

SECTOR UPDATE

Automobile – China

Weekly: 1Q22 Results Review And 2Q22 Outlook; Evaluation Of Rmb Depreciation

Lithium price spikes elevated upstream players' 1Q22 profits at the expense of battery makers. We expect battery makers to stage a margin recovery from 2Q22 with high-price supply contracts kicking in. OEMs in Shanghai have resumed production since 19 Apr 22 with capacity utilisation rising to 30-50%. A new round of stimulus is coming through. We also evaluate how renminbi depreciation impacts profits. Maintain OVERWEIGHT. Top picks: BYD, CATL and Ganfeng.

WHAT'S NEW

- 1Q22 results review: Battery material producers and OEMs beat estimates while most others missed.** As expected, Ganfeng Lithium (Ganfeng), Guangzhou Tinci (Tinci) and GEM Co (GEM) all posted upbeat 1Q22 earnings with margins elevated by rallies of product prices (lithium compounds, electrolyte and cathode precursors). Some OEMs, eg BYD, GAC, SAIC, Chang'an and Tesla, and auto parts manufacturers, Ningbo Xusheng (NXS), also saw upbeat or in-line 1Q22 results with margins underpinned by hikes in product prices, better than we expected. Stripping out foreign exchange (forex) losses, Fuyao Glass' (FYG) 1Q22 earnings also met expectations. On the other hand, battery manufacturers such as CATL and EVE Energy (EVE) recorded disappointing 1Q22 earnings with margins severely squeezed by spikes in raw material costs (especially lithium compounds), as hikes in battery prices lagged behind rallies of lithium compound prices, and the street grossly overestimated 1Q22 profit. Before the release of 1Q22 results, our 2022 earnings estimate for CATL was 19% below consensus', which had risen by over 20% from end-21 till then.
- 2Q22/1H22 outlook: Battery manufacturers and parts makers will likely see margin recovery in 2Q22; upstream players' margins will pull back.** We expect the gross margin of battery manufacturers to recover from 13-15% in 1Q22 to over 20%, due to the rallies of battery prices and the stabilisation of lithium compound prices. Many battery manufacturers signed a large chunk of supply contracts with OEMs before Lunar New Year when lithium compound prices were around Rmb300,000/tonne, and then lithium compound prices spiked to Rmb500,000/tonne in a month. As such, the realised battery prices in 1Q22 only reflected a lithium compound price of Rmb300,000/tonne. Battery prices increased by 29-30% in late-March, and from then till now lithium compound prices have dipped by 5-8%. That will boost margins of battery manufacturers in 2Q22, just like the cases for aluminium parts manufacturers NXS and Minth in 1Q22. These companies saw ~20% increase in aluminium cost in 2H21, but only raised product prices in Nov-Dec 21. As such, their gross margin declined in 2H21 and rebounded in 1Q22. NXS' gross margin increased by 2ppt qoq in 1Q22, and we expect Minth's gross margin to rebound in 1H22 as well.
- The pace of production resumption remains the biggest uncertainty of 2Q22 earnings.** Most auto companies have seen production partially paralysed by the lockdowns amid the resurgence of COVID-19 infections since late-March, due to the supply chain disruption. Since mid-April, the state has allowed some auto companies to resume production under a closed loop system with the white-list policy. To factor in the impact of the lockdowns and the 1Q22 results, we have cut the 2022 earnings estimates for battery manufacturers, auto parts manufacturers and OEMs by 20%/3%/7% respectively.

