

Fuyao Glass (3606 HK)

Expands the Boundary of Glass Business

China | Auto & Parts | Company Update

18 January 2021

Investment Summary

Fuyao Glass Plans to Raise Approximately HK\$4.1 Billion through Private Placement and Initiates Photovoltaic Glass Business

Recently, Fuyao Glass announced that it planned to issue no more than 101 million additional H shares, which accounted for 20% of the total shares issued by the Company. The issue price should not be less than 80% of the average closing price of the earlier five transaction days as per the day determined for placement or subscription. Based on the latest closing price of the Company's H shares, it is estimated that the total raised funds will not exceed HK\$4.1 billion/RMB3.4 billion. All funds will be used for replenishment of operating capital, repayment of interest-bearing debts, R&D projects, optimization of the Company's capital structure, expansion into the photovoltaic glass market and other general purposes.

If stocks are issued according to the cap, the H-share equity will be increased by approximately 16.7% after the additional issuance, which is equivalent to an increase of 3.87% to the total equities. Influence of the dilution is limited.

Fuyao Glass Expands the Boundary of Glass Business Again and Shares the Opportunity Brought by Flourishing Photovoltaic Glass Business

An increase in the photovoltaic installed capacity and the proportion of double-glass bifacial modules is the major cause of the growing requirement for photovoltaic glass. As photovoltaic power generation approaches the critical point of grid parity, the cost of photovoltaic power generation will be further reduced amid the market effects and become a truly competitive power source after the governmental subsidies are withdrawn. Hopefully, the photovoltaic industry will undergo a boom and account for a larger proportion in the green energy consumption, which will bring a new round of development opportunities to the photovoltaic glass industry as well as the accessory industry. It is predicted that the high prosperity of the photovoltaic glass industry will be carried on in the next decade, with a large possibility of orderly growth in supply and demand.

Currently, the domestic photovoltaic glass industry involves a high concentration. The two industrial leaders, Xinyi Solar and Flat Glass, take up over 50% of market shares in total. The two leading companies have advantages in scale cost and technical channels, and recorded an impressive net profit margin of 35% in the third quarter of 2020. Previously when the US factory of Fuyao Glass demonstrated insufficient capacity utilization due to the pandemic, the Company once tried to provide float glass as components of the PV back sheet, which was more profitable than building glass. We believe that Fuyao Glass, a leading vehicle glass supplier which has delved into the industry for nearly 20 years and are generally recognized by the first-tier OEMs, has certain technological advantages during the boundary expansion of glass business and even enjoys a large possibility for innovation and optimization of product types/application scenarios.

With Accelerating Popularization of HUD Glass/Canopy Glass, There Is Substantial Room for Profitability of Vehicle Glass

The upgrade path of the Company's products is quite clear. During the first three quarters, the share of high value-added products, such as insulation, head-up display and switchable glass, increased by approximately 2.6 ppts compared with the same period last year. Thanks to the example effect brought by Tesla, several automotive manufacturers launched new automobiles with all-glass canopies in 2020. It is estimated that canopy glass will be rapidly popularized in 2021, and that the penetration rate of HUB glass and other smart glass will be further promoted amid intelligence-based development. In the future, it is likely that the Company's value of glass accessories for single vehicles will increase two to three times, which will stimulate continual growth of business results.

BUY (Maintain)

CMP HKD 48.8

(Closing price as at 14 January)

TARGET HKD 59.4 (+21.7%)

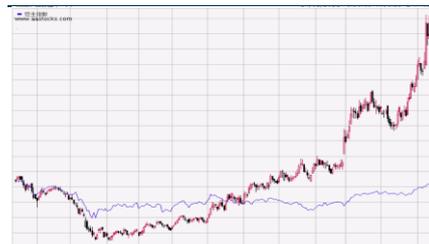
COMPANY DATA

| | |
|-----------------------|------------|
| O/S SHARES (MN) : | 2509 |
| MARKET CAP (HKD MN) : | 24675 |
| 52 - WK HI/LO (HKD): | 53.7/ 15.3 |

SHARE HOLDING PATTERN, %

| | |
|-----------------------------|-------|
| Sanyi Development Limited | 15.57 |
| Heren Charitable Foundation | 8.57 |

PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

| CNY mn | FY19 | FY20E | FY21E | FY22E |
|----------------|-------|-------|-------|-------|
| Net Sales | 21104 | 20093 | 23172 | 26476 |
| Net Profit | 2898 | 2718 | 3815 | 4880 |
| EPS, CNY | 1.16 | 1.08 | 1.52 | 1.95 |
| P/E, x | 37.6 | 38.0 | 26.6 | 21.3 |
| BVPS, CNY | 8.52 | 8.86 | 9.73 | 10.73 |
| P/BV, x | 5.1 | 4.6 | 4.2 | 3.9 |
| DPS (CNY) | 0.75 | 0.64 | 0.95 | 1.18 |
| Div. Yield (%) | 1.7% | 1.6% | 2.3% | 2.8% |

Source: Company reports, Phillip Securities Est.

