

Xinyi Glass

Lifting PT to HK\$13 - Strong demand and muted float glass expansion

Xinyi Glass (XYG) is one of China's largest and most diversified glass producers. The company reported results on Feb 26, which showed strong sales growth of 14.6% y/y for FY17 (16% y/y for 2H17), due mainly to strong float glass demand and a surge in float glass prices in 2H17. We remain OW and increase our Dec18PT to HK\$13.

- New expansion outside of China.** One of the most positive news is that XYG is planning to add capacity only outside of China. The plan is to add 2 more lines in Malaysia and XYG has signed an agreement in principle with the government of Ontario province in Canada for potentially two more. The positive impact is that XYG is still finding it difficult to find suitable licenses to expand in China (and we believe other operators as well), which we believe should limit industry supply in the foreseeable future. Expansion to Malaysia is mainly to take advantage of the low natural gas costs as well as service the growing SE Asian and Middle East markets. The expansion in North America opens up a new market that was previously too far to be serviced by XYG due to transportation costs.
- Lowering margins but increasing PT to HK\$13.** We lower our FY18 and FY18 earnings estimates to reflect the performance in 2017 (mainly slightly lower GPM as well as higher marketing costs). However, many of the positive developments (such as new float lines being added outside of China) should contribute to earnings only after 2019E. Overall, our long term (to 2025) DCF valuation is increased to HK\$13 (prev. HK\$12) due to the new lines being added outside of China.
- Price, valuation, risks.** Our revised PT implies 10.6x CY19 PE. Key risks are falling demand for construction glass that could result from a cooling property market in China and further weakness in PV glass demand from Europe.

Overweight

0868.HK, 868 HK

Price: HK\$11.94

▲ **Price Target: HK\$13.00**
 Previous: HK\$12.00

China

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Price Performance



Xinyi Glass (Reuters: 0868.HK, Bloomberg: 868 HK)

HK\$ in mn, year-end Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue (HK\$ mn)	12,848	14,728	16,813	19,038	21,647
Net Profit (HK\$ mn)	3,216	4,014	4,462	4,956	5,453
EPS (HK\$)	0.80	1.00	1.11	1.23	1.36
DPS (HK\$)	0.40	0.45	0.56	0.62	0.68
Revenue growth (%)	12.1%	14.6%	14.2%	13.2%	13.7%
EPS growth (%)	48.3%	24.8%	11.2%	11.1%	10.0%
ROCE	13.5%	13.6%	12.7%	12.9%	13.5%
ROE	24.8%	25.6%	21.8%	20.7%	20.5%
P/E (x)	14.9	12.0	10.8	9.7	8.8
P/BV (x)	3.6	2.6	2.1	1.9	1.7
EV/EBITDA (x)	12.2	10.5	9.1	8.2	7.3
Dividend Yield	3.4%	3.8%	4.7%	5.2%	5.7%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Shares O/S (mn)	3,687
Market Cap (HK\$ mn)	44,020
Market Cap (\$ mn)	5,627
Price (HK\$)	11.94
Date Of Price	26-Feb-18
Free Float(%)	45.8%
3M - Avg daily vol (mn)	15.90
3M - Avg daily val (HK\$ mn)	165.13
3M - Avg daily val (\$ mn)	21.1
HSI	3,1267.17
Exchange Rate	7.82
Price Target End Date	31-Dec-18
Price Target (HK\$)	13.00

See page 11 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
<ul style="list-style-type: none"> Price of float glass improving after the slack 1Q season More information on new electric (LCD) glass business to indicate sales and profit contribution Finalization of new downstream solar projects 	<ul style="list-style-type: none"> A rise in float glass price higher than our expectations driven by strong construction demand New customers for the electric glass business is of a better quality than what we expect Faster completion of new electric glass lines to boost sales 	<ul style="list-style-type: none"> Further weakness in PV glass demand from Europe Falling demand for construction and float glass that may result from a cooling property market in China

