

SECTOR UPDATE

Automobile – China

Weekly: Suppliers Pushing Back Against BYD's Request For 10% Price Cut

BYD's suppliers are pushing back against the company's request for a 10% price cut in 2025. Mexico is planning to remove Chinese companies out of the supply chain, which may dampen Chinese auto part companies. Nexteer would be hit the most, and Fuyao Glass the least. The EU may cancel the additional tariffs on China-made EVs. China's PV insurance registrations grew by 34% yoy during 18-24 Nov 24, beating expectations. Maintain MARKET WEIGHT. Top BUYs: Geely, Fuyao, and Desay SV.

WHAT'S NEW

- Suppliers pushing back against BYD's request for a 10% price cut. A snapshot on an email from BYD Company (BYD) to its suppliers has gone viral on Chinese internet in recent days. According to the email, BYD asked its part suppliers to cut prices by 10% starting from 1 Jan 25 given the heating up price competition. BYD has verified the email but claimed that the request for a 10% price cut is not compulsory for suppliers and the magnitude of price cut will be determined via the annual negotiations with suppliers.
- Some of BYD's suppliers are pushing back against the request for a 10% price cut. A supplier posted a public letter in response to the e-mail, stating that it would threaten its survival. We talked with some of BYD's suppliers, and got the similar conclusion. According to Tuopu (601689 CH/BUY/Target: Rmb65.00), which derives 5-6% of revenue from BYD, annual price reductions are an industry norm, but the extent of price cuts depends on market force rather than OEMs. Tuopu would strategically withdraw the business with the OEM if the net margin falls below its target of 10-12%. The other auto part manufacturers under our coverage (including Minth, Desay, Joyson Electronics, Fuyao Glass and Nexteer) have less than 5% of revenue coming from BYD. According to Minth, it has not agreed on a 10% price cut as requested by BYD, and is in negotiation with the OEM. We believe that leading parts suppliers have already considered this kind of risks when selecting customers. Suppliers with more diversified clientele and competitive products tend to have greater bargaining power vs OEMs.
- As for BYD, we think there is further room for cost reduction via asking suppliers for extra price cuts, given the razor-thin margin of its suppliers. In general, auto part suppliers would see a 2-4% price cut per annum along with sales volume growth, and they only earn single-digit net margin. A 6-8ppt in extra price cut would squeeze out their margins.

PEER COMPARISON

Company	Ticker	Rec	Price @ 28 Nov 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 Company	1211 HK	HOLD	252.20	275.00	9.0	734,190	16.8	15.7	3.9	3.3	24.3	(44.8)
Geely Automobile	175 HK	BUY	13.78	23.00	66.9	138,673	13.7	11.8	3.7	3.7	10.4	(34.3)
Great Wall Motors	2333 HK	BUY	12.66	23.00	81.7	107,579	0.1	0.5	1.2	1.0	20.3	(12.2)
Guangzhou Auto	2238 HK	SELL	2.92	1.00	(65.8)	30,333	Loss	39.3	0.2	0.2	3.3	(14.9)
Li Auto Inc	2015 HK	HOLD	87.75	100.00	14.0	182,959	27.8	30.6	2.5	2.3	9.5	(149.2)
XPeng	9868 HK	SELL	45.35	35.00	(22.8)	85,567	Loss	Loss	(2.0)	(2.0)	(20.2)	(64.5)
Weichai Power	2338 HK	BUY	10.68	20.00	87.3	93,200	7.5	6.2	1.0	0.9	11.7	(57.1)
Fuyao Glass	3606 HK	BUY	52.55	68.00	29.4	137,142	16.6	14.1	3.5	3.1	22.5	(12.7)
Desay SV	002920 CH	BUY	122.15	190.00	55.5	67,796	34.1	25.6	7.2	5.9	22.8	(0.5)
Nexteer	1316 HK	SELL	2.86	2.00	(30.1)	7,178	19.1	20.8	0.5	0.5	2.4	(13.4)
Minth	425 HK	BUY	13.28	39.50	197.4	15,429	0.6	0.6	0.7	0.6	12.2	20.6
Ningbo Tuopu	601689 CH	BUY	49.29	65.00	31.9	78,764	28.7	22.7	5.2	4.4	17.2	33.9
Joyson Electronics	600699 CH	BUY	15.43	30.00	94.4	21,597	14.0	10.4	1.4	1.3	10.6	112.0
Ningbo Xusheng	603305 CH	SELL	13.21	7.60	(42.5)	12,328	28.1	27.5	1.9	1.8	6.3	(2.9)
CATL	300750 CH	BUY	254.70	350.00	37.4	1,116,291	23.4	19.0	5.0	4.3	21.5	(70.5)
EVE Energy	300014 CH	SELL	47.98	30.00	(37.5)	98,154	24.5	24.6	2.6	2.3	7.7	32.2
Ganfeng Lithium	1772 HK	HOLD	24.70	20.00	(19.0)	49,824	112.2	124.7	1.0	1.0	0.9	33.5
GEM	002340 CH	HOLD	6.89	8.00	16.1	35,384	28.9	26.8	1.8	1.7	4.1	37.6
Tinci Materials	002709 CH	HOLD	24.35	18.00	(26.1)	46,457	110.2	116.0	3.6	3.5	3.2	27.1
Zhongsheng Group	881 HK	SELL	15.44	11.00	(28.8)	37,008	11.0	11.5	0.7	0.7	6.9	37.5
Yadea Group	1585 HK	HOLD	12.30	13.50	9.8	36,839	14.6	12.8	3.6	3.1	26.3	(137.8)