PEER COMPARISON

Company	Ticker	Rec	Price @ 5 May 22 (lcy)	Target Price (lcy)	Upside/(Downside) to TP (%)	Market Cap (US\$m)	PE 2022F (x)	PE 2023F (x)	P/B 2022F (x)	P/B 2023F (x)	ROE (%)	Net Gearing (Cash) (%)
BYD	1211 HK	BUY	238.40	325.00	36.3	27,792	103.9	62.0	5.8	5.3	5.7	(16.9)
Geely Automobile	175 HK	BUY	12.42	18.00	44.9	15,853	17.6	11.5	1.4	1.3	8.2	(38.1)
Great Wall Motors	2333 HK	BUY	10.38	20.00	92.7	4,099	11.9	7.3	1.2	1.0	10.3	(25.0)
Guangzhou Auto	2238 HK	BUY	6.60	10.00	51.5	8,634	6.5	4.7	0.6	0.5	9.5	(7.3)
Weichai Power	2338 HK	BUY	10.74	13.00	21.0	11,941	7.8	6.4	1.1	0.9	15.7	(69.8)
Fuyao Glass	3606 HK	BUY	32.65	44.00	34.8	10,856	17.0	15.0	2.5	2.3	15.2	(14.2)
Nexteer	1316 HK	BUY	4.30	10.50	144.2	1,375	8.3	4.9	0.7	0.6	8.2	(12.4)
Minth Group	425 HK	BUY	18.82	30.00	59.4	2,785	11.0	9.1	1.1	1.0	9.9	10.3
Ningbo Xusheng Auto	603305 CH	BUY	20.70	32.00	54.6	1,957	29.9	19.5	3.2	2.8	11.3	8.9
CATL	300750 CH	BUY	376.00	670.00	78.2	131,646	53.0	29.9	9.1	7.1	15.6	(41.9)
EVE Energy	300014 CH	BUY	65.88	165.00	150.5	18,888	41.0	22.8	6.0	4.8	13.8	15.5
China Meidong Auto	1268 HK	BUY	24.55	42.00	71.1	3,903	16.2	11.8	5.5	4.1	36.7	(53.3)
Zhongsheng Group	881 HK	BUY	51.30	98.00	91.0	15,300	10.3	8.3	2.1	1.8	22.9	30.1
Ganfeng Lithium	1772 HK	BUY	89.90	180.00	100.2	16,464	12.4	8.3	3.6	2.6	33.4	0.2
GEM Co., Ltd.	002340 CH	BUY	6.81	10.50	54.2	4,150	23.6	15.2	2.1	1.9	13.1	67.0
Guangzhou Tinci	002709 CH	BUY	75.03	200.00	166.6	9,125	18.7	14.1	6.8	4.8	43.6	17.8

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

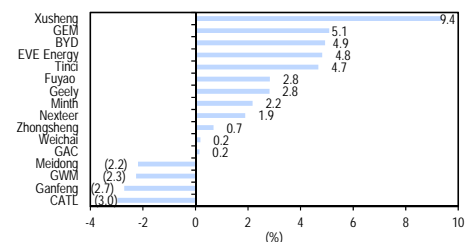
(Maintained)

TOP PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
BYD	1211 HK	BUY	238.40	335.00
CATL	300750 CH	BUY	376.00	740.00
Ganfeng	1772 HK	BUY	89.90	255.00

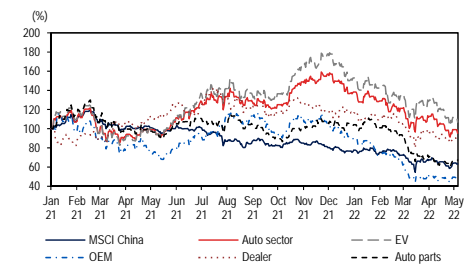
Source: UOB Kay Hian

WEEKLY STOCK PERFORMANCE



Source: Bloomberg

RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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- **CPCA expects April PV sales to drop 30%.** According to the weekly data of China Passenger Car Association (CPCA), daily average retail sales volume and wholesale volume respectively plummeted by 39%/50% yoy and 33%/50% mom in 1-23 Apr 22. Based on a survey on OEMs, CPCA estimates PV sales (excluding minivans) at 1.1m units (-32% yoy/-30% mom).

- **Except BYD and Zeekr, Chinese EV companies saw an average of 40% sales decline in April, with the lockdown disrupting supply chains.** Eight EV companies have posted April sales, and these eight names jointly made up half of market share in China's passenger electric vehicle (EV) market in 1Q22. Among them, BYD remained the largest player and best performer with wholesale shipment growing 313% yoy and 1% mom to a record high of 106,042 units in April, by virtue of its higher level of vertical integration and better supply-chain management. Geely's Zeekr also registered 19% mom growth in deliveries to 2,137 units in April on a low base. The remaining six EV companies saw an average 40% mom sales decline (10% to over 60%) in April. All-in, these eight companies jointly registered 164% yoy growth and 17% mom drop in sales volume in April and 211% yoy growth in sales volume in 4M22.

- **Production resumptions on the way.** Shanghai issued the first and second white lists for production resumption on 16 Apr 22 and 28 Apr 22 respectively. Since then, at least 249 OEMs (eg Tesla, SAIC) and auto parts makers and 81 integrated circuit (IC) and semiconductor chip makers have resumed production with capacity utilisation ramping up.

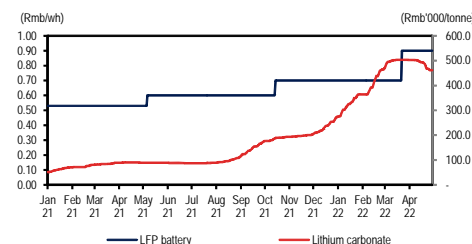
Tesla's and SAIC's plants in Shanghai have resumed production since 19 Apr 22, and their capacity utilisation rates have risen from <30% and <20% (vs 0-10% for other OEMs in Shanghai) in the first week after production resumption to nearly 50% and 40% currently (vs over 30% for other OEMs in Shanghai). The auto parts makers in Shanghai and the Yangtze River Delta have also been increasing production volume to fulfil the growing demand from OEMs. In Changchun, the plants of FAW and Toyota have also resumed production. However, there remain shortages in chips like electronic stability control (ESC), domain control unit (DCU) and body control module (BCM) as well as auto parts like chassis components, suspension systems, auxiliary frames, trims and cooling systems. We maintain our 2022 forecasts of China's PV sales and EV sales at 21.35m units (flat yoy) and 5m units (+42% yoy) respectively based on the assumption of a full recovery from July.

- **New round of stimulus coming through.** The State Council has recently reiterated to stimulate auto consumption by increasing the quota of new car licences in the seven cities (Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Tianjin and Guiyang) and prohibiting other cities from imposing such quotas. The Guangdong provincial government on 28 Apr 22 announced to renew the Rmb5,000-10,000/vehicle cash-for-clunker policy and the Rmb3,000-8,000/vehicle trade-in subsidy policy it implemented last year and introduce a new Rmb8,000/vehicle purchase subsidy scheme effective from 1 May 22 to 30 Jun 22, pursuant to which those who buy the vehicle models on the list for the "trade-in subsidy scheme" would be granted Rmb8,000 in cash subsidy. We believe these policies, coupled with the unlocking, will trigger a recovery of auto sales from May, especially EVs. Note that the cities with car licence quota (excluding Guiyang) and Guangdong province respectively contributed 29% and 12% of China's passenger EV sales volume in 2021.

- **The impacts of Rmb depreciation against US\$ on Chinese auto companies.** The renminbi has weakened by 4% since 18 Apr 22. We believe the depreciation of the renminbi against the US dollar would mainly benefit those auto parts manufacturers with high exposure to overseas markets such as FYG (>50% of revenue), Minth and NXS (40-45% of revenue), and hurt those battery material producers that import 25-90% of raw materials (eg spodumene, lithium carbonate, nickel and cobalt, etc.) from overseas and sell the products to the China market (75-95% of revenue) such as Ganfeng, Tinci and GEM. We estimate that all else being equal a 10% depreciation of the renminbi against US dollar would boost the 2022F net profit of FYG, Minth and NXS by 7-8% and drag those for Ganfeng, Tinci and GEM by 1-3%. Additionally, Nexteer would see translation losses if the renminbi weakens against the US dollar, as the company's reporting currency is the US dollar and it derives around 20% of revenue from the China market. Based on our estimate, all else being equal, a 10% depreciation of the renminbi against the US dollar would hit Nexteer's 2022 net profit by 2% (see RHS chart).

