

# China Auto Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Feb 2022

## Auto parts sector: light at the end of the tunnel

- **Global auto market growth driven by strong demand and low inventory**
- **Chinese auto parts companies ready to leverage on industry's shift to electrification**
- **Earnings improvement in sight; sector trading at attractive valuation**
- **Our picks are [Mintih \(425 HK\)](#) and [Nexteer \(1316 HK\)](#)**

**Global vehicle market is recovering.** Strong underlying demand and low inventory are expected to support the global vehicle market recovery. Major auto markets are projected to post better growth this year on improving supply of critical components. Global light vehicle sales rose c.5% in 2021 and projected to expand by 6-7% this year. Global auto OEMs are also accelerating their new model programmes especially in EV development. This should help to drive order flows for the auto parts companies. Global parts companies are spending billions of dollars to develop their business as the car industry switches from combustion engines to electric technology.

### Anticipate Chinese auto parts sector ready to gain strength.

We expect ongoing improvement in auto chips supply throughout 2022. Logistic bottlenecks easing should improve volume shipment and coupled with stabilising prices of certain commodities in 2022, it should reduce the production cost pressure on the auto parts companies. Chinese auto parts companies have been diversifying their product range and customer reach ahead of the curve in view of the rapid rise in vehicle electrification. They have made inroads into the global EV makers supply chain networks to drive future growth. All these could drive FY21-23 net earnings to achieve CAGR of 20-30%.

**Opportunity to ride on upside potential.** A timely opportunity to revisit the auto parts sector and benefit from valuation upside potential, led by anticipated improvement in global auto sales and margin expansion. The parts sector is trading at FY22F 11x PE, comparable to the historical 5-year average. Mintih's growing innovative product sales is a major earnings driver, as its early investments are ready to deliver positive results. On the other hand, Nexteer should benefit from its key US customers' volume surge as they raise production of more affordable vehicles on improving chips supply.

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### Recommendation & valuation

Company Name	Price HK\$	Target Price HK\$	Recom	Mkt Cap US\$m	PE 22F x
<a href="#">Mintih Group (425 HK)</a>	30.90	49.00	BUY	4,575	12.8
<a href="#">Nexteer (1316 HK)</a>	7.96	14.00	BUY	2,561	9.1

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")

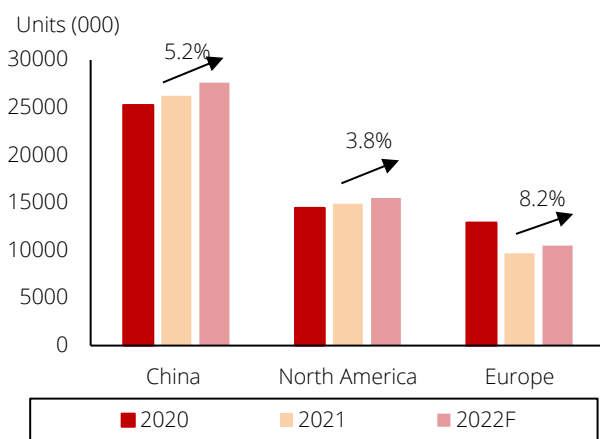


Live more, Bank less

**Global vehicle market expected to record better growth**

Global auto sales should improve with expected increase in critical parts supply. Supply chain disruptions and shortage of auto chips had impacted major auto markets in 2021, as shown in the chart below. Passenger vehicle sales in China were better than the other markets, with Europe performing the worst.

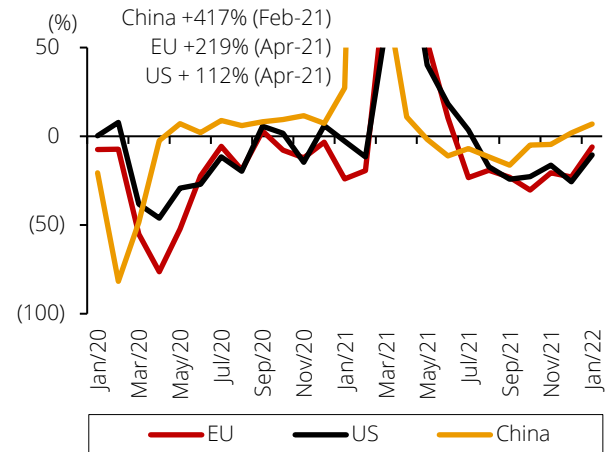
**Major auto market vehicle sales**



Source: CEIC; ACEA; DBS HK

The latest vehicle sales in key markets indicated sequential improvements. All three major auto markets continue to show strength in Jan-22, especially China. Passenger vehicle sales in China showed two consecutive months of expansion, while Europe and the US sales contractions narrowed last month. Hence, we expect improvement in volume sales in these three major markets.

**Light vehicle sales in key markets**

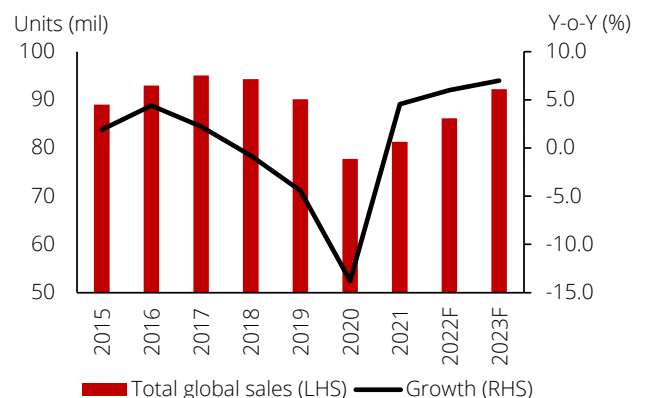


Source: CEIC

The severe chip shortage should be behind us now although we could still see some supply fluctuations in the near-term. Auto chips supply is expected to improve as new production capacity comes onstream. Hence, we expect ongoing improvements to ensure semiconductor availability and sufficient supply of critical components should be able to support auto OEMs production schedules.

As a result, we estimate global vehicle sales to rise in 2022 compared to 2021.

**Global light vehicle sales**



Source: Bloomberg Finance L.P.; DBS HK

**Positive impact on Chinese auto parts companies**

**Chinese auto parts sector to ride on global vehicle market growth.** Chinese auto parts sector's import and export values were higher in 2021. Imports of parts rose as the Chinese auto market was growing, while strong demand of vehicles in overseas markets had spurred exports of auto parts and accessories.

Demand for parts and components is expected to ride in tandem with the global vehicle market recovery, thus lifting the prospects of Chinese parts manufacturers.

**China auto parts imports and exports values**



Source: CEIC

Note: Parts, accessories, and car body parts

**Auto OEMs restocking and new model programmes kicking in.** Global auto OEMs are accelerating production to restock the sales channels this year. In China, vehicle inventory was relatively low at 1.2-1.5 months. At end-Dec 21, light vehicle inventory in the US fell to a record low of 17 days, down from 49 days a year ago.

As the supply chain disruption eases, new model programmes especially in EV development should drive new order flows for the auto parts companies and support their earnings recovery. For instance, based on Marklines estimates, major automakers in Europe are expected to roll out over 50 premium car models from 2022 to 2025, especially with the EU moving to a more stringent fuel standard.

**Ahead of the electrification curve.** Chinese auto parts companies have been diversifying their product range and customer reach to cater to vehicle electrification trends. They embarked on the shift to electrification much earlier, given that China is a major EV market globally and has developed a comprehensive EV supply chain eco-system to support the automakers. The emergence of a group of young EV makers such as NIO, Xpeng and Li Auto is also providing new business growth potential for the Chinese auto parts producers. Some have even penetrated into the supply chain networks of global EV makers, such as Minth.

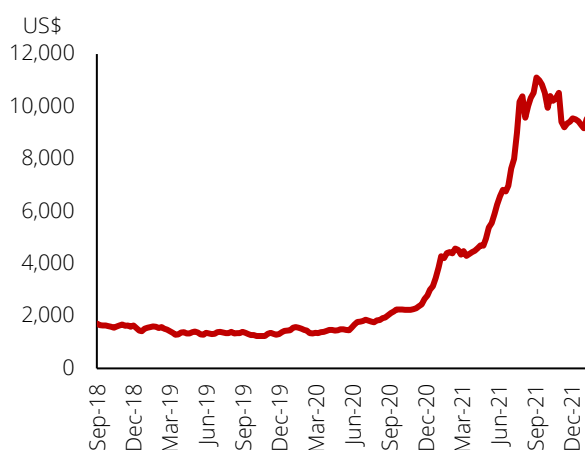
The long-term prospects of the auto parts industry is encouraging underpinned by growing demand for advanced parts and components especially for smart EVs. Therefore, Chinese auto parts companies are in a strong position to ride on global auto uptrend.