Key financial metrics	FY17	FY18E	FY19E	FY20E
Revenues (LC)	14,728	16,813	19,038	21,647
Revenue growth (%)	14.6%	14.2%	13.2%	13.7%
EBITDA (LC)	4,699	5,443	6,113	6,864
EBITDA margin (%)	31.9%	32.4%	32.1%	31.7%
Tax rate (%)	15%	15%	15%	15%
Net profit (LC)	4,014	4,462	4,956	5,453
EPS (LC)	1.00	1.11	1.23	1.36
EPS growth (%)	24.8%	11.2%	11.1%	10.0%
DPS (LC)	0.45	0.56	0.62	0.68
BVPS (LC)	4.54	5.66	6.28	6.96
Operating cash flow (LC mn)	6,401	4,359	4,939	5,546
Free cash flow (LC mn)	1,785	1,399	1,844	2,150
Interest cover (x)	49	76	74	76
Net margin (%)	27.3%	26.5%	26.0%	25.2%
Sales/assets (X)	0.54	0.51	0.51	0.54
Debt/equity (%)	46.2%	37.1%	33.5%	30.2%
Net debt/equity (%)	29.6%	25.8%	24.7%	23.1%
ROE (%)	26%	22%	21%	21%

Key model assumptions	FY17E	FY18E	FY19E	FY20E
Auto glass capacity (m)	17.8	18.1	19.0	20.0
Float glass capacity (mn tonnes)	6.5	6.7	7.4	8.6
Float glass price (HK\$/ton)	1,808	2,025	2,127	2,127

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
Sensitivity to	FY17E	FY18E	FY17E	FY18E
5% chg in float glass price	9%	9%	8%	8%
5% chg in fuel cost	-2%	-2%	-2%	-2%
5% chg in wage	-3%	-3%	-2%	-2%
1% chg in GM	4%	4%	3%	3%

Source: J.P. Morgan estimates.

Peer valuation comparison

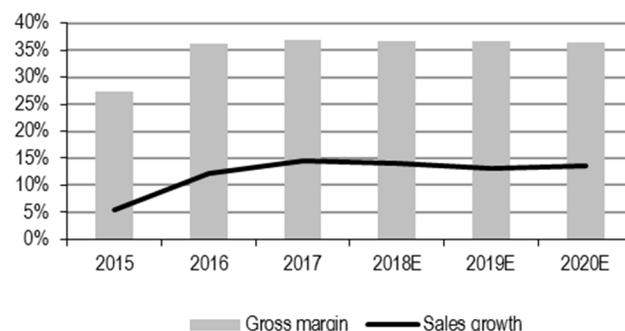
Company Name	Code	Price (TP)	MCAP US\$MM	Vol US\$mn	3M Chg	P/E 17e (x)	PE 18e (x)	ROE (%)	P/B (x)	Yld (%)
CHINA STATE CONS	3311 HK	10.9	7,030.0	13.1	5.0	8.0	6.8	22.0	1.4	3.0
ND PAPER	2689 HK	12.8	7,671.0	36.5	(1.4)	8.9	6.4	21.3	1.8	0.8
LM PAPER	2314 HK	8.9	5,130.4	11.5	(0.6)	7.7	6.4	13.4	2.4	2.3
XINYI GLASS HOLD	868 HK	11.9	6,150.6	22.8	35.7	12.0	10.8	24.8	2.1	3.4
HAITIAN	1882 HK	23.4	4,788.0	5.6	(1.7)	15.2	12.1	18.1	2.5	2.0
KINGBOARD CHEM	148 HK	40.5	5,530.5	10.1	(10.7)	7.6	6.4	13.5	0.9	3.2
CHINA LESSO	2128 HK	5.3	2,096.1	3.4	3.9	6.3	6.0	18.3	1.0	3.5
KB LAM	1888 HK	13.8	5,435.2	9.7	10.6	9.6	9.2	31.5	2.0	8.1
Average						9.1	7.8	18.9	1.7	4.1

Source: Company data, Bloomberg, J.P. Morgan estimates. Share prices are as of intraday price of 26 Feb 2018.

Valuation and price target basis

Our PT is derived on a DCF based valuation with a WACC of 11.4% and a terminal growth rate of 2%

Sales growth and GPM trends



Source: Bloomberg, Company and J.P. Morgan estimates.

