

# Greater China Auto, EV and EV battery

## First take on Red Sea disruption to China Auto supply chain – manageable impact

Industry Overview

### Red Sea disruptions: alternative ways to mitigate risk

Red Sea disruptions are constraining container operators, and some of them are rerouting through the Cape of Good Hope, leading to an extra 10-13 day journey time but saving on the war risk premiums and Suez transit costs. Total transportation days from China through Cape of Good Hope to Zeebrugge is around 50. The Red Sea disruption has exerted pressure on prices, with the WCI composite up >120% since Oct-2023 lows. Our Transportation team sees further pricing pressure ahead of the pre-Chinese New Year mini-peak before normalization, aided by seasonality and resumed traffic following the US-led Operation Prosperity Guardian (see: [Shipping - Global](#)). Alternatively, some Chinese companies choose China Rail Express: from Yiwu China to Germany is around 3 weeks.

### Auto OEMs: limited sales in Western Europe

Based on Customs data, total vehicle export to Europe accounts for 17% of total export, and export to Western Europe accounts for 8% (11M23 data) of total. This translates into only low-single digit impact to China total wholesales, based on our estimates, since export comprised nearly 20% of total wholesales in '23. Among auto original equipment manufacturers (OEMs), Chery, Tesla, SAIC and Great Wall Motor (GWM) have the highest vehicle export. Especially, Tesla and SAIC (MG brand) have a relatively higher portion of export that goes to Western Europe. **SAIC** export sales to Europe account for 20% and it currently sees limited impact as it has inventory locally in Europe and could adjust the shipping cycle accordingly. **GWM** indicated that its vehicles shipping to Europe are mainly through Red Sea and export to Western Europe accounts for 5% of its total export. Rest of other OEMs have very limited export to Western Europe; therefore, the event has not impacted operations and P&L much.

### Auto parts: most have localized capacity in Europe

Based on our channel checks, most of leading auto parts suppliers we monitor have capacity built locally in Europe as they supply and cooperate with clients in Europe for years, including 1) **Huayu**, 2) **Joyson**, 3) **Minth**, 4) **Nexxter**, 5) **Tuopu**. On the other hand, there are a few names with direct export from China: 1) **Shuanghuan Driveline** exports gears/gears box to clients from China, while it has enough inventory locally to support sales for a few months, so such disruption neither impacts the company nor its OEM clients. 2) **Sanhua** has limited shipping through Red Sea route and most are exported to North America from China.

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## EV battery/materials: limited impact, speed up localization

Tesla (TSLA) sources battery from **CATL** and produces/ships models assembled in Shanghai to Europe. TSLA's shipping days could be longer due to the disruption. **Farasis** exports battery to Europe (Germany) and Türkiye, and it is negotiating with clients to share the escalated cargo cost. On the other hand, Farasis will ship through trucking to Germany and Hungary. On battery materials, **Yunnan Energy** (separator maker), **Shenzhen Senior** (separator maker), **Kedali** (structural parts maker) have local production in Europe, while **Putailai** (anode maker) ships its product mostly through Trans-Eurasia Logistics (China Railway Express), so limited impact for now. Chinese electric vehicle (EV) battery supply chain is building overseas capacity aggressively, especially in Europe, and we expect such impact to be milder in future.

### Exhibit 1: Impact from Red Sea disruptions, per companies' management commentary

We summarize the impact of Red Sea disruptions per commentary from key auto OEM/auto parts/EV battery supply chain companies below.

Company	Impact from Red Sea incident
<b>Auto OEM</b>	
Dongfeng Motor (DFG)	DFG mainly exports VOYAH and EGT (Dacia spring) vehicles to Europe, thus the Red Sea incident will have a negative impact on the company. The annual export sales volume is around 4k/50k+ units for VOYAH/EGT. We expect DFG's 2024 volume sales to be around 2.1mn units.
GAC	GAC sees rising freight cost, while it expects the impact to be limited given 1) its export sales to Europe account for a small portion of its total export sales; 2) the company mainly adopts free on board (FOB) term and the freight cost is paid by the client.
Great Wall Motor (GWM)	GWM exports all the vehicles to West Europe passing through the Red Sea, and the freight cost has more than doubled due to the Red Sea incident. In addition, GWM's export sales to the West Europe account for 5% of total export sales.
Leapmotor	The impact is limited as some shipping companies will choose to pass through the Cape of Good Hope, which increased shipping schedule by around 10 days.
NIO	Currently NIO's sales volume in Europe is small (a few hundred per month), and its inventory in Europe can support its sales for several months.
SAIC	SAIC mainly exports through Anji Automotive Logistics and other strategic cooperation partners, and they will share the increasing freight cost. The actual impact to SAIC is not confirmed, as the freight cost is not timely settled.
<b>Auto parts</b>	
Huayu	Huayu localized production in overseas market, thus the impact is limited. However, it may suffer additional impact from the supply chain.
Kedali	Kedali's overseas production is mainly localized, thus the impact is limited.
Minth	Major impact include: 1) increasing shipping schedule, and Minth will ship in advance; 2) higher freight cost, and the company is negotiating with clients on it. In addition, Minth continues to increase localized production contribution in the overseas market, which exceeded 50% in 1H23.
Shuanghuan	Most clients adopt FOB term or ship by themselves, thus the impact of rising freight cost is limited.
Tuopu	Tuopu supplies to Tesla's Berlin project through its Poland plant, and other European clients' contribution is small, thus the impact is limited.
<b>EV battery supply chain</b>	
CALB	Logistically impact is limited as its Europe export sales account for only a small portion of total export sales.
CATL	Currently limited impact.
Farasis Energy	Currently limited impact, and the company expects clients to pay the freight cost. In addition, it changed some logistics routes to Germany and Hungary from "by sea" to "by land".
Putailai	Currently limited impact as it mainly exports to Europe through railway of the Belt and Road Initiative (BRI), and the freight cost is paid by the client.
Wuxi Lead	No impact as it didn't pass through the area.

Source: Company reports

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