



November 7, 2024

All Sectors|BUY

Sector Report

What Trump can do and cannot do in his 2nd term

- We were not surprised by Trump's sweeping win in US presidential election, but we were a bit surprised by the market reaction. It is likely because Republicans have won the senate, house and supreme court;
- But there are still physical laws that will be upheld regardless: (1) ADS/electrification, (2) GAI/renewable/employment, (3) inflation/trade/immigration are just three that the Trump Administration will likely backpedal. For a short-term trade, we recommend PDD.

Trump's has a free hand, but he also faces a daunting task

Trump's second term faces a tougher challenge than his first. Even though we might likely face a 12-year conservative Republican rule (Trump 4+Vance 8), the task at hand still requires consistent execution in lockstep manner. In particular, Trump faces three "impossible triangles".

How to cut inflation with a trade war and an immigration ban

Bringing inflation down cannot happen at the same time of a major trade war AND an immigration ban so the goal must be accomplished in steps, compensated by tax cuts along the way. The solution of the Biden Administration is to subsidize renewable industries to bring the jobs home. It is too little and too late but at least the deficit is spent as an investment for the future. It is inconceivable that Trump as a shrewd businessman would subsidize sunset industries.

Autonomous driving cannot grow out of ICE vehicles

The engine torque response time of ICE vehicle is 1.8-2.5 seconds while that of EV is 0.1 second and thus ADS cannot grow out of ICE. Further, ADS is, in our view, the single biggest application of generative AI (GAI). Trump's political standing will impede America's leadership in GAI.

GAI will upper the need for electricity but fossil is not the answer

Today ~50% of the human energy need is heating, another 25% is transportation and 20% in electricity. GAI will upper the need for electricity, which together with EV forms the driving force behind electrification of the energy use of mankind. Returning to fossil is not impossible but will be increasingly cumbersome to execute. Trump's energy position is indefensible, in our opinion.

It is not advisable to exaggerate Elon's clout in Trump's team

Key financial of stock mentioned

(RMB mn)	Revenues			Non-GAAP op.profit			Non-GAAP NI		
	2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E
BYD Inc.	596,614	719,470	842,499	38,681	42,465	53,477	30,890	39,801	45,743
Pinduoduo	247,639	405,137	494,028	65,777	125,995	147,279	67,899	129,951	151,705
Alibaba Group	941,168	1,023,882	1,127,849	164,009	188,339	203,866	165,214	174,609	182,064
Xiaomi	270,970	358,567	437,057	17,370	25,205	29,924	15,431	23,863	25,787

Source: Company data, Blue Lotus (as of November 7, 2024)

BUY

UR

SELL

Top picks

	Ticker	Rating	Target
BYD Company Limited	1211 HK	BUY	HK\$372
Pinduoduo Inc.	PDD US	BUY	US\$160

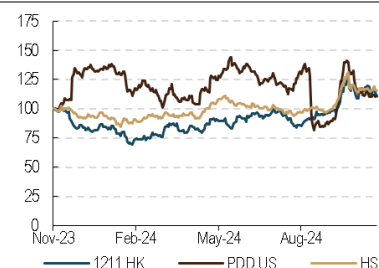
Source: Blue Lotus (as of November 7, 2024)

Stocks mentioned

Name	Ticker	Rating	TP	Current price	NTM P/E
BYD	1211 HK	BUY	HK\$372	HK\$275.2	20.0x
Alibaba	BABA US	BUY	US\$120	US\$96.7	9.8x
Pinduoduo	PDD US	BUY	US\$160	US\$120.6	8.7x
Xiaomi	1810 HK	BUY	HK\$29	HK\$27.6	30.8x
Miniso	MNSO US	SELL	US\$18	US\$18.4	14.9x

Source: Bloomberg, Blue Lotus (as of November 7, 2024)

Price performance and volume data



Source: Bloomberg (as of November 7, 2024)

Research team

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Blue Lotus Capital Advisors Limited

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BYD Company Limited: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

