

05 Aug 2021 04:30:09 ET | 13 pages

# Xinyi Glass (0868.HK)

## Key Takeaways from 1H21 Post-results Management Update Calls

### CITI'S TAKE

We hosted a series of post-results investor update calls with the management team of Xinyi Glass (Xinyi). Here are the key takeaways.

#### Float glass segment

- In 1H21, Xinyi had 12.3% and 11.2% (~14%/13% including the newly added capacity from AVIC Glass) market shares in China and Asia, respectively.
  - **New capacity:**
    - **2020:** Xinyi acquired three float glass production lines in Jiangmen (daily melting capacity of 2,250 tons), and production quota of 800 tons (daily melting capacity) in Liaoning (to be used in Yingkou Industrial Park).
    - **1H21:** Xinyi added five new production lines in Beihai and Zhangjiagang Industrial Park (totaling 3,580 tons daily melting capacity).
    - **2H21E:** Xinyi would complete the acquisitions of four additional lines in Hainan (daily melting capacity of 2,400 tons) in 2H21E (via its acquisition of AVIC Glass) (purchased in Jun-21). Four lines are currently suspended and are expected to gradually resume production in 3Q21E-4Q21E (starting in Aug-21). Hainan also has rich resources, such as silica sand which should help lower the cost for those particular production lines.
    - **End-2021E effective capacity:** Total 2021E effective capacity would likely increase 29% YoY to 8.2mn tons.
    - **2022E/23E:** Xinyi would likely further increase its capacity by around 10% YoY in 2022E/23E, given its current expansion plan (through quota acquisition).

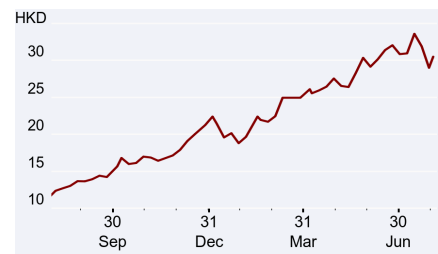
(To be continued on Pg.3)

#### Buy

Price (04 Aug 21 16:10)	HK\$29.80
Target price	HK\$41.30
Expected share price return	38.6%
Expected dividend yield	4.4%
Expected total return	43.0%
Market Cap	HK\$120,834M US\$15,535M

#### Price Performance

(RIC: 0868.HK, BB: 868 HK)



#### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(HK\$M)	(HK\$)	(%)	(x)	(x)	(%)	(%)
2019A	3,700	0.92	0.4	32.4	5.7	18.7	1.8
2020A	5,533	1.37	48.7	21.8	4.3	22.7	2.7
2021E	9,778	2.40	75.0	12.4	3.4	30.9	4.4
2022E	10,632	2.60	8.7	11.4	2.9	27.6	4.7
2023E	11,693	2.86	10.0	10.4	2.5	25.9	5.1

Source: Powered by dataCentral

#### Beatrice Lam<sup>AC</sup>

+852-2501-8455  
beatrice.lam@citi.com

Jeff Chung  
+852-2501-2787  
jeff.m.chung@citi.com

Brandy Wang  
+852-2501-8457  
brandy.wang@citi.com

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0868.HK: Fiscal year end 31-Dec						Price: HK\$29.80; TP: HK\$41.30; Market Cap: HK\$120,834m; Recomm: Buy					
Profit & Loss (HK\$m)	2019	2020	2021E	2022E	2023E	Valuation ratios	2019	2020	2021E	2022E	2023E
Sales revenue	16,258	18,616	26,076	29,941	33,355	PE (x)	32.4	21.8	12.4	11.4	10.4
Cost of sales	-10,375	-10,844	-12,969	-14,871	-16,883	PB (x)	5.7	4.3	3.4	2.9	2.5
Gross profit	5,883	7,771	13,108	15,070	16,473	EV/EBITDA (x)	24.6	17.8	10.1	8.4	7.4
Gross Margin (%)	36.2	41.7	50.3	50.3	49.4	FCF yield (%)	-0.3	-0.6	9.0	7.7	8.5
<b>EBITDA (Adj)</b>	<b>4,859</b>	<b>6,657</b>	<b>11,201</b>	<b>12,670</b>	<b>13,708</b>	Dividend yield (%)	1.8	2.7	4.4	4.7	5.1
EBITDA Margin (Adj) (%)	29.9	35.8	43.0	42.3	41.1	Payout ratio (%)	60	58	55	54	54
Depreciation	-1,072	-1,168	-1,120	-1,165	-1,208	ROE (%)	22.7	26.4	34.0	29.9	27.7
Amortisation	-7	-18	0	0	0	<b>Cashflow (HK\$m)</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>EBIT (Adj)</b>	<b>3,780</b>	<b>5,472</b>	<b>10,081</b>	<b>11,505</b>	<b>12,501</b>	EBITDA	4,859	6,657	11,201	12,670	13,708
EBIT Margin (Adj) (%)	23.2	29.4	38.7	38.4	37.5	Working capital	-1,202	-2,337	1,093	-354	-271
Net interest	-182	-155	-144	-103	-84	Other	-1,109	-1,835	633	-999	-1,146
Associates	640	1,124	1,328	824	1,002	<b>Operating cashflow</b>	<b>2,548</b>	<b>2,485</b>	<b>12,927</b>	<b>11,316</b>	<b>12,291</b>
Non-Op/Except/Other Adj	778	889	996	915	816	Capex	-2,875	-3,199	-2,000	-2,000	-2,000
<b>Pre-tax profit</b>	<b>5,016</b>	<b>7,330</b>	<b>12,260</b>	<b>13,140</b>	<b>14,234</b>	Net acq/disposals	237	431	1,328	824	1,002
Tax	-533	-899	-1,471	-1,577	-1,708	Other	579	-869	-1,274	-736	-874
Extraord./Min.Int./Pref.div.	-5	-9	-15	-16	-18	<b>Investing cashflow</b>	<b>-2,058</b>	<b>-3,638</b>	<b>-1,947</b>	<b>-1,912</b>	<b>-1,872</b>
<b>Reported net profit</b>	<b>4,478</b>	<b>6,422</b>	<b>10,774</b>	<b>11,547</b>	<b>12,508</b>	Dividends paid	-2,084	-1,892	-3,191	-5,353	-5,737
Net Margin (%)	27.5	34.5	41.3	38.6	37.5	<b>Financing cashflow</b>	<b>-1,136</b>	<b>-1,025</b>	<b>-5,301</b>	<b>-4,502</b>	<b>-4,749</b>
Core NPAT	3,700	5,533	9,778	10,632	11,693	<b>Net change in cash</b>	<b>-731</b>	<b>-1,873</b>	<b>5,680</b>	<b>4,902</b>	<b>5,669</b>
<b>Per share data</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Free cashflow to s/holders</b>	<b>-326</b>	<b>-714</b>	<b>10,927</b>	<b>9,316</b>	<b>10,291</b>
Reported EPS (\$)	1.11	1.59	2.64	2.83	3.06						
Core EPS (\$)	0.92	1.37	2.40	2.60	2.86						
DPS (\$)	0.55	0.79	1.32	1.41	1.53						
CFPS (\$)	0.63	0.61	3.17	2.77	3.01						
FCFPS (\$)	-0.08	-0.18	2.68	2.28	2.52						
BVPS (\$)	5.20	6.92	8.75	10.28	11.96						
Wtd avg ord shares (m)	4,006	4,027	4,055	4,055	4,055						
Wtd avg diluted shares (m)	4,018	4,042	4,083	4,083	4,083						
<b>Growth rates</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>						
Sales revenue (%)	1.5	14.5	40.1	14.8	11.4						
EBIT (Adj) (%)	-5.7	44.8	84.2	14.1	8.7						
Core NPAT (%)	0.0	49.6	76.7	8.7	10.0						
Core EPS (%)	0.4	48.7	75.0	8.7	10.0						
<b>Balance Sheet (HK\$m)</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>						
Cash & cash equiv.	5,098	5,245	9,816	15,056	20,979						
Accounts receivables	3,086	4,916	4,001	4,594	5,118						
Inventory	2,045	2,496	2,715	3,113	3,535						
Net fixed & other tangibles	18,656	21,681	22,561	23,396	24,188						
Goodwill & intangibles	65	484	484	484	484						
Financial & other assets	7,304	10,249	11,577	12,400	13,402						
<b>Total assets</b>	<b>36,254</b>	<b>45,071</b>	<b>51,154</b>	<b>59,044</b>	<b>67,706</b>						
Accounts payable	3,349	3,917	4,345	4,982	5,656						
Short-term debt	4,459	3,779	3,859	4,269	4,742						
Long-term debt	6,350	7,795	5,788	6,403	7,112						
Provisions & other liab	1,168	1,607	1,576	1,576	1,576						
<b>Total liabilities</b>	<b>15,327</b>	<b>17,098</b>	<b>15,567</b>	<b>17,230</b>	<b>19,086</b>						
Shareholders' equity	20,846	27,882	35,480	41,691	48,479						
Minority interests	81	92	107	123	141						
<b>Total equity</b>	<b>20,927</b>	<b>27,973</b>	<b>35,587</b>	<b>41,814</b>	<b>48,620</b>						
<b>Net debt (Adj)</b>	<b>5,712</b>	<b>6,329</b>	<b>-169</b>	<b>-4,384</b>	<b>-9,125</b>						
Net debt to equity (Adj) (%)	27.3	22.6	-0.5	-10.5	-18.8						

For definitions of the items in this table, please click [here](#).

