Gentex Corp (GNTX)

Updated November 7th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$27	**5 Year CAGR Estimate:**	3.9%	**Market Cap:**	$6.3 B
Fair Value Price:	$22	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	01/06/2022
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.8%	**Dividend Payment Date[1]:**	01/20/2022
Dividend Yield:	1.8%	**5 Year Price Target**	$30	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Gentex supplies digital vision, connected car, dimmable glass, and fire protection technologies. They manufacture automatic-dimming automotive rearview mirrors and other electronics for the automotive industry. The corporation also makes dimmable aircraft windows for the aviation industry. The company was founded in 1974 and is headquartered in Zeeland, Michigan. The auto parts manufacturer has a market capitalization of $6.3 billion and trades on the NASDAQ under the ticker symbol GNTX. Gentex generated $1.7 billion of sales in 2021.

Gentex reported third quarter results on October 28th, 2022. Third quarter net sales of $493.6 million saw a 24% year-over-year increase compared to $399.6 million in the same period last year. The corporation is still facing headwinds due to the impact of the ongoing part shortages affecting the auto industry, which resulted in a roughly 150 basis points of margin headwind. Earnings per share for the third quarter was $0.31, down from $0.32 per share in Q3 2021.

The company's gross margin decreased from 35.3% in Q3 2021 to 29.8% this quarter, due to raw material cost increases, labor cost increases, and unfavorable product mix.

In Q3 2022, the company repurchased 0.9 million shares of its common stock for an average price of $26 per share.

Leadership has updated 2022 guidance and estimates revenue of $1.925 billion at the mid-point. They anticipate gross margins of 32.5% (down from 33.5%), and to pay a tax rate of around 14.5%. Capex should come in around $145 million and depreciation & amortization around $103 million.

As a result of continued challenges in Gentex's field, we are lowering our 2022 EPS forecast again from $1.48 to $1.38.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.60	$0.78	$0.98	$1.08	$1.19	$1.28	$1.62	$1.68	$1.44	$1.50	***$1.38***	***$1.85***
DPS	$0.26	$0.28	$0.31	$0.34	$0.36	$0.39	$0.44	$0.46	$0.48	$0.48	***$0.48***	***$0.67***
Shares[2]	286.2	291.2	295.3	291.3	287.7	280.3	259.3	251.3	244.0	236.5	***235.0***	***225.0***

Gentex's earnings per share have moved up strongly in the past nine years at an annual average pace of 10.7%. In the last five years, as the earnings are coming off a higher base, the growth has slowed down to 5% on average per year.

We base our earnings growth estimate on an increased demand for light vehicle production in the next couple coming years, long-term structural cost savings which can yield margin improvements, and new technology product developments. However, throughout 2022 and 2023, management expects many of their current challenges to continue, such as inflation pressures on raw materials, logistics and labor costs which will stress the company's margins in the near term.

As a result of longer-than-expected headwinds, we have lowered our growth estimate from 7.0% to 6.0%. The company has also been successfully reducing its share count (down 3.5% in the last five year average), which further boosts EPS.

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[1] Estimate

[2] In millions

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The dividend has grown by 7% over the last nine years, and we expect it will remain 7% in the near term. We believe the company's earnings will support this dividend growth, and the payout ratio will remain stable.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.9	15.5	15.7	15.5	13.8	15.3	13.9	14.7	19.2	21.4	***19.5***	***16.0***
Avg. Yld.	2.4%	2.3%	2.0%	2.0%	2.2%	2.0%	1.9%	1.9%	1.7%	1.4%	***1.8%***	***2.3%***

Gentex's price-to-earnings multiple is overvalued today at 19.5 based on 2022 forecasted earnings, and we believe the valuation will drop to meet our estimated valuation of 16.0 times earnings. We therefore see a potential headwind of 3.8% to total annual returns from a contracting valuation over time. The strong dividend growth should see the yield rise over time, just above its historical average 2% yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

