

Xinyi Glass Holdings (868 HK)

Member of key [HTI Themes](#): Capex/New Projects, Government Policy, Productivity

Target Price **HK\$14.50**
 Current Price **HK\$11.28**
 % Upside **29%**

The Scoop: Management Remains Confident About FY18 Outlook

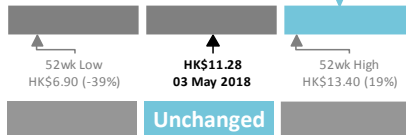
Automobiles & Components

Hong Kong

3 May 2018

BUY

Target: HK\$14.50
% Upside: 29%



Basic Share Information

Market cap	HK\$45.33b / US\$5.78b
Daily traded value (3mth)	US\$20.18m
Shares outstanding	3,882m
Free float	55%
Net debt-to-equity	29.6%
1 yr high	HK\$13.40
1 yr low	HK\$6.90
Major shareholding	21.6%
Last HTI contact w/ Co	26 Apr 18

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	-4.7%	-7.9%	61.6%
Absolute USD	-4.7%	-8.3%	60.1%
Relative to HSI	-6.5%	-2.1%	37.2%



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What event has happened?

We visited Xinyi Glass Holdings' (XYG) production line in Malaysia and received the latest update on the company's operations.

Why is it significant?

According to XYG the Malaysia production line is running smoothly and profitability remains satisfactory. The main competitors locally are Nippon Sheet Glass (5202 JP) and Zhuzhou Kibing Group (601636 CH). XYG says that its Q1 FY18 float-glass average selling price (ASP) remained at a high level, with float-glass prices up by more than 10% YoY. In April 2018, the float-glass price fell by about Rmb100 per ton due to the inventory situation in Hebei province. However, management says that its float-glass price in April was still up YoY despite the MoM price drop. For other business lines, the auto-glass operation remains stable, while construction-glass prices have risen amid the upward trend in commodity prices in China. Management remains confident that XYG can achieve the Bloomberg-consensus estimate FY18 EPS of HK\$1.17. It also commented on the rise in natural-gas costs in Malaysia, saying that natural-gas prices are up by about 16% since January 2018. Even so, it says that XYG's Malaysia factory still has the lowest energy costs among all its factories. It is building two new float-glass production lines in Malacca, with the first scheduled to start operations in Q3 FY18.

Implications for our earnings forecast?

We revise up our EPS forecasts slightly, by 4.5% for FY18 and 3.0% for FY19. Although float-glass prices eased in April 2018 due to the inventory situation in Hebei, we continue to expect prices to stay at a high level in 2018. This should be mainly supported by cold maintenance at existing glass production lines commissioned in 2010 and 2011, together with the Chinese government continuing to tighten its environmental policies. For example, XYG had to shut down two lines for cold maintenance in 2018.

How do valuations look now?

The shares trade at 10x our FY18 EPS forecast. We continue to value the stock at 12x forward PER against the average of our new EPS forecasts of HK\$1.15 for FY18 and HK\$1.28 for FY19. We hence raise our target price from HK\$14.10 to HK\$14.50. The main risks to our rating and the attainment of our target price are a slowdown in property construction in China or adjustments to natural-gas price in China, particularly for natural gas delivered through the *West-East Pipeline*.

What is distinctive about our stock view?

We continue to monitor industry utilization, which is currently stable at about 70.5% compared with 69.1% at the beginning of 2018.

	Dec-16A	Dec-17A	Dec-18E	Dec-19E	Dec-20E	Trend
Total turnover (HK\$m)	12,848	14,728	16,140	18,831	21,665	▬ ▬ ▬ ▬ ▬
Operating profit (HK\$m)	3,338	4,093	4,718	5,395	6,241	▬ ▬ ▬ ▬ ▬
Pre-tax profit (HK\$m)	3,823	4,696	5,422	6,192	7,165	▬ ▬ ▬ ▬ ▬
Net income to ord equity (HK\$m)	3,213	4,014	4,618	5,199	5,873	▬ ▬ ▬ ▬ ▬
Net profit growth	52.1%	24.9%	15.1%	12.6%	13.0%	▬ ▬ ▬ ▬ ▬
P/E (x)	13.63	11.15	9.85	8.80	7.82	▬ ▬ ▬ ▬ ▬
Adj EV/EBITDA (x)	8.61	7.22	6.40	5.54	4.68	▬ ▬ ▬ ▬ ▬
P/B (x)	3.32	2.45	2.19	1.93	1.70	▬ ▬ ▬ ▬ ▬
ROE	24.8%	25.6%	23.7%	23.3%	23.1%	▬ ▬ ▬ ▬ ▬
Dividend yield	3.6%	4.3%	4.9%	5.5%	6.1%	▬ ▬ ▬ ▬ ▬
EPS HTI old (HK\$)	0.83	1.01	1.10	1.24	1.38	▬ ▬ ▬ ▬ ▬
EPS HTI New (HK\$)	0.83	1.01	1.15	1.28	1.44	▬ ▬ ▬ ▬ ▬
Consensus EPS (HK\$)	0.80	0.94	1.17	1.33	1.53	▬ ▬ ▬ ▬ ▬
HTI EPS vs Consensus	3.2%	7.8%	(2.2%)	(3.6%)	(5.9%)	▬ ▬ ▬ ▬ ▬