Source: Bloomberg, UOB Kay Hian

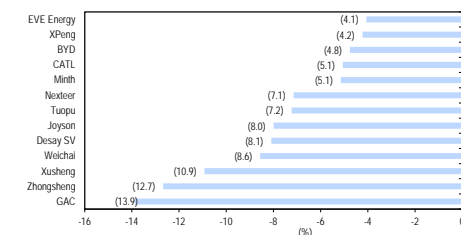
MARKET WEIGHT (Maintained)

TOP PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
Geely	175 HK	BUY	13.78	23.00
Fuyao Glass	3606 HK	BUY	52.55	68.00
Desay SV	002920 CH	BUY	122.15	190.00

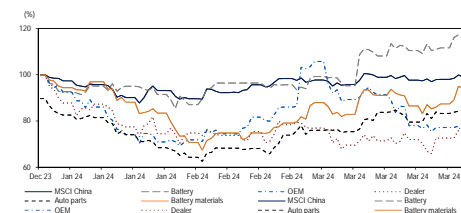
Source: UOB Kay Hian

WEEKLY STOCK PERFORMANCE



Source: Bloomberg

RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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- On the other hand, we expect BYD to continuously cut prices to boost sales in order to fill up the massive new capacity. Based on the announced new projects, BYD's production capacity for electric vehicles (EV) will surge 50% from 4.4m units at end-23 to 6.6m units by end-24, compared with 4.25m units of sales volume in 2024. Meanwhile, BYD's production capacity for EV battery will likely grow 35% from 430GWh at end-23 to 580GWh by end-24, enough for equipping more than 6m EVs.
- We expect price cuts to outpace cost reduction for BYD in 2024-26, crunching margins. BYD's net profit per vehicle tumbled 17% yoy to Rmb8,180 in 9M24, and we project it to drop 5%/10%/9% to Rmb8,190/Rmb7,340/Rmb6,670 in 2024/25/26 respectively. Based on these and our sales volume estimates of 4.25m units/5.00m units/5.50m units, we maintain our 2024-26 net profit forecasts for BYD at Rmb39,627m/Rmb42,435m/Rmb43,549m respectively.
- Mexico may remove Chinese companies from supply chain.** It was reported that in an attempt to maintain its trade pact with the US and Canada, Mexico plans to remove Chinese-made auto parts from the country's supply chain and have Mexican companies and North American companies producing most of the components. Trump's administration seeks to deter Chinese-made imports which would impact Chinese companies' exports from either China or Mexico to the US, but would not impact those with production bases in the US. For the auto part makers under our coverage, direct exports from China to North America only account for less than 5% of their total revenue. However, most companies have established production bases in Mexico to bypass the tariff on China-made products. Nexteer would be hit the most due to its high exposure to the US market. Fuyao Glass would be impacted the least, as it mainly supplies to the US market with local plants.
- The EU may cancel the additional tariffs on China-made EVs.** It was reported that China and the EU are in negotiation on trade issues, and the EU may cancel the 7.8-35.3% in extra tariff on China-made EVs. That would reduce export costs of EVs for China OEMs and enhance their competitiveness in the European market. Europe is China's biggest overseas EV market, making up 33.6% of the country's total EV export volume and 5.9% of its total EV wholesale shipment in 9M24. The biggest EV exporters in China are SAIC and Tesla Shanghai. These two companies are supposed to be the biggest beneficiaries. BYD and Geely respectively had only 1% and less than 1% of EV sales volume coming from Europe in 9M24.
- China's PV insurance registrations** grew 34% yoy, 10% mom and 3% wow in the 47th week of 2024. China's passenger vehicle (PV) insurance registrations came in as expected at 587,000 units (+34.3% yoy/+14.8% mom/+13.9% wow) in the 47th week of 2024. Insurance registrations of passenger electric vehicles (PEV) and ICE-cars reached 299,000 units (+69.9% yoy/+4.5% mom/+1.7% wow) and 288,000 units (+10.3% yoy/+17.1% mom/+4.0% wow) respectively during the week, implying a PEV market share 50.9% (+10.7ppt yoy/-2.8ppt mom/-0.6ppt wow). In the first 47 weeks of 2024, China's PV insurance registrations totalled 19.81m units (+8.1% yoy), which included 9.19m PEVs (+47.4% yoy) and 10.61m ICE-cars (-12.2% yoy). This compares with our full-year 2024 PV retail sales estimate of 22.36m units (+3% yoy), which includes 10.72m PEVs (+47% yoy) and 11.64m ICE-cars (-19% yoy).
- BYD (1211 HK/HOLD/Target: HK\$275.00).** BYD's insurance registrations came in as expected at 101,130 units (+101.8% yoy/+0.8% mom/+0.9% wow) in the 47th week of 2024 (18-24 Nov 24). By brand, the BYD brand (Dynasty Series and Ocean Series), Denza, Fang Cheng Bao and Yangwang respectively recorded insurance registrations of 95,900 units (+103.6% yoy/+0.3% mom/+1.3% wow), 1,900 units (-13.6 yoy/+13.1% mom/+6.7% wow), 2,260 units (+44.9% mom/flat wow) and 70 units (flat mom/+16.7 wow) in China during the week.
- Li Auto (2015 HK/HOLD/Target: HK\$100.00).** Li Auto recorded 11,600 units (+22.2 yoy/+2.7% mom/-5.7% wow) of insurance registrations in the 47th week of 2024. This brings cumulative insurance registrations in the first 47 weeks of 2024 to 435,000 units vs our estimated 2024 deliveries of 505,000 units and the company's targeted 2024 deliveries of 502,000-512,000 units. While Li Auto has seen sales recovery, we believe it will be facing increasing competition from peers like XPeng in the EREV segment. We maintain our 2024-

