Auto

2025 Outlook: Likely a replica of 2024, but more

OUTPERFORM (Maintain)

Despite a pre-buying effect in 2024, we expect China's passenger-vehicle (PV) sales volume to be still resilient in 2025. We also project new-energy vehicle (NEV) market share to reach 57.8% in 2025E on a retail basis, which could make NEVs become mainstream in most price segments. While some key themes including competition and the rising importance of new models are likely to continue in 2025, we also need to be prepared for new trends.

- **Resilient industry growth despite more challenges ahead**. We project China's PV retail sales volume to fall 2% YoY to 23.08mn units in 2025E, largely due to the pre-buying effect as the government has doubled the subsidies from Aug 2024. We estimate the pre-buying effect to pull 1.5mn units ahead into 2024 and we expect stimulus measures to continue in 2025. We project China's PV wholesale volume to rise 3.8% YoY in 2025E amid rising exports and inventories. We have assessed Chinese brands' current penetration and potential in 60 countries and estimate a market size of 7mn units annually in the medium term. Meanwhile, we expect the PV export volume to rise 10% YoY to 5.5mn units in 2025E, at a lower growth rate than 21% in 2024E amid rising geopolitical risks.
- **Chinese brands to continue gaining market share amid a much stronger NEV pipeline.** We project China's NEV retail and wholesale volumes to both rise 22% YoY in 2025E to 13.35mn units and 14.90mn units, respectively. Globally, Europe could be a positive surprise in NEV sales volume, given its tightening emission standards in 2025.

  Similar to 2024, we expect Chinese brands to gain market share in both NEV and ICE segments, aided by a much stronger model pipeline. We project Chinese brands' market share to hit 70% in China in 2025E on a wholesale basis. About 84% of new models in 2025 are NEVs, based on the data we have compiled. We are likely to see more EREVs and larger vehicles in 2025, with more competitive pricing. We project PHEVs (including EREVs) to make up 45% of China's NEV wholesale volume in 2025E.
- **Investment Thesis**. 2024 is a year for NEVs to be more mature in China, in our view, as the NEV market share in tier-4 and below cities reached 38% in the first 10 months of 2024. NEVs' price distribution patterns now are similar to internal combustion engine (ICE) vehicles'. As NEVs are set to become mainstream for most price ranges, new models in any price range could become popular ones. It is about value-for-money and brand image now. There are only five brands among the top 20 best-selling NEV models in 2024, down from seven in 2023. It also means there is not much time left for weaker NEV brands to catch up, or industry consolidation could start as soon as in 2025. We believe investors could also put profitability or breakeven timeline at a high priority when picking stocks in 2025.
- **Top picks**. Our pecking order focuses on automakers with new models that have higher potential to be sales drivers, and improving profitability. Geely and Xpeng could fit these two criteria better than peers, in our view. The recent successful launches of new NEV models at both automakers give us more confidence about their upcoming new models, as they seem to have found the key to sales driver. Although we suggest investors pay more attention to dealers in 2025, dealers are still not high-conviction calls, in our view. However, we believe Tuhu, an independent after-sales service player, could benefit from consumption downgrade.

China Auto Sector

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Stocks Covered:

Name	Ticker	Rating	TP (LC)
Li Auto	LI US	BUY	30
Li Auto	2015 HK	BUY	117
NIO	NIO US	HOLD	5
Xpeng	XPEV US	BUY	16
Xpeng	9868 HK	BUY	62.4
Geely	175 HK	BUY	19
GWM	2333 HK	BUY	17
GWM	601633 CH	BUY	35
BYD	1211 HK	BUY	350
BYD	002594 CH	BUY	382
GAC	2238 HK	BUY	3.3
GAC	601238 CH	BUY	10
Leapmotor	9863 HK	BUY	40
Yongda	3669 HK	BUY	1.8
Meidong	1268 HK	BUY	2.8
Tuhu	9690 HK	BUY	23
Minth	425 HK	BUY	21
EVA	838 HK	BUY	1.4

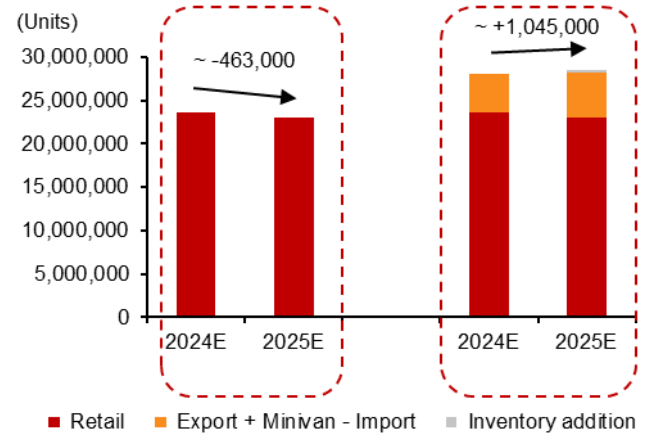
Source: Bloomberg, CMBIGM

Related Reports:
"China Auto Sector - 2024 Outlook: Competition pushes technological advancement, overseas expansion" – 30 Nov 2023

"China Auto Sector - 2023 Outlook: A critical year for long-term survival" – 7 Dec 2022

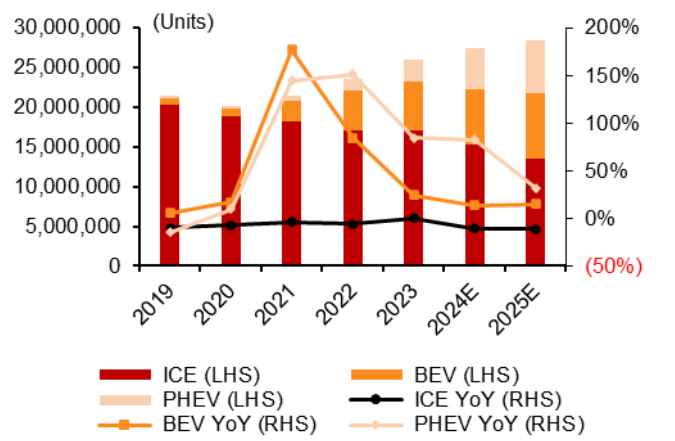
Focus Charts

Figure 1: Retail vs. wholesale volume in 2024-25E



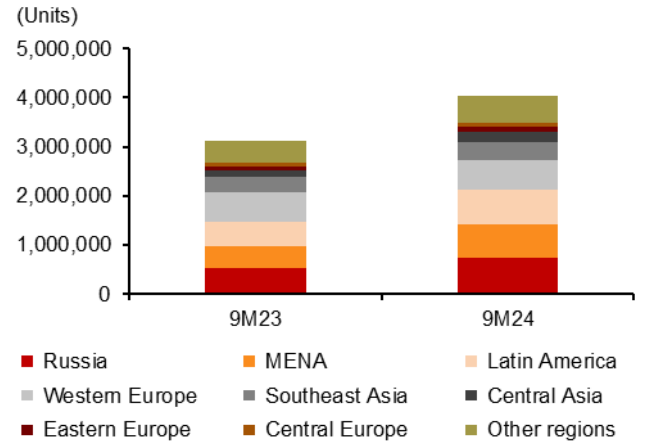
Source: CAAM, CATARC, CMBIGM estimates

Figure 2: China's PV wholesale volume breakdown



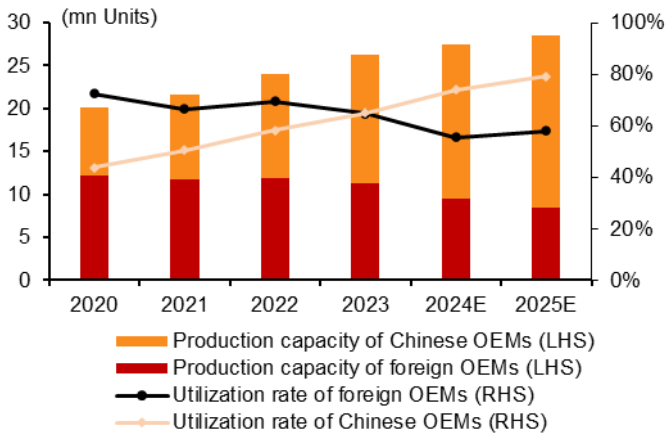
Source: CAAM, CMBIGM estimates

Figure 3: China PV exports by region



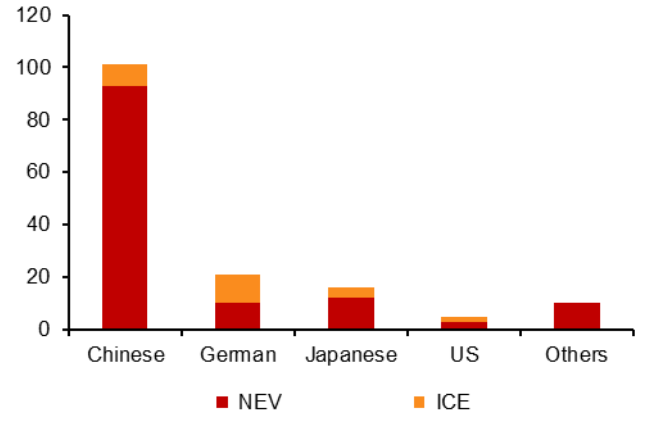
Source: China Customs, ThinkerCar, CMBIGM estimates

Figure 4: China's PV production capacity



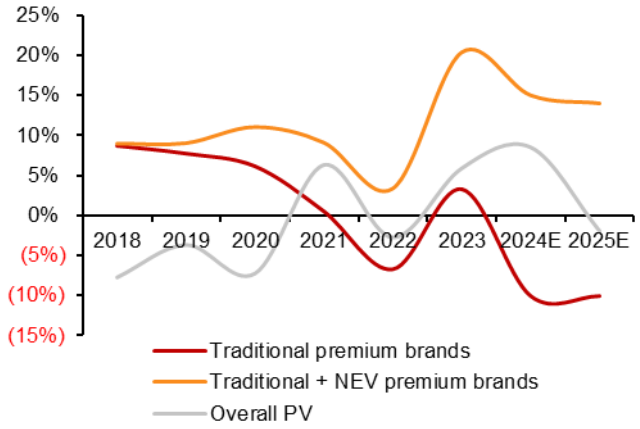
Source: CAAM, company data, Marklines, CMBIGM estimates

Figure 5: No. of new models by brand origin in China in 2025



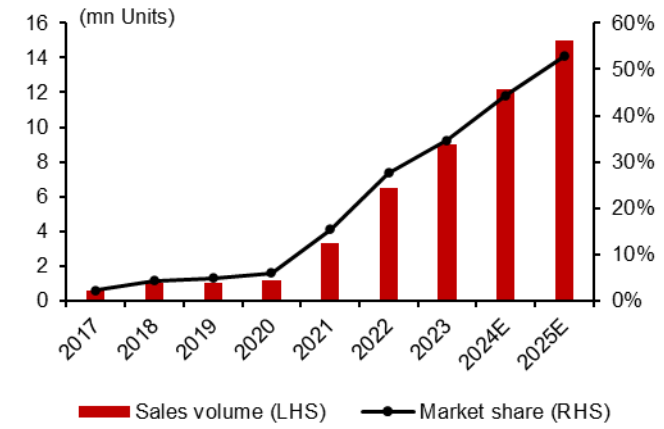
Source: Company data, CMBIGM estimates

Figure 6: Retail sales volume YoY growth for traditional and overall premium brands



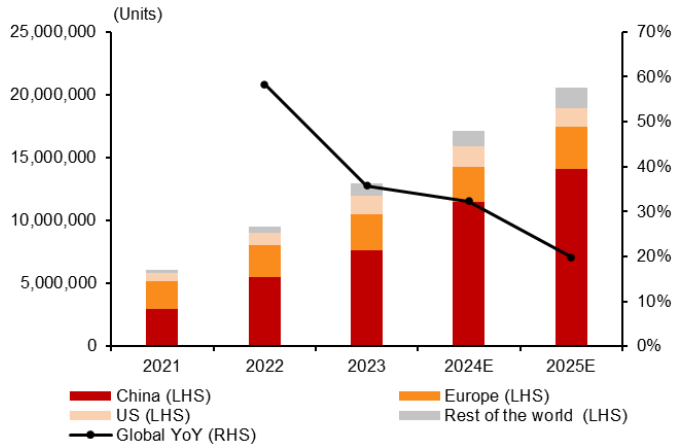
Source: CATARC, CMBIGM estimates

Figure 7: NEV wholesale and market share in China



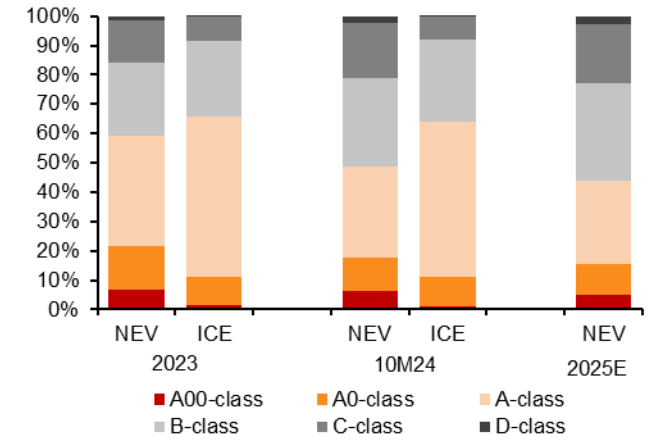
Source: CAAM, CMBIGM estimates

Figure 8: Global NEV sales volume forecast



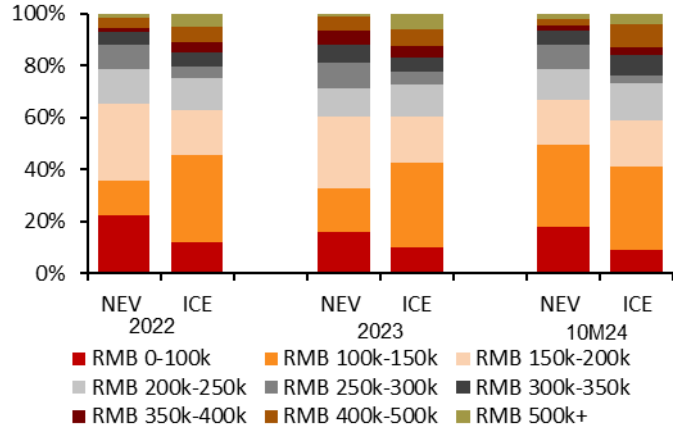
Source: Marklines, CMBIGM estimates

Figure 9: NEV wholesale volume breakdown by vehicle size in China



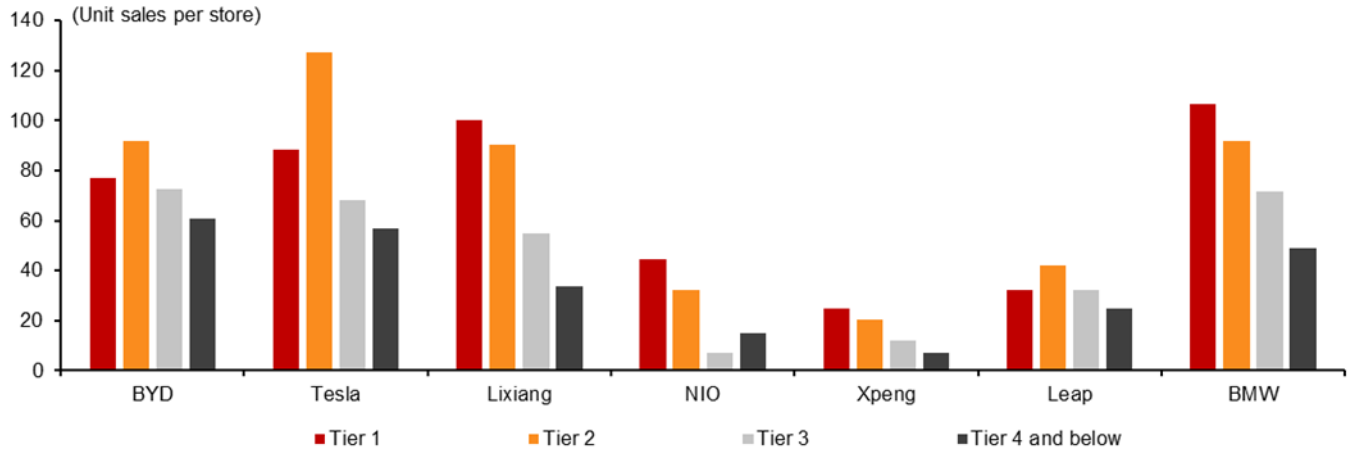
Source: CAAM, CMBIGM estimates

Figure 10: Retail sales volume breakdown by price range (NEV vs. ICE)



Source: CATARC, CMBIGM

Figure 11: Monthly unit sales per store on average for different brands in different city tiers (10M24)



Source: CATARC, company data, CMBIGM

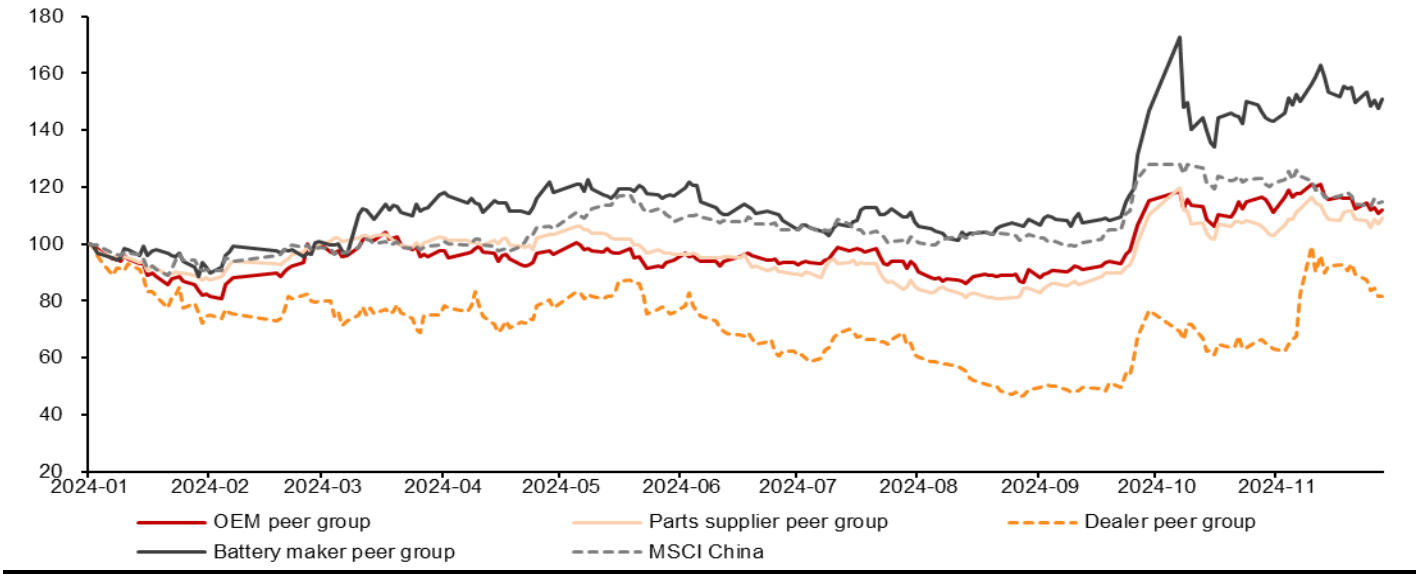
Contents

Share Performance in 2024 and Investment Thesis in 2025

Only battery makers outperformed, while dealers were still hurt most

We have created four market cap-weighted peer groups to review the share performance in the first 11 months of 2024 for different players along the automotive value chain: OEMs, dealers, parts suppliers and battery makers. The battery-maker group, dominated by CATL, has outperformed MSCI China by 36ppts YTD, while all other peer groups all underperformed the benchmark YTD. Dealer peer group was the worst performer, being 33ppts lower than MSCI China at the end of Nov 2024.

Figure 12: Share performance for different automotive peer groups YTD (rebased to 1 Jan 2024)



Source: Bloomberg, CMBIGM
Notes: OEM peer group consists of Li Auto, NIO, Xpeng, BYD, Geely, Great Wall, GAC, Leapmotor, Zeekr (ZK US, NR), BAIC (1958 HK, NR), BAIC BluePark (600733 CH, NR), SAIC Group (600104 CH, NR), Changan (000625 CH, NR), Seres (601127 CH, NR), Dongfeng Motor Group (489 HK, NR) and JAC (600418 CH, NR).
Dealer peer group consists of Zhongsheng (881 HK, NR), Meidong and Yongda.
Parts supplier peer group consists of Inovance Technology (300124 CH, NR), Fuyao Glass (600660 CH, NR), HASCO (600741 CH, NR), Xingyu (601799 CH, NR), Desay SV Automotive (002920 CH, NR), Tuopu Group (601689 CH, NR), Minth, Ningbo Joyson (600699 CH, NR), and Nexteer (1316 HK, NR).
Battery maker peer group consists of CATL (300750 CH, NR), Eve (300014 CH, NR), Gotion High-Tech (002074 CH, NR), Farasis (688567 CH, NR), Sunwoda (300207 CH, NR), REPT (666 HK, NR) and CALB (3931 HK, NR).

As raw-material prices start to stabilize in 2024, earnings visibility for battery makers has been improving. Unlike 2022 and 2023 when automakers were increasing the number of battery suppliers to cut costs, CATL gained market share in 2024. As a few smaller battery makers have been attempting to go public in order to get more financial resources, the industry landscape could experience some interesting changes in 2025. Yet, it needs new technology breakthroughs to challenge the dominance of CATL and BYD, which have taken about 70% of the market.

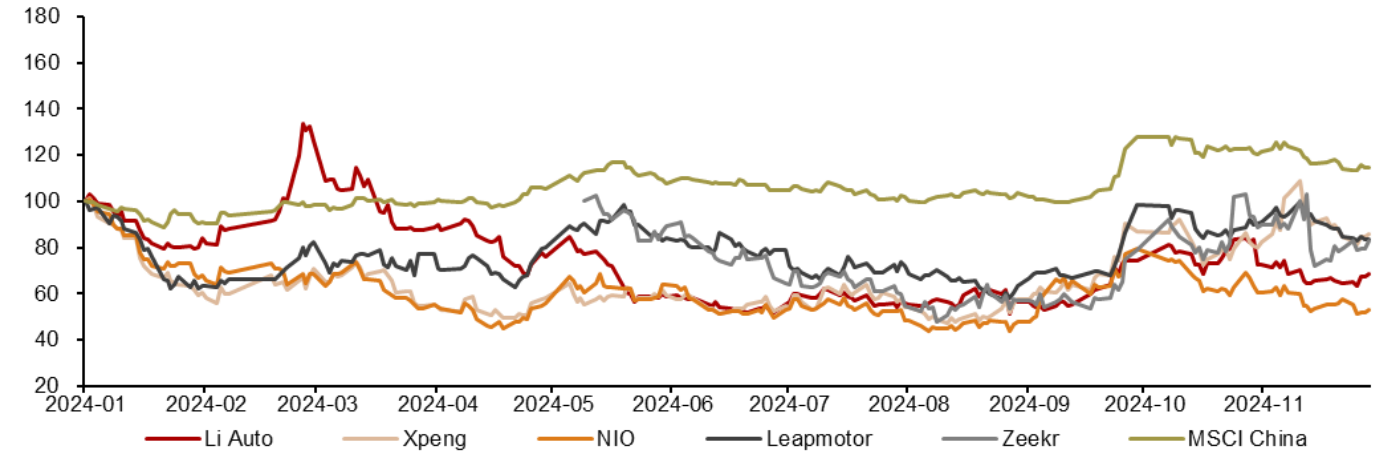
Share price of the dealer peer group was halved in 2023, and was halved again in the first eight months of 2024. That was consistent with our previous argument made in Nov 2023 that we had not seen clear signals of a significant recovery in 2024. The share price rebounded in Sep 2024 following the Chinese government's efforts to stimulate consumption. Zhongsheng's plans to open a number of Huawei's Harmony Intelligent Mobility Alliance (HIMA) stores announced in Nov 2024 lifted the share price again. Yet, the dealer peer group still underperformed the benchmark by 33ppts at the end of Nov 2024. We believe that the challenges that Chinese dealers face now are unlikely to be significantly larger in the foreseeable future. However, it is still a bit early to foresee a profit growth, as the landscape for NEV brands is still changing fast, especially with quite a few NEV brands adopting the direct-sales model. In our view, the picture could be clearer after 2025. We suggest investors pay a bit more attention to dealers in 2025. We have more detailed

discussions on traditional premium brands that Chinese dealers operate in the subsection of “Premium car: Is the worst over for dealers” of this report.

Share prices of the parts supplier group and the OEM peer group have been highly correlated in 2024. The dent from price war has passed through to suppliers, as OEMs have been asking for larger annual price cuts than before. Share price of the OEM group rebounded in Sep 2024 after the Chinese government doubled its subsidies in mid-Aug and launched stimulus measures to revive consumption in Sep. Share prices of OEMs peaked in 2-3 months after previous stimulus measures.

Among individual automakers, share prices of the NEV start-ups were more volatile than Chinese traditional automakers. Li Auto significantly outperformed the benchmark and peers before the launch of the *Mega* in Mar 2024. It ended as the second worst performer after NIO in the first 11 months of 2024. It seems that a 50% share price loss was the bottom for NIO in 2024. It hit such bottom for three times (Apr, Aug and Nov) in the first 11 months of 2024. Xpeng, Leapmotor and Zeekr ended up with a similar YTD return (-14% to -17%), or about 29-32ppts lower than the benchmark. Xpeng’s share price was highly correlated with NIO’s in the first nine months of 2024, but it rebounded sharply after the launches of the *Mona M03* and *P7+*.

