Equity Research l China l Glass

9 December 2016

New headquarter for global expansion

- Xinyi Glass ("Xinyi") has acquired a plot of land with a total site area of 13,675 sqm in Qianhai, where it intends to build a new headquarters to cope with global development.
- On the core operation, management expects the margins uptrend will likely be sustainable through 2017, with increasing contributions coming from its Malaysia project.
- Reiterate BUY and maintain price target of HKD8.0, representing 9.0x FY17E PER.

Potential benefits of establishing new headquarters in Qianhai.

Project to be fully funded by cash on hand.

Expect solid margins for major products in 2H16.

Increasing contributions to come from Malaysia project in 2017.

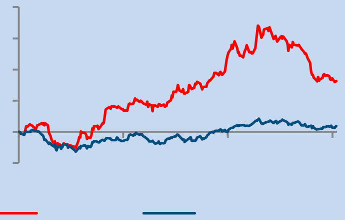
Maintain BUY rating and PT of HKD8.0.

Xinyi Glass (868 HK)

Buy

Price Target HK$8.0

Stock rel HSI performance (%)



Analysts

Duncan CHAN

(CE No.: ALH659)

Figure 1: T102-0263 land parcel

Figure 2: Map of the acquired landbank

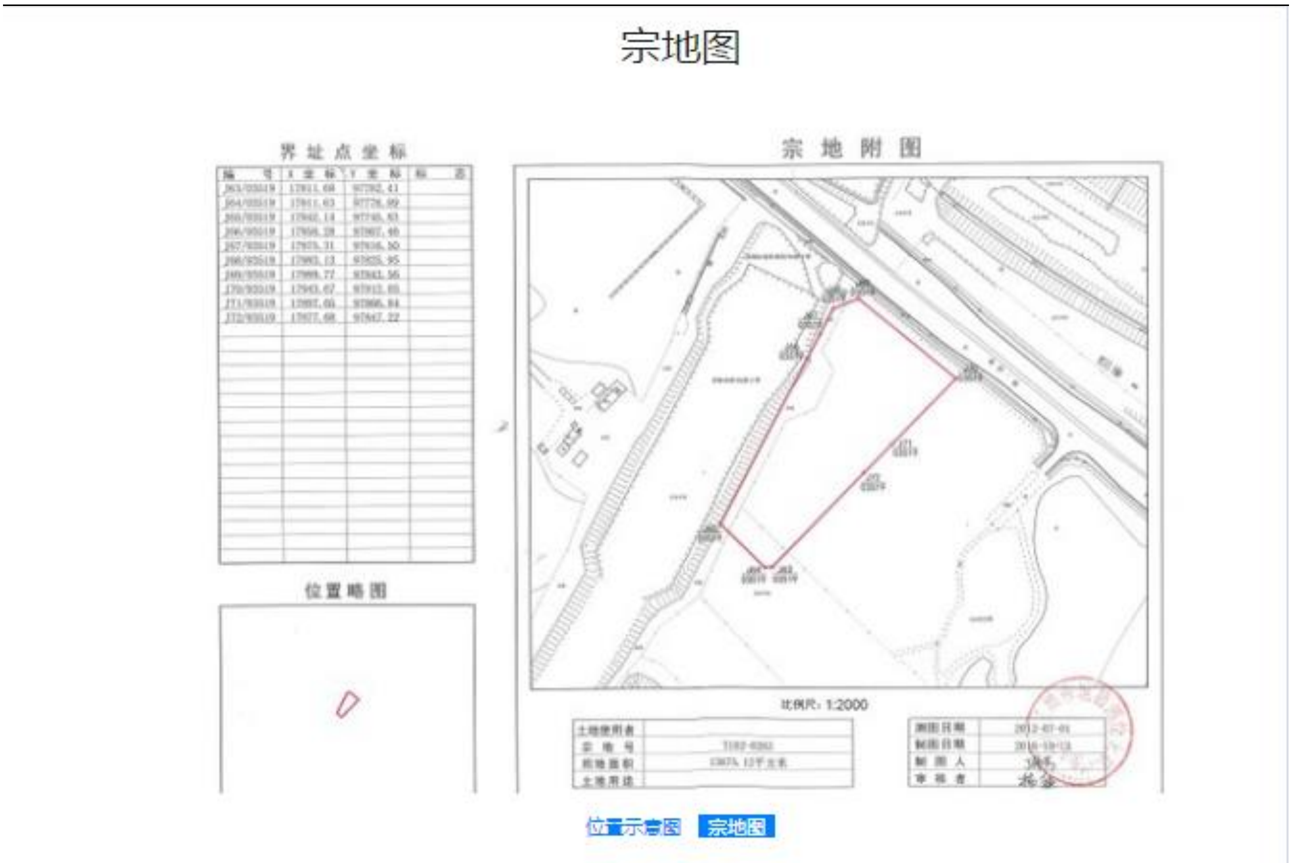


Figure 3: China's glass futures price

