

China / Hong Kong Company Update

BYD Electronic

Bloomberg: 285 HK EQUITY | Reuters: 0285.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Mar 2024

BUY

Last Traded Price (26 Mar 2024): HK\$28.35 (HSI : 16,618)
Price Target 12-mth: HK\$38.00 (34% upside) (Prev HK\$48.00)

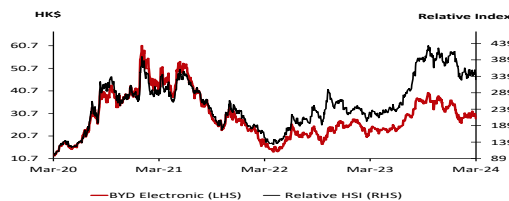
Analysts

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What's New

- 4Q23 revenue increased 5% y-o-y, driven by further penetration into Apple's value chain
- Net profit surged 61% y-o-y, supported by margin expansion in automotive electronics and opex control
- Cut earnings forecasts by 5% in FY24F and 6% in FY25F to account for slower NEV shipment growth in China
- TP trimmed to HK\$38.0 on a lower EPS and 14x FY24F P/E multiple; maintain BUY on 31% earnings growth in FY24

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2023A	2024F	2025F	2026F
Turnover	129,957	164,578	186,206	207,292
EBITDA	8,120	12,908	14,693	17,253
Pre-tax Profit	4,681	5,969	7,599	9,988
Net Profit	4,041	5,282	6,755	8,878
Net Pft (Pre Ex) (core profit)	4,372	5,586	7,072	9,189
Net Profit Gth (Pre-ex) (%)	104.8	27.8	26.6	29.9
EPS (RMB)	1.79	2.34	3.00	3.94
EPS (HK\$)	1.95	2.54	3.25	4.27
Core EPS (RMB)	1.94	2.48	3.14	4.08
Core EPS (HK\$)	2.10	2.69	3.40	4.42
EPS Gth (%)	117.6	30.7	27.9	31.4
Core EPS Gth (%)	104.8	27.8	26.6	29.9
Diluted EPS (HK\$)	1.95	2.54	3.25	4.27
DPS (HK\$)	0.58	0.76	0.98	1.28
BV Per Share (HK\$)	14.12	15.90	18.18	21.17
PE (X)	14.6	11.1	8.7	6.6
CorePE (X)	13.5	10.5	8.3	6.4
P/Cash Flow (X)	6.1	228.6	4.6	4.5
P/Free CF (X)	nm	nm	12.3	13.6
EV/EBITDA (X)	8.0	5.7	4.8	4.0
Net Div Yield (%)	2.1	2.7	3.4	4.5
P/Book Value (X)	2.0	1.8	1.6	1.3
Net Debt/Equity (X)	0.2	0.4	0.3	0.2
ROAE (%)	14.7	16.9	19.1	21.7
Earnings Rev (%)		(5)	(6)	New
Consensus EPS (RMB)		2.27	2.91	3.47
Other Broker Recs:		B:28	S:0	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Auto growth momentum to sustain in 2024

Investment Thesis

Leading electronics manufacturing service provider in China with growing auto exposure. We expect BYDE to ride on its parent company BYD's strong new energy vehicle (NEV) shipments in China and a higher dollar value of auto electronics per vehicle, along with new auto product launches in FY23F. We expect the auto electronics segment to grow by 52%/62%/53% in FY24/25/26F, accounting for 26% of the company's revenue share in FY26F.

Penetration into the iPhone value chain accelerates. The reallocation of Apple's orders from Taiwan suppliers to Mainland China suppliers has continued. While Apple product shipments are expected to experience moderate growth in FY24F, we anticipate BYDE would gain a further share in the iPhone value chain as a result of its acquisition of Jabli's mobile components business. We also expect the AI-powered iPhone 16 to support the smartphone premiumisation trend in 2024, bolstering BYDE's handset assembly and component business, in line with the trend observed in 2023.

