

BYD (1211.HK)

2018 preliminary result review

Hong Kong | Automobile | Update Report

12 March 2019

Investment Summary

Q4 Results Basically Stay Flat

Recently, BYD released its 2018 preliminary report: in 2018, the company recorded a revenue of RMB130.055 billion, up by 22.8% yoy, and a net profit attributable to shareholders of RMB2.79 billion, down by 31.4% yoy. Among them, the net profit attributable to shareholders of the fourth quarter was RMB1.26 billion, which was at the bottom of the RMB1.2-1.6 billion of Q3 report. It is basically flat yoy (down slightly by 1.18%), lower than our expectation.

New energy vehicles grow rapidly, only fuel vehicles and mobile phone business are dragged down

The company's quarterly net profit attribute to shareholders was RMB102 million, RMB377 million, RMB1.048 billion and RMB1.26 billion, down by 83%, 66%, 1.9%, and 1.2% yoy, respectively. The trend of quarterly improvement was mainly driven by the high growth rate of the company's new energy vehicles and the quarterly increase in sales volume (the growth rate of the company's new energy passenger cars increases by -34%, 52%, 51% and 42% qoq, respectively).

On the other hand, the fierce competition brought about by the decline of the domestic fuel vehicle industry has affected the profitability of the fuel vehicle business to a certain extent, although the sales volume is stable, the profitability is under pressure. In terms of mobile phone components and assembly business, due to the weak demand in the industry and the intensified market competition, both orders and profits are under great pressure. Affected by policy changes and impairment, the loss of photovoltaic business increased during the year. In addition, the increase of financial costs caused by the rising cost of financing has also affected the overall profitability of the company to a certain extent.

New energy vehicles business is getting better

In 2018, the company's sales of new energy vehicles achieved high growth, and it continued to hold the post as the sales champion of new energy vehicles for four consecutive years in the world. The leading position in the industry was further consolidated, but the overall sales of fuel vehicles remained stable. BYD's total auto sales in 2018 reached 520,687 vehicles, up by 45.16% yoy. Among them, 247,811 new energy vehicles were sold, up by 118% yoy, and 272,876 fuel vehicles were sold yoy, up by 11.35% yoy. Among new energy vehicles, 103,000 pure electric passenger cars, 124,000 plug-in hybrid passenger cars and 20,000 new energy commercial vehicles were sold.

In December 2018, sales volume of new energy vehicles and fuel vehicles were 46,650 and 22,987, respectively, up by 118% yoy and down by 34% yoy, while in January 2019, sales volume of new energy vehicles and fuel vehicles were 28,668 and 15,252, respectively, up by 292% yoy and down by 56% yoy, respectively. The strong momentum of new energy vehicles and the destocking of fuel vehicles continued.

Accumulate (Maintain)

CMP HKD 47.35

(Closing price as at 8 March 2019)

TARGET HKD 56.3 (+19%)

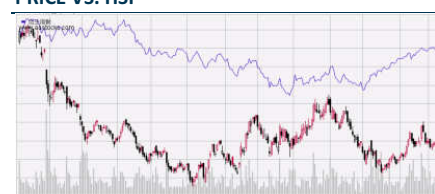
COMPANY DATA

O/S SHARES (MN) :	2728
MARKET CAP (HKD MN) :	43325
52 - WK HI/LO (HKD):	76.9/ 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	130055	158303
Net Profit	5052	4066	2790	4712
EPS, CNY	1.88	1.40	0.94	1.63
P/E, x	23.7	29.7	43.6	25.2
BVPS, CNY	19.86	20.16	21.09	23.49
P/BV, x	2.1	2.0	2.0	1.8
DPS (CNY)	0.55	0.14	0.12	0.23
Div. Yield (%)	1.3%	0.4%	0.3%	0.6%

Source: Company reports, Phillip Securities Est.

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In 2019, the company will launch a new generation of pure electric version of Tang EV600 and hybrid power of Song Max, as well as a new generation of Song, whose front face will continue to be the family style, but its appearance, interior and bottom pan will adopt a new design. In addition to the dynasty series, the e-series models including e1 and S2 will also be launched. In addition, in order to cope with the subsidy retreat, the company launched Yuan EV535, whose endurance mileage is increased to 420 km. The price has also increased, and part of the price is transferred to the cost of subsidy retreat.

It is worth mentioning that Dragon's front face has contributed a lot to the promotion of the overall image of the company's products, and the company has not stopped introducing high-end talents in the world. Recently, it announced the introduction of Lopez, former Ferrari exterior design director, and Paganetti, former Mercedes-Benz interior design director, to reserve talents for further improving the brand image of the Dynasty series.

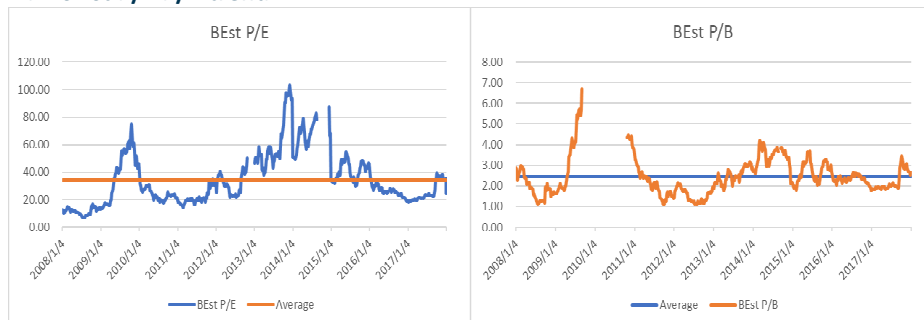
Investment Thesis

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 HKD56.3, which corresponded to 2.3/2.1x P/B ratio for 2018/2019. We give the rating of "Accumulate". (Closing price as at 8 March 2019)

Risk

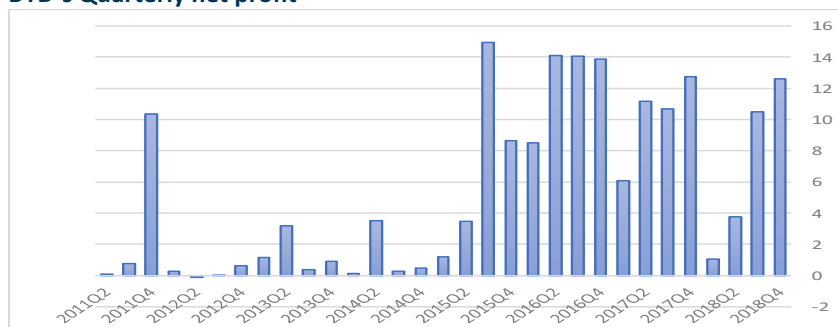
- Sales of new energy vehicles is not as good as expected
- Cloud Rail business risk
- Slow-down of Hand-set components business

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
Valuation Ratios					
P/E (X), adj.	35.0	22.5	28.1	43.6	25.2
P/B (X)	3.0	2.1	2.0	2.0	1.8
Dividend Yield (%)	0.0%	1.3%	0.4%	0.3%	0.6%
Dividend payout ratio (%)	0.0%	29.1%	10.1%	12.7%	14.1%
Per share data (RMB)					
EPS, reported	1.12	1.88	1.40	0.94	1.63
EPS, adj.	1.12	1.88	1.40	0.94	1.63
DPS	0.00	0.55	0.14	0.12	0.23
BVPS	13.04	19.86	20.16	21.09	23.49
Growth & Margins (%)					
Growth					
Revenue	40.2%	29.1%	2.4%	26.7%	21.7%
EBIT	133.9%	57.6%	-4.8%	-1.8%	36.4%
Net Income, adj.	550.9%	79.0%	-19.5%	-31.4%	68.9%
Margins					
Gross margin	15.3%	19.0%	17.5%	16.1%	16.6%
EBIT margin	6.8%	8.4%	7.8%	6.0%	6.7%
Net Profit Margin	3.6%	5.0%	4.0%	2.1%	3.0%
Key Ratios					
ROE (%)	10.4%	12.7%	7.8%	4.9%	7.8%
ROA (%)	2.7%	3.9%	2.5%	1.4%	2.1%
Income Statement (RMB mn)					
Revenue	77,612	100,208	102,651	130,055	158,303
Cost of sales	(65,753)	(81,189)	(84,716)	(109,090)	(132,104)
Gross profit	11,859	19,018	17,935	20,965	26,199
Other income and gains	2,572	1,637	2,429	2,708	3,400
Operating expenditure	(8,877)	(11,688)	(12,176)	(15,607)	(18,743)
Financial costs	(1,517)	(1,800)	(2,343)	(3,502)	(3,359)
Profit before tax	3,794	6,568	5,621	4,320	7,307
Tax	(657)	(1,088)	(704)	(648)	(1,250)
Profit for the period	3,137	5,480	4,917	3,672	6,058
Minority interests	(315)	(428)	(850)	(882)	(1,346)
Net profit	2,822	5,052	4,066	2,790	4,712

(Financial figures as at 8 March 2019)

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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