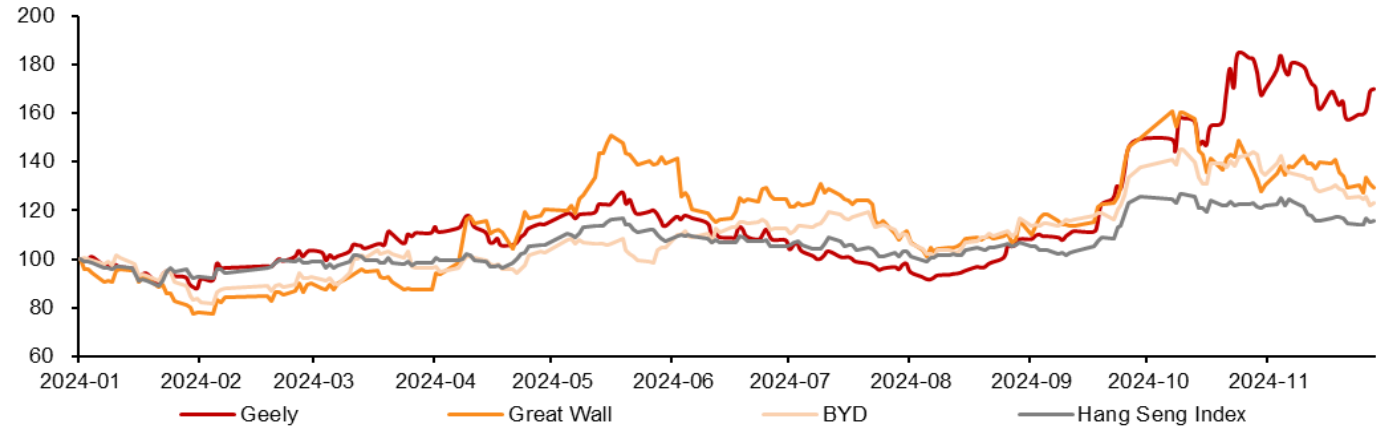
Figure 13: Share prices of NIO, Li Auto, Xpeng and Leapmotor, Zeekr vs MSCI China (rebased to 1 Jan 2024)



Source: Bloomberg, CMBIGM

Unlike 2023 when share prices of BYD, Geely and Great Wall diverged significantly, these three H-share non-SOE automakers were rather correlated in the first nine months of 2024. Geely became the best performer during Oct-Nov 2024, as the successful rollouts of the *Galaxy E5* and *Starwish* provided more confidence to investors about its NEV sales and profits. All three automakers outperformed the benchmark in the first 11 months of 2024.

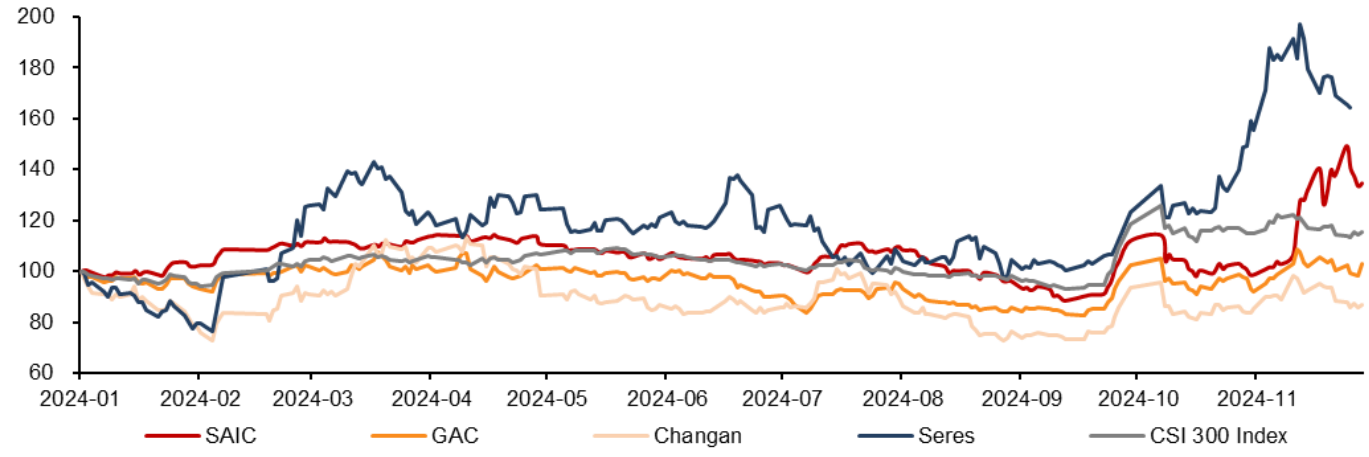
Figure 14: Share prices of Geely, Great Wall and BYD, vs. Hang Seng Index (rebased to 1 Jan 2024)



Source: Bloomberg, CMBIGM

SOE automakers appear to be worse positioned amid electrification and technological advancement. GAC and Changan underperformed the benchmark in the first 11 months of 2024. GAC had a double hit in 2024, as both its homegrown brand Aion and JVs posted significant sales declines. SAIC started to outperform the benchmark after Nov 2024 amid speculations on potential cooperation with some other automakers. Seres once again significantly outperformed the benchmark as it did in 2023. The biggest rallies in both years occurred in Sep.

Figure 15: Share prices of SAIC, GAC, Changan and Seres, vs. CSI 300 Index (rebased to 1 Jan 2024)



Source: Bloomberg, CMBIGM

Will 2025 be a replica of 2024?

■ **Competition continues to intensify; Early signs of consolidation may emerge**

As the industry dynamics in 2024 looks similar to 2023, with a prolonged price war, new models being increasingly important catalysts, and range trading for auto stocks, investors may perceive 2025 as a replica of 2024. We are of the view that some of the key themes in 2024 could continue in 2025: price war is likely to continue with even stiffer competition; new models are still one of the most important catalysts, if not the most important one, as sales volume is the foundation of profits. We may also need to be prepared for new things.

We believe 2024 is a year for NEVs to be more mature in China, as the NEV market share in tier-4 and below cities surpassed 38% in the first 10 months of 2024. Although we argued that the highly complex industry landscape in China would likely make the bottom of the cycle longer than previously expected, we may start to see early signs of industry consolidation from 2025. We are of the view that there is not much time left for weaker NEV brands to catch up, as automakers should have tried their best to make their products more appealing and their marketing strategies more efficient. We see low chances of significantly evolved NEV products to emerge in the short term before the full autonomy for cars arrives, as the industry becomes more mature.

■ **Likely higher priority on profitability or breakeven timeline in 2025**

We are of the view that it is still difficult to identify long-term winners in China's auto industry, as the number of players in the steady state could be more than originally expected. The success of Xiaomi's first model, and Huawei's partnership with more and more automakers could make it more complicated. However, the chance to survive for automakers with no clear timeline to break even has become much lower. BYD and Li Auto have been profitable for a few years with healthy balance sheet. Geely's NEV business is likely to be profitable in 2025E. We project Xpeng to break even in 2026E and Leapmotor to break even in 2026-27E. The gap between the expected and actual breakeven timelines could be crucial to share prices in 2025. Breakeven timeline is no longer an empty promise.

■ **Autonomous driving function is needed but difficult to monetize**

The gap of autonomous driving (AD) functions between different automakers appears to be narrowing, rather than widening as we had originally expected. That could make such functions a necessity but difficult to monetize in China. We still prefer automakers over independent L4 technology providers in the AD industry. Most leading suppliers, such as Huawei, Dji and Momenta, are not listed yet. Horizon Robotics (9660 HK, NR) was listed in Oct 2024, which may attract more attention from investors in 2025.

■ **Top picks: Geely, Xpeng among OEMs, Tuhu along the value chain**

Our pecking order focuses on automakers with new models that have higher potential to be sales drivers, and improving profitability. Geely and Xpeng could fit these two criteria better than peers, in our view.

After simplifying its CMA platform into the GEA platform and modifying its hybrid technology to EM-i, Geely's recent launches of the *Galaxy E5* and *Starwish* have been well received. We are of the view that its upcoming new models, including the *Starship 7* PHEV (in Dec 2024) and a medium-size PHEV sedan (in 2Q25) are likely to be successful. We project Geely's total wholesale volume to rise 10% YoY to 2.38mn units in 2025E, with 55% being NEVs. The simplified platform and hybrid technology architecture could also cut costs. That, along with greater economies of scale, may lead to a net profit of RMB12.5bn in FY25E, based on our estimates.

Similar to Geely, the initial success of the *Mona M03* and *P7+* gives us more confidence about its upcoming four new models in 2025. We project Xpeng's sales volume to rise to 390,000 units in FY25E and 490,000 units in FY26E, which may lead to a breakeven in FY26E.

Although we suggest investors pay more attention to dealers in 2025 as noted above, dealers are still not high-conviction calls, in our view. However, we believe Tuhu, an independent after-sales service player, could benefit from consumption downgrade, leveraging its competitive and transparent pricing and consumer stickiness through its technologies and locations.

Figure 16: Peers' valuation

Company	Ticker	Rating	Mkt Cap (US$ mn)	Price (LC)	TP (LC)	P/E (x) FY24E	P/E (x) FY25E	P/S (x) FY24E	P/S (x) FY25E	ROE (%) FY24E	ROE (%) FY25E
LI Auto	LI US	BUY	24,085	22.7	30.0	19.8	13.3	1.2	0.9	13.4	16.7
LI Auto	2015 HK	BUY	23,949	87.9	117.0	19.7	13.2	1.2	0.9	13.4	16.7
NIO	NIO US	HOLD	9,684	4.6	5.0	N/A	N/A	1.1	0.7	(131.3)	(382.4)
NIO	9866 HK	HOLD	9,947	37.1	39.0	N/A	N/A	1.1	0.7	(131.3)	(382.4)
Xpeng	XPEV US	BUY	12,050	12.7	16.0	N/A	N/A	2.2	1.2	(18.0)	(7.6)
Xpeng	9868 HK	BUY	12,199	50.0	62.4	N/A	N/A	2.2	1.2	(18.0)	(7.6)
Tesla	TSLA US	NR	1,128,079	351.4	N/A	136.6	98.6	11.3	9.7	11.4	13.1
		Average				**58.7**	**41.7**	**2.9**	**2.2**	**(37.2)**	**(104.8)**

Company	Ticker	Rating	Mkt Cap (RMB mn)	Price (LC)	TP (LC)	P/E (x) FY24E	P/E (x) FY25E	P/S (x) FY24E	P/S (x) FY25E	ROE (%) FY24E	ROE (%) FY25E
Geely	175 HK	BUY	136,048	14.5	19.0	8.2	10.9	0.6	0.5	19.3	12.9
Great Wall	2333 HK	BUY	104,610	13.1	17.0	8.2	7.5	0.5	0.4	17.3	16.7
Great Wall	601633 CH	BUY	231,812	27.1	35.0	18.2	16.5	1.1	1.0	17.3	16.7
GAC	2238 HK	BUY	31,913	3.3	3.3	N/A	247.7	0.3	0.3	(0.4)	0.1
GAC	601238 CH	BUY	104,130	10.1	10.0	N/A	808.1	1.0	1.0	(0.4)	0.1
BYD	1211 HK	BUY	707,747	260.4	350.0	19.6	14.9	1.0	0.8	23.6	25.5
BYD	002594 CH	BUY	814,536	280.0	382.0	22.6	17.1	1.1	1.0	23.6	25.5
Leapmotor	9863 HK	BUY	29,099	27.9	40.0	N/A	N/A	1.0	0.7	(32.2)	(28.5)
Yongda	3669 HK	BUY	3,588	2.0	1.8	14.4	7.0	0.1	0.1	1.8	3.6
Meidong	1268 HK	BUY	2,729	2.2	2.8	22.4	7.1	0.1	0.1	2.3	7.1
Tuhu	9690 HK	BUY	15,028	21.5	23.0	24.6	15.4	1.0	0.9	12.9	17.6
Minth	425 HK	BUY	14,274	13.3	21.0	6.1	5.4	0.6	0.5	11.9	12.3
EVA	838 HK	BUY	1,090	0.7	1.4	4.5	3.9	0.2	0.2	8.4	9.1
		Average				**14.9**	**96.8**	**0.7**	**0.6**	**8.1**	**9.1**

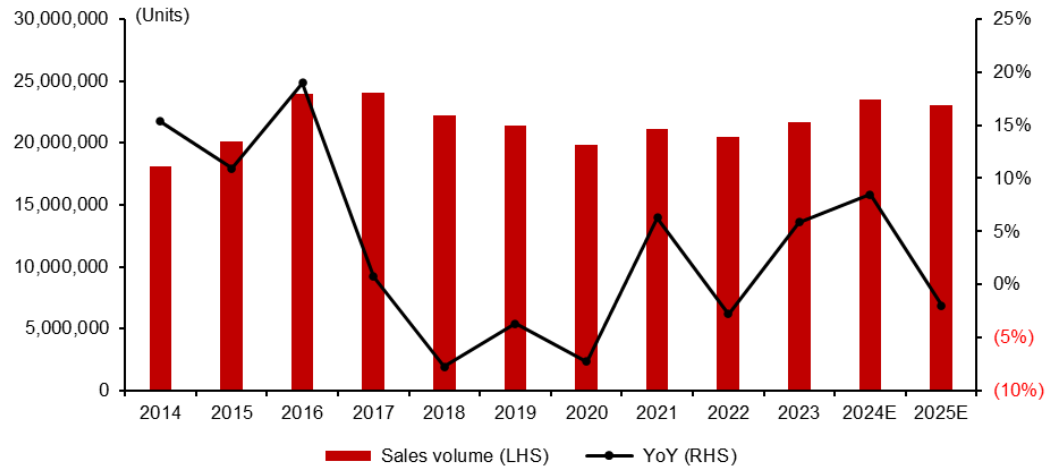
Source: Bloomberg, CMBIGM estimates. Note: Market data as of 4 Dec 2024

2025 Industry Outlook: China Still Resilient in Global Market

Retail sales volume: -2% YoY in 2025 after 2024 subsidies

We project China's PV retail sales volume to fall 2% YoY from 23.54mn units in 2024E to 23.08mn in 2025E, largely due to the pre-buying effect in the last four months of 2024 driven by government subsidies. China's auto sales volume has beaten investors' expectations in both 2023 and 2024 despite some economic challenges. We believe that auto sales volume in China in 2025 could also be more resilient than some investors expect.

Figure 17: China's PV retail sales volume



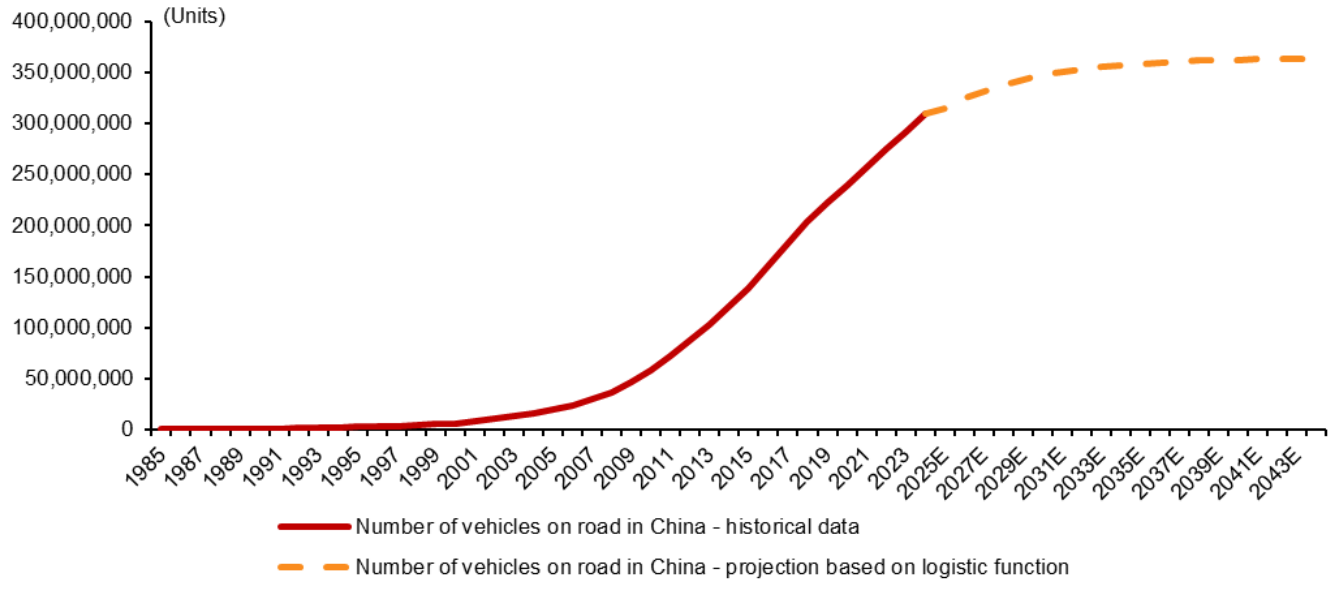
Source: CATARC, CMBIGM estimates

The Chinese government initiated the stimulus measures in Apr 2024 by subsidizing new-car purchases (RMB7,000 for an ICE vehicle and RMB10,000 for a NEV) for scrapped vehicles. It doubled the subsidies from mid-Aug 2024 (RMB15,000 per vehicle for ICE and RMB20,000 per vehicle for NEV). About 2mn car buyers who are qualified for such subsidies have applied for it as of mid-Nov 2024. That, along with some trade-in subsidies by local governments, could increase China's PV sales by about 1.5mn units in 2024, based on our estimates, or 6.4% of our 2024 projected sales volume. We now project PV sales volume in China to rise 8.5% YoY to 23.54mn units in 2024E, 11% higher than our original forecast made in Nov 2023. We attribute about 65% of the sales beat to stimulus measures.

Vehicle consumption is now one of the most important ways, if not the most important way, to stimulate the economy in China. Therefore, we expect such subsidies or stimulus measures in other forms to continue in 2025. However, the pre-buying effect in 2024 could still dent some demand in 2025. Assuming that 2/3 of the pre-buying amounts (1.5mn units on our estimates) come from 2025 and the extended stimulus measures pull another 1.5mn units ahead into 2025, the adjusted retail sales volume growth for 2025 would be 2.4%, which is consistent with our long-term growth forecast for China's PV sales volume. In fact, our projected 2025 PV retail sales volume is the 4th highest in history.

We have been using a single-factor model to roughly project China's long-term number of vehicles on the road and steady-state replacement demand. See page 23-24 of our 2023 outlook report published on 7 Dec 2022 for calculation details. We have added our estimates for the number of PVs on the road in 2024 and run the same non-linear regression based on the logistic function, and we obtain the steady-state number of PVs on the road of about 364mn units. The new forecast is about 3% higher than the previous estimates made in 2023 and 2022, implying more resilient sales in 2023-24 than expected. Therefore, we estimate China's steady-state annual replacement demand to be around 24.5-25.5mn units.

Figure 18: Projection on number of vehicles on the road in China based on logistic function

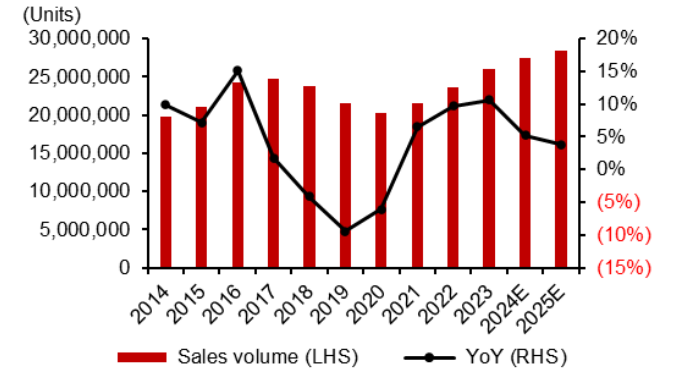


Source: CAAM, CATARC, NBS, CMBIGM estimates

Wholesale volume: +3.8% YoY amid inventory restocking, exports

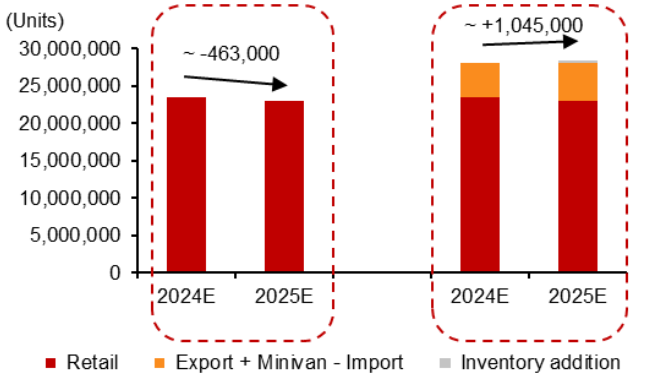
We project China's PV wholesale volume to rise 3.8% YoY from 27.42mn units in 2024E to 28.47mn units in 2025E, based on our assumption for retail sales volume of 23.08mn units. We expect China's PV wholesale volume in 2024 to be 4.6% higher than our original forecast made in Nov 2023, largely due to stronger-than-expected retail sales volume. Both exports and inventory addition in 2024 are likely to be lower than our prior forecasts.

Figure 19: China's PV wholesale volume



Source: CAAM, CMBIGM estimates

Figure 20: Retail vs. wholesale volume in 2024-25E



Source: CAAM, CATARC, CMBIGM estimates

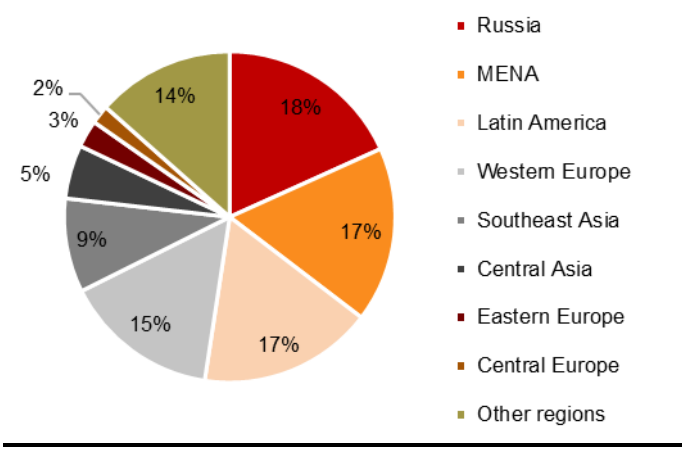
■ **Export: Growth likely to slow down amid rising trade risks and competition**

We project China's PV exports to rise 10% YoY from 5.0mn units in 2024E to 5.5mn units in 2025E, the lowest growth since 2021. In fact, the YoY growth for exports in 2024 is likely to slow down to 21%, lower than our original forecast of 25%, largely due to the YoY declines for SAIC and Tesla (TSLA US, NR).

In the first three quarters of 2024, China exported PVs to about 200 countries with the top 10 countries accounting for 56% of total PV exports, according to the data from customs. Russia was the No.1 destination with 18% market share, followed by Mexico (7%), United Arab Emirates (5%) and Belgium (5%). United Arab Emirates and Belgium should be the Chinese cars' export hubs for Middle East and Europe, respectively. Exports in the Middle East and North Africa (MENA, including Turkey) in the first three quarters of 2024 surged

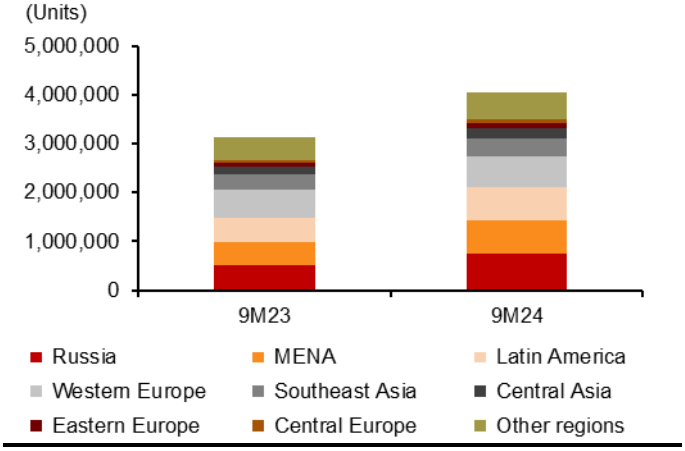
49% YoY. Central Asia and Russia both posted a YoY growth rate of 41%. The growth rates were 40%/38%/29%/18% in Eastern Europe (excluding Russia), Latin America (South America, Central America, the Caribbean and Mexico), Central Europe and Southeast Asia, respectively. These seven regions combined accounted for 71% of China's total PV exports in the first three quarters of 2024.

Figure 21: PV export market share by region in 9M24



Source: China Customs, ThinkerCar, CMBIGM estimates

Figure 22: China PV exports by region



Source: China Customs, ThinkerCar, CMBIGM estimates

We see a few challenges for China's PV exports in 2025:

1) Auto sales growth in Russia could slow down in 2025 and Chinese brands' market share in Russia (close to 50%) could be peaking.
2) Russia's auto sales growth slowdown could also affect China's exports to Central Asia and Belarus. Uzbekistan has become the most important market in Central Asia for Chinese automakers to tap into, as Chinese brands already account for about 40% of the total auto sales volume in Kazakhstan.
3) The European Union (EU) has imposed a new tariff of 7.8-35.3% on China-made BEVs and EREVs since Jul 2024. Although there could still be some changes, we expect China car exports to the EU to slow down in 2025.
4) Some countries such as Brazil and Turkey have also been raising tariffs on Chinese EVs, as Chinese brands start to take up a meaningful market share. We believe some other countries could follow suit.
5) Tesla, which accounted for 26% of China's total NEV exports or 6% of China's total PV exports during the first 10 months of 2024, may post stagnant export growth or even declines in 2025, after a 21% YoY decline in its China exports during the first 10 months of 2024.

We expect China's PV export growth to continue coming from the MENA, Latin America and Southeast Asia in 2025. Local production could be more important for regions including Latin America and Southeast Asia in 2025, as Chinese brands have accounted for about 7-10% of the markets in both regions. Chinese brands also take up about 10% in the Gulf Cooperation Council (GCC) which comprises Saudi Arabia, United Arab Emirates, Qatar, Oman, Kuwait and Bahrain.

