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Member of key HTI Themes: Capex/New Projects, Government Policy, Productivity

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Xinyi Glass (XYG) reported its H1 FY17 results on 31 July. Revenue was up 13.5% YoY, to HK\$6,676.8mn, and net profit was up 19.5% YoY to HK\$1,636mn. The net profit result was largely in line with our expectation of HK\$1,659mn. Management also announced a medium-term plan to increase the company's float-glass production capacity by about 50% by 2020.

The interim results showed that China's float-glass industry is continuing to perform well—XYG's float-glass GPM remained at 30.1% in H1 2017. With increasingly stringent environmental controls from the government, we see limited new capacity in H2 2017 and believe float-glass pricing is likely to move up in the August–October peak season. Total floor space under construction went up by 10.6% YoY to 857mn sqm as of June 2017. For construction glass, XYG plans to focus more on higher-margin projects to enhance its performance. Autoglass revenue suffered in H1 2017 from Brazil imposing an anti-dumping duty on autoglass exports from China. To make up for this shortfall, management is aiming to win more autoglass orders from OEM manufacturers.

We cut our FY17 EPS estimate by 1.8% and raise our FY18 EPS estimate by 1.2%. We are 3% below consensus for FY17 and similar to consensus for FY18.

XYG is currently trading at 8.5x FY17 PER with a 5.7% dividend yield. We continue to value the stock on a 9x target PE multiple, but we roll over our EPS basis from the average of 2017 and 2018 EPS to end-2018 EPS of HK\$1.03 following the interim results announcement. This raises our target price from HK\$8.80 to HK\$9.20. Major downside risks include a slowdown in China's property market (about 70% of float-glass used in China is property-related, and float-glass accounted for 51% of XYG's FY16 revenue), or a significant jump in major raw material costs.

We remain positive on XYG as we believe it should benefit from float-glass industry consolidation and the shutdown of obsolete capacity in China. The float-glass industry is heavily regulated in China due to its energy-intensive nature, and we believe an industry leader like XYG stands to benefit the most in such an environment.

Total turnover (HK\$m)	11,460	12,848	14,094	15,242	16,140	—	—	—	—	—
Operating profit (HK\$m)	2,113	3,338	3,675	4,112	4,313	—	—	—	—	—
Pre-tax profit (HK\$m)	2,380	3,823	4,268	4,844	5,068	—	—	—	—	—
Net income to ord equity (HK\$m)	2,113	3,213	3,625	4,136	4,154	—	—	—	—	—
Net profit growth	55.0%	52.1%	12.8%	14.1%	0.4%	—	—	—	—	—
P/E (x)	14.40	9.37	8.47	7.54	7.51	—	—	—	—	—
Adj EV/EBITDA (x)	9.63	6.33	6.24	5.50	5.05	—	—	—	—	—
P/B (x)	2.39	2.29	1.94	1.73	1.54	—	—	—	—	—
ROE	17.0%	24.8%	25.0%	24.4%	21.7%	—	—	—	—	—
Dividend yield	3.4%	5.2%	5.7%	6.4%	6.4%	—	—	—	—	—
EPS HTI old (HK\$)	0.54	0.83	0.93	1.02	0.97	—	—	—	—	—
EPS HTI New (HK\$)	0.54	0.83	0.92	1.03	1.03	—	—	—	—	—
Consensus EPS (HK\$)	0.51	0.80	0.95	1.03	1.04	—	—	—	—	—
HTI EPS vs Consensus	5.7%	3.2%	(3.1%)	(0.2%)	(0.6%)	—	—	—	—	—

Source: Company data, Bloomberg, HTI estimates

Click [here](#) to download the working model

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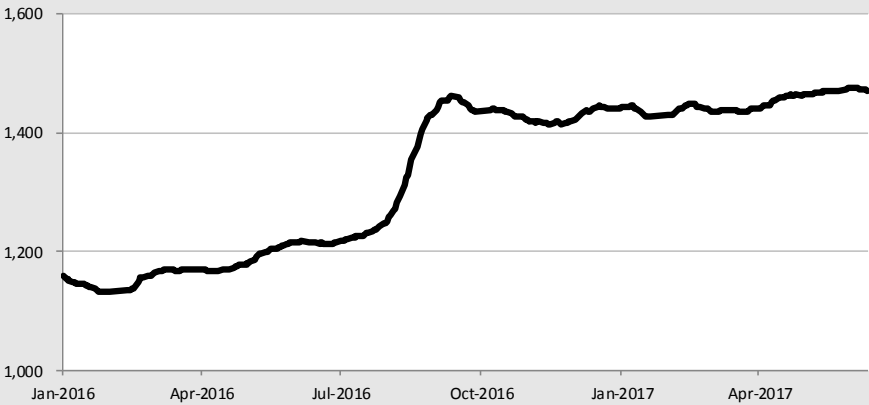
H1 FY17 results were largely in line with our expectations, although GPM came in lower than our estimates; XYG made up for this through controlling its SG&A and interest expenses

