17 Jun 2021 00:12:43 ET | 12 pages

Xinyi Glass (0868.HK)

1H21 Preliminary Earnings Beat at +260-290% YoY; Buy with Higher TP of HK$35.80

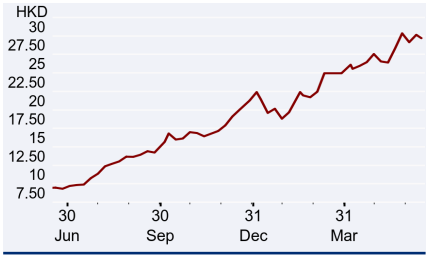
CITI'S TAKE

Xinyi Glass issued a positive 1H21 earnings alert with net profit expected to increase by 260-290% YoY to HK$4,977m-5391m, significantly ahead of our and consensus estimates. The robust earnings are driven by: 1) sharp growth in both the float glass ASP and sales volumes as a result of the robust demand in China's construction sector and 2) strong improvement in profit contributions from Xinyi Solar (which also issued a profit alert with 1H21 NP +100-120% YoY) and Xinyi Energy (1H21 NP +25-45% YoY).

Raising earnings — After factoring in 1H21E earnings strength and stronger-than-expected float glass ASP and shipments / better MT-LT margin profiles in FY21 and beyond, we lift our 2021E NP by 34%. Our SoTP-based TP is accordingly raised to HK$35.80 (from HK$28.70), implying a 25% ETR. Maintain Buy.

Buy	
Price (16 Jun 21 16:10)	HK$29.70
Target price	HK$35.80↑
from HK$28.70	
Expected share price return	20.5%
Expected dividend yield	4.1%
Expected total return	24.7%
Market Cap	HK$120,355M
	US$15,503M

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



Statistical Abstract

Year to 31 Dec	Net Profit (HK$M)	Diluted EPS (HK$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2019A	3,700	0.92	0.4	32.3	5.7	18.7	1.9
2020A	5,533	1.37	48.7	21.7	4.3	22.7	2.7
2021E	8,985	2.22	62.4	13.4	3.5	28.7	4.1
2022E	9,562	2.37	6.4	12.6	3.0	25.6	4.3
2023E	10,645	2.63	11.3	11.3	2.6	24.6	4.7

Source: Powered by dataCentral

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0868.HK: Fiscal year end 31-Dec — **Price: HK$29.70; TP: HK$35.80; Market Cap: HK$120,355m; Recomm: Buy**

Profit & Loss (HK$m)	2019	2020	2021E	2022E	2023E
Sales revenue	16,258	18,616	24,709	27,078	29,783
Cost of sales	-10,375	-10,844	-12,669	-13,572	-14,929
Gross profit	5,883	7,771	12,040	13,506	14,854
Gross Margin (%)	36.2	41.7	48.7	49.9	49.9
EBITDA (Adj)	**4,859**	**6,657**	**10,292**	**11,446**	**12,515**
EBITDA Margin (Adj) (%)	29.9	35.8	41.7	42.3	42.0
Depreciation	-1,072	-1,168	-1,120	-1,165	-1,208
Amortisation	-7	-18	0	0	0
EBIT (Adj)	**3,780**	**5,472**	**9,172**	**10,282**	**11,307**
EBIT Margin (Adj) (%)	23.2	29.4	37.1	38.0	38.0
Net interest	-182	-155	-144	-110	-95
Associates	640	1,124	1,328	824	1,002
Non-Op/Except/Other Adj	778	889	944	828	728
Pre-tax profit	**5,016**	**7,330**	**11,299**	**11,823**	**12,942**
Tax	-533	-899	-1,356	-1,419	-1,553
Extraord./Min.Int./Pref.div.	-5	-9	-14	-15	-16
Reported net profit	**4,478**	**6,422**	**9,929**	**10,390**	**11,373**
Net Margin (%)	27.5	34.5	40.2	38.4	38.2
Core NPAT	3,700	5,533	8,985	9,562	10,645

Per share data	2019	2020	2021E	2022E	2023E
Reported EPS ($)	1.11	1.59	2.46	2.57	2.81
Core EPS ($)	0.92	1.37	2.22	2.37	2.63
DPS ($)	0.55	0.79	1.23	1.28	1.40
CFPS ($)	0.63	0.61	2.97	2.79	3.11
FCFPS ($)	-0.08	-0.18	2.48	2.29	2.62
BVPS ($)	5.20	6.92	8.60	9.96	11.51
Wtd avg ord shares (m)	4,006	4,027	4,027	4,027	4,027
Wtd avg diluted shares (m)	4,018	4,042	4,042	4,042	4,042

