



Snoopin around  
Small-caps research

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1 August 2017

## China Materials

Reuters 0868.HK  
Bloomberg 868 HK

### Priced on 31 July 2017

HS CEI @ 10,827.8

**12M hi/lo** HK\$8.39/5.69

**12M price target** HK\$9.60  
**±% potential** +19%

**Shares in issue** 3,891.8m  
**Free float (est.)** 43.9%

**Market cap** US\$4,138m

**3M average daily volume**  
HK\$69.2m (US\$8.9m)

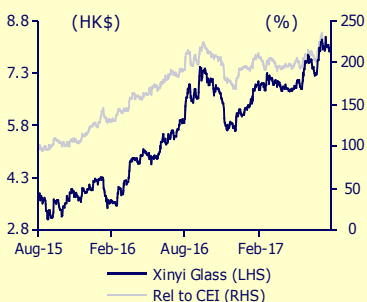
**Foreign s'holding** 52.0%

### Major shareholders

Lee Yin Yee 22.0%  
Tung Ching Sai 9.8%

### Stock performance (%)

	1M	3M	12M
Absolute	4.5	17.1	36.5
Relative	0.1	10.5	12.9
Abs (US\$)	4.5	16.6	35.6



Source: Bloomberg

www.clsa.com

## Looking at global opportunities

### In line 1H17 with better 2H likely; new capacity plans ahead

**XYG's 1H17 core profit growth of 25% was in-line, with revenue/GPM boosted by soaring float glass ASP YoY despite some cost hike that was a drag on auto/construction GPM. We reiterate our view of stable float demand/supply due to still-growing property and limited new capacity, with a more constructive 2H17 amid seasonal strength and GPM expansion on lower costs. Management is also looking for capacity expansion, more aggressive on float and also some on auto. This, plus any further stabilising float glass dynamics and cost reduction, are potential catalysts. Given an undemanding valuation, we maintain BUY with TP unchanged at HK\$9.60.**

### In-line 1H17

XYG's 1H core profit was HK\$1,681m (after excluding FX loss), up 24.8% YoY and in line with CL. Revenue (+13.5% YoY) was largely in line, with a slight miss in float glass revenue (due to volume) that was offset by construction glass sales. Overall GPM was largely in line too amid an ASP-driven float glass GPM surge (30.1%, +7.8ppt YoY) despite a miss in auto/construction glass GPM on higher costs. Lower-than-expected opex/depreciation and higher associate income offset lower other income and higher interest.

### Stable float glass, expecting better 2H

We reiterate our view of stable demand/supply dynamics for float glass in 2017 due to still-growing property sales/new starts GFA and limited new capacity YTD. We also see a more constructive 2H17, with seasonally stronger demand that supports prices, and falling soda ash/natural gas prices by end-1Q17 plus lower-cost Malaysia plant likely boosting the GPM.

### New expansion plans

Given favourable float glass performance globally, XYG plans to increase its float glass capacity by 50% from the 2017 level, with no geographical limitation. Besides, XYG plans to add auto glass capacity including OEM, as well as aftermarket with new overseas capacity to reduce the impact of anti-dumping. We have not yet incorporated these plans into our model but these are likely positive earnings drivers; especially, overseas float glass plants in the US and Malaysia would bring cost advantages.

### Maintain BUY

We fine-tune our 17/18/19CL core profit to factor in slightly higher revenue offset by slightly lower GPM. Our TP is unchanged at HK\$9.60; it is based on a blended PE/PB approach. Retain BUY on the undemanding valuation of 8x 18CL PE/6% dividend yield potential.

### Financials

Year to 31 December	15A	16A	17CL	18CL	19CL
Revenue (HK\$m)	11,460	12,848	14,336	15,292	16,060
Adjusted net profit (HK\$m)	1,734	3,055	3,745	4,161	4,652
Adjusted EPS (HK¢)	43.0	76.5	94.4	103.7	116.0
CL/consensus (9) (EPS%)	-	-	103	103	113
Adj EPS growth (% YoY)	51.7	77.8	23.4	9.9	11.8
Adjusted PE (x)	18.8	10.6	8.6	7.8	7.0
Dividend yield (%)	3.3	5.0	5.6	6.2	7.0
ROE (%)	16.9	24.8	26.5	25.7	25.2
Net debt/equity (%)	37.2	37.0	37.8	24.3	11.9

Source: CLSA

**Largely inline 1H17, on revenue, GPM and profit**

**Float glass ASP soared YoY despite volume being likely lower than our forecast, offset by better construction glass sales**

**Overall GPM was largely in line, boosted by float glass despite dragged by higher cost in 1Q17**

**Lower than expected opex/depreciation and higher associates income offset lower other income and higher interest**

### **In-line 1H17**

XYG's 1H17 core profit was calculated to be HK\$1,681m after excluding FX loss, up 24.8% YoY and in line with CL. Reported profit of HK\$1,636m was just marginally 1.4% below Bloomberg. Revenue (+13.5% YoY) was largely in line, with a slight miss in float glass revenue (due to volume) offset by better than expected construction glass sales. Overall GPM was also largely in line at 36.4% (+1.7ppt YoY) amid an ASP-driven float glass GPM surge (30.1%, +7.8ppt YoY) despite some miss in auto/construction glass GPM on higher cost. Besides, lower than expected opex/depreciation and higher associates income (from XYS's beat) offset lower other income and higher interest.

### **Key highlights:**

- Revenue was up 13.5% YoY to HK\$6,677m, marginally below our forecast by 0.6%. In particular:
  - Revenue from float glass segment surged 35.3% YoY, 2.4% below our forecast which we believe was due to slightly lower than expected sales volume. Meanwhile, strong YoY growth was mainly driven by the significant increase in float glass market prices since 2H16 which stayed high in 1H17, resulting in significant YoY increase in ASP.
  - Revenue from auto glass was down 6.0% YoY, in line with our forecast. The YoY decline was due to a change in accounting treatment as the company started to take out the rebate from revenue in 2H16, which resulted in lower revenue but at the same time lower expenses as well. Besides, FX movements and also spin-off of Xinyi Automobile Glass Hong Kong (8328.HK) also resulted in some revenue decline.
  - Revenue from construction glass was down 2.7% YoY which we believe was partly dragged down by RMB depreciation, but 3.4% above us.
- Overall GPM was 36.4%, up 1.7ppt YoY, marginally lower than us by 0.5ppt. In particular:
  - GPM for float glass was 30.1% (up 7.8ppt YoY), in line with our estimate, thanks to significantly higher ASP YoY, (but slightly lower than 31.2% in 2H16 given the higher soda ash/natural gas costs in 1Q17).
  - GPM for auto glass was 47.8% (down 0.9ppt YoY), 1.1ppt below our estimate. GPM for construction glass was 37.5% (down 1.5ppt YoY), 0.7ppt below. These were also lower than 2H16's 49.3%/40.6%, respectively, also due to higher soda ash/natural gas costs in 1Q17.
- Opex was up 5.3% YoY to HK\$893m, 4.3% below our forecast, suggesting better efficiency. Depreciation expense was up 1.4% YoY, 7.8% below our estimate.
- Other revenue was up 36.0% YoY to HK\$141m, but 18.7% below our forecast.
- Interest expense was up 21.2% YoY to HK\$73m, 60.8% above our estimate amid higher debt, but is likely to fall in 2H after all CBs are exercised.

- The share of profit of associates was up 17.8% YoY to HK\$368m, 24.5% above our estimate due to better-than-expected 1H17 results of Xinyi Solar (29.5% owned by XYG).
- Reported profit was HK\$1,636m, up 19.5% YoY. Excluding FX loss of HK\$45m, core profit is calculated to be HK\$1,681m, up 24.8% YoY and in line with our forecast.
- An interim dividend of HK 20 cents was declared, implying a payout ratio of 48% (1H16: 48%).

Figure 1

**XYG – 1H17 results highlights**

HKD m	1H16	2H16	1H17	YoY growth	1H17CL	Forecast vs actual
<b>Sales</b>	<b>5,885</b>	<b>6,963</b>	<b>6,677</b>	<b>13.5%</b>	<b>6,718</b>	<b>(0.6%)</b>
COGS (excl depr)	(3,455)	(3,937)	(3,853)	11.5%	(3,815)	1.0%
Operating expenses (ex D&A)	(848)	(944)	(893)	5.3%	(934)	(4.3%)
...Opex %	14.4%	13.6%	13.4%	(7.2%)	13.9%	(3.7%)
<b>Core EBITDA</b>	<b>1,582</b>	<b>2,082</b>	<b>1,931</b>	<b>22.0%</b>	<b>1,969</b>	<b>(1.9%)</b>
Depreciation	(389)	(408)	(395)	1.4%	(428)	(7.8%)
Core EBITA	1,193	1,674	1,536	28.7%	1,541	(0.3%)
Amortisation	(15)	(15)	(27)	79.7%	(15)	84.2%
<b>Core EBIT</b>	<b>1,178</b>	<b>1,659</b>	<b>1,509</b>	<b>28.1%</b>	<b>1,526</b>	<b>(1.1%)</b>
...Ebit Margin	20.0%	23.8%	22.6%		22.7%	
Other revenue (ex interest exp)	104	238	141	36.0%	174	(18.7%)
Interest Income	16	35	23	46.3%	15	52.2%
Interest Expense	(60)	(67)	(73)	21.2%	(45)	60.8%
Net Interest Expense	(44)	(33)	(50)	12.0%	(30)	65.2%
Share of Associate Profit	312	250	368	17.8%	295	24.5%
<b>Profit Before Tax</b>	<b>1,550</b>	<b>2,115</b>	<b>1,968</b>	<b>27.0%</b>	<b>1,965</b>	<b>0.2%</b>
Tax Expense	(202)	(405)	(285)	41.1%	(278)	2.7%
Minority Interest	0	(2)	(2)	481.9%	0	481.9%
<b>Net Profit After Tax, pre Exceptionals</b>	<b>1,347</b>	<b>1,707</b>	<b>1,681</b>	<b>24.8%</b>	<b>1,687</b>	<b>(0.4%)</b>
Exceptional gain/(loss)	22	137	(45)	(305.2%)		NA
<b>Net Profit After Tax</b>	<b>1,369</b>	<b>1,844</b>	<b>1,636</b>	<b>19.5%</b>	<b>1,687</b>	<b>(3.0%)</b>
... NPM, pre exceptional	22.9%	24.5%	25.2%		25.1%	
<b>Key operating statistics</b>						
<b>Sales (HKD m)</b>						
Automobile glass products	1,990	1,758	1,871	(6.0%)	1,863	0.4%
Construction glass	1,220	1,370	1,186	(2.7%)	1,147	3.4%
Float glass	2,675	3,835	3,619	35.3%	3,708	(2.4%)
<b>Total</b>	<b>5,885</b>	<b>6,963</b>	<b>6,677</b>	<b>13.5%</b>	<b>6,718</b>	<b>(0.6%)</b>
<b>Gross profit (HKD m)</b>						
Automobile glass products	969	867	894	(7.7%)	912	(1.9%)
Construction glass	476	556	445	(6.6%)	438	1.6%
Float glass	596	1,195	1,090	82.9%	1,125	(3.1%)
<b>Total</b>	<b>2,041</b>	<b>2,618</b>	<b>2,429</b>	<b>19.0%</b>	<b>2,474</b>	<b>(1.8%)</b>
<b>Gross margin</b>						
Automobile glass products	48.7%	49.3%	47.8%	-0.9 ppt	48.9%	-1.1 ppt
Construction glass	39.0%	40.6%	37.5%	-1.5 ppt	38.1%	-0.7 ppt
Float glass	22.3%	31.2%	30.1%	7.8 ppt	30.3%	-0.2 ppt
<b>Overall</b>	<b>34.7%</b>	<b>37.6%</b>	<b>36.4%</b>	<b>1.7 ppt</b>	<b>36.8%</b>	<b>-0.5 ppt</b>

Source: Company, CLSA

Still expecting stable float glass demand/supply, with lower costs/Malaysia to help GPM in 2H17

Float glass prices stayed at high level

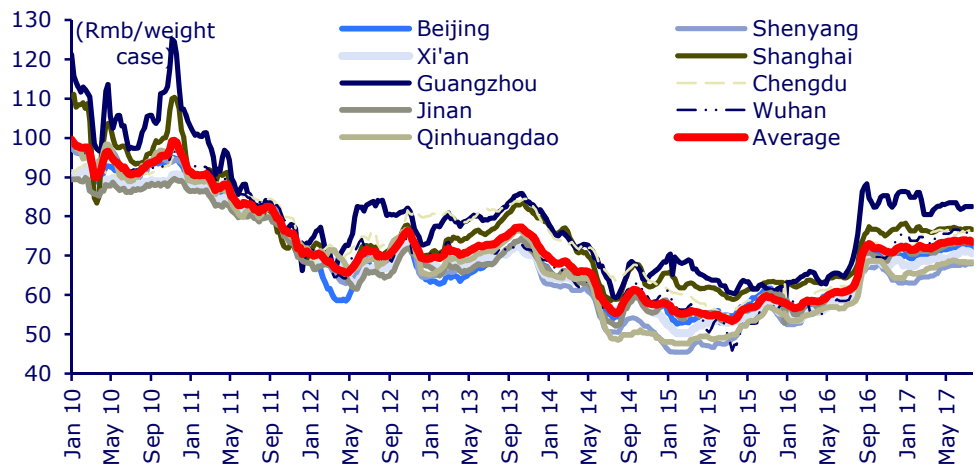
**Stable float glass, expecting better 2H**

We reiterate our view of stable demand/supply dynamics for float glass in 2017. The YTD property sales value, sales GFA and new starts GFA growth stayed positive at 21.5%, 16.1% and 10.6%, respectively, despite tightening policies, and we expect property sales to continuously be supported by lower-tier cities where inventory remains relatively low. We also see a more constructive 2H17, with seasonally stronger demand to provide support to prices, and the fall in soda ash/natural gas prices at end-1Q17 to contribute in full in 2H17.

