

## COMPANY NEWS

### Xinyi Automobile Glass Hong Kong Enterprises Limited [8328.HK; HK\$2.24; Not Rated] - The motor is turning on.

Market Cap: US\$185m; Free Float: 30.7%; 3-month Average Daily Turnover: US\$0.2m

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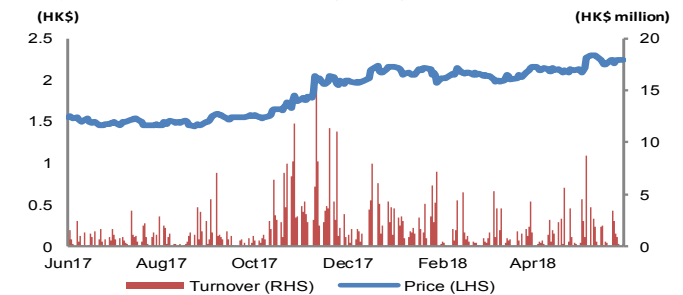
**The Company.** Xinyi Automobile Glass Hong Kong Enterprises Limited (Xinyi HK) is an investment holding company. The Company, through its subsidiaries, is a service provider of vehicle glass repairs and replacement services in Hong Kong. Xinyi HK provides its services for privately owned passenger vehicles, taxis, trucks, buses and coaches in Hong Kong. Xinyi HK has transformed itself into a new energy name with high exposure to the power storage segment since its listing.

Xinyi HK currently has four service centres and a motorcade service team with 21 vehicles to provide on-the-road service. Driven by its strategy of enhancing its business relationship with insurance companies, Xinyi HK entered into an additional cooperation agreement with an insurance company in Hong Kong in Q1 2018 to provide vehicle glass repair service for cars under their insurance coverage. Xinyi HK management remains positive on the Hong Kong vehicle glass repair and replacement market. Even though it is small, it is expected to remain stable over the next few years. The automobile glass division reported satisfactory growth in Q1 2018, and the growth momentum is expected to continue for the rest of 2018. In Apr 2017, Xinyi HK subscribed for approximately 18% equity interest in Xinyi Wind Power (Jinzhai) Company Limited (Xinyi Wind). Xinyi Wind has a wind farm in Anhui Province with the grid connection completed in Q4 2017. Xinyi HK has formed a team of technicians for the development, operation and maintenance of wind power farms.

Xinyi HK has been transforming itself into a new energy name with high exposure to the power storage segment. The Group started setting up a production plant for the production of lithium battery products in Q3 2016. Xinyi HK's production plant of li-ion battery products commenced production and started shipping power batteries and energy storage applications in Q3 2017, though the scale is small. Two of Xinyi's HK's customers for power batteries are engaged in the production of forklifts. In Mar 2017, Xinyi HK established 信義儲能微電網研究院(東莞)有限公司 (Xinyi Power Storage) to engage in the development and sale of energy storage facilities with lithium batteries, like large-scale power banks for manufacturing facilities to facilitate load shifting and power stabilisation, uninterruptible power supply, and power banks for households. Xinyi HK's products are delivered mainly as part of an integrated system, comprising lithium batteries, a battery management system, and/or other components like an energy management system and power conditioning system. Xinyi Power Storage completed the R&D process, and its power banks hit the market in 1H 2018. Xinyi HK's current capacity is 300MW (50% LFP and 50% NCM), and the Company plans to expand capacity to 1300MW in 12-18 months, based on its 1st phase expansion plan. We believe that the li-ion battery products should decline YoY in 2018. Regarding non-industrial products, Xinyi HK aims to promote its power bank products to households in overseas markets. Xinyi HK is applying for certification and approval to sell its products in Canada by partnering with a leading local player. After establishing the foothold in Canada, Xinyi HK will penetrate the US and other Asian markets. Xinyi HK is also conducting R&D on utility grade products which are suitable for remote areas without well-established power networks. Xinyi HK is also developing products for marine usage and targeting vessels for the interior river trade in China. The adoption of electric-powered vessels will create much less pollution than vessels with diesel engines.

On 11 Oct 2017, the Chinese government released a document regarding the

### [Xinyi Automobile Glass Hong Kong Enterprises Limited]



Key Financials (in HKD m)	2014	2015	2016	2017
Revenue	42.5	45.9	49.3	110.3
Gross Profit	16.8	17.5	14.1	24.0
Gross Margin %	39.5	38.2	28.6	21.7
Net Profit	9.9	(4.5)	0.1	9.4
Net Margin %	23.4	(9.9)	0.1	8.5
EPS (Basic)	0.02	(0.01)	0.00	0.02
ROE (%)	n.a.	(7.5)	0.1	8.3
Dividend Yield (%)	-	-	-	-
PER (x)	112.24	n.a.	23,010.14	132.24
PBR (x)	19.25	17.77	12.14	10.07
Capex (m)	(1.8)	(0.9)	(40.0)	(25.1)
Free cash flow (m)	9.7	7.3	(36.2)	(57.3)
Net cash/(net debt) (m)	6.1	25.3	42.7	(15.5)

Source: Bloomberg, Company Data

energy storage industry, titled "Guidance on Promoting Energy Storage Technology and Industry Development". According to the document, the development of the energy storage industry in China is divided into two phases: the early stage of commercialization during the 13th FYP and large-scale development in the 14th FYP. The development of the energy storage industry in China is a critical part of energy industry development, including power generation, power transmission & distribution, and applications. The Chinese government aims to build the whole supply chain for energy storage, from raw materials, battery technology and super capacitors to micro-grid and smart-grid equipment in order to have global influence. Xinyi HK raised HK\$199.8m by way of a rights issue of about 108m shares at subscription price of HK\$1.85 per right share in May 2018. The proceeds from the rights issue will be used for capacity expansion.

**Our view.** We believe that Xinyi HK is a potential beneficiary of the Chinese government's policy of developing the energy storage industry. We also believe that Xinyi HK will be the investment vehicle under the Xinyi umbrella for the new energy sector (excluding solar power, which falls under Xinyi Solar [0968.HK]). Shares of Xinyi HK have performed well since our first discussion in Feb 2017. However, we believe that the growth potential of the Company hasn't been fully factored in. Given Xinyi Glass [0868.HK] management's track record, Xinyi HK may offer huge upside on a long-term basis. Xinyi HK's 2018 results (both interim and final), in our view, show the progress of its business transformation into a new energy name with high exposure to the power storage segment.

**Catalysts.** (a) 1H 2018 results, (b) the formal release of its capacity expansion plan, (c) government policy promoting the energy storage industry, and (d) a breakthrough in overseas markets and an increase in IR activity.

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