



Results Review

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Auto & Parts

RESEARCH

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ACCUMULATE

Xinyi Glass (868.HK)

Looking Forward to Another Good Year

Financial highlights

(HKD Mn)	2007A	2008A	2009A	2010E	2011E
Revenue	2,775	3,894	3,958	5,067	6,030
(+/-)	43.5%	40.4%	1.6%	28.0%	19.0%
EBIT	726	768	832	1,193	1,420
(+/-)	76.9%	5.7%	8.4%	43.4%	19.0%
Net income	671	709	774	1,077	1,216
EPS(HK\$)	0.39	0.42	0.44	0.61	0.69
(+/-)	60.9%	7.9%	3.8%	39.3%	12.8%
PE	18.47	17.47	16.02	11.50	10.20
PB	3.06	2.84	2.29	2.08	1.88
EV/EBITDA	14.29	12.56	11.83	8.97	7.41
ROE	16.6%	16.2%	14.3%	18.0%	18.4%
ROCE	15.6%	14.5%	13.0%	16.5%	17.0%
Dividend Yield	1.9%	2.9%	3.0%	4.2%	4.7%
P/OCFPS	25.93	10.61	8.74	23.67	7.88

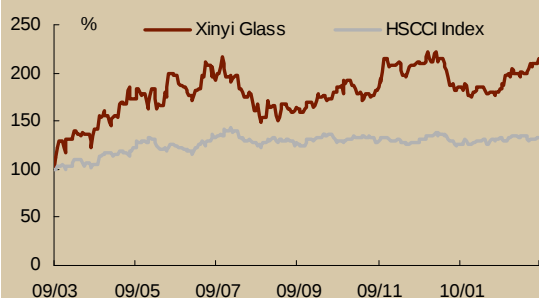
Share information

	H share
Bloomberg code	868 HK
Share price	HK\$6.99
Target price	HK\$8.7
Daily turnover (mn shs)	6.1
52wk high/low	7.4/1.7
Issued shares (mn)	1,773
Free float (mn)	1,773
Market cap (HK\$ mn)	11,817
Major shareholders (%)	Realbest (19.97%)

Recent price performance

	Last week	1m	3m	YTD
[868.HK]	+7.47	+16.34	+1.70	+1.99
[CICC H-share Index]	+1.72	+2.54	-3.39	-4.51
[CICC Auto&Parts Index]	-0.10	+9.31	+10.03	+8.72

52wk performance



Source: Company data, Bloomberg, CICC Research

2009 results in line:

Revenue edged up by 1.6% to HK\$3.96bn. Net profit grew by 9.1% to HK\$773.5mn, or HK\$ 0.446/sh. Total dividend for 2009 was HK\$0.21/sh, with dividend payout ratio of 48.1%. Xinyi Glass' 2009 results were 3.1% higher than our estimate, in line with expectation.

Positive:

- Gross margin improved by 5.8ppt to 36.9%, 6.1ppt higher than our original forecast of 30.5% thanks to the stronger than expected scale economy brought by surging revenue in 2H09.
- Operating cash flow realized a more rapid growth of 13.3%, outstripping net profit growth on the back of successful working capital management.

Negative:

G&A expenses to revenue ratio was 8.2%, 1.2ppt higher than our original forecast of 7%.

Trends to watch:

Boosted by strong demand from auto makers, export growth and solar industry improvement, together with aggressive capacity expansion, Xinyi Glass' top line could grow by 28% to HK\$5,067mn. Gross margin could still maintain stable level of 35.7% thanks to the scale economy brought by surging revenue.

Earnings revisions:

We raised our earning forecast by 5% for 2010 and 7% for 2011 to reflect the better than expected gross margin and maintain our target price of HK\$8.7 of 14.2X 2010 P/E.

Valuation and recommendation:

We believe the company's 2010 outlook is still promising. Current stock price still has 24% to our target price. ACCUMULATE reiterated.

