



Xinyi Glass

Lifting PT to HK\$7 - profit alert highlights strong glass demand

Xinyi Glass (XYG) is one of China's largest and most diversified glass producers. The company recently alerted that NP for 1HFY16 would be 30% to 50% higher than 1HFY15, which is significantly better than our expectations. We raise our earnings estimates and PT in order to reflect the much stronger demand and margins for float glass and other glass products that XYG is experiencing so far.

- Strong demand for glass.** Due to strong demand from the construction industry, demand for float glass is surprisingly good in 1H16. Furthermore, the drop in natural gas (both regulated domestic gas and imported market priced gas) has fallen in 1H16 by a large amount. As such, margins have increased significantly. Together with improvements in construction and solar glass businesses, XYG has announced a profit alert that was well above ours and consensus expectations. Historically, the range for float glass GPM has been from ~4% to 32% for a full year basis (we est. 20% for FY16) and we are currently on an upswing in margins due to improving demand in the construction sector as well as subdued supply as margins have been low (not sufficient to encourage new lines) since 2011.
- Increasing margins and profits significantly.** We raise our FY16 net profit estimate by 16% and now expect 1HFY16 NP to rise 39% Y/Y mainly on an upward revision for float glass GPM from 17% to 20% for FY16 and also from 19% to 22% for FY17. We also raise construction glass margins estimates for FY16 by 2% to 36% as there is a high correlation between float glass and construction glass (demand and margins) as 70% of float glass demand is used in construction glass. Our revised EPS estimates for FY16 and FY17 are 17% and 24% higher than consensus but we believe that consensus has yet to fully reflect the latest profit alert. Our DCF-based Dec16 PT is raised to HK\$7.0 (prev. HK\$6.0) due to the earnings forecasts revision.
- Price, valuation and risks.** Our PT (Dec-16, DCF-derived) of HK\$7.0 implies a forward P/E of 8.0x (FY17E). The key downside risks to our PT 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\$5.63

▲ Price Target: HK\$7.00
Previous: HK\$6.00

China

SMID-Caps

Leon Chik, CFA ^{AC}

(852) 2800-8590

leon.hk.chik@jpmorgan.com

Bloomberg JPMA CHIK <GO>

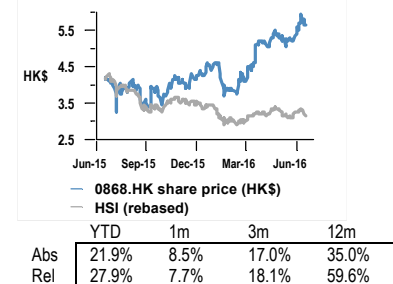
Christine Wang

(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	FY16E	FY17E	FY18E
Revenue (HK\$ mn)	10,861	11,460	12,799	15,297	17,457
Net Profit (HK\$ mn)	1,365	2,113	2,713	3,410	3,897
EPS (HK\$)	0.35	0.54	0.70	0.88	1.00
DPS (HK\$)	0.15	0.27	0.35	0.44	0.50
Revenue growth (%)	9.3%	5.5%	11.7%	19.5%	14.1%
EPS growth (%)	(58.9%)	54.8%	29.5%	25.7%	14.3%
ROCE	6.1%	8.3%	10.9%	11.9%	13.2%
ROE	11.1%	16.9%	20.3%	22.8%	23.3%
P/E (x)	16.1	10.4	8.1	6.4	5.6
P/BV (x)	1.8	1.7	1.6	1.4	1.2
EV/EBITDA (x)	13.6	10.1	7.6	6.5	5.5
Dividend Yield	2.7%	4.7%	6.2%	7.8%	8.9%

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

Company Data	
Shares O/S (mn)	3,687
Market Cap (HK\$ mn)	20,757
Market Cap (\$ mn)	2,675
Price (HK\$)	5.63
Date Of Price	16 Jun 16
Free Float(%)	45.4%
3M - Avg daily vol (mn)	11.05
3M - Avg daily val (HK\$ mn)	58.19
3M - Avg daily val (\$ mn)	7.5
HSI	2,0038.42
Exchange Rate	7.76
Price Target End Date	31-Dec-16
Price Target (HK\$)	7.00

