

China / Hong Kong Company Update

Flat Glass Group Co., Ltd.

Bloomberg: 6865 HK Equity | 601865 CH Equity | Reuters: 6865.HK | 601865.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jan 2024

H: BUY

Last Traded Price (15 Jan 2024): HK\$14.72 (HSI : 16,216)
Price Target 12-mth: HK\$23.00 (56.3% upside) (Prev HK\$27.30)

A: BUY

Last Traded Price (15 Jan 2024): RMB27.21 (CSI300 Index : 3,281)
Price Target 12-mth: RMB37.00 (36.0% upside) (Prev RMB36.60)

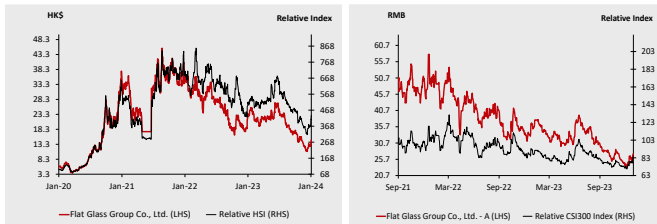
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What's New

- Solar glass is the only segment in the solar value chain unaffected by price war thanks to its duopoly position
- FGG offers a direct exposure to growing solar module installation volume
- Recent share price decline is unwarranted, current H-share P/E of c.9x is attractive on absolute and historical basis
- FGG H-share is our sector top pick; Recommend BUY on H/A shares with HK\$23/Rmb37 TP

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	15,461	21,270	25,750	31,145
EBITDA	3,625	4,832	6,269	7,667
Pre-tax Profit	2,153	2,782	3,543	4,305
Net Profit	2,123	2,504	3,189	3,874
EPS (RMB)	0.99	1.17	1.49	1.80
EPS (HK\$)	1.08	1.27	1.62	1.97
EPS Gth (%)	0.0	17.8	27.3	21.5
Diluted EPS (HK\$)	1.08	1.27	1.62	1.97
DPS (HK\$)	0.28	0.32	0.41	0.49
BV Per Share (HK\$)	7.14	8.15	9.77	11.45
PE (X)	13.6	11.6	9.1	7.5
P/Cash Flow (X)	163.5	14.9	6.5	5.0
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	10.4	8.9	7.4	6.4
Net Div Yield (%)	1.9	2.2	2.8	3.3
P/Book Value (X)	2.1	1.8	1.5	1.3
Net Debt/Equity (X)	0.6	0.9	0.9	0.9
ROAE(%)	16.4	16.7	18.1	18.6
Earnings Rev (%)		(5)	(6)	NEW
Consensus EPS (RMB)		1.20	1.49	1.84
Other Broker Recs:		B:18	S:1	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Don't throw the baby out with the bathwater

Investment Thesis

Capacity expansion continues. Flat Glass Group (FGG) is one of the top two solar glass producers globally, accounting for c.23-24% of production capacity in China. FGG's revenue growth depends on increasing sales volume from solar installations. The company has c.24,000 tons/day of planned solar glass production capacity as of end-2023.

Solar glass is the only segment in the solar value chain unaffected by a price war, thanks to the dominance and rational pricing of FGG and XY Solar. Furthermore, FGG's smaller solar glass players are starting to delay their capacity expansion plans. News about FGG's rivals exiting the market could act as a positive catalyst. We expect solar glass ASP to remain stable at Rmb26/sm. Soda ash and gas fuel costs are also expected to ease. We reckon FGG's GPM should stay stable at c.22% in FY24/25F. We have fine-tuned our FY24/25F EPS to reflect the latest solar glass price change.

Maintain BUY with H-A share target prices of HK\$23/Rmb37. We like FGG H-shares as our sector top pick. FGG's H-share price has corrected by c.67% from its peak. We reckon the decline is unwarranted as the solar glass segment is less fragmented compared to the modules. We recommend BUY on H/A shares with target price of HK\$23/Rmb37. We roll our valuation basis forward to FY24. FGG's H-share price is trading at an attractive c.9x FY24F P/E. >1SD below the average of c.18x since 2020. Our H/A target prices are pegged to target P/E of 14x/25x, which is 0.5 SD below the long-term average.

