

## SECTOR UPDATE

### Automobile – China

Weekly: PV Sales Up 26% mom In 9-15 May 22; Shanghai To Reopen In June

China's daily average PV retail sales volume grew 26% mom in 9-15 May 22, with auto companies resuming production since late-April. Tesla aims to restore production volume back to pre-lockdown levels by next week, one week later than it had planned, but sooner than our estimates. Shanghai aims to fully reopen by June. The state is mulling new stimulus measures for the auto industry. Maintain OVERWEIGHT. Top picks: BYD, CATL, EVE Energy, and Ganfeng.

#### WHAT'S NEW

- **CPCA: China's daily average PV retail sales volume declined 22% yoy but rebounded 26% mom in 9-15 May 22, in line with expectations.** This brings the numbers for the first half of May (1-15 May 22) to -21% yoy and 27% mom. According to China Passenger Car Association (CPCA), China's daily average wholesale shipment of PVs plummeted by 29%/24% yoy and grew 47%/29% mom in 9-15 May 22 and 1-15 May 22 respectively. The mom rebound in PV sales in the first half of May was due to the resumption of production by auto companies since late-April under the state's white-list policy. Further auto sales recovery hinges upon OEMs resuming production and lifting of lockdown measures in the various cities. On the demand side, residents in the cities being locked down (eg Shanghai) have seen significant income drop, weighing on purchasing power. Stimulus policies are required to boost auto sales.
- **We maintain our estimates on 2022 China's PV sales volume and EV sales volume unchanged at 21.35m units (flat yoy) and 5m units (+42% yoy),** based on a full sales recovery by Jul 22.
- **Shanghai aims to reopen from 1 Jun 22,** after declaring that 15 of its 16 districts had eliminated cases outside quarantine areas. Shanghai officials declared that the pandemic in the city was under control, but also said that their goal until 21 May would be to prevent a rebound in infections, implying that many restrictions will remain in place. The city plans to gradually increase domestic flights and rail services, and will begin reopening certain retail outlets from 23 May. We believe the reopening of Shanghai will speed up the restoration of auto supply chain in the Yangtze River Delta.
- **Tesla plans to restore production at its Shanghai plant to pre-lockdown levels by 23 May 22, one week later than previously planned but sooner than our expectations.** Tesla was targeting its Shanghai plant to get production back to pre-lockdown levels on 16 May, but the latest report indicated that Tesla has postponed this plan by a week. The company plans to keep production at its Shanghai plant at one shift this week, with daily output of 1,200 units. It now aims to increase production to 2,600 units a day from 23 May. Nevertheless, if Tesla manages to restore production volume to pre-lockdown levels before end-May, it would be sooner than our expectations. The challenge for Tesla to increase production volume at the Shanghai plant lies in the compliance with the "closed-loop" operation as required by the state and the parts supplies from within Shanghai and nearby areas.

#### PEER COMPARISON

| Company             | Ticker    | Rec | Price @ 19 May 22 (lcy) | Target Price (lcy) | Upside/(Downside) to TP (%) | Market Cap (US\$m) | PE 2022F (x) | 2023F (x) | P/B 2022F (x) | 2023F (x) | ROE (%) | Net Gearing (Cash) (%) |
|---------------------|-----------|-----|-------------------------|--------------------|-----------------------------|--------------------|--------------|-----------|---------------|-----------|---------|------------------------|
| BYD                 | 1211 HK   | BUY | 259.60                  | 325.00             | 25.2                        | 30,268             | 117.1        | 69.8      | 6.5           | 6.0       | 5.7     | (16.9)                 |
| Geely Automobile    | 175 HK    | BUY | 13.44                   | 18.00              | 33.9                        | 17,158             | 19.7         | 12.9      | 1.6           | 1.5       | 8.2     | (38.1)                 |
| Great Wall Motors   | 2333 HK   | BUY | 12.36                   | 20.00              | 61.8                        | 4,882              | 14.6         | 9.0       | 1.4           | 1.3       | 10.3    | (25.0)                 |
| Guangzhou Auto      | 2238 HK   | BUY | 6.95                    | 10.00              | 43.9                        | 9,094              | 7.0          | 5.1       | 0.6           | 0.6       | 9.5     | (7.3)                  |
| Weichai Power       | 2338 HK   | BUY | 10.98                   | 13.00              | 18.4                        | 12,210             | 8.3          | 6.8       | 1.1           | 1.0       | 15.7    | (69.8)                 |
| Fuyao Glass         | 3606 HK   | BUY | 35.15                   | 44.00              | 25.2                        | 11,689             | 18.9         | 16.7      | 2.8           | 2.6       | 15.2    | (14.2)                 |
| Nexteer             | 1316 HK   | BUY | 4.46                    | 10.50              | 135.4                       | 1,426              | 8.6          | 5.1       | 0.7           | 0.6       | 8.2     | (12.4)                 |
| Mint Group          | 425 HK    | BUY | 19.64                   | 30.00              | 52.7                        | 2,907              | 11.9         | 9.8       | 1.2           | 1.1       | 9.9     | 10.3                   |
| Ningbo Xusheng Auto | 603305 CH | BUY | 24.30                   | 32.00              | 31.7                        | 2,247              | 35.0         | 22.9      | 3.8           | 3.3       | 11.3    | 8.9                    |
| CATL                | 300750 CH | BUY | 419.00                  | 670.00             | 59.9                        | 143,530            | 59.1         | 33.3      | 10.2          | 7.9       | 15.6    | (41.9)                 |
| EVE Energy          | 300014 CH | BUY | 79.70                   | 165.00             | 107.0                       | 22,356             | 49.6         | 27.6      | 7.3           | 5.9       | 13.8    | 15.5                   |
| China Meidong Auto  | 1268 HK   | BUY | 25.20                   | 42.00              | 66.7                        | 4,007              | 17.2         | 12.5      | 5.9           | 4.4       | 36.7    | (53.3)                 |
| Zhongsheng Group    | 881 HK    | BUY | 50.65                   | 98.00              | 93.5                        | 15,108             | 10.5         | 8.5       | 2.2           | 1.8       | 22.9    | 30.1                   |
| Ganfeng Lithium     | 1772 HK   | BUY | 99.60                   | 180.00             | 80.7                        | 18,244             | 14.2         | 9.6       | 4.1           | 3.0       | 33.4    | 0.2                    |
| GEM Co., Ltd.       | 002340 CH | BUY | 7.42                    | 10.50              | 41.5                        | 4,523              | 25.7         | 16.6      | 2.3           | 2.0       | 13.1    | 67.0                   |
| Guangzhou Tinci     | 002709 CH | BUY | 41.35                   | 200.00             | 383.7                       | 10,059             | 10.3         | 7.8       | 3.8           | 2.7       | 43.6    | 17.8                   |

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

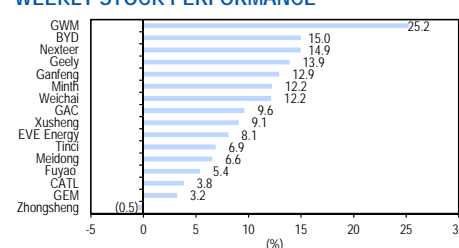
(Maintained)

#### TOP PICKS

| Company    | Ticker    | Rec | Share Price (lcy) | Target Price (lcy) |
|------------|-----------|-----|-------------------|--------------------|
| BYD        | 1211 HK   | BUY | 259.60            | 325.00             |
| Ganfeng    | 1772 HK   | BUY | 99.60             | 180.00             |
| CATL       | 300750 CH | BUY | 419.00            | 670.00             |
| EVE Energy | 300014 CH | BUY | 79.70             | 165.00             |

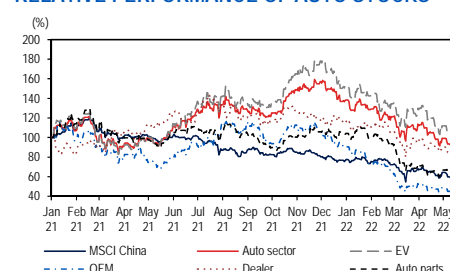
Source: UOB Kay Hian

#### WEEKLY STOCK PERFORMANCE



Source: Bloomberg

#### RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

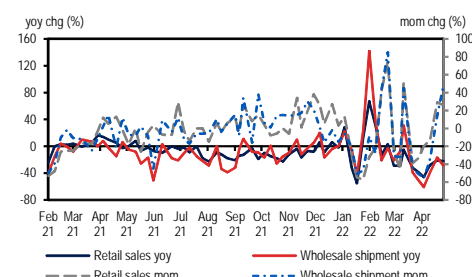
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- Tesla recalls 107,293 vehicles in China via OTA update.** The recall is due to bugs in the software, which can be restored via over-the-air (OTA) firmware update, and thus customers do not need to go back to stores for repairs. Accordingly, some vehicles may face a slower operation of the central processor and sluggish response of the central touch display when preparing for or during DC fast charging. Tesla has conducted two recalls in China since April, and it has become normal to recall vehicles and provide rectifications via OTA updates. Looking back, Tesla's recall did not have much impact on its sales and the most urgent issue for Tesla is to resume production back to pre-lockdown levels. The bottleneck of Tesla's China sales lies in supply rather than demand.
- China is planning to put forth new stimulus in early June to boost rural car sales, and is considering extending EV subsidies beyond 2022.** There have been rumours of new stimulus measures, and the details have been announced. According to media reports, the state will give a Rmb3,000-5,000/vehicle purchase subsidy to car buyers for vehicles priced at Rmb150,000 or below, including both ICE-cars and EVs. Based on history, this sort of "vehicles-to-villages" policy would benefit Chinese OEMs such as BYD, Great Wall Motor (GWM) and Geely. Additionally, the state is considering extending the EV subsidy policy (which was slated to expire by end-22) to beyond 2022. We think subsidies have become less important in the decision of buying EVs, as subsidies now only account for low single-digit percentage of car prices, vs 20-30% five years ago.
- Samsung is in talks to hike chip-making prices by up to 20%.** Samsung Electronics Co. is in discussions with foundry clients about charging as much as 20% more for making semiconductors this year, joining an industry-wide push to hike prices to cover rising costs of materials and logistics. The new pricing would be applied from the second half of this year, and Samsung has finished negotiating with some clients, while it is still in discussions with others. One week after TSMC announced to raise chip prices by 5-9% by 2023, Samsung indicated that it would be lifting prices by up to 20% this year. This may imply a slower-than-expected recovery in chip supplies and rising manufacturing costs (materials and labour) amid the lockdowns in China. The price move will translate into additional pressure on automakers to lift the prices consumers pay, which will constrain end-demand.
- BYD secures Rmb4b worth of lithium supplies from partner Chengxin Lithium.** BYD announced on 18 May 22 that it had signed an agreement with its local partner Shenzhen Chengxin Lithium Group (Chengxin Lithium) (002240 CH), to procure an estimated Rmb4b worth of lithium products in 2022. BYD has purchased Rmb436m worth of lithium products from Chengxin Lithium ytd. Based on an assumed 1.35m units of EV sales and 16GWh in external EV battery sales in 2022, we estimate that BYD will need to procure more than 42,000 tonnes of lithium carbonate in 2022, which translates into a total lithium purchase cost of Rmb19.5b based on the current price of Rmb461,500/tonne. As such, BYD will probably procure from Chengxin Lithium 20-25% of lithium carbonate it needs this year. BYD's deal with Chengxin Lithium will guarantee a steady supply of lithium products at a more stable price.
- BYD's JV with Daimler, Denza, launched a high-end large-sized electric MPV D9 on 16 May 22 with a price tag of Rmb335,000-460,000.** D9 has both battery electric vehicle (BEV) and plug-in hybrid electric vehicle (PHEV) versions built on BYD's DM-i technology. The D9 BEV deliver over 600km in range on a single charge, and the D9 PHEV delivers fuel efficiency of 5.9L/100km. The D9 is aimed at the premium MPV segment occupied by Buick GL8. BYD received over 3,000 units of orders for D9 within 30 minutes of debut. The delivery will kick-start in Aug 22. Going forward, Denza will roll out two new models this year, including a mid-sized electric SUV (3Q22) and a large-sized seven-seat SUV (end-22). Denza has been making losses since its establishment in 2010. Hopefully, the launches of these new products will enable Denza to turn around its bottom line.
- EVE Energy plans to build a 10GWh battery plant in Yunnan to tap on the burgeoning energy storage system (ESS) market there.** The investment for the new plant is estimated at Rmb3b. The construction of the new plant implies that EVE Energy has recently secured new battery supply contracts, as every new project is backed by its orderbook. According to the announcement, the move is to seize opportunities in the ESS market. EVE Energy sold 13.5GWh of motive batteries in 2021, and had 32GWh in annual capacity for motive batteries as of end-21; it plans to expand the capacity to 99GWh/142GWh by the end of 2022/23. The addition of the Yunnan plant would boost the total capacity to 152GWh by end-23.

