

Xinyi Glass

New PT HK\$11 – Focus on float glass improvement

Xinyi Glass (XYG) is one of China's largest and most diversified glass producers. While the sales decline in auto and construction glass was mildly disappointing, we focus on the improvement in float glass pricing and margins in our positive view on XYG and we set a new Dec-18 PT of HK\$11.0.

- Improvement in float glass offset by other divisions.** 1H17 sales growth of 13.4% y/y was 13% lower than our expectations due mainly to the weaker-than-expected recovery in auto and construction glass. However, GPM for float glass rose to 30% in 1H17 compared to 22.3% in 1H16, which helped lift overall GPM to 36.4% or 0.8% better than expected. Overall 1H17 NP was 8.8% lower than our expectations. We note that our FY17 EPS estimate was 15% higher than consensus (before the results release) and therefore we do not believe the results would be negatively received by consensus market participants. We maintain our focus on the float glass improvement with 1HFY17 GPM rising to 30% (22.3% in 1HFY16) and we expect an FY17 GPM of 32%.
- Lowering sales and net profit to reflect auto and construction sales.** We have lowered our sales for FY17 and FY18 by 9% and 7% due to the slower recovery in auto glass and construction glass. Our estimates for float glass remain roughly unchanged. We lower our FY17 and FY18 net profit by 5% and 6%, respectively. Our revised FY17 and FY18 EPS are now 10% and 15% higher than consensus. We set a new Dec-18 PT of HK\$11.0 (prev. Dec-17 PT of HK\$10.5) as the higher PT due to the rollover to Dec-18 year end is offset by earnings downward revisions.
- Our new Dec-18 PT implies 8.1x CY19 P/E.** The key downside risks are falling demand for construction glass that could result from a cooling property market in China, and further weakness in PV glass demand from Europe.

Overweight

0868.HK, 868 HK

Price: HK\$8.08

▲ **Price Target: HK\$11.00**
 Previous: HK\$10.50

China

SMID-Caps

Leon Chik, CFA ^{AC}

(852) 2800-8590

leon.hk.chik@jpmorgan.com

Bloomberg JPMA CHIK <GO>

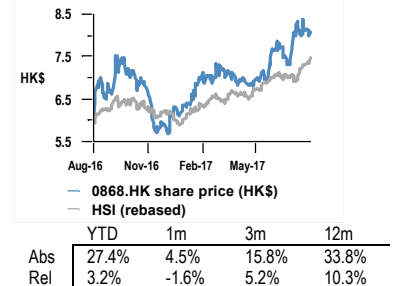
Christine Wang

(852) 2800-8528

christine.wang@jpmorgan.com

J.P. Morgan Securities (Asia Pacific) Limited

Price Performance



Xinyi Glass (Reuters: 0868.HK, Bloomberg: 868 HK)

HK\$ in mn, year-end Dec	FY14A	FY15A	FY16A	FY17E	FY18E
Revenue (HK\$ mn)	10,861	11,460	12,848	15,265	18,056
Net Profit (HK\$ mn)	1,365	2,113	3,216	4,152	4,786
EPS (HK\$)	0.35	0.54	0.80	1.04	1.20
DPS (HK\$)	0.15	0.27	0.40	0.52	0.60
Revenue growth (%)	9.3%	5.5%	12.1%	18.8%	18.3%
EPS growth (%)	(58.9%)	54.8%	49.0%	29.1%	15.3%
ROCE	6.1%	8.3%	13.5%	14.8%	15.2%
ROE	11.1%	16.9%	24.8%	27.8%	26.7%
P/E (x)	23.2	15.0	10.0	7.8	6.8
P/BV (x)	2.6	2.5	2.5	1.9	1.7
EV/EBITDA (x)	18.3	13.7	8.7	7.2	6.5
Dividend Yield	1.9%	3.3%	5.0%	6.4%	7.4%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	3,687
Market Cap (HK\$ mn)	29,789
Market Cap (\$ mn)	3,814
Price (HK\$)	8.08
Date Of Price	31 Jul 17
Free Float(%)	46.3%
3M - Avg daily vol (mn)	9.10
3M - Avg daily val (HK\$ mn)	69.15
3M - Avg daily val (\$ mn)	8.9
HSI	2,7323.99
Exchange Rate	7.81
Price Target End Date	31-Dec-18
Price Target (HK\$)	11.00

See page 13 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalysts for the stock price:

- Price of float glass improving after the slack 1Q season
- More information on new electric (LCD) glass business to indicate sales and profit contribution
- Finalization of new downstream solar projects

Upside risks to our view:

- A rise in float glass price higher than our expectations driven by strong construction demand
- New customers for the electric glass business are of a better quality than we expect
- Faster completion of new electric glass lines to boost sales

Downside risks to our view:

- Further weakness in PV glass demand from Europe
- Falling demand for construction and float glass that may result from a cooling property market in China

Key financial metrics	FY16	FY17E	FY18E	FY19E
Revenues (LC)	12,848	15,265	18,056	20,384
Revenue growth (%)	12.1%	18.8%	18.3%	12.9%
EBITDA (LC)	3,991	4,788	5,458	6,263
EBITDA margin (%)	31.1%	31.4%	30.2%	30.7%
Tax rate (%)	16%	14%	13%	13%
Net profit (LC)	3,216	4,152	4,786	5,398
EPS (LC)	0.54	0.80	1.04	1.20
EPS growth (%)	49.0%	29.1%	15.3%	12.8%
DPS (LC)	0.40	0.52	0.60	0.67
BVPS (LC)	3.30	4.18	4.78	5.45
Operating cash flow (LC mn)	3,738	3,852	4,422	5,289
Free cash flow (LC mn)	665	1,598	1,327	2,398
Interest cover (x)	52	339	528	189
Net margin (%)	25.0%	27.2%	26.5%	26.5%
Sales/assets (X)	0.57	0.58	0.60	0.61
Debt/equity (%)	57.9%	45.7%	40.0%	35.1%
Net debt/equity (%)	37.1%	28.9%	28.2%	24.0%
ROE (%)	25%	28%	27%	26%

