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We joined the Melaka plant visits organized by Xinyi Glass (XYG) and Xinyi Solar (XYS) last week. During the discussion, management of both Companies provided updates on the current status of the expansion plan for the Melaka plants. The expansion of the Malaysia production base is on track, with two new production lines coming on stream in 2018, and the profitability of the operation in Malaysia is higher than that of the China operation. XYG management mentioned that the float glass market softened somewhat in Apr 2018 after a stronger-than-expected low season around Chinese New Year (CNY). Some float glass companies have delayed the cold repairing of their production lines, given the good market environment, which may make the industry capacity contraction in 2018 lower than we expected. In the near term, XYG may underperform other commodities names, which are seeing upward movement in ASPs. Despite a softening in float glass prices recently, we maintain our positive view on XYG, as we still hold the view that the float glass industry in China will see more favourable supply/demand dynamics, given (a) the likelihood of the cold repairing cycle starting in 2018 (though some has been delayed), which will reduce production capacity, and (b) potential industry consolidation triggered by other glass manufacturers, which would be positive for XYG. XYG is now trading at a 10.1x 2018 PER and an estimated yield of 4.9%. With its undemanding valuation, we maintain our BUY call with a target price of HK$14.76 (based on a 13x 2018E PER, lower than its historical average and the average of its listed peers).

Investment Highlights

XYG's Melaka production plant serves mainly Asian countries, such as Vietnam, Taiwan, Korean and other ASEAN countries. The expansion of phase II and III of the Melaka plant is on track. Regarding the phase II expansion, XYG will have one production line with capacity of 800 tonnes per day line commence trial production by Jun 2018 and one production line with capacity of 1,200 tonnes per day in Q3 2018. The initial infrastructure work of the phase III expansion started, and construction of the plant is expected to start in 2019. Based on the current plan, the Malaysia operations will have capacity of over 5,000 tonnes per day, which will be about 20% of XYG's total capacity in 2020. According to management, the Malaysia production plants are expected to produce higher margins than the production plants in China, given: (a) lower energy costs, (b) lower labour costs, especially since production efficiency has been improving, and (c) manageable transportation costs. The increasing contribution from the Melaka production plant will have a positive impact on XYG's profitability. Given the increasing production scale, it is not surprising that XYG is likely to have its own pier going forward, which may further reduce transportation costs. XYG is also in negotiation with a natural gas supplier for a further price discount for bulk purchases, which will lower energy costs further.

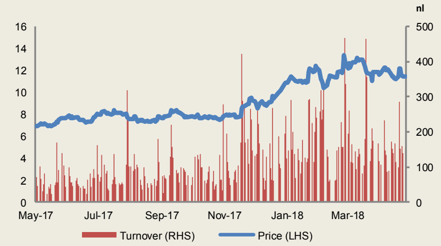
After a stronger-than-expected low season around CNY, float glass prices softened in Apr 2018 and will most likely remain soft in May 2018. The possible reasons for the softer float glass prices are (a) aggressive pricing in Q1 2018, (b) a delay in the cold repairing process by some glass manufacturers, and (c) the possibility of downstream customers waiting for a better pricing environment. We maintain the view that XYG will report solid 1H 2018 results, given the YoY improvement in float glass prices in 2018 and improvement in the auto glass and architectural glass segments. The market may also have concerns about a rebound in soda ash prices. However, we hold the view that firm raw material prices should support float glass prices, as there is limited new supply. The profitability of the automobile and architectural glass segments is expected to rebound, given higher sales growth.

The new policy on distributed solar energy projects may have a negative impact on demand for solar glass in China in 2H 2018 or 2019, depending on the timing of the release. XYS management reiterated that the adoption of bifacial solar panels has created growth opportunities for XYS. Bifacial mono-silicon solar panels have cost advantages over other types of solar panels, so bifacial panels are expected to continue to gain market share and drive demand for solar glass. The spin-off of Xinyi Energy is on track, but the timing remains uncertain.

