

**Xinyi Glass Holdings-----Maintain OUTPERFORM**
**On an upswing**
**EPS: ▲ TP: ▲**

Michele Mak, CFA / Research Analyst / 852 2101 6782 / michele.mak@credit-suisse.com

Aaron Yeung / Research Analyst / 852 2101 6200 / aaron.yeung@credit-suisse.com

- Xinyi Glass reported 114% YoY increase in its net profit to HK\$300 mn, on the back of 75% YoY growth in turnover to HK\$1.2 bn. Net margins improved from 20.0% in 1H06 to 24.5% in 1H07. Management attributed the strong earnings growth to (1) successful vertical integration over the past year, (2) much improved glass market/prices, (3) the company's timely capacity expansion, and (4) effective costs controls.
- Going into 2H07, the company's earnings are expected to be further boosted by (1) contribution from three new float glass lines coming on stream in June, August, and October, (2) bus windshield line in 3Q07 and solar-X heat-reflecting auto laminated glass in 1H08, (3) two low-emission coated glass lines in 1H08, and (4) reduction in anti-dumping duty on US exports to 0% starting April 2007.
- We upgraded our FY07 and FY08 net profit forecast by 25% and 28% on the back of the very strong set of 1H07 results. Our target price has been revised up to HK\$13.00 (previously HK\$9.40), based on 33.5x FY07E P/E, or 0.85 2007-2009E PEG. Maintain our OUTPERFORM rating on Xinyi Glass.

Sales of auto glass increased by 52% YoY to HK\$787 mn, accounting for 64% of the company's turnover. Gross margin for auto glass increased from 38.7% in 1H06 to 43.8% in 1H07. Sales of construction glass increased by 44% YoY to HK\$257 mn, accounting for 21% of the company's turnover. Gross margin for construction glass increased from 31.6% in 1H06 to 32.5% in 1H07. Finally, sales of float glass accounted for 15% of the company's turnover. With the two float glass lines only commenced operation in 2H06, gross margin for float glass already reached 35.9% in 1H07.

**Figure 1: Xinyi Glass 1H07 results summary**

HK\$ mn	1H07	1H06	YoY (%)	FY06	FY05	YoY (%)
Revenue	1,224	702	74	1,933	1,381	40
Gross profit	493	255	93	700	479	46
Gross margin (%)	40.2	36.3	3.9	36.2	34.7	1.5
Operating profit	331	145	128	410	279	47
Op. margin (%)	27.0	20.7	6.4	21.2	20.2	1.0
Net profit	300	140	114	388	260	49
Net margin (%)	24.5	20.0	4.6	20.1	18.8	1.2
EPS (HK\$)	0.187	0.09	107	0.246	0.173	42

Source: Company data, Credit Suisse estimates.

**Outlook remains robust**

Going into 2H07, the company's earnings are expected to be further boosted by: (1) contribution from three new float glass lines coming on stream in June, August, and October, (2) bus windshield line in 3Q07 and solar-X heat-reflecting auto laminated glass in 1H08, (3) two low-emission coated glass lines in 1H08, and (4) reduction in anti-dumping duty on US exports from 3.71% to 0% starting April 2007. (Note that US exports accounted for around 30% of the company's 1H07 sales.) Management expects the new float glass lines to make positive earnings contribution immediately after they commence operation. The cut in VAT rebate is expected to have limited impact on margins as the company started to raise prices, in the range of 10-12%, in June 2007. According to management, orders received from customers since the price adjustment continue to be strong and have not been negatively affected. In any case, the future impact of any further cuts in VAT rebate and from the rising renminbi are expected to be significantly reduced as the company increases its proportion of domestic sales. Sales in Greater China are expected to increase from 39% in 1H07 to around 50% in 2H07, and 60% in FY08.

We upgraded our FY07 and FY08 net profit forecast by 25% and 28%, on the back of the very strong set of 1H07 results. (FY07E EPS of HK\$0.39 and FY08E EPS of HK\$0.58.) Our target price has been revised up to HK\$13.00 (previously HK\$9.40), based on 33.5x FY07E P/E, or 0.85 2007-2009E PEG. Maintain OUTPERFORM.

