J.P.Morgan

Xinyi Glass

Raising PT to HK$15 - Hard as glass to build new plants

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Overweight

0868.HK, 868 HK

Price: HK$13.40

▲ **Price Target: HK$15.00**
Previous: HK$13.00

China
SMID-Caps

Leon Chik, CFA AC
(852) 2800-8590
leon.hk.chik@jpmorgan.com
Bloomberg JPMA CHIK <GO>

Christine Wang
(852) 2800-8528
christine.wang@jpmorgan.com
J.P. Morgan Securities (Asia Pacific) Limited

	YTD	1m	3m	12m
Abs	23.8%	7.7%	44.1%	84.1%
Rel	22.1%	12.6%	37.3%	53.5%

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

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Revenue (HK$ mn)	12,848	14,728	16,814	19,368	22,964
Net Profit (HK$ mn)	3,216	4,014	4,808	5,098	5,722
EPS (HK$)	0.80	1.00	1.20	1.27	1.42
DPS (HK$)	0.40	0.45	0.60	0.63	0.71
Revenue growth (%)	12.1%	14.6%	14.2%	15.2%	18.6%
EPS growth (%)	48.3%	24.8%	19.8%	6.0%	12.2%
ROCE	13.5%	13.6%	13.9%	13.2%	14.0%
ROE	24.8%	25.6%	23.4%	21.1%	21.3%
F [redacted]	16.7	13.4	11.2	10.6	9.4
F [redacted]	4.1	3.0	2.3	2.1	1.9
E [redacted]	12.2	10.5	8.4	7.8	6.8
D [redacted]	3.0%	3.4%	4.5%	4.7%	5.3%

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

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Shares O/S (mn)	3,687
Market Cap (HK$ mn)	49,403
Market Cap ($ mn)	6,313
Price (HK$)	13.40
Date Of Price	01 Mar 18
Free Float(%)	45.8%
3M - Avg daily vol (mn)	15.33
3M - Avg daily val (HK$ mn)	163.12
[redacted] Avg daily val ($ mn)	20.8
[redacted]	3,0844.72
[redacted]	7.83
[redacted] Date	31-Dec-18
Price Target (HK$)	15.00

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Leon Chik, CFA
(852) 2800-8590
leon.hk.chik@jpmorgan.com

pit t et t c c	e t	i e Dt
• 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 [redacted]	• 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 [redacted]	• 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

[redacted] d a terminal [redacted]

Feedback from Investor meetings

Glass price remains high during seasonally weakest Jan / Feb period

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HK m	t c Y E F 8 Y 9E DF	Y1 E F 8	Y19E F	Y E F 8	1 Y 9E F	1	1
	Turnover	16,814	19,368	16,813	19,038	0.0%	1.7%
	Gross profit	6,573	7,158	6,167	6,962	6.6%	2.8%
	EBIT	4,724	5,041	4,319	4,883	9.4%	3.2%
	Net profit	4,808	5,098	4,462	4,956	7.8%	2.9%
	EPS (HKD)	1.20	1.27	1.11	1.23	7.8%	2.9%
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	Gross margin	39.1%	37.0%	36.7%	36.6%	2.4%	0.4%

Source: J.P. Morgan estimates

2017 results review

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Yr F	e $ HK m t	Y AF	Y 7AF	1 Y Y	Y1 7E F	6 ar	1
	Turnover*		12,848	14,728	14.6%	15,177	-3%
	Gross profit		4,659	5,444	16.9%	5,743	-5%
	GPM*		36.3%	37.0%		37.8%	
	EBIT		3,337	4,093	22.7%	3,994	2%
	EBITM		26.0%	27.8%		26.3%	
	Net profit		3,213	4,014	24.9%	4,261	-6%
	NP Margin		25.0%	27.3%		28.1%	
	EPS		0.82	1.00	21.8%	1.06	-6%

Source: J.P. Morgan estimates; company data.

Leon Chik, CFA
(852) 2800-8590
leon.hk.chik@jpmorgan.com

Valuation and share price analysis

DCF valuation

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Leon Chik, CFA
(852) 2800-8590
leon.hk.chik@jpmorgan.com

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Automobile glass	3,786	3,748	3,910	3,917	4,161	4,465
YoY	5.4%	-1.0%	4.3%	0.2%	6.2%	7.3%
% of total	33.0%	29.2%	26.5%	23.3%	21.5%	19.4%
Construction glass	2,652	2,590	2,801	3,338	3,603	3,882
YoY	3.8%	-2.3%	8.1%	19.2%	7.9%	7.8%
% of total	23.1%	20.2%	19.0%	19.9%	18.6%	16.9%
Float glass	4,730	6,146	7,558	8,849	10,581	13,215
YoY	10.8%	29.9%	23.0%	17.1%	19.6%	24.9%
% of total	41.3%	47.9%	51.3%	52.6%	54.6%	57.5%
PV glass	0	0	0	0	0	0
YoY	41.3%	47.9%	51.3%	52.6%	54.6%	57.5%
% of total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Electronic glass	293	339	459	709	1023	1401
YoY	-34.0%	16.0%	35.4%	54.3%	44.3%	37.0%
% of total	2.6%	2.6%	3.1%	4.2%	5.3%	6.1%
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Source: Company data, J.P. Morgan estimates

