

# Auto sector

## Policy stimulus to support auto industry

On 27 Aug 2019, the State Council announced the "Opinions on Accelerating the Development of Circulation and Promoting Commercial Consumption". A specific point was mentioned, suggesting the policy will help to unleash the automobile consumption potential. Regions where restriction order was enforcing now, should take into account the actual conditions and gradually relax or cancel restrictions. Local government should actively support the NEV consumption where conditions permit.

- **In the "Opinions", it also mentioned the support from the financing perspective.** It encourages financial institutions to support NEV consumption by providing necessary financing channels. We believe the raise of leverage in the resident sector will further boost auto consumption.
- **Regarding the used cars area, the "Opinions" also mentioned that it is necessary to further implement the policy to comprehensively eliminate the restrictions on used cars.** The province (city) should allow used cars that meet the emission standards to be traded in the region without any restrictions.
- **Compared with the policies announced in Apr and Jun 2019, the "opinions" explicitly express the official attitude on boosting auto consumption.** We believe the policy will lead to a recovery of consumer confidence. According to related estimation, the cancellation of restriction order will release up to 2mn units of auto sales.
- **Low capacity utilization rate with amass of loss entities was the main reason for policy stimulus.** The overall auto market condition was at a critical point affecting the overall employment market. This can be verified by recent news on the bankruptcy of Guwei Technology, an auto part suppliers for numbers of OEMs. We anticipate stimulus policy will not only support retail auto consumption but also rebuild manufacture confidence.
- **We believe this policy stimulus will benefit all major OEMs especially those with greater NEV market presence.** Given the marketwise good news, we recommend stocks with greater elasticity and low relative valuation. Our top picks are GAC (2238 HK) and Geely (175 HK).
- **Valuation/Key risks.** 1) Continued slowdown in the Chinese economy. 2) Policy support was not executed completely.

### Valuation Table

Company	Ticker	Mkt Cap (HKD/RMB Mn)	Last Px	Forward P/E
Geely	175 HK Equity	97,520	12.10	8.92
GAC Group	2238 HK Equity	105,399	7.73	5.41
Great Wall Motor	2333 HK Equity	70,237	4.94	10.66
Dongfeng Motor	489 HK Equity	57,900	7.23	3.69
SAIC Group	600104 CH Equity	289,750	24.96	9.70

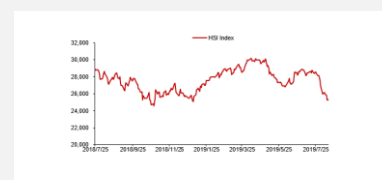
Source: Bloomberg, CMBIS

**OUTPERFORM**

### China Auto Sector

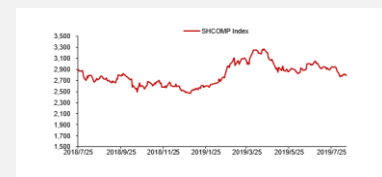
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#### HSI Index



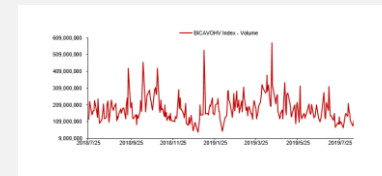
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#### SHCOMP Index

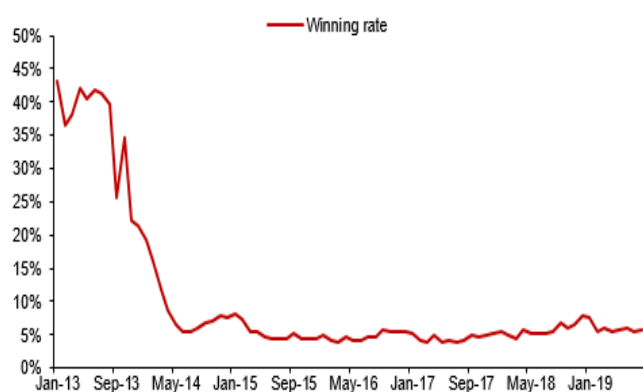


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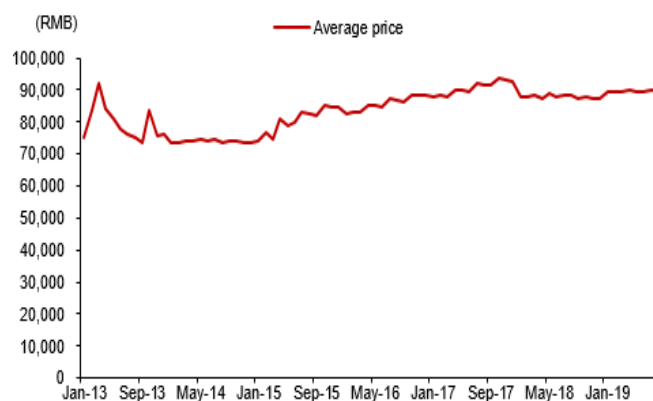
#### BICAVOHV Index - Volume



Source: Bloomberg

**Figure 1: Winning rate for auto plate in Shanghai**

Source: Wind, CMBIS

**Figure 2: Plate price in Shanghai**

Source: Wind, CMBIS

**Figure 3: Province/City with restriction order on automobile****Province/City with restriction order on automobile**

Shanghai  
 Beijing  
 Guiyang  
 Guangzhou  
 Shijiazhuang  
 Tianjin  
 Hangzhou  
 Shenzhen  
 Hainan

Source: CMBIS

**Figure 4: Estimated number of plate available in major cities**

Province/City	Number of plate available for 2019
Shanghai	135,000
Beijing	100,000
Guangzhou	150,000
Shenzhen	120,000

Source: CMBIS

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