

Hong Kong
ADD (no change)

Consensus ratings*: Buy 19 Hold 3 Sell 1

Current price:	HK\$20.75
Target price:	HK\$27.99
Previous target:	HK\$28.87
Up/downside:	34.9%
CGI / Consensus:	-5.3%

Reuters:	0868.HK
Bloomberg:	868 HK
Market cap:	US\$10,671m
	HK\$83,388m

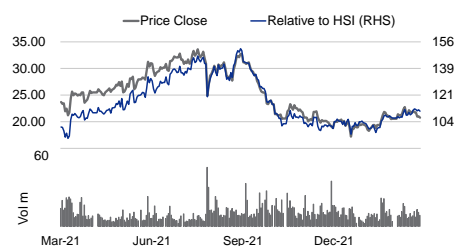
Average daily turnover:	US\$27.11m
	HK\$211.3m

Current shares o/s:	4,038m
Free float:	43.0%

*Source: Bloomberg

Key changes in this note

- Net profit decreased by 5.6% and 5.9% for 22F and 23F, respectively



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.2	5.3	-4.4
Relative (%)	4.8	11	17.2

Major shareholders	% held
Mr Lee Yin Yee	23.5
Mr Tung Ching Sai	12.0

Analyst
Mark Po

T (852) 3698 6318

E markpo@chinastock.com.hk

Xinyi Glass

Solid 2021 results; sentiment expected to improve

- Despite cooling demand from the property sector, Xinyi Glass reported solid 2021 results in the mid-range of previous guidance.
- The market is expected to have concerns about demand due to soft property-related activity. But improved liquidity and tight control on the supply side will help.
- We revised down our profit forecasts by 5.6% for 2022 and 5.9% for 2023, and introduced forecasts for 2024 after the 2021 results adjustment.
- The Company's valuation is still reasonable, with a decent yield.
- We reiterate our ADD rating with a lower target price of HK\$27.99, based on 11x 2022 P/E (which remains unchanged and lower than the historical mean of 14x). The downward revision is due to a cut in the net profit forecasts.

Solid 2021 results

Xinyi Glass reported a net profit of HK\$11,555.9m in 2021, up 79.9% yoy from HK\$6,422.2m in 2020, which is at the mid-range of its earlier profit alert of 70–85% yoy growth. Revenue surged 63.6% yoy, from HK\$18,615.9m in 2020 to HK\$30,459.1m in 2021. The Company's gross profit margin rose 10.1ppts yoy to 51.8% in 2021 vs. 41.7% in 2020 and 53.0% in 1H21 (higher than our previous expectation of 51.4%). Its net profit margin reached 37.8% in 2021 (vs. 29.7% in 2020). All three business segments reported solid growth in 2021: autoglass revenue rose 18.4% yoy, float glass revenue was up 85.7% yoy (Xinyi Glass reclassified the semi-finished Low-E glass business from the architectural glass segment to the float glass segment in 1H21), and architecture glass revenue rose 39.9% yoy. The major improvement in its gross profit margin was driven mainly by a jump in the gross profit margin of its float glass operations, which reported a gross profit margin of 53.8% in 2021 (55.3% in 1H21 and 52.5% in 2H21), up 28.9ppts yoy. The gross profit margin of its auto glass operations was 47.1% (49.3% in 1H21 and 45.2% in 2H21) and flat yoy, and the gross profit margin of its architecture glass operations was up 2.3ppts to 46.2% in 2021. The contribution from Xinyi Solar and Xinyi Energy continued to grow yoy. Xinyi Glass declared a final dividend of HK\$0.76, implying a payout ratio of about 49.5% in 2021. Xinyi Glass has a strong financial position, as it had cash on hand of over HK\$10,000m as at 31 Dec 2021.

Improved sentiment

Softer property sales and figures on new starts since Sep 21 have triggered concerns about medium- and long-term demand for float glass. Xinyi Glass management reiterated the view that GFA completion (which returned to positive growth in 2H20) will support demand for float glass in 2022. We believe that improved liquidity and tight control on the supply side will help. The float glass price has stabilized since late-Nov (which is line with our discussion in Dec 2021) and recovered somewhat after CNY in Feb 2022. We may see a further pick-up in demand for float glass in the coming month, as credit loosening takes effect (the Chinese government has become more pro-growth, indicated by the latest RRR cut). The dual carbon policy is expected to trigger another round of consolidation, and leading players may gain market share. On the supply side, new supply of float glass capacity will be limited, given the Chinese government's carbon neutrality policy. Cold-repairing may also constrain any increase in float glass capacity. We also remain constructive on Xinyi Glass's investment in Xinyi Silicon, which is expected to create medium- and long-term growth potential for the Company.

Lower forecasts and target price

We cut our 2022F–2023F net profit forecasts by 5.6% and 5.9%, respectively, given the Company's lower turnover and margin assumptions, but higher contribution from Xinyi Solar.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (HK\$m)	18,616	30,459	28,559	32,005	35,885
Operating EBITDA (HK\$m)	6,129	13,057	11,440	12,156	12,846
Net Profit (HK\$m)	5,267	11,649	10,245	11,123	11,850
Core EPS (HK\$)	1.31	2.90	2.55	2.77	2.95
Core EPS Growth	34%	122%	(12%)	9%	7%
FD Core P/E (x)	15.83	7.17	8.14	7.50	7.04
DPS (HK\$)	0.79	1.42	1.26	1.37	1.46
Dividend Yield	3.81%	6.84%	6.09%	6.61%	7.04%
EV/EBITDA (x)	13.09	6.03	6.75	6.05	5.42
P/FCFE (x)	49.97	8.80	11.51	11.07	10.35
Net Gearing	22.6%	18.1%	16.8%	9.9%	4.1%
P/BV (x)	3.00	2.42	2.31	2.04	1.81
ROE	21.7%	37.3%	29.0%	28.9%	27.2%
% Change In Core EPS Estimates			(5.61%)	(5.87%)	
CGI/consensus EPS (x)			0.91	0.91	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Figure 1: Forecast revisions

Revision (HKD m)	2022F forecasts			2023F forecasts		
	Old	New	change	Old	New	change
Revenue	29,282	28,559	-2.5%	32,825	32,005	-2.5%
Cost of sales and services	(15,013)	(14,800)	-1.4%	(17,483)	(17,207)	-1.6%
Gross profit	14,269	13,759	-3.6%	15,342	14,798	-3.5%
Other income and other gains and losses	1,030	750	-27.1%	1,167	834	-28.5%
Distribution and selling expenses	(1,508)	(1,465)	-2.9%	(1,690)	(1,642)	-2.9%
Administrative expenses	(2,443)	(2,265)	-7.3%	(2,706)	(2,506)	-7.4%
Finance costs	(193)	(155)	-19.6%	(193)	(155)	-19.6%
JV & Associates	1,321	1,348	2.0%	1,662	1,667	0.3%
Profit before tax	12,476	11,973	-4.0%	13,581	12,997	-4.3%
Income tax expense	(1,569)	(1,712)	9.1%	(1,708)	(1,859)	8.8%
MI	(9)	(15)	63.5%	(9)	(15)	63.5%
Profit for the period	10,898	10,245	-6.0%	11,864	11,123	-6.2%
	0	0	ppt	0	0	ppt
Gross margin (%)	48.7	48.2	(0.6)	46.7	46.2	(0.5)
Operating margin (%)	43.3	42.5	(0.8)	42.0	41.1	(0.9)
Net Margin (%)	37.2	35.9	(1.3)	36.1	34.8	(1.4)
Turnover by products (HKDm)						
Automobile glass	5,542	5,542	0.0%	5,935	5,935	0.0%
Construction glass	2,897	2,897	0.0%	3,254	3,254	0.0%
Float glass	20,843	20,120	-3.5%	23,636	22,816	-3.5%
Gross margin by products (%)	0	0	ppt	0	0	ppt
Automobile glass	50.2	47.1	(3.1)	51.2	48.1	(3.1)
Construction glass	43.8	46.2	2.3	43.8	46.2	2.3
Float glass	49.0	48.8	(0.3)	46.0	45.8	(0.3)

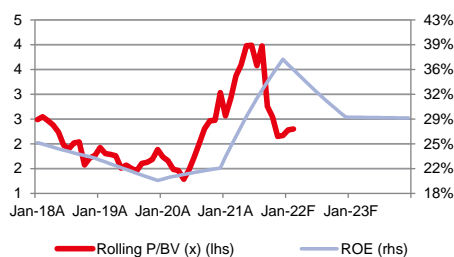
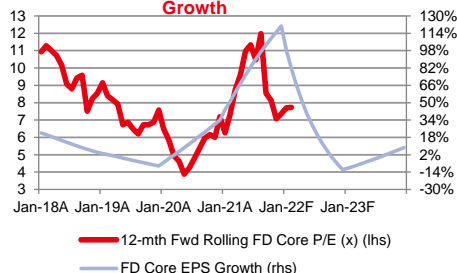
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 2: Assumptions

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Turnover (HKDm)													
Automobile glass	3,077.8	3,287.2	3,593.2	3,786.6	3,748.4	3,910.0	4,251.9	4,502.6	4,609.0	5,457.1	5,541.9	5,935.4	6,356.8
Construction glass	1,574.6	2,154.5	2,555.5	2,651.5	2,590.2	2,800.6	3,383.2	2,110.4	2,212.2	3,094.6	2,896.9	3,253.8	3,654.7
Float glass	3,780.6	4,494.3	4,712.4	5,022.2	6,509.8	8,016.9	8,379.4	9,645.5	11,794.7	21,907.5	20,119.9	22,815.9	25,873.2
Total	8,433.0	9,936.1	10,861.1	11,460.3	12,848.4	14,727.5	16,014.5	16,258.5	18,615.9	30,459.1	28,558.7	32,005.1	35,884.7
YoY Change (%)													
Automobile glass		6.8	9.3	5.4	(1.0)	4.3	8.7	5.9	2.4	18.4	1.6	7.1	7.1
Construction glass		36.8	18.6	3.8	(2.3)	8.1	20.8	(37.6)	4.8	39.9	(6.4)	12.3	12.3
Float glass		18.9	4.9	6.6	29.6	23.2	4.5	15.1	22.3	85.7	(8.2)	13.4	13.4
Total		17.8	9.3	5.5	12.1	14.6	8.7	1.5	14.5	63.6	(6.2)	12.1	12.1
Volume													
Automobile (piece)		12,110.0	12,889.0	13,582.8	13,582.8	13,786.6	14,338.0	14,768.2	14,967.5	16,314.6	16,804.0	17,644.2	18,526.4
Construction (sqm)		16,363.0	19,380.0	20,107.5	21,716.1	20,630.3	22,693.3	13,743.4	14,406.3	15,702.9	16,959.1	18,315.8	19,781.1
Float glass (tonne)		2,927.0	3,510.0	3,856.8	4,435.3	4,790.1	5,006.7	5,607.5	6,358.5	8,011.7	8,973.1	9,690.9	10,466.2
YoY Change (%)													
Automobile (piece)			6.4	5.4	0	1.5	4.0	3.0	1.3	9.0	3.0	5.0	5.0
Construction (sqm)		18.4	3.8	8.0	(5.0)	10.0	(39.4)	4.8	9.0	8.0	8.0	8.0	8.0
Float glass (tonne)			19.9	9.9	15.0	8.0	4.5	12.0	13.4	26.0	12.0	8.0	8.0
ASP													
Automobile (HKD/piece)		271.4	278.8	278.8	276.0	278.8	296.5	304.9	307.9	323.3	329.8	336.4	343.1
Construction (HKD per sqm)		131.7	131.9	131.9	119.3	135.8	149.1	153.6	153.6	165.8	170.8	177.7	184.8
Float glass (HKD per tonne)		1,535.5	1,342.6	1,302.2	1,467.7	1,673.6	1,673.6	1,720.1	1,855.0	2,734.4	2,242.2	2,354.4	2,472.1
YoY Change (%)													
Automobile (HKD/piece)			2.7	0.0	(1.0)	1.0	6.4	2.8	1.0	5.0	2.0	2.0	2.0
Construction (HKD per sqm)			0.1	0	(9.5)	13.8	9.8	3.0	0	8.0	3.0	4.0	4.0
Float glass (HKD per tonne)			(12.6)	(3.0)	12.7	14.0	0	2.8	7.8	47.4	(18.0)	5.0	5.0
Gross margin (%)													
Automobile glass		42.8	43.3	41.8	44.3	49.0	46.9	43.9	46.4	47.2	47.1	47.1	48.1
Construction glass		37.2	39.9	35.3	33.9	39.9	38.0	37.8	44.9	43.8	46.2	46.2	46.2
Float glass		8.6	19.0	7.0	11.1	27.5	31.7	32.6	29.5	39.2	53.8	48.8	45.8
Blended		26.4	31.6	25.2	27.3	36.3	37.0	36.7	36.2	41.7	51.8	48.2	46.2
Net margin (%)		14.1	35.4	12.6	18.4	25.0	27.3	26.5	27.5	34.5	37.9	35.9	34.8
Cost (HKDm)													
S,G&A		(1,056.7)	(1,250.9)	(1,638.0)	(1,614.5)	(1,822.4)	(2,045.1)	(2,407.0)	(2,632.0)	(2,763.4)	(4,008.2)	(3,729.6)	(4,147.7)
Financial Expenses		(57.3)	(59.7)	(38.1)	(50.2)	(76.8)	(106.5)	(142.5)	(181.9)	(155.0)	(88.7)	(88.7)	(87.5)
YoY Change (%)													
S,G&A			18.4	30.9	(1.4)	12.9	12.2	17.7	9.3	5.0	45.0	(7.0)	11.2
Financial Expenses			4.2	(36.2)	32.0	53.0	38.6	33.8	27.7	(14.8)	(42.8)	0	(1.4)

