

# China Auto Sector

## 2023 ended with more than half brands' discounts reaching all-time highs

We summarize the Dec 2023 price discounts at dealers for major automakers in this report. Note that such discounts for each automaker are calculated based on the weighted average of Nov 2023 retail sales volume for each model, as Dec retail sales volume data have not been released yet. Discounts at dealers for most brands continued to widen MoM in Dec 2023, in line with our prior expectation. We are of the view that the raw-material price declines could mitigate the margin dent. Most of the negatives could be largely priced in by recent share price drops for most Chinese automakers.

- **Great Wall Motor.** Great Wall's average discount at dealers widened by 1.2 ppts MoM in Dec, the second largest increase in 2023 (Figure 1), despite its inventory cuts in Dec. Great Wall's average discount in Dec 2023 was about 4.6 ppts higher than that a year earlier. Retail sales volume for the *Lanshan* PHEV rose more than 50% MoM in Dec, thanks to its widening discounts. Discounts for the off-road style models, including the *Tank 300*, *Dagou*, and *Menglong* PHEV, also widened by more than 1 ppt MoM in Dec, indicating stiffer competition in this segment. Discount for the *Haomao* EV widened by 3 ppts MoM to about 20% in Dec. We estimate Great Wall's overall discounts widened by about 0.6 ppt QoQ in 4Q23. We believe Great Wall's 4Q23 gross margin could still be resilient, aided by a better product mix and a higher portion of overseas sales. Strong profitability could help achieve its share-option scheme although its full-year sales volume missed the target.
- **Geely.** Geely's average discount at dealers remained flat MoM in Dec (Figure 2), better than most peers and our prior expectation. Its average discount in Dec 2023 was only about 4 ppts higher than that a year earlier, also better than its peers'. Discounts for its NEV models, including the Galaxy series and Geometry series, increased at a faster pace than its ICE models last month. In fact, discounts for the *Xingyue* and *Xingrui* narrowed MoM last month. Geely slowed its shipments to dealers in Dec to cut inventories as its full-year sales target has been fulfilled, as we had expected. We expect Geely's discounts for NEVs to continue widening in Jan 2024.
- **BYD.** BYD's average discounts at dealers widened by 1.6 ppts MoM to above 5% last month (Figure 3), the second largest increase in 2023. Its average discount in Dec 2023 reached the highest level in four years. Discounts for the "Ocean series" showed larger expansion than for the "Dynasty series" in Dec 2023. The *Seagull* EV also started to provide a discount of 4% from last month. BYD achieved its 3mn-unit sales target in 2023, by widening discounts in Nov-Dec. BYD would also subsidize dealers with almost RMB2bn as the sales target is fulfilled. Nevertheless, BYD still has the lowest discounts among all major automakers in China. In our view, the company may continue to widen its discounts to pursue its aggressive sales target in 2024, as greater economies of scale and lowered raw-material prices could partially offset the higher discounts.
- **GAC Group.** GAC Aion's average discount at dealers widened by 2.4 ppts MoM in Dec 2023 to the highest level in history (Figure 4). Aion's retail sales volume appears to lose traction after reaching 50,000 units in Aug 2023. The automaker has widened the discounts in order to revive the retail sales volume

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#### Stocks Covered:

Name	Ticker	Rating	TP (LC)
Li Auto	LI US	BUY	50
Li Auto	2015 HK	BUY	194
NIO	NIO US	HOLD	8.5
Xpeng	XPEV US	HOLD	16
Xpeng	9868 HK	HOLD	62
Geely	175 HK	BUY	14
GWM	2333 HK	BUY	13
GWM	601633 CH	BUY	32
BYD	1211 HK	BUY	290
BYD	002594 CH	BUY	300
GAC	2238 HK	BUY	6.5
GAC	601238 CH	BUY	14
EVA	838 HK	BUY	1.5
Yongda	3669 HK	BUY	5
Meidong	1268 HK	BUY	7.2

