China Auto

Survival Of The Fittest

S&P Global
Ratings

China Manufacturing Team
Corporate Ratings

Oct. 17, 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 **grow by 0%-3%** annually in 2025-2026, from 0%-2% in 2024.
- Domestic electric vehicle (EV) sales to **rise 10%-20%** a year over the period, from about 30% this year.
- Upside may emerge if the government steps up stimulus that boosts economic growth and consumer confidence.
- Key risks: demand weakness, intense competition, EV transition.

Credit implications

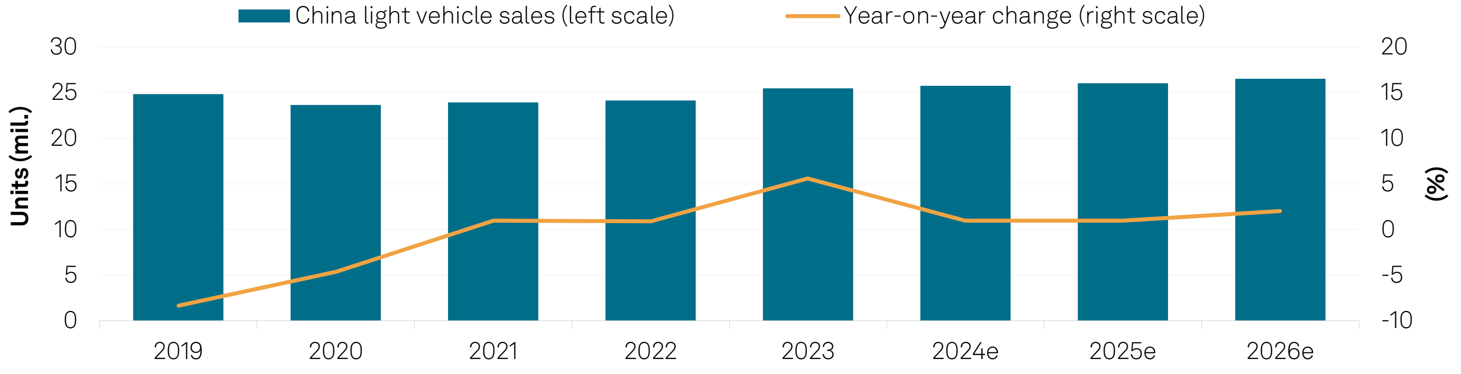
- **Margin pressure remains high** for auto makers because of a price war and rising EV sales.
- Chinese carmakers generally have limited exposure to Europe and U.S. so trade tariffs will have marginal effect.
- Overseas expansion is at an early stage for most Chinese auto makers and is yet to have a meaningful credit impact.

Rating trends

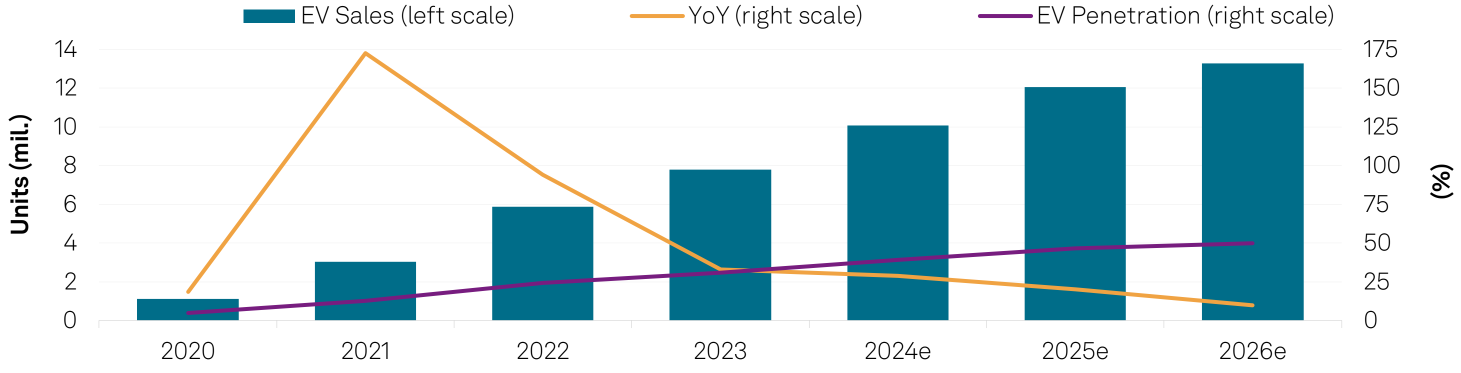
- Mix optimization, cost-cutting, and financial discipline underpin stable credit profiles for most of the rated Chinese auto issuers.
- The rating outlook on Geely entities remains negative due to challenges in restoring margins.

Lukewarm Growth Ahead

LV sales to grow modestly in 2025-2026



EV penetration to rise steadily



Note: EV penetration is calculated using passenger electric vehicle retail sales divided by light vehicle sales. LV--Light vehicles, includes passenger vehicles and light commercial vehicles. e--Estimate. Sources: CAAM, S&P Global Mobility, S&P Global Ratings.

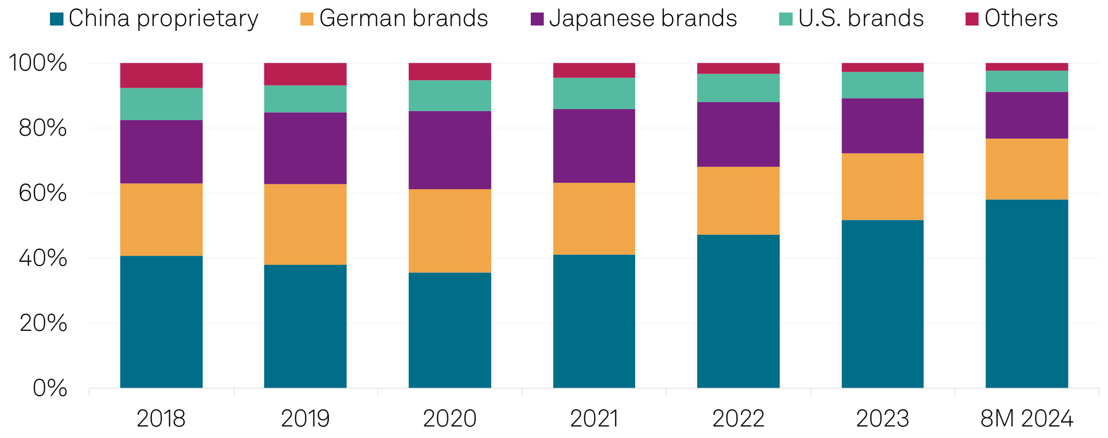
- China's domestic light vehicle (LV) sales to grow 0%-3% annually in 2024-2026.
- Unit sales in the first eight months of 2024 were largely flat year on year. Growth will likely rise in 4Q with better seasonality, trade-in subsidies.
- Consumer confidence could remain fragile given the still soft economic growth outlook. Upside may emerge if the government steps up stimulus to boost growth.
- EV sales could grow by 10%-20% in 2025-2026. Some consumers may advance purchase before a 5% tax hike on EV purchases in 2026.
- EV penetration* will likely rise from about 40% in 2024 to 45%-50% in 2025-2026.

Local Carmakers Will Further Gain Strength

- Market share of Chinese brands is on track to exceed 60% in 2025, due to their competitive edge in EVs.
- Foreign carmakers will continue to suffer over the next 24 months, given their slow progress on EVs. Some closed gasoline vehicle production plants this year to save costs amid falling sales.
- The price war hasn't escalated recently, but automakers have been upgrading products while keeping prices steady.
- Local carmakers are introducing more entry-level brands (e.g., Xpeng's Mona, Nio's Onvo), to better tap mass market.

Local brands' share to rise further

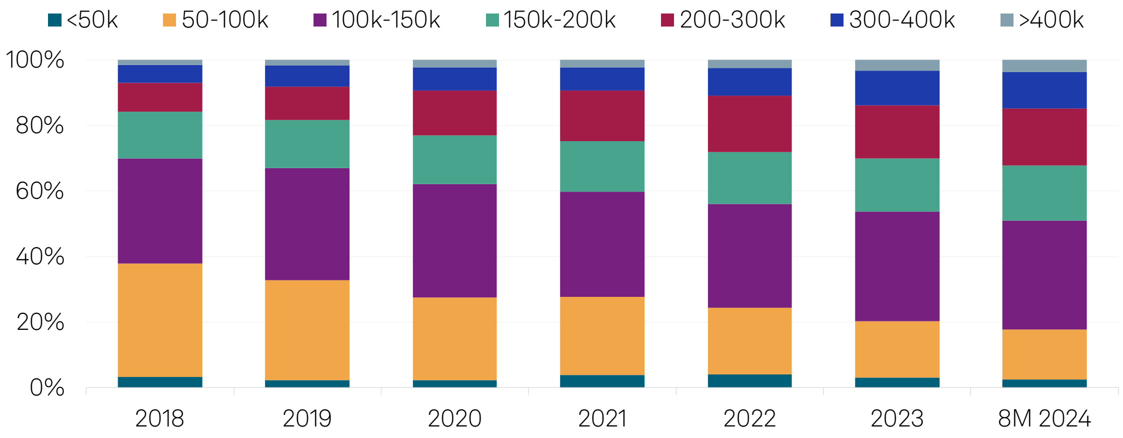
Market share by sales volume



8M 2024--First eight months of 2024. Sources: China Passenger Car Association. S&P Global Ratings.

