

# BYD (1211 HK)

## Catalyst lies in valuation reshaping

Hong Kong | Automobile | Update Report

11 December 2020

### Investment Summary

#### Update of sales volume in November: "Han" is getting better and the proportion of high-end models continues to expand

According to the latest data, BYD sold 53,943 vehicles in November, up 31% yoy and up 13% mom, including 26,700 new energy passenger vehicles, up 139.4% yoy and up 15.9% mom, 1,137 new energy commercial vehicles, up 109% yoy and down 3% mom, and 27,300 traditional fuel vehicles, up 11% yoy and down 9% mom.

The sales volume of new energy passenger vehicles showed strong growth momentum. The growth was mainly driven by pure electric models, up 128% yoy, which is resulted from Han EV. The hybrid vehicles witnessed a significant increase of 174%. The increase was mainly underpinned by Han DM and new Tang DM. The increase in fuel vehicles came mainly from Song Pro. In terms of product structure, the proportion of high-end models continued to expand.

BYD's new-generation flagship Han was launched in July. Its sales volume climbed to 7,545 vehicles in October, and reached 10,105 vehicles in November, mainly high-end versions. Currently, the delivery cycle of pre-sale orders is longer than two months. Therefore, we expect the Company's total vehicle sales volume will continue to soar at the end of the year. Another popular model, the new Tang DM, has been improved in terms of the fuel consumption, interior trim, and power supply. Its product strength has also been further enhanced.

Regarding the cumulative sales in the past 11 months, the sales volume of BYD's automobiles, new energy passenger vehicles, new energy commercial vehicles and traditional fuel vehicles reached 418,000, 125,000, 8,251 and 183,000 vehicles, respectively, down 16% and 36% and up 14% and 6.3% yoy, respectively. Taking into account the low base in the same period last year, the effect of the auto show, and the mission at the end of the year, we expect the strong growth momentum in the fourth quarter will still continue.

Next year, BYD's Dynasty series will start a comprehensive upgrade. For new models equipped with blade batteries and new DM platform technology, the Company will further reduce costs and increase efficiency, lead technological innovation, and comprehensively enhance the core competitiveness of the product..

#### 2020Q3 Result hit a record high

According to the Company's report for three quarters, BYD reported a revenue of RMB19.68 billion, RMB40.82 billion and RMB44.52 billion in the first three quarters of 2020, down 35.1% and up 28.1% and 40.7% yoy, respectively. The net profit attributable to the parent company was RMB113 million, RMB1.55 billion and RMB1.75 billion, respectively, down 85% and up 120% and 1362.7% yoy, respectively. Earnings in the third quarter hit a record high.

In terms of profitability, the gross margin in the first three quarters reached 17.7%, 20.5% and 22.3%, respectively, down 1.4 pts, and up 5.2 pts and 8.5 pts yoy. The gross margin in the third quarter also set new record high for the Company. In addition to the low base in the same period last year, the substantial increase in gross margin was mainly due to the expanded proportion of high-end models in the automotive sector and the increased contribution of BYD Electronic(285@HK) (BYD Electronics recorded a net profit of RMB1.86 billion in Q3, up 312%).

### Buy (Upgrade)

CMP HKD 179

(Closing price as at 9 December)

TARGET HKD 241 (+34.6%)

#### COMPANY DATA

O/S SHARES (MN) :	2728
MARKET CAP (HKD MN) :	536235
52 - WK HI/LO (HKD):	212/ 33.5

#### SHARE HOLDING PATTERN, %

Wang chuan-fu	18.83
Lv xiang-yang	14.73
Berkshire Hathaway Energy	8.25

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	121778	156373	186957	243203
Net Profit	1614	4663	6012	8231
EPS, CNY	0.50	1.62	2.11	2.92
P/E, x	321.6	96.2	73.6	53.1
BVPS, CNY	19.20	21.30	23.37	26.01
P/BV, x	8.4	7.3	6.6	6.0
DPS (CNY)	0.06	0.19	0.28	0.39
Div. Yield (%)	0.0%	0.1%	0.2%	0.3%

Source: Company reports, Phillip Securities Est.

