

Xinyi Glass

868.HK / 868 HK

China

Auto parts / Construction materials

2015 results in-line, BUY on yield

► XYG 2015 results in line – XYG's financials are as follows:

	2H15	YoYΔ	HoHΔ	2015	YoYΔ	Act vs Cons
Revenue (HK\$m)	6,177	6.0%	16.9%	11,460	5.5%	-2.0%
Gross profit (HK\$m)	1,723	23.4%	22.2%	3,133	14.6%	-1.0%
GPM	27.9%	3.9ppt	1.2ppt	27.3%	2.2ppt	0.2 ppt
Net profit (HK\$m)	1,168	94.1%	23.6%	2,114	55.0%	4.7%
Basic EPS (HK cents)	29.8	94.1%	23.6%	53.9	54.9%	5.6%

Source: Company, Bloomberg

Final dividend of 17 HK cents was declared. Full-year dividend of 26.5 HK cents implies a 5.75% yield.

► Float glass GPM approaches 15% – Latest float glass price is RMB1,170/metric ton, which is over 5% higher than 1Q15's average price. On the cost side, natural gas price cuts by NDRC may lower XYG's gas bill by 5%, partially offset by recent soda ash price hikes. Overall, cost per metric ton is 3% lower YoY.

► Auto and low-e glass have potential – Other than float glass margin improvements, demand of auto glass has upside as vehicle sales has marginally gone up 1m units to 89.1m units in 2015. Larger ownership of cars benefits XYG in terms of aftermarket replacement where the company has over 20% global market share. Buildings under construction are expected to grow 4% in 2016 to a GFA of 7.65b sqm, which drives demand for low e-glass of XYG, particularly in 2H16.

► New TP = HK\$6.50, 35% upside – Our new revenue and NP forecasts for 2016/17/18 are HK\$13.4b/15.7b/16.0b and HK\$2.54b/3.47b/3.67b respectively. Our TP is derived from 10x P/E from XYG's float, architectural and auto glasses and our target price on XYG (refer to our note on [XYG](#)) multiplied by XYG's 28.2% shareholding in XYG. On a blended P/E basis, XYG is trading at 7x 2016F P/E. We believe yield of XYG may reach 8% if our estimated earnings come into fruition.

Earnings Forecasts & Valuation Summary

Year ended 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (HK\$m)	10,861	11,460	13,441	15,679	16,048
EBITDA (HK\$m)	2,138	2,908	3,399	4,278	4,465
Net profit (HK\$m)	1,364	2,113	2,537	3,469	3,670
Basic EPS (HK cents)	34.8	53.9	65.6	89.8	95.0
YoY change (%)	(62.2)	54.9	21.8	36.8	5.8
Consensus EPS (HK\$)			55.3	66.6	50.0
PE (x)	13.3	8.6	7.0	5.1	4.9
DPS (HK cents)	15.0	26.5	24.1	34.7	37.1
Yield (%)	3.25	5.75	5.23	7.53	8.05
ROE (%)	11.1	16.6	18.4	21.2	19.4
Net debt/equity (%)	42.0	37.2	41.5	32.9	24.6

Source: Company, Sunwah Kingsway Research estimates

BUY

Maintain

HK\$4.61*

Target price: HK\$6.50

Previous target price: HK\$6.82

Upside: 35%

HSI: 20,288.77

*Closing price as at 15 Mar 2016

Share Data

52week Hi/Lo (HK\$)	5.60/3.12
Avg. daily t/o (US\$m)	4.46
Market cap. (US\$m)	2,294
Total issued shares (m)	3,921.8
Public float (%) *	53.26%
Auditor	PWC
Major shareholder:	
Mr. Lee Yin Yee	21.31%
Mr. Tung Ching Sai	9.47%
Mr. Tung Ching Bor	8.26%
Mr. Lee Sing Din	7.70%

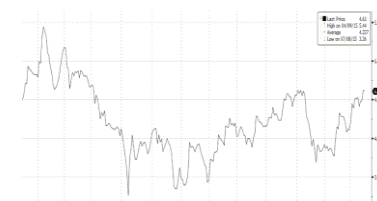
* The conversion of CBs issued to Och-Ziff was not factored in the calculation of public float.

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

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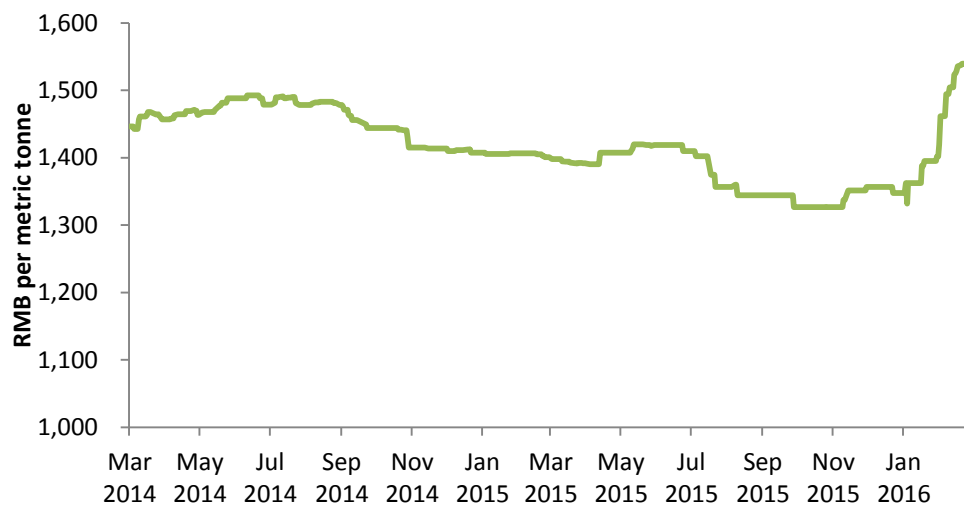
www.kingswayresearch.com

Earnings revisions

	2016F	2017F	2018F
Revenue (HK\$m) - new	13,441	15,679	16,048
Old	13,952	16,092	N/A
Change	-3.7%	-2.6%	N/A
Gross profit (HK\$m) - new	3,923	4,937	5,087
Old	4,096	4,902	N/A
Change	-4.2%	0.7%	N/A
Net profit (HK\$m) - new	2,537	3,469	3,670
Old	2,669	3,406	N/A
Change	-5.0%	1.8%	N/A
EPS (HK Cents) - new	65.6	89.8	95.0
Old	68.1	86.9	N/A
Change	-3.6%	3.4%	N/A

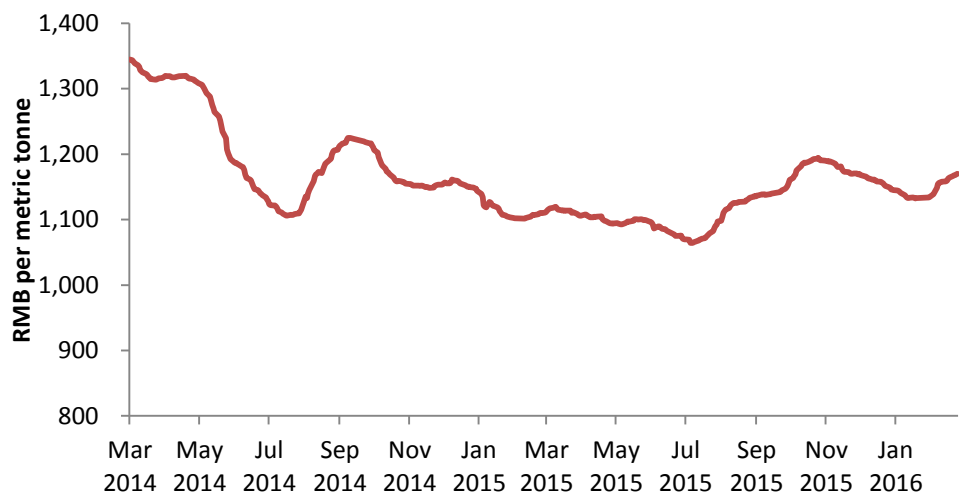
Source: Sunwah Kingsway Research estimates

Average China Soda Ash price for last 24 months



Source: Wind

National float glass price for last 24 months



Source: Wind

Soda ash and float glass prices are exhibiting favorable trends to XYG, but they are all in the price.

Financial forecasts

Years ended 31 Dec	2014A	2015A	2016F	2017F	2018F
Income statement (HK\$m)					
Revenue	10,861	11,460	13,441	15,679	16,048
COGS	(8,128)	(8,328)	(9,518)	(10,742)	(10,960)
Gross Profit	2,733	3,133	3,923	4,937	5,087
Other income	178	215	215	215	215
Other gains, net	220	379	0	0	0
Selling & marketing costs	(608)	(680)	(544)	(635)	(650)
Admin expense	(1,030)	(935)	(914)	(1,035)	(1,059)
Gain on spin-off	0	0	0	0	0
Operating profit	1,494	2,113	2,680	3,482	3,593
Add back: Depreciation	612	763	719	796	872
Add back: Amortization	32	32	0	0	0
EBITDA	2,138	2,908	3,399	4,278	4,465
Depreciation & Amortization	(644)	(795)	(719)	(796)	(872)
Finance income	53	40	11	10	13
Finance costs	(91)	(90)	(116)	(120)	(114)
Share of PL of assos	138	317	491	744	853
Profit before tax	1,593	2,380	3,066	4,116	4,344
Income tax expense	(228)	(266)	(530)	(647)	(674)
Profit for the year	1,365	2,114	2,537	3,469	3,670
Less: MI	(1)	(0)	0	0	0
Net profit	1,364	2,113	2,537	3,469	3,670
Basic EPS (HK Cents)	34.78	53.88	65.64	89.83	95.03
Diluted EPS (HK Cents)	34.57	53.11	63.84	87.37	92.43

Years ended 31 Dec	2014A	2015E	2016F	2017F	2018F
Cash flow (HK\$m)					
EBITDA	2,138	2,908	3,399	4,278	4,465
Non-cash adjustments	(220)	(331)	0	0	0
Changes in working capital	(202)	455	(569)	(546)	(139)
Operating cash	1,716	3,032	2,830	3,732	4,326
Taxes paid	(154)	(305)	(569)	(686)	(713)
Interest paid	(107)	(90)	(116)	(120)	(114)
Net cash from operations	1,455	2,637	2,146	2,926	3,499
Interest received	42	40	11	10	13
CAPEX	(1,715)	(1,967)	(1,700)	(1,700)	(1,700)
Disposals of assets	116	150	0	0	0
Acquisition/disposal of subsidia	0	0	(295)	0	0
Change in non-demand deposits	(0)	(1)	0	0	0
Advances to associates	(25)	0	0	0	0
Dividends from associates	63	117	175	245	321
Net change in investment proper	(14)	0	0	0	0
Others	(44)	25	0	0	0
Investing cash	(1,578)	(1,635)	(1,809)	(1,445)	(1,366)
FCF	(123)	1,001	337	1,481	2,132
Net issue/(repurchase) of share	(3)	1	(264)	0	0
Net issue/(redemption) of debt s	(170)	0	0	0	(620)
Net changes in bank loans	1,003	72	465	0	0
Dividends	(902)	(608)	(1,081)	(1,132)	(1,394)
Others	0	0	0	0	0
Financing cash	(72)	(535)	(881)	(1,132)	(2,014)
Net change in cash	(195)	466	(544)	350	118
Cash and cash equiv b/f	1,042	831	1,298	754	1,104
FX adjustments	(17)	1	0	0	0
Cash and cash equiv c/f	831	1,298	754	1,104	1,222

Years ended 31 Dec	2014A	2015A	2016F	2017F	2018F
Ratios					
Gross margin (%)	25.2	27.3	29.2	31.5	31.7
EBITDA margin (%)	19.7	25.4	25.3	27.3	27.8
Net margin (%)	12.6	18.4	18.9	22.1	22.9
Selling & dist'n/Sales (%)	5.6	5.9	4.1	4.1	4.1
Admin/Sales (%)	9.5	8.2	6.8	6.6	6.6
Payout ratio (%)					
Effective tax (%)	14.3	11.2	17.3	15.7	15.5
Total debt/equity (%)	48.8	47.4	47.0	39.7	31.1
Net debt/equity (%)	42.0	37.2	41.5	32.9	24.6
Current ratio (x)	1.0	1.0	1.0	1.2	1.2
Quick ratio (x)	0.7	0.7	0.7	0.8	0.8
Inventory T/O days	61	59	61	61	61
A/R T/O days	80	78	80	80	80
A/P T/O days	84	90	84	84	84
Working capital days	57	47	57	57	57
Asset turnover (x)	0.52	0.53	0.57	0.60	0.56
Financial leverage (x)	1.71	1.68	1.70	1.61	1.51
EBIT margin (%)	13.8	18.4	19.9	22.2	22.4
Interest burden (x)	1.1	1.1	1.1	1.2	1.2
Tax burden (x)	0.86	0.89	0.83	0.84	0.84
Return on equity (%)	11.1	16.6	18.4	21.2	19.4

As at 31 Dec	2014A	2015A	2016F	2017F	2018F
Balance Sheet (HK\$m)					
Leasehold land & land use rights	1,287	1,206	1,296	1,296	1,296
PPE	11,293	11,971	12,952	13,856	14,684
Investment properties	550	437	437	437	437
Prepmt for PPE & land use rights	624	172	247	247	247
Intangible assets	79	75	77	77	77
Available for sale financial assets	120	85	86	86	86
Investment in asso	2,243	2,535	3,026	3,770	4,622
Loans to an asso	34	29	54	54	54
Non-current assets	16,229	16,510	18,174	19,822	21,503
Inventories	1,478	1,223	1,535	1,889	2,249
Loans to assos+amt due from assos	8	8	23	23	23
Trade & other receivables	2,487	2,381	2,934	3,423	3,503
Non-demand deposits	1	1	1	1	1
Cash & cash equiv.	831	1,298	754	1,104	1,222
Current assets	4,805	4,911	5,248	6,440	6,999
Total assets	21,034	21,422	23,422	26,262	28,501
Am't due to asso	0	0	0	0	0
Trade & other payables	1,978	2,112	2,340	2,597	2,860
Current tax payable	294	333	372	411	450
Bank and other borrowings	2,529	2,514	2,479	2,479	2,479
Current liabilities	4,801	4,959	5,191	5,487	5,788
Bank borrowings	2,807	2,894	3,394	3,394	3,394
Other borrowings - CBs	676	620	620	620	0
Deferred tax liabilities	159	159	159	159	159
Deferred government grants	148	0	140	140	140
Other payables	107	63	93	93	93
MI	2	7	6	8	10
Non-current liabilities	3,900	3,744	4,413	4,415	3,797
Total net assets	12,333	12,718	13,818	16,360	18,916
Shareholders' equity	12,333	12,718	13,818	16,360	18,916
Issued capital	392	392	388	388	388
Share premium and reserves - other:	3,197	2,825	1,393	971	483
Reserves	2,116	1,061	1,061	1,061	1,061
R. E. - proposed final divs	235		506	626	714
Other retained earnings	6,393	8,441	10,471	13,314	16,270

Source: Company data, Sunwah Kingsway Research Estimates

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