SUNWAH KINGSWAY
新華滙富

Xinyi Glass (XYG)

868.HK / 868 HK

China

Auto parts / Construction materials

LONG

Maintain

Earnings top consensus, aggressive plans ahead

HK$11.94*

Target price: HK$13.16

Prior TP: HK$11.86

Upside: 10%

HSI: 31,498.60

*Closing price as at 26 Feb 2018

► **XYG results in-line**

	2H17			2017		Act vs Cons
Revenue (HK$'m)	8,051	15.6%	20.6%	14,728	12.1%	-0.3%
Gross profit (HK$'m)	3,015	15.2%	24.1%	5,444	48.7%	-0.1%
GPM	37.4%	-0.1 ppt	1.1 ppt	37.0%	0.7 ppt	0.1 ppt
Net profit (HK$'m)	2,378	28.9%	45.4%	4,014	52.1%	9.5%
Basic EPS (HK¢)	59.2	28.9%	42.2%	101.1	53.6%	7.8%
DPS (HK¢)	28.0	21.7%	40.0%	48.0	20.0%	3.0%

Source: Company data, Bloomberg

► **New auto glass plant in the works** XYG unveiled its plan to build an automobile glass production site in Beihai, Guangxi Province, housing 4m pcs of annual capacity. The site is expected to start production in 2019, bringing in at least HK$300m incremental revenue. The new capacity will serve non-windshield glass parts such as HUD in cars, sun roofs and new orders from overseas automakers.

► **Soda ash prices continue to decline** Two factors may contribute to the expected decline in soda ash prices: 1) increasing mining of trona, source of natural soda ash, by miners in the US; 2) float glass production lines continue to downsize or shut down amid environmental policies. We expect soda ash prices to remain around RMB1,600/tonne in 2018.

► **Property market still strong for now** Per table below, the pipeline for new properties remains strong. We estimate float glass price to average around RMB1,630/tonne in 2018.

In millions of sqm	2017	YoY
Works-in progress	7,815	3.0%
Works commenced	1,787	7.0%
Works completed	1,015	-4.4%
GFA sold	1,694	7.7%
Land bought	255	15.8%

Source: National Bureau of Statistics

► **New TP = HK$13.16, 10% upside** Our new revenue and NP forecasts for 2018/19/20 are HK$17.3b/19.3b/21.4b and HK$5.4b/5.80b/6.33b respectively. Our TP is derived from SOTP method (see next page) with a 15% holding discount. On a blended P/E basis, XYG is trading at 9.1x 2018F P/E.

Earnings Forecasts & Valuation Summary

Year ended 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (HK$m)	12,848	14,728	17,276	19,301	21,432
EBITDA (HK$m)	4,165	5,014	6,436	6,958	7,493
Net profit (HK$m)	**3,213**	**4,014**	**5,402**	**5,796**	**6,328**
Fully diluted EPS (HK cents)	81.2	99.9	131.0	140.5	153.4
PE (x)	**7.8**	**11.9**	**9.1**	**8.5**	**7.8**
EV/EBITDA (x)	7.2	6.0	4.7	4.3	4.0
Yield (%)	6.31	7.57	10.58	11.37	12.41
ROE (%)	**24.4**	**22.0**	**28.3**	**26.7**	**25.6**
P/B (x)	1.9	1.4	1.3	1.2	1.0

Source: Company data, Sunwah Kingsway Research estimates

Share Data

52week Hi/Lo (HK$)	12.80/6.37
Avg. daily t/o (US$m)	21.1
Market cap. (US$m)	6,132
Total issued shares (m)	4,018.4
Public float (%) *	52.45%
Auditor	PWC
Major shareholder:	
Mr. Lee Yin Yee	21.61%
Mr. Tung Ching Sai	9.88%
Mr. Tung Ching Bor	8.25%
Mr. Lee Sing Din	7.81%

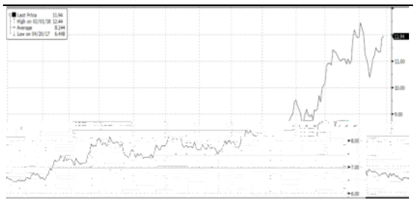
* The conversion of CBs issued to Och-Ziff was not factored in the calculation of public float.

Source: HKEx & Bloomberg

Company Profile

Xinyi is one of the largest glass makers in China. The company produces auto glass, construction glass and float glass.

Share Price Chart



Source: Bloomberg

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Valuation table

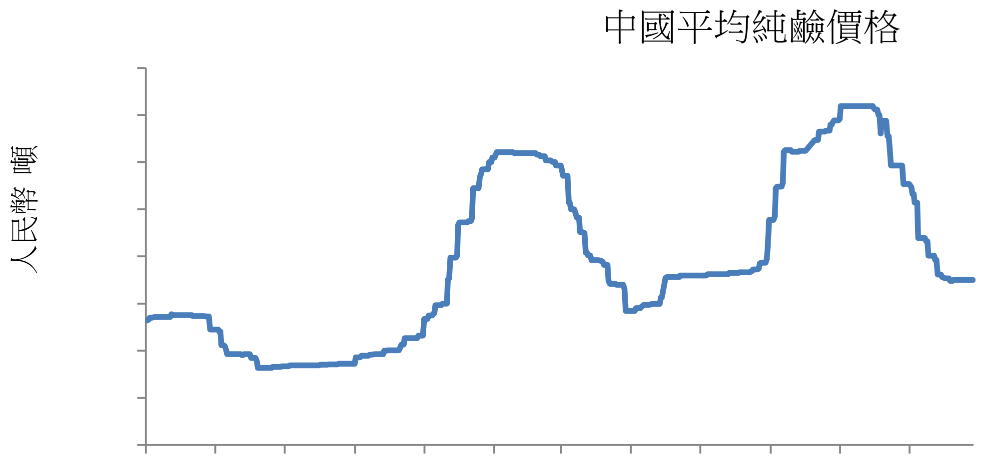
2018 earnings excluding XYS operations (HK$'m)	*4,392*	
Implied EPS (HK¢)	*109.4*	
Multiplied by: P/E ratio of XYG operations	*12x*	
XYG operations contribution		13.12
Add: Share of XYS TP		2.36
Standalone value (HK$)		**15.48**
Conglomerate discount		15.0%
Target price (HK$)		**13.16**

Source: Sunwah Kingsway Research estimates

Earnings revisions

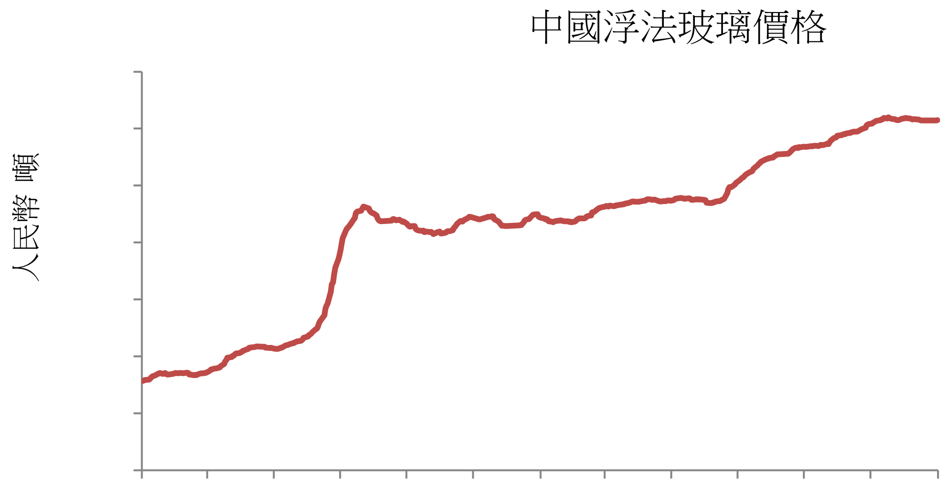
	2018F	2019F	2020F
Revenue (HK$'m) - new	**17,276**	**19,301**	**21,432**
old	17,129	19,096	N/A
change	0.9%		

Average China Soda Ash price since Mar 2016



Source: Wind

National float glass price since Mar 2016



Source: Wind

Financial forecasts

Years ended 31 Dec	2016	2017	2018F	2019F	2020F
Income statement (HK$'m)					
Revenue	**12,848**	**14,728**	**17,276**	**19,301**	**21,432**
COGS	(8,189)	(9,283)	(9,782)	(11,144)	(12,586)
Gross Profit	4,659	5,444	7,494	8,157	8,846
Other income	342	377	215	215	215
Other gains, net	159	317	0	0	0
Selling & marketing costs	(620)	(675)	(753)	(869)	(964)
Admin expense	(1,202)	(1,370)	(1,441)	(1,610)	(1,788)
Gain on spin-off	0	0	0	0	0
Operating profit	**3,338**	**4,093**	**5,515**	**5,894**	**6,308**
Add back: Depreciation	797	846	920	1,064	1,184
Add back: Amortization	30	75	0	0	0
EBITDA	**4,165**	**5,014**	**6,436**	**6,958**	**7,493**
Depreciation & Amortization	(827)	(921)	(920)	(1,064)	(1,184)
Finance income	51	55	27	24	23
Finance costs	(128)	(151)	(147)	(141)	(132)
Share of P/L of assos	563	700	1,010	1,175	1,369
Profit before tax	3,823	4,696	6,406	6,951	7,568
Income tax expense	(607)	(682)	(1,003)	(1,155)	(1,240)
Profit for the year	**3,216**	**4,014**	**5,402**	**5,796**	**6,328**
Less: MI	(3)	(0)	0	0	0
Net profit	**3,213**	**4,014**	**5,402**	**5,796**	**6,328**
Basic EPS (HK Cents)	82.78	101.14	134.51	144.31	157.57
Diluted EPS (HK Cents)	81.19	99.92	130.96	140.51	153.41

Years ended 31 Dec	2016	2017	2018F	2019F	2020F
Ratios					
Gross margin (%)	36.3	37.0	43.4	42.3	41.3
EBITDA margin (%)	32.4	34.0	37.3	36.0	35.0
Net margin (%)	25.0	27.3	31.3	30.0	29.5
Selling & dist'n/Sales (%)	4.8	4.6	4.4	4.5	4.5
Admin/Sales (%)	9.4	9.3	8.3	8.3	8.3
Payout ratio (%)					
Effective tax (%)	15.9	14.5	15.7	16.6	16.4
Total debt/equity (%)	58.2	46.4	38.8	36.4	25.8
Net debt/equity (%)	37.2	29.7	32.2	31.7	21.5
Current ratio (x)	1.1	1.5	1.0	1.0	1.1
Quick ratio (x)	0.9	1.2	0.7	0.7	0.8
Inventory T/O days	57	59	61	61	61
A/R T/O days	68	68	80	80	80
A/P T/O days	98	95	84	84	84
Working capital days	26	31	57	57	57
Asset turnover (x)	0.53	0.49	0.55	0.56	0.56
Financial leverge (x)	1.82	1.66	1.64	1.60	1.56
EBIT margin (%)	26.0	27.8	31.9	30.5	29.4
Interest burden (x)	1.1	1.1	1.2	1.2	1.2
Tax burden (x)	0.84	0.85	0.84	0.83	0.84
Return on equity (%)	**24.4**	**22.0**	**28.3**	**26.7**	**25.6**

Years ended 31 Dec	2016A	2017E	2018F	2019F	2020F
Cash flow (HK$'m)					
EBITDA	4,165	5,014	6,436	6,958	7,493
Non-cash adjustments	86	(18)	0	0	0
Changes in w orking capital	(218)	(758)	(805)	(545)	(581)
Operating cash	**4,032**	**4,238**	**5,631**	**6,413**	**6,912**
Taxes paid	(342)	(562)	(1,176)	(1,152)	(1,237)
Interest paid	(126)	(151)	(147)	(141)	(132)
Net cash from operations	**3,565**	**3,525**	**4,308**	**5,120**	**5,543**
Interest received	51	55	27	24	23
CAPEX	(1,756)	(3,366)	(3,000)	(3,000)	(2,500)
Disposals of assets	18	0	0	0	0
Acquisition/disposal of subsidiai	(618)	0	0	0	0
Change in non-demand deposits	(4)	(4)	7	0	0

As at 31 Dec	2016	2017
Balance Sheet (HK$'m)		
Leasehold land & land use rights	1,121	3,427
PPE	11,831	12,929
Investment properties	547	1,205
Prepmt for PPE & land use rights	608	300
Intangible assets	72	70
AFS financial assets	39	52
Investment in asso	3,258	4,416
Loans to an assp	49	27
Other non-current assets	0	0
Non-current assets	**17,524**	**22,426**
Inventories	1,321	1,698
Loans to assos + amt due from asso		

Source: Company data, Sunwah Kingsway Research Estimates

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