



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

Company Update

April 6, 2010

Auto & Parts

RESEARCH

Dong ZHENG, CFA

SFC CE Ref: ALB404

zhengd@cicc.com.cn

Pengyang CHEN

chenpy@cicc.com.cn

ACCUMULATE

Xinyi Glass (868.HK)

Strong Fundamentals Intact Despite Legal Setback

Financial highlights

(HKD Mn)	2007A	2008A	2009A	2010E	2011E
Revenue	2,775	3,894	3,958	5,067	6,030
(+/-)	43.5%	40.4%	1.6%	28.0%	19.0%
EBIT	726	768	832	1,090	1,420
(+/-)	76.9%	5.7%	8.4%	31.0%	30.3%
Net income	671	709	774	982	1,215
EPS(HK\$)	0.39	0.42	0.44	0.55	0.69
(+/-)	60.9%	7.9%	3.8%	27.0%	23.7%
PE	18.74	17.72	16.25	12.80	10.34
PB	3.11	2.88	2.38	2.17	1.95
EV/EBITDA	14.48	12.73	11.90	9.52	7.62
ROE	16.6%	16.2%	14.6%	16.9%	18.9%
ROCE	15.6%	14.5%	13.1%	15.3%	17.2%
Dividend Yield	1.9%	2.8%	2.9%	3.7%	4.6%
P/OCFPS	26.30	10.76	14.66	10.12	8.80

Share information

	H share
Bloomberg code	868 HK
Share price	HK\$7.09
Target price	HK\$8.7
Daily turnover (mn shs)	6.1
52wk high/low	7.61/3.93
Issued shares (mn)	1,773
Free float (mn)	1,773
Market cap (HK\$ mn)	12,571
Major shareholders (%)	Realbest (19.97%)

Recent price performance

	Last week	1m	3m	YTD
[868.HK]	+1.87	+6.63	-2.07	+0.43
[CICC H-share Index]	+5.36	+6.44	-3.39	-0.77
[CICC Auto&Parts Index]	+2.33	+9.01	+3.27	+10.75

52wk performance



Source: Company data, Bloomberg, CICC Research

What's new:

A United States court granted judgment in favor of Saint-Gobain against Xinyi Glass for infringements of certain patents held by Saint-Gobain in the US with payment of US\$24.19 million (or HK\$188.68mn). Xinyi Glass plans to appeal.

Negative impact on 2010 earnings could be 8.8%. The company provided a reserve of HK\$85.3mn in the 2009 P&L after receiving the first unfavorable verdict in November 2009. Therefore, we expect another reserve of HK\$103.3mn will be provided for 2010.

Export momentum unchanged. The lawsuit could have a negative impact on the company's business in North America. However, it is also performing aggressive exploration and exporting to other countries (Australia, Africa and the Middle East), which could largely offset the negative impact. Exports to these countries surged 20.3% to HK\$794.8mn in 2009, accounting for 20.1% of total revenue vs. 14.7% from North America.

Short term stock price pressure expected, since: 1). payment is larger than expected; 2) market could have more concerns that overseas expansion will run into similar problems in the future.

Valuation and recommendation:

We lower our earnings forecast by 8.8% for 2010 to factor in the lawsuit's impact. We maintain our target price of HK\$8.7/share. Current stock price is 12.8x 2010 P/E, still lower than the peers' average of 13.7x. Investors are advised to ACCUMULATE the counter when the stock price tumbles due to the event.

Risks:

Further unfavorable developments in this lawsuit.

