

Asian Daily

Xinyi Glass Holdings Limited (0868.HK)

Expecting 2H21 margin to further improve on rising float glass price

Maintain **OUTPERFORM**

Previous Rating: OUTPERFORM

Target price (HK\$): 35.00

Previous target price (HK\$): 29.00

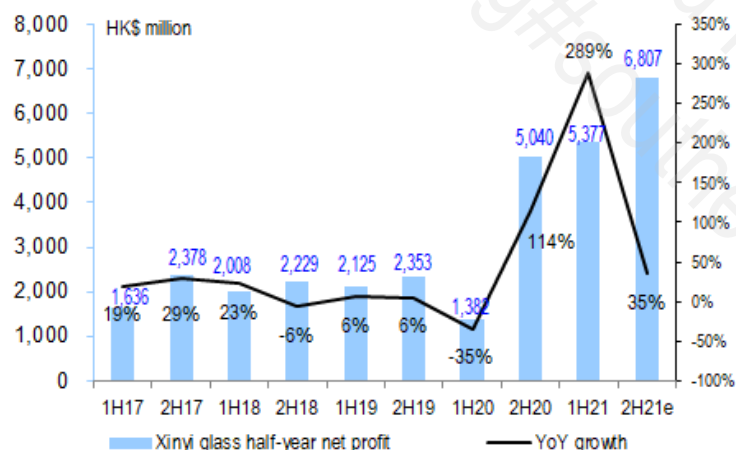
- At the high-end of its profit guidance of HK\$5.0-5.4 bn, Xinyi Glass' 1H21 net profit hit a record-high since its inception, at HK\$5.4 bn (up 289% YoY and 6.7% HoH). The key surprise was the higher-than-expected gross margin of its float glass operation: +30.6 pp YoY and 10.5 pp HoH to 55.3% in the first half, thanks to fast increase in float glass' selling price—Xinyi Glass price index went up 38% YoY in 1H21.
- We highlight Xinyi Glass price index further increased in July 2021 to 2,687 points, up 75% YoY and 2% MoM, due to sector-wide low inventory. We thus expect Xinyi Glass' float glass operation's gross margin to further increase to 62.5% in 2H21 despite rising raw material prices.
- Considering the better-than-expected 1H21 results, we revise up our 2021-23 net profit estimates by 22.8-56.6% with higher glass price assumption, resulting in a higher TP of HK\$35 (from HK\$29).
- The key risk is rising float glass inventory which might put pressure on glass price. According to Sublime China Information, the nationwide float glass inventory rose 39% MoM or by 8.3 mn weightcase in June to 29.91 mn weightcase (0.32-month production).

Price (02-Aug-21, HK\$)	29.70	Est. pot. % chg. to TP	17.8		
Mkt cap (HK\$/US\$ mn)	120,403 / 15,486	Blue sky scenario (HK\$)	60.0		
Number of shares (mn)	4,054	Grey sky scenario (HK\$)	15.0		
Free float (%)	42.1	Performance			
52-wk range (HK\$)	33.60 - 11.72	Absolute (%)	(3.7) 15.6 161.4		
ADTO-6M (US\$ mn)	34.9	Relative (%)	8.0 28.8 162.2		
Year		12/20A	12/21E	12/22E	12/23E
Revenue (HK\$ mn)	18,615.9	28,726.9	28,936.8	26,597.9	
EBITDA (HK\$ mn)	6,641.6	14,140.5	13,110.4	11,045.2	
EBIT (HK\$ mn)	5,472.0	12,571.9	11,433.9	9,269.6	
Net profit (HK\$ mn)	6,422.2	12,183.9	11,606.1	10,301.7	
EPS (CS adj.) (HK\$)	1.59	3.02	2.87	2.55	
Chg. from prev. EPS (%)	n.a.	56.6	41.4	22.8	
Consensus EPS (HK\$)	n.a.	2.55	2.76	2.89	
EPS growth (%)	43.0	89.1	(4.7)	(11.2)	
P/E (x)	18.6	9.8	10.3	11.6	
Dividend yield (%)	2.7	5.0	4.8	4.3	
EV/EBITDA (x)	19.1	8.9	9.3	10.7	
P/B (x)	4.3	3.53	3.01	2.66	
ROE (%)	26.4	39.4	31.4	24.3	
Net debt/equity (%)	22.6	14.0	2.7	(4.9)	

