CMB International Global Markets | Equity Research | Sector Update

China Auto Sector

Inventory risk could lead to a bumpy recovery

China's passenger-vehicle (PV) retail sales volume fell 43% YoY in Jan 2023, in line with our prior forecast of 44% YoY decline. Wholesale volume fell 33% YoY last month, 30% stronger than our prior projection, largely due to much weaker-than-expected inventory destocking and higher export volume. PV exports only fell 9% MoM to about 250,000 units in Jan 2023.

Automakers only cut about 26,000 units of inventories in their dealers' showrooms in Jan 2023 based on our calculations, despite early Chinese New Year, which has led to more than two months of inventories based on our projected retail sales volume for Feb and Mar 2023. In fact, new-energy vehicle (NEV) makers added about 31,000 units of inventories into their dealers last month. We estimate China's NEV inventory level to be about three months. We believe automakers overestimated the pre-buying effect in 4Q22, which has made the excess inventories as a lingering effect. Such a high inventory level increases the risk of a similar sales plunge occurred in 2H18.

■ **Widening discounts as an early sign of weak profitability.** Discounts at dealers for almost all the brands were widened MoM in Jan 2023, which could indicate weak profitability for automakers in 1H23. We expect widening discounts to continue until inventories drop to a reasonable level. On the other hand, investors have gradually adjusted their expectations to a very low level for automakers' profitability in 2023. Market share has been more important than profitability as share price driver this year. We have been reinforcing several times that it is still at an early stage of the price war, reflected by high inventory level.

■ **Feb 2023 outlook:** Retail sales volume in the first 12 days of Feb 2023 rose 57% YoY amid Chinese New Year effect. Sales volume recovery in the first week after Chinese New Year was slightly slower than last year. We project retail sales volume in Feb 2023 to rise 16% YoY to 1.34mn units. We expect wholesale volume to fall 2% YoY assuming inventory destocking.

We also project NEV market share to be 29% in Feb 2023 on a retail basis, which makes our Feb NEV retail sales volume forecast as 0.39mn units.

■ **Leading indicators probably the only bright spot among Jan key metrics:** Leading indicators including number of leads, customer flow and new orders for Tesla, NIO, Lixiang, Xpeng, BYD and Aion rose MoM in Jan 2023 despite Chinese New Year, based on data from a sample size of 96 stores in 15 major cities. That could imply sequential sales volume growth for NEVs from the end of Feb 2023. We have also seen rising NEV market share on a retail sales volume basis post Chinse New Year. The weekly NEV market share during the 2nd week of Feb 2023 has reached the highest level since early Dec 2022.
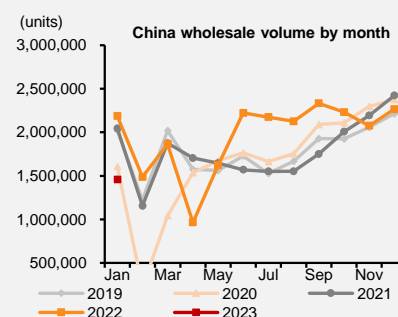
China Auto Sector

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China wholesale volume by month

Source: CAAM, CPCA, CMBIGM

China retail sales volume by month

Source: CATARC, CMBIGM

Stocks Covered:

Name	Ticker	Rating	TP (LC)
Li Auto	LI US	BUY	44
Li Auto	2015 HK	BUY	172
NIO	NIO US	BUY	23
Xpeng	XPEV US	BUY	18
Xpeng	9868 HK	BUY	70
Geely	175 HK	BUY	16.5
GWM	2333 HK	BUY	13
GWM	601633 CH	BUY	32
GAC	2238 HK	BUY	8
GAC	601238 CH	BUY	16.7
EVA	838 HK	BUY	3
Meidong	1268 HK	BUY	25
BYD	1211 HK	HOLD	230
BYD	002594 CH	HOLD	240

Source: Bloomberg, CMBIGM

Related Reports:
"China Auto Sector – Weak ending of 2022 provides a glimpse of hope" – 18 Jan 2023

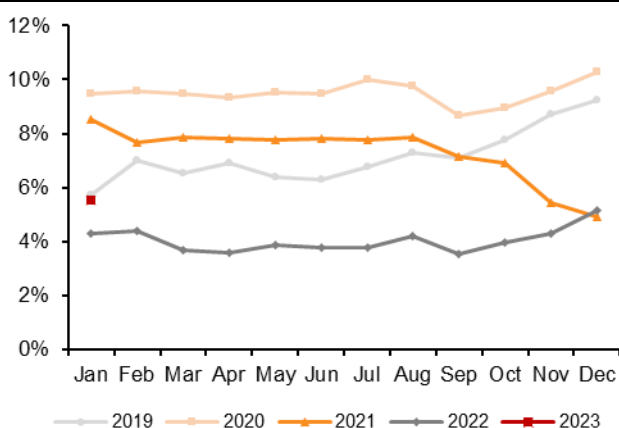# Contents

Company Watch List

Great Wall Motor

Great Wall's wholesale volume, including pick-up trucks, fell 45% YoY to about 62,000 units in Jan 2023, underperforming the overall industry's 33% decline. Retail sales volume of PVs and pick-up trucks combined fell 49% YoY to about 65,000 units last month, leading to an inventory reduction of about 19,000 units.

Great Wall was one of few Chinese automakers which cut inventories in Jan 2023. We estimate Great Wall's inventory level to be about 120,000 units, or 1.5 months based on the average retail sales volume in the past three months.

Although low inventory level paves way for Great Wall's a plethora of upcoming new models, we believe its 1.6mn-unit sales target for 2023 is still too aggressive. We maintain our full-year forecast of 1.25mn units. Similar to Geely, how successful Great Wall's new PHEVs would be in 2023 could be key to Great Wall's valuation, in our view. Details of its new NEV strategies will be released in Mar 2023.
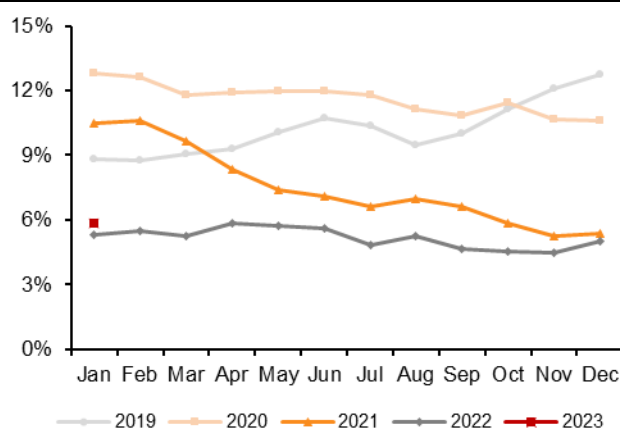
Discounts at dealers continued to widen MoM to 15-month high, based on our calculations. We expect Great Wall's discounts at dealers to continue widening before new models play a meaningful contribution.

Figure 1: Great Wall Motor discounts at dealers	Figure 2: Geely discounts at dealers
Source: ThinkerCar, CMBIGM	Source: ThinkerCar, CMBIGM

Geely

Geely's wholesale volume fell 29% YoY to about 103,000 units in Jan 2023, with the Geometry brand declining 43% YoY. NEVs only accounted for 11% of Geely's total sales volume last month. Retail sales volume at Geely fell 47% YoY to about 84,000 units last month. Retail sales volume of Geometry declined 88% MoM amid the pre-buying effect from ride-hailing fleets in Dec 2022 before the NEV subsidy phase-out. Only 31% of Geometry's new cars were sold to individual customers in Dec 2022, versus 61% in Jan 2023.

Geely added inventories of about 4,700 units into dealers in Jan 2023, which pushed its inventory level to about 1.9 months based on our estimates. Discounts at dealers also widened to 16-month high last month amid aging models. Although sales volume in Jan was a bit below our expectation, we still maintain our FY23 sales forecast of 1.53mn units.
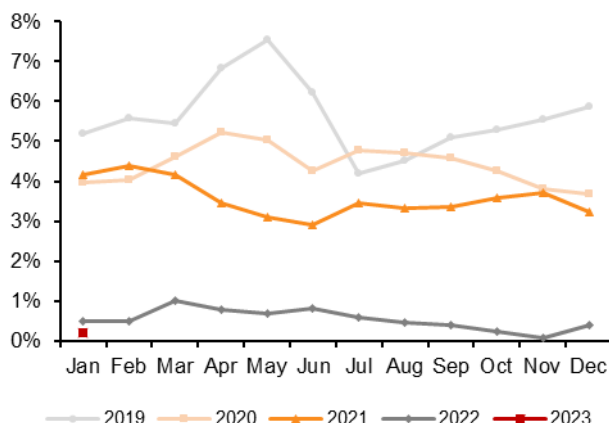
BYD

BYD's PV wholesale volume rose 58% YoY and fell 36% MoM to about 150,000 units in Jan 2023. BYD's retail sales volume rose 44% YoY and fell 44% MoM to about 123,000 units last month, which led to an inventory restocking of about 16,000 units. Although BYD still has orders backlog of about 1.5 months based on channel checks, we calculate BYD's inventories at dealers have increased by about 200,000 units in the past 12 months.

Although BYD's discounts at dealers remain low, we believe Tesla's recent retail price cuts have probably dented BYD's sales volume of the *Han* and *Seal*. We expect BYD's discounts to widen in the next few months. In fact, discounts for the *Han* and subtle promotion for the *Seal* have already started. BYD has been expanding its model mix with wider price ranges in order to withstand the competition. Its premium brand, Yangwang, debuted the first model, the *U8,* in Jan 2023. It also launched the redesigned *Qin Plus* PHEV with the lowest price of below RMB 100,000 in Feb 2023. The new orders of the new *Qin Plus* exceeded 15,000 units within three days.
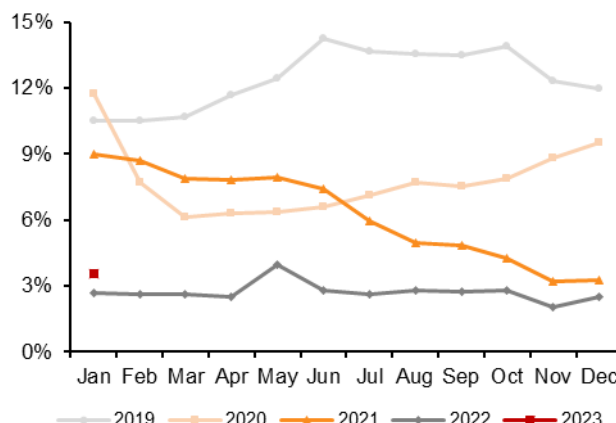
We maintain our FY23 PV sales forecast of 2.45mn units for BYD, or about 200,000 units per month on average, which is more conservative than investors' expectation of about 3-4mn units in 2023. We believe such monthly volume forecast is in line with BYD's new order intake in recent months.

| Figure 3: BYD discounts at dealers	Figure 4: GAC Trumpchi & Aion discounts at dealers
Source: ThinkerCar, CMBIGM	Source: ThinkerCar, CMBIGM

Guangzhou Automobile Group

Total wholesale volume at GAC Group fell 38% YoY in Jan 2023, dragged down by GAC Honda (-51%) and Aion (-49%). GAC Toyota was the most resilient with 24% YoY decline last month.

Retail sales volume of Aion was at a similar level as its wholesale volume in Jan 2023, which led to an almost unchanged inventory level. Yet, Aion added more than 52,000 units of inventories to its dealers in the past 12 months, resulting in an inventory level of more than three months based on our estimates. That is the main reason why we only project 319,000 units for Aion's wholesale volume in 2023. We maintain such forecast despite weak Jan sales.

Although discounts at GAC Toyota's dealers narrowed slightly MoM in Jan 2023, the overall discount level was still at multi-year high. Discounts for models such as the *Levin* are still at historical high level, as such models face more challenges from NEVs than before.
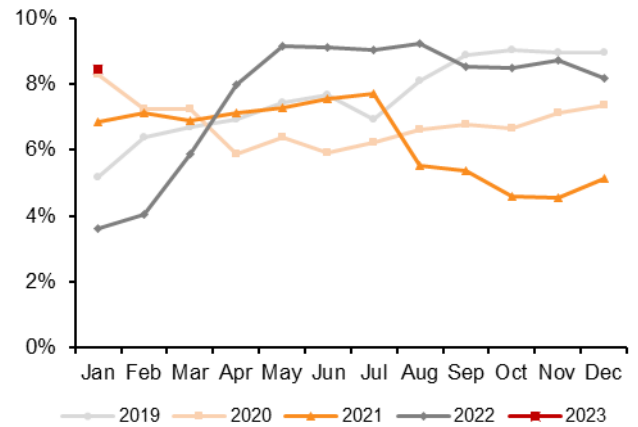
Both GAC Toyota and GAC Honda added inventories into dealers in Jan 2023. GAC Toyota's inventory level was still below one month as of Jan 2023.

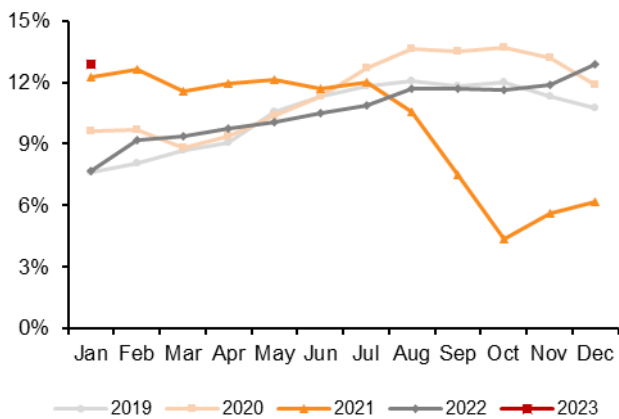**Figure 5: GAC Toyota discounts at dealers**
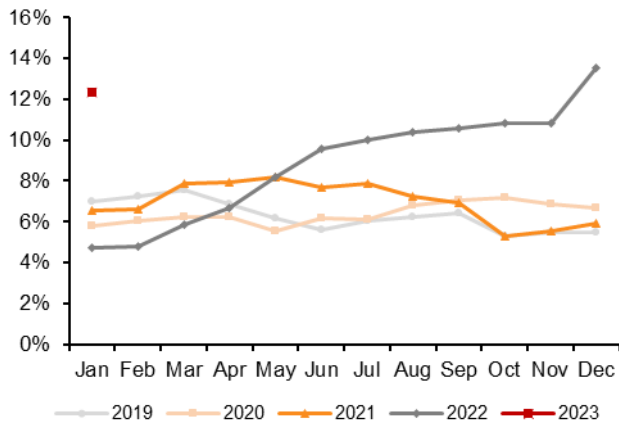
Source: ThinkerCar, CMBIGM

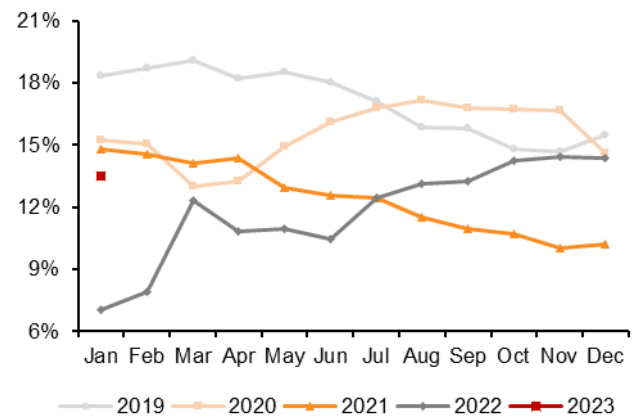**Figure 6: GAC Honda discounts at dealers**

Source: ThinkerCar, CMBIGM

Figure 7: Beijing Benz discounts at dealers

Source: ThinkerCar, CMBIGM

Figure 8: BMW Brilliance discounts at dealers

Source: ThinkerCar, CMBIGM

Figure 9: China passenger-vehicle wholesale volume by OEM / brand

	Sales Volume in Jan 2023 (units)	YoY (%)	MoM (%)	Sales Volume YTD (units)	YTD YoY (%)	YTD Market Share (%)
Chinese OEMs	**769,827**	**-24.9%**	**-41.4%**	**773,135**	**-24.9%**	**53.0%**
Geely	103,452	-29.3%	-29.2%	103,452	-29.3%	7.1%
Great Wall Motor	49,839	-49.6%	-21.7%	49,839	-49.6%	3.4%
Changan	119,258	-27.2%	-26.2%	119,258	-27.2%	8.2%
SAIC-GM-Wuling	25,484	-70.2%	-84.7%	25,484	-70.2%	1.7%
SAIC	55,698	-17.6%	-35.9%	55,698	-17.6%	3.8%
BYD	150,164	57.5%	-36.0%	150,164	57.5%	10.3%
GAC Motor (incl. Aion)	34,179	-35.8%	-49.7%	34,179	-35.8%	2.3%
Chery	95,366	17.3%	-5.1%	95,366	17.3%	6.5%
Dongfeng	24,340	-58.0%	-52.6%	24,340	-58.0%	1.7%
FAW	5,509	9.5%	-52.4%	5,509	9.5%	0.4%
BAIC	5,880	-4.7%	-63.9%	5,880	-4.7%	0.4%
NIO	8,506	-11.9%	-46.2%	8,506	-11.9%	0.6%
Li Auto	15,141	23.4%	-28.7%	15,141	23.4%	1.0%
Xpeng	5,218	-59.6%	-53.8%	5,218	-59.6%	0.4%
Weltmeister	0	-100.0%	-100.0%	0	-100.0%	0.0%
Neta	6,016	-45.4%	-22.8%	6,016	-45.4%	0.4%
Leap Motor	1,139	-85.9%	-86.6%	1,139	-85.9%	0.1%
Jinkang Seres	4,469	448.3%	-56.1%	4,469	448.3%	0.3%
German Brands	**289,498**	**-34.9%**	**-24.9%**	**286,190**	**-34.9%**	**19.6%**
VW	140,492	-38.4%	-33.9%	140,492	-38.4%	9.6%
Audi	31,518	-50.0%	-40.5%	31,518	-50.0%	2.2%
BMW	58,267	-26.3%	-3.1%	58,267	-26.3%	4.0%
Mercedes-Benz	44,882	-22.1%	-4.1%	44,882	-22.1%	3.1%
Jetta	11,031	-34.2%	32.9%	11,031	-34.2%	0.8%
Japanese Brands	**216,217**	**-51.1%**	**-32.4%**	**216,217**	**-51.1%**	**14.8%**
Honda	68,656	-55.5%	-42.4%	68,656	-55.5%	4.7%
Toyota	111,801	-26.0%	-16.8%	111,801	-26.0%	7.7%
Nissan	30,090	-73.2%	-47.3%	30,090	-73.2%	2.1%
Mazda	4,024	-77.8%	-31.8%	4,024	-77.8%	0.3%
Mitsubishi	1,168	-69.3%	-48.2%	1,168	-69.3%	0.1%
American Brands	**139,040**	**-30.5%**	**-19.7%**	**139,040**	**-30.5%**	**9.5%**
Buick	33,445	-46.0%	-29.4%	33,445	-46.0%	2.3%
Chevrolet	12,556	-51.4%	-37.9%	12,556	-51.4%	0.9%
Cadillac	9,000	-59.5%	-66.2%	9,000	-59.5%	0.6%
Ford	13,627	-37.0%	-24.1%	13,627	-37.0%	0.9%
Lincoln	4,361	-34.9%	-15.0%	4,361	-34.9%	0.3%
Tesla	66,051	10.4%	18.4%	66,051	10.4%	4.5%
Korean Brands	**23,785**	**-37.1%**	**-32.8%**	**23,785**	**-37.1%**	**1.6%**
Hyundai	15,028	-37.5%	-40.0%	15,028	-37.5%	1.0%
Kia	8,757	-36.5%	-15.2%	8,757	-36.5%	0.6%
Others	**20,973**	**-46.0%**	**-32.7%**	**20,973**	**-46.0%**	**1.4%**
PSA	4,830	-63.5%	-50.2%	4,830	-63.5%	0.3%
Volvo	10,587	-36.9%	-35.0%	10,587	-36.9%	0.7%
Jaguar	2,069	80.1%	-4.7%	2,069	80.1%	0.1%
Land Rover	2,487	31.4%	134.0%	2,487	31.4%	0.2%
Total	**1,459,340**	**-33.3%**	**-35.4%**	**1,459,340**	**-33.3%**	**100.0%**

Source: CPCA, CMBIGM

Figure 10: China passenger-vehicle monthly retail sales volume by OEM / brand

	Retail Sales Volume Jan 2023 (Units)	YoY %	MoM %	Retail Sales Volume YTD (Units)	YTD YoY %
Chinese OEMs					
Geely (incl. Lynk & co, Geometry, Maple)	79,754	-48.3%	-53.5%	79,754	-48.3%
Zeekr	3,942	19.0%	-65.5%	3,942	19.0%
Great Wall	52,383	-53.5%	-46.8%	52,383	-53.5%
Changan	99,218	-30.8%	-42.4%	99,218	-30.8%
SAIC Motor	26,250	-61.7%	-43.8%	26,250	-61.7%
GAC Trumpchi	23,533	-38.4%	-41.4%	23,533	-38.4%
GAC Aion	8,077	-26.5%	-68.5%	8,077	-26.5%
BYD	123,435	44.2%	-44.2%	123,435	44.2%
SAIC-GM-Wuling	48,327	-46.3%	-35.8%	48,327	-46.3%
BAIC Magna	472	-44.3%	-71.0%	472	-44.3%
Voyah	1,051	-42.3%	-34.6%	1,051	-42.3%
NIO	10,067	-1.1%	-33.1%	10,067	-1.1%
Lixiang	15,470	24.5%	-27.7%	15,470	24.5%
Xpeng	5,028	-61.3%	-56.4%	5,028	-61.3%
Weltmeister	179	-93.3%	-67.3%	179	-93.3%
Neta	4,971	-48.8%	-78.2%	4,971	-48.8%
Leapmotor	618	-91.7%	-95.8%	618	-91.7%
Human Horizons	206	-62.5%	-8.0%	206	-62.5%
Jinkang Seres	3,271	2820.5%	-69.9%	3,271	2820.5%
Foreign OEMs					
SAIC VW	75,188	-45.1%	-53.2%	75,188	-45.1%
FAW VW	108,741	-42.2%	-49.4%	108,741	-42.2%
Beijing Benz	45,152	-36.0%	-17.7%	45,152	-36.0%
BMW Brilliance	52,720	-41.9%	-20.8%	52,720	-41.9%
FAW Toyota	40,043	-43.3%	-58.5%	40,043	-43.3%
GAC Toyota	52,945	-43.6%	-55.6%	52,945	-43.6%
Dongfeng Honda	30,279	-61.4%	-55.5%	30,279	-61.4%
GAC Honda	28,057	-65.6%	-66.9%	28,057	-65.6%
Dongfeng Nissan	52,049	-51.9%	-52.6%	52,049	-51.9%
GAC Mitsubishi	1,466	-74.3%	-42.1%	1,466	-74.3%
SAIC GM	47,310	-63.0%	-54.8%	47,310	-63.0%
Changan Ford	9,226	-57.8%	-50.1%	9,226	-57.8%
Tesla China	27,207	38.7%	-34.7%	27,207	38.7%
GAC FCA	14	-99.2%	-92.3%	14	-99.2%
Volvo Asia Pacific	7,967	-38.8%	-55.2%	7,967	-38.8%
Chery JLR	2,964	-33.7%	-48.8%	2,964	-33.7%
Beijing Hyundai	20,480	-44.8%	-42.9%	20,480	-44.8%
Yueda Kia	5,920	-58.1%	-43.5%	5,920	-58.1%
Total Volume (excl. imports)	**1,237,635**	**-43.1%**	**-49.6%**	**1,237,635**	**-43.1%**
Imports by Brand					
Lexus	9,031	-49.3%	-41.1%	9,031	-49.3%
BMW	9,288	-47.1%	-1.4%	9,288	-47.1%
Mercedes-Benz	14,124	-31.5%	5.1%	14,124	-31.5%
Porsche	7,261	-9.9%	-29.0%	7,261	-9.9%
Audi	2,827	-47.5%	-17.4%	2,827	-47.5%
Total Imports	**56,494**	**-36.5%**	**-15.8%**	**56,494**	**-36.5%**
Total Retail Sales Volume	**1,294,129**	**-42.8%**	**-48.7%**	**1,294,129**	**-42.8%**

Source: CATARC, CMBIGM

Leading Indicators

The leading indicators below, including number of leads, customer flows, and new orders generated, for Tesla, NIO, Lixiang, Xpeng, BYD and Aion are based on data from a sample size of 96 stores (15-18 stores for each brand) in 15 major cities in China.

Number of leads: Recover from Dec low

Number of leads per store for these six brands rose about 44% MoM and fell 4% YoY on average in Jan 2023. Such number rose 73% MoM for NIO last month, the most among all the six brands, followed by Xpeng's 71% MoM. Tesla's number of leads per store is still highest among all the six brands.

The conversion ratios from leads to store visit remained flat or declined slightly MoM in Jan 2023 for the six brands, which was ranged between 9-12% in Jan 2023.