Figure 1: 2009 results analysis

HK\$ mn	Interim data						Annual data			CICC Comments
	1H2007	2H2007	1H2008	2H2008	1H2009	2H2009	HoH	2008	2009	YoY
Revenue	1,224	1,550	1,884	2,011	1,628	2,330	43%	3,894	3,958	2%
Cost of sales	(732)	(971)	(1,232)	(1,451)	(1,166)	(1,330)	14%	(2,683)	(2,496)	-7%
Gross profit	493	580	651	560	463	999	116%	1,211	1,462	21%
GP margin	40.2%	37.4%	34.6%	27.8%	28.4%	42.9%	14.5%	31.1%	36.9%	5.8%
Other income	16	2	2	36	2	31	1204%	38	34	-12%
Other gains	25	32	29	17	103	(89)	n.m.	46	13	-71%
Selling and marketing costs	(143)	(144)	(162)	(156)	(130)	(139)	7%	(318)	(268)	-16%
Administrative expenses	(61)	(74)	(64)	(145)	(172)	(151)	-12%	(209)	(323)	55%
Operating profit	331	395	457	311	266	566	113%	768	832	8%
Operating margin	27.0%	25.5%	24.2%	15.5%	16.3%	24.3%	8.0%	19.7%	21.0%	1.3%
Finance income	2	7	3	6	3	4	36%	9	7	-26%
Finance costs	(14)	(20)	(26)	2	(10)	(5)	-51%	(24)	(15)	-37%
Net financial cost	(12)	(12)	(23)	8	(7)	(1)	-85%	(15)	(8)	-43%
Share of profit/(loss) of associate	1	1	0	0	0	0	84%	0	0	37%
Profit before income tax	319	384	434	319	259	565	118%	753	824	9%
Income tax expense	(18)	(12)	(24)	(18)	(32)	(15)	-54%	(42)	(47)	12%
Profit for the year	301	372	410	301	226	550	143%	711	777	9%
Minority interests	(1)	(1)	(8)	6	(1)	(2)	70%	(2)	(3)	98%
Net income	300	371	402	307	225	548	143%	709	774	9%
Net margin	24.5%	23.9%	21.3%	15.3%	13.8%	23.5%	9.7%	18.2%	19.5%	1.3%
EPS - Basic	0.187	0.224	0.238	0.181	0.133	0.313	135%	0.419	0.446	6%
EPS - Diluted	0.187	0.223	0.237	0.181	0.133	0.313	135%	0.418	0.446	7%
Dividends	144	169	186	152	106	261	145%	337	367	9%
Dividends payout ratio	48.1%	45.5%	46.1%	49.4%	47.2%	47.6%	0.4%	47.5%	47.5%	0.0%

Financial ratio										
GP margin	40.2%	37.4%	34.6%	27.8%	28.4%	42.9%	14.5%	31.1%	36.9%	5.8%
Selling cost / Revenue	11.7%	9.3%	8.6%	7.8%	8.0%	5.9%	-2.0%	8.2%	6.8%	-1.4%
Administrative expenses / Revenue	4.9%	4.8%	3.4%	7.2%	10.6%	6.5%	-4.1%	5.4%	8.2%	2.8%
Effective tax rate	5.7%	3.1%	5.6%	5.6%	12.5%	2.6%	-9.9%	5.6%	5.8%	0.1%
Net margin	24.5%	23.9%	21.3%	15.3%	13.8%	23.5%	9.7%	18.2%	19.5%	1.3%

Gross margin improved due to the scale economy brought by surging revenue in 2H09.

Mainly due to the provision for impaired receivables

Source: Company data, CICC Research

Figure 2: Annual Production Capacity Projection

Annual Production Capacity Projection	2009	2010E	2011E
Automobile glass - Aftermarket ('000 pcs)	10,500	11,000	11,500
Automobile glass - OEM ('000 sets)	700	1,700	2,700
Low-emission coated construction glass ('000 sq.m)	9,000	12,000	15,000
TCO coating glass ('000 sq.m)	170	1,300	3,180
Float glass ('000 melting tons / year)	1,119	1,705	3,243
Ultra-clear PV glass ('000 melting tons / year)	125	292	562
Estimated Capital Expenditure (HK\$ million)	1,364	1,500	1,400

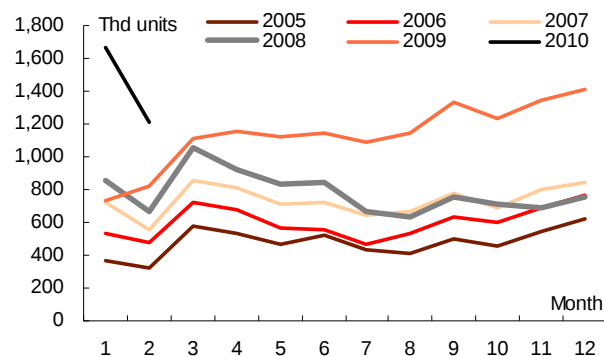
Source: Company data

Figure 3: Earning forecast revision

HK\$ MN	2009A				2010E				2011E			
	Actual	Before	After	Change	Before	After	Change		Before	After	Change	
Revenue	3,958	5,214	5,067	-2.8%	6,204	6,030	-2.8%		6,204	6,030	-2.8%	
COGS	2,496	3,519	3,259	-7.4%	4,202	3,891	-7.4%		4,202	3,891	-7.4%	
Gross profit	1,462	1,696	1,808	6.6%	2,002	2,140	6.9%		2,002	2,140	6.9%	
Other income	34	54	53	-2.8%	65	63	-2.8%		65	63	-2.8%	
Selling expenses	268	339	343	1.3%	403	409	1.3%		403	409	1.3%	
G&A	323	339	380	12.1%	403	440	9.2%		403	440	9.2%	
Other gains	13	63	56	-10.9%	74	66	-10.9%		74	66	-10.9%	
Financial expenses	8	20	20	0.0%	20	20	0.0%		20	20	0.0%	
PBT	824	1,115	1,173	5.2%	1,314	1,400	6.5%		1,314	1,400	6.5%	
Income tax	47	89	94	5.2%	171	182	6.5%		171	182	6.5%	
Minority interests	-3	-2	-2	5.2%	-3	-3	6.5%		-3	-3	6.5%	
Net income	774	1,024	1,077	5.2%	1,141	1,215	6.5%		1,141	1,215	6.5%	
EPS (HK\$)	0.44	0.58	0.61	5.2%	0.64	0.69	6.5%		0.64	0.69	6.5%	

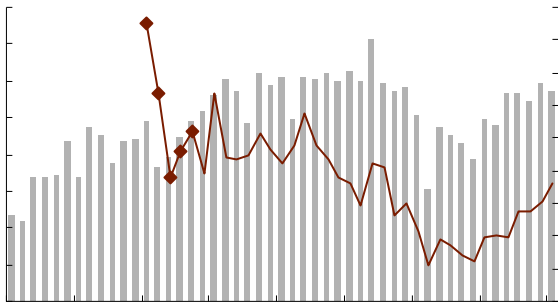
Source: Company data, CICC Research

Figure 4: Monthly auto sales in China



Source: CAAM

Figure 5: China auto glass export (tempered)



Source: CAAM

Figure 7: Newly built housing volume

Source: Drcnet, CEIC

Figure 9: Float glass price

Source: CEIC

Figure 6: China auto glass export (laminated)

