



**CICC**  
 中国国际金融有限公司  
 CHINA INTERNATIONAL CAPITAL  
 CORPORATION LIMITED

# Company Update

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Auto & Parts

RESEARCH

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ACCUMULATE

## Xinyi Glass (868.HK)

### Clearly Visible Earnings Turnaround

#### Financial highlights

(HKD Mn)	2007A	2008A	2009E	2010E	2011E
Revenue	2,775	3,894	4,116	5,214	6,204
(+/-)	43.5%	40.4%	5.7%	26.7%	19.0%
EBIT	726	768	850	1,135	1,334
(+/-)	76.9%	5.7%	10.8%	33.4%	17.6%
Net income	671	709	750	1,024	1,141
EPS(HK\$)	0.39	0.42	0.42	0.58	0.64
(+/-)	60.9%	7.9%	0.7%	36.5%	11.5%
PE	17.84	16.87	15.96	11.69	10.49
PB	2.96	2.74	2.27	2.06	1.87
EV/EBITDA	13.81	12.15	11.19	8.82	7.67
ROE	16.6%	16.2%	14.2%	17.6%	17.8%
ROCE	15.6%	14.5%	12.8%	15.9%	16.2%
Dividend Yield	2.0%	3.0%	3.0%	4.1%	4.5%
P/OCFPS	25.04	10.25	14.47	9.36	8.82

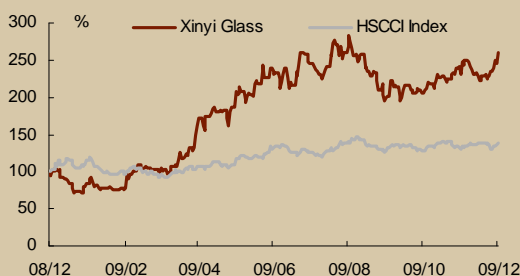
#### Share information

	H share
Bloomberg code	868 HK
Share price	HK\$6.75
Target price	HK\$8.7
Daily turnover (mn shs)	6.1
52wk high/low	7.4/1.7
Issued shares (mn)	1,773
Free float (mn)	1,773
Market cap (HK\$ mn)	11,817
Major shareholders (%)	Realbest (19.97%)

#### Recent price performance

	Last week	1m	3m	YTD
[868.HK]	+13.45	+12.50	+31.32	+10.47
[CICC H-share Index]	+6.59	+5.98	+20.18	+73.00
[CICC Auto&Parts Index]	+13.89	+27.48	+51.57	+247.11

#### 52wk performance



Source: Company data, Bloomberg, CICC Research

#### What's new:

**Earnings from float glass business continues to improve**, thanks to the low prices of raw materials and suspension of some production lines in 2008. We believe the tight supply pattern will extend to 2010 and Xinyi's float glass GP margin will increase to 28% while revenue rises 25% as capacity rises.

**Auto glass business will maintain steady growth in 2H09 and 2010.** We expect the company's auto glass exports to North America to improve steadily thanks to the sustained recovery in the North American economy. Also, domestic demand will rise as sedan sales growth and ownership increase. Its new plants in Wuhu will help to increase its auto glass revenue by 18% in 2010.

**PV glass sales will go well as solar industry improves.** The solar industry improved in 2H09, its sales volume rose to normal levels as export demand recovery. Xinyi's new PV line (500T/D) in Wuhu will help to increase earnings.

**LOW-E glass has sold well YTD**, thanks to its successful application in high-end office buildings. Xinyi Glass's LOW-E glass business will likely grow fast going forward, benefiting from rising energy-saving standards in China.

#### Valuation and recommendation:

**We maintained our EPS forecast for FY09 and raise FY10 to HK\$0.58, TP raised to HK\$8.7.** As the recovery in the float glass and PV glass business beat our expectations, and we believe this trend is likely to persist in 2010, we raise our FY10 EPS estimate to HK\$0.58, representing a 5.2% increase. We apply a P/E multiple of 15x to our FY10 EPS estimate and raise our TP to HK\$8.7.