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YoY change (%)	5.5%	12.1%	14.6%	14.2%	15.2%	18.6%
Cost of Goods Sold	(8,328)	(8,189)	(9,283)	(10,241)	(12,210)	(14,574)
YoY change (%)	2.5%	-1.7%	13.4%	10.3%	19.2%	19.4%
Gross Profit	3,132	4,659	5,444	6,573	7,158	8,390
YoY change (%)	14.6%	48.7%	16.9%	20.7%	8.9%	17.2%
Gross Margin	27.3%	36.3%	37.0%	39.1%	37.0%	36.5%
SGA	(1,615)	(1,822)	(2,045)	(2,296)	(2,603)	(3,039)
YoY change (%)	-1.4%	12.9%	12.2%	12.3%	13.4%	16.7%
Other Income/(Expenses)	215	342	377	448	485	456
Operating profit	1,733	3,178	3,776	4,724	5,041	5,807
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EBITDA margin	20.2%	31.1%	31.9%	34.8%	32.2%	30.7%
Depreciation & Amortization	(580)	(812)	(922)	(1,124)	(1,199)	(1,245)
YoY change (%)	-5.2%	40.0%	13.6%	21.9%	6.6%	3.9%
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EBIT margin	15.1%	24.7%	25.6%	28.1%	26.0%	25.3%
Net Interest Expense	(50)	(77)	(97)	(72)	(75)	(60)
Exceptional item	379	159	317	250	200	140
Associates	317	563	700	726	802	813
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	2,379	3,823	4,696	5,629	5,968	6,699
YoY change (%)	49.3%	60.7%	22.8%	19.9%	6.0%	12.2%
Tax	(266)	(607)	(682)	(821)	(870)	(977)
Effective Tax rate	13.3%	16.6%	15.6%	14.6%	14.6%	14.6%
Minority Interests	0	0	0	0	0	0
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YoY change (%)	54.8%	52.2%	24.8%	19.8%	6.0%	12.2%
Net margin	18.4%	25.0%	27.3%	28.6%	26.3%	24.9%

Source: Company data, J.P. Morgan estimates a 7 n r ei a é me m e t t t

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Total Revenues	6,677	8,051	7,623	9,191	8780	10,587
Gross Profit	2,429	3,015	2,933	3,640	3194	3,964
EBIT	1,605	2,171	2,008	2,716	2142	2,898
Net Income Before Taxes	1,923	2,773	2,392	3,237	2536	3,432
Net Income	1,636	2,378	2,043	2,765	2167	2,931
Diluted EPS (HK$)	0.41	0.58	0.51	0.69	0.54	0.73
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Revenue split	45.3%	54.7%	45.3%	54.7%	45.3%	54.7%
GPM	36.4%	37.5%	38.5%	39.6%	36.4%	37.4%
EBIT margin	24.0%	27.0%	26.3%	29.6%	24.4%	27.4%
NPM	24.5%	29.5%	26.8%	30.1%	24.7%	27.7%
Revenue	13.5%	15.6%	14.2%	14.2%	15.2%	15.2%
GP	19.0%	15.2%	20.7%	20.7%	8.9%	8.9%
EBIT	23.1%	15.8%	25.1%	25.1%	6.7%	6.7%
NP	19.5%	28.8%	24.9%	16.3%	6.0%	6.0%

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

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Cash and Cash Equivalents	1,298	2,763	3,049	2,885	3,419	4,251
Inventories	1,223	1,321	1,698	1,938	2,232	2,647
Accounts receivable	2,381	2,377	3,072	3,507	4,040	4,790
Other Current Assets	93	76	113	3,022	4,044	4,950
Total Current Assets	4,995	6,537	7,932	11,352	13,735	16,639
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	13,177	12,952	16,356	17,962	18,614	19,373
Other Assets	3,249	4,534	6,017	6,318	6,634	6,966
Non-Current assets	16,426	17,486	22,373	24,280	25,248	26,339
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Accounts Payable	740	789	923	1,053	1,213	1,439
Other Accrued Expenses	1,705	1,608	1,628	1,938	2,455	3,147
Taxes Payable	333	438	538	676	726	832
ST and current LT debts	2,514	3,165	2,068	2,068	2,068	2,068
Total Current Liabilities	4,959	6,000	5,157	5,736	6,462	7,486
Long-term Debt	3,514	4,509	6,399	6,399	6,399	6,399
Other Noncurrent Liability	223	266	443	506	583	691
Noncurrent liabilities	3,737	4,775	6,842	6,905	6,982	7,090
Total Liabilities	8,696	10,775	11,999	12,640	13,443	14,576
Share capital	3,217	3,217	3,217	3,217	3,217	3,217
Reserves and Surplus	9,501	11,431	17,301	19,705	22,254	25,115
Total Shareholders' Equity	12,718	13,181	18,237	22,922	25,471	28,332
Minority Interest	8	66	69	69	69	69
Total Shareholders' Equity	12,726	13,247	18,306	22,991	25,540	28,401
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Source: Company data, J.P. Morgan estimates

