



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

CHINA TELECOM SECTOR

June 16, 2022

Industrial
digitalization to
propel growth



Internet of



China Telecom Sector

Industrial digitalization to propel growth

- Telecom operators are developing emerging businesses (industrial internet, data center, and cloud computing), which will serve as a strong driver for the sector, in our view
- The no. of 5G base stations in China will reach 2.03mn in 2022E, supporting the upstream supply chain such as the telecom equipment providers
- Telecom operators to benefit from higher 5G user penetration and mobile ARPU
- Higher CAPEX will increase demand for 5G base stations
- OVERWEIGHT on the sector; China Mobile (941 HK/600941 CH) is our top pick based on its high dividend yield and attractive potential return

China Mobile – a winner in the 5G telecom market. We forecast 5G user penetration to reach 30.0% by end-2022E. China Mobile is expected to maintain the highest 5G market share in 2022E because of its extensive mobile network coverage and abundant resources.

Contribution from emerging businesses is rising. The emerging businesses (industrial internet, data center, cloud computing, etc.) is growing robustly, boosting revenue growth. In Feb 2022, the NDRC introduced the scheme of “East-to-West Computing Resources Transfer” strategy to develop data centers in the western regions to improve data processing capacity and boost cloud-computing adoption.

Telecom operators’ CAPEX to go up 2.8% YoY in 2022E for developing cloud computing, data center, 5G network, and fixed network. There will be 0.6mn new 5G base stations in 2022E, bringing the total no. of 5G base stations to 2.03mn. The rise in CAPEX will benefit telecom equipment providers.

2022E global smartphone shipment to drop 5.0% YoY. The smartphone replacement cycle is extending, which affects the smartphone shipment. We expect global smartphone shipment to drop 5.0% YoY in 2022E due to unfavorable economic conditions.

OVERWEIGHT on the sector. The sector’s rating is **OVERWEIGHT** on the back of contribution from emerging businesses and the swift 5G network development. Our sector top pick is **China Mobile (941 HK/600941 CH)** based on its dominance in China’s mobile and fixed-line markets, high dividend yield (7.2%/5.0% for H/A shr), and attractive upside potential (70.5%/46.1% for H/A shr).

Risks: 1) Fierce market competition; 2) Fixed line broadband service tariff reduction; 3) Change in 5G development strategy; 4) Sluggish smartphone shipments.

Sector Report

June 16, 2022

OVERWEIGHT

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Key Data

Avg 22E P/E	11.80
Avg 22E P/B	1.12
Avg. 22E Divd. Yield (%)	3.68

Source(s): ABCI Securities estimates

Sector Performance

	Absolute	Relative*
1-mth	1.7%	(0.4%)
3-mth	(31.9%)	(19.3%)
6-mth	(41.4%)	(29.5%)

*Relative to HSI

Source(s): Bloomberg

Sector Valuation Summary (Data as of June 15, 2022)

Company	Ticker	Rating	Price	TP	FY22E P/E(x)	FY23E P/E (x)	FY22E P/B (x)	FY23E P/B (x)	FY22E Yield (%)	FY23E Yield (%)
China Unicom	762 HK	BUY	3.70	5.60	5.90	5.60	0.28	0.27	7.73	8.15
China Mobile-H	941 HK	BUY	49.85	85.00	7.86	7.11	0.70	0.68	7.23	7.38
China Mobile-A	600941 CH	BUY	63.66	93.00	12.24	11.08	1.09	1.05	5.01	5.20
China Telecom-H	728 HK	BUY	2.70	3.90	7.09	6.31	0.47	0.46	7.19	8.08
China Telecom-A	601728 CH	BUY	3.82	4.70	11.80	10.50	0.79	0.77	5.98	6.72
China Tower	788 HK	BUY	0.95	2.20	14.83	13.23	0.68	0.65	4.17	4.70
Xiaomi	1810 HK	HOLD	11.88	12.00	12.85	11.65	1.61	1.41	0.00	0.00
BYD Electronic	285 HK	HOLD	19.40	19.50	31.99	30.75	1.48	1.42	0.31	0.32
CCS	552 HK	BUY	3.50	6.10	5.94	5.52	0.46	0.44	5.71	6.14
AAC Tech	2018 HK	SELL	17.28	14.00	13.67	10.66	0.75	0.71	1.92	2.40
Sunny Optical	2382 HK	SELL	116.90	95.00	17.10	13.97	3.71	3.04	1.09	1.27
ZTE- H	763 HK	BUY	17.86	31.00	7.75	6.83	1.09	0.96	2.63	2.94
ZTE- A	000063 CH	BUY	25.59	42.00	13.11	11.30	1.85	1.62	1.29	1.91

Source(s): Bloomberg, ABCI Securities estimates

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Industry analysis

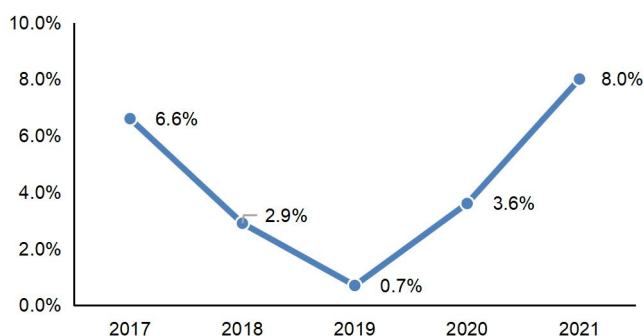
Growing momentum from emerging businesses

According to MIIT, overall telecom service revenue in China grew 8.0%/8.8% YoY in 2021/4M22, driven by emerging businesses (cloud computing, big data, industrial internet, and data center). Emerging business revenue growth was 27.8%/35.0% in 2021/4M22, and will likely extend its strong momentum in 2022-23E with supportive policies that would drive up adoption of cloud computing platforms and data centers. In Feb 2022, the NDRC introduced the “East-to-West Computing Resources Transfer” strategy to develop data centers in the western regions to incentivize cloud platform adoption and improve data processing ability. In this way, many commercial companies and corporations will be able to transfer their applications to the cloud platforms.

Mobile data and internet business revenue growth in 2021/4M22 was 3.3%/1.3% YoY, showing a decent growth compared to 2020 (up 1.8% YoY), thanks to higher 5G user penetration. We forecast the overall mobile data and internet business revenue growth in 2022-23E to be supported by higher 5G penetration rate and more smartphone applications.

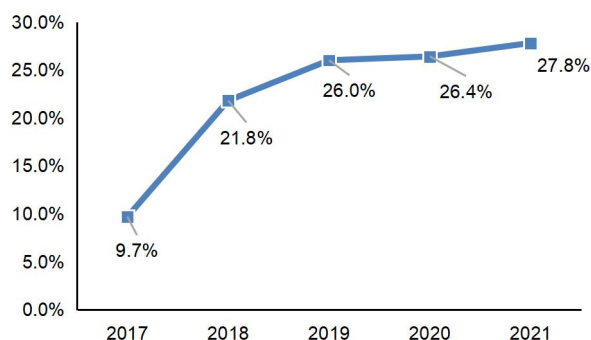
Fixed-line data and internet business revenue growth rate in 2021/4M22 was 9.3%/9.6% YoY, thanks to higher adoption rate of optical fiber network and smart home applications. Telecom operators are improving its optical network coverage to boost penetration in 2022E.

