

# BYD (1211.HK)

## Releasing power battery capacity is going to catch up with the backlog

Hong Kong | Automobile | Update Report

7 December 2018

### Investment Summary

#### 2018Q3 result stopped falling Y-o-Y with a surge of 1.8 times Q-o-Q

Data in BYD's report of the third quarter show that the revenue was increased by 20.5% Y-o-Y to RMB34.83 billion in the third quarter of 2018; the net profit attributable to shareholders was RMB1,048 million, a slight decrease of 1.92% Y-o-Y. Compared with the previous two quarters when BYD's earnings performance declined sharply, the profit status in the third quarter was much better: In the first and second quarter, BYD's net profit attributable was decreased by 83% and 66% Y-o-Y, respectively to RMB102 million and RMB377 million. In the third quarter, the profit stopped decreasing and returned stable, driving the accumulated reduction of BYD's profit in the first three quarters to slow down, leading to a decrease of 45.3%.

The Company predicted that the change in the annual net profit would be from -32.94% to -23.1% Y-o-Y in 2018. Upon estimation, the profit in the fourth quarter of the Company would be from RMB1.2 billion to RMB1.6 billion, an increase of -5.66%-25.49% compared with the same period of last year.

#### The GM/cash flow both improved, while the financial expenses still enormous

With the end of the transition period, the sales volume of BYD's new energy vehicles hit the lowest point and then rebounded, facilitating the rapid recovery of its profitability. In the third quarter, the gross margin of the Company was increased by 2.3 percentage points to 17.2% Q-o-Q and decreased by 1.9 percentage points Y-o-Y. The ratio of expenses to sales was decreased by 0.1 percentage point Y-o-Y, while the ratio of administration expenses to sales was basically the same; the financial expenses set a new record, an increase of RMB190 million to RMB850 million Y-o-Y, and the financial expense ratio was up by 0.1 percentage point, exerting certain negative influence on profitability. However, other earnings made by the Company in the same period were up by RMB320 million compared with the same period of last year to RMB560 million. In the third quarter, the operating cash flows recorded a net inflow of RMB8.26 billion, nearly double that of the same period of last year, and the net outflow was greatly improved compared with the first half year.

#### The new generation of Dragon Face, vehicles of BYD Dynasty series, embraced a strong product cycle

From 2017H2 to 2018Q3, BYD launched multiple full-scale redesign, degeneration and facelift models for its Dynasty brand series. In these models, BYD made noticeable improvements in power, appearance and configuration etc., promoted the user experience greatly and facilitated the strong growth of the sales volume. The selling price of the new generation of Tang vehicles exceeded RMB200,000 and is still highly popular among buyers, which fully displays the strength of the new generation of the Dragon Face vehicles of the Dynasty series.

In October 2018, the Company recorded a sales volume of 48,497 vehicles, an increase of 30% Y-o-Y. In the first ten months, the accumulative sales volume was approximately 400,000 vehicles, an increase of nearly 30% Y-o-Y, exceeding the annual sales volume of 13% in 2017.

### Accumulate (Downgrade)

CMP HKD 57.35

(Closing price as at 5 December 2018)

TARGET HKD 63 (+9.85%)

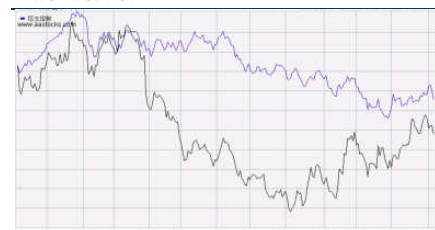
#### COMPANY DATA

O/S SHARES (MN) :	2728
MARKET CAP (HKD MN) :	51103
52 - WK HI/LO (HKD):	77.75/ 39.9

#### 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	125328	156303
Net Profit	5052	4066	3298	5804
EPS, CNY	1.88	1.40	1.13	2.04
P/E, x	27.2	34.1	44.1	24.5
BVPS, CNY	19.86	20.16	21.53	23.49
P/BV, x	2.6	2.4	2.3	2.1
DPS (CNY)	0.55	0.14	0.12	0.23
Div. Yield (%)	1.1%	0.3%	0.2%	0.5%

Source: Company reports, Phillip Securities Est.

