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SINGAPORE

Retail Market Monitor

Friday, 17 June 2022

MARKET NEWS

US stocks were lower after the close on Thursday, as losses in the energy, consumer discretionary and technology sectors led shares lower. At the close of the NYSE, the DJIA fell 2.42% while the S&P 500 index was down 3.25%, and the NASDAQ Composite index slid 4.08%. Falling stocks outnumbered advancing ones on the NYSE by 3,012 to 335 and 123 ended unchanged; on the Nasdaq Stock Exchange, 3,833 declined and 845 advanced, while 280 ended unchanged. (Source: WSJ, CNBC)

During the last trading session, the FSSTI index fell 8.42pt to 3,097.43. Among the top active stocks were Yangzijiang Shipbuilding (+1.6%), Sembcorp Marine (-4.4%), Thai Beverage (+1.6%), Jiutian Chemical (-2.0%) and Rex International (-1.5%). The FTSE ST Mid Cap index was down 0.6% while the FTSE ST Small Cap Index fell 0.3%. The broader market saw 202 gainers and 314 losers with total trading value of S$1.37b.

WHAT'S IN THE PACK

Singapore Company Update:

Marco Polo Marine - Beneficiary of higher activity in the offshore sector.

(MPM SP/BUY/S$0.028/Target:S$0.043)

The rationalised oil & gas offshore support industry has shown resilience over the COVID-19 pandemic. Channel checks suggest vessel utilisation has been improving, helped by minimal newbuilds and increased offshore activity in the region. MPM will benefit from positive operating leverage from higher charter and utilisation rates and a lean operating structure. Maintain BUY with a higher target price of S$0.043 (from S$0.038), after rolling forward the valuation base year to FY23…

HK/ China Sector Update:

Automobile – Weekly: PV sales surged over 50% mom in 6-12 Jun 22. Maintain OVERWEIGHT.

China's PV retail sales surged by 54% mom in 6-12 Jun 22, beating estimates, due to purchase tax rate cut since 1 Jun 22. According to our channel checks, auto dealers are capturing part of the purchase tax cut by cutting back on retail discounts. Downgrade Weichai and Xusheng to HOLD as stock prices have almost hit the targets. We add Minth and Zhongsheng to our list of top picks. Maintain OVERWEIGHT. Top picks: BYD, GWM, Geely, Minth and Zhongsheng…

HK/ China Company Update:

Minth Group – Entering the inflection point of recovery. Maintain BUY. Target price: HK$30.00.

(425 HK/BUY/HK$18.84/Target: HK$30.00)

Minth's revenue has been recovering strongly along with OEMs' ramping up of production since late-April. Given that and the peaking of metal prices, Minth will stage an earnings recovery in 2H22. Driven by strong order flows, the share of EV-related products in revenue will likely double yoy to 26-27% in 2022 and further double to >50% by 2025. We see Minth as one of the cheapest EV plays (11x 2022F PE, 2SD below historic mean). Maintain BUY. Target price: HK$30.00…

Singapore Technical Analysis:

Olam Group (OLG SP) - Trading BUY

The recent price correction retraced to the middle Bollinger band, which is also the 20-day moving average. The MACD is still bullish at the moment…

Frasers Logistics & Commercial Trust (FLT SP) - Trading BUY

The price rebounded after hitting a low at S$1.27. There is divergence warning given from the MACD that hints at possible reversal ahead…

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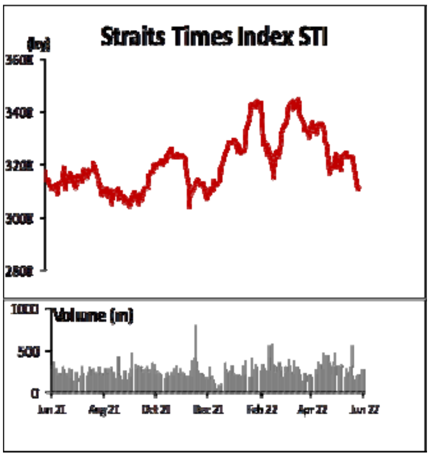
PRICE CHART



KEY INDICES

	Prev Close	Chg (%)	YTD (%)
DJIA	29927.1	(2.4)	(17.6)
S&P 500	3666.8	(3.3)	(23.1)
FTSE 100	7045.0	(3.1)	(4.6)
AS30	6783.7	(0.0)	(12.8)
CSI 300	4250.1	(0.7)	(14.0)
FSSTI	3097.4	(0.3)	(0.8)
HSCEI	7259.4	(2.6)	(11.9)
HSI	20845.4	(2.2)	(10.9)
JCI	7050.3	0.6	7.1
KLCI	1472.8	0.9	(6.0)
KOSPI	2451.4	0.2	(17.7)
Nikkei 225	26431.2	0.4	(8.2)
SET	1561.1	(2.0)	(5.8)
TWSE	15838.6	(1.0)	(13.1)
BDI	2462	3.1	11.1
CPO (RM/mt)	5915	(2.6)	14.2
Brent Crude (US$/bbl)	120	1.1	54.0

Source: Bloomberg

TOP VOLUME

Company	Price (S$)	Chg (%)	Volume ('000s)
Mapletree North Asia Comm	1.20	0.0	204,862
Sembcorp Marine	0.11	(4.3)	174,303
Yangzijiang Shipbuilding	0.99	1.5	36,760
Thai Beverage	0.65	1.6	35,625
Singapore Telecommunications	2.47	(1.2)	35,503

TOP GAINERS

Company	Price (S$)	Chg (%)	Volume ('000s)
Frasers Logistics & Commercial	1.33	3.9	21,247
Pacific Century Region Dev	0.42	3.8	89
The Hour Glass	2.42	2.1	824
Thai Beverage	0.65	1.6	35,625
Yangzijiang Shipbuilding	0.99	1.5	36,760

TOP LOSERS

Company	Price (S$)	Chg (%)	Volume ('000s)
Golden Energy & Resources	0.58	(5.7)	8,820
Sembcorp Marine	0.11	(4.3)	174,303
iFast Corp	4.08	(3.1)	494
Keppel Pacific Oak US REIT	0.68	(2.9)	923
Sasseur REIT	0.76	(2.6)	5,812

TRADERS' CORNER

Olam Group (OLG SP)

Trading Buy range: S$1.60-1.61

Last price: S$1.56

Target price: S$1.73

Protective stop: S$1.53

The recent price correction retraced to the middle Bollinger band, which is also the 20-day moving average. The MACD is still bullish at the moment. These could increase chances of the stock price rebounding to move higher.

The potential upside target is S$1.73. Stop-loss could be placed at S$1.53.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days).

Frasers Logistics & Commercial Trust (FLT SP)

Trading Buy range: S$1.33-1.34

Last price: S$1.33

Target price: S$1.46

Protective stop: S$1.26

The price rebounded after hitting a low at S$1.27. There is divergence warning given from the MACD that hints at possible reversal ahead. A bullish MACD crossover is likely. These could increase chances of the stock price moving higher.

The potential upside target is S$1.46. Stop-loss could be placed at S$1.26.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days).

Our institutional research has a fundamental BUY and target price of S$1.79.

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FROM THE REGIONAL MORNING NOTES...

Marco Polo Marine (MPM SP)

Beneficiary Of Higher Activity In The Offshore Sector

The rationalised oil & gas offshore support industry has shown resilience over the COVID-19 pandemic. Channel checks suggest vessel utilisation has been improving, helped by minimal newbuilds and increased offshore activity in the region. MPM will benefit from positive operating leverage from higher charter and utilisation rates and a lean operating structure. Maintain BUY with a higher target price of S$0.043 (from S$0.038), after rolling forward the valuation base year to FY23.

WHAT'S NEW

- **Increased offshore activity driving charter rates.** Increased activity in the oil & gas industry has driven up vessel charter rates and utilisation, since the global economic resumption following the end of COVID-19 pandemic lockdowns towards late-20. Bullish expectations driven by elevated crude oil prices above US$100 have also resulted in oil majors looking to increase production in the commodity. This translated to higher capex towards reactivating offshore production platforms and further raised industry utilisation for offshore supply vessels (OSV). Furthermore, the nascent offshore wind farm market in Southeast Asia, particularly in Taiwan, has taken up supply of OSVs for vessel operators repositioning towards the relatively longer term charter contracts.

- **Minimal newbuilds on smaller-sized vessels provide support on dayrates.** The lack of investment in the offshore oil industry since 2014 is expected to lead to upward pressure on utilisation and dayrates of support vessels going forward. Industry utilisation rates have begun to rise since 2H21 from higher demand due to the confluence of factors listed above.

- **Improving financials and diversification efforts pulling through.** In 1HFY22, Marco Polo Marine (MPM) reported a 47.8% yoy jump in core EBITDA to S$5.8m. The positive set of financials came on the back of higher revenue of S$27.6m (+30.9% yoy), attributed to increased fleet utilisation and charter rates, as well as a rise in repair projects under the ship building & repair segment. Additionally, gross margin expanded to 29.6% (1HFY21: 23.8%) from more activity at the shipyard. The shift away from supporting the oil & gas industry towards the renewable energy segment has been successful for MPM. Currently, five out of 13 OSVs owned by MPM are chartered within the offshore wind farm projects in Taiwan.

