

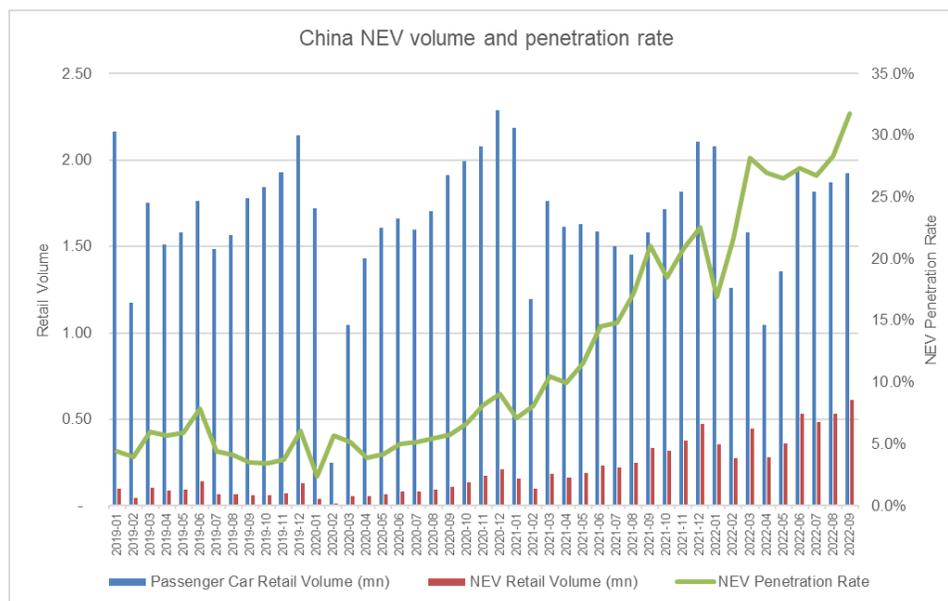
10th October 2022

China’s New Energy Vehicles market and competitive landscape – An update

China Passenger Car Association (CPCA) preliminary data show that domestic passenger car retail volume in September 2022 is expected to have seen 1.9mn new cars sold, increasing by 21% year-over-year. It is worth noting that September 2021 was a low base because of chip shortages at that time. Month-over-month, the overall passenger car retail volume increased slightly by 2%.

For new energy vehicles (NEVs), September retail volume was 611,000 units, a 82.9% year-over-year increase, which was below market expectation due to weakening marketing activities by electric vehicles (EV) brands and to softening consumer demand under sporadic covid lockdowns. September NEV penetration rate reached a record high of 31.8%.

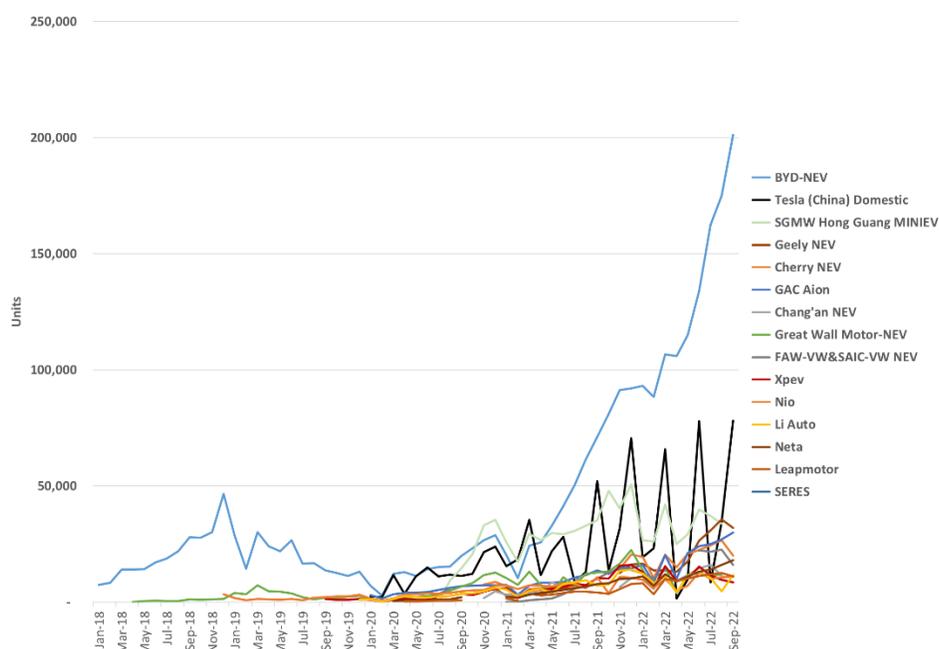
Figure 1. China monthly NEV penetration rate by retail volume



Source: CPCA, JK Capital

The competitive landscape of the China NEV market is slightly different from what it was in December 2021 when we wrote our first report on China NEV names, as new capacities are building up and new models are constantly being launched. Some players that were too small to be highlighted have differentiated themselves with impressive monthly deliveries. Some other brands have had fading momentum either due to weak manufacturing capabilities or unsatisfactory new model rollout.

Figure 2. Monthly NEV sales volume by brand in China



Source: CPCA, company filings, JKC Research

From Figure 2, we see that BYD is dwarfing all other players with its unparalleled manufacturing capabilities. The company has gone 100% electric since March 2022. Its monthly NEV sales volume reached a record high of 201,259 units in September 2022, a 183% increase year-over-year. BYD’s bestsellers are still dominated by its *Dynasty* range of products (various series of car models named after Chinese ancient dynasties), including 2 sedans –BYD *Qin* and BYD *Han*, and 3 SUVs –BYD *Tang*, BYD *Song* and BYD *Yuan*. The 5 series mentioned above accounted for 75% of BYD’s sales volume in August

2022. Meanwhile, BYD's *Marine Life* range of products is ramping up quickly. The first model of *Marine Life* model, called BYD *Dolphin*, had monthly volume of 23,298 units in August 2022, up from 30 units in the same period last year. Even so, BYD still has backlog orders of several hundreds of thousands units at hand. The company's top priority is to continuously expand capacity and secure auto supply.

Figure 3. BYD Tang (2022 version, 635km Range, 4WD, MRSP ~47,000 USD)



Figure 4. BYD Dolphin (2021 version, 401km Range, front-engine front-wheel drive, MRSP ~18,200 USD)



Tesla, on the other hand, is facing weakening demand from the Chinese market. Tesla Shanghai Gigafactory faced a lengthy shutdown and a slow recovery in Q2 due to covid lockdowns. In September, Tesla China's wholesale volume was 83,135 units, according to CPCA, including approximately 78,000 units that were sold in China. Recently there have been indications that Tesla demand may not be strong enough to meet its increased capacity, especially in China. Reuters reported that Tesla plans to keep production at around 93% of the upgraded Shanghai plant through the end of this year. Tesla China's waiting time for new vehicles also came down sharply in September, signaling little or no backlog of orders. There is anecdotal evidence showing that Tesla China is offering auto insurance discounts to new vehicle buyers to boost sales. But still, Tesla remains a flagship EV name within the China market.

Another name to mention is GAC Aion. The company is a subsidiary of the SOE car maker, Guangzhou Automobile Group. It is seeking to go public in the foreseeable future. GAC Aion's monthly sales volume increased significantly to 30,016 units in September 2022

from 13,581 units in the same period last year. GAC Aion has a flagship sedan model, Aion S, whose monthly sales volume was 11,683 units in August and a flagship SUV model, Aion Y, whose monthly sales volume was 11,012 in August. The 3rd largest EV power battery maker in China that recently went public through an IPO on the Hong Kong stock exchange, CALB (3931.HK), had 79.8% of its August shipments made to GAC Aion.

Figure 5. Aion Y (2023 version, 610km Range, front-engine front-wheel drive, MRSP ~25,000 USD)



As for EV new forces, NIO, Li Auto, and Xpeng are more familiar to investors because they went public in the US market a few years ago. But this so called “new force group” has been enlarging as we see more and more domestic brands getting listed. Leapmotor, for example is one of them. It is a Zhejiang-based electric-car maker whose founder is coming from surveillance equipment manufacturer Dahua Technology (002236.SZ). Leapmotor had 11,039 units delivered in September and it went for Hong Kong IPO in late September under the ticker 9863.HK. Leapmotor has a market capitalisation of USD3.4bn. Neta, another Zhejiang-based electric-car maker with monthly deliveries of 18,005 units in

September, is rumoured to seek a Hong Kong IPO within this year. Unlike other EV new forces that are targeting new middle-class customers in tier-1 and tier 2 cities, Neta is strategically tilted towards low-tier cities, small towns and the countryside.

Figure 6. Leapmotor C01 (2022 version, 525km Range, front-engine rear-drive, MRSP ~27,000 USD)



Another EV player that has been rising quickly over the recent months is SERES (601127.SH). SERES is a Chinese electric vehicle brand jointly established by Dongfeng Motor (which owns 21.87%) and Chongqing Sokon Holdings (28.41%). SERES and Huawei have a co-designed EV brand named AITO (“Adding Intelligence To Auto”) to leverage on Chongqing Sokon’s manufacturing capabilities and Huawei’s operating system. The monthly sales volume of SERES soared to 10,045 units in August 2022 from 824 units in the same period last year, mainly driven by AITO models.

Figure 7. AITO M5 (2022 version, 552km Range, 4WD, MRSP ~44,500 USD)



The NEV market is growing rapidly and changing day by day. It is unlikely that one or two players could dominate the huge market because consumer demands are very diversified. We think that eventually competition among NEV brands will be as intensive as it is among Internal Combustion Engine car makers.

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