



China Auto Sector

NEV sales hike continues, with subsidy reduction overhang

	Ticker	Rec	Mkt cap		Price	PT	Up/ dn (%)	PER		PBR		EV/EBITDA	
			(US\$m)	Ccy				2017E	2018E	2017E	2018E	2017E	2018E
BYD	1211 HK	Buy	24,260	HKD	64.2	82	28	33.8	22.4	2.65	2.4	15.2	12.1
GAC	2238 HK	Buy	23,279	HKD	17.5	24.7	41	9.2	7.6	1.7	1.5	20.5	16.4
Brilliance Auto	1114 HK	Buy	11,942	HKD	18.5	24.8	34	15.6	10.3	2.8	2.3		

Source: Bloomberg, CSCI estimates

- ICE shipment continued to slow down in Nov-17 dragged by decelerating sales of CV trucks. However, PV sales remained stable during the same period, particularly underpinned by rising sales of A0 class sedan models. Given that the tax hike will become effective in FY18E, we believe small-engine sedans shipment will maintain strong during the remainder of 2017.
- NEV accumulated shipment in 11M17 have exceeded 600k units and is expected to reach 700k units in FY17E and 900k units in FY18E respectively, according to our estimation on the assumption that the government will keep the subsidies in FY18E at the same level in 2017.
- In our view, it is still possible for the government to slash NEV subsidies in FY18E, which is one year earlier than the schedule, citing expenditure increase as a result of shipment surge during the year. Nevertheless, we expect a narrowing reduction in FY18E compared with FY17E, therefore to post limited impact on the NEV shipment in 1H18.

Total ICE shipment dragged by declining CV sales in Nov-17. Growth of total ICE sales in Nov-17 further narrowed down to 0.7% YoY from 2% YoY in Oct-17, which we attributed to the slowing CV truck sales on fading effect of stimulative policy since Sep-16 and a high base in 2H16. On the contrary, PV sales remained stable during the same period. In particular, the A0 class sedan sales growth rose to 15% YoY in Nov-17 from 5% YoY in Oct-17, suggesting strong demand for small-engine sedans. Hence, we estimate the compact sedans will maintain strong shipment in Dec-17, given the upcoming tax hike in FY18E.

NEV shipment highly correlated with subsidy policies in FY17/18. Total NEV sales volumes have exceeded 600k units in 11M17 compared to 500k units in FY16. We witnessed a faster growth particularly after negative policy impacts subsided in 2H17. According to our estimation, total NEV shipment will exceed 700k units in FY17E and 900k units in FY18E on the assumption that the government will keep subsidies and qualified lists in FY18E at the same level in 2017. On industry wise, we forecast total sales growth to rise in 1H18 before slightly slowing down in 2H18 due to a low base in 1H17.

NEV subsidy slash foreseeable in the earlier-than-scheduled FY18E. In our view, it is still possible for the government to kill NEV subsidies in FY18E, which is one year earlier than the schedule, citing expenditure increase as a result of shipment surge during the year. Nevertheless, we expect to see a tender subsidy cut in FY18E compared with FY17E. Therefore, the NEV sector will face limited impact in 1H18 and get alleviated from 2H18.

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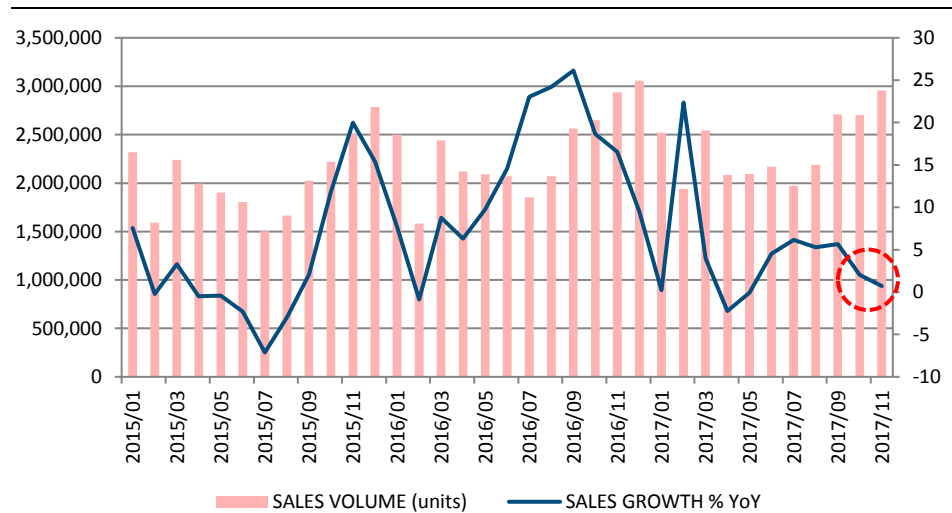
Total ICE shipment dragged by declining CV sales in Nov-17

