UOBKayHian

Company – Results | Greater China

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Fuyao Glass (3606 HK)

2Q26: Core Earnings Up 10% yoy On Margin Gain, Missing Our Estimates But Meeting Consensus; Cut Target Price To HK$84

Highlights

- 2Q26 core net profit grew 10.4% yoy and 24.9% qoq to Rmb2.6b, missing our estimate but meeting consensus forecasts. The 2Q26 earnings miss stemmed from a top-line miss, offsetting the margin beat.
- We trim our 2026-28 net profit forecasts by 3%/2%/4% to Rmb9,615m/Rmb11,658m/Rmb13,132m respectively on lower sales volume and higher gross margin.
- Management stated that 2Q26 was the industry trough, and customer rolling forecasts point to a recovery in 3Q26.
- Maintain BUY and cut target price from HK$100 to HK$84, as we lower target PE multiple from 23x to 16x.

2Q26 Results

Year to 31 Dec (Rmbm)	2Q26	yoy %	qoq %	1H26	yoy %	Prev. 2026F	yoy %	1H26 / 2026	Comment
Revenue	11,558	0.2	11.0	21,971	2.4	51,731	13.0	0.42	Sales volume up 3-4%, ASP up 8%
Gross profit	4,642	4.5	19.3	8,535	7.4	19,296	13.1	0.44	
Gross margin (%)	*40.2*	*1.7*	*2.8*	*38.8*	1.8	*37.3*	*0.0*	*1.04*	Tax rate, drop in soda ash prices
EBIT	2,935	4.3	28.9	5,212	6.0	11,595	11.6	0.45	
EBIT margin (%)	*25.4*	*1.0*	*3.5*	*23.7*	*0.8*	*22.4*	*(0.3)*	*1.06*	
Net profit	2,259	(18.6)	32.0	3,970	(17.4)	9,954	6.9	0.40	Dragged by forex loss
Net profit – adj	2,600	10.4	24.9	4,682	14.0	10,832	22.2	0.43	
Core net margin (%)	*22.5*	*2.1*	*2.5*	*21.3*	*2.2*	*20.9*	*0.3*	*1.02*	

Source: Fuyao Glass, UOB Kay Hian

Analysis

- **Fuyao Glass' (FYG) 2Q26 net profit came in below estimate at Rmb2,259m (-18.6% yoy/+32% qoq) on forex loss.** This brings 1H26 net profit to Rmb3,970m (-17.4% yoy), representing 40% of our full-year estimate. Forex gains/losses swung to a net loss of Rmb364m/Rmb803m in 2Q26/1H26 from a net gain of Rmb366m/Rmb600m in 2Q25/1H25. We now factor in Rmb803m in forex losses for 2026, vs Rmb439m previously.
- **Core net profit grew 10.4% yoy and 24.9% qoq to Rmb2.6b, below our estimate of Rmb2.8b but in line with consensus forecasts.** This takes Fuyao Glass' (FYG) 1H26 core net profit to Rmb4,682m (+14% yoy), representing 43% of our full-year estimate. The earnings growth in 2Q26 was driven by margin gains rather than top-line growth. 2Q26 core earnings missed our estimates, with revenue miss offsetting the margin beat.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	39,252	45,787	48,172	53,758	60,972
EBITDA	11,316	13,465	14,772	16,380	18,156
Operating profit	8,589	10,388	11,706	13,332	15,121
Net profit (rep./act.)	7,498	9,312	9,615	11,658	13,132
Net profit (adj.)	7,470	8,867	10,417	11,658	13,132
EPS (US cents)	287.3	356.8	368.4	446.7	503.2
PE (x)	17.6	14.2	13.8	11.3	10.1
P/B (x)	3.7	3.5	3.2	2.8	2.5
EV/EBITDA (x)	11.3	9.5	8.7	7.8	7.1
Dividend yield (%)	3.6	4.1	4.4	5.3	6.0
Net margin (%)	19.1	20.3	20.0	21.7	21.5
Net debt/(cash) to equity	(10.6)	(6.3)	(10.7)	(5.3)	(5.6)
Interest cover (x)	(13.1)	(12.5)	45.1	(24.4)	(29.5)
ROE (%)	22.3	24.2	26.3	26.1	25.9
Consensus net profit	-	-	10,151	11,820	13,453
UOBKH/Consensus (x)	-	-	1.03	0.99	0.98

