



BUY

14% ↑side

Target Price: HK\$9.20

Prior TP: HK\$8.88

Price: HK\$8.08

868 HK

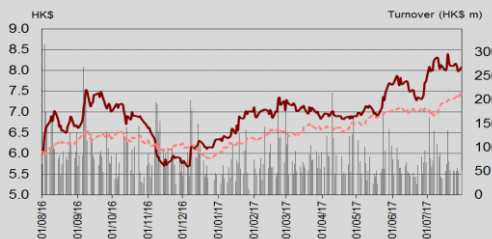
TP Basis: SOTP

Xinyi Glass Holdings

Strong float glass ASP supports growth

XYG announced a solid set of 1H17 results with net profit up 40% YoY, driven mainly by rising float glass ASP and operating leverage, which more than offset the stagnation in the architectural and auto segments. Interim dividend of HK\$0.20/share was declared. We revise up our forecast by 2% following the strong float glass ASP. XYG's target to enlarge float glass capacity by 50% in the coming few years will be a positive catalyst as the company executes the plan. Maintain **BUY with new target price of HK\$9.20.**

Trading Summary



(%)	YTD	1M	3M	12M
Absolute	27.4	4.5	17.1	36.5
Relative to HSI	3.3	(1.5)	6.1	11.7

Shares outstanding (m)	3,998
Free float (%)	52
Market cap. (HK\$ m)	32,305
3M avg. daily turnover (HK\$ m)	68
Net debt/equity (%) (2017E)	33
Major shareholder (%)	
Lee Yin Yee, Chairman	22

Source: Company data, Bloomberg, BOCI Research
Closing prices are as of 31 July 2017

Key Factors for Rating

- **Solid 1H17 results.** XYG's 1H17 net profit came in at HK\$1,636m, up 40% YoY, and accounted for 45% of our full-year forecast. Gross margin expanded 1.7ppts amid the ASP hike, and net margin improved 5.6ppts YoY on operating leverage. We revise up our net profit forecast for XYG by around 2% for each of 2017-19E, primarily to reflect strong float glass ASP, with the national average ASP up 23% YoY in 7M17. We think disciplined supply and decent growth of the property market can keep ASP at high levels in 2H17.
- **Aggressive capacity expansion plan revealed.** XYG shared with investors its goal to enlarge float glass capacity by 50% by 2020 vs. 2017, or adding 2.6mtpa capacity during 2018-20 in SE Asia or Belt & Road (B&R) regions to avoid anti-dumping, take advantage of cheap production costs and tap the booming local demand. Due to lack of project pipeline, our current forecast only reflects an additional 2,000tpd of capacity (Malaysia phase II) to come online by mid-2018, thus the construction of any more production plants will lead to upside to our estimates.

Key Risks to Rating

- Lower-than-expected float glass ASP or higher-than-expected production cost.
- USD strengthening, which would hurt auto glass exports.
- Slowdown in property market, which would negatively affect the demand for architectural glass, and in turn that for float glass.

Valuation

- We maintain our **BUY** rating with a SOTP-based TP of HK\$9.20, derived from (i) 10x target P/E multiple for its non-solar business, and (ii) market valuation for its solar business. Our TP translates into a blended 10x 2017E P/E, on par with the company's 5-year average level. We believe XYG's decent ROE of 25% and dividend yield of 5.4% form a cushion against share price downside.

Investment Summary

Year ended 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (HK\$ m)	11,460	12,848	14,464	15,240	15,928
Change (%)	6	12	13	5	5
Net profit (HK\$ m)	2,113	3,213	3,678	3,977	4,142
Fully diluted EPS (HK\$)	0.430	0.765	0.915	0.990	1.031
Change (%)	51.7	77.8	19.7	8.1	4.1
Consensus EPS (HK\$)	-	-	0.930	1.019	1.039
Previous EPS (HK\$)	-	-	0.899	0.973	1.009
Change (%)	-	-	1.8	1.7	2.1
Core EPS (HK\$)	0.430	0.765	0.915	0.990	1.031
Change (%)	51.7	77.8	19.7	8.1	4.1
Fully diluted P/E (x)	18.8	10.6	8.8	8.2	7.8
Core P/E (x)	18.8	10.6	8.8	8.2	7.8
CFPS (HK\$)	0.67	0.92	0.99	1.03	1.08
P/CF (x)	12.0	8.8	8.1	7.8	7.5
EV/EBITDA (x)	14.7	9.1	7.7	7.0	6.4
DPS (HK\$)	0.265	0.400	0.438	0.468	0.487
Yield (%)	3.3	5.0	5.4	5.8	6.0

Source: Company data, BOCI Research estimates

BOCI Research Limited
Industrials: Basic Materials

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Solid 1H17 Results

XYG's 1H17 revenue increased 13.5% YoY, chiefly contributed by ASP-led growth in float glass sales, although that for auto and architectural glass dropped slightly due largely to currency translation. Despite raw material cost hike, overall gross margin improved 1.7ppts YoY, with that for float glass up 7.8ppts YoY. Net profit surged 40% YoY due to operating leverage as well, and accounted for 45%/44% of our and consensus full-year forecasts.

