

## Xinyi Glass (XYG)

868.HK / 868 HK

### China

Auto parts / Construction materials

## Profit alert no surprise

- **Profit expected to grow 40-55%** – XYG announced it expects its FY16 net profit to grow 40-55% from 2015's HK\$2.11b, implying a range of HK\$2.96b to HK\$3.28b. Our previous forecast of HK\$3.22b lies at the high end.
- **Float glass outlook stable in near term** – Latest float glass price is RMB1,437/metric ton, which is quite stable throughout 4Q16. We have not changed our assumptions for float glass operations.
- **Ample demand supports outlook** – Increases in works commenced and works in progress lent support to XYG's float glass (and low-e glass) demand (see table below). We assumed float glass price to be similar to 2H16 levels as works figures are still growing, albeit slightly slower, and the number of float glass production lines in use is stable at 236.

(In millions of sqm)	11M16	YoYΔ
Works-in-progress	7,451	2.9%
Works commenced	1,513	7.6%
Works completed	770	6.4%
GFA sold	1,358	24.3%

Source: National Bureau of Statistics

- **New TP = HK\$7.55, 22% upside** – Our new revenue and NP forecasts for 2016/17/18 are HK\$13.3b/15.6b/15.8b and HK\$3.11b/4.00b/4.12b respectively. Our TP is derived from 7x P/E from XYG's float, architectural and automobile glasses and our target price on XYS multiplied by XYG's shareholding in XYS. On a blended P/E basis, XYG is trading at 7.3x 2017F P/E.

### Earnings Forecasts & Valuation Summary

Year ended 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (HK\$m)	10,861	11,460	13,323	15,566	15,815
EBITDA (HK\$m)	2,138	2,908	3,907	4,874	4,997
<b>Net profit (HK\$m)</b>	<b>1,364</b>	<b>2,113</b>	<b>3,111</b>	<b>4,004</b>	<b>4,117</b>
Fully diluted EPS (HK cents)	34.6	53.1	78.0	100.4	103.2
<b>PE (x)</b>	<b>17.9</b>	<b>11.7</b>	<b>7.9</b>	<b>6.2</b>	<b>6.0</b>
EV/EBITDA (x)	9.6	9.9	7.3	5.9	5.7
Yield (%)	2.42	4.27	6.08	8.31	8.55
<b>ROE (%)</b>	<b>11.1</b>	<b>16.6</b>	<b>21.7</b>	<b>23.6</b>	<b>21.1</b>
P/B (x)	1.2	1.4	1.7	1.4	1.2

Source: Company, Sunwah Kingsway Research estimates

## LONG

Maintain

**HK\$6.20\***

**Target price: HK\$7.55**

Prior TP: HK\$8.46

Upside: 22%

HSI: 22,456.62

\*Closing price as at 14 Dec 2016

### Share Data

52week Hi/Lo (HK\$)	7.73/3.65
Avg. daily t/o (US\$m)	10.9
Market cap. (US\$m)	3,111
Total issued shares (m)	3,891.5
Public float (%) *	52.55%
Auditor	PWC
Major shareholder:	
Mr. Lee Yin Yee	21.65%
Mr. Tung Ching Sai	9.67%
Mr. Tung Ching Bor	8.35%
Mr. Lee Sing Din	7.78%

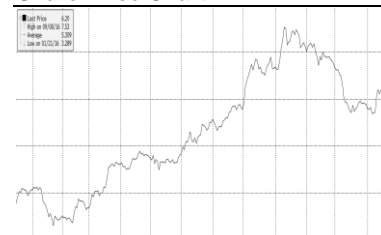
\* The conversion of CBs issued to Och-Ziff was not factored in the calculation of public float.

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

**Phelix Lee**

(852) 2283 7618

Phelix.lee@sunwahkingsway.com

www.kingswayresearch.com

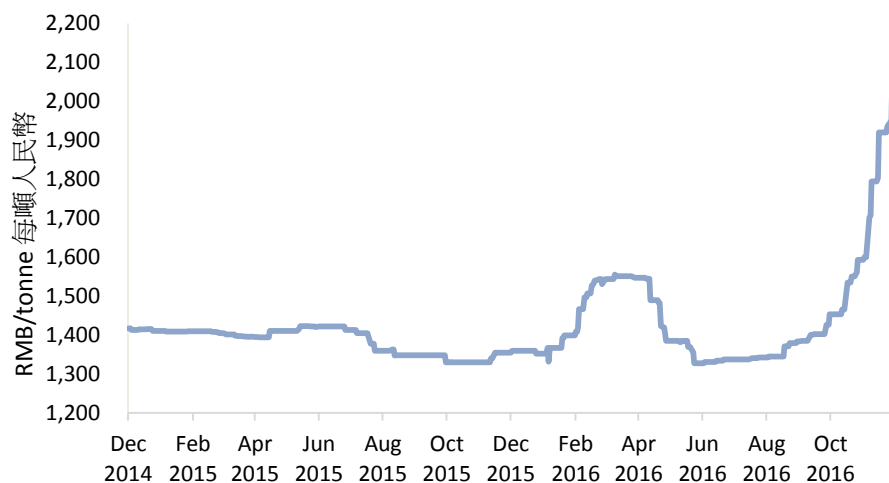
**Earnings revisions**

	2016F	2017F	2018F
<b>Revenue (HK\$m) - new</b>	<b>13,323</b>	<b>15,566</b>	<b>15,815</b>
old	13,420	16,172	16,431
change	-0.7%	-3.7%	-3.7%
<b>Gross profit (HK\$m)</b>	<b>4,849</b>	<b>6,081</b>	<b>6,163</b>
old	4,885	6,319	6,404
change	-0.7%	-3.8%	-3.8%
<b>Net profit (HK\$m)</b>	<b>3,111</b>	<b>4,004</b>	<b>4,117</b>
old	3,220	4,202	4,324
change	-3.4%	-4.7%	-4.8%
<b>Basic EPS (HK cents)</b>	<b>80.2</b>	<b>103.2</b>	<b>106.1</b>
old	83.0	108.3	111.4
change	-3.4%	-4.7%	-4.8%

Source: Sunwah Kingsway Research estimates

**Average China Soda Ash price since Dec 2014**

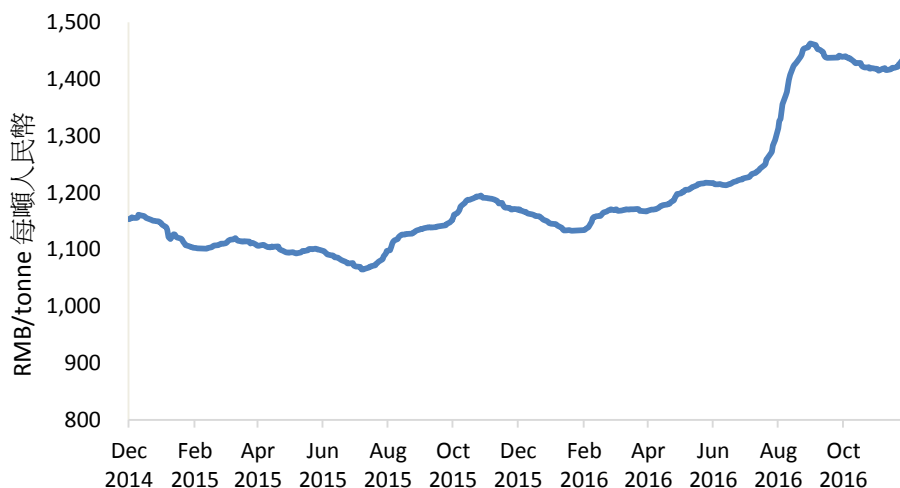
Avg China soda ash prices 中國平均純鹼價格



Source: Wind

**National float glass price since Dec 2014**

China float glass price 中國浮法玻璃價格



Source: Wind

**Financial forecasts**

Years ended 31 Dec	2014A	2015A	2016F	2017F	2018F
<b>Income statement (HK\$m)</b>					
<b>Revenue</b>	<b>10,861</b>	<b>11,460</b>	<b>13,323</b>	<b>15,566</b>	<b>15,815</b>
COGS	(8,128)	(8,328)	(8,474)	(9,485)	(9,652)
Gross Profit	2,733	3,133	4,849	6,081	6,163
Other income	178	215	284	215	215
Other gains, net	220	379	0	0	0
Selling & marketing costs	(608)	(680)	(791)	(920)	(934)
Admin expense	(1,030)	(935)	(1,154)	(1,298)	(1,319)
Gain on spin-off	0	0	0	0	0
<b>Operating profit</b>	<b>1,494</b>	<b>2,113</b>	<b>3,188</b>	<b>4,078</b>	<b>4,125</b>
Add back: Depreciation	612	763	719	796	872
Add back: Amortization	32	32	0	0	0
<b>EBITDA</b>	<b>2,138</b>	<b>2,908</b>	<b>3,907</b>	<b>4,874</b>	<b>4,997</b>
Depreciation & Amortization	(644)	(795)	(719)	(796)	(872)
Finance income	53	40	13	13	14
Finance costs	(91)	(90)	(116)	(120)	(114)
Share of PL of assos	138	317	565	828	898
Profit before tax	1,593	2,380	3,651	4,799	4,922
Income tax expense	(228)	(266)	(540)	(794)	(805)
<b>Profit for the year</b>	<b>1,365</b>	<b>2,114</b>	<b>3,111</b>	<b>4,004</b>	<b>4,117</b>
Less: MI	(1)	(0)	0	0	0
<b>Net profit</b>	<b>1,364</b>	<b>2,113</b>	<b>3,111</b>	<b>4,004</b>	<b>4,117</b>
<b>Basic EPS (HK Cents)</b>	<b>34.78</b>	<b>53.88</b>	<b>83.00</b>	<b>108.27</b>	<b>111.42</b>
<b>Diluted EPS (HK Cents)</b>	<b>34.57</b>	<b>53.11</b>	<b>80.74</b>	<b>105.32</b>	<b>108.38</b>

Years ended 31 Dec	2014A	2015E	2016F	2017F	2018F
<b>Cash flow (HK\$m)</b>					
EBITDA	2,138	2,908	3,907	4,874	4,997
Non-cash adjustments	(220)	(331)	0	0	0
Changes in working capital	(202)	455	(534)	(536)	(102)
<b>Operating cash</b>	<b>1,716</b>	<b>3,032</b>	<b>3,374</b>	<b>4,338</b>	<b>4,895</b>
Taxes paid	(154)	(305)	(579)	(833)	(844)
Interest paid	(107)	(90)	(116)	(120)	(114)
<b>Net cash from operations</b>	<b>1,455</b>	<b>2,637</b>	<b>2,679</b>	<b>3,385</b>	<b>3,937</b>
Interest received	42	40	13	13	14
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	249	271	349
Net change in investment proper	(14)	0	0	0	0
Others	(44)	25	0	0	0
<b>Investing cash</b>	<b>(1,578)</b>	<b>(1,635)</b>	<b>(1,733)</b>	<b>(1,416)</b>	<b>(1,338)</b>
<b>FCF</b>	<b>(123)</b>	<b>1,001</b>	<b>946</b>	<b>1,969</b>	<b>2,600</b>
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)	(1,320)	(1,781)	(2,030)
Others	0	0	0	0	0
<b>Financing cash</b>	<b>(72)</b>	<b>(535)</b>	<b>(1,119)</b>	<b>(1,781)</b>	<b>(2,650)</b>
Net change in cash	(195)	466	(173)	188	(50)
Cash and cash equiv b/f	1,042	831	1,298	1,125	1,313
FX adjustments	(17)	1	0	0	0
<b>Cash and cash equiv c/f</b>	<b>831</b>	<b>1,298</b>	<b>1,125</b>	<b>1,313</b>	<b>1,263</b>

Years ended 31 Dec	2014A	2015A	2016F	2017F	2018F
<b>Ratios</b>					
Gross margin (%)	25.2	27.3	34.8	37.2	36.5
EBITDA margin (%)	19.7	25.4	27.9	29.4	29.0
Net margin (%)	12.6	18.4	22.8	24.7	24.5
Selling & dist'n/Sales (%)	5.6	5.9	5.9	5.9	5.9
Admin/Sales (%)	9.5	8.2	8.7	8.3	8.3
Payout ratio (%)					
Effective tax (%)	14.3	11.2	14.2	16.1	15.8
Total debt/equity (%)	48.8	47.4	45.7	38.7	30.6
Net debt/equity (%)	42.0	37.2	38.9	32.7	26.7
Current ratio (x)	1.0	1.0	1.0	1.2	1.1
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	0.55	0.59	0.56
Financial leverage (x)	1.71	1.68	1.67	1.59	1.50
EBIT margin (%)	13.8	18.4	22.3	24.3	23.6
Interest burden (x)	1.1	1.1	1.2	1.2	1.2
Tax burden (x)	0.86	0.89	0.86	0.84	0.84
<b>Return on equity (%)</b>	<b>11.1</b>	<b>16.6</b>	<b>21.0</b>	<b>23.0</b>	<b>20.4</b>

