



Lifting PT to HK\$9.3 - Flat glass recovery stronger than expected

Price: HK\$7.08

Previous: HK\$8.20

- ny Gl Xi G n X ni l m li ii

n n n i n ni n l i l

ll n i il ln y nl y i i

n n i i
- i y

y ln l l in n l i n in n ni

n n n i l n i n n i

n n i i i n l l n n y

ll G nX n in in y

n i ll i in n ly ni i ln i

h n ni i i h i ll i

l n n ni i n h i l l ln n i

n l il n i i
- l l l G n n i n i in n n i

n n i i G i l l n i

n n i l i n i G l

l n l i n in i y n y i

n i i i n n n n in y i n i

n n i i
- l i i y n i i

lh n i n n l i l h y i

n n n i i n n l i n

AC

i (852) 2800-8590
leam.hk.chik@jpmorgan.com
J.P.M. CHIK<

i (852) 2800-8528
christine.ang@jpmorgan.com

J.P. Morgan Securities (Asia Pacific) Limited

	YTD	1m	3m	12m
Abs	55.3%	6.5%	24.2%	106.4
Rel	46.8%	-0.9%	11.1%	90.8%

m	D	Y	Y	Y	Y	Y
Revenue (HK\$ mn)		10,861	11,460	13,059	15,603	17,453
Net Profit (HK\$ mn)		1,365	2,113	3,119	3,806	4,419
EPS (HK\$)		0.35	0.54	0.80	0.98	1.14
DPS (HK\$)		0.15	0.27	0.40	0.49	0.57
Revenue growth (%)		9.3%	5.5%	14.0%	19.5%	11.9%
EPS growth (%)		(58.9%)	54.8%	48.9%	22.0%	16.1%
ROCE		6.1%	8.3%	12.6%	14.0%	15.2%
ROE		11.1%	16.9%	23.1%	25.0%	25.6%
P/E (x)		20.3	13.1	8.8	7.2	6.2
P/BV (x)		2.2	2.2	1.9	1.7	1.5
EV/EBITDA (x)		14.4	10.7	7.2	5.9	4.9
Dividend Yield		2.1%	3.7%	5.7%	6.9%	8.0%

Source: Company data, Bloomberg, J.P. Morgan estimates.

mp	D
Shares O/S (mn)	3,687
Market Cap (HK\$ mn)	26,103
Market Cap (\$ mn)	3,366
Price (HK\$)	7.08
Date Of Price	06 Sep 16
Free Float(%)	45.4%
3M - Avg daily vol (mn)	12.63
3M - Avg daily val (HK\$ mn)	78.41
3M - Avg daily val (\$ mn)	10.1
HSI	2,3649.55
Exchange Rate	7.76
Price Target End Date	31-Dec-17
Price Target (HK\$)	9.30

fra a o erifi ari p 00 Sran ont tured ti gs l sop st nt adan n h duncys s.Us ds t S l g d l

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Key Risks	Up Side	Down Side
- Price of float glass improving after the slack 1Q season - More information on new electric (LCD) glass business to indicate sales and profit contribution - Finalization of new downstream solar projects	- A rise in float glass price higher than our expectations driven by strong construction demand - New customers for the electric glass business is of a better quality than what we expect - Faster completion of new electric glass lines to boost sales	- Further weakness in PV glass demand from Europe - Falling demand for construction and float glass that may result from a cooling property market in China

Financial Metrics	FY 2015	FY 2016	FY 2017	FY 2018	Valuation
Revenues (LC)	11,460	13,059	15,603	17,453	Our PT is derived on a DCF based valuation with a WACC of 11.4% and a terminal growth rate of 3%
Revenue growth (%)	na	14.0%	19.5%	11.9%	
EBITDA (LC)	2,528	3,661	4,390	5,101	
EBITDA margin (%)	22.1%	28.0%	28.1%	29.2%	
Tax rate (%)	11%	14%	14%	14%	
Net profit (LC)	2,113	3,119	3,806	4,419	
EPS (LC)	0.540	0.804	0.981	1.139	
EPS growth (%)	na	48.9%	22.0%	16.1%	
DPS (LC)	0.27	0.40	0.49	0.57	
BVPS (LC)	3.25	3.68	4.17	4.74	
Operating cash flow (LC mn)	2,838	3,061	3,482	4,237	
Free cash flow (LC mn)	968	1,390	1,904	2,559	
Interest cover (x)	50	54	104	228	
Net margin (%)	18.4%	23.9%	24.4%	25.3%	
Sales/assets (X)	0.54	0.58	0.63	0.63	
Debt/equity (%)	47.4%	42.9%	37.8%	33.3%	
Net debt/equity (%)	37.2%	28.6%	22.5%	15.4%	
ROE (%)	17%	23%	25%	26%	
Auto glass capacity (m)	16.6	17.4	18.3	19.2	
Float glass capacity (mn tonnes)	5.1	5.8	5.8	6.1	
Float glass price (HK\$/ton)	1,379	1,517	1,669	1,753	

