

# 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

1 Jun 2022

### BUY

Last Traded Price (31 May 2022): HK\$20.35 (HSI : 21,415)  
Price Target 12-mth: HK\$30.00 (47% upside) (Prev HK\$36.00)

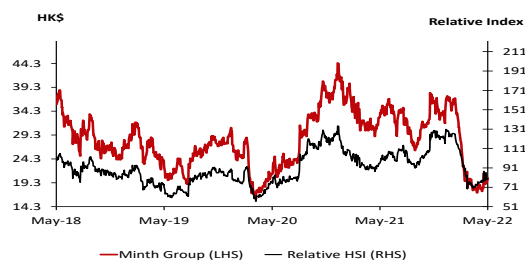
#### Analyst

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#### What's New

- Lockdowns and high raw material cost affecting 1H22
- Tariff reduction could potentially lift pretax profit by 6%-7%
- Undemanding valuation with better 2H22 outlook
- HK\$30 TP pegged to FY22F 18x PE; reiterate BUY

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	12,467	13,919	17,007	21,151
EBITDA	2,567	2,850	2,829	3,724
Pre-tax Profit	1,680	1,846	1,919	2,656
Net Profit	1,396	1,497	1,576	2,182
Net Pft (Pre Ex) (core profit)	1,396	1,497	1,576	2,182
Net Profit Gth (Pre-ex) (%)	(17.4)	7.2	5.3	38.5
EPS (RMB)	1.21	1.30	1.37	1.89
EPS (HK\$)	1.43	1.53	1.61	2.23
EPS Gth (%)	(17.6)	7.1	5.3	38.5
Diluted EPS (HK\$)	1.42	1.52	1.60	2.22
DPS (HK\$)	0.57	0.61	0.64	0.89
BV Per Share (HK\$)	15.28	16.36	17.36	18.95
PE (X)	14.3	13.3	12.6	9.1
P/Cash Flow (X)	9.6	15.1	9.6	7.4
P/Free CF (X)	nm	nm	nm	111.7
EV/EBITDA (X)	8.1	7.8	8.2	6.4
Net Div Yield (%)	2.8	3.0	3.2	4.4
P/Book Value (X)	1.3	1.2	1.2	1.1
Net Debt/Equity (X)	0.0	0.1	0.2	0.2
ROAE (%)	9.5	9.7	9.5	12.3

Earnings Rev (%): (17) (12)  
Consensus EPS (RMB): 1.43 1.86  
Other Broker Recs: B:20 S:0 H:1  
Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

### Anticipate 2H22 to improve after a challenging 2Q22

#### Investment Thesis

1H22 business impacted by China lockdowns and high raw material costs. The lockdowns in Jilin and Shanghai have negatively impacted Minth's China business by over 20% in Apr 22. Besides, the high raw material (RM) cost environment could impact product margins. Minth is having ongoing discussions with customers about raw material cost pass through, and coupled with the gradual resumption in vehicle production since May, the China business is expected to post better sequential improvement in 2H.

**Overseas business and tariff reduction impact.** Global light vehicle sales fell by c.25% y-o-y in Apr 22; China declined over 40%. Overseas sales account for c.40% of Minth's total revenue, of which about half is from its Chinese plants. But direct export from China to the US is estimated at 7%-8% of total revenue, implying a net impact of Rmb150m (net of pass through) from tariff reductions on an annual basis, about 6%-7% of pretax profit. Minth's overseas factories are still in a ramp-up stage and could boost economies of scale.

**Financial impact.** 2Q revenue and GP margins are expected to be weak due to lockdowns and RM cost pressure. Hence, 1H22 GP margin could be 2-3ppt below 1H21's c.32% and there could be downward swings in FY22F revenue and margins (company has set a 30% revenue growth target).

#### Valuation:

Our HK\$30 new TP is based on 18x FY22F PE. The stock is trading at 2SD below its historical mean.

#### Where we differ:

We believe Minth is well positioned to secure more new orders, especially for advanced auto parts which is crucial on earnings growth.