Key Risks

Unexpected slowdown in solar installations in China. Rapid capacity expansion of rivals Margin pressure on increasing input costs (fuel and raw materials)

At A Glance

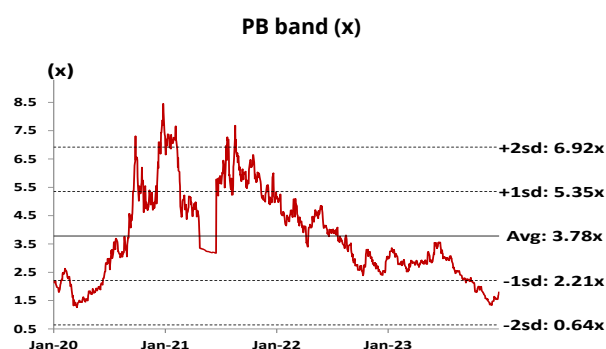
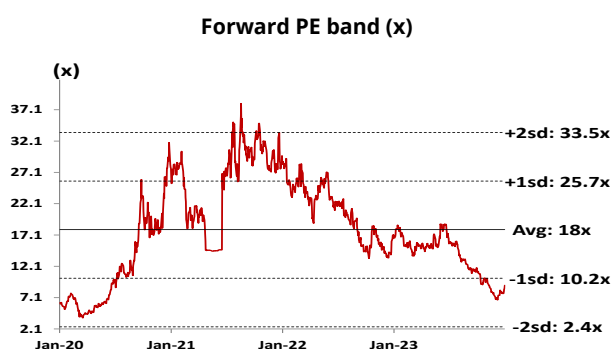
Issued Capital - H shares (m shs)	450
- Non H shrs (m shs)	1,901
H shs as a % of Total	19
Total Mkt Cap (HK\$/US\$m)	63,351 / 8,100
Major Shareholders (%)	
Ruan (Hongliang)	23.1
Ruan (Zeyun)	18.4
Jiang (Jinhua)	17.0
Major H Shareholders (As % of H shares)	
Pacific Asset Management Co., Ltd.	7.0
JPMorgan Asset Mgt (Asia Pacific) Limited	6.0
CICC Pucheng Investment Co., Ltd.	5.3
Public Investment Fund	5.0
H Shares-Free Float (%)	76.7
3m Avg. Daily Val. (US\$m)	9.7
GICS Industry: Materials / Chemicals	

Flat Glass Group Co., Ltd.

Company Background

Flat Glass Group (“FGG”) listed its H-shares in Hong Kong in Nov 2015 (6865.HK). In Feb 2019, the company listed its A-shares in Shanghai (601865.CH). FGG derived c.88% of FY22 revenue and gross profit from photovoltaic glass (PV glass). Other glass products include household glass, architectural glass, and float glass. The company also sells mining products such as quartzite ore.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Flat Glass Group Co., Ltd.

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Solar glass sales volume (m tons)	2,118	3,878	5,840	7,148	8,725
Solar glass blended ASP (Rmb/ton)	3,756.0	3,375.0	3,313.0	3,313.0	3,313.0
Solar glass GPM (%)	35.7	23.3	22.8	22.5	22.5

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
PV Glass	7,122	13,682	19,350	23,682	28,906
Household Glass	381	350	362	373	384
Architectural Glass	711	596	616	635	654
Float Glass	394	335	345	355	366
Mining Products	66	439	532	638	766
Other Business	40	59	65	67	69
Total	8,713	15,461	21,270	25,750	31,145
Gross profit (RMB m)					
PV Glass	2,542	3,190	4,402	5,328	6,504
Household Glass	117	63	29	75	77
Architectural Glass	235	84	74	114	118
Float Glass	153	(68)	14	14	15
Mining Products	38	105	160	191	230
Other Business	8	40	31	34	35
Total	3,093	3,413	4,710	5,756	6,977
Gross profit Margins (%)					
PV Glass	35.7	23.3	22.8	22.5	22.5
Household Glass	30.7	18.0	8.0	20.0	20.0
Architectural Glass	33.0	14.1	12.0	18.0	18.0
Float Glass	38.8	(20.3)	4.0	4.0	4.0
Mining Products	57.3	23.8	30.0	30.0	30.0
Other Business	20.0	67.0	48.0	50.0	50.0
Total	35.5	22.1	22.1	22.4	22.4

Source: Company, DBS HK

Flat Glass Group Co., Ltd.
Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	8,713	15,461	21,270	25,750	31,145
Cost of Goods Sold	(5,620)	(12,048)	(16,561)	(19,994)	(24,167)
Gross Profit	3,093	3,413	4,710	5,756	6,977
Other Opg (Exp)/Inc	(659)	(1,017)	(1,563)	(1,724)	(2,093)
Operating Profit	2,434	2,396	3,146	4,033	4,884
Other Non Opg (Exp)/Inc	(2)	(2)	2	2	2
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(53)	(240)	(366)	(491)	(581)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,380	2,153	2,782	3,543	4,305
Tax	(260)	(30)	(278)	(354)	(430)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	2,120	2,123	2,504	3,189	3,874
Net Profit before Except.	2,120	2,123	2,504	3,189	3,874
EBITDA	3,163	3,625	4,832	6,269	7,667
Growth					
Revenue Gth (%)	39.2	77.4	37.6	21.1	20.9
EBITDA Gth (%)	29.9	14.6	33.3	29.8	22.3
Opg Profit Gth (%)	21.3	(1.6)	31.3	28.2	21.1
Net Profit Gth (%)	30.2	0.1	18.0	27.3	21.5
Margins & Ratio					
Gross Margins (%)	35.5	22.1	22.1	22.4	22.4
Opg Profit Margin (%)	27.9	15.5	14.8	15.7	15.7
Net Profit Margin (%)	24.3	13.7	11.8	12.4	12.4
ROAE (%)	22.3	16.4	16.7	18.1	18.6
ROA (%)	13.1	8.1	7.1	7.7	7.9
ROCE (%)	16.8	11.2	9.9	10.6	10.8
Div Payout Ratio (%)	0.0	26.0	25.0	25.0	25.0
Net Interest Cover (x)	46.4	10.0	8.6	8.2	8.4

