

**Hong Kong**

June 17, 2021 - 7:17 AM

**ADD** (no change)

Consensus ratings\*: Buy 19 Hold 0 Sell 0

Current price:	HK\$29.70
Target price:	HK\$36.16
Previous target:	HK\$36.16
Up/downside:	21.8%
CGS-CIMB / Consensus:	14.3%
Reuters:	0868.HK
Bloomberg:	868 HK
Market cap:	US\$15,506m
	HK\$120,355m
Average daily turnover:	US\$27.10m
	HK\$210.4m
Current shares o/s	4,038m
Free float:	43.0%
*Source: Bloomberg	

**Key financial forecasts**

	Dec-21F	Dec-22F	Dec-23F
Net Profit (HK\$m)	9,126	10,303	11,546
Core EPS (HK\$)	2.26	2.55	2.86
Core EPS Growth	73.1%	12.9%	12.1%
FD Core P/E (x)	13.13	11.63	10.38
Recurring ROE	31.8%	32.5%	31.7%
P/BV (x)	4.06	3.53	3.08
DPS (HK\$)	1.12	1.27	1.42
Dividend Yield	3.78%	4.27%	4.78%



Price performance	1M	3M	12M
Absolute (%)	12.5	17.9	211.3
Relative (%)	11	19.9	194.5

Major shareholders	% held
Mr Lee Yin Yee	22.9
Mr Tung Ching Sai	11.6

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# Xinyi Glass

## Positive profit alert

- Xinyi Glass issued a positive profit alert, saying that the Company's net profit is expected to increase by 260% to 290% in 1H21.
- We raised our forecasts for Xinyi Glass and organized an investors call earlier this month. The positive profit alert echoes our positive view.
- Our forecasts already factored in a lower contribution from Xinyi Solar [0968.HK].
- We maintain our ADD rating, with a higher target price of HK\$36.16, based on 16x 2021 P/E (higher than the historical mean of 14x).

### Strong 1H21 results

- Xinyi Glass announced that its net profit is expected to increase by 260% to 290% yoy, from HK\$1,382.4m in 1H20 to HK\$4976.6m–HK\$5,391.4m in 1H21. According to the announcement, the significant yoy increase in net profit in 1H21 is principally due to: a) a significant increase in the average selling prices and the sales volume for the float glass business during 1H21 as a result of strong float glass demand in China's construction sector compared to 1H20; and b) a significant increase in the contribution from Xinyi Solar [0968.HK]. Based on the mid-point of the guidance of HK\$5,184.2m, Xinyi Glass's 1H21 results accounted for 56.8% of our net profit forecasts for 2021F, and the 1H21 results are stronger than we expected.

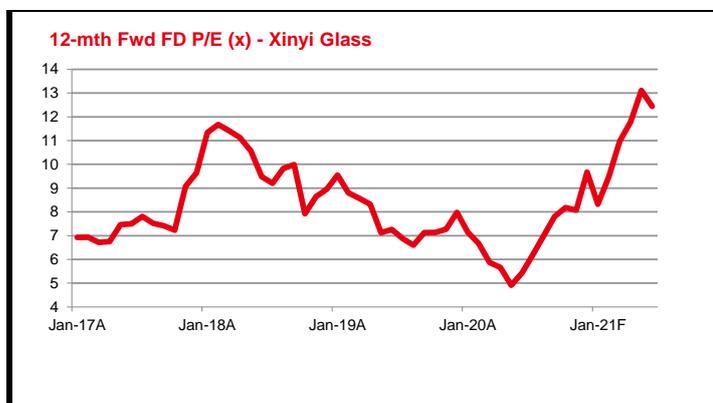
### Remaining positive despite its outperformance

- We raised our forecasts for Xinyi Glass ([link](#)) and organized an investors call earlier this month. The positive profit alert echoes our positive view. We maintain the view that the supply of float glass will be constrained in 2021 and 2022 because of stronger environmental protection measures. Some production lines requiring cold repair are unlikely to continue to operate despite the favourable market environment. Xinyi Glass will continue to expand its capacity to deliver growth. Its float glass capacity is expected to increase 26.0% yoy by the end of 2021, and will increase another 10% in 2022. Xinyi Glass will look for more acquisition targets in the China market, as well as opportunities in overseas markets. Xinyi Glass is expected to outperform the industry in terms of shipment growth, given its capacity expansion.
- Xinyi Glass has been an outperformer since 2H20. But its valuation is still reasonable, with a decent yield. We maintain our ADD rating, with a target price of HK\$36.16, based on 16x 2021 PER (higher than the historical mean of 14x). We maintain the view that the float glass industry has entered a bull cycle, given the more favourable supply/demand situation, and expect Xinyi Glass to outperform the industry because of its capacity expansion.

## BY THE NUMBERS

Profit & Loss				
(HK\$m)	Dec-20A	Dec-21F	Dec-22F	Dec-23F
<b>Total Net Revenues</b>	<b>18,616</b>	<b>25,077</b>	<b>28,470</b>	<b>31,921</b>
<b>Gross Profit</b>	<b>8,892</b>	<b>12,669</b>	<b>14,343</b>	<b>15,819</b>
<b>Operating EBITDA</b>	<b>6,129</b>	<b>9,197</b>	<b>10,430</b>	<b>11,463</b>
Depreciation And Amortisation	(1,120)	(1,261)	(1,346)	(1,428)
<b>Operating EBIT</b>	<b>5,008</b>	<b>7,936</b>	<b>9,085</b>	<b>10,035</b>
Financial Income/(Expense)	(155)	(155)	(163)	(152)
Pretax Income/(Loss) from Assoc.	1,124	1,783	1,869	2,208
Non-Operating Income/(Expense)	197	848	963	1,080
<b>Profit Before Tax (pre-EI)</b>	<b>6,175</b>	<b>10,412</b>	<b>11,753</b>	<b>13,171</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>6,175</b>	<b>10,412</b>	<b>11,753</b>	<b>13,171</b>
Taxation	(899)	(1,277)	(1,442)	(1,615)
Exceptional Income - post-tax	(9)	(9)	(9)	(9)
<b>Profit After Tax</b>	<b>5,267</b>	<b>9,126</b>	<b>10,303</b>	<b>11,546</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>5,267</b>	<b>9,126</b>	<b>10,303</b>	<b>11,546</b>
Recurring Net Profit	5,276	9,135	10,312	11,555
<b>Fully Diluted Recurring Net Profit</b>	<b>5,276</b>	<b>9,135</b>	<b>10,312</b>	<b>11,555</b>

Cash Flow				
(HK\$m)	Dec-20A	Dec-21F	Dec-22F	Dec-23F
<b>EBITDA</b>	<b>6,129</b>	<b>9,197</b>	<b>10,430</b>	<b>11,463</b>
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(1,714)	(911)	(581)	(663)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	1,332	827	942	1,059
Net Interest (Paid)/Received	(193)	(193)	(193)	(193)
Tax Paid	(911)	(1,277)	(1,442)	(1,615)
<b>Cashflow From Operations</b>	<b>4,642</b>	<b>7,644</b>	<b>9,157</b>	<b>10,050</b>
Capex	(3,773)	(2,500)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	38	38	29	41
<b>Cash Flow From Investing</b>	<b>(3,735)</b>	<b>(2,462)</b>	<b>(2,471)</b>	<b>(2,459)</b>
Debt Raised/(repaid)	764	0	0	0
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(3,190)	(4,532)	(5,117)	(5,735)
Preferred Dividends				
Other Financing Cashflow				
<b>Cash Flow From Financing</b>	<b>(2,425)</b>	<b>(4,532)</b>	<b>(5,117)</b>	<b>(5,735)</b>
Total Cash Generated	(1,518)	649	1,569	1,857
<b>Free Cashflow To Equity</b>	<b>1,672</b>	<b>5,182</b>	<b>6,686</b>	<b>7,591</b>
<b>Free Cashflow To Firm</b>	<b>1,100</b>	<b>5,375</b>	<b>6,879</b>	<b>7,784</b>



Balance Sheet				
(HK\$m)	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	5,245	4,077	5,647	7,503
Total Debtors	4,916	6,197	7,014	7,947
Inventories	2,496	3,147	3,561	4,035
Total Other Current Assets	284	284	284	284
<b>Total Current Assets</b>	<b>12,941</b>	<b>13,704</b>	<b>16,506</b>	<b>19,769</b>
Fixed Assets	17,142	17,703	18,079	18,372
Total Investments	13,779	15,571	17,449	19,665
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	1,209	796	793	790
<b>Total Non-current Assets</b>	<b>32,130</b>	<b>34,069</b>	<b>36,320</b>	<b>38,828</b>
Short-term Debt	3,779	3,779	3,779	3,779
Current Portion of Long-Term Debt				
Total Creditors	3,917	4,938	5,589	6,332
Other Current Liabilities	998	998	998	998
<b>Total Current Liabilities</b>	<b>8,694</b>	<b>9,715</b>	<b>10,366</b>	<b>11,109</b>
Total Long-term Debt	7,795	7,795	7,795	7,795
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	199	199	199	199
<b>Total Non-current Liabilities</b>	<b>7,993</b>	<b>7,993</b>	<b>7,993</b>	<b>7,993</b>
Total Provisions	410	410	410	410
<b>Total Liabilities</b>	<b>17,098</b>	<b>18,118</b>	<b>18,769</b>	<b>19,513</b>
Shareholders' Equity	27,884	29,556	33,949	38,967
Minority Interests	90	99	108	117
<b>Total Equity</b>	<b>27,974</b>	<b>29,655</b>	<b>34,057</b>	<b>39,084</b>

Key Ratios				
	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	14.5%	34.7%	13.5%	12.1%
Operating EBITDA Growth	41.4%	50.1%	13.4%	9.9%
Operating EBITDA Margin	32.9%	36.7%	36.6%	35.9%
Net Cash Per Share (HK\$)	(1.57)	(1.86)	(1.47)	(1.01)
BVPS (HK\$)	6.91	7.32	8.41	9.65
Gross Interest Cover	25.98	41.17	47.13	52.06
Effective Tax Rate	14.6%	12.3%	12.3%	12.3%
Net Dividend Payout Ratio	60.5%	49.6%	49.6%	49.6%
Accounts Receivables Days	78.66	80.88	84.69	85.54
Inventory Days	85.46	82.99	86.66	86.10
Accounts Payables Days	136.7	130.2	136.0	135.1
ROIC (%)	30.6%	37.6%	40.9%	43.4%
ROCE (%)	14.0%	19.5%	20.8%	20.8%
Return On Average Assets	13.4%	20.0%	20.8%	21.0%

Key Drivers				
	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Automobile (piece)	14,967.5	15,715.9	16,501.7	17,326.7
Construction(sqrm)	14,406.3	15,702.9	16,959.1	18,315.8
Float glass (tonne)	6,358.5	7,312.3	8,043.5	8,687.0
Automobile (HKD/piece)	307.9	314.1	320.4	326.8
Construction (HKD per sqm)	153.6	159.7	166.1	172.7
Float glass (HKD per tone)	1,855.0	2,411.4	2,532.0	2,658.6

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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**REDUCE** : The stock's total return is expected to fall below 0% or more over the next 12 months.

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