

COMPANY RESULTS

Minth Group (425 HK)

1H23: Earnings Beat On Lower SG&A; Raise Target Price To HK\$33.00

Minth's 1H23 net profit grew 35% yoy and 5% hoh to Rmb887m, 11% above our estimate and in line with consensus. The 1H23 earnings beat came from lower SG&A expenses. Looking ahead, management is guiding for 2023 revenue growth at not less than 20% but does not rule out above-guidance growth. The growth drivers will be orders for battery housing and other EV-related parts. We lift our 2023-25 EPS estimates by 8-10%. **Maintain BUY. Raise target price from HK\$27.00 to HK\$33.00.**

1H23 RESULTS

Year to 31 Dec (Rmb)	1H22	2H22	1H23	yoy % chg	hoh % chg
Revenue	7,252	10,054	9,747	34.4	(3.1)
Gross profit	2,114	2,670	2,563	21.2	(4.0)
Gross margin (%)	29.1	26.6	26.3	(2.9)	(0.3)
EBIT	934	1,098	1,287	37.8	17.2
EBIT margin (%)	12.9	10.9	13.2	0.3	2.3
Net profit	658	843	887	34.9	5.3
Net profit (adj)	637	857	884	38.8	3.2
Net margin (%)	8.8	8.5	9.1	0.3	0.5
Operating cash flow	357	1,498	1,597	346.9	6.6
Free cash flow	(1,346)	(1,061)	(417)	(69.0)	(60.7)

Source: Minth, UOB Kay Hian

RESULTS

- 1H23 earnings up 35% yoy and 5% hoh, above our estimate and in line with consensus.** Minth posted 1H23 net profit of Rmb887m (+35% yoy, +5% hoh), representing 50% of our estimated FY23 net profit of Rmb1.78b and 45% of consensus' FY23 net profit of Rmb1.96b.
- Revenue grew 34% yoy and fell 3% hoh to Rmb9.75b in 1H23, in line with expectations,** compared to our estimated FY23 revenue of Rmb21.3b (+23% yoy) and consensus' FY23 revenue estimate of Rmb21.13b (+22% yoy).
- Gross margin dropped 2.9ppt yoy/0.3ppt hoh to 26.3% in 1H23, compared with our FY23 gross margin assumption of 26.6%.** The gross margin contraction in 1H23 was due to the production ramp-up of Minth's plastic part plant in the US and aluminium chassis structural parts, which respectively boasted gross margins of 6-7ppt and +20ppt below the overall gross margin.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	13,919	17,306	21,300	26,000	31,000
EBITDA	3,009	3,153	3,892	4,533	5,199
Operating profit	2,087	2,032	2,593	3,074	3,631
Net profit (rep./act.)	1,497	1,501	1,928	2,317	2,768
Net profit (adj.)	1,078	1,494	1,928	2,317	2,768
EPS (fen)	137.1	133.0	169.4	203.5	243.1
PE (x)	14.5	14.9	11.7	9.8	8.2
P/B (x)	1.4	1.4	1.3	1.2	1.1
EV/EBITDA (x)	9.3	8.9	7.2	6.2	5.4
Dividend yield (%)	2.7	2.9	2.9	2.9	2.9
Net margin (%)	7.7	8.6	9.1	8.9	8.9
Net debt/(cash) to equity (%)	4.5	17.9	27.4	31.2	29.1
Interest cover (x)	7.9	7.7	8.7	9.5	10.4
ROE (%)	7.0	9.1	11.0	12.2	13.3
Consensus net profit	-	-	1,956	2,482	2,961
UOBKH/Consensus (x)	-	-	0.99	0.93	0.93

Source: Minth, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$21.85
Target Price	HK\$33.00
Upside	+51.0%
(Previous TP)	HK\$27.00

COMPANY DESCRIPTION

Minth Group manufactures body structural parts, decorative parts and trims of automobiles, and supplies to international automakers.

STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	425 HK
Shares issued (m):	1,162
Market cap (HK\$m):	25,386
Market cap (US\$m):	3,276
3-mth avg daily t'over (US\$m):	5.4

Price Performance (%)

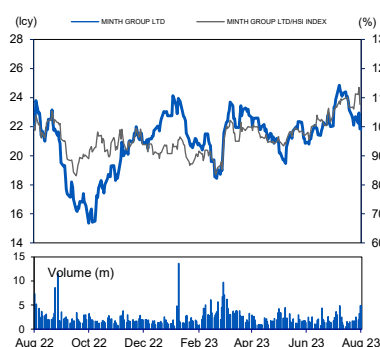
52-week high/low HK\$25.40/HK\$15.10

1mth	3mth	6mth	1yr	YTD
(0.7)	3.8	5.3	10.2	3.3

Major Shareholders

	%
Chin Jong Hwa	38.74
-	-
-	-
FY23 NAV/Share (HK\$)	17.11
FY23 Net Cash/Share (HK\$)	4.72

PRICE CHART



Source: Bloomberg

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- **The 2H22 earnings beat to our estimate lie in lower SG&A expenses.** SG&A expenses as a percentage of revenue dropped by 3.7ppt yoy/1.4ppt hoh to 10.1% in 1H23, while R&D expenses as a percentage of revenue also dipped by 0.7ppt yoy/0.3ppt hoh to 6.3% in 1H23. As such, EBIT margin hiked by 0.3ppt yoy/2.3ppt hoh to 13.2% in 1H23, despite the dip in gross margin.

STOCK IMPACT

- **We maintain our estimates on 2023-25 revenue at Rmb21.3b/Rmb26.0b/Rmb31.0b, implying 21% CAGR.** Despite the 34% revenue growth in 1H23, management maintained its guidance of not less than 20% revenue growth for 2023 but does not rule out above-guidance revenue growth. In the long term, management is guiding for Rmb30b-35b in revenue in 2025, implying 20-26% CAGR from 2022-25.

New business intake rebounded 10% hoh to Rmb6.9b, albeit still 26% below the same period last year. This boosted order backlog by 3% from Rmb199b as of 31 Dec 22 to Rmb205b as of 30 Jun 23. The average per-vehicle value-add of Minth's products will probably grow by at least 18% to over Rmb600 in 2023.

The prospective robust revenue growth will be driven by the electric vehicle (EV)-related products, including battery housing, aluminium chassis structural parts based on battery housing, intelligent exteriors, and other parts and components for EVs. For the battery housing segment, management maintains revenue guidance at Rmb3.5b-4.0b for 2023 and Rmb10.0b for 2025, representing 17-19% and 29-33% of total revenue respectively. Taking into account battery housing and others, EV-related products will likely contribute 42% of Minth's total revenue in 2023, up from 28% in 2022, and the number will probably exceed 60% in 2025.

When it comes to customer base, Minth has secured orders for battery housing and other EV parts from leading EV companies, including BYD, Tesla, Nio, XPeng, Lucid, and big conventional carmakers like Volkswagen, Stellantis, BMW, Mercedes, Volvo, General Motors, Ford, Nissan and Honda.

In addition to EV-related products, management mentioned during the conference call that Minth is developing three new business lines – wireless charging, household energy storage and hydrogen energy equipment.

- **We maintain 2023-25 gross margin assumptions at 26.6%/26.6%/26.6%,** vs 26.3% in 1H23. We expect Minth's gross margin to rebound in 2H23 with the further production ramp-up of the US plastic part plant and aluminium chassis structural parts. In the longer term, Minth is targeting 28-30% in overall gross margin and over 25% in gross margin for battery housing in 2025, vs 26.3% and 17.9% in 1H23.
- **We cut SG&A/revenue ratio for 2023-25 from 11.5% to 10.0%,** based on the lower-than-expected expense ratio in 1H23 and the sustained cost saving initiatives. Minth indicated that SG&A/revenue ratio will likely decrease by 2-3ppt yoy in 2023 to 2022's level of 12.5%.

