Automobile

Weekly: 2Q26 Results Review And 2H26 Outlook

Analyst(s)

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Highlights

- BYD and Geely far outperformed peers in 2Q26 due to new models and exports. For 2H26, their earnings will be continuously driven by premiumisation, globalisation, and flattening lithium carbonate prices.
- 2Q26 results of auto parts companies diverged, with ADAS and AI plays outperforming conventional ones. We prefer the former, eg Minth.
- Battery materials producers' 2Q26 earnings surged along with lithium prices, but the flattening of lithium carbonate prices reduces their upside in 2H26.
- Maintain MARKET WEIGHT. We are changing the order of our segmental preference to: OEMs > auto parts > battery > battery materials. Top BUYs: BYD, Geely, and Minth. Top SELL: Li Auto.

Analysis

- **Auto OEMs: Overseas sales and premiumisation drive growth amid domestic softness, cost hikes and renminbi appreciation; R&D in robotics/AI remains a drag on profitability.**
  - **BYD and Geely ride on premiumisation and globalisation.** BYD and Geely far outperformed peers, with adjusted net profit (stripping out forex loss and other one-off items) surging 141%/61% yoy respectively on ASP gain and margin expansion, as premium product sales scaled up and overseas sales as a proportion of total sales volume rose to 43%/38% in 2Q26 from 23%/13% in 2Q25. Looking ahead, BYD and Geely's earnings will further pick up in 2H26, with accelerating sales momentum, ASP hikes, and flattening lithium carbonate prices offsetting chip price hikes.
  - **The rest suffer from domestic sales declines and cost hikes.** Great Wall Motor's (GWM) adjusted net profit plunged 67% yoy; XPeng and Li Auto registered an adjusted net loss of Rmb1,237m and Rmb1,978m respectively, worse than expected. 3Q26 sales momentum and margins remain lukewarm, due to competition.

MARKET WEIGHT (Maintained)

Segmental Rating

Segment	Rating
OEMs	OVERWEIGHT (Upgraded)
Auto parts	MARKET WEIGHT (Maintained)
Battery	MARKET WEIGHT (Downgraded)
Battery materials	UNDERWEIGHT (Downgraded)

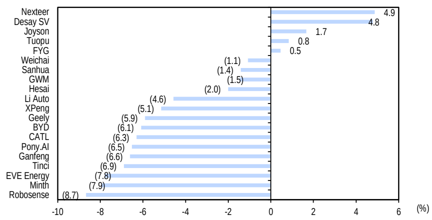
Source: Bloomberg, UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (Lcy)	Target Price (Lcy)
BYD	1211 HK	BUY	85.70	150.00
Geely	175 HK	BUY	17.22	29.00
Minth	425 HK	BUY	25.26	56.00
Li Auto	2015 HK	SELL	46.38	35.00

Source: Bloomberg, UOB Kay Hian

Weekly Stock Performance



Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 3 Sep 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	85.70	150.00	75.0	12/25	20.8	15.0	12.1	0.7	15.3	315,667	2.4
Geely	175 HK	BUY	17.22	29.00	68.4	12/25	10.5	9.2	7.3	3.1	17.8	185,726	2.4
Great Wall Motor - H	2333 HK	HOLD	7.77	9.90	27.4	12/25	5.9	6.2	5.1	2.9	10.2	17,907	0.6
Li Auto	2015 HK	SELL	46.38	35.00	(24.5)	12/25	183.3	57.8	71.5	0.0	2.0	96,702	1.2
XPeng	9868 HK	BUY	42.80	60.00	40.2	12/25	Loss	135.9	16.4	0.0	1.7	67,086	2.3
Fuyao Glass - H	3606 HK	BUY	55.45	84.00	51.5	12/25	13.5	12.6	10.5	5.2	27.2	33,645	2.9
Huizhou Desay SV	002920 CH	BUY	90.32	135.00	49.5	12/25	22.0	21.9	18.6	1.5	24.8	53,904	3.1
Minth	425 HK	BUY	25.26	56.00	121.7	12/25	9.1	8.7	7.4	3.3	11.7	29,592	1.0
Nexteer	1316 HK	BUY	5.28	11.40	116.1	12/25	16.6	12.7	11.4	3.6	6.2	13,239	0.8
Ningbo Joyson	600699 CH	BUY	19.52	25.00	28.1	12/25	20.6	15.4	13.5	1.3	9.9	27,243	1.5
Ningbo Tuopu	601689 CH	BUY	47.83	64.00	33.8	12/25	30.9	27.4	23.9	0.0	11.7	83,121	3.4
Pony AI	PONY US	BUY	7.03	15.00	113.4	12/25	Loss	Loss	Loss	0.0	n.a.	2,484	0.3
Weichai Power - H	2338 HK	HOLD	31.26	31.00	(0.8)	12/25	39.4	20.5	19.3	2.9	10.7	60,739	2.4
Zhejiang Sanhua	002050 CH	BUY	36.30	43.00	18.5	12/25	37.9	32.4	28.0	1.2	14.2	135,453	4.4
Hesai	2525 HK	BUY	17.11	29.00	69.5	12/25	38.0	34.1	20.6	0.0	5.9	17,814	2.0
RoboSense	2498 HK	BUY	17.59	33.00	87.6	12/25	Loss	79.4	18.3	0.0	2.4	8,296	1.9
CATL	300750 CH	BUY	349.50	585.00	67.4	12/25	22.1	16.9	12.8	3.0	20.8	1,533,257	4.0
EVE Energy	300014 CH	BUY	51.15	85.00	66.2	12/25	25.7	13.5	10.3	1.9	6.8	111,164	2.1
Ganfeng Lithium - H	1772 HK	BUY	38.16	75.00	96.5	12/25	43.1	20.8	12.8	1.0	(1.2)	18,435	1.4
Tinci Materials	002709 CH	BUY	34.60	54.00	56.1	12/25	48.9	13.7	11.5	2.2	5.4	70,534	3.0

