

FLAT GLASS (6865 HK)

the Great Era of Photovoltaic Industry

Hong Kong | Industrial Goods | Update Report

11 January 2021

Investment Summary

Results Again Exceed Expectations, with Profits up 43% in 2020

Flat Glass announced satisfying results for 2020. It is expected that the Company will record net profit attributable to the parent company of RMB1.5-1.66 billion for the whole year, up 109.2%-131.5% yoy, and net profit attributable to the parent company excluding non-recurring items of RMB1.48-16.4 billion, up 114.4%-137.7% yoy, exceeding our estimate of RMB1.39 billion and the market consensus of RMB1.27 billion by approximately 14%-24%. The expected increase in the Company's results was attributed to the significant year-over-year increase in both the sales volume and sales price of the Company's products under the strong demand in the photovoltaic glass market, and the cost reduction due to the year-over-year decrease in the prices of main raw materials and energy.

According to the Company's Q3 report on A-share market, it means that the Company will record a net profit of RMB688-848 million in Q4, up 96.01%-141.60% qoq and up 227.62%-303.81% yoy.

This year, the demand for photovoltaic glass in the photovoltaic industry increased significantly after the COVID-19 pandemic. The shortage of products caused the price of photovoltaic glass to increase twice in July and September. The quotation for 3.2mm glass has risen from RMB29 per square meter at the beginning of the year to RMB42 per square meter. The strong quotation has maintained until the end of the year. On the other hand, the price of raw materials such as soda ash and natural gas remained low. Therefore, the profitability of manufacturers has improved significantly.

Large-scale Capacity Expansion Ushers in the Great Era of Photovoltaic Industry

Meanwhile, the Company released an announcement, with the aim of ensuring the supply of production capacity of ultra-thin photovoltaic glass and meeting the market demand for the large-size photovoltaic components. The Company will build five glass production lines of photovoltaic components with a daily melting capacity of 1,200 tons in Fengyang City, Anhui Province (including original production and supporting processing). The total investment of the project is estimated to be approximately RMB4.35 billion. The project will be successively put into production from 2022.

In December, the Company completed the ignition ceremony of the first production line in Vietnam (1,000 tons per day) and the cold repair line (600 tons per day) in Jiaying. Currently, the production capacity is approximately 6,400 tons per day. The Company's total production capacity will reach 18,200 tons per day, including the second production line in Vietnam (1,000 tons per day) planned to be ignited in the first half of this year, and four new production lines originally planned in Fengyang City, Anhui Province (1,200 tons per day), which is nearly three times the current capacity. There is vast room for future growth.

Due to the long construction period, we believe that the price of photovoltaic glass will remain high in 2021. It is expected that the price will go up before going down, fluctuating around RMB35-40 on average. 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 25%. In the medium and long term, in order to achieve the 2060 carbon neutrality goal, the photovoltaic industry will be a major drive. It is difficult to reverse the situation of strong demand and tight supply. Leading companies with advantages in capital, market, technology or scale will continue to benefit.

BUY (Upgrade)

CMP HKD: 37.75

(Closing price as at 7 January 2021)

TARGET HKD: 45.4 (+20.3%)

COMPANY DATA

| | |
|-----------------------|------------|
| O/S SHARES (MN) : | 1950 |
| MARKET CAP (HKD MN) : | 16988 |
| 52 - WK HI/LO (HKD): | 35.55/3.66 |

SHARE HOLDING PATTERN, %

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

PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

| CNY mn | FY19 | FY20E | FY21E | FY22E |
|----------------|------|-------|-------|-------|
| Net Sales | 4807 | 6249 | 10061 | 13179 |
| Net Profit | 717 | 1571 | 2508 | 3235 |
| EPS, CNY | 0.37 | 0.81 | 1.23 | 1.59 |
| P/E, x | 92.4 | 39.5 | 25.5 | 19.8 |
| BVPS, CNY | 2.31 | 3.20 | 4.18 | 5.58 |
| P/BV, x | 14.7 | 10.0 | 7.5 | 5.6 |
| DPS | 0.03 | 0.15 | 0.23 | 0.30 |
| Div. Yield (%) | 0.1% | 0.5% | 0.7% | 1.0% |

Source: Company reports, Phillip Securities Est.

