

INITIATE COVERAGE

BYD Electronic (285 HK)

Robust Multi-Year Growth Cycle Driven By Content Gains And GenAI Themes

BYDE is one of the best positioned names to capture GenAI opportunities in the consumer electronics space, thanks to its growing presence in the Apple supply chain, as well as long-standing relations with Android clients. With its content gains in BYD's EV supply chain amid the ongoing import substitution trend, and its venture into the AI server ODM business, we believe BYDE will see a solid 27% earnings CAGR in 2024-26. Initiate coverage with BUY. Target price: HK\$47.70.

INITIATE COVERAGE

- Consumer electronics division: To be driven by content gains in Apple supply chain and recovery of smartphone market.** BYD Electronic (BYDE) is the biggest iPad assembler with a >50% market share, and through the recent acquisition of Jabil Inc's mobility business, is now a key supplier of Apple's titanium casings with a 30-40% market share. With Apple implementing state-of-the-art AI features across its devices in 2H24, we now expect its shipment to pick up again by 2025 as only 20%/5% of existing iPads/iPhones support AI features. As a key supplier for both iPad and iPhone, BYDE will be a primary beneficiary of the upcoming replacement cycle. On the other hand, the resumption of specs upgrades and recovery in shipment volume for Android phones will also benefit BYDE thanks to its close cooperation with the top Android brands.
- Automotive electronics division: Order wins and content gains as key growth drivers.** BYDE's share of content in automaker BYD Auto Co's (BYD) supply chain has been expanding in the past few years. BYDE started providing advanced driver-assistance systems to BYD in 2022 with penetration expanding to high-end models by end-23. It also won orders for thermal management systems and active suspension systems, which are scheduled for mass production and delivery in 1H24/end-24 respectively. As these new products have higher ASP and margins, coupled with sustained share gains in BYD's supply chain, we expect BYDE's average dollar content per vehicle to rise from Rmb3,729 in 2023 to Rmb5,523 in 2026. The ongoing content gains and BYD's electric vehicle sales growth will remain a key growth driver for BYDE's automotive electronics division in the coming 1-2 years, while the contribution from third-party auto brands may start to contribute more meaningfully in the longer term from 2026 onwards.
- BYDE to register solid growth.** We forecast revenue to grow 36.0%/7.8%/11.2% to Rmb177b/Rmb190b/Rmb212b in 2024-26 respectively, while margins are expected to expand to 8.3%/9.1%/9.4% for the same period. The bottom line is expected to rise 24.0%/37.8%/ 20.0% yoy to Rmb5.0b/Rmb6.9b/Rmb8.3b in 2024-26 respectively.

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KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	107,186	129,957	176,724	190,424	211,657
EBITDA	3,177	6,496	9,785	12,221	13,843
Operating profit	611	3,705	5,447	7,513	8,942
Net profit	1,858	4,041	5,011	6,908	8,291
Net profit (adj.)	1,858	4,041	5,011	6,908	8,291
EPS (cent)	82.4	179.4	222.4	306.6	368.0
P/E (x)	41.3	19.0	15.3	11.1	9.3
P/BV (x)	3.6	3.2	2.8	2.4	2.1
EV/EBITDA (x)	28.4	13.9	9.2	7.4	6.5
Dividend yield (%)	0.4	1.4	1.8	2.5	2.9
Net margin (%)	1.7	3.1	2.8	3.6	3.9
Net debt to equity (%)	(12.9)	20.3	1.2	(9.5)	(26.9)
Interest cover (x)	87.0	(71.3)	(59.0)	(36.4)	(24.3)
ROE (%)	7.5	14.7	16.0	19.3	19.9
Consensus net profit	-	-	5,009	6,513	7,776
UOBKH/Consensus (x)	-	-	1.00	1.06	1.07

Source: Bloomberg, UOB Kay Hian

BUY

Share Price	HK\$37.35
Target Price	HK\$47.70
Upside	27.7%

COMPANY DESCRIPTION

BYD Electronic researches, develops and manufactures handset components such as handset casings, keypads and modules for handset manufacturers. The company also provides assembly services comprising assembly service and PCB assembly service to global handset manufacturers.

STOCK DATA

GICS sector	Electronic Components
Bloomberg ticker:	285 HK
Shares issued (m):	2,253
Market cap (HK\$m):	84,157
Market cap (US\$m):	11,853
3-mth avg daily t'over (US\$m):	44.5

Price Performance (%)

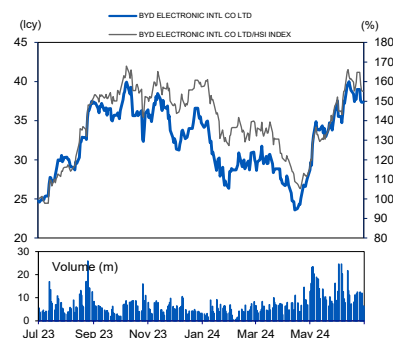
52-week high/low	HK\$41.10 / HK\$23.20			
1mth	3mth	6mth	1yr	YTD
2.2	35.6	5.2	48.8	2.0

Major Shareholders

Golden Link Worldwide Ltd	65.76
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FY24 NAV/Share (HK\$)	9.78
FY24 Net Debt/Share (HK\$)	0.17

PRICE CHART



Source: Bloomberg

ANALYST(S)

Johnny Yum
 +852 2235 6760
 johnny.yum@uobkayhian.com.hk

STOCK IMPACT

- **Earnings growth to continue in 2024.** After a robust recovery in 2023, BYDE's sales are expected to grow 36.0%/7.8%/11.2% yoy in 2024-26, driven by both the consumer electronics division and the automotive content gains in BYD's supply chain. In view of the Jabil components business' significant contribution and BYDE's aim to improve efficiency in the coming years, coupled with an improved automotive product mix, we expect margins to expand going forward to 8.3%/9.1%/9.4% in 2024-26. Overall, we project net profit to surge 24.0%/37.8%/20.0% yoy to Rmb5.0b/Rmb6.9b/Rmb8.3b in 2024-26 respectively.

VALUATION/RECOMMENDATION

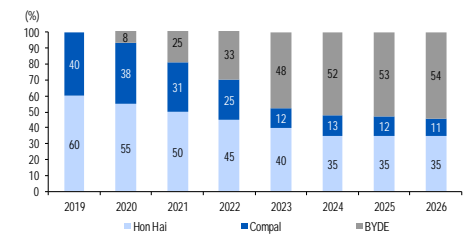
- **Initiate coverage with BUY, with a target price of HK\$47.70 based on SOTP valuation** with the following components:
 - 17.1x 2024F PE for the automotive electronics division, which is at a premium compared to peers' average at 11.7x, as we believe the division deserves the premium valuation given its faster top-/bottom line growth rate on the back of share gains.
 - 22.3x for the consumer electronics division, which is at a 30% premium vs peers' average at 17.2x, given BYDE's market share gains against competitors and ongoing margin expansion through optimisation of operations.
 - 14.7x for the intelligent devices division, which is based on peers' averaged valuation.

REVENUE BY KEY BUSINESS SEGMENT

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Total Revenue	129,957	176,724	190,424	211,657
Automotive Electronics	14,096	19,959	25,601	30,243
Consumer Electronics	97,420	136,480	141,494	153,421
- Assembly	83,783	99,008	97,992	107,241
- Components	13,637	14,709	15,784	16,530
- Jabil	n.a.	22,763	27,718	29,650
Intelligent Devices	18,441	20,285	23,328	27,993
yoy growth (%)	21.2	36.0	7.8	11.2
Automotive Electronics	52.2	41.6	28.3	20.0
Consumer Electronics	18.5	40.1	3.7	8.4
- Assembly	23.1	18.2	(1.0)	9.4
- Components	(3.7)	7.9	7.3	4.7
- Jabil	n.a.	n.a.	21.8	7.0
Intelligent Devices	17.4	10.0	15.0	20.0
Gross margins (%)	8.0	8.3	9.1	9.4
Automotive Electronics	14.0	14.5	15.0	15.5
Consumer Electronics	5.8	6.6	7.3	7.4
- Assembly	3.5	3.5	3.5	3.5
- Components	19.0	19.0	19.0	19.0
- Jabil	-	12.0	14.0	15.0
Intelligent Devices	15.9	14.0	14.0	14.0
yoy growth (ppt)				
Blended margins	2.1	0.3	0.8	0.3
Automotive Electronics	1.0	0.5	0.5	0.5
Consumer Electronics	1.1	0.8	0.7	0.1
- Assembly	0.3	-	-	-
- Components	7.0	-	-	-
- Jabil	-	n.a.	2.0	1.0
Intelligent Devices	7.1	(1.2)	-	-

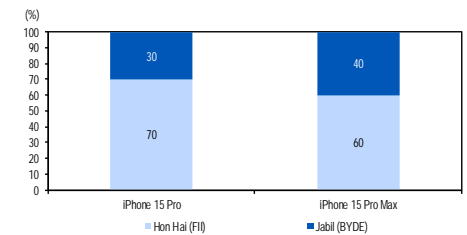
Source: BYDE, UOB Kay Hian

IPAD EMS MARKET SHARE BREAKDOWN



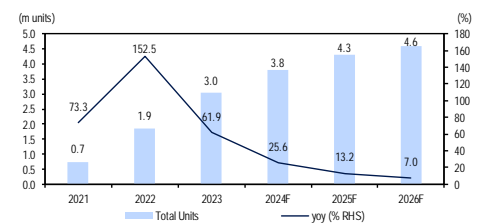
Source: BYDE, UOB Kay Hian

IPHONE 15 PRO/PRO MAX CASING ALLOCATION



Source: Bloomberg, IDC, UOB Kay Hian

BYD'S SALES FORECAST



Source: BYD, UOB Kay Hian

INTELLIGENT DEVICES REVENUE CONTRIBUTION BY PRODUCT CATEGORY

Product Category	% of Division Revenue in 2023	Notable Customers
BESS	25-35%	BYD
Gaming Hardware	10-20%	Razer
Robotic Vacuums	10-20%	iRobot
Drones	5-15%	DJI
POS Machines	5-15%	Sunmi
Others	10-20%	-

Source: BYDE, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	129,957	176,724	190,424	211,657
EBITDA	6,496	9,785	12,221	13,843
Depreciation & amortization	(2,791)	(4,337)	(4,708)	(4,901)
EBIT	3,705	5,447	7,513	8,942
Total other non-operating income	924	220	220	220
Associate contributions	-	-	-	-
Net interest income/(expense)	52	92	206	368
Pre-tax profit	4,681	5,760	7,940	9,530
Tax	(640)	(749)	(1,032)	(1,239)
Minorities	-	-	-	-
Net profit	4,041	5,011	6,908	8,291
Net profit (recurrent)	4,041	5,011	6,908	8,291

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	10,243	10,835	9,552	14,422
Pre-tax profit	4,681	5,760	7,940	9,530
Tax	(640)	(749)	(1,032)	(1,239)
Depreciation/amortization	2,791	4,337	4,708	4,901
Associates	-	-	-	-
Working capital changes	2,310	1,225	(2,265)	1,078
Non-cash items	1,101	262	202	152
Other operating cashflows	-	-	-	-
Investing	(17,735)	(3,800)	(3,800)	(3,800)
Capex (growth)	(3,851)	(3,800)	(3,800)	(3,800)
Investments	(14,145)	-	-	-
Proceeds from sale of assets	261	-	-	-
Others	(0)	-	-	-
Financing	11,823	(4,474)	(4,706)	(4,225)
Dividend payments	(372)	(1,212)	(1,503)	(2,072)
Issue of shares	-	-	-	-
Proceeds from borrowings	20,491	15,000	12,000	10,000
Loan repayment	(7,864)	(18,000)	(15,000)	(12,000)
Others/interest paid	(432)	(262)	(202)	(152)
Net cash inflow (outflow)	4,330	2,561	1,047	6,398
Beginning cash & cash equivalent	6,244	10,537	13,098	14,145
Changes due to forex impact	(37)	-	-	-
Ending cash & cash equivalent	10,537	13,098	14,145	20,543

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	19,709	19,981	19,974	19,686
Other LT assets	12,902	12,093	11,193	10,380
Cash/ST investment	10,546	13,107	14,154	20,552
Other current assets	44,061	54,840	51,224	66,426
Total assets	87,219	100,022	96,544	117,043
ST debt	16,489	13,489	10,489	8,489
Other current liabilities	40,138	52,142	46,260	62,540
LT debt	0	0	0	0
Other LT liabilities	3,138	3,138	3,138	3,138
Shareholders' equity	29,330	33,129	38,533	44,753
Minority interest	0	0	0	0
Total liabilities & equity	87,219	100,022	96,544	117,043

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
Gross margin	8.0	8.3	9.1	9.4
Pretax margin	3.6	3.3	4.2	4.5
Net margin	3.1	2.8	3.6	3.9
ROA	5.6	5.4	7.0	7.8
ROE	14.7	16.0	19.3	19.9
Growth				
Turnover	21.2	36.0	7.8	11.2
Gross profit	64.3	41.1	18.3	14.5
Pre-tax profit	141.5	23.0	37.8	20.0
Net profit	117.6	24.0	37.8	20.0
Net profit (adj)	117.6	24.0	37.8	20.0
EPS	117.6	24.0	37.8	20.0
Leverage				
Debt to total capital	18.9	13.5	10.9	7.3
Debt to equity	56.2	40.7	27.2	19.0
Net debt to equity	20.3	1.2	(9.5)	(26.9)
Interest cover (x)	(71.3)	(59.0)	(36.4)	(24.3)

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