Source: Company data, Refinitiv, Credit Suisse estimates

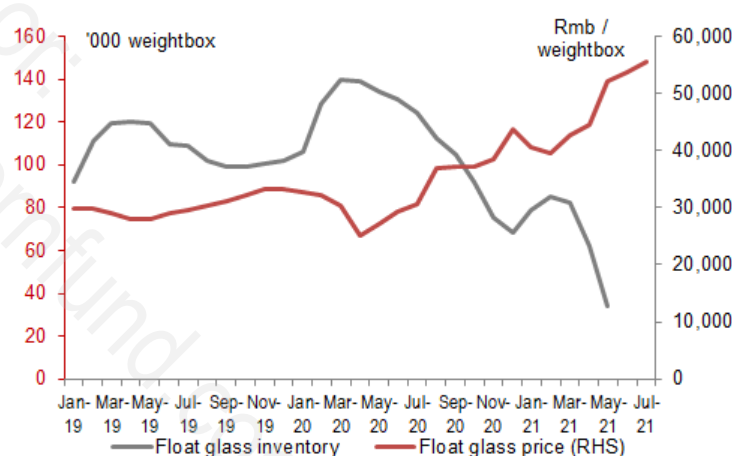
In the past, we have observed a strong correlation between float glass price and float glass inventory. Low float glass inventory due to short supply normally boosts float glass price, and vice versa.

Figure 1: Xinyi Glass' half-year net profit outlook



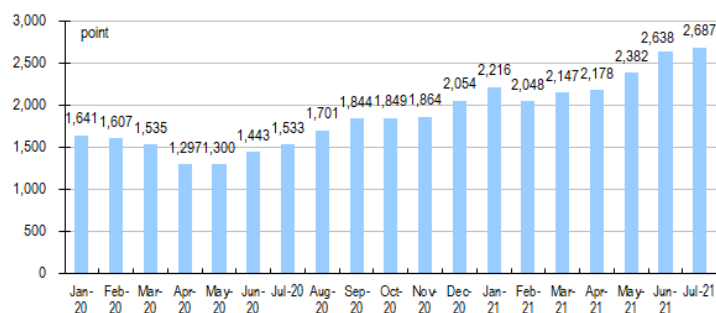
Source: Company data, Credit Suisse estimates

Figure 3: Float glass inventory vs price trend



Source: Wind

Figure 2: Xinyi Glass float price index



Source: Company data, Xinyi glass

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Valuation Methodology and Risks

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Xinyi Glass Holdings Limited (0868.HK)

Method: Our HK\$35 target price for Xinyi Glass implies a 12x 2022E P/E (price-to-earnings), and we believe the company will enjoy a round of re-rating owing to (1) its active consolidation of other glass companies to strengthen its market positioning and continuing earnings growth; (2) Xinyi Solar, its 25% stake associate, is enjoying an upcycle of solar industry, which should help on Xinyi Glass' valuation improvement; and (3) the 2021 float glass upcycle could also sustain its valuation at the high-end. We rate the stock OUTPERFORM as we believe it will benefit from mid-term earnings growth prospects from overseas capacity expansion and also the increasing China auto aftermarket demand.

Risk: Downside risks to our OUTPERFORM rating and HK\$35 target price for Xinyi Glass Holdings Limited include: (1) more production halts at soda ash factories, and (2) lower than expected property completion number.

Companies Mentioned (Price as of 02-Aug-2021)

Xinyi Glass Holdings Limited (0868.HK, HK\$29.7, OUTPERFORM[V], TP HK\$35.0)

Disclosure Appendix

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3-Year Price and Rating History for Xinyi Glass Holdings Limited (0868.HK)

0868.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
25-Feb-19	9.70	9.30	N
19-Jul-19	7.94	9.30	O *
08-Aug-19	7.75	9.00	
13-Jan-20	10.68	12.60	
17-Mar-20	8.29	11.30	
09-Jun-20	9.50	11.70	
03-Aug-20	11.72	14.10	
03-Dec-20	17.54	21.00	
02-Mar-21	23.35	29.00	
21-Jun-21	31.40	29.00	*



* Asterisk signifies initiation or assumption of coverage.

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