

Xinyi Glass (XYG)

868.HK / 868 HK

China

Auto parts / Construction materials

Earnings top consensus, aggressive plans ahead

► XYG results in-line

	2H17	YoYΔ	HoHΔ	2017	YoYΔ	Act vs Cons
Revenue (HK\$m)	8,051	15.6%	20.6%	14,728	12.1%	-0.3%
Gross profit (HK\$m)	3,015	15.2%	24.1%	5,444	48.7%	-0.1%
GPM	37.4%	-0.1 ppt	1.1 ppt	37.0%	0.7 ppt	0.1 ppt
Net profit (HK\$m)	2,378	28.9%	45.4%	4,014	52.1%	9.5%
Basic EPS (HK¢)	59.2	28.9%	42.2%	101.1	53.6%	7.8%
DPS (HK¢)	28.0	21.7%	40.0%	48.0	20.0%	3.0%

Source: Company data, Bloomberg

► **New auto glass plant in the works** – XYG unveiled its plan to build an automobile glass production site in Beihai, Guangxi Province, housing 4m pcs of annual capacity. The site is expected to start production in 2019, bringing in at least HK\$300m incremental revenue. The new capacity will serve non-windshield glass parts such as HUD in cars, sun roofs and new orders from overseas automakers.

► **Soda ash prices continue to decline** – Two factors may contribute to the expected decline in soda ash prices: 1) increasing mining of trona, source of natural soda ash, by miners in the US; 2) float glass production lines continue to downsize or shut down amid environmental policies. We expect soda ash prices to remain around RMB1,600/tonne in 2018.

► **Property market still strong for now** – Per table below, the pipeline for new properties remains strong. We estimate float glass price to average around RMB1,630/tonne in 2018.

In millions of sqm	2017	YoYΔ
Works-in progress	7,815	3.0%
Works commenced	1,787	7.0%
Works completed	1,015	-4.4%
GFA sold	1,694	7.7%
Land bought	255	15.8%

Source: National Bureau of Statistics

► **New TP = HK\$13.16, 10% upside** – Our new revenue and NP forecasts for 2018/19/20 are HK\$17.3b/19.3b/21.4b and HK\$5.4b/5.80b/6.33b respectively. Our TP is derived from SOTP method (see next page) with a 15% holding discount. On a blended P/E basis, XYG is trading at 9.1x 2018F P/E.

Earnings Forecasts & Valuation Summary

Year ended 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (HK\$m)	12,848	14,728	17,276	19,301	21,432
EBITDA (HK\$m)	4,165	5,014	6,436	6,958	7,493
Net profit (HK\$m)	3,213	4,014	5,402	5,796	6,328
Fully diluted EPS (HK cents)	81.2	99.9	131.0	140.5	153.4
PE (x)	7.8	11.9	9.1	8.5	7.8
EV/EBITDA (x)	7.2	6.0	4.7	4.3	4.0
Yield (%)	6.31	7.57	10.58	11.37	12.41
ROE (%)	24.4	22.0	28.3	26.7	25.6
P/B (x)	1.9	1.4	1.3	1.2	1.0

Source: Company data, Sunwah Kingsway Research estimates

LONG

Maintain

HK\$11.94*

Target price: HK\$13.16

Prior TP: HK\$11.86

Upside: 10%

HSI: 31,498.60

*Closing price as at 26 Feb 2018

Share Data

52week Hi/Lo (HK\$)	12.80/6.37
Avg. daily t/o (US\$m)	21.1
Market cap. (US\$m)	6,132
Total issued shares (m)	4,018.4
Public float (%) *	52.45%
Auditor	PWC
Major shareholder:	
Mr. Lee Yin Yee	21.61%
Mr. Tung Ching Sai	9.88%
Mr. Tung Ching Bor	8.25%
Mr. Lee Sing Din	7.81%

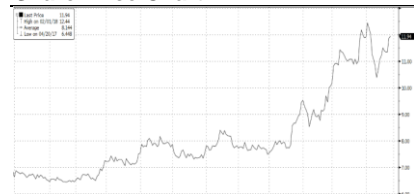
* The conversion of CBs issued to Och-Ziff was not factored in the calculation of public float.

