

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

24 Mar 2022

BUY

Last Traded Price (24 Mar 2022): HK\$19.26 (HSI : 21,946)
Price Target 12-mth: HK\$36.00 (87% upside) (Prev HK\$49.00)

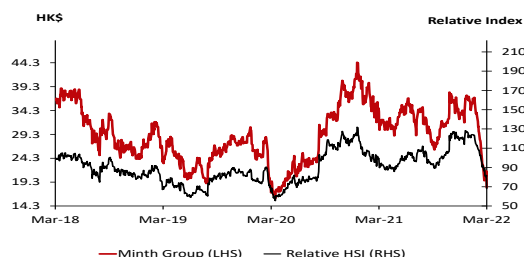
Analyst

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What's New

- Record level of new business intakes and huge order backlog to support strong earnings expansion
- Successful venture into many global OEMs' new vehicle platforms and product lines support strong order flows
- 2021 could be the trough; anticipate earnings recovery to be remarkable
- Reiterate BUY; pegged new TP of HK\$36 to 18x FY22F PE

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	12,467	13,919	18,075	22,857
EBITDA	2,567	2,850	3,230	4,072
Pre-tax Profit	1,680	1,846	2,320	3,026
Net Profit	1,396	1,497	1,905	2,485
Net Pft (Pre Ex) (core profit)	1,396	1,497	1,905	2,485
Net Profit Gth (Pre-ex) (%)	(17.4)	7.2	27.3	30.5
EPS (RMB)	1.21	1.30	1.65	2.16
EPS (HK\$)	1.49	1.60	2.03	2.65
Core EPS (RMB)	1.21	1.30	1.65	2.16
EPS Gth (%)	(17.6)	7.1	27.3	30.5
Diluted EPS (HK\$)	1.49	1.59	2.02	2.64
DPS (HK\$)	0.60	0.64	0.81	1.06
BV Per Share (HK\$)	15.95	17.08	18.48	20.31
PE (X)	12.9	12.1	9.5	7.3
P/Cash Flow (X)	8.7	12.1	7.3	6.1
P/Free CF (X)	nm	nm	nm	38.4
EV/EBITDA (X)	7.4	7.1	6.5	5.3
Net Div Yield (%)	3.1	3.3	4.2	5.5
P/Book Value (X)	1.2	1.1	1.0	0.9
Net Debt/Equity (X)	0.0	0.1	0.1	0.1
ROAE (%)	9.5	9.7	11.4	13.7
Earnings Rev (%)			(15)	(10)
Consensus EPS (RMB)			1.71	2.17
Other Broker Recs:		B: 19	S: 3	H: 0

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

Robust new business intakes boosting earnings fundamentals

Investment Thesis

Better business visibility supported by quality new business intakes and huge order backlog. Innovative and NEV products accounted for 46% and 56% of new business intakes, respectively in 2021. Minth has also successfully entered many automobile companies' EV platforms. Thus, its total order backlog amounted to Rmb150bn+, with AI and battery housing accounting for 26% and 29%, respectively. Minth's customer coverage is extensive and includes most premium OEMs worldwide and 45 platform vehicle projects across the globe. Its global footprint is an advantage to Minth's business growth.

Growing contributions from new product sales. In FY21, the NEV share of total revenue was 14%, up from 6.5% a year ago. Besides, AI and battery housing revenue was 24.5% of total revenue. It is estimated that NEV revenue would account for c.27% of FY22F revenue. Also, the ramping up of these new product sales should enhance its future GP margins to above 30%.

2021 suffered largely from supply chain disruptions. As a result, compressions in GP and operating margins of 1.6ppt and 4.1ppt caused a hit to its net earnings (+7%), when a shortage of electronic components was most acute in 3Q21. Cost transfer is an ongoing process, especially for its new battery housing contracts. We anticipate some recovery of gross margins in FY22 to above 30%.

Valuation:

We cut our target PE from 21x FY22F to 18x to arrive at a new TP of HK\$36. The stock is currently trading at FY22F 10xPE, which is 2SD below its historical mean. The pending listing on the Shanghai STAR Board should lend support to the share price performance.