Exhibit 1: Telecom service revenue growth rate YoY



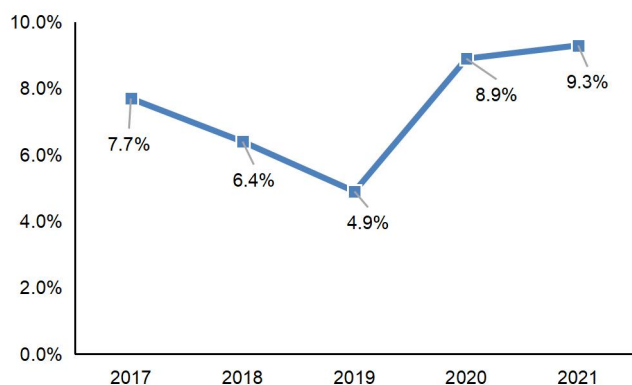
Source(s): MIIT

Exhibit 2: Emerging business revenue growth rate YoY



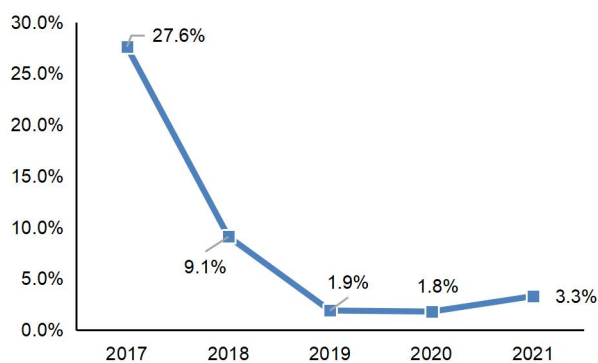
Source(s): MIIT

Exhibit 3: Growth rates of fixed-line data and internet business revenue YoY



Source(s): MIIT

Exhibit 4: Growth rates of mobile data and internet business revenue YoY

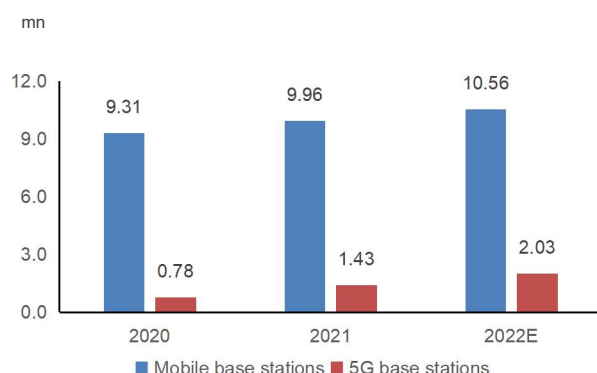


Source(s): MIIT

Moderate growth in telecom operators' CAPEX in 2022E

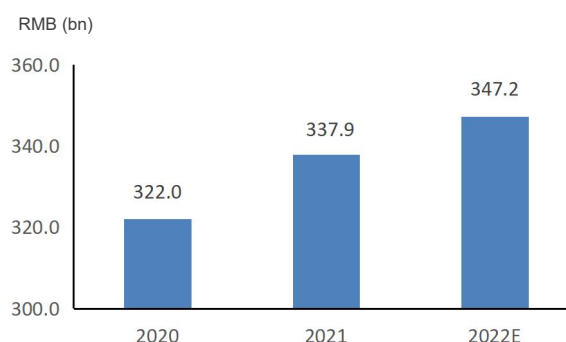
For 2022E, we expect the total number of 5G base stations to reach 2.03mn (with 0.6mn of new 5G base stations being added), benefiting the base station equipment providers. Mobile base stations would reach 10.56mn in 2022E. Also, telecom operators are upgrading their 5G telecom network to standalone standard to improve network quality, which can drive up income for telecom equipment providers. We estimate the 2022E aggregate CAPEX of the three major telecom operators (China Mobile / China Unicom/ China Telecom) to be RMB 347.2 bn, up 2.8% YoY. Aside from the 5G telecom network, CAPEX will also be devoted to developing the fixed-line broadband network, data center, and optical network to improve cloud computing, IPTV, and network quality.

Exhibit 5: The number of mobile base stations



Source(s): MIIT

Exhibit 6: Aggregate CAPEX for the three major telecom operators



Source(s): China Mobile, China Unicom and China Telecom

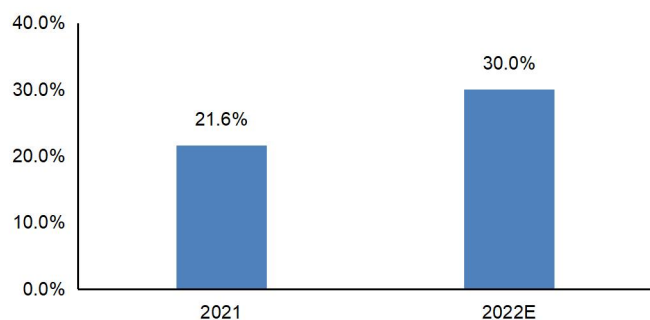
Mobile business

Overall 5G users to reach 550mn in 2022E

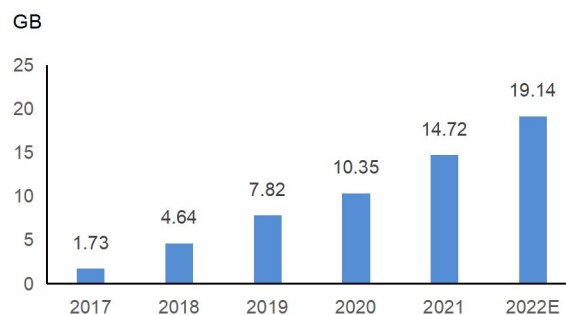
The number of overall mobile users was stable at ~1.66bn in Apr 2022. 5G users reached 413mn, which accounted for 24.9% of total mobile users. We forecast 5G user penetration to reach 30.0% by end-2022E. China Mobile added 90.1mn of 5G users in 4M22, outpacing China Unicom's 19.8mn and China Telecom's 29.6mn. As of Apr 2022, the 5G user market shares of China Mobile (941 HK)/ China Unicom (762 HK)/ China Telecom (728 HK) were 55.3%/20.3%/24.4%, respectively.

China Mobile maintains the dominant position thanks to improved 5G network coverage, abundant resources, and efficient marketing strategies. Through its co-operation with the China Broadcasting Network Corp Ltd. to share the 700MHz 5G network, the operator has widened its 5G network coverage. We expect the leading player keep up its strong 5G user additions in 2022.

We estimate overall new 5G users in 2022E to reach 550mn, driven by the launch of bundled service packages, bargain mobile plans, and improved 5G telecom network coverage. 5G user penetration rate is expected to reach 30% in 2022E. Users' average data usage would jump 30% YoY to 19.14GB in 2022E on 5G telecom network and higher utilization rate of mobile applications.

Exhibit 7: 5G User penetration rate in China


Source(s): MIIT, ABCI Securities estimates

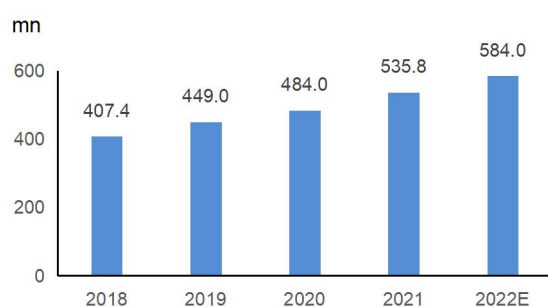
Exhibit 8: Average data usage per user


Source(s): MIIT, ABCI Securities estimates

Wireline business

Wireline broadband users reached 555mn in Apr 2022 with a net addition of 18.76mn in 4M22. The demand for optical fiber network is increasing on the shift to stay-at-home economy, smart home system, home office, and home entertainment. We expect the demand for IPTV, online games, AR/VR, and video contents in China will support growth for wireline business. Users' pursuit for better network quality with stable transmission speed will elevate demand for fiber-to-the-home (FTTH).

Telecom operators are launching more wireline value-added services, such as video content, online games, and mobile-linked packages, for different market segments. In 2022E, we expect telecom operators to benefit from the demand from cloud computing, IoT, home entertainment and video contents applications. We forecast wireline broadband users to grow 9.0% YoY to 584mn in 2022E.