Source: CAAM

Figure 8: Average daily vehicle-distance traveled

Source: US Transportation Department

Figure 10: Insulated glass production

Figure 11: Historical and forecasted financial data

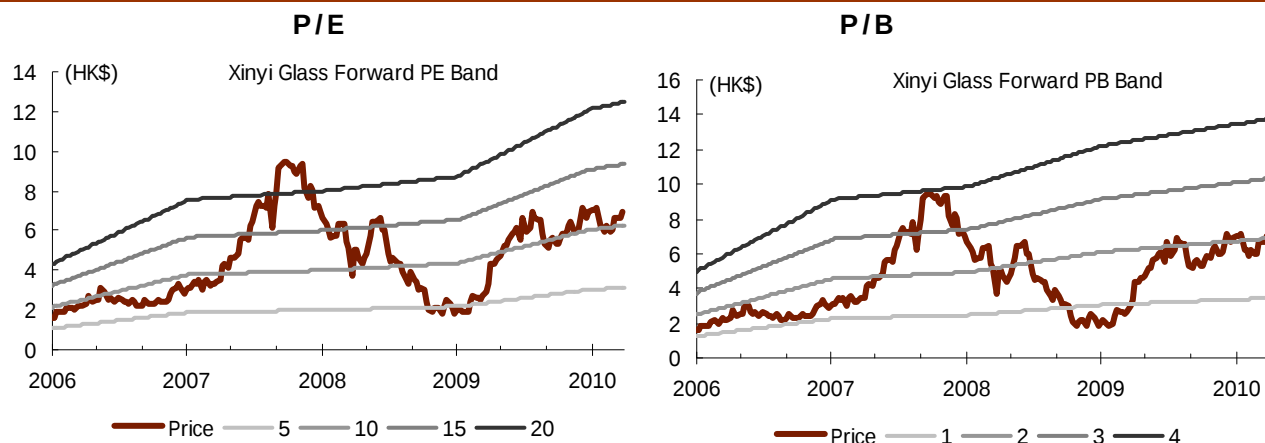
Income Statement(HK\$ mn)	2006A	2007A	2008A	2009A	2010E	2011E
Turnover	1,933	2,775	3,894	3,958	5,067	6,030
Cost of goods sold	-1,233	-1,702	-2,683	-2,496	-3,259	-3,891
Gross profit	700	1,072	1,211	1,462	1,808	2,140
Other revenues	10	18	38	34	53	63
Selling & distribution costs	-211	-286	-318	-268	-343	-409
General & admin expenses	-111	-135	-209	-323	-380	-440
Other gains	22	57	46	13	56	66
EBITDA	508	869	1,000	1,095	1,499	1,750
EBIT	410	726	768	832	1,193	1,420
Net interest income/(expense)	-8	-25	-15	-8	-20	-20
Profit before taxation	402	703	753	824	1,174	1,400
Taxation	-16	-30	-42	-47	-94	-182
Profit after taxation	386	673	711	777	1,080	1,218
Minority interests	2	-2	-2	-3	-2	-3
Net profit	388	671	709	774	1,077	1,216
Weighted EPS (HK\$)	0.24	0.39	0.42	0.44	0.61	0.69
DPS (HK\$)	0.11	0.13	0.20	0.21	0.29	0.33
Balance Sheet(HK\$ mn)	2006A	2007A	2008A	2009A	2010E	2011E
Cash & cash equivalents	162	310	436	532	336	820
Trade & other receivables	569	675	661	844	1,378	1,266
Inventories	371	511	612	678	750	955
Total current assets	1,189	1,559	1,765	2,106	2,561	3,117
Intangible asset	0	81	90	95	94	93
Net fixed assets	2,043	3,718	4,627	5,794	5,989	6,160
Investment	12	12	16	14	15	15
Non-current assets	2,056	3,811	4,733	5,903	6,098	6,268
Trade and other payables	571	626	879	1,447	1,231	1,327
Current tax liabilities	12	14	22	25	25	25
ST loans	335	424	722	580	880	880
Current liabilities	919	1,065	1,623	2,052	2,139	2,232
Shareholder's funds	2,248	4,045	4,369	5,411	5,970	6,601
Minority interests	-	2	0	20	22	25
Ratios	2006A	2007A	2008A	2009A	2010E	2011E
Gross margin	36%	39%	31%	37%	36%	35%
ROE	17%	17%	16%	14%	18%	18%
ROA	12%	12%	11%	10%	12%	13%
ROCE	17%	16%	15%	13%	17%	17%
Debt/Equity	0.16	0.19	0.13	0.19	0.09	0.04
Current ratio	1.3	1.5	1.1	1.0	1.2	1.4
Quick ratio	0.9	1.0	0.7	0.7	0.8	1.0
Receivables turnover days	89.2	81.8	62.6	69.4	80.0	80.0

