

Nexteer Automotive Group

Bloomberg: 1316 HK Equity | Reuters: 1316.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

17 Mar 2022

BUY

Last Traded Price (16 Mar 2022): HK\$5.24 (HSI : 20,088)
Price Target 12-mth: HK\$8.00 (53% upside) (Prev HK\$14.00)

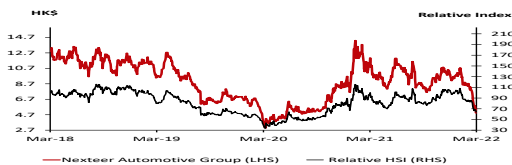
Analyst

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What's New

- FY21 raw material cost recovery rate was over 60%; ongoing negotiations with customers and recent easing of commodity prices positive on margin recovery
- Strong order backlog to support future project launches
- Continual customer/product diversification beneficial to its long-term business outlook
- Anticipate some short-term share price volatility due to weak FY21 results; Maintain BUY with lower TP of HK\$8

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Turnover	3,032	3,359	3,773	4,412
EBITDA	314	369	546	645
Pre-tax Profit	114	114	265	349
Net Profit	117	118	229	303
Net Pft (Pre Ex) (core profit)	117	118	229	303
Net Profit Gth (Pre-ex) (%)	(49.8)	1.4	93.6	32.2
EPS (US\$)	0.05	0.05	0.09	0.12
EPS (HK\$)	0.36	0.37	0.71	0.95
EPS Gth (%)	(49.8)	1.4	93.6	32.2
Diluted EPS (HK\$)	0.36	0.37	0.71	0.95
DPS (HK\$)	0.07	0.07	0.14	0.19
BV Per Share (HK\$)	5.87	6.09	6.73	7.53
PE (X)	14.4	14.2	7.3	5.5
P/Cash Flow (X)	4.0	5.9	3.5	2.8
P/Free CF (X)	6.2	19.2	6.0	4.3
EV/EBITDA (X)	4.5	4.0	2.5	1.7
Net Div Yield (%)	1.4	1.4	2.8	3.6
P/Book Value (X)	0.9	0.9	0.8	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	6.3	6.2	11.1	13.2
Earnings Rev (%)			(18)	(10)
Consensus EPS (US\$)			0.10	0.13
Other Broker Recs:		B:13	S:1	H:2

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

Near-term fluctuation expected

Investment Thesis

Ongoing discussions to pass through cost hikes and recent easing of commodity prices should support product margin recovery. Nexteer had managed to pass-through some 65% of commodity price increase to its customers in FY21 and are having ongoing negotiations with global OEM to further reduce its cost pressure this year. Plus, metal prices came off from their peak recently. Besides, the company is constantly improving its production efficiency to reduce operating cost pressure.

Huge backlog to support new programme launches in the medium-term. In FY21, Nexteer launched 36 new programmes (EV related:25%) and secured US\$5.9bn of new bookings, bringing total order backlog to a record US\$26.8bn (EV related:25%). The accelerating global shift towards EVs should drive higher demand for EV related parts.

Success in broadening the customer base and launch of more advanced steering systems to strengthen its long-term outlook. Nexteer has made good headway into the full-size electric truck market in North America. Launching high power electric steering products from FY22-26 would also open more opportunities in the EV space. Apart from the incumbents, Nexteer is working to secure NEV contracts with the Chinese NEV players (NIO, Xpeng, Li Auto) and Tesla's China business.

Valuation:

We lowered our TP to HK\$8 based on 11x FY22F PE (prev 16x) after the weak FY21 results.

Where we differ:

Our FY22/23F net earnings are slightly below consensus due to high concentration to North America, and recovery could be slower than expected given the rate hike.

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)	2,510
Mkt Cap (HK\$m/US\$m)	13,152 / 1,682
Major Shareholders (%)	
Pacific Century Motors, Inc.	64.9
Free Float (%)	35.1
3m Avg. Daily Val. (US\$m)	7.33
GICS Industry: Consumer Discretionary / Automobiles & Components	



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Nexteer Automotive Group

WHAT'S NEW

Long-term prospects remain solid; bracing for short-term volatility

Possible easing of margin pressure. Nexteer managed to pass through some 65% of commodity price increase to its customers in FY21 and negotiations are ongoing with global OEMs to further reduce its cost pressure this year. Metal prices have come off from their peak recently, thus providing some relief for auto manufacturers. Besides, the company is constantly improving its production efficiency to reduce operating cost pressure. All these should lead to a recovery in product margins in FY22/23F. We estimate FY22/23F GP margins to improve by 4ppts/1.5ppt to 15%/16.5%.

Record order backlog to support future business growth.

In FY21, Nexteer launched 36 new programmes (25% being EV related) and has secured US\$5.9bn of new bookings, of which about 80% is high margin electric steering products. Its record order backlog of US\$26.8bn has 25% exposure to EVs. The rising global shift towards EVs should drive higher demand for EV related parts, which is beneficial to Nexteer's business outlook.

Success in broadening customer base and launch of more advanced steering systems to solidify its long-term outlook.

Nexteer has made good headway into the full-size electric truck market in North America and the launch of high power electric steering products from FY22-26 should open more EV opportunities to the company. Steer-by-wire and stowable column technology are scheduled for production in 1H22 and Nexteer aims to be a major player in this segment.

North American automakers (such as General Motors and Ford) have several truck and SUV electric models for launch in 2022-23 (including Ford F-150 Lightning, Cadillac Lyriq and Chevrolet Silverado EV etc). Nexteer is well positioned to benefit given its dominant position in the North American steering product market.

Apart from the incumbents, Nexteer is working to secure NEV opportunities with the Chinese NEV players (NIO, Xpeng, Li Auto) and Tesla's China business.

Weak FY21 results due to sharp margin erosion could weigh on share price performance in the near-term. FY21 revenue increased by 10.8% to US\$3.36bn, with increases across all major markets it operates in. North America, which contributed 58% of total revenue, posted 3% growth,

while Europe and Asia Pacific (Asia Pac) posted 26%/20% expansion respectively.

Gross margins were down 2.7ppts to 10.8%, and total gross profit fell c.12% to US\$363m. The shortage of auto chips, OEM production disruption and rising raw material prices have negatively impacted its product margins. By markets, EBITDA margin in North America and Asia Pac were down by 4ppts to 8.4% and 0.9% to 18.7% respectively. As a result, blended EBITDA margins contracted by 1.7ppts from a year ago to 10.7%, leading to a 4.6% decline in EBITDA to US\$361m.

The dragged on its product margins resulted in FY21 net earnings only inching up by 1.4% to US\$118.4m, below expectations. The management has proposed to pay a final DPS of 0.95 US cents (FY20: 0.94 US cents), translating to 20% payout ratio.

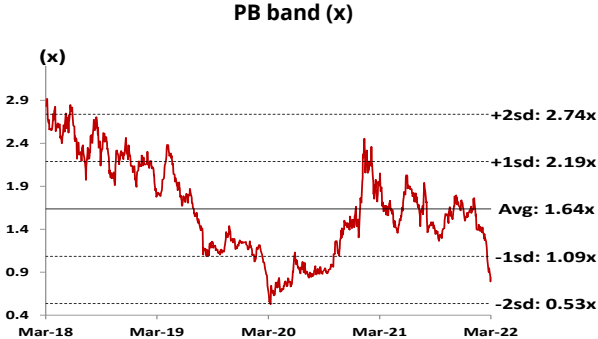
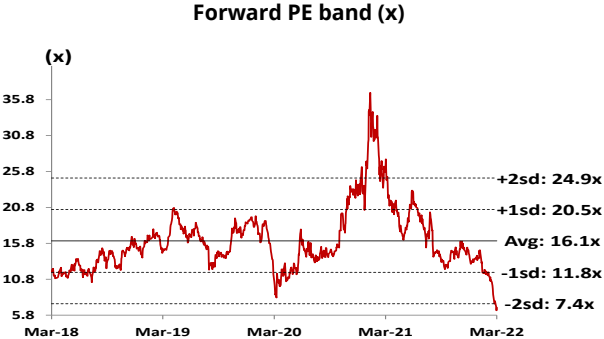
Valuation cut; but long-term outlook remains strong. We anticipate 2H22 outlook to improve on pent-up demand and channel restocking. Nexteer's share price has corrected by about 40% in the past 1 month (especially after the release of its FY21 results) and is currently trading at FY22F 7.3xPE, undemanding in our view given its strong long-term outlook. We cut FY22/23F net earnings by 18%/10% to factor in lower margin assumptions. Our new TP of HK\$8 is pegged to 11x FY22F PE (prev: 16x). Maintain BUY.

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.

Nexteer Automotive Group

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Nexteer FY21 results performance

(US\$ m)	1H20	2H20	1H21	2H21	2H21 vs	2H21 vs	FY20	FY21F	Y-o-Y chg.
					2H20	1H21			
Turnover	1,210.7	1,821.5	1,734.4	1,624.3	-10.8%	-6.3%	3,032.2	3,358.7	10.8%
Cost of sales	(1,088.7)	(1,532.1)	(1,507.9)	(1,487.4)	-2.9%	-1.4%	(2,620.8)	(2,995.3)	14.3%
Gross profit	122.0	289.3	226.5	137.0	-52.7%	-39.5%	411.4	363.4	-11.7%
Engineering & devt costs	(87.7)	(65.9)	(57.0)	(59.3)	-10.0%	3.9%	(153.6)	(116.3)	-24.3%
Selling and distribution costs	(7.9)	(9.0)	(9.1)	(8.6)	-4.7%	-5.3%	(16.9)	(17.7)	4.3%
Administrative expenses	(54.2)	(58.4)	(72.9)	(58.5)	0.0%	-19.8%	(112.6)	(131.4)	16.7%
Operating profit/(loss)	(28.9)	147.6	93.7	21.5	-85.4%	-77.1%	118.7	115.2	-3.0%
Net finance cost	(1.7)	(3.3)	(1.1)	(0.8)	-76.7%	-28.4%	(5.1)	(1.9)	-63.3%
Profit/(Loss) before tax	(31.1)	145.6	93.0	21.0	-85.6%	-77.4%	114.5	114.0	-0.4%
Income tax expense	34.2	(26.3)	(5.7)	18.1	-168.6%	-417.6%	7.8	12.4	58.0%
Minority interest	(1.8)	(3.7)	(4.2)	(3.8)	0.9%	-9.9%	(5.5)	(8.0)	43.8%
PATMI	1.3	115.5	83.1	35.3	-69.4%	-57.5%	116.8	118.4	1.4%
Margin Analysis					ppts	ppts			ppts
Gross Profit Margin	10.1%	15.9%	13.1%	8.4%	-7.5	-4.6	13.6%	10.8%	-2.7
EBITDA Margin	9.6%	14.4%	12.3%	9.1%	-5.3	-3.2	12.5%	10.7%	-1.7
Operating Profit Margin	-2.4%	8.1%	5.4%	1.3%	-6.8	-4.1	3.9%	3.4%	-0.5
Net Profit Margin	0.1%	6.3%	4.8%	2.2%	-4.2	-2.6	3.9%	3.5%	-0.3
Turnover breakdown by regions									
North America	794.2	1,110.9	1,032.5	931.3	-16.2%	-9.8%	1,905.1	1,963.7	3.1%
Europe and South America	185.8	299.8	315.4	270.1	-9.9%	-14.4%	485.6	585.5	20.6%
Asia Pacific	230.7	410.8	386.5	423.0	3.0%	9.5%	641.4	809.5	26.2%
Total	1,210.7	1,821.5	1,734.4	1,624.3	-10.8%	-6.3%	3,032.2	3,358.7	10.8%
Adjusted EBITDA by regions									
North America	72.4	162.4	110.4	53.9	-66.8%	-51.2%	234.7	164.3	-30.0%
Europe and South America	-0.8	26.3	20.1	17.5	-33.4%	-12.6%	25.5	37.6	47.3%
Asia Pacific	46.4	78.7	79.5	71.5	-9.1%	-10.0%	125.2	151.0	20.7%
Total	115.7	262.3	212.9	147.9	-43.6%	-30.5%	378.0	360.8	-4.6%
Turnover breakdown by products									
Steering systems									
EPS	823.8	1,234.4	1,206.7	1,118.8	-9.4%	-7.3%	2,058.2	2,325.5	13.0%
HPS	45.1	74.9	72.0	64.9	-13.3%	-9.8%	120.0	136.9	14.1%
Steering column (CIS)	145.5	198.0	159.0	158.8	-19.8%	-0.1%	343.5	317.8	-7.5%
Sub-total	1,014.5	1,507.2	1,437.7	1,342.5	-10.9%	-6.6%	2,521.7	2,780.2	10.3%
Driveline	196.2	314.3	296.7	281.8	-10.3%	-5.0%	510.5	578.5	13.3%
Total	1,210.7	1,821.5	1,734.4	1,624.3	-10.8%	-6.3%	3,032.2	3,358.7	10.8%
Adjusted EBITDA margins by regions					ppts	ppts			ppts
North America	9.1%	14.6%	10.7%	5.8%	-8.8	-4.9	12.3%	8.4%	-4.0
Europe and South America	-0.4%	8.8%	6.4%	6.5%	-2.3	0.1	5.3%	6.4%	1.2
Asia Pacific	20.1%	19.2%	20.6%	16.9%	-2.3	-3.6	19.5%	18.7%	-0.9

Source: Company

Nexteer Automotive Group

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue (US\$m) - North America	2,448.8	1,905.1	1,963.7	2,263.9	2,647.5
Europe and South America	484.3	485.6	585.5	566.0	661.9
Asia Pacific	642.6	641.4	809.5	943.3	1,103.1

Source: Company, DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (US\$ m)					
EPS	2,409	2,058	2,326	2,502	2,935
HPS	138	120	137	136	152
Steering column (CIS)	496	344	318	502	564
Driveline	533	510	578	633	762
Total	3,576	3,032	3,359	3,773	4,412

Source: Company, DBS HK

Nexteer Automotive Group

Income Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	3,576	3,032	3,359	3,773	4,412
Cost of Goods Sold	(3,037)	(2,621)	(2,995)	(3,207)	(3,706)
Gross Profit	539	411	363	566	706
Other Opng (Exp)/Inc	(266)	(293)	(248)	(298)	(354)
Operating Profit	273	119	115	268	352
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(4)	1	1	1	0
Net Interest (Exp)/Inc	(5)	(5)	(2)	(4)	(4)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	264	114	114	265	349
Tax	(29)	8	12	(26)	(35)
Minority Interest	(2)	(6)	(8)	(9)	(11)
Preference Dividend	0	0	0	0	0
Net Profit	232	117	118	229	303
Net Profit before Except.	232	117	118	229	303
EBITDA	495	314	369	546	645
Growth					
Revenue Gth (%)	(8.6)	(15.2)	10.8	12.3	16.9
EBITDA Gth (%)	(16.0)	(36.5)	17.3	48.1	18.2
Opg Profit Gth (%)	(35.7)	(56.5)	(3.0)	132.6	31.5
Net Profit Gth (%)	(38.8)	(49.8)	1.4	93.6	32.2
Margins & Ratio					
Gross Margins (%)	15.1	13.6	10.8	15.0	16.0
Opg Profit Margin (%)	7.6	3.9	3.4	7.1	8.0
Net Profit Margin (%)	6.5	3.9	3.5	6.1	6.9
ROAE (%)	13.3	6.3	6.2	11.1	13.2
ROA (%)	7.3	3.6	3.6	6.8	8.0
ROCE (%)	10.1	4.8	4.8	9.7	11.3
Div Payout Ratio (%)	35.1	20.2	20.1	20.2	20.2
Net Interest Cover (x)	55.2	23.5	62.1	68.7	82.2

Source: Company, DBS HK

Interim Income Statement (US\$ m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	1,743	1,211	1,821	1,734	1,624
Cost of Goods Sold	(1,494)	(1,089)	(1,532)	(1,508)	(1,487)
Gross Profit	250	122	289	226	137
Other Oper. (Exp)/Inc	(137)	(151)	(142)	(133)	(115)
Operating Profit	113	(29)	148	94	21
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(2)	0	1	0	0
Net Interest (Exp)/Inc	(3)	(2)	(3)	(1)	(1)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	109	(31)	146	93	21
Tax	(7)	34	(26)	(6)	18
Minority Interest	(1)	(2)	(4)	(4)	(4)
Net Profit	101	1	115	83	35
Net profit bef Except.	101	1	115	83	35
Growth					
Revenue Gth (%)	(6.5)	(33.9)	4.5	43.3	(10.8)
Opg Profit Gth (%)	(38.6)	(118.1)	30.6	(424.5)	(85.4)
Net Profit Gth (%)	(43.7)	(99.0)	14.0	6,290.7	(69.4)
Margins					
Gross Margins (%)	14.3	10.1	15.9	13.1	8.4
Opg Profit Margins (%)	6.5	(2.4)	8.1	5.4	1.3
Net Profit Margins (%)	5.8	0.1	6.3	4.8	2.2

Source: Company, DBS HK

Nexteer Automotive Group

Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	990	1,009	989	1,027	1,061
Invt in Associates & JVs	20	22	23	27	31
Other LT Assets	730	778	834	819	792
Cash & ST Invt	602	553	327	540	845
Inventory	266	234	289	312	337
Debtors	545	593	626	718	757
Other Current Assets	107	116	119	131	144
Total Assets	3,259	3,306	3,206	3,574	3,967
ST Debt	59	249	84	84	84
Creditors	592	657	667	700	735
Other Current Liab	214	202	191	240	259
LT Debt	249	0	0	70	140
Other LT Liabilities	294	277	262	263	264
Shareholder's Equity	1,812	1,882	1,955	2,160	2,417
Minority Interests	40	39	48	57	67
Total Cap. & Liab.	3,259	3,306	3,206	3,574	3,967
Non-Cash Wkg. Capital	112	84	176	221	244
Net Cash/(Debt)	294	305	242	386	621
Debtors Turn (avg days)	54.8	68.5	66.2	65.0	61.0
Creditors Turn (avg days)	74.4	94.0	88.1	85.1	76.7
Inventory Turn (avg days)	32.5	37.6	34.8	37.4	34.7
Asset Turnover (x)	1.1	0.9	1.0	1.1	1.2
Current Ratio (x)	1.8	1.4	1.4	1.7	1.9
Quick Ratio (x)	1.3	1.0	1.0	1.2	1.5
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	237.0	129.5	89.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	264	114	114	265	349
Dep. & Amort.	226	195	253	278	293
Tax Paid	(18)	(29)	8	12	(26)
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	(76)	(82)	(30)
Other Operating CF	21	52	(11)	6	8
Net Operating CF	491	420	287	478	593
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)	(81)	(100)	(100)
Net Investing CF	(373)	(288)	(286)	(304)	(303)
Div Paid	(78)	(90)	(24)	(24)	(46)
Chg in Gross Debt	(109)	(83)	(171)	63	61
Capital Issues	0	0	0	0	0
Other Financing CF	2	(14)	(21)	0	0
Net Financing CF	(184)	(187)	(215)	40	15
Currency Adjustments	(6)	7	(13)	0	0
Chg in Cash	(73)	(48)	(227)	214	305
Opg CFPS (US\$)	0.20	0.13	0.14	0.22	0.25
Free CFPS (US\$)	0.12	0.11	0.03	0.11	0.16

Source: Company, DBS HK

Nexteer Automotive Group

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	18-Mar-21	HK\$11.40	HK\$15.50	Buy
2:	18-Aug-21	HK\$9.14	HK\$14.00	Buy
3:	20-Jan-22	HK\$10.36	HK\$14.00	Buy

Source: DBS HK

Analyst: Rachel Miu

Nexteer Automotive Group

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: 17 Mar 2022 18:29:38 (HKT)

Dissemination Date: 17 Mar 2022 19:28:23 (HKT)

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

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