

BYD (1211 HK)

Good FY23 earnings quality

Although BYD's 4Q23 gross margin narrowed 0.9ppt QoQ, its earnings quality remained high. We revise down our FY24E sales volume by 3% to 3.6mn units and net profit by 16% to RMB33.0bn amid stiffer-than-expected competition. Nevertheless, we are of the view that BYD's FY24E earnings could be resilient aided by overseas expansion, more premium products and little financial burden from FY23. We believe that investors are likely to prefer EV makers with solid earnings, as they are more likely to withstand the rising competition.

- Earnings quality remains high.** BYD's FY23 net profit was in the middle range of its previous preliminary earnings of RMB29-31bn. 4Q23 gross margin of 21.2% was about 0.5ppt lower than our prior forecast. FY23 R&D expenses of RMB40bn was about 6.6% of revenue, the highest in history. BYD only capitalized 1% of its total R&D investment in FY23. BYD also accelerated depreciation for its fixed assets. Such earnings quality has laid out the foundation for FY24E earnings, in our view.
- FY24E outlook.** We revise down our FY24E sales volume forecast by 0.1mn units to 3.6mn units and GPM by 0.6ppt to 19.5%. Accordingly, we cut our FY24E net profit by 16% to RMB33.0bn, which implies a net profit per vehicle of RMB9,200. We are of the view that BYD's FY24E earnings could be more resilient than some investors expect, as it has little financial burden from FY23. The pace of capex on fixed assets in FY24-25 is worth watching, as BYD should be aware of potential overcapacity risk.
- Overseas expansion, upmarket and AD are still key to margins and share price.** We are still of the view that BYD is likely to catch up with peers in autonomous driving (AD). Trade barriers always exist throughout the history of global auto industry. BYD is on the right track to expand in overseas markets without strong domestic brands, in our view, and it takes time for any automakers to penetrate the markets with strong domestic brands.
- Earnings/Valuation.** We maintain our BUY rating but cut our target price from HK\$290 to HK\$262, still based on 20x our revised FY24E EPS. We are of the view that investors are likely to prefer profitable EV makers in China, as they are more likely to survive in the long term with the competition that rises faster than ever. Key risks to our rating and target price include lower sales volume and margins, as well as sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue (RMB mn)	216,142	424,061	602,315	703,735	804,613
YoY growth (%)	38.0	96.2	42.0	16.8	14.3
Net profit (RMB mn)	3,045.2	16,622.4	30,040.8	33,030.9	40,402.1
YoY growth (%)	(28.1)	445.9	80.7	10.0	22.3
EPS (Reported) (RMB)	1.07	5.72	10.34	11.35	13.88
P/S (x)	2.5	1.3	0.9	0.8	0.7
P/E (x)	182.9	35.7	18.1	16.5	13.5
Yield (%)	0.1	0.6	1.7	1.2	1.5
ROE (%)	4.0	16.1	24.0	21.9	22.4
Net gearing (%)	(41.1)	(39.3)	(69.5)	(34.3)	(51.9)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$262.00
(Previous TP)	HK\$290.00)
Up/Downside	29.2%
Current Price	HK\$202.80

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Stock Data

Mkt Cap (HK\$ mn)	590,379.8
Avg 3 mths t/o (HK\$ mn)	1,700.9
52w High/Low (HK\$)	275.60/171.70
Total Issued Shares (mn)	2911.1

Source: FactSet

Shareholding Structure

Mr. Wang Chuanfu	17.6%
Mr. Lv Xiangyang	8.2%

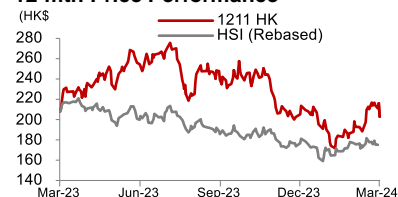
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.5%	5.0%
3-mth	-1.2%	0.2%
6-mth	-14.6%	-8.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	YoY	QoQ
Sales volume (units)	291,378	355,021	538,704	683,440	552,076	703,561	824,001	944,779	38.2%	14.7%
Revenue	66,825	83,782	117,081	156,373	120,174	139,951	162,151	180,041	15.1%	11.0%
Gross profit	8,287	12,054	22,199	29,704	21,467	26,206	35,876	38,209	28.6%	6.5%
R&D expenses	(2,361)	(3,064)	(5,446)	(7,784)	(6,238)	(7,597)	(11,104)	(14,637)	88.0%	31.8%
SG&A expenses	(3,680)	(4,713)	(7,372)	(9,302)	(8,014)	(9,643)	(9,851)	(11,166)	20.0%	13.4%
Operating profit	1,061	3,561	7,460	9,459	5,299	8,433	12,906	11,466	21.2%	-11.2%
Net profit	808	2,787	5,713	7,314	4,130	6,824	10,413	8,674	18.6%	-16.7%
Gross margin	12.4%	14.4%	19.0%	19.0%	17.9%	18.7%	22.1%	21.2%	2.2 ppt	-0.9 ppt
Operating margin	1.6%	4.3%	6.4%	6.0%	4.4%	6.0%	8.0%	6.4%	0.3 ppt	-1.6 ppt
Net margin	1.2%	3.3%	4.9%	4.7%	3.4%	4.9%	6.4%	4.8%	0.1 ppt	-1.6 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23A	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	602,315	703,735	804,613	603,269	762,779	868,531	-0.2%	-7.7%	-7.4%
Gross profit	121,757	137,810	155,367	122,834	154,702	174,488	-0.9%	-10.9%	-11.0%
Operating profit	38,103	41,711	50,955	38,898	49,860	60,271	-2.0%	-16.3%	-15.5%
Net profit	30,041	33,031	40,402	31,219	39,391	47,498	-3.8%	-16.1%	-14.9%
Gross margin	20.2%	19.6%	19.3%	20.4%	20.3%	20.1%	-0.1 ppt	-0.7 ppt	-0.8 ppt
Operating margin	6.3%	5.9%	6.3%	6.4%	6.5%	6.9%	-0.1 ppt	-0.6 ppt	-0.6 ppt
Net margin	5.0%	4.7%	5.0%	5.2%	5.2%	5.5%	-0.2 ppt	-0.5 ppt	-0.4 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23A	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	602,315	703,735	804,613	615,421	769,150	912,026	-2.1%	-8.5%	-11.8%
Gross profit	121,757	137,810	155,367	120,253	152,230	183,682	1.3%	-9.5%	-15.4%
Operating profit	38,103	41,711	50,955	38,030	48,672	61,736	0.2%	-14.3%	-17.5%
Net profit	30,041	33,031	40,402	31,096	39,486	50,404	-3.4%	-16.3%	-19.8%
Gross margin	20.2%	19.6%	19.3%	19.5%	19.8%	20.1%	0.7 ppt	-0.2 ppt	-0.8 ppt
Operating margin	6.3%	5.9%	6.3%	6.2%	6.3%	6.8%	0.1 ppt	-0.4 ppt	-0.4 ppt
Net margin	5.0%	4.7%	5.0%	5.1%	5.1%	5.5%	-0.1 ppt	-0.4 ppt	-0.5 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	156,598	216,142	424,061	602,315	703,735	804,613
Cost of goods sold	(126,251)	(187,998)	(351,816)	(480,558)	(565,925)	(649,246)
Gross profit	30,346	28,145	72,245	121,757	137,810	155,367
Operating expenses	(18,996)	(22,818)	(50,990)	(88,598)	(98,314)	(107,428)
Selling expense	(5,056)	(6,082)	(15,061)	(25,211)	(29,199)	(33,130)
Admin expense	(4,321)	(5,710)	(10,007)	(13,462)	(15,098)	(16,504)
R&D expense	(7,465)	(7,991)	(18,654)	(39,575)	(42,180)	(43,700)
Others	(2,154)	(3,035)	(7,267)	(10,350)	(11,837)	(14,093)
Operating profit	11,350	5,327	21,255	33,159	39,496	47,939
Other income	1,977	2,608	2,248	5,965	4,700	4,700
Other expense	(485)	(452)	(989)	(1,546)	(1,500)	(1,550)
Gain/loss on financial assets at FVTPL	(51)	47	126	258	45	45
Investment gain/loss	(273)	(57)	(792)	1,635	1,808	1,908
Other gains/(losses)	(1,873)	(1,168)	(2,387)	(3,677)	(3,855)	(3,665)
EBITDA	22,578	20,542	42,766	82,649	102,745	122,796
Depreciation	9,245	10,880	14,605	37,718	52,233	62,873
Depreciation of ROU assets	170	273	584	1,390	2,211	2,373
Other amortisation	3,104	2,956	5,181	4,444	5,279	5,844
EBIT	10,059	6,433	22,396	39,096	43,023	51,707
Interest income	215	632	1,830	2,796	2,328	2,330
Interest expense	(3,177)	(1,915)	(1,316)	(1,828)	(2,112)	(1,602)
Net Interest income/(expense)	(3,763)	(1,787)	1,618	1,475	216	728
Foreign exchange gain/loss	(806)	(533)	1,216	639	0	0
Pre-tax profit	6,883	4,518	21,080	37,269	40,911	50,105
Income tax	(869)	(551)	(3,367)	(5,925)	(6,254)	(7,609)
After tax profit	6,014	3,967	17,713	31,344	34,656	42,496
Minority interest	(1,780)	(922)	(1,091)	(1,303)	(1,626)	(2,094)
Net profit	4,234	3,045	16,622	30,041	33,031	40,402
Gross dividends	423	306	3,325	9,012	6,606	8,080

BALANCE SHEET	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	111,605	166,110	240,804	302,121	314,880	387,542
Cash & equivalents	13,738	49,820	51,182	108,512	69,000	115,374
Restricted cash	707	637	289	583	1,000	1,000
Account receivables	50,079	44,994	51,723	67,431	85,894	95,804
Inventories	31,396	43,355	79,107	87,677	108,534	120,955
Prepayment	724	2,037	8,224	2,215	11,318	12,985
Financial assets at FVTPL	0	5,606	20,627	9,563	9,613	9,663
Other current assets	9,614	11,168	16,099	23,481	25,279	27,087
Contract assets	5,346	8,493	13,553	2,660	4,242	4,673
Non-current assets	89,412	129,670	253,057	377,426	435,005	442,814
PP&E	54,585	61,221	131,880	230,904	284,673	289,803
Right-of-use assets	946	1,573	3,137	9,679	8,398	6,956
Deferred income tax	1,769	1,913	3,687	6,584	6,584	6,584
Investment in JVs & assos	5,466	7,905	15,485	17,647	19,847	22,047
Intangibles	11,804	17,105	23,223	37,236	39,918	41,192
Goodwill	66	66	66	4,428	4,428	4,428
Financial assets at FVTPL	285	234	2,147	2,696	2,791	2,886
Other non-current assets	14,492	39,652	73,431	68,252	68,365	68,917
Total assets	201,017	295,780	493,861	679,548	749,885	830,356
Current liabilities	106,431	171,304	333,345	453,667	504,956	550,892
Short-term borrowings	16,401	10,204	5,153	18,323	6,797	0
Account payables	42,983	73,160	140,437	194,430	233,115	258,809
Tax payable	1,859	1,779	4,326	7,852	9,303	10,673
Other current liabilities	36,995	71,227	147,911	198,363	201,475	228,047
Contract liabilities	8,193	14,934	35,517	34,699	54,267	53,363
Non-current liabilities	30,133	20,232	39,126	75,419	68,575	67,183
Long-term borrowings	14,745	8,744	7,594	11,975	11,975	10,975
Bond payables	8,880	2,046	0	0	1,000	2,000
Other non-current liabilities	6,507	9,442	31,533	63,444	55,599	54,207
Total liabilities	136,563	191,536	372,471	529,086	573,530	618,074

Share capital	2,728	2,911	2,911	2,911	2,911	2,911
Other reserves	54,146	92,159	108,118	135,899	160,318	194,314
Total shareholders equity	56,874	95,070	111,029	138,810	163,229	197,225
Minority interest	7,580	9,175	10,361	11,652	13,125	15,057
Total equity and liabilities	201,017	295,780	493,861	679,548	749,885	830,356

CASH FLOW	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,883	4,518	21,080	37,269	40,911	50,105
Depreciation & amortization	12,519	14,108	20,370	43,553	59,723	71,089
Change in working capital	21,399	44,083	97,849	91,094	(5,131)	23,502
Others	4,592	2,757	1,539	(2,190)	(7,428)	(3,936)
Net cash from operations	45,393	65,467	140,838	169,725	88,074	140,760
Investing						
Capital expenditure	(11,774)	(37,344)	(97,457)	(122,094)	(98,820)	(67,900)
Acquisition of subsidiaries/ investments	(1,837)	(3,527)	(10,573)	(16,163)	(1,100)	(1,100)
Net proceeds from disposal of short-term investments	0	0	14	0	0	0
Others	(833)	(4,534)	(12,580)	12,593	(5,680)	(7,580)
Net cash from investing	(14,444)	(45,404)	(120,596)	(125,664)	(105,600)	(76,580)
Financing						
Dividend paid	(164)	(423)	(306)	(3,325)	(9,012)	(6,606)
Net borrowings	(24,490)	(17,006)	(16,413)	18,073	(6,773)	(6,797)
Proceeds from share issues	0	37,314	0	0	0	0
Others	(4,254)	(3,821)	(2,770)	(1,931)	(6,201)	(4,402)
Net cash from financing	(28,907)	16,063	(19,489)	12,817	(21,986)	(17,805)
Net change in cash						
Cash at the beginning of the year	11,674	13,738	49,820	51,182	108,512	69,000
Exchange difference	23	(44)	610	451	0	0
Cash at the end of the year	13,738	49,820	51,182	108,512	69,000	115,374

GROWTH	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec						
Revenue	22.6%	38.0%	96.2%	42.0%	16.8%	14.3%
Gross profit	45.8%	(7.3%)	156.7%	68.5%	13.2%	12.7%
Operating profit	120.9%	(53.1%)	299.0%	56.0%	19.1%	21.4%
EBITDA	41.6%	(9.0%)	108.2%	93.3%	24.3%	19.5%
EBIT	64.8%	(36.0%)	248.1%	74.6%	10.0%	20.2%
Net profit	162.3%	(28.1%)	445.9%	80.7%	10.0%	22.3%

PROFITABILITY	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec						
Gross profit margin	19.4%	13.0%	17.0%	20.2%	19.6%	19.3%
Operating margin	7.2%	2.5%	5.0%	5.5%	5.6%	6.0%
EBITDA margin	14.4%	9.5%	10.1%	13.7%	14.6%	15.3%
Return on equity (ROE)	7.5%	4.0%	16.1%	24.0%	21.9%	22.4%

GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.2	(0.4)	(0.4)	(0.7)	(0.3)	(0.5)
Current ratio (x)	1.0	1.0	0.7	0.7	0.6	0.7
Receivable turnover days	136.3	94.4	58.1	52.0	55.0	53.0
Inventory turnover days	90.8	84.2	82.1	66.6	70.0	68.0
Payable turnover days	150.1	156.3	149.2	150.8	155.0	150.0

VALUATION	2020A	2021A	2022A	2023A	2024E	2025E
YE 31 Dec						
P/E	48.2	182.9	35.7	18.1	16.5	13.5
P/B	3.6	5.9	5.3	3.9	3.3	2.8
P/CFPS	4.5	8.5	4.2	3.2	6.2	3.9
Div yield (%)	0.2	0.1	0.6	1.7	1.2	1.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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