



Gentex Corp (GNTX)

Updated August 1st, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	7.5%	Market Cap:	\$7.9 B
Fair Value Price:	\$28	5 Year Growth Estimate:	10.0%	Ex-Dividend Date¹:	10/06/2023
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Dividend Payment Date¹:	10/19/2023
Dividend Yield:	1.4%	5 Year Price Target	\$46	Years Of Dividend Growth:	0
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 \$7.9 billion and trades on the NASDAQ under the ticker symbol GNTX. Gentex generated \$1.9 billion in sales in 2022.

Gentex reported second quarter 2023 results on July 28th, 2023. Second quarter net sales of \$583.5 million was a 26% increase compared to \$463.4 million in the same period last year. Earnings per share for the second quarter was \$0.47, up 52% from \$0.31 per share in Q2 2022. The company's gross margin increased from 32.0% in Q2 2022 to 33.1% in the recent quarter. Gentex is aiming to achieve gross margin of 35% to 36% by the end of 2024.

In the second quarter, the company repurchased 0.9 million shares of its common stock at an average price of \$27.28 per share.

Leadership updated its 2023 guidance and estimates revenue of roughly \$2.25 billion (up from \$2.20 billion), and gross margins of 32.75% (up from 32.5%). Capex should come in at \$200 million to \$225 million and depreciation & amortization around \$105 million.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.78	\$0.98	\$1.08	\$1.19	\$1.28	\$1.62	\$1.68	\$1.44	\$1.50	\$1.36	\$1.77	\$2.85
DPS	\$0.28	\$0.31	\$0.34	\$0.36	\$0.39	\$0.44	\$0.46	\$0.48	\$0.48	\$0.48	\$0.48	\$0.64
Shares²	291.2	295.3	291.3	287.7	280.3	259.3	251.3	244.0	236.5	234.4	230.0	220.0

Gentex's earnings per share have moved up strongly in the past nine years at an annual average pace of 6.4%. In the last five years, as the earnings have been coming off a higher base, the growth has slowed down to 1.2% 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. Inflation pressures on raw materials and logistics and labor costs have weighed on profitability in 2022 and H1 2023, but efficiency improvements are beginning to offset this, and managements believes it can achieve gross margin of 35% to 36% by the end of 2024.

Over the next five years, we expect Gentex to post earnings per share growth of roughly 10.0% per annum. The company has also been successfully reducing its share count (down 2.1% in the last five year average), which further boosts EPS.

¹ Estimate

² In millions

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The dividend has grown by 6.0% over the last nine years, and we expect it will remain at that rate 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.5	15.7	15.5	13.8	15.3	13.9	14.7	19.2	21.4	20.7	19.1	16.0
Avg. Yld.	2.3%	2.0%	2.0%	2.2%	2.0%	1.9%	1.9%	1.7%	1.4%	1.3%	1.4%	1.4%

Gentex's price-to-earnings multiple appears overvalued today at 19.1 based on 2023 forecasted earnings, and we believe the valuation could drop to meet our estimated valuation of 16.0 times earnings. We therefore see a potential headwind of -3.4% to total annual returns from a contracting valuation over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

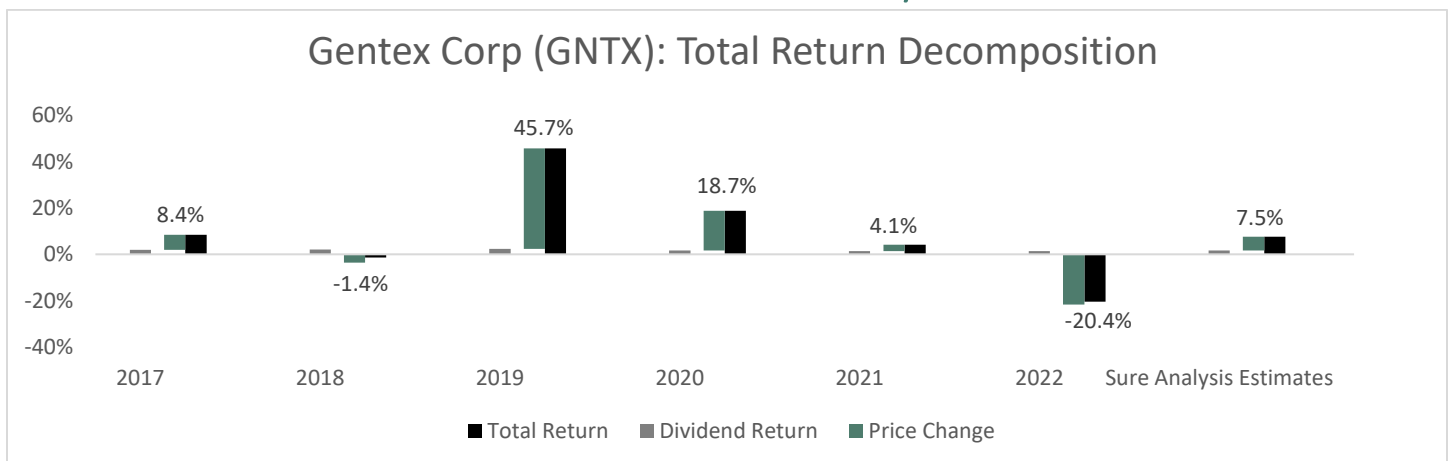
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	36%	32%	31%	30%	30%	27%	27%	33%	32%	35%	27%	23%

The payout ratio remains fairly 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 in growth and repurchasing shares, so we see the yield as remaining below 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 39 U.S. Registered Trademarks and 793 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, and it is implementing efficiency improvements, leading to greater profitability. Additionally, light vehicle production is estimated to grow in 2023 and 2024. However, the stock is overvalued in our view. We estimate total annual returns of 7.5% for the next five years consisting of the current 1.4% dividend yield, 10.0% earnings growth and a -3.4% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,172	1,376	1,544	1,679	1,795	1,834	1,859	1,688	1,731	1,919
Gross Profit	431	539	604	668	695	690	688	605	620	610
Gross Margin	36.8%	39.2%	39.1%	39.8%	38.7%	37.6%	37.0%	35.9%	35.8%	31.8%
SG&A Exp.	49	56	57	62	71	75	85	90	92	106
D&A Exp.	63	77	81	89	100	102	105	105	---	
Operating Profit	305	399	459	512	523	508	489	400	410	370
Operating Margin	26.0%	29.0%	29.7%	30.5%	29.2%	27.7%	26.3%	23.7%	23.7%	19.3%
Net Profit	223	289	318	348	407	438	425	348	361	319
Net Margin	19.0%	21.0%	20.6%	20.7%	22.7%	23.9%	22.8%	20.6%	20.8%	16.6%
Free Cash Flow	262	255	256	356	397	466	421	413	---	
Income Tax	105	127	145	163	125	84	76	64	56	51

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,764	2,023	2,149	2,310	2,352	2,085	21,69	2,198	2,131	2,327
Cash & Equivalents	310	497	552	546	570	217	296	423	262	215
Accounts Receivable	143	168	196	212	231	214	235	285	250	276
Inventories	120	142	175	189	217	225	249	226	316	404
Goodwill & Int. Ass.	699	678	657	639	617	598	580	588	587	626
Total Liabilities	436	451	426	399	303	224	231	234	193	261
Accounts Payable	57	71	66	80	90	93	98	85	---	
Long-Term Debt	273	266	233	186	78	0	0	0	0	0
Shareholder's Equity	1,328	1,571	1,723	1,910	20,50	1,862	1,938	1,964	1,938	2,066
LTD/E Ratio	0.21	0.17	0.14	0.10	0.04	0	0	0	0	0

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	14.7%	15.2%	15.3%	15.6%	17.5%	19.7%	20.0%	15.9%	16.7%	14.3%
Return on Equity	18.2%	19.9%	19.3%	19.1%	20.5%	22.4%	22.4%	17.8%	18.5%	15.9%
ROIC	16.4%	16.8%	16.8%	17.2%	19.3%	22.0%	22.4%	17.8%	18.5%	15.9%
Shares Out.	291.2	295.3	291.3	287.7	280.3	259.3	251.3	244.0	236.5	234.4
Revenue/Share	4.06	4.67	5.21	5.77	6.23	6.80	7.34	6.93	7.20	8.19
FCF/Share	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.

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