Growth rates	2019	2020	2021E	2022E	2023E
Sales revenue (%)	1.5	14.5	32.7	9.6	10.0
EBIT (Adj) (%)	-5.7	44.8	67.6	12.1	10.0
Core NPAT (%)	0.0	49.6	62.4	6.4	11.3
Core EPS (%)	0.4	48.7	62.4	6.4	11.3

Balance Sheet (HK$m)	2019	2020	2021E	2022E	2023E
Cash & cash equiv.	5,098	5,245	8,931	13,514	18,877
Accounts receivables	3,086	4,916	4,001	4,385	4,823
Inventory	2,045	2,496	2,652	2,842	3,126
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
Total assets	**36,254**	**45,071**	**50,207**	**57,021**	**64,900**
Accounts payable	3,349	3,917	4,244	4,547	5,002
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
Total liabilities	**15,327**	**17,098**	**15,467**	**16,795**	**18,431**
Shareholders' equity	20,846	27,882	34,634	40,105	46,332
Minority interests	81	92	106	120	136
Total equity	**20,927**	**27,973**	**34,740**	**40,225**	**46,469**
Net debt (Adj)	**5,712**	**6,329**	**716**	**-2,841**	**-7,023**
Net debt to equity (Adj) (%)	27.3	22.6	2.1	-7.1	-15.1

Valuation ratios	2019	2020	2021E	2022E	2023E
PE (x)	32.3	21.7	13.4	12.6	11.3
PB (x)	5.7	4.3	3.5	3.0	2.6
EV/EBITDA (x)	24.5	17.7	11.0	9.4	8.2
FCF yield (%)	-0.3	-0.6	8.3	7.7	8.8
Dividend yield (%)	1.9	2.7	4.1	4.3	4.7
Payout ratio (%)	60	58	55	54	53
ROE (%)	22.7	26.4	31.8	27.8	26.3

Cashflow (HK$m)	2019	2020	2021E	2022E	2023E
EBITDA	4,859	6,657	10,292	11,446	12,515
Working capital	-1,202	-2,337	1,055	-270	-267
Other	-1,109	-1,835	658	89	331
Operating cashflow	**2,548**	**2,485**	**12,005**	**11,265**	**12,578**
Capex	-2,875	-3,199	-2,000	-2,000	-2,000
Net acq/disposals	237	431	1,328	824	1,002
Other	579	-869	-1,276	-744	-887
Investing cashflow	**-2,058**	**-3,638**	**-1,948**	**-1,920**	**-1,885**
Dividends paid	-2,084	-1,892	-3,191	-4,933	-5,162
Financing cashflow	**-1,136**	**-1,025**	**-5,301**	**-4,083**	**-4,174**
Net change in cash	**-731**	**-1,873**	**4,756**	**5,263**	**6,519**
Free cashflow to s/holders	**-326**	**-714**	**10,005**	**9,265**	**10,578**

For definitions of the items in this table, please click here.

