

Xinyi Glass [0868.HK]

Another upgrade. Maintain BUY.

Xinyi Glass (XYG) management reiterated its positive guidance and said it expects the float glass market to remain tight, as only limited capacity has resumed production recently. The float glass price has continued to increase, given resilient downstream demand. The average float glass price in key cities in China rose 20.5% from end-Jun to 14 Sep 2016. According to XYG management, the float glass price in Guangdong rose 25% since end-Jun, and XYG is a major beneficiary, as about one-third of the Company's capacity is located in Guangdong. We raised our earnings forecasts for XYG for 2016 and 2017 by 6.8% and 6.0%, respectively, given the recent upsurge in the float glass price and improved profitability. With resilient global aftermarket auto glass demand, the wide adoption of Low-E glass, and capacity rationalization in the float glass industry in China, we expect XYG to post solid top- and bottom-line growth in 2016-17E. XYG management mentioned that the Company is looking for M&A opportunities, as it is difficult to get quota for new production lines in China. XYG management is considering capacity expansion in Malaysia, which is a hub for covering ASEAN markets. Share price catalysts include a further pick-up in construction glass prices, a further drop in energy costs, and a new expansion plan by both XYG and Xinyi Solar (XYS). Shares of XYG have performed well YTD, and any share price weakness due to profit-taking and weak market sentiment would offer a good buying opportunity for investors in our view. The market has been upgrading its earnings forecasts for XYG since our previous upgrades. After the earnings revision, our earnings forecast for 2016 is the highest, and we believe there is still upside for market consensus. XYG is now trading at 8.7x 2016 PER. With its undemanding valuation, we maintain our BUY call with a higher target price of HK\$8.69 (based on 10.5x 2016E PER, lower than its historical average and the average of its listed peers). The upward revision of the target price is due to an increase in our earnings forecast.

Investment Highlights

- Float glass price continued to perform strongly.** Despite an increase in float glass capacity, float glass prices continued to increase month to date (MTD) in Sept after a rally in Jul and Aug. The average float glass price in key cities in China has risen 20.5% since end-Jun 2016 (14.8% in Aug and 2.5% MTD in Sep). The YTD average float glass price in key cities in China has risen 10.2% YoY. XYG management highlighted that the float glass price in Guangdong has risen 25% since end-Jun, outperforming the national average. XYG is a major beneficiary, as one-third of the Company's capacity is located in Guangdong. In some cases, XYG requires upfront payment before product delivery. We maintain the view that downstream demand for float glass remains healthy and that the recent upsurge in the float glass price is positive for leading players like XYG.
- Overseas expansion to drive growth; other segments also performed well.** Raw material prices, especially for soda ash, are at a low level, and float glass capacity has remained stable YTD. The strong float glass price has been translated into margin improvement for the most part. XYG management also highlighted that it is difficult to get permission to install new float glass capacity in China, so the Company is looking for M&A opportunities. We share the view that the float glass industry in China will continue to consolidate and that the leading players such as XYG will benefit. XYG is also considering capacity expansion in Malaysia, which is a hub for ASEAN markets and offers medium-term growth potential. The Low-E glass price also rebounded in eastern and southwestern China, which is also in-line with our view that price competition in the construction glass industry is coming to an end. Growth in demand for construction glass is expected to pick up in 2H 2016, which might offer an upside surprise.
- Upwards earnings adjustment and upside for market consensus.** We lifted our net profit forecasts for 2016 and 2017 by 6.8% and 6.0%, respectively. The upward earnings adjustment is due to (a) an upward revision in the ASP of float glass products (5.7% and 2.6% for 2016 and 2017, respectively) and (b) a 1.5ppt upward revision in the gross margin of the float glass segment for 2016 and 2017. There was no major change in our forecasts for XYS, so the earnings upgrade is related more to improvement in XYG's operating performance. The market has been upgrading its earnings forecasts for XYG since our previous upgrades. After the earnings revision, our earnings forecast for 2016 is at the high end of market consensus, and we believe there is still upside for market consensus.

