

Xinyi Glass

Lifting PT to HK\$9.3 - Float glass recovery stronger than expected

Xinyi Glass (XYG) is one of China's largest and most diversified glass producers. We are raising our margin assumptions on float glass to 28% for 2H16 (prev. 24%) on recent signs of strong demand in China. We expect the healthy GPM to persist well into 2017 as large scale new supply is unlikely before mid-2018. Remain OW and raise our PT to HK\$9.3.

- Float glass demand from construction is strong.** The increase in property prices over the past year has spurred construction activity. While new starts this year would not lift glass demand until 2018, the improvement in demand in recent months is due to an acceleration of the pace of construction for projects started before the recent property price rally. With new home construction starts picking up in 1H16, we see strong float glass demand for 2017 and probably 2018 as well. XYG has been the most aggressive in the expansion of capacity in past price rallies but has been subdued so far in this rally (no firm plans to add lines in China after 2016). Better market discipline as well as tougher licensing of new production lines should lead to a longer period of strong margins for float glass, in our view.
- Raising float glass margins and PT.** We increase our GPM assumptions related to float glass. Given strong price increase of around 10% since the end of June for most products and fairly flat H/H costs, we are now comfortable with increasing our GPM for float glass operations from 24% to 28% for 2H16 (22.3% in 1H16) and we also raise our expectations for 2017 GPM for float glass from 26% to 28%. Unlike the improvement in 1H16 that was driven by costs cuts (and flat ASPs), the improvement in 2H16 GPM is mostly driven by rising prices due to strong demand and tightness in many markets (esp. in Southern China). We raise our DCF-based Dec 17 PT to HK\$9.3 (prev. HK\$8.2) to reflect the earnings revisions.
- Price target, valuation and risks.** Our PT (Dec-17, DCF-derived) of HK\$9.3 implies a forward P/E of 8.2x (FY18E). The key downside risks to our PT are falling demand for construction glass that could result from a cooling property market in China, and further weakness in PV glass demand from Europe.

Xinyi Glass (Reuters: 0868.HK, Bloomberg: 868 HK)

HK\$ in mn, year-end Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (HK\$ mn)	10,861	11,460	13,059	15,603	17,453
Net Profit (HK\$ mn)	1,365	2,113	3,119	3,806	4,419
EPS (HK\$)	0.35	0.54	0.80	0.98	1.14
DPS (HK\$)	0.15	0.27	0.40	0.49	0.57
Revenue growth (%)	9.3%	5.5%	14.0%	19.5%	11.9%
EPS growth (%)	(58.9%)	54.8%	48.9%	22.0%	16.1%
ROCE	6.1%	8.3%	12.6%	14.0%	15.2%
ROE	11.1%	16.9%	23.1%	25.0%	25.6%
P/E (x)	20.3	13.1	8.8	7.2	6.2
P/BV (x)	2.2	2.2	1.9	1.7	1.5
EV/EBITDA (x)	14.4	10.7	7.2	5.9	4.9
Dividend Yield	2.1%	3.7%	5.7%	6.9%	8.0%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Overweight

0868.HK, 868 HK

Price: HK\$7.08

▲ **Price Target: HK\$9.30**

Previous: HK\$8.20



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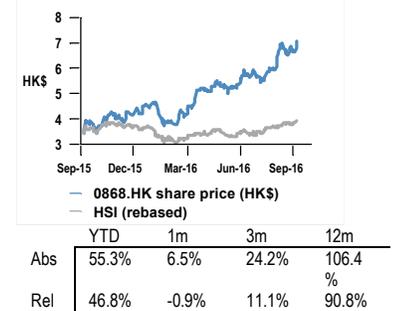
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Price Performance



See page 10 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
<ul style="list-style-type: none"> Price of float glass improving after the slack 1Q season More information on new electric (LCD) glass business to indicate sales and profit contribution Finalization of new downstream solar projects 	<ul style="list-style-type: none"> A rise in float glass price higher than our expectations driven by strong construction demand New customers for the electric glass business is of a better quality than what we expect Faster completion of new electric glass lines to boost sales 	<ul style="list-style-type: none"> Further weakness in PV glass demand from Europe Falling demand for construction and float glass that may result from a cooling property market in China

