

BYD (1211 HK)

Maintaining the Momentum in Times of Stability, the Matthew Effect in the Leading Enterprises in the Industry is Expected to Be Enhanced

Hong Kong | Automobile | Update Report

19 August 2020

Investment Summary

The YoY Increase of the Total Sales in July Turned from Negative to Positive

The latest sales data shows that the auto sales of BYD in July was stable and the sales volume was 31,382, with an increase of 1.3% yoy, being positive within the year for the first time. Due to the off-seasons, the sales volume was reduced by 6.95% mom. Influenced by the impact of COVID-19 pandemic in H1 and the high cardinal number during the same period of the previous year, the accumulative auto sales volume of the previous seven months this year reached 190,000, down by 26.65% yoy, lower than the decrease of H1 by approximately 4 ppts.

The total sales volume of BYD fuel vehicles was 16,282 in July, up 12.93% yoy while down by 17% mom. Most of the sales volume was contributed by Song Pro (10,068), and the recorded sales volume of Song/Qin Pro/Tang/Song Max/Qin/F3 were 2,040/1,047/1,007/955/827/338, respectively, among which the proportion of SUV models witnessed a significant rise.

In terms of NEV, the total sales volume was 15,100 in July, down by 8.85% yoy and up by 6.6% mom. Specifically, the commercial vehicles (+133%) outperformed the passenger vehicles (-14%), and EVs outperformed the PHEV (-49%). Among the models of EVs, Qin EV/Yuan EV/E2/Song Pro EV recorded sales volume of 3,400/1,801/1,534/1,198, respectively. The sales volume in the first month of the star model Han EVs launched in the middle of July was 1,205, still gaining the climbing momentum. The sales volume of the hybrid electric vehicles of Tang DM/Song Pro DM/Qin Pro DM were 1,305/1,102/664, respectively.

Many New Models of Vehicles Were Launched, and the New Product Cycle Was Initiated

Recently, Han, BYD's all-new flagship model of the Dynasty series, was officially launched. It includes three EV vehicles and one plug-in hybrid electric vehicle, with the price after subsidies ranging from RMB219,800 to RMB279,500. Compared with rival products such as Tesla Model 3, NIO and Xpeng, BYD has a certain competitive advantage in interior decoration, safety performance, configuration, endurance, price and other aspects, which shows the company's great progress in the field of car manufacturing and strong capability of cost control. In terms of power, the maximum power of Han EV model with the longest endurance is 163kw, and the acceleration is 7.9 seconds per hundred kilometers. The maximum power of four-wheel driven high-performance model is 363 kilowatts, with an acceleration of 3.9 seconds per hundred kilometers. Their batteries are all lithium iron phosphate blade batteries with a capacity of 76.9kwh, and endurance with NEDC are 605km and 550km, respectively. Han DM uses the ternary-type battery, with the endurance of 81km in the pure electric mode, an acceleration of 4.7 seconds per hundred kilometers, and a maximum power of 321kW.

In H2, BYD's all-new SUV Song Plus, Tang, Yuan, E2 and other important models will also be launched in succession. By the end of the year, all-electric versions of BYD's existing Dynasty models will be fully equipped with new blade batteries. In 2021, Dynasty models equipped with BYD'S DM4.0 technology are also expected to be launched in succession, and the expected price will be reduced by RMB20,000 to RMB40,000. With the start of a new product cycle, BYD is expected to usher in a new wave of sales and soar in results..

Accumulate (Maintain)

CMP HKD 72.15

(Closing price as at 17 August)

TARGET HKD 79 (+9.5%)

COMPANY DATA

O/S SHARES (MN) :	2728
MARKET CAP (HKD MN) :	66017
52 - WK HI/LO (HKD):	90.0/ 33.5

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	FY18	FY19	FY20E	FY21E
Net Sales	121791	121778	143134	170232
Net Profit	2780	1614	2781	3612
EPS, CNY	0.93	0.50	0.93	1.23
P/E, x	68.9	129.6	70.1	52.8
BVPS, CNY	18.81	19.20	20.11	21.10
P/BV, x	3.4	3.4	3.2	3.1
DPS (CNY)	0.20	0.06	0.15	0.28
Div. Yield (%)	0.3%	0.1%	0.2%	0.4%

Source: Company reports, Phillip Securities Est.

Research Analyst

ZhangJing (+ 86 021 51699400-103)

zhangjing@phillip.com.cn

Business Spin-off Was Accelerated, and the Growth Space of the Company Was Opened up for a Medium and Long Term

In the strategic layout of market-oriented development, BYD Semiconductor, as China's largest vehicle IGBT manufacturer, has completed its internal restructuring, accomplished series A and A+ financing in H1 this year, and attracted some well-known institutions such as Sequoia, CCIG, SDIC, BAIC Capital, SAIS, and SMIC. In the future, BYD Semiconductor will accelerate its spin-off listing, and cultivate more subsidiaries with market competitiveness in the businesses such as the power battery, cloud rail, commercial vehicles, and PV to achieve market-oriented operations and independent spin-off listing, so as to improve the overall value of the company and open up the growth space in the medium and long term..

Investment Thesis

We believe that the technological progress and transformation of BYD in recent years will activate its overall competitiveness again, which will enable it to enlarge its market shares in the coming reshuffling period. Advance position in a qualified race track, forward-looking layout and outstanding capability to implement are helping the Company to enter a result realizing period with multiple harvest businesses. Therefore, although there are various challenges in the future, we believe that the Company is entering into a growth period with more stability and sustainability.

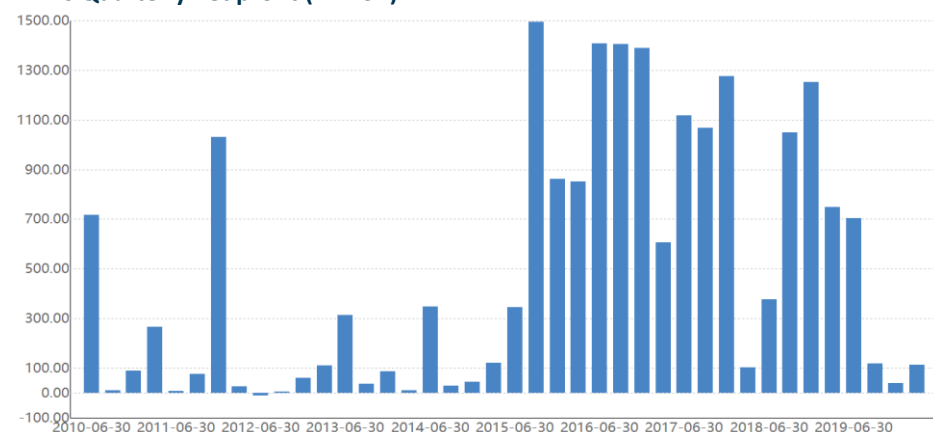
As the latest estimates, we revise the target price to HKD79, which corresponded to 3.5/3.4/3.1x P/B and 77/58/44 x P/E ratio for 2020/2021/2022. We give the rating of "Accumulate". (Closing price as at 17 August)

BYD's Est P/E P/B trend



Source: Bloomberg, Phillip Securities Hong Kong Research

BYD's Quarterly net profit (million)



Source: Wind, Phillip Securities Hong Kong Research

Risk

Sales of NEVs is not as good as expected

New business risk

Slow-down of Hand-set components business

Financials

FYE DEC	FY17	FY18	FY19	FY20F	FY21F	FY22F
Valuation Ratios						
P/E (X), adj.	42.8	68.9	129.6	70.1	52.8	40.4
P/B (X)	3.0	3.4	3.4	3.2	3.1	2.9
Dividend Yield (%)	0.2%	0.3%	0.1%	0.2%	0.4%	0.5%
Dividend payout ratio (%)	10.1%	21.9%	12.0%	16.2%	22.8%	20.5%
Per share data (RMB)						
EPS, reported	1.40	0.93	0.50	0.93	1.23	1.61
EPS, adj.	1.40	0.93	0.50	0.93	1.23	1.61
DPS	0.14	0.20	0.06	0.15	0.28	0.33
BVPS	20.16	18.81	19.20	20.11	21.10	22.67
Growth & Margins (%)						
Growth						
Revenue	2.4%	18.6%	0.0%	17.5%	18.9%	19.5%
EBIT	-4.8%	-1.2%	-24.8%	25.9%	20.9%	15.9%
Net Income, adj.	-19.5%	-31.6%	-41.9%	72.2%	29.9%	28.5%
Margins						
Gross margin	17.5%	14.8%	14.8%	15.2%	15.4%	15.5%
EBIT margin	7.8%	6.5%	4.9%	5.2%	5.3%	5.1%
Net Profit Margin	4.0%	2.3%	1.3%	1.9%	2.1%	2.3%
Key Ratios						
ROE (%)	7.8%	5.0%	2.6%	4.7%	6.0%	7.3%
ROA (%)	2.5%	1.5%	0.8%	1.4%	1.8%	2.2%
Income Statement (RMB mn)						
Revenue	102,651	121,791	121,778	143,134	170,232	203,371
Cost of sales	(84,716)	(103,724)	(103,702)	(121,335)	(143,948)	(171,848)
Gross profit	17,935	18,067	18,076	21,799	26,284	31,523
Other income and gains	2,429	4,443	2,473	2,719	3,036	2,936
Operating expenditure	(12,176)	(14,419)	(14,208)	(16,707)	(19,900)	(23,774)
Financial costs	(2,343)	(3,481)	(3,487)	(3,568)	(3,790)	(3,804)
Profit before tax	5,621	4,386	2,431	3,884	5,222	6,637
Tax	(704)	(829)	(312)	(474)	(689)	(876)
Profit for the period	4,917	3,556	2,119	3,410	4,532	5,761
Minority interests	(850)	(776)	(504)	(629)	(920)	(1,120)
Net profit	4,066	2,780	1,614	2,781	3,612	4,641
Balance Sheet (RMB mn)						
Total Assets	178,099	194,571	195,642	201,517	207,754	216,364
Cash & cash equivalent	8,936	11,151	11,674	12,003	12,874	13,421
Total Liabilities	118,142	133,877	133,040	135,927	138,900	142,900
Non-controlling interest	4,953	5,496	5,839	6,343	6,899	7,231
Total Equity	59,957	60,694	62,601	65,590	68,854	73,464
Shareholder Equity	55,004	55,198	56,762	59,247	61,955	66,233

Source: PSR

(Closing price as at 17 August)

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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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