Key model assumptions	FY16E	FY17E	FY18E	FY19E
Auto glass capacity (m)	17.4	17.8	18.1	19.0
Float glass capacity (mn tonnes)	5.9	6.5	6.7	7.4
Float glass price (HK\$/ton)	1,573	1,887	2,076	2,076

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
Sensitivity to	FY17E	FY18E	FY17E	FY18E
5% chg in float glass price	9%	10%	7%	8%
5% chg in fuel cost	-2%	-2%	-2%	-2%
5% chg in wage	-3%	-3%	-2%	-2%
1% chg in GM	4%	4%	3%	3%

Source: J.P. Morgan estimates.

Peer valuation comparison

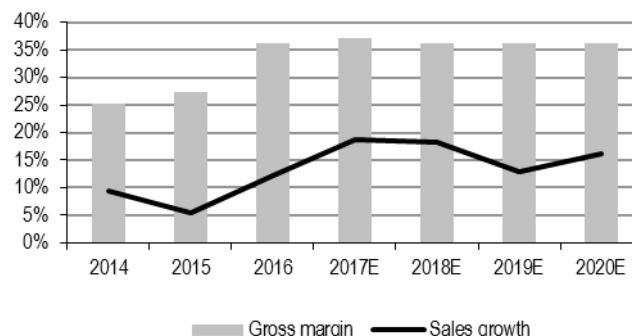
Company Name	Code	Price (TP)	MCAP US\$MM	Vol US\$mn	3M Chg	P/E 16e (x)	PE 17e (x)	ROE (%)	P/B (x)	Yld (%)
CHINA STATE CONS	3311 HK	12.6	7,227.1	13.5	(11.0)	10.5	9.4	22.0	1.7	2.6
ND PAPER	2689 HK	11.5	6,871.3	20.5	36.7	18.1	10.7	15.3	1.4	0.8
LM PAPER	2314 HK	8.3	4,806.2	10.3	36.2	13.5	9.2	13.4	1.9	2.5
XINYI GLASS HOLD	868 HK	7.9	4,066.1	8.8	18.6	9.9	7.6	24.8	1.7	5.0
HAITIAN	1882 HK	22.3	4,562.9	4.7	17.0	19.8	16.7	18.1	2.1	1.9
KINGBOARD CHEM	148 HK	35.3	4,695.0	7.9	27.0	7.2	7.3	13.5	0.6	3.7
CHINA LESSO	2128 HK	5.4	2,159.8	2.5	(12.4)	7.5	6.5	18.3	1.1	3.2
KB LAM	1888 HK	10.9	4,297.6	9.2	20.0	7.5	9.4	31.5	1.8	10.3
Average						11.2	9.1	17.7	1.4	4.4

Source: Company data, Bloomberg, J.P. Morgan estimates. Share prices are as of intraday price of 31 July 2016

Valuation and price target basis

Our PT is derived on a DCF based valuation with a WACC of 11.4% and a terminal growth rate of 3%

Sales growth and GPM trends



Source: Bloomberg, Company and J.P. Morgan estimates.

JPM vs. consensus, change in estimates

EPS (LC)	FY17E	FY18E
JPM old	1.09	1.27
JPM new	1.04	1.20
% chg	-5%	-6%
Consensus	0.95	1.04

Source: Bloomberg, J.P. Morgan estimates.

Highlights from the analyst briefing

Management positive on float glass demand. Management remains positive on the sustainability of float glass demand as well as the current healthy margins. Overall construction is rising and the use of double glaze glass for residential and construction (in order to save energy) should boost demand for many years. XYG also mentioned that the quality and price premium of XYG's float glass allows the company to make superior margins while smaller and technically less sophisticated glass makers make significantly lower margins and have little incentive to expand. While new licenses for float glass facilities are increasingly difficult to obtain in the denser richer parts of Coastal China, XYG will still try to expand in order to capture market share and increase profits longer term.

More aggressive float glass expansion. XYG is now planning up to 50% expansion in its float glass capacity from the end of 2017 to the end of 2020. This annualized increase of 14-15% is more aggressive than the average 8-9% CAGR from 2015 to 2016. They did not disclose the exact location of the new expansion (up to 8 new lines) but we expect three quarters to be in China and the rest in Malaysia and SE Asia. It is also uncertain how XYG will be able to obtain new licenses and land for expansion and we look forward to more details in the ultimate location for such expansion to see if it will trigger any oversupply or price declines.

Expansion in Malaysia going well. The company commenced its first float glass and first solar glass lines in Malaysia in late 2016 / early 2017. Management is satisfied with the performance of these lines and mentioned that the production cost is currently cheaper in Malaysia. Management has also planning to add new float and solar production lines in Malaysia over the coming years.

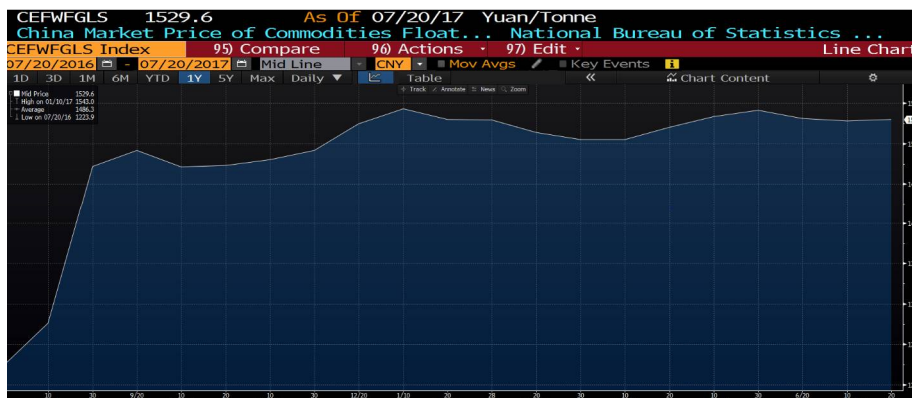
1H17 results review

1H17 Sales growth of 13.4% y/y was 13% lower than our expectations due mainly to weaker than expected recovery in auto and construction glass. However, GPM for float glass rose to 30% in 1H17 compared to 22.3% in 1H16 which helped lift overall GPM to 36.4% or 0.8% better than expected. Overall 1h17 NP was 8.8% lower than our expectations. We note that our FY17 EPS estimate was 15% higher than consensus (before the results release) and therefore we do not believe that the results would be negatively received by consensus market participants.

- **Auto glass is still weaker than expected** - We have seen a 6% y/Y drop in 1H17 auto glass sales as depreciation of many export currencies against the HK\$ dragged on sales. In addition, auto glass sales was weak in 2016 due to 3 main factors: a) Largest customer PGW in the US had an ownership change mid-2016 and the change in management disrupted purchases from XYG; b) a new anti-dumping duty from Brazil resulted in a drop in sales to that country (<3% of auto glass sales); c) rising USD resulted in many emerging markets customers buying less. These negative factors are still hurting sales growth in 1H17.
- **Construction glass hampered by FX.** Sales of construction glass were down 2.7% Y/Y in 1H17 after a 3% drop in sales in 2016. Sales would have been up low single digits in Rmb terms. We look for a seasonally better 2H17 to help achieve flat 2017 y/y sales growth.

- **Float glass price remains high even in seasonally weak 2QCY17.** XYG achieved a GPM of 27% in 2016 when the glass price(proxy price below – 4.8 mm construction float glass) was around RMB 1,300 per ton. The average price in 2017 was RMB 1,500 per ton with an insignificant change in cost in 1H17 compared to 2016. This is the main reason for the 1H17 GPM of 30% and we currently expect 32% GPM for FY17.

Figure 1: China Float glass price



Source: Bloomberg (CEFWFGLS Index – 4.8mm float)

Table 1: Earnings Revisions

FY results (HK\$m)	1H16 A	1H17 A	Growth	1H17E	Variance
Turnover*	5,885	6,676	13.4%	7,672	-13.0%
Gross profit	2,041	2,429	19.0%	2,745	-11.5%
GPM*	34.7%	36.4%		35.8%	
EBIT	1,304	1,605	23.1%	2,125	-24.5%
EBITM	22.2%	27.7%		27.7%	
Net profit	1,369	1,636	19.5%	1,794	-8.8%
NP Margin	23.3%	24.5%		23.4%	
EPS	0.34	0.42		0.45	-7.3%

Source: Company reports; J.P. Morgan estimates

Lowering sales and net profits to reflect auto and construction sales

We lowered our sales for FY17 and FY18 by 9% and 7% due to the slower recovery in auto glass and construction glass. Our estimates for float glass remain roughly unchanged. We lowered our FY17 and FY18 net profit by 5% and 6% respectively. Our revised FY17 and FY18 EPS is now 10% and 15% higher than consensus. We set a new Dec 18 PT of HK\$11.0 (prev. Dec 17 PT of HK\$10.5) as the higher PT due to the rollover to Dec 18 year end is offset by earnings downward revision.

Table 2: Earnings Revisions

Year to Dec (HKDm)	New		Old		Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Turnover	15,265	18,056	16,750	19,357	-8.9%	-6.7%
Gross profit	5,664	6,512	6,265	7,249	-9.6%	-10.2%
EBIT	3,903	4,473	4,310	5,062	-9.4%	-11.6%
Net profit	4,152	4,786	4,374	5,098	-5.1%	-6.1%
EPS (HKD)	1.04	1.20	1.09	1.27	-5.1%	-6.1%
Assumptions						
Gross margin	37.1%	36.1%	37.4%	37.4%	-0.3%	-1.4%

Source: J.P. Morgan estimates

Other recent updates from investor meetings

- Lifting utilization and not capacity in China.** For auto glass and construction glass, XYG is adding little to capacity in 2017 as the current utilization rates (~80% for auto glass and ~70% for construction glass) can be lifted by 5% to 10% easily to meet demand growth for at least another year.
- Specializes in hard to make float glass.** XYG normally achieve a selling price that is 15% to 20% higher than the average float glass price by specializing in and dominating certain hard to make sub-categories. While overall float glass market share is 10-12%, XYG believes that its market share for thin auto glass (2-3mm) is near 50% and for ultra-clear float (high end residential and commercial uses) is near 40% in China.
- Difficult to start new float glass lines.** With margins at near record highs in 1H17, following on a strong 2H16 (31% GPM), it is natural to plan new float glass lines in China. However, XYG believes that greenfield projects would be difficult to obtain approvals (before 2020) as the government is still keen on cutting capacity in the industry. XYG previously planned to acquire small inefficient operators and tear down the old lines and replace with larger lines. However, a more in-depth study has shown that approvals for float glass line renewals (replacements) is almost as hard to obtain as starting new lines. Accordingly, XYG is looking to expand outside of China. In our view, this is a phenomenon that all glass manufacturers face and the current high margins for float glass can persist for quite a while.

