

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\$4.76 (24/07/2014)		
HSI	: 24,141.50 (24/07/2014)		
Shares Issued	: 3,921.6 million		
Mkt. Cap.	: HK\$18,667 million		
52 weeks Hi/ Lo	: HK\$8.62 / HK\$4.50		

**SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE 2014**
**Interim Results Highlights**

	<b>1H2014</b>	<b>1H2013</b>	
	<u>HK\$ million</u>	<u>HK\$ million</u>	<i>Change</i>
<b>From Continuing Operations*</b>			
• Revenue	5,034	4,574	+10.1%
• Gross profit	1,337	1,471	-9.1%
• Operating profit	844	1,121	-24.7%
• <b>Attributable profit to shareholders</b>	<b>762</b>	<b>912</b>	<b>-16.5%</b>
<b>As reported</b>	<u>HK\$</u>	<u>HK\$</u>	
• EPS – basic	0.1943	0.2648	-26.6%
• DPS – interim	0.0900	0.1300	-30.8%

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 24.1% y-o-y decline in net profit to HK\$762 million for the six months ended 30<sup>th</sup> June 2014, in line with its warning of a 25% interim earnings drop (announced in early June). For its Continuing Operations, net profit was down by 16.5% from a year earlier, owing to weak float glass prices amid a slowdown in the PRC property construction market.
- Revenue (from Continuing Operations) grew 10.1% y-o-y to HK\$5.0 billion in the first half, supported by better demand for the Group's environmental-friendly Low-E (low emission) construction glass products.
- Cost of sales amounted to HK\$3.7 billion in 1H14, up 19.2% y-o-y. As a result, the Group's gross profit (from Continuing Operations) fell 9.1% y-o-y to HK\$1.3 billion, with gross profit margin slipping to 26.6% from 32.2% a year earlier.
- In 1H14, the Group's administrative expenses rose 14.1% to HK\$472 million, owing to higher staff costs on increase in fair value of share options granted to employees. Overall, the Group's operating profit fell 24.7% y-o-y to HK\$844 million in the first half.
- EPS for 1H14 was HK\$0.1943 (1H13: HK\$0.2648). An interim dividend of HK\$0.09 per share was declared, representing a payout ratio of 46% (1H13: 49%).
- As of 30<sup>th</sup> June 2014, the Group had total debts of HK\$5.2 billion (31<sup>st</sup> Dec 2013: HK\$5.1 billion). With cash on hand of HK\$895 million, the Group's net debt-to-shareholders' equity ratio stood at 34.7% as at the end of 1H14, up slightly from that of 33.6% by end of 2013.

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**Business highlights (From Continuing Operations)**

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

	1H2014		1H2013		Change
	HK\$ million	%	HK\$ million	%	
Float glass	2,860.3	50.0%	2,570.7	49.8%	11.3%
Automobile glass	1,780.6	31.1%	1,608.6	31.2%	10.7%
Construction glass	1,078.8	18.9%	980.8	19.0%	10.0%
<b>Total</b>	<b>5,719.7</b>	<b>100.0%</b>	<b>5,160.1</b>	<b>100.0%</b>	<b>10.8%</b>

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

	1H2014		1H2013		Change
	HK\$ million	%	HK\$ million	%	
Float glass	187.6	14.0%	357.6	24.3%	-47.5%
Automobile glass	750.5	56.1%	709.2	48.2%	5.8%
Construction glass	398.8	29.8%	404.7	27.5%	-1.4%
<b>Total</b>	<b>1,336.9</b>	<b>100.00%</b>	<b>1,471.5</b>	<b>100.00%</b>	<b>-9.1%</b>

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

	1H2014	1H2013	Change
	%	%	
Float glass	6.6%	13.9%	-7.4 ppt
Automobile glass	42.1%	44.1%	-1.9 ppt
Construction glass	37.0%	41.3%	-4.3 ppt
<b>Total</b>	<b>23.4%</b>	<b>28.5%</b>	<b>-5.1 ppt</b>

- Total sales of **float glass** increased 11.3% y-o-y to HK\$2.9 billion in the first half, while external sales grew 9.6% y-o-y. Owing to sluggish float glass prices on economic slowdown on the Mainland, the segment's gross profit tumbled sharply by 47.5% y-o-y to HK\$188 million, while gross profit margin slashed by more than half to 6.6% in 1H14 from 13.9% a year earlier.
- Sales of **automobile glass** grew 10.7% y-o-y in 1H14, driven by good overseas sales. Gross profit of the segment surged 5.8% y-o-y to HK\$750.5 million in 1H14, accounting for 56.1% (1H13: 48.2%) of the Group's total. Gross profit margin remained stable at 42.1%, compared with 44.1% a year earlier.
- Good demand for the Group's environmental-friendly Low-E glass products helped lift sales of the **construction glass** segment. Revenue of the segment rose 10.0% y-o-y to HK\$1.1 billion. Gross profit dipped 1.4% to HK\$399 million, representing 29.8% (1H13: 27.5%) of the Group's total.

**Outlook & Prospects**

- Conservative outlook in 2H14** Management said the outlook for its float glass business remains challenging and profit margin depression would linger in 2H14 on continued overcapacity and slower-than-expected industry consolidation. Nevertheless, the Group's core automobile glass and construction glass (with the popular low-E products) would help weather weakness in the float glass operation and continued capacity expansion should bode well for its top-line in the next couple of years. Trading at a fair 9.3x FY14E P/E and expected dividend yield over 4%, we maintain a 'HOLD' rating on the counter.

**Recommendation: HOLD**

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