

China / Hong Kong Company Update

Minth Group

Bloomberg: 425 HK EQUITY | Reuters: 0425.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Jan 2022

BUY

Last Traded Price (21 Jan 2022): HK\$37.25 (HSI : 24,966)
Price Target 12-mth: HK\$49.00 (32% upside)

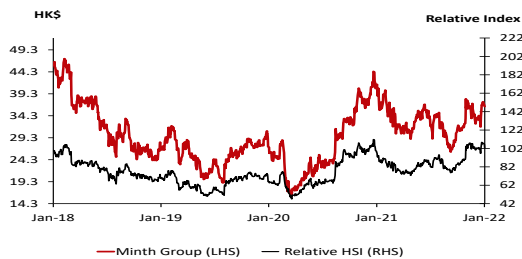
Analyst

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What's New

- Positive outlook for new contracts as global automakers restarting new model programmes
- Profit margin enhancement as sales of innovative products rise
- New production facility to support business growth and market share increase
- Maintain BUY; HK\$49 TP pegged to 21x FY22F PE

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	12,467	14,567	17,540	22,107
EBITDA	2,567	2,949	3,649	4,453
Pre-tax Profit	1,680	2,138	2,722	3,400
Net Profit	1,396	1,747	2,235	2,791
Net Pft (Pre Ex) (core profit)	1,396	1,747	2,236	2,792
Net Profit Gth (Pre-ex) (%)	(17.4)	25.2	27.9	24.9
EPS (RMB)	1.21	1.52	1.94	2.43
EPS (HK\$)	1.49	1.86	2.39	2.98
EPS Gth (%)	(17.6)	25.2	27.9	24.9
Diluted EPS (HK\$)	1.49	1.86	2.38	2.97
DPS (HK\$)	0.60	0.75	0.95	1.19
BV Per Share (HK\$)	15.95	17.22	18.86	20.89
PE (X)	25.0	20.0	15.6	12.5
P/Cash Flow (X)	16.8	15.3	12.6	10.4
P/Free CF (X)	nm	nm	128.9	41.2
EV/EBITDA (X)	13.9	12.6	10.3	8.5
Net Div Yield (%)	1.6	2.0	2.6	3.2
P/Book Value (X)	2.3	2.2	2.0	1.8
Net Debt/Equity (X)	0.0	0.1	0.1	0.1
ROAE (%)	9.5	11.2	13.2	15.0
Earnings Rev (%)		(5)	(4)	New
Consensus EPS (RMB)		1.52	1.94	2.40
Other Broker Recs:		B: 21	S: 0	H: 1

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

Strong order book

Investment Thesis

Automakers restarting new model programmes. The global vehicle market is expected to gradually improve, on anticipation of easing supply chain issues. Automakers are lining up their production schedule based on 2022 new model launches. Hence, Minth's new orders are expected to reach record levels in 2021 (est. c.Rmb9bn) and to remain high in FY22-23, especially with the global vehicle electrification becoming the mainstream technology.

Shift towards innovative product sales; positive on profit margins.

In 1H21, innovative product and NEVs accounted for 35% and 48% of total new orders respectively. With the acceleration in lightweight and electrified vehicles, we estimate revenue composition to shift towards the high-end auto parts such as aluminium and battery housing business, which is more profitable. This should lift GP margin by c.2ppts in FY23 to 32%.

New production facilities yet to realise full benefits. Minth's new production lines in China, Serbia, and the US aim to support the customers in these markets for aluminium products and battery housings. This will maximise production efficiency and reduce logistic costs.

Valuation:

Our HK\$49 TP is pegged to 21x FY22F PE. Reiterate BUY on attractive valuation and a strong FY22 business outlook. Minth is seeking to list on the Shanghai STAR Board which could lend support to share price performance.

Where we differ:

We believe Minth is in the forefront to secure more new orders to boost its earnings outlook, especially for advanced auto parts.

Key Risks to Our View:

Rising material costs, disruption to supply chain network and demand slowdown in key auto markets could post a major risk to the company.

