

# FLAT GLASS (6865 HK)

## Continuous Capacity Expansion and Continuous Prosperity of Photovoltaic Industry Expected

Hong Kong | Industrial Goods | Update Report

2 Jan 2020

### Investment Summary

#### 75% Large Increase in Net Profit in the First Three Quarters

Flat Glass recorded revenue of RMB3,381 million, up 49.71% yoy; net profit attributable to the parent company of RMB508 million, up 75% yoy, equivalent to EPS of RMB0.26, exceeding market expectation. The net profit attributable to the parent company in the first three quarters was RMB109 million, RMB152 million and RMB246 million, respectively; the growth was 11%, 33% and 220% yoy, respectively.

#### Capacity Expansion upon Industry Recovery

Since Q1 2019, driven by gradual recovery of domestic photovoltaic market, the price of photovoltaic glass increased from bottom. The market price of 3.2mm photovoltaic glass increased by RMB1.5 to RMB2 to RMB28 per square meter, up 8% approximately. Gradual production of capacity expanded by Flat Glass: Two new production lines of 1,000 tons of daily melting volume were put into production in 2017 and 2018, respectively; new production line of 1,000 tons of daily melting volume were put into production in 2019. High cost efficiency upon new production capacity will help the Company to offset the price downward pressure during industry adjust period, and to fully enjoy the price upward benefit upon industry recovery. The Company recorded gross margin of 27.87%, 27.57% and 32.84% in the first three quarters of 2019, respectively, up by -1.45, +1.69 and +10.57 ppts yoy.

The sales expenses in the first three quarters were RMB170 million, up 97% yoy; the administration expenses were RMB81 million, down 5.5% yoy; the financial expenses were RMB38 million, up 681.4% yoy; the R&D expenses were RMB142 million, up 75.68% yoy. The overall period cost rate increased by 1.85 ppts, mainly due to the large increase in sales volume, the overall increase in transportation costs, and the increase in R&D projects.

#### Continuous Capacity Expansion and Continuous Prosperity of Photovoltaic Industry Expected

The Company will put into production new capacity of photovoltaic glass in the future two years, including two production lines of 1,000 tons per day of Vietnam (expected to be put into production in June 2020 and September 2020), and fourth-tier and fifth-tier production lines of 1,000 tons per day of Anhui Fengyang (expected to be put into production in 2021). The capacity of photovoltaic glass of the Company will achieve 9800 tons per day by the end of 2021, double that of the end of 2018. In terms of industry prosperity, with the implementation of domestic photovoltaic subsidy project, the sustainable and rapid development of overseas photovoltaic market, and gradual increase of proportion of double-glass modules, the high prosperity of photovoltaic glass market is expected to continue. We always believe that the profitability of leading companies with economies of scale and technical capital will be future improved.

### Investment Thesis

Given the better-than-expected data in report of the first three quarters, we decide to increase profit forecast and target price to HK\$5.65 for the Company, equivalent to 2019/2020E 13/9x P/E, Accumulate rating. (Closing price as at 30 Dec 2019)

### Accumulate

CMP HKD: 4.84  
(Closing price as at 30 Dec 2019)  
TARGET HKD: 5.65 (17%)

#### COMPANY DATA

|                       |           |
|-----------------------|-----------|
| O/S SHARES (MN) :     | 1950      |
| MARKET CAP (HKD MN) : | 2178      |
| 52 - WK HI/LO (HKD):  | 4.92/1.93 |

#### SHARE HOLDING PATTERN, %

|                           |       |
|---------------------------|-------|
| Mr. Ruan Hongliang family | 62.15 |
|---------------------------|-------|

#### PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

#### KEY FINANCIALS

| CNY mn         | FY17 | FY18 | FY19E | FY20E |
|----------------|------|------|-------|-------|
| Net Sales      | 2975 | 3040 | 4794  | 6414  |
| Net Profit     | 430  | 411  | 763   | 1061  |
| EPS, CNY       | 0.24 | 0.23 | 0.39  | 0.54  |
| P/E, x         | 16.8 | 18.7 | 11.0  | 7.9   |
| BVPS, CNY      | 1.81 | 2.02 | 0.08  | 0.11  |
| P/BV, x        | 2.2  | 2.1  | 53.8  | 39.2  |
| DPS (HKD)      | 0.02 | 0.05 | 2.35  | 2.87  |
| Div. Yield (%) | 0.6% | 1.1% | 54.6% | 66.6% |

Source: Company reports, Phillip Securities Est.

Research Analyst  
**Zhang Jing** (+ 86 51699400-103)  
zhangjing@phillip.com.cn

**Peer comparison**

| Ticker         | Name                | MCap (USD mn) | P/E   | ROE   | BEst P/E:1FY | BEst P/E:2FY | BEst P/B:1BF |
|----------------|---------------------|---------------|-------|-------|--------------|--------------|--------------|
| 6865 HK Equity | FLAT GLASS GROUP CC | 2539          | 15.17 | 11.77 | 9.84         | 7.21         | 1.41         |
| 968 HK Equity  | XINYI SOLAR HOLDING | 3934          | 15.32 | 18.10 | 12.48        | 10.47        | 2.25         |

