

Xinyi Glass

Lowering PT to HK\$6.1 - Demand bottoming out with some upside in lower fuel costs

Xinyi Glass (XYG) is one of the largest and most diversified glass producers in China. FY14 sales revenue increased by 9.3% y/y with NP dropping by 57.9% y/y. XYG's share price rebounded 8% after the results versus a flat market and sentiment was lifted by management's positive comments on the float glass environment as well as the recent cuts in natural gas prices in China, lowering cost for XYG. We maintain our OW rating but lower our PT to HK\$6.1.

- **Could have been a lot worse.** XYG reported a 38% drop in recurrent net profits for 2014, which is in the middle of its previous warning that earnings would fall 30% to 50% for the year. One of the key areas of relief was that the FY14 float glass margin only fell to 7%, in line with our expectations but could have been a lot worse, given the plunge in prices since July (Y/Y).
- **Lowering earnings estimates and target price.** We did not adjust our earnings estimates after the profit warning was issued in mid-December so our cuts may be larger than others. We lower our EBIT and NP by 15.8% and 13.6% for FY15E due mainly to an upward adjustment in selling and admin expenses, which were much higher than expected in 2014. Our new EPS for 2015E and 2016E are now 2% and 3% higher than consensus (Bloomberg), indicating our view that float glass prices and margins should recover in 2015. Our DCF-based Dec 15 PT is cut to HK\$6.1 (previously HK\$6.7) as a result of these earnings changes.
- **Price, valuation and risks.** Our PT (Dec-15, DCF-derived) of HK\$6.10 implies a forward P/BV of 1.8x and fwd P/E of 10.9x (FY16E). The key downside risks to our PT are falling demand for construction glass that could result from a cooling property market in China, and further weakness in PV glass demand from Europe.

Overweight

0868.HK, 868 HK

Price: HK\$4.55

▼ **Price Target: HK\$6.10**
Previous: HK\$6.70

China

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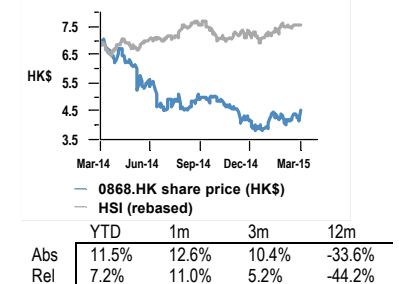
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Price Performance



Xinyi Glass (Reuters: 0868.HK, Bloomberg: 868 HK)

HK\$ in mn, year-end Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (HK\$ mn)	9,785	9,936	10,861	14,207	16,659
Net Profit (HK\$ mn)	1,189	3,246	1,365	2,195	2,620
EPS (HK\$)	0.32	0.85	0.35	0.56	0.67
DPS (HK\$)	0.15	0.27	0.15	0.25	0.30
Revenue growth (%)	19.0%	1.5%	9.3%	30.8%	17.3%
EPS growth (%)	(7.2%)	166.9%	(58.9%)	60.7%	19.4%
ROCE	9.1%	12.5%	6.1%	10.0%	10.6%
ROE	12.9%	29.3%	11.1%	17.0%	18.4%
P/E (x)	14.3	5.4	13.0	8.1	6.8
P/BV (x)	1.7	1.5	1.4	1.3	1.2
EV/EBITDA (x)	10.3	7.5	11.8	7.7	6.7
Dividend Yield	3.3%	5.9%	3.3%	5.5%	6.6%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Shares O/S (mn)	3,687
Market Cap (HK\$ mn)	16,775
Market Cap (\$ mn)	2,163
Price (HK\$)	4.55
Date Of Price	02 Mar 15
Free Float(%)	48.0%
3M - Avg daily vol (mn)	11.00
3M - Avg daily val (HK\$ mn)	45.54
3M - Avg daily val (\$ mn)	5.9
HSI	2,4887.44
Exchange Rate	7.76
Price Target End Date	31-Dec-15
Price Target (HK\$)	6.10

See page 12 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
<ul style="list-style-type: none"> • Price of float glass improving after a slack July • More information on new electric (LCD) glass business to indicate sales and profit contribution • Finalization of new downstream solar projects 	<ul style="list-style-type: none"> • A rise in float glass price higher than our expectations driven by strong construction demand • New customers for the electric glass business is of a better quality than what we expect • Faster completion of new electric glass lines to boost sales 	<ul style="list-style-type: none"> • Further weakness in PV glass demand from Europe • Falling demand for construction and float glass that may result from a cooling property market in China

Key financial metrics	FY13	FY14E	FY15E	FY16E
Revenues (LC)	9,936	10,861	14,207	16,659
Revenue growth (%)	1.5%	9.3%	30.8%	17.3%
EBITDA (LC)	2,852	1,912	2,996	3,403
EBITDA margin (%)	28.7%	17.6%	21.1%	20.4%
Tax rate (%)	11%	14%	17%	17%
Net profit (LC)	3,246	1,365	2,195	2,620
EPS (LC)	0.849	0.349	0.561	0.669

EPS growth (%)	166.9%	-58.9%	60.7%	19.4%
DPS (LC)	0.27	0.15	0.25	0.30
BVPS (LC)	3.12	3.15	3.46	3.83
Operating cash flow (LC mn)	2,772	1,482	1,901	2,388
Free cash flow (LC mn)	(312)	(320)	347	1,239
Interest cover (x)	48	50	34	37
Net margin (%)	32.7%	12.6%	15.4%	15.7%
Sales/assets (X)	0.56	0.53	0.64	0.67
Debt/equity (%)	42.1%	48.7%	48.1%	46.8%
Net debt/equity (%)	33.6%	42.0%	40.8%	35.2%
ROE (%)	29%	11%	17%	18%

Key model assumptions	FY13	FY14	FY15E	FY16E
Auto glass capacity (m)	14.4	15.8	16.6	17.4
Float glass capacity (mn tonnes)	4.2	4.5	5.1	5.8
Float glass price (HK\$/ton)	1,650	1,485	1,634	1,683

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
Sensitivity to	FY15E	FY16E	FY15E	FY16E
5% chg in float glass price	7%	7%	10%	10%
5% chg in fuel cost	-2%	-2%	-3%	-3%
5% chg in wage	-3%	-3%	-4%	-4%
1% chg in GM	4%	4%	5%	5%

Source: J.P. Morgan estimates.

Peer valuation comparison

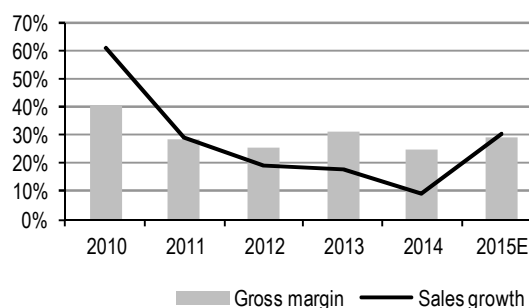
Company Name	Code	Price (TP)	MCAP US\$MM	Vol US\$m	1W Chg	3M Chg	P/E 14E (x)	PE 15E (x)	13E EV/EBITDA	13E ROE (%)	13E P/B (x)	13E Yld (%)
XINYI GLASS HOLD (OW)*	868 HK	4.55 (6.1)	2,301	4.5	4.6	10.4	13.2	8.1	6.3	11.1	1.4	3.3
KB CHEMICAL (OW)*	148 HK	13.12 (21)	1,735	2.4	1.7	(6.7)	6.0	7.2	4.9	6.7	0.4	4.2
SHENZHO (OW)*	2313 HK	31 (38)	5,593	6.7	0.6	20.6	18.3	14.9	12.3	17.9	2.8	3.1
LM PAPER (OW)*	2314 HK	4.04 (6.3)	2,433	2.0	(1.7)	(6.7)	9.5	7.7	8.1	12.6	1.2	4.2
TECHTRONIC INDS (OW)*	669 HK	26.7 (36)	6,305	12.8	4.1	11.7	20.6	16.8	12.2	16.7	2.9	1.2
ND PAPER (OW)*	2689 HK	5.02 (8.2)	3,021	7.7	(12.5)	(23.5)	9.9	8.4	8.0	7.5	0.9	2.0
HAITIAN (OW)*	1882 HK	16.48 (22)	3,392	2.5	11.8	1.4	16.7	14.1	13.4	19.2	3.4	1.2
VTECH (UW)*	303 HK	110.5 (80)	3,558	3.9	(0.1)	3.5	16.8	16.6	13.9	35.4	5.5	5.6
Average							12.6	10.7	9.0	15.6	2.0	3.5

Source: Company data, Bloomberg, J.P. Morgan estimates (*). Share Source: Company data, Bloomberg, J.P. Morgan estimates (*). Share prices are as of Close of Mar 02, 2015.

Valuation and price target basis

Our PT is derived on a DCF-based valuation with a WACC of 11.4% and a terminal growth rate of 3%.

Sales growth and GPM trends



Source: Bloomberg, Company and J.P. Morgan estimates.

JPM vs. consensus, change in estimates

EPS (LC)	FY15E	FY16E
JPM old	0.65	0.71
JPM new	0.561	0.669
% chg	-14%	-6%
Consensus	0.55	0.652

Source: Bloomberg, J.P. Morgan estimates.

