

Fuyao Glass (3606 HK)

3Q26: Earnings Dragged By Higher Sea Freight Costs And One-off Expenses; Cut Target Price To HK\$77.00

Highlights

- 3Q26 core net profit dropped 4.1% yoy and 13.1% qoq to Rmb2.22b, missing estimates, due to higher sea freight costs, and one-off expenses.
- We expect margins to recover modestly in 4Q26, based on easing sea freight costs, flat soda ash prices, and the absence of one-off expenses.
- Sales volume and ASP will be driven by the accelerating industry consolidation, and vehicle intelligentisation overseas.
- We trim our 2026-28 net profit forecasts by 11%/8%/8% to Rmb8.58b/Rmb10.73b/Rmb12.12b respectively on lower margins.
- Maintain BUY and cut target price from HK\$84.00 to HK\$77.00.

3Q26 Results

Year to 31 Dec (Rmbm)	3Q26	yoy %	qoq %	9M26	yoy %	Prev. 2026F	yoy %	9M26 / 2026	Comment
Revenue	12,152	2.5	5.1	34,123	2.5	48,172	5.2	0.71	Sales volume up 3-4%, ASP up 8%
Gross profit	4,623	2.9	(0.4)	13,157	5.8	19,028	11.5	0.69	
Gross margin (%)	38.0	0.1	(2.1)	38.6	1.2	39.5	2.2	0.98	Tax rate, drop in soda ash prices
EBIT	2,673	(2.2)	(8.9)	7,885	3.1	11,706	12.7	0.67	
EBIT margin (%)	22.0	(1.1)	(3.4)	23.1	0.1	24.3	1.6	0.95	
Net profit	2,036	(9.9)	(9.9)	6,006	(15.0)	9,615	3.3	0.62	Dragged by forex loss
Net profit – adj*	2,217	(4.1)	(13.1)	6,946	7.9	11,039	24.5	0.63	
Core net margin (%)	16.8	(2.3)	(2.8)	17.6	(3.6)	20.0	1.2	0.88	

* Excluding forex gains/losses, government grants and some one-off items.

Source: Fuyao Glass, UOB Kay Hian

Analysis

- 3Q26 results missed estimates with GAAP net profit of Rmb2,036m (-9.9% yoy/-9.9% qoq) and adjusted net profit of Rmb2,217m (-4.1% yoy/-13.1% qoq), vs consensus estimate of Rmb2.65b.** Fuyao Glass' (FYG) 3Q26 earnings miss stemmed from: a) spikes in sea freight costs, b) Rmb78m in product quality defect compensation, and c) US\$14.34m (~Rmb100m) in expenses related to the fire at Phase 2 of the US plant.
- Revenue grew 2.5% yoy and 5.1% qoq to Rmb14.05b, missing estimates on ASP.** 3Q26 ASP per sqm only soared about 4.5% yoy, vs a 7.4% yoy hike in 1H26, due to the appreciation of the renminbi. Stripping out forex impact, 3Q26 ASP per sqm rose 6.5% yoy. 9M26 ASP per sqm rose 6.4% yoy, boosting revenue by 2.5% yoy to Rmb34.12b (71% of our full-year 2026 estimate), despite sales volume decline.

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	14,145	15,359	16,998
Operating profit	8,589	10,388	11,079	12,311	13,963
Net profit (rep./act.)	7,498	9,312	8,584	10,732	12,123
Net profit (adj.)	7,470	8,916	9,692	10,698	12,089
EPS (US cents)	287.3	356.8	328.9	411.2	464.5
PE (x)	15.4	12.4	13.4	10.8	9.5
P/B (x)	3.2	3.1	2.8	2.5	2.2
EV/EBITDA (x)	9.8	8.3	7.9	7.3	6.6
Dividend yield (%)	4.1	4.7	4.5	5.6	6.3
Net margin (%)	19.1	20.3	17.8	20.0	19.9
Net debt/(cash) to equity	(10.6)	(6.3)	(2.0)	(2.1)	(1.8)
Interest cover (x)	(13.1)	(12.5)	14.9	(28.9)	(32.6)
ROE (%)	22.3	24.3	24.8	24.6	24.6
Consensus net profit	-	-	10,151	11,820	13,453
UOBKH/Consensus (x)	-	-	0.95	0.91	0.90