KEY FINANCIALS

Year to 30 Sep ($m)	FY20	FY21	FY22F	FY23F	FY24F
Net turnover	30.8	46.1	49.9	53.7	55.8
EBITDA	(0.1)	10.0	12.9	13.7	14.1
Operating profit	(7.1)	3.4	6.2	7.0	7.3
Net profit (rep./act.)	(9.2)	14.8	6.0	6.8	7.1
Net profit (adj.)	(9.2)	14.8	6.0	6.8	7.1
EPS (S$ cents)	(0.3)	0.4	0.2	0.2	0.2
PE (x)	n.m.	7.2	17.6	15.7	15.0
P/B (x)	1.1	0.9	0.9	0.8	0.8
EV/EBITDA (x)	n.m.	8.6	6.7	6.3	6.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(29.9)	32.0	12.1	12.6	12.7
Net debt/(cash) to equity (%)	(13.0)	(13.8)	(16.7)	(27.3)	(34.8)
Interest cover (x)	n.a.	12.1	n.a.	n.a.	n.a.
ROE (%)	n.a.	13.8	5.1	5.4	5.4
Consensus net profit	-	-	4.3	6.8	9.3
UOBKH/Consensus (x)	-	-	1.40	0.99	0.76

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Operating expenses already lean, primed for positive operational leverage.** The restructuring efforts carried out in FY17 have resulted in improved profitability, with higher gross margin and a reduction in administrative expenses. Going forward, we believe margins should remain elevated due to improved sector dynamics after the 2014 oil crisis, as well as management's focus on increasing its share in the offshore windfarm market.
- **Debt-free and assets marked at historical low.** Closing in on the five-year mark since a capital injection in FY17, MPM has shown excellent cash management amid the industry consolidation, with its net cash as of end-1HFY22 standing at S$27.9m. Balance sheet is clean and asset values are marked considerably low as the group undertook the massive impairments during the corporate restructuring exercise during the bottom of the industry downturn, which provides a comfortable level of support for our valuation.
- **Growing recurring income from shipyard.** Apart from the ship chartering revenue of S$17.1m which constituted 62% of 1HFY22, MPM derived S$10.5m from the shipbuilding & repairs segment at its shipyard in Batam, Indonesia. Prior to the tail-end of the 1HFY22 financial period, the shipyard completed the extension of its dry dock in Feb 22, which lifted repair capacity by 20% to 450m across three dry docks. This is expected to continue driving growth for the shipbulding & repairs segment, which is expected to see higher workload from the shift in repairs from the Singapore yards. Revenue from the ship repair business is relatively sticky, with most of its business coming from repeat customers.

EARNINGS REVISION/RISK

- No changes to our forecasts.

VALUATION/RECOMMENDATION

- **Maintain BUY with target price raised to S$0.043 (from S$0.038).** We have rolled forward our valuation base year to FY23 and kept our peg at 1.1x P/B, or +2SD of its historical five-year average. This is supported by improving charter rates and better vessel utilisation. We believe MPM's already-impaired book value of S$0.03/share would provide a strong level of support for the share price, and the anticipated improvement in financial numbers should lift share price above its book value.

SHARE PRICE CATALYST

- Higher-than-expected ship charter rates and vessel utilisation.
- Increased activity at shipyard.
- Award of new ship chartering contracts.

FROM THE REGIONAL MORNING NOTES...

Automobile – China

Weekly: PV Sales Surge Over 50% MOM In 6-12 Jun 22 Due To Purchase Tax Cut

China's PV retail sales surged 54% mom in 6-12 Jun 22, beating estimates, due to the purchase tax rate cut since 1 Jun 22. According to our channel checks, auto dealers are capturing part of the purchase tax cut by cutting back on retail discounts. Downgrade Weichai and Xusheng to HOLD as stock prices have almost hit our targets. We add Minth and Zhongsheng to our list of top picks. Maintain OVERWEIGHT. Top picks: BYD, GWM, Geely, Minth and Zhongsheng.

WHAT'S NEW

- **CPCA: Daily average PV sales surged over 50% mom in second week of June, beating expectations.** According to China Passenger Car Association (CPCA), daily average retail sales volume and wholesale shipment of PVs in China spiked by 54%/59% mom and 46%/50% wow in 6-12 Jun 22, and yoy growth for these turned positive at 25%/26% during the week from -3%/-6% in the previous week. The strong sales growth in the second week of June was driven by the halving of purchase tax rate since 1 Jun 22 and OEMs' continuous ramping up of production. In 1-12 Jun 22, daily average retail sales volume and wholesale shipment of PVs grew 35%/44% mom and 14%/14% yoy, vs the CPCA's estimate of over 10% mom growth for June.