Source: Company data, Bloomberg, HTI estimates

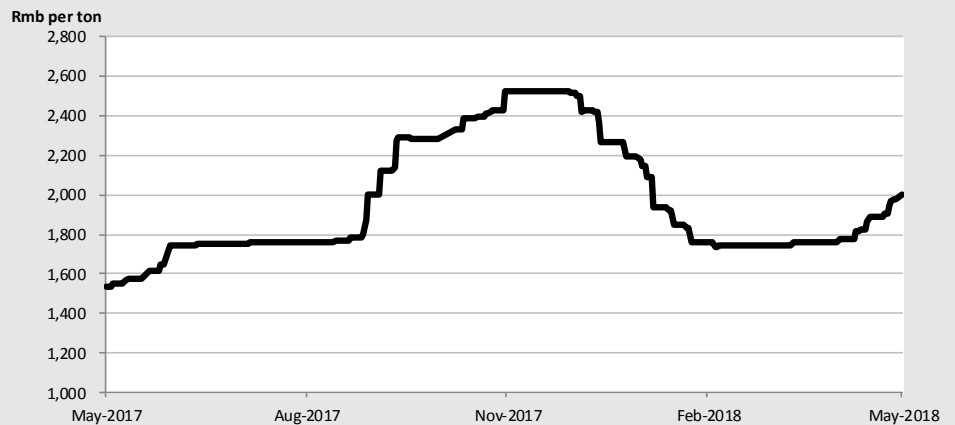
Click [here](#) to download the working model

Summary of Changes in Key Assumptions

(HKD m, Dec year end)	2016	2017	2018e	2019e	2020e
Revenue					
Old	12,848	14,728	16,140	18,831	21,665
New	12,848	14,728	16,140	18,831	21,665
% change	0%	0%	0%	0%	0%
Gross Profit					
Old	4,659	5,444	6,280	7,355	8,445
New	4,659	5,444	6,406	7,466	8,580
% change	0%	0%	2%	2%	2%
EBITDA					
Old	4,161	5,014	5,247	6,206	7,073
New	4,161	5,014	5,574	6,293	7,187
% change	0%	0%	6%	1%	2%
Net Profit					
Old	3,213	4,014	4,407	5,001	5,542
New	3,213	4,014	4,618	5,199	5,873
% change	0%	0.0%	4.8%	3.9%	6.0%
EPS (HKD)					
Old	0.83	1.01	1.10	1.24	1.38
New	0.83	1.01	1.15	1.28	1.44
% change	0%	0.0%	4.5%	3.0%	4.7%

Source: Company data, HTI estimates

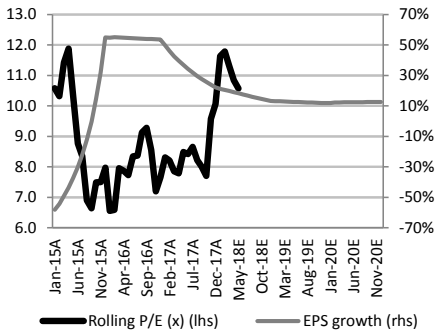
China Soda Ash Price Trend



Source: Wind

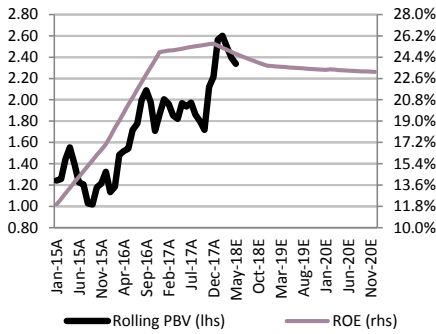
Soda-ash prices corrected from the Rmb2,200 per ton level to a low of Rmb1,743 per ton in March 2018 and have recently jumped back to about Rmb2,000 per ton