EARNINGS REVISIONS/RISKS

- **We lift our 2023-25 net profit forecasts by 8-10% to Rmb1,928/Rmb2,317m/Rmb2,768m respectively,** based on lower expense ratio. Our 2023-25 earnings estimates imply 23% CAGR over the next three years.

VALUATION/RECOMMENDATION

- **Maintain BUY and raise target price from HK\$27.00 to HK\$33.00,** as we roll over 15x target PE multiple (on a par with historic mean one-year forward PE) from 2023 to 2024 and lift 2024F EPS by 9%.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	17,306	21,300	26,000	31,000
EBITDA	3,153	3,892	4,533	5,199
Depreciation & amortization	(1,121)	(1,298)	(1,459)	(1,568)
EBIT	2,032	2,593	3,074	3,631
Total other non-operating income	-	-	-	-
Associate contributions	10	20	30	40
Net interest income/(expense)	(263)	(298)	(323)	(348)
Pre-tax profit	1,779	2,315	2,781	3,323
Tax	(249)	(347)	(417)	(498)
Minorities	(30)	(39)	(47)	(56)
Net profit	1,501	1,928	2,317	2,768
Net profit (recurrent)	1,501	1,928	2,317	2,768

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	(3,037)	(3,395)	(2,934)	(2,430)
Pre-tax profit	1,779	2,315	2,781	3,323
Tax	(270)	(347)	(417)	(498)
Depreciation/amortization	1,121	1,298	1,459	1,568
Associates	(10)	(20)	(30)	(40)
Working capital changes	(1,190)	(900)	(1,171)	(1,246)
Non-cash items	(4,467)	(5,741)	(5,555)	(5,536)
Other operating cashflows	-	-	-	-
Investing	(3,037)	(3,395)	(2,934)	(2,430)
Capex (growth)	(3,432)	(3,630)	(3,130)	(2,630)
Investments	368	235	196	200
Proceeds from sale of assets	27	-	-	-
Others	-	-	-	-
Financing	(125)	(35)	(513)	(43)
Dividend payments	(616)	(672)	(673)	(674)
Issue of shares	8	-	-	-
Proceeds from borrowings	27,551	28,500	29,000	30,000
Loan repayment	(26,907)	(27,551)	(28,500)	(29,000)
Others/interest paid	(161)	(312)	(340)	(369)
Net cash inflow (outflow)	(1,306)	(1,014)	(690)	792
Beginning cash & cash	5,492	4,221	3,207	2,516
Change due to forex impact	35	-	-	-
Ending cash & cash equivalent	4,221	3,207	2,516	3,309

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	13,435	15,727	17,356	18,375
Other LT assets	3,844	3,898	3,961	4,034
Cash/ST investment	4,221	3,207	2,516	3,309
Other current assets	11,774	14,190	16,968	19,923
Total assets	33,274	37,021	40,802	45,641
ST debt	7,211	8,161	8,661	9,661
Other current liabilities	6,102	7,619	9,225	10,935
LT debt	1,087	1,087	1,087	1,087
Other LT liabilities	1,175	1,175	1,175	1,175
Shareholders' equity	16,918	18,174	19,818	21,912
Minority interest	780	806	836	872
Total liabilities & equity	33,274	37,021	40,802	45,641

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	18.2	18.3	17.4	16.8
Pre-tax margin	10.3	10.9	10.7	10.7
Net margin	8.6	9.1	8.9	8.9
ROA	4.7	5.5	6.0	6.4
ROE	9.1	11.0	12.2	13.3
Growth				
Turnover	24.3	23.1	22.1	19.2
EBITDA	4.8	23.4	16.5	14.7
Pre-tax profit	(3.6)	30.1	20.1	19.5
Net profit	0.3	28.5	20.1	19.5
Net profit (adj.)	38.6	29.0	20.1	19.5
EPS	(3.1)	27.4	20.1	19.5
Leverage				
Debt to total capital	24.9	25.0	23.9	23.5
Debt to equity	49.1	50.9	49.2	49.0
Net debt/(cash) to equity	17.9	27.4	31.2	29.1
Interest cover (x)	7.7	8.7	9.5	10.4

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