Key financial metrics	FY15	FY16E	FY17E	FY18E
Revenues (LC)	11,460	13,059	15,603	17,453
Revenue growth (%)	na	14.0%	19.5%	11.9%
EBITDA (LC)	2,528	3,661	4,390	5,101
EBITDA margin (%)	22.1%	28.0%	28.1%	29.2%
Tax rate (%)	11%	14%	14%	14%
Net profit (LC)	2,113	3,119	3,806	4,419
EPS (LC)	0.540	0.804	0.981	1.139
EPS growth (%)	na	48.9%	22.0%	16.1%
DPS (LC)	0.27	0.40	0.49	0.57
BVPS (LC)	3.25	3.68	4.17	4.74
Operating cash flow (LC mn)	2,838	3,061	3,482	4,237
Free cash flow (LC mn)	968	1,390	1,904	2,559
Interest cover (x)	50	54	104	228
Net margin (%)	18.4%	23.9%	24.4%	25.3%
Sales/assets (X)	0.54	0.58	0.63	0.63
Debt/equity (%)	47.4%	42.9%	37.8%	33.3%
Net debt/equity (%)	37.2%	28.6%	22.5%	15.4%
ROE (%)	17%	23%	25%	26%

Key model assumptions	FY15E	FY16E	FY17E	FY18E
Auto glass capacity (m)	16.6	17.4	18.3	19.2
Float glass capacity (mn tonnes)	5.1	5.8	5.8	6.1
Float glass price (HK\$/ton)	1,379	1,517	1,669	1,753

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
	FY16E	FY17E	FY16E	FY17E
5% chg in float glass price	9%	8%	7%	7%
5% chg in fuel cost	-3%	-2%	-2%	-2%
5% chg in wage	-3%	-3%	-2%	-2%
1% chg in GM	4%	4%	4%	4%

Source: J.P. Morgan estimates.

Peer valuation comparison

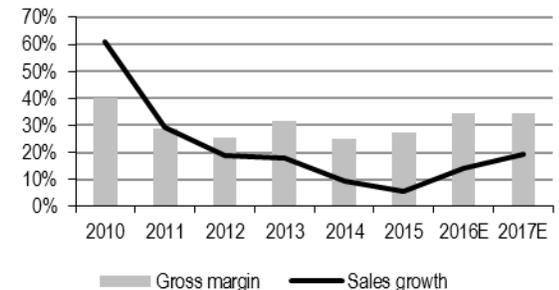
Company Name	Code	Price (TP)	MCAP US\$MM	Vol US\$m	3M Chg	P/E 16e (x)	PE 17e (x)	ROE (%)	P/B (x)	Yld (%)
CHINA STATE CONS	3311 HK	9.8	5,621.7	20.4	(5.0)	9.0	7.8	20.3	1.8	3.2
ND PAPER	2689 HK	6.4	3,862.7	5.9	18.7	14.5	10.1	3.9	1.0	0.9
LM PAPER	2314 HK	6.6	3,848.4	6.4	29.4	10.2	9.2	13.4	1.7	3.4
XINYI GLASS HOLD	868 HK	7.1	3,513.1	13.6	39.0	8.8	7.2	23.1	1.9	5.7
HAITIAN	1882 HK	16.2	3,314.8	3.6	27.6	15.9	13.9	16.6	2.2	2.2
KINGBOARD CHEM	148 HK	22.0	2,886.1	9.5	38.1	3.8	5.9	15.6	0.5	7.8
CHINA LESSO	2128 HK	5.6	2,215.4	4.1	35.5	7.5	6.9	18.3	1.1	3.3
KB LAM	1888 HK	7.2	2,750.0	3.3	75.2	6.3	10.6	25.2	1.6	13.4
Average					30.0	9.4	8.8	15.7	1.4	4.9

Source: Company data, Bloomberg, J.P. Morgan estimates. Share prices are as of close price of 6 Sep 2016

Valuation and price target basis

Our PT is derived on a DCF based valuation with a WACC of 11.4% and a terminal growth rate of 3%

Sales growth and GPM trends



Source: Company and J.P. Morgan estimates.

JPMe vs. consensus, change in estimates

EPS (LC)	FY16E	FY17E
JPMe old	0.78	0.93
JPMe new	0.80	0.98
% chg	4%	6%
Consensus	0.69	0.81

Source: Bloomberg, J.P. Morgan estimates.

Comments from rival boost sentiment

China Glass (3300 HK - NC) is a major glass producer in China and is seeing a significant improvement in the float glass environment. During the analyst briefing of interim results, the company mentioned that in the first half of 2016, there were still some lines in the industry closing down due to a poor pricing environment prevalent over the period from approx. 1Q14 to 1Q16. The company mentioned excess inventory in the market was brought to a low level by the end of Jun16. Float glass prices have increased by more than 10 percent on average at the end of August compared to end of June 2016. The company is starting to see some suspended lines (lines nearly built but halted before commencement) coming back to the market given the current prices and healthy margins, especially in southern China. The company intends to expand in Africa and perhaps other markets instead of being too focused on China.

While China Glass highlighted the risk of some volatility in the float glass price in early 2017 as some suspended lines start operations, we do not believe that this limited number of lines would cause the market to be in oversupply. Only a large number of new builds that are approved in 2017 with completion after 2018 would disrupt the market, in our view. XYG management recently held an analyst call that mentioned the strong demand and rising prices of float glass in 2H16 (similar to the views of China Glass).

New starts show strong demand in 2017

The increase in new home construction starts as shown in the chart below bodes well for demand for glass in 2017 (YTD cumulative new starts). Most of the improvement in the new starts number do not lift demand for glass until one year later (i.e. 2017) and the recent strong demand for glass is actually due to the lower number of projects started in 2014 and 2015 that are being accelerated now. Even if the housing starts are not as strong in 2H16 compared to 1H16, demand would still be strong well into 2018. Only a strong collapse of this figure to negative territory would pose a risk to XYG's float glass margins in 2018.

Figure 1: Floor Space of New Home Construction



Source: Bloomberg data

Lifting float glass margins and PT

The only change we made in this update is to increase our GPM assumptions related to float glass. Given strong price increase of around 10% since the end of June for most products and fairly flat H/H costs, we are now comfortable with lifting our GPM assumptions for float glass operations from 24% to 28% for 2H16 (22.3% in 1H16) and we also lift our expectations for 2017 GPM for float glass from 26% to 28%. Unlike the improvement in 1H16 that was driven by costs cuts (and flat ASPs), the improvement in 2H16 GPM is mostly driven by rising prices due to strong demand and tightness in many markets (esp. in Southern China). We raise our DCF based Dec17 PT to HK\$9.3 (prev. HK\$8.2) to reflect the earnings estimates revisions.

Table 2: Earnings Estimates Revisions

Year to Dec (HKDm)	New		Old		Chg	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Turnover	13,059	15,603	12,980	15,050	0.6%	3.7%
Gross profit	4,493	5,354	4,356	5,048	3.2%	6.1%
EBIT	2,857	3,461	2,730	3,226	4.6%	7.3%
Net profit	3,119	3,806	3,011	3,603	3.7%	9.0%
EPS (HKD)	0.80	0.98	0.78	0.93	3.7%	9.0%
Assumptions						
Gross margin	34.4%	34.3%	33.6%	33.5%	0.9%	0.8%

Source: J.P. Morgan estimates

Valuation and share price analysis

DCF valuation

Our Dec-17 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.3 (Bloomberg Beta is 1.3). Accordingly, WACC is assumed at 11.4%. We have estimated free cash flow for XYG until 2020 and assume a terminal growth rate of 3%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6% depending on the nature of the industry and the level of maturity in China.