Source: Fuyao Glass, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	HK$58.30
Target Price	HK$84.00
Upside	44.1%
Previous TP	HK$100.00

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	3606 HK
Shares issued (m)	606.8
Market cap (HK$m)	35,373.9
Market cap (US$m)	4,564.4
3-mth avg daily t'over (US$m)	20.1

Price Performance (%)

52-week high/low: HK$86.00/HK$47.70

1mth	3mth	6mth	1yr	YTD
7.2	1.5	(8.2)	(0.5)	(13.2)

Major Shareholders (%)

Chan Fung Ying	16.95
Heren Charitable Foundation	11.56

Balance Sheet Metrics

FY26 NAV/Share (HK$)	17.18
FY26 Net Debt/Share (HK$)	2.02

Price Chart

Source: Bloomberg

Company Description

Fuyao Glass, through its subsidiaries, manufactures and distributes automobile glass, decorated glassware, and other industrial glassware. The company also provides glass installation service. It markets its products to automakers in North America, Europe, China and other countries.

- **Revenue remained flat yoy at Rmb11.56b in 2Q26, albeit up 11% qoq.** This takes 1H26 revenue to Rmb21.97b (+2.4% yoy), representing 42% of our full-year estimate. 1H26 vehicle production volume dipped 1% yoy globally and by 4% yoy in China. FYG's auto glass sales revenue grew 3.75% yoy in 1H26 on 3-4% sales volume drop and 7.4% ASP hike. The ASP rise was due to product mix optimisation with high value-added products' share in revenue mix rising by 8ppt yoy to 59.7%.
- **We trim our 2026-28 sales volume growth estimates from 5%/8%/8% to 1%/7%/8%,** based on the slower-than-expected sales volume growth in 1H26. Having said that, we expect sales volume to rebound from 2H26. Management stated that 2Q26 was the industry trough, and customer rolling forecasts point to a recovery in 3Q26. The company continues to take share in overseas markets with improving efficiency and optimising product mix against the backdrop of vehicle electrification and intelligentisation.
- **Margin improvement on higher capacity utilisation and lower raw material prices.** Gross margin soared to 40.2% (+1.7ppt yoy/+2.8ppt qoq) in 2Q26 and 38.8% (+1.8ppt yoy) in 1H26, above our full-year assumption of 37.3%, with the one-off tax rebate (+1.28ppt), rise in capacity utilisation, and a drop in soda ash prices offsetting the annual price reduction (-1.15ppt). EBIT margin rose to 25.4% (+1.0ppt yoy/+3.5ppt qoq) in 2Q26 and 23.7% (+0.8ppt yoy) in 1H26, above our full-year assumption of 22.4%.
- **The US segment is well on track to recover from fire at the Phase 2 plant.** The segment's EBIT margin (excluding tariff rebates) remained flat at 17.5% in 2Q26, despite the fire at the Phase 2 plant on 22 Mar 26. The Phase 2 plant will resume production in 3Q26.
- **The aluminium trim segment is approaching the inflection point of breakeven.** The loss of the Germany aluminum trim segment (FYSAM) narrowed by 38% yoy to €2.17m in 1H26 despite a revenue drop, and the company expects to achieve breakeven in 2026. The China aluminium trim segment registered Rmb660m in revenue (+2.3% yoy) in 1H26, with EBIT margin of 7.4% (+5.1ppt qoq). We cut our 2026-27 revenue growth forecasts for the aluminium trim segment from 25%/20%/20% to -3%/5%/10% respectively, based on the lukewarm revenue growth in 1H26.
- **We maintain our 2026-27 assumptions on ASP hike at 7% p.a., on par with management guidance of 6-7% p.a.** The ASP hike will be continuously driven by the rising share of the high value-added products in revenue mix.
- **We raise our 2026-27 gross margin assumptions from 37.3%/37.3%/37.3% to 39.5%/40%/40% respectively,** based on the upbeat gross margin in 1H26. Going forward, gross margin will be underpinned by sales volume recovery and steady input costs. Cost factors (soda ash, energy) remain largely stable, while ocean freight rates edged up slightly.
- **The company declared an interim dividend of Rmb1.0/share for 1H26, implying a dividend payout ratio of 65.7%, up from 48.9% in 1H25.**

Earnings Revision/Risk

- **We trim our 2026-28 net profit forecasts by 3%/2%/4%** to Rmb9,615m/Rmb11,658m/Rmb13,132m respectively.
- **Risks:** a) slower-than-expected recovery of global auto sales, b) commodity cost hikes, and c) further appreciation of the renminbi.

