

## Ride on “fashion” wave

Rating	<b>Buy</b>	Maintain
Target Price	<b>HKD 5.46</b>	From 4.08
Current price	<b>HKD 4.67</b>	Upside +17%

### ■ Casing business rides on “fashion” wave

BYDE has reported a FY13 results with 14.0% yoy revenue growth and 71.1% yoy net profit growth, which is +6.6%/ +26.8% versus our/ Bloomberg consensus estimates. Despite HTC (1498.TT)'s order weakness (New One has come close to the end of product) in 2H13, management has expected its stronger-than-expected results are supported by order wins from Chinese smartphone vendors in metal/ plastic metal hybrid (PMH) casings.

In FY14E, we expect this momentum to sustain and revenue to grow at 18.2%, with strong metal/ PMH casing revenue growth of 100.0%. It is supported by increasing adoption of metal/ plastic metal hybrid (PMH) casings by new models of China smartphone vendors (such as Huawei, Lenovo (992.HK), ZTE (763.HK), and TCL (2618.HK)), shown in CES and MWC 2014. BYDE will certainly ride on this “fashion” wave, as a leading metal/ PMH casing suppliers in China.

### ■ Metal/ PMH casings favor margins

GPM has improved from 8.4% in FY12 to 10.5% in FY13, versus 10.9%/ 10.0% of our/ Bloomberg consensus estimates. It is due to the high-margin metal casing segment. The GPM of metal casing is ~2.0x of that of company average, supported by its core competence in PMH technology. With the increasing proportion of metal casing segment, the overall GPM in FY14E will continue to go up to 12.2%.

### ■ Reiterating BUY with TP of HK\$5.46

We revise up our FY14/15E earnings by 7.3%/7.5%, mainly due to acceleration of casings migration and more diversified customer base. However, the company is trading at 8.2x FY14E PER, which is 31.5% lower than the average 12.0x of peers. We believe BYDE is catching up and its valuation will at least rise to near the average of peers. We reiterate BUY with TP of HK\$5.46, based on 9.6x FY14E PER and 20.0% discount to average of the peers.

RMB mn	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	14,091	16,062	18,984	22,291	24,859
Net Profit	379	648	1,020	1,242	1,485
Consensus NP			693	657	
EPS (RMB)	0.17	0.29	0.46	0.56	0.66
P/E (x)	22.0	12.9	8.2	6.7	5.6

Sources: Bloomberg, CIRL estimates

21 March 2014

**Susanna Chui**

susanna.chui@cinda.com.hk  
(852) 2235 7131

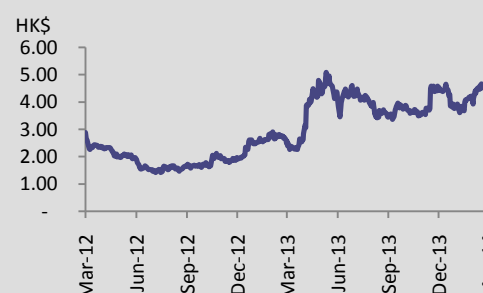
### Trading data

52-Week Range (HK\$)	2.11/5.19
3 Mth Avg Daily Vol (m)	8.71
No of Shares (m)	2,253.21
Market Cap (HK\$m)	10,612.59
Major Shareholders (%)	BYD (65%)
Auditors	Ernst & Young
Result Due	1H14: Aug

### Company description

Established in 2002, BYDE is a leading manufacturer of handset components and modules, such as plastic casing, metal casings, and keypads. It also provides assembly services for handsets. Its parent company, BYD (1211.HK) keeps some of handset components and modules, such as LCD displays, FPCs, and camera modules. Its customers include Nokia (NOK.US), Huawei, Toshiba (6502.JP), Apple (AAPL.US), Asus (2357.TT), HTC (2498.TT) and HP (HPQ.US).

### Price chart



**Exhibit 1: Smartphone highlight in MWC 2014**

<b>Samsung S5</b>	<b>Huawei Ascend G6</b>	<b>LG G Pro 2</b>	<b>Lenovo S860</b>	<b>ZTE Grand Memo II (LTE)</b>	<b>Sony Xperia Z2</b>
					
Plastic (perforated pattern)	Plastic back with metal frame	Plastic	Metal	Carbon fiber	Glass
<b>HTC Desire 816</b>	<b>Nokia XL</b>	<b>TCL Idol 2/2S</b>	<b>TCL Idol 2 mini S</b>		
					
Plastic	Plastic	Metal	Composite (metal + plastic)		

Source: Company data, CIRL

**Exhibit 2: Smartphone highlight in CES 2014**

<b>Huawei Mate2</b>	<b>LG G Flex</b>	<b>ZTE Grand S2</b>	<b>ZTE Iconic Phablet</b>	<b>ZTE Sonata</b>	<b>Sony Z1S</b>
					
Plastic	Plastic	Metal	Composite (metal + plastic)	Plastic	Glass
<b>Sony Z1 compact</b>	<b>TCL Idol X+</b>	<b>TCL Idol Alpha</b>	<b>Asus Zenfone</b>	<b>Asus Padfone mini</b>	<b>Acer Liquid Z5</b>
					
Glass	Plastic	Composite (metal + transparent material)	Plastic	Plastic	Plastic

Source: Company data, CIRL

**Exhibit 3: Financial statement**

<b>Income statement</b>						<b>Cash flow</b>					
Year to Dec (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E	Year to Dec (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	14,091	16,062	18,984	22,291	24,859	Pre-tax profit	430	752	1,182	1,440	1,721
Gross profit (reported)	1,190	1,679	2,308	2,799	3,281	Taxes paid	-38	-97	-71	-162	-198
EBITDA	1,124	1,390	1,867	2,178	2,502	Depreciation	558	631	678	730	774
Depreciation	-691	-631	-678	-730	-774	Associates	0	0	0	0	0
EBIT	433	759	1,189	1,447	1,728	CFO bef. WC change	950	1,286	1,789	2,008	2,297
Net interest income (exp.)	-3	-7	-7	-7	-7	Change in working cap	-322	326	-218	-194	-113
Associates	0	0	0	0	0	<b>Cashflow from operation</b>	<b>628</b>	<b>1,611</b>	<b>1,571</b>	<b>1,814</b>	<b>2,184</b>
Exceptionals/others	0	0	0	0	0	CAPEX	-912	-927	-1,000	-1,000	-1,000
<b>Profit before tax</b>	<b>430</b>	<b>752</b>	<b>1,182</b>	<b>1,440</b>	<b>1,721</b>	<b>Free cash flow</b>	<b>-284</b>	<b>685</b>	<b>571</b>	<b>814</b>	<b>1,184</b>
Tax expenses	-51	-103	-162	-198	-236	Dividends	0	65	0	124	0
Minority interest	0	0	0	0	0	Balance sheet adj.	321	-82	0	0	0
<b>Net profit</b>	<b>379</b>	<b>648</b>	<b>1,020</b>	<b>1,242</b>	<b>1,485</b>	Share issued	-116	0	0	0	0
						Others	0	-134	-65	124	-124
						<b>Net cash flow</b>	<b>-79</b>	<b>534</b>	<b>506</b>	<b>1,062</b>	<b>1,060</b>
						Net cash (debt) start	2,207	2,128	2,662	3,168	4,231
						Net cash (debt) at year-end	2,128	2,662	3,168	4,231	5,291
<b>Balance sheet</b>						<b>Ratios</b>					
Year to Dec (RMB mn)	FY12A	FY13A	FY14E	FY15E	FY16E	Year to Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Cash & equiv	2,128	2,662	3,168	4,231	5,291	<b>Growth rate (%)</b>					
Trade receivables	2,751	3,437	4,102	4,863	5,475	Revenue	(11.20)	14.0	18.2	17.4	11.52
Other receivables	0	0	0	0	0	EBITDA	(17.01)	23.6	34.4	16.6	14.91
Inventories	1,739	1,862	2,151	2,504	2,761	EBIT	(35.84)	75.3	56.7	21.7	19.43
Other current assets	562	828	828	828	828	Net profit	(37.14)	71.1	57.2	21.9	19.53
Fixed assets	3,914	4,210	4,531	4,801	5,027	EPS	(37.04)	70.6	57.2	21.9	19.53
Intangible assets	8	9	9	9	9	<b>Margins (%)</b>					
Investment, associates etc	787	868	868	868	868	Gross margin	8.4	10.5	12.2	12.6	13.2
<b>Total assets</b>	<b>11,889</b>	<b>13,877</b>	<b>15,657</b>	<b>18,103</b>	<b>20,259</b>	EBITDA	8.0	8.7	9.8	9.8	10.1
Account payables	2,691	3,834	4,569	5,489	6,245	EBIT	3.1	4.7	6.3	6.5	7.0
Other payables	0	0	0	0	0	Net margin	2.7	4.0	5.4	5.6	6.0
Short-term debt	0	0	0	0	0	<b>Other ratios</b>					
Other current liabs	944	1,208	1,299	1,335	1,373	ROE (%)	4.6	7.3	10.4	11.0	11.7
Long-term debts	0	0	0	0	0	ROA (%)	3.2	4.7	6.5	6.9	7.3
Deferred tax and others	0	0	0	0	0	Net gearing (%)	(25.8)	(30.1)	(32.4)	(37.5)	(41.9)
Other long-term liabs	0	0	0	0	0	Interest coverage (x)	171.8	104.7	164.0	199.7	238.5
<b>Total liabilities</b>	<b>3,634</b>	<b>5,042</b>	<b>5,868</b>	<b>6,824</b>	<b>7,618</b>	Receivables days	71.3	78.1	78.9	79.6	80.4
Share capital	217	217	217	217	217	Payables days	76.1	97.3	100.0	102.8	105.6
Reserves	8,037	8,617	9,572	11,063	12,423	Inventory days	49.2	47.3	47.1	46.9	46.7
<b>Shareholders' equity</b>	<b>8,254</b>	<b>8,834</b>	<b>9,789</b>	<b>11,280</b>	<b>12,640</b>	Effective tax rate (%)	11.9	13.7	13.7	13.7	13.7
Minorities	0	0	0	0	0						
<b>Total equity</b>	<b>8,254</b>	<b>8,834</b>	<b>9,789</b>	<b>11,280</b>	<b>12,640</b>						
Net cash (debt)	2,128	2,662	3,168	4,231	5,291						

