



XYG (868.HK)

FY10F Bottom-line Set To Surge, 'Buy'

Company Report

Rating: **Buy**→

Price : **HK\$6.08**

TP : **HK\$8.60**↑

Upside: **41%**

2 Feb 2010

Event

Wuhu Plant Visit

EPS Change

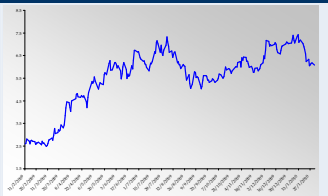
TP Change

Stock Data (HK\$)

52 w Hi	7.61
52 w Lo	1.96
Mk Cap (HK\$ m)	10,780.2
Issued shares (m)	1,688.1
Daily Vol (m)	6.8
1M % chg	-13.5
Ytd % chg	-13.5
50 d MA	6.7
200 d MA	6.1
14 d RSI	36.1

Source: Bloomberg

1 yr price chart



Source: Bloomberg

Event

- **Wuhu Plant Visit Notes.** Key take-aways from the trip are: natural gas replaced heavy oil as the energy supply; OEM now 1m cases per year, another 1m cases new capacity scheduled for commercial operation in 3Q 2010; 700t/d and 900t/d lines into operation in 2Q10.
- **Revising FY10F estimates:** We adjust: (1) FY10F's top-line figure upwards by 4.3% to HK\$6.54bn; (2) consolidated GM% estimates slightly lifted by 1ppt to 31.1% as we upgrade float glasses' GM% by 3ppt; (3) bottom line then was increased from previously HK\$1.23bn to HK\$1.36bn or EPS of HK\$0.710 to HK\$0.782.
- **Bull on PRC car sales growth.** We expect the passenger car sales in 2010 to experience growth between 15-20% YoY while we estimate the PRC's total auto sales to top 15m units.
- **Soda Ash recovering quickly but not grea**JpwwVwPEtvapNC:EgvspPwPCPE

Weisong Christian Jiang

christian.jiang@bocomgroup.com

Tel: (852) 3710 3203

Download our reports from
Bloomberg: BOCM <enter>

1. Wuhu Plant Visit Notes

Touring largest XYG plant. We went to XYG's largest manufacturing base last Friday, which is 30% larger than the existing Dongguan plant. Key take-aways from the trip are:

Performance Improvement:

- Natural gas replaced heavy oil as the energy supply; Cost saving 10-15% compared to using heavy oil.
- We anticipate consolidated GM% improvement of c.2 ppts.

Wuhu Plant Products - Auto Glass:

- OEM now 1m cases per year, another 1m cases new capacity scheduled for commercial operation in 3Q 2010.
- Customers were mainly Chinese auto manufacturers: BYD, Dongfeng (东风), Chery (奇瑞) etc.

Wuhu Plant Products - Low-E Glass:

- German coating technology in use is more advanced compared to local competitors.
- One of the Guangzhou 16th Asian Game main stadiums is using XYG's Low-E Glass.
- Some provincial government (such as Fujian) has made it compulsory to use Low-E glass for public construction projects.

Financial:

- Management confident that 2H09 results to bounce back from 1H09 with improved margins and higher revenue.
- Current high quality float glass is selling RMB2,400/t plus, 2Q09 was only RMB1,400/t.

American Law Provision:

- We made full amount provision, c.HK\$85.3m in FY09F, i.e. HK\$0.05 per share EPS downward impact.
- Senior management confident about the case to be resolved fully.

FY10F outlook & Capacity Expansion:

- ASPs looking firm.
- TCO glass line will be putting into commercial operation in 2H09, which has a GM% over 50%.
- 700t/d and 900t/d melting capacity float glass lines will be put into operation in 2Q10 in Wuhu plant.

Overall key highlights of annual capacity expansion plans:

OEM Auto Glass: 2010 up 142% YoY

Low-E Glass: 2010 up 33% YoY

TCO: new in 2010 with 2m sqm

Float Glass: 2010 up 26% YoY

PV Glass: 2010 up 88% YoY

Fig 1: Visit photos

Wuhu plant's own 5,000t pier for raw material unload



700t/d and 900t/d plants, under construction



500t/d plant with downstream low-E glass and PV glass lines



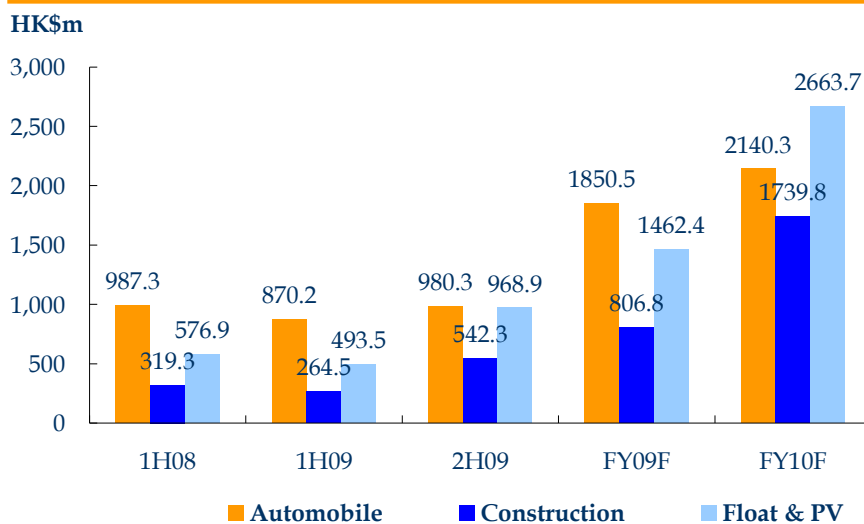
Source BOCOM Int'l

2. Revising FY10F estimates

Upgrade FY10F's estimates. We now upgrade our estimates for FY10F due to: (1) better than expected recovery of ASPs especially coming from float glass (currently up c.100% YoY compared to 1Q09); (2) better than expected GM% recovery; (3) expansion becoming faster than our previous anticipation especially on the new Jiangmen plant (600t/d line and 2x 900t/d lines operating in 4Q10).

Overall, we adjust: (1) FY10F's top-line figure upwards by 4.3% to HK\$6.54bn as ASPs are lifted; (2) consolidated GM% estimates slightly lifted by 1ppt to 31.1% as we upgrade float glasses' GM% by 3ppt; (3) bottom line then is increased from previously HK\$1.23bn to HK\$1.36bn or EPS of HK\$0.710 to HK\$0.782.

Fig 2: Product sales expected to be recovered in 2H09, leading to great advancement in FY10F



Source: CEIC BOCOM Int'l

3. Key Assumptions

Revenue Assumption BreakDown					
	FY07	FY08	FY09F	FY10F	FY11F
Float & PV Glass					
Y/E Output (m t)	0.51	0.97	1.00	1.56	2.38
Sales Volume (m t)	0.46	0.82	0.85	1.19	1.82
ASP (HK\$/t)	1,078.7	1,557.6	1,713.4	1,970.4	1,970.4
<u>Total Turnover (HK\$m)</u>	491.9	1,279.2	1,462.4	2,351.3	3,590.0
Automobile					
Y/E Output (m pcs)	9.20	10.70	11.20	12.70	13.70
Sales Volume (m pcs)	5.15	6.42	6.72	7.62	8.22
ASP (HK\$/pcs)	333.2	306.0	275.4	280.9	286.5
<u>Total Turnover (HK\$m)</u>	1,716.8	1,964.3	1,850.5	2,140.3	2,355.0
Construction					
Y/E Output (m sq.m)	2.00	3.00	4.38	9.25	11.50
Sales Volume (m sq.m)	1.12	1.68	2.45	5.18	6.44
ASP (HK\$/sq.m)	505.3	387.4	329.3	335.9	342.6
<u>Total Turnover (HK\$m)</u>	565.9	650.8	806.8	1,739.8	2,206.3
TCO					
Y/E Output (m sq.m)	0.00	0.00	0.00	2.06	3.43
Sales Volume (m sq.m)	0.00	0.00	0.00	1.56	2.61
ASP (HK\$/sq.m)	0.0	0.0	0.0	200.0	204.0
<u>Total Turnover</u>	0.0	0.0	0.0	312.4	531.8
<u>Consolidated Total</u>	2,774.6	3,894.3	4,119.7	6,543.8	8,683.0
Gross Margin Assumption BreakDown					
	FY07	FY08	FY09F	FY10F	FY11F
Float & PV Glass GM					
Float Glass GP (HK\$ m)	165.8	262.4	330.0	742.8	1247.5
Float & PV Glass GM	33.7%	20.5%	22.6%	31.6%	34.7%
Automobile Glass GM					
Automobile GP (HK\$ m)	710.8	749.9	671.1	776.2	854.1
Automobile Glass GM	41.4%	38.2%	36.3%	36.3%	36.3%
Construction Glass GM					
Construction Glass GP (HK\$ m)	196.4	198.6	270.8	584.0	740.6
Construction Glass GM	34.7%	30.5%	33.6%	33.6%	33.6%