SOURCES: CGIS RESEARCH, COMPANY DATA

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth


Profit & Loss

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	18,616	30,459	28,559	32,005	35,885
Gross Profit	8,892	17,065	15,170	16,304	17,460
Operating EBITDA	6,129	13,057	11,440	12,156	12,846
Depreciation And Amortisation	(1,120)	(1,288)	(1,411)	(1,505)	(1,588)
Operating EBIT	5,008	11,769	10,029	10,651	11,258
Financial Income/(Expense)	(155)	(89)	(89)	(87)	(73)
Pretax Income/(Loss) from Assoc.	1,124	1,186	1,348	1,667	1,800
Non-Operating Income/(Expense)	197	729	684	766	859
Profit Before Tax (pre-EI)	6,175	13,595	11,973	12,997	13,845
Exceptional Items					
Pre-tax Profit	6,175	13,595	11,973	12,997	13,845
Taxation	(899)	(1,931)	(1,712)	(1,859)	(1,980)
Exceptional Income - post-tax	(9)	(15)	(15)	(15)	(15)
Profit After Tax	5,267	11,649	10,245	11,123	11,850
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,267	11,649	10,245	11,123	11,850
Recurring Net Profit	5,276	11,664	10,260	11,138	11,865
Fully Diluted Recurring Net Profit	5,276	11,664	10,260	11,138	11,865

