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Snoopin around
Small-caps research

Change in target price

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3 August 2021

China

Materials

Reuters 0868.HK
Bloomberg 868 HK

Priced on 2 August 2021

HS CEI @ 9,336.6

12M hi/lo HK\$33.60/11.72

12M price target HK\$44.70
±% potential +51%

Shares in issue 4,054.0m
Free float (est.) 43.9%

Market cap US\$15.5bn

3M ADV US\$34.1m

Foreign s'holding 49.0%

Major shareholders

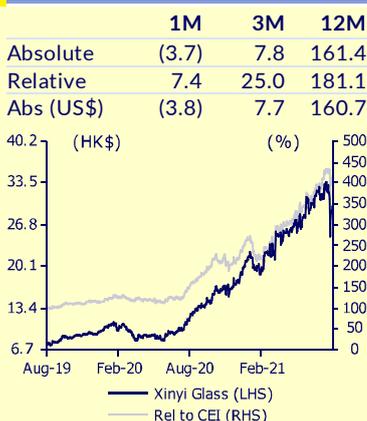
Lee Yin Yee 22.7%
Tung Ching Sai 11.3%

Blended ESG Score (%)*

Overall 79.1
Country average 63.7
GEM sector average 70.9

*Click to visit company page on clsa.com for details

Stock performance (%)



Source: Bloomberg

Expanding the empire

Slight beat in 1H21 with solid industry dynamics and share gain potential

Xinyi Glass' (XYG) 1H21 core profit (+277.4% YoY) was 3.5% above estimates, with a soaring float glass ASP and better sales in all segments. We continue to see healthy float glass demand and supply backed by rising property completions and limited capacity additions, with the latter also allowing market share gain potential via acquisitions given XYG's strong capital. With healthy industry dynamics supporting decent operating performance, we lift our estimates and target price, from HK\$40.70 to HK\$44.70 and reiterate our BUY rating.

Slight 1H21 results beat

XYG's 1H21 core profit excluding other losses was HK\$5,398m (+277.4% YoY), a slight 3.5% beat of estimates, with reported profit also at the high-end of its profit alert. Revenue (+90.3% YoY) was 4.7% ahead of estimates, with help from all three segments, particularly from a soaring float glass ASP which drove a 2.3ppt beat in its overall GPM (53.0%, +18.8ppt YoY). These and higher associate profit far exceeded higher Opex and taxes.

Decent margin to continue during a still healthy market

We continue to expect healthy demand-supply dynamics for float glass for the rest of 2021. Demand for both float/architecture glass will be supported by rising property completions and the 2H peak season. While the government's limitations on new float glass projects remain (eg. the revised Capacity Swap Plan), incremental supply from resumed cold-repair lines will be offset those entering cold-repair plus robust demand. These should allow prices and its GPM to remain high. We forecast a float glass GPM of 58.0% in 2H21 vs 55.3% in 1H despite higher soda ash costs.

Well positioned to win share

Given its strong capital (HK\$7.3bn cash on hand with 14.6% net gearing as of end-1H21), XYG is well positioned to win market share during industry consolidation, with production lines from the acquired AVIC Glass (4x600t/d lines with three yet to restart operations vs XYG's 25,330t/d currently) will drive volume growth. For auto glass, it will also continue expansion in Beihai and Malaysia, further supporting the steady growth of the segment with new product development.

Reiterate BUY

We lift our 21/22/23CL core profit by 8.4%/13%/13.4% on higher sales, the contribution from the acquired AVIC Glass and a higher GPM, though offset by higher expenses. We lift our target price from HK\$40.70 to HK\$44.70, based on the same blended average 22-23CL PE/PB of 16.5x/2.8x.

Financials

Year to 31 December	19A	20A	21CL	22CL	23CL
Revenue (HK\$m)	16,258	18,616	30,021	33,211	35,121
Rev forecast change (%)	-	-	9.1	13.5	13.8
Adjusted net profit (HK\$m)	3,700	5,533	12,091	13,764	15,185
NP forecast change (%)	-	-	8.4	13.0	13.4
Adjusted EPS (HK¢)	92.1	137.7	297.6	338.2	373.1
CL/consensus (15) (EPS%)	-	-	111	120	130
Adj EPS growth (% YoY)	0.4	49.6	116.2	13.6	10.3
Adjusted PE (x)	32.3	21.6	10.0	8.8	8.0
Dividend yield (%)	1.9	2.7	5.0	5.7	6.2
ROE (%)	22.7	26.4	39.1	36.7	33.9
Net debt/equity (%)	27.1	22.7	6.9	(8.1)	(20.5)

Source: www.clsa.com

Financials at a glance

Year to 31 December	2019A	2020A	2021CL	(% YoY)	2022CL	2023CL
Profit & Loss (HK\$m)						
Revenue	16,258	18,616	30,021	61.3	33,211	35,121
Cogs (ex-D&A)	(9,387)	(9,775)	(12,370)		(13,202)	(13,808)
Gross Profit (ex-D&A)	6,871	8,840	17,652	99.7	20,009	21,313
SG&A and other expenses	(2,546)	(2,663)	(3,608)		(3,822)	(3,898)
Op Ebitda	4,325	6,178	14,043	127.3	16,187	17,415
Depreciation/amortisation	(1,074)	(1,170)	(1,482)		(1,581)	(1,675)
Op Ebit	3,251	5,008	12,561	150.8	14,606	15,740
Net interest inc/(exp)	(182)	(155)	(105)		(48)	49
Other non-Op items	1,946	2,477	1,865	(24.7)	1,801	2,205
Profit before tax	5,016	7,330	14,321	95.4	16,359	17,994
Taxation	(533)	(899)	(2,221)		(2,586)	(2,800)
Profit after tax	4,483	6,431	12,100	88.1	13,773	15,194
Minority interest	(5)	(9)	(9)		(9)	(9)
Net profit	4,478	6,422	12,091	88.3	13,764	15,185
Adjusted profit	3,700	5,533	12,091	118.5	13,764	15,185
Cashflow (HK\$m)						
Operating profit	3,251	5,008	12,561	150.8	14,606	15,740
Depreciation/amortisation	1,074	1,170	1,482	26.7	1,581	1,675
Working capital changes	(1,611)	(2,988)	(1,092)		(331)	(210)
Other items	(969)	(1,191)	(2,380)		(2,707)	(2,830)
Net operating cashflow	1,746	1,998	10,572	429	13,149	14,375
Capital expenditure	(3,100)	(3,773)	(2,500)		(2,500)	(2,500)
Free cashflow	(1,354)	(1,775)	8,072		10,649	11,875
M&A/Others	2,400	2,132	1,910	(10.4)	1,865	2,276
Net investing cashflow	(700)	(1,641)	(590)		(635)	(224)
Increase in loans	847	841	310	(63.1)	(4,676)	(6,018)
Dividends	(2,208)	(3,198)	(5,989)		(6,818)	(7,521)
Net equity raised/other	765	2,163	-		-	-
Net financing cashflow	(596)	(195)	(5,679)		(11,494)	(13,539)
Incr/(decr) in net cash	450	162	4,303	2,557.2	1,021	611
Exch rate movements	-	-	-		-	-
Balance sheet (HK\$m)						
Cash & equivalents	5,142	5,304	9,607	81.1	10,627	11,239
Accounts receivable	1,410	1,411	2,274	61.2	2,516	2,661
Other current assets	3,753	6,226	6,603	6.1	6,796	6,937
Fixed assets	14,203	17,142	18,291	6.7	19,340	20,295
Investments	5,554	8,231	8,231	0	8,231	8,231
Intangible assets	3,659	4,298	4,167	(3)	4,037	3,906
Other non-current assets	2,533	2,459	2,459	0	2,459	2,459
Total assets	36,254	45,071	51,632	14.6	54,006	55,728
Short-term debt	4,463	3,810	3,911	2.7	2,383	416
Accounts payable	1,045	1,396	1,545	10.6	1,649	1,724
Other current liabs	2,914	3,488	3,488	0	3,488	3,488
Long-term debt/CBs	6,354	7,847	8,056	2.7	4,908	857
Provisions/other LT liabs	551	556	556	0	556	556
Shareholder funds	20,846	27,882	33,984	21.9	40,930	48,594
Minorities/other equity	81	92	92	0	92	92
Total liabs & equity	36,254	45,071	51,632	14.6	54,006	55,728
Ratio analysis						
Revenue growth (% YoY)	1.5	14.5	61.3		10.6	5.8
Ebitda margin (%)	26.6	33.2	46.8		48.7	49.6
Ebit margin (%)	20.0	26.9	41.8		44.0	44.8
Net profit growth (%)	5.7	43.4	88.3		13.8	10.3
Op cashflow growth (% YoY)	(40.6)	14.5	429.0		24.4	9.3
Capex/sales (%)	19.1	20.3	8.3		7.5	7.1
Net debt/equity (%)	27.1	22.7	6.9		(8.1)	(20.5)
Net debt/Ebitda (x)	1.3	1.0	0.2		-	-
ROE (%)	22.7	26.4	39.1		36.7	33.9
ROIC (%)	14.1	18.2	38.3		41.8	43.5

Source: www.clsa.com

Find CLSA research on Bloomberg, Thomson Reuters, FactSet and CapitalIQ - and profit from our evaluator proprietary database at clsa.com

1H21 core profit surged 277.4% YoY, a 3.5% beat

Revenue surged 90.3% YoY, a 4.7% beat from all three segments, with significant soar in float glass prices, rising property completions to drive float/architecture glass sales and recovery from Covid-19 impact for auto glass

GPM beat on a soaring float glass ASP

Slight beat on 1H21 results

XYG's 1H21 core profit excluding non-core other gains (eg, FX and fair value changes) was HK\$5,398m (+277.4% YoY), 3.5% above us. Reported net profit was HK\$5,377m (+289% YoY), at the high-end of its profit alert (260%-290% YoY). Revenue (+90.3% YoY) was a 4.7% beat from all 3 segments, with a significant soar in float glass ASP under healthy demand/supply, rising property completions to drive float/architecture glass sales and recovery from Covid-19 to boost auto glass. Higher prices also resulted in a 2.3ppt beat in overall GPM (53.0%, +18.8ppt YoY). These and higher profit from associates have far exceeded higher Opex and tax.

Highlights:

- Revenue increase 90.3% YoY to HK\$13,576m, 4.7% above our forecast.
 - Revenue from float glass soared 138.6% YoY. The company reclassified the semi-finished low-e glass business from the architectural glass segment to the float glass segment. The strong YoY growth was due to: 1) a low base in 1H20 due to the impact from Covid-19 on glass demand and prices; 2) a significant increase in market float glass prices since mid-2020, with 1H21 average float glass price at c.52% YoY higher than 1H20 average level; 3) an increase in sales volume given robust demand driven by rising property completions, as well as its capacity expansion – including the full-period contributions from its new float glass lines added in 2020 in Beihai (three lines at 2,100t/d), Zhangjiagang (two lines at 1,480t/d) and Pengjiang (acquired, 950t/d in 2020 and 900+400t/d added in 2021), plus expansions for auto glass and architectural glass).
 - Revenue from architecture glass grew 45.3% YoY, a 14.9% beat with higher demand from property completions and the increased use of low-E glass.
 - Revenue from auto glass grew 19.6% YoY, a 6.2% beat, also likely due to a recovery from the Covid-19 drag plus new product developments.
- Overall GPM was 53.0%, up 18.8ppt YoY, and 2.3ppt higher than our estimate.
 - GPM for float glass was 55.3% (+30.4ppt YoY), extended even further from 46.6% in 2H20, thanks to the soaring ASP to offset rising costs.
 - GPM for architecture glass was 43.9%, -1.7ppt YoY due to higher costs.
 - GPM for auto glass was 49.3% (+2.6ppt YoY), above us by 2.7ppt, mainly because of increased production efficiency and economies of scale.
- Opex surged 41.2% YoY to HK\$1,713m, a beat 27.8% to us, with a 44.9% YoY increase in selling expenses (on higher overseas transportation and int'l freight costs) plus a 39.6% YoY increase in admin expenses (on higher R&D and PRC taxes and charges). Opex as a % of revenue decreased from 17.0% in 1H20 to 12.6% in 1H21, mainly due to higher ASP and economies of scale.
- Depreciation surged 36.6% YoY to HK\$645m.
- Interest expense dropped 43.5% YoY to HK\$70m, 25.4% below our forecast mainly due to a lower effective interest rate (Hibor linked).
- The share of profit of associates (Xinyi Solar [XYS] and Xinyi Energy [XYE]) surged 104.6% YoY to HK\$729m mainly on the robust growth of XYE's solar glass business, despite a 4.9% below our estimate.

Higher tax expenses amid a higher PBT and PRC dividend withholding tax

- Income tax expense surged 262.3% YoY to HK\$919m, in line with our projection, mainly due to higher profit before tax and the PRC dividend withholding tax paid during the period.
- Reported net profit was HK\$5,377m, up 289% YoY and is at the high-end of its earlier profit alert (260%-290% YoY), due to higher ASP and margin. Excluding non-core profits mainly consisted of HK\$48m of FX losses netted by HK\$25m of unrealized FV gain on financial assets, core profit was calculated to be HK\$5,398m, grew 277.4% YoY and 3.5% above our forecast.
- A final dividend of HK\$0.66 was declared, implying payout ratio of 50% on reported profit (2019: 49%).

Figure 1

XYG 1H21 results summary

HK\$m	1H20	2H20	1H21	YoY growth	1H21CL	Forecast vs actual
Sales	7,134	11,482	13,576	90.3%	12,963	4.7%
COGS (excl depr)	(4,220)	(5,555)	(5,731)	35.8%	(5,864)	(2.3%)
Operating expenses (ex D&A)	(1,213)	(1,450)	(1,713)	41.2%	(1,340)	27.8%
...Opex %	17.0%	12.6%	12.6%	(25.8%)	10.3%	22.0%
Core EBITDA	1,701	4,477	6,132	260.4%	5,759	6.5%
Depreciation	(472)	(597)	(645)	36.6%	(527)	22.4%
Amortisation	(43)	(57)	(65)	50.5%	(44)	47.9%
Core EBIT	1,186	3,823	5,421	357.3%	5,188	4.5%
...Ebit Margin	16.6%	33.3%	39.9%		40.0%	
Other revenue (ex interest exp)	245	219	218	(10.9%)	260	(16.2%)
Interest Income	26	11	24	(8.1%)	26	(4.8%)
Interest Expense	(123)	(70)	(70)	(43.5%)	(93)	(25.4%)
Net Interest Expense	(97)	(58)	(45)	(53.2%)	(68)	(33.2%)
Share of Associate Profit	356	768	729	104.6%	766	(4.9%)
Profit Before Tax	1,690	4,752	6,323	274.2%	6,147	2.9%
Tax Expense	(254)	(646)	(919)	262.3%	(922)	(0.4%)
Minority Interest	(6)	(3)	(6)	11.0%	(9)	(26.9%)
Core Net Profit	1,430	4,103	5,398	277.4%	5,216	3.5%
Exceptional gain/(loss)	(48)	937	(21)	(56.3%)	-	NA
Reported Net Profit	1,382	5,040	5,377	289.0%	5,216	3.1%
... NPM, pre exceptional	20.1%	35.7%	39.8%		40.2%	

Key operating statistics

Sales (HK\$m)

Automobile glass	2,161	2,448	2,585	19.6%	2,434	6.2%
Architecture glass	938	1,274	1,363	45.3%	1,185	14.9%
Float glass	4,035	7,760	9,629	138.6%	9,343	3.1%
Total	7,134	11,482	13,576	90.3%	12,963	4.7%

Gross profit (HK\$m)

Automobile glass	1,008	1,169	1,273	26.2%	1,132	12.4%
Architecture glass	428	542	599	40.0%	548	9.2%
Float glass	1,006	3,619	5,328	429.7%	4,892	8.9%
Total	2,442	5,330	7,199	194.8%	6,572	9.5%

Gross margin

Automobile glass	46.7%	47.7%	49.3%	2.6 ppt	46.5%	2.7 ppt
Architecture glass	45.6%	42.5%	43.9%	-1.7 ppt	46.2%	-2.3 ppt
Float glass	24.9%	46.6%	55.3%	30.4 ppt	52.4%	3 ppt
Overall	34.2%	46.4%	53.0%	18.8 ppt	50.7%	2.3 ppt

Source: CLSA

We expect continuously healthy demand and supply for float glass

Demand supported by rising property completions

New float glass supply remains under strict control



Current spot market float glass is c.87% higher YoY with a low-base in 2020. The YTD average price is c.49%/34% higher than 1H20/2020 averages

Decent margin to continue in a still healthy market

Float glass demand started to recover from the pandemic in mid-2020, and float glass prices entered into a significant uptrend and moved even higher in 1H21, supported by an upcycle in property completion since late 2019 (which was once dragged by the pandemic), as well as limited supply growth in the industry.