Affordability is key in penetrating mass market

PV sales volume by price range (RMB)

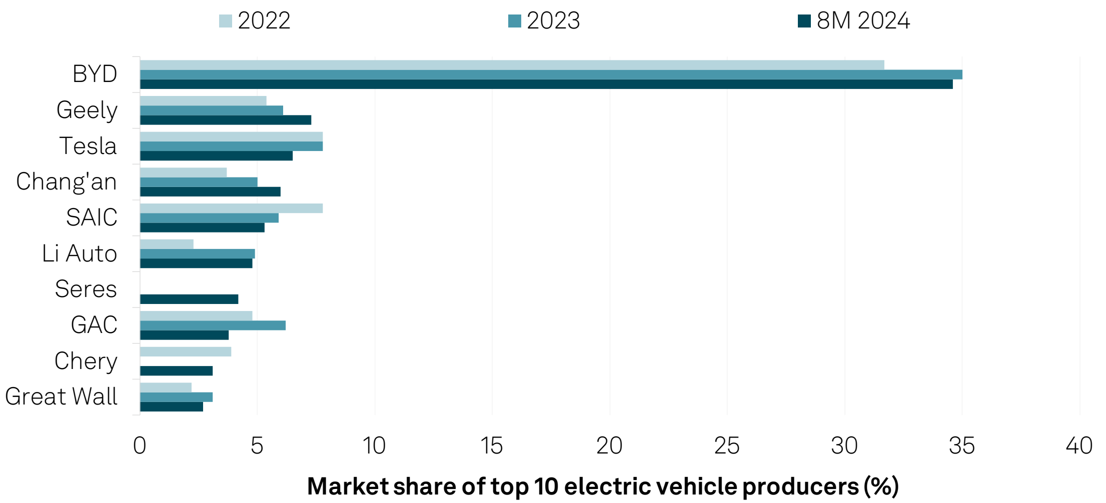


8M 2024--First 8 months of 2024. PV--Passenger vehicle. Sources: China Passenger Car Association, S&P Global Ratings.

Electrification Progress Remains Solid

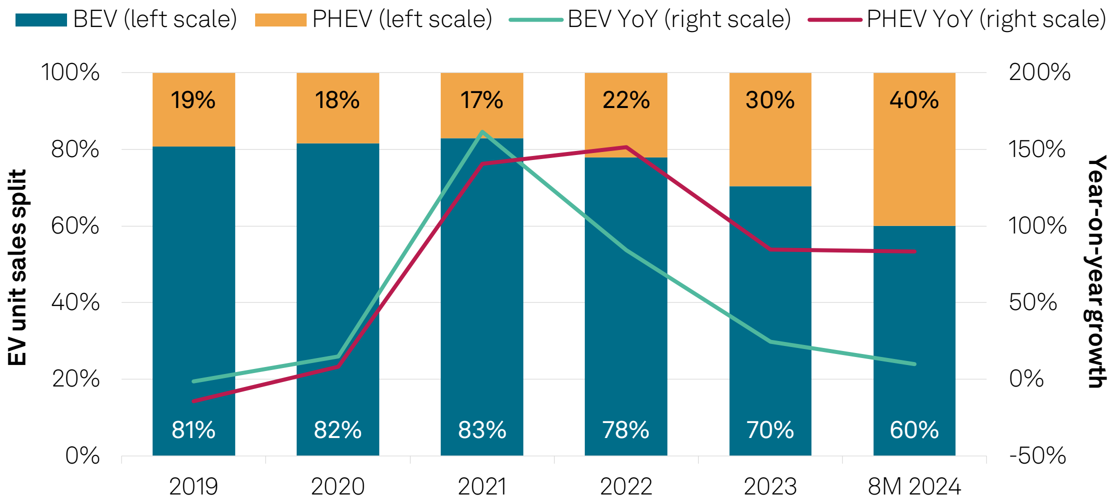
- China's EV sales remained solid: over 30% growth year to date, thanks to cheaper products with better functionality.
- BYD will continue to dominate the market in the next 24 months, given its wide product offerings and cost advantage.
- Market dynamics will further evolve, with technology advancement and change in carmakers' product strategy.
- Demand for PHEV will remain strong because of lower cost (vs. BEV) and the absence of driving range concern.

Competitive landscape evolving



GAC--Guangzhou Automobile Group. 8M 2024--First eight months of 2024. We only showed the 2024 market share for Seres as it was not among Top 10 in 2022-2023.
Sources: China Passenger Car Association, S&P Global Ratings.

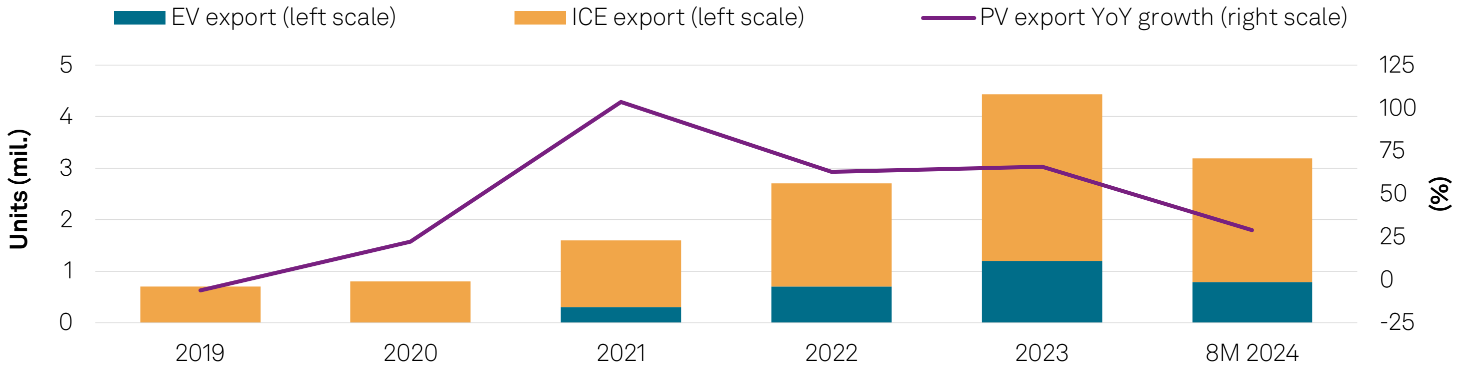
PHEV will continue to drive EV sales growth



BEV--Battery electric vehicle. PHEV--Plug-in hybrid electric vehicle (includes range-extended EVs). YoY--Year on year. 8M 2024--First eight months of 2024.
Sources: China Association of Automobile Manufacturers, Wind, S&P Global Ratings.

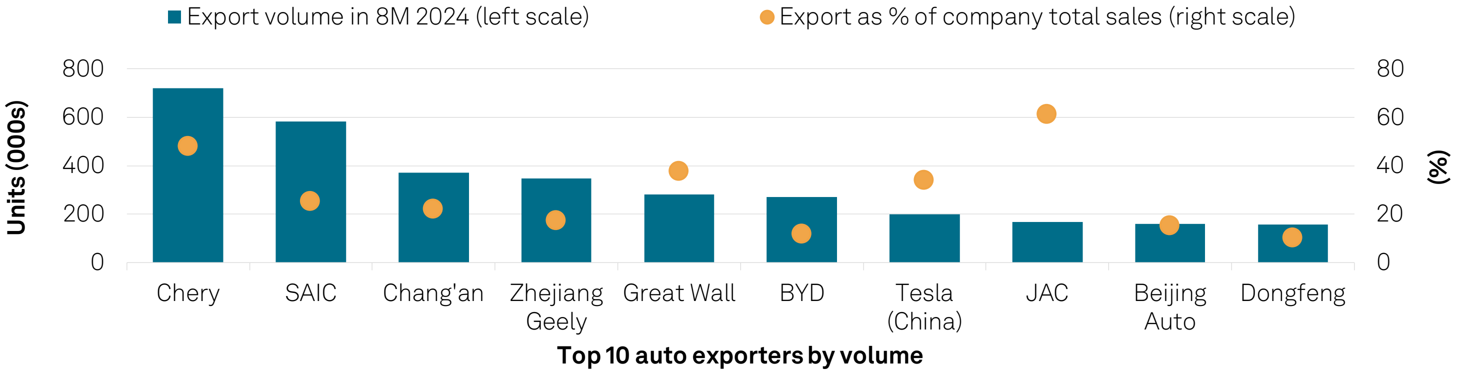
Carmakers' Overseas Venture Still At Early Stage

Increasing product competitiveness supports China's exports



EV--Electric vehicles, ICE--Internal combustion engine, PV--Passenger vehicle. PV export equals the sum of EV export and ICE export. 8M 2024--First 8 months of 2024. Sources: China Association of Automobile Manufacturers, China Passenger Car Association, China Customs, S&P Global Ratings.

Exports drive growth for select Chinese carmakers



8M 2024--First eight months of 2024.
Sources: China Customs, China Passenger Car Association, China Association of Automobile Manufacturers, company reports, S&P Global Ratings.

- Resilient supply chain, cost competitiveness, and better product features will drive China's auto exports in the next 12 months.
- Localized operations in Southeast Asia, Europe, and Latin America will remain small over the next one to two years.
- Geely Auto is the most active among rated auto OEMs in localizing production abroad. Plans are limited to assembly plants and joint ventures. The asset-light model and local partnerships mitigate potential regulatory and execution risks.

EV Battery Prices To Stay Low

- The price of lithium carbonate will likely remain at the current level in the next 12 months, on soft demand outlook and excess supply. Over the first nine months of 2024, the price dropped 52% year-on-year.
- Lower raw material prices and intense competition will continue to weigh on battery prices in the next 12 months.
- For leading battery players, better economies of scale and new products with better margins will mitigate pressure.

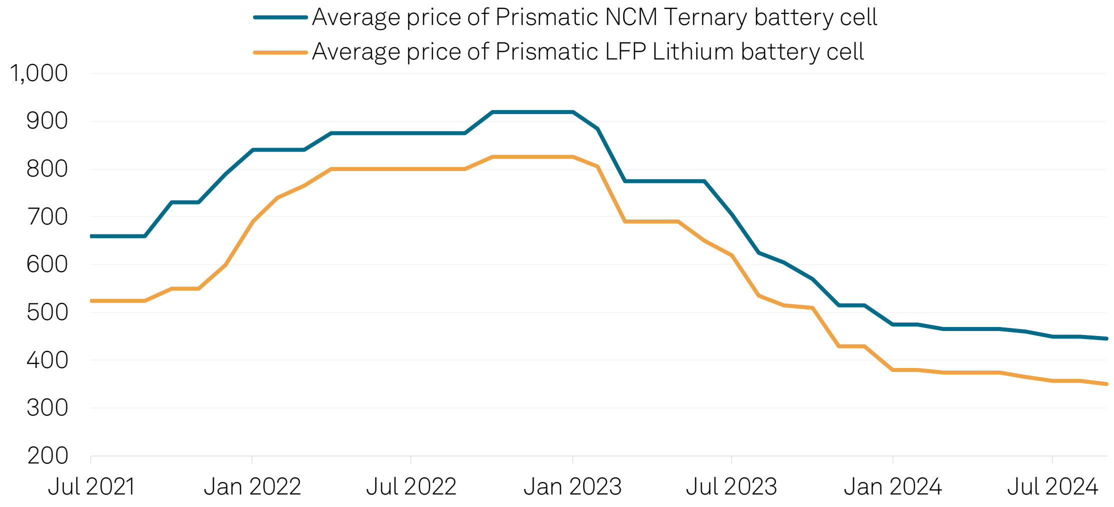
Lithium carbonate price to remain low

DDP China (RMB 000s per tonne)

