

Fuyao Glass (3606 HK)

High-value-added Products' Proportion Continue to Rise

China | Auto & Parts | Company Update

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Investment Summary

Revenue in Q2 Hits a Record High, Core Profitability Is Robust

Fuyao Glass (hereinafter referred to as the “Company”) released its 2023 Interim Report. In the first half of 2023, the Company recorded the operating revenue of RMB15,031 million, with a year-on-year increase of 16.49%, higher than the overall growth rate of 10% of the downstream automotive industry. The net profit attributable to the parent company stood at RMB2,836 million, up by 19.07% year-on-year. Less non-recurring profit or loss, the figures will become RMB2,793 million and 20.89%. In the first and second quarters this year, the operating revenue was RMB7,052 million and RMB7,979 million, rising by 7.7% and 25.5% year-on-year, respectively, while the net profit attributable to the parent company amounted to RMB915 million and RMB1,922 million, climbing by 4.97% and 27.21% year-on-year, respectively. The earnings hit a record high in the second quarter mainly because of the increased proportion of high-value-added products, which continued to improve the product structure, and decreased ocean freight.

During the Reporting Period, the profit before tax grew by 24.36% from the same period of 2022. Additionally, exchange, decreased ocean freight, increased energy prices, and the increased prices of sodium carbonate affected the profit before tax by RMB90 million, RMB153 million, -RMB114million, and -RMB38 million, respectively. Less such influencing factors, the profit before tax would go up by 25.89% from the same period last year. Core earnings showed a rapid growth.

Fuyao Glass' gross margin in the first half of the year was 34.14%, down by 0.08 ppts year-on-year, mainly due to the decrease of the gross margin of float glass by 2.1 ppts. Yet, the gross margin of automobile glass increased by 0.35 ppts year-on-year to 29.37%. The second quarter witnessed good gross margin, up by 2.3 ppts and 1.8 ppts year-on-year and quarter-on-quarter, respectively. We estimate that the main reasons include the continuous improvement in the Company's product structure, the favourable trends of exchange rates, the quarter-on-quarter rally of float glass, and the decreased ocean freight.

The overall expenses in the first half of the year were diluted, as the revenue rose: The marketing expense ratio, the management expense ratio, and the R&D expense ratio were 4.81%, 7.66%, and 4.44%, respectively, wherein the first two indicators dropped by 0.3 ppts and 0.62 ppts year-on-year, while the third one increased by 0.22 ppts year-on-year.

High-value-added Products' Proportion Continue to Rise

The Company maintained high R&D input to push forward the upgrade of product technology and the added value of products. The adoption of new energy and smart solutions in the automotive industry has further raised the glass ratio per vehicle. Therefore, Fuyao Glass' average sales price (ASP) continues rising. In the first half of the year, the proportion of high-value-added products, including ceiling glass, HUD, camera glass, coated glass, and tempered soundproof car door glass, grew by approximately 10.1 ppts to 52.4%. The ASP of automobile glass increased by approximately 10%. The future trend of automobile glass to be safe, comfortable, energy-saving, environmentally friendly, intelligent, and integrated will bring structured opportunities for the Company regarding the sales of automobile glass.

BUY (Maintain)

CMP HKD 37.25

(Closing price as at 17 October)

TARGET HKD 45.7 (+22.7%)

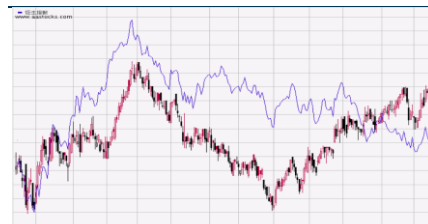
COMPANY DATA

O/S SHARES (MN) :	2610
MARKET CAP (HKD MN) :	22602
52 - WK HI/LO (HKD):	39.85/ 27.85

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	FY22	FY23E	FY24E	FY25E
Net Sales	28099	32314	38065	45298
Net Profit	4755	5658	6283	7611
EPS, CNY	1.82	2.17	2.41	2.92
P/E, x	18.3	15.8	14.2	11.8
BVPS, CNY	11.12	11.80	12.53	13.76
P/BV, x	3.0	2.9	2.7	2.5
DPS (CNY)	1.25	1.50	1.67	2.00
Div. Yield (%)	3.7%	4.4%	4.9%	5.8%

Source: Company reports, Phillip Securities Est.

