

Hong Kong
ADD

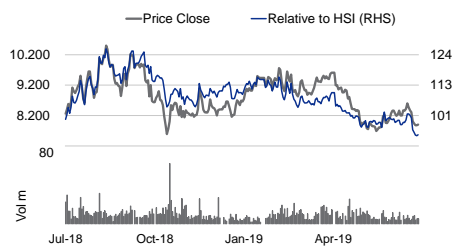
Consensus ratings*: Buy 13 Hold 3 Sell 0

Current price:	HK\$7.90
Target price:	HK\$10.22
Previous target:	HK\$11.81
Up/downside:	29.4%
CGS-CIMB / Consensus:	N/A
Reuters:	
Bloomberg:	868 HK
Market cap:	US\$4,051m HK\$31,671m
Average daily turnover:	US\$8.84m HK\$68.9m
Current shares o/s:	3,998m
Free float:	45.6%

*Source: Bloomberg

Key changes in this note

- FY19F and FY20F net profit decreased by 2.3% and 10.1%, respectively.
- FY19F and FY20F revenue decreased by 2.9% each year.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.5	-17.5	-4.4
Relative (%)	-6.5	-12.4	-5.9

Major shareholders	% held
Mr Lee Yin Yee	20.0
Mr Tung Ching Sai	10.1

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Xinyi Glass

Moving up from the trough gradually

- Float glass prices in China have softened since the beginning of 2019, given slower economic activity; we expect prices continue to move up in late July from the trough level in May.
- Industry operating capacity is under control, and industry inventory has moved down. Any easing measures will boost downstream demand and float glass prices.
- Because of the softer-than expected float glass prices, we cut our earnings forecasts for Xinyi Glass in 2019 and 2020. Our TP is lowered from HK\$11.81 to HK\$10.22.
- We don't expect the impact of a short-seller report on Xinyi Glass to last long, but investors are likely to wait for its 1H 2019 results and management guidance before revisiting.
- Shares of Xinyi Glass should consolidate in the near term, which we think is a revisit opportunity. Maintain ADD.

Float glass prices moved up in Jun 2019

Float glass prices had been soft since the beginning of 2019, which in our view, was due to slower economic activity. The average float glass price in key cities in Q2 2019 in China was RMB74.2/DWC, down 3.9% QoQ vs. RMB77.2/DWC in Q1 2019. However, owing to capacity shut down in the Shahe region and seasonal factors, float glass prices gradually moved out of the trough in May 2019. Although some factories resumed production in Q2 2019, operating capacity was still down 1.6% YTD, from 925.9m tonnes at the end of 2018 to 911.2m tonnes in mid-Jul 2019. There were news reports suggesting that the Shahe government had requested the closure of six production lines that were using coal for glass production; their capacity accounted for 1.6% of overall operating capacity. We also hold the view that the potential reduction in supply for cold repairs will make the supply/demand situation more favourable for the leading players, such as Xinyi Glass. Inventory levels have also come down from the recent peak in Mar 2019. We saw a rebound in revenue from land sales in Jun 2019, driven by a recovery in the property sector in Tier 1 and 2 cities, so we might see improved sentiment for property-related sectors, such as glass manufacturing.

Disposal gains from reduction in stake in Xinyi Solar

Xinyi Glass sold 314m shares of Xinyi Solar at HK\$3.75 per share in Jun 2019, resulting in Xinyi Glass's stake in Xinyi Solar falling from 28.3% to 24.4%. The disposal gains from selling its Xinyi Solar shares are estimated at over HK\$500m, which is not included in our new core profit forecasts.

Concerns triggered by short seller report to stabilize

We believe the impact of the short-seller report on Xinyi Glass has been fading gradually. We don't think the short seller report presents hard evidence showing that Xinyi Glass engaged in wrongdoing, and don't believe the comparison between Xinyi Glass and other companies in HK and overseas is an apple-to-apple comparison (for details, please refer to our latest update on 27 Jun 2019). We don't expect the impact of the short seller report on Xinyi Glass to last long, but investors are likely to wait for the 1H 2019 results and management's guidance before revisiting. Shares of Xinyi Glass are expected to consolidate in near term, which in our view, is a revisit opportunity.

