



China Auto

Margin Pressure Heightens

S&P Global
Ratings

China Manufacturing Team
Corporate Ratings

April 29, 2024

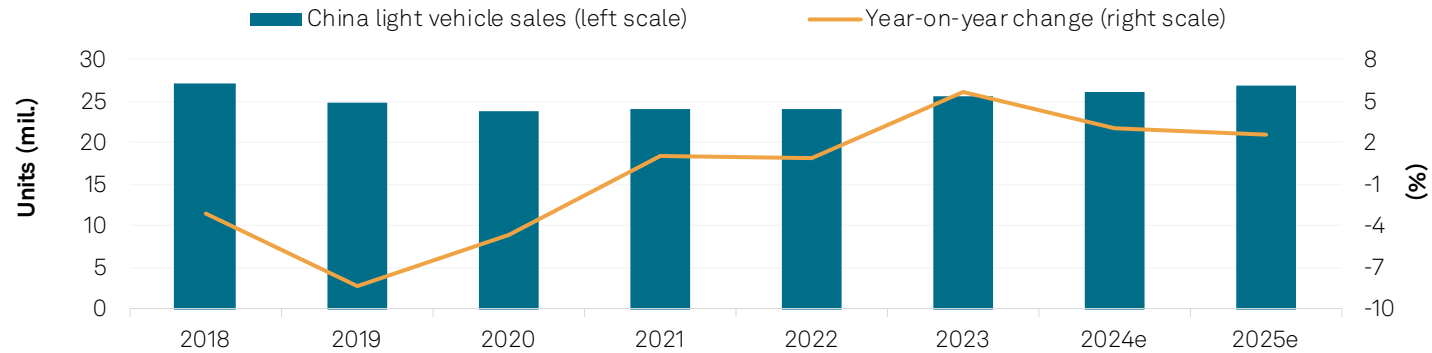
This report does not constitute a rating action

Key Takeaways

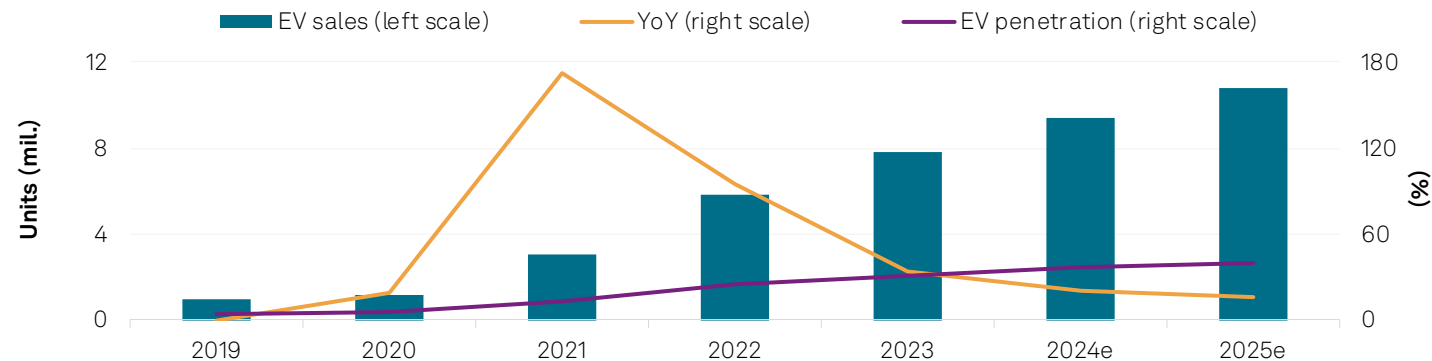
- What do we expect over the next 12-24 months?
 - China's domestic light vehicle sales to **increase by 2%-3%** annually in 2024-2025, from 5.6% in 2023.
 - Domestic electric vehicle sales to **grow 15%-20%** per annum over the period, from over 30% last year.
- Credit implications:
 - **Margin pressure heightens** amid exacerbated price war and rising electrification.
 - Cost cutting will be a priority for auto makers and suppliers.
- Rating trends:
 - **Rating buffers remain tight for Geely entities** as industry headwinds add uncertainty to their margin restoration.
 - Improving business strength and sustained net cash position underpin the **positive rating outlook on CATL.**

