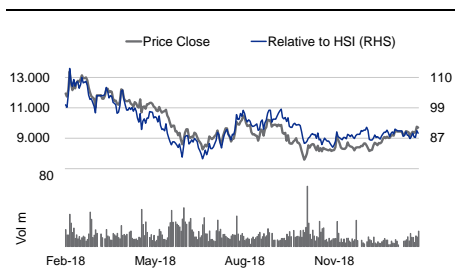


**Hong Kong**
**BUY**

Consensus ratings\*: Buy 12 Hold 2 Sell 0

Current price:	HK\$9.70
Target price:	HK\$11.81
Previous target:	HK\$11.75
Up/downside:	21.7%
CGS-CIMB / Consensus:	na
Reuters:	
Bloomberg:	868 HK
Market cap:	US\$4,936m
	HK\$38,740m
Average daily turnover:	US\$8.04m
	HK\$63.0m
Current shares o/s:	3,969m
Free float:	45.6%

\*Source: Bloomberg

**Net profit forecasts for 2019 cut 3.7%**


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.5	18.3	-18.2
Relative (%)	2.5	6.6	-10.8

Major shareholders	% held
Mr Lee Yin Yee	20.0
Mr Tung Ching Sai	10.1

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# Xinyi Glass

## 2018 results mixed, but operations remain solid

- Xinyi Glass's (XYG) 2018 results were in line with our expectations but turnover growth was slower than expected, dragged down mainly by the float glass division.
- Management's tone on the outlook for float glass segment was somewhat neutral; it expects the supply/demand dynamic in 2019 to be similar to that of 2018. XYG will optimize its products mix to enhance overall profitability.
- We believe that expectations for the growth outlook for XYG have been re-set since Oct 2018, and we remain constructive on XYG, as the unfavorable factors that put pressure on its operating performance and share price have been fading.
- Potential share price weakness due to post-results earnings-cut forecasts by the market will provide a good re-entry opportunity.

### 2018 results highlights

XYG reported a net profit of HK\$4,236.8m in 2018, up 5.6% YoY from HK\$4,103.8m in 2017, and turnover was HK\$16,014.5m in 2018, up 8.7% YoY from HK\$14,727.5m in 2017. The headline results were in line with our expectations of HK\$4,271m. But turnover growth in 2018 was lower than our expectations, dragged down by the float glass division, which reported turnover of HK\$8,424.4m in 2018, lower than our expectation of HK\$9,262.7. XYG's float glass turnover dropped 3.6% YoY to HK\$4,240.8m in 2H 2018, automobile glass turnover rose 4.8% YoY to HK\$2,135.7m, and architectural glass turnover rose 17.1% YoY to HK\$1,890.2m in 2H 2018. The Company's blended gross margin was 35.8% in 2H 2018, down from 37.7% in 1H 2018 and from 37.4% in 2H 2017. Xinyi Glass declared a final dividend of HK\$0.27 per share in 2018, down from HK\$0.28 in 2H 2017. The higher-than-expected other gains and other income boosted the Company's 2018 results.

### Float glass industry expected to remain stable in 2019

During the results presentation, XYG management released neutral guidance for the float glass industry and expected the supply/demand dynamic in 2019 to be similar to that in 2018. Effective industry capacity is expected to increase YoY in 2019 (less than 4%), after taking into account of impact of cold repairing. XYG will optimize its products portfolio to enhance overall profitability. Higher-margin products are expected to contribute 40% of the Company's turnover. In 2019, XYG will focus on capacity expansion in Zhangjiagang and Beihai. Management mentioned that the Beihai production facilities will benefit from potential industry relocation in Guangdong province. XYG will also secure upstream resources to maintain its competitiveness. XYG bears the part of the 10% import tariff imposed by US government on auto glass. XYG management mentioned that the increase in costs will be totally passed on to its customers if the US government raises the import tariff to 25%. However based on current news flow, it is unlikely the US government will raise import tariffs to 25%. Xinyi Solar(XYS) management released positive guidance on bifacial solar panels, mentioning that the adoption of bifacial solar panels has created growth opportunities for the Company. Bifacial products accounted for 20% of XYG's turnover in 2018. The ASP of solar glass has been gradually picking up. We expect XYG's spin-off of Xinyi Energy to be completed in the coming months. XYG will benefit indirectly from improved sentiment on XYG.

Shares of XYG may come under pressure given slower-than-expected top-line growth in 2018. We remain constructive on XYG, as the unfavorable factors that put pressure on its operating performance and share price have been fading. Any potential share price weakness will provide a good re-entry opportunity. We revised down our net profit forecasts for 2019 by 3.7%.

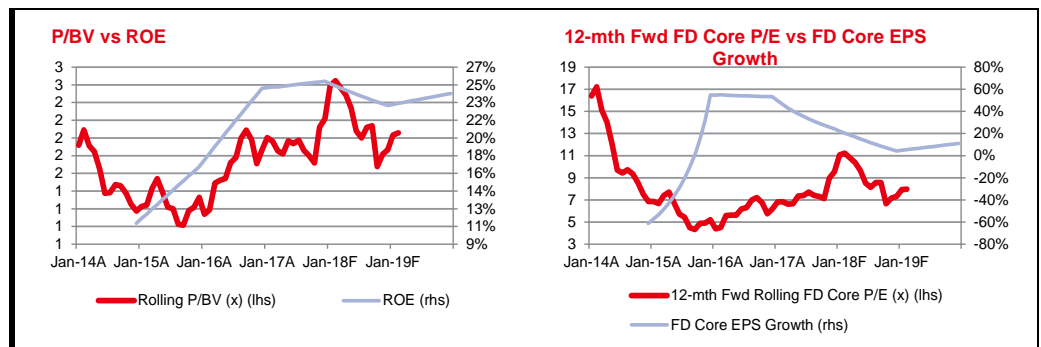
Financial Summary	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue (HK\$m)	12,848	14,728	16,014	18,159	20,593
Operating EBITDA (HK\$m)	3,659	4,373	4,382	5,029	5,736
Net Profit (HK\$m)	3,213	4,014	4,237	4,720	5,441
Core EPS (HK\$)	0.83	1.01	1.06	1.18	1.36
Core EPS Growth	54.3%	22.1%	5.1%	11.4%	15.2%
FD Core P/E (x)	11.79	9.48	9.10	8.20	7.11
DPS (HK\$)	0.40	0.48	0.52	0.58	0.67
Dividend Yield	4.12%	4.95%	5.36%	5.97%	6.88%
EV/EBITDA (x)	10.60	8.77	8.64	7.51	6.50
P/FCFE (x)	12.93	37.80	9.90	14.28	16.18
Net Gearing	37.1%	29.6%	28.8%	28.6%	27.2%
P/BV (x)	2.86	2.11	2.09	1.90	1.73
ROE	24.8%	25.6%	23.1%	24.3%	25.5%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			0.97	0.97	0.95

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Key assumptions

	2012	2013	2014	2015	2016	2017	2018	2019F	2020F
<b>Turnover (HKDm)</b>									
Automobile glass	3,077.8	3,287.2	3,593.2	3,786.6	3,748.4	3,910.0	4,251.9	4,748.9	5,304.2
Construction glass	1,574.6	2,154.5	2,555.5	2,651.5	2,590.2	2,800.6	3,383.2	3,907.6	4,513.3
Float glass	3,780.6	4,494.3	4,712.4	5,022.2	6,509.8	8,016.9	8,379.4	9,502.2	10,775.5
Total	8,433.0	9,936.1	10,861.1	11,460.3	12,848.4	14,727.5	16,014.5	18,158.8	20,593.0
<b>YoY Change (%)</b>									
Automobile glass		6.8	9.3	5.4	(1.0)	4.3	8.7	11.7	11.7
Construction glass		36.8	18.6	3.8	(2.3)	8.1	20.8	15.5	15.5
Float glass		18.9	4.9	6.6	29.6	23.2	4.5	13.4	13.4
Total		17.8	9.3	5.5	12.1	14.6	8.7	13.4	13.4
<b>Volume</b>									
Automobile (piece)		12,110.0	12,889.0	13,582.8	13,582.8	13,786.6	14,338.0	15,054.9	15,807.7
Construction(sqm)		16,363.0	19,380.0	20,107.5	21,716.1	20,630.3	22,693.3	24,962.7	27,458.9
Float glass (tonne)		2,927.0	3,510.0	3,856.8	4,435.3	4,790.1	4,908.5	5,301.2	5,725.3
<b>YoY Change (%)</b>									
Automobile (piece)			6.4	5.4	0	1.5	4.0	5.0	5.0
Construction(sqm)			18.4	3.8	8.0	(5.0)	10.0	10.0	10.0
Float glass (tonne)			19.9	9.9	15.0	8.0	2.5	8.0	8.0
<b>ASP</b>									
Automobile (HKD/piece)		271.4	278.8	278.8	276.0	278.8	296.5	315.4	335.5
Construction (HKD per sqm)		131.7	131.9	131.9	119.3	135.8	149.1	156.5	164.4
Float glass (HKD per tone)		1,535.5	1,342.6	1,302.2	1,467.7	1,673.6	1,707.1	1,792.5	1,882.1
<b>YoY Change (%)</b>									
Automobile (HKD/piece)			2.7	0.0	(1.0)	1.0	6.4	6.4	6.4
Construction (HKD per sqm)			0.1	0	(9.5)	13.8	9.8	5.0	5.0
Float glass (HKD per tone)			(12.6)	(3.0)	12.7	14.0	2.0	5.0	5.0
<b>Gross margin (%)</b>									
Automobile glass	42.8	43.3	41.8	44.3	49.0	46.9	43.9	44.9	45.9
Construction glass	37.2	39.9	35.3	33.9	39.9	38.0	37.8	37.8	37.8
Float glass	8.6	19.0	7.0	11.1	27.5	31.7	32.6	32.6	32.6
Blended	26.4	31.6	25.2	27.3	36.3	37.0	36.7	36.9	37.2
Net margin (%)	14.1	35.4	12.6	18.4	25.0	27.3	26.5	26.0	26.0
<b>Cost (HKDm)</b>									
S,G&A	(1,056.7)	(1,250.9)	(1,638.0)	(1,614.5)	(1,822.4)	(2,045.1)	(2,407.0)	(2,674.9)	(3,033.4)
Financial Expenses	(57.3)	(59.7)	(38.1)	(50.2)	(76.8)	(106.5)	(142.5)	(163.9)	(155.8)
<b>YoY Change (%)</b>									
S,G&A		18.4	30.9	(1.4)	12.9	12.2	17.7	11.1	13.4
Financial Expenses		4.2	(36.2)	32.0	53.0	38.6	33.8	15.0	(4.9)
CAPEX (HKDm)	1,435.3	3,752.3	2,092.0	1,701.4	1,756.5	3,195.4	2,453.0	2,500.0	2,500.0
Net Gearing (%)	35.8	33.6	42.0	37.2	37.3	29.7	29.0	28.7	27.3

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS**

**Profit & Loss**

(HK\$m)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
<b>Total Net Revenues</b>	<b>12,848</b>	<b>14,728</b>	<b>16,014</b>	<b>18,159</b>	<b>20,593</b>
<b>Gross Profit</b>	<b>5,481</b>	<b>6,418</b>	<b>6,789</b>	<b>7,704</b>	<b>8,770</b>
<b>Operating EBITDA</b>	<b>3,659</b>	<b>4,373</b>	<b>4,382</b>	<b>5,029</b>	<b>5,736</b>
Depreciation And Amortisation	(822)	(974)	(914)	(999)	(1,119)
<b>Operating EBIT</b>	<b>2,837</b>	<b>3,399</b>	<b>3,468</b>	<b>4,030</b>	<b>4,618</b>
Financial Income/(Expense)	(77)	(107)	(142)	(164)	(156)
Pretax Income/(Loss) from Assoc.	563	700	566	810	942
Non-Operating Income/(Expense)	501	704	1,078	860	975
<b>Profit Before Tax (pre-EI)</b>	<b>3,823</b>	<b>4,696</b>	<b>4,970</b>	<b>5,536</b>	<b>6,379</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>3,823</b>	<b>4,696</b>	<b>4,970</b>	<b>5,536</b>	<b>6,379</b>
Taxation	(607)	(682)	(723)	(805)	(927)
Exceptional Income - post-tax	(3)	(0)	(11)	(11)	(11)
<b>Profit After Tax</b>	<b>3,213</b>	<b>4,014</b>	<b>4,237</b>	<b>4,720</b>	<b>5,441</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>3,213</b>	<b>4,014</b>	<b>4,237</b>	<b>4,720</b>	<b>5,441</b>
Recurring Net Profit	3,216	4,014	4,248	4,731	5,452
<b>Fully Diluted Recurring Net Profit</b>	<b>3,216</b>	<b>4,014</b>	<b>4,248</b>	<b>4,731</b>	<b>5,452</b>

