

## Hong Kong | INVESTNOTES REPORTS REVIEW

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Sectors:

Air & Automobiles (Zhang Jing),

### Automobile & Air (ZhangJing)

This month I released 4 updated reports of Zhongsheng (881.HK), Minth(425.HK), FLAT Glass (6865.HK) and Inovance (300124.CH), which got success by their unique Competitive edge. Among them, we highly recommend FLAT Glass (6865.HK).

In 2019, the sales volume of PV glass of the Company reached 160 million square meters, up by 67% yoy. The gross margin of the Company increased by 5.18 ppts to 32.87% because of the recovering price of PV glass, improvement of production efficiency of the newly-commissioned production capacity and improvement of product mix (thin glass accounted for a higher proportion). The proportion of revenue from PV glass increased to 78%, approaching 80%. Total production capacity increased to 5400 tons/day.

Flat Glass recorded a revenue of RMB4,807 million in 2019, up by 56.9% yoy because of the rise of unit price resulting from commission of new production capacity and the recovery of demand, net profit attributable to the parent company of RMB717 million, up by 76% yoy.

In Q1 2020, the Company recorded a revenue of RMB1,203 million, up by 29.10% yoy; net profit of RMB215 million, up by 97.0% yoy. Because of the continuance of effect of price yoy lift of PV glass, plus with the low material price, 2020Q1 gross margin continued to hike, reaching a historic height of 39.88%.

In 2019, domestic PV market tightened, but great performance was reported in overseas market, with export increasing rapidly. Strong overseas momentum was continued in Q1 2020, which compensated the shortage of domestic demand due to domestic suspense of work. In Q2, the delay of overseas demand caused by the pandemic put pressure on the price of PV glass, which may exert some negative impact on the results of the Company in 2020 Q2. However, the revenue from European and American markets only accounted for 10% of the total revenue of the Company. We expected that the demand side will improve steadily from H2 because of the reopen. Looking forward, the PV industry has entered the phase of scale competition. The concentration of the industry continuously roused, and the total market share of the Company and Xinyi Solar has exceeded 50%, which helped the double-oligarchy layout taking shape.

Recently, the Company announced that it would release convertible bonds of RMB1.45 billion and Private placement of RMB2 billion, which were mainly used in the production and construction of the two 1,200-ton-per-day production lines (Line 4/Line 5), as well the preparation and construction of Line 6/ Line 7 (also 1,200 tons per day) in Fengyang, Anhui. Due to obvious advantages in technology and scale of newly increased capacity, increase in finished production rate and decrease in unit cost will further improve the profitability of the Company.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommen dation Date	Target Price	Expecte d Return	Last		Closing Price 2M ago	1M Price Chg
								Month Closing Price	Last Month Return		
20200602	881 HK	Zhongsheng	ZJ	Accumulate	39.8	45	13.07%	42.9	7.79%	39.35	9.02%
20200610	425 HK	Minth	ZJ	Accumulate	23.95	27.45	14.61%	22.05	-7.93%	20.394	8.12%
20200617	6865 HK	FLAT G	ZJ	Accumulate	6.1	7	14.75%	8.35	36.89%	5.69	46.75%
20200624	300124 CH	Inovance	ZJ	Accumulate	35.5	39	9.86%	37.99	7.01%	34.33	10.66%

A stock is calculated by RMB yuan.

Source: Phillip Securities Research

**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

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