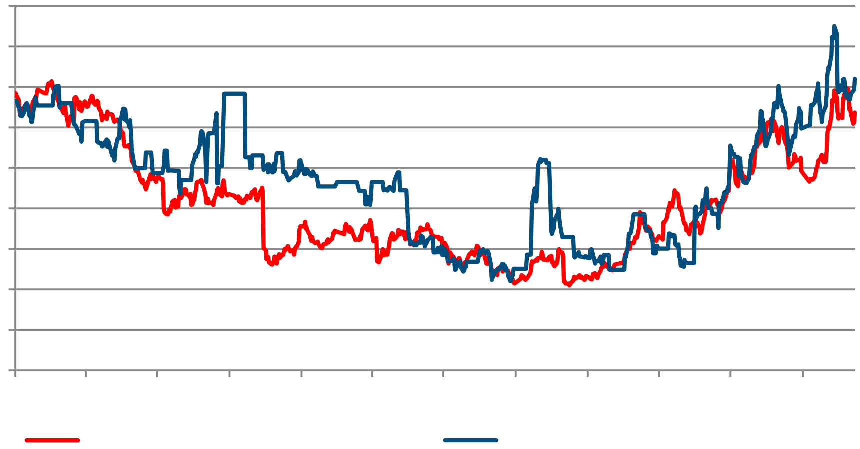


Figure 4: China's float glass spot price

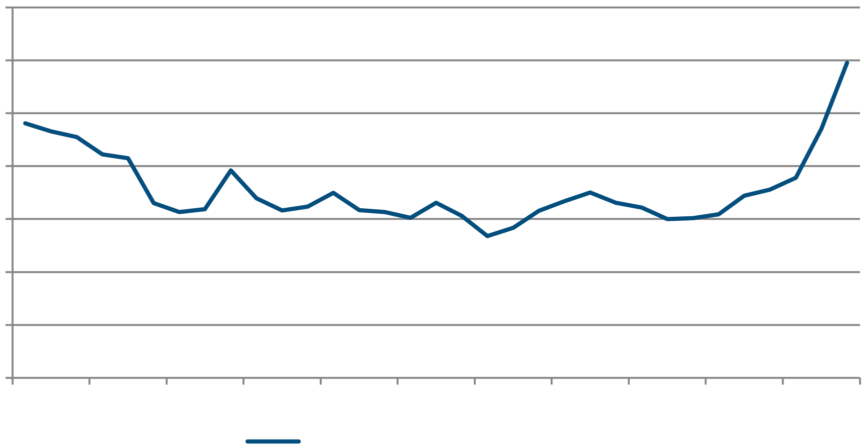


Figure 5: China's float glass production and inventories

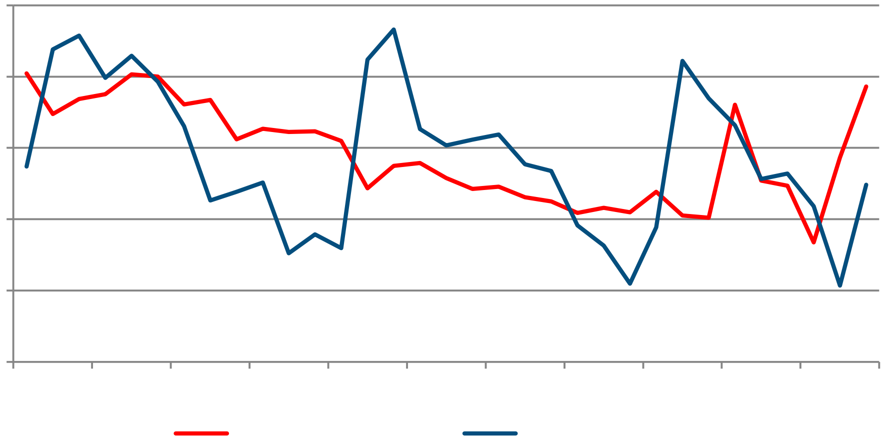


Figure 6: PBR band

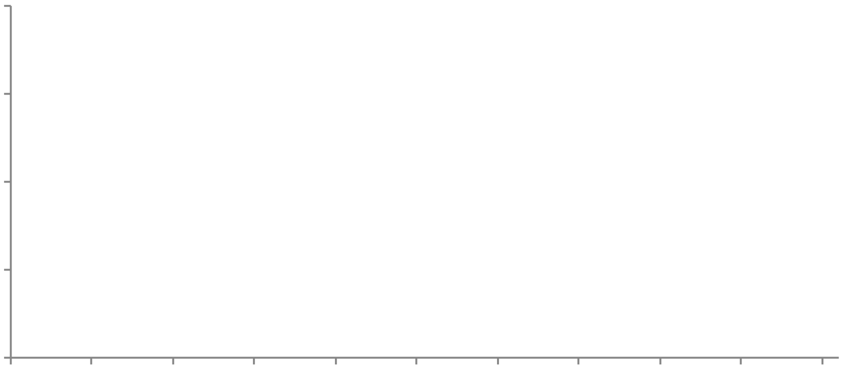


Figure 7: PER band

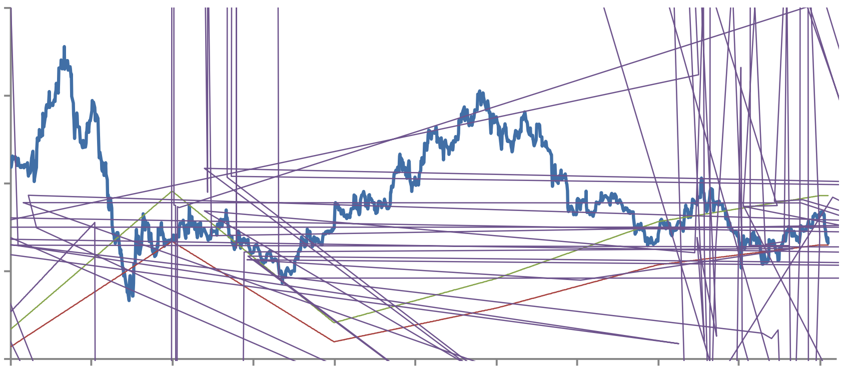


Figure 8: Peer valuation

Company	Ticker	Ccy	Close (Local$)	Mkt cap (US$b)	PER (x) 2016E	PER (x) 2017E	EPS Growth (%) 2016E	EPS Growth (%) 2017E	PBR (x) 2016E	PBR (x) 2017E	ROE (%) 2016E	ROE (%) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Net debt / Equity (%) 2016E
Glass																
PPG INDS INC	PPG US	USD	98.2	25.9	16.6	15.4	4.1	8.0	5.1	5.0	31.3	38.0	11.2	10.7	1.6	53.1
ASAHI GLASS CO	5201 JP	JPY	826.0	8.6	26.3	19.7	(17.5)	33.2	1.0	0.9	3.4	4.9	6.3	5.9	2.2	29.2
FUYAO GLASS IN-H	3606 HK	HKD	22.2	6.8	16.1	14.4	16.0	12.9	2.7	2.5	17.6	18.4	9.6	8.3	3.7	1.8
FUYAO GLASS-A	600660 CH	CNY	18.3	6.8	15.4	13.7	14.3	12.4	2.5	2.4	17.3	18.2	9.7	8.4	4.4	2.2
CSG HOLDING CO-A	000012 CH	CNY	12.4	3.0	28.1	22.8	56.5	22.6	2.8	2.7	10.4	12.3	13.7	10.8	N/A	N/A
