

China Auto Sector

When will discounts peak after rising for 8 months

We summarize the Jun 2023 price discounts at dealers for major automakers in this report. Note that such discounts for each automaker are calculated based on weighted average of May 2023 retail sales volume for each model, as Jun retail sales volume data have not been released yet. Most automakers' discounts widened MoM in Jun 2023 to rush for 1H23 targets and cut inventories, as we had expected. We maintain our previous view that the overall discounts may peak around Jun-Jul 2023, as we see lower incentive for automakers to restock in 2H23, although discounts could remain high for a while.

- **Great Wall Motor.** Great Wall's Jun 2023 discounts at dealers continued to widen to the highest level since Jan 2021 (Figure 1), despite zero discount for the Tank brand and the *Lanshan* PHEV. The *Xiaolong* and *Xiaolong Max* PHEVs have already provided incentives to customers in order to withstand the competition after the rollouts of the new BYD *Song* series and Geely *Galaxy L7*. Great Wall may adopt an even more aggressive pricing strategy for its upcoming PHEVs, in our view.
- **Geely.** Geely's average discounts at dealers in Jun 2023 widened MoM to 27-month high (Figure 2). In fact, the patterns for discounts at Great Wall and Geely were very similar in 1H23 (both from 5.5% in Jan to more than 9% in Jun). The discounts for its ICE models are higher than those for NEV models. Discounts for Lynk & Co PHEVs narrowed a bit MoM in Jun 2023. The *Galaxy L7* PHEV has already offered incentives to customers right after its debut.
- **BYD.** BYD's average discounts at dealers narrowed MoM last month and remained the lowest among all major automakers (Figure 3). However, such discounts narrowing was at a cost of lower average selling prices amid its launch of cheaper variants for the *Song*, *Qin* and *Han*. Its new mid-size SUV, the Denza *N7* was unveiled on 3 Jul, with an MSRP of RMB 301,800-379,800, which could be too expensive, in our view, given the heightened competition.
- **GAC Group.** Trumpchi's discounts at dealers widened a bit MoM in Jun, especially for the *M6* and *GS3*. Aion's discounts at dealers narrowed MoM in Jun, given the ramp-up of lower-priced facelifted *Aion Y EV*. We believe investors' main concerns for Aion now are its weak margin and brand building with a large portion of ride-hailing fleets. Discounts at dealers of GAC Toyota and GAC Honda continued to widen MoM in Jun. Japanese brands lost market share in China in 1H23, partly due to their slower electrification transformation.
- **BMW.** Discounts for BMW Brilliance also widened MoM in Jun 2023, to a level that was very close to its all-time high in 1H19 (Figure 7). BMW revised down its 2023 China sales-volume target to a similar level of Mercedes Benz in May 2023. On 1 Jun 2023, it also announced generous additional rebates for dealers in 1H23. BMW raised its incentives per vehicle by about RMB 1,000 in 3Q23 vs. 2Q23 (excluding special subsidies announced on 1 Jun 2023), based on our channel checks. Therefore, we expect BMW to provide special subsidies to dealers in 3Q23 again. Nevertheless, we project BMW's discounts at dealers to gradually narrow HoH in 2H23 amid the new-generation *X1* and the gradual production phase-out for the heavily discounted *1-Series* and *X2*.

OUTPERFORM
(Maintain)

China Auto Sector

SHI Ji, CFA
(852) 3761 8728
shiji@cmbi.com.hk

DOU Wenjing, CFA
(852) 6939 4751
douwenjing@cmbi.com.hk

GU Sijie
jasongu@cmbi.com.hk

Stocks Covered:

Name	Ticker	Rating	TP (LC)
Li Auto	LI US	BUY	44
Li Auto	2015 HK	BUY	172
NIO	NIO US	HOLD	9.2
Xpeng	XPEV US	HOLD	9
Xpeng	9868 HK	HOLD	35
Geely	175 HK	BUY	14.5
GWM	2333 HK	BUY	12
GWM	601633 CH	BUY	32
BYD	1211 HK	HOLD	240
BYD	002594 CH	HOLD	265
GAC	2238 HK	BUY	7
GAC	601238 CH	BUY	14
EVA	838 HK	BUY	1.5
Yongda	3669 HK	BUY	6.5
Meidong	1268 HK	HOLD	17