Downward revisions

Because of softer-than-expected float glass prices, we cut our earnings forecasts for Xinyi Glass for 2019 and 2020 by 2.3% and 10.2%, respectively. If we exclude the impact of disposal gains from selling Xinyi Solar, we expect Xinyi Glass to report a YoY decline in core net profit in 2019. The downward earnings revision is also due to a lower contribution from Xinyi Solar.

Financial Summary	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue (HK\$m)	12,848	14,728	16,014	17,631	19,994
Operating EBITDA (HK\$m)	3,659	4,373	4,382	4,800	5,578
Net Profit (HK\$m)	3,213	4,014	4,237	4,092	4,887
Core EPS (HK\$)	0.83	1.01	1.06	1.03	1.23
Core EPS Growth	54.3%	22.1%	5.1%	(3.4%)	19.4%
FD Core P/E (x)	9.60	7.72	7.41	7.70	6.45
DPS (HK\$)	0.40	0.48	0.52	0.57	0.60
Dividend Yield	5.06%	6.08%	6.58%	7.16%	7.59%
EV/EBITDA (x)	8.69	7.13	7.00	6.37	5.45
P/FCFE (x)	10.53	30.79	8.06	8.19	16.25
Net Gearing	37.1%	29.6%	28.8%	22.8%	23.2%
P/BV (x)	2.33	1.72	1.70	1.56	1.44
ROE	24.8%	25.6%	23.1%	21.1%	23.2%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)				0.94	0.92

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Average float glass price in key cities in China