Valuation and share price analysis

DCF valuation

Our Dec-18 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.3 (Bloomberg Beta is 1.3). Accordingly, WACC is assumed at 11.4%. We have estimated free cash flow for XYG until 2020 and assume a terminal growth rate of 3%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6% depending on the nature of the industry and the level of maturity in China.

We also analyzed the DCF price sensitivity to WACC, and the terminal multiple.

Table 3: XYG – base-case DCF analysis

HK\$ in millions, year-end Dec	2013	2014	2015	2016E	2017E	2018E	2019E	Terminal
Cash flow estimates								
Sales	9,936	10,861	11,460	12,848	15,265	18,056	20,384	23,682
EBIT	2,212	1,274	1,733	3,178	3,903	4,473	5,164	6,087
NOPAT	2,229	1,092	1,540	3,243	4,039	4,740	5,427	6,204
Capex, net	(2,913)	(1,715)	(1,914)	(1,853)	(2,040)	(2,866)	(2,670)	(2,399)
Depreciation	639	644	795	812	885	985	1,099	1,190
Change in working capital	129	60	539	13	(328)	(360)	(259)	(553)
Free operating CF (FoCF)	84	82	959	2,217	2,558	2,502	3,601	4,448
DCF Parameters								
Liabilities as a % of EV	10%	Assumptions			Terminal growth			
WACC	11.4%	Risk-free rate			3.0%			
Enterprise NPV (10-16E)	48,430	Market risk			6.0%			
+ Net cash (debt), 14E	(5,403)	Beta			1.30			
- Minorities (Market value)	(8)	Cost of debt			6.2%			
+/- Other items	0	Implied exit P/E multiple (x)			9x			
= Equity value	43,019							
/ Number of shares	3,915							
= Equity value per share (HK\$)	11.0							

Source: Company data, J.P. Morgan estimates

Table 4: XYG – Sensitivity analysis

		Terminal growth rate						
		1.5%	2%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	9.8%	11.4	12.1	13	14	15.2	16.5	18.1
	10.3%	10.6	11.3	12.1	12.9	13.9	15	16.4
	10.8%	10	10.5	11.2	12	12.8	13.8	14.9
	11.4%	9.3	9.9	10.5	11.1	11.9	12.7	13.7
	11.9%	8.8	9.3	9.8	10.4	11	11.8	12.6
	12.4%	8.3	8.7	9.2	9.7	10.3	11	11.7
	12.9%	7.9	8.2	8.7	9.1	9.7	10.2	10.9

Source: J.P. Morgan estimates.

Table 5: XYG – Revenue mix

HK\$ MM, year-end 31Dec	2015	2016	2017E	2018E	2019E	2020E
Automobile glass	3,786	3,748	3,616	3,862	4,068	4,355
YoY	5.4%	-1.0%	-3.5%	6.8%	5.3%	7.1%
% of total	33.0%	29.2%	23.9%	21.7%	20.4%	18.8%
Construction glass	2,652	2,590	2,597	3,308	3,518	3,735
YoY	3.8%	-2.3%	0.3%	27.4%	6.3%	6.2%
% of total	23.1%	20.2%	17.2%	18.6%	17.6%	16.1%
Float glass	4,671	6,010	7,991	9,069	10,048	11,725
YoY	9.4%	28.7%	32.9%	13.5%	10.8%	16.7%
% of total	40.8%	46.9%	52.8%	51.0%	50.3%	50.7%
PV glass	0	0	0	0	0	0
YoY	40.8%	46.9%	52.8%	51.0%	50.3%	50.7%
% of total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Electronic glass	351	475	919	1,536	2,337	3,327
YoY	-20.8%	35.3%	93.4%	67.2%	52.2%	42.3%
% of total	3.1%	3.7%	6.1%	8.6%	11.7%	14.4%
Total revenue	11,460	12,824	15,122	17,775	19,971	23,141

