

# China Auto's Recovery Path Is Accelerating

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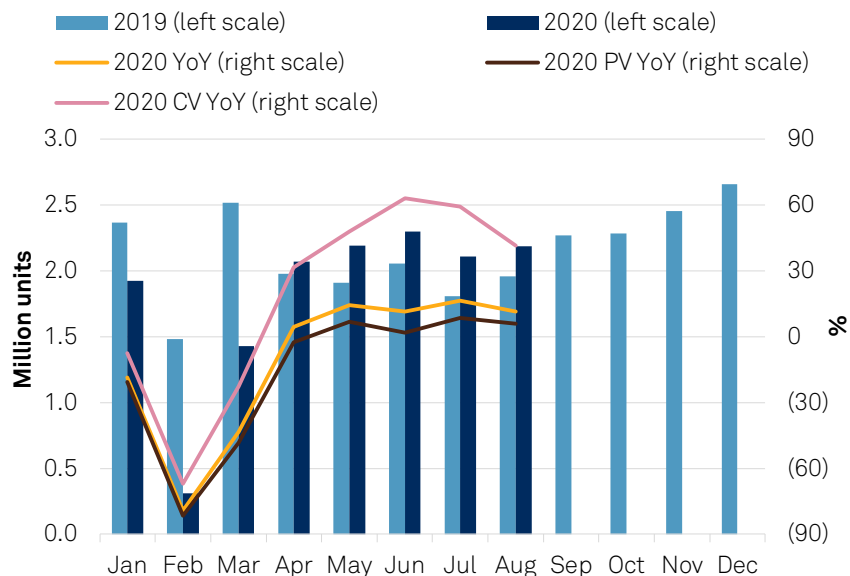
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**S&P Global**  
Ratings

# Assumptions Revised On Improving Sentiment

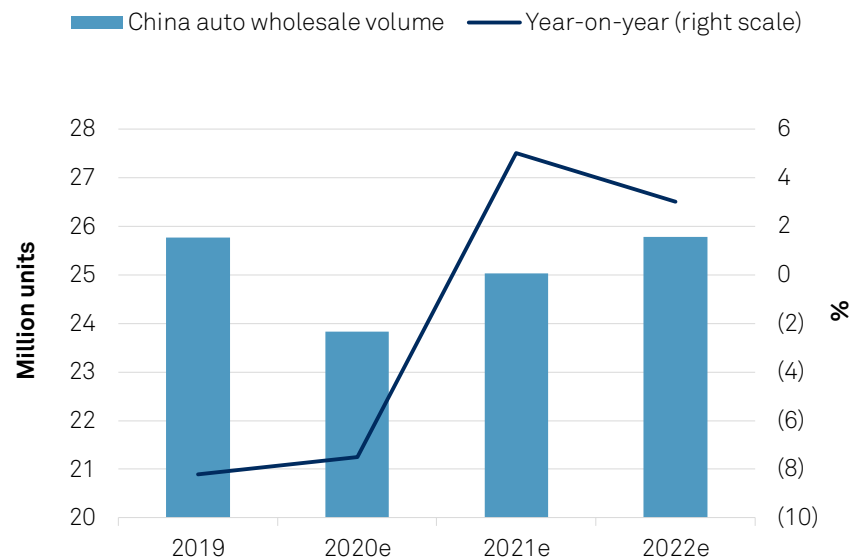
- The decline in China auto sales narrowed to 9.5% in the first eight months, from double digits. Commercial vehicles outperformed passenger vehicles, on robust logistics and construction demand.
- We revise our assumptions on 2020 auto sales to a **6%-9% decline**, vs. the previous 8%-10% drop.
- We anticipate a **4%-6% growth** next year, vs. the former 2%-4%, on improving consumer sentiment. In our view, **sales will return to 2019 level in 2022**.

