

# BYDE (285 HK)

## Clear path to margin recovery; Upgrade to BUY

We upgrade BYDE from Hold to BUY with new TP of HK\$31.67, since we believe BYDE will deliver faster-than-expected NPM improvement from 2.7% in 2023E to 2.9%/3.1% in FY24/25E, backed by stabilized Android business, Apple share gain, fast-growing NEV/new intelligent products and improving utilization. BYDE's upbeat 1H23 NP preannouncement of 115-146% YoY growth is also 26%/27% above our/consensus estimates, due to better margin and faster business development. We raised FY23-25E EPS by 11-13% to reflect 1H23 results and better GPM recovery. Our new SOTP-based TP of HK\$31.67 implied 17.9x FY23E P/E. The stock trades at 14.4x/11.7x FY23/24E P/E, which is attractive vs 78%/23% EPS growth in FY23/24E. We expect the share will react positively to 1H23 results and upbeat margin recovery.

- **1H23 earnings beat on better sales and improving margins.** BYDE preannounced 1H23 NP growth of 115-146% YoY (Rmb1.36-1.56bn) is 26%/27% above our/consensus estimates, thanks to stronger high-margin segments (Apple business, NEV/new intelligent products) and improving utilization. Implied 2Q23 mid-point NP growth is 122% YoY (vs 1Q23 +155% YoY), mainly due to better GPM and operating efficiency, in our view.
- **Clear path to margin recovery: stabilized Android, Apple share gain and improved mix with emerging businesses.** We believe stabilized Android business and Apple share gain in iPad OEM/components are major margin drivers in FY23E, and improving revenue mix of fast-growing NEV/intelligent products will boost overall margin in FY24/25E. We expect GPM to improve to 7.8% in FY25E (vs 5.9%/7.1%/7.5% in FY22/23/24E), while NPM will expand to 3.1% in FY25E (vs 1.7%/2.7%/2.9% in FY22/23/24E).
- **FY23E outlook: Automotive and residential energy storage to drive growth.** Looking into FY23E, we are positive on two growth drivers: 1) new intelligent products to deliver stable growth, and residential energy storage revenue to grow 50-100% YoY in FY23E; 2) automotive segment with 100%+ YoY in FY23E driven by parentco orders and external auto OEM (e.g. NVIDIA, Continental and HARMAN).
- **Margin recovery ahead of expectations; Upgrade to BUY.** We lifted FY23-25 EPS by 11-13% for 1H23 results and better margin recovery. We upgrade to BUY as we think the worst is over for BYDE's margins and higher target P/E for NEV/intelligent products (from 15x to 20x) and OEM (from 10x to 15x) are justified by improving profitability and fast-growing emerging biz. The stock trades at 14.4x/11.7x FY23/24E, which is attractive vs 78%/23% EPS growth in FY23/24E. Our new SOTP-based TP of HK\$31.67 implied 17.9x FY23E P/E. Catalysts include Apple share gain and better margins.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	89,057	107,186	122,746	141,695	157,140
YoY growth (%)	21.8	20.4	14.5	15.4	10.9
Net profit (RMB mn)	2,309.9	1,857.6	3,301.7	4,058.0	4,872.0
YoY growth (%)	(57.5)	(19.6)	77.7	22.9	20.1
YoY growth (%)	(57.5)	(19.6)	77.7	22.9	20.1
EPS (Reported) (RMB)	1.03	0.82	1.47	1.80	2.16
Consensus EPS (RMB)	na	0.82	1.25	1.76	2.33
P/E (x)	32.2	22.1	14.4	11.7	9.7
P/B (x)	3.1	1.6	1.8	1.6	1.4
Yield (%)	0.3	0.9	0.6	0.8	0.9
ROE (%)	10.0	7.5	12.1	13.3	14.1
Net gearing (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Up)

Target Price	HK\$31.67
(Previous TP)	HK\$22.22)
Up/Downside	24.9%
Current Price	HK\$25.35

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### Stock Data

Mkt Cap (HK\$ mn)	57,118.7
Avg 3 mths t/o (HK\$ mn)	96.6
52w High/Low (HK\$)	28.25/17.02
Total Issued Shares (mn)	2253.2

Source: FactSet

### Shareholding Structure

Golden Link Worldwide Ltd	65.8%
Gold Dragonfly Ltd	5.0%

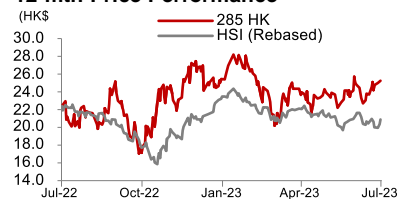
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	1.4%	1.4%
3-mth	5.8%	11.4%
6-mth	-1.2%	10.7%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Earnings revision

### Raised FY23-25E EPS to reflect 1H23 beat and GPM recovery

We revised up FY23-25E EPS by 11-13% to reflect strong 1H23 earnings and better-GPM recovery on better revenue mix and improving utilization. We believe stabilized Android business and Apple share gain in iPad OEM/components are major margin driver in FY23E, and improving revenue mix of fast-growing NEV/ intelligent products will boost overall margin in FY24/25E. We expect GPM to improve to 7.8% in FY25E (vs 5.9%/7.1%/7.5% in FY22/23/24E), while NPM will expand to 3.1% in FY25E (vs 1.7%/2.7%/2.9% in FY22/23/24E). Our FY23E EPS is 18% ahead of consensus due to our more positive view on margin rebound and operating efficiency.

Figure 1: Earnings revision

RMB mn	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	122,746	141,695	157,140	122,422	140,832	155,660	0.3%	0.6%	1.0%
Gross Profit	8,723	10,578	12,312	8,620	10,310	11,980	1.2%	2.6%	2.8%
Operating Profit	2,204	3,069	3,983	2,116	2,846	3,730	4.2%	7.8%	6.8%
Net profit	3,302	4,058	4,872	2,948	3,600	4,387	12.0%	12.7%	11.0%
EPS (RMB)	1.47	1.80	2.16	1.31	1.60	1.95	12.0%	12.7%	11.0%
Gross Margin	7.1%	7.5%	7.8%	7.0%	7.3%	7.7%	0.1 ppt	0.2 ppt	0.1 ppt
Operating Margin	1.8%	2.2%	2.5%	1.7%	2.0%	2.4%	0.1 ppt	0.2 ppt	0.1 ppt
Net Margin	2.7%	2.9%	3.1%	2.4%	2.6%	2.8%	0.3 ppt	0.3 ppt	0.3 ppt

Sources: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	122,746	141,695	157,140	127,158	148,038	168,728	-3%	-4%	-7%
Gross Profit	8,723	10,578	12,312	8,767	11,051	13,414	-1%	-4%	-8%
Operating Profit	2,204	3,069	3,983	2,323	3,690	5,252	-5%	-17%	-24%
Net profit	3,302	4,058	4,872	2,795	3,942	5,214	18%	3%	-7%
EPS (RMB)	1.47	1.80	2.16	1.25	1.76	2.33	18%	3%	-7%
Gross Margin	7.1%	7.5%	7.8%	6.9%	7.5%	8.0%	0.2 ppt	0 ppt	-0.1 ppt
Operating Margin	1.8%	2.2%	2.5%	1.8%	2.5%	3.1%	0 ppt	-0.3 ppt	-0.6 ppt
Net Margin	2.7%	2.9%	3.1%	2.2%	2.7%	3.1%	0.5 ppt	0.2 ppt	0 ppt

Source: Company data, CMBIGM estimates

Figure 3: Revenue breakdown

RMB mn	FY22	1H23E	2H23E	FY23E	FY24E	FY25E
<b>Assembly</b>	<b>68,054</b>	<b>30,500</b>	<b>41,125</b>	<b>71,625</b>	<b>78,750</b>	<b>82,000</b>
... YoY	22%	15.3%	-1.2%	5%	10%	4%
<b>Component (metal/glass/plastic)</b>	<b>14,155</b>	<b>6,613</b>	<b>8,675</b>	<b>15,288</b>	<b>15,257</b>	<b>15,571</b>
... YoY	-10%	-1.4%	16.5%	8%	0%	2%
Metal	7,304	3,104	3,104	6,208	5,277	4,486
Plastic	3,221	1,132	1,672	2,803	2,469	2,099
Glass/ceramic	5,130	2,472	3,916	6,388	7,542	8,673
<b>New intelligent</b>	<b>15,207</b>	<b>8,300</b>	<b>9,948</b>	<b>18,248</b>	<b>21,898</b>	<b>26,278</b>
... YoY	22%	20.0%	20.0%	20%	20%	20%
E-cigarette	1,540	450	1,860	2,310	3,234	3,881
... YoY	54%	50.0%	50.0%	50%	40%	20%
Household energy storage	1,500	555	2,400	2,955	5,024	7,535
... YoY				97%	70%	50%
<b>Auto intelligent</b>	<b>9,263</b>	<b>6,150</b>	<b>10,847</b>	<b>16,997</b>	<b>25,496</b>	<b>33,144</b>
... YoY	146%	90%	80%	83%	50%	30%
<b>Total</b>	<b>107,186</b>	<b>52,092</b>	<b>70,654</b>	<b>122,746</b>	<b>141,695</b>	<b>157,140</b>
... YoY	20%	19.2%	11%	15%	15%	11%