Revenue	11,460.3	12,848.4	14,727.5	16,544.3	19,219.9
Change (YoY %)	5.5	12.1	14.6	12.3	16.2
Gross Profit	3,132.7	4,659.3	5,444.1	6,235.3	7,191.2
Gross Margin %	27.3	36.3	37.0	37.7	37.4
Net Profit	2,113.1	3,213.4	4,013.8	4,505.4	5,153.5
Net Margin %	18.4	25.0	27.3	27.2	26.8
EPS (Basic)	0.54	0.83	1.01	1.14	1.30
Change (YoY %)	54.9	54.2	22.1	12.2	14.4
DPS	$0.265	$0.400	$0.480	$0.560	$0.641
ROE (%)	16.9	24.8	25.6	23.3	23.9
Dividend Yield (%)	2.32	3.50	4.20	4.90	5.60
PER (x)	21.3	13.8	11.3	10.1	8.8
PBR (x)	3.5	3.4	2.5	2.2	2.0
FCF Yield (%)	2.33%	3.84%	2.08%	4.09%	5.24%
Capex (m)	(1,967.0)	(1,853.0)	(2,500.0)	(2,500.0)	(2,500.0)
Free cash flow per share	0.3	0.4	0.2	0.5	0.6
Net Gearing (%)	37.2	37.3	29.7	30.3	27.7

Source: Bloomberg, CGIS Research

Share Price Performance



Sources: Bloomberg, CGIS Research

Market Cap	US$5,858m
Shares Outstanding	3,999m
Auditor	Pricewaterhouse-
Free Float	45.6%
52W range	HK$6.90-13.40
3M average daily T/O	US$23.0m
Major Shareholder	Mr Lee Yin Yee (20.3%)

(852) 3698-6318

markpo@chinastock.com.hk

(852) 3698-6317

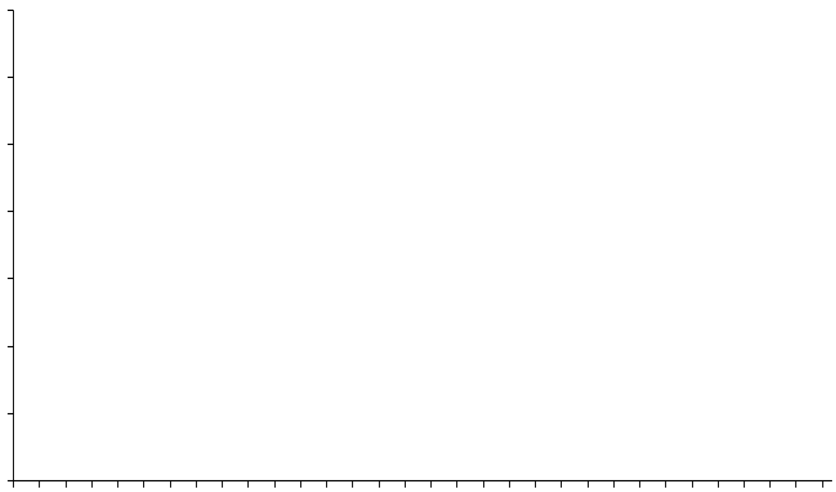
cmwong@chinastock.com.hk

Revenue	5,034	5,827	5,283	6,177	5,885	6,963	6,677	8,051
Cost of sales and services	-3,697	-4,430	-3,873	-4,455	-3,844	-4,346	-4,248	-5,036
	1,337	1,397	1,410	1,723	2,041	2,618	2,429	3,015
Other income and other gains and losses	247	152	287	307	147	547	96	598
Distribution and selling expenses	-268	-340	-312	-367	-351	-269	-334	-341
Administrative expenses	-472	-558	-441	-494	-533	-669	-586	-784
Finance costs	-25	-14	-26	-24	-44	-52	-50	-47
JV & Associates	57	80	161	157	312	250	368	332
	876	716	1,079	1,301	1,572	2,425	1,923	2,773
Income tax expense	-114	-114	-138	-128	-202	-405	-285	-397
MI	-0	-0	-2	1	-0	-2	-2	2
	762	602	939	1,174	1,369	2,018	1,636	2,378
	26.6	24.0	26.7	27.9	34.7	37.6	36.4	37.4
	17.9	12.5	20.9	21.4	27.5	35.6	29.6	35.0
	15.1	10.3	17.8	19.0	23.3	29.0	24.5	29.5
Automobile glass	1,781	1,813	1,897	1,890	1,990	1,758	1,871	2,039
Construction glass	1,079	1,477	1,206	1,445	1,220	1,370	1,186	1,614
Float glass	2,175	2,538	2,180	2,843	2,675	3,835	3,619	4,398
Automobile glass	42.1	41.5	44.1	44.6	48.7	49.3	47.8	46.2
Construction glass	37.0	34.1	31.7	35.6	39.0	40.6	37.5	38.4
Float glass	8.6	5.6	8.7	12.9	22.3	31.2	30.1	33.0