Figure 1: Earnings forecast revision

HK\$ MN	2009A	2010E			2011E		
	Actual	Before	After	Change	Before	After	Change
Revenue	3,958	5,067	5,067	0.0%	6,030	6,030	0.0%
COGS	2,496	3,259	3,259	0.0%	3,891	3,891	0.0%
Gross profit	1,462	1,808	1,808	0.0%	2,140	2,140	0.0%
Other income	34	53	53	0.0%	63	63	0.0%
Selling expenses	268	343	343	0.0%	409	409	0.0%
G&A	323	380	380	0.0%	440	440	0.0%
Other gains	13	56	56	0.0%	66	66	0.0%
Financial expenses	8	20	20	0.0%	20	20	0.0%
PBT	824	1,174	1,070	-8.8%	1,400	1,400	0.0%
Income tax	47	94	86	-8.8%	182	182	0.0%
Minority interests	-3	-2	-2	-8.8%	-3	-3	0.0%
Net income	774	1,077	982	-8.8%	1,216	1,215	0.0%
EPS (HK\$)	0.44	0.61	0.55	-8.8%	0.69	0.69	0.0%

Source: Company data, CICC Research

Figure 2: Historical and forecasted financial data

Income Statement(HK\$ mn)	2006A	2007A	2008A	2009A	2010E	2011E
Turnover	1,933	2,775	3,894	3,958	5,067	6,030
Cost of goods sold	-1,233	-1,702	-2,683	-2,496	-3,259	-3,891
Gross profit	700	1,072	1,211	1,462	1,808	2,140
Other revenues	10	18	38	34	53	63
Selling & distribution costs	-211	-286	-318	-268	-343	-409
General & admin expenses	-111	-135	-209	-323	-380	-440
Other gains	22	57	46	13	56	66
EBITDA	508	869	1,000	1,115	1,428	1,817
EBIT	410	726	768	832	1,090	1,420
Net interest income/(expense)	-8	-25	-15	-8	-20	-20
Profit before taxation	402	703	753	824	1,070	1,400
Taxation	-16	-30	-42	-47	-86	-182
Profit after taxation	386	673	711	777	984	1,218
Minority interests	2	-2	-2	-3	-2	-3
Net profit	388	671	709	774	982	1,215
Weighted EPS (HK\$)	0.24	0.39	0.42	0.44	0.55	0.69
DPS (HK\$)	0.11	0.13	0.20	0.21	0.26	0.33
Balance Sheet(HK\$ mn)	2006A	2007A	2008A	2009A	2010E	2011E
Cash & cash equivalents	162	310	444	649	368	123
Trade & other receivables	569	675	661	697	1,042	1,027
Inventories	371	511	612	432	931	697
Total current assets	1,189	1,559	1,765	1,843	2,433	1,941
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
Non-current assets	2,056	3,811	4,733	5,369	6,132	6,835
Trade and other payables	571	626	879	521	1,307	876
Current tax liabilities	12	14	22	22	22	22
ST loans	335	424	722	772	822	822
Current liabilities	919	1,065	1,623	1,318	2,152	1,723
Shareholder's funds	2,248	4,045	4,369	5,288	5,804	6,442
Minority interests	-	2	20	22	24	26
Cashflow Statement(HK\$ mn)	2006A	2007A	2008A	2009A	2010E	2011E
Operating cashflow	366	440	1,124	837	1,243	1,429
Investment cashflow	-469	-1,430	-927	-928	-1,100	-1,100
Financing cashflow	124	1,107	-62	296	-423	-575
Cash & cash equivalent EB	162	310	444	649	368	123
Ratios	2006A	2007A	2008A	2009A	2010E	2011E
Gross margin	36%	39%	31%	37%	36%	35%
ROE	17%	17%	16%	15%	17%	19%
ROA	12%	12%	11%	11%	11%	14%
ROCE	17%	16%	15%	13%	15%	17%
Debt/Equity	0.16	0.19	0.16	0.19	0.22	0.19
Current ratio	1.3	1.5	1.1	1.4	1.1	1.1
Quick ratio	0.9	1.0	0.7	1.1	0.7	0.7
Receivables turnover days	89.2	81.8	62.6	62.6	62.6	62.6