#### 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)	1,161
Mkt Cap (HKm/US\$m)	23,626 / 3,011
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)	10.56
GICS Industry: Consumer Discretionary / Automobiles & Components	



Watchlist the stock on Insights Direct to receive prompt updates



## Minth Group

### WHAT'S NEW

#### Looking forward to a better 2H22

**Impact of lockdowns and high raw material costs.** The lockdowns in Jilin and Shanghai have negatively impacted Minth's China business by over 20% in Apr 22. Besides, the high RM cost environment (despite the recent price corrections) could impact product margins. While Minth has been successful in passing through the higher RM costs to some of its customers (for those contracts that contained the cost pass through clause), it is still negotiating with other customers to mitigate the cost pressure. Minth's business is also indirectly affected by auto chip shortages, as auto OEM production downtime hit demand for auto parts.

The Shanghai auto sector is slowly resuming production, and normalisation is expected in Jun 22. Besides, the government has released a series of stimulus policies to boost auto consumption, including a pure electric vehicle subsidy of Rmb10,000 and issuance of an additional 40,000 license plates. New vehicle registrations plunged some 98% in Apr 22 – one of the worst hit markets in China.

The positive measures are catalysts for the vehicle ecosystem. We expect Minth's China business, which accounts for about 60% of total revenue, to post better sequential improvement in 2H22 on this positive development.

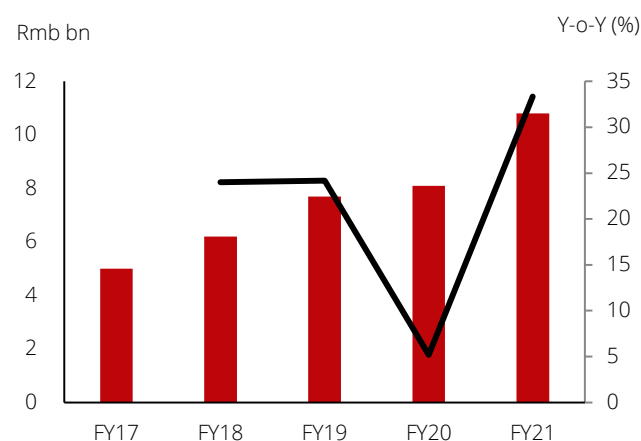
**Overseas business and tariff reduction impact.** The pandemic and geopolitical turmoil have dragged global light vehicle sales by c.25% y-o-y in Apr 22, with the worst hit in China at an over 40% contraction. Overseas sales account for c.40% of Minth's total revenue, of which about half is from its Chinese plants. However, direct export from China to the US is small, estimated at 7%-8% of total revenue, implying a net impact of about Rmb150m (net of 50% cost pass through) from tariff reduction on an annual basis. Minth's overseas factories (such as Serbia, Czech, Mexico) are still in a ramp-up stage, and an economies of scale improvement is possible going forward.

**Financial impact.** As a result, 2Q revenue is expected to be weak due to lockdowns and margins are likely to be under pressure, as RM cost remains high. Therefore, the weak 2Q is expected to affect 1H22 performance (1H21 GP margin was c.32%). While battery housing GP margin could improve to 15%-20% this year on the back of the scale effect, the bulk of the other products may still face margin pressure in 1H22.

Hence, there could be downward swings in FY22F revenue and margins (company has set a 30% revenue growth target), even though some catching up on missed shipments is possible in 2H.

**New order outlook.** This is crucial for Minth's business growth prospects. Minth has secured new orders worth some Rmb5bn in 4M22 and is on track to meet its new order target for 2022. As of Dec 21, Minth's outstanding backlog was valued at Rmb150bn, of which battery housing and aluminum accounted for 55% in total. The rising global electrification trend has contributed to the rapid growth of its battery housing and aluminum business. The strong backlog supports healthy revenue and earnings prospects.

#### New business intake



Source: Company

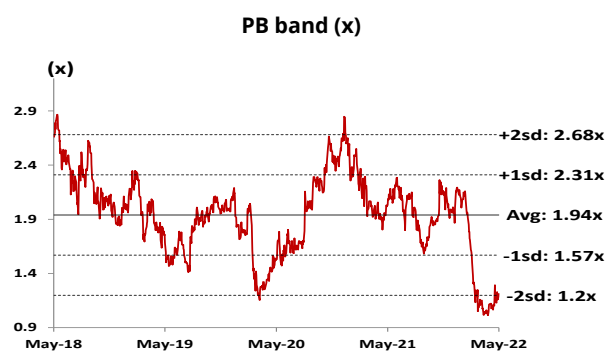
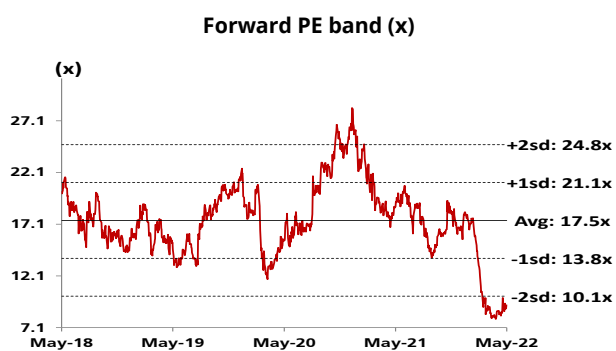
**Cut FY22/23 earnings estimates; maintain BUY on improving 2H22 business outlook.** We revised down our revenue and gross margin assumptions due to production disruptions and high raw material cost impact. As a result, our FY22/23F net earnings were cut by 17%/12% respectively. Subsequently, our TP is lowered to HK\$30, pegged to unchanged target PE of 18x FY22F. We maintain BUY as current valuation should have reflected the negatives and 2H business outlook is expected to improve as auto OEMs are resuming their factory productions.

## Minth Group

### 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 part development to broaden its earnings base. Its key customers are the major international auto brands in North America, Europe, and Asia.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## 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	29.2	30.7

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
Metal and trim	4,751	4,501	4,733	5,017	5,719
Plastic	3,748	3,566	3,981	4,299	4,729
Aluminium	3,115	2,992	3,146	3,775	4,832
Battery housing	13	87	264	1,851	3,703
Others	1,571	1,321	1,796	2,065	2,168
<b>Total</b>	<b>13,198</b>	<b>12,467</b>	<b>13,919</b>	<b>17,007</b>	<b>21,151</b>
<b>Gross profit (RMB m)</b>					
Metal and trim	1,461	1,349	1,382	1,555	1,887
Plastic	1,208	1,149	1,045	1,290	1,513
Aluminium	1,019	1,016	1,124	1,359	1,739
Battery housing	0	6	29	352	815
Others	434	339	412	413	542
<b>Total</b>	<b>4,121</b>	<b>3,859</b>	<b>4,084</b>	<b>4,969</b>	<b>6,497</b>
<b>Gross Margins (%)</b>					
Metal and trim	30.7	30.0	29.2	31.0	33.0
Plastic	32.2	32.2	26.2	30.0	32.0
Aluminium	32.7	34.0	35.7	36.0	36.0
Battery housing	2.4	7.2	10.9	19.0	22.0
Others	27.6	25.6	22.9	20.0	25.0
<b>Total</b>	<b>31.2</b>	<b>31.0</b>	<b>29.3</b>	<b>29.2</b>	<b>30.7</b>

Source: Company, DBS HK

## MintH Group

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	13,198	12,467	13,919	17,007	21,151
Cost of Goods Sold	(9,077)	(8,608)	(9,835)	(12,038)	(14,654)
<b>Gross Profit</b>	<b>4,121</b>	<b>3,859</b>	<b>4,084</b>	<b>4,969</b>	<b>6,497</b>
Other Opg (Exp)/Inc	(1,972)	(2,185)	(2,282)	(3,092)	(3,825)
<b>Operating Profit</b>	<b>2,149</b>	<b>1,673</b>	<b>1,802</b>	<b>1,877</b>	<b>2,671</b>
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	(41)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,101</b>	<b>1,680</b>	<b>1,846</b>	<b>1,919</b>	<b>2,656</b>
Tax	(336)	(217)	(266)	(269)	(372)
Minority Interest	(75)	(67)	(83)	(74)	(103)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,690</b>	<b>1,396</b>	<b>1,497</b>	<b>1,576</b>	<b>2,182</b>
Net Profit before Except.	1,690	1,396	1,497	1,576	2,182
EBITDA	2,938	2,567	2,850	2,829	3,724
<b>Growth</b>					
Revenue Gth (%)	5.1	(5.5)	11.7	22.2	24.4
EBITDA Gth (%)	8.1	(12.6)	11.0	(0.7)	31.6
Opg Profit Gth (%)	4.1	(22.1)	7.7	4.2	42.3
Net Profit Gth (%)	1.8	(17.4)	7.2	5.3	38.5
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	31.2	31.0	29.3	29.2	30.7
Opg Profit Margin (%)	16.3	13.4	12.9	11.0	12.6
Net Profit Margin (%)	12.8	11.2	10.8	9.3	10.3
ROAE (%)	12.3	9.5	9.7	9.5	12.3
ROA (%)	7.5	5.5	5.3	5.2	6.8
ROCE (%)	9.6	6.8	6.4	6.3	8.5
Div Payout Ratio (%)	41.1	40.0	40.0	40.0	40.0
Net Interest Cover (x)	68.4	211.4	NM	NM	64.7

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)
<b>Gross Profit</b>	<b>2,134</b>	<b>1,288</b>	<b>2,571</b>	<b>2,122</b>	<b>1,962</b>
Other Oper. (Exp)/Inc	(1,110)	(834)	(1,352)	(1,038)	(1,243)
<b>Operating Profit</b>	<b>1,024</b>	<b>454</b>	<b>1,219</b>	<b>1,084</b>	<b>718</b>
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
<b>Pre-tax Profit</b>	<b>1,016</b>	<b>461</b>	<b>1,218</b>	<b>1,094</b>	<b>751</b>
Tax	(185)	(67)	(149)	(147)	(119)
Minority Interest	(35)	(24)	(43)	(46)	(37)
<b>Net Profit</b>	<b>796</b>	<b>370</b>	<b>1,026</b>	<b>901</b>	<b>595</b>
Net profit bef Except.	796	370	1,026	901	595
<b>Growth</b>					
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)
<b>Margins</b>					
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	4,445	3,902
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
<b>Total Assets</b>	<b>23,643</b>	<b>27,206</b>	<b>29,645</b>	<b>31,033</b>	<b>33,156</b>
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	158	261
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	17,000	18,552
Minority Interests	419	369	533	607	710
<b>Total Cap. &amp; Liab.</b>	<b>23,643</b>	<b>27,206</b>	<b>29,645</b>	<b>31,033</b>	<b>33,156</b>
Non-Cash Wkg. Capital	3,220	4,784	5,010	5,463	6,110
Net Cash/(Debt)	1,548	(511)	(1,652)	(2,699)	(3,241)
Debtors Turn (avg days)	121.1	136.7	133.3	120.7	107.6
Creditors Turn (avg days)	152.5	180.1	174.2	147.9	129.9
Inventory Turn (avg days)	88.6	104.5	110.7	102.1	92.5
Asset Turnover (x)	0.6	0.5	0.5	0.6	0.7
Current Ratio (x)	1.6	1.6	1.6	1.5	1.5
Quick Ratio (x)	1.3	1.1	1.2	1.1	1.0
Net Debt/Equity (X)	CASH	0.0	0.1	0.2	0.2
Net Debt/Equity ex MI (X)	CASH	0.0	0.1	0.2	0.2
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	1,919	2,656
Dep. & Amort.	805	880	1,026	928	1,026
Tax Paid	(364)	(197)	(217)	(266)	(269)
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	(401)	0	0	0	0
<b>Net Operating CF</b>	<b>2,384</b>	<b>2,080</b>	<b>1,322</b>	<b>2,084</b>	<b>2,678</b>
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	195
<b>Net Investing CF</b>	<b>(1,166)</b>	<b>(3,412)</b>	<b>(2,765)</b>	<b>(2,275)</b>	<b>(2,305)</b>
Div Paid	(667)	(694)	(558)	(599)	(630)
Chg in Gross Debt	14	2,617	1,500	0	0
Capital Issues	50	(101)	0	0	0
Other Financing CF	539	(150)	(15)	(257)	(286)
<b>Net Financing CF</b>	<b>(64)</b>	<b>1,671</b>	<b>927</b>	<b>(856)</b>	<b>(916)</b>
Currency Adjustments	11	(19)	0	0	0
Chg in Cash	1,165	321	(516)	(1,047)	(542)
Opg CFPS (RMB)	2.31	2.12	1.94	2.20	2.98
Free CFPS (RMB)	0.74	(0.12)	(1.46)	(0.36)	0.15

Source: Company, DBS HK

**MintH Group**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Sep-21	HK\$31.20	HK\$49.00	Buy
2:	21-Jan-22	HK\$37.25	HK\$49.00	Buy
3:	24-Mar-22	HK\$19.26	HK\$36.00	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

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

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## Minth Group

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