12 Sep 2025

CMB International Global Markets | Equity Research | Initiation

Zenergy (3677 HK)

Minimal legacy burden, operational efficiency, improving client mix to drive sales, profit

BUY (Initiate)

Target Price	**HK$18.00**
Up/Downside	**47.8%**
Current Price	**HK$12.18**

China Auto

Ji SHI, CFA
(852) 3761 8728
shiji@cmbi.com.hk

Wenjing DOU, CFA
(852) 6939 4751
douwenjing@cmbi.com.hk

Austin Liang
(852) 3900 0856
austinliang@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	30,553.5
Avg 3 mths t/o (HK$ mn)	19.0
52w High/Low (HK$)	NA/NA
Total Issued Shares (mn)	2508.5

Source: FactSet

Shareholding Structure

Ms. Cao Fang and concert parties	46.2%
Others	53.8%

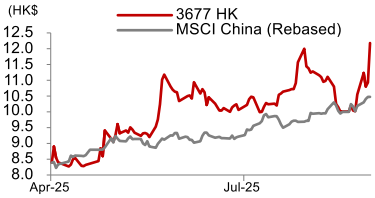
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.5%	-6.1%
3-mth	14.5%	2.0%
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Initiate with BUY. Founded in 2019, Jiangsu Zenergy Battery Technologies Group Co., Ltd. (Zenergy) went through a series of restructuring to become a competitive latecomer in lithium-ion battery manufacturing, as it has a much lower legacy burden than most of its peers. That, along with management's priority to enhance manufacturing efficiency through standardized cells and platform-based packs, has become Zenergy's competitive edge.

- **Battery sales outlook still solid with enough growth room for Zenergy given its low base.** Frost & Sullivan projects the 5-year CAGR of 29% for China's EV battery installation in 2024-2029E. The lingering overcapacity issue in China's battery market may dent Zenergy's margins less than peers, as its flexible manufacturing lines with standardized cells and diversified electrochemistry help it better meet EV makers' demand. Although CATL (300750 CH/3750 HK, NR) and BYD (002594 CH/1211 HK, BUY) combined account for about 70% of China's EV battery market, leaving limited growth room for small players, we are of the view that such industry landscape is not a big concern for Zenergy now, as it only takes up about 2% of the market. We project a CAGR of 48.3% for Zenergy's EV battery sales volume in 2024-2027E, which would only translate into a market share of 2.2%/2.8%/3.2% in 2025-2027E, respectively.
- **Diversified and improving client mix to lift sales, margins in FY25-27E.** Zenergy has turned profitable since 2H24 and achieved industry-leading gross margins (17.2% in 2H24 and 17.9% in 1H25) with top 5 clients making up more than 80% of revenue. While greater economies of scale and high capacity utilization rate are likely to extend to at least FY26E based on the current model pipeline, new clients including GAC Toyota, VW and SAIC Motor will not only fuel Zenergy's sales, but also lift its margins. While Leapmotor (9863 HK, BUY) continues to be a significant revenue contributor in FY25-27E given its rapid sales growth outlook, we project foreign brands to account for about half of Zenergy's revenue in FY27E.
- **Earnings/Valuation.** We project Zenergy's revenue to rise 50%/76%/48% YoY with gross margins of 18.2%/18.9%/19.0% in FY25-27E, respectively, which could lead to net profits of RMB569mn/1,307mn/1,880mn in FY25-27E. We initiate with a BUY rating and target price of HK$18.00, based on 22x our FY27E P/E. We believe such valuation is justified given its peers median FY27E P/E of 18.3x and Zenergy's higher profit growth outlook.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	4,162	5,130	7,668	13,491	19,986
YoY growth (%)	26.5	23.3	49.5	75.9	48.1
Gross margin (%)	5.0	14.6	18.2	18.9	19.0
Operating profit (RMB mn)	(505.8)	(90.9)	401.5	1,123.5	1,954.1
Net profit (RMB mn)	(589.9)	91.0	569.2	1,306.7	1,879.8
YoY growth (%)	na	na	525.4	129.5	43.9
EPS (Reported) (RMB cents)	(30.84)	3.93	22.60	51.14	73.43
P/S (x)	6.7	5.4	3.6	2.1	1.4
P/E (x)	na	283.0	49.3	21.8	15.2
ROE (%)	(16.3)	1.7	8.5	16.0	19.2
Net gearing (%)	21.7	12.8	8.1	(10.1)	(27.7)

Source: Company data, Bloomberg, CMBIGM estimates

Contents

Focus Charts 3

Company Overview 4

A latecomer in battery manufacturing with minimal legacy burden 4

Competitive edge: standardized cells, platform-based packs, flexible and intelligent manufacturing lines 6

Leapmotor, GAC Toyota, SAIC-GM, SAIC Motor and VW to drive sales in FY25-27E 8

Industry Overview 12

Robust EV battery sales in China likely to continue 12

Lingering issue on overcapacity requires more flexible and efficient manufacturing for battery makers 13

Energy storage and non-EV applications could fuel Zenergy's long-term growth 14

China dominates global EV battery market; small players still have growth room even though the market is in the grip of CATL and BYD 15

Financial Analysis 17

We expect FY24-27E revenue CAGR of 57.3% 17

We expect an industry-leading gross margin at Zenergy in FY25-27E 18

Greater economies of scale, cost control to lower SG&A, R&D ratios 19

Breakeven in FY24 pave way for future profitability 21

Improving profits make balance sheet, cash flow healthy in FY25-27E 21

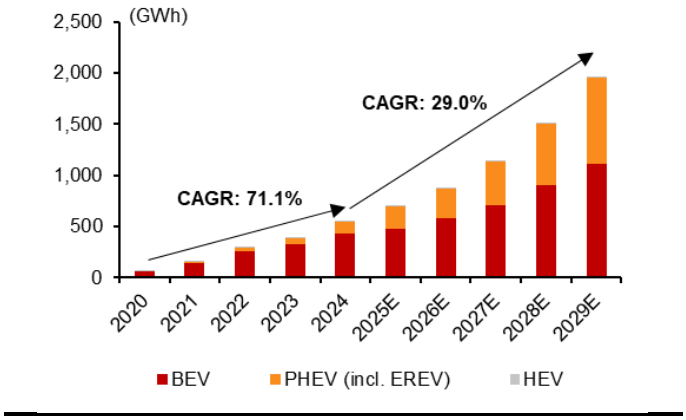
Valuation and key risks 22

Initiate with BUY rating; TP of HK$18.00 based on 22x FY27E P/E 22

Key risks to our forecast and valuation 22

Focus Charts

Figure 1: China's EV battery installation forecast by EV types



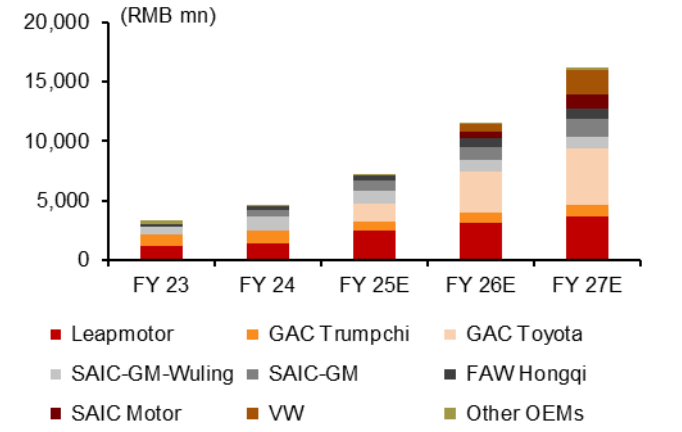
Source: Company data, Frost & Sullivan, CMBIGM

Figure 2: EV battery installation by manufacturer in China in the first seven months of 2025

Rank	Company name	EV battery installation (GWh)	Market share
1	CATL	151.7	42.8%
2	BYD	82.2	23.2%
3	CALB	24.2	6.8%
4	Gotion High-tech	18.2	5.1%
5	EVE Battery	14.8	4.2%
6	A Shenzhen-based listco.	11.3	3.2%
7	SVOLT	10.1	2.9%
8	REPT BATTERO	7.8	2.2%
9	**Zenergy**	**7.5**	**2.1%**
10	ENERGEE	7.2	2.0%
	Others	20.5	5.5%
	Total	**355.4**	**100.0%**

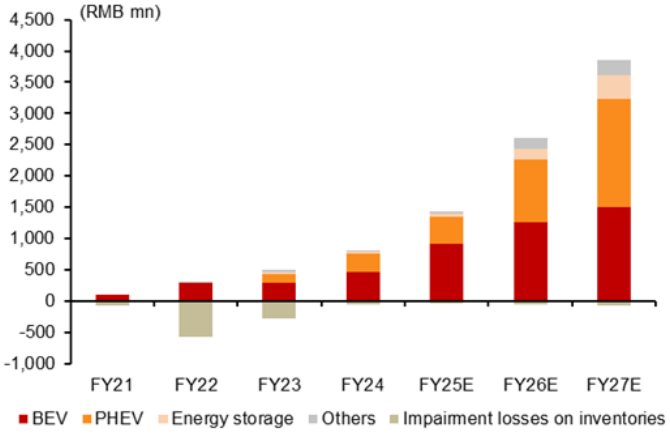
Source: CABIA, CMBIGM

Figure 3: Zenergy's EV battery revenue by OEM



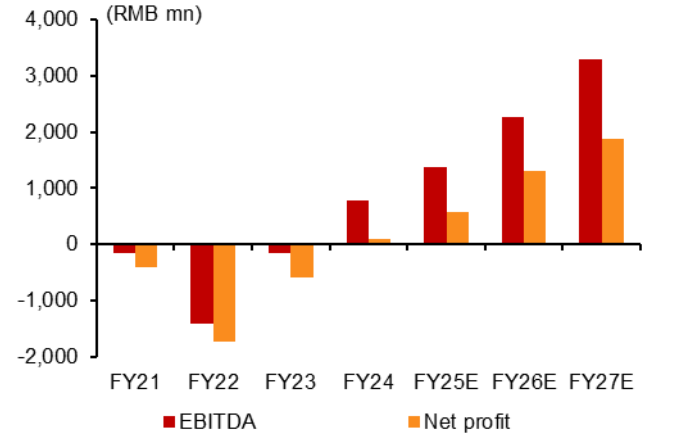
Source: Company data, CMBIGM estimates

Figure 4: Zenergy's gross profit breakdown



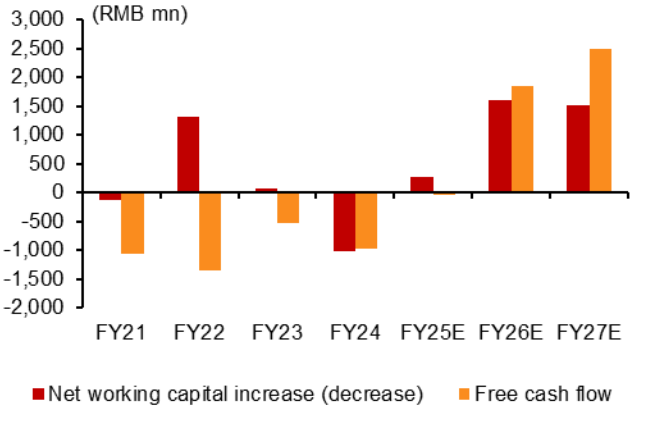
Source: Company data, CMBIGM estimates

Figure 5: Zenergy's EBITDA and net profit forecasts



Source: Company data, CMBIGM estimates

Figure 6: Zenergy's NWC and free cash flow



Source: Company data, CMBIGM estimates

Company Overview

A latecomer in battery manufacturing with minimal legacy burden

Founded in 2019, Zenergy went through a series of restructuring to become a competitive latecomer in lithium-ion battery manufacturing, with a much lower legacy burden than most of its peers and superb operational efficiency.

