

SECTOR UPDATE

Automobile – China

Weekly: BYD's Price Cuts Escalate The Price War Between EVs And ICE-cars

Ytd, EV sales came in worse than expected. BYD's 20% price cut on Qin Plus DM-i triggered a new round of price war. This will leave no winner as major players will keep engaging in the price war for a sustained period while small players like HiPhi will possibly be edged out of the arena. Following the heavy snowfall in Hubei, the Hainan incident reminds us of the limitation of EVs. Maintain UNDERWEIGHT. Top SELLS: BYD, XPeng and Li Auto. Top BUY: CATL. Upgrade Xusheng from HOLD to BUY on valuation.

WHAT'S NEW

- BYD's price cuts triggered a new round of price war.** BYD lowered the entry prices of Qin Plus DM-i and the Chaser 05 by 20% from Rmb99,800/Rmb101,800 to Rmb79,800/Rmb79,800 respectively by launching a so-called Glory Version with specifications equivalent to the previous versions. This implies a 10% or Rmb10,000 effective price cut, as the previous versions of Qin Plus DM-i and Chaser 05 were selling at a 10% discount to the MSRPs. In addition, BYD will hold a launch event for the Glory Version of Dolphin on 23 Feb 24, implying further price cuts for the model. It is expected that BYD will launch the cheaper Glory Versions for other models, eg Han DM.
- Other OEMs followed suit slashing prices.** Since BYD's price cut, several electric vehicle (EV) companies have followed BYD's move and slashed prices by the same or even bigger magnitudes, including Wuling Xingguang, Neta X/S/Aya, Changan Qiyuan A05, Geely Galaxy E8. In addition, ICE-cars have also entered the price war, with Beijing Hyundai Elantra cutting prices by Rmb24,000 or 24% to Rmb75,800. The A-segment ICE-cars that compete directly with BYD Qin Plus DM-i, eg SAIC Volkswagen (VW) Lavida and Dongfeng Nissan Sylphy, will likely see bigger price cuts in the near future.
- We expect the price war to continue through 2024.** This round of price war is triggered by the weak automobile sales since the beginning of 2024 till now, especially for BYD. We expect the price war to sustain and escalate from Mar 24 when several new models hit the market, including Li Auto Mega, Xiaomi Su7, Tank 700HI4-T, the revamped version of Zeekr 001, Deepal C318, Tank 300PHEV, BYD Qin L, BYD Yuan Up, etc.

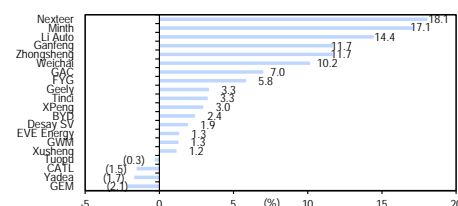
UNDERWEIGHT
(Maintained)

TOP PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
BYD	1211 HK	SELL	187.30	140.00
Li Auto	2015 HK	SELL	137.10	100.00
XPeng	9868 HK	SELL	36.45	18.00
CATL	300750 CH	BUY	160.35	250.00

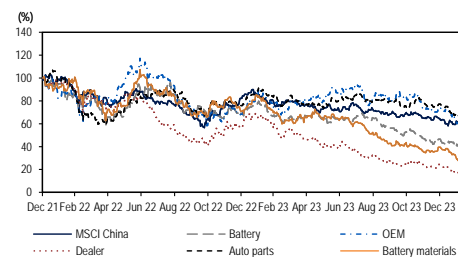
Source: UOB Kay Hian

WEEKLY STOCK PERFORMANCE



Source: Bloomberg

RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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PEER COMPARISON

Company	Ticker	Rec	Price @ 22 Feb 24 (lcy)	Target Price (lcy)	Upside/(Downside) to TP (%)	Market Cap (US\$m)	PE		P/B		ROE 2024F (%)	Net Gearing (Cash) (%)
							2023F (x)	2024F (x)	2023F (x)	2024F (x)		
BYD	1211 HK	SELL	187.30	140.00	(25.3)	544,225	16.2	17.5	3.6	3.1	17.5	(26.7)
Geely Automobile	175 HK	SELL	8.35	6.00	(28.1)	83,654	19.8	20.6	1.0	0.9	4.6	(26.9)
Great Wall Motors	2333 HK	HOLD	8.59	9.00	4.8	75,287	14.2	11.2	1.0	0.9	10.5	1.1
Guangzhou Auto	2238 HK	HOLD	3.36	3.20	(4.8)	34,894	6.8	8.3	0.3	0.3	3.3	(14.9)
Li Auto Inc	2015 HK	SELL	137.10	100.00	(27.1)	285,796	31.7	32.9	4.9	4.3	13.9	(103.0)
XPeng	9868 HK	SELL	36.45	18.00	(50.6)	62,891	Loss	Loss	0.1	0.2	(43.3)	(58.3)
Weichai Power	2338 HK	BUY	15.40	17.00	10.4	133,045	13.6	11.7	1.5	1.4	11.7	(57.1)
Fuyao Glass	3606 HK	BUY	38.05	45.00	18.3	99,301	16.0	14.0	2.9	2.7	17.7	(18.3)
Desay SV	002920 CH	BUY	92.40	135.00	46.1	51,307	35.0	26.6	6.7	5.6	20.8	0.5
Nexteer	1316 HK	SELL	3.79	2.70	(28.8)	9,512	11.5	12.5	0.6	0.6	5.4	(10.1)
Minth	425 HK	BUY	12.76	20.00	56.7	14,825	6.8	6.2	0.7	0.7	11.0	17.9
Ningbo Tuopu	601689 CH	BUY	52.14	105.00	101.4	57,461	27.0	16.6	3.4	2.9	14.9	6.7
Ningbo Xusheng	603305 CH	BUY	14.77	18.00	21.9	13,784	18.7	16.3	2.2	2.0	12.4	(9.9)
CATL	300750 CH	BUY	160.35	250.00	55.9	702,909	18.8	14.8	3.6	3.0	20.9	(55.4)
EVE Energy	300014 CH	SELL	35.67	24.00	(32.7)	72,762	17.8	17.9	2.1	1.9	10.5	37.2
Ganfeng Lithium	1772 HK	SELL	22.45	15.00	(33.2)	45,233	7.6	32.9	0.8	0.8	7.7	6.4
GEM	002340 CH	SELL	5.04	4.40	(12.7)	25,671	41.0	50.5	1.4	1.3	3.4	53.0
Tinci Materials	002709 CH	SELL	19.03	10.00	(47.5)	36,377	19.5	34.4	3.3	3.3	15.9	2.3
Zhongsheng Group	881 HK	SELL	14.92	10.00	(33.0)	35,981	6.3	8.2	0.7	0.7	12.0	38.8
Yadea Group	1585 HK	BUY	11.66	16.00	71.5	34,922	12.7	11.0	4.0	3.3	32.7	(139.1)

Source: Bloomberg, UOB Kay Hian

• **Price war leaves no winner.** BYD intends to take market share from ICE-cars or even edge some of the ICE-car brands and EV brands out of the arena by cutting prices. It cannot be ruled out that the marginal players like FAW Mazda, Beijing Hyundai, XPeng, Nio, Neta and Leapmotor will possibly be edged out of the arena. For example, HiPhi is reported to have halted production for six months. However, the major players, including JV brands like SAIC VW, FAW VW and GAC Toyota and Chinese brands like SAIC, Changan and Geely will be here to stay, as they have deep pockets to survive the price war.

For the large JV brands, the foreign partners such as VW and Toyota have large sales bases worldwide, which allow them to absorb the pressure from price cuts. They will not give up on the China market, which contributes 15-30% of their global sales. Additionally, their Chinese partners like SAIC and FAW are all sizeable SOEs with strong support from the state on all fronts. The privately owned Chinese OEMs such as Geely have a strong foothold in China's ICE-car market, and their exports are growing strongly. As such, all of them are capable of engaging in a price war for a sustained period of time.

For instance, BYD cut the entry-price of Qin Plus DM-I by 12% to Rmb99,800 with the launch of the Champion Version in Feb 23 in an attempt to take market share from A-segment ICE-cars like Lavidia and Sylphy. However, this did not go as planned. Qin Plus saw retail sales growing from 21,269 units in Feb 23 to a peak of 33,891 units in Aug 23 and then fell to 29,009 units in Nov 23. On the other hand, Lavidia's and Sylphy's sales held up well from Feb 23 to Jul 23 and picked up from Aug 23 due to the 16-20% price cuts during the period. BYD then further cut the entry price of Qin Plus DM-i by 11% to Rmb89,800 by offering time-limited discount in Dec 23, boosting retail sales to 41,142 units in Dec 23. However, Qin Plus's sales fell back to 29,244 units in Jan 24, below 32,419 units for Lavidia and 30,384 units for Sylphy. This time, we expect the story to repeat itself.

As for the newcomers like Xiaomi, the operating environment will be even tougher than they expected, and it is difficult for them to take a foothold in the arena amid the escalating price war. For example, the selling price of Xiaomi's first model Su7 will need to be revised downward. As a new entrant, Xiaomi does not have the scale advantage as the established incumbents do, and it also does not have experience in managing the automotive supply chain as well as the capabilities in maintaining steady product qualities at competitive cost.

• **China's PV sales remain lukewarm during the Lunar New Year holiday.** Insurance registrations during 5-18 Feb 24 only reached 365,000 units (-60% mom), of which 107,200 units were passenger electric vehicles (PEVs) and 257,800 units were ICE-cars. PEV market share remained flat at 29.4% during the period. China Passenger Car Association estimates Feb 24 PEV retail sales at 380,000 units (-14% yoy/-43% mom). The sales decline during Feb 24 was due to the Lunar New Year holiday. According to channel checks, store foot traffic was better than expected, but new orders remained very low, as customers were waiting for further price cuts. Orderbooks for all OEMs had been depleted, and even Aito saw its orderbook falling to less than 100,000 units until last week. The waiting time for Aito M5 and M9 has also shortened to 2-4 weeks and 4-6 weeks respectively.

• **BYD (1211 HK/SELL/Target: HK\$140.00).** BYD Company's (BYD) insurance registrations only reached 32,600 units (-54.5% yoy/-62.3% mom) during 5-18 Feb 24 and 53,300 units during 1-18 Feb 24, compared to 201,500 units in Jan 24. By segment, BYD brand, Denza brand, Fangchengbao brand and Yangwang brand respectively recorded insurance registrations of 30,600 units/1,100 units/675 units/273 units during 5-18 Feb 24, and 49,372 units/2,291 units/1,153 units/528 units during 1-18 Feb 24. We expect BYD's insurance registrations at 120,000 units for Feb 24 and 321,500 units (-7% yoy) for Jan-Feb 24.

The sluggish sales prompted BYD to slash prices. A Rmb10,000 price cut for all models could totally wipe out BYD's profit. BYD is expected to earn only Rmb7,200-9,200 in selling every EV in 4Q23. Production cost would not drop by Rmb10,000 in couple of months. For example, lithium carbonate price only dropped from Rmb114,000/tonne in Dec 23 to Rmb97,000/tonne currently. Given the battery capacity of 8.32-18.32kWh for Qin Plus DM-i and 5kg of lithium carbonate for every kWh of battery, the Rmb17,000/tonne drop in battery price would only save Rmb700-1,560 in raw material cost for Qin Plus DM-i.

• **Li Auto (2015 HK/SELL/Target: HK\$100.00).** Li Auto's insurance registration fell by 14.8% yoy and 50.9% mom to 7,073 units during 5-18 Feb 24 and reached 10,100 units during 1-18 Feb 24. Looking ahead, we expect the company's L7/L8/L9 to continue losing market share to Aito. With the launches of Aito's new M7 and M9, Li Auto is no longer the monopolist of

UOB KAY HIAN FORECASTS ON CHINA VEHICLE SALES

	Sales (m units)		yoy chg (%)	
	23	24F	23	24F
Total EV	9.45	10.47	37.5	10.8
- PEV	9.00	9.87	37.7	9.6
- CEV	0.45	0.60	32.8	34.8
ICE-car	20.60	18.03	3.1	(12.5)
Total vehicle	30.05	28.50	11.9	(5.1)
- PV	26.01	24.00	10.5	(7.7)
- CV	4.03	4.50	22.2	11.6

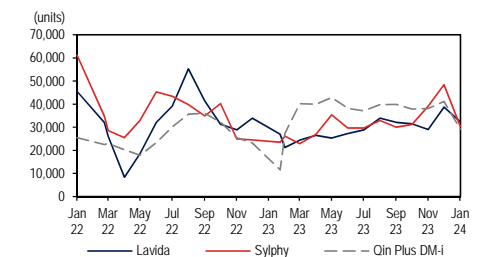
Source: UOB Kay Hian

PRICE REDUCTIONS BY BRAND

(Rmb)	Model	Power Types	Old Starting Price	New Starting Price
BYD	Qin Plus DM-i	PHEV	99,800	79,800
	Chaser 05	PHEV	101,800	79,800
	Denza N7	BEV	301,800	236,800
Wuling	Xingguang 150km	PHEV	105,800	99,800
Changan	Qiyuan A05	PHEV	89,900	78,900
	Deepal SL03	BEV	163,900	156,900
Neta	X	BEV	121,800	99,800
	Aya	BEV	73,800	65,800
	S	EREV/BEV	159,800	154,800
Geely	Galaxy E8	BEV	175,800	170,800
Hyundai	Elantra	ICE	99,800	75,800
Buick	Electra E4	BEV	189,900	159,900

Source: d1ev

MONTHLY RETAIL SALES OF QIN PLUS DM-I



Source: AutoHome

INSURANCE REGISTRATIONS BY BRAND

('000 units)	5-18 Feb	yoy % chg	mom % chg	1-18 Feb
BYD brand	30.6	(55.3)	(61.9)	49.4
Denza brand	1.1	(66.8)	(68.6)	2.3
FCB brand	0.7	n.a.	(66.7)	1.2
YW brand	0.3	n.a.	(58.8)	0.5
BYD Co	32.6	(54.5)	(62.3)	53.3
Wuling	9.4	(42.9)	(43.0)	n.a.
Tesla	8.3	(35.5)	(56.5)	n.a.
Changan brand	3.0	n.a.	(71.4)	n.a.
Qiyuan brand	2.4	n.a.	n.a.	n.a.
Deepal brand	2.0	n.a.	(69.2)	n.a.
Changan Auto	7.4	n.a.	n.a.	n.a.
Li Auto	7.1	(14.8)	(50.9)	n.a.
Aito	5.5	n.a.	(60.8)	n.a.
Aion	2.3	(82.3)	(78.7)	n.a.
Volkswagen	2.2	(35.2)	(69.9)	n.a.
Galaxy brand	2.1	n.a.	n.a.	n.a.
Zeekr brand	1.7	n.a.	(66.0)	n.a.
Leapmotor	1.6	n.a.	(69.8)	n.a.
Nio	1.5	(76.4)	n.a.	n.a.
XPeng	1.0	(66.7)	n.a.	n.a.
Voyah	0.7	n.a.	n.a.	n.a.
PEV	107.2	n.a.	(61.7)	n.a.
ICE-car	257.8	n.a.	(58.8)	n.a.
PV	365.0	n.a.	(59.7)	n.a.
PEV market share (%)	29.4	n.a.	(7.6)	n.a.

Source: Zhineng Auto, Dongchedi, Li Auto

China's EREV segment. In contrast to the long orderbook of Aito M7/M9, Li Auto's orderbook has been depleted. As for Li Auto's long-awaited new battery electric vehicle (BEV) model Mega, the market response turned out not to be as good as expected, according to our channel check. This, coupled with the increasing competition from Aito in the EREV segment, casts a shadow on the sales outlook of Li Auto.

- **XPeng (9868 HK/SELL/Target: HK\$18.00).** Insurance registration plummeted 66.7% yoy to 953 units during 5-18 Feb 24 and reached 1,800 units during 1-18 Feb 24. Due to increasing competition, XPeng's sales momentum has been weakening since 4Q23, despite price cuts. The new MPV model X9 will be facing intense competition from multiple models such as Denza D9, Trumpchi E8, Voyah Dreamer and Li Auto Mega, since the electric MPV segment is getting overcrowded. As a marginal player in China EV market, XPeng is more vulnerable to the price war. The company's gross margin has turned negative since 2Q23, and we expect XPeng's gross margin to remain negative through 2024-25.
- **EVs stuck in Hainan due to fire safety regulation for cross-strait ferries.** Following the snow in Hubei in early-Feb 24 that crippled hundreds of EVs on highways, the recent incident in Hainan also reminds us of the infeasibility for EVs to replace ICE-cars in the foreseeable future. Many EVs still got stuck in Hainan Island after the Lunar New Year holiday, as the cross-strait ferries only allotted 18 units of quota to EVs for every voyage given the fire safety regulation. Ironically, Hainan is the first province in China that sets the deadline to stop selling new ICE-cars (2030), but it still limits the number of EV per voyage for cross-strait ferries. In other words, even the Hainan government implicitly confirms that EVs have higher fire risk than ICE-cars do.

Based on 2022 data, 7,179 out of 100,000 EVs in China caught on fire, double the number of 3,692 for ICE-cars. The consequence of EV fires is also much more deadly than ICE-car fires, as the former usually explodes in a few seconds and is much more difficult to put out, leaving no time for people to get out of the car. It is easy for lithium-ion batteries (LIBs) to catch fire, and this problem can only be solved with the wide adoption of solid-state batteries (SSBs), which we expect to be realised in over a decade. Buyers were switching from EVs to ICE-cars from Nov 23 to Feb 24, dragging PEV market share from a record of 39% in Nov 23 to 29% in 1-18 Feb 24. Some attribute that to seasonality. It remains to be seen whether PEV's market share will rebound after Lunar New Year.

ACTIONS

- **Maintain UNDERWEIGHT on China's automobile sector,** based on weakening sales momentum and intensifying price war. Some interpret the recent price cuts as positive, asserting that this would boost EV sales. But we think the price war leaves no winner, as everyone is cutting prices and no one can steal market share from the others.
- **We have a contrarian SELL call on BYD (1211 HK/SELL/Target: HK\$140.00)** based on peaking sales, mounting inventory pressure and margin squeeze. Our target price of HK\$140.00 is based on our 10-year DCF (WACC: 19.6%/terminal growth: 4%).
- **Li Auto (2015 HK/SELL/Target: HK\$100.00) remains one of our top SELLS,** as the company will be vulnerable to escalating competition from Aito. Our target price of HK\$100.00 is based on our 10-year DCF model (WACC: 20%/terminal growth: 4%).
- **XPeng (9868 HK/SELL/Target: HK\$18.00) remains one of our top SELLS,** based on its weakening sales momentum and falling product prices. Our target price of HK\$18.00 is based on our 10-year DCF model (WACC: 20%/terminal growth: 4%).
- **CATL remains our top BUY,** as we see it as the only company along China's EV supply chain that has global competitiveness in regards to both scale and technologies. The stock is only trading at 15x 2024F PE, 2SD below historic mean one-year forward PE.
- **Upgrade Ningbo Xusheng (603305 CH/BUY/Target: Rmb18.00) from HOLD to BUY on valuation,** as the stock price has fallen well below our target price of Rmb18.00 (20x 2024F PE, 1SD below historic mean one-year forward PE)
- **Our BUY calls are in the following order of preference:** CATL, Ningbo Tuopu, Fuyao Glass, Minth, Desay SV, Weichai Power and Yadea.

HAINAN CROSS-STRAIT FERRY



Source: Baidu

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