Source: Company data, CMBIGM estimates

**Figure 4: P&L forecast**

RMB mn	FY22	1H23E	2H23E	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>107,186</b>	<b>52,092</b>	<b>70,654</b>	<b>122,746</b>	<b>141,695</b>	<b>157,140</b>
...YoY	20.4%	19.2%	11.3%	14.5%	15.4%	10.9%
Cost of sales	(100,836)	(48,430)	(65,593)	(114,024)	(131,116)	(144,828)
<b>Gross profit</b>	<b>6,350</b>	<b>3,662</b>	<b>5,061</b>	<b>8,723</b>	<b>10,578</b>	<b>12,312</b>
GPM (%)	5.9%	7.0%	7.2%	7.1%	7.5%	7.8%
...YoY	5.3%	57.3%	25.8%	37.4%	21.3%	16.4%
SG&A	(1,770)	(917)	(1,074)	(1,991)	(2,338)	(2,593)
...% of rev	2%	2%	2%	2%	2%	2%
R&D	(3,969)	(1,808)	(2,720)	(4,528)	(5,172)	(5,736)
...% of rev	4%	3%	4%	4%	4%	4%
<b>Operating profit</b>	<b>611</b>	<b>938</b>	<b>1,266</b>	<b>2,204</b>	<b>3,069</b>	<b>3,983</b>
OPM (%)	1%	2%	2%	2%	2%	3%
...YoY	-57%	2110%	123%	261%	39%	30%
<b>Net profit</b>	<b>1,858</b>	<b>1,431</b>	<b>1,871</b>	<b>3,302</b>	<b>4,058</b>	<b>4,872</b>
NPM (%)	1.7%	2.7%	2.6%	2.7%	2.9%	3.1%
...YoY	-20%	126%	53%	78%	23%	20%

Source: Company data, CMBIGM estimates

## Valuation

### Upgrade to BUY with new TP HK\$31.67 (25% upside)

We upgrade to BUY (from HOLD), and derive our new TP based on SOTP valuation to reflect BYDE's business diversification with different growth profiles and visibility.

Our new TP of HK\$31.67 is based on weighted-average target P/E multiple of 17.9x FY23E EPS. We assign 15x P/E (from 10x prior) to its assembly EMS business and 15x P/E for component business, in-line with TW/HK-listed peers, given Android business margin recovery and Apple business expansion. We assign 20x (from 15x prior) for new intelligent and NEV segments to reflect its growth potential and higher earnings visibility.

**Figure 5: BYDE – SOTP valuation**

Business segment	% of FY23E Profit	FY23E EPS (RMB)	Target P/E
Assembly	17%	0.26	15x
Components	22%	0.32	15x
Masks	0.8%	0.01	8x
New Intelligent	29%	0.42	20x
Auto intelligent	31%	0.46	20x
Others	0%	0.0	10x
Total (RMB) /Implied P/E		1.47	17.9x
TP (HK\$)			31.67

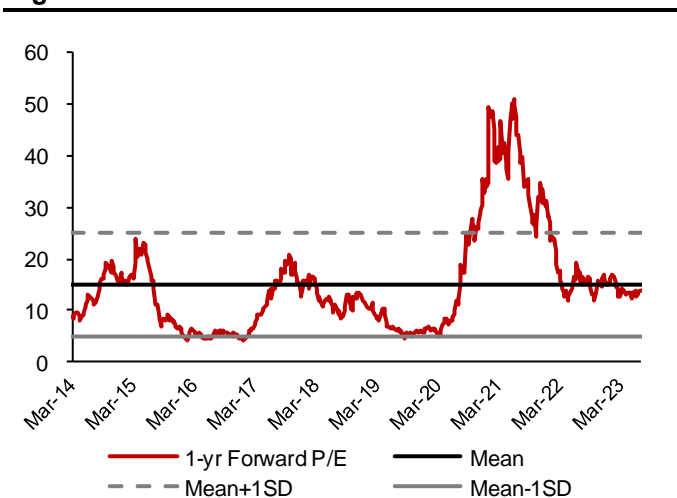
Sources: Company data, CMBIGM estimates

**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 (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
BYDE	285 HK	Buy	7,310	25.35	31.7	25%	14.4	11.7	1.8	1.6	12.1	13.3
Tongda	698 HK	Buy	107	0.09	0.20	133%	2.4	2.2	0.1	0.1	2.9	4.7
AAC Tech	2018 HK	Hold	2,887	18.82	15.6	-17%	17.2	15.5	0.9	0.9	5.2	5.7
TK Group	2283 HK	Buy	151	1.42	3.4	138%	2.7	3.6	0.6	0.6	20.7	17.8
Ju Teng	3336 HK	NR	184	1.20	NA	NA	-	-	-	-	-	-
Everwin	300115 CH	NR	1,917	11.39	NA	NA	26.8	14.8	2.2	1.9	8.4	13.6
Lens Tech	300433 CH	NR	8,586	12.32	NA	NA	20.7	14.9	1.3	1.3	6.8	9.4
Foxconn	2354 TT	NR	2,577	56.20	NA	NA	12.0	11.3	0.5	0.4	5.7	5.9
Catcher	2474 TT	NR	3,881	176.00	NA	NA	16.3	16.0	0.7	0.8	4.6	4.5
Average							14.4	11.6	1.0	1.0	8.1	9.1

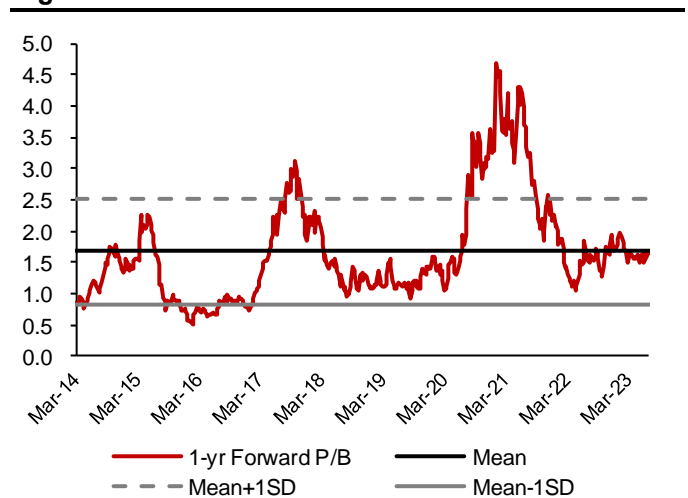
Source: Bloomberg, CMBIGM estimates

**Figure 7: 12M forward P/E band**



Source: Bloomberg, CMBIGM estimates

**Figure 8: 12M forward P/B band**



Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	73,121	89,057	107,186	122,746	141,695	157,140
Cost of goods sold	(63,492)	(83,028)	(100,836)	(114,024)	(131,116)	(144,828)
Gross profit	9,629	6,029	6,350	8,723	10,578	12,312
Selling expense	(237)	(275)	(535)	(607)	(708)	(786)
Admin expense	(673)	(1,041)	(1,235)	(1,384)	(1,629)	(1,807)
R&D expense	(2,913)	(3,308)	(3,969)	(4,528)	(5,172)	(5,736)
Operating profit	5,806	1,405	611	2,204	3,069	3,983
Other income/expense	487	1,104	1,386	1,546	1,549	1,549
Pre-tax profit	6,221	2,465	1,939	3,692	4,560	5,474
Income tax	(779)	(155)	(81)	(390)	(502)	(602)
Minority interest	0	0	0	0	0	0
Net profit	5,441	2,310	1,858	3,302	4,058	4,872
Adjusted net profit	5,441	2,310	1,858	3,302	4,058	4,872

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	26,069	27,630	40,488	35,311	44,799	42,394
Cash & equivalents	3,466	2,825	6,244	2,340	3,198	2,906
Account receivables	14,391	9,240	10,471	12,051	16,288	15,140
Inventories	6,891	10,567	17,046	14,193	18,586	17,621
ST bank deposits	0	0	0	0	0	0
Other current assets	1,320	4,998	6,727	6,727	6,727	6,727
Non-current assets	10,825	12,314	15,006	17,077	19,346	21,780
PP&E	9,693	11,182	12,941	15,219	17,716	20,393
Deferred income tax	0	201	481	481	481	481
Other non-current assets	1,132	931	1,583	1,376	1,149	906
Total assets	37,976	41,175	56,994	54,095	66,080	66,351
Current liabilities	14,840	16,220	30,143	24,146	32,478	28,365
Short-term borrowings	0	0	0	0	0	0
Account payables	8,146	11,724	22,002	16,006	24,338	20,225
Tax payable	57	184	363	363	363	363
Other current liabilities	6,636	4,312	7,777	7,777	7,777	7,777
Non-current liabilities	864	928	1,216	1,216	1,216	1,216
Deferred income	147	150	231	231	231	231
Other non-current liabilities	313	404	395	395	395	395
Total liabilities	15,704	17,148	31,359	25,363	33,695	29,582
Share capital	4,052	4,052	4,052	4,052	4,052	4,052
Other reserves	18,220	19,975	21,583	24,680	28,333	32,717
Total shareholders equity	22,272	24,027	25,635	28,733	32,385	36,770
Minority interest	0	0	0	0	0	0
Total equity and liabilities	37,976	41,175	56,994	54,095	66,080	66,351

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	6,221	2,465	1,939	3,692	4,560	5,474
Depreciation & amortization	1,760	1,717	1,973	2,266	2,605	2,980
Change in working capital	(4,745)	(2,228)	2,568	(4,723)	(298)	(2,000)
Others	(27)	(187)	(124)	(332)	(443)	(544)
<b>Net cash from operations</b>	<b>3,209</b>	<b>1,768</b>	<b>6,356</b>	<b>904</b>	<b>6,423</b>	<b>5,911</b>
<b>Investing</b>						
Capital expenditure	(2,795)	(3,206)	(3,859)	(4,419)	(5,101)	(5,657)
Others	(186)	0	0	0	0	0
<b>Net cash from investing</b>	<b>(2,981)</b>	<b>(3,206)</b>	<b>(3,859)</b>	<b>(4,419)</b>	<b>(5,101)</b>	<b>(5,657)</b>
<b>Financing</b>						
Dividend paid	(160)	(232)	(372)	(330)	(406)	(487)
Others	1,730	(43)	(59)	(59)	(59)	(59)
<b>Net cash from financing</b>	<b>1,570</b>	<b>(275)</b>	<b>(430)</b>	<b>(389)</b>	<b>(464)</b>	<b>(546)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,651	3,466	2,825	6,244	2,340	3,198
Exchange difference	16	1,072	1,352	0	0	0
<b>Cash at the end of the year</b>	<b>3,466</b>	<b>2,825</b>	<b>6,244</b>	<b>2,340</b>	<b>3,198</b>	<b>2,906</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	37.9%	21.8%	20.4%	14.5%	15.4%	10.9%
Gross profit	143.3%	(37.4%)	5.3%	37.4%	21.3%	16.4%
Operating profit	484.3%	(75.8%)	(56.5%)	260.8%	39.2%	29.8%
Net profit	240.6%	(57.5%)	(19.6%)	77.7%	22.9%	20.1%
Adj. net profit	240.6%	(57.5%)	(19.6%)	77.7%	22.9%	20.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	13.2%	6.8%	5.9%	7.1%	7.5%	7.8%
Operating margin	7.9%	1.6%	0.6%	1.8%	2.2%	2.5%
Adj. net profit margin	7.4%	2.6%	1.7%	2.7%	2.9%	3.1%
Return on equity (ROE)	27.7%	10.0%	7.5%	12.1%	13.3%	14.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio (x)	1.8	1.7	1.3	1.5	1.4	1.5
Receivable turnover days	59.8	48.4	33.6	33.5	36.5	36.5
Inventory turnover days	35.5	38.4	50.0	50.0	45.6	45.6
Payable turnover days	44.5	43.7	61.0	60.8	56.2	56.2
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	9.1	32.2	22.1	15.8	12.9	10.7
P/B	2.2	3.1	1.6	1.8	1.6	1.4
Div yield (%)	1.1	0.3	0.9	0.6	0.8	0.9
EV	22,272.3	24,027.1	25,635.1	28,732.6	32,384.9	36,769.7
EV/Sales	0.3	0.3	0.2	0.2	0.2	0.2

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

# Disclosures & Disclaimers

## Analyst Certification

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