Equity Research l China l Glass 9 December 2016

New headquarter for global expansion

- **Xinyi Glass ("Xinyi") has acquired a plot of land with a total site area of 13,675 sqm in Qianhai, where it intends to build a new headquarters to cope with global development.**
- **On the core operation, management expects the margins uptrend will likely be sustainable through 2017, with increasing contributions coming from its Malaysia project.**
- **Reiterate BUY and maintain price target of HKD8.0, representing 9.0x FY17E PER.**

Potential benefits of establishing new headquarters in Qianhai. Xinyi is paying RMB30,096/sqm according to the construction plan with a total GFA of 62,000sqm, assuming a plot ratio of 4.53 to the existing site area. According to management, this site costs only half of the current market value of the surrounding commercial buildings. Based on the monthly market rent in Shenzhen's Qianhai financial district, this project could offer an estimated 7.5% yield if we assume an all-in investment cost of RMB40,000/sqm. Xinyi plans to set up its new headquarters here to oversee its China and Malaysia operations.

Project to be fully funded by cash on hand. According to CEO Mr. Tung Ching Sai, the investment would be carried over three years and will be fully funded by the cash on hand, and it won't change the existing dividend policy. Based on our estimation, net gearing would increase to 34.9% from 23.9% as at end-2017, but remain healthy compared to the historical level.

Expect solid margins for major products in 2H16. Management guided that the rising costs would be passed onto the end-users through higher glass product prices. The glass futures price on the Zhengzhou Commodity Exchange has gained 16% since the fourth quarter. By segments, float glass and construction glass posted record high sales volumes, while auto glass margins have further improved on higher capacity utilisation.

Increasing contributions to come from Malaysia project in 2017. Xinyi's Malaysia high-quality float glass project is scheduled to commence production in 1Q17. Management expects strong growth potentials for the market as the supply shortage of float glass in Malaysia shall remain as well as rising import demand from Taiwan.

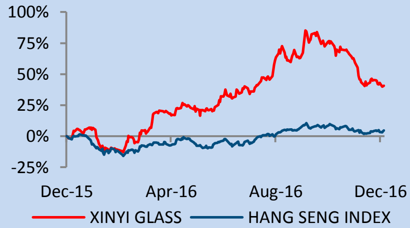
Maintain BUY rating and PT of HKD8.0. XYG is trading at the low-end of the PBR band during 2011 and 2016. As we have no major change on our estimate. Pegging to 2.0x FY17E PBR, we maintain our price target at HKD8.0, representing merely 9.0x FY17E PER and an estimated dividend yield of 7.3% in FY17F.

Xinyi Glass (868 HK)

Buy
(unchanged)

Price Target	**HK$8.0**	
(Revision)	(-%)	
(up/downside)	(31.3%)	
EPS revision	2016E N/A	2017E (-0.4%)
Close price	HKD6.09	
Market cap.	HKD23,700 mn	
Free float	45.56%	
52-week range	HKD3.25 – 7.73	
3-mth ave. T/O	HKD86.11 mn	

Stock rel HSI performance (%)



Analysts

Duncan CHAN

(CE No.: ALH659)