See page 10 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • A rise in float glass price higher than our expectations driven by strong construction demand • New customers for the electric glass business is of a better quality than what we expect • Faster completion of new electric glass lines to boost sales 	<ul style="list-style-type: none"> • 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	FY15	FY16E	FY17E	FY18E
Revenues (LC)	11,460	12,799	15,297	17,457
Revenue growth (%)	na	11.7%	19.5%	14.1%
EBITDA (LC)	2,528	3,308	3,899	4,620
EBITDA margin (%)	22.1%	25.8%	25.5%	26.5%
Tax rate (%)	11%	15%	15%	15%
Net profit (LC)	2,113	2,713	3,410	3,897
EPS (LC)	0.540	0.699	0.879	1.004
EPS growth (%)	na	29.5%	25.7%	14.3%
DPS (LC)	0.27	0.35	0.44	0.50
BVPS (LC)	3.25	3.63	4.07	4.57
Operating cash flow (LC mn)	2,838	2,734	3,007	3,691
Free cash flow (LC mn)	968	1,062	947	1,667
Interest cover (x)	50	48	74	72
Net margin (%)	18.4%	21.2%	22.3%	22.3%
Sales/assets (X)	0.54	0.57	0.62	0.64
Debt/equity (%)	47.4%	43.5%	38.8%	34.5%
Net debt/equity (%)	37.2%	30.8%	29.3%	25.6%
ROE (%)	17%	20%	23%	23%

Key model assumptions	FY15E	FY16E	FY16E	FY16E
Auto glass capacity (m)	16.6	17.4	18.3	19.2
Float glass capacity (mn tonnes)	5.1	5.8	6.5	7.2
Float glass price (HK\$/ton)	1,379	1,435	1,506	1,582

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
	FY16E	FY17E	FY16E	FY17E
Sensitivity to				
5% chg in float glass price	10%	9%	8%	7%
5% chg in fuel cost	-3%	-3%	-2%	-2%
5% chg in wage	-3%	-3%	-3%	-3%
1% chg in GM	5%	5%	4%	4%

Source: J.P. Morgan estimates.

Peer valuation comparison

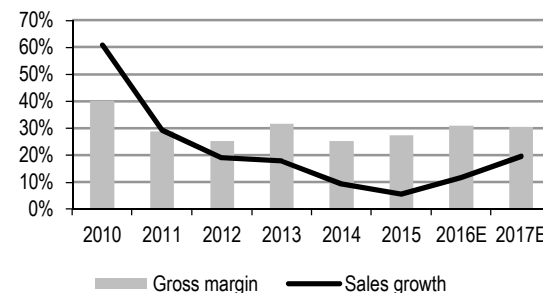
Company Name	Code	Price (TP)	MCAP US\$MM	Vol US\$m	3M Chg	P/E 16e (x)	PE 17e (x)	ROE (%)	P/B (x)	Yld (%)
CHINA STATE CONS	3311 HK	10.2	5,294.0	13.5	(8.6)	8.2	6.4	22.8	1.8	3.5
ND PAPER	2689 HK	5.5	3,307.7	4.6	(10.0)	11.1	8.6	5.7	0.9	1.6
LM PAPER	2314 HK	5.5	3,242.3	4.4	1.7	9.3	9.0	13.4	1.4	3.8
XINYI GLASS HOLD	868 HK	5.6	2,801.2	7.2	14.3	9.5	7.6	16.5	1.4	4.7
HAITIAN	1882 HK	12.8	2,615.0	2.4	3.4	12.7	11.7	16.3	1.6	2.7
KINGBOARD CHEM	148 HK	15.5	2,038.1	4.5	29.2	7.6	6.0	5.8	0.4	3.9
CHINA LESSO	2128 HK	4.0	1,587.0	1.4	(21.3)	4.8	3.8	20.2	0.9	5.3
Average					2.5	8.8	7.6	12.6	1.1	3.9

Source: Company data, Bloomberg, J.P. Morgan estimates (*). Share prices are as of Intraday of 17 June 2016

Valuation and price target basis

Our Dec16 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: Company and J.P. Morgan estimates.

JPMe vs. consensus, change in estimates

EPS (LC)	FY16E	FY17E
JPMe old	0.59	0.74
JPMe new	0.699	0.879
% chg	18%	18%
Consensus	0.599	0.708

Source: Bloomberg, J.P. Morgan estimates.

Highlights from investor call with Xinyi after the profit alert

Float glass price rising as cost of production is falling. Due to strong demand from the construction industry, demand for float glass is surprisingly good in 1H16. Furthermore, the drop in natural gas (both regulated domestic gas and imported market priced gas) has fallen in 1H16 by a large amount. As such, margins have increased significantly. We assume FY16 float glass GPM to be 20% now compared to 11% in FY15.

Construction glass also doing well. Management did not cite construction glass as a key reason for the profit alert but we note that it is quite not possible for float glass to do well if construction glass (70% of float glass goes into construction glass) is now seeing strong demand. We thus raise our margin assumptions for construction glass to 36% for FY16 (up 2% from FY15).

Solar glass demand very strong. XYG's subsidiary Xinyi Solar issued a separate profit alert that its 1HFY16 NP would increase 70% to 90% Y/Y, which was also better than our expectations. Accordingly, this lifts the associate income from XYS earned by XYG.

Supply of float glass is improving. XYG mentioned that it has no plans to add new capacity of float glass in China and that the industry has not had any good incentive to add capacity for at least a couple of years. Furthermore, new licenses and approvals from the government for new glass making facilities are difficult to gain approval as no government would like to increase supply in this relatively high energy consuming and polluting industry. Therefore existing suppliers would benefit as higher construction activity lifts demand for glass over the next few years.

Lifting margins and profits significantly

Our previous estimate for 1HFY16 NP growth was 17% Y/Y and management has alerted to 30-50% due to better margins (higher prices and lower COGS) for float glass as well as improvements in other glass products. After our revision, we expect 1HFY16 NP to rise 39% Y/Y mainly on an upward revision for float glass margins from 17% to 20% (same for FY16 and 1HFY16) and also from 19% to 22% for FY17. Historically, the range for float glass GPM has been from 4% to 32% for a full year basis, and we are currently on an upswing in margins due to improving demand in the construction sector as well as subdued supply as margins have been low (not sufficient to encourage new lines) since 2011. We also raise construction glass margins assumptions for FY16 by 2% to 36% as there is a high correlation between float glass and construction glass (demand and margins) as 70% of float glass demand is used in construction glass. Our revised EPS estimates for FY16 and FY17 are 17% and 24% higher than consensus but we believe that consensus has yet to fully reflect the latest profit alert. Our DCF-based Dec16 PT is raised to HK\$7.0 (prev. HK\$6.0) due to the earnings estimate revisions.

Table 2: Earnings Estimates Revisions

Year to Dec (HKDm)	New		Old		Chg	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Turnover	12,799	15,297	12,696	14,935	0.8%	2.4%
Gross profit	3,948	4,630	3,573	4,266	10.5%	8.5%
EBIT	2,504	2,954	2,093	2,481	19.6%	19.1%
Net profit	2,713	3,410	2,319	2,916	17.0%	16.9%
EPS (HKD)	0.70	0.88	0.59	0.74	18.0%	18.0%
Assumptions						
Gross margin	30.8%	30.3%	28.1%	28.6%	2.7%	1.7%

Source: J.P. Morgan estimates

Valuation and share price analysis

DCF valuation

Our Dec-16 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	12,799	15,297	17,457	19,426	21,730
EBIT	2,212	1,274	1,733	2,504	2,954	3,563	4,404	5,070
NOPAT	2,229	1,092	1,540	2,401	2,839	3,349	4,046	4,701
Capex, net	(2,913)	(1,715)	(1,914)	(1,568)	(1,934)	(1,900)	(2,060)	(2,479)
Depreciation	639	644	795	804	945	1,057	1,175	1,287
Change in working capital	129	60	539	(308)	(401)	(313)	(254)	(287)
Free operating CF (FoCF)	84	82	959	1,330	1,451	2,196	2,911	3,227
DCF Parameters			Assumptions					
Liabilities as a % of EV	10%						Terminal growth	3.0%
WACC	11.4%						Risk-free rate	4.2%
							Market risk	6.0%
Enterprise NPV (10-16E)	31,785						Beta	1.30
+ Net cash (debt), 14E	(4,334)						Cost of debt	6.2%
- Minorities (Market value)	(8)							
+/- Other items	0						Implied exit P/E multiple (x)	8x
= Equity value	27,443							
/ Number of shares	3,915							
= Equity value per share (HK\$)	7.0							

