

BYD (1211.HK)

A new round of NEV models to start positive turnaround of the results

Hong Kong | Automobile | Update Report

24 Jun 2015

RMB 15 billion of private placement goes to power battery and New Energy Vehicle

BYD released a bulletin that the company plans to make a non-public offering to a maximum of 10 specific investors of not more than 240 million shares at or above RMB 57.4 per share to raise a total of RMB 15 billion. The net amount raised after deducting issuing cost is intended to go to three major directions: the expansion of Li-ion battery production capacity and NEV R&D, as well as supplement to working capital and bank loan payback.

Significant profit growth in 15Q1

According to BYD's latest financial report, the company recorded revenues of RMB 15.283 billion in Q1, up 30.35% yoy; net profit up 910.75% yoy to RMB 121 million; earnings per share of RMB 0.05, up 400% yoy from RMB 0.01 last year. The drivers for the large increase in the results lie in the strong growth in mobile phone parts and the explosion of NEV sales. Over the first four months in 2015, BYD Qin's sales up 172% yoy, E6 up 126% yoy and electric bus K9 up 67% yoy. The company is expected to have a net profit of RMB 400 - 480 million over H1 2015, up 10.90%—33.08% yoy from RMB 361 million last year.

A new round of NEV models to start positive turnaround of the results

Following the growing popularity of BYD Qin, BYD is going to launch multiple models of NEVs in 2015, including BYD Tang, Song, Yuan and Shang, corresponding respectively to mid-sized SUV, compact SUV, mini-sized SUV and MPV. Along with the unleashed capacity, the Company will produce more NEVs which will contribute more to its business results. Given that NEVs capacity utilization remains high with obvious gross margin increase, as well as the growing varieties, 2015 is quite likely to see the company have a positive turnaround of the results.

Announce its first employee stock ownership plan

To boost the employees' enthusiasm, BYD announced its first employee stock ownership plan which covers 97 employees, including 6 supervisors and senior managers and 91 other staff members, who are estimated to hold 32.66 million shares of the company, accounting for 1.32% of the current capital stock. The plan helps establish a long-term incentive mechanism and highlights its strong confidence in itself in the long run.

Investment Thesis

As analyzed above, we revised EPS expectation of the Company to RMB0.79/1.07 of 2015/2016. Although we have positive views on the Company's future development, we remind investors to concern about the possible frustrations the Company may encounter in the cultivation of the individual new energy vehicle market. We maintain the rating to Cautiously Accumulate, with the target price of HK\$55, equivalent to 55/40x P/E and 3.8/3.3x P/B for 2015/2016 respectively. (Closing price as at 22 June 2015)

Accumulate (Maintain)

CMP: HKD 49.20

(Closing price as at 22 June 2015)

TARGET: HKD 55.00 (+12%)

COMPANY DATA

O/S SHARES (MN) :	2364
MARKET CAP (HKD MN) :	450.2
52 - WK HI/LO (HKD):	62.3 / 18.7

SHARE HOLDING PATTERN, %

Wang chuan-fu	23.09
Lv xiang-yang	9.66
Berkshire Hathaway Energy	9.09

PRICE PERFORMANCE, %

	1M	3M	1Y
BYD	-9.72	27.3	14.15
HSI index	-6.47	16.74	-4.6

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	49,768	55,366	67,007	77,993
Net Profit	553	434	1,869	2,527
EPS, CNY	0.23	0.18	0.79	1.07
P/E, x	160.0	210.4	47.5	35.1
BVPS, CNY	9.22	10.46	11.41	13.11
P/BV, x	4.1	3.6	3.3	2.9
DPS (CNY)	0.05	0.00	0.04	0.09
Div. Yield (%)	0.1%	0.0%	0.1%	0.2%

Source: Company reports, Phillip Securities Est.