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

REVENUE EXPOSURE TO NORTH AMERICA

	Total revenue from North America (%)	Export to North America from China (%)	Export to North America from Mexico (%)	Sales to North America from US plants (%)
Fuyao Glass	20	5	-	15
Desay SV	<5	<5	-	-
Nexteer	53	4	21	28
Minth	25	5	10	10
Tuopu	25	>20	<5	-
Joyson	26	-	20	6

Source: UOB Kay Hian

WEEKLY INSURANCE REGISTRATIONS BY BRAND

('000 units)	W47 (18-24 Nov)	yoy % chg	mom % chg	wow % chg	W1-47 (1 Jan-24 Nov)	yoy % chg
BYD Co	100.1	101.8	0.8	0.9	3,174.1	39.2
- BYD brand	95.9	103.6	0.3	1.3	3,034.7	39.3
- Denza	1.9	(13.6)	(9.5)	(15.2)	91.8	(8.8)
- FCB	2.3	1,469.4	44.9	-	40.7	n.a.
- YW	0.1	(57.3)	-	16.7	7.0	n.a.
Wuling (EV)	20.6	79.1	(3.3)	(3.7)	531.7	n.a.
Tesla	16.7	(0.8)	59.0	(2.3)	561.5	n.a.
Li Auto	11.6	22.2	2.7	(5.7)	435.0	n.a.
Leapmotor	9.1	122.0	7.1	7.1	223.2	n.a.
Aito	7.5	59.6	(13.8)	4.2	346.6	n.a.
Galaxy	7.4	n.a.	-	2.8	n.a.	n.a.
XPeng	7.2	63.6	28.6	14.3	127.6	n.a.
Aion	7.1	n.a.	7.6	(4.1)	292.0	n.a.
Zeekr	6.2	181.8	21.6	3.3	177.2	n.a.
Deepal	6.1	90.6	22.0	-	148.6	n.a.
Xiaomi	4.6	n.a.	(19.3)	(19.3)	105.3	n.a.
Nio	4.0	21.2	(4.8)	5.3	179.3	n.a.
PEV	299.0	69.9	4.5	1.7	9,193.4	47.4
ICE-car	288.0	10.3	17.1	4.0	10,612.7	(12.2)
Total PV	587.0	34.3	10.3	2.8	19,806.0	8.1
PEV share (%)	50.9	10.7	(2.8)	(0.6)	46.4	12.4

Source: Yiche, Zhineng Auto

26 net profit forecasts for Li Auto at Rmb5,992m/Rmb5,440m/Rmb5,074m respectively, based on deliveries of 505,000 units/550,000 units/600,000 units and net profit per vehicle of Rmb11,864/Rmb9,892/Rmb8,457.

- Geely (175 HK/BUY/Target: HK\$23.00).** Zeekr's insurance registrations grew 182% yoy, 22% mom and 3% wow to 6,200 units in the 47th week of 2024, in line with market expectation. This brings cumulative insurance registrations in the first 47 weeks of 2024 to 177,200 units vs our estimated 2024 deliveries of 200,000 units and the company's targeted 2024 deliveries of 230,000 vehicles. Looking ahead, Zeekr's sales will be driven by the launches of new models and the ramp-up of new production lines. Galaxy's insurance registrations rose 3% wow but were flat mom at 7,400 units in the 47th week of 2024, in line with expectations. The sales spike was driven by the capacity expansion of E5. We maintain our 2024-26 net profit forecasts for Geely at Rmb9,173m/Rmb101,666m/Rmb13,032m respectively, based on sales volume of 2.10m units/2.50m units/2.90m units.
- Chairman Li Shufu increased his stake in Geely on 26 Nov and 27 Nov 24,** acquiring 16.4m shares at an average price of HK\$13.01 and 7.8m shares at an average price of HK\$13.11, totalling 24.2m shares at an average price of HK\$13.04. Following the purchase, his shareholding rose from 41.19% to 41.40%. This indicates management's confidence in Geely.
- XPeng (9868 HK/SELL/Target: HK\$35.00).** XPeng's insurance registrations came in as expected at 7,200 units (+64% yoy/+29% mom/+14% wow) in the 47th week of 2024. This brings cumulative insurance registrations in the first 47 weeks of 2024 to 127,600 units, vs our estimated 2024 deliveries of 200,000 units and the company's targeted 2024 deliveries of 280,000 units. We maintain our 2024-26 net loss estimates for XPeng at Rmb6,679m/Rmb5,487m/Rmb4,229m respectively. We do not expect XPeng to turn around in 2024-26, due to the flattened sales and stiffening competition. Maintain SELL.
- Tesla cut prices to promote sales.** Tesla announced that Chinese customers who order the two less-expensive variants of the Model Y between 25 Nov and 31 Dec 24 can receive a Rmb10,000 reduction when they make their final payment. The Model Y is available in China in an entry-level rear-wheel-drive version, a long-range all-wheel-drive version, and an all-wheel-drive performance option, with starting prices of Rmb249,900, Rmb290,900, and Rmb354,900, respectively. The discount applies to the rear-wheel drive and long-range all-wheel drive versions of the Model Y. Meanwhile, Tesla has further extended the five-year, 0% interest financing incentive in China applicable to all variants of the Model 3 and Model Y until 31 Dec 24. According to the China Passenger Car Association (CPCA), Tesla's Shanghai factory deliveries declined in Oct 24. Specifically, Tesla delivered 68,280 Model 3 sedans and Model Y SUVs last month, down 5.3% yoy and 23% mom. However, it needs to deliver at least 510,000 EVs in 4Q24 to achieve its goal of "slight growth" compared with last year's global deliveries of 1.81m. We believe the recent price cuts are aimed at meeting this annual sales target. That would boost the sales of Tesla's Chinese parts suppliers such as Tuopu (601689 CH/BUY/Target: Rmb65.00) and Xusheng (603305 CH/SELL/Target: Rmb7.60), which respectively have 30%/28% revenue coming from Tesla.

ACTION

- We maintain MARKET WEIGHT on China's auto sector.** Our preference for segments in descending order is: OEMs > automotive part manufacturers > automobile dealers. OEMs generally have stronger bargaining power vs automotive part suppliers along the supply chain, and the former also have lower exposure to the US and faster-growing overseas markets in developing countries. Compared with OEMs, automotive part manufacturers will be subject to bigger risk from the US tariffs. Automobile dealers will continue to see earnings headwinds from vehicle electrification.
- Our top BUYs are Geely, Fuyao Glass and Desay SV.**

YTD SALES VS FULL-YEAR SALES ESTIMATES

('000 units)	Avg weekly sales	Weekly sales	Implied avg weekly sales based on 2024F sales	Total sales	
	W1-47	W47	W48-52	W1-47	2024F
BYD Co	67.5	100.1	135.2	3,174	3,850
- BYD brand	64.6	95.9	130.1	3,035	3,685
- Denza	2.0	1.9	1.6	92	100
- FCB	0.9	2.3	1.9	41	50
- YW	0.1	0.1	1.6	7	15
Li Auto	9.3	11.6	14.0	435	505
Aito	7.4	7.5	50.7	347	600
Aion	6.2	7.1	9.6	292	340
Leapmotor	4.7	9.1	15.4	223	300
Zeekr	4.7	9.1	15.4	223	200
Nio	3.8	4.0	4.1	179	200
Deepal	3.2	6.1	60.3	149	450
XPeng	2.7	7.2	14.5	128	200
Xiaomi	2.9	4.6	2.9	105	120
PEV	195.6	299.0	305.1	9,193	10,719
ICE-car	225.8	288.0	205.1	10,613	11,638
Total PV	421.4	587.0	510.2	19,806	22,357
PEV share (%)	46.4	50.9	59.8	46.4	47.9

Source: Yiche, Zhineng Auto, UOB Kay Hian

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