Source: Company and J.P. Morgan estimates.

Source: Company and J.P. Morgan estimates.

China's property market has been a major driver of economic growth in recent years, but it is now facing a significant challenge. The government has implemented a series of measures to cool the market, including increasing the down payment requirements for home buyers and raising the down payment ratio for commercial property. These measures have led to a sharp decline in property sales, which has in turn led to a decline in the value of property. This has had a significant impact on the economy, as property is a major source of wealth and a key component of the financial system. The government is now facing a difficult choice: whether to continue to implement measures to cool the market, or whether to take steps to support the market and prevent a further decline in property values. The outcome of this choice will have a significant impact on the future of the Chinese economy.

The property market in China has been a major driver of economic growth in recent years, but it is now facing a significant challenge. The government has implemented a series of measures to cool the market, including increasing the down payment requirements for home buyers and raising the down payment ratio for commercial property. These measures have led to a sharp decline in property sales, which has in turn led to a decline in the value of property. This has had a significant impact on the economy, as property is a major source of wealth and a key component of the financial system. The government is now facing a difficult choice: whether to continue to implement measures to cool the market, or whether to take steps to support the market and prevent a further decline in property values. The outcome of this choice will have a significant impact on the future of the Chinese economy.

The property market in China has been a major driver of economic growth in recent years, but it is now facing a significant challenge. The government has implemented a series of measures to cool the market, including increasing the down payment requirements for home buyers and raising the down payment ratio for commercial property. These measures have led to a sharp decline in property sales, which has in turn led to a decline in the value of property. This has had a significant impact on the economy, as property is a major source of wealth and a key component of the financial system. The government is now facing a difficult choice: whether to continue to implement measures to cool the market, or whether to take steps to support the market and prevent a further decline in property values. The outcome of this choice will have a significant impact on the future of the Chinese economy.

Figure 1: Floor Space of Newly Sold Property in China



Source: Bloomberg data

The company's performance in the first half of 2011 was strong, with a 10% increase in revenue and a 15% increase in profit. This was driven by a combination of factors, including a strong performance in the core business and a successful execution of the strategic plan. The company's financial position remains solid, with a strong balance sheet and a high level of liquidity. The management team is confident in the company's ability to continue to grow and create value for its shareholders.

Table: Earnings Per Share (EPS) and Return on Equity (ROE)

Year	2009	2010	2011	2012	2013	2014
Turnover	13,059	15,603	12,980	15,050	0.6%	3.7%
Gross profit	4,493	5,354	4,356	5,048	3.2%	6.1%
EBIT	2,857	3,461	2,730	3,226	4.6%	7.3%
Net profit	3,119	3,806	3,011	3,603	3.7%	9.0%
EPS (HKD)	0.80	0.98	0.78	0.93	3.7%	9.0%
Gross margin	34.4%	34.3%	33.6%	33.5%	0.9%	0.8%

Source: J.P. Morgan estimates

Valuation and Share Price Analysis

The company's share price has been volatile in recent months, reflecting the uncertainty in the market. However, the company's strong financial performance and solid balance sheet provide a strong foundation for its share price. The management team believes that the company is undervalued and expects the share price to rise in the long term. The company's share price is currently trading at a discount to its intrinsic value, which presents a significant opportunity for investors.

Leon Chik CFA
(852) 2800-8590
leon.hk.chik@jpmorgan.com

07 September 2011

J.P.Morgan

T a e 3 s YG l b b

Table 5: Revenue in US\$ million

	2010	2009	2008	2007	2006	2005
Automobile glass	3,287	3,593	3,786	3,932	4,323	4,540
YoY	6.8%	9.3%	5.4%	3.9%	10.0%	5.0%
% of total	33.1%	33.1%	33.0%	30.2%	28.0%	26.4%
Construction glass	2,155	2,556	2,652	2,895	3,912	4,074
YoY	36.9%	18.6%	3.8%	9.2%	35.1%	4.1%
% of total	21.7%	23.5%	23.1%	22.2%	25.3%	23.7%
Float glass	4,494	4,269	4,671	5,733	6,306	7,022
YoY	18.9%	-5.0%	9.4%	22.7%	10.0%	11.4%
% of total	45.2%	39.3%	40.8%	44.0%	40.8%	40.9%
PV glass	0	0	0	0	0	0
YoY	45.2%	39.3%	40.8%	44.0%	40.8%	40.9%
% of total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Electronic glass	0	443	351	475	919	1,536
YoY	na	na	-20.8%	35.3%	93.4%	67.2%
% of total	0.0%	4.1%	3.1%	3.6%	5.9%	8.9%
Total	0	0	0	0	0	0

Source: Company data, J.P. Morgan estimates

Table 6: Total expenses in US\$ million

	2010	2009	2008	2007	2006	2005
Cost of Goods Sold	(6,799)	(8,127)	(8,328)	(8,565)	(10,249)	(11,257)
YoY change (%)	-7.0%	19.5%	2.5%	2.9%	19.7%	9.8%
Gross Profit	3,137	2,734	3,132	4,493	5,354	6,196
YoY change (%)	26.7%	-12.9%	14.6%	43.5%	19.2%	15.7%
Gross Margin	31.6%	25.2%	27.3%	34.4%	34.3%	35.5%
SGA	(1,251)	(1,638)	(1,615)	(1,878)	(2,159)	(2,323)
YoY change (%)	4.5%	30.9%	-1.4%	16.3%	15.0%	7.6%
Other Income/(Expenses)	326	178	215	241	265	264
Operating profit	2,212	1,274	1,733	2,857	3,461	4,136
EBITDA margin	28.7%	17.4%	20.2%	28.0%	28.1%	29.2%
Depreciation & Amortization	(639)	(612)	(580)	(804)	(929)	(964)
YoY change (%)	9.5%	-4.3%	-5.2%	38.6%	15.6%	3.8%
EBIT margin	22.3%	11.7%	15.1%	21.9%	22.2%	23.7%
Net Interest Expense	(60)	(38)	(50)	(68)	(42)	(22)
Exceptional item	1,453	220	379	0	0	0
Associates	21	138	317	830	997	1,013
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	3,627	1,594	2,379	3,619	4,416	5,127
YoY change (%)	159.5%	-56.1%	49.3%	52.1%	22.0%	16.1%
Tax	(381)	(228)	(266)	(499)	(610)	(708)
Effective Tax rate	17.5%	16.6%	13.3%	13.8%	13.8%	13.8%
Minority Interests	1	0	0	0	0	0
Net income	172.9%	-36.1%	54.8%	47.6%	22.0%	16.1%
Net margin	32.7%	12.6%	18.4%	23.9%	24.4%	25.3%

Source: Company data, J.P. Morgan estimates

Dear Sirs,
I have the pleasure to inform you that the

Table: Cash flows \$G In t t m b t

Y	D	(	d	0	0	0	0	0	0
EBIT	2,212	1,274	1,733	2,857	3,461	4,136			
Depreciation and Amortization	639	644	795	804	929	964			
Working Capital Changes	129	60	539	(334)	(408)	(254)			
Tax Paid	(209)	(381)	(228)	(266)	(499)	(610)			
Cash Flow From Operations	2,772	1,598	2,838	3,061	3,482	4,237			
Capital expenditures	(2,913)	(1,715)	(1,914)	(1,568)	(1,444)	(1,518)			
Investments and others	(208)	32	243	87	129	125			
Net interest	(60)	(38)	(50)	(68)	(42)	(22)			
Cash Flow from Investing	(3,181)	(1,720)	(1,721)	(1,549)	(1,358)	(1,416)			
	(	0	(						
Dividends	(834)	(902)	(608)	(1,299)	(1,731)	(2,056)			
Common issue	916	(3)	1	0	0	0			
Other Financing	688	833	(18)	531	49	36			
Contribution from owner	0	(17)	(25)	0	0	0			
Cash Flow from financing	770	(89)	(650)	(767)	(1,682)	(2,020)			
Change in cash	338	(195)	467	744	442	800			
Cash beginning	703	1,042	831	1,298	2,042	2,484			
Foreign exchange changes	1	(17)	0	0	0	0			
t	0			0					

Source: Company data, J.P. Morgan estimates

Investment Thesis valuation and risks

(Overweight; Price Target: HK\$9.30)

l n y i n X i i i l i n i l n i i
l n n i n l n n i i n l i
n n n i i l l i n y n y i
i n i y i y n n i l i
l n n i n n l i l n i
n n i y l l n i n n i i
n y l n y i n n n n n i i
l i l G n l X n i
n l i n l i n i m l
n i n i n l y i i i
n i n n n n i n y n i
l l y n n i i i
y n i i n n i l h n i n n i
l y l h y i n n n i i n
n l i n

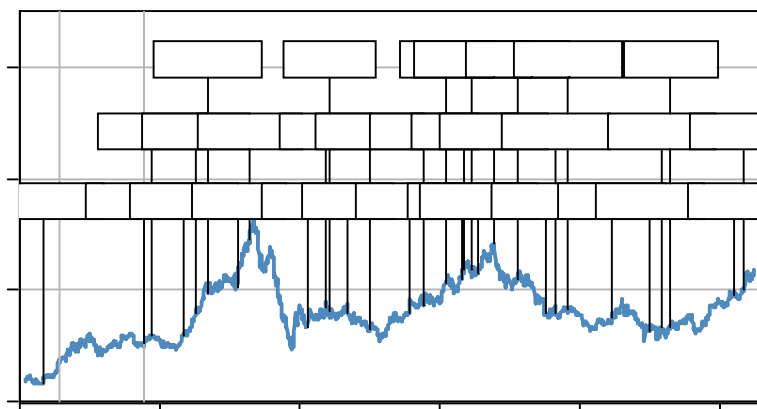
Balance Sheet

n m t t m								n t t m									
s,y	c m	ll	D	Y	Y	Y	Y	Y	s,y	c m	ll	D	Y	Y	Y	Y	Y
Revenues				10,861	11,460	13,059	15,603	17,453	EBIT				1,274	1,733	2,857	3,461	4,136
% change Y/Y				9.3%	5.5%	14.0%	19.5%	11.9%	Depr. & amortization				644	795	804	929	964
Gross Profit				2,734	3,132	4,493	5,354	6,196	Change in working capital				60	539	(334)	(408)	(254)
% change Y/Y				(12.9%)	14.6%	43.5%	19.2%	15.7%	Taxes				(381)	(228)	(266)	(499)	(610)
EBITDA				1,918	2,528	3,661	4,390	5,101	Cash flow from operations				1,598	2,838	3,061	3,482	4,237
% change Y/Y				(32.7%)	31.8%	44.8%	19.9%	16.2%	Capex				(1,723)	(1,914)	(1,730)	(1,615)	(1,698)
EBIT				1,274	1,733	2,857	3,461	4,136	Net Interest				(38)	(50)	(68)	(42)	(22)
% change Y/Y				(42.4%)	36.0%	64.9%	21.1%	19.5%	Other				41	95	249	299	304
EBIT Margin				11.7%	15.1%	21.9%	22.2%	23.7%	Free cash flow				(93)	968	1,390	1,904	2,559
Net Interest				(38)	(50)	(68)	(42)	(22)	Equity raised/(repaid)				(3)	1	0	0	0
Earnings before tax				1,594	2,379	3,619	4,416	5,127	Debt raised/(repaid)				833	(18)	531	49	36
% change Y/Y				(56.1%)	49.3%	52.1%	22.0%	16.1%	Other				(17)	(25)	0	0	0
Tax				(228)	(266)	(499)	(610)	(708)	Dividends paid				(902)	(608)	(1,299)	(1,731)	(2,056)
as % of EBT				14.3%	11.2%	13.8%	13.8%	13.8%	Beginning cash				1,042	831	1,298	2,042	2,484
Net income (reported)				1,365	2,113	3,119	3,806	4,419	Ending cash				831	1,298	2,042	2,484	3,285
% change Y/Y				(57.9%)	54.8%	47.6%	22.0%	16.1%	DPS				0.15	0.27	0.40	0.49	0.57
Shares outstanding				3,915	3,915	3,881	3,881	3,881									
EPS (reported)				0.35	0.54	0.80	0.98	1.14									
% change Y/Y				(58.9%)	54.8%	48.9%	22.0%	16.1%									
								i t									
s,y	c m	ll	D	Y	Y	Y	Y	Y	s,y	c m	ll	D	Y	Y	Y	Y	Y
Cash and cash equivalents				831	1,298	2,042	2,484	3,285	Gross margin				25.2%	27.3%	34.4%	34.3%	35.5%
Accounts receivable				2,487	2,381	2,714	3,242	3,627	EBITDA margin				17.7%	22.1%	28.0%	28.1%	29.2%
Inventories				1,478	1,223	1,393	1,665	1,862	Operating margin				11.7%	15.1%	21.9%	22.2%	23.7%
Others				8	93	63	790	1,508	Net margin				12.6%	18.4%	23.9%	24.4%	25.3%
Current assets				4,805	4,995	6,211	8,181	10,281	Sales per share growth				6.8%	5.5%	14.9%	19.5%	11.9%
LT investments				4,936	3,249	3,412	3,582	3,761	Sales growth				9.3%	5.5%	14.0%	19.5%	11.9%
Net fixed assets				11,293	13,177	13,941	14,456	15,010	Net profit growth				(57.9%)	54.8%	47.6%	22.0%	16.1%
Total Assets				21,034	21,422	23,564	26,219	29,053	EPS growth				(58.9%)	54.8%	48.9%	22.0%	16.1%
Liabilities									Interest coverage (x)				50.4	50.3	53.6	103.9	227.9
Short-term loans				2,609	2,514	2,219	2,219	2,219	Net debt to equity				42.7%	37.2%	28.6%	22.5%	15.4%
Payables				724	740	843	1,007	1,127	Working Capital to Sales				0.0	0.0	0.1	0.2	0.2
Others				1,468	1,705	2,054	2,593	3,062	Sales/assets				0.5	0.5	0.6	0.6	0.6
Total current liabilities				4,801	4,959	5,116	5,820	6,408	Assets/equity				1.7	1.7	1.7	1.6	1.6
Long-term debt				3,483	3,514	3,908	3,908	3,908	ROE				11.1%	16.9%	23.1%	25.0%	25.6%
Other liabilities				414	223	254	303	339	ROCE				6.1%	8.3%	12.6%	14.0%	15.2%
Total Liabilities				8,698	8,696	9,278	10,030	10,654									
Shareholders' equity				12,333	12,718	14,278	16,181	18,391									
BVPS				3.15	3.25	3.68	4.17	4.74									

Source: Company reports and J.P. Morgan estimates.

n y y ni li n y i n y n n i i i l l i
 n lly i i i i i y i i n y n n i i ll i
 ny n y n n i ll i yi n i y li i ni n i i
 y n y n i ill n y l n in y l y i
 n n n i i n y i n in i l i n n ni in n l n i

- yiinŋ Gl Xi i n l n iin l ii i n l y i ini i i
- n i i n n l n n l i n i y ŋ i nyiGl Xi i
- n n ŋ n i i n ll n n y i l m i ny Gl Xi i
- n n ln ŋy Gl Xi i n n ŋ n i i n ll n n y i n i in i
- ny Gl Xi i n n i i n n n n in m n i i
- n n i i n ny Gl Xi i n n i i n n n n in m n i
- n h ni ll n l nil n i i n i n n iy il i l l i
h ii l n i i ini y n i iii l lh i i i
l y n n n i y n n il i y n l ni ll i i
l i l n i i ini



