

BYD Electronic (285 HK)

Smartphone shipments rebound in 2021

- BYD Electronic (International) Co. Ltd. (“the Company” or “BYDE”) is expected to benefit from smartphone shipments rebound in 2021 due to economic recovery and 5G smartphone replacement.
- With the higher 5G smartphone demand, robust vehicle shipments, and emergence of the stay-at-home economy, we forecast total revenue to grow at a CAGR of 36.6% in FY19-22E. We revise up FY21E/22E overall revenue by 3.7%/3.4%.
- Net profit is estimated to grow at a CAGR of 85.5% in FY19-22E.
- Recommend BUY and TP of HK\$63.0, implying 15.4x/ 11.8x FY21E/22E P/E.

Smartphone and PCs business revenue to grow at a CAGR of 28.7% in FY19-22E. We expect 2021 smartphone shipments in China to grow 11.0% YoY. PC shipments grew 26.1% YoY in 4Q20, driven by stay-at-home economy with demand from online education, home office and home entertainment. We expect BYDE can benefit from more assembly and component businesses in 2021, due to global economy recovery and 5G smartphone demand.

BYDE’s parent company, BYD Company Ltd (1211 HK), has recorded robust monthly vehicle shipments since Oct 2020 with a double-digit growth. We expect BYDE’s automotive intelligent system business can benefit with the strong vehicle shipments of its parent company thanks to supportive sector policies for vehicles consumption. We revise up FY21E/22E revenue of automotive intelligent system business by 3.4%/ 5.7%.

Net profit margin improving. We forecast FY21E/22E net profit margin to improve by 0.4ppt/ 0.5ppt YoY to 7.1%/ 7.6%, driven by economy of scale. Net profit is estimated to grow at a CAGR of 85.5% in FY19-22E

Valuation. We recommend **BUY** rating with TP of HK\$63.0, representing 15.4x/11.8x FY21E/22E 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	111,230	135,109
Chg (% YoY)	5.9%	29.2%	68.4%	24.6%	21.5%
Net profit (RMB mn)	2,189	1,598	5,948	7,846	10,201
Chg (% YoY)	(15.3%)	(27.0%)	272.3%	31.9%	30.0%
EPS (RMB)	0.971	0.709	2.640	3.482	4.527
Chg (% YoY)	(15.3%)	(27.0%)	272.3%	31.9%	30.0%
BVPS (RMB)	7.02	7.54	9.92	13.05	17.12
Chg (% YoY)	11.5%	7.4%	31.5%	31.6%	31.2%
P/E (x)	49.2	68.3	17.5	13.3	10.2
P/B (x)	6.8	6.4	4.7	3.5	2.7
ROAE (%)	14.6%	9.7%	30.2%	30.3%	30.0%
ROAA (%)	8.5%	5.9%	19.4%	21.4%	22.9%
DPS (RMB)	0.195	0.071	0.264	0.349	0.453
Dividend Yield (%)	0.245%	0.682%	0.175%	0.133%	0.102%

*Exchange rate assumption for FY20E-22E: HKD 1 = RMB 0.85

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Jan 22, 2021
Rating: BUY
TP: HK\$ 63.0

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Share price (HK\$)	54.4
Est. share price return	15.8%
Est. dividend yield	0.1%
Est. total return	20.8%
Previous Rating & TP	BUY/HK\$42.0
Previous Report Date	Nov 2, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	54.7/10.3
Issued shares (mn)	2,253.2
Market cap (HK\$ mn)	122,574.0
Avg daily turnover (HK\$ mn)	1,055.0
Major shareholder(s)	
BYD Company Ltd	65.76%
BF Trustee	6.08%

Source(s): Company, ABCI Securities estimateS

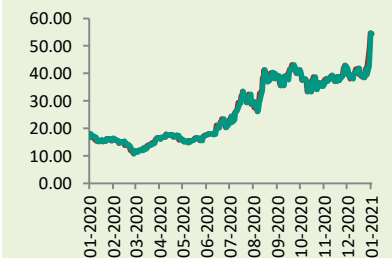
Share Performance (%)

	Absolute	Relative*
1-mth	15.3%	2.1%
3-mth	16.4%	(4.7%)
6-mth	344.5%	324.9%

*Relative to HSI

Source(s): Bloomberg

Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

**Smartphone and PCs business stimulated by shipments rebound in 2021**

As of Nov 2020, the overall 5G users have surpassed 170mn in China, thanks to marketing campaigns and incentives for upgrading old customers to 5G platforms. According to National Bureau of Statistics of China, 2020 mobile phone and smartphone shipments in China were 1.5bn (down 9.5% YoY) and 1.1 bn (down 5.0% YoY). We expect 2021 smartphone shipments in China to grow 11.0% YoY. According to IDC data announced on Aug 27, 2020, the global smartphone shipments are estimated to grow by 9.0% YoY in 2021 on post-pandemic recovery and rising 5G smartphone demand, which will drive electronic components and assembly needs and benefit BYDE. We expect a new round of smartphone replacement demand to 5G in 2021. BYDE has strengthened its assembly business with a number of well-known smartphone brands. BYDE's customers include Huawei, Samsung (5930 KS), Vivo, OPPO, Xiaomi (1810 HK) and LG (66570 KS). In Dec 2020, BYDE and Xiaomi (1810 HK) established a joint laboratory. Since 2014, the two companies BYDE and Xiaomi have participated in the manufacturing and co-operation with more than 30 models of Xiaomi's mobile phones. Also, the demand of tablets and PCs rose on the emergence of stay-at-home economy. According to IDC data on Jan, 2021, global PC shipments grew 26.1% YoY in 4Q20 driven by stay-at-home economy with demand from online education, home office and home entertainment. We expect BYDE can benefit from more assembly and component businesses in 2021. As such, we revise up our FY21E/22E smartphone and PCs business revenue by 5.2%/ 4.4%. We expect BYDE's smartphone and PCs revenue to grow at 33.8%/ 24.6% in FY21-22E.

Benefit from supportive vehicle policies

The domestic vehicle shipments are robust in 2020 due to the subsidies and supportive policies for new-energy vehicles. Vehicle shipments of BYDE's parent company, BYD Company Ltd. (1211 HK), showed a double-digit growth since Oct 2020, mostly driven by new-energy vehicles. There are a number of supportive policies for vehicle consumption with subsidies to boost domestic consumption under the strategy of dual circulation economy. E.g., rural residents can trade in their oil vehicles and obtain subsidies for purchasing trucks with capacity no larger than 3.5 tons or passenger cars with engines no larger than 1.6 liters.

In Nov 2020, the State Council of the PRC unveiled the 2021-35 new-energy vehicle development plan, setting the target of new-energy vehicles to 20% of total in 2025 and 50% in 2035. The incentive policies and strong vehicle shipments of its parent company would support BYDE's automotive intelligent system business. As such, we revise up the automotive intelligent system business revenue by 3.4%/ 5.7% for FY21E/22E. We expect BYDE's automotive intelligent system business revenue to grow at 38.5%/ 33.0% in FY21-22E

Exhibit 1: BYD Company Ltd's monthly vehicle shipments

mn	June 2020	July 2020	Aug 2020	Sept 2020	Oct 2020	Nov 2020	Dec 2020
Vehicle shipments ('000)	33.7	31.4	36.7	42.2	47.7	23.9	56.3
YoY	-12.9%	1.3%	2.1%	3.6%	16.1%	30.6%	30.4%

Source(s): Company



Exhibit 2: Change in our financial estimates

(RMB mn)	OLD			NEW			CHANGE		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Smartphone and PCs	58,011	73,769	92,667	58,011	77,616	96,734	0.0%	5.2%	4.4%
New Intelligent business	8,736	12,231	16,756	8,736	12,231	16,878	0.0%	0.0%	0.7%
Automotive intelligent	2,248	3,012	3,915	2,248	3,113	4,140	0.0%	3.4%	5.7%
Total revenue	89,295	107,281	130,695	89,295	111,230	135,109	0.0%	3.7%	3.4%
Net Profit	5,948	7,652	10,183	5,948	7,846	10,201	0.0%	2.5%	0.2%

Source(s): Company, ABCI Securities estimates

Valuations

Recommend BUY with TP at HK\$63.0

Our DCF-derived TP of the Company is HK\$63.0 (WACC: 12.4%; perpetuity growth rate: 2.4%), representing 15.4x/11.8x FY21E/22E P/E. Based on the share price of Jan 21, 2021, the counter has a potential upside of 15.8%. Recommend **BUY**.

Exhibit 3: Peers comparison table

Ticker	Price*	P/E				P/B				ROE		ROA		
		19A	20E	21E	22E	19A	20E	21E	22E	20E	21E	20E	21E	
BYD Electronic Ltd	285 HK	54.4	47.5	13.0	14.6	12.0	4.5	3.3	2.7	2.3	27.1	18.4	16.1	12.0
AAC Technologies	2018 HK	47.05	20.8	31.0	17.9	14.4	2.4	2.2	2.0	1.8	7.8	12.8	4.7	6.9
Sunny Optical Tech	2382 HK	218.60	39.6	34.7	26.9	21.8	12.8	9.4	7.3	5.7	29.4	30.0	13.3	14.4
TCL Electronics	1070 HK	7.13	5.5	10.4	8.5	7.0	1.1	1.0	0.9	0.8	9.4	12.5	4.0	4.6
Cowell E Holdings Inc	1415 HK	5.85	21.3	10.6	8.6	7.6	1.9	2.5	2.3	2.1	21.1	29.5	14.6	19.8
Q Technology Group Co	1478 HK	17.58	23.1	16.7	14.3	11.8	4.5	3.5	2.9	2.5	22.4	22.2	6.1	6.3
Average			26.3	19.4	15.1	12.5	4.5	3.7	3.0	2.5	19.5	20.9	9.8	10.6

*Based on closing price on Jan 21, 2021

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 FY19.

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. Any changes in smartphone and PC shipments will have substantial impact on the Company's income.

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	77,616	96,734
New Intelligent business revenue	4,340	6,025	8,736	12,231	16,878
Automotive intelligent system business revenue	1,190	1,594	2,248	3,113	4,140
Others revenue	0	0	20,300	18,270	17,357
Total revenue	41,047	53,028	89,295	111,230	135,109
Cost of revenue	(36,875)	(49,071)	(76,972)	(96,214)	(117,005)
Gross profit	4,172	3,957	12,323	15,016	18,105
R&D expenses	(1,589)	(2,088)	(3,304)	(3,893)	(4,594)
Selling and distribution expenses	(229)	(257)	(432)	(445)	(405)
Admin expenses	(536)	(619)	(1,072)	(1,224)	(1,216)
Others	718	703	(979)	(832)	(692)
Profit before tax	2,536	1,696	6,536	8,622	11,198
Tax	(347)	(99)	(588)	(776)	(997)
Net profit	2,189	1,598	5,948	7,846	10,201
EPS (RMB)	0.971	0.709	2.640	3.482	4.527
DPS (RMB)	0.195	0.071	0.264	0.349	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	9,817	16,562
Total non-current assets	8,962	10,945	14,853	20,354	27,848
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	40,017	49,022
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	29,402	38,582

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	8,622	11,198
Others	2,245	(1,318)	(368)	(207)	(444)
Operating cash flow	4,781	379	6,167	8,415	10,754
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)	(786)
Others	(43)	(184)	(165)	(148)	(134)
Financing cash flow	(561)	(623)	(325)	(744)	(919)
Net increase in cash and cash equivalents	1,928	(3,097)	2,980	4,662	6,673
Cash and cash equivalents at beginning of year	2,822	4,741	1,651	4,637	9,305
FX change effect	(9)	6	6	6	7
Cash and cash equivalents at end of year	4,741	1,651	4,637	9,305	15,985

Source(s): Company, ABCI Securities estimates

Financial ratios (2018A-2022E)

As of Dec 31	2018A	2019A	2020E	2021E	2022E
<u>YoY Growth:</u>					
Revenue	5.9%	29.2%	68.4%	24.6%	21.5%
Gross profit	(2.2%)	(5.1%)	211.4%	21.9%	20.6%
Net profit	(15.3%)	(27.0%)	272.3%	31.9%	30.0%
<u>Profitability ratios:</u>					
ROAE	14.6%	9.7%	30.2%	30.3%	30.0%
ROAA	8.5%	5.9%	19.4%	21.4%	22.9%
<u>Costs ratio:</u>					
R&D expenses/ revenue	3.9%	3.9%	3.7%	3.5%	3.4%
Selling and distribution expenses/ revenue	0.6%	0.5%	0.5%	0.4%	0.3%
Administrative expenses/ revenue	1.3%	1.2%	1.2%	1.1%	0.9%
<u>Margins:</u>					
Gross profit margin	10.2%	7.5%	13.8%	13.5%	13.4%
Net profit margin	5.3%	3.0%	6.7%	7.1%	7.6%

Source(s): Company, ABCI Securities estimates



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Definition of equity rating

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

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 (For reference: HSI total return index 2008-20CAGR at 9.2%)

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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