

BYD (1211.HK)

H2 will see a bottom out

Hong Kong | Automobile | Update Report

14 May 2018

Investment Summary

BYD's 2017 and 2018Q1 result declined by 19.5% and 83% yoy due to the change of NEV subsidy policy. We expect 2018 H1 to be a low point for BYD's automotive business. Still, with new energy vehicles and traditional fuel-engined vehicles exerting their power in H2, the Company's net profit is expected to bottom out in H2. We give BYD Accumulate rating. (Closing price as at 10 May 2018)

Summary of Result

BYD has released its 2017 annual report and 2018 first quarter report. In 2017, the Company recorded revenue of about RMB105.9 billion, an increase of 2.4% yoy; net profit attributable to parent company stood at RMB4.07 billion, a yoy decrease of 19.5%, which fell in the lower end of previous result forecast interval, equivalent to EPS of RMB1.4. The final dividend per share stood at RMB0.141 with dividend payout ratio of about 10%.

The company recorded revenue of RMB34.74 billion in the first quarter of 2018, a yoy increase of 17.5%; net profit attributable to parent company stood at RMB100 million, a yoy decrease of 83%, whereas it recorded net profit of RMB606 million in the same period last year.

The Margin Level Is not Ideal as the Subsidy Declines

By different departments, in 2017, the strong growth of mobile phone business has made up for the decline of the automotive business: annually, three major business segments, namely automotive and related products business, mobile phone parts and assembly business, rechargeable batteries and PV business revenues accounted for 53%, 39%, and 8% of total revenue, respectively. The ratio of profit before tax was 14.8%, 40.4%, and 44.7%, respectively, up 0.7 ppts, up 21 ppts and down 22 ppts, respectively. Overall gross margin of the year fell by about 1.4 ppts to 19%.

Affected by the change of subsidy policy in 2017, BYD's new energy vehicles recorded more than 110,000 units sold, an increase of 15% yoy, which was slower than the industry average. The new energy vehicle recorded revenue of about RMB38.55 billion, a growth of 13% yoy, whose proportion of total revenue increased to 37.55%. But in the traditional fuel-engined vehicle segment, sales fell by about 25% yoy due to the life cycle of older models and late launch of new models.

As a result of subsidy decline in 2018Q1, although the Company's new energy vehicles recorded robust sales growth, its profitability was obviously under pressure. Its mobile phone shell business margins also showed a small decline because of the slowdown in its main customer's orders. The company's overall gross margin fell sharply by 3.9 ppts.

Large Increase in Financial Expenses Encroaches on Profit

In terms of period cost, the Company's sales expenses increased by 0.6 ppts in 2017, the administration expenses reduced by 0.2 ppts, both of which basically remained stable. Because the new energy vehicle's accounts receivable turnover period lengthened, the Company's capital pressure has increased. Financial expense rate increased by 1 ppts or RMB540 million to RMB2.34 billion.

In 2018Q1, the three expense ratios reduced by 0.3 ppts, and increased by 0.2 ppts, and increased by 1.5 ppts, respectively. Among them, due to exchange rate losses and sharp increase in interest expenses, financial costs increased by 114% to RMB810 million yoy.

Accumulate (Maintain)

CMP: HKD 52.05

(Closing price as at 10 May 2018)

TARGET: HKD 60.00 (+15%)

COMPANY DATA

O/S SHARES (MN) :	2728
MARKET CAP (HKD MN) :	47626
52 - WK HI/LO (HKD):	83.7/ 42.85

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	FY16	FY17	FY18E	FY19E
Net Sales	100208	102651	126387	159413
Net Profit	5052	4066	4507	7627
EPS, CNY	1.88	1.40	1.56	2.70
P/E, x	24.7	30.9	27.1	15.4
BVPS, CNY	19.86	20.16	22.93	26.82
P/BV, x	2.3	2.1	1.8	1.6
DPS (CNY)	0.55	0.14	0.16	0.27
Div. Yield (%)	1.2%	0.3%	0.4%	0.6%

Source: Company reports, Phillip Securities Est.

Research Analyst
ZhangJing
 (+ 86 51699400-103)
 zhangjing@phillip.com.cn

2018H1 Will Be a Low Point for its Automotive Business

The Company expects net profit attributable to parent company to fall 83%- 71% in 2018 H1 yoy, to RMB300 million-RMB500 million, which suggests the net profit of the second quarter will be within RMB200 million- RMB400 million, a yoy decline 55%-82%. The main reason is that the Company’s new energy vehicle subsidy in the second quarter is still in a buffer period. However, with the implementation of the new subsidy standards from June 11, the subsidies on the Company’s pure EV passenger car of long range, high energy density, and low energy consumption will be greatly increased. Its models will have a maximum of 30% more subsidy yoy.

