



Equity Research | China | Auto

3 October 2017

Front runner of a policy-fuelled NEV market

- A pick-up in domestic NEV shipment growth in Jul-Aug likely signals solid NEV sales recovery ahead as policy impacts are fading gradually.
- We expect a mild recovery in the company's NEV sales in 2H17 and even stronger sales growth in FY18E in view of an improving NEV product mix and the subsidy amount to remain unchanged in FY18E.
- We maintain upbeat on BYD's NEV business on a longer-term perspective despite weak YTD shipment growth in FY17E, and anticipate re-rating potentials going forward, especially in FY18E, on the back of strong recovery in NEV shipments versus continuous declining ICE sales. After lowering and raising FY17E and FY18E NEV sales growth forecast respectively, we generated a new SOPT-based PT of HKD82.0, pegging on FY18E 1.8x price-to-sales ratio of NEV. (Prev. FY17E 1.5x). Maintain BUY.

Fading policy impacts will benefit NEV manufacturers in 2H17 and 1H18.

Compared to a tepid 4.7% YoY sales growth in domestic ICE sector during the Jan-Aug period, NEV shipments were up 30% YoY over the same period. We attribute the solid NEV shipment growth to the particularly robust sales growth in July (+55%) and August (+76%) on the back of the fading impacts of the NEV subsidy policy, versus negative growth in 1Q17. The new subsidy policy, which became effective on 1-Jan 2017, included a 20% subsidy reduction and review of the list of NEV makers eligible for receiving subsidies. Nonetheless, in light of the upcoming peak sales period in the latter half of the year, we expect NEV sales growth in 2H17 and FY18E to be potentially driven higher on the back of: 1) launch of the dual-credits (双积分) scheme, which is to become effective from Apr-2018 and expected to drive OEMs to accelerate NEV sales albeit at lower selling prices, and 2) NEV sales growth in FY18E will be less constrained by potential policy launches than in 1H17 as the NEV subsidy amount will remain unchanged in FY18E following the 20% reduction.

Product mix will be strengthened by new models in 2H17 and 1H18.

Weighed by the subsidy reduction, BYD NEV shipment growth (excl. bus) has declined 11% YoY to 57k units in Jan-Aug 2017 from 64k units over the same period last year, while ICE shipments have remained almost flat as compared to FY16. However, the new Song (宋) NEV models, launched in Apr-17, have contributed to majority of total NEV sales, and thus, we expect a continuous rebound ahead given that several new models will be added to the company's product mix, including MPV Song MAX to be unveiled in 2H17, compact size A0/A00 BEV models and heavy duty truck BEV models to be unveiled in FY18E. As such, we have lowered our FY17E NEV sales growth estimate to 24% YoY (from 40% YoY) and revised up our FY18E NEV sales growth forecast to 70% YoY (from 50% YoY).

Potential re-rating room in mid-to-long terms. From a long-term perspective, we believe the "dual credits" scheme and upcoming timetable to ban pure ICE cars domestically will largely benefit OEMs with substantial exposure to NEV, like BYD. Thus, we remain upbeat on BYD's NEV business in the mid-to-long term despite weak YTD sales in FY17E. After lowering and raising our FY17E and FY18E NEV sales forecast, we generated a new SOPT-based PT of HKD82.0, pegging on FY18E 1.8x price-to-sales ratio of NEV. (Prev. FY17E 1.5x). Maintain BUY.

BYD (1211 HK)

Buy

(unchanged)

Price Target	HKD82
(Revision)	(+55%)
(upside)	(+12%)

EPS revision	2017E (-29%)	2018E (-7%)
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Close price HKD73.3

Market cap. USD27,179.8mn

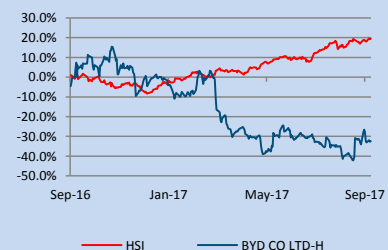
Free float 75.4%

52-week range HKD40 – HKD79.3

3-mth ave. T/O HKD502.1mn

Price as of 3 October 2017

Stock rel HSI performance (%)



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Income statement (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
Revenue	77,612	100,208	110,516	146,203	172,184
COGS	(65,753)	(81,189)	(91,140)	(118,426)	(140,427)
Gross profit	11,859	19,018	19,376	27,776	31,757
Selling expenses	(2,868)	(4,196)	(4,973)	(6,725)	(8,093)
General and administrative	(3,429)	(3,690)	(3,868)	(5,117)	(6,026)
Other operating expenses	(1,998)	(3,172)	(3,503)	(4,532)	(5,338)
EBITDA	9,562	15,588	14,231	20,302	21,200
Depreciation & Amortization	(5,417)	(6,917)	(6,600)	(8,300)	(8,300)
Other income	1,410	297	822	804	784
EBIT	5,555	8,968	8,454	12,805	13,684
Net interest	(1,517)	(1,800)	(2,090)	(2,446)	(2,861)
JVs and associates	(243)	(600)	(295)	(295)	(295)
Pretax profit	3,795	6,568	6,069	10,064	10,528
Taxation	(657)	(1,088)	(1,007)	(1,671)	(1,748)
Minority interests	315	428	405	671	702
Net profit	2,823	5,052	4,656	7,722	8,078
Net profit (adjusted)	2,823	5,052	4,656	7,722	8,078
Basic EPS (RMB)	1.12	1.88	1.63	2.75	2.88
Diluted EPS (RMB)	-	0.55	0.51	0.85	0.89

Balance sheet (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
Cash	6,011	7,111	3,591	434	(7,711)
Short term investments	-	-	-	-	-
Accounts receivables	26,679	45,733	50,306	55,337	60,870
Inventory	15,751	17,378	26,068	39,101	58,652
Other current assets	6,079	8,131	10,446	13,158	17,015
Total current assets	54,519	78,354	90,410	108,030	128,826
PP&E	38,126	42,049	44,749	45,949	47,149
Intangible Assets	7,103	6,759	7,159	7,359	7,559
Associates and JVs	1,889	2,245	2,850	3,300	3,300
Other long term assets	13,849	15,664	14,869	15,099	15,099
Total long term assets	60,967	66,717	69,626	71,706	73,106
TOTAL ASSETS	115,486	145,071	160,037	179,737	201,933
Short term debt	26,413	32,928	37,868	43,548	50,080
Accounts payables	30,656	34,663	37,436	40,431	43,666
Other current liabilities	9,041	10,726	13,220	15,990	19,456
Total current liabilities	66,110	78,318	88,524	99,969	113,201
Long term debt	11,230	9,339	10,272	12,327	14,792
Deferred tax	568	550	600	600	601
Convertible bonds	-	-	-	-	-
Other long term liabilities	1,548	1,455	1,603	1,763	1,940
Total long term liabilities	13,346	11,344	12,476	14,690	17,333
TOTAL LIABILITIES	79,457	89,661	101,000	114,659	130,535
Shareholders' funds	32,294	51,256	54,479	59,848	65,466
Minority Interests	3,735	4,153	4,558	5,230	5,932
TOTAL LIAB AND EQUITY	115,486	145,071	160,037	179,737	201,933
Net cash / (debt)	(31,632)	(35,156)	(44,549)	(55,441)	(72,583)

Source: Bloomberg, CSCI Research estimates

Cash flow statement (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
EBIT	5,555	8,968	8,454	12,805	13,684
Depreciation & am	5,417	6,917	6,600	8,300	8,300
Net interest	1,517	1,800	2,090	2,446	2,861
Taxes paid	657	1,088	1,007	1,671	1,748
Changes in working	(6,106)	(5,705)	(17,331)	(5,370)	(9,332)
Others	(3,197)	(14,913)	7,561	(10,044)	(13,028)
Cash flow from op	3,842	(1,846)	8,381	9,807	4,233
Capex	(5,751)	(6,217)	(9,700)	(9,700)	(9,700)
Acquisitions	-	-	-	-	-
Disposals	2,348	233	-	-	-
Others	(7,333)	(7,438)	191	(680)	-
Cash flow from inv	(10,736)	(13,421)	(9,509)	(10,380)	(9,700)
Dividends	(37)	(237)	(1,434)	(2,353)	(2,460)
Issue of shares	-	14,369	-	-	-
Change in debt	5,774	4,532	934	2,054	2,465
Others	3,013	(2,394)	(1,892)	(2,286)	(2,683)
Cash flow from fin	8,750	16,270	(2,392)	(2,585)	(2,678)
Change in cash	1,856	1,003	(3,520)	(3,157)	(8,145)
Free cash flow	(1,909)	(8,062)	(1,319)	107	(5,467)

Key ratios

Year end: Dec	2015	2016	2017E	2018E	2019E
Operating ratios					
Gross margin	15.3	19.0	17.5	19.0	18.4
EBITDA margin (%)	12.3	15.6	12.9	13.9	12.3
Effective tax rate (%)	17.3	16.6	16.6	16.6	16.6
Revenue growth (%)	40.2	29.1	10.3	32.3	17.8
Net income growth	551.3	78.9	(7.8)	65.8	4.6
EPS growth adj (%)	528.7	66.9	(13.1)	69.0	4.7
DPS growth (%)	-	-	(6.0)	65.8	4.6
Efficiency ratios					
ROE (%)	8.7	9.9	8.5	12.9	12.3
ROCE (%)	9.1	13.4	12.1	17.9	18.7
Asset turnover (x)	0.7	0.7	0.7	0.8	0.9
Op cash / EBIT (x)	0.7	(0.2)	1.0	0.8	0.3
Depreciation / CAP	0.9	1.1	0.7	0.9	0.9
Accounts receivabl	115	132	159	132	123
Accounts payable c	157	147	144	120	109
Leverage ratios					
Net gearing (%)	97.9	68.6	81.8	92.6	110.9
Net debt / EBITDA	3.3	2.3	3.1	2.7	3.4
Interest cover (x)	3.7	5.0	4.0	5.2	4.8
Current ratio (x)	0.8	1.0	1.0	1.1	1.1
Valuation					
PER (x)	54.9	32.9	37.9	22.4	21.4
EV/EBITDA (x)	19.7	13.3	15.3	11.3	11.6
PBR (x)	4.2	3.0	2.9	2.6	2.4
Dividend yield (x)	-	0.01	0.01	0.01	0.01

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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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