P/E (x) vs EPS Growth (%)



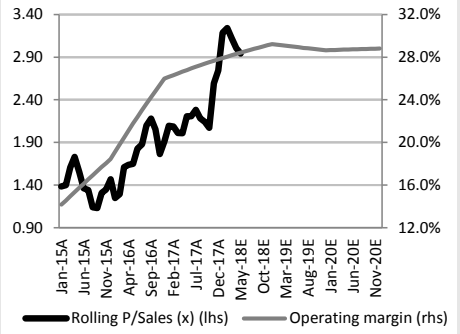
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



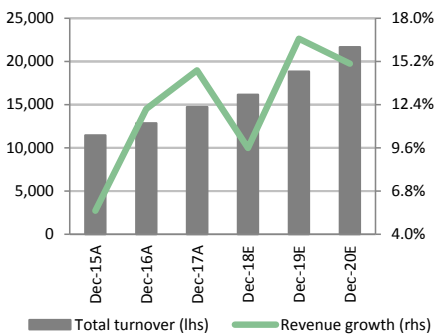
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



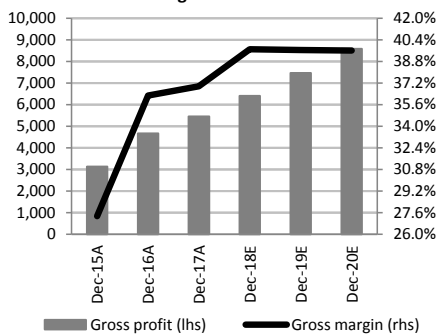
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth



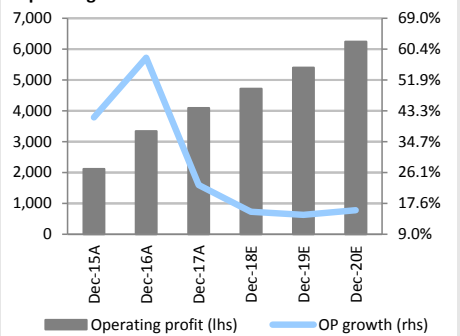
Source: Company data, Bloomberg, HTI estimates

Gross Profit and Margin



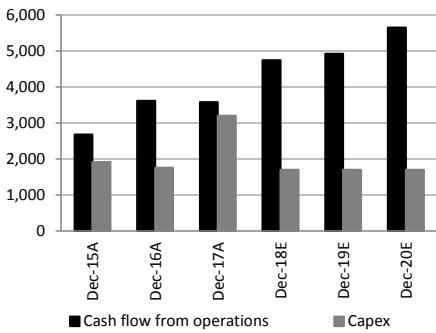
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth



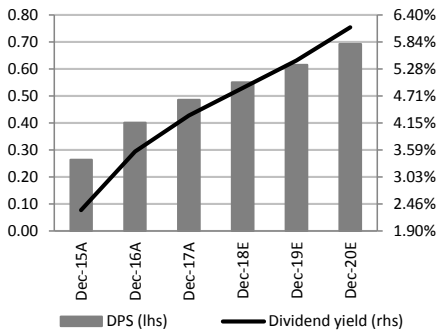
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex (HK\$m)



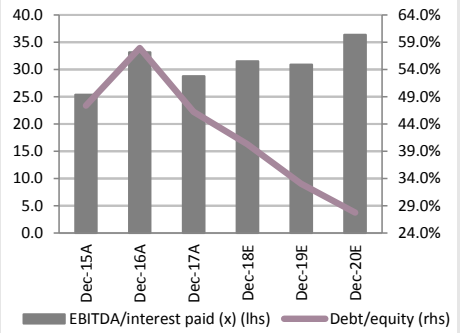
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (HK\$)



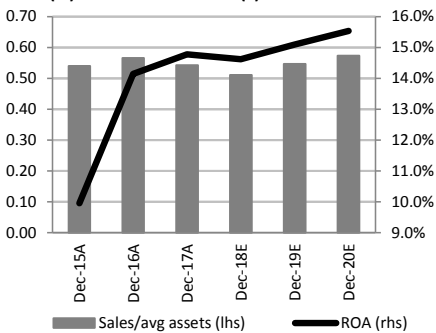
Source: Company data, Bloomberg, HTI estimates

