

Minth Group (425 HK)

Solid revenue and profit growth could continue

Maintain BUY. We are of the view that Minth's 2H24 earnings were a mixed bag, as revenue missed but GPM beat. However, its improved operational efficiency, reflected by reduced net debt, lower capex and much higher free cash flow, could lay the foundation for future margin improvement and a higher dividend payout ratio. We see ample room for revenue growth in FY25-27E, as battery housing revenue continues to grow fast and new products start to generate meaningful income. Meanwhile, we also expect battery housing margins to further improve in FY25E, as capex winds down.

■ **2H24 revenue miss, GPM beat.** Minth's 2H24 revenue was 9% lower than our prior forecast, dragged by Japanese brands in China. Gross margin of 29.3% in 2H24 (the highest since 2H21) beat our projection by 1.7ppts, aided by battery housing and metal and trim segments. Both operating and net profits in 2H24 were in line with our estimates. Free cash flow rose from RMB131mn in FY23 to RMB1,363mn in FY24.

■ **Ample revenue growth room with improving operational efficiency.** We are still of the view that Minth is better positioned in the global auto parts industry than most peers, despite the rising geopolitical risks. Its battery housing business in FY24, with 13.8% net margin, 32% contribution to net profit and free cash flow of RMB140mn, has proven its importance, despite an EV sales slowdown in Europe. We expect battery housing's margins to further improve in FY25E, as capex winds down. New products including door sealing systems, sub-frames and integrated intelligent exteriors, could further fuel Minth's revenue growth in FY26-27E. Parts manufacturing in humanoid robots and eVTOL may start to contribute meaningful revenue from FY28E onwards.

■ **Earnings/Valuation.** We project Minth's FY25E revenue to rise 13% YoY to RMB26.2bn and GPM to be 28.6% (vs. 28.9% in FY24), as battery housing business continues to grow faster than other segments. We also expect SG&A and R&D combined ratio to narrow by 0.7ppts YoY to 17.2% in FY25E, which would result in a net profit of RMB2.7bn (+17% YoY) on our estimates. We maintain our BUY rating and raise target price from HK\$21.00 to HK\$26.00, based on 10x our FY25E EPS (prior 10x FY24). 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	FY24A	FY25E	FY26E
Revenue (RMB mn)	17,306	20,524	23,147	26,186	29,881
YoY growth (%)	24.3	18.6	12.8	13.1	14.1
Net profit (RMB mn)	1,500.6	1,903.2	2,319.3	2,718.9	3,247.7
YoY growth (%)	0.3	26.8	21.9	17.2	19.5
EPS (Reported) (RMB)	1.30	1.65	2.02	2.37	2.81
P/E (x)	15.4	12.1	9.9	8.5	7.1
P/B (x)	1.4	1.3	1.1	1.0	0.9
Yield (%)	2.6	0.0	2.0	4.7	5.6
ROE (%)	9.1	10.8	12.0	12.6	13.6
Net gearing (%)	17.3	17.6	15.4	6.4	1.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$26.00
(Previous TP)	HK\$21.00)
Up/Downside	20.9%
Current Price	HK\$21.50

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Stock Data

Mkt Cap (HK\$ mn)	24,982.9
Avg 3 mths t/o (HK\$ mn)	181.6
52w High/Low (HK\$)	25.45/9.98
Total Issued Shares (mn)	1162.0

Source: FactSet

Shareholding Structure

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

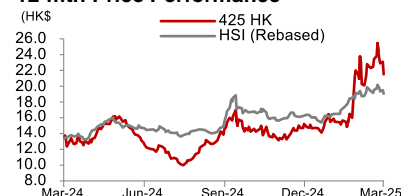
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.6%	1.3%
3-mth	41.3%	21.6%
6-mth	48.9%	22.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Report

["Minth Group \(425 HK\) - In-line 1H24 with better earnings visibility ahead" - 23 Aug 2024](#)

Figure 1: Quarterly results

RMB mn	1H22	2H22	1H23	2H23	1H24	2H24	YoY	QoQ
Revenue	7,252	10,054	9,747	10,776	11,090	12,057	11.9%	8.7%
Gross profit	2,114	2,670	2,563	3,059	3,162	3,536	15.6%	11.9%
Selling expenses	(450)	(418)	(360)	(432)	(531)	(516)	19.5%	-2.8%
Admin expenses	(551)	(741)	(623)	(826)	(743)	(896)	8.4%	20.7%
R&D expenses	(507)	(665)	(616)	(781)	(715)	(735)	-5.9%	2.8%
Operating profit	672	909	1,017	1,100	1,380	1,642	49.3%	19.0%
Net profit	658	843	887	1,016	1,068	1,251	23.1%	17.1%
Gross margin	29.1%	26.6%	26.3%	28.4%	28.5%	29.3%	0.9 ppts	0.8 ppts
Operating margin	9.3%	9.0%	10.4%	10.2%	12.4%	13.6%	3.4 ppts	1.2 ppts
Net margin	9.1%	8.4%	9.1%	9.4%	9.6%	10.4%	0.9 ppts	0.7 ppts

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24A	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	23,147	26,186	29,881	24,391	27,964	31,635	-5.1%	-6.4%	-5.5%
Gross profit	6,698	7,482	8,527	6,837	7,767	8,691	-2.0%	-3.7%	-1.9%
Operating profit	2,762	3,122	3,644	2,715	3,180	3,617	1.7%	-1.8%	0.7%
Net profit	2,319	2,719	3,248	2,325	2,662	2,982	-0.2%	2.1%	8.9%
Gross margin	28.9%	28.6%	28.5%	28.0%	27.8%	27.5%	0.9 ppts	0.8 ppts	1.1 ppts
Operating margin	11.9%	11.9%	12.2%	11.1%	11.4%	11.4%	0.8 ppts	0.6 ppts	0.8 ppts
Net margin	10.0%	10.4%	10.9%	9.5%	9.5%	9.4%	0.5 ppts	0.9 ppts	1.4 ppts

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24A	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	23,147	26,186	29,881	24,156	28,228	32,533	-4.2%	-7.2%	-8.2%
Gross profit	6,698	7,482	8,527	6,767	7,919	9,158	-1.0%	-5.5%	-6.9%
Operating profit	2,762	3,122	3,644	3,025	3,561	4,196	-8.7%	-12.3%	-13.2%
Net profit	2,319	2,719	3,248	2,275	2,718	3,269	1.9%	0.0%	-0.7%
Gross margin	28.9%	28.6%	28.5%	28.0%	28.1%	28.1%	0.9 ppts	0.5 ppts	0.4 ppts
Operating margin	11.9%	11.9%	12.2%	12.5%	12.6%	12.9%	-0.6 ppts	-0.7 ppts	-0.7 ppts
Net margin	10.0%	10.4%	10.9%	9.4%	9.6%	10.0%	0.6 ppts	0.8 ppts	0.8 ppts

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024A	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	13,919	17,306	20,524	23,147	26,186	29,881
Cost of goods sold	(9,835)	(12,522)	(14,902)	(16,449)	(18,704)	(21,353)
Gross profit	4,084	4,784	5,622	6,698	7,482	8,527
Operating expenses	(2,840)	(3,203)	(3,505)	(3,936)	(4,360)	(4,884)
Selling expense	(744)	(868)	(792)	(1,048)	(1,082)	(1,200)
Admin expense	(1,237)	(1,292)	(1,449)	(1,638)	(1,778)	(1,938)
R&D expense	(941)	(1,172)	(1,397)	(1,449)	(1,650)	(1,900)
Others	82	130	133	200	150	155
Operating profit	1,243	1,581	2,117	2,762	3,122	3,644
Other income	143	186	281	260	300	320
Investment gain/loss	285	286	356	325	324	359
Other gains/(losses)	416	(21)	61	(24)	(33)	(29)
Share of (losses)/profits of associates/JV	22	10	16	4	33	43
EBITDA	3,031	3,163	4,225	4,872	5,414	6,134
Depreciation	847	1,038	1,302	1,452	1,564	1,683
Depreciation of ROU assets	46	46	47	45	52	54
Other amortisation	29	37	45	47	53	59
EBIT	2,109	2,042	2,831	3,328	3,745	4,337
Interest expense	(263)	(263)	(515)	(521)	(427)	(373)
Foreign exchange gain/loss	(53)	34	8	31	20	20
Pre-tax profit	1,846	1,779	2,315	2,807	3,319	3,964
Income tax	(266)	(249)	(351)	(431)	(531)	(634)
After tax profit	1,579	1,530	1,964	2,376	2,788	3,330
Minority interest	(83)	(30)	(61)	(56)	(69)	(82)
Net profit	1,497	1,501	1,903	2,319	2,719	3,248
Gross dividends	622	609	0	464	1,088	1,299

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	14,991	15,995	17,493	17,169	20,204	22,244
Cash & equivalents	5,492	4,221	4,165	2,441	4,533	4,787
Restricted cash	1,046	1,055	1,840	1,771	1,700	1,700
Account receivables	5,130	6,541	6,610	7,476	8,228	9,389
Inventories	2,961	3,633	3,982	4,641	4,804	5,426
Prepayment	0	0	0	0	0	0
Other current assets	363	545	895	841	940	942
Non-current assets	14,654	17,279	20,054	21,590	21,621	22,003
PP&E	11,623	13,435	15,476	15,798	15,910	16,289
Right-of-use assets	1,043	1,083	1,058	1,035	1,033	1,029
Deferred income tax	204	270	419	483	483	483
Investment in JVs & assos	318	394	407	384	407	435
Intangibles	75	113	112	92	89	80
Goodwill	98	98	98	98	98	98
Financial assets at FVTPL	0	28	30	1,075	1,088	1,101
Other non-current assets	1,293	1,858	2,454	2,625	2,514	2,488
Total assets	29,645	33,274	37,547	38,759	41,826	44,246
Current liabilities	9,377	13,314	14,117	14,577	15,754	15,986
Short-term borrowings	4,888	7,192	5,851	5,894	6,565	5,529
Account payables	4,334	5,942	7,144	7,423	8,943	10,210
Tax payable	134	157	226	206	206	206
Other current liabilities	2	4	876	1,032	21	21
Lease liabilities	20	19	20	22	19	21
Non-current liabilities	3,712	2,262	4,290	2,923	2,479	2,502
Long-term borrowings	2,255	1,006	3,837	2,525	2,025	2,025
Deferred income	205	27	45	20	60	60
Other non-current liabilities	1,252	1,229	409	378	393	417
Total liabilities	13,089	15,576	18,407	17,500	18,232	18,488
Share capital	116	116	116	116	116	117
Other reserves	15,907	16,801	18,202	20,329	22,664	24,963
Total shareholders equity	16,023	16,918	18,318	20,445	22,780	25,080
Minority interest	533	780	821	814	813	678
Total equity and liabilities	29,645	33,274	37,547	38,759	41,826	44,246

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,846	1,779	2,315	2,807	3,319	3,964
Depreciation & amortization	922	1,121	1,394	1,544	1,669	1,797
Tax paid	(227)	(270)	(390)	(542)	(531)	(634)
Change in working capital	(622)	(1,190)	(399)	(557)	465	(702)
Others	(597)	415	446	319	163	40
Net cash from operations	1,322	1,855	3,366	3,572	5,084	4,464
Investing						
Capital expenditure	(3,189)	(3,432)	(3,279)	(1,993)	(1,950)	(2,350)
Acquisition of subsidiaries/ investments	(36)	(71)	(103)	23	0	0
Net proceeds from disposal of short-term investments	510	(16)	120	(1,221)	(10)	(10)
Others	766	482	(238)	(55)	768	784
Net cash from investing	(1,950)	(3,037)	(3,500)	(3,247)	(1,192)	(1,576)
Financing						
Dividend paid	(619)	(626)	(744)	(270)	(533)	(1,305)
Net borrowings	902	644	1,202	(1,269)	171	(1,036)
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(20)	(47)	0	0	0	0
Others	(113)	(95)	(406)	(544)	(1,438)	(293)
Net cash from financing	149	(125)	52	(2,083)	(1,800)	(2,634)
Net change in cash						
Cash at the beginning of the year	6,008	5,492	4,221	4,165	2,441	4,533
Exchange difference	(38)	35	27	33	0	0
Cash at the end of the year	5,492	4,221	4,165	2,441	4,533	4,787
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	11.7%	24.3%	18.6%	12.8%	13.1%	14.1%
Gross profit	5.8%	17.2%	17.5%	19.1%	11.7%	14.0%
Operating profit	(22.8%)	27.2%	33.9%	30.5%	13.0%	16.7%
EBITDA	8.0%	4.4%	33.6%	15.3%	11.1%	13.3%
EBIT	9.4%	(3.2%)	38.6%	17.6%	12.5%	15.8%
Net profit	7.2%	0.3%	26.8%	21.9%	17.2%	19.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	29.3%	27.6%	27.4%	28.9%	28.6%	28.5%
Operating margin	8.9%	9.1%	10.3%	11.9%	11.9%	12.2%
EBITDA margin	21.8%	18.3%	20.6%	21.0%	20.7%	20.5%
Return on equity (ROE)	9.7%	9.1%	10.8%	12.0%	12.6%	13.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.0	0.2	0.2	0.2	0.1	0.0
Current ratio (x)	1.6	1.2	1.2	1.2	1.3	1.4
Receivable turnover days	134.5	137.9	117.6	117.9	115.0	115.0
Inventory turnover days	109.9	105.9	97.5	103.0	94.0	93.0
Payable turnover days	160.8	173.2	175.0	164.7	175.0	175.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	15.4	15.4	12.1	9.9	8.5	7.1
P/E (diluted)	15.5	15.4	12.1	9.9	8.5	7.1
P/B	1.4	1.4	1.3	1.1	1.0	0.9
P/CFPS	17.5	12.4	6.9	6.4	4.5	5.2
Div yield (%)	2.7	2.6	0.0	2.0	4.7	5.6

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

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