

BYD Electronics (285 HK)

Industry headwinds to persist into 4Q; D/G to HOLD

We downgrade BYDE to Hold (from Buy) given challenging 4Q21E outlook on chip shortage and slower iPad/e-cigarette ramp. Mgmt also revised down FY21E revenue guidance to RMB90bn (from RMB100bn), and e-cigarette channel destocking will continue into 4Q21E. We trimmed FY21-23E EPS by 26-35% to reflect chip shortage and lower iPad/e-cigarette sales. While we believe share gain in Xiaomi/iPad OEM, smart/automobile products and e-cigarette ramp will remain growth drivers in FY22-23E, chip shortage and smartphone weakness will negatively impact BYDE's profitability in 4Q21E and FY22E. Our new STOP-based TP of HK\$26.44, implying 13.4x FY22E P/E.

- 3Q21 miss on chip shortage and power outage.** BYDE's 3Q21 revenue grew 6% YoY but net profit declined 72% YoY to RMB514mn (vs -54% YoY in 2Q21), 38% below our estimates, mainly due to chip shortage, power outage, and weak smartphone demand. GPM was flattish QoQ at 7.2% in 3Q21 (vs 16.8% in 3Q20) given high-base on mask in 3Q20 and lower utilization with power crunch in Xian/Huizhou facilities in 3Q21. By segment, we estimate handset OEM grew at single-digit YoY and component was flattish both QoQ/YoY in 3Q21, while new/auto intelligent product segment remained strong with 30%+ YoY growth.
- FY21E sales guidance revised down on weaker iPad and e-cigarette.** Mgmt. adjusted down FY21E revenue guidance to RMB90bn (vs prior RMB100bn) given chip shortage impact on handset/iPad segments and e-cigarette channel destocking in 2H21E. In particular, we believe BYDE's iPad weakness in 4Q21E is in-line with Apple's cautious guidance on iPad (YoY decline in 4Q) given recent chip shortage. For FY22E, BYDE guided revenue of RMB12-13bn, driven by share gain in iPad OEM/components and mass production of new plants Zhongshan and Vietnam.
- Headwinds to continue into 4Q21E; D/G to HOLD with new TP HK\$26.44.** While we remain positive on BYDE's product roadmap, share gain in major brands and expansion into e-cigarette markets in 2022E, we cut FY21-23E EPS by 26-35% to reflect lowered guidance and conservative GPM on chip shortage. Our new SOTP-based TP of HK\$26.44 implies 13.4x FY22E P/E. Trading at 11.8x FY22E P/E, the stock is fairly valued due to uncertainty on profitability and demand headwinds.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	53,028	73,121	89,477	113,572	141,583
YoY growth (%)	29.2	37.9	22.4	26.9	24.7
Net income (RMB mn)	1,598	5,441	2,897	3,677	5,155
EPS (RMB)	0.71	2.41	1.29	1.63	2.29
YoY growth (%)	(25.5)	240.6	(46.8)	27.0	40.2
Consensus EPS (RMB)	NA	NA	1.66	2.28	2.97
P/E (x)	27.1	8.0	14.9	11.8	8.4
P/B (x)	3.7	2.9	2.6	2.3	1.9
Yield (%)	0.4	1.3	0.7	0.8	1.2
ROE (%)	9.4	24.9	11.8	13.2	15.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price	HK\$26.44
(Previous TP	HK\$49.5)
Up/Downside	+14%
Current Price	HK\$23.15

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	52,162
Avg. 3mths t/o (HK\$m)	265.65
52W High/Low (HK\$)	63.10/ 22.80
Total Issued Shares (mn)	2,253

Source: Bloomberg

Shareholding Structure

Golden Link Worldwide Ltd	65.76%
Gold Dragonfly Ltd	4.98%
Vanguard Group	1.25%

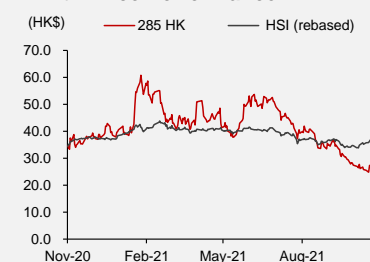
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-15.7%	-18.3%
3-mth	-41.1%	-39.7%
6-mth	-44.0%	-36.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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3Q21 Results review

Figure 1: Quarterly results review

RMB mn	4Q20	1Q21	2Q21	3Q21	YoY	QoQ	CMBI	9M21	Consensus	9M21
							FY21E	% Track	FY21E	% Track
Revenue	20,131	19,890	24,641	21,404	6%	-13%	97,307	68%	99,297	66%
Gross profit	3386	1282	1779	1543	-54%	-13%	7,768	59%	8,135	57%
Net profit	1862	808	835	514	-72%	-38%	3,937	55%	3,714	58%
EPS (RMB)	0.82	0.36	0.37	0.23	-72%	-37%	1.75	55%	1.66	58%
Gross margin	16.8%	6.4%	7.2%	7.2%	-9.6 ppt	0 ppt	8.0%		8.2%	
Net margin	9.2%	4.1%	3.4%	2.4%	-6.8 ppt	-1 ppt	4.0%		3.7%	
Revenue (YoY)	33.2%	132.2%	8.0%	6.3%						
Gross profit (YoY)	219.2%	20.4%	-41.4%	-54.4%						
Net profit (YoY)	312.5%	22.9%	-54.0%	-72.4%						

Source: Company data, Bloomberg, CMBIS estimates

Earnings Revision

Figure 2: Earnings revision

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	89,477	113,572	141,583	97,307	117,744	147,850	-8%	-4%	-4%
Gross Profit	6,710	8,808	11,533	7,768	10,701	13,985	-14%	-18%	-18%
Operating Profit	2,058	3,016	4,695	3,165	5,250	7,139	-35%	-43%	-34%
Net profit	2,897	3,677	5,155	3,937	5,643	7,306	-26%	-35%	-29%
EPS (RMB)	1.29	1.63	2.29	1.75	2.50	3.24	-26%	-35%	-29%
Gross Margin	7.5%	7.8%	8.1%	8.0%	9.1%	9.5%	-0.5 ppt	-1.3 ppt	-1.3 ppt
Operating Margin	2.3%	2.7%	3.3%	3.3%	4.5%	4.8%	-1 ppt	-1.8 ppt	-1.5 ppt
Net Margin	3.2%	3.2%	3.6%	4.0%	4.8%	4.9%	-0.8 ppt	-1.6 ppt	-1.3 ppt

Sources: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY22E	FY21E	FY22E	FY23E
Revenue	89,477	113,572	141,583	99,297	119,037	140,600	-10%	-5%	1%
Gross Profit	6,710	8,808	11,533	8,135	10,737	13,087	-18%	-18%	-12%
Operating Profit	2,058	3,016	4,695	3,084	5,071	6,795	-33%	-41%	-31%
Net profit	2,897	3,677	5,155	3,714	5,066	6,539	-22%	-27%	-21%
EPS (RMB)	1.29	1.63	2.29	1.66	2.28	2.97	-23%	-28%	-23%
Gross Margin	7.5%	7.8%	8.1%	8.2%	9.0%	9.3%	-0.7 ppt	-1.3 ppt	-1.2 ppt
Operating Margin	2.3%	2.7%	3.3%	3.1%	4.3%	4.8%	-0.8 ppt	-1.6 ppt	-1.5 ppt
Net Margin	3.2%	3.2%	3.6%	3.7%	4.3%	4.7%	-0.5 ppt	-1 ppt	-1 ppt

Source: Company data, CMBIS estimates

Figure 4: Revenue breakdown

RMB mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
Assembly	26,847	31,152	30,471	26,029	56,500	74,000	92,000
... YoY	53%	16%	208%	23%	81%	31%	24%
Component (metal/glass/plastic)	18,562	17,576	7,110	7,488	14,598	15,371	16,512
... YoY	3%	-5%	-17%	-16%	-17%	5%	7%
Metal	13,000	10,996	5,476	2,611	8,087	6,626	6,886
Plastic	3,512	4,566	1,415	2,375	3,789	2,842	2,842
Glass/ceramic	1,500	3,000	1,725	3,975	5,700	5,130	5,643
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	7,779	12,793	17,270	23,315
... YoY	39%	57%	38%	33%	35%	35%	35%
Auto intelligent	1,594	1,817	1,290	1,708	2,998	4,047	5,464
... YoY	34%	14%	90%	50%	65%	35%	35%
Total	53,028	73,121	44,531	43,647	89,477	113,572	141,583
... YoY	29%	38%	42%	7%	22%	27%	25%

Source: Company data, CMBIS estimates

Figure 5: P&L forecast by interim

RMB mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
Revenue	53,028	73,121	44,531	44,947	89,477	113,572	141,583
... YoY	29.2%	37.9%	41.9%	7.7%	22.4%	26.9%	24.7%
Cost of sales	(49,071)	(63,492)	(41,470)	(41,297)	(82,767)	(104,764)	(130,049)
Gross profit	3,957	9,629	3,061	3,650	6,710	8,808	11,533
GPM (%)	7%	13%	7%	8%	7%	8%	8%
... YoY	-5.1%	143.3%	-47.4%	-38.7%	-30.3%	31.3%	30.9%
SG&A	(876)	(910)	(1,033)	(546)	(1,074)	(1,249)	(1,458)
...% of rev	2%	1%	2%	1%	1%	1%	1%
R&D	(2,088)	(2,913)	325	(2,088)	(3,579)	(4,543)	(5,380)
...% of rev	4%	4%	(1%)	5%	4%	4%	4%
Operating profit	994	5,806	(118)	1,015	2,058	3,016	4,695
OPM (%)	2%	8%	(0%)	2%	2%	3%	3%
... YoY	-45%	484%	-103%	-71%	-65%	47%	56%
Net profit	1,598	5,441	1,643	1,254	2,897	3,677	5,155
NPM (%)	3%	7%	4%	3%	3%	3%	4%
... YoY	-26%	241%	-34%	-58%	-47%	27%	40%

Source: Company data, CMBIS estimates

Figure 6: P&L forecast by interim

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21E
Revenue	8,564	22,822	20,131	21,604	19,890	24,641	21,404	23,542
Gross profit	1064	3035	3386	2143	1282	1779	1,543	2,107
Net profit	657	1815	1862	1107	808	835	514	740
EPS (RMB)	0.29	0.81	0.82	0.49	0.36	0.37	0.23	0.33
Growth (YoY)								
Revenue	-18%	77%	33%	48%	132%	8%	6%	9%
Gross profit	27%	325%	219%	59%	20%	-41%	-54%	-2%
Net profit	69%	869%	312%	94%	23%	-54%	-72%	-33%
Margin								
Gross margin	12.4%	13.3%	16.8%	9.9%	6.4%	7.2%	7.2%	8.9%
Net margin	7.7%	8.0%	9.2%	5.1%	4.1%	3.4%	2.4%	3.1%

Source: Company data, CMBIS estimates

Valuation

Downgrade to HOLD with new TP HK\$26.44

We downgrade the stock to Hold with new TP HK\$ 26.44, to reflect lowered guidance and EPS revision. 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 13.4x FY21E EPS. We assign 10x P/E to its assembly EMS business and 13x 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 7: BYDE – SOTP valuation

Business segment	% of FY22E Profit	FY22E EPS (RMB)	Target P/E
Assembly	17%	0.28	10x
Components	30%	0.49	13x
Masks	1%	0.02	8x
Others (smart, auto)	51%	0.84	20x
Total (RMB) /Implied P/E		1.63	13.4x
TP (HK\$)			26.44

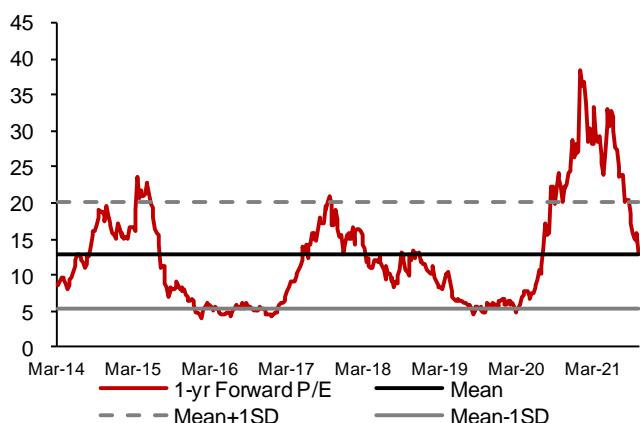
Sources: Company data, CMBIS estimates

Figure 8: 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	6,704	23.15	26.44	14%	14.9	11.8	2.6	2.3	11.8	13.2
Tongda	698 HK	Buy	311	0.25	*0.56	NA	3.1	3.4	0.2	0.2	7.7	6.5
AAC Tech	2018 HK	Hold	5,273	33.95	45.3	33%	17.6	15.9	1.6	1.5	9.1	10.3
TK Group	2283 HK	Buy	316	2.95	4.1	39%	4.6	4.6	1.9	1.9	41.7	21.2
Ju Teng	3336 HK	NR	205	1.33	NA	NA	7.8	6.7	0.2	0.2	3.1	3.6
Everwin	300115 CH	NR	2,629	14.02	NA	NA	19.9	12.7	2.3	2.1	10.5	16.2
Lens Tech	300433 CH	NR	16,515	21.27	NA	NA	18.0	14.0	2.3	2.0	13.4	15.2
Foxconn	2354 TT	NR	3,501	68.80	NA	NA	12.2	11.5	0.7	0.6	7.0	7.2
			4,411	161.00	NA	NA	14.5	12.1	0.8	0.7	5.4	6.1

Source: Bloomberg, CMBIS estimates, *TP under review

Figure 9: 12M forward P/E band



Source: Bloomberg, CMBIS estimates

Figure 10: 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	89,477	113,572	141,583
COGS	(49,071)	(63,492)	(82,767)	(104,764)	(130,049)
Gross profit	3,957	9,629	6,710	8,808	11,533
Selling and marketing	(257)	(237)	(268)	(341)	(326)
Administrative	(619)	(673)	(805)	(909)	(1,133)
R&D	(2,088)	(2,913)	(3,579)	(4,543)	(5,380)
Other operating exp.					
Operating profit	994	5,806	2,058	3,016	4,695
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	3,218	4,179	5,858
Tax	(99)	(779)	(322)	(501)	(703)
Minority interest	-	-	-	-	-
Net profit	1,598	5,441	2,897	3,677	5,155

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	1,696	6,221	3,218	4,179	5,858
Depreciation	2,157	2,442	2,790	3,233	3,784
Change in working capital	(3,596)	(1,499)	722	(2,498)	(2,338)
Others	(20)	(708)	(251)	(430)	(632)
Net cash from operating	237	6,455	6,480	4,484	6,673
Capex	(3,140)	(2,632)	(3,221)	(4,089)	(5,097)
Other					
Net cash from investing	(3,140)	(2,632)	(3,221)	(4,089)	(5,097)
Dividend paid	(160)	(543)	(290)	(368)	(515)
Other	(31)	(71)	(71)	(71)	(71)
Net cash from financing	(191)	(614)	(361)	(439)	(587)
Net change in cash	(3,095)	3,209	2,898	(44)	989
Cash at beginning of the year	4,699	1,651	4,859	7,757	7,713
Exchange difference					
Cash at the end of the year	1,651	4,859	7,757	7,713	8,702

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	17,082	25,250	29,473	36,165	42,478
Cash & equivalents	1,651	4,859	7,757	7,713	8,702
Account receivables	9,567	11,324	12,536	15,857	19,539
Inventories	5,453	8,656	8,769	12,184	13,826
Short-term bank deposits	-	-	-	-	-
Other current assets	411	411	411	411	411
Non-current assets	9,950	10,123	10,515	11,293	12,487
PPE	8,617	8,808	9,239	10,095	11,408
Deferred income tax	159	159	159	159	159
Other non-current assets	1,173	1,156	1,117	1,039	920
Total assets	27,032	35,374	39,988	47,458	54,964
Current liabilities	10,399	13,860	15,906	20,145	23,130
Deferred income					
Account payables	7,340	10,801	12,847	17,086	20,071
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	16,545	20,783	23,769
Share capital	4,052	4,052	4,052	4,052	4,052
Reserves	12,937	17,836	20,443	23,752	28,392
Minority interest					
Shareholders' equity	16,989	21,888	24,495	27,805	32,444
Total equity and liabilities	28,027	36,386	41,039	48,588	56,213

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Phone and PC components	35	24	16	14	12
Assembly services	51	43	63	65	65
Masks					
New intelligent products	11	13	14	15	16
Auto intelligent systems	3	2	3	4	4
Growth (%)					
Revenue	29.2	37.9	22.4	26.9	24.7
Gross profit	(5.1)	143.3	(30.3)	31.3	30.9
Operating profit	(45.4)	484.3	(64.6)	46.6	55.7
Net profit	(25.5)	240.6	(46.8)	27.0	40.2
Profit & loss ratio (%)					
Gross margin	7.5	13.2	7.5	7.8	8.1
Operating margin	1.9	7.9	2.3	2.7	3.3
Net profit margin	3.0	7.4	3.2	3.2	3.6
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	1.9	1.8	1.8
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	11.8	13.2	15.9
ROA	5.9	15.4	7.2	7.7	9.4
Per share data (RMB)					
EPS	0.71	2.41	1.29	1.63	2.29
DPS	0.07	0.24	0.13	0.16	0.23

Source: Company data, CMBIS estimates

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