duncanchan@csci.hk +852 3465 5654

Figure 1: T102-0263 land parcel

Figure 2: Map of the acquired landbank

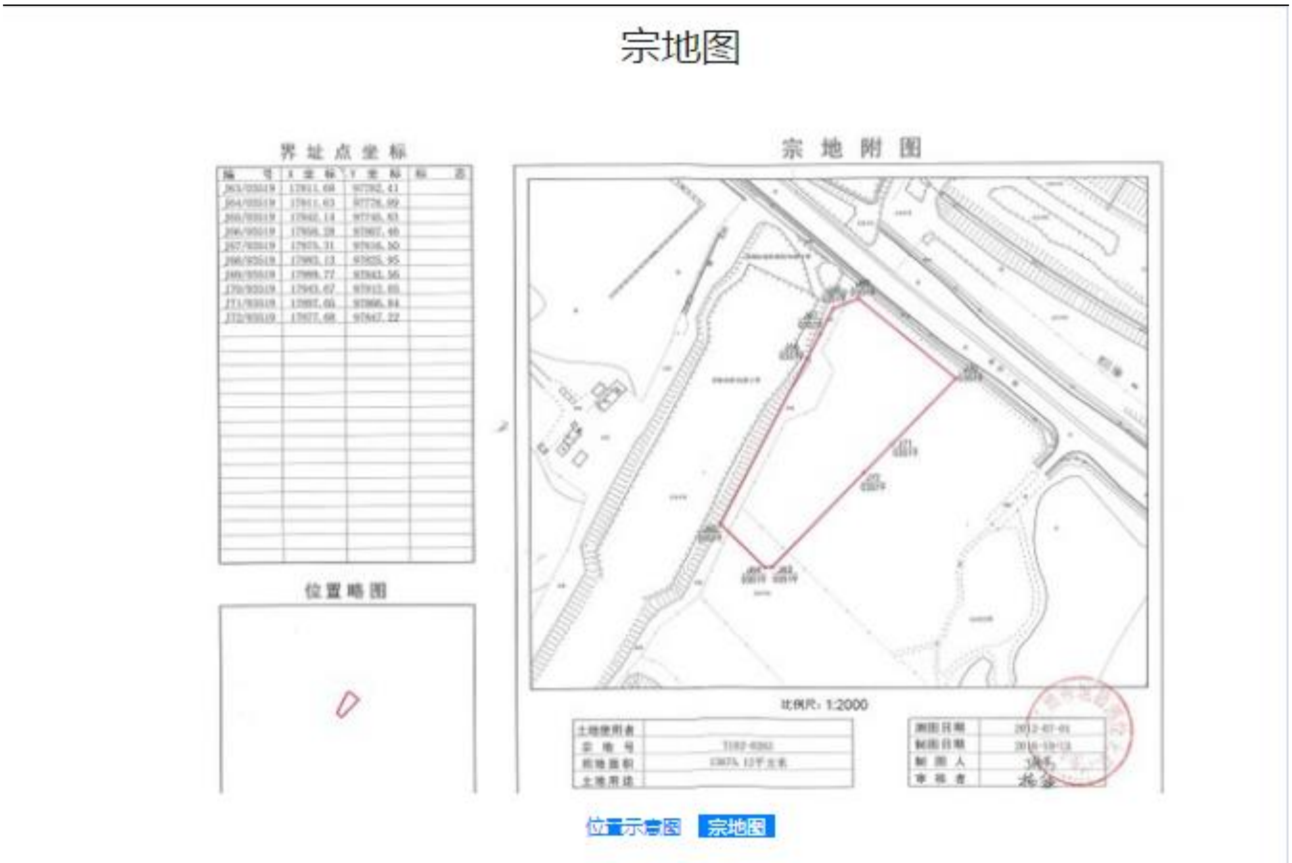


Figure 3: China's glass futures price

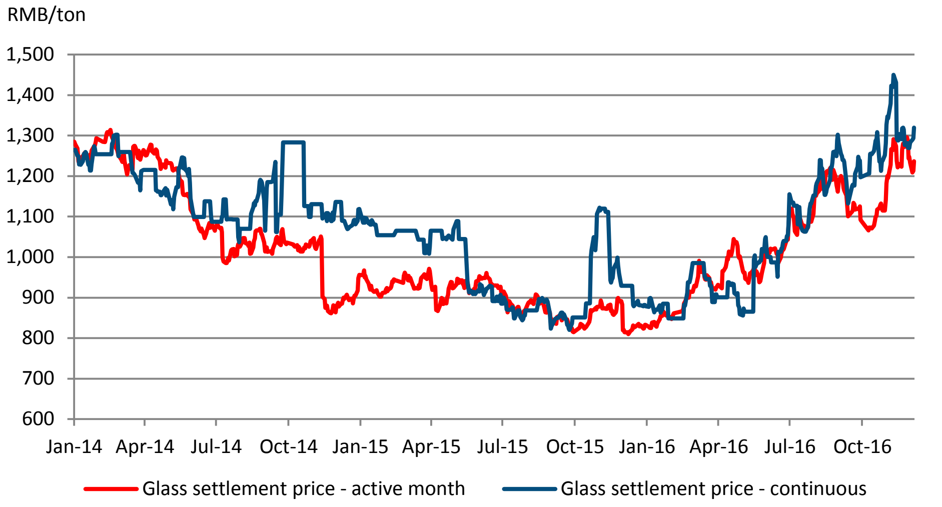


Figure 4: China's float glass spot price

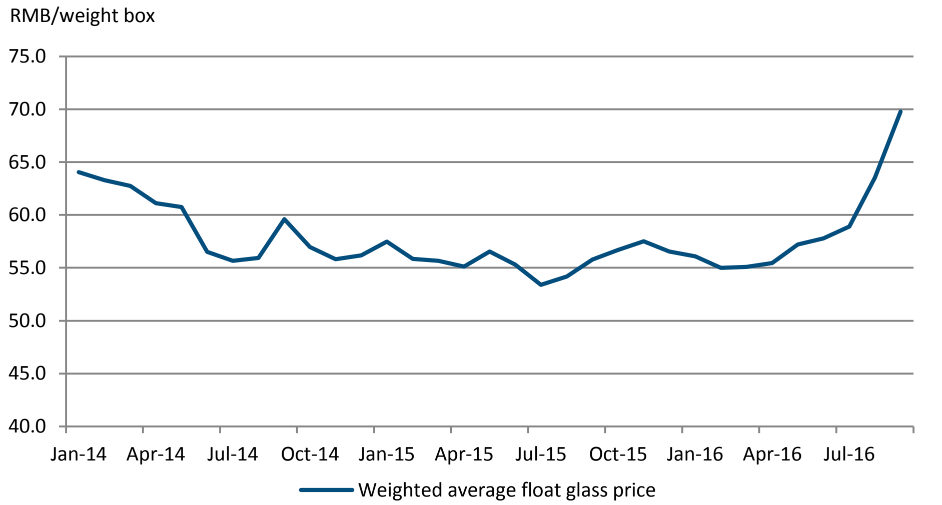


Figure 5: China's float glass production and inventories

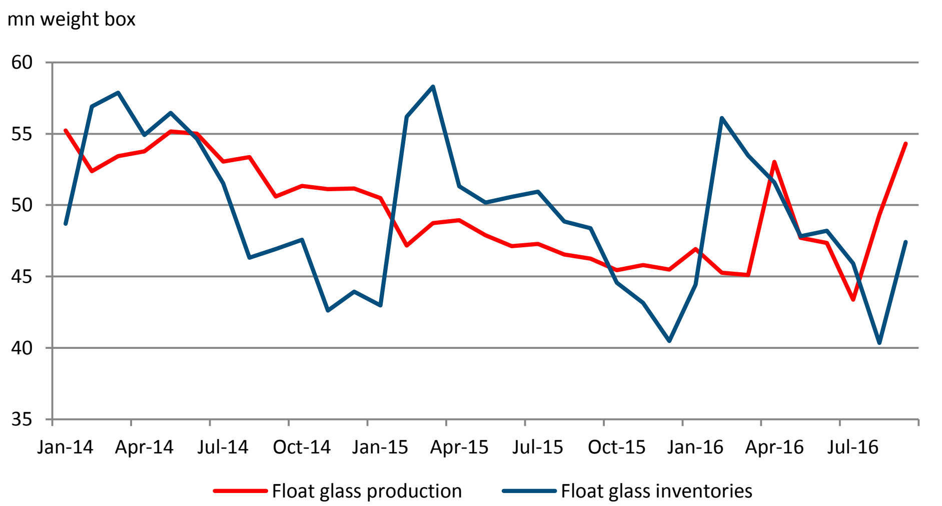


Figure 6: PBR band

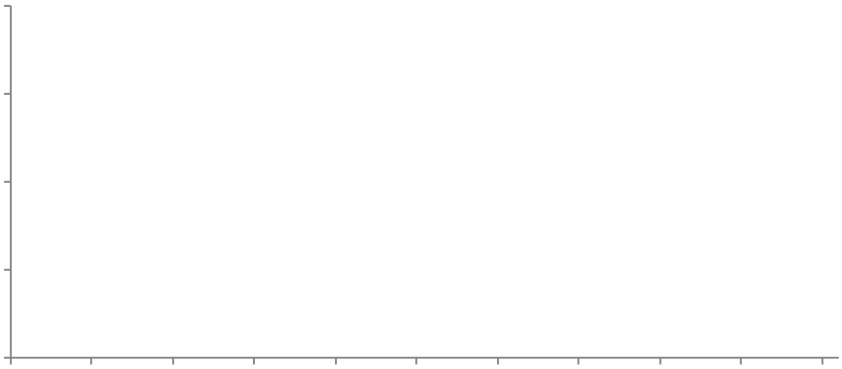


Figure 7: PER band

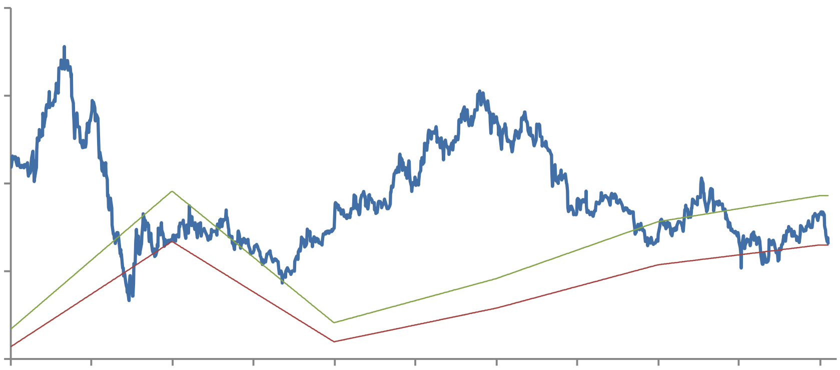


Figure 8: Peer valuation

Company	Ticker	Ccy	Close (Local$)	Mkt cap (US$b)	PER (x) 2016E	PER (x) 2017E	EPS Growth (%) 2016E	EPS Growth (%) 2017E	PBR (x) 2016E	PBR (x) 2017E	ROE (%) 2016E	ROE (%) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Net debt / Equity (%) 2016E
