

Xinyi Glass (XYG)

868.HK / 868 HK

China

Auto parts / Construction materials

LONG

Maintain

Bumping up TP on strong float glass

HK\$7.41*

Target price: HK\$8.46

Prior TP: HK\$7.83

Upside: 14%

- **Bumping 2016F float glass GPM to 34%** – Latest float glass price is RMB1,462/metric ton. We now assume 2H16 float glass ASP to be RMB1,400/ metric ton, up from RMB1,250; and GPM to be 34%, up from 27%. Our premise for the above assumptions is constant COGS per ton of glass. Further upside for float glass GPM would be oil price weakness (1/3 of XYG's natural gas cost is pegged to oil price) for Guangdong facilities and potential NDRC natural gas prices cuts for the rest of China.

Latest float glass price (per metric ton)	RMB1,461.94
Increase since Jun 30	20.5%
Increase since 1H16 results announcement	17.3%
Increase since Aug 25 (our last note)	4.6%

Source: Wind, Sunwah Kingsway Research

- **Low inventory and ample demand supports outlook** – Inventory levels of float glass are at a 2-year low, i.e. 31.8m heavy weight boxes (1.59 metric tons), equating to 2-3 weeks inventory as indicated by the management. Increases in works commenced and works in progress also lent support to XYG's float glass (and low-e glass) demand (see table below):

(In millions of sqm)	8M16	
Works-in-progress	7,001	4.6%
Works commenced	1,068	12.2%
Works completed	506	19.1%
GFA sold	875	25.5%

Source: National Bureau of Statistics

- **New TP = HK\$8.46, 14% upside** – Our new revenue and NP forecasts for 2016/17/18 are HK\$13.4b/16.2b/16.4b and HK\$3.22b/4.20b/4.32b respectively. Our TP is derived from 7x 2017 F P/E from XYG's float, architectural and auto glasses and our target price on XYS multiplied by XYG's shareholding in XYS. On a blended P/E basis, XYG is trading at 9.2/7.0x 2016/17F P/E.

uation Summary

	2014A	2015A	2016F	2017F	2018F
	10,861	11,460	13,420	16,172	16,431
	2,138	2,908	3,930	5,025	5,150
Net profit (HK\$m)	1,364	2,113	3,220	4,202	4,324
Fully diluted EPS (HK cents)	34.6	53.1	80.7	105.3	108.4
PE (x)	21.4	14.0	9.2	7.0	6.8
EV/EBITDA (x)	9.6	11.5	8.5	6.6	6.5
Yield (%)	2.02	3.58	5.26	7.29	7.50
ROE (%)	11.1				

Earnings revisions

	2016F	2017F	2018F
Revenue (HK\$m) - new	13,420	16,172	16,431
<i>old</i>	13,068	15,647	16,010
<i>change</i>	2.7%	3.4%	2.6%
Gross profit (HK\$m)	4,885		

Financial forecasts

Years ended 31 Dec	2014A	2015A	2016F	2017F	2018F
Income statement (HK\$m)					
Revenue	10,861	11,460	13,420	16,172	16,431
COGS	(8,128)	(8,328)	(8,534)	(9,854)	(10,027)
Gross Profit	2,733	3,133	4,885	6,319	6,404
Other income	178	215	284	215	215
Other gains, net	220	379	0	0	0
Selling & marketing costs	(608)	(680)	(796)	(955)	(971)
Admin expense	(1,030)	(935)	(1,162)	(1,349)	(1,371)
Gain on spin-off	0	0	0	0	0
Operating profit	1,494	2,113	3,211	4,229	4,278
Add back: Depreciation	612	763	719	796	872
Add back: Amortization	32	32	0	0	0
EBITDA	2,138	2,908	3,930	5,025	5,150
Depreciation & Amortization	(644)	(795)	(719)	(796)	(872)
Finance income	53	40	13	13	14
Finance costs	(91)	(90)	(116)	(120)	(114)
Share of PL of assos	138	317	656	904	983
Profit before tax	1,593	2,380	3,764	5,026	5,159
Income tax expense	(228)	(266)	(544)	(824)	(835)
Profit for the year	1,365	2,114	3,220	4,202	4,324
Less: MI	(1)	(0)	0	0	0
Net profit	1,364	2,113	3,220	4,202	4,324
Basic EPS (HK Cents)	34.78	53.88	83.00	108.27	111.42
Diluted EPS (HK Cents)	34.57	53.11	80.74	105.32	108.38