We continue to expect balanced demand/supply dynamics for float glass in the rest of 2021. Demand will (for both float glass and architecture glass, with 5-6 months' orders on hand for the latter) still be supported by rising property completions and 2H peak season demand. Rising contribution of double-layer glass will also boost demand for float glass.

On supply, while the government's limitations on new float glass projects remain, as in the revised Capacity Swap Plan (effective since 1st Aug) float glass remained subject to the requirement on capacity swap, ie, no new net capacity additions for float glass would be allowed; any new plans could only be for replacing existing capacity, with new capacity less than or equal to existing capacity. Besides, the incremental supply from recently resumed cold-repair production lines will be offset by production lines entering into cold-repair, as well as the robust demand.

On the other hand, the MIIT called for a meeting with the NDRC, the China Architectural and Industrial Glass Association and various float glass manufacturers to discuss the operating and pricing environment of float glass in 1H as well as the outlook in 2H (see *China glass sector (Share prices dragged down)*). Meanwhile, we noted that the government has been conducting similar meetings from time to time. We have been arguing that it is hard to make industry-wide accusations as the float glass industry is still very fragmented and the price hikes so far have been nationwide. We believe the glass price hikes were the result of limited capacity growth coupled with strong demand. If the government wants to lower float glass prices, they could relax the control on new capacity additions, but they did not.

All these should allow prices and GPM to stay high, in our view. Despite further increase in soda ash costs, we forecast 58.0% GPM for float glass in 2H21 vs 55.3% in 1H. On rising costs, XYG will also be able to manage better than peers, e.g. importing soda ash from overseas.

Figure 2



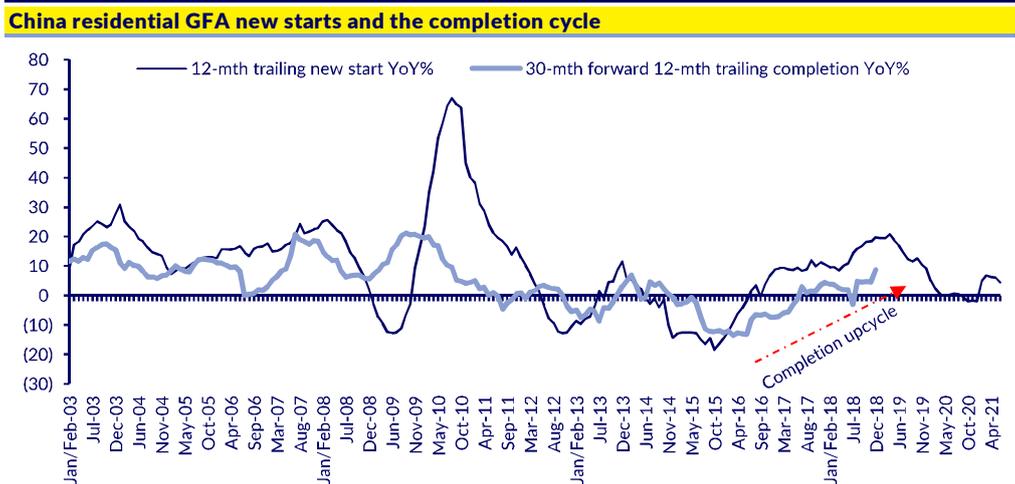
Source: WIND, CLSA

Figure 3



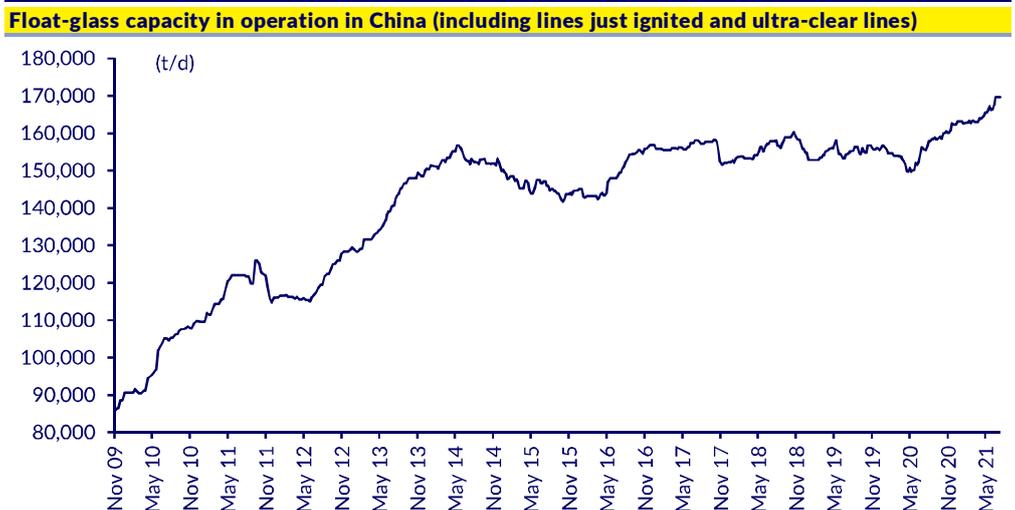
Source: SCI99.com, CLSA

Figure 4



Source: CRR, CLSA

Figure 5



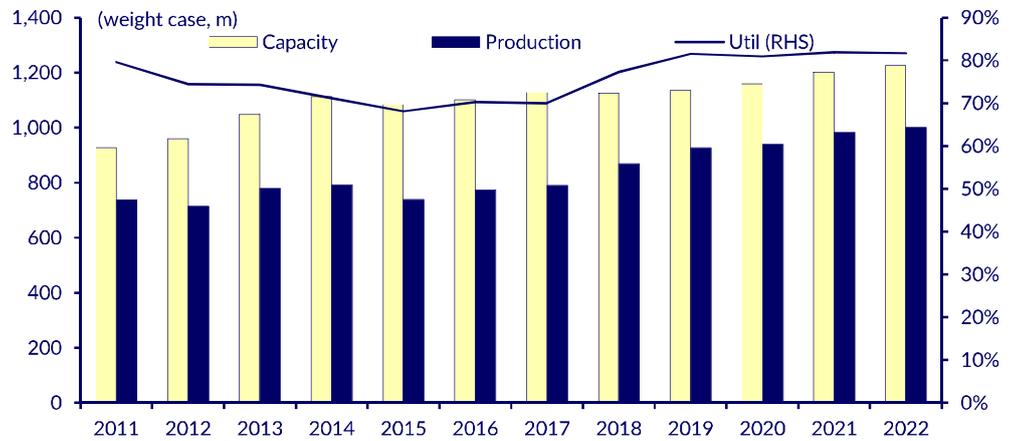
Source: WIND, CLSA

Some rise in market operating capacity in 2020 mainly from XYG, and it has remained fairly steady since then