Valuation/Recommendation

- **Maintain BUY and cut target price from HK$100 to HK$84,** as we roll over the valuation base year from 2026 to 2027, and lower target PE multiple from 23x (1SD above historical mean) to 16x (on par with the historical mean). The stock offers a 4.4% dividend yield for 2026, with 17% CAGR in 2027-28.

Share Price Catalyst

- Catalysts: a) US plant restart, b) sales volume picks up.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	45,787	48,172	53,758	60,972
EBITDA	13,465	14,772	16,380	18,156
Deprec. & amort.	(3,077)	(3,066)	(3,048)	(3,035)
EBIT	10,388	11,706	13,332	15,121
Total other non-operating income/(expense)	(19)	-	-	-
Associate contributions	(38)	-	-	-
Net interest income/(expense)	831	(260)	546	513
Pre-tax profit	11,162	11,446	13,878	15,634
Tax	(1,845)	(1,831)	(2,221)	(2,501)
Minorities	(4)	-	-	-
Net profit	9,312	9,615	11,658	13,132
Net profit (adj.)	8,867	10,417	11,658	13,132

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	26,428	31,382	36,341	41,306
Other LT assets	4,288	3,969	3,661	3,361
Cash/ST investment	19,241	21,331	19,390	19,863
Other current assets	20,105	18,715	23,337	26,318
Total assets	70,062	75,397	82,730	90,849
ST debt	12,842	12,842	12,842	12,842
Other current liabilities	12,724	13,925	15,369	17,350
LT debt	4,048	4,048	4,048	4,048
Other LT liabilities	2,896	2,896	2,896	2,896
Shareholders' equity	37,556	41,691	47,580	53,717
Minority interest	(4)	(4)	(4)	(4)
Total liabilities & equity	70,062	75,397	82,730	90,849

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating				
Pre-tax profit	12,055	14,728	10,981	14,655
Tax	11,162	11,446	13,878	15,634
Deprec. & amort.	(1,845)	(1,831)	(2,221)	(2,501)
Associates	3,077	3,066	3,048	3,035
Working capital changes	21	-	-	-
Non-cash items	(1,284)	2,590	(3,178)	(999)
Other operating cashflows	924	(543)	(546)	(513)
Investing	-	-	-	-
Capex (growth)	(6,099)	(6,765)	(6,762)	(6,796)
Investments	(6,164)	(7,700)	(7,700)	(7,700)
Others	-	-	-	-
Financing	65	935	938	904
Dividend payments	(5,170)	(5,872)	(6,161)	(7,386)
Proceeds from borrowings	(7,315)	(5,872)	(6,161)	(7,386)
Loan repayment	14,182	12,000	12,000	12,000
Others/interest paid	(12,769)	(12,000)	(12,000)	(12,000)
Net cash inflow (outflow)	731	-	-	-
Beginning cash & cash equivalent	786	2,090	(1,941)	473
Changes due to forex impact	18,734	19,241	21,331	19,390
Ending cash & cash equivalent	(279)	-	-	-

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	29.4	30.7	30.5	29.8
Pre-tax margin	24.4	23.8	25.8	25.6
Net margin	20.3	20.0	21.7	21.5
ROA	13.3	14.3	14.7	15.1
ROE	24.2	26.3	26.1	25.9
Growth				
Turnover	16.7	5.2	11.6	13.4
EBITDA	19.0	9.7	10.9	10.8
Pre-tax profit	24.1	2.5	21.3	12.6
Net profit	24.2	3.2	21.3	12.6
Net profit (adj.)	18.7	17.5	11.9	12.6
EPS	24.2	3.2	21.3	12.6
Leverage				
Debt to total capital	24.1	22.4	20.4	18.6
Debt to equity	45.0	40.5	35.5	31.4
Net debt/(cash) to equity	(6.3)	(10.7)	(5.3)	(5.6)
Interest cover (x)	(12.5)	45.1	(24.4)	(29.5)