Source: HKEx & Bloomberg

Company Profile

Xinyi is one of the largest glass makers in China. The company produces auto glass, construction glass and float glass.

Share Price Chart



Source: Bloomberg

Phelix Lee

(852) 2283 7618

Phelix.lee@sunwahkingsway.com

www.kingswayresearch.com

Valuation table

2018 earnings excluding XYS operations (HK\$m)	4,392
Implied EPS (HK¢)	109.4
Multiplied by: P/E ratio of XYG operations	12x
XYG operations contribution	13.12
Add: Share of XYS TP	2.36
Standalone value (HK\$)	15.48
Conglomerate discount	15.0%
Target price (HK\$)	13.16

Source: Sunwah Kingsway Research estimates

Earnings revisions

	2018F	2019F	2020F
Revenue (HK\$m) - new	17,276	19,301	21,432
<i>old</i>	17,129	19,096	N/A
<i>change</i>	0.9%	1.1%	N/A
Gross profit (HK\$m)	7,494	8,157	8,846
<i>old</i>	7,138	7,854	N/A
<i>change</i>	5.0%	3.9%	N/A
Net profit (HK\$m)	5,402	5,796	6,328
<i>old</i>	4,925	5,472	N/A
<i>change</i>	9.7%	5.9%	N/A
Basic EPS (HK cents)	134.5	144.3	157.6
<i>old</i>	122.6	136.2	N/A
<i>change</i>	9.7%	6.0%	N/A

Source: Sunwah Kingsway Research estimates

Our revenue and earnings estimates for 2018 and 2019 are revised upwards based on the following assumption changes:

1. 2018 float glass ASP lifted by 2.5% to RMB1,630 per tonne.
2. Malaysia float glass capacity for 1H19 and 2H19 to increase by 1,000 tonnes per day each.
3. XYS earnings revisions, up 1.4% in 2018 and 3.2% in 2019.

Average China Soda Ash price since Mar 2016



Source: Wind

National float glass price since Mar 2016



Source: Wind

Financial forecasts

Years ended 31 Dec	2016	2017	2018F	2019F	2020F
Income statement (HK\$m)					
Revenue	12,848	14,728	17,276	19,301	21,432
COGS	(8,189)	(9,283)	(9,782)	(11,144)	(12,586)
Gross Profit	4,659	5,444	7,494	8,157	8,846
Other income	342	377	215	215	215
Other gains, net	159	317	0	0	0
Selling & marketing costs	(620)	(675)	(753)	(869)	(964)
Admin expense	(1,202)	(1,370)	(1,441)	(1,610)	(1,788)
Gain on spin-off	0	0	0	0	0
Operating profit	3,338	4,093	5,515	5,894	6,308
Add back: Depreciation	797	846	920	1,064	1,184
Add back: Amortization	30	75	0	0	0
EBITDA	4,165	5,014	6,436	6,958	7,493
Depreciation & Amortization	(827)	(921)	(920)	(1,064)	(1,184)
Finance income	51	55	27	24	23
Finance costs	(128)	(151)	(147)	(141)	(132)
Share of P/L of assos	563	700	1,010	1,175	1,369
Profit before tax	3,823	4,696	6,406	6,951	7,568
Income tax expense	(607)	(682)	(1,003)	(1,155)	(1,240)
Profit for the year	3,216	4,014	5,402	5,796	6,328
Less: MI	(3)	(0)	0	0	0
Net profit	3,213	4,014	5,402	5,796	6,328
Basic EPS (HK Cents)	82.78	101.14	134.51	144.31	157.57
Diluted EPS (HK Cents)	81.19	99.92	130.96	140.51	153.41