We also analyzed the DCF price sensitivity to WACC, and the terminal multiple.

Table 3: XYG – base-case DCF analysis

HK\$ in millions, year-end Dec	2013	2014	2015	2016E	2017E	2018E	2019E	Terminal
Cash flow estimates								
Sales	9,936	10,861	11,460	13,059	15,603	17,453	19,123	21,129
EBIT	2,212	1,274	1,733	2,857	3,461	4,136	4,789	5,446
NOPAT	2,229	1,092	1,540	2,726	3,282	3,869	4,420	5,007
Capex, net	(2,913)	(1,715)	(1,914)	(1,568)	(1,444)	(1,518)	(1,567)	(2,054)
Depreciation	639	644	795	804	929	964	1,001	1,029
Change in working capital	129	60	539	(334)	(408)	(254)	(201)	(237)
Free operating CF (FoCF)	84	82	959	1,629	2,361	3,064	3,657	3,750
DCF Parameters								
Liabilities as a % of EV	10%				Assumptions			
WACC	11.4%				Terminal growth	3.0%		
					Risk-free rate	4.2%		
					Market risk	6.0%		
Enterprise NPV (10-16E)	40,081				Beta	1.30		
+ Net cash (debt), 14E	(3,642)				Cost of debt	6.2%		
- Minorities (Market value)	(8)							
+/- Other items	0				Implied exit P/E multiple (x)	8x		
= Equity value	36,430							
/ Number of shares	3,915							
= Equity value per share (HK\$)	9.3							

Source: Company data, J.P. Morgan estimates

Table 4: XYG – Sensitivity analysis

		Terminal growth rate						
		1.5%	2%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	9.8%	9.8	10.3	11	11.8	12.6	13.7	14.9
	10.3%	9.1	9.6	10.2	10.9	11.6	12.5	13.5
	10.8%	8.6	9	9.5	10.1	10.7	11.5	12.3
	11.4%	8.1	8.5	8.9	9.4	10	10.6	11.3
	11.9%	7.6	8	8.4	8.8	9.3	9.9	10.5
	12.4%	7.2	7.5	7.9	8.3	8.7	9.2	9.7
	12.9%	6.9	7.1	7.5	7.8	8.2	8.6	9.1

Source: J.P. Morgan estimates.

Table 5: XYG – Revenue mix

HK\$ MM, year-end 31Dec	2013	2014	2015	2016E	2017E	2018E
Automobile glass	3,287	3,593	3,786	3,932	4,323	4,540
YoY	6.8%	9.3%	5.4%	3.9%	10.0%	5.0%
% of total	33.1%	33.1%	33.0%	30.2%	28.0%	26.4%
Construction glass	2,155	2,556	2,652	2,895	3,912	4,074
YoY	36.9%	18.6%	3.8%	9.2%	35.1%	4.1%
% of total	21.7%	23.5%	23.1%	22.2%	25.3%	23.7%
Float glass	4,494	4,269	4,671	5,733	6,306	7,022
YoY	18.9%	-5.0%	9.4%	22.7%	10.0%	11.4%
% of total	45.2%	39.3%	40.8%	44.0%	40.8%	40.9%
PV glass	0	0	0	0	0	0
YoY	45.2%	39.3%	40.8%	44.0%	40.8%	40.9%
% of total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Electronic glass	0	443	351	475	919	1536
YoY	na	na	-20.8%	35.3%	93.4%	67.2%
% of total	0.0%	4.1%	3.1%	3.6%	5.9%	8.9%
Total revenue	9,936	10,861	11,460	13,034	15,460	17,172

