

# BYD Electronics (285 HK)

## Awaiting recovery in 2H22E; Maintain HOLD

BYDE's 1Q22 earnings decline of 77.7% YoY is in-line with profit warning earlier, mainly due to weak demand and tightened COVID-19 control on major production bases in 1Q22. GPM reached historical low level at 5.5% in 1Q22 given lower utilization. Looking ahead, mgmt. expected 2Q22 revenue/GPM to improve QoQ utilization, and guided RMB110-120bn revenue (Apple RMB50-60bn, Android RMB40bn and auto/smart RMB 20-30bn), driven by new product launches, share gain in Apple products and automobile biz ramp. However, we maintain our conservative revenue estimate of RMB90bn as we are cautious over COVID-19 impact on supply chain and potential order cut on weak smartphone demand. We recommend to stay on sideline until more visibility on demand recovery in 2H22E. Maintain HOLD with new SOTP-based TP HK\$12.40, implying 12.9x FY22E P/E.

- 1Q22 earnings in-line with profit warning with GPM below expectations.** BYDE's 1Q22 net profit decline of 77.7% YoY is largely in-line (vs 75-85% preview), but historical-low GPM of 5.5% is below expectations (vs 6.2% in 4Q21). 1Q22 revenue of 5.2% YoY is better our expectations, backed by OEM/component revenue of RMB12bn/3-4bn and auto/smart segment of RMB1-1.5bn/3bn in 1Q22.
- Mgmt. guidance: 2Q22 to improve QoQ and strong 2H22 on order recovery.** Mgmt guided 2Q22 revenue/GPM will improve QoQ and higher utilization in 2H22E will boost profitability recovery to normal level. Overall, mgmt. guided FY22E revenue of RMB110-120bn (Apple RMB50-60bn, Android RMB40bn, auto/smart RMB20-30bn), implying 24-35% YoY growth. However, in view of recent COVID-19 impact in Shanghai/Kunshan, we expect supply chain disruption will persist into 2H22E, and weaker demand may lead to order cut from smartphone customers. We estimate 2Q22E revenue/net profit to decline 20%/48% YoY, compared to +5.5%/-77% YoY in 1Q22.
- Our FY22-24E EPS are 13-38% below consensus; Maintain HOLD.** While we remain positive on BYDE's share gain upside in Apple OEM/ components and strong momentum in automotive segment, we believe consensus is too bullish on demand recovery in 2H22E and GPM rebound amid COVID-19 disruption. Our new SOTP-based TP of HK\$12.4 implies 12.9x FY22E P/E. We think current valuation of 15.7x FY22E P/E is fair due to earnings uncertainty amid COVID-19 headwinds.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	73,121	89,057	89,906	97,231	107,896
YoY growth (%)	37.9	21.8	1.0	8.1	11.0
Net income (RMB mn)	5,441	2,310	1,793	2,992	4,223
EPS (RMB)	2.41	1.03	0.80	1.33	1.87
YoY growth (%)	240.6	(57.5)	(22.4)	66.9	41.1
Consensus EPS (RMB)	NA	1.04	1.29	1.80	2.15
P/E (x)	5.2	12.2	15.7	9.4	6.7
P/B (x)	1.8	1.7	1.6	1.4	1.3
Yield (%)	1.9	0.8	0.6	1.1	1.5
ROE (%)	24.4	9.6	7.0	10.6	13.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### HOLD (Maintain)

Target Price	HK\$12.4
(Previous TP	HK\$12.45)
Up/Downside	-17%
Current Price	HK\$15.0

### China Technology Sector

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### Stock Data

Mkt. Cap. (HK\$m)	33,843
Avg. 3mths t/o (HK\$m)	169.52
52W High/Low (HK\$)	55.00/ 13.40
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	-10.0%	-3.5%
3-mth	-35.0%	-22.4%
6-mth	-41.6%	-24.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Ernst & Young

### Related reports:

- 1Q22 profit warning; Headwinds to persist into 2Q22 – 19 Apr 2022
- Margin pressure remains an overhang; Maintain HOLD – 31 Mar 2022

## 1Q22 Results review

Figure 1: Quarterly results review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	YoY	QoQ
Revenue	19,890	24,641	21,404	23,122	20,933	5%	-9%
Gross profit	1282	1779	1543	1425	1,145	-11%	-20%
Net profit	808	835	514	153	180	-78%	18%
EPS (RMB)	0.36	0.37	0.23	0.07	0.08	-78%	23%
Gross margin	6.4%	7.2%	7.2%	6.2%	5.5%	-1 ppt	-0.7 ppt
Net margin	4.1%	3.4%	2.4%	0.7%	0.9%	-3.2 ppt	0.2 ppt
Revenue (YoY)	132.2%	8.0%	6.3%	7.0%	5.2%		
Gross profit (YoY)	20.4%	-41.4%	-54.4%	-33.5%	-10.7%		
Net profit (YoY)	22.9%	-54.0%	-72.4%	-86.2%	-77.7%		

Source: Company data, Bloomberg, CMBIGM estimates

## Earnings Revision

Figure 2: Earnings revision

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	89,906	97,231	107,896	78,716	92,982	106,314	14%	5%	1%
Gross Profit	5,934	7,814	9,778	5,619	7,790	10,048	6%	0%	-3%
Operating Profit	1,298	2,660	4,059	1,290	2,676	4,201	1%	-1%	-3%
Net profit	1,793	2,992	4,223	1,781	3,005	4,348	1%	0%	-3%
EPS (RMB)	0.80	1.33	1.87	0.79	1.33	1.93	1%	0%	-3%
Gross Margin	6.6%	8.0%	9.1%	7.1%	8.4%	9.5%	-0.5 ppt	-0.3 ppt	-0.4 ppt
Operating Margin	1.4%	2.7%	3.8%	1.6%	2.9%	4.0%	-0.2 ppt	-0.1 ppt	-0.2 ppt
Net Margin	2.0%	3.1%	3.9%	2.3%	3.2%	4.1%	-0.3 ppt	-0.2 ppt	-0.2 ppt

Sources: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	89,906	97,231	107,896	105,987	124,782	133,891	-15%	-22%	-19%
Gross Profit	5,934	7,814	9,778	7,863	9,940	10,856	-25%	-21%	-10%
Operating Profit	1,298	2,660	4,059	2,853	4,425	5,017	-55%	-40%	-19%
Net profit	1,793	2,992	4,223	2,913	4,121	4,837	-38%	-27%	-13%
EPS (RMB)	0.80	1.33	1.87	1.29	1.80	2.15	-38%	-26%	-13%
Gross Margin	6.6%	8.0%	9.1%	7.4%	8.0%	8.1%	-0.8 ppt	0.1 ppt	1 ppt
Operating Margin	1.4%	2.7%	3.8%	2.7%	3.5%	3.7%	-1.2 ppt	-0.8 ppt	0 ppt
Net Margin	2.0%	3.1%	3.9%	2.7%	3.3%	3.6%	-0.8 ppt	-0.2 ppt	0.3 ppt

Source: Company data, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
<b>Assembly</b>	<b>31,152</b>	<b>55,977</b>	<b>26,500</b>	<b>26,500</b>	<b>53,000</b>	<b>54,000</b>	<b>55,000</b>
... YoY	16%	80%	-13%	4%	-5%	2%	2%
<b>Component (metal/glass/plastic)</b>	<b>17,576</b>	<b>15,655</b>	<b>5,647</b>	<b>8,752</b>	<b>14,400</b>	<b>13,093</b>	<b>11,924</b>
... YoY	-5%	-11%	-21%	2%	-8%	-9%	-9%
Metal	10,996	8,087	4,253	3,051	7,304	6,977	6,553
Plastic	4,566	3,789	1,132	2,089	3,221	2,803	2,383
Glass/ceramic	3,000	5,700	1,725	3,405	5,130	4,619	4,157
<b>Masks</b>	<b>13,100</b>	<b>1,210</b>	<b>201</b>	<b>219</b>	<b>420</b>	<b>144</b>	<b>58</b>
... YoY		-91%	-69%	-61%	-65%	-66%	-60%
<b>New intelligent</b>	<b>9,476</b>	<b>12,445</b>	<b>6,017</b>	<b>9,660</b>	<b>15,677</b>	<b>20,380</b>	<b>26,494</b>
... YoY	57%	31%	20%	30%	26%	30%	30%
E-cigarette	1,000	1,000	300	1,240	1,540	2,618	4,451
... YoY		0%	50%	55%	54%	70%	70%
<b>Auto intelligent</b>	<b>1,817</b>	<b>3,770</b>	<b>2,193</b>	<b>4,216</b>	<b>6,409</b>	<b>9,614</b>	<b>14,420</b>
... YoY	14%	107%	70%	70%	70%	50%	50%
<b>Total</b>	<b>73,121</b>	<b>89,057</b>	<b>40,558</b>	<b>49,348</b>	<b>89,906</b>	<b>97,231</b>	<b>107,896</b>
... YoY	38%	22%	-9%	11%	1%	8%	11%

Source: Company data, CMBIGM estimates

Figure 5: P&amp;L forecast

RMB mn	FY20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>73,121</b>	<b>89,057</b>	<b>40,558</b>	<b>49,348</b>	<b>89,906</b>	<b>97,231</b>	<b>107,896</b>
... YoY	37.9%	21.8%	-8.9%	10.8%	1.0%	8.1%	11.0%
Cost of sales	(63,492)	(83,028)	(38,288)	(45,684)	(83,972)	(89,417)	(98,119)
<b>Gross profit</b>	<b>9,629</b>	<b>6,029</b>	<b>2,270</b>	<b>3,664</b>	<b>5,934</b>	<b>7,814</b>	<b>9,778</b>
GPM (%)	13%	7%	6%	7%	7%	8%	9%
... YoY	143.3%	-37.4%	-25.8%	23.4%	-1.6%	31.7%	25.1%
SG&A	(910)	(1,316)	(527)	(765)	(1,292)	(1,458)	(1,618)
...% of rev	1%	1%	1%	2%	1%	2%	2%
R&D	(2,913)	(3,308)	(1,420)	(1,925)	(3,344)	(3,695)	(4,100)
...% of rev	4%	4%	4%	4%	4%	4%	4%
<b>Operating profit</b>	<b>5,806</b>	<b>1,405</b>	<b>323</b>	<b>974</b>	<b>1,298</b>	<b>2,660</b>	<b>4,059</b>
OPM (%)	8%	2%	1%	2%	1%	3%	4%
... YoY	484%	-76%	-69%	169%	-8%	105%	53%
<b>Net profit</b>	<b>5,441</b>	<b>2,310</b>	<b>613</b>	<b>1,180</b>	<b>1,793</b>	<b>2,992</b>	<b>4,223</b>
NPM (%)	7%	3%	2%	2%	2%	3%	4%
... YoY	241%	-58%	-63%	77%	-22%	67%	41%

Source: Company data, CMBIGM estimates

## Valuation

### Maintain HOLD with lowered TP HK\$12.4

We retain Hold with new TP HK\$ 12.4 to reflect revised EPS forecasts. 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 12.9x FY22E EPS. We assign 10x P/E to its assembly EMS business and 10x P/E for component/e-cigarette business, in-line with TW/HK-listed peers. We assign 8x for mask business to reflect its near-term growth potential amid COVID-19 outbreak.

**Figure 6: BYDE – SOTP valuation**

Business segment	% of FY22E Profit	FY22E EPS (RMB)	Target P/E
Assembly	10%	0.10	10x
Components	26%	0.22	10x
Masks	2%	0.01	8x
Others (smart, auto)	62%	0.47	15x
<b>Total (RMB) /Implied P/E</b>		<b>0.80</b>	<b>12.9x</b>
<b>TP (HK\$)</b>			<b>12.0</b>

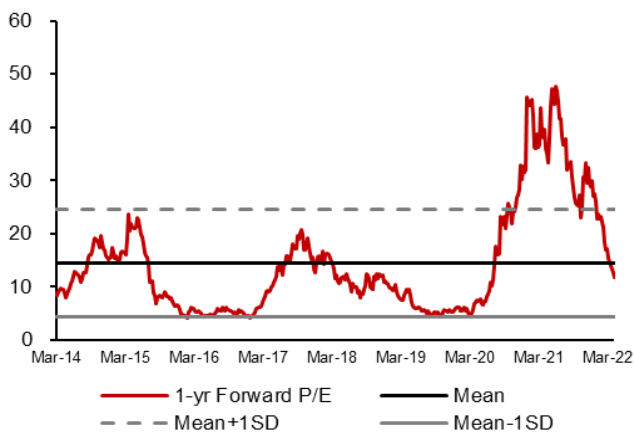
Sources: Company data, CMBIGM estimates

**Figure 7: Peers' valuation**

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
BYDE	285 HK	Hold	4,313	15.02	12.4	-17%	15.7	9.4	1.6	1.4	7.0	10.6
Tongda	698 HK	Buy	160	0.13	0.23	78%	2.6	2.2	0.1	0.1	3.8	4.3
AAC Tech	2018 HK	Hold	2,637	17.12	23.4	37%	14.2	12.0	0.8	0.8	5.6	6.5
TK Group	2283 HK	Buy	245	2.31	3.4	46%	5.6	4.4	1.0	0.9	18.6	20.7
Ju Teng	3336 HK	NR	206	1.35	NA	NA	6.8	4.7	0.2	0.2	3.5	5.0
Everwin	300115 CH	NR	1,331	7.33	NA	NA	8.2	6.4	1.2	1.0	12.3	16.4
Lens Tech	300433 CH	NR	6,913	9.19	NA	NA	7.4	6.0	0.9	0.8	13.1	14.4
Foxconn	2354 TT	NR	2,826	59.00	NA	NA	12.4	11.0	0.7	0.7	6.2	-
Catcher	2474 TT	NR	3,546	143.50	NA	NA	12.8	12.0	0.7	0.7	5.4	5.5
<b>Average</b>							<b>9.7</b>	<b>7.6</b>	<b>0.8</b>	<b>0.7</b>	<b>8.4</b>	<b>10.4</b>

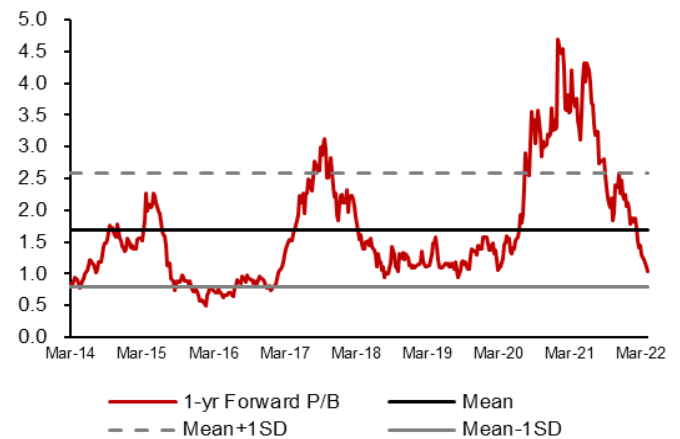
Source: Bloomberg, CMBIGM estimates

**Figure 8: 12M forward P/E band**



Source: Bloomberg, CMBIGM estimates

**Figure 9: 12M forward P/B band**



Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>73,121</b>	<b>89,057</b>	<b>89,906</b>	<b>97,231</b>	<b>107,896</b>
COGS	(63,492)	(83,028)	(83,972)	(89,417)	(98,119)
<b>Gross profit</b>	<b>9,629</b>	<b>6,029</b>	<b>5,934</b>	<b>7,814</b>	<b>9,778</b>
Selling and marketing	(237)	(275)	(335)	(389)	(432)
Administrative	(673)	(1,041)	(957)	(1,070)	(1,187)
R&D	(2,913)	(3,308)	(3,344)	(3,695)	(4,100)
Other operating exp.					
<b>Operating profit</b>	<b>5,806</b>	<b>1,405</b>	<b>1,298</b>	<b>2,660</b>	<b>4,059</b>
Financial cost	(71)	(43)	(43)	(43)	(43)
Other income/(losses)	487	1,104	783	783	783
<b>Pre-tax profit</b>	<b>6,221</b>	<b>2,465</b>	<b>2,037</b>	<b>3,400</b>	<b>4,799</b>
Tax	(779)	(155)	(244)	(408)	(576)
Minority interest	-	-	-	-	-
<b>Net profit</b>	<b>5,441</b>	<b>2,310</b>	<b>1,793</b>	<b>2,992</b>	<b>4,223</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before taxation</b>	<b>6,221</b>	<b>2,465</b>	<b>2,037</b>	<b>3,400</b>	<b>4,799</b>
Depreciation	1,760	1,717	1,932	2,164	2,422
Change in working capital	(4,745)	(2,228)	888	(2,253)	332
Others	(27)	(187)	(201)	(365)	(533)
<b>Net cash from operating</b>	<b>3,209</b>	<b>1,768</b>	<b>4,656</b>	<b>2,947</b>	<b>7,020</b>
Capex	(2,795)	(3,206)	(3,237)	(3,500)	(3,884)
Other	(186)	-	-	-	-
<b>Net cash from investing</b>	<b>(2,981)</b>	<b>(3,206)</b>	<b>(3,237)</b>	<b>(3,500)</b>	<b>(3,884)</b>
Dividend paid	(160)	(231)	(179)	(299)	(422)
Other	1,730	(43)	(43)	(43)	(43)
<b>Net cash from financing</b>	<b>1,570</b>	<b>(274)</b>	<b>(223)</b>	<b>(343)</b>	<b>(466)</b>
<b>Net change in cash</b>	<b>1,799</b>	<b>(1,712)</b>	<b>1,197</b>	<b>(896)</b>	<b>2,670</b>
Cash at beginning of the year	1,651	3,466	2,825	4,022	3,126
Exchange difference	16	1,071	-	-	-
<b>Cash at the end of the year</b>	<b>3,466</b>	<b>2,825</b>	<b>4,022</b>	<b>3,126</b>	<b>5,796</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>26,069</b>	<b>27,630</b>	<b>28,483</b>	<b>30,851</b>	<b>34,664</b>
Cash & equivalents	3,466	2,825	4,022	3,126	5,796
Account receivables	14,391	9,240	13,236	11,072	15,903
Inventories	6,891	10,567	6,227	11,656	7,968
Short-term bank deposits	-	-	-	-	-
Other current assets	1,320	4,998	4,998	4,998	4,998
<b>Non-current assets</b>	<b>10,825</b>	<b>12,314</b>	<b>13,500</b>	<b>14,715</b>	<b>16,044</b>
PPE	9,693	11,182	12,486	13,822	15,285
Deferred income tax		201	201	201	201
Other non-current assets	1,132	931	812	691	558
<b>Total assets</b>	<b>36,894</b>	<b>39,944</b>	<b>41,983</b>	<b>45,566</b>	<b>50,708</b>
<b>Current liabilities</b>	<b>14,840</b>	<b>16,220</b>	<b>16,765</b>	<b>17,776</b>	<b>19,251</b>
Deferred income					
Account payables	8,146	11,724	12,268	13,280	14,754
Tax payable	57	184	184	184	184
Other current liabilities	6,636	4,312	4,312	4,312	4,312
<b>Non-current liabilities</b>	<b>864</b>	<b>928</b>	<b>928</b>	<b>928</b>	<b>928</b>
Deferred income	147	150	150	150	150
Deferred tax liability	313	404	404	404	404
<b>Total liabilities</b>	<b>15,704</b>	<b>17,148</b>	<b>17,692</b>	<b>18,704</b>	<b>20,178</b>
Share capital	4,052	4,052	4,052	4,052	4,052
Reserves	18,220	19,975	21,588	24,281	28,082
Minority interest					
<b>Shareholders' equity</b>	<b>22,272</b>	<b>24,027</b>	<b>25,641</b>	<b>28,334</b>	<b>32,134</b>
<b>Total equity and liabilities</b>	<b>37,976</b>	<b>41,175</b>	<b>43,333</b>	<b>47,037</b>	<b>52,313</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Phone and PC components	24	18	16	13	11
Assembly services	43	63	59	56	51
Masks					
New intelligent products	13	14	17	21	25
Auto intelligent systems	2	4	7	10	13
<b>Growth (%)</b>					
Revenue	37.9	21.8	1.0	8.1	11.0
Gross profit	143.3	(37.4)	(1.6)	31.7	25.1
Operating profit	484.3	(75.8)	(7.6)	105.0	52.6
Net profit	240.6	(57.5)	(22.4)	66.9	41.1
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	13.2	6.8	6.6	8.0	9.1
Operating margin	7.9	1.6	1.4	2.7	3.8
Net profit margin	7.4	2.6	2.0	3.1	3.9
<b>Balance sheet ratio</b>					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.8	1.7	1.7	1.7	1.8
Receivable turnover days	52	49	46	46	46
Inventory turnover days	41	38	37	37	37
Payable turnover days	52	52	52	52	52
<b>Profitability (%)</b>					
ROE	24.4	9.6	7.0	10.6	13.1
ROA	14.7	5.8	4.3	6.6	8.3
<b>Per share data (RMB)</b>					
EPS	2.41	1.03	0.80	1.33	1.87
DPS	0.24	0.10	0.08	0.13	0.19

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

## Analyst Certification

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