Source: Bloomberg, UOB Kay Hian

- **Renminbi appreciation was a major 2Q26 headwind.** Most OEMs suffered forex losses in 2Q26, obscuring underlying operations. Even after accounting for forex loss, BYD and Geely still posted 52% and 36% growth in adjusted net profit in 2Q26 respectively.
- **R&D in humanoid robotics and AI remains a drag on profitability.** XPeng's robot unit Dogotix raised US$0.9b at a US$6.3b valuation; BYD budgets over Rmb10b on its in-house humanoid project Rao-Shun-Yu; Li Auto allocates Rmb12b R&D with half for AI; Geely's plans to invest Rmb5b over three years. However, mass production remains distant with no clear business case, and meaningful commercial revenue is unlikely within a decade. BYD and Geely have bigger scale to absorb the additional R&D expense for robotics/AI, while XPeng and Li Auto see bigger pressure.

• **Auto parts and technology: Flat revenue made margin the key factor, while overseas mix and the new end-markets drove the results.**

- **Flat revenue made margin the whole story.** Domestic demand gave the segment almost nothing: Revenue grew 7.0% yoy at Desay SV, was flat at Fuyao and fell 9.5% at Joyson. The beats came from below the top-line: Nexteer on a 1.0ppt gain in adjusted EBITDA margin and a lower tax rate, Minth on a 0.4ppt gross margin gain, and Desay SV on a 14.9%/37.6% yoy cut in research and selling expenses. The misses were top-line and cost-driven: Fuyao missed on revenue despite a 1.7ppt yoy gross margin gain, Joyson on both revenue and margin, and Tuopu was the worst of all, with EBIT margin down 2.4ppt yoy to 9.1% on underused new capacity. The cost side was common to all of them, with chip, electronic component and energy prices rising during the quarter, and only names with pricing power or vertical integration maintained their gross margin.
- **Growth came from overseas and new end-markets, not from Chinese cars.** Desay SV's overseas revenue rose 56% yoy on a 31.3% gross margin against a 2% domestic decline at 17.6%, and that split repeats across the segment. The second engine is non-automotive demand – data centre power at Weichai, liquid cooling at Sanhua, and robotics and data centre parts at Minth and Joyson. This is why the two upgrades – Weichai's 3%/16%/23% and Nexteer's 21%/23%/22% (EPS upgrades for 2026/27/28 respectively) – both sit outside the passenger-car cycle.
- **LiDAR was the exception: Volume was doubling but prices were falling faster.** Hesai and RoboSense grew shipments by 78% yoy and 146% yoy respectively, but blended ASP fell 34% and 50%, so revenue grew only 22% and 23%. Both missed forecasts, and margin separated them – Hesai at 40.1% vs RoboSense at 21.9%. Hence, we cut Hesai's 2026-28 net profit forecasts by 27%/17%/12%, while RoboSense's 2026 forecast is amended from a Rmb91m profit into a Rmb286m loss. Pony AI shows the same shape in autonomy and cockpits, compounding revenue fast without any profit yet.
- **2H26: Orderbooks, not the vehicle market, drove the recovery.** Every name is guiding on backlog rather than demand: Weichai expects over 4,000 data centre diesel gensets in 2026 and over 2,000 gas gensets in 2027, Nexteer has reaffirmed US$6b of full-year bookings, Desay SV is looking at over Rmb22b of annualised new orders, Joyson is expecting a 7% yoy revenue growth on a Rmb44.9b intake, and Sanhua with liquid-cooling volume production with orders above capacity. Margin should recover on utilisation: Fuyao's US plant will restart in 3Q26 and Tuopu expects Mexican utilisation to rise from 70% to above 85%, adding an estimated 0.8ppt.
- **Chip costs: a partial offset to parts' volume growth.** ADAS suppliers – Desay SV, Joyson, and Tuopu – benefit from rising content per vehicle, but they are most exposed due to their reliance on high-end chips.

• **Battery (CATL and EVE): Both were in line, both grew on energy storage rather than vehicles, and both suffered gross margin erosion.**

- **Energy storage, not electric vehicles, brought the growth.** CATL's 1H26 storage revenue jumped 88% yoy at a 24.0% gross margin, above the 20.6% earned on power batteries. EVE Energy's storage shipments

August Sales By OEM

('000 units)	Aug 26	yoy %	mom %	8M26	yoy %	2026F	yoy %
BYD	440.3	17.8	5.0	2,668.0	(6.8)	5,000	8.6
- Domestic	250.8	(14.3)	5.1	1,505.8	(32.7)	3,000	(15.6)
- Overseas	189.5	134.4	4.9	1,162.3	85.7	2,000	91.2
Geely	270.1	8.0	8.0	1,943.3	2.4	3,450	14.1
- EV	175.9	19.4	9.8	1,135.5	13.3	2,220	31.5
- ICE	94.3	(8.3)	4.8	807.8	(9.7)	1,230	(8.0)
- Domestic	160.1	(25.2)	11.6	1,252.3	(23.8)	2,250	(13.6)
- Overseas	110.1	205.2	3.2	691.0	171.8	1,200	186.5
GWM	113.4	(1.9)	4.9	805.4	2.0	1,400	5.8
- EV	40.7	8.5	17.5	225.3	(3.1)	400	(0.9)
- ICE	72.7	(6.9)	(1.0)	580.1	4.1	1,000	8.7
- Domestic	50.9	(27.7)	10.5	389.4	(23.0)	650	(20.5)
- Overseas	62.5	38.4	0.8	416.0	46.5	750	48.2
XPeng	39.1	3.7	2.8	243.1	(10.5)	480	11.8
Li Auto	37.7	32.1	23.7	261.6	(0.6)	420	3.4

Source: The companies, UOB Kay Hian

Quarterly Sales By OEM

	1Q26	2Q26	yoy %	qoq %	3Q26	yoy %	qoq %
BYD	700.5	1,108.0	(3.2)	58.2	1,354.0	21.5	22.2
- Domestic	379.3	637.0	(28.2)	67.9	789.5	(10.4)	23.9
- Overseas	321.1	471.1	82.5	46.7	564.5	142.5	19.8
Geely	709.4	713.6	1.2	0.6	850.4	11.7	19.2
- Domestic	506.3	442.4	(27.6)	(12.6)	513.6	(20.9)	16.1
- Overseas	203.0	271.2	188.0	33.6	336.8	200.6	24.2
GWM	269.1	314.8	0.6	17.0	356.5	0.6	17.0
- Domestic	139.0	153.5	(25.6)	10.4	156.9	(27.7)	2.3
- Overseas	130.1	161.3	51.1	24.0	199.5	46.2	23.7
XPeng	62.7	103.3	0.1	64.8	118.0	1.7	14.2
Li Auto	95.1	98.3	(11.5)	3.4	97.5	4.6	(0.8)

Note: The 3Q26 sales numbers of BYD, Geely and GWM are our estimates; while those of XPeng and Li Auto and the mid-points of the two companies' guided range of 115,000-121,000 units and 95,000-100,000 units respectively.
Source: The companies, UOB Kay Hian

of 44.46GWh accounted for 55% of the total. Both CATL and EVE raised volume on the back of it: We lift CATL's 2026-28 estimates by 10%/7%/0% to 1,000/1,230/1,450GWh respectively and EVE's 2026 electric-vehicle shipments to 75GWh.

- **Lithium costs eroded the gross margin for both CATL and EVE; opex decided the net margin.** CATL's 2Q26 gross margin fell 2.4ppt yoy, taking gross profit per GWh down 8% and net profit per GWh down 12%; we cut its 2026-28 net profit by 1%/7%/12% respectively. EVE's gross margin fell 2.9ppt yoy to 14.5%, but a 4.1ppt yoy fall in its SG&A/revenue ratio lifted EBIT margin 3.2ppt to 8.7%. We raise its 2026-28 net profit by 5%/6%/10% respectively. Both faced the same cost pressure, yet we revised their earnings estimates in opposite directions.
- **2H26: Margins bottomed while volume continued to rise.** CATL's metal-linkage pricing passes raw material costs through to customers with a lag, so the squeeze is one of timing rather than level, and full-year volume could reach 1,000GWh against capacity already running at full saturation. EVE brings 628Ah storage and 46-series cylindrical cells into mass production and adds BMW overseas.

- **Battery materials: Price, not volume, drove both beats, but our lithium price outlook has now been lowered.**
  - **Both beat on ASP while volume merely met expectations.** Ganfeng Lithium’s revenue more than tripled ‘yoy as lithium ASP rose 140% yoy, and Tinci Materials revenue grew 127% yoy on a 41% rise in electrolyte volume and a sharp ASP gain. Neither raised volume – Ganfeng holds 230,000/270,000/320,000 tonnes and Tinci has 1.39m/1.67m/2.00m tonnes. The earnings best was almost entirely driven by prices, not by volume.
  - **The profit was captured upstream as the pass-through was incomplete.** Ganfeng's gross margin rose 23.0ppt yoy to 32.7% and its 1H26 net profit reached 57% of our full-year estimate; hence, we raised 2026 net profit by 23%. Tinci's gross margin fell 9.3ppt qoq to 29.3%, against our 37.0% assumption, because lithium hexafluorophosphate costs exceeded the prices it could charge. Hence, we cut our 2026-28 net profit by 4%/10%/10% forecasts respectively. As a resource owner, Ganfeng reaps the benefit of rising lithium prices, while the converter Tinci absorbs the cost hike.
  - **2H26: This is where our 1Q26 call has changed.** In the 1Q26 results wrap-up, we expected lithium carbonate prices to exceed Rmb200,000 per tonne from 2027. Ganfeng's management now guides for a balanced market in 2027; hence, we have reduced its 2027-28 ASP to Rmb142,000 per tonne, expect ASP to be flat in 2026, and increased its target price from HK$120.00 to HK$75.00. With price capped, earnings depend on cost: Ganfeng's self-sufficiency should rise to 70% by 2028, and Tinci's ASP should stabilise as lithium hexafluorophosphate prices recover from their 2Q26 lows. That is the reason for ranking battery materials last.

Valuation/Recommendation

- **We maintain MARKET WEIGHT on China's auto sector.** We are changing the order of our segmental preference to: OEMs > auto parts > battery > battery materials, based on: a) the accelerating sales growth of the leading OEMs; b) their structural profitability improvement from moving upmarket and going overseas; c) the emergence of new growth engines for auto parts companies, eg ADAS, AI, and robotics; and d) the flattening lithium carbonate prices which benefit OEMs at the expense of battery materials producers.
- **Top BUYs: BYD, Geely, and Minth. Top SELL: Li Auto.**

Sector Catalyst/Risk

- Catalysts: A recovery in domestic auto sales; sustained export growth; data centre and liquid-cooling orders; 3Q26 results.
- Risks: Fluctuations in lithium carbonate prices; input cost inflation that cannot be fully passed through to customers; renminbi appreciation; a slower robotics ramp-up.

2Q26 Earnings Vs Estimates and Upgrade/Downgrade

	Miss/	--------- EPS chg ---------			Target price	
Company	Beat	2026F	2027F	2028F	Old	New
OEMs						
BYD	Beat	5	14	15	135.00	150.00
Geely	Beat	5	7	9	27.00	29.00
GWM	Miss	-	-	-	9.90	9.90
XPeng	Miss	(60)	(46)	(13)	90.00	60.00
Li Auto	Miss	n.a.	n.a.	n.a.	40.00	35.00
Battery						
CATL	In line	(1)	(7)	(12)	640.00	585.00
EVE	In line	5	6	10	83.50	85.00
Battery materials						
Ganfeng	Beat	23	(1)	(11)	120.00	75.00
Tinci	Miss	(4)	(10)	(10)	75.00	54.00
Auto parts						
Desay SV	Beat	4	(4)	(8)	150.00	135.00
Fuyao	Miss	(3)	(2)	(4)	100.00	84.00
Hesai	Miss	(27)	(17)	(12)	33.00	29.00
Joyson	Miss	(14)	(16)	(17)	43.00	25.00
Minth	Beat	6	7	7	56.00	56.00
Nexteer	Beat	21	23	22	8.30	11.40
Pateo	In line	(103)	(77)	(21)	350.00	350.00
Pony AI	Miss	(11)	(7)	(35)	16.00	15.00
RoboSense	Miss	n.a.	(62)	(30)	50.00	33.00
Sanhua	In line	(5)	-	-	57.00	43.00
Tuopu	Miss	(17)	(10)	(6)	100.00	64.00
Weichai	In line	3	16	23	35.00	31.00

Source: Respective companies, UOB Kay Hian