

Xingda International (1899 HK)

Close to the turning point

We upgrade Xingda to **BUY** from Sell as we see multiple positive factors: (1) Shandong SNTON, a competitor of Xingda, is under restructuring and its radial tire cord output has been severely affected, leaving room for Xingda to gain market share; (2) decline in the price of steel wire rod and LNG since mid-2019 helped drive margin expansion; (3) the utilization rate of tire manufacturers (i.e. Xingda's customer) recovered to 36% last week, up from 9% in early Feb. We reset our earnings forecast in 2019E-21E and lift our TP to HK\$3.44 (based on 11x 2020E P/E). Dividend yield of 8-10% in 2019E-21E is attractive.

- Xingda is gaining market share from Shandong SNTON.** Shandong SNTON (山东胜通) had an annual capacity of radial tire cord of 400k tonnes in 2016, ranked No.3 in China. However, SNTON then dived into financial difficulties and was unable to pay off its debts in 2019. SNTON is now in the restructuring process and, based on our understanding, maintains only a very low level of production. This has provided Xingda, the largest player with 30% market share, with the opportunity to grab more share. Xingda raised its radial tire cord production capacity from 670k tonnes in 2016 to 728k tonnes in 1H19.
- Decline in raw materials cost a key driver.** Steel wire rod is the major raw material cost for the production of radial tire cord, accounting for ~60% of Xingda's total production cost. China steel wire rod price dropped 10% YoY and 9% YoY in 3Q19 and 4Q19 respectively. Besides, LNG (another cost item that accounts for ~2% of production cost) saw 27% and 17% YoY decline in 3Q and 4Q respectively. The favourable price trend enabled Xingda to expand its gross margin as we understand that Xingda successfully limit the ASP cut in 2H19E. We estimate Xingda's gross margin to expand to 20.7% in 2H19E, versus 19.2% in 1H19 and 18.2% in 2H18. We estimate the gross margin per tonne to reach ~RMB1,850 in 2019E, the highest level since 2014.
- Utilization rate of tire makers recovering.** We note that the utilization rate rebounded sharply from 9% in the first week of Feb to 36% last week, suggesting that production resumption has been on track. We expect the utilization rate to further rebound in coming weeks, which will be positive to Xingda. For Xingda, we understand that workers have gradually returned to work, and the inventory of component is enough to satisfy the production need.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	6,887	7,558	7,727	7,890	8,199
YoY growth (%)	26	10	2	2	4
Net income (RMB mn)	287	264	348	424	444
EPS (RMB)	0.19	0.18	0.23	0.28	0.29
YoY growth (%)	3.7	-8.4	29.2	20.3	4.9
EV / EBIDTA (x)	4.5	4.5	3.7	3.3	3.2
P/E (x)	10.0	11.3	9.0	7.5	7.1
P/B (x)	0.5	0.6	0.6	0.5	0.5
Yield (%)	6.4	6.4	8.3	10.0	10.5
ROE (%)	5.4	4.9	6.3	7.5	7.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Up)

Target Price	HK\$3.44
(Previous TP)	HK\$1.95)
Up/Downside	+47%
Current Price	HK\$2.34

China Industrial

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	3,582
Avg 3 mths t/o (HK\$ mn)	1.7
52w High/Low (HK\$)	2.60/1.90
Total Issued Shares (mn)	1,515

Source: Bloomberg

Shareholding Structure

LIU Jinlan (Chairman)	42.5%
Great Trade Limited	16.3%
FIL Limited	7.0%
Others	34.2%

Note: Great Trade Limited is owned 100% by LIU on behalf of 98 owners.

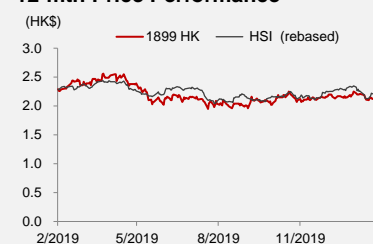
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.5%	8.6%
3-mth	9.5%	3.7%
6-mth	12.7%	4.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

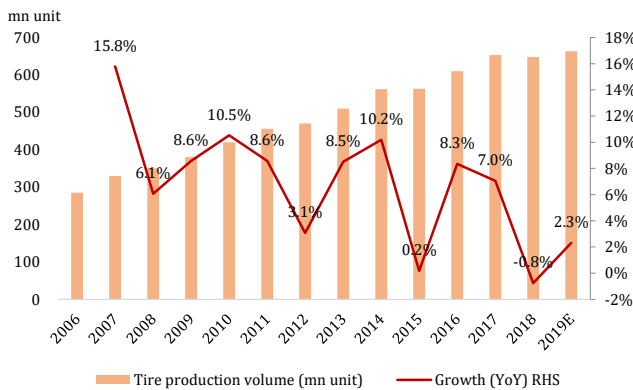
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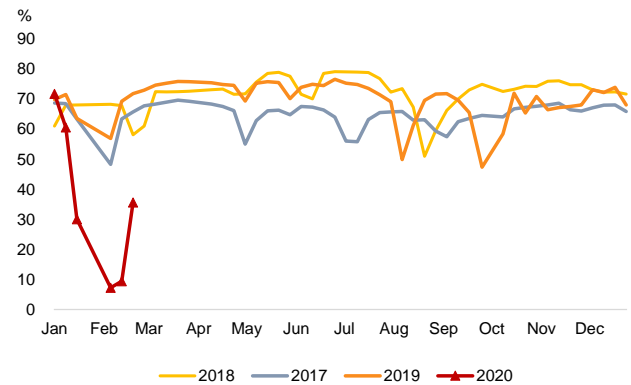
- **Earnings forecast.** We raise our earnings forecast in 2019E-20E substantially by 40-60% due mainly to higher gross margin assumptions. We expect earnings growth in 2H19E to reach 40% YoY, taking the full year earnings growth to 32% YoY. We expect earnings growth to reach 22% YoY in 2020E, driven by both volume growth and margin expansion.
- **New TP of HK\$3.44 implies 47% upside potential.** We raise our TP from HK\$1.95 to HK\$3.44. Our target PE of 11x is based on the historical forward P/E since 2012 (we excluded the period before 2012 as high valuation was given to Xingda's solar wafer wire sawing business). Current P/E of 7.5x is undemanding, in our view. What's more, Xingda has maintained a high dividend payout policy (74% in 2018) and we expect the Company is capable to maintain ~75% payout going forward, given its strong operating cash flow and net cash position. This will potentially offer dividend yield of 8-10% in 2019E-21E based on our earnings forecast.
- **Near-term catalysts:** (1) Strong 2019E results; (2) further increase in the downstream utilization rate; (3) policy stimulus to drive the demand for construction vehicles and passenger vehicles.
- **Key risks:** (1) Increase in raw material price; (2) weakness in vehicle demand; (3) currency risk.

Figure 1: China radial tire production volume



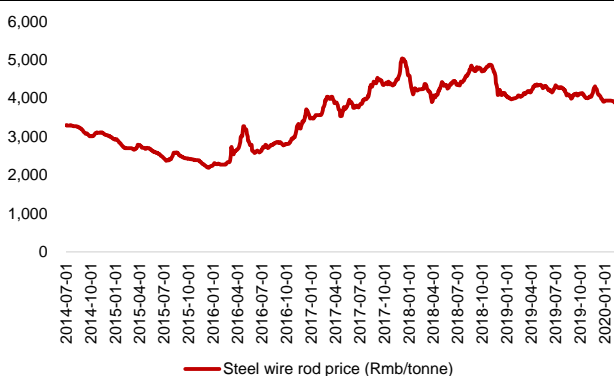
Source: China Rubber Industry Association, CMBIS