Source: Company, BOCOM Int'l

4. Financials

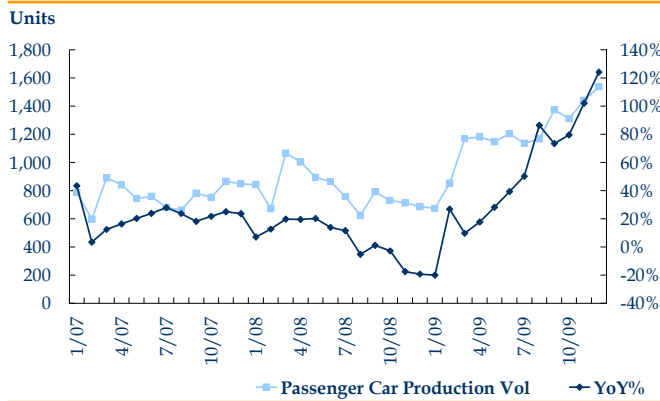
YE Dec (HK\$ m)	FY08	FY09F	FY10F	FY11F	YE Dec (HK\$ m)	FY08	FY09F	FY10F	FY11F
Profit & Loss					Cash Flow Statement				
Turnover	3,894.3	4,119.7	6,543.8	8,683.0	Profit before tax	753.1	667.4	1,482.0	2,149.3
COGS	(2,683.4)	(2,847.7)	(4,440.7)	(5,840.8)	Interest income	(9.1)	(9.0)	(13.2)	0.0
Gross Profit	1,210.9	1,271.9	2,103.0	2,842.2	Finance Costs	24.0	25.0	25.3	22.3
Other Revenue	93.4	(42.1)	55.7	56.9	Depreciation	224.6	300.6	331.8	360.8
Distribution Expenses	(318.2)	(324.9)	(394.1)	(440.8)	Other changes in P&L	22.8	18.5	17.2	21.0
General & Admin expenses	(209.2)	(213.5)	(257.8)	(287.6)	change in working capital	242.6	(209.3)	(299.1)	(356.0)
Operating Profit	776.8	691.4	1,506.8	2,170.8	Tax paid	(34.2)	(29.1)	(56.7)	(181.2)
Associate and Others	0.3	0.9	0.6	0.8	Operating cash flow	1,223.7	764.0	1,487.4	2,016.1
Finance cost	(24.0)	(25.0)	(25.3)	(22.3)	Capex	(856.7)	(784.0)	(784.0)	(627.2)
Profit before taxation	753.1	667.4	1,482.0	2,149.3	Other investing CF	(95.0)	(63.9)	(83.6)	(83.5)
Taxation	(42.3)	(54.7)	(121.5)	(459.9)	Investing cash flow	(951.7)	(847.9)	(867.6)	(710.7)
MI	(1.6)	(0.1)	(0.1)	0.0	Net Borrowings Rasied (Paid)	508.2	46.7	17.5	(153.4)
Net Profit	709.2	612.6	1,360.3	1,689.3	Interest Paid	(56.1)	(25.0)	(25.3)	(22.3)
Consolidated Balance Sheet					Financing cash flow				
Fixed Assets					Other financing CF	(581.2)	203.8	(457.1)	(706.6)
PPE	4,334.8	4,450.9	4,839.1	5,054.3	Financing cash flow	(129.1)	225.6	(464.9)	(882.3)
Land use rights	280.9	300.5	321.6	344.1	Net Cash Flow	143.0	141.6	154.9	423.1
Other fixed assets	117.4	101.5	101.5	101.5	Cash balance at year begin	309.5	435.7	658.3	935.6
Current Asset					Exchange Effect	(16.8)	81.0	122.4	174.0
Cash balance	435.7	658.3	935.6	1,532.7	Cash balance at year end	435.7	658.3	935.6	1,532.7
Inventories	612.1	625.6	975.5	1,283.1	Key Ratios				
A/C receivables	710.1	801.1	1,272.4	1,688.4	Gross margin (%)	31.1	30.9	32.1	32.7
Other current assets	6.9	12.3	12.5	11.0	Operating margin (%)	19.9	16.8	23.0	25.0
Current Liabilities					Net margin (%)	18.2	14.9	20.8	19.5
ST borrowings	722.4	750.4	760.9	669.0	ROE (%)	16.8	13.2	25.4	26.3
A/C payables	879.3	773.5	1,295.0	1,662.1	ROCE (%)	13.7	10.4	20.5	22.1
Other current liabilities	21.6	26.7	58.7	218.2	ROA (%)	12.0	9.1	17.7	18.3
Long-term Liabilities					Gearing	27.6%	25.7%	21.9%	16.0%
LT Loans	484.1	502.8	509.9	448.3	Net debt / equity	17.6%	12.2%	5.8%	Net Cash
Other LT liabilities	1.0	1.1	1.2	1.3	Interest cover (X)	32.3	27.7	59.5	97.5
Net Asset	4,389.5	4,895.7	5,832.6	7,016.2	Altman-Z-Score	4.9	5.0	4.9	5.0
Represented by:					Asset turnover	0.6	0.6	0.8	0.9
Share capital	1,998.0	1,998.0	1,998.0	1,998.0	Current ratio	1.1	1.4	1.5	1.8
Reserves	2,371.4	2,877.5	3,814.2	4,997.8	A/C rec turnover (days)	67	66	57	61
MI	20.2	20.3	20.4	20.4	A/C payable turnover (days)	97	104	78	87
	4,389.5	4,895.7	5,832.6	7,016.2	Inventory turnover days	75	78	65	70

