

Assessing geopolitical risk impact on auto outlook

- **Conflict region accounted for c.6% of Chinese vehicle production in 2021**
- **Vehicle sales to Russia and Ukraine insignificant to individual Chinese OEMs, but global OEMs expected to face larger challenges**
- **Commodity price pressure could potentially shave 1-2ppts off product margins**
- **BYD (1211 HK) remains our preferred pick; expect GWM's (2333 HK) share price to be lacklustre in the near-term**

Sales to Russia and Ukraine account for a small portion of total vehicle production in China. The sanctions on Russia are expected to slightly dent sales of Chinese vehicles as Russia accounted for c.6% of total export in 2021. China has been diversifying its vehicle export profile and products in recent years to as it expands its NEV market. In 2021, China exported some 2m vehicles abroad, which is double from a year ago as the global economies recovered. Russia auto market size is only a fraction of China's, hence limited impact on the Chinese automakers. But, Korean, European, and Japanese automakers have a larger exposure, accounting for about half of total vehicle sales in Russia.

Potential financial impact on Chinese OEMs. Vehicle sales to Russia by the Chinese OEMs such as Geely, Great Wall Motor (GWM), and Chery accounted for an insignificant 2-4% of their total sales in 2021. However, commodity inflation due to the sanctions could potentially hit vehicle margins by 1-2ppts. The crisis could also slow EV and EV battery production as Russia is one of the key exporters of nickel and aluminium. Since China imports these metals from various countries, the supply disruptions could be short-term. However, any prolonged sanctions could affect the medium-term outlook of the global vehicle market.

Prefer BYD. BYD has been diversifying its upstream operations and improving vehicle technology, which should help to mitigate some of the negative impact. We expect GWM's share price to be lacklustre given its investment in Russia, estimated to account for about 5% of total net assets as of Dec-21. The depreciation of the Russian rouble could lead to some foreign currency impact. But a volatile equity market is expected to weigh on the overall auto sector share price performance.

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Recommendation & valuation

Company	Price	Target Price	Recom	Mkt Cap	PE
	HK\$	HK\$		US\$m	x
BYD 'H' (1211 HK)	203.20	360.00	BUY	92,730	64.5
Great Wall Motor 'H' (2333 HK)	12.88	26.00	BUY	35,916	8.7

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")



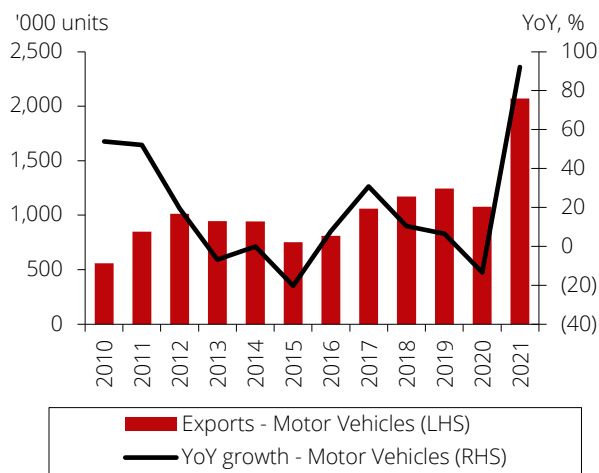
Live more, Bank less

China Auto Sector

Russia-Ukraine impact on China automakers

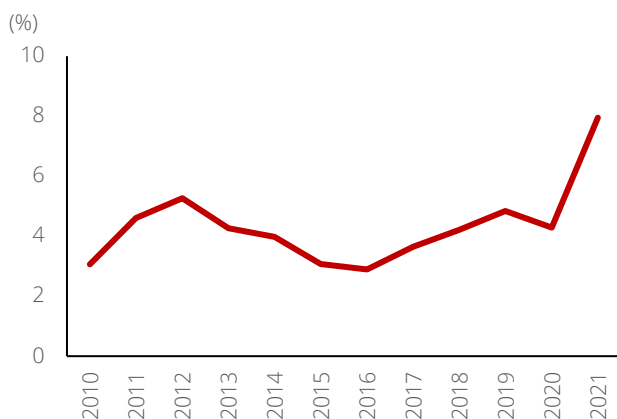
Anticipate impact on China's overall vehicle exports to be small. The sanctions on Russia are expected to have a mild impact on China's vehicle exports. In 2021, China exported approximately 2m vehicles, which made up c.8% of total vehicle production in China, the highest level in history.

China's vehicle export volumes



Source: CEIC

Vehicle export ratio



Source: CEIC

We note that China exports vehicles to many countries and sold about 120,000 units to Russia last year, representing 6% of total vehicle exports, which is small in our opinion. Among the Chinese OEMs with exposure to Russia and Ukraine, their share of exports to these countries ranged 2-4% of their total vehicle sales in 2021. Therefore, the current conflict is expected to have a limited impact on their total operations.

But GWM could potentially face some FX losses. Great Wall Motor (GWM) has a factory in Russia which commenced initial operations in 2020 and planned production capacity of 150,000 upon full ramp up. The factory's run rate is at about half of its production capacity of 80,000 units. In 1H21, GMW derived some Rmb2bn of revenue from Russia, accounting for only 3.2% of total sales revenue, insignificant in our opinion.

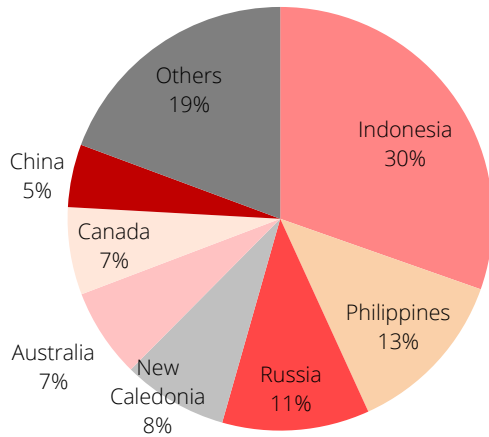
However, GWM could potentially suffer some foreign currency losses from its investment in Russia. Total investment committed is Rmb3.7bn, and based on preliminary estimates, it would have pumped in Rmb2-2.5bn into the project as at Dec-21 (FY20 was about Rmb1.1bn). The Rouble depreciation could result in some impairment losses on the Russia project.

Bigger impact from raw material cost escalation risks. China relies on imports of certain key metals to support its robust automobile industry, especially for the production of EV and EV batteries. For instance, imports of refined nickel doubled to 261,000 tonnes and aluminium over 20% to 1.57m tonnes last year compared to 2020.

Russia is one of the major producing countries of nickel and aluminium. In 2021, Russia produced 7% of global mined nickel and 5.9% of global refined aluminium. Since the conflict, metal prices have surged on fears of supply shortage.

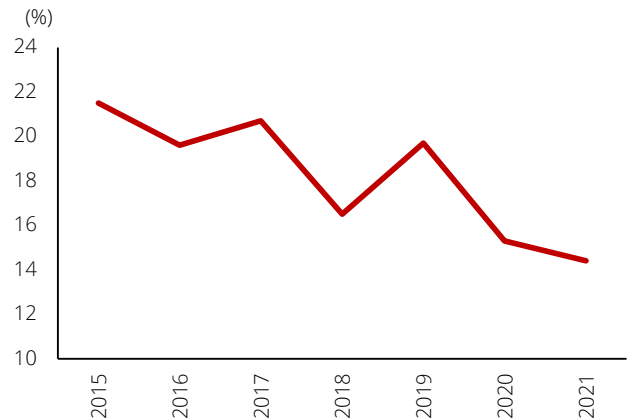
China sources raw materials and metals from various countries, and hence, that reduces its reliance on Russia. However, we believe the sanctions could lead to some short-term supply disruptions of these metals until other countries increase production to fill the gap.