Source: Fuyao Glass, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK\$51.75
Target Price	HK\$77.00
Upside	48.8%
Previous TP	HK\$84.00

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	3606 HK
Shares issued (m)	606.8
Market cap (HK\$m)	31,399.7
Market cap (US\$m)	4,051.6
3-mth avg daily t'over (US\$m)	21.1

Price Performance (%)

52-week high/low			HK\$69.975/HK\$46.544	
1mth	3mth	6mth	1yr	YTD
(7.1)	(6.2)	(17.7)	(25.3)	(22.9)

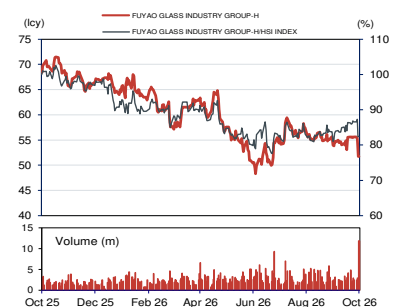
Major Shareholders (%)

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.

- **Gross margin dragged by higher sea freight costs.** Gross margin edged up 0.1ppt yoy but fell 2.1ppt qoq to 38.0% in 3Q26, taking 9M26 gross margin to 38.6% (+1.2ppt yoy), vs our full-year 2026 assumption of 39.5%. The qoq gross margin drop in 3Q26 was due to the spikes in sea freight costs. Transpacific spot rate rallied by 12-15% qoq in 3Q26.
- **One-off items hit bottom line by Rmb150m.** FYG registered Rmb78m in extra selling expenses for product quality defect compensation, and US\$14.34m (~Rmb100m) in additional other expenses for the fire at Phase 2 of the US plant. These two items brought about Rmb180m in extra expenses, hitting bottom line by Rmb150m on a post-tax basis.
- **Sales volume growth driven by accelerating industry consolidation following more plant closures in Europe.** We maintain our 2026-28 sales volume estimates at 171m/183m/198m sqm respectively (+1%/7%/8% yoy). The sustained high energy prices in Europe forced the closure of auto glass plants in the continent, leaving more room for FYG to grow. Since 2Q-3Q26, AGC has closed its German plant, Nippon Sheet Glass has closed its German plant, and Saint-Gobain has consolidated its Spanish plant.
- **ASP still expected to rise 6-7% p.a. in 2026-28, driven by accelerating vehicle intelligentisation in overseas markets.** Based on new nominations, European auto OEMs are accelerating their vehicle intelligentisation initiatives. This boosts FYG's sales of the high value-added auto glass products.
- **Margins to be underpinned by easing sea freight costs, flat soda prices, and a better-than-expected improvement in the US segment.** Based on 3Q26 results, we cut 2026-28 gross margin assumptions to 38.4%/38.0%/38.0% from 39.5%/40.0%/40.0%, and our 2026-28 EBIT margin assumptions to 23.0%/22.9%/22.9% from 24.5%/24.5%/24.5%, respectively. Our new assumptions imply a flat qoq gross margin of 38.0% and a slightly higher qoq EBIT margin of 22.7% in 4Q26.
- **Ocean freight (mild tailwind).** SCFI Europe stood at US\$2,199/TEU at end-September and rebounded to US\$2,274/TEU by mid-October, still below the 3Q average. Carriers have announced further increases for late-October, but European demand remains weak and new capacity is still being absorbed. We model Asia-Europe spot holding in a US\$2,900-3,200/FEU range through year-end, implying a modest sequential easing in freight cost versus 3Q's peak-impact quarter.
- **The Rmb180m in one-off cost will be refundable.** According to management, the company will likely take back the compensation from the insurance companies in 4Q26-2027.
- **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 pretty flat at above 17% in 3Q26, vs 17.5% in 2Q26, despite the fire at the Phase 2 plant on 22 Mar 26. The Phase 2 plant has resumed production. Management guides for a 1ppt p.a. hike in EBIT margin for the US segment in 2026/27 respectively, better than previously expected.