Exhibit 9: Wireline broadband users in China


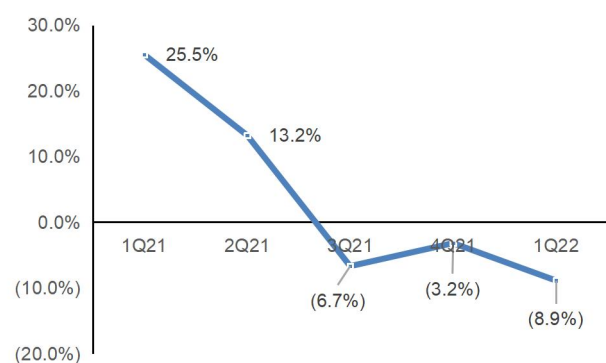
Source(s): MIIT, ABCI Securities estimates

Smartphone market analysis

According to IDC, global smartphone shipment declined 8.9% YoY in 1Q22, the third consecutive quarter with YoY decline. The main culprits were logistics constraints and dampened economic environment.

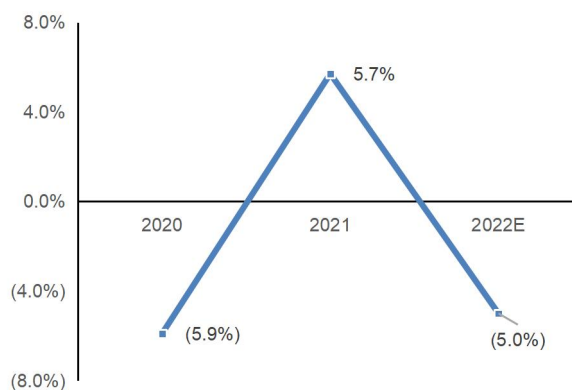
Samsung was ranked top in 1Q22 smartphone shipments, with 1.8ppt YoY growth in market share to 23.4%, thanks to its successful sales strategies in many countries, stable self-supplied electronic components chain, and the launch of new flagship smartphones. Apple came second in smartphone shipments with a 2.0ppt YoY rise in market share to 18.0% due to the launch of iPhone13 and multi-media services. Xiaomi's smartphone market share dropped by 1.4ppt YoY to 12.7% due to competition from other Chinese smartphone brands. The Honor smartphone brand is capturing smartphone market share from other Chinese smartphone brands in China. OPPO and Vivo recorded 2.2ppt/2.0ppt drop in market share. The smartphone supply chain constraints and unstable economic environment are expected to affect the smartphone sector in 2022E. We forecast global smartphone shipments to drop by 5.0% YoY in 2022E.

Exhibit 10: Quarter smartphone shipments growth YoY



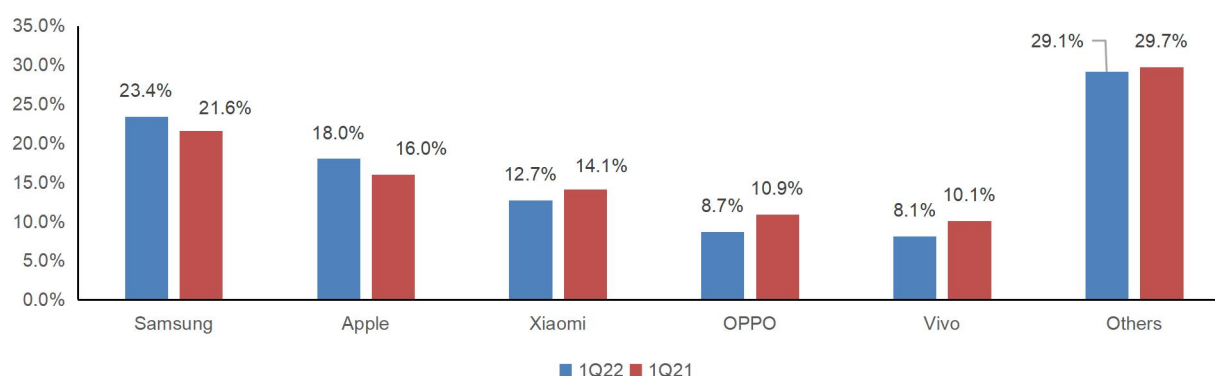
Source(s): IDC

Exhibit 11: Yearly smartphone shipments growth YoY



Source(s): IDC, ABCI Securities estimates

Exhibit 12: Smartphone market share in 1Q21 and 1Q22



Source(s): IDC

OVERWEIGHT on China Telecom Sector

Driven by the emerging business (industrial internet, data center, cloud computing, among others), the overall telecom revenue is improving. In 2022-23E, we expect emerging business to continue to propel telecom revenue. 5G telecom network is driving launches of new applications, which would encourage mobile data usage. Telecom operators will continue to expand its 5G telecom network coverage to user penetration rate. The smartphone shipment in 2022E, however, will continue to be affected by chip shortage and unstable economic atmosphere. In the following sections of the sector report, we have revised the profit forecast, valuation and target price of China Telecom, Xiaomi, and BYD Electronic. We maintain the earnings forecast, TP and valuation for China Unicom, China Mobile, China Tower, CCS, AAC Tech, Sunny Optical and ZTE.

Based on our optimistic outlook, we assign an **OVERWEIGHT** rating for the China Telecom Sector. Our top pick for the sector is **China Mobile (941 HK/600941 CH)**.

Top Pick: China Mobile (941 HK/600941 CH)

China Mobile (941 HK/600941 CH) will outperform leveraging its dominant position in mobile and fixed-line markets and improving 5G user penetration. We recommend **BUY** for the counter based on its attractive dividend yield (7.2% for H-share and 5.0% for A-share) and upside potential (70.5% for H-share and 46.1% for A-share). Our DCF-based TP for China Mobile is HK\$ 85.0 for H-share (implies 4.2x 2022E EV/EBITDA) and RMB 93.0 for A-share (implies 5.6x 2022E EV/EBITDA).

Exhibit 13: Changes in our net profit estimates

	OLD			NEW			CHANGE		
(RMB mn)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
China Unicom	16,752	17,959	18,603	16,752	17,959	18,603	0%	0%	0%
China Mobile	121,945	128,306	135,008	121,945	128,306	135,008	0%	0%	0%
China Telecom	22,949	28,394	N/A	29,629	33,293	37,441	29.1%	17.3%	N/A
China Tower	10,831	11,728	12,877	10,831	11,728	12,877	0%	0%	0%
Xiaomi	27,046	29,297	N/A	19,653	21,680	23,133	(27.3%)	(26.0%)	N/A
BYD Electronic	1,659	1,611	N/A	1,161	1,208	1,381	(30.0%)	(25.0%)	N/A
CCS	4,145	5,215	6,015	4,145	5,215	6,015	0%	0%	0%
AAC Tech	1,388	1,451	1,507	1,388	1,451	1,507	0%	0%	0%
Sunny Optical	4,419	4,609	4,989	4,419	4,609	4,989	0%	0%	0%
ZTE	8,124	9,510	10,827	8,124	9,510	10,827	0%	0%	0%

Source(s): ABCI Securities estimates



China Telecom Corp. Ltd. (728 HK/601728 CH)

Industrial digitization to bring momentum

- China Telecom (or "Group") is expected to benefit from growth in industrial digitization business
- We estimate the Group to add 80mn 5G and 15mn mobile users in 2022E
- 2022E shareholders' profit to grow 14.2% YoY
- Dividend payout ratio to reach 70.0% in 2022E
- Recommend **BUY** with TP of HK\$3.90 for China Telecom-H (728 HK), which implies 2.3x/ 2.1x 2022-23E EV/EBITDA, and **BUY** for China Telecom-A (601728 CH) with TP of RMB 4.70, equivalent to 3.2x/3.0x 2022-23E EV/EBITDA

Industrial Digitization business revenue to grow 19.0% YoY in 2022E. The NDRC's "East-to-West Computing Resources Transfer" strategy will support industrial digitization. Driven by growing demand from data center, cloud computing, and industrial internet, we forecast revenue of the Group's industrial digitization business to grow 19.0% YoY in 2022E.