**Cash Flow**

(HK\$m)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
<b>EBITDA</b>	<b>3,659</b>	<b>4,373</b>	<b>4,382</b>	<b>5,029</b>	<b>5,736</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(218)	(329)	682	(199)	(225)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	800	198	572	353	469
Net Interest (Paid)/Received	(128)	(151)	(214)	(235)	(235)
Tax Paid	(549)	(565)	(640)	(805)	(927)
<b>Cashflow From Operations</b>	<b>3,565</b>	<b>3,525</b>	<b>4,783</b>	<b>4,144</b>	<b>4,817</b>
Capex	(1,756)	(3,195)	(2,453)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(523)	(114)	71	71	79
<b>Cash Flow From Investing</b>	<b>(2,280)</b>	<b>(3,310)</b>	<b>(2,382)</b>	<b>(2,429)</b>	<b>(2,421)</b>
Debt Raised/(repaid)	1,646	792	1,503	1,000	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,552)	(1,905)	(2,079)	(2,316)	(2,669)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>94</b>	<b>(1,113)</b>	<b>(576)</b>	<b>(1,316)</b>	<b>(2,669)</b>
Total Cash Generated	1,379	(898)	1,825	399	(273)
<b>Free Cashflow To Equity</b>	<b>2,931</b>	<b>1,007</b>	<b>3,904</b>	<b>2,715</b>	<b>2,397</b>
<b>Free Cashflow To Firm</b>	<b>1,413</b>	<b>366</b>	<b>2,614</b>	<b>1,950</b>	<b>2,632</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

## BY THE NUMBERS... cont'd

### Balance Sheet

(HK\$m)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Total Cash And Equivalents	2,763	3,049	4,599	5,121	4,848
Total Debtors	2,377	3,072	2,676	3,023	3,415
Inventories	1,321	1,698	1,755	1,982	2,240
Total Other Current Assets	76	107	94	94	94
<b>Total Current Assets</b>	<b>6,537</b>	<b>7,926</b>	<b>9,123</b>	<b>10,220</b>	<b>10,597</b>
Fixed Assets	11,831	12,929	13,080	14,584	15,968
Total Investments	4,975	9,074	10,100	10,710	11,454
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	680	370	298	307	304
<b>Total Non-current Assets</b>	<b>17,486</b>	<b>22,373</b>	<b>23,477</b>	<b>25,601</b>	<b>27,725</b>
Short-term Debt	3,165	2,068	3,094	3,094	3,094
Current Portion of Long-Term Debt					
Total Creditors	2,297	2,554	2,897	3,273	3,698
Other Current Liabilities	538	535	611	611	611
<b>Total Current Liabilities</b>	<b>6,000</b>	<b>5,157</b>	<b>6,603</b>	<b>6,978</b>	<b>7,404</b>
Total Long-term Debt	4,509	6,399	6,875	7,875	7,875
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	48	108	82	82	82
<b>Total Non-current Liabilities</b>	<b>4,557</b>	<b>6,507</b>	<b>6,957</b>	<b>7,957</b>	<b>7,957</b>
Total Provisions	218	335	418	418	418
<b>Total Liabilities</b>	<b>10,775</b>	<b>11,999</b>	<b>13,977</b>	<b>15,353</b>	<b>15,778</b>
Shareholders' Equity	13,181	18,231	18,545	20,380	22,446
Minority Interests	66	69	78	88	99
<b>Total Equity</b>	<b>13,247</b>	<b>18,300</b>	<b>18,623</b>	<b>20,468</b>	<b>22,545</b>

### Key Ratios

	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue Growth	12.1%	14.6%	8.7%	13.4%	13.4%
Operating EBITDA Growth	61.2%	19.5%	0.2%	14.8%	14.1%
Operating EBITDA Margin	28.5%	29.7%	27.4%	27.7%	27.9%
Net Cash Per Share (HK\$)	(1.27)	(1.37)	(1.34)	(1.46)	(1.53)
BVPS (HK\$)	3.40	4.59	4.64	5.10	5.62
Gross Interest Cover	22.22	22.49	16.23	17.14	19.64
Effective Tax Rate	15.9%	14.5%	14.5%	14.5%	14.5%
Net Dividend Payout Ratio	48.3%	47.5%	48.9%	49.0%	49.0%
Accounts Receivables Days	67.77	67.52	65.50	57.27	57.21
Inventory Days	63.17	66.28	68.29	65.22	65.34
Accounts Payables Days	109.5	106.5	107.8	107.7	107.9
ROIC (%)	21.1%	25.3%	23.0%	28.0%	28.7%
ROCE (%)	14.4%	14.3%	12.6%	13.5%	14.3%
Return On Average Assets	14.5%	15.2%	14.0%	14.3%	15.1%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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- 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

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