October 30, 2017

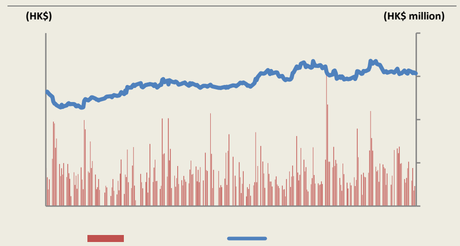
We joined the plant visits organized by both Xinyi Glass (XYG) and Xinyi Solar (XYS) last week. During the discussion, management of both Companies reiterated their positive views on the outlook. XYG management mentioned that there is no major reason for the float glass price to come down, given the more favourable supply/demand dynamics. XYG has shipped float glass from its Malaysian plant (small volume at this stage) to China given the tight supply/demand situation. XYG management further elaborated that the overseas expansion will have a positive impact on the Company's overall profitability; the details of the expansion are likely to be released by end of this year. Management also highlighted that growth in auto glass products, which had declined YoY in 1H 2017, reported YoY growth in Q3 2017 and that sales of auto glass products will pick up in 2H 2017. The increase in average selling prices (ASP) has more than offset the impact of the increase in costs, especially for soda ash. Regarding XYS, demand for solar glass remains strong, and XYS is considering another ASP hike in near term after a hike in Q3 2017. The HoH increase in sales volume and better pricing of solar glass will offset the impact of lack of booking of EPC revenue in 2H 2017 vs. 1H 2017. XYS's operating performance is unlikely to see a major HoH decline in 2H 2017. XYS management also highlighted that the Chinese government is more active in paying back subsidies, which we believe will ease market concerns. We believe the float glass industry in China will see more favourable supply/demand dynamics, as the cold repairing cycle is likely to start in 2018, which will reduce production capacity, as will potential industry consolidation triggered by other glass manufacturers, which is positive for XYG. The improvement in sentiment on XYS is also positive for XYG, which is now trading at a 8.5x 2017 PER and an estimated yield of 5.8%. With its undemanding valuation, we maintain our BUY call, with a target price of HK$10.13 (based on a 11x 2017E PER, lower than its historical average and the average of its listed peers).

Investment Highlights

-

-

-



Source: Bloomberg, CGIS Research

Source: Bloomberg, CGIS Research

Source: Company, CGIS Research

Disclaimer