

Xinyi Glass (0868)

Positive profit alert reveals stronger-than-expected earnings power; raise PT

Xinyi Glass's 1H21 NP growth guidance of 260%-290% is stronger than market's expectations. Looking forward, we believe the glass market should remain tight and demand should rebound strongly in the 4Q peak demand season given decent property sales YTD. We raise our earnings forecasts and PT and reiterate OW rating.

- 1H21 positive profit alert:** Xinyi Glass issued a positive profit alert recently guiding 1H21 NP to grow by 260%-290% YoY to a range between HKD4.98bn and HKD5.39bn, mainly due to significant increase in both ASP and sales volume for float glass as well as notable increase in profit contribution from Xinyi Solar (Xinyi Glass holds ~23% of Xinyi Solar). The guided profitability is stronger than our/market expectations given it accounts for ~60% of FY21 consensus estimate of Rmb8.9bn and the second half is seasonally stronger than 1H in terms of both volume and unit GP/ton.
- Glass price reaching six-year high.** Domestic float glass price has reached a six-year high at Rmb2,847/t. End demand is robust as we see a sharp decline in inventory in May despite high operating capacity rate. In the near term, while we are in a weak demand season, the low inventory should support decent price rebound into 4Q.
- Float glass supply tightness should remain.** Going forward, we expect supply tightness to continue, which could further drive float glass price up. According to SCI, capacity expected to ramp up this year is 7kt/day (or ~4% of current operating capacity). With decent property sales momentum continuing (36% YTD, 9% in April), supply tightness in glass industry should stay.
- Management buyback supports stock price.** Management of Xinyi Glass has been aggressively buying back shares since March. YTD, the total number of shares buyback was 29.078mn, accounting for 1% of total shares outstanding (Table 1).
- Raise earnings forecasts and PT:** We raise our FY21-23 NP forecasts by 34%-69% to price in the stronger pricing power for glass companies. We also raise our SOTP valuation by 33% to HK\$36/shr. Risks: key risk for Xinyi Glass remains the impact on associate income line and valuations of Xinyi Solar (covered by Alan Hon, Neutral), which accounts for ~20% of Xinyi Glass's valuation.

Overweight

0868.HK, 868 HK

Price (17 Jun 21): HK\$29.55

▲ **Price Target (Jun-22): HK\$36.00**
Prior (Dec-21): HK\$27.00

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Key Changes (FYE Dec)

	Prev	Cur
Adj. EPS - 21E (HK\$)	2.09	2.79
Adj. EPS - 22E (HK\$)	2.03	2.99

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top)			
		6M	1Y	3Y	5Y
Value	50	54	35	27	25
Growth	80	73	78	70	67
Momentum	7	13	52	16	6
Quality	35	32	38	25	39
Low Vol	45	27	16	59	8

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 8 for analyst certification and important disclosures, including non-US analyst disclosures.

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Price Performance



	YTD	1m	3m	12m
Abs	36.5%	8.0%	18.7%	212.7%
Rel	32.1%	7.2%	20.7%	196.5%

Company Data

Shares O/S (mn)	4,027
52-week range (HK\$)	31.40-9.06
Market cap (\$ mn)	15,327
Exchange rate	7.76
Free float(%)	42.1%
3M - Avg daily vol (mn)	8.39
3M - Avg daily val (\$ mn)	29.3
Volatility (90 Day)	54
Index	HSI
BBG BUY HOLD SELL	19 0 0

Key Metrics (FYE Dec)

