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27 June 2019

China Materials

Reuters 0868.HK
Bloomberg 868 HK

Priced on 26 June 2019
HS CEI @ 10,766.1

12M hi/lo HK\$10.50/7.59

12M price target HK\$10.90
±% potential +32%

Shares in issue 4,007.3m
Free float (est.) 43.9%

Market cap US\$4.2bn

3M ADV US\$11.3m

Foreign s'holding 52.0%

Major shareholders

Lee Yin Yee 22.0%
Tung Ching Sai 10.1%

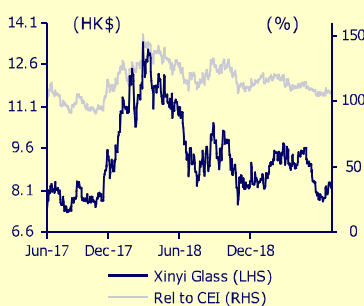
Blended ESG Score (%)*

Overall 76.1
Country average 59.0
GEM sector average 65.8

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

Stock performance (%)

	1M	3M	12M
Absolute	5.9	(7.9)	(4.2)
Relative	2.8	(4.0)	(1.0)
Abs (US\$)	6.4	(7.5)	(3.7)



Source: Bloomberg

An unsound attack

Reiterate positive stance on Xinyi Glass despite short-selling report

The accounting research firm recently published a short-selling report on Xinyi Glass, which we found to not consider enough of Xinyi Glass' business operations. Its overseas sales and bank facilities can fund its dividend and overseas Capex, and thus there is no need to remit cash from China. Its better-than-peer profitability is explainable, and an improved float glass industry has resulted in rising onshore cash. We see these arguments as weak in general, and reiterate our positive stance on Xinyi Glass amid recent market capacity reductions, a potential demand pick-up in 2H19, plus capacity expansion to fuel long-term growth momentum; BUY.

Short-selling report arguments

(1) The report argues Xinyi Glass has never remitted cash from China to Hong Kong for the payment of dividends, though it has been financed by Hong Kong dollar debt, and thus it is unable to verify its profits; (2) it has shown super-normal profitability relative peers, with a build-up of onshore cash; (3) its Hong Kong business margin appears to have declined and Xinyi Glass did not recognised enough profit in Hong Kong to cover expenses like overhead and interest; (4) the recent disposal of Xinyi Solar Holdings is not necessary given its strong cash on hand; (5) the continuous losses on the disposal of plant and machinery suggest depreciation schedules are not conservative enough; and (6) there was incentive for fraud as there was a lack of cash by end-2014 to refund convertible bonds due in 2017.

Our view

(1) It is not wrong to fund dividends using HK\$ debt, given its low borrowing cost (c.2%) vs a withholding tax rate (5%). A steady dividend payout is preferred instead of its cutting dividend in order to save interest/tax costs. Overseas sales (c.30% of overall) also generated FX cash to fund dividends/overseas Capex but not just debt; (2) it has a better margin than Fuyao given less in-house float glass supply on top of a lower-margin US production base for the latter. Rising onshore cash is a result of a recovery of the float glass industry since 2016, plus a shifting expansion focus to overseas; (3) lower profit in Hong Kong due to higher interest/corporate expenses & it may also be due to tax planning; (4) the disposal of its stake in Xinyi Glass was to replenish Hong Kong dollar cash for dividends/overseas Capex; (5) the loss on disposal was immaterial to the prior year's net book amount and depreciation expense; (6) last, its net-gearing ratio of 42% by end-14 was not high and thus it has room to raise debt to refund the convertible bonds instead of manipulation.

Reiterate our positive stance

Our target price is unchanged at HK\$10.90, based on a blend of PE and PB. At a 9.0x 19CL PE with a 6.3% 19CL dividend yield we retain our BUY rating on Xinyi Glass.

Financials

Year to 31 December	17A	18A	19CL	20CL	21CL
Revenue (HK\$m)	14,728	16,014	17,181	20,167	23,052
Adjusted net profit (HK\$m)	3,697	3,699	3,704	4,851	6,086
Adjusted EPS (HK¢)	91.9	91.7	91.8	120.2	150.8
CL/consensus (11) (EPS%)	-	-	96	93	108
Adj EPS growth (% YoY)	20.1	(0.2)	0.1	31.0	25.5
Adjusted PE (x)	9.0	9.0	9.0	6.9	5.5
Dividend yield (%)	5.8	6.3	6.3	7.2	9.1
FCF yield (%)	(3.5)	1.5	2.9	5.1	7.9
PB (x)	1.8	1.8	1.6	1.4	1.3
ROE (%)	25.6	23.0	21.4	22.0	24.6
Net debt/equity (%)	29.6	28.6	21.0	15.8	8.7

