J.P.Morgan

Asia Pacific Equity Research
07 September 2016

Xinyi Glass

Lifting PT to HK$9.3 - Float glass recovery stronger than expected

Overweight

CHINA CONNECT

0868.HK, 868 HK

Price: HK$7.08

▲ **Price Target: HK$9.30**
Previous: HK$8.20

China

SMID-Caps

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	YTD	1m	3m	12m
Abs	55.3%	6.5%	24.2%	106.4%
Rel	46.8%	-0.9%	11.1%	90.8%

Xinyi Glass (Reuters: 0868.HK, Bloomberg: 868 HK)

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Revenue (HK$ mn)	10,861	11,460	13,059	15,603	17,453
Net Profit (HK$ mn)	1,365	2,113	3,119	3,806	4,419
EPS (HK$)	0.35	0.54	0.80	0.98	1.14
DPS (HK$)	0.15	0.27	0.40	0.49	0.57
Revenue growth (%)	9.3%	5.5%	14.0%	19.5%	11.9%
EPS growth (%)	(58.9%)	54.8%	48.9%	22.0%	16.1%
ROCE	6.1%	8.3%	12.6%	14.0%	15.2%
ROE	11.1%	16.9%	23.1%	25.0%	25.6%
P/E (x)	20.3	13.1	8.8	7.2	6.2
P/BV (x)	2.2	2.2	1.9	1.7	1.5
EV/EBITDA (x)	14.4	10.7	7.2	5.9	4.9
Dividend Yield	2.1%	3.7%	5.7%	6.9%	8.0%

Source: Company data, Bloomberg, J.P. Morgan estimates.

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Shares O/S (mn)	3,687
Market Cap (HK$ mn)	26,103
Market Cap ($ mn)	3,366
Price (HK$)	7.08
Date Of Price	06 Sep 16
Free Float(%)	45.4%
3M - Avg daily vol (mn)	12.63
3M - Avg daily val (HK$ mn)	78.41
3M - Avg daily val ($ mn)	10.1
HSI	2,3649.55
Exchange Rate	7.76
Price Target End Date	31-Dec-17
Price Target (HK$)	9.30

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• Price of float glass improving after the slack 1Q season • More information on new electric (LCD) glass business to indicate sales and profit contribution • Finalization of new downstream solar projects	• A rise in float glass price higher than our expectations driven by strong construction demand • New customers for the electric glass business is of a better quality than what we expect • Faster completion of new electric glass lines to boost sales	• Further weakness in PV glass demand from Europe • Falling demand for construction and float glass that may result from a cooling property market in China

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Revenues (LC)	11,460	13,059	15,603	17,453
Revenue growth (%)	na	14.0%	19.5%	11.9%
EBITDA (LC)	2,528	3,661	4,390	5,101
EBITDA margin (%)	22.1%	28.0%	28.1%	29.2%
Tax rate (%)	11%	14%	14%	14%
Net profit (LC)	2,113	3,119	3,806	4,419
EPS (LC)	0.540	0.804	0.981	1.139
EPS growth (%)	na	48.9%	22.0%	16.1%
DPS (LC)	0.27	0.40	0.49	0.57
BVPS (LC)	3.25	3.68	4.17	4.74
Operating cash flow (LC mn)	2,838	3,061	3,482	4,237
Free cash flow (LC mn)	968	1,390	1,904	2,559
Interest cover (x)	50	54	104	228
Net margin (%)	18.4%	23.9%	24.4%	25.3%
Sales/assets (X)	0.54	0.58	0.63	0.63
Debt/equity (%)	47.4%	42.9%	37.8%	33.3%
Net debt/equity (%)	37.2%	28.6%	22.5%	15.4%
ROE (%)	17%	23%	25%	26%

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Auto glass capacity (m)	16.6	17.4	18.3	19.2
Float glass capacity (mn tonnes)	5.1	5.8	5.8	6.1
Float glass price (HK$/ton)	1,379	1,517	1,669	1,753

Source: Company and J.P. Morgan estimates.

Val al on an i r u a e t i e 8 c t t b g s s

Our PT is derived on a DCF based valuation with a WACC of 11.4% and a terminal growth rate of 3%

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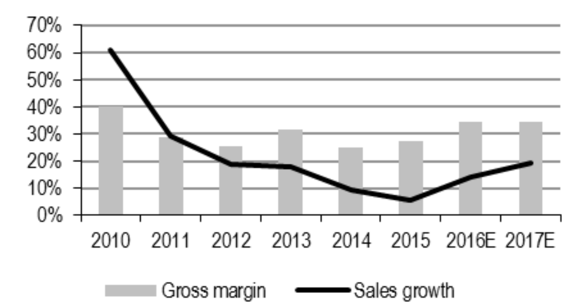

Source: Company and J.P. Morgan estimates.

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5% chg in float glass price	9%	8%	7%	7%
5% chg in fuel cost	-3%	-2%	-2%	-2%
5% chg in wage	-3%	-3%	-2%	-2%
1% chg in GM	4%	4%	4%	4%

Source: J.P. Morgan estimates.

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PS L Y E F 6	Y 7E F 1	1
JPMe old	0.78	0.93
JPMe new	0.80	0.98
% chg	*4%*	*6%*
Consensus	0.69	0.81

Source: Bloomberg, J.P. Morgan estimates.

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CHINA STATE CONS	3311 HK	9.8	5,621.7	20.4	(5.0)	9.0	7.8	20.3	1.8	3.2
ND PAPER	2689 HK	6.4	3,862.7	5.9	18.7	14.5	10.1	3.9	1.0	0.9
LM PAPER	2314 HK	6.6	3,848.4	6.4	29.4	10.2	9.2	13.4	1.7	3.4
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HAITIAN	1882 HK	16.2	3,314.8	3.6	27.6	15.9	13.9	16.6	2.2	2.2
KINGBOARD CHEM	148 HK	22.0	2,886.1	9.5	38.1	3.8	5.9	15.6	0.5	7.8
CHINA LESSO	2128 HK	5.6	2,215.4	4.1	35.5	7.5	6.9	18.3	1.1	3.3
KB LAM	1888 HK	7.2	2,750.0	3.3	75.2	6.3	10.6	25.2	1.6	13.4
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Source: Company data, Bloomberg, J.P. Morgan estimates. Share prices are as of close price of 6 Sep 2016

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Comments from rival boost sentiment

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New starts show strong demand in 2017

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Source: Bloomberg data

Lifting float glass margins and PT

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K m t c	1	1	1	1	1	1
Turnover	13,059	15,603	12,980	15,050	0.6%	3.7%
Gross profit	4,493	5,354	4,356	5,048	3.2%	6.1%
EBIT	2,857	3,461	2,730	3,226	4.6%	7.3%
Net profit	3,119	3,806	3,011	3,603	3.7%	9.0%
EPS (HKD)	0.80	0.98	0.78	0.93	3.7%	9.0%
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Gross margin	34.4%	34.3%	33.6%	33.5%	0.9%	0.8%

Source: J.P. Morgan estimates

Valuation and share price analysis

DCF valuation

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Automobile glass	3,287	3,593	3,786	3,932	4,323	4,540
YoY	6.8%	9.3%	5.4%	3.9%	10.0%	5.0%
% of total						

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MM 1 c	1	1	1	1	1	1
EBIT	2,212	1,274	1,733	2,857	3,461	4,136
Depreciation and Amortization	639	644	795	804	929	964
Working Capital Changes	129	60	539	(334)	(408)	(254)
Tax Paid	(209)	(381)	(228)	(266)	(499)	(610)
Cash Flow From Operations	2,772	1,598	2,838	3,061	3,482	4,237
Capital expenditures	(2,913)	(1,715)	(1,914)	(1,568)	(1,444)	(1,518)
Investments and others	(208)	32	243	87	129	125
Net interest	(60)	(38)	(50)	(68)	(42)	(22)
Cash Flow from Investing	(3,181)	(1,720)	(1,721)	(1,549)	(1,358)	(1,416)
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Dividends	(834)	(902)	(608)	(1,299)	(1,731)	(2,056)
Common issue	916	(3)	1	0	0	0
Other Financing	688	833	(18)	531	49	36
Contribution from owner	0	(17)	(25)	0	0	0
Cash Flow from financing	770	(89)	(650)	(767)	(1,682)	(2,020)
Change in cash	338	(195)	467	744	442	800
Cash beginning	703	1,042	831	1,298	2,042	2,484
Foreign exchange changes	1	(17)	0	0	0	0
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Source: Company data, J.P. Morgan estimates

Investment Thesis, Valuation and Risks

Xinyi Glass *(Overweight; Price Target: HK$9.30)*

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Income Statement						Cash flow statement					
Revenues	10,861	11,460	13,059	15,603	17,453	EBIT	1,274	1,733	2,857	3,461	4,136
% change Y/Y	9.3%	5.5%	14.0%	19.5%	11.9%	Depr. & amortization	644	795	804	929	964
Gross Profit	2,734	3,132	4,493	5,354	6,196	Change in working capital	60	539	(334)	(408)	(254)
% change Y/Y	(12.9%)	14.6%	43.5%	19.2%	15.7%	Taxes	(381)	(228)	(266)	(499)	(610)
EBITDA	1,918	2,528	3,661	4,390	5,101	Cash flow from operations	1,598	2,838	3,061	3,482	4,237
% change Y/Y	(32.7%)	31.8%	44.8%	19.9%	16.2%						
EBIT	1,274	1,733	2,857	3,461	4,136	Capex	(1,723)	(1,914)	(1,730)	(1,615)	(1,698)
% change Y/Y	(42.4%)	36.0%	64.9%	21.1%	19.5%	Net Interest	(38)	(50)	(68)	(42)	(22)
EBIT Margin	11.7%	15.1%	21.9%	22.2%	23.7%	Other	41	95	249	299	304
Net Interest	(38)	(50)	(68)	(42)	(22)	Free cash flow	(93)	968	1,390	1,904	2,559
Earnings before tax	1,594	2,379	3,619	4,416	5,127						
% change Y/Y	(56.1%)	49.3%	52.1%	22.0%	16.1%						
Tax	(228)	(266)	(499)	(610)	(708)	Equity raised/(repaid)	(3)	1	0	0	0
as % of EBT	14.3%	11.2%	13.8%	13.8%	13.8%	Debt raised/(repaid)	833	(18)	531	49	36
Net income (reported)	1,365	2,113	3,119	3,806	4,419	Other	(17)	(25)	0	0	0
% change Y/Y	(57.9%)	54.8%	47.6%	22.0%	16.1%	Dividends paid	(902)	(608)	(1,299)	(1,731)	(2,056)
[redacted] outstanding	3,915	3,915	3,881	3,881	3,881	Beginning cash	1,042	831	1,298	2,042	2,484
EPS (reported)	0.35	0.54	0.80	0.98	1.14	Ending cash	831	1,298	2,042	2,484	3,285
% change Y/Y	(58.9%)	54.8%	48.9%	22.0%	16.1%	DPS	[redacted]	0.27	0.40	0.49	0.57

Balance sheet						Ratio analysis					
Cash and cash equivalents	831	1,298	2,042	2,484	3,285	Gross margin	25.2%	27.3%	34.4%	34.3%	35.5%
Accounts receivable	2,487	2,381	2,714	3,242	3,627	EBITDA margin	17.7%	22.1%	28.0%	28.1%	29.[illegible]%
Inventories	1,478	1,223	1,393	1,665	1,862	Operating margin	11.7%	15.1%	21.9%	22.2%	23.7%
Others	8	93	63	790	1,508	Net margin	12.6%	18.4%	23.9%	24.4%	25.3%
Current assets	4,805	4,995	6,211								

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[illegible]-Mar-11	OW	6.13	9.00
20-Apr-11	OW	8.77	11.00
28-Nov-11	OW	4.03	6.00
09-Feb-12	N	5.01	5.10
27-Feb-12	N	4.80	4.60
07-May-12	N	4.78	5.50
01-Aug-12	OW	3.92	5.10
31-Dec-12	OW	4.78	5.90
28-Feb-13	OW	5.16	6.90
22-May-13	OW	6.30	8.00
23-Jul-13	OW	6.58	8.70
31-Jul-13	OW	7.13	10.00
04-Sep-13	OW	7.07	10.50
26-Sep-13	OW	6.92	10.90
25-Nov-13	OW	8.53	9.80
[redacted]	OW	6.56	10.00

[redacted]

20-Jun-14	OW	4.76	6.50
24-Jul-14	OW	4.76	5.70
15-Sep-14	OW	4.92	6.70
02-Mar-15	OW	4.55	6.10
28-Jul-15	OW	3.80	5.50
10-Sep-15	OW	3.95	5.20
15-Oct-15	OW	3.97	6.00
17-Jun-16	OW	5.67	7.00
02-Aug-16	OW	6.04	8.20

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