We divide overseas markets into different regions based on their auto industry development, local consumers' brand loyalty and policies: 1) US, 2) Canada, 3) Japan, South Korea and India, 4) Western Europe with own brands (Germany, France, Italy etc.), 5) Western Europe without own brands (Belgium, Netherlands, Switzerland etc.), 6) Northern Europe, 7) Central Europe, 8) Eastern Europe, 9) Russia, 10) Latin America, 11) MENA, 12) Southeast Asia, 13) Central Asia, 14) Oceania, 15) Others. We project Chinese brands' market share to be ranged 0-45% in these regions and calculate potential market size of 7mn units for Chinese brands in the overseas markets in the medium term. In other words, there is probably 75% growth potential for Chinese brands in overseas markets in the next five years or so, or a

CAGR of 10-12%. We expect overseas sales volume for Chinese brands to rise 16% YoY from 4mn units in 2024E to 4.65mn units in 2025E.

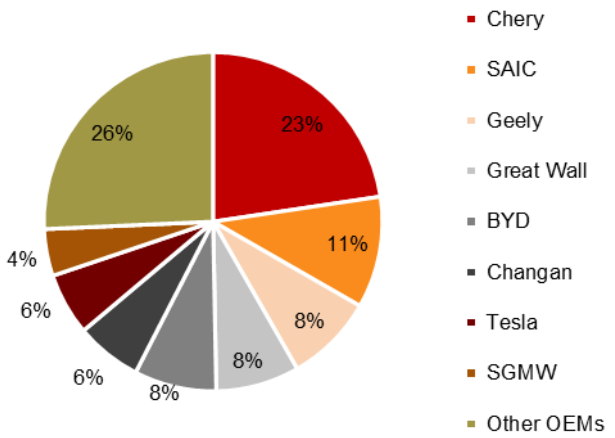
Figure 23: Our forecast for Chinese brands' potential overseas market size in the medium term

Regions (excl. China)	Total annual sales (units)	Our market share assumption for Chinese brands	Potential annual market size for Chinese brands (units)	Current EV market share in each region
US	17,000,000	0%	0	9%
Japan, South Korea and India	11,100,000	4%	444,000	3%
Western Europe with own brands	9,500,000	9%	838,000	18%
Latin America	5,500,000	25%	1,364,000	4%
MENA	4,700,000	25%	1,166,000	4%
Southeast Asia	3,150,000	25%	781,000	6%
Western Europe without own brands	3,000,000	15%	450,000	22%
Canada	1,900,000	2%	38,000	7%
Central Europe	1,600,000	20%	320,000	5%
Oceania	1,400,000	25%	350,000	5%
Russia	1,100,000	45%	495,000	0%
Northern Europe	780,000	20%	156,000	52%
Central Asia	730,000	35%	256,000	6%
Eastern Europe (excl. Russia)	220,000	30%	66,000	1%
Others	920,000	30%	276,000	5%
Total	**62,600,000**	**11%**	**7,000,000**	

Source: Marklines, CMBIGM estimates

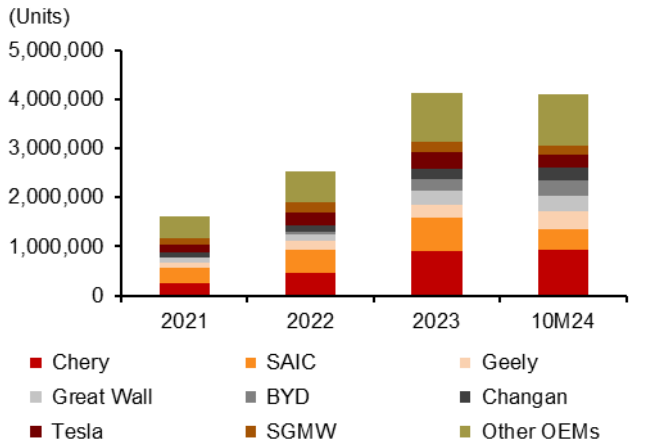
In the first 10 months of 2024, BYD's exports surged 83% YoY to about 322,000 units, the highest growth rate among the top five exporters, according to CAAM. BYD also surpassed Tesla to be the largest NEV exporter in China in the first 10 months of 2024. Tesla fell from the 3rd largest PV exporter in China in 2023 to the 7th YTD 2024, with a 21% YoY decline in PV exports. SAIC is the only one with YoY decline (-17%) in the first 10 months of 2024 among the top five exporters. Chery remained the largest PV exporter in China in the first 10 months of 2024 with 27% YoY growth to about 927,000 units, larger than the No.2 and 3 (SAIC and Geely) combined. PV exports at Geely and Great Wall rose 55% YoY and 56% YoY to 346,000 units and 327,000 units, respectively, in the first 10 months of 2024.

Figure 24: PV export market share by OEM in 10M24



Source: CAAM, CMBIGM

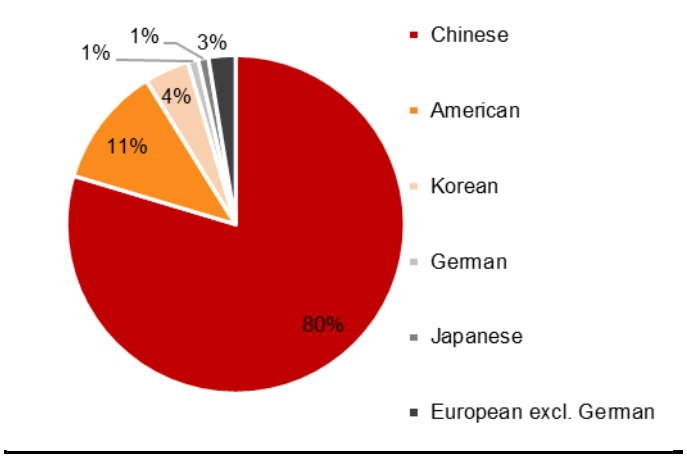
Figure 25: China PV exports by OEM



Source: CAAM, CMBIGM

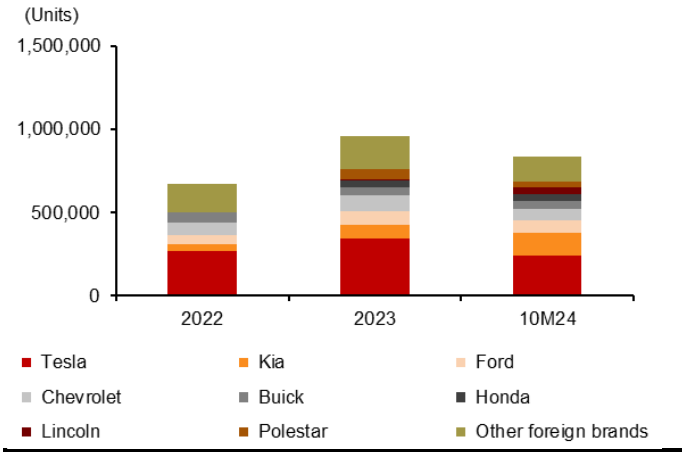
We project foreign brands' exports from China to rise 4% YoY to about 1mn units in 2024. More foreign automakers in China have started or accelerated exports by using China as the export hub amid their declining capacity utilization rate. Kia's exports more than doubled YoY to about 137,000 units in the first 10 months of 2024, becoming the 2nd largest foreign brand exporter after Tesla. Honda, Hyundai, Ford and Lincoln followed suit. On the other hand, such export growth has been offset by declining NEV exports amid the new tariffs in the EU. Tesla, Dacia, BMW, Smart and Polestar posted 21-49% YoY declines in their exports in the first 10 months of 2024.

Figure 26: China PV exports by brand origin in 10M24



Source: CAAM, CMBIGM

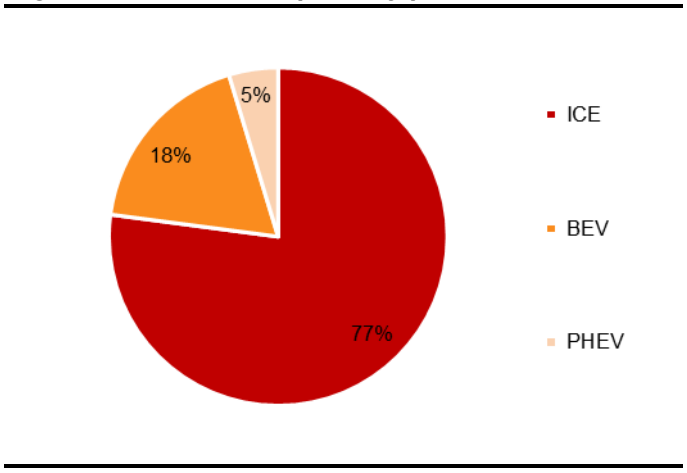
Figure 27: Foreign brands' PV exports from China



Source: CAAM, CMBIGM

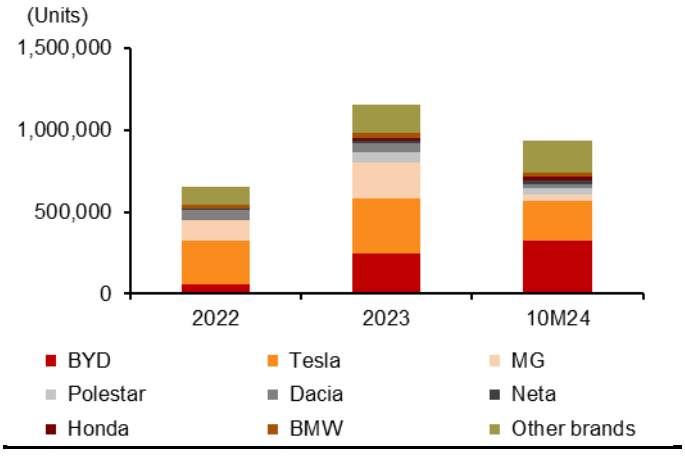
We project NEV exports from China to fall 2% YoY to 1.14mn units in 2024E, as BYD's growth is not able to offset declines from Tesla, SAIC, Polestar, Dacia etc. China's NEV export growth in 2024E is likely to trail the overall PV export growth for the first time since 2020. Such trend could extend into 2025E given the continuous geopolitical tensions.

Figure 28: China PV exports by powertrain in 10M24



Source: CAAM, CMBIGM

Figure 29: China NEV exports by brand



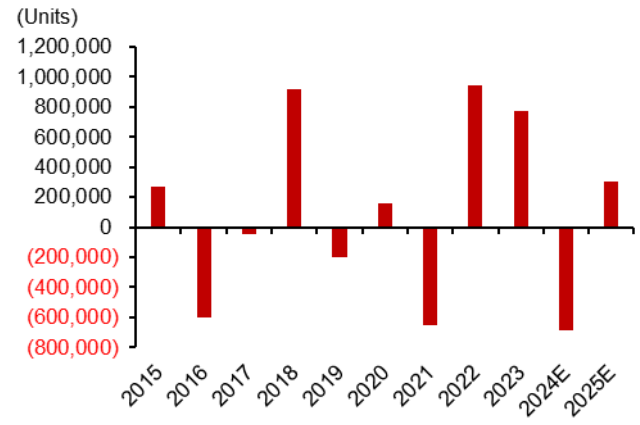
Source: CAAM, CMBIGM

■ Inventory: Inventory cuts in 2024 show OEMs' cautiousness

Automakers in China cut about 538,000 units of inventories at dealers in the first 10 months of 2024, which almost erased the inventory restocking in the first 10 months of 2023. Unlike previous occasions in 4Q15 and 2H22, automakers did not add inventories into dealers during Sep and Oct 2024 after the Chinese government doubled the subsidies for vehicle trade-ins. We also expect automakers to cut inventories in Dec 2024 amid an early Chinese New Year in late January 2025. Therefore, we project an inventory destocking of about 688,000 units in 2024E and an inventory addition of 300,000 units in 2025E.

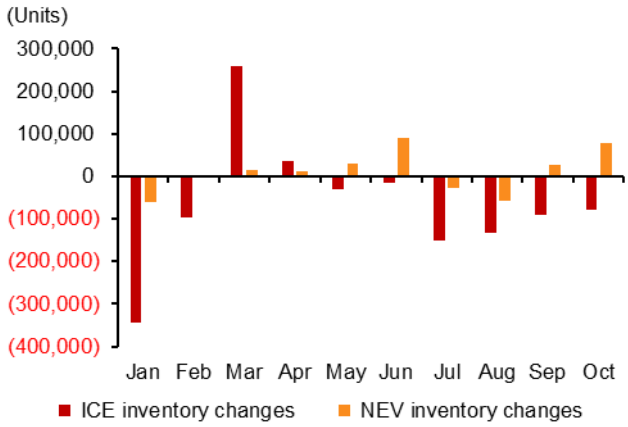
The inventory destocking in the first 10 months of 2024 came from ICE vehicles, as inventories at dealers for NEVs continued to increase by about 108,000 units during the same period. Both ICE and NEV inventory levels are at about 1.5 months now. We expect ICE vehicle inventories to continue falling and NEV inventories to rise moderately in 2025E.

Figure 30: Our est. inventory changes at dealers



Source: CAAM, CATARC, CMBIGM estimates

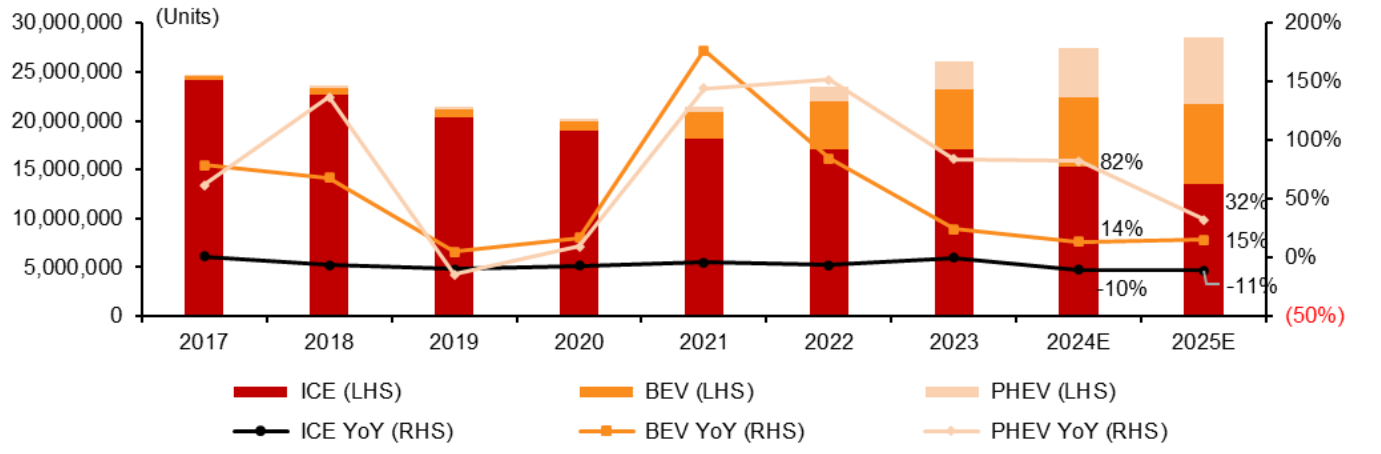
Figure 31: Inventory changes in 2024



Source: CAAM, CATARC, CMBIGM

Accordingly, we project China's PV wholesale volume to rise 3.8% YoY to 28.47mn units in 2025E. From the powertrain perspective, NEV is to be the driver for China's auto sales growth again. We forecast China's NEV wholesale volume to rise 22% YoY from 12.18mn units in 2024E to 14.90mn units in 2025E, details of which will be discussed in the NEV outlook section of this report. We expect PHEV wholesale volume growth (+32% YoY) to continue outpacing BEV (+15% YoY) in 2025E. Our industrywide and NEV forecasts imply that China's ICE wholesale volume is to decline 11% YoY in 2025E, at a similar pace in 2024E. In Nov 2023, we projected China's 2024E ICE wholesale volume to fall 10% YoY.

Figure 32: China's PV wholesale volume breakdown by powertrain



Source: CAAM, CMBIGM estimates

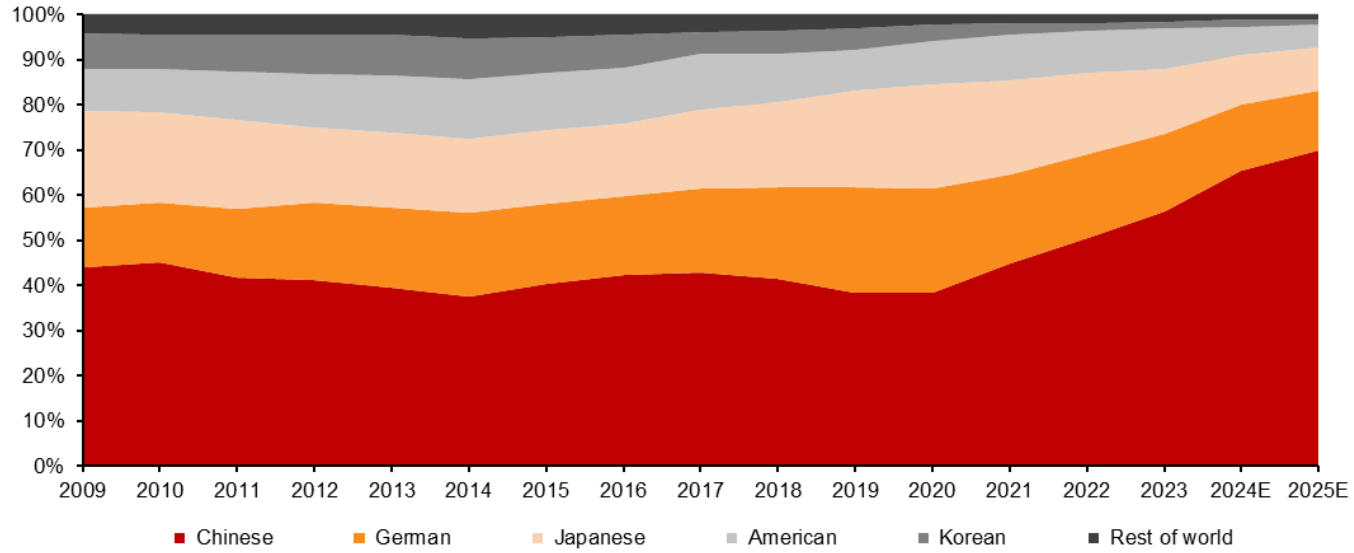
Strong model pipeline to continue lifting Chinese brands' market share

As noted in our 2023 and 2024 outlook reports, we believed that the trough of the auto industry cycle in China could last longer than previously expected and foreign brands would probably suffer the most given their lagging in electrification and connected intelligence. That could be reflected by their longer model cycles. As competition continues to intensify in 2025, we do not expect market share loss for foreign brands to halt. Meanwhile, we are also of the view that 2025 could be a year that we start to see signals of market consolidation.

We project Chinese brands' market share on a wholesale basis to rise to 70% in 2025E from 66% in 2024E. Chinese brands' market share is likely to increase by 9ppts YoY in 2024E, the biggest jump in history, and 5ppts higher than our original forecast. We project Chinese brands to gain market share in both ICE and NEV segments in 2025E, extending the trend in 2024.

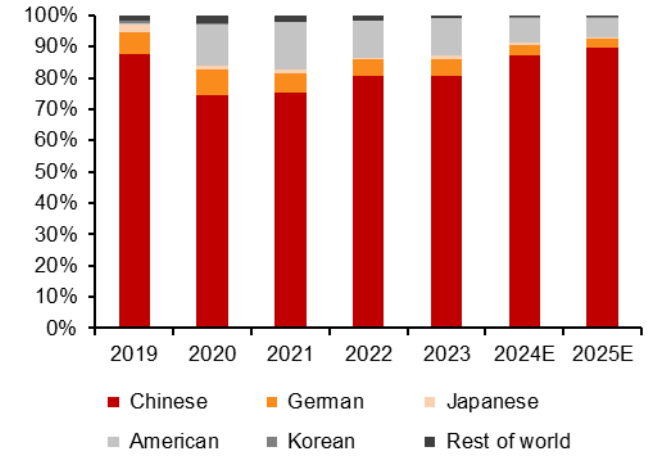
We forecast Chinese brands' market share in the ICE segment to widen from 43% in 2023 to 48% in 2024E and 49% in 2025E, on a wholesale volume basis. Although the majority of Chinese ICE market share gains in 2023-24 came from rising exports, Chinese brands' market share in the ICE segment rose by about 0.6ppts YoY in the first 10 months of 2024, on a retail basis, as the market share for American and Korean ICE vehicles narrowed during the same period.

Figure 33: PV market share by brand origin in China on a wholesale basis



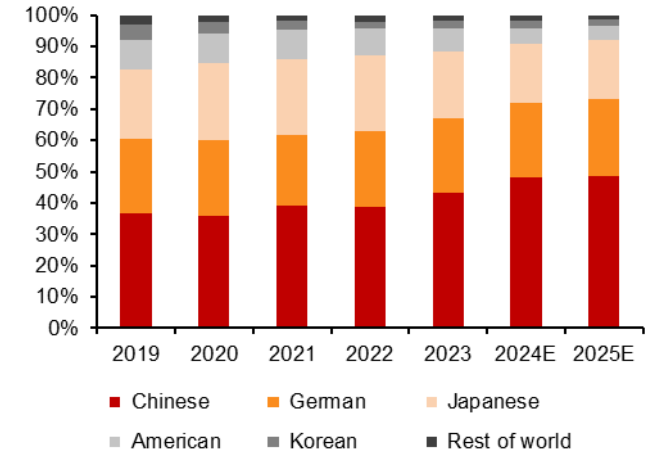
Source: CAAM, CMBIGM estimates

Figure 34: NEV market share by brand origin on a wholesale basis



Source: CAAM, CMBIGM estimates

Figure 35: ICE market share by brand origin on a wholesale basis



Source: CAAM, CMBIGM estimates

■ **Model pipeline: Larger Chinese NEVs with more competitive pricing**

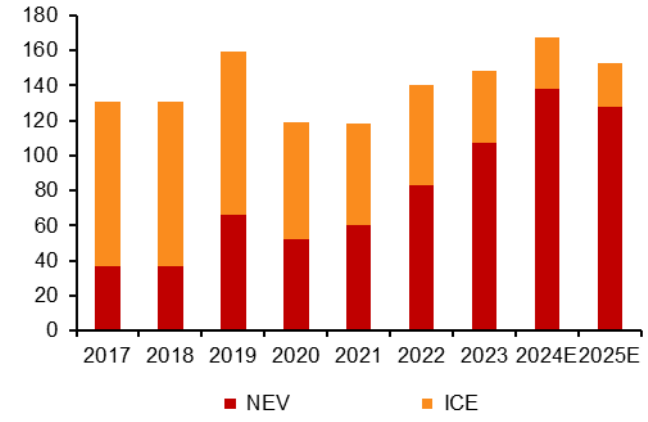
2024 is likely to end with the highest number of new-model launches in China's history (about 167, higher than our original forecast of 151 made in Nov 2023), based on the data

we have compiled, reflecting stiffer competition than ever before. About 149 new models have been launched in the first 10.5 months of 2024.

We have compiled data about 153 new-model launches for 2025E, with 84% being NEVs or having NEV powertrain choices, compared with 83% in 2024E and 72% in 2023. We project Chinese brands to launch 101 new models in 2025 with 93 being NEVs. We believe the actual number of new models from Chinese brands in 2025 could be higher than our projection now given massive R&D investments made by many Chinese automakers and their engineering flexibility to stay ahead of the competition.

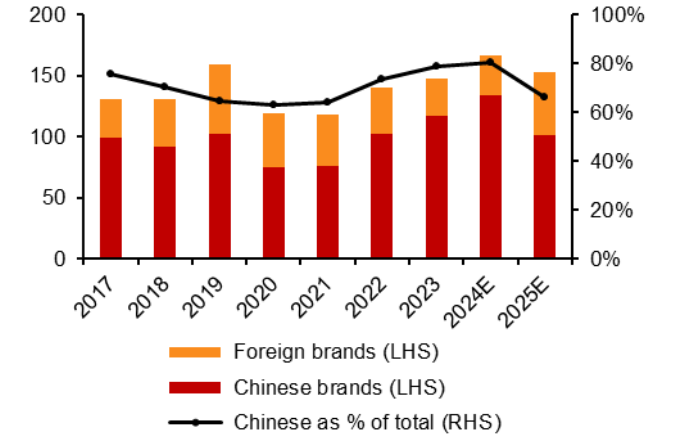
On the other hand, the number of new models, especially new NEVs, from foreign brands could miss our projection in 2025, as many previously scheduled new foreign-brand NEV models were delayed or cancelled due to its lack of competitiveness, despite some foreign automakers' grand NEV plans in China. Foreign automakers only launched 46 new NEV models in three years combined during 2022-24, less than half of Chinese new NEV models in one year. We project 52 new-model launches for foreign brands in 2025E, with 35 (or 67%) being NEVs. However, we have not seen any competitive NEV models from foreign brands' model pipeline in 2025E yet.

Figure 36: No. of new model launches in China



Source: Company data, CMBIGM estimates

Figure 37: No. of new models by brand origin



Source: Company data, CMBIGM estimates

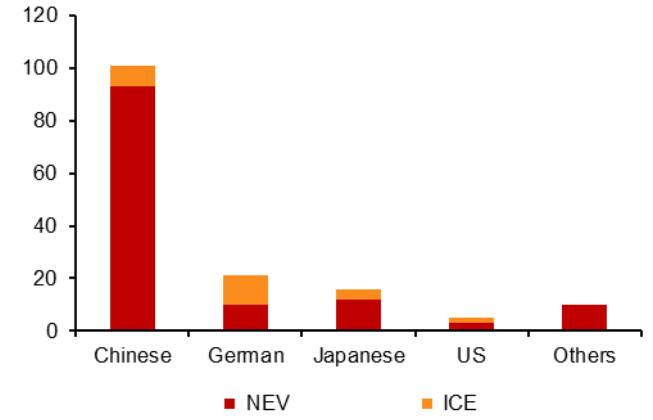
Among all the new models scheduled for 2025E, we see a few interesting trends:

1) Car size is still getting larger in China. About 70% of new models in 2025E are to be medium size or above, higher than 62% in 2024E, 58% in 2023 and 46% in 2022. About 37% of new models in 2025E are to be medium-to-large or large size, higher than 35% in 2024E, 30% in 2023 and 28% in 2022.

2) The smart EV competition will likely shift from RMB200,000-300,000 in 2024 to RMB150,000-200,000 in 2025E. Xpeng priced its medium-to-large size sedan, the *P7+*, below RMB200,000 in Nov 2024, which has been well received so far. We expect more automakers to follow suit in 2025E. We expect 26% of new NEV models in 2025E to be priced between RMB150,000-200,000, the highest among all the price segments and higher than 21% in 2024E. We expect 12% of new NEV models in 2025E to be priced between RMB200,000-250,000, much lower than 20% in 2024E.

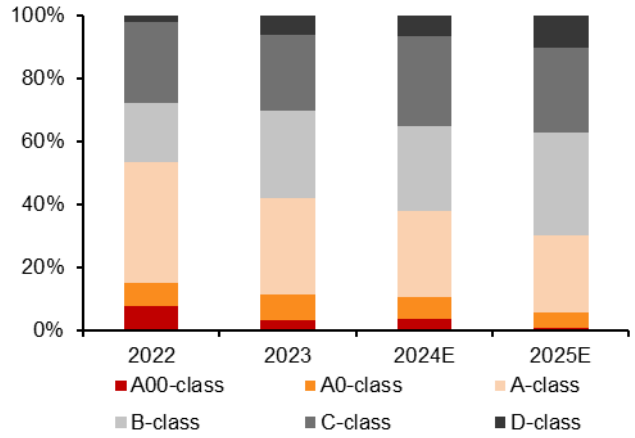
3) More BEV makers plan to launch hybrid models, especially EREVs given their simple architecture. Aion, Zeekr and Xpeng have scheduled EREV/PHEV models in 2025E. Xiaomi (1810 HK, BUY) and NIO plan to debut EREVs in late 2025 or 2026. We project 32 new EREVs (or models with the EREV powertrain available) to be rolled out in 2025E, higher than 22 new EREVs in 2024E and 9 in 2023.

Figure 38: No. of new models by brand origin in 2025



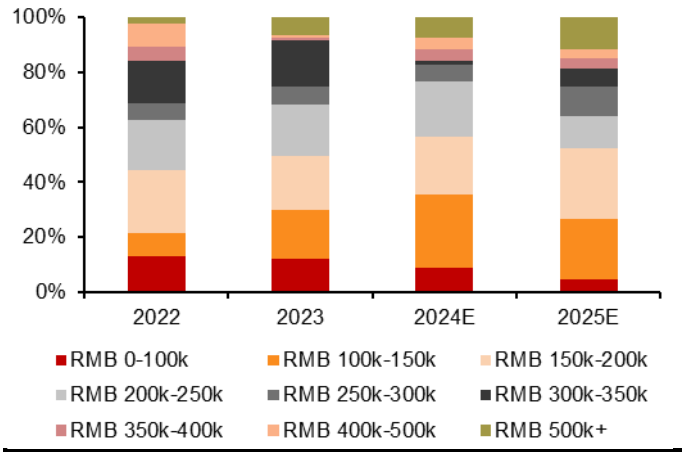
Source: Company data, CMBIGM estimates

Figure 39: Breakdown of new models by vehicle size



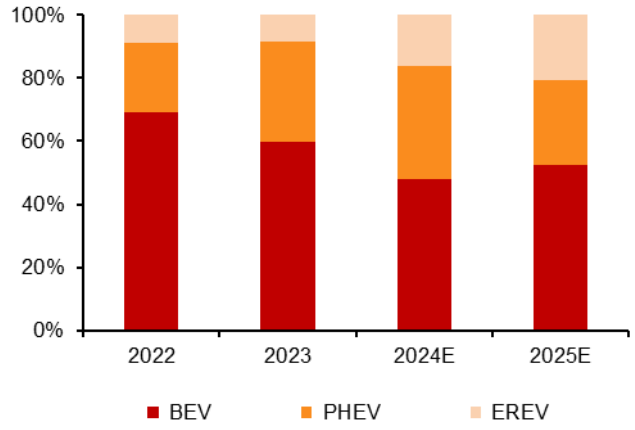
Source: Company data, CMBIGM estimates

Figure 40: Breakdown of new NEV models by price range



Source: Company data, CMBIGM estimates

Figure 41: Breakdown of new NEV models by powertrain



Source: Company data, CMBIGM estimates

Possible key models to watch as Chinese OEMs' sales growth drivers

New models' contribution to an automaker's sales volume and profit has become increasingly important, as the model cycle accelerates. New models launched during Oct 2023-Sep 2024 roughly contributed about 30% of China's total wholesale volume in Oct 2024, based on our calculations. Top 20 new models launched during Oct 2023-Sep 2024 made up about 17% of total wholesale volume in Oct 2024.

We are of the view that BYD's new models in 2024 based on its DM-i 5.0 technologies are the key driver to BYD's stronger-than-expected sales volume this year. The wholesale volume of the *Qin L* PHEV and its sister model *Seal 06* PHEV combined reached 95,000 units in Oct 2024. The *Aito M9* has become the best-selling model priced above RMB500,000 in the first 10 months of 2024, which helped Seres turn profitable. Xiaomi's first model, the *SU7* EV, has made Xiaomi become a key player in the industry.

On the other hand, the failure of BMW's new *5-Series* launch resulted in BMW Brilliance's profit plunge in 1H24 and the worst new-car gross margin in history for BMW dealers in China. GAC Toyota is poised to post the largest YoY sales-volume decline in China in 2024E, dragged by its 30% YoY decline for the new-generation *Camry*'s wholesale volume, based on our estimates. We project Great Wall's wholesale volume to fall 2% YoY in 2024E, as the sales volume of the *H6* SUV is likely to decline 27% YoY.

■ **BYD: More new premium models in 2025E**

BYD launched 11 new models (BYD brand: 7, Denza: 2, Fangchengbao: 1, Yangwang: 1) in the first 11 months of 2024. New models based on the DM-i 5.0 technologies have been more successful than we had previously expected. These new models will contribute the full-year sales volume in 2025. We estimate BYD to launch another 14 new models in the next 12 months. Nine of the 14 new models may come from its premium brands Denza, Fangchengbao and Yangwang. The important models in 2025E for BYD brand should be the redesigned *Tang* and new *Tang L*. A new medium-to-large size MPV, the BYD *Xia*, is also expected to be delivered in 2025. The Denza *N9*, a rival model for the Li *L9*, would be key to Denza's sales growth in 2025. The *Bao 3* EV could be key to Fangchengbao's sales growth in 2025.

We project BYD's total wholesale volume (including commercial vehicles) to rise 15% YoY from 4.24mn units in 2024E to 4.90mn units in 2025E, slightly lower than the overall NEV's 22% YoY growth. We believe BYD's sales volume and profits could still be resilient in 2025E, given its superb cost reduction capabilities and resources to initiate new rounds of price war. BYD's earnings quality remain high, as it does not capitalize R&D investments.

■ **Geely: New GEA platform with EM-i hybrid technology to boost NEV sales**

Geely appears to have found the key to making popular NEVs by simplifying its CMA platform into the GEA platform and modifying its hybrid technology to EM-i (P1+P3 with a reducer). We estimate that such changes could cut costs of about RMB5,000-7,000 per vehicle. Its upcoming new models, the *Starship 7* (in Dec 2024) and a medium-size PHEV car (in 2Q25, to compete with the *Qin L*), are likely to be well received, after successful launches of the *Starwish* and *Galaxy E5* recently. Therefore, we project Geely's NEV wholesale volume (including Zeekr and Lynk & Co) to rise 50% YoY from 0.87mn units in 2024E to 1.31mn units in 2025E. We project Geely's total wholesale volume to rise 10% YoY from 2.16mn units in 2024E to 2.38mn units in 2025E. It implies that NEV is to account for 55% of its total wholesale volume in 2025 and ICE wholesale volume at Geely is to fall 20% YoY in 2025.

■ **Great Wall: Still need a new "*H6*" in the NEV era**

It appears to us that Great Wall's focus in 2025 would still be Wey, as it plans to launch four new Wey NEV models in 2025E, although the details are still not quite clear. We are of the view that Great Wall is still looking for its positioning in the NEV era given many scheduled NEV models have been delayed or cancelled. Great Wall is likely to debut a Li *L9* rival model under the Wey brand. The improvement of its facelifted Wey *Lanshan* in 2024, which has been better received by customers than the previous version, may help it better market new models.

New models under the Haval brand could be crucial to offsetting Great Wall's declining ICE sales volume, as new models for Tank and Ora are limited in 2025. Two Haval PHEV SUVs are likely to be rolled out in 2025E. We project Great Wall's total wholesale volume (including pick-up trucks) to rise 13% YoY from 1.21mn units in 2024E to 1.36mn units in 2025E, with NEVs making up 39% of its total PV sales volume in 2025E.

■ **Chery: A plethora of new models for 2025 in a bid to lift NEV sales**

Chery, with its five brands (Chery, Jetour, Exeed, iCAR and Luxeed), launched 18 new models in the first 10 months of 2024, a record high number in China's history. 17 out of 18 models were NEVs. Although China only accounted for 52% of Chery's wholesale volume in the first 10 months of 2024, new models drove Chery's retail sales volume in the first 10 months of 2024 in China 73% higher than a year earlier.

Chery added Shanhai series under its Jetour brand. The Shanhai L series appears to be parallel to the Jetour X series. The Shanhai T series focuses on off-road style hybrid SUVs. The Shanhai T series' first model, the *Shanhai T2*, which was launched in Apr 2024, reached an average monthly sales volume of about 6,000 units during Aug-Oct 2024. Chery has also revived its Fulwin series under the Chery brand. Most of the Fulwin series models look like the PHEV versions for the Arrizo (Fulwin A series) and Tiggo (Fulwin T series) models.

These two new series, along with iCAR and Luxeed, have lifted Chery's NEVs to 18% of its total wholesale volume in the first 10 months of 2024, up from 7% in 2023.

We project another 15 new models to be launched in the next 12 months at Chery and therefore, we forecast Chery's NEV wholesale volume to rise 44% YoY to 0.7mn units in 2025E.

■ **Xpeng: *Mona M03*, *P7+* make us more confident about its new models**

We are of the view that the success of the *Mona M03* and *P7+* could help Xpeng better understand its customers' needs and increase the chance of success for its four brand-new models scheduled in 2025E, although no details are available yet. We believe that Xpeng would prioritize sales volume with attractive pricing, although it targets a quarterly breakeven by 4Q25E. We project Xpeng's sales volume to more than double YoY to 390,000 units in 2025E.

■ **Li Auto: Await more details of new BEVs**

Although the full-year sales contribution from the *L6* could continue to lift Li Auto's EREV sales in 2025, its upcoming BEVs should be the medium-term sales driver and the catalyst for its share price. The automaker has become very cautious about its new BEVs after the *Mega* failure. We are of the view that it is still too early to draw a conclusion now while the share price could lack catalysts in 1Q25 before the debut of the Li *M8* EV. We project Li Auto's total sales volume to rise 30% YoY to 660,000 units in 2025E, with 110,000 units from BEVs.

■ **NIO: Sales cannibalization between NIO and Onvo could be more severe**

We estimate NIO to roll out four new models in 2025E, with two Onvo models (Li *L7* and *L8* rival models) likely being sales drivers. The flagship *ET9* is more for showcasing NIO's state-of-the-art technologies with limited sales contribution. We project sales volume of the three Onvo models combined to be 142,000 units in 2025E. Meanwhile, we expect sales volume of the NIO brand to fall 17% YoY to 168,000 units due to the potential cannibalization from Onvo. Therefore, we project NIO's total sales volume to rise by 61% YoY to 360,000 units in 2025E, lower than the company's target of doubling YoY.

The first model under NIO's 3rd brand Firefly will have its debut in Dec 2024 and start to deliver in 1H25E. We are of the view that multi-brand strategy for an automaker with annual sales volume below 500,000 units could be a waste of R&D and marketing resources.

■ **Leapmotor: The success of the *C10* and *C16* lays foundation for B series**

After completing its C series (medium and medium-to-large sizes) model line-ups, B series (compact size) models, designed for both China and overseas markets, would be key to sales volume growth in 2025. The *B10* SUV is scheduled to be delivered in Mar 2025, followed by two more models, the *B01* and *B05*. We are of the view that Leapmotor's value-for-money brand image has been strengthened after the successful launches of the *C10* and *C16*. We believe the automaker would continue its aggressive pricing strategy to lure consumers and may benefit from consumption downgrade. We project Leapmotor's sales volume to rise 54% YoY to 450,000 units in 2025E, with the B series models contributing 107,000 units. We are of the view that the sales sustainability of the *C16* could still be crucial to Leapmotor's gross margin.

■ **Seres: All eyes on the Aito *M8***

After the successful launches of the Aito *M9* and redesigned *M7*, all eyes are on the upcoming *M8* in 2025. We project Aito's sales volume to rise 28% YoY from 402,000 units in 2024E to 516,000 units in 2025E. We are positive on the *M8* while we also take competition into consideration, given more and more automakers have been rolling out medium-to-large or large size SUVs for families.

■ **Xiaomi: Sales volume of the 2nd model could surpass the *SU7***

We project Xiaomi's sales volume to be 135,000 units in 2024E, after the *SU7*'s sales volume reached 20,000 units in Oct 2024. Its 2nd model, a medium-to-large size SUV, could

attract a broader customer base. We project Xiaomi's sales volume to be 300,000 units in 2025E, taking the production ramp-up into account.

Figure 42: China's passenger-vehicle wholesale volume forecasts by OEM / brand

	Sales volume in 2023 (units)	Sales volume in 2024E (units)	Sales volume in 2025E (units)	2025E YoY (%)	2024E market share (%)	2025E market share (%)
Chinese OEMs	**14,677,689**	**17,969,000**	**19,952,000**	**11%**	**65.5%**	**70.1%**
Geely	1,682,667	2,160,000	2,380,000	10%	7.9%	8.4%
Great Wall Motor	1,027,847	1,037,000	1,160,000	12%	3.8%	4.1%
Changan	1,539,539	1,670,000	1,750,000	5%	6.1%	6.1%
SAIC-GM-Wuling	960,160	1,035,000	970,000	-6%	3.8%	3.4%
SAIC	1,024,271	770,000	800,000	4%	2.8%	2.8%
BYD	3,012,906	4,231,000	4,900,000	16%	15.4%	17.2%
GAC Motor	886,505	738,000	790,000	7%	2.7%	2.8%
Chery	1,717,643	2,470,000	2,660,000	8%	9.0%	9.3%
Dongfeng	338,914	430,000	275,000	-36%	1.6%	1.0%
FAW	471,443	585,000	640,000	9%	2.1%	2.2%
NIO	157,110	223,000	360,000	61%	0.8%	1.3%
Li Auto	376,029	507,000	660,000	30%	1.8%	2.3%
Xpeng	141,601	186,000	390,000	110%	0.7%	1.4%
Avatr	26,407	64,000	120,000	88%	0.2%	0.4%
Leapmotor	144,155	293,000	450,000	54%	1.1%	1.6%
Seres	166,301	473,000	549,000	16%	1.7%	1.9%
Xiaomi	0	135,000	300,000	122%	0.5%	1.1%
German brands	**4,483,007**	**4,016,000**	**3,759,000**	**-6%**	**14.6%**	**13.2%**
VW	2,218,703	2,050,000	1,900,000	-7%	7.5%	6.7%
Audi	668,252	600,000	560,000	-7%	2.2%	2.0%
BMW	743,885	610,000	574,000	-6%	2.2%	2.0%
Mercedes-Benz	623,393	595,000	570,000	-4%	2.2%	2.0%
Smart	67,018	53,000	75,000	42%	0.2%	0.3%
Japanese brands	**3,761,068**	**3,008,970**	**2,672,000**	**-11%**	**11.0%**	**9.4%**
Honda	1,243,181	860,000	740,000	-14%	3.1%	2.6%
Toyota	1,749,907	1,473,000	1,400,000	-5%	5.4%	4.9%
Nissan	661,241	600,000	480,000	-20%	2.2%	1.7%
American brands	**2,325,968**	**1,688,000**	**1,490,000**	**-12%**	**6.2%**	**5.2%**
Buick	606,400	275,000	180,000	-35%	1.0%	0.6%
Ford	258,331	235,000	210,000	-11%	0.9%	0.7%
Tesla	947,742	900,000	860,000	-4%	3.3%	3.0%
Korean brands	**415,956**	**427,000**	**315,000**	**-26%**	**1.6%**	**1.1%**
Hyundai	249,716	177,000	105,000	-41%	0.6%	0.4%
Kia	166,240	250,000	210,000	-16%	0.9%	0.7%
Others	**396,311**	**316,000**	**282,000**	**-11%**	**1.2%**	**1.0%**
Total	**26,059,999**	**27,424,970**	**28,470,000**	**4%**	**100.0%**	**100.0%**

Source: CAAM, CMBIGM estimates

Figure 43: China's passenger NEV wholesale volume forecast by OEM / brand

	Sales volume in 2023 (units)	Sales volume in 2024E (units)	Sales volume in 2025E (units)	2025E YoY (%)	2024E market share (%)	2025E market share (%)
Chinese OEMs	**7,285,073**	**10,610,999**	**13,346,700**	**26%**	**87.1%**	**89.6%**
Geely	489,248	872,000	1,310,000	50%	7.2%	8.8%
Great Wall Motor	261,546	313,000	450,000	44%	2.6%	3.0%
Changan	412,800	590,000	747,000	27%	4.8%	5.0%
SAIC-GM-Wuling	446,080	693,200	677,000	-2%	5.7%	4.5%
SAIC	376,235	210,200	260,000	24%	1.7%	1.7%
BYD	3,012,906	4,231,000	4,900,000	16%	34.7%	32.9%
GAC Motor	510,676	408,000	470,000	15%	3.3%	3.2%
Chery	124,846	486,300	702,000	44%	4.0%	4.7%
Dongfeng	155,129	320,870	378,550	18%	2.6%	2.5%
FAW	106,366	205,000	265,000	29%	1.7%	1.8%
NIO	157,110	223,000	360,000	61%	1.8%	2.4%
Li Auto	376,029	507,000	660,000	30%	4.2%	4.4%
Xpeng	141,601	186,000	390,000	110%	1.5%	2.6%
Avatr	26,407	64,000	120,000	88%	0.5%	0.8%
Leapmotor	144,155	293,000	450,000	54%	2.4%	3.0%
Seres	126,144	432,690	519,000	20%	3.6%	3.5%
Xiaomi	0	135,000	300,000	122%	1.1%	2.0%
German brands	**461,767**	**419,350**	**414,000**	**-1%**	**3.4%**	**2.8%**
VW	190,803	201,000	170,000	-15%	1.6%	1.1%
Audi	31,677	22,500	22,000	-2%	0.2%	0.1%
BMW	133,952	116,150	120,000	3%	1.0%	0.8%
Mercedes-Benz	38,317	26,700	25,000	-6%	0.2%	0.2%
Smart	67,018	53,000	75,000	42%	0.4%	0.5%
Japanese brands	**137,034**	**90,245**	**115,300**	**28%**	**0.7%**	**0.8%**
Honda	75,390	26,800	30,000	12%	0.2%	0.2%
Toyota	39,080	59,920	57,300	-4%	0.5%	0.4%
Nissan	22,205	1,700	20,000	1076%	0.0%	0.1%
American brands	**1,049,729**	**976,542**	**899,000**	**-8%**	**8.0%**	**6.0%**
Buick	88,954	69,000	34,000	-51%	0.6%	0.2%
Tesla	947,742	900,000	860,000	-4%	7.4%	5.8%
Others	**99,736**	**87,490**	**125,000**	**43%**	**0.7%**	**0.8%**
Total	**9,033,339**	**12,184,626**	**14,900,000**	**22%**	**100.0%**	**100.0%**

Source: CAAM, CMBIGM estimates

We expect joint ventures to cut capacity in China in 2025

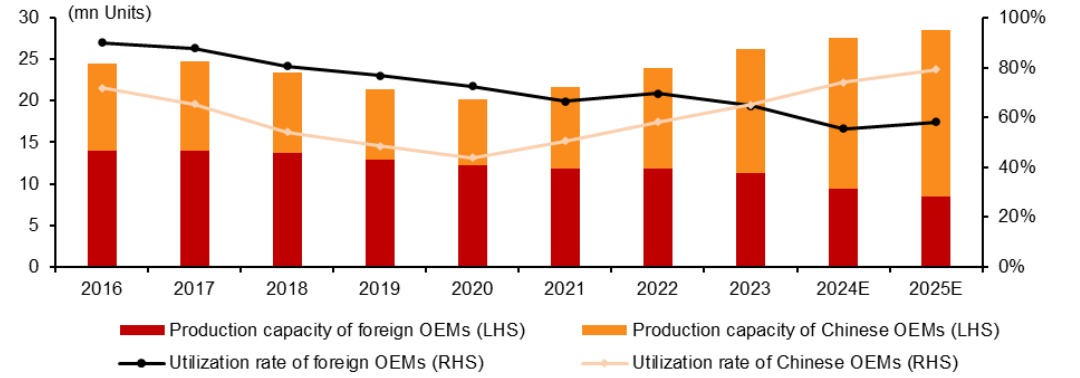
Despite 2% production capacity cuts for foreign brands in China in 2024 based on our estimates, foreign brands' capacity utilization rate is poised to hit an all-time low of 55% in China in 2024E, given their 16% YoY decline in production on our estimates. Meanwhile, production capacity utilization rate for Chinese brands in China is likely to hit an all-time high of 74% in 2024E.

We project a more significant capacity cut for foreign brands in 2025, as many of them have realized that it is unlikely to recover their sales volume to previous high levels. Among all the joint ventures (JVs), we believe SAIC VW, FAW VW, Dongfeng Nissan, SAIC GM and Beijing Hyundai are most likely to cut capacity in 2025, following Dongfeng Honda's announcement to close one of its plants in Wuhan in mid-2024. Therefore, we project foreign

brands to cut an annual capacity of 2.4mn units in 2025E in China to halt the declines of capacity utilization rate. Yet, we still expect a capacity utilization rate of below 60% for foreign brands in China in 2025E.

On the other hand, we expect Chinese automakers' capacity utilization rate in China to hit a new high of 79% in 2025E, with a mild capacity increase of 4% YoY. NEVs have become the driver to lift Chinese automakers' capacity utilization rate. Although it is difficult to separate capacity for NEVs and ICE vehicles clearly as quite a few production lines or plants still produce vehicles with different powertrains at the same time, we roughly estimate Chinese automakers' NEV capacity utilization rate to be 76% in 2024E and 85% in 2025E.

Figure 44: China's PV production capacity and utilization rate

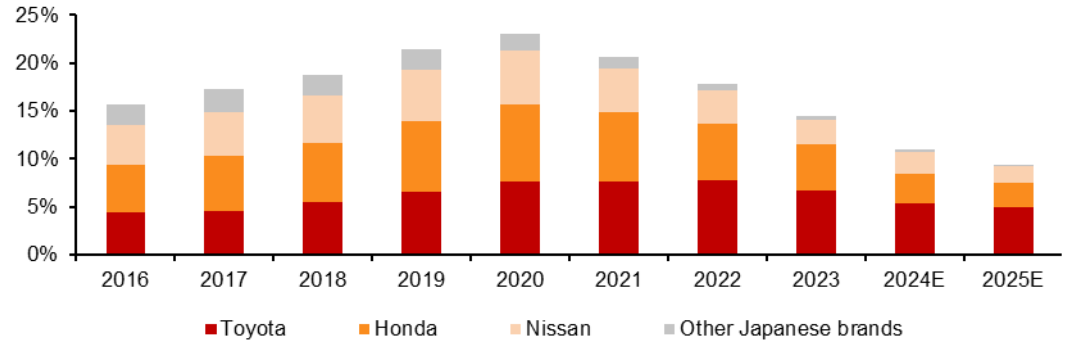


Source: CAAM, company data, Marklines, CMBIGM estimates

■ **Japanese brands: The largest market share loss in 2024 could extend into 2025**

Japanese brands' market share in China on a wholesale-volume basis narrowed from 14.4% in 2023 to 11.2% in the first 10 months of 2024, the largest decline among all the brands for three years in a row. Such trend could continue in 2025, in our view, as sales volumes of their key models have been declining. In 2023, the sales dent mainly came from small-size models. However, larger-size and more profitable models, such as the Toyota *Camry*, *Avalon*, *Highlander*, *Sienna*, Honda *Accord*, *CR-V*, *Breeze* and Nissan *Teana* all posted YoY sales declines in the first 10 months of 2024. That, along with a lack of new competitive models, could lead to a market share loss of 1.6ppts YoY in 2025E, based on our estimates.

