

COMPANY UPDATE

BYD Company (1211 HK)

2Q23: Earnings Up 145% yoy And 65% qoq, In Line

BYD posted in-line 2Q23 net profit of Rmb6,824m (+142% yoy/+72% qoq), vs its guidance of Rmb6,370m-7,570m, driven by sales growth and margin recovery. This brings 1H23 net profit to Rmb10.95b (+205% yoy), vs our 2023 estimate of Rmb23.81b (+43% yoy). Looking ahead, we expect earnings to continue growing qoq in 2H23, driven by new model launches. We keep 2023-25 net profit forecasts at Rmb23.81b/Rmb37.57b/Rmb53.36b. Maintain BUY. Target price: HK\$590.00.

2023 RESULTS

Year to 31 Dec (Rmbm)	2023	yoy % chg	qoq % chg	1H23	yoy % chg
Sales volume ('000 units)	703.6	98.2	27.4	1,256	94.3
Revenue	139,951	67.0	16.5	260,124	72.7
Gross profit	26,206	117.4	22.1	47,673	134.4
Gross margin (%)	18.7	4.3	0.9	18.3	4.8
EBIT	7,351	125.5	35.4	12,780	179.9
EBIT margin (%)	5.3	1.4	0.7	4.9	1.9
Net profit	6,824	144.9	65.2	10,954	204.7
- Net profit excl BYDE, JVs and assoc.	5,746	115.4	59.0	9,359	161.2
- Shared profit of BYDE	695	132.9	130.3	997	139.2
- Shared profit of JVs and assoc.	383	n.a.	78.0	598	(247.8)
Net profit (adj.)	6,090	142.1	70.8	9,655	218.7
Net margin (%)	4.9	1.5	1.4	4.2	1.8

Source: BYD, UOB Kay Hian

RESULTS

- BYD Company (BYD) posted in-line 2Q23 net profit of Rmb6,824m (+145% yoy/+65% qoq), at the mid-point of its guidance range of Rmb6,370m-7,570m. 1H23 net profit and core net profit respectively surged 205% yoy to Rmb10,954m, vs guidance of Rmb10.5b-11.7b and our and consensus 2023 net profit forecasts of Rmb23.81b and Rmb25.6b.**
- Revenue grew 67% yoy and 16.5% qoq to Rmb139.95b in 2Q23, in line, on a 98% yoy/27% qoq growth in electric vehicle (EV) sales volume. This brings 1H23 revenue to Rmb260.12b (+73% yoy), vs our full-year 2023 estimate of Rmb653.97b. By segment, the auto segment's revenue soared 91% yoy to Rmb208.82b in 1H23 on a 94% yoy sales volume growth.**

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	216,142	424,061	653,972	891,364	1,195,885
EBITDA	21,317	42,357	57,075	80,470	105,520
Operating profit	7,209	21,987	27,013	40,512	55,532
Net profit (rep./act.)	3,045	16,622	23,814	37,569	53,364
Net profit (adj.)	1,788	14,421	23,814	37,569	53,364
EPS (fen)	106.7	571.0	818.0	1,293.0	1,836.6
PE (x)	193.8	36.2	25.3	16.0	11.3
P/B (x)	6.3	5.4	4.6	3.7	2.9
EV/EBITDA (x)	23.1	11.6	8.6	6.1	4.7
Dividend yield (%)	0.1	0.6	0.8	1.3	1.8
Net margin (%)	0.8	3.4	3.6	4.2	4.5
Net debt/(cash) to equity (%)	(15.8)	(26.7)	(83.0)	(114.5)	(151.5)
Interest cover (x)	4.0	(13.6)	(11.8)	(7.9)	(6.2)
ROE (%)	2.4	14.0	19.6	25.4	28.5
Consensus net profit	-	-	25,602	33,359	42,500
UOBKH/Consensus (x)	-	-	0.93	1.13	1.26

Source: BYD, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$237.80
Target Price	HK\$590.00
Upside	148.1%

COMPANY DESCRIPTION

BYD Company produces automobiles, rechargeable batteries and handset components in China.

STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	1211 HK
Shares issued (m):	1,098
Market cap (HK\$m):	261,104
Market cap (US\$m):	33,475
3-mth avg daily t'over (US\$m):	221

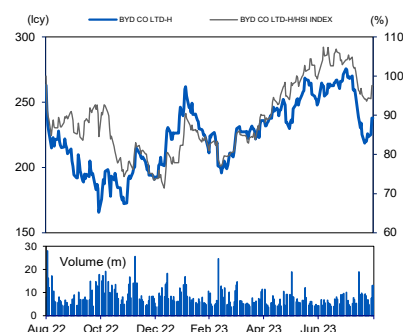
Price Performance (%)

52-week high/low	HK\$280.60/HK\$161.70			
1mth	3mth	6mth	1yr	YTD
3.5	12.6	(10.0)	23.5	3.5

Major Shareholders

	%
Wang Chuan Fu	17.64
Lu Xiang Yang	8.22
FY23 NAV/Share (Rmb)	38.6
FY23 Net Cash/Share (Rmb)	9.5

PRICE CHART



Source: Bloomberg

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- **Gross margin soared by 4.3ppt yoy/0.9ppt qoq to 18.7% in 2Q23, beating expectations** when compared with our full-year 2023 assumption of 16.3%, driven by a qoq sales rebound. Although SG&A expenses/revenue ratio and R&D expenses/revenue ratio respectively hiked by 1.3ppt/1.8ppt yoy and 0.2ppt/0.2ppt qoq to 6.9%/5.4% in 2Q23, EBIT margin increased by 1.4ppt yoy/0.7ppt qoq to 5.3% in 2Q23, compared with our 2023 assumption of 4.1%.

STOCK IMPACT

- **We keep our 2023-25 EV sales volume estimates at 3.0m/4.0m/5.2m units respectively**, implying yoy growth of 67%/33%/30%. BYD's monthly sales volume grew 61% yoy and 4% mom to 262,161 units in Jul 23, and we expect that to grow further to around 300,000 units from 3Q23, driven by the sales ramp-up of the models launched in 2Q23, eg the God of War Version Han DM-p, the Champion Version of Song Pro/Song Plus DM-i, Seagull, as well as the debuts of more new models, including Seal DM-i, Song L, the God of War Version of Tang DM-p, the Champion Version of Yuan Plus, Denza N7/N8, Bao 5, Yangwang U8/U9, etc.

Among them, Denza kickstarted deliveries of N7 on 28 Jul 23. Fang Cheng Bao kickstarted the presale of its off-road SUV Bao 5 at Chengdu Auto Show starting from 25 Aug 23, and the brand will foray into the city SUV segment. Yangwang will also kickstart the presale of the long-awaited U8. All of these new models have received stronger-than-expected orders thus far, implying strong sales growth over the next few months.

As for overseas markets, BYD targets to grow export volume from less than 60,000 units in 2022 to more than 200,000 units in 2023 and 400,000 units in 2024, driven by escalating penetration rate of EVs in other countries and its launches of more models in overseas markets. BYD's export volume surged by 351% yoy and 72% mom to 18,169 units in Jul 23 and by 868% yoy to 92,458 units in 7M23. The company guides for significant growth in export volume from Aug 23 with the debuts of more models overseas, eg Seal and Seagull.

- **We keep our 2023-25 ASP assumptions for EVs at Rmb153,000/Rmb160,000/Rmb170,000 respectively**, as the company is moving upmarket with the launches of more high-end products.
- **We keep our 2023-25 external EV battery sales volume forecasts at 25GWh/50GWh/75GWh respectively**, based on the growing sales to Tesla, Toyota, Ford, Changan and FAW, as well as energy storage stations. Energy storage batteries will contribute half of BYD's total external sales volume of batteries.
- **We keep our 2023-25 EBIT margin assumptions at 4.1%/4.5%/4.6% respectively**, vs 5.2% in 2022 and 4.9% in 1H23, based on the improving economies of scale along with higher sales volume. Note that our 2023 EBIT assumption implies a 1.1ppt drop in EBIT margin in 2023 to factor in the price cuts.

EARNINGS REVISION/RISK

- **We maintain our 2022-24 net profit forecasts at Rmb23.81b/Rmb37.57b/Rmb53.36b respectively.**

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of HK\$590.00** based on our base-case 10-year DCF model (WACC: 12%, terminal growth: 4%).

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	424,061	653,972	891,364	1,195,885
EBITDA	42,357	57,075	80,470	105,520
Depreciation & amortization	(20,370)	(30,062)	(39,958)	(49,988)
EBIT	21,987	27,013	40,512	55,532
Total other non-operating income	(1,733)	-	-	-
Associate contributions	(792)	200	250	300
Net interest income/(expense)	1,618	2,280	5,134	8,901
Pre-tax profit	21,080	29,492	45,896	64,733
Tax	(3,367)	(4,424)	(6,884)	(9,710)
Minorities	(1,091)	(1,254)	(1,442)	(1,659)
Net profit	16,622	23,814	37,569	53,364
Net profit (recurrent)	14,421	23,814	37,569	53,364

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	140,838	179,047	178,169	229,379
Pre-tax profit	21,080	29,492	45,896	64,733
Tax	(3,367)	(4,424)	(6,884)	(9,710)
Depreciation/amortization	20,370	30,062	39,958	49,988
Associates	769	(200)	(250)	(300)
Working capital changes	98,812	126,396	104,583	133,570
Non-cash items	3,174	(2,280)	(5,134)	(8,901)
Other operating cashflows	-	-	-	-
Investing	(120,596)	(95,216)	(93,362)	(90,595)
Capex (growth)	(97,457)	(98,500)	(99,500)	(100,500)
Investments	(10,573)	-	-	-
Proceeds from sale of assets	378	-	-	-
Others	(12,944)	3,284	6,138	9,905
Financing	(19,489)	(4,329)	(5,767)	(8,518)
Dividend payments	(1,633)	(4,329)	(5,767)	(8,518)
Issue of shares	508	-	-	-
Proceeds from borrowings	27,636	30,000	30,000	30,000
Loan repayment	(44,049)	(30,000)	(30,000)	(30,000)
Others/interest paid	(1,951)	-	-	-
Net cash inflow (outflow)	753	79,502	79,039	130,267
Beginning cash & cash equivalent	49,820	51,182	130,685	209,724
Changes due to forex impact	610	-	-	-
Ending cash & cash equivalent	51,182	130,685	209,724	339,991

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	179,640	248,413	308,161	358,884
Other LT assets	73,418	73,282	73,326	73,414
Cash/ST investment	51,182	130,685	209,724	339,991
Other current assets	189,621	252,904	327,050	425,285
Total assets	493,861	705,284	918,261	1,197,575
ST debt	11,618	11,618	11,618	11,618
Other current liabilities	321,727	511,406	690,135	921,939
LT debt	10,211	10,211	10,211	10,211
Other LT liabilities	28,915	28,915	28,915	28,915
Shareholders' equity	111,029	131,519	164,325	210,175
Minority interest	10,361	11,615	13,057	14,716
Total liabilities & equity	493,861	705,284	918,261	1,197,575

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	10.0	8.7	9.0	8.8
Pre-tax margin	5.0	4.5	5.1	5.4
Net margin	3.9	3.6	4.2	4.5
ROA	3.7	4.0	4.6	5.0
ROE	14.0	19.6	25.4	28.5
Growth				
Turnover	96.2	54.2	36.3	34.2
EBITDA	98.7	34.7	41.0	31.1
Pre-tax profit	366.6	39.9	55.6	41.0
Net profit	445.9	43.3	57.8	42.0
Net profit (adj.)	706.6	65.1	57.8	42.0
EPS	435.2	43.3	58.1	42.0
Leverage				
Debt to total capital	4.4	3.1	2.4	1.8
Debt to equity	19.7	16.6	13.3	10.4
Net debt/(cash) to equity	(26.7)	(83.0)	(114.5)	(151.5)
Interest cover (x)	(13.6)	(11.8)	(7.9)	(6.2)

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