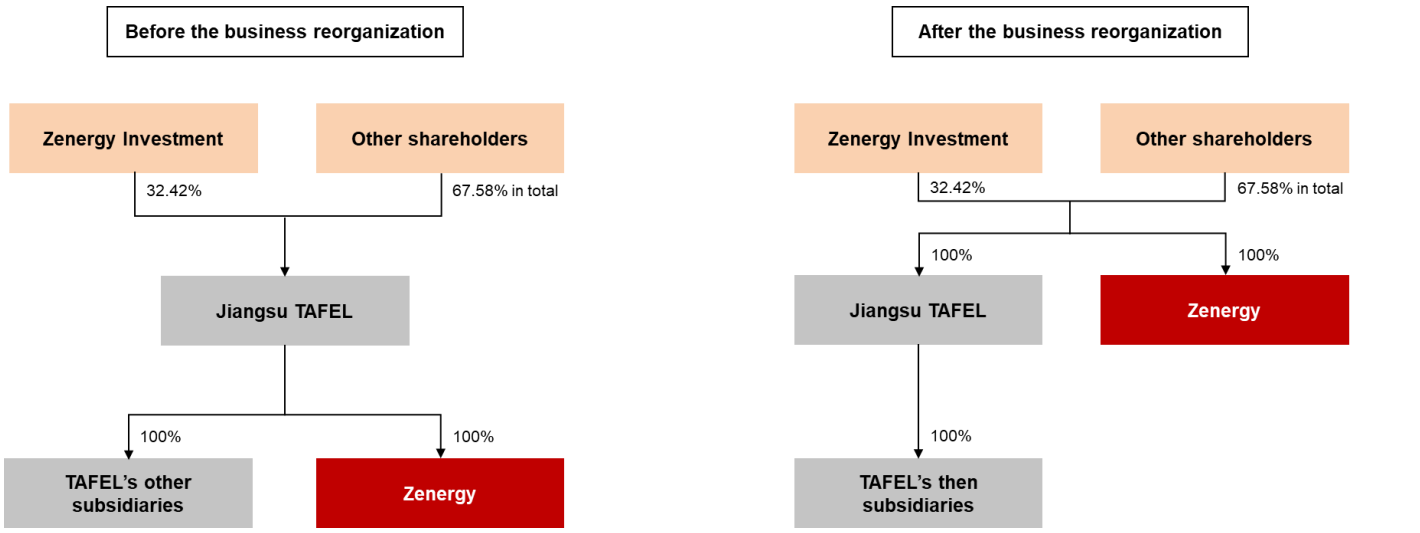
■ Restructuring of TAFEL with minimal legacy burden

On 11 Feb 2019, Changshu Zenergy Investment Co., Ltd. (Zenergy Investment, held by Ms. Cao Fang (42%), Dr. Chen Jicheng (46%) and SINOGY VC (12%) which is also controlled by Ms. Cao (52%) and Dr. Chen (48%)) made a minority investment of 6.78% in Jiangsu TAFEL at a consideration of RMB160mn. Jiangsu TAFEL was then a lithium-ion battery manufacturer in China. On 26 Feb 2019, Zenergy was established with Zenergy Investment and Jiangsu TAFEL holding 70% and 30%, respectively.

On 12 May 2020, Zenergy Investment became Jiangsu TAFEL's controlling shareholder by increasing its equity interests in Jiangsu TAFEL to approximately 43.47% (with over 2/3 of voting rights) at a consideration of RMB1,100mn. On 29 May 2020, Zenergy Investment transferred its entire 70% stakes at Zenergy to Jiangsu TAFEL at a consideration of RMB238.35mn. Upon completion of the transfer, Zenergy became a wholly-owned subsidiary of Jiangsu TAFEL, which was in turn controlled by Ms. Cao and Dr. Chen through Zenergy Investment.

On 28 Dec 2021, all of the shareholders of Jiangsu TAFEL acquired 100% equity interest of Zenergy from Jiangsu TAFEL at a consideration of about RMB2,538mn. Upon the completion of the transfer, all the then shareholders of Jiangsu TAFEL held Zenergy directly. In Feb 2022, the then shareholders of Jiangsu TAFEL transferred the business and certain assets held by Jiangsu TAFEL to Zenergy, for which Zenergy paid a consideration of about RMB1,855mn to the then shareholders of Jiangsu TAFEL. All liabilities except for provision for warranty claims were retained by Jiangsu TAFEL, which made Zenergy inherit Jiangsu TAFEL's existing businesses with minimal legacy burden.

Figure 7: Corporate structure before and after the business reorganization



Source: Company data, CMBIGM

■ Acquisition of STAES' stakes to become Toyota's battery supplier

In Nov 2023, Zenergy acquired 50% stakes of Sinogy Toyota Automotive Energy System Co., Ltd. (STAES) from SINOGY VC at a consideration of about RMB3.3bn with a combination of cash (RMB496mn) and newly-issued shares of Zenergy (worth RMB2.8bn based on the post-investment price per share after Zenergy's Series A financing). STAES is a company manufacturing lithium-ion and Ni-MH battery packs for vehicles, mainly for Toyota's HEVs and PHEVs. Upon completion of the transfer, Zenergy, Toyota Motor (7203

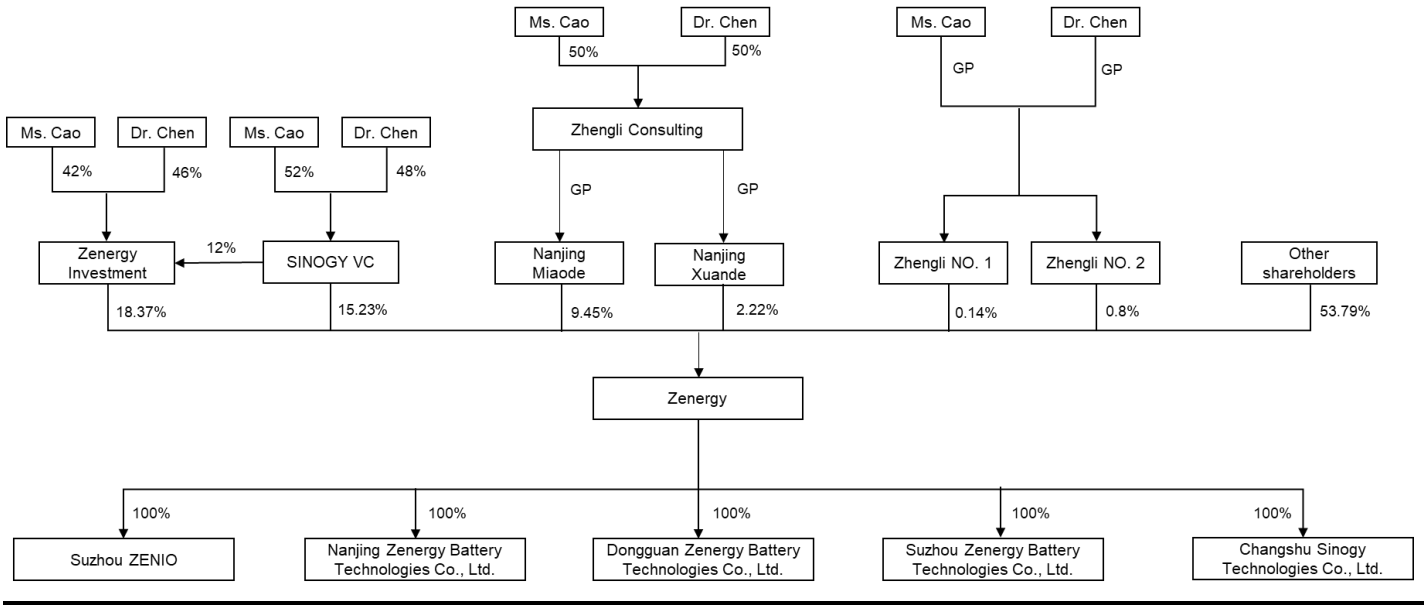
JP, NR), Primearth EV Energy and Toyota Motor (China) Investment held 50%, 35%, 10% and 5% of STAES, respectively. STAES had a market share of over 70% in China's HEV battery packs in 2024. STAES posted a net profit of about RMB587.3mn in 2024. SINOGY VC, controlled by Ms. Cao and Dr. Chen, also became a shareholder of Zenergy after the acquisition.

■ IPO in Apr 2025 and Hong Kong Stock Connect in Sep 2025

Zenergy underwent rounds of pre-IPO financing afterwards. Immediately prior to its IPO, Zenergy Investment and SINOGY VC, both of which are controlled by Ms. Cao and Dr. Chen, held 19.3% and 16.01% of Zenergy, respectively. Nanjing Miaode and Nanjing Xuande held 9.94% and 2.33% of Zenergy, respectively, and the general partner (GP) of both Nanjing Miaode and Nanjing Xuande is Zhengli Consulting. Ms. Cao and Dr. Chen each held 50% of Zhengli Consulting. Ms. Cao and Dr. Chen have been acting in concert with each other since the incorporation of the company.

Zenergy went public on 14 Apr 2025 with an IPO price of HK$8.27 per share, raising about HK$1,005.1mn from the IPO (or HK$927.5mn after related fees). Immediately following the IPO, Ms. Cao and Dr. Chen jointly controlled approximately 46.2% of the issued share capital of Zenergy, along with their close associates, mainly through equity incentive platforms.

Figure 8: Corporate structure right after IPO



Source: Company data, CMBIGM

Zenergy was added into Hong Kong Stock Connect scheme on 8 Sep 2025, which would allow qualified mainland investors to trade the stock through the scheme. We are of the view that this could be a positive catalyst for Zenergy's share price.

■ Management's rich experience in auto parts helps OEM exposure, manufacturing efficiency

Ms. Cao has served as the chairperson of the Board since Zenergy's establishment. She joined Fuyao Glass Industry Group (600660 CH/3606 HK, NR) in 1987 and served as a director and vice general manager from 1994-2014.

Dr. Chen has served as the general manager of Zenergy since its establishment. He also held multiple positions at Fuyao Glass including executive director and vice general manager during 2003-2016.

The company had 4,033 full-time employees as of 31 Dec 2024. R&D personnel accounted for 26% of total employees and production personnel made up of about 62%. We believe core management's rich experience in the auto parts industry could help Zenergy better understand OEM customers' demand and improve manufacturing efficiency.

Figure 9: Number of employees by function

	As of 31 Dec 2024	% of total
R&D	1,060	26%
Management and administration	403	10%
Finance	22	1%
Sales and marketing	69	2%
Manufacturing and production	2,479	61%
Total	**4,033**	**100%**

Source: Company data, CMBIGM

Competitive edge: standardized cells, platform-based packs, flexible and intelligent manufacturing lines

Zenergy develops a comprehensive portfolio of battery products including cells, modules, packs and management systems, covering lithium iron phosphate (LFP) and nickel-cobalt-manganese (NCM) batteries for battery electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEVs), energy storage battery products, as well as marine and aviation battery products. Zenergy, especially through its joint venture STAES, also produces lithium-ion and Ni-MH batteries for hybrid electric vehicles (HEVs).

Zenergy sold about 11.9GWh batteries in 2024, with about 5% being energy storage products and the remaining being EV batteries. Among all the EV batteries sold in 2024 (11.3GWh), about 81% were for BEVs and 19% were for PHEVs.

Zenergy adopts standardized cells and platform-based battery packs with diversified electrochemistry in order to improve manufacturing efficiency and lower costs. For example, Zenergy's battery developed for GAC Trumpchi could be compatible with different models with different sizes and vehicle types. Zenergy has also developed different NCM and LFP batteries of the same configuration and size for an OEM's PHEV model. The manufacturing of such battery cells (the same configuration but different electrochemistry) only requires one set of molds and the time to convert the manufacturing line for different electrochemistry is as short as three days. Such flexibility could lead to a competitive edge at Zenergy, as OEMs have been increasingly demanding batteries which are compatible with various vehicle sizes and types to lower their development costs. Some old battery manufacturing lines run by Zenergy's peers may not have such flexibility.

Core management's mentality and experience in the auto parts manufacturing industry, along with the second-mover advantage, are keys to Zenergy's flexible and intelligent manufacturing capabilities, in our view. The automation rate of Zenergy's major manufacturing lines reached over 95% in 2024, higher than the industry average of about 90%, according to Frost & Sullivan. Its proprietary operational platform integrates the management of sales, R&D, manufacturing and supply chain. It also utilizes AI technologies to improve the manufacturing quality and efficiency.

■ Standardized cells and platform-based packs help lift Zenergy's market share

Zenergy has been gaining market share in China's EV battery industry, as its competitive edge becomes more apparent. It was ranked the 9th place with a market share of 2.1% in terms of EV battery installation in China in the first seven months of 2025, according to China Automotive Battery Innovation Alliance (CABIA). It was ranked No.9 with a market share of 1.8% in 2024 and No. 10 with a market share of 1.4% in 2023.

Figure 10: EV battery installation by manufacturer in China in the first seven months of 2025

Rank	Company name	EV battery installation (GWh)	Market share
1	CATL	151.7	42.8%
2	BYD	82.2	23.2%
3	CALB	24.2	6.8%
4	Gotion High-tech	18.2	5.1%
5	EVE Battery	14.8	4.2%
6	A Shenzhen-based listco.	11.3	3.2%
7	SVOLT	10.1	2.9%
8	REPT BATTERO	7.8	2.2%
9	**Zenergy**	**7.5**	**2.1%**
10	ENERGEE	7.2	2.0%
	Others	20.5	5.5%
	Total	**355.4**	**100.0%**

Source: CABIA, CMBIGM

Figure 11: EV battery installation by manufacturer in China in 2024

Rank	Company name	EV battery installation (GWh)	Market share
1	CATL	246.0	44.7%
2	BYD	135.0	24.6%
3	CALB	36.5	6.6%
4	Gotion High-tech	25.0	4.6%
5	EVE Battery	18.7	3.4%
6	SVOLT	17.4	3.2%
7	A Shenzhen-based listco.	15.8	2.9%
8	REPT BATTERO	12.1	2.2%
9	**Zenergy**	**9.9**	**1.8%**
10	LG Energy	7.7	1.4%
	Others	25.9	4.7%
	Total	**550.0**	**100.0%**

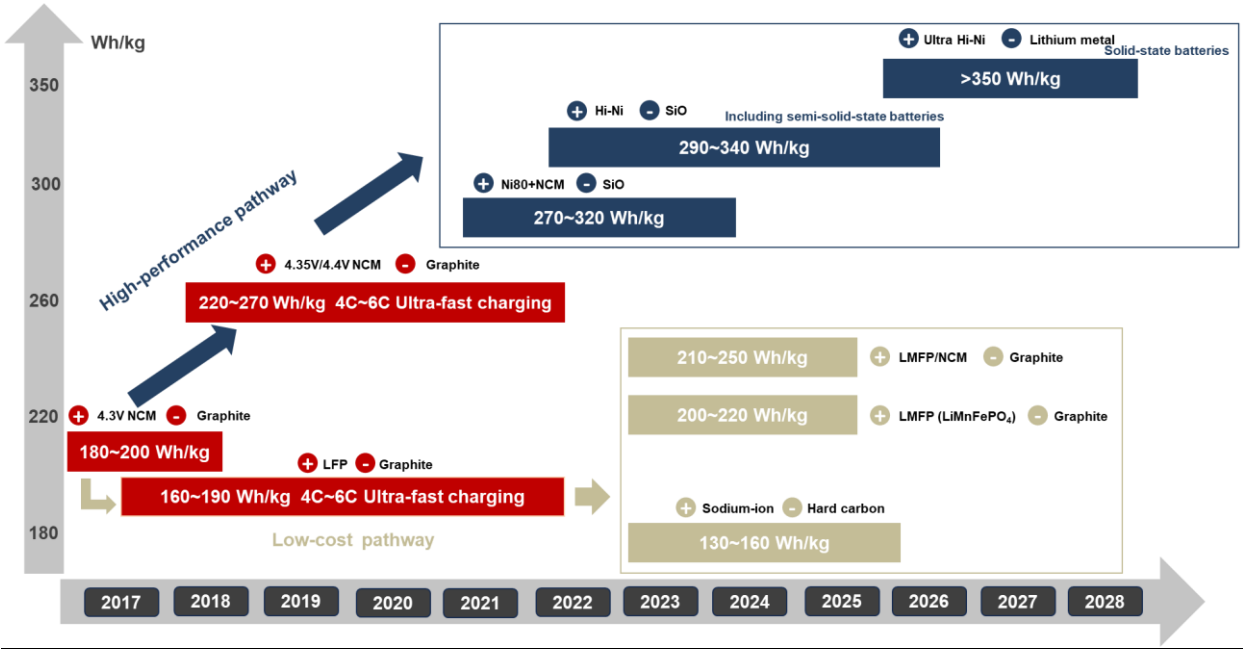
Source: CABIA, Company data, Frost & Sullivan, CMBIGM

Similar to most of its peers, Zenergy develops diversified battery types to satisfy OEMs' demand. Zenergy's electrochemistry development roadmap consists of two pathways: low costs and high performance.

The low-cost pathway focuses on phosphate and sodium-ion. Zenergy's LFP batteries have achieved an energy density level of about 190Wh/kg at the cell level. It currently focuses on developing LMFP, LFP/NCM hybrid and sodium systems. Zenergy aims to increase the energy density to over 220Wh/kg with LMFP and LFP/NCM hybrid systems. Zenergy has already developed a sodium-ion battery with an energy density of 130Wh/kg and aims to increase it to 190Wh/kg through material system upgrades.

The high-performance pathway focuses on high-nickel cathode, silicon anode and solid-state electrolyte. Zenergy's current high-voltage NCM battery has achieved an energy density of 260 Wh/kg at the cell level. It aims to gradually achieve an energy density of over 350 Wh/kg by utilizing the gradual maturity and integration of new materials and technologies.

Figure 12: Zenergy's electrochemistry roadmap



Source: Company data, CMBIGM

■ **We expect capacity utilization rate to increase in 2025-26E**

Zenergy now has two plants to manufacture battery cells: Changshu Zenergy Base and Changshu Yinhe Base, after ceasing production in its Nanjing Zenergy Base in Dec 2022 and Dongguan Zenergy Base in Feb 2023. About 91% of production volume at Nanjing Zenergy in 2022 was sold to one client inherited from Jiangsu TAFEL which filed bankruptcy in 2023. Zenergy closed the plant as it costs more to convert its production lines to the equivalent ones in Zenergy's new plants than expanding new lines in the new plants. Zenergy also relocated the entire production base from Dongguan to Changshu to better integrate resources, given the relatively small capacity at the Dongguan plant.

The Phase I of Changshu Zenergy Base started production in 2021 with an effective annual capacity of 1.3GWh in 2021 and 2.2GWh in 2022. In 2023, Changshu Zenergy Phase II started production, which lifted the plant's annual capacity to 8.4GWh that year. It continued to ramp up to 12.7GWh in 2024. The total designed annual capacity of Changshu Zenergy is 17.7GWh in 2025.

Changshu Yinhe Base has started production since 2022 with its annual capacity of ramping up from 2.9GWh in 2022 to 6.1GWh in 2023 and 6.9GWh in 2024.

Zenergy has also planned to construct a new plant in Changshu, with the Phase I construction to finish by Oct 2025 (designed annual capacity of 10GWh) and the Phase II construction to finish by Dec 2026 (designed annual capacity of 15GWh).

We expect Zenergy's capacity utilization rate to rise from 63% in 2024 to 76% in 2025E, which could lift its gross margin. Zenergy's capacity utilization rate rose from 51% in the first eight months of 2024 to 89% in the last four months of 2024, which resulted in a gross margin lift from 12.4% to 17.4% during the corresponding periods.

Figure 13: Zenergy's production capacity (GWh)

	2023	2024	2025E	2026E	2027E
Changshu Zenergy	8.4	12.7	17.7	17.7	17.7
Changshu Yinhe	6.1	6.9	6.9	6.9	6.9
Changshu new plant				10.0	25.0
Total	**14.5**	**19.6**	**24.6**	**34.6**	**49.6**

Source: Company data, CMBIGM estimates

Leapmotor, GAC Toyota, SAIC-GM, SAIC Motor and VW to drive sales in FY25-27E

The increase of utilization rate is supported by Zenergy's new client exposure, NEV sales volume surge at existing clients, and higher penetration in its existing clients' battery supply, especially through new models.

Figure 14: Zenergy's top 5 clients in 2024

Rank	Client	Type of products sold	Revenue (RMB mn)	% of total revenue
1	Leapmotor	LFP battery	1,462.3	28.5%
2	SAIC-GM-Wuling	LFP battery	1,161.0	22.6%
3	GAC Trumpchi	NCM battery	1,076.7	21.0%
4	SAIC-GM	NCM / LFP battery	566.6	11.0%
5	FAW Hongqi	NCM battery	263.5	5.1%
Sum of top 5 clients			**4,530.0**	**88.2%**

Source: Company data, CMBIGM estimates

In the past two years, Zenergy's clients were relatively concentrated, as Zenergy was still exploring new customers as a latecomer. The top five clients combined accounted for 88.2% of Zenergy's total revenue in FY24, with Leapmotor, SAIC-GM-Wuling and GAC Trumpchi being the top three clients. We expect Zenergy's clients to be more diversified in

the next few years, based on our channel checks and information compiled. Some new clients could also help lift Zenergy's gross margin, in our view.

■ **Revenue from Leapmotor to continue surging in FY25-26E**

Leapmotor was Zenergy's largest client in both 2023 and 2024, with revenue contribution of RMB1,179mn and RMB1,462mn, respectively. Zenergy supplies batteries for Leapmotor's major BEV models including the B and C series.

We project Leapmotor's sales volume to double YoY to 600,000 units in FY25E and we expect Zenergy to supply 137,000 units, or about 23% of total sales volume. That would correspond to a battery sales volume of 8.2GWh (+82% YoY) and a revenue of RMB2,460mn (+69% YoY) for Zenergy in FY25E, based on our estimates.

Leapmotor targets more than 1mn-unit sales volume (1mn units for China market) in FY26E, aided by its new A and D series models. Zenergy has secured battery supplies for both A and D series models. Therefore, we project Leapmotor to contribute a revenue of RMB3,190mn (+30% YoY), accounting for possible lower average selling price (ASP) and market share, given Zenergy's tightened production capacity.

In our view, it is also possible for Zenergy to become Leapmotor's PHEV battery supplier for its new-generation models, as the OEM is likely to make their battery packs more standardized for different models and powertrains, although we have not factored this into our model. Should this occur, revenue contribution from Leapmotor could be even higher in the next few years.

■ **GAC Toyota could be the 2nd largest client in FY25E**

Revenue from GAC Toyota could be overlooked by some investors, as Zenergy only supplies batteries to one model, the *bZ3X* BEV, now. We project Zenergy to supply batteries for 46,000 units of the *bZ3X* in FY25E, as we estimate about 70% of the *bZ3X*'s batteries are supplied by Zenergy. Zenergy also provides battery packs for the *bZ3X*. Therefore, we project GAC Toyota to contribute a sales volume of 2.5GWh and a revenue of RMB1,560mn for Zenergy in FY25E. That would make GAC Toyota as the 2nd largest client for Zenergy.

We expect revenue from GAC Toyota to more than double YoY to about RMB3,400mn in FY26E, as Zenergy is to supply a new BEV model and the *bZ3X* is to contribute full-year sales volume. We believe GAC Toyota could even become Zenergy's largest client in FY26E. The rapid sales volume growth from GAC Toyota could not only aid Zenergy's revenue, but also lift its gross margin, in our view.

■ **We expect revenue from SAIC-GM to surge more than 50% YoY in FY25E with high gross margin**

SAIC-GM was Zenergy's 4th largest client during the first year that Zenergy became SAIC-GM's supplier in 2024. Zenergy became the battery supplier of the SAIC-GM *GL8* PHEV, largely because of its high efficiency which helped SAIC-GM launch its PHEV model ahead of schedule. We project Zenergy's revenue from SAIC-GM to rise about 51% YoY to RMB856mn in FY25E, based on our sales volume forecast for the *GL8* PHEV. More importantly, we estimate that SAIC-GM's profit contribution to Zenergy could be more significant than its revenue contribution, as some model configurations are equipped with premium batteries which have higher gross margin.

■ **We expect stagnant revenue from Trumpchi, SAIC-GM-Wuling in FY25-27E**

GAC Trumpchi was Zenergy's 2nd largest client in 2023 with a revenue contribution of about RMB959mn, and 3rd largest client in 2024 with a revenue of about RMB1,077mn. Zenergy is the primary battery supplier for GAC Trumpchi's PHEV models, including the *ES9* SUV, *E9* MPV, *E8* MPV and *S7* SUV. We estimate Zenergy's revenue from GAC Trumpchi to fall 28% YoY to RMB775mn in FY25E, as we project sales volume declines for Trumpchi PHEVs. While the visibility of Trumpchi's recovery is still low, we project GAC Trumpchi's revenue contribution to be below RMB1,000mn in both FY26E and FY27E. We also take the potential market share loss to GAC's in-house batteries into consideration.

