

Xinyi Glass

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

Overweight

0868.HK, 868 HK

Price: HK\$7.08

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



China

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J.P. Morgan Securities (Asia Pacific) Limited

	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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Key Points	Issues	Outlook
- 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

Key Financial Metrics

	Y 5 F	Y 6 F	Y 7 F	Y 8 F
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%	16.4%
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%

Key Operational Metrics

	Y 5 F	Y 6 F	Y 7 F	Y 8 F
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.

Sensitivity Analysis

	Y 5 F	Y 6 F	Y 7 F	Y 8 F
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.

Company Performance

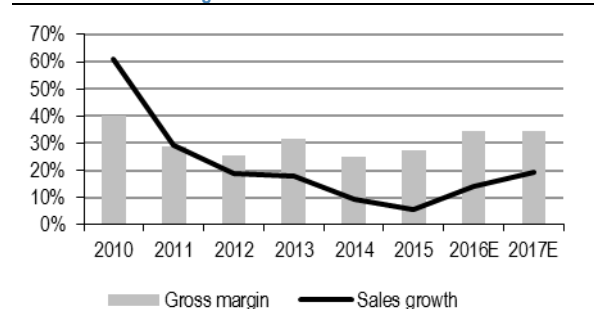
Company	CA	Mol	3 P	M 6	7 e	P	P	1	(h)	P	B	/)
CHINA STATE CONS	3311 HK	9.8	5,621.7	20.4	(5.0)	9.0	7.8	20.3	1.8	3.2		
ND PAPER	2689 HK	6.4	3,862.7	5.9	18.7	14.5	10.1	3.9	1.0	0.9		
LM PAPER	2314 HK	6.6	3,848.4	6.4	29.4	10.2	9.2	13.4	1.7	3.4		
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HAITIAN	1882 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		

Source: Company data, Bloomberg, J.P. Morgan estimates. Share prices are as of close price of 6 Sep 2016

Valuation

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

Historical Performance



Source: Company and J.P. Morgan estimates.

Consensus

	Y 5 F	Y 6 F	Y 7 F	Y 8 F
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.

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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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%
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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Asia Pacific Equity Research
07 September 2016

J.P.Morgan

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5 Year Revenue

Revenue

(\$Bn)

	2011	2012	2013	2014	2015	2016
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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Annual Cash Flow Statement

(\$ MM)	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)

The investment thesis for Xinyi Glass is based on its strong market position, robust financial performance, and favorable growth prospects. The company's leadership in the glass manufacturing industry, particularly in the automotive and architectural segments, provides a solid foundation for its future growth. The robust financial performance, characterized by consistent revenue growth and strong operating margins, further supports the investment case. The favorable growth prospects, driven by the company's expansion into new markets and product lines, offer significant potential for long-term value creation. The investment thesis is supported by a comprehensive analysis of the company's financials, market position, and growth prospects, which collectively point to a strong case for an overweight rating and a price target of HK\$9.30.

The valuation of Xinyi Glass is based on a discounted cash flow (DCF) model, which takes into account the company's expected future cash flows and the time value of money. The DCF model assumes a discount rate of 10%, which is consistent with the company's cost of capital. The cash flows are projected based on the company's historical performance and management's guidance. The resulting present value of the cash flows is estimated to be HK\$9.30, which represents the fair value of the company's stock. This valuation is supported by a sensitivity analysis, which shows that the value of the company's stock is relatively insensitive to changes in the discount rate and the growth rate of the cash flows.

The risks associated with the investment in Xinyi Glass are primarily related to the company's operating performance and market conditions. The company's operating performance is subject to various risks, including changes in demand for its products, fluctuations in raw material prices, and the impact of government policies. The market conditions, including the overall economic environment and the performance of the glass manufacturing industry, also pose risks to the investment. However, the company's strong market position and robust financial performance provide a degree of resilience against these risks. The investment thesis remains valid as long as the company continues to execute its growth strategy effectively and maintains its strong financial performance.

Annual Report

Financials

Income Statement						Balance Sheet					
Year	2015	2014	2013	2012	2011	Year	2015	2014	2013	2012	2011
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%	Capex	(1,723)	(1,914)	(1,730)	(1,615)	(1,698)
EBIT	1,274	1,733	2,857	3,461	4,136	Net Interest	(38)	(50)	(68)	(42)	(22)
% change Y/Y	(42.4%)	36.0%	64.9%	21.1%	19.5%	Other	41	95	249	299	304
EBIT Margin	11.7%	15.1%	21.9%	22.2%	23.7%	Free cash flow	(93)	968	1,390	1,904	2,559
Net Interest	(38)	(50)	(68)	(42)	(22)	Equity raised/(repaid)	(3)	1	0	0	0
Earnings before tax	1,594	2,379	3,619	4,416	5,127	Debt raised/(repaid)	833	(18)	531	49	36
% change Y/Y	(56.1%)	49.3%	52.1%	22.0%	16.1%	Other	(17)	(25)	0	0	0
Tax	(228)	(266)	(499)	(610)	(708)	Dividends paid	(902)	(608)	(1,299)	(1,731)	(2,056)
as % of EBT	14.3%	11.2%	13.8%	13.8%	13.8%	Beginning cash	1,042	831	1,298	2,042	2,484
Net income (reported)	1,365	2,113	3,119	3,806	4,419	Ending cash	831	1,298	2,042	2,484	3,285
% change Y/Y	(57.9%)	54.8%	47.6%	22.0%	16.1%	DPS	0.27	0.40	0.49	0.57	
Outstanding	3,915	3,915	3,881	3,881	3,881						
EPS (reported)	0.35	0.54	0.80	0.98	1.14						
% change Y/Y	(58.9%)	54.8%	48.9%	22.0%	16.1%						
Cash Flow						Balance Sheet					
Year	2015	2014	2013	2012	2011	Year	2015	2014	2013	2012	2011
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%	29.7%
Inventories	1,478	1,223	1,393	1,665	1,862	Operating margin	11.7%	15.1%	21.9%	22.2%	23.7%
Other	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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Equity
per 2

J.P.Morgan

		5.00	8.80
17-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
	OW	6.56	10.00

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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