

China / Hong Kong Company Update

Nexteer Automotive Group

Bloomberg: 1316 HK Equity | Reuters: 1316.HK

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DBS Group Research . Equity

25 Jan 2024

BUY

Last Traded Price (23 Jan 2024): HK\$3.70 (HSI : 15,354)
 Price Target 12-mth: HK\$5.10 (38% upside) (Prev HK\$6.20)

Analyst

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What's New

- Deeper penetration into markets, products expansion, and customers value chain to drive business growth
- Strong new contracts on hand to support earnings growth
- Development of autonomous driving business a long-term growth catalyst
- Maintain BUY; TP lowered to HK\$5.10 on lower target 9x PE FY24 to factor in macro challenges

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2022A	2023F	2024F	2025F
Turnover	3,840	4,251	4,665	5,138
EBITDA	357	373	479	543
Pre-tax Profit	92	106	191	235
Net Profit	58	90	166	206
Net Pft (Pre Ex) (core profit)	58	90	166	206
Net Profit Gth (Pre-ex) (%)	(51.0)	54.3	85.5	24.0
EPS (US\$)	0.02	0.04	0.07	0.08
EPS (HK\$)	0.18	0.28	0.52	0.64
Core EPS (US\$)	0.02	0.04	0.07	0.08
Core EPS (HK\$)	0.18	0.28	0.52	0.64
EPS Gth (%)	(51.0)	54.3	85.5	24.0
Core EPS Gth (%)	(51.0)	54.3	85.5	24.0
Diluted EPS (HK\$)	0.18	0.28	0.52	0.64
DPS (HK\$)	0.04	0.06	0.11	0.13
BV Per Share (HK\$)	6.03	6.27	6.73	7.27
PE (X)	20.5	13.3	7.1	5.8
CorePE (X)	20.5	13.3	7.1	5.8
P/Cash Flow (X)	4.0	2.9	2.4	2.3
P/Free CF (X)	6.8	6.7	6.4	5.5
EV/EBITDA (X)	2.9	2.8	2.3	2.0
Net Div Yield (%)	1.0	1.5	2.8	3.5
P/Book Value (X)	0.6	0.6	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	3.0	4.5	8.0	9.2
Earnings Rev (%)		(32)	(17)	New
Consensus EPS (US\$)		0.04	0.07	0.09
Other Broker Recs:		B:16	S:2	H:2

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

Market diversification and deeper value chain penetration ahead

Investment Thesis

Healthy outlook for 2024; high new bookings to drive earnings. Deeper penetration into the customer value chain and the expansion of its customer base to Chinese auto OEMs (both incumbents and new EV makers) have helped Nexteer secure more new business. Nexteer expects to secure some US\$6bn worth of new projects in 2023 to boost future earnings stream. We expect FY24 net earnings to post a strong rebound, as FY23 was hit by some exceptional events like the US labour strike and supplier issues.

Technological advancement. Steer-by-wire (SbW) is potentially a long-term growth catalyst in a backdrop where the global auto market advances into intelligent mobility. While the industry is still at an early stage, the growth potential is huge – a plus for Nexteer as the autonomous driving industry develops. Nexteer has secured two SbW contracts from major global OEMs. Besides, Nexteer is gradually moving into the software business after winning its first project from a leading global OEM. In terms of markets, Nexteer is shifting its gear to tap into the growth in Asia, as electrification is speeding up and it sees more business opportunities for its steering products among the EV makers in the region.

Global vehicle market outlook drives fundamentals and share price.

Nexteer derives over 50% of its business from the US market, hence the health of the US auto industry is expected to drive its share price in the near term, although the company is diversifying its market presence to reduce the earnings risk. We expect a pick-up in US auto sales in 2H24 on the back of the anticipation of interest rate cuts.

Maintain BUY rating; TP lowered to HK\$5.10. We estimate Nexteer would post c.80% FY24 net earnings growth. It is currently trading at 9x P/E, 1.5x SD below the historical average. We maintain our BUY rating, and our new TP of HK\$5.10 is pegged to 10x FY24F P/E (previous 12x rolling PE FY23-24), considering the macro challenges and a volatile stock market.

Key Risks

A slowdown of the global vehicle market and supply chain disruptions could affect its earnings fundamentals.

At A Glance

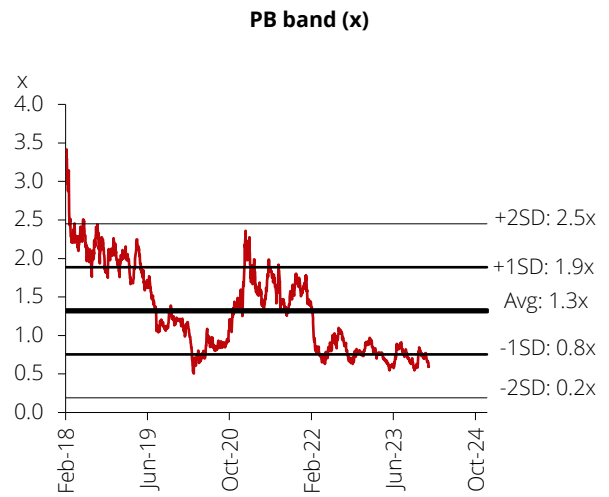
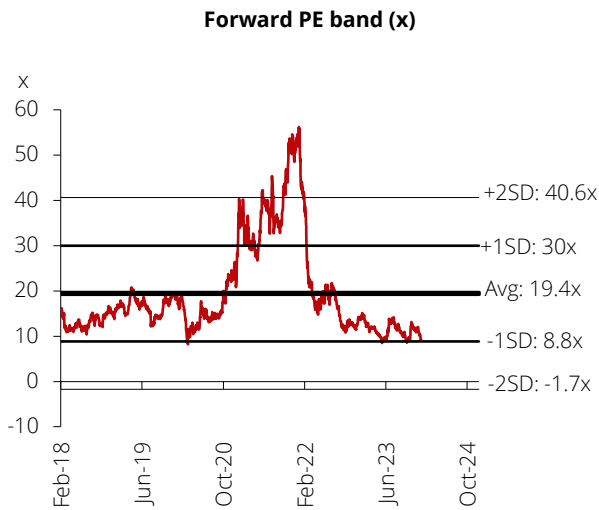
Issued Capital (m shrs)	2,510
Mkt Cap (HKm/US\$m)	9,287 / 1,187
Major Shareholders (%)	
Pacific Century Motors, Inc.	44.0
Beijing E Town Int'l Inv & Dev Co., Ltd.	20.9
Free Float (%)	35.1
3m Avg. Daily Val. (US\$m)	4.9
GICS Industry: Consumer Discretionary / Automobiles & Components	

Nexteer Automotive Group

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. The company is rapidly expanding its EV business exposure to ride on the fast-growing global trend.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Nexteer Automotive Group

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue (US\$m) - North America	1,944.2	2,247.1	2,550.8	2,798.9	3,082.9
Europe and South America	589.2	619.2	637.7	699.7	770.7
Asia Pacific	812.5	965.2	1,062.8	1,166.2	1,284.5
Rest of World	0.0	8.3	0.0	0.0	0.0

Source: Company, DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (US\$ m)					
EPS	2,326	2,618	2,921	3,173	3,463
HPS	137	166	177	191	207
Steering column (CIS)	318	370	398	426	456
Driveline	578	686	755	874	1,012
Total	3,359	3,840	4,251	4,665	5,138

Source: Company, DBS HK

Income Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	3,359	3,840	4,251	4,665	5,138
Cost of Goods Sold	(2,995)	(3,473)	(3,826)	(4,128)	(4,522)
Gross Profit	363	367	425	536	617
Other Opng (Exp)/Inc	(248)	(281)	(319)	(345)	(380)
Operating Profit	115	86	106	191	236
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	1	1	1	0	0
Net Interest (Exp)/Inc	(2)	5	0	(1)	(1)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	114	92	106	191	235
Tax	12	(26)	(9)	(15)	(19)
Minority Interest	(8)	(8)	(8)	(9)	(11)
Preference Dividend	0	0	0	0	0
Net Profit	118	58	90	166	206
Net Profit before Except.	118	58	90	166	206
EBITDA	371	357	373	479	543
Growth					
Revenue Gth (%)	10.8	14.3	10.7	9.7	10.1
EBITDA Gth (%)	18.0	(3.7)	4.4	28.5	13.3
Opg Profit Gth (%)	(3.0)	(25.1)	23.2	79.9	23.6
Net Profit Gth (%)	1.4	(51.0)	54.3	85.5	24.0
Margins & Ratio					
Gross Margins (%)	10.8	9.6	10.0	11.5	12.0
Opg Profit Margin (%)	3.4	2.2	2.5	4.1	4.6
Net Profit Margin (%)	3.5	1.5	2.1	3.6	4.0
ROAE (%)	6.2	3.0	4.5	8.0	9.2
ROA (%)	3.6	1.8	2.6	4.5	5.1
ROCE (%)	4.8	2.6	4.2	7.2	8.3
Div Payout Ratio (%)	20.1	20.3	20.3	20.3	20.3
Net Interest Cover (x)	62.1	NM	231.9	176.0	159.7