#### Risks:

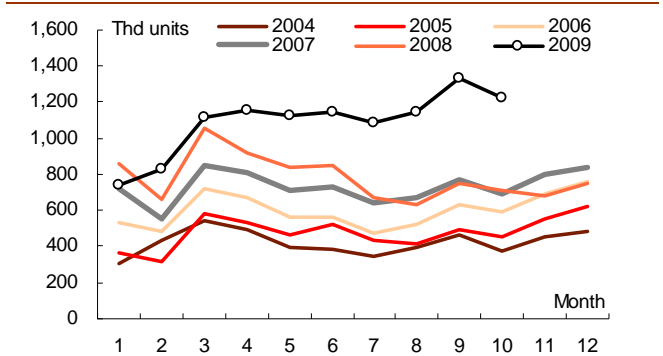
Rising oil prices; sustainability of high margin for its float glass business; overreliance of PV glass business on PV policies, lawsuit with Saint-Gobain.

Figure 1: Earnings forecast revision

HK\$ MN	2008A				2009E			2010E		
	Actual	Before	After	Change	Before	After	Change	Before	After	Change
Revenue	3,894	4,136	4,116	-0.5%	5,075	5,214	2.7%			
COGS	2,683	2,892	2,859	-1.1%	3,449	3,519	2.0%			
Gross profit	1,211	1,244	1,256	1.0%	1,626	1,696	4.3%			
Other income	38	40	40	-0.5%	53	54	2.7%			
Selling expenses	318	290	288	-0.5%	330	339	2.7%			
G&A	209	290	288	-0.5%	330	339	2.7%			
Other gains	46	130	130	0.0%	61	63	2.7%			
Financial expenses	15	20	20	0.0%	20	20	0.0%			
PBT	753	816	831	1.8%	1,060	1,115	5.2%			
Income tax	42	77	79	1.8%	85	89	5.2%			
Minority interests	2	-2	-2	1.8%	-2	-2	5.2%			
Net income	709	737	750	1.8%	973	1,024	5.2%			
EPS (HK\$)	0.42	0.42	0.42	1.8%	0.55	0.58	5.2%			

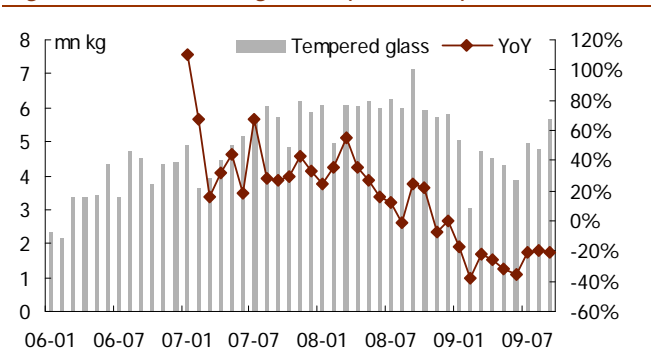
Source: Company data, CICC Research

Figure 2: Monthly auto sales in China



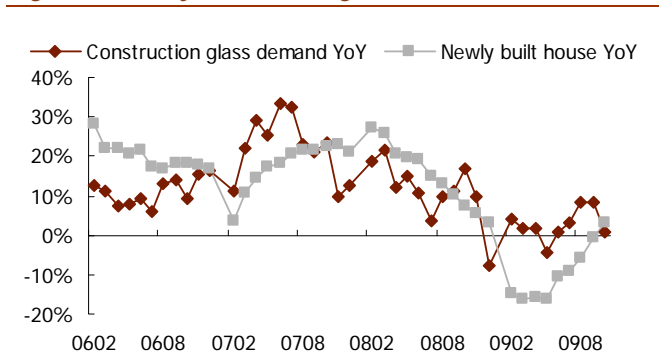
Source: CAAM

Figure 3: China auto glass export (tempered)