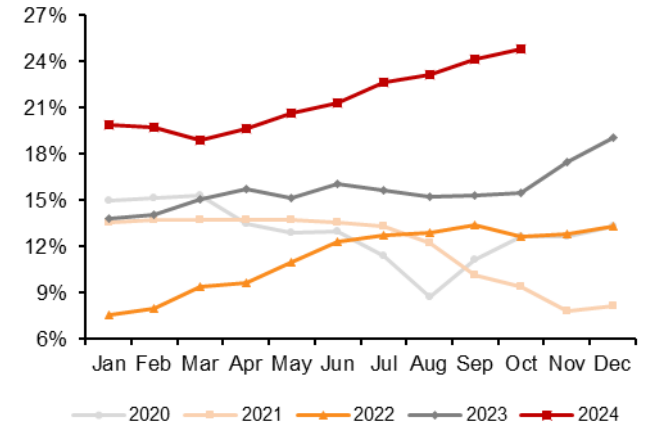
Figure 45: Japanese brands' market share in China (on a wholesale basis)



Source: CAAM, CMBIGM estimates

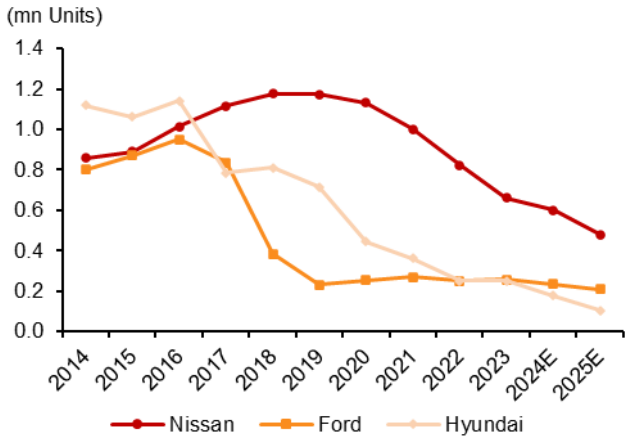
Nissan is probably the most active one among the Japanese "Big Three" to push electrification in China given its sales plunge in the past four years. It plans to launch five NEVs by the end of its FY26. However, the failure of its *Ariya* EV gives us little confidence about its upcoming NEVs. We view Nissan's challenges, such as lack of competitive models and technologies, as global, not only in China, especially after its management saga in 2018. We are of the view that Nissan has followed the collapse of Ford and Hyundai in China.

Figure 46: Dongfeng Nissan discounts at dealers



Source: ThinkerCar, CMBIGM

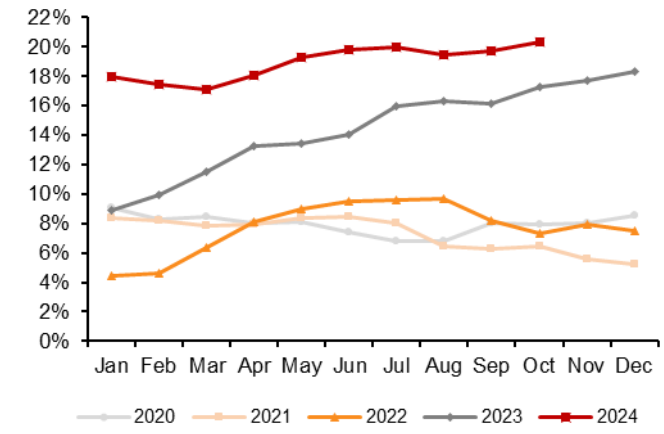
Figure 47: Nissan's wholesale volume in China



Source: CAAM, CMBIGM estimates

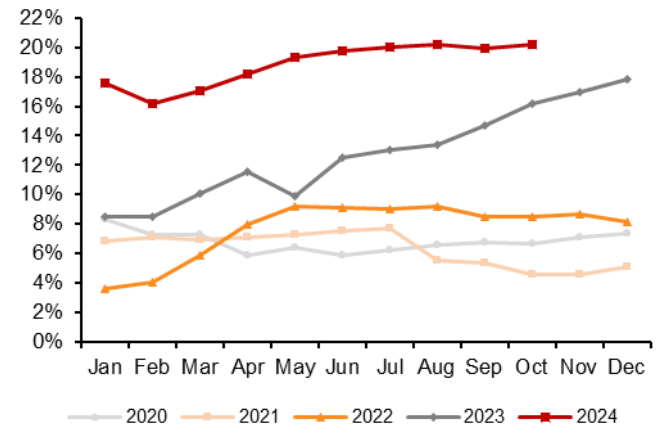
After unsuccessful launches of the e:NP/e:NS series, **Honda** rolled out a new brand named Lingxi at its JV with Dongfeng in 2024 by leveraging resources from its Chinese partner. In 2025, Dongfeng will launch a new NEV brand named Ye at both JVs in China. Nevertheless, we expect Honda's market share in China to continue narrowing in 2025E. It takes Nissan about six years to halve its China sales volume from its peak in 2018 and it may only take Honda four years to halve its China sales volume from its peak in 2021. Discounts at dealers for both Dongfeng Honda and GAC Honda reached 20% in 3Q24.

Figure 48: Dongfeng Honda discounts at dealers



Source: ThinkerCar, CMBIGM

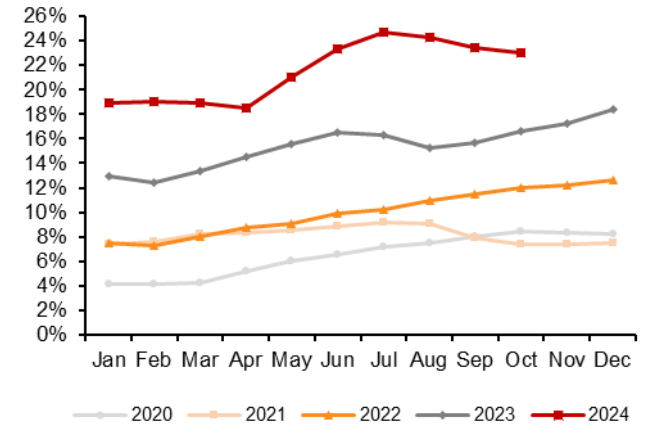
Figure 49: GAC Honda discounts at dealers



Source: ThinkerCar, CMBIGM

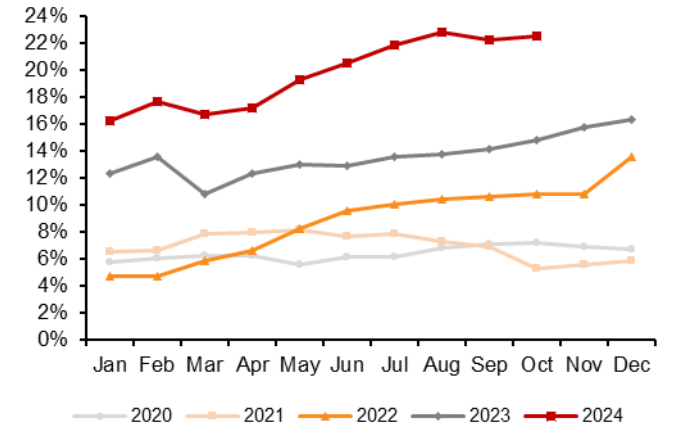
Although **Toyota** was widely regarded as the best-positioned foreign mass-market brand in China by many investors in the past years, its sales volume decline has started since 2023. We expect its sales volume in China to fall 16% YoY in 2024E, as its key models have started to lose Chinese consumers. After having launched 17 new models in the past four years, Toyota lacks new models in 2025 and may have to rely on heavier discounts to mitigate its sales decline in 2025, in our view. Both GAC Toyota and FAW Toyota's discounts exceeded 22% in 3Q24, the highest in history.

Figure 50: FAW Toyota discounts at dealers



Source: ThinkerCar, CMBIGM

Figure 51: GAC Toyota discounts at dealers



Source: ThinkerCar, CMBIGM

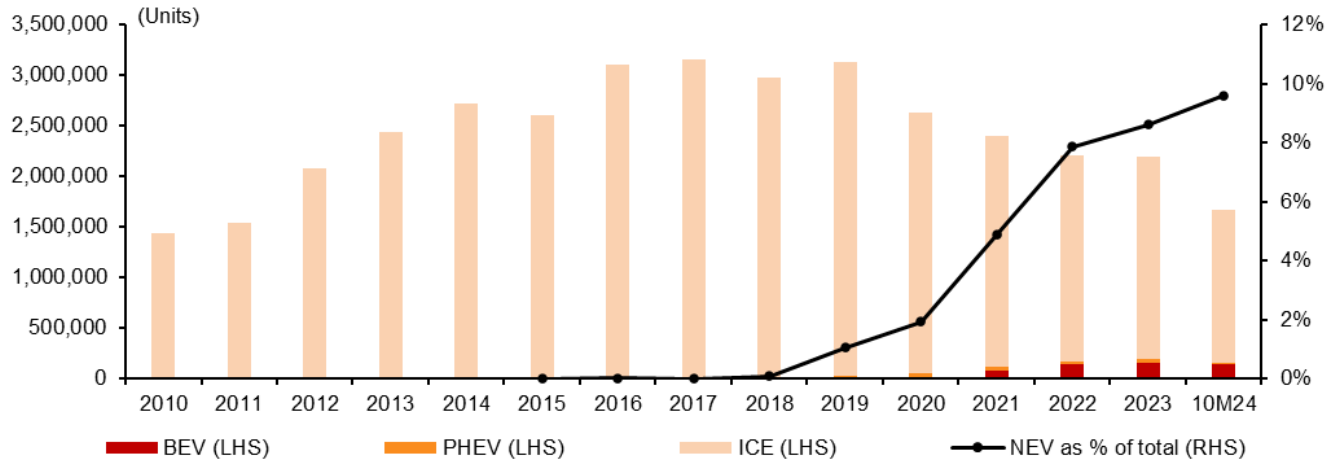
■ **VW brand: more resilient than expected in 2024**

We project the VW brand's wholesale volume in China to drop 8% YoY in 2024E, better than the 17% decline for foreign brands. We believe that VW is the first German brand to realize the challenges it faces in China. That probably has helped VW adapt to the landscape changes faster than other foreign automakers, such as new model pricing. Its new models in 2024, including the *Magotan*, *Passat* and *Tiguan L*, have been more successful than other foreign brands based on the initial sales volume after the rollouts.

Although VW has seven BEV models on sale, NEVs only accounted for 10% of VW's total retail sales volume in the first 10 months of 2024. The *ID.3* EV had an average monthly retail sales volume of about 7,500 units in the first 10 months of 2024, higher than all the remaining six models combined. We expect NEVs to make up a lower portion of VW's sales volume in China in 2025E than 2024E, given that most of the scheduled ID. Series models have been launched and new BEV models partnered with Xpeng are to be rolled out in 1Q26.

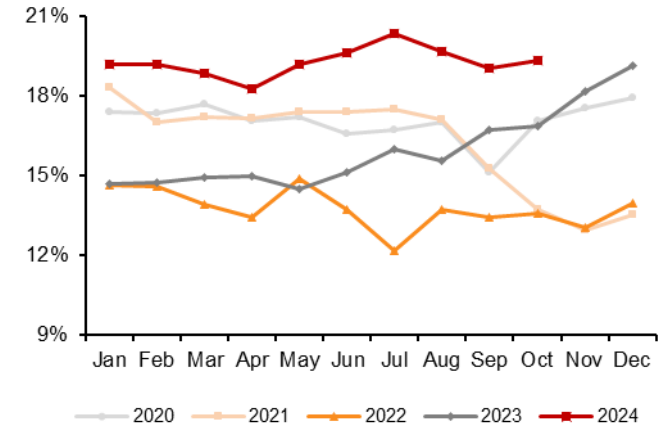
On the other hand, the new generations of the ICE models including *Tayron*, *T-Roc*, *Tharu*, and *Teramont* are likely to be unveiled in 2025E, based on our estimates. The relatively successful launches of new ICE models in 2024 could offer good experience for VW.

Figure 52: VW brand's retail sales volume in China



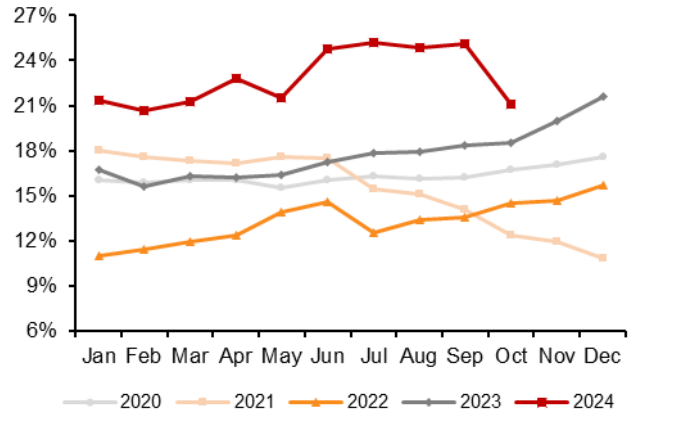
Source: CATARC, CMBIGM

Figure 53: SAIC VW discounts at dealers



Source: ThinkerCar, CMBIGM

Figure 54: FAW VW discounts at dealers



Source: ThinkerCar, CMBIGM

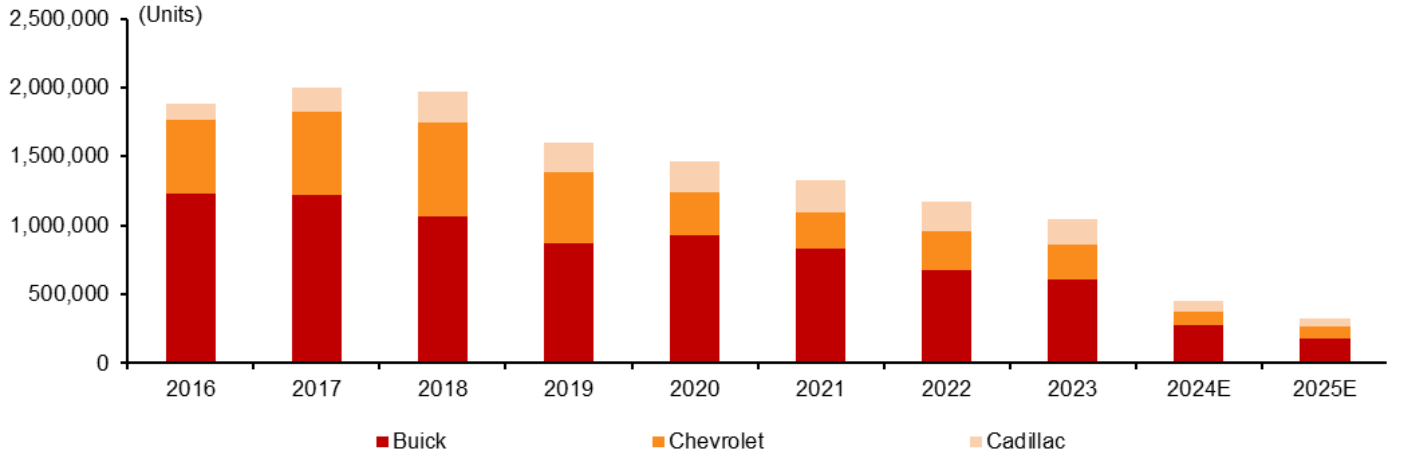
■ **GM: 1/4 of the peak sales volume is not the end of the decline**

GM's experience in China shows that the worst scenario could be worse than previously expected for any foreign brands. SAIC GM's wholesale volume had its peak in 2017 with about 2mn units (the 2nd largest foreign automaker in China at that time) and was halved to about 1mn units in 2023. We project GM's wholesale volume under its three brands (Buick, Chevrolet and Cadillac) to be 0.45mn units in 2024E. To make it worse, about 31% of GM's wholesale volume in China was from exports in the first 10 months of 2024. SAIC-GM-Wuling contract manufactures the Chevrolet *Aveo* for exports to Mexico.

Interestingly, about 25% of Buick's wholesale volume in China in the first 10 months of 2024 was from NEVs, the highest ratio among all the foreign brands except pure EV brands such as Tesla. The *Velite 6* EV and *GL8* PHEV contributed the most.

We project GM's wholesale volume to continue falling by 29% YoY to 320,000 units in 2025E, as we see no competitive new models in 2025E and the *GL8* PHEV appears to lose sales momentum five months after its rollout. We see no turnaround signals for GM in China, although it has attempted many ways to revive its sales in China.

Figure 55: GM's wholesale volume in China



Source: CAAM, CMBIGM estimates

Premium car: Is the worst over for dealers?

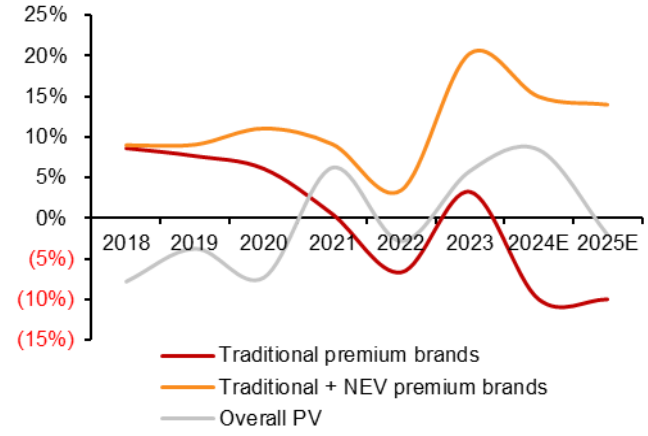
We divide the premium car segment into two categories to better reflect the industry landscape changes: traditional premium brands and premium NEV brands. Although some Chinese automakers are still adjusting their brand positioning, which makes it difficult to define them properly, we still see brands like Tesla, NIO, Lixiang, Aito, Zeekr, Denza and Xiaomi as premium NEV brands. As about 20% of traditional premium cars in China are still imported and about 1/3 of Tesla Shanghai's production is exported, we use retail sales volume to reflect such demand more precisely.

Traditional premium-brand market share in China reached the peak of 16.4% in 2020 and followed by a four-year decline. We project such market share to narrow to about 12% in 2024E, worse than our prior forecast. Such trend is likely to continue in 2025 and we project traditional premium-brand market share to shrink to about 11% in 2025E.

Retail sales volume for premium NEV brands in China surged 68% YoY to 1.96mn units in the first 10 months of 2024, largely driven by Aito (+560% YoY), Zeekr (+89% YoY) and new brands such as Xiaomi. Tesla accounted for 26% of total premium NEV retail sales volume in the first 10 months of 2024, followed by Lixiang's 20% and Aito's 17%. We expect Tesla's market share in the premium NEV segment to continue shrinking in 2025E. Although the premium NEV market share reached 10.7% in the first 10 months of 2024 on a retail basis, we still expect retail sales volume of these brands to surge 40% YoY in 2025E.

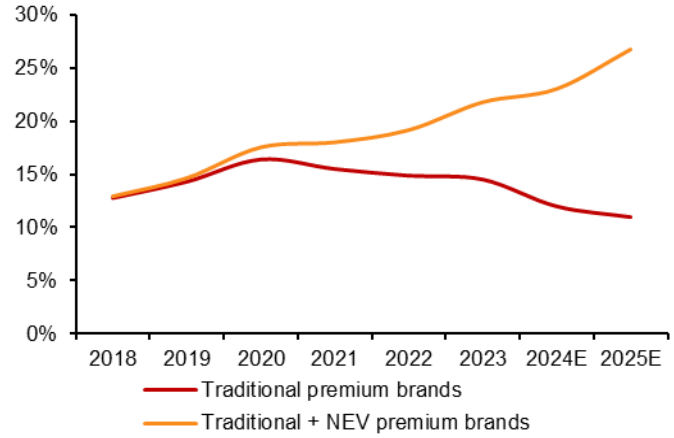
In other words, premium NEV market share is likely to surpass traditional premium brands' market share in 2025E. We project the combined market share for traditional and NEV premium brands to rise from 21.8% in 2023 to 23.0% in 2024E and 26.7% in 2025E.

Figure 56: Retail sales volume YoY growth for traditional and overall premium brands in China



Source: CATARC, CMBIGM estimates

Figure 57: Market share for traditional and overall premium brands in China



Source: CATARC, CMBIGM estimates

Retail sales volume for BMW, Mercedes-Benz and Porsche fell 15%/10%/33% YoY, respectively, in the first 10 months of 2024, whereas retail sales volume for Lexus rose 7% YoY during the same period. Discounts at dealers for these four brands, which are probably the most important brands for Hong Kong-listed dealers, all reached record highs in 2024. Therefore, new-car gross margins at dealers for these brands also narrowed to all-time lows in 1H24, despite higher subsidies from OEMs.

We are of the view that new-car gross margin is unlikely to be significantly worse than now in order to avoid a large number of dealer exits. However, profits from after-sales services could continue to shrink, as new-car sales volume is likely to keep falling. On the other hand, as sales volume of premium NEV brands is set to surpass that for traditional premium brands and more premium NEV brands adopt the dealership model, leading dealers have started to work with some premium NEV brands that are more likely to survive than others in the long term. For example, Zhongsheng has planned to open a number of Huawei's HIMA stores to ride on the brand's sales boom.

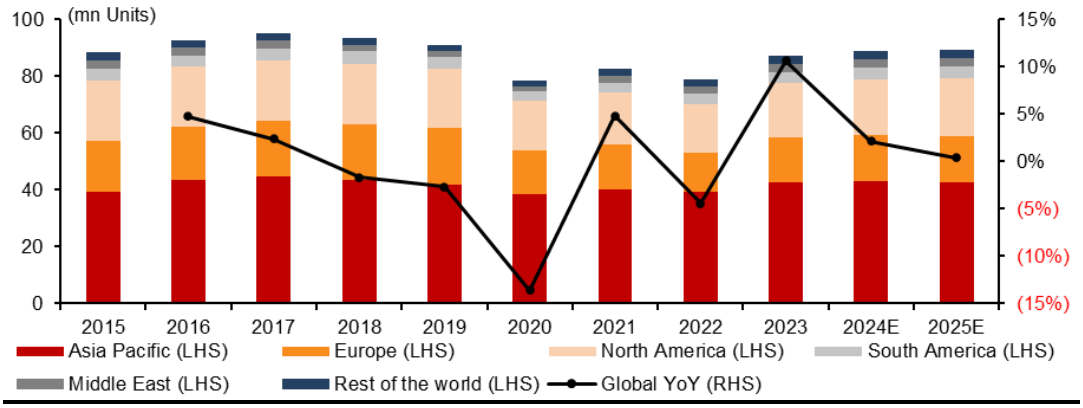
We believe that the challenges that Chinese dealers face now are unlikely to be significantly larger in the foreseeable future. However, it is still a bit early to foresee a profit growth, as the landscape for NEV brands are still changing fast, especially with quite a few NEV brands adopting the direct-sales model. In our view, the picture could be clearer after 2025.

Global auto sales in a nutshell: Mild recovery with capacity cuts

We project global auto sales volume to rise 2.1% YoY to 89.04mn units in 2024E, in line with our prior forecast made in Mar 2024. Although sales volume in China beat our prior expectation, the declines in Japan, Thailand and Indonesia drag Asia Pacific's total sales volume lower than our prior estimates by 1.3ppts in 2024E. We have also revised down Europe's auto sales volume growth in 2024E from 4.3% YoY to 2.6% YoY. Almost all the large markets in Europe posted weaker-than-expected growth in the first 10 months of 2024, except the UK and Poland. The positive surprise came from Latin America, as Mexico, Brazil and Argentina all beat our prior estimates.

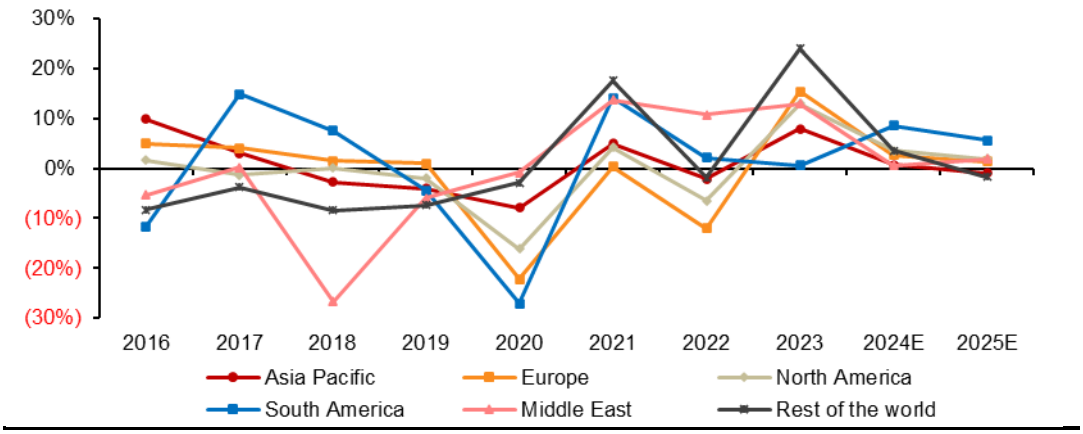
We project global auto sales volume to rise 0.4% YoY to 89.41mn units in 2025E, down from our prior projection of 1.9% YoY in Mar 2024. The cut is mainly from China and Europe, as we take the pre-buying effect in 2024 for China into consideration and we have not seen any turnaround signs for Europe. Although global auto sales volume is likely to rise for three years in a row from 2023-25E, it is still below the pre-COVID level of 91.00mn units in 2019 and the peak of 95.10mn units in 2017.

Figure 58: Global auto sales volume by region



Source: Marklines, CMBIGM estimates

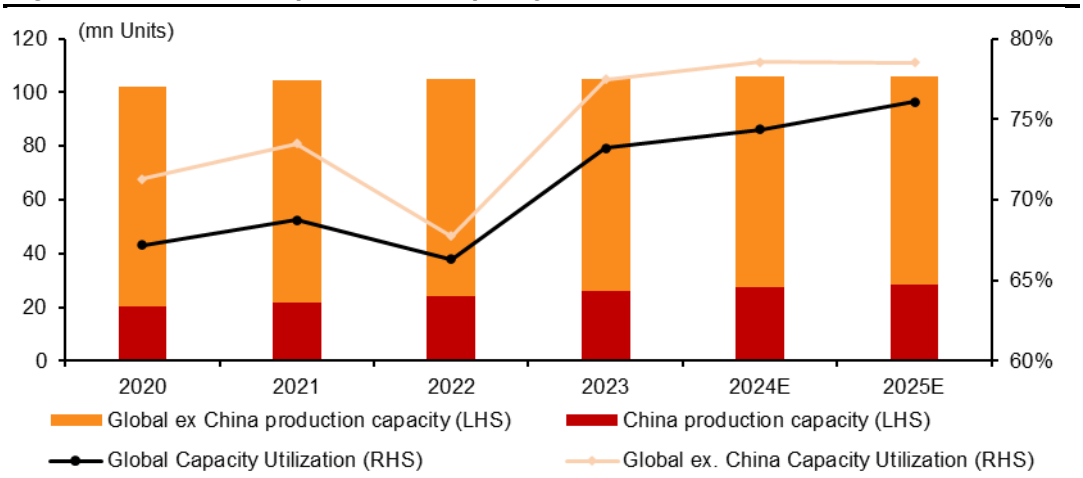
Figure 59: Global auto sales volume growth by region



Source: Marklines, CMBIGM estimates

Global ex. China's production capacity cuts started from 2022 when the utilization rate fell to 68% after the dent from COVID and chip shortage. The capacity cuts mainly came from Europe and South America in 2022-23. We expect global capacity cuts to continue in 2025E, in both China and overseas, despite our projected mild growth for global auto sales volume. That would lift the global capacity utilization rate to 76% in 2025E, based on our estimates. The capacity utilization rate in China is likely to be close to the global average in 2025E. In fact, Chinese automakers' capacity utilization rate in China could be 3ppts higher than the global average, aided by the rising NEV sales volume.

