

# Xinyi Glass(868.HK)

## Pay attention to its electronic glass project

Bloomberg | Reuters | POEMS

868.HK | 868.HK | 868.HK

Industry: Industry Goods



Phillip Securities (HK) Ltd

Phillip Securities Research

29 April 2014

### Initiation

Rating: Neutral CP:6.14HKD TP:6.3HKD

### Company Profile

Xinyi Glass was founded in 1988, as a major supplier in the global supply chain, mainly focuses on producing float glass, automobile glass, construction glass and other related products, and accounts for over 20% of the world automobile glass replacement market, and around 15% of the LOW-E glass market in China.

### Summary

• **Company Profile:** Xinyi Glass was founded in 1988, as a major supplier in the global supply chain, mainly focuses on producing float glass, automobile glass, construction glass and other related products, and accounts for over 20% of the world automobile glass replacement market, and around 15% of the LOW-E energy-conversion glass market in China. A subsidiary of the Company, Xinyi Solar, controlled by Xinyi with the shares of 31.2%, was listed separately in stock market, which mainly focuses on producing solar glass and owns over 20% of the global solar glass market.

• **FY2013 result increased strongly by 200% benefited from the industry recovery and large growth of disposable incomes:** The Company's sales revenue and net profit amounted to HK\$11.78 and 3.522 billion, up 20.4% and 196.4% y-y respectively. The diluted EPS was HK\$0.891, up 184% y-y, and the DPS was HK\$0.14 by the end of the year with the annual DPS of HK\$0.27 in total.

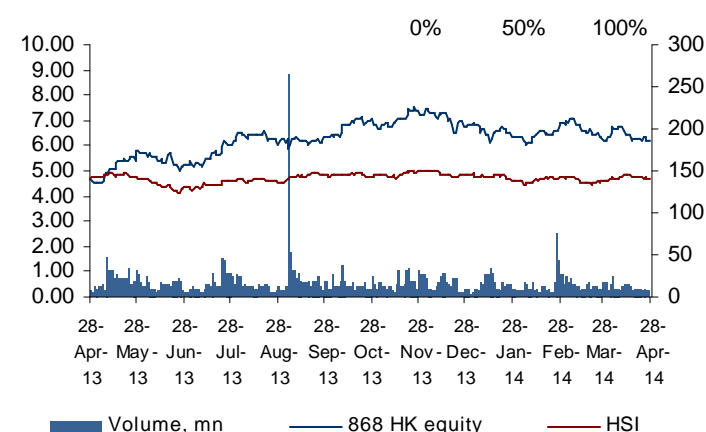
The main reasons of sharp increase of profits are:

- 1) Disposable incomes from the spin-off and separating listing of Xinyi Solar (XYS), and the net profits increased by over 80% excluding such factor, the incomes increased by 17.8%;
- 2) Low base due to the industry depression in 2012;
- 3) Obvious development of main businesses benefited from the growth of demand and price under the good markets of float glass and solar glass, and the government's stimulated policies.

On a closer look, the sales of float glass, automobile glass, construction glass and solar glass increased by 19%, 7%, 36.8% and 36.5% respectively. The growth of the demand from the Mainland, which increased by 26.5% y-y, up 3.5ppts to 73.7% of total revenues, offset the impact of the declining of the European and American markets.

### XinYi Glass

<b>Rating</b>	<b>3.00</b>	<b>Neutral</b>
- Previous Rating	NA	Not Rated
<b>Target Price (HKD)</b>	<b>6.3</b>	
- Previous Target Price (HKD)	NA	
Closing Price (HKD)	6.14	
Expected Capital Gains (%)	2.6%	
Expected Dividend Yield (%)	4.4%	
<b>Expected Total Return (%)</b>	<b>7.0%</b>	
Raw Beta (Past 2yrs w weekly data)	0.99	
Market Cap. (HKD bn)	24,079	
Enterprise Value (HKD mn)	28,177	
52 week range (HKD)	4.62 - 7.79	
Closing Price in 52 week range		