Figure 2: Utilization rate of tire manufacturers



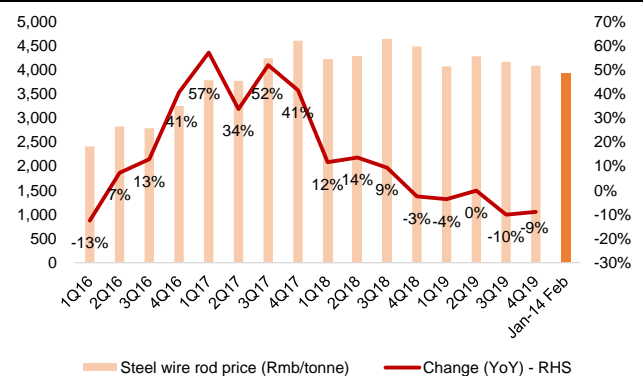
Source: Wind, CMBIS

Figure 3: China steel wire rod price



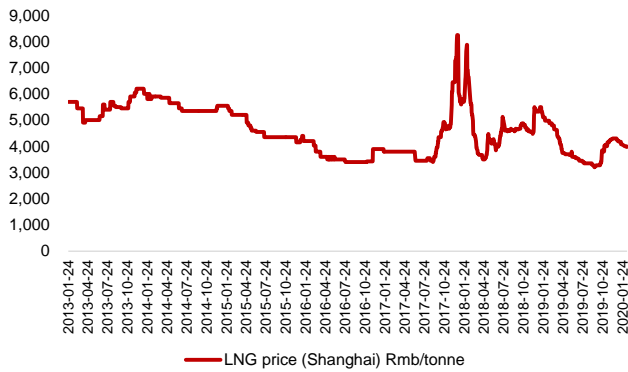
Source: Wind, LangeSteel, CMBIS

Figure 4: Quarterly steel wire rod price



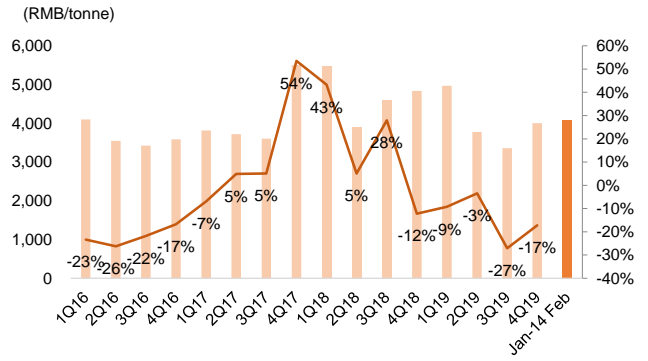
Source: Wind, LangeSteel, CMBIS

Figure 5: LNG price (Shanghai)



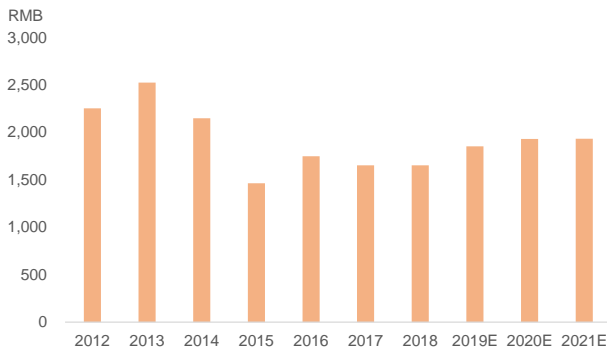
Source: Wind, CMBIS

Figure 6: Quarterly LNG price (Shanghai)



