

# BYD Company (1211 HK)

## Profit may continue to beat in next few quarters

**Upgrade to BUY.** Although BYD's share price has been between -10% and +15% of our previous target price of HK\$ 240, our major concerns with a prior HOLD rating were more about model cycle and margin dent from a potential overcapacity. It turned out that BYD's sales volume growth has lasted longer than expected and its earnings have been more solid than our prior forecasts. We now think that such trends could continue in the next few quarters, aided by premium models, exports and greater economies of scale. Unlike some investors, we think BYD's catch up in intelligent connectivity may be faster than expected.

- **3Q23 earnings beat.** BYD's 3Q23 net profit of RMB 10.4bn was in the middle of its preliminary earnings range, thanks to its strong GPM and SG&A cost control. Its 3Q23 GPM of 21.7% was about 1.5 pts higher than our prior forecast. GPM excluding BYDE (285 HK, BUY) reached 25.7%. SG&A ratio also narrowed by 0.8 pts QoQ. R&D expenses exceeded RMB 11bn in 3Q23, or 6.8% of revenue. Net profit per vehicle (excluding BYDE) reached RMB 11,400, the highest in history.
- **Solid earnings outlook ahead.** We expect BYD's sales volume to rise 23% YoY to 3.7mn units in FY24E, in line with our projected growth of NEV wholesale volume for China. We revise up our FY24E net profit forecast by 29% to RMB 39.4bn (net profit of RMB 9,700 per vehicle excluding BYDE), assuming that GPM in FY24E is to narrow slightly YoY to account for rising competition. Yet, we believe BYD still has room to beat such profitability, should its more premium new models and exports offset dent from price war. Its new-generation DM technology could also help cut costs.
- **Catch-up in autonomous driving and smart cockpit could be faster than expected.** BYD's R&D expenses in FY23E could be 30% higher than Li Auto (LI US, BUY), NIO (NIO US, HOLD) and Xpeng (XPEV US, HOLD) combined. We believe such R&D investments, along with its partnership with Momenta (which also works with SAIC (600104 CH, NR)), could help BYD catch up.
- **Earnings/Valuation.** We upgrade our rating from Hold to BUY and raise target price from HK\$ 240 to HK\$ 290, based on 20x (prior 21x) our revised FY24E P/E. We are of the view that such valuation is justified, given Tesla's (TSLA US, NR) current 40x FY24E P/E and Li Auto's 20x FY24E P/E. Key risks to our rating and target price include lower NEV sales volume and margins, as well as sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	216,142	424,061	603,269	762,779	868,531
YoY growth (%)	38.0	96.2	42.3	26.4	13.9
Net income (RMB mn)	3,045	16,622	31,219	39,391	47,498
EPS (RMB)	1.06	5.71	10.72	13.53	16.32
YoY growth (%)	(28.1)	445.9	87.8	26.2	20.6
P/E (x)	217.0	40.3	21.5	17.0	14.1
P/B (x)	7.0	6.0	4.8	3.9	3.2
Yield (%)	0.1	0.6	0.8	1.0	1.2
ROE (%)	4.0	16.1	25.0	25.3	24.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Upgrade)

Target Price	HK\$ 290.00
(Previous TP	HK\$ 240.00)
Up/Downside	+17.9%
Current Price	HK\$ 246.20

### China Auto Sector

#### SHI Ji, CFA

(852) 3761 8728

shiji@cmbi.com.hk

#### DOU Wenjing, CFA

(852) 6939 4751

douwenjing@cmbi.com.hk

#### GU Sijie

jasongu@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	716,700
Avg 3 mths t/o (HK\$ mn)	1,692
52w High/Low (HK\$)	280.60/165.10
Total Issued Shares (mn)	2,911
Source: Bloomberg	

### Shareholding Structure

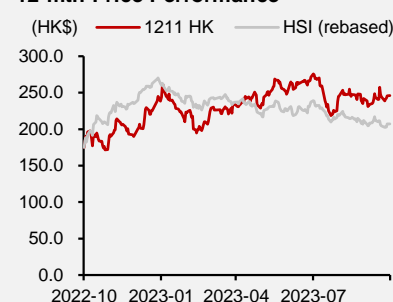
Wang Chuanfu	17.6%
Lv Xiangyang	8.2%
Others	74.1%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	1.7%	4.0%
3-mth	-10.7%	2.6%
6-mth	4.8%	17.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Ernst & Young

### Related Reports

["BYD Company \(1211 HK\) – Solid 2Q23 earnings quality; Eyes on upmarket" – 30 Aug 2023](#)

**Figure 1: Quarterly results**

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
Sales volume (units)	291,378	355,021	538,704	683,440	552,076	703,561	824,001	53.0%	17.1%
Revenue	66,825	83,782	117,081	156,373	120,174	139,951	162,151	38.5%	15.9%
Gross profit	8,287	12,054	22,199	29,704	21,467	26,206	35,876	61.6%	36.9%
R&D expenses	(2,361)	(3,064)	(5,446)	(7,784)	(6,238)	(7,597)	(11,104)	103.9%	46.2%
SG&A expenses	(3,680)	(4,713)	(7,372)	(9,302)	(8,014)	(9,643)	(9,851)	33.6%	2.2%
Operating profit	1,061	3,561	7,460	9,459	5,299	8,433	12,906	73.0%	53.0%
Net profit	808	2,787	5,713	7,314	4,130	6,824	10,413	82.3%	52.6%
Gross margin	12.4%	14.4%	19.0%	19.0%	17.9%	18.7%	22.1%	3.2 ppt	3.4 ppt
Operating margin	1.6%	4.3%	6.4%	6.0%	4.4%	6.0%	8.0%	1.6 ppt	1.9 ppt
Net margin	1.2%	3.3%	4.9%	4.7%	3.4%	4.9%	6.4%	1.5 ppt	1.5 ppt

Source: Company data, CMBIGM estimates

**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	603,269	762,779	868,531	611,500	716,548	789,555	-1.3%	6.5%	10.0%
Gross Profit	122,834	154,702	174,488	112,724	130,574	142,199	9.0%	18.5%	22.7%
Operating Profit	38,898	49,860	60,271	36,080	39,668	42,621	7.8%	25.7%	41.4%
Net profit	31,219	39,391	47,498	28,318	30,574	32,941	10.2%	28.8%	44.2%
Gross Margin	20.4%	20.3%	20.1%	18.4%	18.2%	18.0%	1.9 ppt	2.1 ppt	2.1 ppt
Operating Margin	6.4%	6.5%	6.9%	5.9%	5.5%	5.4%	0.5 ppt	1.0 ppt	1.5 ppt
Net Margin	5.2%	5.2%	5.5%	4.6%	4.3%	4.2%	0.5 ppt	0.9 ppt	1.3 ppt

Source: CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY21E	FY22E	FY23E
Revenue	603,269	762,779	868,531	628,345	777,593	938,539	-4.0%	-1.9%	-7.5%
Gross Profit	122,834	154,702	174,488	110,256	138,653	170,608	11.4%	11.6%	2.3%
Operating Profit	38,898	49,860	60,271	32,696	44,671	57,030	19.0%	11.6%	5.7%
Net profit	31,219	39,391	47,498	25,319	33,977	45,367	23.3%	15.9%	4.7%
Gross Margin	20.4%	20.3%	20.1%	17.5%	17.8%	18.2%	2.8 ppt	2.5 ppt	1.9 ppt
Operating Margin	6.4%	6.5%	6.9%	5.2%	5.7%	6.1%	1.2 ppt	0.8 ppt	0.9 ppt
Net Margin	5.2%	5.2%	5.5%	4.0%	4.4%	4.8%	1.1 ppt	0.8 ppt	0.6 ppt

Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>216,142</b>	<b>424,061</b>	<b>603,269</b>	<b>762,779</b>	<b>868,531</b>
Cost of sales	(187,998)	(351,816)	(480,435)	(608,077)	(694,043)
<b>Gross profit</b>	<b>28,145</b>	<b>72,245</b>	<b>122,834</b>	<b>154,702</b>	<b>174,488</b>
Selling exp.	(6,082)	(15,061)	(23,915)	(31,048)	(34,705)
Admin exp.	(5,710)	(10,007)	(15,178)	(19,842)	(22,107)
R&D exp.	(7,991)	(18,654)	(37,620)	(44,100)	(45,080)
Others	(3,730)	(6,981)	(7,222)	(9,851)	(12,324)
<b>Operating profit</b>	<b>4,632</b>	<b>21,542</b>	<b>38,898</b>	<b>49,860</b>	<b>60,271</b>
Non-operating income	338	527	670	700	700
Non-operating expenses	(452)	(989)	(1,400)	(1,500)	(1,550)
<b>Pre-tax profit</b>	<b>4,518</b>	<b>21,080</b>	<b>38,168</b>	<b>49,060</b>	<b>59,421</b>
Tax	(551)	(3,367)	(5,408)	(7,747)	(9,284)
Minority interests	(922)	(1,091)	(1,541)	(1,923)	(2,640)
<b>Net profit</b>	<b>3,045</b>	<b>16,622</b>	<b>31,219</b>	<b>39,391</b>	<b>47,498</b>

### Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profit before taxation</b>	<b>4,518</b>	<b>21,080</b>	<b>38,168</b>	<b>49,060</b>	<b>59,421</b>
Depreciation/amortization	14,108	20,370	42,194	56,153	66,141
Change in working capital	44,083	97,849	79,627	48,343	6,268
Others	2,757	1,539	(1,913)	(4,229)	(6,162)
<b>Net cash from operating</b>	<b>65,467</b>	<b>140,838</b>	<b>158,076</b>	<b>149,328</b>	<b>125,668</b>
Capex	(37,344)	(97,457)	(122,630)	(92,100)	(66,120)
Others	(8,060)	(23,139)	(5,460)	(7,460)	(9,460)
<b>Net cash from investing</b>	<b>(45,404)</b>	<b>(120,596)</b>	<b>(128,090)</b>	<b>(99,560)</b>	<b>(75,580)</b>
Share issuance	37,314	-	-	-	-
Net borrowings	(17,006)	(16,413)	9,076	3,500	-
Others	(4,245)	(3,076)	(6,982)	(9,056)	(10,710)
<b>Net cash from financing</b>	<b>16,063</b>	<b>(19,489)</b>	<b>2,094</b>	<b>(5,556)</b>	<b>(10,710)</b>
<b>Net change in cash</b>	<b>36,125</b>	<b>753</b>	<b>32,080</b>	<b>44,211</b>	<b>39,377</b>
Cash at beginning of the year	13,738	49,820	51,182	83,263	127,474
Exchange difference	(44)	610	-	-	-
<b>Cash at end of the year</b>	<b>49,820</b>	<b>51,182</b>	<b>83,263</b>	<b>127,474</b>	<b>166,851</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Current assets</b>	<b>166,110</b>	<b>240,804</b>	<b>294,249</b>	<b>387,974</b>	<b>479,854</b>
Cash & equivalents	50,457	51,471	84,263	128,474	167,851
Account receivables	44,994	51,723	48,344	62,694	80,309
Inventories	43,355	79,107	98,720	124,947	152,119
Other current assets	27,304	58,502	62,922	71,858	79,574
<b>Non-current assets</b>	<b>129,670</b>	<b>253,057</b>	<b>344,023</b>	<b>391,388</b>	<b>404,003</b>
PP&E	61,221	131,880	215,946	249,271	260,706
Intangibles	17,171	23,289	25,134	25,151	23,287
Investment in JVs & assos	7,905	15,485	18,265	21,145	24,125
Other non-current assets	43,373	82,402	84,678	95,821	95,884
<b>Total assets</b>	<b>295,780</b>	<b>493,861</b>	<b>638,272</b>	<b>779,362</b>	<b>883,857</b>
<b>Current liabilities</b>	<b>171,304</b>	<b>333,345</b>	<b>435,794</b>	<b>539,950</b>	<b>602,333</b>
Bank borrowings	10,204	5,153	-	-	-
Account payables	73,160	140,437	205,337	250,478	276,667
Contract Liabilities	14,934	35,517	52,650	58,309	11,409
Other current liabilities	73,006	152,238	177,807	231,163	314,258
<b>Non-current liabilities</b>	<b>20,232</b>	<b>39,126</b>	<b>51,646</b>	<b>53,566</b>	<b>53,510</b>
Bank borrowings	8,744	7,594	20,094	20,094	19,094
Bond payables	2,046	-	-	1,000	2,000
Other non-current liabilities	9,442	31,533	31,553	32,473	32,416
<b>Total liabilities</b>	<b>191,536</b>	<b>372,471</b>	<b>487,441</b>	<b>593,516</b>	<b>655,843</b>
Share capital	2,911	2,911	2,911	2,911	2,911
Reserves	92,159	108,118	136,112	169,359	209,079
Non-controlling interests	9,175	10,361	11,808	13,576	16,024
<b>Shareholders' equity</b>	<b>95,070</b>	<b>111,029</b>	<b>139,023</b>	<b>172,270</b>	<b>211,990</b>
<b>Total equity and liabilities</b>	<b>295,780</b>	<b>493,861</b>	<b>638,272</b>	<b>779,362</b>	<b>883,857</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Automobile	52.0	76.6	75.5	77.4	76.7
Handset	40.0	23.3	19.5	18.1	18.5
Battery & others	8.0	0.1	5.0	4.5	4.8
<b>Growth (%)</b>					
Revenue	38.0	96.2	42.3	26.4	13.9
Gross profit	(7.3)	156.7	70.0	25.9	12.8
Operating profit	(34.6)	365.1	80.6	28.2	20.9
Net profit	(28.1)	445.9	87.8	26.2	20.6
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	13.0	17.0	20.4	20.3	20.1
Operating margin	2.1	5.1	6.4	6.5	6.9
Net profit margin	1.4	3.9	5.2	5.2	5.5
<b>Balance sheet ratio</b>					
Net cash/total equity (x)	0.2	0.3	0.4	0.5	0.6
Current ratio (x)	1.0	0.7	0.7	0.7	0.8
Receivable turnover days	94	58	39	40	45
Inventory turnover days	84	82	75	75	80
Payable turnover days	156	149	160	155	150
<b>Profitability (%)</b>					
ROE	4.0	16.1	25.0	25.3	24.7
ROA	1.2	4.2	5.5	5.6	5.7
<b>Per share data (RMB)</b>					
EPS	1.06	5.71	10.72	13.53	16.32
DPS	0.11	1.14	2.14	2.71	3.26

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.