Source: www.clsa.com

Financials at a glance

Year to 31 December	2017A	2018A	2019CL	(% YoY)	2020CL	2021CL
Profit & Loss (HK\$m)						
Revenue	14,728	16,014	17,181	7.3	20,167	23,052
Cogs (ex-D&A)	(8,438)	(9,222)	(10,085)		(11,575)	(13,070)
Gross Profit (ex-D&A)	6,290	6,792	7,096	4.5	8,592	9,982
SG&A and other expenses	(1,970)	(2,320)	(2,544)		(2,860)	(3,084)
Op Ebitda	4,320	4,472	4,552	1.8	5,732	6,898
Depreciation/amortisation	(921)	(1,004)	(1,030)		(1,099)	(1,158)
Op Ebit	3,399	3,468	3,523	1.6	4,633	5,739
Net interest inc/(exp)	(107)	(142)	(136)		(118)	(97)
Other non-Op items	1,404	1,644	1,588	(3.4)	1,312	1,641
Profit before tax	4,696	4,970	4,975	0.1	5,826	7,283
Taxation	(682)	(723)	(742)		(965)	(1,187)
Profit after tax	4,014	4,248	4,233	(0.3)	4,861	6,096
Minority interest	0	(11)	(11)		(11)	(11)
Net profit	4,014	4,237	4,222	(0.4)	4,851	6,086
Adjusted profit	3,697	3,699	3,704	0.1	4,851	6,086
Cashflow (HK\$m)						
Operating profit	3,399	3,468	3,523	1.6	4,633	5,739
Depreciation/amortisation	921	1,004	1,030	2.6	1,099	1,158
Working capital changes	(1,332)	(481)	(119)		(365)	(358)
Other items	(901)	(1,053)	(967)		(1,183)	(1,400)
Net operating cashflow	2,086	2,938	3,466	18	4,183	5,140
Capital expenditure	(3,254)	(2,453)	(2,500)		(2,500)	(2,500)
Free cashflow	(1,168)	485	966	99.1	1,683	2,640
M&A/Others	1,448	1,705	2,081	22.1	1,401	1,746
Net investing cashflow	(1,806)	(748)	(419)		(1,099)	(754)
Increase in loans	792	1,503	(634)		162	(561)
Dividends	(1,926)	(2,078)	(2,077)		(2,386)	(2,994)
Net equity raised/other	1,136	(53)	-		-	-
Net financing cashflow	2	(628)	(2,711)		(2,225)	(3,555)
Incr/(decr) in net cash	283	1,562	336	(78.5)	860	831
Exch rate movements	-	-	-		-	-
Balance sheet (HK\$m)						
Cash & equivalents	3,051	4,613	4,949	7.3	5,809	6,640
Accounts receivable	1,243	1,278	1,352	5.8	1,587	1,814
Other current assets	3,638	3,268	3,401	4.1	3,679	3,959
Fixed assets	12,929	13,079	14,635	11.9	16,119	17,542
Investments	4,416	4,724	4,309	(8.8)	4,309	4,309
Intangible assets	3,497	3,812	3,727	(2.2)	3,644	3,562
Other non-current assets	1,532	1,906	1,906	0	1,906	1,906
Total assets	30,305	32,679	34,278	4.9	37,052	39,732
Short-term debt	2,068	3,094	2,898	(6.4)	2,948	2,773
Accounts payable	923	920	1,007	9.5	1,156	1,306
Other current liabs	2,166	2,588	2,588	0	2,588	2,588
Long-term debt/CBs	6,399	6,875	6,437	(6.4)	6,549	6,162
Provisions/other LT liabs	443	499	499	0	499	499
Shareholder funds	18,237	18,625	20,770	11.5	23,234	26,326
Minorities/other equity	69	78	78	0	78	78
Total liabs & equity	30,305	32,679	34,278	4.9	37,052	39,732
Ratio analysis						
Revenue growth (% YoY)	14.6	8.7	7.3		17.4	14.3
Ebitda margin (%)	29.3	27.9	26.5		28.4	29.9
Ebit margin (%)	23.1	21.7	20.5		23.0	24.9
Net profit growth (%)	24.9	5.6	(0.4)		14.9	25.5
Op cashflow growth (% YoY)	(15.0)	40.8	18.0		20.7	22.9
Capex/sales (%)	22.1	15.3	14.6		12.4	10.8
Net debt/equity (%)	29.6	28.6	21.0		15.8	8.7
Net debt/Ebitda (x)	1.3	1.2	1.0		0.6	0.3
ROE (%)	25.6	23.0	21.4		22.0	24.6
ROIC (%)	16.6	15.0	14.5		17.3	20.0

Source: www.clsa.com

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

Short-selling report arguments and our quick view

Dividends

Argument 1: Xinyi Glass never remitted cash from China to Hong Kong for the payment of dividends, but financed such with Hong Kong dollar debt, and thus is unable to verify profit.

Our quick view: We do not rule out that the company's Hong Kong dollar financing is to partly to fund its dividend payment, but not necessarily all dividend payments are funded by debt. Funding dividends by borrowing does not mean it is wrong or fraudulent. We see the key reason for this as the cost of financing, which is around 2% as the company borrows in Hong Kong versus the withholding the tax required to pay for remitting cash outside China for dividends, which is 5%. The cost difference is already a strong argument for the move. We believe investors would prefer the dividend payout to remain steady instead of cutting the dividend in order to save interest or tax costs.

Xinyi Glass is also generating operating cash inflow in terms of foreign currency, given that it has close to c.30% of its revenue from overseas. Its operating cash flow should also be able to fund its dividend payments, thus it is not necessary all dividend payments are funded in Hong Kong dollar debt.

Also note the company has started overseas expansion, currently in Malaysia and potentially in other Southeast Asian countries, the Middle-east and Canada. Thus, it can also be the case the company funds its dividend payment with its foreign currency cashflow and funds its overseas Capex with borrowing.

Figure 1

Xinyi Glass: debt versus interest expenses

HK\$m	2014	2015	2016	2017	2018
Total Debt	6,013	6,028	7,674	8,466	9,969
Interest Expense	91	90	128	151	214
Avg Interest Rate	1.6%	1.5%	1.9%	1.9%	2.3%

Dividend payment

- Final dividend in the prior year	549	235	657	962	1,125
- Interim dividend in the current year	353	373	661	801	999
Total dividend payment in cash	902	608	1,317	1,762	2,124

Source: Company, CLSA

Figure 2

Xinyi Glass: overseas revenue versus dividend payment

HK\$m	2014	2015	2016	2017	2018
Overseas revenue	3,218	3,402	3,429	3,953	4,577
As % of overall revenue	29.6%	29.7%	26.7%	26.8%	28.6%

Dividend payment

- Final dividend in the prior year	549	235	657	962	1,125
- Interim dividend in the current year	353	373	661	801	999
Total dividend payment in cash	902	608	1,317	1,762	2,124

Total dividend payment in cash as % of overseas revenue of the year	28.0%	17.9%	38.4%	44.6%	46.4%
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Source: Company, CLSA

On the other hand, Xinyi Glass made an announcement ([link](#)) after its 2015 results that it will pay its 2015 final dividend would be declared by deducting its share premium account, which was accumulated by the previous equity fund raising activities in Hong Kong and was in Hong Kong dollar. Thus, the payment of dividend in Hong Kong dollar instead of remitting cash out from China should have been well known.

OP margin and the build-up of cash

Argument 2: Signals of fraud and fake cash flow include its super-normal profitability relative peers (e.g. its OPM higher than peers like Fuyao Glass Industry Group Co Ltd.), and it has seen a build-up of non-production assets (mainly onshore cash).

