

# BYD Electronics (285 HK)

## Share gain and 5G recovery to accelerate growth

**SUMMARY** We expect earnings growth to reaccelerate in 4Q after decline in past 4 consecutive quarters, driven by Huawei recovery, 5G replacement cycle, share gain in Huawei/Apple and expansion into base station/ automobile/ smart IoT. We believe BYDE is well-positioned to benefit from Apple/Huawei supply chain shift and industry consolidation. We raised FY20/21E EPS by 9%/5%, and upgraded TP to HK\$18.4 with higher 17x FY20E P/E (from 15x). Reiterate BUY.

- **Expect earnings to reaccelerate in 4Q19E and FY20E.** We expect net profit to resume growth with 21% YoY in 4Q19 after earnings decline for past 4 quarters (-35%/-71%/-16%/-36% in 3Q19/2Q19/1Q19/4Q18). We expect earnings recovery to be driven by metal/glass casing upgrade, share gain in assembly business and improving casing/assembly margin. We believe growth momentum will continue into 2020 backed by 5G smartphone replacement and Huawei/Apple supply chain consolidation.
- **Solid 5G product roadmap for next growth phase.** We are positive on mgmt. revenue target to reach RMB100bn in FY20E and 200bn in FY24E (vs. RMB50-60bn in FY19E). Riding on 5G upcycle in next 5 years, BYDE is confident to capture growth opportunities from 1) share gain in Huawei assembly for handset/server/BTS, 2) metal casing ASP hike with antenna/design upgrade, 3) glass casing to ramp with 5G adoption, and 4) auto/smart intelligent segments to maintain robust growth with rising IoT adoption.
- **Huawei/Apple partnership to expand into non-smartphone segments.** As the largest domestic handset assembly supplier in China, BYDE plans to accelerate expansion into Huawei/Apple non-smartphone supply chain. For Huawei, we expect BYDE to 1) start shipment of 5G BTS (mainly AAU) in 2020, and 2) establish production plants with Huawei in India/Brazil/Hungry. For Apple, we expect BYDE to expand penetration into Airpod, Watch, TV and Macbook, and thus BYDE plans to add 7-8 production lines (vs 1 now) for Watch/ Macbook and new products in 2020.
- **Accumulate ahead of 5G upgrade cycle; Raise TP to HK\$18.4.** We are positive on BYDE's product roadmap to capture multiple growth trends, such as 5G smartphone cycle, casing design upgrade, Huawei/Apple supply chain consolidation, and auto/IoT secular trend. We lifted our TP to HK\$18.4, based on higher 17x FY20E P/E (from 15x) given higher earnings visibility and 5G upcycle. Upcoming catalysts include 5G smartphone shipment and Huawei/Apple product launches.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	38,774	41,047	54,252	67,038	79,762
YoY growth (%)	5.6	5.9	32.2	23.6	19.0
Net income (RMB mn)	2,585	2,189	1,495	2,191	2,611
EPS (RMB)	1.15	0.97	0.66	0.97	1.16
YoY growth (%)	109.1	(15.5)	(31.7)	46.5	19.2
P/E (x)	11.9	14.1	20.7	14.1	11.8
P/B (x)	2.7	2.4	2.3	2.0	1.8
Yield (%)	1.7	1.4	1.0	1.4	1.7
ROE (%)	18	14	8.8	11.7	13
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

**BUY (Maintain)**

**Target Price** HK\$18.4  
 (Previous TP) HK\$15.0  
**Current Price** HK\$15.7  
**Up/Downside** 17.2%

### China Technology Sector

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#### Stock Data

Mkt. Cap. (HK\$m)	35,375
Avg. 3mths t/o (HK\$m)	123.89
52W High/Low (HK\$)	16.70/8.80
Total Issued Shares (mn)	35,375
Source: Bloomberg	

#### Shareholding Structure

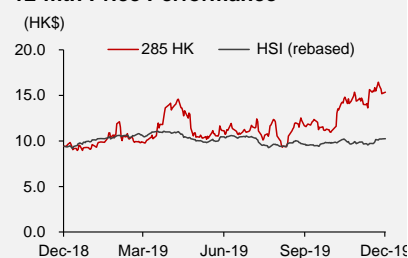
Golden Link Worldwide Ltd	65.76%
Gold Dragonfly Ltd	6.08%
Vanguard Group Inc	1.22%
Source: HKEx	

#### Share Performance

	Absolute	Relative
1-mth	9.2%	5.5%
3-mth	33.7%	25.0%
6-mth	45.4%	47.2%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Ernst & Young

#### Related report:

1. BYDE (285 HK) – Return to growth mode; Upgrade to BUY – 30 Oct 2019
2. BYDE (285 HK) – 1H19 significant miss; Lack of visibility into 2H19 – 23 Aug 2019

## Earnings Revision

Figure 1: Earnings revision

RMB mn	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	54,252	67,038	79,762	54,252	65,158	73,589	0%	3%	8%
Gross Profit	3,883	5,293	6,454	3,883	5,152	6,166	0%	3%	5%
Operating Profit	930	1,740	2,227	930	1,536	2,082	0%	13%	7%
Net profit	1,495	2,191	2,611	1,495	2,015	2,487	0%	9%	5%
EPS (RMB)	0.66	0.97	1.16	0.66	0.89	1.10	0%	9%	5%
Gross Margin	7.2%	7.9%	8.1%	7.2%	7.9%	8.4%	0 ppt	0 ppt	-0.3 ppt
Operating Margin	1.7%	2.6%	2.8%	1.7%	2.4%	2.8%	0 ppt	0.2 ppt	0 ppt
Net Margin	2.8%	3.3%	3.3%	2.8%	3.1%	3.4%	0 ppt	0.2 ppt	-0.1 ppt

Sources: Company data, CMBIS

Figure 2: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	54,252	67,038	79,762	51,641	63,377	69,384	5%	6%	15%
Gross Profit	3,883	5,293	6,454	3,880	5,269	5,876	0%	0%	10%
Operating Profit	930	1,740	2,227	1,500	2,357	2,838	-38%	-26%	-22%
Net profit	1,495	2,191	2,611	1,495	2,170	2,545	0%	1%	3%
EPS (RMB)	0.66	0.97	1.16	0.67	1.00	1.11	-1%	-3%	4%
Gross Margin	7.2%	7.9%	8.1%	7.5%	8.3%	8.5%	-0.4 ppt	-0.4 ppt	-0.4 ppt
Operating Margin	1.7%	2.6%	2.8%	2.9%	3.7%	4.1%	-1.2 ppt	-1.1 ppt	-1.3 ppt
Net Margin	2.8%	3.3%	3.3%	2.9%	3.4%	3.7%	-0.1 ppt	-0.2 ppt	-0.4 ppt

Source: Company data, CMBIS

Figure 3: Revenue breakdown

RMB mn	FY17	1H18	2H18	FY18	1H19	2H19E	FY19E	FY20E	FY21E
<b>Phone and PC component</b>	<b>17,478</b>	<b>8,744</b>	<b>9,268</b>	<b>18,012</b>	<b>8,056</b>	<b>11,090</b>	<b>19,146</b>	<b>20,768</b>	<b>22,748</b>
... YoY	-	-	-	3%	-8%	20%	6%	8%	10%
Metal	14,728	6,494	6,506	13,000	5,469	6,087	11,555	10,377	9,241
Plastic	2,500	1,500	2,012	3,512	1,725	3,016	4,741	6,401	8,321
Glass/ceramic	250	750	750	1,500	863	1,988	2,850	3,990	5,187
<b>New intelligent products</b>	<b>2,553</b>	<b>1,676</b>	<b>2,664</b>	<b>4,340</b>	<b>2,598</b>	<b>4,346</b>	<b>6,944</b>	<b>9,374</b>	<b>12,187</b>
... YoY	-	-	-	70%	55%	63%	60%	35%	30%
<b>Auto intelligent systems</b>	<b>476</b>	<b>491</b>	<b>699</b>	<b>1,190</b>	<b>761</b>	<b>1,143</b>	<b>1,904</b>	<b>2,761</b>	<b>3,865</b>
... YoY	-	-	-	150%	55%	64%	60%	45%	40%
<b>Assembly</b>	<b>18,267</b>	<b>8,600</b>	<b>8,905</b>	<b>17,505</b>	<b>11,865</b>	<b>14,393</b>	<b>26,258</b>	<b>34,135</b>	<b>40,962</b>
... YoY	-	-	-	-4%	38%	62%	50%	30%	20%
<b>Total</b>	<b>38,774</b>	<b>19,511</b>	<b>21,536</b>	<b>41,047</b>	<b>23,280</b>	<b>30,972</b>	<b>54,252</b>	<b>67,038</b>	<b>79,762</b>
... YoY	6%	11%	1%	6%	19%	44%	32%	24%	19%

Source: Company data, CMBIS

Figure 4: P&amp;L forecast by interim

RMB mn	FY17	1H18	2H18	FY18	1H19	2H19E	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>38,774</b>	<b>19,511</b>	<b>21,536</b>	<b>41,047</b>	<b>23,280</b>	<b>30,972</b>	<b>54,252</b>	<b>67,038</b>	<b>79,762</b>
...YoY	5.6%	11.3%	1.4%	5.9%	19.3%	43.8%	32.2%	23.6%	19.0%
Cost of sales	(34,510)	(17,523)	(19,352)	(36,875)	(21,729)	(28,640)	(50,368)	(61,745)	(73,308)
<b>Gross profit</b>	<b>4,264</b>	<b>1,988</b>	<b>2,184</b>	<b>4,172</b>	<b>1,551</b>	<b>2,332</b>	<b>3,883</b>	<b>5,293</b>	<b>6,454</b>
GPM (%)	11%	10%	10%	10%	7%	8%	7%	8%	8%
...YoY	52.3%	-5.9%	1.6%	-2.2%	-34.6%	-25.8%	-6.9%	36.3%	21.9%
SG&A	(663)	(348)	(417)	(765)	(428)	(557)	(986)	(1,207)	(1,436)
...% of rev	2%	2%	2%	2%	2%	2%	2%	2%	2%
R&D	(1,201)	(623)	(965)	(1,589)	(853)	(1,115)	(1,968)	(2,346)	(2,792)
...% of rev	3%	3%	4%	4%	4%	4%	4%	4%	4%
<b>Operating profit</b>	<b>2,400</b>	<b>1,017</b>	<b>802</b>	<b>1,818</b>	<b>270</b>	<b>660</b>	<b>930</b>	<b>1,740</b>	<b>2,227</b>
OPM (%)	6%	5%	4%	4%	1%	2%	2%	3%	3%
...YoY	123%	-24%	-25%	-24%	-78%	-43%	-49%	87%	28%
<b>Net profit</b>	<b>2,585</b>	<b>1,135</b>	<b>1,030</b>	<b>2,189</b>	<b>575</b>	<b>920</b>	<b>1,495</b>	<b>2,191</b>	<b>2,611</b>
NPM (%)	7%	6%	5%	5%	2%	3%	3%	3%	3%
...YoY	110%	-14%	-18%	-15%	-58%	-38%	-32%	47%	19%

Source: Company data, CMBIS

Figure 5: P&amp;L forecast by quarter

RMB'000	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19	4Q19E	2019E	2020E
Revenue	8,946	10,565	9,983	11,553	41,047	10,392	12,888	15,119	15,853	54,252	67,038
Gross profit	878	1,128	1,252	913	4,172	838	714	1,061	1,271	3,883	5,293
Net profit	464	641	698	386	2,189	388	187	451	469	1,495	2,191
EPS	0.21	0.29	0.30	0.17	0.97	0.17	0.09	0.20	0.20	0.66	0.97
<b>Margin Analysis</b>											
Gross Margin	9.8%	10.7%	12.5%	7.9%	10.2%	8.1%	5.5%	7.0%	8.0%	7.2%	7.9%
Net Margin	5.2%	6.1%	7.0%	3.3%	5.3%	3.7%	1.5%	3.0%	3.0%	2.8%	3.3%
<b>Growth Analysis</b>											
Revenue	5%	17%	-9%	12%	6%	16%	22%	51%	37%	32%	24%
Gross profit	-2%	-8%	13%	-12%	-2%	-5%	-37%	-15%	39%	-7%	36%
Net profit	-13%	-19%	5%	-36%	-15%	-16%	-71%	-35%	21%	-32%	47%

Source: Company data, CMBIS

## Valuation

### Reiterate BUY with new TP HK\$18.4 (17% upside)

We lifted FY20/21E EPS by 9%/5% and raised TP to HK\$18.4, based on 17x FY20E P/E (from 15x P/E) given higher earnings visibility and 5G upcycle. Backed by solid product/client roadmap, we believe BYDE will enter another growth phase and earnings growth set to recover in FY20-21E, benefiting from 5G upgrade, share gains in Huawei/Apple and expansion into BTS/auto/ smart IoT.

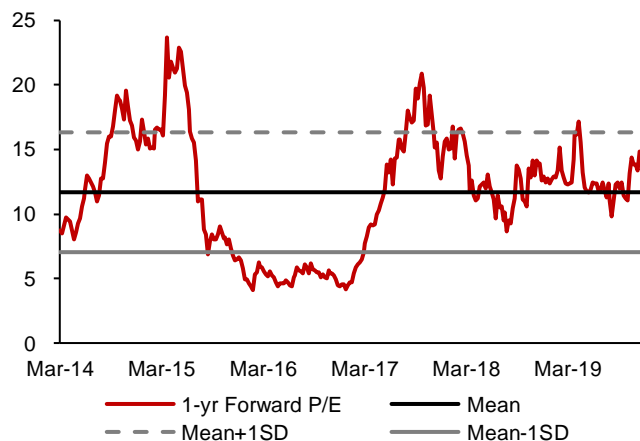
Upcoming catalysts include 5G product launches and order wins. Upcoming catalysts include 5G smartphone shipment, margin recovery and Huawei flagship launches.

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	Buy	4,542	15.7	18.4	17%	21.3	14.5	1.9	1.7	8.7	11.6	
Tongda	698 HK	Buy	765	0.92	1.2	25%	7.1	6.0	0.8	0.8	11.7	12.8	
AAC Tech	2018 HK	Sell	10,186	65.65	29.6	-55%	36.4	27.7	3.6	3.3	9.9	12.0	
TK Group	2283 HK	Buy	409	3.82	4.1	7%	8.3	6.9	2.5	2.5	29.7	35.7	
Ju Teng	3336 HK	NR	307	2.05	NA	NA	11.0	8.4	0.4	0.4	2.5	4.1	
Everwin	300115 CH	NR	2,442	18.78	NA	NA	44.1	30.5	3.6	3.3	8.5	11.0	
Lens Tech	300433 CH	NR	8,378	14.11	NA	NA	34.8	24.9	3.0	2.7	9.8	12.4	
Foxconn	2354 TT	NR	3,147	67.00	NA	NA	11.7	10.9	0.8	0.9	8.0	8.2	
Casetek	5264 TT	NR	681	48.80	NA	NA	-	17.6	0.6	0.6	-	3.0	
Catcher	2474 TT	NR	6,216	243	NA	NA	14.0	9.7	1.2	1.1	8.9	12.1	
Average								21.0	15.7	1.8	1.7	10.9	12.3

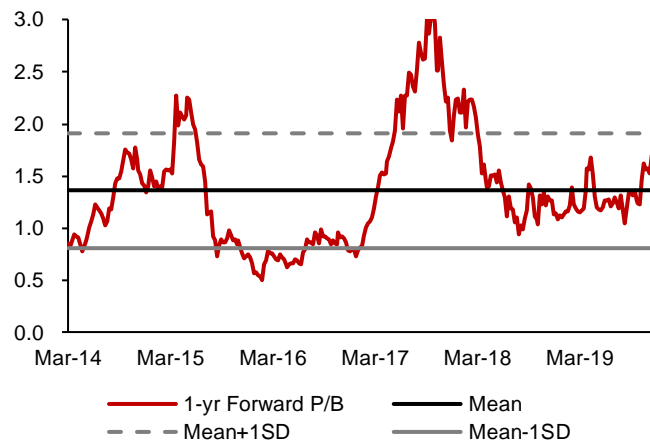
Source: Bloomberg, CMBIS estimates

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	Cash flow summary	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>38,774</b>	<b>41,047</b>	<b>54,252</b>	<b>67,038</b>	<b>79,762</b>	<b>Profit before taxation</b>	2,992	2,536	1,701	2,536	3,023
COGS	(34,510)	(36,875)	(50,368)	(61,745)	(73,308)	Depreciation	1,594	1,926	2,236	2,753	3,369
<b>Gross profit</b>	<b>4,264</b>	<b>4,172</b>	<b>3,883</b>	<b>5,293</b>	<b>6,454</b>	Change in working capital	(2,539)	608	(664)	(1,578)	(575)
Selling and marketing	(229)	(229)	(299)	(402)	(479)	Others	(184)	(289)	(165)	(304)	(370)
Administrative	(434)	(536)	(686)	(804)	(957)	<b>Net cash from operating</b>	<b>1,863</b>	<b>4,781</b>	<b>3,108</b>	<b>3,407</b>	<b>5,447</b>
R&D	(1,201)	(1,589)	(1,968)	(2,346)	(2,792)	Capex	(2,127)	(2,276)	(3,871)	(4,783)	(5,691)
Other operating exp.						Other	312	(16)	-	-	-
<b>Operating profit</b>	<b>2,400</b>	<b>1,818</b>	<b>930</b>	<b>1,740</b>	<b>2,227</b>	<b>Net cash from investing</b>	<b>(1,816)</b>	<b>(2,292)</b>	<b>(3,871)</b>	<b>(4,783)</b>	<b>(5,691)</b>
Financial cost	(44)	(43)	(41)	(41)	(41)	Dividend paid	(155)	(518)	(300)	(438)	(522)
Other income/(losses)	636	760	812	837	837	Other	(44)	(43)	(41)	(41)	(41)
<b>Pre-tax profit</b>	<b>2,992</b>	<b>2,536</b>	<b>1,701</b>	<b>2,536</b>	<b>3,023</b>	<b>Net cash from financing</b>	<b>(200)</b>	<b>(561)</b>	<b>(341)</b>	<b>(479)</b>	<b>(563)</b>
Tax	(407)	(347)	(206)	(345)	(411)	<b>Net change in cash</b>	(152)	1,928	(1,104)	(1,855)	(807)
Minority interest	-	-	-	-	-	Cash at beginning of the year	2,966	2,822	4,741	3,638	1,782
<b>Net profit</b>	<b>2,585</b>	<b>2,189</b>	<b>1,495</b>	<b>2,191</b>	<b>2,611</b>	Exchange difference	8	(9)	-	-	-
						<b>Cash at the end of the year</b>	<b>2,822</b>	<b>4,741</b>	<b>3,638</b>	<b>1,782</b>	<b>975</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	Key ratios	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Current assets</b>	<b>16,641</b>	<b>17,089</b>	<b>28,745</b>	<b>22,669</b>	<b>34,635</b>	<b>Sales mix (%)</b>					
Cash & equivalents	2,822	4,741	3,638	1,782	975	Phone and PC components	45	44	35	31	29
Account receivables	8,556	7,209	17,907	13,129	23,798	Assembly services	55	43	48	51	51
Inventories	4,608	4,768	6,829	7,387	9,491	New intelligent products	-	11	13	14	15
Short-term bank deposits	-	-	-	-	-	Auto intelligent systems	-	3	4	4	5
Other current assets	655	371	371	371	371	<b>Growth (%)</b>					
<b>Non-current assets</b>	<b>7,950</b>	<b>8,147</b>	<b>9,634</b>	<b>11,479</b>	<b>13,590</b>	Revenue	5.6	5.9	32.2	23.6	19.0
PPE	7,431	7,634	9,269	11,299	13,621	Gross profit	52.3	(2.2)	(6.9)	36.3	21.9
Deferred income tax	226	128	128	128	128	Operating profit	123.4	(24.2)	(48.9)	87.1	28.0
Other non-current assets	293	385	236	52	(159)	Net profit	109.6	(15.3)	(31.7)	46.5	19.2
<b>Total assets</b>	<b>24,591</b>	<b>25,236</b>	<b>38,378</b>	<b>34,148</b>	<b>48,225</b>	<b>Profit &amp; loss ratio (%)</b>					
<b>Current liabilities</b>	<b>11,088</b>	<b>10,062</b>	<b>22,157</b>	<b>16,359</b>	<b>28,557</b>	Gross margin	11.0	10.2	7.2	7.9	8.1
Deferred income	75	16	16	16	16	Operating margin	6.2	4.4	1.7	2.6	2.8
Account payables	8,983	7,892	19,987	14,189	26,387	Net profit margin	6.7	5.3	2.8	3.3	3.3
Tax payable	173	30	30	30	30	<b>Balance sheet ratio</b>					
Other current liabilities	1,856	2,123	2,123	2,123	2,123	Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Non-current liabilities</b>	<b>107</b>	<b>164</b>	<b>164</b>	<b>164</b>	<b>164</b>	Current ratio (x)	1.5	1.7	1.3	1.4	1.2
Deferred income	81	120	120	120	120	Receivable turnover days	84	70	84	84	84
Deferred tax liability	26	45	45	45	45	Inventory turnover days	42	46	42	42	42
<b>Total liabilities</b>	<b>11,195</b>	<b>10,226</b>	<b>22,321</b>	<b>16,523</b>	<b>28,721</b>	Payable turnover days	101	84	101	101	101
Share capital	4,052	4,052	4,052	4,052	4,052	<b>Profitability (%)</b>					
Reserves	10,139	11,773	12,968	14,721	16,810	ROE	18.2	13.8	8.8	11.7	12.5
Minority interest						ROA	10.5	8.7	3.9	6.4	5.4
<b>Shareholders' equity</b>	<b>14,191</b>	<b>15,825</b>	<b>17,020</b>	<b>18,773</b>	<b>20,862</b>	<b>Per share data (RMB)</b>					
<b>Total equity and liabilities</b>	<b>25,386</b>	<b>26,051</b>	<b>39,342</b>	<b>35,296</b>	<b>49,583</b>	EPS	1.15	0.97	0.66	0.97	1.16
						DPS	0.23	0.20	0.13	0.19	0.23

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

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