- **Automobile dealers the unexpected beneficiaries of purchase tax rate cut.** According to our channel checks, some automobile dealers are capturing all or part of the purchase tax cuts by cutting back on retail discounts after 1 Jun 22, such that the all-in prices paid by customers (the car price plus purchase tax) remain unchanged or drop less than they should, even after the purchase tax rate cut. This is especially so for the Japanese cars and entry luxury cars, eg Honda, Nissan, Toyota, Lexus, BMW, Mercedes-Benz, Audi, etc. Zhongsheng (881 HK/BUY/TP: HK$98.00) and Meidong (1268 HK/BUY/TP: HK$42.00) should be seeing margin improvement from Jun 22.

- **CAAM: Auto sales and EV sales jumped >50% and >40% mom in May 22.** According to China Association of Automobile Manufacturers (CAAM), May 22 production volume and wholesale shipment of automobiles in China respectively grew 60%/58% mom and dropped 5.7% and 12.5% yoy to 1.926m units and 1.862m units. For electric vehicles (EVs), the production volume and wholesale shipment grew 25%/44% mom and 129%/126% yoy to 465,000 units and 484,000 units respectively. The EV penetration in new automobile sales reached 24% in May 22 and 20.9% in 5M22, exceeding the state's 2025 target.

- **EV battery installation volume up 40% mom and 90% yoy in May 22; CATL's market share rebounded.** According to China Motive Battery Innovation Alliance, EV battery installation volume in China grew 40% mom and 90% yoy to 18.56GWh in May 22 and more than doubled yoy to 83.11GWh in 5M22. CATL remained the largest EV battery manufacturer in China with market share rebounding by 7.6ppt mom to 45.8% in May 22, BYD followed closely as number two, with market share falling by 10.1ppt mom to 22%. The changes in market share in May were due to the resumption of production by OEMs since late-April, which boosted shipment of the battery manufacturers excluding BYD (BYD mainly produces batteries for in-house EV production.

PEER COMPARISON

Company	Ticker	Rec	Price @ 16 Jun 22 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (US$m)	PE 2022F (x)	PE 2023F (x)	P/B 2022F (x)	P/B 2023F (x)	ROE (%)	Net Gearing (Cash) (%)
BYD	1211 HK	BUY	290.80	365.00	25.5	33,896	124.0	71.3	7.3	6.6	6.0	(16.9)
Geely Automobile	175 HK	BUY	14.56	18.00	23.6	18,582	21.3	13.9	1.7	1.6	8.2	(38.1)
Great Wall Motors	2333 HK	BUY	15.90	20.00	25.8	6,278	18.8	11.5	1.9	1.6	10.3	(25.0)
Guangzhou Auto	2238 HK	BUY	7.52	10.00	33.0	9,837	7.6	5.5	0.7	0.6	9.5	(7.3)
Weichai Power	2338 HK	HOLD	12.54	13.00	3.7	13,940	9.5	7.8	1.3	1.1	15.7	(69.8)
Fuyao Glass	3606 HK	HOLD	40.25	44.00	9.3	13,381	21.7	19.1	3.2	2.9	15.2	(14.2)
Nexteer	1316 HK	BUY	4.92	10.50	113.4	1,573	9.5	5.6	0.8	0.7	8.2	(12.4)
Minth Group	425 HK	BUY	18.84	30.00	59.2	2,787	11.4	9.4	1.1	1.0	9.9	10.3
Ningbo Xusheng Auto	603305 CH	HOLD	28.57	32.00	12.0	2,662	41.2	26.9	4.4	3.9	11.3	8.9
CATL	300750 CH	BUY	460.30	637.00	38.4	158,874	65.7	37.2	11.2	8.7	15.4	(41.9)
EVE Energy	300014 CH	BUY	95.50	165.00	72.8	26,991	59.4	33.1	8.8	7.0	13.8	15.5
China Meidong Auto	1268 HK	BUY	24.50	42.00	71.4	3,895	16.7	12.2	5.7	4.3	36.7	(53.3)
Zhongsheng Group	881 HK	BUY	57.20	98.00	71.3	17,057	11.9	9.6	2.5	2.0	22.9	30.1
Ganfeng Lithium	1772 HK	BUY	107.80	180.00	67.0	19,740	15.4	10.3	4.4	3.2	33.4	0.2
GEM Co.	002340 CH	BUY	8.20	10.50	28.0	4,997	28.4	18.3	2.5	2.3	13.1	67.0
Guangzhou Tinci	002709 CH	BUY	53.44	200.00	274.3	12,997	13.3	10.0	4.9	3.4	43.6	17.8
Yadea	1585 HK	BUY	14.88	25.00	68.0	5,677	21.8	16.9	6.9	5.5	34.8	(198.6)