Years ended 31 Dec	2016A	2017E	2018F	2019F	2020F
Cash flow (HK\$m)					
EBITDA	4,165	5,014	6,436	6,958	7,493
Non-cash adjustments	86	(18)	0	0	0
Changes in working capital	(218)	(758)	(805)	(545)	(581)
Operating cash	4,032	4,238	5,631	6,413	6,912
Taxes paid	(342)	(562)	(1,176)	(1,152)	(1,237)
Interest paid	(126)	(151)	(147)	(141)	(132)
Net cash from operations	3,565	3,525	4,308	5,120	5,543
Interest received	51	55	27	24	23
CAPEX	(1,756)	(3,366)	(3,000)	(3,000)	(2,500)
Disposals of assets	18	0	0	0	0
Acquisition/disposal of subsidiary	(618)	0	0	0	0
Change in non-demand deposits	(4)	(4)	7	0	0
Advances to associates	(47)	0	0	0	0
Dividends from associates	256	307	364	432	513
Net change in investment proper	(97)	0	0	0	0
Others	(82)	0	0	0	0
Investing cash	(2,280)	(3,008)	(2,602)	(2,544)	(1,964)
FCF	1,285	517	1,706	2,576	3,579
Net issue/(repurchase) of share	(122)	175	0	0	0
Net issue/(redemption) of debt s	0	(91)	0	0	0
Net changes in bank loans	1,611	1,412	(1,072)	0	(500)
Dividends	(1,321)	(1,727)	(2,434)	(2,803)	(3,032)
Others	56	0	0	0	0
Financing cash	225	(231)	(3,506)	(2,803)	(3,532)
Net change in cash	1,510	286	(1,800)	(227)	46
Cash and cash equiv b/f	1,298	2,763	3,049	1,248	1,021
FX adjustments	(45)	0	0	0	0
Cash and cash equiv c/f	2,763	3,049	1,248	1,021	1,067

Years ended 31 Dec	2016	2017	2018F	2019F	2020F
Ratios					
Gross margin (%)	36.3	37.0	43.4	42.3	41.3
EBITDA margin (%)	32.4	34.0	37.3	36.0	35.0
Net margin (%)	25.0	27.3	31.3	30.0	29.5
Selling & dist'n/Sales (%)	4.8	4.6	4.4	4.5	4.5
Admin/Sales (%)	9.4	9.3	8.3	8.3	8.3
Payout ratio (%)					
Effective tax (%)	15.9	14.5	15.7	16.6	16.4
Total debt/equity (%)	58.2	46.4	38.8	36.4	25.8
Net debt/equity (%)	37.2	29.7	32.2	31.7	21.5
Current ratio (x)	1.1	1.5	1.0	1.0	1.1
Quick ratio (x)	0.9	1.2	0.7	0.7	0.8
Inventory T/O days	57	59	61	61	61
A/R T/O days	68	68	80	80	80
A/P T/O days	98	95	84	84	84
Working capital days	26	31	57	57	57
Asset turnover (x)	0.53	0.49	0.55	0.56	0.56
Financial leverage (x)	1.82	1.66	1.64	1.60	1.56
EBIT margin (%)	26.0	27.8	31.9	30.5	29.4
Interest burden (x)	1.1	1.1	1.2	1.2	1.2
Tax burden (x)	0.84	0.95	0.84	0.83	0.84
Return on equity (%)	24.4	22.0	28.3	26.7	25.6

As at 31 Dec	2016	2017
Balance Sheet (HK\$m)		
Leasehold land & land use rights	1,121	3,427
PPE	11,831	12,929
Investment properties	547	1,205
Prepmt for PPE & land use rights	608	300
Intangible assets	72	70
AFS financial assets	39	52
Investment in asso	3,258	4,416
Loans to an assp	49	27
Other non-current assets	0	0
Non-current assets	17,524	22,426
Inventories	1,321	1,698
Loans to assos + amt due from asso	33	52
Trade & other receivables	2,377	3,072
Non-demand deposits	5	9
Cash & cash equiv.	2,763	3,049
Current assets	6,499	7,879
Total assets	24,022	30,305
Amt due to asso	0	0
Trade & other payables	2,297	2,554
Current tax payable	538	535
Bank and other borrowings	3,165	2,068
Current liabilities	6,000	5,157
Bank borrowings	3,889	6,399
Other borrowings - CBs	620	0
Deferred tax liabilities	218	335
Deferred government grants	0	0
Other payables	48	108
MI	66	69
Non-current liabilities	4,841	6,911
Total net assets	13,181	18,237
Shareholders' equity	13,181	18,237
Issued capital	389	402
Reserves	1,361	534
Other retained earnings	11,431	17,301

Source: Company data, Sunwah Kingsway Research Estimates

Disclaimer

This document is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this document may not be eligible for sale in certain jurisdiction. Neither this document nor any portion hereof may be taken distributed or transmitted directly or indirectly into such jurisdiction nor to any residents thereof. Any failure to comply with this restriction may constitute a violation of the applicable laws and regulations and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. This document has been produced for private circulation and may not be copied, photocopied, duplicated, or redistributed without the prior written consent of Kingsway Financial Services Group Limited ("KFS") and its affiliated companies (collectively, "Kingsway Group").

This report is distributed in Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") by KFS which is registered as a licensed corporation under the Securities and Futures Ordinance (Cap.571 of The Laws of Hong Kong) with the Securities and Futures Commission of Hong Kong ("SFC") and its SFC CE number is ADF346.

The information contained in this report has been taken from sources believed to be reliable but no representation or warranty expressed or implied is made as to their accuracy or correctness. This report is published for the assistance of recipients but is not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient. It is not to be construed as an offer, invitation or solicitation to buy or sell any securities of the company or companies covered herein. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. All opinions and estimates reflect our judgment on the date of this report and are subject to change without notice.

KFS, including its parent, subsidiaries and/or affiliates, may act as lead or co-manager in an offering of the securities of any issuer discussed herein, may from time to time perform financial services or other advisory services for, or solicit financial services or other business from, any issuer.

Within the past year, KFS, including its parent, subsidiaries and/or affiliates, may have acted as market maker or traded on a principal basis in the financial instruments of any issuer discussed herein and may act as underwriter, placement agent, advisor or lender to such issuer.

KFS, including its parent, subsidiaries, affiliates, shareholders, officers, directors, and employees may have long or short positions in, and buy or sell, the securities, commodities or derivatives (including options) or any other financial instruments thereof, of any issuers.

An employee of KFS, including its parent, subsidiaries and/or affiliates, may act as director, or be represented on the boards of directors, of any such entities or issuers.

Additional information is available upon request.

Copyright 2018 Kingsway Group. All rights reserved.

Head Office

Hong Kong
Kingsway Financial Services Group Limited
7/F, Tower One, Lippo Centre,
89 Queensway, Hong Kong
Tel: 852-2877-1830
Fax: 852-2877-2665

Affiliated & Overseas Offices

Canada
Kingsway Capital of Canada Inc.,
Suite 900, 10 King Street East,
Toronto, Ontario,
Canada M5C 1C3
Tel: 416-861-3099
Fax: 416-861-9027

China
Kingsway Financial Services Group Limited
Beijing Representative Office

Beijing Kingsway Financial Consultancy Limited
18/F, Block 1,
Henderson Centre,
18 Jianguomenneida Street,
Dongcheng District, Beijing,
100005, PRC
Tel: 8610-6518-2813
Fax: 8610-6518-2448

Shanghai Kingsway Financial Consultancy Limited
B22, 18F, Taiping Finance Tower,
488 Middle Yincheng Rd, Pudong,
Shanghai, 200120 PRC
Tel: 8621-5049-0358
Fax: 8621-5049-0358

Shenzhen Kingsway Financial Consultancy Limited
701, Tower A,
Aerospace Skyscraper,
4019 Shennan Road,
Futian District, Shenzhen,
518048, PRC
Tel: 86-755-3333-6539
Fax: 86-755-3333-6536