

Xinyi Glass (XYG)

868.HK / 868 HK

China

Auto parts / Construction materials

Earnings top consensus, aggressive plans ahead

► XYG results in-line

	2H17	YoYΔ	HoHΔ	2017	YoYΔ	Act vs Cons
Revenue (HK\$m)	8,051	15.6%	20.6%	14,728	12.1%	-0.3%
Gross profit (HK\$m)	3,015	15.2%	24.1%	5,444	48.7%	-0.1%
GPM	37.4%	-0.1 ppt	1.1 ppt	37.0%	0.7 ppt	0.1 ppt
Net profit (HK\$m)	2,378	28.9%	45.4%	4,014	52.1%	9.5%

LONG

Maintain

HK\$11.94*

Target price: HK\$13.16

Prior TP: HK\$11.86

Upside: 10%

Valuation table

2018 earnings excluding XYS operations (HK\$m)	4,392
Implied EPS (HK¢)	109.4
Multiplied by: P/E ratio of XYG operations	12x
XYG operations contribution	13.12
Add: Share of XYS TP	2.36
Standalone value (HK\$)	15.48
Conglomerate discount	15.0%
Target price (HK\$)	13.16

Source: Sunwah Kingsway Research estimates

Earnings revisions

	2018F	2019F	2020F
Revenue (HK\$m) - new	17,276	19,301	21,432
<i>old</i>	17,129	19,096	N/A
<i>change</i>	0.9%	1.1%	N/A
Gross profit (HK\$m)	7,494	8,157	8,846
<i>old</i>	7,138	7,854	N/A
<i>change</i>	5.0%	3.9%	N/A
Net profit (HK\$m)	5,402	5,796	6,328
<i>old</i>	4,925	5,472	N/A
<i>change</i>	9.7%	5.9%	N/A
Basic EPS (HK cents)	134.5	144.3	157.6
<i>old</i>	122.6	136.2	N/A
<i>change</i>	9.7%	6.0%	N/A

Source: Sunwah Kingsway Research estimates

Our revenue and earnings estimates for 2018 and 2019 are revised upwards based on the following assumption changes:

1. 2018 float glass ASP lifted by 2.5% to RMB1,630 per tonne.
2. Malaysia float glass capacity for 1H19 and 2H19 to increase by 1,000 tonnes per day each.
3. XYS earnings revisions, up 1.4% in 2018 and 3.2% in 2019.

