

Mint Group (425.HK)

Keep the rapidly growing revenue, with stably GP

China | Automobile parts | Company Updates

26 July 2017

Investment Thesis

Mint's operating income keeps increasing rapidly since 2017.

It is expected that the increasing trend of the gross profit margin is to continued.

We maintain the opinion that Mint's existing businesses indicate a robust growth momentum, while great potential boom lies before the new ones.

We believe that it is reasonable to give the company a valuation of 19.9x/16.5x P/E in 2017/2018, equivalent to target price of HK\$ 41.45 and Accumulate rating.

Accumulate (Maintain)

CMP: HKD 37.55

(Closing price as at 24 July 2017)

TARGET: HKD 41.45 (+10%)

COMPANY DATA

O/S SHARES (MN) :	1119
MARKET CAP (CNY MN) :	42754
52 - WK HI/LO (CNY):	36.5/23

SHARE HOLDING PATTERN, %

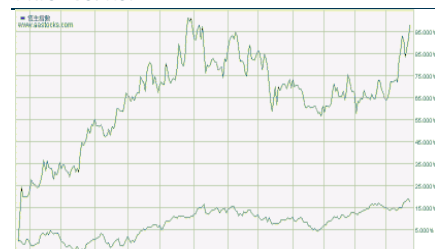
Mr Qin	39.5
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Keep the rapidly growing revenue, maintain existing orders and undertake new business

With the explosion of demand for aluminium products, the operating income of the Company keeps increasing rapidly since 2017, and the growth rate of the first five months maintains at approximately 20 percent. In particular, the domestic growth rate is greater than that of the overseas business, with the former greater than 20 percent, while the latter slightly lower than 20 percent. In 2016, the aluminium products of the Company report revenues of two billion, which account for 21% of the total revenues. In 2017, the revenues from aluminium products are expected to increase to about three billion, up 50% year-on-year. In 2019 or 2020, the revenues from aluminium products are expected to be five to six billion.

Due to the lead time of part orders, 95% of sales volume in 2017 has been fixed in advance. Since there were 4.4 billion new orders in 2016, the new orders in 2017 are expected to increase to 4.5 billion. Currently, the existing orders of the Company amount to 79.3 billion yuan, 8.4 times the total revenues in 2016. Therefore, the visibility of the future performance is relatively high. The total receivables for 2020 are planned to be over 20 billion by the Company, and the average supporting amount for each car increases from 330 at present to 400 to 500 yuan/car.

PRICE VS. HSI



Source: Phillip Securities (HK) Research

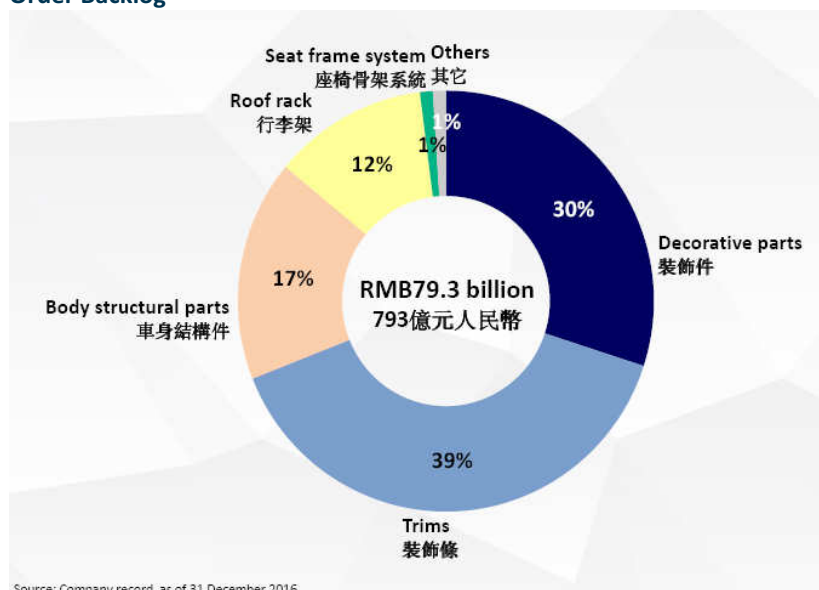
KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	7654	9400	11506	13531
Net Profit	1272	1719	2130	2567
EPS, CNY	1.15	1.54	1.88	2.26
P/E, x	27.5	21.9	18.1	15.0
BVPS, CNY	8.27	9.47	10.99	12.88
P/BV, x	3.8	3.5	3.1	2.6
DPS (CNY)	0.55	0.60	0.75	0.91
Div. Yield (%)	1.5%	1.6%	2.0%	2.4%

Source: Company reports, Phillip Securities Est.

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Order Backlog



Source: Company record, as of 31 December 2016

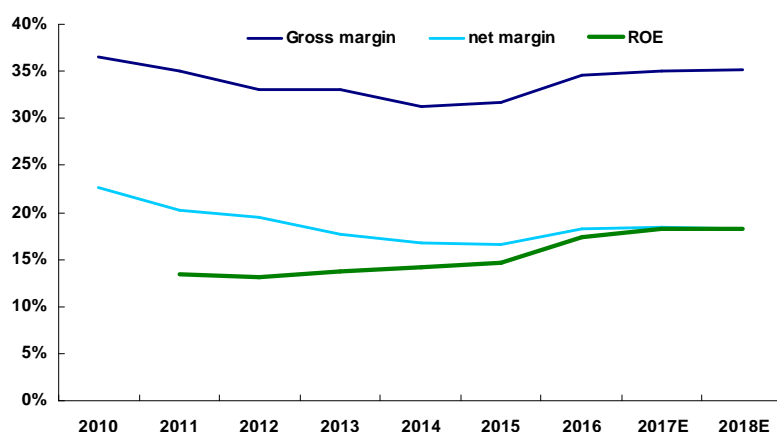
Solid financial performance and attractive dividend policy

The Company has a solid financial condition, with only 28% asset-liability ratio and 2.9 billion cash in hand. Besides, its operating net cash flow has increased year by year, and the capital expenditure in 2017 is expected to reach 1.3 - 1.6 billion. With respect to the early personal changes, the Company has made some arrangements. The founder of the Company, Mr. Qin will take in charge for about 1.5 years before the new CEO is chosen and appointed. In addition, the new financial director has been appointed. With the end of the crisis, recently the management has demonstrated their confidence in the Company by increasing their stake. It is believed that the 40% dividend payout ratio will maintain and even increase.

The operating capability of overseas business is improved and the trend of stably growing gross profit margin is expected to maintain

After accumulation for many years, the factories set up at abroad by the Company, such as those in Mexico and America, have been operated gradually smoothly with increasing operating benefits, and the drag of overseas business on the overall gross profit margin is decreasing little by little. In recent years, the Company has successfully expanded the new business orders from ABB, a luxury car brand. (The company is equipped with 30% to 50% of BMW models, including the whole life cycle models of the three and five series.) In the future, the European market will increasingly take the role of the growth engine for the overseas business.

Key margin trend



Source: Company, Phillip Securities Hong Kong Research

The gross profit margin of the Company provided by it for 2017 is from 34% to 36%. It is thought that the increasing trend of the gross profit margin is expected to maintain, with the aid of increasing demand for aluminium products and decreasing drag from overseas market.

Peer Comparison

Ticker	Name	Marketcap	Revenue	P/E 2017E	P/E 2018E	P/B	ROE
425.HK	Minth	34586	9450	17	14	3	17.40%
002662.HK	BJWKW	9900	4770	13	11	2	14%
600480.HK	Lingyun	8333	8840	29	25	2	6.30%

Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY12	FY13	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios							
P/E (X), adj.	38.9	33.2	29.2	27.5	21.9	18.1	15.0
P/B (X)	4.8	4.4	4.0	3.8	3.5	3.1	2.6
Dividend Yield (%)	1.0%	1.2%	1.4%	1.5%	1.6%	2.0%	2.4%
Per share data (RMB)							
EPS, (Basic)	0.78	0.89	1.02	1.15	1.54	1.88	2.26
EPS, (Diluted)	0.78	0.89	1.01	1.14	1.52	1.88	2.26
DPS(HKD)	0.39	0.45	0.52	0.55	0.60	0.75	0.91
BV/PS	6.27	6.82	7.52	8.27	9.47	10.99	12.88
Growth & Margins (%)							
Growth							
Revenue	5.8%	27.3%	21.3%	14.5%	22.8%	22.4%	17.6%
EBIT	6.0%	20.2%	10.3%	15.4%	33.1%	22.8%	20.0%
Net Income, adj.	0.8%	15.3%	15.2%	13.9%	35.2%	23.9%	20.5%
Margins							
Gross margin	33.1%	33.0%	31.2%	31.7%	34.6%	35.2%	36.0%
EBIT margin	24.7%	23.4%	21.2%	21.4%	23.2%	23.3%	23.8%
Net Profit Margin	19.4%	17.6%	16.7%	16.6%	18.3%	18.5%	19.0%
Key Ratios							
ROE	13.1%	13.7%	14.2%	14.6%	17.3%	18.4%	19.0%
Income Statement (RMB mn)							
Revenue	4330	5510	6684	7654	9400	11506	13531
Gross profit	1434	1818	2085	2428	3250	4048	4877
EBIT	1071	1287	1420	1639	2181	2679	3216
Profit before tax	1044	1224	1355	1569	2119	2614	3147
Tax	148	196	203	249	339	416	500
Profit for the period	896	1028	1152	1320	1779	2198	2646
Minority interests	55	58	35	48	60	68	79
Total capital share	1081	1094	1102	1112	1119.6	1119.6	1119.6
Net profit	841	970	1117	1272	1719	2130	2567

Source: PSR

(Financial figures as at 24 July 2017)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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