Global nickel producing countries (2020)



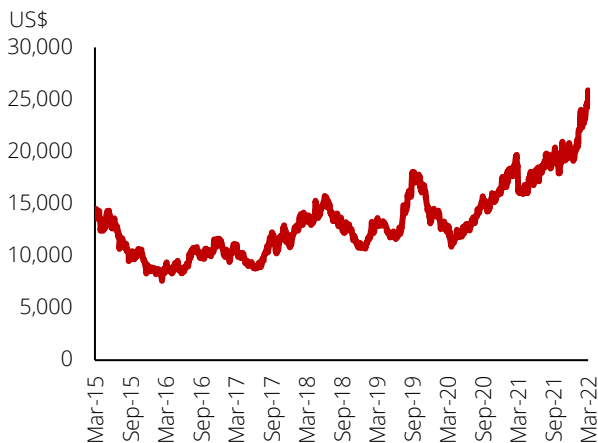
Source: Natural Resources of Canada

China auto industry GP margin trends



Source: CEIC

Nickel price trends



Source: Bloomberg Finance L.P.

How about supply chain disruptions? The current semiconductor industry recovery may potentially take a second hit on supply shortage of key materials for making the chips. This could disrupt production schedules of auto OEMs, leading to further tightness in vehicle supply in the coming few months.

Russia and Ukraine are also key suppliers of neon and palladium that are used in semiconductor chip production. Based on our house view, while the conflict could affect supply of these materials in the short term, it is not expected to cause disruption to semiconductor production, thanks to the c.6-month material stockpiling. Though chip prices could climb given the tighter material supply and higher material cost from alternative source. For instance, neon gas can be obtained from steel mills as bi-product of steelmaking. A diversified procurement source could also help to reduce the impact.

The crisis could also lead to further inflation woes, resulting in margin compression on input cost hikes. The auto sector's GPM declined 1ppt last year to about 15% due to the sharp rise in raw material costs. Any delay in resolving the current crisis could drag its gross margins down by 1-2ppts this year, as automakers are unlikely to raise vehicle prices too much in fear of an impact on their market share. Some Chinese auto OEMs have raised vehicle prices early this year to factor in the sharp increase in raw materials prices last year.

Near-term fluctuation expected; advise to focus on domestic NEV theme

In summary, we expect the current geopolitical uncertainty to have a limited impact on the Chinese auto export sales. The auto sector recent share price performance has been affected by the equity market sell down and investors' defensive sentiments.

However, we remain positive on the NEV sector and recommend companies that have good sourcing ability of key raw materials to support their NEV business. Our top pick is BYD. Its advanced vehicle technology (both pure electric and hybrid) should help the company to navigate through this commodity inflation environment. For 2M22, BYD has chalked up an impressive of c.500% y-o-y increase in NEV sales, as the company ramps up its new models and

production capacity. Despite the strong NEV sales performance, BYD share price has been under pressure recently, because of (1) a volatile stock market environment; and (2) its high valuation multiples relative to peers. We believe it is a good opportunity to accumulate on dips. The stock is trading at FY22F PE of 64.5x.

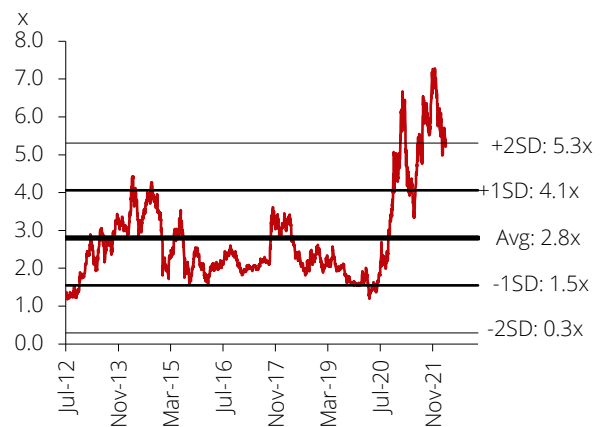
We expect GWM's share price to underperform in the near-term compared to peers. Although its operation in Russia is small and revenue contribution is insignificant, the poor sentiment could potentially weigh on its share price performance. The worst-case scenario is impairment on its entire investment in Russia, which accounts for approximately 5% of total net assets as of Dec-21. However, its medium-term business fundamentals remain healthy and is trading at undemanding FY22F 8.7x PE.

BYD - PE band chart



Source: Thomson Reuters, DBS HK

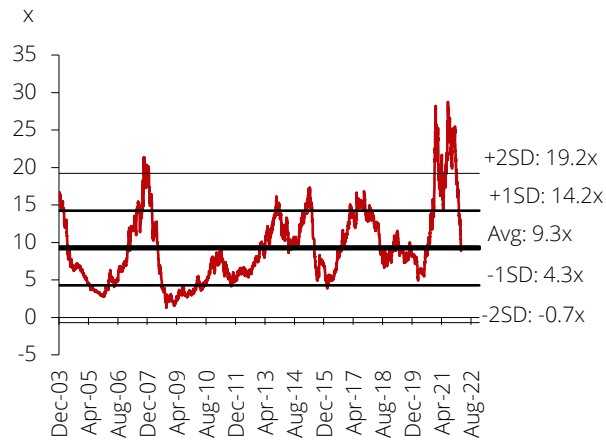
BYD - PB band chart



Source: Thomson Reuters, DBS HK

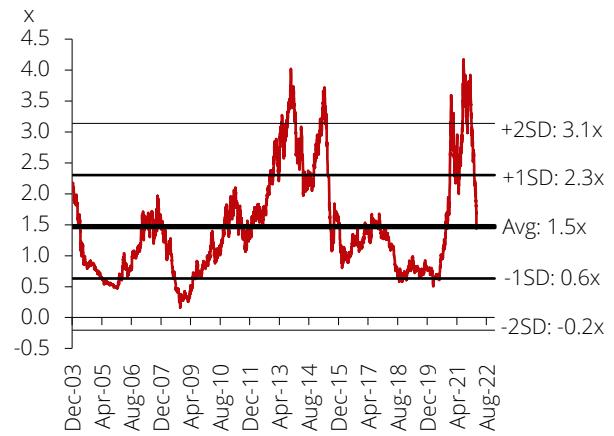
China Auto Sector

GWM - PE band chart



Source: Thomson Reuters, DBS HK

GWM - PB band chart



Source: Thomson Reuters, DBS HK

Share price performance

Share Price Performance (%)						
Company	Code	1-month	3-month	6-month	1-year	YTD
Grand Baoxin Auto	HK1293	(15.6)	(28.0)	(48.1)	(35.7)	(20.6)
China Harmony	HK3836	(17.9)	(17.7)	(23.3)	(0.9)	(29.4)
China Meidong	HK1268	(9.5)	(5.0)	(18.5)	11.3	(16.7)
China Yongda	HK3669	(16.5)	(25.7)	(32.7)	(26.8)	(19.8)
China ZhengTong	HK1728	(18.8)	(43.5)	(51.4)	(38.1)	(40.2)
Zhongsheng	HK881	(15.2)	(18.7)	(23.4)	10.0	(16.2)
Fuyao Glass	HK3606	(25.8)	(24.3)	(33.9)	(34.1)	(21.5)
Minth	HK425	(34.6)	(32.7)	(22.5)	(31.1)	(30.1)
Nexteer	HK1316	(31.2)	(39.3)	(33.0)	(45.2)	(38.5)
Weichai Power	HK2338	(19.0)	(27.2)	(41.9)	(47.3)	(23.9)
Xinchen China	HK1148	(17.8)	(33.3)	(28.6)	39.5	(17.8)
Xingda	HK1899	(19.8)	(16.9)	(26.2)	(35.5)	(19.3)
Xinyi Glass	HK868	(11.7)	(7.6)	(39.9)	(16.6)	(4.0)
BAIC Motor	HK1958	(14.0)	(19.3)	(18.0)	(8.4)	(25.1)
Brilliance China	HK1114	0.0	0.0	0.0	4.3	0.0
BYD	HK1211	(15.8)	(30.5)	(25.0)	4.2	(23.8)
Chongqing Changan	CH200625	(6.3)	(26.0)	(33.0)	(16.7)	(18.6)
Dongfeng Motor	HK489	(11.8)	(15.6)	(29.6)	(15.1)	(5.1)
Geely Auto	HK175	(29.8)	(48.0)	(57.8)	(50.3)	(43.2)
Great Wall Motor	HK2333	(39.0)	(58.5)	(62.3)	(41.5)	(51.9)
Guangzhou Auto	HK2238	(16.0)	(16.4)	(27.9)	(7.9)	(13.9)
Li Auto	HK2015	(3.7)	(14.9)	(13.8)	n.a.	(15.0)
Qingling	HK1122	(8.9)	(11.1)	(20.4)	(11.7)	(8.9)
SAIC Motor	CH600104	(3.2)	(12.2)	(12.5)	(12.1)	(11.2)
Sinotruk	HK3808	(2.1)	(3.1)	(26.6)	(53.2)	(4.7)
XPENG	HK9868	(20.8)	(39.0)	(27.8)	n.a.	(39.2)
HSI	HSI	(14.3)	(12.2)	(20.1)	(27.6)	(10.0)