Source: Company data, J.P. Morgan estimates

Table 6: XYG – P&L statement

Year-end 31Dec (HK\$MM)	2013	2014	2015	2016E	2017E	2018E
Total Revenues	9,936	10,861	11,460	13,059	15,603	17,453
YoY change (%)	1.5%	9.3%	5.5%	14.0%	19.5%	11.9%
Cost of Goods Sold	(6,799)	(8,127)	(8,328)	(8,565)	(10,249)	(11,257)
YoY change (%)	-7.0%	19.5%	2.5%	2.9%	19.7%	9.8%
Gross Profit	3,137	2,734	3,132	4,493	5,354	6,196
YoY change (%)	26.7%	-12.9%	14.6%	43.5%	19.2%	15.7%
Gross Margin	31.6%	25.2%	27.3%	34.4%	34.3%	35.5%
SGA	(1,251)	(1,638)	(1,615)	(1,878)	(2,159)	(2,323)
YoY change (%)	4.5%	30.9%	-1.4%	16.3%	15.0%	7.6%
Other Income/(Expenses)	326	178	215	241	265	264
Operating profit	2,212	1,274	1,733	2,857	3,461	4,136
EBITDA	2,852	1,886	2,313	3,661	4,390	5,101
EBITDA margin	28.7%	17.4%	20.2%	28.0%	28.1%	29.2%
Depreciation & Amortization	(639)	(612)	(580)	(804)	(929)	(964)
YoY change (%)	9.5%	-4.3%	-5.2%	38.6%	15.6%	3.8%
EBIT	2,212	1,274	1,733	2,857	3,461	4,136
EBIT margin	22.3%	11.7%	15.1%	21.9%	22.2%	23.7%
Net Interest Expense	(60)	(38)	(50)	(68)	(42)	(22)
Exceptional item	1,453	220	379	0	0	0
Associates	21	138	317	830	997	1,013
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	3,627	1,594	2,379	3,619	4,416	5,127
YoY change (%)	159.5%	-56.1%	49.3%	52.1%	22.0%	16.1%
Tax	(381)	(228)	(266)	(499)	(610)	(708)
Effective Tax rate	17.5%	16.6%	13.3%	13.8%	13.8%	13.8%
Minority Interests	1	0	0	0	0	0
Net Income	3,246	1,365	2,113	3,119	3,806	4,419
YoY change (%)	172.9%	-36.1%	54.8%	47.6%	22.0%	16.1%
Net margin	32.7%	12.6%	18.4%	23.9%	24.4%	25.3%

Source: Company data, J.P. Morgan estimates

Table 7: Interim estimates

Year to Dec (HK\$ MM)	1H15	2H15	1H16	2H16E	1H17E	2H17E
Total Revenues	4,883	6,577	5,885	7,174	7,032	8,572
Gross Profit	1,410	1,722	2,041	2,452	2,433	2,922
EBIT	944	789	1,304	1,553	1,579	1,882
Net Income Before Taxes	1,085	1,294	1,572	2,047	2,015	2,401
Net Income	946	1,167	1,369	1,750	1,737	2,070
Diluted EPS (HK\$)	0.242	0.30	0.353	0.186	0.447	0.533
Ratios						
Revenue split	42.6%	57.4%	45%	54.9%	45.1%	54.9%
GPM	28.9%	26.2%	34.7%	34.2%	34.6%	34.1%
EBIT margin	19.3%	12.0%	22.2%	21.7%	22.5%	22.0%
NPM	19.4%	17.7%	23.3%	24.4%	24.7%	24.1%
YoY						
Revenue	-3.0%	12.9%	20.5%	9.1%	19.5%	19.5%
GP	5.5%	23.3%	44.8%	42.4%	19.2%	19.2%
EBIT	11.9%	83.2%	38.1%	97.0%	21.1%	21.1%
NP	24.2%	93.4%	44.7%	50.0%	26.8%	18.3%

Source: Company data, J.P. Morgan estimates.

Table 8: XYG – Balance sheet

Year-end 31Dec (HK\$MM)	2013	2014	2015	2016E	2017E	2018E
Cash and Cash Equivalents	1,042	831	1,298	2,042	2,484	3,285
Inventories	1,232	1,478	1,223	1,393	1,665	1,862
Accounts receivable	2,255	2,487	2,381	2,714	3,242	3,627
Other Current Assets	7	8	93	63	790	1,508
Total Current Assets	4,537	4,805	4,995	6,211	8,181	10,281
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	9,983	11,293	13,177	13,941	14,456	15,010
Other Assets	5,131	4,936	3,249	3,412	3,582	3,761
Non-Current assets	15,114	16,229	16,426	17,352	18,038	18,771
Total Assets	19,651	21,034	21,422	23,564	26,219	29,053
Accounts Payable	1,744	724	740	843	1,007	1,127
Other Accrued Expenses	0	1,469	1,705	1,488	1,917	2,287
Taxes Payable	219	294	333	566	676	774
ST and current LT debts	2,116	2,609	2,514	2,219	2,219	2,219
Total Current Liabilities	4,079	4,801	4,959	5,116	5,820	6,408
Long-term Debt	3,024	3,483	3,514	3,908	3,908	3,908
Other Noncurrent Liability	339	414	223	254	303	339
Noncurrent liabilities	3,364	3,898	3,737	4,161	4,211	4,246
Total Liabilities	7,442	8,699	8,696	9,278	10,030	10,654
Share capital	4,727	3,824	3,217	3,217	3,217	3,217
Reserves and Surplus	7,480	8,509	9,501	11,061	12,964	15,174
Total Shareholders' Equity	12,208	12,333	12,718	14,278	16,181	18,391
Minority Interest	1	2	8	8	8	8
Total Shareholders' Equity	12,209	12,335	12,726	14,286	16,189	18,399
Total Liabilities and Equity	19,651	21,034	21,422	23,564	26,219	29,053

Source: Company data, J.P. Morgan estimates

Table 9: XYG – Cash flow statement

Year-end 31Dec (HK\$ MM)	2013	2014	2015	2016E	2017E	2018E
EBIT	2,212	1,274	1,733	2,857	3,461	4,136
Depreciation and Amortization	639	644	795	804	929	964
Working Capital Changes	129	60	539	(334)	(408)	(254)
Tax Paid	(209)	(381)	(228)	(266)	(499)	(610)
Cash Flow From Operations	2,772	1,598	2,838	3,061	3,482	4,237
Capital expenditures	(2,913)	(1,715)	(1,914)	(1,568)	(1,444)	(1,518)
Investments and others	(208)	32	243	87	129	125
Net interest	(60)	(38)	(50)	(68)	(42)	(22)
Cash Flow from Investing	(3,181)	(1,720)	(1,721)	(1,549)	(1,358)	(1,416)
Free Cash Flow	(409)	(123)	1,117	1,511	2,124	2,821
Dividends	(834)	(902)	(608)	(1,299)	(1,731)	(2,056)
Common issue	916	(3)	1	0	0	0
Other Financing	688	833	(18)	531	49	36
Contribution from owner	0	(17)	(25)	0	0	0
Cash Flow from financing	770	(89)	(650)	(767)	(1,682)	(2,020)
Change in cash	338	(195)	467	744	442	800
Cash beginning	703	1,042	831	1,298	2,042	2,484
Foreign exchange changes	1	(17)	0	0	0	0
Cash at end	1,042	831	1,298	2,042	2,484	3,285

Source: Company data, J.P. Morgan estimates

Investment Thesis, Valuation and Risks

Xinyi Glass (Overweight; Price Target: HK\$9.30)

Investment Thesis

We believe Xinyi is China's most diversified glass conglomerate. The defensive auto glass aftermarket business and the advanced low emission construction glass business continued to do well with stable growth and steady margins. The key drivers for growth in the rest of this year are the recovery in margins for the float glass business. In the past, we have seen peak margins for float glass hit 40% when the market is in short supply. We could see margins recover when demand improves as new supply has slowed to a trickle since the beginning of 2014.

Valuation

Our Dec-17 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.3 (Bloomberg Beta is 1.3). Accordingly, WACC is assumed at 11.4%. We have estimated free cash flow for XYG until 2020 and assume a terminal growth rate of 3.0%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6%, depending on the nature of the industry and the level of maturity in China.

