



# Gentex Corp (GNTX)

Updated January 30<sup>th</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	11.4%	<b>Market Cap:</b>	\$7.9 B
<b>Fair Value Price:</b>	\$34	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	04/05/2024
<b>% Fair Value:</b>	99%	<b>5 Year Valuation Multiple Estimate:</b>	0.3%	<b>Dividend Payment Date<sup>1</sup>:</b>	04/19/2024
<b>Dividend Yield:</b>	1.4%	<b>5 Year Price Target</b>	\$55	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	Buy

## 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 \$2.3 billion in sales in 2023.

Gentex reported fourth quarter 2023 results on January 26<sup>th</sup>, 2024. Fourth quarter net sales of \$589.1 million was a 19% increase compared to \$493.6 million in the same period last year. Earnings per share for the fourth quarter was \$0.50, up 35% from \$0.37 per share in Q4 2022. The company's gross margin increased from 31.2% in Q4 2022 to 34.5% in the recent quarter. Gentex is aiming to achieve gross margin of 35% to 36% by the end of 2024.

In 2023, the company repurchased 4.9 million shares for \$144.7 million, and returned \$112.2 million in dividends to shareholders.

Leadership provided 2024 guidance and estimates revenue of roughly \$2.50 billion, and gross margins of 34.5%. Capex should come in at \$225 million to \$250 million and depreciation & amortization around \$100 million.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$0.98	\$1.08	\$1.19	\$1.28	\$1.62	\$1.68	\$1.44	\$1.50	\$1.36	\$1.84	<b>\$2.13</b>	<b>\$3.43</b>
<b>DPS</b>	\$0.31	\$0.34	\$0.36	\$0.39	\$0.44	\$0.46	\$0.48	\$0.48	\$0.48	\$0.48	<b>\$0.48</b>	<b>\$0.64</b>
<b>Shares<sup>2</sup></b>	295.3	291.3	287.7	280.3	259.3	251.3	244.0	236.5	234.4	232.8	<b>230.0</b>	<b>220.0</b>

Gentex's earnings per share have moved up consistently in the past nine years at an annual average pace of 7.3%. In the last five years, as the earnings have been coming off a higher base, the growth has slowed down to 2.6% 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 have weighed on the company's results and margins for the last two years, but Gentex has made improvements through its margin recovery plan in 2023. In 2024, Gentex expects to improve margins further through bill of material reductions, throughput improvements, and overtime and scrap cost reductions. Management 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 1.8% in the last five year average), which further boosts EPS.

<sup>1</sup> Estimate

<sup>2</sup> In millions

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The dividend has grown by 5.0% over the last nine years, and we expect 6% growth is feasible 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.7	15.5	13.8	15.3	13.9	14.7	19.2	21.4	20.7	20.0	15.8	16.0
Avg. Yld.	2.0%	2.0%	2.2%	2.0%	1.9%	1.9%	1.7%	1.4%	1.3%	1.6%	1.4%	1.2%

Gentex's price-to-earnings multiple appears slightly undervalued today at 15.8 based on 2024 forecasted earnings, and we peg fair value at 16.0 times earnings. We therefore see a potential tailwind of 0.3% to total annual returns from an expanding valuation over time.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