JPM vs. consensus, change in estimates

EPS (LC)	FY18E	FY19E
JPM old	1.21	1.35
JPM new	1.11	1.23
% chg	-9%	-9%
Consensus	1.10	1.20

Source: Bloomberg, J.P. Morgan estimates.

Takeaways from analyst briefing

Good opportunities for global expansion. XYG mentioned that the Chinese government is still restricting the capacity of energy consumption industries such as float glass production. The company sees strong demand in North America, which imported over 2.1m tonnes of float glass, which is equivalent to the production of about 10 float glass lines. Domestic production in a region with low cost glass could offer a competitive supply to replace imports.

Plan to expand float production more than 50% by 2020. XYG mentioned that it plans to expand its float capacity by more than 50% to more than 8m tons of production. While we expect a small portion for these new lines would be in China, management has not provided many details. This indicates to us that there are still many uncertainties in obtaining licenses for new lines, particularly in attractive coastal provinces.

2017 results review

- **Sales mostly in line.** FY17 sales were 3% below our expectations due mainly to a 5% lower than expected float glass sales. GPM of 37% implied 2HFY17 GPM of 38%.
- **Gains on property revaluation.** XYG achieved a HK\$316m revelation gains on property, which resulted in EBIT higher than our expectations. Income from associate XYS was lower than expected resulting in overall FY17 net profit being 6% below our expectations.
- **Operations fairly in line.** While the results for FY17 were lower than our expectations, we note that our FY17 EPS was about 13% higher than consensus. Excluding the gain on revaluation, the results was likely similar (within 3% of consensus). We believe the strong price for float glass (see chart below) even during the seasonally low Jan – Feb period should offer support to sentiment for XYG.

Table 1: FY17 results review

FY results (HK\$ mn)	FY16A	FY17A	Y/Y	FY17E	Var.
Turnover*	12,848	14,728	14.6%	15,177	-3%
Gross profit	4,659	5,444	16.9%	5,743	-5%
GPM*	36.3%	37.0%		37.8%	
EBIT	3,337	4,093	22.7%	3,994	2%
EBITM	26.0%	27.8%		26.3%	
Net profit	3,213	4,014	24.9%	4,261	-6%
NP Margin	25.0%	27.3%		28.1%	
EPS	0.82	1.00	21.8%	1.06	-6%

Source: J.P. Morgan estimates; company data.

Float glass price is strong even during holidays

The surprising strength of the float glass price in China reflects above average demand and a lack of new capacity, especially in coastal regions. We expect a 2% increase in float glass margin in 2018 compared to 2017.

Figure 1: Price of float glass in China



Source: Bloomberg.

Lowering margins but lifting PT to HK\$13

We lower our FY18 and FY19 earnings estimates to reflect the performance in 2017 (mainly slightly lower GPM as well as higher marketing costs) However, much of the positive developments (such as new float lines being added outside of China) should contribute to earnings only after 2019E. Overall, our long term (to 2025) DCF valuation is lifted to HK\$13 (prev. HK\$12) due to the new lines being added outside of China.

Table 2: Earnings Revisions

Year to Dec (HKDm)	New		Old		Change	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Turnover	16,813	19,038	17,721	20,021	-5.1%	-4.9%
Gross profit	6,167	6,962	6,560	7,433	-6.0%	-6.3%
EBIT	4,319	4,883	4,573	5,185	-5.6%	-5.8%
Net profit	4,462	4,956	4,881	5,439	-8.6%	-8.9%
EPS (HKD)	1.11	1.23	1.21	1.35	-8.6%	-8.9%
Assumptions						
Gross margin	36.7%	36.6%	37.0%	37.1%	-0.3%	-0.6%

Source: J.P. Morgan estimates

Valuation and share price analysis

DCF valuation

Our Dec-18 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.3 (Bloomberg Beta is 1.3). Accordingly, WACC is assumed at 11.4%. We have estimated free cash flow for XYG until 2025 and assume a terminal growth rate of 2%. The terminal growth is based on the annual growth rate expected in 2025 (the final year of the estimate period) subject to a minimum of 2% and a maximum of 6% depending on the nature of the industry and the level of maturity in China.

We also analyzed the DCF price sensitivity to WACC, and the terminal multiple.

Table 3: XYG – base-case DCF analysis

HK\$ in millions, year-end Dec	2018E	2019E	2020E	2021E	2022E	2023E	2024E	Terminal
Cash flow estimates								
Sales	16,813	19,038	21,647	24,346	27,137	30,019	32,697	35,408
EBIT	4,319	4,883	5,521	6,223	6,962	7,730	8,449	9,198
NOPAT	4,537	4,267	4,928	5,769	6,238	7,020	7,786	8,628
Capex, net	(2,720)	(2,850)	(3,141)	(3,303)	(3,472)	(3,645)	(3,823)	(2,580)
Depreciation	1,124	1,230	1,342	1,462	1,585	1,711	1,840	1,927
Change in working capital	(402)	(412)	(472)	(464)	(454)	(441)	(368)	(342)
Free operating CF (FoCF)	2,539	2,236	2,659	3,467	3,902	4,650	5,440	7,639
DCF Parameters								
Liabilities as a % of EV	10%	Assumptions				Terminal growth	2.0%	
WACC	11.4%	Risk-free rate				4.2%		
		Market risk				6.0%		
Enterprise NPV (10-16E)	55,840	Beta				1.30		
+ Net cash (debt), 14E	(5,891)	Cost of debt				6.2%		
- Minorities (Market value)	(8)	Implied exit P/E multiple (x)				9x		
+/- Other items	0							
= Equity value	49,942							
/ Number of shares	3,915							
= Equity value per share (HK\$)	13.0							

Source: Company data, J.P. Morgan estimates

Table 4: XYG – Sensitivity analysis

		Terminal growth rate						
		0.5%	1%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	9.8%	14.1	14.7	15.4	16.3	17.2	18.3	19.5
	10.3%	13.1	13.7	14.3	15	15.8	16.7	17.7
	10.8%	12.2	12.7	13.3	13.9	14.6	15.4	16.2
	11.3%	11.5	11.9	12.4	12.9	13.5	14.2	14.9
	11.8%	10.8	11.2	11.6	12	12.6	13.1	13.8
	12.3%	10.1	10.5	10.8	11.3	11.7	12.2	12.8
	12.8%	9.5	9.9	10.2	10.6	11	11.4	11.9

Source: J.P. Morgan estimates.

Table 5: XYG – Revenue mix

HK\$ MM, year-end 31Dec	2015	2016	2017	2018E	2019E	2020E
Automobile glass	3,786	3,748	3,910	4,139	4,358	4,663
YoY	5.4%	-1.0%	4.3%	5.9%	5.3%	7.0%
% of total	33.0%	29.2%	26.5%	24.6%	22.9%	21.5%
Construction glass	2,652	2,590	2,801	3,116	3,363	3,570
YoY	3.8%	-2.3%	8.1%	11.2%	7.9%	6.2%
% of total	23.1%	20.2%	19.0%	18.5%	17.7%	16.5%
Float glass	4,730	6,146	7,558	8,849	10,294	12,013
YoY	10.8%	29.9%	23.0%	17.1%	16.3%	16.7%
% of total	41.3%	47.9%	51.3%	52.6%	54.1%	55.5%
PV glass	0	0	0	0	0	0
YoY	41.3%	47.9%	51.3%	52.6%	54.1%	55.5%
% of total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Electronic glass	293	339	459	709	1023	1401
YoY	-34.0%	16.0%	35.4%	54.3%	44.3%	37.0%
% of total	2.6%	2.6%	3.1%	4.2%	5.4%	6.5%
Total revenue	11,460	12,824	14,728	16,813	19,038	21,647

Source: Company data, J.P. Morgan estimates

Table 6: XYG – P&L statement

Year-end 31Dec (HK\$MM)	2015	2016	2017	2018E	2019E	2020E
Total Revenues	11,460	12,848	14,728	16,813	19,038	21,647
YoY change (%)	5.5%	12.1%	14.6%	14.2%	13.2%	13.7%
Cost of Goods Sold	(8,328)	(8,189)	(9,283)	(10,646)	(12,076)	(13,747)
YoY change (%)	2.5%	-1.7%	13.4%	14.7%	13.4%	13.8%
Gross Profit	3,132	4,659	5,444	6,167	6,962	7,900
YoY change (%)	14.6%	48.7%	16.9%	13.3%	12.9%	13.5%
Gross Margin	27.3%	36.3%	37.0%	36.7%	36.6%	36.5%
SGA	(1,615)	(1,822)	(2,045)	(2,296)	(2,558)	(2,864)
YoY change (%)	-1.4%	12.9%	12.2%	12.3%	11.4%	12.0%
Other Income/(Expenses)	215	342	377	448	480	486
Operating profit	1,733	3,178	3,776	4,319	4,883	5,521
EBITDA	2,313	3,991	4,699	5,443	6,113	6,864
EBITDA margin	20.2%	31.1%	31.9%	32.4%	32.1%	31.7%
Depreciation & Amortization	(580)	(812)	(922)	(1,124)	(1,230)	(1,342)
YoY change (%)	-5.2%	40.0%	13.6%	21.8%	9.4%	9.2%
EBIT	1,733	3,178	3,776	4,319	4,883	5,521
EBIT margin	15.1%	24.7%	25.6%	25.7%	25.6%	25.5%
Net Interest Expense	(50)	(77)	(97)	(72)	(83)	(90)
Exceptional item	379	159	317	250	200	140
Associates	317	563	700	726	802	813
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	2,379	3,823	4,696	5,224	5,803	6,383
YoY change (%)	49.3%	60.7%	22.8%	11.2%	11.1%	10.0%
Tax	(266)	(607)	(682)	(762)	(846)	(931)
Effective Tax rate	13.3%	16.6%	15.6%	14.6%	14.6%	14.6%
Minority Interests	0	0	0	0	0	0
Net Income	2,113	3,216	4,014	4,462	4,956	5,453
YoY change (%)	54.8%	52.2%	24.8%	11.2%	11.1%	10.0%
Net margin	18.4%	25.0%	27.3%	26.5%	26.0%	25.2%

Source: Company data, J.P. Morgan estimates

Table 7: Interim estimates

Year to Dec (HK\$ MM)	1H18E	2H18E	1H19E	2H19E	1H20E	2H20E
Total Revenues	7,622	9,191	8631	10,407	9814	11,833
Gross Profit	2,752	3,416	3106	3,856	3525	4,375
EBIT	1,836	2,483	2075	2,808	2347	3,175
Net Income Before Taxes	2,220	3,004	2466	3,336	2713	3,670
Net Income	1,896	2,566	2107	2,850	2317	3,135
Diluted EPS (HK\$)	0.47	0.64	0.52	0.71	0.58	0.78
Ratios						
Revenue split	45.3%	54.7%	45.3%	54.7%	45.3%	54.7%
GPM	36.1%	37.2%	36.0%	37.0%	35.9%	37.0%
EBIT margin	24.1%	27.0%	24.0%	27.0%	23.9%	26.8%
NPM	24.9%	27.9%	24.4%	27.4%	23.6%	26.5%
YoY						
Revenue	14.2%	14.2%	13.2%	13.2%	13.7%	13.7%
GP	13.3%	13.3%	12.9%	12.9%	13.5%	13.5%
EBIT	14.4%	14.4%	13.1%	13.1%	13.1%	13.1%
NP	15.9%	7.9%	11.1%	11.1%	10.0%	10.0%

Source: Company data, J.P. Morgan estimates.