Our quick view: It true Xinyi Glass has a higher-than-peer OPM, but this is explainable.

Figure 3 compares Xinyi Glass's OPM (including and excluding other gains like FX and fair value changes) with that of Fuyao Glass (3606.HK). Xinyi Glass has a higher OPM than Fuyao. One reason is that Xinyi Glass has an integrated business model and thus its in-house float glass supply provides more than enough for self-production uses. Fuyao, on the other hand, has in-house float glass supplying only for c.80% of its production needs, thus still need to purchase float glass externally. Fuyao has been ramping-up its auto glass production base in the US since 2016, which still has a lower margin than its Chinese production base, and thus this has been a drag on its overall margin performance as well.

We also compare Xinyi Glass's margin with that of Kibing (601636.CH), another leading float glass player in China. Xinyi Glass has a higher margin than Kibing given Kibing mainly sells lower-margin float glass and a small portion of architecture glass, but Xinyi Glass has a contribution from higher-margin auto glass sales.

Figure 3

OP margin comparison					
	2014	2015	2016	2017	2018
Xinyi Glass					
OP margin	13.8%	18.4%	26.0%	27.9%	28.4%
OP margin - excluding other gains	11.7%	15.1%	24.7%	25.7%	25.0%
Fuyao					
OP margin	21.9%	23.6%	23.9%	19.8%	25.2%
OP margin - excluding other gains	22.3%	20.9%	20.9%	21.9%	20.2%
Kibing					
OP margin	9.8%	8.2%	17.5%	19.1%	16.3%

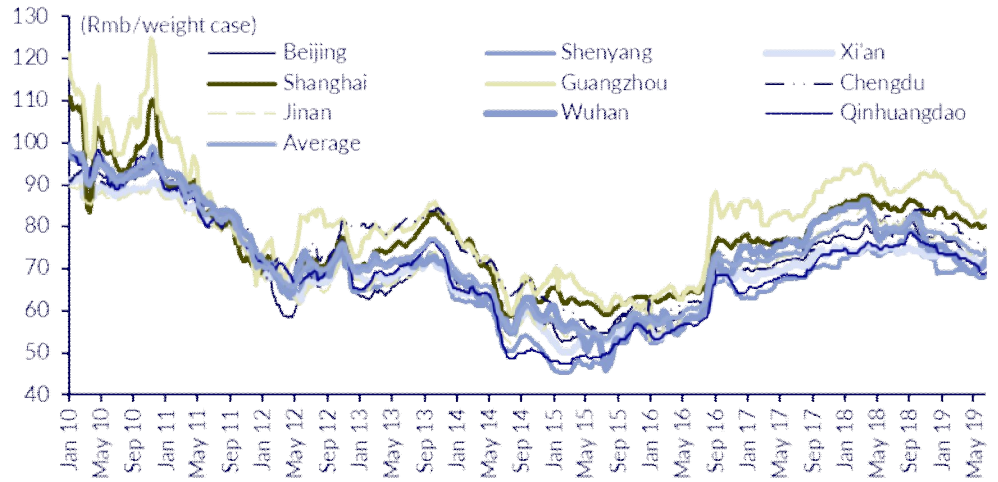
Source: Respective companies, CLSA

Besides, the improvement in Xinyi Glass's margin in 2016-2018 vs 2014-2015 was due to improvement in the float glass industry from its trough in 2014-2015, and saw Xinyi Glass significantly increase its production scale in 2014-2015 with new bases in Sichuan and Yingkou which started to yield fruit when the market recovered. Its capacity growth then slowed afterwards given the limitations of new production line permits in China, and thus the company shifted its expansion focus overseas. This explains the reason behind why its cash level (due to increasing operating cashflow relative to Capex) increased faster than that of sales, i.e. a rising cash to sales ratio, especially from onshore cash, in our view.

Float glass prices have been holding up recently

Figure 4

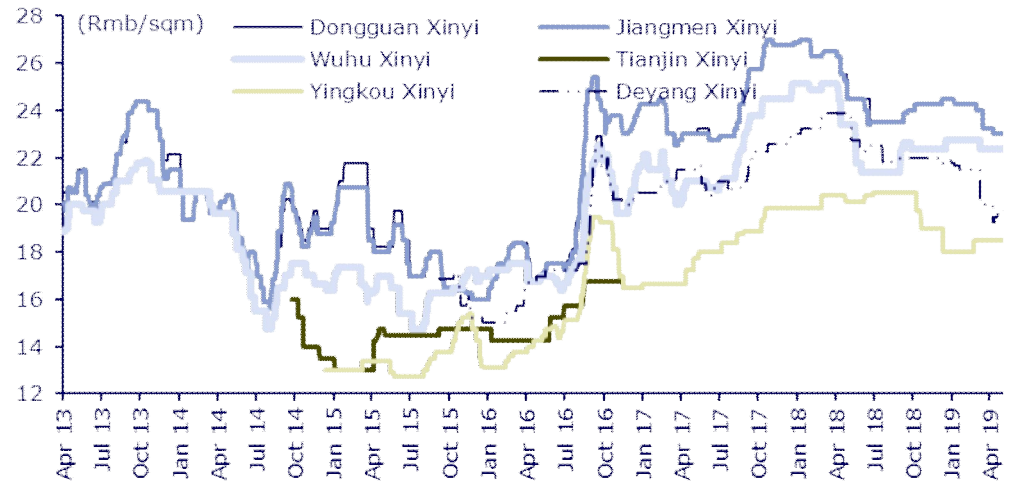
Float glass prices in various regional markets across China



Source: WIND, CLSA

Figure 5

Xinyi Glass's float glass product price quotes (5mm clear glass)



Source: SCI99.com, CLSA

Figure 6

Xinyi Glass: cash versus sales

	2014	2015	2016	2017	2018
HK\$m					
OCF	1,455	2,637	3,565	3,535	4,643
Capex	(1,729)	(1,967)	(1,853)	(3,254)	(2,453)
- Annual effective float glass capacity (kt)	4,234	4,251	4,900	5,290	5,400
- YoY growth	20%	0%	15%	8%	2%
FCF	(274)	670	1,712	281	2,190
Year-end cash	832	1,300	2,768	3,051	4,613
Sales	10,861	11,460	12,848	14,728	16,014
Cash as % of sales	7.7%	11.3%	21.5%	20.7%	28.8%

Source: Company, CLSA

Tax

Argument 3: it is unable to verify Xinyi Glass's profit from the tax breakdown as it was not remitting profit to Hong Kong for dividend payments. Its Hong Kong business margin appeared to have dropped, but it did not recognise enough profit in Hong Kong to cover expenses like overhead and interest.

Our quick view: We have argued that funding of dividend payment by Hong Kong dollar debt is not wrong. The apparent drop in profit from Hong Kong, as shown by the reduced HK profit tax, could be a result of the increase in expenses in Hong Kong (including interest expenses and other corporate expenses), not necessary the Company not recognizing enough profit in Hong Kong to cover such expenses. Note that this could also be a result of tax planning, given that 13 of the companies' subsidiaries in China enjoys high-tech enterprise income tax benefit with preferential tax rate of 15%, compared with the 16.5% corporate income tax rate in Hong Kong.

Figure 7

Xinyi Glass - Income tax expenses breakdown

	2014	2015	2016	2017	2018
Current income tax					
- Hong Kong profits tax	23	47	36	17	15
- PRC corporate income tax	208	226	513	544	621
- Overseas income tax	1	0	(0)	1	0
- (Over)/under provision in prior years	(3)	(7)	(1)	9	(3)
Deferred income tax	(0)	(0)	59	111	90
Total	228	266	607	682	723

Source: Company, CLSA

Offshore asset sales

Argument 4: The recent decent disposal of Xinyi Solar Holdings is not necessary given its strong cash on hand.

Our quick view: In our last report *China/HK SMID caps (Glass: Xinyi Glass offloads XYX)* on 18 June 2019, we had been expecting Xinyi Glass could use the proceeds for the purposes paying dividend (particularly that the capital gain could boost reported profit and be included in its dividend calculation—and again this is not wrong) or making other investments (mainly overseas as explained above). The market should have known about this as well. Note that Xinyi Glass earlier subscribed a 5.9% stake in Xinyi Energy (3868.HK) in the spin-off, at a total consideration of HK\$763m, thus the disposal of Xinyi Solar Holdings could also help replenish some of its Hong Kong dollar cash.

Depreciation

Argument 5: Xinyi Glass extended the depreciation life of plant and machinery from 5-15 years to 5-20 in 2015. Subsequent continuous losses on the disposal of plant and machinery suggest its depreciation schedule was not conservative enough.

Our quick view: The extension in the depreciation life of plant and machinery from 5-15 years to 5-20 years was due to investment in its roof-top solar farm, which has an operating life of 20 years (as specified by the Golden Sun subsidy program in China). Besides, the losses on the disposal of plant and machinery in 2015-2018 were just 1.4%-3.4% of the net book amount of the plant and machinery in the prior year-end, or just 0.1%-0.3% of the depreciation expenses of the prior year-end, which are immaterial in our view.

Figure 8

Xinyi Glass: depreciation expenses versus losses on the disposal of plant and machinery					
	2014	2015	2016	2017	2018
Depreciation expense	643	749	819	971	993
- In which: Plant and machinery	537	632	685	790	813
Year-end net book amount of plant and machinery	7,093	8,374	7,870	9,239	8,923
Gain/(losses) on disposal of property, plant and equipment	109	(18)	(11)	(17)	(11)
Gain/(losses) on disposal as % of depreciation of previous year		-3.4%	-1.7%	-2.5%	-1.4%
Gain/(losses) on disposal as % of net book amount of previous year		-0.3%	-0.1%	-0.2%	-0.1%

Source: Company, CLSA

Incentive for fraud

Argument 6: There was the incentive for fraud as the HK\$732m convertible bond was due by May 2017, but the company only had HK\$832m cash on hand by end-2014.

Our quick view: 2014 was well-known to be the trough of the float glass industry, but it also started to stabilise and improve in late-2015. The float glass cycle used to last for 1-2 years, thus we do not see any incentive for the company to manipulate its earnings for several years. Besides, Xinyi Glass's net gearing by end-2014 was 42%, which was not excessive, thus the company could consider raise more borrowing to refund the convertible bond instead of manipulating profit as suggested by the short-selling report.

We reiterate our positive stance

We see these arguments as weak in general; we thus reiterate our positive stance on Xinyi Glass amid recent market capacity reductions, a potential demand pick-up in 2H19, plus capacity expansion to fuel long-term growth momentum. Our target price is unchanged at HK\$10.90, which is based on a blend of PE and PB. At a 9.0x 19CL PE with a 6.3% 19CL dividend yield we retain our BUY recommendation on Xinyi Glass.

Figure 9

Xinyi Glass earnings revisions									
HK\$m	New			Old			Change		
	19CL	20CL	21CL	19CL	20CL	21CL	19CL	20CL	21CL
Revenue									
Automobile glass products	4,495	5,046	5,167	4,495	5,046	5,167	0.0%	0.0%	0.0%
Architecture glass	3,717	4,065	4,689	3,717	4,065	4,689	0.0%	0.0%	0.0%
Float glass (including electronic glass)	8,969	11,055	13,196	8,969	11,055	13,196	0.0%	0.0%	0.0%
Total	17,181	20,167	23,052	17,181	20,167	23,052	0.0%	0.0%	0.0%
Gross margin									
Automobile glass products	44.6%	45.6%	46.1%	44.6%	45.6%	46.1%	0.0 ppt	0.0 ppt	0.0 ppt
Architecture glass	39.0%	40.2%	41.2%	39.0%	40.2%	41.2%	0.0 ppt	0.0 ppt	0.0 ppt
Float glass (including electronic glass)	30.1%	32.9%	34.8%	30.1%	32.9%	34.8%	0.0 ppt	0.0 ppt	0.0 ppt
Total	35.8%	37.6%	38.6%	35.8%	37.6%	38.6%	0.0 ppt	0.0 ppt	0.0 ppt
Core profit	3,704	4,851	6,086	3,704	4,851	6,086	0.0%	0.0%	0.0%