Key Financials (in HKDm)	2013	2014	2015	2016E	2017E
Revenue	9,936.1	10,861.1	11,460.3	13,394.3	14,571.5
Change (YoY %)	17.8	9.3	5.5	16.9	8.8
Gross Profit	3,137.0	2,733.4	3,132.7	4,746.2	5,171.8
Gross Margin %	31.6	25.2	27.3	35.4	35.5
Net Profit	3,621.9	1,364.3	2,111.9	3,212.3	3,579.3
Net Margin %	35.4	12.6	18.4	24.0	24.6
EPS (Basic)	0.89	0.35	0.54	0.83	0.92
Change (YoY %)	189.9	(61.3)	54.8	54.3	11.4
DPS	\$0.240	\$0.150	\$0.265	\$0.409	\$0.455
ROE (%)	31.8	11.1	16.9	23.5	23.1
Dividend Yield (%)	3.32	2.07	3.67	5.65	6.30
PER (x)	8.1	20.9	13.5	8.7	7.8
PBR (x)	2.3	2.3	2.2	1.9	1.7
FCF Yield (%)	1.16%	-0.64%	3.69%	6.13%	7.67%
Capex (m)	(3,752.3)	(1,729.0)	(1,967.0)	(1,700.0)	(1,500.0)
Free cash flow per share	0.1	(0.0)	0.3	0.4	0.6
Net Gearing (%)	33.6	42.0	37.2	33.0	26.6

Source: Bloomberg, CGIS Research

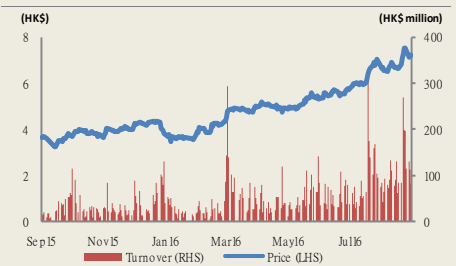
China Construction Sector - Building Materials

BUY

Close: HK\$7.23 (Sep 15, 2016)

Target Price: HK\$8.69 (+20.2%)

Share Price Performance



Market Cap	US\$3,623m
Shares Outstanding	3,880.9m
Auditor	Pricewaterhouse-Coopers
Free Float	45.4%
52W range	HK\$3.23-7.53
3M average daily T/O	US\$11.2m
Major Shareholder	Mr Lee Yin Yee (20.3%)

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Figure 1: Results highlights

Results Highlights (HKD m)	1H 2014	2H 2014	1H 2015	2H 2015	1H 2016	2H 2016E
Revenue	5,034	5,827	5,283	6,177	5,885	7,509
Cost of sales and services	-3,697	-4,430	-3,873	-4,455	-3,844	-4,804
Gross profit	1,337	1,397	1,410	1,723	2,041	2,705
Other income and other gains and losses	247	152	287	307	147	245
Distribution and selling expenses	-268	-340	-312	-367	-351	-403
Administrative expenses	-472	-558	-441	-494	-533	-600
Finance costs	-25	-14	-26	-24	-44	-17
JV & Associates	57	80	161	157	312	382
Profit before tax	876	716	1,079	1,301	1,572	2,313
Income tax expense	-114	-114	-138	-128	-202	-269
MI	-0	-0	-2	-0	-0	-185
Profit for the period	762	602	939	1,173	1,369	1,860
Gross margin (%)	26.6	24.0	26.7	27.9	34.7	36.0
Operating margin (%)	17.9	12.5	20.9	21.4	27.5	31.0
Net Margin (%)	0.0	0.0	0.0	0.0	0.0	0.0
Turnover by products (HKDm)						
Automobile glass	1,781	1,813	1,897	1,890	1,990	2,072
Construction glass	1,079	1,477	1,206	1,445	1,220	1,644
Float glass	2,175	2,538	2,180	2,843	2,675	3,794
Gross margin by products (%)						
Automobile glass	42.1	41.5	44.1	44.6	48.7	47.4
Construction glass	37.0	34.1	31.7	35.6	39.0	38.7
Float glass	8.6	5.6	8.7	12.9	22.3	28.6

Source: Company, CGIS Research

Figure 2: Key assumptions for XYG

	2012	2013	2014	2015	2016F	2017F
Turnover (HKDm)						
Automobile glass	3,077.8	3,287.2	3,593.2	3,786.6	4,062.1	4,357.7
Construction glass	1,574.6	2,154.5	2,555.5	2,651.5	2,863.6	3,285.9
Float glass	3,780.6	4,494.3	4,712.4	5,022.2	6,468.6	6,927.9
Total	8,433.0	9,936.1	10,861.1	11,460.3	13,394.3	14,571.5
YoY Change (%)						
Automobile glass		6.8	9.3	5.4	7.3	7.3
Construction glass		36.8	18.6	3.8	8.0	14.7
Float glass		18.9	4.9	6.6	28.8	7.1
Total		17.8	9.3	5.5	16.9	8.8
Volume						
Automobile (piece)		12,110.0	12,889.0	13,582.8	14,571.1	15,631.3
Construction (sqm)		16,363.0	19,380.0	20,107.5	22,620.9	25,448.4
Float glass (tonne)		2,927.0	3,510.0	3,856.8	4,435.3	4,657.0
YoY Change (%)						
Automobile (piece)			6.4	5.4	7.3	7.3
Construction (sqm)			18.4	3.8	12.5	12.5
Float glass (tonne)			19.9	9.9	15.0	5.0
ASP						
Automobile (HKD/piece)		271.4	278.8	278.8	278.8	278.8
Construction (HKD per sqm)		131.7	131.9	131.9	126.6	129.1
Float glass (HKD per tone)		1,535.5	1,342.6	1,302.2	1,458.4	1,487.6
YoY Change (%)						
Automobile (HKD/piece)			2.7	0.0	0	0
Construction (HKD per sqm)			0.1	0	(4.0)	2.0
Float glass (HKD per tone)			(12.6)	(3.0)	12.0	2.0
Gross margin (%)						
Automobile glass	42.8	43.3	41.8	44.3	48.0	48.0
Construction glass	37.2	39.9	35.3	33.9	38.9	38.9
Float glass	8.6	19.0	7.0	11.1	26.0	26.0
Blended	26.4	31.6	25.2	27.3	35.4	35.5
Net margin (%)	14.1	35.4	12.6	18.4	24.0	24.6
Cost (HKDm)						
S,G&A	(1,056.7)	(1,250.9)	(1,638.0)	(1,614.5)	(1,887.0)	(2,052.9)
Financial Expenses	(57.3)	(59.7)	(38.1)	(50.2)	(45.4)	(60.7)
YoY Change (%)						
S,G&A		18.4	30.9	(1.4)	16.9	8.8
Financial Expenses		4.2	(36.2)	32.0	(9.5)	33.7
CAPEX (HKDm)	1,435.3	3,752.3	1,729.0	1,967.0	1,700.0	1,500.0
Net Gearing (%)	35.8	33.6	42.0	37.2	33.0	26.6