Source: Company data, CICC Research

Figure 12: Valuations of comparables

Company	Category	Price 10-3-29	Market Cap MN USD	P/E							P/B							EV/EBITDA							EPS Growth %					CAGR 07-11		
				06A	07A	08A	09E	10E	11E	06A	07A	08A	09E	10E	11E	06A	07A	08A	09E	10E	11E	07A	08A	09E	10E	11E						
China A-Share Listcos																																
Weichai Power A	CV	67.87	7,866	85.4	28.0	29.3	16.6	15.0	13.6	18.9	8.9	7.1	4.8	3.5	2.8	53.9	15.4	16.0	10.5	9.7	8.9	205%	-4%	76%	10%	11%	20%					
CNHCTC Jinan Truck	CV	27.50	1,690	51.4	16.1	24.4	27.0	16.6	14.0	8.7	5.7	4.6	4.0	3.3	2.7	17.7	8.8	14.4	13.5	9.8	8.5	220%	-34%	-10%	62%	19%	3%					
Yutong Bus	CV	18.50	1,409	43.6	25.5	18.1	18.8	16.3	15.3	7.7	3.6	5.7	4.9	4.0	3.3	26.1	14.7	17.1	13.6	11.9	11.3	71%	41%	-4%	15%	7%	14%					
Beiqi Foton Motor	CV	20.25	2,719	n.a.	48.0	53.7	17.9	14.7	12.7	12.4	9.7	6.2	4.6	3.6	2.9	81.4	25.3	33.5	11.6	9.3	7.9	n.m.	-11%	200%	22%	16%	39%					
King Long Motor	CV	9.46	613	27.4	15.3	21.3	25.6	19.3	17.0	4.3	3.4	3.0	2.8	2.4	2.2	9.8	8.0	11.2	10.4	8.4	7.5	78%	-28%	-17%	33%	14%	-2%					
Jiangling Motor	CV	21.76	2,752	31.1	24.7	23.9	17.8	15.0	13.0	6.2	5.3	4.6	3.9	3.2	2.7	19.9	18.6	20.6	14.4	12.9	12.1	26%	3%	35%	19%	15%	17%					
Jianghuai Auto	CV/PV	10.71	2,022	33.5	42.0	241.8	41.1	16.1	13.6	4.5	3.4	3.4	3.2	2.8	2.4	18.9	18.3	25.0	14.2	9.6	8.8	-20%	-83%	488%	156%	18%	33%					
Chang'an Auto A	PV	12.32	4,198	55.3	43.1	1,184.6	26.7	14.6	12.4	4.1	3.8	3.8	3.3	2.7	2.2	29.3	n.a.	n.a.	38.6	25.6	34.9	28%	-96%	4343%	83%	18%	37%					
FAW Car	PV	22.04	5,255	103.2	64.9	33.0	22.0	17.2	15.2	6.7	6.2	5.5	4.7	4.0	3.3	49.1	25.3	23.7	20.9	18.8	16.3	59%	97%	50%	28%	13%	44%					
FAW Xiali	PV	9.88	2,309	47.8	91.8	157.6	89.2	68.5	60.5	4.8	4.8	4.8	4.6	4.4	4.1	102.3	n.a.	n.a.	n.a.	n.a.	n.a.	-48%	-42%	77%	30%	13%	11%					
SAIC Motor	PV	20.45	19,638	94.0	28.9	376.6	20.3	14.4	13.1	4.2	3.6	3.9	3.4	2.9	2.6	58.1	37.0	110.2	29.1	24.6	20.1	71%	-92%	1752%	41%	10%	22%					
Dongan Auto Engine	Parts	15.94	1,079	205.7	48.9	45.9	26.7	24.2	11.6	4.6	4.2	3.9	3.4	3.0	1.4	83.4	72.9	674.9	64.6	78.3	73.9	71%	6%	72%	11%	109%	43%					