Source: CLSA

Its earnings are more sensitive to prices than costs

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

Figure 10

Earnings sensitivity analysis	
	Change in 19CL core profit
1% increase in float glass price	+1.6%
1% increase in auto glass price	+0.8%
1% increase in architecture glass price	+0.7%
1% increase in soda ash price	-0.5%
1% increase in unit fuel cost	-0.7%

Source: CLSA

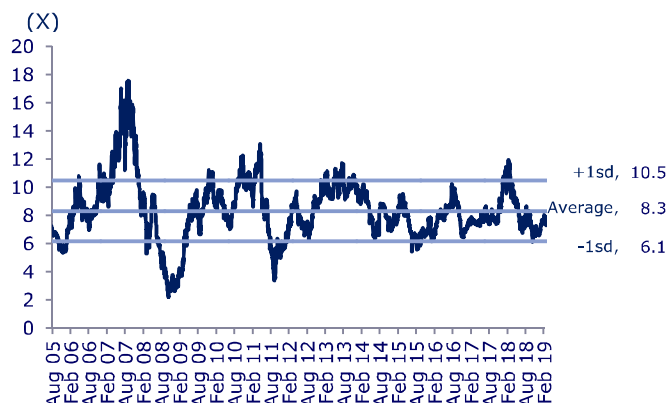
Figure 11

Valuation of Xinyi Glass	
PE basis	
20CL EPS (HK\$)	1.20
Target multiple (x)	9.5
Fair value (HK\$)	11.40
PB basis	
19CL BVPS (HK\$)	5.15
Target multiple (x)	2.0
Fair value (HK\$)	10.30
Average (HK\$)	10.90
Implied 19/20CL PE	11.9x/9.1x

Source: CLSA

Figure 12

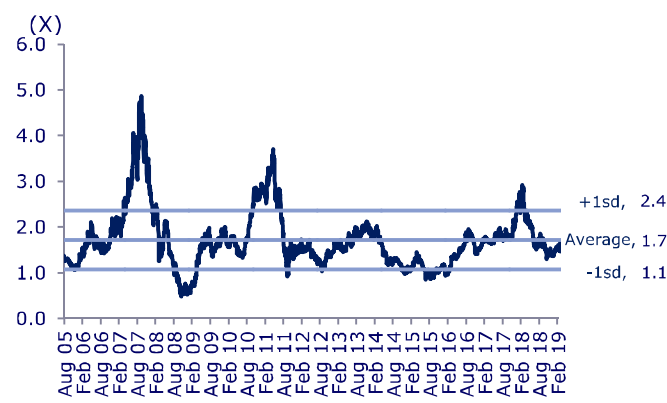
Xinyi Glass 12-month forward PE chart



Source: CLSA, Datastream

Figure 13

Xinyi Glass 12-month forward PB chart



Valuation details

We value XYG using a blended PE and PB approach. We apply a target multiple of 9.5.x to 20CL EPS and a target multiple of 2.0x to 19CL BVPS, around 0.5SD above historical averages.

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. Besides, despite being a stable glass 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 affect the segment's performance. 2) Further tightening of credit. Tightening of credit also affects developers' cash flows 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 XYG's gross margin if it cannot pass on incremental costs by raising ASP. 4) More capacity additions in the market.

Detailed financials

Profit & Loss (HK\$m)

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Revenue	11,460	12,848	14,728	16,014	17,181	20,167	23,052
Cogs (ex-D&A)	(7,564)	(7,392)	(8,438)	(9,222)	(10,085)	(11,575)	(13,070)
Gross Profit (ex-D&A)	3,896	5,456	6,290	6,792	7,096	8,592	9,982
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	-	-	-	-	-	-	-
Other SG&A	(1,583)	(1,793)	(1,970)	(2,320)	(2,544)	(2,860)	(3,084)
Other Op Expenses ex-D&A	-	-	-	0	-	-	-
Op Ebitda	2,313	3,664	4,320	4,472	4,552	5,732	6,898
Depreciation/amortisation	(795)	(827)	(921)	(1,004)	(1,030)	(1,099)	(1,158)
Op Ebit	1,518	2,837	3,399	3,468	3,523	4,633	5,739
Interest income	40	51	45	71	89	100	116
Interest expense	(90)	(128)	(151)	(214)	(225)	(218)	(213)
Net interest inc/(exp)	(50)	(77)	(107)	(142)	(136)	(118)	(97)
Associates/investments	317	563	700	566	481	630	870
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	215	342	387	541	589	682	771
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	379	159	317	537	518	-	-
Profit before tax	2,380	3,823	4,696	4,970	4,975	5,826	7,283
Taxation	(266)	(607)	(682)	(723)	(742)	(965)	(1,187)
Profit after tax	2,114	3,216	4,014	4,248	4,233	4,861	6,096
Preference dividends	0	0	0	0	0	0	0
Profit for period	2,114	3,216	4,014	4,248	4,233	4,861	6,096
Minority interest	0	(3)	0	(11)	(11)	(11)	(11)
Net profit	2,113	3,213	4,014	4,237	4,222	4,851	6,086
Extraordinaries/others	0	0	0	0	0	0	0
Profit available to ordinary shares	2,113	3,213	4,014	4,237	4,222	4,851	6,086
Dividends	(1,029)	(1,622)	(1,926)	(2,078)	(2,077)	(2,386)	(2,994)
Retained profit	1,084	1,591	2,088	2,159	2,145	2,464	3,092
Adjusted profit	1,734	3,055	3,697	3,699	3,704	4,851	6,086
EPS (HK¢)	52.4	80.5	99.7	105.0	104.6	120.2	150.8
Adj EPS [pre excep] (HK¢)	43.0	76.5	91.9	91.7	91.8	120.2	150.8
Core EPS (HK¢)	43.0	76.5	91.9	91.7	91.8	120.2	150.8
DPS (HK¢)	26.5	40.0	48.0	52.0	51.8	59.5	74.7