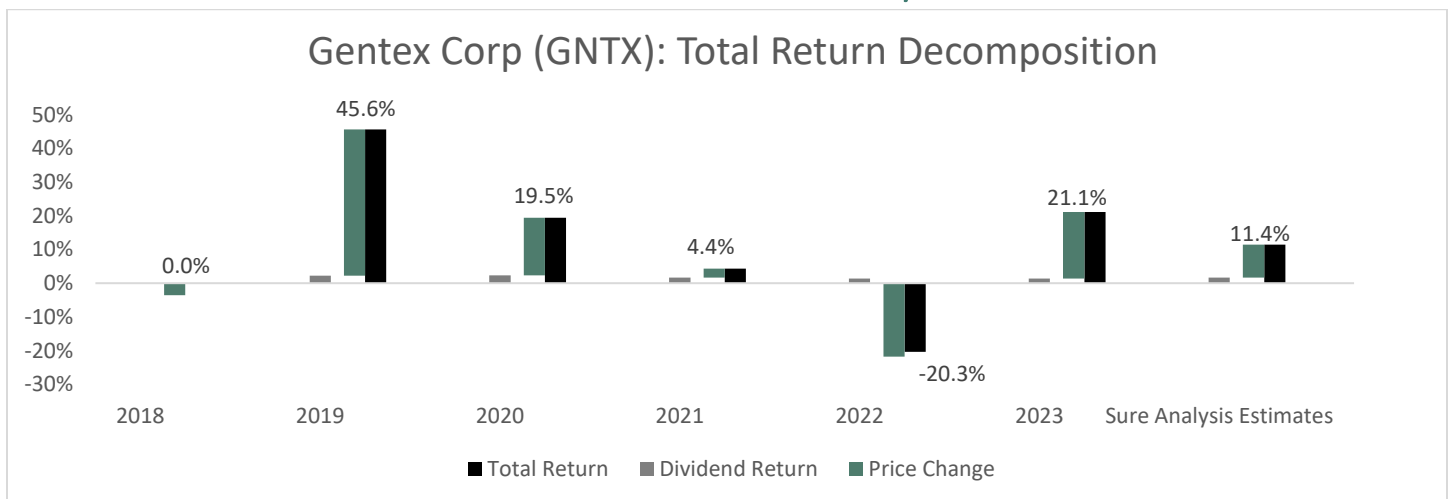
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	31%	30%	30%	27%	27%	33%	32%	35%	26%	23%	19%

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. Light vehicle production is forecasted to decrease slightly in 2024, and should pick back up to growth in 2025. We estimate total annual returns of 11.4% for the next five years consisting of the current 1.4% dividend yield, 10.0% earnings-per-share growth and a 0.3% impact from the valuation. GNTX earns a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	1,376	1,544	1,679	1,795	1,834	1,859	1,688	1,731	1,919	2,299
<b>Gross Profit</b>	539	604	668	695	690	688	605	620	610	762
<b>Gross Margin</b>	39.2%	39.1%	39.8%	38.7%	37.6%	37.0%	35.9%	35.8%	31.8%	33.1%
<b>SG&amp;A Exp.</b>	56	57	62	71	75	85	90	92	106	113
<b>D&amp;A Exp.</b>	77	81	89	100	102	105	105	---		
<b>Operating Profit</b>	399	459	512	523	508	489	400	410	370	496
<b>Operating Margin</b>	29.0%	29.7%	30.5%	29.2%	27.7%	26.3%	23.7%	23.7%	19.3%	21.6%
<b>Net Profit</b>	289	318	348	407	438	425	348	361	319	428
<b>Net Margin</b>	21.0%	20.6%	20.7%	22.7%	23.9%	22.8%	20.6%	20.8%	16.6%	18.6%
<b>Free Cash Flow</b>	255	256	356	397	466	421	413	---		
<b>Income Tax</b>	127	145	163	125	84	76	64	56	51	77

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	2,023	2,149	2,310	2,352	2,085	21,69	2,198	2,131	2,327	2,611
<b>Cash &amp; Equivalents</b>	497	552	546	570	217	296	423	262	215	226
<b>Accounts Receivable</b>	168	196	212	231	214	235	285	250	276	322
<b>Inventories</b>	142	175	189	217	225	249	226	316	404	402
<b>Goodwill &amp; Int. Ass.</b>	678	657	639	617	598	580	588	587	626	621
<b>Total Liabilities</b>	451	426	399	303	224	231	234	193	261	299
<b>Accounts Payable</b>	71	66	80	90	93	98	85	---		
<b>Long-Term Debt</b>	266	233	186	78	0	0	0	0	0	0
<b>Shareholder's Equity</b>	1,571	1,723	1,910	20,50	1,862	1,938	1,964	1,938	2,066	2,313
<b>LTD/E Ratio</b>	0.17	0.14	0.10	0.04	0	0	0	0	0	0

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	15.2%	15.3%	15.6%	17.5%	19.7%	20.0%	15.9%	16.7%	14.3%	17.4%
<b>Return on Equity</b>	19.9%	19.3%	19.1%	20.5%	22.4%	22.4%	17.8%	18.5%	15.9%	19.6%
<b>ROIC</b>	16.8%	16.8%	17.2%	19.3%	22.0%	22.4%	17.8%	18.5%	15.9%	19.6%
<b>Shares Out.</b>	295.3	291.3	287.7	280.3	259.3	251.3	244.0	236.5	234.4	232.8
<b>Revenue/Share</b>	4.67	5.21	5.77	6.23	6.80	7.34	6.93	7.20	8.19	9.88
<b>FCF/Share</b>	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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