

Analyst: Kelvin Li

XINYI GLASS HOLDINGS LIMITED (信義玻璃)

Sector	: Materials	Chairman	: LEE Yin Yee, M. H.
HKSE Code	: 00868		
Market Price	: HK\$6.84 (27/02/2014)		
HSI	: 22,828.18 (27/02/2014)		
Shares Issued	: 3,920.1 million		
Mkt. Cap.	: HK\$26,814 million		
52 weeks Hi/ Lo	: HK\$8.62 / HK\$5.04		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2013
Final Results Highlights

	FY2013	FY2012	
	<u>HK\$ million</u>	<u>HK\$ million</u>	<i>Change</i>
From Continuing Operations*			
• Revenue	9,936	8,433	+17.8%
• Gross profit	3,137	2,227	+40.9%
• Gain on spin-off of Xinyi Solar (00968)*	1,315	-	N/A
• Operating profit	3,665	1,295	+183.1%
• Attributable profit to shareholders	3,245	1,061	+205.7%
As reported	<u>HK\$</u>	<u>HK\$</u>	
• EPS – basic	0.8910	0.3140	+183.8%
• DPS – interim	0.1300	0.0600	+116.7%
• DPS – final	0.1400	0.0900	+55.6%
• DPS – total	0.2700	0.1500	+80.0%

Remark: (*) The Group spun off Xinyi Solar (00968) by way of introduction to list on HKEx in December 2013. Following the separate listing, the Group's interest in Xinyi Solar fell to 31.2% from the original 100%. The solar glass segment was reclassified as 'Discontinued Operations' and Xinyi Solar is regarded as an associate going forward.

- Xinyi Glass (the 'Group') reported a strong 205.7% y-o-y jump in net profit to HK\$3.2 billion from its continuing operations for the year ended 31st December 2013, thanks to reviving demand and product prices of float glass on the Mainland since Q2 2013 as well as gain on the spin-off of its solar glass unit Xinyi Solar (00968).
- Revenue (from Continuing Operations) grew 17.8% y-o-y to HK\$9.9 billion in FY13, supported by reviving sales of float glass as well as strong sales of its Low-E (low emission) construction glass products.
- Cost of sales amounted to HK\$6.8 billion in FY13, up 9.6% y-o-y. As a result, the Group's gross profit rose sharply by 40.9% y-o-y to HK\$3.1 billion in FY13, with gross profit margin strengthening to 31.6% in FY13 from 26.4% a year earlier.
- In FY13, the Group received government grants of HK\$317.5 million, compared with HK\$71.2 million a year earlier. In addition, the Group recorded gain from the spin-off of Xinyi Solar (HK\$1.3 billion) as well as a number of non-recurring/exceptional gains like foreign exchange gain, revaluation gain on investment properties, etc. Excluding these non-recurring items, the Group's adjusted operating profit increased by 60.2% from a year earlier.

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- EPS for FY13 (from both Continuing and Discontinued Operations) was HK\$0.891 (FY12: HK\$0.314). A final dividend of HK\$0.14 per share was proposed, bringing the full-year payout ratio at 30% (FY12: 48%).
- As at 31st December 2013, the Group had total debts of HK\$5.1 billion (31st Dec 2012: HK\$4.3 billion). With cash on hand of HK\$1.0 billion, the Group's net debt-to-shareholders' equity ratio stood at 33.6% as at the end of 2013, compared with 35.8% a year earlier.

Business highlights

- Breakdown of **total revenue** (including both internal and external sales) by business segments:

	FY2013		FY2012		Change
	HK\$ million	%	HK\$ million	%	
Float glass	5,730.1	51.3%	4,808.8	50.8%	+19.2%
Automobile glass	3,287.2	29.4%	3,077.8	32.5%	+6.8%
Construction glass	2,154.5	19.3%	1,574.6	16.6%	+36.8%
Total	11,171.8	100.0%	9,461.3	100.0%	+18.1%

- Breakdown of **gross profit** by business segments:

	FY2013		FY2012		Change
	HK\$ million	%	HK\$ million	%	
Float glass	853.8	27.2%	324.8	14.6%	+162.8%
Automobile glass	1,423.7	45.4%	1,316.9	59.1%	+8.1%
Construction glass	859.6	27.4%	585.1	26.3%	+46.9%
Total	3,137.0	100.00%	2,226.8	100.00%	+40.9%

- Breakdown of **gross profit margin** (based on total revenue) by business segments:

	FY2013		FY2012		Change
Float glass	14.9%		6.8%		+8.1 pts
Automobile glass	43.3%		42.8%		+0.5 ppt
Construction glass	39.9%		37.2%		+2.7 pts
Total	28.1%		23.5%		+4.5 pts

- Total sales of **float glass** increased 19.2% y-o-y to HK\$5.7 billion in 2013, while external sales grew 18.9% y-o-y. Supported by reviving product prices during Q2-Q3 2013, gross profit of the segment rebounded sharply by 162.8% y-o-y to HK\$853.8 million in FY13, while its gross profit margin bounced back to 14.9% in FY13 from 6.8% a year earlier. For the second half, gross profit of the segment amounted to HK\$496 million, up by 38.7% h-o-h.
- Sales of **automobile glass** grew 6.8% y-o-y in FY13. Gross profit of the segment surged 8.1% y-o-y to HK\$1.4 billion in FY13, accounting for 45.4% (FY12: 59.1%) of the Group's total. Gross profit margin remained stable at 43.3%, little changed from 42.8% a year earlier.
- Driven by robust sales of environmental-friendly Low-E glass products, the **construction glass** segment registered solid top-line growth of 36.8% y-o-y in FY13. As a result, the segment's gross profit grew strongly by 46.9% y-o-y to HK\$860 million in FY13, accounting for 27.4% (FY12: 26.3%) of the Group's total. Thanks to good demand for the Low-E glass products, gross profit margin strengthened by 2.7 percentage points to 39.9% from 37.2% a year earlier.
- The Group's 31.2%-owned **solar glass** unit Xinyi Solar (00968) reported 153% y-o-y jump in net profit on a 28% top-line growth in 2013, thanks to recovering selling prices and change in product mix.

**Outlook & Prospects**

- **Strong capacity growth seen in 2014** Xinyi Glass has outlined its capacity expansion plan for 2014. Upon completion of the existing development projects, the Group is expected to see strong growth in the production capacity of float glass and Low-E construction glass this year.

	2014 Target Capacity	Existing capacity	% Change
Float glass (daily melting tonnes)	4.483 million	3.522 million	+27.3%
Automobile glass (annual)	15.8 million pieces	14.4 million pieces	+10.1%
Construction glass (Low-E)	28.0 million sq. m.	20.0 million sq. m.	+40.0%

- **Potential market share gain amid industry reform** The Ministry of Industry and Information Technology (MIIT) said it will halt approval for new flat glass projects until 2017. In addition, the MIIT will also push forward industry reform by phasing out obsolete production facilities. MIIT said it will impose 'punitive' power and water tariffs over glass production using coal or other dirty power sources. According to management, all of the Group's float-glass production lines have been powered by natural gas since 2012. With the Chinese government's tight control over new glass capacity and good demand for the Group's high-quality and energy saving products like Low-E construction glass, the Group is expected to gain share in the PRC glass industry in the next few years.
- **Strong order momentum in Q1** Despite seasonal lows in the first quarter, management mentioned that the Group has recorded 'better than normal' orders for its float/construction glass since the start of the year. Management is optimistic about the operating environment in 2014 with expectations of strong demand for its energy-saving products, contained production costs, revived product prices as well as better profit margins this year.
- **Undemanding valuation** Excluding gain on the spin-off of Xinyi Solar and other one-off items, Xinyi Glass posted strong earnings growth of 60% y-o-y, thanks to better product prices and higher operating efficiency. The Group's strive to produce high-quality and energy saving products is expected to pay off in the next couple of years, amid the Chinese government's efforts in tackling overcapacity and wiping out old/obsolete production facilities. Trading at an undemanding 10.9x FY2014E P/E, we keep a 'HOLD' rating at Xinyi Glass.

Recommendation: HOLD

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