

# Xinyi Glass (868.HK)

## Major Business Continues to Expand, Overseas Bases Advances Orderly

### Hong Kong | Industry Goods | Update Report

#### Xinyi Glass Net Profit Soared by Nearly 50% in 2016, High Growth Rate Maintains

Xinyi Glass Holdings Limited announced positive profit alert. It is expected that the annual net profit of Xinyi Glass Holdings Limited will rocket by 40% to 55% YoY by the end of 2016, from HKD2.113 billion in 2015 to HKD2.958 billion to HKD3.275 billion, the second-highest in history.

#### Reduced Costs Contribute to Growth in Results

The Chinese government cut the price of natural gas for industrial use in April and November of 2015, and the low price has maintained in 2016. Being the major beneficiary, Xinyi Glass has consumed less energy but obtained higher efficiency, resulting in the huge increase in the gross profit margin of float glass. The falling in the gross profit margin of float glass has contributed to the rise in that of automotive glass and architectural glass. Meanwhile, Xinyi Solar (00968.HK), of which the company owns 28%, announced a positive profit forecast, increasing its profit contribution to the company.

According to the company's financial report in H1, gross profit margin increased by 8% YoY to 34.7% in H1 2016, a new high over the past five years. The gross profit margin of the three main sectors, float glass, automotive glass and architectural glass, soared to 22.3%, 39.0% and 48.7%, respectively, from 8.7%, 31.7% and 44.1% in H1 2015, with a growth rate of 13.6%, 7.3% and 4.6% YoY, respectively.

#### Major Business Continues to Expand, Overseas Bases Advances Orderly

The company is building a high-quality float glass production line and a low-radiation coated glass production line in Malaysia. With preferential import tariff treatment and shorter transport distance, the new plant will help the company provide competitive products at lower costs, and facilitate the company's expansion in the Southeast Asian market.

The domestic glass production capacity has increased by 5.9% year-to-date. Due to the shortage of supply and rising international crude oil prices, domestic sodium carbonate and natural gas prices rocketed at the end of 2016. We believe the cost bonus running through 2016 is drawing to a close, and the company's low-cost advantage will be weakened in 2017. However, since the Chinese government strictly controls the capacity expansion of the flat glass industry, industry supply and demand are expected to remain in a relatively reasonable range. As a glass giant, Xinyi Glass is looking for M&A deals in China and overseas expansion of float glass business in order to increase the scale effect.

In addition to continuous investment in R&D, introduction of many high value-added glass products, and expenditure cutdown by solar energy cogeneration, Xinyi Glass also plans to strengthen the vertical integration of the industry chain, promoting business models of Xinyi Automobile Glass Hong Kong (08328.HK), its Hong Kong-listed subsidiary, to the entire country, with a view to opening up the direct market of aftermarket automotive glass and laying the foundation for its long-term development..

## Valuation and investment thesis

We expect that the Company will achieve EPS of HK\$0.81/0.87 in 2016/2017, we upgrade the target price to HK\$7.1, equivalent to 8.8/8.2x expected EPS in 2016/2017. Also, the "Accumulate" rating is maintained. (Closing price as at 22 Dec 2016)

28 December 2016

### Accumulate (Maintain)

CMP: HKD 6.11

(Closing price as at 22 Dec 2016)

TARGET: HKD 7.10 (+16%)

