

BYD Electronics (285 HK)

1H19 significant miss; Lack of visibility into 2H19

Summary. BYDE reported a significant miss with 58% NP decline in 1H19, 41% below our estimates, mainly due to 1) Huawei order cut in May/June, 2) slower-than-expected plastic/glass casing, 3) lower GPM with weaker mix, and 4) higher R&D expense. We expect margin pressure to continue into 2H19E, given higher assembly mix and slower plastic/ glass ramp. We trimmed FY19-21E EPS by 30%/12%/3%, and cut our TP to HK\$10.4, based on same 10x FY20E P/E. Maintain Hold, as we wait for better visibility on margin and plastic/glass orders.

- 1H19 worse than expected on Huawei ban and lower margin.** BYDE's 1H revenue growth (+19% YoY) was driven by 1) strong assembly service (+38% YoY) and auto/intelligent segment (+55% YoY), but 2) weak casing segment (-8% YoY) given Huawei's order cut and slow plastic/glass casing. However, given weaker mix and margin pressure in metal/assembly, 1H19 net profit slumped 58% YoY with GPM declined to 6.7% (vs 10.2% in 1H18).
- Margin pressure to persist during metal-to-plastic/glass transition.** We believe ASP/margin pressure in metal casing (23% of FY19E sales) and slow ramp of plastic/glass casing (11%/4%) will continue to drag BYDE's profitability in 2H19E. We estimate metal/glass/plastic will deliver -14%/+50%/+30% growth in FY19E, and GPM will reach 8.2% in 2H19 (vs 10.1% in 2H18, 6.7% in 1H19). Looking forward into 5G era, BYDE sees opportunities in 1) 5G antenna on metal mid-frame, 2) metalistic plastic casing with CNC/PVD, and 3) ceramic functional parts on RFFE/filters.
- Closer Huawei/Apple partnership; auto/smart intelligence on fast track.** We expect BYDE to accelerate collaboration with Huawei/Apple in 2H19/20E, in terms of 1) Huawei's casing/assembly/5G BTS/servers, 2) Huawei's production expansion in India/Brazil/Hungry, and 3) Apple's new products in 3Q19E/FY20E. In addition, we expect auto/smart intelligent biz to deliver 31%/42% sales FY19-21E CAGR, backed by 1) Di-Link on BYD Dynasty/e/s series, 2) foreign tier-1 OEMs, and 3) intelligent-driving modules in FY22E.
- Maintain HOLD with lowered TP of HK\$10.4.** We cut FY19-21E EPS by 30%/12%/3% to reflect 1H19 miss, lower GPM, and slower glass/plastics casing. Our TP is trimmed to HK\$10.4, based on same 10x FY20E P/E. Stay Hold given lack of 2H19E visibility on margin and plastic/glass orders.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	38,774	41,047	48,773	52,789	57,926
YoY growth (%)	6	6	19	8	10
Net income (RMB mn)	2,585	2,189	1,467	2,094	2,537
EPS (RMB)	1.15	0.97	0.65	0.93	1.13
YoY growth (%)	109	(16)	(33)	43	21
P/E (x)	8.9	10.5	15.7	11.0	9.1
P/B (x)	2.0	1.8	1.7	1.5	1.4
Yield (%)	2.2	1.9	1.3	1.8	2.2
ROE (%)	18	14	8.6	11.2	12
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price **HK\$10.4**
 (Previous TP **HK\$11.8**)
 Current Price **HK\$11.4**
 Up/Downside **-9.0%**

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	25,687
Avg. 3mths t/o (HK\$m)	100.8
52W High/Low (HK\$)	14.92/7.88
Total Issued Shares (mn)	2,253
Source: Bloomberg	

Shareholding Structure

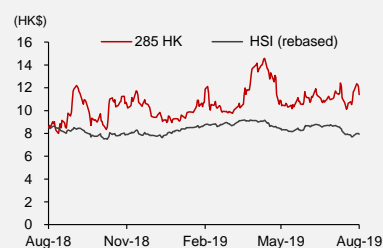
Golden Link Worldwide Ltd	65.76%
Gold Dragonfly Ltd	6.08%
Vanguard Group Inc	1.23%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	10.6%	21.1%
3-mth	11.2%	17.1%
6-mth	13.3%	23.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related report:

BYDE (285 HK) – 1H19 Preview – 12 Aug 2019

Earnings Revision

Figure 1: 1H19 results review

RMB mn	1H18	2H18	1H19	YoY	CMBI		CMBI		Consensus	
					1H19E	Diff%	FY19E	% Track	FY19E	% Track
Revenue	19,511	21,536	23,280	19%	22,259	5%	46,167	50%	46,869	50%
Gross profit	1,988	2,184	1,551	-22%	1,959	-21%	4,155	37%	4,568	34%
Operating profit	1,017	802	270	-73%	848	-68%	1,666	16%	2,448	11%
Net profit	1,135	1,030	575	-49%	982	-41%	2,109	27%	2,340	25%
EPS (RMB)	0.50	0.46	0.26	-49%	0.44	-41%	0.94	27%	1.00	24%
Gross margin	10.2%	10.1%	6.7%	-3.5ppt	8.8%	-2.1 ppt	9.0%		9.7%	
Operating margin	5.2%	3.7%	1.2%	-4.1ppt	3.8%	-2.6 ppt	3.6%		5.2%	
Net margin	5.8%	4.8%	2.5%	-3.3ppt	4.4%	-1.9 ppt	4.6%		5.0%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Earnings revision

RMB mn	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	48,773	52,789	57,926	46,167	50,760	54,758	6%	4%	6%
Gross Profit	3,654	4,579	5,379	4,155	4,670	5,147	-12%	-2%	5%
Operating Profit	897	1,628	2,140	1,666	1,984	2,250	-46%	-18%	-5%
Net profit	1,467	2,094	2,537	2,109	2,384	2,613	-30%	-12%	-3%
EPS (RMB)	0.65	0.93	1.13	0.94	1.06	1.16	-30%	-12%	-3%
Gross Margin	7.5%	8.7%	9.3%	9.0%	9.2%	9.4%	-1.5 ppt	-0.5 ppt	-0.1 ppt
Operating Margin	1.8%	3.1%	3.7%	3.6%	3.9%	4.1%	-1.8 ppt	-0.8 ppt	-0.4 ppt
Net Margin	3.0%	4.0%	4.4%	4.6%	4.7%	4.8%	-1.6 ppt	-0.7 ppt	-0.4 ppt

Sources: Company data, CMBIS

Figure 3: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	48,773	52,789	57,926	46,869	51,348	54,968	4%	3%	5%
Gross Profit	3,654	4,579	5,379	4,568	5,092	5,471	-20%	-10%	-2%
Operating Profit	897	1,628	2,140	2,448	2,807	3,110	-63%	-42%	-31%
Net profit	1,467	2,094	2,537	2,340	2,636	2,882	-37%	-21%	-12%
EPS (RMB)	0.65	0.93	1.13	1.04	1.18	1.29	-38%	-21%	-13%
Gross Margin	7.5%	8.7%	9.3%	9.7%	9.9%	10.0%	-2.3 ppt	-1.2 ppt	-0.7 ppt
Operating Margin	1.8%	3.1%	3.7%	5.2%	5.5%	5.7%	-3.4 ppt	-2.4 ppt	-2 ppt
Net Margin	3.0%	4.0%	4.4%	5.0%	5.1%	5.2%	-2 ppt	-1.2 ppt	-0.9 ppt

Source: Company data, CMBIS

Figure 4: Revenue breakdown

RMB mn	FY17	1H18	2H18	FY18	1H19	2H19E	FY19E	FY20E	FY21E
Phone and PC component	17,478	8,744	9,268	18,012	8,056	10,317	18,373	18,514	19,561
...YoY	-	-	-	3%	-8%	11%	2%	1%	6%
Metal	14,728	6,494	6,506	13,000	5,469	5,686	11,155	8,672	6,767
Plastic	2,500	1,500	2,012	3,512	1,725	3,543	5,268	7,112	9,245
Glass/ceramic	250	750	750	1,500	863	1,088	1,950	2,730	3,549
New intelligent products	2,553	1,676	2,664	4,340	2,598	3,261	5,859	7,792	10,130
...YoY	-	-	-	70%	55%	22%	35%	33%	30%
Auto intelligent systems	476	491	699	1,190	761	1,024	1,785	2,588	3,624
...YoY	-	-	-	150%	55%	46%	50%	45%	40%
Assembly	18,267	8,600	8,905	17,505	11,865	10,892	22,757	23,894	24,611
...YoY	-	-	-	-4%	38%	22%	30%	5%	3%
Total	38,774	19,511	21,536	41,047	23,280	25,493	48,773	52,789	57,926
...YoY	6%	11%	1%	6%	19%	18%	19%	8%	10%

Source: Company data, CMBIS

Figure 5: P&L forecast

RMB mn	FY17	1H18	2H18	FY18	1H19	2H19E	FY19E	FY20E	FY21E
Revenue	38,774	19,511	21,536	41,047	23,280	25,493	48,773	52,789	57,926
...YoY	5.6%	11.3%	1.4%	5.9%	19.3%	18.4%	18.8%	8.2%	9.7%
Cost of sales	(34,510)	(17,523)	(19,352)	(36,875)	(21,729)	(23,390)	(45,119)	(48,210)	(52,547)
Gross profit	4,264	1,988	2,184	4,172	1,551	2,103	3,654	4,579	5,379
GPM (%)	11%	10%	10%	10%	7%	8%	7%	9%	9%
...YoY	52.3%	-5.9%	1.6%	-2.2%	-34.6%	-18.7%	-12.4%	25.3%	17.5%
SG&A	(663)	(348)	(417)	(765)	(428)	(482)	(910)	(998)	(1,095)
...% of rev	2%	2%	2%	2%	2%	2%	2%	2%	2%
R&D	(1,201)	(623)	(965)	(1,589)	(853)	(994)	(1,847)	(1,953)	(2,143)
...% of rev	3%	3%	4%	4%	4%	4%	4%	4%	4%
Operating profit	2,400	1,017	802	1,818	270	627	897	1,628	2,140
OPM (%)	6%	5%	4%	4%	1%	2%	2%	3%	4%
...YoY	123%	-24%	-25%	-24%	-78%	-34%	-51%	82%	31%
Net profit	2,585	1,135	1,030	2,189	575	892	1,467	2,094	2,537
NPM (%)	7%	6%	5%	5%	2%	3%	3%	4%	4%
...YoY	110%	-14%	-18%	-15%	-58%	-27%	-33%	43%	21%

Source: Company data, CMBIS

Valuation

Maintain HOLD with new TP HK\$10.4

We trimmed FY19-21E EPS by 30%/12%/3% to reflect 1H19 miss, lower GPM, and slower glass/plastics casing. We cut our TP to HK\$10.4 (from HK\$11.4), based on same 10x FY20E P/E. Maintain Hold, given lack of 2H19E visibility on margin and plastic/glass orders.

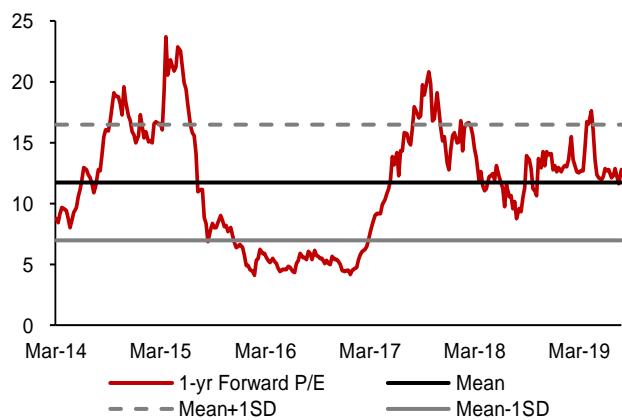
Upcoming catalysts include China 5G launch, margin recovery, and Huawei flagship launches.

Figure 6: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
BYDE	285 HK	Hold	3,276	11.4	10.4	-9%	15.7	11.0	1.7	1.5	8.6	11.2
Tongda	698 HK	Buy	479	0.58	0.9	57%	4.5	3.8	0.5	0.5	11.7	12.8
AAC Tech	2018 HK	Sell	5,919	38.40	43.3	13%	15.9	13.4	2.4	2.4	15.0	17.8
TK Group	2283 HK	Buy	356	3.35	4.5	35%	7.3	6.1	2.2	2.2	29.7	35.7
Ju Teng	3336 HK	NR	244	1.64	NA	NA	6.6	4.4	0.3	0.3	4.5	6.5
Everwin	300115 CH	NR	1,633	12.72	NA	NA	32.6	22.6	2.3	2.1	7.6	10.2
Lens Tech	300433 CH	NR	4,960	8.95	NA	NA	24.6	18.0	2.0	1.8	8.3	10.3
Foxconn	2354 TT	NR	2,859	63.4	NA	NA	10.9	10.3	0.7	0.7	8.0	7.9
Casetek	5264 TT	NR	701	52.3	NA	NA	121.9	15.1	0.7	0.7	0.7	3.8
Catcher	2474 TT	NR	5,379	219	NA	NA	11.2	9.0	1.1	1.0	9.6	11.5
Average							24.6	11.2	1.3	1.3	10.7	12.9

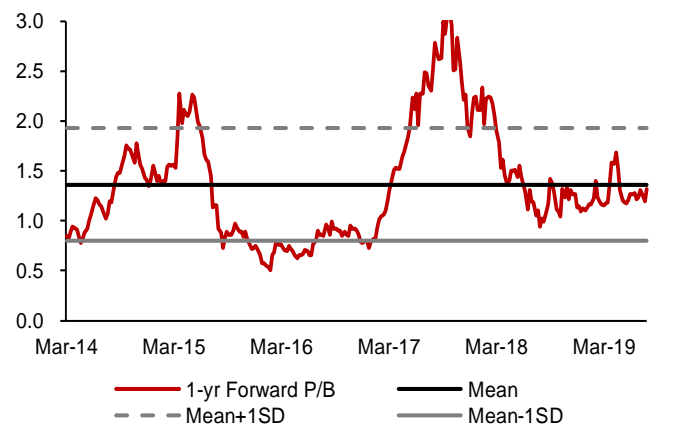
Source: Bloomberg, CMBIS

Figure 7: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 8: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	38,774	41,047	48,773	52,789	57,926
COGS	(34,510)	(36,875)	(45,119)	(48,210)	(52,547)
Gross profit	4,264	4,172	3,654	4,579	5,379
Selling and marketing	(229)	(229)	(280)	(312)	(342)
Administrative	(434)	(536)	(631)	(686)	(753)
R&D	(1,201)	(1,589)	(1,847)	(1,953)	(2,143)
Other operating exp.					
Operating profit	2,400	1,818	897	1,628	2,140
Financial cost	(44)	(43)	(41)	(41)	(41)
Other income/(losses)	636	760	812	837	837
Pre-tax profit	2,992	2,536	1,668	2,424	2,936
Tax	(407)	(347)	(201)	(330)	(400)
Minority interest	-	-	-	-	-
Net profit	2,585	2,189	1,467	2,094	2,537

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before taxation	2,992	2,536	1,668	2,424	2,936
Depreciation	1,594	1,926	2,193	2,601	3,048
Change in working capital	(2,539)	608	176	(1,036)	60
Others	(184)	(289)	(160)	(289)	(359)
Net cash from operating	1,863	4,781	3,877	3,700	5,686
Capex	(2,127)	(2,276)	(3,480)	(3,767)	(4,133)
Other	312	(16)	0	0	0
Net cash from investing	(1,816)	(2,292)	(3,480)	(3,767)	(4,133)
Dividend paid	(155)	(518)	(295)	(420)	(509)
Other	(44)	(43)	(41)	(41)	(41)
Net cash from financing	(200)	(561)	(335)	(461)	(549)
Net change in cash	(152)	1,928	62	(527)	1,003
Cash at beginning of the year	2,966	2,822	4,741	4,803	4,276
Exchange difference	8	(9)	-	-	-
Cash at the end of the year	2,822	4,741	4,803	4,276	5,279

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	16,641	17,089	26,165	19,195	30,018
Cash & equivalents	2,822	4,741	4,803	4,276	5,279
Account receivables	8,556	7,209	15,371	9,068	17,749
Inventories	4,608	4,768	5,620	5,479	6,619
Short-term bank deposits	-	-	-	-	-
Other current assets	655	371	371	371	371
Non-current assets	7,950	8,147	9,317	10,376	11,362
PPE	7,431	7,634	8,920	10,086	11,171
Deferred income tax	226	128	128	128	128
Other non-current assets	293	385	268	162	64
Total assets	24,591	25,236	35,482	29,571	41,380
Current liabilities	11,088	10,062	19,251	11,772	21,652
Deferred income	75	16	16	16	16
Account payables	8,983	7,892	17,082	9,603	19,482
Tax payable	173	30	30	30	30
Other current liabilities	1,856	2,123	2,123	2,123	2,123
Non-current liabilities	107	164	164	164	164
Deferred income	81	120	120	120	120
Deferred tax liability	26	45	45	45	45
Total liabilities	11,195	10,226	19,416	11,937	21,816
Share capital	4,052	4,052	4,052	4,052	4,052
Reserves	10,139	11,773	12,946	14,620	16,648
Minority interest					
Shareholders' equity	14,191	15,825	16,998	18,672	20,700
Total equity and liabilities	25,386	26,051	36,414	30,609	42,517

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Phone and PC components	45	44	38	35	34
Assembly services	55	43	47	45	42
New intelligent products	-	11	12	15	17
Auto intelligent systems	-	3	4	5	6
Growth (%)					
Revenue	5.6	5.9	18.8	8.2	9.7
Gross profit	52.3	(2.2)	(12.4)	25.3	17.5
Operating profit	123.4	(24.2)	(50.7)	81.5	31.5
Net profit	109.6	(15.3)	(33.0)	42.7	21.1
Profit & loss ratio (%)					
Gross margin	11.0	10.2	7.5	8.7	9.3
Operating margin	6.2	4.4	1.8	3.1	3.7
Net profit margin	6.7	5.3	3.0	4.0	4.4
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.5	1.7	1.4	1.6	1.4
Receivable turnover days	84	70	84	84	84
Inventory turnover days	42	46	42	42	42
Payable turnover days	101	84	101	101	101
Profitability (%)					
ROE	18.2	13.8	8.6	11.2	12.3
ROA	10.5	8.7	4.1	7.1	6.1
Per share data (RMB)					
EPS	1.15	0.97	0.65	0.93	1.13
DPS	0.23	0.20	0.13	0.19	0.23

Source: Company data, CMBIS estimates

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