Source: Bloomberg, CMBIGM

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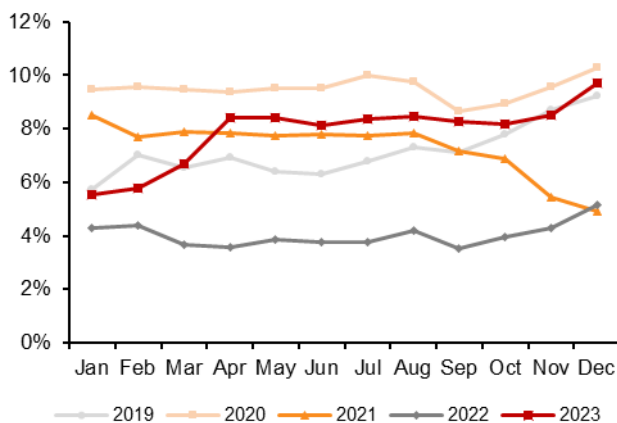
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to above 40,000 units in Dec. GAC Trumpchi's average discounts at dealers widened by 1.6 ppts MoM last month. Discounts for the GS3 and GS4 increased the most. Discounts at dealers of GAC Toyota and GAC Honda continued to widen by 0.9 ppt MoM and 0.8 ppt MoM, respectively, to record highs in Dec 2023 (Figure 5 and 6).

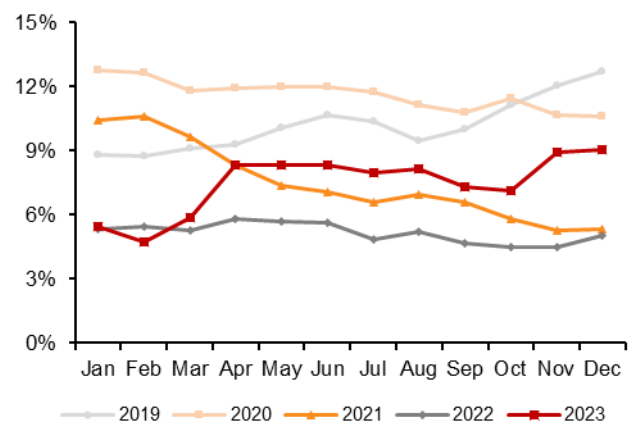
- **BMW.** Discounts for BMW Brilliance widened MoM to around 22% in Dec 2023, an all-time high level again (Figure 7). Discounts for all the models increased MoM last month, except the 3-Series. The i3 EV's discount widened 2 ppts MoM to about 38% in Dec 2023. We believe BMW dealers should have faced more challenges in new-car gross margin in 4Q23 than in 1H23. Such situation could extend into 2024E. We project BMW dealers' new-car gross margin to be 0-1% in 2024E after special subsidies from the OEM.
- **Mercedes-Benz.** Discounts for Beijing Benz narrowed 0.6 ppt MoM to around 17% in Dec (Figure 8), given its rollout of the redesigned *E-Class* on 14 Dec 2023. The manufacturer suggested retail price (MSRP) of the new-generation *E-Class* was lifted by about RMB10,000-25,000 in China. We believe the discounts for the new *E-Class* could follow the patterns for the new *GLC* launched in May 2023. The German marque may still have underestimated the intensity of competition in China.

**Figure 1: Great Wall Motor discounts at dealers**



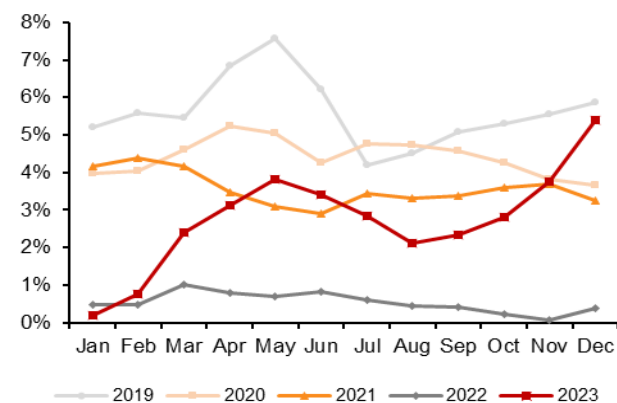
Source: ThinkerCar, CMBIGM

**Figure 2: Geely discounts at dealers**



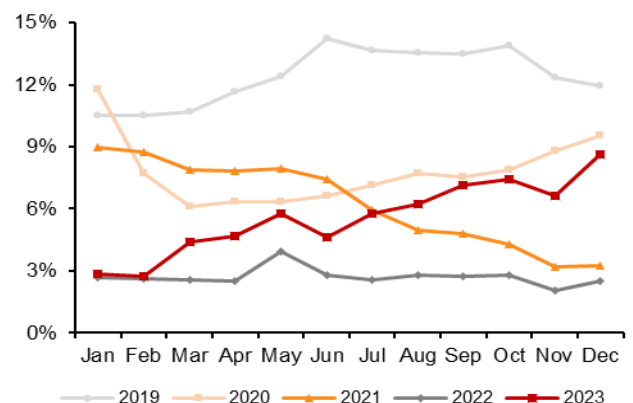
Source: ThinkerCar, CMBIGM

**Figure 3: BYD discounts at dealers**

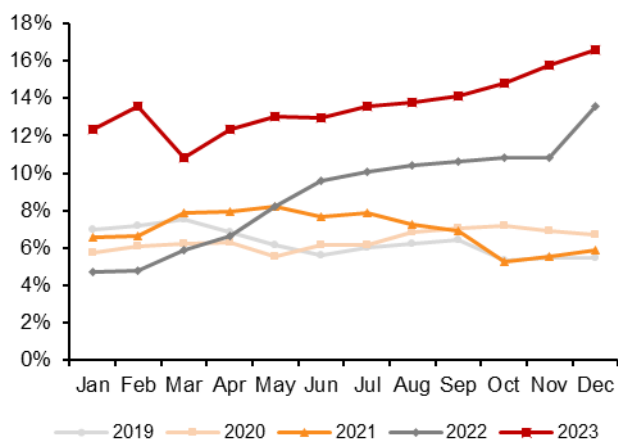


Source: ThinkerCar, CMBIGM

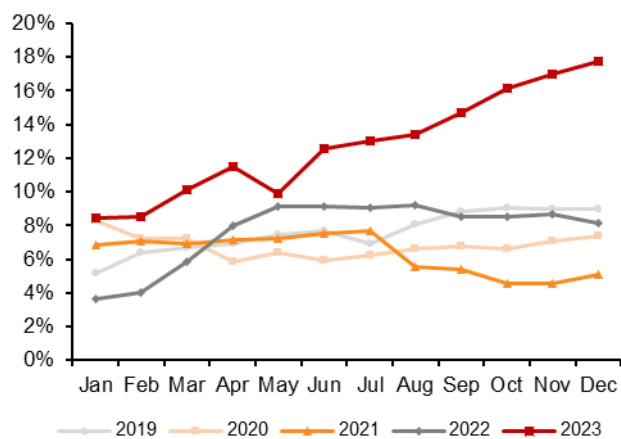
**Figure 4: GAC Trumpchi & Aion discounts at dealers**



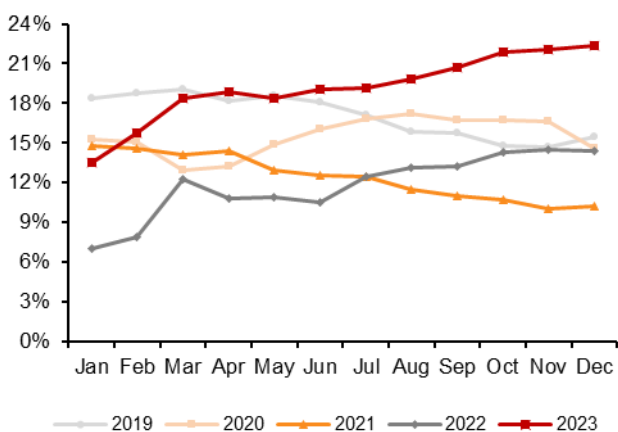
Source: ThinkerCar, CMBIGM

**Figure 5: GAC Toyota discounts at dealers**

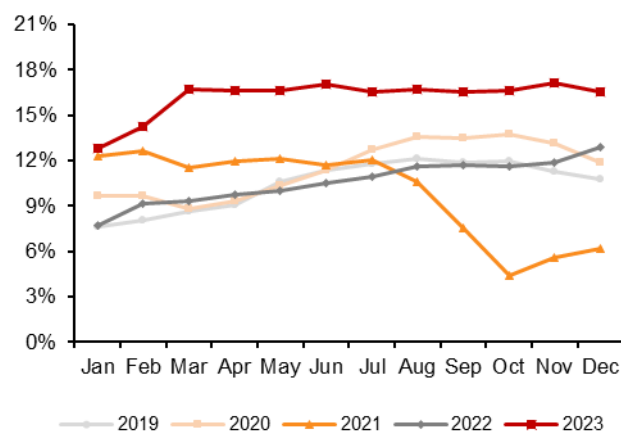
Source: ThinkerCar, CMBIGM

**Figure 6: GAC Honda discounts at dealers**

Source: ThinkerCar, CMBIGM

**Figure 7: BMW Brilliance discounts at dealers**

Source: ThinkerCar, CMBIGM

**Figure 8: Beijing Benz discounts at dealers**

Source: ThinkerCar, CMBIGM

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