

BYD Electronics (285 HK)

1Q22 profit warning; Headwinds to persist into 2Q22

BYDE reported 1Q22 profit warning, stating net profit to decline 75-85% YoY in 1Q22. Mid-point of net profit at RMB162mn accounted for 6%/5% of our/consensus FY22E estimates, which is well below expectations. BYDE attributed the miss to 1) weak customer demand and low utilization, and 2) tightened COVID-19 control on production bases in Xi'an, Shenzhen and Huizhou. As [stated](#) earlier, we believe 1H22 will remain challenging for BYDE, due to Android weakness (55% of sales), slower iPad/e-cigarette ramp and margin pressure amid industry slowdown. Recent COVID-19 impact on Shanghai/ Kunshan will also disrupt supply chain and consumer demand in 2Q22E. We cut FY22-24E EPS by 14-30% to reflect 1Q22 miss, COVID-19 impact and lower margins. Our FY22-24E EPS are 12-40% below consensus. Maintain HOLD.

- 1Q22 profit warning on weak demand and COVID-19 impact.** BYDE's 1Q22 net profit decline of 75-85% is below expectation, as mid-point of the range only accounted for 6%/5% of our/consensus FY22E NP estimate. While weak Android demand in 1H22E is well anticipated, we believe COVID-19 impact on production and supply chain in Xi'an (early Jan), Shenzhen (late March) and Huizhou (mid-March) was worse than expected. In particular, we estimate BYDE's production base in Xi'an accounted for 40% of its total OEM capacity (another major OEM plant in Changsha).
- 2Q22/2022 outlook: Android weakness and COVID-19 disruption.** In view of recent COVID-19 impact in Shanghai/Kunshan and partial lockdown in Xi'an, we expect production impact will continue to drag BYDE's earnings in 2Q22E. We estimate 1H22E revenue to drop 27% YoY, mainly driven by 34% YoY decline in assembly/component (76% of sales). Overall, we estimate 1H22E net profit will remain under pressure with 57% YoY decline, given our conservative GPM (6.1%, vs 6.9% in 1H21).
- Our FY22-24E EPS are 12-40% below consensus; Maintain HOLD.** While we remain positive on BYDE's share gain upside in Apple OEM/ components and expansion into automotive segment, we cut FY22-24E EPS by 14-30% to reflect Android weakness and GPM pressure amid COVID-19 impact. Our new SOTP-based TP of HK\$12.45 implies 13.1x FY22E P/E. We think current valuation of 15.4x FY22E P/E is fair due to lower earnings visibility amid COVID-19 headwinds.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	73,121	89,057	78,716	92,982	106,314
YoY growth (%)	37.9	21.8	(11.6)	18.1	14.3
Net income (RMB mn)	5,441	2,310	1,781	3,005	4,348
EPS (RMB)	2.41	1.03	0.79	1.33	1.93
YoY growth (%)	240.6	(57.5)	(22.9)	68.8	44.7
Consensus EPS (RMB)	NA	1.29	1.32	1.82	2.19
P/E (x)	5.0	11.9	15.4	9.1	6.3
P/B (x)	1.8	1.7	1.6	1.4	1.2
Yield (%)	2.0	0.8	0.6	1.1	1.6
ROE (%)	24.4	9.6	6.9	10.6	13.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **HK\$12.45**
 (Previous TP **HK\$17.98**)
 Up/Downside **-15%**
 Current Price **HK\$14.7**

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	33,933
Avg. 3mths t/o (HK\$m)	178.61
52W High/Low (HK\$)	55.00/ 14.48
Total Issued Shares (mn)	2,253

Source: Bloomberg

Shareholding Structure

Golden Link Worldwide Ltd	65.76%
Gold Dragonfly Ltd	4.98%
Vanguard Group	1.25%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-20.0%	-20.4%
3-mth	-42.6%	-35.7%
6-mth	-39.4%	-28.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related reports:

- Margin pressure remains an overhang; Maintain HOLD – 31 Mar 2022
- Industry headwinds to persist into 4Q; D/G to HOLD – 1 Nov 2021

1Q22 Results review

Figure 1: Quarterly results review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22E	YoY	QoQ	CMBI	1Q22	Consensus	1Q22
								FY22E	% Track	FY22E	% Track
Revenue	19,890	24,641	21,404	23,122	14,844	-25%	-36%	88,016	17%	106,687	14%
Gross profit	1282	1779	1543	1425	905	-29%	-36%	6,679	14%	8,107	11%
Net profit	808	835	514	153	162	-80%	6%	2,559	6%	2,970	5%
EPS (RMB)	0.36	0.37	0.23	0.07	0.07	-80%	10%	1.14	6%	1.32	5%
Gross margin	6.4%	7.2%	7.2%	6.2%	6.1%	-0.3 ppt	-0.1 ppt	7.6%		7.6%	
Net margin	4.1%	3.4%	2.4%	0.7%	1.1%	-3 ppt	0.4 ppt	2.9%		2.8%	
Revenue (YoY)	132.2%	8.0%	6.3%	7.0%	-25.4%						
Gross profit (YoY)	20.4%	-41.4%	-54.4%	-33.5%	-29.4%						
Net profit (YoY)	22.9%	-54.0%	-72.4%	-86.2%	-80.0%						

Source: Company data, Bloomberg, CMBIGM estimates

Earnings Revision

Figure 2: Earnings revision

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	78,716	92,982	106,314	88,016	98,636	112,893	-11%	-6%	-6%
Gross Profit	5,619	7,790	10,048	6,679	8,421	10,875	-16%	-8%	-8%
Operating Profit	1,290	2,676	4,201	1,838	2,996	4,666	-30%	-11%	-10%
Net profit	1,781	3,005	4,348	2,559	3,579	5,048	-30%	-16%	-14%
EPS (RMB)	0.79	1.33	1.93	1.14	1.59	2.24	-30%	-16%	-14%
Gross Margin	7.1%	8.4%	9.5%	7.6%	8.5%	9.6%	-0.4 ppt	-0.2 ppt	-0.2 ppt
Operating Margin	1.6%	2.9%	4.0%	2.1%	3.0%	4.1%	-0.4 ppt	-0.2 ppt	-0.2 ppt
Net Margin	2.3%	3.2%	4.1%	2.9%	3.6%	4.5%	-0.6 ppt	-0.4 ppt	-0.4 ppt

Sources: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	78,716	92,982	106,314	106,687	125,179	134,751	-26%	-26%	-21%
Gross Profit	5,619	7,790	10,048	8,107	10,094	10,793	-31%	-23%	-7%
Operating Profit	1,290	2,676	4,201	2,931	4,476	5,161	-56%	-40%	-19%
Net profit	1,781	3,005	4,348	2,970	4,168	4,934	-40%	-28%	-12%
EPS (RMB)	0.79	1.33	1.93	1.32	1.82	2.19	-40%	-27%	-12%
Gross Margin	7.1%	8.4%	9.5%	7.6%	8.1%	8.0%	-0.5 ppt	0.3 ppt	1.4 ppt
Operating Margin	1.6%	2.9%	4.0%	2.7%	3.6%	3.8%	-1.1 ppt	-0.7 ppt	0.1 ppt
Net Margin	2.3%	3.2%	4.1%	2.8%	3.3%	3.7%	-0.5 ppt	-0.1 ppt	0.4 ppt

Source: Company data, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
Assembly	31,152	55,977	20,000	23,500	43,500	50,000	52,000
... YoY	16%	80%	-34%	-8%	-22%	15%	4%
Component (metal/glass/plastic)	17,576	15,655	4,673	7,977	12,650	11,530	10,514
... YoY	-5%	-11%	-34%	-7%	-19%	-9%	-9%
Metal	10,996	8,087	4,253	3,051	7,304	5,970	5,517
Plastic	4,566	3,789	1,132	2,089	3,221	2,577	2,319
Glass/ceramic	3,000	5,700	1,725	3,405	5,130	4,104	3,694
Masks	13,100	1,697	201	409	610	209	84
... YoY		-87%	-69%	-61%	-64%	-66%	-60%
New intelligent	9,476	12,445	5,515	10,032	15,547	20,989	28,335
... YoY	57%	31%	10%	35%	25%	35%	35%
E-cigarette	1,000	1,000	300	1,280	1,580	2,686	4,566
		0%	50%	60%	58%	70%	70%
Auto intelligent	1,817	3,770	2,193	4,216	6,409	10,254	15,382
... YoY	14%	107%	70%	70%	70%	60%	50%
Total	73,121	89,544	32,582	46,134	78,716	92,982	106,314
... YoY	38%	22%	-27%	4%	-12%	18%	14%

Source: Company data, CMBIGM estimates

Figure 5: P&L forecast

RMB mn	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
Revenue	73,121	89,057	32,582	46,134	78,716	92,982	106,314
... YoY	37.9%	21.8%	-26.8%	3.6%	-11.6%	18.1%	14.3%
Cost of sales	(63,492)	(83,028)	(30,588)	(42,509)	(73,097)	(85,192)	(96,266)
Gross profit	9,629	6,029	1,994	3,625	5,619	7,790	10,048
GPM (%)	13%	7%	6%	8%	7%	8%	9%
... YoY	143.3%	-37.4%	-34.8%	22.1%	-6.8%	38.6%	29.0%
SG&A	(910)	(1,316)	(424)	(830)	(1,181)	(1,395)	(1,595)
...% of rev	1%	1%	1%	2%	2%	2%	2%
R&D	(2,913)	(3,308)	(1,140)	(1,891)	(3,149)	(3,719)	(4,253)
...% of rev	4%	4%	4%	4%	4%	4%	4%
Operating profit	5,806	1,405	430	903	1,290	2,676	4,201
OPM (%)	8%	2%	1%	2%	2%	3%	4%
... YoY	484%	-76%	-59%	149%	-8%	107%	57%
Net profit	5,441	2,310	707	1,117	1,781	3,005	4,348
NPM (%)	7%	3%	2%	2%	2%	3%	4%
... YoY	241%	-58%	-57%	68%	-23%	69%	45%

Source: Company data, CMBIGM estimates

Valuation

Maintain HOLD with lowered TP HK\$12.45

We retain Hold with new TP HK\$ 12.45 to reflect lowered EPS forecasts. We derive our TP based on SOTP valuation to reflect BYDE's business diversification with different growth profiles and visibility.

Our TP is based on weighted-average target P/E multiple of 13.1x FY21E EPS. We assign 10x P/E to its assembly EMS business and 10x P/E for component/e-cigarette business, in-line with TW/HK-listed peers. We assign 8x for mask business to reflect its near-term growth potential amid COVID-19 outbreak.

Figure 6: BYDE – SOTP valuation

Business segment	% of FY22E Profit	FY22E EPS (RMB)	Target P/E
Assembly	10%	0.08	10x
Components	26%	0.21	10x
Masks	2%	0.01	8x
Others (smart, auto)	62%	0.49	15x
Total (RMB) /Implied P/E		0.79	13.1x
TP (HK\$)			12.45

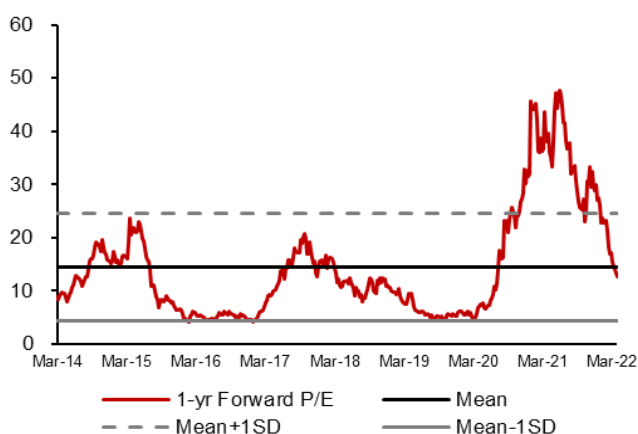
Sources: Company data, CMBIGM estimates

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 (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
BYDE	285 HK	Hold	4,286	14.768	12.45	-15%	15.4	9.1	1.6	1.4	6.9	10.6
Tongda	698 HK	Buy	169	0.14	0.23	69%	2.7	2.3	0.1	0.1	3.8	4.3
AAC Tech	2018 HK	Hold	2,628	17.06	23.4	37%	14.2	12.0	0.8	0.8	5.6	6.5
TK Group	2283 HK	Buy	261	2.46	3.4	37%	6.0	4.7	1.1	1.0	18.6	20.7
Ju Teng	3336 HK	NR	200	1.31	NA	NA	6.6	4.5	0.2	0.2	3.5	5.0
Everwin	300115 CH	NR	1,621	8.60	NA	NA	9.3	6.7	1.4	1.2	13.7	16.4
Lens Tech	300433 CH	NR	8,250	10.57	NA	NA	8.6	6.9	1.0	0.9	12.8	14.2
Foxconn	2354 TT	NR	2,924	60.40	NA	NA	13.2	11.7	0.7	0.7	-	-
Catcher	2474 TT	NR	3,684	147.50	NA	NA	13.3	12.6	0.7	0.7	5.3	5.5
Average							10.1	7.9	0.8	0.7	8.8	10.4

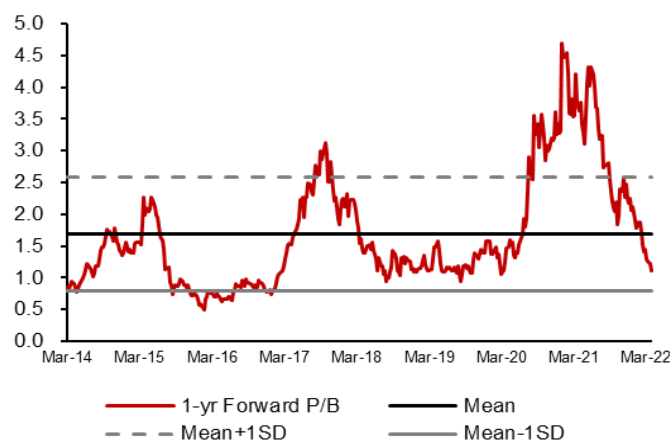
Source: Bloomberg, CMBIGM estimates

Figure 8: 12M forward P/E band



Source: Bloomberg, CMBIGM estimates

Figure 9: 12M forward P/B band



Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	73,121	89,057	78,716	92,982	106,314
COGS	(63,492)	(83,028)	(73,097)	(85,192)	(96,266)
Gross profit	9,629	6,029	5,619	7,790	10,048
Selling and marketing	(237)	(275)	(236)	(279)	(319)
Administrative	(673)	(1,041)	(945)	(1,116)	(1,276)
R&D	(2,913)	(3,308)	(3,149)	(3,719)	(4,253)
Other operating exp.					
Operating profit	5,806	1,405	1,290	2,676	4,201
Financial cost	(71)	(43)	(43)	(43)	(43)
Other income/(losses)	487	1,104	783	783	783
Pre-tax profit	6,221	2,465	2,029	3,415	4,941
Tax	(779)	(155)	(249)	(410)	(593)
Minority interest	-	-	-	-	-
Net profit	5,441	2,310	1,781	3,005	4,348

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	6,221	2,465	2,029	3,415	4,941
Depreciation	1,760	1,717	1,905	2,127	2,381
Change in working capital	(4,745)	(2,228)	2,754	(5,283)	2,899
Others	(27)	(187)	(205)	(366)	(550)
Net cash from operating	3,209	1,768	6,483	(107)	9,672
Capex	(2,795)	(3,206)	(2,834)	(3,347)	(3,827)
Other	(186)	-	-	-	-
Net cash from investing	(2,981)	(3,206)	(2,834)	(3,347)	(3,827)
Dividend paid	(160)	(231)	(178)	(301)	(435)
Other	1,730	(43)	(43)	(43)	(43)
Net cash from financing	1,570	(274)	(221)	(344)	(478)
Net change in cash	1,799	(1,712)	3,428	(3,798)	5,366
Cash at beginning of the year	1,651	3,466	2,825	6,252	2,454
Exchange difference	16	1,071	-	-	-
Cash at the end of the year	3,466	2,825	6,252	2,454	7,820

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	26,069	27,630	25,741	33,244	32,856
Cash & equivalents	3,466	2,825	6,252	2,454	7,820
Account receivables	14,391	9,240	10,439	12,807	13,772
Inventories	6,891	10,567	4,052	12,986	6,267
Short-term bank deposits	-	-	-	-	-
Other current assets	1,320	4,998	4,998	4,998	4,998
Non-current assets	10,825	12,314	13,158	14,267	15,582
PPE	9,693	11,182	12,110	13,330	14,776
Deferred income tax	-	201	201	201	201
Other non-current assets	1,132	931	847	736	604
Total assets	36,894	39,944	38,899	47,512	48,438
Current liabilities	14,840	16,220	13,657	19,676	16,821
Deferred income					
Account payables	8,146	11,724	9,161	15,180	12,325
Tax payable	57	184	184	184	184
Other current liabilities	6,636	4,312	4,312	4,312	4,312
Non-current liabilities	864	928	928	928	928
Deferred income	147	150	150	150	150
Deferred tax liability	313	404	404	404	404
Total liabilities	15,704	17,148	14,585	20,604	17,749
Share capital	4,052	4,052	4,052	4,052	4,052
Reserves	18,220	19,975	21,577	24,282	28,195
Minority interest					
Shareholders' equity	22,272	24,027	25,630	28,334	32,248
Total equity and liabilities	37,976	41,175	40,215	48,938	49,996

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Phone and PC components	24	17	16	12	10
Assembly services	43	63	55	54	49
Masks	18	2	1	0	0
New intelligent products	13	14	20	23	27
Auto intelligent systems	2	4	8	11	14
Growth (%)					
Revenue	37.9	21.8	(11.6)	18.1	14.3
Gross profit	143.3	(37.4)	(6.8)	38.6	29.0
Operating profit	484.3	(75.8)	(8.2)	107.5	57.0
Net profit	240.6	(57.5)	(22.9)	68.8	44.7
Profit & loss ratio (%)					
Gross margin	13.2	6.8	7.1	8.4	9.5
Operating margin	7.9	1.6	1.6	2.9	4.0
Net profit margin	7.4	2.6	2.3	3.2	4.1
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.8	1.7	1.9	1.7	2.0
Receivable turnover days	52	49	46	46	46
Inventory turnover days	41	38	37	37	37
Payable turnover days	52	52	52	52	52
Profitability (%)					
ROE	24.4	9.6	6.9	10.6	13.5
ROA	14.7	5.8	4.6	6.3	9.0
Per share data (RMB)					
EPS	2.41	1.03	0.79	1.33	1.93
DPS	0.24	0.10	0.08	0.13	0.19

Source: Company data, CMBIGM estimates

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