Profit & loss ratios

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Growth (%)							
Revenue growth (% YoY)	5.5	12.1	14.6	8.7	7.3	17.4	14.3
Ebitda growth (% YoY)	33.0	58.4	17.9	3.5	1.8	25.9	20.3
Ebit growth (% YoY)	38.6	86.9	19.8	2.0	1.6	31.5	23.9
Net profit growth (%)	55.0	52.1	24.9	5.6	(0.4)	14.9	25.5
EPS growth (% YoY)	55.1	53.5	23.9	5.3	(0.3)	14.9	25.5
Adj EPS growth (% YoY)	51.7	77.8	20.1	(0.2)	0.1	31.0	25.5
DPS growth (% YoY)	76.7	50.9	20.0	8.3	(0.3)	14.9	25.5
Core EPS growth (% YoY)	51.7	77.8	20.1	(0.2)	0.1	31.0	25.5
Margins (%)							
Ebitda margin (%)	20.2	28.5	29.3	27.9	26.5	28.4	29.9
Ebit margin (%)	13.2	22.1	23.1	21.7	20.5	23.0	24.9
Net profit margin (%)	18.4	25.0	27.3	26.5	24.6	24.1	26.4
Core profit margin (%)	15.1	23.8	25.1	23.1	21.6	24.1	26.4
Op cashflow margin (%)	14.7	19.1	14.2	18.3	20.2	20.7	22.3
Returns (%)							
ROE (%)	16.9	24.8	25.6	23.0	21.4	22.0	24.6
ROA (%)	6.4	10.5	10.7	9.4	9.0	10.8	12.5
ROIC (%)	8.7	15.7	16.6	15.0	14.5	17.3	20.0
ROCE (%)	8.7	15.9	16.2	14.5	14.3	17.7	20.6
Other key ratios (%)							
Effective tax rate (%)	11.2	15.9	14.5	14.5	14.9	16.6	16.3
Ebitda/net int exp (x)	46.1	47.7	40.6	31.4	33.4	48.4	71.0
Exceptional or extraord. inc/PBT (%)	15.9	4.2	6.7	10.8	10.4	0.0	0.0
Dividend payout (%)	50.5	49.7	48.1	49.5	49.5	49.5	49.5

Source: www.clsa.com

Balance sheet (HK\$m)

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Cash & equivalents	1,300	2,768	3,051	4,613	4,949	5,809	6,640
Accounts receivable	1,136	1,036	1,243	1,278	1,352	1,587	1,814
Inventories	1,223	1,321	1,698	1,755	1,887	2,166	2,446
Other current assets	1,337	1,412	1,940	1,513	1,513	1,513	1,513
Current assets	4,995	6,537	7,932	9,158	9,701	11,075	12,414
Fixed assets	11,971	11,831	12,929	13,079	14,635	16,119	17,542
Investments	2,535	3,258	4,416	4,724	4,309	4,309	4,309
Goodwill	0	0	0	0	0	0	0
Other intangible assets	1,281	1,193	3,497	3,812	3,727	3,644	3,562
Other non-current assets	639	1,205	1,532	1,906	1,906	1,906	1,906
Total assets	21,422	24,022	30,305	32,679	34,278	37,052	39,732
Short term loans/OD	2,514	3,165	2,068	3,094	2,898	2,948	2,773
Accounts payable	740	789	923	920	1,007	1,156	1,306
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	333	538	535	611	611	611	611
Other current liabs	1,373	1,508	1,631	1,977	1,977	1,977	1,977
Current liabilities	4,959	6,000	5,157	6,603	6,493	6,692	6,668
Long-term debt/leases/other	3,514	4,509	6,399	6,875	6,437	6,549	6,162
Convertible bonds	0	0	0	0	0	0	0
Provisions/other LT liabs	223	266	443	499	499	499	499
Total liabilities	8,696	10,775	11,999	13,977	13,430	13,741	13,329
Share capital	4,278	1,719	3,038	1,587	1,587	1,587	1,587
Retained earnings	8,441	11,462	15,199	17,037	19,182	21,647	24,739
Reserves/others	0	-	0	0	0	0	-
Shareholder funds	12,718	13,181	18,237	18,625	20,770	23,234	26,326
Minorities/other equity	7	66	69	78	78	78	78
Total equity	12,726	13,247	18,306	18,702	20,847	23,312	26,404
Total liabs & equity	21,422	24,022	30,305	32,679	34,278	37,052	39,732
Total debt	6,028	7,674	8,466	9,969	9,335	9,497	8,935
Net debt	4,729	4,906	5,415	5,357	4,386	3,688	2,295
Adjusted EV	34,517	33,789	34,337	33,960	33,398	32,700	31,307
BVPS (HK¢)	324.3	338.6	451.7	461.6	514.8	575.9	652.5

Balance sheet ratios

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Key ratios							
Current ratio (x)	1.0	1.1	1.5	1.4	1.5	1.7	1.9
Growth in total assets (% YoY)	1.8	12.1	26.2	7.8	4.9	8.1	7.2
Growth in capital employed (% YoY)	(0.4)	4.0	30.7	1.4	4.9	7.0	6.3
Net debt to operating cashflow (x)	2.8	2.0	2.6	1.8	1.3	0.9	0.4
Gross debt to operating cashflow (x)	3.6	3.1	4.1	3.4	2.7	2.3	1.7
Gross debt to Ebitda (x)	2.6	2.1	2.0	2.2	2.1	1.7	1.3
Net debt/Ebitda (x)	2.0	1.3	1.3	1.2	1.0	0.6	0.3
Gearing							
Net debt/equity (%)	37.2	37.0	29.6	28.6	21.0	15.8	8.7
Gross debt/equity (%)	47.4	57.9	46.2	53.3	44.8	40.7	33.8
Interest cover (x)	17.3	22.6	22.8	16.6	16.1	21.7	27.5
Debt Cover (x)	0.3	0.3	0.2	0.3	0.4	0.4	0.6
Working capital analysis							
Inventory days	65.2	62.8	65.3	68.3	65.9	63.9	64.4
Debtor days	34.5	30.9	28.2	28.7	27.9	26.6	26.9
Creditor days	35.3	37.8	37.0	36.5	34.9	34.1	34.4
Working capital/Sales (%)	10.9	7.3	12.2	6.5	6.7	7.5	8.2
Capital employed analysis							
Sales/Capital employed (%)	65.7	70.8	62.1	66.6	68.1	74.7	80.3
EV/Capital employed (%)	197.8	186.1	144.8	141.2	132.4	121.1	109.1
Working capital/Capital employed (%)	7.2	5.1	7.6	4.3	4.6	5.6	6.5
Fixed capital/Capital employed (%)	68.6	65.2	54.5	54.4	58.0	59.7	61.1
Other ratios (%)							
EV/OCF (x)	20.5	13.8	16.5	11.6	9.6	7.8	6.1
EV/FCF (x)	(122.6)	56.3	(29.4)	70.0	34.6	19.4	11.9
EV/Sales (x)	3.0	2.6	2.3	2.1	1.9	1.6	1.4
Capex/depreciation (%)	257.6	232.5	384.8	267.5	264.6	246.1	232.1