Source: Company data, J.P. Morgan estimates

Table 6: XYG – P&L statement

Year-end 31Dec (HK\$MM)	2015	2016	2017E	2018E	2019E	2020E
Total Revenues	11,460	12,848	15,265	18,056	20,384	23,682
YoY change (%)	5.5%	12.1%	18.8%	18.3%	12.9%	16.2%
Cost of Goods Sold	(8,328)	(8,189)	(9,601)	(11,544)	(13,009)	(15,093)
YoY change (%)	2.5%	-1.7%	17.2%	20.2%	12.7%	16.0%
Gross Profit	3,132	4,659	5,664	6,512	7,375	8,588
YoY change (%)	14.6%	48.7%	21.6%	15.0%	13.2%	16.5%
Gross Margin	27.3%	36.3%	37.1%	36.1%	36.2%	36.3%
SGA	(1,615)	(1,822)	(2,092)	(2,396)	(2,625)	(2,966)
YoY change (%)	-1.4%	12.9%	14.8%	14.5%	9.6%	13.0%
Other Income/(Expenses)	215	342	331	357	414	465
Operating profit	1,733	3,178	3,903	4,473	5,164	6,087
EBITDA	2,313	3,991	4,788	5,458	6,263	7,277
EBITDA margin	20.2%	31.1%	31.4%	30.2%	30.7%	30.7%
Depreciation & Amortization	(580)	(812)	(885)	(985)	(1,099)	(1,190)
YoY change (%)	-5.2%	40.0%	9.0%	11.3%	11.5%	8.3%
EBIT	1,733	3,178	3,903	4,473	5,164	6,087
EBIT margin	15.1%	24.7%	25.6%	24.8%	25.3%	25.7%
Net Interest Expense	(50)	(77)	(14)	(10)	(33)	(25)
Exceptional item	379	159	0	0	0	0
Associates	317	563	939	1,039	1,074	1,068
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	2,379	3,823	4,828	5,502	6,205	7,130
YoY change (%)	49.3%	60.7%	26.3%	14.0%	12.8%	14.9%
Tax	(266)	(607)	(676)	(715)	(807)	(927)
Effective Tax rate	13.3%	16.6%	14.0%	13.0%	13.0%	13.0%
Minority Interests	0	0	0	0	0	0
Net Income	2,113	3,216	4,152	4,786	5,398	6,203
YoY change (%)	54.8%	52.2%	29.1%	15.3%	12.8%	14.9%
Net margin	18.4%	25.0%	27.2%	26.5%	26.5%	26.2%

Source: Company data, J.P. Morgan estimates

Table 7: Interim estimates

Year to Dec (HK\$ MM)	1H16	2H16E	1H17	2H17E	1H18E	2H18E
Total Revenues	5,885	6,963	6,677	8,589	7,897	10,159
Gross Profit	2,041	2,618	2,429	3,235	2,793	3,720
EBIT	1,304	1,875	1,605	2,298	1,840	2,634
Net Income Before Taxes	1,572	2,251	1,923	2,904	2,262	3,239
Net Income	1,369	1,846	1,636	2,516	1,968	2,818
Diluted EPS (HK\$)	0.342	0.462	0.409	0.629	0.492	0.705
Ratios						
Revenue split	46%	54.2%	43.7%	56.3%	43.7%	56.3%
GPM	34.7%	37.6%	36.4%	37.7%	35.4%	36.6%
EBIT margin	22.2%	26.9%	24.0%	26.8%	23.3%	25.9%
NPM	23.3%	26.5%	24.5%	29.3%	24.9%	27.7%
YoY						
Revenue	20.5%	5.9%	13.5%	23.3%	18.3%	18.3%
GP	44.8%	52.0%	19.0%	23.6%	15.0%	15.0%
EBIT	38.1%	137.8%	23.1%	22.6%	14.6%	14.6%
NP	44.7%	58.3%	19.5%	36.3%	20.3%	12.0%

Source: Company data, J.P. Morgan estimates.

Table 8: XYG – Balance sheet

Year-end 31Dec (HK\$MM)	2015	2016	2017E	2018E	2019E	2020E
Cash and Cash Equivalents	1,298	2,763	2,829	2,272	2,432	3,332
Inventories	1,223	1,321	1,569	1,856	2,095	2,434
Accounts receivable	2,381	2,377	2,824	3,341	3,771	4,381
Other Current Assets	93	76	2,194	3,087	3,933	4,837
Total Current Assets	4,995	6,537	9,416	10,555	12,231	14,983
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	13,177	12,952	14,106	15,987	17,558	18,767
Other Assets	3,249	4,534	4,761	4,999	5,249	5,511
Non-Current assets	16,426	17,486	18,867	20,986	22,807	24,278
Total Assets	21,422	24,022	28,284	31,541	35,038	39,261
Accounts Payable	740	789	938	1,109	1,252	1,455
Other Accrued Expenses	1,705	1,608	2,058	2,654	3,169	3,900
Taxes Payable	333	438	507	546	638	758
ST and current LT debts	2,514	3,165	2,780	2,780	2,780	2,780
Total Current Liabilities	4,959	6,000	6,283	7,089	7,839	8,892
Long-term Debt	3,514	4,509	4,895	4,895	4,895	4,895
Other Noncurrent Liability	223	266	316	374	422	491
Noncurrent liabilities	3,737	4,775	5,211	5,269	5,317	5,385
Total Liabilities	8,696	10,775	11,494	12,358	13,156	14,278
Share capital	3,217	3,217	3,217	3,217	3,217	3,217
Reserves and Surplus	9,501	11,431	13,507	15,900	18,599	21,701
Total Shareholders' Equity	12,718	13,181	16,724	19,117	21,816	24,918
Minority Interest	8	66	66	66	66	66
Total Shareholders' Equity	12,726	13,247	16,790	19,183	21,882	24,984
Total Liabilities and Equity	21,422	24,022	28,284	31,541	35,038	39,261

Source: Company data, J.P. Morgan estimates

Table 9: XYG – Cash flow statement

Year-end 31Dec (HK\$ MM)	2015	2016	2017E	2018E	2019E	2020E
EBIT	1,733	3,178	3,903	4,473	5,164	6,087
Depreciation and Amortization	795	812	885	985	1,099	1,190
Working Capital Changes	539	13	(328)	(360)	(259)	(373)
Tax Paid	(228)	(266)	(607)	(676)	(715)	(807)
Cash Flow From Operations	2,838	3,738	3,852	4,422	5,289	6,098
Capital expenditures	(1,914)	(1,853)	(2,040)	(2,866)	(2,670)	(2,399)
Investments and others	243	(1,116)	55	74	72	58
Net interest	(50)	(77)	(14)	(10)	(33)	(25)
Cash Flow from Investing	(1,721)	(3,046)	(1,999)	(2,803)	(2,631)	(2,366)
Free Cash Flow	1,117	692	1,853	1,619	2,658	3,732
Dividends	(608)	(1,319)	(1,838)	(2,234)	(2,546)	(2,900)
Common issue	1	0	0	0	0	0
Other Financing	(18)	2,092	50	58	48	68
Contribution from owner	(25)	0	0	0	0	0
Cash Flow from financing	(650)	773	(1,788)	(2,177)	(2,498)	(2,832)
Change in cash	467	1,465	66	(557)	160	900
Cash beginning	831	1,298	2,763	2,829	2,272	2,432
Foreign exchange changes	0	0	0	0	0	0
Cash at end	1,298	2,763	2,829	2,272	2,432	3,332

Source: Company data, J.P. Morgan estimates

Investment Thesis, Valuation and Risks

Xinyi Glass *(Overweight; Price Target: HK\$11.00)*

Investment Thesis

We believe Xinyi is China's most diversified glass conglomerate. The defensive auto glass aftermarket business and the advanced low-emission construction glass business continued to do well, with stable growth and steady margins. The key driver for growth in the rest of this year is the recovery in margins for the float glass business. In the past, we have seen peak margins for float glass hit 40% when the market is in short supply. We could see margins recover when demand improves, as new supply has slowed to a trickle since the beginning of 2014.

Valuation

Our Dec-18 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (the yield on 10-year government notes in China). We assume a beta of 1.3 (Bloomberg beta is 1.3). Accordingly, WACC is assumed at 11.4%. We estimate free cash flow for XYG until 2020 and assume a terminal growth rate of 3.0%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period), subject to a minimum of 3% and a maximum of 6%, depending on the nature of the industry and the level of maturity in China.

Risks to Rating and Price Target

Key downside risks include falling demand for construction glass, which may result from a cooling property market in China, and further weakness in PV glass demand from Europe.

Xinyi Glass: Summary of Financials

Income Statement		FY15A	FY16A	FY17E	FY18E	FY19E	Balance Sheet		FY15A	FY16A	FY17E	FY18E	FY19E
Revenue		11,460	12,848	15,265	18,056	20,384	Cash and cash equivalents		1,298	2,763	2,829	2,272	2,432
<i>y/y Growth</i>		5.5%	12.1%	18.8%	18.3%	12.9%	Accounts receivable		2,381	2,377	2,824	3,341	3,771
Adj. EBITDA		2,528	3,991	4,788	5,458	6,263	Inventories		1,223	1,321	1,569	1,856	2,095
<i>EBITDA y/y Growth</i>		31.8%	57.9%	20.0%	14.0%	14.7%	Other current assets		93	76	2,194	3,087	3,933
D&A		(795)	(812)	(885)	(985)	(1,099)	Current assets		4,995	6,537	9,416	10,555	12,231
Adj. EBIT		1,733	3,178	3,903	4,473	5,164	PP&E		13,177	12,952	14,106	15,987	17,558
Net Interest		(50)	(77)	(14)	(10)	(33)	LT investments		3,249	4,534	4,761	4,999	5,249
Adj. PBT		2,379	3,823	4,828	5,502	6,205	Other non current assets		3,249	4,534	4,761	4,999	5,249
Tax		(266)	(607)	(676)	(715)	(807)	Total assets		21,422	24,022	28,284	31,541	35,038
Minority Interest		0	0	0	0	0	Short term borrowings		2,514	3,165	2,780	2,780	2,780
Adj. Net Income		2,113	3,216	4,152	4,786	5,398	Payables		740	789	938	1,109	1,252
Reported EPS		0.54	0.80	1.04	1.20	1.35	Other short term liabilities		1,705	2,046	2,565	3,200	3,807
Adj. EPS		0.54	0.80	1.04	1.20	1.35	Current liabilities		4,959	6,000	6,283	7,089	7,839
<i>EPS y/y Growth</i>		54.8%	49.0%	29.1%	15.3%	12.8%	Long-term debt		3,514	4,509	4,895	4,895	4,895
DPS		0.27	0.40	0.52	0.60	0.67	Other long term liabilities		3,737	4,775	5,211	5,269	5,317
Payout ratio		49.1%	49.7%	50.0%	50.0%	50.0%	Total liabilities		8,696	10,775	11,494	12,358	13,156
Shares outstanding		3,915	3,999	3,999	3,999	3,999	Shareholders' equity		12,718	13,181	16,724	19,117	21,816
							Minority interests		8	66	66	66	66
							Total liabilities & equity		21,422	24,022	28,284	31,541	35,038
							BVPS		3.25	3.30	4.18	4.78	5.45
							<i>y/y Growth</i>		3.1%	1.4%	26.9%	14.3%	14.1%
							Net debt/(cash)		4,730	4,911	4,846	5,403	5,243
Cash Flow Statement		FY15A	FY16A	FY17E	FY18E	FY19E	Ratio Analysis		FY15A	FY16A	FY17E	FY18E	FY19E
Cash flow from operating activities		2,838	3,738	3,852	4,422	5,289	EBITDA margin		22.1%	31.1%	31.4%	30.2%	30.7%
o/w Depreciation & amortization		795	812	885	985	1,099	EBIT margin		15.1%	24.7%	25.6%	24.8%	25.3%
o/w Changes in working capital		539	13	(328)	(360)	(259)	Net profit margin		18.4%	25.0%	27.2%	26.5%	26.5%
Cash flow from investing activities		(1,671)	(2,969)	(1,985)	(2,792)	(2,598)	ROE		16.9%	24.8%	27.8%	26.7%	26.4%
o/w Capital expenditure		(1,914)	(3,138)	(2,266)	(3,104)	(2,920)	ROA		10.0%	14.2%	15.9%	16.0%	16.2%
as % of sales		16.7%	24.4%	14.8%	17.2%	14.3%	ROCE		8.3%	13.5%	14.8%	15.2%	16.0%
Cash flow from financing activities		(650)	773	(1,788)	(2,177)	(2,498)	Net debt/equity		37.2%	37.1%	28.9%	28.2%	24.0%
o/w Dividends paid		(608)	(1,319)	(1,838)	(2,234)	(2,546)	Sales/Assets (x)		0.5	0.6	0.6	0.6	0.6
o/w Net debt issued/(repaid)		(18)	2,092	50	58	48	Interest cover (x)		50.3	51.9	338.7	528.3	189.3
Net change in cash		517	1,542	80	(547)	193							
Free cash flow to firm		968	665	1,598	1,327	2,398							
<i>y/y Growth</i>		(1138.0%)	(31.4%)	140.4%	(17.0%)	80.7%							
Valuation		FY15A	FY16A	FY17E	FY18E	FY19E							
P/E (x)		15.0	10.0	7.8	6.8	6.0							
P/BV (x)		2.5	2.5	1.9	1.7	1.5							
EV/EBITDA (x)		13.7	8.7	7.2	6.5	5.6							
Dividend Yield		3.3%	5.0%	6.4%	7.4%	8.4%							

Source: Company reports and J.P. Morgan estimates.

Note: HK\$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

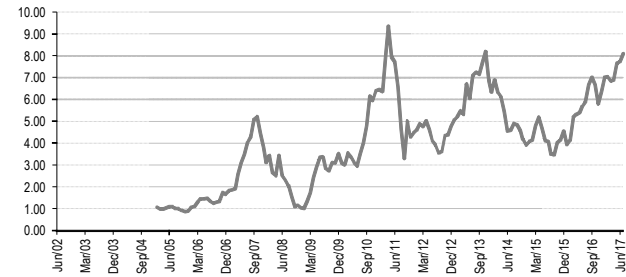
JPM Q-Profile

Xinyi Glass Holdings Limited (HONG KONG / Consumer Discretionary)
 As Of: 28-Jul-2017

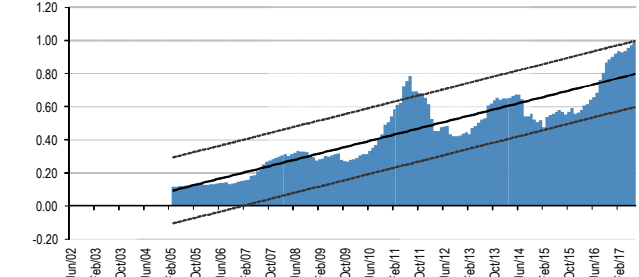
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

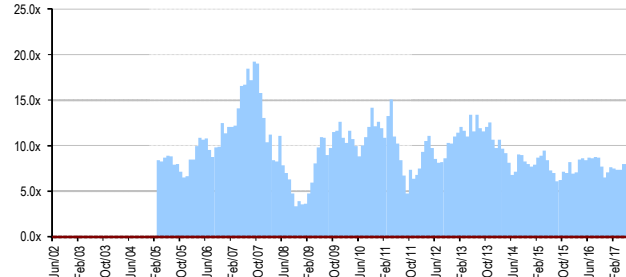
Local Share Price Current: **8.10**



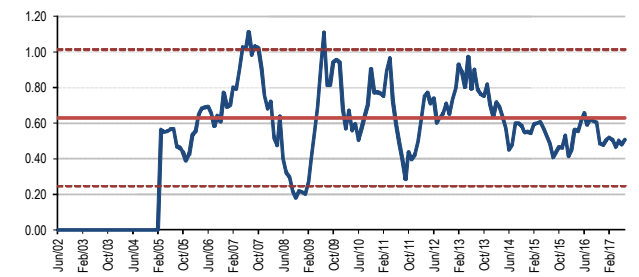
12 Mth Forward EPS Current: **0.99**



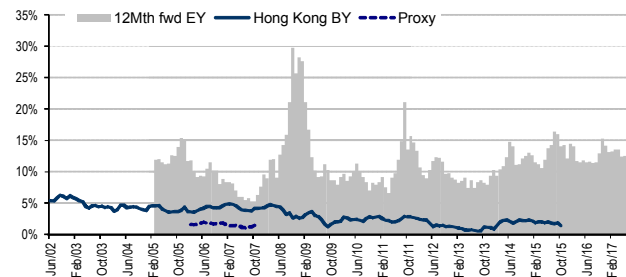
PE (1Yr Forward) Current: **8.2x**



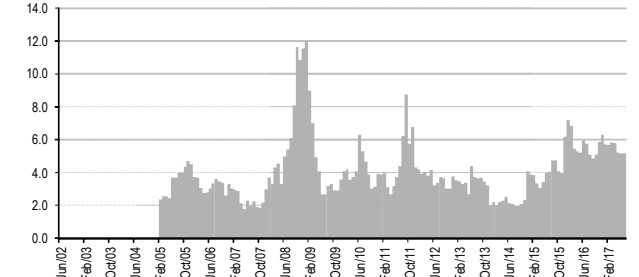
P/E Relative to Hong Kong Index Current: **0.51**



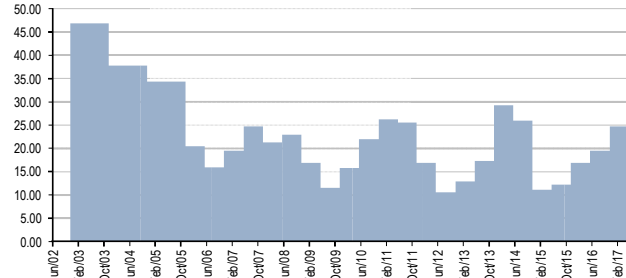
Earnings Yield (& Local Bond Yield) Current: **12.23%**



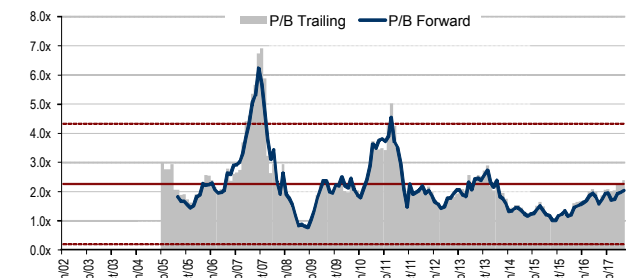
Dividend Yield (Trailing) Current: **5.17**



ROE (Trailing) Current: **24.81**



Price/Book (Value) Current: **2.4x**



Summary

Xinyi Glass Holdings Limited
HONG KONG
Consumer Discretionary

TICKER **868 HK EQUITY**

As Of: 28-Jul-17

Local Price: 8.10

EPS: 0.99

	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	8.18x										
P/BV (Trailing)	2.39x	0.77	6.91	2.03	2.26	4.34	0.19	-68%	189%	-15%	-5%
Dividend Yield (Trailing)	5.17	1.78	12.00	3.72	4.12	7.83	0.40	-66%	132%	-28%	-20%
ROE (Trailing)	24.81	10.52	46.81	21.32	23.40	43.09	3.71	-58%	89%	-14%	-6%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

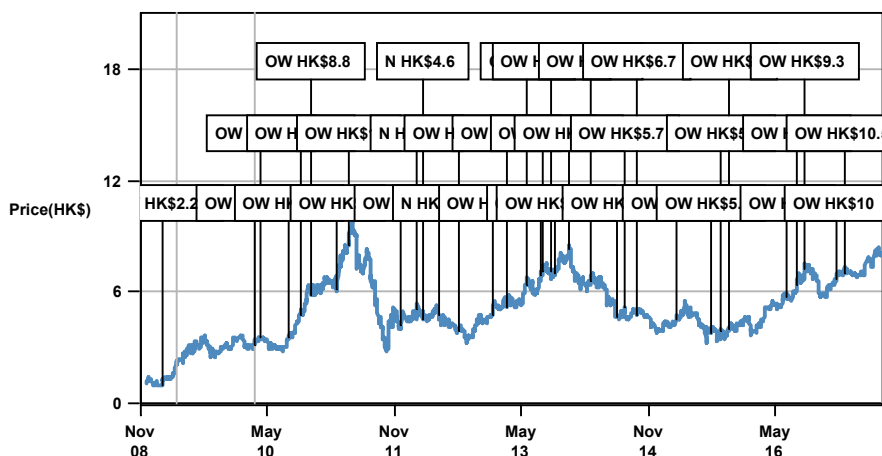
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Xinyi Glass (0868.HK, 868 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Feb 03, 2009.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
03-Feb-09	OW	0.98	2.25
04-Mar-10	OW	3.16	4.12
31-Mar-10	OW	3.59	5.50
02-Aug-10	OW	3.51	5.70
20-Sep-10	OW	4.76	6.80
09-Nov-10	OW	5.80	8.80
01-Mar-11	OW	6.13	9.00
20-Apr-11	OW	8.47	11.00
28-Nov-11	OW	4.15	6.00
09-Feb-12	N	5.01	5.10
27-Feb-12	N	4.52	4.60
07-May-12	N	4.78	5.50
01-Aug-12	OW	3.92	5.10
31-Dec-12	OW	4.78	5.90
28-Feb-13	OW	5.21	6.90
22-May-13	OW	6.30	8.00
23-Jul-13	OW	6.85	8.70
31-Jul-13	OW	7.11	10.00
04-Sep-13	OW	7.07	10.50
26-Sep-13	OW	7.01	10.90
25-Nov-13	OW	8.33	9.80
26-Feb-14	OW	6.61	10.00
20-Jun-14	OW	4.68	6.50
24-Jul-14	OW	5.12	5.70
15-Sep-14	OW	4.78	6.70
02-Mar-15	OW	4.55	6.10
28-Jul-15	OW	3.80	5.50
10-Sep-15	OW	3.88	5.20
15-Oct-15	OW	3.97	6.00
17-Jun-16	OW	5.67	7.00
02-Aug-16	OW	6.40	8.20
07-Sep-16	OW	7.26	9.30
18-Jan-17	OW	6.68	10.00
28-Feb-17	OW	7.04	10.50

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IB clients*	68%	65%	46%

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