Source: Company data, CIRC

**Exhibit 4: Revising up earnings forecast**

	FY14 (new)	FY14 (old)	Diff	FY15 (new)	FY15 (old)	Diff
Revenue	18,984	20,399	-6.9%	22,291	22,438	-0.7%
Operating profit	1,189	1,087	9.4%	1,447	1,328	9.0%
Net Profit	1,020	947	7.7%	1,242	1,152	7.8%
EPS (RMB)	0.46	0.42	7.3%	0.56	0.52	7.5%

Source: Company data, CIRC

**Exhibit 5: Peer comparison**

	Ticker	Market cap (HKD mn)	PE (x)			PB (x)			Dividend yield (%)		
			FY13A	FY14E	FY15E	FY13A	FY14E	FY15E	FY13A	FY14E	FY15E
Handset metal casing suppliers											
Foxconn Technolo	2354 TT	23,180.92	13.6	12.5	11.9	1.2	1.1	1.1	1.4	1.4	
Catcher Tech	2474 TT	40,947.00	11.8	11.4	10.0	2.3	2.0	1.8	3.2	3.5	
Casetek Holdings	5264 TT	14,230.14	9.0	8.5	8.0	2.7	2.1	1.9	2.7	5.2	
Ju Teng Intl Hdg	3336 HK	6,864.11	9.4	7.1	6.0	1.1	0.9	0.8	2.3	3.0	
Average			11.0	9.9	9.0	1.8	1.6	1.4	2.4	3.3	
Handset EMS/ODMs											
Compal Electron	2324 TT	22,496.97	37.2	9.3	8.3	0.8	0.8	0.8	3.7	5.3	
Fih Mobile Ltd	2038 HK	35,453.34	53.7	23.4	20.2	1.2	1.2	1.1	0.0	0.0	
Average			45.4	16.3	14.3	1.0	1.0	0.9	1.8	2.6	
Byd Electronic	285 HK	10,522.47	12.9	8.2	6.7	1.0	0.9	0.7	0.8	0.0	

Source: Bloomberg, CIRC

## Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

## Analysts List

Antony Cheng	Research Director	(852) 2235 7127	antony.cheng@cinda.com.hk
Hayman Chiu	Senior Research Analyst	(852) 2235 7677	hayman.chiu@cinda.com.hk
Kenneth Li	Senior Research Analyst	(852) 2235 7619	kenneth.li@cinda.com.hk
Lewis Pang	Research Analyst	(852) 2235 7847	lewis.pang@cinda.com.hk
Susanna Chui	Research Analyst	(852) 2235 7131	susanna.chui@cinda.com.hk
Shawn Yang	Research Assistant	(852) 2235 7617	xiaoxia.yang@cinda.com.hk

## Analyst Certification

I, Susanna Chui hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

## Disclaimer

This report has been prepared by the Cinda International Research Limited. Although the information and opinions contained in this report have been compiled or arrived at from sources believed to be reliable, Cinda International cannot and does not warrant the accuracy or completeness of any such information and analysis. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Recipients should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision. The report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Any opinions expressed in this report are subject to change without notice. The report is published solely for information purposes, it does not constitute any advertisement and should not be construed as an offer to buy or sell securities. Cinda International will not accept any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this report. This document is for the use of intended recipients only, the whole or a part of this report should not be reproduced to others.