

7 December 2018

Consumer Cyclical | Automobiles & Components

## BYD

**Neutral** (Maintained)

Target Price: HKD44.50

Price: HKD54.60

Market Cap: USD20,978m

Bloomberg Ticker: 1211 HK

### Strong EV Sales To Continue Ahead

**Maintain NEUTRAL and HKD44.50 TP, 19% downside.** BYD announced its November auto sales numbers on 6 Dec, posting a 60% YoY rise in the number of vehicles sold to 50,982 units. Of this figure, 30,076 units were EVs, representing a 160% YoY rise. The 20,906 balance was made up of ICE vehicle sales, which booked a 3% YoY growth. For the 11M18 period, BYD posted auto sales of 442,268 units, a 24% YoY growth. Of this, EVs accounted for 193,382 units, or a 100% YoY. It sold 248,886 units ICE vehicles during this period, a 5% YoY drop. We prefer Geely.

**BYD announced its November auto sales figures** on 6 Dec. The company sold 50,982 units during this period, a 60% YoY rise in sales. Of this figure, 30,076 units (+160% YoY, +8% MoM) were electric vehicles (EVs). Internal combustion engine (ICE) vehicles made up the 20,906-unit balance, a 3% YoY rise in sales.

As at 11M18, BYD managed to sell 442,268 units, a 24% YoY rise in the number of vehicles sold. Of this figure, 193,382 units were EVs, which represented a 100% YoY rise. ICE vehicles made up the 248,886-unit balance, 5% YoY drop in sales.

**The strong EV sales trend is set to continue, given new model launches in the pipeline.** In November, the number of new energy vehicles (NEVs) delivered (see above) represented a new record high. The EV sales included NEV (15,347 units) and plug-in hybrid EV (PHEV) (13,392 units) passenger vehicles, as well as 1,337 commercial vehicles.

BYD's *Dynasty*-series of EV models drove sales and, we believe this strong EV sales trend may continue to ramp up, given the launch of the *Yuan* (May), *Tang* (June) and *Yin* (September) models this year. The company is also launching the *Song MAX DM* this month. As a result of this trend, we expect BYD to post YoY sales growth of 39% and 35% in 2019-2020.

**Concerns over profitability.** Despite the good sales, gross margins were still under pressure. This was due to the decline in the EV subsidy and a competitive battery market. Also, we are not quite positive on its light rail business, considering the tightening liquidity on infrastructure built by non-state-owned enterprises.

**Maintain NEUTRAL and HKD44.50 TP.** Despite the strong November sales and its recent strong share price performance, BYD still relies heavily on EV subsidies, which may continue to decline to zero until 2020. The company may also continue to struggle with low margins in 2019 and 2020. We prefer We prefer Geely Automotive (175 HK, BUY, TP: HKD23.98) due to its stable models portfolio.

Figure 1: BYD's November sales

Units	F3	E5	Qin PHEV	Qin EV	Qin Pro	S7	Tang PHEV	Tang ICE	Song ICE	Song EV	Song PHEV	Song Max	Yuan	Yuan EV	Total	EV
Nov-18	1,568	5,573	3,912	1,331	2,213	0	6,405	3,747	3,346	1,235	3,075	10,032	2,213	6,188	50,982	30,076
Nov-17	9,130	3,206	362	593	0	2,060	1,573	0	5,250	189	4,552	0	1,939	0	31,918	11,582
YOY	-83%	74%	981%	124%	NA	-100%	307%	NA	-36%	553%	-32%	NA	14%	NA	60%	160%
11M18	43,736	37,979	42,771	10,185	5,303	860	30,339	20,975	37,172	3,007	34,774	132,012	10,462	27,678	442,268	193,382
11M17	114,719	22,455	16,195	4,846	0	21,951	13,087	0	60,387	3,826	26,277	14,784	22,273	0	357,289	96,617
YOY	-62%	69%	164%	110%	NA	-96%	132%	NA	-38%	-21%	32%	793%	-53%	NA	24%	100%

Source: Company data, RHB

Forecasts and Valuations	Dec-16	Dec-17	Dec 18F	Dec 19F	Dec 20F
Total turnover (CNYm)	100,208	102,651	128,552	159,558	185,722
Reported net profit (CNYm)	5,052	4,066	3,228	4,274	4,774
Recurring net profit (CNYm)	5,052	4,066	3,228	4,274	4,774
Recurring net profit growth (%)	78.9	(19.5)	(20.6)	32.4	11.7
Recurring EPS (CNY)	1.96	1.49	1.18	1.57	1.75
DPS (CNY)	0.58	0.14	0.12	0.16	0.18
Recurring P/E (x)	24.47	32.13	40.48	30.57	27.37
P/B (x)	2.23	2.18	2.01	1.88	1.76
Dividend Yield (%)	1.20	0.29	0.25	0.33	0.37
Return on average equity (%)	8.8	6.6	4.9	6.2	6.4
Net debt to equity (%)	62.8	78.8	89.3	96.6	99.0

Source: Company data, RHB

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