Markets

BYD's Supply Chain Financing Masks Ballooning Debt, GMT Says

- Chinese EV maker's net debt may be closer to $44 billion: GMT
- Suppliers have had their own accounts queried by exchanges

BYD Co. took an average 275 days to pay suppliers in 2023. *Photographer: Qilai Shen/Bloomberg*

By Linda Lew and Danny Lee
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BYD Co.'s reliance on financing from working capital has masked surging debt levels at the Chinese electric vehicle giant, according Research.

While it's common for fast-growing firms to use debt to fuel expansion, BYD appears "addicted" to supply chain financing, GMT, ar alarm about China Evergrande Group, said.

When adjusted to reflect receivables that have been removed from the balance sheet because they've been sold or borrowed again 90 days – as a liability, BYD's true net debt was more like 323 billion yuan ($44.1 billion) as of June 30, GMT said in a Jan. 10 researc is about $105 billion.

BYD itself put its net debt at 27.7 billion yuan as of mid-2024. Representatives for BYD declined to comment.

"However it's structured, it's clearly a form of financing, or hidden debt," GMT analyst Nigel Stevenson said. "It's using sleight of ha capital."

Price War

The hidden debt makes it harder for investors to get a handle on BYD's actual financial situation as competition in China's EV mark part by the carmaker, has crushed weaker rivals and delivered a boom in business for the bigger players. It's also left suppliers incr that have the power to command ever tougher terms.

Core to GMT's concerns are the lack of details about what BYD considers 'other payables,' which ballooned to 165 billion yuan at th of 2021, according to the company's financial reports.

By way of comparison, Geely Automobile Holdings Ltd., the listed arm of Chinese car tycoon Li Shufu's empire, reported trade pay yuan in 2021. Its 'other payables' category meanwhile contains more information on Geely's obligations and to whom the funds are

It's likely the figure for BYD includes supply chain financing, which enables suppliers to either receive early payment of invoices if extended period until they get their money, according to Stevenson.

The way BYD reports its payables aren't in violation of accounting rules. However, the US GAAP and the International Financial Re require disclosures to help assess how this financing affects liabilities, cash flow and liquidity risk.

Unclear Risks

Some suppliers don't mind the wait because they themselves can borrow against that money owed, using BYD as a sort of collatera intricacies around a company as huge as BYD, the "nature of these obligations is unclear," Stevenson said.

"The risk is you have no idea what the terms are, how quickly the funds may be withdrawn or to whom exactly these amounts are

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For BYD, and other Chinese EV makers like Nio Inc. and Xpeng Inc., extended payment periods can stretch to hundreds of days. B Bloomberg-compiled data show.

While long payment terms are becoming standard in China, they're far more than the 45- to 60-day payment cycle for automakers President Grace Tao has said the US EV maker typically pays suppliers within 90 days.

BYD manages its supply chain financing through a system called Dilink, which launched in 2021 and, by May 2023, had issued som which partners with financial institutions and lets BYD's suppliers manage their receivables from carmakers, has also sparked ques financial reports.

In April last year, the Beijing stock exchange asked Guizhou Anda Energy Technology Co. to explain why an adjustment to its 2023 net income rose 4%, and to clarify whether its treatment of Dilink notes complied with accounting standards. The company, which provision for impairment on its notes receivables due to BYD's track record in making payments.

In November 2023, the Shanghai stock exchange queried Shangshui Intelligent Equipment about why it hadn't made provisions fo The company said BYD's bonds were AAA-rated and therefore didn't represent a credit black mark.

– With assistance from Pearl Liu and Charlotte Yang

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