Figure 11: Number of leads per store on average for each brand
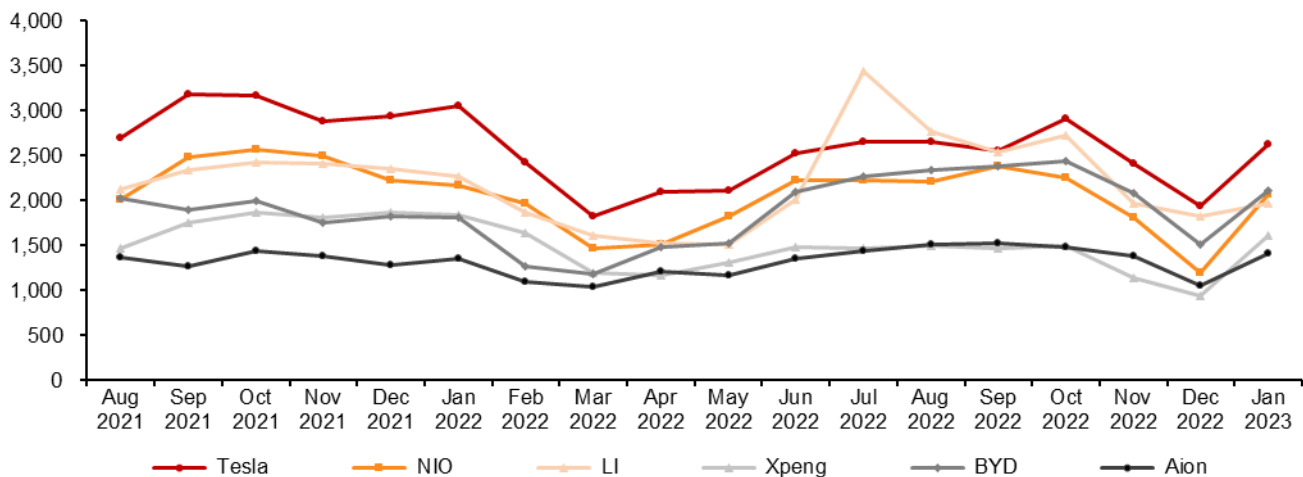
Source: Thinkercar, CMBIGM

Figure 12: Conversion ratio from leads to store visit for each brand
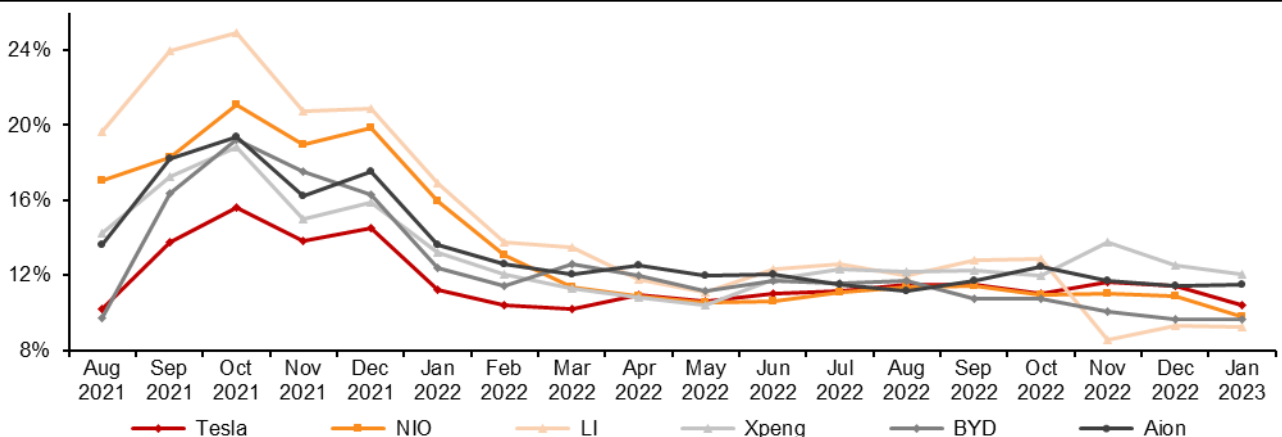
Source: Thinkercar, CMBIGM

Customer flow: Rise MoM despite Chinese New Year

Customer flow per store for these six brands followed a similar pattern as number of leads in Jan 2023, rising 50% MoM. Such number rose 90% MoM for NIO, again the most among all the six brands.

The conversion ratio from store visit to order generation remained flat or declined slightly MoM for the six brands in Jan 2023. Such ratio dropped the most for NIO, resulting in the lowest figure (4%) among all the six brands. BYD had the highest ratio (10%) among the six brands in Jan 2023.

Figure 13: Customer flow per store on average for each brand
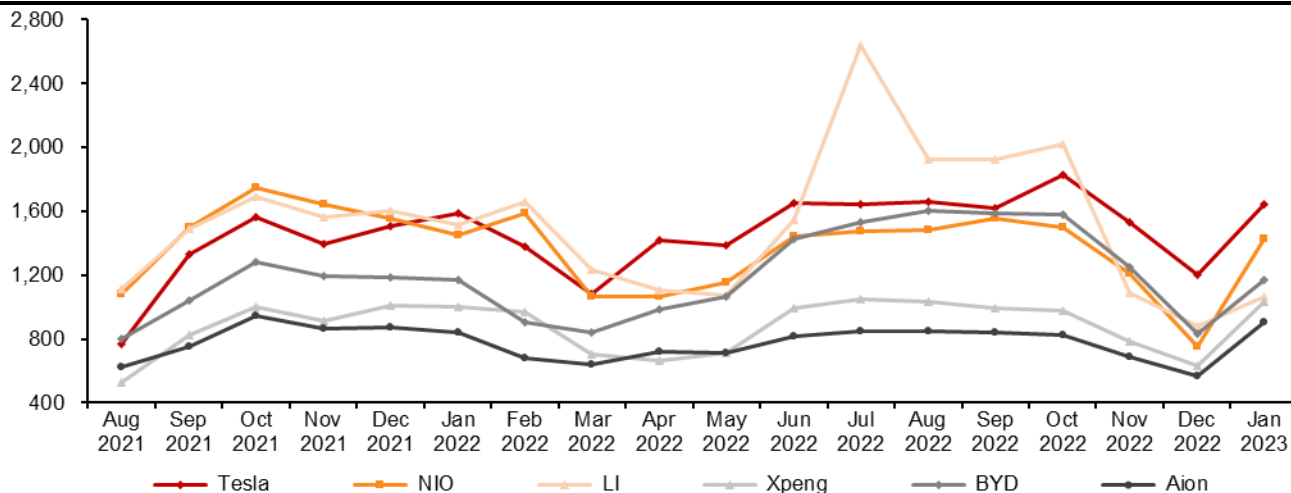
Source: Thinkercar, CMBIGM

Figure 14: Conversion ratio from store visit to new order generation for each brand
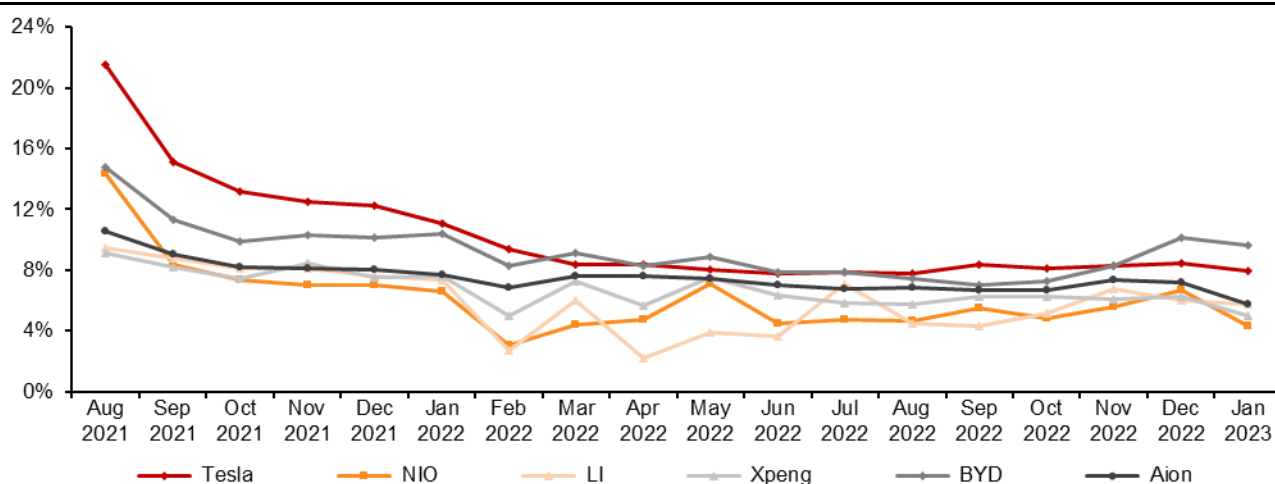
Source: Thinkercar, CMBIGM

New orders appear to recover after Dec low

New orders for the six brands in Jan 2023 returned to a similar level in Nov 2022, despite Chinese New Year. Tesla had the highest new orders generated per store in Jan 2023, although the MoM growth of 29% was not significantly higher than other brands after it cut retail prices on 5 Jan 2023. BYD's new orders generated per store in Jan 2023 returned to a similar level as Sep 2022, which could imply a monthly retail sales volume of 160,000-200,000 units for the next several months.