At A Glance

Issued Capital (m shrs)	1,151
Mkt Cap (HK\$/US\$m)	41,896 / 5,381
Major Shareholders (%)	
Chin (Jong Hwa)	38.8
First Sentier Investors (Hong Kong) Limited	8.8
Matthews International Capital Management, L.L.C.	6.9
Free Float (%)	45.5
3m Avg. Daily Val. (US\$m)	6.81
GICS Industry: Consumer Discretionary / Automobiles & Components	



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WHAT'S NEW

Improving fundamentals

Improving global vehicle market outlook. We believe the worst should be behind and anticipate supply of critical auto parts and components to slowly recover. Global vehicle output is expected to increase across the major auto markets in which Minth has exposure to. The release of the underlying pent-up demand and channel restocking are volume production drivers.

Due to tight supply of auto chips, global OEMs have rescheduled and delayed certain new project launches. Despite the market challenges, total new contract value is estimated to reach a record Rmb9-10bn in 2021, as automakers restart their new model programmes, hence supporting Minth's future earnings stream.

Innovative products catering to fuel efficient and electric vehicles positive on profit margins. The strong surge in the global EV market is positive for Minth, given its rising aluminum parts and battery housing exposure. These products are expected to post strong expansion of 30-50% annually in the medium-term. The company is constantly expanding the EV business. The entry into the supply chain of several NEV makers such as Tesla, NIO, Li Auto and Xpeng Motor is expected to drive its NEV business. Higher sales of innovative products is positive on future profit margins.

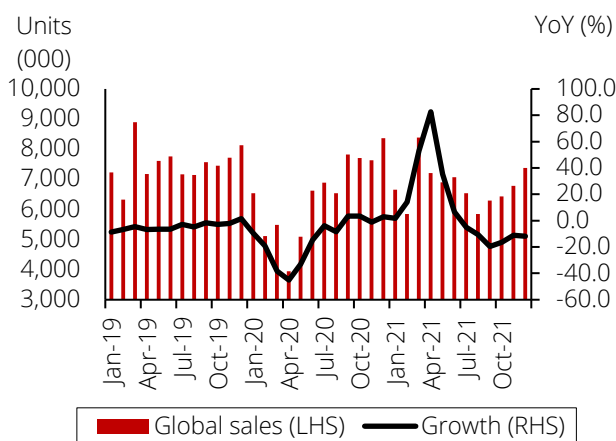
Since raw materials account for about 60% of total cost of production, lower raw material prices is also positive on future product margins as well. Hence, we forecast gross margins to improve from a low of 31% in FY20 to 32.5% in FY23F.

Solid market share. Given the company's strong product development capability, it has a sizeable market share in China and globally. For instance, it commands over 20% share of the metal trims market (globally and domestic). Its market share in the battery housing is expected to grow rapidly from the current 5%, underpinned by a robust domestic NEV industry and entry into several NEV makers' supply chain network.

Company Background

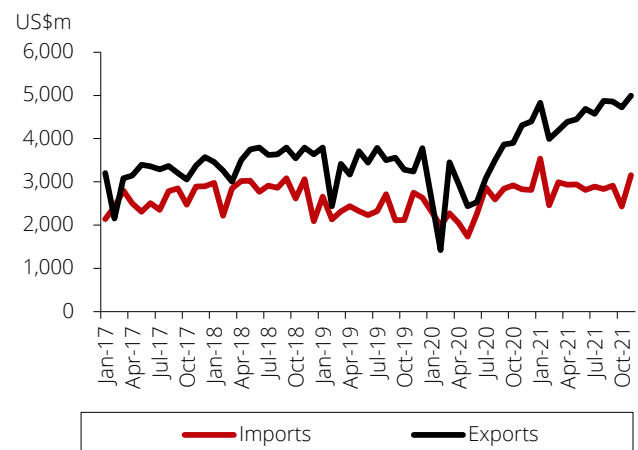
Minth Group is one of the largest manufacturers of exterior auto body parts in China. The company produces structural body parts, decorative parts, and trims. Minth is expanding into new energy vehicle and autonomous drive automotive parts development to broaden its earnings base. Its key customers are the major international auto brands in North America, Europe, and Asia.

Global vehicle monthly sales



Source: Bloomberg Finance L. P.