Source: Bloomberg, CMBIGM

Related Report:

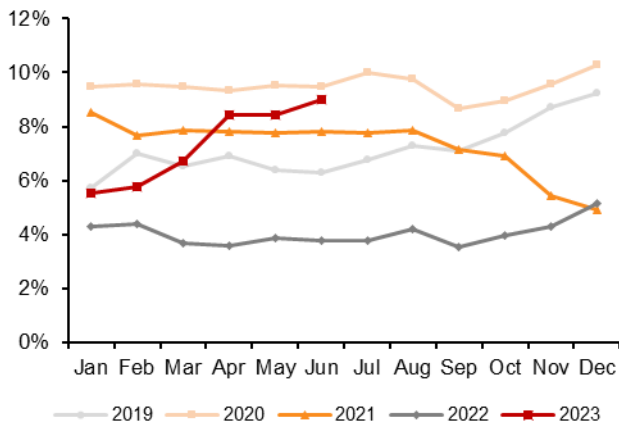
["China Auto Sector – Jun leading indicators: NIO weaker than expected" – 6 Jul 2023](#)

["China Auto Sector – All-time high sales for Li Auto, BYD, Aion, Leap" – 3 Jul 2023](#)

["China Auto Sector – Can possible strong Jun sales extend into 2H23?" – 21 Jun 2023](#)

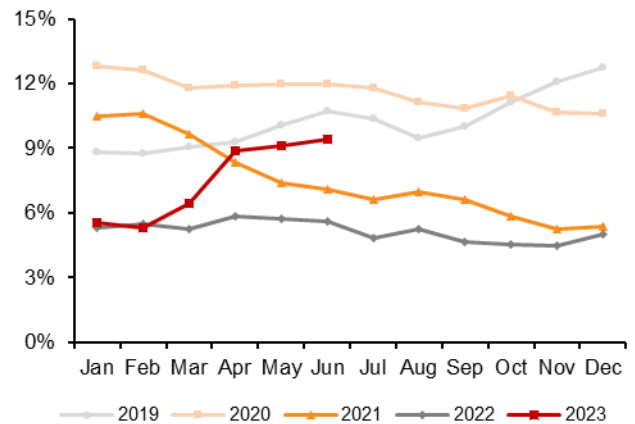
- **Mercedes-Benz.** Discounts for Beijing Benz widened MoM to a record high of about 17% in Jun 2023 (Figure 8), largely in line with our prior expectation, as we believe discounts for the new *GLC* could widen quickly.