Research Analyst

**ZhangJing**

(+ 86 51699400-103)

zhangjing@phillip.com.cn

From the perspective of different types, the sales volume of the new energy vehicles reached 27,667 in October, a slight decrease M-o-M, and an increase of over 100% Y-o-Y. In the first ten months, the accumulative new energy vehicles sales arrived at 171,085, an increase of nearly 66% Y-o-Y, and the market share was 22.5%. Among others, the sales volume of the new energy buses was 9,301 in the first ten months, and the market share was increased from 12% in 2017 to 17%.

In terms of fuel vehicles, the Company sold 20,830 vehicles in October, an increase of 4.1% M-o-M, and a decrease of 11% Y-o-Y. The sales volume in the first ten months was 228,930, an increase of approximately 10% Y-o-Y, among which, the high-end MPV Song MAX models occupied more than half, conducive to the improvement of the average sales price.

**The new battery projects are gradually put into operation, which will release the bottleneck of the capacity**

From the end of 2018 to the beginning of the 2019, the Company will launch MPV model Song MAX PHEV, SUV model Tang EV600 and others. At present, the Company has good terminal sales demand, and the orders for some hot-sale models exceed the supply due to the bottleneck of the battery capacity. As at the end of 2017, the total capacity of BYD's power batteries was 16Gwh (10Gwh LFP batteries + 6Gwh ternary batteries). This year, BYD expanded 24Gwh capacity of ternary batteries in Qinghai, which will be completed in two phases. The first phase starting from June has been putting into operation and is expected to reach the target output by the end of the next year. The Company has sign contracts of the 20Gwh Chongqing Project and the 30Gwh Xi'an Project. In 2019, the Company plans to split its battery segment and make it listed independently, which will improve the valuation level of its battery business hopefully. As the battery capacity is being put into operation gradually, and with a large number of orders in hand, the new energy vehicles of the Company are expected to grow rapidly.

**Investment Thesis**

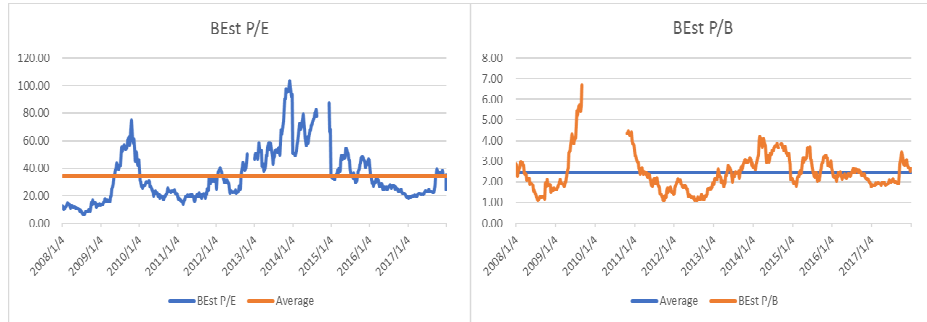
Although the results of BYD in 2018 are below our expectation, the technological improvement, transformation and implementation of BYD in recent years have activated its overall competitiveness again. The Company will fulfill its results. We believe that the Company has made forward-looking preparation for all kinds of challenges and its leading position will be enhanced. We are optimistic about the more stable and sustainable growth of the Company in the future.

As the latest estimates, we revise the target price to HKD63, which corresponded to 2.5/2.3x P/B ratio for 2018/2019. We give the rating of "Accumulate". (Closing price as at 5 December 2018)

**Risk**

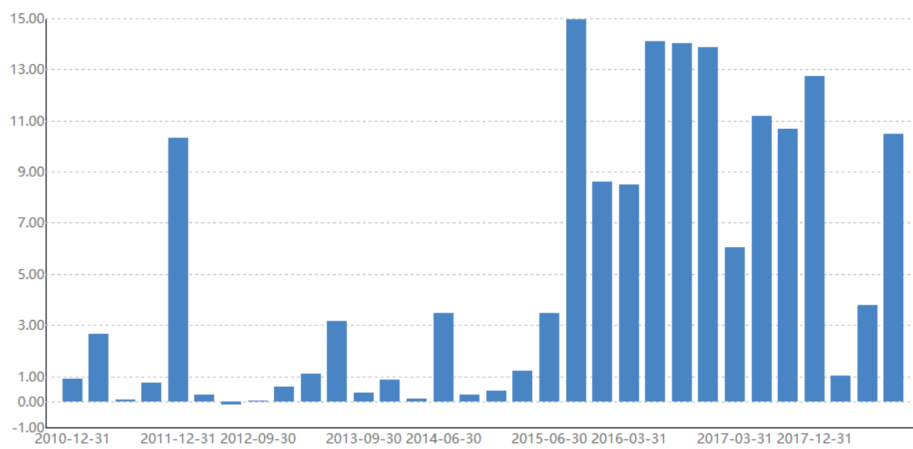
- Sales of new energy vehicles is not as good as expected
- Cloud Rail business risk
- Slow-down of Hand-set components business