Growth Momentum To Decelerate

LV sales to see low single-digit growth in 2024-2025



Domestic EV sales to grow at a slower pace



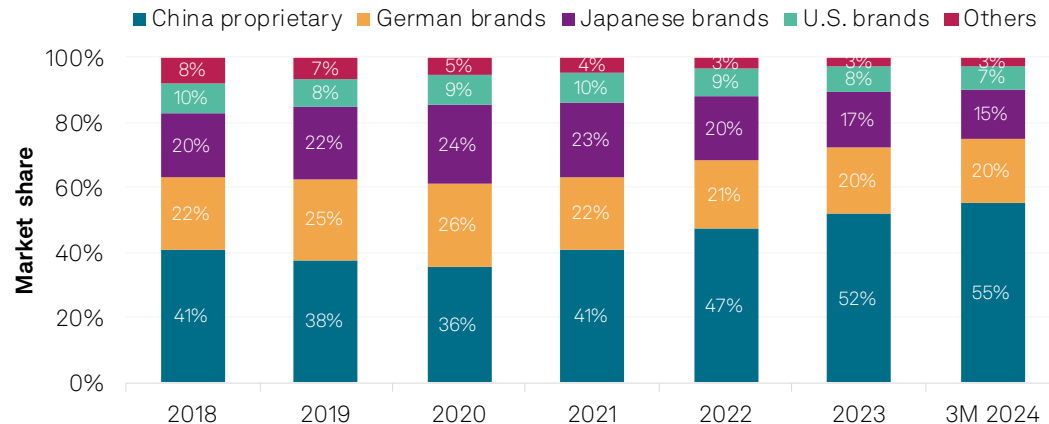
LV--Light vehicles include passenger vehicles and light commercial vehicles. E--Estimate. Sources: CAAM, S&P Global Ratings.

- We expect China's domestic light vehicle (LV) sales to grow 2%-4% in 2024.
- Unit sales in the first quarter rose by about 6% year on year, on a low base and continued price cuts.
- Growth will likely come off in the following quarters as base effect diminishes.
- Upside may emerge if the government's support on auto trade-in and carmakers' promotions induce higher-than-expected purchases.
- Sales growth of domestic electric light vehicles to decelerate to 15%-20% over 2024-2025.
 - Domestic sales rose c. 30% in the first quarter.
 - Electric vehicle (EV) penetration to rise to 35%-40% in 2024-2025.

Competition Intensifying, Pricing Environment Worsening

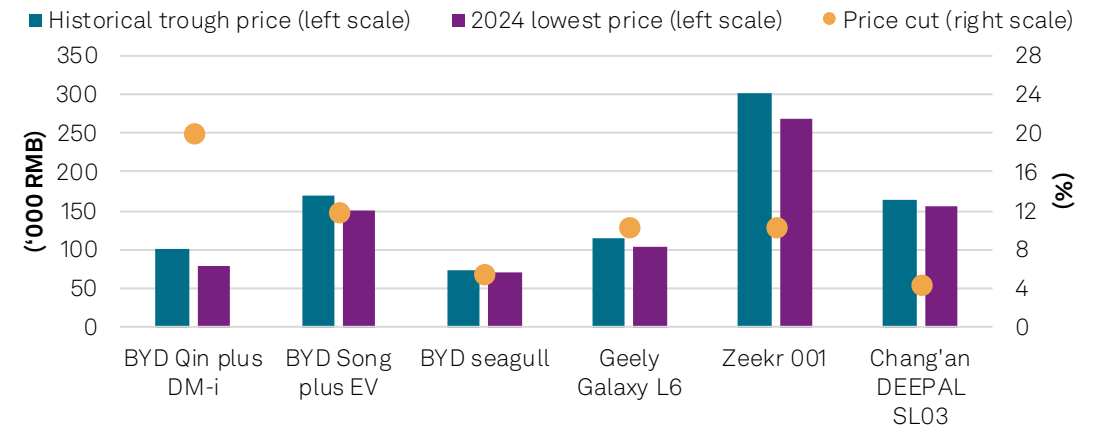
- Competitive edge in EV will support Chinese brands to further gain market share over the next 12 months.
- Foreign brands' collaboration with Chinese EV makers will take time to yield results.
- Price war will continue with auto OEMs racing for share amid increasing supply.
- Carmakers with scale advantage and vertical integration will fare the pricing impact better than peers.
- Auto suppliers with low bargaining-power will see greater margin pressure, as OEMs seek greater cost reductions this year.

Local brands continue to gain traction



3M 2024 refers to the first 3 months of 2024. Sources: China Passenger Car Association. S&P Global Ratings.

Price cuts of EVs becoming more aggressive

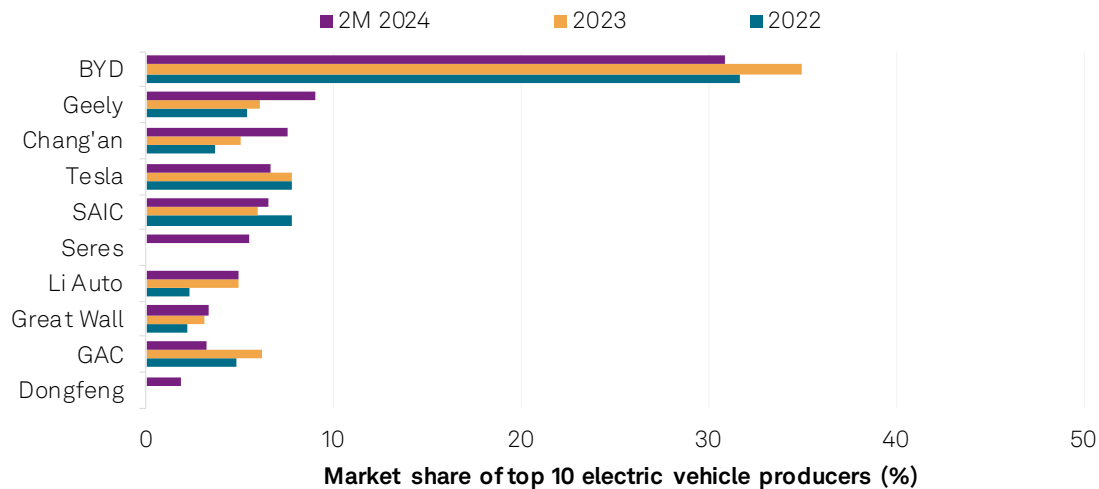


Source: China Passenger Car Association. S&P Global Ratings.

EV Market Is Becoming Crowded

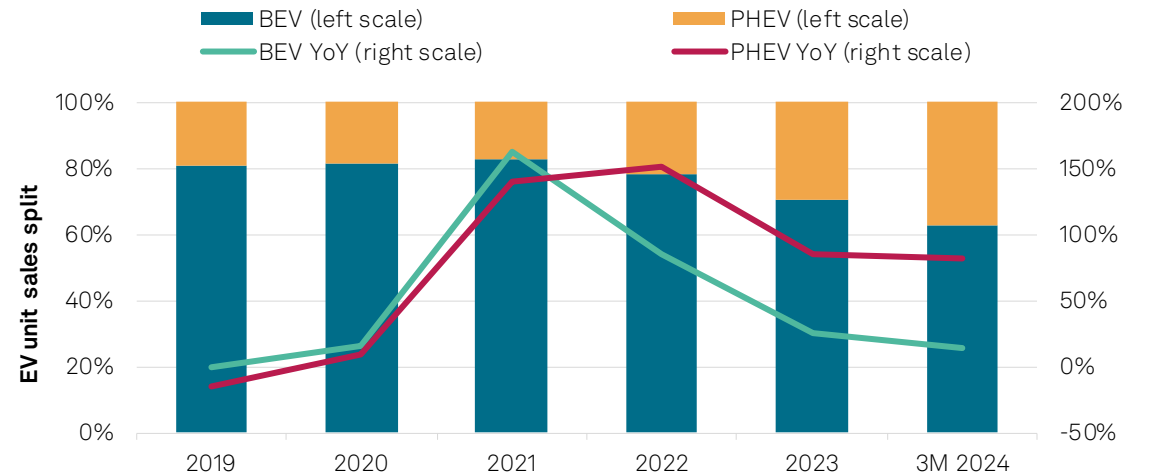
- Broad product offerings and cost leadership will continue to underpin BYD’s leading market position.
- Geely is on track for volume expansion with enhanced products and fast new models rollout.
- Competitive landscape will further evolve given continuous technology improvement and emergence of new players.
- PHEV will likely further gain share in the next 12 months, given favorable price (vs. BEV) and the absence of driving range concern.

EV producers racing for share



GAC--Guangzhou Automobile Group. 2M 2024 refers to the first two months of 2024. We only showed the 2024 market share for Seres and Dongfeng as they were not among Top 10 in 2022-2023. Sources: China Passenger Car Association. S&P Global Ratings.