Source: Company, CGIS Research

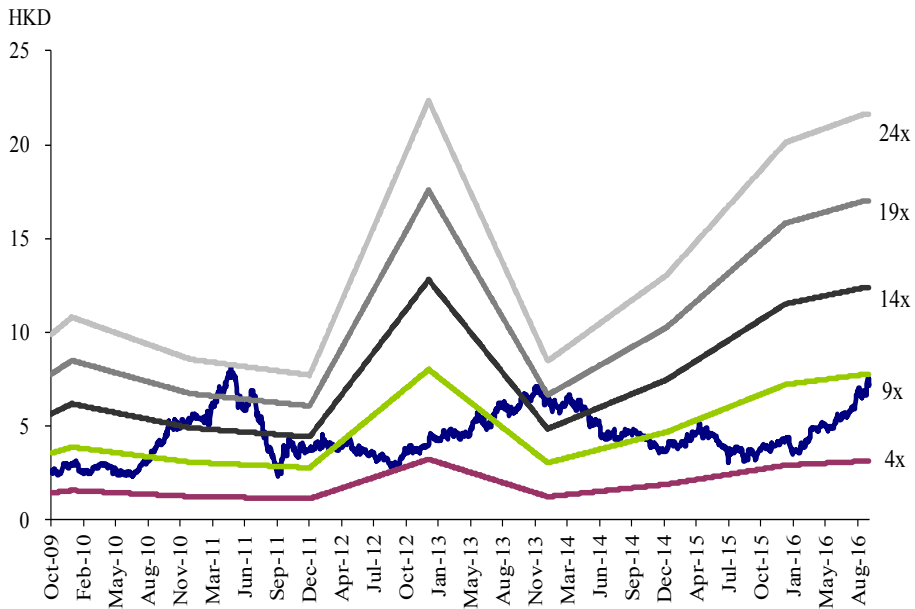
Figure 3: Earnings projection

Income Statement (HKDm)						Cash Flow Statement (HKDm)					
	FY2013	FY2014	FY2015	FY2016F	FY2017F		FY2013	FY2014	FY2015	FY2016F	FY2017F
Revenue	9,936	10,861	11,460	13,394	14,571	Net Income	3,282	1,227	1,796	2,703	2,920
Growth yoy%	17.8%	9.3%	5.5%	16.9%	8.8%	Depreciation & Amort.	609	615	766	858	934
Gross Profit	3,137	2,733	3,133	4,746	5,172	Change in Working Capital	190	(296)	456	(140)	(202)
Growth yoy%	40.9%	(12.9%)	14.6%	51.5%	9.0%	Cash from Ops.	4,082	1,546	3,018	3,420	3,652
Selling General & Admin Exp.	(1,251)	(1,638)	(1,615)	(1,887)	(2,053)	Capital Expenditure	(3,752)	(1,729)	(1,967)	(1,700)	(1,500)
Others Operating Expenses/Items	326	178	215	251	274	Sale of Property, Plant, and Equipment	-	-	-	-	-
Operating Income	2,212	1,274	1,733	3,111	3,392	Change in Investing Activities	80	53	40	83	67
Growth yoy%	n.a.	(42.4%)	36.1%	79.5%	9.1%	Cash from Investing	(3,673)	(1,676)	(1,927)	(1,617)	(1,433)
Interest Expense	(59.7)	(38.1)	(50.2)	(45.4)	(60.7)	Net increase in bank borrowings	874	873	16	333	0
Interest and Invest. Income						Issuance of Common Stock	0	0	0	0	0
Income/(Loss) from Affiliates	297.6	137.6	317.3	694.8	899.4	Common Dividends Paid	(945)	(590)	(1,043)	(1,586)	(1,768)
Other Non-Operating Inc. (Exp.)	0	0	0	0	0	Special Dividend Paid	-	-	-	-	-
Impairment of Goodwill	0	0	0	0	0	Other Financing Activities	0	0	0	(264)	0
Gain (Loss) On Sale Of Invest.	1,453	220	379	108	118	Cash from Financing	(70)	282	(1,027)	(1,518)	(1,768)
Gain (Loss) On Sale Of Assets						Net Change in Cash	339	152	64	285	452
Income Tax Expense	(381)	(228)	(266)	(471)	(530)						
Minority Int. in Earnings	(0)	(1)	(2)	(185)	(240)						
Net Income	3522	1364	2112	3212	3579						
Growth yoy%	196.4%	(61.3%)	54.8%	52.1%	11.4%						

Balance Sheet (HKDm)						Ratios					
	FY2013	FY2014	FY2015	FY2016F	FY2017F		FY2013	FY2014	FY2015	FY2016F	FY2017F
ASSETS						Profitability					
Cash And Equivalents	1,042	831	1,298	1,543	1,995	Return on Assets %	19.7%	6.7%	9.9%	14.2%	14.3%
Receivables	2,255	2,487	2,381	2,473	2,688	Return on Capital %	11.6%	5.9%	7.9%	12.4%	12.0%
Inventory	1,232	1,478	1,223	1,270	1,380	Return on Equity %	31.8%	11.1%	16.9%	23.5%	23.1%
Other Current Assets	7	9	93	93	93	Margin Analysis					
Total Current Assets	4,537	4,805	4,995	5,379	6,156	Gross Margin %	31.6%	25.2%	27.3%	35.4%	35.5%
Net Property, Plant & Equipment	11,849	12,581	13,177	14,548	15,117	SG&A Margin %	12.6%	15.1%	14.1%	14.1%	14.1%
Long-term Investments	-	-	-	-	-	EBIT Margin %	22.3%	11.7%	15.1%	23.2%	23.3%
Other Intangibles	-	-	-	-	-	EBITDA Margin %	28.4%	17.4%	21.8%	29.6%	29.7%
Deferred Tax Assets, LT	-	-	-	-	-	Net Income Margin %	35.4%	12.6%	18.4%	24.0%	24.6%
Other Long-Term Assets	3,265	3,649	3,249	3,954	4,851	Asset Turnover					
Goodwill	-	-	-	-	-	Total Asset Turnover	0.5x	0.5x	0.5x	0.6x	0.6x
Accounts Receivable Long-Term	-	-	-	-	-	Fixed Asset Turnover	0.7x	0.7x	0.7x	0.7x	0.7x
Total Long Term Assets	15,114	16,229	16,426	18,502	19,968	Accounts Receivable Turnover	4.5x	4.6x	4.7x	5.5x	5.6x
Total Assets	19,651	21,034	21,422	23,882	26,124	Inventory Turnover	8.1x	7.3x	9.4x	10.5x	10.6x
LIABILITIES & EQUITY						Liquidity					
Accounts Payable	1,744	1,978	2,112	2,194	2,384	Current Ratio	1.1x	1.0x	1.0x	1.1x	1.2x
Accrued Exp.	-	-	-	-	-	Quick Ratio	0.8x	0.7x	0.7x	0.8x	0.9x
Short-term Borrowings	2,116	2,529	2,514	2,529	2,529	Avg. Days Sales Out.	82.9	83.6	75.8	67.4	67.3
Curr. Port. of LT Debt	-	-	-	-	-	Avg. Days Inventory Out.	45.3	49.7	38.9	34.6	34.6
Curr. Income Taxes Payable	-	-	-	-	-	Avg. Days Payable Out.	85.9	83.6	89.6	90.9	88.9
Unearned Revenue, Current	-	-	-	-	-	Avg. Cash Conversion Cycle	84.9	83.5	62.2	61.2	61.2
Other Current Liabilities	219	294	333	333	333	Net Debt to Equity	34%	42%	37%	33%	27%
Total Current Liabilities	4,079	4,801	4,959	5,056	5,246	Growth Over Prior Year					
Long-Term Debt	3,024	3,483	3,514	3,832	3,832	Total Revenue	17.8%	9.3%	5.5%	16.9%	8.8%
Def. Tax Liability, Non-Curr.	160	159	159	159	159	Net Income	196.4%	(61.3%)	54.8%	52.1%	11.4%
Other Non-Current Liabilities	180	255	63	63	63	Payout Ratio %	26.8%	43.3%	49.4%	49.4%	49.4%
Total Liabilities	7,442	8,699	8,696	9,110	9,301						
Common Stock	7,100	5,940	4,277	5,898	7,710						
Additional Paid In Capital	-	-	-	-	-						
Retained Earnings	5,108	6,393	8,442	8,682	8,682						
Treasury Stock	-	-	-	-	-						
Comprehensive Inc. and Other	-	-	-	-	-						
Minority Interest	1.1	2.0	7.2	192.2	432.3						
Total Equity	12,209	12,335	12,726	14,772	16,823						
Total Liabilities And Equity	19,651	21,034	21,422	23,882	26,124						