The 1<sup>st</sup> production line in Malaysia (900t/d) commenced operation in 2Q17. Management estimates its GPM to be 10ppt+ higher than that for China currently. This will also help margin in 2H. The two other production lines (1,200t/d and 800t/d) in Malaysia will commence operation in 2H18.

Figure 2

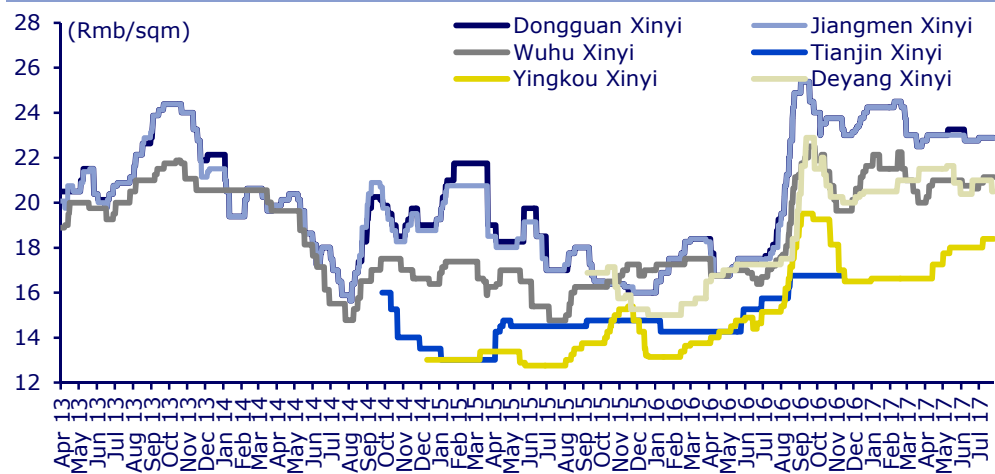
**Float glass prices in various regional markets across China**



Source: WIND, CLSA

Figure 3

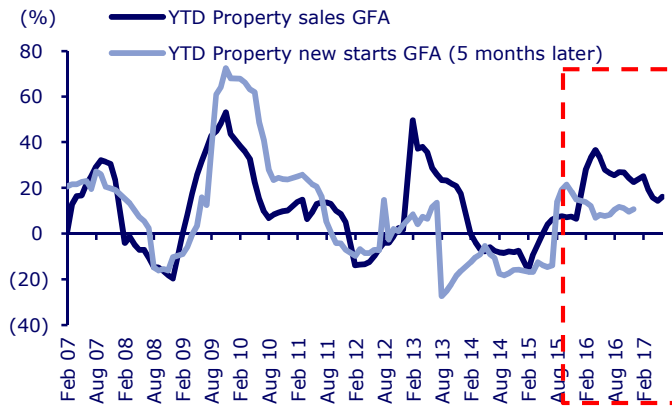
**XYG's float glass product price quotes (5mm clear glass)**



Source: SCI99.com, CLSA

Figure 4

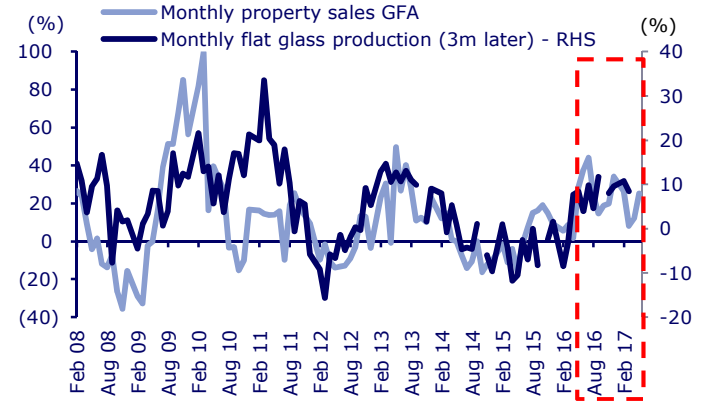
**YTD Property sales/new starts have started to slow but not yet massively**



Source: NBS, CLSA

Figure 5

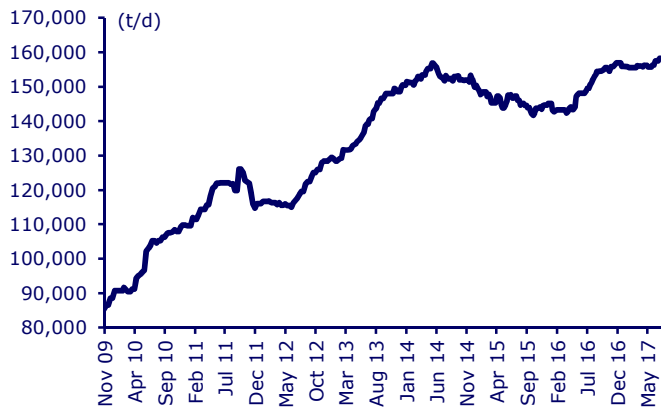
**Glass demand lags behind property sales**



Source: NBS, CLSA

Figure 6

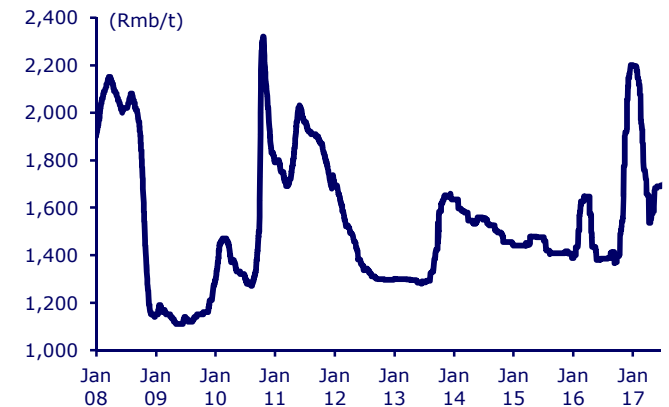
**Float glass capacity under operation in China (including lines just ignited and ultra-clear lines)**