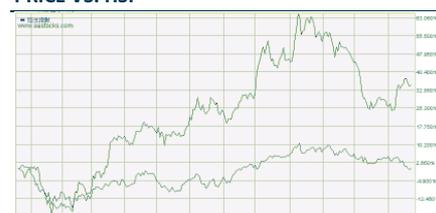
#### COMPANY DATA

O/S SHARES (MN) :	3921
MARKET CAP (HKD MN) :	23777
52 - WK HI/LO (HKD):	7.71 / 3.65

#### SHARE HOLDING PATTERN, %

Realbest Investment Limited	18.49
High Park Technology Limited	6.8

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

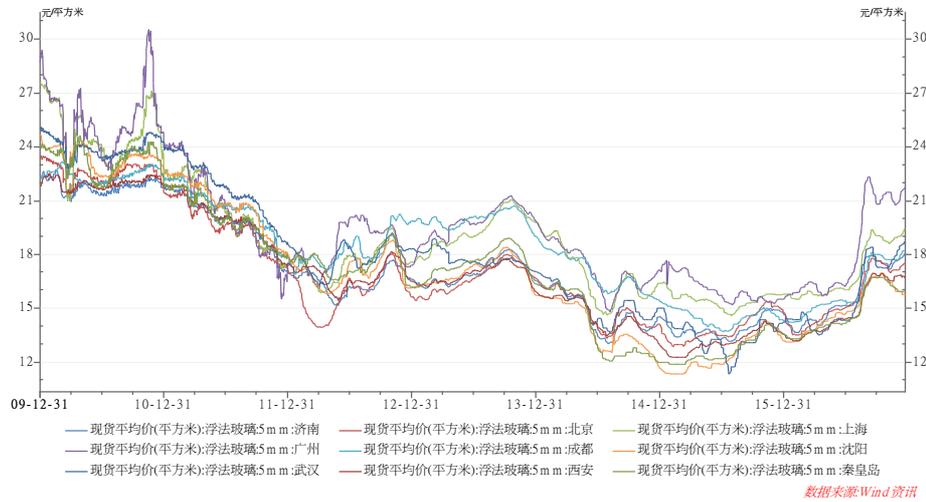
#### KEY FINANCIALS

CNY mn	12/14	12/15	12/16F	12/17F
Net Sales	10,861	11,460	12,853	14,043
Net Profit	1,366	2,113	3,139	3,374
EPS, CNY	0.35	0.54	0.81	0.87
P/E, x	17.5	11.3	7.5	7.0
BVPS, CNY	3.15	3.24	3.45	3.59
P/BV, x	1.9	1.9	1.8	1.7
DPS (CNY)	0.15	0.27	0.35	0.37
Div. Yield (%)	2.5%	4.3%	5.7%	6.1%

Source: Company reports, Phillip Securities Est.

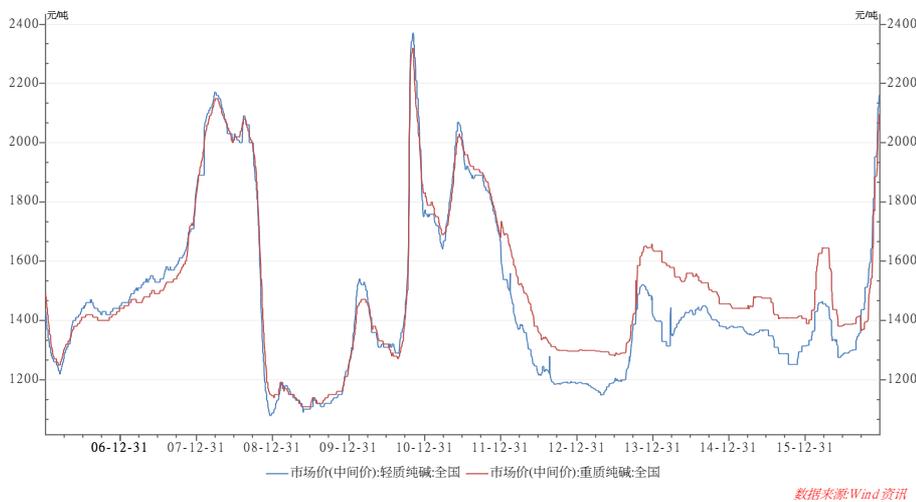
Research Analyst  
**ZhangJing**  
 (+ 86 51699400-103)  
 zhangjing@phillip.com.cn

