

BYD (1211.HK)

Beautiful results this year, more prosperous results expected next year

Hong Kong | Automobile | Update Report

20 January 2016

Upward adjusted results forecast as expect to earn 5.2 to 5.6 times more

BYD has recently revised the results forecast for the year of 2015, expecting net profit of the whole year ranged from 2.68 to 2.85 billion, which surged 518.18% to 557.39% yoy and was far higher than the figure stated on the 2015 Third Quarterly Report (ranged from 2.32 to 2.52 billion, with yoy growth of 13% to 15%).

Explosive growth in sales of new energy vehicles induced upward adjustment of earnings forecast

Reason for the upward adjustment of earnings forecast: the domestic new energy vehicles industry experienced explosive growth in 2015Q4. As the leading company of the domestic new energy vehicles industry, the Company's products were moved into undersupply. Although the Company's new energy vehicles production is running at full capacity, it still cannot meet the enormous demand of the market. Due to the higher gross profit margin of the new energy vehicles segment, the profit level of the Company have substantially increased and delivered better-than-expected operating results.

Beautiful results this year, more prosperous results expected next year

In 2015, the new energy vehicles segment of the Company performed excellently. The year to date accumulated sales volume of new energy vehicles exceeded 60,000 units, ranking top globally and occupying one third of the domestic Chinese market. Among which, Hybrid Sedan "Qin" and Hybrid SUV "Tang" accounted for 31,898 units (increased 1.2 times compared to 2014) and 18,375 units respectively; while electric vehicles including E6, E5, K9 and others accounted for 7,029 units, 1,426 units and about 3,000 units respectively. In 2016, the Company would continue to enrich the product lines of new energy vehicles: the EV version of "Qin" namely SUV "Yuan", and MPV "Shang" etc. will be launched. In addition to effect from the release of capacity of electric batteries, the Company's business results will be boosted further again in the upcoming future.

Approval of the application for the additional A Shares issue and motivation plan of staff shareholding brought positive impact to the Company

According to the announcement made by the Company in late December, the application for the non-public issuance of new A Shares, which aimed at expanding the business of new energy vehicles and electric batteries, was approved by CSRC. With this financing amounted to 15 billion, we expect the Company can achieve lowering the financial burden, expanding the production capacity of electric batteries, as well as safeguarding the market-leading position in new energy vehicles industry.

In 2015, the Company introduced motivation plan of shareholding by staffs for the first time. A total of 97 staffs will be included in this plan and no more than 32.66 million shares would be held by them, which accounted for 1.32% of the total equity of the Company. We believe that such motivation plan would contribute to the formulation of long-lasting motivation mechanism, and also demonstrated the management's confidence and determination towards the long-term development of the Company.

BUY (Upgrade)

CMP: HKD 36.05

(Closing price as at 18 Jan. 2016)

TARGET: HKD 55.00 (+53%)

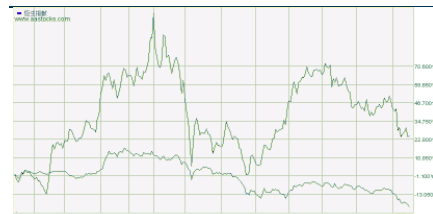
COMPANY DATA

O/S SHARES (MN) :	2476
MARKET CAP (HKD MN) :	32986
52 - WK HI/LO (HKD):	62.3 / 24.85

SHARE HOLDING PATTERN, %

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

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY13	FY14	FY15E	FY16E
Net Sales	49,768	55,366	69,296	89,756
Net Profit	553	434	2,787	3,527
EPS, CNY	0.23	0.18	1.13	1.29
P/E, x	120.6	158.7	26.6	23.6
BVPS, CNY	9.22	10.46	12.03	16.45
P/BV, x	3.1	2.7	2.5	1.9
DPS (CNY)	0.05	0.00	0.06	0.11
Div. Yield (%)	0.2%	0.0%	0.2%	0.4%

Source: Company reports, Phillip Securities Est.

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Investment Thesis

Taken into account that BYD sold the subsidiary of mobile phone parts in 2015Q3 and recorded the one-off investment earning of 1.4 billion, we adjusted the expected EPS of 2015/2016 to RMB1.13 / RMB1.29 and maintained the target price of HKD55 unchanged, which corresponded to 41/36x P/E and 3.8/2.8x P/B ratio for 2015/2016. We recommended the rating of "Buy". (Closing price as at 18 Jan. 2016)

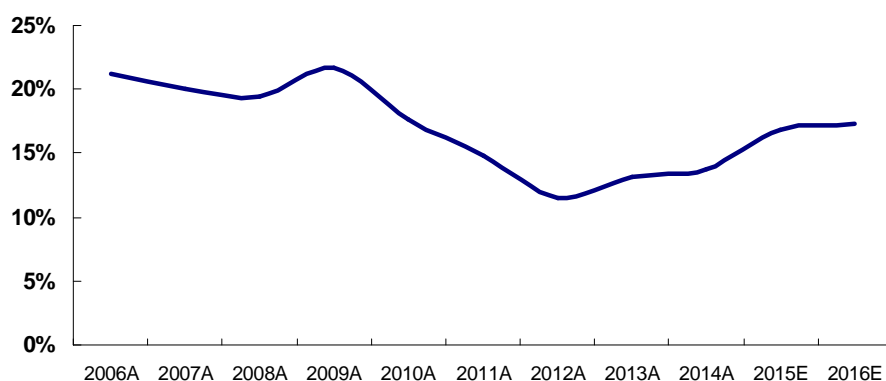
Risk

The plan of non-public issuance of new A Shares fails

Sales of new energy vehicles is not as good as expected

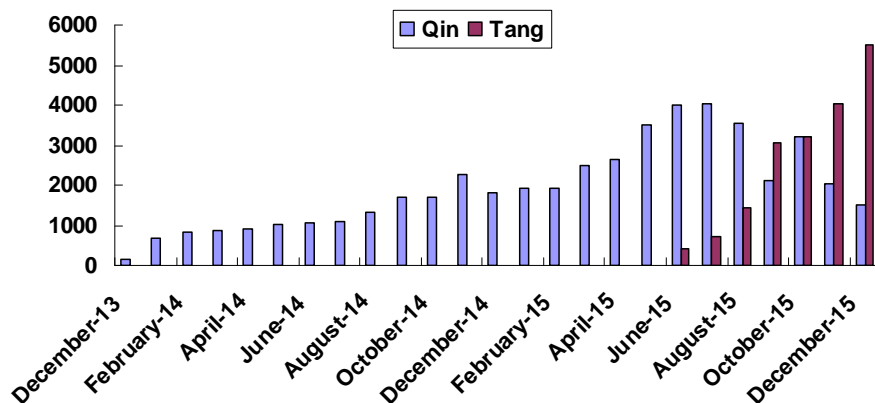
Businesses of mobile phones and solar energy drag down business performance.

BYD's gross margin trend



Source: Company, Phillip Securities Hong Kong Research

BYD's Qin&Tang monthly sales (units)



Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios						
P/E (X), adj.	47.5	836.2	120.6	158.7	26.6	23.6
P/B (X)	3.2	3.2	3.1	2.7	2.5	1.9
Dividend Yield (%)	0.0%	0.0%	0.2%	0.0%	0.2%	0.4%
Dividend payout ratio (%)	0.0%	0.0%	21.3%	0.0%	5.3%	8.5%
Per share data (RMB)						
EPS, reported	0.61	0.03	0.23	0.18	1.13	1.31
EPS, adj.	0.61	0.03	0.23	0.18	1.13	1.29
DPS	0.00	0.00	0.05	0.00	0.06	0.11
BVPS	8.97	9.00	9.22	10.46	12.03	16.45
Growth & Margins (%)						
Growth						
Revenue	-0.8%	-4.2%	12.1%	11.2%	25.2%	29.5%
EBIT	-27.9%	-53.3%	60.4%	22.8%	131.0%	25.4%
Net Income, adj.	-45.1%	-94.1%	579.6%	-21.6%	542.8%	26.6%
Margins						
Gross margin	14.8%	11.6%	13.1%	13.8%	16.8%	17.3%
EBIT margin	5.3%	2.6%	3.7%	4.1%	7.6%	7.3%
Net Profit Margin	3.0%	0.2%	1.1%	0.8%	4.0%	3.9%
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	69,296	89,756
Cost of sales	(39,445)	(39,255)	(43,252)	(47,743)	(57,654)	(74,228)
Gross profit	6867	5126	6516	7,623	11,642	15,528
Other income and gains	1289	974	1133	1,721	2,703	2,018
Operating expenditure	(5,688)	(4,922)	(5,752)	(6,951)	(8,662)	(10,860)
Financial costs	(742)	(862)	(1,017)	(1,397)	(1,515)	(1,378)
Profit before tax	1,727	291	832	874	3,731	5,201
Tax	(132)	(78)	(56)	(134)	(623)	(863)
Profit for the period	1,595	213	776	740	3,108	4,338
Minority interests	(210)	(132)	(223)	(306)	(321)	(811)
Net profit	1,385	81	553	434	2,787	3,527

FYE DEC	FY11	FY12	FY13	FY14F	FY15F	FY16F
Balance Sheet (RMB mn)						
Total Assets	66,881	70,008	78,015	94,009	110,197	127,197
Cash & cash equivalent	3,737	4,042	4,511	3,950	5,085	6,285
Total Liabilities	42,901	45,863	53,158	65,114	76,518	78,718
Non-controlling interest	2,856	2,947	3,147	3,529	3,903	4,093
Total Equity	23,980	24,144	24,856	28,894	33,679	48,479
Shareholder Equity	21,125	21,197	21,710	25,366	29,776	44,386

Source: PSR

(Financial figures as at 18 January 2016)

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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