

## COMPANY NEWS

### Xinyi Glass [868.HK; HK\$4.55 Not Rated]

#### Key takeaways from 2014 results.

Market Cap: US\$2,301m; Free Float: 48.0%; 3-months Average Daily Turnover: US\$5.8m

Analyst: Mark Po

**The Company.** Xinyi Glass (XYG) is one of the largest and most diversified glass producers in China.

XYG's 2014 reported net profit was down 61% YoY to HK\$1,363.7m. Excluding the impact of the disposal gains from Xinyi Solar [968.HK] spinoff, XYG's net profit was down 38.2% YoY. XYG's 2014 results was in line with previous guidance released earlier. XYG's turnover was up 9% YoY to HK\$10,861.1m in 2014, up from HK\$9,936.1m (excluding turnover from Xinyi Solar) in 2013. XYG declared a final dividend of HK\$0.06. Gross margin came out at 25.2%, slightly lower than market expectations due to lower than expected gross margin of automobile glass division (related to a factory relocation).

**Outlook remains positive.** During the result presentation, management highlighted that outlook for XYG remains positive due to: a) margin recovery of the automobile glass segment, b) increasing usage of energy saving construction materials and c) recovery of the float glass division.

XYG's management reiterated the view that the worst was over for group's float glass division and industry dynamic would be more favorable to Xinyi Glass in 2015 given: a) lower production costs (especially after NDRC announced unification of wellhead gas prices from 1 Apr 2015), b) potential pick up in demand and c) lower than expected increase in supply.

According to management, production facilities in Southern China which accounted for 1/3 of total natural gas usage already saw 15% decline in natural gas costs given the decline in global oil prices. The remaining 2/3 of gas usage also saw a decline in costs after unification of city-gate gas price 1 Apr 2015. Management did not release a target for the impact of unification of city-gate gas prices, which are subject to negotiation with natural gas suppliers. Regarding average selling price (ASP) of floating glass division, management reckoned the overall ASP of the group would pick up in 2Q 2015. As we discussed before, ASPs of floating glass in Southern China already reported a sequential increase since the beginning of 2015.

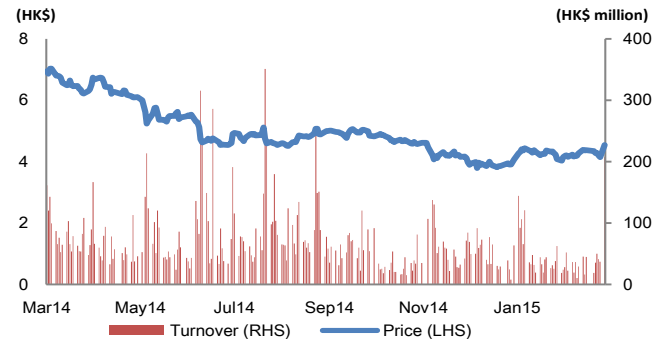
Management also reiterated the view that the increase in capacity would likely to be less than market expected given the increasing environmental protection control and tight market liquidity. Management believed that capacity of float glass industry would see a 3-5% YoY decline in 2015. Gross margin of the float glass division already saw substantial improvement in Jan & Feb 2015 vs average gross margin of 7% in 2014.

Automobile glass segment will report shipments volume growth and margin improvement in 2015 given lack of one-off items and steady downstream demand growth. XYG formed alliance with auto insurance companies in China that endorsed XYG brand automobile glass for their insurance claims. XYG's automobile glass segment is expected to report steady performance going forward as the group continues to gain market share in the aftermarket segment.

According to China Construction Glass & Industry Association, penetration of Low-E glass remains low at 11% in China vs 80% or above in other developed markets such as US and Germany. Penetration of Low-E glass is expected to increase to 21% in 2017, up from 11% from current level.

**Medium term outlook to improve further.** Regarding medium term outlook for the floating glass division, we maintain the view that the current market environment put heavier pressure on small glass manufacturers, which are

### [Xinyi Glass]



Key Financials (in HK\$m)	2013	2014	2015E	2016E
Revenue	9,936.1	10,861.1	13,249.0	15,125.6
Gross Profit	3,137.0	2,733.4	3,748.7	4,403.5
Gross Margin %	31.6	25.2	28.3	29.1
Net Profit	3,521.9	1,364.7	2,177.2	2,589.6
Net Margin %	35.4	12.6	16.4	17.1
EPS (Basic)	0.92	0.35	0.55	0.65
ROE (%)	31.8	11.1	16.0	17.1
Dividend Yield (%)	5.93	3.30	4.62	5.60
PER (x)	4.95	13.12	8.27	6.98
PBR (x)	1.46	1.40	1.27	1.15
Capex	(2,873.8)	(1,729.0)	(1,500.0)	(1,500.0)
Free cash flow	(136.5)	(183.3)	183.8	619.2
Net cash/(net debt)	(4,097.6)	(5,181.5)	(5,854.0)	(6,140.0)

Source: Bloomberg, Company Data.

facing challenging environment. XYG's management maintained that the industry was under consolidation and a substantial portion of capacity would be phased out. Leading players like XYG will be the major beneficiary of massive industry consolidation.

XYG granted in total 28,000,000 share options to employees yesterday with an exercises price of HK\$4.55.

**Our view.** Despite concerns on outlook for Xinyi Glass' float glass division, we maintain the view that the negatives for Xinyi Glass has been priced-in. Defensive auto glass aftermarket business and Low-E construction glass business will continue to perform well in 2015. XYG is one of the beneficiaries of lower natural gas prices. Key drivers for the growth of XYG for 2015 is the margin recovery for the float glass business. Long term outlook for XYG remains positive given the government's increasing environmental protection control and pro-growth policy. We share the concern on the China property sector that may creates volatility to XYG shares. However, XYG will benefit from lower production costs and industry consolidation.

**Catalysts.** Continuous increase in glass prices driven by demand recovery in 1H15, more positive news flow on China property sector and potential cut in natural gas prices in 2H 2015.

**Figure 1: Peer Comparison**

Ticker	Company	Price Lcy	Market Cap US\$m	PE			EV/EBITDA			P/B		ROE		ROA		Div yield	
				2014F x	2015F x	2016F x	2014F x	2015F x	2016F x	2013 x	2014F x	2013 %	2014F %	2013 %	2014F %	2013 %	2014F %
868 HK*	Xinyi Glass Holdings Ltd	4.55	2300.9	8.3	7.0	n.a.	8.4	7.2	n.a.	1.4	1.3	31.8	16.0	6.7	8.6	3.3	4.6
968 HK*	Xinyi Solar Holdings Ltd	2.4	1858.1	14.5	11.5	n.a.	9.8	7.3	n.a.	4.4	3.4	18.0	26.8	11.7	13.3	1.7	2.7
3300 HK*	China Glass Holdings Ltd	1.0	228.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.6	n.a.	3.9	n.a.	1.9	n.a.	1.0	n.a.
1108 HK	Luoyang Glass Company Ltd-H	3.2	502.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19.5	n.a.	-119.7	n.a.	-1.6	n.a.	0.0	n.a.
600660 CH	Fuyao Group Glass Industr-A	15.0	4776.5	12.7	10.9	9.4	8.3	7.2	5.9	3.4	2.6	25.9	23.4	20.7	13.7	n.a.	4.0
000012 CH	Csg Holding Co Ltd- A	9.2	2503.9	15.8	15.0	12.5	13.2	11.1	8.8	2.3	2.2	20.7	12.8	10.5	7.9	n.a.	2.7
601636 CH	Zhuzhou Kibing Group Co Lt-A	9.1	1214.5	26.3	21.9	16.4	11.9	9.7	7.5	2.0	1.8	13.1	7.1	5.3	n.a.	2.0	n.a.
<b>Average</b>				<b>17.3</b>	<b>14.8</b>	<b>12.7</b>	<b>10.8</b>	<b>8.8</b>	<b>7.4</b>	<b>5.4</b>	<b>2.5</b>	<b>-6.4</b>	<b>17.5</b>	<b>8.1</b>	<b>11.6</b>	<b>1.2</b>	<b>3.2</b>
1802 TT	Taiwan Glass Ind Corp	23.15	1751.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.2	n.a.	-2.0	n.a.	0.7	n.a.	n.a.	n.a.
SISE TI	Turk Sise Ve Cam Fabrikalari	3.69	2489.7	11.0	11.8	10.3	7.2	6.5	6.0	1.1	1.0	8.5	8.3	4.9	3.9	n.a.	1.3
TRKCM TI	Trakya Cam Sanayii As	3.53	1035.4	9.2	12.1	10.4	9.3	7.7	6.7	1.1	1.1	5.8	11.3	4.9	5.4	n.a.	1.6
APOG US	Apogee Enterprises Inc	45.85	1329.5	30.7	20.7	16.7	14.1	9.7	8.1	3.6	n.a.	5.8	n.a.	7.9	n.a.	0.9	0.9
5201 JP	Asahi Glass Co Ltd	756.00	7481.2	24.5	23.9	17.6	6.9	6.6	5.8	0.8	0.8	1.6	3.1	0.8	1.6	n.a.	2.4
5214 JP	Nippon Electric Glass Co Ltd	589.00	2444.1	44.9	39.9	23.8	5.1	5.0	4.2	0.6	0.6	2.2	1.4	1.1	1.0	n.a.	2.5
SGO FP	Compagnie De Saint Gobain	40.45	25450.9	15.4	12.6	9.7	6.7	6.1	5.4	1.3	1.2	3.4	7.9	2.1	3.6	n.a.	3.2
<b>Average</b>				<b>22.6</b>	<b>20.2</b>	<b>14.7</b>	<b>8.2</b>	<b>6.9</b>	<b>6.0</b>	<b>1.4</b>	<b>0.9</b>	<b>3.6</b>	<b>6.4</b>	<b>3.2</b>	<b>3.1</b>	<b>0.9</b>	<b>2.0</b>

Source: Company Data, Bloomberg, CGIH and \*: 2015 and 2016 forecasts

**Disclaimer**

This research report is not directed at, or intended for distribution to or used by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject China Galaxy International Securities (Hong Kong) Co., Limited (“Galaxy International Securities”) and/or its group companies to any registration or licensing requirement within such jurisdiction.

This report (including any information attached) is issued by Galaxy International Securities, one of the subsidiaries of the China Galaxy International Financial Holdings Limited, to the institutional clients from the information sources believed to be reliable, but no representation or warranty (expressly or implied) is made as to their accuracy, correctness and/or completeness.

This report shall not be construed as an offer, invitation or solicitation to buy or sell any securities of the company(ies) referred to herein. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. The recipient of this report should understand and comprehend the investment objectives and its related risks, and where necessary consult their own independent financial advisers prior to any investment decision.

Where any part of the information, opinions or estimates contained herein reflects the personal views and opinions of the analyst who prepared this report, such views and opinions may not correspond to the published views or investment decisions of China Galaxy International Financial Holdings Limited and any of its subsidiaries (“China Galaxy International”), directors, officers, agents and employees (“the Relevant Parties”).

All opinions and estimates reflect the judgment of the analyst on the date of this report and are subject to change without notice. China Galaxy International and/or the Relevant Parties hereby disclaim any of their liabilities arising from the inaccuracy, incorrectness and incompleteness of this report and its attachment/s and/or any action or omission made in reliance thereof. Accordingly, this report must be read in conjunction with this disclaimer.

**Disclosure of Interests**

China Galaxy International may have financial interests in relation to the subjected company(ies) the securities in respect of which are reviewed in this report, and such interests aggregate to an amount may equal to or more than 1 % of the subjected company(ies)’ market capitalization.

One or more directors, officers and/or employees of China Galaxy International may be a director or officer of the securities of the company(ies) mentioned in this report.

China Galaxy International and the Relevant Parties may, to the extent permitted by law, from time to time participate or invest in financing transactions with the securities of the company(ies) mentioned in this report, perform services for or solicit business from such company(ies), and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto.

China Galaxy International may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the last 12 months, significant advice or investment services in relation to the investment concerned or a related investment or investment banking services to the company(ies) mentioned in this report.

Furthermore, China Galaxy International may have received compensation for investment banking services from the company(ies) mentioned in this report within the preceding 12 months and may currently seeking investment banking mandate from the subject company(ies).

**Analyst Certification**

The analyst who is primarily responsible for the content of this report, in whole or in part, certifies that with respect to the securities or issuer covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject, securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by the analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the securities covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the securities covered in this research report three business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong-listed companies covered in this report; and (4) have any financial interests in the Hong Kong-listed companies covered in this report.

**Explanation on Equity Ratings**

- BUY : share price will increase by >20% within 12 months in absolute terms
- SELL : share price will decrease by >20% within 12 months in absolute terms
- HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

**Copyright Reserved**

No part of this material may be reproduced or redistributed without the prior written consent of China Galaxy International Securities (Hong Kong) Co., Limited.

China Galaxy International Securities (Hong Kong) Co. Limited, CE No.AXM459

Room 3501-3507, 35/F, Cosco Tower, Grand Millennium Plaza, 183 Queen’s Road Central, Sheung Wan, Hong Kong. General line: 3698-6888.