

JPM-pp1

Asia Pacific Equity Research

25 March 2015

Minth Group (425 HK)

Neutral

Price: HK\$14.02

24 Mar 2015

Price Target: HK\$16.00

PT End Date: 30 Jun 2015

FY14 results first take

Minth's FY14 results today were broadly in line with our expectations. Our Neutral stance reflects primarily our sector preference of OEMs over auto components or dealers in China auto universe where deceleration will likely dominate the investment theme for the rest of the year. Pricing power between OEM and component suppliers normally lies with the former although we do acknowledge Minth's efforts striving to a global leader in its niche exterior part business. Reasonable yield of ~3% should also support the valuation. Management will host a briefing tomorrow and we shall have more details afterwards.

- **Observations of FY14 results: 1) Solid revenue** growth 10% driven by solid domestic (10% YoY) and export markets (46% YoY). Export business accounted for 38% of sales in FY14, up from 32% in FY13- a trend consistent with mgmt guidance of moving towards higher end value chain and increasing exposure to premium OEMs. 2) **Gross margin** 31% vs. 33% a year ago. Margin trajectory is in line with our expectation which also showcases the company's efforts to sustain profitability through product mix and productivity. 3) **Opex** ratio drops slightly from 16.2% in FY13 to 16% in FY14 and tax rate also declines from 16% to 15% in the same period. 4) **One-off item** of FX loss Rmb18.7mn however drag bottom line.
- **Recap of our view:** Fundamentally, we like Minth's solid business and execution. The company's long business visibility and increasing diversifying revenue source in terms of geography and customer should help it achieve more resilient growth. Penetration into European premium brands' supply chain such as BMW, Daimler and Volkswagen is evidence of Minth's product quality.
- **Rating, risk:** We stay Neutral and current PT is June-15 HK\$16 on 11x PER. We will revisit our estimates post analyst briefing.

Investment Thesis

We like Minth's solid position in its niche business but see its current valuation as fair and hence leave our Neutral rating unchanged.

Valuation

We stay Neutral and current PT is June-15 HK\$16 on 11x PER. We will revisit our estimates post analyst briefing.

Risks to Rating and Price Target

Key downside risks to our PT include weaker-than-expected passenger vehicle sales and a price war in China's passenger vehicle sector, forcing OEMs to cut their purchase price of auto parts.

Key upside risks to our PT include (a) a value-accretive M &A in Japanese auto parts market; (b) faster- and sharper-than-expected recovery in China's car market.

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Date	Rating	Share Price (HK\$)	Price Target (HK\$)
01-Nov-06	OW	5.68	9.00
11-Jun-07	OW	10.00	13.30
08-Sep-08	OW	4.50	8.70
22-Jan-09	OW	3.17	5.00
25-Aug-09	N	7.28	8.00
09-Dec-09	N	11.30	10.30
03-Feb-10	N	10.20	10.30
17-Mar-10	OW	12.50	13.80
30-Jul-10	OW	10.88	14.90
26-Nov-10	N	13.50	14.40
02-Aug-11	N	12.52	13.50
18-Oct-11	N	8.11	10.00
21-Mar-12	N	8.96	9.50
14-Aug-12	N	8.22	9.00
19-Mar-13	N	10.86	11.00
27-Aug-13	N	13.30	12.00
19-Mar-14	N	13.78	14.00
30-Aug-14	N	16.50	16.00

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