XYG declared an interim dividend at HK\$0.2/share (+18% YoY), and maintains full-year payout guidance at c.47%. Ex-dividend date is 18 August 2017.

Figure 1. 1H17 Result Review

HK\$ m)	1H17	1H16	YoY (%)	2H16	HoH (%)	% of FY	Comments
Revenue	6,677	5,885	13.5	6,963	(4.1)	46.2	
Float glass	3,619	2,675	35.3	3,835	(5.6)	45.8	Thanks to ASP hike
Auto glass	1,871	1,990	(6.0)	1,758	6.4	48.5	A combined result of (i) RMB/HK\$ translation, (ii) the spin-off of Xinyi HK (8328 HK/NR) in July 2016, (iii) auto glass anti-dumping in Brazil, and (iv) restructuring of a US customer for OEM auto glass.
Architectural glass	1,186	1,220	(2.7)	1,370	(13.4)	44.0	RMB/HK\$ translation
COGS	(4,248)	(3,844)	10.5	(4,345)	(2.3)	47.3	
Float glass	(2,529)	(2,079)	21.6	(2,640)	(4.2)	48.5	
Auto glass	(977)	(1,021)	(4.3)	(892)	9.6	47.9	
Architectural glass	(742)	(744)	(0.3)	(814)	(8.9)	43.0	
Gross profit	2,429	2,041	19.0	2,618	(7.2)	44.3	
Float glass	1,090	596	82.9	1,195	(8.8)	40.4	
Auto glass	894	969	(7.7)	867	3.2	49.1	
Architectural glass	445	476	(6.6)	556	(20.0)	45.9	
Gross margin (%)	36.4	34.7	1.7ppts	37.6	(1.2ppts)		
Float glass (%)	30.1	22.3	7.8ppts	31.2	(1.0ppts)		Thanks to ASP hike
Auto glass (%)	47.8	48.7	(0.9ppts)	49.3	(1.5ppts)		Due to higher float glass price, which is the raw glass for auto and architectural glass.
Architectural glass (%)	37.5	39.0	(1.5ppts)	40.6	(3.1ppts)		
Other income	141	104	36.0	238	(40.6)	46.2	
Other gains-net	(45)	43	(206.0)	116	(139.2)	N/A	Primarily compromised of forex loss of HK\$45m (vs. forex gain of HK\$22m in 1H16)
S&D exp	(334)	(351)	(5.0)	(269)	24.2	50.2	
(% of rev)	(5.0)	(6.0)	0.9ppts	(3.9)	(1.1ppts)		
Admin exp	(586)	(533)	9.9	(669)	(12.4)	43.3	
(% of rev)	(8.8)	(9.1)	(0.8ppts)	(9.6)	0.8ppts		
EBIT	1,605	1,304	37.4	2,034	(21.1)	42.5	
EBIT margin (%)	24.0	22.2	5.1ppts	29.2	(5.2ppts)		
Finance income	23	16	65.2	35	(32.6)	24.2	
Finance costs	(73)	(60)	65.7	(67)	8.3	58.7	
Share of profit of associates	368	312	135.0	250	47.1	57.8	Partially attributable to the 12.5% YoY net profit increase for Xinyi Solar (968 HK/NR), which was a mixed result of (i) surge in EPC services that rode on China's strong solar farm installation at 24GW in 1H17, and (ii) drop in solar glass business as fast capacity expansion has led to sharp retreat in ASP of around 25% YoY to RMB23/sqm in 1H17
PBT	1,923	1,572	48.5	2,252	(14.6)	43.9	
Tax	(285)	(202)	123.2	(405)	(29.5)	40.7	
NCI	(2)	(0)	(305.4)	(2)	(9.0)	68.8	
Attributable net profit	1,636	1,369	40.0	1,844	(11.3)	44.5	
Net margin (%)	24.5	23.3	5.6ppts	26.5	(2.0ppts)		

Source: Company data, BOCI Research estimates

Upward Earnings Revision

We revise up our net profit forecast for approximately 2% in each of 2017-19E on higher ASP assumptions for float glass, although we slightly revise down the sales volume forecasts for auto and low-E glass with respect to their comparably not-so-exciting performance in 1H17, and nudge up production cost estimates mainly on high soda ash cost. We also revise up our capex assumption to HK\$3.0bn from HK\$2.5bn for 2017 according to latest company guidance, which results in higher finance cost forecasts.