Risks to Rating and Price Target

The key downside risks to our OW rating and PT are falling demand for construction glass that may result from a cooling property market in China and further weakness in PV glass demand from Europe.

Xinyi Glass: Summary of Financials

Income Statement						Cash flow statement					
HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E	HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E
Revenues	10,861	11,460	13,059	15,603	17,453	EBIT	1,274	1,733	2,857	3,461	4,136
% change Y/Y	9.3%	5.5%	14.0%	19.5%	11.9%	Depr. & amortization	644	795	804	929	964
Gross Profit	2,734	3,132	4,493	5,354	6,196	Change in working capital	60	539	(334)	(408)	(254)
% change Y/Y	(12.9%)	14.6%	43.5%	19.2%	15.7%	Taxes	(381)	(228)	(266)	(499)	(610)
EBITDA	1,918	2,528	3,661	4,390	5,101	Cash flow from operations	1,598	2,838	3,061	3,482	4,237
% change Y/Y	(32.7%)	31.8%	44.8%	19.9%	16.2%	Capex	(1,723)	(1,914)	(1,730)	(1,615)	(1,698)
EBIT	1,274	1,733	2,857	3,461	4,136	Net Interest	(38)	(50)	(68)	(42)	(22)
% change Y/Y	(42.4%)	36.0%	64.9%	21.1%	19.5%	Other	41	95	249	299	304
EBIT Margin	11.7%	15.1%	21.9%	22.2%	23.7%	Free cash flow	(93)	968	1,390	1,904	2,559
Net Interest	(38)	(50)	(68)	(42)	(22)	Equity raised/(repaid)	(3)	1	0	0	0
Earnings before tax	1,594	2,379	3,619	4,416	5,127	Debt raised/(repaid)	833	(18)	531	49	36
% change Y/Y	(56.1%)	49.3%	52.1%	22.0%	16.1%	Other	(17)	(25)	0	0	0
Tax	(228)	(266)	(499)	(610)	(708)	Dividends paid	(902)	(608)	(1,299)	(1,731)	(2,056)
as % of EBT	14.3%	11.2%	13.8%	13.8%	13.8%	Beginning cash	1,042	831	1,298	2,042	2,484
Net income (reported)	1,365	2,113	3,119	3,806	4,419	Ending cash	831	1,298	2,042	2,484	3,285
% change Y/Y	(57.9%)	54.8%	47.6%	22.0%	16.1%	DPS	0.15	0.27	0.40	0.49	0.57
Shares outstanding	3,915	3,915	3,881	3,881	3,881						
EPS (reported)	0.35	0.54	0.80	0.98	1.14						
% change Y/Y	(58.9%)	54.8%	48.9%	22.0%	16.1%						
Balance sheet						Ratio Analysis					
HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E	HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E
Cash and cash equivalents	831	1,298	2,042	2,484	3,285	Gross margin	25.2%	27.3%	34.4%	34.3%	35.5%
Accounts receivable	2,487	2,381	2,714	3,242	3,627	EBITDA margin	17.7%	22.1%	28.0%	28.1%	29.2%
Inventories	1,478	1,223	1,393	1,665	1,862	Operating margin	11.7%	15.1%	21.9%	22.2%	23.7%
Others	8	93	63	790	1,508	Net margin	12.6%	18.4%	23.9%	24.4%	25.3%
Current assets	4,805	4,995	6,211	8,181	10,281	Sales per share growth	6.8%	5.5%	14.9%	19.5%	11.9%
LT investments	4,936	3,249	3,412	3,582	3,761	Sales growth	9.3%	5.5%	14.0%	19.5%	11.9%
Net fixed assets	11,293	13,177	13,941	14,456	15,010	Net profit growth	(57.9%)	54.8%	47.6%	22.0%	16.1%
Total Assets	21,034	21,422	23,564	26,219	29,053	EPS growth	(58.9%)	54.8%	48.9%	22.0%	16.1%
Liabilities						Interest coverage (x)	50.4	50.3	53.6	103.9	227.9
Short-term loans	2,609	2,514	2,219	2,219	2,219	Net debt to equity	42.7%	37.2%	28.6%	22.5%	15.4%
Payables	724	740	843	1,007	1,127	Working Capital to Sales	0.0	0.0	0.1	0.2	0.2
Others	1,468	1,705	2,054	2,593	3,062	Sales/assets	0.5	0.5	0.6	0.6	0.6
Total current liabilities	4,801	4,959	5,116	5,820	6,408	Assets/equity	1.7	1.7	1.7	1.6	1.6
Long-term debt	3,483	3,514	3,908	3,908	3,908	ROE	11.1%	16.9%	23.1%	25.0%	25.6%
Other liabilities	414	223	254	303	339	ROCE	6.1%	8.3%	12.6%	14.0%	15.2%
Total Liabilities	8,698	8,696	9,278	10,030	10,654						
Shareholders' equity	12,333	12,718	14,278	16,181	18,391						
BVPS	3.15	3.25	3.68	4.17	4.74						

Source: Company reports and J.P. Morgan estimates.

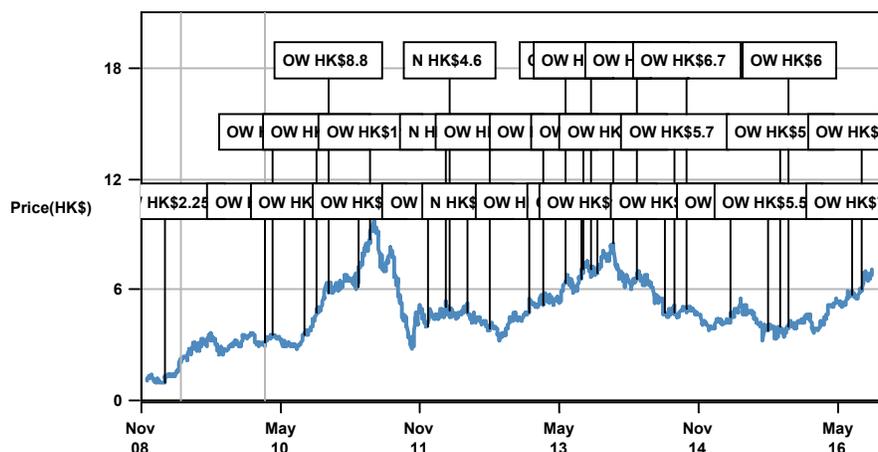
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Xinyi Glass (0868.HK, 868 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Feb 03, 2009.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
03-Feb-09	OW	1.00	2.25
04-Mar-10	OW	3.16	4.12
31-Mar-10	OW	3.59	5.50
02-Aug-10	OW	3.51	5.70
20-Sep-10	OW	4.76	6.80
09-Nov-10	OW	5.80	8.80
01-Mar-11	OW	6.13	9.00
20-Apr-11	OW	8.77	11.00
28-Nov-11	OW	4.03	6.00
09-Feb-12	N	5.01	5.10
27-Feb-12	N	4.80	4.60
07-May-12	N	4.78	5.50
01-Aug-12	OW	3.92	5.10
31-Dec-12	OW	4.78	5.90
28-Feb-13	OW	5.16	6.90
22-May-13	OW	6.30	8.00
23-Jul-13	OW	6.58	8.70
31-Jul-13	OW	7.13	10.00
04-Sep-13	OW	7.07	10.50
26-Sep-13	OW	6.92	10.90
25-Nov-13	OW	8.53	9.80
26-Feb-14	OW	6.56	10.00

20-Jun-14	OW	4.76	6.50
24-Jul-14	OW	4.76	5.70
15-Sep-14	OW	4.92	6.70
02-Mar-15	OW	4.55	6.10
28-Jul-15	OW	3.80	5.50
10-Sep-15	OW	3.95	5.20
15-Oct-15	OW	3.97	6.00
17-Jun-16	OW	5.67	7.00
02-Aug-16	OW	6.04	8.20

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