

# BYD Company (1211 HK)

## Solid 2Q23 earnings quality; Eyes on upmarket

**Maintain HOLD.** BYD's 2Q23 net profit beat our prior forecast on GPM, forex gains and government grants. We view its earnings quality as solid given its accounting policies. We believe going upmarket could be key to its sales growth and margins, although it appears that sales volume for BYD's three premium brands may not be large enough to help BYD outperform the NEV market in 2024.

- **Solid 2Q23 earnings quality.** BYD's 2Q23 net profit of RMB 6.8bn was in line with its previous profit alert and RMB 2.4bn higher than our prior forecast. Excluding BYD's forex gain and government grants, its 2Q23 net profit was still RMB 0.9bn higher than our estimates, mainly due to its strong GPM of 18.7% in 2Q23. The QoQ GPM lift amid price war has reflected BYD's superb cost control capabilities, benefited from greater economies of scale. Although capex remained high, BYD expensed 97% of R&D investments in 1H23.
- **Premiumization could be key to sales growth and margins.** Exports, autonomous driving and premiumization were investors' major concerns during the NDR held by us. Management prefers value-for-money ADAS to facilitate driving for the foreseeable future. The company also aims to double its exports to 0.4mn units in 2024, with plans to build one plant in Europe and one in Brazil. BYD's path to go upmarket is still a bit uncertain to us, as it launched a very successful *Denza D9*, followed by the *N7* and *N8* priced more expensive than expected, in our view.
- **2H23 and FY24 earnings outlook.** We maintain our FY23E sales volume forecast of 2.93mn units but raise FY23E GPM to 18.4%. We project 2H23E net profit to rise 59% HoH to RMB 17.4bn. FY24 earnings forecast could be tricky, in our view. We assume BYD follows its current R&D capitalization ratio, with sales volume of 3.4mn units, 0.4mn of which is from Denza, Yangwang and Fangchengbao. Accordingly, we project BYD's FY24E net profit to rise 8% YoY to RMB 30.6bn. Such figure could be much higher, should BYD increase its R&D capitalization ratio or decelerate its depreciation.
- **Earnings/Valuation.** We maintain our HOLD rating and target price of HK\$ 240, based on 21x (prior 25x) our FY24E P/E. We are of the view that BYD's current P/E is fair, given Tesla's (TSLA US, NR) current 47x FY24E P/E and Li Auto's 17x FY24E P/E. 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	611,500	716,548	789,555
YoY growth (%)	38.0	96.2	44.2	17.2	10.2
Net income (RMB mn)	3,045	16,622	28,318	30,574	32,941
EPS (RMB)	1.06	5.71	9.73	10.50	11.32
YoY growth (%)	(28.1)	445.9	70.4	8.0	7.7
P/E (x)	205.8	38.2	22.4	20.8	19.3
P/B (x)	6.7	5.7	4.7	3.9	3.4
Yield (%)	0.1	0.6	0.9	0.9	1.0
ROE (%)	4.0	16.1	22.9	20.6	18.9
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\$ 240.00)
Up/Downside	+0.9%
Current Price	HK\$ 237.80

### China Auto Sector

#### SHI Ji, CFA

(852) 3761 8728  
shiji@cmbi.com.hk

#### DOU Wenjing, CFA

(852) 6939 4751  
douwenjing@cmbi.com.hk

#### GU Sijie

jasongu@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	692,270
Avg 3 mths t/o (HK\$ mn)	1,742
52w High/Low (HK\$)	280.60/161.70
Total Issued Shares (mn)	2,911
Source: Bloomberg	

### Shareholding Structure

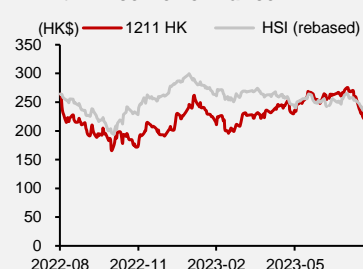
Wang Chuanfu	17.6%
Lv Xiangyang	8.2%
Others	74.1%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-12.3%	-5.1%
3-mth	1.1%	-0.3%
6-mth	7.1%	16.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Ernst & Young

### Related Reports

"BYD Company – BYD Company (1211 HK) – 2Q23E preview: net profit to rise 7% QoQ" – 3 Jul 2023

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ
Sales volume (units)	291,378	355,021	538,704	683,440	552,076	703,561	98.2%	27.4%
Revenue	66,825	83,782	117,081	156,373	120,174	139,951	67.0%	16.5%
Gross profit	8,287	12,054	22,199	29,704	21,467	26,206	117.4%	22.1%
R&D expenses	(2,361)	(3,064)	(5,446)	(7,784)	(6,238)	(7,597)	148.0%	21.8%
SG&A expenses	(3,680)	(4,713)	(7,372)	(9,302)	(8,014)	(9,643)	104.6%	20.3%
Operating profit	1,061	3,561	7,460	9,459	5,299	8,433	136.8%	59.1%
Net profit	808	2,787	5,713	7,314	4,130	6,824	144.9%	65.2%
Gross margin	12.4%	14.4%	19.0%	19.0%	17.9%	18.7%	4.3 ppt	0.9 ppt
Operating margin	1.6%	4.3%	6.4%	6.0%	4.4%	6.0%	1.8 ppt	1.6 ppt
Net margin	1.2%	3.3%	4.9%	4.7%	3.4%	4.9%	1.5 ppt	1.4 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	611,500	716,548	789,555	600,266	661,564	710,709	1.9%	8.3%	11.1%
Gross Profit	112,724	130,574	142,199	103,095	109,610	115,502	9.3%	19.1%	23.1%
Operating Profit	36,080	39,668	42,621	28,798	32,884	34,916	25.3%	20.6%	22.1%
Net profit	28,318	30,574	32,941	22,837	25,974	27,523	24.0%	17.7%	19.7%
Gross Margin	18.4%	18.2%	18.0%	17.2%	16.6%	16.3%	1.3 ppt	1.7 ppt	1.8 ppt
Operating Margin	5.9%	5.5%	5.4%	4.8%	5.0%	4.9%	1.1 ppt	0.6 ppt	0.5 ppt
Net Margin	4.6%	4.3%	4.2%	3.8%	3.9%	3.9%	0.8 ppt	0.3 ppt	0.3 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	611,500	716,548	789,555	628,575	776,551	939,452	-2.7%	-7.7%	-16.0%
Gross Profit	112,724	130,574	142,199	106,833	134,957	166,659	5.5%	-3.2%	-14.7%
Operating Profit	36,080	39,668	42,621	31,899	43,422	58,019	13.1%	-8.6%	-26.5%
Net profit	28,318	30,574	32,941	24,381	31,999	42,156	16.2%	-4.5%	-21.9%
Gross Margin	18.4%	18.2%	18.0%	17.0%	17.4%	17.7%	1.4 ppt	0.8 ppt	0.3 ppt
Operating Margin	5.9%	5.5%	5.4%	5.1%	5.6%	6.2%	0.8 ppt	-0.1 ppt	-0.8 ppt
Net Margin	4.6%	4.3%	4.2%	3.9%	4.1%	4.5%	0.8 ppt	0.1 ppt	-0.3 ppt

Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>216,142</b>	<b>424,061</b>	<b>611,500</b>	<b>716,548</b>	<b>789,555</b>
Cost of sales	(187,998)	(351,816)	(498,776)	(585,974)	(647,356)
<b>Gross profit</b>	<b>28,145</b>	<b>72,245</b>	<b>112,724</b>	<b>130,574</b>	<b>142,199</b>
Selling exp.	(6,082)	(15,061)	(24,446)	(29,716)	(33,346)
Admin exp.	(5,710)	(10,007)	(15,713)	(18,562)	(19,944)
R&D exp.	(7,991)	(18,654)	(29,890)	(34,300)	(35,280)
Others	(3,730)	(6,981)	(6,596)	(8,328)	(11,007)
<b>Operating profit</b>	<b>4,632</b>	<b>21,542</b>	<b>36,080</b>	<b>39,668</b>	<b>42,621</b>
Non-operating income	338	527	750	800	850
Non-operating expenses	(452)	(989)	(1,400)	(1,500)	(1,550)
<b>Pre-tax profit</b>	<b>4,518</b>	<b>21,080</b>	<b>35,430</b>	<b>38,968</b>	<b>41,921</b>
Tax	(551)	(3,367)	(5,502)	(6,184)	(6,638)
Minority interests	(922)	(1,091)	(1,609)	(2,210)	(2,342)
<b>Net profit</b>	<b>3,045</b>	<b>16,622</b>	<b>28,318</b>	<b>30,574</b>	<b>32,941</b>

### Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profit before taxation</b>	<b>4,518</b>	<b>21,080</b>	<b>35,430</b>	<b>38,968</b>	<b>41,921</b>
Depreciation/amortization	14,108	20,370	39,034	47,194	54,675
Change in working capital	44,083	97,849	95,472	24,046	(2,251)
Others	2,757	1,539	(2,292)	(2,787)	(3,767)
<b>Net cash from operating</b>	<b>65,467</b>	<b>140,838</b>	<b>167,644</b>	<b>107,421</b>	<b>90,578</b>
Capex	(37,344)	(97,457)	(112,860)	(86,900)	(60,920)
Others	(8,060)	(23,139)	(5,460)	(7,460)	(9,460)
<b>Net cash from investing</b>	<b>(45,404)</b>	<b>(120,596)</b>	<b>(118,320)</b>	<b>(94,360)</b>	<b>(70,380)</b>
Share issuance	37,314	-	-	-	-
Net borrowings	(17,006)	(16,413)	9,076	3,500	-
Others	(4,245)	(3,076)	(6,982)	(8,483)	(8,976)
<b>Net cash from financing</b>	<b>16,063</b>	<b>(19,489)</b>	<b>2,094</b>	<b>(4,983)</b>	<b>(8,976)</b>
<b>Net change in cash</b>	<b>36,125</b>	<b>753</b>	<b>51,418</b>	<b>8,078</b>	<b>11,222</b>
Cash at beginning of the year	13,738	49,820	51,182	102,600	110,678
Exchange difference	(44)	610	-	-	-
<b>Cash at end of the year</b>	<b>49,820</b>	<b>51,182</b>	<b>102,600</b>	<b>110,678</b>	<b>121,901</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Current assets</b>	<b>166,110</b>	<b>240,804</b>	<b>314,520</b>	<b>361,027</b>	<b>413,860</b>
Cash & equivalents	50,457	51,471	103,600	111,678	122,901
Account receivables	44,994	51,723	49,004	58,894	73,007
Inventories	43,355	79,107	98,389	120,406	141,886
Other current assets	27,304	58,502	63,528	70,048	76,066
<b>Non-current assets</b>	<b>129,670</b>	<b>253,057</b>	<b>337,340</b>	<b>388,286</b>	<b>407,027</b>
PP&E	61,221	131,880	209,091	236,327	254,143
Intangibles	17,171	23,289	24,924	24,703	22,642
Investment in JVs & assos	7,905	15,485	18,165	21,045	24,025
Other non-current assets	43,373	82,402	85,159	106,211	106,217
<b>Total assets</b>	<b>295,780</b>	<b>493,861</b>	<b>651,860</b>	<b>749,313</b>	<b>820,887</b>
<b>Current liabilities</b>	<b>171,304</b>	<b>333,345</b>	<b>452,214</b>	<b>520,688</b>	<b>563,271</b>
Bank borrowings	10,204	5,153	-	-	-
Account payables	73,160	140,437	213,175	241,373	258,056
Contract Liabilities	14,934	35,517	54,660	56,189	10,641
Other current liabilities	73,006	152,238	184,379	223,126	294,574
<b>Non-current liabilities</b>	<b>20,232</b>	<b>39,126</b>	<b>51,646</b>	<b>53,566</b>	<b>53,510</b>
Bank borrowings	8,744	7,594	20,094	20,094	19,094
Bond payables	2,046	-	-	1,000	2,000
Other non-current liabilities	9,442	31,533	31,553	32,473	32,416
<b>Total liabilities</b>	<b>191,536</b>	<b>372,471</b>	<b>503,861</b>	<b>574,254</b>	<b>616,781</b>
Share capital	2,911	2,911	2,911	2,911	2,911
Reserves	92,159	108,118	133,212	158,222	185,149
Non-controlling interests	9,175	10,361	11,876	13,925	16,046
<b>Shareholders' equity</b>	<b>95,070</b>	<b>111,029</b>	<b>136,123</b>	<b>161,134</b>	<b>188,060</b>
<b>Total equity and liabilities</b>	<b>295,780</b>	<b>493,861</b>	<b>651,860</b>	<b>749,313</b>	<b>820,887</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Automobile	52.0	76.6	75.6	76.4	76.2
Handset	40.0	23.3	18.1	17.7	18.1
Battery & others	8.0	0.1	6.3	5.9	5.8
<b>Growth (%)</b>					
Revenue	38.0	96.2	44.2	17.2	10.2
Gross profit	(7.3)	156.7	56.0	15.8	8.9
Operating profit	(34.6)	365.1	67.5	9.9	7.4
Net profit	(28.1)	445.9	70.4	8.0	7.7
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	13.0	17.0	18.4	18.2	18.0
Operating margin	2.1	5.1	5.9	5.5	5.4
Net profit margin	1.4	3.9	4.6	4.3	4.2
<b>Balance sheet ratio</b>					
Net cash/total equity (x)	0.2	0.3	0.5	0.5	0.4
Current ratio (x)	1.0	0.7	0.7	0.7	0.7
Receivable turnover days	94	58	39	40	45
Inventory turnover days	84	82	72	75	80
Payable turnover days	156	149	160	155	150
<b>Profitability (%)</b>					
ROE	4.0	16.1	22.9	20.6	18.9
ROA	1.2	4.2	4.9	4.4	4.2
<b>Per share data (RMB)</b>					
EPS	1.06	5.71	9.73	10.50	11.32
DPS	0.11	1.14	1.95	2.10	2.26

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

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

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.