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

Battery price has trended down since early 2023

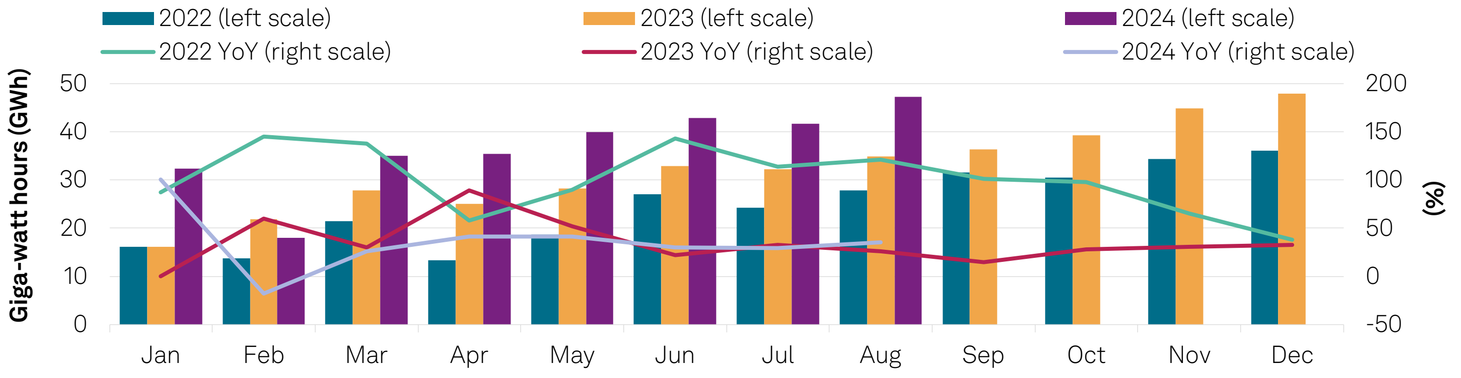
RMB/kilowatt hour



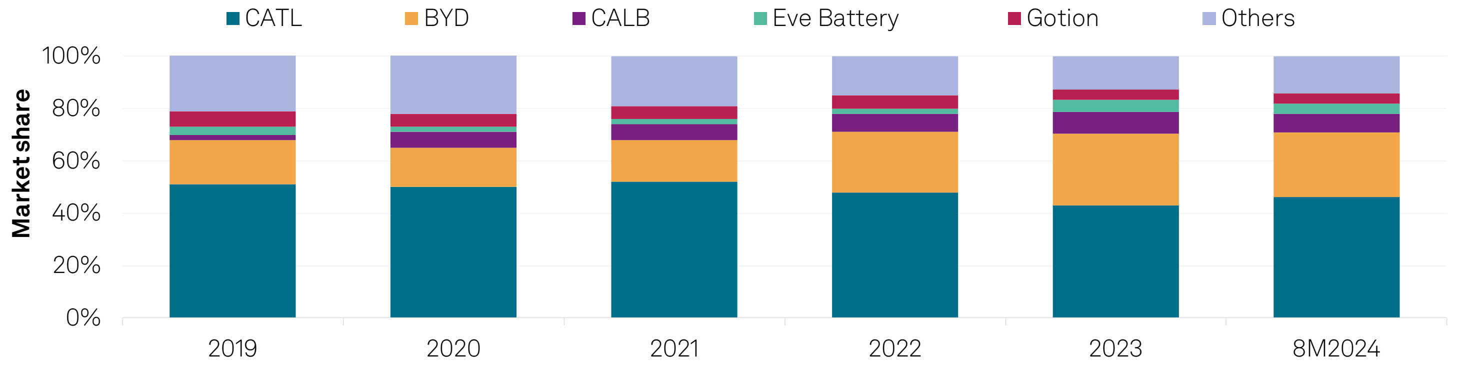
RMB--Chinese renminbi. LFP--Lithium iron phosphate. Source: iccbattery.com.

Competition Heats Up In EV Battery Market

Growth in domestic battery installation moderating



Market competition will remain intense

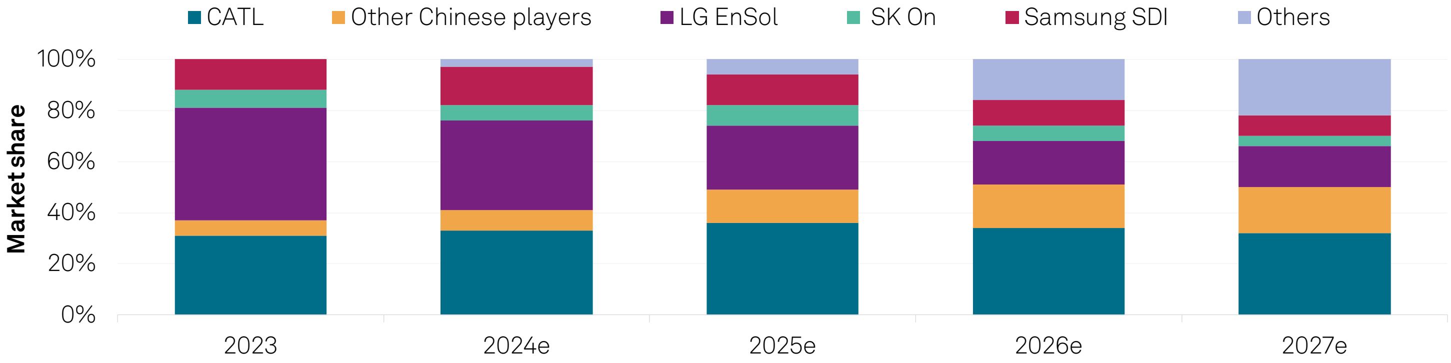


Note: Only CATL is rated - see page 11 for details. *Capacity utilization data is from GGII. Gotion--Gotion High-Tech Co. Ltd. CALB--CALB Group Co. Ltd.
Sources: China Automotive Battery Innovation Alliance, S&P Global Ratings.

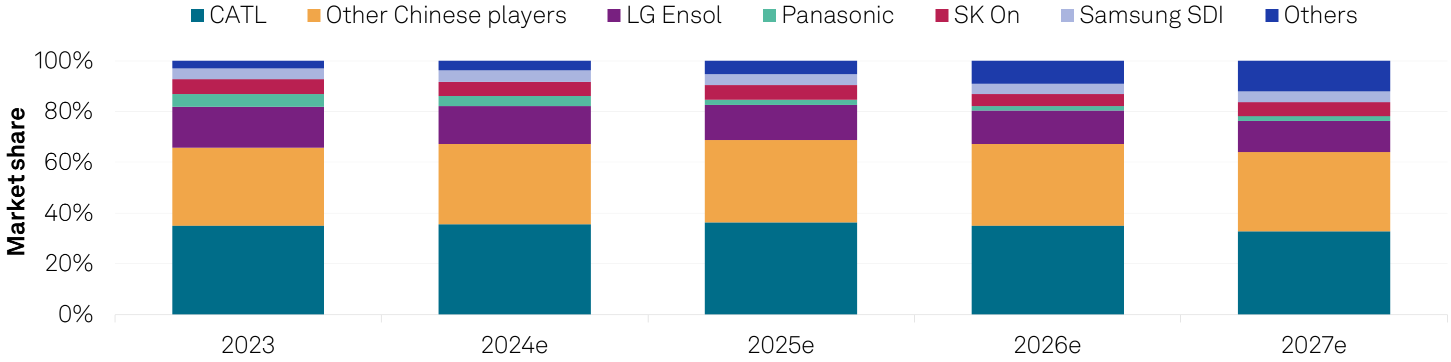
- Growth in domestic battery installations to moderate on slowing EV growth in the next 12 months.
- Industry capacity utilization fell this year (35%-45% in Feb.), from 65% last year and 75%* in 2022.
- Overcapacity had weakened battery producers' pricing power, weighing on their margin and cash flows.
- Small players with less competitive products will lose volume and remain loss-making in coming two years. Their exit will facilitate consolidation.
- CATL and BYD will continue to lead the market, given the former's tech capabilities and diversified products, and the latter's expanding EV sales.

Chinese Battery Makers To Gain Share In Europe

Chinese players to increase presence in Europe on localization



Chinese suppliers taking the lead in the global battery market



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 page 11 for full name of CATL. e--Estimate.
Sources: S&P Global Mobility, S&P Global Ratings.

- Most Chinese players will continue to localize production in the region over the next few years. This is to comply with local regulations and to better serve auto OEMs over the long term.
- In contrary, they're likely to have limited presence in the U.S. given the restrictions under the Inflation Reduction Act.
- CATL is cooperating with local carmakers via technology licensing in the U.S. If implemented smoothly, will help it to mitigate geopolitical risk.
- Tech advantages and supply-chain dominance will continue to underpin Chinese players' leading position in the global battery market over the next few years.

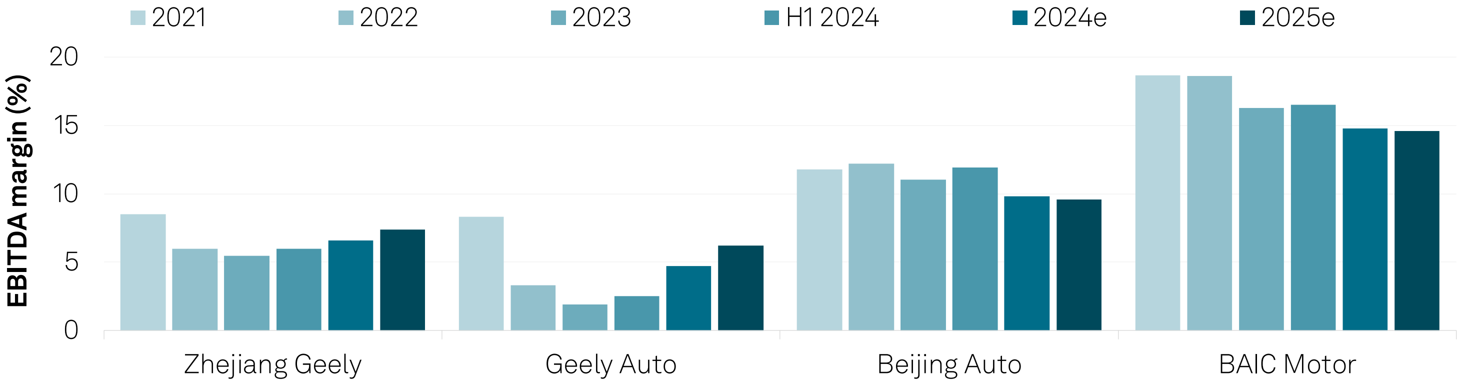
EV Transition Weighing On Select Carmakers

Geely progressing faster on electrification

Sales volume (000s units)	1H 2024	1H 2024 YoY	1H 2024 EV penetration	2024 EV penetration target
Zhejiang Geely Holding Group Co. Ltd.	1,494	25%	39.3%*	n.a.
Geely Automobile Holdings Ltd.	956	41%	33.5%	43%
Beijing Automotive Group Co. Ltd.	782	(4.5%)	5%-8%*	n.a.
BAIC Motor Co. Ltd.	450	(11%)	5%-8%*	n.a.

Note: 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. *Estimated ranges. EV--Electric light vehicle, includes pure electric and plug-in hybrid electric light vehicles. YoY--Year on year.
Sources: Company reports, China Association of Automobile Manufacturers, EV Volumes, S&P Global Ratings.

Electrification taking a toll on Geely's profitability



Note: Zhejiang Geely's EBITDA margin is with proportionate consolidation of Polestar since 2022. Sources: Company reports, S&P Global Ratings.

- Rising exports and enhanced EVs supported robust volume growth for Geely entities in the first half of 2024. Despite improving economies of scale, intense price competition and additional tariffs on Chinese-made BEV in Europe could hinder the group's margin restoration.
- CATL will remain No. 1 in China while expanding its presence in Europe. Business strength and a sustained net cash position support its credit profile for the next 12-24 months.
- We see rating buffers for other OEMs and suppliers. Modest volume growth, lower raw material costs and improving product mix should support steady financial metrics.

Auto Sector's Net Rating Outlook Remains Negative

		Rating downside triggers		
Company	**Issuer credit rating**	**Leverage**	**EBITDA margin**	**Key rating drivers**
Beijing Automotive Group Co. Ltd.	BBB/Stable/--	FFO/Debt < 12%	n.a.	• Sales momentum of JV brands • EV competitiveness • Restructure of proprietary brands
BAIC Motor Corp. Ltd.	BBB/Stable/--	FFO/Debt < 12%	n.a.	• Sales momentum of JV brands • EV competitiveness • Restructure of proprietary brands
Geely Automobile Holdings Ltd.	BBB-/Negative/--	Debt/EBITDA>2.0x	< 6%	• Volume, mix, and cost control to offset rising EV sales • Rating to move in tandum with rating on the parent
Zhejiang Geely Holding Group Co. Ltd.	BBB-/Negative/--	Debt/EBITDA>2.0x	< 6%	• Volume, mix and price to offset rising EV sales • High investment in EV could weigh on free operating cash flow (FOCF)
Contemporary Amperex Technology Co Ltd.	A-/Stable/--	Debt/EBITDA~1.5x	Declines significantly	• Operating cash flow 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	• 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%	• 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. JV--Joint venture. Source: S&P Global Ratings.

Related Research

Commentary

- Global Battery Market: First movers will likely keep their leads, Oct. 10, 2024
- Global Auto Outlook: More Players, Less Profit, Oct. 9, 2024
- Rated China Carmakers Can Take The Heat From European Tariff Hikes On EVs, June 17, 2024
- Why China Is At The Center Of Global Auto Conversations, June 11, 2024
- China EV Startups Struggling To Stay Afloat, May 28, 2024
- Asian Auto: Resiliency Over Adversity, May 23, 2024
- Credit FAQ: China's Different Paths To Driving Consumption, Electric Vehicles, April 24, 2024
- China Industrials Are Making Do With Less, Feb. 1, 2024

Analytical Contacts

Claire Yuan

Director

+852 2533-3542

claire.yuan@spglobal.com

Stephen Chan

Associate Director

+852 2532-8088

stephen.chan@spglobal.com

Danny Huang

Managing Director

+852 2532-8078

danny.huang@spglobal.com

Crystal Ling

Senior Analyst

+852 2533-3586

crystal.ling@spglobal.com

Rhett Wang

Senior Analyst

+86 10 6569 2730

rhett.wang@spglobal.com

Torisa Tan

Senior Analyst

+ 86 21 3183 0642

torisa.tan@spglobal.com

spglobal.com/ratings

S&P Global
Ratings