	15.3	(1.4)	58.8

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (HKDm)	11,460	12,848	14,053	15,249	16,554
Reported net profit (HKDm)	2,113	3,188	3,546	3,893	4,227
Recurring net profit (HKDm)	1,819	3,192	3,546	3,893	4,227
Recurring net profit growth (%)	58.7	75.5	11.1	9.8	8.6
Recurring EPS (HKD)	0.46	0.81	0.90	0.99	1.08
DPS (HKD)	0.26	0.41	0.46	0.51	0.55
Recurring P/E (x)	15.2	8.6	7.8	7.1	6.5
P/B (x)	2.17	2.09	1.68	1.53	1.40
P/CF (x)	9.84	7.06	6.40	5.78	5.34
Dividend Yield (%)	3.7	5.9	6.5	7.2	7.8
EV/EBITDA (x)	11.3	6.7	6.5	6.0	5.6
Return on average equity (%)	16.9	24.6	24.0	22.6	22.4
Net debt to equity (%)	37.2	37.0	30.1	24.4	18.5
Our vs consensus EPS (adjusted) (%)			(0.7)	1.3	10.0

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2017-02-28.

Asia
Hong Kong
Industrial
Xinyi Glass Holdings
Bloomberg 868 HK
Buy

Valuation basis

Long-term average P/E

Key drivers

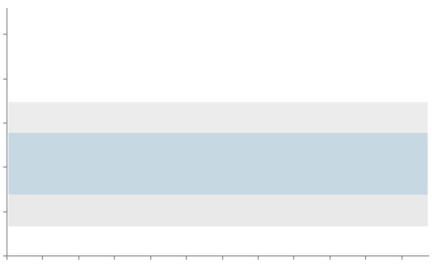
i. Float glass price;
ii. Natural gas cost.

Key risks

i. Weaker-than-expected glass demand;
ii. Sharp rebound in raw material costs (in particular natural gas cost).

Company Profile

Founded in 1988 and listed in 2005, Xinyi Glass is one of the largest glass producers in China. It has six major production bases in Dongguan, Shenzhen, Jiangmen, Wuhu, Tianjin and Yingkou. It is also a one-stop maker of float glass, solar glass, auto glass and construction glass. The company's three major business segments float glass, low-e construction glass and auto glass accounted for 44%, 23% and 33% of total revenue in FY15. Xinyi Glass spun off its solar business arm, Xinyi Solar (968 HK, NR), in late 2013, and now holds a 26.6% stake in the latter. The company also has an overseas production base in Malacca, Malaysia.



Source: Bloomberg

Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Recurring EPS (HKD)	0.46	0.81	0.90	0.99	1.08
EPS (HKD)	0.54	0.81	0.90	0.99	1.08
DPS (HKD)	0.26	0.41	0.46	0.51	0.55
BVPS (HKD)	3.24	3.36	4.18	4.60	5.05
Weighted avg adjusted shares (m)	3,922	3,922	3,922	3,922	3,922

Valuation metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Recurring P/E (x)	15.2	8.6	7.8	7.1	6.5
P/E (x)	13.1	8.7	7.8	7.1	6.5
P/B (x)	2.17	2.09	1.68	1.53	1.40
FCF Yield (%)	3.0	7.4	6.6	10.4	11.8
Dividend Yield (%)	3.7	5.9	6.5	7.2	7.8
EV/EBITDA (x)	11.3	6.7	6.5	6.0	5.6
EV/EBIT (x)	17.1	8.7	8.4	7.8	7.2