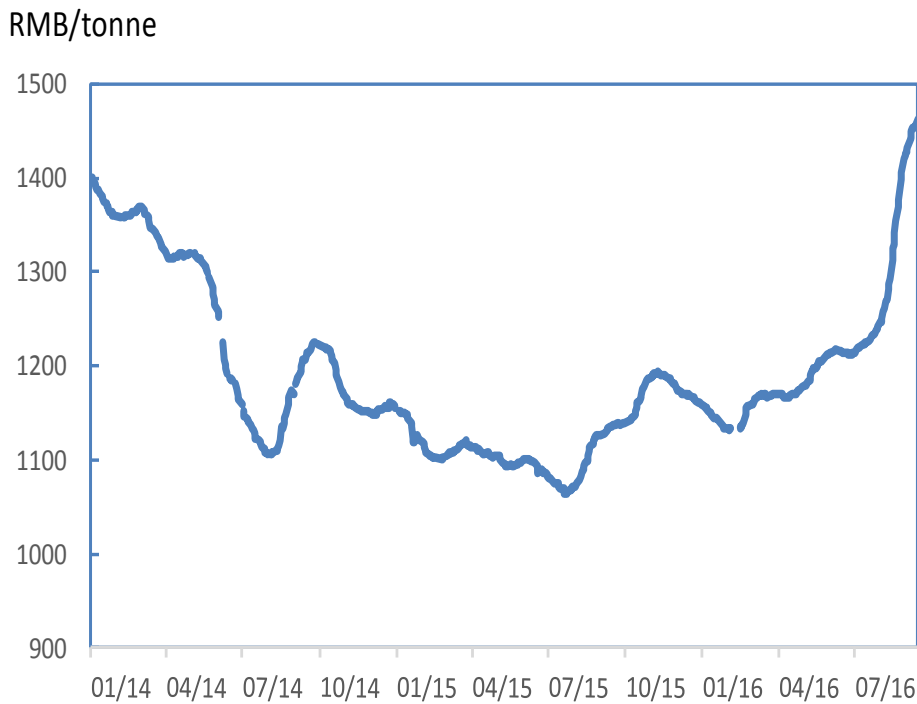
Sources: Company, CGIS Research

Figure 4: XYG's PER trend



Sources: Bloomberg, CGIS Research estimates

Figure 5: Average float glass price in Key Cities in China



Sources: WIND, CGIS Research

Figure 5: Peer comparison

Ticker	Company	Price Lcy	Market Cap US\$m	PE			EV/EBITDA			P/B		ROE		ROA		Div yield		Share Price Performance			
				2016F	2017F	2018F	2016F	2017F	2018F	2015	2016F	2015	2016F	2015	2016F	2015	2016F	1M	3M	6M	12M
868 HK	Xinyi Glass Holdings Ltd	7.23	3622.7	8.7	7.8	n.a.	8.3	7.6	n.a.	2.3	1.9	16.9	23.5	9.9	14.2	3.7	5.7	5.5	39.8	75.6	109.0
968 HK	Xinyi Solar Holdings Ltd	3.2	2809.6	10.9	8.5	7.3	8.9	6.7	5.8	3.4	2.8	26.6	29.9	14.1	13.5	3.9	3.8	0.0	10.9	20.0	21.3
8328 HK	Xinyi Automobile Glass Hong Kong	1.5	101.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.3	n.a.	-7.5	n.a.	-6.2	n.a.	0.0	n.a.	-20.2	n.a.	n.a.	n.a.
3300 HK	China Glass Holdings Ltd	1.2	270.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.0	n.a.	-20.0	n.a.	-6.6	n.a.	0.0	n.a.	0.0	34.9	36.5	7.4
1108 HK	Luoyang Glass Company Ltd-H	6.1	1260.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.0	n.a.	29.0	n.a.	18.9	n.a.	0.0	n.a.	28.7	45.8	39.2	29.5
3606 HK	Fuyao Glass Industry Group-H	20.7	6157.9	14.9	13.0	11.8	8.7	7.6	6.8	2.7	2.5	20.6	17.4	12.5	12.2	4.2	4.4	0.7	20.1	19.5	37.5
6885 HK	Flat Glass Group Co Ltd	1.8	417.6	5.3	5.0	4.0	n.a.	n.a.	n.a.	1.1	0.8	20.5	19.1	9.9	11.2	4.7	n.a.	11.1	19.2	24.1	n.a.
Average				10.4	8.8	7.7	8.8	7.1	6.3	4.2	2.0	11.5	22.1	7.1	12.3	2.1	4.1	3.4	26.2	27.9	23.9
600660 CH	Fuyao Glass Industry Group-A	16.0	6157.9	13.7	11.9	10.9	8.9	7.7	7.0	2.5	2.2	20.6	16.7	11.1	12.5	n.a.	4.8	-2.1	17.6	13.8	31.4
000112 CH	Csg Holding Co Ltd- A	11.4	2892.7	28.2	22.4	18.4	13.2	10.4	8.8	n.a.	2.7	7.7	9.8	n.a.	4.3	n.a.	2.6	-5.3	4.5	9.8	33.2
601636 CH	Zhuzhou Kibing Group Co Ltd-A	3.7	1426.9	14.4	15.0	12.7	8.4	7.5	6.7	1.7	1.6	3.3	11.1	1.8	n.a.	n.a.	n.a.	2.2	24.3	29.6	36.7
002163 CH	Avic Sanxin Co Ltd-A	8.2	988.7	n.a.	228.1	106.6	n.a.	n.a.	n.a.	9.1	9.5	-27.3	-6.0	-2.4	n.a.	n.a.	n.a.	16.3	24.0	9.2	16.1