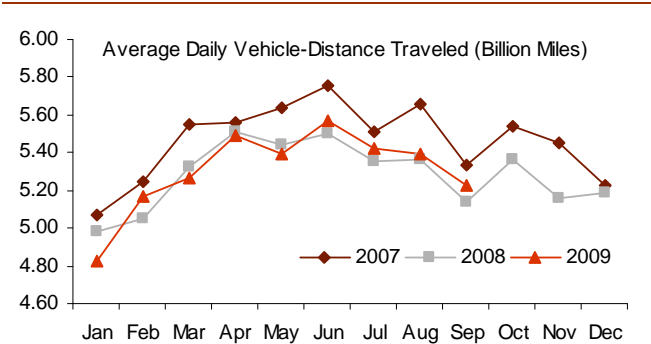
Source: CAAM

Figure 4: Newly built housing volume



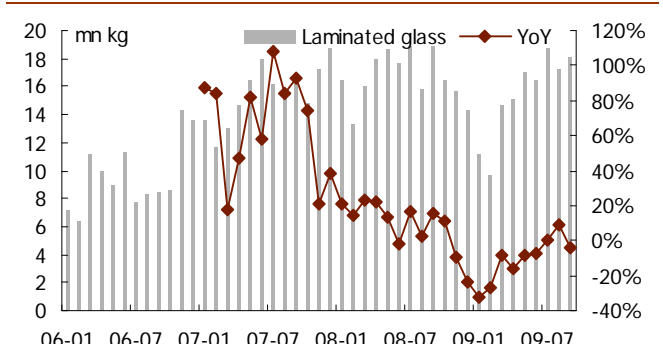
Source: Drcnet, CEIC

Figure 5: Average daily vehicle-distance traveled



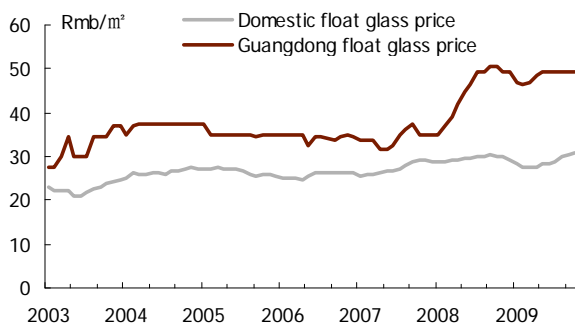
Source: US Transportation Department

Figure 6: China auto glass export (laminated)



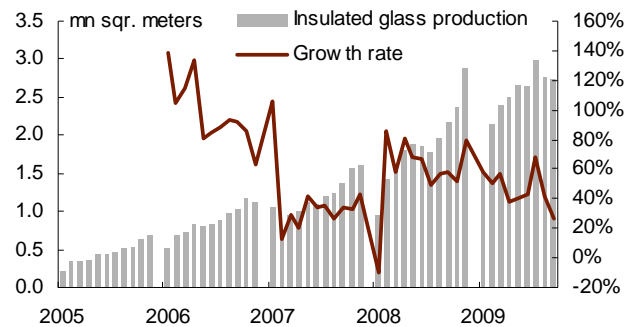
Source: CAAM

Figure 7: Float glass price



Source: CEIC

Figure 8: Insulate glass production



Source: Drcnet

Figure 9: New production lines plan

Project	Estimated launch time	Location	Estimated capacity
Auto glass phase I	1H09	Wuhu	1 mn set/annum
Auto glass phase II	2H10	Wuhu	1 mn set/annum
Low-E glass	Oct-2009	Wuhu	4 mn sq. meter/annum
Low-E glass	1H11	Wuhu	4 mn sq. meter/annum
Low-E glass	1H11	Tianjin	4 mn sq. meter/annum
Float glass	1H10	Wuhu	700 ton/day
Float glass	1H10	Wuhu	900 ton/day
Float glass	2H10	Jiangmen	600 ton/day
Float glass	1H11	Jiangmen	900 ton/day
PV glass	Nov-2009	Wuhu	500 ton/day
Ultra-clean float glass	Nov-2009	Wuhu	500 ton/day
TCO glass phase I	2H09	Wuhu	680,000 sq. meter/annum
TCO glass phase II	2H10	Dongguan	2.75 mn sq. meter/annum

