Investment positives

Why a BUY rating?

Improving business climate, rising ASPs to boost EPS.

Auto glass leader boasts high margins in overseas aftermarket.

Overseas expansion to support long-term growth.

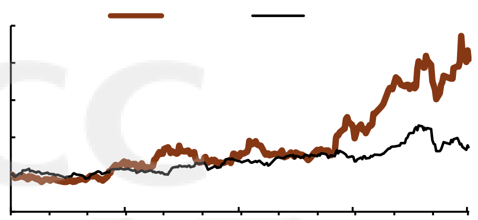
How do we differ from the market?

Potential catalysts:

Financials and valuation

XYG's P/E (10.1x) now
We resume coverage of the stock with a target price of HK$16, equivalent to 12.7x 2018e P/E.

Risks



Coral Keyue LI, CFA Yan CHEN, CFA

Financial statement (HKD mn)	2016A	2017A	2018E	2019E
Income statement				
Balance sheet				
Cash flow statement				

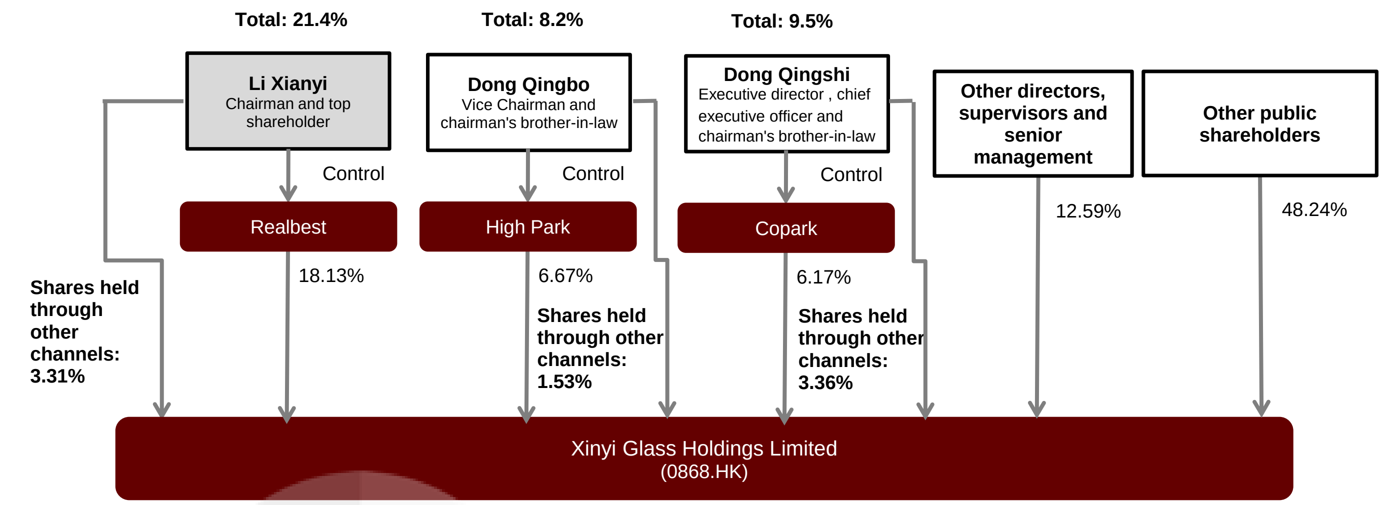
Financial ratios	2016A	2017A	2018E	2019E
Growth ability				
Profitability				
Liquidity				
Return				
Per-share data				
Valuation				