Years ended 31 Dec	2014A	2015E	2016F	2017F	2018F
Cash flow (HK\$m)					
EBITDA	2,138	2,908	3,930	5,025	5,150
Non-cash adjustments	(220)	(331)	0	0	0
Changes in working capital	(202)	455	(556)	(650)	(107)
Operating cash	1,716	3,032	3,375	4,375	5,043
Taxes paid	(154)	(305)	(583)	(863)	(874)
Interest paid	(107)	(90)	(116)	(120)	(114)
Net cash from operations	1,455	2,637	2,676	3,392	4,054
Interest received	42	40	13	13	14
CAPEX	(1,715)	(1,967)	(1,700)	(1,700)	(1,700)
Disposals of assets	116	150	0	0	0
Acquisition/disposal of subsidia	0	0	(295)	0	0
Change in non-demand deposits	(0)	(1)	0	0	0
Advances to associates	(25)	0	0	0	0
Dividends from associates	63	117	249	315	379
Net change in investment proper	(14)	0	0	0	0
Others	(44)	25	0	0	0
Investing cash	(1,578)	(1,635)	(1,733)	(1,372)	(1,308)
FCF	(123)	1,001	943	2,019	2,746
Net issue/(repurchase) of share	(3)	1	(264)	0	0
Net issue/(redemption) of debt s	(170)	0	0	0	(620)
Net changes in bank loans	1,003	72	465	0	0
Dividends	(902)	(608)	(1,320)	(1,871)	(2,127)
Others	0	0	0	0	0
Financing cash	(72)	(535)	(1,119)	(1,871)	(2,747)
Net change in cash	(195)	466	(176)	149	(0)
Cash and cash equiv b/f	1,042	831	1,298	1,122	1,271
FX adjustments	(17)	1	0	0	0
Cash and cash equiv c/f	831	1,298	1,122	1,271	1,270

Years ended 31 Dec	2014A	2015A	2016F	2017F	2018F
Ratios					
Gross margin (%)	25.2	27.3	34.8	37.2	36.5
EBITDA margin (%)	19.7	25.4	27.9	29.4	29.0
Net margin (%)	12.6	18.4	22.8	24.7	24.5
Selling & dist'n/Sales (%)	5.6	5.9	5.9	5.9	5.9
Admin/Sales (%)	9.5	8.2	8.7	8.3	8.3
Payout ratio (%)					
Effective tax (%)	14.3	11.2	14.2	16.1	15.8
Total debt/equity (%)	48.8	47.4	45.7	38.7	30.6
Net debt/equity (%)	42.0	37.2	38.9	32.7	26.7
Current ratio (x)	1.0	1.0	1.0	1.2	1.1
Quick ratio (x)	0.7	0.7	0.7	0.8	0.8
Inventory T/O days	61	59	61	61	61
A/R T/O days	80	78	80	80	80
A/P T/O days	84	90	84	84	84
Working capital days	57	47	57	57	57
Asset turnover (x)	0.52	0.53	0.55	0.59	0.56
Financial leverage (x)	1.71	1.68	1.67	1.59	1.50
EBIT margin (%)	13.8	18.4	22.3	24.3	23.6
Interest burden (x)	1.1	1.1	1.2	1.2	1.2
Tax burden (x)	0.86	0.89	0.86	0.84	0.84
Return on equity (%)	11.1	16.6	21.0	23.0	20.4

As at 31 Dec	2014A	2015A	2016F	2017F	2018F
Balance Sheet (HK\$m)					
Leasehold land & land use rights	1,287	1,206	1,296	1,296	1,474
PPE	11,293	11,971	12,952	13,856	14,684
Investment properties	550	437	537	537	537
Prepmt for PPE & land use rights	624	172	247	440	347
Intangible assets	79	75	77	77	77
AFS financial assets	120	85	86	86	86
Investment in asso	2,243	2,535	3,191	4,095	5,078
Loans to an assp	34	29	54	54	54
Other non-current assets	0	0	0	0	0
Non-current assets	16,229	16,510	18,439	20,441	22,337
Inventories	1,478	1,223	1,503	1,827	2,157
Loans to assos + amt due from asso	8	8	28	41	141
Trade & other receivables	2,487	2,381	2,930	3,531	3,587
Non-demand deposits	1	1	1	1	1
Cash & cash equiv.	831	1,298	1,122	1,271	1,270
Current assets	4,805	4,911	5,584	6,671	7,156
Total assets	21,034	21,422	24,023	27,111	29,492
Amt due to asso	0	0	0	0	0
Trade & other payables	1,978	2,112	2,317	2,553	2,792
Current tax payable	294	333	372	411	450
Bank and other borrowings	2,529	2,514	2,479	2,479	2,479
Current liabilities	4,801	4,959	5,168	5,442	5,721
Bank borrowings	2,807	2,894	3,394	3,394	3,394
Other borrowings - CBs	676	620	620	620	0
Deferred tax liabilities	159	159	159	159	159
Deferred government grants	148	0	140	140	140
Other payables	107	63	93	93	93
MI	2	7	6	8	10
Non-current liabilities	3,900	3,744	4,413	4,415	3,797
Total net assets	12,333	12,718	14,443	17,254	19,974
Shareholders' equity	12,333	12,718	14,443	17,254	19,974
Issued capital	392	392	388	388	388
Reserves	5,548	3,886	3,248	2,874	2,349
Other retained earnings	6,393	8,441	10,807	13,992	17,237

Source: Company data, Sunwah Kingsway Research Estimates

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