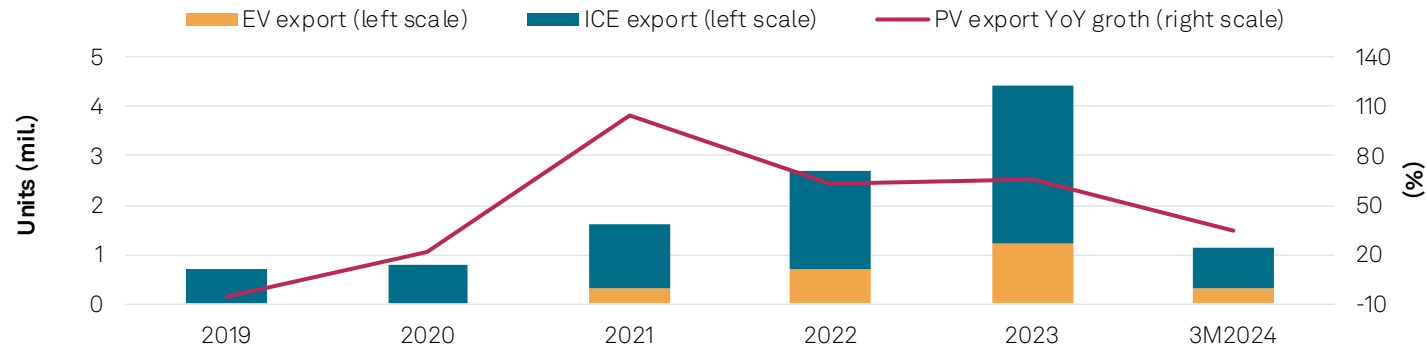
PHEV will continue to gain momentum



BEV--Battery electric vehicle. PHEV--Plug-in hybrid electric vehicle (includes range-extended EVs). YoY--Year on year. 3M 2024 refers to the first 3 months of 2024. Sources: China Association of Automobile Manufacturers. Wind. S&P Mobility. S&P Global Ratings

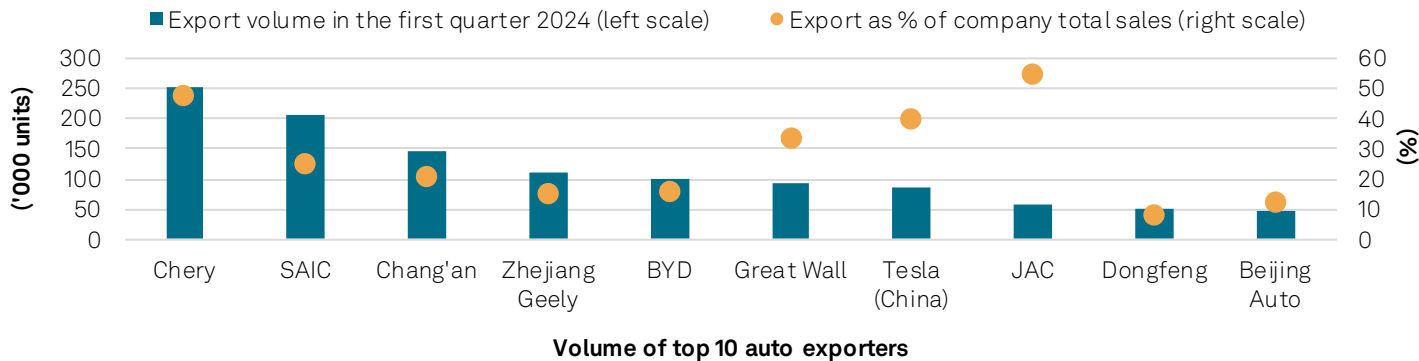
Chinese Carmakers Increasingly Venturing Overseas

China's auto export growth to decelerate in 2024



EV--Electric vehicles, ICE--Internal combustion engine, PV--Passenger vehicle. PV export equals the sum of EV export and ICE export. 3M 2024 refers to the first 3 months of 2024. Sources: China Association of Automobile Manufacturers. China Passenger Car Association. China Customs. S&P Global Ratings.

Export offering new growth opportunities for Chinese carmakers

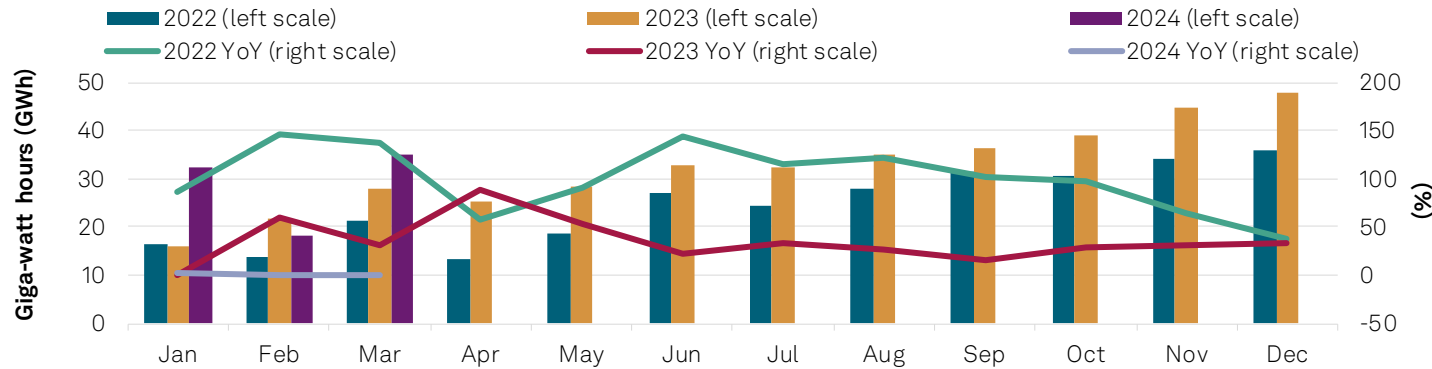


Sources: China Customs. China Passenger Car Association. China Association of Automobile Manufacturers. Company reports. S&P Global Ratings.