SAIC-GM-Wuling climbed to Zenergy's 2nd largest client (RMB1,161mn) in 2024 from the 3rd one in 2023, aided by Zenergy's increasing market share in the existing models and penetration into new models such as the *Binguo Plus* EV and *Yunhai* EV, based on the information from the Ministry of Industry and Information Technology (MIIT). Meanwhile, we are more cautious about sales volume from SAIC-GM-Wuling given its NEV sales volatility in the past few years. We project SAIC-GM-Wuling's revenue contribution to be around RMB1,000mn each year during FY25-27E.

■ **SAIC Motor, VW to contribute meaningful revenue from FY26E**

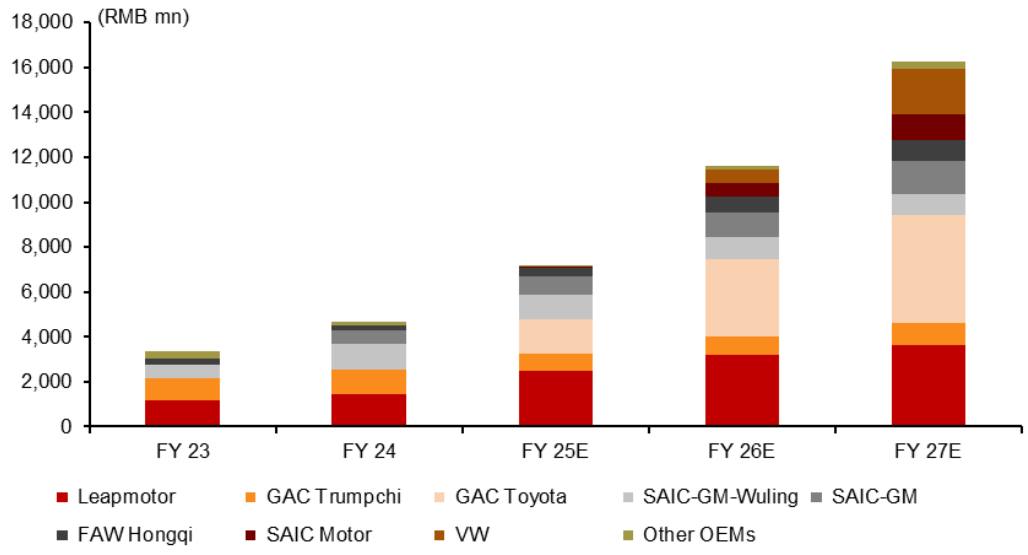
Zenergy has become the supplier for the IM *LS6* EREV which was launched in 10 Sep 2025. We believe it is also likely for Zenergy to become the supplier for the well-received SAIC *H5* from FY26E, which could boost its sales volume significantly. To be conservative, we project SAIC to contribute a revenue of RMB600mn in FY26E and RMB1,140mn in FY27E, as Zenergy may take a small portion of the *H5*'s battery supply.

Zenergy is to supply two EREV models at SAIC VW in 2026, followed by another two EREVs at VW Anhui in 2027. We are of the view that VW's upcoming NEVs in China could be more competitive than before, as it has made great efforts to understand customer needs and cut costs in its most important market. We project VW (including SAIC VW and VW Anhui) to contribute a revenue of RMB630mn in FY26E and RMB2,040mn in FY27E. Our forecast for FY27E is based on an average annual sales volume of 25,000 units per model for VW's EREVs.

■ **Lexus could be a positive surprise from FY27E onwards**

In Feb 2025, Toyota announced that it will establish a new wholly-owned subsidiary to produce Lexus-brand BEVs in Shanghai. The mass production is scheduled to start from 2027 with an initial annual capacity of 100,000 units. We are of the view that Zenergy is likely to be one of the battery suppliers for the China-made Lexus BEVs, given Zenergy's long-time relationship with Toyota through STAES and established cooperation with GAC Toyota as a BEV battery supplier.

Figure 15: Our forecast for Zenergy's EV battery revenue breakdown by customer



Source: Company data, CMBIGM estimates

■ **Price linkage mechanism to minimize dent from raw-material price volatility**

Zenergy adopts price linkage mechanism in the key raw material procurement in order to minimize the profit dent from raw-material price volatility. For purchase agreements that do not contain a price linkage mechanism such as aluminum shells and top covers, Zenergy actively reaches out to suppliers to optimize its cost structure.

Zenergy's major suppliers include producers of cathode materials, anode materials, copper foil, aluminum shells and electrolyte. Zenergy's top five suppliers accounted for 49.2% of its total amount of purchase in 2024, compared with 45.0% in 2023 and 64.2% in 2022.

Figure 16: Zenergy's top 5 suppliers in 2024

Rank	Supplier	Type of products purchased	Purchase amount (RMB mn)	% of total purchase
1	Hunan Changyuan Lico	Cathode materials	674.8	19.1%
2	Anhui WAH WEI	Copper foil	369.8	10.5%
3	Sichuan Langsheng	Cathode materials	356.1	10.1%
4	Jiangsu Ruidefeng	Aluminum shell, soft connection, etc.	187.1	5.3%
5	Guangdong Dongdao	Cathode materials	148.5	4.2%
Sum of top 5 suppliers			**1,736.4**	**49.2%**

Source: Company data, CMBIGM estimates

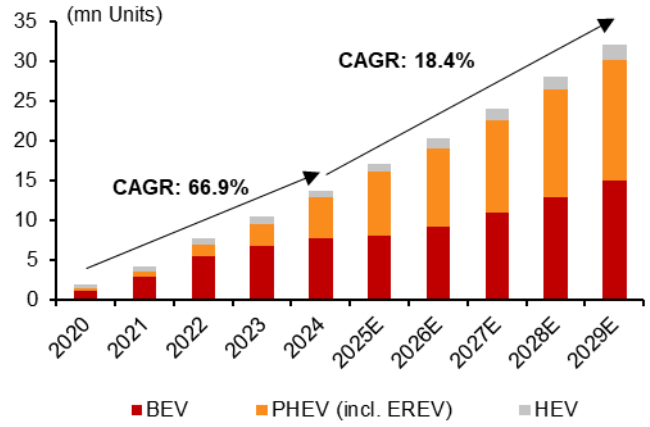
Industry Overview

Robust EV battery sales in China likely to continue

■ PHEV to drive China's EV growth in the next few years

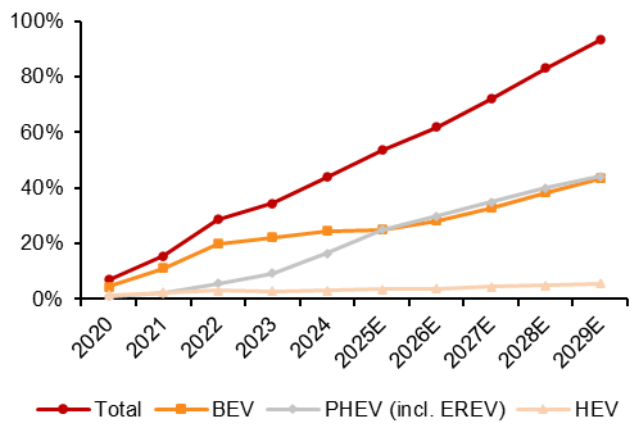
EV sales volume has been rising rapidly in the past few years in China, which has boosted lithium battery sales. The 4-year CAGR of EV sales volume (including BEVs, PHEVs, EREVs and HEVs) during 2020-2024 was about 66.9% in China, according to Frost & Sullivan. Frost & Sullivan projects 2024-2029E 5-year CAGR to be 18.4%, which still represents fast growth, in our view. That would translate into an EV market share of 93.3% in China in 2029E. Frost & Sullivan projects an EV market share of 53.5% in 2025E in China, which is consistent with our projection (made in Dec 2024) of a market share of 52.3% for BEVs and PHEVs (including EREVs) only in China. Sales volume of PHEVs (including EREVs) is expected to rise the fastest among all the EVs, with a 2024-2029E CAGR of 24.1%, according to Frost & Sullivan.

Figure 17: China's EV sales volume forecast



Source: Company data, Frost & Sullivan, CMBIGM

Figure 18: China's EV market share forecast

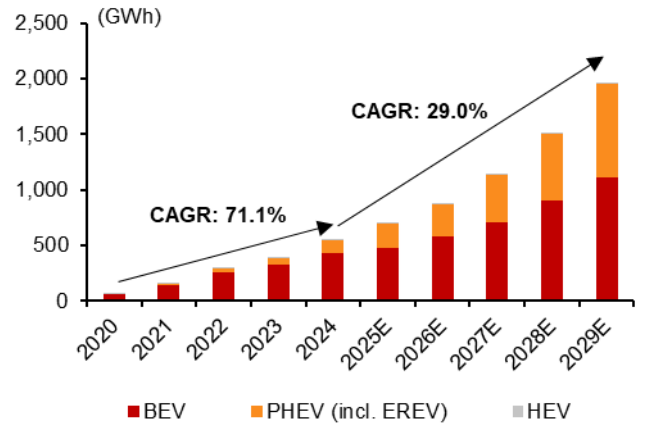


Source: Company data, Frost & Sullivan, CMBIGM

■ LFP to drive China's EV battery sales in the next few years

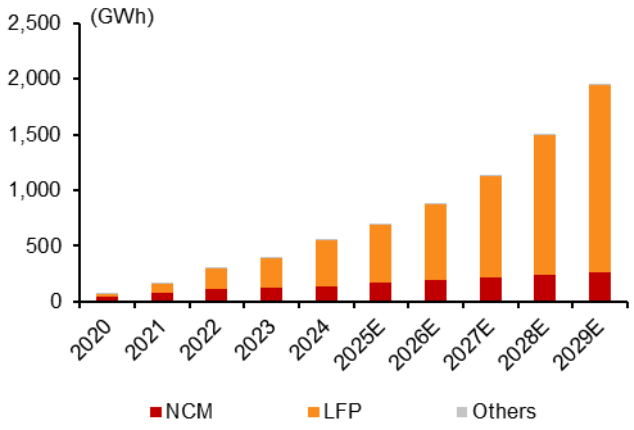
Frost & Sullivan projects the 5-year CAGR for China's EV battery installation to be 29.0% during 2024-2029E, after posting a CAGR of 71.1% during 2020-2024. Frost & Sullivan assumes battery capacity per vehicle for both BEVs and PHEVs to rise gradually over time in order to reduce drivers' range anxiety. We have seen such trend for the next-generation EREVs, as OEMs plan larger batteries than now.

Figure 19: China's EV battery installation forecast by EV types



Source: Company data, Frost & Sullivan, CMBIGM

Figure 20: China's EV battery installation forecast by battery types



Source: Company data, Frost & Sullivan, CMBIGM

Frost & Sullivan projects the 2024-2029E CAGR for the LFP battery installation to be 32.7%, higher than NCM batteries' 12.8%. We view such growth rate as quite solid in the next few years. Accordingly, LFP is likely to account for about 85.8% of total EV batteries in 2029E, up from 74.4% in 2024 and 38.0% in 2020.

Lingering issue on overcapacity requires more flexible and efficient manufacturing for battery makers

■ Overcapacity may linger at least throughout 2026 despite solid growth

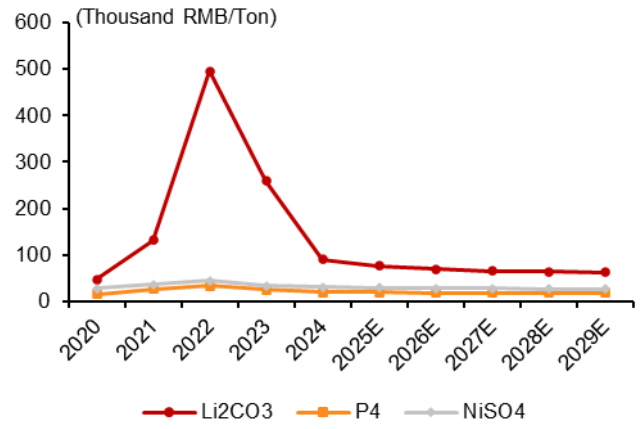
The aggregated annual production capacity for EV and energy storage batteries was about 1,860GWh in China as of 30 Jun 2023, whereas the total EV and energy storage battery production in China was about 778.1GWh in 2023, based on the data from CABIA. Despite the robust battery sales growth in the next few years, we expect the overcapacity issue to extend into at least the end of 2026. Meanwhile, the development of EV battery in China has been so fast that a fair amount of existing capacity has been outdated, although it is still in the depreciation process. Therefore, **high-quality capacity which can adapt the evolving technologies would be pivotal to battery makers' profitability**, in our view.

As the rapid technology advancement of China's EV battery industry is likely to continue, battery makers need to build capacity with advanced technologies and flexibility to adjust to future technological advancements such as new electrochemistry or forms. **The importance of such capabilities at battery makers could be underestimated** as the industry sales forecasts do not take unpredictable technological innovations into consideration, while any innovation could potentially change the industry landscape and put small players at risk.

■ Battery price could be largely stable as raw material prices stabilize

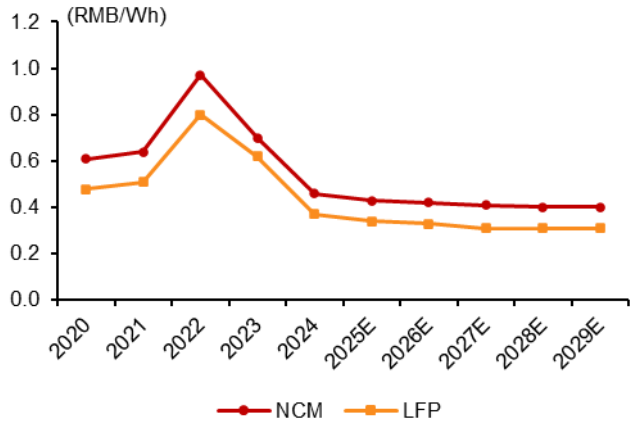
The battery raw material prices experienced rapid growth during 2021-2022, as the EV boom in China made the demand grow much faster than supply. Battery prices in China declined from 2023 and started to stabilize from 2024. The average price of LFP battery cells fell from RMB0.80/Wh in 2022 to RMB0.62/Wh in 2023 and RMB0.37/Wh in 2024, according to Frost & Sullivan. The average price of NCM battery cells fell from RMB0.97/Wh in 2022 to RMB0.70/Wh in 2023 and RMB0.46/Wh in 2024, based on the same data source. Frost & Sullivan projects a price of RMB0.34/Wh in 2025E and RMB0.33/Wh in 2026E for LFP battery cells. We are of the view that the recent raw-material price rebound could make the battery price even more stable in 2H25E and 2026E.

Figure 21: Price forecasts for battery raw materials



Source: Company data, Frost & Sullivan, CMBIGM

Figure 22: Price forecasts for battery cells in China



Source: Company data, Frost & Sullivan, CMBIGM

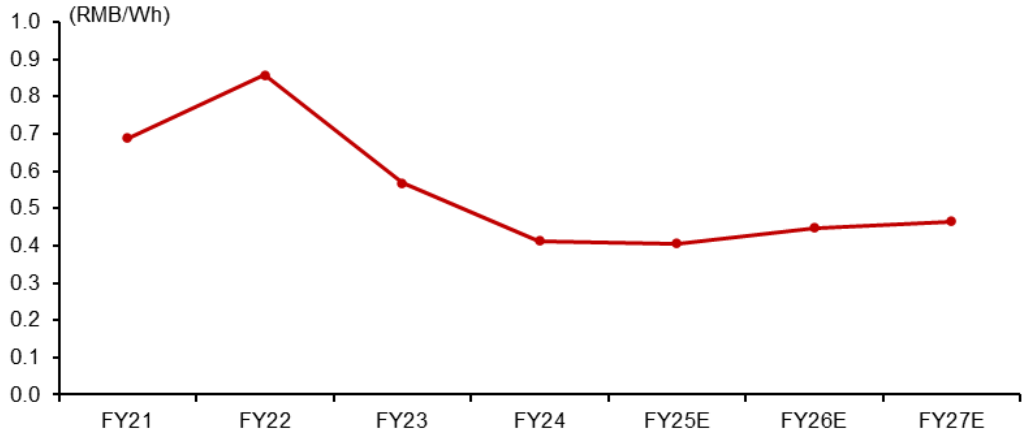
The average price for Zenergy's LFP batteries, most of which did not include packs, was about RMB0.43/Wh in FY23 and RMB0.35/Wh in FY24, lower than the industry average. We estimate it was dragged by the LFP batteries supplied to SAIC-GM-Wuling.

The average price for Zenergy's NCM batteries was about RMB0.99/Wh in FY23 and RMB0.77/Wh in FY24, higher than the industry average. We attribute such gap to two reasons: 1) The NCM batteries supplied to Trumpchi and SAIC-GM also included packs. 2) Zenergy's NCM batteries mainly supplied to PHEV models during FY23-24, which could make the price per watthour slightly higher than that for BEVs.

We forecast Zenergy's ASP for EV batteries to be about RMB0.40/0.45/0.46 per Wh during FY25-27E, respectively, vs. RMB0.41/Wh in FY24. We project a price increase compared with a slight price decrease industry-wide mainly for three reasons:

1) Foreign brands including Toyota, VW and GM are to account for a higher portion of sales volume in FY26-27E. We project foreign brands to make up 21%/30%/36% of Zenergy's total EV battery sales volume during FY25-27E, respectively, vs. about 6% in FY24.
2) Zenergy is to provide more battery packs for OEMs, especially for foreign brands, such as Toyota, which would lift its ASP.
3) Zenergy is to supply more PHEV batteries in FY26-27E such as VW and SAIC Motor, which may have slightly higher ASP than BEV batteries. We expect PHEV batteries to account for 25% in FY26E and 32% in FY27E, up from 17% in FY25E.

Figure 23: Our forecast for Zenergy's EV battery ASP



Source: Company data, CMBIGM estimates

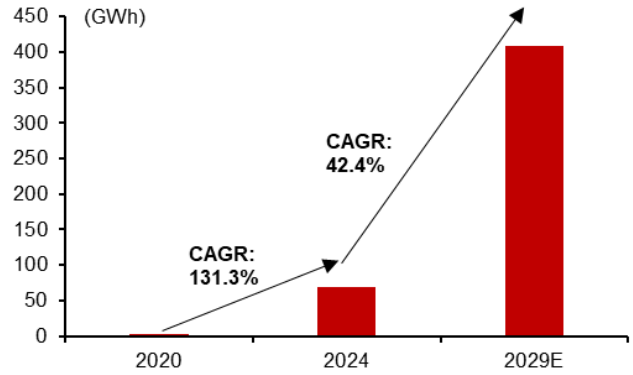
Energy storage and non-EV applications could fuel Zenergy's long-term growth

Chemical batteries, especially lithium batteries, could continue to dominate in the energy storage sector in the foreseeable future amid their cost effectiveness, in our view. There is still a long way for hydrogen production to lower its costs to the equivalent levels as lithium batteries.

China's energy storage battery market is expected to grow from 69.6GWh in 2024 to 407.9GWh in 2029E, or at a 5-year CAGR of 42.4%, according to Zenergy's IPO prospectus, faster than the EV battery installation CAGR of 29.0% during the same period. Energy storage battery installation is expected to amount to 20.8% of EV battery installation in 2029E, up from 12.7% in 2024, based on the data derived from Frost & Sullivan's forecasts.

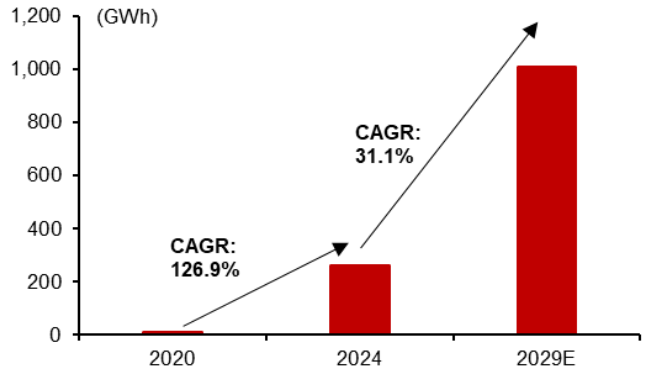
Global energy storage battery installation is also expected to grow fast. The 2024-2029E 5-year CAGR is about 31.1% after posting a CAGR of 126.9% during 2020-2024, according to Zenergy's IPO prospectus. China market is expected to account for 40.4% of global energy storage battery installation in 2029E, up from 26.7% in 2024, derived from Frost & Sullivan's forecasts.

Figure 24: China's energy storage battery installation forecast



Source: Company data, Frost & Sullivan, CMBIGM

Figure 25: Global energy storage battery installation forecast



Source: Company data, Frost & Sullivan, CMBIGM

Zenergy only sold about 0.6GWh energy storage batteries in FY24, or 4.8% of its total batteries sold, largely due to its tightened capacity and lower margins than EV batteries. We also project a sales volume of 0.6GWh for Zenergy's energy storage batteries in FY25E. However, this indicates a huge room for growth for Zenergy's energy storage batteries when more capacity is built in FY26-27E. We project a sales volume of 8GWh for its energy storage batteries in FY27E.

The application of electric ships and aircraft (including electric vertical take-off and landing (eVTOL)) is still in a nascent stage and it may have limited impact on Zenergy's revenue and profit during FY25-27E. However, Zenergy's early move in these areas could help it gain the first-mover advantage when these applications mature. On 18 Aug 2025, Zenergy began the mass delivery of its aviation power battery system to two-seat electric fixed-wing aircrafts after receiving airworthiness certification from the Civil Aviation Administration of China (CAAC). Such batteries utilize dual semi-solid state technologies, combining high-nickel cathode materials and solid-state electrolyte composite separator. We estimate the ASP of such aviation battery system could be 8x higher than the ASP for EV batteries. More importantly, the technological advancement in these applications may in turn strengthen Zenergy's advantages in the EV battery market. In fact, Zenergy has utilized some technologies in its aviation battery system to supply a premium battery system to the Buick *GL8* PHEV.

China dominates global EV battery market; small players still have growth room even though the market is in the grip of CATL and BYD

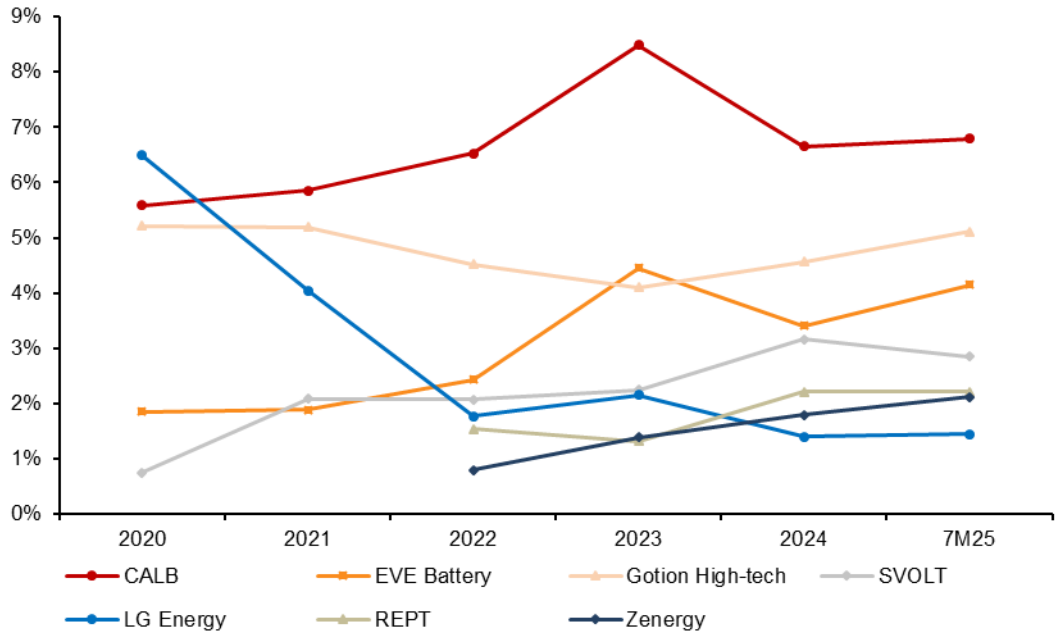
The rising geopolitical risks could make Chinese battery makers more difficult in overseas expansion. However, we believe China's dominance in the global lithium-ion battery could last in the foreseeable future, as it is not easy for foreign battery makers to tap into this industry. The failure of Northvolt is a typical example. We are of the view that Chinese battery makers may need some smart moves in the overseas expansion. Although it appears that Zenergy has not put overseas expansion as a high priority yet, Zenergy's solid relationship with some global automakers such as Toyota and GM could help Zenergy in overseas expansion when it believes the right timing is coming.

Although CATL and BYD combined account for about 70% of China's EV battery market, leaving limited growth room for small players, we are of the view that such industry landscape is not a big concern for Zenergy now, as it only takes up about 2% of the market. It would not change the current landscape, even if Zenergy doubles or triples its market share. In fact, we project Zenergy's market share in China to rise from 1.8% in 2024 to 2.2%/2.8%/3.2% in 2025-2027E, respectively.

We are of the view that technological breakthrough or drastic technological roadmap changes could be the most likely factor to significantly change China's current battery industry landscape. On the other hand, we do not expect CATL to gain significant market

share in China. BYD's battery market share is highly correlated with its own EV sales, as the majority of its batteries are for its own EVs. It is possible that BYD's battery market share in China could fall, if its EV market share falls, leaving a bit more growth room for small players.

Figure 26: Some battery makers' market share changes in China in 2020-7M25



Source: CABIA, EVTank, CMBIGM

Financial Analysis

We expect FY24-27E revenue CAGR of 57.3%

Zenergy's revenue mainly consists of EV (BEV, PHEV and HEV) battery sales, energy storage battery sales and other income from down-grade products, waste materials and technical support services. EV battery accounted for 90.9% of Zenergy's total revenue in FY24 and it will continue to contribute the majority of revenue in the foreseeable future. BEV battery accounted for 64.6% of total EV battery revenue in FY24. We expect such ratio to decline over time.

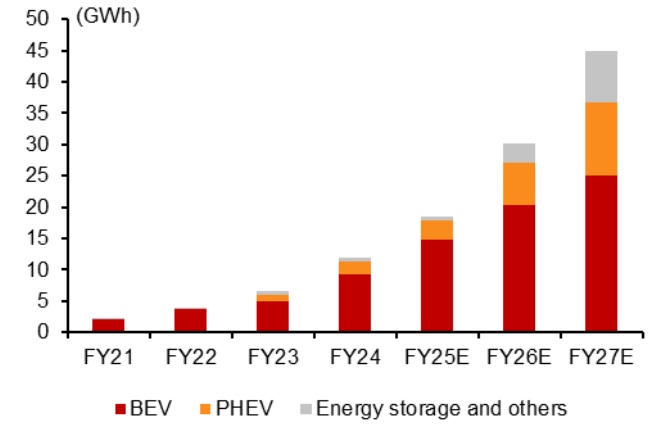
Although battery sales volume at Zenergy surged 83.0% YoY in FY23 and 78.6% YoY in FY24, its total revenue only rose 26.5% YoY in FY23 and 23.3% YoY in FY24, as the ASP fell quite significantly in the past two years. We expect Zenergy's revenue to reaccelerate from FY25E, as the battery price decrease may halt amid client mix improvement.

■ EV battery's high sales-volume growth to continue in FY25-27E

We project Zenergy's EV battery sales volume to rise 57.3%/52.3%/36.2% YoY to 17.8GWh/27.1GWh/36.9GWh during FY25-27E, respectively. As noted in the "Company Overview" section, we expect Zenergy's sales volume growth in FY25E to be driven by Leapmotor and GAC Toyota. We project battery sales volume from Leapmotor to surge 82.4% YoY in FY25E for Zenergy. We expect GAC Toyota to contribute 2.5GWh, or 13.8% of Zenergy's EV battery sales volume in FY25E, the first year as Zenergy's client.

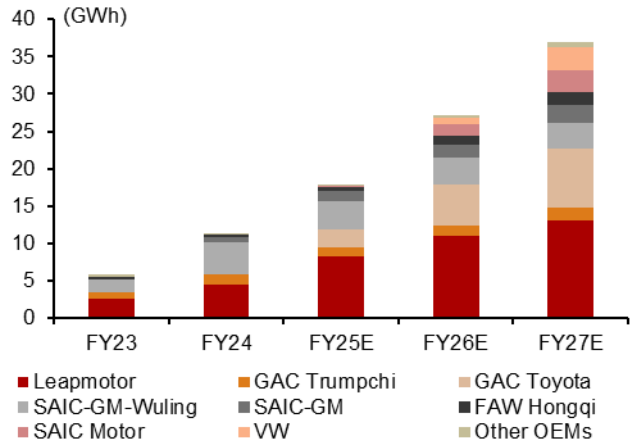
While Leapmotor and GAC Toyota are likely to be the top two sales volume contributors in FY26E, we expect SAIC Motor, VW and SAIC-GM to contribute meaningful sales volume in FY26E. As noted earlier, we expect GAC Toyota, SAIC Motor and VW to be key to Zenergy's continued rapid sales volume growth in FY26-27E. We also expect Zenergy's energy storage battery sales volume to rise 4.3%/400.0%/166.7% YoY to 0.6GWh/3.0GWh/8.0GWh during FY25-27E, respectively, as Zenergy is to free up more capacity gradually.

Figure 27: Zenergy's sales volume by product



Source: Company data, CMBIGM estimates

Figure 28: Zenergy's sales volume by OEM



Source: Company data, CMBIGM estimates

■ Better client mix, more pack businesses to aid Zenergy's ASP in FY25-27E

We project ASP for Zenergy's BEV batteries to be RMB0.35/0.35/0.34 per Wh during FY25-27E, respectively, vs. RMB0.33/Wh in FY24. Our increasing and better-than-industry-average ASP trajectory is based on two reasons:

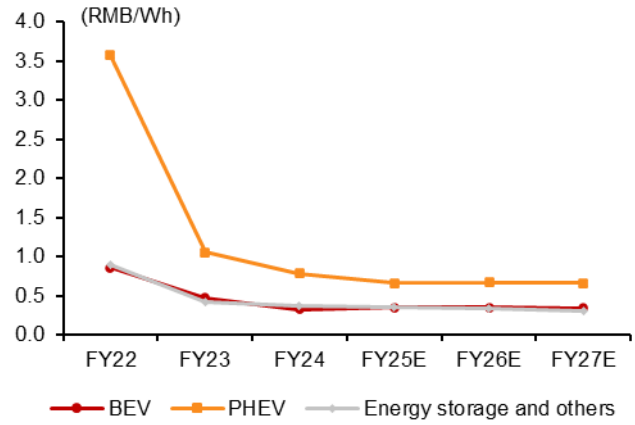
1) We expect the battery ASP for GAC Toyota to be significantly higher than Zenergy's average BEV battery ASP, especially as Zenergy also supplies battery packs to GAC Toyota.

2) We expect SAIC-GM-Wuling's sales volume portion to decrease from 37% in FY24 to 21%/13%/9% during FY25-27E, respectively.

We project ASP for Zenergy's PHEV batteries to be RMB0.66/0.67/0.66 per Wh during FY25-27E, respectively, vs. RMB0.78/Wh in FY24. We believe the battery supply of VW's EREVs could stabilize Zenergy's PHEV battery ASP in FY26-27E.

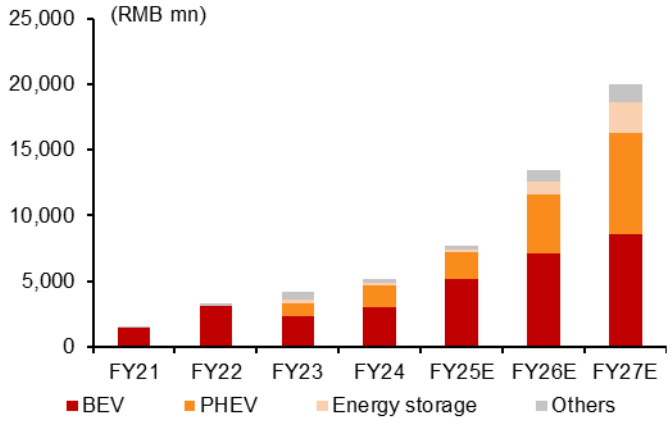
In summary, we expect Zenergy's blended ASP to be RMB0.42/0.45/0.44 per Wh during FY25-27E, respectively, vs. RMB0.43/Wh in FY24, taking all BEV, PHEV, HEV, aviation and energy storage batteries into consideration. Accordingly, we project Zenergy's revenue to rise 49.5%/75.9%/48.1% YoY to about RMB7.7bn/13.5bn/20.0bn during FY25-27E, respectively.

Figure 29: Zenergy's ASP by product



Source: Company data, CMBIGM estimates

Figure 30: Zenergy's revenue by product



Source: Company data, CMBIGM estimates

We expect an industry-leading gross margin at Zenergy in FY25-27E

Zenergy's gross margin widened from 5.0% in FY23 to 14.6% in FY24 and 17.9% in 1H25. Its 1H25 gross margin surpassed most of its peers and only trailed CATL's 25.0% (or 22.9% for China market). We attribute such rapid margin improvement to three reasons.

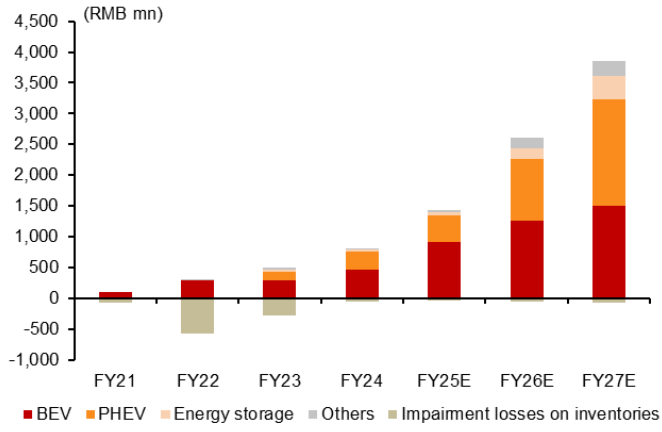
1) Greater economies of scale with high utilization rate: The average monthly sales volume at Zenergy rose from about 0.6GWh in FY23 to about 1.0GWh in FY24 and 1.3GWh in 1H25. We estimate that Zenergy's capacity utilization rate rose from 48% in FY23 to 63% in FY24 and 69% in 1H25.

2) Intelligent manufacturing with minimal legacy burden and superb management capabilities: We have elaborated Zenergy's intelligent and flexible manufacturing capabilities as its competitive edge in detail in the previous paragraphs. With such manufacturing capabilities designed and managed by experienced management team, return on investment could be much higher than outdated production lines, which could be underestimated by many investors.

3) The impairment loss on inventories, which mainly came from WM Motor (filed bankruptcy in 2023), dented the FY23 gross margin by 6.8ppts. Such impairment was no longer a drag in FY24 or in the foreseeable future.

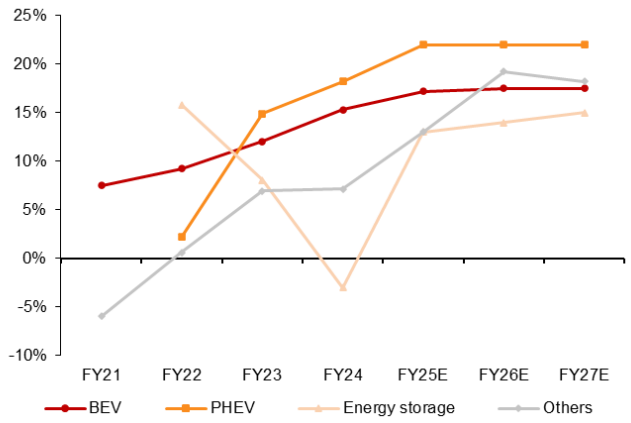
The above three reasons to lift Zenergy's gross margin in the past two years are still valid during FY25-27E. We believe there is still room for its gross margin lift in FY25-27E, as its client mix improves over time. To be specific, we expect foreign automakers to contribute more revenue, higher-margin PHEV batteries to take up a higher portion of revenue and more packs to supply during FY25-27E, which we have elaborated in detail earlier. Therefore, we project its gross margin to widen from 14.6% in FY25E to 18.2%/18.9%/19.0% in FY25-27E.

Figure 31: Zenergy's gross profit breakdown



Source: Company data, CMBIGM estimates

Figure 32: Zenergy's gross margin by product



Source: Company data, CMBIGM estimates

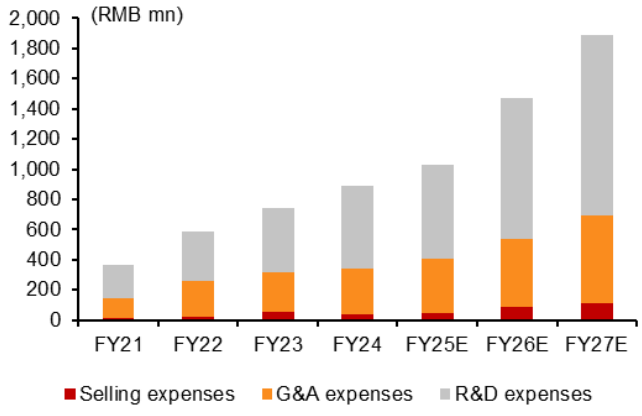
Greater economies of scale, cost control to lower SG&A, R&D ratios

We believe there is a large room for Zenergy's SG&A and R&D expense ratios (as % of revenue) to decline from 17.4% in FY24, as peers including CATL, CALB (3931 HK, NR) and EVE Energy (300014 CH, NR) only had such ratios of 8.8%-11.9% in FY24. Employee benefit expenses (excluding share-based payment (SBP)) and depreciation/amortization accounted for about 43% and 25% of Zenergy's SG&A and R&D expenses combined in FY24, respectively.

Total employee benefit expenses (excluding SBP) only rose 13.8% YoY in FY24 despite revenue growth of 23.3%, reflecting the company's efficiency enhancement. We expect such expenses to rise 35%/45%/30% YoY during FY25-27E, lower than its corresponding revenue growth rates.

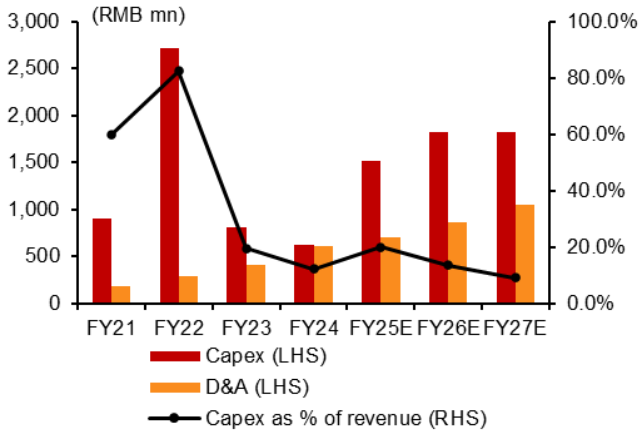
We project Zenergy's capex to be about RMB1,520mn-1,820mn during FY25-27E, vs. RMB 625mn in FY24, as it plans to build a new factory in FY25-26E. That would result in total depreciation and amortization of RMB695mn/855mn/1,044mn in FY25-27E, respectively, based on our assumptions, compared with RMB609mn in FY24.

Figure 33: Zenergy's SG&A and R&D forecasts



Source: Company data, CMBIGM estimates

Figure 34: Zenergy's capex and D&A forecasts



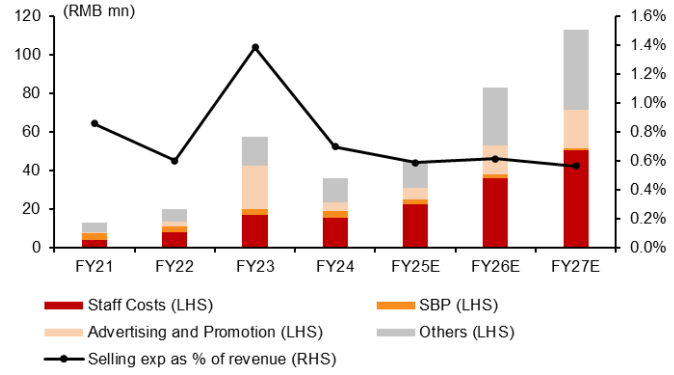
Source: Company data, CMBIGM estimates

■ **Superb cost control in SG&A in FY24 gives us more confidence**

Zenergy's selling expenses fell from RMB58mn in FY23 to RMB36mn in FY24, despite solid revenue growth in FY24, mainly due to advertising cost cuts and stringent control in staff costs. We project its selling expenses to be RMB45mn/83mn/113mn during FY25-27E, respectively, or 0.6%/0.6%/0.6% of its corresponding revenue in FY25-27E.

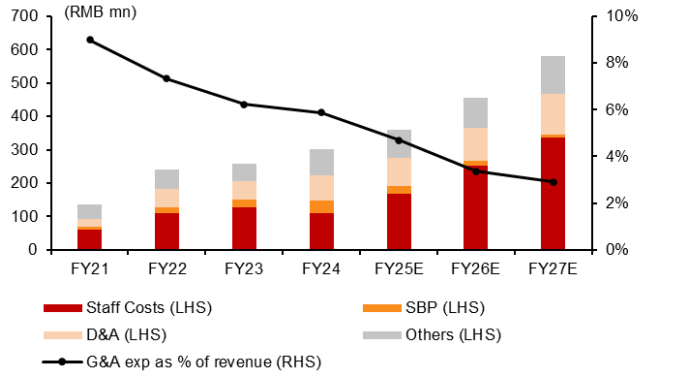
Zenergy's general and administrative (G&A) expenses increased from RMB259mn in FY23 to RMB301mn in FY24, mainly due to IPO related expenses and SBP increase. We project G&A expenses to be RMB360mn/455mn/580mn, or 4.7%/3.4%/2.9% of its corresponding revenues during FY25-27E, respectively.

Figure 35: Zenergy's selling expense breakdown



Source: Company data, CMBIGM estimates

Figure 36: Zenergy's G&A expense breakdown

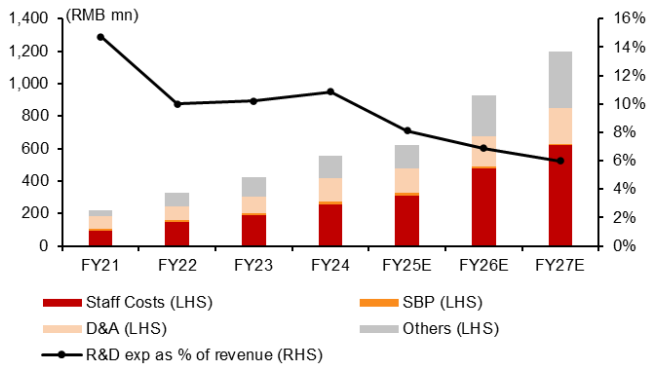


Source: Company data, CMBIGM estimates

■ Zenergy's management mindset may help improve its R&D efficiency

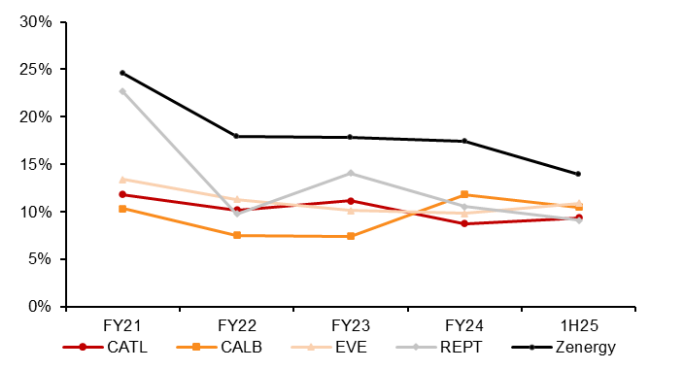
Although R&D is always difficult to forecast, we believe Zenergy's operational efficiency in manufacturing also applies in its R&D. Zenergy's R&D expenses during FY22-24 remained at 10-11% of its corresponding revenue, with a 2-year CAGR of 30.0%. We project Zenergy's R&D expenses to rise 11.8%/49.6%/28.7% YoY to RMB622mn/930mn/1,197mn in FY25-27E, respectively. The corresponding R&D expense ratio would be 8.1%/6.9%/6.0% in FY25-27, respectively, vs. 4.4%-6.1% at its peers in FY24. We also expect staff costs to continue taking up about half of R&D expenses in the forecast period.

Figure 37: Zenergy's R&D expense breakdown



Source: Company data, CMBIGM estimates

Figure 38: Peers' SG&A and R&D combined ratios



Source: Company data, CMBIGM

Unlike most young companies, SBP would not cause the spike or volatility for Zenergy's SG&A or R&D expenses. Total SBPs were about RMB23-59mn during FY21-24 and we forecast such expenses to be about RMB18-40mn during FY25-27E, assuming no new share options being granted. SBP only accounted for 5.3%-6.4% of Zenergy's SG&A and R&D combined expenses during FY21-24 and we expect such ratio to decline to 0.9%-3.7% during FY25-27E.

■ Equity income from STAES to be stable in FY25-27E

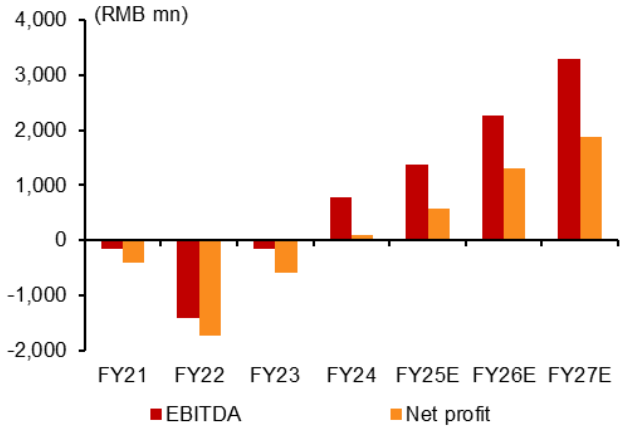
STAES' revenue rose 2.9% YoY to RMB6.7bn in FY24 and its net margin widened by 0.3ppts to 8.8%. Accordingly, the joint venture generated RMB294mn for Zenergy's equity income in FY24. Toyota's HEV retail sales volume in China rose by 29% YoY to about 0.71mn units in 2024. We expect Toyota's HEV sales volume in China to be stable in the next few years, taking both rising HEV penetration at Toyota and its overall sales volume declines in China into consideration. Therefore, we project STAES' revenue to be relatively

stable during FY25-27E with slightly widening net margins. We forecast Zenergy's equity income from STAES to be RMB327mn-352mn in FY25-27E. We project STAES to account for about 57.4%/25.9%/18.7% of Zenergy's net profit during FY25-27E, respectively. We also forecast STAES to distribute about 70% of its net profits in FY25-27E as dividends, which would help improve Zenergy's cash flow.

Breakeven in FY24 paves way for future profitability

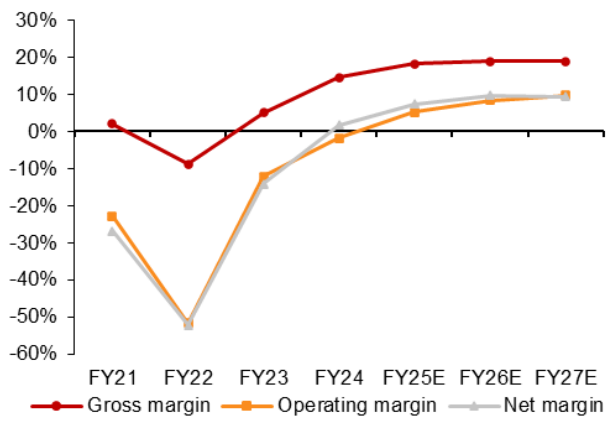
Zenergy achieved a net profit of RMB91mn in FY24, turning from a net loss of RMB130mn in 1H24. Zenergy also turned profitable even without the contribution from STAES in 1H25. We expect its net profit to rise 58.2% HoH to RMB349mn in 2H25E with higher revenue (+41.7% HoH) and better product mix (gross margin +0.5ppts HoH to 18.4%). We also forecast FY26E and FY27E net profits to be RMB1,307mn and RMB1,880mn, respectively, as elaborated in detail above.

Figure 39: Zenergy's EBITDA and net profit forecasts



Source: Company data, CMBIGM estimates

Figure 40: Zenergy's margin forecasts



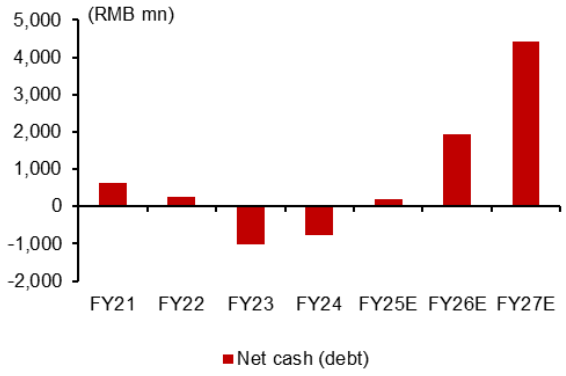
Source: Company data, CMBIGM estimates

Improving profits make balance sheet, cash flow healthy in FY25-27E

We estimate Zenergy to turn from a net debt of RMB756mn in FY24 to a net cash of RMB203mn in FY25E, primarily aided by rising profit and fundraising from IPO. Net cash position would be further strengthened during FY26-27E, as profits increase.

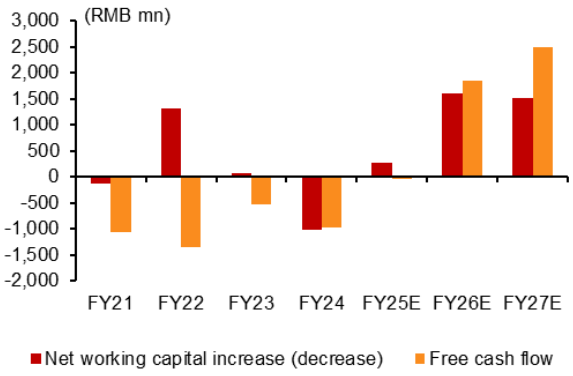
Apart from the rising net profits and equity funding, cash flow improvement during FY25-27E could also result from better utilization of working capital. As Zenergy's payable days are longer than its receivable and inventory days, rising revenue could result in a decrease in net working capital. We estimate Zenergy's free cash flow to turn from an outflow of RMB986mn in FY24 to an outflow of RMB54mn in FY25E, followed by an inflow of RMB1,841mn in FY26E and RMB2,485mn in FY27E, respectively.

Figure 41: Zenergy's net cash (debt) forecasts



Source: Company data, CMBIGM estimates

Figure 42: Zenergy's NWC and free cash flow



Source: Company data, CMBIGM estimates

Valuation and key risks

Initiate with BUY rating; TP of HK$18.00 based on 22x FY27E P/E

We initiate our coverage of Zenergy with a BUY rating and target price of HK$18.00, which is based on 22x our FY27E P/E. We are of the view that such valuation multiple is justified given Zenergy's high profit growth potential. Zenergy's peers, including CATL, CALB, Rept Battero (666 HK, NR), Gotion High-Tech (002074 CH, NR) and EVE Energyhas a median FY27E P/E of 18.3x with an average FY25-27E net profit CAGR of 33%, based on Bloomberg consensus. We project Zenergy's FY25-27E net profit CAGR to be 82%, much higher than peers. In other words, Zenergy now has a PEG (our FY26E P/E divided by FY25-27E EPS CAGR) of 0.23, much lower than its peers' median PEG of 0.73. Our target price of HK$18.00 implies a PEG of 0.39 for Zenergy, still lower than its peers.

Peers' historical valuation pattern during fast growth period could also provide a reference for Zenergy's valuation. Back in Sep 2022 when investors were probably as rational as now towards EV battery makers, CATL, EVE Energy and Gotion High-Tech had a forward 2-year (FY24) P/E range of 21-32x, with Bloomberg consensus estimated net profit CAGR of 43%-93% for FY22-24.

Figure 43: Peers' valuation

		Mkt Cap	Profit (RMB mn)			P/E (x)			PEG
Company	Ticker	(HK$ mn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	
Zenergy	**3677 HK**	**27,418**	**569**	**1,307**	**1,880**	**44.0x**	**19.2x**	**13.3x**	**0.23**
CATL	3750 HK	1,942,458	66,798	81,239	97,148	26.6x	21.9x	18.3x	1.06
CALB	3931 HK	46,502	1,392	2,153	2,829	30.5x	19.7x	15.0x	0.46
REPT	666 HK	28,962	(84)	656	1,161	-315.8x	40.3x	22.8x	N/A
Gotion	002074 CH	92,351	1,458	2,283	2,987	57.9x	37.0x	28.3x	0.86
EVE	300014 CH	156,983	4,766	6,899	8,670	30.1x	20.8x	16.6x	0.60
		Median				**30.1x**	**21.9x**	**18.3x**	**0.73**

Source: Bloomberg, CMBIGM estimates.
Note: Market data as of 10 Sept 2025. PEG=(FY26E P/E)/(FY25E-FY27E net profit CAGR)*100.

Key risks to our forecast and valuation

1) Lower EV sales volume from Zenergy's key clients, such as Leapmotor, GAC Toyota, SAIC-GM-Wuling, GAC Trumpchi, SAIC-GM, VW and SAIC Motor, than we expect;
2) Higher market share loss at Zenergy's key clients to competitors than we expect;
3) A slower pace of acquiring new clients or a slower penetration into new clients' products than we expect;
4) A new lithium-ion battery technology breakthrough that significantly changes the industry landscape, while Zenergy fails to keep up with such technological changes;
5) New green energy, such as hydrogen, to take up a significant portion of existing lithium-ion battery market;
6) A more severe price war among Chinese battery makers to lower battery prices and margins than we expect;
7) Lower production capacity utilization rate than we expect after the completion of the new plant;
8) Greater raw material price fluctuation than we expect that Zenergy cannot fully pass through to its clients;
9) Unexpected business failure from any of Zenergy's key clients that could result in a significant inventory and receivable impairment at Zenergy;

10) Slower HEV sales growth or lower HEV product margin that results in a lower income at STAES than we expect.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	**3,290**	**4,162**	**5,130**	**7,668**	**13,491**	**19,986**
Cost of goods sold	(3,581)	(3,953)	(4,382)	(6,273)	(10,947)	(16,192)
Gross profit	**(290)**	**208**	**748**	**1,394**	**2,544**	**3,794**
Operating expenses	**(1,409)**	**(714)**	**(839)**	**(993)**	**(1,421)**	**(1,840)**
Selling expense	(20)	(58)	(36)	(45)	(83)	(113)
Admin expense	(241)	(259)	(301)	(360)	(455)	(580)
R&D expense	(329)	(424)	(556)	(622)	(930)	(1,197)
Others	(819)	27	54	34	47	50
Operating profit	**(1,699)**	**(506)**	**(91)**	**401**	**1,123**	**1,954**
Share of (losses)/profits of associates/JV	1	(25)	302	327	339	352
EBITDA	**(1,404)**	**(117)**	**821**	**1,423**	**2,318**	**3,350**
Depreciation	218	334	530	613	771	959
Other amortisation	76	79	79	83	84	86
EBIT	**(1,698)**	**(531)**	**212**	**728**	**1,462**	**2,306**
Interest expense	(33)	(73)	(133)	(159)	(156)	(133)
Pre-tax profit	**(1,731)**	**(604)**	**79**	**569**	**1,307**	**2,173**
Income tax	11	15	12	0	0	(293)
After tax profit	**(1,720)**	**(590)**	**91**	**569**	**1,307**	**1,880**
Minority interest	0	0	0	0	0	0
Net profit	**(1,720)**	**(590)**	**91**	**569**	**1,307**	**1,880**

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	**4,671**	**4,355**	**5,732**	**7,883**	**11,354**	**16,015**
Cash & equivalents	936	2,034	2,199	2,660	3,466	5,243
Restricted cash	1,035	472	1,060	1,000	800	800
Account receivables	326	1,147	1,623	2,206	3,992	5,749
Inventories	1,013	614	679	962	1,650	2,218
Financial assets at FVTPL	1,163	0	0	811	1,035	1,464
Other current assets	198	88	171	244	412	541
Non-current assets	**5,780**	**9,775**	**9,862**	**11,253**	**12,549**	**13,441**
PP&E	4,707	5,619	5,704	6,563	7,595	8,447
Right-of-use assets	303	257	226	668	866	755
Investment in JVs & assos	65	3,351	3,467	3,572	3,681	3,893
Intangibles	549	491	423	361	296	220
Goodwill	1	1	1	1	1	1
Other non-current assets	154	55	40	88	111	124
Total assets	**10,451**	**14,131**	**15,594**	**19,136**	**23,904**	**29,456**
Current liabilities	**5,288**	**6,150**	**6,497**	**7,660**	**11,238**	**15,020**
Short-term borrowings	579	694	1,246	1,200	800	800
Account payables	3,012	3,416	3,743	4,984	8,248	11,534
Tax payable	24	0	0	0	0	0
Other current liabilities	1,493	1,968	1,463	1,303	1,718	2,059
Lease liabilities	34	27	30	86	112	95
Contract liabilities	145	45	15	86	360	532
Non-current liabilities	**2,690**	**3,234**	**3,200**	**3,981**	**3,823**	**3,687**
Long-term borrowings	2,310	2,841	2,769	3,069	2,569	2,269
Other non-current liabilities	380	392	432	913	1,254	1,418
Total liabilities	**7,978**	**9,384**	**9,697**	**11,641**	**15,061**	**18,707**
Share capital	1,882	2,256	2,387	2,552	2,558	2,561
Other reserves	591	2,491	3,510	4,943	6,284	8,187
Total shareholders equity	**2,473**	**4,747**	**5,897**	**7,495**	**8,843**	**10,749**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**10,451**	**14,131**	**15,594**	**19,136**	**23,904**	**29,456**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(1,731)**	**(604)**	**79**	**569**	**1,307**	**2,173**
Depreciation & amortization	294	414	609	695	855	1,044
Tax paid	(5)	(24)	(0)	0	0	(293)
Change in working capital	1,323	64	(1,012)	270	1,592	1,503
Others	1,472	435	(37)	(68)	(93)	(122)
Net cash from operations	**1,354**	**284**	**(361)**	**1,466**	**3,661**	**4,305**
Investing						
Capital expenditure	(2,708)	(814)	(625)	(1,520)	(1,820)	(1,820)
Acquisition of subsidiaries/ investments	(240)	0	0	0	0	0
Net proceeds from disposal of short-term investments	(1,147)	1,169	0	(800)	(200)	(400)
Others	81	(53)	(150)	292	315	232
Net cash from investing	**(4,013)**	**303**	**(775)**	**(2,028)**	**(1,705)**	**(1,988)**
Financing						
Net borrowings	2,886	1,221	1,369	1,500	300	500
Proceeds from share issues	2,415	5	1,000	989	15	8
Others	(2,478)	(715)	(1,071)	(1,466)	(1,465)	(1,047)
Net cash from financing	**2,824**	**511**	**1,298**	**1,023**	**(1,150)**	**(539)**
Net change in cash						
Cash at the beginning of the year	767	936	2,034	2,199	2,660	3,466
Exchange difference	4	0	3	0	0	0
Cash at the end of the year	**936**	**2,034**	**2,199**	**2,660**	**3,466**	**5,243**

GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	119.5%	26.5%	23.3%	49.5%	75.9%	48.1%
Gross profit	na	na	259.0%	86.3%	82.5%	49.2%
Operating profit	na	na	na	na	179.8%	73.9%
EBITDA	na	na	na	73.4%	62.9%	44.6%
EBIT	na	na	na	244.0%	100.9%	57.7%
Net profit	na	na	na	525.4%	129.5%	43.9%

PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	(8.8%)	5.0%	14.6%	18.2%	18.9%	19.0%
Operating margin	(51.6%)	(12.2%)	(1.8%)	5.2%	8.3%	9.8%
EBITDA margin	(42.7%)	(2.8%)	16.0%	18.6%	17.2%	16.8%
Return on equity (ROE)	(77.2%)	(16.3%)	1.7%	8.5%	16.0%	19.2%

GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.4	0.2	0.1	0.1	(0.1)	(0.3)
Current ratio (x)	0.9	0.7	0.9	1.0	1.0	1.1
Receivable turnover days	36.2	100.6	115.5	105.0	108.0	105.0
Inventory turnover days	103.3	56.7	56.5	56.0	55.0	50.0
Payable turnover days	307.1	315.4	311.7	290.0	275.0	260.0

VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	ns	283.0	49.3	21.8	15.2
P/E (diluted)	ns	ns	283.0	49.5	21.8	15.2
P/B	7.7	4.5	4.4	3.7	3.2	2.7
P/CFPS	14.0	74.9	ns	19.1	7.8	6.6
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.
Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.
CMBIGM or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.
This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.
The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.
CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.
Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom
This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States
CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore
This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.