As for new models, the Company has launched the Qin EV450, e5 450, Song EV400 and other face-lift models, all of which have been equipped with ternary batteries, resulting in a significant increase in range. In 2018, the Company will also introduce a new generation of Tang, Qin, compact pure electric SUV Yuan and PHEV version of Song Max. Former Audi Head of Design, Wolfgang Egger, specially designed the Dragonface for the Company, whose market response is quite enthusiastic. Song Max’s monthly sales have surpassed 10,000 units, featuring sufficient orders currently. In the future the Company will also launch a new fuel-engined version of Tang and Qin, we think which will propel BYD’s traditional fuel-engined vehicle business back to growth road.

Investment Thesis

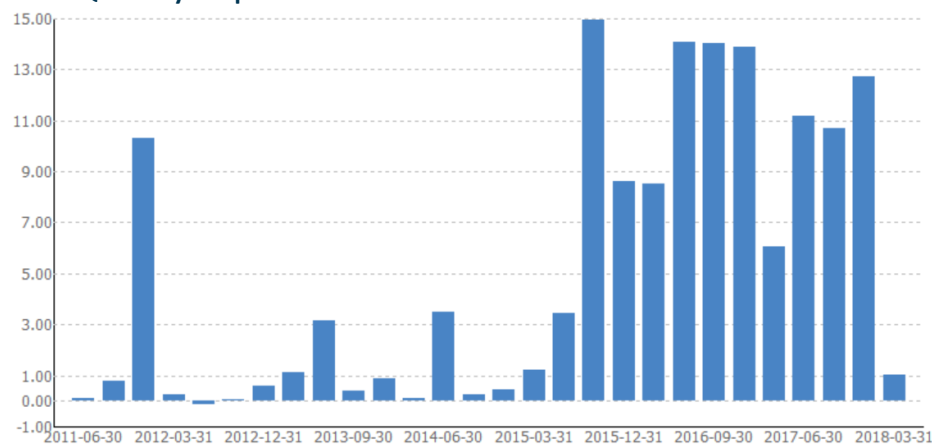
As the latest estimates, we adjusted the expected EPS of 2018 to RMB1.56, and add our 2019 expected EPS to RMB 2.7. Thus, we revise the target price to HKD60, which corresponded to 31/18x P/E and 2.1/1.8x P/B ratio for 2018/2019. We give the rating of “Accumulate”. (Closing price as at 10 May 2018)

BYD’s Est P/E P/B trend



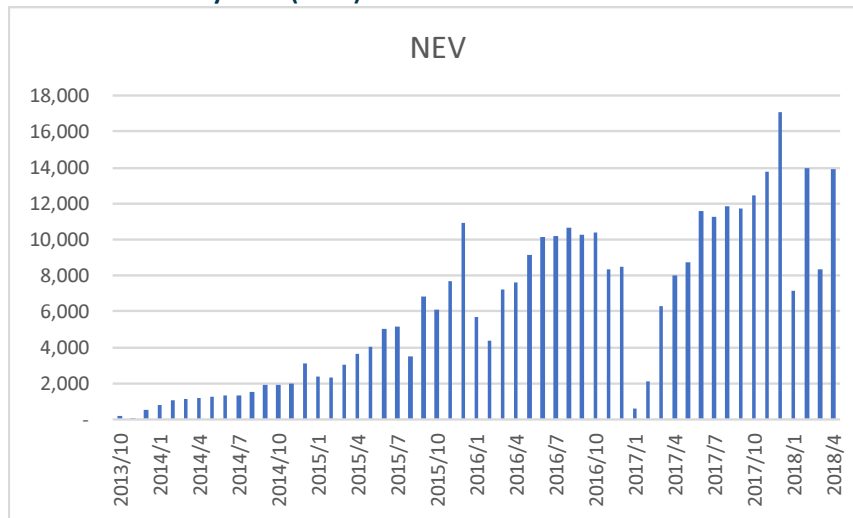
Source: Bloomberg, Phillip Securities Hong Kong Research