## DAILY AVERAGE PV SALES VOLUME GROWTH



Source: CPCA

## PE BAND - AUTO SECTOR



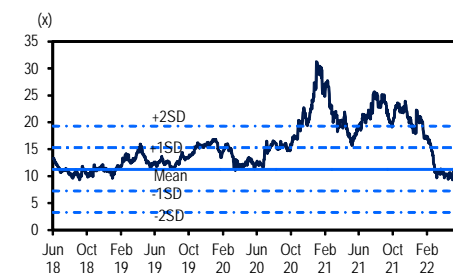
Source: Bloomberg, UOB Kay Hian

## PE BAND - EV SEGMENT



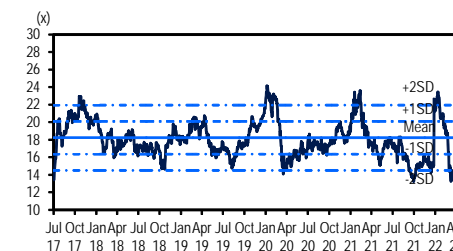
Source: Bloomberg, UOB Kay Hian

## PE BAND - OEM SEGMENT



Source: Bloomberg, UOB Kay Hian

## PE BAND - AUTO PARTS SEGMENT



Source: Bloomberg, UOB Kay Hian

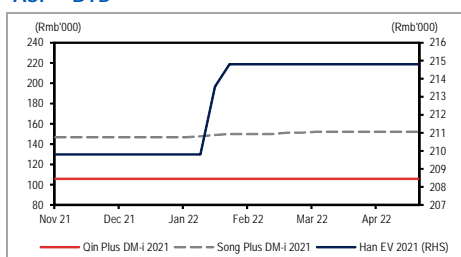
### ACTION

- **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, EVE Energy, Tinci, Ningbo Xusheng, Nexteer, GEM, Minth, Fuyao Glass, Geely, GWM, GAC, Weichai, Zhongsheng and Meidong. Our top picks are BYD, CATL, EVE Energy and Ganfeng.

### RISKS

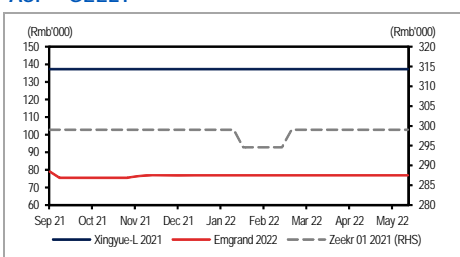
- **China's Zero-COVID policy**, if enforced thoroughly, could cause frequent on-and-off disruptions to the auto supply chain, as it is hard to contain the highly-transmissible Omicron variant. If infections resurge after the lockdown measures are lifted, a new round of lockdowns may kick in, and the draconian COVID-19-containment measures may remain in place for a sustained period, eg people in big cities are required to show their negative results for the certificate of polymerase chain reaction (PCR) COVID-19 test to gain access to public places.