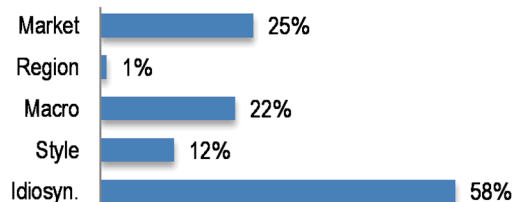
HK\$ in millions	FY20A	FY21E	FY22E	FY23E
Financial Estimates				
Revenue	18,616	26,944	26,958	28,555
Adj. EBITDA	8,199	14,318	15,275	17,088
Adj. EBIT	7,031	12,938	13,784	15,353
Adj. net income	6,422	11,248	12,027	13,434
Adj. EPS	1.59	2.79	2.99	3.34
BBG EPS	1.27	2.18	2.39	2.50
Cashflow from operations	4,504	13,204	13,351	14,956
FCFF	731	11,004	8,642	10,247
Margins and Growth				
Revenue growth	14.5%	44.7%	0.1%	5.9%
EBITDA margin	44.0%	53.1%	56.7%	59.8%
EBITDA growth	49.2%	74.6%	6.7%	11.9%
EBIT margin	37.8%	48.0%	51.1%	53.8%
Net margin	34.5%	41.7%	44.6%	47.0%
Adj. EPS growth	42.6%	75.9%	6.9%	11.7%
Ratios				
Adj. tax rate	12.3%	12.3%	12.3%	12.3%
Interest cover	52.9	132.7	231.0	577.3
Net debt/Equity	0.2	NM	NM	NM
Net debt/EBITDA	0.8	NM	NM	NM
ROCE	17.4%	25.0%	21.0%	19.0%
ROE	26.4%	33.6%	26.6%	23.2%
Valuation				
FCFF yield	0.6%	9.3%	7.3%	8.6%
Dividend yield	1.6%	0.0%	0.0%	0.0%
EV/Revenue	6.3	4.0	3.6	3.1
EV/EBITDA	14.4	7.5	6.4	5.1
Adj. P/E	18.6	10.6	9.9	8.9

Summary Investment Thesis and Valuation

Driven by a strong rebound in construction demand, and limited production growth, the glass industry's fundamentals improved strongly since 2H20 with prices and profitability reaching historical highs. New capacity addition could be low in 2021, and the glass industry's margin should remain at close to the historical high level, driving strong earnings growth.

We derive our June-22 PT of HK\$36 (previous: Dec-21 PT of HK\$27) by using a sum-of-the-parts (SOTP) valuation (methodology unchanged). We first value the ~23% Xinyi Solar equity stake held by Xinyi Glass based at market value, and value the rest of Xinyi Glass's core business at 12x target P/E (vs. 11x previously), close to the high end of the historical trading range to reflect near-term supply tightness.

Performance Drivers

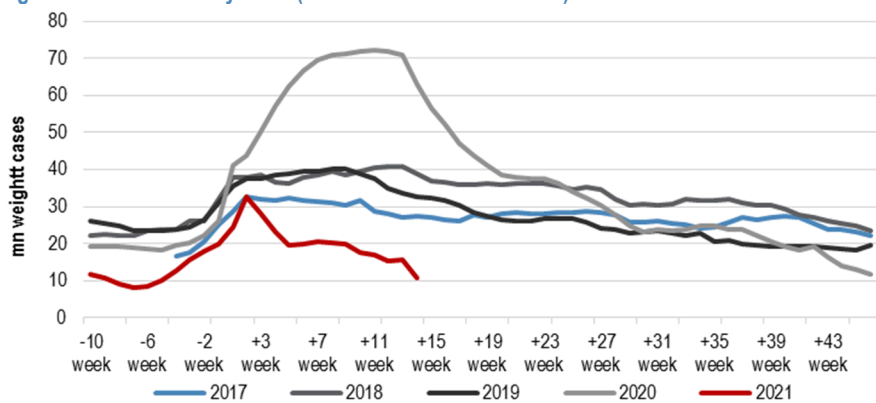


Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.44	0.41
Region: China	-0.04	-0.04
Macro:		
JPM China A-shares Sentiment	-0.25	-0.32
Generic 1st 'CO' Future	0.16	0.23
JPM Global Equity Sentiment	-0.18	-0.18
Quant Styles:		
LowVol	-0.24	-0.24
Growth	0.24	0.21
Value	-0.21	-0.17