XINYI GLASS	868 HK	HKD	5.7	2.9	7.3	6.4	54.1	14.4	1.6	1.4	21.8	22.4	7.1	6.3	6.7	34.0
NIPPON ELEC GLAS	5214 JP	JPY	654.0	2.9	53.2	24.5	(26.6)	118.2	0.7	0.6	1.2	2.6	6.0	5.6	2.4	(6.7)
XINYI SOLAR HLDS	968 HK	HKD	2.6	2.2	8.7	6.7	57.1	28.6	2.3	1.8	30.0	31.4	7.2	5.5	5.1	49.9
TAIWAN GLASS IND	1802 TT	TWD	13.4	1.2	(46.9)	(421.9)	N/A	(90.0)	0.8	0.8	N/A	N/A	N/A	N/A	N/A	N/A
SHANGHAI YAOH-A	600819 CH	CNY	7.5	0.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NIPPON SHEET GLA	5202 JP	JPY	912.0	0.7	(1.6)	16.1	(11,473.2)	(110.5)	0.7	1.1	-35.2	5.9	6.7	6.8	-	N/A
FLAT GLASS GROUP	6865 HK	HKD	1.8	0.4	4.9	4.8	N/A	3.1	0.8	0.8	18.7	20.2	2.4	2.1	4.5	N/A
LUOYANG GLASS-H	1108 HK	HKD	5.2	0.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
LUOYANG GLASS-A	600876 CH	CNY	N/A	0.4	N/A	N/A	(176.2)	37.5	N/A	N/A	4.5	6.2	N/A	N/A	N/A	N/A
CHINA GLASS HLDG	3300 HK	HKD	0.9	0.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
XINYI AUTOMOBILE	8328 HK	HKD	1.4	0.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average					11.6	(25.2)	(1,149.1)	7.5	1.9	1.8	11.0	16.4	8.0	7.0	3.4	23.4

Figure 9: Xinyi Glass

Income statement (HKD mn)

Year end: Dec	2014	2015	2016E	2017E	2018E
Revenue	10,861	11,460	13,321	14,773	15,770
COGS	(8,128)	(8,328)	(8,551)	(9,509)	(10,167)
Gross profit	2,733	3,133	4,771	5,264	5,603
Selling expenses	(608)	(680)	(790)	(876)	(935)
General and administrative	(1,030)	(935)	(1,087)	(1,205)	(1,287)
Other opex	398	594	226	506	540
EBITDA	**2,276**	**3,225**	**4,396**	**5,107**	**5,486**
Depreciation & Amortization	(644)	(795)	(684)	(818)	(882)
EBIT	**1,631**	**2,430**	**3,713**	**4,290**	**4,604**
Interest income	133	112	92	97	109
Interest expense	(171)	(163)	(167)	(177)	(187)
JVs and associates	138	317	593	601	682
Others	-	-	-	-	-
Pretax profit	**1,593**	**2,380**	**3,637**	**4,210**	**4,526**
Taxation	(228)	(266)	(407)	(631)	(679)
Minority interests	(1)	(0)	(1)	(1)	(1)
Net profit	**1,364**	**2,113**	**3,229**	**3,577**	**3,846**
Net profit (adjusted)	1,364	2,113	3,229	3,577	3,846
Basic EPS (RMB)	0.35	0.54	0.82	0.91	0.98
Diluted EPS (RMB)	0.35	0.54	0.82	0.91	0.98
DPS (RMB)	0.15	0.26	0.40	0.44	0.48

Cash flow statement (HKD mn)

Year end: Dec	2014	2015	2016E	2017E	2018E
EBIT	**1,631**	**2,430**	**3,713**	**4,290**	**4,604**
Depreciation & amortisation	644	795	684	818	882
Net interest	38	50	76	80	78
Taxes paid	(228)	(266)	(407)	(631)	(679)
Changes in working capital	(202)	375	(624)	(228)	(157)
Others	(428)	(772)	(152)	(160)	(156)
Cash flow from operations	**1,455**	**2,612**	**3,289**	**4,168**	**4,572**
Capex	(1,691)	(1,834)	(1,700)	(3,366)	(2,100)
Acquisitions	(105)	(130)	-	-	-
Disposals	116	292	-	-	-
Others	103	152	-	-	-
Cash flow from investing	**(1,578)**	**(1,520)**	**(1,700)**	**(3,366)**	**(2,100)**
Dividends	(902)	(608)	(1,573)	(1,742)	(1,873)
Issue of shares	-	-	-	-	-
Change in debt	1,003	(18)	500	500	500
Others	(173)	1	-	-	-
Cash flow from financing	**(72)**	**(625)**	**(1,073)**	**(1,242)**	**(1,373)**
Change in cash	**(195)**	**467**	**517**	**(440)**	**1,099**
Free cash flow	(236)	778	1,589	802	2,472

Balance sheet (HKD mn)

Year end: Dec	2014	2015	2016E	2017E	2018E
Cash	831	1,298	1,815	1,375	2,473
Short term investments	-	-	-	-	-
Accounts receivables	2,487	2,381	2,829	3,138	3,350
Inventory	1,478	1,223	1,387	1,542	1,649
Other current assets	9	93	93	93	93
Total current assets	**4,805**	**4,995**	**6,124**	**6,148**	**7,565**
PP&E	11,293	11,971	12,987	15,536	16,754
Intangible Assets	1,990	1,453	1,453	1,453	1,453
Total investments	2,793	2,972	2,972	2,972	2,972
Other long term assets	153	30	30	30	30
Total long term assets	**16,229**	**16,426**	**17,443**	**19,991**	**21,209**
TOTAL ASSETS	**21,034**	**21,422**	**23,567**	**26,139**	**28,774**
Short term debt	2,529	2,514	2,723	2,931	3,140
Accounts payables	1,978	2,112	2,100	2,336	2,497
Other current liabilities	294	333	333	333	333
Total current liabilities	**4,801**	**4,959**	**5,155**	**5,599**	**5,969**
Long term debt	3,483	3,514	3,806	4,097	4,389
Deferred tax	159	159	159	159	159
Bonds payable	-	-	-	-	-
Other long term liabilities	255	63	63	63	63

Key ratios

Year end: Dec	2014	2015	2016E	2017E	2018E
Operating ratios					
Gross margin	25.2	27.3	35.8	35.6	35.5
EBITDA margin (%)	21.0	28.1	33.0	34.6	34.8
Effective tax rate (%)	14.3	11.2	11.2	15.0	15.0
Revenue growth (%)	9.3	5.5	16.2	10.9	6.7
Net income growth (%)	(61.3)	55.0	52.8	10.8	7.5
EPS growth adj (%)	(57.7)	54.9	52.8	10.8	7.5
DPS growth (%)	(78.0)	74.9	52.8	10.8	7.5
Efficency ratios					
ROE (%)	11.1	16.6	22.5	22.1	21.2
ROCE (%)	10.1	14.8	20.2	20.9	20.2
Asset turnover (x)	0.5	0.5	0.6	0.6	0.5
Op cash / EBIT (x)	0.9	1.1	0.9	1.0	1.0
Depreciation / CAPEX (x)	0.4	0.4	0.4	0.2	0.4
Accounts receivable days	79.7	77.5	77.5	73.7	75.1
Accounts payable days	83.6	89.6	89.9	85.1	86.7
Leverage ratios					
Net gearing (%)	42.0	37.2	32.8	34.9	27.8

Research

LIU Taisheng, Steven

SO Lai Shan, Jennifer

CHAN Ka Yeung, Duncan

TIAN Yang

SUN Lingxiao, Roger

XU Bo, Albert

ZHU Kexin

Institutional Sales & Trading

XIANG Xinrong, Ron

CAO Xiaogang, Glen

ZHANG Meng, Maurice

HO Wen Hao, Jack

WANG Zhuo, Gary

HO Hung Wei

LEE Ying Ju, Rose

LI Jiageng, Mike

XIA Tian

XU Xiaowei, Vincent

LI Tianyi, Miranda

Company Rating Definition

Buy
Hold
Sell

Disclosure of Interests

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