

Company Report

Xinyi Glass (0868 HK) & Xinyi Solar (0968 HK)

NOT RATED

Company Research

Favorable Environment for Promising Performance**Xinyi Glass Recorded 4.9% YoY Sales Growth**

Xinyi Glass (XYG) recorded a 4.9% YoY growth in revenue to HK\$5,282mn for 1H 2015. Gross profit rose by 5.5% to HK\$1,409mn with 26.7% gross profit margin. Net profit increased by 24.1% to HK\$944mn with net profit margin at 17.9%, contributed by the increase in profit of Xinyi Solar, the associated company of XYG.

Favorable Government Policies Benefiting XYG

National Development and Reform Commission's adjustment on natural gas price has been effective from 1 April 2015, since natural gas is the major cost of XYG, its gross profit margin had slightly improved in 1H 2015. In the meantime, the Chinese government is taking measures to tackle the problem of overcapacity in float glass industry, and aiming to consolidate the industry. We believe that XYG will benefit from these policies and its float glass segment will continue to recover.

Xinyi Solar Continued to Shine

Xinyi Solar (XYS) recorded a strong growth in turnover for the 1H 2015, by 106.5%, amounted to HK\$2,053mn. Gross profit rose 125% to HK\$754mn, while net profit skyrocketed 200.1% to HK\$601mn. Gross and net profit margin were 36.7% and 29.3%, increased by 3ppt and 9.2ppt, respectively.

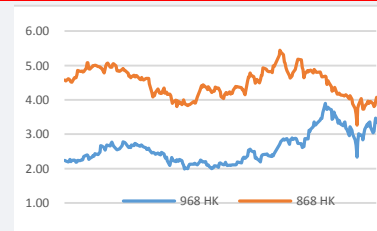
Further Development in Solar Farm

Xinyi Energy Limited will be the holding company of XYS's solar farm projects. In the mid run, management is planning for a spin-off. Management guidance is that the preliminary stage of funding for development is capital injection, either by investors, both existing and new, and bank loans.

Key Data

Xinyi Glass (0868 HK)	
Price as at 31JUL (HK\$)	4.07
12-Month Price Target (HK\$)	n/a
Market Cap (HK\$ bn / US\$ bn)	15.9 / 2.0
Public Float	n/a
Xinyi Solar (0968 HK)	
Price as at 31JUL (HK\$)	3.34
12-Month Price Target (HK\$)	n/a
Market Cap (HK\$ bn / US\$ bn)	21.9 / 2.8
Public Float	n/a

Price Performance Chart

**Xinyi Glass (0868 HK)**

Share Price Performance (%)	3 M	6 M	12 M
Absolute	-21.4	-0.5	-11.1
Relative to HSI	-9.0	-1.0	-10.7

Source: Bloomberg

Xinyi Solar (0968 HK)

Share Price Performance (%)	3 M	6 M	12 M
Absolute	22.3	55.4	49.1
Relative to HSI	34.8	54.8	49.6

Source: Bloomberg

Ervin Lau
 (852) 2159 – 4505
 Ervin.lau@hooraysec.com.hk

Xinyi Glass Results Highlights

Xinyi Glass (XYG) recorded a 4.9% YoY growth in revenue to HK\$5,282mn for 1H 2015. Gross profit rose by 5.5% to HK\$1,409mn with 26.7% gross profit margin. Net Profit increased by 24.1% to HK\$944mn while net profit margin at 17.9%, contributed by the increase in profit of Xinyi Solar, the associated company of XYG. Basic earnings per share were 24.1HK cents. The company recommended an interim dividends of 9.5 HK cents, with a dividend payout ratio of 39.4%.

All business segments reported growth in the 1H 2015. Despite slow growth, float glass remained as the largest business segment, recorded HK\$2,179mn in revenue which accounted for 41.3% of total revenue, and its gross profit margin went up to 8.7% versus only 5.6% in 2H 2014. Due to the slowdown of construction in China, the gross profit from construction glass dropped 4% to HK\$382mn, while gross profit margin also dived 5.3% to 31.7%, although it recorded 11.8% growth in revenue. Automobile glass remained as the driving force of XYG, thanks to the growing in number of vehicles and demand of aftermarket automobile glass, the revenue from this segment grew 6.5% to HK\$1,897mn with 44.1% gross profit margin contribution.

Favorable Government Policies Benefiting XYG

National Development and Reform Commission's adjustment on natural gas price has been effective from 1 April 2015, since natural gas is the major cost of XYG, its gross profit margin had slightly improved in 1H 2015. In the meantime, the Chinese government is taking measures to tackle the problem of overcapacity in float glass industry, and aiming to consolidate the industry. Several measures had been implemented, including raising the requirement for new production lines, phasing out outdated production lines by imposing higher environmental standards on emission. Furthermore, 20mn tonnes per day of float glass capacity is expected to eliminate by the end of 2015. To sum up, as one of the largest float glass producer in the world, we believe that XYG will benefit from these policies and its float glass segment will continue to recover.

