

# Minth Group (425 HK)

## In-line 1H24 with better earnings visibility ahead

**Maintain BUY.** Minth's 1H24 net profit was in line with our forecast, coupled with strong free cash flow to cut its net debt level. The company plans to buy back shares and resume dividend distribution for FY24. That could make its dividend yield attractive given its current low valuation. Moreover, Minth's earnings visibility becomes even better with its capex cuts and new business expansion, in our view.

■ **1H24 earnings in line with improving operational efficiency.** Minth's 1H24 revenue was 1% lower than our prior forecast while its gross margin of 28.5% beat our estimates by 1.2ppts. The beat at the gross profit level was offset by higher selling expenses than expected. That resulted in a net profit of RMB1.1bn in 1H24, or 0.2% lower than our prior forecast. Moreover, Minth's net debt level fell RMB0.9mn HoH to RMB3.3bn as of Jun 2024, reflecting its strong operating cash flow and self-disciplined capex.

■ **Dividends, capex and new businesses as key topics.** Management is optimistic about achieving 20% YoY growth in net profit in 2H24, which probably gives management confidence in resuming dividend distribution for FY24 even with a share buyback plan. Should the company maintain its previous 40% payout ratio, the current dividend yield would be 7.8%. The company cut its FY24 capex guidance from RMB2.5-3.5bn to below RMB2.5bn, as it has been better utilizing its existing production lines, which gives us more confident about its earnings growth in the medium term, especially for the battery housing business. The company has also been accelerating new businesses by leveraging current resources, such as sub-frame, door sealing system and integrated intelligent exteriors. All these factors look positive to us.

■ **Earnings/Valuation.** We revise up our FY24E net profit estimates by 3% to RMB2.3bn, as we raise gross margin assumption by 0.8ppts following its 1H24 beat. We also raise our FY25-26E net profit estimates by 4% and 3%, respectively, largely due to better margin outlook. We maintain our BUY rating and target price of HK\$21.00, which is still based on 10x our revised FY24E EPS. Key risks to our rating and target price include lower revenue/margins, higher risks in overseas operation than we expect, as well as a sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	17,306	20,524	24,391	27,964	31,635
YoY growth (%)	24.3	18.6	18.8	14.6	13.1
Net profit (RMB mn)	1,500.6	1,903.2	2,324.7	2,662.1	2,982.2
YoY growth (%)	0.3	26.8	22.1	14.5	12.0
EPS (Reported) (RMB)	1.30	1.65	2.02	2.31	2.58
P/E (x)	8.0	6.3	5.2	4.5	4.0
P/B (x)	0.7	0.7	0.6	0.5	0.5
Yield (%)	5.1	0.0	7.8	8.9	9.9
ROE (%)	9.1	10.8	11.9	12.3	12.6
Net gearing (%)	17.3	17.6	10.9	8.3	5.4

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** HK\$21.00  
**Up/Downside** 84.5%  
**Current Price** HK\$11.38

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#### Stock Data

Mkt Cap (HK\$ mn) 13,223.5  
 Avg 3 mths t/o (HK\$ mn) 42.8  
 52w High/Low (HK\$) 23.25/9.98  
 Total Issued Shares (mn) 1162.0

Source: FactSet

#### Shareholding Structure

Chin Jong-Hwa's family 38.8%  
 Invesco Asset Management 6.1%

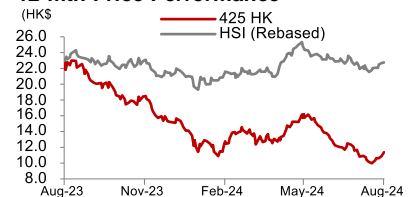
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-2.6%	-2.6%
3-mth	-29.7%	-23.5%
6-mth	-10.8%	-15.4%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

#### Related Report

["Minth Group \(425 HK\) - Overseas foundation to withstand trade risks" - 16 Jul 2024](#)

Figure 1: Interim results

RMB mn	1H22	2H22	1H23	2H23	1H24	YoY	HoH
Revenue	7,252	10,054	9,747	10,776	11,090	13.8%	2.9%
Gross profit	2,114	2,670	2,563	3,059	3,162	23.4%	3.3%
Selling expenses	(450)	(418)	(360)	(432)	(531)	47.6%	22.9%
Admin expenses	(551)	(741)	(623)	(826)	(743)	19.2%	-10.2%
R&D expenses	(507)	(665)	(616)	(781)	(715)	16.1%	-8.5%
Operating profit	672	909	1,017	1,100	1,380	35.6%	25.5%
Net profit	658	843	887	1,016	1,068	20.4%	5.1%
Gross margin	29.1%	26.6%	26.3%	28.4%	28.5%	2.2 ppt	0.1 ppt
Operating margin	9.3%	9.0%	10.4%	10.2%	12.4%	2.0 ppt	2.2 ppt
Net margin	9.1%	8.4%	9.1%	9.4%	9.6%	0.5 ppt	0.2 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	24,391	27,964	31,635	24,318	27,896	31,582	0.3%	0.2%	0.2%
Gross profit	6,837	7,767	8,691	6,614	7,545	8,456	3.4%	2.9%	2.8%
Operating profit	2,715	3,180	3,617	2,640	3,080	3,533	2.9%	3.2%	2.4%
Net profit	2,325	2,662	2,982	2,249	2,554	2,886	3.4%	4.2%	3.3%
Gross margin	28.0%	27.8%	27.5%	27.2%	27.0%	26.8%	0.8 ppt	0.7 ppt	0.7 ppt
Operating margin	11.1%	11.4%	11.4%	10.9%	11.0%	11.2%	0.3 ppt	0.3 ppt	0.2 ppt
Net margin	9.5%	9.5%	9.4%	9.2%	9.2%	9.1%	0.3 ppt	0.4 ppt	0.3 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	24,391	27,964	31,635	24,769	29,191	33,552	-1.5%	-4.2%	-5.7%
Gross Profit	6,837	7,767	8,691	6,796	8,042	9,258	0.6%	-3.4%	-6.1%
Operating Profit	2,715	3,180	3,617	2,954	3,481	3,970	-8.1%	-8.7%	-8.9%
Net profit	2,325	2,662	2,982	2,274	2,744	3,144	2.2%	-3.0%	-5.2%
Gross Margin	28.0%	27.8%	27.5%	27.4%	27.5%	27.6%	0.6 ppt	0.2 ppt	-0.1 ppt
Operating Margin	11.1%	11.4%	11.4%	11.9%	11.9%	11.8%	-0.8 ppt	-0.6 ppt	-0.4 ppt
Net Margin	9.5%	9.5%	9.4%	9.2%	9.4%	9.4%	0.4 ppt	0.1 ppt	0.1 ppt

Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>13,919</b>	<b>17,306</b>	<b>20,524</b>	<b>24,391</b>	<b>27,964</b>	<b>31,635</b>
Cost of goods sold	(9,835)	(12,522)	(14,902)	(17,554)	(20,197)	(22,945)
<b>Gross profit</b>	<b>4,084</b>	<b>4,784</b>	<b>5,622</b>	<b>6,837</b>	<b>7,767</b>	<b>8,691</b>
<b>Operating expenses</b>	<b>(2,840)</b>	<b>(3,203)</b>	<b>(3,505)</b>	<b>(4,121)</b>	<b>(4,587)</b>	<b>(5,074)</b>
Selling expense	(744)	(868)	(792)	(1,017)	(1,102)	(1,200)
Admin expense	(1,237)	(1,292)	(1,449)	(1,646)	(1,827)	(1,989)
R&D expense	(941)	(1,172)	(1,397)	(1,585)	(1,790)	(2,025)
Others	82	130	133	127	132	140
<b>Operating profit</b>	<b>1,243</b>	<b>1,581</b>	<b>2,117</b>	<b>2,715</b>	<b>3,180</b>	<b>3,617</b>
Other income	143	186	281	260	260	260
Investment gain/loss	285	286	356	392	357	358
Other gains/(losses)	416	(21)	61	(30)	(37)	(32)
Share of (losses)/profits of associates/JV	22	10	16	21	33	43
<b>EBITDA</b>	<b>3,031</b>	<b>3,163</b>	<b>4,225</b>	<b>4,903</b>	<b>5,489</b>	<b>6,102</b>
Depreciation	847	1,038	1,302	1,445	1,588	1,739
Depreciation of ROU assets	46	46	47	51	53	55
Other amortisation	29	37	45	49	56	62
<b>EBIT</b>	<b>2,109</b>	<b>2,042</b>	<b>2,831</b>	<b>3,358</b>	<b>3,792</b>	<b>4,246</b>
Interest expense	(263)	(263)	(515)	(523)	(447)	(404)
Foreign exchange gain/loss	(53)	34	8	20	20	20
<b>Pre-tax profit</b>	<b>1,846</b>	<b>1,779</b>	<b>2,315</b>	<b>2,835</b>	<b>3,346</b>	<b>3,841</b>
Income tax	(266)	(249)	(351)	(439)	(602)	(768)
<b>After tax profit</b>	<b>1,579</b>	<b>1,530</b>	<b>1,964</b>	<b>2,396</b>	<b>2,743</b>	<b>3,073</b>
Minority interest	(83)	(30)	(61)	(71)	(81)	(91)
<b>Net profit</b>	<b>1,497</b>	<b>1,501</b>	<b>1,903</b>	<b>2,325</b>	<b>2,662</b>	<b>2,982</b>
Gross dividends	622	609	0	930	1,065	1,193

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>14,991</b>	<b>15,995</b>	<b>17,493</b>	<b>18,765</b>	<b>20,934</b>	<b>22,974</b>
Cash & equivalents	5,492	4,221	4,165	4,047	4,513	4,756
Restricted cash	1,046	1,055	1,840	1,800	1,700	1,700
Account receivables	5,130	6,541	6,610	7,664	8,786	9,940
Inventories	2,961	3,633	3,982	4,556	5,187	5,830
Prepayment	0	0	0	0	0	0
Other current assets	363	545	895	698	748	748
<b>Non-current assets</b>	<b>14,654</b>	<b>17,279</b>	<b>20,054</b>	<b>20,614</b>	<b>21,799</b>	<b>22,520</b>
PP&E	11,623	13,435	15,476	16,228	17,015	17,737
Right-of-use assets	1,043	1,083	1,058	1,056	1,053	1,048
Deferred income tax	204	270	419	419	419	419
Investment in JVs & assos	318	394	407	424	447	475
Intangibles	75	113	112	113	107	95
Goodwill	98	98	98	98	98	98
Financial assets at FVTPL	0	28	30	47	62	77
Other non-current assets	1,293	1,858	2,454	2,230	2,598	2,571
<b>Total assets</b>	<b>29,645</b>	<b>33,274</b>	<b>37,547</b>	<b>39,379</b>	<b>42,733</b>	<b>45,493</b>
<b>Current liabilities</b>	<b>9,377</b>	<b>13,314</b>	<b>14,117</b>	<b>14,065</b>	<b>16,067</b>	<b>16,884</b>
Short-term borrowings	4,888	7,192	5,851	5,467	6,159	5,660
Account payables	4,334	5,942	7,144	8,249	9,657	10,971
Tax payable	134	157	226	226	226	226
Other current liabilities	2	4	876	102	2	2
Lease liabilities	20	19	20	21	23	25
<b>Non-current liabilities</b>	<b>3,712</b>	<b>2,262</b>	<b>4,290</b>	<b>3,701</b>	<b>3,219</b>	<b>3,227</b>
Long-term borrowings	2,255	1,006	3,837	3,337	2,837	2,837
Deferred income	205	27	45	50	60	60
Other non-current liabilities	1,252	1,229	409	314	322	330
<b>Total liabilities</b>	<b>13,089</b>	<b>15,576</b>	<b>18,407</b>	<b>17,766</b>	<b>19,286</b>	<b>20,111</b>
Share capital	116	116	116	116	117	117
Other reserves	15,907	16,801	18,202	20,604	22,495	24,552
<b>Total shareholders equity</b>	<b>16,023</b>	<b>16,918</b>	<b>18,318</b>	<b>20,720</b>	<b>22,612</b>	<b>24,670</b>
Minority interest	533	780	821	893	834	712
<b>Total equity and liabilities</b>	<b>29,645</b>	<b>33,274</b>	<b>37,547</b>	<b>39,379</b>	<b>42,733</b>	<b>45,493</b>