**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

## Financials

FYE DEC	FY15	FY16	FY17	FY18F	FY19F
<b>Valuation Ratios</b>					
P/E (X), adj.	42.4	27.2	34.1	44.1	24.5
P/B (X)	3.6	2.6	2.4	2.3	2.1
Dividend Yield (%)	0.0%	1.1%	0.3%	0.2%	0.5%
Dividend payout ratio (%)	0.0%	29.1%	10.1%	10.6%	11.3%
<b>Per share data (RMB)</b>					
EPS, reported	1.12	1.88	1.40	1.13	2.04
EPS, adj.	1.12	1.88	1.40	1.13	2.04
DPS	0.00	0.55	0.14	0.12	0.23
BVPS	13.04	19.86	20.16	21.53	23.49
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	40.2%	29.1%	2.4%	22.1%	24.7%
EBIT	133.9%	57.6%	-4.8%	0.5%	50.6%
Net Income, adj.	550.9%	79.0%	-19.5%	-18.9%	76.0%
<b>Margins</b>					
<b>Gross margin</b>	<b>15.3%</b>	<b>19.0%</b>	<b>17.5%</b>	<b>16.3%</b>	<b>17.5%</b>
EBIT margin	6.8%	8.4%	7.8%	6.4%	7.7%
Net Profit Margin	3.6%	5.0%	4.0%	2.6%	3.7%
<b>Key Ratios</b>					
ROE (%)	10.4%	12.7%	7.8%	5.8%	9.6%
ROA (%)	2.7%	3.9%	2.5%	1.7%	2.6%
<b>Income Statement (RMB mn)</b>					
<b>Revenue</b>	<b>77,612</b>	<b>100,208</b>	<b>102,651</b>	<b>125,328</b>	<b>156,303</b>
<b>Cost of sales</b>	<b>(65,753)</b>	<b>(81,189)</b>	<b>(84,716)</b>	<b>(104,874)</b>	<b>(128,950)</b>
Gross profit	11,859	19,018	17,935	20,454	27,353
Other income and gains	2,572	1,637	2,429	2,708	3,400
Operating expenditure	(8,877)	(11,688)	(12,176)	(14,914)	(18,506)
<b>Financial costs</b>	<b>(1,517)</b>	<b>(1,800)</b>	<b>(2,343)</b>	<b>(3,087)</b>	<b>(3,359)</b>
Profit before tax	3,794	6,568	5,621	4,916	8,698
<b>Tax</b>	<b>(657)</b>	<b>(1,088)</b>	<b>(704)</b>	<b>(737)</b>	<b>(1,487)</b>
Profit for the period	3,137	5,480	4,917	4,179	7,210
<b>Minority interests</b>	<b>(315)</b>	<b>(428)</b>	<b>(850)</b>	<b>(881)</b>	<b>(1,406)</b>
<b>Net profit</b>	<b>2,822</b>	<b>5,052</b>	<b>4,066</b>	<b>3,298</b>	<b>5,804</b>

FYE DEC	FY15	FY16	FY17	FY18F	FY19F
<b>Balance Sheet (RMB mn)</b>					
<b>Total Assets</b>	<b>115,486</b>	<b>145,071</b>	<b>178,099</b>	<b>209,007</b>	<b>241,007</b>
Cash & cash equivalent	6,011	7,111	8,936	9,857	10,629
Total Liabilities	79,457	89,661	118,142	144,587	170,387
Non-controlling interest	3,735	4,153	4,953	5,673	6,543
Total Equity	36,029	55,409	59,957	64,420	70,620
<b>Shareholder Equity</b>	<b>32,294</b>	<b>51,256</b>	<b>55,004</b>	<b>58,747</b>	<b>64,077</b>

Source: PSR

(Financial figures as at 5 December 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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.ashaphillip.net/home.htm)