

**Hong Kong**
**ADD** (no change)

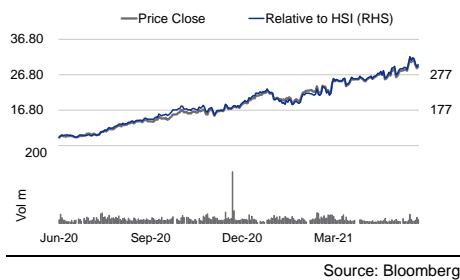
Consensus ratings\*: Buy 19 Hold 0 Sell 0

Current price:	HK\$29.15
Target price:	HK\$36.16 ▲
Previous target:	HK\$30.78
Up/downside:	24.1%
CGI / Consensus:	14.3%
Reuters:	0868.HK
Bloomberg:	868 HK
Market cap:	US\$15,217m HK\$118,046m
Average daily turnover:	US\$31.09m HK\$241.4m
Current shares o/s:	4,038m
Free float:	43.0%

\*Source: Bloomberg

**Key changes in this note**

- 2021F, 2022F and 2023F net profit increased by 24.8%, 25.0% and 19.9%, respectively.



Price performance	1M	3M	12M
Absolute (%)	13.4	32.8	228.6
Relative (%)	12.1	33.9	209.9

Major shareholders	% held
Mr Lee Yin Yee	22.9
Mr Tung Ching Sai	11.6

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# Xinyi Glass

## Riding on an up cycle

- Supply and demand in the float glass industry is expected to remain favourable in 2021 and 2022, and Xinyi Glass should outperform, given its capacity expansion.
- We raised our core profit forecasts by 24.8%, 25.0% and 19.9% for 2021, 2022 and 2023, respectively, after factoring in a higher contribution from the float glass segment.
- Xinyi Glass has outperformed since 2H20, but its valuation is still reasonable, with a decent yield.
- We maintain our ADD rating, with a higher target price of HK\$36.16, based on 16x 2021 P/E (higher than the historical mean of 14x).
- Given its low base in 1H20, Xinyi Glass might issue positive profit alert, which might be a catalyst.

### Strong float glass price movement

The float glass price performance in 2Q21 was better than the historical seasonal pattern, because of stronger-than-expected downstream demand. The float glass price moved to a YTD high of Rmb120.1/DWC (the highest level since 2009) at end of May 2021, up 72.5% yoy and 9.9% YTD. Based on our understanding, the strong float glass price movement is due to: a) solid downstream demand and b) higher usage for building energy efficiency. The float glass price may move up further as we enter the high season in 2H21. On the cost side, soda ash prices also moved up strongly YTD from a low base in Jan 21, but soda ash prices (up 50.0% yoy) lagged behind float glass prices. Natural gas prices have been stable in China. Overall, production costs (energy + soda ash) are expected to lag behind the float glass price in 2021. The inventory level of float glass manufacturers dropped to a multi-year low at the end of May. We believe that the float glass names can pass on the increase in raw material costs, given resilient downstream demand.

### Supply/demand of float glass expected to remain favourable in 2021

The supply of float glass will be constrained in 2021 and 2022 because of stronger environmental protection measures. Some production lines requiring cold repair are unlikely to continue to operate despite the favourable market environment. Xinyi Glass will continue to expand its capacity to deliver growth. Its float glass capacity is expected to increase 26.0% yoy by the end of 2021, and management mentioned that the Company's float glass capacity will increase another 10% in 2022. Xinyi Glass will look for more acquisition targets in the China market, as well as opportunities in overseas markets. Xinyi Glass is expected to outperform the industry in terms of shipment growth, given its capacity expansion.

### Higher forecasts and target price

We raised our 2021F, 2022F and 2023F net profit forecast by 24.8%, 25.0% and 19.9%, respectively, given higher float glass revenue and margin assumptions, but a lower contribution from Xinyi Solar. Xinyi Glass has been an outperformer since 2H20. But its valuation is still reasonable, with a decent yield. We maintain our ADD rating, with a higher target price of HK\$36.16, based on 16x 2021 P/E (higher than the historical mean of 14x). We maintain the view that the float glass industry has entered a bull cycle, given the more favourable supply/demand situation, and expect Xinyi Glass to outperform the industry because of its capacity expansion. Given the low base in 1H20, Xinyi Glass might issue positive profit alert, which might be a catalyst.

