



Gentex Corp (GNTX)

Updated October 24th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	2.2%	Market Cap:	\$8.2B
Fair Value Price:	\$26	5 Year Growth Estimate:	7.5%	Ex-Dividend Date¹:	01/07/2022
% Fair Value:	139%	5 Year Valuation Multiple Estimate:	-6.3 %	Dividend Payment Date²:	01/20/2022
Dividend Yield:	1.4%	5 Year Price Target	\$37	Years Of Dividend Growth:	10
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	4.3%

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 \$8.2 billion and trades on the NASDAQ under the ticker symbol GNTX. GNTX generated \$1.7 billion of sales in 2020.

Gentex reported third quarter results on October 22nd. Q3 net sales of \$400 million saw a 15.8% year-over-year decrease compared to \$475 million in the same period of last year. The corporation is still experiencing large volatility and order cancellations due to the impact of the ongoing part shortages affecting the auto industry. The gross margin decreased from 39.7% in Q3 2020 to 35.3% this quarter, due to lower sales levels as a result of the 23% quarter-over-quarter decline in light vehicle production, lower than expected price reductions on raw materials, increases in freight and other supply chain related costs and component cost increases.

Net income of \$76.7 million was a 34.5% decrease compared to the prior year's \$117.1 million earned, due to the deterioration in sales, gross margins, and operating profits. Earnings per diluted share also dove 33.3% from \$0.48 to \$0.32.

In the quarter, the company repurchased 2.83 million shares of their stock for roughly \$90.6 million. Leadership has provided updated 2nd half of 2021 guidance and estimates revenue of \$805 million at the mid-point, down significantly from prior guidance of \$1.02 billion. They anticipate gross margins of 35.5%, vs. a prior expectation of 38%, and to pay a tax rate of around 17%. Capex should come in around \$55 million and depreciation & amortization around \$50 million. The company expects calendar year 2022 revenue to be 15% to 20% higher than estimated revenue for 2021 of \$1.72 billion.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.57	\$0.60	\$0.78	\$0.98	\$1.08	\$1.19	\$1.28	\$1.62	\$1.68	\$1.44	\$1.55	\$2.23
DPS	\$0.24	\$0.26	\$0.28	\$0.31	\$0.34	\$0.36	\$0.39	\$0.44	\$0.46	\$0.48	\$0.48	\$0.67
Shares³	288.1	286.2	291.2	295.3	291.3	287.7	280.3	259.3	251.3	244.0	239.0	225.0

Gentex's earnings per share have moved up strongly in the past nine years at an annual average pace of 10.8%. In the last five years as the earnings are higher the growth has slowed down to 6% on average per year. There are a series of solid tailwinds which should see earnings grow at an estimated 7.5% in the near term.

We base our earnings growth estimate on an increased demand for light vehicle production in the next couple coming years, structural cost savings which can yield margin improvements, and new technology product developments. The

¹ Estimate

² Estimate

³ In millions

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company has also been successfully reducing its share count (down 3.6% in the last five year average), which can also result in increased EPS.

The dividend has grown by 8% over the last nine years, and we expect this will slow to 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	25.2	17.9	15.5	15.7	15.5	13.8	15.3	13.9	14.7	19.2	22.9	16.5
Avg. Yld.	1.7%	2.4%	2.3%	2.0%	2.0%	2.2%	2.0%	1.9%	1.9%	1.7%	1.4%	1.8%

Gentex's price-to-earnings multiple is overvalued today at 22.9 based on 2021 forecasted earnings, and we believe the valuation will drop to meet our estimated valuation of 16.5 times earnings. We therefore see a headwind of 6.3% to total annual returns from a contracting valuation over time. The strong dividend growth should see the yield rise over time, closing in on the average 2% yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

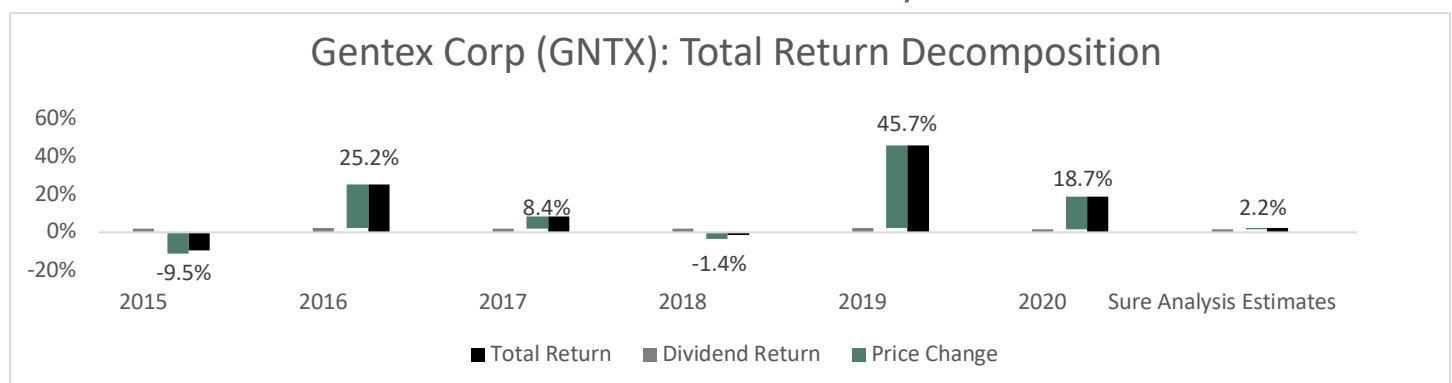
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	42%	43%	36%	32%	31%	30%	30%	27%	27%	33%	31%	30%

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 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 2.2% for the next five years consisting of the current 1.4% dividend yield, 7.5% earnings growth and a -6.3% impact from the valuation. While the long-term growth thesis is intact, at current prices we rate GNTX a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,024	1,100	1,172	1,376	1,544	1,679	1,795	1,834	1,859	1,688
Gross Profit	362	373	431	539	604	668	695	690	688	605
Gross Margin	35.3%	33.9%	36.8%	39.2%	39.1%	39.8%	38.7%	37.6%	37.0%	35.9%
SG&A Exp.	49	48	49	56	57	62	71	75	85	90
D&A Exp.	43	50	63	77	81	89	100	102	105	105
Operating Profit	231	239	305	399	459	512	523	508	489	400
Operating Margin	22.6%	21.8%	26.0%	29.0%	29.7%	30.5%	29.2%	27.7%	26.3%	23.7%
Net Profit	165	169	223	289	318	348	407	438	425	348
Net Margin	16.1%	15.3%	19.0%	21.0%	20.6%	20.7%	22.7%	23.9%	22.8%	20.6%
Free Cash Flow	21	140	262	255	256	356	397	466	421	413
Income Tax	80	81	105	127	145	163	125	84	76	64

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,176	1,266	1,764	2,023	2,149	2,310	2,352	2,085	2,169	2,198
Cash & Equivalents	358	390	310	497	552	546	570	217	296	423
Accounts Receivable	110	110	143	168	196	212	231	214	235	285
Inventories	189	160	120	142	175	189	217	225	249	226
Goodwill & Int. Ass.	13	29	699	678	657	639	617	598	580	588
Total Liabilities	149	145	436	451	426	399	303	224	231	234
Accounts Payable	65	43	57	71	66	80	90	93	98	85
Long-Term Debt	-	-	273	266	233	186	78	-	-	-
Shareholder's Equity	1,027	1,121	1,328	1,571	1,723	1,910	2,050	1,862	1,938	1,964
D/E Ratio	-	-	0.21	0.17	0.14	0.10	0.04	-	-	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	15.1%	13.8%	14.7%	15.2%	15.3%	15.6%	17.5%	19.7%	20.0%	15.9%
Return on Equity	17.1%	15.7%	18.2%	19.9%	19.3%	19.1%	20.5%	22.4%	22.4%	17.8%
ROIC	17.1%	15.7%	16.4%	16.8%	16.8%	17.2%	19.3%	22.0%	22.4%	17.8%
Shares Out.	288.1	286.2	291.2	295.3	291.3	287.7	280.3	259.3	251.3	244.0
Revenue/Share	3.55	3.82	4.06	4.67	5.21	5.77	6.23	6.80	7.34	6.93
FCF/Share	0.07	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.

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