Source: Company, DBS HK

Flat Glass Group Co., Ltd.

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	6,316	11,226	15,598	20,413	24,677
Invts in Associates & JVs	90	100	100	100	100
Other LT Assets	4,778	8,674	9,356	9,882	10,524
Cash & ST Invts	2,843	2,932	636	526	1,097
Inventory	2,276	2,396	3,297	3,991	4,827
Debtors	2,632	6,203	8,000	9,291	10,529
Other Current Assets	1,147	850	951	1,029	1,124
Total Assets	20,083	32,382	37,938	45,232	52,879
ST Debt	2,171	4,398	5,398	6,398	7,398
Creditors	3,344	5,065	5,368	6,281	7,391
Other Current Liab	650	1,071	1,321	1,514	1,746
LT Debt	1,968	7,478	9,478	11,478	13,478
Other LT Liabilities	141	338	338	338	338
Shareholder's Equity	11,810	14,032	16,036	19,224	22,529
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	20,083	32,382	37,938	45,232	52,878
Non-Cash Wkg. Capital	2,062	3,313	5,559	6,517	7,344
Net Cash/(Debt)	(1,296)	(8,943)	(14,239)	(17,349)	(19,778)
Debtors Turn (avg days)	96.2	104.3	121.9	122.5	116.1
Creditors Turn (avg days)	199.7	141.9	128.0	119.7	116.7
Inventory Turn (avg days)	102.9	78.8	69.8	74.9	75.3
Asset Turnover (x)	0.5	0.6	0.6	0.6	0.6
Current Ratio (x)	1.4	1.2	1.1	1.0	1.1
Quick Ratio (x)	0.9	0.9	0.7	0.7	0.7
Net Debt/Equity (X)	0.1	0.6	0.9	0.9	0.9
Net Debt/Equity ex MI (X)	0.1	0.6	0.9	0.9	0.9
Capex to Debt (%)	90.8	67.9	40.6	39.3	33.7
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	2,380	2,153	2,782	3,543	4,305
Dep. & Amort.	546	1,313	1,684	2,235	2,782
Tax Paid	(260)	(30)	(278)	(354)	(430)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	(47)	40	0	0	0
Chg in Wkg.Cap.	(2,121)	(3,692)	(2,246)	(958)	(827)
Other Operating CF	83	393	0	0	0
Net Operating CF	580	177	1,942	4,466	5,828
Capital Exp.(net)	(3,760)	(8,061)	(6,033)	(7,033)	(7,033)
Other Invts.(net)	152	204	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	45	(12)	(704)	(543)	(654)
Net Investing CF	(3,563)	(7,869)	(6,737)	(7,576)	(7,687)
Div Paid	(414)	(741)	(501)	0	(570)
Chg in Gross Debt	2,167	8,476	3,000	3,000	3,000
Capital Issues	2,510	0	0	0	0
Other Financing CF	(308)	119	0	0	0
Net Financing CF	3,954	7,854	2,499	3,000	2,430
Currency Adjustments	281	(72)	0	0	0
Chg in Cash	1,252	90	(2,296)	(110)	571
Opg CFPS (RMB)	1.26	1.80	1.95	2.53	3.10
Free CFPS (RMB)	(1.49)	(3.68)	(1.91)	(1.20)	(0.56)

Source: Company, DBS HK

Flat Glass Group Co., Ltd.

H Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	28-Mar-23	HK\$20.70	HK\$28.00	BUY
2	31-Oct-23	HK\$14.28	HK\$27.30	BUY

Source: DBS HK

Analyst: Patricia Yeung
Ilan Chui

A Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	28-Mar-23	RMB32.66	RMB38.00	BUY
2	31-Oct-23	RMB25.85	RMB36.60	BUY

Source: DBS HK

Analyst: Patricia Yeung
Ilan Chui

Flat Glass Group Co., Ltd.

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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