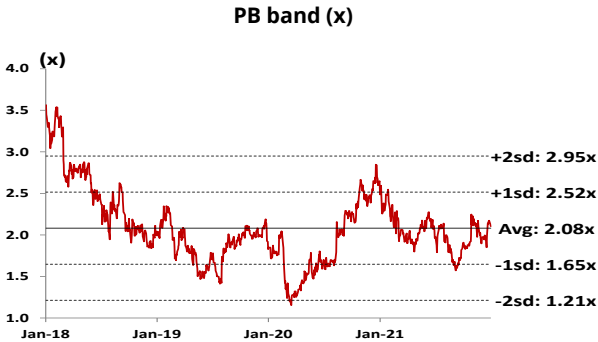
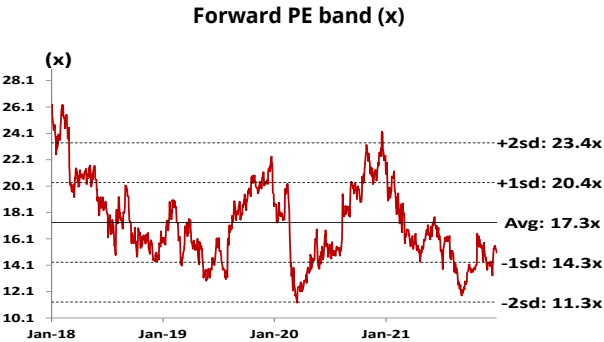
China auto parts imports and exports



Source: CEIC

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Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
New contract	7,700.0	8,100.0	9,500.0	10,000.0	10,000.0
GP margin	31.2	31.0	31.8	32.6	32.9

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (RMB m)					
Metal and trim	4,751	4,501	4,951	5,644	6,434
Plastic	3,748	3,566	4,100	4,633	5,236
Aluminium	3,115	2,992	3,740	4,787	6,128
Battery housing	13	87	349	977	2,737
Others	1,571	1,321	1,427	1,499	1,573
Total	13,198	12,467	14,567	17,540	22,107
Gross profit (RMB m)					
Metal and trim	1,461	1,349	1,559	1,919	2,252
Plastic	1,208	1,149	1,271	1,552	1,780
Aluminium	1,019	1,016	1,403	1,747	2,237
Battery housing	0	6	35	176	602
Others	434	339	371	330	393
Total	4,121	3,859	4,639	5,724	7,264
Gross margins (%)					
Metal and trim	30.7	30.0	31.5	34.0	35.0
Plastic	32.2	32.2	31.0	33.5	34.0
Aluminium	32.7	34.0	37.5	36.5	36.5
Battery housing	2.4	7.2	10.0	18.0	22.0
Others	27.6	20.7	26.0	22.0	25.0
Total	31.2	31.0	31.8	32.6	32.9

Source: Company, DBS HK

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Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	13,198	12,467	14,567	17,540	22,107
Cost of Goods Sold	(9,077)	(8,608)	(9,928)	(11,816)	(14,843)
Gross Profit	4,121	3,859	4,639	5,724	7,264
Other Opg (Exp)/Inc	(1,972)	(2,185)	(2,558)	(3,021)	(3,857)
Operating Profit	2,149	1,673	2,081	2,703	3,407
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(16)	14	15	17	18
Net Interest (Exp)/Inc	(31)	(8)	42	2	(27)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,101	1,680	2,138	2,722	3,400
Tax	(336)	(217)	(299)	(381)	(476)
Minority Interest	(75)	(67)	(92)	(105)	(132)
Preference Dividend	0	0	0	0	0
Net Profit	1,690	1,396	1,747	2,235	2,791
Net Profit before Except.	1,690	1,396	1,747	2,236	2,792
EBITDA	2,938	2,567	2,949	3,649	4,453
Growth					
Revenue Gth (%)	5.1	(5.5)	16.8	20.4	26.0
EBITDA Gth (%)	8.1	(12.6)	14.9	23.7	22.0
Opg Profit Gth (%)	4.1	(22.1)	24.3	29.9	26.1
Net Profit Gth (%)	1.8	(17.4)	25.2	27.9	24.9
Margins & Ratio					
Gross Margins (%)	31.2	31.0	31.8	32.6	32.9
Opg Profit Margin (%)	16.3	13.4	14.3	15.4	15.4
Net Profit Margin (%)	12.8	11.2	12.0	12.7	12.6
ROAE (%)	12.3	9.5	11.2	13.2	15.0
ROA (%)	7.5	5.5	6.2	7.5	8.7
ROCE (%)	9.6	6.8	7.6	9.3	10.9
Div Payout Ratio (%)	41.1	40.0	40.0	40.0	40.0
Net Interest Cover (x)	68.4	211.4	NM	NM	126.2