Tight float glass supply supports high price

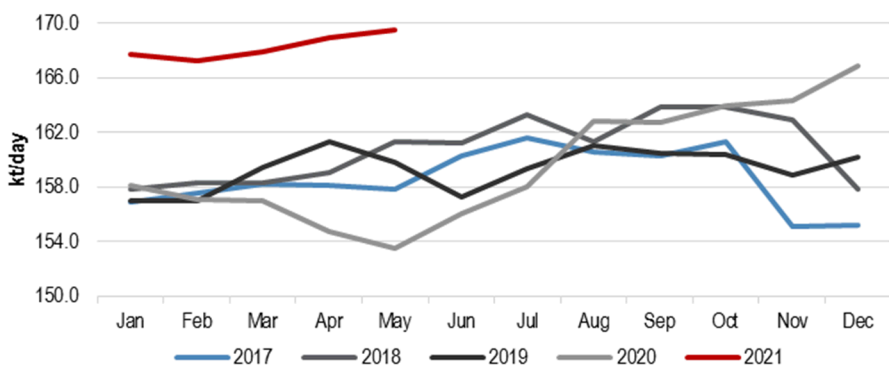
Domestic float glass market has been growing strongly despite a slight correction in North China. Inventory has continued to drop. Although glass operating capacity is at a historical high of 169kt/day (+10% YoY), glass shortage has remained under tight supply and hence the price has been extending its upward momentum to Rmb2,847/t. Regional production and price have kept increasing, while orders are full. Operation rate of major glass producers has been high. SCI expects float glass price to further surge to Rmb2,856/t, supported by tight supply in the near term.

Figure 1: Glass inventory trend (weeks before and after CNY)



Source: SCI, J.P. Morgan

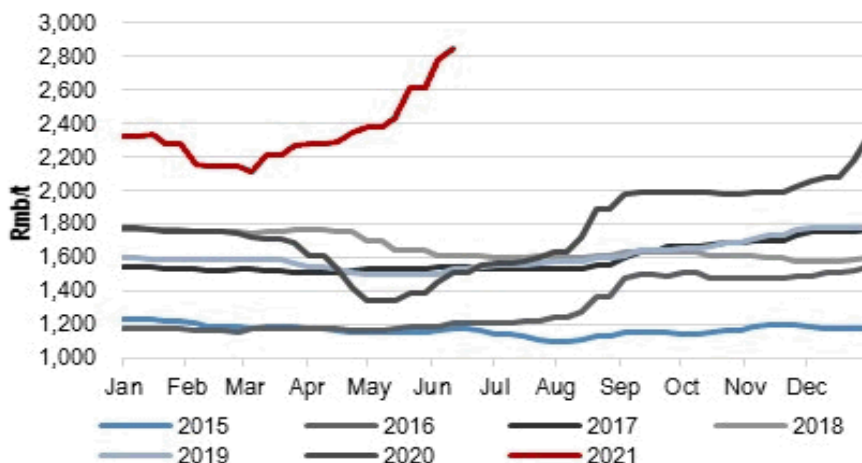
Figure 2: China Glass – operating capacity



Source: SCI, J.P. Morgan

Going forward, we expect supply tightness to continue, which could further drive float glass price up. According to SCI, capacity expected to ramp up this year is 7kt/day (including 1.6kt/day which was already ramped-up), accounting for only 4% of current operating capacity and 82% of capacity ramp-up in 2020 (8.53kt/day). As suggested from the declining inventory in recent weeks, end demand should grow at a much faster rate than capacity. We believe this could provide solid support to glass price in 2H21.