We expect decent demand-supply for float glass to continue

Figure 6

Float glass demand and supply forecast for China

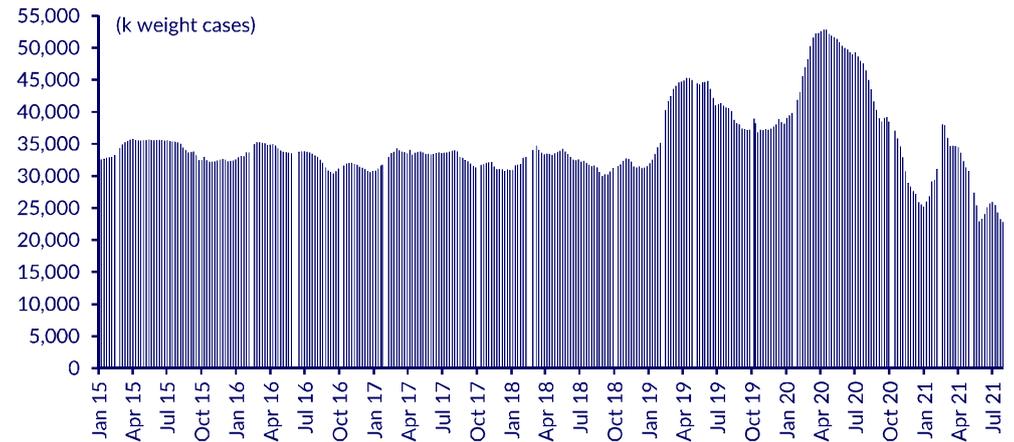


Source: CLSA

Float glass inventory has fallen from its peak

Figure 7

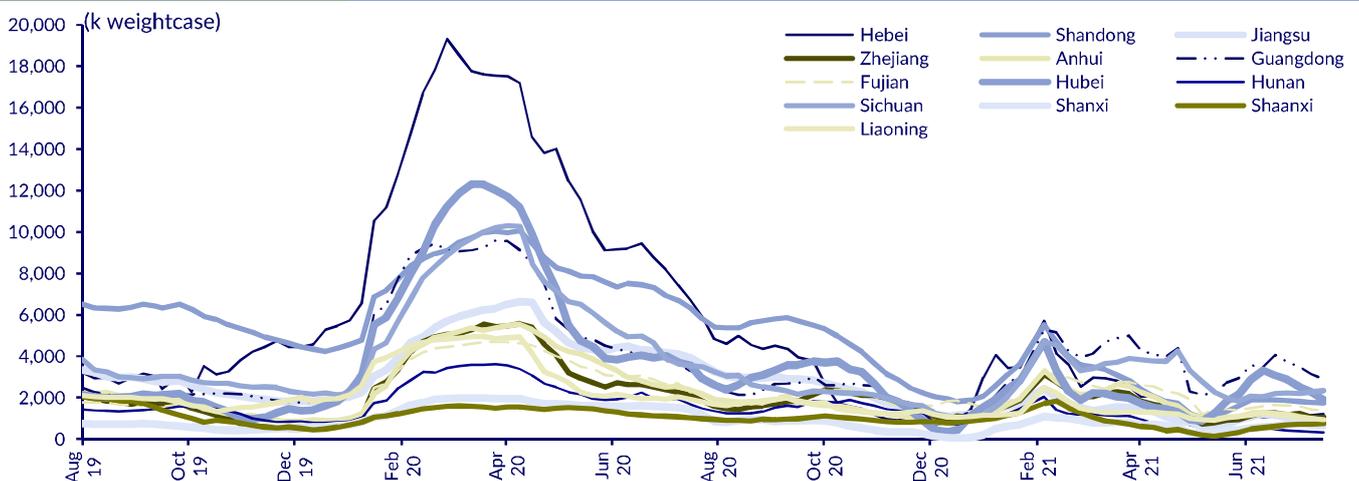
Float glass inventory in China



Source: CLSA

Figure 8

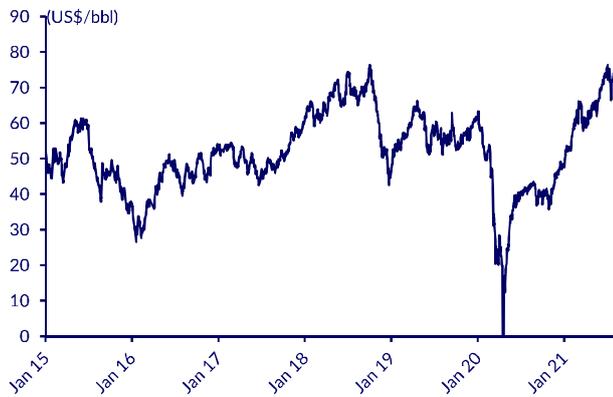
Float glass inventory by region



Source: sci99.com, CLSA

Figure 9

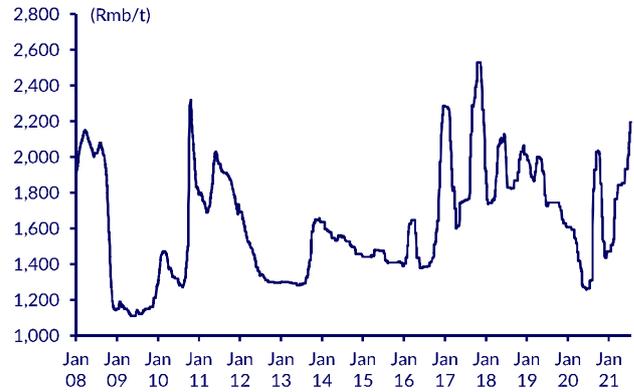
WTI crude



Source: WIND, CLSA

Figure 10

Domestic soda-ash prices



Source: WIND, CLSA

Figure 11

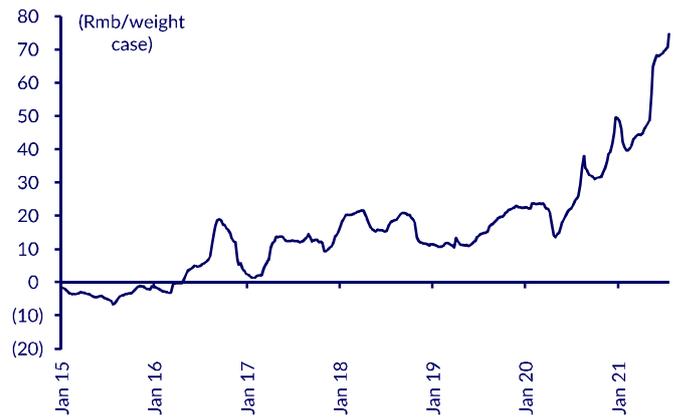
Approximate spread between the float-glass price and major costs (natural gas and soda ash) for XYG



Source: CLSA

Figure 12

Approximate spread between the float-glass price and major costs (natural gas and soda ash) for the industry

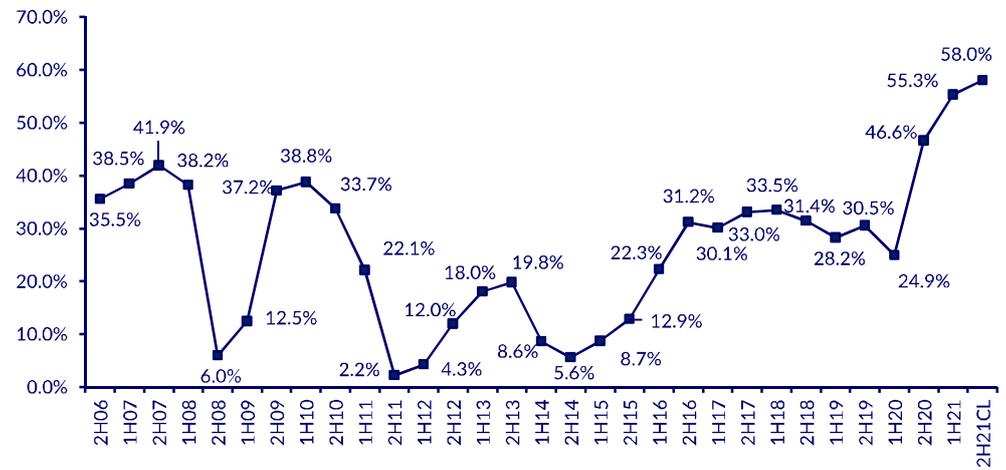


Source: CLSA

XYG's float glass GPM will likely stay high in 21CL

Figure 13

XYG's float glass GPM - half-yearly



Source: XYG, CLSA

Industry consolidation is happening and XYG is well-positioned to win market shares

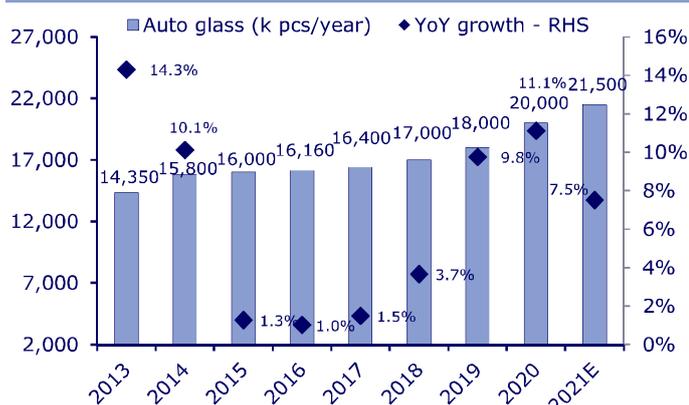
Well positioned to win share

On the other hand, given the limitation on new supply, acquisition becomes an important way for players to expand in the industry. We treasure XYG's leading industry position and strong capital (HK\$7.3bn cash on hand with 14.6% net gearing at end-1H21) to facilitate M&A; eg, XYG recently became the restructuring investor of the bankrupted AVIC Glass, which owns 4x600t/d float glass lines (one under operation and the remaining three to likely gradually resume operation in the coming months) vs XYG's current capacity of 25,330t/d. We expect more deals to come. Besides, after easing of the pandemic situation, XYG will resume its strategy to expand overseas (say in SEA).