Source: Company, BOCOM Int'l

5. Domestic Car Sales Upbeat

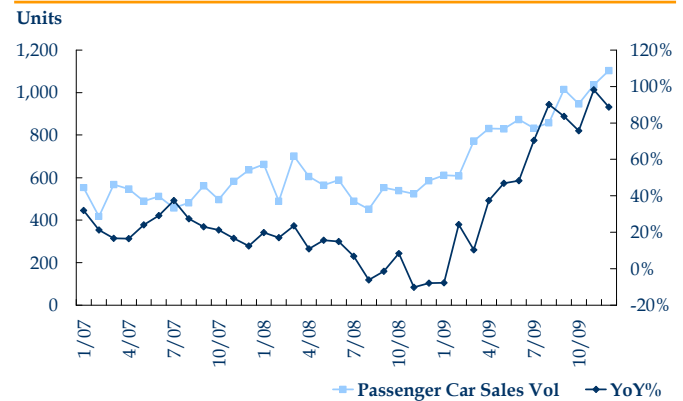
PRC passenger car market 15-20% growth expected. We expect the passenger car sales in 2010 to experience growth between 15-20% YoY while we estimate the PRC's total auto sales to top 15m units, i.e. 15% YoY growth on 2009. As the auto market retains its rapid double digit growth, and XYG aggressively enters the PRC Auto Glass OEM market, we remain optimistic on XYG's auto sector performance with stable ASP forecasts and GM% estimate although the overseas market lacks upward momentum.