Source: www.clsa.com

Cashflow (HK\$m)

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Operating profit	1,518	2,837	3,399	3,468	3,523	4,633	5,739
Operating adjustments	-	-	-	-	-	-	-
Depreciation/amortisation	795	827	921	1,004	1,030	1,099	1,158
Working capital changes	(207)	(426)	(1,332)	(481)	(119)	(365)	(358)
Interest paid / other financial expenses	(155)	(177)	(219)	(330)	(225)	(218)	(213)
Tax paid	(266)	(607)	(682)	(723)	(742)	(965)	(1,187)
Other non-cash operating items	-	-	-	-	-	-	-
Net operating cashflow	1,685	2,453	2,086	2,938	3,466	4,183	5,140
Capital expenditure	(1,967)	(1,853)	(3,254)	(2,453)	(2,500)	(2,500)	(2,500)
Free cashflow	(282)	600	(1,168)	485	966	1,683	2,640
Acq/inv/disposals	-	-	-	-	415	-	-
Int, invt & associate div	951	1,112	1,448	1,705	1,666	1,401	1,746
Net investing cashflow	(1,016)	(741)	(1,806)	(748)	(419)	(1,099)	(754)
Increase in loans	16	1,646	792	1,503	(634)	162	(561)
Dividends	(1,029)	(1,622)	(1,926)	(2,078)	(2,077)	(2,386)	(2,994)
Net equity raised/(buybacks)	-	-	-	-	-	-	-
Net financing cashflow	(202)	(244)	2	(628)	(2,711)	(2,225)	(3,555)
Incr/(decr) in net cash	468	1,468	283	1,562	336	860	831
Exch rate movements	-	-	-	-	-	-	-
Opening cash	832	1,300	2,768	3,051	4,613	4,949	5,809
Closing cash	1,300	2,768	3,051	4,613	4,949	5,809	6,640
OCF PS (HK¢)	41.8	61.4	51.8	72.8	85.9	103.7	127.4
FCF PS (HK¢)	(7.0)	15.0	(29.0)	12.0	23.9	41.7	65.4

Cashflow ratio analysis

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Growth (%)							
Op cashflow growth (% YoY)	94.3	45.6	(15.0)	40.8	18.0	20.7	22.9
FCF growth (% YoY)	-	-	(294.4)	-	99.1	74.3	56.8
Capex growth (%)	13.8	(5.8)	75.6	(24.6)	1.9	0.0	0.0
Other key ratios (%)							
Capex/sales (%)	17.2	14.4	22.1	15.3	14.6	12.4	10.8
Capex/op cashflow (%)	116.7	75.5	156.0	83.5	72.1	59.8	48.6
Operating cashflow payout ratio (%)	63.4	65.1	92.6	71.4	60.3	57.4	58.6
Cashflow payout ratio (%)	61.1	66.1	92.3	70.7	59.9	57.0	58.2
Free cashflow payout ratio (%)	-	270.2	-	428.4	215.0	141.7	113.4

DuPont analysis

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Ebit margin (%)	13.2	22.1	23.1	21.7	20.5	23.0	24.9
Asset turnover (x)	0.5	0.6	0.5	0.5	0.5	0.6	0.6
Interest burden (x)	1.6	1.3	1.4	1.4	1.4	1.3	1.3
Tax burden (x)	0.9	0.8	0.9	0.9	0.9	0.8	0.8
Return on assets (%)	6.4	10.5	10.7	9.4	9.0	10.8	12.5
Leverage (x)	1.7	1.7	1.7	1.7	1.7	1.6	1.5
ROE (%)	16.9	24.8	25.4	23.0	21.4	22.0	24.5

EVA® analysis

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Ebit adj for tax	1,348	2,386	2,905	2,964	2,997	3,865	4,804
Average invested capital	15,415	15,152	17,455	19,792	20,629	22,307	24,040
ROIC (%)	8.7	15.7	16.6	15.0	14.5	17.3	20.0
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	1.4	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 (%)	(1.9)	5.1	6.0	4.4	3.9	6.7	9.4
EVA (HK\$m)	(290)	779	1,053	864	808	1,500	2,255

Source: www.clsa.com



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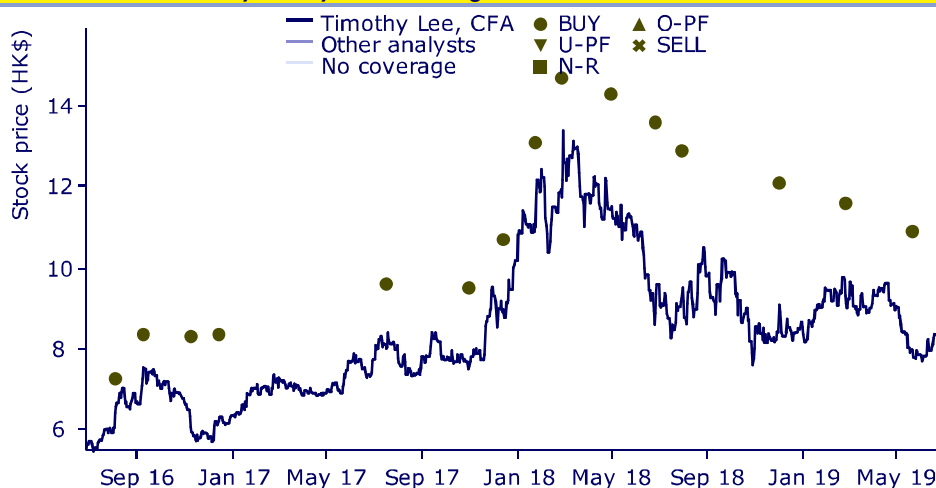
- Xinyi Glass (868 HK - HK\$8.24 - BUY)
- Fuyao Glass (3606 HK - HK\$23.80 - O-PF)
- Kibing (N-R)
- Xinyi Energy (3868.HK) (N-R)
- Xinyi Solar (968 HK - HK\$3.69 - BUY)

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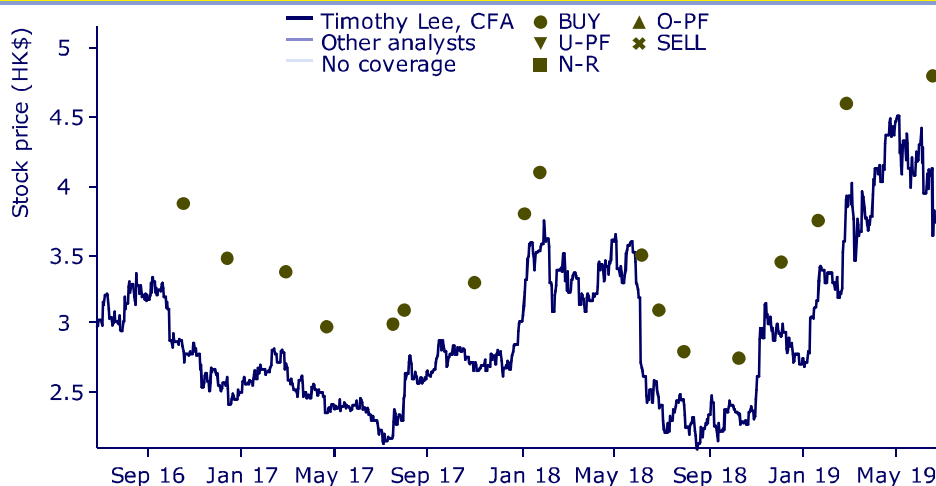
Recommendation history of Xinyi Glass Holdings Ltd 868 HK



Date	Rec	Target	Date	Rec	Target
23 May 2019	BUY	10.90	14 Dec 2017	BUY	10.70
26 Feb 2019	BUY	11.60	31 Oct 2017	BUY	9.50
03 Dec 2018	BUY	12.10	17 Jul 2017	BUY	9.60
31 Jul 2018	BUY	12.90	14 Dec 2016	BUY	8.35
27 Jun 2018	BUY	13.60	08 Nov 2016	BUY	8.30
01 May 2018	BUY	14.30	08 Sep 2016	BUY	8.35
27 Feb 2018	BUY	14.70	03 Aug 2016	BUY	7.25
24 Jan 2018	BUY	13.10			

Source: CLSA

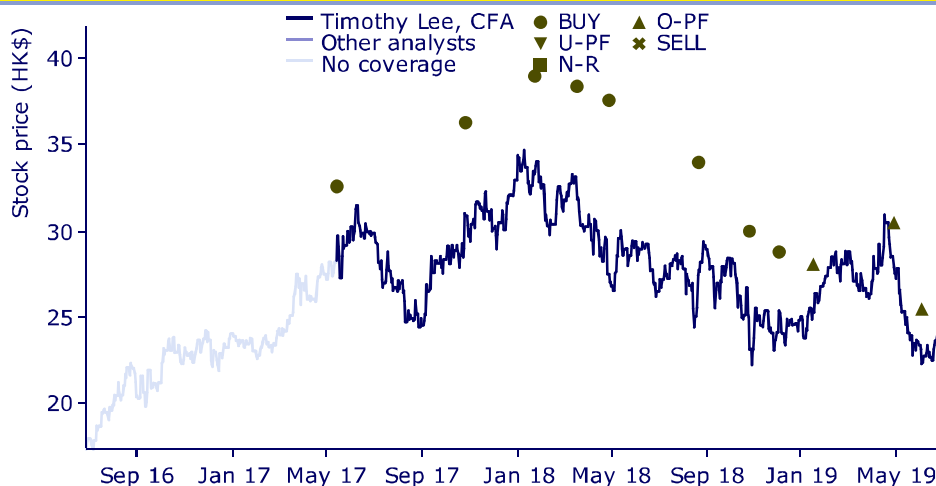
Recommendation history of Xinyi Solar Holdings Ltd 968 HK



Date	Rec	Target	Date	Rec	Target
18 Jun 2019	BUY	4.80	04 Jan 2018	BUY	3.80
26 Feb 2019	BUY	4.60	31 Oct 2017	BUY	3.30
20 Jan 2019	BUY	3.75	01 Aug 2017	BUY	3.10
03 Dec 2018	BUY	3.45	17 Jul 2017	BUY	3.00
09 Oct 2018	BUY	2.75	22 Apr 2017	BUY	2.98*
30 Jul 2018	BUY	2.80	28 Feb 2017	BUY	3.38*
27 Jun 2018	BUY	3.10	14 Dec 2016	BUY	3.48*
05 Jun 2018	BUY	3.50	18 Oct 2016	BUY	3.87*
24 Jan 2018	BUY	4.10			

Source: CLSA; * Adjusted for corporate action

Recommendation history of Fuyao Glass Industry Group Co Ltd 3606 HK



Date	Rec	Target	Date	Rec	Target
04 Jun 2019	O-PF	25.50	29 Apr 2018	BUY	37.60
29 Apr 2019	O-PF	30.50	19 Mar 2018	BUY	38.40
16 Jan 2019	O-PF	28.10	24 Jan 2018	BUY	39.00
03 Dec 2018	BUY	28.80	27 Oct 2017	BUY	36.30
26 Oct 2018	BUY	30.00	15 May 2017	BUY	32.60
22 Aug 2018	BUY	34.00			

Source: CLSA

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