Table 8: XYG – Balance sheet

Year-end 31Dec (HK\$MM)	2015	2016	2017	2018E	2019E	2020E
Cash and Cash Equivalents	1,298	2,763	3,049	2,576	2,220	2,003
Inventories	1,223	1,321	1,698	1,938	2,194	2,495
Accounts receivable	2,381	2,377	3,072	3,507	3,971	4,515
Other Current Assets	93	76	113	3,167	4,064	4,898
Total Current Assets	4,995	6,537	7,932	11,188	12,449	13,911
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	13,177	12,952	16,356	17,952	19,572	21,371
Other Assets	3,249	4,534	6,017	6,318	6,634	6,966
Non-Current assets	16,426	17,486	22,373	24,270	26,206	28,337
Total Assets	21,422	24,022	30,305	35,458	38,655	42,248
Accounts Payable	740	789	923	1,053	1,193	1,356
Other Accrued Expenses	1,705	1,608	1,628	1,997	2,425	2,965
Taxes Payable	333	438	538	617	702	786
ST and current LT debts	2,514	3,165	2,068	2,068	2,068	2,068
Total Current Liabilities	4,959	6,000	5,157	5,735	6,387	7,175
Long-term Debt	3,514	4,509	6,399	6,399	6,399	6,399
Other Noncurrent Liability	223	266	443	506	573	652
Noncurrent liabilities	3,737	4,775	6,842	6,905	6,972	7,050
Total Liabilities	8,696	10,775	11,999	12,640	13,358	14,225
Share capital	3,217	3,217	3,217	3,217	3,217	3,217
Reserves and Surplus	9,501	11,431	17,301	19,532	22,010	24,737
Total Shareholders' Equity	12,718	13,181	18,237	22,749	25,228	27,954
Minority Interest	8	66	69	69	69	69
Total Shareholders' Equity	12,726	13,247	18,306	22,818	25,297	28,023
Total Liabilities and Equity	21,422	24,022	30,305	35,458	38,655	42,248

Source: Company data, J.P. Morgan estimates

Table 9: XYG – Cash flow statement

Year-end 31Dec (HK\$ MM)	2015	2016	2017	2018E	2019E	2020E
EBIT	1,733	3,178	3,776	4,319	4,883	5,521
Depreciation and Amortization	795	812	922	1,124	1,230	1,342
Working Capital Changes	539	17	2,310	(402)	(412)	(472)
Tax Paid	(228)	(266)	(607)	(682)	(762)	(846)
Cash Flow From Operations	2,838	3,742	6,401	4,359	4,939	5,546
Capital expenditures	(1,914)	(1,853)	(3,216)	(2,720)	(2,850)	(3,141)
Investments and others	243	(1,116)	(1,273)	(83)	(75)	(7)
Net interest	(50)	(77)	(97)	(72)	(83)	(90)
Cash Flow from Investing	(1,721)	(3,046)	(4,585)	(2,875)	(3,008)	(3,239)
Free Cash Flow	1,117	696	1,816	1,484	1,932	2,307
Dividends	(608)	(1,322)	(1,708)	(2,020)	(2,355)	(2,602)
Common issue	1	0	0	0	0	0
Other Financing	(18)	2,092	177	63	67	79
Contribution from owner	(25)	0	0	0	0	0
Cash Flow from financing	(650)	769	(1,530)	(1,957)	(2,288)	(2,524)
Change in cash	467	1,465	286	(473)	(356)	(216)
Cash beginning	831	1,298	2,763	3,049	2,576	2,220
Foreign exchange changes	0	0	0	0	0	0
Cash at end	1,298	2,763	3,049	2,576	2,220	2,003

Source: Company data, J.P. Morgan estimates

Investment Thesis, Valuation and Risks

Xinyi Glass (Overweight; Price Target: HK\$13.00)

Investment Thesis

We believe Xinyi is China's most diversified glass conglomerate. The defensive auto glass aftermarket business and the advanced low-emission construction glass business continued to do well, with stable growth and steady margins. The key driver for growth in the rest of this year is the recovery in margins for the float glass business. In the past, we have seen peak margins for float glass hit 40% when the market is in short supply. We could see margins recover when demand improves, as new supply has slowed to a trickle since the beginning of 2014.

Valuation

Our Dec-18 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (the yield on 10-year government notes in China). We assume a beta of 1.3 (Bloomberg beta is 1.3). Accordingly, WACC is assumed at 11.4%. We estimate free cash flow for XYG until 2025 and assume a terminal growth rate of 2.0%. The terminal growth is based on the annual growth rate expected in 2025 (the final year of the estimate period), subject to a minimum of 2% and a maximum of 6%, depending on the nature of the industry and the level of maturity in China.