Mobile communications service revenue to grow 6.0% YoY in 2022E, thanks to improving mobile ARPU and user growth. Through the partnership with China Unicom (762 HK) for 5G network sharing, the Group's overall mobile and 5G users are expected to reach 387mn and 268mn in 2022E. The higher 5G user penetration rate would boost mobile ARPU by 3.0% in 2022E.

Net profit margin to rise on lower D&A expense-to-revenue ratio. In our view, network sharing with China Unicom would save CAPEX and lower D&A expense-to-revenue ratio by 0.7ppt to 20.4% in 2022E. Net profit margin would rise 0.2ppt to 6.1% in 2022E.

Valuation. We revise up 2022-23E net profit by 29.1%/17.3% to reflect increased revenue contribution from industrial digitalization service. We recommend **BUY** for both H/A-share with TP at HK\$3.90/ RMB4.70. H-share TP implies 2.3x/2.1x 2022-23E EV/EBITDA, while A-share TP represents 3.2x/3.0x 2022-23E EV/EBITDA.

Risk factors: 1) Fierce market competition may lower mobile ARPU; 2) Mobile user saturation; 3) Reduction of fixed-line broadband service tariff for SMEs; 4) Low ROE.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	393.561	439.552	485.410	520.901	549.695
Chg (%YoY)	4.7	11.7	10.4	7.3	5.5
Shareholders' profit (RMB mn)	20.850	25.948	29.629	33.293	37.441
Chg (%YoY)	1.6	24.5	14.2	12.4	12.5
EPS (RMB)	0.258	0.307	0.324	0.364	0.409
Chg (%YoY)	1.6	19.3	5.4	12.4	12.5
BPS (RMB)	4.491	5.077	4.852	4.987	5.139
Chg (%YoY)	3.1	13.0	(4.4)	2.8	3.1
P/E (x) –H shr	8.80	7.21	7.09	6.31	5.61
P/E (x) –A shr	14.83	12.43	11.80	10.50	9.34
P/B (x)–H shr	0.51	0.45	0.47	0.46	0.45
P/B (x) –A shr	0.85	0.75	0.79	0.77	0.74
ROE (%)	5.8	6.6	6.8	7.4	8.1
ROA (%)	2.9	3.5	3.9	4.3	4.7
DPS (RMB)	0.104	0.170	0.228	0.257	0.289
Dividend Yield (%)–H shr	3.28	5.35	7.19	8.08	9.09
Dividend Yield (%)–A shr	2.73	4.45	5.98	6.72	7.56

*Exchange rate assumption for FY22E-24E: 1 HKD = 0.85 RMB

Source(s): Bloomberg, ABCI Securities estimates

Company Report

June 16, 2022

Rating (HK): BUY

Rating (A): BUY

TP(HK): HK\$3.90

TP(A): RMB4.70

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Price (H/A shr)	HK\$2.70/ RMB3.82
Est. s price return (H/A shr)	44.44%/23.04%
Est. dividend yield (H/A shr)	7.19%/5.98%
Est. total return (H/A shr)	51.63%/29.02%
Last Rating &TP (H/A shr)	BUY HK\$3.5/ N/A
Previous Report Date	Mar 26, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	3.24/2.30
52Wk H/L (RMB) (A shr)	6.52/3.73
Total issued shares (mn)	91,507.1
Issued H shr (mn)	13,877.4
Issued A shr (mn)	77,629.7
H-shr market cap (HK\$ mn)	37,469.0
A-shr market cap (RMB mn)	296,545.5

Source(s): Bloomberg

Major shareholder(s) :

China Telecom Corp.	62.8%
Guangdong Rising	6.2%
Zhejiang Provincial	2.3%

Source(s): Group

Exhibit 14: Major assumptions for our forecasts

	2020	2021	2022E	2023E	2024E
Overall mobile users (mn)	351.0	372.4	387.4	396.4	403.4
YoY	4.6%	6.1%	4.0%	2.3%	1.8%
5G users (mn)	86.5	187.8	267.8	332.8	387.8
YoY	N/A	117.1%	42.6%	24.3%	16.5%
Mobile ARPU (RMB)	44.1	45.0	46.4	47.5	48.4
YoY	(3.7%)	2.0%	3.0%	2.4%	2.0%
Fixed line users (mn)	158.5	169.7	180.2	189.2	197.2
YoY	3.5%	7.1%	6.2%	5.0%	4.2%
Fixed line ARPU (RMB)	44.4	45.9	47.3	48.6	49.9
YoY	16.5%	3.4%	3.0%	2.9%	2.5%

Source(s): Group, ABCI Securities estimates

Exhibit 15: Changes in our financial estimates

	OLD			NEW			CHANGE		
(RMB mn)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	391,99	452,957	N/A	485,410	520,901	549,695	23.8%	15.0%	N/A
Net Profit	22,949	28,394	N/A	29,629	33,293	37,441	29.1%	17.3%	N/A
EPS (RMB)	0.280	0.310	N/A	0.324	0.364	0.409	15.6%	17.4%	N/A

Source(s): ABCI Securities estimates

Recommend BUY with H/A share (728 HK/601728 CH)

We revise up 2022-23E net profit by 29.1%/17.3% to reflect increased revenue contribution from industrial digitalization service. Our valuations for China Telecom-H/A (728 HK/601728 CH) are based on DCF model (WACC: 12.8%/12.4%; perpetuity growth rate: 2.0%/2.0%). We recommend H-share TP at HK\$ 3.90, which implies 2.3x/2.1x 2022-23E EV/EBITDA; A-share TP at RMB 4.70, which represents 3.2x/3.0x 2022-23E EV/EBITDA.

Risk factors
Competition from other telecom operators

The other telecom operators in China may affect China Telecom's user and ARPU growth with service tariff reduction. China Mobile recorded the highest 5G user growth in 4M22 which may affect the Group's user acquisition.

Pressure from the MIIT to cut fixed line broadband service tariff for SMEs

The MIIT imposed 10% tariff reduction for fixed line broadband service tariff for SMEs, which may affect the Group's revenue growth.

Our forecasts may deviate from actual results

We make our forecasts relies on a number of assumptions. The actual results may deviate from our estimates.

User saturation

The overall mobile users have reached 1.66bn as of Apr 2022. There is limited growth upside for the overall mobile user market.



Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Mobile communications service revenues	175,564	184,157	195,206	204,967	214,190
Wireline and Smart Family service revenues	109,018	113,522	113,905	107,923	96,467
Industrial Digitalization service revenues	83,968	98,945	117,745	136,584	157,071
Other service revenues	5,248	6,203	6,575	6,970	7,388
Sales of goods and others	19,763	36,725	51,979	64,458	74,578
Total revenue	393,561	439,552	485,410	520,901	549,695
D&A expense	(90,240)	(92,965)	(99,256)	(104,069)	(107,376)
Network operations & support	(119,517)	(133,342)	(145,199)	(155,191)	(163,440)
SG&A expense	(55,059)	(61,155)	(74,753)	(82,302)	(87,896)
Personnel expenses	(65,989)	(76,055)	(82,352)	(88,550)	(93,123)
Others*	(34,116)	(45,088)	(48,513)	(51,089)	(53,179)
Operating Profits	28,640	30,947	35,336	39,700	44,680
Investment income and others	60	2,244	2,446	2,666	2,906
Share of profits of associates and Joint ventures	1,701	1,966	2,064	2,168	2,276
Net finance costs	(3,014)	(1,293)	(1,178)	(1,084)	(998)
Profit before tax	27,387	33,864	38,668	43,449	48,864
Income tax	(6,307)	(7,716)	(8,811)	(9,900)	(11,134)
Profit for the year	21,080	26,148	29,857	33,549	37,730
Non-controlling interests	230	200	228	257	289
Shareholders' profit	20,850	25,948	29,629	33,293	37,441
EBITDA	118,880	123,912	134,000	143,504	152,056
EPS (RMB)	0.258	0.307	0.324	0.364	0.409
DPS (RMB)	0.104	0.170	0.228	0.257	0.289

