

Automobile

China Auto Sector Weekly (23 Oct 26)

Highlights

- The 3Q26 results for Fuyao Glass, CATL, and Ganfeng Lithium missed expectations on margins, due to product price drop, product mix, tax hikes, cost hikes, inventory provision, and one-off expenses.
- Lithium carbonate price drop more than offsets the export VAT rebate removal and 4% consumption tax on LIB, easing cost pressure for OEMs.
- We have 3Q26 earnings previews for BYD, Geely, GWM, Hesai and Robosense, which will post their 3Q26 results next week.
- Maintain MARKET WEIGHT. Top BUYs: BYD and Geely. Top SELLs: Li Auto and XPeng.

Analysis

- 3Q26 results of Fuyao Glass, CATL and Ganfeng Lithium 3Q26 results missed on margins.** Their 3Q26 results missed expectations on margins, due to product price drop, product mix, tax hikes, sea freight cost hikes, inventory provision, and one-off expenses.
 - Fuyao Glass (3606 HK/BUY/Target: HK\$77.00).** 3Q26 net profit missed estimates at Rmb2,036m (-9.9% yoy/-9.9%), due to: a) spikes in sea freight costs, b) Rmb78m in product quality, and c) US\$14.34m (~Rmb100m) in expenses related to the fire at Phase 2 of the US plant. We expect margins to recover modestly in 4Q26, based on the easing sea freight costs, flat soda ash prices, and the absence of one-off expenses. Sales volume and ASP will be driven by the accelerating industry consolidation overseas. We trim our 2026-28 net profit forecasts by 11%/8%/8% to Rmb8.58b/Rmb10.73b/Rmb12.12b respectively on lower margins. Maintain BUY and cut target price to HK\$77.00.

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MARKET WEIGHT (Maintained)

Segmental Rating

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

Source: Bloomberg, UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (Lcy)	Target Price (Lcy)
BYD	1211 HK	BUY	67.40	140.00
Geely	175 HK	BUY	14.11	29.00
Li Auto	2015 HK	SELL	43.38	30.00
XPeng	9868 HK	SELL	35.32	30.00

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 22 Oct 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	67.40	140.00	107.7	12/25	16.4	11.8	9.5	0.8	15.3	268,520	2.0
Geely	175 HK	BUY	14.11	29.00	105.5	12/25	8.6	7.5	5.9	3.5	17.8	157,582	2.1
Great Wall Motor - H	2333 HK	HOLD	6.52	7.00	7.4	12/25	4.9	5.2	4.3	3.3	10.2	15,868	0.5
Li Auto	2015 HK	SELL	43.38	30.00	(30.8)	12/25	171.5	54.0	66.8	0.0	2.0	89,697	1.1
XPeng	9868 HK	SELL	35.32	30.00	(15.1)	12/25	Loss	112.2	13.5	0.0	1.7	58,883	2.0
Fuyao Glass - H	3606 HK	BUY	51.45	77.00	49.7	12/25	12.5	11.7	9.8	5.2	27.2	32,188	2.8
Huizhou Desay SV	002920 CH	BUY	73.71	135.00	83.2	12/25	17.9	17.9	15.2	1.9	24.8	46,593	2.7
Minth	425 HK	BUY	21.36	56.00	162.2	12/25	7.7	7.4	6.3	3.7	11.7	26,405	0.9
Nexteer	1316 HK	BUY	4.13	11.40	176.0	12/25	13.0	9.9	8.9	4.2	6.2	11,294	0.7
Ningbo Joyson	600699 CH	BUY	20.75	25.00	20.5	12/25	21.9	16.4	14.4	1.3	9.9	29,463	1.6
Ningbo Tuopu	601689 CH	BUY	42.34	64.00	51.2	12/25	27.3	24.2	21.1	0.0	11.7	74,518	3.0
Pony AI	PONY US	BUY	5.04	15.00	197.6	12/25	Loss	Loss	Loss	0.0	n.a.	2,149	0.2
Weichai Power - H	2338 HK	HOLD	24.24	31.00	27.9	12/25	30.5	15.9	15.0	3.5	10.7	55,182	2.2
Zhejiang Sanhua	002050 CH	BUY	32.89	43.00	30.7	12/25	34.4	29.3	25.4	1.4	14.2	126,646	4.1
Hesai	2525 HK	BUY	11.60	29.00	150.0	12/25	3.7	7.9	6.9	0.0	5.9	16,304	1.8
RoboSense	2498 HK	BUY	13.60	33.00	142.6	12/25	Loss	0.0	0.1	0.0	2.4	7,249	1.6
CATL	300750 CH	BUY	220.41	343.00	55.6	12/25	13.9	10.6	8.0	3.7	20.8	1,257,972	3.3
EVE Energy	300014 CH	BUY	41.79	85.00	103.4	12/25	21.0	11.0	8.4	2.0	6.8	109,708	2.1
Ganfeng Lithium - H	1772 HK	HOLD	21.74	24.00	10.4	12/25	24.6	11.9	7.3	1.4	(1.2)	14,174	1.1
Tinci Materials	002709 CH	BUY	25.90	54.00	108.5	12/25	36.6	10.3	8.6	2.4	5.4	66,641	2.8

Source: Bloomberg, UOB Kay Hian

- **CATL (300750 CH/BUY/Target: Rmb343) – earnings dragged by taxes, product mix and inventory provision.** 3Q26 net profit came in below estimate at Rmb21.25b (+14.5% yoy/-5.8% qoq) due to increased share of lower-margin energy storage battery in revenue mix, tax hikes and inventory provision. We expect margins to recover in 4Q26, based on the pass-through of the LIB consumption tax. China's VAT rebate on LIB exports will be cancelled by 1 Jan 27, and the LIB consumption tax rate will rise to 4% by 1 Sep 27. To reflect that, we cut our 2028-30 net profit forecasts by 5%/10%/16% to Rmb89.1b/Rmb104.9b/Rmb116.4b. Maintain BUY and cut the target prices of A-share/H-share to Rmb343.00/HK\$400.00.
- **Ganfeng Lithium – 3Q26 results missed estimates on lithium carbonate price drop and bigger-than-expected operating leverage.** 3Q26 net profit came in below our estimate at Rmb1,068m (+192.4% yoy/-57.4% qoq), due to worse-than-expected margin squeeze given product price drop. Gross margin plummeted 12.5ppt qoq to 20.2% in 3Q26. We cut our 2026-28 net profit forecasts by 14%/29%/28% to Rmb6,207m/Rmb3,552m/Rmb4,386m respectively on lower ASP of Rmb129,000/Rmb88,000/Rmb88,000 and lower gross margin of 26%/20%/20%. Maintain HOLD. Cut target price from HK\$28.00 to HK\$24.00, based on DCF (WACC: 12%/terminal growth: 3%).
- **Lithium carbonate price drop more than offset the export VAT rebate removal and 4% consumption tax on LIB.** Lithium carbonate prices have fallen sharply at a time when China is cutting export VAT rebates on LIB exports and introducing a consumption tax on LIB. This week, lithium carbonate prices dropped 10% w/w to below Rmb100,000/tonne. Lithium carbonate prices halved from the recent peak of over Rmb200,000/tonne in mid-May to Rmb100,000 currently. The slump in lithium carbonate prices should more than offset the elimination of LIB export VAT rebate and the 4% LIB consumption tax, reducing all-in battery costs by 5-7% on a net basis.
- **Ganfeng Lithium.** For Ganfeng, the lithium price drop cuts both revenue and profit directly, as its lithium salt selling prices track carbonate prices. Low-cost own resources cushion the margin hit but cannot reverse it; earnings will contract, though the battery segment offers partial stability. Having said that, we expect limited downside of lithium carbonate price from the current level of Rmb100,000/tonne, given the cost base.
- **CATL.** For CATL, given the linkage between battery prices and costs, the net profit per GWh has historically been neutral to the fluctuations in lithium carbonate prices, as it remained at around Rmb100m through the lithium carbonate cycles. The net profit per GWh dropped from Rmb104m in 1Q26 to Rmb97m/Rmb82m in 2Q26/3Q26, due to the cut on LIB export VAT rebate on 1 Apr 26 and the imposition of the 2% LIB consumption tax on 1 Sep 26. Going forward, CATL's net profit per GWh will largely depend on the negotiation with auto OEMs on sharing the additional tax burdens. Our earnings estimates are based on an assumed 50:50 split between CATL and its customers. These imply net profit per GWh of Rmb89m/Rmb85m/Rmb80m in 2026/27/28, vs Rmb109m in 2025.
- **OEMs.** The primary beneficiaries from the lithium carbonate price drop would be auto OEMs. The halving of lithium carbonate prices from Rmb200,000 to Rmb100,000 would save per-vehicle cost by Rmb4,000-4,500 or about 3% of total COGS. This compares to per-vehicle net profit of Rmb7,000 for leading auto OEMs like BYD and Geely. The lithium carbonate price drop largely offsets the 4% LIB consumption tax and the cost spikes of other parts from May till now, easing cost pressure on auto OEMs. Note that the 4% LIB consumption tax boosts per-vehicle cost by Rmb1,000-1,700, and the price rallies of chips and other parts resulted in Rmb3,800-6,300 increase in per-vehicle cost.
- **3Q26 earnings preview – BYD, Geely, GWM, Hesai, and Robosense.** These companies will post 3Q26 results next week.
- **BYD (1211 HK/BUY/Target: HK\$140.00).**

- **Sales volume grew 18.7% yoy and 19.4% qoq to 1.323m units in 3Q26, in line.** Domestic sales and export respectively reached 772,000 units (-12.4% yoy/+21.3% qoq) and 551,000 units (+136.6% yoy/+16.9% qoq). Exports' share in sales mix remained flat qoq at 41.6% in 3Q26, vs 42.5% in 2Q26 and 20.9% in 3Q26.
- **Net profit per vehicle edged up 4.5% qoq in 3Q26 on economies of scale.** We estimate 3Q26 net profit per vehicle at Rmb7,300 (+25.6% yoy/+4.5% qoq). The yoy spike was driven by the more than doubling of exports' share in sales mix, and the qoq increase was due to economies of scale and premiumisation of product mix.
- **We estimate 3Q26 net profit at Rmb10.38b (+33% yoy/+26% qoq), vs consensus forecast of Rmb12.3b.**
- **Geely (175 HK/BUY/Target: HK\$29.00).**
 - **Sales volume grew 6.8% yoy and 13.9% qoq to 813,000 units, in line.** Battery electric vehicles (BEVs) and exports remained the drivers, offsetting the drop in domestic sales and ICE-car sales.
 - **Net profit per vehicle held up well at Rmb6,800 (+35.5% yoy/-1.5% qoq).**
 - **We estimate 3Q26 net profit at Rmb5,525m (+36.2% yoy/+18.2% qoq).**
- **GWM (2333 HK/HOLD/Target: HK\$7.00).**
 - **Sales volume dropped 4.9% yoy and grew 6.9% qoq to 336,407 units,** including 117,333 EVs (-0.6% yoy/+27.5% qoq) and 219,074 ICE-cars (-7% yoy/-1.7% qoq). Domestic sales and exports reached 151,856 units (-30% yoy/-1% qoq) and 184,551 units (+35.2% yoy/+14.4% qoq).
 - **We expect 3Q26 net profit per vehicle to remain flat qoq at Rmb4,800 (-26.1% yoy/-0.5% qoq).**
 - **We estimate 3Q26 net profit at Rmb1,615m (-30% yoy/+6% qoq).**
- **Hesai (2525 HK/BUY/Target: HK\$29.00).**
 - **We estimate 3Q26 LiDAR sales volume at 787,000 units (+78.4% yoy/+25.3% qoq),** including 609,000 LiDARs (+60.1% yoy/+25.4% qoq) and 178,000 robotics LiDARs (+193.4% yoy/+24.9% qoq).
 - **We estimate 3Q26 revenue at Rmb1b (+25.7% yoy/+16.2% qoq),** based on 787,000 units of sales volume (+78.4% yoy/+25.3% qoq), Rmb1,165 of blended ASP (-33.9% yoy/-10% qoq), and Rmb80m in revenue from the Strategic Growth Initiative (SGI) business (+218.7% qoq).
 - **We estimate 3Q26 net profit at Rmb100m (-61% yoy/+41.7% qoq).** The yoy earnings drop was due to the spikes in opex for the SGI businesses, and the qoq profit growth was driven by the surge in SGI revenue.
- **RoboSense (2498 HK/BUY/Target: HK\$33.00).**
 - **3Q26 LiDAR sales volume rose 221% yoy and 53% qoq, in line.** Advanced driver-assistance system (ADAS) LiDAR volume was 450,400 units (+200% yoy/54% qoq), and robotics and other uses was about 145,200 units (+309% yoy/50% qoq).
 - **We estimate 3Q26 revenue at Rmb808m (+99% yoy/+44% qoq),** based on a sales volume of 595,600 units (+221% yoy/+53% qoq) and blended ASP of Rmb1,300 (-38% yoy/-2% qoq).
 - **3Q26 earnings dampened by Geely recall.** Geely recalled 92,915 vehicles for the defects of RoboSense's LiDARs. We estimate the cost of the recall at Rmb145m.
 - **We estimate 3Q26 net loss at Rmb225m (+248% yoy/+186% qoq).**

Valuation/Recommendation

- **Maintain MARKET WEIGHT** on China's auto sector. Our preference for segments in descending order is OEMs > auto parts > battery > battery materials.
- **Top BUYs: BYD and Geely. Top SELLs: Li Auto and XPeng.**

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