Income statement (HKDm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover	11,460	12,848	14,053	15,249	16,554
Gross profit	3,133	4,659	5,111	5,549	6,019
EBITDA	2,282	3,656	4,034	4,384	4,714
Depreciation and amortisation	(763)	(820)	(890)	(1,000)	(1,062)
Operating profit	1,518	2,837	3,144	3,384	3,652
Net interest	(50)	(77)	(26)	(28)	(9)
Income from associates & JVs	317	563	670	806	865
Exceptional income - net	331	0	0	0	0
Pre-tax profit	2,380	3,798	4,209	4,605	4,988
Taxation	(266)	(607)	(661)	(709)	(758)
Minority interests	(0)	(3)	(3)	(3)	(3)
Recurring net profit	1,819	3,192	3,546	3,893	4,227

Cash flow (HKDm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Cash flow from operations	2,806	3,908	4,316	4,773	5,169
Capex	(1,967)	(1,853)	(2,500)	(1,900)	(1,900)
Cash flow from investing activities	(1,967)	(1,853)	(2,500)	(1,900)	(1,900)
Dividends paid	(608)	(1,622)	(1,666)	(1,830)	(1,987)
Cash flow from financing activities	(625)	24	(1,666)	(1,830)	(1,987)
Cash at beginning of period	831	1,298	2,763	2,720	3,265
Net change in cash	213	2,079	149	1,044	1,282
Ending balance cash	1,020	3,352	2,888	3,739	4,523

Balance sheet (HKDm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total cash and equivalents	1,300	2,768	2,720	3,265	4,000
Tangible fixed assets	13,350	13,560	16,573	17,498	18,359
Intangible assets	75	72	72	72	72
Total investments	2,972	3,805	3,695	3,695	3,695
Total other assets	29	49	49	49	49
Total assets	21,422	24,022	27,148	28,962	30,933
Short-term debt	2,514	3,165	3,165	3,165	3,165
Total long-term debt	3,514	4,509	4,509	4,509	4,509
Other liabilities	63	48	48	48	48
Total liabilities	8,696	10,775	10,683	10,870	11,076
Shareholders' equity	12,718	13,181	16,399	18,026	19,791
Minority interests	7	66	66	66	66
Total equity	12,726	13,247	16,465	18,092	19,857
Net debt	4,729	4,906	4,954	4,409	3,675
Total liabilities & equity	21,422	24,022	27,148	28,962	30,933

Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Revenue growth (%)	5.5	12.1	9.4	8.5	8.6
Recurrent EPS growth (%)	56.9	75.5	11.1	9.8	8.6
Gross margin (%)	27.3	36.3	36.4	36.4	36.4
Operating EBITDA margin (%)	19.9	28.5	28.7	28.8	28.5
Net profit margin (%)	18.4	24.8	25.2	25.5	25.5
Dividend payout ratio (%)	48.9	50.9	50.9	50.9	50.9
Capex/sales (%)	17.2	14.4	17.8	12.5	11.5
Interest cover (x)	16.8	22.2	25.6	27.6	29.7