Figure 2. Earnings Revisions

(HK\$ m)	Current			Previous			Change (%)		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Revenue	14,464	15,240	15,928	14,105	14,905	15,611	2.5	2.2	2.0
Float glass	7,909	8,488	8,988	7,500	8,049	8,523	5.5	5.5	5.5
Auto glass	3,861	3,977	4,096	3,898	4,054	4,216	(1.0)	(1.9)	(2.9)
Architectural glass	2,694	2,775	2,844	2,707	2,801	2,872	(0.5)	(1.0)	(1.0)
Gross profit	5,486	5,835	6,150	5,315	5,736	6,039	3.2	1.7	1.8
Float glass	2,698	2,917	3,104	2,409	2,667	2,840	12.0	9.4	9.3
Auto glass	1,820	1,903	1,996	1,884	1,994	2,088	(3.4)	(4.6)	(4.4)
Architectural glass	968	1,015	1,050	1,022	1,075	1,111	(5.2)	(5.6)	(5.5)
Gross margin (%)	37.9	38.3	38.6	37.7	38.5	38.7	0.3ppts	(0.2ppts)	(0.1ppts)
Float glass (%)	34.1	34.4	34.5	32.1	33.1	33.3	2.0ppts	1.2ppts	1.2ppts
Auto glass (%)	47.1	47.8	48.7	48.3	49.2	49.5	(1.2ppts)	(1.3ppts)	(0.8ppts)
Architectural glass (%)	35.9	36.6	36.9	37.8	38.4	38.7	(1.8ppts)	(1.8ppts)	(1.8ppts)
EBIT	3,773	4,029	4,264	3,620	3,928	4,131	4.2	2.6	3.2
EBIT margin (%)	26.1	26.4	26.8	25.7	26.4	26.5	0.4ppts	0.1ppts	0.3ppts
Attributable net profit	3,678	3,977	4,142	3,614	3,910	4,055	1.8	1.7	2.1
Net margin (%)	25.4	26.1	26.0	25.6	26.2	26.0	(0.2ppts)	(0.1ppts)	0.0ppts

Source: BOCI Research estimates

Figure 3. Key Assumptions Revision

Year ended 31 Dec (HK\$ m)	Current			Previous			Change (%)		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Volume									
Float glass (m tonnes)	5.2	5.6	5.9	5.2	5.6	5.9	0.0	0.0	0.0
Auto glass - aftermarket (m pieces)	14.6	15.1	15.5	14.8	15.4	16.0	(1.0)	(1.9)	(2.9)
Low-E glass (m sqm)	27.8	28.6	29.4	27.9	28.9	29.6	(0.5)	(1.0)	(1.0)
ASP									
Float glass (HK\$/tonne)	1,886	1,905	1,905	1,788	1,806	1,806	5.5	5.5	5.5
Auto glass (HK\$/piece)	264	264	264	264	264	264	0.0	0.0	0.0
Low-E glass (HK\$/sqm)	97	97	97	97	97	97	0.0	0.0	0.0
Cost									
Float glass (HK\$/tonne)	(994)	(1,000)	(997)	(971)	(966)	(963)	2.4	3.5	3.5
Auto glass (HK\$/pcs)	(140)	(138)	(135)	(136)	(134)	(133)	2.3	2.6	1.6
Architectural glass (HK\$/sqm)	(62)	(61)	(61)	(60)	(60)	(59)	2.9	2.9	2.9

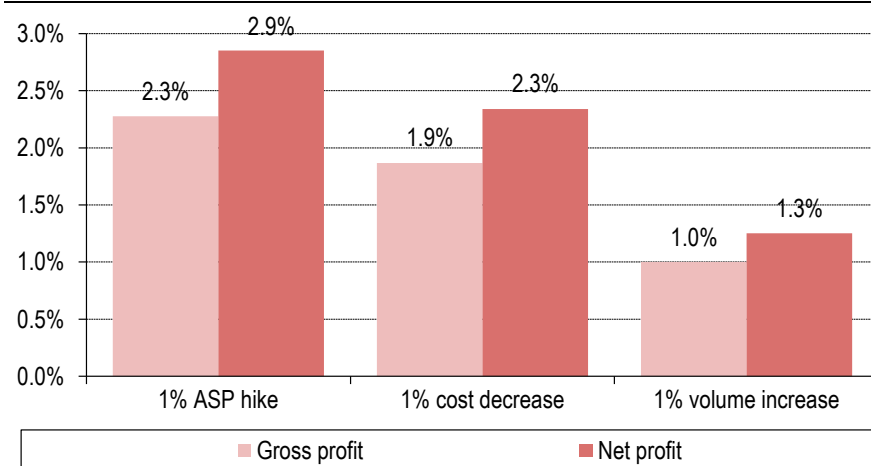
Source: BOCI Research estimates

Aggressive Capacity Target can Bring Upside to our Forecast

With float glass being its unique competitiveness as the largest national player (c.10% market share) with highest quality standards and most diversified product portfolio, XYG targets to enlarge its float glass production capacity by 50% during 2017-20, or adding a total of 2.6mtpa capacity in 2018-20 to an aggregate of 7.9mtpa. The new capacity will mostly be located overseas, such as in SE Asia where it already has a presence, or other B&R countries, to benefit from cheap production costs (gross margin for float glass produced at the new Malaysia plant can be more than 10ppts higher than that produced by domestic plants, according to management), avoid anti-dumping issues, and tap the growing local demand.

Due to lack of project pipeline, we do not yet fully reflect this into our forecast. We currently only expect the 2x1,000tpd production lines in Malaysia to commence operation by mid-2018, which will lead to a 0.3mtpa effective operating capacity addition in 2018/19, respectively. The construction of any more new capacity will create upside to our forecasts. According to our calculation, an addition of one 1,000tpd production line in 2018/19, or a 5.6%/5.3% capacity increment, can improve XYG's net profit by about 7% for each year.

Figure 4. 2017E Gross and Net Profit Sensitivity to Changes in Assumptions



Source: BOCI Research estimates

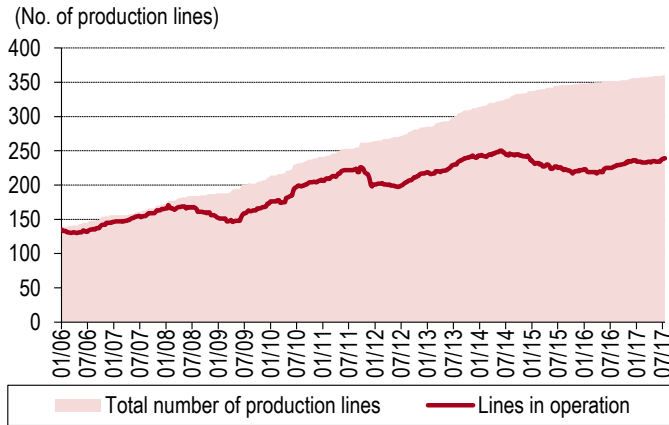
Industry Review

By July 2017, China's float glass production capacity is at 155ktpd, in-line with our expectation. If the temporarily-suspended capacity comes back online or industry average capacity utilisation rate increases as ASP goes up, the oversupply may translate into ASP pressure in 2018E. We have yet to see such a trend. We expect operating capacity to remain at this level throughout the year, and a disciplined supply should act as core support for the healthy D/S dynamic, accompanying the prosperous property market this year with cumulative monthly GFA sold of commodity housing up 16% YoY and cumulative monthly GFA starts up 11% YoY in 1H17.

The average float glass ASP in 7M17 jumped 23% YoY. If ASP remains flat in the last five months of the year, the annual average ASP in 2017 will see a 14% YoY hike. In fact, as 4Q is traditionally the peak season, we see possibility for further ASP upside at that time. We prudently forecast a 16% YoY float glass ASP increase for XYG in 2017.

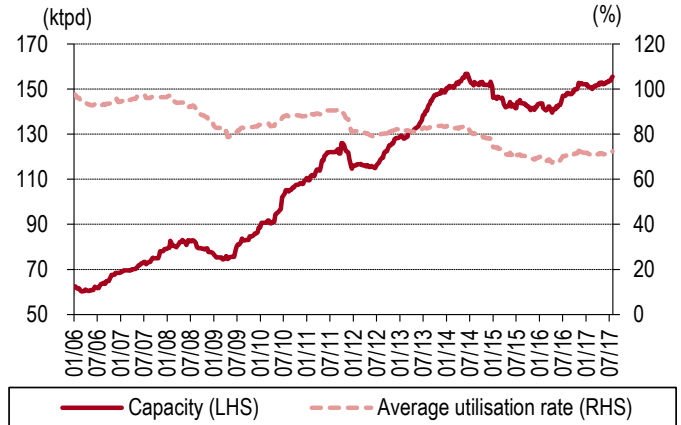
Despite fluctuations, soda ash price has stabilised at around RMB1,600/tonne since April. If the price remains flat in the last five months of the year, the annual average price in 2017 will up 16% YoY. We slightly revise up our production cost estimate for XYG to reflect this. Based on our calculations, a RMB100/tonne price increase for soda ash (c.6.25%) would lead to around a RMB20/tonne increase in float glass production cost (c.2%). For XYG, according to our sensitivity analysis, a 1% change in float glass production cost would have 1.25% impact on net profit.

Figure 5. Total Number of Float Glass Production Lines vs. Number of Operating Lines



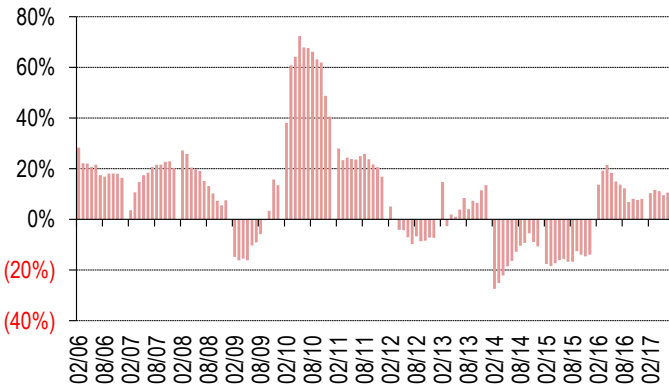
Source: WIND Database

Figure 6. Operating Float Glass Production Capacity and Industry Average Capacity Utilisation Rate



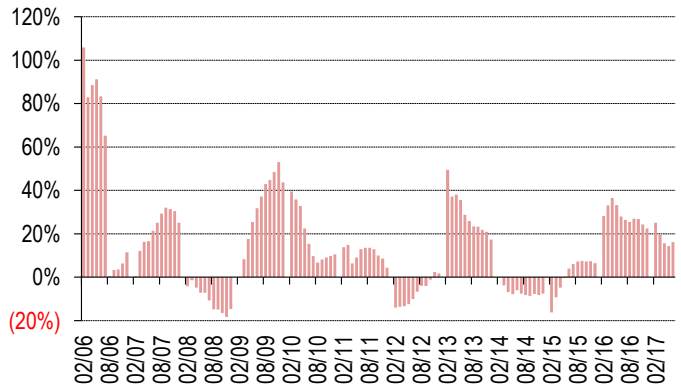
Source: WIND Database

Figure 7. Cumulative Monthly GFA Starts – YoY Change



Source: National Bureau of Statistics

Figure 8. Cumulative Monthly GFA Sold of Commodity Housing – YoY Change



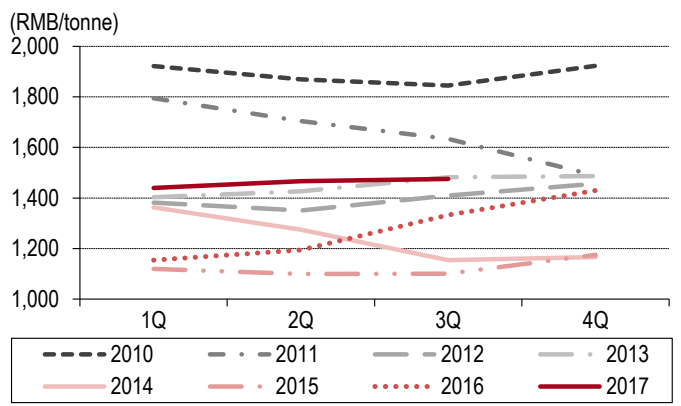
Source: National Bureau of Statistics

Figure 9. Domestic Float Glass ASP

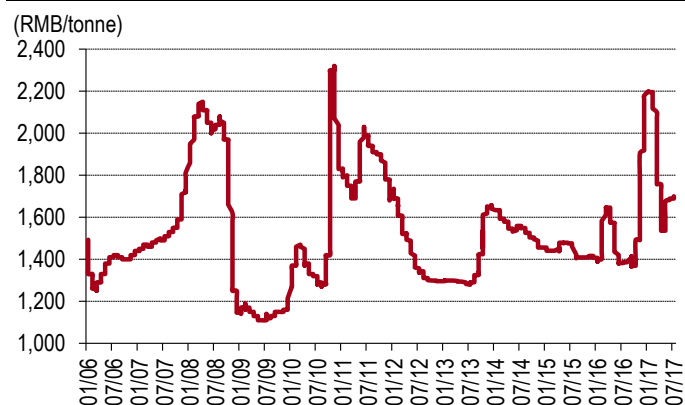


Source: WIND Database

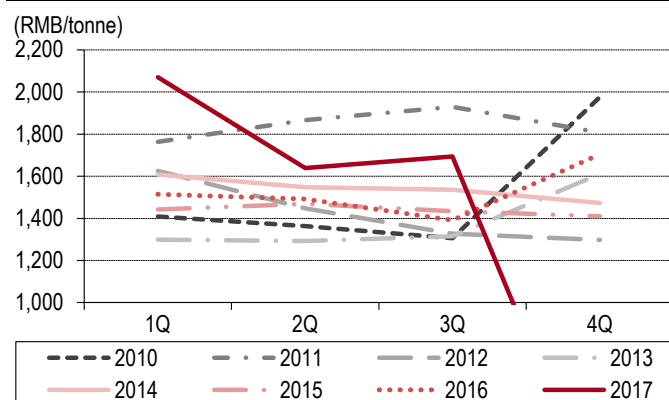
Figure 10. Domestic Float Glass ASP by Quarter



Source: WIND Database

Figure 11. National Average Price of Dense Soda Ash


Source: WIND Database, China Chlor-Alkali Industry Association

Figure 12. National Price of Dense Soda Ash by Quarter


Source: WIND Database, China Chlor-Alkali Industry Association

Maintain BUY with New TP of HK\$9.20

Our new SOTP-based TP of HK\$9.20 is derived from (i) 10x target P/E multiple for its non-solar business, and (ii) market valuation for its solar business.

