

BYD Company (1211 HK)

2Q23E preview: net profit to rise 7% QoQ

Maintain HOLD. We project BYD's 2Q23E net profit to rise 58% YoY and 7% QoQ, one of few Chinese automakers which can still enjoy net profit growth. We also revise up FY23E net profit by 4% to RMB 22.8bn. On the other hand, we think BYD could lack both sales and profit growth engine in FY24E, as the NEV competition continues to intensify. BYD's upmarket move and exports may still take some time to contribute significant profits, in our view.

■ **We project 2Q23E net profit to rise 7% QoQ to RMB 4.4bn.** We expect BYD's total revenue to surge 65% YoY on doubled sales volume in 2Q23E. We expect BYD's average selling price (ASP) for passenger vehicles to fall about RMB 8,200 (or 5%) QoQ, as it rolled out cheaper variants for most models, such as the *Qin*, *Han* and *Song* to withstand the competition. We project GPM to only narrow 1.1 pts QoQ to 16.8% in 2Q23E, partially offset by lowered lithium price. We also forecast BYD's SG&A and R&D ratios combined to fall 0.6 ppt QoQ in 2Q23E amid greater economies of scale. We estimate 2Q23E net profit to rise 58% YoY and 7% QoQ to RMB 4.4bn, or net profit of RMB 6,200 per vehicle, down from RMB 7,500 in 1Q23.

■ **Resilient earnings ahead but may lack upside surprise.** We revise up our FY23E sales volume forecast slightly from 2.8mn units to 2.9mn units. We are of the view that the margin dent on BYD from the price war could be more severe than we had expected last year, but BYD still has plenty of room to cut expenses. We raise its FY23E net profit estimates by 4% to RMB 22.8bn. On the other hand, we think BYD may lose sales growth engine in FY24E with about 35% market share in the NEV segment, which may result in overcapacity. We revise up FY24E net profit estimates by 17% to RMB 26bn, largely due to its upmarket move, but the net profit lift could be limited.

■ **Earnings/Valuation.** We maintain our HOLD rating and raise target price slightly from HK\$ 230 to HK\$ 240, as we roll over our valuation to FY24E. We think that P/E multiple should be a proper valuation method for BYD now given its current profitability. Our new target price is based on 25x our FY24E P/E (prior 27x FY23E). We are of the view that BYD's current P/E is fair, given Tesla's (TSLA US, NR) current 50x FY24E P/E and Li Auto's 26x FY24E P/E. Our sum-of-the-parts (SOTP) valuation is also shown in Figure 4. Key risks to our rating and target price include higher or lower NEV sales volume and margins, as well as sector re-rating or de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	216,142	424,061	600,266	661,564	710,709
YoY growth (%)	38.0	96.2	41.6	10.2	7.4
Net income (RMB mn)	3,045	16,622	22,837	25,974	27,523
EPS (RMB)	1.06	5.71	7.84	8.92	9.45
YoY growth (%)	(28.1)	445.9	37.4	13.7	6.0
P/E (x)	215.5	40.0	29.1	25.6	24.2
P/B (x)	7.0	6.0	5.1	4.4	3.8
Yield (%)	0.1	0.6	0.7	0.8	0.9
ROE (%)	4.0	16.1	18.9	18.4	16.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$ 240.00
(Previous TP	HK\$ 230.00)
Up/Downside	-4.0%
Current Price	HK\$ 250.00

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Stock Data

Mkt Cap (HK\$ mn)	727,786
Avg 3 mths t/o (HK\$ mn)	1,523
52w High/Low (HK\$)	333.00/161.70
Total Issued Shares (mn)	2,911

Source: Bloomberg

Shareholding Structure

Wang Chuanfu	17.6%
Lv Xiangyang	8.2%
Others	74.1%

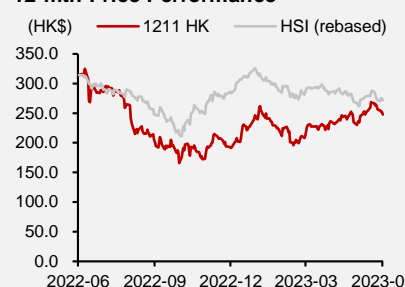
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.5%	2.7%
3-mth	8.6%	15.9%
6-mth	24.6%	30.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

["BYD Company – 1Q23 earnings as a mixed bag" – 28 Apr 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	YoY	QoQ
Sales volume (units)	291,378	355,021	538,704	683,440	552,076	708,515	99.6%	28.3%
Revenue	66,825	83,782	117,081	156,373	120,174	138,400	65.2%	15.2%
Gross profit	8,287	12,054	22,199	29,704	21,467	23,251	92.9%	8.3%
R&D expenses	(2,361)	(3,064)	(5,446)	(7,784)	(6,238)	(6,920)	125.9%	10.9%
SG&A expenses	(3,680)	(4,713)	(7,372)	(9,302)	(8,014)	(8,719)	85.0%	8.8%
Operating profit	1,061	3,561	7,460	9,459	5,299	5,632	58.2%	6.3%
Net profit	808	2,787	5,713	7,314	4,130	4,397	57.8%	6.5%
Gross margin	12.4%	14.4%	19.0%	19.0%	17.9%	16.8%	2.4 ppt	-1.1 ppt
Operating margin	1.6%	4.3%	6.4%	6.0%	4.4%	4.1%	-0.2 ppt	-0.3 ppt
Net margin	1.2%	3.3%	4.9%	4.7%	3.4%	3.2%	-0.1 ppt	-0.3 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	FY23E	New FY24E	FY25E	FY23E	Old FY24E	FY25E	FY23E	Diff (%) FY24E	FY25E
Revenue	600,266	661,564	710,709	589,423	630,784	681,309	1.8%	4.9%	4.3%
Gross Profit	103,095	109,610	115,502	100,835	102,254	107,043	2.2%	7.2%	7.9%
Operating Profit	28,798	32,884	34,916	27,726	28,480	30,188	3.9%	15.5%	15.7%
Net profit	22,837	25,974	27,523	21,936	22,265	23,553	4.1%	16.7%	16.9%
Gross Margin	17.2%	16.6%	16.3%	17.1%	16.2%	15.7%	0.1 ppt	0.4 ppt	0.5 ppt
Operating Margin	4.8%	5.0%	4.9%	4.7%	4.5%	4.4%	0.1 ppt	0.5 ppt	0.5 ppt
Net Margin	3.8%	3.9%	3.9%	3.7%	3.5%	3.5%	0.1 ppt	0.4 ppt	0.4 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	FY23E	CMBIGM FY24E	FY25E	FY23E	Consensus FY24E	FY25E	FY23E	Diff (%) FY24E	FY25E
Revenue	600,266	661,564	710,709	609,703	747,575	898,262	-1.5%	-11.5%	-20.9%
Gross Profit	103,095	109,610	115,502	103,143	129,757	160,600	0.0%	-15.5%	-28.1%
Operating Profit	28,798	32,884	34,916	31,609	43,327	57,921	-8.9%	-24.1%	-39.7%
Net profit	22,837	25,974	27,523	23,929	31,730	41,845	-4.6%	-18.1%	-34.2%
Gross Margin	17.2%	16.6%	16.3%	16.9%	17.4%	17.9%	0.3 ppt	-0.8 ppt	-1.6 ppt
Operating Margin	4.8%	5.0%	4.9%	5.2%	5.8%	6.4%	-0.4 ppt	-0.8 ppt	-1.5 ppt
Net Margin	3.8%	3.9%	3.9%	3.9%	4.2%	4.7%	-0.1 ppt	-0.3 ppt	-0.8 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation table

Segment	Estimated Revenue of FY24E (RMB bn)	Target P/S Multiple	Target Market Cap (HK\$ bn)	Target Price (HK\$)
NEV	480	1x	556	191
Handset	N/A	N/A	35	12
External sales of EV battery	6	10x	73	25
External sales of semiconductor	10	3x	35	12
SOTP			698	240

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	216,142	424,061	600,266	661,564	710,709
Cost of sales	(187,998)	(351,816)	(497,171)	(551,954)	(595,207)
Gross profit	28,145	72,245	103,095	109,610	115,502
Selling exp.	(6,082)	(15,061)	(22,367)	(23,138)	(23,835)
Admin exp.	(5,710)	(10,007)	(14,703)	(16,331)	(17,190)
R&D exp.	(7,991)	(18,654)	(27,000)	(27,200)	(28,900)
Others	(3,730)	(6,981)	(10,227)	(10,058)	(10,661)
Operating profit	4,632	21,542	28,798	32,884	34,916
Non-operating income	338	527	500	500	500
Non-operating expenses	(452)	(989)	(800)	(800)	(850)
Pre-tax profit	4,518	21,080	28,498	32,584	34,566
Tax	(551)	(3,367)	(4,420)	(5,101)	(5,401)
Minority interests	(922)	(1,091)	(1,241)	(1,509)	(1,642)
Net profit	3,045	16,622	22,837	25,974	27,523

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	4,518	21,080	28,498	32,584	34,566
Depreciation/amortization	14,108	20,370	29,864	36,994	42,717
Change in working capital	44,083	97,849	39,455	17,518	17,337
Others	2,757	1,539	(1,975)	(1,706)	(2,866)
Net cash from operating	65,467	140,838	95,842	85,390	91,754
Capex	(37,344)	(97,457)	(76,250)	(47,500)	(47,800)
Others	(8,060)	(23,139)	(1,060)	(1,060)	(1,060)
Net cash from investing	(45,404)	(120,596)	(77,310)	(48,560)	(48,860)
Share issuance	37,314	-	-	-	-
Net borrowings	(17,006)	(16,413)	(5,924)	(1,000)	(1,000)
Others	(4,245)	(3,076)	(6,119)	(6,476)	(7,052)
Net cash from financing	16,063	(19,489)	(12,043)	(7,476)	(8,052)
Net change in cash	36,125	753	6,490	29,354	34,842
Cash at beginning of the year	13,738	49,820	51,182	57,672	87,026
Exchange difference	(44)	610	-	-	-
Cash at end of the year	49,820	51,182	57,672	87,026	121,869

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	166,110	240,804	296,562	351,824	404,298
Cash & equivalents	50,457	51,471	58,672	88,026	122,869
Account receivables	44,994	51,723	61,671	67,969	73,018
Inventories	43,355	79,107	108,969	124,001	133,718
Other current assets	27,304	58,502	67,250	71,829	74,694
Non-current assets	129,670	253,057	305,108	319,264	326,981
PP&E	61,221	131,880	188,277	208,573	224,270
Intangibles	17,171	23,289	23,712	24,671	24,974
Investment in JVs & assos	7,905	15,485	17,265	19,095	20,975
Other non-current assets	43,373	82,402	75,853	66,924	56,762
Total assets	295,780	493,861	601,670	671,088	731,280
Current liabilities	171,304	333,345	421,374	467,981	505,310
Bank borrowings	10,204	5,153	-	-	-
Account payables	73,160	140,437	199,209	220,025	237,268
Contract Liabilities	14,934	35,517	40,863	45,366	9,784
Other current liabilities	73,006	152,238	181,302	202,590	258,258
Non-current liabilities	20,232	39,126	38,146	38,066	37,010
Bank borrowings	8,744	7,594	6,594	4,594	2,594
Bond payables	2,046	-	-	1,000	2,000
Other non-current liabilities	9,442	31,533	31,553	32,473	32,416
Total liabilities	191,536	372,471	459,520	506,047	542,320
Share capital	2,911	2,911	2,911	2,911	2,911
Reserves	92,159	108,118	127,731	149,237	171,665
Non-controlling interests	9,175	10,361	11,507	12,892	14,383
Shareholders' equity	95,070	111,029	130,642	152,149	174,577
Total equity and liabilities	295,780	493,861	601,670	671,088	731,280

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Automobile	52.0	76.6	75.4	74.3	72.6
Handset	40.0	23.3	18.2	19.3	21.0
Battery & others	8.0	0.1	6.4	6.4	6.4
Growth (%)					
Revenue	38.0	96.2	41.6	10.2	7.4
Gross profit	(7.3)	156.7	42.7	6.3	5.4
Operating profit	(34.6)	365.1	33.7	14.2	6.2
Net profit	(28.1)	445.9	37.4	13.7	6.0
Profit & loss ratio (%)					
Gross margin	13.0	17.0	17.2	16.6	16.3
Operating margin	2.1	5.1	4.8	5.0	4.9
Net profit margin	1.4	3.9	3.8	3.9	3.9
Balance sheet ratio					
Net cash/total equity (x)	0.2	0.3	0.3	0.5	0.6
Current ratio (x)	1.0	0.7	0.7	0.8	0.8
Receivable turnover days	94	58	50	50	50
Inventory turnover days	84	82	80	82	82
Payable turnover days	156	149	150	150	150
Profitability (%)					
ROE	4.0	16.1	18.9	18.4	16.8
ROA	1.2	4.2	4.2	4.1	3.9
Per share data (RMB)					
EPS	1.06	5.71	7.84	8.92	9.45
DPS	0.11	1.14	1.57	1.78	1.89

Source: Company data, CMBIGM estimates

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