- **Impact of Malaysian production line on blended margins:** Xinyi's Malaysian float glass production accounts for around c.12-13% of Xinyi's total capacity. Around 30% of Malaysian glass is imported back to China. Given the small scale of Malaysian business, the impact on blended margins is limited, per mgmt.
- **Float glass inventory:** Inventory was at its historical low in May-21. Into Jun-21 and Jul-21, sector-wide inventory increased MoM on relative terms as production improved, but remained at its historical low levels. Also, Xinyi has some inventory of float glass for internal use (to be processed as auto or architectural glass). But there is little to no inventory (max 10 days) of float glass for external sales.
- **Solar back panels:** Xinyi stopped selling float glass as solar glass back panel this year due to the strength of float glass price.

#### Float glass ASP outlook:

- **Supply:** Ministry of Industry and Information Technology (MIIT) reiterated its stance on 1<sup>st</sup> Aug related to new capacity restriction on float glass, so supply would likely remain tight in the medium-term.
- **Demand:** As the Chinese government continues to encourage energy conservation, the demand for low-e glass would continue to increase and the penetration of double-layered and triple-layered low-e glass continues to increase in architectural glass sales. In addition, given the robust new construction projects and property sales over the past three years, the demand for architectural glass should remain strong in the medium-term.
- **ASP Outlook:** Float glass ASP has risen 39% YTD. Mgmt. expects 2H21E float glass ASP should be higher HoH.

#### Float glass cost outlook:

- Soda ash cost significantly increased (+30% YoY) in 1H21, with prices averaging around Rmb1,600/mt, per mgmt.
- However, Xinyi witnessed lower volatility and relatively cheaper soda ash prices than its peers because: 1) Xinyi is the biggest soda ash customer in China, and was able to procure at lower cost than its peers, 2) Xinyi also partially imports soda ash, which is rare in China and creates a buffer against the volatile domestic market prices, and 3) Xinyi also has pricing mechanisms in place with its biggest supplier to protect it from significant price movements. Mgmt. believes soda ash prices might slightly further increase HoH in 2H21E.
- Mgmt. believes NG cost would likely rise HoH in 2H21E.

#### Cold repair plans:

- Given that mgmt. didn't deliberately delay cold repair in the past few years despite the price strength, all production lines have completed regular cold repair. Newly acquired production lines would also conduct cold repair when necessary.

- In the market, 70 lines are idle (six are under cold repair; cold repairs typically take six-nine months), and 250 lines are operating. Per mgmt., normal cold repair schedule implies that 25 lines should conduct cold repair per year but most manufacturers have been holding off cold repair plans, amid the strong float glass ASP environment.

**Mgmt.'s view on float glass pricing regulatory risk:**

- MIIT has regular meetings with the glass makers so the meeting on 3rd Aug was no different. The government regularly communicates with industry players and associations to get an update on the stability and condition of the industry.
- Per mgmt., the intention of MIIT was to mainly provide formal advice to the float glass industry to slow down the ASP increase and support the entire supply chain, rather than rigid policy intervention.
- The MIIT also indicated that it knows the ASP increase is driven by upstream raw material increase and tight supply, which reflects that it understands the current industry condition rather than suspect market manipulation or illegal activities.
- Given that the float glass ASP strength is driven by normal supply and demand dynamics rather than market manipulation or abnormal market activities (Zhengzhou float glass' future transaction activities are extremely low and market inventory is very low; future prices has low correlation with spot prices), mgmt. thinks there is no reason for the government to further intervene. Nevertheless, glass makers would likely be more cautious in raising prices in the near term.
- Also, MIIT stated that it knows c.20% of the capacity are idle, partially responsible for the tight supply. However, under current industry environment, the approval process for purchase of idle glass capacity is extremely costly and time consuming. Per mgmt., if the government relaxes the approval process, it should be significantly positive for Xinyi Glass, as it has abundant cash to procure additional capacity.

**Auto glass segment:**

- Xinyi has over 25% market share in global ARG market as of 1H21.
- In 2020, Xinyi accounted for 65% of China's A-Grade windshield glass exports.
- Domestic OEM glass sales grew around 20% YoY (clients are Geely, BYD, Chery etc.) in 1H21. Mgmt. would strive to expand its OEM business but expects it to remain small as a % of total auto glass business, since the OEM glass business would require economies of scale to achieve profitability similar to its ARG business, and is harder to enter supplier ecosystem of SOE OEMs which are dominant in China autos market.
- Despite the sharp increase in logistic cost and container shortage, Xinyi continued to log strong order backlog for auto glass and post strong sales performance.

- Xinyi would further add capacity of 4mn units each in Beihai (Guangxi) and Malaysia. As such, Xinyi's total effective capacity would increase 7.5% YoY to 21.5mn pieces.
- Mgmt. is also developing more new products and increasing the mix of high-ASP products such as panoramic sunroof and HUD. But the increase in mix of high-ASP products is relatively slower than that of Fuyao, since Xinyi mainly engages in the aftersales market.
- Xinyi has a strong track record in ARG glass production and is not worried about increased competition from its peers trying to expand share in this segment.
- Mgmt. believes auto glass sales should will likely further increase YoY and HoH in 2H21E.

#### **Architectural Glass:**

- Architectural glass shipment posted strong YoY growth on a low base last year (when construction activities were put on hold because of Covid-19).
- Market demand for low-e glass sharply increased as the government rolled out supportive policies to encourage single-layered and double layered low-e glass. According to government data, low-e glass sales saw CAGR of 9.68% in 2016-20.
- Xinyi's new production lines in Jiangmen, Tianjin, Beihai, and Zhangjiagang have respectively commenced production in 2020. As the capacity ramps up, the effective architectural glass production capacity would increase 43.1% YoY to 571k sqm in 2021E.
- Margins slightly narrowed in 1H21 due to increase in raw material costs. However, mgmt. has added a pricing mechanism with customers to factor in potential volatilities in raw material costs. As such, mgmt. expects margin to improve HoH in 2H21E. Mgmt. expects double-digit growth in architectural glass sales in 2H21E.

#### **Reason behind increase in 1H21 selling expenses:**

- The increase in 1H21 selling expenses was mainly driven by the increase in export logistic costs. Xinyi mainly exports its auto glass.

#### **Carbon credit:**

- Xinyi uses natural gas so it meets the emission requirement and doesn't need to purchase carbon credit.

## Xinyi Glass

### Company description

Xinyi Glass is a world-leading integrated glass manufacturer, selling float glass, architectural glass, and auto glass. It is the world's largest auto replacement glass supplier with around 25% market share, and plans to quickly lift its presence in the auto OEM glass segment.

### Investment strategy

We rate XYG shares a Buy. XYG is an undervalued proxy to the growing vehicle market in China, in our view, with increasing new car sales driving the auto OEM glass market and a larger vehicle population supporting the auto replacement glass (ARG) market, both of which XYG is actively developing. The improving float glass supply/demand dynamic that supports ASP, plus the recent drop in soda ash price, set well for XYG to enjoy margin expansion in 2021.

### Valuation

Our target price of HK\$41.3 for Xinyi Glass is derived using SOTP given XYG's two different sources of profits. We apply 14x 21E EPS for the core glass business, 2SD above the historical average given that demand growth, coupled with further capacity suspension for cold repair (22% of China 20E capacity need to perform cold repair in 2021-22E), should more than offset capacity additions in 1H21E (6% of China 20E capacity). We use mark-to-market valuations for Xinyi Solar and Xinyi Energy.

### Risks

Downside risks that could impede the XYG stock from reaching our target price include lower-than-expected ASP, higher-than-expected production cost, weaker-than-expected volume, and a sharp economic deceleration.

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### Xinyi Glass (0868.HK)

Ratings and Target Price History  
Fundamental Research

Analyst: Beatrice Lam



Date	Rating	Target Price	Closing Price
13-Feb-19 18:20:29	1	*12.00	9.44
07-Aug-19 13:33:23	1	*10.00	7.58
16-Jan-20 17:06:02	1	*13.00	10.76
08-Jun-20 11:45:19	1	*11.00	9.04
03-Aug-20 20:10:07	1	*14.40	11.72
14-Dec-20 06:25:17	1	*23.10	18.76
15-Dec-20 12:56:57	1	*23.70	18.74
01-Mar-21 13:49:31	1	*28.70	23.70
17-Jun-21 00:12:43	1	*35.80	29.55
02-Aug-21 18:46:21	1	*41.30	29.70

\*Indicates Change

Rating/target price changes above reflect Eastern Time

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