**Investment risks**

**Short-term volume and margin pressure.** High logistic expenses could continue to impact volume shipments and margins of auto parts companies. In 2021, the sharp increase in shipping costs was due to logistic bottlenecks.

The following chart shows that shipping costs have eased recently but remain high compared to 2020. Further easing should help to take some pressure off operating expenses of auto manufacturers.

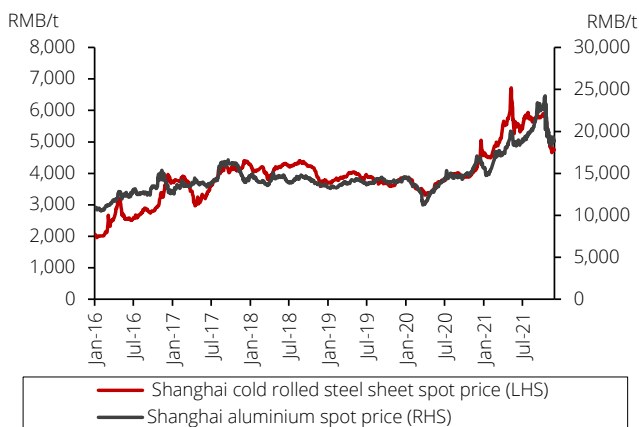
**Shipping cost index**



Source: Bloomberg Finance L.P.

Raw material cost pressure is eroding product margins, as auto parts manufacturers are unlikely to pass the full impact of the cost escalation to their customers. Based on our house view, certain metal prices are expected to correct by around 10% this year (eg. copper), hence lowering production cost pressure on auto parts companies.

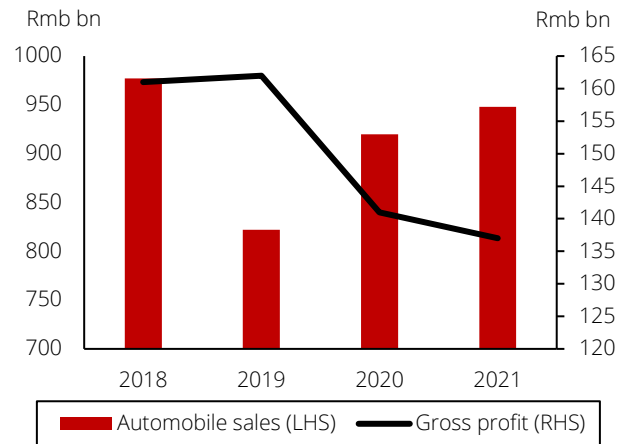
**Steel and aluminium price trends**



Source: Bloomberg Finance L.P.

The overall financial performance of the automobile manufacturers is a reflection of the auto parts sector as well, since they are along the same value chain and being impacted by the same factors in the past 1-2 years.

**China auto sector financial performance**



Source: CEIC

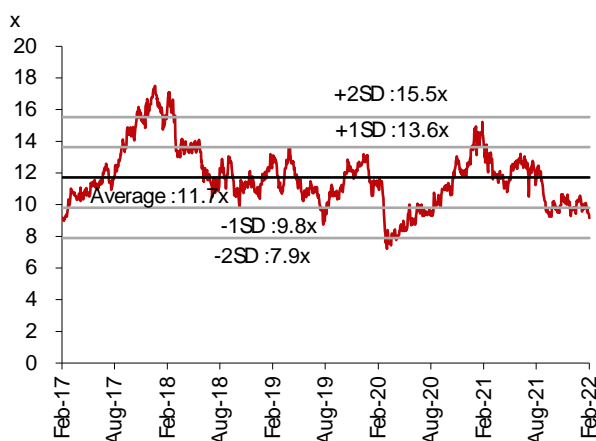
**Auto parts sector valuation and recommendation**

**Time to revisit auto parts sector.** The auto sector corrected recently along with the broad market volatility and weaker sentiment due to interest rate hikes and geopolitical concerns. The sector is trading at FY22F PE of 11x, comparable to the historical 5-year average valuation. Hence, the valuation is not demanding as the strong underlying demand is expected to support global vehicle sales recovery and the auto parts sector should benefit. The anticipated improvement in global auto sales in 2022 bodes well for auto parts companies and this should also drive the share price performance.