Risks to Rating and Price Target

Key downside risks include falling demand for construction glass, which may result from a cooling property market in China, and further weakness in PV glass demand from Europe.

Xinyi Glass: Summary of Financials

Income Statement						Cash Flow Statement					
	FY16A	FY17A	FY18E	FY19E	FY20E	FY16A	FY17A	FY18E	FY19E	FY20E	
Revenue	12,848	14,728	16,813	19,038	21,647	Cash flow from operating activities	3,742	6,401	4,359	4,939	5,546
COGS	(8,189)	(9,283)	(10,646)	(12,076)	(13,747)	o/w Depreciation & amortization	812	922	1,124	1,230	1,342
Gross profit	4,659	5,444	6,167	6,962	7,900	o/w Changes in working capital	17	2,310	(402)	(412)	(472)
SG&A	(1,822)	(2,045)	(2,296)	(2,558)	(2,864)	Cash flow from investing activities	(2,969)	(4,489)	(2,803)	(2,925)	(3,148)
Adj. EBITDA	3,991	4,699	5,443	6,113	6,864	o/w Capital expenditure	(3,138)	(4,699)	(3,021)	(3,166)	(3,473)
D&A	(812)	(922)	(1,124)	(1,230)	(1,342)	as % of sales	24.4%	31.9%	18.0%	16.6%	16.0%
Adj. EBIT	3,178	3,776	4,319	4,883	5,521	Cash flow from financing activities	769	(1,530)	(1,957)	(2,288)	(2,524)
Net Interest	(77)	(97)	(72)	(83)	(90)	o/w Dividends paid	(1,322)	(1,708)	(2,020)	(2,355)	(2,602)
Adj. PBT	3,823	4,696	5,224	5,803	6,383	o/w Shares issued/(repurchased)	0	0	0	0	0
Tax	(607)	(682)	(762)	(846)	(931)	o/w Net debt issued/(repaid)	2,092	177	63	67	79
Minority Interest	0	0	0	0	0	Net change in cash	1,542	382	(401)	(274)	(126)
Adj. Net Income	3,216	4,014	4,462	4,956	5,453	Adj. Free cash flow to firm	668	1,785	1,399	1,844	2,150
Reported EPS	0.80	1.00	1.11	1.23	1.36	y/y Growth	(31.0%)	167.1%	(21.6%)	31.8%	16.6%
Adj. EPS	0.80	1.00	1.11	1.23	1.36						
DPS	0.40	0.45	0.56	0.62	0.68						
Payout ratio	50.0%	45.0%	50.0%	50.0%	50.0%						
Shares outstanding	4,018	4,018	4,018	4,018	4,018						
Balance Sheet						Ratio Analysis					
	FY16A	FY17A	FY18E	FY19E	FY20E	FY16A	FY17A	FY18E	FY19E	FY20E	
Cash and cash equivalents	2,763	3,049	2,576	2,220	2,003	Gross margin	36.3%	37.0%	36.7%	36.6%	36.5%
Accounts receivable	2,377	3,072	3,507	3,971	4,515	EBITDA margin	31.1%	31.9%	32.4%	32.1%	31.7%
Inventories	1,321	1,698	1,938	2,194	2,495	EBIT margin	24.7%	25.6%	25.7%	25.6%	25.5%
Other current assets	76	113	3,167	4,064	4,898	Net profit margin	25.0%	27.3%	26.5%	26.0%	25.2%
Current assets	6,537	7,932	11,188	12,449	13,911	ROE	24.8%	25.6%	21.8%	20.7%	20.5%
PP&E	12,952	16,356	17,952	19,572	21,371	ROA	14.2%	14.8%	13.6%	13.4%	13.5%
LT investments	4,534	6,017	6,318	6,634	6,966	ROCE	13.5%	13.6%	12.7%	12.9%	13.5%
Other non current assets	4,534	6,017	6,318	6,634	6,966	SG&A/Sales	14.2%	13.9%	13.7%	13.4%	13.2%
Total assets	24,022	30,305	35,458	38,655	42,248	Net debt/Equity	37.1%	29.6%	25.8%	24.7%	23.1%
Short term borrowings	3,165	2,068	2,068	2,068	2,068	Net debt/EBITDA	123.1%	115.3%	108.2%	102.2%	94.2%
Payables	789	923	1,053	1,193	1,356	Sales/Assets (x)	0.6	0.5	0.5	0.5	0.5
Other short term liabilities	2,046	2,166	2,614	3,126	3,751	Assets/Equity (x)	1.8	1.7	1.6	1.5	1.5
Current liabilities	6,000	5,157	5,735	6,387	7,175	Interest cover (x)	51.9	48.6	75.9	74.1	75.9
Long-term debt	4,509	6,399	6,399	6,399	6,399	Operating leverage	688.7%	128.6%	101.4%	98.7%	95.4%
Other long term liabilities	4,775	6,842	6,905	6,972	7,050	Tax rate	15.9%	14.5%	14.6%	14.6%	14.6%
Total liabilities	10,775	11,999	12,640	13,358	14,225	Revenue y/y Growth	12.1%	14.6%	14.2%	13.2%	13.7%
Shareholders' equity	13,181	18,237	22,749	25,228	27,954	EBITDA y/y Growth	57.9%	17.8%	15.8%	12.3%	12.3%
Minority interests	66	69	69	69	69	EPS y/y Growth	48.3%	24.8%	11.2%	11.1%	10.0%
Total liabilities & equity	24,022	30,305	35,458	38,655	42,248						
BVPS	3.28	4.54	5.66	6.28	6.96	Valuation					
y/y Growth	1.0%	38.4%	24.7%	10.9%	10.8%	P/E (x)	14.9	12.0	10.8	9.7	8.8
Net debt/(cash)	4,911	5,418	5,891	6,247	6,463	P/BV (x)	3.6	2.6	2.1	1.9	1.7
						EV/EBITDA (x)	12.2	10.5	9.1	8.2	7.3
						Dividend Yield	3.4%	3.8%	4.7%	5.2%	5.7%