Source: Company, DBS HK

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Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	8,749	9,616	11,797	13,405	14,919
Invt in Associates & JVs	215	263	278	295	313
Other LT Assets	2,095	2,348	2,364	2,378	2,386
Cash & ST Invt	5,687	6,008	4,727	4,250	4,127
Inventory	2,040	2,385	2,623	2,886	3,232
Debtors	4,550	4,789	5,235	5,873	6,598
Other Current Assets	306	1,798	1,798	1,798	1,798
Total Assets	23,643	27,206	28,822	30,883	33,372
ST Debt	4,139	5,445	5,445	5,445	5,445
Creditors	3,548	4,077	4,329	4,668	5,033
Other Current Liab	128	111	194	275	370
LT Debt	0	1,074	1,074	1,074	1,074
Other LT Liabilities	1,083	1,186	1,186	1,186	1,186
Shareholder's Equity	14,325	14,944	16,133	17,669	19,566
Minority Interests	419	369	461	566	698
Total Cap. & Liab.	23,643	27,206	28,822	30,883	33,372
Non-Cash Wkg. Capital	3,220	4,784	5,133	5,613	6,224
Net Cash/(Debt)	1,548	(511)	(1,793)	(2,269)	(2,392)
Debtors Turn (avg days)	121.1	136.7	125.6	115.6	102.9
Creditors Turn (avg days)	152.5	180.1	169.0	150.8	128.1
Inventory Turn (avg days)	88.6	104.5	100.7	92.3	80.8
Asset Turnover (x)	0.6	0.5	0.5	0.6	0.7
Current Ratio (x)	1.6	1.6	1.4	1.4	1.5
Quick Ratio (x)	1.3	1.1	1.0	1.0	1.0
Net Debt/Equity (X)	CASH	0.0	0.1	0.1	0.1
Net Debt/Equity ex MI (X)	CASH	0.0	0.1	0.1	0.1
Capex to Debt (%)	37.1	34.0	46.0	38.3	38.3
Z-Score (X)	3.7	3.5	3.6	3.6	3.6

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	2,101	1,680	2,138	2,721	3,399
Dep. & Amort.	805	880	853	928	1,026
Tax Paid	(364)	(197)	(217)	(299)	(381)
Assoc. & JV Inc/(loss)	16	(14)	(15)	(17)	(18)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(271)	(363)	(432)	(561)	(706)
Other Operating CF	(42)	0	0	0	0
Net Operating CF	2,384	2,080	2,284	2,771	3,347
Capital Exp.(net)	(1,536)	(2,213)	(3,000)	(2,500)	(2,500)
Other Invt.(net)	60	(377)	0	0	0
Invt in Assoc. & JV	0	(40)	0	0	0
Div from Assoc & JV	10	7	0	0	0
Other Investing CF	300	(788)	220	186	185
Net Investing CF	(1,166)	(3,412)	(2,780)	(2,314)	(2,315)
Div Paid	(667)	(694)	(558)	(699)	(894)
Chg in Gross Debt	14	2,617	0	0	0
Capital Issues	50	(101)	0	0	0
Other Financing CF	539	(150)	(228)	(235)	(261)
Net Financing CF	(64)	1,671	(786)	(933)	(1,155)
Currency Adjustments	11	(19)	0	0	0
Chg in Cash	1,165	321	(1,282)	(476)	(123)
Opg CFPS (RMB)	2.31	2.12	2.36	2.90	3.52
Free CFPS (RMB)	0.74	(0.12)	(0.62)	0.24	0.74

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
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1:	27-Jan-21	HK\$38.60	HK\$49.00	Buy
2:	30-Mar-21	HK\$31.25	HK\$49.00	Buy
3:	1-Sep-21	HK\$31.20	HK\$49.00	Buy

Source: DBS HK

Analyst: Rachel MIU

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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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