Source: Bloomberg, Phillip Securities Hong Kong Research

**Financials**

| FYE DEC                          | FY16       | FY17       | FY18       | FY19F      | FY20F       | FY21F       |
|----------------------------------|------------|------------|------------|------------|-------------|-------------|
| <b>Valuation Ratios</b>          |            |            |            |            |             |             |
| P/E (X), adj.                    | 12.8       | 16.8       | 18.7       | 11.0       | 7.9         | 5.9         |
| P/B (X)                          | 2.6        | 2.2        | 2.1        | 53.8       | 39.2        | 28.7        |
| Dividend Payout Ratio (%)        | 27.9%      | 10.1%      | 19.7%      | 601.2%     | 527.3%      | 480.6%      |
| Dividend Yield (%)               | 2.2%       | 0.6%       | 1.1%       | 54.6%      | 66.6%       | 81.0%       |
| <b>Per share data (RMB)</b>      |            |            |            |            |             |             |
| EPS, (Basic)                     | 0.34       | 0.24       | 0.23       | 0.39       | 0.54        | 0.73        |
| EPS, (Diluted)                   | 0.34       | 0.24       | 0.23       | 0.39       | 0.54        | 0.73        |
| DPS                              | 0.09       | 0.02       | 0.05       | 2.35       | 2.87        | 3.49        |
| BVPS                             | 1.64       | 1.81       | 2.02       | 0.08       | 0.11        | 0.15        |
| <b>Growth &amp; Margins (%)</b>  |            |            |            |            |             |             |
| <b>Growth</b>                    |            |            |            |            |             |             |
| Revenue                          | 1.3%       | 0.8%       | 2.2%       | 57.7%      | 33.8%       | 31.0%       |
| EBIT                             | 27.1%      | -33.2%     | -2.4%      | 102.6%     | 37.7%       | 33.3%       |
| Net Income, adj.                 | 39.6%      | -29.0%     | -4.4%      | 85.7%      | 39.0%       | 33.5%       |
| <b>Margins</b>                   |            |            |            |            |             |             |
| Gross margin                     | 36.8%      | 27.8%      | 26.0%      | 31.1%      | 30.9%       | 30.9%       |
| EBIT margin                      | 25.8%      | 17.1%      | 16.3%      | 21.0%      | 21.6%       | 21.9%       |
| Net Profit Margin                | 20.5%      | 14.5%      | 13.5%      | 15.9%      | 16.5%       | 16.9%       |
| <b>Key Ratios</b>                |            |            |            |            |             |             |
| ROE                              | 21.9%      | 13.8%      | 11.9%      | 17.8%      | 20.8%       | 22.8%       |
| <b>Income Statement (RMB mn)</b> |            |            |            |            |             |             |
| Revenue                          | 2951       | 2975       | 3040       | 4794       | 6414        | 8403        |
| Gross profit                     | 1087       | 826        | 791        | 1491       | 1985        | 2596        |
| EBIT                             | 760        | 508        | 496        | 1004       | 1383        | 1843        |
| Profit before tax                | 733        | 499        | 470        | 925        | 1286        | 1717        |
| Tax                              | -127       | -69        | -59        | -162       | -225        | -300        |
| Profit for the period            | 606        | 430        | 411        | 763        | 1061        | 1416        |
| Minority interests               | 0          | 0          | 0          | 0          | 0           | 0           |
| Total capital share              | 1800       | 1800       | 1800       | 1950       | 1950        | 1950        |
| <b>Net profit</b>                | <b>606</b> | <b>430</b> | <b>411</b> | <b>763</b> | <b>1061</b> | <b>1416</b> |

Source: PSR

(Closing price as at 30 Dec 2019)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

| Total Return | Recommendation | Rating | Remarks                                      |
|--------------|----------------|--------|--|
| >+20%        | Buy            | 1      | >20% upside from the current price           |
| +5% to +20%  | Accumulate     | 2      | +5% to +20% upside from the current price    |
| -5% to +5%   | Neutral        | 3      | Trade within $\pm$ 5% from the current price |
| -5% to -20%  | Reduce         | 4      | -5% to -20% downside from the current price  |
| <-20%        | Sell           | 5      | >20% downside from the current price         |

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

**GENERAL DISCLAIMER**

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

**Disclosure of Interest**

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

**Availability**

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2019 Phillip Securities (Hong Kong) Limited

---

**Contact Information (Regional Member Companies)****SINGAPORE****Phillip Securities Pte Ltd**

250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

[www.phillip.com.sg](http://www.phillip.com.sg)

**INDONESIA****PT Phillip Securities Indonesia**

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

[www.phillip.co.id](http://www.phillip.co.id)

**THAILAND****Phillip Securities (Thailand) Public Co. Ltd.**

15th Floor, Vorawat Building, 849 Silom Road,  
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

[www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES****Phillip Futures Inc.**

141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

**MALAYSIA****Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3, Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

[www.poems.com.my](http://www.poems.com.my)

**CHINA****Phillip Financial Advisory (Shanghai) Co. Ltd.**

No 436 Heng Feng Road, Green Tech Tower Unit 604  
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

[www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE****King & Shaxson Capital Ltd.**

3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA****PhillipCapital Australia**

Level 10, 330 Collins Street  
Melbourne VIC 3000

Tel (+61) 3 8633 9803 Fax (+61) 3 8633 9899

[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**HONG KONG****Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

[www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN****Phillip Securities Japan, Ltd**

4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

[www.phillip.co.jp](http://www.phillip.co.jp)

**INDIA****PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,  
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

[www.phillipcapital.in](http://www.phillipcapital.in)

**UNITED KINGDOM****King & Shaxson Ltd.**

6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA****Asha Phillip Securities Limited**

Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)