Source: Bloomberg, UOB Kay Hian

- **BYD to reportedly supply batteries for Tesla Model Y from as early as 2023, according to Auto Times.** This came as a follow-up report to Mr. Lian Yubo's comment in an interview with China's state-owned media CGTN on 8 Jun 22. According to Auto Times, the Tesla model that will use BYD's blade batteries will be Model Y, and the mass supply will likely kick-start by 2023. For BYD, supplying Tesla means a major breakthrough for its EV battery business, as that proves the company's technologies and manufacturing capabilities in the area. Last week, we already raised estimates on BYD's 2023-24 earnings by 10-16% and lifted target price by 12% to HK$365.00 to factor in the contribution from Tesla's business.
- **BYD's (1211 HK/BUY/Target: HK$365.00) JV Denza has booked over 20,000 pre-orders for D9 electric MPV.** On 16 May 22, Denza, the 50:50 JV between BYD and Daimler, kick-started the presale for the new electric MPV model D9 at a price of Rmb335,000. From then till now, Denza has booked over 20,000 orders for D9, even though people have not yet seen the real vehicle and the company has not yet done any marketing. Denza plans to start showcasing the D9 MPV and opening it for test drives in some core cities in China from June to July, and will officially launch the model in July. D9 has two power options – the all-electric version and the DM-i plug-in hybrid electric vehicle (PHEV) version. Denza D9 is one of the few all-electric MPVs in the China market, and GAC Aion M8 is among the major competitors.
- Denza was jointly established by BYD and Daimler in Feb 11, and it remained loss-making from then till now. Before the debut of D9, Denza only had one model – Denza X SUV. BYD is stepping up the development of Denza, as BYD has recently signed an agreement with Daimler to buy a 40% stake in Denza from Daimler, so that BYD's stake will increase to 90% and Daimler's stake will drop to 10%. Denza is actively expanding its store network, with 76 stores in 51 cities in China under construction as of Jun 22. We expect Denza's profitability to improve with BYD taking more initiative.
- **CATL (300750 CH/BUY/Target: Rmb637.00) reportedly set the offer price of its Rmb45b A-share placement at Rmb410/share,** an 11% discount to yesterday's (16 Jun 22) closing price of Rmb460.30. In Aug 21, CATL announced plans to raise Rmb58.2b through a private placement to not more than 35 specific placees. In Nov 21, CATL lowered the funding size of the placement to Rmb45b. On 29 Apr 22, CATL announced that it had received approval from China Securities Regulatory Commission (CSRC) for the private placement.

  The Rmb45b in proceeds from the placement will be used for funding the 135GWh new capacity projects, implying Rmb330m in investment per GWh, in line with industry average. Given the Rmb45b in planned fund raising and Rmb410/share of offer price, 109.756m new A-share (or 4.4% of issued capital) would need to be issued, in line with our estimate. The relative high offer price for the placement implies investors' confidence in CATL. Our profit forecasts have already factored in the placement, and thus we keep 2022-24 EPS estimates and target price unchanged.
- **CATL will soon unveil the CTP 3.0 Kirin battery with an energy density that is 13% higher than the 4680 battery, a much higher margin of safety, and shorter recharging time.** This was announced by the company's chief scientist Wu Kai at the 2022 World EV and Energy Storage Battery Conference held in Yibin, Sichuan province. Accordingly, the innovative design of the cell-to-pack (CTP) 3.0 Kirin battery increases the energy density to 160Wh/kg for lithium-iron phosphate (LFP) and 250Wh/kg for nickel cobalt manganese (NCM). For the battery, CATL has included a water-cooling plate in the middle of two layers of cells, rather than just installing the cooling device at the bottom as per traditional design. The design will stop the heat transfer from the adjacent cells, thus avoiding thermal runaway. It will also better support high-voltage fast charging, making it possible for the battery to be fully recharged in a quarter of an hour. CATL will launch the new battery in 2023. We believe CATL's batteries will continue to lead the industry in energy density and cost, due to its scale advantage in R&D vs rivals.

ACTION

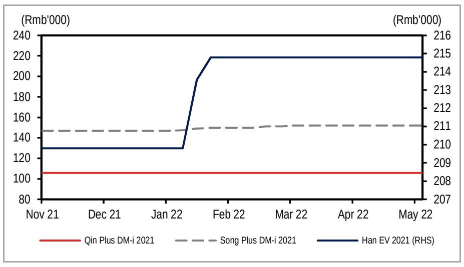
- **Maintain OVERWEIGHT based on the prospective gradual recovery of auto sales along with the opening up of the economy.** BYD, Geely and GWM remain our top picks. We add Minth and Zhongsheng to our list of top picks, as both companies are poised for significant earnings recovery in 2H22. Minth's earnings are being driven by OEMs' ramping up of production, strong order flows for EV battery housings/casings and falling metal prices. Zhongsheng is capturing the benefit of purchase tax rate cut. Our BUY calls are in the following order of preference: BYD, Geely, GWM, Minth, Zhongsheng, Meidong, GAC, CATL, EVE Energy, Ganfeng, Tinci, Nexteer, GEM.

- **Downgrade Weichai (2238 HK/HOLD/Target: HK$13.00) and Ningbo Xusheng (603305 CH/HOLD/Target: Rmb32.00) from BUY to HOLD with unchanged target prices,** as the stock prices have almost hit our target prices.

RISKS

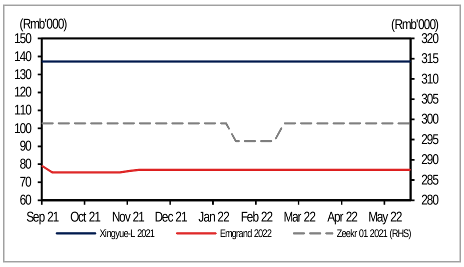
- **China's zero-COVID policy,** if enforced thoroughly, could cause frequent on-and-off disruptions to the auto supply chain, as it is hard to contain the highly-transmissible Omicron variant. If infections resurge after the lockdowns are lifted, a new round of lockdowns may kick in. Besides, the draconian COVID-19 containment measures may remain in place for sustained periods, paralysing transaction activities. For example, people in big cities are required to show the certificates of their negative polymerase chain reaction (PCR) COVID-19 test results within 48 hours to get access to public places.

ASP – BYD



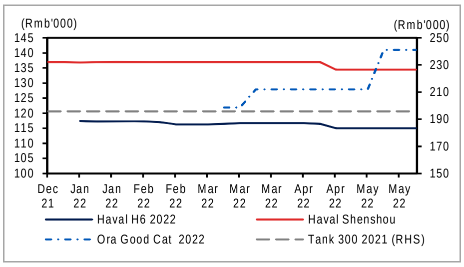
Source: UOB Kay Hian

ASP – GEELY



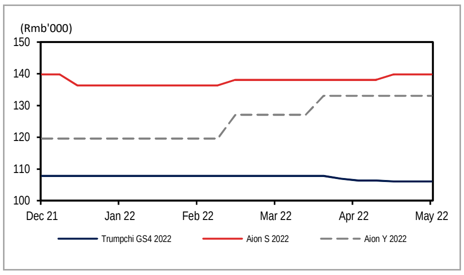
Source: UOB Kay Hian

ASP – GWM



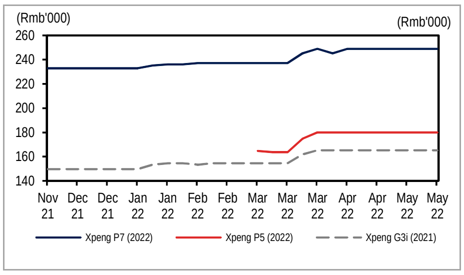
Source: Bloomberg, UOB Kay Hian

ASP – GAC



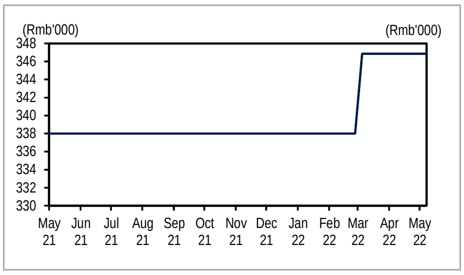
Source: UOB Kay Hian

ASP – XPENG

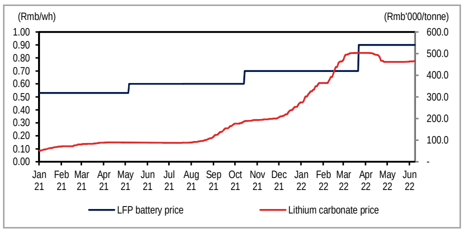


Source: UOB Kay Hian

ASP – LI ONE

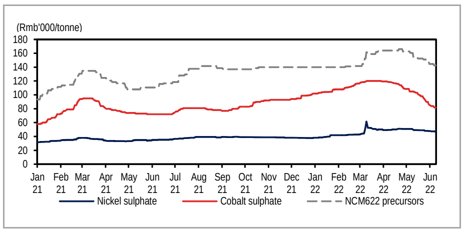


PRICES OF LFP BATTERY AND LITHIUM CARBONATE



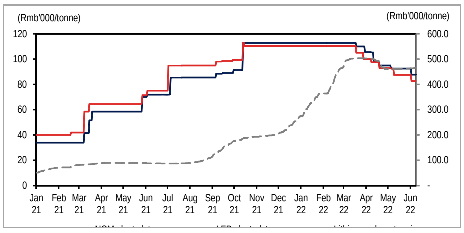
Source: WIND, UOB Kay Hian

PRICES OF NCM622 PRECURSOR, NICKEL SULPHATE AND COBALT SULPHATE



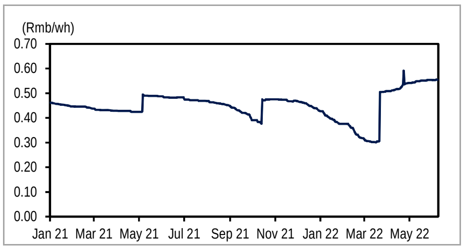
Source: WIND, UOB Kay Hian

PRICES OF ELECTROLYTE AND LIHTIUM CARBONATE



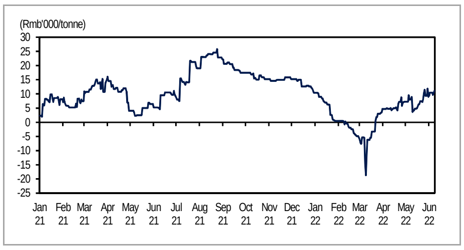
Source: WIND, UOB Kay Hian

SPREAD BETWEEN LFP BATTERY PRICE AND LITHIUM COST



Source: WIND, UOB Kay Hian

SPREAD BETWEEN NCM622 PRECURSOR PRICE AND NCM COST



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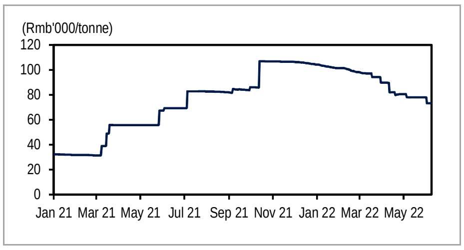
SPREAD BETWEEN ELECTROLYTE PRICE AND LITHIUM CARBONATE COST



Source: WIND, UOB Kay Hian

FROM THE REGIONAL MORNING NOTES...

Minth Group (425 HK)

Reaching The Inflection Point Of Recovery

Minth's revenue has been recovering strongly along with OEMs' ramping up of production since late-April. Given that and the peaking of metal prices, Minth will stage an earnings recovery in 2H22. Driven by strong order flows, the share of EV-related products in revenue will likely double yoy to 26-27% in 2022 and further double to >50% by 2025. We see Minth as one of the cheapest EV plays (11x 2022F PE, 2SD below the historical mean). Maintain BUY. Target price: HK$30.00.

WHAT'S NEW

- **Sales recovering briskly since May.** The lockdown in Shanghai dragged Minth Group's (Minth) sales revenue by 20% in April. In late-April, automobile companies in the Yangtze River Delta were allowed to resume production. Since then, Minth's sales have been recovering strongly. The production volume of automobiles in China spiked 60% mom in May 22, and Minth's sales in China (which contributed 59% of total revenue in 2021) outpaced the industry average. In the first two weeks of June, Minth's orders from major customers grew 20-30% mom.

- **Management maintains 2022 sales revenue growth target at 30%,** based on the burgeoning sales of EV battery housings/casings and other new products.

- **Strong order flows.** Although the lockdowns disrupted China's automotive supply chain in April, Minth booked Rmb4b-5b in new business intakes in 4M22, vs Rmb5.9b in 1H21 and Rmb4.7b in 2H21. The strong order flows will underpin the revenue growth in the coming 1-2 years.

- **Minth expects EV-related products as a percentage of revenue to nearly double from 14% in 2021 to 26-27% in 2022.** We expect this ratio to rise to 50% by 2025. Nearly half of the new business intakes are coming from the EV-related products, which include EV battery housings/casings, grille, structural parts, etc.

