

# BYD(1211.HK)

## Qin -revised version of its new-energy-car ambition



Phillip Securities (HK) Ltd  
Phillip Securities Research

Bloomberg | Reuters | POEMS

1211.HK | 1211.HK | 1211.HK

Industry: Automobile

27 December 2013

Rating: Accumulate , CP: 36.95HKD ,TP: 44 HKD

### Company Profile

Founded in 1995, BYD's main business is now composed by IT (rechargeable battery and handset component), automobiles and new energy (solar farm, battery energy storage station, electric vehicle, and LED, etc). In 2003, It entered automobile business by purchasing Tsinchuan Auto. BYD was listed on HKEx in July 2002.

### Summary

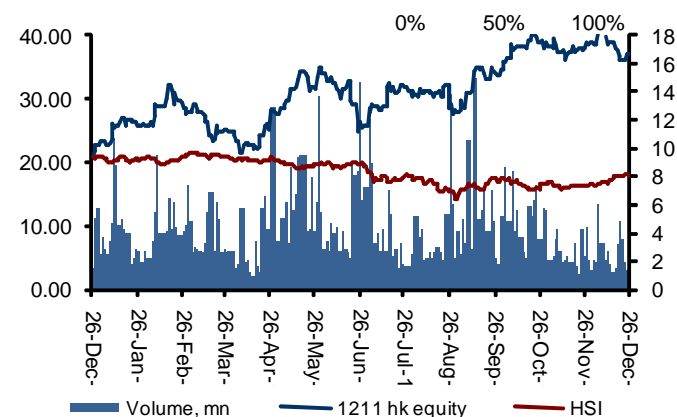
• **Sales increased by 16% y-y in the first eleven months:** After the boom season in September and October, there was still a bull market in China's Nov. passenger vehicle sector, monthly sales reached the second highest this year. In Nov., sales of China's passenger vehicles increased by 16% y-y and 5.6% m-m respectively to 1.6963 million units, among which sedan and SUV increase by 9.2% and 59% y-y respectively. The sales of BYD reached to 45,363 units, dropped 10% y-y due to the high base of the same period of last year, but up 7.5% m-m. The cumulative sales recorded 0.4597 million units in the first eleven months, up 16.4% y-y, around 92% of the sales target, which will most probably achieve the previous target, and we estimate the annual sales would increase by 15% approximately.

• **Closer look for different models:** As for different models, BYD's SUV S6 recorded the sales with the amount of 10,054 units, up 29.5% y-y, and the same growth rate compared with October, ranking in the top 9 in the domestic SUV market. For compact sedan, Speed and L3 had the better performance with the amount of 21, 271 units in sales totally, up 5.5% y-y. F3 only sold 5,114 units due to the coming upgrading of the model, down 41% y-y. In the mid-size models, Sirui and G6 sold 3,600 units in total. Small-sized model F0 maintained the sales of 4,000 units approximately.

• **The new journey of its new energy cars from the launch of Qin:** On 17<sup>th</sup> Dec., BYD's second-generation PHEV model "Qin" has been launched, with the maximum output of 300 horsepower, the maximum speed of 185km/h, 1.6L/100km of comprehensive fuel consumption, 70km at the all-electric model (which basically meet the needs of the working in the city). There are two models with the selling prices of RMB189,800 and RMB209,800 respectively, which can have national subsidy RMB35,000, and add RMB35,000 more in Shenzhen, with the lowest price of around RMB120,000. We think Qin has quite strong price advantages considering 12.1 inch LCD touching screen, and other technology equipments such as the i-robot. However, we believe the volume of Qin will only increase sharply after the detailed of the subsidy in each city announced in future, given the wait-and-see attitude of its potential customers.

### BYD

<b>Rating</b>	<b>2.00</b>	<b>Accumulate</b>
- Previous Rating	2.00	Accumulate
<b>Target Price (HKD)</b>	<b>44</b>	
- Previous Target Price (HKD)	38	
Closing Price (HKD)	36.95	
Expected Capital Gains (%)	19.1%	
Expected Dividend Yield (%)	0.0%	
<b>Expected Total Return (%)</b>	<b>19.1%</b>	
Raw Beta (Past 2yrs weekly data)	1.31	
Market Cap. (HKD bn)	101,288	
Enterprise Value (HKD mn)	113,995	
52 week range (HKD)	20.6 - 42	
Closing Price in 52 week range		



### Key Financial Summary

FYE	12/12	12/13F	12/14F	12/15F
Revenue (RMB mn)	44,381	52,756	59,636	66,743
Net Profit, adj. (RMB mn)	81	863	1,586	2,044
EPS, adj. (RMB)	0.03	0.37	0.67	0.87
P/E (X),adj.	857.0	78.9	42.8	33.1
BVPS (RMB)	9.00	9.45	10.49	11.33
P/B (X)	3.3	3.1	2.7	2.5
DPS (RMB)	0.00	0.02	0.06	0.09
Div. Yield (%)	0.0%	0.1%	0.2%	0.3%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Valuation Method

PE&PB

### Research Analyst

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• **New models will help to increase the ASP in 2014:** the new cars worth expecting in 2014 include: the new generation of F3, which vehicle wheelbase increases, and it is expected to carry 1.5L/1.5T/1.2T engine and dual clutch transmission. If it can continue last generation's value for money performance, the market performance is hopeful to be optimism. For SUV, the new type of S6, with 2.0T is expected to be introduced, whose interior equipment will be obviously improved. As the new energy car is concerned, the EV model "DENZA " which is coproduced with Daimler and the PHEV SUV "Tang" are expected to be introduced, and the latter's power will be stronger, which 100km speed acceleration reaches 4.9s. Besides, the small type of SUV S3, 1.2T edition L3, Speed Sport edition and a new A+ sedan G5 will also be launched one after another.

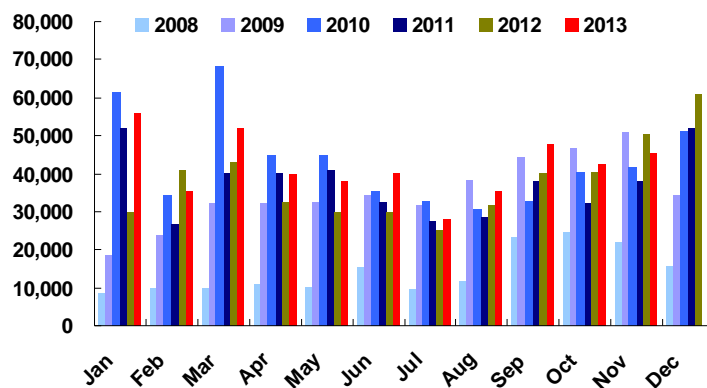
• **The IT business will be the new bright spot of performance this year:** pushed by the demand eruption for its composite material and metal-material phone casing, the profits of BYD's phone business increased strongly, which performances in the first half year have surpass all last year. The company has developed orders of shell equipments and tablet computers from such famous phone brands as HTC, Samsung, Apple and HP recently, which made the company's production structure and gross profit level improved continuously. We believe the new high-tech orders have helped the company's IT business usher the harvest period of achievements.

• **Valuation:** We revise our EPS forecast to RMB0.37/0.67/0.87 for FY2013/2014/2015. However, under the improvement of its performance and the room of the technologies of new energy automobiles, it is worth looking forward to the Company's development prospects in future. We lift our target price to HKD 44, equivalent to 94/51/39 x of the expected P/E, and 3.6/3.3/3 x of expected P/B for 2013/2014/2015 respectively, "accumulate" rating.

• **Risk**

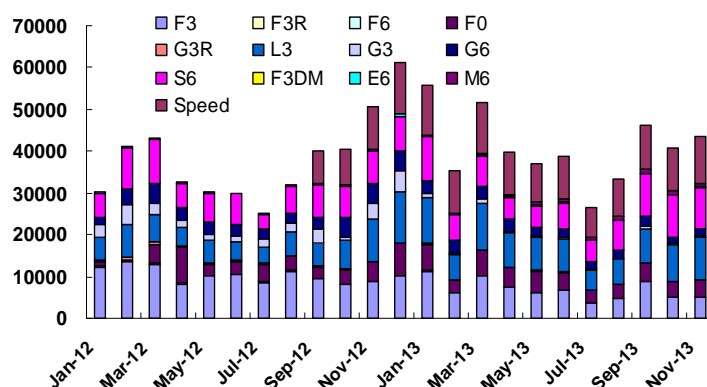
- 1) Slackened economy largely reduced demands for auto, handset and batteries;
- 2) Uncertainty of new energy's future development;
- 3) Rising raw material cost;
- 4) Lower-than-expected new car model sales and distributor network risk

Fig 1. Monthly auto sales of BYD (unit)



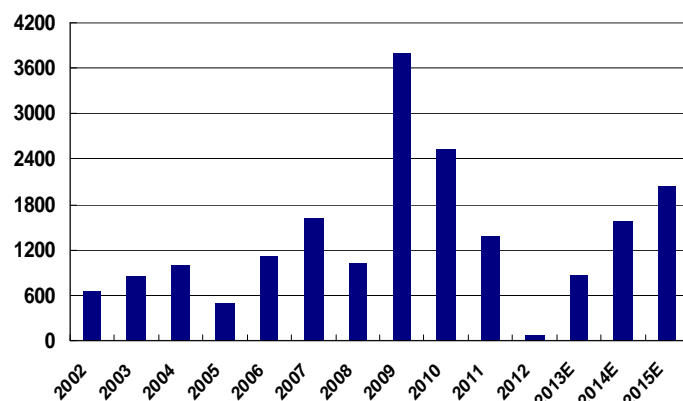
Data source: Phillip Securities

Fig 2. Auto sales Breakdown (unit)



Data source: Phillip Securities

Fig 3. BYD's net profit history (mil, RMB)



Data source: Phillip Securities

Fig 4. Peer Comparison

Name	Ticker	Mark Cap (USD)	BEst			BEst			ROA %	ROE %
			BEst P/B	P/B: Y+1	BEst P/E	BEst P/E Y+1	EV/BEst P/B	EV/BEst P/B		
Auto										
VW	VOW GR	121706	1.1	1.0	9.3	8.0	7.6	1.0	2.6	32.2
BMW	BMW GR	72473	1.6	1.5	10.4	10.2	8.8	1.6	3.9	17.8
RENAULT	RNO FP	23485	0.7	0.6	11.8	6.7	10.6	0.7	1.4	7.3
PSA	UG FP	4567	0.4	0.4	N/A	98.1	12.5	0.4	-6.6	-42.4
BYD	1211 HK	13541	3.1	2.8	96.4	53.3	18.2	3.2	0.7	0.4
GWM	2333 HK	19501	3.7	2.8	12.3	9.7	10.6	4.4	18.2	29.8
DONGFENG	489 HK	14113	1.4	1.2	8.7	7.9	4.7	1.5	7.9	18.1
CHANGAN	200625 CI	8939	2.9	2.3	15.9	10.5	26.2	3.1	6.6	9.6
GAC	2238 HK	8605	1.4	1.2	15.8	11.0	N/A	1.4	1.7	3.8
BRILLIANCE	1114 HK	8297	3.6	2.8	14.5	11.8	N/A	4.1	18.9	27.1
WEICHAI	2338 HK	6884	1.8	1.5	13.8	11.7	8.4	2.0	4.6	12.5
GEELY	175 HK	4359	1.6	1.4	9.7	8.3	5.8	1.8	8.2	18.2
TOYOTA	7203 JP	206256	1.4	1.3	10.6	9.9	9.8	1.5	4.1	8.5
HONDA	7267 JP	74387	1.4	1.2	12.6	10.7	9.0	1.4	3.1	7.8
DENSO	6902 JP	44042	1.6	1.5	15.0	14.3	7.0	1.6	6.5	8.4
NISSAN	7201 JP	38868	0.9	0.9	10.1	8.3	9.0	0.9	2.9	9.9
FUJI HEAVY	7270 JP	21849	2.8	2.3	10.7	10.8	5.7	3.2	11.5	22.9
SUZUKI	7269 JP	15022	1.2	1.1	14.6	13.8	4.1	1.3	3.7	7.5
MAZDA	7261 JP	14279	2.4	1.9	13.6	9.3	7.5	2.7	2.8	7.1
HINO	7205 JP	8709	2.8	2.4	12.0	11.6	6.7	3.0	8.0	20.1
MINI	7211 JP	6392	1.7	1.4	9.3	9.8	6.3	127.9	4.1	N/A
TATA	TTMT IN	17397	2.3	1.8	8.7	7.2	4.2	3.1	6.3	28.1
HYUNDAI	005380 K:	46086	1.2	1.0	N/A	N/A	7.1	1.0	6.7	16.4
KIA	000270 K:	20591	1.1	0.9	N/A	N/A	4.1	1.1	10.7	25.5
FORD	F US	61730	2.8	2.3	9.4	8.6	4.8	3.0	2.9	36.6
GM	GM US	57323	1.7	1.5	12.2	9.0	3.5	2.0	3.4	18.1
Hanset										
MOBI	947 HK	143	0.8	0.7	17.9	12.6	17.9	0.9	-2.9	-3.8
TCL COM	2618 HK	1182	3.5	2.8	33.3	10.8	19.5	3.9	-4.1	-8.3
WIRELESS	2369 HK	669	1.9	1.6	12.1	9.0	9.7	2.0	4.8	14.2
COMBA TEL	2342 HK	512	1.0	1.0	70.3	15.4	16.3	1.1	-2.0	-5.2
Battery										
GCL-POLY	3800 HK	4552	2.4	2.2	N/A	27.1	23.5	2.3	-5.5	-19.1
HANERGY	566 HK	2909	1.6	1.4	7.2	7.2	7.5	1.2	13.3	11.9
ASM PACIFI	522 HK	3306	3.6	3.2	33.6	15.8	17.7	3.8	4.2	10.7
SEMICONDU	981 HK	2443	1.0	0.9	15.2	19.0	4.3	1.0	4.7	1.0
SHUNFENG	1165 HK	1667	N/A	N/A	N/A	N/A	N/A	N/A	-32.3	-31.9