#### ASP - BYD



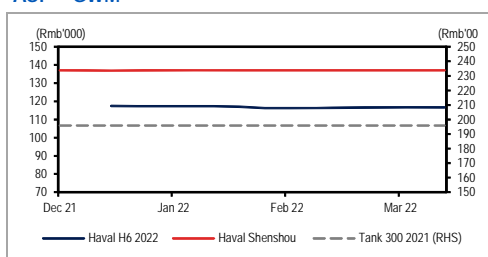
Source: UOB Kay Hian

#### ASP - GEELY



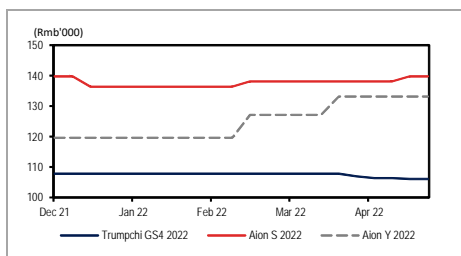
Source: UOB Kay Hian

#### ASP - GWM



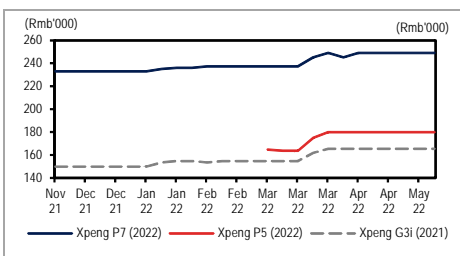
Source: Bloomberg, UOB Kay Hian

#### ASP - GAC



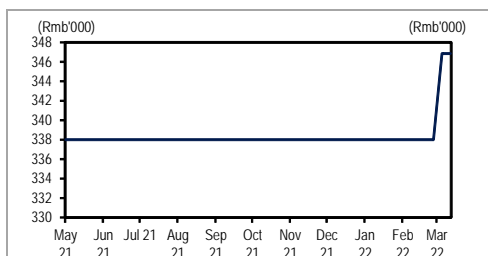
Source: UOB Kay Hian

#### ASP - XPENG

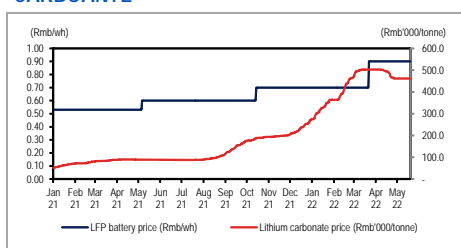


Source: UOB Kay Hian

#### ASP - LI ONE

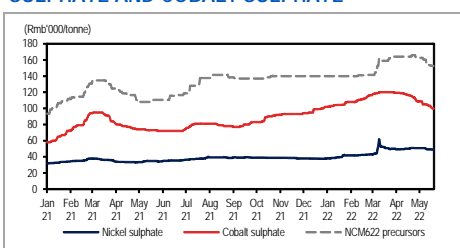


#### PRICES OF LFP BATTERY AND LITHIUM CARBOANTE



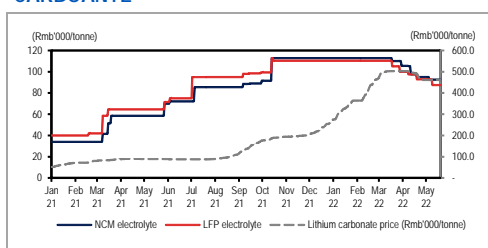
Source: WIND, UOB Kay Hian

#### PRICES OF NCM622 PRECURSOR, NICKEL SULPHATE AND COBALT SULPHATE



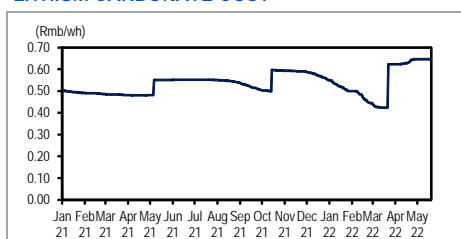
Source: WIND, UOB Kay Hian

#### PRICES OF ELECTROLYTE AND LITHIUM CARBOANTE



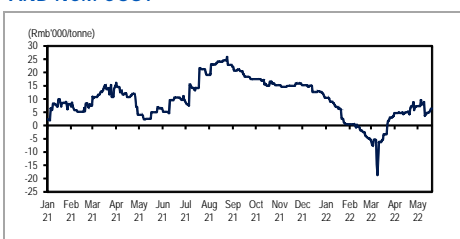
Source: WIND, UOB Kay Hian

#### SPREAD BETWEEN LFP BATTERY PRICE AND LITHIUM CARBONATE COST



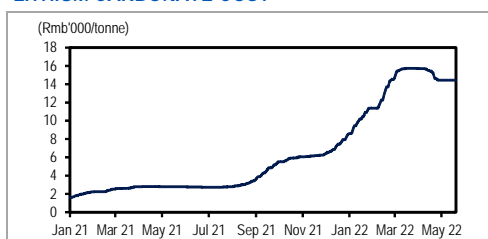
Source: WIND, UOB Kay Hian

#### SPREAD BETWEEN NCM622 PRECURSOR PRICE AND NCM COST



Source: WIND, UOB Kay Hian

#### SPREAD BETWEEN ELECTROLYTE PRICE AND LITHIUM CARBONATE COST



Source: WIND, UOB Kay Hian

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