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The Company expects its net profit in the fourth quarter to be in the range of RMB786 million to RMB1,186 million, up 2356% yoy and down 43% qoq, respectively by the median. This is mainly based on expectations of the industry boom in the fourth quarter and sufficient orders in hand. We believe that the Company's guidance is conservative, and it is expected to exceed expectations in the fourth quarter.

### Stock price catalyst lies in valuation reshaping

BYD has completed the introduction of strategic investment in the semiconductor business and the accelerated expansion of external supply customers for blade batteries. The spin-off listing of other sectors such as cloud rail, new energy commercial vehicles and photovoltaics may be successively achieved in the future. The improvement in operational efficiency and value reshaping brought about by the spin-off will push up the Company's current potential value.

It is worth noted that the Company announced the manufacturing of the customized D1 model in cooperation with DiDi. If the product strength is recognized, the sales volume of the 2B end is expected to achieve a breakthrough, while opening up the Company's imagination of future in-depth participation in the field of shared travel.

The Company recently announced that it intends to issue no more than 183 million H shares to raise funds for replenishing working capital, repaying interest-bearing debt, R&D investment, and general corporate purposes. We believe that although the additional issuance will dilute profits in the short term, it will help the Company move lightly in the critical period when it is about to enter a new development stage. Besides, it will help the Company rapidly expand production capacity and market share, advance its position on the high-quality track, and consolidate and expand its leading edge.

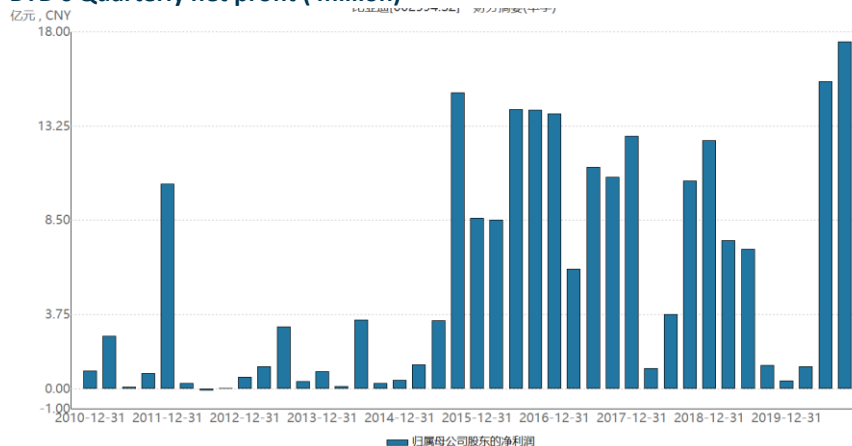
### Investment Thesis

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.

In terms of STOP valuation adopt, we give the original business (automobile, mobile phone, rechargeable battery and photovoltaic business) 139/89 HK\$/per share, power battery business and semiconductor business from two assumptions of optimistic expectation and cautious expectation. 138/94 and 12.5/8.9 HK\$/per share, the overall valuation is respectively 290/192 HK\$/per share, implying 60% and 6% upside respectively. For comprehensive consideration, we given the target price of 241 HK\$, corresponding to 2020/2021/2022 130 /99/72x P/E, 9.8/8.9/8.0x P/B, BUY rating.

(Closing price as at 9 December)

#### 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

**分部估值**

		乐观预期				谨慎预期				每股价值 (港元)	
		2021E收入 (亿元)	估值方法	倍数	价值	2021E收入 (亿元)	估值方法	倍数	价值	乐观预期	谨慎预期
整车	新能源乘用车	440	PS	5	2200	400	PS	3.5	1400	94	60
	新能源商用车	131	PS	2	262	101	PS	1.5	152	11	6
	传统燃油车	244	PS	0.5	122	214	PS	0.5	107	5	5
	2021E净利润 (亿元, 人民币)					2021E净利润 (亿元, 人民币)					
比亚迪电子	持股比66%	51	PE	18	606	47	PE	13	403	26	17
	2021E收入 (亿元)					2021E收入 (亿元)					
二次充电电池/光伏		100	PS	0.8	80	80	PS	0.5	40	3	2
	2021E收入 (亿元)					2021E收入 (亿元)					
动力电池	持股比75%	宁德时代6500亿	市值	0.5	3250	宁德时代5800亿	市值	0.4	2200	138	94
			类比公司				类比公司				
	2021E净利润 (亿元, 人民币)					2021E净利润 (亿元, 人民币)					
芯片	持股比74%	斯达半导400亿	市值	1	400	斯达半导350亿	市值	1	350	17	15
		2021E净利润 2.3亿	PE	60	102	2021E净利润 2.2亿	PE	30	51	4	2
其他 (云载/模具/视觉)					50				10	2	0.4
合计										290	192

Source: Phillip Securities Hong Kong Research

**BYD's Est P/E P/B trend**


Source: Bloomberg, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY17	FY18	FY19	FY20F	FY21F	FY22F
<b>Valuation Ratios</b>						
P/E (X), adj.	106.3	171.0	321.6	96.2	73.6	53.1
P/B (X)	7.4	8.5	8.4	7.3	6.6	6.0
Dividend Yield (%)	0.1%	0.1%	0.0%	0.1%	0.2%	0.3%
Dividend payout ratio (%)	10.1%	21.9%	12.0%	11.8%	13.3%	13.3%
<b>Per share data (RMB)</b>						
EPS, reported	1.40	0.93	0.50	1.62	2.11	2.92
EPS, adj.	1.40	0.93	0.50	1.62	2.11	2.92
DPS	0.14	0.20	0.06	0.19	0.28	0.39
BVPS	20.16	18.81	19.20	21.30	23.37	26.01
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	2.4%	18.6%	0.0%	28.4%	19.6%	30.1%
EBIT	-4.8%	-1.2%	-24.8%	83.8%	21.5%	27.3%
Net Income, adj.	-19.5%	-31.6%	-41.9%	188.8%	28.9%	36.9%
<b>Margins</b>						
Gross margin	17.5%	14.8%	14.8%	16.6%	17.0%	17.1%
EBIT margin	7.8%	6.5%	4.9%	7.0%	7.1%	6.9%
Net Profit Margin	4.0%	2.3%	1.3%	3.0%	3.2%	3.4%
<b>Key Ratios</b>						
ROE (%)	7.8%	5.0%	2.6%	8.0%	9.4%	11.8%
ROA (%)	2.5%	1.5%	0.8%	2.4%	3.0%	4.0%
<b>Income Statement (RMB mn)</b>						
Revenue	102,651	121,791	121,778	156,373	186,957	243,203
Cost of sales	(84,716)	(103,724)	(103,702)	(130,415)	(155,212)	(201,542)
Gross profit	17,935	18,067	18,076	25,958	31,745	41,661
Other income and gains	2,429	4,443	2,473	3,017	3,164	3,165
Operating expenditure	(12,176)	(14,419)	(14,208)	(17,748)	(21,425)	(27,871)
Financial costs	(2,343)	(3,481)	(3,487)	(3,706)	(3,650)	(3,711)
Profit before tax	5,621	4,386	2,431	7,171	9,566	13,118
Tax	(704)	(829)	(312)	(918)	(1,234)	(1,666)
Profit for the period	4,917	3,556	2,119	6,253	8,332	11,452
Minority interests	(850)	(776)	(504)	(1,590)	(2,320)	(3,221)
Net profit	4,066	2,780	1,614	4,663	6,012	8,231

FYE DEC	FY17	FY18	FY19	FY20F	FY21F	FY22F
<b>Balance Sheet (RMB mn)</b>						
Total Assets	178,099	194,571	195,642	198,107	202,854	211,854
Cash & cash equivalent	8,936	11,151	11,674	13,293	15,474	17,474
Total Liabilities	118,142	133,877	133,040	128,873	127,300	128,900
Non-controlling interest	4,953	5,496	5,839	8,343	8,996	9,196
Total Equity	59,957	60,694	62,601	69,234	75,554	82,954
Shareholder Equity	55,004	55,198	56,762	60,891	66,558	73,758

Source: PSR

(Closing price as at 9 December)

**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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