03 Feb 09	1.00	2.25
0 Mar-10	3.16	.12
31-Mar-10	3.59	5.50
02-Aug-10	3.51	5.70
20-Sep-10	.76	6.80
09-Nov-10	5.80	8.80
01-Mar-11	6.13	9.00
20-Apr-11	8.77	11.00
28-Nov-11	.03	6.00
09 Feb 12	5.01	5.10
27 Feb 12	.80	.60
07-May-12	.78	5.50
01-Aug-12	3.92	5.10
31-Dec-12	.78	5.90
28 Feb 13	5.16	6.90
22-May-13	6.30	8.00
23-Jul-13	6.58	8.70
31-Jul-13	7.13	10.00
0-Sep-13	7.07	10.50
26-Sep-13	6.92	10.90
25-Nov-13	8.53	9.80
26 Feb 14	65.6	10.00

20 Jun-1	.76	650
2 Jul-1	.76	5.70
15-Sep-1	.92	6.70
02-Mar-15	.55	6.10
28 Jul-15	3.80	5.50
10-Sep-15	3.95	5.20
15-Oct-15	3.97	6.00
17 Jun-16	5.67	7.00
02-Aug-16	6.0	8.20

i n n n n i i n n y y yn n i i
 n n n i n i i i l n i
 n l n n n y i i n l i n l l i i
 n l n n n y i n y n n i l n n y l i
 n n n i l l i n i i i l n n n y i n y
 n n n i n i l i n l l i i n l n
 l l i i n y i n y n i n n i n n i i
 n n n i l l i i n i n i n i n l l i l y l y i
 n n n n i n i l l i i n i l n l l n n i n n i i i
 n n n n i n i l l i i n i l l n y i i n l n
 n n l n n i n y n n i n y n n i n i
 i n i n i y n n y i i n n i n n n
 G i i n l i n l y i n i i n n i n i n n i i
 n n n l n i n n n n l i n G Gn i i
 n i n n n i l l n i i n n l l n i i n i l i
 n n l n i i n l n i i i Gl l X l y n l i i
 n n n l l n i i n n n n l i y l l n i i i n G i
 G l n i ny Gl Xi i ny l Xi i i i l n i n i

y	l	ll
n Gl l y i		
ln i		
y i		
ln i		

n n n n n l n n i i n i y i
 n n y n n n i n i i i n l n i y n y i l n l l n i l i
 n y i n n n l l n i l l n y i l n n i n n i n i l i

l n l i y n i i i n i i
 y n l i n n ny i i li i l n i i i i n y n y i
 n n l n i l y n i y l n i n i i l l n i
 l i i n n l n n n y l n i n i l y n n
 n y n l i i n y n l y n n i n i i i n l i i
 n n n i l y i i n y n

n n l l i n n n i i n l i l i i n i n n n i i i
ll i ll l l l n i i l n y l l n i l n i i n ll n n i
n i i i l l i y i ll l l n i l i l n y l
n i n n i n i n i i n l i n n i l l n y i n
l n y n n i i n y i n l n i i n i i n i n i i
i i n l l n i y i n i l n y n i n l n i i y n l i l i n y i
n l l m i y i l i i n l n y i n l l m i y i l i l i n n
l y n n l n i i y n i n l l m i y i n n i l n i l m i y i n i
n n n n l y n n l i i i n i i y i i i i i i i i i i
y n n n n y y n i n i i n n n i i n i n n n n n i i
n l y i i n n n i i i n n n i i n i l i n n i i y i
i n i n n n l i y i i i n l i i i i i i
n i n l y n n l i i i i i i i i i n n i i i i i
l y n i l n n l i n n i i n X i i X n n i i i i i i
n i i n y i n n y y n l y n i i n i i n n n h i i
n i i n y i i i i i n i n i n i n y n n n i i
n i i i i l i i i i i y n n i i i i i i i
l n i i n n i y i i n n i i i i l i n i i n i l n y i n
l n i i i i i i n l n n i l y n y n n i n i n i i
n n n i i i i n n i n n l y n l n i n n
l n n i i i n i m i i l l n i i i n n l n i i n i l n n i i i
n i i n n i l y n i n n n y i i n n l i y
l i l i i n i y n l n l i n l n n i n G
n n i i i n i i n i n i y i l y n l n n i n i n i i
n i i n i n i i i n l i y n y y n i i l i n i i
n i n i n i i n i n n l n i i i n n n i i n i i
n i i n n i i n i n i n i n i n i n i n i n i i n l l n l i
n i i n i n l n i i i n n i n i n i n i i n i n n
n n i n y n i n n n i i n n i i n

[illegible]