



Rating
Hold

Asia
Hong Kong

Resources
Construction Materials

Company
Xinyi Glass

Reuters 0868.HK Bloomberg 868 HK Exchange HSI Ticker 0868

Date
31 July 2017

Results

Price at 28 Jul 2017 (HKD)	7.98
Price target - 12mth (HKD)	7.20
52-week range (HKD)	8.39 - 5.69
HANG SENG INDEX	26,979

1H17 missed on lower topline; Hold

1H17 results missed on lower construction sales; maintain Hold

Xinyi Glass released 2017 interim result with NPAT of HKD1.6b, representing 47% and 44% of DBe and consensus, respectively. Top line increased 13% YoY to HKD6.7b in 1H17, mainly thanks to strong float glass growth of 35% YoY. However, revenue from construction glass decreased 13% HoH and 3%YoY, a bit off our estimates as we expected a higher utilization this year post its c.20% new capacity expansion in 2016. Overall gross margin in 1H17 is actually 2ppt higher than our full year estimate of 34% as we indeed expect margin pressure towards year end. Results details are shown in below Figure 1.

Weaker topline on RMB appreciation and lower sales in construction glass

Xinyi held an analyst meeting after it released its interim results this afternoon. According to management, the 4% HoH decrease in revenue is mainly attributable to RMB appreciation in the first half (Xinyi's reporting currency is in HKD and more than 70% of its revenue is in CNY). Taking a closer look, auto and float glass sales were generally in line with our expectation, reaching 51% and 47% of DBe, respectively. However, construction glass sales only achieved 30% of our estimate, indicating a lower utilization rate or price.

Float glass is the strategy focus in the long run, with capacity growing 50% by 2020

During the analyst meeting, Mr. Dong mentioned that they expect float glass capacity to grow by 50% by 2020, with major focus in regional markets. Moreover, they are not just doing raw float glass, but ultra clean, stained glass etc. Meanwhile, float glass gross margin in Malaysia is still very decent, likely 40% based on company's comments.

Maintain our Hold rating; risks

Our HKD7.2 target price is based on a combination of DCF methodology (WACC of 8.3%) and the market cap of Xinyi Solar. The stock is currently trading at 9.2x/9.7x 2017/18 DBe EPS and 2.1x/1.9x 2017/18 DBe BVPS. We remain our cautious view on Xinyi given the potential weakening in China property sales (below Figure 3) and the sustainability of higher margin in Malaysia, as discussed in our earlier note *"Weakening momentum in China property sales; maintain Hold_published on 14 July 2017"*. Risks include stronger or weaker property sales, and higher or lower raw materials price.

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	7.7	15.7	33.9
HANG SENG INDEX	5.0	9.6	21.7

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	24.5
Net debt/equity (%)	31.4
Book value/share (HKD)	3.85
Price/book (x)	2.07
Net interest cover (x)	131.2
Operating profit margin (%)	22.4

Source: Deutsche Bank



Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (HKDm)	11,460.3	12,848.4	15,385.8	15,758.9	16,242.1
EBITDA (HKDm)	2,894.0	4,164.5	4,286.8	4,048.1	3,943.0
Reported NPAT (HKDm)	2,113.1	3,213.4	3,446.0	3,279.3	3,183.9
Reported EPS FD(HKD)	0.52	0.80	0.86	0.82	0.80
DB EPS FD(HKD)	0.44	0.80	0.86	0.82	0.80
DB EPS growth (%)	-	82.6	7.2	-4.8	-2.9
PER (x)	9.5	7.1	9.2	9.7	10.0
EV/EBITDA (x)	6.4	5.5	7.4	7.6	7.3
DPS (net) (HKD)	0.26	0.42	0.43	0.40	0.33
Yield (net) (%)	6.3	7.3	5.3	5.1	4.1

Source: Deutsche Bank estimates, company data

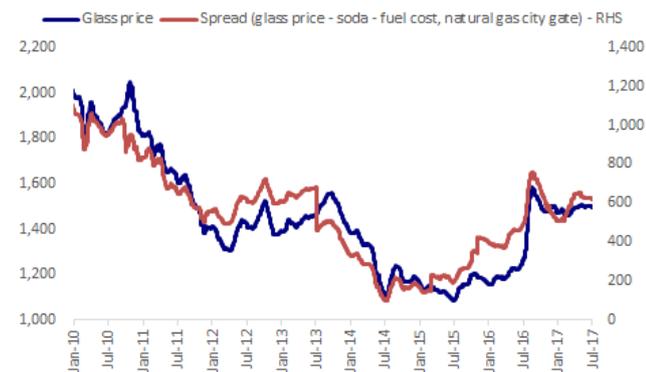


Figure 1: Xinyi 1H17 financial summary

HKD mn (HKFRSs)		1H17	1H16	YoY	2H16	HoH	DBe	% of Dbe	Cons	% of Cons.
Revenue	HKDm	6,677	5,885	13%	6,963	-4%	15,386	43%	14,590	46%
Automobile glass	HKDm	1,871	1,990	-6%	1,758	6%	3,648	51%		
Construction glass	HKDm	1,186	1,220	-3%	1,370	-13%	3,899	30%		
Float glass (from external customers)	HKDm	3,619	2,675	35%	3,835	-6%	7,695	47%		
GP	HKDm	2,429	2,041	19%	2,618	-7%	5,253	46%	5,382	45%
GPM	%	36.4%	34.7%	+1.7ppt	37.6%	-1.2ppt	34.1%	+2.2ppt	36.9%	-0.5ppt
Automobile glass	%	47.8%	48.7%	-0.9ppt	49.3%	-1.5ppt	44.3%	+3.5ppt		
Construction glass	%	37.5%	39.0%	-1.5ppt	40.6%	-3.1ppt	34.4%	+3.1ppt		
Float glass (from external customers)	%	30.1%	22.3%	+7.8ppt	31.2%	-1.0ppt	29.9%	+0.2ppt		
SG&A	HKDm	(920)	(885)	4%	(938)	-2%	(2,185)	42%		
EBIT	HKDm	1,605	1,304	23%	2,034	-21%	3,449	47%	3,614	44%
NPAT	HKDm	1,636	1,369	19%	1,844	-11%	3,446	47%	3,721	44%
Other financials										
Net gearing ratio	%	41.6%	36.2%	+5.4ppt	37.1%	+4.5ppt	42.2%	-0.6ppt		
Inventory days	days	62	62	+0 days	57	+5 days	50	+12days		
AR days	days	52	49	+3 days	41	+11days	40	+12days		
AP days	days	37	48	-11days	42	-5 days	42	-5 days		
Operational data										
Glass price (incl VAT)	RMB/t	1,486	1,192	25%	1,446	3%				

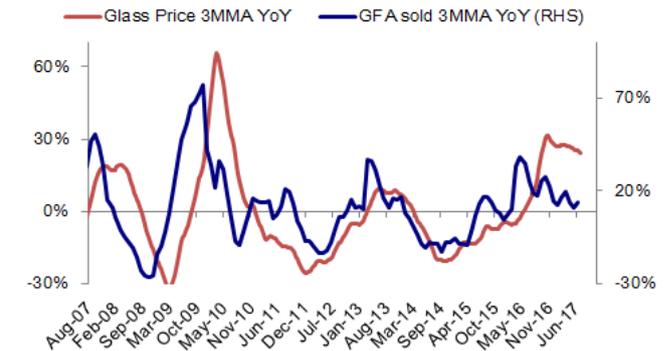
Source: Deutsche Bank, Bloomberg Finance LP, GlassInfo, company info

Figure 2: Glass price vs. spread (RMB/t)