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,846	1,779	2,315	2,835	3,346	3,841
Depreciation & amortization	922	1,121	1,394	1,545	1,697	1,857
Tax paid	(227)	(270)	(390)	(439)	(602)	(768)
Change in working capital	(622)	(1,190)	(399)	120	(591)	(685)
Others	(597)	415	446	195	154	75
<b>Net cash from operations</b>	<b>1,322</b>	<b>1,855</b>	<b>3,366</b>	<b>4,256</b>	<b>4,004</b>	<b>4,320</b>
<b>Investing</b>						
Capital expenditure	(3,189)	(3,432)	(3,279)	(2,450)	(2,650)	(2,750)
Acquisition of subsidiaries/ investments	(36)	(71)	(103)	0	0	0
Net proceeds from disposal of short-term investments	510	(16)	120	(12)	(10)	(10)
Others	766	482	(238)	370	467	783
<b>Net cash from investing</b>	<b>(1,950)</b>	<b>(3,037)</b>	<b>(3,500)</b>	<b>(2,092)</b>	<b>(2,193)</b>	<b>(1,977)</b>
<b>Financing</b>						
Dividend paid	(619)	(626)	(744)	0	(1,069)	(1,278)
Net borrowings	902	644	1,202	(885)	192	(499)
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(20)	(47)	0	0	0	0
Others	(113)	(95)	(406)	(1,398)	(467)	(324)
<b>Net cash from financing</b>	<b>149</b>	<b>(125)</b>	<b>52</b>	<b>(2,283)</b>	<b>(1,344)</b>	<b>(2,101)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	6,008	5,492	4,221	4,165	4,047	4,513
Exchange difference	(38)	35	27	0	0	0
<b>Cash at the end of the year</b>	<b>5,492</b>	<b>4,221</b>	<b>4,165</b>	<b>4,047</b>	<b>4,513</b>	<b>4,756</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Revenue	11.7%	24.3%	18.6%	18.8%	14.6%	13.1%
Gross profit	5.8%	17.2%	17.5%	21.6%	13.6%	11.9%
Operating profit	(22.8%)	27.2%	33.9%	28.3%	17.1%	13.7%
EBITDA	8.0%	4.4%	33.6%	16.1%	11.9%	11.2%
EBIT	9.4%	(3.2%)	38.6%	18.6%	12.9%	12.0%
Net profit	7.2%	0.3%	26.8%	22.1%	14.5%	12.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Gross profit margin	29.3%	27.6%	27.4%	28.0%	27.8%	27.5%
Operating margin	8.9%	9.1%	10.3%	11.1%	11.4%	11.4%
EBITDA margin	21.8%	18.3%	20.6%	20.1%	19.6%	19.3%
Return on equity (ROE)	9.7%	9.1%	10.8%	11.9%	12.3%	12.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.0	0.2	0.2	0.1	0.1	0.1
Current ratio (x)	1.6	1.2	1.2	1.3	1.3	1.4
Receivable turnover days	134.5	137.9	117.6	115.0	115.0	115.0
Inventory turnover days	109.9	105.9	97.5	95.0	94.0	93.0
Payable turnover days	160.8	173.2	175.0	172.0	175.0	175.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
P/E	8.0	8.0	6.3	5.2	4.5	4.0
P/E (diluted)	8.1	8.0	6.3	5.2	4.5	4.1
P/B	0.7	0.7	0.7	0.6	0.5	0.5
P/CFPS	9.1	6.5	3.6	2.8	3.0	2.8
Div yield (%)	5.2	5.1	0.0	7.8	8.9	9.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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