

Mint Group (425.HK)

Short-term challenges exist but long-term competitiveness is reinforced

15 November 2018

China | Automobile parts | Company Updates

Investment Summary

Mint's 2018H result slightly lower than forecast, but the increasing trend of the topline and core profit is still to continued. In the near future, Mint's production structure are expected to continue improving, triggered by increased investment on technology upgrades and product optimization. We maintain the opinion that Mint'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\$ 33.1 and Buy rating. (Closing price as at 13 November 2018)

One-time factor resulted in lower-than-expected results, core net profit up by 10%

During the 2018 H1, Mint Group reported total revenue of RMB5.99 billion, up 14% yoy, and net profit of RMB980 million, down 6% yoy. The lower-than-expected results were due to 23 million administrative expenses resulting from the sale of stock options this year, compared with the previous year when net profit was boosted by investment income totaling RMB152 million from employee welfare properties and the sale of Mint subsidiaries. If this effect is taken out, the net profit from core business grew by about 10%.

Domestic market outperformed the overseas market on growth prospects

Specifically, the domestic business grew rapidly, reporting a revenue of approximately RMB2.68 billion and achieving a growth of approximately 17.5%, owing to the sales growth of Japanese and Chinese brands in the domestic Chinese market. The overseas market recorded a turnover of approximately RMB2.31 billion and a yoy growth of around 8.4%, benefiting from the growing businesses with European clients including Daimler and Volkswagen. Compared with the same period of last year, the growth rate of overseas business was dragged down by the lower-than-expected capacity utilization rate of North American factories. In an attempt to improve production efficiency, the Company moved the well-developed domestic equipment to overseas factories, and commissioned as well seasoned domestic factory management personnel to assist in the management of the Mexican factory. The management expects that the negative impact of overseas factories on the Company's gross margin will be confined since 2018.

Gross margin remained stable

During the reporting period, the overall gross margin remained approximately at 33.4%, down around 0.4 percentage point from the 33.8% for last year, mainly due to price cuts of old products, rising prices of raw materials, and unfavorable exchange rates. Hence, the Company implemented lean production and optimized the production layout to improve production and management efficiency, vigorously adjusted the product mix, and improved gross margin of Mexican factories, so as to maintain the overall gross margin at a stable level. Having maintained the gross margin guidance of 33-35% for the fiscal year, the Company takes confidence in the 2019 gross margin, which will be supported by the efficiency improvement and digital transformation of overseas factories.

The new pipeline rolled out successfully bringing sufficient backlogs

The Company has attached great importance to R&D investments and technological innovation with the R&D expenditure increased by 0.3 percentage point to 4.3%; in the light of strategies on light emission, intelligence and electrification, the Company achieved excellent results in the business development of new products.

BUY (Maintain)

CMP HKD 26.4

(Closing price as at 13 November 2018)

TARGET HKD 33.1 (+25%)

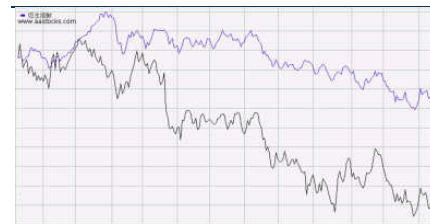
COMPANY DATA

O/S SHARES (MN) :	1144
MARKET CAP (HKD MN) :	30240
52 - WK HI/LO (HKD):	49.5/24.05

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	13007	15203
Net Profit	1719	2025	2040	2496
EPS, CNY	1.54	1.78	1.78	2.18
P/E, x	15.3	12.3	13.2	9.6
BVPS, CNY	9.47	10.66	11.65	13.20
P/BV, x	2.5	2.1	2.0	1.6
DPS (HKD)	0.68	0.85	0.78	0.96
Div. Yield (%)	2.6%	3.2%	3.0%	3.6%

Source: Company reports, Phillip Securities Est.

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

In the development of light emission products, the Company has successively obtained purchase orders for its aluminum battery box/aluminum door frame products/electric rear compartment cover; in the development of intelligent products, the Company acquired orders in such new businesses as car camera/ACC labels, which has empowered its further expansion into intelligence products. Product development has accumulated more momentum. By the end of 2017, the Company has received purchase orders totaling a value of RMB92.2 billion, with a total order amount of RMB3 billion in 2018H1. Up to now, the annualized value of new orders reached 5.5 billion, making it very likely for the Company to accomplish its annual sales target.

Short-term challenges exist but long-term competitiveness is reinforced

The China-U.S. trade frictions have led the market to worry that the Company's export business would be slowing down. At present, the exportation to the United States accounts for about 7% of the total revenue and is mostly generated through FOB model, which means that the increased tariff in the short run is transferred to clients. In response to potential risks associated with growing tariffs, the Company is also considering expansion plans for North American and Thai plants. We believe that the Company will retain its competitive strength in the long run and grow exponentially in its future new businesses owing to its beforehand strategic layout.

Valuation

The Company has a solid financial condition, with near 4.5 billion cash in hand. Besides, its operating net cash flow has increased to 1.05 billion. It is believed that the high dividend payout ratio will maintain. We believe that it is reasonable to give the company a valuation of 16.5x/12x P/E in 2018/2019, equivalent to target price of HK\$ 33.1 and Buy rating.

Forward valuation trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Peer Comparison

Ticker	Name	Makcap-mil USD	ROE-2017	GP-2017	PE(TTM)	PB(LF)
0425.HK	Minth	3721	17.4	34.6	12.7	2.0
600480.SH	Lingyun	567	9.1	18.1	21.7	1.0
002662.SZ	Beijing WKW	890	6.4	27.6	7	1.2
002048.SZ	NBHX	1025	12.3	20.7	10.5	0.9
6830.HK	Huazhong Invehicle	283	18.4	29.2	12	2.1

Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios						
P/E (X), adj.	20.4	19.2	15.3	12.3	13.2	9.6
P/B (X)	2.8	2.7	2.5	2.1	2.0	1.6
Dividend Yield (%)	2.0%	2.1%	2.6%	3.2%	3.0%	3.6%
Per share data (RMB)						
EPS, (Basic)	1.02	1.15	1.54	1.78	1.78	2.18
EPS, (Diluted)	1.01	1.14	1.52	1.76	1.77	2.17
DPS(HKD)	0.52	0.55	0.68	0.85	0.78	0.96
BVPS	7.52	8.27	9.47	10.66	11.65	13.20
Growth & Margins (%)						
Growth						
Revenue	21.3%	14.5%	22.8%	21.1%	14.3%	16.9%
EBIT	10.3%	15.4%	33.1%	18.4%	0.7%	22.3%
Net Income, adj.	15.2%	13.9%	35.2%	17.8%	0.8%	22.3%
Margins						
Gross margin	31.2%	31.7%	34.6%	33.8%	33.9%	34.3%
EBIT margin	21.2%	21.4%	23.2%	22.7%	20.0%	20.9%
Net Profit Margin	16.7%	16.6%	18.3%	17.8%	15.7%	16.4%
Key Ratios						
ROE	14.2%	14.6%	17.3%	17.7%	16.0%	17.6%
Income Statement (RMB mn)						
Revenue	6684	7654	9400	11385	13007	15203
Gross profit	2085	2428	3250	3850	4409	5218
EBIT	1420	1639	2181	2583	2600	3179
Profit before tax	1355	1569	2119	2488	2473	3040
Tax	203	249	339	396	371	465
Profit for the period	1152	1320	1779	2092	2102	2575
Minority interests	35	48	60	67	62	79
Total capital share	1102	1112	1120	1137	1144	1144
Net profit	1117	1272	1719	2025	2040	2496

Source: PSR

(Financial figures as at 13 November 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