(RMB mn)	2023A	2024E	2025E
Total revenue	596,614	719,470	842,499
Cost of sales	(480,558)	(579,239)	(679,706)
Gross profit	116,056	140,231	162,793
Gross margin	19.5%	19.5%	19.3%
Selling expense	(25,211)	(34,742)	(40,231)
Administrative expense	(13,462)	(16,745)	(19,377)
R&D expense	(39,574)	(46,916)	(50,550)
Operating income, IFRS	37,808	41,828	52,634
Operating income, non-IFRS	38,681	42,465	53,477
Interest income	2,796	2,341	2,898
Interest expense	(1,828)	(2,247)	(2,502)
Other non-operating income	(1,508)	6,262	1,481
Pre-tax profit	37,269	48,184	54,512
Income taxes	(5,925)	(7,515)	(7,571)
Net profit, IFRS	30,017	39,164	44,900
Net profit, non-IFRS	30,890	39,801	45,743
Net margin, IFRS	5.0%	5.4%	5.3%
Net margin, non-IFRS	5.2%	5.5%	5.4%
EPS, basic, GAAP (RMB)	10.32	13.47	15.44
EPS, diluted, non-GAAP (RMB)	10.31	13.45	15.71

Source: BYD Company Limited (as of November 7, 2024)

Company Description

BYD operates in the four core fields of Electronics, Automobile, New Energy and Rail Transit, having expanded from a company that once only produced and sold rechargeable batteries. BYD is the largest EV maker and the third largest vehicle battery maker in the world. In 2023, BYD sold 3.0mn units electric PVs globally, among which 1.6mn in BEV and 1.4mn in PHEV, or 25% of China's BEV and 54% of the PHEV market.

Industry View

China's EV market reached 8.88mn units in 2023 and we expect it to grow to 12.2mn in 2024, 15.0mn in 2025 and 26.8mn in 2030. China's PHEV market reached 2.75mn in 2023 and we expect it to grow to 4.82mn in 2024, 6.51mn in 2025 and 12.0mn in 2030. China's BEV market reached 6.12mn in 2023 and we expect it to grow to 7.35mn in 2024, 8.45mn in 2025 and 14.8mn in 2030.

Exhibit 2. Balance sheet

(RMB mn)	2023A	2024E	2025E
Cash & Cash Equivalents	109,094	120,461	151,386
Receivables	61,866	77,289	92,782
Inventories	87,677	105,689	124,029
Other current assets	43,485	38,404	44,015
Total current assets	302,121	341,843	412,212
Net PP&E/Fixed assets	230,904	316,801	364,863
Net intangibles	46,915	48,860	55,884
Deferred tax assets	6,584	7,080	7,641
Other long-term assets	93,023	99,288	81,040
Total non-current assets	377,426	472,030	509,429
Total assets	679,547	813,873	921,641
Payables	405,895	477,363	543,278
Short-term debt and current portion of long-term debt	33,924	1,167	1,368
Other current liabilities	13,848	16,851	19,717
Total current liabilities	453,667	495,382	564,363
Long term debt	11,975	11,975	(525)
Other long-term liabilities	63,444	6,614	4,117
Total non-current liabilities	75,419	18,589	3,592
Total liabilities	529,086	513,971	567,954
Total common equity	138,810	289,064	340,808
Total liabilities and equity	679,547	813,873	921,641

Source: BYD Company Limited (as of November 7, 2024)

Exhibit 3. Cash flow statement

(RMB mn)	2023A	2024E	2025E
Net income	31,344	40,669	46,941
Depreciation and amortization add-back	28,746	45,190	60,141
Change in working capital	105,068	35,097	36,574
Interest expense	1,828	2,247	2,502
Other operating cash flow items	(1,288)	(8,603)	(4,379)
Cash flow from operations	164,189	120,861	143,260
Purchases of PPE	(138,533)	(95,280)	(85,756)
Additions to other intangible assets	(11,932)	(14,389)	(12,637)
Increase in prepaid land lease payments	(6,542)	175	(1,442)
Increase in derivative financial instruments	(47)	-	-
Other investing cash flow items	(3,619)	-	-
Cash Flow from Investing Activities	(160,672)	(109,494)	(99,835)
Proceeds from issue of shares	(0)	-	-
Proceeds from bank loans, net	5,000	-	(12,500)
Other financing cash flow items	-	-	-
Cash Flow from Financing Activities	5,000	-	(12,500)
Effect of forex changes, net	-	-	-
Cash at beginning of the year	51,182	109,094	120,461
Cash at the end of the year	109,094	120,461	151,386

Source: BYD Company Limited (as of November 7, 2024)