In Nov-17, the ICE sales growth continued narrowing down to 0.7% YoY from 2% YoY in Oct-17, indicating weakening demand during the traditional peak season, partly due to slowing truck sales growth in CV segment (down from 15.6% YoY in Oct-17 to 5.6% YoY in Nov-17).

The total CV shipment growth decelerated from 14.8% YoY in Oct-17 to 5.6% YoY in Nov-17, primarily dragged by the trucks shipment decline. We attributed this to the fading impacts of stimulative policy and a high base in 4Q16.

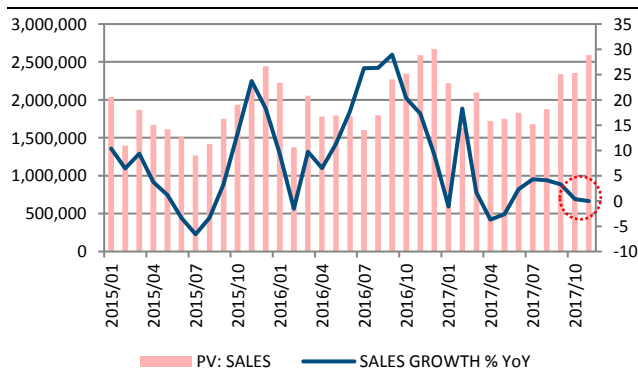
The stimulative policy launched in Sep-16 nationwide restricted the truck loading capacity limit, which boosted demand for trucks in a bid to maintain the same transportation capacity. As a result, truck sales started to rise post the policy release and continued its rising trend in FY17.

Figure 1: ICE shipment growth continue slowdown in Nov-17



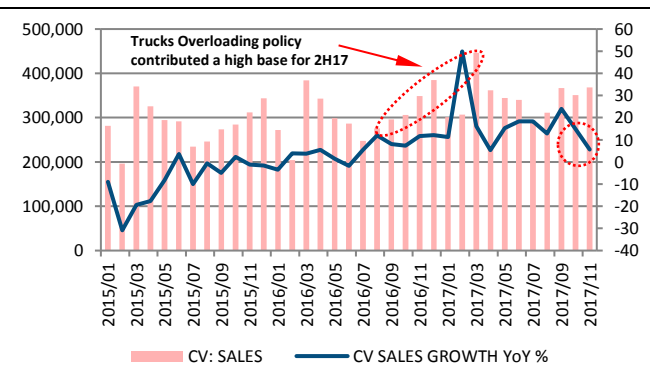
Source: CAAM, CSCI Research

Figure 2: PV shipment growth slightly down



Source: CAAM, CSCI Research

Figure 3: CV growth plunged in Nov. attributable to Trucks

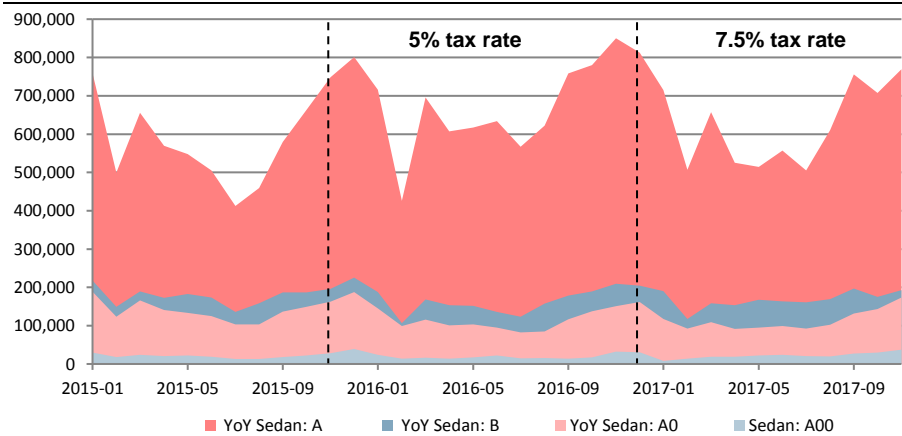


Source: CAAM, CSCI Research

Compared to CV segment, PV sales remained relatively stable in Nov-17. To be specific, SUV sales growth slightly slipped to 8.9% YoY in Nov-17 from 13.9% YoY in Oct-17, while sedans recovered moderately driven by the A0 class shipment growth expansion (from 5% YoY in Oct-17 to 15% YoY in Nov-17) on the back of purchase tax hike applicable on small vehicles below 1.6L (rolling back to 10% in FY18E from 7.5% in FY17E). We expect the sales of small-size sedans, such as A0 or A00 class sedans, will continue to rise in Dec-17 and likely resume a low-single digit growth in 1H18 due to lower demand, in our view.

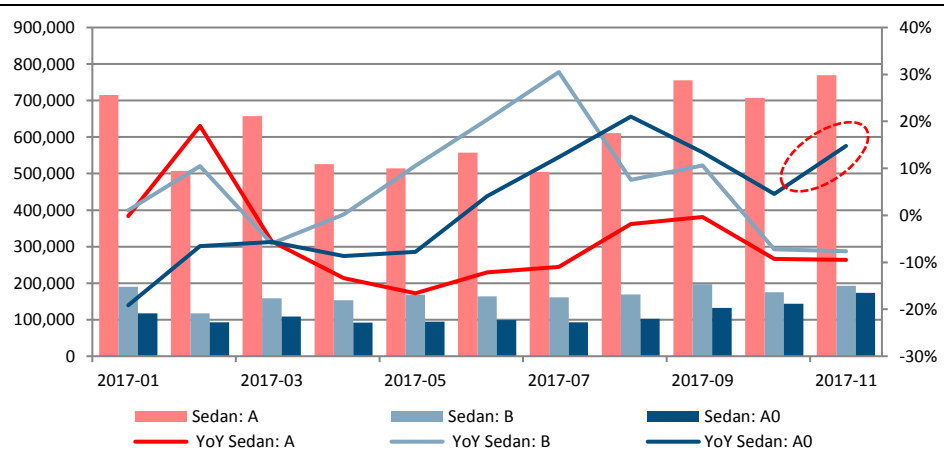
Referring to 2015-17, the expected tax hike next year would boost sales in advance. Thus, we estimate part of the demand in FY18E have been fulfilled during 2H17, especially for the sedans below 1.6L displacement with size in A00, A0 or A class, which may weigh on the total sedan sales in 1H18, in our view.

Figure 4: CPCA Sedan shipments volume (units)



Source: CPCA, CSCI Research

Figure 5: Compact size sedan remains solid growth in Nov-17



Source: CAPA, CSCI Research

NEV sales further increased to 119k units in Nov-17 and pushed up the total sales volume in 11M17 to over 600k. According to our estimation, the total shipment is likely to exceed 700k units in FY17E and to reach 900k units in FY18E.

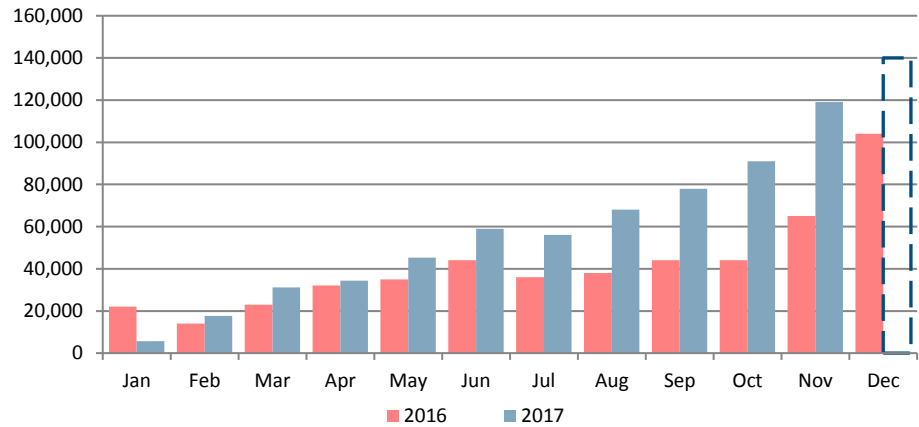
Given the positive correlation between NEV shipment and subsidies, we estimate the sector’s mid-double-digit growth will be sustainable to 1H18 on the back of a very low base in 1H17 as well as the unchanged subsidy amount and qualified list in FY18E compared to FY17E. Additionally, as the “Dual Credit Policy” requires higher NEV credits in FY18E/19E, OEMs will tend to expand their NEV production in the next two years, in our view.

On the other hand, we can’t rule out the possibility of a further subsidy cuts scheme to be launched in FY18E ahead of the schedule in FY19E, due to the government’s increasing expenditure on NEV shipments surge. Similar to 1H17, an unexpected subsidy cut may largely weigh on the sector’s shipment. Nevertheless, we estimate the reduction of subsidy in FY18E, if any, will be much lower than that in FY17E from FY16 and likely to focus on those NEV models with short range per charge, such negative impacts may drag the NEV shipment growth in 1H18 and then get alleviated in 2H18E, in our view.

Figure 6: NEV monthly shipments ('0000' units)

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
2017-1	0.6	-74.4%	0.5	-66.2%	0.4	-49.3%	0.1	-88.2%	0.1	-87.4%	0.1	-86.2%	0.0	-99.5%
2017-2	1.8	30.3%	1.7	67.3%	1.3	114.0%	0.3	-10.9%	0.1	-73.8%	0.1	-81.4%	0.0	-24.1%
2017-3	3.1	35.6%	2.8	81.0%	2.4	120.7%	0.5	-3.9%	0.3	-63.6%	0.2	-76.0%	0.1	268.2%
2017-4	3.4	7.9%	3.0	45.2%	2.5	79.5%	0.5	-25.8%	0.4	-64.2%	0.3	-67.7%	0.1	-33.0%
2017-5	4.5	28.4%	3.9	49.4%	3.2	88.9%	0.6	-27.3%	0.6	-30.6%	0.6	-29.8%	0.0	-41.9%
2017-6	5.9	33.0%	4.3	26.1%	3.3	33.3%	1.0	5.9%	1.6	55.9%	1.5	64.0%	0.1	0.9%
2017-7	5.6	55.2%	4.4	49.5%	3.3	63.7%	1.1	17.7%	1.2	79.4%	1.1	93.5%	0.1	5.0%
2017-8	6.7	76.3%	5.5	81.1%	4.4	97.4%	1.1	36.9%	1.3	58.1%	1.2	88.8%	0.1	-47.4%
2017-9	7.8	79.1%	6.1	96.8%	4.8	100.0%	1.3	85.7%	1.7	30.8%	1.6	45.5%	0.1	0.0%
2017-10	9.1	106.7%	6.8	111.5%	5.5	94.8%	1.3	231.0%	2.3	93.7%	2.2	98.1%	0.1	43.8%
2017-11	11.9	83.0%	8.3	81.2%	6.8	65.6%	1.5	217.5%	3.6	87.3%	3.4	96.9%	0.2	3.7%

Source: CAAM, CSCI Research

Figure 7: Total NEV sales in 11M17 exceeded 600k units vs. 500k units in FY16E


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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