

BYD Electronic (International) Co. Ltd. (285 HK) NEV and new intelligent products to boost outlook; upgrade to BUY

- BYD Electronic. (“Group” or “BYDE”) to see strong revenue growth and profit margins for 2023E
- GPM to go up 2.1ppt YoY to 8.0% in 2023E due to increased contribution from higher-margin new energy vehicle (NEV) business
- On Aug 28, 2023, BYDE announced to acquire a business unit of Jabil Circuit (Singapore) Pte. Ltd. to expand manufacturing capability
- We estimate 2023E NPM to increase 1.2ppt YoY to 2.9% and raise 2023E net profit by 249.8% YoY
- Recommend BUY with TP of HK\$45.00, representing 21.6x 2023E P/E

2023E revenue to jump 34.5% YoY on new energy vehicles (NEV) business and new intelligent products business. We expect BYDE to benefit from rising revenue contributions from NEV and new intelligent products businesses in 2023E. Thanks to the robust electric vehicle shipments of its parent, BYD Company Ltd (1211 HK), revenue is expected to be boosted by higher demand for intelligent cockpits, in-vehicle entertainment system, and automatic driving system. As such, we revise up 2023E revenue by 33.2%.

GPM to climb 2.1ppt to 8.0% in 2023E. Due to higher margin of automotive intelligent system business, we forecast BYDE’s GPM to go up 2.1ppt to 8.0% in 2023E.

2023E net profit to leap 127.5% YoY. We estimate NPM to go up 1.2ppt to 2.9% in 2023E thanks to revenue growth and higher GPM.

Upgrade to BUY. We revise up 2023-24E net profit by 249.8%/326.7% due to the higher revenue and GPM estimates. We upgrade our recommendation to **BUY** with TP of HK\$ 45.00, representing 21.6x 2023E P/E.

Risks: (1) Slowdown in 5G network development; (2) Fierce peer competitions; (3) Weak smartphone shipments; (4) Slowdown in demand for components in electric vehicle shipments; (5) Increase in related party transactions; (6) Post-M&A risk.

Results and Valuation

FY ended Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	89,057	107,186	144,216	200,185	274,013
Chg (% YoY)	21.8	20.4	34.5	38.8	36.9
Net profit (RMB mn)	2,310	1,858	4,226	5,893	8,174
Chg (% YoY)	(57.5)	(19.6)	127.5	39.5	38.7
EPS (RMB)	1.025	0.824	1.875	2.615	3.628
Chg (% YoY)	(57.5)	(19.6)	127.5	39.5	38.7
BPS (RMB)	10.66	11.38	12.88	14.97	17.87
Chg (% YoY)	7.9	6.7	13.2	16.2	19.4
P/E (x)	32.70	40.66	17.88	12.82	9.24
P/B (x)	3.14	2.95	2.60	2.24	1.88
ROE (%)	9.98	7.48	15.46	18.78	22.09
ROA (%)	5.84	3.78	6.51	7.82	10.18
DPS (RMB)	0.103	0.165	0.375	0.523	0.726
Dividend Yield (%)	0.307	0.492	1.120	1.561	2.166

*Exchange rate assumption for FY23E-25E: HKD 1 = RMB 0.90

Source(s): Bloomberg, ABCI Securities estimates

Company Report Sep 11, 2023 Rating: BUY TP:HK\$ 45.00

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Share price (HK\$)	37.25
Est. share price return	20.8%
Est. dividend yield	1.1%
Est. total return	21.9%
Last Rating & TP	HOLD/HK\$19.5
Previous Report Date	Jun 16, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	38.25/16.36
Issued shares (mn)	2,253.2
Market cap (HK\$ mn)	83,931.7
Avg daily turnover (HK\$ mn)	1,100.0

Major shareholder(s)

BYD Company Ltd	65.76%
BF Trustee	6.08%

Source(s): Group

Share Performance (%)

	Absolute	Relative*
1-mth	22.6%	60.7%
3-mth	55.2%	58.9%
6-mth	55.5%	10.4%

*Relative to HSI

Source(s): Bloomberg

BYDE's 1H23 revenue grew 28.6% YoY

BYDE showed 28.6%/139.2% YoY growth in revenue and net profit in 1H23 to RMB 56.2bn/ RMB 1.5 bn. The Group's consumer electronics business revenue grew 23.8% YoY through its increased market share in the Android smartphones market. New intelligent products business revenue grew 30.1% YoY, thanks to increased contribution from residential energy storage. New energy vehicle (NEV) business revenue grew 89.5% YoY due to strong electric vehicle shipments from its parent company BYD Company Ltd.

