



Asia  
China  
Automobiles & Components

Industry  
**BYD**

Date  
30 October 2017

Forecast Change

## 3Q17 profit as guided; 4Q17E earnings to improve slightly QoQ

**4Q guidance below expectation but new energy vehicle (NEV) sales still growing**

BYD has reported 3Q17 results under PRC GAAP. Gross revenue grew by 3.8% YoY to RMB28.9bn on higher demand for its own brand passenger and commercial new energy vehicles (up 9.7% and 7.5% YoY, respectively), partially offset by a 36.4% YoY decline in conventional vehicle sales during the period. Gross profit margin declined by 2.3 ppt YoY probably on lower NEV margin after subsidy cut, in our view. Meanwhile, BYD's 3Q17 net profit declined 23.9% YoY to RMB1.1bn, which is near the mid-range of BYD's previous guidance.

In its announcement, BYD guided that it expects to register a 15.1-20.0% YoY decline in FY17 net profit to RMB4.04-4.29bn, which translates to 4Q17E net profit of RMB1.2-1.5bn (vs. RMB1.4bn in 4Q16), implying an YoY decline of up to 10.0% or an YoY growth of up to 8.0%. For 4Q17, BYD expects NEV sales to continue to grow at a high pace, while traditional passenger vehicle sales can improve with good market reception for the new Song Max MPV. Besides, management sees positive outlook for its handset component and assembly business, and more revenue/profit recognition for its monorail projects.

**Deutsche Bank view - Buy BYD-H as scalable Chinese NEV play**

BYD's FY17E earnings guidance accounts for about 91-96% of our forecast. Considering the guidance, we trim our FY17-19E revenue by 0.8-3.6% on 1) more prudent vehicle sales forecast and 2) a possible cut in subsidy income amount in FY18 amid policy refinement. We also cut our FY17-19 net profit forecasts by 6.9-11.8% on lower margin assumptions for the auto business.

Our SOTP-derived target prices are based on 1) a peer average FY18E P/E of 15.5x, 22.4x and 7.4x for the handset business (18% of SOTP value), battery business (6% of SOTP value) and monorail business (2% of SOTP value), respectively; and 2) a peer average FY18E P/sales of 1.7x and 2.1x for the conventional auto business (12% of SOTP value) and the NEV business (62% of SOTP value), respectively. The implied target FY18E P/E is 29.8x, the highest target P/E benchmark among its local peers, which we believe is justified by its unique exposure to China's NEV market and its 37% FY17-19E two-year EPS CAGR. We maintain Buy on BYD-H on a positive earnings outlook, mainly driven by robust NEV demand and potential NEV battery sales to third parties. We maintain Hold on BYD-A, given the valuation premium to the H-shares. Key upside risks: rapid auto sales

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### Key Changes

Company	Target Price	Rating
1211.HK	85.80 to 80.70	-
002594.SZ	73.30 to 68.70	-

Source: Deutsche Bank

### Companies featured

	2016A 2017E 2018E		
BYD (1211.HK),HKD69.20			Buy
P/E (x)	19.8	38.4	25.6
EV/EBITDA (x)	8.7	12.3	9.8
Price/book (x)	1.9	3.0	2.7
BYD-A (002594.SZ),CNY65.13			Hold
	2016A 2017E 2018E		
P/E (x)	29.1	42.4	28.3
EV/EBITDA (x)	11.6	13.4	10.6
Price/book (x)	2.6	3.3	3.0

Source: Deutsche Bank

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and margin improvement, driven by successful new models, better-than-expected sales, and/or a margin recovery in battery and handset component businesses. Key downside risks: weakening in NEV sales and margin pressure.

Figure 1: BYD – quarterly operational and financial trends

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Total vehicle sales volume (units)	103,219	114,674	123,603	166,143	91,039	94,160	94,511
YoY%	-18.3%	11.4%	63.8%	16.5%	-11.8%	-17.9%	-23.5%
New energy vehicle sales (units)	18,050	28,461	34,622	32,323	8,889	28,263	37,903
YoY%	113.4%	115.8%	123.7%	25.4%	-50.8%	-0.7%	9.5%
Gross revenue (RMBm)	20,285.2	24,664.3	27,848.2	30,672.2	21,046.1	23,991.5	28,895.3
YoY%	32.7%	51.3%	64.7%	-2.7%	3.8%	-2.7%	3.8%
Gross profit margin	19.1%	22.3%	21.5%	18.7%	21.0%	19.7%	19.1%
Selling expense/Gross revenue	3.0%	4.9%	3.8%	4.3%	5.0%	5.0%	4.5%
Administrative expense/Gross revenue	6.4%	7.0%	8.7%	4.6%	7.4%	6.5%	6.7%
Net profit (RMBm)	850.7	1,409.0	1,404.4	1,388.0	605.8	1,117.1	1,068.5
YoY%	603.4%	307.6%	-6.0%	61.0%	-28.8%	-20.7%	-23.9%
Net profit margin	4.2%	5.7%	5.0%	4.5%	2.9%	4.7%	3.7%

Source: Company data, China Association of Automobile Manufacturers (CAAM), Deutsche Bank

Figure 2: BYD – summary of Deutsche Bank's forecasts and revisions

	2017E	2018E	2019E
<b>Vehicle sales (units)</b>			
New	399,946	454,881	500,666
Old	410,615	463,770	509,962
% Change	-2.6%	-1.9%	-1.8%
<b>Revenue (RMBm)</b>			
New	111,033	140,271	161,592
Old	111,984	144,900	167,569
% Change	-0.8%	-3.2%	-3.6%
<b>Net profit (RMBm)</b>			
New	4,189	6,289	7,439
Old	4,500	7,129	8,420
% Change	-6.9%	-11.8%	-11.7%

Source: Deutsche Bank estimates

Figure 3: BYD - sum-of-the-parts valuation summary

Segment	Industry P/E or P/sales	FY18E EPS or sales per share (HKD)	Target price (HKD)
BYD Electronic	15.5	0.93	14.4
Battery and others	22.4	0.22	4.9
Monorail	7.4	0.20	1.5
Conventional auto (P/sales)	1.7	5.96	9.8
New energy vehicles (P/sales)	2.1	23.88	50.1
<b>BYD Overall (HKD)</b>			<b>80.7</b>
<b>Implied overall FY18E P/E</b>			<b>29.8</b>

Source: Deutsche Bank estimates



# Appendix 1

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\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
BYD-A	002594.SZ	65.13 (CNY) 27 Oct 2017	14, 15
BYD	1211.HK	69.20 (HKD) 27 Oct 2017	13, 14, 15

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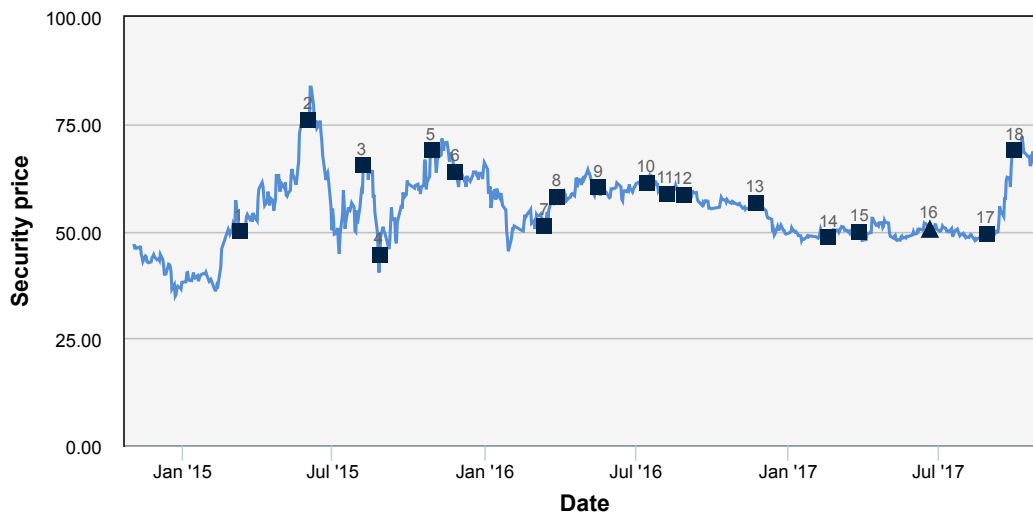
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Historical recommendations and target price. BYD-A (002594.SZ)

(as of 10/27/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

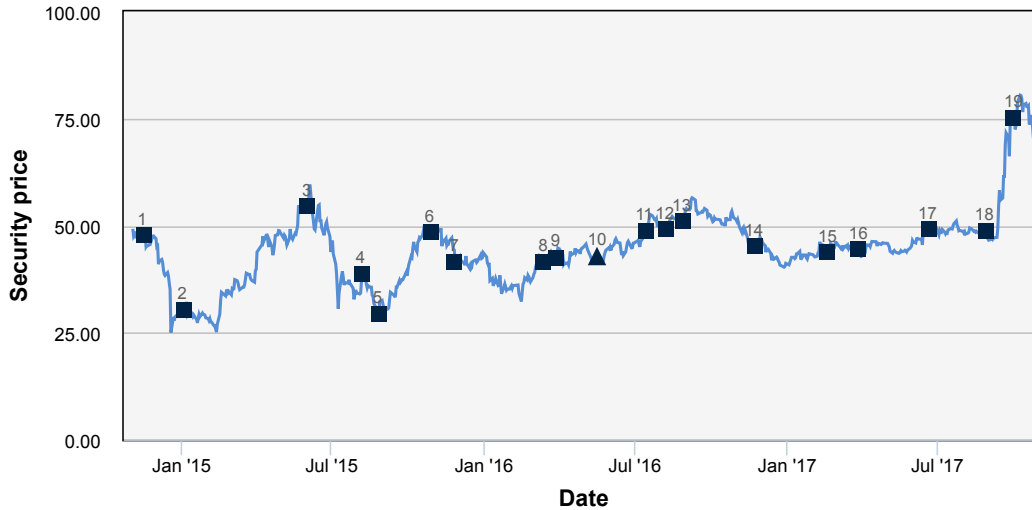
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1.	03/12/2015	Sell, Target Price Change CNY 27,70 Vincent Ha, CFA	10.	07/15/2016	Sell, Target Price Change CNY 48,90 Vincent Ha, CFA
2.	06/02/2015	Sell, Target Price Change CNY 40,90 Vincent Ha, CFA	11.	08/08/2016	Sell, Target Price Change CNY 50,30 Vincent Ha, CFA
3.	08/07/2015	Sell, Target Price Change CNY 34,80 Vincent Ha, CFA	12.	08/29/2016	Sell, Target Price Change CNY 51,60 Vincent Ha, CFA
4.	08/27/2015	Sell, Target Price Change CNY 30,90 Vincent Ha, CFA	13.	11/24/2016	Sell, Target Price Change CNY 46,70 Vincent Ha, CFA
5.	10/29/2015	Sell, Target Price Change CNY 34,90 Vincent Ha, CFA	14.	02/20/2017	Sell, Target Price Change CNY 44,80 Vincent Ha, CFA
6.	11/27/2015	Sell, Target Price Change CNY 35,90 Vincent Ha, CFA	15.	03/29/2017	Sell, Target Price Change CNY 42,60 Vincent Ha, CFA
7.	03/14/2016	Sell, Target Price Change CNY 38,20 Vincent Ha, CFA	16.	06/21/2017	Upgraded to Hold, Target Price Change CNY 51,90 Vincent Ha, CFA
8.	03/29/2016	Sell, Target Price Change CNY 39,50 Vincent Ha, CFA	17.	08/29/2017	Hold, Target Price Change CNY 48,80 Vincent Ha, CFA
9.	05/18/2016	Sell, Target Price Change CNY 42,60 Vincent Ha, CFA	18.	10/02/2017	Hold, Target Price Change CNY 73,30 Vincent Ha, CFA



Historical recommendations and target price. BYD (1211.HK)

(as of 10/27/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

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3.	06/02/2015	Hold, Target Price Change HKD 51,10 Vincent Ha, CFA	13.	08/29/2016	Buy, Target Price Change HKD 60,00 Vincent Ha, CFA
4.	08/07/2015	Hold, Target Price Change HKD 43,50 Vincent Ha, CFA	14.	11/24/2016	Buy, Target Price Change HKD 52,60 Vincent Ha, CFA
5.	08/27/2015	Hold, Target Price Change HKD 37,30 Vincent Ha, CFA	15.	02/20/2017	Buy, Target Price Change HKD 50,60 Vincent Ha, CFA
6.	10/29/2015	Hold, Target Price Change HKD 42,50 Vincent Ha, CFA	16.	03/29/2017	Buy, Target Price Change HKD 48,20 Vincent Ha, CFA
7.	11/27/2015	Hold, Target Price Change HKD 43,50 Vincent Ha, CFA	17.	06/21/2017	Buy, Target Price Change HKD 59,50 Vincent Ha, CFA
8.	03/14/2016	Hold, Target Price Change HKD 45,60 Vincent Ha, CFA	18.	08/29/2017	Buy, Target Price Change HKD 57,70 Vincent Ha, CFA
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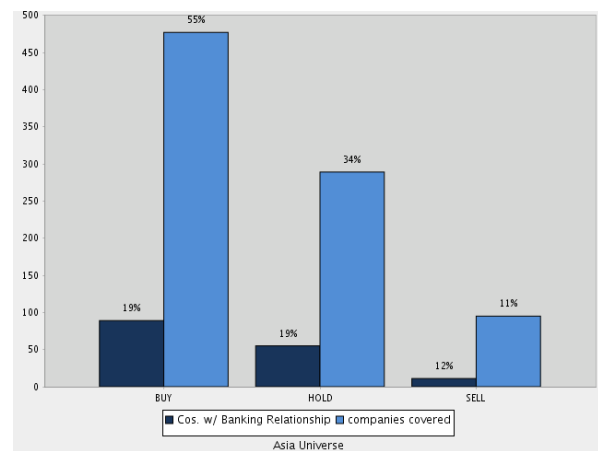
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