



## China Auto Sector Monthly

### Strong NEV shipments in Jun-17 driven by BEV CVs

|       | Ticker  | Rec  | Mkt cap |     | Price | PT   | Up/<br>dn (%) | PER   |       | PBR   |       | EV/EBITDA |       |
|-------|---------|------|---------|-----|-------|------|---------------|-------|-------|-------|-------|-----------|-------|
|       |         |      | (US\$m) | Ccy |       |      |               | 2017E | 2018E | 2017E | 2018E | 2017E     | 2018E |
| BAIC  | 1958 HK | Hold | 6,808   | HKD | 7.03  | 8.3  | 18%           | 6.8   | 5.8   | 1.0   | 0.9   | 2.8       | 2.7   |
| GEELY | 175 HK  | Buy  | 20,687  | HKD | 18.08 | 19.5 | 7.9%          | 16.7  | 13    | 4.5   | 3.5   | 11.1      | 8.9   |
| BYD   | 1211 HK | Buy  | 18,937  | HKD | 48.7  | 53   | 8.8%          | 22.7  | 17.6  | 2.0   | 1.9   | 12.5      | 10.5  |

Source: Bloomberg, CSCI estimates

- ICE sales growth declined to 1.1% YoY during Apr-Jun despite the strong sales in Jun-17, but the turnaround in the sales growth of cars below 1.6L likely suggested that the impact of the tax hike has mitigated prior to further tax hikes in 2018.
- Decreasing inventory during 2Q17 was attributable to slowdown in shipments from OEMs to the dealers; this will benefit restocking amid the peak season in 2H17, in our view.
- In view of a 56% YoY sales growth of NEV CVs in Jun-17, we expect a considerable rise in NEV CV sales, in particularly BEV CVs, ahead in 2H17 to compensate for the five consecutive months of decline in 1H17.

**Tepid ICE sales growth in 2Q17 despite strong recovery in Jun-17, fading effects of tax hike may promote sales rebound ahead.** Although ICE sales have risen 4.5% YoY in Jun-17, outpacing that of both May-17 (-0.09%) and Jun-17 (-2.24%), total sales growth in 2Q17 declined to 1.1% YoY, versus 7.4% YoY in 1Q17. However, we expect sales growth to gather pace in 2H17, to be primarily driven by the fading impacts of the tax hike, and in particularly given the turnaround in the sales growth of cars below 1.6L since May-17.

**Reduced inventory in 2Q17 due to slowdown in wholesale growth will likely provide further room for restocking amid the peak season.** According to CPCA, the dealers' average inventory days have declined from 56 in Mar-17 to 47 in Jun-17, largely due to slower wholesales growth compared to retail sales growth as OEMs have slowed down their shipments to dealers, especially for domestic brands and French brands. We expect the lower inventory levels in 2Q17 will spur relatively stronger sales growth amid the upcoming restocking peak season.

**NEV sales continued to recover, strong CVs sales growth signals BEV CV sales rally ahead.** Total NEV CV sales rose 56% YoY to 16k units in Jun-17, ending five consecutive months of decline in 1H17, thanks to a 146% MoM increase in BEV CV sales to 15k units in Jun-17 from 6k units in May-17. With the NEV CV subsidy reduction weighing substantially on NEV CV shipments in 1H17, the anticipated growth in NEV sales in 2H17 will likely compensate for the sluggish sales in 1H17, in particularly with BEV CVs expected to see significant sales growth.

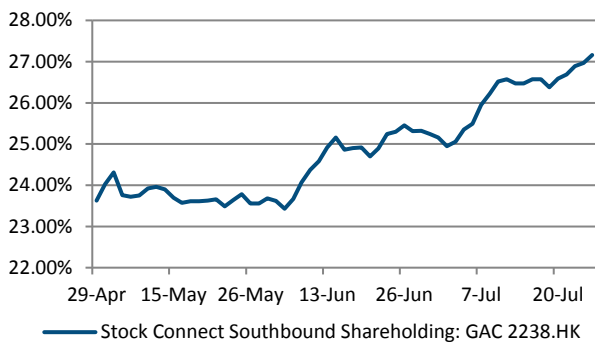
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## Peers valuation and southbound fund shareholding position

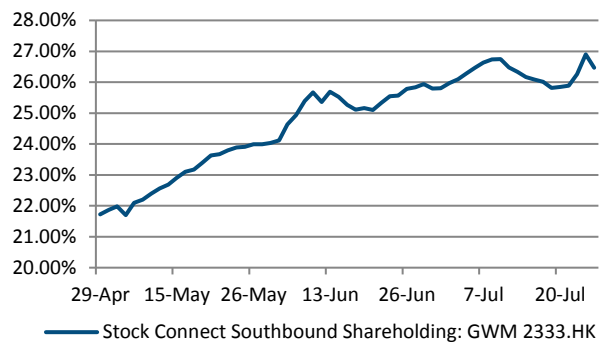
**Figure 1: Peers Valuation**

| Company          | Ticker  | Ccy | Close (Local\$) | Mkt cap (US\$m) | EPS Growth (%) |      | ROE (%) |      | Net debt / Equity (%) |        | PER (x) |      | EV/EBITDA (x) |      | PBR (x) |     | Yield (%) |     |
|------------------|---------|-----|-----------------|-----------------|----------------|------|---------|------|-----------------------|--------|---------|------|---------------|------|---------|-----|-----------|-----|
|                  |         |     |                 |                 | FY1            | FY2  | FY1     | FY2  | FY1                   | FY2    | FY1     | FY2  | FY1           | FY2  | FY1     | FY2 | FY1       | FY2 |
| BYD CO LTD-H     | 1211 HK | HKD | 48.6            | 18,937          | (1.7)          | 29.8 | 9.4     | 11.1 | 66.1                  | 61.1   | 25.7    | 19.8 | 12.5          | 10.5 | 2.0     | 1.9 | 0.9       | 1.2 |
| GREAT WALL MOT-H | 2333 HK | HKD | 10.1            | 15,791          | (15.3)         | 9.4  | 18.3    | 17.9 | (4.0)                 | (5.5)  | 11.9    | 10.9 | 8.5           | 7.6  | 1.5     | 1.3 | 3.6       | 3.8 |
| DONGFENG MOTOR-H | 489 HK  | HKD | 9.5             | 10,492          | (2.5)          | 3.5  | 12.6    | 11.8 | (26.2)                | (25.9) | 5.4     | 5.3  | 25.6          | 22.7 | 0.6     | 0.6 | 2.8       | 2.9 |
| BAIC MOTOR-H     | 1958 HK | HKD | 7.0             | 6,808           | 4.7            | 19.6 | 16.3    | 16.7 | (10.2)                | (25.7) | 6.9     | 5.8  | 2.8           | 2.8  | 1.0     | 0.9 | 5.0       | 6.0 |
| GUANGZHOU AUTO-H | 2238 HK | HKD | 16.9            | 21,295          | 54.0           | 15.7 | 19.2    | 18.8 | (17.8)                | (16.2) | 14.8    | 12.8 | 23.0          | 19.9 | 1.8     | 1.5 | 2.9       | 3.4 |
| BRILLIANCE CHINA | 1114 HK | HKD | 18.6            | 12,016          | 32.6           | 32.9 | 18.8    | 21.2 | (5.9)                 | (2.5)  | 16.6    | 12.5 |               |      | 2.9     | 2.5 | 0.7       | 0.9 |
| GEELY AUTOMOBILE | 175 HK  | HKD | 18.1            | 20,687          | 62.4           | 27.8 | 29.2    | 29.6 | (64.4)                | (73.9) | 16.8    | 13.2 | 11.1          | 8.8  | 4.5     | 3.5 | 1.2       | 1.7 |

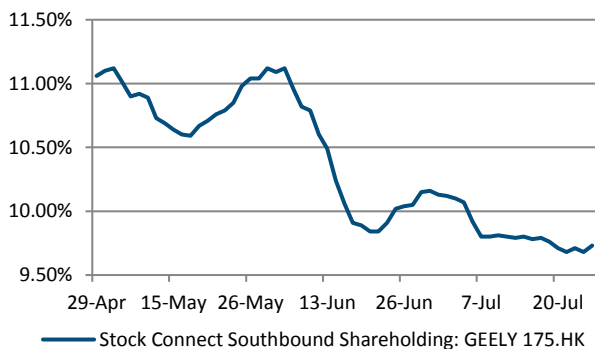
 Source: Bloomberg, CSCI Research, price as of 28<sup>th</sup> July 2017

**Figure 2: CCASS Shareholding positions for GAC**


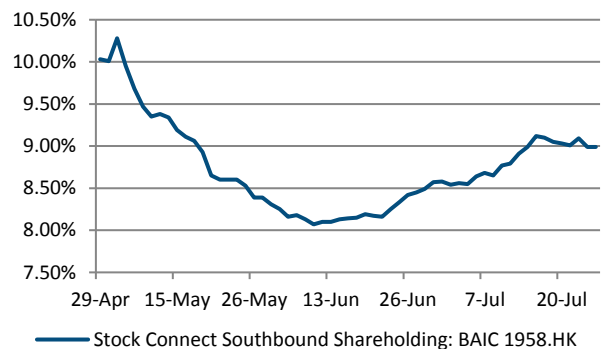
Source: HKEX, CSCI Research

**Figure 3: CCASS Shareholding positions for GWM**


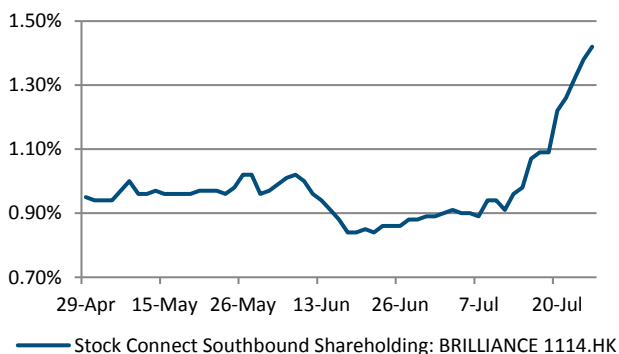
Source: HKEX, CSCI Research

**Figure 4: CCASS Shareholding positions for Geely**


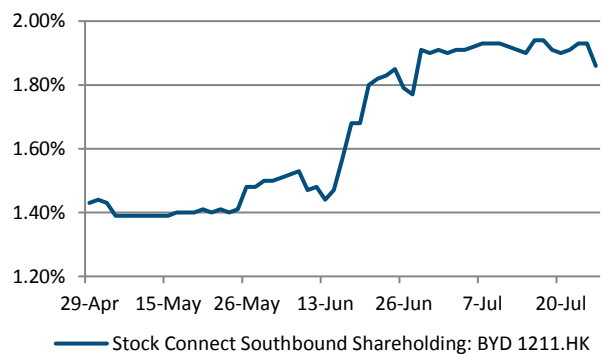
Source: HKEX, CSCI Research

**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**


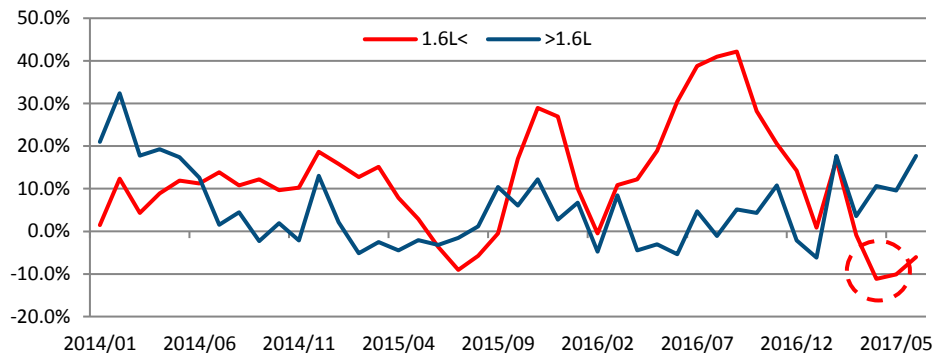
Source: HKEX, CSCI Research

### Tepid ICE growth in 2Q17 with fading effects of tax hike

According to CAAM, auto sales amounted to 2.17mn units in Jun-17, up 4.5% YoY from 2.07mn units in Jun-16, substantially outpacing a 0.09% and 2.24% decline in Apr-17 and May-17 respectively. The strong growth in Jun-17 was mainly attributable to a 2.3% YoY upsurge in PV sales growth during the month as compared with a 3.7% and 2.6% YoY decline in Apr-17 and May-17 respectively. Nonetheless, total sales growth in 2Q17 was lower at 1.1% YoY relative to a 7.4% YoY increase in 1Q17, although PV sales have largely improved in Jun-17, the sales growth of both sedans and MPV remained in the negative range.

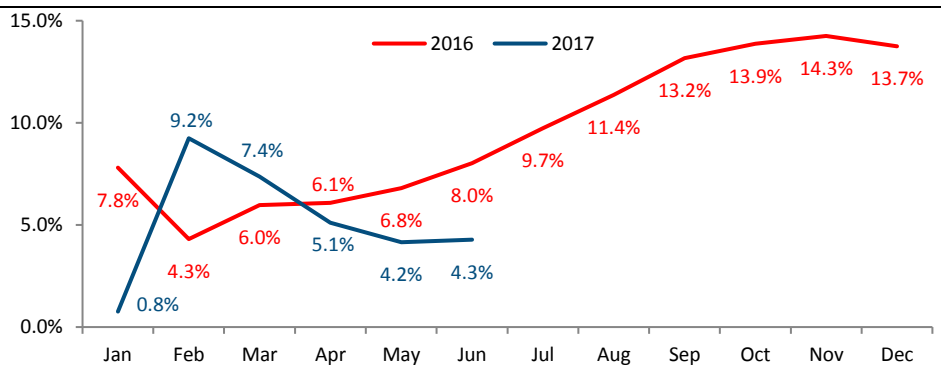
On the other hand, we noticed that after posting continuous downward growth in Apr-17, which has been led by the tax hike policy in FY17, the sales growth of cars below 1.6L rebounded in May-17 and Jun-17. In our view, the turnaround in the sales growth is an indication that the impact of the tax hike is mitigating, which should lead to a continuous sales rebound of cars below 1.6L in 3Q17 amid the restocking peak season.

**Figure 8: Sales growth of vehicles below 1.6L turned around suggested tax hike effects fading**



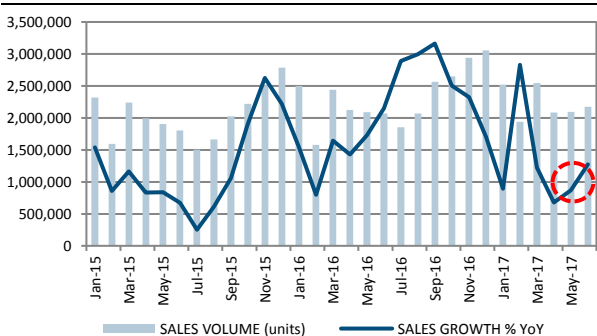
Source: CAAM, CSCI Research

**Figure 9: Accumulated sales growth stabilized in 2Q17**



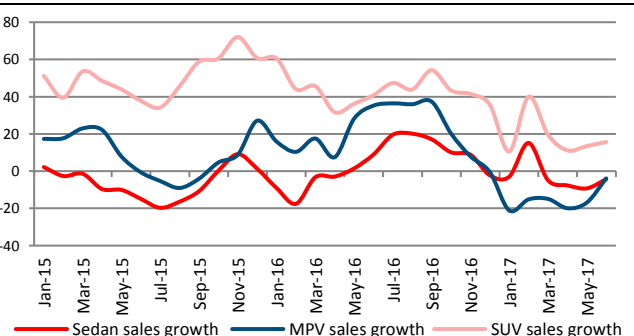
Source: CAAM, CSCI Research

**Figure 10: CAAM total sales growth**



Source: CAAM, CSCI Research

**Figure 11: MPV sales growth rebounded the most in 2Q17**

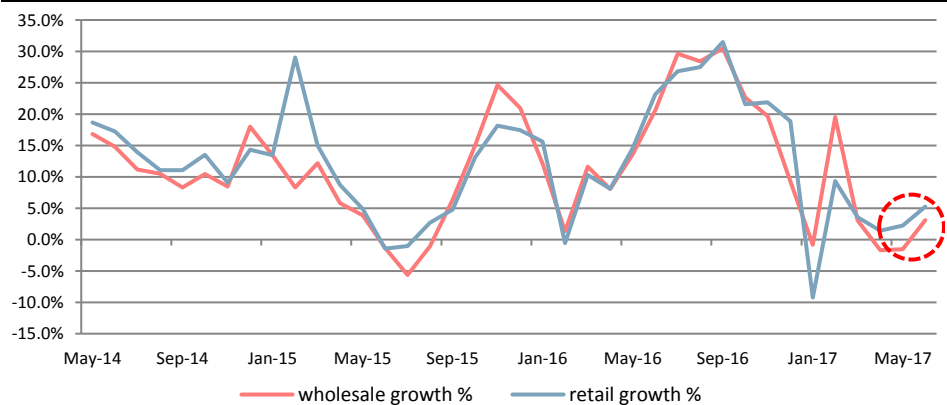


Source: CAAM, CSCI Research

### Accelerating retail sales and slowing wholesale sales promoted destocking in 2Q17

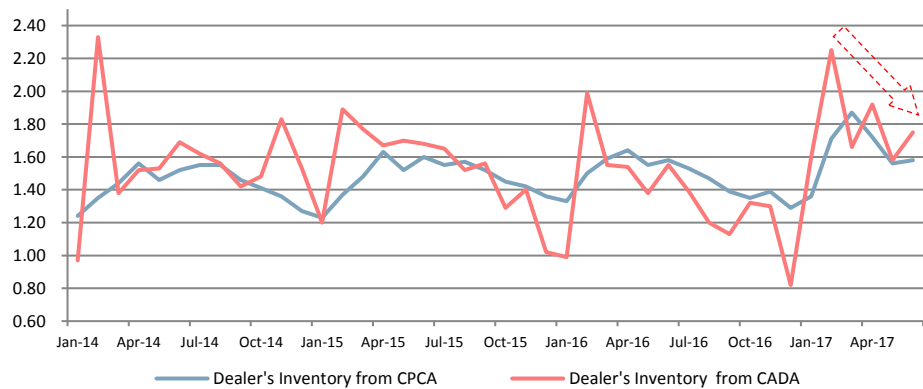
Concerns regarding rising inventory levels during 1Q17 have been largely alleviated in 2Q17 on the back of increasing retail sales growth and slowing wholesale growth. Given the rapid decline in wholesale growth, we believe the destocking was primarily due to a slowdown in shipments from the OEMs to the dealers, especially for the domestic brands and French brands. Strong retail sales and slowing wholesale have reduced 2Q17 inventory to the level of 1Q16, which will further benefit dealers' operation and liquidity during the upcoming peak season in 2H17, in our view.

**Figure 12: Retail sales outperformed wholesale sales in 2Q17**



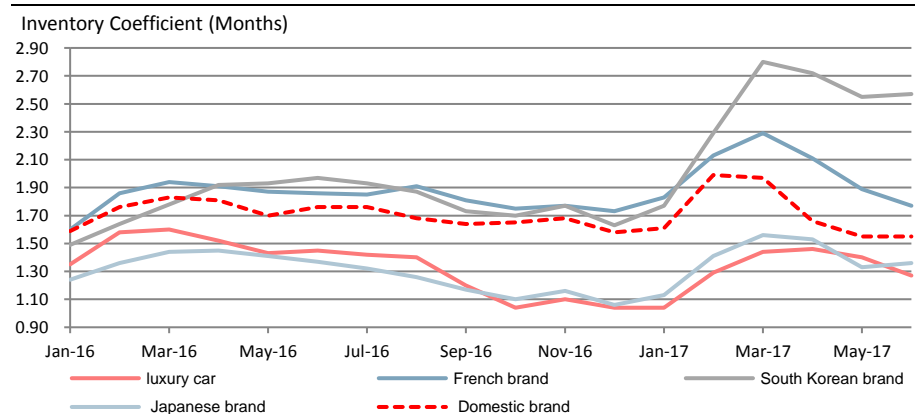
Source: CPCA, CSCI Research

**Figure 13: Dealer's Inventory have declined during 2Q17**



Source: CADA, CSCI Research

**Figure 14: Inventory coefficients by brands**



Source: CPCA, CSCI Research

### NEV PV sales continued recovery, CV saw positive growth in Jun

Total NEV sales continued to increase in Jun-17 with 33% YoY growth despite NEV PV sales growth has slowed down to 26% YoY, primarily due to BEV PV sales demonstrated a relative weak MoM growth in Jun-17 compared to the preceding month, with June PHEV PV sales returning to positive growth for the first time this year, posting a 5.9% YoY growth in shipment volume in Jun-17. Meanwhile, NEV CV sales also posted a positive growth in Jun-17 after five consecutive months of decline in 1H17, thanks to a robust increase in BEV CV sales to 16k units in Jun-17 from 6.4k units in May-17.

Since the Chinese government has introduced rather sweeping changes to its NEV subsidy program in 2017, NEV sales growth has declined somewhat by 7.8% YoY as of end of 1Q17, with NEV PV and NEV CV sales growth slumping 24% and 77% YoY respectively. Nonetheless, after the new subsidy list announced completely, more NEV OEMs have resumed their shipments, thus, total NEV sales grew 13.6% YoY as of end 2Q17 with NEV PV sales rising 34% YoY and NEV CV sales decreasing 34% YoY.

Given that the traditional ICE sales peak season usually occur in the 3Q or 4Q of each year, we anticipate NEV shipments, especially the BEV CV segment, will likely see substantial improvement in the following months to compensate for the sluggish sales in 1H17. Meanwhile, the pickup in order growth for NEV OEMs has been partly reflected by the upstream parts suppliers in their preliminary interim results.

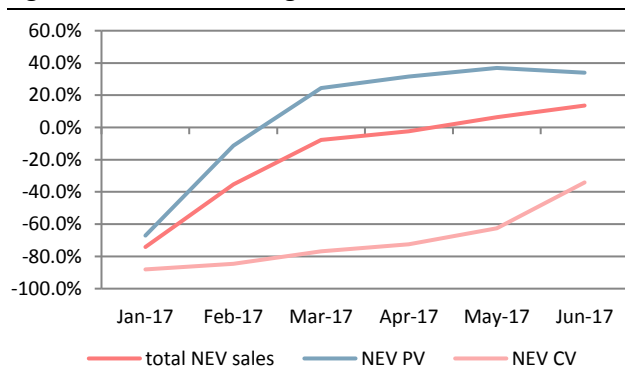
In 1Q17, majority of the NEV battery stocks have experienced a substantial earnings decline due to reduced orders and shipments. With the sales recovery in 2Q17, we believe NEV companies' earnings will start to pick up from 2Q17 onwards and likely see significant improvement during 2H17; and such anticipation may have explained why the share prices of NEV battery manufacturers and suppliers have risen rather substantially in Jun-17.

**Figure 15: 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%   |
| 2017-6     | 59000     | 33.0%   | 43000    | 26.1%  | 33000 | 33.3%   | 10000 | 5.9%     | 16000    | 55.9%  | 15000 | 64.0%   | 1000 | 0.9%     |

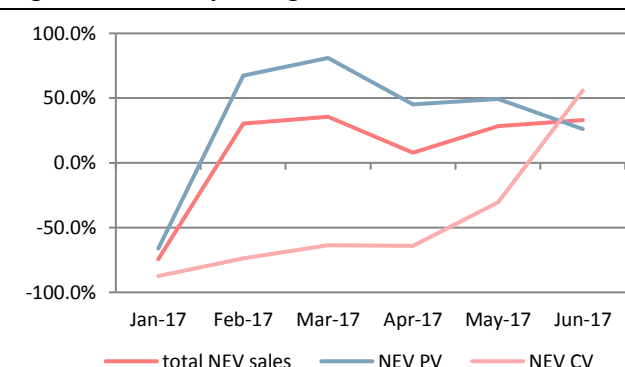
Source: CAAM, CSCI Research

**Figure 16: NEV YTD sales growth**



Source: CAAM, CSCI Research

**Figure 17: Monthly sales growth**



Source: CAAM, CSCI Research

**Figure 18: Preliminary interim results for NEV battery stocks in 1H17(Declined earnings were highlighted)**

| RMBmn              |           | 2015    |            |              | 2016     |            |              | 1Q16         |         |            | 1Q17         |         |              | 1H17 preliminary interim results |                        |                        |                          |
|--------------------|-----------|---------|------------|--------------|----------|------------|--------------|--------------|---------|------------|--------------|---------|--------------|----------------------------------|------------------------|------------------------|--------------------------|
|                    |           | Revenue | Net Profit | Net Margin   | Revenue  | Net Profit | Gross Margin | Net Margin   | Revenue | Net Profit | Gross Margin | Revenue | Net Profit   | Gross Margin                     | Revenue                | Net Profit (attrib.)   | Net Profit YoY (attrib.) |
| Battery Packs      | 002074.SZ | 2,745.5 | 584.6      | 21.3%        | 4,757.9  | 1,030.9    | 46.9%        | 21.7%        | 1,174   | 306        | 50.9%        | 1,108   | 202          | 38.1%                            |                        |                        |                          |
|                    | 300014.SZ | 1,348.9 | 151.3      | 11.2%        | 2,339.7  | 251.8      | 29.2%        | 10.8%        | 386     | 38         | 31.6%        | 570     | 54           | 28.9%                            | 222.4 ~ 240.2          | 150% ~ 170%            |                          |
|                    | 000839.SZ | 2,809.4 | 351.5      | 12.5%        | 3,927.1  | 230.2      | 19.8%        | 5.9%         | 829     | 87         | 18.7%        | 1,123   | 55           | 19.3%                            |                        |                        |                          |
|                    | 300116.SZ | 581.3   | 35.4       | 6.1%         | 4,467.3  | 424.6      | 30.1%        | 9.5%         | 75      | 0          | 27.0%        | 2,783   | 254          | 30.5%                            | 547 ~ 552              | turn losses into gains |                          |
|                    |           |         |            | <b>12.8%</b> |          |            | <b>31.5%</b> | <b>11.9%</b> |         |            | <b>32.0%</b> |         | <b>29.2%</b> |                                  |                        |                        |                          |
| Electrolytes       | 002709.SZ | 945.8   | 99.4       | 10.5%        | 1,837.2  | 396.3      | 39.8%        | 21.6%        | 345     | 71         | 41.4%        | 379     | 64           | 36.4%                            |                        |                        |                          |
|                    | 002407.SZ | 2,182.1 | 31.6       | 1.4%         | 2,870.8  | 477.8      | 41.2%        | 16.6%        | 541     | 112        | 44.0%        | 677     | 69           | 26.8%                            | 1,541                  | 151                    | -39.8%                   |
|                    | 002759.SZ | 412.1   | 59.6       | 14.5%        | 498.9    | 77.0       | 35.7%        | 15.4%        | 113     | 17         | 30.7%        | 255     | 81           | 52.2%                            |                        |                        |                          |
|                    | 300037.SZ | 934.3   | 133.1      | 14.2%        | 1,589.2  | 255.9      | 38.7%        | 16.1%        | 299     | 53         | 41.0%        | 389     | 68           | 38.8%                            | 118.3 ~ 130.7          | -5% ~ +5%              |                          |
|                    | 002411.SZ | 2,023.4 | 568.3      | 28.1%        | 3,723.9  | 953.6      | 54.8%        | 25.6%        | 877     | 233        | 58.6%        | 827     | 166          | 51.9%                            |                        |                        |                          |
|                    | 603026.SH | 3,454.5 | 55.4       | 1.6%         | 3,790.9  | 170.5      | 11.3%        | 4.5%         | 869     | 40         | 10.1%        | 1,122   | 45           | 9.5%                             |                        |                        |                          |
|                    | 002091.SZ | 7,293.0 | 252.9      | 3.5%         | 29,738.5 | 540.7      | 11.9%        | 1.8%         | 1,649   | 54         | 15.0%        | 7,180   | 154          | 10.6%                            |                        |                        |                          |
| 600884.SH          | 4,302.3   | 677.5   | 15.7%      | 5,474.8      | 330.2    | 25.0%      | 6.0%         | 1,015        | 41      | 28.6%      | 1,538        | 83      | 27.0%        |                                  |                        |                        |                          |
|                    |           |         |            | <b>11.2%</b> |          |            | <b>32.3%</b> | <b>13.5%</b> |         |            | <b>33.7%</b> |         | <b>31.6%</b> |                                  |                        |                        |                          |
| Positive Electrode | 002070.SZ | 689.0   | (151.4)    | -22.0%       | 886.1    | (48.3)     | 32.7%        | -5.5%        | 293     | -5         | 17.1%        | 220     | -15          | 19.9%                            | (60) ~ (70)            | turn gains into losses |                          |
|                    | 000760.SZ | 346.6   | (194.9)    | -56.2%       | 356.4    | 46.1       | 64.2%        | 12.9%        | 40      | -35        | 9.7%         | 37      | -45          | 3.6%                             | 121                    | turn losses into gains |                          |
|                    | 002466.SZ | 1,866.9 | 425.8      | 22.8%        | 3,904.6  | 1,512.1    | 71.2%        | 38.7%        | 754     | 284        | 69.8%        | 1,064   | 406          | 68.8%                            |                        |                        |                          |
|                    | 002460.SZ | 1,353.9 | 124.8      | 9.2%         | 2,844.1  | 464.4      | 34.6%        | 16.3%        | 663     | 107        | 27.7%        | 625     | 136          | 34.0%                            | 528.5 ~ 667.6          | 90% ~ 140%             |                          |
|                    | 000762.SZ | 910.9   | 35.7       | 3.9%         | 695.6    | 21.3       | 25.7%        | 3.1%         | 192     | 23         | 35.7%        | 60      | -23          | 5.9%                             | (25) ~ (37.5)          | turn gains into losses |                          |
|                    | 002176.SZ | 892.9   | 34.2       | 3.8%         | 2,984.7  | 197.3      | 25.5%        | 6.6%         | 572     | 37         | 27.9%        | 353     | 45           | 26.2%                            | 534.9 ~ 748.9          | -30 ~ -50%             |                          |
|                    | 600773.SH | 761.5   | 57.3       | 7.5%         | 2,750.9  | 73.4       | 11.9%        | 2.7%         | 329     | 11         | 17.2%        | 207     | 14           | 27.9%                            |                        |                        |                          |
| 300224.SZ          | 1,365.8   | 160.2   | 11.7%      | 1,587.6      | 190.9    | 26.5%      | 12.0%        | 336          | 32      | 23.6%      | 151          | 5       | 28.7%        | (13) ~ (18)                      | turn gains into losses |                        |                          |
|                    |           |         |            | <b>-2.4%</b> |          |            | <b>36.5%</b> | <b>10.9%</b> |         |            | <b>28.6%</b> |         | <b>26.9%</b> |                                  |                        |                        |                          |
| Separator          | 300568.SZ | 425.1   | 118.3      | 27.8%        | 505.7    | 155.4      | 60.6%        | 30.7%        | 138     | 53         | 65.4%        | 120     | 35           | 52.8%                            | 68 ~ 73                | -21.5% ~ -26.9%        |                          |
|                    | 002108.SZ | 2,175.3 | 215.4      | 9.9%         | 2,764.8  | 487.3      | 32.9%        | 17.6%        | 490     | 104        | 36.6%        | 699     | 137          | 32.1%                            | 1,635                  | 285                    | 32.4%                    |
|                    |           |         |            | <b>18.9%</b> |          |            | <b>46.7%</b> | <b>24.2%</b> |         |            | <b>51.0%</b> |         | <b>42.5%</b> |                                  |                        |                        |                          |

Source: Wind, CSCI Research



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## Company Rating Definition

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

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

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