- **Management targets housing/casing sales revenue at Rmb2b/Rmb4b/Rmb10b in 2022/23/25 respectively, implying a CAGR of over 70%.** This compares to Minth's 2021 revenue of Rmb13.92b. We expect battery housings/casings as a percentage of total revenue to rise from 12% in 2022 to 19%/23%/32% in 2023/24/25. The prospective exponential growth will be backed by the strong order flows. Minth currently has over Rmb50b in orderbook for the coming five years. The customers of Minth's battery housings/casings include Tesla, Daimler, BMW, Volkswagen (VW) Modular Electric-drive Toolkit (MEB), Honda, Nissan, Renault, Ford, Volvo, CATL, EVE Energy, etc.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	12,467	13,919	17,195	21,300	26,000
EBITDA	2,584	2,308	3,019	3,654	4,343
Operating profit	1,705	1,386	1,977	2,450	2,990
Net profit (rep./act.)	1,396	1,497	1,639	1,987	2,405
Net profit (adj.)	1,427	1,081	1,639	1,987	2,405
EPS (fen)	121.3	129.9	142.3	172.6	208.8
PE (x)	13.3	12.4	11.3	9.3	7.7
P/B (x)	1.4	1.3	1.3	1.2	1.1
EV/EBITDA (x)	7.1	7.9	6.0	5.0	4.2
Dividend yield (%)	3.0	3.2	3.5	4.3	5.1
Net margin (%)	11.4	7.8	9.5	9.3	9.2
Net debt/(cash) to equity (%)	3.4	10.3	20.4	28.0	32.7
Interest cover (x)	215.4	(63.9)	59.2	26.3	21.0
ROE (%)	9.8	7.0	9.9	11.2	12.5
Consensus net profit	-	-	1,576	1,987	2,508
UOBKH/Consensus (x)	-	-	1.04	1.00	0.96

Source: Minth, Bloomberg, UOB Kay Hian

- **Over one-third of new order intakes come from innovative products** such as active grille shutters, roller shutters, plastic tailgates, illuminated grilles, illuminated grilles, illuminated logos, radomes and structural aluminium parts.

- **Structural parts business emerging as new growth driver.** These new products include bumper beam, cross bar for radar, front sub-frame, skateboard chassis, which coupled with battery housings/casings, form the integrated architecture of an EV. They are manufactured with composite materials (eg high-strength aluminium) by die-casting, extrusion and welding, and a higher level of technical knowledge is required. Minth is the only manufacturer in China that attained the crash resistance level of 250MPa/280MPa for its aluminium structural parts products, and the company targets 300-320MPa and even higher levels of crash resistance. For this business, Minth has secured orders from OEMs such as Daimler, BMW, Audi, VW, Ford and Li Auto for both internal combustion engine (ICE)-cars and EVs. Minth has booked Rmb1b in orders for these products as of end-21, which will start to bring in revenue by 2023.

- **Gross margin set to improve from 2H22.** Minth's 1H22 gross margin should have been pressured by Russia's invasion of Ukraine, which elevated aluminium prices, and the lockdowns in China, which caused production halts from late-March till late-April (ie lower capacity utilisation).

  On the other hand, 1H22 gross margin was underpinned by a couple of factors such as product price adjustment at the beginning of 2022 and the accumulation of low-cost aluminium at end-21. Since 2022, Minth has reached agreements with customers on sharing pressure from extra cost hikes, and raised product prices at the beginning of the year. Besides, Minth accumulated low-cost aluminium inventories (priced at below Rmb20,000/tonne) at end-21, which covered the usage in 1Q22. In 2H22, gross margin will be boosted by the recovery of capacity utilisation along with production ramp-up and declines in steel and aluminium costs (which jointly made up 23% of total COGS and 9.6% of total revenue in 2021). Steel and aluminium prices in China dropped 24% and 13% respectively from the recent peaks of over Rmb7,000/tonne in May 21 and Rmb23,450/tonne in Mar 22 to Rmb5,400/tonne and Rmb20,500/tonne currently. Shanghai Containerised Freight Index also tumbled 17% from its peak in Jan 22 till now, and freight cost constituted 24% of SG&A and 3.5% of total revenue in 2021.

STOCK IMPACT

- **We maintain revenue estimates for 2022-24 at Rmb17.195b/Rmb21.3b/Rmb26b respectively,** implying a three-year CAGR of 23%.

- **We maintain 2022-24 gross margin assumptions at 29%,** lower than 29.3%/31.9% in 2021 and higher than 31.9%/27% in 1H21/2H21. On a semi-annual basis, we expect gross margin to remain flat hoh at 27% in 1H22 and rebound to 30.6% in 2H22.

EARNINGS REVISIONS/RISKS

- **We maintain our 2022-24 net profit forecasts at Rmb1,639m/Rmb1,987m/ Rmb2,405m respectively.** Our 2022-24 earnings estimates are roughly in line with consensus, and they imply 17% CAGR over the next three years.

RECOMMENDATION

- **Maintain BUY and target price of HK$30.00,** based on 18x 2022F PE (on a par with historical mean one-year forward PE). Minth is attractively trading at 11x 2022F PE, 2SD below historical mean one-year forward PE. We believe the current consensus earnings estimates and valuations should have factored in the 1H22 earnings impacts of the lockdowns but not the earnings recovery from 2H22, and this creates an attractive entry point for long-term value investors.

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