See the last page of the report for important disclosures

Alibaba Group Holdings Limited: Financial Summary

Fiscal year ends-31-Mar

Exhibit 4. Income statement

(RMB mn)	FY2024A	FY2025E	FY2026E
China retail marketplace GMV (bn)	7,731	8,442	9,281
Net revenues	941,168	1,023,882	1,127,849
Cost of revenues	(586,323)	(621,085)	(685,279)
Gross profit	354,845	402,797	442,570
Operating expenses, GAAP	(241,495)	(238,922)	(277,699)
Research and development	(52,256)	(55,783)	(62,566)
Sales and marketing	(115,141)	(128,165)	(142,749)
General and administrative	(41,985)	(47,807)	(52,442)
Operating profit, GAAP	113,350	163,875	164,871
Share based compensation	18,546	17,297	19,053
Operating profit, non-GAAP	164,009	188,339	203,866
Interest and investment income	(17,911)	(14,485)	(6,160)
Pre-tax profit, GAAP	101,596	153,822	163,143
Income tax	(22,529)	(32,976)	(34,260)
Net income, GAAP	79,067	120,846	128,883
Net income, non-GAAP	165,214	174,609	182,064
Number of ADS, diluted	2,545	2,374	2,303
EPADS, GAAP, diluted (RMB)	34.4	54.0	59.3
EPADS, non-GAAP, diluted (RMB)	64.9	73.5	79.1
Gross margin	37.7%	39.3%	39.2%
Operating margin, non-GAAP	17.4%	18.4%	18.1%
Net margin, GAAP	8.4%	11.8%	11.4%
Net margin, non-GAAP	17.6%	17.1%	16.1%

Source: Alibaba Group Holdings Limited, Blue Lotus (as of November 7, 2024)

Exhibit 5. Balance sheet

(RMB mn)	FY2024A	FY2025E	FY2026E
Cash and restricted cash	286,424	325,187	358,310
Short-term invest. And inv. in sec.	322,904	332,887	375,526
Prepayments and others	143,536	152,046	167,761
Total current asset	752,864	810,120	901,598
Property and equipment	185,161	172,993	173,109
Securities investment, non-current	424,073	456,324	491,292
Intangibles, goodwill, and others	286,629	358,303	357,733
Prepayments, non-current	116,102	122,985	135,697
Total assets	1,764,829	1,920,725	2,059,429
Bank borrowings	12,749	12,440	13,675
Income tax payable	9,068	8,848	9,727
Accrued expense	297,883	303,927	335,340
Deferred revenue	72,818	79,218	87,261
Merchant deposits	12,737	13,909	15,291
Total current liabilities	405,255	418,341	461,295
Long term debt	55,686	55,718	61,253
Deferred tax liabilities	88,948	150,302	162,226
Total non-current liabilities	144,634	206,019	223,479
Additional paid in capital	397,999	397,999	397,999
Retained earnings	597,897	605,040	650,703
Total equity	986,544	993,687	1,039,350
Total liabilities and equity	1,764,829	1,920,725	2,059,429

Source: Alibaba Group Holdings Limited, Blue Lotus (as of November 7, 2024)

Company Description

Alibaba Group operates Taobao/Tmall, the world's largest online e-commerce platform by gross GMV, with RMB 7.5tn in sales during CY2023, accounting for ~39% of China's online shopping market. Additionally, Alibaba operates overseas platforms Lazada, Trendyol, AliExpress, Daraz, and B2B platforms 1688 and Alibaba.com. Other major assets include Alibaba Cloud, Cainiao Logistics, Ele.me food delivery, Amap mapping service, among others.

Industry View

China's online physical goods market grew 8.4% yoy to RMB 13.0tn in 2023, per NBS. We expect China's online physical goods market to grow 8.5% in 2024, and at CAGR 7%~ to reach a market size of RMB 17.1tn in 2027.

