

SECTOR UPDATE

Automobile – China

Weekly: Show Me The Cash

The findings from our analysis on 1H24 financials generally reconfirm our segmental preference and stock picks for the auto sector. We prefer names with better earnings qualities in regard to margins and cash flows (eg Geely, GWM, CATL, Desay SV and FYG) to the others (eg BYD, Li Auto, XPeng, GAC, Nexteer, EVE Energy, Ganfeng and Zhongsheng). Maintain MARKET WEIGHT. Top BUYs: CATL, Desay SV and Geely. Top SELL: GAC.

WHAT'S NEW

• We recently conducted an analysis on the 1H24 financials of all the auto companies under our coverage in an attempt to see how the price war impacts the earnings of auto companies in 1H24 and how were the earnings and cash flow along the auto supply chain in China during the period (please see the table on the last page). The findings are as follows:

– **Despite the intense price war, both OEMs and auto part companies unexpectedly enjoyed resilient margins in 1H24 (except for certain names).** Li Auto and the JV brands of Guangzhou Auto Corp (GAC), GAC Toyota and GAC Honda, were the only OEMs under our coverage that suffered gross margin squeeze. Among the eight auto part companies we cover, only three saw gross margin contractions in 1H24 – Desay SV, Tuopu and Xusheng. Desay SV's gross margin only dipped 0.3ppt yoy to 20.3% during the period. Leading OEMs and auto part companies generally managed to hedge against the price cuts via lower procurement prices for parts and components and improved economies of scale.

– **Stronger sales volume growth does not necessarily mean stronger earnings growth for OEMs.** BYD, for example, registered a 27% yoy core earnings growth in 1H24 on a 28.5% yoy sales volume growth and a 2.7% dip in profit per vehicle. GWM's sales volume only grew by 7.8% yoy in 1H24, but its core earnings surged by 654% yoy during the period, mainly driven by a 382% yoy spike in profit per vehicle. Geely's core earnings also more than doubled yoy in 1H24, outpacing sales volume growth of 41%, on the back of a nearly 60% spike in profit per vehicle. The sharp margin improvement of GWM and Geely was due to: a) steadier product prices, b) optimisation of product mix, and c) increasing share of the more lucrative exports in total sales. Overseas sales as a percentage of total sales volume rose to 36%/21% for GWM and Geely respectively in 1H24.

PEER COMPARISON

Company	Ticker	Rec	Price @ 19 Sep 24 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (US\$m)	PE 2024F (x)	PE 2025F (x)	P/B 2024F (x)	P/B 2025F (x)	ROE 2024F (%)	Net Gearing (Cash) (%)
BYD	1211 HK	HOLD	245.00	220.00	(10.2)	713,230	17.5	17.2	3.9	3.3	22.8	(44.8)
Geely Automobile	175 HK	BUY	9.32	13.00	39.5	93,791	9.5	7.6	0.9	0.8	10.2	(34.3)
Great Wall Motors	2333 HK	BUY	11.78	20.00	69.8	100,101	7.5	6.0	1.7	1.3	20.3	9.8
Guangzhou Auto	2238 HK	SELL	2.33	1.80	(22.7)	24,204	10.3	10.6	0.2	0.2	3.3	(14.9)
Li Auto Inc	2015 HK	SELL	83.15	70.00	(15.8)	173,368	32.7	36.2	2.4	2.3	7.7	(149.2)
XPeng	9868 HK	SELL	35.60	18.00	(49.4)	67,171	Loss	Loss	2.7	3.6	(24.1)	(64.5)
Weichai Power	2338 HK	BUY	11.76	16.00	36.1	102,624	7.5	6.5	1.0	0.9	11.7	(57.1)
Fuyao Glass	3606 HK	BUY	50.00	61.00	22.0	130,487	17.5	14.8	3.4	3.1	20.5	(12.7)
Desay SV	002920 CH	BUY	93.30	145.00	55.4	51,784	26.0	19.6	5.5	4.5	22.8	(0.5)
Nexteer	1316 HK	SELL	2.51	1.50	(40.2)	6,300	16.1	17.4	0.4	0.4	2.5	(13.4)
MintH	425 HK	BUY	13.98	27.00	93.1	16,242	6.7	5.9	0.7	0.7	11.1	20.6
Ningbo Tuopu	601689 CH	BUY	35.75	86.00	140.6	57,128	13.6	10.8	2.5	2.1	17.2	33.9
Joyson Electronics	600699 CH	BUY	14.08	26.00	84.7	19,708	12.8	9.5	1.3	1.2	10.6	112.0
Ningbo Xusheng	603305 CH	HOLD	8.90	9.50	6.7	8,306	13.3	13.4	1.2	1.2	12.4	(2.9)
CATL	300750 CH	BUY	186.90	250.00	33.8	819,140	17.2	13.9	3.7	3.2	21.5	(70.5)
EVE Energy	300014 CH	SELL	32.34	20.00	(38.2)	66,159	16.5	16.6	1.7	1.6	7.7	32.2
Ganfeng Lithium	1772 HK	SELL	16.82	12.00	(28.7)	33,929	76.4	84.9	0.7	0.7	0.9	33.5
GEM	002340 CH	HOLD	5.69	5.80	1.9	29,221	18.7	14.5	1.5	1.4	8.0	76.0
Tinci Materials	002709 CH	SELL	13.38	10.00	(25.3)	25,528	60.5	63.7	2.0	1.9	3.2	27.1
Zhongsheng Group	881 HK	SELL	8.90	8.00	(10.1)	21,332	6.3	6.6	0.4	0.4	6.9	37.5
Yadea Group	1585 HK	SELL	11.46	8.60	(25.0)	34,323	13.6	11.9	3.4	2.9	26.3	(137.8)