Increasing Market Share in Aftermarket Automobile Glass

Total number of vehicles in the world continues to grow in 2015, and it is estimated that it will increase by 3.5% to reach 1.24bn units. High demand in the aftermarket and OEM products contributed to automobile glass' performance, especially in North America market, which recorded a YoY increase of 26.8%. Management is confident that growing demand in aftermarket automobile glass will continue, and they expected that production of automobile glass will increase 10% in the 2H 2015. With better profitability and more stable income than other segments, together with rising demand in OEM and aftermarket market, automobile glass segment will be the main contributor of FY2015 performance.

Construction Glass Segment Looking for Bounce Back

Restrictive policies on property market not only hinder the growth of the properties developer, but also construction glass producer. Although XYG's revenue in this segment rose 11.8%, gross profit dived 4% with 5.3ppt dropped in the gross profit margin, which hurt the overall gross profit margin. However, the government is recently easing the restrictive policy and implementing other favorable policies such as cut in interest rate, property market is hoping for a bounce back in 2H 2015. Together with the growing demand in Low-E construction glass due to environmental concerns, this segment is looking forward to the opportunity to rally in the 2H 2015.

Xinyi Solar Results Highlights

Xinyi Solar's (XYS) revenue grew to HK\$2,053mn, an impressive YoY growth of 106.5%. Gross profit rose 125% to HK\$754mn, while net profit skyrocketed 200.1% to HK\$601mn. Gross and net profit margin were 36.7% and 29.3%, increased 3ppt and 9.2ppt, respectively. Basic earnings per share were 9.43 HK cents. The board declared interim dividends of 4.2 HK cents per share with the dividend payout ratio of 44.5%.

XYS had been diversified its business in 2015. Although several new segments are introduced, solar glass remained as the main source of income for YYS, amounted to 77.9% of the total revenue, compare to 100% last year. New business segment of Engineering Procurement Construction (EPC) service recorded HK\$316mn, 15.4% of the total, while sales of electricity had reached HK\$136mn, with 71.2% gross profit margin.

Solar Farm Investment Started to Contribute

Start from 2014, YYS expanded the downstream business with huge investment in solar farms. 280MW of solar farm had commenced on-grid production between 3Q 2014 and 1Q 2015 and started to contribute in 1H 2015, generated HK\$136mn revenue in 1H 2015. YYS had set a target of operating a total of 1GW solar farm in 2015, and this target is expected to be met, as 754MW solar farm is currently under construction and anticipating to complete in October 2015. In line with the policies of Chinese Government, with ample of cash holding by YYS, more investment in solar farm projects is expected in near future. However, contribution from solar power generation will remain small in percentage in FY2015, but will become a driving force of the revenue in FY2016.

Figure 1: XYS' Solar Farm Projects

Capacity	Location	Status
480MW	Anhui Province	Under construction
174MW	Tianjin	Under construction
100MW	Hubei Province	Under construction
30MW	Fujian Province	Commenced on-grid in 1Q 2015
150MW	Anhui Province	Commenced on-grid in 3Q 2014
100MW	Anhui Province	Commenced on-grid in 4Q 2014

Source: Company

Favorable Policies Promising Profit

Global solar PV module installation is expected to reach 54GW in 2015, while governments in the world also implement favorable policies on solar energy, which lead to a rapid demand of solar module. XYS had expanded its production capacity in 2014 to 3,800 tonnes per day, increased capacity captured the opportunities brought by increasing demand, which lead to 61% increase in sales of solar glass. With 900 tonnes per day capacity new production line in Malaka, Malaysia to be completed in mid 2016, together with improvement of current production line of 500 tonnes per day, XYS is expected to have capacity of 4,800 tonnes per day in 2016. To sum up, profit from this sector is expected to increase in coming years.

New Source of Income - EPC

XYS completed its first EPC contract in 1H 2015 which amounted to HK\$316mn, or 15.4% of the total revenue. As guided by the management, the cost of construction is lower in 1H 2015, with the favorable policies by PRC government, we believe that EPC service segment will continue to grow in the 2H 2015.

Further Development in Solar Farm Business

Xinyi Energy Limited will be the holding company of XYS' solar farm projects. In the mid run, management is planning for a spin-off. Management guidance is that the preliminary stage of funding for development is capital injection, either by investors, both existing and new, and bank loans. Spin-off plan will not be executed until late 2016, three years after the spun off of XYS from XYG. Such decision shows the ambitions and determination to expand in solar energy field, with bund of cash and low gearing ratio for extra funding capacity, XYS is expected to invest in solar farm project actively.

The counters, XYG and XYS, are currently NOT RATED.

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Contact

H. C. Kwan – Head of Research	kwan.hc@hooraysec.com.hk	(852) 2159 – 4506
Ervin Lau – Research Assistant	ervin.lau@hooraysec.com.hk	(852) 2159 – 4505
Research Department	research@hooraysec.com.hk	(852) 2159 – 4500
Hooray Securities Limited 1/F & Unit B, 19/F Guangdong Investment Tower 148 Connaught Road Central Sheung Wan, Hong Kong		
Main :		(852) 2159 – 4500
Customer Services :		(852) 2159 – 4515
Dealing Hotline :		(852) 2159 – 4511
Facsimile :		(852) 2110 – 4044