

Xinyi Glass Holdings (868 HK)

Member of key [HTI Themes](#): Capex/New Projects, Government Policy, Productivity

Target Price HK\$9.30
Current Price HK\$7.61
% Upside 22%

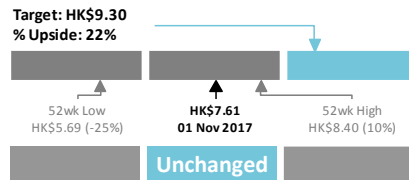
The Scoop: Rising Float Glass Price to Drive Margins in H2 FY17

Automobiles & Components

Hong Kong

1 Nov 2017

BUY



Basic Share Information

Market cap	HK\$30.50b / US\$3.91b
Daily traded value (3mth)	US\$11.25m
Shares outstanding	3,882m
Free float	55%
Net debt-to-equity	37.1%
1 yr high	HK\$8.40
1 yr low	HK\$5.69
Major shareholding	21.6%
Last HTI contact w/ Co	30 Oct 17

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	-1.4%	-1.9%	15.1%
Absolute USD	-1.3%	-1.8%	14.4%
Relative to HSI	-3.9%	-4.5%	-6.9%



Walden Shing

Haitong International Research Ltd
 walden.wc.shing@htisec.com
 Local Knowledge, Global Reach

Hong Kong Office	(852) 2899 7090
Tokyo Office	(81) 3 3560 9300
London Office	(44) 20 7397 2700
New York Office	(1) 212 867 7300
Mumbai Office	(91) 22 43156839

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What event has happened?

We visited Xinyi Glass Holdings' (XYG) factory in Wuhu last week for an update on the company. Management also shared its vision for XYG's expansion strategy. XYG is considering investing in a new float-glass production line in Canada to tap into the float-glass market in North America.

Why is it significant?

We believe that management remains fairly upbeat about the H2 FY17 results. According to management, float glass prices rose by about Rmb200 per ton during the peak season in 2017. Demand in Guangdong province has been particularly strong and this market accounts for about one-third of XYG's float-glass production volume. Although soda ash prices have risen significantly in H2 2017, XYG has purchased 30% of its requirements from overseas suppliers, which has helped it mitigate cost pressure. Management remains upbeat about float glass GPMs expanding further in H2, compared with H1 FY17.

Implications for our earnings forecast?

We revise down our FY17 NP forecast slightly, by 2% to HK\$3,542mn, but revise up our FY18 NP forecast by 1.1%. We forecast an H2 FY17 GPM of 37.1%, compared with 36.4% in H1 FY17. We believe that rising soda ash costs should result in the GPM falling for the auto glass and construction glass divisions, albeit an improvement in float glass margin can make up for this. Soda ash prices rose from Rmb1,700 per tonne in June 2017 to Rmb2,450 per tonne in October 2017. Each tonne of float glass uses about 0.2 tonnes of soda ash.

How do valuations look now?

As of the last close, XYG shares trade at only 8.5x FY17 PER with a dividend yield of 5.6% on our forecasts. We continue to value the stock at 9x our FY18 EPS forecast, now HK\$1.04. As a result, we raise our target price slightly, from HK\$9.20 to HK\$9.30 to reflect the small changes to our EPS estimates. The main risks to our rating and the attainment of our target price are a significant slowdown in property sales in China and a rapid rise in material costs. We see the major positive catalyst for the shares as the government tightening environmental standards, which should benefit large-scale companies such as XYG.

What is distinctive about our stock view?

In 2017, the Chinese government has shown that it is serious about dealing with environmental issues in China. 40–50% of the float-glass supply in China is still produced using highly polluting fuel such as petroleum coke. We believe that XYG should benefit from tightening environmental regulations as its production is based on natural gas, which is a clean energy source.

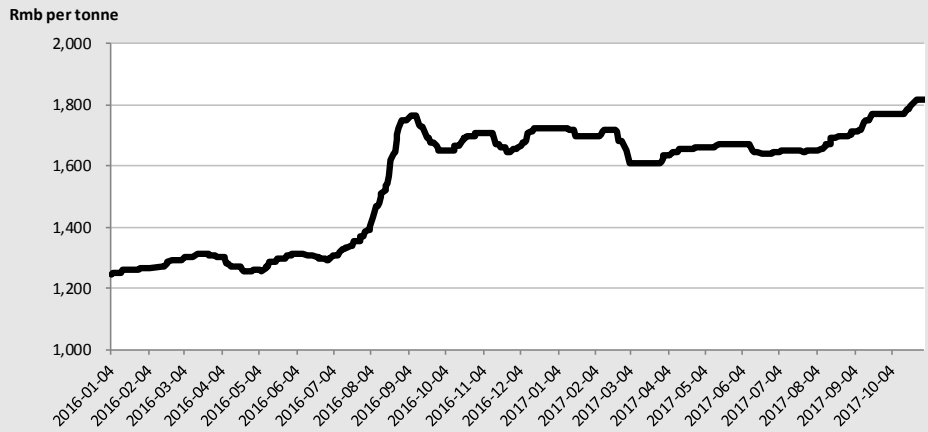
	Dec-15A	Dec-16A	Dec-17E	Dec-18E	Dec-19E	Trend
Total turnover (HK\$m)	11,460	12,848	14,196	15,489	16,406	— ■ ■ ■ ■ ■
Operating profit (HK\$m)	2,113	3,338	3,560	4,166	4,371	— ■ ■ ■ ■ ■
Pre-tax profit (HK\$m)	2,380	3,823	4,164	4,896	5,125	— ■ ■ ■ ■ ■
Net income to ord equity (HK\$m)	2,113	3,213	3,542	4,181	4,201	— ■ ■ ■ ■ ■
Net profit growth	55.0%	52.1%	10.2%	18.0%	0.5%	■ ■ ■ ■ ■
P/E (x)	14.12	9.19	8.50	7.32	7.28	■ ■ ■ ■ ■
Adj EV/EBITDA (x)	9.49	6.25	6.33	5.37	4.93	■ ■ ■ ■ ■
P/B (x)	2.35	2.24	1.92	1.70	1.51	— ■ ■ ■ ■ ■
ROE	17.0%	24.8%	24.5%	24.8%	21.9%	— ■ ■ ■ ■ ■
Dividend yield	3.5%	5.3%	5.6%	6.6%	6.6%	— ■ ■ ■ ■ ■
EPS HTI old (HK\$)	0.54	0.83	0.92	1.03	1.03	— ■ ■ ■ ■ ■
EPS HTI New (HK\$)	0.54	0.83	0.90	1.04	1.04	— ■ ■ ■ ■ ■
Consensus EPS (HK\$)	0.51	0.80	0.94	1.04	1.10	— ■ ■ ■ ■ ■
HTI EPS vs Consensus	5.7%	3.2%	(4.6%)	(0.0%)	(5.3%)	— ■ ■ ■ ■ ■

Source: Company data, Bloomberg, HTI estimates

Click [here](#) to download the working model

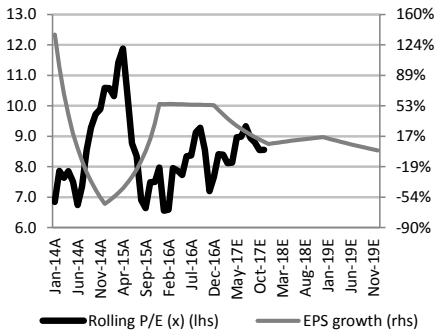
According to Wind statistics, the float glass spot price in Guangzhou rose from Rmb1,644 per tonne at the end of June 2017 to Rmb1,819 per tonne at the end of October 2017

Float Glass Spot Price Trend in Guangzhou



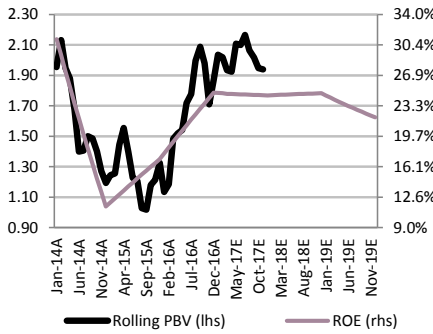
Source: Wind

P/E (x) vs EPS Growth (%)



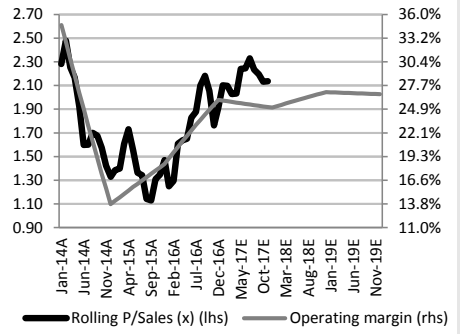
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



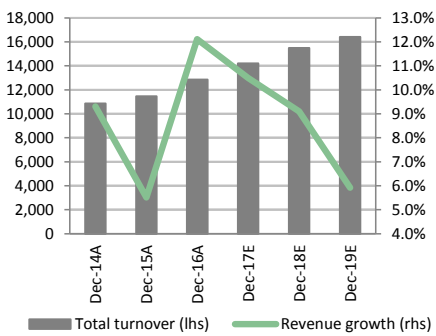
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



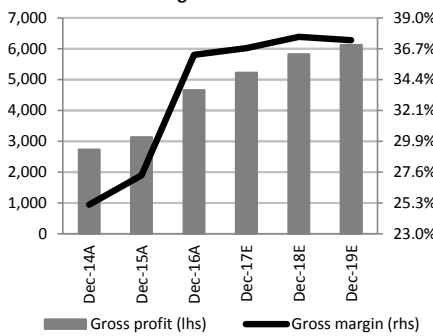
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth



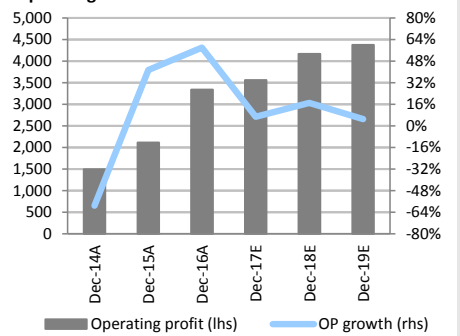
Source: Company data, Bloomberg, HTI estimates

Gross Profit and Margin



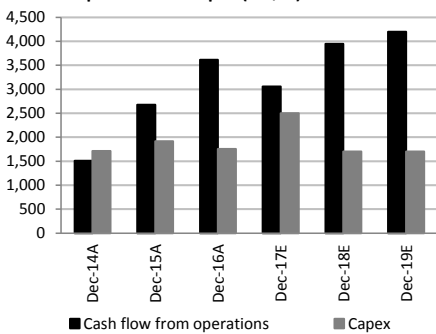
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth



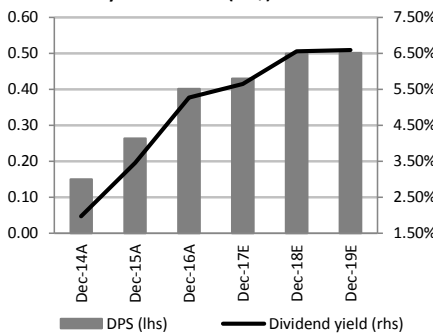
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex (HK\$m)



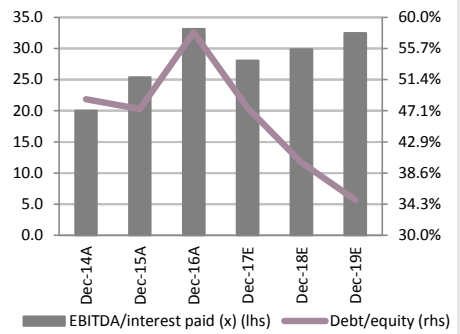
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (HK\$)



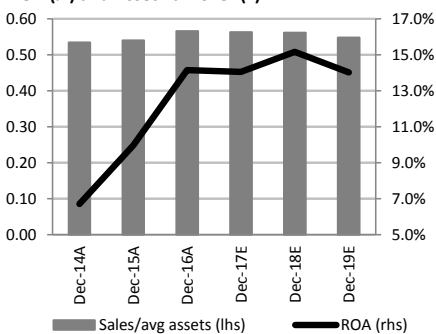
Source: Company data, Bloomberg, HTI estimates

Debt to Equity (%) and Interest Cover (x)



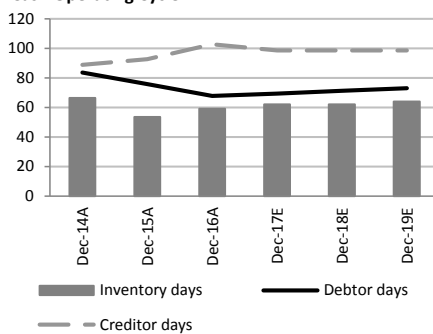
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



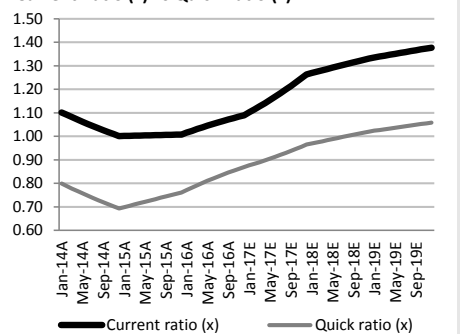
Source: Company data, Bloomberg, HTI estimates

Cash Operating Cycle



Source: Company data, Bloomberg, HTI estimates

Current Ratio (x) vs Quick Ratio (x)



Source: Company data, Bloomberg, HTI estimates

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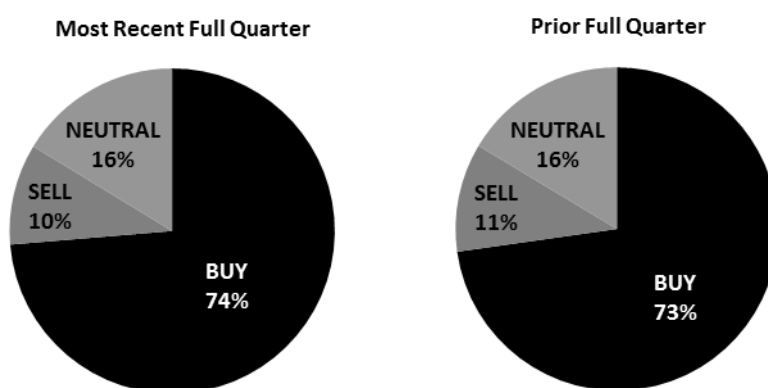
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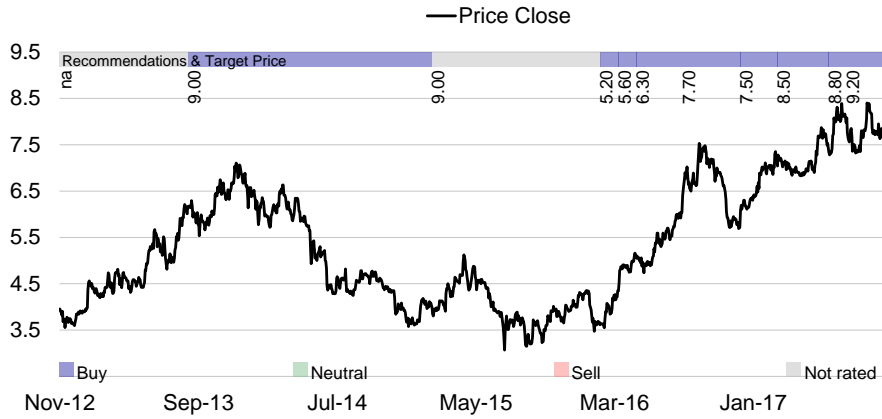
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Recommendation Chart



Date	Recommendation	Target (HK\$)	Price (HK\$)
2017-08-01	Buy	9.20	7.76
2017-06-22	Buy	8.80	7.28
2017-03-01	Buy	8.50	7.28
2016-12-09	Buy	7.50	6.19
2016-08-05	Buy	7.70	6.65
2016-04-25	Buy	6.30	5.05
2016-03-16	Buy	5.60	4.53
2016-02-05	Buy	5.20	3.64
2015-01-30	Not rated	-	3.85
2013-08-12	Buy	9.00	6.17

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity