

China Auto Sector Monthly

Sluggish ICE market, but signs of recovery in NEV sales growth

	Ticker	Rec	Mkt cap		Price	PT	Up/ dn (%)	PER		PBR		EV/EBITDA	
			(US\$m)	Ccy				2017E	2018E	2017E	2018E	2017E	2018E
GAC	2238 HK	Buy	21,447	HKD	13.8	14.1	2.2	26.3	20.4	2.1	1.9	12.6	10.5
BAIC	1958 HK	Hold	7,878	HKD	8.05	8.3	3.1	7.6	6.5	1.2	1.0	3.4	3.1
BYD	1211 HK	Buy	19,532	HKD	49.45	53	7.1	26.3	20.4	2.1	1.9	12.6	10.5

Source: Bloomberg, CSCI estimates

- ICE sales growth continued to be sluggish during Apr-May, likely due to a low seasonality and the impact of the tax hike. In particular, sales of cars with engines below 1.6L or lower displacement have slumped during Apr-May. Meanwhile, accumulative NEV sales posted positive growth for the first time in May-17, which signals a further recovery ahead.
- Inventory levels started to come down in 2Q17 on slowing OEM wholesale growth (to -1.5% YoY May-17 versus 19.5% YoY in Feb-17).
- In stock picks, we continue to prefer Geely and GAC, in view of their strong sales momentum and rising brand recognition.

ICE sales growth continued to slide in Apr-May; cars below 1.6L were severely impacted by the tax hike. Based on CAAM data, auto sales in May-17 have declined 0.1% YoY to 2.1mn units. Taking into account the 2.24% YoY sales decline in Apr-17, 2Q17 is likely to see even weaker sales growth as compared to 1Q17. Unit sales of vehicles with engines below 1.6L have continued to slide since Feb-17, outpacing the sales decrease of cars with engines above 1.6L, largely due to the tax hike. We reiterate our view that the impact of the tax hike, which has substantially weighed on total vehicle sales growth in 1H17, will be alleviated in 2H17.

Inventory reduced further in May-17 on slowdown in wholesale growth. Due to higher wholesale growth versus retail growth, the sector's inventory has increased rapidly during 2M17, which has dented dealers' operating funds and led to industry-wide price cuts. As average wholesale growth has slowed down to -1.5% YoY in May-17 from 19.5% in Feb-17 on higher OEM sales and the launch of more promotion activities, we expect inventory levels at the dealers will be reduced in 2Q17 and thus market concerns will mitigate going forward.

Accumulated NEV sales posted positive YoY growth of 6.4% for the first time in May-17, attributable to stronger PV sales than CVs. Following the first two months of tepid growth in FY17E, NEV sales headed towards positive territory for the first time in May this year on the back of strong NEV PV shipments. Meanwhile, although NEV CVs have posted five consecutive months of sales growth decline YTD, the pace of decline has eased gradually with shipments hitting a record high of 6,447 units in May-17. As such, we expect the ramp-up in sales growth may signal that a recovery in NEV sales has started since 2Q17.

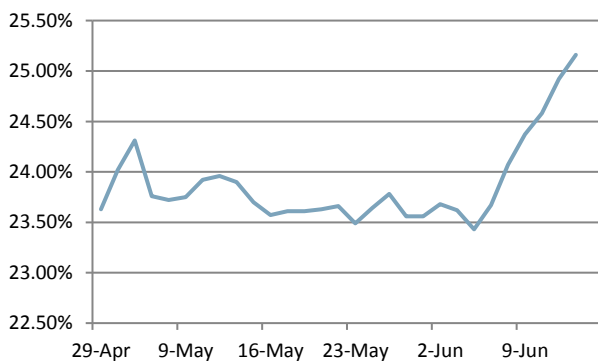
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Valuation and southbound fund shareholding position

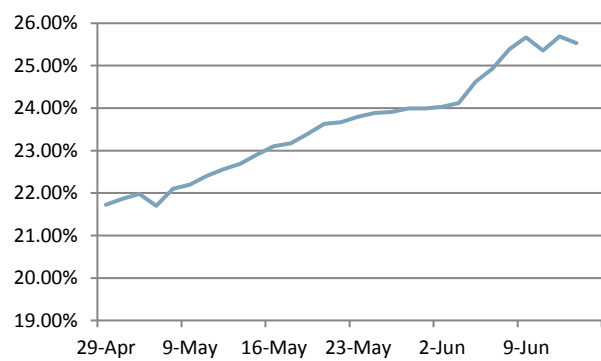
Figure 1: Peers Valuation

Company	Ticker	Ccy	Close (Local\$)	Mkt cap (US\$m)	EPS Growth (%)		ROE (%)		Net debt / Equity (%)		PER (x)		EV/EBITDA (x)		PBR (x)	
					FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2
BYD CO LTD-H	1211 HK	HKD	49.5	19,383	(0.2)	28.9	9.7	11.1	62.6	60.9	26.2	20.3	12.5	10.5	2.1	1.9
GREAT WALL MOT-H	2333 HK	HKD	10.1	15,567	(5.5)	7.4	19.7	18.8	(4.7)	(6.4)	10.6	9.9	7.9	7.1	1.5	1.3
DONGFENG MOTOR-H	489 HK	HKD	9.9	10,936	(2.0)	3.4	12.7	11.8	(24.2)	(25.9)	5.7	5.5	24.5	22.5	0.7	0.6
BAIC MOTOR-H	1958 HK	HKD	8.1	7,839	10.2	16.9	16.6	16.9	(10.7)	(25.8)	7.6	6.5	3.4	3.0	1.2	1.0
GUANGZHOU AUTO-H	2238 HK	HKD	13.8	21,465	49.1	15.5	18.7	18.3	(14.3)	(15.6)	15.6	13.5	22.4	19.2	1.5	1.3
BRILLIANCE CHINA	1114 HK	HKD	14.2	9,159	31.1	31.9	18.7	20.9	(3.2)	(4.4)	12.9	9.8			2.3	1.9
GEELY AUTOMOBILE	175 HK	HKD	14.1	16,192	50.0	28.0	27.4	27.8	(63.1)	(74.6)	14.4	11.2	9.1	7.3	3.6	2.9

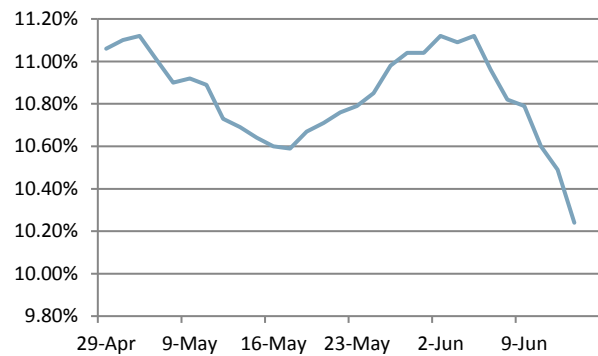
Source: Bloomberg, CSCI Research, price as of 16 June 2017