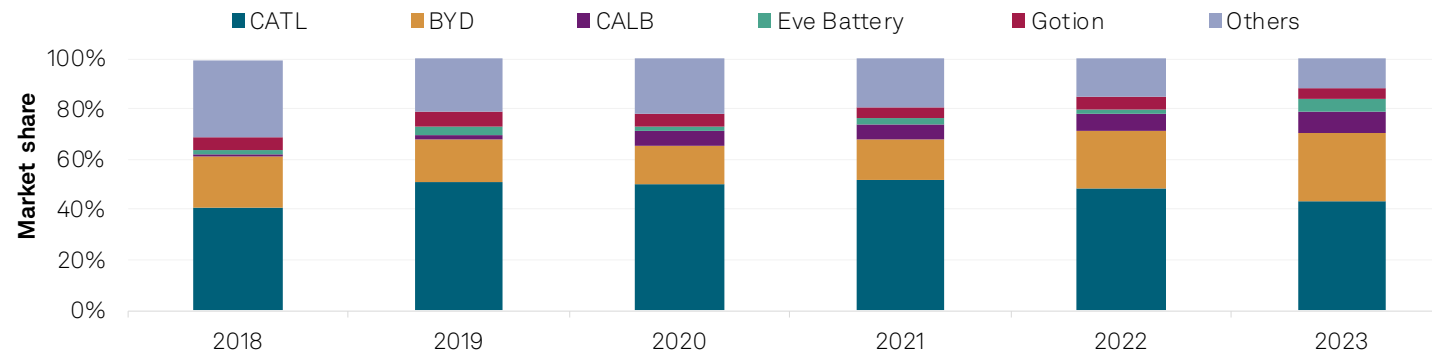
- With slowing growth in domestic consumption, exports will likely remain a growth driver for select Chinese auto makers for the next 1-2 years.
- Integrated supply chains, cost advantages, and increasing product competitiveness are supportive of China's auto exports.
- Nevertheless, export growth is set to soften in 2024, given a high base and rising trade hurdles. Passenger vehicle export grew by 34% in the first quarter, compared with 66% in 2023.
- Longer term, more sustainable growth overseas for Chinese auto makers will come from their localized operations in markets including Southeast Asia, Europe and Latin America.

China's EV Battery Market To See Further Consolidation

Growth in domestic battery installation moderating



Market consolidation continues amid intensifying competition

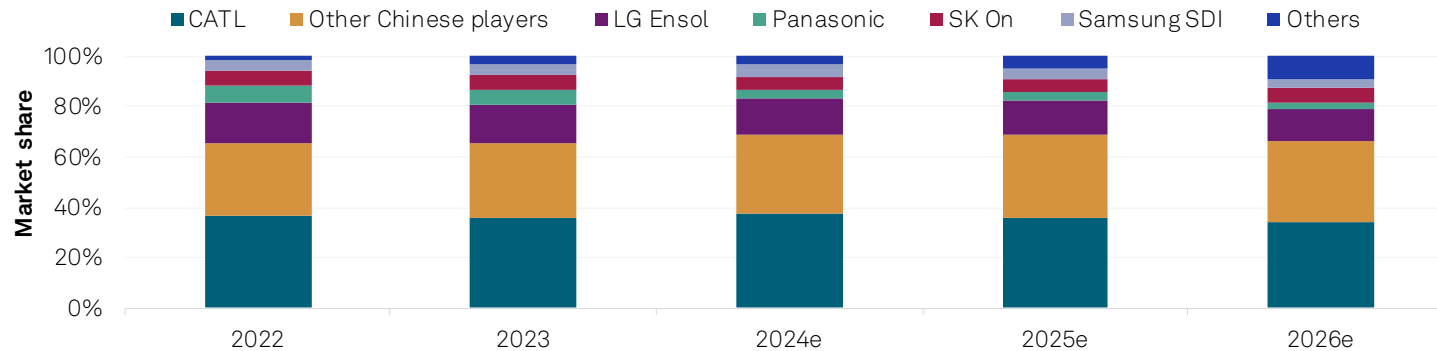


Only CATL is rated--see slide 11 for details. Gotion--Gotion High-Tech Co. Ltd. CALB--CALB Group Co. Ltd.
Sources: China Automotive Battery Innovation Alliance, S&P Global Ratings.

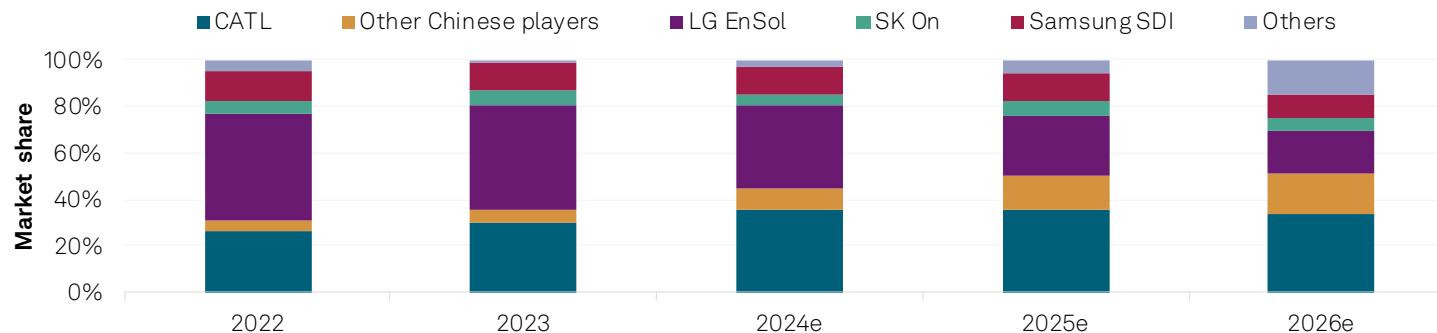
- Growth in domestic battery installations should moderate in 2024 as EV production growth slows.
- We estimate the production utilization ratio has dropped to 65% in 2023 from 75% in 2022.
- Battery export will further grow, as overseas markets (mainly Europe) still rely on top-tier Chinese battery makers' technology offerings and supply chains.
- We expect the Chinese battery market will continue to consolidate amid intensifying competition. Top 5 producers accounted for 88% of the market in 2023, vs. 77% in 2020.
- Technological capabilities, diversity of product offerings and relationship with customers are key to their market position in the next few years.

Geopolitical Tension Hinders Overseas Expansion

Chinese players taking the lead in the global battery market



Chinese battery makers playing a more important role in Europe



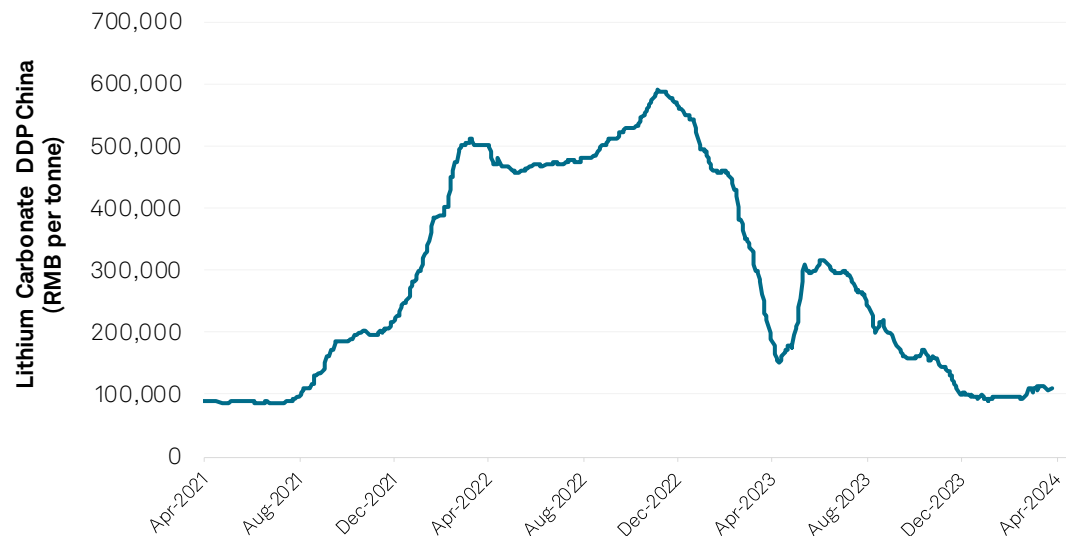
SK On is the battery subsidiary of SK Innovation Co. Ltd. (90% owned); Samsung SDI is battery and electric materials manufacturer under Samsung Electronics Co. Ltd. (20% owned). LG Ensol-LG Energy Solution. See slide 11 for full name of CATL. e--Estimated.
Sources: S&P Global Mobility. S&P Global Ratings.

- Chinese players will continue to lead the global battery market in the next few years, given technology advantages and dominance in the supply chain from upstream metals refining to battery components production (e.g. separator, anode, cathode).
- To comply with local regulations and to better meet the needs of auto OEMs, they're increasingly localizing production in Europe.
- In contrast, it's difficult for them to penetrate the U.S. market given the restrictions of foreign entity of concerns under the Inflation Reduction Act. This, coupled with risk of higher tariffs on Chinese-sourced components, call for increasing investments in localized supply, mostly by Korean players.

Lower Materials Cost Supports Modest Margin Recovery in 2024

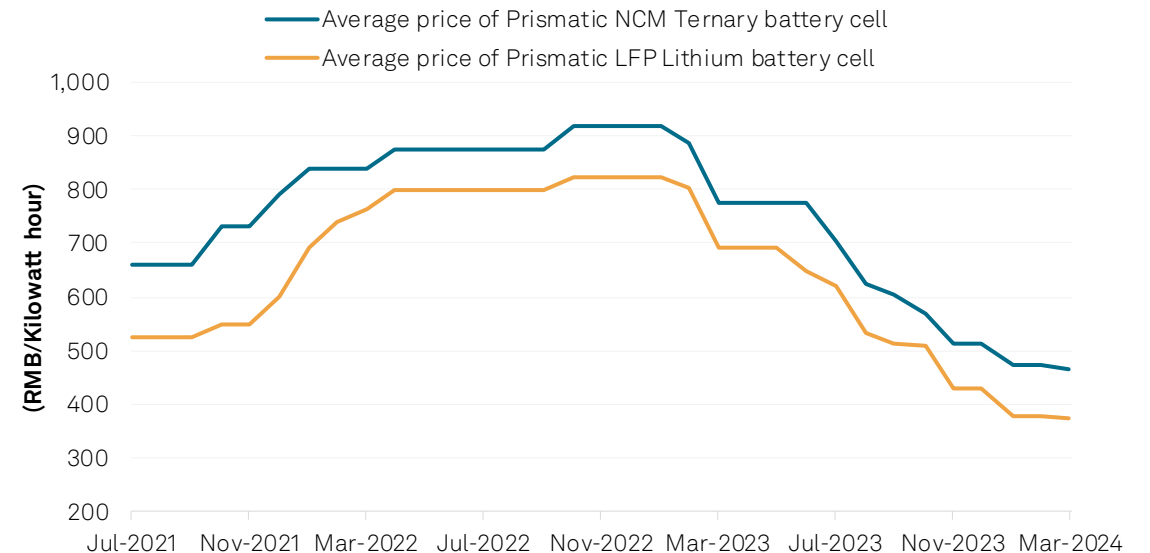
- **Lithium carbonate prices will likely stay at the current low in 2024**, given a softer demand outlook.
- Lower raw material prices and intense competition will continue to weigh on battery prices over the next 12 months.
- For leading battery makers, modest margin recovery is likely, with lower input costs and volume growth offsetting lower selling prices.

Lithium carbonate price could remain weak



RMB--Chinese renminbi. DDP--Delivered duty paid. Source: S&P Global Commodity Insights.

Battery price cooling down since early 2023



RMB--Chinese renminbi. LFP--Lithium iron phosphate. Source: iccbattery.com

Select Carmakers Seeing EV-related Margin Dilution

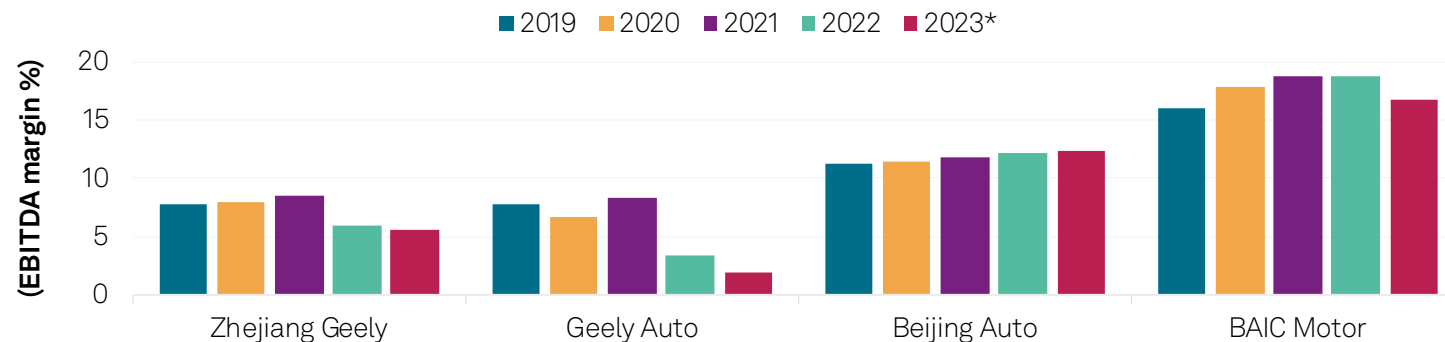
Geely is in the fast lane of electrification

Sales volume (thousand units)	3M 2024	3M 2024 YoY	3M 2024 EV penetration	2024 EV penetration target
Zhejiang Geely Holding Group Co. Ltd.	738.4	27%	34%	n.a.
Geely Automobile Holdings Ltd.	475.7	49%	30%	43%
Beijing Automotive Group Co. Ltd.	203.2	(15%)	4%-6%*	n.a.
BAIC Motor Co. Ltd.	125-135*	(7%)-(5%)*	5%-7%*	n.a.

EV penetration rate refers to EV sales as a percentage of the entity's total auto sales. Penetration rates of Zhejiang Geely, Beijing Auto, and BAIC Motor are our estimates. EV--Electric light vehicle includes pure electric and plug-in hybrid electric light vehicles. *Are estimated ranges. 3M 2024 refers to the first three months of 2024. Numbers for Beijing Auto and BAIC Motor are for the first two months of 2024. YoY--Year on year.

Sources: Company reports. China Association of Automobile Manufacturers. EV Volumes. S&P Global Ratings.

Faster electrification weighs more on profitability



Zhejiang Geely's EBITDA margin is with proportionate consolidation of Polestar since 2022. *2023 numbers are estimates for Zhejiang Geely and Beijing Auto. Sources: Company reports. S&P Global Ratings.

- Lower battery prices from second half of 2023 should be reflected in EV producers' 2024 costs, helping them to repair margin.
- Zhejiang Geely, Geely Auto: While our base case factored in improving margins and leverage in 2024, intensifying price competition could hinder the group's margin restoration and deleveraging.
- We revised the outlook on CATL to positive in April 2023. We expect the company to maintain No.1 position in China while expanding presence in Europe. With increasing profits and cash flows, the company should maintain a net cash position for the next 12-24 months.
- We generally see rating buffers for other OEMs and suppliers. Modest volume growth, lower raw material costs and improving product mix should underpin steady financial metrics.

Margin And Leverage The Rating Triggers

Company	Issuer credit rating	Rating downside triggers		Key rating drivers
		Leverage	EBITDA Margin	
Beijing Automotive Group Co. Ltd.	BBB/Stable/--	FFO/Debt < 12%	n.a.	<ul style="list-style-type: none"> Sales momentum of JV brands Restructure of proprietary brands
BAIC Motor Co. Ltd.	BBB/Stable/--	FFO/Debt < 12%	n.a.	<ul style="list-style-type: none"> Sales momentum of JV brands Restructure of proprietary brands
Geely Automobile Holdings Ltd.	BBB-/Negative/--	Debt/EBITDA>2.0x	< 6%	<ul style="list-style-type: none"> Volume, mix and cost control to offset rising EV sales Rating to move in tandem with rating on the parent
Zhejiang Geely Holding Group Co. Ltd.	BBB-/Negative/--	Debt/EBITDA>2.0x	< 6%	<ul style="list-style-type: none"> Volume, mix & price to offset rising EV sales High investment in EV could drag free operating cash flow (FOCF)
Contemporary Amperex Technology Co Ltd.	BBB+/Positive/--	Debt/EBITDA~1.5x	< 11%	<ul style="list-style-type: none"> EBITDA and OCF to cover capex Ability to maintain competitive position in the EV battery market
Johnson Electric Holdings Ltd.	BBB/Stable/--	Debt/EBITDA>1.5x	Materially deteriorates on a sustained basis	<ul style="list-style-type: none"> Volume growth and cost cutting to mitigate margin pressure Maintain positive FOCF and keep low leverage
Yanfeng International Automotive Technology Co. Ltd.	BBB-/Stable/--	Debt/EBITDA>1.5x	< 6%	<ul style="list-style-type: none"> Stable creditworthiness of its parent - Huayu Automotive Volume growth and cost cutting to mitigate margin pressure Working capital management and leverage control

BAIC Motor's downgrade trigger is the parent company Beijing Auto's metric. Geely Auto's downgrade trigger is the parent company Zhejiang Geely's metric. Yanfeng International's downside trigger is the parent company Huayu Automotive Systems Co. Ltd.'s metrics. FFO--Funds from operations. Source: S&P Global Ratings.

Related Research

Commentary

- [Global Auto Sales Forecasts: Slower EV Growth Offers Temporary Relief To Legacy Automakers](#), Apr. 26, 2024
- [Credit FAQ: China's Different Paths To Driving Consumption, Electric Vehicles](#), Apr. 24, 2024
- [China Industrials Are Making Do With Less](#), Feb. 1, 2024
- [Industry Credit Outlook 2024: Autos](#), Jan. 9, 2024
- [Asian Battery Makers Are Shifting Strategies To Hold Onto Global Lead](#), Oct. 5, 2023

Full analysis

- [Zhejiang Geely Holding Group Co. Ltd.](#), Dec. 4, 2023
- [Geely Automobile Holdings Ltd.](#), Dec. 5, 2023



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