The average Shanghai spot price declined slightly, to Rmb1,531 per ton, compared with Rmb1,539 per ton on 13 July

The Guangzhou price remained flat at around Rmb1,652 per ton

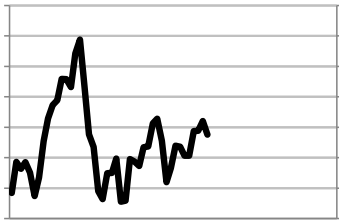
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Cost of sales	(3,843.7)	(4,247.6)	(4,102.5)	10.5%	3.5%

Source: Company data, HTI estimates

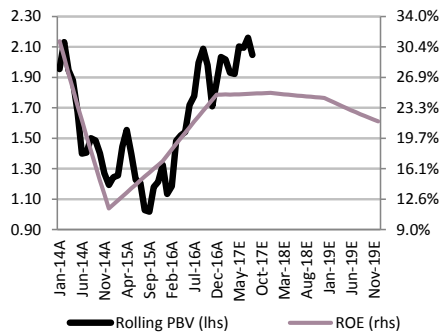


Source: Wind

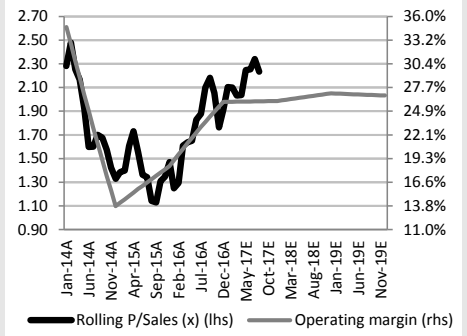
Xinyi Glass Holdings (868 HK)



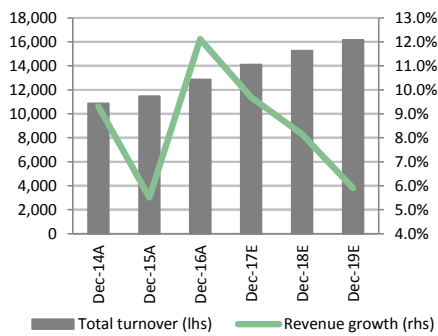
Source: Company data, Bloomberg, HTI estimates



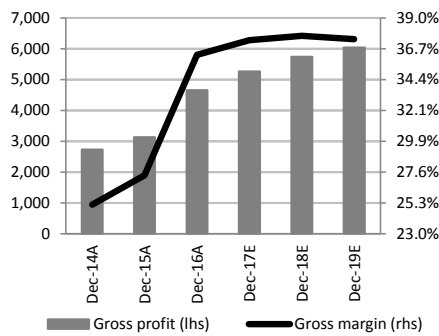
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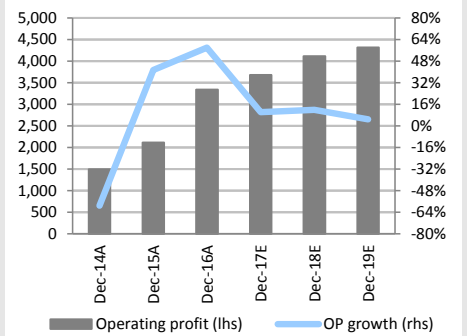
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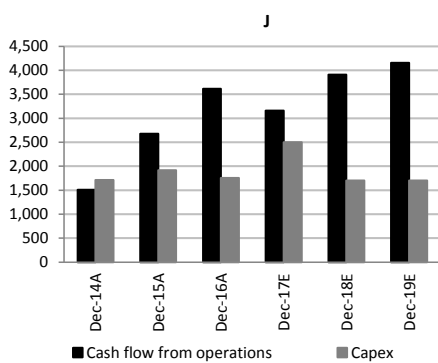
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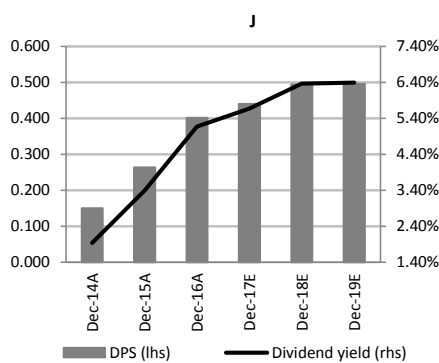
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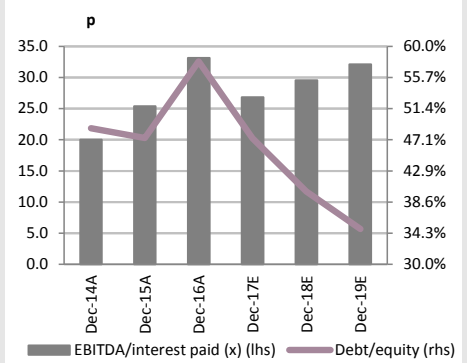
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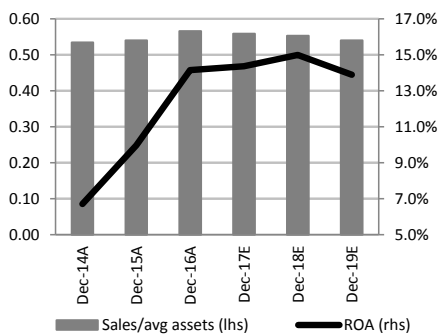
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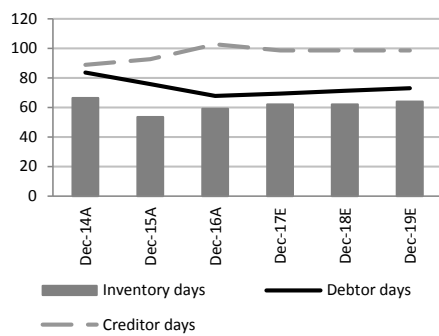
Source: Company data, Bloomberg, HTI estimates



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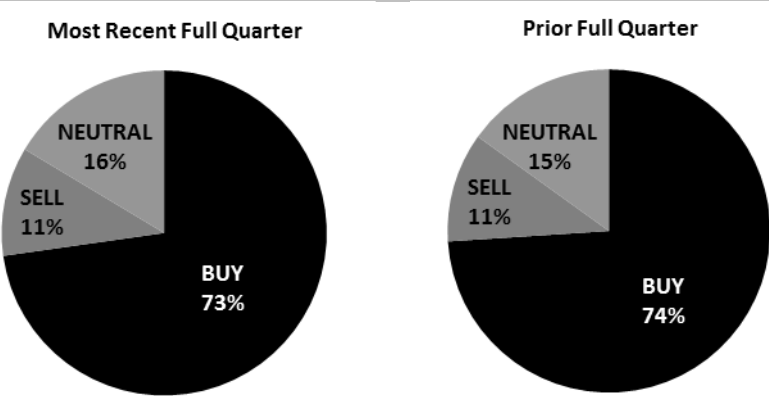
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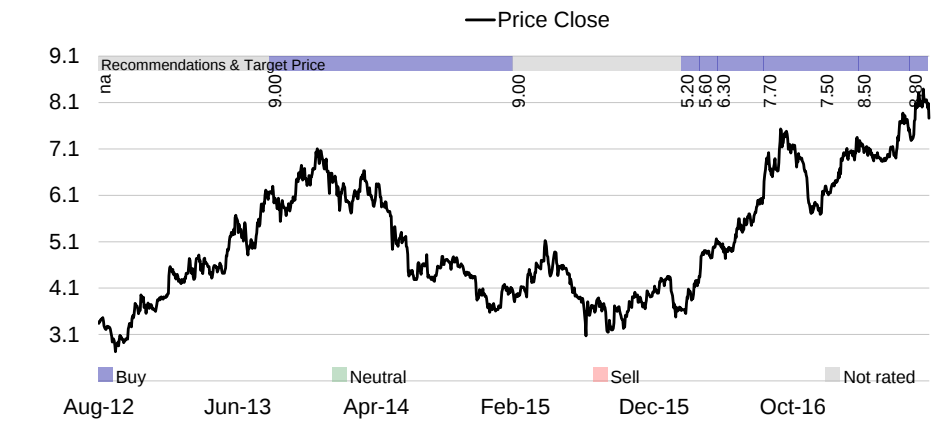
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Xinyi Glass Holdings (868 HK)



		J	J
2017-06-22	Buy	8.80	7.28
2017-03-01	Buy	8.50	7.28
2016-12-09	Buy	7.50	6.19
2016-08-05	Buy	7.70	6.65
2016-04-25	Buy	6.30	5.05
2016-03-16	Buy	5.60	4.53
2016-02-05	Buy	5.20	3.64
2015-01-30	Not rated	-	3.85
2013-08-12	Buy	9.00	6.17

Source: Company data Bloomberg, HTI estimates

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This is the metric which matches the top line in our report.

This is the metric which best represents operating profit in our report

Return on Equity

Net Debt to Equity