Figure 2: CCASS Shareholding positions for GAC


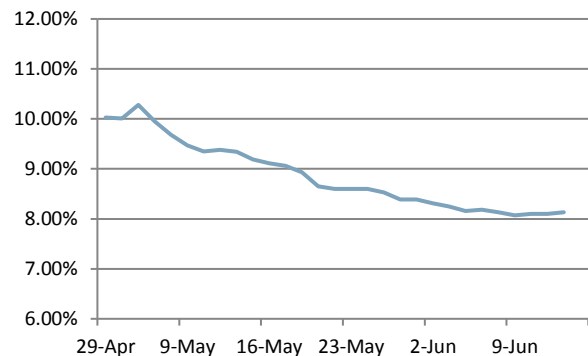
Source: HKEX, CSCI Research

Figure 3: CCASS Shareholding positions for GWM


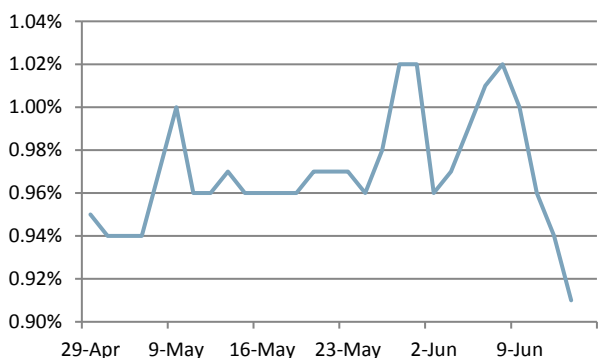
Source: HKEX, CSCI Research

Figure 4: CCASS Shareholding positions for Geely


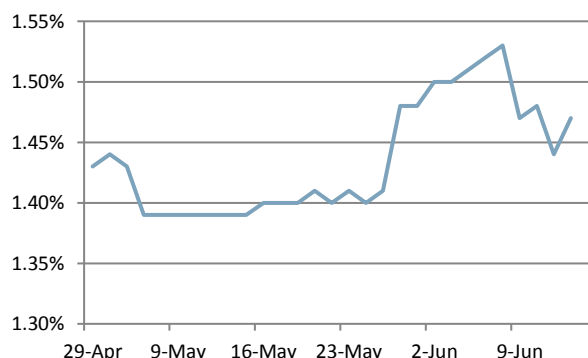
Source: HKEX, CSCI Research

Figure 5: CCASS Shareholding positions for BAIC


Source: HKEX, CSCI Research

Figure 6: CCASS Shareholding positions for Brilliance


Source: HKEX, CSCI Research

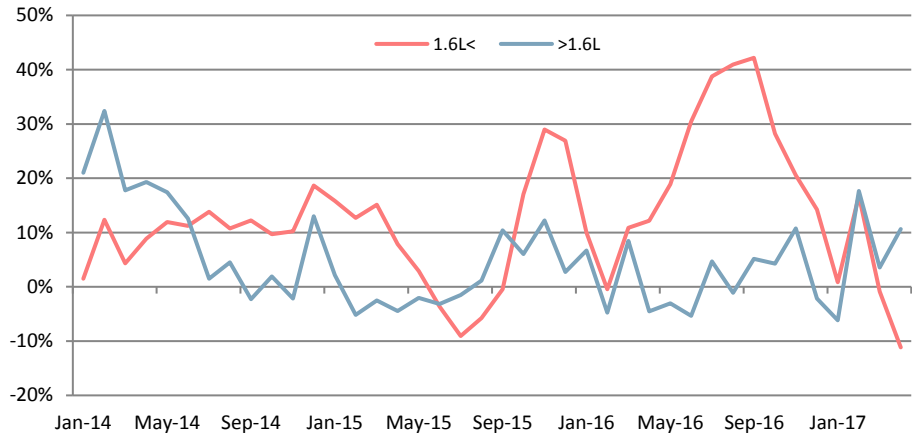
Figure 7: CCASS Shareholding positions for BYD


Source: HKEX, CSCI Research

ICE sales growth remained sluggish during the off season

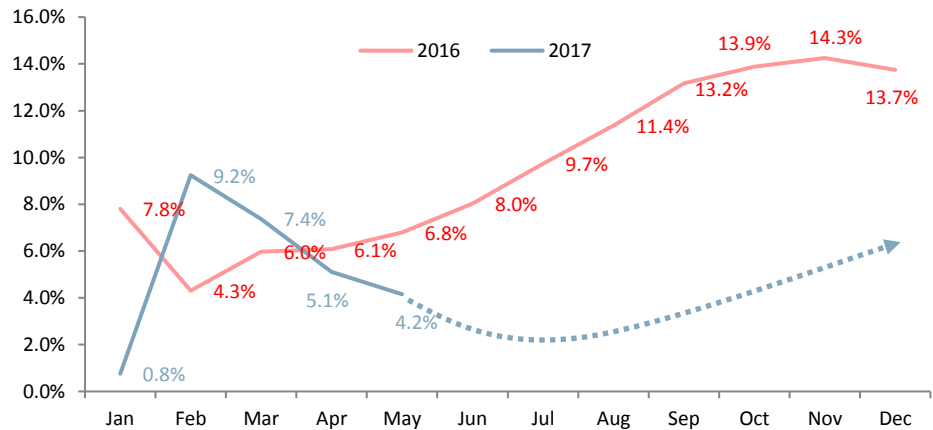
ICE sales growth continued to slide in Apr-May; cars below 1.6L were severely impacted by the tax hike. Based on CAAM data, auto sales have declined 0.1% YoY to 2.1mn units in May-17. Taking into account the 2.24% YoY sales decline in Apr-17, 2Q17 is likely to see even weaker sales growth compared to that of 1Q17. Unit sales of cars with engines below 1.6L have continued to slide since Feb-17, primarily due to the tax hike. We reiterate our view that the impact of the tax hike, which has substantially weighed on total vehicle sales growth in 1H17, will be alleviated in 2H17.

Figure 8: Sales growth of vehicles above 1.6L outpaced those below 1.6L due to the tax hike policy



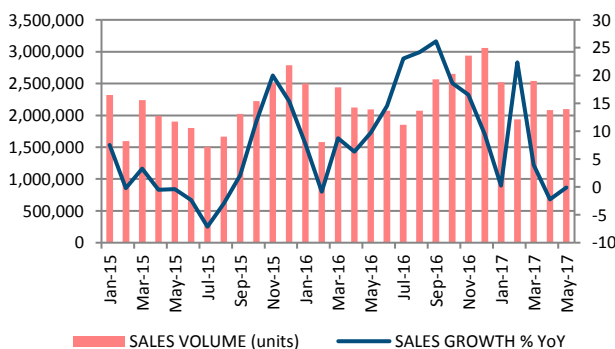
Source: CAAM, CSCI Research

Figure 9: Accumulated sales growth has declined since Feb-17



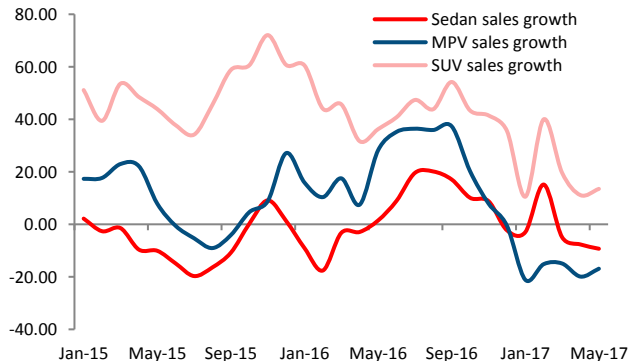
Source: CAAM, CSCI Research

Figure 10: CAAM total sales growth



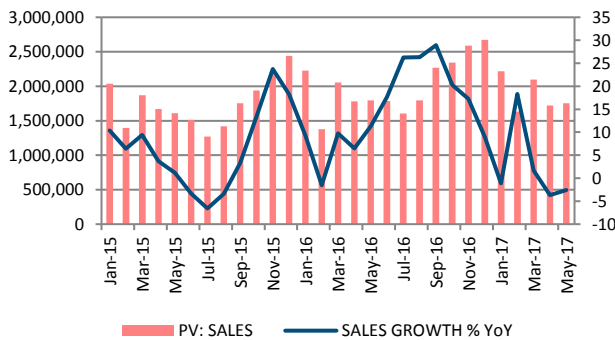
Source: CAAM, CSCI Research

Figure 11: SUV growth slid but remain in positive range



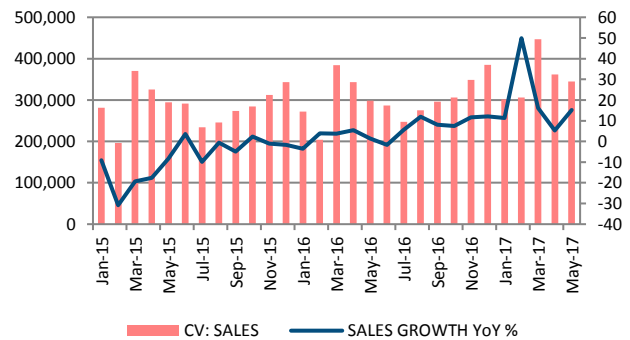
Source: CAAM, CSCI Research

Figure 12: PV sales continued to decline in 2Q17



Source: CAAM, CSCI Research

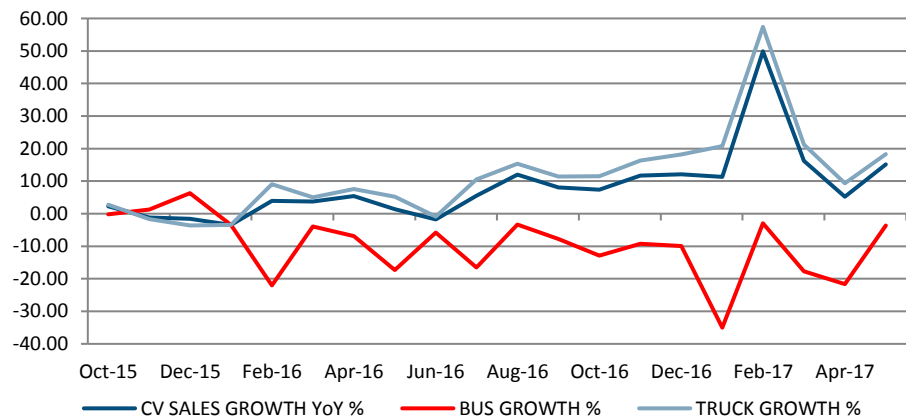
Figure 13: CV sales growth outperformed that of PVs



Source: CAAM, CSCI Research

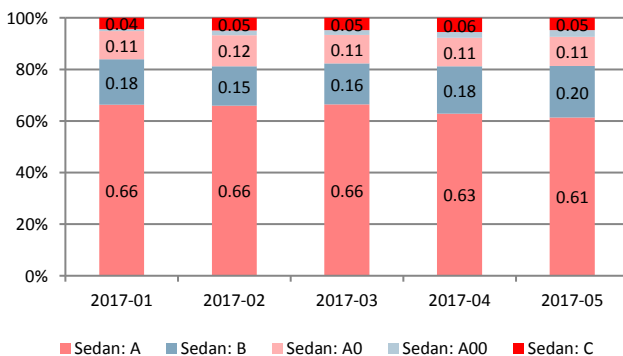
Sales growth of SUVs and CV trucks remained robust amid sluggish demand. Both sedan and MPV sales have posted substantial YoY declines in the Jan-May period, while SUVs have maintained a monthly sales growth of above 10% YoY during the period, though the growth rate was significantly lower when compared to the same period of FY16. As for CVs, the sales growth of trucks has consistently outperformed that of buses since Feb-16, likely due to the higher demand from infrastructure constructions in China.

Figure 14: CV sector growth likely driven by increasing trucks sales



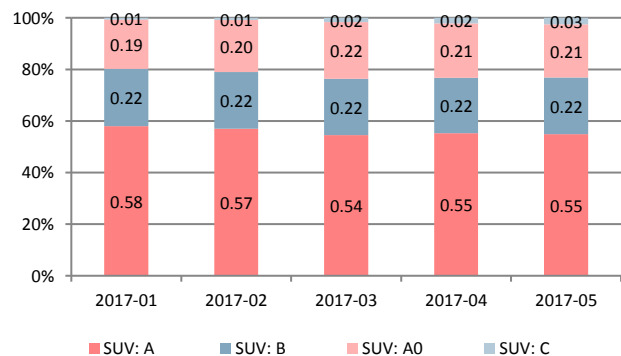
Source: CAAM, CSCI Research

Figure 15: Sedan: B/C class up and A class down



Source: CPCA, CSCI Research

Figure 16: SUV: C/A0 class up and A class down

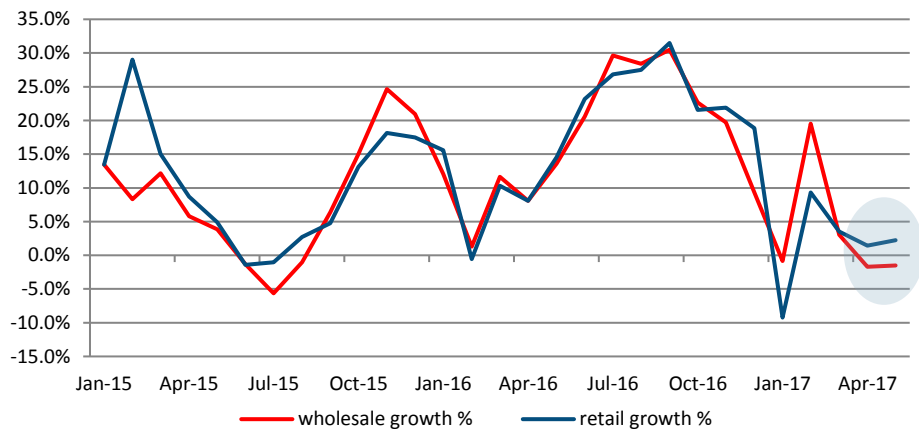


Source: CPCA, CSCI Research

Concerns over inventory levels started to ease in 2Q17

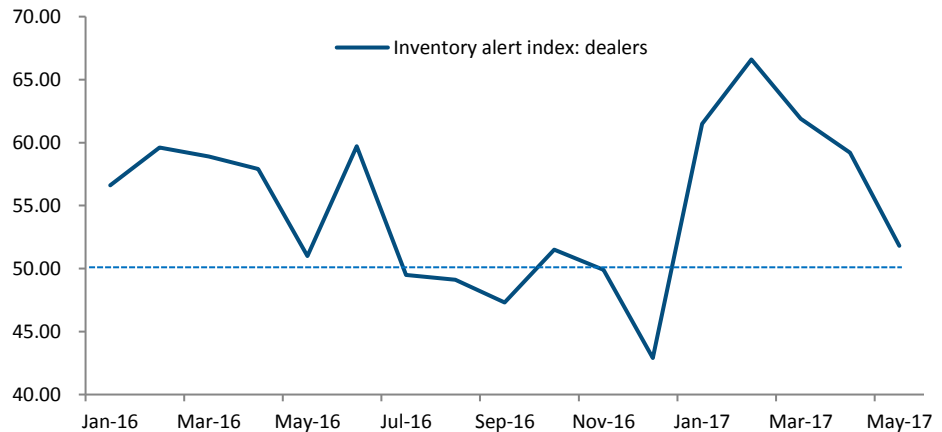
Inventory levels reduced further in May-17 on slowdown in wholesale growth. During 2H16, we saw both wholesale and retail growth remained above 20% YoY driven by the strong demand, and such strong growth has continued into the first two months of FY17. However, weakening demand in FY17 has dragged down retail growth rapidly to below 10% during first couple of months this year, which has resulted in a surge in the dealers' inventory levels, largely occupying their operating funds, and subsequently led to the industry-wide price cuts. Nonetheless, as average wholesale growth has slowed down to -1.5% YoY in May-17 from 19.5% in Feb-17 on higher OEM sales and the launch of more promotion activities, we expect inventory levels at the dealers will be reduced in 2Q17 and thus market concerns will mitigate going forward.

Figure 17: Retail sales growth has outperformed that of wholesale after Mar-17



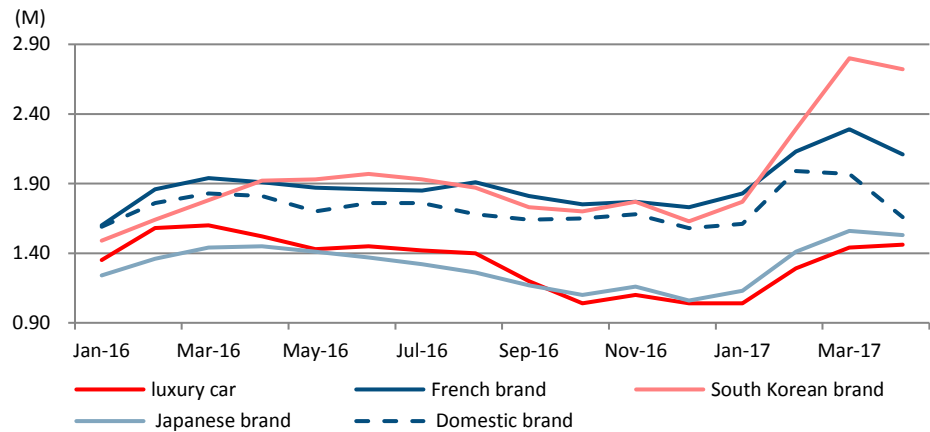
Source: CPCA, CSCI Research

Figure 18: The inventory alert index has declined to almost 50



Source: CADA, CSCI Research

Inventories of French and S Korean brands remained high, while domestic brands' inventories have been rapidly reduced through price cuts. While the French and South Korean brands, with the highest inventory days of more than 60 days, have posted slight declines in their inventory levels in 2Q17, domestic brands' inventory days have quickly reduced to 48 days from 57 days in Mar-17. Meanwhile, the inventory days of both Japanese and luxury brands have maintained at an average of around 40 days and thus these particular brands have become a lesser concern for the market in terms of sales growth going forward relative to the other brands. As such, we believe the Japanese and domestic brands will most likely to outperform in the mass market in terms of sales recovery from 2H17 onwards.

Figure 19: Inventory coefficients by brands


Source: CPCA, CSCI Research

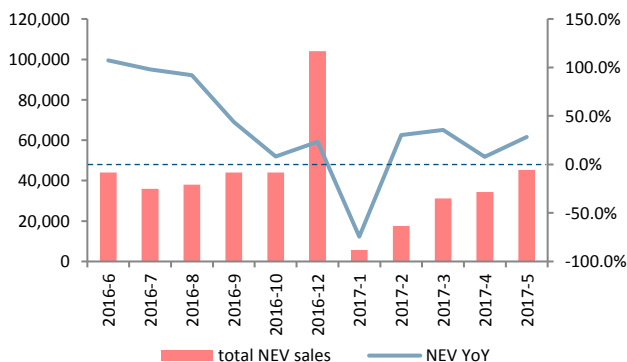
NEV sales signalled for a steady recovery after 1Q17 low

Accumulated NEV sales posted positive YoY growth of 6.4% for the first time in May-17, attributable to stronger PV sales versus CVs. Following tepid sales growth in the first two months of the year, dragged down by new policy launch, NEV sales have gradually recovered in 2Q17 and headed towards positive territory for the first time this year on the back of robust NEV PV shipments. Moreover, although NEV CVs have posted negative sales growth for five consecutive months YTD, the pace of decline has slowed down since the 2Q with shipments hitting a record high of 6,447 units in May-17.

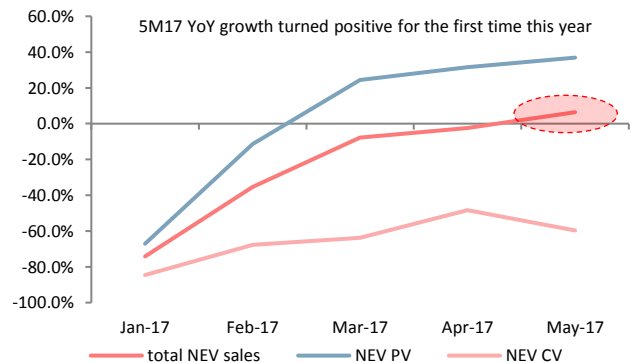
Figure 20: CAAM NEV sales data

CAAM sales	total NEV	NEV YoY	- NEV PV	PV YoY	BEV	BEV YoY	PHEV	PHEV YoY	- NEV CV	CV YoY	BEV	BEV YoY	PHEV	PHEV YoY
2016-7	36000	98.1%	29000	149.2%	20000	254.7%	9000	49.3%	7000	5.5%	6000	16.4%	1000	-29.4%
2016-8	38000	92.2%	30000	132.3%	22000	166.0%	8000	72.9%	8000	15.7%	60	13.6%	20	23.0%
2016-9	44000	43.8%	31000	48.7%	24000	65.2%	7000	12.7%	13000	33.1%	11000	58.8%	1000	-42.3%
2016-10	44000	8.1%	32000	17.8%	28000	32.5%	4000	-33.9%	12000	-11.6%	11000	-4.3%	1000	-52.5%
2016-12	104000	23.5%	47000	5.4%	40000	12.8%	7000	-24.2%	57000	43.8%	52000	53.9%	5000	-14.2%
2017-1	5682	-74.4%	4608	-66.2%	3908	-49.3%	700	-88.2%	1074	-87.4%	1070	-86.2%	4	-99.5%
2017-2	17596	30.3%	16667	67.3%	13346	114.0%	3321	-10.9%	929	-73.8%	573	-81.4%	356	-24.1%
2017-3	31120	35.6%	28490	81.0%	23673	120.7%	4817	-3.9%	2630	-63.6%	1669	-76.0%	961	268.2%
2017-4	34361	7.9%	30478	45.2%	25413	79.5%	5065	-25.8%	3883	-64.2%	3157	-67.7%	726	-33.0%
2017-5	45300	28.4%	38853	49.4%	32438	88.9%	6415	-27.3%	6447	-30.6%	6092	-29.8%	335	-41.9%

Source: CAAM, CSCI Research

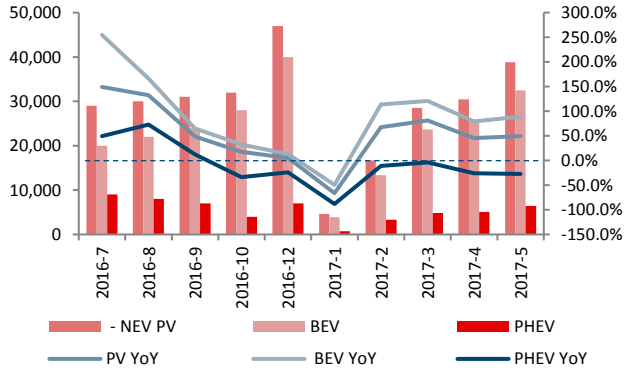
Figure 21: Total NEV sales growth


Source: CAAM, CSCI Research

Figure 22: YTD sales growth suggested recovery ahead


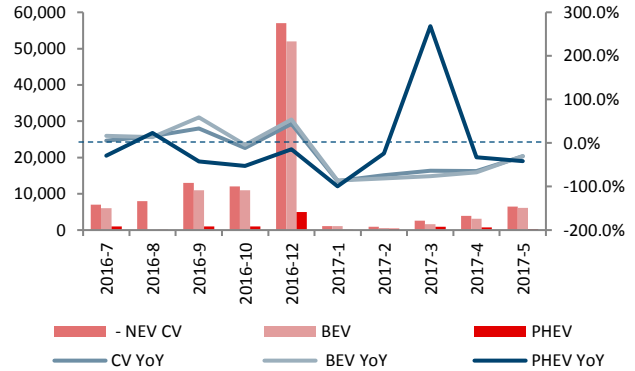
Source: CAAM, CSCI Research

Figure 23: NEV PV sales growth recovery



Source: CAAM, CSCI Research

Figure 24: NEV CV sales growth remained sluggish



Source: CAAM, CSCI Research



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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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