

## Xinyi Glass [0868.HK]

Get Set, Go!

The average float glass price in key cities in China reached the highest level since the beginning of 2014, due to more favourable supply/demand dynamics, which is positive for Chinese glass manufacturers such as Xinyi Glass (XYG). The average float glass price in key cities has increased 2.5% this quarter. We still don't believe that XYG's share price underperformance is justified, as concerns about overseas expansion, demand for construction glass in China, Xinyi Solar's (XYS) [0968.HK] performance, and potential margins are expected to fade. We also maintain the view that the detailed expansion plan, with the exact locations of the production facilities, etc., will be released going forward and that the overseas expansion will have a positive impact on the XYG's profitability. Management reiterated the view that growth in sales of auto glass products is expected to pick up in 2H 2017 and said that it is looking for high-end projects for its architectural glass products. We believe that the float glass industry in China will see more favourable supply/demand dynamics, as the cold repairing cycle is likely to start in 2018, which will reduce production capacity, as will potential industry consolidation triggered by other glass manufacturers, which is positive for XYG. The improvement in sentiment on XYS is also positive for XYG. XYG is now trading at a 8.9x 2017 PER and an estimated yield of 5.5%. With its undemanding valuation, we maintain our BUY call, with a target price of HK\$10.13 (based on a 11x 2017E PER, lower than its historical average and the average of its listed peers).

### Investment Highlights

- Float glass price has reached a 3.5-year high.** In line with other local demand-driven commodities, the float glass price reached a 3.5-year high this week. The average float glass price in key cities in China reached RMB1,535.9/tonne on 11 Sep 2017, the highest level since the beginning of 2014, due to more favourable supply/demand dynamics, which is positive for Chinese glass manufacturers such as XYG. The average float glass price in key cities has increased 2.5% this quarter. The float glass price rose to over RMB2,000/tonne in Dongguan, thanks to tight supply. We maintain the view that the strong float glass price is a reflection of resilient downstream demand, which is attributable partly to stable construction activity. The Glass Industry Confidence Index has held up well since early Mar 2017 which in our view, indicates that the industry players are gaining confidence in the near-term outlook for the industry. We don't see a major reason for a sharp fall in the float glass price. The float glass price movement also indicates that glass makers are able to pass on cost increases to their customers. Based on our understanding, XYG also secured a supply of soda ash at lower cost from overseas suppliers, which will help protect the Company's profitability in the face of an increase in the soda ash price in the China market.
- Overseas expansion is positive.** Regarding overseas expansion, XYG is likely to focus on countries such as Malaysia and Canada, where we think the risks are more controllable, so investors should have less concern. XYG's float glass capacity will increase by 50% by 2020 from 5.3mt in 2017. The overseas expansion will enable XYG to benefit from the huge demand for float glass in ASEAN, Europe and the US, given its expertise and high product quality. We also maintain the view that the Company will release the details of its expansion plan once it is ready. The overseas expansion should have a positive effect on XYG's overall probability. Concern about XYG's overseas expansion is somewhat overdone, in our view.
- Cold repairing cycle and industry consolidation might further support the float glass price.** We reiterate the view that float glass industry will enter a cold repairing cycle (about 13% of total capacity) in 2017-2019, which is positive for the leading players, as the supply/demand dynamics will become more favourable. We also believe that the float glass industry is likely to enter another round of consolidation (recall that the industry entered an upcycle after the collapse of Farrun Group in 2015), led by other float glass manufacturers (for details, please refer to our update on China Glass Holdings [3300.HK]). As a leading player in the industry, XYG will be one of the major beneficiaries of industry consolidation.
- Non-float glass operations to pick up in 2H 2017.** XYG's automobile glass division is expected to pick up in 2H 2017, as the impact of the spin-off of Xinyi HK [8328.HK] and the anti-dumping case in Brazil has faded. A more favourable currency environment and improved project selection will also help XYG's architectural glass operation resume growth. Stabilization of the solar glass price will boost market sentiment on XYS, which is also indirectly positive for XYG. XYG is a laggard among the leading local demand-driven commodity names.

Key Financials (in HKDm)	2014	2015	2016	2017E	2018E
Revenue	10,261.1	11,460.3	12,848.4	14,346.4	16,008.0
Change (YoY %)	9.3	5.5	12.1	11.7	11.6
Gross Profit	2,733.4	3,132.7	4,659.3	5,191.2	5,742.9
Gross Margin %	25.2	27.3	36.3	36.2	35.9
Net Profit	1,364.3	2,113.1	3,213.4	3,606.3	4,031.0
Net Margin %	12.6	18.4	25.0	25.1	25.2
EPS (Basic)	0.35	0.54	0.83	0.90	1.01
Change (YoY %)	(61.3)	54.9	54.2	8.9	11.8
DPS	\$0.150	\$0.265	\$0.400	\$0.445	\$0.497
ROE (%)	11.1	16.9	24.8	25.7	25.4
Dividend Yield (%)	1.86	3.29	4.97	5.53	6.18
PER (x)	23.2	15.0	9.7	8.9	8.0
PBR (x)	2.6	2.5	2.4	2.2	1.9
FCF Yield (%)	-0.58%	3.32%	5.46%	3.06%	7.28%
Capex (m)	(1,729.0)	(1,967.0)	(1,853.0)	(2,500.0)	(1,501.0)
Free cash flow per share	(0.0)	0.3	0.4	0.2	0.6
Net Gearing (%)	42.0	37.2	37.3	38.3	31.7

Source: Bloomberg, CGIS Research

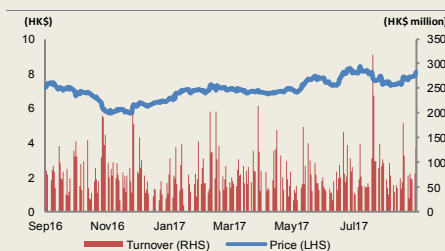
### China Construction Sector - Building Materials

# BUY

Close: HK\$8.05 (Sep 12, 2017)

Target Price: HK\$10.13 (+25.8%)

### Share Price Performance



Source: Bloomberg, CGIS Research

Market Cap	US\$4,125m
Shares Outstanding	3,999m
Auditor	Pricewaterhouse-Coopers
Free Float	46.3%
52W range	HK\$5.69-8.39
3M average daily T/O	US\$10.1m
Major Shareholder	Mr Lee Yin Yee (20.3%)

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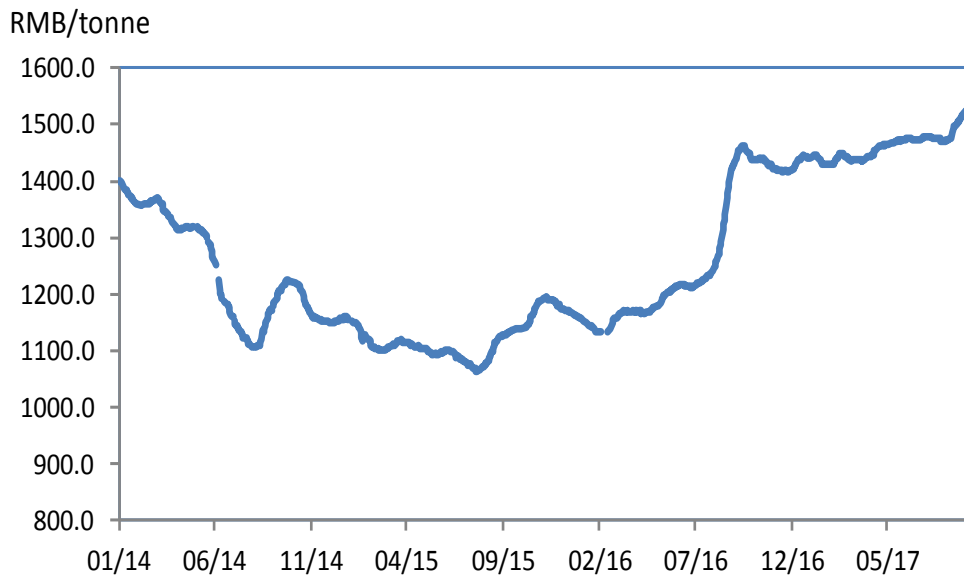
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**Figure 1: Peer comparison**