Highlights from analysts' briefing

- **Float glass pricing and margins.** While float glass production makes up just 12% of 2014 gross profits (43% of sales), we see the health of the float glass business as the key swing factor, impacting XYG's profits and share price. The GPM of the float glass business hit a record low for 2014 (at 7%) and management called the year the toughest year ever. The market was hit by high increase in capacity (spillover from high construction starts in 2010 and early 2011) as well as an unexpected drop in construction demand during the year. Management expects demand to outpace supply growth in 2015 as they expect a small reduction in capacity as small players run out of money and exit and construction activity (as measured in area completed) is expected by management to rise in 2015 compared to 2014. We are maintaining our view that GPM would improve to 13-14% in FY15 and 17% for FY16.
- **Still expanding capacity.** Although the GPM for 2014 was the lowest on record, management is still cautiously expanding capacity in 2015. XYG intends to expand auto glass capacity by 5%, construction low-E glass capacity by 35% and float glass capacity by 15% in 2015 compared to the average capacity for 2014. We are surprised at the large increase in low-E glass capacity as it would indicate management's bullish expectations of demand in the construction industry which is under quite a volatile state right now. Overall expected capital expenditures in 2015 of HK\$1.5bn is still lower than the HK\$1.73bn spent in 2014.
- **Natural gas price cuts beneficial for XYS.** Over the weekend the NDRC announced natural gas cuts of 10-15% for incremental gas supply. This lowers the cost of fuel for the production of float glass and also solar glass. The impact is greater for solar glass than it is for float glass as management noted that solar glass production is under a high ramp up period so a large portion of the gas usage is considered incremental gas eligible for the maximum cost cuts. We also note that about 40% of the cost of gas for XYG is based on market pricing (glass production in Southern China) which has already seen prices fall significantly since July 2014 due to lower crude prices and we should see the benefits of these lower costs flow through in 2015.
- **Update on solar associate.** XYG owns approximately 31% of listed XYS (968 HK – OW, HK\$2.37) and share of profits from associates is approximately 10% of XYG's overall FY14 net profits. XYG reported a 62% Y/Y increase in NP driven by strong growth in solar glass volumes and commencement of new earnings stream from solar farm operations. Management mentioned that the margins in 2HFY14 (and probably 1HFY15) would be slightly negatively impacted by the new lines of production that XYS has launched (3Q14 and 1Q15) but that there are not much new capacity being brought on by other peers in China. We do note that the relatively flat margins in 2HFY14 compared to 1HFY14 (30-31%) is an impressive achievement, given sluggish demand for solar modules in 2HFY14 as well as the new capacity that XYS has ramped up (900 tons per day) starting 3QFY14. We maintain our view that the cost for XYS is lower than peers in China and XYS has a solid reputation in the industry to demand higher selling prices than the industry average. This allows for XYS to achieve respectable GPM while other peers are struggling to break even.

FY14 results overview

Table 1: XYG FY14 results review

FY results (HK\$m)	FY13	FY14A	Y/Y	FY14E	Var	FY14 Consensus
Turnover*	9,936	10,861	9.3%	11,081	-2.0%	10,896
Gross profit	3,137	2,733	-12.9%	2,845	-3.9%	2,887
GPM*	31.6%	25.2%	-20.4%	25.7%		26.50%
EBIT	2,212	1,494	-32.5%	1,712	-12.7%	1,131
EBITM	22.3%	13.8%	-38.3%	15.5%		10.4%
Net profit	3,246	1,365	-57.9%	1,647	-17.1%	1,321
NP Margin	32.7%	12.6%	-61.6%	14.9%		12.1%
EPS	0.85	0.35	-58.8%	0.421	-16.9%	0.32

Source: Company data, J.P. Morgan estimates.

FY14 sales revenue increased by 9.3% y/y but still missed JPM estimates by 2%. Overall NP reported 57.9% y/y, 17.1% lower than our estimates. The adjusted net profit (excluding gain on spinoff of XY solar in FY13) was down 38.2%, which compares with a company guidance (previously announced) of adjusted net profit being down 30-50% in FY14.

The key reason for the drop in NP for FY14 was the drop in GPM from 31.5% in FY13 to 25.2% in FY14. The main reason for this drop in GPM was the poor pricing and margin of the float glass business (GPM fell from 14.9% in FY13 to 5.4% in FY14). Float glass is a commodity business that is driven from construction activity (70% of float glass demand) which was poor in FY14. Any recovery in demand in FY15 in conjunction with little or no growth in supply should lead to an improvement in margins in FY15 in our view.

Net profits revised down 13.6% for FY15E and 6.3% for FY16E

Table 2: Earnings Revisions

Year to June (HKD m)	----- New -----		----- Old -----		----- Chg -----	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Turnover	14,207	16,659	14,209	16,511	0.0%	0.9%
Gross profit	4,185	4,936	4,174	4,627	0.3%	6.7%
EBIT	2,302	2,681	2,733	2,904	-15.8%	-7.7%
Net profit	2,195	2,620	2,540	2,797	-13.6%	-6.3%
EPS	0.56	0.67	0.65	0.71	-13.6%	-6.3%
Assumptions						
Gross margin	29.5%	29.6%	29.4%	28.0%	0.1%	1.6%

Source: J.P. Morgan estimates.

We leave our estimates for 2015 sales and GP relatively unchanged as the figures for 2014 came in fairly close to expectations. However, the selling expenses and administration costs as a percentage of sales surged from 12.6% in 2013 to 15.1% in 2014 (versus our expectations of 13.2%). Apparently, the weak environment in 2HFY14 resulted in much lower selling prices but also more marketing activities, resulting in a compression in margins. While it is likely that any recovery in the environment would result in a lower ratio in 2015, we have not factored in a drop and are estimating selling and admin expenses as a percentage of sales to remain at 15.1% for FY15 until we see evidence of any improvement in the interim results. Accordingly, we have lowered EBIT and NP by 15.8% and 13.6% for FY15E. Our DCF-based Dec 15 PT is cut to HK\$6.1 (prev. HK\$6.7) as a result of these earnings changes.

