

Minth Group (425 HK)

Backlog Hit a New High, while the gm under weight

China | Automobile parts | Company Updates

7 October 2022

Investment Summary

Company Profile

Minth Group is a world-renowned supplier engaged in the design, manufacturing and sales of automotive interior and exterior trim and body structure parts. The domestic market share of its core products exceeds 30%. The company has production bases in China, the United States, Mexico, Thailand, Germany, Serbia and other countries, and its customers cover major vehicle companies in the market. Based on a variety of new materials and surface treatment technologies, in recent years the company has developed new electrified and smart product lines such as aluminum power battery boxes and smart front faces, forming a series of competitive terminal products.

Due to Multiple Factors, H1 Results Drop by 4.5% Yoy But Improve Hoh

In H1 of 2022, the global auto market was affected by the chip shortage, the Russia-Ukraine war and the pandemic. However, with the mass production of the Company's battery housing business and the rapid growth of overseas business, Minth Group's turnover increased by 8.9% yoy to RMB7.25 billion; the net profit attributable to shareholders was RMB660 million, down 27.0% yoy. Excluding the one-time gain from the disposal of a subsidiary in H1 of 2021, the net profit actually fell by 4.5% yoy. The year-on-year decline in results was mainly due to higher selling expenses resulting from the rising raw material costs and sea freights, as well as higher R&D expenses arising from the Company's continuous promotion of new products such as battery housings. However, compared with H2 of 2021, the results rose by approximately 10% hoh.

On a closer look at markets, the domestic market revenue grew by 2.8% yoy to RMB3.89 billion, falling short of expectations. This was mainly affected by the pandemic in Q2; while the overseas market presented brilliant performance. Its revenue soared by 16.9% yoy to RMB3.36 billion, and its proportion in the gross revenue rose by 3.2 ppts to 46.3%. The Company's factory in Serbia continued to climb. The Company is accelerating the layout in Poland and the United States for further advancement.

Gross Margin Is under Pressure, and Expense Ratio Is Basically Stable

During the reporting period, the overall gross margin was 29.1%, down approximately 2.8 ppts from 31.9% in the same period. It mainly suffered pressure from the depreciation of old products and the high volatility of raw material prices. In the meanwhile, the overall gross margin was dragged down by the increased proportion of turnover of some overseas factories in the climbing period. In H1, the total selling, administration and R&D expense ratio grew by 0.4 ppts yoy to 20.8%. Specifically, the selling expense ratio increased by 1.1 ppts yoy, reflecting the rising sea freights, and the administration expense ratio decreased by 1.2 ppts yoy, reflecting the improvement of operating efficiency and the reduction of options tariff.

BUY (Maintain)

CMP HKD 18.2

(Closing price as at 5 October)

TARGET HKD 31 (+70.33%)

COMPANY DATA

O/S SHARES (MN) :	11631
MARKET CAP (HKD MN) :	21145
52 - WK HI/LO (HKD):	38.55/16.62

SHARE HOLDING PATTERN, %

Mr Qin	39.5
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY21	FY22E	FY23E	FY24E
Net Sales	13919	17231	20755	24950
Net Profit	1496	1592	2086	2523
EPS, CNY	1.30	1.38	1.81	2.19
P/E, x	11.4	11.6	8.8	7.3
BVPS, CNY	13.78	14.58	15.84	17.26
P/BV, x	1.1	1.1	1.0	0.9
DPS (HKD)	0.54	0.58	0.76	0.92
Div. Yield (%)	3.0%	3.2%	4.2%	5.1%

Source: Company reports, Phillip Securities Est.

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Battery Housing Business Is Going through an Explosive Period, and New Orders Hit a New High

In H1, the Company's four major products, namely metal and trim products, plastic products, aluminum products and battery housings, reported revenue of RMB2,548 million, RMB2,095 million, RMB1,740 million and RMB498 million, respectively, up 8.24% and 6.97%, down 0.2% and up 435.0% yoy, respectively. The battery housing business has entered an accelerated explosive period, with a growth rate of 374 ppts higher than the same period last year. The segment margin of battery housings rose from 5.8% to 18.0%. Although it is still below the overall gross margin of approximately 30%, we think that as production capacity continues to explode, the gross margin, benefiting from the scale effect, is expected to increase to 23% in 2023. In H1, the Company's new orders reached a new high. With an annualized turnover of RMB9.3 billion, the annual turnover is expected to reach RMB12 billion. At present, the orders in hand witness a net increase of RMB30 billion from the end of last year, reaching RMB180 billion. Specifically, battery housings, plastic products, aluminum products, and metal and trim products account for 38%, 22%, 22% and 17%, respectively. Looking ahead, in anticipation of continued strong growth in the battery housing business, the Company's management has given guidance on the growth rate of revenue and profit of more than 30% in H2.

Valuation

We revised the forecast of EPS of 2022/2023/2024 to be RMB 1.38/1.81/2.19 yuan. And we believe that it is reasonable to give the company a valuation of 19.7/15/12.4x P/E and 1.9/1.7/1.6x P/B for 2022/2023/2024, equivalent to target price of HK\$ 31 and BUY rating. (Closing price as at 5 October)

Forward valuation trend (Y+2)



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY20	FY21	FY22F	FY23F	FY24F
Valuation Ratios					
P/E (X), adj.	12.6	11.4	11.6	8.8	7.3
P/B (X)	1.2	1.1	1.1	1.0	0.9
Dividend Yield (%)	2.6%	3.0%	3.2%	4.2%	5.1%
Per share data (RMB)					
EPS, (Basic)	1.21	1.30	1.38	1.81	2.19
EPS, (Diluted)	1.21	1.29	1.37	1.80	2.17
DPS(HKD)	0.48	0.54	0.58	0.76	0.92
BVPS	12.89	13.78	14.58	15.84	17.26
Growth & Margins (%)					
Growth					
Revenue	-5.5%	11.7%	23.8%	20.5%	20.2%
EBIT	-14.7%	9.4%	6.4%	28.7%	22.7%
Net Income, adj.	-17.4%	7.2%	6.4%	31.0%	21.0%
Margins					
Gross margin	31.0%	29.3%	29.0%	29.7%	29.9%
EBIT margin	15.5%	15.2%	13.0%	13.9%	14.2%
Net Profit Margin	11.2%	10.8%	9.2%	10.0%	10.1%
Key Ratios					
ROE	9.6%	9.7%	9.7%	11.9%	13.2%
Income Statement (RMB mn)					
Revenue	12467	13919	17231	20755	24950
Gross profit	3859	4084	4999	6156	7465
EBIT	1927	2109	2244	2889	3544
Profit before tax	1680	1846	1974	2595	3206
Tax	217	266	292	394	497
Profit for the period	1463	1579	1682	2201	2709
Minority interests	67	82.9	90	115	186
Total capital share	1160	1161	1163	1163	1163
Net profit	1396	1496	1592	2086	2523

Source: PSR

(Closing price as at 5 October)

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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