Figure 60: Global auto production capacity and utilization rate



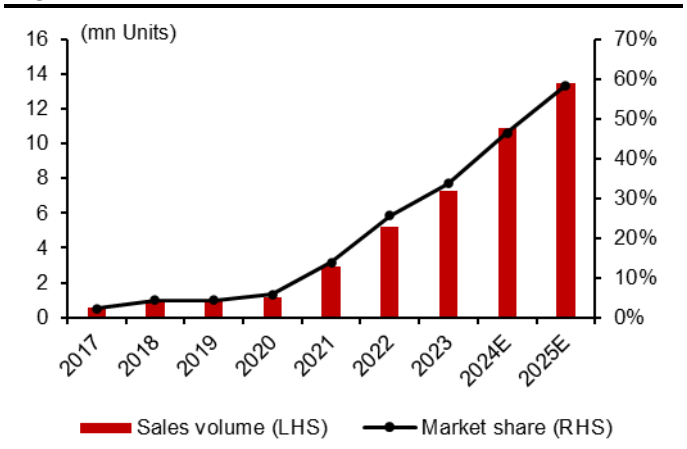
Source: Marklines, CMBIGM estimates

2025 NEV Outlook: Not Much Time Left for Weaker Brands

We project China's passenger NEV retail sales volume to rise 22% YoY from 10.93mn units in 2024E to 13.35mn units in 2025E, which implies NEV market share of 57.8% in 2025E, up from 46.4% in 2024E.

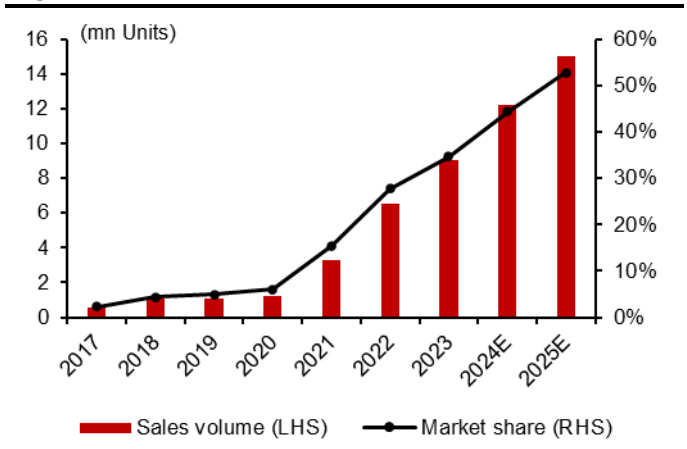
We also project China's passenger NEV wholesale volume to rise 22% YoY from 12.18mn units in 2024E to 14.90mn units in 2025E, which implies NEV market share of 52.3% in 2025E, up from 44.4% in 2024E. Lower NEV market share on a wholesale basis than a retail basis is mainly due to exports. We project NEV exports to rise 5% YoY to 1.2mn units in 2025E, after a 2% YoY decline in 2024E, as the new tariffs on China-made NEVs from the EU could curb NEV exports from Chinese EV makers and Tesla.

Figure 61: China's NEV retail sales and market share



Source: CATARC, CMBIGM estimates

Figure 62: China's NEV wholesale and market share



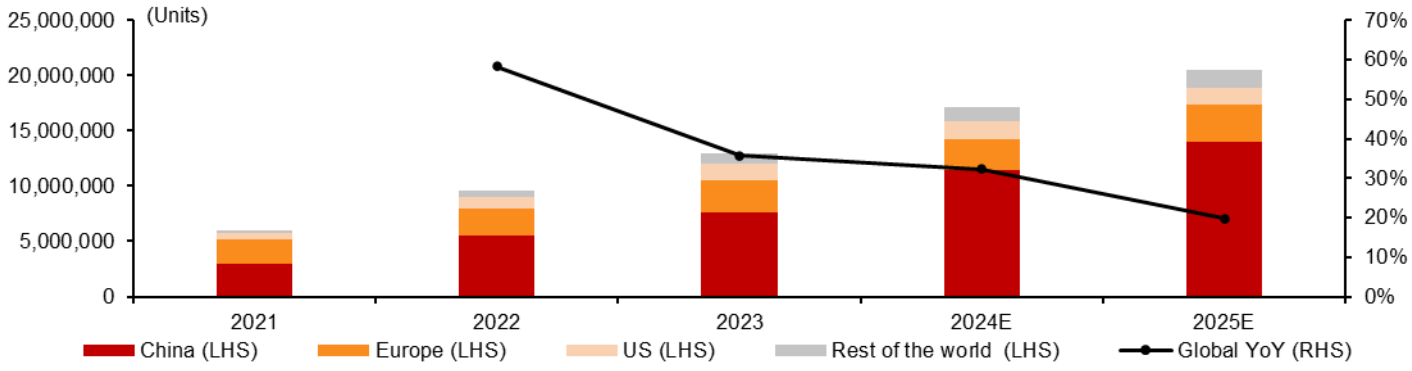
Source: CAAM, CMBIGM estimates

Global NEV sales in a nutshell: China continues to dominate; EU could be a positive surprise in 2025

We project global NEV sales volume to rise 32% YoY to 17.14mn units in 2024E, 3% higher than our prior forecast of 16.58mn units. The beat mainly comes from China, as NEV sales volume in both Europe and the US was below our expectation. EV sales volume growth in China is set to outpace the global average for four years in a row, which is likely to make China account for 67% of global NEV sales volume in 2024E, up from 40% in 2020.

We project global NEV sales volume to rise 20% YoY to 20.54mn units in 2025E, with China making up 68%. We also expect NEV sales volume in Europe to regain traction amid tightening carbon emission standards in 2025. NEV sales volume in the US could be more uncertain under the Trump Administration.

Figure 63: Global NEV sales volume forecast



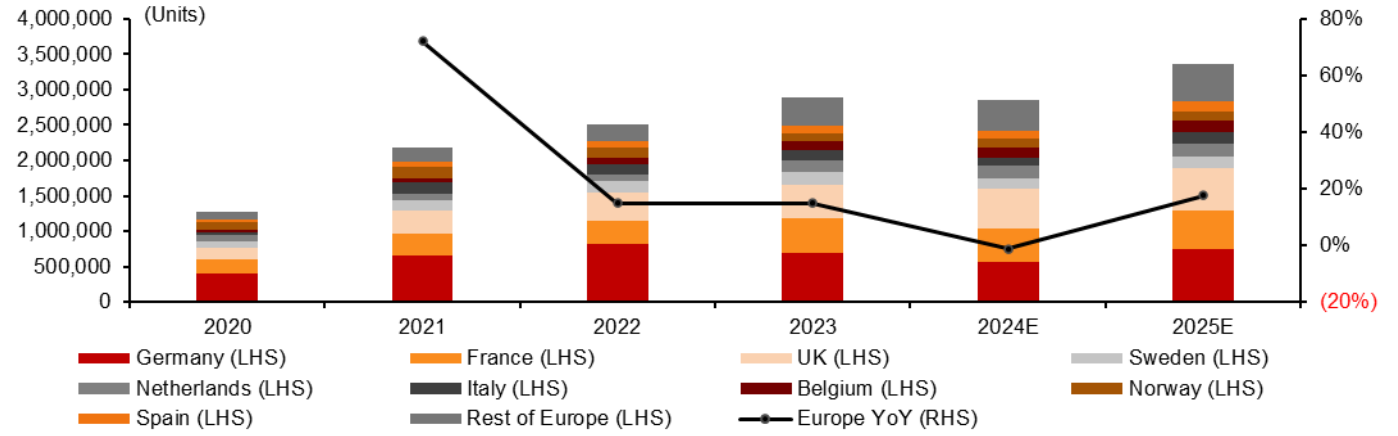
Source: Marklines, CMBIGM estimates

■ Europe: Tightening emission standards to lift NEV sales again in 2025

In the past three years, we have been talking about the policy-driven nature for NEV sales in Europe, as the CO_2 emission requirement in 2020-21 forced automakers to sell NEVs in Europe, when their products were not ready. That resulted in a stagnant NEV market share of around 18% during 2022-23 and a decline to 17.7% in 2024E, in our view. Policies are set to lift NEV sales volume in Europe again, as carmakers in the EU faces stricter CO_2 emission standards in 2025.

We project NEV market share in Europe to widen from 17.7% in 2024E to 20.5% in 2025E. It could be even higher, if all the automakers aim to fulfil the requirement. Minth may benefit from such trend, as more than 50% of Minth's battery housing revenue comes from Europe. The stricter emission-standard timeline coincides with the launches of BMW's next-generation NEVs (the Vision Neue Klasse) and Mercedes-Benz's new models based on the MMA platform.

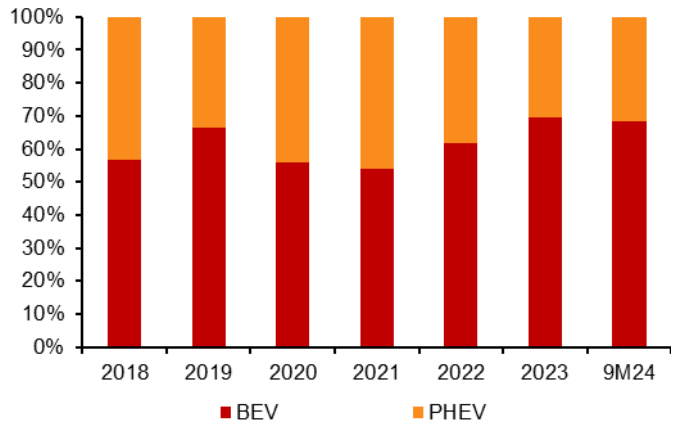
Figure 64: Europe NEV sales volume forecast



Source: Marklines, CMBIGM estimates

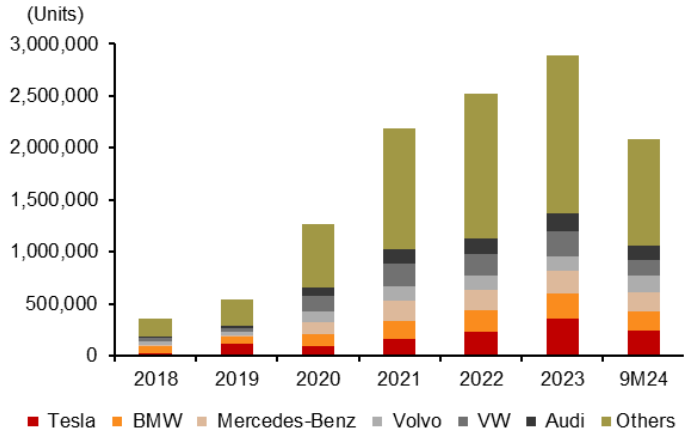
Tesla is set to remain the best-selling NEV brand in Europe in 2024E, although sales volume may fall more than 10% YoY. VW fell to the 5th place with NEV sales volume decline of 17% YoY in the first three quarters of 2024. Volvo climbed to No.4 with a NEV sales volume surge of 60% YoY in the first three quarters 2024. NEV sales volume for BMW and Mercedes-Benz also rose 19% YoY and 15% YoY, respectively, during the same period, despite the overall NEV declines in Europe. NEV sales volume of MG fell 23% YoY in the first nine months of 2024, the most among the top 10 brands.

Figure 65: BEV and PHEV sales breakdown in Europe



Source: Marklines, CMBIGM

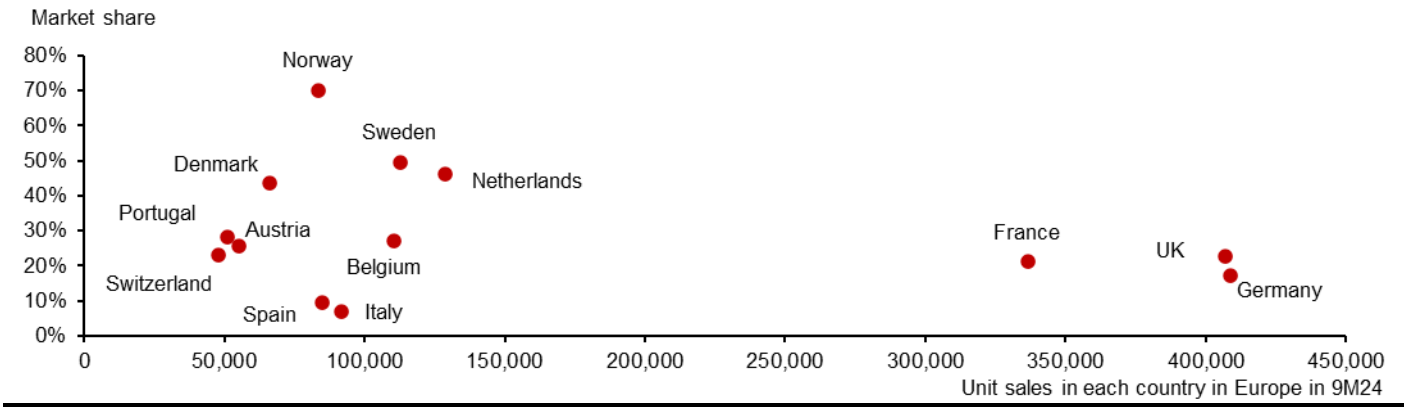
Figure 66: NEV sales volume by brand in Europe



Source: Marklines, CMBIGM

Germany, the largest auto market in Europe for both PV and NEV, dragged Europe's NEV sales volume down, as the NEV sales volume in this country fell 20% in the first three quarters of 2024. NEV sales volume in the UK rose 15% YoY in the first three quarters of 2024, the fastest growth among the top five countries in Europe in terms of NEV sales volume. Netherlands surpassed Sweden to be the 4th largest European country in terms of NEV sales volume in the first three quarters of 2024. Norway and Sweden still have the highest NEV market share in Europe, although NEV sales volume in both countries fell YoY in the first three quarters of 2024.

Figure 67: NEV sales volume and market share by country in 9M24 in Europe



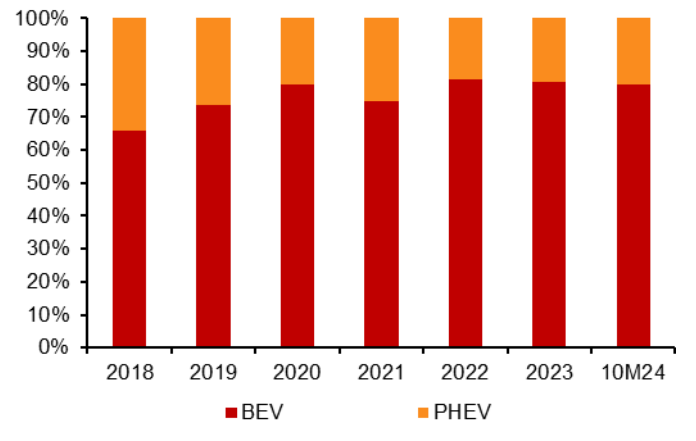
Source: Marklines, CMBIGM

■ US: Full of uncertainties under the Trump Administration

We project NEV market share in the US to widen from 9.1% in 2023 to 9.5% in 2024E, given a 7% YoY growth in the NEV sales volume in the first 10 months of 2024, vs. 1% YoY growth for the overall US market during the same period.

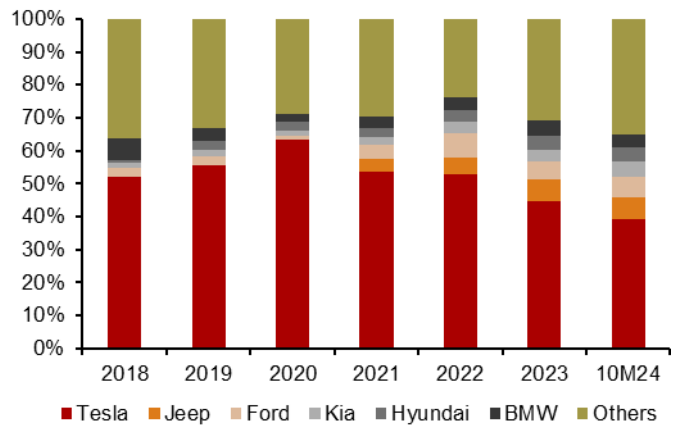
Tesla's market share in the US NEV segment narrowed from 53% in 2022 to 45% in 2023 and 39% in the first 10 months of 2024. Ford, Kia and Volvo have been grabbing market share for the past 12 months.

Figure 68: BEV and PHEV sales breakdown in the US



Source: Marklines, CMBIGM

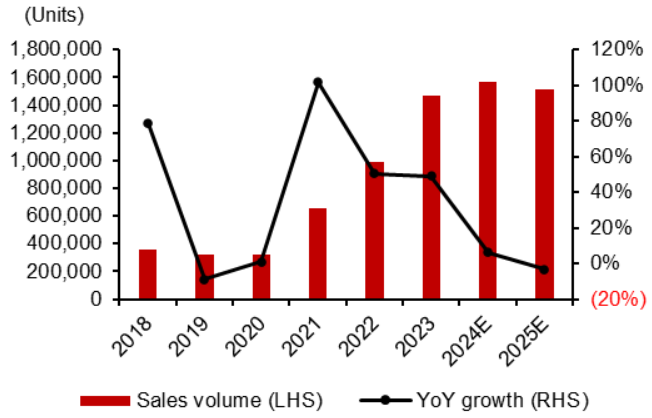
Figure 69: NEV market share by brand in the US



Source: Marklines, CMBIGM

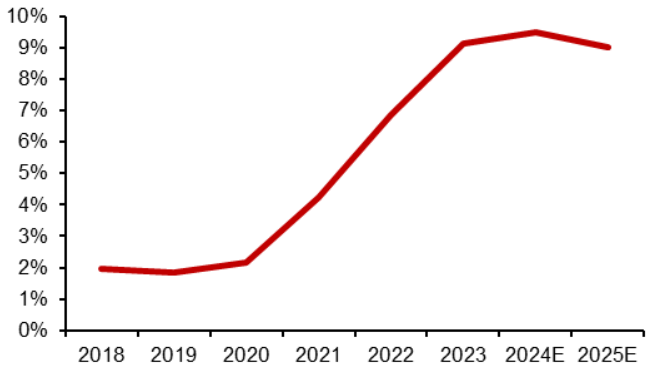
Donald Trump's second term, along with Elon Musk's association with the new administration, makes both Tesla and US NEV market a wild card in the next few years, in our view. We believe the EV tax credits in the Inflation Reduction Act (IRA) enacted from 2022 will face scrutiny under the Trump Administration. We are also of the view that Tesla's brand image is likely changing subtly among different American consumers. We project NEV market share in the US to narrow to 9.0% in 2025E, down from 9.5% in 2024E. We still see little chance for Chinese automakers to enter the US market in the foreseeable future.

Figure 70: US NEV sales volume forecast



Source: Marklines, CMBIGM estimates

Figure 71: US NEV market share forecast

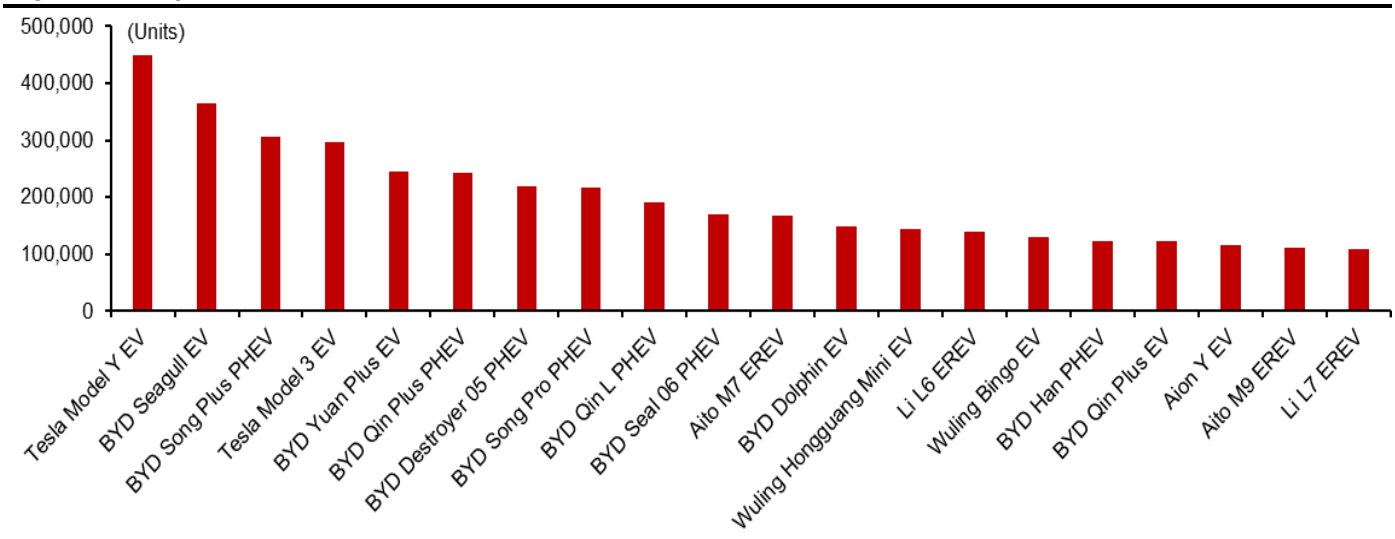


Source: Marklines, CMBIGM estimates

PHEVs to make up 45% of China's NEV wholesale volume in 2025E

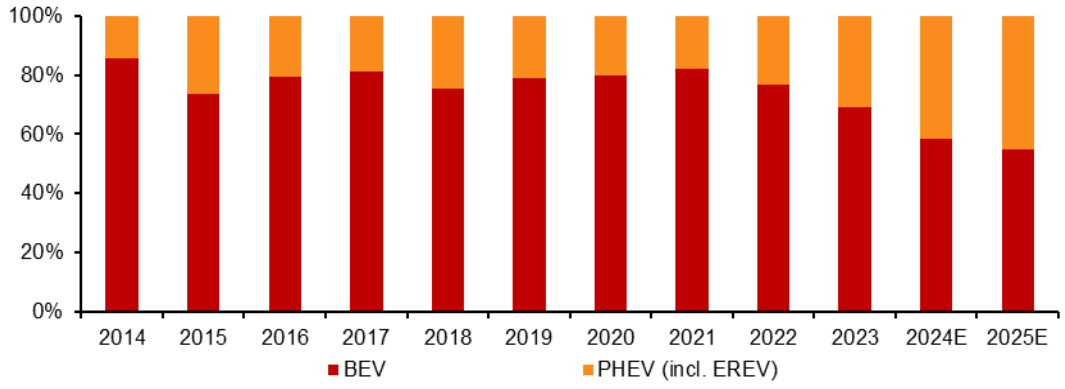
Among the top 20 best-selling NEV models (on a wholesale basis) in the first 10 months of 2024, only nine were BEVs, compared with 11 in 2023. BYD's PHEV models based on the DM-i 5.0 technology, along with EREVs from Li Auto and Aito, took up 11 spots in the top 20 list. In fact, PHEVs (including EREVs) accounted for 42% of total NEV wholesale volume in the first 10 months of 2024, up from 31% in 2023. As more automakers in China plan to launch PHEVs or EREVs from 2025 as noted earlier in the report, we project PHEVs (including EREVs) to make up 45% of total NEV wholesale volume in China in 2025E. Such ratio could reach 50% in 2026E, based on our estimates.

Figure 72: Top 20 NEV models in China in terms of wholesale volume in 10M24



Source: CAAM, CMBIGM

Figure 73: BEV and PHEV (incl. EREV) wholesale volume breakdown in China



Source: CAAM, CMBIGM estimates

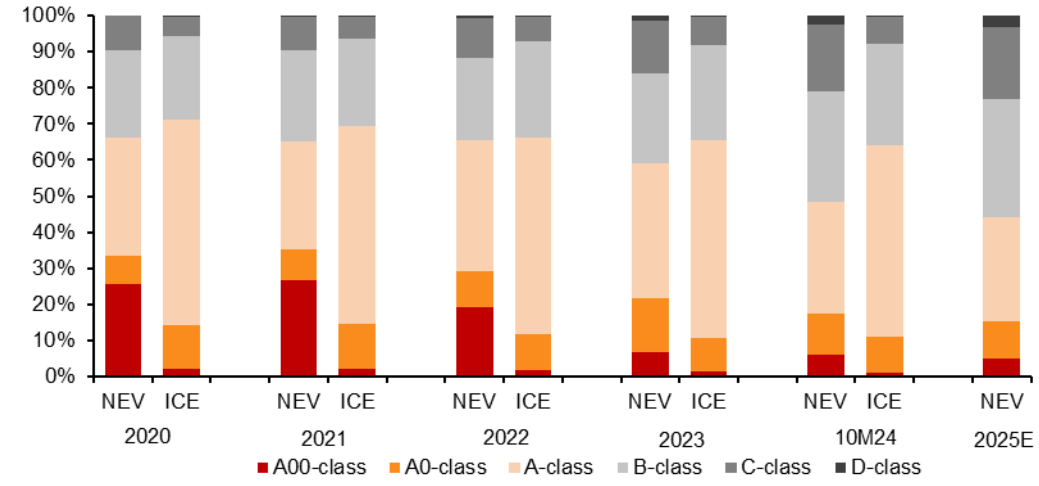
NEVs are still getting larger in China as vehicle prices drop

Although such trend has become apparent since 2022 when sales of mini-size BEVs started to fall sharply, it has not ended yet. The chassis flexibility by NEVs makes them easier to provide longer wheelbase to satisfy Chinese consumers' preference for lengthy legroom.

Among the top 20 best-selling NEV models (on a wholesale basis) in the first 10 months of 2024, nine models are B-class or above (medium size or above), vs. 7 in 2023. In fact, market share for B-class and C-class NEVs both rose 5.1ppts in the past 12 months (on a wholesale basis), the most among all the vehicle sizes. The market share for A-class (compact size) NEVs fell the most by 7.7ppts in the past 12 months. NEVs with medium size or above made up 51.5% of total NEV wholesale volume in China in the first 10 months of 2024.

We project B-class NEVs to account for 33% of total NEV wholesale volume in China in 2025E, the highest ratio among all the vehicle sizes. We also project NEVs with B-Class or above to account for 56% of total NEV wholesale volume in China in 2025E.

Figure 74: NEV wholesale volume breakdown by vehicle size in China

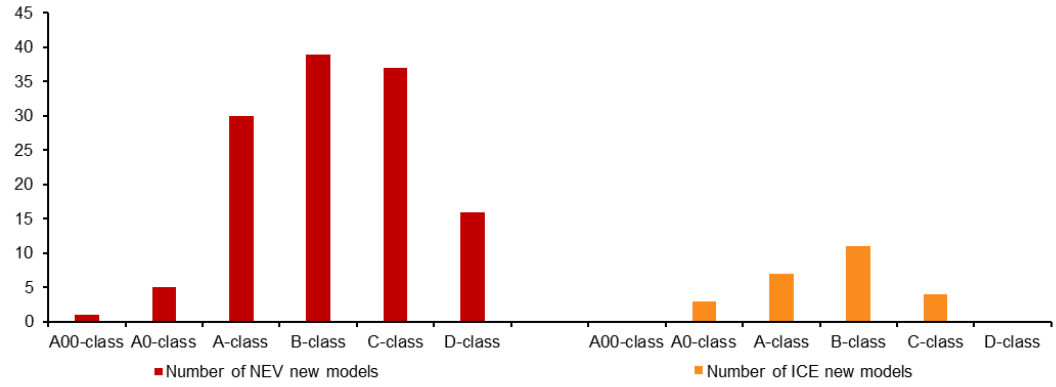


Source: CAAM, CMBIGM estimates

In both 2023 and the first 10 months of 2024, it required an average monthly sales volume of about 10,000 units to squeeze into the top 20 best-selling NEV models. There were 35 models with monthly sales volume of above 10,000 units in Oct 2024. Some of them were not in the top 20 list for the first 10 months of 2024, as they were just launched recently, such as the *Song L* PHEV, Xiaomi *SU7* EV, Zeekr *7X* EV and Xpeng *P7+* EV. These models, along with the upcoming new models including the BYD *Tang L*, Aito *M8*, Li *M8*, Xiaomi C-class SUV and Geely Galaxy B-class sedan, could support NEVs with medium size or above

to outpace the segment's overall sales growth in 2025E. Meanwhile, we also project A-class NEVs' market share to narrow at a slower pace in 2025E than in 2024E, supported by models including the Geely *Galaxy E5* EV, Xpeng *Mona M03* EV and Leap *B10*.

Figure 75: New model pipeline breakdown by vehicle size in 2025E



Source: Company data, CMBIGM estimates

Chinese consumers are also buying larger size ICE models, but the shift has been much slower than NEVs, given the longer model cycle and slower price cuts. Models with B-class or above made up 35.9% of total ICE wholesale volume in China in the first 10 months of 2024, only 1.7ppts higher than a year earlier.

Value-for-money, brand image more crucial as competition continues to intensify

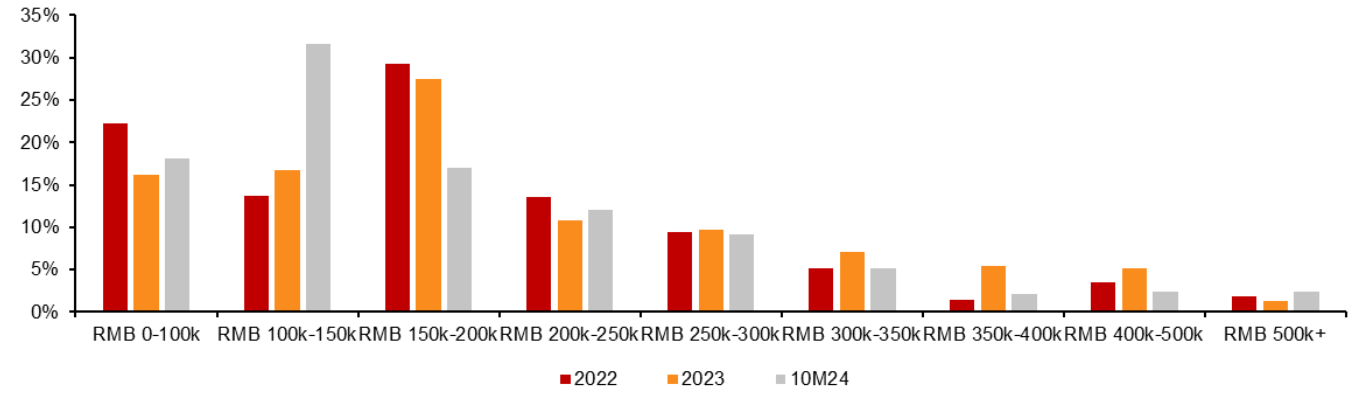
NEVs in China has been increasingly competitive every year and we do not expect such trends to change in 2025E. The top 20 best-selling models combined only accounted for 43% of China's total NEV wholesale volume in the first 10 months of 2024, down from 52% in 2023 and 55% in 2022. Meanwhile, the NEV pricing has become more interesting.

- **NEV price pattern converges with ICE; Models priced at RMB100,000-150,000 take the highest market share**

NEVs priced at RMB100,000-150,000 accounted for 32% of total NEV retail sales volume in China in the first 10 months of 2024, 14.8ppts higher than that in 2023. The huge market share jump came from declining NEV prices, led by BYD. BYD cut prices for the *Song Plus* PHEV, *Song Pro* PHEV and *Yuan Plus* EV from RMB150,000-200,000 to RMB100,000-150,000 in 2024. Others such as Aion and Geely followed suit. BYD also rolled out successful new models in 2024 including the *Qin L* PHEV and *Seal 06* PHEV which are larger than the *Qin* PHEV with a similar price range.

The price war has also lifted the market share of NEVs priced at RMB200,000-250,000 in 2024 as we had expected last year, because EV makers have lowered prices for their models which were previously priced at RMB250,000-350,000. The Tesla *Model Y* was the largest contributor to this trend. Meanwhile, retail sales volume for NEVs priced at above RMB500,000 rose 2.6x YoY in the first 10 months of 2024, driven by the *Aito M9*. The Zeekr *009*, Li *Mega* and Yangwang *U8* also contributed to such trend, offsetting the sales declines from BMW *5-Series* PHEV, Mercedes-Benz *E Class* PHEV and Porsche *Cayenne* PHEV.

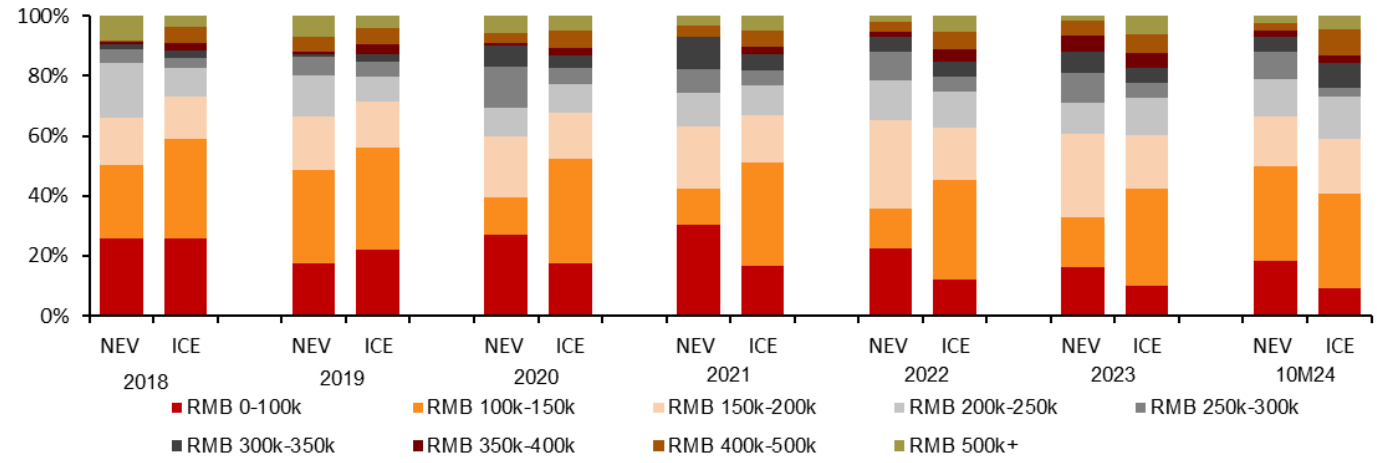
Figure 76: Comparison of NEV retail sales volume breakdown by price range in 2022-10M24



Source: CATARC, CMBIGM

Unlike 2020-21 when mini-size BEVs or premium NEVs made up the majority of sales volume or 2022 when sales volume of NEVs priced at RMB150,000-300,000 grew the fastest, the NEV price distribution patterns in 2024 are similar to ICE vehicles'. Some NEVs have been cheaper than ICE models in a sense. We no longer expect any price range to post drastic market share changes. In other words, new NEV models within any price range could become popular models. It is about value-for-money and brand image now, rather than any specific price range to target.

Figure 77: Retail sales volume breakdown by price range (NEV vs. ICE)

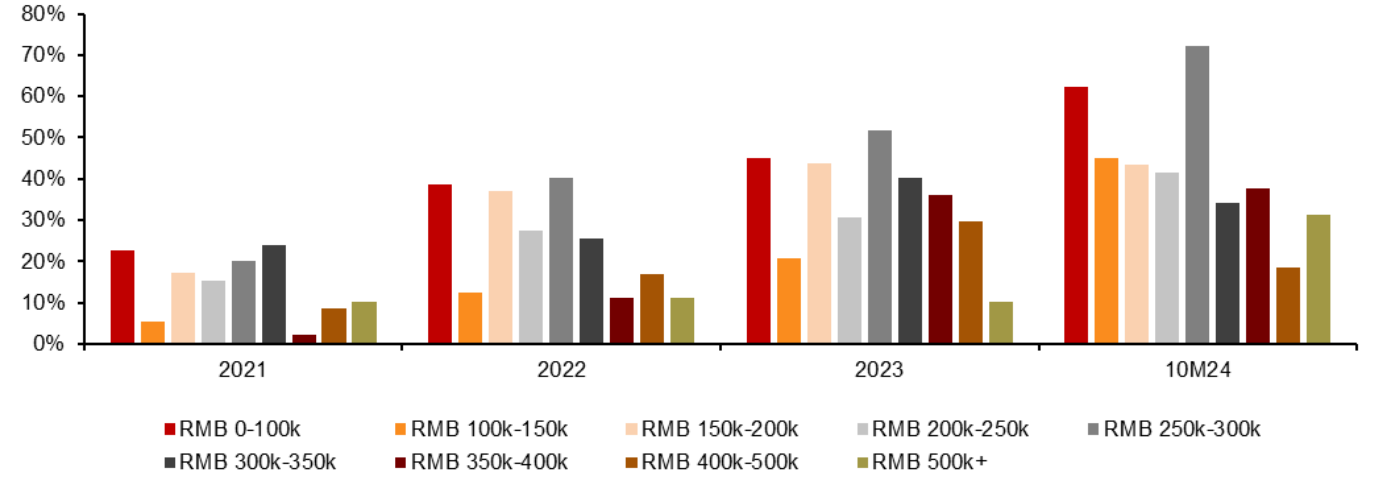


Source: CATARC, CMBIGM

■ **NEVs to take 50%+ share in all the segments priced below RMB300k in 2025E**

NEVs accounted for 72% of retail sales volume for vehicles priced at RMB250,000-300,000 in the first 10 months of 2024, in line with our forecast made in Nov 2023. However, we still underestimated the severity of the price war, as NEVs also made up 45% of retail sales volume with vehicles priced at RMB100,000-150,000 in the first 10 months of 2024, up from 21% in 2023. Meanwhile, NEV's market share growth in the price segment of RMB300,000-350,000 halted in the first 10 months of 2024 amid the price war.

Figure 78: NEV market share in each price segment (on a retail basis)



Source: CATARC, CMBIGM

As we project NEVs' overall market share to rise to 57.8% in 2025E, NEVs are likely to contribute more than 50% of sales volume in major price segments in 2025E. It once again implies that the future popular models could have diversified pricing.

Xpeng and Leapmotor probably have a deep understanding of the importance of value-for-money now. Rising sales volume will likely solidify the brand image and positioning, which again helps develop new models and thus a virtuous cycle. We are of the view that price war will continue in 2025E, as more automakers will follow suit. On the other hand, there may be limited time left for weaker NEV makers to build their brand image. Interestingly, the top 20 best-selling NEV models in 2023 belonged to seven different brands and the number was reduced to five in the first 10 months of 2024, namely BYD, Tesla, Lixiang, Aito and Wuling.

Should price war become even more severe in 2025, cost reduction capabilities, whether through economies of scale or technological innovation, would be crucial. In our view, BYD is probably the best positioned and in fact, BYD could initiate another round of price war again in 2025, as it did in 2024.

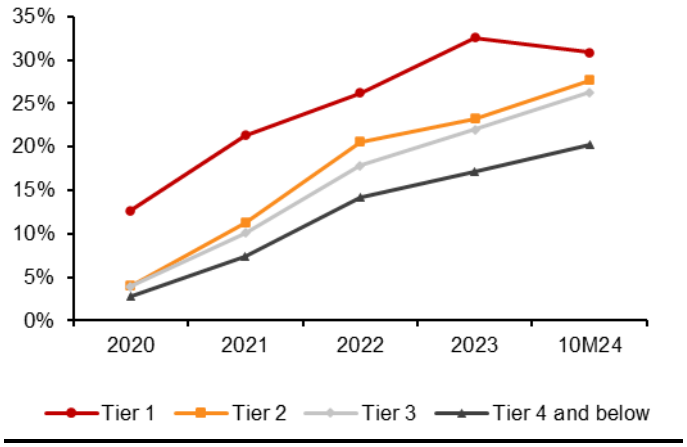
NEV sales and store efficiency analysis at city-tier level

- **Will NEV sales growth in lower-tier cities slow down when market share is above 40%?**

Tier-3 cities in China continued to see the fastest NEV sales volume growth in the first 10 months of 2024, with NEV market share there rising 12.9ppts to 45.1% in the first 10 months of 2024, up from 32.1% in 2023 on a retail basis. NEV retail sales volume in tier-2 and tier-4 and below cities also outpaced the overall NEV growth, with market share widening by 11.9ppts and 12.2ppts in the first 10 months of 2024 vs. 2023. Tier-1 cities underperformed the overall NEV market, as BEV retail sales volume declined YoY in the first 10 months of 2024.

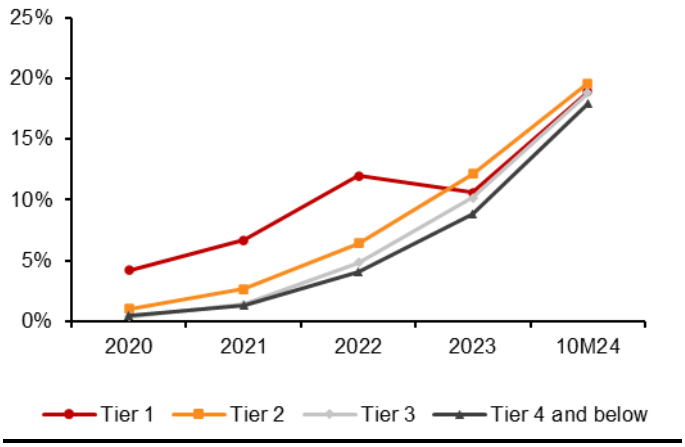
Now that NEV market share on a retail basis in China's tier-1, -2, -3 and -4 and below cities reached 49.7%/47.3%/45.1%/38.2%, respectively, in the first 10 months of 2024, we think that the question should be whether NEV sales growth in lower-tier cities is to slow down like it occurred in tier-1 cities during 2023-24, rather than which city tier is to drive sales next year. Although the sales growth rate slows down naturally to be close to the overall market when NEVs become mainstream, it is ultimately the product that determines the penetration rate and thus the growth rate in the next few years. PHEV's rapid growth in tier-1 cities in the first 10 months of 2024 could be a good example to illustrate this. It is also the continuously improving NEV products that result in stronger-than-expected NEV sales volume in 2023 and 2024, in our view.

Figure 79: BEV market share in different city tiers (on a retail basis)



Source: CATARC, CMBIGM

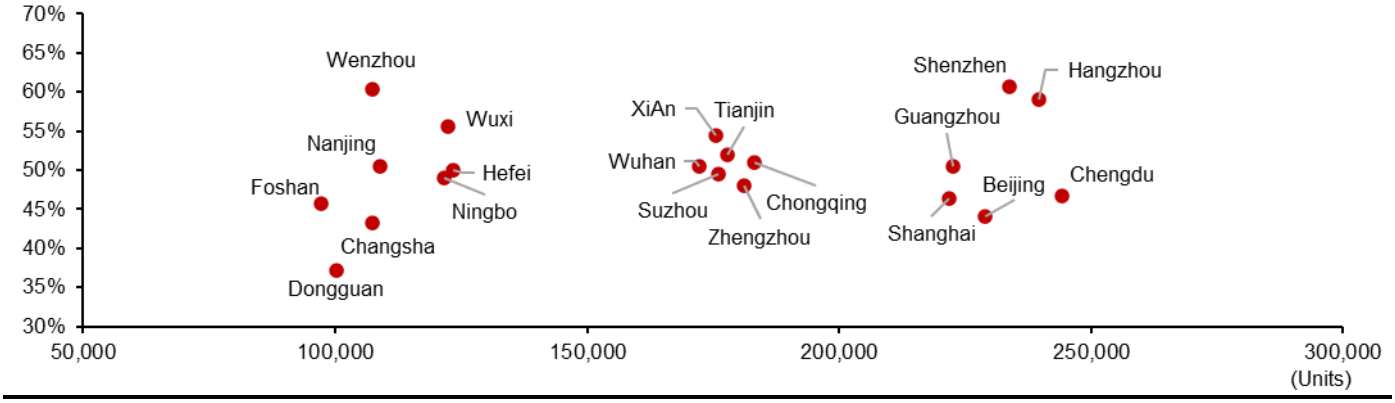
Figure 80: PHEV market share in different city tiers (on a retail basis)



Source: CATARC, CMBIGM

Among the top 20 cities in terms of NEV retail sales volume, NEV sales volume exceeded that of ICE in 10 cities in the first 10 months of 2024. The number was only one (Shenzhen) in 2023. NEVs accounted for more than 60% of total retail sales volume in Shenzhen and Wenzhou in the first 10 months of 2024. Surprisingly, NEV's market share in Shanghai fell from 49% in 2023 to 46% in the first 10 months of 2024, as BEV retail sales volume in the city fell 26% YoY in the first 10 months of 2024.

Figure 81: NEV retail sales volume in top 20 cities with corresponding NEV market share (10M24)



Source: CATARC, CMBIGM

■ **BYD: Benefit from lower-tier cities with comprehensive network and models**

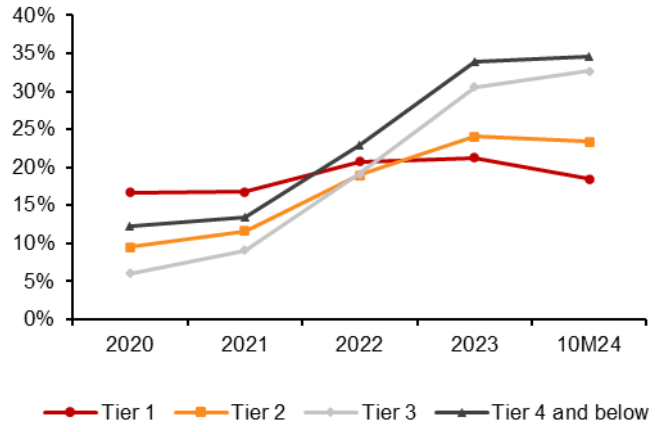
BYD (including BYD, Denza, Yangwang and Fangchengbao) maintained its largest market share in all the city tiers in China for both BEVs and PHEVs (EREVs included) in the first 10 months of 2024. It continued to gain BEV market share YoY in tier-3 and below cities, despite the high base (about 1/3 of BEVs sold in these cities were BYD), thanks to its extensive sales network in lower-tier cities and comprehensive model offerings with diverse price ranges.

BYD's PHEV market share narrowed in all the city tiers in the first 10 months of 2024, as we had expected, given its previous dominance. Its PHEV market share in tier-3 and below cities was still higher than 50%, despite sharper market share declines compared with BEVs. Chery and Aito grabbed the most market share from BYD in lower tier-cities among all its peers.

BYD's sales network (Dynasty and Ocean only, excluding Denza, Yangwang and Fangchengbao) comprised over 3,500 stores by the end of Oct 2024, about 100 higher than a year earlier. The expansion all came from lower-tier cities, resulting in 53% of its stores located in tier-3 and below cities in China as of Oct 2024. BYD's sales volume growth in

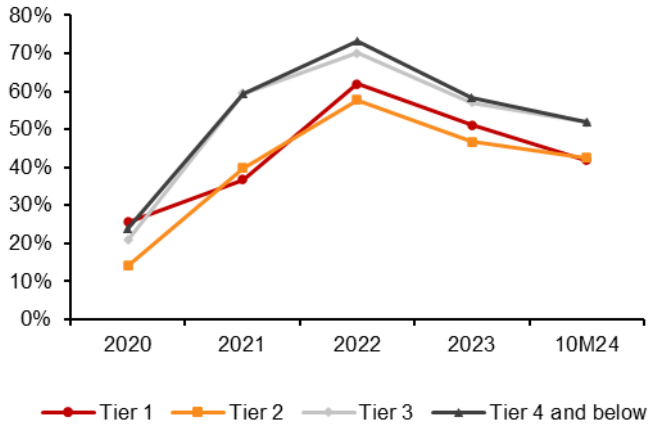
lower-tier cities in 2024 was even faster than the store expansion, making the average unit sales per store in tier-3 and below cities about 50% higher than a year earlier.

Figure 82: BYD's share in the BEV market of each city tier (on a retail basis)



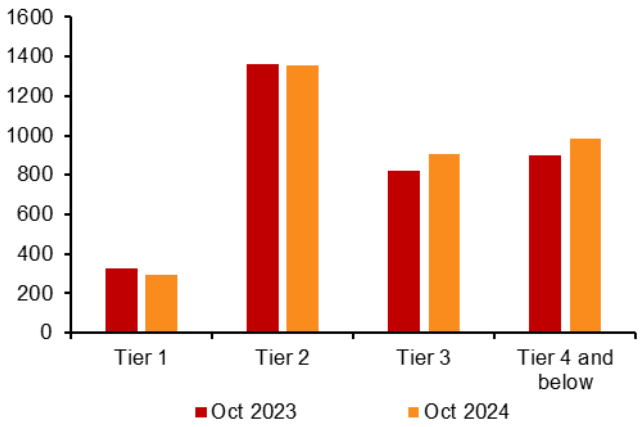
Source: CATARC, CMBIGM

Figure 83: BYD's share in the PHEV market of each city tier (on a retail basis)



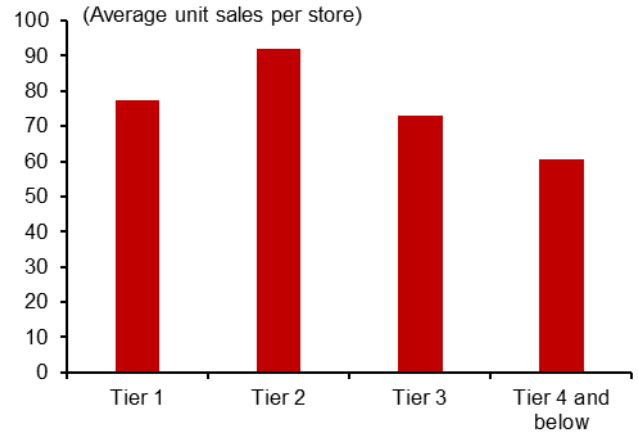
Source: CATARC, CMBIGM

Figure 84: BYD brand's number of stores in different city tiers in China



Source: Company data, CMBIGM

Figure 85: BYD brand's average monthly unit sales per store in different city tiers



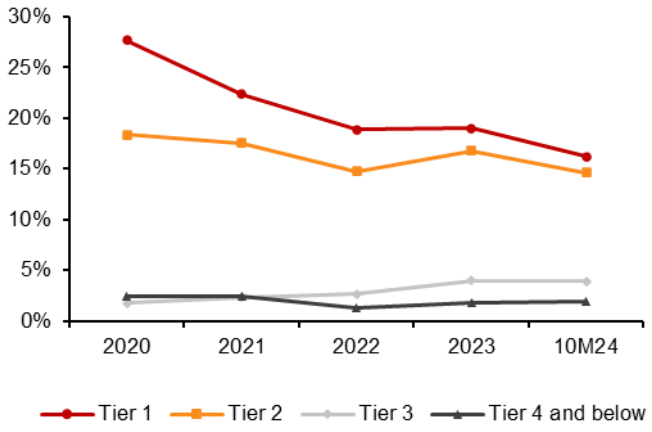
Source: CATARC, company data, CMBIGM

■ Tesla: Sales still resilient as it taps into lower-tier cities

Tesla's retail sales volume rose 8% YoY in China in the first 10 months of 2024, more resilient than we originally expected, thanks to the contribution from lower-tier cities. Tesla's retail sales volume in tier-3 and below cities surged 28% YoY in the first 10 months of 2024. Tier-3 and below cities accounted for 10% of Tesla's total retail sales volume in China in the first 10 months of 2024, up from 8% in 2023.

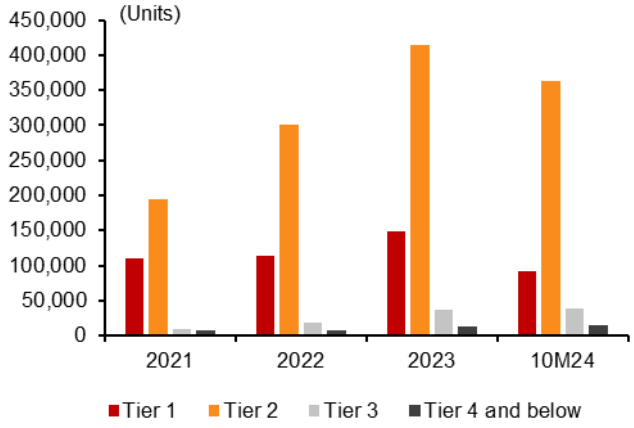
Tesla opened about 150 new stores in the past 12 months, 90 of which were in tier-2 cities. Despite that, average unit sales per store in tier-2 cities was still the highest among all the city tiers for Tesla in the first 10 months of 2024. About 56 stores were added in tier-3 and below cities in the past 12 months. Tesla also leverages digital marketing and its brand image to tap into lower-tier cities in China. Tesla still has the highest store efficiency among all the NEV brands in China, although BYD and Li Auto have been narrowing the gap.

Figure 86: Tesla's share in the BEV market of each city tier (on a retail basis)



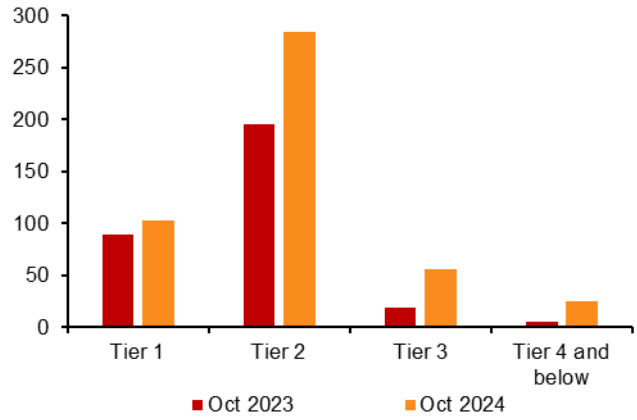
Source: CATARC, CMBIGM

Figure 87: Tesla's retail sales volume by city tier in China



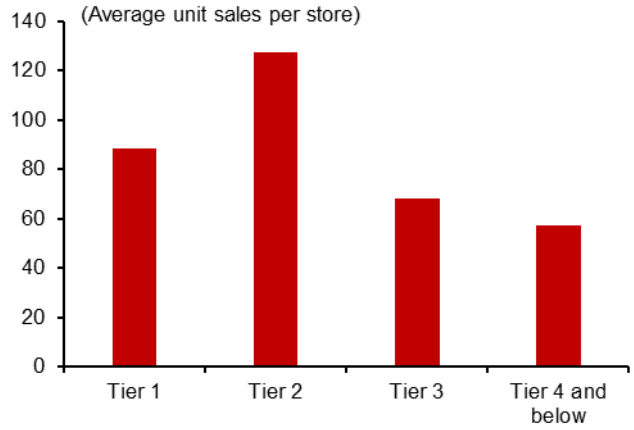
Source: CATARC, CMBIGM

Figure 88: Tesla's number of stores in different city tiers in China



Source: Company data, CMBIGM

Figure 89: Tesla's average monthly unit sales per store in different city tiers



Source: CATARC, company data, CMBIGM

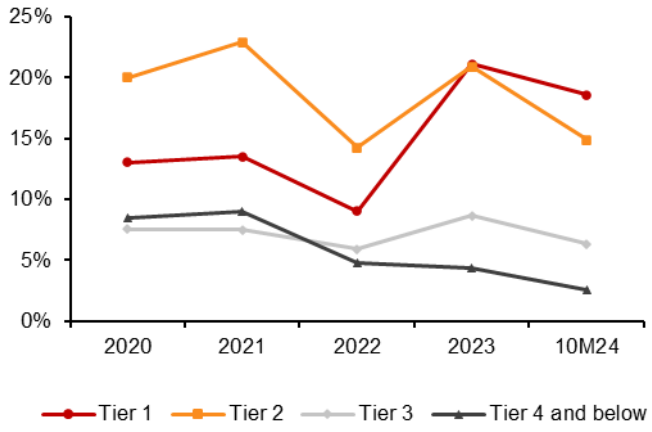
■ **Li Auto: *L6* has not lifted lower-tier city sales yet; BEV still key in 2025**

Li Auto's market share in all the city tiers fell YoY in the first 10 months of 2024, as competition has been stiffer, especially from Aito. Aito became the largest PHEV market share gainer in tier-1, -2 and -3 cities in the first 10 months of 2024. After the failure of the *Mega*, the Li *L6* became the only sales driver in 2024. The majority of the Li *L6*'s sales volume still came from tier-2 cities, with only 17% of its sales volume from tier-3 or below cities during the first seven months on sale. About 16% of the companywide sales volume came from tier-3 and below cities in the first 10 months of 2024.

Li Auto did not expand its store coverage as aggressively as it originally planned for 2024. Instead, it replaced some of its showrooms in shopping malls with larger 4S stores in order to display more models. Now Li Auto has the least number of stores among the NEV trio. It has also been accelerating the build-out of fast charging stations to lay a foundation for the upcoming BEV models. We are of the view that new BEVs could be key to Li Auto's sales growth in 2025E, while the relevant information is still limited.

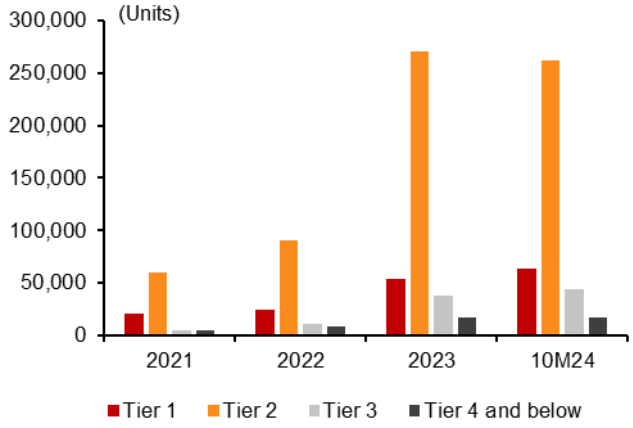
Li Auto has the highest store efficiency among all the Chinese NEV makers in China, which probably explains why it has significantly lower SG&A ratio than Xpeng and NIO.

Figure 90: Li Auto's share in the PHEV market of each city tier (on a retail basis)



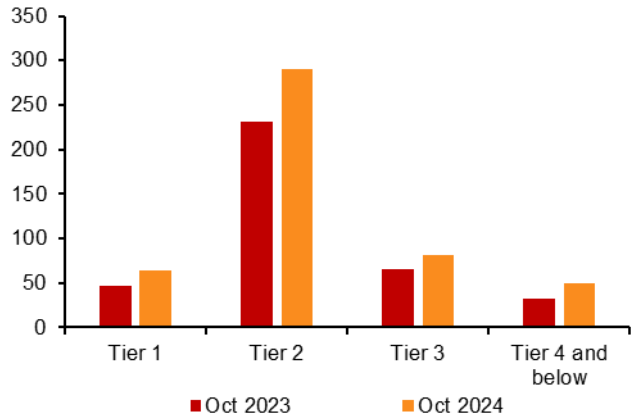
Source: CATARC, CMBIGM

Figure 91: Li Auto's retail sales volume breakdown by city tier



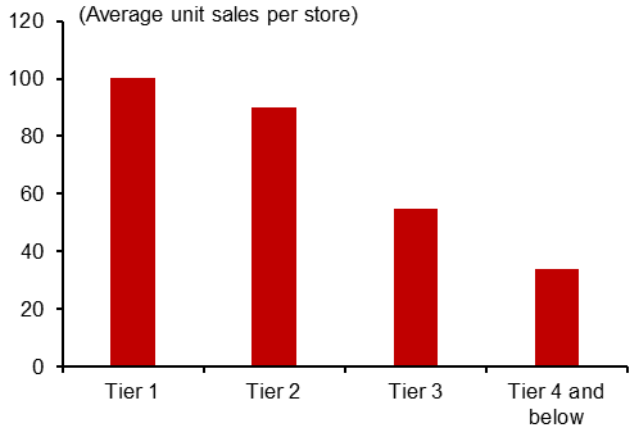
Source: CATARC, CMBIGM

Figure 92: Li Auto's number of stores in different city tiers in China



Source: Company data, CMBIGM

Figure 93: Li Auto's average monthly unit sales per store in different city tiers



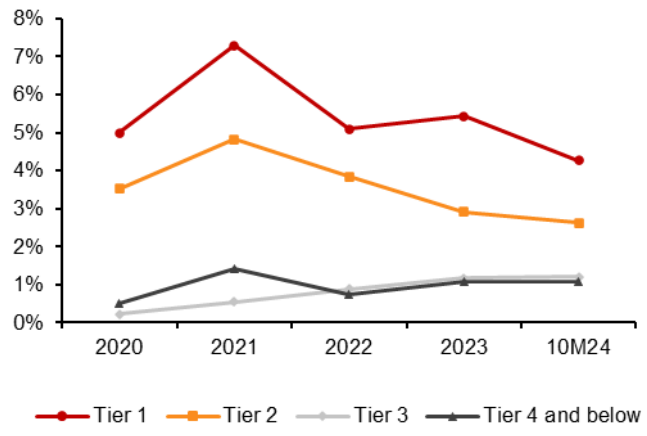
Source: CATARC, company data, CMBIGM

■ **Xpeng: *Mona M03* to support sales especially in lower-tier cities**

Xpeng managed to retain its BEV market share in tier-3 and below cities in the first 10 months of 2024 vs. 2023, with lower-priced models and sales network expansion. About 24% of the *Mona M03*'s deliveries were in tier-3 and below cities during the first two months of launch, vs. 18% companywide. We expect more sales volume to come from lower-tier cities as production ramps up.

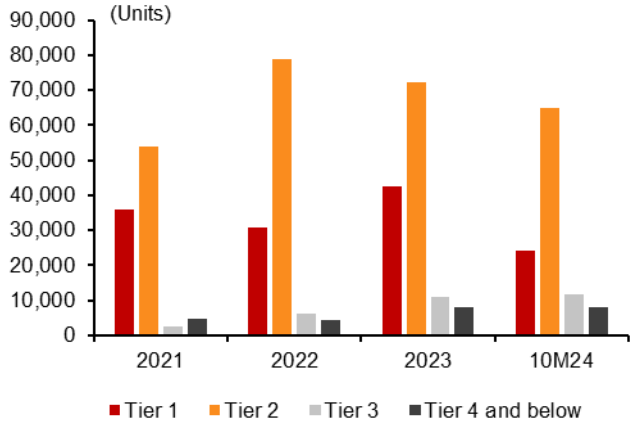
Xpeng opened about 155 new stores in the past 12 months, 96 of which were in tier-3 and below cities, which makes tier-3 and below cities account for 34% of Xpeng's total stores now (vs. 25% a year ago). Such ratio has also surpassed Li Auto's to be the highest among the NEV trio. We believe such development is consistent with Xpeng's current strategy to launch value-for-money products. Its shift to the dealership model could also lower the costs for opening stores in lower-tier cities and potentially make such process faster. Therefore, we expect a higher portion of sales and stores to come from lower-tier cities for Xpeng in China in 2025E.

Figure 94: Xpeng's share in the BEV market of each city tier (on a retail basis)



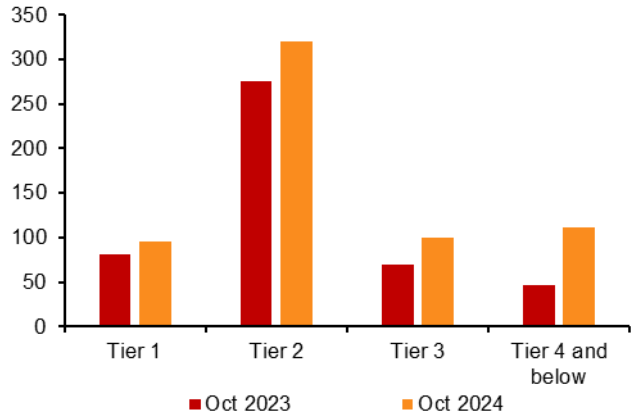
Source: CATARC, CMBIGM

Figure 95: Xpeng's retail sales volume by city tier in China



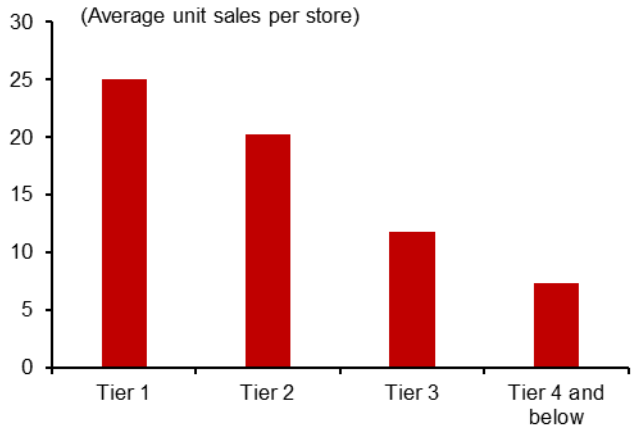
Source: CATARC, CMBIGM

Figure 96: Xpeng's number of stores in different city tiers in China



Source: Company data, CMBIGM

Figure 97: Xpeng's average monthly unit sales per store in different city tiers



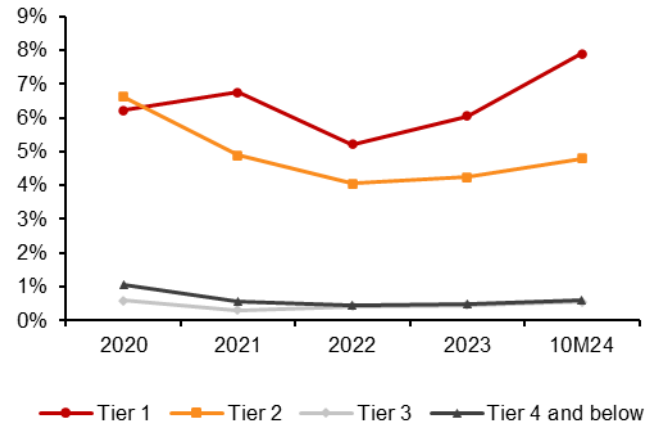
Source: CATARC, company data, CMBIGM

■ **NIO: Market share gainer in tier-1 and -2 cities; dilemma between NIO and Firefly**

Unlike many leading Chinese automakers riding on the faster NEV sales growth in lower-tier cities, NIO has been gaining market share in tier-1 and -2 cities since 2023, partially due to its better battery swap services in these cities. That could make NIO's sales more vulnerable amid macroeconomic headwinds. NIO has introduced a new brand Onvo to expand its coverage of models priced at RMB200,000-300,000. NIO has been building a separate sales network for Onvo and upgrading battery swap stations to make them compatible with Onvo models. These require quite a large amount of investments which is somewhat redundant, in our view. We also expect the sales cannibalization between NIO and Onvo to be more severe than the company expects.

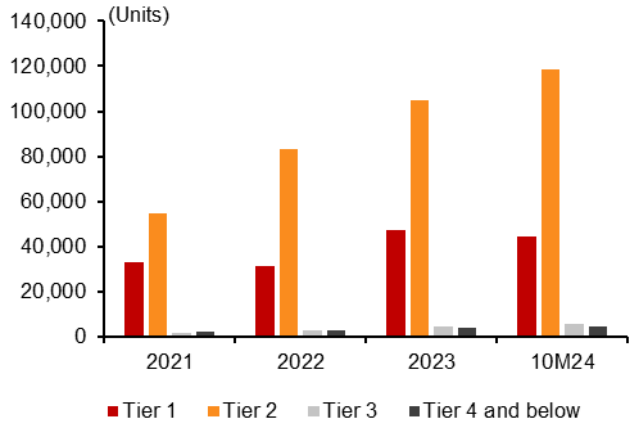
NIO plans to roll out the first model under its 3rd brand Firefly in 1H25, which will be sold through the NIO brand's network. Firefly focuses on smaller-size NEVs, similar to Smart or Mini, targeting both Chinese and overseas markets. However, NIO's lack of sales network in lower-tier cities could also curb Firefly's sales in small cities in China. That may create a dilemma for NIO and Firefly's sales network expansion, as both brands target different Chinese consumers.

Figure 98: NIO's share in the BEV market of each city tier (on a retail basis)



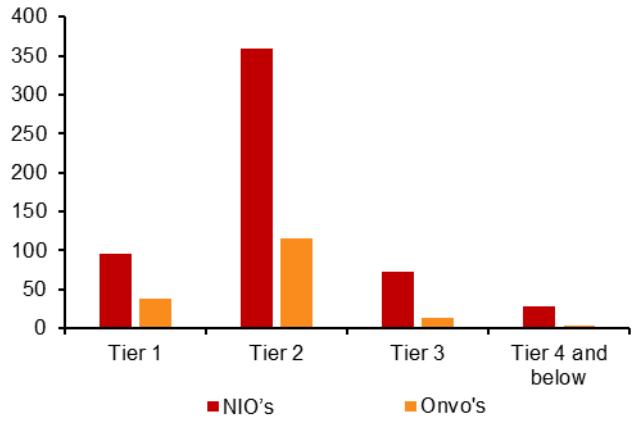
Source: CATARC, CMBIGM

Figure 99: NIO's retail sales volume by city tier in China



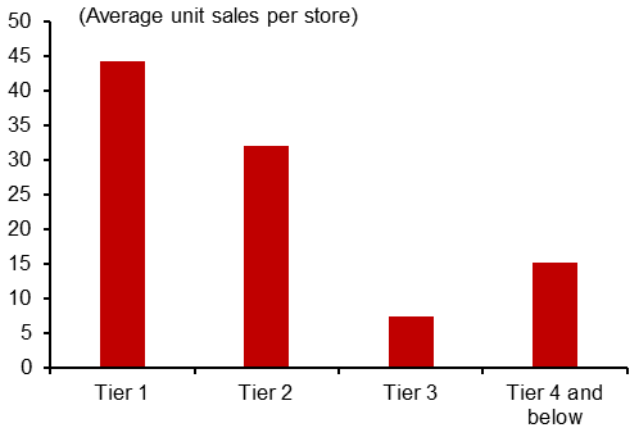
Source: CATARC, CMBIGM

Figure 100: NIO and Onvo's number of stores in different city tiers in China as of Oct 2024



Source: CATARC, company data, CMBIGM

Figure 101: NIO brand's average monthly unit sales per store in different city tiers



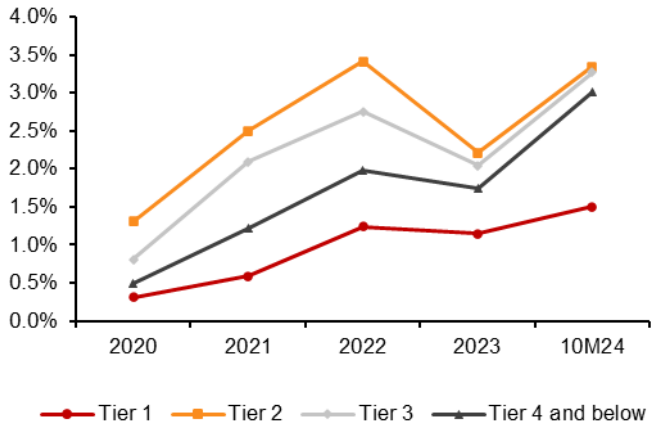
Source: CATARC, company data, CMBIGM

■ **Leapmotor: Market share gainer in all city tiers with improving store efficiency**

Leapmotor's BEV market share widened YoY in the first 10 months of 2024 in all the city tiers, as one of the only two automakers in China (the other one is Zeekr). The successful launches of the *C10* and *C16* have strengthened Leapmotor's value-for-money brand image. About 37% of retail sales volume at Leapmotor came from tier-3 and below cities in the first 10 months of 2024, the highest among all the major Chinese NEV start-ups. The upcoming B-series models could make such ratio even higher in 2025E.

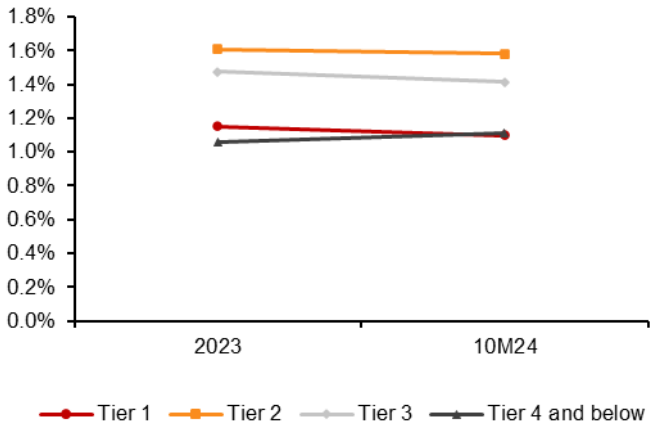
Leapmotor cut its store number by about 40 stores in the past 12 months, mainly in tier-1 and -2 cities. That made the average unit sales per store more than doubled YoY. Yet, its store efficiency still trails that of BYD, Tesla and Li Auto.

Figure 102: Leap's share in the BEV market of each city tier (on a retail basis)



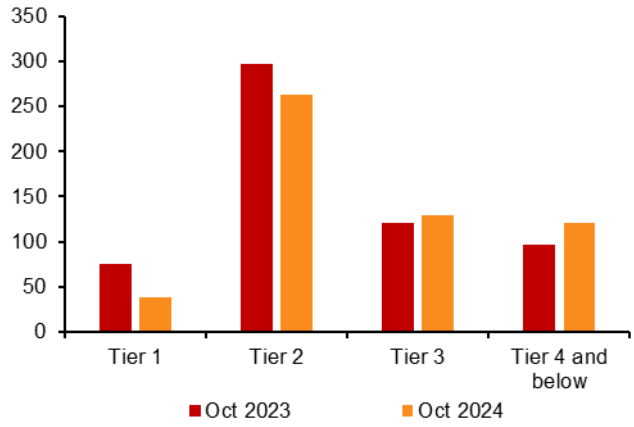
Source: CATARC, CMBIGM

Figure 103: Leap's share in the PHEV market of each city tier (on a retail basis)



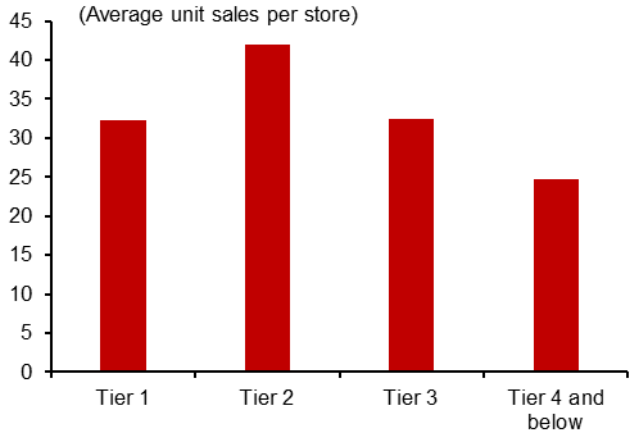
Source: CATARC, CMBIGM

Figure 104: Leap's number of stores in different city tiers in China



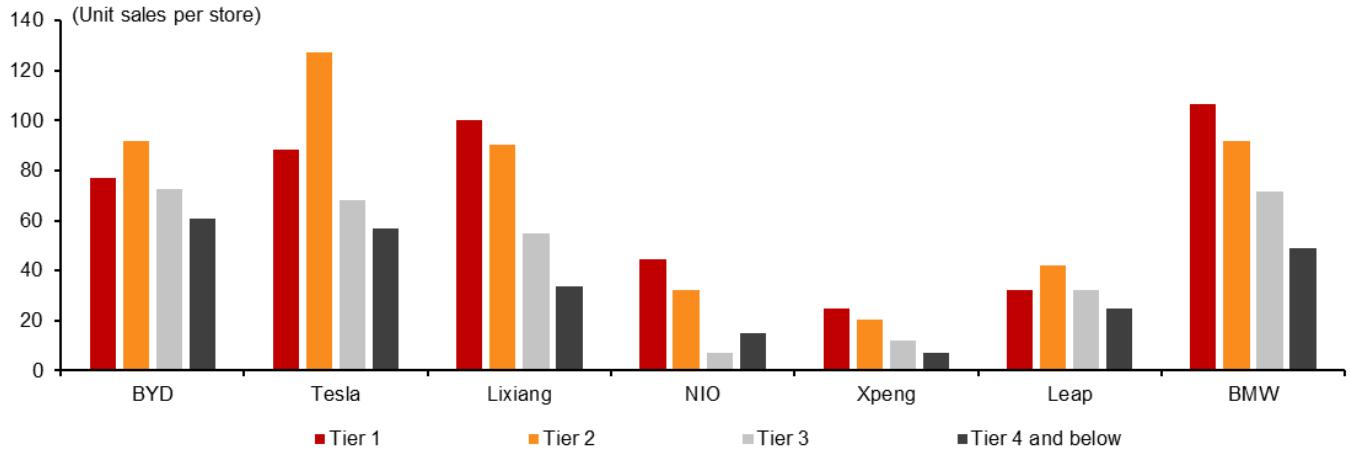
Source: CATARC, company data, CMBIGM

Figure 105: Leap's average monthly unit sales per store in different city tiers



Source: CATARC, company data, CMBIGM

Figure 106: Monthly unit sales per store on average for different brands in different city tiers (10M24)



Source: CATARC, company data, CMBIGM

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