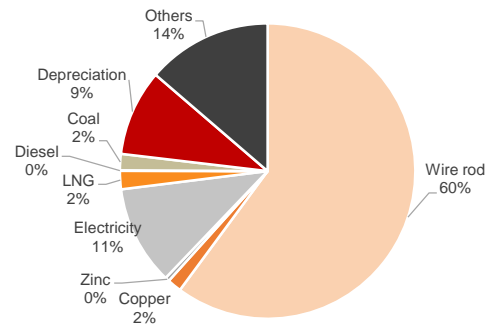
Source: Wind, CMBIS

Figure 7: Xingda unit gross profit



Source: Company data, CMBIS estimates

Figure 8: Estimated cost structure



Source: Company data, CMBIS estimates

Figure 9: Change in key assumptions

	2019E			2020E		
	Old	New	Change	Old	New	Change
Sales volume (tonne)						
Radial tire cords	780,122	699,658	-10.3%	827,454	723,283	-12.6%
For trucks	490,282	454,723	-7.3%	513,107	472,092	-8.0%
For passenger cars	289,840	244,935	-15.5%	314,347	251,191	-20.1%
Bead wires and other wires	118,492	134,241	13.3%	120,042	134,585	12.1%
Total	898,614	833,899	-7.2%	947,497	857,868	-9.5%
ASP (RMB/tonne)						
Radial tire cords	10,503	9,825	-6.5%	10,496	9,726	-7.3%
For trucks	10,800	10,000	-7.4%	10,800	9,900	-8.3%
For passenger cars	10,000	9,500	-5.0%	10,000	9,400	-6.0%
Bead wires and other wires	5,800	6,350	9.5%	5,800	6,350	9.5%
ASP blended	9,883	9,266	-6.2%	9,901	9,197	-7.1%
Cost per tonne	(8,252)	(7,412)	-10.2%	(8,267)	(7,265)	-12.1%
GP per tonne	1,631	1,853	13.6%	1,634	1,931	18.2%
Gross margin	16.5%	20.0%	ppt	16.5%	21.0%	ppt
			3.50			4.50

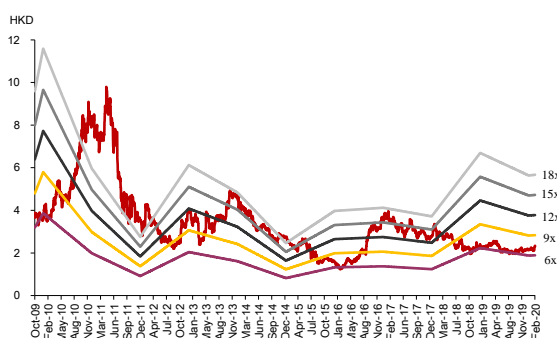
Source: Company data, CMBIS estimates

Figure 10: Key assumptions on Xingda

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Production capacity annual (tonne)												
Radial tire cords	430,000	500,000	500,000	520,000	560,000	610,000	670,000	725,000	728,000	778,000	828,000	828,000
Bead wires and other wires	112,000	112,000	112,000	112,000	112,000	112,000	105,000	141,000	155,000	165,000	165,000	165,000
<i>Growth</i>												
Radial tire cords	0.0%	16.3%	0.0%	4.0%	7.7%	8.9%	9.8%	8.2%	0.4%	6.9%	6.4%	0.0%
Bead wires and other wires	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-6.3%	34.3%	9.9%	6.5%	0.0%	0.0%
Production volume (tonne)												
Radial tire cords	365,500	395,000	405,000	468,000	526,400	506,300	616,400	659,750	662,480	700,200	745,200	761,760
Bead wires and other wires	94,080	78,400	76,160	77,280	79,520	79,520	73,500	119,850	134,850	143,550	146,850	147,349
<i>Growth</i>												
Radial tire cords		8.1%	2.5%	15.6%	12.5%	-3.8%	21.7%	7.0%	0.4%	5.7%	6.4%	2.2%
Bead wires and other wires		-16.7%	-2.9%	1.5%	2.9%	0.0%	-7.6%	63.1%	12.5%	6.5%	2.3%	0.3%
