

BYD (1211 HK/002594 CH)

2Q26 earnings signal enhanced cost discipline

Maintain BUY. We view BYD's 2Q26 earnings as resilient despite bottom-line performance missing by revenue drag and higher impairment losses. We believe tightening cost control, marked by stabilizing 1H26 R&D spend and slowing D&A growth, underscores long-term margin resilience anchored by superior scale and vertical integration.

- **2Q26 GPM beat; net profit missed on revenue and impairment.** BYD's 2Q26 revenue fell 3.2% YoY to RMB195bn, or 8.6% lower than our prior forecast. GPM expanded 0.1ppts QoQ to 18.9% in 2Q26, the highest since 2Q25, and 0.5ppts higher than our projection. SG&A and R&D expenses were largely in line while impairment losses were about RMB1.1bn higher than our forecast. Net profit surged 30% YoY to RMB8.2bn, yet trailing our projection by 15%. Excluding impairment, net profit per vehicle was about RMB8,900 (RMB300 below our estimate).
- **Stricter cost control unlocks earnings upside.** Total R&D investment in 1H26 declined 6.5% YoY, signaling cost stabilization, while the R&D capitalization ratio rose from 4% in 1H25 to 19% in 1H26. Total depreciation and amortization only rose 5% YoY in 1H26, the slowest pace since 1H20. We expect cost reduction efforts to become increasingly pronounced in the next few years, as BYD's production capacity, sales network and R&D resources have been well established, especially in China. We believe BYD's greater economies of scale and vertical integration could result in more resilient profitability than most peers, as evidenced by its robust 1H26 GPM.
- **2H26 and FY27 outlook.** We maintain our FY26E sales volume forecast of 4.5mn units with overseas contributing 40%. We cut FY26E revenue forecast by 1% following 2Q26 ASP miss but raise FY26E GPM by 0.2ppts and trim R&D expenses by 9%. Accordingly, we raise our FY26E net profit by 3% to RMB36.1bn. We project FY27E sales volume to rise 11% YoY to 5.0mn units, aided by overseas markets. We expect stringent cost cuts to extend into FY27E and thus we revise up our FY27E net profit by 5% to RMB44.1bn.
- **Valuation/Key risks.** We maintain our BUY rating and H-share target price of HK\$125.00, still based on 22x our revised FY27E P/E. Our unchanged A-share target price is based on the current A/H premium of 18%. Key risks to our rating and target prices include lower sales volume or margins than we expect, as well as a sector de-rating.

Earnings Summary - 1211 HK

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	777,102	803,965	825,103	902,415	966,157
YoY growth (%)	29.0	3.5	2.6	9.4	7.1
Net profit (RMB mn)	40,254.3	32,619.0	36,112.1	44,079.7	52,606.5
YoY growth (%)	34.0	(19.0)	10.7	22.1	19.3
EPS (Reported) (RMB)	13.85	3.61	3.96	4.83	5.77
P/S (x)	0.9	0.9	0.9	0.8	0.7
P/E (x)	5.7	21.8	19.9	16.3	13.7
Yield (%)	5.3	0.5	1.0	1.2	1.5
ROE (%)	24.8	15.1	13.7	14.8	15.6
Net gearing (%)	(50.7)	(1.1)	(8.7)	(13.7)	(31.4)

Source: Company data, Bloomberg, CMBIGM estimates

1211 HK 002594 CH

BUY BUY

Maintain Maintain

TP	HK\$125.00	RMB125.00
Prior TP	HK\$125.00	RMB125.00
Up/Downside	35.9%	35.4%
Current Price	HK\$92.0	RMB92.3

China Auto

Ji SHI, CFA

(852) 3761 8728

shiji@cmbi.com.hk

Wenjing DOU, CFA

(852) 6939 4751

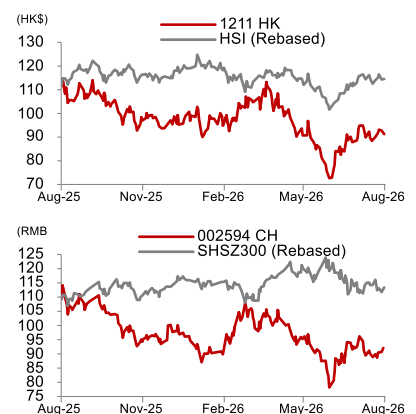
douwenjing@cmbi.com.hk

Austin Liang

(852) 3900 0856

austinliang@cmbi.com.hk

12-mth Price Performance



Source: FactSet

Stock Performance

	1211 HK		002594 CH	
	Abs.	Rel.	Abs.	Rel.
1-mth	2.4%	1.3%	-1.1%	1.5%
3-mth	1.8%	-0.5%	-3.7%	8.6%
6-mth	-3.2%	0.8%	3.4%	-1.0%

Source: FactSet

Stock Data

(LC)	1211 HK	002594 CH
Mkt Cap (mn)	838326.3	841699.68
Avg 3 mths t/o (mn)	2015.39	3749.38
52w High	114.4	114.06
52w Low	72.45	78.2
Issued Shares (mn)	9117.207	9117.2067

Source: FactSet

Figure 1: Quarterly results

RMB mn	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	YoY	QoQ
Sales volume (units)	1,000,804	1,145,150	1,114,192	1,342,290	700,463	1,108,048	-3.2%	58.2%
Revenue	170,360	200,921	194,985	237,699	150,225	194,590	-3.2%	29.5%
Gross profit	34,185	32,681	34,346	41,448	28,252	36,737	12.4%	30.0%
R&D expenses	(14,223)	(15,373)	(14,152)	(14,230)	(11,344)	(11,964)	-22.2%	5.5%
SG&A expenses	(11,087)	(11,710)	(10,979)	(12,608)	(10,910)	(11,979)	2.3%	9.8%
Operating profit	11,021	7,699	10,186	11,279	4,696	10,048	30.5%	114.0%
Net profit	9,155	6,356	7,823	9,286	4,085	8,241	29.7%	101.8%
Gross margin	20.1%	16.3%	17.6%	17.4%	18.8%	18.9%	2.6 ppts	0.1 ppts
Operating margin	6.5%	3.8%	5.2%	4.7%	3.1%	5.2%	1.3 ppts	2.0 ppts
Net margin	5.4%	3.2%	4.0%	3.9%	2.7%	4.2%	1.1 ppts	1.5 ppts

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff.		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	825,103	902,415	966,157	835,458	929,318	1,004,947	-1.2%	-2.9%	-3.9%
Gross profit	150,288	160,549	173,052	150,633	165,220	179,545	-0.2%	-2.8%	-3.6%
Operating profit	43,663	54,155	64,836	42,966	51,737	59,625	1.6%	4.7%	8.7%
Net profit	36,112	44,080	52,606	34,952	41,845	48,152	3.3%	5.3%	9.3%
Gross margin	18.2%	17.8%	17.9%	18.0%	17.8%	17.9%	0.2 ppts	0.0 ppts	0.0 ppts
Operating margin	5.3%	6.0%	6.7%	5.1%	5.6%	5.9%	0.1 ppts	0.4 ppts	0.8 ppts
Net margin	4.4%	4.9%	5.4%	4.2%	4.5%	4.8%	0.2 ppts	0.4 ppts	0.7 ppts

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff.		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	825,103	902,415	966,157	910,470	1,001,368	1,101,072	-9.4%	-9.9%	-12.3%
Gross profit	150,288	160,549	173,052	169,102	191,091	213,784	-11.1%	-16.0%	-19.1%
Operating profit	43,663	54,155	64,836	45,620	58,756	70,039	-4.3%	-7.8%	-7.4%
Net profit	36,112	44,080	52,606	39,388	50,580	60,213	-8.3%	-12.9%	-12.6%
Gross margin	18.2%	17.8%	17.9%	18.6%	19.1%	19.4%	-0.4 ppts	-1.3 ppts	-1.5 ppts
Operating margin	5.3%	6.0%	6.7%	5.0%	5.9%	6.4%	0.3 ppts	0.1 ppts	0.3 ppts
Net margin	4.4%	4.9%	5.4%	4.3%	5.1%	5.5%	0.1 ppts	-0.2 ppts	0.0 ppts

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	602,315	777,102	803,965	825,103	902,415	966,157
Cost of goods sold	(490,399)	(626,047)	(661,305)	(674,815)	(741,866)	(793,104)
Gross profit	111,916	151,056	142,660	150,288	160,549	173,052
Operating expenses	(78,757)	(110,677)	(117,943)	(110,631)	(115,107)	(118,157)
Selling expense	(15,371)	(24,085)	(26,185)	(26,780)	(27,923)	(28,657)
Admin expense	(13,462)	(18,645)	(20,200)	(21,317)	(21,315)	(21,757)
R&D expense	(39,575)	(53,195)	(57,978)	(50,400)	(52,000)	(53,300)
Others	(10,350)	(14,752)	(13,581)	(12,134)	(13,868)	(14,444)
Operating profit	33,159	40,379	24,717	39,657	45,443	54,895
Other income	5,965	15,303	14,932	14,100	13,500	11,200
Other expense	(1,546)	(2,057)	(1,564)	(800)	(1,300)	(1,400)
Gain/loss on financial assets at FVTPL	258	532	364	350	500	550
Investment gain/loss	1,635	2,291	2,857	338	1,058	1,558
Other gains/(losses)	(3,677)	(5,552)	(2,202)	(3,747)	(3,107)	(3,320)
EBITDA	82,649	118,681	122,830	138,373	160,758	181,222
Depreciation	37,718	56,922	72,048	81,806	93,468	102,843
Depreciation of ROU assets	1,390	2,643	2,655	2,922	3,327	3,777
Other amortisation	4,444	7,341	5,823	6,422	7,005	7,602
EBIT	39,096	51,774	42,305	47,223	56,957	66,999
Interest income	2,796	2,484	2,437	2,824	2,864	3,516
Interest expense	(1,828)	(2,094)	(2,552)	(3,760)	(3,102)	(2,364)
Net Interest income/(expense)	1,475	(1,216)	649	(6,436)	(2,239)	1,153
Foreign exchange gain/loss	639	(1,532)	1,034	(5,500)	(2,000)	0
Pre-tax profit	37,269	49,681	39,753	43,463	53,855	64,636
Income tax	(5,925)	(8,093)	(5,992)	(6,911)	(8,707)	(10,447)
After tax profit	31,344	41,588	33,761	36,552	45,148	54,189
Minority interest	(1,303)	(1,334)	(1,142)	(439)	(1,068)	(1,582)
Net profit	30,041	40,254	32,619	36,112	44,080	52,606
Gross dividends	9,012	12,077	3,264	7,222	8,816	10,521

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	302,121	370,572	371,468	405,033	464,198	569,387
Cash & equivalents	108,512	102,257	68,395	86,000	95,000	154,678
Restricted cash	583	482	7,030	4,000	5,000	5,000
Account receivables	67,431	72,749	42,489	47,020	52,216	55,905
Inventories	87,677	116,036	138,421	133,114	142,276	152,102
Prepayment	2,215	3,974	5,025	5,399	5,193	5,552
Financial assets at FVTPL	9,563	40,939	54,533	69,683	99,883	130,133
Other current assets	23,481	32,725	54,411	58,372	62,999	64,270
Contract assets	2,660	1,411	1,165	1,447	1,632	1,747
Non-current assets	377,426	412,784	512,262	523,117	512,989	480,709
PP&E	230,904	262,287	292,776	303,972	288,505	248,664
Right-of-use assets	9,679	10,575	9,083	8,560	8,133	7,256
Deferred income tax	6,584	8,559	15,358	15,358	15,358	15,358
Investment in JVs & assos	17,647	19,082	21,781	23,481	25,081	26,881
Intangibles	37,236	38,424	41,485	43,181	44,716	46,078
Goodwill	4,428	4,428	4,428	4,428	4,428	4,428
Financial assets at FVTPL	2,696	2,655	3,080	3,380	3,780	4,180
Other non-current assets	68,252	66,773	124,271	120,757	122,988	127,865
Total assets	679,548	783,356	883,730	928,150	977,188	1,050,095
Current liabilities	453,667	495,985	468,451	474,656	492,491	523,495
Short-term borrowings	18,323	12,103	38,485	33,539	1,384	0
Account payables	194,430	241,643	186,742	191,352	214,023	228,805
Tax payable	7,852	10,097	10,716	10,612	11,382	12,168
Other current liabilities	198,363	188,412	181,037	191,085	214,889	228,199
Contract liabilities	34,699	43,730	51,471	48,069	50,813	54,322
Non-current liabilities	75,419	88,682	156,739	162,123	155,613	152,546
Long-term borrowings	11,975	8,258	60,706	55,706	44,706	33,706
Bond payables	0	0	4,998	5,998	6,998	7,998
Other non-current liabilities	63,444	80,425	91,036	100,420	103,910	110,842
Total liabilities	529,086	584,668	625,191	636,780	648,105	676,041
Share capital	2,911	2,909	9,117	9,117	9,117	9,117

Other reserves	135,899	182,342	237,157	269,925	306,701	350,410
Total shareholders equity	138,810	185,251	246,275	279,042	315,818	359,528
Minority interest	11,652	13,437	12,265	12,329	13,265	14,527
Total equity and liabilities	679,548	783,356	883,730	928,150	977,188	1,050,095
CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	37,269	49,681	39,753	43,463	53,855	64,636
Depreciation & amortization	43,553	66,906	80,526	91,150	103,801	114,223
Change in working capital	91,094	18,291	(57,100)	13,491	21,788	19,382
Others	(2,190)	(1,424)	(4,043)	2,143	(6,448)	(6,463)
Net cash from operations	169,725	133,454	59,136	150,246	172,996	191,777
Investing						
Capital expenditure	(122,094)	(97,360)	(156,808)	(108,600)	(89,000)	(77,700)
Acquisition of subsidiaries/ investments	(16,163)	(3,792)	(2,998)	(16,100)	(31,100)	(31,100)
Net proceeds from disposal of short-term investments	0	129	1,727	0	0	0
Others	12,593	(28,060)	(39,385)	2,450	2,450	2,450
Net cash from investing	(125,664)	(129,082)	(197,463)	(122,250)	(117,650)	(106,350)
Financing						
Dividend paid	(3,325)	(9,012)	(12,077)	(3,264)	(7,222)	(8,816)
Net borrowings	18,073	(9,480)	84,783	(3,162)	(32,155)	(11,384)
Proceeds from share issues	0	0	40,075	0	0	0
Others	(1,931)	8,225	(8,167)	(3,966)	(6,968)	(5,549)
Net cash from financing	12,817	(10,268)	104,614	(10,391)	(46,346)	(25,749)
Net change in cash						
Cash at the beginning of the year	51,182	108,512	102,257	68,395	86,000	95,000
Exchange difference	451	(359)	(148)	0	0	0
Cash at the end of the year	108,512	102,257	68,395	86,000	95,000	154,678
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	42.0%	29.0%	3.5%	2.6%	9.4%	7.1%
Gross profit	54.9%	35.0%	(5.6%)	5.3%	6.8%	7.8%
Operating profit	56.0%	21.8%	(38.8%)	60.4%	14.6%	20.8%
EBITDA	93.3%	43.6%	3.5%	12.7%	16.2%	12.7%
EBIT	74.6%	32.4%	(18.3%)	11.6%	20.6%	17.6%
Net profit	80.7%	34.0%	(19.0%)	10.7%	22.1%	19.3%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	18.6%	19.4%	17.7%	18.2%	17.8%	17.9%
Operating margin	5.5%	5.2%	3.1%	4.8%	5.0%	5.7%
EBITDA margin	13.7%	15.3%	15.3%	16.8%	17.8%	18.8%
Return on equity (ROE)	24.0%	24.8%	15.1%	13.7%	14.8%	15.6%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.5)	(0.0)	(0.1)	(0.1)	(0.3)
Current ratio (x)	0.7	0.7	0.8	0.9	0.9	1.1
Receivable turnover days	52.0	45.0	30.9	32.0	33.0	33.0
Inventory turnover days	65.3	67.7	76.4	72.0	70.0	70.0
Payable turnover days	147.7	142.3	115.5	115.0	117.0	117.0
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	7.6	5.7	21.8	19.9	16.3	13.7
P/B	1.7	1.2	2.9	2.6	2.3	2.0
P/CFPS	1.3	1.7	12.0	4.8	4.2	3.7
Div yield (%)	3.9	5.3	0.5	1.0	1.2	1.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

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

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