

Greater China Auto, EV and EV battery

Key takeaways: demand weak in January; intensifying competition in 2024

Industry Overview

Weaker-than-expected auto demand recovery in December

On 10 January, we hosted a conference call with Mr. Shaojun Sun, an auto KOL (key opinion leader) in China. The call focused on China's key EV brands update and industry outlook. We summarize our key takeaways below. According to Mr. Sun, auto sales demand recovery in December 2023, driven by year-end bonuses and New Year, was weaker than expected, and new order growth was only 20-25% MoM vs. 30%+ in the past few years. Mr. Sun attributes the weak performance to a lackluster economy and cold weather. Among EV brands, Li Auto and BYD posted solid order growth in December, and Mr. Sun believes leading EV players with shorter waiting times could have gained orders in December.

Sharp order decline in the first week of January

Almost all EV brands saw a sharp decline in new orders MoM (~50%) in the first week of January. Mr. Sun also mentioned that JV brands' new orders and store traffic post MoM declined in December-January, and dealers' inventory levels are rising. Some JV brands recorded solid order growth in the first week of January as they are doing better in social media marketing, like Toutiao, Douyin, and Dongchedi. Mr. Sun expects to witness demand recovery in late January, helped by warmer weather and as Chinese New Year (early February) approaches. In addition, Mr. Sun expects in 2024 consumers will care more about autonomous driving features when choosing new cars with prices over RMB200k, and he believes Xiaomi and Huawei will have a significant impact on the EV market given advantages in vehicle intelligence in the long term.

Aggressive pricing strategy in 2024

Mr. Sun expects competition to be more intensified for the auto industry in 2024, especially for vehicles within the price range of RMB100-200k, and key competitors include local brands BYD, Changan, Leapmotor, and JV brands. In addition, according to Mr. Sun, most families choose a "1+N" strategy when buying cars, which means one large-size SUV/MPV/sedan (mainly within price range of RMB300-400k) plus one or two other vehicles with lower prices. As a result, many EV players plan to gain share in the large-size vehicles market, including Li Auto, AITO, Denza, and Luxeed etc. Some JV brands have launched NEV models featuring autonomous driving and smart cockpit functions, but their functions are not as advanced as Chinese EV brands'; thus Mr. Sun expects limited volume sales given their outdated marketing strategy and sales channels. As for luxury brands like Benz, BMW, and Audi (BBA), Mr. Sun sees worsening brand awareness and product competitiveness amid competition from local brands, and expects sales volumes to start to decline in mid-2024, and BBA dealers are accelerating quitting and closing stores.

(to be continued in page 2)

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NEV: new energy vehicle

ICEV: internal combustion engine vehicle

JV: joint venture

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EV start-ups new orders gain and analysis

Orders summarized below are based on channel checks conducted by Mr. Sun **and** may not represent actual order wins from November to January.

- 1) **Li Auto**: he expects new orders of 44k/48k/~6k units in Nov/Dec/first week of Jan, and normally weekly new order gain is around 11.5-12k units. Li Auto delayed the delivery of MEGA MPV to March, which negatively impacted new order gains, in his view. In addition, Li Auto widened discounts in Jan to deal with purchase tax policy changes as well as competition from AITO.
- 2) **NIO**: he expects new orders of 14-15k/16k/2-2.5k units in Nov/Dec/first week of Jan. NIO's subsidy to clients remains stable at RMB15-16k (not cash subsidy).
- 3) **XPeng**: he expects new orders of 20k/21k/2.5k units in Nov/Dec/first week of Jan, and normally weekly new orders gain is around 5k units. Mr. Sun attributes weak orders in January to narrowing discounts and expects monthly deliveries could reach 20k units if discounts widen.
- 4) **BYD**: he expects new orders of 230-240k/310-320k/40-45k units in Nov/Dec/first week of Jan, and believes the solid new order growth is driven by an aggressive pricing strategy and inventory overstocking.
- 5) **GAC AION**: he expects new orders of 33k/38k/5k units in Nov/Dec/first week of Jan; normally the weekly new order gain is around 8-9k units. AION's inventory level is around 2.5 months at dealers' side.
- 6) **Leapmotor**: he expects new orders of 20k/21k/2.5k units in Nov/Dec/first week of Jan. Leapmotor's sales policies are conservative and discounts only widened by RMB5k in December given limited production capacity. However, Leapmotor plans to start pre-sale of C10 in January and Mr. Sun expects it to post solid sales growth during the month.

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