

Hong Kong

August 5, 2021 - 5:39 PM

ADD (no change)

Consensus ratings*: Buy 19 Hold 0 Sell 0

Current price:	HK\$29.80
Target price:	HK\$38.57
Previous target:	HK\$38.57
Up/downside:	29.4%
CGS-CIMB / Consensus:	21.9%
Reuters:	0868.HK
Bloomberg:	868 HK
Market cap:	US\$15,534m
	HK\$120,808m
Average daily turnover:	US\$33.75m
	HK\$262.2m
Current shares o/s	4,038m
Free float:	43.0%

*Source: Bloomberg

Key financial forecasts

	Dec-21F	Dec-22F	Dec-23F
Net Profit (HK\$m)	11,167	12,323	13,882
Core EPS (HK\$)	2.76	3.04	3.43
Core EPS Growth	111%	10%	13%
FD Core P/E (x)	10.79	9.80	8.70
Recurring ROE	38.2%	37.0%	35.5%
P/BV (x)	3.95	3.36	2.86
DPS (HK\$)	1.37	1.51	1.70
Dividend Yield	4.59%	5.07%	5.71%



Price performance	1M	3M	12M
Absolute (%)	-3.4	16	148.7
Relative (%)	3.3	23.5	142.8

Major shareholders	% held
Mr Lee Yin Yee	23.0
Mr Tung Ching Sai	11.7

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Xinyi Glass

Key takeaways from post-results investors call

- We hosted a post-results investors call with Xinyi Glass [0868.HK].
- During the call, management discussed the outlook for the float glass industry and the recent MIIT message.
- The use of Low-E glass, especially in residential projects, is expected to increase given the government's goal of reducing carbon emissions.
- The share price weakness due to profit taking and concerns about potential government intervention may offer a buying opportunity.

The MIIT message shouldn't be over-interpreted

- During its call with investors, Xinyi Glass management reiterated the view that float glass prices should remain resilient, given downstream demand. The message from the MIIT after its meeting with float glass makers shouldn't be over-interpreted. The strong performance of float glass prices in 1H21 was due mainly to strong downstream demand and an increase in the cost of production materials, such as natural gas and soda ash. The MIIT message also confirmed that the float glass market is undersupplied. The MIIT mentioned that it will look for ways to boost float glass supply, which is somewhat positive for the leading players with quota for new capacity installation. The quota available in the market is limited, and new capacity is unlikely to increase significantly. While not releasing concrete numbers, management remained positive on the outlook for the float glass industry in 2022 and the favorable pricing environment. According to management, the recent share buyback is a signal to the market that management remains positive on the outlook for the industry and Xinyi Glass.
- We don't believe that the MIIT found any wrongdoing by float glass makers, as the SMAR hasn't initiated an investigation at this stage. In our view, the MIIT is just communicating with float glass makers and delivering the message that conducting price collaboration is prohibited.

Carbon neutrality offers opportunities

- According to Xinyi Glass management, there are no policies or regulations on the adoption of Low-E glass for property projects. There are no official figures on the penetration rate of Low-E glass, but management mentioned that the figure may be at the 40–50% level. The target for the reduction in carbon emissions is expected to drive demand for Low-E glass, especially in residential property projects. Xinyi Glass also mentioned the trend of increasing shipments of Low-E glass. The profitability of the construction glass segment is expected to increase, as Xinyi Glass has included ASP hikes in new contracts signed with customers.

Cold repairing may constrain supply

- Some float glass makers have delayed the cold repairing process for some production lines because of the strong float glass market. But the delays may trigger concerns: a) less stable output quality and higher inputs costs; and b) potential furnace leakage. It is hard to predict the timing, but the cold repair of the production mentioned above will constrain supply.

Our view

- Given recent weak market sentiment and news flow (especially related to government policy), shares of float glass makers such as Xinyi Glass and China Glass [3300.HK] may come pressure. However, the share price performance of Xinyi Glass and China Glass indicate that the market has remained calm. We reiterate the view that float glass prices are driven by supply/demand and costs movement. The new capacity expansion will be constrained by the updated Capacity Swap Plan, effective on 1 Aug 21. We expect Xinyi Glass to outperform the industry because of its capacity expansion. Any share prices weakness should offer a good re-entry opportunity.