Zhongding Sealing Parts	Parts	14.60	910	n.a.	51.7	46.5	31.1	19.6	16.3	n.a.	12.2	12.9	7.4	5.4	4.0	n.a.	39.8	28.0	18.5	14.7	12.9	n.m.	11%	50%	59%	20%	33%					
Huayu Automotive	Parts	9.31	3,523	41.1	20.8	22.6	16.4	14.7	13.1	4.4	2.2	3.2	2.1	1.8	1.6	238.4	142.3	55.6	46.2	41.3	35.3	97%	-8%	38%	11%	12%	12%					
FAWAY	Parts	26.93	835	n.m.	118.7	30.1	16.0	13.5	11.7	5.2	5.0	4.3	3.6	3.1	2.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	295%	88%	19%	15%	78%					
Fuyao Glass	Parts	12.51	3,671	40.8	27.3	101.9	22.4	14.7	12.0	8.9	7.1	7.7	5.7	4.5	3.6	24.9	19.6	29.6	17.1	12.8	11.3	49%	-73%	355%	52%	23%	23%					
Weifu Hi-tech	Parts	18.72	1,556	120.3	46.1	54.9	36.2	33.9	30.0	4.8	4.4	4.2	4.0	3.8	3.6	29.2	27.3	72.2	33.6	42.2	44.3	161%	-16%	52%	7%	13%	11%					
Aeolus Tyres	Parts	13.83	760	202.8	33.2	n.a.	14.8	15.4	13.7	4.3	3.8	3.7	3.0	2.5	2.1	49.0	15.9	18.2	9.6	9.1	8.1	511%	n.m.	n.m.	-3%	12%	25%					
Guizhou Tyres	Parts	17.60	656	78.2	51.3	87.4	20.8	25.0	21.9	4.1	3.8	3.7	3.1	2.8	2.5	15.3	13.9	15.4	9.5	10.3	10.2	53%	-41%	320%	-17%	14%	24%					
Qingdao Doublestar	Parts	8.71	670	118.8	44.6	n.a.	21.8	25.2	22.4	3.9	3.5	3.9	3.3	2.9	2.6	28.5	17.9	99.3	11.0	11.9	11.3	166%	n.m.	n.m.	-14%	13%	19%					
Median				66.8	43.1	46.5	22.0	16.3	13.6	4.8	4.4	4.3	3.9	3.2	2.7	29.3	19.1	26.5	14.4	12.8	11.3	71%	-16%	72%	22%	14%	22%					
Median-CV				28.3	25.5	24.4	18.8	16.1	13.6	7.7	5.3	4.6	4.0	3.3	2.7	19.9	15.4	17.1	13.5	9.7	8.8	75%	-11%	35%	22%	15%	17%					
Median-PV				74.7	54.0	267.1	24.3	15.9	14.1	4.5	4.3	4.3	4.0	3.4	3.0	53.6	31.1	67.0	29.1	24.6	20.1	44%	-67%	915%	36%	13%	29%					
Median-Parts				113.9	47.5	50.7	22.1	21.9	13.4	4.6	4.3	4.1	3.5	3.0	2.6	39.1	27.3	55.6	18.5	14.7	12.1	84%	-12%	62%	11%	15%	23%					
HK Listcos																																
Weichai Power H	CV	61.20	7,865	67.7	22.2	23.2	13.2	11.9	10.8	15.0	7.0	5.6	3.8	2.8	2.2	21.5	6.1	6.4	4.2	3.9	3.4	205%	-4%	76%	10%	11%	20%					
Qingling	CV	2.13	681	68.1	35.5	30.4	18.7	17.2	14.9	0.8	0.8	0.8	0.7	0.7	0.7	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	92%	17%	63%	9%	15%	24%					
CBA	PV	2.25	1,447	n.m.	84.9	101.8	n.m.	20.6	16.8	1.4	1.4	1.4	2.0	2.0	1.8	88.1	16.7	n.m.	n.m.	15.6	14.5	n.m.	-17%	n.m.	n.m.	23%	50%					