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Investment Thesis

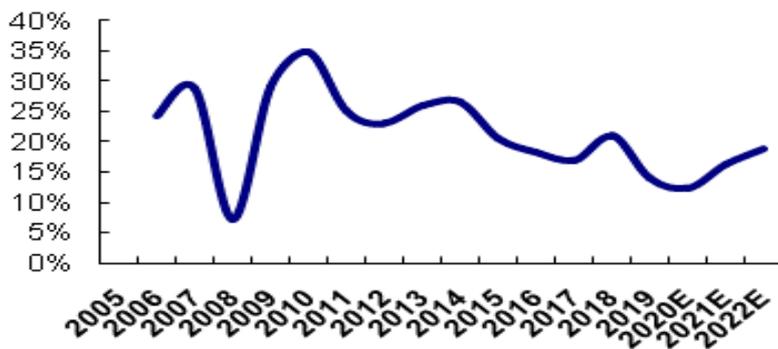
Overall, considering the steady leading position, continuous optimization of the product structure and a high dividend rate, we reaffirm the "Buy" rating, with target price to be HK\$59.4, equivalent to 46/32/26x P/E for 2020/2021/2022E. (Closing price as at 14 January)

Valuation trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Fuyao's ROE trend



Source: Wind Phillip Securities Hong Kong Research

Risks

Demand for automobiles keeps sluggish; cost of raw materials increases; RMB appreciates

Catalyst

Success market development of overseas automobile market; rebound of domestic demand for automobile; depreciation of RMB

Financials

| FYE DEC | FY17 | FY18 | FY19 | FY20F | FY21F | FY22F |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Valuation Ratios | | | | | | |
| P/E (X), adj. | 32.4 | 26.4 | 37.6 | 38.0 | 26.6 | 21.3 |
| P/B (X) | 5.4 | 5.4 | 5.1 | 4.6 | 4.2 | 3.9 |
| Dividend Yield (%) | 1.8% | 2.7% | 1.7% | 1.6% | 2.3% | 2.8% |
| Per share data (RMB) | | | | | | |
| EPS, (Basic) | 1.25 | 1.64 | 1.16 | 1.08 | 1.52 | 1.95 |
| EPS, (Diluted) | 1.25 | 1.64 | 1.16 | 1.08 | 1.52 | 1.95 |
| DPS | 0.75 | 1.15 | 0.75 | 0.64 | 0.95 | 1.18 |
| BVPS | 7.58 | 8.05 | 8.52 | 8.86 | 9.73 | 10.73 |
| Growth & Margins (%) | | | | | | |
| Growth | | | | | | |
| Revenue | 12.6% | 8.1% | 4.3% | -4.8% | 15.3% | 14.3% |
| EBIT | -6.7% | 37.7% | -33.8% | -1.1% | 42.4% | 27.2% |
| Net Income, adj. | 0.2% | 30.9% | -29.7% | -6.2% | 40.4% | 27.9% |
| Margins | | | | | | |
| Gross margin | 41.7% | 41.5% | 36.5% | 38.1% | 40.7% | 42.2% |
| EBIT margin | 19.8% | 25.2% | 16.0% | 16.6% | 20.5% | 22.8% |
| Net Profit Margin | 16.8% | 20.4% | 13.7% | 13.5% | 16.5% | 18.4% |
| Key Ratios | | | | | | |
| ROE | 17.0% | 21.0% | 13.9% | 12.5% | 16.4% | 19.0% |
| Income Statement (RMB mn) | | | | | | |
| Revenue | 18716 | 20225 | 21104 | 20093 | 23172 | 26476 |
| Gross profit | 7798 | 8397 | 7705 | 7655 | 9434 | 11170 |
| EBIT | 3705 | 5102 | 3379 | 3341 | 4757 | 6049 |
| Profit before tax | 3679 | 4962 | 3231 | 3021 | 4607 | 5888 |
| Tax | 531 | 855 | 333 | 305 | 783 | 995 |
| Profit for the period | 3148 | 4107 | 2898 | 2716 | 3824 | 4893 |
| Minority interests | -1 | -13 | 0 | -2 | 9 | 13 |
| Total capital share | 2509 | 2509 | 2509 | 2509 | 2509 | 2509 |
| Net profit | 3148 | 4120 | 2898 | 2718 | 3815 | 4880 |

Source: PSR

(Closing price as at 14 January)

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 ± 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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