Source: Company, DBS HK

Nexteer Automotive Group

Interim Income Statement (US\$ m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	1,734	1,624	1,791	2,049	2,102
Cost of Goods Sold	(1,508)	(1,487)	(1,641)	(1,831)	(1,911)
Gross Profit	226	137	150	217	191
Other Oper. (Exp)/Inc	(133)	(115)	(128)	(153)	(144)
Operating Profit	94	21	22	64	47
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	(2)	2	0
Net Interest (Exp)/Inc	(1)	(1)	0	5	(1)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	93	21	21	71	46
Tax	(6)	18	(29)	3	(8)
Minority Interest	(4)	(4)	(2)	(5)	(3)
Net Profit	83	35	(11)	69	34
Net profit bef Except.	83	35	(11)	69	34
Growth					
Revenue Gth (%)	43.3	(10.8)	3.3	26.1	17.4
Opg Profit Gth (%)	(424.5)	(85.4)	(76.5)	199.3	112.8
Net Profit Gth (%)	6,290.7	(69.4)	N/A	95.9	N/A
Margins					
Gross Margins (%)	13.1	8.4	8.4	10.6	9.1
Opg Profit Margins (%)	5.4	1.3	1.2	3.1	2.2
Net Profit Margins (%)	4.8	2.2	(0.6)	3.4	1.6

Source: Company, DBS HK

Nexteer Automotive Group

Balance Sheet (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	989	971	1,063	1,217	1,366
Invt in Associates & JVs	23	23	29	34	40
Other LT Assets	834	849	890	949	944
Cash & ST Invt	327	246	205	175	212
Inventory	289	294	338	405	486
Debtors	626	803	781	881	949
Other Current Assets	119	149	179	206	227
Total Assets	3,206	3,335	3,485	3,867	4,225
ST Debt	84	0	0	0	0
Creditors	667	815	897	1,076	1,205
Other Current Liab	191	211	222	255	286
LT Debt	0	50	20	30	42
Other LT Liabilities	262	282	283	285	288
Shareholder's Equity	1,955	1,934	2,012	2,159	2,332
Minority Interests	48	43	52	61	72
Total Cap. & Liab.	3,206	3,335	3,485	3,867	4,225
Non-Cash Wkg. Capital	176	220	179	160	171
Net Cash/(Debt)	242	196	185	145	170
Debtors Turn (avg days)	66.2	67.9	68.0	65.0	65.0
Creditors Turn (avg days)	88.2	84.4	87.8	93.8	98.8
Inventory Turn (avg days)	34.8	33.2	32.4	35.3	38.6
Asset Turnover (x)	1.0	1.2	1.2	1.3	1.3
Current Ratio (x)	1.4	1.5	1.3	1.3	1.3
Quick Ratio (x)	1.0	1.0	0.9	0.8	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	167.8	241.5	1,159.4	1,005.4	717.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	114	92	106	191	235
Dep. & Amort.	255	N/A	266	287	306
Tax Paid	(32)	(42)	(9)	(15)	(19)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(42)	(7)	42	21	(8)
Other Operating CF	(8)	N/A	2	2	3
Net Operating CF	287	294	408	486	517
Capital Exp.(net)	(142)	(120)	(230)	(300)	(300)
Other Invt.(net)	3	3	(5)	(5)	(5)
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(147)	(146)	(170)	(200)	(150)
Net Investing CF	(286)	(263)	(405)	(505)	(455)
Div Paid	(24)	(24)	(12)	(18)	(34)
Chg in Gross Debt	(171)	(39)	(32)	7	9
Capital Issues	0	0	0	0	0
Other Financing CF	(21)	(22)	0	0	0
Net Financing CF	(215)	(85)	(44)	(11)	(25)
Currency Adjustments	(13)	(26)	0	0	0
Chg in Cash	(227)	(81)	(41)	(30)	37
Opg CFPS (US\$)	0.13	0.12	0.15	0.19	0.21
Free CFPS (US\$)	0.06	0.07	0.07	0.07	0.09

Source: Company, DBS HK

Nexteer Automotive Group

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	17-Mar-23	HK\$4.48	HK\$6.50	BUY
2	21-Aug-23	HK\$4.91	HK\$6.20	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

Completed Date: 25 Jan 2024 09:09:38 (HKT)

Dissemination Date: 25 Jan 2024 09:27:22 (HKT)

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