While there could be short-term volatility in the sector's performance, we believe the worst of the supply disruption should be behind us. Therefore, it is now a good opportunity to revisit the auto parts sector and benefit from the valuation upside potential.

## China Auto Sector

## China auto parts sector PE chart



Source: Thomson Reuters, DBS HK

### Minth (425 HK; BUY; TP HK\$49) – ahead of peers in the electrification curve

Minth is one of the few auto parts manufacturers among peers that is rapidly diversifying its business to capture the high growth segments. After several years of high investment spending, we believe Minth is ready to benefit from its efforts, in terms of new products development and capacity expansion, which have yet to contribute meaningfully to the bottomline.

With innovative products and NEV parts accounting for a sizeable portion of its new orders (and expected to reach 50% of the total in the next few years), this should have a positive impact on profitability. Shipment of these high-end auto parts such as aluminium and battery housing have been rising to meet demand from major EV makers. We expect order flow (from c.Rmb9bn in 2021) will stay strong, supporting earnings prospects. Blended GP margin could also rise by 2ppts by FY23 to 33% from 31% in FY20.

Since Minth serves the major auto markets, stronger volume uptake in these markets should support its overseas revenue growth. The overseas portion has been rising from c.30% in FY13 to 43% in 1H21. Its new overseas factories should support stronger contributions in the future.

Our TP for Minth is HK\$49, based on 21x FY22F PE, with net earnings CAGR of 26% (FY21-23). The stock is currently trading at 12.8x FY22F PE, slightly below its historical average of 13.4x.

### Nexteer (1316 HK; BUY; TP HK\$14) – Major US clients seeing better production output

Since the company derives some 60% of its revenue from North America, a rebound in vehicle sales in that market augurs well for its business, coming from pent-up demand and restocking. Some of its key customers have voiced optimism in production output this year, following the improvement in chip supply. General Motors (GM) is expecting a 25-30% increase in global volume while Ford Motor is looking at 10-15% volume expansion in 2022. The higher production volume is positive on Nexteer's business outlook this year.

Strong new model pipeline and increase in EV production in the coming few years from the auto OEMs are driving Nexteer's innovative product sales, like GM's GMC Hummer, Chevrolet Silverado pickup truck, and Ford's F150 pickup truck. The huge orders received for these vehicle models would support steady demand for Nexteer's products, such as high output rack electric power steering systems.

We anticipate the business growth momentum to speed up in 2H22 as the auto OEMs accelerate their production ramp up. We project a healthy net earnings CAGR of c.35% from FY21-23F to support valuation expansion. The stock is currently trading at FY22F 9.1x PE, below its historical average of 11.9x. Our TP of HK\$14 is based on 16x FY22 PE.

## Share price performance

Share Price Performance (%)						
Company	Code	1-month	3-month	6-month	1-year	YTD
Grand Baoxin Auto	HK1293	(9.7)	(18.8)	(30.9)	(31.6)	(4.4)
China Harmony	HK3836	(19.2)	(6.8)	(13.4)	16.1	(22.5)
China Meidong	HK1268	4.4	1.6	(1.4)	30.4	(5.5)
China Yongda	HK3669	(4.6)	(22.3)	(17.5)	(14.5)	(6.8)
China ZhengTong	HK1728	(8.6)	(36.6)	(38.5)	(29.7)	(26.4)
Zhongsheng	HK881	(10.5)	(14.2)	(10.8)	7.0	(7.2)
Fuyao Glass	HK3606	(10.5)	(11.5)	(7.7)	(20.4)	1.0
Mint	HK425	(17.0)	(18.3)	(1.7)	(16.1)	(10.0)
Nexteer	HK1316	(23.8)	(26.7)	(2.5)	(31.7)	(17.8)
Weichai Power	HK2338	(9.0)	(1.5)	(24.0)	(41.1)	(8.4)
Xinchen China	HK1148	(13.9)	(27.7)	41.7	44.7	(6.8)
Xingda	HK1899	(15.6)	(12.0)	(10.4)	(33.0)	(14.6)
Xinyi Glass	HK868	(0.5)	8.2	(21.5)	(1.6)	11.5
BAIC Motor	HK1958	(13.2)	(12.9)	7.2	(1.7)	(15.5)
Brilliance China	HK1114	0.0	0.0	0.0	4.0	0.0
BYD	HK1211	(9.5)	(25.6)	(5.8)	(1.4)	(11.5)
Chongqing Changan	CH200625	(7.9)	(25.8)	(33.8)	(12.5)	(14.9)
Dongfeng Motor	HK489	(3.4)	(7.2)	1.6	(8.7)	9.9
Geely Auto	HK175	(19.5)	(42.3)	(39.3)	(44.8)	(26.6)
Great Wall Motor	HK2333	(27.8)	(50.9)	(43.2)	(27.5)	(32.8)
Guangzhou Auto	HK2238	(2.1)	(2.2)	14.1	3.4	4.2
Li Auto	HK2015	(3.6)	(8.0)	5.4	n.a.	(10.1)
Qingling	HK1122	(1.9)	(8.3)	(6.1)	(7.7)	(1.9)
SAIC Motor	CH600104	(6.5)	(11.6)	0.4	(17.2)	(10.5)
Sinotruk	HK3808	(7.2)	0.7	(20.6)	(54.1)	(1.8)
XPENG	HK9868	(17.1)	(21.8)	1.5	n.a.	(22.3)
<b>HSI</b>	<b>HSI</b>	<b>(5.8)</b>	<b>(5.7)</b>	<b>(5.4)</b>	<b>(22.4)</b>	<b>0.5</b>

Source: Thomson Reuters

Peers comparison table (Auto Parts)

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE 22F x	PE 23F x	Yield 22F %	Yield 23F %	P/Bk 22F x	P/Bk 23F x	EV/EBITDA 22F x	EV/EBITDA 23F x	ROE 22F %	ROE 23F %
<b>Hong Kong</b>															
Fuyao Glass Industry Gp. Co.'H'	3606	HKD	40.7	17,510	Dec	17.9	15.1	3.1	3.8	3.1	2.7	13.6	11.9	18.2	19.5
Mint Group*	425	HKD	30.9	4,575	Dec	12.8	10.2	3.2	3.9	1.6	1.5	9.3	7.6	13.2	15.0
Nexteer*	1316	HKD	7.96	2,561	Dec	9.1	7.6	2.2	2.7	1.1	1.0	3.5	2.5	12.9	13.9
Weichai Power 'H'	2338	HKD	13.98	19,869	Dec	8.9	7.9	3.4	3.9	1.3	1.2	3.9	3.5	15.2	15.3
Xinyi Glass Holdings	868	HKD	21.75	11,206	Dec	8.0	7.4	5.4	6.8	2.1	1.8	5.9	5.6	29.7	26.2
<b>Average</b>						<b>11.3</b>	<b>9.6</b>	<b>2.9</b>	<b>3.5</b>	<b>1.9</b>	<b>1.6</b>	<b>6.0</b>	<b>5.2</b>	<b>14.9</b>	<b>15.0</b>
<b>China</b>															
Fangda Special Stl.Tech. 'A'	600507	CHN	8.26	2,815	Dec	6.0	5.9	6.2	6.3	1.5	1.3	n.a.	n.a.	24.8	21.8
Fuyao Gls.Ind.Group 'A'	600660	CHN	45.3	17,510	Dec	24.3	20.4	2.4	3.1	4.2	3.8	17.1	15.2	18.3	19.6
Huayu Automotive Sys.'A'	600741	CHN	25.64	12,779	Dec	10.8	9.6	4.2	4.8	1.3	1.2	4.3	3.8	12.5	12.7
Jiangsu Pac.Precn.Frgg. 'A'	300258	CHN	12.79	974	Dec	21.2	16.6	1.3	1.2	1.8	1.6	12.6	11.2	8.5	9.8
Lingyun Industrial 'A'	600480	CHN	9.24	1,115	Dec	15.7	11.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.3	9.4
Ningbo Huaxiang Elt.'A'	002048	CHN	17.93	2,308	Dec	8.3	7.2	4.4	4.7	1.2	1.1	5.4	4.8	11.9	11.9
Weifu High Tech.Gp.'B'	200581	CHN	15.78	2,041	Dec	4.7	4.0	10.5	8.4	0.6	0.6	6.6	5.2	13.6	13.8
Zhejiang Wanliyang Tnsm. 'A'	002434	CHN	8.41	1,782	Dec	12.0	9.6	7.6	n.a.	1.6	1.4	10.9	9.5	12.6	13.6
Weifu High Tech.Gp.'A'	000581	CHN	21.78	3,473	Dec	8.0	7.5	5.9	5.4	1.0	1.0	5.8	5.5	13.1	12.8
Zhejiang Yinlun Mch.'A'	002126	CHN	10.21	1,279	Dec	16.2	13.3	1.0	1.6	1.7	1.5	10.4	8.9	11.1	11.6
Changzhou Xingyu Autv. Ltg.'A'	601799	CHN	153.5	6,932	Dec	25.4	20.9	1.2	1.4	5.2	4.3	21.9	17.9	21.5	22.1
<b>Average</b>						<b>16.4</b>	<b>13.3</b>	<b>4.1</b>	<b>3.8</b>	<b>2.2</b>	<b>1.9</b>	<b>10.6</b>	<b>9.1</b>	<b>13.6</b>	<b>14.1</b>