Source: Company, CGIS Research

Turnover (HKDm)								
Automobile glass	3,077.8	3,287.2	3,593.2	3,786.6	3,748.4	3,910.0	4,050.0	4,374.0
Construction glass	1,574.6	2,154.5	2,555.5	2,651.5	2,590.2	2,800.6	3,146.5	3,535.1
Float glass	3,780.6	4,494.3	4,712.4	5,022.2	6,509.8	8,016.9	9,347.7	11,310.7
Total	8,433.0	9,936.1	10,861.1	11,460.3	12,848.4	14,727.5	16,544.3	19,219.9
YoY Change (%)								
Automobile glass		6.8	9.3	5.4	(1.0)	4.3	3.6	8.0
Construction glass		36.8	18.6	3.8	(2.3)	8.1	12.4	12.4
Float glass		18.9	4.9	6.6	29.6	23.2	16.6	21.0
Total		17.8	9.3	5.5	12.1	14.6	12.3	16.2
Volume								
Automobile (piece)		12,110.0	12,889.0	13,582.8	13,582.8	13,786.6	14,475.9	15,634.0
Construction(sqm)		16,363.0	19,380.0	20,107.5	21,716.1	20,630.3	22,074.4	23,619.6
Float glass (tonne)		2,927.0	3,510.0	3,856.8	4,435.3	4,790.1	5,077.5	5,585.2
YoY Change (%)								
Automobile (piece)			6.4	5.4	0	1.5	5.0	8.0
Construction(sqm)			18.4	3.8	8.0	(5.0)	7.0	7.0
Float glass (tonne)			19.9	9.9	15.0	8.0	6.0	10.0
ASP								
Automobile (HKD/piece)		271.4	278.8	278.8	276.0	278.8	279.8	279.8
Construction (HKD per sqm)		131.7	131.9	131.9	119.3	135.8	142.5	149.7
Float glass (HKD per tone)		1,535.5	1,342.6	1,302.2	1,467.7	1,673.6	1,841.0	2,025.1
YoY Change (%)								
Automobile (HKD/piece)			2.7	0.0	(1.0)	1.0	0.4	0
Construction (HKD per sqm)			0.1	0	(9.5)	13.8	5.0	5.0
Float glass (HKD per tone)			(12.6)	(3.0)	12.7	14.0	10.0	10.0
Gross margin (%)								
Automobile glass	42.8	43.3	41.8	44.3	49.0	46.9	46.9	46.9
Construction glass	37.2	39.9	35.3	33.9	39.9	38.0	39.0	39.0
Float glass	8.6	19.0	7.0	11.1	27.5	31.7	33.2	33.2
Blended	26.4	31.6	25.2	27.3	36.3	37.0	37.7	37.4
Net margin (%)	14.1	35.4	12.6	18.4	25.0	27.3	27.2	26.8
Cost (HKDm)								
S,G&A	(1,056.7)	(1,250.9)	(1,638.0)	(1,614.5)	(1,822.4)	(2,045.1)	(2,297.4)	(2,668.9)
Financial Expenses	(57.3)	(59.7)	(38.1)	(50.2)	(76.8)	(96.6)	(96.6)	(110.3)
YoY Change (%)								
S,G&A		18.4	30.9	(1.4)	12.9	12.2	12.3	16.2
Financial Expenses		4.2	(36.2)	32.0	53.0	25.7	0	14.2
CAPEX (HKDm)	1,435.3	3,752.3	1,729.0	1,967.0	1,853.0	2,500.0	2,500.0	2,500.0
Net Gearing (%)	35.8	33.6	42.0	37.2	37.3	29.7	30.3	27.7

Source: Company, CGIS Research



Sources: Bloomberg, CGIS Research estimates p

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