

Minth Group (425 HK)

Constant positive prospects for the Company's high-end path

China | Automobile parts | Company Updates

4 March 2020

Investment Summary

New Orders of Aluminium Battery Packs Recognized by the Public

Recently, Minth announced that it received Nomination Letter of European aluminium battery pack from MEB platform of Volkswagen Group headquartered in Germany. MEB platform is an electric vehicle platform for the production of all middle and low-end cars of Volkswagen Group. Formally put into use in 2020, the MEB platform costs overall R&D fee of tens of billions of euros, making it one of the largest electric vehicle platforms in the world. Volkswagen Group plans to launch 80 models of electric vehicles by 2025. It means that with electric vehicles accounting for more than 25% of total sales, global sale of MEB platform cars will reach one million sets and achieve "carbon neutralization" in 2050.

The aluminium battery packs produced by Minth include short, medium and long models, matching all B, C, D-level electric vehicles produced by Volkswagen Group. Receiving supplier orders from MEB platform again proves the Company's leading role in this field. Based on this plan, it is possible for Minth to reach tens of billions of turnover in aluminium battery packs among future strategic plans.

Positive Development Trend in Overseas Business

In Q3 2019, led by high demand of European market, the Company's overseas business is expected to achieve double-digit growth and the domestic market regain positive growth in turnover, stabilizing gross profit level. At the same time, the Company's factories in Mexico and Thailand are constantly improving operating efficiency.

Constant positive prospects for the Company's high-end path

Minth has always been contributed to the widening of product lines. The company has further developed and expanded products in the field of new energy vehicles such as aluminium battery packs, aluminium door frames and ACC signs since 2017. The implementation of aluminium battery pack business starts first: Minth has entered multiple supplier systems of main engine factories of global electric vehicle platform and has received orders from multiple automobile brands such as BMW, Daimler, Honda, Nissan, Renault, Ford, Volvo, Jaguar and Land Rover, making Minth one of the largest suppliers of aluminium battery pack in the world. In December 2019, the company successfully became aluminium batter pack supplier of Peugeot Citroen Group, taking charge of the design for electric vehicle platform, industrialization planning and production. This year, the Company's aluminium door frames will also be put into mass production.

Judging from new energy strategic plan of major vehicle enterprises across the world, most of them regard the year of 2020 or the year of 2025 as the "critical year" for new energy planning. With the further advance of overseas vehicle electrification, previous orders may help the Company strengthen strategic partnership between overseas customers and drive future growth in result.

Focus on operating rebound after the coronavirus outbreak

Some of the Company's factories resumed operation since February 10, which may slightly influence export according to the Management. The Company's factory in Wuhan mainly supplying Honda accounts for low double-digit growth in production. Although this year's outbreak brings challenge to the prosperity of car industry in the first half of 2020, it's assured that there will be a strong result rebound after the outbreak because the Company has abundant orders, high-quality customer structure, gradual mass production of new models and huge improvement prospects in overseas business.

BUY (Upgrade)

CMP HKD 27.75

(Closing price as at 2 March)

TARGET HKD 33.32 (+20%)

COMPANY DATA

O/S SHARES (MN) :	1145
MARKET CAP (HKD MN) :	31428
52 - WK HI/LO (HKD):	33/18.44

SHARE HOLDING PATTERN, %

Mr Qin	39.5
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY18	FY19E	FY20E	FY21E
Net Sales	12553	13028	14303	15966
Net Profit	1656	1803	1949	2399
EPS, CNY	1.45	1.58	1.70	2.10
P/E, x	17.1	15.9	14.7	11.9
BVPS, CNY	11.48	12.44	13.48	14.80
P/BV, x	2.2	2.0	1.9	1.7
DPS (HKD)	0.58	0.63	0.68	0.84
Div. Yield (%)	2.1%	2.3%	2.5%	3.0%

Source: Company reports, Phillip Securities Est.

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Valuation

We believe that it is reasonable to give the company a valuation of 19/17.6/14.3x P/E in 2019/2020/2021, equivalent to target price of HK\$ 33.32 and Buy rating. (Closing price as at 2 March)

Forward valuation trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY17	FY18	FY19F	FY20F	FY21F
Valuation Ratios					
P/E (X), adj.	12.9	17.1	15.9	14.7	11.9
P/B (X)	2.2	2.2	2.0	1.9	1.7
Dividend Yield (%)	3.1%	2.1%	2.3%	2.5%	3.0%
Per share data (RMB)					
EPS, (Basic)	1.78	1.45	1.58	1.70	2.10
EPS, (Diluted)	1.76	1.44	1.57	1.69	2.08
DPS(HKD)	0.85	0.58	0.63	0.68	0.84
BVPS	10.66	11.48	12.44	13.48	14.80
Growth & Margins (%)					
Growth					
Revenue	21.1%	10.3%	3.8%	9.8%	11.6%
EBIT	18.4%	-15.4%	9.7%	8.4%	23.0%
Net Income, adj.	17.8%	-18.2%	8.9%	8.1%	23.0%
Margins					
Gross margin	33.8%	32.0%	32.1%	32.0%	32.9%
EBIT margin	22.7%	17.4%	18.4%	18.1%	20.0%
Net Profit Margin	17.8%	13.2%	13.8%	13.6%	15.0%
Key Ratios					
ROE	17.7%	13.1%	13.2%	13.1%	14.8%
Income Statement (RMB mn)					
Revenue	11385	12553	13028	14303	15966
Gross profit	3850	4023	4182	4581	5258
EBIT	2583	2184	2395	2595	3191
Profit before tax	2488	2046	2236	2409	2965
Tax	396	334	358	373	460
Profit for the period	2092	1713	1878	2035	2506
Minority interests	67	56	75	86	107
Total capital share	1137	1145	1145	1145	1145
Net profit	2025	1656	1803	1949	2399

Source: PSR

(Closing price as at 2 March)

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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