

Nexteer Automotive Group

Bloomberg: 1316 HK Equity | Reuters: 1316.HK

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DBS Group Research . Equity

20 Jan 2022

BUY

Last Traded Price (19 Jan 2022): HK\$10.36 (HSI : 24,128)
Price Target 12-mth: HK\$14.00 (35% upside)

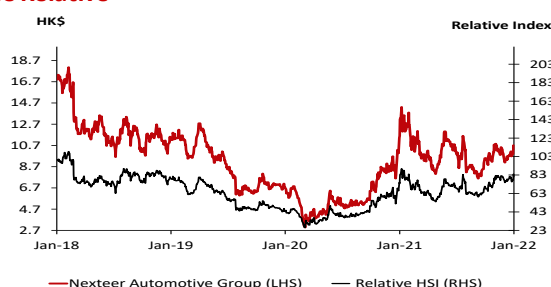
Analyst

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What's New

- Global vehicle output projected to improve
- Secured a large order in 4Q21 of c.US\$2bn from a US customer
- Future sales to be driven by innovative new products and new customers to ride on rising vehicle electrification rate
- Maintain BUY; HK\$14 TP based on 16x FY22F PE

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021F	2022F	2023F
Turnover	3,032	3,486	4,058	4,586
EBITDA	314	481	618	695
Pre-tax Profit	114	210	318	383
Net Profit	117	183	280	337
Net Pft (Pre-Ex)(core profit)	117	183	280	337
Net Profit Gth (Pre-ex) (%)	(49.8)	56.6	53.1	20.5
EPS (US\$)	0.05	0.07	0.11	0.13
EPS (HK\$)	0.36	0.57	0.87	1.05
EPS Gth (%)	(49.8)	56.6	53.1	20.5
Diluted EPS (HK\$)	0.36	0.57	0.87	1.05
DPS (HK\$)	0.07	0.11	0.18	0.21
BV Per Share (HK\$)	5.85	6.34	7.10	7.97
PE (X)	28.6	18.2	11.9	9.9
P/Cash Flow (X)	7.9	7.0	7.7	4.3
P/Free CF (X)	12.3	12.1	14.5	5.7
EV/EBITDA (X)	9.8	6.1	4.6	3.6
Net Div Yield (%)	0.7	1.1	1.7	2.0
P/Book Value (X)	1.8	1.6	1.5	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	6.3	9.3	12.9	13.9
Earnings Rev (%)		(17)	(8)	New
Consensus EPS (US\$)		0.07	0.11	0.14
Other Broker Recs:		B:17	S:0	H:2

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

2H22 looks better on pent-up demand and channel restocking

Investment Thesis

Improving global vehicle market outlook. We believe the worst should be behind us and anticipate supply of critical auto parts and components to recover. Hence, global vehicle output is expected to increase across the major auto markets, benefitting Nexteer's operations. The release of the underlying pent-up demand and channel restocking are production drivers.

Better business visibility. Due to tight supply of auto chips last year, global OEMs have rescheduled or delayed certain new project launches to 1Q22. Despite the challenging market, total new bookings are expected to hit c.US\$3bn in 4Q21 vs US\$1.7bn secured in 9M21. More new programmes are also expected to be launched in 4Q21 to 18 vs 22 in 9M21. All these should support its future revenue and earnings visibility.

Innovative products outlook stays strong. The strong sales of full-size trucks in North America (NA) is positive on demand of Nexteer's high output rack electric power steering (REPS) system, especially with rising truck electrification in NA. Based on new bookings secured in 9M21, some 34% is related to EVs.

Valuation:

Our target price (TP) of HK\$14 is based on 16x FY22F PE, about 1SD above mean.

Where we differ:

Our FY22/23F net earnings slightly below consensus due to high single market concentration to North America, and recovery could be slower than expected given the potential rates hike which could dampen car consumption.

