

BYD (1211.HK)

Ups and Downs in Segments` Business; Awaiting Further Good News

Hong Kong | Automobile | Update Report

12 April 2017

Financial Data Summary

BYD reported its revenue of RMB100.21 billion in 2016, up 29.1% yoy. Profits attributable to parent company owners were RMB5.052 billion, up 78.94% yoy, with EPS of RMB1.88, DPS of RMB0.178, interim dividends of RMB0.367, total dividends of RMB0.545, and dividend payout ratio of 29%, respectively. The performance was basically in line with expectations, at the lower part of the range of 1.85 to 1.93 expected in the preliminary results.

New-energy auto-mobiles and metal cellphone components are the highlight of the annual report

Affected by subsidy fraud investigations and policy changes, the growth in Chinese new-energy auto-mobiles declined slightly in 2016, but was still obvious. The sales of EV and PHEV witnessed an increase of 65% and 17% yoy, amounting to 409 thousand units and 98 thousand units, respectively. BYD`s sales in 2016 amounted to 422 thousand units, with 326 thousand traditional fuel auto-mobiles, remaining basically unchanged; sales of new-energy auto-mobiles, amounting to 96 thousand units, up 69.85% yoy, retained its No. 1 title in the world. The annual revenue from new-energy auto-mobiles in 2016 was approx. RMB34.1 billion, exceeding traditional fuel auto-mobiles by approx. 60%, an increase of 80.97% over 2015, accounting for 34.02% of the Group`s total revenue, and has become one of the core pillars of performance. BYD will continue to develop new cars in the future and expand domestic and oversea customer markets. Qin 100 and Tang 100 were put into market in February this year, including a couple of new cars that will come to market as well, such as Song phev and Yuan phev. We hold that the extended mileage will enhance the competitiveness of our products.

In the cellphone industry, the output of domestic local smart cellphones continues to be strong, and the manufacturing techniques of metal components become more mature with a gradual drop of costs, which dominates the industry trend. In 2016, the revenue of BYD cellphone components and assembly business was nearly RMB38.083 billion, up 15.65% yoy, with metal components business increasing sharply, witnessing an increase of approx. 50%.

In the rechargeable battery field, the traditional battery market develops smoothly. The development of distributed photovoltaic cells quickens obviously, the costs of components continue to decrease, and the photovoltaic cell industry see signs of sustained recovery. Competition however remains fierce. The revenue of rechargeable battery and photovoltaic cell industry is approx. RMB7.103 billion, up 23.53% yoy. It is noteworthy that the increase of this business is mainly from rechargeable batteries. The photovoltaic cell industry is still losing money in 2016.

Financial conditions improved after the accomplishment of private placement

During this period, BYD has completed private placement of A share, introduced China Advanced Manufacturing Fund and strategic investment from Samsung Group, and successfully raised approx. RMB14.473billion which enhanced its capital strength significantly. The asset-liability ratio has been reduced to 74% from 109% in 2015, and cash in hand also has increased from MRB6.3 billion to RMB7.3 billion, which provide financial support for follow-up development. However, we also notice that the account receivable jumped to RMB45.7 billion sharply owing to the longer payback period of new-energy auto-mobiles, and the payment have been prolonged by 16 days to 132 days.

Accumulate (Downgrade)

CMP: HKD 45.10

(Closing price as at 10 April 2017)

TARGET: HKD 51.90 (+15%)

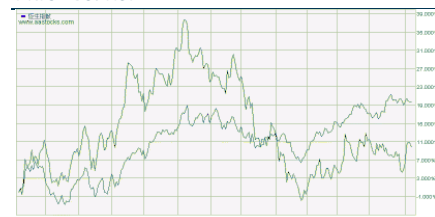
COMPANY DATA

O/S SHARES (MN) :	2728
MARKET CAP (HKD MN) :	41267
52 - WK HI/LO (HKD):	57.25/ 40.05

SHARE HOLDING PATTERN, %

Wang chuan-fu	18.79
Lv xiang-yang	8.77
Berkshire Hathaway Energy	8.25

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	77,612	100,208	117,016	137,027
Net Profit	2,822	5,052	4,892	5,814
EPS, CNY	1.12	1.88	1.81	2.17
P/E, x	33.3	21.4	22.4	18.9
BVPS, CNY	13.04	19.86	20.66	22.34
P/BV, x	2.9	2.0	2.0	1.8
DPS (CNY)	0.00	0.55	0.49	0.57
Div. Yield (%)	0.0%	1.4%	1.2%	1.4%

Source: Company reports, Phillip Securities Est.

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New-energy auto-mobile business will face adjustment and cellphone business continues to develop fast

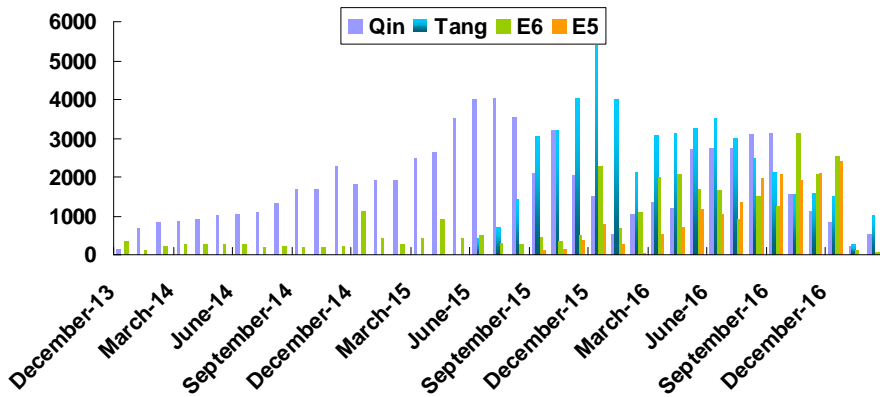
The company is forecasting a net profit decline of 23.6% to 35.4% in 2017. The main reasons: affected by the changes in government subsidy policies for new-energy auto-mobiles in Q1 2017, there will be adjustments in the new-energy auto-mobile industry in a short time, and this business should withstand a certain amount of stress, with a predicted drop of sales and profits. In the cellphone business, the company will continue to enlarge the output of metal shells and take great pains to develop 3D glass techniques in terms of new materials application so as to achieve sustainable increase of business. We hold the flux of auto-mobile and cellphone business will contribute to the fluctuation in company's performance.

In the downstream market, the company officially launched the straddle-type light rail products named "Yungui", hence breaking into the urban rail market. Currently, it has received orders from the Shantou municipal government and billions of revenues are projected in the next few years.

Investment Thesis

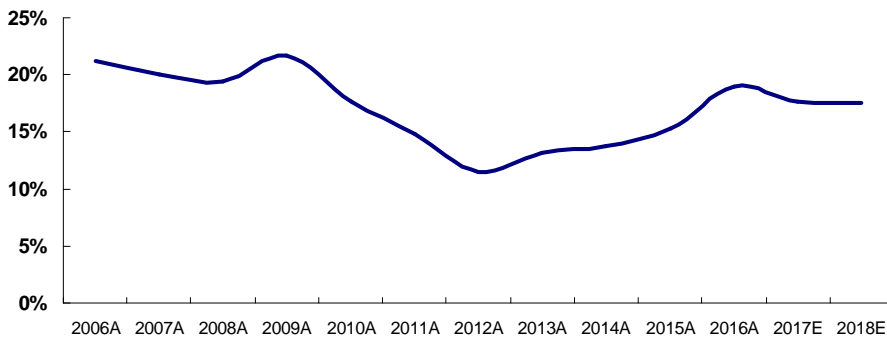
We adjusted the expected EPS of 2017/2018 to RMB1.81 / RMB 2.17 and revise the target price to HKD51.9, which corresponded to 25.8/21.8x P/E and 2.3/2.1x P/B ratio for 2016/2017. We give the rating of "Accumulate". (Closing price as at 10 April 2017)

