

# China Glass (3300 HK)

## 1H21 earnings in line with expectations; Eye on potential M&A

Net profit came in at RMB273mn in 1H21, a turnaround from a loss of RMB248mn in 1H20, which is largely in line with expectations. The solid growth was driven by 15% YoY growth of float glass sales volume, 51% YoY increase in ASP as well as good SG&A expense control. Going forward, tight supply together with strong glass demand in 4Q21E will likely lend solid support to the float glass price. Besides, we expect potential acquisition of float glass assets from parent company will serve as additional catalyst this year.

- Solid volume, strong ASP growth and good expense control in 1H21.** Float glass sales volume grew 15% YoY to 17.1mn weight cases. ASP surged 51% YoY to RMB115/weight case, which boosted revenue up 73% YoY to RMB2bn. Unit gross profit surged 2.7x YoY and 65% HoH to RMB38/weight case, and gross margin impressively expanded 19.4ppt YoY and 7.5ppt HoH to 35.3%. On the expense side, selling& distribution expense ratio dropped 1.2ppt YoY to 2%. Administrative expense dropped 1% YoY in absolute term, bringing the expense ratio down 4.8ppt to YoY 6.4%.
- On-track capacity expansion.** As at end-Jun, China Glass had 12 float glass production lines which are all in operation. In Aug, China Glass completed the acquisition Fujian Longtai Industries Company (福建龙泰实业), taking the number of production line to 13 with daily melting capacity of 6.9k tonnes.
- M&A the next catalyst.** To recap, CNBM Group has three listed platforms, namely China Glass, **Triumph Science & Technology (600552 CH, NR)**, **Luoyang Glass (1108 HK / 600876 CH, NR)**. According to the plan of CNBM Group, China Glass will become a platform to consolidate all the float glass business under CNBM Group. We understand that CNBM Group has a total of 6kt of daily melting capacity of float glass, a similar scale to that of China Glass (6.9kt).
- Valuation not excessive.** Assuming China Glass to deliver RMB890mn net profit, China Glass is currently trading at 7.3x 2021 P/E, which we believe is undemanding.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A
Revenue (RMB mn)	2,618	2,369	3,159
YoY growth (%)	2.4	-9.5	33.3
Net income (RMB mn)	93	83	-85
EPS (RMB)	0.055	0.049	-0.051
YoY growth (%)	51.8	-10.6	n/a
Consensus EPS (RMB)	16.6	18.2	16.9
EV/EBITDA (x)	69.3	78.9	-70.8
P/E (x)	3.4	3.4	3.2
P/B (x)	0.0	0.0	0.0
Yield (%)	4.7	4.0	-4.1
ROE (%)	98.5	116.8	121.5
Net gearing (%)	2,618	2,369	3,159

Source: Company data, Bloomberg, CMBIS estimates

**NOT RATED**

Current Price

HK\$4.27

### China Industrials

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#### Stock Data

Mkt Cap (HK\$ mn)	7,735
Avg 3 mths t/o (HK\$ mn)	76
52w High/Low (HK\$)	4.50/0.34
Total Issued Shares (mn)	1,810

Source: Bloomberg

#### Shareholding Structure

Triumph Science & Technology Group*	23.01%
Legend Holdings	22.80%
Others	54.19%

\*Note: Owned by CNBM Group

Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	87.3%	84.9%
3-mth	258.8%	311.2%
6-mth	402.4%	473.0%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: KPMG

#### Related report:

China Glass – Takeaways from investor conference call – 6 Jul 2021 ([link](#))

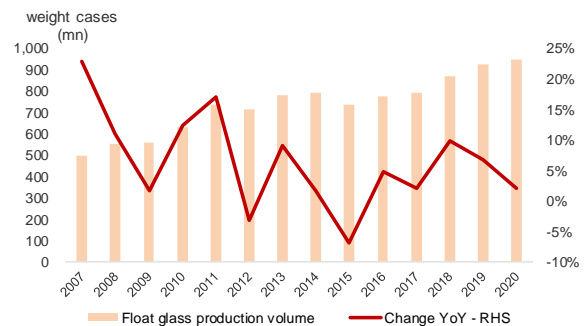
**Figure 1: Key highlights on 1H21 earnings**

YE Dec 31 (RMB mn)	1H20	1H21	Change (YoY)
<b>Revenue</b>			
<b>Total revenue</b>	<b>1,173</b>	<b>2,025</b>	<b>72.6%</b>
Cost of sales	(986)	(1,311)	32.9%
<b>Gross profit</b>	<b>187</b>	<b>715</b>	<b>282.3%</b>
Other income	7	8	11.3%
Other gains and losses	(118)	(1)	-99.5%
S&D expenses	(37)	(40)	7.0%
Administrative expenses	(131)	(130)	-1.0%
Other expenses	(12)	0	n/a
<b>EBIT</b>	<b>(105)</b>	<b>552</b>	<b>n/a</b>
Net finance income/(expense)	(134)	(139)	3.2%
Finance income	3	3	24.9%
Finance expenses	(137)	(142)	3.7%
Share of profit of JV and associates	(0)	0	n/a
<b>Pretax profit</b>	<b>(239)</b>	<b>413</b>	<b>n/a</b>
Income tax	(38)	(111)	192.0%
After tax profit	(277)	302	n/a
MI	30	(29)	n/a
<b>Net profit</b>	<b>(248)</b>	<b>273</b>	<b>n/a</b>
<b>Core net profit</b>	<b>(248)</b>	<b>273</b>	<b>n/a</b>
<b>Key ratios</b>			
			<b>Change (ppt)</b>
Gross margin	15.9%	35.3%	19.4
S&D expense ratio	3.2%	2.0%	-1.2
			0.0
Admin expense ratio	11.2%	6.4%	-4.8
R&D expense ratio	0.0%	0.0%	0.0
Net margin	-23.6%	14.9%	38.6

Source: Company data, CMBIS

**Figure 2: Spot price of float glass in China +51% YoY in 1H21**

Source: Wind, CMBIS

**Figure 3: Glass production in China**

Source: Wind, CMBIS

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