BY THE NUMBERS

Profit & Loss

(HK\$m)	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	18,616	27,529	31,135	34,926
Gross Profit	8,892	15,809	17,431	19,281
Operating EBITDA	6,129	12,067	13,229	14,603
Depreciation And Amortisation	(1,120)	(1,261)	(1,346)	(1,428)
Operating EBIT	5,008	10,806	11,883	13,175
Financial Income/(Expense)	(155)	(155)	(151)	(129)
Pretax Income/(Loss) from Assoc.	1,124	1,350	1,321	1,662
Non-Operating Income/(Expense)	197	931	1,053	1,182
Profit Before Tax (pre-EI)	6,175	12,932	14,106	15,889
Exceptional Items				
Pre-tax Profit	6,175	12,932	14,106	15,889
Taxation	(899)	(1,756)	(1,774)	(1,998)
Exceptional Income - post-tax	(9)	(9)	(9)	(9)
Profit After Tax	5,267	11,167	12,323	13,882
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	5,267	11,167	12,323	13,882
Recurring Net Profit	5,276	11,176	12,332	13,891
Fully Diluted Recurring Net Profit	5,276	11,176	12,332	13,891

Balance Sheet

(HK\$m)	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	5,245	5,759	8,808	12,397
Total Debtors	4,916	5,885	6,823	7,740
Inventories	2,496	2,988	3,464	3,930
Total Other Current Assets	284	284	284	284
Total Current Assets	12,941	14,916	19,378	24,351
Fixed Assets	17,142	17,703	18,079	18,372
Total Investments	13,779	15,138	16,469	18,139
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	1,209	796	793	790
Total Non-current Assets	32,130	33,637	35,340	37,301
Short-term Debt	3,779	3,779	3,779	3,779
Current Portion of Long-Term Debt				
Total Creditors	3,917	4,689	5,436	6,167
Other Current Liabilities	998	998	998	998
Total Current Liabilities	8,694	9,466	10,213	10,944
Total Long-term Debt	7,795	7,795	7,795	7,795
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	199	199	199	199
Total Non-current Liabilities	7,993	7,993	7,993	7,993
Total Provisions	410	410	410	410
Total Liabilities	17,098	17,870	18,617	19,348
Shareholders' Equity	27,884	30,584	35,994	42,188
Minority Interests	90	99	108	117
Total Equity	27,974	30,684	36,102	42,305

Cash Flow

(HK\$m)	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	6,129	12,067	13,229	14,603
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(1,714)	(689)	(667)	(652)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	1,332	910	1,032	1,160
Net Interest (Paid)/Received	(193)	(193)	(193)	(193)
Tax Paid	(911)	(1,756)	(1,774)	(1,998)
Cashflow From Operations	4,642	10,340	11,628	12,920
Capex	(3,773)	(2,500)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	38	38	41	63
Cash Flow From Investing	(3,735)	(2,462)	(2,459)	(2,437)
Debt Raised/(repaid)	764	0	0	0
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(3,190)	(5,547)	(6,121)	(6,895)
Preferred Dividends				
Other Financing Cashflow				
Cash Flow From Financing	(2,425)	(5,547)	(6,121)	(6,895)
Total Cash Generated	(1,518)	2,331	3,049	3,589
Free Cashflow To Equity	1,672	7,878	9,169	10,484
Free Cashflow To Firm	1,100	8,070	9,362	10,677

Key Ratios

	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	14.5%	47.9%	13.1%	12.2%
Operating EBITDA Growth	41.4%	96.9%	9.6%	10.4%
Operating EBITDA Margin	32.9%	43.8%	42.5%	41.8%
Net Cash Per Share (HK\$)	(1.57)	(1.43)	(0.68)	0.20
BVPS (HK\$)	6.91	7.54	8.88	10.41
Gross Interest Cover	25.98	56.06	61.65	68.35
Effective Tax Rate	14.6%	13.6%	12.6%	12.6%
Net Dividend Payout Ratio	60.5%	49.6%	49.6%	49.6%
Accounts Receivables Days	78.66	71.60	74.49	76.09
Inventory Days	85.46	85.40	85.93	86.26
Accounts Payables Days	136.7	134.0	134.8	135.4
ROIC (%)	30.6%	51.1%	54.1%	57.3%
ROCE (%)	14.0%	26.2%	26.3%	25.9%
Return On Average Assets	13.4%	24.2%	24.2%	24.1%

12-mth Fwd FD P/E (x) - Xinyi Glass



Key Drivers

	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Automobile (piece)	14,967.5	16,314.6	16,804.0	17,644.2
Construction(sqm)	14,406.3	15,702.9	16,959.1	18,315.8
Float glass (tonne)	6,358.5	7,566.6	8,323.2	8,989.1
Automobile (HKD/piece)	307.9	323.3	329.8	336.4
Construction (HKD per sqm)	153.6	165.8	170.8	177.7
Float glass (HKD per tone)	1,855.0	2,596.9	2,726.8	2,863.1

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Description:	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 30 Jun 2021		
623 companies under coverage for quarter ended on 30 Jun 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	72.1%	1.1%
Hold	19.3%	0.0%
Reduce	8.7%	0.0%

Spitzer Chart for stock being researched (2 year data)

Xinyi Glass (868 HK)

— Price Close



RECOMMENDATION FRAMEWORK

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Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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