

Minth Group (425.HK)

Ambitious goal

China | Automobile parts | Company Updates

29 March 2018

Investment Thesis

Minth's 2017 result slightly lower than our previous forecast, but the increasing trend of the topline is still to continued. We maintain the opinion that Minth's existing businesses indicate a robust growth momentum, while great potential boom lies before the new ones, on the base of more input on R&D etc. We gave target price of HK\$ 45.55 and Buy rating. (Closing price as at 27 March 2018)

Result slightly lower than expected

For the year 2017, Minth Group's turnover reached RMB11.384 billion, with an increase of 21.1% year-on-year; the gross profit was RMB3.849 billion, with an increase of 18.4% year-on-year; net profit attributable to owners of the company was RMB2.025 billion, meaning year-on-year growth of 17.8%. Earnings were lower than market expectations, slightly lower than our previous forecast of RMB2.13 billion. Basic earnings per share were RMB1.782. The proposed final dividend was HKD0.85 per share.

Driven by European customers, overseas growth is slightly higher than domestic growth

In terms of specific markets, domestic sales amounted to approximately RMB7.102 billion, with an increase of approximately 20.1% from 2016, mainly due to the increase in production and sales volume of Japanese, German and American cars in the Chinese market. Overseas turnover amounted to approximately RMB4.382 billion, with an increase of approximately 22.7% from 2016, mainly due to business growth in overseas markets, especially in Europe, benefiting from orders from BMW, Audi, Daimler and other customers. The European market share has increased rapidly from 8.8% to 12.7% in previous years.

Rising cost of raw materials and some other factors show an impact on the gross profit

The gross margin reached 33.8%, which was about 0.8 pts lower than that of 34.6% in 2016. This was mainly due to the depreciation of old products and the increase of raw material costs. At the same time, some overseas factories were still at the climbing stage, and the gross margin remained to be improved. To this end, the company strives to maintain stable overall gross margins by implementing lean production, optimizing production layout, and adjusting product structure.

Labor cost investment and capital expenditure increased

During the period, the company's sales expense ratio and administration expense ratio increased slightly by 0.2 pts and 0.5 pts, reaching 4.2% and 7.5%, respectively. The administration expenses increased by a big margin, namely 29% over the same period of last year, mainly due to the company raising employee salaries in order to maintain competitiveness and sustainable development, causing labor costs to rise. Capital expenditure of the period increased by 76%, amounting to RMB2.1 billion, which was mainly used for the construction of factories in Jiaying, Huai'an, and Mexico, and increased investment in automated production lines, flexible production lines, intelligent logistics, and information management systems.

Share of high-end brands increased, and product layout continues to expand

In terms of customer development, Minth has expanded its market share for high-end brands and entered the Mercedes-Maybach business system for the first time. Meanwhile, in addition to Great Wall, it has also attracted customers such as GAC, Geely, and Changan.

BUY (Upgrade)

CMP: HKD36.85

(Closing price as at 27 March 2018)

TARGET: HKD45.55 (+24%)

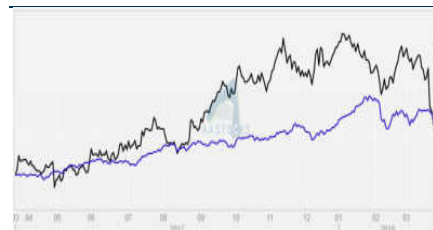
COMPANY DATA

O/S SHARES (MN) :	1144
MARKET CAP (HKD MN) :	42156
52 - WK HI/LO (HKD):	49.5/26.05

SHARE HOLDING PATTERN, %

Mr Qin	39.5
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY16	FY17	FY18E	FY19E
Net Sales	9400	11385	13637	16203
Net Profit	1719	2025	2508	3159
EPS, CNY	1.54	1.78	2.19	2.75
P/E, x	21.4	17.2	13.4	10.6
BVPS, CNY	9.47	10.66	12.05	13.83
P/BV, x	3.5	2.9	2.4	2.1
DPS (HKD)	0.68	0.85	1.08	1.37
Div. Yield (%)	1.8%	2.3%	2.9%	3.7%

Source: Company reports, Phillip Securities Est.

Research Analyst
ZhangJing
 (+ 86 51699400-103)
 zhangjing@phillip.com.cn

In regard to product development, the company has made achievements in the 3 development dimensions of intellectualization, weight reduction and electrification. In intellectualization, the company achieved the R&D and promotion of ACC equipped new products; in weight reduction, while continuing to expand the aluminum product business, it has expanded the layout of traditional products on new energy vehicles and obtained the new business of aluminum battery pack for Nissan and Renault’s related electric vehicle models, as well as the new business of opening and closing of grilles for electric vehicles. At the same time, relying on the platform of Min`An Auto, the company is seeking and developing strategic products for the core components of electric vehicles.

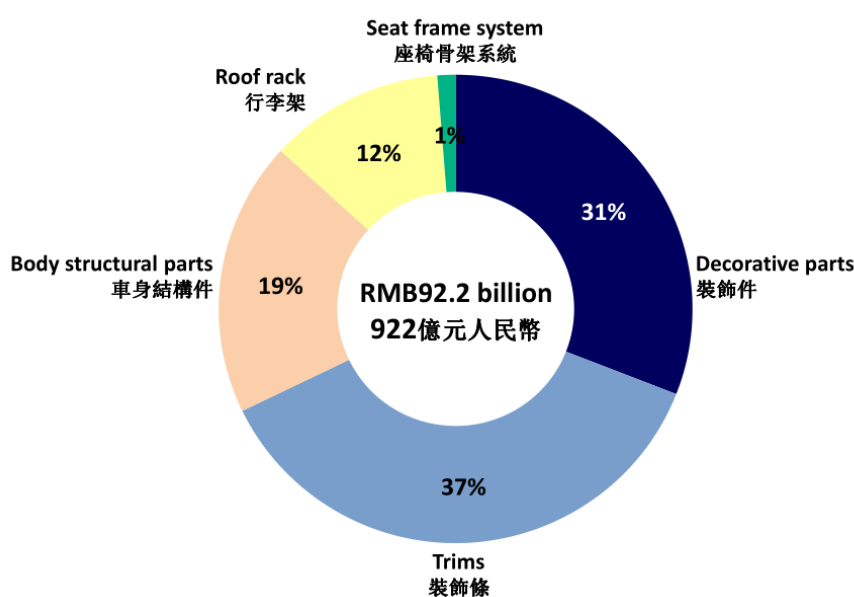
Ambitious goal

At present, the company’s total orders in hand amount to RMB9.22 billion , which means a growth of 16% compared to the end of 2016, and 8.1 times the total revenue in 2017, indicating a foreseeable good result for the future. The company set a total revenue target of RMB50 billion for 2025 (CAGR=20%), showing the management’s confidence in the future global competitiveness strategy to maintain the company’s sustainable development through upgrading product technology, improving global production layout and enhancing global business operation capability.

Valuation

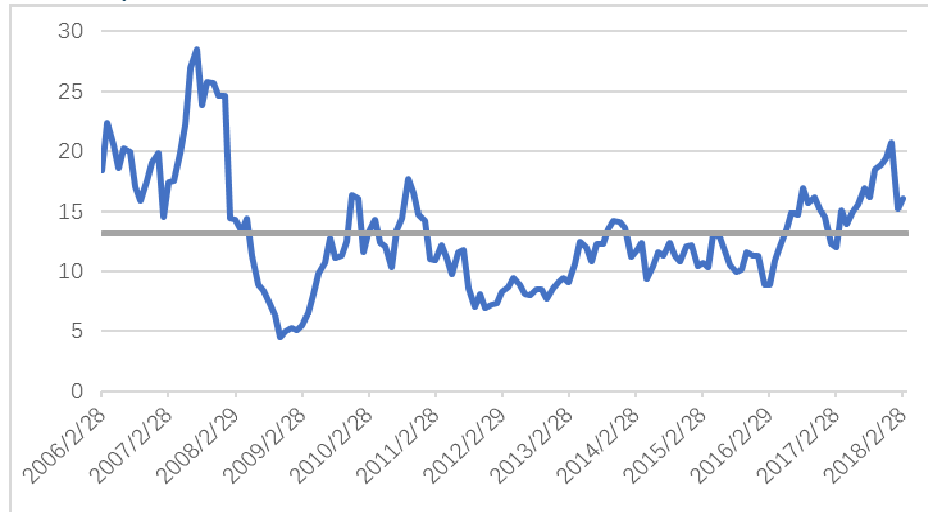
The Company has a solid financial condition, with only 31% asset- liability ratio and 3.8 billion cash in hand. Besides, its operating net cash flow has increased year by year and achieved 1.88billion for 2017. It is believed that the 40% dividend payout ratio will maintain. We believe that it is reasonable to give the company a valuation of 16.6x/13x P/E in 2018/2019, equivalent to target price of HK\$ 45.55 and Buy rating.

Order Backlog



Source: Company, Phillip Securities Hong Kong Research

Forward P/E trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Peer Comparison

Ticker	Name	Makcap- mil	ROE- 2016	GP- 2016	PE(TTM)	PB(LF)
0425.HK	Minth	42156	17.4	34.6	17.4	3.0
600480.SH	Lingyun	6858	6.3	20.1	21.7	1.8
002662.SZ	Beijing WKW	8940	13.9	30.2	28.2	1.7

Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios						
P/E (X), adj.	28.5	26.8	21.4	17.2	13.4	10.6
P/B (X)	3.9	3.7	3.5	2.9	2.4	2.1
Dividend Yield (%)	1.4%	1.5%	1.8%	2.3%	2.9%	3.7%
Per share data (RMB)						
EPS, (Basic)	1.02	1.15	1.54	1.78	2.19	2.75
EPS, (Diluted)	1.01	1.14	1.52	1.76	2.18	2.74
DPS(HKD)	0.52	0.55	0.68	0.85	1.08	1.37
BVPS	7.52	8.27	9.47	10.66	12.05	13.83
Growth & Margins (%)						
Growth						
Revenue	21.3%	14.5%	22.8%	21.1%	19.8%	18.8%
EBIT	10.3%	15.4%	33.1%	18.4%	23.8%	24.3%
Net Income, adj.	15.2%	13.9%	35.2%	17.8%	23.9%	25.9%
Margins						
Gross margin	31.2%	31.7%	34.6%	33.8%	34.3%	35.2%
EBIT margin	21.2%	21.4%	23.2%	22.7%	23.4%	24.5%
Net Profit Margin	16.7%	16.6%	18.3%	17.8%	18.4%	19.5%
Key Ratios						
ROE	14.2%	14.6%	17.3%	17.7%	19.3%	21.3%
Income Statement (RMB mn)						
Revenue	6684	7654	9400	11385	13637	16203
Gross profit	2085	2428	3250	3850	4683	5707
EBIT	1420	1639	2181	2583	3196	3972
Profit before tax	1355	1569	2119	2488	3076	3833
Tax	203	249	339	396	489	594
Profit for the period	1152	1320	1779	2092	2587	3239
Minority interests	35	48	60	67	79	80
Total capital share	1102	1112	1120	1137	1144	1144
Net profit	1117	1272	1719	2025	2508	3159

Source: PSR

(Financial figures as at 27 March 2018)

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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Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050

The Chicago Board of Trade Building

Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

Level 10, 330 Collins Street

Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,

Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm