16 Jul 2024

CMB International Global Markets | Equity Research | Initiation

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Minth Group (425 HK)

Overseas foundation to withstand trade risks

Initiate with BUY and TP of HK$21.00. Minth Group (Minth) has been transforming from an exterior decorative parts maker to a more diversified tier-1 supplier with manufacturing capabilities in different materials. We are of the view that investors have probably underestimated Minth's solid overseas foundation which is crucial for the upcoming trade risks, as its valuation has dropped to a historical-low level. We also think battery housing and other new products such as chassis structural parts and intelligent integrated exteriors could lift Minth's dollar content per car in the next few years, which is also an important driver for its profit growth.

- **Solid overseas foundation as revenue and profit driver.** We are of the view that Minth is better positioned than most Chinese parts suppliers in facing potential trade risks amid rising geopolitical tensions. Minth's major overseas plants have all been making money and contributed about 10% of its total net profit in FY23. We estimate overseas net profit could double in FY26E from FY23. We think Minth could be one of the top choices for Chinese automakers when they source parts for local production in Europe.
- **Still room for battery housing business to grow.** Although we expect battery housing price to drop over time, we see huge room for growth at Minth amid global EV market share increases and Minth's potential share gains in the battery housing segment. We expect Minth's battery housing revenue to surge 60%/35%/30% YoY in FY24-26E, higher than our projected global EV sales volume growth. We also expect gross margin for its battery housing to widen steadily as its Serbia and Czech plants ramp up. We believe battery housing is also a stepping stone for Minth to explore chassis related new products and a hedge to its saturated traditional business. More than 10% of battery housing segment revenue in FY23 came from chassis structural parts. Such demand could increase with its offering of products like front cross-members and sub-frames.
- **Earnings/Valuation.** We project Minth's revenue to rise 19%/15%/13% YoY and net profit to increase 18%/14%/13% YoY in FY24-26E. We also expect its net debt to improve and dividend distribution to resume. If the company maintains its previous 40% dividend payout ratio, that could result in a dividend yield of 6.8% based on our FY24E net profit forecast and current share price (as of 15 July 2024). We initiate our coverage of Minth with a BUY rating and target price of HK$21.00, which is based on a 10x FY24E P/E, in line with its average forward 12-month P/E during the past three years. 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	24,318	27,896	31,582
YoY growth (%)	24.3	18.6	18.5	14.7	13.2
Net profit (RMB mn)	1,500.6	1,903.2	2,248.8	2,553.6	2,886.4
YoY growth (%)	0.3	26.8	18.2	13.6	13.0
EPS (Reported) (RMB)	1.30	1.65	1.95	2.22	2.49
P/E (x)	8.8	6.9	5.9	5.2	4.6
P/B (x)	0.8	0.7	0.6	0.6	0.5
Yield (%)	4.6	0.0	6.8	7.7	8.7
ROE (%)	9.1	10.8	11.5	11.8	12.3
Net gearing (%)	17.3	17.6	13.8	12.1	8.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY

Target Price	**HK$21.00**
Up/Downside	**70.2%**
Current Price	**HK$12.34**

China Auto

Ji SHI, CFA
(852) 3761 8728
shiji@cmbi.com.hk

Wenjing DOU, CFA
(852) 6939 4751
douwenjing@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	14,339.0
Avg 3 mths t/o (HK$ mn)	47.5
52w High/Low (HK$)	24.85/10.88
Total Issued Shares (mn)	1162.0

Source: FactSet

Shareholding Structure

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

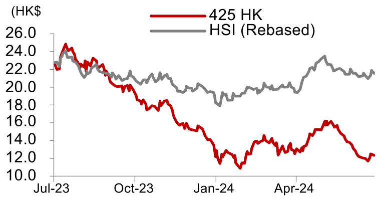
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.1%	-11.5%
3-mth	-4.0%	-11.6%
6-mth	-8.6%	-17.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

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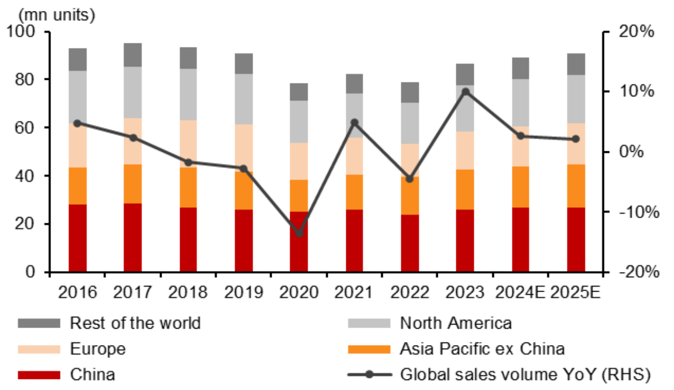
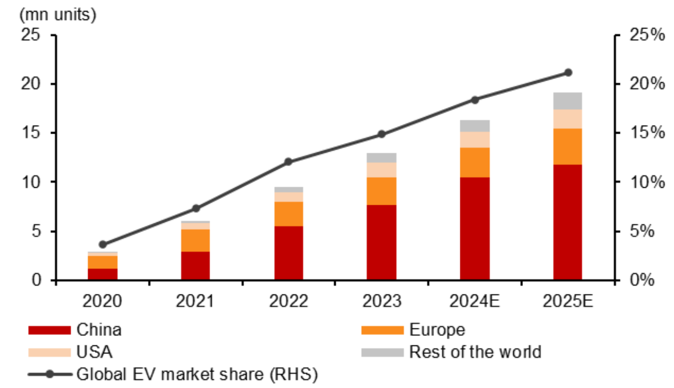


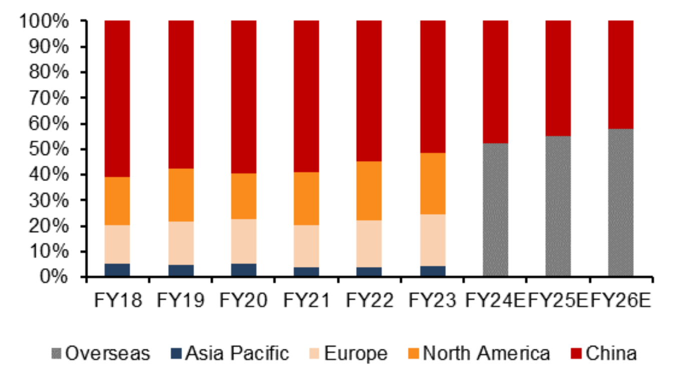
Source: Marklines, China Automotive Technology & Research Center (CATARC), CMBIGM estimates

Figure 2: Global EV sales volume forecast



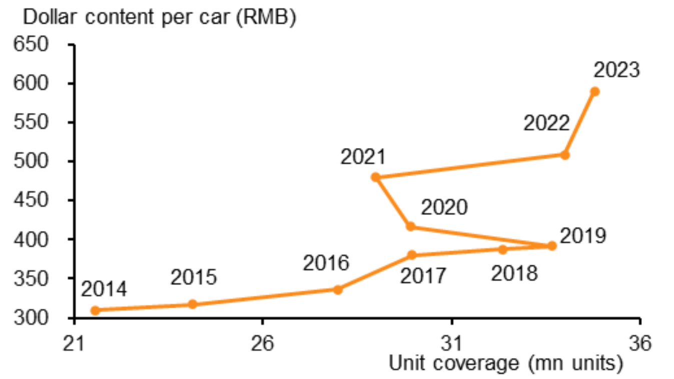
Source: Marklines, CATARC, CMBIGM estimates

Figure 3: Minth's revenue breakdown by region



Source: Company data, CMBIGM estimates

Figure 4: Minth's ASP and units of cars covered



Source: Company data, CMBIGM estimates

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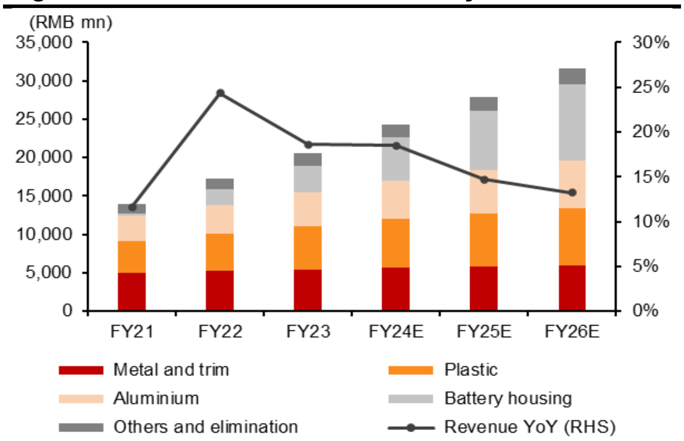
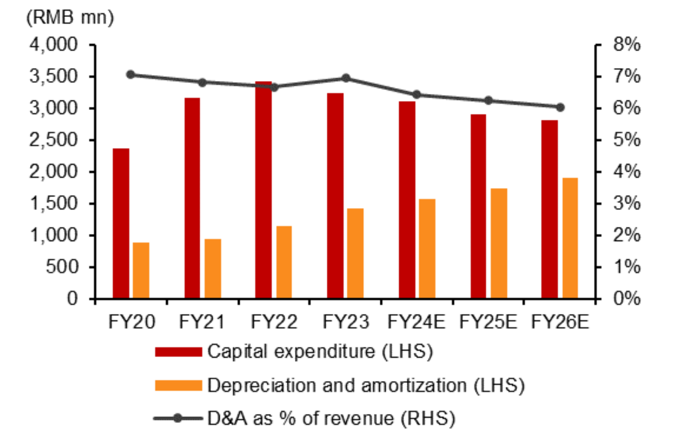


Source: Company data, CMBIGM estimates

Figure 6: Minth's capex and D&A forecasts



Source: Company data, CMBIGM estimates

Company Overview

Founded in 1992, Minth Group has been transforming from an exterior decorative parts (e.g. trims, roof rack and grille) maker to a more diversified tier-1 supplier with multi-material manufacturing capabilities (steel, aluminium and plastics) and global reach. In FY23, China, North America and Europe accounted for 51%, 24% and 20% of Minth's revenue, respectively. Metal and trim, plastics and aluminium accounted for 27%, 27% and 21% of its revenue in FY23. Minth started its battery housing business from 2019, which made up 17% of Minth's total revenue in FY23. It has been expanding body and chassis related parts, such as sub-frames and front rails, by leveraging its battery housing business. In fact, among the battery housing revenue of RMB3.5bn in FY23, more than 10% came from the chassis structural parts. Minth now is a leading player in both exterior parts and battery housing. Its battery housing competitors include Ling Yun Industrials (600480 CH, NR), Huayu Automotive (600741 CH) and Benteler (Not Listed).

We observed that prior to 2020, Minth's revenue growth was fairly correlated with foreign auto brands' sales volume growth in China, as it had a diversified and comprehensive client base in China, including GM, Honda, Nissan-Renault, VW, BMW and Toyota. With overseas expansion and NEV business penetration in the past few years, Minth's revenue forecast has become more complex, in our view. Overseas sales accounted for 49% in FY23, up from 39% in FY18. In FY23, European brands, Japanese brands and American brands accounted for 38%, 26% and 20% of Minth's revenue, respectively.

Investment Thesis

Solid overseas foundation as revenue and profit driver

Minth is one of the earliest Chinese auto parts makers to expand to overseas markets. It acquired Plastic Trim International (PTI) in 2007 to start its business in the US with plastic injection and extrusion. Its Mexico plant started production in 2011, which contributes almost 10% of Minth's total revenue now. Minth's Serbia plant, as an important hub for its Europe business, started production in 2020.

- **Rich overseas experience is Minth's competitive edge as trade risks rise**

Overseas business is usually way more difficult than simple calculations on the paper. It took Minth about eight years to turn profitable in Mexico. We are of the view that the lessons learnt from Mexico have helped its Serbia plant turn profitable in a much shorter time period. Unlike many Chinese auto parts makers which started their overseas businesses in recent years, Minth's almost 20-year overseas experience is its competitive edge, which has become even more important now, as the geopolitical risks rise.

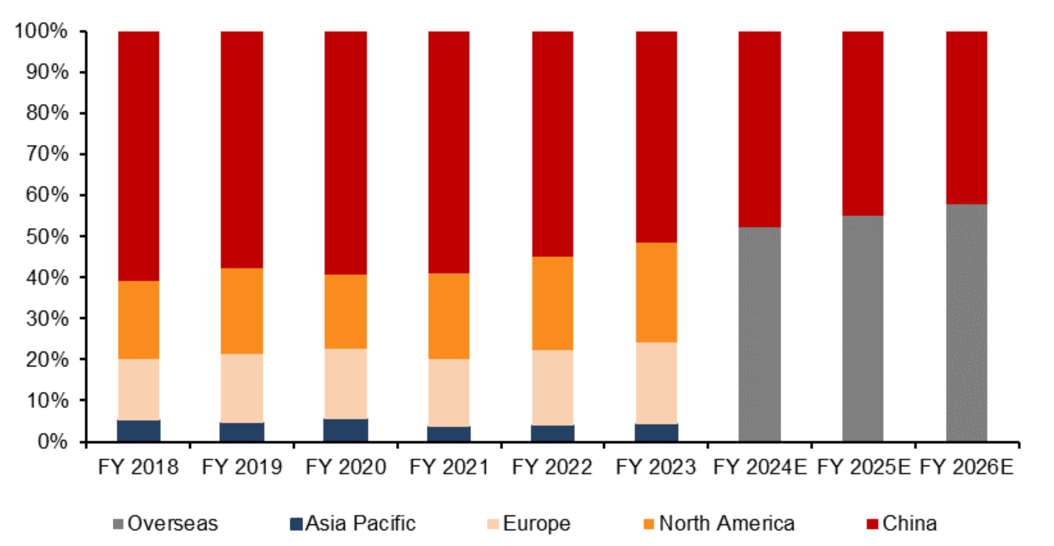
- **Minth could be Chinese OEMs' supplier for EU production in order to bypass tariffs**

The recent tariffs imposed by the EU on EVs produced in China will likely push Chinese automakers to increase local content in order to bypass the additional tariffs of 17.4%-37.6%. For example, Leapmotor (9863 HK, NR) has been in discussions with Stellantis (STLA US, NR) to produce its *T03* EV locally. Zeekr (ZK US, NR) has been exploring the possibility of contract manufacturing in Europe with its European partners. BYD (1211 HK, BUY) has planned a plant in Hungary. It is also likely that the EU would set a minimum threshold of local component sourcing (e.g. 40%) for Chinese automakers if they would like to bypass the tariffs. We believe Minth could be one of the top choices for Chinese automakers in Europe. Its Serbia plant has manufacturing capabilities of aluminium, plastics and battery housing. Minth also has a plant in Czechia.

Although Chinese automakers are unlikely to enter the US market in the next few years amid even higher geopolitical tensions, Minth has a comprehensive global OEM client base in North America. In order to minimize potential trade risks between the US and Mexico, Minth also plans to build a new plant in Canada where the profitability should be better than the US. Nevertheless, Minth's plants in the US are still profitable with low margins. We estimate that Minth's Mexico plant has a gross margin of 30%+ and a net margin of about 10%. That means Mexico could account for about 10% of Minth's net profit in FY23.

We project overseas sales to account for 58% of Minth's revenue in FY26E, up from 49% in FY23, based on the current order backlog. We also estimate overseas net profit to double in FY26E from FY23. Note that our forecasts do not include potential revenue from Chinese automakers' parts sourcing in Europe as mentioned above, as the timeline is still unclear. Should Chinese automakers start local production in Europe at a faster pace to bypass the tariffs and choose Minth as their supplier, it could be a positive catalyst for Minth's share price.

Figure 7: Minth's revenue breakdown by region



Source: Company data, CMBIGM estimates

Battery housing: still huge room for growth in revenue and profit

When Minth started its battery housing business, investors were worried about its margins and uncertainties of the battery housing roadmap. We acknowledge such concerns and we do expect battery-housing prices to drop over time, as battery technologies mature. However, we also believe that battery housing is a stepping stone to explore new businesses and a hedge to its saturated traditional exterior decorative parts business.

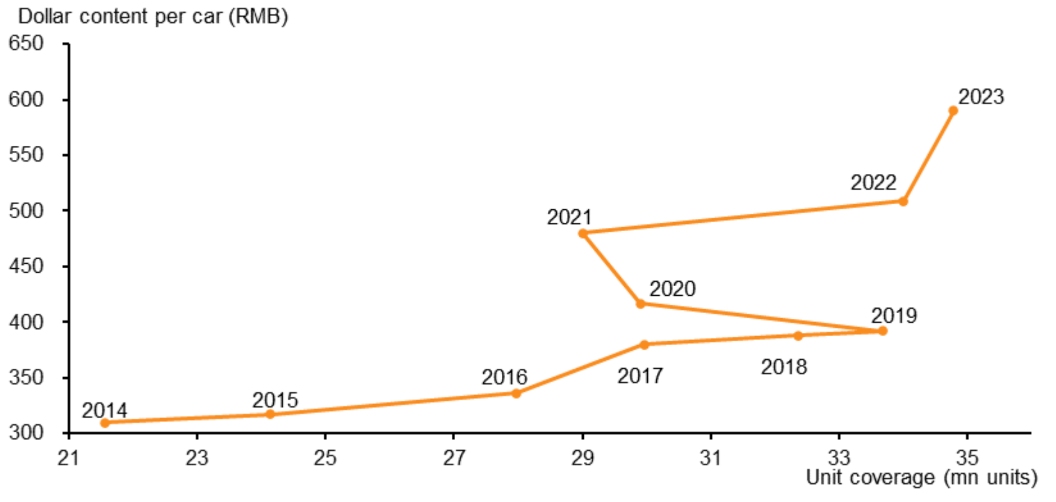
- **We expect battery housing prices to drop but the business not to disappear**

The current battery housing price for battery electric vehicles (BEVs) is about RMB3,000-5,000 and about RMB1,000 for plug-in hybrid electric vehicles (PHEVs), or 1-2% of an EV's bill-of-material (BOM) cost. We expect such prices to decline as the battery structure moves towards cell-to-chassis. However, we believe at least a simple structure to hold batteries is needed in an EV. As global OEMs make up a large portion of Minth's battery housing business, we believe the price decline could be gradual, as global OEMs have a longer life cycle for their existing models.

Meanwhile, Minth has been leveraging its battery housing business to expand to the related chassis structural parts. For example, after obtaining the orders for producing Volkswagen's (VOW GR, NR) battery housing parts on its MEB platform, Minth also produces the front cross-members on the MEB platform. We believe such demand could increase over time even as the battery housing prices drop. In fact, among Minth's battery housing revenue of RMB3.5bn in FY23, more than 10% came from the chassis structural parts.

Despite possible price declines for battery housing in the future, such business has been lifting Minth's dollar content per car, as the dollar content per car for Minth's other businesses is only about RMB400. We calculate that Minth's dollar content per car rose from about RMB390 in FY18 to about RMB590 in FY23, at a CAGR of 11%. We estimate the battery housing to have accounted for at least half of the pricing growth. We expect Minth's dollar content per car to continue rising by a CAGR of 11% during FY24-26E. In other words, battery housing should still be a crucial driver for Minth's revenue growth during FY24-26E.

Figure 8: Minth's revenue breakdown by dollar content per car and unit coverage

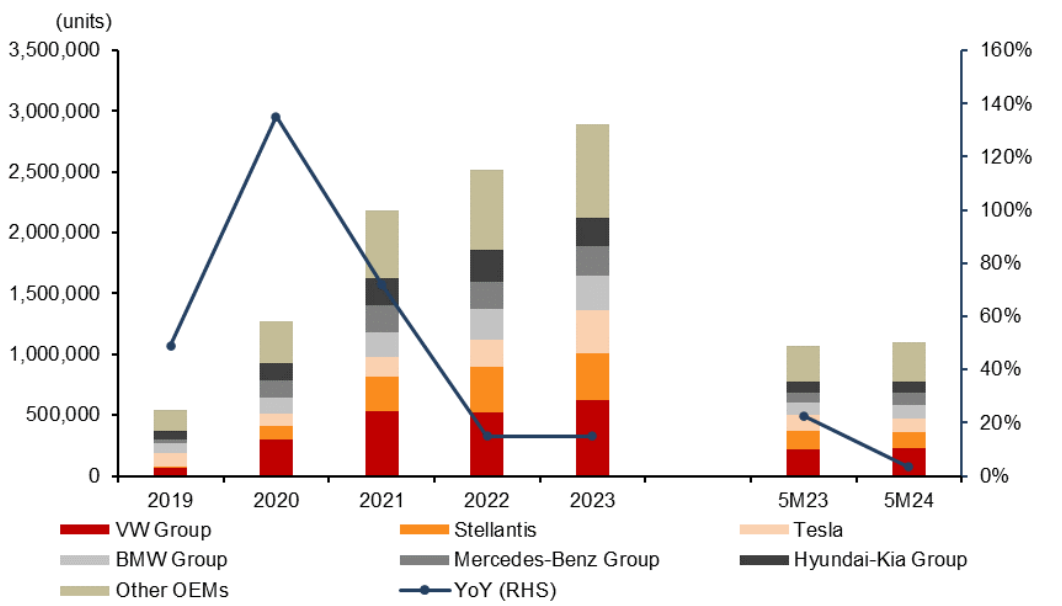


Source: Company data, CMBIGM estimates

- **We expect overseas battery housing revenue to rise faster than China market**

Minth obtained VW's battery housing orders in 2020 and started deliveries in 2022. More than 50% of Minth's battery housing revenue in FY23 was from Europe, with the remaining largely from China. We estimate that VW could account for about 35% of Minth's battery housing revenue in Europe in FY23. Although EV sales volume in Europe was flat YoY in the first five months of 2024, we expect Europe to make up a larger portion of Minth's battery housing revenue in FY24E, as new projects start production.

Figure 9: EV sales volume in Europe



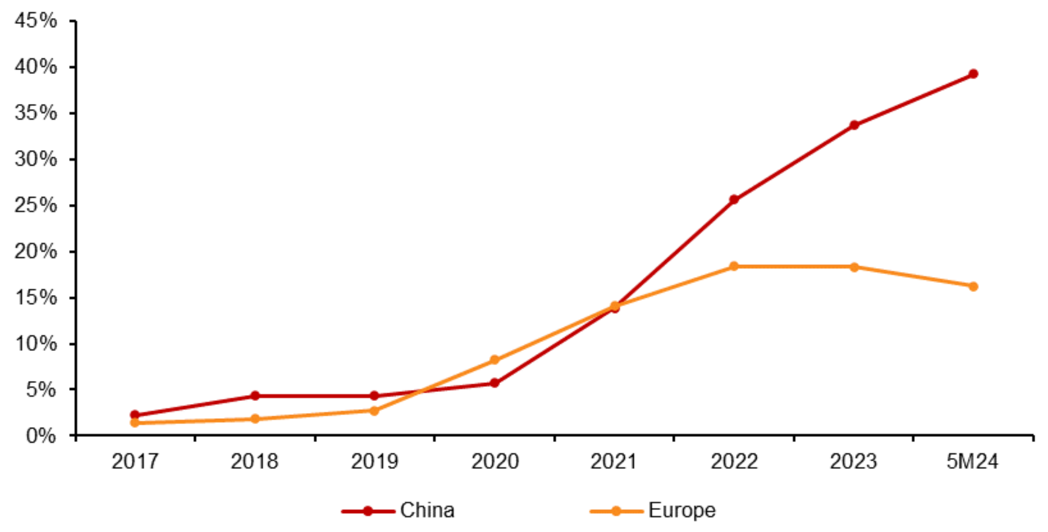
Source: Marklines, CMBIGM

■ Minth's battery housing revenue still has room for growth in Europe and globally

If we assume Minth's average selling price (ASP) of battery housing (including chassis structural parts) in Europe was about RMB3,000 in FY23, the derived unit coverage would be about 0.62mn units, or 21% of total EVs sold in Europe last year. Given the less intense competition in Europe than in China, we are of the view that Minth's battery housing market share could potentially reach 30-35% in Europe in the medium to long term.

More importantly, we believe there is room for EV market share growth in Europe. EV's market share has remained at around 18% in Europe for two years (2022-23). We project such market share to be around 18-19% in 2024 (16% during the first five months of 2024). We had projected Europe's stagnant EV market share growth during 2022-23, as we believe the EV boom in 2020-21 was driven by policies (tightened CO_2 emission standards) and generous subsidies, which was similar to China during 2017-18. PHEVs modified from the internal-combustion engine (ICE) platforms accounted for about 45% of Europe's total EV sales volume in 2020-21. 2024 for Europe's EV market is more like 2020 in China, when the EV sales growth has become healthier after substantial subsidy cuts. Automakers such as BMW and VW plan to roll out the next-generation EVs in 2025-26. That, along with competitive models from Chinese automakers, could lift Europe's EV market share from 2025, in our view.

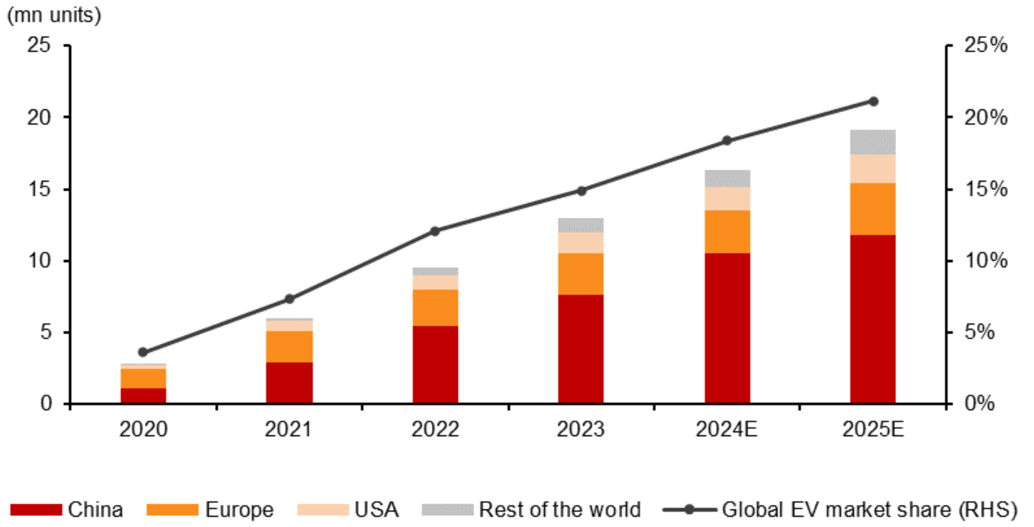
Figure 10: EV market share comparison between Europe and China



Source: Marklines, CATARC, CMBIGM

If we assume Minth's overall battery housing ASP of about RMB2,500 in FY23, the derived unit coverage would be about 1.4mn units, or 11% of global EVs sold. We see potential market share increase for Minth in a global context in the medium to long term. We project global EV market share to rise from 15% in 2023 to 18% in 2024E and 21% in 2025E. That would translate into 26% YoY growth in 2024E and 17% YoY growth in 2025E for global EV sales volume, on our estimates. The EV market share growth, coupled with Minth's potential market share gains in the battery housing business, would lead to high growth for Minth's battery housing revenue in the next few years.

Figure 11: Global EV sales volume and market share forecasts

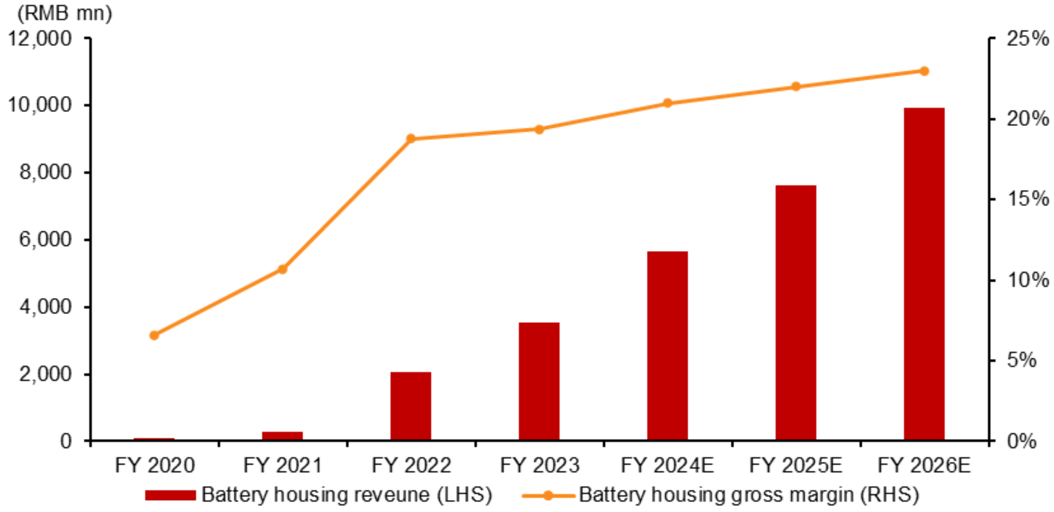


Source: Marklines, CATARC, CMBIGM estimates

We project Minth's battery housing revenue to surge 60% YoY in FY24E, in line with its guidance of 50-60% growth. We expect such growth rates to be 35% and 30% in FY25E and FY26E, respectively.

Minth's battery housing gross margin climbed to 21% in 2H23, with such margin in China reaching 25%. That gives us more confidence about the further margin expansion during FY24-26E when its Serbia and Czech plants ramp up. We project Minth's battery housing gross margin to be 21%, 22% and 23% for FY24-26E, respectively.

Figure 12: Minth's battery housing revenue and margin forecasts

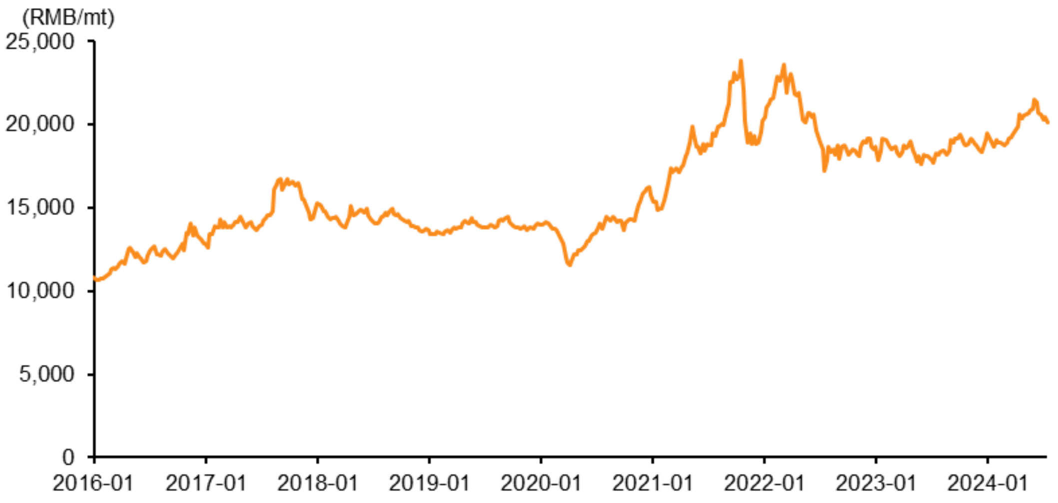


Source: Company data, CMBIGM estimates

Aluminium price hike could be of little impact on Minth's margins

Aluminium business unit (BU) excluding battery housing (which is mainly made of aluminium) also made up about 21% of Minth's total revenue in FY23. Aluminium BU also enjoys the highest gross margin among all the BUs at Minth. As prices of more than 90% of Minth's aluminium products (including aluminium battery housing) are pegged to the raw-material price changes, the recent aluminium price hike could be of little dent on Minth's margins.

Figure 13: Shanghai Futures Exchange aluminium futures contract price



Source: Bloomberg, CMBIGM

We project Minth's revenue of the aluminium BU to rise 15% YoY in FY24E, a higher growth rate than the plastics BU and metal/trim BU amid the lightweighting trend in vehicle electrification. We also project its aluminium BU's gross margin to remain at 35% in FY24-26E (vs. 37.5% in FY23 and 35.2% on average during FY21-23). We are of the view that Minth is able to maintain its aluminium BU's gross margin as such business has been getting mature at Minth as a global leading player. In fact, our forecast has already taken the potential price-cut pressure from OEMs and competition into account. Aluminium BU's gross margin at Minth's Mexico plant exceeded 30% in FY23, which implies that such gross margin at the Serbia plant (about 25% in FY23) could follow the pattern, as the plant ramps up production.

New products to aid Minth's traditional BU revenue growth

We project Minth's plastics BU revenue to rise 12%, 10% and 9% in FY24-26E, respectively, still higher than our forecast for global auto sales volume. The important reason is that Minth has been exploring higher-priced new products to sustain its saturated traditional businesses. For example, its intelligent integrated exteriors (e.g. intelligent front modules, smart doors and smart tailgates) have an annualized order backlog of about RMB2bn. Its plastics BU's (which its intelligent integrated exteriors belong to) revenue was about RMB5.6bn in FY23.

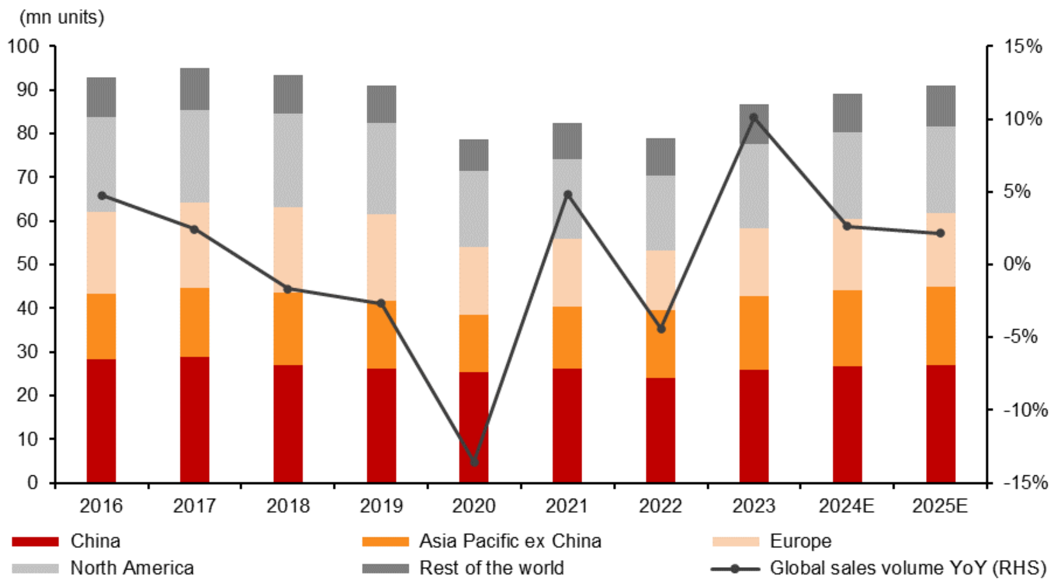
We project Minth's plastics BU gross margin to remain at 25% during FY24-26E, slightly higher than its gross margin of about 24% during FY22-23, as we believe the new products could also lift the margins.

Figure 14: Minth's intelligent integrated exterior products

Source: Company data, CMBIGM

We project Minth's metal and trim BU revenue to rise 4%, 3% and 1% in FY24-26E, largely in line with our forecast for global auto sales volume (2.6% in 2024 and 2.2% in 2025).

Figure 15: Global auto sales volume forecast



Source: Marklines, CATARC, CMBIGM estimates

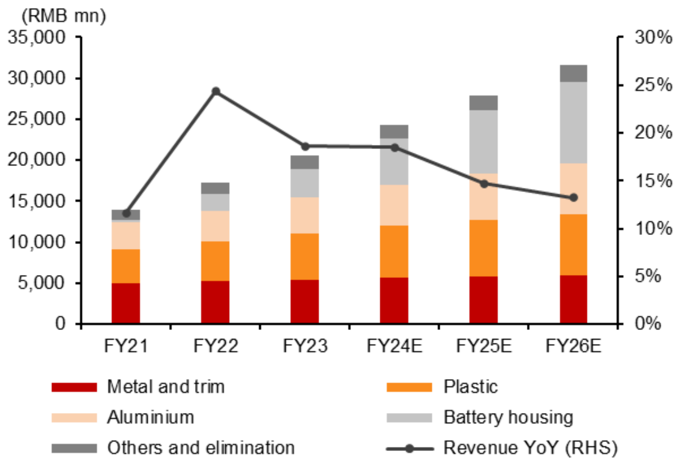
The company has also highlighted battery cell housing, EV wireless charging, hydrogen storage tanks and trays, as well as bipolar plates as its new products for potential growth. We are of the view that the battery cell housing could be a positive surprise for the company, especially in overseas markets where such supply is still limited. We see little competitive edge for Minth to compete in the EV wireless charging and hydrogen related products at the moment.

Financial Analysis

Revenue growth, SG&A cost control to aid steady net profit increase

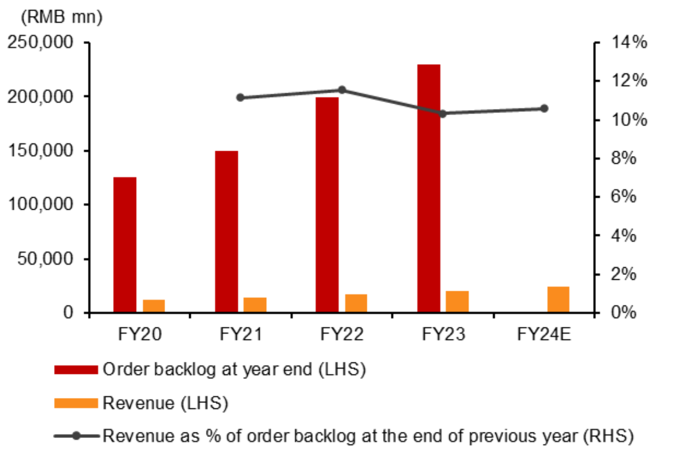
As noted in details about Minth's different BUs above, we project its overall revenue to rise 19%/15%/13% YoY in FY24-26E. Our forecast for its FY24E revenue was slightly lower than the company's guidance of 20% YoY growth. Our FY24E revenue forecast is also equivalent to 10.6% of Minth's total order backlog as of end-FY23. Such ratio was ranged between 10.3% and 11.5% during FY21-23. The ratio during FY17-18 was about 14%, which was consistent with a typical model cycle of seven years. The declining ratio implies higher uncertainties for the order backlog, in our view.

Figure 16: Minth's revenue forecast by BU



Source: Company data, CMBIGM estimates

Figure 17: Minth's order backlog vs. revenue



Source: Company data, CMBIGM estimates

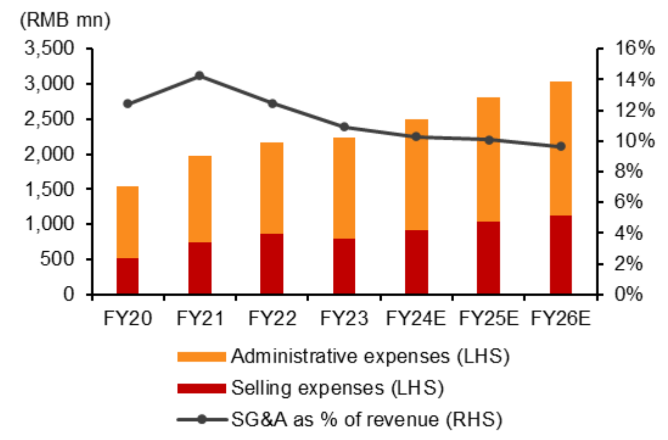
As noted in details about Minth's different BUs above, we project its overall gross margin to be 27.2%/27.0%/26.8% in FY24-26E, down slightly YoY largely due to the rising contribution from its battery housing segment.

Stable capex, local production to improve SG&A ratio

We see possible improvement for Minth's SG&A expenses (as % of revenue) amid more overseas production to save freight costs and stable capex. We expect freight costs which made up 53-65% of total selling expenses during FY20-23 to rise 17% YoY in FY24E, slightly lower than our revenue growth projection given more local production and relatively stable shipping costs.

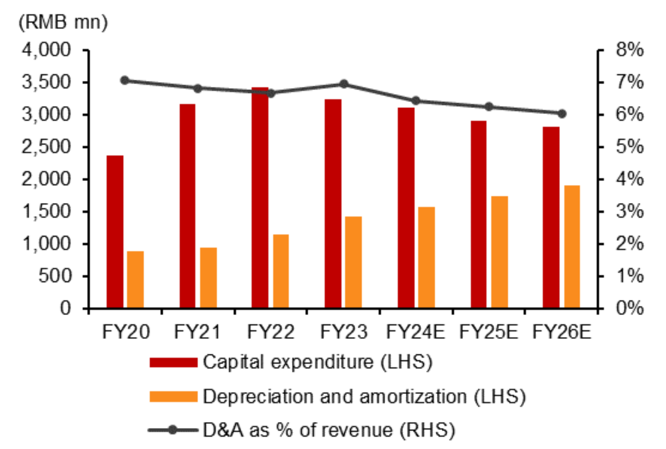
Minth's annual capital expenditures were about RMB3.2-3.4bn during FY21-23 and the guidance for FY24E is about RMB2.5-3.5bn. The wide range was mainly due to the possible construction of its Canada plant. The capex during the first five months of 2024 was only about RMB0.9bn, according to management. We project Minth's capex to be RMB3.1bn/2.9bn/2.8bn in FY24-26E. Accordingly, we project total depreciation and amortization to rise by 10%/11%/10% YoY to RMB1.6bn/1.7bn/1.9bn in FY24-26E. Therefore, total depreciation and amortization as % of revenue is to drop to 6.4%/6.2%/6.0% in FY24-26E, vs. 6.7-6.9% during FY21-23. We estimate about 75-78% of depreciation and amortization is booked under cost of goods sold at Minth.

Figure 18: Minth's SG&A forecast



Source: Company data, CMBIGM estimates

Figure 19: Minth's capex and D&A forecasts



Source: Company data, CMBIGM estimates

In our view, salary expense under the administrative expenses could be the most uncertain item for our SG&A forecast given its volatility in the past years.

We raise our effective tax rate assumptions to 18% for FY25E and 20% for FY26E, as we are concerned about the possibility of global taxing on low-tax overseas countries, based on our channel checks. Accordingly, we estimate Minth's net profit to rise 18%/14%/13% YoY to RMB2.2bn/2.6bn/2.9bn during FY24-26E, respectively. The company guided 20% YoY growth in net profit for FY24E.

1H24 earnings preview

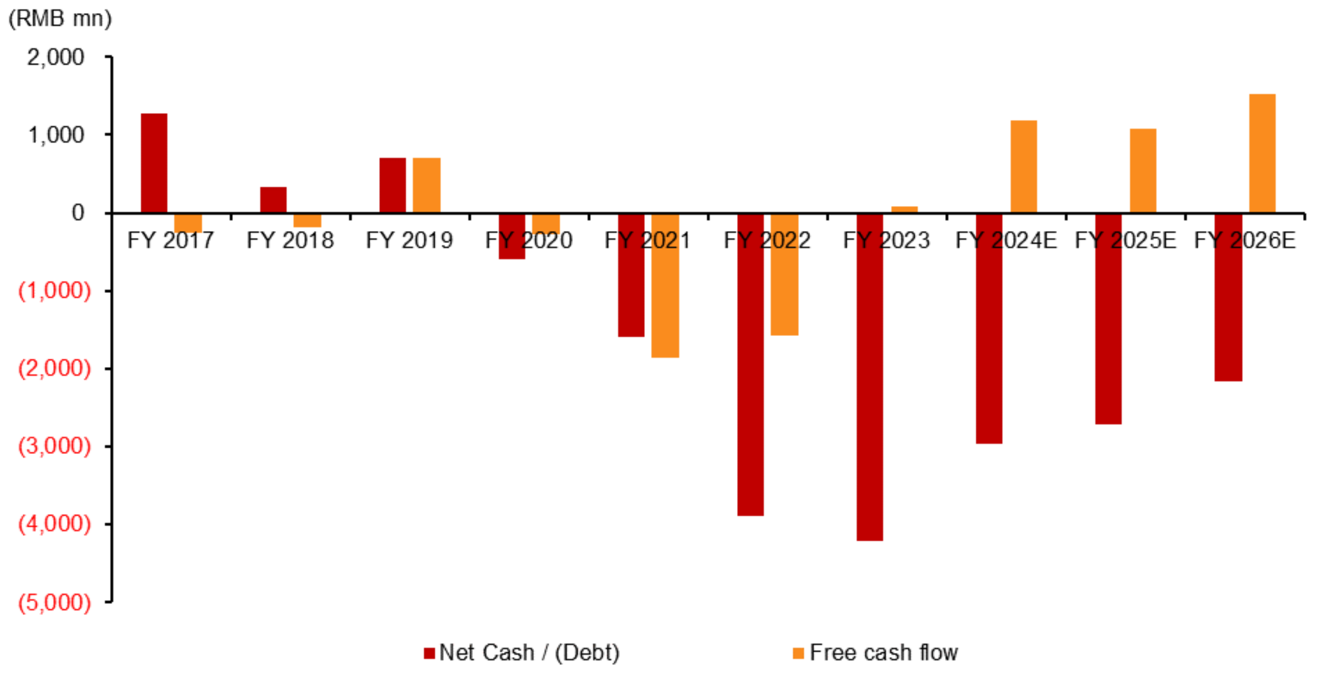
We project Minth's revenue to rise 15% YoY to RMB11.2bn in 1H24E with a gross margin of 27.3%. We assume SG&A and R&D ratios to be 16.3% combined in 1H24E. That would result in 28% YoY growth in operating profit (RMB1.3bn) on our estimates. We expect Minth's interest expense to remain high in 1H24E. Meanwhile, Minth is likely to enjoy the VAT refund, which could boost its other income. Accordingly, we project its 1H24E net profit to rise 21% YoY to RMB1.1bn.

We expect net debt to improve and dividend distribution to resume

Minth turned from net cash to net debt in FY20 amid its worsening free cash flows. Minth's free cash flow improved and turned positive in FY23 but its net debt increased to RMB4.2bn at the end of FY23, the highest level in history. That, along with high interest rates and low stock valuation, made the company halt dividend payout in FY23.

We project Minth's free cash flow to improve to RMB1.2bn in FY24E from RMB0.09bn in FY23E amid higher net profit, enhanced working capital level and slightly lower capex. That, along with no cash outflow for dividends, could result in a net debt of RMB3.0bn (vs. RMB4.2bn) at the end of FY24E, on our estimates. Should such scenario occur, we expect the company to distribute dividends again. If the company maintains its previous 40% dividend payout ratio, that could result in a dividend yield of 6.8% based on our FY24E net profit forecast and Minth's current share price (as of 15 July 2024).

Figure 20: Minth's free cash flow and net debt forecasts



Source: Company data, CMBIGM estimates

Figure 21: CMBI estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	24,318	27,896	31,582	24,854	29,432	33,777	-2.2%	-5.2%	-6.5%
Gross profit	6,614	7,545	8,456	6,824	8,122	9,365	-3.1%	-7.1%	-9.7%
Operating profit	2,640	3,080	3,533	2,978	3,527	4,003	-11.4%	-12.7%	-11.7%
Net profit	2,249	2,554	2,886	2,281	2,781	3,147	-1.4%	-8.2%	-8.3%
Gross margin	27.2%	27.0%	26.8%	27.5%	27.6%	27.7%	-0.3 ppt	-0.5 ppt	-0.9 ppt
Operating margin	10.9%	11.0%	11.2%	12.0%	12.0%	11.9%	-1.1 ppt	-0.9 ppt	-0.7 ppt
Net margin	9.2%	9.2%	9.1%	9.2%	9.4%	9.3%	0.1 ppt	-0.3 ppt	-0.2 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

Initiate coverage with BUY and TP of HK$21.00 (70% upside)

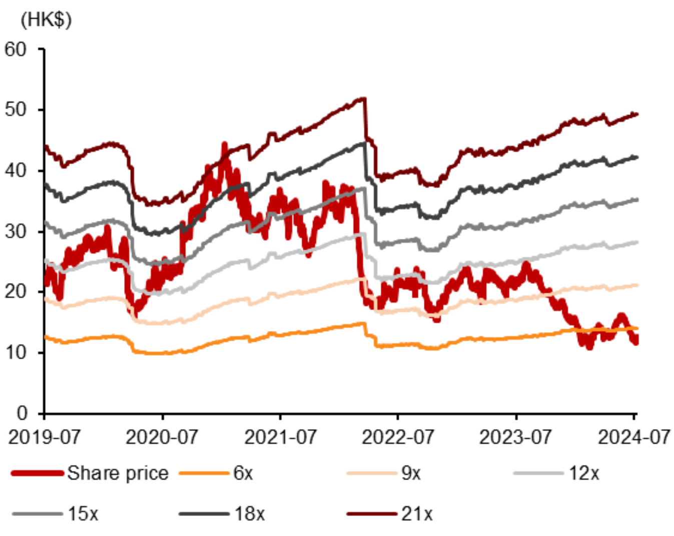
Our target price of HK$21.00 is based on a 10x FY24E P/E. The average forward 12-month P/Es during the past three years (2022-24), five years (2019-24) and seven years (2017-24) were 10.3x, 12.3x and 12.3x, respectively. Minth's forward 12-month P/E multiple started to fall from 12x in Aug 2023 to almost 5x now, largely due to rising concerns about the prolonged price war in China market to dent tier-1 suppliers' margins, foreign brands' market share loss in China and Europe's EV penetration slowdown. We find such all-time low valuation attractive given its solid overseas foundation and lower uncertainty of earnings growth than automakers. We are of the view that investors have not fully realized Minth's value based on its extensive overseas footprint and experience.

Figure 22: Peers' valuation

			Mkt Cap	Price	TP	P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	Rating	(HK$ mn)	(LC)	(LC)	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Minth Group	425 HK	BUY	14,339	12.3	21	5.9	5.2	0.6	0.6	11.5	11.8
EVA Holdings	838 HK	BUY	1,219	0.7	1.5	4.3	3.9	0.4	0.4	9.2	9.4
Fuyao Glass	3606 HK	NR	134,593	47.1	N/A	16.9	14.4	3.3	2.9	19.7	20.4
Nexteer Automotive	1316 HK	NR	9,186	3.7	N/A	9.2	6.8	0.6	0.5	6.4	8.0
Ling Yun Industrial	600480 CH	NR	9,523	9.4	N/A	12.0	10.5	1.1	1.0	9.6	9.9
Huayu Automotive	600741 CH	NR	52,188	15.4	N/A	6.7	6.4	0.8	0.7	12.0	11.8
Average						**9.2**	**7.8**	**1.1**	**1.0**	**11.4**	**11.9**

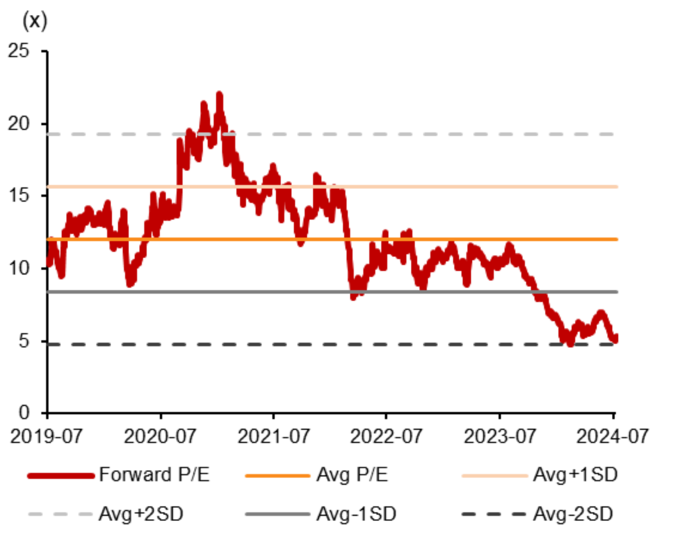
Source: Bloomberg, CMBIGM estimates.
Note: Market data as of 15 July 2024

Figure 23: Minth's forward 12-month P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 24: Minth's forward 12-month P/E range



Source: Company data, Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**13,919**	**17,306**	**20,524**	**24,318**	**27,896**	**31,582**
Cost of goods sold	(9,835)	(12,522)	(14,902)	(17,704)	(20,351)	(23,125)
Gross profit	**4,084**	**4,784**	**5,622**	**6,614**	**7,545**	**8,456**
Operating expenses	**(2,840)**	**(3,203)**	**(3,505)**	**(3,974)**	**(4,465)**	**(4,924)**
Selling expense	(744)	(868)	(792)	(909)	(1,042)	(1,130)
Admin expense	(1,237)	(1,292)	(1,449)	(1,587)	(1,769)	(1,913)
R&D expense	(941)	(1,172)	(1,397)	(1,605)	(1,785)	(2,021)
Others	82	130	133	127	132	140
Operating profit	**1,243**	**1,581**	**2,117**	**2,640**	**3,080**	**3,533**
Other income	143	186	281	260	260	260
Investment gain/loss	285	286	356	391	355	356
Other gains/(losses)	416	(21)	61	(31)	(38)	(33)
Share of (losses)/profits of associates/JV	22	10	16	21	33	43
EBITDA	**3,031**	**3,163**	**4,225**	**4,845**	**5,431**	**6,065**
Depreciation	847	1,038	1,302	1,463	1,631	1,789
Depreciation of ROU assets	46	46	47	51	53	55
Other amortisation	29	37	45	49	56	62
EBIT	**2,109**	**2,042**	**2,831**	**3,282**	**3,691**	**4,159**
Interest expense	(263)	(263)	(515)	(539)	(481)	(441)
Foreign exchange gain/loss	(53)	34	8	20	20	20
Pre-tax profit	**1,846**	**1,779**	**2,315**	**2,743**	**3,209**	**3,718**
Income tax	(266)	(249)	(351)	(425)	(578)	(744)
After tax profit	**1,579**	**1,530**	**1,964**	**2,318**	**2,632**	**2,974**
Minority interest	(83)	(30)	(61)	(69)	(78)	(88)
Net profit	**1,497**	**1,501**	**1,903**	**2,249**	**2,554**	**2,886**
Gross dividends	622	609	0	900	1,021	1,155

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**14,991**	**15,995**	**17,493**	**18,765**	**20,918**	**22,966**
Cash & equivalents	5,492	4,221	4,165	4,031	4,479	4,719
Restricted cash	1,046	1,055	1,840	1,800	1,700	1,700
Account receivables	5,130	6,541	6,610	7,641	8,765	9,923
Inventories	2,961	3,633	3,982	4,595	5,227	5,876
Prepayment	0	0	0	0	0	0
Other current assets	363	545	895	698	748	748
Non-current assets	**14,654**	**17,279**	**20,054**	**21,192**	**22,532**	**23,204**
PP&E	11,623	13,435	15,476	16,809	17,752	18,424
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	2,226	2,595	2,568
Total assets	**29,645**	**33,274**	**37,547**	**39,957**	**43,450**	**46,170**
Current liabilities	**9,377**	**13,314**	**14,117**	**14,721**	**16,940**	**17,763**
Short-term borrowings	4,888	7,192	5,851	6,052	6,958	6,452
Account payables	4,334	5,942	7,144	8,320	9,731	11,057
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
Non-current liabilities	**3,712**	**2,262**	**4,290**	**3,701**	**3,219**	**3,227**
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
Total liabilities	**13,089**	**15,576**	**18,407**	**18,422**	**20,159**	**20,990**
Share capital	116	116	116	116	117	117
Other reserves	15,907	16,801	18,202	20,528	22,341	24,346
Total shareholders equity	**16,023**	**16,918**	**18,318**	**20,644**	**22,458**	**24,463**
Minority interest	533	780	821	890	833	717
Total equity and liabilities	**29,645**	**33,274**	**37,547**	**39,957**	**43,450**	**46,170**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**1,846**	**1,779**	**2,315**	**2,743**	**3,209**	**3,718**
Depreciation & amortization	922	1,121	1,394	1,564	1,740	1,906
Tax paid	(227)	(270)	(390)	(425)	(578)	(744)
Change in working capital	(622)	(1,190)	(399)	178	(590)	(684)
Others	(597)	415	446	212	191	115
Net cash from operations	**1,322**	**1,855**	**3,366**	**4,271**	**3,973**	**4,311**
Investing						
Capital expenditure	(3,189)	(3,432)	(3,279)	(3,050)	(2,850)	(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	465	781
Net cash from investing	**(1,950)**	**(3,037)**	**(3,500)**	**(2,692)**	**(2,395)**	**(1,979)**
Financing						
Dividend paid	(619)	(626)	(744)	0	(1,034)	(1,226)
Net borrowings	902	644	1,202	(299)	406	(506)
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(20)	(47)	0	0	0	0
Others	(113)	(95)	(406)	(1,414)	(501)	(361)
Net cash from financing	**149**	**(125)**	**52**	**(1,714)**	**(1,130)**	**(2,092)**
Net change in cash						
Cash at the beginning of the year	6,008	5,492	4,221	4,165	4,031	4,479
Exchange difference	(38)	35	27	0	0	0
Cash at the end of the year	**5,492**	**4,221**	**4,165**	**4,031**	**4,479**	**4,719**

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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