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)	2,508
Mkt Cap (HK\$/US\$m)	26,986 / 3,464
Major Shareholders (%)	
Pacific Century Motors, Inc.	64.9
Free Float (%)	35.1
3m Avg. Daily Val. (US\$m)	8.14
GICS Industry: Consumer Discretionary/ Automobiles & Components	



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Nexteer Automotive Group

WHAT'S NEW

Underlying fundamentals remain strong

Improving global vehicle market outlook. We believe the worst should be behind us and anticipate supply of critical auto parts and components to gradually recover. Hence, global vehicle output is expected to increase across the major auto markets, benefitting Nexteer's operations. The release of the underlying pent-up demand and channel restocking are production drivers. Global vehicle market is projected to grow at high single digit in 2022.

New wins to surge; secured a large order in 4Q21. Due to earlier tight supply of auto chips, global OEMs have rescheduled or delayed certain new project launches in 1Q22. Despite the challenging market environment, the company managed to secure a large order of some US\$2bn from General Motors in 4Q21 to boost its new order book to about US\$3bn (estimate), compared to US\$1.7bn secured in 9M21. However, this is slightly below our earlier estimate of US\$6bn for the full year.

Innovative products outlook staying strong. The strong sales of full-size trucks in North America (NA) is positive on demand for Nexteer's high output (REPS) system, especially with the rising truck electrification in NA. Based on new bookings secured in 9M21, some 34% is related to EVs and the proportion could rise as more global automakers shift to electrification.

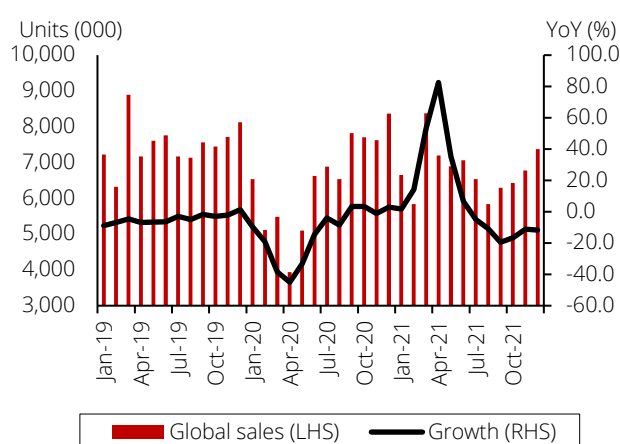
Besides, securing new accounts opens more growth opportunities for the company, like penetration into the new generation EV makers in China such as NIO, Xpeng and Li Auto. The supply of steering columns to the world's largest EV maker (Tesla) will commence in 2023, and further expand its customer reach and potential to deepen its supply chain penetration.

Profit margins could remain under pressure in the near-term. While the company is able to pass through 60-70% of the high raw material costs to customers, the pandemic outbreak has resulted in higher other operating expenses, which will be absorbed by the company. Hence, operating margins are expected to remain under pressure in 1H22 before improving in 2H22.

Company Background

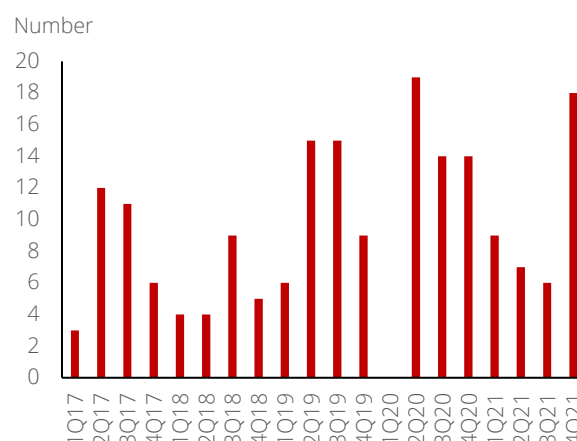
Nexteer is the world's leading producer of steering systems and counts major automakers as its customers. The company's key products are electric power steering (EPS) and hydraulic power steering (HPS) systems, and driveline. Its operations are spread across North America, Europe, South America and Asia. Nexteer is collaborating with automakers and industry peers to develop power steering products for autonomous driving applications.

Global light vehicle monthly sales



Source: Bloomberg Finance L. P.

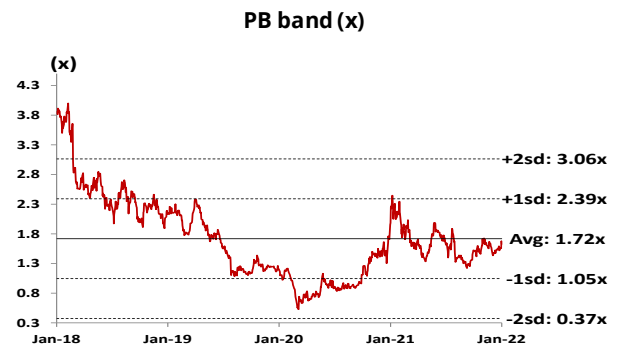
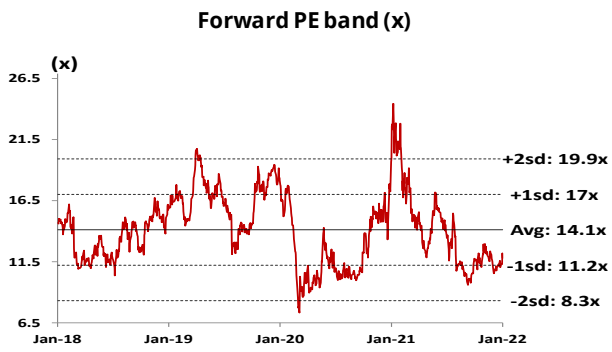
New programmes launched



Source: Company

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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
Revenue (US\$m) - North America	2,448.8	1,905.1	2,091.8	2,434.6	2,751.7
Europe and South America	484.3	485.6	522.9	608.6	687.9
Asia Pacific	642.6	641.4	871.6	1,014.4	1,146.5

Source: Company, DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (US\$ m)					
EPS	2,409	2,058	2,389	2,802	3,144
HPS	138	120	124	120	116
Steering column (CIS)	496	344	448	502	564
Driveline	533	510	526	633	762
Total	3,576	3,032	3,486	4,058	4,586

Source: Company, DBS HK

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Income Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	3,576	3,032	3,486	4,058	4,586
Cost of Goods Sold	(3,037)	(2,621)	(2,991)	(3,408)	(3,852)
Gross Profit	539	411	495	649	734
Other Opng (Exp)/Inc	(266)	(293)	(279)	(324)	(343)
Operating Profit	273	119	216	325	391
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(4)	1	1	1	0
Net Interest (Exp)/Inc	(5)	(5)	(7)	(7)	(8)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	264	114	210	318	383
Tax	(29)	8	(21)	(32)	(38)
Minority Interest	(2)	(6)	(6)	(7)	(7)
Preference Dividend	0	0	0	0	0
Net Profit	232	117	183	280	337
Net Profit before Except.	232	117	183	280	337
EBITDA	495	314	481	618	695
Growth					
Revenue Gth (%)	(8.6)	(15.2)	15.0	16.4	13.0
EBITDA Gth (%)	(16.0)	(36.5)	53.2	28.4	12.5
Opg Profit Gth (%)	(35.7)	(56.5)	82.0	50.5	20.2
Net Profit Gth (%)	(38.8)	(49.8)	56.6	53.1	20.5
Margins & Ratio					
Gross Margins (%)	15.1	13.6	14.2	16.0	16.0
Opg Profit Margin (%)	7.6	3.9	6.2	8.0	8.5
Net Profit Margin (%)	6.5	3.9	5.2	6.9	7.4
ROAE (%)	13.3	6.3	9.3	12.9	13.9
ROA (%)	7.3	3.6	5.3	7.4	8.0
ROCE (%)	10.1	4.8	7.6	10.3	11.0
Div Payout Ratio (%)	35.1	20.2	20.2	20.2	20.2
Net Interest Cover (x)	55.2	23.5	31.5	44.4	47.1

Source: Company, DBS HK

Interim Income Statement (US\$ m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	1,832	1,743	1,211	1,821	1,734
Cost of Goods Sold	(1,543)	(1,494)	(1,089)	(1,532)	(1,508)
Gross Profit	289	250	122	289	226
Other Oper. (Exp)/Inc	(129)	(137)	(151)	(142)	(133)
Operating Profit	160	113	(29)	148	94
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(2)	(2)	0	1	0
Net Interest (Exp)/Inc	(2)	(3)	(2)	(3)	(1)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	155	109	(31)	146	93
Tax	(23)	(7)	34	(26)	(6)
Minority Interest	(1)	(1)	(2)	(4)	(4)
Net Profit	131	101	1	115	83
Net profit bef Except.	131	101	1	115	83
Growth					
Revenue Gth (%)	(10.5)	(6.5)	(33.9)	4.5	43.3
Opg Profit Gth (%)	(33.4)	(38.6)	(118.1)	30.6	(424.5)
Net Profit Gth (%)	(34.3)	(43.7)	(99.0)	14.0	6,290.7
Margins					
Gross Margins (%)	15.8	14.3	10.1	15.9	13.1
Opg Profit Margins (%)	8.7	6.5	(2.4)	8.1	5.4
Net Profit Margins (%)	7.2	5.8	0.1	6.3	4.8

Source: Company, DBS HK

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Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	990	1,009	1,050	1,073	1,096
Invt in Associates & JVs	20	22	28	32	36
Other LT Assets	730	778	773	758	731
Cash & ST Invt	602	553	758	905	1,383
Inventory	266	234	253	273	295
Debtors	545	593	630	816	717
Other Current Assets	107	116	127	140	154
Total Assets	3,259	3,306	3,618	3,996	4,411
ST Debt	59	249	249	249	249
Creditors	592	657	690	725	761
Other Current Liab	214	202	245	267	286
LT Debt	249	0	70	140	211
Other LT Liabilities	294	277	278	280	281
Shareholder's Equity	1,812	1,882	2,041	2,284	2,565
Minority Interests	40	39	45	52	59
Total Cap. & Liab.	3,259	3,306	3,618	3,996	4,411
Non-Cash Wkg. Capital	112	84	75	237	119
Net Cash/(Debt)	294	305	439	516	923
Debtors Turn (avg days)	54.8	68.5	64.0	65.0	61.0
Creditors Turn (avg days)	74.4	94.0	90.2	82.8	76.4
Inventory Turn (avg days)	32.5	37.6	32.6	30.8	29.2
Asset Turnover (x)	1.1	0.9	1.0	1.1	1.1
Current Ratio (x)	1.8	1.4	1.5	1.7	2.0
Quick Ratio (x)	1.3	1.0	1.2	1.4	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	64.8	60.2	62.8	51.5	43.5
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	264	114	210	318	383
Dep. & Amort.	226	195	265	292	304
Tax Paid	(18)	(29)	8	(21)	(32)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAS	0	0	0	0	0
Chg in Wkg.Cap.	(2)	87	(18)	(172)	112
Other Operating CF	21	52	11	13	15
Net Operating CF	491	420	474	431	783
Capital Exp.(net)	(199)	(150)	(200)	(200)	(200)
Other Invt.(net)	(6)	(2)	(5)	(4)	(3)
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(168)	(136)	(100)	(100)	(100)
Net Investing CF	(373)	(288)	(305)	(304)	(303)
Div Paid	(78)	(90)	(24)	(37)	(56)
Chg in Gross Debt	(109)	(83)	59	57	55
Capital Issues	0	0	0	0	0
Other Financing CF	2	(14)	0	0	0
Net Financing CF	(184)	(187)	35	20	(1)
Currency Adjustments	(6)	7	0	0	0
Chg in Cash	(73)	(48)	205	146	479
Opg CFPS (US\$)	0.20	0.13	0.20	0.24	0.27
Free CFPS (US\$)	0.12	0.11	0.11	0.09	0.23

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Jan-21	HK\$13.70	HK\$8.50	Hold
2:	18-Mar-21	HK\$11.40	HK\$15.50	Buy
3:	18-Aug-21	HK\$9.14	HK\$14.00	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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