

Equity Research | China | Glass

6 March 2017

A bargain with strong growth ahead

- Xinyi Glass (“XyG”) recorded solid net profit growth for FY16, thanks to record high margins.
- We remain positive on XyG’s growth prospects in both 2017 and 2018, on the back of the launch of its float glass and construction glass projects and expansion of its Phase II float glass project in Malaysia, while also given that the domestic float glass market has remained stable.
- We retain our price target of HKD8.0, based on 10.5x FY17E PER core earnings estimate, and implying 11.1% upside potential. Thus, maintain BUY.

Robust FY16 earnings thanks to margin expansion to a record high. XyG’s FY16 core net profit came in ahead of our expectation, up 40.7% YoY, despite that contribution from Xinyi Solar having arrived at 5% below our assumption. The growth was primarily driven by: (1) revenue growth of 12.1% YoY, led by a 29.6% revenue growth in the float glass segment which reported an increase in both sales volumes and unit selling prices, and (2) blended GPM widening to 36.3% from 27.3%, including record high GPM across all segments. Meanwhile, the company’s effective tax rate has slightly increased to 15.8% from 11.1% a year ago, whereas the full year dividend payout ratio of 48.4% is lower as compared to the 5YR average of 47.0%.

Positive tone from management on industry outlook. Although obsolete capacity closure and restrictions from higher emission standards would both constrain future domestic market supply, management expects construction demand to remain stable this year, considering the time lag between strong property sales late last year and translation into new orders for this year. Moreover, wider applications of low-e glass products in new industries would be beneficiary for the company.

Solid growth prospects on track in 2017 and 2018. 2017 will mark as an important milestone for the company, in our view. Being one of China’s largest integrated float glass manufacturers with a well-established distribution network, XyGlass began its foray into the overseas markets three years ago. In particular, its Malaysia projects, which have already commenced operation this year, are expected to add new float glass capacity equivalent to 7% of total capacity for the company in FY17E. In addition, management targets the Phase II float glass expansion project in Malaysia to commence operation by 2Q18. Meanwhile, the company’s plan to relocate its headquarters to Qianhai would be beneficial for the corporate’s long term development.

Attractive valuation as trading at only 7.4x FY17E PER, reiterate BUY. We have slightly revised up our estimate of XyG’s core earnings for FY17E by 1.2%. However, we see potential upside to our margin estimate on anticipation of firm glass prices in the foreseeable future. We project XyG’s core profit to increase at a 8.9% CAGR during FY16-FY18E. Pegging on 10.5x FY17E PER to core EPS, we have set our price target at HKD8.0, implying 11.1% upside potential; thus maintain BUY.

Xinyi Glass (868 HK)

Buy

(unchanged)

Price Target	HKD8.0
(Revision)	(N/A)
(upside)	(+11.1%)

EPS	2017E	2018E
revision	(+1.2%)	(N/A)

Close price	HKD 7.20
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Market cap.	HKD 28,030 mn
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Free float	45.2%
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52-week range	HKD 3.87 – 7.73
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3-mth ave. T/O	HKD 77.3 mn
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Price as of 3 March 2017

Stock rel HSI performance (%)



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Figure 1: Xinyi Glass

	Unit	2H 13	1H 14	2H 14	1H 15	2H 15	1H 16	2H 16
Revenue	HKD mn	5,362	5,034	5,827	5,283	6,177	5,885	6,963
%HoH	%	-	(6.1)	15.8	(9.3)	16.9	(4.7)	18.3
%YoY	%	-	-	8.7	4.9	6.0	11.4	12.7
Revenue by products								
Float glass	HKD mn	2,510	2,175	2,538	2,180	2,843	2,675	3,835
Construction glass	HKD mn	1,174	1,079	1,477	1,206	1,445	1,220	1,370
Auto mobile glass	HKD mn	1,679	1,781	1,813	1,897	1,890	1,990	1,758
%split								
Float glass	%	46.8	43.2	43.6	41.3	46.0	45.5	55.1
Construction glass	%	21.9	21.4	25.3	22.8	23.4	20.7	19.7
Auto mobile glass	%	31.3	35.4	31.1	35.9	30.6	33.8	25.2
Revenue by geographical								
China	HKD mn	3,648	3,482	4,161	3,588	4,470	4,061	5,359
US	HKD mn	580	498	790	632	712	766	530
Others	HKD mn	1,133	1,054	876	1,063	995	1,058	1,074
%split								
China	%	68.0	69.2	71.4	67.9	72.4	69.0	77.0
US	%	10.8	9.9	13.6	12.0	11.5	13.0	7.6
Others	%	21.1	20.9	15.0	20.1	16.1	18.0	15.4
Gross profit	HKD mn	1,666	1,337	1,396	1,410	1,723	2,041	2,618
%HoH	%	-	(19.7)	4.5	10	22.2	18.5	28.2
%YoY	%	-	-	(16.2)	5.5	23.4	44.8	52.0
GPM	%	31.1	26.6	24.0	26.7	27.9	34.7	37.6
GPM by products								
Float glass	%	19.8	8.6	5.6	8.7	12.9	22.3	31.2
Construction glass	%	38.8	37.0	34.1	31.7	35.6	39.0	40.6
Auto mobile glass	%	42.6	42.1	41.5	44.1	44.6	48.7	49.3
OP profit	HKD mn	2,545	844	650	944	1,168	1,304	2,034
%HoH	%	-	(66.8)	(23.0)	45.3	23.7	116	56.0
%YoY	%	-	-	(74.5)	119	79.7	38.1	74.1
Finance	HKD mn	(26)	(25)	(13)	(20)	(30)	(44)	(33)
%HoH	%	-	(2.5)	(46.9)	54.2	46.8	48.0	(26.3)
%YoY	%	-	-	(48.3)	(18.2)	126.4	117.4	9.1
Total net profit	HKD mn	2,241	762	603	946	1,167	1,369	1,847
%HoH	%	-	(66.0)	(20.9)	57.0	23.3	17.3	34.8
%YoY	%	-	-	(73.1)	24.2	93.6	44.7	58.2

Source: Company

Income statement (HKD mn)

Year end: Dec	2014	2015	2016	2017E	2018E
Revenue	10,861	11,460	12,848	14,773	15,770
COGS	(8,128)	(8,328)	(8,189)	(9,509)	(10,167)
Gross profit	2,733	3,133	4,659	5,264	5,603
Selling expenses	(608)	(680)	(620)	(713)	(761)
General and administrative	(1,030)	(935)	(1,202)	(1,382)	(1,476)
Other opex	398	594	501	506	540
EBITDA	2,276	3,225	4,591	5,138	5,414
Depreciation & Amortization	(644)	(795)	(691)	(790)	(825)
EBIT	1,631	2,430	3,900	4,348	4,589
Interest income	133	112	84	94	104
Interest expense	(171)	(163)	(161)	(180)	(189)
JVs and associates	138	317	563	674	682
Others	-	-	-	-	-
Pretax profit	1,593	2,380	3,823	4,262	4,503
Taxation	(228)	(266)	(607)	(639)	(675)
Minority interests	(1)	(0)	(3)	(3)	(3)
Net profit	1,364	2,113	3,213	3,620	3,825
Net profit (adjusted)	1,364	2,113	3,213	3,620	3,825
Basic EPS (RMB)	0.35	0.54	0.82	0.92	0.98
Diluted EPS (RMB)	0.35	0.54	0.82	0.92	0.98
DPS (RMB)	0.15	0.26	0.40	0.45	0.47

Balance sheet (HKD mn)