Contents

Figures

Xinyi Glass: a leading glass manufacturer with an international presence

Management and shareholder structure



Investment highlights

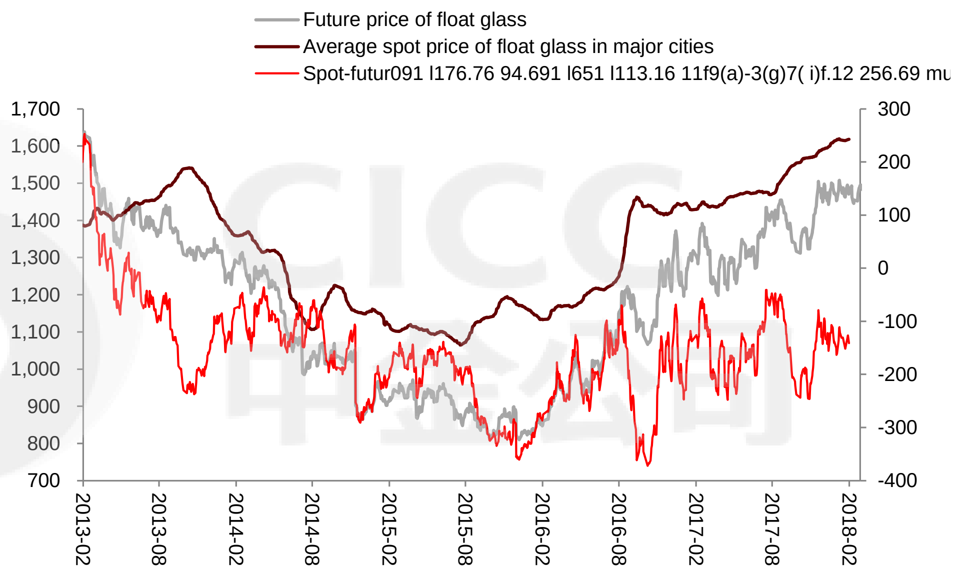
Company	Currency	Price	P/E			P/B			PEG		
		2018/3/8	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Xinyi Glass*	HKD	12.3	12.3	9.8	8.3	2.7	2.3	2.0	0.5	0.4	0.5
Kibing Group*	RMB	6.6	15.5	9.0	7.5	2.7	2.2	1.9	0.4	0.1	0.4
Fuyao Group-A	RMB	26.3	19.8	16.6	14.4	3.4	3.0	2.7	3.3	0.9	0.9
Fuyao Group-H	HKD	32.3	24.5	18.2	n.a.	4.2	3.7	n.a.	4.7	0.5	n.a.
CSG	RMB	8.0	21.3	18.0	14.5	2.4	2.3	2.2	1.2	1.0	0.6
Avic Sanxin	RMB	7.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jinjing Science & Technology	RMB	4.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yaohua Pilkington Glass Group	RMB	4.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ancai Hi-Tech	RMB	8.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shandong Pharmaceutical Glass	RMB	19.7	21.7	17.5	14.2	1.8	1.7	1.6	0.5	0.7	0.6
Sanxia New Building Materials	RMB	7.4	21.5	17.3	14.4	n.a.	n.a.	n.a.	0.2	0.7	0.7
Triumph Science & Technology	RMB	7.1	37.1	25.6	16.9	1.8	1.7	1.6	0.4	0.6	0.3
Northglass Technology	RMB	3.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xiuqiang Glasswork	RMB	6.1	21.3	17.6	14.1	2.7	2.4	2.1	0.5	0.8	0.6
Changzhou Almaden	RMB	18.8	143.4	45.0	30.1	1.4	1.3	1.3	6.2	0.2	0.6
Jiuding New Materia	RMB	9.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Golden Glass Technologies	RMB	8.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Luoyang Glass	RMB	18.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Feilihua Quartz Glass	RMB	14.5	32.7	25.7	20.2	4.6	4.0	3.4	1.5	0.9	0.7
Average			**33.7**	**20.0**	**15.5**	**2.8**	**2.5**	**2.1**	**1.8**	**0.6**	**0.6**
Median			**21.5**	**17.6**	**14.4**	**2.7**	**2.3**	**2.0**	**0.5**	**0.7**	**0.6**

(Note: Companies with asterisk use CICC estimates, others are based on market consensus.)

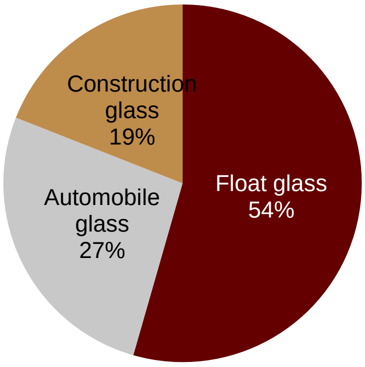
	Production capacity		Total capacity		
	Daily melting (t/d)	Annual capacity (weight box)	Daily melting (t/d)	Annual capacity (weight box)	Productivity utilization rate
Xinyi Glass	17,100	10,260	17,100	10,260	100%
Kibing Group	16,600	9,960	16,600	9,960	100%
CSG Holding	7,650	4,590	9,400	5,640	81%
Hebei Yingxin Group	8,450	5,070	8,750	5,250	97%
China Glass	6,100	3,660	8,250	4,950	74%
Taiwan Glass	7,200	4,320	8,250	4,950	87%
Zhejiang Glass	5,000	3,000	7,500	4,500	67%
Farun Group	1,950	1,170	7,610	4,566	26%
Greatwall Glass	6,350	3,810	6,350	3,810	100%
Anquan Industrial	5,450	3,270	5,950	3,570	92%
Jinjing Group	3,450	2,070	5,600	3,360	62%
Top 10 glass producers' output	**85,300**	**51,180**	**101,360**	**60,816**	**84%**
Total output in China	**148,710**	**89,226**	**215,220**	**129,132**	69%
CR10 (portion of total capacity)	**57%**		**47%**		

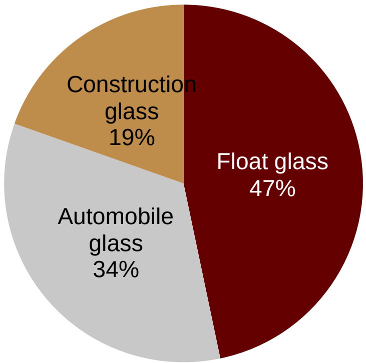
Leading producer of float glass benefitting from cyclical industry recovery

Float glass supply-demand balance to be tight, average prices to rise in 2018.



Heavy exposure to quality float glass to boost earnings.





Cost advantages growing as environmental rules push up cost curve of smaller suppliers.

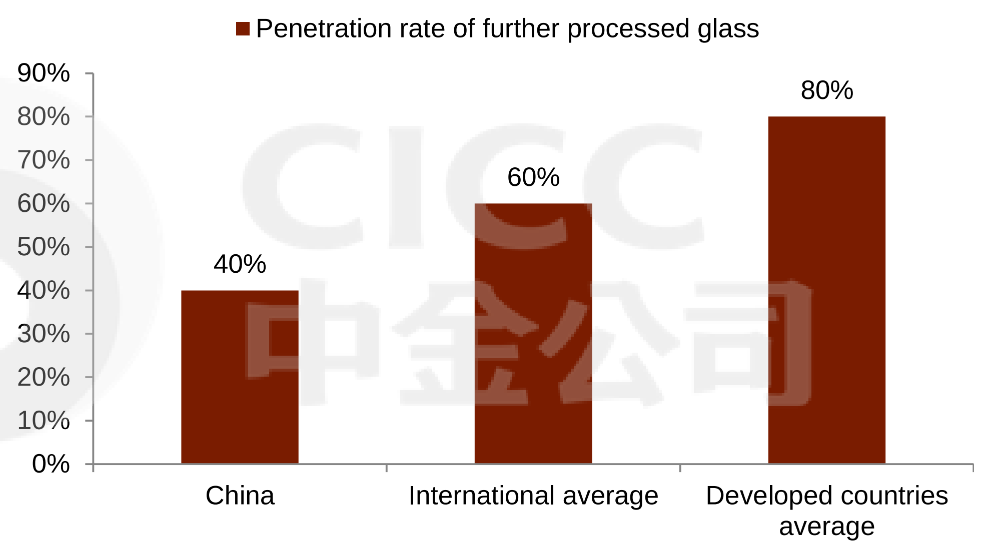
In addition, XYG's further-processed glass plants source float glass in-house, making the firm immune to the risk of a rise in float glass costs and giving it a significant cost advantage over processors that have to buy float glass.

	Production Line	Daily melting capacity (tonnes)	Annual capacity (mn weight boxes)	Production start at
1	Humen Line1 (white float glass)	700	4.20	2006.03
2	Humen Line2 (A grade white float glass)	500	3.00	2006.07
3	Humeni Line3 (A grade white float glass)	600	3.60	2007.06
4	Humen Line4 (white float glass)	900	5.40	2007.10
5				

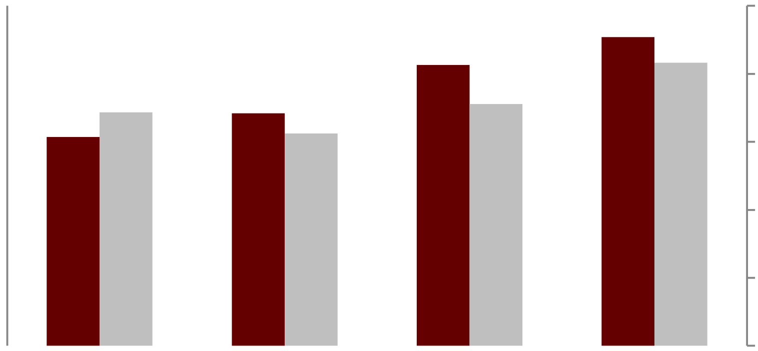
Dedication to quality float glass to benefit XYG as further-processed glass penetration rises

Rising further-processed glass penetration, product upgrading to boost demand for quality float glass.

Quality float glass accounts for only small part of China's total production capacity, and temporary supply shortages are likely.



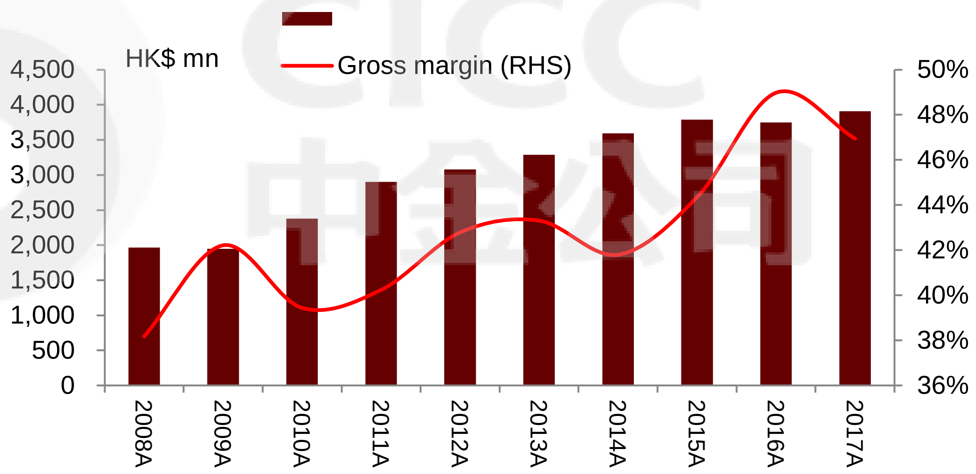
China's top seller of quality float glass.



Automotive glass: focus on automobile aftermarkets; new production lines to support growth

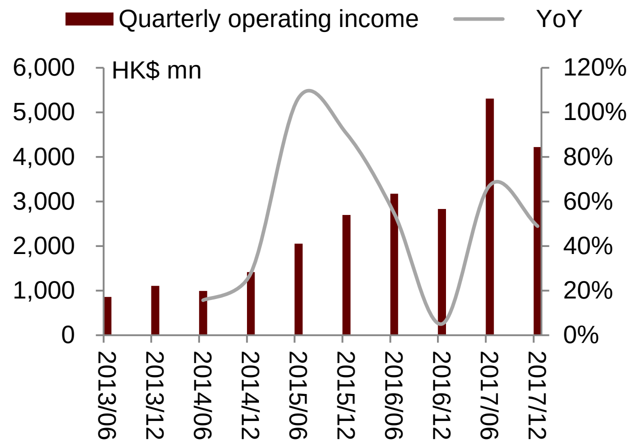
Automotive glass leader focused on aftermarkets and enjoying rising gross margin.

New capacity to support revenue growth.

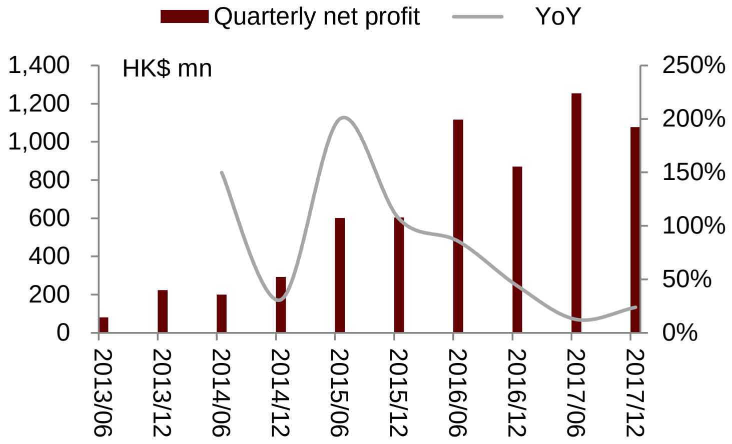


Architectural glass: XYG a leader in Chinese market that generates enormous demand

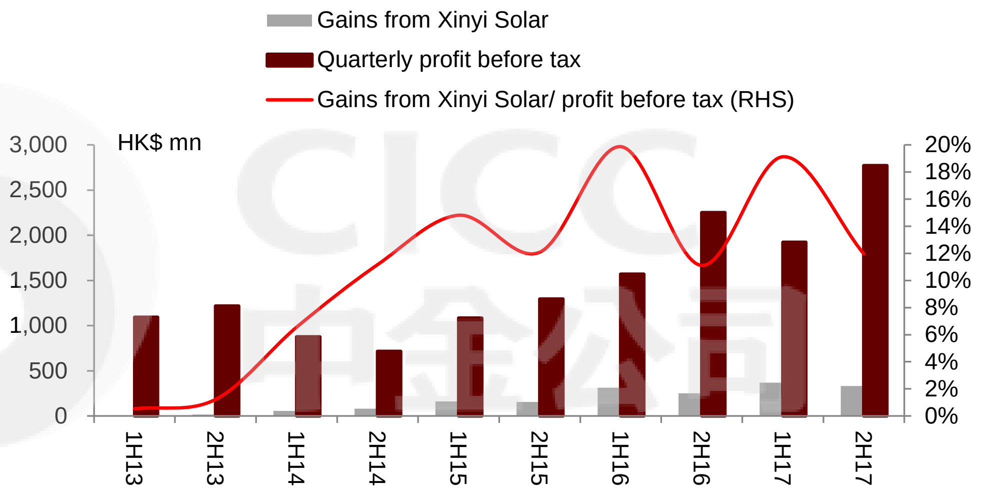
A leading, technologically strong player.



Quarterly operating income
YoY
HK$ mn
6,000
5,000
4,000
3,000
2,000
1,000
0
120%
100%
80%
60%
40%
20%
0%
2013/06
2013/12
2014/06
2014/12
2015/06
2015/12
2016/06
2016/12
2017/06
2017/12



Quarterly net profit
YoY
HK$ mn
1,400
1,200
1,000
800
600
400
200
0
250%
200%
150%
100%
50%
0%
2013/06
2013/12
2014/06
2014/12
2015/06
2015/12
2016/06
2016/12
2017/06
2017/12

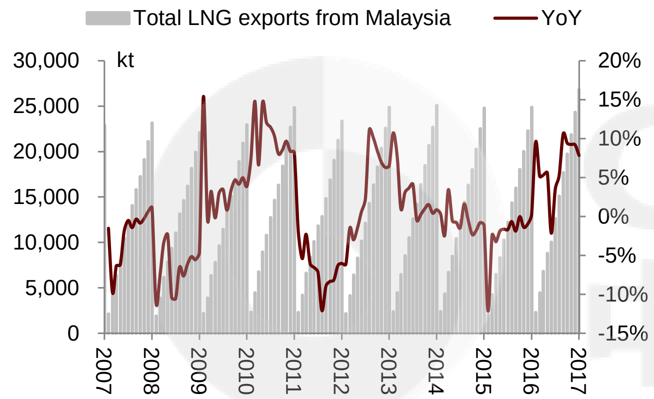


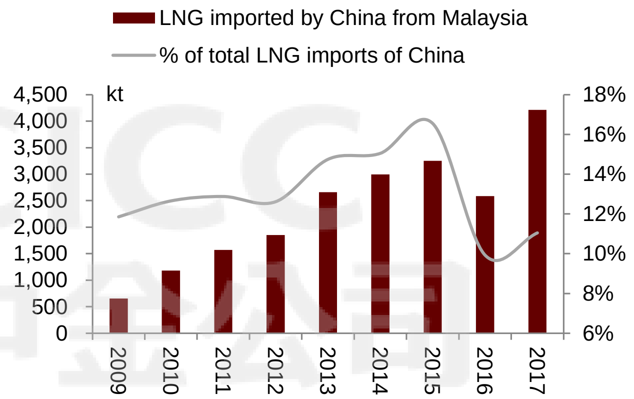
Gains from Xinyi Solar
Quarterly profit before tax
Gains from Xinyi Solar/ profit before tax (RHS)
HK$ mn
3,000
2,500
2,000
1,500
1,000
500
0
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
1H13
2H13
1H14
2H14
1H15
2H15
1H16
2H16
1H17
2H17

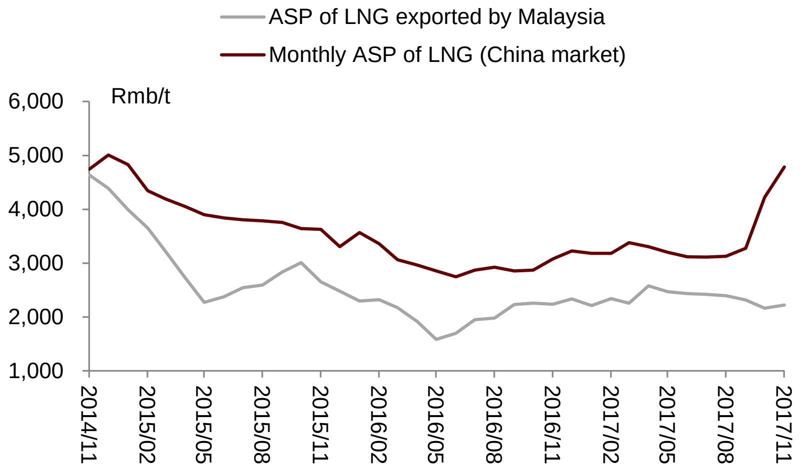
Malaysia: Low costs, preferential trade and tax treatment make for an ideal base

Production lines in Malaysia to come online gradually.

Glass plant margins higher in Malaysia than China thanks to lower raw material and fuel costs.



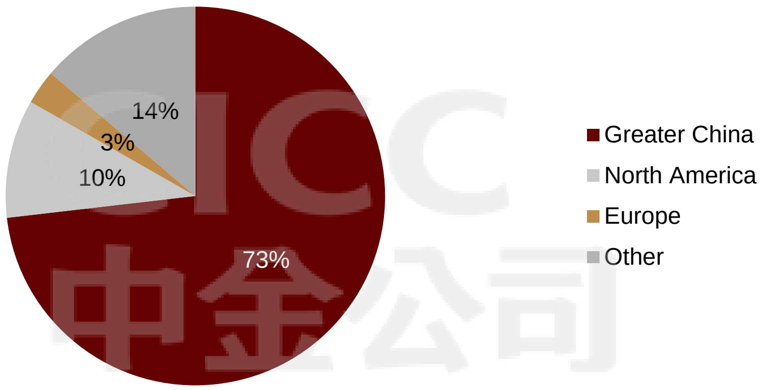




Malaysia plants export to neighboring countries, enjoy preferential trade and tax treatment.

Canada: Building production capacity in North America to take advantage of cheaper energy

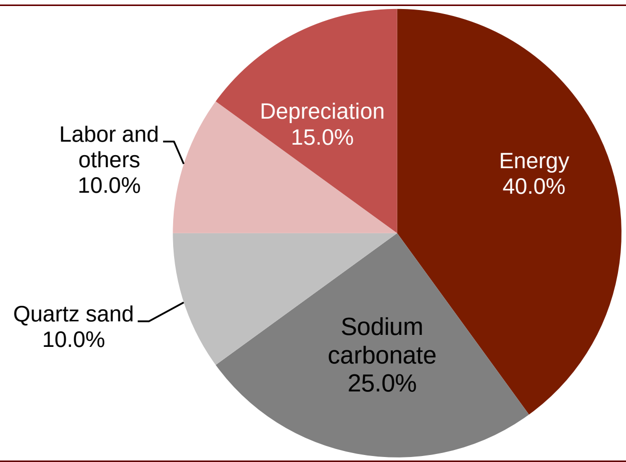
North America a major overseas market.



Soon to become only local producer of quality float glass in Canada.

Cheap natural gas in North America boosts gross margin.

[1] P

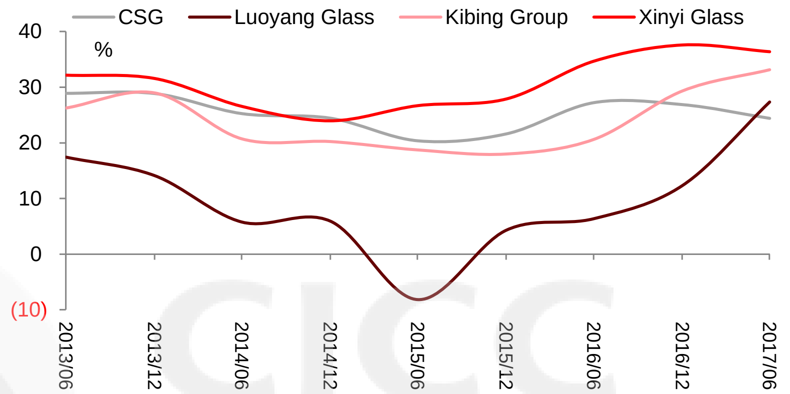


Overseas bases to contribute over 20% of earnings and become new profit growth engine.

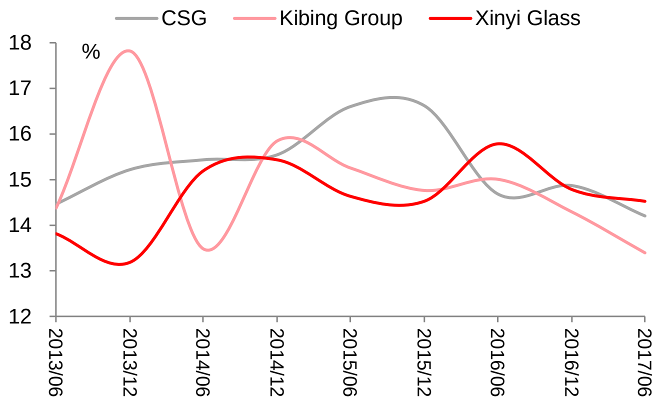
	2016A	2017E	2018E	2019E	2020E
Production capacity (kt)					
Float glass (Malaysia)	360	360	900	960	960
Float glass (Canada)				450	600
ASP (HK$/t)					
Float glass (HK$/t)	1,661	1,909	2,061	2,165	2,186
Revenue (HK$ mn)					
Float glass (Malaysia)	598	687	1,855	2,078	2,099
Float glass (Canada)				974	1,312
Total	**598**	**687**	**1,855**	**3,052**	**3,410**
Gross margin					
Float glass (Malaysia)	28%	32%	35%	38%	39%
Float glass (Canada)				31%	34%
Gross profit (HK$ mn)					
Float glass (Malaysia)	164	218	655	790	821
Float glass (Canada)				302	441
Total	**164**	**218**	**655**	**1,092**	**1,262**
Overseas production contributions					
Revenue of XYG (HK$ mn)	**12,848**	**14,728**	**16,758**	**18,739**	**20,778**
Gross profit of XYG (HK$ mn)	**4,659**	**5,444**	**6,677**	**7,714**	**8,668**
Overseas production revenue contribution	5%	5%	11%	16%	16%
Overseas production profit contribution	4%	4%	10%	14%	15%

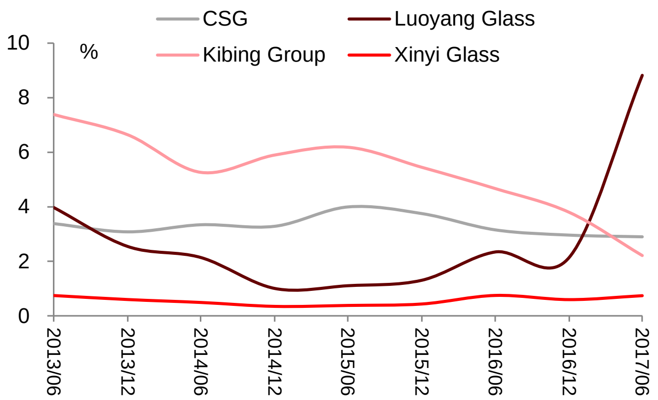
	2016A	2017E	2018E	2019E	2020E	2021E
Production capacity overseas (kt)	360	360	900	1,500	2,300	3,000
ASP (HK$/t)	1,661	1,909	2,061	2,165	2,186	2,208
Revenue (HK$ mn)	**598**	**687**	**1,855**	**3,247**	**5,028**	**6,624**
Gross margin	28%	32%	35%	36%	37%	38%
Gross profit (HK$ mn)	**164**	**220**	**655**	**1,169**	**1,860**	**2,517**
Overseas production contributions						
Revenue of XYG (HK$ mn)	**12,848**	**14,728**	**16,758**	**18,739**	**20,778**	**21,942**
Gross profit of XYG (HK$ mn)	**4,659**	**5,444**	**6,677**	**7,714**	**8,668**	**9,263**
Overseas production revenue contribution	5%	5%	11%	17%	24%	30%
Overseas production profit contribution	4%	4%	10%	15%	21%	27%

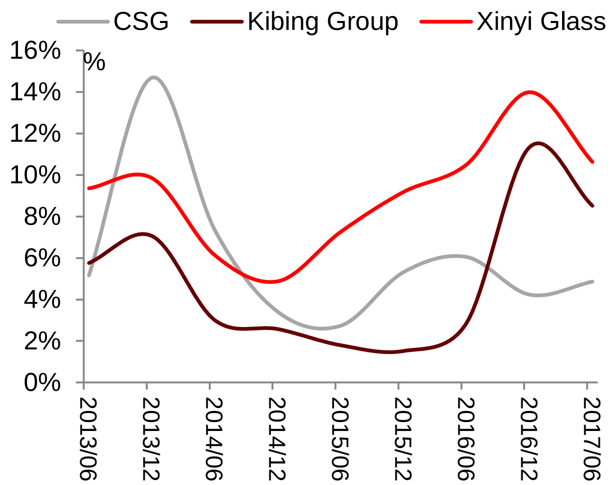
Gross margin higher than industry average thanks to heavy exposure to high-end products.

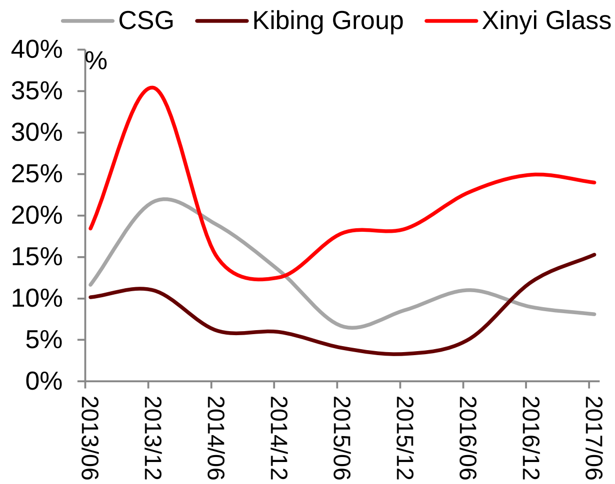


Boasts relatively low overall expense ratio and much lower financial expense ratio than peers.









Dividend yield of 5% incentivizes management to hold shares.

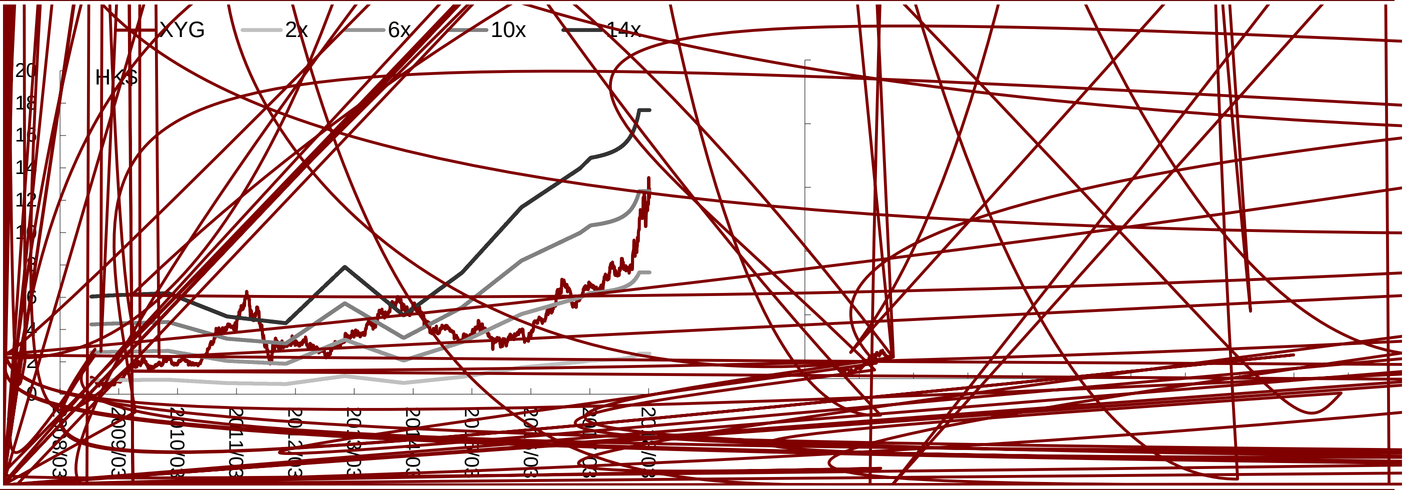
Earnings forecast: improving industry business climate to drive profit growth

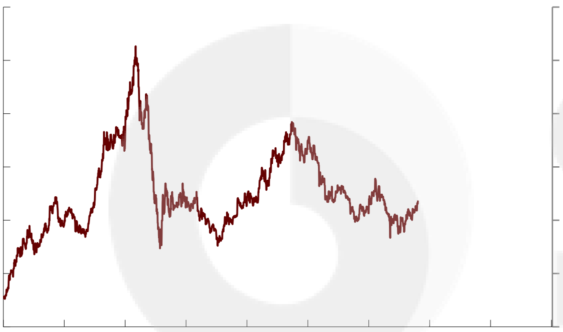
Key assumptions	2013A	2014A	2015A	2016A	2017A	2018E	2019E
Sales volume							
Float glass (kt, to external customers)	2,818	3,387	3,401	3,920	4,200	4,711	5,239
	12,198	13,430	13,600	13,736	13,940	13,940	13,940
	15,000	21,000	27,750	33,113	33,113	33,113	33,113
ASP							
Float glass (HK$/t)	1,595	1,391	1,477	1,661	1,909	2,061	2,165
YoY		*-13%*	*6%*	*12%*	*15%*	*8%*	*5%*
Automotive glass (HK$/piece)	269	268	278	273	280	295	309
YoY		-1%	4%	-2%	3%	5%	5%
Architectural glass (HK$/sqm)	144	122	96	78	85	89	93
YoY		-15%	-21%	-18%	8%	5%	5%
Costs							
Float glass (HK$/t)	1,292	1,294	1,313	1,204	1,303	1,272	1,277
YoY		0%	1%	-8%	8%	-2%	0%
Among which: cost of sodium carbonate (HK$/t)	*323*	*323*	*328*	*301*	*326*	*310*	*310*
Automotive glass (HK$/piece)	153	156	155	139	149	159	170
YoY		2%	0%	-10%	7%	7%	7%
Architectural glass (HK$/sqm)	86	79	63	47	52	57	59
YoY		-9%	-20%	-26%	11%	8%	5%
Gross profit per unit							
Float glass (HK$/t)	303	97	163	457	605	790	888
YoY		-68%	68%	180%	33%	30%	12%
Automotive glass (HK$/piece)	117	112	123	134	132	135	139
YoY		-4%	10%	8%	-1%	3%	3%
Architectural glass (HK$/sqm)	57	43	32	31	32	32	34
YoY		-25%	-25%	-4%	3%	0%	5%
Gross margin							
Float glass	19%	7%	11%	28%	32%	38%	41%
Automotive glass	43%	42%	44%	49%	47%	46%	45%
Architectural glass	40%	35%	34%	40%	38%	36%	36%
Average gross margin	**32%**	**25%**	**27%**	**36%**	**37%**	**40%**	**41%**

EPS YoY						
		-5%	0%	**5%**	10%	15%
Float glass ASP YoY	0%	-1%	5%	**12%**	18%	25%
	4%	6%	12%	**19%**	25%	32%
	8%	**13%**	**19%**	**26%**	**32%**	**39%**
	12%	20%	26%	**33%**	39%	46%
	16%	27%	33%	**40%**	46%	53%

HKD mn	2013A	2014A	2015A	2016A	2017A	2018E	2019E
Fixed assets	10,459	11,293	11,971	11,831	12,929	14,357	15,596
Equity investment	2,123	2,362	2,535	3,258	4,416	5,320	6,378
Deferred tax assets	1,390	1,287	1,206	1,121	3,427	3,427	3,427
	1,142	1,286	714	1,276	1,607	1,603	1,599
Total non-current assets	**15,114**	**16,229**	**16,426**	**17,486**	**22,379**	**24,707**	**27,000**
Current assets							
Inventories	1,232	1,478	1,223	1,321	1,698	1,639	1,792
Trade receivables	2,255	2,487	2,381	2,377	3,072	3,100	3,467
Cash and bank balances	1,042	831	1,298	2,763	3,049	5,418	7,425
	7	9	93	76	107	104	109
Total current assets	**4,537**	**4,805**	**4,995**	**6,537**	**7,926**	**10,261**	**12,793**
Total assets	**19,651**	**21,034**	**21,422**	**24,022**	**30,305**	**34,968**	**39,793**
Current liabilities							
Trade payables	1,744	1,978	2,112	2,297	2,554	2,634	2,881
Bank loans due within one year	2,116	2,529	2,514	3,165	2,068	1,568	1,568
	219	294	333	538	535	609	681
Total current liabilities	**4,079**	**4,801**	**4,959**	**6,000**	**5,157**	**4,810**	**5,129**
Non-current liabilities							
Bank loans due after one year	3,024	3,483	3,514	4,509	6,399	8,288	9,288
Deferred tax liabilities	160	159	159	218	335	335	335
	180	255	63	48	108	108	108
Total non-current liabilities	**3,364**	**3,898**	**3,737**	**4,775**	**6,842**	**8,732**	**9,732**
Total liabilities	**7,442**	**8,699**	**8,696**	**10,775**	**11,999**	**13,542**	**14,860**
Capital and reserves							
Share capital	392	392	392	389	402	402	402
Reserves	11,816	11,941	12,326	12,792	17,835	20,955	24,461
Non-controlling interest	1	2	7	66	69	69	70
Total shareholders' equity	**12,209**	**12,335**	**12,726**	**13,247**	**18,306**	**21,426**	**24,932**

HKD mn	2013A	2014A	2015A	2016A	2017E	2018E	2019E
Net cash flows generated from operating activities	**2,712**	**1,455**	**2,637**	**3,565**	**4,670**	**6,603**	**7,277**
Net cash flows generated from investing activities	**-3,121**	**-1,578**	**-1,520**	**-2,280**	**-6,266**	**-3,697**	**-3,850**
Net cash flows generated from financing activities	**770**	**-72**	**-625**	**225**	**-770**	**-536**	**-1,421**
Net change in cash and cash equivalents for the period	**361**	**-195**	**492**	**1,510**	**-2,366**	**2,370**	**2,006**
Effect of FX changes on cash and bank balances	1	-17	-25	-45	0	0	0
Opening	**680**	**1,042**	**831**	**1,298**	**2,763**	**3,049**	**5,418**
Ending	**1,042**	**831**	**1,298**	**2,763**	**3,049**	**5,418**	**7,425**


XYG
2x
6x
10x
14x
HK$
20
18
16
14
12
10
8
6
4
2
0
2009/03
2010/03
2011/03
2012/03
2013/03
2014/03
2015/03
2016/03
2017/03
2018/03



Risks

Continued on next page

CICC
中金公司