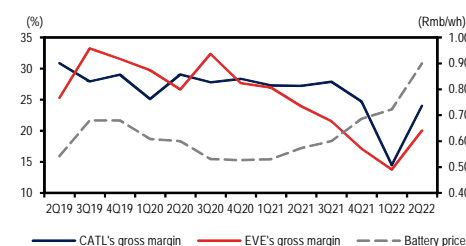
- **At least six OEMs raised EV prices starting from May 22.** These six OEMs include JAC, Lynk & Co, SAIC, Ford, Nio and Tianji, and the details of price hikes are summarised in the

BATTERY AND LITHIUM CARBONATE PRICES



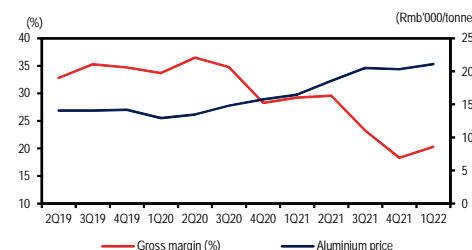
Source: WIND

BATTERY MAKERS' GROSS MARGINS VS BATTERY PRICES



Source: Respective companies, WIND, UOB Kay Hian

NXS' GROSS MARGINS VS ALUMINIUM PRICES



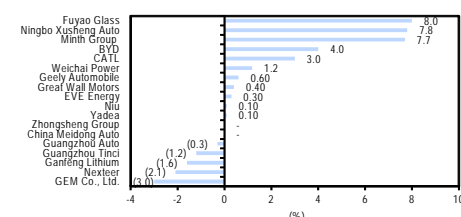
Source: NXS, Bloomberg, UOB Kay Hian

APRIL EV SALES VOLUME BY OEM

	yoy chg		qoq chg		yoy chg	
(units)	Apr 22	(%)	(%)	4M22	(%)	(%)
BYD	106,042	333.1	18.8	286,329	423.0	
Aion	10,212	23.0	(49.7)	45,994	77.2	
Leap	9,087	228.1	(9.7)	21,579	180.5	
Xpeng	9,002	74.9	(41.6)	34,561	86.9	
Hozon	8,813	119.5	(26.7)	30,152	163.2	
Nio	5,074	(28.6)	(49.2)	25,768	(5.1)	
Li Auto	4,167	(24.8)	(62.2)	31,716	69.1	
Zeekr	2,137	n.a.	19.1	8,241	n.a.	

Source: Respective companies

IMPACT OF A 10% DEPRECIATION OF RMB VS US\$ ON 2022F NET PROFIT



Source: UOB Kay Hian

table on the right. The EV price hikes are aimed at offsetting the cost hikes ytd, eg battery prices have rallied 30% ytd. That helps to ease the margin pressure of the companies along the EV supply chain. According to our channel check, EV demand is not being impacted by the 3-10% (5% on average) hikes in EV prices due to the escalation of oil prices ytd.

- Tesla is planning to build the second plant in Shanghai.** Tesla (TSLA US) will build a 450,000 units p.a. new factory near its existing Shanghai plant with 800,000 units in annual capacity, Reuters reported on 3 May 22. As such, the addition of the new plant will boost Tesla China's total capacity by over half to 1.25m units. Once the new factory is fully operational, Tesla will have the capacity to build 2m vehicles a year at its expanded Shanghai plant. It was reported that Tesla planned to start construction of a new plant in Shanghai as soon as March. The lockdown since late-March should have delayed the construction of the new plant. If the construction starts in May, it will probably be up and running by 2023. The expansion plan of Giga Shanghai after the lockdowns of the city points to Tesla's confidence in China as a key market and production hub for EVs, boding well for the local suppliers like CATL and NXS.