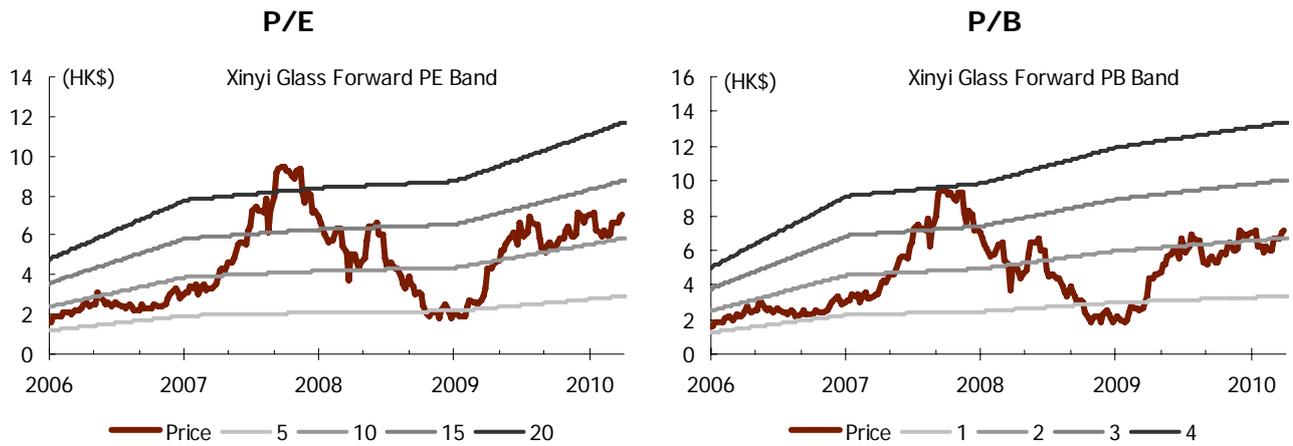
Source: Company data, CICC Research

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Figure 3: Valuations of comparables

Company	Category	Price 10-4-5	Market Cap MN USD	P/E					P/B					EV/EBITDA					EPS Growth %					CAGR 07-11			
				06A	07A	08A	09E	10E	11E	06A	07A	08A	09E	10E	11E	06A	07A	08A	09E	10E	11E	07A	08A		09E	10E	11E
China A-Share Listcos																											
Weichai Power A	CV	73.10	8,509	92.0	30.2	31.5	17.9	16.2	14.6	20.4	9.5	7.6	5.1	3.8	3.0	54.3	15.5	16.1	10.6	9.8	9.0	205%	-4%	76%	10%	11%	20%
CNHTC Jinan Truck	CV	28.42	1,746	53.1	16.6	25.2	27.9	17.2	14.5	9.0	5.9	4.8	4.2	3.4	2.8	16.4	8.2	13.3	12.5	9.1	7.9	220%	-34%	-10%	62%	19%	3%
Yutong Bus	CV	19.03	1,449	44.8	26.2	18.6	17.6	14.9	12.5	7.9	3.7	5.9	4.6	4.4	4.1	25.0	14.1	16.4	13.0	11.4	10.8	71%	41%	6%	18%	18%	20%
Beiqi Foton Motor	CV	21.65	2,907	n.a.	51.3	57.4	19.1	15.7	13.6	13.3	10.4	6.6	4.9	3.8	3.1	86.4	26.9	35.6	12.3	9.9	8.4	n.m.	-11%	200%	22%	16%	39%
King Long Motor	CV	9.89	641	28.6	16.0	22.3	26.8	20.2	17.7	4.5	3.5	3.2	2.9	2.6	2.3	9.2	7.5	10.5	9.8	7.8	7.0	78%	-28%	-17%	33%	14%	-2%
Jiangling Motor	CV	22.07	2,791	31.6	25.1	24.3	18.0	15.2	13.2	6.3	5.4	4.7	3.9	3.3	2.7	20.0	18.7	20.7	14.4	12.9	12.1	26%	3%	35%	19%	15%	17%
Dongfeng Automobile	CV	6.52	1,910	25.9	26.6	41.3	41.0	16.5	13.0	2.6	2.5	2.5	2.4	2.1	1.9	15.5	13.3	52.0	53.6	23.6	15.4	-3%	-36%	1%	148%	27%	20%
Jianghuai Auto	CV/PV	10.55	1,992	33.0	41.4	238.1	40.5	15.8	13.4	4.5	3.4	3.4	3.1	2.7	2.4	19.3	18.6	25.4	14.4	9.8	8.9	-20%	-83%	488%	156%	18%	33%
Chang'an Auto A	PV	12.71	4,330	57.1	44.5	1,222.1	27.5	15.0	12.8	4.3	3.9	3.9	3.4	2.8	2.3	27.2	n.a.	n.a.	35.8	23.8	32.4	28%	-96%	4343%	83%	18%	37%
FAW Car	PV	22.80	5,436	106.8	67.1	34.1	22.8	17.8	15.7	6.9	6.4	5.7	4.9	4.1	3.4	52.4	27.0	25.3	22.3	20.1	17.4	59%	97%	50%	28%	13%	44%
FAW Xiali	PV	9.91	2,316	48.0	92.1	158.1	89.4	68.7	60.6	4.8	4.8	4.8	4.7	4.4	4.1	99.9	n.a.	n.a.	n.a.	n.a.	n.a.	-48%	-42%	77%	30%	13%	11%
SAIC Motor	PV	21.14	20,301	97.2	29.9	389.3	21.0	14.1	12.4	4.4	3.7	4.0	3.3	2.8	2.5	57.1	36.4	108.3	28.6	24.2	19.7	71%	-92%	1753%	49%	14%	24%
Dongan Auto Engine	Parts	15.86	1,074	204.6	48.6	45.7	26.6	24.0	11.5	4.6	4.1	3.8	3.4	2.9	1.4	75.5	66.0	611.0	58.5	70.9	66.9	71%	6%	72%	11%	109%	43%
Zhongxing Sealing Parts	Parts	15.50	966	n.a.	54.9	49.4	33.0	20.8	17.3	n.a.	12.9	13.7	7.9	5.7	4.3	n.a.	38.8	27.3	18.0	14.4	12.6	n.m.	11%	50%	59%	20%	33%
Huayu Automotive	Parts	9.95	3,765	43.9	22.3	24.1	17.5	15.7	14.0	4.7	2.3	3.4	2.2	1.9	1.7	232.5	138.8	54.2	45.1	40.3	34.4	97%	-8%	38%	11%	12%	12%
FAWAY	Parts	27.23	844	n.m.	120.1	30.4	16.2	13.6	11.8	5.3	5.1	4.3	3.7	3.1	2.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	295%	88%	19%	15%	78%
Fuyao Glass	Parts	13.01	3,818	42.4	28.4	105.9	23.3	15.3	12.4	9.2	7.4	8.0	5.9	4.7	3.7	24.2	19.0	28.7	16.6	12.4	10.9	49%	-73%	355%	52%	23%	23%
Weifu Hi-tech	Parts	19.78	1,644	127.1	48.7	58.0	38.3	35.8	31.7	5.1	4.7	4.5	4.2	4.0	3.8	32.5	30.4	80.3	37.4	46.9	49.2	161%	-16%	1%	148%	7%	13%
Aeolus Tyres	Parts	14.20	780	208.2	34.1	n.a.	15.2	15.8	14.0	4.5	3.9	3.8	3.0	2.6	2.2	47.3	15.3	17.6	9.3	8.8	7.8	511%	n.m.	n.m.	-3%	12%	25%
Guizhou Tyres	Parts	18.32	683	81.4	53.3	91.0	21.7	26.0	22.8	4.2	3.9	3.9	3.3	2.9	2.6	15.9	14.5	16.1	9.9	10.7	10.7	53%	-41%	320%	-17%	14%	24%