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RMB 15 billion of private placement goes to power battery and New Energy Vehicle

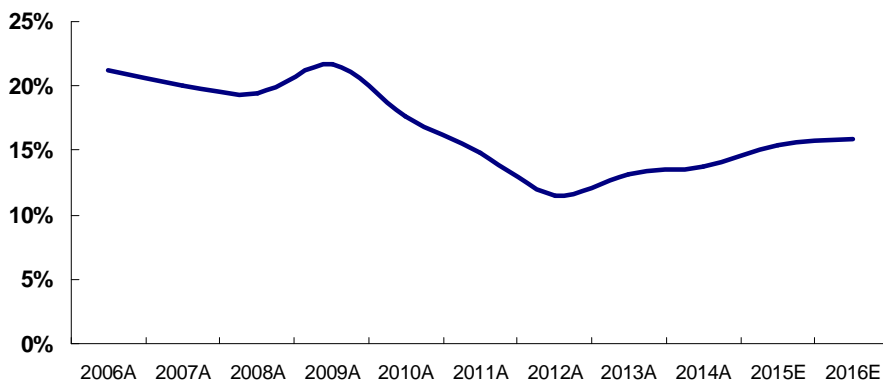
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Thereinto, RMB 6 billion of the amount will be invested in the auto battery capacity expansion in a period of 18 months. When the project is completed, the capacity will increase by 6GWh. The company is among the leading group in the commercialization of NEV in China. In 2014, the company sold about 15,000 BYD Qin cars, representing 50% of the total PHEV passenger cars across the country. Suppressed by the inadequate capacity of auto batteries, the company has some unfilled orders for NEVs. Before, BYD raised HK\$4.2 billion through placement in Hong Kong stock market in order to increase its battery production capacity. According to the schedule, new capacity was already put into operation in Q1 this year and by the end of March, its capacity rose to 3GWh, with 4.6GWh to be achieved by the end of this year and 10GWh in 2017. By then, the capacity bottleneck will have been resolved.

RMB 5 billion will be earmarked for NEV R&D. BYD announced to launch “7+4” NEV Project soon, which aims to cover seven major target markets (private car, city bus, taxi, sanitation truck, inter-city bus, light truck and construction truck) and four markets of special vehicles (used in warehouses, airports, mines and harbors). Once the project is implemented, BYD NEV will be found in every field of land transportation means.

The remaining RMB 4 billion will be used to supplement working capital and pay back bank loans, easing the high liability due to the previous huge investment.

BYD`s gross margin trend



Source: Company, Phillip Securities Hong Kong Research

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Peer Comparison

Ticker	Name	Mark Cap HKD-mil	Best		Best		Best		ROA LF ROE	
			Best P/B	P/B (Y+1)	Best P/E	P/E (Y+1)	EBITDA	P/B	(%)	(%)
2238 HK Equity	GAC	94219	1.0	0.9	10.2	8.3	80.9	1.1	5.3	9.3
1211 HK Equity	BYD	196082	3.4	3.3	50.5	43.4	23.6	4.2	0.5	1.8
489 HK Equity	DONGFENG	96845	0.9	0.8	6.1	5.6	24.9	1.1	9.8	18.8
2333 HK Equity	GWM	167986	2.7	2.2	9.7	8.1	8.7	3.4	14.1	26.2
1114 HK Equity	BRILLIANCE	55183	2.0	1.6	7.9	6.7	N/A	2.6	25.6	36.1
175 HK Equity	GEELY	33887	1.3	1.2	10.6	8.7	5.4	1.6	4.0	8.6
200550 CH Equity	CHANG AN	125774	2.1	1.6	6.9	5.7	19.6	2.7	12.1	33.1
F US Equity	FORD	470914	2.1	1.8	9.6	8.1	4.8	2.4	1.5	12.1
GM US Equity	GM	442949	1.5	1.3	7.9	6.9	3.0	1.6	2.6	9.6
RNO FP Equity	RENAULT	244713	1.0	0.9	10.1	8.2	5.7	1.2	2.4	8.0
UG FP Equity	PEUGEOT	128196	1.5	1.4	17.3	11.7	3.5	1.6	-1.2	-8.8
VOW GR Equity	VW	890950	1.1	1.0	8.9	7.9	7.3	1.1	3.2	13.0
BMW GR Equity	BMW	565088	1.6	1.4	10.5	9.8	7.9	1.8	3.8	16.1
DDAIF US Equity	DAIMLER	786098	1.8	1.6	11.1	9.9	3.9	2.0	4.1	17.9
TTMT IN Equity	TATA	162306	1.5	1.2	7.2	5.9	3.4	2.5	6.1	23.0
7203 JP Equity	TOYOTA	1795942	1.4	1.3	10.7	9.8	10.3	1.6	4.9	13.9
7267 JP Equity	HONDA	465771	1.1	1.0	11.8	10.2	8.2	1.1	3.1	8.3
7201 JP Equity	NISSAN	356856	1.0	0.9	10.1	9.1	3.9	1.1	2.9	10.0
7269 JP Equity	SUZUKI	150234	1.5	1.4	19.8	17.3	5.5	1.6	3.2	6.9
7261 JP Equity	MAZDA	95930	1.6	1.3	9.7	8.6	5.5	1.8	6.7	20.8
7211 JP Equity	MITSUBISHI	67641	1.5	1.3	9.7	9.5	4.1	1.6	7.6	19.7
005380 KS Equity	HYUNDAI	208405	0.6	0.5	4.8	4.5	6.7	0.5	5.1	10.5
000270 KS Equity	KIA	128873	0.7	0.7	5.9	5.5	4.3	0.8	7.6	14.0

Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios						
P/E (X), adj.	63.0	1,108.7	160.0	210.4	47.5	35.1
P/B (X)	4.3	4.3	4.1	3.6	3.3	2.9
Dividend Yield (%)	0.0%	0.0%	0.1%	0.0%	0.1%	0.2%
Dividend payout ratio (%)	0.0%	0.0%	21.3%	0.0%	5.1%	8.4%
Per share data (RMB)						
EPS, reported	0.61	0.03	0.23	0.18	0.79	1.07
EPS, adj.	0.61	0.03	0.23	0.18	0.79	1.07
DPS	0.00	0.00	0.05	0.00	0.04	0.09
BVPS	8.97	9.00	9.22	10.46	11.41	13.11
Growth & Margins (%)						
Growth						
Revenue	-0.8%	-4.2%	12.1%	11.2%	21.0%	16.4%
EBIT	-27.9%	-53.3%	60.4%	22.8%	80.0%	23.8%
Net Income, adj.	-45.1%	-94.1%	579.6%	-21.6%	331.0%	35.3%
Margins						
Gross margin	14.8%	11.6%	13.1%	13.8%	15.4%	15.9%
EBIT margin	5.3%	2.6%	3.7%	4.1%	6.1%	6.5%
Net Profit Margin	3.0%	0.2%	1.1%	0.8%	2.8%	3.2%
Key Ratios						
ROE (%)	7.00%	0.38%	2.58%	1.8%	7.1%	8.7%
ROA (%)	2.31%	0.12%	0.75%	0.5%	1.9%	2.4%
Income Statement (RMB mn)						
Revenue	46312	44381	49768	55,366	67,007	77,993
Cost of sales	(39,445)	(39,255)	(43,252)	(47,743)	(56,688)	(65,592)
Gross profit	6867	5126	6516	7,623	10,319	12,401
Other income and gains	1289	974	1133	1,721	1,880	1,918
Operating expenditure	(5,688)	(4,922)	(5,752)	(6,951)	(8,014)	(9,172)
Financial costs	(742)	(862)	(1,017)	(1,397)	(1,410)	(1,378)
Profit before tax	1,727	291	832	874	2,678	3,683
Tax	(132)	(78)	(56)	(134)	(428)	(645)
Profit for the period	1,595	213	776	740	2,250	3,038
Minority interests	(210)	(132)	(223)	(306)	(381)	(511)
Net profit	1,385	81	553	434	1,869	2,527
Balance Sheet (RMB mn)						
Total Assets						
Cash & cash equivalent	3,737	4,042	4,511	3,950	5,085	5,785
Total Liabilities						
Non-controlling interest	2,856	2,947	3,147	3,529	3,903	4,493
Total Equity						
Shareholder Equity	21,125	21,197	21,710	25,366	26,976	30,986

Source: PSR

(Financial figures as at 22 Jun 2015)

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

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

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