

BYD (1211 HK)

Solid sales, earnings outlook despite mixed 2Q

Maintain BUY. We raise FY25E net profit by 10% to RMB36.2bn by lifting sales volume forecast and cutting R&D expenses. We also raise FY25E sales volume forecast to 4.3mn units, as BYD's new PHEV models are more competitive than we had expected. We believe its solid earnings quality could continue in FY25E.

■ **Mixed 2Q24: GPM miss, R&D & government grants beat.** BYD's 2Q24 GPM narrowed 3.2ppts QoQ to 18.7% (we estimate auto segment GPM to be 22.4%), lower than our prior forecast. We attribute such miss mainly to a less-than-expected supplier cost reduction. The GPM miss was offset by a QoQ decline in R&D and QoQ increase in government grants, which led to an in-line net profit of RMB9.1bn in 2Q24. We are of the view that BYD's 1H24 earnings quality remained high, as it accelerated PP&E's depreciation and only capitalized 3% of its total R&D investment in 1H24.

■ **2H24 and FY25 outlook.** We raise our FY24E sales volume forecast from 3.70mn units to 3.84mn units, assuming that BYD is not to hit 4mn units by sacrificing margins, although it has such capabilities to do so. We expect GPM in 2H24 to improve 0.4ppts HoH amid greater economies of scale, based on our sales assumption. We cut FY24E R&D expenses by RMB2bn following the figure in 2Q24 and considering fewer personnel required for AI-powered autonomous driving training. We also revise up FY24E government grants and VAT refunds by RMB4bn. Accordingly, we raise our FY24E net profit estimate by 10% to RMB36.2bn, or a net profit per vehicle of RMB9,400.

BYD's new PHEVs with its DM-i 5.0 technologies appear to be more competitive than we had expected. Therefore, we expect solid sales growth to continue in FY25E (4.3mn units on our estimates), despite its slower-than-expected sales growth for premium models. We expect higher contribution from overseas sales and premium models to sustain GPM in FY25E despite the prolonged price war. We project R&D expense ratio (as % of revenue) to drop to 5.7% in FY25E from 6.0% in FY24E and 6.6% in FY23. That, along with the top-line growth, could continue to lift net margin in FY25E. We project FY25E net profit to rise 26% YoY to RMB45.7bn with solid earnings quality (same R&D capitalization and depreciation ratio as FY24).

■ **Valuation/Key risks.** We maintain BUY rating and target price of HK\$262, based on 15x our FY25E EPS (prior 20x FY24E). We roll over our valuation to the next year as we see higher visibility for FY25 and lower our target valuation multiples amid macro uncertainties. Key risks to our rating and target price include lower sales and/or margins than our expectation, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	424,061	602,315	708,481	812,066	882,690
YoY growth (%)	96.2	42.0	17.6	14.6	8.7
Net profit (RMB mn)	16,622.4	30,040.8	36,244.6	45,746.1	48,096.5
YoY growth (%)	445.9	80.7	20.7	26.2	5.1
EPS (Reported) (RMB)	5.72	10.34	12.45	15.71	16.52
P/S (x)	1.4	1.0	0.9	0.7	0.7
P/E (x)	36.4	20.1	16.7	13.2	12.6
Yield (%)	0.5	1.5	1.2	1.5	1.6
ROE (%)	16.1	24.0	23.7	24.6	21.4
Net gearing (%)	(39.3)	(69.5)	(59.6)	(87.1)	(105.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$262.00
Up/Downside 15.1%
Current Price HK\$227.60

China Auto

Ji SHI, CFA
 (852) 3761 8728
 shiji@cmbi.com.hk

Wenjing DOU, CFA
 (852) 6939 4751
 douwenjing@cmbi.com.hk

Austin Liang
 (852) 3900 0856
 austinliang@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	662,148.9
Avg 3 mths t/o (HK\$ mn)	1,395.8
52w High/Low (HK\$)	257.40/171.70
Total Issued Shares (mn)	2909.3

Source: FactSet

Shareholding Structure

Mr. Wang Chuanfu	17.7%
Mr. Lv Xiangyang	8.2%

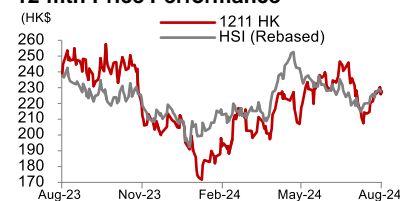
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.6%	-4.7%
3-mth	4.6%	8.7%
6-mth	17.7%	9.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Report

["BYD \(1211 HK\) - Our FY24 forecasts still on track post 1Q24" - 30 Apr 2024](#)

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

Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	YoY	QoQ
Sales volume (units)	552,076	703,561	824,001	944,779	626,263	986,720	40.2%	57.6%
Revenue	120,174	139,951	162,151	180,041	124,944	176,182	25.9%	41.0%
Gross profit	21,467	26,206	35,876	38,209	27,341	32,926	25.6%	20.4%
R&D expenses	(6,238)	(7,597)	(11,104)	(14,637)	(10,611)	(9,010)	18.6%	-15.1%
SG&A expenses	(8,014)	(9,643)	(9,851)	(11,166)	(10,572)	(11,440)	18.6%	8.2%
Operating profit	5,299	8,433	12,906	11,466	5,798	11,525	36.7%	98.8%
Net profit	4,130	6,824	10,413	8,674	4,569	9,062	32.8%	98.4%
Gross margin	17.9%	18.7%	22.1%	21.2%	21.9%	18.7%	0.0 ppt	-3.2 ppt
Operating margin	4.4%	6.0%	8.0%	6.4%	4.6%	6.5%	0.5 ppt	1.9 ppt
Net margin	3.4%	4.9%	6.4%	4.8%	3.7%	5.1%	0.3 ppt	1.5 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	708,481	812,066	882,690	700,048	800,518	884,971	1.2%	1.4%	-0.3%
Gross profit	143,492	163,486	175,760	140,565	156,428	170,656	2.1%	4.5%	3.0%
Operating profit	45,338	56,623	60,090	41,816	50,717	56,961	8.4%	11.6%	5.5%
Net profit	36,245	45,746	48,096	33,109	40,173	45,095	9.5%	13.9%	6.7%
Gross margin	20.3%	20.1%	19.9%	20.1%	19.5%	19.3%	0.2 ppt	0.6 ppt	0.6 ppt
Operating margin	6.4%	7.0%	6.8%	6.0%	6.3%	6.4%	0.4 ppt	0.6 ppt	0.4 ppt
Net margin	5.1%	5.6%	5.4%	4.7%	5.0%	5.1%	0.4 ppt	0.6 ppt	0.4 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	708,481	812,066	882,690	748,624	896,110	1,012,892	-5.4%	-9.4%	-12.9%
Gross profit	143,492	163,486	175,760	148,258	180,163	204,716	-3.2%	-9.3%	-14.1%
Operating profit	45,338	56,623	60,090	40,229	54,895	65,938	12.7%	3.1%	-8.9%
Net profit	36,245	45,746	48,096	35,648	43,854	52,696	1.7%	4.3%	-8.7%
Gross margin	20.3%	20.1%	19.9%	19.8%	20.1%	20.2%	0.4 ppt	0.0 ppt	-0.3 ppt
Operating margin	6.4%	7.0%	6.8%	5.4%	6.1%	6.5%	1.0 ppt	0.8 ppt	0.3 ppt
Net margin	5.1%	5.6%	5.4%	4.8%	4.9%	5.2%	0.4 ppt	0.7 ppt	0.2 ppt

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	216,142	424,061	602,315	708,481	812,066	882,690
Cost of goods sold	(187,998)	(351,816)	(480,558)	(564,989)	(648,581)	(706,930)
Gross profit	28,145	72,245	121,757	143,492	163,486	175,760
Operating expenses	(22,818)	(50,990)	(88,598)	(105,243)	(117,001)	(126,375)
Selling expense	(6,082)	(15,061)	(25,211)	(33,581)	(38,377)	(42,355)
Admin expense	(5,710)	(10,007)	(13,462)	(16,715)	(17,999)	(18,894)
R&D expense	(7,991)	(18,654)	(39,575)	(42,680)	(46,560)	(49,920)
Others	(3,035)	(7,267)	(10,350)	(12,267)	(14,065)	(15,205)
Operating profit	5,327	21,255	33,159	38,249	46,484	49,385
Other income	2,608	2,248	5,965	10,000	10,000	7,900
Other expense	(452)	(989)	(1,546)	(1,300)	(1,300)	(1,300)
Gain/loss on financial assets at FVTPL	47	126	258	680	800	950
Investment gain/loss	(57)	(792)	1,635	2,258	2,408	2,408
Other gains/(losses)	(1,168)	(2,387)	(3,677)	(5,013)	(4,132)	(3,874)
EBITDA	20,542	42,766	82,649	112,246	132,159	144,452
Depreciation	10,880	14,605	37,718	56,455	64,459	72,372
Depreciation of ROU assets	273	584	1,390	2,571	3,131	3,606
Other amortisation	2,956	5,181	4,444	6,124	6,639	7,206
EBIT	6,433	22,396	39,096	47,095	57,929	61,268
Interest income	632	1,830	2,796	2,222	3,668	5,799
Interest expense	(1,915)	(1,316)	(1,828)	(2,057)	(1,606)	(1,579)
Net interest income/(expense)	(1,787)	1,618	1,475	165	2,062	4,220
Foreign exchange gain/loss	(533)	1,216	639	0	0	0
Pre-tax profit	4,518	21,080	37,269	45,038	56,323	59,690
Income tax	(551)	(3,367)	(5,925)	(7,335)	(8,673)	(9,089)
After tax profit	3,967	17,713	31,344	37,703	47,650	50,601
Minority interest	(922)	(1,091)	(1,303)	(1,459)	(1,904)	(2,504)
Net profit	3,045	16,622	30,041	36,245	45,746	48,096
Gross dividends	306	3,325	9,012	7,249	9,149	9,619

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	166,110	240,804	302,121	340,571	452,071	552,116
Cash & equivalents	49,820	51,182	108,512	112,102	191,579	270,306
Restricted cash	637	289	583	1,000	1,000	1,000
Account receivables	44,994	51,723	67,431	81,757	94,867	103,118
Inventories	43,355	79,107	87,677	100,614	115,501	125,892
Prepayment	2,037	8,224	2,215	5,650	6,486	7,069
Financial assets at FVTPL	5,606	20,627	9,563	9,963	10,463	11,063
Other current assets	11,168	16,099	23,481	25,447	27,548	28,639
Contract assets	8,493	13,553	2,660	4,037	4,628	5,030
Non-current assets	129,670	253,057	377,426	418,724	420,489	416,116
PP&E	61,221	131,880	230,904	262,451	262,994	255,125
Right-of-use assets	1,573	3,137	9,679	10,808	10,427	9,520
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	20,247	22,947	25,647
Intangibles	17,105	23,223	37,236	36,839	36,117	36,019
Goodwill	66	66	4,428	4,428	4,428	4,428
Financial assets at FVTPL	234	2,147	2,696	3,076	3,476	3,926
Other non-current assets	39,652	73,431	68,252	74,291	73,516	74,866
Total assets	295,780	493,861	679,548	759,295	872,561	968,232
Current liabilities	171,304	333,345	453,667	499,770	570,165	621,754
Short-term borrowings	10,204	5,153	18,323	0	0	0
Account payables	73,160	140,437	194,430	234,230	275,780	300,590
Tax payable	1,779	4,326	7,852	9,287	10,662	11,621
Other current liabilities	71,227	147,911	198,363	202,075	230,415	251,439
Contract liabilities	14,934	35,517	34,699	54,177	53,308	58,104
Non-current liabilities	20,232	39,126	75,419	80,125	82,540	85,160
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	67,149	69,565	72,185
Total liabilities	191,536	372,471	529,086	579,894	652,705	706,914

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Share capital	2,911	2,911	2,911	2,911	2,911	2,911
Other reserves	92,159	108,118	135,899	163,531	202,228	241,376
Total shareholders equity	95,070	111,029	138,810	166,442	205,140	244,287
Minority interest	9,175	10,361	11,652	12,958	14,716	17,030
Total equity and liabilities	295,780	493,861	679,548	759,295	872,561	968,232

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,518	21,080	37,269	45,038	56,323	59,690
Depreciation & amortization	14,108	20,370	43,553	65,151	74,230	83,184
Change in working capital	44,083	97,849	91,094	21,040	35,937	26,484
Others	2,757	1,539	(2,190)	560	(2,786)	(3,637)
Net cash from operations	65,467	140,838	169,725	131,789	163,705	165,721
Investing						
Capital expenditure	(37,344)	(97,457)	(122,094)	(95,920)	(66,040)	(67,680)
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	(2,450)	(4,400)	(3,850)
Net cash from investing	(45,404)	(120,596)	(125,664)	(99,470)	(71,540)	(72,630)
Financing						
Dividend paid	(423)	(306)	(3,325)	(9,012)	(7,249)	(9,149)
Net borrowings	(17,006)	(16,413)	18,073	(13,570)	0	0
Proceeds from share issues	37,314	0	0	0	0	0
Others	(3,821)	(2,770)	(1,931)	(6,146)	(5,439)	(5,216)
Net cash from financing	16,063	(19,489)	12,817	(28,728)	(12,688)	(14,365)
Net change in cash						
Cash at the beginning of the year	13,738	49,820	51,182	108,512	112,102	191,579
Exchange difference	(44)	610	451	0	0	0
Cash at the end of the year	49,820	51,182	108,512	112,102	191,579	270,306
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	38.0%	96.2%	42.0%	17.6%	14.6%	8.7%
Gross profit	(7.3%)	156.7%	68.5%	17.9%	13.9%	7.5%
Operating profit	(53.1%)	299.0%	56.0%	15.3%	21.5%	6.2%
EBITDA	(9.0%)	108.2%	93.3%	35.8%	17.7%	9.3%
EBIT	(36.0%)	248.1%	74.6%	20.5%	23.0%	5.8%
Net profit	(28.1%)	445.9%	80.7%	20.7%	26.2%	5.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	13.0%	17.0%	20.2%	20.3%	20.1%	19.9%
Operating margin	2.5%	5.0%	5.5%	5.4%	5.7%	5.6%
EBITDA margin	9.5%	10.1%	13.7%	15.8%	16.3%	16.4%
Return on equity (ROE)	4.0%	16.1%	24.0%	23.7%	24.6%	21.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.4)	(0.7)	(0.6)	(0.9)	(1.1)
Current ratio (x)	1.0	0.7	0.7	0.7	0.8	0.9
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	156.0	160.0	160.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	194.9	36.4	20.1	16.7	13.2	12.6
P/B	6.2	5.4	4.4	3.6	3.0	2.5
P/CFPS	9.1	4.3	3.6	4.6	3.7	3.7
Div yield (%)	0.1	0.5	1.5	1.2	1.5	1.6

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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