

13 December 2018

Consumer Cyclical | Auto & Autoparts

## Auto & Autoparts

**Neutral** (Maintained)

### Auto Sales Remain Sluggish

Stocks Covered: 3  
Ratings (Buy/Neutral/Sell): 1 / 1 / 1  
Last 12m Earnings Revision Trend: Negative

**Maintain NETUTRAL sector call with Geely as our Top Pick. On 12 Dec, CPCA announced the finalised November passenger vehicle wholesale data (excluding mini bus) of 2.14m units (-16.1% YoY), comprising 1.08m units for sedans (-11% YoY), 913,190 units for SUVs (-18.9% YoY), and 148,847 units for MPVs (-30.6% YoY). November's data shows the second consecutive month of double-digit contraction in vehicle sales, which we believe may continue into December. On the other hand, EVs posted strong sales of 131,000 units in November, +61% YoY.**

On 12 Dec, the China Passenger Car Association (CPCA) announced finalised November passenger vehicle wholesale data (excluding mini bus) of 2.14m units (15.6% YoY), comprising 1.08m units for sedans, (-11% YoY), 913,190 units for SUVs (-18.9% YoY), and 148,847 units for MPVs (-30.6% YoY).

**Accelerating rate of decline.** The reasons behind the double-digit YoY declines in vehicle unit sales since October are:

- High base in 4Q17, with 7m units of passenger vehicle sales, driven by the cut in purchase tax;
- Negative wealth effects from declining macroeconomic activities, a falling equity market, and tightening of peer-to-peer (P2P) lending. Demand for autos, viewed as discretionary items, is sensitive to these factors;
- Overhang from uncertainties over auto tariffs, which we believe may cause some delays in the consumption of luxury cars (priced above CNY300,000);
- Regulation of P2P and online lending in lower tier cities, which may negatively impact auto sales.

**Margin pressure for traditional auto OEMs.** We believe December auto sales will come under the same pressures, and continue to register negative YoY growth. At the same time, the price war continues. In mid-November, Geely provided tax subsidies to customers, following GWM's incentives for customers known as "red bags" in September. The price war led by these industry leaders may pressure margins and squeeze out smaller players, in our view.

**New energy vehicle sales grew 61% YoY,** driven by the Government's push for parallel policies to align with the Central Government's subsidies. New energy vehicle sales were led by BYD (1211 HK, NEUTRAL, TP: HKD44.50) with 28,929 units (+110% YoY) and BAIC (1958 HK, NR) with 18,315 units (-5% YoY).

**Maintain NEUTRAL sector call** as the auto sector remains under pressure. Our Top Pick is Geely, given its strong model portfolio, which should sustain future sales.

**Figure 1: China's auto market – November sales in units**

	PV	PV ex-mini bus	Sedan	MPV	SUV	Mini bus
Nov 2018	2,178,517	2,141,144	1,079,137	148,847	913,190	37,373
Nov 2017	2,580,418	2,553,280	1,212,695	214,458	1,126,127	27,138
YoY growth	-15.6%	-16.1%	-11.0%	-30.6%	-18.9%	37.7%
11M18	21,426,006	21,046,540	10,501,700	1,518,586	9,047,167	379,466
11M17	21,971,826	21,547,359	10,622,270	1,812,951	9,112,138	445,425
YoY growth	-2.5%	-2.3%	-1.1%	-16.2%	-0.7%	-14.8%

Source: CPCA, RHB

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-19F	P/B (x) Dec-19F
GEELY AUTOMOBILE	BUY	14.10	24.00	69.6%	5.62	1.77
GREAT WALL MOTOR	SELL	4.50	3.70	-17.4%	4.47	0.60
BYD CO	NEUTRAL	56.00	44.50	-20.5%	31.44	1.91

Source: Company data, RHB

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