

BYD Company Limited Class H

Asia Satellite*

Recommended since 15.09.2023

05.11.2024



Country HK	Market capitalization (bn) HKD 892.1	Perf. since reco. (%)
Sector Automotive	Free float 94.9%	BYD Company Limited 16.2
Factset 1211-HK	Closing price HKD 287.40	Sector -9.2
ISIN CNE100000296	ESG Risk score* 26.1 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 703'000 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 (Global South)
- Profitability and cash generation, positive cash-net balance
- Chinese stimulus measures to be announced

Weaknesses/threats

- Chinese consumer confidence
- European Union custom duties
- US-China geopolitical confrontation

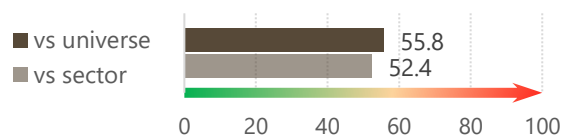
Investment case

- The automotive sector is changing, in line with the Energy Transition. EV penetration is expected to grow worldwide, from c. 10% of global new vehicle sales in 2022 to 40% or more in 2030e (sources Morningstar, IHS, UBS). China is establishing itself as the EV leader, thanks to its positions in the key materials required for battery production and its domestic market, and in 2023 will become the world's leading car exporter. The global market share of Chinese automakers is expected to rise from 17% in 2022 to 33% in 2030e, while that of incumbent manufacturers will fall from 81% to 58%.
- BYD stands out for its vertical integration across the value chain, the fruit of its history as a battery manufacturer, and therefore for its cost and technology advantages. A positioning comparable to that of Tesla. BYD has established itself as the leader in affordable EVs, with prices c. 25% lower than the Western competition, which will enable it to remain profitable in Europe despite customs duties. Its sales, c.83 bn\$ in 2023, should grow by >70% by 2026, and its operating income (margin at 5-6% of sales), like its net income, should double. Despite sustained investments (c. 8% of sales), since 2020 the Group has generated average free cash flow of >\$5 bn p.a., and its balance sheet is cash-net positive at >\$10 bn. In 1H-2024, sales grew by 19% y/y to \$42.3 bn and net income by 27% to \$1.9 bn. In 3Q-2024, BYD reported its highest-ever quarterly result, at \$1.6 bn, +11% y/y. In October, the Group sold 502,600 vehicles, up 66% y/y. Growth stock status confirmed.

Valuation

With a PEFwd of c.17x and expected average annual earnings growth of 22%, BYD's PEG stands at c. 0.77x, a low figure for a secular growth stock over a 10+ year horizon.

ESG risk vs. universe & sector (percentile)*



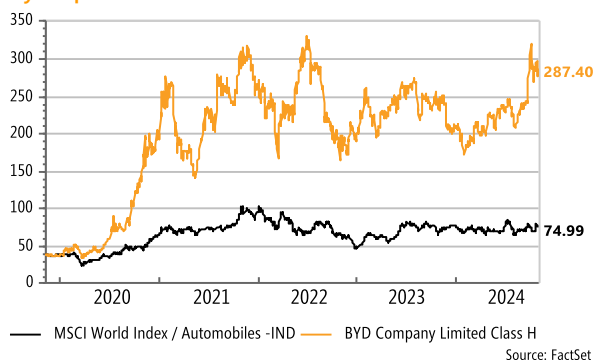
USD	12/2023	2024e	2025e
Sales revenue (mio)	83 552	106 769	129 182
Sales growth	36.4%	27.8%	21.0%
EBIT adjusted (mio)	4 148	6 522	8 278
% of sales	5.0%	6.1%	6.4%
Net income (mio)	4 246	5 299	6 712
Net income growth	72.0%	24.8%	26.7%
FCF/Sales	8.1%	3.5%	2.9%
Net debt/Ebitda	-0.9x	-1.0x	-1.3x
Dividend yield	1.2%	1.3%	1.6%
PE	18.8x	20.4x	16.1x
P/BV	5.5x	4.5x	3.7x

Factset estimates

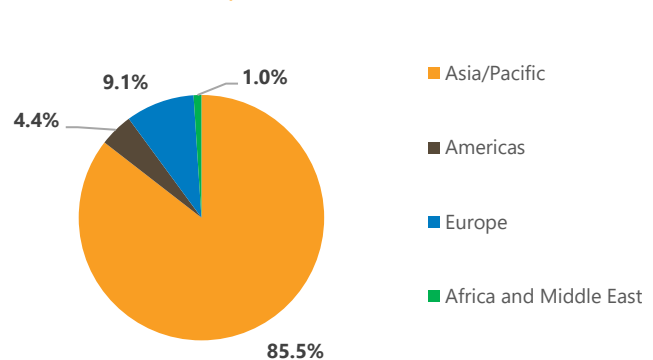
ESG - risks and key points

- 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



Sales breakdown - 12/2023



*: see overleaf

Source: Factset, Sustainalytics

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.

Offices & Branches

Bordier & Cie Genève

Rue Rath 16
CH-1204 Genève
Case postale
CH-1211 Genève 3
T + 41 58 258 00 00
F + 41 58 258 00 40

Bordier & Cie Berne

Spitalgasse 40
Case postale
CH-3001 Berne
T + 41 58 258 07 00
F + 41 58 258 07 10

Bordier & Cie Nyon

Rue de la Porcelaine 13
CH-1260 Nyon
Case postale 1045
CH-1260 Nyon 1
T + 41 58 258 07 50
F + 41 58 258 07 70

Bordier & Cie Zurich

Talstrasse 83
CH-8001 Zürich
T + 41 58 258 05 00
F + 41 58 258 05 50

Bordier & Cie (France) S.A.

1, rue François 1er
75008 Paris – France
T + 33 1 55 04 78 78
F + 33 1 49 26 92 48

Bordier & Cie (Uruguay) S.A.

Edificio Beta 3, oficina 102
Zonamerica
91600 Montevideo
Uruguay
T + 598 2 518 2700
F + 598 2 518 2703

Bordier & Cie (Singapore) Ltd

CapitaGreen #14-00
138 Market Street
Singapore 048946
T + 65 6239 9999
F + 65 6239 9998

Bordier Bank (TCI) Ltd

Leeward Highway
Caribbean Place
Providenciales
Turks and Caicos
T + 1 649 946 45 35
F + 1 649 946 45 40

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