Ticker	Company	Price Lcy	Market Cap US\$m	PE			EV/EBITDA			PIB		ROE		ROA		Div yield		Share Price Performance					
				2017F	2018F	2019F	2017F	2018F	2019F	2016	2017F	2016	2017F	2016	2017F	2016	2017F	1M	3M	6M	12M	YTD	
968 HK	Xinyi Glass Holdings Ltd	8.05	4125.4	8.9	8.0	n.a.	8.5	7.7	n.a.	2.4	2.2	24.8	25.7	13.8	14.3	5.0	5.5	9.4	10.3	21.5	19.4	34.5	
968 HK	Xinyi Solar Holdings Ltd	2.8	2613.0	8.5	7.8	7.1	7.6	6.5	5.8	2.3	2.3	33.2	29.2	11.1	11.9	5.1	5.3	5.8	19.6	11.9	-12.6	12.8	
8328 HK	Xinyi Automobile Glass Hong	1.5	105.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.1	n.a.	0.1	n.a.	0.1	n.a.	0.0	n.a.	2.0	-2.5	-3.8	3.4	2.0	
3300 HK	China Glass Holdings Ltd	0.8	183.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.6	n.a.	1.1	n.a.	2.4	n.a.	0.0	n.a.	16.2	6.8	-11.2	-30.1	-3.7	
1108 HK	Luoyang Glass Company Ltd-H	4.6	1242.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.9	n.a.	2.9	n.a.	3.0	n.a.	0.0	n.a.	10.8	0.2	-26.7	-26.2	-9.4	
3606 HK	Fuyao Glass Industry Group-H	26.7	8955.6	17.3	14.7	13.4	11.0	9.5	8.5	3.2	2.8	18.2	17.1	10.5	10.8	3.4	3.5	7.7	-12.6	10.1	34.3	10.8	
8865 HK	Flat Glass Group Co Ltd-H	1.3	301.8	3.9	3.1	2.4	2.1	1.7	n.a.	0.7	0.5	21.9	15.9	13.2	15.6	6.6	7.0	0.8	-12.7	-27.2	-28.4	-23.8	
<b>Average</b>				<b>9.9</b>	<b>8.5</b>	<b>7.6</b>	<b>6.9</b>	<b>5.9</b>	<b>7.2</b>	<b>3.1</b>	<b>1.9</b>	<b>12.9</b>	<b>20.7</b>	<b>6.7</b>	<b>12.7</b>	<b>2.5</b>	<b>5.3</b>	<b>7.2</b>	<b>-0.2</b>	<b>-7.8</b>	<b>-9.9</b>	<b>-1.9</b>	
600660 CH	Fuyao Glass Industry Group-A	23.6	8955.5	17.9	15.5	13.9	10.9	9.4	8.5	3.4	3.0	18.2	17.2	10.5	11.1	n.a.	3.3	5.8	-10.4	17.3	45.6	26.7	
000012 CH	Csg Holding Co Ltd- A	8.5	2514.1	21.0	18.1	21.3	n.a.	n.a.	n.a.	2.5	n.a.	10.3	9.5	n.a.	4.6	n.a.	1.2	1.2	8.6	-13.0	-13.3	-13.6	
601636 CH	Zhuzhou Kibing Group Co Lt-A	5.2	2114.7	12.4	10.7	9.5	7.8	7.2	6.6	2.2	1.9	15.0	15.9	9.8	9.1	n.a.	3.7	6.7	0.7	-2.9	-1.8	3.4	
002163 CH	Avic Sanxin Co Ltd-A	8.1	995.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9.2	n.a.	1.3	n.a.	-0.4	n.a.	n.a.	n.a.	5.5	-1.6	-21.5	5.5	-16.0	
600819 CH	Shanghai Yaohua Pilkington-A	6.8	914.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.1	n.a.	7.7	n.a.	2.8	n.a.	n.a.	n.a.	-0.7	4.7	-20.6	-7.4	-15.5	
600876 CH	Luoyang Glass Company Ltd-A	25.9	1242.6	42.4	31.9	23.1	n.a.	n.a.	n.a.	26.0	n.a.	2.9	n.a.	3.0	n.a.	0.0	n.a.	47.4	34.9	-8.2	1.0	1.0	
<b>Average</b>				<b>23.4</b>	<b>19.1</b>	<b>17.0</b>	<b>9.3</b>	<b>8.3</b>	<b>7.6</b>	<b>7.6</b>	<b>2.4</b>	<b>9.2</b>	<b>14.2</b>	<b>5.1</b>	<b>8.3</b>	<b>0.0</b>	<b>2.7</b>	<b>11.0</b>	<b>6.2</b>	<b>-8.2</b>	<b>4.9</b>	<b>-2.3</b>	
1802 TT	Taiwan Glass Ind Corp	16.20	1568.3	50.6	n.a.	n.a.	n.a.	n.a.	n.a.	1.1	1.0	-3.7	3.1	-0.3	1.1	n.a.	n.a.	2.2	14.5	-4.4	8.7	21.8	
SISE TI	Turk Sise Ve Cam Fabrikalari	4.23	2770.2	10.5	10.0	8.5	6.6	6.1	5.1	1.1	1.1	9.3	9.3	5.7	5.0	n.a.	2.8	-1.9	-2.7	13.8	39.0	21.2	
TRKCM TI	Trakya Cam Sanayi As	3.59	1180.7	9.5	9.0	7.5	7.8	7.1	6.3	1.2	1.2	17.7	11.0	6.5	5.7	n.a.	4.0	-2.2	12.4	41.2	80.2	53.6	
APOG US	Apogee Enterprises Inc	45.22	1304.5	13.1	11.3	10.2	6.7	5.8	5.2	2.7	2.4	16.6	n.a.	11.6	n.a.	1.2	1.2	-12.1	-20.9	-20.6	-1.5	-15.6	
5201 JP	Asahi Glass Co Ltd	4215.00	9026.4	14.7	13.5	12.9	5.8	5.6	5.4	0.9	0.9	4.3	5.9	3.0	4.1	n.a.	2.4	-5.1	-9.5	-10.3	29.5	5.9	
5214 JP	Nippon Electric Glass Co Ltd	4160.00	3770.0	18.4	17.2	16.1	6.1	5.8	5.5	0.8	0.8	1.0	4.5	2.6	3.5	n.a.	1.9	-0.8	8.6	18.3	62.5	31.6	
4044 JP	Central Glass Co Ltd	473.00	925.5	11.2	9.8	9.2	6.2	5.4	5.1	0.6	0.5	6.5	5.0	3.2	n.a.	n.a.	2.1	4.2	5.4	0.1	24.1	11.3	
5202 JP	Nippon Sheet Glass Co Ltd	837.00	689.0	10.2	6.8	5.3	6.7	6.5	6.5	0.8	0.8	-35.7	8.3	0.6	n.a.	n.a.	0.0	-2.9	-4.2	-5.6	-0.4	-1.6	
SGO FP	Compagnie De Saint Gobain	48.65	32533.7	16.4	14.2	12.6	8.0	7.3	6.8	1.5	1.4	7.0	8.3	3.4	3.6	n.a.	2.7	5.7	0.0	5.5	27.8	9.9	
PPG US	Ppg Industries Inc	105.90	27161.2	17.3	15.5	14.1	11.4	10.8	10.4	4.8	5.1	17.9	31.6	5.8	9.9	1.5	1.6	5.1	-3.8	3.7	3.1	11.8	
GLW US	Corning Inc	28.92	26120.1	17.0	15.7	14.4	8.8	8.7	8.5	1.7	1.7	22.4	9.9	8.1	5.1	2.0	2.2	-0.2	-0.5	4.9	28.6	19.2	
<b>Average</b>				<b>17.2</b>	<b>12.3</b>	<b>11.1</b>	<b>7.4</b>	<b>6.9</b>	<b>6.5</b>	<b>1.5</b>	<b>1.5</b>	<b>5.7</b>	<b>9.7</b>	<b>4.6</b>	<b>4.8</b>	<b>1.6</b>	<b>2.1</b>	<b>-0.7</b>	<b>-0.1</b>	<b>4.2</b>	<b>27.4</b>	<b>15.4</b>	
914 HK	Anhui Conch Cement Co Ltd-H	30.65	19794.4	10.7	10.6	10.2	5.8	5.8	5.8	1.7	1.6	11.7	15.7	11.0	n.a.	1.9	3.1	8.7	16.5	17.9	41.9	45.3	
3323 HK	China National Building Ma-H	5.03	3475.9	9.5	9.7	9.2	11.2	11.2	11.4	0.5	0.5	2.5	5.2	0.7	0.7	1.0	2.1	3.1	11.8	-3.3	43.7	33.4	
1313 HK	China Resources Cement	4.60	3846.3	9.2	8.9	8.7	6.7	6.5	6.5	1.1	1.1	5.0	11.7	5.0	6.0	4.1	4.5	0.0	16.8	17.9	50.3	52.8	
2009 HK	Btmg Corp-H	4.01	9810.7	10.9	7.9	7.6	15.3	12.4	11.2	0.8	0.8	6.5	7.3	1.5	n.a.	1.4	1.6	0.0	1.5	16.2	35.0	49.6	
743 HK	Asia Cement China Holdings	2.61	523.4	11.5	9.9	7.0	5.5	5.4	4.9	0.4	0.4	1.4	3.4	1.7	n.a.	1.4	0.4	0.4	15.0	14.0	36.6	45.8	
<b>Average</b>				<b>10.4</b>	<b>9.4</b>	<b>8.6</b>	<b>8.9</b>	<b>8.3</b>	<b>8.0</b>	<b>0.9</b>	<b>0.9</b>	<b>5.4</b>	<b>8.7</b>	<b>4.0</b>	<b>3.3</b>	<b>2.0</b>	<b>3.1</b>	<b>2.4</b>	<b>12.3</b>	<b>12.6</b>	<b>41.5</b>	<b>45.4</b>	
2128 HK	China Lesso Group Holdings L	5.43	2156.2	6.4	5.8	5.2	4.7	4.2	3.7	1.2	1.1	18.3	18.3	9.0	n.a.	2.9	3.5	7.1	-8.6	-10.2	-3.7	8.0	
358 HK	Jiangxi Copper Co Ltd-H	13.66	8574.8	19.0	16.5	12.8	12.7	11.0	9.1	0.8	0.8	1.8	4.7	1.3	n.a.	1.3	2.0	5.6	15.2	10.2	51.6	26.2	
2600 HK	Aluminum Corp Of China Ltd-H	6.53	16855.2	32.1	17.6	11.8	13.4	9.9	8.3	2.2	2.0	1.0	6.7	0.6	n.a.	0.0	0.3	25.8	79.4	65.3	134.1	104.1	
1088 HK	China Shenhua Energy Co-H	19.40	62851.4	8.3	8.9	8.9	5.3	5.4	5.3	1.1	1.0	8.2	12.0	6.9	7.4	2.8	4.8	1.6	17.6	47.7	58.2	56.2	
1698 HK	China Coal Energy Co-H	3.98	11261.7	10.2	11.7	10.6	9.3	9.6	9.5	0.5	0.5	2.0	5.0	1.5	2.1	1.2	2.8	2.3	17.8	3.6	2.3	8.2	
1171 HK	Yanzhou Coal Mining Co-H	8.25	8314.2	6.8	8.5	8.0	8.3	9.8	9.9	0.8	0.8	4.5	13.0	3.4	n.a.	1.7	4.5	13.0	37.7	40.5	73.7	56.0	
347 HK	Angang Steel Co Ltd-H	7.56	7945.3	12.9	11.7	10.4	8.5	8.3	7.8	1.0	0.9	3.7	7.8	3.6	n.a.	n.a.	2.2	24.8	49.1	30.3	89.9	64.0	
323 HK	Maanshan Iron & Steel-H	4.25	5644.0	8.4	8.9	8.6	6.7	6.8	6.5	1.3	1.2	6.4	14.7	3.8	n.a.	n.a.	1.3	11.8	52.9	46.6	133.5	88.1	
2689 HK	Nine Dragons Paper Holdings	15.76	9428.6	14.3	12.3	11.4	9.4	8.3	7.9	2.2	2.1	4.4	15.5	4.2	n.a.	1.0	2.0	43.3	64.5	76.5	157.4	124.2	
2314 HK	Lee & Man Paper	10.20	5896.5	10.2	9.8	9.3	9.1	8.8	8.5	2.5	2.3	16.8	24.4	10.0	n.a.	2.7	3.3	32.1	51.8	64.0	60.6	69.4	
1812 HK	Shandong Chenming Paper-H	13.66	4452.2	7.0	6.4	4.6	12.3	11.6	10.5	1.4	1.3	11.2	17.0	3.2	3.3	5.2	5.0	21.1	41.0	41.0	92.7	71.0	
<b>Average</b>				<b>12.3</b>	<b>10.7</b>	<b>9.2</b>	<b>9.1</b>	<b>8.5</b>	<b>7.9</b>	<b>1.4</b>	<b>1.3</b>	<b>7.1</b>	<b>12.7</b>	<b>4.3</b>	<b>4.3</b>	<b>2.1</b>	<b>2.9</b>	<b>17.1</b>	<b>38.0</b>	<b>37.8</b>	<b>77.3</b>	<b>61.4</b>	
HSI Index	Hang Seng Index																		4.0	8.8	18.7	20.1	27.1
HSCEI Index	Hang Seng China Ent Indx																		6.3	7.2	11.6	16.4	19.7
SHCOMP Inde	Shanghai Se Composite																		5.3	7.6	5.2	11.8	8.9
MXCN Index	Msci China																		6.7	14.2	28.4	32.4	41.6
																			6.3	7.2	11.6	16.4	19.7
																							56.4

Sources: Bloomberg, Company, CGIS Research estimates for covered stocks;

**Figure 2: Average float glass price in China**


Source: Company, CGIS Research

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- BUY : share price will increase by >20% within 12 months in absolute terms
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