Source: Thomson Reuters

Peers' comparison table (Auto Parts)

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE	PE	Yield	Yield	P/Bk	P/Bk	EV/EBITDA	ROE	ROE	
						22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
Hong Kong						x	x	%	%	x	x	x	x	%	%
Fuyao Glass Industry Gp. Co.'H'	3606 HK	HKD	31.65	14,714	Dec	13.9	11.7	4.0	5.0	2.4	2.1	13.3	11.7	18.2	19.5
Minth Group*	425 HK	HKD	24.00	3,542	Dec	9.9	7.9	4.1	5.0	1.3	1.1	8.0	6.6	13.2	15.0
Nexteer*	1316 HK	HKD	5.95	1,911	Dec	6.8	5.7	3.0	3.6	0.8	0.7	2.9	1.9	12.9	13.9
Weichai Power 'H'	2338 HK	HKD	11.62	18,497	Dec	7.4	6.6	4.1	4.6	1.1	1.0	4.1	3.7	14.8	14.9
Xinyi Glass Holdings	868 HK	HKD	18.72	9,629	Dec	7.3	6.8	6.1	7.4	1.8	1.6	6.2	5.8	27.7	25.0
Average						9.1	7.7	3.5	4.3	1.5	1.3	5.8	4.9	14.5	14.7
China															
Fangda Special Stl.Tech. 'A'	600507 CH	CNY	8.64	2,948	Dec	6.5	6.4	6.1	6.3	1.6	1.4	n.a.	n.a.	25.1	22.1
Fuyao Glss.Ind.Group 'A'	600660 CH	CNY	38.67	14,714	Dec	20.7	17.4	2.9	3.6	3.6	3.3	16.9	15.0	18.3	19.6
Huayu Automotive Sys.'A'	600741 CH	CNY	22.80	11,375	Dec	9.5	8.5	4.8	5.4	1.2	1.1	4.1	3.7	12.5	12.5
Jiangsu Pac.Precn.Frgg. 'A'	300258 CH	CNY	11.89	906	Dec	19.7	15.4	1.8	1.3	1.7	1.5	12.2	10.8	8.5	9.8
Lingyun Industrial 'A'	600480 CH	CNY	9.73	1,175	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ningbo Huaxiang Elt.'A'	002048 CH	CNY	16.65	2,145	Dec	7.7	6.7	4.7	5.1	1.1	1.0	5.4	4.8	11.9	11.9
Weifu High Tech.Gp.'B'	200581 CH	HKD	15.28	1,972	Dec	4.6	3.9	10.9	n.a.	0.6	0.5	6.6	5.2	13.6	13.8
Zhejiang Wanliyang Tnsm. 'A'	002434 CH	CNY	8.08	1,713	Dec	11.5	9.2	7.9	n.a.	1.5	1.4	10.9	9.5	12.6	13.6
Weifu High Tech.Gp.'A'	000581 CH	CNY	20.36	3,250	Dec	7.6	7.2	6.3	5.8	1.0	0.9	5.8	5.5	13.1	12.8
Zhejiang Yinlun Mch.'A'	002126 CH	CNY	9.69	1,215	Dec	15.7	12.9	0.7	1.7	1.6	1.5	10.7	9.2	10.5	11.3
Changzhou Xingyu Autv. Ltg.'A'	601799 CH	CNY	137.66	6,223	Dec	23.8	19.4	1.2	1.5	4.7	3.9	22.7	18.3	21.4	22.3
Average						15.8	13.0	4.3	3.5	2.0	1.8	10.6	9.1	14.1	14.5

