

BYD Electronics (285 HK)

FY20 in-line; Reiterate BUY with multiple drivers ahead

BYDE reported FY20 revenue/net profit growth of 38%/241% YoY. Earnings was in-line given stronger GPM, and revenue was 4%/7% below our/consensus estimate, due to weaker casing (Huawei) and mask demand in 4Q20. Looking into 2021, we remain positive on BYDE as the major beneficiary of industry consolidation and Apple/ Xiaomi's supplier diversification strategy. We slightly adjusted our EPS to reflect lower mask demand, e-cigarette sales and higher share gain from Xiaomi/iPad. Our new SOTP-based TP of HK\$56.2 implies 17.9x FY21E P/E. Reiterate Buy.

- **Results inline despite weaker mask and casing in 4Q20.** 4Q net profit jumped 94% YoY while revenue grew 48% YoY, slightly below our estimates, mainly due to short-term impact from Huawei ban and weaker mask sales on easing COVID-19. Looking ahead, mgmt. targets to achieve RMB100bn revenue in FY21E, thanks to 1) Android demand recovery, 2) share gain in metal/glass front cover, 3) Apple's iPad OEM share gain, and 4) Apple's watch/NB/pad component ramp. Mgmt. believes Xiaomi and Honor will become major drivers from Android clients in 2021.
- **Apple: Share gain in iPad/Watch EMS/components.** Mgmt. expects Apple will become BYDE's largest customer in FY21E (30% of sales). We believe BYDE will expand its iPad share allocation to 30-40% in 2021 (vs 20-30% for one model in FY20, and we estimate Apple revenue will jump 3 times in FY21E. As we believe Apple will continue to diversify component suppliers, we expect BYDE to gain share in iPhone/Watch ceramic products and also penetrate into iPad metal casing and front glass. We forecast Apple revenue will reach RMB50bn in FY23E.
- **Our FY21/22E EPS are 18%/13% above consensus; Reiterate BUY.** We remain positive on BYDE's product roadmap, share gain in major brands and expansion into medical segment. We revised our SOTP-based TP to HK\$56.2 to reflect weaker mask demand but higher sales from Apple and medical segment. Our TP implies an undemanding valuation of 17.9x FY21E P/E. Catalysts include faster share gain, stronger mask and Xiaomi/Apple product launches.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	53,028	73,121	102,033	122,932	151,077
YoY growth (%)	29.2	37.9	39.5	20.5	22.9
Net income (RMB mn)	1,598	5,441	5,878	6,404	7,448
EPS (RMB)	0.71	2.41	2.61	2.84	3.31
YoY growth (%)	(25.5)	240.6	8.0	9.0	16.3
Consensus EPS (RMB)	NA	2.45	2.21	2.51	3.30
P/E (x)	49.6	14.6	13.5	12.4	10.6
P/B (x)	6.8	5.3	4.2	3.5	2.9
Yield (%)	0.2	0.7	0.7	0.8	0.9
ROE (%)	9.4	24.9	21.6	19.4	18.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$56.2
(Previous TP	HK\$49.5)
Up/Downside	+33%
Current Price	HK\$42.40

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	95,423
Avg. 3mths t/o (HK\$m)	642.28
52W High/Low (HK\$)	63.10/ 12.12
Total Issued Shares (mn)	2,253

Source: Bloomberg

Shareholding Structure

Golden Link Worldwide Ltd	65.76%
Gold Dragonfly Ltd	6.08%
Vanguard Group Inc	1.20%

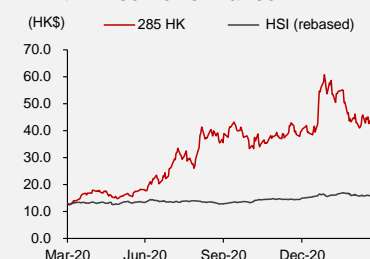
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-2.1%	-0.7%
3-mth	6.3%	1.0%
6-mth	8.7%	-10.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related reports:

1. Partnership with Xiaomi to fuel new wave of growth – 6 Nov 2020
2. Positive profit alert and strong outlook; Reiterate BUY – 14 Oct 2020
3. Multiple growth drivers ahead; Lift TP to HK\$37.7 - 31 Aug 2020

Earnings Revision

Figure 1: FY20 results review

RMB mn	FY18	FY19	FY20	YoY	CMBI		Consensus	
					FY20E	Diff%	FY20E	Diff%
Revenue	41,047	53,028	73,121	38%	76,422	-4%	78,694	-7%
Gross profit	4,172	3,957	9,629	143%	9,702	-1%	10,071	-4%
Operating profit	1,818	994	5,806	484%	5,577	4%	5,943	-2%
Net profit	2,146	1,598	5,441	241%	5,489	-1%	5,513	-1%
EPS (RMB)	0.95	0.71	2.41	241%	2.44	-1%	2.45	-1%
Gross margin	10.2%	7.5%	13.2%	5.7ppt	12.7%	0.5 ppt	12.8%	0.4 ppt
Operating margin	4.4%	1.9%	7.9%	6.1ppt	7.3%	0.6 ppt	7.6%	0.4 ppt
Net margin	5.2%	3.0%	7.4%	4.4ppt	7.2%	0.3 ppt	7.0%	0.4 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Quarterly results review

RMB mn	4Q19	1Q20	2Q20	3Q20	4Q20	CMBI	
						4Q20E	Diff%
Revenue	14,630	8,564	22,822	20,131	21,604	24,904	-13%
Gross profit	1345	1064	3035	3386	2143	2,216	-3%
Net profit	571	657	1815	1862	1107	1,154	-4%
EPS (RMB)	0.25	0.29	0.81	0.82	0.49	0.52	-4%
Growth (YoY)							
Revenue	27%	-18%	77%	33%	48%	70%	
Gross profit	47%	27%	325%	219%	59%	65%	
Net profit	66%	69%	869%	312%	94%	102%	
Margin							
Gross margin	9.2%	12.4%	13.3%	16.8%	9.9%	9%	1 ppt
Net margin	3.9%	7.7%	8.0%	9.2%	5.1%	5%	0.5 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: Earnings revision

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	102,033	122,932	151,077	102,923	130,941	na	-1%	-6%	na
Gross Profit	10,700	12,279	14,788	10,983	12,847	na	-3%	-4%	na
Operating Profit	5,905	6,501	7,687	6,043	6,562	na	-2%	-1%	na
Net profit	5,878	6,404	7,448	6,148	6,627	na	-4%	-3%	na
EPS (RMB)	2.61	2.84	3.31	2.73	2.94	na	-4%	-3%	na
Gross Margin	10.5%	10.0%	9.8%	10.7%	9.8%	na	-0.2 ppt	0.2 ppt	na
Operating Margin	5.8%	5.3%	5.1%	5.9%	5.0%	na	-0.1 ppt	0.3 ppt	na
Net Margin	5.8%	5.2%	4.9%	6.0%	5.1%	na	-0.2 ppt	0.1 ppt	na

Sources: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	102,033	122,932	151,077	101,688	119,964	132,551	0%	2%	14%
Gross Profit	10,700	12,279	14,788	11,027	12,717	14,846	-3%	-3%	0%
Operating Profit	5,905	6,501	7,687	4,893	5,246	7,175	21%	24%	7%
Net profit	5,878	6,404	7,448	4,922	5,527	7,019	19%	16%	6%
EPS (RMB)	2.61	2.84	3.31	2.21	2.51	3.30	18%	13%	0%
Gross Margin	10.5%	10.0%	9.8%	10.8%	10.6%	11.2%	-0.4 ppt	-0.6 ppt	-1.4 ppt
Operating Margin	5.8%	5.3%	5.1%	4.8%	4.4%	5.4%	1 ppt	0.9 ppt	-0.3 ppt
Net Margin	5.8%	5.2%	4.9%	4.8%	4.6%	5.3%	0.9 ppt	0.6 ppt	-0.4 ppt

Source: Company data, CMBIS estimates

Figure 5: Revenue breakdown

RMB mn	1H19	2H19	FY19	1H20	2H20	FY20	FY21E	FY22E	FY23E
Assembly	11,865	14,982	26,847	9,909	21,243	31,152	60,000	74,000	92,000
... YoY	38%	68%	53%	-16%	42%	16%	93%	23%	24%
Phone and PC component	8,056	10,506	18,562	8,615	8,961	17,576	20,452	23,587	27,484
... YoY	-8%	13%	3%	7%	-15%	-5%	16%	15%	17%
Metal	7,995	5,469	13,000	5,528	5,476	10,996		8,785	9,526
Plastic	3,881	1,725	3,512	2,841	1,415	4,566		3,687	3,687
Glass/ceramic	5,700	863	1,500	2,138	1,725	3,000		7,980	10,374
Mask	-	-	-	8,548	3,552	12,100	3,388	1,694	847
... YoY							-72%	-50%	-50%
New intelligent products	-	-	-	-	-	1,000	2,000	2,600	3,380
... YoY							100%	30%	30%
Auto intelligent systems	2,598	3,427	6,025	3,634	5,842	9,476	13,740	17,862	23,221
... YoY	55%	29%	39%	40%	70%	57%	45%	30%	30%
Total	761	833	1,594	680	1,137	1,817	2,453	3,189	4,145
... YoY	55%	19%	34%	-11%	36%	14%	35%	30%	30%

Source: Company data, CMBIS estimates

Figure 6: P&L forecast by interim

RMB mn	1H19	2H19	FY19	1H20	2H20	FY20	FY21E	FY22E	FY23E
Revenue	23,280	29,748	53,028	31,386	41,735	73,121	102,033	122,932	151,077
... YoY	19.3%	38.1%	29.2%	34.8%	40.3%	37.9%	39.5%	20.5%	22.9%
Cost of sales	(21,729)	(27,342)	(49,071)	(27,286)	(36,206)	(63,492)	(91,332)	(110,654)	(136,290)
Gross profit	1,551	2,406	3,957	4,100	5,529	9,629	10,700	12,279	14,788
GPM (%)	7%	8%	7%	13%	13%	13%	10%	10%	10%
... YoY	-34.6%	-20.3%	-5.1%	96.0%	63.8%	143.3%	11.1%	14.7%	20.4%
SG&A	(428)	(448)	(876)	(405)	(505)	(910)	(918)	(1,106)	(1,360)
... % of rev	2%	2%	2%	1%	1%	1%	1%	1%	1%
R&D	(853)	(1,235)	(2,088)	(1,108)	(1,806)	(2,913)	(3,877)	(4,671)	(5,741)
... % of rev	4%	4%	4%	4%	4%	4%	4%	4%	4%
Operating profit	270	723	994	2,587	3,218	5,806	5,905	6,501	7,687
OPM (%)	1%	2%	2%	8%	8%	8%	6%	5%	5%
... YoY	-78%	-35%	-45%	610%	217%	484%	2%	10%	18%
Net profit	575	1,022	1,598	2,473	2,969	5,441	5,878	6,404	7,448
NPM (%)	2%	3%	3%	8%	7%	7%	6%	5%	5%
... YoY	-49%	1%	-26%	330%	190%	241%	8%	9%	16%

Source: Company data, CMBIS estimates

Valuation

Reiterate BUY with new TP HK\$ 56.2 (33% upside)

We maintain Buy with new TP HK\$ 56.2, as we turn more positive on share gain with Xiaomi/Apple and stronger e-cigarette sales. We derive our TP of HK\$ 56.2 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 17.9x 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 lower 8x for mask business to reflect its near-term growth potential amid COVID-19 outbreak.

Figure 7: BYDE – SOTP valuation

Business segment	% of FY21E Profit	FY21E EPS (RMB)	Target P/E
Assembly	16%	0.42	15x
Components	37%	0.95	20x
Masks	11%	0.29	8x
Others (smart, auto)	36%	0.95	20x
Total (RMB) /Implied P/E		2.61	16.3x
TP (HK\$)			56.2

Sources: Company data, CMBIS estimates

Figure 8: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY20E	P/E (x) FY21E	P/B (x) FY20E	P/B (x) FY21E	ROE (%) FY20E	ROE (%) FY21E
BYDE	285 HK	Buy	12,273	42.35	56.2	33%	14.6	13.5	5.3	4.2	24.9	21.6
Tongda	698 HK	Buy	458	0.55	0.56	2%	11.2	6.9	0.5	0.5	4.7	7.7
AAC Tech	2018 HK	Hold	6,140	39.50	45.3	15%	28.3	23.5	2.0	1.9	6.9	8.0
TK Group	2283 HK	Buy	316	2.95	4.1	39%	5.3	4.6	1.9	1.9	35.7	41.7
Ju Teng	3336 HK	NR	332	2.15	NA	NA	6.5	6.5	0.4	0.4	6.4	6.1
Everwin	300115 CH	NR	3,248	21.33	NA	NA	34.3	21.0	3.9	3.4	12.1	17.4
Lens Tech	300433 CH	NR	19,450	25.70	NA	NA	25.0	19.2	4.0	3.3	18.0	19.0
Foxconn	2354 TT	NR	3,710	74.80	NA	NA	15.4	14.3	0.8	0.8	6.3	6.3
Catcher	2474 TT	NR	5,661	212.00	NA	NA	10.0	12.5	1.0	1.0	16.5	7.4
Average							16.9	13.7	2.2	1.8	14.0	13.9

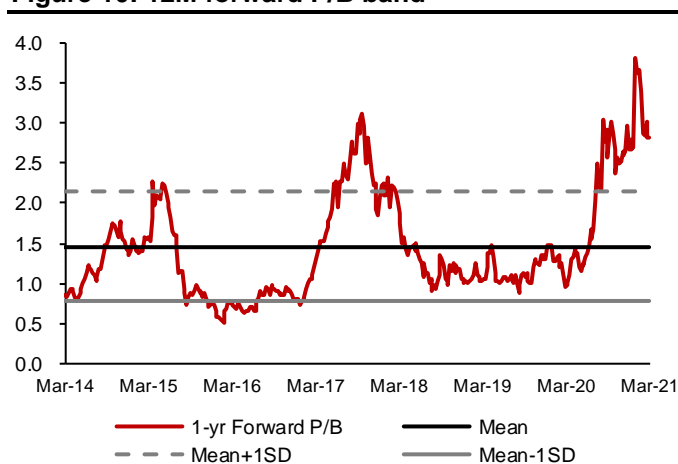
Source: Bloomberg, CMBIS estimates, *TP under review

Figure 9: 12M forward P/E band



Source: Bloomberg, CMBIS estimates

Figure 10: 12M forward P/B band



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19E	FY20A	FY21E	FY22E	FY23E
Revenue	53,028	73,121	102,033	122,932	151,077
COGS	(49,071)	(63,492)	(91,332)	(110,65)	(136,29)
Gross profit	3,957	9,629	10,700	12,279	14,788
Selling and marketing	(257)	(237)	(306)	(369)	(453)
Administrative	(619)	(673)	(612)	(738)	(906)
R&D	(2,088)	(2,913)	(3,877)	(4,671)	(5,741)
Other operating exp.					
Operating profit	994	5,806	5,905	6,501	7,687
Financial cost	(31)	(71)	(71)	(71)	(71)
Other income/(losses)	734	487	846	848	848
Pre-tax profit	1,696	6,221	6,680	7,278	8,464
Tax	(99)	(779)	(802)	(873)	(1,016)
Minority interest	-	-	-	-	-
Net profit	1,598	5,441	5,878	6,404	7,448

Cash flow summary

YE 31 Dec (RMB mn)	FY19E	FY20A	FY21E	FY22E	FY23E
Profit before taxation	1,696	6,221	6,680	7,278	8,464
Depreciation	2,157	2,442	2,839	3,318	3,907
Change in working capital	(3,596)	(1,499)	(1,982)	1,075	(5,914)
Others	(20)	(708)	(730)	(802)	(944)
Net cash from operating	237	6,455	6,806	10,869	5,512
Capex	(3,140)	(2,632)	(3,673)	(4,426)	(5,439)
Other					
Net cash from investing	(3,140)	(2,632)	(3,673)	(4,426)	(5,439)
Dividend paid	(160)	(543)	(588)	(640)	(745)
Other	(31)	(71)	(71)	(71)	(71)
Net cash from financing	(191)	(614)	(659)	(712)	(816)
Net change in cash	(3,095)	3,209	2,474	5,732	(743)
Cash at beginning of the year	4,699	1,651	4,859	7,333	13,065
Exchange difference					
Cash at the end of the year	1,651	4,859	7,333	13,065	12,322

Balance sheet

YE 31 Dec (RMB mn)	FY19E	FY20A	FY21E	FY22E	FY23E
Current assets	17,082	25,250	34,200	39,883	51,352
Cash & equivalents	1,651	4,859	7,333	13,065	12,322
Account receivables	9,567	11,324	15,884	14,849	22,921
Inventories	5,453	8,656	10,572	11,559	15,699
Short-term bank deposits	-	-	-	-	-
Other current assets	411	411	411	411	411
Non-current assets	9,950	10,123	10,882	11,888	13,281
PPE	8,617	8,808	9,642	10,750	12,282
Deferred income tax	159	159	159	159	159
Other non-current assets	1,173	1,156	1,080	980	840
Total assets	27,032	35,374	45,082	51,772	64,633
Current liabilities	10,399	13,860	18,353	19,380	25,678
Deferred income					
Account payables	7,340	10,801	15,294	16,321	22,619
Tax payable	108	108	108	108	108
Other current liabilities	2,951	2,951	2,951	2,951	2,951
Non-current liabilities	639	639	639	639	639
Deferred income	122	122	122	122	122
Deferred tax liability	18	18	18	18	18
Total liabilities	11,038	14,498	18,992	20,019	26,316
Share capital	4,052	4,052	4,052	4,052	4,052
Reserves	12,937	17,836	23,126	28,890	35,593
Minority interest					
Shareholders' equity	16,989	21,888	27,178	32,942	39,645
Total equity and liabilities	28,027	36,386	46,170	52,961	65,962

Key ratios

YE 31 Dec	FY19E	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Phone and PC components	35	24	20	19	18
Assembly services	51	43	59	60	61
Masks					
New intelligent products	11	13	13	15	15
Auto intelligent systems	3	2	2	3	3
Growth (%)					
Revenue	29.2	37.9	39.5	20.5	22.9
Gross profit	(5.1)	143.3	11.1	14.7	20.4
Operating profit	(45.4)	484.3	1.7	10.1	18.2
Net profit	(25.5)	240.6	8.0	9.0	16.3
Profit & loss ratio (%)					
Gross margin	7.5	13.2	10.5	10.0	9.8
Operating margin	1.9	7.9	5.8	5.3	5.1
Net profit margin	3.0	7.4	5.8	5.2	4.9
Balance sheet ratio					
Net debt/total equity (x)	Net	Net	Net	Net	Net
Current ratio (x)	1.6	1.8	1.9	2.1	2.0
Receivable turnover days	58	52	49	46	46
Inventory turnover days	38	41	38	37	37
Payable turnover days	57	52	52	52	52
Profitability (%)					
ROE	9.4	24.9	21.6	19.4	18.8
ROA	5.9	15.4	13.0	12.4	11.5
Per share data (RMB)					
EPS	0.71	2.41	2.61	2.84	3.31
DPS	0.07	0.24	0.26	0.28	0.33

Source: Company data, CMBIS estimates

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