Our TP translates into a blended 10x 2017E P/E, on par with the XYG's 5-year average level and marking discounts of 9%/49%/49% to the current trading P/E of its H-share/A-share/global peers. We believe XYG's decent ROE of 25% and dividend yield of 5.4% in 2017E form a cushion against share price downside.

In addition, we reckon the gradually improving national average float glass spread, which is the result of both inching-up ASP and normalised raw material cost, is a fundamental support for share price upside. The spread is calculated by ASP – cost of soda ash – cost of natural gas, and stands at around RMB560/tonne at present.

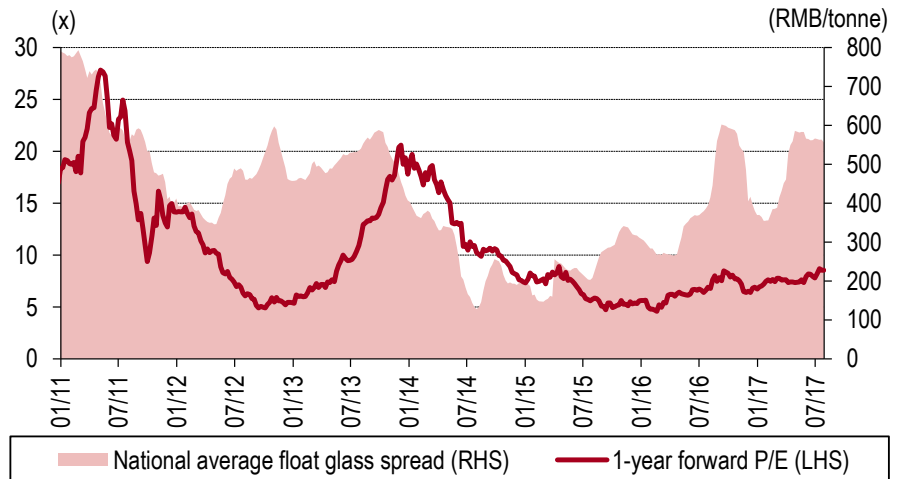
Figure 13. SOTP Valuation

		2017E	2018E	Average	Notes
Non-solar business:					
Net profit of XYG	(HK\$ m)	3,678	3,977	3,828	a
Less: share of profit from XYS	(HK\$ m)	(637)	(738)	(687)	b
Net profit of XYG's non-solar business	(HK\$ m)	3,041	3,239	3,140	c = a + b
Target P/E for XYG's non-solar business	(x)			10.0x	d
Target market cap of XYG's non-solar business	(HK\$ m)			31,404	e = c x d
Solar business:					
Current market cap of XYS (*)	(HK\$ m)			18,262	f
XYG's shareholding of XYS	(%)			29.5%	g
Attributable market cap of XYS to XYG	(HK\$ m)			5,387	h = f x g
SOTP valuation:					
Target market cap of XYG	(HK\$ m)			36,791	TP = e + h
Target price	(HK\$)			9.20	