As at 31 Dec	2014A	2015A
<b>Balance Sheet (HK\$m)</b>		
Leasehold land & land use rights	1,287	1,206
PPE	11,293	11,971
Investment properties	550	437
Prepmt for PPE & land use rights	624	172
Intangible assets	79	75
AFS financial assets	120	85
Investment in asso	2,243	2,535
Loans to an assp	34	29
<b>Other non-current assets</b>	<b>0</b>	<b>0</b>
<b>Non-current assets</b>	<b>16,229</b>	<b>16,510</b>
Inventories	1,478	1,223
Loans to assos + amt due from asso:	8	8
Trade & other receivables	2,487	2,381
Non-demand deposits	1	1
<b>Cash &amp; cash equiv.</b>	<b>831</b>	<b>1,298</b>
<b>Current assets</b>	<b>4,805</b>	<b>4,911</b>
<b>Total assets</b>	<b>21,034</b>	<b>21,422</b>
Amt due to asso	0	0
Trade & other payables	1,978	2,112
Current tax payable	294	333
<b>Bank and other borrowings</b>	<b>2,529</b>	<b>2,514</b>
<b>Current liabilities</b>	<b>4,801</b>	<b>4,959</b>
Bank borrowings	2,807	2,894
Other borrowings - CBs	676	620
Deferred tax liabilities	159	159
Deferred government grants	148	0
Other payables	107	63
MI	2	7
<b>Non-current liabilities</b>	<b>3,900</b>	<b>3,744</b>
<b>Total net assets</b>	<b>12,333</b>	<b>12,718</b>
<b>Shareholders' equity</b>	<b>12,333</b>	<b>12,718</b>
Issued capital	392	392
Reserves	5,548	3,886
Other retained earnings	6,393	8,441

Source: Company data, Sunwah Kingsway Research Estimates

**Disclaimer**

This document is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this document may not be eligible for sale in certain jurisdiction. Neither this document nor any portion hereof may be taken distributed or transmitted directly or indirectly into such jurisdiction nor to any residents thereof. Any failure to comply with this restriction may constitute a violation of the applicable laws and regulations and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. This document has been produced for private circulation and may not be copied, photocopied, duplicated, or redistributed without the prior written consent of Kingsway Financial Services Group Limited ("KFS") and its affiliated companies (collectively, "Kingsway Group").

This report is distributed in Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") by KFS which is registered as a licensed corporation under the Securities and Futures Ordinance (Cap.571 of The Laws of Hong Kong) with the Securities and Futures Commission of Hong Kong ("SFC") and its SFC CE number is ADF346.

The information contained in this report has been taken from sources believed to be reliable but no representation or warranty expressed or implied is made as to their accuracy or correctness. This report is published for the assistance of recipients but is not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient. It is not to be construed as an offer, invitation or solicitation to buy or sell any securities of the company or companies covered herein. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. All opinions and estimates reflect our judgment on the date of this report and are subject to change without notice.

KFS, including its parent, subsidiaries and/or affiliates, may act as lead or co-manager in an offering of the securities of any issuer discussed herein, may from time to time perform financial services or other advisory services for, or solicit financial services or other business from, any issuer.

Within the past year, KFS, including its parent, subsidiaries and/or affiliates, may have acted as market maker or traded on a principal basis in the financial instruments of any issuer discussed herein and may act as underwriter, placement agent, advisor or lender to such issuer.

KFS, including its parent, subsidiaries, affiliates, shareholders, officers, directors, and employees may have long or short positions in, and buy or sell, the securities, commodities or derivatives (including options) or any other financial instruments thereof, of any issuers.

An employee of KFS, including its parent, subsidiaries and/or affiliates, may act as director, or be represented on the boards of directors, of any such entities or issuers.

**Additional information is available upon request.**

Copyright 2016 Kingsway Group. All rights reserved.

Head Office

Hong Kong  
Kingsway Financial Services Group Limited  
7/F, Tower One, Lippo Centre,  
89 Queensway, Hong Kong  
Tel: 852-2877-1830  
Fax: 852-2877-2665

Affiliated & Overseas Offices

Canada  
Kingsway Capital of Canada Inc.,  
Suite 900, 10 King Street East,  
Toronto, Ontario,  
Canada M5C 1C3  
Tel: 416-861-3099  
Fax: 416-861-9027

China  
Kingsway Financial Services Group Limited  
Beijing Representative Office

Beijing Kingsway Financial Consultancy Limited  
18/F, Block 1,  
Henderson Centre,  
18 Jianguomenneida Street,  
Dongcheng District, Beijing,  
100005, PRC  
Tel: 8610-6518-2813  
Fax: 8610-6518-2448

Shanghai Kingsway Financial Consultancy Limited  
2039, 20/F, Catic Building,  
212 Jiangning Road, Jingan,  
Shanghai, 200041 PRC  
Tel: 8621-5049-0358  
Fax: 8621-5049-0368

Shenzhen Kingsway Financial Consultancy Limited  
701, Tower A,  
Aerospace Skyscraper,  
4019 Shennan Road,  
Futian District, Shenzhen,  
518048, PRC  
Tel: 86-755-3333-6539  
Fax: 86-755-3333-6536