Source(s): Group, ABCI Securities estimates

*include impairment loss on property, plant and equipment and other operating expenses



Consolidated balance sheet (2020-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Property, plant and equipment, net	418,605	415,981	428,460	439,172	450,151
Construction in progress	48,425	51,456	55,058	56,159	58,405
Interest in associates	40,303	41,166	42,813	44,953	47,201
Right-of-use assets	59,457	61,186	63,633	66,179	68,826
Others	64,290	65,085	47,048	31,419	15,034
Total non-current assets	631,080	634,874	637,012	637,882	639,617
Cash & cash equivalents	23,684	73,281	82,438	91,144	102,123
Prepayments and other current assets	25,167	24,585	26,306	28,147	30,118
Accounts receivable	21,502	22,389	23,508	24,684	25,918
Others	13,663	7,105	6,250	6,312	6,379
Total current assets	84,016	127,360	138,503	150,288	164,538
Total assets	715,096	762,234	775,515	788,169	804,155
Contract liabilities	63,849	70,914	63,823	57,440	51,696
Accounts payable	107,578	114,895	118,342	121,892	125,549
Accrued expenses and other payables	57,053	55,765	58,553	61,481	64,555
Others	42,662	23,498	20,091	17,432	15,261
Total current liabilities	271,142	265,072	260,809	258,245	257,061
Finance lease obligations	27,455	28,593	29,737	30,926	32,163
Deferred tax liabilities	24,208	26,677	28,439	30,419	32,646
Others	26,116	10,724	10,218	9,801	9,469
Total non-current liabilities	77,779	65,994	68,393	71,147	74,278
Total liabilities	348,921	331,066	329,202	329,392	331,340
Total equity attributable to equity holders of the Company	363,456	428,674	443,948	456,340	470,297
Non-controlling interests	2,719	2,494	2,365	2,437	2,518
Total equity	366,175	431,168	446,313	458,777	472,815

Source(s): Group, ABCI Securities estimates



Consolidated cash flow statement (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating profit before change in working capital	129,296	131,895	133,033	141,782	149,670
Change in working capital	5,523	9,973	(5,859)	(5,086)	(4,387)
Others	(2,327)	(617)	2,852	3,292	3,703
Tax	(232)	(3,718)	(4,239)	(5,044)	(5,851)
Operating cash flow	132,260	137,533	125,788	134,944	143,136
CAPEX	(88,748)	(84,847)	(93,000)	(95,790)	(98,664)
Others	1,671	4,560	3,665	3,723	3,782
Investing cash flow	(87,077)	(80,287)	(89,335)	(92,067)	(94,882)
Dividend paid	(9,262)	(8,439)	(14,355)	(20,900)	(23,485)
Change in bank and other loan	(25,933)	(35,564)	(1,022)	(792)	(720)
Proceeds from A Shares Offering, net of issuing expenses	0	47,516	0	0	0
Others	(6,912)	(11,035)	(11,822)	(12,404)	(13,016)
Financing cash flow	(42,107)	(7,522)	(27,199)	(34,097)	(37,220)
Net increase in cash and cash equivalents	3,076	49,724	9,254	8,780	11,034
Cash and cash equivalents at beginning of year	20,791	23,684	73,281	82,438	91,144
Effect of changes in foreign exchange rate	(183)	(127)	(97)	(73)	(56)
Cash and cash equivalents at end of year	23,684	73,281	82,438	91,144	102,123

Source(s): Group, ABCI Securities estimates

Financial ratios (2020A-2024E)

As of Dec 31	2020A	2021A	2022E	2023E	2024E
YoY Growth:					
Revenue (%)	4.7	11.7	10.4	7.3	5.5
EBITDA (%)	1.4	4.2	8.1	7.1	6.0
Net profit (%)	1.6	24.5	14.2	12.4	12.5
Profitability ratios:					
ROA (%)	2.9	3.5	3.9	4.3	4.7
ROE (%)	5.8	6.6	6.8	7.4	8.1
Debt ratios:					
Total liabilities/Total assets (%)	48.8	43.4	42.4	41.8	41.2
Net gearing (%)	8.2	Net cash	Net cash	Net cash	Net cash

Source(s): Group, ABCI Securities estimates

Xiaomi Corporation (1810 HK)

Sluggish smartphone shipments for 2022E

- Xiaomi's (or "Group") smartphone shipments in 2022E is estimated to drop by 8.0% YoY due to unstable economy and stiffening peer competition
- Gross margin to lower by 0.2ppt YoY to 17.5% in 2022E due to the rise in raw material costs
- 2022E net margin to lower by 0.1ppt YoY to 5.8% on lower gross margin and the rise in R&D expenses-to-revenue ratio
- We revise down 2022E net profit by 27.3%
- Recommend **HOLD** with TP of HK\$12.00, which implies 13.0x/11.8x 2022-23E P/E

We project 2022E smartphone revenue to lower by 4.3% YoY. Xiaomi's smartphone shipments in 1Q22 was down 19.8% to 39.2mn due to COVID and weak replacement need. We project the Group's smartphone shipments to dip 8.0% YoY in 2022E due to unfavorable economic environment and stiffening competition. The replacement cycle of smartphone is expected to lengthen due to the weak economic growth. Meanwhile, fierce competition in the smartphone sector persists, but ASP would still grow 4%YoY in 2022E thanks to contributions from 5G smartphones.

Slowing growth in internet service revenue. We forecast Xiaomi's internet service revenue to go up 15.0% YoY in 2022E, compared to 18.8% in 2021, due to decline in smartphone shipments, weaker contribution from online games, and slowdown in online advertising demand. Commercial companies may lower their advertising budget under the frail economy.

Net margin to lower by 0.1ppt YoY to 5.8% in 2022E. Due to the rise in raw material costs, gross margin in 2022E is expected to decline 0.2ppt YoY to 17.5%. We expect R&D expenses-to-revenue ratio to rise 0.4ppt YoY to 4.4% in 2022E due to new product development.

ROA and ROE to drop in 2022E. We forecast 2022E ROA and ROE to lower by 0.8ppt/1.6ppt YoY to 5.8%/12.5% due to a drop in net margin.

Recommend HOLD. Our TP is HK\$12.00, which implies 13.0x/11.8x 2022-23E P/E.

Risk factors: 1) Slowdown in 5G development; 2) Drop in gross margin; 3) Chip shortage; 3) Higher R&D expense-to-revenue ratio; 4) Competition from Honor

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	245,866	328,309	340,537	397,792	439,380
Chg (% YoY)	19.4	33.5	3.7	16.8	10.5
Shareholders' profit (RMB mn)	20,356	19,339	19,653	21,680	23,133
Chg (% YoY)	102.7	(5.0)	1.6	10.3	6.7
EPS (RMB)	0.849	0.776	0.786	0.867	0.925
Chg (% YoY)	102.7	(5.0)	1.6	10.3	6.7
BPS (RMB)	4.911	5.490	6.277	7.144	8.070
Chg (% YoY)	43.4	11.8	14.3	13.8	13.0
P/E (x)	11.90	13.02	12.85	11.65	10.92
P/B (x)	2.06	1.84	1.61	1.41	1.25
ROE (%)	16.5	14.1	12.5	12.1	11.5
ROA (%)	8.0	6.6	5.8	5.4	4.9