Source: Bloomberg, BOCI Research estimates

* Based on 31 July 2017 closing prices

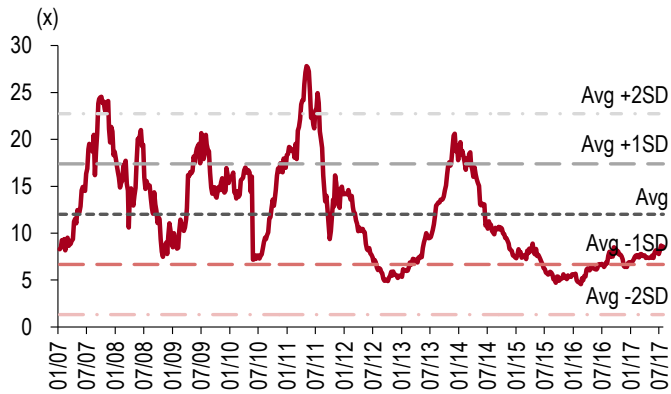
Figure 14. XYG's 1-year Forward P/E vs. National Avg Spread for Float Glass



Source: Bloomberg, WIND Database, BOCI Research estimates

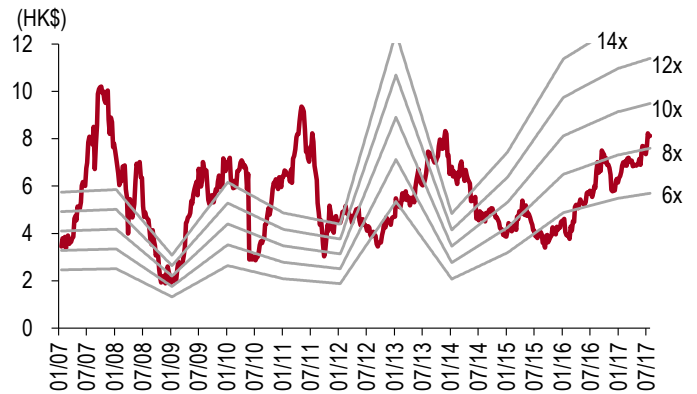
Note: Spread = ASP – Cost of Soda Ash – Cost of Natural Gas, all using national average number

Figure 15. 1-year Forward P/E Range



Source: Bloomberg, BOCI Research estimates

Figure 16. 1-year Forward P/E Band



Source: Bloomberg, BOCI Research estimates

Income Statement (HK\$ m)

Year ended 31 Dec	2015	2016	2017E	2018E	2019E
Revenue	11,460	12,848	14,464	15,240	15,928
Cost of sales	(8,328)	(8,189)	(8,978)	(9,405)	(9,779)
Operating expenses (exclude depreciation & amortisation)	(819)	(996)	(1,094)	(1,063)	(1,044)
EBITDA	2,313	3,664	4,392	4,772	5,106
Depreciation & amortisation	(795)	(827)	(925)	(1,049)	(1,148)
Operating profit (EBIT)	1,518	2,837	3,467	3,723	3,958
Net interest income/(expenses)	(50)	(77)	(28)	(28)	(24)
Other gains/(losses)	912	1,063	943	1,044	1,121
Pre-tax profit	2,380	3,823	4,383	4,739	5,055
Tax on profit	(266)	(607)	(701)	(758)	(910)
Minority interests	0	(3)	(3)	(3)	(4)
Net profit	2,113	3,213	3,678	3,977	4,142
Core net profit	1,734	3,055	3,678	3,977	4,142
EPS (HK\$)	0.524	0.805	0.915	0.990	1.031
Core EPS (HK\$)	0.430	0.765	0.915	0.990	1.031
DPS (HK\$)	0.265	0.400	0.438	0.468	0.487
Revenue growth (%)	6	12	13	5	5
EBIT growth (%)	39	87	22	7	6
EBITDA growth (%)	33	58	20	9	7
EPS growth (%)	55	53	14	8	4
Core EPS growth (%)	52	78	20	8	4

Source: Company data, BOCI Research estimates

Balance Sheet (HK\$ m)