Bbg/RIC	868 HK / 0868.HK	Price (13 Aug 07, HK\$)	8.28		
Rating (prev. rating)	O (O) [V]	TP (HK\$) (prev. TP)	13.00 (9.40)		
Shares outstanding (mn)	1,604.66	Est. pot. % chg. to TP	57		
Daily trad vol-6m avg (mn)	5.5	52-wk range (HK\$)	8.57 - 2.39		
Daily trad val-6m avg (US\$ mn)	4.0	Mkt cap (HK\$/US\$ mn)	13,286.6 / 1,698.5		
Free float (%)	33.8	<b>Performance</b>	<b>1M</b> <b>3M</b> <b>12M</b>		
Major shareholders		Absolute	2.3    49.5    210.1		
		Relative	8.0    43.2    144.9		
<b>Year</b>	<b>12/05A</b>	<b>12/06A</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>
Revenues (HK\$ mn)	1,381	1,933	2,979	4,603	5,763
EBITDA (HK\$ mn)	335	508	839	1,242	1,588
Net profit (HK\$ mn)	260.1	388.2	620.8	927.8	1,213.6
EPS (HK\$)	0.17	0.25	0.39	0.58	0.76
- Change from prev. EPS (%)	n.a.	n.a.	25	28	32
- Consensus EPS (HK\$)	n.a.	n.a.	0.35	0.47	0.58
EPS growth (%)	(19.1)	42.2	57.3	49.5	30.8
P/E (x)	47.8	33.7	21.4	14.3	10.9
Dividend yield (%)	1.0	1.3	2.1	3.2	4.2
EV/EBITDA (x)	40.3	26.7	16.7	11.6	8.7
P/B (x)	7.3	5.9	5.1	4.3	3.5
ROE (%)	14.9	17.3	24.0	30.1	32.4
Net debt/equity (%)	12	11	28	35	13

Note 1: Production and sale of automobile, construction and household glass products and a variety of related products.

**Exceptional growth in 1H07**

Xinyi Glass reported 1H07 results, which were significantly ahead of expectations. The company recorded 114% YoY increase in its net profit to HK\$300 mn, on the back of 75% YoY growth in turnover to HK\$1.2 bn. Gross margins improved from 36.3% in 1H06 to 40.2% in 1H07, while operating margins improved from 20.7% to 27.0%. As a result of the significant operation improvements, net margins improved from 20.0% in 1H06 to 24.5% in 1H07. In a meeting with top management after the results announcement, the company attributed the strong earnings growth to (1) successful vertical integration over the past year, (2) much improved glass market/prices, (3) the firm's timely capacity expansion, and (4) effective costs controls.

**IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS ARE IN THE DISCLOSURE APPENDIX.** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Companies Mentioned** (Price as of 13 Aug 07)  
 Xinyi Glass Holdings Co Ltd (0868.HK, HK\$8.28, OUTPERFORM [V], TP HK\$13.00)

## Disclosure Appendix

### Important Global Disclosures

I, Michele Mak, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for 0868.HK



0868.HK Date	Closing Price Price (HKD)	Target Price Price (HKD)	Rating	Initiation/ Assumption
5-Jul-07	7.94	9.4	OUTPERFORM	X

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

### Analysts' stock ratings are defined as follows\*\*\*:

**Outperform:** The stock's total return is expected to exceed the industry average\* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral:** The stock's total return is expected to be in line with the industry average\* (range of  $\pm 10\%$ ) over the next 12 months.

**Underperform\*\*:** The stock's total return is expected to underperform the industry average\* by 10-15% or more over the next 12 months.

\*The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index).

\*\*In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.

\*\*\*For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions, with a required equity return overlay applied.

**Restricted:** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]:** A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

**Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe\* versus the relevant broad market benchmark\*\*:**

**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.**

**Credit Suisse's distribution of stock ratings (and banking clients) is:**

<b>Global Ratings Distribution</b>		
<b>Outperform/Buy*</b>	44%	(59% banking clients)
<b>Neutral/Hold*</b>	40%	(55% banking clients)
<b>Underperform/Sell*</b>	14%	(50% banking clients)
<b>Restricted</b>	3%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

*See the Companies Mentioned section for full company names.*

**Price Target:** (12 months) for (0868.HK)

**Method:** Our HK\$13.00 target price for Xinyi Glass Holdings is based on 33.5x FY07E price to earnings (P/E), or 0.85x 2007-09E price to earnings to growth (PEG). (FY07E EPS at HK\$0.39) This represents a slight discount to the average of 1x PEG that we use for valuing Chinese auto stocks in general.

**Risks:** Potential risks to our HK\$13.00 target price for Xinyi Glass Holdings include volatility in float glass prices, as this would affect the company's earnings outlook. Also, any sharp drop in float glass prices could have a severely negative impact on both upstream and downstream product sales and margins.

*See the Companies Mentioned section for full company names.*

The subject company (0868.HK) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (0868.HK) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (0868.HK) within the next 3 months.

**Important Regional Disclosures**

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (0868.HK) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683.

Disclaimers continue on next page.

**Disclaimers**

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A.; in Japan by Credit Suisse Securities (Japan) Limited; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse Singapore Branch and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse Taipei Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

Copyright 2007 CREDIT SUISSE and/or its affiliates. All rights reserved.