Source: Deutsche Bank, GlassInfo, WIND

Figure 3: Glass price vs. GFA sold



Source: Deutsche Bank, GlassInfo, WIND

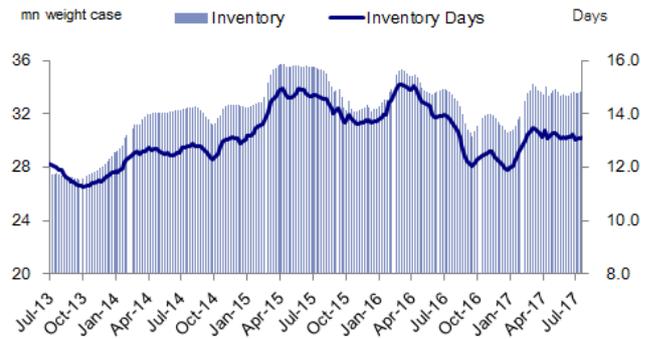


Figure 4: Glass producers' utilization rate



Source: Deutsche Bank, GlassInfo

Figure 5: China glass inventory



Source: Deutsche Bank, GlassInfo



Model updated: 14 July 2017

Running the numbers

Asia

Hong Kong

Construction Materials

Xinyi Glass

Reuters: 0868.HK

Bloomberg: 868 HK

Hold

Price (28 Jul 17) HKD 7.98

Target Price HKD 7.20

52 Week range HKD 5.69 - 8.39

Market cap (m) HKDm 31,057
USDm 3,976.2

Company Profile

Xinyi Glass Holdings Ltd, through its subsidiaries, produces a variety of processed glass products for automobile, construction and household applications. The Company also tenders for glass curtain wall projects and conducts installation service of glass curtain wall in China.

Price Performance



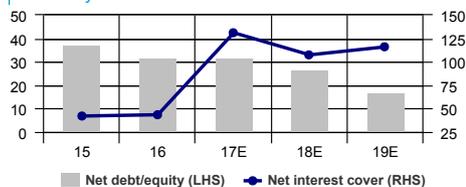
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017E	2018E	2019E
DB EPS (HKD)	0.44	0.80	0.86	0.82	0.80
Reported EPS (HKD)	0.52	0.80	0.86	0.82	0.80
DPS (HKD)	0.26	0.42	0.43	0.40	0.33
BVPS (HKD)	3.2	3.4	3.8	4.3	4.8
Weighted average shares (m)	3,922	3,882	3,892	3,892	3,892
Average market cap (HKDm)	16,360	22,067	31,057	31,057	31,057
Enterprise value (HKDm)	18,563	23,043	31,909	30,853	28,763

Valuation Metrics

P/E (DB) (x)	9.5	7.1	9.2	9.7	10.0
P/E (Reported) (x)	8.0	7.1	9.2	9.7	10.0
P/BV (x)	1.41	1.87	2.07	1.86	1.67
FCF Yield (%)	4.4	8.3	3.6	5.9	8.2
Dividend Yield (%)	6.3	7.3	5.3	5.1	4.1
EV/Sales (x)	1.6	1.8	2.1	2.0	1.8
EV/EBITDA (x)	6.4	5.5	7.4	7.6	7.3
EV/EBIT (x)	8.8	6.9	9.3	9.8	9.6

Income Statement (HKDm)

Sales revenue	11,460	12,848	15,386	15,759	16,242
Gross profit	3,133	4,659	5,253	4,992	4,907
EBITDA	2,894	4,165	4,287	4,048	3,943
Depreciation	781	827	838	906	945
Amortisation	0	0	0	0	0
EBIT	2,113	3,338	3,449	3,142	2,998
Net interest income/(expense)	-50	-77	-26	-29	-26
Associates/affiliates	317	563	674	785	813
Exceptionals/extraordinary	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	2,380	3,823	4,097	3,899	3,785
Income tax expense	266	607	651	619	601
Minorities	0	3	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	2,113	3,213	3,446	3,279	3,184
DB adjustments (including dilution)	-337	0	0	0	0
DB Net profit	1,776	3,213	3,446	3,279	3,184

Cash Flow (HKDm)

Cash flow from operations	2,637	3,565	3,603	3,345	3,251
Net Capex	-1,913	-1,738	-2,500	-1,500	-700
Free cash flow	723	1,827	1,103	1,845	2,551
Equity raised/(bought back)	1	-122	0	0	0
Dividends paid	-608	-1,321	-1,654	-1,574	-1,274
Net inc/(dec) in borrowings	-18	1,611	0	0	0
Other investing/financing cash flows	369	-531	0	0	0
Net cash flow	467	1,465	-551	271	1,277
Change in working capital	375	-218	-7	-55	-65

Balance Sheet (HKDm)

Cash and other liquid assets	1,298	2,763	2,212	2,483	3,760
Tangible fixed assets	11,971	11,831	13,521	14,142	13,923
Goodwill/intangible assets	1,281	1,193	1,190	1,187	1,184
Associates/investments	2,535	3,258	3,932	4,717	5,530
Other assets	4,337	4,978	5,178	5,281	5,389
Total assets	21,422	24,022	26,032	27,810	29,786
Interest bearing debt	6,028	6,930	6,930	6,930	6,930
Other liabilities	2,668	3,845	4,063	4,136	4,201
Total liabilities	8,696	10,775	10,993	11,066	11,131
Shareholders' equity	12,718	13,181	14,973	16,678	18,588
Minorities	7	66	66	66	66
Total shareholders' equity	12,726	13,247	15,039	16,744	18,654
Net debt	4,730	4,167	4,718	4,448	3,171