As at 31 Dec	2015	2016	2017E	2018E	2019E
Cash & cash equivalents	1,298	2,763	2,748	2,736	2,840
Receivables	2,381	2,377	2,379	2,507	2,620
Inventories	1,223	1,321	1,394	1,460	1,518
Other current assets	93	76	76	76	76
Total current assets	4,995	6,537	6,597	6,779	7,055
Fixed assets	11,971	11,831	13,933	15,410	16,787
Intangible assets	75	72	72	72	72
Other long-term assets	4,380	5,583	5,904	6,281	6,699
Total long-term assets	16,426	17,486	19,908	21,762	23,558
Total assets	21,422	24,022	26,506	28,541	30,613
Creditors	2,112	2,297	2,417	2,532	2,633
Short-term debt	2,514	3,165	3,165	3,165	3,165
Other current liabilities	333	538	538	538	538
Total current liabilities	4,959	6,000	6,120	6,235	6,336
Long-term borrowings	3,514	4,509	4,718	4,443	4,169
Other long-term liabilities	223	266	266	266	266
Share capital	392	389	400	400	400
Reserves	12,326	12,792	14,933	17,125	19,366
Shareholders' equity	12,718	13,181	15,332	17,525	19,766
Minority interests	7	66	69	72	76
Total liabilities & equity	21,422	24,022	26,506	28,541	30,613
Book value per share (HK\$)	3.24	3.39	3.83	4.38	4.94
Tangible assets per share (HK\$)	3.22	3.37	3.82	4.37	4.93
Net debt/(cash)per share (HK\$)	1.21	1.26	1.28	1.22	1.12

Source: Company data, BOCI Research estimates

Cash-flow Statement (HK\$ m)

Year ended 31 Dec	2015	2016	2017E	2018E	2019E
Pre-tax profit	2,380	3,823	4,383	4,739	5,055
Depreciation & amortisation	795	827	925	1,049	1,148
Net interest expenses	50	77	28	28	24
Change in working capital	375	(218)	44	(79)	(71)
Tax paid	(223)	(342)	(701)	(758)	(910)
Other operating cash flows	(740)	(603)	(761)	(862)	(934)
Cash flow from operations	2,637	3,565	3,917	4,117	4,312
Net purchase of fixed assets	(1,915)	(1,839)	(3,000)	(2,500)	(2,500)
Decrease/(increase) in invest.	240	(762)	0	0	0
Other investing cash flows	155	321	386	431	466
Cash flow from investing	(1,520)	(2,280)	(2,614)	(2,069)	(2,034)
Net increase in equity	1	(122)	60	0	0
Net increase in debt	(18)	1,611	209	(275)	(274)
Dividends paid	(608)	(1,321)	(1,587)	(1,785)	(1,900)
Other financing cash flows	0	56	0	0	0
Cash flow from financing	(625)	225	(1,318)	(2,060)	(2,174)
Change in cash	492	1,510	(15)	(12)	104
Cash at beginning of year	831	1,298	2,763	2,748	2,736
Free cash flow to firm	1,157	1,336	1,400	2,144	2,374
Free cash flow to equity	1,049	2,820	1,484	1,746	1,981

Source: Company data, BOCI Research estimates

Key Ratios

Year ended 31 Dec	2015	2016	2017E	2018E	2019E
Profitability (%)					
EBITDA margin	20.2	28.5	30.4	31.3	32.1
EBIT margin	13.2	22.1	24.0	24.4	24.8
Pre-tax margin	20.8	29.8	30.3	31.1	31.7
Net profit margin	18.4	25.0	25.4	26.1	26.0
Liquidity (x)					
Current ratio	1.0	1.1	1.1	1.1	1.1
Interest coverage	16.8	22.2	27.9	30.0	33.1
Net debt to equity (%)	37.2	37.3	33.5	27.8	22.7
Quick ratio	0.8	0.9	0.9	0.9	0.9
Valuation (x)					
P/E	15.4	10.0	8.8	8.2	7.8
Core P/E	18.8	10.6	8.8	8.2	7.8
Core P/E @ target price	21.4	12.0	10.1	9.3	8.9
P/B	2.5	2.4	2.1	1.8	1.6
P/CF	12.0	8.8	8.1	7.8	7.5
EV/EBITDA	14.7	9.1	7.7	7.0	6.4
Activity ratios					
Inventory days	59.2	56.7	55.2	55.4	55.6
Accounts receivables days	77.5	67.6	60.0	58.5	58.7
Accounts payables days	89.6	98.3	95.8	96.0	96.4
Returns (%)					
Dividend payout ratio	48.9	50.5	47.0	47.0	47.0
Return on equity	16.9	24.8	25.4	24.2	22.2
Return on assets	8.2	13.4	14.6	14.4	14.0
Return on capital employed	8.4	14.6	16.1	15.8	15.5

Source: Company data, BOCI Research estimates

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