Annual utilisation rate												
Radial tire cords	85.0%	79.0%	81.0%	90.0%	94.0%	83.0%	92.0%	91.0%	91.0%	90.0%	90.0%	92.0%
Bead wires and other wires	84.0%	70.0%	68.0%	69.0%	71.0%	71.0%	70.0%	85.0%	87.0%	87.0%	89.0%	89.3%
Sales to production ratio												
Radial tire cords	101.9%	97.1%	100.1%	101.2%	97.6%	99.0%	98.4%	99.0%	100.6%	99.9%	97.1%	98.9%
Bead wires and other wires	74.2%	92.1%	91.3%	96.9%	99.0%	100.2%	105.9%	100.0%	99.4%	93.5%	91.6%	93.1%
Sales volume (tonne)												
Radial tire cords	372,300	383,400	405,400	473,700	513,900	501,100	606,300	653,400	666,600	699,658	723,283	753,730
For trucks	276,100	255,300	269,100	318,400	335,300	304,000	381,400	416,300	440,100	454,723	472,092	486,365
For passenger cars	96,200	128,100	136,300	155,300	178,600	197,100	224,900	237,100	226,500	244,935	251,191	267,365
Bead wires and other wires	69,800	72,200	69,500	74,900	78,700	79,700	77,800	119,800	134,100	134,241	134,585	137,132
Total	442,100	455,600	474,900	548,600	592,600	580,800	684,100	773,200	800,700	833,899	857,868	890,862
Growth rate												
Sales volume (tonne)												
Radial tire cords	0.0%	0.0%	5.7%	16.8%	8.5%	-2.5%	21.0%	7.8%	2.0%	5.0%	3.4%	4.2%
For trucks	0.0%	0.0%	5.4%	18.3%	5.3%	-9.3%	25.5%	9.2%	5.7%	3.3%	3.8%	3.0%
For passenger cars	0.0%	0.0%	6.4%	13.9%	15.0%	10.4%	14.1%	5.4%	-4.5%	8.1%	2.6%	6.4%
Bead wires and other wires	0.0%	0.0%	-3.7%	7.8%	5.1%	1.3%	-2.4%	54.0%	11.9%	0.1%	0.3%	1.9%
Average	0.0%	0.0%	4.2%	15.5%	8.0%	-2.0%	17.8%	13.0%	3.6%	4.1%	2.9%	3.8%
ASP (RMB/tonne)												
Radial tire cords	13,449	12,827	11,628	10,720	9,979	8,650	8,313	9,423	10,006	9,825	9,726	9,723
For trucks	13,999	13,353	11,944	10,999	10,225	8,776	8,400	9,605	10,198	10,000	9,900	9,900
For passenger cars	11,871	11,780	11,005	10,148	9,517	8,456	8,165	9,103	9,634	9,500	9,400	9,400
Bead wires and other wires	6,060	8,767	7,669	6,769	5,930	5,050	5,517	6,093	6,623	6,350	6,350	6,350
ASP blended		12,184	11,049	10,180	9,441	8,156	7,995	8,907	9,440	9,266	9,197	9,203
Cost per tonne		(9,335)	(8,795)	(7,656)	(7,293)	(6,692)	(6,247)	(7,255)	(7,788)	(7,412)	(7,265)	(7,271)
GP per tonne		2,849	2,254	2,525	2,148	1,464	1,747	1,652	1,652	1,853	1,931	1,933