**Financial Summary**

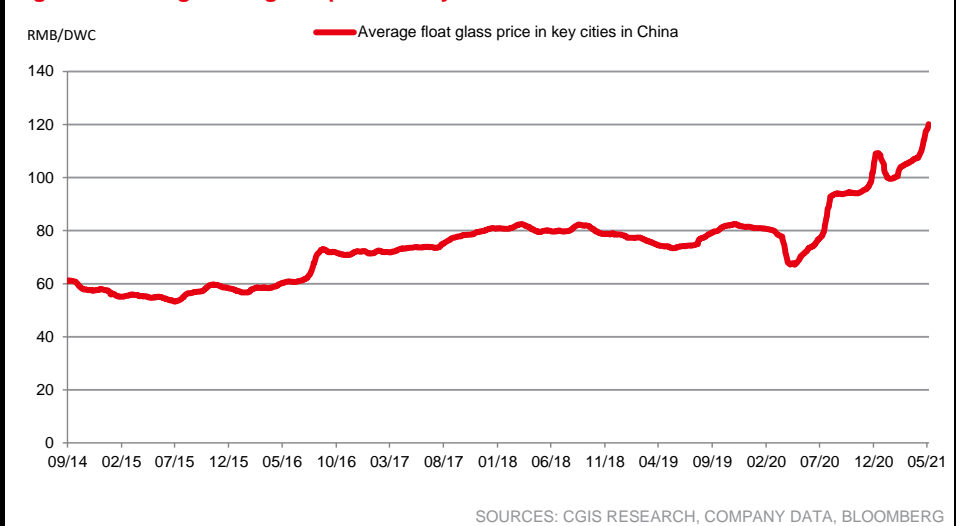
	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (HK\$m)	16,258	18,616	25,077	28,470	31,921
Operating EBITDA (HK\$m)	4,333	6,129	9,197	10,430	11,463
Net Profit (HK\$m)	4,478	5,267	9,126	10,303	11,546
Core EPS (HK\$)	0.98	1.31	2.26	2.55	2.86
Core EPS Growth	(8.2%)	33.9%	73.1%	12.9%	12.1%
FD Core P/E (x)	29.81	22.24	12.88	11.41	10.19
DPS (HK\$)	0.55	0.79	1.12	1.27	1.42
Dividend Yield	1.89%	2.71%	3.85%	4.35%	4.87%
EV/EBITDA (x)	26.67	18.63	12.34	10.56	9.25
P/FCFE (x)	45.59	70.20	22.71	17.60	15.50
Net Gearing	27.3%	22.6%	25.3%	17.4%	10.4%
P/BV (x)	5.61	4.22	3.98	3.47	3.02
ROE	19.9%	21.7%	31.8%	32.5%	31.7%
% Change In Core EPS Estimates			24.8%	25.0%	19.5%
CGI/consensus EPS (x)			1.06	1.09	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

