

BYD Company Limited Class H

Asia Satellite*

Recommended since 15.09.2023

30.04.2024



Country HK	Market capitalization (bn) HKD 656.5	Perf. since reco. (%)
Sector Automotive	Free float 91.9%	BYD Company Limited -13.6
Factset 1211-HK	Closing price HKD 216.40	Sector -9.3
ISIN CNE100000296	ESG Risk score* 26.5 Medium risk	



Profile

BYD is a Chinese group founded in 1995 by Chuan Fu Wang, headquartered in Shenzhen, initially specializing in the development and production of rechargeable electric batteries and photovoltaic equipment. Today, it has become a profitable, fast-growing automaker, increasing its market share and displaying international ambitions. The Group has 570,000 employees and has been listed in Shenzhen (A-share) since 2011 and in Hong Kong (H-share) since 2012.

Strengths/opportunities

- Native EV pure player. Vertical integration and cost base
- International development potential
- Growing electric vehicle penetration rate
- Profitability and cash generation, positive cash-net balance

Weaknesses/threats

- Chinese consumer confidence
- Potential barriers for the European Union
- US-China geopolitical confrontation

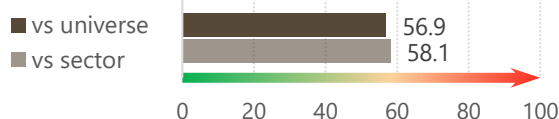
Investment case

- The automotive sector is undergoing profound change, in line with the Energy Transition. EV penetration is expected to rise sharply worldwide, from c. 10% of global new vehicle sales in 2022 to 40-54% in 2030e (sources Morningstar, IHS, UBS). China is establishing itself as the leader in EV production, thanks to its positions in the key materials required for battery production and the size of its domestic market (around one in two EVs is sold in China), and in 1H-2023 became the world's leading exporter of cars (+77% y/y) thanks precisely to the surge in the EV segment. The global market share of Chinese automakers is expected to rise from 17% in 2022 to 33% in 2030e, while that of incumbent automakers will fall from 81% to 58%.
- In the Chinese landscape, BYD stands out for its vertical integration across the value chain, the fruit of its history -originally as a battery developer and manufacturer- and therefore its cost and technology advantage. In this respect, BYD's positioning is comparable to that of Tesla in the West. The Group has established itself as the leader in the affordable EVs, with prices c. 25% lower than the Western competition.
- Its sales, c.83 bn\$ in 2023, should grow by >80% by 2026, and its operating income (margin at 5-6% of sales), like its net income, be multiplied by c.2x. Despite sustained investments (c. 8% of sales), since 2020 the Group has generated average free cash flow of >\$5 bn p.a. -a figure expected to rise to >\$7 bn by 2024- and its balance sheet is cash-net positive at >\$10 bn.

Valuation

With a PEfwd of c.15x and expected average annual earnings growth of 20%, BYD's PEG stands at c. 0.75x, a low figure for a secular growth stock over a 10+ year horizon.

ESG risk vs. universe & sector (percentile)*



USD	12/2023	2024e	2025e
Sales revenue (mio)	83 552	104 679	123 960
Sales growth	36.4%	25.3%	18.4%
EBIT adjusted (mio)	4 148	6 059	7 480
% of sales	5.0%	5.8%	6.0%
Net income (mio)	4 246	4 842	5 992
Net income growth	72.0%	14.0%	23.8%
FCF/Sales	8.1%	6.3%	5.3%
Net debt/Ebitda	-0.9x	-1.3x	-1.5x
Dividend yield	1.5%	1.4%	1.8%
PE	18.8x	16.5x	13.5x
P/BV	4.2x	3.4x	2.8x

Factset estimates

ESG - risks and key points

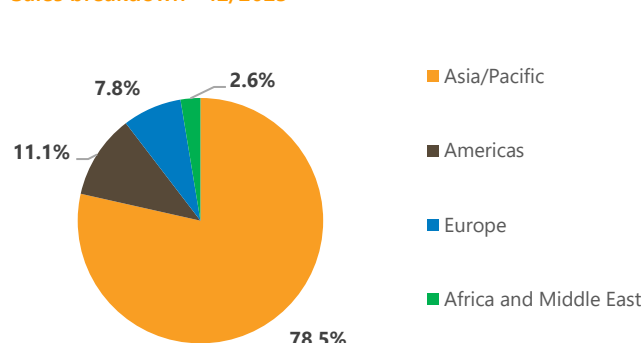
- BYD presents an average financial risk in relation to ESG factors, due to average exposure and an average-rated risk management.
- Given its product portfolio, the main risk is vehicle non-quality and safety.
- Operating in a concentrated Chinese market, BYD is exposed to business ethics risk. Its whistle-blowing system is considered weak, and the Group has been involved in minor controversies in this area.

5-year performance vs sector



— MSCI World Index / Automobiles -IND — BYD Company Limited Class H
Source: FactSet

Sales breakdown - 12/2023



Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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