Debt to Equity (%) and Interest Cover (x)



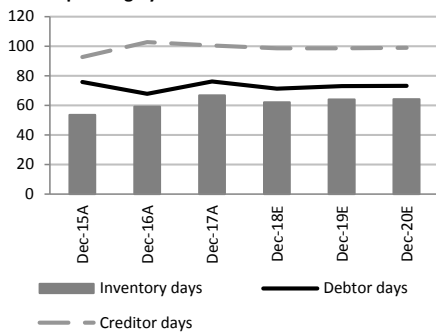
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



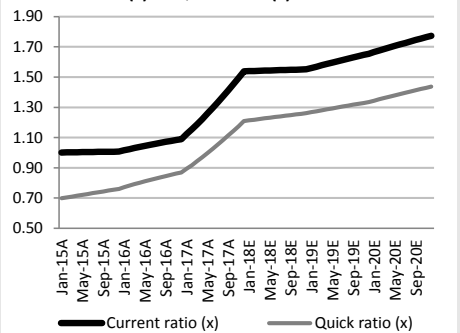
Source: Company data, Bloomberg, HTI estimates

Cash Operating Cycle



Source: Company data, Bloomberg, HTI estimates

Current Ratio (x) vs Quick Ratio (x)



Source: Company data, Bloomberg, HTI estimates

APPENDIX

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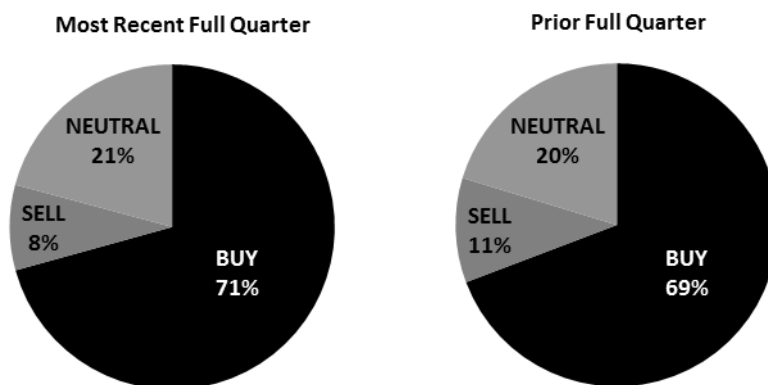
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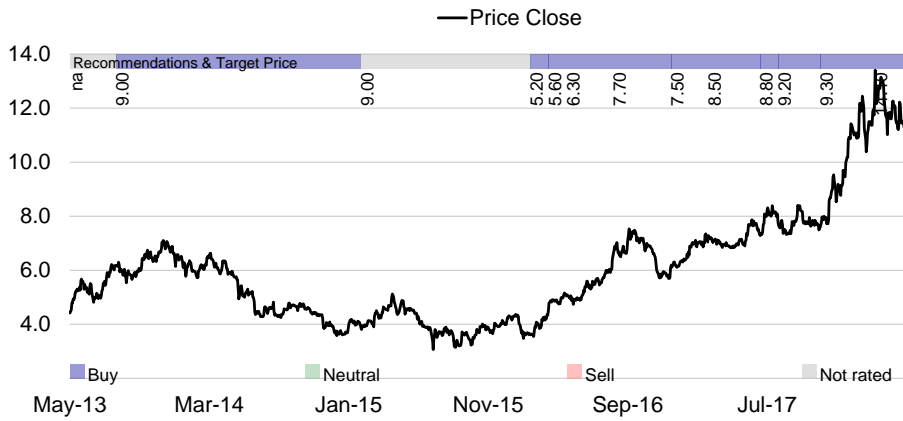
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Recommendation Chart



Date	Recommendation	Target (HK\$)	Price (HK\$)
2018-02-28	Buy	14.10	12.18
2017-11-01	Buy	9.30	7.61
2017-08-01	Buy	9.20	7.76
2017-06-22	Buy	8.80	7.28
2017-03-01	Buy	8.50	7.28
2016-12-09	Buy	7.50	6.19
2016-08-05	Buy	7.70	6.65
2016-04-25	Buy	6.30	5.05
2016-03-16	Buy	5.60	4.53
2016-02-05	Buy	5.20	3.64
2015-01-30	Not rated	-	3.85
2013-08-12	Buy	9.00	6.17

Source: Company data, Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity