

BYD Electronic (International) Co. Ltd. (285 HK)

Positive business outlook; initiate with BUY

- BYD Electronic (International) Co. Ltd. (“the Company” or “BYDE”) has a good business model with major smartphone and PC makers as customers.
- Driven by market expansion, new customer acquisition, and the rise of stay-at-home economy, we forecast BYDE’s revenue to grow at a CAGR of 35.1% in FY19-22E.
- Net profit is estimated to grow at a CAGR of 85.4% in FY19-22E
- Initiate **BUY** and TP of HK\$42.0, implying 13.8x/10.8x FY20E/21E P/E

Overall revenue is projected to grow at a CAGR of 35.1% in FY19-22E. Thanks to new customer acquisition and improving market share, revenue is expected to grow 68.4% YoY in FY20E amid depressing smartphone shipment, international trade tensions, and the COVID-19 pandemic

Gross profit margin to improve. The Company’s gross profit margin is expected to improve 6.3ppt/0.1ppt/0.2ppt YoY to 13.8%/13.9%/14.1% in FY20E-22E, respectively, thanks to better product mix with higher demand for 5G products, intelligent systems, PCs, and vehicles amid the COVID-19 pandemic.

Net profit to grow at a CAGR of 85.4% in FY19-22E. Driven by 5G smartphones, stay-at-home economy demand and gross margin improvement, we forecast the Company’s net profit to grow at a CAGR of 85.4% in FY19-22E.

Strong ROAE and ROAA ratio. We forecast BYDE’s ROAE and ROAA ratios to reach 30.2% and 19.4% in FY20E, which are much higher than the sector average with 17.1% and 8.5%, respectively.

Valuation. We initiate the Company with **BUY** rating with TP of HK\$42.0, representing 13.8x/10.8x FY20E/21E P/E.

Risks: (1) Slowdown in 5G network development; (2) Revenue highly dependent on Android smartphone shipments; (3) Business may be affected by international trade tensions.

Results and Valuation

FY ended Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	41,047	53,028	89,295	107,281	130,695
Chg (% YoY)	5.9%	29.2%	68.4%	20.1%	21.8%
Net profit (RMB mn)	2,189	1,598	5,948	7,652	10,183
Chg (% YoY)	(15.3%)	(27.0%)	272.3%	28.7%	33.1%
EPS (RMB)	0.971	0.709	2.640	3.396	4.519
Chg (% YoY)	(15.3%)	(27.0%)	272.3%	28.7%	33.1%
BPS (RMB)	7.02	7.54	9.92	12.97	17.04
Chg (% YoY)	11.5%	7.4%	31.5%	30.8%	31.4%
P/E (x)	30.1	41.8	11.0	8.5	6.4
P/B (x)	4.2	3.9	2.9	2.2	1.7
ROAE (%)	14.6%	9.7%	30.2%	29.7%	30.1%
ROAA (%)	8.5%	5.9%	19.4%	21.0%	23.0%
DPS (RMB)	0.195	0.071	0.264	0.340	0.453
Dividend Yield (%)	0.150%	0.417%	0.110%	0.085%	0.064%

Source(s): Bloomberg, ABCI Securities estimates

*Exchange rate assumption for FY20E-22E: HKD 1 = RMB 0.87

Company Report Initiation

Nov 2, 2020

Rating: BUY

TP: HK\$42.0

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Share price (HK\$)	33.30
Est. share price return	26.1%
Est. dividend yield	0.1%
Est. total return	26.2%

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	42.0/10.3
Issued shares (mn)	2,253.2
Market cap (HK\$ mn)	75,031.6
Avg daily turnover (HK\$ mn)	485.0
Major shareholder(s)	
BYD Company Ltd	65.76%
BF Trustee	6.08%

Source(s): Company, ABCI Securities estimates

Share Performance (%)

	Absolute	Relative*
1-mth	4.0	(0.0)
3-mth	(7.2)	(10.7)
6-mth	(3.9)	9.6

*Relative to HSI

Source(s): Bloomberg



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

BYD Electronic (International) Co. Ltd. (285 HK, BUY)

China Telecom Sector

Nov 2, 2020

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Company Overview

BYD Electronic (International) Corporation Ltd. (the “Company” or “BYDE”) was listed on HKEx (285 HK) in 2007 and is a subsidiary of BYD Company Ltd (1211 HK). The Company is one of the constituents of Hang Seng Internet & Information Technology Index, with businesses related to a wide range of devices such as smartphones, wearables, computers, automotive intelligent system, the Internet of Things (IoT), smart home, gaming hardware, robots, communication equipment, and medical products.

BYDE has three major business segments – (1) smartphone and PC business, (2) new intelligent products business (the Internet of things [IoT], robotics, artificial intelligence and new types of smart products), and (3) automotive intelligent system business (central control system, communication modules, multimedia modules, etc.). The Company produces products for many famous handset makers such as Huawei, Xiaomi (1810 HK), OPPO, Samsung (5930 KS) and Apple (AAPL US). In 2020, BYDE started to produce medical protection products with the emergence of the COVID-19 pandemic.

The Company’s major businesses include:

7 series aluminum alloy

BYDE has developed the 7 series aluminum alloy with better features such as anodic oxidation, higher yield strength, and rich colors, which are suitable for lightweight electronic products.

Assembly business

BYDE helps its customers to assemble electronic devices with customized specifications and features to suit for specified needs

Casings

The Company has technology to fit for customers’ requirements for handset and other electronic devices casings to improve appearance with brighter and shining aesthetic effect on metal surfaces

Metal frames

Metal frames are being used in many electronic devices such as smartphone, wearables, tablets, PC, etc.

Smartphone cover glass

The Company produces 3D glass, front cover glass, rear cover glass, with seamlessly curve on surface sides, which can improve users’ touching experiences

Micro slot antenna

Micro slot antenna with one or more micro-slots designed as decorative patterns are made in metal casings and the antennas are put in the slots to replace the wide plastic strip.



Transmission Antenna

The Company produces antenna for telecom terminals such as mobile phones, tablets, smart watches, and notebooks. It is capable to launch different kinds of antenna products including Bluetooth, Wi-Fi, GPS, GSM850/900/1800/1900, CDMA/CDMA2000, WCDMA, TDSCDMA/F, NFC, etc.

Vehicle multi-media system

BYDE manufactures multi-media system for vehicles. Modern vehicles are equipped with more screen, display, and multi-media systems than ever.

Medical protective products

The Company produces medical protective products such as single use masks, N95 particulate respirator and hand sanitizer

Exhibit 1: 7 Series Aluminum Alloy



Source(s): the Company

Exhibit 2: High gloss anodizing to handset casings



Source(s): the Company

Exhibit 3: 3D smartphone cover glass



Source(s): the Company

Exhibit 4: Micro Slot Antenna



Source(s): the Company



Exhibit 5: Smartphone antenna



Source(s): the Company

Exhibit 6: Vehicle multi-media system



Source(s): the Company

Exhibit 7: Protective mask



Source(s): the Company

Exhibit 8: Hand sanitizer

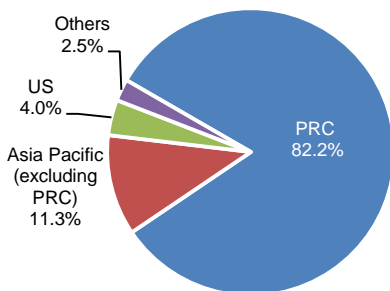


Source(s): the Company

85.6% of total revenue generated from smartphone and PC business in 2019

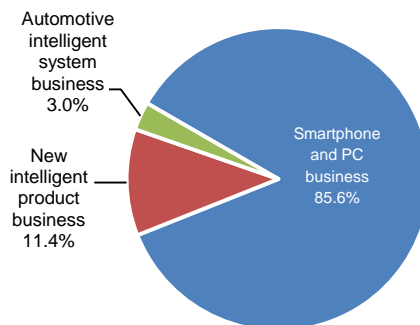
Smartphone and PC business is the Company's core business segment accounting for 85.6% of total revenue in 2019. In 2019, over 82.2% of its total revenue was generated from the PRC region.

Exhibit 9: Revenue breakdown by region in 2019



Source(s): the Company

Exhibit 10: Revenue breakdown by business segment in 2019



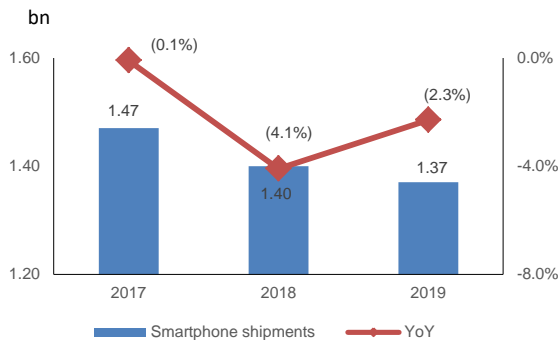
Source(s): the Company

Industry analysis

IDC forecasts global smartphone shipments to drop by 9.5% YoY in 2020E

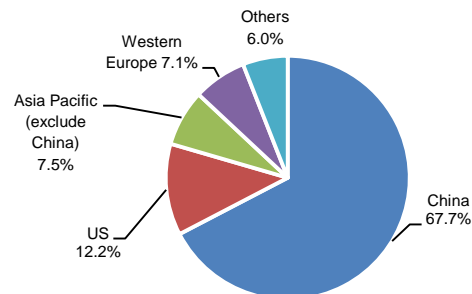
According to IDC data announced on Aug 27, 2020, global smartphone shipments are expected to drop by 9.5% YoY to 1.2bn in 2020E due to the COVID-19 pandemic suppressing economic growth and expenditure worldwide. Many smartphone makers have launched their 5G smartphone models in 2020. IDC expects China to be the largest market for 5G smartphone in 2020 with a 67.7% market share, followed by the US's 12.2%. Due to economic uncertainties, smartphone ASP is expected to face downward pressure and consumers will prefer the mid-to-low range models. IDC expects the fastest growth for the US\$ 400-600 average selling price (ASP) price band for 2020E; also, the ASP for 5G smartphones will drop to US\$ 465 in 2024E.

Exhibit 11: Global smartphone shipments and growth



Source(s): IDC

Exhibit 12: 5G Smartphone market share estimates for 2020E



Source(s): IDC

IDC forecasts personal computing devices (PCD) market, which includes traditional PCs, tablets, and workstations shipments to grow 3.3% YoY in 2020E

According to IDC, the demand of PC in 2020E is estimated to be strong, driven from the demand from home office, home education and home entertainment due to the COVID-19 pandemic. Business usage PC shipments are also rising as enterprises and corporations are using more video conferences and online applications. The cases of COVID-19 are rebounding in Europe which may further stimulate demand of PC and tablets with the shift to home office under curfew. IDC expects the personal computing devices (PCD) market, which includes traditional PCs, tablets, and workstations, will grow 3.3% YoY in 2020E with shipment reaching 425.7 mn. The COVID-19 pandemic accelerated demand for PCs and tablets from both the commercial segment and the consumer segment.



Financial forecasts

BYDE's businesses cover a wide range of consumer electronics, automotive intelligent system, IoT, manufacturing molds, metal, plastic parts, 3D glass, ceramics and others.

BYDE's core businesses include (1) smartphones and PC; (2) new intelligent product; (3) automotive intelligent system; (4) Others

(1) Smartphone and PC business

The smartphone and PC business is the Company's largest revenue driver accounting for 85.6% of total in FY19. The revenue amounted to RMB45.4 bn in 2019, up 24.9% YoY, driven by solid strategic partnership with many Android smartphone makers and PC makers. We expect BYDE to benefit for more assembly demand for tablets, PCs, and smartphones in FY20E.

We expect BYDE's smartphone and PC revenue to grow at a CAGR of 26.8% in FY19-22E, driven by market share improvement and new customer acquisitions.

(2) New intelligent product business

Thanks to the acquisition of new customers, revenue from the new intelligent business rose 38.8% YoY in FY19. BYDE engaged in a series of marketing activities and partnered with customers in the fields of intelligent home, gaming, commerce and IoT. The COVID-19 pandemic benefited the Company's new intelligent business with increased demand from the stay-at-home economy, which involves remote work, remote education, and indoor entertainment, boosting shipment of electronic devices and gaming consoles. We project new intelligent product business to grow at a CAGR of 40.6% in FY19-22E with the increased demand from stay-at-home economy.

(3) Automotive intelligent system business

Modern vehicles are equipped with multimedia systems, touch pads, and screens to improve user experience and provide interactive services. The Company's automotive intelligent system business has been benefiting from vehicle demand from its parent company. The segment's revenue grew 33.9% YoY in FY19, and more capital has been allocated for hardware and software development required for the business.

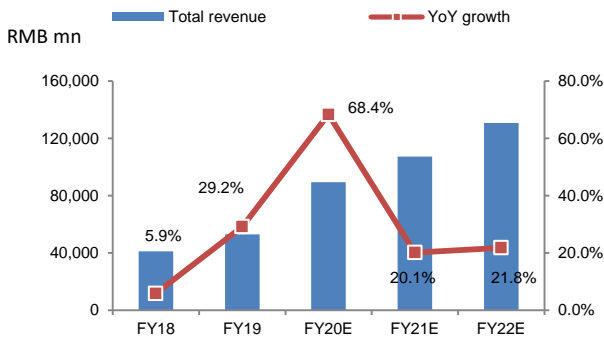
We forecast its automotive intelligent system business revenue to grow at a CAGR of 34.9% in FY19-22E, supported by solid demand from its parent company and overseas development plan.

(4) Others business

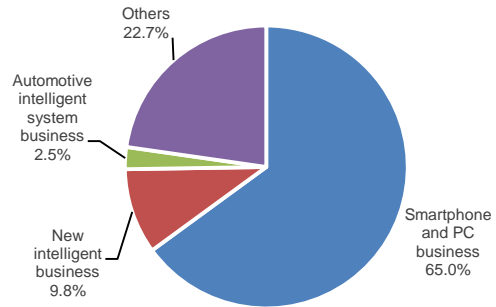
The Company produces protective masks in 2020 in light of the shortage early in the COVID-19 pandemic. BYDE produces medical protective products such as single-use masks, N95 particulate respirator, and hand sanitizers. We project the Company to record RMB 20.3bn/ RMB 18.3 bn in revenue from the segment in FY20E-21E.

Overall revenue to grow at a CAGR of 35.1% in FY19-22E

The Company's revenue was driven by new customers, stay-at-home economy, and improving market share, which is expected to boost its revenue in FY20E amid depressing smartphone shipments, trade tensions, COVID-19, and market competition. We forecast the Company's overall revenue to grow at a CAGR of 35.1% in FY19-22E.

Exhibit 13: BYDE's total revenue and growth


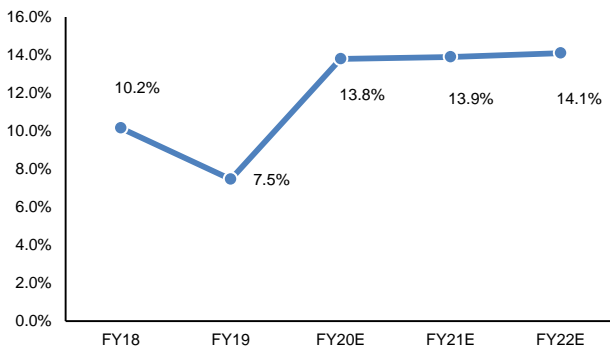
Source(s): the Company, ABCI Securities estimates

Exhibit 14: BYDE's total revenue breakdown in FY20E


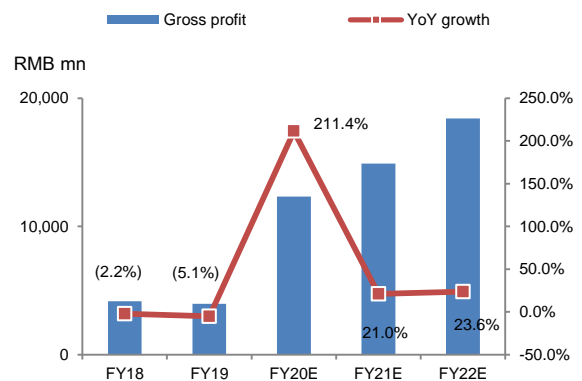
Source(s): the Company, ABCI Securities estimates

Gross profit margin to improve by 6.3 ppt YoY in FY20E

Due to better product mix, new intelligent equipment business, and the addition of medical protection products, we forecast BYDE to improve its gross profit margin by 6.3ppt YoY to 13.8% in FY20E. We expect BYDE to benefit from margin expansion, thanks to the newly launched medical supplies business and improving product mix with more high-end electronic products.

Exhibit 15: BYDE's gross profit margin


Source(s): the Company, ABCI Securities estimates

Exhibit 16: BYDE's gross profit and growth


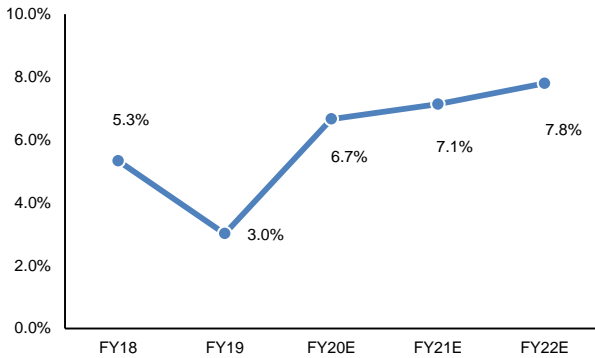
Source(s): the Company, ABCI Securities estimates



Net profit to grow at a CAGR of 85.4% in FY19-22E

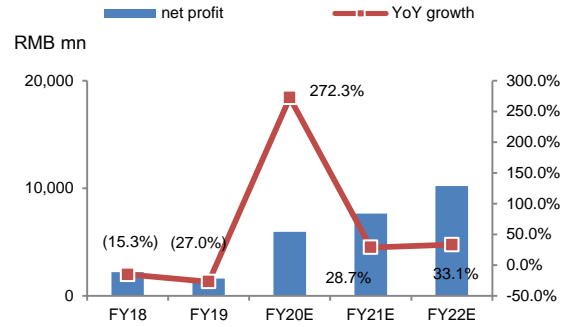
Benefited from scale effect, we forecast BYDE's R&D expenses/ revenue ratio to lower from 3.9% in FY19 to 3.7% in FY20E. BYDE's net profit margin is expected to reach 6.7%/7.1%/7.8% in FY20E-22E, respectively. We forecast BYDE's net profit to grow at a CAGR of 85.4% in FY19-22E, driven by better revenue growth and gross margin improvement.

Exhibit 17: BYDE's net profit margin



Source(s): the Company, ABCI Securities estimates

Exhibit 18: BYDE's net profit and growth



Source(s): the Company, ABCI Securities estimates



Valuations

Recommend BUY with TP at HK\$42.0

Our DCF-derived TP of the Company is HK\$ 42.0 (WACC: 12.1%; perpetuity growth rate: 2.3%), representing 13.8x/10.8x FY20E/21E P/E. We expect to have 26.1% potential upside to the stock price and initiate the Company with **BUY** rating.

Exhibit 19: Peers Comparison Table

	Ticker	Price*	P/E				P/B				ROE	ROA	EV/EBITDA
			19A	20E	21E	22E	19A	20E	21E	22E	20E	20E	20E
BYD Electronic Ltd	285 HK	33.30	36.6	11.1	10.8	9.9	3.5	2.7	2.5	2.1	19.7	12.9	8.3
AAC Technologies	2018 HK	40.85	42.0	27.3	19.5	16.5	3.0	2.8	2.5	2.3	10.5	6.0	12.4
Sunny Optical Tech	2382 HK	128.2	30.2	27.8	21.4	17.4	9.8	7.5	5.8	4.5	30.0	13.6	17.8
TCL Electronics	1070 HK	5.24	5.8	12.8	10.6	8.5	1.2	1.1	1.0	0.9	8.8	3.1	14.9
Cowell E Holdings Inc	1415 HK	3.40	11.4	6.8	5.7	5.1	1.0	1.0	0.9	0.9	11.2	9.3	2.8
Q Technology Group	1478 HK	8.53	19.6	15.1	12.2	10.4	3.8	3.1	2.6	2.2	22.5	6.2	9.4
Average			20.6	16.8	14.4	12.4	3.2	3.0	2.6	2.2	17.1	8.5	10.9

*Based on closing price on Oct 30, 2020

Source(s): Bloomberg



Risk factors

High customer concentration risk

The revenue proportion contributed from the largest customer increased from 30.2% in 2018 to 51.3% in 2019.

Revenue highly dependent on Android smartphone shipments

Most of BYDE's customers are Android smartphone makers. The Company's business is highly dependent on the shipment of Android smartphones. Decline in global smartphone shipments will affect the Company's earnings.

Our forecasts may deviate from actual results

We make our forecasts relies on a number of assumptions. The actual results may deviate from our estimates.

Highly dependent on smartphones and PCs business

BYDE generated over 85.6% of total revenue from smartphones and PCs business in FY19. The Company will face significant impact to its revenue if there is any change in smartphone and PC shipments.

Slowdown in 5G network development may affect earnings

The Company's business may be affected if there are any changes in 5G network development progress.

Business may be affected by international trade tension

International trade tension or disputes may affect the Company's product shipments.



Financial Statements

Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Smartphone and PC business revenue	35,517	45,409	58,011	73,769	92,667
New Intelligent business revenue	4,340	6,025	8,736	12,231	16,756
Automotive intelligent system business revenue	1,190	1,594	2,248	3,012	3,915
Others revenue	0	0	20,300	18,270	17,357
Total revenue	41,047	53,028	89,295	107,281	130,695
Cost of revenue	(36,875)	(49,071)	(76,972)	(92,369)	(112,267)
Gross profit	4,172	3,957	12,323	14,912	18,428
R&D expenses	(1,589)	(2,088)	(3,304)	(3,862)	(4,574)
Selling and distribution expenses	(229)	(257)	(432)	(520)	(523)
Admin expenses	(536)	(619)	(1,072)	(1,287)	(1,438)
Others	718	703	(979)	(834)	(703)
Profit before tax	2,536	1,696	6,536	8,409	11,190
Tax	(347)	(99)	(588)	(757)	(1,007)
Net profit	2,189	1,598	5,948	7,652	10,183
EPS (RMB)	0.971	0.709	2.640	3.396	4.519
DPS (RMB)	0.195	0.071	0.264	0.340	0.453

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
PPE	7,634	8,617	9,221	9,866	10,557
Prepayments, other receivables and other assets	399	567	617	671	730
Others	929	1,761	5,016	9,643	16,371
Total non-current assets	8,962	10,945	14,853	20,180	27,657
Cash & cash equivalents	4,741	1,651	1,486	1,337	1,203
Inventories	4,768	5,401	5,876	6,393	6,956
Trade receivables	7,209	9,567	10,428	11,367	12,390
Others	371	463	511	565	625
Total current assets	17,089	17,082	18,301	19,662	21,174
Total assets	26,051	28,027	33,155	39,842	48,832
Trade and bill payables	7,892	7,340	6,973	6,624	6,293
Others	2,170	3,059	3,198	3,345	3,498
Total current liabilities	10,062	10,399	10,171	9,969	9,791
Deferred tax liabilities	45	18	17	17	16
Others	120	620	625	629	634
Total non-current liabilities	164	639	642	646	649
Total liabilities	10,226	11,038	10,813	10,615	10,441
Total equity	15,825	16,989	22,341	29,227	38,391

Source(s): Company, ABCI Securities estimates



Consolidated Cash Flow Statement (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Operating profit before tax	2,536	1,696	6,536	8,409	11,190
Others	2,245	(1,318)	(368)	(192)	(452)
Operating cash flow	4,781	379	6,167	8,217	10,738
CAPEX	(2,317)	(2,745)	(2,882)	(3,026)	(3,177)
Others	25	(108)	19	17	16
Investing cash flow	(2,292)	(2,852)	(2,863)	(3,009)	(3,162)
Dividends paid	(518)	(439)	(160)	(596)	(766)
Others	(43)	(184)	(165)	(148)	(134)
Financing cash flow	(561)	(623)	(325)	(744)	(900)
Net increase in cash and cash equivalents	1,928	(3,097)	2,980	4,464	6,677
Cash and cash equivalents at beginning of year	2,822	4,741	1,651	4,637	9,107
FX change effect	(9)	6	6	6	7
Cash and cash equivalents at end of year	4,741	1,651	4,637	9,107	15,790

Source(s): Company, ABCI Securities estimates

Financial ratios (2018A-2022E)

As of Dec 31	2018A	2019A	2020E	2021E	2022E
YoY Growth:					
Revenue	5.9%	29.2%	68.4%	20.1%	21.8%
Gross profit	(2.2%)	(5.1%)	211.4%	21.0%	23.6%
Net profit	(15.3%)	(27.0%)	272.3%	28.7%	33.1%
Profitability ratios:					
ROAE	14.6%	9.7%	30.2%	29.7%	30.1%
ROAA	8.5%	5.9%	19.4%	21.0%	23.0%
Costs ratio:					
R&D expenses/ revenue	3.9%	3.9%	3.7%	3.6%	3.5%
Selling and distribution expenses/ revenue	0.6%	0.5%	0.5%	0.5%	0.4%
Administrative expenses/ revenue	1.3%	1.2%	1.2%	1.2%	1.1%
Margins:					
Gross profit margin	10.2%	7.5%	13.8%	13.9%	14.1%
Net profit margin	5.3%	3.0%	6.7%	7.1%	7.8%

Source(s): Company, ABCI Securities estimates



Disclosures

Analyst Certification

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Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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