Source: Thomson Reuters, \*DBS HK

## Peers comparison table (Automakers)

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE	PE	Yield	Yield	P/Bk	P/Bk	EV/EBITDA	ROE	ROE		
						22F	23F	22F	23F	22F	23F	22F	23F	22F	23F	
						x	x	%	%	x	x	x	x	%	%	
<b>Hong Kong</b>																
Guangzhou Automobile 'H'	2238	HK	HKD	8.01	17,934	Dec	6.9	5.7	4.4	5.3	0.7	0.6	4.2	3.7	10.5	11.7
Sinotruk (Hong Kong)	3808	HK	HKD	11.78	4,170	Dec	4.7	4.7	6.1	6.5	0.7	0.6	0.9	0.9	14.0	12.9
Dongfeng Motor Gp.'H'	489	HK	HKD	7.12	7,865	Dec	3.7	n.a.	6.1	0.0	0.3	n.a.	1.9	0.0	8.7	0.0
Brilliance China*	1114	HK	HKD	7.3	4,722	Dec	4.4	n.a.	2.1	0.0	0.6	n.a.	4.5	0.0	13.5	0.0
Great Wall Motor Co.'H'	2333	HK	HKD	18.02	42,702	Dec	11.5	8.8	4.3	5.7	1.9	1.7	8.1	6.4	17.5	20.1
BYD 'H'	1211	HK	HKD	236	101,301	Dec	75.3	51.3	0.1	0.2	5.4	4.9	21.1	16.8	7.4	10.1
Geely Automobile Hdg.*	175	HK	HKD	15.64	20,093	Dec	12.1	9.8	1.7	2.1	1.6	1.4	6.9	5.8	14.6	15.9
BAIC Motor 'H'	1958	HK	HKD	2.83	2,908	Dec	4.6	n.a.	6.6	0.0	0.2	n.a.	0.1	0.0	7.3	0.0
<b>Average^</b>							<b>6.8</b>	<b>7.2</b>	<b>4.5</b>	<b>2.8</b>	<b>0.9</b>	<b>1.1</b>	<b>3.8</b>	<b>2.4</b>	<b>12.3</b>	<b>8.7</b>
<b>China</b>																
Saic Motor 'A'	600104	CH	CNY	18.46	34,096	Dec	7.3	6.6	5.2	6.5	0.7	0.7	5.0	4.4	10.2	10.4
Faw Jiefang Group 'A'	000800	CH	CNY	9.58	7,049	Dec	13.4	10.5	3.1	3.3	1.5	1.3	5.4	4.7	10.9	12.4
CQ Changan Auto 'A'	000625	CH	CNY	12.9	15,564	Dec	n.a.	n.a.	0.0	0.0	n.a.	n.a.	0.0	0.0	0.0	0.0
CQ Changan Auto 'B'	200625	CH	HKD	3.71	3,630	Dec	4.0	3.3	8.5	10.3	0.4	0.3	9.2	7.7	9.7	10.9
Anhui Jianghuai Auto 'A'	600418	CH	CNY	13.42	4,633	Dec	46.6	43.4	0.9	0.6	1.8	1.8	12.5	11.8	4.0	4.1
Yutong Bus 'A'	600066	CH	CNY	10.1	3,613	Dec	12.9	10.6	4.5	5.7	1.4	1.4	6.1	5.3	11.1	13.2
Great Wall Motor 'A'	601633	CH	CNY	36.92	42,702	Dec	29.0	22.3	1.7	2.2	4.8	4.2	19.6	15.7	17.5	20.1
Guangzhou Auto 'A'	601238	CH	CNY	12.69	17,934	Dec	13.4	11.1	2.2	2.7	1.4	1.2	8.4	7.3	10.5	11.7
BYD 'A'	002594	CH	CNY	237.45	101,301	Dec	93.2	63.5	0.1	0.2	6.7	6.1	25.1	20.1	7.4	10.1
<b>Average</b>							<b>27.5</b>	<b>21.4</b>	<b>2.9</b>	<b>3.5</b>	<b>2.3</b>	<b>2.1</b>	<b>10.1</b>	<b>8.5</b>	<b>9.0</b>	<b>10.3</b>