BYD's EV growth and incremental dollar value of electronics per EV to drive re-rating. Markets expect BYD's NEV shipment sales to grow 24%/18% in FY24/25F, driven by the massive EV transition. We also expect the average dollar value of automotive electronics per NEV to increase 30% y-o-y to Rmb4,353 in FY24F and 23% y-o-y to Rmb5,335 in FY25F. Both are key drivers of the stock price.

We maintain BUY, with a TP of HK\$38.0 (vs. the previous TP of HK\$48.0), as we revised down our FY24F EPS forecast. The TP is based on a lower target FY24F P/E of 14x (vs. the previous target P/E of 17x), pegged to its historical average. The re-rating will be driven by a strong earnings profile with 31% growth in FY24F.

Key Risks

Prolonged weak consumer sentiment for Android smartphones, uncertainty surrounding the regulation of e-cigarettes, and more vigorous competition in the Apple supply chain.

At A Glance

Issued Capital (m shrs)	2,253
Mkt Cap (HKm/US\$m)	63,873 / 8,164
Major Shareholders (%)	
Golden Link Worldwide Ltd	65.8
Free Float (%)	34.2
3m Avg. Daily Val. (US\$m)	17.9
GICS Industry: Information Technology / Technology Hardware & Equipment	

BYD Electronic

WHAT'S NEW

4Q23 earnings surged 61% y-o-y, in line; expect automotive to continue to boost gross margin

4Q23 and 2H23 results highlights

4Q23 revenue increased 5.0% y-o-y to Rmb37.8bn, driven by further penetration into Apple's orders and strong growth in shipments of EV components.

Gross margin further increased by 0.5ppt y-o-y to 6.7%, driven by a higher contribution from the high-margin automotive electronics segment.

In 2H23, consumer electronics revenue increased by 14.9% y-o-y to Rmb56.4bn while automotive electronics revenue increased by 32.1% y-o-y to Rmb8.0bn.

Opex ratio decreased 1.0ppt y-o-y to 4.5% due to better R&D expense control in 2H23.

4Q23 net profit surged by 60.7% y-o-y to Rmb998m accordingly, within the range of 37%-77% guided for in the positive profit alert in Jan 2024.

A final dividend of Rmb0.538 per share was declared, representing a higher payout ratio of 30% in FY23 (vs. 20% in FY22).

Our view

The 4Q23 results were satisfactory. Looking ahead, we expect the smartphone segment to maintain steady growth and deliver margin expansion, driven by the ongoing AI-boosted premiumisation trend and market share gains by Apple products.

The forecast for the growth in NEV shipments in China has moderated to c.20% in 2024. However, leveraging its strong relationship with parentco BYD, we expect BYDE to launch more

auto products, like central control and instrumentation systems, in 2024. As such, we anticipate the average dollar value of automotive electronics per NEV would increase 30.2% y-o-y in FY24F and 22.6% in FY25F.

We have slightly cut our earnings forecast by 5.1% for FY24F and 5.5% for FY25F to account for slower growth in the high-margin automotive electronics components business.

We revised the TP downward to HK\$38.0 (vs. the previous TP of HK\$48.0), on a lower FY24F EPS forecast and 14x FY24F P/E 14x (vs. the previous target P/E of 17x). The target valuation is pegged to its historical average forward P/E. BYDE is currently trading at 11.0x FY24F PE, below its five-year average forward PE. We maintain BUY on the strong earnings growth of 30.7% in FY24F.

Company Background

Having started operations in 2002 as a division of BYD, BYDE mainly focuses on manufacturing handset components and modules. The company was spun off from BYD and listed on the HKEx in Dec 2007, and expanded into more areas including assembly services, auto electronics, intelligent products, and facemasks. Components, assembly for smartphones and notebooks, intelligent products, automotive electronics, and others accounted for 15.4%, 60.5%, 15.8%, 7.4%, and 0.9% of 1H22 gross revenue, respectively. Wang Chuanfu is the chairman of BYDE.

Results summary

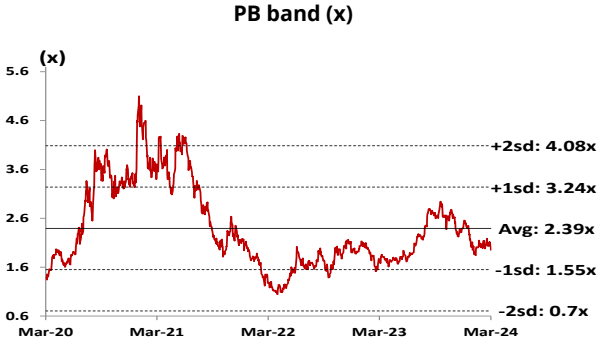
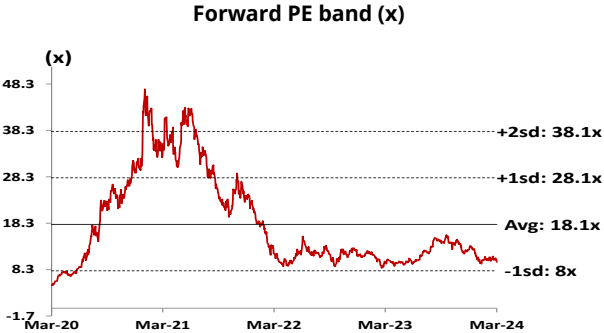
Quarterly Income Statement (Rmb m)

FY DEC	4Q22	3Q23	4Q23	% chg yoy	% chg qoq
Revenue	36,030	35,964	37,816	5.0%	5.1%
Cost of Goods Sold	(33,804)	(32,470)	(35,284)	4.4%	8.7%
Gross Profit	2,226	3,494	2,532	13.7%	-27.5%
Net Profit	621	1,528	998	60.8%	-34.7%
Margins (%)					
Gross Margins	6.2	9.7	6.7		
Net Profit Margins	1.7	4.2	2.6		

Source: Company, DBS HK

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Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2022A	2023A	2024F	2025F	2026F
Worldwide smartphones shipment (m unit)	1,205.5	1,166.9	1,211.0	1,276.4	1,277.7
Smartphone and NB revenue (Rmb m)	82,209.0	97,420.0	97,262.4	102,514.6	102,617.1
BYD's EV shipment ('000 unit)	1,877.0	3,000.0	3,710.4	4,387.2	5,336.4
Dollar value of automotive electronics supply to each BYD's EV ('000 Rmb)	3.0	3.3	4.5	5.5	6.5
Auto intelligent system (Rmb m)	9,263.0	14,096.0	22,864.4	34,948.0	52,903.8

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2022A	2023A	2024F	2025F	2026F
Revenues (RMB m)					
Smartphone and NB	82,209	97,420	119,262	125,615	125,717
Intelligent product	15,207	18,441	22,451	25,643	28,671
Auto intelligent system	9,263	14,096	22,864	34,948	52,904
Others	507	0	0	0	0
Total	107,186	129,957	164,578	186,206	207,292
(RMB m)					
Smartphone and NB	3,288	5,553	5,641	6,253	6,567
Intelligent product	1,941	2,545	2,964	3,385	3,785
Auto intelligent system	1,065	1,903	3,315	5,067	7,671
Others	56	0	0	0	0
Total	6,350	10,001	11,920	14,706	18,023
Margins (%)					
Smartphone and NB	4.0	5.7	4.7	5.0	5.2
Intelligent product	12.8	13.8	13.2	13.2	13.2
Auto intelligent system	11.5	13.5	14.5	14.5	14.5
Others	11.0	13.0	N/A	N/A	N/A
Total	5.9	7.7	7.2	7.9	8.7

Source: Company, DBS HK

BYD Electronic
Income Statement (RMB m)

FY Dec	2022A	2023A	2024F	2025F	2026F
Revenue	107,186	129,957	164,578	186,206	207,292
Cost of Goods Sold	(100,836)	(119,523)	(150,358)	(169,085)	(186,854)
Gross Profit	6,350	10,434	14,220	17,121	20,438
Other Opng (Exp)/Inc	(5,739)	(6,729)	(8,433)	(9,558)	(10,537)
Operating Profit	611	3,705	5,787	7,562	9,901
Other Non Opg (Exp)/Inc	1,614	1,255	891	893	891
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(9)	52	(405)	(538)	(493)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(277)	(331)	(304)	(318)	(311)
Pre-tax Profit	1,939	4,681	5,969	7,599	9,988
Tax	(81)	(640)	(687)	(844)	(1,110)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	1,858	4,041	5,282	6,755	8,878
Net Profit before Except.	2,135	4,372	5,586	7,072	9,189
EBITDA	5,142	8,120	12,908	14,693	17,253
Adj EBIT (ex associates / ex revals)	611	3,705	5,787	7,562	9,901
Adj EBITDA (add DA)	3,528	6,865	12,017	13,801	16,362
Adj. Interest expense (include perps)	403	391	329	324	330
Growth					
Revenue Gth (%)	20.4	21.2	26.6	13.1	11.3
EBITDA Gth (%)	0.2	57.9	59.0	13.8	17.4
Opg Profit Gth (%)	(56.5)	506.5	56.2	30.7	30.9
Net Profit Gth (%)	(19.6)	117.6	30.7	27.9	31.4
Adj EBIT Gth (%)	(56.5)	506.5	56.2	30.7	30.9
Margins & Ratio					
Gross Margins (%)	5.9	8.0	8.6	9.2	9.9
Opg Profit Margin (%)	0.6	2.9	3.5	4.1	4.8
Net Profit Margin (%)	1.7	3.1	3.2	3.6	4.3
Adj EBIT Margin (%)	0.6	2.9	3.5	4.1	4.8
ROAE (%)	7.5	14.7	16.9	19.1	21.7
ROA (%)	3.8	5.6	5.4	6.0	7.2
ROCE (%)	2.2	8.3	9.0	9.8	12.2
Div Payout Ratio (%)	0.0	30.0	30.0	30.0	30.0
Net Interest Cover (x)	69.5	NM	14.3	14.0	20.1
Adj EBITDA ICR (x)	8.75	17.56	36.53	42.56	49.64

Source: Company, DBS HK

BYD Electronic

Balance Sheet (RMB m)

FY Dec	2022A	2023A	2024F	2025F	2026F
Net Fixed Assets	15,680	22,625	24,748	27,364	30,357
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	826	9,987	8,599	7,697	7,052
Cash & ST Invts	6,264	10,546	17,493	18,434	18,118
Inventory	17,046	18,541	23,481	26,567	29,575
Debtors	17,178	25,519	34,643	37,562	42,271
Other Current Assets	0	0	0	0	0
Total Assets	56,994	87,219	108,965	117,624	127,373
ST Debt	2,338	15,100	30,333	28,449	26,496
Creditors	27,423	39,038	41,518	46,689	51,595
Other Current Liab	381	613	780	991	1,302
LT Debt	591	1,389	1,430	1,661	1,753
Other LT Liabilities	625	1,749	1,877	2,077	2,255
Shareholder's Equity	25,635	29,330	33,028	37,757	43,972
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	56,994	87,219	108,965	117,624	127,373
Non-Cash Wkg. Capital	6,419	4,410	15,827	16,449	18,949
Net Cash/(Debt)	3,335	(5,942)	(14,269)	(11,675)	(10,132)
Total Debt incl Perps	2,929,227	16,488,928	31,762,372	30,109,873	28,249,119
PPE	15,611	22,559	24,687	27,307	30,303
Development Properties	0	0	0	0	0
Investment Properties	69	65	61	57	53
Debtors Turn (avg days)	52.9	60.0	66.7	70.8	70.3
Creditors Turn (avg days)	80.7	104.2	102.0	98.9	99.4
Inventory Turn (avg days)	51.5	55.8	53.2	56.1	56.8
Asset Turnover (x)	2.2	1.8	1.7	1.6	1.7
Current Ratio (x)	1.3	1.0	1.0	1.1	1.1
Quick Ratio (x)	0.8	0.7	0.7	0.7	0.8
Net Debt/Equity (X)	CASH	0.2	0.4	0.3	0.2
Net Debt/Equity ex MI (X)	CASH	0.2	0.4	0.3	0.2
Capex to Debt (%)	140.3	111.3	21.9	26.2	31.1
Z-Score (X)	NA	NA	NA	NA	NA
Debt to EBITDA (x)	0.83	2.40	2.64	2.18	1.73
Net Debt to EBITDA (x)	(0.95)	0.87	1.19	0.85	0.62
(Debt + Perp) / Asset	5.1	18.9	29.1	25.6	22.2
(Debt + Perp) / Asset (ex Intangibles)	5.1	21.1	31.3	27.1	23.3
Debt / Capital (TE + TD + Perp)	10.3	36.0	49.0	44.4	39.1
Debt / Asset (%)	5.1	18.9	29.1	25.6	22.2
Cash/ST debt (%)	267.1	69.8	57.6	64.8	68.3
ST debt / total debt (%)	79.8	91.6	95.5	94.5	93.8

Source: Company, DBS HK

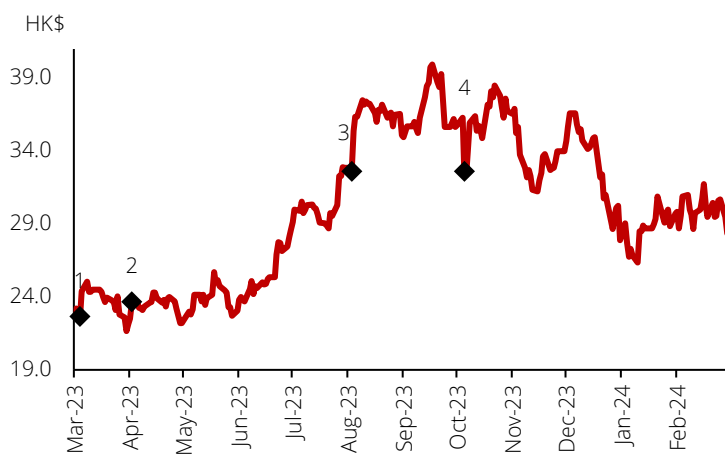
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Cash Flow Statement (RMB m)

FY Dec	2022A	2023A	2024F	2025F	2026F
Pre-Tax Profit	1,939	4,681	5,969	7,599	9,988
Dep. & Amort.	2,917	3,160	6,230	6,238	6,461
Tax Paid	(191)	(640)	(687)	(844)	(1,110)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	51	25	7	5	6
Chg in Wkg.Cap.	1,219	2,009	(11,417)	(622)	(2,500)
Other Operating CF	27	469	155	292	259
Net Operating CF	5,961	9,704	258	12,668	13,104
Capital Exp.(net)	(4,110)	(18,353)	(6,963)	(7,881)	(8,773)
Other Invt.(net)	(166)	(25)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	186	368	372	369
Net Investing CF	(4,276)	(18,192)	(6,595)	(7,510)	(8,404)
Div Paid	(232)	(1,212)	(1,584)	(2,026)	(2,663)
Chg in Gross Debt	1,668	13,560	15,273	(1,652)	(1,861)
Capital Issues	0	0	0	0	0
Other Financing CF	325	434	(405)	(538)	(493)
Net Financing CF	1,761	12,781	13,284	(4,217)	(5,017)
Currency Adjustments	(27)	0	0	0	0
Chg in Cash	3,419	4,294	6,947	941	(317)
Opg CFPS (RMB)	2.10	3.42	5.18	5.90	6.93
Free CFPS (RMB)	0.82	(3.84)	(2.98)	2.12	1.92
Capex	4,110	18,353	6,963	7,881	8,773
Free Cashflow	262	(13,721)	(6,706)	4,787	4,331

Source: Company, DBS HK

BYD Electronic

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	30-Mar-23	HK\$22.50	HK\$31.00	BUY
2	28-Apr-23	HK\$22.50	HK\$29.60	BUY
3	29-Aug-23	HK\$32.85	HK\$42.00	BUY
4	31-Oct-23	HK\$36.30	HK\$48.00	BUY

Source: DBS HK

Analysts: Jim Au

Tsz Wang Tam

BYD Electronic

DBS Group Research recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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