Average China Soda Ash price since Mar 2016



Source: Wind

National float glass price since Mar 2016



Source: Wind

Financial forecasts

Years ended 31 Dec	2016	2017	2018F	2019F	2020F	Years ended 31 Dec	2016	2017	2018F	2019F	2020F
Income statement (HK\$m)						Ratios					
Revenue	12,848	14,728	17,276	19,301	21,432	Gross margin (%)	36.3	37.0	43.4	42.3	41.3
COGS	(8,189)	(9,283)	(9,782)	(11,144)	(12,586)	EBITDA margin (%)	32.4	34.0	37.3	36.0	35.0
Gross Profit	4,659	5,444	7,494	8,157	8,846	Net margin (%)	25.0	27.3	31.3	30.0	29.5
Other income	342	377	215	215	215	Selling & dist'n/Sales (%)	4.8	4.6	4.4	4.5	4.5
Other gains, net	159	317	0	0	0	Admin/Sales (%)	9.4	9.3	8.3	8.3	8.3
Selling & marketing costs	(620)	(675)	(753)	(869)	(964)	Payout ratio (%)					
Admin expense	(1,202)	(1,370)	(1,441)	(1,610)	(1,788)	Effective tax (%)	15.9	14.5	15.7	16.6	16.4
Gain on spin-off	0	0	0	0	0	Total debt/equity (%)	58.2	46.4	38.8	36.4	25.8
Operating profit	3,338	4,093	5,515	5,894	6,308	Net debt/equity (%)	37.2	29.7	32.2	31.7	21.5
Add back: Depreciation	797	846	920	1,064	1,184	Current ratio (x)	1.1	1.5	1.0	1.0	1.1
Add back: Amortization	30	75	0	0	0	Quick ratio (x)	0.9	1.2	0.7	0.7	0.8
EBITDA	4,165	5,014	6,436	6,958	7,493	Inventory T/O days	57	59	61	61	61
Depreciation & Amortization	(827)	(921)	(920)	(1,064)	(1,184)	A/R T/O days	68	68	80	80	80
Finance income	51	55	27	24	23	A/P T/O days	98	95	84	84	84
Finance costs	(128)	(151)	(147)	(141)	(132)	Working capital days	26	31	57	57	57
Share of P/L of assos	563	700	1,010	1,175	1,369	Asset turnover (x)	0.53	0.49	0.55	0.56	0.56
Profit before tax	3,823	4,696	6,406	6,951	7,568	Financial leverage (x)	1.82	1.66	1.64	1.60	1.56
Income tax expense	(607)	(682)	(1,003)	(1,155)	(1,240)	EBIT margin (%)	26.0	27.8	31.9	30.5	29.4
Profit for the year	3,216	4,014	5,402	5,796	6,328	Interest burden (x)	1.1	1.1	1.2	1.2	1.2
Less: MI	(3)	(0)	0	0	0	Tax burden (x)	0.84	0.95	0.84	0.83	0.84
Net profit	3,213	4,014	5,402	5,796	6,328	Return on equity (%)	24.4	22.0	28.3	26.7	25.6
Basic EPS (HK Cents)	82.78	101.14	134.51	144.31	157.57	As at 31 Dec					
Diluted EPS (HK Cents)	81.19	99.92	130.96	140.51	153.41	Balance Sheet (HK\$m)					
Years ended 31 Dec						2016		2017			
Cash flow (HK\$m)						Leasehold land & land use rights		1,121 3,427			
EBITDA	4,165	5,014	6,436	6,958	7,493	PPE		11,831 12,929			
Non-cash adjustments	86	(18)	0	0	0	Investment properties		547 1,205			
Changes in working capital	(218)	(758)	(805)	(545)	(581)	Prepmt for PPE & land use rights		608 300			
Operating cash	4,032	4,238	5,631	6,413	6,912	Intangible assets		72 70			
Taxes paid	(342)	(562)	(1,176)	(1,152)	(1,237)	AFS financial assets		39 52			
Interest paid	(126)	(151)	(147)	(141)	(132)	Investment in asso		3,258 4,416			
Net cash from operations	3,565	3,525	4,308	5,120	5,543	Loans to an assp		49 27			
Interest received	51	55	27	24	23	Other non-current assets		0 0			
CAPEX	(1,756)	(3,366)	(3,000)	(3,000)	(2,500)	Non-current assets		17,524 22,426			
Disposals of assets	18	0	0	0	0	Inventories		1,321 1,698			
Acquisition/disposal of subsidia	(618)	0	0	0	0	Loans to assos + amt due from asso		33 52			
Change in non-demand deposits	(4)	(4)	7	0	0	Trade & other receivables		2,377 3,072			
Advances to associates	(47)	0	0	0	0	Non-demand deposits		5 9			
Dividends from associates	256	307	364	432	513	Cash & cash equiv.		2,763 3,049			
Net change in investment proper	(97)	0	0	0	0	Current assets		6,499 7,879			
Others	(82)	0	0	0	0	Total assets		24,022 30,305			
Investing cash	(2,280)	(3,008)	(2,602)	(2,544)	(1,964)	Amt due to asso		0 0			
FCF	1,285	517	1,706	2,576	3,579	Trade & other payables		2,297 2,554			
Net issue/(repurchase) of share	(122)	175	0	0	0	Current tax payable		538 535			
Net issue/(redemption) of debt s	0	(91)	0	0	0	Bank and other borrowings		3,165 2,068			
Net changes in bank loans	1,611	1,412	(1,072)	0	(500)	Current liabilities		6,000 5,157			
Dividends	(1,321)	(1,727)	(2,434)	(2,803)	(3,032)	Bank borrowings		3,889 6,399			
Others	56	0	0	0	0	Other borrowings - CBs		620 0			
Financing cash	225	(231)	(3,506)	(2,803)	(3,532)	Deferred tax liabilities		218 335			
Net change in cash	1,510	286	(1,800)	(227)	46	Deferred government grants		0 0			
Cash and cash equiv b/f	1,298	2,763	3,049	1,248	1,021	Other payables		48 108			
FX adjustments	(45)	0	0	0	0	MI		66 69			
Cash and cash equiv c/f	2,763	3,049	1,248	1,021	1,067	Non-current liabilities		4,841 6,911			
						Total net assets		13,181 18,237			
						Shareholders' equity		13,181 18,237			
						Issued capital		389 402			
						Reserves		1,361 534			
						Other retained earnings		11,431 17,301			

Source: Company data, Sunwah Kingsway Research Estimates

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