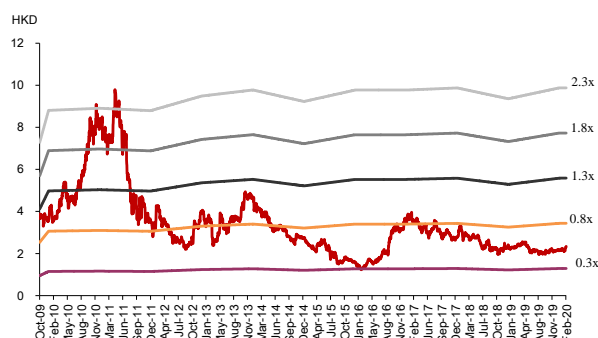
Source: Company data, CMBIS estimates

Figure 11: Xingda P/E band



Source: Company data, Bloomberg, CMBIS estimates

Figure 12: Xingda P/B band



Source: Company data, Bloomberg, CMBIS estimates

Figure 13: Peers comp

Ticker	Company	Price (local currency)	Market cap (US\$ mn)	PE (x)		PB (x)		EV/EBITDA (x)		Dividend yield (%)	
				2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Radial tire cords manufacturers											
1899 HK Equity	XINGDA INTL	2.34	459	9.0	7.5	0.6	0.5	3.7	3.3	8.3	10.0
103 HK Equity	SHOUGANG CONCOR	0.23	56	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BEKB BB Equity	BEKAERT NV	23.02	1,579	11.1	8.5	0.9	0.8	6.4	5.8	3.1	3.3
000926 CH Equity	HUBEI FUXING-A	5.51	770	4.6	4.4	n/a	n/a	n/a	n/a	6.5	6.7
002132 CH Equity	HENAN HENGXING-A	2.84	518	25.8	21.8	1.2	1.1	n/a	n/a	n/a	n/a
603278 CH Equity	SHANDONG DAYE -A	8.14	343	6.1	12.5	n/a	n/a	n/a	n/a	1.2	1.4
002240 KS Equity	KISWIRE LTD	18,150.00	313	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	AVERAGE			11.3	11.0	0.9	0.8	5.1	4.6	4.8	5.4
Chinese tire manufacturers											
600469 CH Equity	AEOLUS TYRE CO-A	5.54	452	9.6	7.1	n/a	n/a	n/a	n/a	n/a	n/a
600623 CH Equity	SHANGHAI HUAYI-A	6.10	1,774	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
601058 CH Equity	SAILUN JINYU - A	4.84	1,897	10.8	9.1	1.8	1.5	7.3	6.7	2.4	2.6
601966 CH Equity	SHANDONG LINGL-A	24.31	4,234	18.7	16.1	2.6	2.3	11.9	10.4	2.0	2.3
601163 CH Equity	TRIANGLE TYRE -A	14.52	1,686	18.6	15.8	1.2	1.1	n/a	n/a	n/a	n/a
000589 CH Equity	GUIZHOU TYRE-A	4.18	484	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
000599 CH Equity	QINGDAO DOUBLE-A	4.00	481	100.0	50.0	0.9	0.9	n/a	n/a	n/a	n/a
	AVERAGE			31.5	19.6	1.6	1.5	9.6	8.6	2.2	2.4
International tire manufacturers											
GT US Equity	GOODYEAR TIRE	11.10	2,583	7.4	5.8	0.6	0.5	4.8	4.5	5.9	5.8
CTB US Equity	COOPER TIRE & RU	27.09	1,359	17.3	9.6	1.1	0.9	5.3	4.3	1.6	1.6
ML FP Equity	MICHELIN	110.35	22,385	10.3	9.5	1.4	1.2	5.2	5.0	3.7	3.9
CON GY Equity	CONTINENTAL AG	113.56	25,793	19.1	10.9	1.4	1.2	5.5	5.0	3.5	3.4
5108 JP Equity	BRIDGESTONE CORP	3,908.00	25,957	11.1	10.5	1.1	0.9	5.0	4.8	4.1	4.1
5110 JP Equity	SUMITOMO RUBBER	1,230.00	3,011	9.9	9.4	0.7	0.6	5.0	4.8	4.5	4.5
5101 JP Equity	YOKOHAMA RUBBER	1,998.00	3,153	8.5	8.1	0.7	0.6	5.9	5.7	3.3	3.4
5105 JP Equity	TOYO TIRE & RUBB	1,573.00	2,256	8.4	7.6	0.9	0.7	4.6	4.2	3.1	3.2
2106 TT Equity	KENDA RUBBER IND	28.50	801	19.7	15.6	n/a	n/a	n/a	n/a	n/a	n/a
161390 KS Equity	HANKOOK TIRE CO	27,900.00	2,984	7.1	6.4	0.5	0.4	3.8	3.7	1.8	1.9
APTY IN Equity	APOLLO TYRES LTD	154.45	1,274	15.1	11.8	0.9	0.7	7.4	6.3	1.8	2.0
	AVERAGE			12.2	9.6	0.9	0.8	5.2	4.8	3.3	3.4

Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue					
Radial tire cords	6,157	6,670	6,874	7,035	7,328
For trucks	3,999	4,488	4,547	4,674	4,815
For passenger cars	2,158	2,182	2,327	2,361	2,513
Bead wires & other wires	730	888	852	855	871
Total revenue	6,887	7,558	7,727	7,890	8,199
Cost of sales	(5,609)	(6,236)	(6,181)	(6,233)	(6,477)
Gross profit	1,278	1,323	1,545	1,657	1,722
Other income	61	95	77	79	82
Other gains and losses	(2)	18	27	28	29
S&D expenses	(476)	(513)	(556)	(544)	(566)
Administrative expenses	(319)	(362)	(363)	(363)	(377)
R&D expenses	(58)	(75)	(93)	(95)	(98)
EBIT	483	486	637	761	791
Net finance income	(1)	(4)	(6)	(3)	4
Finance income	37	41	34	40	50
Finance expenses	(38)	(45)	(40)	(43)	(46)
Profit of JV and associates	0	0	0	0	0
Pretax profit	481	483	631	758	795
Income tax	(103)	(111)	(126)	(144)	(151)
After tax profit	378	372	505	614	644
MI	(91)	(108)	(156)	(190)	(200)
Net profit	287	264	348	424	444
D&A	529	530	578	599	620
EBITDA	1,012	1,016	1,216	1,361	1,412

