

# BYD Electronics (285 HK)

## Partnership with Xiaomi to fuel new wave of growth

During Xiaomi's annual Mi Developer Conference (MIDC 2020) on 5 Nov, BYDE's CEO attended as keynote speaker to reiterate its strategic partnership with Xiaomi across all categories in next few years, and BYDE was also awarded as Xiaomi's best strategic partner in past four years. We believe it affirmed our view that Xiaomi will emerge as BYDE's second largest customer with 19% of FY21E sales (vs 9% in FY20E), which will offset Huawei loss since 2H20E. We remain positive on BYDE as the major beneficiary of industry consolidation and Apple/Xiaomi's supplier diversification strategy. We slightly adjusted our EPS to reflect lower mask demand and stronger shipment from Xiaomi/iPad. Our new SOTP-based TP of HK\$49.5 is based on lower mask target multiple. We believe recent correction already reflected weaker mask sales, and we recommend investors to accumulate on recent weakness for BYDE's positive outlook.

- Strategic partnership with Xiaomi to drive growth.** We expect BYDE's EMS share allocation from Xiaomi to increase to 40% in FY21E from 10-20% in FY20E, and its revenue from Xiaomi will jump almost three times to RMB20bn in FY21E. Mgmt. stated that BYDE's capacity for Xiaomi will reach 100mn in FY21E (vs 20mn in FY20E). As we expect Huawei will scale down its smartphone biz under US ban in FY21E, we think new orders from fast-growing Xiaomi can mitigate the Huawei impact.
- Apple: iPad/Watch EMS/components well on track.** We believe BYDE will start to ship with 20-30% share allocation in latest iPad model in 2H20E, and it will expand to 30-40% share for all iPad products in 2021. Overall, we estimate Apple revenue will increase 280% YoY to RMB38bn in FY21E (37% of sales). As we believe Apple will continue to diversify component suppliers, we expect BYDE to gain share in iPhone/Watch ceramic products and also penetrate into iPad metal casing and front glass. We forecast Apple revenue will reach RMB50bn in FY22E.
- Our FY21/22E EPS are 28%/38% above consensus; Reiterate BUY.** We remain positive on BYDE's 5G roadmap, stronger partnership with major brands and expansion into medical segment. We slightly revised down our SOTP-based TP to HK\$49.5 (from HK\$50.4) to reflect weaker mask demand and assign lower 8x multiple for mask biz. Our TP implies an undemanding valuation of 16.3x FY21E P/E. Catalysts include faster share gain, stronger mask and Xiaomi/Apple product launches.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	41,047	53,028	76,422	102,923	130,941
YoY growth (%)	5.9	29.2	44.1	34.7	27.2
Net income (RMB mn)	2,146	1,598	5,489	6,148	6,627
EPS (RMB)	0.95	0.71	2.44	2.73	2.94
YoY growth (%)	(17.2)	(25.5)	243.6	12.0	7.8
Consensus EPS (RMB)	NA	NA	2.55	2.13	2.42
P/E (x)	35.3	47.4	13.8	12.3	11.4
P/B (x)	6.0	5.5	4.3	3.4	2.8
Yield (%)	0.6	0.2	0.7	0.8	0.9
ROE (%)	14	9.4	25.0	22	20
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$49.5**  
 (Previous TP **HK\$50.4**)  
 Up/Downside **+32%**  
 Current Price **HK\$37.50**

### China Technology Sector

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#### Stock Data

Mkt. Cap. (HK\$m)	84,495
Avg. 3mths t/o (HK\$m)	670.30
52W High/Low (HK\$)	45.60/ 10.40
Total Issued Shares (mn)	2,253

Source: Bloomberg

#### Shareholding Structure

Golden Link Worldwide Ltd	65.76%
Gold Dragonfly Ltd	6.08%
Vanguard Group Inc	1.20%

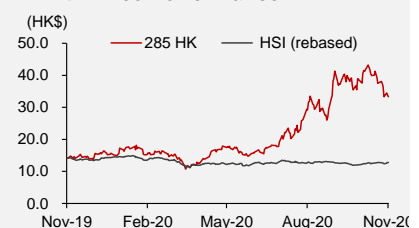
Source: Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	-14.5%	-19.4%
3-mth	14.0%	14.3%
6-mth	90.9%	81.2%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Ernst & Young

#### Related reports:

- BYDE (285 HK) - Positive profit alert and strong outlook; Reiterate BUY – 14 Oct 2020
- BYDE (285 HK) – Multiple growth drivers ahead; Lift TP to HK\$37.7 – 31 Aug 2020
- BYDE (285 HK) - A strong year despite CONV-19; Upgrade to BUY – 4 May 2020



## Earnings Revision

Figure 7: Earnings revision

RMB mn	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	76,422	102,923	130,941	81,002	100,773	116,322	-6%	2%	13%
Gross Profit	9,702	10,983	12,847	9,960	11,108	12,046	-3%	-1%	7%
Operating Profit	5,577	6,043	6,562	5,917	6,170	6,346	-6%	-2%	3%
Net profit	5,489	6,148	6,627	5,868	6,265	6,429	-6%	-2%	3%
EPS (RMB)	2.44	2.73	2.94	2.60	2.78	2.85	-6%	-2%	3%
Gross Margin	12.7%	10.7%	9.8%	12.3%	11.0%	10.4%	0.4 ppt	-0.4 ppt	-0.5 ppt
Operating Margin	7.3%	5.9%	5.0%	7.3%	6.1%	5.5%	0 ppt	-0.3 ppt	-0.4 ppt
Net Margin	7.2%	6.0%	5.1%	7.2%	6.2%	5.5%	-0.1 ppt	-0.2 ppt	-0.5 ppt

Sources: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	76,422	102,923	130,941	81,961	101,009	101,009	-7%	2%	30%
Gross Profit	9,702	10,983	12,847	10,009	9,827	9,827	-3%	12%	31%
Operating Profit	5,577	6,043	6,562	5,792	4,732	4,732	-4%	28%	39%
Net profit	5,489	6,148	6,627	5,624	4,589	4,589	-2%	34%	44%
EPS (RMB)	2.44	2.73	2.94	2.55	2.13	2.13	-4%	28%	38%
Gross Margin	12.7%	10.7%	9.8%	12.2%	9.7%	9.7%	0.5 ppt	0.9 ppt	0.1 ppt
Operating Margin	7.3%	5.9%	5.0%	7.1%	4.7%	4.7%	0.2 ppt	1.2 ppt	0.3 ppt
Net Margin	7.2%	6.0%	5.1%	6.9%	4.5%	4.5%	0.3 ppt	1.4 ppt	0.5 ppt

Source: Company data, CMBIS estimates

Figure 9: Revenue breakdown

RMB mn	FY18	1H19	2H19	FY19E	1H20	2H20E	FY20E	FY21E	FY22E
<b>Assembly</b>	<b>17,505</b>	<b>11,865</b>	<b>14,982</b>	<b>26,847</b>	<b>9,909</b>	<b>21,291</b>	<b>31,200</b>	<b>60,000</b>	<b>82,800</b>
... YoY	-4%	38%	68%	53%	-16%	42%	16%	92%	38%
<b>Phone and PC component</b>	<b>18,012</b>	<b>8,056</b>	<b>10,506</b>	<b>18,562</b>	<b>8,615</b>	<b>12,513</b>	<b>21,128</b>	<b>22,363</b>	<b>25,485</b>
... YoY	3%	-8%	13%	3%	7%	19%	14%	6%	14%
Metal	13,000	5,469	5,528	10,996	5,338	5,682	11,019	9,854	10,456
Plastic	3,512	1,725	2,841	4,566	1,553	2,557	4,109	4,109	4,109
Glass/ceramic	1,500	863	2,138	3,000	1,725	4,275	6,000	8,400	10,920
<b>Mask</b>	-	-	-	-	<b>8,548</b>	<b>5,600</b>	<b>14,148</b>	<b>6,789</b>	<b>4,752</b>
... YoY	-	-	-	-	-	-	-	-52%	-30%
<b>New intelligent products</b>	<b>4,340</b>	<b>2,598</b>	<b>3,427</b>	<b>6,025</b>	<b>3,634</b>	<b>4,798</b>	<b>8,432</b>	<b>11,805</b>	<b>15,346</b>
... YoY	70%	55%	29%	39%	40%	40%	40%	40%	30%
<b>Auto intelligent systems</b>	<b>1,190</b>	<b>761</b>	<b>833</b>	<b>1,594</b>	<b>680</b>	<b>833</b>	<b>1,513</b>	<b>1,967</b>	<b>2,557</b>
... YoY	150%	55%	19%	34%	-11%	0%	-5%	30%	30%
<b>Total</b>	<b>41,047</b>	<b>23,280</b>	<b>29,748</b>	<b>53,028</b>	<b>31,386</b>	<b>45,035</b>	<b>76,422</b>	<b>102,923</b>	<b>130,941</b>
... YoY	6%	19%	38%	29%	35%	51%	44%	35%	27%

Source: Company data, CMBIS estimates

Figure 10: P&amp;L forecast by interim

RMB mn	FY18	1H19	2H19	FY19	1H20	2H20E	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>41,047</b>	<b>23,280</b>	<b>29,748</b>	<b>53,028</b>	<b>31,386</b>	<b>45,035</b>	<b>76,422</b>	<b>102,923</b>	<b>130,941</b>
...YoY	5.9%	19.3%	38.1%	29.2%	34.8%	51.4%	44.1%	34.7%	27.2%
Cost of sales	(36,875)	(21,729)	(27,342)	(49,071)	(27,286)	(39,433)	(66,720)	(91,940)	(118,093)
<b>Gross profit</b>	<b>4,172</b>	<b>1,551</b>	<b>2,406</b>	<b>3,957</b>	<b>4,100</b>	<b>5,602</b>	<b>9,702</b>	<b>10,983</b>	<b>12,847</b>
GPM (%)	10%	7%	8%	7%	13%	12%	13%	11%	10%
...YoY	-2.2%	-34.6%	-20.3%	-5.1%	96.0%	53.8%	145.2%	13.2%	17.0%
SG&A	(765)	(428)	(349)	(777)	(405)	(585)	(991)	(1,029)	(1,309)
...% of rev	2%	2%	1%	1%	1%	1%	1%	1%	1%
R&D	(1,589)	(853)	(1,333)	(2,186)	(1,108)	(2,027)	(3,134)	(3,911)	(4,976)
...% of rev	4%	4%	4%	4%	4%	5%	4%	4%	4%
<b>Operating profit</b>	<b>1,818</b>	<b>270</b>	<b>723</b>	<b>994</b>	<b>2,587</b>	<b>2,990</b>	<b>5,577</b>	<b>6,043</b>	<b>6,562</b>
OPM (%)	4%	1%	2%	2%	8%	7%	7%	6%	5%
...YoY	-24%	-78%	-35%	-45%	610%	173%	461%	8%	9%
<b>Net profit</b>	<b>2,146</b>	<b>575</b>	<b>1,022</b>	<b>1,598</b>	<b>2,473</b>	<b>3,016</b>	<b>5,489</b>	<b>6,148</b>	<b>6,627</b>
NPM (%)	5%	2%	3%	3%	8%	7%	7%	6%	5%
...YoY	-17%	-49%	1%	-26%	330%	195%	244%	12%	8%

Source: Company data, CMBIS estimates

## Valuation

### Reiterate BUY with new TP HK\$ 49.5 (32% upside)

We maintain Buy with new TP HK\$ 49.5, as we turn more positive on share gain with Xiaomi/Apple, plastic/ceramic casing and stronger mask demand. We derive our TP of HK\$ 49.5 based on SOTP valuation to reflect BYDE's business diversification with different growth profiles and visibility.

Our new TP is based on weighted-average target P/E multiple of 16.3x FY21E EPS. We assign 15x P/E to its assembly EMS business and 20x P/E for component business, in-line with TW/HK-listed peers. We assign lower 8x for mask business to reflect its near-term growth potential amid COVID-19 outbreak.

**Figure 11: BYDE – SOTP valuation**

Business segment	% of FY21E Profit	FY21E EPS (RMB)	Target P/E
Assembly	16%	0.42	15x
Components	38%	1.03	20x
Masks	25%	0.67	8x
Others (smart, auto)	22%	0.60	20x
<b>Total (RMB) /Implied P/E</b>		<b>2.73</b>	<b>16.3x</b>
<b>TP (HK\$)</b>			<b>49.5</b>

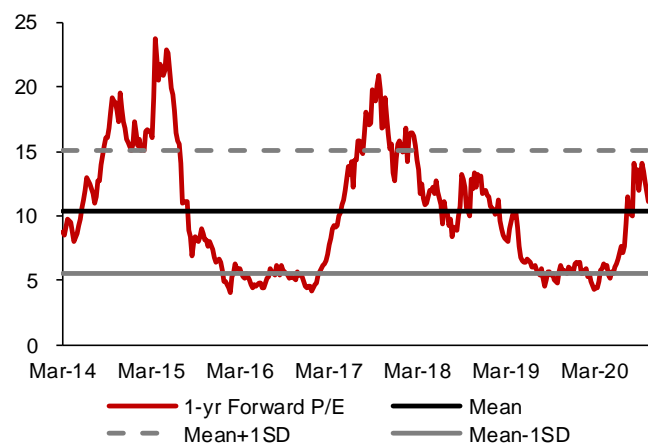
Sources: Company data, CMBIS estimates

**Figure 12: Peers' valuation**

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
BYDE	285 HK	Buy	10,896	37.50	49.5	32%	13.8	12.3	4.3	3.4	25	22
Tongda	698 HK	Hold	359	0.43	0.56	30%	6.9	8.8	0.4	0.4	6.1	4.7
AAC Tech	2018 HK	Hold	6,951	44.60	47.5	7%	21.7	28.8	2.5	2.4	11.3	8.3
TK Group	2283 HK	Buy	262	2.44	* 2.3	-5%	5.3	4.4	1.6	1.6	29.7	35.7
Ju Teng	3336 HK	NR	361	2.40	NA	NA	7.6	8.4	0.4	0.4	5.6	4.9
Everwin	300115 CH	NR	3,449	25.16	NA	NA	42.1	29.0	4.7	4.2	11.3	14.6
Lens Tech	300433 CH	NR	22,220	33.64	NA	NA	33.1	25.8	5.3	4.6	17.8	19.1
Foxconn	2354 TT	NR	2,535	51.20	NA	NA	9.9	9.5	0.6	0.5	6.5	6.3
Casetek	5264 TT	NR	1,270	86.30	NA	NA	250.9	22.8	1.2	1.1	2.0	5.4
Catcher	2474 TT	NR	4,931	185.00	NA	NA	8.9	9.6	0.9	0.8	12.1	9.1
<b>Average</b>							<b>43.4</b>	<b>16.0</b>	<b>2.2</b>	<b>2.0</b>	<b>11.2</b>	<b>13.4</b>

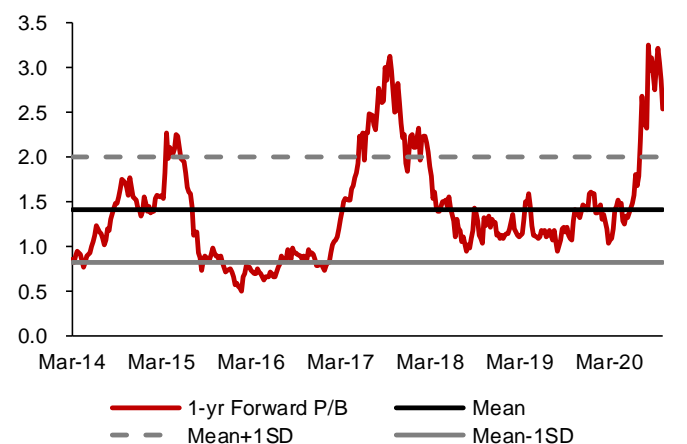
Source: Bloomberg, CMBIS estimates, \*TP under review

**Figure 13: 12M forward P/E band**



Source: Bloomberg, CMBIS estimates

**Figure 14: 12M forward P/B band**



Source: Bloomberg, CMBIS estimates



## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>41,047</b>	<b>53,028</b>	<b>76,422</b>	<b>102,923</b>	<b>130,941</b>
COGS	(36,875)	(49,071)	(66,720)	(91,940)	(118,09)
<b>Gross profit</b>	<b>4,172</b>	<b>3,957</b>	<b>9,702</b>	<b>10,983</b>	<b>12,847</b>
Selling and marketing	(229)	(300)	(400)	(412)	(524)
Administrative	(536)	(477)	(590)	(618)	(786)
R&D	(1,589)	(2,186)	(3,134)	(3,911)	(4,976)
Other operating exp.					
<b>Operating profit</b>	<b>1,818</b>	<b>994</b>	<b>5,577</b>	<b>6,043</b>	<b>6,562</b>
Financial cost	(43)	(31)	(45)	(45)	(45)
Other income/(losses)	718	734	650	685	687
<b>Pre-tax profit</b>	<b>2,493</b>	<b>1,696</b>	<b>6,182</b>	<b>6,683</b>	<b>7,204</b>
Tax	(347)	(99)	(693)	(535)	(576)
Minority interest	-	-	-	-	-
<b>Net profit</b>	<b>2,146</b>	<b>1,598</b>	<b>5,489</b>	<b>6,148</b>	<b>6,627</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before taxation</b>	<b>2,493</b>	<b>1,696</b>	<b>6,182</b>	<b>6,683</b>	<b>7,204</b>
Depreciation	1,926	2,157	2,454	2,855	3,366
Change in working capital	608	(3,596)	(2,237)	(698)	(1,382)
Others	(289)	(20)	(648)	(489)	(531)
<b>Net cash from operating</b>	<b>4,738</b>	<b>237</b>	<b>5,751</b>	<b>8,351</b>	<b>8,657</b>
Capex	(2,276)	(3,140)	(2,751)	(3,705)	(4,714)
Other	(16)	-	-	-	-
<b>Net cash from investing</b>	<b>(2,292)</b>	<b>(3,140)</b>	<b>(2,751)</b>	<b>(3,705)</b>	<b>(4,714)</b>
Dividend paid	(518)	(160)	(549)	(615)	(663)
Other	(43)	(31)	(45)	(45)	(45)
<b>Net cash from financing</b>	<b>(561)</b>	<b>(191)</b>	<b>(594)</b>	<b>(660)</b>	<b>(708)</b>
<b>Net change in cash</b>	<b>1,885</b>	<b>(3,095)</b>	<b>2,406</b>	<b>3,986</b>	<b>3,235</b>
Cash at beginning of the year	2,822	4,699	1,651	4,057	8,042
Exchange difference	(9)	-	-	-	-
<b>Cash at the end of the year</b>	<b>4,699</b>	<b>1,651</b>	<b>4,057</b>	<b>8,042</b>	<b>11,277</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Current assets</b>	<b>17,089</b>	<b>17,082</b>	<b>26,108</b>	<b>33,614</b>	<b>42,880</b>
Cash & equivalents	4,741	1,651	4,057	8,042	11,277
Account receivables	7,209	9,567	12,267	15,179	17,556
Inventories	4,768	5,453	9,373	9,982	13,636
Short-term bank deposits	-	-	-	-	-
Other current assets	371	411	411	411	411
<b>Non-current assets</b>	<b>8,147</b>	<b>9,950</b>	<b>10,220</b>	<b>10,992</b>	<b>12,218</b>
PPE	7,634	8,617	8,914	9,764	11,112
Deferred income tax	128	159	159	159	159
Other non-current assets	385	1,173	1,146	1,069	947
<b>Total assets</b>	<b>25,236</b>	<b>27,032</b>	<b>36,328</b>	<b>44,607</b>	<b>55,098</b>
<b>Current liabilities</b>	<b>10,062</b>	<b>10,399</b>	<b>14,782</b>	<b>17,605</b>	<b>22,254</b>
Deferred income	16	-	-	-	-
Account payables	7,892	7,340	11,723	14,546	19,195
Tax payable	30	108	108	108	108
Other current liabilities	2,123	2,951	2,951	2,951	2,951
<b>Non-current liabilities</b>	<b>164</b>	<b>639</b>	<b>639</b>	<b>639</b>	<b>639</b>
Deferred income	120	122	122	122	122
Deferred tax liability	45	18	18	18	18
<b>Total liabilities</b>	<b>10,226</b>	<b>11,038</b>	<b>15,421</b>	<b>18,243</b>	<b>22,893</b>
Share capital	4,052	4,052	4,052	4,052	4,052
Reserves	11,773	12,937	17,877	23,410	29,375
Minority interest					
<b>Shareholders' equity</b>	<b>15,825</b>	<b>16,989</b>	<b>21,929</b>	<b>27,463</b>	<b>33,427</b>
<b>Total equity and liabilities</b>	<b>26,051</b>	<b>28,027</b>	<b>37,350</b>	<b>45,706</b>	<b>56,320</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Phone and PC components	44	35	28	22	19
Assembly services	43	51	41	58	63
Masks					
New intelligent products	11	11	11	11	12
Auto intelligent systems	3	3	2	2	2
<b>Growth (%)</b>					
Revenue	5.9	29.2	44.1	34.7	27.2
Gross profit	(2.2)	(5.1)	145.2	13.2	17.0
Operating profit	(24.2)	(45.4)	461.3	8.4	8.6
Net profit	(17.0)	(25.5)	243.6	12.0	7.8
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	10.2	7.5	12.7	10.7	9.8
Operating margin	4.4	1.9	7.3	5.9	5.0
Net profit margin	5.2	3.0	7.2	6.0	5.1
<b>Balance sheet ratio</b>					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.7	1.6	1.8	1.9	1.9
Receivable turnover days	70	58	52	49	46
Inventory turnover days	46	38	41	38	37
Payable turnover days	84	57	52	52	52
<b>Profitability (%)</b>					
ROE	13.6	9.4	25.0	22.4	19.8
ROA	8.5	5.9	15.1	13.8	12.0
<b>Per share data (RMB)</b>					
EPS	0.95	0.71	2.44	2.73	2.94
DPS	0.20	0.07	0.24	0.27	0.29

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

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