Source(s): Bloomberg, ABCI Securities estimates

*Exchange rate assumption for FY22E-24E: HKD 1 = RMB 0.85

Company Report

June 16, 2022

Rating: HOLD
TP: HK\$ 12.00

Analyst : Ricky Lai
Tel: (852) 2147 8895
rickylai@abci.com.hk

Share price (HK\$)	11.88
Est. share price return (%)	1.01
Est. dividend yield (%)	0.00
Est. total return (%)	1.01
Previous Rating & TP	HOLD/HK\$26.9
Previous Report Date	Mar 4, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	30.45/10.64
Issued shares (mn)	25,016.9
Class B (listed)	20,390.2
Class A (unlisted)	4,626.7
Class B Market cap	242,235.6
(HK\$ mn)	
Avg daily turnover	2,308.0
(HK\$ mn)	
Major shareholder(s) of class B shares:	
Lei Jun	16.7%
Lin Bin	7.7%
Lou Yiting	1.2%

Source(s): Bloomberg

Share Performance (%)

	Absolute	Relative*
1-mth	(18.7%)	(9.3%)
3-mth	(33.1%)	(14.4%)
6-mth	(41.9%)	(27.6%)

*Relative to HSI

Source(s): Bloomberg

Sluggish smartphone shipments

Xiaomi's smartphone shipments in 1Q22 lowered by 19.8% to 39.2mn due to COVID-19, market competition, and weak economic environment. We project the Group's smartphone shipments to lower by 8.0% YoY in 2022E due to unfavorable economic environment and peer competition. The replacement cycle of smartphone is expected to lengthen due to anemic economic growth. Nonetheless, smartphone ASP is expected to improve by 4.0% in 2022E thanks to contributions from 5G smartphones. We project 2022E smartphone revenue to lower by 4.3% YoY.

Exhibit 16: Xiaomi's smartphone shipment and ASP estimates with YoY growth

	2020	2021	2022E	2023E	2024E
Smartphone shipments (mn)	146.4	190.3	175.1	196.1	209.8
Growth YoY	17.5%	30.0%	(8.0%)	12.0%	7.0%
Smartphone ASP (RMB)	1,039.8	1,097.5	1,141.4	1,176.8	1,206.2
Growth YoY	6.1%	5.5%	4.0%	3.1%	2.5%

Source(s): Group, ABCI Securities estimates

Internet service revenue growth slows down

We forecast Xiaomi's internet service revenue to increase 15.0% YoY in 2022E, compared to 18.8% in 2021, due to decline in smartphone shipments, weaker contribution from online games and slowdown in online advertising demand since companies may lower their advertising budget under the soured economic sentiment.

Slash 2022E net profit by 27.3%

We forecast net margin to lower by 0.1ppt YoY to 5.8% in 2022E due to decline in gross margin and higher R&D expenses-to-revenue ratio. The rise in raw material costs in 2022E will weigh on gross margin and decline 0.2ppt YoY to 17.5%. We expect R&D expenses-to-revenue ratio to rise 0.4ppt YoY to 4.4% in 2022E.

Exhibit 17: Change in our financial estimates

	OLD			NEW			CHANGE		
(RMB mn)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	405,200	501,629	N/A	340,537	397,792	439,380	(16.0%)	(20.7%)	N/A
Net profit	27,046	29,297	N/A	19,653	21,680	23,133	(27.3%)	(26.0%)	N/A
EPS (RMB)	1.073	1.163	N/A	0.786	0.867	0.925	(26.7%)	(25.5%)	N/A

Source(s): ABCI Securities estimates

Recommend HOLD with TP at HK\$12.00

We apply the SOTP (sum of the total parts) valuation since the Group has both the hardware and internet segments. The method derives an EV of RMB 237.6bn to RMB 270.9bn with a fair equity value per share of HK\$12.0 to HK\$14.0. We recommend **HOLD** for Xiaomi with the TP of HK\$ 12.00, which implies 13.0x/11.8x 2022-23E P/E. The Group is expected to be challenged by fierce market competition, economic downturn, and rise in raw material costs.



Exhibit 18: Xiaomi's SOTP valuation:

	FY22E net profit (RMB mn)	FY22E P/E	EV (RMB bn)
Smartphone business	6,994	5.5x to 7.0x	38.5 to 48.9
IoT & lifestyle products business	4,929	8.0x to 9.5x	39.4 to 46.8
Internet services business	7,730	13.0x to 15.0x	100.5 to 115.9
Investments			60.0
Total			238.4 to 271.7

Source(s): ABCI Securities estimates

Risk factors

Fierce competition

The smartphone market is highly competitive. Smartphone makers launch new products regularly, which may affect Xiaomi's smartphone market share and shipments.

Internet services business may be affected by sector regulations

The internet sector in China is closely regulated and monitored by authorities. Xiaomi's gaming, video contents, e-commerce, and advertising businesses may adversely affected by new and established rules and restrictions.

Customer concentration risk

The five largest customers accounted for 20.1% of Xiaomi's total revenue in 2021, while the largest customer accounted for approximately 13.7% of total revenue.

Supplier dependence risk

The five largest suppliers accounted for 36.4% of Xiaomi's total purchase amounts in 2021, while the largest supplier accounted for 12.5% of Xiaomi's total purchase amount.

Foreign Exchange Risk

The transactions of Xiaomi are denominated and settled in USD and Xiaomi's subsidiaries operate in the PRC, India, and other countries. Hence, it is exposed to change in foreign exchange rate .



Financial Statements

Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Smartphones revenue	152,191	208,869	199,832	230,750	253,075
IoT & lifestyle products revenue	67,410	84,980	98,577	117,307	130,210
Internet services revenue	23,755	28,212	32,443	36,661	40,144
Others	2,509	6,248	9,685	13,075	15,951
Total revenue	245,866	328,309	340,537	397,792	439,380
Cost of sales	(209,114)	(270,048)	(279,067)	(326,487)	(359,047)
Gross profit	36,752	58,261	61,470	71,305	80,333
S&M expenses	(14,539)	(20,981)	(22,475)	(26,254)	(29,878)
Admin expenses	(3,746)	(4,739)	(5,108)	(5,967)	(6,591)
R&D expenses	(9,256)	(13,167)	(14,984)	(17,901)	(19,772)
Others*	14,825	6,654	8,456	10,591	12,188
Operating Profit	24,035	26,029	27,360	31,775	36,281
Finance costs, net	(2,401)	(1,612)	(2,547)	(4,403)	(7,073)
Profit before income tax	21,633	24,417	24,812	27,372	29,207
Income tax expenses	(1,321)	(5,134)	(5,217)	(5,755)	(6,141)
Profit for the year	20,313	19,283	19,596	21,617	23,066
Shareholders' net profit	20,356	19,339	19,653	21,680	23,133
Minority interests	(43)	(56)	(57)	(63)	(67)
EPS (RMB)	0.849	0.776	0.786	0.867	0.925
Non-IFRS Measure: Adjusted net profit**	13,006	13,871	12,100	12,410	12,616

Source(s): Group, ABCI Securities estimates

*include fair value changes on investments measured at fair value through profit or loss, share of net profits of investments accounted for using the equity method, other income and other losses, net

**The non -IFRS adjusted net profit exclude items of fair value changes of convertible redeemable preferred shares, share-based compensation, net fair value gains on investments, amortization of intangible assets resulting from acquisitions, changes of value of financial liabilities to fund investors



