

China Auto Sector

Purchase-tax cut exceeds our expectation

On 31 May 2022, the Ministry of Finance and State Taxation Administration announced to cut the purchase tax by half (from 10% to 5%) for internal-combustion engine (ICE) passenger vehicles (PVs) priced no more than RMB 300,000 and with an engine size of no greater than 2.0 liters during 1 Jun to 31 Dec 2022. We are of the view that such stimulus measures, along with some subsidies and ICE license relaxation from local governments, exceed our prior expectation.

- About 90% of ICE vehicles could benefit.** We estimate that about 90% of total locally-produced ICE vehicles sold or 77% of total PVs sold in 2021 were priced below RMB 300,000 with an engine size of no greater than 2.0 liters. Note that the RMB 300,000 criteria is based on actual transaction price excluding VAT. We estimate that the total tax subsidies could be around RMB 70bn, higher than its previous target of RMB 60bn, assuming 75% market share for ICEs and RMB 6,800 for the tax waiver per vehicle in 2022.
- We maintain our 2022 PV wholesale volume growth forecast of 4.3%.** Our forecast already assumed limited supply chain disruption and adequate stimulus measures in 2H22. In fact, we project 12.7mn units or 10.7% YoY growth in 2H22, higher than 8.6% YoY growth in 2H20 as a reference for post COVID-19 recovery. We also maintain our bull-case scenario of 7.5% YoY growth for 2022 given stronger stimulus than expected. Please refer to the details in our report titled '[Will April showers bring May flowers?](#)' on 16 May 2022. We are a bit concerned about 2023 as such stimulus could pull some demand ahead.
- Purchase-tax cut this time benefits JVs more than before.** Unlike the previous purchase-tax cuts in 2009 and 2016 when Chinese automakers benefited more amid their small-engine vehicle portfolio, most models at joint ventures (JVs) are covered by the stimulus this time. FAW VW, SAIC VW and SAIC GM ranked top five in terms of sales volume of vehicles in 2021 that qualify for such benefits (see page 2). Even, BMW Brilliance and Beijing Benz have about half of sales volume that are entitled to such benefits. Therefore, apart from incumbent Chinese automakers, parts suppliers with heavy exposure to these brands and dealers should not be overlooked.

Valuation Table

Name	Ticker	Rating	Mkt Cap (US\$ mn)	TP (LC)	P/E (x)		P/S (x)		ROE (%)
					FY22E	FY21E	FY22E	FY21E	FY22E
Xpeng	XPEV US	BUY	19,310	60.00	N/A	2.8	1.6	(13.8)	
Xpeng	9868 HK	BUY	20,204	234.00	N/A	2.9	1.7	(13.8)	
NIO	NIO US	BUY	27,680	45.00	N/A	2.6	1.7	(24.2)	
Li Auto	LI US	BUY	24,740	48.00	N/A	3.1	1.7	(1.4)	
Li Auto	2015 HK	BUY	25,911	187.20	N/A	3.2	1.7	(1.4)	
GWM	2333 HK	BUY	16,611	20.00	13.0	0.6	0.5	12.3	
GWM	601633 CH	BUY	46,126	59.00	37.5	1.6	1.4	12.3	
GAC	2238 HK	BUY	9,904	12.00	7.2	0.6	0.5	9.2	
GAC	601238 CH	BUY	23,543	18.40	17.8	1.6	1.3	9.2	
EVA	838 HK	BUY	325	3.00	7.6	0.4	0.3	11.5	
Meidong	1268 HK	BUY	4,572	48.00	15.1	0.8	0.7	41.4	
BYD	1211 HK	HOLD	103,837	255.00	122.1	2.1	2.0	5.5	
BYD	002594 CH	HOLD	129,345	270.00	159.1	2.8	2.6	5.5	
Geely	175 HK	HOLD	19,146	13.50	18.7	0.9	0.8	9.1	

Source: Company data, Bloomberg, CMBIGM estimates

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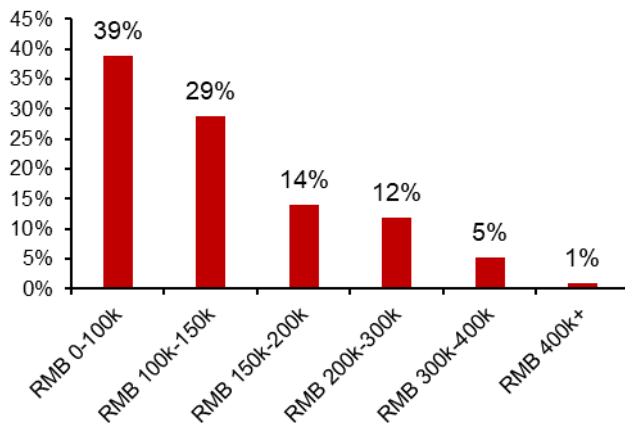
China Auto Sector

SHI Ji, CFA
(852) 3761 8728
shiji@cmbi.com.hk

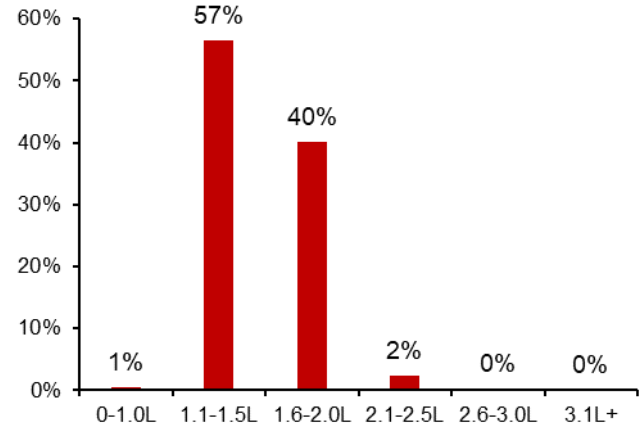
DOU Wenjing, CFA
(852) 6939 4751
douwenjing@cmbi.com.hk

Related Reports:

"China Auto Sector – Will April showers bring May flowers?" – 16 May 2022

Figure 1: Our estimated ICE PV wholesale volume in 2021 breakdown by price range


Source: CPCA, CMBIGM estimates

Figure 2: Our estimated ICE PV wholesale volume in 2021 breakdown by engine size


Source: CPCA, CMBIGM estimates

Figure 3: Our estimated No. of ICE PVs sold in 2021 with price ≤ RMB 300,000 and engine ≤ 2.0L, by OEM

Rank	OEM	No. of ICE PVs sold in 2021 with price ≤ RMB300k and engine ≤ 2.0L	As % of total ICE sales volume	Rank	OEM	No. of ICE PVs sold in 2021 with price ≤ RMB300k and engine ≤ 2.0L	As % of total ICE sales volume
1	FAW VW	1,471,950	85%	16	FAW Car	341,815	92%
2	Geely	1,246,001	100%	17	GAC Motor	319,913	100%
3	SAIC VW	1,172,577	99%	18	BMW Brilliance	311,310	51%
4	SAIC GM	1,144,659	91%	19	Beijing Benz	269,604	49%
5	Changan	1,030,630	100%	20	Changan Ford	184,940	87%
6	Dongfeng Nissan	1,015,348	97%	21	Dongfeng Yueda Kia	151,544	99%
7	Great Wall	911,772	100%	22	BYD	136,348	100%
8	GAC Honda	767,609	100%	23	Changan Mazda	123,319	94%
9	Chery	757,950	100%	24	JAC	117,953	100%
10	Dongfeng Honda	732,229	99%	25	Dongfeng Liuzhou	108,642	100%
11	FAW Toyota	670,477	82%	26	Volvo Asia Pacific	107,001	82%
12	GAC Toyota	659,352	81%	27	Dongfeng Sokon	99,966	100%
13	SAIC PV	658,997	100%	28	Dongfeng PV	89,586	100%
14	SAIC-GM-Wuling	571,934	100%	29	Beijing Motor	60,401	96%
15	Beijing Hyundai	356,227	100%	30	GAC Mitsubishi	51,224	78%

Source: CPCA, CMBIGM estimates

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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