

COMPANY RESULTS

Fuyao Glass Industry Group (3606 HK)

1Q22: Earnings Up 2% yoy And 58% qoq, Missing Estimates On Forex Loss

FYG's 1Q22 net profit came in below estimates at Rmb871m (+1.9% yoy/+58.3% qoq), due to the unexpected Rmb134.89m in exchange losses. Gross margin spiked by 12.2ppt qoq, with the surge in ASP more than offsetting increase in sodium carbonate cost. FYSAM's loss narrowed 23% qoq in 1Q22. Looking ahead, the prospective drop in sodium carbonate prices will boost margins. We maintain 2022-24 earnings estimates. **Maintain BUY. Target price: HK\$45.00.**

1Q22 RESULTS

Year to 31 Dec (Rmbm)	1Q22	yoy % chg	qoq % chg	Comments
Revenue	6,548	14.8	1.5	
Gross profit	2,341	10.1	53.9	Gross margin spiked 12.2ppt qoq on ASP hike.
Net profit	871	1.9	58.3	Slightly below our and consensus estimates of Rmb900m-909m.
Net profit (adj)	856	5.2	95.7	

Source: FYG

RESULTS

- 1Q22 earnings up 1.9% yoy and 58.3% qoq, missing estimates.** Fuyao Glass Industry Group (FYG) registered Rmb871m in net profit in 1Q22 (+1.9% yoy/+58.3% qoq), slightly below our estimate of Rmb900m and consensus estimate of Rmb909m. The 1Q22 earnings missing was due to the appreciation of Rmb, which resulted in Rmb135m in exchange losses in 1Q22, compared with Rmb70m in 1Q21.
- Revenue grew 14.8% yoy and 1.5% qoq to Rmb6.548b in 1Q22.** Sales revenue of auto glass grew 17.6% yoy to Rmb6.012b in 1Q22 on a 5.6% yoy sales volume growth and 9.2% ASP increase. By region, FYG's domestic sales grew 17.2% yoy in 1Q22, while its overseas production and exports grew 18.1% yoy.
- Gross margin came in at 35.75% (-1.5ppt yoy/+12.2ppt qoq) in 1Q22.** The qoq spike in gross margin was due to the 9.2% yoy hike in ASP as a result of the 6.2ppt yoy increase in high value-added products in revenue mix, which offset the Rmb70m increase in cost of sodium carbonate and the 0.53% yoy increase in shipping cost.
- FYSAM's net loss narrowed by 27% yoy and 23% qoq to €6.7m in 1Q22,** due to the absence of provision loss as seen in 4Q21.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	19,907	23,603	26,951	30,229	33,830
EBITDA	5,856	6,643	7,190	7,845	8,556
Operating profit	3,614	4,391	5,013	5,623	6,292
Net profit (rep./act.)	2,600	3,146	4,177	4,735	5,318
Net profit (adj.)	2,304	2,816	4,177	4,735	5,318
EPS (fen)	103.7	120.5	160.0	181.4	203.8
PE (x)	23.6	20.3	15.3	13.5	12.0
P/B (x)	3.0	2.9	2.8	2.4	2.2
EV/EBITDA (x)	13.7	12.1	11.1	10.2	9.4
Dividend yield (%)	3.1	3.1	3.9	4.5	5.0
Net margin (%)	11.6	11.9	15.5	15.7	15.7
Net debt/(cash) to equity (%)	4.7	(14.2)	(18.6)	(21.5)	(24.5)
Interest cover (x)	56.1	29.3	72.1	353.2	(1,179.9)
ROE (%)	12.1	13.1	15.2	16.0	16.6
Consensus net profit	-	-	4,474	5,290	5,969
UOBKH/Consensus (x)	-	-	0.93	0.90	0.89

Source: FYG, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$29.30
Target Price	HK\$45.00
Upside	+53.6%

COMPANY DESCRIPTION

FYG manufactures and distributes automobile glass, decorated glassware and other industrial glassware. FYG sells to automakers in China, North America, Europe and other countries.

STOCK DATA

GICS sector	Industrial
Bloomberg ticker:	3606 HK
Shares issued (m):	606.8
Market cap (HK\$m):	17,778
Market cap (US\$m):	2,294
3-mth avg daily t'over (US\$m):	14.4

Price Performance (%)

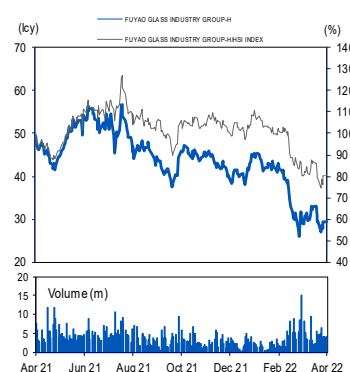
52-week high/low	HK\$58.45/HK\$25.70			
1mth	3mth	6mth	1yr	YTD
12.5	(26.5)	(35.0)	(32.3)	(27.8)

Major Shareholders

	%
Chan Fung Ying	16.29
Heren Charitable Foundation	11.11

FY22 NAV/Share (HK\$)	13.12
FY22 Net Cash/Share (HK\$)	2.44

PRICE CHART



Source: Bloomberg

ANALYST(S)