Exhibit 6. Cash flow statement

(RMB mn)	FY2024A	FY2025E	FY2026E
Net income	79,067	120,846	128,883
Adjusted for:			
Depreciation & amortization	26,640	28,364	30,262
Share based compensation	18,546	17,297	19,053
Amortization of intangible assets	19,656	18,579	19,942
Changes in:			
Prepayments and others	(11,640)	(15,393)	(28,426)
Income tax payables	(3,475)	(220)	879
Merchant deposits	(560)	1,172	1,382
Accrued liabilities and deferred rev.	23,456	12,444	39,457
Cash from operations	182,593	189,684	218,625
Capex, PPE	(32,352)	(32,941)	(36,348)
Purchase of intangibles	24,117	23,854	26,222
Cash paid for equity investment	(20,969)	(10,157)	(10,131)
Acquisitions of AFS and HTM securities	24,795	(22,094)	(24,304)
Other cash paid in investing	(17,415)	(25,673)	(59,731)
Cash from investing activities	(21,824)	(67,011)	(104,292)
Cash from financing activities	(108,244)	(83,910)	(81,210)
Change in cash	56,914	38,763	33,123
Cash at beginning	229,510	286,424	325,187
Cash at end	286,424	325,187	358,310

Source: Alibaba Group Holdings Limited, Blue Lotus (as of November 7, 2024)

See the last page of the report for important disclosures

PDD Holdings Inc.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 7. Income statement

(RMB mn)	CY2023A	CY2024E	CY2025E
Revenues	247,639	405,137	494,028
Online marketing services	153,541	200,332	224,438
Commission fees	94,099	204,806	269,590
Cost of revenues	(18,267)	(19,827)	(20,648)
Gross profit	155,916	252,036	300,091
Sales and marketing expenses	(82,189)	(116,482)	(141,569)
General & administrative expense	(4,076)	(7,459)	(8,823)
Research & development expense	(10,952)	(12,101)	(14,314)
Share-based compensation	7,079	10,001	11,895
Operating profit(loss), GAAP	58,699	115,994	135,385
Operating profit(loss), non-GAAP	65,777	125,995	147,279
Other income/(loss)	13,182	25,694	29,039
Pre-tax (Loss)/income, GAAP	71,881	141,687	164,424
Income taxes expenses	(11,850)	(21,572)	(24,664)
Net (loss)/income, GAAP	60,026	119,914	139,810
Net (loss)/income, non-GAAP	67,899	129,951	151,705
Number of ADS, diluted	1,464	1,482	1,495
EPADS (RMB), GAAP, diluted	41.0	80.9	93.5
Gross margin	63.0%	62.2%	60.7%
EBIT margin, non-GAAP	26.6%	31.1%	29.8%
Net margin, non-GAAP	27.4%	32.1%	30.7%

Source: PDD Holdings Inc., Blue Lotus (as of November 7, 2024)

Exhibit 8. Balance sheet

(RMB mn)	CY2023A	CY2024E	CY2025E
Cash, equivalent & restricted cash	121,780	258,956	403,115
Receivables from online payment	3,914	11,724	16,257
Short-term investments	157,415	192,270	235,332
Amounts due from related parties	7,428	11,545	13,374
Prepayment & other current asset	4,213	6,660	8,121
Total current assets	294,750	481,155	676,198
Long-term investment	-	-	-
Property and equipment, net	980	11,589	20,967
Intangible asset	21	135	182
Loan to a related party and others	52,327	52,056	52,056
Total non-current assets	53,328	63,780	73,206
Total asset	348,078	544,935	749,404
Amounts due to related parties	1,239	2,027	2,471
Customer advances	2,145	3,330	3,857
Payable to merchants	74,997	94,870	111,205
Accrued expenses and other	55,351	88,196	109,063
Merchant deposits	16,879	18,990	20,857
Total current liabilities	152,901	207,666	247,707
Total liabilities	160,837	215,601	255,643
Total shareholders' equity	187,242	329,334	493,761
Total liability & shareholder equity	348,078	544,935	749,404

Source: PDD Holdings Inc., Blue Lotus (as of November 7, 2024)

Company Description

PDD was China's 2nd largest e-commerce platform in terms of gross GMV in 2023, with gross GMV transacted of RMB ~4.0 trillion, accounting for ~20% share of gross e-commerce GMV in China, we estimate.

Industry View

China's online physical goods market grew 8.4% yoy to RMB 13.0tn in 2023, per NBS. We expect China's online physical goods market to grow 8.5% in 2024, and at CAGR 7%~ to reach a market size of RMB 17.1tn in 2027.