Source: Company reports and J.P. Morgan estimates.

Note: HK\$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

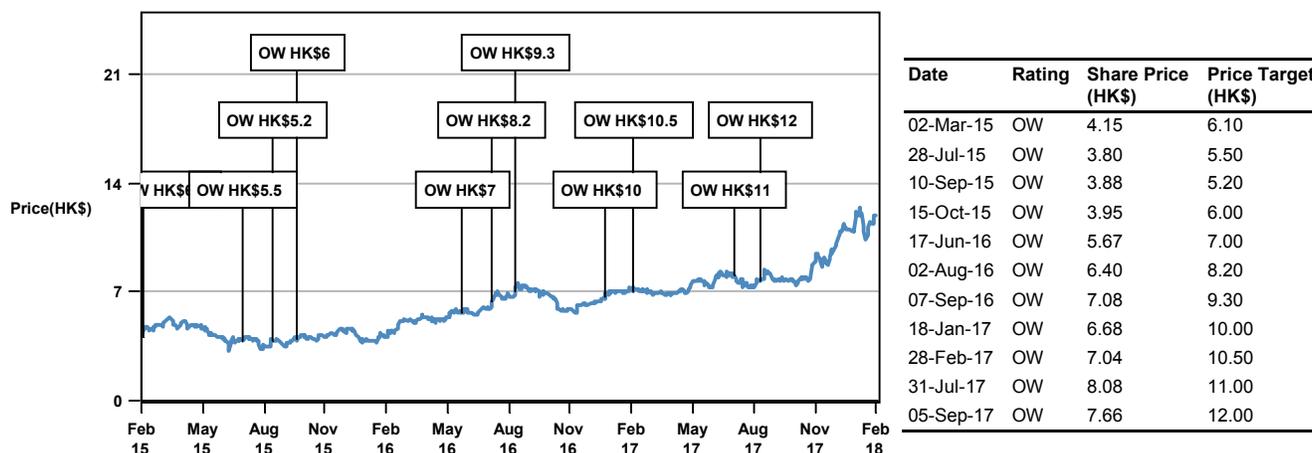
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Xinyi Glass (0868.HK, 868 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Nov 20, 2006.

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