Where we differ:

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

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	1,161
Mkt Cap (HK\$/US\$m)	21,107 / 2,698
Major Shareholders (%)	
Chin (Jong Hwa)	38.7
First Sentier Investors (Hong Kong) Limited	8.0
Matthews International Capital Management, L.L.C.	6.9
Free Float (%)	46.4
3m Avg. Daily Val. (US\$m)	9.22
GICS Industry: Consumer Discretionary / Automobiles & Components	



Watchlist the stock on Insights Direct to receive prompt updates



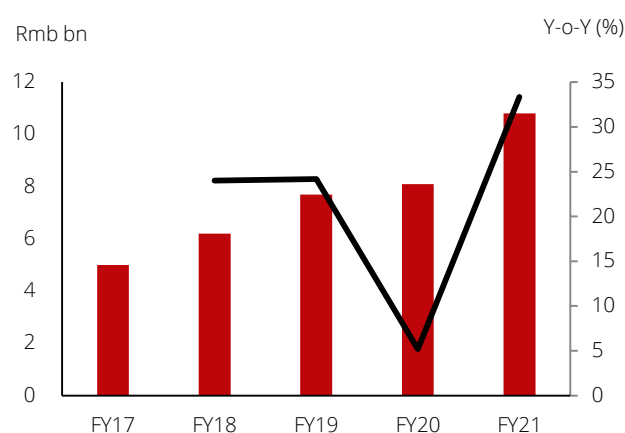
Minth Group

WHAT'S NEW

Business ready to rebound

Record new business and order backlog to support strong earnings visibility. In FY21, Minth secured a record level of new business intakes of Rmb10.6bn (+30%) to boost its future earnings growth. Its many years of R&D efforts are paying off, with innovative and NEV products accounting for 46% and 56% of new business intakes, respectively. Minth has successfully entered many automobile companies' EV platforms, including new Chinese startups like NIO, Li Auto, and Xpeng. What's more exciting is that the company has become a major supplier of aluminium (Al) and battery housing for its customers' global platforms like Tesla, Stellantis' EMPS, Daimler's MMA, Renault, Nissan, etc.

New business intakes on the rise



Source: Company

Thus, the total order backlog amounted to Rmb150bn+, with Al and battery housing accounting for 26% and 29%, respectively.

This should be positive for its future revenue mix and profit growth, especially in the NEV segment, supported by a high portion of Al and battery housing order backlogs on hand. In FY21, the share of revenue from NEV was 14%, up from 6.5% a year ago. Besides, Al and battery housing revenue was 24.5% of total revenue. It is estimated that NEV revenue would account for c.27% of FY22F revenue. Also, the ramping up of these new product sales should enhance its future GP margins to above 30%.

Minth's customer coverage is extensive, including most premium OEMs worldwide and 45 platform vehicle projects across the globe.

In terms of innovative product development, Minth is carrying out more developments into Al extrusion, Al die casting, high-strength steel, and composite materials to incorporate broader battery technology such as the solid-state battery and battery swapping. The capex plan for 2022 is estimated at Rmb3bn, slightly lower than 2021.

2021 could be the trough; cut TP. Last year was a challenging period for all automobile companies globally, due to rising raw material prices, supply chain disruptions, and the shortage of auto chips. As a result, Minth's FY21 net earnings only increased by 7% y-o-y despite revenue rising c.12%, because of a compression in GP and operating margins of 1.6ppt and 4.1ppt, respectively. Cost transfer is an ongoing process, especially for its new battery housing contracts. Minth suffered a sharp decline in GP margin of 6.7ppt in 2H vs. a year ago, due to sharp raw material cost increases (such as plastic) as well as supply chain disruption which was most acute in 3Q21. We anticipate some recovery of profit margins in FY22, since the company has secured some Rmb500m worth of raw material strategic inventories. Cost pass through is about 50% in FY21.

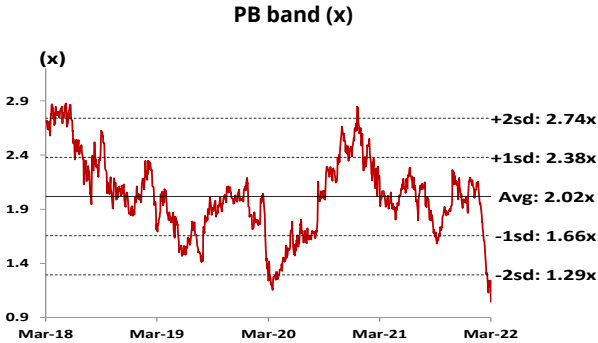
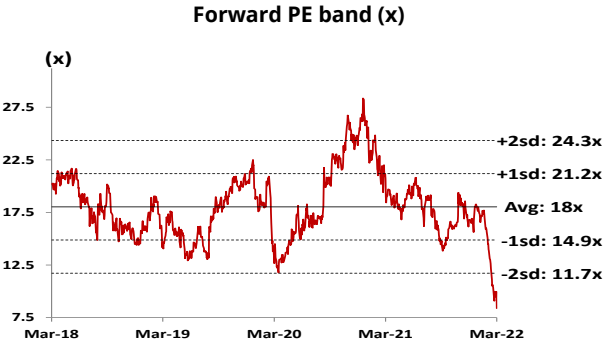
We cut our target PE from 21x FY22F to 18x to arrive at a new TP of HK\$36 (pre: 21x; HK\$49). The recent volatile stock market has also been unfavourable on the auto sector. Concerns of supply chain disruption and commodity inflation due to the Russia-Ukraine conflict are the rationales for the lower target PE. The stock is currently trading at FY22F 10xPE, which is 2SD below its historical mean.

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.

Minth Group

Historical PE and PB band



Source: Thomson Reuters, DBS HK

MintH Group

MintH FY21 results performance

FY Dec (RMBm)	1H20	2H20	1H21	2H21	2H21 vs 2H20 Y-o-Y chg. %	2H21 vs 1H21 H-o-H chg. %	FY20	FY21	Y-o-Y Chg. (%) 21 vs 20
Revenue	4,849	7,618	6,660	7,260	-4.7%	9.0%	12,467	13,919	11.7%
Cost of sales	(3,561)	(5,047)	(4,537)	(5,298)	5.0%	16.8%	(8,608)	(9,835)	14.3%
Gross profit	1,288	2,571	2,122	1,962	-23.7%	-7.6%	3,859	4,084	5.8%
Investment income	126	114	134	151	32.6%	13.3%	240	285	18.9%
Selling and distribution costs	(199)	(322)	(340)	(404)	25.4%	18.8%	-521	-744	42.9%
Administrative expenses	(427)	(602)	(588)	(649)	7.8%	10.3%	-1,029	-1,237	20.3%
R&D expenses	(251)	(513)	(427)	(513)	0.1%	20.1%	-764	-941	23.1%
Other gains & expenses	43	85	318	323	279.1%	1.7%	129	641	398.2%
Operating profit	580	1,333	1,217	870	-34.8%	-28.6%	1,913	2,087	9.1%
Finance costs	(119)	(128)	(132)	(131)	2.1%	-1.0%	-248	-263	6.3%
Share of asso & ICE profits	1	13	9	13	-3.0%	40.6%	14	22	57.0%
Profit before tax	461	1,218	1,094	751	-38.3%	-31.3%	1,680	1,846	9.9%
Income tax expense	(67)	(149)	(147)	(119)	-20.1%	-19.0%	-217	-266	23.0%
Profit for the period	394	1,069	947	632	-40.9%	-33.3%	1,463	1,579	8.0%
Minority Interest	(24)	(43)	(46)	(37)	-15.3%	-20.1%	(67)	(83)	22.9%
PATMI	370	1,026	901	595	-42.0%	-33.9%	1,396	1,497	7.2%
EPS (RMB)	0.32	0.89	0.78	0.52	-42.1%	-34.0%	1.21	1.30	7.1%
Margin Analysis (%)					ppts chg.	ppts chg.			ppts chg.
Gross Profit Margin	26.6	33.8	31.9	27.0	-6.7	-4.8	31.0	29.3	-1.6 ppt
Operating Profit Margin	12.0	17.5	18.3	12.0	-5.5	-6.3	15.3	15.0	-0.4 ppt
Net Profit Margin	7.6	13.5	13.5	8.2	-5.3	-5.3	11.2	10.8	-0.4 ppt
Revenue breakdown									
PRC	2,829	4,563	3,789	4,409	-3.4%	16.4%	7,391	8,198	10.9%
North America	956	1,303	1,505	1,404	7.7%	-6.7%	2,259	2,909	28.8%
Europe	848	1,300	1,152	1,145	-11.9%	-0.7%	2,148	2,297	6.9%
Asia-Pac	217	452	213	302	-33.2%	41.7%	668	515	-22.9%
Total	4,849	7,618	6,660	7,260	-4.7%	9.0%	12,467	13,919	11.7%
Revenue breakdown by products									
Metal and trim	1,945	2,556	2,251	2,482	-2.9%	10.2%	4,501	4,733	5.2%
Plastic	1,363	2,203	1,878	2,103	-4.5%	12.0%	3,566	3,981	11.7%
Aluminium	1,256	1,736	1,672	1,474	-15.1%	-11.8%	2,992	3,146	5.1%
Battery housing	53	34	87	178	424.3%	105.5%	87	264	203.1%
Others	233	1,089	773	1,023	-6.0%	32.4%	1,321	1,796	35.9%
Total	4,849	7,618	6,660	7,260	-4.7%	9.0%	12,467	13,919	11.7%

Source: Company

Minth Group

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
New contract	7,700.0	8,100.0	10,600.0	10,000.0	10,000.0
GP margin	31.2	31.0	29.3	30.9	31.4

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Metal and trim	4,751	4,501	4,733	5,111	5,827
Plastic	3,748	3,566	3,981	4,339	4,773
Aluminium	3,115	2,992	3,146	4,089	5,235
Battery housing	13	87	264	2,380	4,760
Others	1,571	1,321	1,796	2,155	2,262
Total	13,198	12,467	13,919	18,075	22,857
Gross Profit (RMB m)					
Metal and trim	1,461	1,349	1,382	1,738	2,039
Plastic	1,208	1,149	1,045	1,454	1,623
Aluminium	1,019	1,016	1,124	1,493	1,911
Battery housing	0	6	29	428	1,047
Others	434	339	505	474	566
Total	4,121	3,859	4,084	5,587	7,186
Gross Profit Margins (%)					
Metal and trim	30.7	30.0	29.2	34.0	35.0
Plastic	32.2	32.2	26.2	33.5	34.0
Aluminium	32.7	34.0	35.7	36.5	36.5
Battery housing	2.4	7.2	10.9	18.0	22.0
Others	27.6	25.6	22.9	22.0	25.0
Total	31.2	31.0	29.3	30.9	31.4

Source: Company, DBS HK

MintH Group

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	13,198	12,467	13,919	18,075	22,857
Cost of Goods Sold	(9,077)	(8,608)	(9,835)	(12,488)	(15,671)
Gross Profit	4,121	3,859	4,084	5,587	7,186
Other Opg (Exp)/Inc	(1,972)	(2,185)	(2,282)	(3,308)	(4,167)
Operating Profit	2,149	1,673	1,802	2,278	3,019
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(16)	14	22	24	26
Net Interest (Exp)/Inc	(31)	(8)	22	17	(19)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,101	1,680	1,846	2,320	3,026
Tax	(336)	(217)	(266)	(325)	(424)
Minority Interest	(75)	(67)	(83)	(90)	(117)
Preference Dividend	0	0	0	0	0
Net Profit	1,690	1,396	1,497	1,905	2,485
Net Profit before Except.	1,690	1,396	1,497	1,905	2,485
EBITDA	2,938	2,567	2,850	3,230	4,072
Growth					
Revenue Gth (%)	5.1	(5.5)	11.7	29.9	26.5
EBITDA Gth (%)	8.1	(12.6)	11.0	13.4	26.0
Opg Profit Gth (%)	4.1	(22.1)	7.7	26.4	32.5
Net Profit Gth (%)	1.8	(17.4)	7.2	27.3	30.5
Margins & Ratio					
Gross Margins (%)	31.2	31.0	29.3	30.9	31.4
Opg Profit Margin (%)	16.3	13.4	12.9	12.6	13.2
Net Profit Margin (%)	12.8	11.2	10.8	10.5	10.9
ROAE (%)	12.3	9.5	9.7	11.4	13.7
ROA (%)	7.5	5.5	5.3	6.2	7.6
ROCE (%)	9.6	6.8	6.4	7.6	9.5
Div Payout Ratio (%)	41.1	40.0	40.0	40.0	40.0
Net Interest Cover (x)	68.4	211.4	NM	NM	157.0

Source: Company, DBS HK

Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	7,068	4,849	7,618	6,660	7,260
Cost of Goods Sold	(4,934)	(3,561)	(5,047)	(4,537)	(5,298)
Gross Profit	2,134	1,288	2,571	2,122	1,962
Other Oper. (Exp)/Inc	(1,110)	(834)	(1,352)	(1,038)	(1,243)
Operating Profit	1,024	454	1,219	1,084	718
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(5)	1	13	9	13
Net Interest (Exp)/Inc	(3)	6	(14)	1	20
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,016	461	1,218	1,094	751
Tax	(185)	(67)	(149)	(147)	(119)
Minority Interest	(35)	(24)	(43)	(46)	(37)
Net Profit	796	370	1,026	901	595
Net profit bef Except.	796	370	1,026	901	595
Growth					
Revenue Gth (%)	7.7	(20.9)	7.8	37.3	(4.7)
Opg Profit Gth (%)	21.5	(59.6)	19.0	138.7	(41.1)
Net Profit Gth (%)	18.0	(58.6)	28.8	143.7	(42.0)
Margins					
Gross Margins (%)	30.2	26.6	33.8	31.9	27.0
Opg Profit Margins (%)	14.5	9.4	16.0	16.3	9.9
Net Profit Margins (%)	11.3	7.6	13.5	13.5	8.2

Source: Company, DBS HK

Mint Group

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	8,749	9,616	11,623	13,232	14,746
Invt in Associates & JVs	215	263	318	342	368
Other LT Assets	2,095	2,348	2,713	2,726	2,735
Cash & ST Invt	5,687	6,008	5,492	4,846	4,485
Inventory	2,040	2,385	2,961	3,257	3,648
Debtors	4,550	4,789	5,379	5,873	6,598
Other Current Assets	306	1,798	1,159	1,159	1,159
Total Assets	23,643	27,206	29,645	31,434	33,739
ST Debt	4,139	5,445	4,888	4,888	4,888
Creditors	3,548	4,077	4,334	4,668	5,033
Other Current Liab	128	111	155	214	313
LT Debt	0	1,074	2,255	2,255	2,255
Other LT Liabilities	1,083	1,186	1,457	1,457	1,457
Shareholder's Equity	14,325	14,944	16,023	17,330	19,053
Minority Interests	419	369	533	622	740
Total Cap. & Liab.	23,643	27,206	29,645	31,434	33,739
Non-Cash Wkg. Capital	3,220	4,784	5,010	5,407	6,058
Net Cash/(Debt)	1,548	(511)	(1,652)	(2,298)	(2,658)
Debtors Turn (avg days)	121.1	136.7	133.3	113.6	99.6
Creditors Turn (avg days)	152.5	180.1	174.2	142.1	120.9
Inventory Turn (avg days)	88.6	104.5	110.7	98.2	86.0
Asset Turnover (x)	0.6	0.5	0.5	0.6	0.7
Current Ratio (x)	1.6	1.6	1.6	1.5	1.6
Quick Ratio (x)	1.3	1.1	1.2	1.1	1.1
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	42.0	35.0	35.0
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	2021A	2022F	2023F
Pre-Tax Profit	2,101	1,680	1,846	2,320	3,026
Dep. & Amort.	805	880	1,026	928	1,026
Tax Paid	(364)	(197)	(217)	(266)	(325)
Assoc. & JV Inc/(loss)	16	(14)	(22)	(24)	(26)
(Pft)/Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg. Cap.	(271)	(363)	(910)	(455)	(751)
Other Operating CF	(228)	0	0	0	0
Net Operating CF	2,384	2,080	1,495	2,485	2,970
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)	235	225	218
Net Investing CF	(1,166)	(3,412)	(2,765)	(2,275)	(2,282)
Div Paid	(667)	(694)	(558)	(599)	(762)
Chg in Gross Debt	14	2,617	1,500	0	0
Capital Issues	50	(101)	0	0	0
Other Financing CF	539	(150)	(188)	(257)	(286)
Net Financing CF	(64)	1,671	754	(856)	(1,048)
Currency Adjustments	11	(19)	0	0	0
Chg in Cash	1,165	321	(516)	(646)	(360)
Opg CFPS (RMB)	2.31	2.12	2.09	2.55	3.23
Free CFPS (RMB)	0.74	(0.12)	(1.31)	(0.01)	0.41

Source: Company, DBS HK

MintH Group

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Mar-21	HK\$31.25	HK\$49.00	Buy
2:	1-Sep-21	HK\$31.20	HK\$49.00	Buy
3:	21-Jan-22	HK\$37.25	HK\$49.00	Buy

Source: DBS HK

Analyst: Rachel Miu

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

Completed Date: 24 Mar 2022 19:29:38 (HKT)

Dissemination Date: 24 Mar 2022 19:54:21 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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