Exhibit 9. Cash flow statement

(RMB mn)	CY2023A	CY2024E	CY2025E
Net income	60,026	119,914	139,810
Depreciation & amortization	786	1,909	3,838
Interest income	(1,355)	(210)	(210)
Share-based compensation	7,079	10,001	11,895
Receivables from online payment platforms	(3,326)	(7,810)	(4,532)
Amounts due from related parties (current)	(1,096)	(4,117)	(1,829)
Prepayments and other current assets	(2,121)	(2,447)	(1,461)
Amounts due to related parties (current)	(438)	788	445
Customer advances	755	1,185	528
Payables to merchants	11,623	19,873	16,335
Accrued expenses and other liabilities	20,409	32,079	19,972
Merchant deposits	1,821	2,112	1,867
NET CASH FROM OPERATING ACTIVITY	94,162	173,278	186,656
Purchase of property and equipment	(584)	(12,154)	(12,794)
Proceeds of short-term investments	(23,835)	(29,603)	(36,768)
NET CASH FROM INVESTING ACTIVITY	(55,431)	(35,989)	(42,397)
NET CASH FROM FINANCING ACTIVITY	(8,961)	-	-
Exchange rate effect on cash & equivalents	(291)	(112)	(101)
Change in cash	29,480	137,176	144,158
Cash and cash equivalents, beginning	92,300	121,780	258,956
Cash and cash equivalents, end	121,780	258,956	403,115

Source: PDD Holdings Inc., Blue Lotus (as of November 7, 2024)

See the last page of the report for important disclosures

Trump has a lofty promise to fulfil to voters

- **Elon Musk may have successfully bought Tesla a ticket to the future, but the US EV industry has not:** We believe it is not advisable to exaggerate Elon's ability to dictate the policies of the Trump team because the conflicts we outlined are fundamental in nature. Elon himself and Tesla as the driving force of electrification and GAI in the developed world will certainly benefit from Trump's tutelage but it doesn't mean other industry participants will receive the same benefit. In GAI, the supply chain reliance on two companies, Nvidia and TSMC, only serves to inject enormous amount of profit a narrow strip of the industry. Whether the value created can be justified by productivity increase of a broader spectrum is subject to debate and even it can, the applicability beyond GAI is also questionable. There is fundamental difference between what brings Trump to power and the prescription Elon is about to give. In our view, the conflict is bound to erupt in the future;
- **The timing of a Trump Tariff Hike could be sooner than expected:** Upon examining the goals and priorities of the Trump economic agenda, we believe launching a trade war could be imminent. A trade war against China can deliver election promises and vacate the market for supply chain reshoring. To alleviate the pressure on inflation, a rotation in sanction is likely to happen;
- **Our top Trump trade is Pinduoduo:** We believe the immediate beneficiary of Trump's Tariff Hike is Pinduoduo, which we believe will benefit from an enormous backflow of export orders to China's domestic market. Temu's expansion in developing countries over the past year is also timely to digest China's excess exports turned away from the US market. We also believe the impact of sanction on Temu is adequately discounted;
- **Our second Trump trade is BYD:** BYD has wisely avoided the US market altogether and is building factories in Thailand, Vietnam, Turkey, Hungary and Indonesia. We do believe Trump's trade war will benefit China's export to other parts of the world, which will benefit BYD;
- **Our short idea is Miniso:** Miniso shares have rallied since its investment in Yonghui Superstore, which we believe is undeserved. We believe that China's supply chain is the cornerstone of Miniso's globalization, and potential US tariff increases on China will force Miniso to relocate factories for 90% of its US products to Southeast Asia, which is bound to have a negative impact on product update speed and quality. This conflicts with Miniso's strategy of rapidly introducing new IPs. We believe the company may need to undergo several quarters of adjustment to find a balance. Currently, 30% of the merchandise in Miniso's US stores is locally sourced, while 70% is imported from China. We think the company's guidance of 20%+ revenue growth in 2025 is at risk.
- **Broad negative impact on advertising, real estate and discretionary consumption:** Companies in these sectors include Alibaba, JD.com, Vipshop, Baidu, Weibo, Beike, Kanzhun, TCOM and Luckin.

The US has an antitrust issue of its high-tech entrepreneurs as concentration of market power leads to high cost.

We like companies with a strong export base to non-US countries, or exporting to US but has been adequately discounted.

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Blue Lotus equity research rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock.

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