Valuation and share price analysis

DCF valuation

Our Dec-15 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.3 (Bloomberg Beta is 1.3). Accordingly, WACC is assumed at 11.4%. We have estimated free cash flow for XYG until 2020 and assume a terminal growth rate of 3%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6% depending on the nature of the industry and the level of maturity in China.

We also analyzed the DCF price sensitivity to WACC and the terminal multiple.

Table 3: XYG – base-case DCF analysis

HK\$ in millions, year-end Dec	2013	2014	2015E	2016E	2017E	2018E	2019E	Terminal
Cash flow estimates								
Sales	9,936	10,861	14,207	16,659	19,039	21,715	24,171	26,925
EBIT	2,212	1,274	2,302	2,681	3,039	3,362	3,796	4,300
NOPAT	2,229	1,092	2,044	2,401	2,744	3,044	3,429	3,872
Capex, net	(2,913)	(1,841)	(1,380)	(966)	(1,115)	(1,191)	(1,255)	(1,320)
Depreciation	639	638	694	722	814	878	946	1,022
Change in working capital	129	(48)	(866)	(578)	(493)	(535)	(449)	(484)
Free operating CF (FoCF)	84	(160)	493	1,581	1,952	2,199	2,675	3,095
DCF Parameters			Assumptions					
Liabilities as a % of EV	10%							Terminal growth
WACC	11.4%							Risk-free rate
Enterprise NPV (10-16E)	29,334							Market risk
+ Net cash (debt), 14E	(5,528)							Beta
- Minorities (Market value)	(8)							Cost of debt
+/- Other items	0							Implied exit P/E multiple (x)
= Equity value	23,797							8
/ Number of shares	3,915							
= Equity value per share (HK\$)	6.1							

Source: Company data, J.P. Morgan estimates.

Table 4: XYG – Sensitivity analysis based on WACC and perpetual terminal growth rate

		Terminal growth rate						
		1.5%	2%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	9.8%	6.6	7	7.4	8	8.6	9.3	10.1
	10.3%	6.1	6.5	6.8	7.3	7.8	8.4	9.1
	10.8%	5.7	6	6.3	6.7	7.1	7.6	8.2
	11.3%	5.3	5.5	5.8	6.2	6.5	7	7.4
	11.8%	4.9	5.2	5.4	5.7	6	6.4	6.8
	12.3%	4.6	4.8	5	5.3	5.6	5.9	6.2
	12.8%	4.3	4.5	4.7	4.9	5.2	5.4	5.7

Source: J.P. Morgan estimates.

Table 5: XYG – Revenue mix

HK\$ MM, year-end 31Dec	2011	2012	2013	2014	2015E	2016E
Automobile glass	2,902	3,079	3,287	3,593	4,252	4,465
YoY	22.0%	6.1%	6.8%	9.3%	18.3%	5.0%
% of total	35.3%	31.5%	33.1%	33.1%	29.9%	26.8%
Construction glass	1,133	1,574	2,155	2,556	3,707	4,535
YoY	22.4%	38.9%	36.9%	18.6%	45.1%	22.3%
% of total	13.8%	16.1%	21.7%	23.5%	26.1%	27.2%
Float glass	2,958	3,780	4,494	4,366	5,487	6,357
YoY	49.3%	27.8%	18.9%	-2.8%	25.7%	15.8%
% of total	36.0%	38.6%	45.2%	40.2%	38.6%	38.2%
PV glass	1233	1352	0	0	0	0
YoY	36.0%	38.6%	45.2%	40.2%	38.6%	38.2%
% of total	15.0%	13.8%	0.0%	0.0%	0.0%	0.0%
Electronic glass	0	0	0	346	761	1303
YoY	na	na	na	na	119.8%	71.3%
% of total	0.0%	0.0%	0.0%	3.2%	5.4%	7.8%
Total revenue	8,226	9,785	9,936	10,861	14,207	16,659