Qingdao Doublestar	Parts	9.01	693	122.9	46.1	n.a.	22.6	26.1	23.1	4.0	3.7	4.0	3.4	3.0	2.7	29.2	18.3	101.7	11.3	12.1	11.6	166%	n.m.	n.m.	-14%	13%	19%
Median		51.1	42.9	47.6	23.0	16.3	13.8	13.8	14.8	4.8	4.4	4.4	3.8	3.2	2.7	30.8	18.7	27.3	15.5	12.7	11.6	71%	-4%	61%	11%	14%	20%
Median-CV		33.0	26.4	28.4	23.0	16.0	13.5	13.5	14.2	7.1	4.6	4.7	4.1	3.3	2.8	19.6	14.8	18.5	12.7	9.8	9.0	71%	-19%	20%	27%	17%	20%
Median-PV		77.1	55.8	273.7	25.1	16.4	14.2	14.2	14.6	4.6	4.4	4.4	4.0	3.5	3.0	54.8	31.7	66.8	28.6	23.8	19.7	44%	-67%	915%	39%	13%	31%
Median-Parts		118.2	48.7	53.7	22.9	22.4	14.0	14.0	14.0	4.7	4.4	4.2	3.5	3.1	2.6	39.9	29.8	54.2	18.0	14.4	12.1	84%	-12%	62%	11%	15%	23%
HK Listcos																											
Weichai Power H	CV	67.35	8,509	74.5	24.4	25.5	14.5	13.1	11.8	16.5	7.7	6.2	4.2	3.1	2.4	21.5	6.1	6.4	4.2	3.9	3.4	205%	-4%	76%	10%	11%	20%
Qingling	CV	2.12	678	67.7	35.3	30.3	18.8	17.0	14.8	0.8	0.8	0.8	0.7	0.7	0.7	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	92%	17%	61%	11%	14%	24%
CBA	PV	2.18	1,402	n.m.	82.3	98.6	n.m.	20.0	16.3	1.4	1.3	1.3	2.0	1.9	1.7	86.2	16.3	n.m.	n.m.	15.3	14.1	n.m.	-17%	n.m.	n.m.	23%	50%
Geely Auto	PV	4.14	3,899	79.9	67.4	27.6	20.7	16.7	14.1	16.6	9.2	6.4	4.4	3.6	2.8	n.m.	n.m.	51.1	13.3	10.2	8.4	19%	144%	33%	24%	19%	48%
Derway	PV	4.14	4,008	12.0	12.6	13.1	13.8	13.0	11.6	2.7	2.4	2.2	1.9	1.7	1.6	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	-5%	-4%	-6%	6%	12%	2%
Great Wall	CV/PV	16.60	2,341	19.6	17.0	31.1	15.6	12.7	10.5	3.9	2.5	2.4	2.1	1.9	1.6	17.4	12.2	19.9	n.m.	2.5	2.1	15%	-45%	99%	23%	21%	13%
DF Motor	PV	13.36	14,821	48.6	26.8	25.0	15.5	13.7	12.7	7.1	5.7	4.7	3.8	3.1	2.5	13.6	11.2	9.2	6.3	5.7	4.8	81%	7%	61%	13%	8%	21%
Sinotruk	CV	8.18	2,396	31.1	17.9	22.5	20.6	13.3	11.3	21.1	1.8	1.8	1.2	1.1	1.0	16.3	11.6	15.7	10.9	8.6	7.3	74%	-21%	10%	55%	18%	12%
Xinyi Glass Holding	Parts	7.09	1,617	32.4	18.7	17.7	16.3	12.8	10.3	5.1	3.0	2.7	2.2	2.0	1.7	27.6	16.2	14.2	9.1	7.1	6.1	73%	6%	9%	27%	24%	16%
Minh Group Ltd	Parts	13.32	1,658	41.1	32.9	30.0	20.5	16.9	14.2	9.3	4.3	3.9	3.4	2.9	2.6	31.7	21.3	17.5	n.m.	10.8	9.0	25%	10%	46%	21%	19%	23%
Median		41.1	25.6	26.6	16.3	13.5	12.3	12.3	12.3	6.1	2.8	2.6	2.2	1.9	1.7	21.5	12.2	15.7	9.1	7.8	6.7	73%	1%	46%	21%	18%	20%
Median-CV		67.7	24.4	25.5	18.8	13.3	11.8	11.8	12.3	16.5	1.8	1.8	1.2	1.1	1.0	18.9	8.9	11.1	7.5	6.3	5.3	92%	-4%	61%	11%	14%	20%
Median-PV		34.1	26.8	27.6	15.6	13.7	12.7	12.7	12.7	3.9	2.5	2.4	2.1	1.9	1.7	17.4	12.2	19.9	9.8	8.0	6.6	17%	-4%	47%	18%	19%	21%
Median-Parts		36.7	25.8	23.9	18.4	14.9	12.3	12.3	12.3	7.2	3.7	3.3	2.8	2.5	2.1	29.6	18.8	15.9	9.1	8.9	7.5	49%	8%	28%	24%	21%	20%
India Listcos																											
Ashok Leyland	CV	56.9	1,693	16.8	16.1	39.8	n.m.	n.m.	n.m.	4.0	3.5	2.2	n.m.	n.m.	n.m.	13.9	12.0	20.6	n.m.	n.m.	n.m.	4%	-60%	n.m.	n.m.	n.m.	n.m.
TATA	CV/PV	785.6	9,098	14.4	14.4	n.m.	57.7	16.6	11.2	4.0	3.6	6.8	5.0	4.0	2.9	21.1	20.1	11.5	12.0	8.3	6.8	0%	n.m.	n.m.	248%	48%	7%
M&M	CV	543.7	7,035	17.2	16.5	21.1	15.9	14.5	12.7	5.3	4.2	4.2	3.8	3.1	2.5	22.7	11.3	11.4	10.9	10.2	9.8	4%</					

Figure 4: Historical P/E and P/B bands



Source: Bloomberg, CICC Research

Beijing

China International Capital Corporation Limited

28th Floor, China World Office 2
1 Jianguomenwai Avenue
Beijing 100004, P.R. China
Tel: (8610) 6505-1166
Fax: (8610) 6505-1156

Shanghai

China International Capital Corporation Limited Shanghai Branch

32nd Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, P.R. China
Tel: (8621) 5879-6226
Fax: (8621) 5888-8976

Hong Kong

China International Capital Corporation Hong Kong Securities Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong, P.R. China
Tel: (852) 2872-2000
Fax: (852) 2872-2100

Hong Kong

China International Capital Corporation Hong Kong Asset Management Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong, P.R. China
Tel: (852) 2872-2000
Fax: (852) 2872-2100

Singapore

China International Capital Corporation (Singapore) Pte. Limited

39-04, 6 Battery Road
Singapore 049909
Tel: (65) 6572-1999
Fax: (65) 6327-1278

Beijing Jianguomenwai Avenue Branch

1st Floor, SK Tower
6A Jianguomenwai Avenue
Beijing 100022, P.R. China
Tel: (8610) 8567-9238
Fax: (8610) 8567-9235

Shanghai Middle Huaihai Road Branch

1-B & 2-B, Century BaShi Building
398 Middle Huaihai Road
Shanghai 200020, P.R. China
Tel: (8621) 6386-1195
Fax: (8621) 6386-1180

Shenzhen Fuhuayilu Branch

107 & 201, Annex Building
Shenzhen Duty Free Commercial Tower
6 Fuhua 1st Road
Futian District
Shenzhen 518048, P.R. China
Tel: (86755) 8832-2388
Fax: (86755) 8254-8243

Hangzhou Jiaogong Road Branch

1F, Euro American Center
18 Jiaogong Road
Hangzhou 310012, P.R. China
Tel: (86571) 8849-8000
Fax: (86571) 8735-7743

Nanjing Zhongshan Road (North) Branch

2F, Greenland Plaza
1 Zhongshan Road (North)
Nanjing 210008, P.R. China
Tel: (8625) 8316-8988
Fax: (8625) 8316-8397

Guangzhou Tianhe Road Branch

40F, Teemtower
208 Tianhe Road
Tianhe District
Guangzhou 510620, P.R. China
Tel: (8620) 8396-3968
Fax: (8620) 8516-8198



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