Figure 3: Average float glass spot prices in China



Source: Bloomberg Finance L.P., NBS, J.P. Morgan

Management buyback shows strong confidence

Management of Xinyi Glass has been aggressively buying back shares since March. YTD, the total number of shares buyback was 29.078mn, accounting for 1% of total shares outstanding. Major shareholders involved in the buyback include 1) Tung Ching Sai, the Group's CEO and Executive Director, 2) Lee Yin Yee, the Group's Chairman, and 3) Tung Ching Bor, the Group's Vice-Chairman and Executive Director. The buyback showed management's confidence in Xinyi Glass's prospects and, indeed, Xinyi Glass's stock price has been stably going up since March, riding on the commodity super-cycle while showing less fluctuation vs. other commodity sub-sectors, e.g. steel and coal.

Table 1: Buyback summary of major shareholders

Shareholder	Title	No. of shares bought back YTD	No. of shares interested	% of issued voting shares
TUNG Ching Sai	CEO and Executive Director	14,056,000	471,366,579	12%
LEE Yin Yee	Chairman	11,458,000	928,637,552	23%
LI Ching Wai	Non-Executive Director	200,000	171,416,868	4%
TUNG Ching Bor	Vice-Chairman and Executive Director	2,364,000	357,852,456	9%
SZE Nang Sze	Non-Executive Director	1,000,000	168,054,781	4%

Source: Company announcement, J.P. Morgan

Table 2: Xinyi Glass management buyback schedule

Shareholder	No. of shares bought	Average price per share (HKD)	Date
LEE Yin Yee	500,000	23.655	3/2/2021
LEE Yin Yee	1,298,000	23.564	3/2/2021
TUNG Ching Sai	1,002,000	23.138	3/3/2021
LEE Yin Yee	2,000,000	22.247	3/4/2021
TUNG Ching Bor	344,000	21.905	3/4/2021
TUNG Ching Sai	1,260,000	22.060	3/4/2021
LEE Yin Yee	26,000	20.800	3/5/2021
TUNG Ching Bor	1,000,000	21.488	3/5/2021
LEE Yin Yee	500,000	21.800	3/8/2021
TUNG Ching Sai	1,500,000	21.495	3/9/2021
TUNG Ching Sai	326,000	24.852	3/17/2021
TUNG Ching Sai	462,000	24.641	3/18/2021
LEE Yin Yee	44,000	24.500	3/19/2021
LEE Yin Yee	1,500,000	24.397	3/24/2021
TUNG Ching Bor	458,000	23.550	3/24/2021
TUNG Ching Sai	1,500,000	23.558	3/24/2021
TUNG Ching Bor	222,000	23.900	3/26/2021
TUNG Ching Sai	436,000	25.360	4/1/2021
LEE Yin Yee	326,000	24.900	4/9/2021
TUNG Ching Sai	282,000	25.829	4/9/2021
LEE Yin Yee	500,000	25.000	4/12/2021
TUNG Ching Sai	456,000	24.962	4/12/2021
TUNG Ching Sai	856,000	25.500	4/20/2021
TUNG Ching Sai	1,000,000	26.646	4/29/2021
LEE Yin Yee	168,000	26.980	4/30/2021
LEE Yin Yee	1,000,000	25.438	5/3/2021
SZE Nang Sze	1,000,000	25.562	5/3/2021
TUNG Ching Sai	1,706,000	25.950	5/3/2021
LEE Yin Yee	214,000	25.372	5/4/2021
TUNG Ching Sai	1,000,000	25.662	5/4/2021
LEE Yin Yee	1,258,000	25.946	5/5/2021
TUNG Ching Sai	152,000	26.200	5/10/2021
LI Ching Wai	200,000	26.000	5/13/2021
TUNG Ching Bor	340,000	26.029	5/13/2021
LEE Yin Yee	124,000	26.700	5/17/2021
TUNG Ching Sai	774,000	27.897	5/18/2021
LEE Yin Yee	2,000,000	26.970	5/20/2021
TUNG Ching Sai	344,000	27.852	5/24/2021
TUNG Ching Sai	1,000,000	27.801	5/25/2021

Source: Company announcement, J.P. Morgan

Investment Thesis, Valuation and Risks

Xinyi Glass (Overweight; Price Target: HK\$36.00)

Investment Thesis

Driven by a strong rebound in construction demand and limited production growth, the glass industry's fundamentals improved strongly since 2H20 with prices and profitability reaching historical highs. New capacity addition could be low in 2021, and the glass industry's margin should remain at close to the historical high level, driving strong earnings growth.

Valuation Methodology

We derive our June-22 PT of HK\$36 by using a sum-of-the-parts (SOTP) valuation. We first value the ~23% Xinyi Solar equity stake held by Xinyi Glass based on market value, and value the rest of Xinyi Glass's core business at 12x target P/E, close to the high end of the historical trading range to reflect near-term supply tightness.

SOTP valuation for Xinyi Glass	
Equity stake in XY Solar	
XYs market cap (HK\$ mn)	121,944
Equity value of 22.9% stake in XYs (HK\$ mn)	27,925
Main glass businesses	
Forward NP ex-XYs (HK\$ mn)	9,871
Target PE multiple	12.0x
Equity value of main business (HK\$ mn)	118,447
Total SH Equity value (HK\$ mn)	146,372
No. of outstanding shares	4,027
Implied fair value of XYG share (HK\$/shr)	36

Risks to Rating and Price Target

Downside risks include: (1) a fall in Xinyi Solar's shares (Xinyi Glass holds ~23% stake), which account for about one-third of the company's valuation; (2) deterioration of float glass margin due to industry capacity expansion, especially in Southern and Eastern China markets; (3) quicker-than-expected capacity commissioning that causes oversupply concerns as industry fundamentals trough out; (4) resumption of trade frictions that slows down and increases the costs of Xinyi's overseas expansion; and (5) stagnant property sales that lead to a slowdown in glass installation demand.

Xinyi Glass (0868): Summary of Financials

Income Statement						Cash Flow Statement					
	FY19A	FY20A	FY21E	FY22E	FY23E	FY19A	FY20A	FY21E	FY22E	FY23E	
Revenue	16,258	18,616	26,944	26,958	28,555	Cash flow from operating activities	3,779	4,504	13,204	13,351	14,956
COGS	(10,375)	(10,844)	(12,415)	(11,661)	(11,714)	o/w Depreciation & amortization	1,072	1,168	1,380	1,491	1,735
Gross profit	5,883	7,771	14,529	15,297	16,840	o/w Changes in working capital	66	(1,402)	568	(175)	(223)
SG&A	(2,632)	(2,763)	(4,073)	(4,075)	(4,317)	Cash flow from investing activities	(2,058)	(3,638)	(2,200)	(4,709)	(4,709)
Adj. EBITDA	5,496	8,199	14,318	15,275	17,088	o/w Capital expenditure	(3,100)	(3,773)	(2,200)	(4,709)	(4,709)
D&A	(1,072)	(1,168)	(1,380)	(1,491)	(1,735)	as % of sales	19.1%	20.3%	8.2%	17.5%	16.5%
Adj. EBIT	4,424	7,031	12,938	13,784	15,353	Cash flow from financing activities	(1,136)	(1,025)	630	630	630
Net Interest	(182)	(155)	(108)	(66)	(30)	o/w Dividends paid	(2,084)	(1,892)	0	0	0
Adj. PBT	5,016	7,330	12,830	13,718	15,323	o/w Shares issued/(repurchased)	112	117	0	0	0
Tax	(533)	(899)	(1,574)	(1,682)	(1,879)	o/w Net debt issued/(repaid)	837	751	630	630	630
Minority Interest	(5)	(9)	(8)	(8)	(9)	Net change in cash	499	147	11,634	9,272	10,878
Adj. Net Income	4,478	6,422	11,248	12,027	13,434	Adj. Free cash flow to firm	679	731	11,004	8,642	10,247
Reported EPS	1.11	1.59	2.79	2.99	3.34	y/y Growth	(71.4%)	7.7%	1404.5%	(21.5%)	18.6%
Adj. EPS	1.11	1.59	2.79	2.99	3.34						
DPS	0.52	0.47	0.00	0.00	0.00						
Payout ratio	46.5%	29.6%	0.0%	0.0%	0.0%						
Shares outstanding	4,018	4,042	4,024	4,024	4,024						
Balance Sheet						Ratio Analysis					
	FY19A	FY20A	FY21E	FY22E	FY23E	FY19A	FY20A	FY21E	FY22E	FY23E	
Cash and cash equivalents	5,098	5,245	16,879	26,151	37,028	Gross margin	36.2%	41.7%	53.9%	56.7%	59.0%
Accounts receivable	1,714	3,232	3,987	4,174	4,408	EBITDA margin	33.8%	44.0%	53.1%	56.7%	59.8%
Inventories	2,045	2,496	2,621	2,633	2,644	EBIT margin	27.2%	37.8%	48.0%	51.1%	53.8%
Other current assets	1,449	1,968	1,968	1,968	1,968	Net profit margin	27.5%	34.5%	41.7%	44.6%	47.0%
Current assets	10,305	12,941	25,454	34,925	46,048	ROE	22.7%	26.4%	33.6%	26.6%	23.2%
PP&E	14,203	17,142	17,962	21,179	24,153	ROA	13.0%	15.8%	21.7%	18.6%	17.2%
LT investments						ROCE	13.1%	17.4%	25.0%	21.0%	19.0%
Other non current assets	11,746	14,988	14,988	14,988	14,988	SG&A/Sales	16.2%	14.8%	15.1%	15.1%	15.1%
Total assets	36,254	45,071	58,404	71,092	85,189	Net debt/Equity	0.3	0.2	NM	NM	NM
Short term borrowings	4,459	3,779	3,985	4,191	4,397	Net debt/EBITDA	1.0	0.8	NM	NM	NM
Payables	3,349	3,917	5,364	5,387	5,410	Sales/Assets (x)	0.5	0.5	0.5	0.4	0.4
Other short term liabilities	613	998	998	998	998	Assets/Equity (x)	1.7	1.7	1.5	1.4	1.4
Current liabilities	8,422	8,694	10,347	10,576	10,805	Interest cover (x)	30.2	52.9	132.7	231.0	577.3
Long-term debt	6,350	7,795	8,219	8,644	9,068	Operating leverage	(104.6%)	406.5%	187.7%	12775.8%	192.2%
Other long term liabilities	555	609	609	609	609	Tax rate	10.6%	12.3%	12.3%	12.3%	12.3%
Total liabilities	15,327	17,098	19,175	19,828	20,482	Revenue y/y Growth	1.5%	14.5%	44.7%	0.1%	5.9%
Shareholders' equity	20,846	27,882	39,130	51,157	64,591	EBITDA y/y Growth	(0.0%)	49.2%	74.6%	6.7%	11.9%
Minority interests	81	92	99	108	117	EPS y/y Growth	6.1%	42.6%	75.9%	6.9%	11.7%
Total liabilities & equity	36,254	45,071	58,404	71,092	85,189						
BVPS	5.19	6.92	9.72	12.70	16.04	Valuation					
y/y Growth	11.2%	33.5%	40.3%	30.7%	26.3%	P/E (x)	26.5	18.6	10.6	9.9	8.9
Net debt/(cash)	5,712	6,329	(4,674)	(13,316)	(23,564)	P/BV (x)	5.7	4.3	3.0	2.3	1.8
						EV/EBITDA (x)	21.8	14.4	7.5	6.4	5.1
						Dividend Yield	1.8%	1.6%	0.0%	0.0%	0.0%

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

Note: HK\$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

Other Companies Discussed in This Report (all prices in this report as of market close on 17 June 2021)

Xinyi Solar (0968)(0968.HK/HK\$13.74/N)