Fig 3 Passenger Car prod volume mthly & YoY%



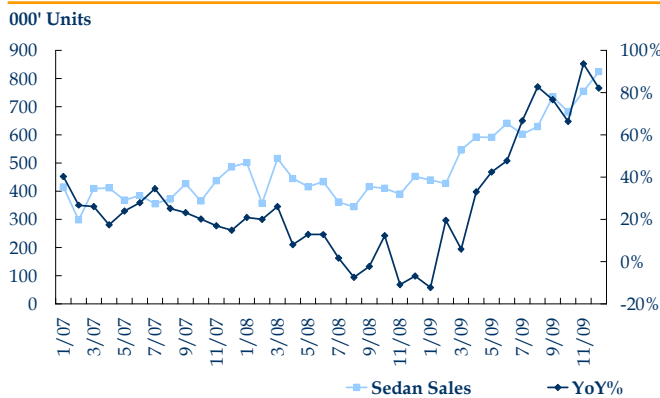
Source: CEIC, BOCOM Int'l

Fig 4 Passenger Car sales volume mthly & YoY%



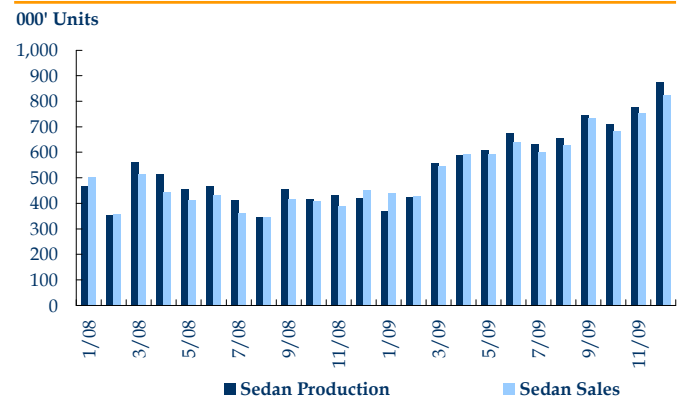
Source: CEIC, BOCOM Int'l

Fig 5 Sedan sales volume mthly & YoY%



Source: CEIC, BOCOM Int'l

Fig 6 Sedan Prod vs. Sedan Sales, mthly



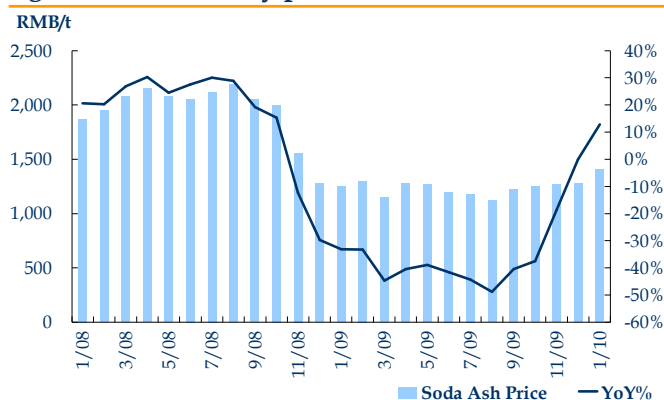
Source: CEIC, BOCOM Int'l

6. Input costs recovering

Soda Ash recovering most quickly. We are less encouraged to raise our GM% further as soda ash and heavy oil's prices have been increasing. We have also seen certain smaller manufactures reopening their closed lines as the demand for glasses recovered following the government RMB4tn stimulus package. As more players are coming back to the market, demand for raw material and energy will surge, and we expect those related prices to continue their advancement in 2010, biting into manufacture's GM%. **However, we are less concerned with XYG due to the use of gas which has more stable price movement and 10-15% cheaper than using fuels. 45% or more energy usage (35%+ of COGS) is expected to come from gas while the remaining stays with fuel.**

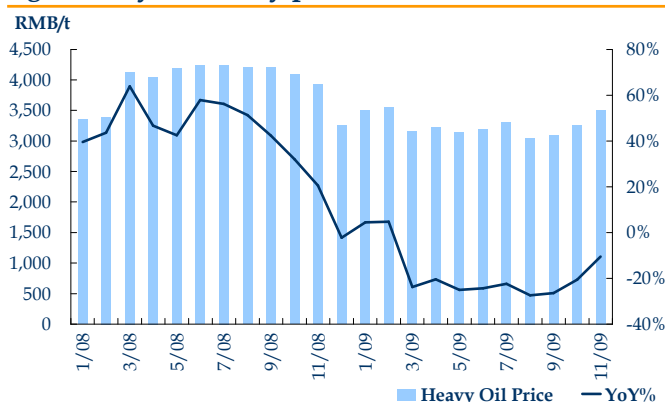
Due to heavy oil and soda ash's prices being low in the 2H09, we anticipate the 2H09's results will be improved greatly from the 1H09 results. Float glass's GM% could be improved as much as 15ppt caused by combined effects of lowered costs and recovered ASP (4Q09's prices doubling the 1Q09).

Fig 7 Soda Ash mthly prices



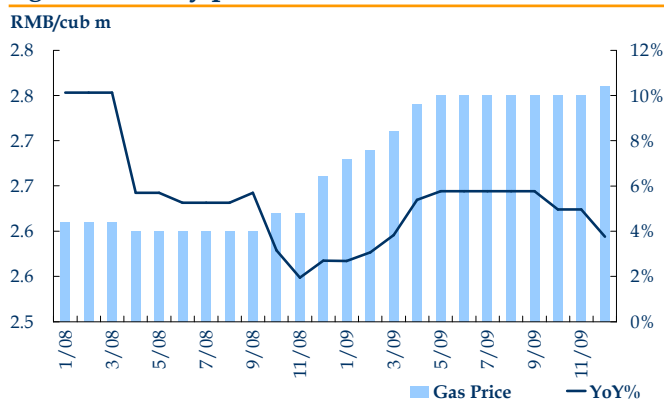
Source: CEIC, BOCOM Int'l

Fig 8 Heavy Oil mthly prices



Source: CEIC, BOCOM Int'l

Fig 9 Gas mthly prices



Source: CEIC, BOCOM Int'l

7. Investment Thesis & Valuation

We maintain 'Buy' on XYG with upgraded TP of HK\$8.60 from HK\$6.40. Buying points are: (1) leveraging to the future of TCO which XYG is the pioneer in the domestic glass industry, and the production line is expected to be running from 2H10; (2) XYG's huge after-market auto glass market shares in the overseas and its potentials in PRC as well as its future PRC OEM Auto Glass market growth; (3) FY10F's bottom-line likely to double from FY09 whose results will be released in Mar.