^ Exclude outlier

Source: Thomson Reuters, \*DBS HK

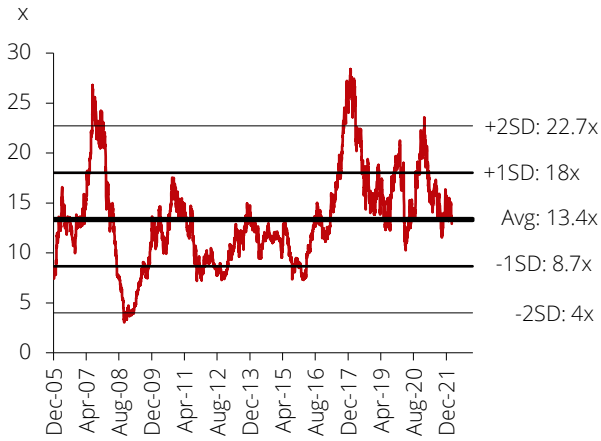
## Peers comparison table (Auto Dealers)

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE	PE	Yield	Yield	P/Bk	P/Bk	EV/EBITDA	ROE	ROE		
						22F	23F	22F	23F	22F	23F	22F	23F	22F	23F	
						x	x	%	%	x	x	x	x	%	%	
Zhongsheng*	881	HK	HKD	56.4	17,460	Dec	11.1	8.9	1.8	2.3	2.7	2.1	7.1	5.5	26.6	26.6
China Zhengtong*	1728	HK	HKD	0.64	225	Dec	5.3	n.a.	0.0	0.0	0.4	n.a.	3.5	0.0	7.5	0.0
Grand Baoxin Auto	1293	HK	HKD	0.65	236	Dec	2.1	2.1	0.0	0.0	0.2	0.2	2.5	2.4	7.6	7.4
China Yongda Auto*	3669	HK	HKD	9.73	2,457	Dec	5.5	4.7	5.5	6.4	1.0	0.9	4.5	3.9	19.7	19.9
China Meidong Auto	1268	HK	HKD	38	6,188	Dec	21.8	16.8	2.6	3.6	7.9	6.2	14.6	11.1	39.3	39.9
China Harmony	3836	HK	HKD	3.82	765	Dec	5.8	5.1	4.7	5.4	0.6	0.5	4.9	4.5	9.8	10.6
<b>Average</b>							<b>8.6</b>	<b>7.5</b>	<b>2.4</b>	<b>2.9</b>	<b>2.1</b>	<b>2.0</b>	<b>6.2</b>	<b>4.6</b>	<b>18.4</b>	<b>17.4</b>
Tan Chong Motor Holdings	TCM	MK	MYR	1.13	181	Dec	41.9	27.6	1.5	1.9	0.3	0.3	n.a.	n.a.	0.7	1.5
Wuchan Zhongda 'A'	600704	CH	CNY	5.74	4,705	Dec	7.7	7.0	n.a.	n.a.	1.0	0.9	n.a.	n.a.	13.3	13.0
Offcn Education Tech 'A'	002607	CH	CNY	6.97	6,781	Dec	24.0	16.6	2.7	3.4	9.0	5.6	20.0	14.3	34.7	35.3
Chd.Autv.Ssgp.'A'	600297	CH	CNY	2.64	3,378	Dec	7.3	6.3	2.2	1.1	0.5	0.4	6.3	5.6	6.7	7.2
Wuxi Coml.Mansion 'A'	600327	CH	CNY	6.13	856	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Average</b>							<b>20.2</b>	<b>14.4</b>	<b>2.1</b>	<b>2.1</b>	<b>2.7</b>	<b>1.8</b>	<b>13.1</b>	<b>9.9</b>	<b>13.9</b>	<b>14.2</b>