Source: Company data, J.P. Morgan estimates

Table 4: XYG – Sensitivity analysis based on WACC and perpetual terminal growth rate

		Terminal growth rate						
		1.5%	2%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	9.8%	7.5	7.9	8.5	9	9.7	10.5	11.5
	10.3%	7	7.4	7.8	8.3	8.9	9.6	10.4
	10.8%	6.5	6.8	7.2	7.7	8.2	8.7	9.4
	11.4%	6.1	6.4	6.7	7.1	7.5	8	8.6
	11.9%	5.7	6	6.3	6.6	7	7.4	7.9
	12.4%	5.4	5.6	5.9	6.2	6.5	6.9	7.3
	12.9%	5	5.3	5.5	5.8	6.1	6.4	6.7

Source: J.P. Morgan estimates.

Table 5: XYG – Revenue mix

HK\$ MM, year-end 31Dec	2013	2014	2015	2016E	2017E	2018E
Automobile glass	3,287	3,593	3,786	3,932	4,323	4,540
YoY	6.8%	9.3%	5.4%	3.9%	10.0%	5.0%
% of total	33.1%	33.1%	33.0%	30.8%	28.5%	26.4%
Construction glass	2,155	2,556	2,652	2,947	3,530	3,677
YoY	36.9%	18.6%	3.8%	11.2%	19.8%	4.1%
% of total	21.7%	23.5%	23.1%	23.1%	23.3%	21.4%
Float glass	4,494	4,269	4,671	5,420	6,381	7,424
YoY	18.9%	-5.0%	9.4%	16.0%	17.7%	16.4%
% of total	45.2%	39.3%	40.8%	42.4%	42.1%	43.2%
PV glass	0	0	0	0	0	0
YoY	45.2%	39.3%	40.8%	42.4%	42.1%	43.2%
% of total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Electronic glass	0	443	351	475	919	1536
YoY	na	na	-20.8%	35.3%	93.4%	67.2%
% of total	0.0%	4.1%	3.1%	3.7%	6.1%	8.9%
Total revenue	9,936	10,861	11,460	12,774	15,153	17,176

Source: Company data, J.P. Morgan estimates

Table 6: XYG – P&L statement

Year-end 31Dec (HK\$MM)	2013	2014	2015	2016E	2017E	2018E
Total Revenues	9,936	10,861	11,460	12,799	15,297	17,457
YoY change (%)	1.5%	9.3%	5.5%	11.7%	19.5%	14.1%
Cost of Goods Sold	(6,799)	(8,127)	(8,328)	(8,850)	(10,667)	(12,047)
YoY change (%)	-7.0%	19.5%	2.5%	6.3%	20.5%	12.9%
Gross Profit	3,137	2,734	3,132	3,948	4,630	5,411
YoY change (%)	26.7%	-12.9%	14.6%	26.1%	17.3%	16.9%
Gross Margin	31.6%	25.2%	27.3%	30.8%	30.3%	31.0%
SGA	(1,251)	(1,638)	(1,615)	(1,684)	(1,938)	(2,131)
YoY change (%)	4.5%	30.9%	-1.4%	4.3%	15.1%	10.0%
Other Income/(Expenses)	326	178	215	239	262	284
Operating profit	2,212	1,274	1,733	2,504	2,954	3,563
EBITDA	2,852	1,886	2,313	3,308	3,899	4,620
EBITDA margin	28.7%	17.4%	20.2%	25.8%	25.5%	26.5%
Depreciation & Amortization	(639)	(612)	(580)	(804)	(945)	(1,057)
YoY change (%)	9.5%	-4.3%	-5.2%	38.6%	17.5%	11.9%
EBIT	2,212	1,274	1,733	2,504	2,954	3,563
EBIT margin	22.3%	11.7%	15.1%	19.6%	19.3%	20.4%
Net Interest Expense	(60)	(38)	(50)	(68)	(53)	(64)
Exceptional item	1,453	220	379	0	0	0
Associates	21	138	317	767	1,125	1,103
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	3,627	1,594	2,379	3,203	4,026	4,602
YoY change (%)	159.5%	-56.1%	49.3%	34.7%	25.7%	14.3%
Tax	(381)	(228)	(266)	(490)	(616)	(704)
Effective Tax rate	17.5%	16.6%	13.3%	15.3%	15.3%	15.3%
Minority Interests	1	0	0	0	0	0
Net Income	3,246	1,365	2,113	2,713	3,410	3,897
YoY change (%)	172.9%	-36.1%	54.8%	28.4%	25.7%	14.3%
Net margin	32.7%	12.6%	18.4%	21.2%	22.3%	22.3%

Source: Company data, J.P. Morgan estimates

Table 7: Interim estimates

Year to Dec (HK\$ MM)	1H15	2H15	1H16	2H16E	1H17E	2H17E
Total Revenues	4,912	6,548	5,932	6,866	7,090	8,206
Gross Profit	1,346	1,786	1,835	2,114	2,151	2,479
EBIT	668	1,064	1,045	1,460	1,232	1,722
Net Income Before Taxes	918	1,461	1,336	1,867	1,679	2,346
Net Income	815	1,298	1,132	1,581	1,422	1,987
Diluted EPS (HK\$)	0.208	0.33	0.292	0.247	0.367	0.512
Ratios						
Revenue split	42.9%	57.1%	46%	53.6%	46.4%	53.6%
GPM	27.4%	27.3%	30.9%	30.8%	30.3%	30.2%
EBIT margin	13.6%	16.3%	17.6%	21.3%	17.4%	21.0%
NPM	16.6%	19.8%	19.1%	23.0%	20.1%	24.2%
YoY						
Revenue	-2.4%	12.4%	20.8%	4.9%	19.5%	19.5%
GP	0.7%	27.9%	36.3%	18.3%	17.3%	17.3%
EBIT	-20.8%	147.2%	56.3%	37.1%	18.0%	18.0%
NP	6.9%	115.2%	38.9%	21.8%	25.7%	25.7%

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

Table 8: XYG – Balance sheet

Year-end 31Dec (HK\$MM)	2013	2014	2015	2016E	2017E	2018E
Cash and Cash Equivalents	1,042	831	1,298	1,793	1,498	1,591
Inventories	1,232	1,478	1,223	1,366	1,632	1,863
Accounts receivable	2,255	2,487	2,381	2,659	3,179	3,628
Other Current Assets	7	8	93	128	921	1,776
Total Current Assets	4,537	4,805	4,995	5,946	7,229	8,857
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	9,983	11,293	13,177	13,941	14,930	15,773
Other Assets	5,131	4,936	3,249	3,412	3,582	3,761
Non-Current assets	15,114	16,229	16,426	17,352	18,512	19,534
Total Assets	19,651	21,034	21,422	23,298	25,741	28,392
Accounts Payable	1,744	724	740	826	988	1,127
Other Accrued Expenses	0	1,469	1,705	1,457	1,860	2,292
Taxes Payable	219	294	333	557	683	771
ST and current LT debts	2,116	2,609	2,514	2,219	2,219	2,219
Total Current Liabilities	4,079	4,801	4,959	5,059	5,749	6,409
Long-term Debt	3,024	3,483	3,514	3,908	3,908	3,908
Other Noncurrent Liability	339	414	223	249	297	339
Noncurrent liabilities	3,364	3,898	3,737	4,156	4,205	4,247
Total Liabilities	7,442	8,699	8,696	9,215	9,953	10,655
Share capital	4,727	3,824	3,217	3,217	3,217	3,217
Reserves and Surplus	7,480	8,509	9,501	10,858	12,563	14,511
Total Shareholders' Equity	12,208	12,333	12,718	14,075	15,780	17,729
Minority Interest	1	2	8	8	8	8
Total Shareholders' Equity	12,209	12,335	12,726	14,083	15,788	17,737
Total Liabilities and Equity	19,651	21,034	21,422	23,298	25,741	28,392

Source: Company data, J.P. Morgan estimates

Table 9: XYG – Cash flow statement

Year-end 31Dec (HK\$ MM)	2013	2014	2015	2016E	2017E	2018E
EBIT	2,212	1,274	1,733	2,504	2,954	3,563
Depreciation and Amortization	639	644	795	804	945	1,057
Working Capital Changes	129	60	539	(308)	(401)	(313)
Tax Paid	(209)	(381)	(228)	(266)	(490)	(616)
Cash Flow From Operations	2,772	1,598	2,838	2,734	3,007	3,691
Capital expenditures	(2,913)	(1,715)	(1,914)	(1,568)	(1,934)	(1,900)
Investments and others	(208)	32	243	68	167	152
Net interest	(60)	(38)	(50)	(68)	(53)	(64)
Cash Flow from Investing	(3,181)	(1,720)	(1,721)	(1,568)	(1,820)	(1,813)
Free Cash Flow	(409)	(123)	1,117	1,166	1,187	1,878
Dividends	(834)	(902)	(608)	(1,197)	(1,531)	(1,827)
Common issue	916	(3)	1	0	0	0
Other Financing	688	833	(18)	526	49	42
Contribution from owner	0	(17)	(25)	0	0	0
Cash Flow from financing	770	(89)	(650)	(671)	(1,482)	(1,785)
Change in cash	338	(195)	467	495	(295)	94
Cash beginning	703	1,042	831	1,298	1,793	1,498
Foreign exchange changes	1	(17)	0	0	0	0
Cash at end	1,042	831	1,298	1,793	1,498	1,591

Source: Company data, J.P. Morgan estimates

Investment Thesis, Valuation and Risks

Xinyi Glass (*Overweight; Price Target: HK\$7.00*)

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 drivers for growth in the rest of this year are 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-16 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 3.0%. 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

The key downside risks to our OW rating and PT are falling demand for construction glass that 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						Cash flow statement					
HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E	HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E
Revenues	10,861	11,460	12,799	15,297	17,457	EBIT	1,274	1,733	2,504	2,954	3,563
% change Y/Y	9.3%	5.5%	11.7%	19.5%	14.1%	Depr. & amortization	644	795	804	945	1,057
Gross Profit	2,734	3,132	3,948	4,630	5,411	Change in working capital	60	539	(308)	(401)	(313)
% change Y/Y	(12.9%)	14.6%	26.1%	17.3%	16.9%	Taxes	(381)	(228)	(266)	(490)	(616)
EBITDA	1,918	2,528	3,308	3,899	4,620	Cash flow from operations	1,598	2,838	2,734	3,007	3,691
% change Y/Y	(32.7%)	31.8%	30.9%	17.9%	18.5%	Capex	(1,723)	(1,914)	(1,730)	(2,105)	(2,079)
EBIT	1,274	1,733	2,504	2,954	3,563	Net Interest	(38)	(50)	(68)	(53)	(64)
% change Y/Y	(42.4%)	36.0%	44.5%	18.0%	20.6%	Other	41	95	230	337	331
EBIT Margin	11.7%	15.1%	19.6%	19.3%	20.4%	Free cash flow	(93)	968	1,062	947	1,667
Net Interest	(38)	(50)	(68)	(53)	(64)	Equity raised/(repaid)	(3)	1	0	0	0
Earnings before tax	1,594	2,379	3,203	4,026	4,602	Debt raised/(repaid)	833	(18)	526	49	42
% change Y/Y	(56.1%)	49.3%	34.7%	25.7%	14.3%	Other	(17)	(25)	0	0	0
Tax	(228)	(266)	(490)	(616)	(704)	Dividends paid	(902)	(608)	(1,197)	(1,531)	(1,827)
as % of EBT	14.3%	11.2%	15.3%	15.3%	15.3%	Beginning cash	1,042	831	1,298	1,793	1,498
Net income (reported)	1,365	2,113	2,713	3,410	3,897	Ending cash	831	1,298	1,793	1,498	1,591
% change Y/Y	(57.9%)	54.8%	28.4%	25.7%	14.3%	DPS	0.15	0.27	0.35	0.44	0.50
Shares outstanding	3,915	3,915	3,881	3,881	3,881						
EPS (reported)	0.35	0.54	0.70	0.88	1.00						
% change Y/Y	(58.9%)	54.8%	29.5%	25.7%	14.3%						
Balance sheet						Ratio Analysis					
HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E	HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E
Cash and cash equivalents	831	1,298	1,793	1,498	1,591	Gross margin	25.2%	27.3%	30.8%	30.3%	31.0%
Accounts receivable	2,487	2,381	2,659	3,179	3,628	EBITDA margin	17.7%	22.1%	25.8%	25.5%	26.5%
Inventories	1,478	1,223	1,366	1,632	1,863	Operating margin	11.7%	15.1%	19.6%	19.3%	20.4%
Others	8	93	128	921	1,776	Net margin	12.6%	18.4%	21.2%	22.3%	22.3%
Current assets	4,805	4,995	5,946	7,229	8,857	Sales per share growth	6.8%	5.5%	12.7%	19.5%	14.1%
LT investments	4,936	3,249	3,412	3,582	3,761	Sales growth	9.3%	5.5%	11.7%	19.5%	14.1%
Net fixed assets	11,293	13,177	13,941	14,930	15,773	Net profit growth	(57.9%)	54.8%	28.4%	25.7%	14.3%
Total Assets	21,034	21,422	23,298	25,741	28,392	EPS growth	(58.9%)	54.8%	29.5%	25.7%	14.3%
Liabilities						Interest coverage (x)	50.4	50.3	48.4	73.8	71.7
Short-term loans	2,609	2,514	2,219	2,219	2,219	Net debt to equity	42.7%	37.2%	30.8%	29.3%	25.6%
Payables	724	740	826	988	1,127	Working Capital to Sales	0.0	0.0	0.1	0.1	0.1
Others	1,468	1,705	2,014	2,542	3,063	Sales/assets	0.5	0.5	0.6	0.6	0.6
Total current liabilities	4,801	4,959	5,059	5,749	6,409	Assets/equity	1.7	1.7	1.7	1.6	1.6
Long-term debt	3,483	3,514	3,908	3,908	3,908	ROE	11.1%	16.9%	20.3%	22.8%	23.3%
Other liabilities	414	223	249	297	339	ROCE	6.1%	8.3%	10.9%	11.9%	13.2%
Total Liabilities	8,698	8,696	9,215	9,953	10,655						
Shareholders' equity	12,333	12,718	14,075	15,780	17,729						
BVPS	3.15	3.25	3.63	4.07	4.57						

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

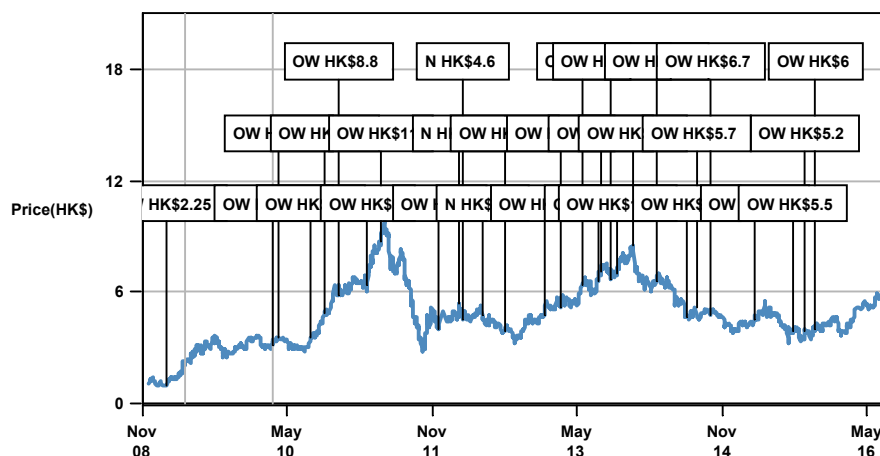
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Xinyi Glass (0868.HK, 868 HK) Price Chart



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	1.00	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	4.89	6.80
09-Nov-10	OW	5.80	8.80
01-Mar-11	OW	6.35	9.00
20-Apr-11	OW	8.77	11.00
28-Nov-11	OW	4.03	6.00
09-Feb-12	N	5.39	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	4.71	5.90
28-Feb-13	OW	5.16	6.90
22-May-13	OW	6.30	8.00
23-Jul-13	OW	6.58	8.70
31-Jul-13	OW	7.11	10.00
04-Sep-13	OW	6.65	10.50
26-Sep-13	OW	7.01	10.90
25-Nov-13	OW	8.53	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	3.89	5.50
10-Sep-15	OW	3.88	5.20
15-Oct-15	OW	3.95	6.00

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