Glass																
PPG INDS INC	PPG US	USD	98.2	25.9	16.6	15.4	4.1	8.0	5.1	5.0	31.3	38.0	11.2	10.7	1.6	53.1
ASAHI GLASS CO	5201 JP	JPY	826.0	8.6	26.3	19.7	(17.5)	33.2	1.0	0.9	3.4	4.9	6.3	5.9	2.2	29.2
FUYAO GLASS IN-H	3606 HK	HKD	22.2	6.8	16.1	14.4	16.0	12.9	2.7	2.5	17.6	18.4	9.6	8.3	3.7	1.8
FUYAO GLASS-A	600660 CH	CNY	18.3	6.8	15.4	13.7	14.3	12.4	2.5	2.4	17.3	18.2	9.7	8.4	4.4	2.2
CSG HOLDING CO-A	000012 CH	CNY	12.4	3.0	28.1	22.8	56.5	22.6	2.8	2.7	10.4	12.3	13.7	10.8	N/A	N/A
XINYI GLASS	868 HK	HKD	5.7	2.9	7.3	6.4	54.1	14.4	1.6	1.4	21.8	22.4	7.1	6.3	6.7	34.0
NIPPON ELEC GLAS	5214 JP	JPY	654.0	2.9	53.2	24.5	(26.6)	118.2	0.7	0.6	1.2	2.6	6.0	5.6	2.4	(6.7)
XINYI SOLAR HLDS	968 HK	HKD	2.6	2.2	8.7	6.7	57.1	28.6	2.3	1.8	30.0	31.4	7.2	5.5	5.1	49.9
TAIWAN GLASS IND	1802 TT	TWD	13.4	1.2	(46.9)	(421.9)	N/A	(90.0)	0.8	0.8	N/A	N/A	N/A	N/A	N/A	N/A
SHANGHAI YAOH-A	600819 CH	CNY	7.5	0.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NIPPON SHEET GLA	5202 JP	JPY	912.0	0.7	(16)	16.1	(11,473.2)	(110.5)	0.7	1.1	-35.2	5.9	6.7	6.8	-	N/A
FLAT GLASS GROUP	6865 HK	HKD	1.8	0.4	4.9	4.8	N/A	3.1	0.8	0.8	18.7	20.2	2.4	2.1	4.5	N/A
LUOYANG GLASS-H	1108 HK	HKD	5.2	0.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
LUOYANG GLASS-A	600876 CH	CNY	N/A	0.4	N/A	N/A	(176.2)	37.5	N/A	N/A	4.5	6.2	N/A	N/A	N/A	N/A
CHINA GLASS HLDG	3300 HK	HKD	0.9	0.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
XINYI AUTOMOBILE	8328 HK	HKD	1.4	0.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average					11.6	(25.2)	(1,149.1)	7.5	1.9	1.8	11.0	16.4	8.0	7.0	3.4	23.4

Figure 9: Xinyi Glass

Income statemen[redacted]

Year end: Dec	[redacted]	2015	2016E	2017E	201[redacted]
Revenue	[redacted]	11,460	13,321	14,773	[redacted]
COGS	[redacted]	(8,328)	(8,551)	(9,509)	[redacted]
Gross profit	[redacted]	3,133	4,771	5,264	[redacted]
Selling expenses	[redacted]	(680)	(790)	(876)	[redacted]
General and administra[redacted]	[redacted]	(935)	(1,087)	[redacted]	[redacted]
Other opex	[redacted]	594	226	[redacted]	[redacted]
EBITDA	[redacted]	3,225	4,396	[redacted]	[redacted]
Depreciation & Amortiz[redacted]	[redacted]	(795)	(684)	[redacted]	[redacted]
EBIT	[redacted]	2,430	3,713	[redacted]	[redacted]
Interest income	[redacted]	112	[redacted]	[redacted]	[redacted]
Interest expense	[redacted]	(163)	[redacted]	[redacted]	[redacted]
JVs and associates	[redacted]	317	[redacted]	[redacted]	[redacted]
Others	[redacted]	-	[redacted]	[redacted]	[redacted]
Pretax profit	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Taxation	[redacted]	[redacted]	[redacted]	[redacted]	[illegible]
Minority interests	[redacted]	[redacted]	[redacted]	[redacted]	(1)
Net profit	[redacted]	[redacted]	[redacted]	[redacted]	3,846
Net profit (adjusted)	[redacted]	[redacted]	[redacted]	[redacted]	3,846
Basic EPS (RMB)	[redacted]	[redacted]	[redacted]	0.91	0.98
Diluted EPS (RMB)	[redacted]	[redacted]	[redacted]	0.91	0.98
DPS (RMB)	[redacted]	[redacted]	[redacted]	0.44	0.48

[redacted]KD mn)

[redacted]	2014	2015	2016E	2017E	2018E
[redacted]	1,631	2,430	3,713	4,290	4,604
[redacted]tion	644	795	684	818	882
[redacted]	38	50	76	80	78
[redacted]	(228)	(266)	(407)	(631)	(679)
[redacted]g capital	(202)	375	(624)	(228)	(157)
[redacted]	(428)	(772)	(152)	(160)	(156)
[redacted]rom operations	1,455	2,612	3,289	4,168	4,572
[redacted]	(1,691)	(1,834)	(1,700)	(3,366)	(2,100)
[redacted]sitions	(105)	(130)	-	-	-
[redacted]posals	116	292	-	-	-
[redacted]thers	103	152	-	-	-
Cash flow from investing	(1,578)	(1,520)	(1,700)	(3,366)	(2,100)
Dividends	(902)	(608)	(1,573)	(1,742)	(1,873)
Issue of shares	-	-	-	-	-
Change in debt	1,003	(18)	500	500	500
Others	(173)	1	-	-	-
Cash flow from financing	(72)	(625)	(1,073)	(1,242)	(1,373)
Change in cash	(195)	467	517	(440)	1,099
Free cash flow	(236)	778	1,589	802	2,472

Balance sheet (HK[redacted]

Year end: Dec	[redacted]	2015	2016E	2017E	2018E
Cash	[redacted]	1,298	1,815	1,375	[illegible]
Short term investments	-	-	-	-	[illegible]
Accounts receivables	2,487	2,381	2,829	3,138	[illegible]
Inventory	1,478	1,223	1,387	1,542	[illegible]
Other current assets	9	93	93	93	93
Total current assets	4,805	4,995	6,124	6,148	7,565
PP&E	11,293	11,971	12,987	15,536	16,754
Intangible Assets	1,990	1,453	1,453	1,453	[illegible]
Total investments	2,793	2,972	2,972	2,972	2,972
Other long term assets	153	30	30	30	30
Total long term assets	16,229	16,426	17,443	19,991	21,209
TOTAL ASSETS	21,034	21,422	23,567	26,139	[illegible]
Short term debt	2,529	2,514	2,723	2,931	3,140
Accounts payables	1,978	2,112	2,100	2,336	2,497
Other current liabilities	294	333	333	333	333
Total current liabilities	4,801	4,959	5,155	5,599	5,969
Long term debt	3,483	3,514	3,806	4,097	4,389
Deferred tax	159	159	159	159	159
Bonds payable	-	-	-	-	-
Other long term liabilities	255	63	63	63	63

Key ratios

Year end: Dec	2014	2015	2016E	2017E	2018E
Operating ratios					
Gross margin	25.2	27.3	35.8	35.6	35.5
EBITDA margin (%)	21.0	28.1	33.0	34.6	34.8
Effective tax rate (%)	14.3	11.2	11.2	15.0	15.0
Revenue growth (%)	9.3	5.5	16.2	10.9	6.7
Net income growth (%)	(61.3)	55.0	52.8	10.8	7.5
EPS growth adj (%)	(57.7)	54.9	52.8	10.8	7.5
DPS growth (%)	(78.0)	74.9	52.8	10.8	7.5
Efficency ratios					
ROE (%)	11.1	16.6	22.5	22.1	21.2
ROCE (%)	10.1	14.8	20.2	20.9	20.2
Asset turnover (x)	0.5	0.5	0.6	0.6	0.5
Op cash / EBIT (x)	0.9	1.1	0.9	1.0	1.0
Depreciation / CAPEX (x)	0.4	0.4	0.4	0.2	0.4
Accounts receivable days	79.7	77.5	77.5	73.7	75.1
Accounts payable days	83.6	89.6	89.9	85.1	86.7
Leverage ratios					
Net gearing (%)	42.0	37.2	32.8	34.9	27.8

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Research

LIU Taisheng, Steven
TMT
(852) 3465 5652
stevenliu@csci.hk

SO Lai Shan, Jennifer
Consumer
(852) 3465 5781
jenniferso@csci.hk

CHAN Ka Yeung, Duncan
Commodity
(852) 3465 5654
duncanchan@csci.hk

TIAN Yang
Automotive
(852) 3465 5775
tianyang@csci.hk

SUN Lingxiao, Roger
Industrials
(852) 3465 5785
rogersun@csci.hk

XU Bo, Albert
Financials
(852) 3465 5789
albertxu@csci.hk

ZHU Kexin
Renewable energy
(852) 3465 5653
zhukexin@csci.hk

Institutional Sales & Trading

XIANG Xinrong, Ron
(852) 3465 5633
ronxiang@csci.hk

CAO Xiaogang, Glen
(852) 3465 5658
caoxiaogang@csci.hk

ZHANG Meng, Maurice
(852) 3465 5656
mauricezhang@csci.hk

HO Wen Hao, Jack
(852) 3465 5685
jackho@csci.hk

WANG Zhuo, Gary
(852) 3465 8655
wangzhuo@csci.hk

HO Hung Wei
(852) 3465 5687
hohungwei@csci.hk

LEE Ying Ju, Rose
(852) 3465 5707
roselee@csci.hk

LI Jiageng, Mike
(852) 3465 5636
mikeli@csci.hk

XIA Tian
(852) 3465 5670
xiatian@csci.hk

XU Xiaowei, Vincent
(852) 3465 5795
vincentxu@csci.hk

LI Tianyi, Miranda
(852) 3465 8653
mirandali@csci.hk

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: >=10%
Hold	12-month absolute total return: >-10% but <10%
Sell	12-month absolute total return: <=-10%

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China Securities (International) Research

18/F, Two Exchange Square, Central, Hong Kong

Tel: (852) 34655600 Fax: (852)21809495

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