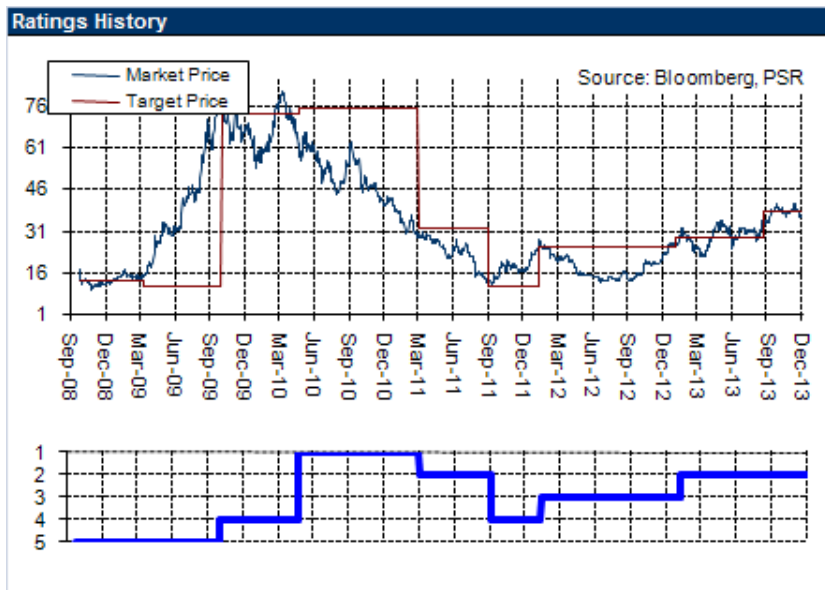
Data source: Bloomberg, Phillip Securities

FYE DEC	FY10	FY11	FY12	FY13F	FY14F	FY15F
<b>Valuation Ratios</b>						
P/E (X), adj.	26.7	48.7	857.0	78.9	42.8	33.1
P/B (X)	3.7	3.3	3.3	3.1	2.7	2.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%
<b>Per share data (RMB)</b>						
EPS, reported	1.11	0.61	0.03	0.37	0.67	0.87
EPS, adj.	1.11	0.61	0.03	0.37	0.67	0.87
DPS	0.00	0.00	0.00	0.02	0.06	0.09
BVPS	8.11	8.97	9.00	9.45	10.49	11.33
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	15.4%	-0.8%	-4.2%	18.9%	13.0%	11.9%
EBIT	-28.1%	-27.9%	-53.3%	103.5%	50.1%	19.0%
Net Income, adj.	-33.5%	-45.1%	-94.1%	960.7%	83.8%	28.9%
<b>Margins</b>						
EBIT margin	7.3%	5.3%	2.6%	4.4%	5.9%	6.3%
Net Profit Margin	5.4%	3.0%	0.2%	1.6%	2.7%	3.1%
<b>Key Ratios</b>						
ROE (%)	14.36%	7.00%	0.38%	3.76%	6.8%	6.8%
ROA (%)	5.40%	2.31%	0.12%	1.15%	2.1%	2.1%

<b>Income Statement (RMB mn)</b>						
Revenue	46685	46312	44381	52756	59,636	66,743
Cost of sales	(38,421)	(39,445)	(39,255)	(45,296)	(50,404)	(55,897)
Gross profit	8264	6867	5126	7460	9,232	10,846
Other income and gains	886	1289	974	1007	1,031	928
Operating expenditure	(5,752)	(5,688)	(4,922)	(6,120)	(6,739)	(7,582)
Financial costs	(281)	(742)	(862)	(965)	(1,052)	(1,110)
Profit before tax	3,142	1,727	291	1,382	2,472	3,082
Tax	(224)	(132)	(78)	(318)	(569)	(709)
Profit for the period	2,919	1,595	213	1,064	1,903	2,373
Minority interests	(395)	(210)	(132)	(201)	(317)	(329)
Net profit	2,523	1,385	81	863	1,586	2,044

FYE DEC	FY10	FY11	FY12F	FY13F	FY14F	FY15F
<b>Balance Sheet (RMB mn)</b>						
Total Assets	52,963	66,881	70,008	75,280	78,854	82,614
Cash & cash equivalent	1,993	3,737	4,042	4,710	5,200	6,285
Total Liabilities	31,812	42,901	45,863	49,937	50,921	52,518
Non-controlling interest	2,691	2,856	2,947	3,100	3,245	3,413
Total Equity	21,151	23,980	24,144	25,343	27,933	30,096
Shareholder Equity	18,460	21,125	21,197	22,243	24,688	26,683

Source: PSR



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

**Remarks**  
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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