

BYD Electronics (285 HK)

Return to growth mode; Upgrade to BUY

BYDE's 3Q19 strong revenue of 51% YoY (vs +22% in 2Q) was driven by Huawei recovery and better assembly biz, while net profit decline narrowed to -35% YoY (vs -71% in 2Q). 3Q GPM improved sequentially to 7.0% from 5.5% in 2Q, on track to return to 1Q level of 8.1%. Backed by upbeat guidance with 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. We upgraded the stock to BUY, and raised TP to HK\$15.0, based on 15x upcycle FY20E P/E.

- **3Q recovery on track; Expect 4Q earnings back to +ve growth.** BYDE's impressive 3Q19 revenue was a result of strong assembly/auto/intelligent segments and flattish casing given ASP pressure and slow plastic/glass migration. We are particularly positive on 3Q GPM of 7% (vs 5.5% in 2Q), suggesting solid recovery to 8% in 4Q19E. Our view is also reaffirmed by mgmt.'s upbeat guidance that 4Q sales/NP will peak in 2019, which implies 4Q earnings turnaround to 20%+ YoY (vs. -35%/-71%/-16% in 3Q/2Q/1Q).
- **Strong FY20E guidance with solid 5G product pipeline.** Mgmt. is bullish with revenue guidance of RMB100bn/200bn in FY20E/24E (vs. RMB50-60bn in FY19E), driven by 1) assembly to double (50% of sales) on Huawei phone/ BTS share gain, 2) metal casing (20%) to return record-high level in 2017, 3) glass casing (5%) to double, and 4) auto/smart intelligent segment (17%) to grow 30-50% YoY. Looking into 5G era, BYDE started to ship 7 5G smartphone models with 10+ models in pipeline for 1H20E (Honor, P40). We see opportunities in 1) 5G antenna on metal mid-frame, 2) metalistic plastic casing with CNC/PVD, and 3) ceramic functional parts on RFFE/filters.
- **Closer Huawei/Apple partnership in 5G era; auto/smart intelligence on fast track.** We expect BYDE to accelerate collaboration with Huawei/Apple, in terms of 1) Huawei's casing/assembly/5G BTS/servers and expansion in India/Brazil/Hungry, and 2) Apple order win in Watch/Airpod/Macbook. We expect auto/smart intelligent biz to be backed by 1) Di-Link on BYD Dynasty/e/s series, 2) foreign tier-1 OEMs, and 3) intelligent-driving modules in FY22E.
- **Entering new growth phase; Upgrade to BUY with TP HK\$15.** We are confident on BYDE's client/product roadmap and expect earnings recovery to continue into FY20-21E. Our new TP of HK\$15 is based on 15x upcycle FY20E P/E. Upcoming catalysts include 5G product launches and order wins.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	38,774	41,047	54,252	65,158	73,589
YoY growth (%)	5.6	5.9	32.2	20.1	12.9
Net income (RMB mn)	2,585	2,189	1,495	2,015	2,487
EPS (RMB)	1.15	0.97	0.66	0.89	1.10
YoY growth (%)	109.1	(15.5)	(31.7)	34.7	23.4
P/E (x)	9.1	10.7	15.7	11.6	9.4
P/B (x)	2.1	1.8	1.7	1.6	1.4
Yield (%)	2.2	1.9	1.3	1.7	2.1
ROE (%)	18	14	8.8	10.8	12
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Up)

Target Price **HK\$15.0**
 (Previous TP **HK\$10.4**)
 Up/Downside **29.0%**
 Current Price **HK\$11.6**

China Technology Sector

Alex Ng

Tel: (852) 3900 0881

Email: alexng@cmbi.com.hk

Iris Zhang

Tel: (852) 3761 8780

Email: iriszhang@cmbi.com.hk

Stock Data

Mkt. Cap. (HK\$m)	28,976
Avg. 3mths t/o (HK\$m)	150.75
52W High/Low (HK\$)	14.92/ 8.30
Total Issued Shares (mn)	2,253.2

Source: Bloomberg

Shareholding Structure

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

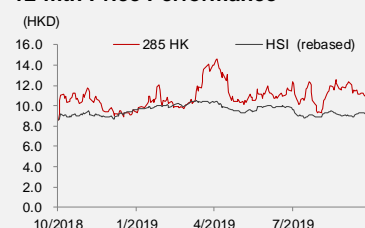
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.5%	7.2%
3-mth	11.6%	17.8%
6-mth	-8.3%	2.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related report:

1. BYDE (285 HK) - 1H19 significant miss; Lack of visibility into 2H19 - 23 Aug 2019
2. BYDE (285 HK) - 1H19 Preview - 12 Aug 2019

Earnings Revision

Figure 1: 3Q19 results review

RMB mn	3Q18	2Q19	3Q19	YoY	QoQ	9M18	9M19	YoY	CMBI		Consensus	
									FY19E	9M19 % Track	FY19E	9M19 % Track
Revenue	9,983	12,888	15,119	51%	17%	29,494	38,399	30%	48,773	50%	50,059	77%
Gross profit	1,252	714	1,061	-15%	49%	3,259	2,612	-20%	3,654	34%	3,864	68%
Net profit	698	187	451	-35%	141%	1,802	1,027	-43%	1,467	11%	1,610	64%
EPS (RMB)	0.30	0.09	0.20	-32%	140%	0.80	0.46	-43%	0.65	25%	0.72	64%
Gross margin	12.5%	5.5%	7.0%	-5.5 ppt	1.5 ppt	11.1%	6.8%	-4.2 ppt	7.5%	24%	7.7%	
Net margin	7.0%	1.5%	3.0%	-4 ppt	1.5 ppt	6.1%	2.7%	-3.4 ppt	3.0%		3.2%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Earnings revision

RMB mn	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	54,252	65,158	73,589	48,773	52,789	57,926	11%	23%	27%
Gross Profit	3,883	5,152	6,166	3,654	4,579	5,379	6%	13%	15%
Operating Profit	930	1,536	2,082	897	1,628	2,140	4%	-6%	-3%
Net profit	1,495	2,015	2,487	1,467	2,094	2,537	2%	-4%	-2%
EPS (RMB)	0.66	0.89	1.10	0.65	0.93	1.13	2%	-4%	-2%
Gross Margin	7.2%	7.9%	8.4%	7.5%	8.7%	9.3%	-0.3 ppt	-0.8 ppt	-0.9 ppt
Operating Margin	1.7%	2.4%	2.8%	1.8%	3.1%	3.7%	-0.1 ppt	-0.7 ppt	-0.9 ppt
Net Margin	2.8%	3.1%	3.4%	3.0%	4.0%	4.4%	-0.3 ppt	-0.9 ppt	-1 ppt

Sources: Company data, CMBIS

Figure 3: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	54,252	65,158	73,589	50,059	56,881	62,733	8%	15%	17%
Gross Profit	3,883	5,152	6,166	3,864	4,885	5,523	0%	5%	12%
Operating Profit	930	1,536	2,082	1,584	2,337	2,804	-41%	-34%	-26%
Net profit	1,495	2,015	2,487	1,610	2,207	2,571	-7%	-9%	-3%
EPS (RMB)	0.66	0.89	1.10	0.72	1.00	1.17	-8%	-11%	-5%
Gross Margin	7.2%	7.9%	8.4%	7.7%	8.6%	8.8%	-0.6 ppt	-0.7 ppt	-0.4 ppt
Operating Margin	1.7%	2.4%	2.8%	3.2%	4.1%	4.5%	-1.4 ppt	-1.8 ppt	-1.6 ppt
Net Margin	2.8%	3.1%	3.4%	3.2%	3.9%	4.1%	-0.5 ppt	-0.8 ppt	-0.7 ppt

Source: Company data, CMBIS

Figure 4: Revenue breakdown

RMB mn	FY17	1H18	2H18	FY18	1H19	2H19E	FY19E	FY20E	FY21E
Phone and PC component	17,478	8,744	9,268	18,012	8,056	11,090	19,146	20,201	21,433
... YoY				3%	-8%	20%	6%	6%	6%
Metal	14,728	6,494	6,506	13,000	5,469	6,087	11,555	9,811	7,925
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
New intelligent products	2,553	1,676	2,664	4,340	2,598	4,346	6,944	9,374	12,187
... YoY				70%	55%	63%	60%	35%	30%
Auto intelligent systems	476	491	699	1,190	761	1,143	1,904	2,761	3,865
... YoY				150%	55%	64%	60%	45%	40%
Assembly	18,267	8,600	8,905	17,505	11,865	14,393	26,258	32,822	36,104
... YoY				-4%	38%	62%	50%	25%	10%
Total	38,774	19,511	21,536	41,047	23,280	30,972	54,252	65,158	73,589
... YoY	6%	11%	1%	6%	19%	44%	32%	20%	13%

Source: Company data, CMBIS

Figure 5: P&L forecast by interim

RMB mn	FY17	1H18	2H18	FY18	1H19	2H19E	FY19E	FY20E	FY21E
Revenue	38,774	19,511	21,536	41,047	23,280	30,972	54,252	65,158	73,589
... YoY	5.6%	11.3%	1.4%	5.9%	19.3%	43.8%	32.2%	20.1%	12.9%
Cost of sales	(34,510)	(17,523)	(19,352)	(36,875)	(21,729)	(28,640)	(50,368)	(60,006)	(67,422)
Gross profit	4,264	1,988	2,184	4,172	1,551	2,332	3,883	5,152	6,166
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%	32.7%	19.7%
SG&A	(663)	(348)	(417)	(765)	(428)	(557)	(986)	(1,238)	(1,398)
... % of rev	2%	2%	2%	2%	2%	2%	2%	2%	2%
R&D	(1,201)	(623)	(965)	(1,589)	(853)	(1,115)	(1,968)	(2,378)	(2,686)
... % of rev	3%	3%	4%	4%	4%	4%	4%	4%	4%
Operating profit	2,400	1,017	802	1,818	270	660	930	1,536	2,082
OPM (%)	6%	5%	4%	4%	1%	2%	2%	2%	3%
... YoY	123%	-24%	-25%	-24%	-78%	-43%	-49%	65%	36%
Net profit	2,585	1,135	1,030	2,189	575	920	1,495	2,015	2,487
NPM (%)	7%	6%	5%	5%	2%	3%	3%	3%	3%
... YoY	110%	-14%	-18%	-15%	-58%	-38%	-32%	35%	23%

Source: Company data, CMBIS

Figure 6: P&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	65,158
Gross profit	878	1,128	1,252	913	4,172	838	714	1,061	1,271	3,883	5,152
Net profit	464	641	698	386	2,189	388	187	451	469	1,495	2,015
EPS	0.21	0.29	0.30	0.17	0.97	0.17	0.09	0.20	0.20	0.66	0.89
Margin Analysis											
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%	3.1%
Growth Analysis											
Revenue	5%	17%	-9%	12%	6%	16%	22%	51%	37%	32%	20%
Gross profit	-2%	-8%	13%	-12%	-2%	-5%	-37%	-15%	39%	-7%	33%
Net profit	-13%	-19%	5%	-36%	-15%	-16%	-71%	-35%	21%	-32%	35%

Source: Company data, CMBIS

Valuation

Upgrade to BUY with new TP HK\$15.0 (29% upside)

Backed by upbeat guidance with 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.

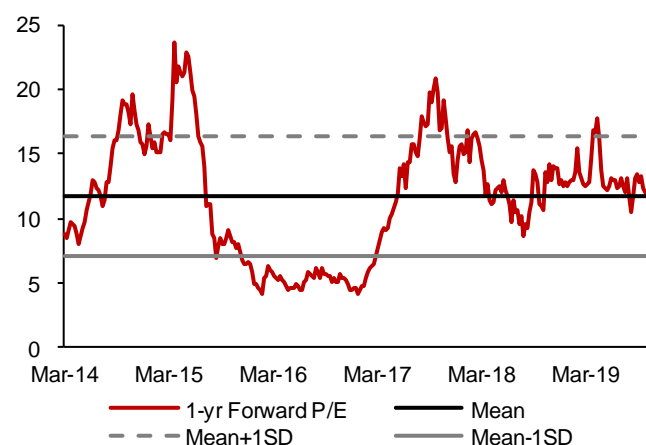
We upgraded the stock to BUY from Hold and raised TP to HK\$15.0, based on 15x upcycle FY20E P/E (vs prev. 10x P/E). Upcoming catalysts include 5G product launches and order wins. Upcoming catalysts include China 5G launch, margin recovery and Huawei flagship launches.

Figure 7: 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	3,684	11.62	15.0	29%	15.7	11.6	1.7	1.6	8.8	10.8
Tongda	698 HK	Buy	529	0.64	0.9	42%	5.0	4.2	0.6	0.5	11.7	12.8
AAC Tech	2018 HK	Sell	7,376	48.65	29.6	-39%	27.0	20.5	2.7	2.5	9.9	12.0
TK Group	2283 HK	Buy	379	3.55	4.1	15%	7.7	6.4	2.3	2.3	29.7	35.7
Ju Teng	3336 HK	NR	274	1.84	NA	NA	9.8	7.5	0.4	0.4	2.5	4.1
Everwin	300115 CH	NR	1,872	14.22	NA	NA	34.8	26.6	2.8	2.6	8.2	9.9
Lens Tech	300433 CH	NR	7,296	13.11	NA	NA	31.7	22.9	2.7	2.4	9.9	12.5
Foxconn	2354 TT	NR	3,041	65.40	NA	NA	11.2	10.5	0.8	0.7	8.0	7.9
Casetek	5264 TT	NR	773	57.30	NA	NA	95.1	17.0	0.7	0.7	0.7	3.7
Catcher	2474 TT	NR	6,562	258.00	NA	NA	13.6	10.7	1.3	1.2	9.3	11.7
Average							25.2	13.9	1.6	1.5	9.9	12.1

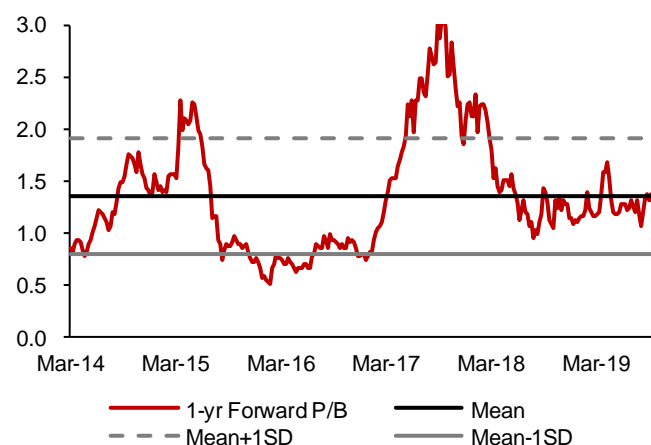
Source: Bloomberg, CMBIS

Figure 8: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 9: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	38,774	41,047	54,252	65,158	73,589
COGS	(34,510)	(36,875)	(50,368)	(60,006)	(67,422)
Gross profit	4,264	4,172	3,883	5,152	6,166
Selling and marketing	(229)	(229)	(299)	(391)	(442)
Administrative	(434)	(536)	(686)	(847)	(957)
R&D	(1,201)	(1,589)	(1,968)	(2,378)	(2,686)
Other operating exp.					
Operating profit	2,400	1,818	930	1,536	2,082
Financial cost	(44)	(43)	(41)	(41)	(41)
Other income/(losses)	636	760	812	837	837
Pre-tax profit	2,992	2,536	1,701	2,332	2,878
Tax	(407)	(347)	(206)	(317)	(391)
Minority interest	-	-	-	-	-
Net profit	2,585	2,189	1,495	2,015	2,487

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before taxation	2,992	2,536	1,701	2,332	2,878
Depreciation	1,594	1,926	2,236	2,739	3,307
Change in working capital	(2,539)	608	(664)	(1,270)	(235)
Others	(184)	(289)	(165)	(276)	(351)
Net cash from operating	1,863	4,781	3,108	3,525	5,599
Capex	(2,127)	(2,276)	(3,871)	(4,649)	(5,251)
Other	312	(16)	-	-	-
Net cash from investing	(1,816)	(2,292)	(3,871)	(4,649)	(5,251)
Dividend paid	(155)	(518)	(300)	(403)	(497)
Other	(44)	(43)	(41)	(41)	(41)
Net cash from financing	(200)	(561)	(341)	(444)	(538)
Net change in cash	(152)	1,928	(1,104)	(1,568)	(190)
Cash at beginning of the year	2,966	2,822	4,741	3,638	2,069
Exchange difference	8	(9)	-	-	-
Cash at the end of the year	2,822	4,741	3,638	2,069	1,880

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	16,641	17,089	28,745	21,685	32,597
Cash & equivalents	2,822	4,741	3,638	2,069	1,880
Account receivables	8,556	7,209	17,907	12,258	21,810
Inventories	4,608	4,768	6,829	6,987	8,536
Short-term bank deposits	-	-	-	-	-
Other current assets	655	371	371	371	371
Non-current assets	7,950	8,147	9,634	11,370	13,137
PPE	7,431	7,634	9,269	11,179	13,123
Deferred income tax	226	128	128	128	128
Other non-current assets	293	385	236	63	(114)
Total assets	24,591	25,236	38,378	33,056	45,734
Current liabilities	11,088	10,062	22,157	15,396	26,262
Deferred income	75	16	16	16	16
Account payables	8,983	7,892	19,987	13,226	24,092
Tax payable	173	30	30	30	30
Other current liabilities	1,856	2,123	2,123	2,123	2,123
Non-current liabilities	107	164	164	164	164
Deferred income	81	120	120	120	120
Deferred tax liability	26	45	45	45	45
Total liabilities	11,195	10,226	22,321	15,560	26,426
Share capital	4,052	4,052	4,052	4,052	4,052
Reserves	10,139	11,773	12,968	14,580	16,569
Minority interest					
Shareholders' equity	14,191	15,825	17,020	18,632	20,622
Total equity and liabilities	25,386	26,051	39,342	34,193	47,048

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Phone and PC components	45	44	35	31	29
Assembly services	55	43	48	50	49
New intelligent products	-	11	13	14	17
Auto intelligent systems	-	3	4	4	5
Growth (%)					
Revenue	5.6	5.9	32.2	20.1	12.9
Gross profit	52.3	(2.2)	(6.9)	32.7	19.7
Operating profit	123.4	(24.2)	(48.9)	65.2	35.6
Net profit	109.6	(15.3)	(31.7)	34.7	23.4
Profit & loss ratio (%)					
Gross margin	11.0	10.2	7.2	7.9	8.4
Operating margin	6.2	4.4	1.7	2.4	2.8
Net profit margin	6.7	5.3	2.8	3.1	3.4
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.5	1.7	1.3	1.4	1.2
Receivable turnover days	84	70	84	84	84
Inventory turnover days	42	46	42	42	42
Payable turnover days	101	84	101	101	101
Profitability (%)					
ROE	18.2	13.8	8.8	10.8	12.1
ROA	10.5	8.7	3.9	6.1	5.4
Per share data (RMB)					
EPS	1.15	0.97	0.66	0.89	1.10
DPS	0.23	0.20	0.13	0.18	0.22

Source: Company data, CMBIS estimates

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HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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