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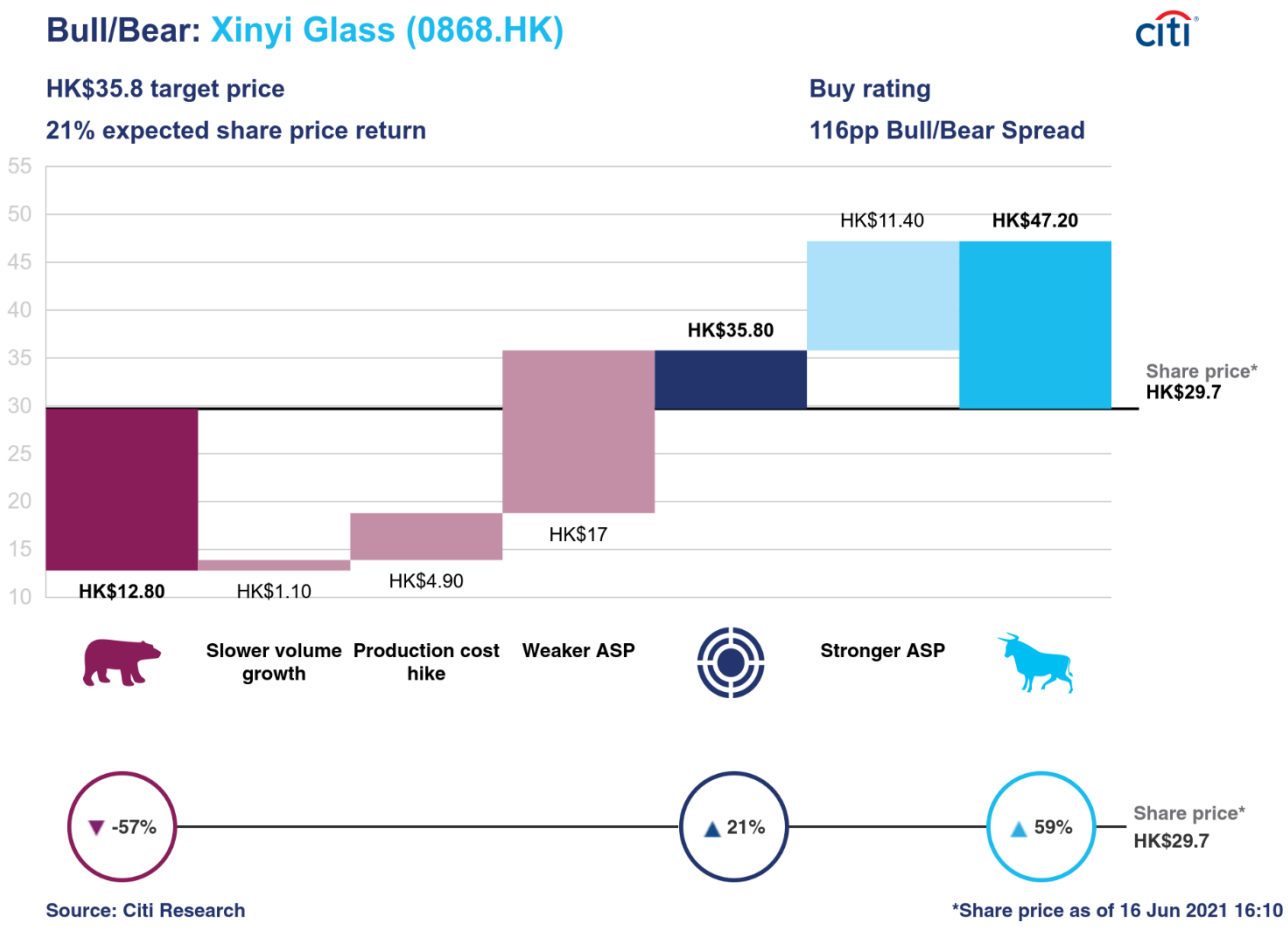
Figure 1. Earnings Revisions

	2021E	2022E	2023E
New CitiE NP	9,929	10,390	11,373
Old CitiE NP	7,395	7,413	7,426
% Change	34%	40%	53%

Source: Citi Research

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Bull/Bear: Xinyi Glass (0868.HK)



HK$47.2

- Float glass ASP up 10% YoY in 2021E

HK$35.8

- Float glass volume +28% YoY in 2021E
- Float glass production cost +15% YoY in 2021E
- Float glass ASP+30% YoY in 2021E

HK$12.8

- Float glass volume drop 10% YoY in 2021E
- Float glass production cost hike 2% YoY in 2021E
- Float glass ASP -15% YoY in 2021E

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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$35.80 for Xinyi Glass is derived using SOTP given XYG's two different sources of profits. We apply 13x 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.

Appendix A-1

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Xinyi Glass (0868.HK)

Ratings and Target Price History
Fundamental Research

Analyst: Beatrice Lam
Covered since January 4 2019



	Date	Rating	Target Price	Closing Price
1	25-Jun-18 17:59:05	1	*13.37	8.92
2	13-Feb-19 18:20:29	1	*12.00	9.44
3	07-Aug-19 13:33:23	1	*10.00	7.58
4	16-Jan-20 17:06:02	1	*13.00	10.76
5	08-Jun-20 11:45:19	1	*11.00	9.04
6	03-Aug-20 20:10:07	1	*14.40	11.72
7	14-Dec-20 06:25:17	1	*23.10	18.76
8	15-Dec-20 12:56:57	1	*23.70	18.74
9	01-Mar-21 13:49:31	1	*28.70	23.70

*Indicates Change

Rating/target price changes above reflect Eastern Time

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