Year end: Dec	2014	2015	2016	2017E	2018E
Cash	831	1,298	2,763	1,695	3,376
Short term investments	-	-	-	-	-
Accounts receivables	2,487	2,381	2,377	2,736	2,920
Inventory	1,478	1,223	1,321	1,477	1,579
Other current assets	9	93	76	76	76
Total current assets	4,805	4,995	6,537	5,983	7,951
PP&E	11,293	11,971	11,831	15,007	15,681
Intangible Assets	1,990	1,453	1,801	1,801	1,801
Total investments	2,793	2,972	3,804	3,804	3,804
Other long term assets	153	30	50	50	50
Total long term assets	16,229	16,426	17,486	20,662	21,337
TOTAL ASSETS	21,034	21,422	24,022	26,645	29,287
Short term debt	2,529	2,514	3,165	3,372	3,578
Accounts payables	1,978	2,112	2,297	2,560	2,737
Other current liabilities	294	333	538	538	538
Total current liabilities	4,801	4,959	6,000	6,470	6,853
Long term debt	3,483	3,514	4,509	4,803	5,097
Deferred tax	159	159	159	159	159
Bonds payable	-	-	-	-	-
Other long term liabilities	255	63	107	107	107
Total long term liabilities	3,898	3,737	4,775	5,069	5,363
TOTAL LIABILITIES	8,699	8,696	10,775	11,539	12,216
Shareholders' funds	12,333	12,718	13,181	15,038	17,000
Minority Interests	2	7	66	69	71
TOTAL LIAB AND EQUITY	21,034	21,422	24,022	26,645	29,287
Net cash / (debt)	(5,81)	(4,730)	(4,911)	(6,479)	(5,299)

Source: Company, Bloomberg, CSCI Research estimates

Cash flow statement (HKD mn)

Year end: Dec	2014	2015	2016E	2017E	2018E
EBIT	1,631	2,430	3,900	4,348	4,589
Depreciation & amortisation	644	795	691	790	825
Net interest	38	50	77	86	86
Taxes paid	(228)	(266)	(607)	(639)	(675)
Changes in working capital	(202)	375	91	(251)	(110)
Others	(428)	(747)	(154)	(173)	(171)
Cash flow from operations	1,455	2,637	3,998	4,161	4,543
Capex	(1,691)	(1,834)	(1,853)	(3,966)	(1,500)
Acquisitions	(105)	(130)	-	-	-
Disposals	116	292	-	-	-
Others	103	152	-	-	-
Cash flow from investing	(1,578)	(1,520)	(1,853)	(3,966)	(1,500)
Dividends	(902)	(608)	(1,565)	(1,763)	(1,863)
Issue of shares	-	-	-	-	-
Change in debt	1,003	(18)	500	500	500
Others	(173)	1	-	-	-
Cash flow from financing	(72)	(625)	(1,065)	(1,263)	(1,363)
Change in cash	(195)	492	1,080	(1,068)	1,681
Free cash flow	(236)	802	2,145	195	3,043

Key ratios

Year end: Dec	2014	2015	2016E	2017E	2018E
Operating ratios					
Gross margin	25.2	27.3	36.3	35.6	35.5
EBITDA margin (%)	21.0	28.1	35.7	34.8	34.3
Effective tax rate (%)	14.3	11.2	15.9	15.0	15.0
Revenue growth (%)	9.3	5.5	12.1	15.0	6.7
Net income growth (%)	(61.3)	55.0	52.1	12.6	5.7
EPS growth adj (%)	(57.7)	54.9	52.1	12.6	5.7
DPS growth (%)	(78.0)	74.9	52.1	12.6	5.7
Efficiency ratios					
ROE (%)	11.1	16.6	24.4	24.1	22.5
ROCE (%)	10.1	14.8	21.6	21.6	20.5
Asset turnover (x)	0.5	0.5	0.5	0.6	0.5
Op cash / EBIT (x)	0.9	1.1	1.0	1.0	1.0
Depreciation / CAPEX (x)	0.4	0.4	0.4	0.2	0.6
Accounts receivable days	79.7	77.5	67.6	63.2	65.4
Accounts payable days	83.6	89.6	98.3	93.2	95.1
Leverage ratios					
Net gearing (%)	42.0	37.2	37.3	43.1	31.2
Net debt / EBITDA (x)	2.3	1.5	1.1	1.3	1.0
Interest cover (x)	42.9	48.4	50.8	50.3	53.7
Current ratio (x)	1.0	1.0	1.1	0.9	1.2
Valuation					
PER (x)	20.7	13.4	8.8	7.8	7.4
EV/EBITDA (x)	14.9	10.3	7.2	6.8	6.2
PBR (x)	2.3	2.2	2.1	1.9	1.7
Dividend yield (x)	2.1	3.6	5.5	6.2	6.6



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Company Rating Definition

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

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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