Figure 15: New orders per store on average for each brand
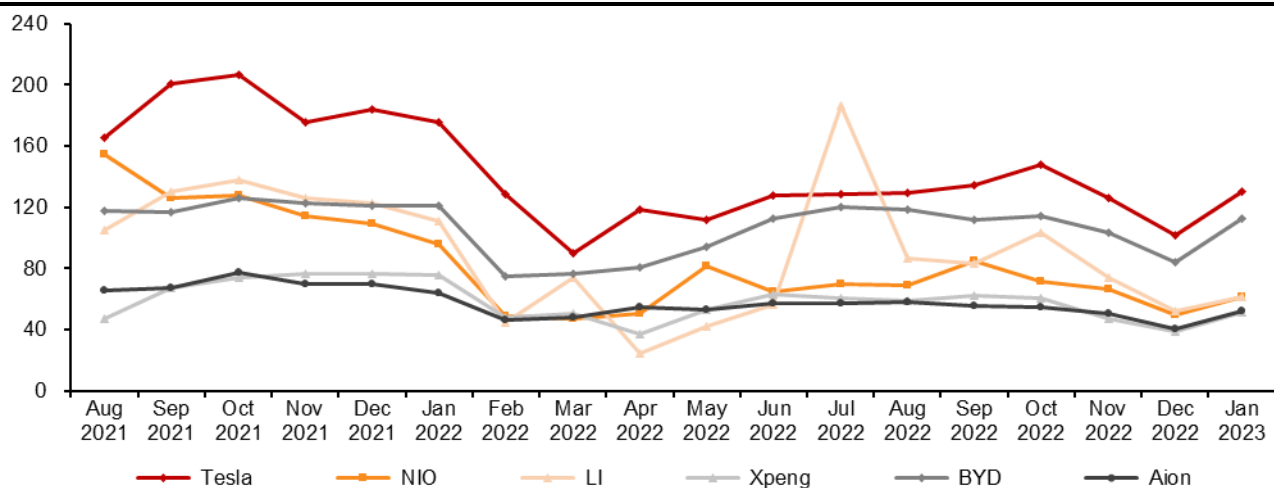
Source: Thinkercar, CMBIGM

NEV Segment

When will NEV makers start destocking amid 3-month inventories?

In Jan 2023, retail sales volume of passenger NEVs dropped 7% YoY and 59% MoM to about 290,000 units, with the market share falling to 22.7% from 25.7% in 2022, amid the subsidy phase-out and early Chinese New Year (21-27 Jan 2023). The trailing 12-month NEV market share rose for 31 months in a row to 26.9% in Jan 2023.

NEV retail sales volume in Jan 2023 was 7% lower than our prior forecast of 315,000 units, due to slower-than-expected demand recovery post the Chinse New Year holiday. We project NEV market share to rise from Feb 2023, aided by increasing store traffic amid widening price discounts.

Individual customers accounted for about 83% of total NEV retail sales in Jan 2023, up from 70% in Dec 2022. The NEV subsidy phase-out from the beginning of 2023 pulled demand ahead, especially for ride-hailing fleets which are more sensitive to subsidies.

Figure 16: Proportion of NEVs sold to individual customers vs that of ICE vehicles in China
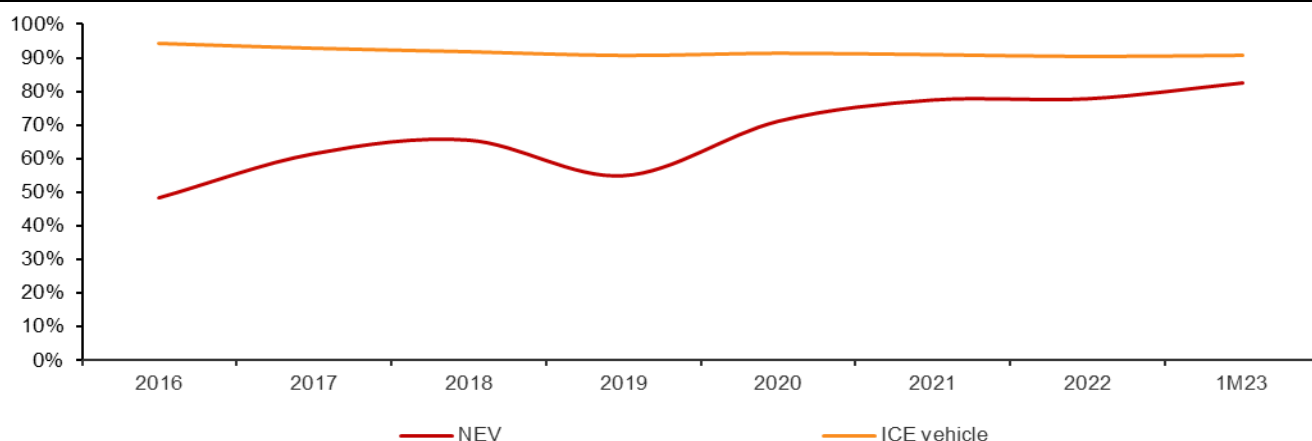
Source: CATARC, CMBIGM

Wholesale volume of passenger NEVs dropped 6.5% YoY and 48% MoM to about 390,000 units in Jan 2023, with a market share of 26.7%. NEV wholesale volume in Jan 2023 beat our prior forecast, largely due to inventory restocking. We estimate about 30,000 units of inventory NEVs were added into dealers last month. That makes us more worried about the market volatility, as about 670,000 units of NEV inventories have been added into dealers in the past 12 months. We estimate the current industrywide NEV inventory level to be about three months based on our NEV sales forecasts for the next few months. In fact, the figure could be even higher for individual NEV makers because about 18% of total NEVs sold in 2022 were through direct-sales model which is supposed to have minimal inventories.

NEV exports in Jan 2023 were not interrupted by Chinese New Year, rising 21% MoM to about 69,000 units. Tesla accounted for 57% of China's total NEV exports, followed by BYD and MG. Both brands posted NEV exports of about 10,000 units last month, largely unchanged MoM.

NEV by city-tier: Tier-2 cities were the most resilient

Tier-1 cities contributed about 13% of total NEV retail sales in Jan 2023, down from 18% in Dec 2022, as consumers went back to hometown for Chinese New Year and Shanghai cancelled green licenses for PHEVs from 2023 (only 946 PHEVs were sold in Shanghai in

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Jan 2023). Tier-2, -3 and -4 and below cities contributed about 52%, 19% and 16% of total NEV retail sales in Jan 2023, respectively, up from 50%, 17% and 15% in Dec 2022.

In Jan 2023, tier-2 cities remained the most resilient, as its monthly market share dropped 2.7 ppts MoM to 27.0% in Jan 2023, the least among all city tiers. Market share in tier-1, -3 and -4 and below cities fell 5-7 ppts MoM, respectively.

The BYD *Song Plus* PHEV surpassed the Tesla *Model Y* to become the best-selling NEV model in tier-1 and -2 cities. The *Wuling Hongguang Mini* still dominates lower-tier cities, but with declining market share (12% in tier-3 and below cities in Jan 2023 vs. 15% in 2022). Market share for mini-size BEVs has been falling as we expected. Mini BEVs accounted for 20% of total BEV retail sales volume nationwide in Jan 2023, down from 26% in 2022.

Figure 17: China NEV market share by city tier (trailing 12-month basis)

Market Share	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023
Tier 1	33.5%	34.4%	35.2%	35.8%	37.1%	38.4%	39.6%
Tier 2	22.6%	23.6%	24.5%	25.3%	26.3%	27.1%	28.3%
Tier 3	18.9%	19.6%	20.4%	21.1%	21.9%	22.8%	23.8%
Tier 4 and below	14.9%	15.6%	16.3%	17.1%	17.8%	18.3%	19.4%
Nationwide	**21.3%**	**22.2%**	**23.1%**	**23.9%**	**24.9%**	**25.7%**	**26.9%**

Source: CATARC, CMBIGM

NEV by city type: Cities with ICE registration caps only took up 20%

We divided cities in China into three types based on whether there are restrictions for ICE vehicle registration or driving. In Jan 2023, only 20% of NEV retail sales volume came from regions with new ICE vehicle registration limits (Beijing, Shanghai, Shenzhen, Guangzhou, Tianjin, Hangzhou and Hainan province), down from 24% in 2022, again due to Chinese New Year effect and Shanghai's cancellation of green license for PHEVs from 2023. Shanghai accounted for 4.2% of nationwide NEV retail sales in Jan 2023, down from 6.4% in 2022. Despite that, China's PHEV retail sales volume YoY growth still outpaced BEV in Jan 2023, which underscored our previous argument that Shanghai's green license cancellation for PHEVs should have limited dent on PHEVs.

About 17% of NEV retail sales volume was from cities with driving restrictions (including 24 cities, like Baoding, Chongqing, Wuhan, Xi'an etc.) in Jan 2023, up from 14% in 2022. The remaining 63% of NEV retail sales volume was contributed by cities without license or driving restrictions in Jan 2023, rising from 62% in 2022.

Figure 18: NEV market share by city type
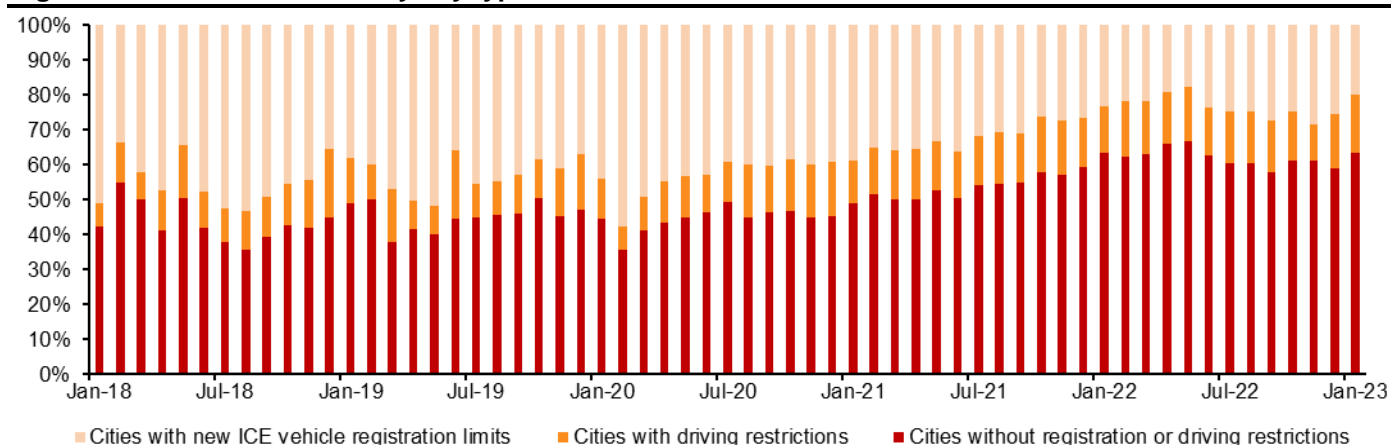
Source: CATARC, CMBIGM

Figure 19: NEV retail sales volume YoY growth contribution by city type in Jan 2023
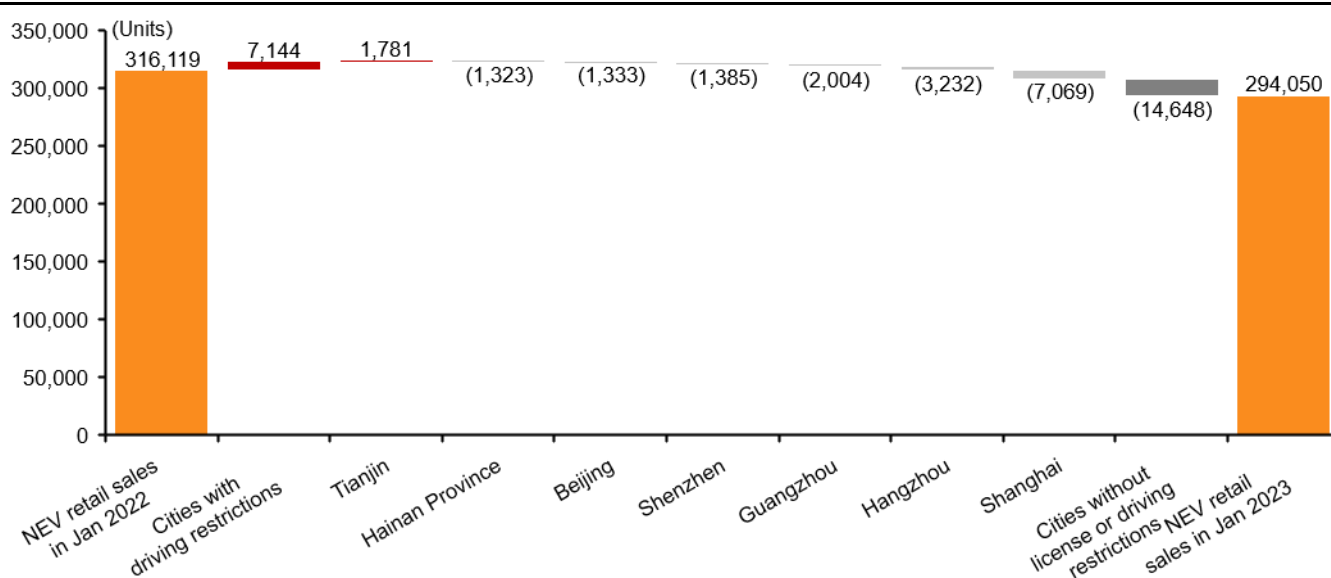
Source: CATARC, CMBIGM

Shanghai barely retained the NEV retail sales crown in Jan 2023, while its NEV market share dropped the most among the top 40 cities (35.2% in Jan 2023 vs. 53.9% in Dec 2022). Shenzhen had the largest NEV market share among all the cities in China in Jan 2023, with the second largest NEV retail sales volume nationwide.

Figure 20: NEV retail sales volume in top 20 cities with corresponding NEV market share in Jan 2023
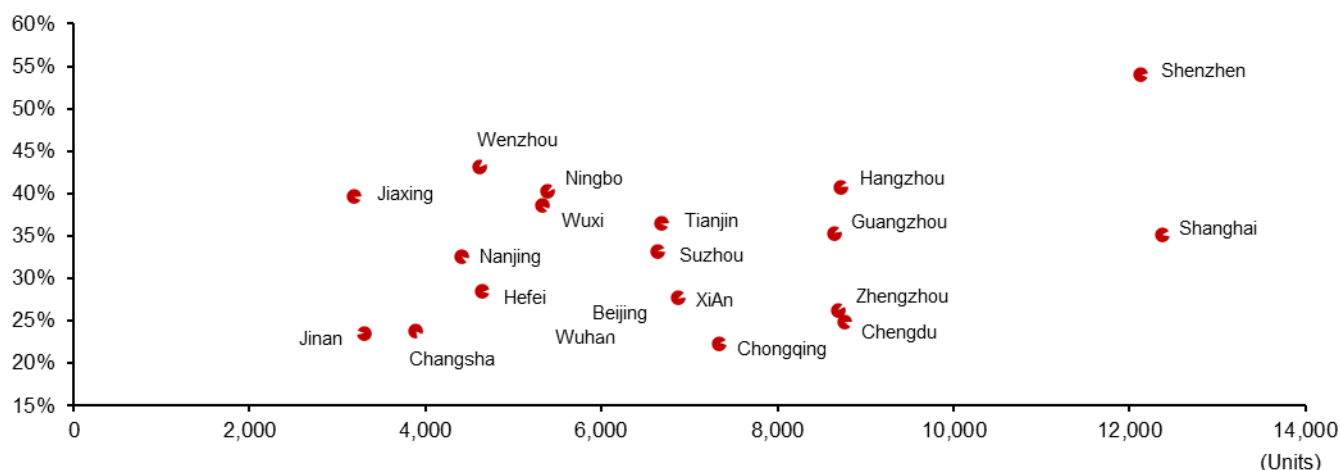
Source: CATARC, CMBIGM

NEV by model: *Wuling Hongguang Mini* posted largest YoY decline

The *Wuling Hongguang Mini EV*'s retail sales volume dropped about 12,000 units YoY in Jan 2023, the largest decline at a model level for NEV retail sales volume in Jan 2023. Wuling announced a price discount of RMB 3,000 for its *Hongguang Mini EV* on 31 Jan 2023. Another mini-size BEV, the *Chery eQ1*, dropped about 5,200 units YoY in Jan 2023.

The nationwide best-selling NEV model in Jan 2023, the BYD *Song Plus* PHEV, enjoyed the most YoY growth on a unit sales basis last month. BYD Yuan BEVs (including *Yuan Plus* and *Yuan Pro*) combined still posted YoY growth of about 6,000 units in Jan 2023.

Figure 21: NEV retail sales volume growth contribution by model in Jan 2023
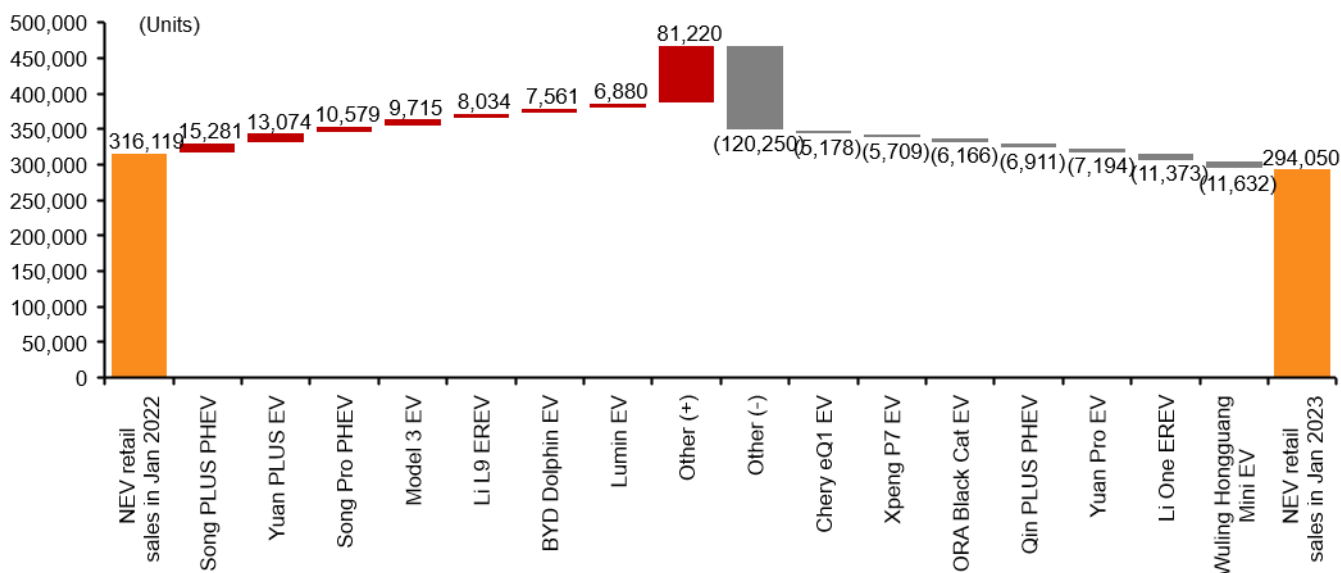
Source: CATARC, CMBIGM

BEV brands: BMW appeared in the top 10 list for the first time

In Jan 2023, total BEV retail sales volume dropped 24% YoY and 65% MoM to about 180,000 units. BEV's market share in the NEV segment dropped to 62.1% in Jan 2023 from 75.3% in 2022.

BYD and Tesla's market share further increased to 29% and 15% in the BEV segment in Jan 2023, from 20% and 11% in 2022, respectively. NIO replaced GAC Aion to take up the 4th place in Jan 2023, with the least MoM decline among the top 10 brands.

BMW squeezed to the 7th place for the first time with the largest YoY sales volume growth among the top 10 brands. About 60% of BMW's NEV retail sales volume in China last month was contributed by the *i3*. VW dropped to the 12th place last month with 67% MoM retail sales volume decline. Wuling, GAC Aion, Xpeng, Neta and Chery all underperformed the overall BEV segment in Jan 2023 in terms of YoY sales volume growth.

Figure 22: Top 10 BEV brands' retail sales volume in China

Units	Jan 2023	YoY	YTD	YTD YoY	YTD Market Share in BEV Segment
Total BEV	**182,709**	**-24.1%**	**182,709**	**-24.1%**	**100.0%**
BYD	52,077	31.0%	52,077	31.0%	28.5%
Tesla	27,207	38.7%	27,207	38.7%	14.9%
Wuling	18,892	-39.4%	18,892	-39.4%	10.3%
NIO	10,067	-1.1%	10,067	-1.1%	5.5%
Changan	9,399	18.9%	9,399	18.9%	5.1%
GAC Aion	8,073	-26.5%	8,073	-26.5%	4.4%
BMW	6,488	221.2%	6,488	221.2%	3.6%
Xpeng	5,028	-61.3%	5,028	-61.3%	2.8%
Neta	4,144	-57.3%	4,144	-57.3%	2.3%
Chery	4,095	-70.3%	4,095	-70.3%	2.2%

Source: CATARC, CMBIGM

PHEV brands: Fewer foreign brands in the top 10 list

In Jan 2023, total PHEV (EREV included) retail sales volume rose 48% YoY and dropped 42% MoM to about 111,000 units. PHEV's market share in the NEV segment increased to 37.9% in Jan 2023 from 24.7% in 2022, in line with our previous forecast that PHEV's sales volume growth would outpace BEV's in 2023.

BYD's market share in the PHEV segment dropped slightly to 59% in Jan 2023 from 61% in 2022. However, BYD and Denza's market share combined rose to 64% in Jan 2023, as BYD-controlled Denza brand climbed to the 3rd place with only one model on sale.

Lixiang's market share in the PHEV segment rose to 13.9% in Jan 2023 from 10.4% in 2022. Li Auto launched a new mid-to large-size 5-seat SUV, the *L7,* and added a lower-price trim level for the *L8* (the *L8 Air*) on 8 Feb 2023, which could further aid the company's sales volume and market share in 2023.

Changan Deepal climbed to the 4th position in the PHEV segment in Jan 2023, while Huawei-backed Aito dropped to the 6th place.

Chinese brands' combined market share in the PHEV segment rose to 90.2% in Jan 2023, from 87.1% in 2022. Only three foreign brands (Mercedes-Benz, VW and BMW) are still in the top 10 list, vs. four last year (Nissan was out of the top 10 in Jan 2023). We expect such trend to continue based on the model pipeline.

Figure 23: Top 10 PHEV (EREV included) brands' retail sales volume in China

Units	Jan 2023	YoY	YTD	YTD YoY	YTD Market Share in PHEV Segment
Total PHEV	**111,341**	**47.8%**	**111,341**	**47.8%**	**100.0%**
BYD	65,844	77.8%	65,844	77.8%	59.1%
Lixiang	15,470	24.5%	15,470	24.5%	13.9%
Denza	5,436	1248.9%	5,436	1248.9%	4.9%
Deepal	3,342	N/A	3,342	N/A	3.0%
Mercedes-Benz	2,709	-22.1%	2,709	-22.1%	2.4%
Aito	2,619	18607.1%	2,619	18607.1%	2.4%
VW	2,218	-14.4%	2,218	-14.4%	2.0%
Changan	1,568	52.7%	1,568	52.7%	1.4%
BMW	1,188	-67.7%	1,188	-67.7%	1.1%
Lynk & Co	1,113	-45.3%	1,113	-45.3%	1.0%

Source: CATARC, CMBIGM

Other Industry Indicators to Watch

PV by city tier: Lower-tier cities outperformed during Spring Festival

Total PV retail sales volume plunged 43% YoY and 49% MoM in Jan 2023. Tier-3 and below cities outperformed tier-1 and -2 cities in terms of YoY growth in Jan 2023 amid Chinese New Year effect. Although the city-level dent by the COVID recurrence last year could be unpredictable, tier-1 and -2 cities were more resilient. The picture could be mixed this year, in our view.

Figure 24: China auto retail sales growth by city tier

Retail Sales YoY Growth	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Trailing 12 Months
Tier 1	14.9%	24.6%	25.7%	16.8%	14.0%	13.2%	-48.6%	-3.2%
Tier 2	10.6%	22.4%	11.1%	5.1%	-1.4%	13.2%	-43.2%	-3.3%
Tier 3	6.9%	16.5%	4.1%	-8.4%	-23.8%	6.7%	-39.4%	-11.4%
Tier 4 and below	3.5%	4.6%	-2.9%	-16.1%	-19.4%	11.6%	-42.8%	-12.5%
Nationwide	**8.8%**	**17.6%**	**8.6%**	**-1.2%**	**-7.9%**	**11.5%**	**-42.8%**	**-7.0%**

Source: CATARC, CMBIGM

The Chinese New Year effect dominated the city-level retail sales volume YoY growth in Jan 2023, which could continue in Feb 2023. We see no indication for future sales volume growth in these cities based on the Jan data.

Figure 25: PV retail sales volume YoY growth contribution by city in Jan 2023
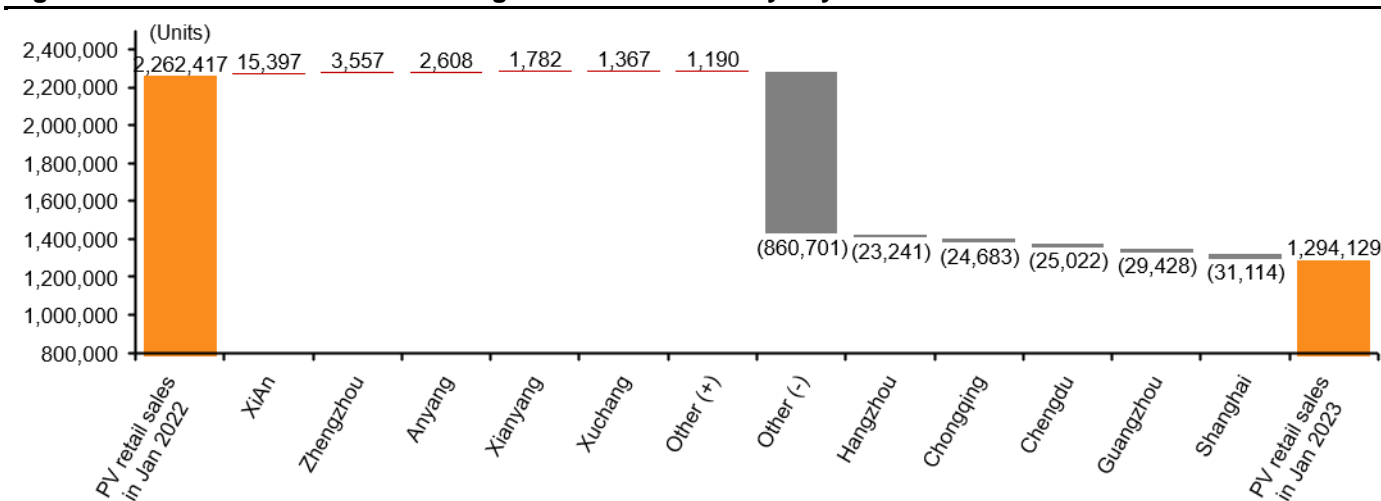
Source: CATARC, CMBIGM

Chinese-brand market share reached 47.5% in Jan 2023

Retail sales volume for Chinese brands dropped 37% YoY in Jan 2023, outpacing the overall industry by 6 ppts. Excluding NEVs, retail sales volume of Chinese-brand ICE vehicles fell 47% YoY in Jan 2023, stronger than the overall ICE segment by 2 ppts. Surprisingly, Chinese-brand NEV retail sales volume dropped 10% YoY in Jan 2023, underperformed the overall NEV segment by 2.7 ppts.

The trailing 12-month market share for Chinese brands rose to 44.1% in Jan 2023. We project Chinese brands to gain market share for a third successive year in 2023, aided by NEVs.

Figure 26: Chinese brands' market share (trailing 12-month basis)
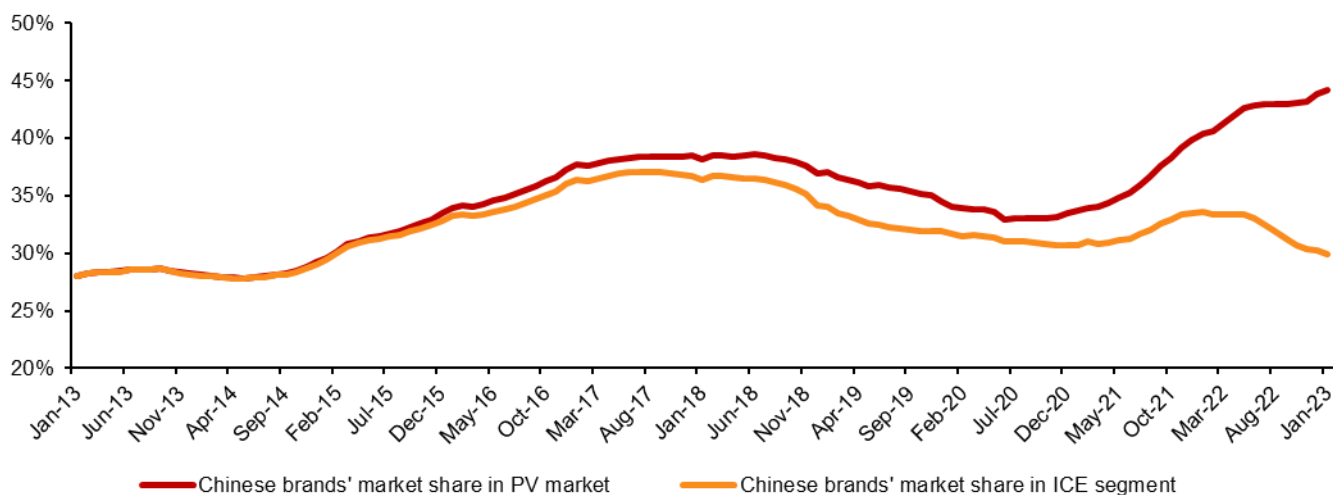
Source: CATARC, CMBIGM

Traditional luxury outperformed for five months in a row on low base

The total retail sales volume of traditional luxury brands dropped 41% YoY and 30% MoM to 0.21mn units in Jan 2023, outperforming the overall industry by 2 ppts YoY and 19 ppts MoM, respectively amid a milder pre-buying effect at the end of 2022. We have been expecting a slight underperformance for luxury brands compared with the overall industry in 2023. Luxury market share, on a trailing 12-month basis, remained largely stable MoM at 14.8% as of Jan 2023.

Figure 27: China traditional luxury auto market share by city tier (trailing 12-month basis)

Market Share	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023
Tier 1	21.5%	21.2%	21.2%	21.3%	21.1%	20.9%	20.7%
Tier 2	18.2%	18.1%	18.2%	18.3%	18.4%	18.4%	18.3%
Tier 3	10.2%	10.2%	10.4%	10.6%	10.7%	10.8%	10.8%
Tier 4 and below	6.8%	6.8%	6.9%	7.0%	7.1%	7.2%	7.3%
Nationwide	**14.5%**	**14.4%**	**14.5%**	**14.7%**	**14.8%**	**14.9%**	**14.8%**

Source: CATARC, CMBIGM

BMW took the No.1 place among traditional luxury brands in China as of Jan 2023, followed by Mercedes-Benz. The German "Big Three" (Mercedes-Benz, BMW, Audi) accounted for market share of 75% as of Jan 2023, up from 72% in 2022. The competition between BMW and Mercedes-Benz could be interesting again this year, as BMW has set a more aggressive sales target (0.9mn units in 2023) vs. Mercedes-Benz's 0.85mn units. We are more pessimistic than both brands' sales targets.

Volvo surpassed Cadillac and Lexus to be the 3rd place in Jan 2023, which may not be sustainable, in our view. The competition between Lexus and Cadillac for the 4th place this year could also be intensifying. Porsche targets a slight YoY sales volume decline to 90,000 units in 2023, although we expected it to be one of few traditional luxury brands to post sales volume growth in 2023. Smart replaced MINI to be the 10th place, with its *Smart #1 EV* ramping up.

Figure 28: Top 10 traditional luxury auto brands' retail sales volume in China

Units	Jan 2023	YoY	YTD	YTD YoY	YTD Market Share in Luxury Segment
Total Luxury	**212,553**	**-41.1%**	**212,553**	**-41.1%**	**100.0%**
BMW	62,008	-42.7%	62,008	-42.7%	29.2%
Mercedes-Benz	60,867	-35.2%	60,867	-35.2%	28.6%
Audi	36,837	-49.3%	36,837	-49.3%	17.3%
Volvo	9,746	-36.5%	9,746	-36.5%	4.6%
Lexus	9,031	-49.3%	9,031	-49.3%	4.2%
Cadillac	8,380	-60.2%	8,380	-60.2%	3.9%
Porsche	7,261	-9.9%	7,261	-9.9%	3.4%
Land Rover	6,286	-18.9%	6,286	-18.9%	3.0%
Lincoln	5,192	-41.3%	5,192	-41.3%	2.4%
Smart	3,174	N/A	3,174	N/A	1.5%

Source: CATARC, CMBIGM

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