## Auto Sales Growth Turned Positive In April...



YoY—Year on year. Source: S&P Global Ratings, China Association of Automobile Manufacturers (CAAM).

## ...And Will Recover To 2019 Level In 2022

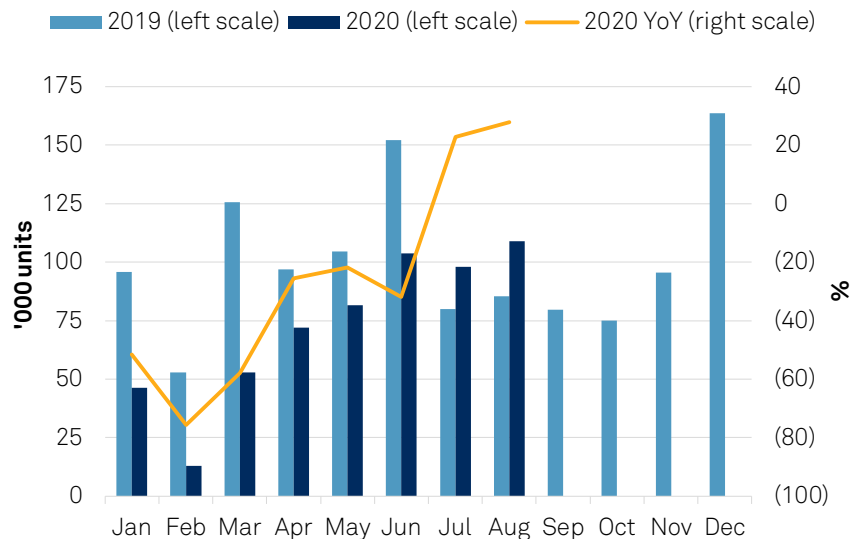


Note: Our estimates are for wholesale (sales from automakers to dealers). e—Estimate. Source: S&P Global Ratings, CAAM.

# NEV To Pick Up Momentum In Second Half

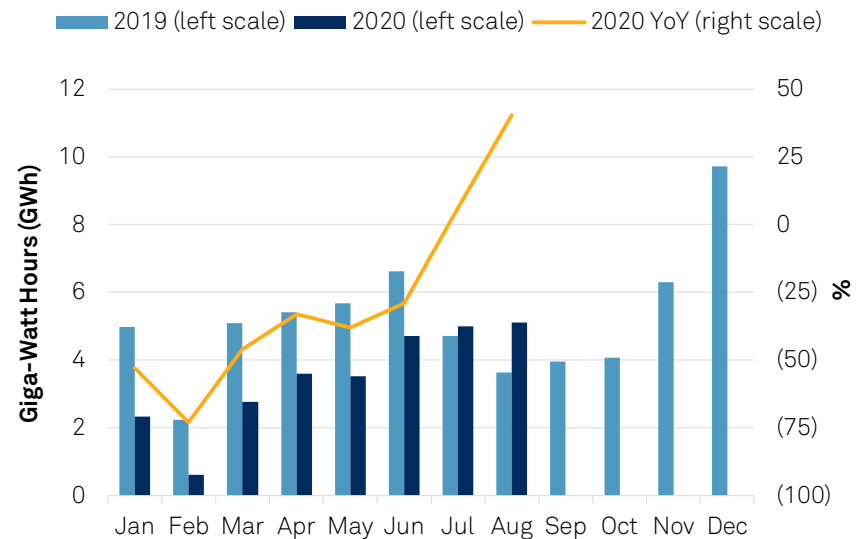
- New energy vehicle (NEV) sales are likely to pace up in 2H20 after declining 36% in the first half, mainly owing to subsidy cuts.
- NEV sales and battery installation rose more than 20% YoY on average in July-August.
- We believe more new product offers from Tesla and JV brands will boost consumer acceptance. In China, the government targets an NEV penetration rate of 25% by 2025, up from just 4% now.