Source: Company data, J.P. Morgan estimates

Table 6: XYG – P&L statement

Year-end 31Dec (HK\$MM)	2011	2012	2013	2014	2015E	2016E
Total Revenues	8,226	9,785	9,936	10,861	14,207	16,659
YoY change (%)	29.3%	19.0%	1.5%	9.3%	30.8%	17.3%
Cost of Goods Sold	(5,872)	(7,310)	(6,799)	(8,127)	(10,022)	(11,723)
YoY change (%)	54.2%	24.5%	-7.0%	19.5%	23.3%	17.0%
Gross Profit	2,354	2,475	3,137	2,734	4,185	4,936
YoY change (%)	-7.9%	5.2%	26.7%	-12.9%	53.1%	17.9%
Gross Margin	28.6%	25.3%	31.6%	25.2%	29.5%	29.6%
SGA	(965)	(1,197)	(1,251)	(1,638)	(2,142)	(2,512)
YoY change (%)	25.2%	24.0%	4.5%	30.9%	30.8%	17.3%
Other Income/(Expenses)	160	167	326	178	259	257
Operating profit	1,548	1,446	2,212	1,274	2,302	2,681
EBITDA	1,989	2,030	2,852	1,912	2,996	3,403
EBITDA margin	24.2%	20.7%	28.7%	17.6%	21.1%	20.4%
Depreciation & Amortization	(441)	(584)	(639)	(638)	(694)	(722)
YoY change (%)	29.2%	32.4%	9.5%	-0.3%	8.8%	4.0%
EBIT	1,548	1,446	2,212	1,274	2,302	2,681
EBIT margin	18.8%	14.8%	22.3%	11.7%	16.2%	16.1%
Net Interest Expense	(25)	(57)	(60)	(38)	(87)	(92)
Exceptional item	0	0	1,453	220	0	0
Associates	3	9	21	138	417	554
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	1,526	1,397	3,627	1,594	2,632	3,143
YoY change (%)	-19.4%	-8.4%	159.5%	-56.1%	65.2%	19.4%
Tax	(262)	(209)	(381)	(228)	(438)	(523)
Effective Tax rate	17.1%	14.9%	17.5%	16.6%	16.6%	16.6%
Minority Interests	(1)	1	1	0	0	0
Net Income	1,264	1,189	3,246	1,365	2,195	2,620
YoY change (%)	-19.6%	-5.9%	172.9%	-36.1%	60.7%	19.4%
Net margin	15.4%	12.2%	32.7%	12.6%	15.4%	15.7%

Source: Company data, J.P. Morgan estimates.

Table 7: Interim estimates

Year to Dec (HK\$ MM)	1H13	2H13	1H14	2H14E	1H15E	2H15E
Total Revenues	4,574	5,361	5,034	5,826	7,279	6,928
Gross Profit	1,471	1,666	1,337	1,397	2,263	1,923
EBIT	1,121	1,092	844	430	1,348	954
Net Income Before Taxes	1,092	2,534	876	717	1,541	1,091
Net Income	1,004	2,242	762	603	1,285	909
Diluted EPS (HK\$)	0.262	0.59	0.195	0.15	0.328	0.23
Ratios						
Revenue split	46.0%	54.0%	46.4%	53.6%	51.2%	48.8%
GPM	32.2%	31.1%	26.6%	24.0%	31.1%	27.8%
EBIT margin	24.5%	20.4%	16.8%	7.4%	18.5%	13.8%
NPM	21.9%	41.8%	15.1%	10.4%	17.7%	13.1%
YoY						
Revenue	-0.4%	3.3%	10.1%	8.7%	44.6%	18.9%
GP	34.8%	20.4%	-9.1%	-16.2%	69.2%	37.7%
EBIT	93.7%	25.9%	-24.7%	-60.6%	59.7%	121.6%
NP	110.5%	10.8%	-24.1%	-23.6%	68.6%	50.8%

Source: Company data, J.P. Morgan estimates.

Table 8: XYG – Balance sheet

Year-end 31Dec (HK\$MM)	2011	2012	2013	2014	2015E	2016E
Cash and Cash Equivalents	713	703	1,042	831	985	1,732
Inventories	1,246	1,204	1,232	1,478	1,934	2,267
Accounts receivable	2,073	2,140	2,255	2,487	3,253	3,815
Other Current Assets	3	5	7	8	272	840
Total Current Assets	4,035	4,053	4,537	4,805	6,444	8,654
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	9,622	10,069	10,172	11,293	12,061	12,305
Other Assets	1,689	1,943	4,942	4,936	5,183	5,442
Non-Current assets	11,311	12,012	15,114	16,229	17,244	17,747
Total Assets	15,346	16,065	19,651	21,034	23,688	26,401
Accounts Payable	2,166	1,455	1,744	1,978	2,588	3,034
Other Accrued Expenses	0	0	0	0	0	147
Taxes Payable	147	103	219	294	503	588
ST and current LT debts	1,105	1,770	2,116	2,529	2,739	2,950
Total Current Liabilities	3,418	3,329	4,079	4,801	5,830	6,719
Long-term Debt	3,214	2,496	3,024	3,483	3,773	4,063
Other Noncurrent Liability	189	193	339	414	542	636
Noncurrent liabilities	3,403	2,790	3,364	3,898	4,315	4,698
Total Liabilities	6,821	6,119	7,442	8,699	10,145	11,417
Share capital	3,457	3,900	4,727	3,824	3,824	3,824
Reserves and Surplus	5,051	6,042	7,480	8,509	9,716	11,157
Total Shareholders' Equity	8,508	9,942	12,208	12,333	13,540	14,981
Minority Interest	18	4	1	2	2	2
Total Shareholders' Equity	8,525	9,946	12,209	12,335	13,542	14,983
Total Liabilities and Equity	15,346	16,065	19,651	21,034	23,688	26,401

Source: Company data, J.P. Morgan estimates.

Table 9: XYG – Cash flow statement

Year-end 31Dec (HK\$ MM)	2011	2012	2013	2014	2015E	2016E
EBIT	1,548	1,446	2,212	1,274	2,302	2,681
Depreciation and Amortization	441	584	639	638	694	722
Working Capital Changes	(340)	(320)	129	(48)	(866)	(578)
Net Interest	(321)	(262)	(209)	(381)	(228)	(438)
Tax Paid	1,329	1,448	2,772	1,482	1,901	2,388
Cash Flow From Operations						
	(3,577)	(1,435)	(2,913)	(1,841)	(1,380)	(966)
Capital expenditures	(155)	139	(208)	48	(122)	(93)
Investments and others	(25)	(57)	(60)	(38)	(87)	(92)
Cash Flow from Investing	(3,125)	(1,361)	(3,181)	(1,831)	(1,588)	(1,151)
Free Cash Flow	(1,797)	87	(409)	(349)	313	1,237
Dividends	(643)	(579)	(834)	(810)	(787)	(1,083)
Common issue	643	388	916	0	0	0
Other Financing	1,809	(49)	688	948	628	594
Contribution from owner	0	0	0	0	0	0
Cash Flow from financing	1,809	(45)	770	138	(160)	(490)
Change in cash	18	42	338	(211)	153	747
Cash beginning	640	713	703	1,042	831	985
Foreign exchange changes	55	(52)	1	0	0	0
Cash at end	713	703	1,042	831	985	1,732

Source: Company data, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Xinyi Glass (*Overweight; Price Target: HK\$6.10*)

Investment Thesis

We believe that Xinyi is China's most diversified glass conglomerate. The defensive auto glass aftermarket business and the advanced low emission construction glass business continued to do well in 2013 with stable growth and steady margins. The key drivers for growth in the rest of this year is the recovery in margins for the float glass business, which was 9% for 2012 and 17% for 2013. In the past, we have seen peak margins for float glass hit 40% when the market is in short supply. We could see margins exceed our estimate in the peak season in 2014 (Aug to Nov) as demand should be strong and new supply slows to a trickle in 2014.

Valuation

Our Dec-15 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.3 (Bloomberg Beta is 1.3). Accordingly, WACC is assumed at 11.3%. We have estimated free cash flow for XYG until 2020 and assume a terminal growth rate of 3.0%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6%, depending on the nature of the industry and the level of maturity in China.

Risks to Rating and Price Target

The key downside risks to our OW rating and PT are falling demand for construction glass that may result from a cooling property market in China and further weakness in PV glass demand from Europe.

Xinyi Glass: Summary of Financials

Income Statement						Cash flow statement					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	9,936	10,861	14,207	16,659	19,039	EBIT	2,212	1,274	2,302	2,681	3,039
% change Y/Y	1.5%	9.3%	30.8%	17.3%	14.3%	Depr. & amortization	639	638	694	722	814
Gross Profit	3,137	2,734	4,185	4,936	5,668	Change in working capital	129	(48)	(866)	(578)	(493)
% change Y/Y	26.7%	(12.9%)	53.1%	17.9%	14.8%	Taxes	(209)	(381)	(228)	(438)	(523)
EBITDA	2,852	1,912	2,996	3,403	3,853	Cash flow from operations	2,772	1,482	1,901	2,388	2,837
% change Y/Y	40.5%	(33.0%)	56.7%	13.6%	13.2%	Capex	(3,138)	(1,834)	(1,627)	(1,225)	(1,387)
EBIT	2,212	1,274	2,302	2,681	3,039	Net Interest	(60)	(38)	(87)	(92)	(65)
% change Y/Y	53.0%	(42.4%)	80.6%	16.5%	13.3%	Other	17	41	125	166	211
EBIT Margin	22.3%	11.7%	16.2%	16.1%	16.0%	Free cash flow	(312)	(320)	347	1,239	1,504
Net Interest	(60)	(38)	(87)	(92)	(65)	Equity raised/(repaid)	916	0	0	0	0
Earnings before tax	3,627	1,594	2,632	3,143	3,676	Debt raised/(repaid)	688	948	628	594	91
% change Y/Y	159.5%	(56.1%)	65.2%	19.4%	17.0%	Other	0	0	0	0	0
Tax	(381)	(228)	(438)	(523)	(611)	Dividends paid	(834)	(810)	(787)	(1,083)	(1,356)
as % of EBT	10.5%	14.3%	16.6%	16.6%	16.6%	Beginning cash	703	1,042	831	985	1,732
Net income (reported)	3,246	1,365	2,195	2,620	3,065	Ending cash	1,042	831	985	1,732	2,063
% change Y/Y	172.9%	(57.9%)	60.7%	19.4%	17.0%	DPS	0.27	0.15	0.25	0.30	0.39
Shares outstanding	3,915	3,915	3,915	3,915	3,915						
EPS (reported)	0.85	0.35	0.56	0.67	0.78						
% change Y/Y	166.9%	(58.9%)	60.7%	19.4%	17.0%						
Balance sheet						Ratio Analysis					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	1,042	831	985	1,732	2,063	Gross margin	31.6%	25.2%	29.5%	29.6%	29.8%
Accounts receivable	2,255	2,487	3,253	3,815	4,360	EBITDA margin	28.7%	17.6%	21.1%	20.4%	20.2%
Inventories	1,232	1,478	1,934	2,267	2,591	Operating margin	22.3%	11.7%	16.2%	16.1%	16.0%
Others	7	8	272	840	1,401	Net margin	32.7%	12.6%	15.4%	15.7%	16.1%
Current assets	4,537	4,805	6,444	8,654	10,415	Sales per share growth	(0.7%)	6.8%	30.8%	17.3%	14.3%
LT investments	4,942	4,936	5,183	5,442	5,714	Sales growth	1.5%	9.3%	30.8%	17.3%	14.3%
Net fixed assets	10,172	11,293	12,061	12,305	12,606	Net profit growth	172.9%	(57.9%)	60.7%	19.4%	17.0%
Total Assets	19,651	21,034	23,688	26,401	28,735	EPS growth	166.9%	(58.9%)	60.7%	19.4%	17.0%
Liabilities						Interest coverage (x)	47.8	50.2	34.5	37.1	59.4
Short-term loans	2,116	2,529	2,739	2,950	2,950	Net debt to equity	33.6%	42.0%	40.8%	35.2%	30.0%
Payables	1,744	1,978	2,588	3,034	3,468	Working Capital to Sales	0.0	0.0	0.0	0.1	0.2
Others	219	294	503	735	1,012	Sales/assets	0.6	0.5	0.6	0.7	0.7
Total current liabilities	4,079	4,801	5,830	6,719	7,430	Assets/equity	1.6	1.7	1.7	1.8	1.8
Long-term debt	3,024	3,483	3,773	4,063	4,063	ROE	29.3%	11.1%	17.0%	18.4%	19.5%
Other liabilities	339	414	542	636	726	ROCE	12.5%	6.1%	10.0%	10.6%	11.1%
Total Liabilities	7,442	8,699	10,145	11,417	12,219						
Shareholders' equity	12,208	12,333	13,540	14,981	16,514						
BVPS	3.12	3.15	3.46	3.83	4.22						

