Automobile

Weekly: Policy Raises The Bar As New-Model Debuts Turn Defensive

MARKET WEIGHT
(Maintained)

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Highlights

- China ended its 11-year battery tax exemption – it will be implementing a 2% tax on lithium-ion cells from Sep 26, which will rise to 4% in 2027.
- MIIT has ordered production-consistency audits, tougher ADAS safety checks and an end to irrational competition, while Hainan will ban new ICE-car sales by 2030.
- Debuts have turned defensive: GWM cut Tank 300 hybrid prices and Li Auto held the L6's pricing. Meanwhile, XPeng's MONA L03 drew 20,000 orders.
- Maintain MARKET WEIGHT. Top BUYs: CATL, BYD, Geely, Minth; SELL Li Auto.

Analysis

- **Policy: Three moves that have raised costs and compliance bar.** Beijing has tightened the battery tax, and launched a system-wide safety and anti-price-war review of automakers. Meanwhile, Hainan has set the first provincial deadline to end ICE-car sales.
  - **Battery consumption tax – an 11-year exemption ends.** From 1 Sep 26, a 2% consumption tax will apply to lithium-ion batteries for EVs and energy storage, and this will rise to 4% in 2027, while sodium-ion and solid-state remain exempt through to 2028. This adds a cost line across the supply battery chain of electric vehicle (EV) and energy storage system (ESS). CATL should have stronger bargaining power to pass on the tax to auto OEMs, and BYD would be immune to the tax, as it makes batteries in-house. However, smaller battery manufacturers like EVE Energy and other auto OEMs would bear additional cost pressure. Geely produces one-third of the batteries it needs for EVs, and it will likely ramp up battery production going forward. Additionally, the tax will accelerate the development of sodium-ion batteries and solid-state batteries.

Segmental Rating

Segment	Rating
OEMs	MARKET WEIGHT (Maintained)
Auto parts	MARKET WEIGHT (Maintained)
Battery and battery materials	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (Lcy)	Target Price (Lcy)
CATL	300750 CH	BUY	385.99	640.00
BYD	1211 HK	BUY	88.65	135.00
Geely	175 HK	BUY	18.52	27.00
Minth	425 HK	BUY	27.80	56.00
Li Auto	2015 HK	SELL	48.96	40.00

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 23 Jul 26 (lcy)	Target Price (lcy)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (Lcy m)	Price/ NAV ps (x)
BYD - H	1211 HK	BUY	88.65	135.00	52.3	12/25	21.5	15.5	12.5	0.6	15.3	326,533	2.4
Geely	175 HK	BUY	18.52	27.00	45.8	12/25	11.3	9.9	7.8	2.8	17.8	199,741	2.6
Great Wall Motor - H	2333 HK	HOLD	8.94	9.90	10.7	12/25	6.7	7.2	5.9	2.6	10.2	20,628	0.7
Li Auto	2015 HK	SELL	48.96	40.00	(18.3)	12/25	193.5	61.0	75.4	0.0	2.0	102,082	1.2
XPeng	9868 HK	BUY	51.30	90.00	75.4	12/25	Loss	162.9	19.7	0.0	1.7	80,409	2.7
Fuyao Glass - H	3606 HK	BUY	55.40	100.00	80.5	12/25	13.5	12.6	10.5	5.2	27.2	33,614	2.9
Huizhou Desay SV	002920 CH	BUY	83.90	150.00	78.8	12/25	20.4	20.4	17.3	1.7	24.8	50,072	2.9
Minth	425 HK	BUY	27.80	56.00	101.4	12/25	10.1	9.6	8.1	3.0	11.7	32,566	1.1
Nexteer	1316 HK	BUY	4.02	8.30	106.5	12/25	12.7	9.6	8.7	4.7	6.2	10,089	0.6
Ningbo Joyson	600699 CH	BUY	20.12	43.00	113.7	12/25	21.2	15.9	14.0	1.3	9.9	28,081	1.5
Ningbo Tuopu	601689 CH	BUY	48.17	100.00	107.6	12/25	31.1	27.6	24.0	0.0	11.7	83,712	3.4
Pony AI	PONY US	BUY	6.83	16.00	134.3	12/25	Loss	Loss	Loss	0.0	n.a.	2,413	0.3
Weichai Power - H	2338 HK	HOLD	33.46	35.00	4.6	12/25	42.2	22.0	20.7	2.7	10.7	65,014	2.6
Zhejiang Sanhua	002050 CH	BUY	37.19	57.00	53.3	12/25	38.9	33.2	28.7	1.2	14.2	138,774	4.5
Hesai	2983 HK	BUY	15.21	33.00	117.0	12/25	33.8	30.3	18.3	0.0	5.9	15,836	1.7
RoboSense	2498 HK	BUY	22.66	50.00	120.7	12/25	Loss	102.3	23.6	0.0	2.4	10,695	2.4
CATL	300750 CH	BUY	385.99	640.00	65.8	12/25	24.4	18.6	14.1	2.7	20.8	1,693,338	4.5
EVE Energy	300014 CH	BUY	55.31	83.50	51.0	12/25	27.7	14.6	11.1	1.7	6.8	120,205	2.3
Ganfeng Lithium - H	1772 HK	BUY	40.50	120.00	196.3	12/25	45.8	22.1	13.6	0.9	(1.2)	19,566	1.5
Tinci Materials	002709 CH	BUY	37.44	75.00	100.3	12/25	53.0	14.9	12.5	2.0	5.4	76,324	3.3

Source: UOB Kay Hian

- MIIT orders a safety and anti-price-war review. MIIT has instructed key automakers to audit production consistency and reliability of themselves and critical suppliers, strengthen safety assessment of assisted- and autonomous-driving functions, and resist irrational competition. This will raise the bar from product-pass to system reliability and favours scale OEMs such as BYD and Geely. Having said that, some smaller players still set lower prices for their new models, eg GWM's new Tank 300 and Li Auto's new L6.
- **Hainan – the first provincial ICE-sales deadline.** Hainan will ban sales of new internal-combustion cars from 2030 (existing ICE-cars may keep running), targeting NEVs at 45% of vehicles in use by 2030 from 24% in 2025, with NEVs already 63% of the province's new-car sales in 2025. The direct volume impact is small, but as the first provincial deadline, it reinforces the structural NEV-only trajectory, and is incrementally supportive for NEV OEMs and battery demand.

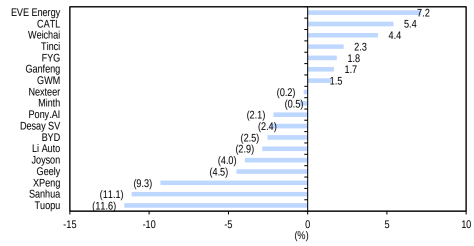
• **New-model debuts turn defensive as price war bites.** The week's launches were led by price defence at the pressured OEMs and by globalisation at XPeng, rewarding scale and integration over the long run.

- **BYD (1211 HK/BUY/Target: HK$135) – overseas reset plus a product blitz.** BYD overhauled its overseas brand structure around channel integration and flash charging. It hired Hungary's ex-foreign minister for its Europe push, and also unveiled the 800km-plus Tang 8-series, the flash-charging Qin Max and the Denza Z9S. Vertical integration shields it from the battery-tax and carbonate cost pressure as it moves up-market, which will strengthen its relative position.
- **Geely (175 HK/BUY/Target: HK$27) – cadence keeps building.** Geely opened pre-sales of the Galaxy TT Ultra at about US$30,900 and will debut the tri-motor, 1,113hp Galaxy Cruiser 700 on 24 July, while its Xingyuan EV topped 800,000 cumulative sales in under two years. The steady launch cadence and rising Europe-capacity cooperation support its return to volume growth.
- **GWM (2333 HK/HOLD/Target: HK$9.90) – defensive pricing signals soft demand.** GWM launched the new Tank 300 with its hybrid variants priced about Rmb10,000 below pre-sale levels as the off-road brand faces a sales slump, and began H10 pre-sales on its Global One platform. The price cut confirms the demand softness behind the 1H26 profit miss, and we maintain HOLD.
- **Li Auto (2015 HK/SELL/Target: HK$40) – holding price to defend a slumping franchise.** Li Auto relaunched the revamped L6 at an unchanged Rmb249,800, now with its in-house Mach M100 assisted-driving chip, to revive sales, and set up a Shanghai IC-design subsidiary. Holding price rather than cutting protects margin but signals volume pressure, and Li Auto remains the coverage OEM under the most competitive strain.
- **XPeng (9868 HK/BUY/Target: HK$90) – the standout, going global.** XPeng launched the MONA L03 simultaneously in China and Munich as its first global model, eventually reaching 64 markets, taking 20,000 firm orders within seven minutes and undercutting the Tesla Model Y in Europe by up to about US$10,000, while targeting over 1,000 robots a month before a 2027 global roll-out. The order strength and European entry keep us positive.

Valuation/Recommendation

• **We maintain MARKET WEIGHT on China's auto sector.** Our segment preference in descending order is battery and battery materials, then auto parts, then OEMs. This week's policy mix — the battery tax, the MIIT

Weekly Stock Performance



Source: Bloomberg

crackdown on the price war and Hainan's ICE deadline — rewards scale, compliance and next-generation technology over the volume-led long tail.

- **Top BUYs: CATL, BYD, Geely and Minth; SELL Li Auto; HOLD GWM.** We keep our BUY on XPeng (9868 HK/Target: HK$90.00) after the strong MONA L03 launch and maintain HOLD on GWM (2333 HK/Target: HK$9.90) after its Tank 300 price cut, while Li Auto (2015 HK/SELL/Target: HK$40) faces the toughest competitive setup.

Sector Catalyst/Risk

- **Catalysts:** 2Q26 results and 3Q26 guidance; new-model order momentum (MONA L03, Tank 300, Denza Z9S); sustained NEV export-share gains; and further sodium-ion storage wins for CATL.
- **Risks:** a) a deeper domestic price war compressing OEM margins despite the MIIT line; b) battery-tax pass-through pressure on materials margins; c) re-certification and compliance drag from the new safety review; and d) import barriers abroad (Malaysia, Korea, Brazil, EU).

Probable Catalysts For Individual Stocks

Company	Catalysts	Timeline	Direction
BYD (1211 HK)	July sales will likely grow further from 410,000 units in June with yoy growth accelerating to 25-30% 2Q26 results: We estimate net profit at Rmb7b (+11% yoy/+72% qoq)	August	Upside
Geely (175 HK)	July sales will likely grow to nearly 300,000 units from 241,000 units in June with yoy growth accelerating to >20%	August	Upside
CATL (300750 CH)	2Q26 results: We estimate adjusted net profit at Rmb20.5b (up 33% yoy) on 220GWh of volume (up 38% yoy), with margins the key focus. Market is concerned on possible inventory write-down from the recent pull-back of lithium carbonate prices, triggering sell-off; but the company denies further write-down as it already made enough inventory provisions in 2025.	Late-July	Upside if margins holc

Source: UOB Kay Hian