

# 1Q guidance implies strong EV sales and BYDE

## Quick Note

### 2014 review: positive on EV/BYDE, negative on solar and gasoline car

BYD reported 11% y-y revenue growth and 22% y-y net profit decline in line with its preliminary result announcement on 27<sup>th</sup> Feb. The major positives include (1) EV sales grows 6x y-y growth, and (2) BYDE (handset)'s 4Q net profit increased 172% q-q thanks to the rising metal casing demand. The major negatives include (1) solar business' loss increased in 2H14 and (2) 22% decline in gasoline car sales.

### 1Q15 guidance implies strong EV and metal casing sales

For 1Q15, BYD guides its net profit between CNY100 and 150mn (736% yoy 1154% growth), driven by strong sales of new energy vehicle and "sizable production of high-end flagship model from new customer" (Samsung's S6 in our estimate). **We recommend investors to accumulate BYDE (285 HK, BUY) from the implication of this result.**

BYD will host an analyst briefing from 9:45 on March 30<sup>th</sup> in Hong Kong; we expect investors to focus on BYD's strategy in 2015 especially in EV, solar and handset metal casing.

Fig. 1: Summary of BYD's financial performance by business segment

(CNY mn, %)	1H13	2H13	1H14	2H14	Y-Y	2013	2014A	Y-Y
	(A)	(A)	(A)	(A)		(A)	A	
<b>Sales</b>	<b>24,243</b>	<b>25,525</b>	<b>25,215</b>	<b>30,151</b>	<b>18%</b>	<b>49,768</b>	<b>55,366</b>	<b>11%</b>
Battery/Solar	2,461	2,557	2,364	2,616	2%	5,018	4,980	-1%
(internal)	507	421	1,275	1,682	299%	929	2,957	218%
Handset	9,017	10,442	10,913	13,203	26%	19,459	24,116	24%
Gasoline Vehicle	12,556	11,698	9,190	9,829	-16%	24,255	19,019	-22%
(EV)	209	827	2,748	4,503	444%	1,036	7,251	600%
Gross Profit	3,296	3,220	3,768	3,855	20%	6,516	7,623	17%
Operating Expense	-1,752	-804	-1,811	-818	2%	-5,414	-6,256	16%
<b>Adjusted EBIT</b>	<b>710</b>	<b>392</b>	<b>943</b>	<b>424</b>	<b>8%</b>	<b>1,102</b>	<b>1,368</b>	
% of sales	2.9%	1.5%	3.7%	1.4%		2%	2.5%	12%
Battery/Solar	148	-46	114	-98		102	16	-84%
Handset	552	559	866	540	-3%	1,112	1,406	26%
Vehicle	217	-69	177	-217		148	-40	-127%
Group expenses	-207	-52	-214	200		-259	-14	-95%
Finance Costs	-440	-578	-681	-716	24%	-1,017	-1,397	37%
Government Grants	322	355	328	470	32%	677	798	18%
<b>Pretax Income</b>	<b>618</b>	<b>214</b>	<b>649</b>	<b>225</b>	<b>5%</b>	<b>832</b>	<b>874</b>	<b>5%</b>
Tax/Minorities	-191	-88	-288	-152		-279	-440	
<b>Net Profit</b>	<b>427</b>	<b>126</b>	<b>361</b>	<b>73</b>	<b>-42%</b>	<b>553</b>	<b>434</b>	<b>-22%</b>
Y-Y% change	2524%	94%	-16%	-42%		580%	-22%	
Net Profit Margin	1.8%	0.5%	1.4%	0.2%	-0.3pp	1.1%	0.8%	

Source: Company data, Nomura research

## Global Markets Research

29 March 2015

Rating Remains **Buy**

Target price Remains **HKD 64.00**

Closing price 27 March 2015 **HKD 36.80**

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**Fig. 2: Summary of BYD's financial performance and 1Q15 guidance**

(CNY mn)	1Q14	2Q14	3Q14	4Q14	1Q15		2013	2014A
	A	A	A	A	Low	High	A	A
Turnover	11,205	13,710	13,500	16,651			49,768	55,366
% chg yoy	-10%	17%	9%	40%			12%	11%
COGS	(9,730)	(11,717)	(11,948)	(14,348)			(43,252)	(47,743)
Gross Profit	1,476	1,993	1,552	2,303			6,516	7,623
OPEX	600	(1,607)	(350)	216			(5,414)	(6,256)
Operating Income	2,076	385	1,202	2,519			1,102	1,368
% chg yoy	-9%	-112%	-47%	-234%			100%	24%
Finance Expense	(200)	(481)	(310)	(406)			(1,017)	(1,397)
Other gains/expense	(1,757)	626	(858)	(1,922)			747	903
Pretax income	118	531	34	191			832	874
% chg yoy	26%	344%	-64%				186%	5%
Taxes	31	(118)	(23)	(41)			(56)	(134)
Minority expenses	(137)	(64)	18	(106)			(223)	(306)
Reported NPAT	12	349	28	45	100	150	553	434
% chg yoy	-69%	296%	-26%	-49%	736%	1154%	580%	-22%
<b>Ratio Analysis</b>								
Gross Profit	13.2%	14.5%	11.5%	13.8%			13.1%	13.8%
OPEX	5.4%	-11.7%	-2.6%	1.3%			-10.9%	-11.3%
EBIT	18.5%	2.8%	8.9%	15.1%			2.2%	2.5%
Net income	0.1%	2.5%	0.2%	0.3%			1.1%	0.8%

Source: Company Data, Nomura research

**Fig. 3: Summary of BYDE's financial performance – 4Q14 net profit recovered strongly thanks to rising metal casing demand from Samsung**

(CNY mn)	1Q14	2Q14	3Q14	4Q14	FY12	FY13	FY14A	
					A	A	A	Y-Y
Turnover					14,091	16,062	19,832	23%
% chg yoy					-11%	14%	23%	
Components					6,287	9,056	9,056	0%
EMS					7,804	7,006	10,776	54%
COGS					(12,901)	(14,383)	(17,727)	
Gross Profit					1,190	1,679	2,105	
OPEX					(889)	(1,024)	(1,223)	
Operating Incomes					301	655	882	
% chg yoy					-50%	118%	35%	
Other Revenue					129	24	30	
Pretax income					430	752	1,012	
% chg yoy					-36%	75%	35%	
Taxes					(51)	(103)	(111)	
Net income	222	368	84	228	379	648	902	
% chg yoy	73%	90%	-42%	21%	-37%	71%	39%	
% chg qoq	18%	66%	-77%	172%				
BYD's minority interests	-75.5	-125.3	-28.5	-76.9	-132	-223	-393	
% of BYDE's net income	-34%	-34%	-34%	-34%	-35%	-34%	-44%	
Gross margin					8.4%	10.5%	10.6%	
SG&A / revenue					6.3%	6.4%	6.2%	
Operating Profit margin					2.1%	4.1%	4.4%	
Pretax income/revenue					3.1%	4.7%	5.1%	
Net Income margin					2.7%	4.0%	4.5%	

Source: Company Data, Nomura research

**Major positives in 2014 result**

- Electric vehicle sales surged by 6x y-y in 2015

BYD's EV sales increased by 6x y-y to CNY7.2bn and account for 13% of group sales in 2014 (15% in 2H14). The strong growth is mainly driven by rising demand for Plug-in hybrid electric vehicle (PHEV, such as Qin) and electric bus (K9). According to BYD, it has 27.9% market share in China's EV market and 49.6% in PHEV in 2014. We also noticed the Battery business's inter-segment sales increased by 299% y-y in 2014. We believe this is mainly due to rising shipment of EV battery to BYD's auto segment.

- Handset component business recovered strongly in 4Q14

BYD's handset component business achieved 24% y-y revenue growth and 26% y-y net profit growth in 2014 driven by rising demand in smartphone ODM business (mainly from Microsoft) and metal casing business (mainly from Samsung). BYDE's 4Q14 net profit increased by 172% y-y, which

implied a strong recovery of metal casing shipments after a weak Q3 due to customer transition.

**Major negatives in 2014 result**

- Solar business's loss increased again in 2H14

The rechargeable battery and solar panel business fell into loss again in 2H14 after a profitable 1H14. We believe this is mainly due to the higher loss in the solar business.

- Gasoline car sales declined 22% y-y

This is mainly due to weakness of market demand and rising competition from JV brands. In Jan-Feb 2015, we also see BYD achieve flattish y-y shipment in gasoline car sales thanks to the launch of new models, such as the new SUV S7 and A+ sedan G5.

# Appendix A-1

## Analyst Certification

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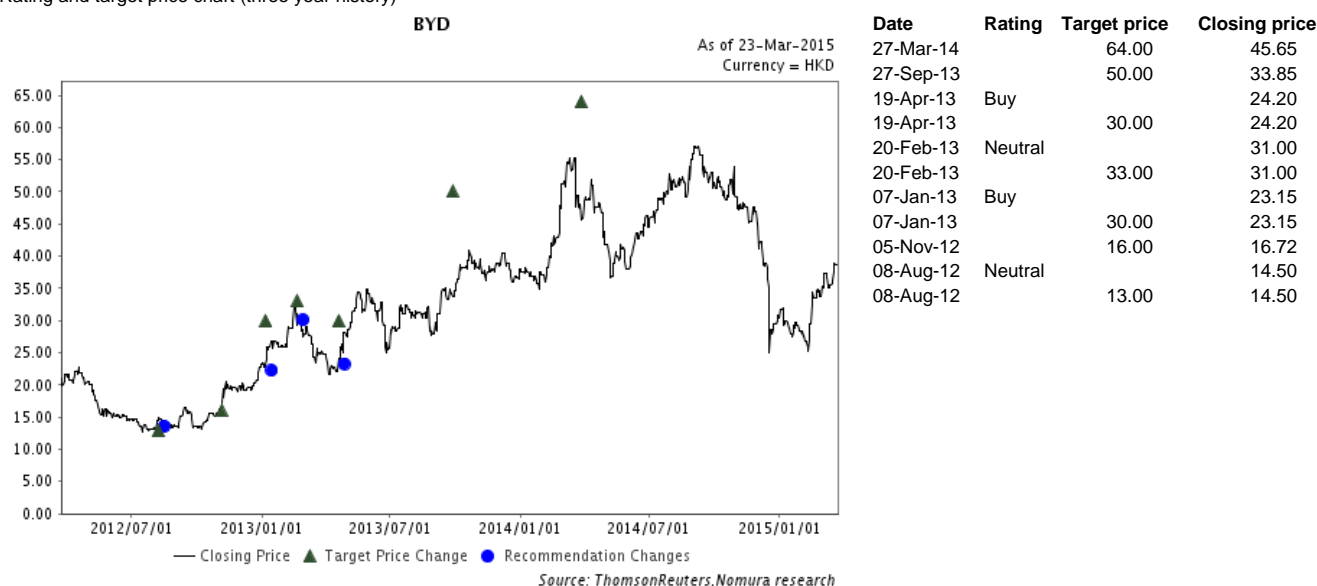
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
BYD	1211 HK	HKD 36.80	27-Mar-2015	Buy	N/A	A11
BYD Electronic	285 HK	HKD 8.61	27-Mar-2015	Buy	N/A	

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### BYD (1211 HK)

HKD 36.80 (27-Mar-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



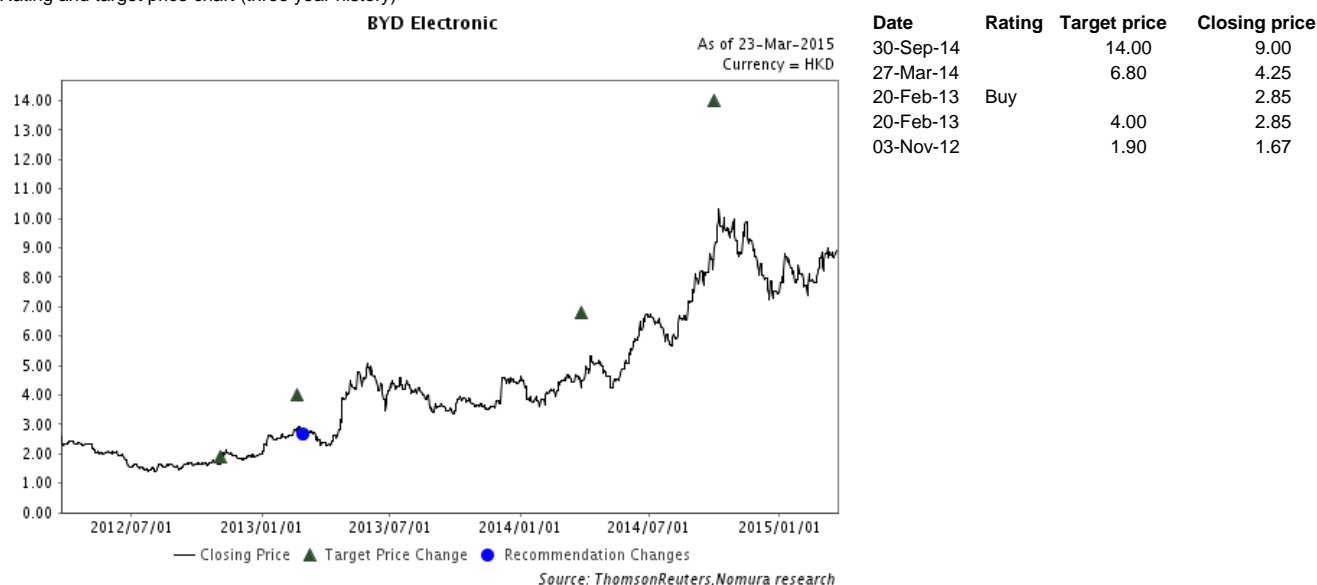
For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We derived our TP of HK64 based on sum-of-the-parts valuation and assigned different EV-to-sales ratio by business segment. This implies 49x FY15F EPS, still within its historical trading range of 10-68x. The benchmark index for this stock is MSCI China.

**Risks that may impede the achievement of the target price** Downside risks include delay in the take-off EV projects, further losses in the solar business, and a larger-than-expected market share decline of its major handset customer, Nokia.

**BYD Electronic (285 HK)****HKD 8.61 (27-Mar-2015)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We derive our TP of HKD14 based on 16x FY15F EPS of CNY0.67, which is 15% above Catcher's target P/E (14x). We think BYDE deserves this P/E premium because of potentially faster growth due to Samsung's metal transition. The benchmark index for this stock is MSCI China.

**Risks that may impede the achievement of the target price** Downside risks include: 1) faster-than-expected increase in wages; and 2) weaker-than-expected demand from major clients such as Nokia. We assume a 15% minimum wage increase in our model; a 10% wage increase would pare GPM by 0.5%, we estimate.

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