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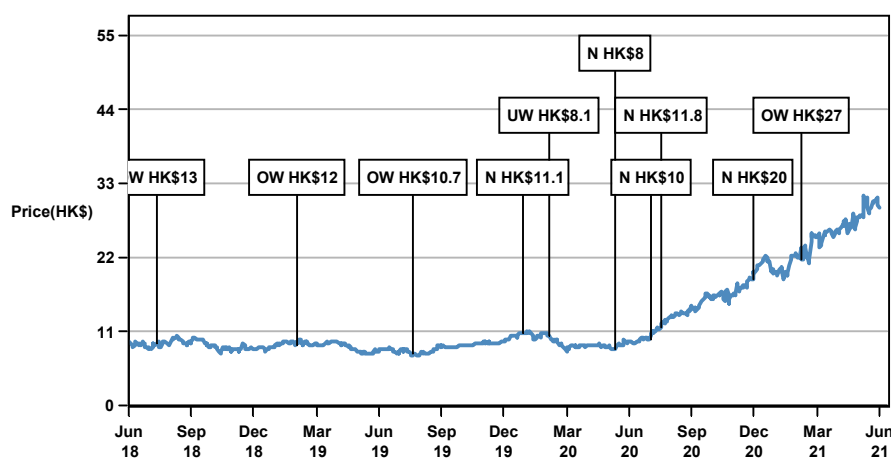
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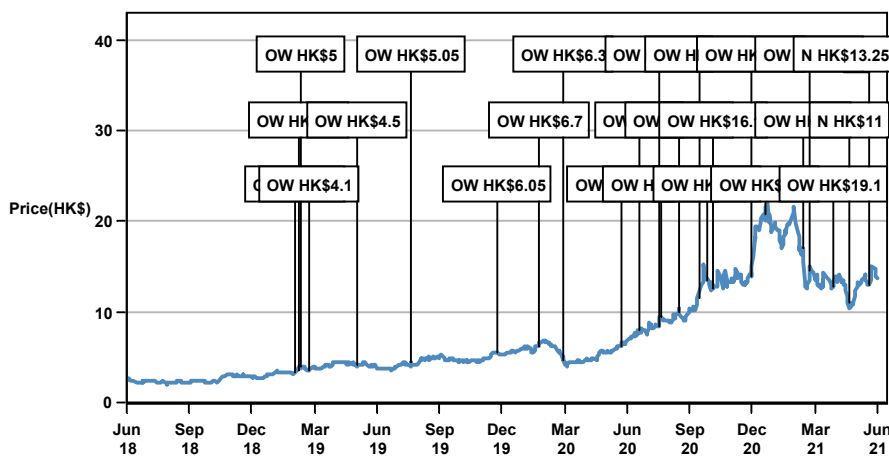
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Xinyi Glass (0868) (0868.HK, 868 HK) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Nov 20, 2006. All share prices are as of market close on the previous business day.

Xinyi Solar (0968) (0968.HK, 968 HK) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Dec 12, 2013. All share prices are as of market close on the previous business day.

Date	Rating	Price (HK\$)	Price Target (HK\$)
19-Feb-19	OW	3.23	3.6
25-Feb-19	OW	3.60	4.3
01-Mar-19	OW	3.86	5
11-Mar-19	OW	3.46	4.1
20-May-19	OW	4.13	4.5
09-Aug-19	OW	4.36	5.05
10-Dec-19	OW	5.44	6.05
12-Feb-20	OW	6.18	6.7
17-Mar-20	OW	4.72	6.3
09-Jun-20	OW	6.28	7.05
07-Jul-20	OW	7.95	9
04-Aug-20	OW	8.37	9.55
06-Aug-20	OW	9.50	10.45
02-Sep-20	OW	10.00	11.5
30-Sep-20	OW	11.44	13.7
13-Oct-20	OW	13.38	16.6
23-Oct-20	OW	12.58	16.1
17-Dec-20	OW	13.94	18.8
05-Jan-21	OW	20.65	23.9
02-Mar-21	OW	17.06	24
12-Mar-21	OW	14.52	20.3
16-Apr-21	OW	12.76	19.1
07-May-21	N	11.08	11
08-Jun-21	N	13.10	13.25

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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