Key Company Metrics

Sales growth (%)	nm	12.1	19.7	2.4	3.1
DB EPS growth (%)	na	82.6	7.2	-4.8	-2.9
EBITDA Margin (%)	25.3	32.4	27.9	25.7	24.3
EBIT Margin (%)	18.4	26.0	22.4	19.9	18.5
Payout ratio (%)	48.7	50.4	48.0	48.0	40.0
ROE (%)	16.9	24.8	24.5	20.7	18.1
Capex/sales (%)	16.7	13.7	16.2	9.5	4.3
Capex/depreciation (x)	2.4	2.1	3.0	1.7	0.7
Net debt/equity (%)	37.2	31.5	31.4	26.6	17.0
Net interest cover (x)	42.1	43.4	131.2	107.5	116.1

Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Xinyi Glass	0868.HK	8.08 (HKD) 31 Jul 2017	6, 9, 13, 14

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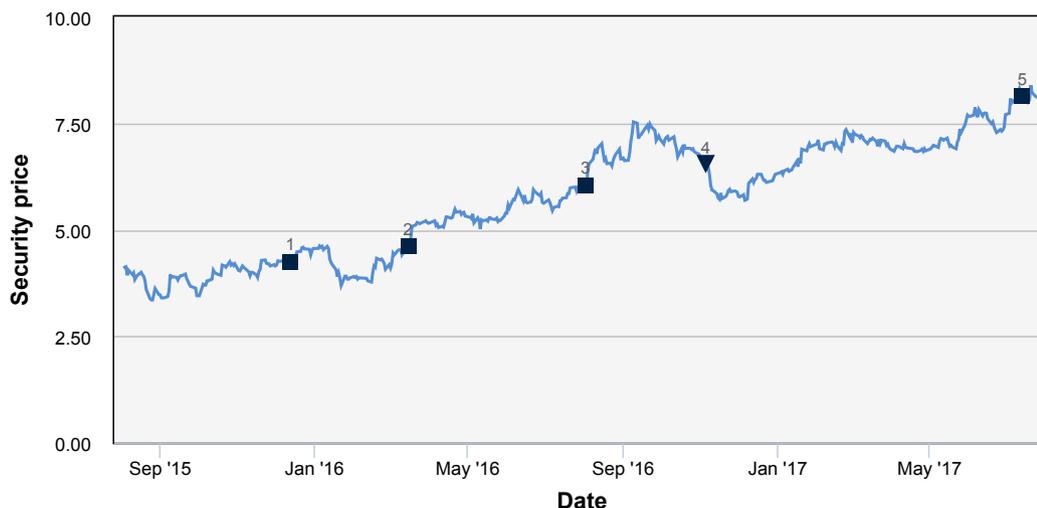
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Historical recommendations and target price. Xinyi Glass (0868.HK)

(as of 07/28/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	12/14/2015	Buy, Target Price Change HKD 5,40 Sharon Ding	4.	11/06/2016	Downgraded to Hold, Target Price Change HKD 6,50 Sharon Ding
2.	03/16/2016	Buy, Target Price Change HKD 5,60 Sharon Ding	5.	07/14/2017	Hold, Target Price Change HKD 7,20 Sharon Ding
3.	08/03/2016	Buy, Target Price Change HKD 7,00 Sharon Ding			

Equity Rating Key

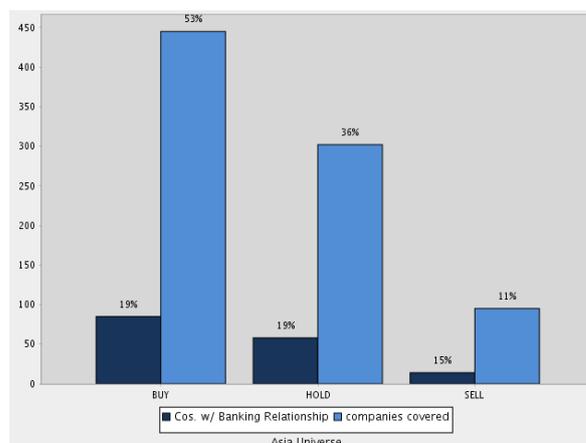
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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