

BYD Company (1211 HK)

1Q23 earnings as a mixed bag

BYD's 1Q23 NP was 13% lower than our forecast, despite a strong GPM of 17.9%. We believe its product mix, costs from previous investments and price war could limit its NP per vehicle in 2Q23E or even 2H23E. Possible upside surprise from export and its premium brand Yangwang takes some time. Maintain HOLD.

- **1Q23 GPM beat, NP miss.** BYD's 1Q23 revenue and GPM were both higher than our prior estimates despite NEV subsidy phase-out. GPM in 1Q23 only fell 1.1 pts to 17.9%, partially due to battery price declines and BYD's cost reduction efforts. SG&A and R&D expenses amounted to 11.9% of revenue in 1Q23, the highest ratio since 1Q20 during the COVID-19 outbreak. The impairment loss of RMB 722mn was also higher than our forecast. Accordingly, NP of RMB 4.1bn in 1Q23 was 13% lower than our estimates of RMB 4.7bn. NP excluding impairment would have been in line with our forecast.
- **Limited improvement in NP per vehicle in 2Q23E amid price war, heavy investments.** BYD's NP per vehicle (excluding BYDE's NP contribution) was about RMB 6,900 in 1Q23, lower than our prior forecast of RMB 7,800 for FY23E. Despite sharp battery price declines, we are of the view that the QoQ improvement for NP per vehicle in 2Q23E could be limited, as 1) lower ASP could lead to lower GPM. The MoM sales increase in Mar 2023 was driven by the *Yuan* and *Dolphin*, as competition rises for NEVs priced RMB 150,000-200,000. Sales contributor in 2Q23 at BYD could be its new *Seagull* BEV, which is the cheapest among all BYD's models on sale. 2) Costs associated with its previous heavy investments in PP&E and R&D could make its economies of scale less apparent, which has been reflected in 1Q23 earnings.
- **Earnings/Valuation.** We maintain our FY23E sales volume forecast of 2.75mn units and cut our FY23E NP by 4% to RMB 21.9bn, or NP per vehicle (excluding BYDE) of RMB 7,400.

We maintain our HOLD rating and target price of HK\$ 230 based on 27x (prior 25x) our revised FY23E P/E. We think that P/E multiple should be a proper valuation method for BYD now given its current profitability. We are of the view that BYD's current P/E is fair, which is significantly higher than its Chinese traditional automakers (5-15x) but lower than Tesla's (TSLA US, NR) 40x. Our sum-of-the-parts (SOTP) valuation is also shown in Figure 4. 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	589,423	630,784	681,309
YoY growth (%)	38.0	96.2	39.0	7.0	8.0
Net income (RMB mn)	3,045	16,622	21,936	22,265	23,553
EPS (RMB)	1.06	5.71	7.54	7.65	8.09
YoY growth (%)	(28.1)	445.9	32.0	1.5	5.8
P/E (x)	193.2	35.9	27.2	26.8	25.3
P/B (x)	6.3	5.4	4.6	4.0	3.6
Yield (%)	0.1	0.6	0.8	0.8	0.8
ROE (%)	4.0	16.1	18.2	16.0	15.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$ 230.00
(Previous TP	HK\$ 230.00)
Up/Downside	-2.4%
Current Price	HK\$ 236.00

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Stock Data

Mkt Cap (HK\$ mn)	687,000
Avg 3 mths t/o (HK\$ mn)	1,741
52w High/Low (HK\$)	333.00/161.70
Total Issued Shares (mn)	2,911
Source: Bloomberg	

Shareholding Structure

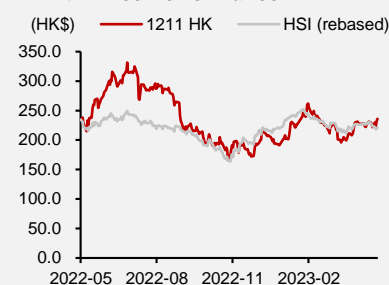
Wang Chuanfu	17.6%
Lv Xiangyang	8.2%
Others	74.1%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	13.5%	12.1%
3-mth	-4.1%	8.4%
6-mth	28.4%	-0.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

["BYD Company – Fair valuation despite FY22 high earnings quality" – 30 Mar 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	YoY	QoQ
Sales volume (units)	291,378	355,021	538,704	683,440	552,076	89.5%	-19.2%
Revenue	66,825	83,782	117,081	156,373	120,174	79.8%	-23.1%
Gross profit	8,287	12,054	22,199	29,704	21,467	159.0%	-27.7%
R&D expenses	(2,361)	(3,064)	(5,446)	(7,784)	(6,238)	164.2%	-19.9%
SG&A expenses	(3,680)	(4,713)	(7,372)	(9,302)	(8,014)	117.8%	-13.9%
Operating profit	1,061	3,561	7,460	9,459	5,299	399.3%	-44.0%
Net profit	808	2,787	5,713	7,314	4,130	410.9%	-43.5%
Gross margin	12.4%	14.4%	19.0%	19.0%	17.9%	5.5 ppt	-1.1 ppt
Operating margin	1.6%	4.3%	6.4%	6.0%	4.4%	2.8 ppt	-1.6 ppt
Net margin	1.2%	3.3%	4.9%	4.7%	3.4%	2.2 ppt	-1.2 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	589,423	630,784	681,309	589,423	631,784	N/A	0.0%	-0.2%	N/A
Gross Profit	100,835	102,254	107,043	99,177	101,057	N/A	1.7%	1.2%	N/A
Operating Profit	27,726	28,480	30,188	29,009	30,130	N/A	-4.4%	-5.5%	N/A
Net profit	21,936	22,265	23,553	22,946	23,622	N/A	-4.4%	-5.7%	N/A
Gross Margin	17.1%	16.2%	15.7%	16.8%	16.0%	N/A	0.3 ppt	0.2 ppt	N/A
Operating Margin	4.7%	4.5%	4.4%	4.9%	4.8%	N/A	-0.2 ppt	-0.3 ppt	N/A
Net Margin	3.7%	3.5%	3.5%	3.9%	3.7%	N/A	-0.2 ppt	-0.2 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	589,423	630,784	681,309	595,137	746,769	890,755	-1.0%	-15.5%	-23.5%
Gross Profit	100,835	102,254	107,043	97,019	124,792	155,553	3.9%	-18.1%	-31.2%
Operating Profit	27,726	28,480	30,188	30,348	42,743	55,534	-8.6%	-33.4%	-45.6%
Net profit	21,936	22,265	23,553	23,623	33,358	35,909	-7.1%	-33.3%	-34.4%
Gross Margin	17.1%	16.2%	15.7%	16.3%	16.7%	17.5%	0.8 ppt	-0.5 ppt	-1.8 ppt
Operating Margin	4.7%	4.5%	4.4%	5.1%	5.7%	6.2%	-0.4 ppt	-1.2 ppt	-1.8 ppt
Net Margin	3.7%	3.5%	3.5%	4.0%	4.5%	4.0%	-0.2 ppt	-0.9 ppt	-0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation table

Segment	Estimated Revenue of FY23E (RMB mn)	Target P/S Multiple	Target Market Cap (HK\$ mn)	Target Price (HK\$)
NEV	431,742	1.0x	523,167	180
External sales of EV battery	6,917	10x	77,134	26
Handset			33,338	11
External sales of semiconductor	8,000	4x	36,890	13
SOTP			670,529	230

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	216,142	424,061	589,423	630,784	681,309
Cost of sales	(187,998)	(351,816)	(488,588)	(528,530)	(574,266)
Gross profit	28,145	72,245	100,835	102,254	107,043
Selling exp.	(6,082)	(15,061)	(21,577)	(22,635)	(23,781)
Admin exp.	(5,710)	(10,007)	(14,195)	(15,980)	(17,146)
R&D exp.	(7,991)	(18,654)	(27,000)	(25,500)	(25,500)
Others	(3,730)	(6,981)	(10,336)	(9,659)	(10,428)
Operating profit	4,632	21,542	27,726	28,480	30,188
Non-operating income	338	527	500	500	500
Non-operating expenses	(452)	(989)	(800)	(800)	(850)
Pre-tax profit	4,518	21,080	27,426	28,180	29,838
Tax	(551)	(3,367)	(4,249)	(4,406)	(4,643)
Minority interests	(922)	(1,091)	(1,241)	(1,509)	(1,642)
Net profit	3,045	16,622	21,936	22,265	23,553

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	4,518	21,080	27,426	28,180	29,838
Depreciation/amortization	14,108	20,370	29,864	36,976	42,645
Change in working capital	44,083	97,849	35,509	11,616	18,632
Others	2,757	1,539	(1,839)	(1,109)	(2,199)
Net cash from operating	65,467	140,838	90,960	75,663	88,916
Capex	(37,344)	(97,457)	(76,250)	(47,200)	(47,200)
Others	(8,060)	(23,139)	(1,060)	(1,060)	(1,060)
Net cash from investing	(45,404)	(120,596)	(77,310)	(48,260)	(48,260)
Share issuance	37,314	-	-	-	-
Net borrowings	(17,006)	(16,413)	(5,924)	(1,000)	(1,000)
Others	(4,245)	(3,076)	(6,119)	(6,296)	(6,310)
Net cash from financing	16,063	(19,489)	(12,043)	(7,296)	(7,310)
Net change in cash	36,125	753	1,607	20,107	33,346
Cash at beginning of the year	13,738	49,820	51,182	52,789	72,896
Exchange difference	(44)	610	-	-	-
Cash at the end of the year	49,820	51,182	52,789	72,896	106,242

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	166,110	240,804	288,126	327,705	379,481
Cash & equivalents	50,457	51,471	53,789	73,896	107,242
Account receivables	44,994	51,723	60,557	64,807	69,998
Inventories	43,355	79,107	107,088	118,738	129,013
Other current assets	27,304	58,502	66,692	70,264	73,228
Non-current assets	129,670	253,057	305,063	318,855	326,052
PP&E	61,221	131,880	188,277	208,573	224,270
Intangibles	17,171	23,289	23,712	24,389	24,165
Investment in JVs&assos	7,905	15,485	17,265	19,095	20,975
Other non-current assets	43,373	82,402	75,808	66,797	56,641
Total assets	295,780	493,861	593,189	646,560	705,533
Current liabilities	171,304	333,345	413,795	447,884	487,221
Bank borrowings	10,204	5,153	-	-	-
Account payables	73,160	140,437	195,770	210,688	228,920
Contract Liabilities	14,934	35,517	40,158	43,441	9,440
Other current liabilities	73,006	152,238	177,867	193,755	248,861
Non-current liabilities	20,232	39,126	38,146	38,066	37,010
Bank borrowings	8,744	7,594	6,594	4,594	2,594
Bond payables	2,046	-	-	1,000	2,000
Other non-current liabilities	9,442	31,533	31,553	32,473	32,416
Total liabilities	191,536	372,471	451,941	485,950	524,231
Share capital	2,911	2,911	2,911	2,911	2,911
Reserves	92,159	108,118	126,830	144,808	164,008
Non-controlling interests	9,175	10,361	11,507	12,892	14,383
Shareholders' equity	95,070	111,029	129,741	147,719	166,919
Total equity and liabilities	295,780	493,861	593,189	646,560	705,533

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Automobile	52.0	76.6	74.9	73.1	71.5
Handset	40.0	23.3	18.5	20.3	21.9
Battery & others	8.0	0.1	6.5	6.7	6.7
Growth (%)					
Revenue	38.0	96.2	39.0	7.0	8.0
Gross profit	(7.3)	156.7	39.6	1.4	4.7
Operating profit	(34.6)	365.1	28.7	2.7	6.0
Net profit	(28.1)	445.9	32.0	1.5	5.8
Profit & loss ratio (%)					
Gross margin	13.0	17.0	17.1	16.2	15.7
Operating margin	2.1	5.1	4.7	4.5	4.4
Net profit margin	1.4	3.9	3.7	3.5	3.5
Balance sheet ratio					
Net cash/total equity (x)	0.2	0.3	0.3	0.4	0.5
Current ratio (x)	1.0	0.7	0.7	0.7	0.8
Receivable turnover days	94	58	50	50	50
Inventory turnover days	84	82	80	82	82
Payable turnover days	156	149	150	150	150
Profitability (%)					
ROE	4.0	16.1	18.2	16.0	15.0
ROA	1.2	4.2	4.0	3.6	3.5
Per share data (RMB)					
EPS	1.06	5.71	7.54	7.65	8.09
DPS	0.11	1.14	1.51	1.53	1.62

Source: Company data, CMBIGM estimates

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