Source: Company data, RHB

Figure 1: Xinyi Glass actual results vs estimates

FYE Dec (HKDm)	2015	Actual 2016	YoY	RHB FY16	Actual vs RHB	Con. FY16	Act. vs Con.	1H16	Act. 2H16	YoY	RHB 2H16F	Act. vs RHB
Revenue												
Auto glass	3,787	3,748	-1%	4,014	-7%			1,990	1,758	-7%	2,024	-13%
Construction glass	2,651	2,590	-2%	2,931	-12%			1,220	1,370	-5%	1,711	-20%
Float glass	5,022	6,510	30%	6,188	5%			2,675	3,835	35%	3,513	9%
Total	**11,460**	**12,848**	**12%**	**13,133**	**-2%**	**13,190**	**-3%**	**5,885**	**6,963**	**13%**	**7,248**	**-4%**
COGS	(8,328)	(8,189)	-2%	(8,467)	-3%			(3,844)	(4,345)	-2%	(4,623)	-6%
Gross profit	**3,133**	**4,659**	**49%**	**4,666**	**0%**	**4,763**	**-2%**	**2,041**	**2,618**	**52%**	**2,625**	**0%**
GPM (%)	*27.3%*	*36.3%*	*8.9ppt*	*35.5%*	*0.7ppt*	*36.1%*	*0.2ppt*	*34.7%*	*37.6%*	*9.7ppt*	*36.2%*	*1.4ppt*
Other income	215	342	59%	158	117%			104	238	132%	54	344%
Other gains-net	379	159	-58%	92	73%			43	116	-43%	49	137%
Selling and mkt. costs	(680)	(620)	-9%	(775)	-20%			(351)	(269)	-27%	(424)	-37%
Administrative exp.	(935)	(1,202)	29%	(1,182)	2%			(533)	(669)	35%	(649)	3%
Opex% sales	*(14.1%)*	*(14.2%)*		*(14.9%)*				*(15.0%)*	*(13.5%)*		*(14.8%)*	
Operating profit	**2,113**	**3,338**	**58%**	**2,959**	**13%**			**1,304**	**2,034**	**74%**	**1,655**	**23%**
OPM (%)	*18.4%*	*26.0%*	*7.5ppt*	*22.5%*	*3.4ppt*			*22.2%*	*29.2%*	*10.3ppt*	*22.8%*	*6.4ppt*
Finance income	40	51	27%	45	12%			16	35	145%	29	18%
Finance costs	(90)	(128)	42%	(96)	32%			(60)	(67)	53%	(36)	86%
Share of profit of an associate	317	563	77%	560	0%			312	250	60%	248	1%
PBT	**2,380**	**3,823**	**61%**	**3,468**	**10%**	**3,620**	**6%**	**1,572**	**2,252**	**74%**	**1,896**	**19%**
Tax	(266)	(607)	128%	(451)	35%			(202)	(405)	217%	(249)	63%
Tax rate	*11.2%*	*15.9%*		*13.0%*				*(12.9%)*	*(18.0%)*		*(13.1%)*	
Minority interests	(0)	(3)		(0)				0	(3)		(0)	
Reported NP	**2,113**	**3,213**	**52%**	**3,017**	**7%**	**3,109**	**3%**	**1,370**	**1,844**	**58%**	**1,647**	**12%**
NPM (%)	*18.4%*	*25.0%*	*6.6ppt*	*23.0%*	*2.0ppt*			*23.3%*	*26.5%*	*7.6ppt*	*22.7%*	*3.7ppt*
Recurring NP	**1,819**	**3,192**	**75%**	**3,017**	**6%**			**1,349**	**1,839**	**88%**	**1,647**	**12%**
Recurring NPM (%)	*15.9%*	*24.8%*	*9.0ppt*	*23.0%*	*1.9ppt*			*22.9%*	*26.4%*	*10.6ppt*	*22.7%*	*3.7ppt*

Source: Company data, RHB

Other key takeaways from the results briefing

Management saw flattish effective capacity growth for the float glass industry in China in 2016 and expects potentially negative growth in 2017, thanks to continued supply-side reforms and tighter environmental protection requirements.

It expects its overall float glass ASP growth to be positive in 2017 thanks to:

i. Like-for-like increases in selling prices;

ii. Continued product mix upgrade to higher-margin, ultra-clear float glass (ASP: ~CNY2,500/tonne) from traditional float glass (ASP: ~CNY1,800/tonne).

It also expects the pace of expansion at its production in Malaysia to accelerate. It expects to put two new float glass lines (~2,000 tpd in total) into operation by 2Q18, given the higher expected GPM vs plants in China.

Changes To Estimates

FY17F-18F earnings get a boost, and we introduce FY19F numbers

We lift FY17F-18F earnings by 8% and 2% respectively after factoring in higher GPM assumptions for the float glass segment, and paring down our profit forecasts for its associate, Xinyi Solar.

We also introduced FY19F numbers, which point to ~9% YoY top- and bottomline growth.