### Key Financial Summary

FYE	12/13F	12/14F	12/15F	12/16F
Revenue (HK\$ mn)	9,936	12,439	14,687	16,507
Net Profit, adj. (HK\$ mn)	3,522	2,423	2,910	3,277
EPS, adj. (HK\$)	0.92	0.63	0.76	0.86
P/E (X),adj.	6.7	9.7	8.1	7.2
BVPS (HK\$)	3.11	3.46	3.87	4.37
P/B (X)	2.0	1.8	1.6	1.4
DPS (HK\$)	0.27	0.26	0.33	0.37
Div. Yield (%)	4.4%	4.2%	5.4%	6.0%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Valuation Method

PE&PB

### Analyst

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• **Obvious improvement of the profitability:** Due to the strong rebound of the profitability of float glass and solar glass, the Company's gross margin increased by 6ppts to 31.3% from 25.3% during the same period of last year. The gross margin of float glass and solar glass increased largely by 10.4ppts and 11.6ppts to 19% and 30% respectively, and the gross margin of automobile glass and architectural glass maintained stable as 43% and 40% respectively.

• **The Spin-off of XYS was helpful to reduce the performance volatility:** After the Spin-off of XYS by way of introduction, the Company's shares of XYS reduced from 100% to 31.2%. We believe the Spin-off of XYS will help Xinyi Glass to reduce the performance volatility considering the downstream demand of photovoltaic industry is still flat affected by the weakness of the global economy currently.

• **The growth ratio of float glass decreased slightly in the short run.** After the Spring Festival in 2014, the dealers completed the preparation of goods and due to the shortage of orders from the downstream property industry, the inventory of flat glass manufacturers increased largely, and the average glass price in main cities dropped from the peak in 2013, therefore we expect the price pressure will increase in the short term under the large growth of new capacity of the industry. In the medium and long term, the structure of the industrial demand and supply is expected to improve after the implementation of the policies of eliminating backward production capacity and the increase of glass consumption per property unit area.

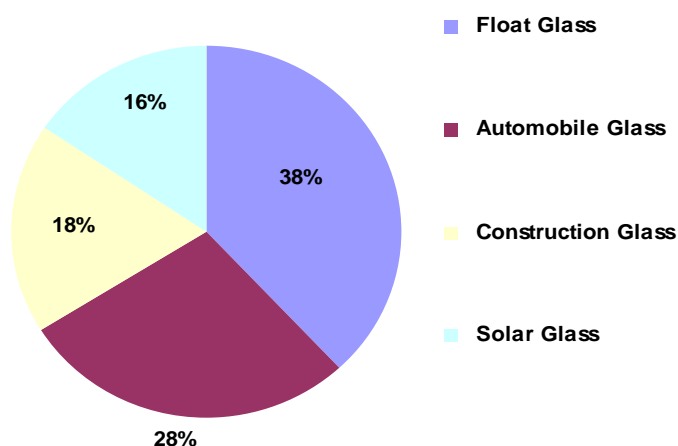
• **Good prospects of automobile glass aftermarket and energy-saving glass market.** After the rapid growth in the last few years, China's vehicles amounted to 0.13 billion units, and would be over 0.3 billion as expectation in future, which shows a good prospect for the scale of the automobile aftermarket, the profit contribution of automobile glass was over 38% of the Company's total gross profits, and there is a good prospect for the Company's development as a leader in the automobile glass replacement market. According to the energy-saving construction glass, currently the proportion of China's energy-saving glass is below 10%, much lower than the popularizes degree of 50%-60% in the developed countries, and there is a great potential for the Company's Low-E glass market under the promotion of the nation's environmental protection and energy-saving policies. The Company plans to increase the capacities of automobile glass and construction glass by 10% and 40% respectively, and the capacity of float glass will be increased by 27%, the annual capital expenditure will go up to HK\$2.2 billion as well.

• **Pay close attention to the development of electronic glass project.** The Company starts to expand the ultra-thin electronic glass business besides four main glass businesses in recent years, the ultra-thin electronic glass is one of the most widely used and the fastest-growing specialized glasses in high and new technology such as microelectronic, photoelectron, and new energy, and one of

fundamental sources of the flat display, which is widely used in the high-tech smart phones (e.g. iPhone), touch screen of television and tablet computer, and so on. Currently there are good prospects for the ultra-thin electronic glass industry, which owns a great potential demand. The Company's first ultra-thin electronic glass production line put into operation in April 2013, and the second line will be put into operation this year, and the segment is expected to make the profit in 2014. It will improve the Company's incomes and profitability strongly and becomes the strong driving force for the growth if there are any breakthroughs in its technical formula and pass yield.

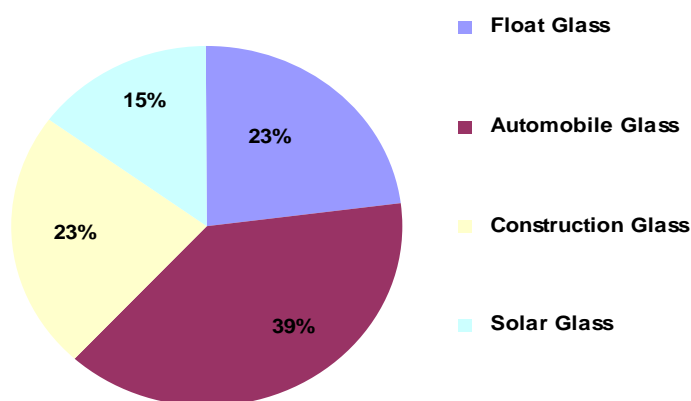
• **Valuation and rating:** Our target price for 12 months to HK\$6.3, equivalent to 10/8.3/7.4xP/E and 1.8/1.6/1.4xP/B in 2014/2015/2016 respectively. We initiate "neutral" rating.

Fig 1. FY2013 total revenues by segments



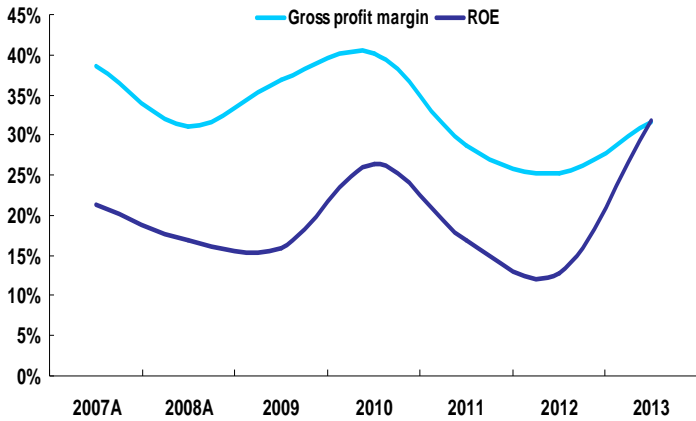
Source: Company reports, Phillip Securities

Fig 2. FY2013 gross profits by segments



Source: Company reports, Phillip Securities

Fig 3. View of profitability



Source: Company reports, Phillip Securities

Fig 4. View of Est P/B and Est P/E



Source: Bloomberg, Phillip Securities

Fig 5. Peer Comparison

Name	Ticker	Mkt Cap (HKD)	BEst		BEst		BEst		ROA	
			P/B	Y+1	P/E	Y+1	EV/BEst	P/B	LF	ROE
FUYAO GROUP GLASS INC	600660 CH Equi	20761	1.74	1.45	7.89	6.85	5.15	2.14	13.88	25.89
CSG HOLDING CO LTD- A	000012 CH Equi	16643	1.67	1.47	10.53	9.57	6.69	1.91	10.44	20.67
SHANGHAI YAOHUA PILKII	600819 CH Equi	9514	2.82	2.54	30.93	22.63	N/A	3.12	2.35	7.27
XINYI GLASS HOLDINGS LT	868 HK Equity	24236	1.79	1.59	9.87	8.16	8.22	1.99	19.72	31.80
MINTH GROUP LTD	425 HK Equity	13352	1.28	1.15	9.33	8.04	6.16	1.44	9.31	13.65
LUOYANG GLASS COMPAI	1108 HK Equity	2079	N/A	N/A	N/A	N/A	N/A	23.37	-7.83	-119.66
CHINA GLASS HOLDINGS I	3300 HK Equity	1550	0.54	0.50	7.68	5.38	6.13	0.60	-1.31	-3.69
ASAHI GLASS CO LTD	5201 JP Equity	52598	0.64	0.63	26.90	19.80	5.90	0.62	0.51	1.01
CORNING INC	GLW US Equity	223656	1.30	1.19	14.04	12.69	7.27	1.37	6.78	9.20