Our DCF model suggests a similar target of HK\$8.73 per share, representing P/E of 11X FY10F's EPS.

Risk

Valuation upside risks mainly are: (1) GM% expanded larger than expected due to higher actual ASPs than expected if the government's crack down on obsolete capacity came out to be more aggressive than expected; (2) better than expected auto glass sales due to western country economy recovering better than expected.

Downside risks: (1) soda ash costs hiking more severe than expected; (2) expanded capacity further distorts the float glass supply demand picture causing more severe over-supply; (3) law suit in the US to have beyond expected damaging impacts such as more penalty or limiting XYG's exporting capability to the US.

Company Description

Established in 1988, currently Xinyi Glass Holdings Ltd takes 20% of global automobile replacement glass market, and related exports have been ranked No.1 in China while possessing the leading coating technology from Germany for Low-E glass products. Its aftermarket automobile glass production capacity in FY07 reached 8.5m pieces. Xinyi Glass's business includes production and sale of automobile (50% of FY08 total turnover), construction (17% of FY08 total turnover), and float and PV glass products (33% of FY08 total turnover). The company has 4 manufacturing bases namely Shenzhen, Dongguan in Guangdong province, Wuhu in Anhui province and Tianjin. Shares have been listed on HKEX since Feb 2005.

BOCOM International

9/F, Man Yee Building, 68 Des Voeux Road
Central, Hong Kong.

Main: (852) 3710 3328; Fax: (852) 3798 0133

www.bocomgroup.com

Contacts:

(852) 2977 9155

(852) 2977 9181

(852) 3710 3369

(852) 2297 9480

(852) 2297 9853

(852) 2297 9839

(8610) 8518 4068-99

Rating System

Company Rating

Buy: Expect more than 20% upside in 12 months

LT Buy: Expect more than 20% upside but longer than 12 months

Neutral: Expect low volatility

Sell: Expect more than 20% downside in 12 months

Sector Rating

Outperform: Expect more than 10% upside in 12 months

Market perform: Expect low volatility

Underperform: Expect more than 10% downside in 12 months

Analyst Certification

The authors of this report, hereby declare that: (i) all of the views expressed in this report accurately reflect their personal views about any and all of the subject securities or issuers; and (ii) no part of any of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report; (iii) no insider information/non-public price-sensitive information in relation to the subject securities or issuers which may influence the recommendations were being received by the authors.

The authors of this report further confirm that (i) neither they nor their respective associates (as defined in the Code of Conduct issued by the Hong Kong Securities and Futures Commission) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of the report; (ii) neither they nor their respective associates serve as an officer of any of the Hong Kong listed companies covered in this report; and (iii) neither they nor their respective associates have any financial interests in the stock(s) covered in this report.

Disclaimer

By accepting this report (which includes any attachment hereto), the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law.

This report is strictly confidential and is for private circulation only to clients of BOCOM International Securities Ltd. This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of BOCOM International Securities Ltd.

BOCOM International Securities Ltd, its affiliates and related companies, their directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be interested in, any such securities. Further, BOCOM International Securities Ltd, its affiliates and its related companies may do and seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking, advisory, underwriting, financing or other services for or relating to such company(ies) as well as solicit such investment, advisory, financing or other services from any entity mentioned in this report. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

The information contained in this report is prepared from data and sources believed to be correct and reliable at the time of issue of this report. This report does not purport to contain all the information that a prospective investor may require and may be subject to late delivery, interruption and interception. BOCOM International Securities Ltd does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report and accordingly, neither BOCOM International Securities Ltd nor any of its affiliates nor its related persons shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst BOCOM International Securities Ltd's clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments thereof.

The views, recommendations, advice and opinions in this report may not necessarily reflect those of BOCOM International Securities Ltd or any of its affiliates, and are subject to change without notice. BOCOM International Securities Ltd has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this report. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation, rule or other registration or licensing requirement.

BOCOM International Securities. Ltd is a wholly owned subsidiary of Bank of Communications Co Ltd.