Source: Thomson Reuters, *DBS HK

Peers' comparison table (Automakers)

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE	PE	Yield	Yield	P/Bk	P/Bk	EV/EBITDA	ROE	ROE	
						22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
Hong Kong						x	x	%	%	x	x	x	x	%	%
Guangzhou Automobile 'H'*	2238 HK	HKD	6.62	16,517	Dec	5.7	4.7	5.3	6.4	0.6	0.5	3.6	3.2	10.5	11.7
Sinotruk (Hong Kong)	3808 HK	HKD	11.44	4,042	Dec	4.5	4.4	7.3	7.4	0.7	0.6	0.7	0.7	13.7	13.1
Dongfeng Motor Gp.'H'*	489 HK	HKD	6.15	6,782	Dec	3.2	n.a.	7.0	0.0	0.3	n.a.	1.6	0.0	8.7	0.0
Brilliance China*	1114 HK	HKD	7.30	4,714	Dec	4.4	n.a.	2.1	0.0	0.6	n.a.	4.5	0.0	13.5	0.0
Great Wall Motor 'H'*	2333 HK	HKD	12.88	35,916	Dec	8.7	6.5	5.7	7.7	1.4	1.2	5.6	4.5	16.6	19.6
BYD 'H'*	1211 HK	HKD	203.2	92,711	Dec	64.5	43.9	0.2	0.2	4.6	4.2	18.2	14.6	7.4	10.1
Geely Automobile Hdg.*	175 HK	HKD	12.10	15,518	Dec	9.3	7.5	2.2	2.7	1.3	1.1	5.4	4.5	14.6	15.9
BAIC Motor 'H'*	1958 HK	HKD	2.51	2,575	Dec	4.0	n.a.	7.4	0.0	0.2	n.a.	0.0	0.0	7.3	0.0
Average^						5.7	5.8	5.3	3.5	0.7	0.9	3.1	1.8	12.1	8.6
China															
Saic Motor 'A'	600104 CH	CNY	18.32	33,870	Dec	7.2	6.5	5.1	6.6	0.7	0.7	4.8	4.2	10.2	10.5
Faw Jiefang Group 'A'	000800 CH	CNY	9.00	6,628	Dec	14.0	10.7	3.3	3.5	1.6	1.3	6.2	5.6	10.5	12.8
CQ Changan Auto 'A'*	000625 CH	CNY	12.19	14,722	Dec	n.a.	n.a.	0.0	0.0	n.a.	n.a.	0.0	0.0	0.0	0.0
CQ Changan Auto 'B'	200625 CH	HKD	3.55	3,468	Dec	3.7	3.1	8.9	10.8	0.4	0.3	8.1	6.8	9.9	11.1
Anhui Jianghuai Auto 'A'	600418 CH	CNY	12.57	4,344	Dec	46.7	42.9	0.9	0.6	1.7	1.7	14.9	14.7	3.8	4.0
Yutong Bus 'A'	600066 CH	CNY	9.10	3,259	Dec	11.7	9.3	5.0	6.3	1.3	1.2	6.8	5.7	10.9	13.3
Great Wall Motor 'A'	601633 CH	CNY	31.92	35,916	Dec	26.5	20.0	1.8	2.5	4.2	3.7	17.2	13.6	16.6	19.6
Guangzhou Auto 'A'*	601238 CH	CNY	11.94	16,517	Dec	12.6	10.4	2.4	2.9	1.3	1.2	7.8	6.8	10.5	11.7
BYD 'A'*	002594 CH	CNY	223.61	92,711	Dec	87.8	59.8	0.1	0.2	6.3	5.7	24.3	19.4	7.4	10.1
Average						26.3	20.3	3.1	3.7	2.2	2.0	10.0	8.5	8.9	10.4

Source: Thomson Reuters, *DBS HK

China Auto Sector

Peers' comparison table (Auto Dealers)

Company Name	Code	Currency	Price		Mkt Cap	Fiscal Yr	PE	PE	Yield	Yield	P/Bk	P/Bk	EV/EBITDA		ROE	ROE
			Local\$	US\$m			22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
Zhongsheng*	881	HK	HKD	50.95	15,748	Dec	10.0	8.0	2.0	2.5	2.4	1.9	6.4	4.9	26.6	26.6
China Zhengtong*	1728	HK	HKD	0.52	183	Dec	4.3	n.a.	0.0	0.0	0.3	n.a.	3.4	0.0	7.5	0.0
Grand Baoxin Auto	1293	HK	HKD	0.54	196	Dec	1.7	1.7	0.0	0.0	0.1	0.1	2.5	2.4	7.6	7.4
China Yongda Auto*	3669	HK	HKD	8.37	2,107	Dec	4.7	4.0	6.4	7.4	0.9	0.7	4.3	3.8	19.7	19.9
China Meidong Auto	1268	HK	HKD	33.50	5,447	Dec	19.3	14.8	3.1	4.2	6.8	5.4	13.9	10.4	39.4	39.8
China Harmony	3836	HK	HKD	3.48	696	Dec	5.2	4.6	5.2	5.9	0.5	0.5	4.9	4.5	9.8	10.6
Average							7.5	6.6	2.8	3.3	1.8	1.7	5.9	4.3	18.4	17.4
Tan Chong Motor Holdings	TCM	MK	MYR	1.11	179	Dec	30.0	16.6	1.9	2.1	0.3	0.3	n.a.	n.a.	1.2	1.8
Wuchan Zhongda 'A'	600704	CH	CNY	5.61	4,613	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Offcn Education Tech 'A'	002607	CH	CNY	6.99	6,822	Dec	31.6	19.6	2.6	3.2	9.8	6.6	24.6	16.9	35.2	37.5
Chd.Autv.Ssgp.'A'	600297	CH	CNY	2.52	3,234	Dec	7.4	6.4	2.3	2.2	0.4	0.4	6.4	5.7	6.5	7.0
Wuxi Coml.Mansion 'A'	600327	CH	CNY	6.29	881	Dec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average							23.0	14.2	2.3	2.5	3.5	2.4	15.5	11.3	14.3	15.4

Source: Thomson Reuters, *DBS HK

Peers' comparison table (NEV)

Company Name	Code	Price		Mkt Cap	PE	PE	P/S	P/S	P/Bk	P/Bk	EV/EBITDA		ROE	ROE
		Local\$	US\$m		22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
BYD 'H'*	1211	HK	203.2	92,711	64.5	43.9	2.0	1.6	4.6	4.2	18.2	14.6	7.4	10.1
Nio Adr 1:1	NIO	US	18.63	29,632	n.a.	116.7	3.0	1.9	7.9	7.3	526.3	30.0	(9.4)	5.4
Tesla	TSLA	US	838.29	866,379	80.0	65.9	10.5	8.3	21.4	16.6	34.3	26.5	26.7	28.6
Xpeng Adr 1:2	XPEV	US	29.53	28,223	n.a.	n.a.	4.3	2.8	4.7	4.9	(29.9)	(63.8)	(13.9)	(10.8)
Li Auto Adr 2 1:2	LI	US	27.23	28,125	n.a.	70.4	3.4	2.2	5.2	4.8	544.3	39.4	1.4	6.1
Average					72.2	54.9	4.6	3.4	8.8	7.6	218.6	9.3	2.5	7.9

Source: Thomson Reuters, *DBS HK

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 7 Mar 2022 16:29:38 (HKT)

Dissemination Date: 7 Mar 2022 17:22:31 (HKT)

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