

BYD Electronics (285 HK)

COVID-19 headwinds to weigh on 1H20E; D/G to Hold

We downgrade BYDE to Hold (from Buy) with lowered TP HK\$ 12.3, as we expect multiple near-term headwinds from Huawei/Apple demand weakness, slower 5G casing upgrade and 5G network deployment delay dragged by CONV-19. While we are positive on BYDE's share gain Apple/Huawei supply chain in FY20/21E, we think earnings outlook remains uncertain in near term, and our new FY20/21E EPS are 22%/10% below consensus. We lowered our TP to HK\$12.3, based on lower 15x FY20E P/E (from 17x prev.). Recommend to stay on the sidelines.

- Expect pressure in 1H20E followed by weak recovery in 2H20E.** We expect sales/NP to decline 12%/8% YoY in 1H20E, mainly due to CONV-19 impact on smartphone weakness and project delays in auto/smart intelligent segments. In 2H20E, we estimate BYDE will resume sales/NP growth of 20%/9% YoY in 2H20E, driven by metal/glass casing upgrade, share gain in OEM business and growth in auto/smartphone intelligent segments.
- Solid product roadmap for 5G upgrade cycle.** Despite postponed 5G cycle into 2H20E, we are confident BYDE remains on track to capture 5G growth opportunities in FY21/22E, on the back of 1) share gain in Apple/Huawei OEM business for more product categories, 2) metal casing with antenna upgrade, 3) more plastic/glass casing adoption, and 4) auto/smart intelligent products to be driven by robust IoT product demand.
- Broader partnership with Huawei/Apple ahead.** As the largest assembly manufacturer in China, we believe BYDE will benefit from Huawei/Apple strategy to diversify its assembly supply chain ahead. For Huawei, we expect BYDE to supply 5G BTS AAU, and build production factories with Huawei in India/Brazil/Hungry. For Apple, we expect BYDE to gain share and expand into AirPods, Watch, TV and Macbook. Although progress is now delayed, we think BYDE remains on track to add production lines for Watch/ Macbook and new products in 2020.
- Our FY20/21E EPS are 22%/10% below consensus; D/G to HOLD.** While we are positive on BYDE's product roadmap on multiple 5G growth trends, we believe BYDE will not be immune to COVID-19 disruption. We lowered our TP to HK\$12.3, after we cut FY20/21E EPS by 24%/16% and reduced target multiple to 15x FY20E P/E (from 17x) given lower earnings visibility. Upside risks include faster demand recovery and 5G deployment.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	41,047	53,028	55,939	70,021	83,866
YoY growth (%)	5.9	29.2	5.5	25.2	19.8
Net income (RMB mn)	2,189	1,598	1,655	2,184	2,685
EPS (RMB)	0.97	0.71	0.73	0.97	1.19
YoY growth (%)	(15.5)	(27.0)	3.6	31.9	22.9
Consensus EPS (RMB)	N/A	N/A	0.94	1.08	1.29
P/E (x)	11.4	15.6	15.1	11.4	9.3
P/B (x)	2.0	1.8	1.7	1.5	1.4
Yield (%)	1.8	1.3	1.3	1.7	2.1
ROE (%)	14	9.4	9.0	11	12
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price	HK\$12.3
(Previous TP	HK\$18.4)
Up/Downside	-1%
Current Price	HK\$12.4

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	28,48
Avg. 3mths t/o (HK\$m)	262.62
52W High/Low (HK\$)	18.42/ 9.04
Total Issued Shares (mn)	2,253

Source: Bloomberg

Shareholding Structure

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

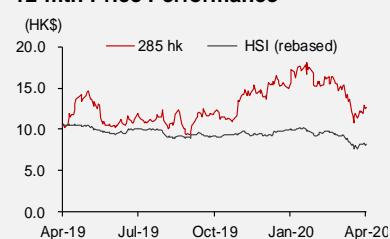
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-14.5%	-3.2%
3-mth	-16.7%	1.7%
6-mth	6.3%	20.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related report:

- BYDE (285 HK) – Share gain and 5G recovery to accelerate growth – 27 Dec 2019
- BYDE (285 HK) – Return to growth mode; Upgrade to BUY – 30 Oct 2019
- 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 (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	55,939	70,021	67,038	79,762	-17%	-12%
Gross Profit	4,185	5,490	5,293	6,454	-21%	-15%
Operating Profit	1,040	1,709	1,740	2,227	-40%	-23%
Net profit	1,655	2,184	2,191	2,611	-24%	-16%
EPS (RMB)	0.73	0.97	0.97	1.16	-24%	-16%
Gross Margin	7.5%	7.8%	7.9%	8.1%	-0.4 ppt	-0.3 ppt
Operating Margin	1.9%	2.4%	2.6%	2.8%	-0.7 ppt	-0.4 ppt
Net Margin	3.0%	3.1%	3.3%	3.3%	-0.3 ppt	-0.2 ppt

Sources: Company data, CMBIS

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	55,939	70,021	71,411	82,904	-22%	-16%
Gross Profit	4,185	5,490	5,374	6,321	-22%	-13%
Operating Profit	1,040	1,709	1,593	2,208	-35%	-23%
Net profit	1,655	2,184	2,008	2,462	-18%	-11%
EPS (RMB)	0.73	0.97	0.94	1.08	-22%	-10%
Gross Margin	7.5%	7.8%	7.5%	7.6%	0 ppt	0.2 ppt
Operating Margin	1.9%	2.4%	2.2%	2.7%	-0.4 ppt	-0.2 ppt
Net Margin	3.0%	3.1%	2.8%	3.0%	0.1 ppt	0.1 ppt

Source: Company data, CMBIS

Figure 3: Revenue breakdown

RMB mn	FY18	1H19	2H19E	FY19E	1H20E	2H20E	FY20E	FY21E	FY22E
Phone and PC component	18,012	8,056	11,046	19,102	6,704	11,434	18,138	20,707	23,335
... YoY	3%	-8%	19%	6%	-17%	4%	-5%	14%	13%
Metal	13,000	5,469	6,068	11,536	4,375	5,461	9,836	8,755	7,797
Plastic	3,512	1,725	2,841	4,566	1,553	3,409	4,961	7,442	9,674
Glass/ceramic	1,500	863	2,138	3,000	776	2,565	3,341	4,511	5,864
New intelligent products	4,340	2,598	3,478	6,076	2,338	4,348	6,686	8,691	11,299
... YoY	70%	55%	31%	40%	-10%	25%	10%	30%	30%
Auto intelligent systems	1,190	761	834	1,595	685	1,042	1,727	2,418	3,385
... YoY	150%	55%	19%	34%	-10%	25%	8%	40%	40%
Assembly	17,505	11,865	14,393	26,258	10,679	18,710	29,389	38,205	45,846
... YoY	-4%	38%	62%	50%	-10%	30%	12%	30%	20%
Total	41,047	23,280	29,750	53,030	20,405	35,534	55,939	70,021	83,866
... YoY	6%	19%	38%	29%	-12%	19%	5%	25%	20%

Source: Company data, CMBIS

Figure 4: P&L forecast by interim

RMB mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Revenue	41,047	23,280	29,748	53,028	20,405	35,534	55,939	70,021	83,866
...YoY	5.9%	19.3%	38.1%	29.2%	-12.3%	19.5%	5.5%	25.2%	19.8%
Cost of sales	(36,875)	(21,729)	(27,342)	(49,071)	(19,022)	(32,732)	(51,754)	(64,531)	(77,071)
Gross profit	4,172	1,551	2,406	3,957	1,383	2,802	4,185	5,490	6,794
GPM (%)	10%	7%	8%	7%	7%	8%	7%	8%	8%
...YoY	-2.2%	-34.6%	-20.3%	-5.1%	1.7%	-2.5%	5.8%	31.2%	23.8%
SG&A	(765)	(428)	(493)	(921)	(377)	(586)	(964)	(1,190)	(1,426)
...% of rev	2%	2%	2%	2%	2%	2%	2%	2%	2%
R&D	(1,589)	(853)	(1,190)	(2,043)	(796)	(1,386)	(2,182)	(2,591)	(3,103)
...% of rev	4%	4%	4%	4%	4%	4%	4%	4%	4%
Operating profit	1,818	270	723	994	210	830	1,040	1,709	2,266
OPM (%)	4%	1%	2%	2%	1%	2%	2%	2%	3%
...YoY	-24%	-78%	-35%	-45%	-11%	-4%	5%	64%	33%
Net profit	2,189	575	1,022	1,598	531	1,116	1,655	2,184	2,685
NPM (%)	5%	2%	3%	3%	3%	3%	3%	3%	3%
...YoY	-15%	-49%	-1%	-27%	-8%	9%	4%	32%	23%

Source: Company data, CMBIS

Figure 5: P&L forecast by quarter

RMB'000	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19	4Q19	2019	2020E
Revenue	8,946	10,565	9,983	11,553	41,047	10,392	12,888	15,119	14,630	53,028	55,939
Gross profit	878	1,128	1,252	913	4,172	838	714	1,061	1,345	3,957	4,185
Net profit	464	641	698	386	2,189	388	187	451	571	1,598	1,655
EPS (RMB)	0.21	0.29	0.30	0.17	0.97	0.17	0.09	0.20	0.25	0.71	0.73
Growth Analysis											
Revenue	5%	17%	-9%	12%	6%	16%	22%	51%	27%	29%	6%
Gross profit	-2%	-8%	13%	-12%	-2%	-5%	-37%	-15%	47%	-5%	6%
Net profit	-13%	-19%	5%	-36%	-15%	-16%	-71%	-35%	48%	-27%	4%
Margin Analysis											
Gross margin	9.8%	10.7%	12.5%	7.9%	10.2%	8.1%	5.5%	7.0%	9.2%	7.5%	7.5%
Net margin	5.2%	6.1%	7.0%	3.3%	5.3%	3.7%	1.5%	3.0%	3.9%	3.0%	3.0%

Source: Company data, CMBIS

Valuation

Downgrade to HOLD with new TP HK\$12.3

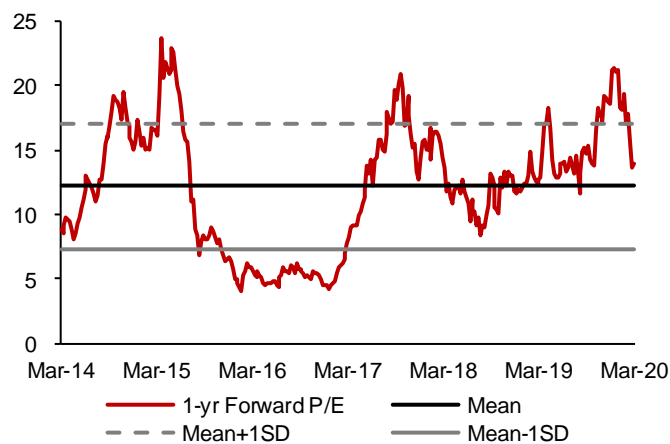
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Figure 6: Peers' valuation

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	3,674	12.4	12.3	-1%	15.1	11.4	1.7	1.5	9.0	11.0	
Tongda	698 HK	Hold	372	0.45	0.5	19%	7.2	5.9	0.4	0.4	6.1	7.1	
AAC Tech	2018 HK	Sell	6,228	39.95	35.8	-10%	19.5	20.0	2.2	2.1	11.3	10.7	
TK Group	2283 HK	Buy	288	2.68	4.1	53%	5.8	4.8	1.7	1.7	29.7	35.7	
Ju Teng	3336 HK	NR	211	1.40	NA	NA	9.9	12.4	0.3	0.3	0.8	3.2	
Everwin	300115 CH	NR	2,590	20.20	NA	NA	29.7	20.7	3.7	3.2	11.9	14.3	
Lens Tech	300433 CH	NR	9,975	16.65	NA	NA	21.3	17.3	3.0	2.6	14.6	15.9	
Foxconn	2354 TT	NR	2,288	49.00	NA	NA	9.1	8.5	0.6	0.6	7.3	8.4	
Casetek	5264 TT	NR	498	35.85	NA	NA	17.9	12.7	0.5	0.5	2.3	3.2	
Catcher	2474 TT	NR	5,124	201.50	NA	NA	9.1	7.6	1.0	0.9	11.2	12.7	
Average								14.7	12.2	1.5	1.4	10.4	12.3

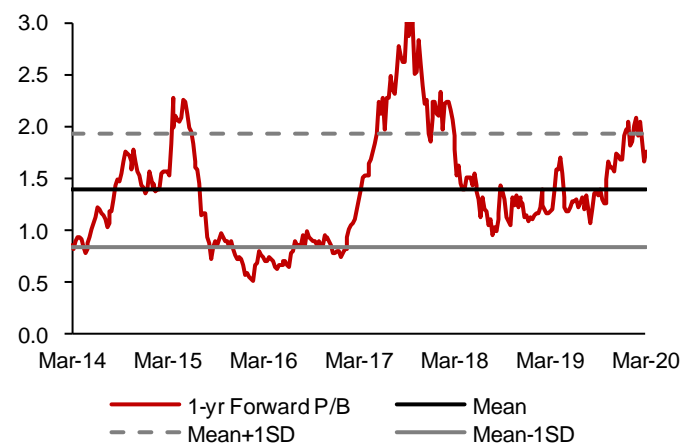
Source: Bloomberg, CMBIS estimates

Figure 7: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 8: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	38,774	41,047	53,028	55,939	70,021	Profit before taxation	2,536	1,696	1,758	2,427	2,983
COGS	(34,510)	(36,875)	(49,071)	(51,754)	(64,531)	Depreciation	1,926	2,157	2,520	2,937	3,436
Gross profit	4,264	4,172	3,957	4,185	5,490	Change in working capital	608	(3,557)	2,587	(3,711)	3,171
Selling and marketing	(229)	(229)	(293)	(308)	(420)	Others	(289)	(0)	(59)	(200)	(256)
Administrative	(434)	(536)	(628)	(656)	(770)	Net cash from operating	4,781	296	6,805	1,453	9,335
R&D	(1,201)	(1,589)	(2,043)	(2,182)	(2,591)	Capex	(2,276)	(3,140)	(3,356)	(3,851)	(4,613)
Other operating exp.						Other	(16)				
Operating profit	2,400	1,818	994	1,040	1,709	Net cash from investing	(2,292)	(3,140)	(3,356)	(3,851)	(4,613)
Financial cost	(44)	(43)	-	(43)	(43)	Dividend paid	(518)	(321)	(331)	(437)	(537)
Other income/(losses)	636	760	703	760	760	Other	(43)		(43)	(43)	(43)
Pre-tax profit	2,992	2,536	1,696	1,758	2,427	Net cash from financing	(561)	(321)	(374)	(480)	(580)
Tax	(407)	(347)	(99)	(102)	(243)	Net change in cash	1,928	(3,166)	3,075	(2,878)	4,142
Minority interest	-	-	-	-	-	Cash at beginning of the year	2,822	4,741	1,651	4,726	1,848
Net profit	2,585	2,189	1,598	1,655	2,184	Exchange difference	(9)	-	-	-	-
						Cash at the end of the year	4,741	1,651	4,726	1,848	5,990

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
Current assets	17,089	17,082	17,677	22,053	23,064	Sales mix (%)					
Cash & equivalents	4,741	1,651	4,726	1,848	5,990	Phone and PC components	44	36	32	30	28
Account receivables	7,209	9,567	6,415	12,257	8,709	Assembly services	43	50	53	55	55
Inventories	4,768	5,414	6,086	7,499	7,915	New intelligent products	11	11	12	12	13
Short-term bank deposits	-	-	-	-	-	Auto intelligent systems	3	3	3	3	4
Other current assets	371	450	450	450	450						
Non-current assets	8,147	9,950	10,710	11,542	12,611	Growth (%)					
PPE	7,634	8,617	9,454	10,368	11,545	Revenue	5.9	29.2	5.5	25.2	19.8
Deferred income tax	128					Gross profit	(2.2)	(5.1)	5.8	31.2	23.8
Other non-current assets	385	1,332	1,256	1,173	1,066	Operating profit	(24.2)	(45.4)	4.7	64.3	32.6
Total assets	25,236	27,032	28,387	33,595	35,675	Net profit	(15.3)	(27.0)	3.6	31.9	22.9
Current liabilities	10,062	10,399	10,506	14,049	14,089	Profit & loss ratio (%)					
Deferred income	16	0	0	0	0	Gross margin	10.2	7.5	7.5	7.8	8.1
Account payables	7,892	7,340	7,447	10,991	11,030	Operating margin	4.4	1.9	1.9	2.4	2.7
Tax payable	30	0	0	0	0	Net profit margin	5.3	3.0	3.0	3.1	3.2
Other current liabilities	2,123	3,059	3,059	3,059	3,059	Balance sheet ratio					
Non-current liabilities	164	639	639	639	639	Net debt/total equity (x)					
Deferred income	120	0	0	0	0	Current ratio (x)	1.7	1.6	1.7	1.6	1.6
Deferred tax liability	45	0	0	0	0	Receivable turnover days	70	58	52	49	46
Total liabilities	10,226	11,038	11,145	14,688	14,727	Inventory turnover days	46	38	41	38	37
Share capital	4,052	4,052	4,052	4,052	4,052	Payable turnover days	84	57	52	52	52
Reserves	11,773	12,937	14,262	16,009	18,157	Profitability (%)					
Minority interest						ROE	13.8	9.4	9.0	10.9	12.1
Shareholders' equity	15,825	16,989	18,314	20,061	22,209	ROA	8.7	5.9	5.8	6.5	7.5
Total equity and liabilities	26,051	28,027	29,458	34,749	36,936	Per share data (RMB)					
						EPS	0.97	0.71	0.73	0.97	1.19
						DPS	0.20	0.14	0.15	0.19	0.24

Source: Company data, CMBIS estimates

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