Source: Company data, CICC Research

Figure 10: Main assumptions for earnings forecast

Automobile glass	2007	2008	2009E	2010E	2011E
Turnover	1,717	1,964	2,004	2,364	2,719
(+/- %)	39.7%	14.4%	2.0%	18.0%	15.0%
Gross profit	724	743	761	922	1,060
Gross margin	42.2%	37.8%	38.0%	39.0%	39.0%
Construction glass	2007	2008	2009E	2010E	2011E
Turnover	566	651	781	1,054	1,265
(+/- %)	13.6%	15.0%	20.0%	35.0%	20.0%
Gross profit	188	205	266	380	455
Gross margin	33.2%	31.4%	34.0%	36.0%	36.0%
Float glass	2007	2008	2009E	2010E	2011E
Total turnover	492	1,279	1,331	1,796	2,220
Traditional glass	492	1,039	1,091	1,364	1,637
PV&TCO	0	240	240	432	583.2
Gross profit	188	378	348	555	675
Traditional glass	-	246	262	382	442
PV&TCO	-	132	86	173	233
Gross margin					
Traditional glass	0%	24%	24%	28%	27%
PV&TCO	0%	55%	36%	40%	40%

Source: Company data, CICC Research

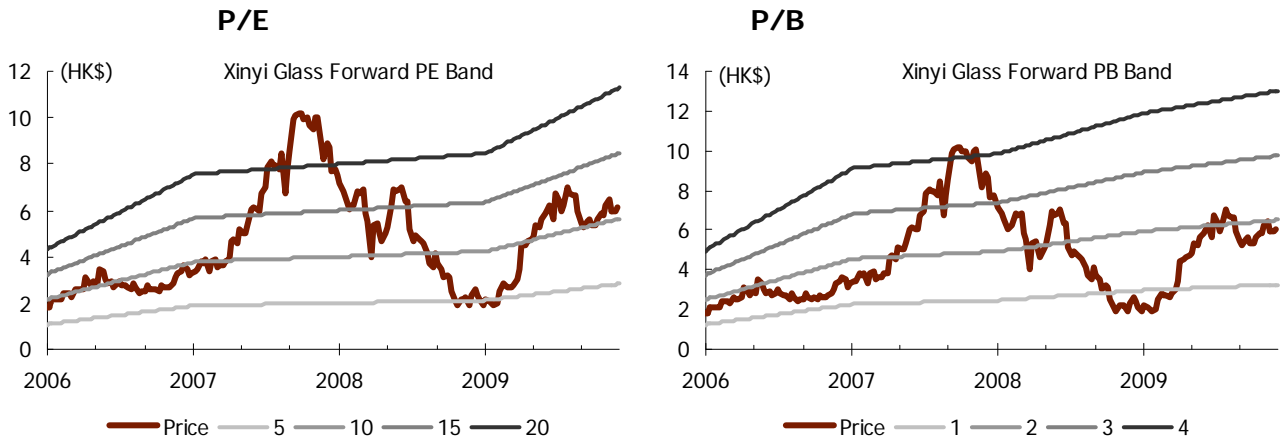
Figure 11: Historical and forecasted financial data