Cash Flow

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	6,129	13,057	11,440	12,156	12,846
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(1,714)	(2,037)	(44)	(907)	(1,057)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,332	615	663	745	838
Net Interest (Paid)/Received	(193)	(155)	(155)	(155)	(155)
Tax Paid	(911)	(1,956)	(1,712)	(1,859)	(1,980)
Cashflow From Operations	4,642	9,524	10,191	9,981	10,492
Capex	(3,773)	(4,000)	(3,000)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	38	66	66	68	82
Cash Flow From Investing	(3,735)	(3,934)	(2,934)	(2,432)	(2,418)
Debt Raised/(repaid)	764	3,919	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,190)	(5,718)	(5,089)	(5,524)	(5,885)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(2,425)	(1,800)	(5,089)	(5,524)	(5,885)
Total Cash Generated	(1,518)	3,791	2,169	2,024	2,188
Free Cashflow To Equity	1,672	9,509	7,258	7,548	8,074
Free Cashflow To Firm	1,100	5,745	7,413	7,703	8,229

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	5,245	9,220	9,387	11,411	13,599
Total Debtors	4,916	5,669	5,714	6,643	7,726
Inventories	2,496	4,169	4,203	4,886	5,683
Total Other Current Assets	284	374	374	374	374
Total Current Assets	12,941	19,432	19,678	23,314	27,382
Fixed Assets	17,142	18,784	19,595	19,812	19,946
Total Investments	13,779	15,761	17,124	18,806	20,621
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	1,209	2,521	1,796	1,905	2,025
Total Non-current Assets	32,130	37,066	38,515	40,522	42,592
Short-term Debt	3,779	4,603	4,603	4,603	4,603
Current Portion of Long-Term Debt					
Total Creditors	3,917	4,306	4,340	5,046	5,869
Other Current Liabilities	998	1,377	1,377	1,377	1,377
Total Current Liabilities	8,694	10,286	10,320	11,026	11,849
Total Long-term Debt	7,795	10,890	10,890	10,890	10,890
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	199	162	162	162	162
Total Non-current Liabilities	7,993	11,052	11,052	11,052	11,052
Total Provisions	410	454	454	454	454
Total Liabilities	17,098	21,792	21,827	22,533	23,355
Shareholders' Equity	27,882	34,599	36,165	40,994	46,220
Minority Interests	92	108	123	137	152
Total Equity	27,973	34,707	36,287	41,131	46,372

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	14.5%	63.6%	(6.2%)	12.1%	12.1%
Operating EBITDA Growth	41%	113%	(12%)	6%	6%
Operating EBITDA Margin	32.9%	42.9%	40.1%	38.0%	35.8%
Net Cash Per Share (HK\$)	(1.57)	(1.56)	(1.52)	(1.01)	(0.47)
BVPS (HK\$)	6.91	8.59	8.98	10.18	11.48
Gross Interest Cover	25.98	75.90	64.68	68.69	72.61
Effective Tax Rate	14.6%	14.2%	14.3%	14.3%	14.3%
Net Dividend Payout Ratio	60.5%	49.0%	49.6%	49.6%	49.6%
Accounts Receivables Days	78.66	63.42	72.74	70.46	73.28
Inventory Days	85.5	90.8	114.1	105.6	105.0
Accounts Payables Days	136.7	112.0	117.8	109.1	108.4
ROIC (%)	30.6%	55.7%	38.8%	41.0%	41.4%
ROCE (%)	14.0%	26.1%	19.6%	19.6%	19.0%
Return On Average Assets	13.4%	23.1%	18.0%	18.4%	17.8%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Automobile (piece)	14,967.5	16,314.6	16,804.0	17,644.2	18,526.4
Construction(sqm)	14,406.3	15,702.9	16,959.1	18,315.8	19,781.1
Float glass (tonne)	6,358.5	8,011.7	8,973.1	9,690.9	10,466.2
Automobile (HKD/piece)	307.9	323.3	329.8	336.4	343.1
Construction (HKD per sqm)	153.6	165.8	170.8	177.7	184.8
Float glass (HKD per tone)	1,855.0	2,734.4	2,242.2	2,354.4	2,472.1

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Spitzer Chart for stock being researched (2 year data)

Xinyi Glass (868 HK)

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Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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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.

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