Research Analyst

Zhang Jing (+86 021 51699400-103)

zhangjing@phillip.com.cn

Sign Another Order of RMB14.2 Billion to Secure Future Revenue

Flat Glass recently released an announcement on signing a strategic cooperation agreement with JinkoSolar and its subsidiaries on the sale of photovoltaic rolled glass. JinkoSolar will purchase 59GW photovoltaic rolled glass for components from the Company in 2021 to 2023. The specific price will be negotiated monthly. According to the current average market price, the total contract value is estimated to be approximately RMB14,196 million, accounting for approximately 151% of the Company's total assets in 2019. According to the delivery cycle of the order, the future growth trend is certain. In terms of product mix, the Company can produce 210 large-size components by expanding 30-40% capacity in 2021. Under the certain trend of future industry upgrade of large silicon wafers, the Company's product mix will be further upgraded.

Investment Thesis

The prosperity of the photovoltaic industry has sustained, and the Company's results have repeatedly exceeded expectations, which increase our optimistic expectations for the Company in the future. we raise the target price to HK\$45.4, equivalent to 2020/2021/2022 E 49.7/30.7/23.8x P/E and 12.5/9/6.8x P/B, BUY rating. (Closing price as at 7 January 2021)

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. | 131.3 | 145.5 | 92.4 | 39.5 | 25.5 | 19.8 |
| P/B (X) | 17.4 | 16.5 | 14.7 | 10.0 | 7.5 | 5.6 |
| Dividend Payout Ratio (%) | 10.1% | 19.7% | 7.3% | 18.6% | 18.7% | 18.9% |
| Dividend Yield (%) | 0.1% | 0.1% | 0.1% | 0.5% | 0.7% | 1.0% |
| Per share data (RMB) | | | | | | |
| EPS, (Basic) | 0.24 | 0.23 | 0.37 | 0.81 | 1.23 | 1.59 |
| EPS, (Diluted) | 0.24 | 0.23 | 0.37 | 0.77 | 1.23 | 1.59 |
| DPS | 0.02 | 0.05 | 0.03 | 0.15 | 0.23 | 0.30 |
| BVPS | 1.81 | 2.02 | 2.31 | 3.20 | 4.18 | 5.58 |
| Growth & Margins (%) | | | | | | |
| Growth | | | | | | |
| Revenue | 0.8% | 2.2% | 58.1% | 30.0% | 61.0% | 31.0% |
| EBIT | -33.2% | -2.4% | 84.7% | 121.2% | 57.0% | 28.0% |
| Net Income, adj. | -29.0% | -4.4% | 74.5% | 119.1% | 59.6% | 29.0% |
| Margins | | | | | | |
| Gross margin | 27.8% | 26.0% | 30.8% | 42.9% | 41.0% | 39.5% |
| EBIT margin | 17.1% | 16.3% | 19.1% | 32.4% | 31.6% | 30.9% |
| Net Profit Margin | 14.5% | 13.5% | 14.9% | 25.1% | 24.9% | 24.5% |
| Key Ratios | | | | | | |
| ROE | 13.8% | 11.9% | 16.9% | 28.7% | 34.0% | 32.5% |
| Income Statement (RMB mn) | | | | | | |
| Revenue | 2975 | 3040 | 4807 | 6249 | 10061 | 13179 |
| Gross profit | 826 | 791 | 1482 | 2678 | 4124 | 5206 |
| EBIT | 508 | 496 | 916 | 2026 | 3181 | 4072 |
| Profit before tax | 499 | 470 | 863 | 1907 | 3004 | 3879 |
| Tax | -69 | -59 | -145 | -336 | -496 | -644 |
| Profit for the period | 430 | 411 | 717 | 1571 | 2508 | 3235 |
| Minority interests | 0 | 0 | 0 | 0 | 0 | 0 |
| Total capital share | 1800 | 1800 | 1950 | 1950 | 2041 | 2041 |
| Net profit | 430 | 411 | 717 | 1571 | 2508 | 3235 |

Source: PSR

(Closing price as at 7 January 2021)

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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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

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

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

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

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

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

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

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

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

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

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

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