## NEV Sales Pacing Up Since July



YoY—Year on year. Source: S&P Global Ratings, China Association of Automobile Manufacturers (CAAM).

## Battery Installation Also Picking Up From July

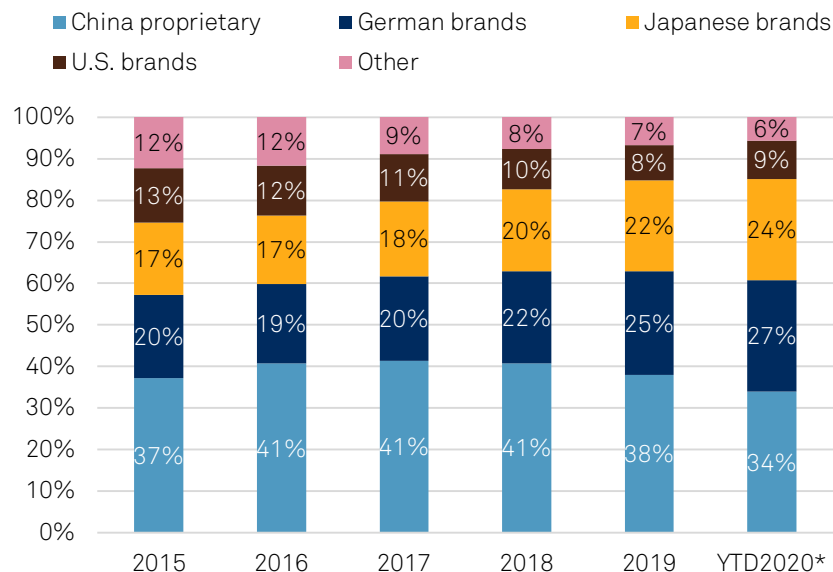


YoY—Year on year. Source: S&P Global Ratings, Gaogong Industry Institute (GGII), Wind.

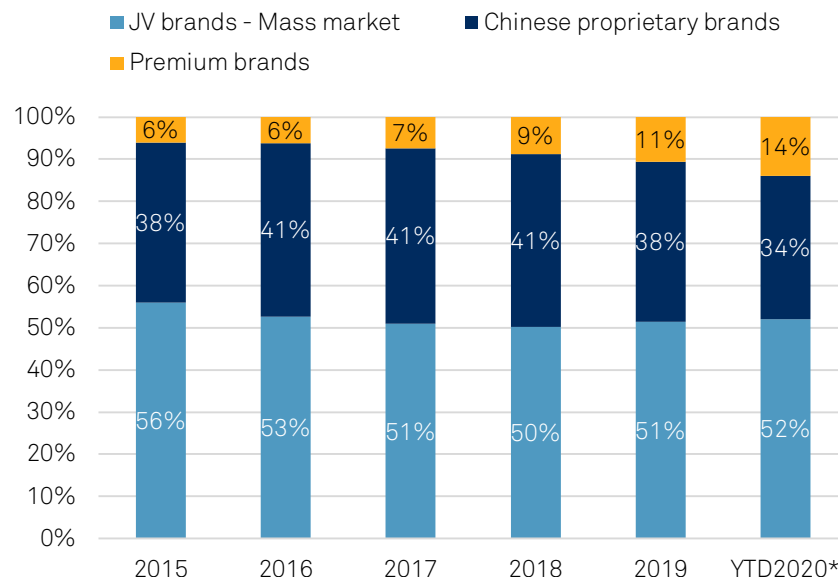
# Proprietary Brands Are Struggling

- China’s proprietary brands are most vulnerable to industry downturns, in our view due to less appealing product technology and user experience.
- We think German and Japanese brands will continue to gain shares, due to better functionality and higher residual value. German brands also have higher exposure to the premium segment.
- For premium brands, consumption upgrades and launch of more compact models underpin continuous market share expansion.