Source: Thomson Reuters, \*DBS HK

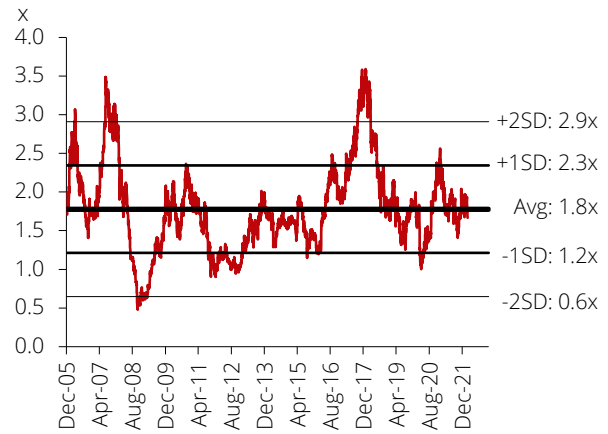


Mint - PE band chart



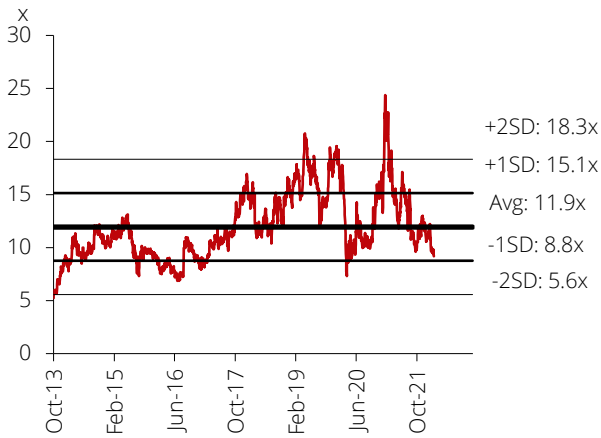
Source: Thomson Reuters, DBS HK

Mint - PB band chart



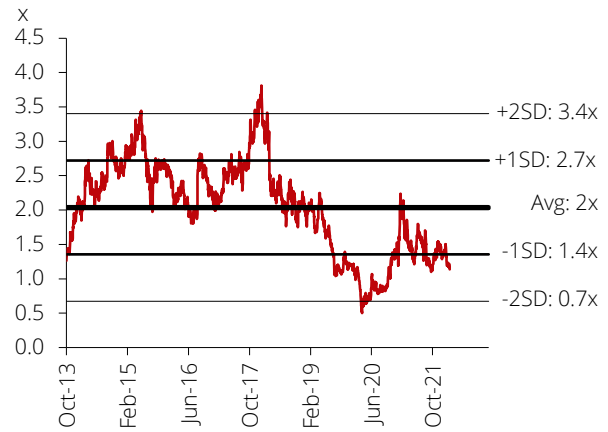
Source: Thomson Reuters, DBS HK

Nexteer - PE band chart



Source: Thomson Reuters, DBS HK

Nexteer - PB band chart



Source: Thomson Reuters, DBS HK

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**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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