Source: Company reports and J.P. Morgan estimates.

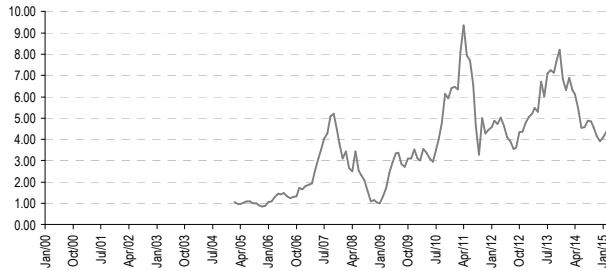
JPM Q-Profile

Xinyi Glass Holdings Limited (HONG KONG / Consumer Discretionary)
 As Of: 20-Feb-2015

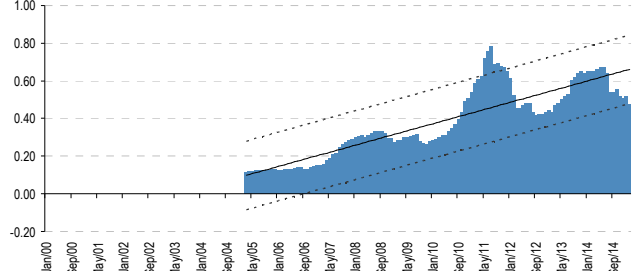
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

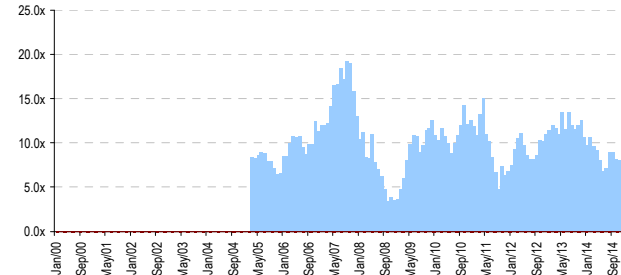
Local Share Price **Current: 4.37**



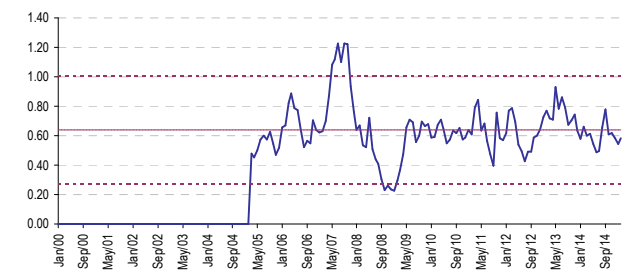
12 Mth Forward EPS **Current: 0.48**



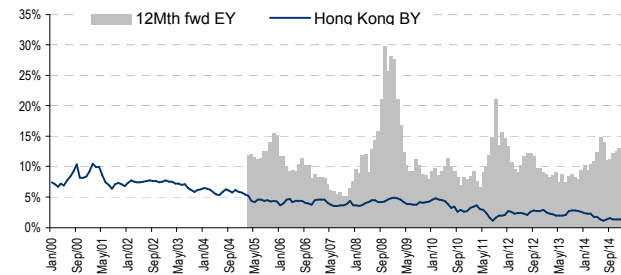
PE (1Yr Forward) **Current: 9.2x**



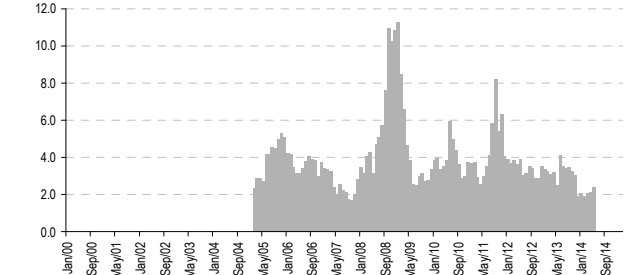
P/E Relative to Hong Kong Index **Current: 0.58**



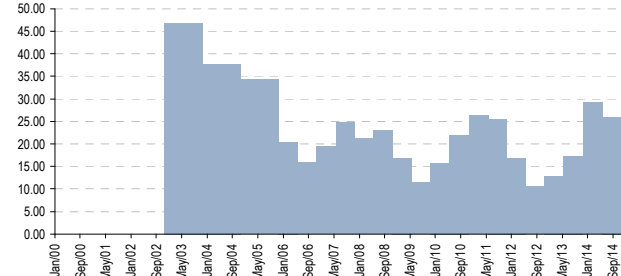
Earnings Yield (& Local Bond Yield) **Current: 11%**



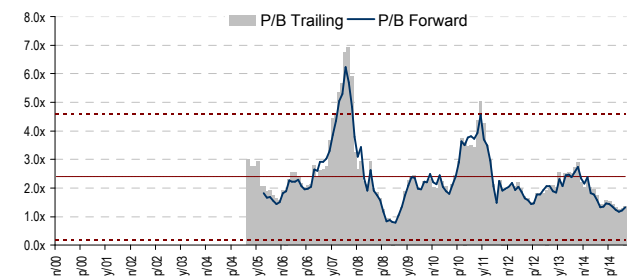
Dividend Yield (Trailing) **Current: 0.00**



ROE (Trailing) **Current: 25.95**



Price/Book (Value) **Current: 1.4x**



Summary

Xinyi Glass Holdings Limited		TICKER 868 HK		As Of: 20-Feb-15							
HONG KONG				Local Price: 4.37							
Consumer Discretionary				EPS: 0.48							
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	9.16x				2.40	4.59	0.21	-44%	401%	54%	74%
P/BV (Trailing)	1.38	0.77	6.91	2.13	3.60	7.65	-0.45				
Dividend Yield (Trailing)	0.00x	0.00	11.31	3.42							
ROE (Trailing)	25.95	10.52	46.81	22.99	24.76	44.81	4.70	-59%	80%	-11%	-5%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

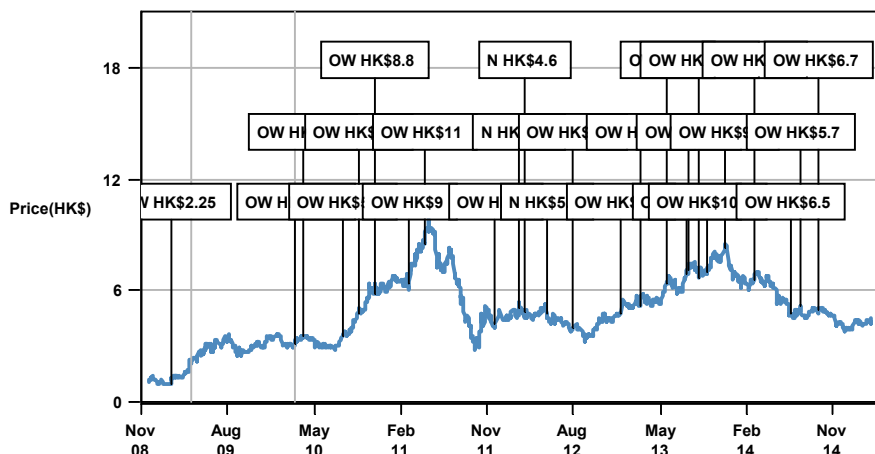
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Xinyi Glass (0868.HK, 868 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Feb 03, 2009.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
03-Feb-09	OW	1.00	2.25
04-Mar-10	OW	3.12	4.12
31-Mar-10	OW	3.54	5.50
02-Aug-10	OW	3.51	5.70
20-Sep-10	OW	4.76	6.80
09-Nov-10	OW	5.80	8.80
01-Mar-11	OW	6.35	9.00
20-Apr-11	OW	8.47	11.00
28-Nov-11	OW	4.15	6.00
09-Feb-12	N	5.01	5.10
27-Feb-12	N	4.80	4.60
07-May-12	N	4.78	5.50
01-Aug-12	OW	4.01	5.10
31-Dec-12	OW	4.78	5.90
28-Feb-13	OW	5.21	6.90
22-May-13	OW	6.30	8.00
23-Jul-13	OW	6.85	8.70
31-Jul-13	OW	7.11	10.00
04-Sep-13	OW	6.65	10.50
26-Sep-13	OW	7.01	10.90
25-Nov-13	OW	8.33	9.80
26-Feb-14	OW	6.56	10.00
20-Jun-14	OW	4.76	6.50
24-Jul-14	OW	5.12	5.70
15-Sep-14	OW	4.92	6.70

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