600819 CH	Shanghai Yaohua Pilkington-A	7.5	975.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.5	n.a.	-12.0	n.a.	-3.3	n.a.	n.a.	n.a.	-2.2	23.5	19.0	25.8
600876 CH	Luoyang Glass Company Ltd-A	25.6	1260.1	320.1	232.8	256.1	n.a.	n.a.	n.a.	29.2	n.a.	29.0	4.5	18.9	n.a.	0.0	n.a.	-1.5	-1.4	-12.0	5.0
Average				94.1	102.0	80.9	10.2	8.5	7.5	9.0	4.0	3.6	7.2	5.2	8.4	0.0	3.7	2.6	22.3	24.0	31.4
1802 TT	Taiwan Glass Ind Corp	15.20	1393.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.9	n.a.	-10.2	n.a.	-3.9	n.a.	n.a.	n.a.	16.0	13.5	0.1	18.8
SISE TI	Turk Sise Ve Cam Fabrikalari	3.34	2298.0	10.4	9.3	7.6	6.6	6.0	5.3	1.0	0.9	11.0	8.1	4.2	4.8	n.a.	3.2	-6.7	-1.0	6.9	30.6
TRKCM TI	Trakya Cam Sanayii As	2.42	755.3	6.3	9.1	7.5	7.5	6.4	5.2	0.8	0.7	6.1	5.4	9.0	8.7	n.a.	3.4	-6.6	12.8	32.3	45.4
APOG US	Apogee Enterprises Inc	44.46	1280.3	15.7	13.5	11.9	7.8	6.8	6.1	3.0	2.7	13.7	n.a.	11.1	n.a.	1.1	1.1	-5.2	1.9	9.4	-21.0
5201 JP	Asahi Glass Co Ltd	652.00	7536.1	21.7	16.7	14.8	5.3	5.0	4.8	0.8	0.7	3.9	3.3	1.8	2.2	n.a.	2.8	5.0	12.2	6.2	-13.0
5214 JP	Nippon Electric Glass Co Ltd	505.00	2447.6	32.5	18.3	17.5	4.2	4.1	3.9	0.5	0.5	1.9	1.6	1.0	1.9	n.a.	3.2	7.2	8.6	-13.2	-19.8
4044 JP	Central Glass Co Ltd	400.00	837.2	8.9	8.9	8.7	5.1	5.0	4.8	0.5	0.5	7.2	5.8	3.4	n.a.	n.a.	2.8	1.0	10.3	8.1	11.5
5202 JP	Nippon Sheet Glass Co Ltd	84.00	739.3	14.8	11.4	9.0	6.9	6.7	6.6	1.3	1.0	1.0	5.3	-5.3	0.6	n.a.	0.0	5.0	7.7	1.2	-22.9
SGO FP	Compagnie De Saint Gobain	37.92	23622.6	15.6	13.6	12.1	7.0	6.5	5.9	1.2	1.1	7.0	7.1	2.9	3.1	n.a.	3.3	-3.9	3.3	-0.3	-6.1
PPG US	Ppg Industries Inc	101.16	26937.1	16.3	14.8	13.6	10.8	10.3	10.0	5.0	5.0	27.7	32.7	8.4	9.8	1.5	1.6	-2.7	-5.5	-3.4	7.4
GLW US	Corning Inc	22.35	23174.2	15.7	13.8	12.9	7.3	7.0	7.6	1.3	1.5	6.9	10.3	7.5	6.4	2.3	2.4	-2.3	10.3	15.1	26.8
Average				15.8	12.9	11.6	6.9	6.4	6.0	1.5	1.5	6.9	8.8	3.7	4.7	1.6	2.4	0.6	6.7	5.7	5.2

Sources: Bloomberg, Company, CGIS Research estimates for covered stocks;

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