Earnings Revision/Risk

- **We trim our 2026-28 net profit forecasts by 11%/8%/8% to Rmb8,584m/Rmb10,732m/Rmb12,123m 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\$84.00 to HK\$77.00**, based on the unchanged 16x 2027F target PE (on par with the historical mean) and lower 2027F EPS.

Share Price Catalyst

- Catalysts: 4Q26 margin recovery.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	45,787	48,172	53,758	60,972
EBITDA	13,465	14,145	15,359	16,998
Deprec. & amort.	(3,077)	(3,066)	(3,048)	(3,035)
EBIT	10,388	11,079	12,311	13,963
Total other non-operating income/(expense)	(19)	(119)	40	40
Associate contributions	(38)	-	-	-
Net interest income/(expense)	831	(742)	426	429
Pre-tax profit	11,162	10,219	12,776	14,432
Tax	(1,845)	(1,635)	(2,044)	(2,309)
Minorities	(4)	-	-	-
Net profit	9,312	8,584	10,732	12,123
Net profit (adj.)	8,916	9,692	10,698	12,089

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating				
Pre-tax profit	12,055	11,145	12,578	13,698
Tax	11,162	10,219	12,776	14,432
Deprec. & amort.	(1,845)	(1,635)	(2,044)	(2,309)
Associates	3,077	3,066	3,048	3,035
Working capital changes	21	-	-	-
Non-cash items	(1,284)	(46)	(777)	(1,031)
Other operating cashflows	924	(458)	(426)	(429)
Investing	-	-	-	-
Capex (growth)	(6,099)	(6,850)	(6,882)	(6,879)
Investments	(6,164)	(7,700)	(7,700)	(7,700)
Others	-	-	-	-
Financing	65	850	818	821
Dividend payments	(5,170)	(5,872)	(5,542)	(6,831)
Proceeds from borrowings	(7,315)	(5,872)	(5,542)	(6,831)
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	(1,577)	153	(13)
Changes due to forex impact	18,734	19,241	17,664	17,817
Ending cash & cash equivalent	(279)	-	-	-

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	17,664	17,817	17,804
Other current assets	20,105	19,916	22,144	24,965
Total assets	70,062	72,930	79,964	87,437
ST debt	12,842	12,842	12,842	12,842
Other current liabilities	12,724	12,488	13,940	15,730
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	40,660	46,242	51,925
Minority interest	(4)	(4)	(4)	(4)
Total liabilities & equity	70,062	72,930	79,964	87,437

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	29.4	29.4	28.6	27.9
Pre-tax margin	24.4	21.2	23.8	23.7
Net margin	20.3	17.8	20.0	19.9
ROA	13.4	13.6	14.0	14.4
ROE	24.3	24.8	24.6	24.6
Growth				
Turnover	16.7	5.2	11.6	13.4
EBITDA	19.0	5.1	8.6	10.7
Pre-tax profit	24.1	(8.4)	25.0	13.0
Net profit	24.2	(7.8)	25.0	13.0
Net profit (adj.)	19.4	8.7	10.4	13.0
EPS	24.2	(7.8)	25.0	13.0
Leverage				
Debt to total capital	24.1	23.2	21.1	19.3
Debt to equity	45.0	41.5	36.5	32.5
Net debt/(cash) to equity	(6.3)	(2.0)	(2.1)	(1.8)
Interest cover (x)	(12.5)	14.9	(28.9)	(32.6)

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