## German and Japanese Brands The Winners



## Premium Brands Continue To Expand



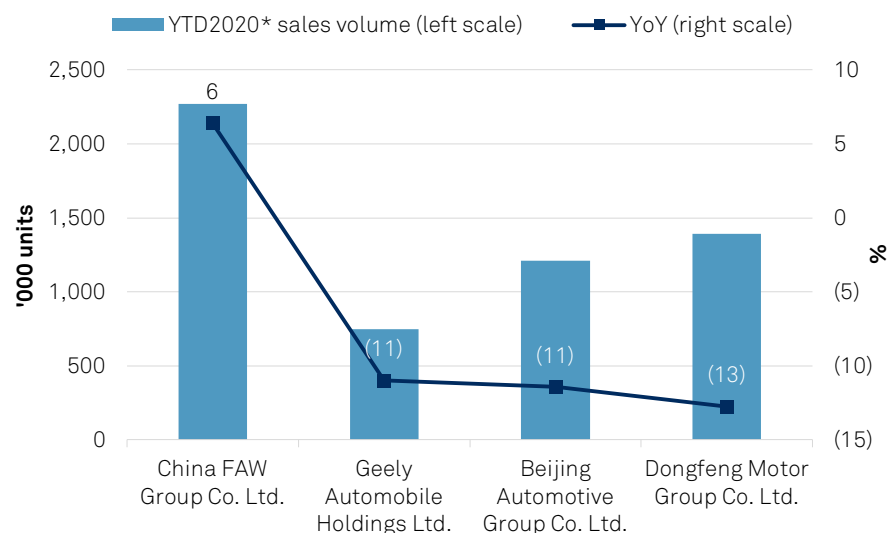
\*Data covers the first eight months. Source: S&P Global Ratings, China Passenger Car Association (CPCA).

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# Margin/Leverage Trend The Key Rating Driver

- Rated issuers continued to outperform the market, especially the ones with higher exposure to commercial vehicles, i.e., China FAW Group Co. Ltd. (A/Negative/--).
- Despite sequentially improving sales, **our ratings on auto OEMs and suppliers have a net negative bias**. We believe intense competition will still weigh on their financial performances.
- Key things to monitor: **sales momentum, margin, and leverage trends**.

## Rated Carmakers Continued To Outperform



\*Data covers the first eight months, Dongfeng Motor data is based on sales in the first seven months. Source: S&P Global Ratings, China Association of Automobile Manufacturers (CAAM).

## Margin And (Or) Leverage The Main Concern

	Issuer credit rating
<b>Auto OEMs</b>	
China FAW Group Co. Ltd.	A/Negative
Dongfeng Motor Group Co. Ltd.	A/Negative
Beijing Automotive Group Co. Ltd.	BBB/Negative
BAIC Motor Co. Ltd.	BBB/Negative
Geely Automobile Holdings Ltd.	BBB-/Watch Negative
Zhejiang Geely Holding Group Co. Ltd.	BBB-/Watch Negative
<b>Auto suppliers</b>	
Contemporary Amperex Technology Co. Ltd.	BBB+/Stable
Johnson Electric Holdings Ltd.	BBB/Stable
Nexteer Automotive Group Ltd.	BBB-/Negative
Yanfeng Global Automotive Interior Systems Co. Ltd.	BBB-/Negative
Pearl Holding III Ltd.	CCC+/Negative

Source: S&P Global Ratings.

# Related Research

- Global Auto Sales Forecasts: Hopes Pinned On China, Sept. 17, 2020
- Carmakers Are A Step Behind In Industrial China's COVID Comeback, July 16, 2020
- Research Update: Zhejiang Geely Holding And Geely Auto Ratings Remain On CreditWatch Negative Amid Significant Leverage Pressure, June 24, 2020
- Research Update: Beijing Automotive Group And BAIC Motor Ratings Lowered To 'BBB' On Elevated Leverage; Outlook Negative, June 23, 2020

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