

FLAT GLASS (6865 HK)

Riding on the constant prosperity of the industry

Hong Kong | Industrial Goods | Update Report

27 November 2020

Investment Summary

Q3 Results Exceed Expectations, with Profits Up 43%

In the first three quarters of 2020, Flat Glass recorded revenue of RMB4.02 billion, up by 18.8% yoy. The net profit attributable to the parent company was RMB810 million, up by 60% yoy. As for Q3, the Company recorded revenue of RMB1.52 billion, up by 13% yoy and 17.6% qoq. The net profit attributable to the parent company was RMB350 million, up by 42.6% yoy and 42.9% qoq. The profit growth is still beyond the early market consensus. In the first three quarters, the Company's net inflow of operating cash was RMB1.69 billion, which was significantly improved compared with the net inflow of RMB220 million in the same period of last year.

Short Supply of Photovoltaic Glass Drives Prices Up and Increases Profitability

In the first three quarters, the Company's gross margin was 39.9%, up by 9.68pct yoy. In Q3, the comprehensive gross margin was 42.7%, up by 9.46pct yoy and 6.2pct qoq. The main reason is that the demand for photovoltaic glass in the industry increased sharply after the epidemic. The shortage of products caused the price of photovoltaic glass to increase twice in July and September. The quotation of 3.2mm glass from major manufacturers has risen from RMB29/square meter at the beginning of the year to RMB42/square meter. On the other hand, the cost of raw materials such as soda ash and natural gas remains low, and the profitability of manufacturers has therefore improved significantly.

Q4 is the peak season for photovoltaic installed capacity. We expect that the high prosperity of the photovoltaic glass industry is to continue. The average product price will reach RMB46/square meter, and the Company's annual gross profit can exceed above 40%.

Due to the long construction period, we believe that the tight supply and demand pattern of the industry will continue next year, which will be difficult to change in the short term. It is expected that the price will be high and then low, fluctuating around RMB36 on average. The Company's Vietnam production line, Anhui fourth, fifth, and sixth production lines totalling 5,600 tons/day will soon be put into operation this year and next, and it is expected to benefit from the high price range in 2021.

Product Mix Is Well Improved

In terms of product mix, the Company's dual-glass module penetration rate of 14% in 2019 increased to more than 20% in H1 of 2020, and reached about 30% in Q3. It is expected to reach 30%-35% throughout the year. The 2.0mm-thick photovoltaic glass used in the double-glass module is more difficult to produce than the 3.2mm-thick one, and therefore has a higher gross margin, which is expected to drive the Company's overall gross profit margin to rise rapidly. In Anhui, the Company's new production capacity will be put into production of large glass over 1.3 meters, taking into account the 182 and 210 large-size components. At that time, the product mix will be further upgraded and optimized.

Accumulate (Maintain)

CMP HKD: 21.75

(Closing price as at 25 November 2020)

TARGET HKD: 25.6 (+18%)

COMPANY DATA

O/S SHARES (MN) :	1950
MARKET CAP (HKD MN) :	9788
52 - WK HI/LO (HKD):	28.6/3.66

SHARE HOLDING PATTERN, %

Mr. Ruan Hongliang family	62.15
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PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	4807	5912	9223	11384
Net Profit	717	1391	2012	2540
EPS, CNY	0.37	0.71	1.03	1.30
P/E, x	53.2	25.9	17.9	14.2
BVPS, CNY	2.31	3.11	4.76	5.92
P/BV, x	8.5	6.0	3.9	3.1
DPS	0.03	0.15	0.21	0.28
Div. Yield (%)	0.1%	0.8%	1.1%	1.5%

Source: Company reports, Phillip Securities Est.

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After more than ten years of development, domestic photovoltaics will officially enter the era of affordable Internet in 2021. According to the 14th Five-Year Plan, new energy shall account for 30%, but now it is only 5%, of which photovoltaics account for only 3.5%. In the next five years, the average annual compound growth rate of the photovoltaic industry is expected to reach 20%. In the medium and long term, in order to achieve the 2060 carbon neutrality goal, the photovoltaic industry will be a major driver. The situation of strong demand and tight supply is difficult to reverse, and the market share of leading companies will continue to expand.

Investment Thesis

At present, the Company's production capacity is 48 million tons. By the end of 2022, the total production capacity will reach 12,200 tons/day, with its leading position more stabilized. The constant prosperity of the industry has increased our optimistic expectations for the Company's profitability improvement in the future. Taking into account the better-than-expected industry boom and the company's industry position, we raise the target price to 25.6, equivalent to 2020/2021/2022 E 30.5/21/17x P/E and 7/4.6/3.7x P/B, Accumulate rating. (Closing price as at 25 November 2020)

Peer Forward Valuation Trend comparison (6865.HK Vs 968.HK)



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY17	FY18	FY19	FY20F	FY21F	FY22F
Valuation Ratios						
P/E (X), adj.	75.7	83.8	53.2	25.9	17.9	14.2
P/B (X)	10.0	9.5	8.5	6.0	3.9	3.1
Dividend Payout Ratio (%)	10.1%	19.7%	7.3%	21.0%	20.4%	21.3%
Dividend Yield (%)	0.1%	0.2%	0.1%	0.8%	1.1%	1.5%
Per share data (RMB)						
EPS, (Basic)	0.24	0.23	0.37	0.71	1.03	1.30
EPS, (Diluted)	0.24	0.23	0.37	0.71	1.03	1.30
DPS	0.02	0.05	0.03	0.15	0.21	0.28
BVPS	1.81	2.02	2.31	3.11	4.76	5.92
Growth & Margins (%)						
Growth						
Revenue	0.8%	2.2%	58.1%	23.0%	56.0%	23.4%
EBIT	-33.2%	-2.4%	84.7%	97.5%	42.2%	24.9%
Net Income, adj.	-29.0%	-4.4%	74.5%	94.0%	44.6%	26.3%
Margins						
Gross margin	27.8%	26.0%	30.8%	41.9%	38.0%	37.5%
EBIT margin	17.1%	16.3%	19.1%	30.6%	27.9%	28.2%
Net Profit Margin	14.5%	13.5%	14.9%	23.5%	21.8%	22.3%
Key Ratios						
ROE	13.8%	11.9%	16.9%	26.3%	26.2%	24.4%
Income Statement (RMB mn)						
Revenue	2975	3040	4807	5912	9223	11384
Gross profit	826	791	1482	2477	3504	4269
EBIT	508	496	916	1809	2572	3212
Profit before tax	499	470	863	1693	2410	3046
Tax	-69	-59	-145	-301	-398	-506
Profit for the period	430	411	717	1391	2012	2540
Minority interests	0	0	0	0	0	0
Total capital share	1800	1800	1950	1950	1950	1950
Net profit	430	411	717	1391	2012	2540

Source: PSR

(Closing price as at 25 November 2020)

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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