

BYD Electronics (285 HK)

Outlook intact despite NT headwinds; Maintain BUY

We spoke to BYDE mgmt. post 1H21 results, and we believe share gain in Xiaomi/iPad OEM, smart/automobile products and e-cigarette ramp remain on track in 2H21E despite near-term headwinds on chip shortage. We trimmed FY21/22/23E EPS by 32%/12%/2% mainly to reflect margin impact due to chip shortage and lower mask sales. We expect 4Q21E earnings will rebound at 32% YoY (vs -55%/-54% in 3Q/2Q21E) as GPM will normalize in 4Q21E. We remain positive on BYDE as the major beneficiary of industry consolidation, Apple/Xiaomi's supplier diversification and expansion into fast-growing e-cigarette market. Maintain BUY with new STOP-based TP of HK\$49.5, implying 16.4x FY22E P/E.

- 1H21 weakness on chip shortage and slow high-end demand; Android flagship/iPad to ramp in 4Q21E.** Despite 42% revenue growth in 1H21, net profit declined 34% YoY mainly due to lower GPM on chip shortage, mask impact and weak high-end demand. BYDE stated conservative FY21E guidance of RMB95-100bn revenue (vs prior RMB100bn) given uncertainty on ongoing chip shortage. For 2H21E, we expect revenue growth will accelerate to 22%/30% YoY in 3Q/4Q21E (vs +8% in 2Q21), driven by Android flagship launches and iPad ramp in 2H21E. As for GPM, given high base with mask sales in 1Q-3Q20 (GPM: 12-17%), we expect GPM will improve QoQ to 7.2%/10.4% in 3Q/4Q21E (vs 6.9% in 1H21), and earnings growth will resume at 32% YoY in 4Q21E after 55% YoY decline in 3Q21E.
- e-cigarette progress on track; More share gain in Apple components.** Mgmt. stated that 40 automated production line for e-cigarette products have been installed, and total shipment can reach 4mn per day at full utilization in 2022E. BYDE believed recent tighter regulations on e-cigarette industry will raise entry barrier and benefit industry leaders with strong R&D capability. We conservatively estimate e-cigarette sales of RMB1.5bn/2.4bn in FY21/22E. In addition, we expect BYDE to continue share gain in Apple's components (e.g. glass) in FY22E, following rapid expansion into iPad OEM and watch components in FY21E.
- Promising outlook; Reiterate BUY with new TP HK\$49.5.** We maintain our positive view on BYDE's product roadmap, share gain in major brands and expansion into e-cigarette markets. Our new SOTP-based TP of HK\$49.5 implies an undemanding valuation of 16.4x FY22E P/E. Catalysts include faster share gain, e-cigarette progress and Xiaomi/Apple launches.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	53,028	73,121	97,307	117,744	147,850
YoY growth (%)	29.2	37.9	33.1	21.0	25.6
Net income (RMB mn)	1,598	5,441	3,937	5,643	7,306
EPS (RMB)	0.71	2.41	1.75	2.50	3.24
YoY growth (%)	(25.5)	240.6	(27.6)	43.3	29.5
Consensus EPS (RMB)	NA	NA	1.96	2.57	3.15
P/E (x)	41.6	12.2	16.9	11.8	9.1
P/B (x)	5.7	4.4	3.8	3.2	2.6
Yield (%)	0.2	0.8	0.6	0.8	1.1
ROE (%)	9.4	24.9	15.5	18.5	19.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$49.5
(Previous TP)	HK\$55.0)
Up/Downside	+39%
Current Price	HK\$35.5

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	79,989
Avg. 3mths t/o (HK\$m)	384.25
52W High/Low (HK\$)	63.10/ 31.95
Total Issued Shares (mn)	2,253

Source: Bloomberg

Shareholding Structure

Golden Link Worldwide Ltd	65.76%
Gold Dragonfly Ltd	4.98%
China Southern Fund	1.19%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-9.7%	-9.4%
3-mth	-30.4%	-21.6%
6-mth	-17.9%	-8.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related reports:

- CMBI Tech Corporate Day takeaways – 16 Jun 2021
- Expect margin pressure to ease ahead; Maintain BUY – 30 Apr 2021
- FY20 in-line; Reiterate BUY with multiple drivers ahead - 31 Mar 2021

1H21 Results review

Figure 1: 1H21 results review

RMB mn	1H20	2H20	1H21	YoY	CMBI	%	Consensus	%
					FY21E	Track	FY21E	Track
Revenue	31,386	41,735	44,531	42%	102,033	44%	102,413	43%
Gross profit	4,100	5,529	3,061	-25%	10,664	29%	9,454	32%
Operating profit	2,587	3,218	1,043	-60%	5,766	18%	4,571	23%
Net profit	2,473	2,969	1,643	-34%	5,756	29%	4,629	35%
EPS (RMB)	1.10	1.32	0.73	-34%	2.55	29%	2.06	35%
Gross margin	13.1%	13.2%	6.9%	0.2ppt	10.5%		9.2%	
Operating margin	8.2%	7.7%	2.3%	-0.5ppt	5.7%		4.5%	
Net margin	7.9%	7.1%	3.7%	-0.8ppt	5.6%		4.5%	

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Quarterly results review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	YoY	QoQ
Revenue	8,564	22,822	20,131	21,604	19,890	24,641	8%	24%
Gross profit	1064	3035	3386	2143	1282	1779	-41%	39%
Net profit	657	1815	1862	1107	808	835	-54%	3%
EPS (RMB)	0.29	0.81	0.82	0.49	0.36	0.37	-54%	3%
Gross margin	12.4%	13.3%	16.8%	9.9%	6.4%	7.2%	-6.1 ppt	0.8 ppt
Net margin	7.7%	8.0%	9.2%	5.1%	4.1%	3.4%	-4.6 ppt	-0.7 ppt
Revenue (YoY)	-17.6%	77.1%	33.2%	47.7%	132.2%	8.0%		
Gross profit (YoY)	27.1%	325.3%	219.2%	59.3%	20.4%	-41.4%		
Net profit (YoY)	69.4%	869.5%	312.5%	93.8%	22.9%	-54.0%		

Source: Company data, Bloomberg, CMBIS estimates

Earnings Revision

Figure 3: Earnings revision

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	97,307	117,744	147,850	102,033	122,932	151,077	-5%	-4%	-2%
Gross Profit	7,768	10,701	13,985	10,664	12,279	14,788	-27%	-13%	-5%
Operating Profit	3,165	5,250	7,139	5,766	6,501	7,687	-45%	-19%	-7%
Net profit	3,937	5,643	7,306	5,756	6,404	7,448	-32%	-12%	-2%
EPS (RMB)	1.75	2.50	3.24	2.55	2.84	3.31	-32%	-12%	-2%
Gross Margin	8.0%	9.1%	9.5%	10.5%	10.0%	9.8%	-2.5 ppt	-0.9 ppt	-0.3 ppt
Operating Margin	3.3%	4.5%	4.8%	5.7%	5.3%	5.1%	-2.4 ppt	-0.8 ppt	-0.3 ppt
Net Margin	4.0%	4.8%	4.9%	5.6%	5.2%	4.9%	-1.6 ppt	-0.4 ppt	0 ppt

Sources: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	97,307	117,744	147,850	102,128	124,760	145,429	-5%	-6%	2%
Gross Profit	7,768	10,701	13,985	9,280	11,581	13,276	-16%	-8%	5%
Operating Profit	3,165	5,250	7,139	4,345	5,588	7,110	-27%	-6%	0%
Net profit	3,937	5,643	7,306	4,410	5,720	6,952	-11%	-1%	5%
EPS (RMB)	1.75	2.50	3.24	1.96	2.57	3.15	-11%	-3%	3%
Gross Margin	8.0%	9.1%	9.5%	9.1%	9.3%	9.1%	-1.1 ppt	-0.2 ppt	0.3 ppt
Operating Margin	3.3%	4.5%	4.8%	4.3%	4.5%	4.9%	-1 ppt	0 ppt	-0.1 ppt
Net Margin	4.0%	4.8%	4.9%	4.3%	4.6%	4.8%	-0.3 ppt	0.2 ppt	0.2 ppt

Source: Company data, CMBIS estimates

Figure 5: Revenue breakdown

RMB mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
Assembly	26,847	31,152	30,471	32,029	62,500	74,000	92,000
...YoY	53%	16%	208%	51%	101%	18%	24%
Component (metal/glass/plastic)	18,562	17,576	7,110	8,642	15,752	17,808	20,438
...YoY	3%	-5%	-17%	-4%	-10%	13%	15%
Metal	13,000	10,996	5,476	2,611	8,087	6,736	6,996
Plastic	3,512	4,566	1,415	2,375	3,789	3,032	3,032
Glass/ceramic	1,500	3,000	1,725	3,975	5,700	5,985	7,781
Masks	-	12,100	446	643	1,089	484	212
...YoY			-95%	-82%	-91%	-56%	-56%
E-cigarette	-	1,000	200	1,300	1,500	2,400	4,080
					50%	60%	70%
New intelligent	6,025	9,476	5,014	8,726	13,740	19,236	25,969
...YoY	39%	57%	38%	49%	45%	40%	35%
Auto intelligent	1,594	1,817	1,290	1,436	2,726	3,816	5,151
...YoY	34%	14%	90%	26%	50%	40%	35%
Total	53,028	73,121	44,531	51,476	97,307	117,744	147,850
...YoY	29%	38%	42%	26%	33%	21%	26%

Source: Company data, CMBIS estimates

Figure 6: P&L forecast by interim

RMB mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
Revenue	53,028	73,121	44,531	52,776	97,307	117,744	147,850
...YoY	29.2%	37.9%	41.9%	26.5%	33.1%	21.0%	25.6%
Cost of sales	(49,071)	(63,492)	(41,470)	(48,069)	(89,539)	(107,043)	(133,866)
Gross profit	3,957	9,629	3,061	4,707	7,768	10,701	13,985
GPM (%)	7%	13%	7%	9%	8%	9%	9%
...YoY	-5.1%	143.3%	-47.4%	-32.7%	-19.3%	37.8%	30.7%
SG&A	(876)	(910)	(1,033)	(378)	(905)	(977)	(1,227)
...% of rev	2%	1%	2%	1%	1%	1%	1%
R&D	(2,088)	(2,913)	325	(2,207)	(3,698)	(4,474)	(5,618)
...% of rev	4%	4%	(1%)	4%	4%	4%	4%
Operating profit	994	5,806	(118)	2,123	3,165	5,250	7,139
OPM (%)	2%	8%	(0%)	4%	3%	4%	5%
...YoY	-45%	484%	-103%	-48%	-45%	66%	36%
Net profit	1,598	5,441	1,643	2,294	3,937	5,643	7,306
NPM (%)	3%	7%	4%	4%	4%	5%	5%
...YoY	-26%	241%	-34%	-23%	-28%	43%	29%

Source: Company data, CMBIS estimates

Figure 7: P&L forecast by interim

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21E	4Q21E
Revenue	8,564	22,822	20,131	21,604	19,890	24,641	24,641	28,135
Gross profit	1064	3035	3386	2143	1282	1779	1774	2933
Net profit	657	1815	1862	1107	808	835	835	1459
EPS (RMB)	0.29	0.81	0.82	0.49	0.36	0.37	0.37	0.65
Growth (YoY)								
Revenue	-18%	77%	33%	48%	132%	8%	22%	30%
Gross profit	27%	325%	219%	59%	20%	-41%	-48%	37%
Net profit	69%	869%	312%	94%	23%	-54%	-55%	32%
Margin								
Gross margin	12.4%	13.3%	16.8%	9.9%	6.4%	7.2%	7.2%	10.4%
Net margin	7.7%	8.0%	9.2%	5.1%	4.1%	3.4%	3.4%	5.2%

Source: Company data, CMBIS estimates

Valuation

Reiterate BUY with new TP HK\$49.5

We maintain Buy with new TP HK\$ 49.5, to reflect EPS revision and rollover to FY22E P/E. We derive our TP based on SOTP valuation to reflect BYDE's business diversification with different growth profiles and visibility.

Our TP is based on weighted-average target P/E multiple of 16.4x FY21E EPS. We assign 10x P/E to its assembly EMS business and 15x P/E for component/e-cigarette business, in-line with TW/HK-listed peers. We assign lower 8x for mask business to reflect its near-term growth potential amid COVID-19 outbreak.

Figure 8: BYDE – SOTP valuation

Business segment	% of FY22E Profit	FY22E EPS (RMB)	Target P/E
Assembly	19%	0.47	10x
Components	31%	0.77	15x
Masks	2%	0.04	8x
Others (smart, auto)	49%	1.23	20x
Total (RMB) /Implied P/E			16.4x
TP (HK\$)			49.5

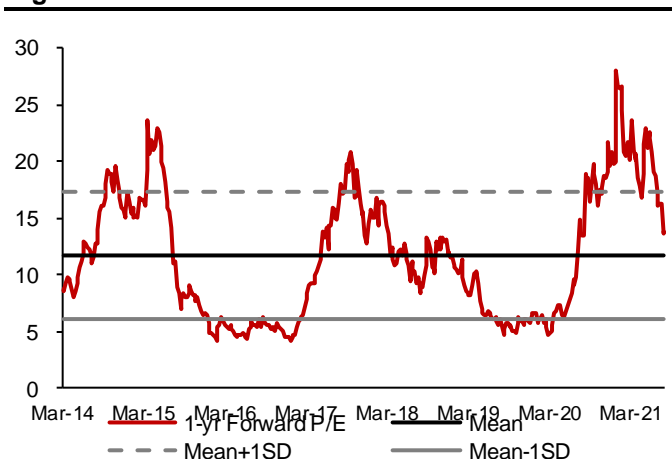
Sources: Company data, CMBIS estimates

Figure 9: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
BYDE	285 HK	Buy	10,284	35.50	49.5	39%	16.9	11.8	3.8	3.2	15.5	18.5
Tongda	698 HK	Buy	312	0.25	*0.56	na	3.1	3.2	0.2	0.2	7.7	7.8
AAC Tech	2018 HK	Hold	6,735	43.35	45.3	4%	25.8	15.1	2.1	1.7	8.0	11.5
TK Group	2283 HK	Buy	366	3.42	4.1	20%	5.3	7.4	2.2	1.5	41.7	21.3
Ju Teng	3336 HK	NR	247	1.60	na	na	9.4	8.0	0.3	0.3	3.1	3.6
Everwin	300115 CH	NR	3,173	17.07	na	na	20.9	14.8	2.7	2.3	12.6	16.5
Lens Tech	300433 CH	NR	18,167	23.60	na	na	17.2	13.5	2.5	2.2	14.6	16.0
Foxconn	2354 TT	NR	3,390	66.30	na	na	12.1	11.4	0.8	0.7	6.6	-
Catcher	2474 TT	NR	4,597	167.00	na	na	13.6	11.8	0.8	0.8	5.5	6.3
Average							14.0	10.8	1.6	1.3	11.9	12.8

Source: Bloomberg, CMBIS estimates, *TP under review

Figure 10: 12M forward P/E band



Source: Bloomberg, CMBIS estimates

Figure 11: 12M forward P/B band



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	53,028	73,121	97,307	117,744	147,850
COGS	(49,071)	(63,492)	(89,539)	(107,04)	(133,86)
Gross profit	3,957	9,629	7,768	10,701	13,985
Selling and marketing	(257)	(237)	(224)	(271)	(340)
Administrative	(619)	(673)	(681)	(706)	(887)
R&D	(2,088)	(2,913)	(3,698)	(4,474)	(5,618)
Other operating exp.	-	-	-	-	-
Operating profit	994	5,806	3,165	5,250	7,139
Financial cost	(31)	(71)	(71)	(71)	(71)
Other income/(losses)	734	487	1,232	1,234	1,234
Pre-tax profit	1,696	6,221	4,326	6,413	8,302
Tax	(99)	(779)	(389)	(770)	(996)
Minority interest	-	-	-	-	-
Net profit	1,598	5,441	3,937	5,643	7,306

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	1,696	6,221	4,326	6,413	8,302
Depreciation	2,157	2,442	2,821	3,279	3,856
Change in working capital	(3,596)	(1,499)	(857)	(188)	(5,039)
Others	(20)	(708)	(318)	(698)	(925)
Net cash from operating	237	6,455	5,972	8,806	6,193
Capex	(3,140)	(2,632)	(3,503)	(4,239)	(5,323)
Other	-	-	-	-	-
Net cash from investing	(3,140)	(2,632)	(3,503)	(4,239)	(5,323)
Dividend paid	(160)	(543)	(394)	(564)	(731)
Other	(31)	(71)	(71)	(71)	(71)
Net cash from financing	(191)	(614)	(465)	(636)	(802)
Net change in cash	(3,095)	3,209	2,004	3,932	69
Cash at beginning of the year	4,699	1,651	4,859	6,863	10,795
Exchange difference	-	-	-	-	-
Cash at the end of the year	1,651	4,859	6,863	10,795	10,864

Balance sheet

YE 31 Dec (RMB mn)	FY19E	FY20E	FY21E	FY22E	FY23E
Current assets	17,082	25,250	32,092	37,232	48,984
Cash & equivalents	1,651	4,859	6,863	10,795	10,864
Account receivables	9,567	11,324	14,624	14,812	22,151
Inventories	5,453	8,656	10,194	11,214	15,559
Short-term bank deposits	-	-	-	-	-
Other current assets	411	411	411	411	411
Non-current assets	9,950	10,123	10,744	11,616	12,950
PPE	8,617	8,808	9,491	10,450	11,917
Deferred income tax	159	159	159	159	159
Other non-current assets	1,173	1,156	1,094	1,007	873
Total assets	27,032	35,374	42,836	48,848	61,933
Current liabilities	10,399	13,860	17,841	18,861	25,504
Deferred income	-	-	-	-	-
Account payables	7,340	10,801	14,782	15,802	22,445
Tax payable	108	108	108	108	108
Other current liabilities	2,951	2,951	2,951	2,951	2,951
Non-current liabilities	639	639	639	639	639
Deferred income	122	122	122	122	122
Deferred tax liability	18	18	18	18	18
Total liabilities	11,038	14,498	18,479	19,500	26,143
Share capital	4,052	4,052	4,052	4,052	4,052
Reserves	12,937	17,836	21,379	26,458	33,033
Minority interest	-	-	-	-	-
Shareholders' equity	16,989	21,888	25,431	30,510	37,085
Total equity and liabilities	28,027	36,386	43,910	50,010	63,228

Key ratios

YE 31 Dec	FY19E	FY20E	FY21E	FY22E	FY23E
Sales mix (%)					
Phone and PC components	35	24	16	15	14
Assembly services	51	43	64	63	62
Masks	-	17	1	0	0
New intelligent products	11	13	14	16	18
Auto intelligent systems	3	2	3	3	3
Growth (%)					
Revenue	29.2	37.9	33.1	21.0	25.6
Gross profit	(5.1)	143.3	(19.3)	37.8	30.7
Operating profit	(45.4)	484.3	(45.5)	65.9	36.0
Net profit	(25.5)	240.6	(27.6)	43.3	29.5
Profit & loss ratio (%)					
Gross margin	7.5	13.2	8.0	9.1	9.5
Operating margin	1.9	7.9	3.3	4.5	4.8
Net profit margin	3.0	7.4	4.0	4.8	4.9
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.6	1.8	1.8	2.0	1.9
Receivable turnover days	58	52	49	46	46
Inventory turnover days	38	41	38	37	37
Payable turnover days	57	52	52	52	52
Profitability (%)					
ROE	9.4	24.9	15.5	18.5	19.7
ROA	5.9	15.4	9.2	11.6	11.8
Per share data (RMB)					
EPS	0.71	2.41	1.75	2.50	3.24
DPS	0.07	0.24	0.17	0.25	0.32

Source: Company data, CMBIS estimates

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OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
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