BYD's Qin&Tang monthly sales (units)



Source: Company, Phillip Securities Hong Kong Research

BYD's gross margin trend



Source: Company, Phillip Securities Hong Kong Research

Risk

Sales of new energy vehicles is not as good as expected

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios								
P/E (X), adj.	59.5	1,046.1	150.9	198.6	33.3	21.4	22.4	18.9
P/B (X)	4.0	4.0	3.8	3.4	2.9	2.0	2.0	1.8
Dividend Yield (%)	0.0%	0.0%	0.1%	0.0%	0.0%	1.4%	1.2%	1.4%
Dividend payout ratio (%)	0.0%	0.0%	21.3%	0.0%	0.0%	29.1%	27.0%	26.3%
Per share data (RMB)								
EPS, reported	0.61	0.03	0.23	0.18	1.12	1.88	1.81	2.17
EPS, adj.	0.61	0.03	0.23	0.18	1.12	1.88	1.81	2.17
DPS	0.00	0.00	0.05	0.00	0.00	0.55	0.49	0.57
BVPS	8.97	9.00	9.22	10.46	13.04	19.86	20.66	22.34
Growth & Margins (%)								
Growth								
Revenue	-0.8%	-4.2%	12.1%	11.2%	40.2%	29.1%	16.8%	17.1%
EBIT	-27.9%	-53.3%	60.4%	22.8%	133.9%	57.6%	-3.7%	14.6%
Net Income, adj.	-45.1%	-94.1%	579.6%	-21.6%	550.9%	79.0%	-3.2%	18.8%
Margins								
Gross margin	14.8%	11.6%	13.1%	13.8%	15.3%	19.0%	17.6%	17.6%
EBIT margin	5.3%	2.6%	3.7%	4.1%	6.8%	8.4%	6.9%	6.7%
Net Profit Margin	3.0%	0.2%	1.1%	0.8%	3.6%	5.0%	4.2%	4.2%
Key Ratios								
ROE (%)	7.00%	0.38%	2.58%	1.8%	9.8%	12.1%	9.4%	10.5%
ROA (%)	2.31%	0.12%	0.75%	0.5%	2.7%	3.9%	3.3%	3.7%
Income Statement (RMB mn)								
Revenue	46312	44381	49768	55,366	77,612	100,208	117,016	137,027
Cost of sales	(39,445)	(39,255)	(43,252)	(47,743)	(65,753)	(81,189)	(96,421)	(112,951)
Gross profit	6867	5126	6516	7,623	11,859	19,018	20,595	24,076
Other income and gains	1289	974	1133	1,721	2,572	1,637	1,733	1,801
Operating expenditure	(5,688)	(4,922)	(5,752)	(6,951)	(8,877)	(11,688)	(13,703)	(16,046)
Financial costs	(742)	(862)	(1,017)	(1,397)	(1,517)	(1,800)	(1,678)	(1,709)
Profit before tax	1,727	291	832	874	3,794	6,568	6,383	7,528
Tax	(132)	(78)	(56)	(134)	(657)	(1,088)	(1,040)	(1,227)
Profit for the period	1,595	213	776	740	3,137	5,480	5,343	6,301
Minority interests	(210)	(132)	(223)	(306)	(315)	(428)	(451)	(487)
Net profit	1,385	81	553	434	2,822	5,052	4,892	5,814
Balance Sheet (RMB mn)								
Total Assets	66,881	70,008	78,015	94,009	115,486	145,071	155,007	163,297
Cash & cash equivalent	3,737	4,042	4,511	3,950	6,011	7,111	8,020	8,957
Total Liabilities	42,901	45,863	53,158	65,114	79,457	89,661	97,186	100,987
Non-controlling interest	2,856	2,947	3,147	3,529	3,735	4,153	4,493	4,643
Total Equity	23,980	24,144	24,856	28,894	36,029	55,409	57,821	62,310
Shareholder Equity	21,125	21,197	21,710	25,366	32,294	51,256	53,328	57,667

Source: PSR

(Financial figures as at 10 April 2017)

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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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