Figure 1: Great Wall Motor discounts at dealers



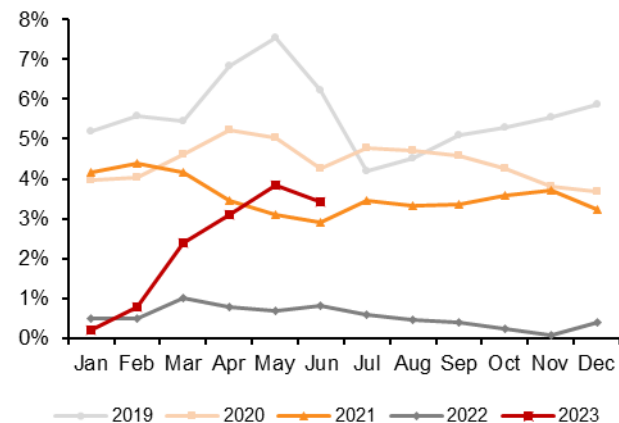
Source: ThinkerCar, CMBIGM

Figure 2: Geely discounts at dealers



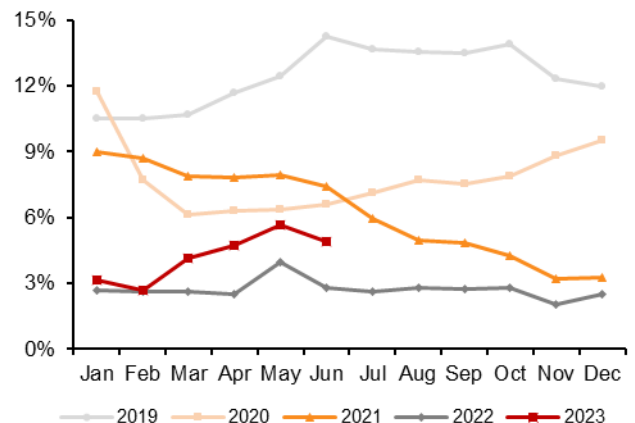
Source: ThinkerCar, CMBIGM

Figure 3: BYD discounts at dealers

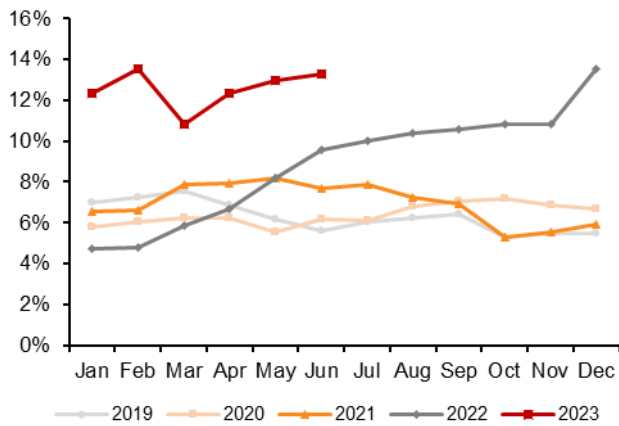


Source: ThinkerCar, CMBIGM

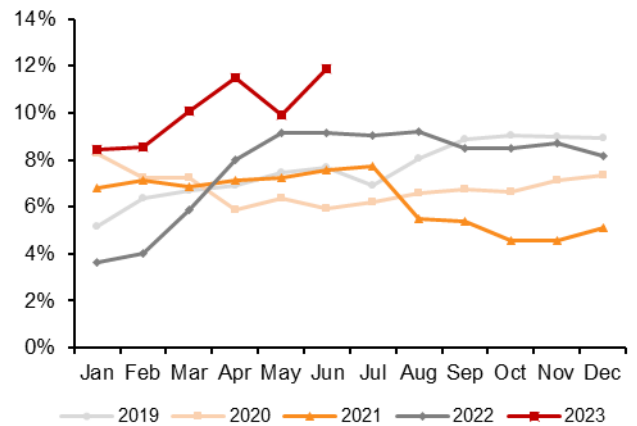
Figure 4: GAC Trumpchi & Aion discounts at dealers



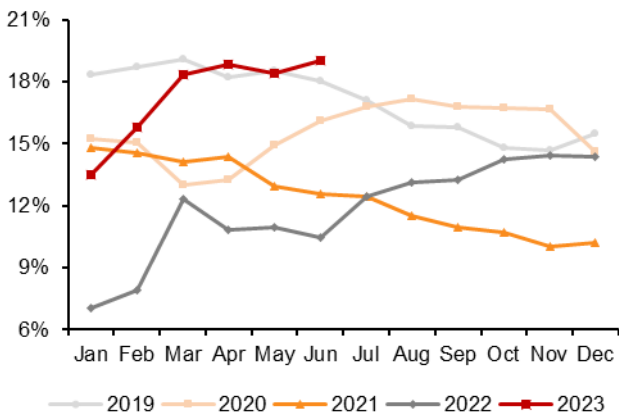
Source: ThinkerCar, CMBIGM

Figure 5: GAC Toyota discounts at dealers

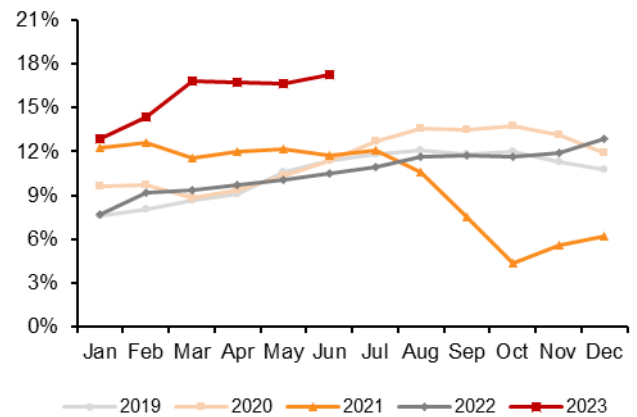
Source: ThinkerCar, CMBIGM

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.