Income Statement(HK\$ mn)	2006A	2007A	2008A	2009E	2010E	2011E
<b>Turnover</b>	1,933	2,775	3,894	4,116	5,214	6,204
Cost of goods sold	-1,233	-1,702	-2,683	-2,859	-3,519	-4,202
Gross profit	700	1,072	1,211	1,256	1,696	2,002
Other revenues	10	18	38	40	54	65
Selling & distribution costs	-211	-286	-318	-288	-339	-403
General & admin expenses	-111	-135	-209	-288	-339	-403
Other gains	22	57	46	130	63	74
EBITDA	508	869	1,000	1,134	1,473	1,731
EBIT	410	726	768	850	1,135	1,334
Net interest income/(expense)	-8	-25	-15	-20	-20	-20
Profit before taxation	402	703	753	831	1,115	1,314
Taxation	-16	-30	-42	-79	-89	-171
Profit after taxation	386	673	711	752	1,026	1,143
Minority interests	2	-2	-2	-2	-2	-3
<b>Net profit</b>	388	671	709	750	1,024	1,141
Weighted EPS (HK\$)	0.24	0.39	0.42	0.42	0.58	0.64
DPS (HK\$)	0.11	0.13	0.20	0.20	0.27	0.31
Balance Sheet(HK\$ mn)	2006A	2007A	2008A	2009E	2010E	2011E
Cash & cash equivalents	162	310	444	629	367	82
Trade & other receivables	569	675	661	751	1,038	1,090
Inventories	371	511	612	584	888	870
<b>Total current assets</b>	<b>1,189</b>	<b>1,559</b>	<b>1,765</b>	<b>2,035</b>	<b>2,384</b>	<b>2,145</b>
Intangible asset	0	81	90	80	79	78
Net fixed assets	2,043	3,718	4,627	5,272	6,036	6,740
Investment	12	12	16	17	17	17
<b>Non-current assets</b>	<b>2,056</b>	<b>3,811</b>	<b>4,733</b>	<b>5,369</b>	<b>6,132</b>	<b>6,835</b>
Trade and other payables	571	626	879	725	1,249	1,109
Current tax liabilities	12	14	22	22	22	22
ST loans	335	424	722	772	822	822
<b>Current liabilities</b>	<b>919</b>	<b>1,065</b>	<b>1,623</b>	<b>1,522</b>	<b>2,094</b>	<b>1,956</b>
Shareholder's funds	2,248	4,045	4,369	5,276	5,813	6,412
Minority interests	-	2	0	22	24	26
Cashflow Statement(HK\$ mn)	2006A	2007A	2008A	2009E	2010E	2011E
<b>Operating cashflow</b>	<b>366</b>	<b>440</b>	<b>1,124</b>	<b>807</b>	<b>1,279</b>	<b>1,357</b>
<b>Investment cashflow</b>	<b>-469</b>	<b>-1,430</b>	<b>-927</b>	<b>-928</b>	<b>-1,100</b>	<b>-1,100</b>
<b>Financing cashflow</b>	<b>124</b>	<b>1,107</b>	<b>-62</b>	<b>305</b>	<b>-440</b>	<b>-542</b>
<b>Cash &amp; cash equivalent EB</b>	<b>162</b>	<b>310</b>	<b>444</b>	<b>629</b>	<b>367</b>	<b>82</b>
Ratios	2006A	2007A	2008A	2009E	2010E	2011E
Gross margin	36%	39%	31%	31%	33%	32%
ROE	17%	17%	16%	14%	18%	18%
ROA	12%	12%	11%	10%	12%	13%
ROCE	17%	16%	15%	13%	16%	16%
Debt/Equity	0.16	0.19	0.16	0.19	0.23	0.21
Current ratio	1.3	1.5	1.1	1.3	1.1	1.1
Quick ratio	0.9	1.0	0.7	1.0	0.7	0.7
Receivables turnover days	89.2	81.8	62.6	62.6	62.6	62.6

Source: Company data, CICC Research



Figure 13: Historical P/E and P/B bands



Source: Bloomberg, CICC Research

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