### Price trend of float glass in China major cities (yuan/m<sup>2</sup>)



Source: Wind, Phillip Securities Hong Kong Research

### Price trend of soda ash in China (yuan/ton)



Source: Wind, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15	FY16F	FY17F
<b>Valuation Ratios</b>							
P/E (X), adj.	17.4	19.3	6.6	17.5	11.3	7.5	7.0
P/B (X)	2.6	2.3	2.0	1.9	1.9	1.8	1.7
Dividend Yield (%)	2.6%	2.5%	4.4%	2.5%	4.3%	5.7%	6.1%
<b>Per share data (HK\$)</b>							
EPS, reported	0.35	0.32	0.92	0.35	0.54	0.81	0.87
EPS, adj.	0.35	0.31	0.89	0.34	0.53	0.81	0.87
DPS	0.16	0.15	0.27	0.15	0.27	0.35	0.37
BVPS	2.31	2.63	3.11	3.15	3.24	3.45	3.59
<b>Growth &amp; Margins (%)</b>							
<b>Growth</b>							
Revenue	29.3%	18.9%	1.5%	9.3%	5.5%	12.2%	9.3%
EBIT	-17.9%	-5.8%	152.5%	-54.6%	46.6%	50.9%	5.7%
Net Income, adj.	-19.5%	-6.1%	196.4%	-61.2%	54.7%	48.6%	7.5%
<b>Margins</b>							
EBIT margin	19.0%	15.0%	37.3%	15.5%	21.6%	29.0%	28.0%
Net Profit Margin	15.4%	12.1%	35.4%	12.6%	18.4%	24.4%	24.0%
<b>Key ratios</b>							
ROE	17.0%	13.1%	32.3%	11.3%	16.9%	24.1%	24.7%
Dividend payout ratio	45.5%	47.3%	29.4%	43.1%	49.2%	43.2%	42.5%
<b>Income Statement (HK\$ mn)</b>							
<b>Revenue</b>	<b>8227</b>	<b>9785</b>	<b>9936</b>	<b>10861</b>	<b>11460</b>	<b>12853</b>	<b>14043</b>
Cost of sales	5,873	7,310	6,799	8,128	8,328	8,360	9,240
Gross profit	2,354	2,475	3,137	2,733	3,133	4,493	4,803
<b>Operating expenses</b>	<b>5,500</b>	<b>1,788</b>	<b>1,251</b>	<b>1,638</b>	<b>1,615</b>	<b>1,799</b>	<b>1,955</b>
Profit from operations	965	1,197	2,207	1,266	1,722	2,901	3,059
Financial cost	32	71	83	91	90	92	95
Net non oper loss	-13	-68	-1,471	-452	-700	-805	-845
Profit before tax	1,526	1,398	3,627	1,593	2,380	3,634	3,843
<b>Tax</b>	<b>262</b>	<b>209</b>	<b>381</b>	<b>228</b>	<b>266</b>	<b>494</b>	<b>469</b>
Profit for the period	1,264	1,189	3,522	1,365	2,114	3,140	3,374
<b>Minority interests</b>	<b>-1</b>	<b>1</b>	<b>0</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Net profit</b>	<b>1,265</b>	<b>1,188</b>	<b>3,522</b>	<b>1,366</b>	<b>2,113</b>	<b>3,139</b>	<b>3,374</b>

Source: PSR

(Financial figures as at 22 December 2016)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock’s risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

**GENERAL DISCLAIMER**

This publication is prepared by Phillip Securities (Hong Kong) Ltd (“Phillip Securities”). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the “Research”) contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient’s own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

**Disclosure of Interest**

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm’s Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

**Availability**

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited (“PSHK”) believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product’s risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2016 Phillip Securities (Hong Kong) Limited

**Contact Information (Regional Member Companies)**

## SINGAPORE

**Phillip Securities Pte Ltd**

250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

[www.phillip.com.sg](http://www.phillip.com.sg)

## INDONESIA

**PT Phillip Securities Indonesia**

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

[www.phillip.co.id](http://www.phillip.co.id)

## THAILAND

**Phillip Securities (Thailand) Public Co. Ltd.**

15th Floor, Vorawat Building, 849 Silom Road,  
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

[www.phillip.co.th](http://www.phillip.co.th)

## UNITED STATES

**Phillip Futures Inc.**

141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

## MALAYSIA

**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3, Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

[www.poems.com.my](http://www.poems.com.my)

## CHINA

**Phillip Financial Advisory (Shanghai) Co. Ltd.**

No 436 Heng Feng Road, Green Tech Tower Unit 604  
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

[www.phillip.com.cn](http://www.phillip.com.cn)

## FRANCE

**King & Shaxson Capital Ltd.**

3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

[www.kingandshaxson.com](http://www.kingandshaxson.com)

## AUSTRALIA

**PhillipCapital Australia**

Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

## HONG KONG

**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

[www.phillip.com.hk](http://www.phillip.com.hk)

## JAPAN

**Phillip Securities Japan, Ltd**

4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

[www.phillip.co.jp](http://www.phillip.co.jp)

## INDIA

**PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,  
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

[www.phillipcapital.in](http://www.phillipcapital.in)

## UNITED KINGDOM

**King & Shaxson Ltd.**

6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

[www.kingandshaxson.com](http://www.kingandshaxson.com)

## SRI LANKA

**Asha Phillip Securities Limited**

Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)