Leon Chik, CFA
(852) 2800-8590
leon.hk.chik@jpmorgan.com

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EBIT	1,733	3,178	3,776	4,724	5,041	5,807
Depreciation and Amortization	795	812	922	1,124	1,199	1,245
Working Capital Changes	539	17	2,304	(402)	(484)	(681)
Tax Paid	(228)	(266)	(607)	(682)	(821)	(870)
Cash Flow From Operations	2,838	3,742	6,396	4,764	4,935	5,500
Capital expenditures	(1,914)	(1,853)	(3,210)	(2,729)	(1,851)	(2,004)
Investments and others	243	(1,116)	(1,273)	(83)	(75)	(7)
Net interest	(50)	(77)	(97)	(72)	(75)	(60)
Cash Flow from Investing	(1,721)	(3,046)	(4,580)	(2,884)	(2,001)	(2,071)
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Dividends	(608)	(1,322)	(1,708)	(2,106)	(2,476)	(2,705)
Common issue	1	0	0	0	0	0
Other Financing	(18)	2,092	177	63	77	108
Contribution from owner	(25)	0	0	0	0	0
Cash Flow from financing	(650)	769	(1,530)	(2,043)	(2,400)	(2,597)
Change in cash	467	1,465	286	(163)	534	833
Cash beginning	831	1,298	2,763	3,049	2,885	3,419
Foreign exchange changes	0	0	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$15.00)*

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Leon Chik, CFA
(852) 2800-8590
leon.hk.chik@jpmorgan.com

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COGS	(8,189)	(9,283)	(10,241)	(12,210)	(14,574)
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SG&A	(1,822)	(2,045)	(2,296)	(2,603)	(3,039)
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D&A	(812)	(922)	(1,124)	(1,199)	(1,245)
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Net Interest	(77)	[illegible]	(72)	(75)	(60)
	,			,	,
Tax	(607)	[illegible]	[illegible]	(870)	(977)
Minority Interest	0	0	0	0	0
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o/w Depreciation & amortization	812	922	1,124	1,199	1,245
o/w Changes in working capital	17	2,304	(402)	(484)	(681)
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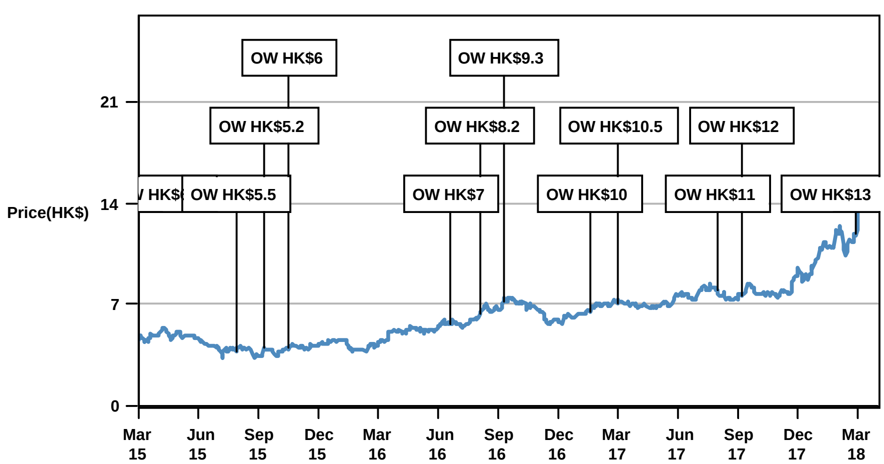
o/w Capital expenditure	(3,138)	(4,693)	(3,030)	(2,167)	(2,335)
as % of sales	*24.4%*	*31.9%*	*18.0%*	*11.2%*	*10.2%*
i i i i e c ct t	[redacted]		,	,	,
o/w Dividends paid	(1,322)	(1,708)	(2,106)	(2,476)	(2,705)
o/w Shares issued/(repurchased)	0	0	0	0	0

Xinyi Glass (0868.HK, 868 HK) Price Chart



Date	Rating	Share Price (HK$)	Price Target (HK$)
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	5.63	7.00
02-Aug-16	OW	6.40	8.20
07-Sep-16	OW	7.26	9.30
18-Jan-17	OW	6.56	10.00
28-Feb-17	OW	7.04	10.50
31-Jul-17	OW	7.98	11.00
05-Sep-17	OW	7.66	12.00
26-Feb-18	OW	11.94	13.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Nov 20, 2006.