BYD’s Quarterly net profit



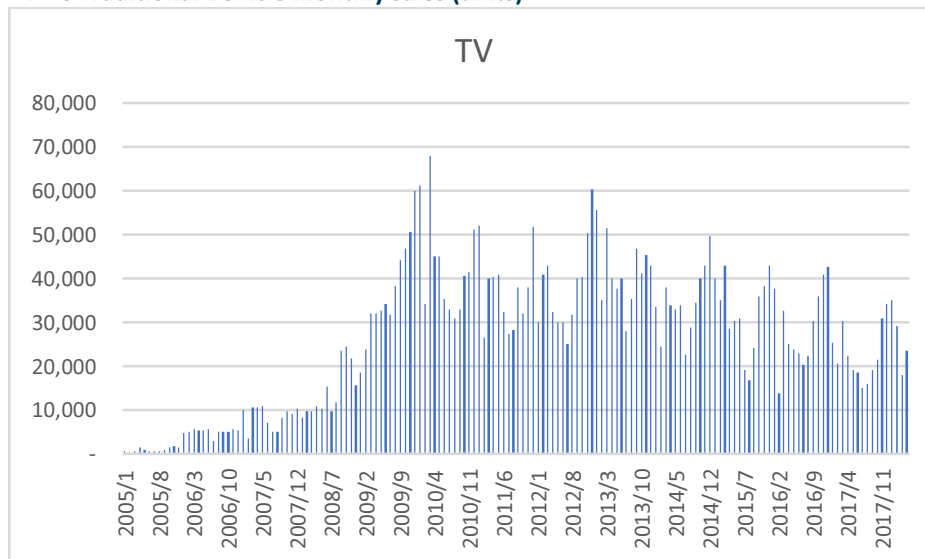
Source: Wind, Phillip Securities Hong Kong Research

BYD's NEV monthly sales (units)



Source: Wind, Phillip Securities Hong Kong Research

BYD's Traditional Vehicle monthly sales (units)



Source: Wind, Phillip Securities Hong Kong Research

Risk

- Sales of new energy vehicles is not as good as expected
- Cloud Rail business risk
- Slow-down of Hand-set components business

Financials

FYE DEC	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios					
P/E (X), adj.	38.5	24.7	30.9	27.1	15.4
P/B (X)	3.3	2.3	2.1	1.8	1.6
Dividend Yield (%)	0.0%	1.2%	0.3%	0.4%	0.6%
Dividend payout ratio (%)	0.0%	29.1%	10.1%	10.3%	10.0%
Per share data (RMB)					
EPS, reported	1.12	1.88	1.40	1.56	2.70
EPS, adj.	1.12	1.88	1.40	1.56	2.70
DPS	0.00	0.55	0.14	0.16	0.27
BVPS	13.04	19.86	20.16	22.93	26.82
Growth & Margins (%)					
Growth					
Revenue	40.2%	29.1%	2.4%	23.1%	26.1%
EBIT	133.9%	57.6%	-4.8%	10.5%	51.7%
Net Income, adj.	550.9%	79.0%	-19.5%	10.8%	69.2%
Margins					
Gross margin	15.3%	19.0%	17.5%	16.4%	17.9%
EBIT margin	6.8%	8.4%	7.8%	7.0%	8.4%
Net Profit Margin	3.6%	5.0%	4.0%	3.6%	4.8%
Key Ratios					
ROE (%)	10.4%	12.7%	7.8%	7.8%	11.5%
ROA (%)	2.7%	3.9%	2.5%	2.3%	3.4%
Income Statement (RMB mn)					
Revenue	77,612	100,208	102,651	126,387	159,413
Cost of sales	(65,753)	(81,189)	(84,716)	(105,647)	(130,899)
Gross profit	11,859	19,018	17,935	20,740	28,514
Other income and gains	2,572	1,637	2,429	3,208	3,901
Operating expenditure	(8,877)	(11,688)	(12,176)	(14,901)	(18,779)
Financial costs	(1,517)	(1,800)	(2,343)	(2,307)	(2,139)
Profit before tax	3,794	6,568	5,621	6,496	11,217
Tax	(657)	(1,088)	(704)	(968)	(1,885)
Profit for the period	3,137	5,480	4,917	5,528	9,333
Minority interests	(315)	(428)	(850)	(1,021)	(1,706)
Net profit	2,822	5,052	4,066	4,507	7,627
Balance Sheet (RMB mn)					
Total Assets	115,486	145,071	178,099	210,207	243,097
Cash & cash equivalent	6,011	7,111	8,936	9,957	11,000
Total Liabilities	79,457	89,661	118,142	141,987	163,387
Non-controlling interest	3,735	4,153	4,953	5,673	6,543
Total Equity	36,029	55,409	59,957	68,220	79,710
Shareholder Equity	32,294	51,256	55,004	62,547	73,167

Source: PSR

(Financial figures as at 10 May 2018)

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2018 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

Level 10, 330 Collins Street
Melbourne VIC 3000

Tel (+61) 3 8633 9803 Fax (+61) 3 8633 9899

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm