

BYD Company (002594 CH)

Profit may continue to beat in next few quarters

Upgrade to BUY. Although BYD-A's share price has been between -15% and +13% of our previous target price of RMB 270, our major concerns with a prior HOLD rating were more about model cycle and margin dent from a potential overcapacity. It turned out that BYD's sales volume growth has lasted longer than expected and its earnings have been more solid than our prior forecasts. We now think that such trends could continue in the next few quarters, aided by premium models, exports and greater economies of scale. Unlike some investors, we think BYD's catch up in intelligent connectivity may be faster than expected.

- **3Q23 earnings beat.** BYD's 3Q23 net profit of RMB 10.4bn was in the middle of its preliminary earnings range, thanks to its strong GPM and SG&A cost control. Its 3Q23 GPM of 21.7% was about 1.5 pts higher than our prior forecast. GPM excluding BYDE (285 HK, BUY) reached 25.7%. SG&A ratio also narrowed by 0.8 pts QoQ. R&D expenses exceeded RMB 11bn in 3Q23, or 6.8% of revenue. Net profit per vehicle (excluding BYDE) reached RMB 11,400, the highest in history.
- **Solid earnings outlook ahead.** We expect BYD's sales volume to rise 23% YoY to 3.7mn units in FY24E, in line with our projected growth of NEV wholesale volume for China. We revise up our FY24E net profit forecast by 29% to RMB 39.4bn (net profit of RMB 9,700 per vehicle excluding BYDE), assuming that GPM in FY24E is to narrow slightly YoY to account for rising competition. Yet, we believe BYD still has room to beat such profitability, should its more premium new models and exports offset dent from price war. Its new-generation DM technology could also help cut costs.
- **Catch-up in autonomous driving and smart cockpit could be faster than expected.** BYD's R&D expenses in FY23E could be 30% higher than Li Auto (LI US, BUY), NIO (NIO US, HOLD) and Xpeng (XPEV US, HOLD) combined. We believe such R&D investments, along with its partnership with Momenta (which also works with SAIC (600104 CH, NR)), could help BYD catch up.
- **Earnings/Valuation.** We upgrade our rating of BYD-A from Hold to BUY and raise target price from RMB 270 to RMB 300, based on 22x our revised FY24E P/E, which reflects 10% AH premium on our BYD-H TP. We are of the view that such valuation is justified, given Tesla's (TSLA US, NR) current 40x FY24E P/E and Li Auto's 20x FY24E P/E. Key risks to our rating and target price include lower NEV sales volume and margins, as well as sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	216,142	424,061	603,269	762,779	868,531
YoY growth (%)	38.0	96.2	42.3	26.4	13.9
Net income (RMB mn)	3,045	16,622	31,219	39,391	47,498
EPS (RMB)	1.06	5.71	10.72	13.53	16.32
YoY growth (%)	(28.1)	445.9	87.8	26.2	20.6
P/E (x)	230.7	42.8	22.8	18.1	15.0
P/B (x)	7.5	6.4	5.1	4.1	3.4
Yield (%)	0.1	0.6	0.8	1.0	1.2
ROE (%)	4.0	16.1	25.0	25.3	24.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Upgrade)

Target Price	RMB 300.00
(Previous TP	RMB 270.00)
Up/Downside	+21.8%
Current Price	RMB 246.20

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Stock Data

Mkt Cap (RMB mn)	712,066
Avg 3 mths t/o (RMB mn)	2,412
52w High/Low (RMB)	306.13/229.66
Total Issued Shares (mn)	2,911
Source: Bloomberg	

Shareholding Structure

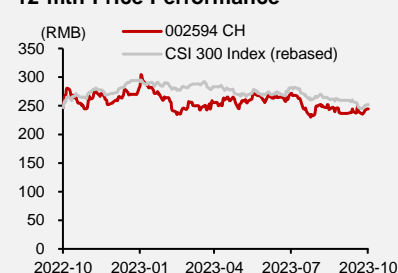
Wang Chuanfu	17.6%
Lv Xiangyang	8.2%
Others	74.1%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	3.3%	6.2%
3-mth	-8.7%	1.0%
6-mth	-2.7%	8.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Report

["BYD Company \(1211 HK\) – Profit may continue to beat in next few quarters" – 31 Oct 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
Sales volume (units)	291,378	355,021	538,704	683,440	552,076	703,561	824,001	53.0%	17.1%
Revenue	66,825	83,782	117,081	156,373	120,174	139,951	162,151	38.5%	15.9%
Gross profit	8,287	12,054	22,199	29,704	21,467	26,206	35,876	61.6%	36.9%
R&D expenses	(2,361)	(3,064)	(5,446)	(7,784)	(6,238)	(7,597)	(11,104)	103.9%	46.2%
SG&A expenses	(3,680)	(4,713)	(7,372)	(9,302)	(8,014)	(9,643)	(9,851)	33.6%	2.2%
Operating profit	1,061	3,561	7,460	9,459	5,299	8,433	12,906	73.0%	53.0%
Net profit	808	2,787	5,713	7,314	4,130	6,824	10,413	82.3%	52.6%
Gross margin	12.4%	14.4%	19.0%	19.0%	17.9%	18.7%	22.1%	3.2 ppt	3.4 ppt
Operating margin	1.6%	4.3%	6.4%	6.0%	4.4%	6.0%	8.0%	1.6 ppt	1.9 ppt
Net margin	1.2%	3.3%	4.9%	4.7%	3.4%	4.9%	6.4%	1.5 ppt	1.5 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	603,269	762,779	868,531	611,500	716,548	789,555	-1.3%	6.5%	10.0%
Gross Profit	122,834	154,702	174,488	112,724	130,574	142,199	9.0%	18.5%	22.7%
Operating Profit	38,898	49,860	60,271	36,080	39,668	42,621	7.8%	25.7%	41.4%
Net profit	31,219	39,391	47,498	28,318	30,574	32,941	10.2%	28.8%	44.2%
Gross Margin	20.4%	20.3%	20.1%	18.4%	18.2%	18.0%	1.9 ppt	2.1 ppt	2.1 ppt
Operating Margin	6.4%	6.5%	6.9%	5.9%	5.5%	5.4%	0.5 ppt	1.0 ppt	1.5 ppt
Net Margin	5.2%	5.2%	5.5%	4.6%	4.3%	4.2%	0.5 ppt	0.9 ppt	1.3 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY21E	FY22E	FY23E
Revenue	603,269	762,779	868,531	628,345	777,593	938,539	-4.0%	-1.9%	-7.5%
Gross Profit	122,834	154,702	174,488	110,256	138,653	170,608	11.4%	11.6%	2.3%
Operating Profit	38,898	49,860	60,271	32,696	44,671	57,030	19.0%	11.6%	5.7%
Net profit	31,219	39,391	47,498	25,319	33,977	45,367	23.3%	15.9%	4.7%
Gross Margin	20.4%	20.3%	20.1%	17.5%	17.8%	18.2%	2.8 ppt	2.5 ppt	1.9 ppt
Operating Margin	6.4%	6.5%	6.9%	5.2%	5.7%	6.1%	1.2 ppt	0.8 ppt	0.9 ppt
Net Margin	5.2%	5.2%	5.5%	4.0%	4.4%	4.8%	1.1 ppt	0.8 ppt	0.6 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	216,142	424,061	603,269	762,779	868,531
Cost of sales	(187,998)	(351,816)	(480,435)	(608,077)	(694,043)
Gross profit	28,145	72,245	122,834	154,702	174,488
Selling exp.	(6,082)	(15,061)	(23,915)	(31,048)	(34,705)
Admin exp.	(5,710)	(10,007)	(15,178)	(19,842)	(22,107)
R&D exp.	(7,991)	(18,654)	(37,620)	(44,100)	(45,080)
Others	(3,730)	(6,981)	(7,222)	(9,851)	(12,324)
Operating profit	4,632	21,542	38,898	49,860	60,271
Non-operating income	338	527	670	700	700
Non-operating expenses	(452)	(989)	(1,400)	(1,500)	(1,550)
Pre-tax profit	4,518	21,080	38,168	49,060	59,421
Tax	(551)	(3,367)	(5,408)	(7,747)	(9,284)
Minority interests	(922)	(1,091)	(1,541)	(1,923)	(2,640)
Net profit	3,045	16,622	31,219	39,391	47,498

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	4,518	21,080	38,168	49,060	59,421
Depreciation/amortization	14,108	20,370	42,194	56,153	66,141
Change in working capital	44,083	97,849	79,627	48,343	6,268
Others	2,757	1,539	(1,913)	(4,229)	(6,162)
Net cash from operating	65,467	140,838	158,076	149,328	125,668
Capex	(37,344)	(97,457)	(122,630)	(92,100)	(66,120)
Others	(8,060)	(23,139)	(5,460)	(7,460)	(9,460)
Net cash from investing	(45,404)	(120,596)	(128,090)	(99,560)	(75,580)
Share issuance	37,314	-	-	-	-
Net borrowings	(17,006)	(16,413)	9,076	3,500	-
Others	(4,245)	(3,076)	(6,982)	(9,056)	(10,710)
Net cash from financing	16,063	(19,489)	2,094	(5,556)	(10,710)
Net change in cash	36,125	753	32,080	44,211	39,377
Cash at beginning of the year	13,738	49,820	51,182	83,263	127,474
Exchange difference	(44)	610	-	-	-
Cash at end of the year	49,820	51,182	83,263	127,474	166,851

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	166,110	240,804	294,249	387,974	479,854
Cash & equivalents	50,457	51,471	84,263	128,474	167,851
Account receivables	44,994	51,723	48,344	62,694	80,309
Inventories	43,355	79,107	98,720	124,947	152,119
Other current assets	27,304	58,502	62,922	71,858	79,574
Non-current assets	129,670	253,057	344,023	391,388	404,003
PP&E	61,221	131,880	215,946	249,271	260,706
Intangibles	17,171	23,289	25,134	25,151	23,287
Investment in JVs & assos	7,905	15,485	18,265	21,145	24,125
Other non-current assets	43,373	82,402	84,678	95,821	95,884
Total assets	295,780	493,861	638,272	779,362	883,857
Current liabilities	171,304	333,345	435,794	539,950	602,333
Bank borrowings	10,204	5,153	-	-	-
Account payables	73,160	140,437	205,337	250,478	276,667
Contract Liabilities	14,934	35,517	52,650	58,309	11,409
Other current liabilities	73,006	152,238	177,807	231,163	314,258
Non-current liabilities	20,232	39,126	51,646	53,566	53,510
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
Total liabilities	191,536	372,471	487,441	593,516	655,843
Share capital	2,911	2,911	2,911	2,911	2,911
Reserves	92,159	108,118	136,112	169,359	209,079
Non-controlling interests	9,175	10,361	11,808	13,576	16,024
Shareholders' equity	95,070	111,029	139,023	172,270	211,990
Total equity and liabilities	295,780	493,861	638,272	779,362	883,857

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Automobile	52.0	76.6	75.5	77.4	76.7
Handset	40.0	23.3	19.5	18.1	18.5
Battery & others	8.0	0.1	5.0	4.5	4.8
Growth (%)					
Revenue	38.0	96.2	42.3	26.4	13.9
Gross profit	(7.3)	156.7	70.0	25.9	12.8
Operating profit	(34.6)	365.1	80.6	28.2	20.9
Net profit	(28.1)	445.9	87.8	26.2	20.6
Profit & loss ratio (%)					
Gross margin	13.0	17.0	20.4	20.3	20.1
Operating margin	2.1	5.1	6.4	6.5	6.9
Net profit margin	1.4	3.9	5.2	5.2	5.5
Balance sheet ratio					
Net cash/total equity (x)	0.2	0.3	0.4	0.5	0.6
Current ratio (x)	1.0	0.7	0.7	0.7	0.8
Receivable turnover days	94	58	39	40	45
Inventory turnover days	84	82	75	75	80
Payable turnover days	156	149	160	155	150
Profitability (%)					
ROE	4.0	16.1	25.0	25.3	24.7
ROA	1.2	4.2	5.5	5.6	5.7
Per share data (RMB)					
EPS	1.06	5.71	10.72	13.53	16.32
DPS	0.11	1.14	2.14	2.71	3.26

Source: Company data, CMBIGM estimates

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