Source: WIND, CLSA

Figure 7

**Domestic soda ash prices**



Source: WIND, CLSA

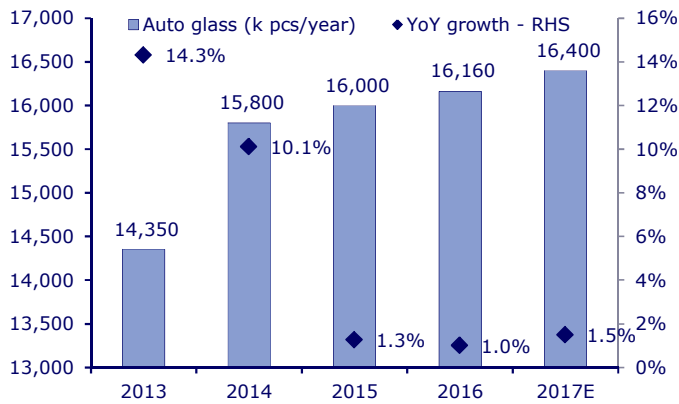
**Still expecting stable float glass demand/supply, with lower cost/Malaysia to help GPM in 2H17**

**New expansion plans**

Given the favourable float glass performance globally, management is planning to increase its float glass capacity by 50% from the 2017 level, with no limitation on geographical location. In addition to the new 2,000t/d capacity in Malaysia under construction, this could imply another c.6,000t/d capacity. Besides, XYG is also planning to add auto glass capacity – its current OEM glass capacity is c.2% of global and management’s target is ~6%. For the aftermarket, XYG will also set up a new overseas capacity to reduce the impact of anti-dumping by other countries. We have not yet included these expansion plans in our forecasts, but these are likely positive earnings drivers; especially, overseas float glass plants, say in the US and Malaysia, would bring cost advantages.

Figure 8

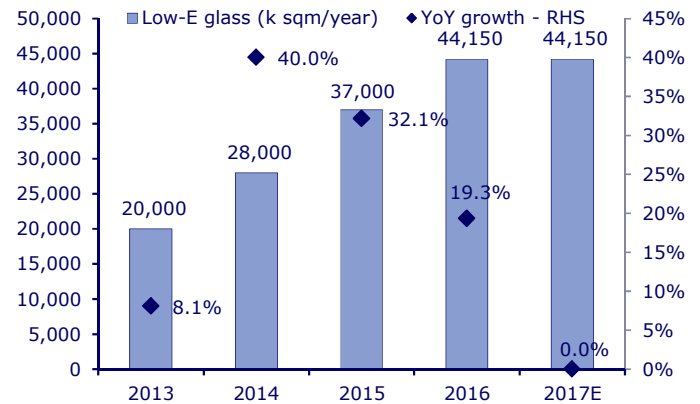
**Auto glass capacity**



Source: Company, CLSA

Figure 9

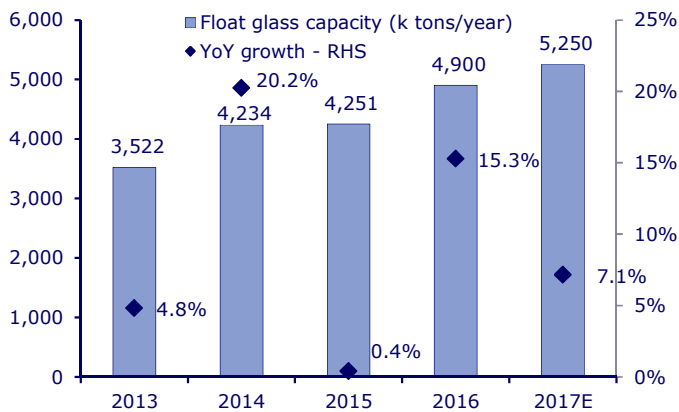
**Low-E glass capacity**



Source: Company, CLSA

Figure 10

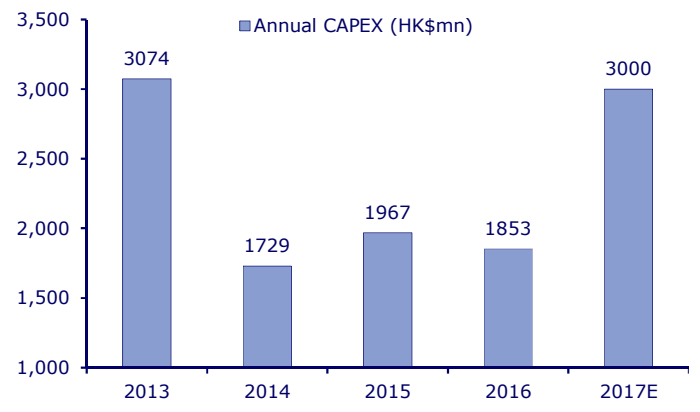
**Float glass capacity**



Source: Company, CLSA

Figure 11

**XYG's capex plan**



Source: Company, CLSA

**Fine-tuning forecasts**

**Maintain BUY**

We fine-tune our 17/18/19CL core profit forecasts by -0.4%/-0.8%/-0.2% to factor in slightly higher revenue offset by slightly lower GPM. We also factor in lower opex and higher associate income offset by lower other income and higher interest. Our TP is unchanged at HK\$9.60, based on a blended PE/PB approach: for PE, we apply 10x avg 18-19CL EPS; for PB we use a target multiple of 2.0x on avg 17-18CL BVPS. Retain BUY on an undemanding valuation of 8x 18CL PE/6% dividend yield potential, with stabilising float glass demand/supply dynamics (eg less worry on property sector, supply limitation amid pollution controls), cost reduction (eg, natural gas) and more capacity expansion details as potential key catalysts.

Figure 12

	17CL			18CL		
	New	Old	Change	New	Old	Change
<b>Earnings revisions</b>						
<b>Revenue (HK\$ m)</b>	<b>14,336</b>	<b>14,278</b>	<b>0.4%</b>	<b>15,292</b>	<b>15,228</b>	<b>0.4%</b>
- Automobile glass products	3,806	3,806	0.0%	3,879	3,879	0.0%
- Construction glass	2,638	2,638	0.0%	2,722	2,722	0.0%
- Float glass (inc. electronic glass)	7,873	7,815	0.7%	8,616	8,552	0.8%
- Wind farm	19	19	0.0%	75	75	0.0%
<b>Gross profit margin</b>	<b>37.7%</b>	<b>38.0%</b>	<b>-0.4 ppt</b>	<b>38.6%</b>	<b>38.9%</b>	<b>-0.3 ppt</b>
- Automobile glass products	49.3%	50.2%	-0.9 ppt	50.6%	51.2%	-0.6 ppt
- Construction glass	39.0%	39.4%	-0.4 ppt	38.4%	38.8%	-0.4 ppt
- Float glass (inc. electronic glass)	31.6%	31.6%	-0.1 ppt	33.1%	33.2%	-0.1 ppt
- Wind farm	70.3%	70.3%	0.0 ppt	70.3%	70.3%	0.0 ppt
<b>Core profit (HK\$ m)</b>	<b>3,745</b>	<b>3,760</b>	<b>-0.4%</b>	<b>4,161</b>	<b>4,195</b>	<b>-0.8%</b>

Source: CLSA

Figure 13

<b>Valuation of Xinyi Glass</b>	
<b>PE basis</b>	
Average 18-19CL EPS (HK\$)	1.10
Target multiple (x)	10.0
<b>Fair value (HK\$)</b>	<b>11.00</b>
<b>PB basis</b>	
Average 17-18CL BVPS (HK\$)	4.06
Target multiple (x)	2.0
<b>Fair value (HK\$)</b>	<b>8.10</b>
<b>Average (HK\$)</b>	<b>9.60</b>
<b>Implied 17/18CL PE</b>	<b>10.2x/9.3x</b>

Source: CLSA

Figure 14

<b>Valuation of Xinyi Glass's non-solar business</b>			
HK\$m		FY17CL	FY18CL
Net profit of Xinyi Glass		3,745	4,161
Less: after-tax share of profits of Xinyi Solar		(635)	(644)
Non-solar profit	(a)	3,109	3,516
Current market cap of Xinyi Glass	(b)	32,315	32,315
Current market cap of Xinyi Solar	(c)	18,262	18,262
<b>M'cap of Xinyi Glass's non-solar business</b>	<b>(d) = (b) - 29.5%*(c)</b>	<b>26,922</b>	<b>26,922</b>
<b>PE of Xinyi Glass's non-solar business</b>	<b>(e) = (d)/(a)</b>	<b>8.7</b>	<b>7.7</b>

Source: CLSA

Our TP is based on a blended PE and PB approach, with higher multiples amid market rerating

Current market-cap implies 8.7x/7.7x its non-solar businesses earnings in 17/18CL

Figure 15

**Xinyi Glass 12m fwd PE chart**

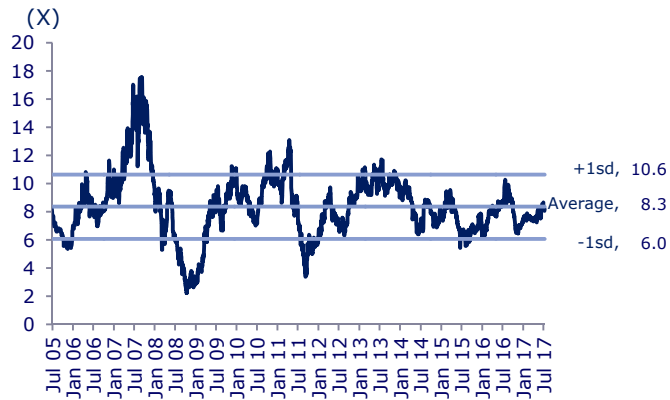
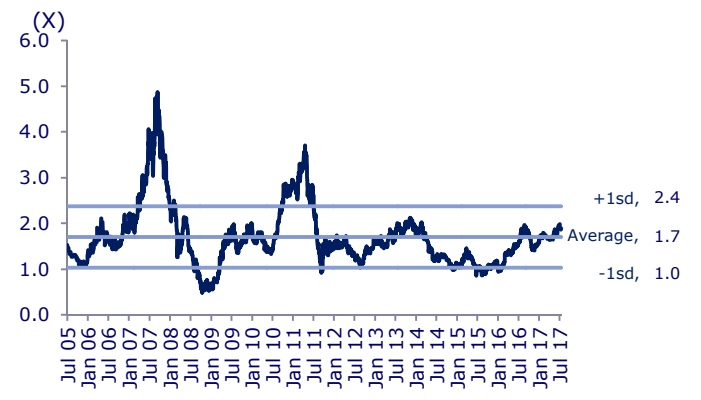