Figure 2: Changes to Xinyi key financial estimates

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Figure 4: detailed P&L

(HKDm)	1H15	2H15	1H16	2H16	2015	2016	2017F	2018F	2019F
Revenue									
Auto glass	1,897	1,890	1,990	1,758	3,787	3,748	3,786	4,013	4,254
Construction glass	1,206	1,445	1,220	1,370	2,651	2,590	2,691	2,854	3,027
Float glass	2,180	2,843	2,675	3,835	5,022	6,510	7,576	8,381	9,273
Total	**5,283**	**6,177**	**5,885**	**6,963**	**11,460**	**12,848**	**14,053**	**15,249**	**16,554**
% YoY									
Auto glass	6.5%	4.2%	4.9%	-7.0%	5.4%	-1.0%	1.0%	6.0%	6.0%
Construction glass	11.8%	-2.1%	1.1%	-5.2%	3.8%	-2.3%	3.9%	6.1%	6.1%
Float glass	0.2%	12.0%	22.7%	34.9%	6.6%	29.6%	16.4%	10.6%	10.6%
Total	4.9%	6.0%	11.4%	12.7%	5.5%	12.1%	9.4%	8.5%	8.6%
% Mix									
Auto glass	35.9%	30.6%	33.8%	25.2%	33.0%	29.2%	26.9%	26.3%	25.7%
Construction glass	22.8%	23.4%	20.7%	19.7%	23.1%	20.2%	19.2%	18.7%	18.3%
Float glass	41.3%	46.0%	45.5%	55.1%	43.8%	50.7%	53.9%	55.0%	56.0%
GPM									
Auto glass	44.1%	44.6%	48.7%	49.3%	44.3%	49.0%	48.5%	48.5%	48.5%
Construction glass	31.7%	35.6%	39.0%	40.6%	33.9%	39.9%	39.2%	39.5%	39.6%
Float glass	8.7%	12.9%	22.3%	31.2%	11.1%	27.5%	29.3%	29.5%	29.7%
Blended	26.7%	27.9%	34.7%	37.6%	27.3%	36.3%	36.4%	36.4%	36.4%
Revenue	**5,283**	**6,177**	**5,885**	**6,963**	**11,460**	**12,848**	**14,053**	**15,249**	**16,554**
% YoY	*4.9%*	*6.0%*	*11.4%*	*12.7%*	*5.5%*	*12.1%*	*9.4%*	*8.5%*	*8.6%*
COGS	(3,873)	(4,455)	(3,844)	(4,345)	(8,328)	(8,189)	(8,942)	(9,700)	(10,535)
Gross profit	**1,410**	**1,723**	**2,041**	**2,618**	**3,133**	**4,659**	**5,111**	**5,549**	**6,019**
GPM (%)	*26.7%*	*27.9%*	*34.7%*	*37.6%*	*27.3%*	*36.3%*	*36.4%*	*36.4%*	*36.4%*
Other income	112	103	104	238	215	342	267	274	298
Selling and marketing costs	(312)	(367)	(351)	(269)	(680)	(620)	(703)	(793)	(877)
Administrative expenses	(441)	(494)	(533)	(669)	(935)	(1,202)	(1,265)	(1,372)	(1,490)
Opex% sales	*(14.2%)*	*(14.0%)*	*(15.0%)*	*(13.5%)*	*(14.1%)*	*(14.2%)*	*(14.0%)*	*(14.2%)*	*(14.3%)*
Gain on spin off	--	--	--	--	--	--	--	--	--
Operating profit	**944**	**1,168**	**1,304**	**2,034**	**2,113**	**3,338**	**3,565**	**3,826**	**4,132**
OPM (%)	*17.9%*	*18.9%*	*22.2%*	*29.2%*	*18.4%*	*26.0%*	*25.4%*	*25.1%*	*25.0%*
% YoY	*11.9%*	*79.7%*	*38.1%*	*74.1%*	*41.4%*	*58.0%*	*6.8%*	*7.3%*	*8.0%*
Non-recurring items	178	190	21	4	331	25	--	--	--
Finance costs	(46)	(44)	(60)	(67)	(90)	(128)	(123)	(123)	(123)
Share of profit of an associate	161	157	312	250	317	563	670	806	865
PBT	**1,085**	**1,295**	**1,572**	**2,252**	**2,380**	**3,823**	**4,209**	**4,605**	**4,988**
Tax	(138)	(128)	(202)	(405)	(266)	(607)	(661)	(709)	(758)
Tax rate	*(12.7%)*	*(9.9%)*	*(12.9%)*	*(18.0%)*	*11.2%*	*15.9%*	*15.7%*	*15.4%*	*15.2%*
Minority interests	(2)	1	0	(3)	(0)	(3)	(3)	(3)	(3)
Reported NP	**945**	**1,168**	**1,370**	**1,844**	**2,113**	**3,213**	**3,546**	**3,893**	**4,227**
NPM (%)	*17.9%*	*18.9%*	*23.3%*	*26.5%*	*18.4%*	*25.0%*	*25.2%*	*25.5%*	*25.5%*
% YoY	*24.0%*	*94.1%*	*45.0%*	*57.8%*	*55.0%*	*52.1%*	*10.3%*	*9.8%*	*8.6%*
Recurring NP	**766**	**978**	**1,349**	**1,839**	**1,819**	**3,192**	**3,546**	**3,893**	**4,227**
Recurring NPM (%)	*14.5%*	*15.8%*	*22.9%*	*26.4%*	*15.9%*	*24.8%*	*25.2%*	*25.5%*	*25.5%*
% YoY	*35.2%*	*92.7%*	*76.0%*	*88.0%*	*58.7%*	*75.5%*	*11.1%*	*9.8%*	*8.6%*

Source: Company data, RHB

Figure 5: Segmental revenue

Source: Company data, RHB

[redacted]e 6: Segmental gross profit

[redacted]: Company data, RHB

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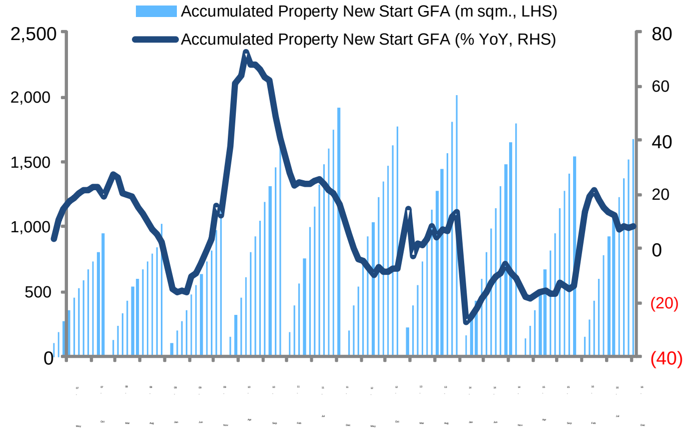
Source: Company data, RHB

Figure 8: National average float glass price in China

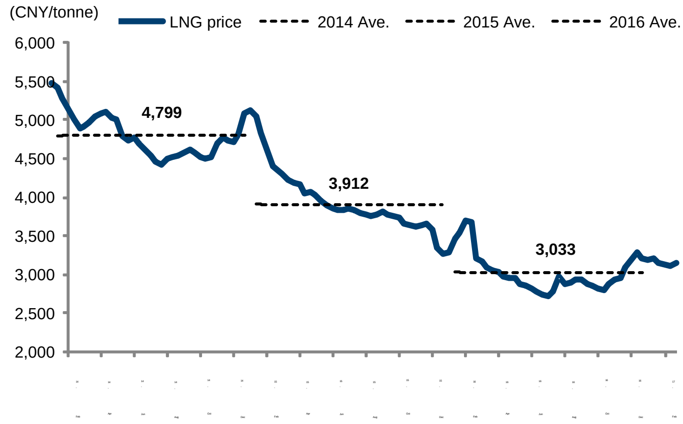
Source: Wind, RHB

Figure 11: China property new start GFA



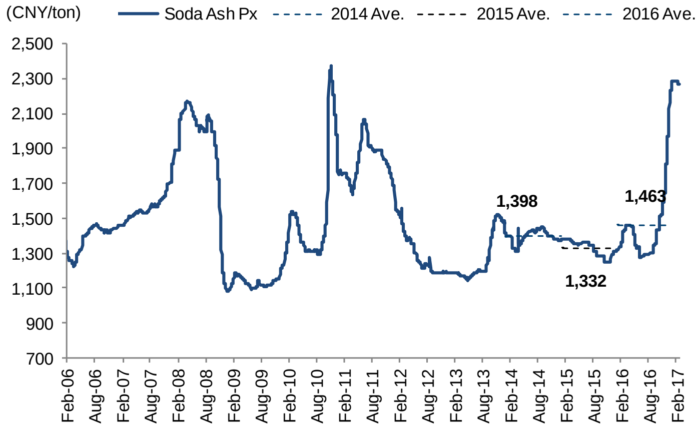
Source: Wind, RHB

Figure 12: Imported LNG price in China



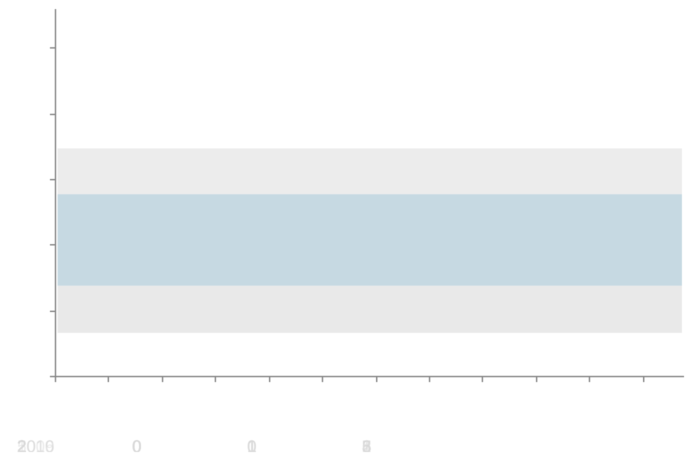
Source: Wind, RHB

Figure 13: Soda ash price in China



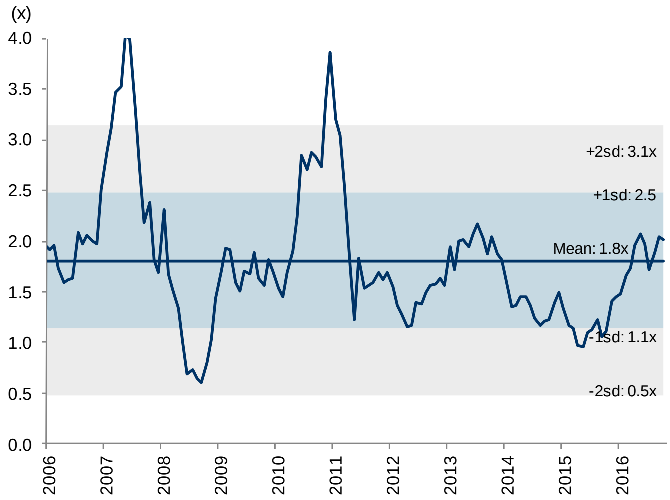
Source: Wind, RHB

Figure 14: Xinyi forward P/E chart



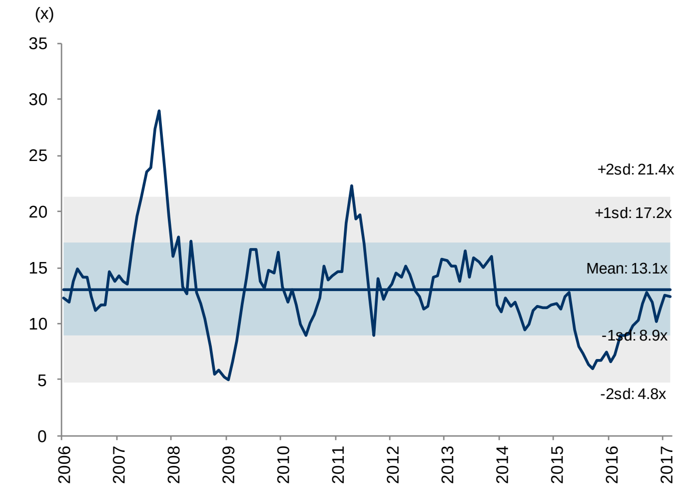
Source: Bloomberg, RHB

Figure 15: Xinyi forward P/BV chart



Source: Bloomberg, RHB

Figure 16: Xinyi -Xinyi Solar) forward P/E for the past 10 years

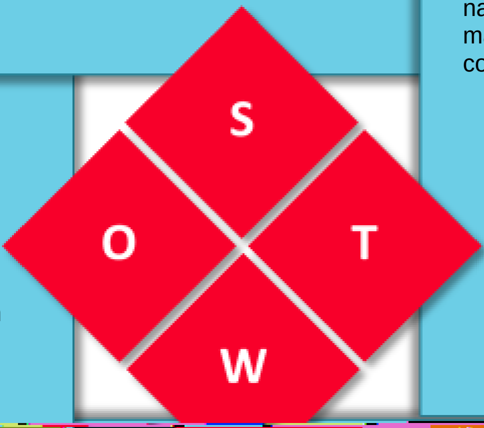


Source: Bloomberg, RHB

SWOT Analysis

-
record in cost control and capacity expansion
- Strong cash inflow from auto glass supports capacity expansion at the float glass, construction glass and electric glass segments

- Volatile supply and demand dynamics for float glass and construction glass
- A sudden surge in energy (in particular natural gas) or raw materials prices could hurt margins



- Industry consolidation and elimination of rivals to cement the group's leading position
- Fast expansion in solar farm and solar engineering, procurement and construction (EPC) businesses through associate, Xinyi Solar

- Price takers in float glass and construction glass businesses due to the fragmented and competitive nature of the industries
- Volatility in raw materials and energy prices

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-11-13	Buy	8.40	5.84
2016-09-14	Buy	8.40	7.23
2015-11-05	Buy	5.20	3.87
2015-07-29	Buy	5.50	3.62
2015-03-03	Buy	5.80	4.40
2015-02-25	Neutral	4.60	4.04
2014-07-24	Neutral	5.70	4.48
2014-02-27	Buy	8.95	6.44
2013-12-09	Buy	8.78	6.74
2013-10-16	Buy	9.33	6.47

Source: RHB, Bloomberg

49J740.58.e3.12 27.96 reW*nBTac/64 47q180 02.0.12 14.4 T Tm[41.e3.12 27.96 reW*nBTac/64 47q180 02.0.12 14.4 T Tm[41.e3.TarrpQrurh Qa 19.12-65qb Q6 456 19.nQqaQtutuaQineq5(L QoQo19.k)-65q5(tq5(o19.q)5(aQc)7Tc)-65u19.ma19(tu)5((r)5(l 390oQw)216 -10rur)(r)5(lev)9EeQl12 27.96 reW*nBTac/64 47q180 02.0.12 14.4 T Tm[41.e3.12 27.96 reW/Typ /PionMCID 76 reW*nifac/64 47q180 02.0.12 14.4 T Tm[ )]TJETQQq29702.22.e[ )]TJETQq181.34 784.56 390S84.56 4]TJ:2 27.96 reW*nBTac/64 47q180 02.0.12 14.4 T Tm[

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