For auto glass, it will also continue the expansions in Beihai as well as in Malaysia, further supporting steady growth of the segment with new product developments (e.g. ADAS related products, HUD, sunroof glass, etc.) to generate stable cash flows to the business.

Figure 14

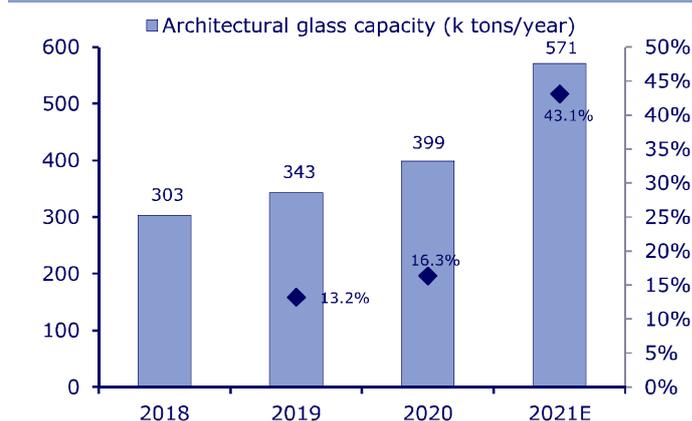
Auto glass capacity, aftermarket



Source: Company, CLSA

Figure 15

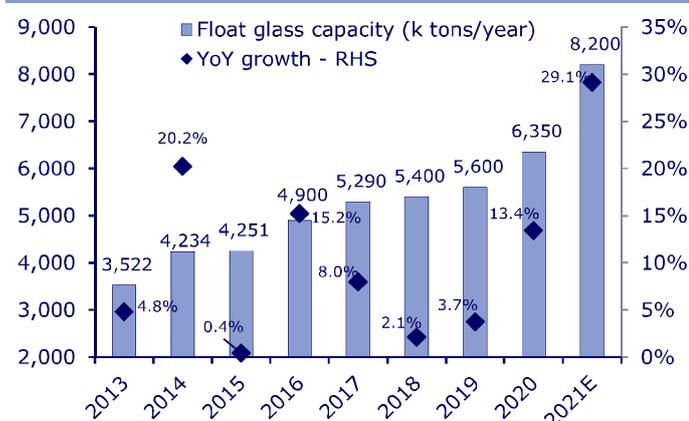
Architecture glass capacity



*Based on the amount of float glass used. Source: Company, CLSA

Figure 16

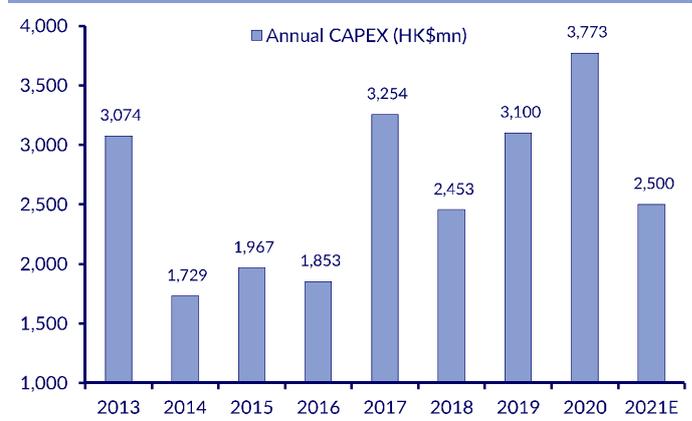
Float-glass capacity



Source: Company, CLSA

Figure 17

XYG's Capex plan



Source: Company, CLSA

Reiterate BUY rating

We lift 21/22/23CL core profits by 8.4%/13.0%/13.4% with higher sales in all segments, contribution from the acquired AVIC Glass and higher GPM, offset by higher expenses. We lift our target price from HK\$40.70 to HK\$44.70, based on the same blended average 22-23CL PE/PB of 16.5x/2.8x, both at 2.5 std. above their historical averages given the significant improvement in profitability compared with average levels. Given healthy industry dynamics with further market share gain potential to support decent operating performance, we reiterate our BUY rating.

Figure 18

XYG earnings revisions

HK\$m	New			Old			Change		
	21CL	22CL	23CL	21CL	22CL	23CL	21CL	22CL	23CL
Revenue									
Automobile glass products	5,297	5,756	6,013	4,951	5,380	5,620	7.0%	7.0%	7.0%
Architecture glass	2,893	3,104	3,367	2,578	2,736	2,999	12.2%	13.5%	12.3%
Float glass (including electronic glass)	21,831	24,351	25,741	19,976	21,143	22,243	9.3%	15.2%	15.7%
Total	30,021	33,211	35,121	27,505	29,258	30,861	9.1%	13.5%	13.8%
Gross margin									
Automobile glass products	49.4%	50.4%	51.0%	46.8%	47.5%	48.0%	2.6 ppt	2.9 ppt	3.1 ppt
Architecture glass	44.0%	45.7%	46.7%	46.4%	47.5%	48.5%	-2.4 ppt	-1.8 ppt	-1.8 ppt
Float glass (including electronic glass)	56.8%	58.5%	58.8%	54.2%	55.4%	55.6%	2.7 ppt	3.1 ppt	3.1 ppt
Total	54.3%	55.9%	56.3%	52.1%	53.2%	53.5%	2.2 ppt	2.7 ppt	2.7 ppt
Core profit	12,091	13,764	15,185	11,153	12,177	13,395	8.4%	13.0%	13.4%

Source: CLSA

Earnings are more sensitive to prices than costs

Our target price is based on a blended PE and PB approach, and is unchanged

Figure 19

Earnings sensitivity analysis

	Change in 21CL core profit
1% increase in float glass price	+1.2%
1% increase in auto glass price	+0.3%
1% increase in architecture glass price	+0.3%
1% increase in soda ash price	-0.2%
1% increase in unit fuel cost	-0.3%

Source: CLSA

Figure 20

Valuation of Xinyi Glass

PE basis	
Avg 22-23 CL (HK\$)	3.56
Target multiple (x)	16.5
Fair value (HK\$)	58.69
PB basis	
Avg 22-23 (HK\$)	11.00
Target multiple (x)	2.8
Fair value (HK\$)	30.80
Average/target price (HK\$)	44.70
Implied 21CL PE	15.0x

Source: CLSA

Xinyi Glass's current market cap implies 7.9x/6.8x for its non-solar business earnings in 21/22CL

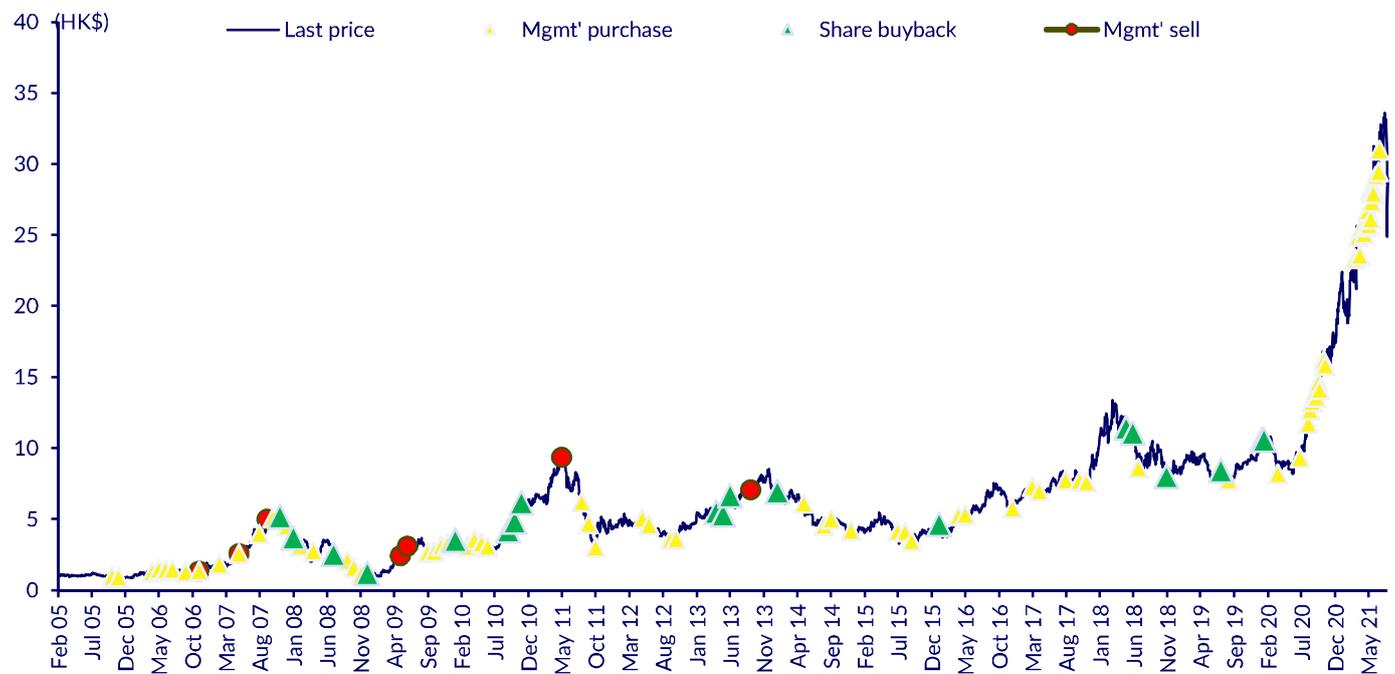
Figure 21

Valuation of Xinyi Glass's non-solar business			
HK\$m		FY21CL	FY22CL
Net profit of Xinyi Glass		12,091	13,764
Less: after-tax share of profits of Xinyi Solar		(1,311)	(1,196)
Less: after-tax share of profits of Xinyi Energy		(77)	(84)
Non-solar profit	(a)	10,780	12,568
Current market cap of Xinyi Glass	(b)	120,403	120,403
Current market cap of Xinyi Solar	(c)	143,443	143,443
Current market cap of Xinyi Energy	(d)	36,403	36,403
Market cap of Xinyi Glass's non-solar business	(e) = (b) - 22.95%*(c) - 6.02%*(d)	85,291	85,291
PE of Xinyi Glass's non-solar business	(f) = (e)/(a)	7.9	6.8

Source: CLSA

Figure 22

XYG's previous management buy/sell and company repurchase activity



Source: FactSet, HKEx, CLSA

Figure 23

Xinyi Glass 12-month forward PE



Source: CLSA

Figure 24

Xinyi Glass 12-month forward PB



Valuation details

We value Xinyi Glass using a blended PE and PB approach. We apply a target multiple of 16.5x to avg 22-23CL EPS and a target multiple of 2.8x to avg 22-23CL BVPS, both at around 2.5 standard deviation above the historical average, considering its above average margin amid an upcycle in the float glass market.

Investment risks

Key risks include: 1) Weakening of the property market or even the auto market. Demand for float glass and construction glass is highly dependent on the property market. In addition, despite being a stable business, the auto glass segment is correlated to the global number of vehicles in use, and any significant slowdown in the global auto industry may also hinder the segment's performance. 2) Further tightening of credit. Tightening of credit also affects developers' cashflows and progress in construction of property projects. 3) Incremental production costs. A significant surge in natural gas, international crude oil prices, and other raw material costs may affect gross margins if the company cannot pass on incremental costs by raising average selling prices. 4) More capacity additions in the market. 5) Prolonged impact from Covid-19 could hinder downstream demand in China as well as internationally, given that float glass production lines cannot be stopped easily; thus slower shipments may result in excess inventory. International lockdown measures could also hinder auto glass sales (which are mainly exports) and float glass at the Malaysia plant.

Detailed financials

Profit & Loss (HK\$m)

Year to 31 December	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Revenue	14,728	16,014	16,258	18,616	30,021	33,211	35,121
Cogs (ex-D&A)	(8,438)	(9,222)	(9,387)	(9,775)	(12,370)	(13,202)	(13,808)
Gross Profit (ex-D&A)	6,290	6,792	6,871	8,840	17,652	20,009	21,313
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	-	-	-	-	-	-	-
Other SG&A	(1,970)	(2,320)	(2,546)	(2,663)	(3,608)	(3,822)	(3,898)
Other Op Expenses ex-D&A	-	0	-	-	-	-	-
Op Ebitda	4,320	4,472	4,325	6,178	14,043	16,187	17,415
Depreciation/amortisation	(921)	(1,004)	(1,074)	(1,170)	(1,482)	(1,581)	(1,675)
Op Ebit	3,399	3,468	3,251	5,008	12,561	14,606	15,740
Interest income	45	71	92	38	54	73	79
Interest expense	(151)	(214)	(274)	(193)	(158)	(121)	(30)
Net interest inc/(exp)	(107)	(142)	(182)	(155)	(105)	(48)	49
Associates/investments	700	566	640	1,124	1,388	1,280	1,657
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	387	541	529	464	477	522	548
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	317	537	778	889	-	-	-
Profit before tax	4,696	4,970	5,016	7,330	14,321	16,359	17,994
Taxation	(682)	(723)	(533)	(899)	(2,221)	(2,586)	(2,800)
Profit after tax	4,014	4,248	4,483	6,431	12,100	13,773	15,194
Preference dividends	0	0	0	0	0	0	0
Profit for period	4,014	4,248	4,483	6,431	12,100	13,773	15,194
Minority interest	0	(11)	(5)	(9)	(9)	(9)	(9)
Net profit	4,014	4,237	4,478	6,422	12,091	13,764	15,185
Extraordinaries/others	0	0	0	0	0	0	0
Profit available to ordinary shares	4,014	4,237	4,478	6,422	12,091	13,764	15,185
Dividends	(1,926)	(2,081)	(2,208)	(3,198)	(5,989)	(6,818)	(7,521)
Retained profit	2,088	2,155	2,270	3,224	6,102	6,947	7,664
Adjusted profit	3,697	3,699	3,700	5,533	12,091	13,764	15,185
EPS (HK¢)	99.7	105.0	111.4	159.5	297.6	338.2	373.1
Adj EPS [pre excep] (HK¢)	91.9	91.7	92.1	137.7	297.6	338.2	373.1
Core EPS (HK¢)	91.9	91.7	92.1	137.4	297.6	338.2	373.1
DPS (HK¢)	48.0	52.0	55.0	79.0	147.7	168.2	185.5

Profit & loss ratios

Year to 31 December	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Growth (%)							
Revenue growth (% YoY)	14.6	8.7	1.5	14.5	61.3	10.6	5.8
Ebitda growth (% YoY)	17.9	3.5	(3.3)	42.8	127.3	15.3	7.6
Ebit growth (% YoY)	19.8	2.0	(6.3)	54.0	150.8	16.3	7.8
Net profit growth (%)	24.9	5.6	5.7	43.4	88.3	13.8	10.3
EPS growth (% YoY)	23.9	5.3	6.1	43.1	86.6	13.6	10.3
Adj EPS growth (% YoY)	20.1	(0.2)	0.4	49.6	116.2	13.6	10.3
DPS growth (% YoY)	20.0	8.3	5.8	43.6	87.0	13.8	10.3
Core EPS growth (% YoY)	20.1	(0.2)	0.4	49.3	116.6	13.6	10.3
Margins (%)							
Gross margin (%)	42.7	42.4	42.3	47.5	58.8	60.2	60.7
Ebitda margin (%)	29.3	27.9	26.6	33.2	46.8	48.7	49.6
Ebit margin (%)	23.1	21.7	20.0	26.9	41.8	44.0	44.8
Net profit margin (%)	27.3	26.5	27.5	34.5	40.3	41.4	43.2
Core profit margin	25.1	23.1	22.8	29.7	40.3	41.4	43.2
Op cashflow margin	14.2	18.3	10.7	10.7	35.2	39.6	40.9
Returns (%)							
ROE (%)	25.6	23.0	22.7	26.4	39.1	36.7	33.9
ROA (%)	10.7	9.4	8.4	10.8	21.9	23.3	24.2
ROIC (%)	16.6	15.0	14.1	18.2	38.3	41.8	43.5
ROCE (%)	16.2	14.5	12.9	16.4	35.5	39.4	41.2
Other key ratios (%)							
Effective tax rate (%)	14.5	14.5	10.6	12.3	15.5	15.8	15.6
Ebitda/net int exp (x)	40.6	31.4	23.8	39.9	134.3	335.9	-
Exceptional or extraord. inc/PBT (%)	6.7	10.8	15.5	12.1	0.0	0.0	0.0
Dividend payout (%)	48.1	49.5	49.4	49.5	49.6	49.7	49.7

Source: www.clsa.com

Balance sheet (HK\$m)

Year to 31 December	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Cash & equivalents	3,051	4,692	5,142	5,304	9,607	10,627	11,239
Accounts receivable	1,243	1,278	1,410	1,411	2,274	2,516	2,661
Inventories	1,698	1,755	2,045	2,496	2,873	3,066	3,207
Other current assets	1,940	1,433	1,709	3,730	3,730	3,730	3,730
Current assets	7,932	9,158	10,305	12,941	18,484	19,939	20,836
Fixed assets	12,929	13,079	14,203	17,142	18,291	19,340	20,295
Investments	4,416	4,724	5,554	8,231	8,231	8,231	8,231
Goodwill	0	0	0	0	0	0	0
Other intangible assets	3,497	3,812	3,659	4,298	4,167	4,037	3,906
Other non-current assets	1,532	1,906	2,533	2,459	2,459	2,459	2,459
Total assets	30,305	32,679	36,254	45,071	51,632	54,006	55,728
Short term loans/OD	2,068	3,094	4,463	3,810	3,911	2,383	416
Accounts payable	923	920	1,045	1,396	1,545	1,649	1,724
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	535	611	610	967	967	967	967
Other current liabs	1,631	1,977	2,304	2,521	2,521	2,521	2,521
Current liabilities	5,157	6,603	8,422	8,694	8,944	7,520	5,629
Long-term debt/leases/other	6,399	6,875	6,354	7,847	8,056	4,908	857
Convertible bonds	0	0	0	0	0	0	0
Provisions/other LT liabs	443	499	551	556	556	556	556
Total liabilities	11,999	13,977	15,327	17,098	17,557	12,984	7,042
Share capital	3,038	1,587	1,658	4,601	4,601	4,601	4,601
Retained earnings	15,199	17,037	19,189	23,281	29,383	36,329	43,993
Reserves/others	0	0	-	0	0	0	0
Shareholder funds	18,237	18,625	20,846	27,882	33,984	40,930	48,594
Minorities/other equity	69	78	81	92	92	92	92
Total equity	18,306	18,702	20,927	27,973	34,076	41,022	48,686
Total liabs & equity	30,305	32,679	36,254	45,071	51,632	54,006	55,728
Total debt	8,466	9,969	10,817	11,657	11,968	7,291	1,273
Net debt	5,415	5,277	5,674	6,353	2,361	(3,336)	(9,965)
Adjusted EV	120,982	120,474	119,927	118,650	115,088	109,391	102,762
BVPS (HK¢)	451.7	461.6	517.1	687.6	835.1	1,005.8	1,194.1

Balance sheet ratios

Year to 31 December	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Key ratios							
Current ratio (x)	1.5	1.4	1.2	1.5	2.1	2.7	3.7
Growth in total assets (% YoY)	26.2	7.8	10.9	24.3	14.6	4.6	3.2
Growth in capital employed (% YoY)	30.7	1.1	10.9	29.0	6.1	3.4	2.7
Net debt to operating cashflow (x)	2.6	1.8	3.3	3.2	0.2	-	-
Gross debt to operating cashflow (x)	4.1	3.4	6.2	5.8	1.1	0.6	0.1
Gross debt to Ebitda (x)	2.0	2.2	2.5	1.9	0.9	0.5	0.1
Net debt/Ebitda (x)	1.3	1.2	1.3	1.0	0.2	-	-
Gearing							
Net debt/equity (%)	29.6	28.2	27.1	22.7	6.9	(8.1)	(20.5)
Gross debt/equity (%)	46.2	53.3	51.7	41.7	35.1	17.8	2.6
Interest cover (x)	22.8	16.6	12.2	26.2	79.6	121.0	519.4
Debt cover (x)	0.2	0.3	0.2	0.2	0.9	1.8	11.3
Net cash per share (HK¢)	(134.6)	(130.8)	(141.2)	(158.1)	(58.1)	82.0	244.9
Working capital analysis							
Inventory days	65.3	68.3	73.9	84.8	79.2	82.1	82.9
Debtor days	28.2	28.7	30.2	27.7	22.4	26.3	26.9
Creditor days	37.0	36.5	38.2	45.6	43.4	44.1	44.6
Working capital/Sales (%)	12.2	6.0	7.4	14.8	12.8	12.6	12.5
Capital employed analysis							
Sales/Capital employed (%)	62.1	66.8	61.1	54.2	82.4	88.1	90.7
EV/Capital employed (%)	510.0	502.4	450.8	345.7	315.9	290.3	265.4
Working capital/Capital employed (%)	7.6	4.0	4.5	8.0	10.6	11.1	11.3
Fixed capital/Capital employed (%)	54.5	54.5	53.4	49.9	50.2	51.3	52.4
Other ratios (%)							
PB (x)	6.6	6.4	5.7	4.3	3.6	3.0	2.5
EV/Ebitda (x)	28.0	26.9	27.7	19.2	8.2	6.8	5.9
EV/OCF (x)	58.0	41.0	68.7	59.4	10.9	8.3	7.1
EV/FCF (x)	(103.6)	248.4	(88.5)	(66.9)	14.3	10.3	8.7
EV/Sales (x)	8.2	7.5	7.4	6.4	3.8	3.3	2.9
Capex/depreciation (%)	384.8	267.5	313.9	352.9	185.0	172.3	161.8

Source: www.clsa.com

Cashflow (HK\$m)

Year to 31 December	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Operating profit	3,399	3,468	3,251	5,008	12,561	14,606	15,740
Operating adjustments	-	-	-	-	-	-	-
Depreciation/amortisation	921	1,004	1,074	1,170	1,482	1,581	1,675
Working capital changes	(1,332)	(481)	(1,611)	(2,988)	(1,092)	(331)	(210)
Interest paid / other financial expenses	(219)	(330)	(436)	(292)	(158)	(121)	(30)
Tax paid	(682)	(723)	(533)	(899)	(2,221)	(2,586)	(2,800)
Other non-cash operating items	-	-	-	-	-	-	-
Net operating cashflow	2,086	2,938	1,746	1,998	10,572	13,149	14,375
Capital expenditure	(3,254)	(2,453)	(3,100)	(3,773)	(2,500)	(2,500)	(2,500)
Free cashflow	(1,168)	485	(1,354)	(1,775)	8,072	10,649	11,875
Acq/inv/disposals	-	-	366	(374)	-	-	-
Int, invt & associate div	1,448	1,705	2,034	2,506	1,910	1,865	2,276
Net investing cashflow	(1,806)	(748)	(700)	(1,641)	(590)	(635)	(224)
Increase in loans	792	1,503	847	841	310	(4,676)	(6,018)
Dividends	(1,926)	(2,081)	(2,208)	(3,198)	(5,989)	(6,818)	(7,521)
Net equity raised/others	1,136	30	765	2,163	-	-	-
Net financing cashflow	2	(549)	(596)	(195)	(5,679)	(11,494)	(13,539)
Incr/(decr) in net cash	283	1,641	450	162	4,303	1,021	611
Exch rate movements	-	-	-	-	-	-	-
Opening cash	2,768	3,051	4,692	5,142	5,304	9,607	10,627
Closing cash	3,051	4,692	5,142	5,304	9,607	10,627	11,239
OCF PS (HK¢)	51.8	72.8	43.4	49.7	260.2	323.1	353.2
FCF PS (HK¢)	(29.0)	12.0	(33.7)	(44.2)	198.7	261.7	291.8

Cashflow ratio analysis

Year to 31 December	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Growth (%)							
Op cashflow growth (% YoY)	(15.0)	40.8	(40.6)	14.5	429.0	24.4	9.3
FCF growth (% YoY)	(294.4)	-	(379.3)	-	-	31.9	11.5
Capex growth (%)	75.6	(24.6)	26.4	21.7	(33.7)	0.0	0.0
Other key ratios (%)							
Capex/sales (%)	22.1	15.3	19.1	20.3	8.3	7.5	7.1
Capex/op cashflow (%)	156.0	83.5	177.6	188.8	23.6	19.0	17.4
Operating cashflow payout ratio (%)	92.6	71.4	126.6	158.9	56.8	52.0	52.5
Cashflow payout ratio (%)	92.3	70.8	126.5	160.1	56.7	51.8	52.3
Free cashflow payout ratio (%)	-	429.1	-	-	74.2	64.0	63.3

DuPont analysis

Year to 31 December	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Ebit margin (%)	23.1	21.7	20.0	26.9	41.8	44.0	44.8
Asset turnover (x)	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Interest burden (x)	1.4	1.4	1.5	1.5	1.1	1.1	1.1
Tax burden (x)	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Return on assets (%)	10.7	9.4	8.4	10.8	21.9	23.3	24.2
Leverage (x)	1.7	1.7	1.7	1.7	1.6	1.4	1.2
ROE (%)	25.6	23.0	22.7	26.4	39.1	36.7	33.9

EVA® analysis

Year to 31 December	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Ebit adj for tax	2,905	2,964	2,906	4,394	10,613	12,297	13,291
Average invested capital	17,455	19,752	20,677	24,125	27,707	29,386	30,528
ROIC (%)	16.6	15.0	14.1	18.2	38.3	41.8	43.5
Cost of equity (%)	14.3	14.3	14.3	14.3	14.3	14.3	14.3
Cost of debt (adj for tax)	1.4	1.4	1.5	1.4	1.4	1.4	1.4
Weighted average cost of capital (%)	10.6	10.6	10.6	10.6	10.6	10.6	10.6
EVA/IC (%)	6.0	4.4	3.4	7.6	27.7	31.2	32.9
EVA (HK\$m)	1,053	868	708	1,831	7,674	9,180	10,052

Source: www.clsa.com



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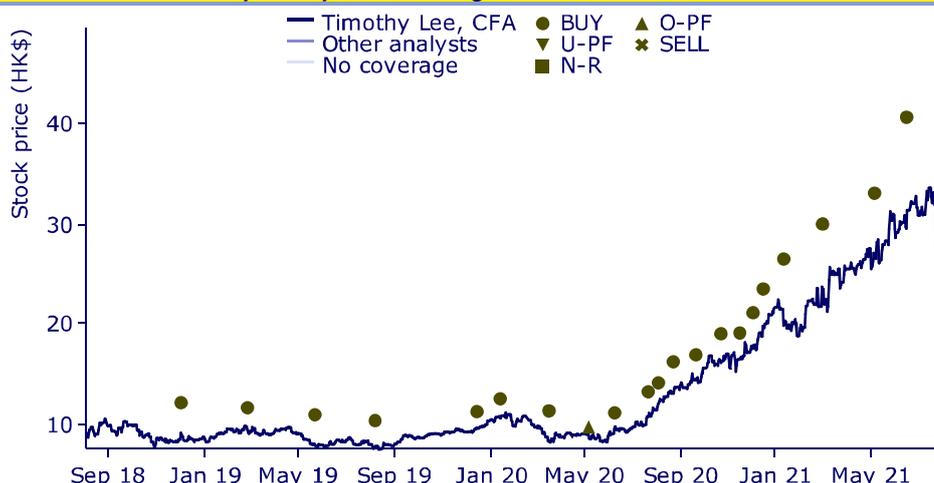
- Xinyi Glass (868 HK - HK\$29.70 - BUY)
- AVIC Glass (N-R)
- Xinyi Energy (N-R)
- Xinyi Solar (968 HK - HK\$16.28 - BUY)

Analyst certification

The analyst(s) of this report hereby certify that the views expressed in this research report accurately reflect my/our own personal views about the securities and/or the issuers and that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

Important disclosures

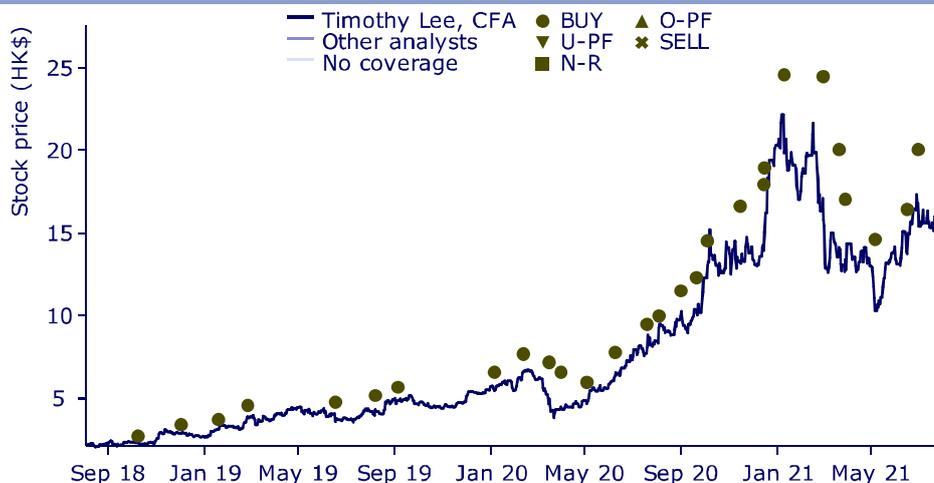
Recommendation history of Xinyi Glass Holdings Ltd 868 HK



Date	Rec	Target	Date	Rec	Target
LATEST	BUY	44.70	04 Aug 2020	BUY	14.10
17 Jun 2021	BUY	40.70	22 Jul 2020	BUY	13.20
07 May 2021	BUY	33.10	09 Jun 2020	BUY	11.10
02 Mar 2021	BUY	30.00	07 May 2020	O-PF	9.70
11 Jan 2021	BUY	26.50	17 Mar 2020	BUY	11.30
16 Dec 2020	BUY	23.50	15 Jan 2020	BUY	12.50
03 Dec 2020	BUY	21.10	16 Dec 2019	BUY	11.20
16 Nov 2020	BUY	19.10	08 Aug 2019	BUY	10.30
23 Oct 2020	BUY	19.00	23 May 2019	BUY	10.90
21 Sep 2020	BUY	16.90	26 Feb 2019	BUY	11.60
23 Aug 2020	BUY	16.20	03 Dec 2018	BUY	12.10

Source: CLSA

Recommendation history of Xinyi Solar Holdings Ltd 968 HK



Date	Rec	Target	Date	Rec	Target
01 Jul 2021	BUY	20.00	20 Jul 2020	BUY	9.50
17 Jun 2021	BUY	16.40	09 Jun 2020	BUY	7.80
07 May 2021	BUY	14.60	04 May 2020	BUY	6.00
30 Mar 2021	BUY	17.00	01 Apr 2020	BUY	6.60
22 Mar 2021	BUY	20.00	17 Mar 2020	BUY	7.20
02 Mar 2021	BUY	24.40	13 Feb 2020	BUY	7.70
11 Jan 2021	BUY	24.50	07 Jan 2020	BUY	6.60
17 Dec 2020	BUY	18.90	06 Sep 2019	BUY	5.70
16 Dec 2020	BUY	17.90	08 Aug 2019	BUY	5.20
16 Nov 2020	BUY	16.60	18 Jun 2019	BUY	4.80
05 Oct 2020	BUY	14.50	26 Feb 2019	BUY	4.60
21 Sep 2020	BUY	12.30	20 Jan 2019	BUY	3.75
01 Sep 2020	BUY	11.50	03 Dec 2018	BUY	3.45
04 Aug 2020	BUY	10.00	09 Oct 2018	BUY	2.75

Source: CLSA

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