- HDT sales in China plummeted by 77% yoy and 41% mom to 45,000 units in April and by 62% yoy to 277,000 units in 4M22; but it is set to recover from June.** The drop in heavy-duty truck (HDT) sales in Apr 22 was due to the lockdowns, which disrupted the supply chain and dampened demand. Industry experts expect HDT sales in China to stage a recovery by Jun 22 along with the unlocking and resumption of production and construction activities. We maintain our view that Weichai will see earnings recovery from 2H22 in tandem with recovery of HDT sales.

ACTION

- Maintain OVERWEIGHT** based on the burgeoning demand for EVs and appealing valuation (PE at nearly 1SD below historical mean one-year forward PE). We prefer EV companies for their stronger earnings momentum. Our following BUY calls are in order of preference: BYD, CATL, Ganfeng, Tinci, Ningbo Xusheng, Nexteer, EVE Energy, GEM, Minth, Fuyao Glass, Geely, GWM, GAC, Weichai, Zhongsheng and Meidong.

RISKS

- China's COVID-19-containment measures** could remain in place for longer than expected, and cause on-and-off disruptions to the supply chain, if the pandemic of the highly transmissible Omicron variant lasts for a long period.

1Q22 RESULTS AND 2022 EARNINGS REVISIONS

Segment	Company	1Q22 Net profit				1Q22 Gross margin			2022 Net profit (Rmbm)					
		Actual (Rmbm)	yoy chg (%)	qoq chg (%)	Beat/ Miss/ In line	Actual (%)	yoy chg (ppt)	qoq chg (ppt)	UOBKH (Rmbm)	yoy chg (%)	chg vs prev est (%)	Consensus (Rmbm)	yoy chg (%)	chg vs prev est (%)
Battery material producers	Ganfeng Lithium (1772 HK / 002460 CH)	3,525	640.4	27.9	Beat	66.7	35.5	19.5	8,698	66.4	-	13,908	166.0	27.2
	Tinci (002709 CH)	1,498	422.2	128.8	Beat	44.0	9.7	15.0	3,858	74.7	-	5,102	131.0	6.0
	GEM (002340 CH)	332	20.2	60.4	In line	16.4	(4.7)	2.8	1,381	49.6	-	1,568	69.8	(2.8)
	Easpring (300073 CH)	387	159.4	6.5	Beat	17.4	(1.8)	1.1	n.a.	n.a.	n.a.	1,445	32.4	1.3
	Enjie (002812 CH)	916	111.9	(5.3)	In line	48.5	0.0	(4.0)	n.a.	n.a.	n.a.	4,794	76.4	-
	Average	n.a.	270.8	43.7	Beat	38.6	7.8	6.9	n.a.	63.6	n.a.	n.a.	95.1	6.3
Battery manufacturers	CATL (300750 CH)	1,493	(23.6)	(81.8)	Miss	14.5	(12.8)	(10.2)	17,544	10.1	(11.7)	27,245	71.0	(8.5)
	EVE Energy (300014 CH)	521	(19.4)	(24.5)	Miss	13.8	(13.2)	(3.4)	3,049	4.9	(28.6)	4,417	52.0	(2.3)
	Gotion (002074 CH)	32	(32.8)	(5.6)	Miss	14.5	(10.5)	(4.5)	n.a.	n.a.	n.a.	706	592.8	(6.0)
	Farasis Energy (688567 CH)	95	(26.1)	(61.5)	Miss	13.5	(2.4)	2.1	n.a.	n.a.	n.a.	1,686	84.1	(8.7)
	Sunwoda (300207 CH)	(244)	38.5	(54.2)	Miss	6.8	2.9	15.1	n.a.	n.a.	n.a.	(211)	(77.9)	1,461.0
	Average	n.a.	(25.5)	(43.3)	Miss	14.0	(9.7)	(4.0)	n.a.	7.5	(20.1)	n.a.	200.0	(6.4)
Auto parts manufacturers	Weichai Power (2338 HK / 000338 CH)	1,051	(68.6)	(22.0)	Miss	18.6	(0.6)	(2.0)	8,586	(7.2)	(9.1)	9,548	3.2	(1.9)
	Fuyao Glass (3606 HK)	871	1.9	58.3	Miss	35.8	(1.5)	12.2	4,177	32.8	-	4,227	34.4	(11.0)
	Ningbo Xusheng (603305 CH)	120	33.8	47.3	Beat	20.3	(8.9)	2.0	434	5.0	-	595	44.0	(1.5)
	Average	n.a.	(11.0)	27.8	Miss	24.9	(3.7)	4.1	n.a.	10.2	(3.0)	n.a.	27.2	(4.8)
OEMs / Automakers	BYD (1211 HK/002594 CH)	808	240.6	34.3	In line	12.4	(0.2)	(0.7)	5,566	82.8	(11.3)	6,219	104.2	(5.5)
	GWM (2333 HK / 601633 CH)	1,634	(0.3)	(8.3)	Miss	17.2	2.1	1.9	6,720	(0.1)	(10.0)	8,657	28.7	(6.9)
	GAC (2238 HK / 601238 CH)	3,009	27.2	46.7	Beat	6.5	0.3	(4.4)	8,866	18.0	-	9,270	23.4	2.4
	SAIC (600104 CH)	5,516	(19.4)	31.8	In line	11.5	(1.1)	4.5	n.a.	n.a.	n.a.	27,672	12.8	(2.2)
	Chang'an (000625 CH)	4,536	431.5	709.7	Beat	18.2	4.1	(0.7)	n.a.	n.a.	n.a.	6,155	73.3	8.6
	Tesla (TSLA US)	3,318	826.3	43.0	Beat	29.1	7.8	1.8	n.a.	n.a.	n.a.	12,830	132.7	22.6
	Average	n.a.	251.0	142.9	Beat	15.8	2.2	0.4	n.a.	33.6	(7.1)	n.a.	62.5	3.2
Auto dealers	Pang Da Auto (601258 CH)	(91)	92.0	n.a.	n.a.	7.7	1.1	(1.0)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CGA (600297 CH)	667	2.4	n.a.	Miss	10.7	2.0	n.a.	n.a.	n.a.	n.a.	2,560	59.2	(7.7)
	Yongda Auto (3669 HK)	459	(12.7)	(27.4)	Miss	11.9	1.5	1.1	n.a.	n.a.	n.a.	2,683	8.2	(7.0)
	Average	n.a.	27.2	(27.4)	Miss	10.1	1.5	0.1	n.a.	n.a.	n.a.	n.a.	33.7	(7.3)

Source: Respective companies, UOB Kay Hian, Bloomberg

EV PRICE INCREASES (MAY 22)

Brand	Model	--- Price increase ---		MSRP after price increase	Effective date
		(Rmb'000)	(%)	(Rmb'000)	
JAC	Siku E10X	1.0	1.3-1.4	73.9-76.9	1 May 22
Lynk & Co	01/05/06/09 PHEV	2.0-4.0	1.0-2.6	199.7-374.9	1 May 22
SAIC	Roewe i6 Max EV / Ei5	3.0-5.0	2.0-3.0	144.8-158.8	1 May 22
Ford	Mustang Mach-E	7.0-22.5	2.3-6.5	275.9-389.9	5 May 22
Nio	ES8 / ES6 / EC6	10.0	1.6-2.8	368.0-634.0	10 May 22
Tianji	ME5	10.0	6.3-6.7	159.9-169.9	16 May 22

Source: Respective companies

PE BAND - AUTO SECTOR



Source: Bloomberg, UOB Kay Hian

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