

JPM-pp1

Asia Pacific Equity Research

30 March 2015

BYD Company Limited - H (1211 HK)

Overweight

Price: HK\$36.80

27 Mar 2015

Price Target: HK\$61.00

PT End Date: 31 Dec 2015

FY14 results first take

BYD-H reported its FY14 results and 1Q15 guidance today. FY14 earnings of Rmn434mn are less of an event because the company issued headline numbers on February 26. 1Q15 earnings guidance of a 7.4~11.5x y/y increase could present a headline positive and we expect a positive market response.

- **Key to watch at analyst briefing:** BYD will hold an analyst briefing on March 30 and investors should focus on: 1) full-year NEV sales guidance and business development plan; 2) management's clarification on the timing of booking one-off subsidiary disposal gain; 3) the progress of the new NEV battery capacity and the impact on NEV margins; 4) business outlook and corporate strategy on traditional gasoline business; and 5) how to turn around the solar business. We leave our estimates unchanged, pending further review post the analyst briefing.
- **1Q15 guidance a headline positive; potentially another jump in 2Q:** 1Q15 earnings are guided to be Rmb100-150mn, implying a 7.4-11.5x y/y increase off a low base in 1Q14. Despite continuous solar weakness, 1Q15 is likely to see continuous growth momentum with NEVs and improving sales with new gasoline models (S7/ G5). We believe the disposal gain of the subsidiary divestment (likely Rmb1.6bn, see our analysis on [Feb 12](#)) is likely to be booked in 2Q or even later, as the deal may be subject to further SEC approval, which could potentially lead to a significant jump in 2Q if the disposal gain kicks in.
- **Electronics profit missed on low margins:** BYD-E (66% owned subsidiary) is a significant profit contributor (~80%/~130% in FY13/FY14) to BYD parent. However, despite the revenue beat, BYD-E earnings missed consensus by ~40% (actual of Rmb312 vs. street est. of Rmb514) on a weak GM and an R&D hike, likely owing to the ramp-up costs with new platform for Samsung on metal casing. This miss could largely explain why the parent's FY14 earnings came in at the low end of previous FY14 guidance (Rmb430-500mn). In hindsight, 4Q14 earnings weakness on BYD parent should be more attributed to the electronics weakness than NEVs.
- **2014 revenue up by 11.3% y/y, driven by NEV and handset electronics.** BYD's FY14 revenue raised by 11.3% y/y to Rmb55.4bn, driven by 6 times y/y revenue increase on NEVs and 24% y/y revenue increase on handset electronics. NEV accounted for 27% of auto sales and 13% of total revenue in 2014. On the negative side, traditional auto saw a significant drop with sales unit down 21% y/y, driven by intensive price competition and the departure of energy saving subsidy (Rmb 3K per vehicle). Solar was a profit drag on fierce competition and a continuous decline in ASP.

Table 1: BYD – Quarterly profits comparison and 1Q15 earnings guidance

Earnings in Rmb millions

	1Q13	2Q13	3Q13	4Q13	FY13	1Q14	2Q14	3Q14	4Q14	FY14	1Q15 Guidance
Net Profits	112.4	314.6	38.2	87.9	553.1	12.0	348.7	28.2	49.0	437.9	100~150mn
Y/Y					5.8x	-89%	11%	-26%	-84%	-21%	7.4x~11.5x
% of FY NI	20%	57%	7%	16%	100%	3%	80%	6%	11%	100%	

Source: Company data, J.P. Morgan.

Figure 1: BYD's traditional gasoline auto sales hampered by the miss of energy saving subsidy as of Sep'14 but started to recover with the return of subsidies (Rmb 3K per vehicle) and good sales with new models (S7/ G5)

Shipment in units, y/y growth rate



Source: CAAM, J.P. Morgan. Note: The sum of CAAM reported monthly shipment in 2014 might not equal to the annual shipment reported in BYD's 2014 annual report.

Investment Thesis

We are OW on BYD with a Dec-15 PT of HK\$61, based on a sum-of-the-parts valuation methodology. BYD is the leader in new energy vehicles (NEV) in China, and NEV is taking off thanks to strong government support with aggressive subsidies and charging post-infrastructure buildout. We estimate that the overall NEV market will post a ~80% CAGR in 2014-20 and that BYD will take ~30% market share. We expect BYD's NEV sales to grow ~150%/50% in 2015/16E and act as a further share price driver over the next 12-18 months. Key catalysts include: (1) strong 1H15 results; (2) profit margin expansion from 2015 onward on better scale/yield rate; and (3) policy support, including more city EV bus orders at BYD, favorable EV taxi procurement policy, etc; and (4) 2016-18 subsidy policy removing policy concerns.

Valuation

Our SoTP-based Dec-15 price target of HK\$61 is based on 2016 P/E for automobile (NEV & traditional auto) and BYD-E (65% ownership) and 2015 P/B for battery and electronics. We assign 30x 2016 PER for NEV business, in line with the median valuation for conceptual stocks. The other businesses take into account various comps and future growth/ ROE prospects.

SoTP analysis on BYD

Valuation (SoTP) – Dec'15	Valuation Methodology	Comp Valuation Range	Equity MV (HK\$ mn)	Share Price (HK\$)
Automobile (NEV)	30.0x 2016E Earnings	30.0x 1-yr fwd earnings	109,994	44.4
Automobile (ICE)	0.0x 2016E Earnings	6.9-11.6 fwd earnings	0	0.0
Battery	1.4x 2013A Book Value	0.9-1.9 fwd book value	20,427	8.2
BYD Electronics (65% ownership)	11.0x 2016E Earnings	7.6-12.8 fwd earnings	12,062	4.9
Parent Electronics	1.1x 2013A Book Value	1.1-1.5 fwd book value	8,075	3.3
Total (1211.HK)			150,557	60.8

Source: Company data, J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks to our view include: (1) missing estimates – bumpy learning curve for various parties, including bus companies/consumers; (2) product hiccups – BYD running into product recall/battery warranty issues, as seen in other auto brands; and (3) competition – global auto brands/ battery makers ramping up shipments in China production plants.

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Date	Rating	Share Price (HK\$)	Price Target (HK\$)
28-Apr-14	OW	43.00	67.00
25-May-14	OW	41.30	65.00
19-Aug-14	OW	51.45	69.00
26-Aug-14	OW	49.20	68.00
12-Jan-15	OW	29.65	61.00

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