Geely Auto	PV	4.16	3,918	80.3	67.8	27.7	20.5	16.6	14.1	16.7	9.2	6.4	4.4	3.5	2.8	n.m.	n.m.	51.4	13.2	10.2	8.4	19%	144%	35%	24%	18%	48%					
Denway	PV	4.22	4,086	12.2	12.9	13.3	14.1	13.3	11.9	2.7	2.4	2.2	2.0	1.8	1.6	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	-5%	-4%	-6%	6%	12%	2%					
Great Wall	CV/PV	15.08	2,127	17.8	15.5	28.3	14.2	11.6	9.6	3.5	2.3	2.2	1.9	1.7	1.5	15.7	11.0	18.0	n.m.	2.3	1.9	15%	-45%	99%	23%	21%	13%					
DF Motor	PV	12.84	14,248	46.7	25.8	24.1	14.9	13.2	12.2	6.8	5.5	4.6	3.6	2.9	2.5	13.6	11.2	9.2	6.3	5.7	4.8	81%	7%	61%	13%	8%	21%					
Sinotruk	CV	8.41	2,464	32.0	18.4	23.2	21.2	13.7	11.6	21.7	1.9	1.8	1.2	1.1	1.0	16.3	11.6	15.7	10.9	8.6	7.3	74%	-21%	10%	55%	18%	12%					
Xinyi Glass Holding	Parts	6.99	1,594	31.9	18.5	17.5	16.0	11.5	10.2	5.0	3.0	2.7	2.4	2.2	1.9	27.2	16.0	14.0	12.7	8.9	7.0	73%	6%	9%	39%	13%	16%					
Mintih Group Ltd	Parts	13.08	1,629	40.4	32.3	29.5	20.1	16.6	14.0	9.2	4.2	3.8	3.3	2.9	2.5	31.0	20.9	17.2	n.m.	10.5	8.8	25%	10%	46%	21%	19%	23%					
Median				40.4	24.0	25.9	16.0	13.5	12.0	5.9	2.7	2.5	2.2	2.1	1.8	21.5	11.6	15.7	10.9	8.8	7.1	73%	1%	46%	21%	17%	20%					
Median-CV				67.7	22.2	23.2	18.7	13.7	11.6	15.0	1.9	1.8	1.2	1.1	1.0	18.9	8.9	11.1	7.5	6.3	5.4	92%	-4%	63%	10%	15%	20%					
Median-PV				32.3	25.8	27.7	14.6	13.3	12.2	3.5	2.4	2.2	2.0	2.0	1.8	15.7	11.2	18.0	9.8	7.9	6.6	17%	-4%	48%	18%	18%	21%					
Median-Parts				36.1	25.4	23.5	18.1	14.1	12.1	7.1	3.6	3.3	2.9	2.5	2.2	29.1	18.4	15.6	12.7	9.7	7.9	49%	8%	28%	30%	16%	20%					
India Listcos																																
Ashok Leyland	CV	53.7	1,587	15.9	15.2	37.6	n.m.	n.m.	n.m.	3.8	3.3	2.1	n.m.	n.m.	n.m.	13.3	11.5	19.7	n.m.	n.m.	n.m.	4%	-60%	n.m.	n.m.	n.m.	n.m.					
TATA	CV/PV	742.0	8,523	13.6	13.6	n.m.	61.7	15.9	10.5	3.8	3.4	6.4	4.7	3.8	2.7	20.5	19.5	11.1	11.6	8.1	6.6	0%	n.m.	n.m.	287%	51%	7%					
M&M	CV	555.3	7,133	17.6	16.9	21.5	16.3	14.7	13.0	5.4	4.3	4.3	3.9	3.2	2.6	23.1	11.5	11.6	11.2	10.4	10.1	4%	-22%	32%	11%	13%	7%					
Maruti	PV	1,412.2	9,061	25.7	22.8	33																										

Figure 13: Historical P/E and P/B bands



Source: Bloomberg, CICC Research

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