Ken Lee
 +852 2236 0760
 ken.lee@uobkayhian.com.hk

STOCK IMPACT

- **FYG keeps its target to grow global market share to 35% by 2023.** FYG's revenue growth outpaced China's auto sales growth by 15ppt in 1Q22, implying market share gain. Management maintains its goal of global market share of 35% in 2023.
- **Domestic sales and deliveries are being impacted by the recent COVID-19 containment measures in China.** FYG cannot quantify the impact now. The state has recently put in place a whitelist of auto companies that will be allowed to resume production first, which we believe will cause a partial recovery of FYG's business. However the full recovery of sales volume will depend on the timing of the removal of COVID-19 containment measures.
- **Exports are less affected by the COVID-19 lockdown.** FYG exports products via five ports, including Shanghai, Fujian, Tianjin, Guangzhou and Shenyang, and thus the lockdown of Shanghai is not crippling the company's exports.
- **We keep revenue estimates for 2022-24 at Rmb26.95b, Rmb30.23b and Rmb33.83b respectively,** as we have factored in the impact of the pandemic in 2Q22 when we cut earnings estimates after the final results announcement in March.
- **Drop in sodium carbonate prices eases cost pressure.** Management expects the prices of sodium carbonate to decrease from Rmb2,700/tonne currently to Rmb2,000/tonne in 2H22, based on the trend of float glass prices in the construction industry. As sodium carbonate is the key material for auto glass, the drop in sodium carbonate prices will reduce cost and boost gross margin.
- **We keep 2022-24 gross margin assumptions at 34%,** vs 35.8% in 1Q22 and 35% in 2021.

EARNINGS REVISION/RISK

- **We keep our 2022-24 net profit forecasts at Rmb4,177m/Rmb4,735m/Rmb5,318m.**

VALUATION/RECOMMENDATION

- **Maintain BUY and keep target price at HK\$45.00,** based on 10-year DCF (WACC: 10%/10-year FCF growth: 10%/terminal growth: 4%). Our base-case DCF-derived target price of HK\$45.00 implies 23x 2022F PE, 1SD above historical mean one-year forward PE. Based on a bear-case scenario (WACC: 10%/10-year FCF growth: 5%/terminal growth: 4%), we estimate fair value at HK\$33.00 (17x 2022F PE, slightly below historical mean one-year forward PE of 18x), which is still higher than its current stock price.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	23,603	26,951	30,229	33,830
EBITDA	6,643	7,190	7,845	8,556
Deprec. & amort.	(2,252)	(2,177)	(2,223)	(2,263)
EBIT	4,391	5,013	5,623	6,292
Total other non-operating income	(450)	-	-	-
Associate contributions	27	24	25	27
Net interest income/(expense)	(150)	(70)	(16)	5
Pre-tax profit	3,818	4,967	5,632	6,325
Tax	(676)	(795)	(901)	(1,012)
Minorities	3	4	5	5
Net profit	3,146	4,177	4,735	5,318
Net profit (adj.)	2,816	4,177	4,735	5,318

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	5,490	6,155	6,374	6,917
Pre-tax profit	3,818	4,967	5,632	6,325
Tax	(552)	(795)	(901)	(1,012)
Deprec. & amort.	2,252	2,177	2,223	2,263
Working capital changes	(27)	(24)	(25)	(27)
Other operating cashflows	(411)	(240)	(570)	(627)
Investing	410	70	16	(5)
Capex (growth)	-	-	-	-
Investments	(1,676)	(2,353)	(2,362)	(2,340)
Others	(2,275)	(2,500)	(2,500)	(2,500)
Financing	-	-	-	-
Dividend payments	-	-	-	-
Issue of shares	599	147	138	160
Proceeds from borrowings	1,952	(6,224)	(2,710)	(3,045)
Loan repayment	(1,957)	(1,957)	(2,506)	(2,841)
Others/interest paid	3,579	-	-	-
Net cash inflow (outflow)	10,743	6,000	10,000	10,000
Beginning cash & cash equivalent	(9,976)	(10,000)	(10,000)	(10,000)
Changes due to forex impact	(437)	(266)	(204)	(204)
Ending cash & cash equivalent	5,766	(2,422)	1,302	1,531

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	17,586	17,976	18,319	18,621
Other LT assets	2,527	2,534	2,543	2,555
Cash/ST investment	14,325	11,904	13,206	14,737
Other current assets	10,358	11,441	12,752	14,193
Total assets	44,796	43,855	46,820	50,106
ST debt	8,251	4,251	4,251	4,251
Other current liabilities	6,468	7,311	8,052	8,866
LT debt	2,338	2,338	2,338	2,338
Other LT liabilities	1,434	1,434	1,434	1,434
Shareholders' equity	26,317	28,537	30,766	33,243
Minority interest	(12)	(16)	(21)	(26)
Total liabilities & equity	44,796	43,855	46,820	50,106

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	28.1	26.7	26.0	25.3
Pretax margin	18.1	18.4	18.6	18.7
Net margin	11.9	15.5	15.7	15.7
ROA	7.6	9.4	10.4	11.0
ROE	13.1	15.2	16.0	16.6
Growth				
Turnover	18.6	14.2	12.2	11.9
EBITDA	13.4	8.2	9.1	9.1
Pre-tax profit	22.8	30.1	13.4	12.3
Net profit	21.0	32.8	13.4	12.3
Net profit (adj)	22.2	48.3	13.4	12.3
EPS	16.3	32.8	13.4	12.3
Leverage				
Debt to total capital	23.6	15.0	14.1	13.1
Debt to equity	40.2	23.1	21.4	19.8
Net debt to equity	(14.2)	(18.6)	(21.5)	(24.5)
Interest cover (x)	29.3	72.1	353.2	n.a.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W