

BYD Electronics (285 HK)

Positive profit alert and strong outlook; Reiterate BUY

BYDE announced positive profit alert, stating 9M20 earnings growth of 320%+ YoY to RMB4.3bn, tracking ~75% of our/consensus full-year estimates. Mgmt. attributed the strong results to 1) share gain in major customers, 2) client wins in smartphone/intelligent products, 3) rapid growth of glass/ceramic products and 4) strong mask business. We believe BYDE will be the major beneficiary of industry consolidation and Apple/Xiaomi's supplier diversification strategy. We raised our SOTP-based TP to HK\$50.4 after lifting our FY20-22E EPS by 3-7% for stronger 3Q20 results and faster share gain in Xiaomi/Apple supply chain. Catalysts include Xiaomi/Apple product launch and stronger mask demand.

- 9M20 net profit jumped on share gain, client win and masks.** BYDE reported 320%+ YoY NP growth in 9M20, implying that 3Q20 earnings remained robust at 307% YoY (vs 330% YoY in 1H20). The upbeat result was driven by handset OEM recovery, client wins (DJI, atomizer), share gain in iPad/Watch, higher mask demand and improving operating leverage. We expect strong earnings momentum to continue with 173% YoY in 4Q20E.
- Apple: iPad/Watch EMS and components well on track.** We believe BYDE has secured 20-30% share allocation in latest iPad model in 2H20E, and it will achieve 30-40% share of all iPad products in 2021. As Apple is set to accelerate supplier diversification, we expect BYDE to expand into iPad metal casing and gain share in iPhone/Watch ceramic products in 2021.
- Handset EMS: Xiaomi ramp to offset Huawei impact in 2021.** To mitigate downside risks of Huawei ban, we expect BYDE to expand EMS capacity for Xiaomi with share allocation to 40% in FY21E (vs. 10-20% in FY20E). In addition, backed by Samsung/Xiaomi's promising outlook in 2021, we expect strong demand for glass/ceramic casing given rapid 5G adoption.
- Our FY21/22E EPS are 40%/43% above consensus; Lift TP to HK\$50.4.** We remain positive on BYDE's 5G roadmap, stronger partnership with major brands and expansion into medical segment. We lifted FY20-22E EPS by 3-7% and our FY21/22E EPS are 40%/43% above consensus. We raised our SOTP-based TP to HK\$50.4 based on higher multiples for fast-growing EMS/ component businesses. Our new TP implies an undemanding valuation of 16.3x FY21E P/E. Catalysts include faster share gain, stronger mask and Xiaomi/Apple product launches.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	41,047	53,028	81,002	100,773	116,322
YoY growth (%)	5.9	29.2	52.8	24.4	15.4
Net income (RMB mn)	2,146	1,598	5,868	6,265	6,429
EPS (RMB)	0.95	0.71	2.60	2.78	2.85
YoY growth (%)	(17.2)	(25.5)	267.3	6.8	2.6
Consensus EPS (RMB)	NA	NA	2.55	1.99	2.18
P/E (x)	40.7	54.7	14.9	13.9	13.6
P/B (x)	6.9	6.4	4.9	3.9	3.2
Yield (%)	0.5	0.2	0.7	0.7	0.7
ROE (%)	14	9.4	26.3	22	19
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$50.4
(Previous TP)	HK\$37.7)
Up/Downside	+17%
Current Price	HK\$43.2

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	97,338
Avg. 3mths t/o (HK\$m)	617.43
52W High/Low (HK\$)	43.70/ 10.40
Total Issued Shares (mn)	2,253

Source: Bloomberg

Shareholding Structure

Golden Link Worldwide Ltd	65.76%
Gold Dragonfly Ltd	6.08%
Vanguard Group Inc	1.23%

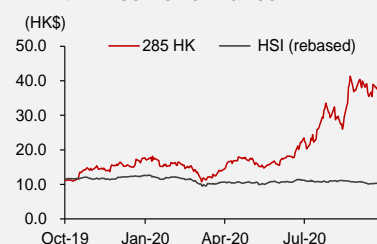
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.0%	13.3%
3-mth	95.5%	104.0%
6-mth	211.7%	207.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related reports:

- BYDE (285 HK) – Multiple growth drivers ahead; Lift TP to HK\$37.7 - 31 Aug 2020
- BYDE (285 HK) - A strong year despite CON-V-19; Upgrade to BUY - 4 May 2020
- (BYDE (285 HK) – COVID-19 headwinds to weigh on 1H20E; D/G to Hold - 3 Apr 2020

Earnings Revision

Figure 1: Earnings revision

RMB mn	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	81,002	100,773	116,322	85,496	108,171	125,053	-5%	-7%	-7%
Gross Profit	9,960	11,108	12,046	10,026	11,047	12,109	-1%	1%	-1%
Operating Profit	5,917	6,170	6,346	5,754	5,746	5,982	3%	7%	6%
Net profit	5,868	6,265	6,429	5,718	5,875	6,094	3%	7%	6%
EPS (RMB)	2.60	2.78	2.85	2.54	2.61	2.70	3%	7%	6%
Gross Margin	12.3%	11.0%	10.4%	11.7%	10.2%	9.7%	0.6 ppt	0.8 ppt	0.7 ppt
Operating Margin	7.3%	6.1%	5.5%	6.7%	5.3%	4.8%	0.6 ppt	0.8 ppt	0.7 ppt
Net Margin	7.2%	6.2%	5.5%	6.7%	5.4%	4.9%	0.6 ppt	0.8 ppt	0.7 ppt

Sources: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	81,002	100,773	116,322	85,668	98,654	98,654	-5%	2%	18%
Gross Profit	9,960	11,108	12,046	10,262	9,422	9,422	-3%	18%	28%
Operating Profit	5,917	6,170	6,346	5,943	4,358	4,358	0%	42%	46%
Net profit	5,868	6,265	6,429	5,738	4,314	4,314	2%	45%	49%
EPS (RMB)	2.60	2.78	2.85	2.55	1.99	1.99	2%	40%	43%
Gross Margin	12.3%	11.0%	10.4%	12.0%	9.6%	9.6%	0.3 ppt	1.5 ppt	0.8 ppt
Operating Margin	7.3%	6.1%	5.5%	6.9%	4.4%	4.4%	0.4 ppt	1.7 ppt	1.0 ppt
Net Margin	7.2%	6.2%	5.5%	6.7%	4.4%	4.4%	0.5 ppt	1.8 ppt	1.2 ppt

Source: Company data, CMBIS estimates

Figure 3: Revenue breakdown

RMB mn	FY18	1H19	2H19	FY19E	1H20	2H20E	FY20E	FY21E	FY22E
Assembly	17,505	11,865	14,982	26,847	9,909	19,477	29,386	47,017	61,122
... YoY	-4%	38%	68%	53%	-16%	30%	9%	60%	30%
Phone and PC component	18,012	8,056	10,506	18,562	8,615	12,300	20,915	22,063	25,096
... YoY	3%	-8%	13%	3%	7%	17%	13%	5%	14%
Metal	13,000	5,469	5,528	10,996	5,338	5,682	11,019	9,854	10,456
Plastic	3,512	1,725	2,841	4,566	1,553	2,557	4,109	4,109	4,109
Glass/ceramic	1,500	863	2,138	3,000	1,725	4,061	5,786	8,101	10,531
Mask	-	-	-	-	8,548	12,000	20,548	18,494	12,945
... YoY	-	-	-	-	-	-	-	-10%	-30%
New intelligent products	4,340	2,598	3,427	6,025	3,634	4,798	8,432	10,961	14,250
... YoY	70%	55%	29%	39%	40%	40%	40%	30%	30%
Auto intelligent systems	1,190	761	833	1,594	680	1,041	1,721	2,238	2,909
... YoY	150%	55%	19%	34%	-11%	25%	8%	30%	30%
Total	41,047	23,280	29,748	53,028	31,386	49,615	81,002	100,773	116,322
... YoY	6%	19%	38%	29%	35%	67%	53%	24%	15%

Source: Company data, CMBIS estimates

Figure 4: P&L forecast by interim

RMB mn	FY18	1H19	2H19	FY19	1H20	2H20E	FY20E	FY21E	FY22E
Revenue	41,047	23,280	29,748	53,028	31,386	49,615	81,002	100,773	116,322
...YoY	5.9%	19.3%	38.1%	29.2%	34.8%	66.8%	52.8%	24.4%	15.4%
Cost of sales	(36,875)	(21,729)	(27,342)	(49,071)	(27,286)	(43,755)	(71,042)	(89,665)	(104,276)
Gross profit	4,172	1,551	2,406	3,957	4,100	5,860	9,960	11,108	12,046
GPM (%)	10%	7%	8%	7%	13%	12%	12%	11%	10%
...YoY	-2.2%	-34.6%	-20.3%	-5.1%	96.0%	46.0%	151.7%	11.5%	8.4%
SG&A	(765)	(428)	(349)	(777)	(405)	(645)	(1,050)	(1,109)	(1,280)
...% of rev	2%	2%	1%	1%	1%	1%	1%	1%	1%
R&D	(1,589)	(853)	(1,333)	(2,186)	(1,108)	(1,885)	(2,993)	(3,829)	(4,420)
...% of rev	4%	4%	4%	4%	4%	4%	4%	4%	4%
Operating profit	1,818	270	723	994	2,587	3,330	5,917	6,170	6,346
OPM (%)	4%	1%	2%	2%	8%	7%	7%	6%	5%
...YoY	-24%	-78%	-35%	-45%	610%	176%	496%	4%	3%
Net profit	2,146	575	1,022	1,598	2,473	3,396	5,868	6,265	6,429
NPM (%)	5%	2%	3%	3%	8%	7%	7%	6%	6%
...YoY	-17%	-49%	1%	-26%	330%	232%	267%	7%	3%

Source: Company data, CMBIS estimates

Valuation

Reiterate BUY with new TP HK\$ 50.4

We maintain Buy with new TP HK\$ 50.4, as we turn more positive on share gain with Xiaomi/Apple, plastic/ceramic casing and stronger mask demand. We derive our TP of HK\$ 50.4 based on SOTP valuation to reflect BYDE's business diversification with different growth profiles and visibility.

Our new TP is based on weighted-average target P/E multiple of 16.3x FY21E EPS. We assign 15x P/E to its assembly EMS business and 20x P/E for component business, in-line with TW/HK-listed peers. We assign 10x for mask business to reflect its near-term growth potential amid COVID-19 outbreak.

Figure 5: BYDE – SOTP valuation

Business segment	% of FY21E Profit	FY21E EPS (RMB)	Target P/E
Assembly	8%	0.22	15x
Components	38%	1.05	20x
Masks	33%	0.93	10x
Others (smart, auto)	21%	0.58	20x
Total (RMB) /Implied P/E		2.78	16.3x
TP (HK\$)			50.4

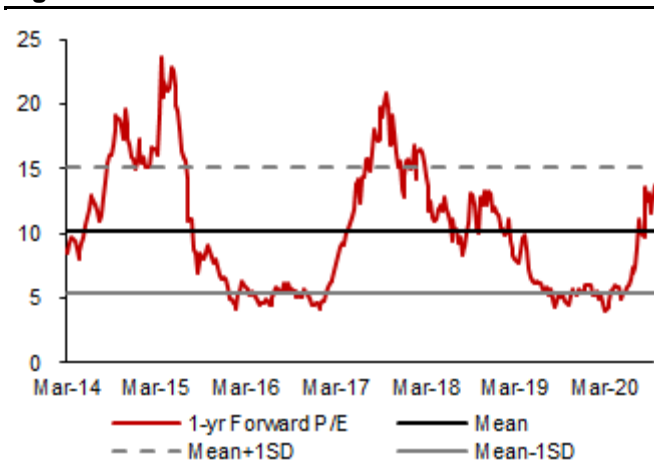
Sources: Company data, CMBIS estimates

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 (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
BYDE	285 HK	Buy	12,560	43.20	50.4	17%	54.6	14.9	5.1	3.9	9.4	26.3
Tongda	698 HK	Hold	372	0.45	0.5	12%	7.2	15.9	0.4	0.4	6.1	2.8
AAC Tech	2018 HK	Hold	6,931	44.45	47.5	7%	21.7	28.7	2.5	2.4	11.3	8.3
TK Group	2283 HK	Buy	270	2.51	2.3	-7%	5.4	4.5	1.6	1.6	29.7	35.7
Ju Teng	3336 HK	NR	360	2.39	NA	NA	7.6	8.4	0.4	0.4	5.6	4.9
Everwin	300115 CH	NR	3,662	27.15	NA	NA	46.5	32.6	5.1	4.6	11.0	14.0
Lens Tech	300433 CH	NR	23,439	36.07	NA	NA	37.1	29.2	5.8	4.9	17.0	18.1
Foxconn	2354 TT	NR	2,559	52.00	NA	NA	10.2	9.7	0.6	0.6	6.5	6.3
Casetek	5264 TT	NR	1,268	86.70	NA	NA	249.1	25.1	1.2	1.2	1.3	4.5
Catcher	2474 TT	NR	4,770	180.00	NA	NA	8.6	9.5	0.9	0.8	11.9	9.4
Average							44.8	17.8	2.4	2.1	11.0	13.0

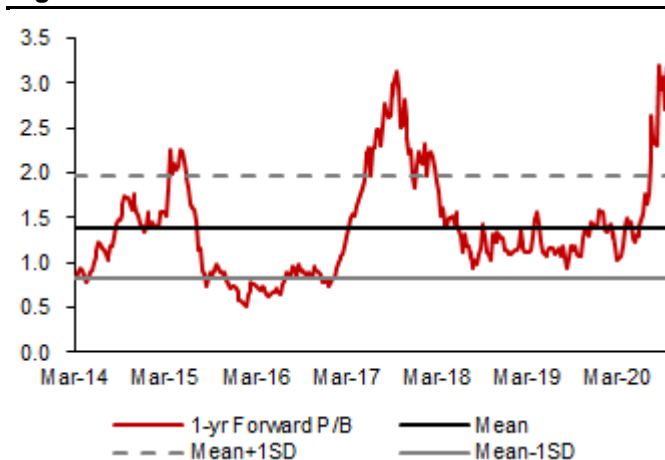
Source: Bloomberg, CMBIS estimates

Figure 7: 12M forward P/E band



Source: Bloomberg, CMBIS estimates

Figure 8: 12M forward P/B band



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	41,047	53,028	81,002	100,773	116,322
COGS	(36,875)	(49,071)	(71,042)	(89,665)	(104,27)
Gross profit	4,172	3,957	9,960	11,108	12,046
Selling and marketing	(229)	(300)	(428)	(504)	(582)
Administrative	(536)	(477)	(622)	(605)	(698)
R&D	(1,589)	(2,186)	(2,993)	(3,829)	(4,420)
Other operating exp.					
Operating profit	1,818	994	5,917	6,170	6,346
Financial cost	(43)	(31)	(45)	(45)	(45)
Other income/(losses)	718	734	650	685	687
Pre-tax profit	2,493	1,696	6,522	6,810	6,988
Tax	(347)	(99)	(653)	(545)	(559)
Minority interest	-	-	-	-	-
Net profit	2,146	1,598	5,868	6,265	6,429

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	2,493	1,696	6,522	6,810	6,988
Depreciation	1,926	2,157	2,472	2,865	3,318
Change in working capital	608	(3,596)	(3,271)	1,773	(1,785)
Others	(289)	(20)	(608)	(500)	(514)
Net cash from operating	4,738	237	5,115	10,948	8,008
Capex	(2,276)	(3,140)	(2,916)	(3,628)	(4,188)
Other	(16)	-	-	-	-
Net cash from investing	(2,292)	(3,140)	(2,916)	(3,628)	(4,188)
Dividend paid	(518)	(160)	(587)	(626)	(643)
Other	(43)	(31)	(45)	(45)	(45)
Net cash from financing	(561)	(191)	(632)	(672)	(688)
Net change in cash	1,885	(3,095)	1,566	6,648	3,132
Cash at beginning of the year	2,822	4,699	1,651	3,217	9,866
Exchange difference	(9)	-	-	-	-
Cash at the end of the year	4,699	1,651	3,217	9,866	12,997

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	17,089	17,082	27,538	32,116	41,504
Cash & equivalents	4,741	1,651	3,217	9,866	12,997
Account receivables	7,209	9,567	13,576	13,297	15,784
Inventories	4,768	5,453	10,334	8,543	12,312
Short-term bank deposits	-	-	-	-	-
Other current assets	371	411	411	411	411
Non-current assets	8,147	9,950	10,353	11,047	11,837
PPE	7,634	8,617	9,061	9,824	10,694
Deferred income tax	128	159	159	159	159
Other non-current assets	385	1,173	1,133	1,064	985
Total assets	25,236	27,032	37,891	43,163	53,342
Current liabilities	10,062	10,399	16,017	15,720	20,191
Deferred income	16				
Account payables	7,892	7,340	12,958	12,661	17,133
Tax payable	30	108	108	108	108
Other current liabilities	2,123	2,951	2,951	2,951	2,951
Non-current liabilities	164	639	639	639	639
Deferred income	120	122	122	122	122
Deferred tax liability	45	18	18	18	18
Total liabilities	10,226	11,038	16,655	16,358	20,830
Share capital	4,052	4,052	4,052	4,052	4,052
Reserves	11,773	12,937	18,219	23,857	29,643
Minority interest					
Shareholders' equity	15,825	16,989	22,271	27,909	33,695
Total equity and liabilities	26,051	28,027	38,926	44,268	54,525

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Phone and PC components	44	35	26	22	22
Assembly services	43	51	36	47	53
Masks	-	-	25	18	11
New intelligent products	11	11	10	11	12
Auto intelligent systems	3	3	2	2	3
Growth (%)					
Revenue	5.9	29.2	52.8	24.4	15.4
Gross profit	(2.2)	(5.1)	151.7	11.5	8.4
Operating profit	(24.2)	(45.4)	495.5	4.3	2.9
Net profit	(17.0)	(25.5)	267.3	6.8	2.6
Profit & loss ratio (%)					
Gross margin	10.2	7.5	12.3	11.0	10.4
Operating margin	4.4	1.9	7.3	6.1	5.5
Net profit margin	5.2	3.0	7.2	6.2	5.5
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.7	1.6	1.7	2.0	2.1
Receivable turnover days	70	58	52	49	46
Inventory turnover days	46	38	41	38	37
Payable turnover days	84	57	52	52	52
Profitability (%)					
ROE	13.6	9.4	26.3	22.4	19.1
ROA	8.5	5.9	15.5	14.5	12.1
Per share data (RMB)					
EPS	0.95	0.71	2.60	2.78	2.85
DPS	0.20	0.07	0.26	0.28	0.29

Source: Company data, CMBIS estimates

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