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Pretax profit	481	483	631	758	795
Finance cost	38	45	40	43	46
Interest income	(37)	(41)	(34)	(40)	(50)
Impairment of trade & other receivables	16	19	0	0	0
Write off of trade receivables	0	0	0	0	0
Loss on disposal of PP&E	3	10	0	0	0
Depreciation	522	522	578	599	620
Income tax paid	(117)	(96)	(126)	(144)	(151)
Change in working capital	101	(95)	42	(201)	29
Others	5	9	0	0	0
Cash flow from operation	1,013	855	1,132	1,016	1,290
Net capex on PP&E	(375)	(602)	(800)	(300)	(300)
Interest received	3	5	34	40	50
Others	(154)	6	0	0	0
Cash flow from investing	(526)	(590)	(766)	(260)	(250)
Equity financing	(12)	(29)	0	0	0
Net bank borrowings	32	291	100	100	100
Dividend paid	(143)	(147)	(196)	(261)	(318)
Interest paid	(38)	(52)	(40)	(43)	(46)
Others	(47)	4	0	0	0
Cash flow from financing	(209)	68	(136)	(205)	(264)
Change in cash	277	333	229	551	776
Cash at beginning of the year	480	757	1,104	1,334	1,885
Exchange and others	0	15	0	0	0
Cash at the end of the year	757	1,104	1,334	1,885	2,661

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	5,357	5,290	5,511	5,212	4,892
PP&E	3,817	3,844	4,066	3,766	3,446
Prepaid land lease payments	343	345	345	345	345
JV/associates	0	0	0	0	0
AFS investments	0	0	0	0	0
Others	182	184	184	184	184
Deferred tax assets	16	17	17	17	17
Deposits	1,000	900	900	900	900
Current assets	7,005	7,499	8,046	8,527	9,809
Prepaid land lease payments	7	7	7	7	7
Inventories	725	680	810	692	798
Trade receivables	2,519	2,867	2,637	2,983	2,858
Bills receivables	2,929	2,628	3,045	2,748	3,272
Pledged deposits	68	52	52	52	52
Cash	757	1,104	1,334	1,885	2,661
Current liabilities	4,918	5,078	5,538	5,367	6,002
Trade payables	3,585	3,139	3,499	3,229	3,763
Bills payables	340	690	690	690	690
Bank borrowings	953	1,144	1,244	1,344	1,444
Tax payable	28	44	44	44	44
Others	11	61	61	61	61
Non-current liabilities	11	162	162	162	162
Bank borrowings	0	150	150	150	150
Deferred tax liabilities	11	12	12	12	12
Equity	7,433	7,548	7,857	8,210	8,536
Shareholders' equity	5,367	5,451	5,603	5,766	5,892
MI	2,066	2,097	2,254	2,444	2,644

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Radial tire cords	89%	88%	89%	89%	89%
For trucks	58%	59%	59%	59%	59%
For passenger cars	31%	29%	30%	30%	31%
Bead wires & other wires	11%	12%	11%	11%	11%
Total	100%	100%	100%	100%	100%
Profit & loss ratio (%)					
Gross margin	19%	17%	20%	21%	21%
EBITDA margin	15%	13%	16%	17%	17%
EBIT margin	7%	6%	8%	10%	10%
Net profit margin	5%	5%	7%	8%	8%
Growth (%)					
Revenue	26%	10%	2%	2%	4%
Gross profit	7%	4%	17%	7%	4%
EBIT	2%	1%	31%	19%	4%
Net profit	3%	-8%	32%	22%	5%
Balance sheet ratio					
Current ratio (x)	1.4	1.5	1.5	1.6	1.6
Receivable turnover days	127	130	130	130	130
Inventory turnover days	42	41	44	44	42
Payable turnover days	194	197	196	197	197
Net debt / total equity (%)	Net	Net	Net	Net	Net
Profitability (%)					
ROA	2%	2%	3%	3%	3%
ROE	5%	5%	6%	7%	8%
Per share data					
EPS (RMB)	0.19	0.18	0.23	0.28	0.29
BVPS (RMB)	3.61	3.65	3.65	3.77	3.85
DPS (RMB)	0.12	0.13	0.17	0.21	0.22

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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