

BYD

Possible better-than-expected FY11 Performance

Bloomberg | Reuters | POEMS
 BYD HK | BYD.HK | BYD.HK
 Industry: Automobile

Phillip Securities Research

6 February 2012

Q3 result review

Rating: Hold, CP: 24.66, TP: 25.2

Company profile

Founded in 1995, BYD's main business is now composed by IT (rechargeable battery and handset component), automobiles and new energy (solar farm, battery energy storage station, electric vehicle, and LED, etc). In 2003, It entered automobile business by purchasing Tsinchuan Auto. BYD was listed on HKEx in July 2002.

Summary

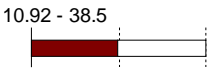
Due to the cooled down auto business, BYD's 9M2011 revenue and net profit (Chinese Accounting Standard) declined 4.3% and 85.5% yoy to Rmb34.33 bn and 353 mn. EPS decreased by 85.7% to 0.15yuan.

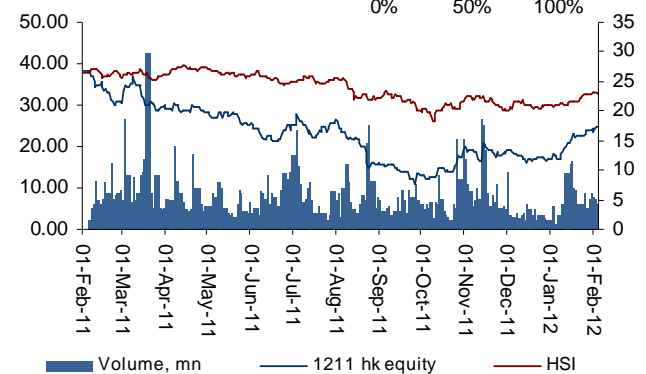
It is worthy to note that BYD's 2011Q3 result seems to show signs of rebound, thanks to the gradually warmed up sales of several new models. BYD's 2011Q3 revenue and net profit rose 11% and 582% yoy to Rmb11.79 bn and 77.37 mn. EPS increased by 558% to 0.033yuan.

During 2011, the Company sold a total of about 0.45 mn vehicles, down 14% yoy. Its newly launched S6 and G6 received good reputation. If the momentum maintained in the future for the new models, the Company's automotive business could see new robust growth. The overall sales volume is forecasted to 500,000 units in 2012, up 10% yoy. The BYD cut 33.4% stake in an associate company Foshan Jinhui for Rmb495.6mn in 2011Q4, gaining Rmb430mn. The divestment would improve BYD's financial conditions and FY2011 result.

We revise our EPS forecast in FY2011 and FY2012 to RMB0.47 and RMB0.58 respectively, which are HK\$0.58 and HK\$0.72. Considering the rapid growth expectation for the new energy vehicle, we give 35 x P/E to 2012E EPS, which implies 12-month overall TP of HK\$25.2, 2.19% higher than the last closing, a hold rating.

BYD

Rating	3.00	Neutral
- Previous Rating	4.00	Reduce
Target Price (HKD)	25.2	
- Previous Target Price (HKD)	11.3	
Closing Price (HKD)	24.65	
Expected Capital Gains (%)	2.2%	
Expected Dividend Yield (%)	0.5%	
Expected Total Return (%)	2.7%	
Raw Beta (Past 2yrs weekly data)	1.55	
Market Cap. (HKD bn)	66,185	
Enterprise Value (HKD mn)	68,296	
52 week range (HKD)	10.92 - 38.5	
Closing Price in 52 week range		



Key Financial Summary

FYE	12/09	12/10	12/11F	12/12F
Revenue (RMB mn)	39,469	46,685	49,027	56,185
Net Profit, adj. (RMB mn)	3,794	2,523	1,081	1,370
EPS, adj. (RMB)	1.77	1.11	0.47	0.58
P/E (X), adj.	11.3	18.1	42.3	34.4
BVPS (RMB)	7.78	8.11	9.22	9.27
P/B (X)	2.6	2.5	2.2	2.2
DPS (RMB)	0.33	0.22	0.04	0.12
Div. Yield (%)	1.3%	0.9%	0.2%	0.5%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

PE

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FY2011 Q3 results seems to rebound

Due to the cooled down auto business, BYD's 9M2011 revenue and net profit (Chinese Accounting Standard) declined 4.3% and 85.5% yoy to Rmb34.33 bn and 353 mn. EPS decreased by 85.7% to 0.15yuan.

The overall gross margin fell 5.7 pts yoy to 13.68% in 9M2011 from 9M2010's 19.34% and 1.74 pts yoy to 13.16% in 2011Q3 from 2011Q3's 14.9%.

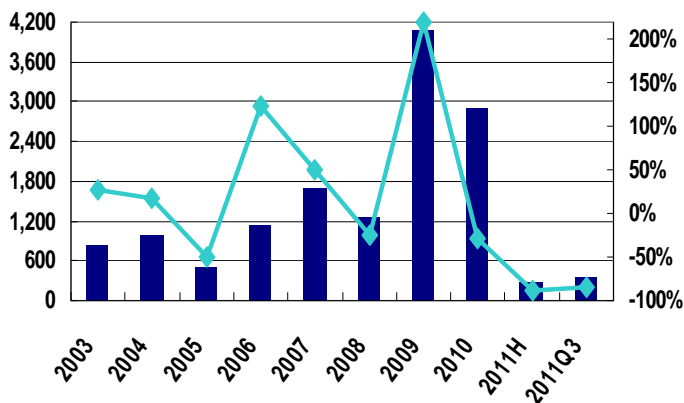
The expenses/revenue ratios keep rising in 9M2011: its employee cost increased 31.5% yoy due to the increase of wages and finance expenses increased 104.73% yoy to 565 mn as a result of the increase of borrowings and interest rate. Impairments loss of assets increased 1309.75% yoy to 171 mn due to the allowance provided for drop in inventory price.

It is worthy to note that BYD's 2011Q3 result seems to show signs of rebound, thanks to the gradually warmed up sales of several new models. (During the third quarter, the Company sold a total of 94,024 vehicles, up 9.1% yoy).

BYD's 2011Q3 revenue and net profit rose 11% and 582% yoy to Rmb11.79 bn and 77.37 mn. EPS increased by 558% to 0.033yuan.

While for the full year of 2011, the Company's performance will inevitably decline compared to that of 2010.

Fig 1. Net profit and yoy growth of BYD



Data source: Company reports, Phillip Securities

Car sales down 14% to about 0.45 mn vehicles in 2011

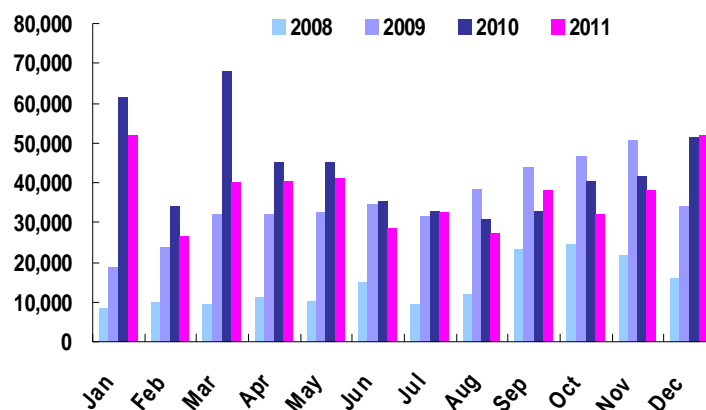
During 2011, the Company sold a total of about 0.45 mn vehicles, down 14% yoy, mainly due to the sales decline of those old models F3, F0 and F6 (fell by 31%, 75% and 44% respectively) compare to the high base of last year. The overall sales of the new 3 series model G3 and L3 increased. The monthly sales of BYD's first SUV S6 keep increasing since launched in May, and had reach 12,296 and 15,012 in November and December respectively.

Newly launched G6 in October was equipped with a TID power technology and 56 intelligent devices, which sold

2151 and 5090 in November and December. If the momentum maintained in the future for the new models, the Company's automotive business could see new robust growth.

The Company plans to debut a next-generation F3 and a next-generation F6 in 2012. The overall sales volume is forecasted to 500,000 units in 2012, up 10% yoy. The increasingly improvement of market network and sales structure will be a positive impact to the Company's profitability amid the fiercer Chinese auto industry.

Fig 2. Monthly auto sales of BYD (unit)



Data source: Phillip Securities

IT business is further stabilized

BYD's traditional battery business remained relatively stable during the period. On the business of handset components, the Company continued its expansion in the market shares of 3G handsets and smart phone products, acquiring new customers (eg. HTC, Asus and Apple) and orders for new products successfully and the results was satisfactory. Deferred orders from some customers in the second quarter were gradually actualized during the period, adding a further boost to the recovery of the handset component business. The handset business is expected to achieve a growth of more than 10% in 2012.

New energy business enter a new era

Mainly consisting of solar farm, battery energy storage station, electric vehicle, etc, BYD's new energy business remains a big attraction.

BYD's electric vehicles continued to step in testing operation through public transport system (Taxi and bus) and personal car market in 2011. Its EV sedan E6 performed well in Shenzhen taxi fleet and EV bus K9 begun to be profitable in 2011.

BYD announced the launch of its flagship EV, the E6, for sale to domestic consumers in October 2011. Although the price is relative high, but if they can get good market reputation, the EV model E6 is expected to contribute profit to the Companies.

While sales of solar cell products were less satisfactory under the impact of weak market demand. The Company decided to stop the expansion and there will be no new capex for this business.

Disposal of stakes in an associate brings 430mn investment gain

The BYD announced in November that it plans to cut 33.4% stake in an associate company Foshan Jinhui that produces photoelectric material for Rmb495.6mn, gaining Rmb430mn. The divestment would improve BYD's financial conditions and FY2011 result and help the management to focus on its core business strengths.

Risk

- 1) Slackened economy largely reduced demands for auto, handset and batteries;
- 2) Uncertainty of new energy's future development;
- 3) Rising raw material cost;
- 4) Lower than expected new car model sales and distributor network risk

Valuation

We revise our EPS forecast in FY2011 and FY2012 to RMB0.47 and RMB0.58 respectively, which are HK\$0.58 and HK\$0.72. Considering the rapid growth expectation for the new energy vehicle, we give 35 x P/E to 2012E EPS, which implies 12-month overall TP of HK\$25.2, 2.19% higher than the last closing, a hold rating.

FYE DEC	FY08	FY09	FY10	FY11F	FY12F
Valuation Ratios					
P/E (X), adj.	40.0	11.3	18.1	42.3	34.4
P/B (X)	3.6	2.6	2.5	2.2	2.2
Dividend Yield (%)	0.0%	1.3%	0.9%	0.2%	0.5%
Per share data (RMB)					
EPS, reported	0.50	1.77	1.11	0.47	0.58
EPS, adj.	0.50	1.77	1.11	0.47	0.58
DPS	0.00	0.33	0.22	0.04	0.12
BVPS	5.53	7.78	8.11	9.22	9.27
Growth & Margins (%)					
Growth					
Revenue	26.3%	47.3%	18.3%	5.0%	14.6%
EBIT	-12.9%	156.7%	-28.1%	-32.5%	18.0%
Net Income, adj.	-36.6%	271.5%	-33.5%	-57.2%	26.7%
Margins					
EBIT margin	6.9%	12.1%	7.3%	4.7%	4.9%
Net Profit Margin	3.8%	9.6%	5.4%	2.2%	2.4%
Key Ratios					
ROE (%)	9.3%	27.1%	14.4%	5.5%	6.4%
ROA (%)	3.3%	10.3%	5.3%	1.8%	2.1%
Income Statement (RMB mn)					
Revenue	26,788	39,469	46,685	49,027	56,185
Cost of sales	(21,569)	(30,905)	(38,421)	(42,099)	(47,757)
Gross profit	5,219	8,565	8,264	6,928	8,428
Other income and gains	692	687	886	1,312	1,014
Operating expenditure	(4,055)	(4,488)	(5,752)	(5,947)	(6,742)
Financial costs	(492)	(255)	(281)	(754)	(763)
Profit before tax	1,364	4,509	3,142	1,559	1,967
Tax	(88)	(431)	(224)	(281)	(374)
Profit for the period	1,276	4,079	2,919	1,278	1,593
Minority interests	(254)	(285)	(395)	(197)	(223)
Net profit	1,021	3,794	2,523	1,081	1,370

Source: PSR



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