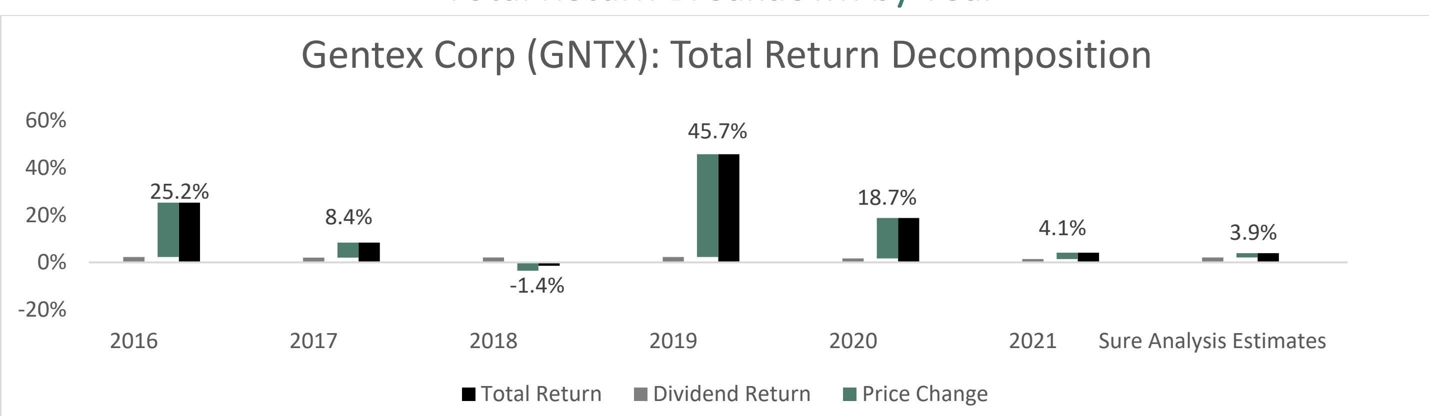
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	43%	36%	32%	31%	30%	30%	27%	27%	33%	32%	***35%***	***36%***

The payout ratio remains exceptionally low so the dividend is safe and should continue to grow in the years to come at roughly the rate of earnings. However, Gentex is also investing for growth and repurchasing shares, so we see the yield as remaining around 1.5% to 2.0% for the foreseeable future. Earnings per share fell significantly during the great financial crisis. At the lowest point, EPS were cut in half, and the payout ratio ballooned to 100% in 2008. The company maintained the dividend at $0.22 for three years following this but did not cut. The payout ratio fell to around 30% once the crisis subsided, and earnings surpassed their prior peak by 2010. The company believes that their patents (they own about 38 U.S. Registered Trademarks and 719 U.S. Patents) and trade secrets provide them their competitive advantage in automotive rearview mirrors, variable dimmable devices, certain electronics, and fire protection products. However, the lack of intellectual property protection in certain countries, including China, represents an ongoing risk for the company.

Final Thoughts & Recommendation

We see Gentex as having a solid long-term growth story, but the current reduction in light vehicle production weighs on the company, and the stock price is overvalued. Regardless, we estimate total annual returns of 3.9% for the next five years consisting of the current 1.8% dividend yield, 6.0% earnings growth and a -3.8% impact from the valuation. While the long-term growth thesis is intact, at current prices we rate GNTX as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,100	1,172	1,376	1,544	1,679	1,795	1,834	1,859	1,688	1,731
Gross Profit	373	431	539	604	668	695	690	688	605	620
Gross Margin	33.9%	36.8%	39.2%	39.1%	39.8%	38.7%	37.6%	37.0%	35.9%	35.8%
SG&A Exp.	48	49	56	57	62	71	75	85	90	92
D&A Exp.	50	63	77	81	89	100	102	105	105	---
Operating Profit	239	305	399	459	512	523	508	489	400	410
Operating Margin	21.8%	26.0%	29.0%	29.7%	30.5%	29.2%	27.7%	26.3%	23.7%	23.7%
Net Profit	169	223	289	318	348	407	438	425	348	361
Net Margin	15.3%	19.0%	21.0%	20.6%	20.7%	22.7%	23.9%	22.8%	20.6%	20.8%
Free Cash Flow	140	262	255	256	356	397	466	421	413	---
Income Tax	81	105	127	145	163	125	84	76	64	56

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,266	1,764	2,023	2,149	2,310	2,352	2,085	21,69	2,198	2,131
Cash & Equivalents	390	310	497	552	546	570	217	296	423	262
Accounts Receivable	110	143	168	196	212	231	214	235	285	250
Inventories	160	120	142	175	189	217	225	249	226	316
Goodwill & Int. Ass.	29	699	678	657	639	617	598	580	588	587
Total Liabilities	145	436	451	426	399	303	224	231	234	193
Accounts Payable	43	57	71	66	80	90	93	98	85	---
Long-Term Debt	0	273	266	233	186	78	0	0	0	0
Shareholder's Equity	1,121	1,328	1,571	1,723	1,910	20,50	1,862	1,938	1,964	1,938
LTD/E Ratio	0	0.21	0.17	0.14	0.10	0.04	0	0	0	0

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	13.8%	14.7%	15.2%	15.3%	15.6%	17.5%	19.7%	20.0%	15.9%	16.7%
Return on Equity	15.7%	18.2%	19.9%	19.3%	19.1%	20.5%	22.4%	22.4%	17.8%	18.5%
ROIC	15.7%	16.4%	16.8%	16.8%	17.2%	19.3%	22.0%	22.4%	17.8%	18.5%
Shares Out.	286.2	291.2	295.3	291.3	287.7	280.3	259.3	251.3	244.0	236.5
Revenue/Share	3.82	4.06	4.67	5.21	5.77	6.23	6.80	7.34	6.93	7.20
FCF/Share	0.49	0.91	0.87	0.87	1.22	1.38	1.73	1.66	1.69	---

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.