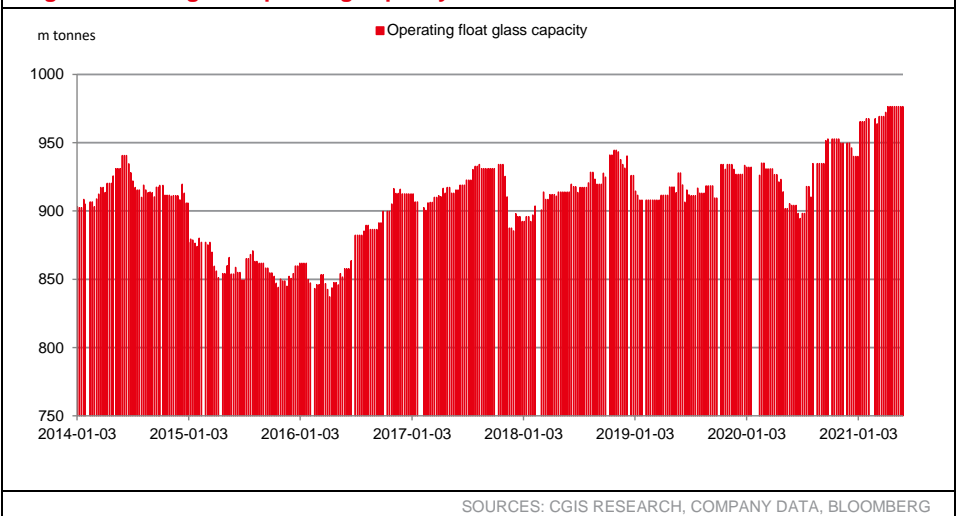
**Figure 1: Forecasts revision**

Revision (HKD m)	2021F forecasts			2022F forecasts			2023F forecasts		
	Old	New	change	Old	New	change	Old	New	change
Revenue	21,191	25,077	18.3%	23,837	28,470	19.4%	26,667	31,921	19.7%
Cost of sales and services	(12,227)	(13,669)	11.8%	(13,720)	(15,472)	12.8%	(15,313)	(17,531)	14.5%
Gross profit	8,963	11,408	27.3%	10,116	12,997	28.5%	11,354	14,390	26.7%
Other income and other gains and losses	755	886	17.4%	831	993	19.4%	929	1,121	20.6%
Distribution and selling expenses	(1,091)	(1,166)	6.8%	(1,228)	(1,324)	7.8%	(1,373)	(1,484)	8.1%
Administrative expenses	(2,076)	(2,306)	11.1%	(2,311)	(2,589)	12.0%	(2,559)	(2,871)	12.2%
Finance costs	(193)	(193)	0.0%	(193)	(193)	0.0%	(193)	(193)	0.0%
JV & Associates	1,985	1,783	-10.2%	2,189	1,869	-14.6%	2,859	2,208	-22.8%
Profit before tax	8,344	10,412	24.8%	9,405	11,753	25.0%	11,018	13,171	19.5%
Income tax expense	(1,023)	(1,277)	24.8%	(1,154)	(1,442)	25.0%	(1,351)	(1,615)	19.5%
MI	(9)	(9)	0.0%	(9)	(9)	0.0%	(9)	(9)	0.0%
Profit for the period	7,311	9,126	24.8%	8,242	10,303	25.0%	9,658	11,546	19.6%
Gross margin (%)	42.3	45.5	3.2	42.4	45.7	3.2	42.6	45.1	2.5
Operating margin (%)	40.3	42.3	2.0	40.3	42.0	1.7	42.0	41.9	(0.2)
Net Margin (%)	34.5	36.4	1.9	34.6	36.2	1.6	36.2	36.2	(0.0)
Turnover by products (HKDm)									
Automobile glass	4,936	4,936	0.0%	5,287	5,287	0.0%	5,662	5,662	0.0%
Construction glass	2,508	2,508	0.0%	2,817	2,817	0.0%	3,164	3,164	0.0%
Float glass	13,747	17,633	28.3%	15,733	20,366	29.4%	17,841	23,095	29.4%
Gross margin by products (%)									
Automobile glass	47.3	47.3	0.0	48.3	48.3	0.0	49.3	49.3	0.0
Construction glass	43.8	43.8	0.0	43.8	43.8	0.0	43.8	43.8	0.0
Float glass	40.2	45.2	5.0	40.2	45.2	5.0	40.2	44.2	4.0

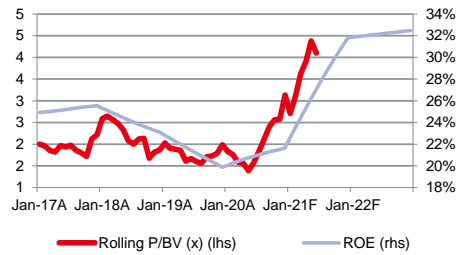
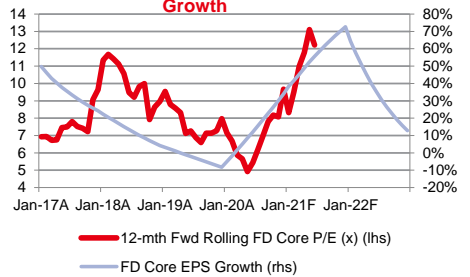
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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


SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 3: Float glass operating capacity in China**


SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS**
**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**

**Profit & Loss**

(HK\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
<b>Total Net Revenues</b>	<b>16,258</b>	<b>18,616</b>	<b>25,077</b>	<b>28,470</b>	<b>31,921</b>
<b>Gross Profit</b>	<b>6,965</b>	<b>8,892</b>	<b>12,669</b>	<b>14,343</b>	<b>15,819</b>
<b>Operating EBITDA</b>	<b>4,333</b>	<b>6,129</b>	<b>9,197</b>	<b>10,430</b>	<b>11,463</b>
Depreciation And Amortisation	(1,082)	(1,120)	(1,261)	(1,346)	(1,428)
<b>Operating EBIT</b>	<b>3,251</b>	<b>5,008</b>	<b>7,936</b>	<b>9,085</b>	<b>10,035</b>
Financial Income/(Expense)	(182)	(155)	(155)	(163)	(152)
Pretax Income/(Loss) from Assoc.	640	1,124	1,783	1,869	2,208
Non-Operating Income/(Expense)	674	197	848	963	1,080
<b>Profit Before Tax (pre-EI)</b>	<b>4,382</b>	<b>6,175</b>	<b>10,412</b>	<b>11,753</b>	<b>13,171</b>
Exceptional Items	633				
<b>Pre-tax Profit</b>	<b>5,016</b>	<b>6,175</b>	<b>10,412</b>	<b>11,753</b>	<b>13,171</b>
Taxation	(533)	(899)	(1,277)	(1,442)	(1,615)
Exceptional Income - post-tax	(5)	(9)	(9)	(9)	(9)
<b>Profit After Tax</b>	<b>4,478</b>	<b>5,267</b>	<b>9,126</b>	<b>10,303</b>	<b>11,546</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>4,478</b>	<b>5,267</b>	<b>9,126</b>	<b>10,303</b>	<b>11,546</b>
Recurring Net Profit	3,917	5,276	9,135	10,312	11,555
<b>Fully Diluted Recurring Net Profit</b>	<b>3,917</b>	<b>5,276</b>	<b>9,135</b>	<b>10,312</b>	<b>11,555</b>

**Cash Flow**

(HK\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
<b>EBITDA</b>	<b>4,333</b>	<b>6,129</b>	<b>9,197</b>	<b>10,430</b>	<b>11,463</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(267)	(1,714)	(911)	(581)	(663)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	553	1,332	827	942	1,059
Net Interest (Paid)/Received	(274)	(193)	(193)	(193)	(193)
Tax Paid	(567)	(911)	(1,277)	(1,442)	(1,615)
<b>Cashflow From Operations</b>	<b>3,779</b>	<b>4,642</b>	<b>7,644</b>	<b>9,157</b>	<b>10,050</b>
Capex	(2,454)	(3,773)	(2,500)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	395	38	38	29	41
<b>Cash Flow From Investing</b>	<b>(2,058)</b>	<b>(3,735)</b>	<b>(2,462)</b>	<b>(2,471)</b>	<b>(2,459)</b>
Debt Raised/(repaid)	840	764	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,207)	(3,190)	(4,532)	(5,117)	(5,735)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(1,367)</b>	<b>(2,425)</b>	<b>(4,532)</b>	<b>(5,117)</b>	<b>(5,735)</b>
Total Cash Generated	354	(1,518)	649	1,569	1,857
<b>Free Cashflow To Equity</b>	<b>2,561</b>	<b>1,672</b>	<b>5,182</b>	<b>6,686</b>	<b>7,591</b>
<b>Free Cashflow To Firm</b>	<b>1,995</b>	<b>1,100</b>	<b>5,375</b>	<b>6,879</b>	<b>7,784</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

## BY THE NUMBERS... cont'd

### Balance Sheet

(HK\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	5,098	5,245	4,077	5,647	7,503
Total Debtors	3,086	4,916	6,197	7,014	7,947
Inventories	2,045	2,496	3,147	3,561	4,035
Total Other Current Assets	77	284	284	284	284
<b>Total Current Assets</b>	<b>10,305</b>	<b>12,941</b>	<b>13,704</b>	<b>16,506</b>	<b>19,769</b>
Fixed Assets	14,203	17,142	17,703	18,079	18,372
Total Investments	10,821	13,779	15,571	17,449	19,665
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	925	1,209	796	793	790
<b>Total Non-current Assets</b>	<b>25,949</b>	<b>32,130</b>	<b>34,069</b>	<b>36,320</b>	<b>38,828</b>
Short-term Debt	4,459	3,779	3,779	3,779	3,779
Current Portion of Long-Term Debt					
Total Creditors	3,349	3,917	4,938	5,589	6,332
Other Current Liabilities	613	998	998	998	998
<b>Total Current Liabilities</b>	<b>8,422</b>	<b>8,694</b>	<b>9,715</b>	<b>10,366</b>	<b>11,109</b>
Total Long-term Debt	6,350	7,795	7,795	7,795	7,795
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	135	199	199	199	199
<b>Total Non-current Liabilities</b>	<b>6,486</b>	<b>7,993</b>	<b>7,993</b>	<b>7,993</b>	<b>7,993</b>
Total Provisions	419	410	410	410	410
<b>Total Liabilities</b>	<b>15,327</b>	<b>17,098</b>	<b>18,118</b>	<b>18,769</b>	<b>19,513</b>
Shareholders' Equity	20,846	27,884	29,556	33,949	38,967
Minority Interests	81	90	99	108	117
<b>Total Equity</b>	<b>20,927</b>	<b>27,974</b>	<b>29,655</b>	<b>34,057</b>	<b>39,084</b>

### Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	1.5%	14.5%	34.7%	13.5%	12.1%
Operating EBITDA Growth	(2.9%)	41.4%	50.1%	13.4%	9.9%
Operating EBITDA Margin	26.7%	32.9%	36.7%	36.6%	35.9%
Net Cash Per Share (HK\$)	(1.42)	(1.57)	(1.86)	(1.47)	(1.01)
BVPS (HK\$)	5.19	6.91	7.32	8.41	9.65
Gross Interest Cover	11.87	25.98	41.17	47.13	52.06
Effective Tax Rate	10.6%	14.6%	12.3%	12.3%	12.3%
Net Dividend Payout Ratio	57.3%	60.5%	49.6%	49.6%	49.6%
Accounts Receivables Days	64.67	78.66	80.88	84.69	85.54
Inventory Days	74.61	85.46	82.99	86.66	86.10
Accounts Payables Days	122.7	136.7	130.2	136.0	135.1
ROIC (%)	22.6%	30.6%	37.6%	40.9%	43.4%
ROCE (%)	10.9%	14.0%	19.5%	20.8%	20.8%
Return On Average Assets	11.7%	13.4%	20.0%	20.8%	21.0%

### Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Automobile (piece)	14,768.2	14,967.5	15,715.9	16,501.7	17,326.7
Construction(sqm)	13,743.4	14,406.3	15,702.9	16,959.1	18,315.8
Float glass (tonne)	5,607.5	6,358.5	7,312.3	8,043.5	8,687.0
Automobile (HKD/piece)	304.9	307.9	314.1	320.4	326.8
Construction (HKD per sqm)	153.6	153.6	159.7	166.1	172.7
Float glass (HKD per tone)	1,720.1	1,855.0	2,411.4	2,532.0	2,658.6

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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**ADD** : The stock's total return is expected to exceed 10% over the next 12 months.

**REDUCE** : The stock's total return is expected to fall below 0% or more over the next 12 months.

**HOLD** : The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

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