Source: Bloomberg, Phillip Securities

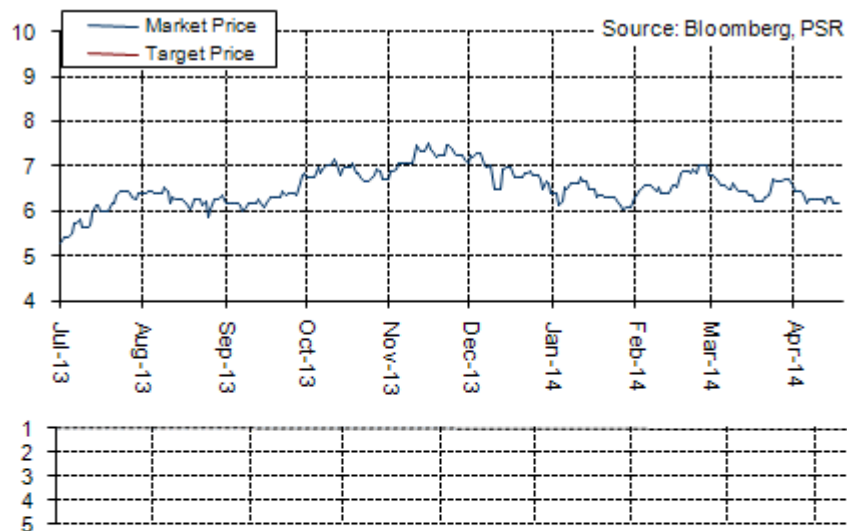
**Risk**

- Lower-than-expected demand of Xinyi's product due to a Slower economy recovers.
- Lower-than-expected removal of backward capacity
- RM risks
- Export risks

FYE DEC	FY11	FY12	FY13	FY14F	FY15F	FY16F
<b>Valuation Ratios</b>						
P/E (X), adj.	17.5	19.4	6.7	9.7	8.1	7.2
P/B (X)	2.7	2.3	2.0	1.8	1.6	1.4
Dividend Yield (%)	2.6%	2.4%	4.4%	4.2%	5.4%	6.0%
<b>Per share data (HK\$)</b>						
EPS, reported	0.35	0.32	0.92	0.63	0.76	0.86
EPS, adj.	0.35	0.31	0.89	0.61	0.73	0.82
DPS	0.16	0.15	0.27	0.26	0.33	0.37
BVPS	2.31	2.63	3.11	3.46	3.87	4.37
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	29.3%	18.9%	1.5%	25.2%	18.1%	12.4%
EBIT	-17.9%	-5.8%	152.5%	-22.9%	20.0%	13.0%
Net Income, adj.	-19.5%	-6.1%	196.4%	-31.2%	20.1%	12.6%
<b>Margins</b>						
EBIT margin	19.0%	15.0%	37.3%	23.0%	23.4%	23.5%
Net Profit Margin	15.4%	12.1%	35.4%	19.5%	19.8%	19.9%
<b>Key ratios</b>						
ROE	16.8%	12.9%	31.8%	19.0%	20.9%	21.8%
Dividend payout ratio	45.5%	47.3%	29.4%	41.3%	43.5%	43.3%
<b>Income Statement (HK\$ mn)</b>						
Revenue	8227	9785	9936	12439	14687	16507
Cost of sales	5,873	7,310	6,799	8,334	9,752	10,961
Gross profit	2,354	2,475	3,137	4,105	4,935	5,546
<b>Operating expenses</b>	5,500	1,788	3,760	5,450	6,818	6,818
Profit from operations	965	1,197	1,251	1,530	1,801	2,020
Finacial cost	32	71	83	90	103	112
Net non oper loss	-13	-68	-1,471	-127	-140	-175
Profit before tax	1,526	1,398	3,627	2,771	3,330	3,766
<b>Tax</b>	262	209	381	349	420	437
Profit for the period	1,264	1,189	3,522	2,422	2,911	3,329
<b>Minority interests</b>	(1)	1	0	(1)	0	52
<b>Net profit</b>	<b>1,265</b>	<b>1,188</b>	<b>3,522</b>	<b>2,423</b>	<b>2,910</b>	<b>3,277</b>

Source: PSR

**Ratings History**



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

### PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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