Research Analyst

ZhangJing (+ 86 021-62116752/62116753)

zhangjing@phillip.com.cn

The Company completed the capital expenditure of RMB2.46 billion, with a year-on-year increase of 98.3%, accounting for 38.5% of the planned capital expenditure for the whole year. It is estimated that the capital expenditure concentrated mainly on the capacity expansion of high-value-added products and the production expansion of domestic aluminium trim business. As at the end of the first half of the year, the Company enjoyed a favourable financial profile, had RMB19.4 billion cash&bank deposit in hand, and was in a net cash position.

Investment Thesis

In the short run, the prices of raw materials and energy may decline in the second half of the year. The subsequent loss reduction of SAM and the continuous capacity expansion of the American factory will hopefully bring more potential profitability. In the medium and long run, we expect that, of automobile glass, high-value-added products' proportion will still increase. As a global leader in automobile glass, the Company will probably continue to benefit from industrial advantages. The Company has also raised funds to enter the field of photovoltaic glass, and has been expanding its product scope to open room for long-term sustainable development. We forecast its EPS to be RMB 2.17/2.41/2.92 in 2023/2024/2025E.

Overall, considering the steady leading position, continuous optimization of the product structure and a high dividend rate, we give the "BUY" rating, with a revised target price to be HK\$45.7, equivalent to 19.4/17.5/14.4x P/E for 2023/2024/2025E. (Closing price as at 17 October)

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	FY20	FY21	FY22	FY23F	FY24F	FY25F
Valuation Ratios						
P/E (X), adj.	30.3	24.8	18.3	15.8	14.2	11.8
P/B (X)	3.6	3.0	3.0	2.9	2.7	2.5
Dividend Yield (%)	2.4%	3.3%	3.7%	4.4%	4.9%	5.8%
Per share data (RMB)						
EPS, (Basic)	1.04	1.23	1.82	2.17	2.41	2.92
EPS, (Diluted)	1.04	1.23	1.82	2.17	2.41	2.92
DPS	0.75	1.00	1.25	1.50	1.67	2.00
BVPS	8.61	10.25	11.12	11.80	12.53	13.76
Growth & Margins (%)						
Growth						
Revenue	-5.7%	18.6%	19.0%	15.0%	17.8%	19.0%
EBIT	-6.1%	25.0%	41.2%	18.6%	15.7%	21.6%
Net Income, adj.	-10.3%	21.0%	51.2%	19.0%	11.0%	21.1%
Margins						
Gross margin	38.4%	35.0%	32.7%	33.3%	35.9%	36.2%
EBIT margin	15.9%	16.8%	19.9%	20.6%	20.2%	20.6%
Net Profit Margin	13.1%	13.3%	16.9%	17.5%	16.5%	16.8%
Key Ratios						
ROE	12.1%	13.1%	17.2%	18.9%	19.8%	22.2%
Income Statement (RMB mn)						
Revenue	19907	23603	28099	32314	38065	45298
Gross profit	7635	8250	9198	10757	13662	16393
EBIT	3174	3968	5604	6645	7686	9347
Profit before tax	3109	3818	5579	6834	7639	9260
Tax	511	676	826	1162	1337	1620
Profit for the period	2598	3142	4752	5672	6302	7639
Minority interests	-2	-3.186	-2.8	14	19	28
Total capital share	2509	2610	2610	2610	2610	2610
Net profit	2600	3146	4755	5658	6283	7611

Source: PSR

(Closing price as at 17 October)

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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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, Victoria 3000, Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

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