1H23 GPM improved 2.5ppt YoY to 7.9% due to a higher capacity utilization rate, and optimized business structure.

Exhibit 1: BYDE's 1H23 revenue

RMB mn	1H22	1H23	YoY chg
Consumer electronics business revenue	33,151	41,048	23.8%
New intelligent products business revenue	6,917	8,999	30.1%
New energy vehicle business revenue	3,237	6,133	89.5%
Total revenue	43,694	56,180	28.6%

Source(s): The Group

2023E revenue to increase 34.5% YoY

Although global smartphone shipments were weak in 1H23, BYDE managed to offset some of the negative impacts by expanding its NEV and new intelligent products businesses. We expect BYDE to benefit from its parent, BYD Company Ltd (1211 HK), through increased demand for intelligent cockpits, in-vehicle entertainment system, and automatic driving system. As such, we revise up 2023E revenue by 33.2%.

Expand manufacturing capacity through acquisitions

On Aug 28, 2023, BYDE announced to acquire a business unit of Jabil Circuit (Singapore) Pte. Ltd. at the consideration of RMB 15.8bn. The acquired business unit has a product manufacturing business in Chengdu and Wuxi. We expect BYDE to expand its manufacturing capacity to support the strong demand for NEV and new intelligent products. In our financial model, we have reflected the impacts of this acquisition.

We forecast BYDE's 2023E GPM to improve 2.1ppt YoY to 8.0% due to higher margins in automotive intelligent system business. The Group's NPM is estimated to go up 1.2ppt YoY to 3.0% for 2023E.

Exhibit 2: Changes in financial estimates

(RMB mn)	OLD			NEW			CHANGE		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	108,259	118,070	N/A	144,216	200,185	274,013	33.2%	69.5%	N/A
Net Profit	1,208	1,381	N/A	4,226	5,893	8,174	249.8%	326.7%	N/A
EPS (RMB)	0.536	0.613	N/A	1.875	2.615	3.628	249.8%	326.6%	N/A

Source(s): ABCI Securities estimates



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

BYD Electronic (International) Co. Ltd. (285 HK, BUY)

IT Sector

Sep 11, 2023

Valuations

Recommend BUY with TP at HK\$45.00

We revise up 2023-24E net profit by 249.8%/326.7%, due to the upward adjustments in revenue and GPM. We revise up the TP accordingly. Our DCF-derived TP of the Group is HK\$45.00 (WACC: 11.9%; perpetuity growth rate: 2.2%), representing 21.6x 2023E P/E



Financial Statements

Consolidated income statement (2021A-2025E)

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Consumer electronics business revenue	71,632	82,209	106,033	142,207	187,745
New Intelligent products business revenue	12,445	15,207	18,248	21,533	24,655
New energy vehicle business revenue	3,770	9,263	19,452	35,987	61,177
Others revenue	1,210	507	482	458	435
Total revenue	89,057	107,186	144,216	200,185	274,013
Cost of revenue	(83,028)	(100,836)	(132,679)	(183,570)	(250,174)
Gross profit	6,029	6,350	11,537	16,615	23,839
R&D expenses	(3,308)	(3,969)	(5,913)	(8,408)	(12,057)
Selling and distribution expenses	(275)	(535)	(721)	(1,001)	(1,370)
Administrative expenses	(1,041)	(1,235)	(1,731)	(2,402)	(3,288)
Finance costs	(43)	(59)	(102)	(84)	(89)
Others*	1,104	1,386	1,583	1,769	1,967
Profit before tax	2,465	1,939	4,654	6,490	9,003
Income tax expense	(155)	(81)	(428)	(597)	(828)
Shareholders' profit	2,310	1,858	4,226	5,893	8,174
EPS (RMB)	1.025	0.824	1.875	2.615	3.628
DPS (RMB)	0.103	0.165	0.375	0.523	0.726

Source(s): Group, ABCI Securities estimates

*include Other income and gains, Government grants and subsidies, Impairment losses on financial assets, net, Loss on derecognition of financial assets measured at amortised cost and Other expenses



Consolidated balance sheet (2021A-2025E)

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Property, plant and equipment	11,182	12,941	27,459	28,008	28,568
Prepayments, other receivables and other assets	921	1,263	1,333	1,406	1,483
Others	1,443	2,302	2,419	2,542	2,671
Total non-current assets	13,545	16,506	31,210	31,955	32,723
Cash & cash equivalents	2,825	6,244	4,312	6,039	7,280
Inventories	10,567	17,046	19,092	20,619	22,269
Trade receivables	9,240	10,471	11,100	11,766	12,472
Others	4,998	6,727	7,086	7,482	7,919
Total current assets	27,630	40,488	41,589	45,906	49,940
Total assets	41,175	56,994	72,799	77,862	82,662
Trade and bill payables	11,724	22,002	23,212	24,489	25,836
Other payables, other liabilities and accruals	4,176	5,421	5,692	5,977	6,276
Interest-bearing bank and other borrowings	0	2,004	5,812	5,231	3,662
Others	320	715	757	802	849
Total current liabilities	16,220	30,143	35,474	36,499	36,623
Deferred tax liabilities	404	395	434	412	392
Lease liabilities	374	591	627	664	704
Deferred income	150	231	249	258	267
Interest-bearing borrowings	0	0	7,000	6,300	4,410
Total non-current liabilities	928	1,216	8,310	7,634	5,773
Total liabilities	17,148	31,359	43,784	44,133	42,395
Total equity	24,027	25,635	29,015	33,729	40,267

Source(s): Group, ABCI Securities estimates



Consolidated Cash Flow Statement (2021A-2025E)

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Operating profit before tax	5,257	4,960	7,841	9,264	11,616
Change in working capital	1,137	1,141	(739)	174	236
Others	(59)	(140)	(296)	(436)	(625)
Operating cash flow	6,335	5,961	6,806	9,002	11,227
Purchases of items of property, plant and equipment	(3,929)	(4,175)	(18,383)	(4,258)	(4,343)
Others	164	(101)	7	(10)	(25)
Investing cash flow	(3,764)	(4,276)	(18,376)	(4,268)	(4,369)
Dividends paid	(543)	(232)	(372)	(846)	(1,179)
Change of bank loans	(1,991)	2,009	10,808	(1,281)	(3,459)
Others	(664)	(16)	(770)	(851)	(949)
Financing cash flow	(3,198)	1,761	9,666	(2,978)	(5,588)
Net increase in cash and cash equivalents	(628)	3,446	(1,904)	1,756	1,271
Cash and cash equivalents at beginning of year	3,466	2,825	6,244	4,312	6,039
FX change effect	(13)	(27)	(28)	(29)	(30)
Cash and cash equivalents at end of year	2,825	6,244	4,312	6,039	7,280

Source(s): Group, ABCI Securities estimates

Financial ratios (2021A-2025E)

As of Dec 31	2021A	2022A	2023E	2024E	2025E
<u>YoY Growth:</u>					
Revenue	21.8%	20.4%	34.5%	38.8%	36.9%
Gross profit	(37.4%)	5.3%	81.7%	44.0%	43.5%
Net profit	(57.5%)	(19.6%)	127.5%	39.5%	38.7%
<u>Profitability ratios:</u>					
ROE	10.0%	7.5%	15.5%	18.8%	22.1%
ROA	5.8%	3.8%	6.5%	7.8%	10.2%
<u>Costs ratio:</u>					
R&D expenses/ revenue	3.7%	3.7%	4.1%	4.2%	4.4%
Selling and distribution expenses/ revenue	0.3%	0.5%	0.5%	0.5%	0.5%
Administrative expenses/ revenue	1.2%	1.2%	1.2%	1.2%	1.2%
<u>Margins:</u>					
Gross profit margin	6.8%	5.9%	8.0%	8.3%	8.7%
Net profit margin	2.6%	1.7%	2.9%	2.9%	3.0%

Source(s): Group, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 9\%$)
Hold	- Market return rate ($\sim 9\%$) \leq Stock return rate $<$ Market return rate ($\sim 9\%$)
Sell	Stock return $<$ - Market return ($\sim 9\%$)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2006 (HSI total return index 2006-22 averaged at 8.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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