

BYD (1211 HK)

Our FY24 forecasts still on track post 1Q24

Maintain BUY. Although BYD's 1Q24 net profit of RMB 4.6bn missed our prior forecast on a massive R&D spending of RMB10.6bn, we believe the automaker is still on track to achieve our FY24E net profit forecast of RMB33bn. BYD's 1Q24 GPM also underscored our prior argument that its price cuts in Feb 2024 could be largely absorbed by cost reduction from suppliers. Nevertheless, we expect BYD to be more self-disciplined in SG&A and R&D expenses in the following quarters, should it put earnings at a higher priority.

■ **1Q24 R&D beat our forecast.** BYD's 1Q24 revenue beat our prior forecast by 4%, largely due to BYDE. Its GPM was 1.3ppts higher than our estimates, which was offset by its larger-than-expected selling expenses. We did expect a possible wide range of 1Q24 net profit due to uncertainties from R&D expenses and impairment. These two expenses combined in 1Q24 were about RMB4.1bn higher than our estimates, as the R&D ratio reached 8.5% last quarter, the highest in history. The 1Q24 net profit would have been RMB6.9bn (vs. the actual RMB4.6bn), if the R&D ratio was the same as FY23 (6.6%), which would be in line with our prior net profit forecast.

■ **20% sales volume growth in FY24 still achievable with resilient margins.** We are of the view that our FY24E sales volume forecast of 3.6mn units is still achievable, especially given the recent stimulus measures and overseas ramp-up. Such potential topline growth, along with the stimulus measures, could make its gross margin resilient, in our view. Even including its rising selling expenses, its 1Q24 margin (GPM-selling exp ratio) was close to that in 4Q23 when the sales volume was 51% higher (0.63mn units in 1Q24 vs. 0.94mn units in 4Q23). BYD's net profit per vehicle of RMB7,300 in 1Q24 was about RMB1,900 lower than that in 4Q23, while the automaker cut prices of most models by RMB20,000-30,000 in mid-Feb 2024.

■ **Earnings/Valuation.** It appears to us that BYD did not prioritize its 1Q24 earnings as it did not utilize its flexibility to lift its net profit amid its previous high earnings quality. We expect BYD to be more self-disciplined in SG&A and R&D expenses in the following quarters. We keep our FY24-25E net profit estimates largely unchanged, although we revise up both GPM and SG&A. Therefore, we maintain our BUY rating and target price of HK\$262, still based on 20x our FY24E EPS. Key risks to our rating and target price include lower sales and/or margins than expected, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	424,061	602,315	700,048	800,518	884,971
YoY growth (%)	96.2	42.0	16.2	14.4	10.5
Net profit (RMB mn)	16,622.4	30,040.8	33,108.6	40,173.1	45,095.3
YoY growth (%)	445.9	80.7	10.2	21.3	12.3
EPS (Reported) (RMB)	5.72	10.34	11.37	13.80	15.49
P/S (x)	1.4	1.0	0.8	0.7	0.7
P/E (x)	35.0	19.4	17.6	14.5	12.9
Yield (%)	0.6	1.5	1.1	1.4	1.5
ROE (%)	16.1	24.0	21.9	22.3	20.9
Net gearing (%)	(39.3)	(69.5)	(52.7)	(64.7)	(85.9)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$262.00
 (Previous TP HK\$262.00)
Up/Downside 21.1%
Current Price HK\$216.40

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Stock Data

Mkt Cap (HK\$ mn)	629,971.3
Avg 3 mths t/o (HK\$ mn)	1,634.7
52w High/Low (HK\$)	275.60/171.70
Total Issued Shares (mn)	2911.1

Source: FactSet

Shareholding Structure

Mr. Wang Chuanfu	17.6%
Mr. Lv Xiangyang	8.2%

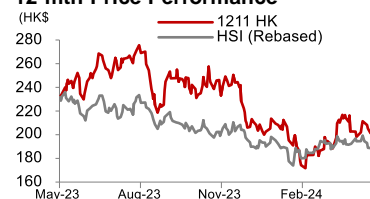
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.3%	0.0%
3-mth	16.3%	5.3%
6-mth	-12.0%	-13.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Report

["BYD \(1211 HK\) - Good FY23 earnings quality" - 28 Mar 2024](#)

Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	4Q23	1Q24	YoY	QoQ
Sales volume (units)	552,076	703,561	824,001	944,779	626,263	13.4%	-33.7%
Revenue	120,174	139,951	162,151	180,041	124,944	4.0%	-30.6%
Gross profit	21,467	26,206	35,876	38,209	27,341	27.4%	-28.4%
R&D expenses	(6,238)	(7,597)	(11,104)	(14,637)	(10,611)	70.1%	-27.5%
SG&A expenses	(8,014)	(9,643)	(9,851)	(11,166)	(10,572)	31.9%	-5.3%
Operating profit	5,299	8,433	12,906	11,466	5,798	9.4%	-49.4%
Net profit	4,130	6,824	10,413	8,674	4,569	10.6%	-47.3%
Gross margin	17.9%	18.7%	22.1%	21.2%	21.9%	4.0 ppt	0.7 ppt
Operating margin	4.4%	6.0%	8.0%	6.4%	4.6%	0.2 ppt	-1.7 ppt
Net margin	3.4%	4.9%	6.4%	4.8%	3.7%	0.2 ppt	-1.2 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	700,048	800,518	884,971	703,735	804,613	N/A	-0.5%	-0.5%	N/A
Gross profit	140,565	156,428	170,656	137,810	55,367	N/A	2.0%	0.7%	N/A
Operating profit	41,816	50,717	56,961	41,711	50,955	N/A	0.3%	-0.5%	N/A
Net profit	33,109	40,173	45,095	33,031	40,402	N/A	0.2%	-0.6%	N/A
Gross margin	20.1%	19.5%	19.3%	19.6%	19.3%	N/A	0.5 ppt	0.2 ppt	N/A
Operating margin	6.0%	6.3%	6.4%	5.9%	6.3%	N/A	0.0 ppt	0.0 ppt	N/A
Net margin	4.7%	5.0%	5.1%	4.7%	5.0%	N/A	0.0 ppt	0.0 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	700,048	800,518	884,971	753,238	895,188	984,337	-7.1%	-10.6%	-10.1%
Gross profit	140,565	156,428	170,656	146,806	175,457	192,005	-4.3%	-10.8%	-11.1%
Operating profit	41,816	50,717	56,961	43,181	54,246	57,064	-3.2%	-6.5%	-0.2%
Net profit	33,109	40,173	45,095	35,808	44,224	47,725	-7.5%	-9.2%	-5.5%
Gross margin	20.1%	19.5%	19.3%	19.5%	19.6%	19.5%	0.6 ppt	-0.1 ppt	-0.2 ppt
Operating margin	6.0%	6.3%	6.4%	5.7%	6.1%	5.8%	0.2 ppt	0.3 ppt	0.6 ppt
Net margin	4.7%	5.0%	5.1%	4.8%	4.9%	4.8%	0.0 ppt	0.1 ppt	0.2 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	216,142	424,061	602,315	700,048	800,518	884,971
Cost of goods sold	(187,998)	(351,816)	(480,558)	(559,484)	(644,090)	(714,315)
Gross profit	28,145	72,245	121,757	140,565	156,428	170,656
Operating expenses	(22,818)	(50,990)	(88,598)	(102,584)	(110,951)	(120,272)
Selling expense	(6,082)	(15,061)	(25,211)	(29,984)	(33,681)	(35,996)
Admin expense	(5,710)	(10,007)	(13,462)	(15,806)	(16,885)	(18,138)
R&D expense	(7,991)	(18,654)	(39,575)	(44,745)	(46,075)	(50,350)
Others	(3,035)	(7,267)	(10,350)	(12,049)	(14,310)	(15,788)
Operating profit	5,327	21,255	33,159	37,981	45,477	50,384
Other income	2,608	2,248	5,965	5,700	5,700	5,700
Other expense	(452)	(989)	(1,546)	(1,500)	(1,550)	(1,600)
Gain/loss on financial assets at FVTPL	47	126	258	45	45	45
Investment gain/loss	(57)	(792)	1,635	1,808	1,908	1,908
Other gains/(losses)	(1,168)	(2,387)	(3,677)	(4,063)	(3,530)	(3,902)
EBITDA	20,542	42,766	82,649	102,833	122,527	136,993
Depreciation	10,880	14,605	37,718	52,233	62,873	70,713
Depreciation of ROU assets	273	584	1,390	2,211	2,373	2,535
Other amortisation	2,956	5,181	4,444	5,282	5,852	6,396
EBIT	6,433	22,396	39,096	43,108	51,429	57,349
Interest income	632	1,830	2,796	3,136	3,379	4,815
Interest expense	(1,915)	(1,316)	(1,828)	(2,092)	(1,562)	(1,288)
Net Interest income/(expense)	(1,787)	1,618	1,475	1,045	1,817	3,527
Foreign exchange gain/loss	(533)	1,216	639	0	0	0
Pre-tax profit	4,518	21,080	37,269	41,016	49,867	56,061
Income tax	(551)	(3,367)	(5,925)	(6,282)	(7,600)	(8,495)
After tax profit	3,967	17,713	31,344	34,734	42,267	47,566
Minority interest	(922)	(1,091)	(1,303)	(1,626)	(2,094)	(2,471)
Net profit	3,045	16,622	30,041	33,109	40,173	45,095
Gross dividends	306	3,325	9,012	6,622	8,035	9,019

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	166,110	240,804	302,121	330,527	404,084	503,565
Cash & equivalents	49,820	51,182	108,512	99,000	140,389	214,258
Restricted cash	637	289	583	1,000	1,000	1,000
Account receivables	44,994	51,723	67,431	80,784	93,518	103,384
Inventories	43,355	79,107	87,677	99,634	114,701	127,207
Prepayment	2,037	8,224	2,215	11,190	12,882	14,286
Financial assets at FVTPL	5,606	20,627	9,563	9,613	9,663	9,713
Other current assets	11,168	16,099	23,481	25,317	27,370	28,675
Contract assets	8,493	13,553	2,660	3,989	4,562	5,043
Non-current assets	129,670	253,057	377,426	426,632	433,867	434,613
PP&E	61,221	131,880	230,904	284,673	289,803	287,093
Right-of-use assets	1,573	3,137	9,679	8,398	6,956	5,351
Deferred income tax	1,913	3,687	6,584	6,584	6,584	6,584
Investment in JVs & assos	7,905	15,485	17,647	19,847	22,047	24,247
Intangibles	17,105	23,223	37,236	39,996	41,338	42,383
Goodwill	66	66	4,428	4,428	4,428	4,428
Financial assets at FVTPL	234	2,147	2,696	2,791	2,886	2,981
Other non-current assets	39,652	73,431	68,252	59,914	59,825	61,545
Total assets	295,780	493,861	679,548	757,159	837,951	938,178
Current liabilities	171,304	333,345	453,667	502,152	546,654	605,263
Short-term borrowings	10,204	5,153	18,323	9,464	0	0
Account payables	73,160	140,437	194,430	230,461	256,754	284,747
Tax payable	1,779	4,326	7,852	9,197	10,588	11,742
Other current liabilities	71,227	147,911	198,363	199,381	226,374	250,063
Contract liabilities	14,934	35,517	34,699	53,649	52,939	58,711
Non-current liabilities	20,232	39,126	75,419	78,575	79,183	81,278
Long-term borrowings	8,744	7,594	11,975	11,975	10,975	9,975
Bond payables	2,046	0	0	1,000	2,000	3,000
Other non-current liabilities	9,442	31,533	63,444	65,599	66,207	68,303
Total liabilities	191,536	372,471	529,086	580,727	625,837	686,541

Share capital	2,911	2,911	2,911	2,911	2,911	2,911
Other reserves	92,159	108,118	135,899	160,395	194,147	231,407
Total shareholders equity	95,070	111,029	138,810	163,306	197,058	234,318
Minority interest	9,175	10,361	11,652	13,125	15,057	17,319
Total equity and liabilities	295,780	493,861	679,548	757,159	837,951	938,178

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,518	21,080	37,269	41,016	49,867	56,061
Depreciation & amortization	14,108	20,370	43,553	59,725	71,098	79,643
Change in working capital	44,083	97,849	91,094	12,049	19,680	28,590
Others	2,757	1,539	(2,190)	2,731	(2,103)	(1,899)
Net cash from operations	65,467	140,838	169,725	115,522	138,542	162,396
Investing						
Capital expenditure	(37,344)	(97,457)	(122,094)	(98,955)	(68,025)	(68,250)
Acquisition of subsidiaries/ investments	(3,527)	(10,573)	(16,163)	(1,100)	(1,100)	(1,100)
Net proceeds from disposal of short-term investments	0	14	0	0	0	0
Others	(4,534)	(12,580)	12,593	(5,680)	(7,580)	(7,580)
Net cash from investing	(45,404)	(120,596)	(125,664)	(105,735)	(76,705)	(76,930)
Financing						
Dividend paid	(423)	(306)	(3,325)	(9,012)	(6,622)	(8,035)
Net borrowings	(17,006)	(16,413)	18,073	(4,106)	(9,464)	0
Proceeds from share issues	37,314	0	0	0	0	0
Others	(3,821)	(2,770)	(1,931)	(6,180)	(4,362)	(3,562)
Net cash from financing	16,063	(19,489)	12,817	(19,298)	(20,448)	(11,597)
Net change in cash						
Cash at the beginning of the year	13,738	49,820	51,182	108,512	99,000	140,389
Exchange difference	(44)	610	451	0	0	0
Cash at the end of the year	49,820	51,182	108,512	99,000	140,389	214,258

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	38.0%	96.2%	42.0%	16.2%	14.4%	10.5%
Gross profit	(7.3%)	156.7%	68.5%	15.4%	11.3%	9.1%
Operating profit	(53.1%)	299.0%	56.0%	14.5%	19.7%	10.8%
EBITDA	(9.0%)	108.2%	93.3%	24.4%	19.2%	11.8%
EBIT	(36.0%)	248.1%	74.6%	10.3%	19.3%	11.5%
Net profit	(28.1%)	445.9%	80.7%	10.2%	21.3%	12.3%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	13.0%	17.0%	20.2%	20.1%	19.5%	19.3%
Operating margin	2.5%	5.0%	5.5%	5.4%	5.7%	5.7%
EBITDA margin	9.5%	10.1%	13.7%	14.7%	15.3%	15.5%
Return on equity (ROE)	4.0%	16.1%	24.0%	21.9%	22.3%	20.9%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.4)	(0.7)	(0.5)	(0.6)	(0.9)
Current ratio (x)	1.0	0.7	0.7	0.7	0.7	0.8
Receivable turnover days	94.4	58.1	52.0	52.0	52.0	52.0
Inventory turnover days	84.2	82.1	66.6	65.0	65.0	65.0
Payable turnover days	156.3	149.2	150.8	155.0	150.0	150.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	187.7	35.0	19.4	17.6	14.5	12.9
P/B	6.0	5.2	4.2	3.6	3.0	2.5
P/CFPS	8.7	4.1	3.4	5.0	4.2	3.6
Div yield (%)	0.1	0.6	1.5	1.1	1.4	1.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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