Consolidated balance sheet (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Property and equipment	6,306	6,965	13,971	21,407	29,299
Long-term investments measured at fair value through profit or loss	35,215	50,114	55,125	60,638	66,701
Intangible assets	4,266	5,579	6,695	8,034	9,641
Long-term bank deposits	9,609	16,195	19,435	23,321	27,986
Investments accounted for using the equity method	12,782	10,231	9,208	8,287	7,458
Others	9,220	17,957	18,869	19,827	20,836
Total non-current assets	77,397	107,040	123,302	141,514	161,921
Cash & cash equivalents	54,752	23,512	20,681	24,773	29,346
Inventories	41,671	52,398	65,497	81,872	102,340
Trade receivables	10,161	17,986	21,223	25,043	29,551
Prepayments and other receivables	16,182	19,852	21,837	24,021	26,423
Short-term investments measured at fair value through profit or loss	22,376	29,312	30,191	31,097	32,030
Short-term bank deposits	17,599	31,041	37,249	44,699	53,639
Others	13,542	11,752	21,056	28,133	33,651
Total current assets	176,283	185,851	217,735	259,638	306,979
Total assets	253,680	292,892	341,037	401,153	468,900
Trade payables	72,199	74,643	76,136	77,659	79,212
Other payables and accruals	13,620	20,224	24,269	29,123	34,948
Advance from customers	11,999	9,289	9,568	9,855	10,151
Borrowings	6,962	5,527	8,291	14,094	21,141
Income tax liabilities	674	2,335	2,802	3,363	4,035
Warranty provision	2,473	3,709	4,636	5,795	7,243
Total current liabilities	107,927	115,727	125,702	139,888	156,730
Borrowings	10,635	20,720	35,224	54,597	76,435
Others	11,105	19,012	22,995	27,837	33,734
Total non-current liabilities	21,739	39,732	58,219	82,434	110,169
Total liabilities	129,666	155,459	183,920	222,322	266,899
Equity attributable to owners of the Company	123,692	137,213	156,865	178,545	201,678
Non-controlling interests	322	220	251	286	323
Total equity	124,014	137,432	157,116	178,831	202,001

Source(s): Group, ABCI Securities estimates



Consolidated Cash Flow Statement (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating profit before change in working capital	19,512	27,953	29,686	33,727	37,839
Change in working capital	4,320	(15,725)	(7,367)	(10,053)	(13,300)
Income tax paid	(1,953)	(2,442)	(2,499)	(2,556)	(2,615)
Operating cash flow	21,879	9,785	19,820	21,118	21,924
CAPEX	(3,026)	(7,169)	(7,599)	(8,055)	(8,539)
Change in bank deposits	(5,456)	(22,711)	(9,447)	(11,337)	(13,604)
Purchase/ proceeds of long-term investments measured at fair value through profit or loss, net	(2,902)	(11,025)	(13,880)	(17,209)	(21,121)
Purchase/ proceeds of short-term investments measured at fair value through profit or loss, net	(5,871)	(6,378)	(4,048)	(2,137)	(583)
Others	(423)	2,275	(1,318)	(1,407)	(1,459)
Investing cash flow	(17,679)	(45,008)	(36,293)	(40,146)	(45,306)
Change in borrowings	(2,004)	9,227	17,267	25,176	28,886
Contribution from fund investors	3,398	3,471	3,610	3,754	3,904
Issuance of convertible bonds, net of issuance costs	5,801	0	0	0	0
Issuance of shares upon placement	19,908	0	0	0	0
Payments for shares repurchase	(455)	(7,007)	(4,905)	(3,433)	(2,403)
Others	(432)	(1,193)	(1,865)	(1,958)	(2,056)
Financing cash flow	26,216	4,499	14,108	23,539	28,331
Net increase in cash & cash equivalents	30,415	(30,724)	(2,366)	4,511	4,950
Cash & cash equivalents at beginning of year	25,920	54,752	23,512	20,681	24,773
Effect of changes in foreign exchange rate	(1,583)	(517)	(465)	(419)	(377)
Cash & cash equivalents at end of year	54,752	23,512	20,681	24,773	29,346

Source(s): Group, ABCI Securities estimates

Financial ratios (2020A-2024E)

As of Dec 31	2020A	2021A	2022E	2023E	2024E
<u>Profit margins:</u>					
Gross margin (%)	14.9	17.7	17.5	17.8	18.0
Net profit margin (%)	8.3	5.9	5.8	5.4	5.3
<u>Profitability ratios:</u>					
ROA (%)	8.0	6.6	5.8	5.4	4.9
ROE (%)	16.5	14.1	12.5	12.1	11.5
<u>YoY Growth:</u>					
Revenue (%)	19.4	33.5	3.7	16.8	10.5
Net profit (%)	102.7	(5.0)	1.6	10.3	6.7
<u>Debt Ratios:</u>					
Total liabilities/Total assets (%)	51.1	53.1	53.9	55.4	56.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	5.9

Source(s): Group, ABCI Securities estimates



BYD Electronic (International) Co. Ltd.(285 HK) Laptop and smartphone shipments to take hits; downgrade to HOLD

- BYD Electronic (International) Co. Ltd. ("Group" or "BYDE") is expected to be affected by slowdown in smartphone and laptop shipments
- Gross profit margin to lower 0.8ppt YoY to 6.0% in 2022E on weaker demand for high- end components and projects
- We lower 2022E shareholders' profit by 30.0%
- 2022E ROA and ROE to drop 3.1ppt/5.3ppt to 2.8%/4.7% due to lower net profit margin and weaker revenue growth.
- Recommend **HOLD** with TP of HK\$19.50, which represents 32.2x/30.9x 2022-23E P/E

Smartphone and laptop business revenue to be affected by sluggish smartphone and PC shipments. The global smartphone and PC shipments in 2022E will remain sluggish due to unstable economic environment and demand saturation. We forecast smartphone and laptop business revenue to grow 9.6% in 2022E, compared to 47.0% in 2021.

Gross profit margin to lower 0.8ppt to 6.0% in 2022E. Demand for high-end electronic components and products are trending down, which will affect gross margin. We forecast gross profit margin to lower 0.8ppt YoY to 6.0% in 2022E due to weaker demand for high-end components and projects.

Softening profitability. 2022E ROA and ROE to drop by 3.1ppt/5.3ppt to 2.8%/4.7% due to softening net margin and weaker revenue growth, which we expect net margin to drop 1.4ppt to 1.2% in 2022E on lower gross margin and higher R&D expenses-to-revenue ratio. 2022E R&D expenses-to-revenue ratio is expected to rise 0.3ppt to 4.0% for new projects introduction.

Downgrade to HOLD. We revise down 2022-23E net profit by 30.0%/25.0% to reflect expected decline in smartphone and laptop shipments. We recommend **HOLD** with TP of HK\$19.50, representing 32.2x/30.9x 2022-23E P/E.

Risks: (1) Slowdown in 5G network development; (2) Revenue highly dependent on smartphone and laptop shipments; (3) Gross margin is decreasing; (4) ROA and ROE are declining; (5) Expect DPS to decline in 2022E.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	73,121	89,057	97,508	108,259	118,070
Chg (% YoY)	37.9	21.8	9.5	11.0	9.1
Net profit (RMB mn)	5,441	2,310	1,161	1,208	1,381
Chg (% YoY)	240.6	(57.5)	(49.7)	4.0	14.3
EPS (RMB)	2.415	1.025	0.515	0.536	0.613
Chg (% YoY)	240.6	(57.5)	(49.7)	4.0	14.3
BPS (RMB)	9.88	10.66	11.13	11.61	12.16
Chg (% YoY)	31.1	7.9	4.4	4.3	4.8
P/E (x)	6.83	16.09	31.99	30.75	26.91
P/B (x)	1.67	1.55	1.48	1.42	1.36
ROE (%)	27.72	9.98	4.73	4.72	5.16
ROA (%)	16.49	5.84	2.78	2.79	3.01
DPS (RMB)	0.241	0.102	0.051	0.054	0.061
Dividend Yield (%)	1.461	0.620	0.312	0.325	0.371

*Exchange rate assumption for FY22E-24E: HKD 1 = RMB 0.85

Source(s): Bloomberg, ABCI Securities estimates

Company Report June 16, 2022

Rating: **HOLD**
TP: HK\$19.50

Analyst : Ricky Lai
Tel: (852) 2147 8895
rickylai@abci.com.hk

Share price (HK\$)	19.40
Est. share price return (%)	0.52
Est. dividend yield (%)	0.31
Est. total return (%)	0.83
Last Rating & TP	BUY/HK\$42.0
Previous Report Date	Nov 2, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	54.71/13.40
Issued shares (mn)	2,253.2
Market cap (HK\$ mn)	43,712.1
Avg daily turnover (HK\$ mn)	1,207.0

Source(s): Bloomberg

Major shareholder(s)

BYD Company Ltd	65.76%
BF Trustee	6.08%

Source(s): Group

Share Performance (%)

	Absolute	Relative*
1-mth	(14.2%)	(4.8%)
3-mth	(44.7%)	(31.4%)
6-mth	(61.8%)	(38.3%)

*Relative to HSI

Source(s): Bloomberg



Lower 2022E revenue by 20.0%

According to IDC, in 1Q22, global smartphone declined 8.9% YoY due to unstable economic environment, while global laptop shipments fell 5.1% YoY due to demand saturation. The weak smartphone and laptop shipments are affecting BYDE's revenue. We forecast smartphone and laptop business revenue to grow by 9.6% in 2022E, compared to 47.0% in 2021. We lower 2022-23E revenue by 20.0%/11.2%.

Due to dimmed economic outlook, demand for high-end electronic components and products are trending down, which will affect gross margin, which we expect to go down 0.8ppt YoY to 6.0% in 2022E.

Exhibit 19: Changes in financial estimates

	OLD			NEW			CHANGE		
(RMB mn)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	121,88	121,91	N/A	97,508	108,259	118,070	(20.0%)	(11.2%)	N/A
Net Profit	1,659	1,611	N/A	1,161	1,208	1,381	(30.0%)	(25.0%)	N/A
EPS (RMB)	0.736	0.715	N/A	0.515	0.536	0.613	(30.0%)	(25.0%)	N/A

Source(s): ABCI Securities estimates

Recommend HOLD with TP at HK\$19.50

We lower 2022-23E net profit by 30.0%/25.0% to reflect weak smartphone and laptop shipments. Our DCF-derived TP for the Group is HK\$19.50 (WACC: 12.5%; perpetuity growth rate: 2.2%), representing 32.2x/30.9x 2022-23E P/E.

Risk factors

High customer concentration risk

The top five largest customers and the largest customer accounted for approximately 77.54% and 38.92% of the BYDE's revenue in 2021.

Highly dependent on smartphone and laptop business

BYDE generated over 80.4% of total revenue from smartphone and laptop business in 2021. Any changes in smartphone and laptop shipments will have substantial impact on the BYDE's income.

Slowdown in 5G network development may affect earnings

BYDE's business may be affected if there are any changes in 5G network development progress.

Our forecasts may deviate from actual results

We make our forecasts relies on a number of assumptions. The actual results may deviate from our estimates.



Financial Statements

Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Smartphone and laptop business revenue	48,719	71,632	78,541	86,331	93,583
New Intelligent product business revenue	9,476	12,445	13,690	15,469	17,171
Automotive intelligent system business revenue	1,817	3,770	4,128	5,367	6,279
Others revenue	13,109	1,210	1,149	1,092	1,037
Total revenue	73,121	89,057	97,508	108,259	118,070
Cost of revenue	(63,492)	(83,028)	(91,658)	(101,547)	(110,513)
Gross profit	9,629	6,029	5,851	6,712	7,556
R&D expenses	(2,913)	(3,308)	(3,900)	(4,439)	(4,959)
Selling and distribution expenses	(237)	(275)	(293)	(325)	(354)
Admin expenses	(673)	(1,041)	(1,268)	(1,407)	(1,535)
Others*	415	1,060	850	748	765
Profit before tax	6,221	2,465	1,240	1,290	1,474
Income tax expense	(779)	(155)	(78)	(81)	(93)
Shareholders' profit	5,441	2,310	1,161	1,208	1,381
EPS (RMB)	2.415	1.025	0.515	0.536	0.613
DPS (RMB)	0.241	0.102	0.051	0.054	0.061

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, finance costs and other expenses



Consolidated balance sheet (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
PPE	9,693	11,182	11,964	12,802	13,698
Prepayments, other receivables and other assets	589	921	1,002	1,090	1,186
Loans to the ultimate holding company	400	0	0	0	0
Deferred tax assets	0	201	0	0	0
Others	1,225	1,241	1,267	1,300	1,339
Total non-current assets	11,907	13,545	14,234	15,192	16,223
Cash and cash equivalents	3,466	2,825	6,453	9,541	12,448
Inventories	6,891	10,567	10,990	11,430	11,887
Trade receivables	14,391	9,240	8,316	7,485	6,736
Others	1,320	4,998	2,457	615	334
Total current assets	26,069	27,630	28,216	29,070	31,405
Total assets	37,976	41,175	42,450	44,263	47,628
Trade and bill payables	8,146	11,724	11,138	10,915	10,697
Interest-bearing bank and other borrowings	2,009	0	0	0	0
Other payables and accruals	4,295	4,176	4,385	4,604	4,834
Others	389	320	942	1,684	3,808
Total current liabilities	14,840	16,220	16,464	17,203	19,339
Deferred tax liabilities	313	404	384	365	346
Lease liabilities	405	374	374	374	374
Deferred income	147	150	155	161	166
Total non-current liabilities	864	928	913	899	886
Total liabilities	15,704	17,148	17,377	18,102	20,225
Total equity	22,272	24,027	25,073	26,160	27,403

Source(s): Group, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

BYD Electronic (Int'l) Co. Ltd.(285 HK, HOLD)
China Telecom Sector - Overweight
June 16, 2022

Consolidated Cash Flow Statement (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating profit before change in working capital	8,281	5,257	4,094	4,215	4,478
Change in working capital	(4,745)	1,137	4,665	4,177	4,057
Others	(326)	(59)	(63)	(65)	(74)
Operating cash flow	3,209	6,335	8,696	8,327	8,461
CAPEX	(2,804)	(3,929)	(4,125)	(4,331)	(4,548)
Others	(177)	164	67	67	68
Investing cash flow	(2,981)	(3,764)	(4,058)	(4,264)	(4,480)
Dividends paid	(160)	(543)	(231)	(116)	(121)
Change of bank loans	2,008	(1,991)	0	0	0
Principal portion of lease payments	(243)	(296)	(399)	(479)	(575)
Others	(35)	(368)	(367)	(365)	(364)
Financing cash flow	1,570	(3,198)	(996)	(960)	(1,060)
Net increase in cash and cash equivalents	1,799	(628)	3,641	3,102	2,922
Cash and cash equivalents at beginning of year	1,651	3,466	2,825	6,453	9,541
FX change effect	16	(13)	(14)	(14)	(15)
Cash and cash equivalents at end of year	3,466	2,825	6,453	9,541	12,448

Source(s): Group, ABCI Securities estimates

Financial ratios (2020A-2024E)

As of Dec 31	2020A	2021A	2022E	2023E	2024E
YoY Growth:					
Revenue (%)	37.9	21.8	9.5	11.0	9.1
Gross profit (%)	143.3	(37.4)	(3.0)	14.7	12.6
Net profit (%)	240.6	(57.5)	(49.7)	4.0	14.3
Profitability ratios:					
ROE (%)	27.7	10.0	4.7	4.7	5.2
ROA (%)	16.5	5.8	2.8	2.8	3.0
Costs ratio:					
R&D expenses/ revenue (%)	4.0	3.7	4.0	4.1	4.2
Selling and distribution expenses/ revenue (%)	0.3	0.3	0.3	0.3	0.3
Administrative expenses/ revenue (%)	0.9	1.2	1.3	1.3	1.3
Margins:					
Gross profit margin (%)	13.2	6.8	6.0	6.2	6.4
Net profit margin (%)	7.4	2.6	1.2	1.1	1.2
Debt Ratios:					
Total liabilities/Total assets (%)	41.4	41.6	40.9	40.9	42.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source(s): Group, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate < Market return rate ($\sim +10\%$)
Sell	Stock return < - Market return ($\sim -10\%$)

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 2009 (HSI total return index 2009-21 averaged at 9.2%)

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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