Figure 16

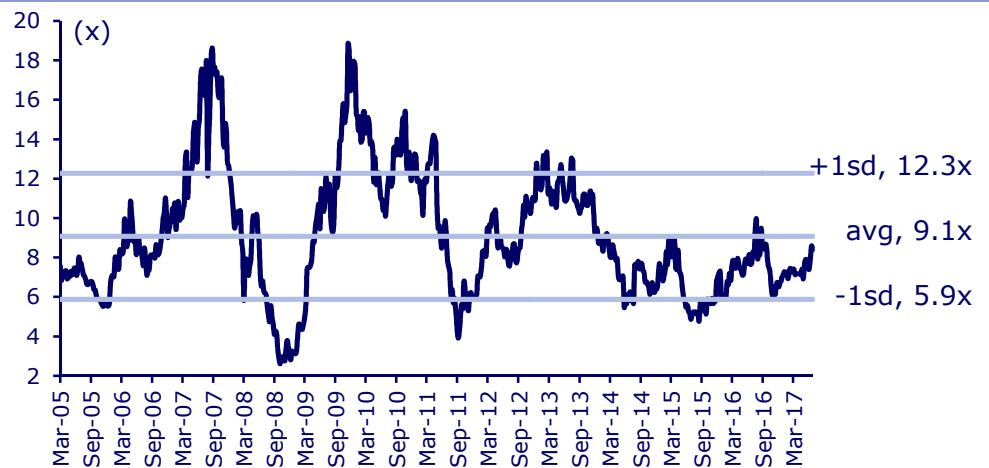
**Xinyi Glass 12m fwd PB chart**



Source: CLSA, Datastream

Figure 17

**12m fwd PE chart – Xinyi Glass after stripping out Xinyi Solar at market price (since Dec-13)**



Source: CLSA, Datastream



Figure 18

Valuation comp – Xinyi Glass

Stock	Ticker	Price (local)	Mkt Cap (USD,m)	ADTV (USD,m)	CLSA			12m forward valuations					EPS Cagr FY1-FY3	PEG	Gearing (%)	Performance (%)			
					Rec	Target	Upside	PE	PB	Yield	EV/Ebitda	ROE				1m	3m	6m	12m
Xinyi Glass	868 HK	8.08	4,137	8.9	BUY	9.60	19%	8.1	2.0	6.0	7.3	26.0	10.9	0.7	37	5	21	19	44
Fuyao Glass - H	3606 HK	26.65	8,646	7.4	BUY	32.60	22%	15.0	2.8	4.0	9.6	19.8	17.2	0.9	0	(11)	(3)	16	36
China Glass	3300 HK	0.72	167	0.1											55	3	(17)	(14)	(30)
Luoyang Glass	1108 HK	4.31	881	0.8											106	(0)	(15)	(17)	(0)
CSG Holding	000012 CH	8.63	2,488	17.6				21.0							73	6	(0)	(13)	(8)
Fuyao Glass - A	600660 CH	23.25	8,646	56.8				15.6					14.4	1.1	0	(11)	3	24	42
Yaohua Pilkington	600819 CH	7.22	931	6.5											48	7	(1)	(12)	2
Shandong Jinjing	600586 CH	5.70	1,236	10.4											57	17	12	24	33
AVIC Sanxin	002163 CH	7.83	935	10.3											287	(5)	(7)	(16)	12
Xiuqiang Glasswork	300160 CH	8.88	789	12.5				23.2	3.1	0.6	14.5	14.5	16.4	1.4	11	(1)	(6)	(22)	(25)
Changzhou Almaden	002623 CH	24.29	578	6.9				27.5							39	(10)	(17)	(34)	(27)
Zhuzhou Kibing	601636 CH	5.37	2,142	26.6				12.3	1.8	3.9	7.9	15.7	16.7	0.7	56	19	24	28	68
Taiwan Glass	1802 TT	15.45	1,486	1.5											44	5	0	17	15
Asahi Glass	5201 JP	4,650.00	9,889	39.0	O-PF	5,150.00	11%	79.9	4.9	0.5	22.0	6.2	(0.9)		25	(2)	(4)	11	56
Nippon Sheet Glass	5202 JP	935.00	764	10.3				9.9					37.1	0.3	233	1	8	1	23
Central Glass	4044 JP	485.00	942	3.2				10.7					9.9	1.1	24	0	1	(11)	9
Hankuk Glass Industries	002000 KS	30,900.00	278	0.5											(21)	(0)	18	15	14
Cie de St-Gobain	SGO FP	47.31	31,098	109.2				14.7					13.9	1.1	29	1	(5)	4	25
PPG Industries Inc	PPG US	106.35	27,277	134.8				16.3	5.3	1.7	10.9		10.8	1.5	52	(3)	(3)	6	2
Turkiye Sise	SISE TI	4.51	2,874	5.7				11.1					10.6	1.1	13	8	11	23	47
Trakya Cam Sanayii	TRKCM TI	3.73	1,194	2.5				11.0					9.9	1.1	32	17	32	47	85
Corning	GLW US	29.52	26,653	191.5				16.4	1.7	2.3	8.7	10.5	9.1	1.8	(8)	(2)	2	11	33
<b>Average</b>								<b>19.5</b>	<b>3.1</b>	<b>2.7</b>	<b>11.6</b>	<b>15.4</b>	<b>13.5</b>	<b>1.1</b>	<b>54.2</b>				

Source: Bloomberg (for the not-rated stocks), CLSA (for the rest)

Valuation details

We value XYG using a blended PE and PB approach. We apply a target multiple of 10x to avg 18-19CL EPS and a target multiple of 2.0x to avg 17-18CL BVPS, in line with the historical averages.

Investment risks

Key risks include: 1) Weakening of the property market or even the auto market. Demand for float glass and construction glass is highly dependent on the property market. Besides, despite being a stable business, the auto glass segment is correlated to the global number of vehicles in use, and any significant slowdown in the global auto industry may also affect the segment's performance. 2) Further tightening of credit. Tightening of credit also affects developers' cash flows and progress in construction of property projects. 3) Incremental production costs. A significant surge in natural gas, international crude oil prices and other raw material costs may affect XYG's gross margin if it cannot pass on incremental costs by raising ASP. 4) More capacity additions in the market.

Valuation details - Asahi Glass Co Ltd 5201 JP

We value the stock using a PE valuation methodology as the company's earnings trends have brightened as chemicals and flat glass earnings growth offsets LCD weakness. We forecast Asahi Glass to see revenue and operating profit growth in the medium term as the US and Eurozone economies improve and chemicals experience success with new products along with growth in Southeast Asia.

**Investment risks - Asahi Glass Co Ltd 5201 JP**

Fluctuating fuel costs are a risk because almost all of its businesses consume large amounts of fuel and materials. A US\$1 fall in oil prices adds ¥400m to OP. An increase in oil prices would cause a decline in profits. We expect the LCD substrate market to continue to see price cuts, but if weakness in downstream markets put more pressure on prices they may decline more than our expectations. The company is expecting ¥30bn in non-operating costs, but we are assuming ¥20bn. If non-operating costs reach ¥30bn, net profits would drop which would affect our PB-ROE correlation derived PB multiple.

**Valuation details - Fuyao Glass Industry Group Co Ltd 3606 HK**

We use PE valuation as our primary valuation tool for Fuyao in order to capture the earnings growth momentum. We use DCF model as a cross-check, given the strong cash flow of the company to provide steady dividend payments.

**Investment risks - Fuyao Glass Industry Group Co Ltd 3606 HK**

Key risks include: 1) slowdown of the Chinese and global auto industry affecting product demand; 2) increasing competition in the market, mainly from existing players largely accelerating their capacity additions; 3) increasing costs of raw material, especially those used to manufacture float glass such as fuel (eg natural gas) and soda ash; 4) slower-than-expected ramp-up of the new production facilities, especially those located overseas, and lower-than-expected profitability of these new plants; 5) unfavourable currency movements, like RMB appreciation; and 6) political risk arising from increasing overseas exposure.

## Summary financials

Year to 31 December	2015A	2016A	2017CL	2018CL	2019CL
<b>Summary P&amp;L forecast (HK\$m)</b>					
<b>Revenue</b>	<b>11,460</b>	<b>12,848</b>	<b>14,336</b>	<b>15,292</b>	<b>16,060</b>
Op Ebitda	2,313	3,664	4,343	4,932	5,358
Op Ebit	1,518	2,837	3,464	3,950	4,309
Interest income	40	51	70	51	31
Interest expense	(90)	(128)	(131)	(128)	(73)
Other items	912	1,063	993	1,022	1,190
<b>Profit before tax</b>	<b>2,380</b>	<b>3,823</b>	<b>4,397</b>	<b>4,895</b>	<b>5,457</b>
Taxation	(266)	(607)	(649)	(732)	(801)
Minorities/Pref divs	0	(3)	(3)	(3)	(3)
<b>Net profit</b>	<b>2,113</b>	<b>3,213</b>	<b>3,745</b>	<b>4,161</b>	<b>4,653</b>
<b>Summary cashflow forecast (HK\$m)</b>					
<b>Operating profit</b>	<b>1,518</b>	<b>2,837</b>	<b>3,464</b>	<b>3,950</b>	<b>4,309</b>
Operating adjustments	-	-	-	-	-
Depreciation/amortisation	795	827	879	982	1,050
Working capital changes	(207)	(426)	(201)	(104)	(84)
Net interest/taxes/other	(421)	(784)	(780)	(860)	(874)
<b>Net operating cashflow</b>	<b>1,685</b>	<b>2,453</b>	<b>3,362</b>	<b>3,968</b>	<b>4,400</b>
Capital expenditure	(1,967)	(1,853)	(3,000)	(1,500)	(1,500)
<b>Free cashflow</b>	<b>(282)</b>	<b>600</b>	<b>362</b>	<b>2,468</b>	<b>2,900</b>
Acq/inv/disposals	-	-	-	-	-
Int, invt & associate div	951	1,112	1,061	1,070	1,218
<b>Net investing cashflow</b>	<b>(1,016)</b>	<b>(741)</b>	<b>(1,939)</b>	<b>(430)</b>	<b>(282)</b>
Increase in loans	16	1,646	933	(3,171)	(1,808)
Dividends	(1,029)	(1,622)	(1,810)	(2,011)	(2,249)
Net equity raised/other	812	(267)	(446)	0	-
<b>Net financing cashflow</b>	<b>(202)</b>	<b>(244)</b>	<b>(1,324)</b>	<b>(5,182)</b>	<b>(4,057)</b>
<b>Incr/(decr) in net cash</b>	<b>468</b>	<b>1,468</b>	<b>99</b>	<b>(1,644)</b>	<b>61</b>
Exch rate movements	-	-	-	-	-
<b>Opening cash</b>	<b>832</b>	<b>1,300</b>	<b>2,768</b>	<b>2,867</b>	<b>1,223</b>
<b>Closing cash</b>	<b>1,300</b>	<b>2,768</b>	<b>2,867</b>	<b>1,223</b>	<b>1,285</b>
<b>Summary balance sheet forecast (HK\$m)</b>					
Cash & equivalents	1,300	2,768	2,867	1,223	1,285
Debtors	1,136	1,036	1,212	1,293	1,358
Inventories	1,223	1,321	1,396	1,454	1,502
Other current assets	1,337	1,412	1,858	1,858	1,858
Fixed assets	11,971	11,831	14,009	14,581	15,083
Intangible assets	1,281	1,193	1,136	1,082	1,030
Other term assets	3,174	4,462	4,462	4,462	4,462
<b>Total assets</b>	<b>21,422</b>	<b>24,022</b>	<b>26,940</b>	<b>25,954</b>	<b>26,578</b>
Short-term debt	2,514	3,165	3,550	2,242	1,497
Creditors	740	789	839	875	903
Other current liabs	1,705	2,046	2,046	2,046	2,046
Long-term debt/CBs	3,514	4,509	5,057	3,194	2,132
Provisions/other LT liabs	223	266	266	266	266
Minorities/other equity	7	66	66	66	66
Shareholder funds	12,718	13,181	15,115	17,265	19,669
<b>Total liabs &amp; equity</b>	<b>21,422</b>	<b>24,022</b>	<b>26,940</b>	<b>25,954</b>	<b>26,578</b>
<b>Ratio analysis</b>					
Revenue growth (% YoY)	5.5	12.1	11.6	6.7	5.0
Ebitda growth (% YoY)	33.0	58.4	18.5	13.6	8.7
Ebitda margin (%)	20.2	28.5	30.3	32.3	33.4
Net profit margin (%)	18.4	25.0	26.1	27.2	29.0
Dividend payout (%)	50.5	49.7	48.0	48.5	48.5
Effective tax rate (%)	11.2	15.9	14.8	15.0	14.7
Ebitda/net int exp (x)	46.1	47.7	71.9	64.2	128.2
Net debt/equity (%)	37.2	37.0	37.8	24.3	11.9
ROE (%)	16.9	24.8	26.5	25.7	25.2
ROIC (%)	8.7	15.7	17.8	18.4	19.5
EVA@/IC (%)	(2.9)	4.1	6.2	6.8	7.9

Source: CLSA

Steady earnings growth ahead

Capex mainly on Malaysia investments and Qianhai land

Balance sheet still healthy

Decent ROE

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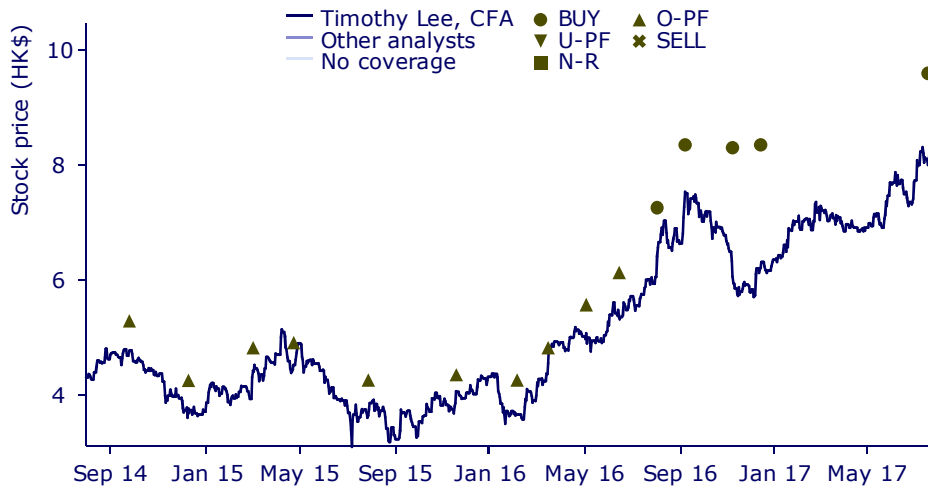
Xinyi Glass (868 HK - HK\$8.08 - BUY)  
Asahi Glass (5201 JP - ¥4,650 - O-PF)  
AVIC Sanxin (N-R)  
Central Glass (N-R)  
Changzhou Almaden (N-R)  
China Glass (N-R)  
Cie de St-Gobain (N-R)  
Corning (N-R)  
CSG - A (N-R)  
Fuyao Glass - A (600660 CH - RMB23.24 - BUY)  
Fuyao Glass (3606 HK - HK\$26.65 - BUY)  
Hankuk Glass Industries (N-R)  
Jinjing (N-R)  
Kibing (N-R)  
Luoyang Glass (N-R)  
NSG (N-R)  
PPG (N-R)  
Sise Cam (N-R)  
SYP Glass - A (N-R)  
Taiwan Glass (N-R)  
Trakya Cam Sanayii (N-R)  
Xinyi Solar (968 HK - HK\$2.46 - BUY)  
Xiuqiang Glasswork (N-R)

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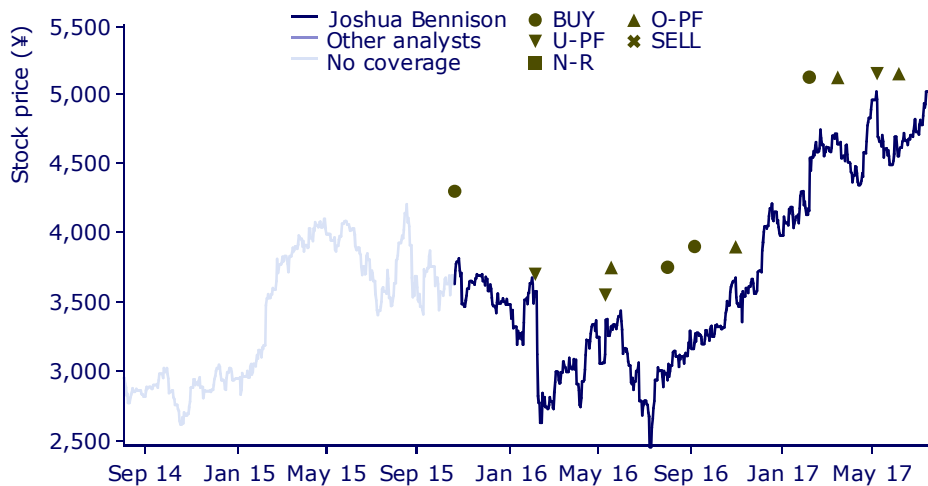
**Recommendation history of Xinyi Glass Holdings Ltd 868 HK**



Date	Rec	Target	Date	Rec	Target
17 Jul 2017	BUY	9.60	05 Feb 2016	O-PF	4.24*
14 Dec 2016	BUY	8.35	19 Nov 2015	O-PF	4.33*
08 Nov 2016	BUY	8.30	29 Jul 2015	O-PF	4.24*
08 Sep 2016	BUY	8.35	24 Apr 2015	O-PF	4.90*
03 Aug 2016	BUY	7.25	03 Mar 2015	O-PF	4.81*
15 Jun 2016	O-PF	6.12*	10 Dec 2014	O-PF	4.23*
04 May 2016	O-PF	5.56*	25 Sep 2014	O-PF	5.28*
16 Mar 2016	O-PF	4.80*			

Source: CLSA; \* Adjusted for corporate action

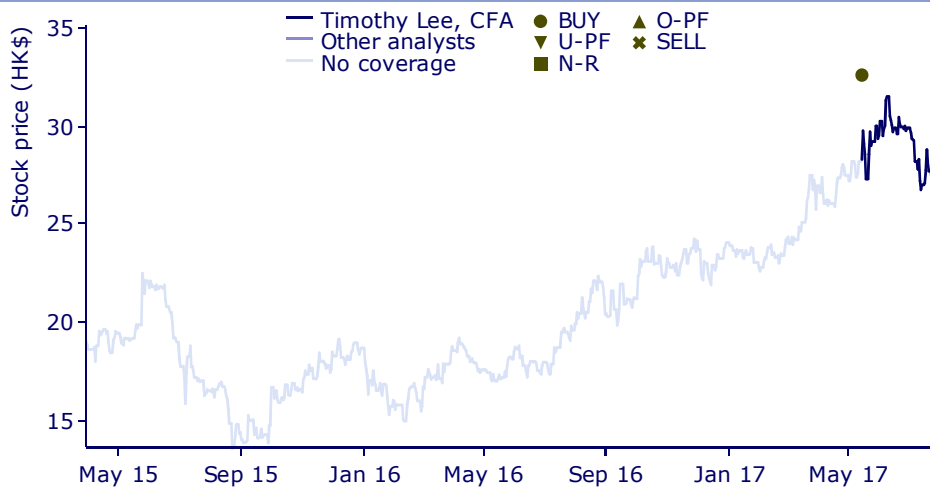
**Recommendation history of Asahi Glass Co Ltd 5201 JP**



Date	Rec	Target	Date	Rec	Target
07 Jun 2017	O-PF	5,150.00*	01 Aug 2016	BUY	3,750.00*
09 May 2017	U-PF	5,150.00*	17 May 2016	O-PF	3,750.00*
17 Mar 2017	O-PF	5,125.00*	09 May 2016	U-PF	3,550.00*
07 Feb 2017	BUY	5,125.00*	05 Feb 2016	U-PF	3,700.00*
31 Oct 2016	O-PF	3,900.00*	20 Oct 2015	BUY	4,300.00*
06 Sep 2016	BUY	3,900.00*			

Source: CLSA; \* Adjusted for corporate action

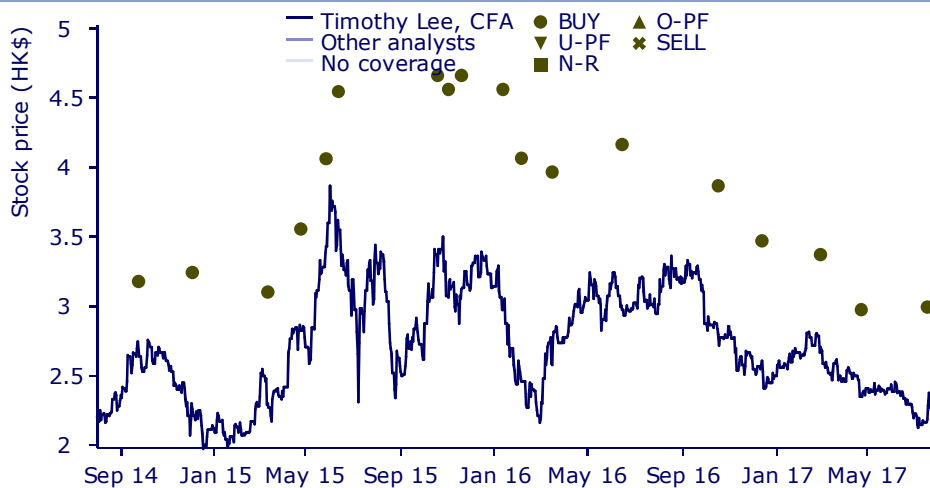
**Recommendation history of Fuyao Glass Industry Group Co Ltd 3606 HK**



Date	Rec	Target	Date	Rec	Target
15 May 2017	BUY	32.60			

Source: CLSA

**Recommendation history of Xinyi Solar Holdings Ltd 968 HK**



Date	Rec	Target	Date	Rec	Target
01 Aug 2017	BUY	3.10	19 Nov 2015	BUY	4.67*
17 Jul 2017	BUY	3.00	02 Nov 2015	BUY	4.57*
22 Apr 2017	BUY	2.98*	19 Oct 2015	BUY	4.67*
28 Feb 2017	BUY	3.38*	12 Jun 2015	BUY	4.55*
14 Dec 2016	BUY	3.48*	27 May 2015	BUY	4.07*
18 Oct 2016	BUY	3.87*	24 Apr 2015	BUY	3.56*
15 Jun 2016	BUY	4.17*	12 Mar 2015	BUY	3.11*
16 Mar 2016	BUY	3.97*	04 Dec 2014	BUY	3.25*
05 Feb 2016	BUY	4.07*	25 Sep 2014	BUY	3.18*
12 Jan 2016	BUY	4.57*			

Source: CLSA; \* Adjusted for corporate action

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