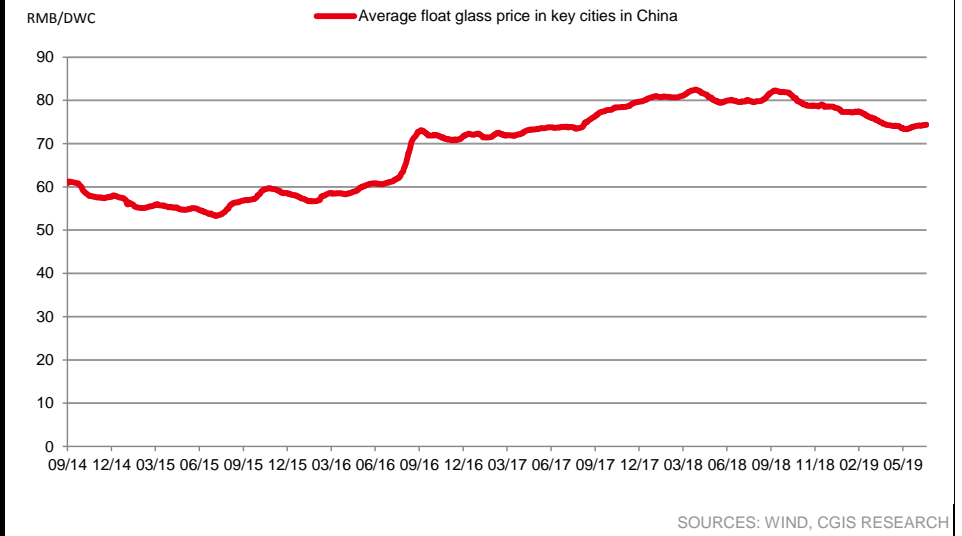


Figure 2: Operating float glass capacity

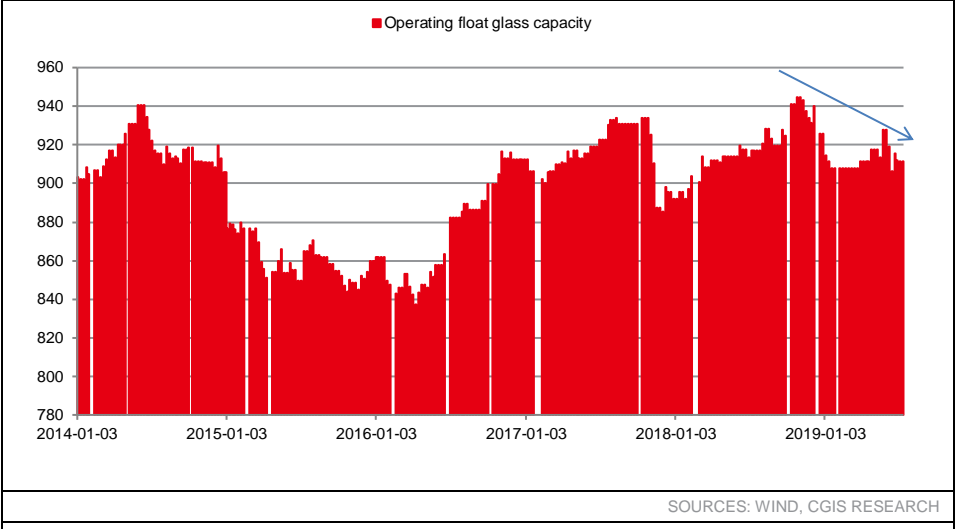
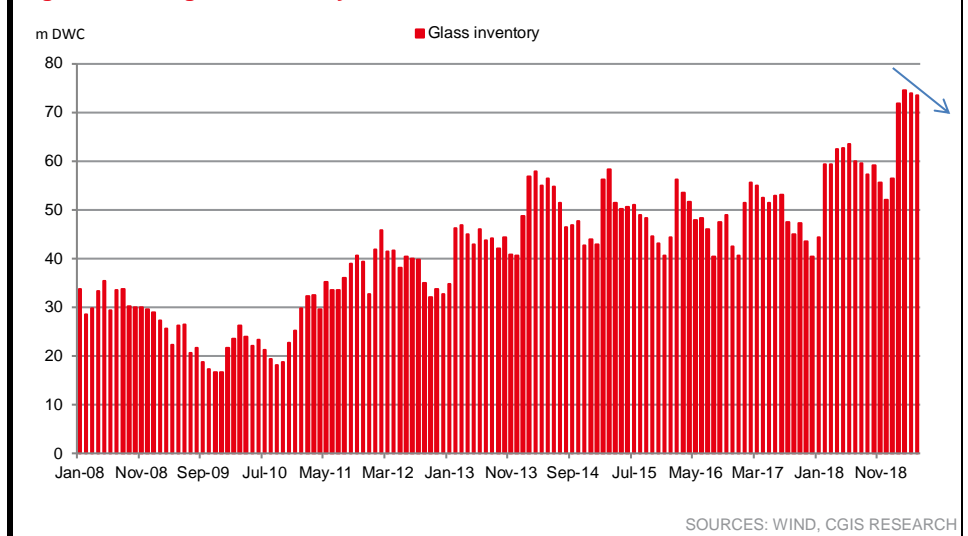
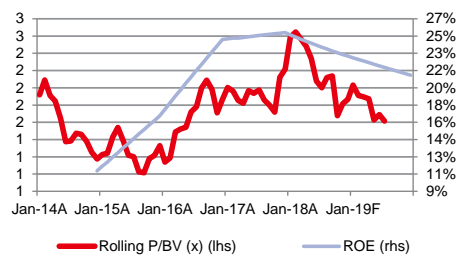
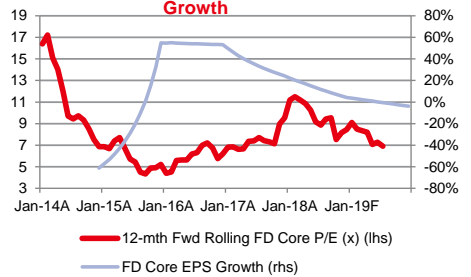


Figure 3: Float glass inventory in China

Figure 4: Key assumptions for Xinyi Glass

	2012	2013	2014	2015	2016	2017	2018	2019F	2020F
Turnover (HKDm)									
Automobile glass	3,077.8	3,287.2	3,593.2	3,786.6	3,748.4	3,910.0	4,251.9	4,748.9	5,304.2
Construction glass	1,574.6	2,154.5	2,555.5	2,651.5	2,590.2	2,800.6	3,383.2	3,907.6	4,513.3
Float glass	3,780.6	4,494.3	4,712.4	5,022.2	6,509.8	8,016.9	8,379.4	8,974.3	10,176.9
Total	8,433.0	9,936.1	10,861.1	11,460.3	12,848.4	14,727.5	16,014.5	17,630.9	19,994.4
YoY Change (%)									
Automobile glass		6.8	9.3	5.4	(1.0)	4.3	8.7	11.7	11.7
Construction glass		36.8	18.6	3.8	(2.3)	8.1	20.8	15.5	15.5
Float glass		18.9	4.9	6.6	29.6	23.2	4.5	7.1	13.4
Total		17.8	9.3	5.5	12.1	14.6	8.7	10.1	13.4
Volume									
Automobile (piece)		12,110.0	12,889.0	13,582.8	13,582.8	13,786.6	14,338.0	15,054.9	15,807.7
Construction (sqm)		16,363.0	19,380.0	20,107.5	21,716.1	20,630.3	22,693.3	24,962.7	27,458.9
Float glass (tonne)		2,927.0	3,510.0	3,856.8	4,435.3	4,790.1	4,908.5	5,006.7	5,407.2
YoY Change (%)									
Automobile (piece)			6.4	5.4	0	1.5	4.0	5.0	5.0
Construction (sqm)			18.4	3.8	8.0	(5.0)	10.0	10.0	10.0
Float glass (tonne)			19.9	9.9	15.0	8.0	2.5	2.0	8.0
ASP									
Automobile (HKD/piece)		271.4	278.8	278.8	276.0	278.8	296.5	315.4	335.5
Construction (HKD per sqm)		131.7	131.9	131.9	119.3	135.8	149.1	156.5	164.4
Float glass (HKD per tone)		1,535.5	1,342.6	1,302.2	1,467.7	1,673.6	1,707.1	1,792.5	1,882.1
YoY Change (%)									
Automobile (HKD/piece)			2.7	0.0	(1.0)	1.0	6.4	6.4	6.4
Construction (HKD per sqm)			0.1	0	(9.5)	13.8	9.8	5.0	5.0
Float glass (HKD per tone)			(12.6)	(3.0)	12.7	14.0	2.0	5.0	5.0
Gross margin (%)									
Automobile glass	42.8	43.3	41.8	44.3	49.0	46.9	43.9	44.9	45.9
Construction glass	37.2	39.9	35.3	33.9	39.9	38.0	37.8	37.8	37.8
Float glass	8.6	19.0	7.0	11.1	27.5	31.7	32.6	31.1	32.1
Blended	26.4	31.6	25.2	27.3	36.3	37.0	36.7	36.3	37.0
Net margin (%)	14.1	35.4	12.6	18.4	25.0	27.3	26.5	26.1	26.1
Cost (HKDm)									
S,G&A	(1,056.7)	(1,250.9)	(1,638.0)	(1,614.5)	(1,822.4)	(2,045.1)	(2,407.0)	(2,597.1)	(2,945.3)
Financial Expenses	(57.3)	(59.7)	(38.1)	(50.2)	(76.8)	(106.5)	(142.5)	(163.9)	(137.3)
YoY Change (%)									
S,G&A		18.4	30.9	(1.4)	12.9	12.2	17.7	7.9	13.4
Financial Expenses		4.2	(36.2)	32.0	53.0	38.6	33.8	15.0	(16.2)
CAPEX (HKDm)	1,435.3	3,752.3	2,092.0	1,701.4	1,756.5	3,195.4	2,453.0	2,500.0	2,500.0
Net Gearing (%)	35.8	33.6	42.0	37.2	37.3	29.7	29.0	22.9	23.3

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(HK\$m)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Total Net Revenues	12,848	14,728	16,014	17,631	19,994
Gross Profit	5,481	6,418	6,789	7,397	8,524
Operating EBITDA	3,659	4,373	4,382	4,800	5,578
Depreciation And Amortisation	(822)	(974)	(914)	(999)	(1,119)
Operating EBIT	2,837	3,399	3,468	3,801	4,460
Financial Income/(Expense)	(77)	(107)	(142)	(164)	(137)
Pretax Income/(Loss) from Assoc.	563	700	566	769	862
Non-Operating Income/(Expense)	501	704	1,078	482	547
Profit Before Tax (pre-EI)	3,823	4,696	4,970	4,888	5,731
Exceptional Items					
Pre-tax Profit	3,823	4,696	4,970	4,888	5,731
Taxation	(607)	(682)	(723)	(786)	(833)
Exceptional Income - post-tax	(3)	(0)	(11)	(11)	(11)
Profit After Tax	3,213	4,014	4,237	4,092	4,887
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,213	4,014	4,237	4,092	4,887
Recurring Net Profit	3,216	4,014	4,248	4,103	4,898
Fully Diluted Recurring Net Profit	3,216	4,014	4,248	4,103	4,898

Cash Flow

(HK\$m)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
EBITDA	3,659	4,373	4,382	4,800	5,578
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(218)	(329)	682	(165)	(205)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	800	198	572	494	40
Net Interest (Paid)/Received	(128)	(151)	(214)	(235)	(235)
Tax Paid	(549)	(565)	(640)	(786)	(833)
Cashflow From Operations	3,565	3,525	4,783	4,107	4,345
Capex	(1,756)	(3,195)	(2,453)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(523)	(114)	71	1,249	98
Cash Flow From Investing	(2,280)	(3,310)	(2,382)	(1,251)	(2,402)
Debt Raised/(repaid)	1,646	792	1,503	1,000	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,552)	(1,905)	(2,079)	(2,262)	(2,398)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	94	(1,113)	(576)	(1,262)	(2,398)
Total Cash Generated	1,379	(898)	1,825	1,594	(454)
Free Cashflow To Equity	2,931	1,007	3,904	3,856	1,943
Free Cashflow To Firm	1,413	366	2,614	3,091	2,178

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(HK\$m)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Total Cash And Equivalents	2,763	3,049	4,599	6,316	5,862
Total Debtors	2,377	3,072	2,676	2,964	3,322
Inventories	1,321	1,698	1,755	1,944	2,178
Total Other Current Assets	76	107	94	94	94
Total Current Assets	6,537	7,926	9,123	11,319	11,457
Fixed Assets	11,831	12,929	13,080	14,584	15,968
Total Investments	4,975	9,074	10,100	9,492	10,155
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	680	370	298	307	304
Total Non-current Assets	17,486	22,373	23,477	24,383	26,427
Short-term Debt	3,165	2,068	3,094	3,094	3,094
Current Portion of Long-Term Debt					
Total Creditors	2,297	2,554	2,897	3,209	3,597
Other Current Liabilities	538	535	611	611	611
Total Current Liabilities	6,000	5,157	6,603	6,915	7,303
Total Long-term Debt	4,509	6,399	6,875	7,875	7,875
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	48	108	82	82	82
Total Non-current Liabilities	4,557	6,507	6,957	7,957	7,957
Total Provisions	218	335	418	418	418
Total Liabilities	10,775	11,999	13,977	15,289	15,677
Shareholders' Equity	13,181	18,231	18,545	20,295	21,939
Minority Interests	66	69	78	88	99
Total Equity	13,247	18,300	18,623	20,384	22,038

Key Ratios

	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue Growth	12.1%	14.6%	8.7%	10.1%	13.4%
Operating EBITDA Growth	61.2%	19.5%	0.2%	9.5%	16.2%
Operating EBITDA Margin	28.5%	29.7%	27.4%	27.2%	27.9%
Net Cash Per Share (HK\$)	(1.27)	(1.37)	(1.34)	(1.16)	(1.28)
BVPS (HK\$)	3.40	4.59	4.64	5.08	5.49
Gross Interest Cover	22.22	22.49	16.23	16.17	18.97
Effective Tax Rate	15.9%	14.5%	14.5%	16.1%	14.5%
Net Dividend Payout Ratio	48.3%	47.5%	48.9%	55.1%	49.0%
Accounts Receivables Days	67.77	67.52	65.50	58.38	57.54
Inventory Days	63.17	66.28	68.29	65.95	65.76
Accounts Payables Days	109.5	106.5	107.8	108.9	108.6
ROIC (%)	21.1%	25.3%	23.0%	26.4%	27.7%
ROCE (%)	14.4%	14.3%	12.6%	12.7%	14.0%
Return On Average Assets	14.5%	15.2%	14.0%	12.5%	13.7%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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We are transferring the rating mechanism from "BUY, SELL, HOLD" to "ADD, REDUCE, HOLD". Please refer to the definitions below.

Explanation on Equity Ratings (Existing mechanism (will be replaced by new mechanism by 01/09/19))

BUY : share price will increase by >20% within 12 months in absolute terms

SELL : share price will decrease by >20% within 12 months in absolute terms

HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

Explanation on Equity Ratings (New mechanism)

ADD : The stock's total return is expected to exceed 10% over the next 12 months.

REDUCE : The stock's total return is expected to fall below 0% or more over the next 12 months.

HOLD : The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

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