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

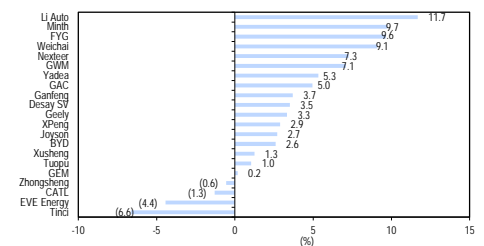
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TOP PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
Geely	175 HK	BUY	9.32	13.00
CATL	300750 CH	BUY	186.90	250.00
Desay SV	002920 CH	BUY	93.30	145.00
GAC	2238 HK	SELL	2.33	1.80

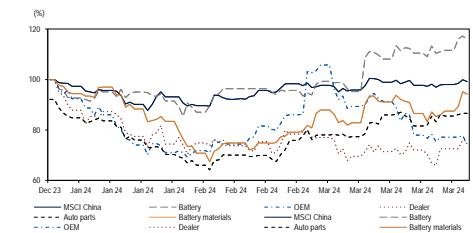
Source: UOB Kay Hian

WEEKLY STOCK PERFORMANCE



Source: Bloomberg

RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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- Receivables lengthened along the supply chain in 1H24.** Due to inventory pile-up, the downstream players extended payment terms to upstream suppliers, feeding through to longer receivable days along the entire supply chain, which includes dealers, certain OEMs (BYD), battery manufacturers (CATL and EVE Energy) and battery material suppliers (Ganfeng, Tinci Materials and GEM).
- Prudent OEMs took cash from end-customers; the others captured cash from suppliers but still suffered cash drain.** Great Wall Motor (GWM) and Geely, for example, saw strong cash inflows from operations by virtue of drawdown of inventories and receivables, so that they could shorten the payment terms to suppliers. On the contrary, even though BYD, Li Auto and XPeng extended the payment terms to suppliers, they registered weakened cash flows or even cash outflows from operations in 1H24, due to pile-up of inventories and receivables. For example, in 1H24, BYD's operating cash flow (OCF) slumped by over 80% yoy, and net cash balance plunged by nearly 70% given negative FCF as a result of pile-up of inventories and receivables. BYD's inventory days and receivable days spiked yoy/hoh in 1H24, while gross margin improved after 10-20% price cuts during the period.
- Auto dealers and battery material suppliers suffered the most margin squeeze and cash drain, due to lower product prices and pile-up of inventories and receivables.** Zhongsheng's gross margin of new car sales fell into negative territory in 1H24, the first time ever; while Ganfeng's and Tinci's gross margin plunged by over 50% yoy during the period. Their net debt levels hiked by 20-40% in 1H24, due to negative free cash flow (FCF).
- PV insurance registrations up 18% yoy, 19% mom and 16% wow.** China's PV insurance registrations grew 18% yoy/19% mom/16% wow to 482,000 units in the 37th week of 2024 (9-15 Sep 24). By segment, the insurance registrations of PEVs and ICE-cars were 256,000 units (+66% yoy/+19% mom/+18% wow) and 226,000 units (-11% yoy/+20% mom/+18% wow) respectively. PEV market share remained at 53% (+16ppt yoy/flat mom/-1ppt wow). Most EV makers saw yoy/mom/wow increase during the week of 9-15 Sep 24, in line with estimates. BYD brand's insurance registrations came in as expected at 86,000 units (+68% yoy/+10% mom/+17% wow). Li Auto's insurance registrations grew 40% yoy, 18% mom and 18% wow to 12,600 units. Geely's Zeekr registered 4,700 units (+96% yoy/+35% mom/+2% wow) in the week ending 15 Sep 24. XPeng's insurance registrations grew 19% yoy, 87% mom and 19% wow to 4,300 units.

ACTION

- Maintain MARKET WEIGHT on China's automobile sector.** The findings from our analysis on 1H24 financials generally reconfirm our segmental preference and stock picks for the auto sector. We prefer auto part manufacturers to OEMs and other segments, as the former are riding on the electrification and intelligentisation trends, eg Tuopu and Desay SV. Our preference for segments in descending order are: auto part manufacturers > OEMs > battery manufacturers > battery material suppliers > auto dealers.
- Top BUYs: CATL, Desay SV and Geely.** Our BUY calls in descending order of preference are CATL, Desay SV, Geely, Ningbo Tuopu, Fuyao Glass, Joyson Electronics, Minth and GWM.
- Top SELL: GAC.** GAC remains our top SELL as the company is facing a double whammy of sales drop and margin squeeze.

UOBKH FORECASTS ON CHINA VEHICLE SALES

	--- Wholesale shipment --- (m units)		----- yoy chg ----- (%)	
	2023	2024F	2023	2024F
Total EV	9.45	11.55	37.5	22.2
- PEV	9.00	10.95	37.7	21.6
- CEV	0.45	0.60	32.8	34.8
ICE-car	20.60	19.45	3.1	(5.6)
- PV	17.01	16.05	0.0	(5.6)
- CV	3.59	3.40	21.0	(5.2)
Total vehicle	30.05	31.00	11.9	3.2
- PV	26.01	27.00	10.5	3.8
- CV	4.03	4.00	22.2	(0.8)
EV share	31.4	37.3	5.9	5.8
- PV	34.6	40.6	6.9	5.9
- CV	11.2	15.0	0.9	4.0

Source: UOB Kay Hian

WEEKLY INSURANCE REGISTRATIONS BY BRAND

(000 units)	W37 (9-15 Sep)	yoy % chg	mom % chg	wow % chg	W1-37 (1 Jan- 15 Sep)	yoy % chg
BYD Co	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- BYD brand	86.0	68.3	10.1	16.8	2,118.3	28.4
- Denza	2.0	(20.0)	19.1	25.0	70.2	(11.3)
- FCB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- YW	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tesla	15.6	85.7	9.1	(3.7)	424.3	n.a.
Wuling	15.8	97.5	24.4	(0.6)	n.a.	n.a.
Li Auto	12.6	40.0	17.8	17.8	316.3	n.a.
Aito	9.6	1,271	71.4	24.7	271.3	n.a.
Leapmotor	7.9	132.4	49.1	25.4	144.1	n.a.
Aion	7.8	(20.4)	13.0	20.0	229.5	n.a.
Galaxy	5.8	n.a.	(4.5)	(3.3)	n.a.	n.a.
Changan (EV)	4.9	n.a.	n.a.	n.a.	n.a.	n.a.
Zeekr	4.7	95.8	35.4	2.2	124.4	n.a.
XPeng	4.3	19.4	87.0	19.4	78.5	n.a.
Nio	4.2	7.7	27.3	(6.7)	137.0	n.a.
PEV	256.0	66.2	19.1	14.8	6,446.3	42.0
ICE-car	226.0	(11.4)	19.6	18.3	7,984.6	(14.5)
Total PV	482.0	17.8	19.3	16.4	14,430.9	4.0
PEV share (%)	53.1	15.5	(0.1)	(0.8)	44.7	12.0

Source: Yiche, Zhineng Auto

YTD SALES VS FULL-YEAR SALES ESTIMATES

(000 units)	Avg weekly sales W1-37	Weekly sales W37	Implied avg weekly sales based on 2024F sales W38-52	Total sales W1-37	2024F
BYD Co	n.a.	n.a.	n.a.	n.a.	3,600
- BYD brand	57.3	86.0	87.8	2,118	3,435
- Denza	1.9	2.0	2.0	70	100
- FCB	n.a.	n.a.	n.a.	n.a.	50
- YW	n.a.	n.a.	n.a.	n.a.	15
Li Auto	8.5	12.6	12.2	316	500
Aito	7.3	9.6	21.9	271	600
Aion	6.2	7.8	7.4	230	340
Leapmotor	3.9	7.9	10.4	144	300
Zeekr	3.4	4.7	5.0	124	200
Nio	3.7	4.2	6.2	137	230
Deepal	2.7	4.0	23.4	99	450
XPeng	2.1	4.3	8.1	78	200
Xiaomi	2.3	3.1	4.0	60	120
PEV	174.2	256.0	220.2	6,446	9,750
ICE-car	215.8	226.0	284.4	7,985	12,250
Total PV	390.0	482.0	504.6	14,431	22,000
PEV share (%)	44.7	53.1	43.6	44.7	44.3

Source: Yiche, Zhineng Auto, UOB Kay Hian

1H24 RESULTS SUMMARY

	Sales volume*		Revenue		Adj net profit		Gross margin		Adj net profit per unit**		OCF		FCF		Net cash		Inventory days			Receivable days			Payable days				
	(units)	yoy	(lcy m)	yoy	(lcy m)	yoy	(%)	yoy	(lcy)	yoy	(lcy m)	yoy	(lcy m)	yoy	(lcy m)	yoy	hoh	1H23	2H24	1H24	1H23	2H24	1H24	1H23	2H24	1H24	
OEMs																											
BYD	1,613	28.5	301,127	15.8	12,315	27.0	20.0	1.7	7.3	(2.6)	14,178	(82.7)	(33,047)	n.a.	16,043	(69.2)	(74.2)	75	41	85	34	23	44	142	91	157	
GWM	560	7.8	91,429	30.7	5,651	654.0	20.7	3.9	12.6	382.2	9,406	n.a.	3,666	n.a.	10,490	n.a.	25.8	37	29	34	45	35	36	90	75	80	
Geely	956	41.0	107,305	46.6	3,316	108.4	15.1	0.7	3.7	58.5	14,152	32.3	5,386	273.6	33,457	26.4	21.0	33	28	29	82	63	66	202	164	176	
Li Auto	189	35.8	57,312	20.8	1,648	(47.4)	20.0	(1.2)	9.0	(61.3)	(3,772)	n.a.	(6,908)	n.a.	82,467	30.8	(8.1)	28	21	33	0	0	1	153	160	186	
XPeng	52	25.6	14,660	61.2	(2,539)	(43.7)	13.5	14.9	(48.8)	(55.2)	n.a.	n.a.	n.a.	n.a.	18,151	(71.8)	(22.6)	71	48	80	72	23	27	224	193	236	
GAC - proprietary brands	315	12.6	46,255	(25.3)	(2,359)	(9.2)	4.7	1.4	(1.6)	(80.8)	2,635	9,911.6	(2,163)	(53.9)	6,592	(64.3)	(66.7)	37	48	74	28	20	28	68	80	97	
GAC - JV brands	548	(44.0)	n.a.	n.a.	2,021	(61.9)	n.a.	n.a.	7.4	(31.9)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Auto parts																											
Fuyao Glass	n.a.	16.0	18,340	22.0	3,591	63.7	37.3	3.2	n.a.	n.a.	3,325	6.4	979	54.3	2,010	9.7	(49.5)	48	41	44	93	89	97	41	44	42	
Desay SV	n.a.	n.a.	11,692	34.0	790	49.7	20.3	(0.3)	n.a.	n.a.	615	103.4	(90)	50.2	(501)	699.1	n.a.	93	57	70	114	121	121	131	118	112	
Joyson Electronics	n.a.	n.a.	27,079	0.2	523	96.3	15.5	2.1	n.a.	n.a.	1,869	16.1	38	n.a.	(14,759)	(7.8)	(3.0)	71	71	77	59	55	52	72	74	73	
Tuopu	n.a.	n.a.	12,222	33.4	1,055	0.1	21.3	(1.2)	n.a.	n.a.	1,038	(15.3)	(774)	47.6	(3,386)	(16.3)	(27.6)	72	73	66	122	114	96	112	122	102	
Xusheng	n.a.	n.a.	2,149	(8.9)	239	(26.8)	22.8	(2.2)	n.a.	n.a.	747	48.8	437	n.a.	588	1,256.4	227.6	113	102	117	114	100	94	150	133	161	
Minth	n.a.	n.a.	11,090	13.8	1,068	20.8	28.5	2.2	n.a.	n.a.	1,731	8.4	n.a.	n.a.	(3,163)	(24.3)	(16.1)	89	94	96	127	112	110	157	166	168	
Weichai Power	n.a.	n.a.	112,490	6.0	5,479	51.8	21.7	3.0	n.a.	n.a.	12,802	(0.7)	9,393	(2.1)	33,116	3.2	(32.6)	78	84	76	82	69	83	176	194	197	
Nexteer	n.a.	n.a.	2,099	(0.1)	14	(56.3)	10.0	1.0	n.a.	n.a.	152	(34.1)	(2)	n.a.	186	0.7	(12.0)	28	28	30	71	70	72	78	79	78	
Battery																											
CATL	205	21.1	166,767	(11.9)	20,054	14.2	26.5	4.9	97.8	(5.6)	44,709	20.6	30,647	64.6	121,595	49.7	(12.8)	60	52	72	84	104	112	231	221	273	
EVE Energy	34	88.3	21,659	(5.7)	1,499	19.3	16.5	0.5	n.a.	n.a.	312	(90.6)	(1,857)	n.a.	(17,637)	36.0	57.7	73	54	64	92	107	140	241	260	290	
Battery materials																											
Ganfeng Lithium	n.a.	n.a.	9,589	(47.2)	(160)	n.a.	10.8	(11.8)	n.a.	n.a.	3,942	n.a.	(1,299)	(84.7)	(18,964)	92.6	20.4	148	105	173	80	83	85	100	114	229	
GEM	n.a.	n.a.	17,338	34.0	703	103.1	13.5	0.9	n.a.	n.a.	1,320	111.3	(4,650)	199.0	(18,234)	47.8	27.9	132	98	101	72	81	82	52	64	73	
Tinci Materials	n.a.	n.a.	5,450	(31.8)	186	(85.4)	18.8	(24.2)	n.a.	n.a.	364	(44.9)	(102)	(93.7)	(4,947.0)	31.5	36.7	56	37	50	121	106	139	108	102	127	
Dealer																											
Zhongsheng	233	3.9	82,421	0.6	1,595	(46.8)	6.0	(2.5)	n.a.	n.a.	2,926	(64.0)	1,570	(75.7)	(12,844)	(16.3)	(25.1)	38	33	43	6	8	9	23	22	31	

* The unit of sales volume for OEMs is thousand vehicles; while that for battery manufacturers is GWh.

** The numbers of adjusted net profit per unit for OEMs are denominated in thousand yuan per vehicle; while that for battery manufacturers are denominated in million yuan per GWh.

Source: Bloomberg, UOB Kay Hian

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