

BYD Company Limited Class H

Asia Satellite*

Recommended since 15.09.2023

15.09.2023



Country HK	Market capitalization (bn) HKD 744.5	Perf. since reco. (%)
Sector Automotive	Free float 90.9%	BYD Company Limited 0.0
Factset 1211-HK	Closing price HKD 244.80	Sector 0.0
ISIN CNE100000296	ESG Risk score* 26.7 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

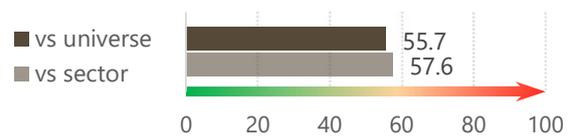
Investment case

- 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.62 bn in 2022, should double by 2025 and its operating income (margin at 5-6% of sales), like its net income, be multiplied by c.2.5x. Despite sustained investments (c. 8% of sales), the Group has been generating average free cash flow of \$5 bn p.a. since 2020 - a figure expected to grow - and its balance sheet is cash-net positive by \$2.6 bn.

Valuation

With a PE2023 of 25.0x (MSCI China at 10.7x and MSCI World Auto Sector at 14.3x) and expected average annual earnings growth of 21%, BYD's PEG stands at 1.2x, a low figure for a secular growth stock over a 10+ year horizon.

ESG risk vs. universe & sector (percentile)*



USD

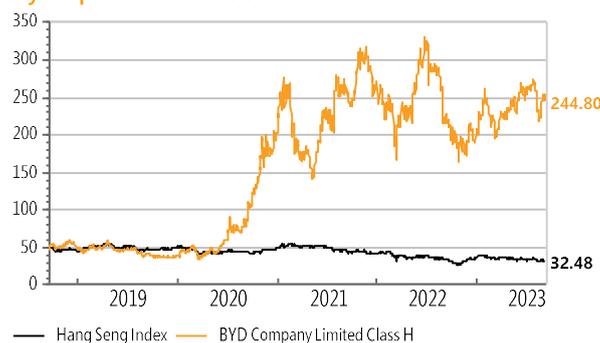
	12/2022	2023e	2024e
Sales revenue (mio)	61 270	86 466	108 787
Sales growth	85.4%	41.1%	25.8%
EBIT adjusted (mio)	2 865	4 537	6 185
% of sales	4.7%	5.2%	5.7%
Net income (mio)	2 469	3 572	4 851
Net income growth	422.8%	44.7%	35.8%
FCF/Sales	9.3%	6.6%	5.2%
Net debt/Ebitda	-1.1x	-0.9x	-1.3x
Dividend yield	0.5%	0.4%	0.6%
PE	29.0x	25.0x	18.4x
P/BV	5.6x	4.8x	3.9x

Factset estimates

ESG - risks and key points

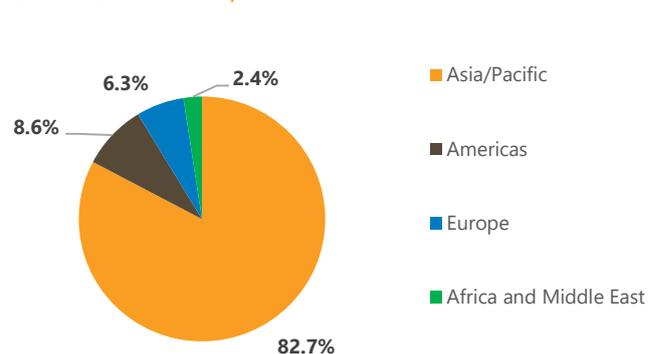
- BYD presents an average financial risk in relation to ESG factors, due to average exposure and an average-rated risk management.
- Given its product portfolio, the main risk is vehicle non-quality and safety.
- Operating in a concentrated Chinese market, BYD is exposed to business ethics risk. Its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

5-year performance vs sector



Source: FactSet

Sales breakdown - 12/2022



*: 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

This document has been issued for information purposes and is exclusively supplied by Bordier & Cie SCmA in the framework of an existing contractual relationship with the recipient of this document. The views and opinions contained in it are those of Bordier & Cie SCmA. Its contents may not be reproduced or redistributed by unauthorized persons. The user will be held liable for any unauthorized reproduction or circulation of this document, which may give rise to legal proceedings. All the information contained in it is provided for information only and should in no way be taken as investment, legal or tax advice provided to third parties. Furthermore, it is emphasized that the provisions of our legal information page are fully applicable to this document and namely provisions concerning the restrictions arising from different national laws and regulations. Consequently, Bordier Bank does namely not provide any investment services or advice to "US persons" as defined by the Securities and Exchange Commission rules. Furthermore, the information on our website – including the present document – is by no mean directed to such persons or entities.