CATL - H

Accumulate the dip, not the 2027 fear

Overweight

3750.HK, 3750 HK
Price (10 Jul 26):HK$587.00
Price Target (Dec-26):HK$725.00

Asia Autos & EV Battery

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CATL-H shares fell 8% on 10-July (HSI +0.6%), extending the correction from the recent June peak to 25% (HSI -7%). We believe technical factors and near-term sentiment headwinds are driving the weakness, rather than any material deterioration in CATL's long-term fundamentals.

We reiterate our **Overweight** rating on CATL and continue to view it as our preferred core holding in China's battery supply chain. While recent volatility has weighed on sentiment, we believe investors should focus on CATL's structural strengths: unrivaled technology leadership, industry-leading scale, and a proven ability to deliver stable earnings, ROE, and free cash flow through the cycle. As the global leader across EV&ESS battery technology, CATL has consistently translated innovation into market share gains and superior financial performance. In our view, **CATL remains a rare industrial technology compounder, with long-term value driven by its technology moat, execution excellence, and earnings compounding capability** rather than short-term fluctuations in monthly or quarterly data. Potential catalysts include the 2Q26 result (24-July) and release of the 2027 production plan (any time between Sep-Dec).

Why has the stock corrected?

1. **2Q26 result expectation revised down.** The market has recently revised expectations for CATL's 2Q26 net profit down to Rmb22-23bn, more toward the lower-end, vs. Rmb23-24bn prior. This implies 6-11% q/q growth and 33-40% y/y growth, well below the production data the market tracks, e.g. our recent note tracking 23% q/q and 80% y/y, based on ZE Consulting. We estimate 2Q26 shipment numbers at 230-245GWh, 54%-64% y/y. Consensus estimates of Rmb22-23bn imply a potential decline in CATL's net unit profitability, vs. Rmb0.10/wh in the past.

    - **What could be the reasons for a muted 2Q26 profit?** We are not concerned that slower 2Q26 earnings, if true, are a sign of fundamental deterioration. We think lower reported earnings could be for strategic reasons, specifically as the company might be in price negotiations with Chinese auto OEM customers.
    - **A repeat of 1Q22?** In 1Q22, CATL reported a massive miss in GPM and earnings. However, over full-year 2022, the company's unit profitability, measured in NP/unit, remained very stable. We believe the 1Q22 GPM miss was a strategic move as the company sought to convert its pricing contracts from fixed price to material-linked contracts.
    - **We believe the underlying fundamentals remain strong.** Tier-2 companies, including EVE Energy and Rept, had reported stable or improving unit profit, and we believe the same is true for CALB. On material costs, our channel checks with separator and anode suppliers indicate price hikes with CATL have not yet become effective in 2Q26.

2. **Recent battery production revised down.** As we highlighted in our 3-July

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note, CATL/BYD's actual June production volumes came in below prior expectations, revised down by 4-6%, mainly due to continued raw material price declines. Continued declines in raw material prices led battery makers to become more cautious on procurement and reduce inventories, slowing supply-chain activity in June. In the course of our discussions with investors, we understand another vendor also recently revised down July battery production estimates.

- **What could be the reasons for a muted June-July production?** June-July is a traditional low season for battery production before the industry heads into peak season in Aug-Sep. We also see the possibility that battery makers may want to accumulate lithium inventories ahead of peak production season. More importantly, we believe CATL remains on track for its FY26 production target of 1,200Gwh, a target given to material suppliers that implies >50% y/y.

3. **U.S. potential ban on Chinese inverter imports?** Sungrow has fallen ~28% since July 1 (vs. CSI300 -4%) following media reports (link) suggesting the FCC may be considering a rule that could restrict new foreign inverter imports into the US. We see a negligible impact on CATL, as its US exports are primarily battery cells or containers without PCS. We estimate US ESS will account for <5% of CATL's 2026 shipment mix (down from ~10% in 2025).
4. **Potential changes in Hungary's stance towards Chinese investment?** We highlighted in our 12-June note that on May 30, 2026, Zsolt Tárkányi, Parliamentary State Secretary at Hungary's Ministry of Transport and Investment, stated that the new Tisza-led government "will not be a partner" in CATL's plans for additional phases that would amount to a "second" and "third" plant next to the existing Debrecen site (news). Investors' concerns rose again with Yunnan Energy's recent suspension of its operation in Hungary (news on 3-July). We believe Chinese supply chain companies, including CATL, BYD and Yunnan Energy, are proactively discussing with the Hungarian government for the next steps and solutions.
5. **China domestic ESS demand to decelerate in 2027E then drop meaningfully in 28E?** A competitor published a 9-July initiation report and industry view forecasting China domestic ESS battery shipment growth decelerating from 80% in 2026E to 16% in 2027E, then declining 28% in 2028E. **J.P. Morgan view:** We highlighted in our 2-June report that the latest NDRC target calls for 180GW of China ESS installed capacity by 2027 (vs. ~75GW in 2024), while J.P. Morgan's base case already assumes installations to exceed 320GW by 2027. That points to potential overachievement of the official target and, by extension, the risk of a sharp slowdown or decelerated growth in 1H28. We forecast China ESS installation growth to decelerate to 4% in 2028 from 25% in 2027, with a more meaningful slowdown likely in 1H28; because ESS battery shipments typically lead installations by about six months, shipment deceleration risk could begin as early as 2H27. That said, any post-2027 softness may be temporary rather than structural: underlying storage needs tied to rising renewable penetration should keep growth intact into 2030, with China's renewable mix expected to rise from ~24% by end-2025 toward ~35% by 2030 and ESS penetration catching up from ~7% toward ~18% (still consistent with markets like the UK, where storage remains a grid priority even near ~18% penetration). Finally, other demand drivers may cushion any China ESS slowdown, as China ESS is expected to be less than 20% of total battery demand in 2026 and overseas ESS, particularly Europe and emerging markets, likely to be the more important contributor to battery growth.
6. **CATL losing share in domestic market as OEMs consider second supplier?** We do not see any reason to be concerned on CATL following a recent article (link) stating that Chinese EV makers, including HIMA, Li Auto, XPeng, Xiaomi and Leapmotor, are increasingly adopting multi-sourcing strategies for batteries, adding Gotion, CALB and Sunwoda alongside CATL. As we have noted in our past reports, OEMs commonly

introduce second or 3rd suppliers as they scale. Our updated market share charts indicate CATL gaining market share YTD in the China passenger vehicle market (41% in 2025 to 47% YTD), ex-China EV market (30% in 2025 to 34% YTD) and Global shares (39% in 2025 to 40% YTD). See Figures 1-4.

Investor focus has shifted from 2026 execution to 2027 visibility

Strong 2026 demand is no longer enough. Based on our investor discussions, the key issue is not whether battery demand will continue at high growth in 2026. The market is well aware of CATL's targeted 1.2TWh production volume for 2026 (>50% YoY growth) and industry forecasts pointing to roughly 3TWh of battery production in 2026. These expectations have been widely discussed since 4Q25 and, in our view, have largely been incorporated into sector valuations. As a result, monthly production or shipment data that merely confirm strong demand are no longer sufficient to drive meaningful earnings upgrades or multiple expansion.

Consequently, investors increasingly view strong operating data as a catalyst to lock in profits rather than add exposure, particularly after the substantial sector rerating over the past six to nine months. In the absence of a new structural growth driver or a meaningful positive surprise on profitability, the market appears reluctant to push valuations materially higher based solely on 2026 execution.

The debate has moved to 2027 demand growth

Investor attention has therefore shifted toward 2027, where visibility is meaningfully lower. While confidence in 2026 demand remains high, we see increasing divergence in views on the sustainability of growth thereafter. The largest area of debate remains energy storage, particularly domestic China ESS demand, where investors are generally taking a more conservative stance.

Our discussions suggest that current market expectations imply approximately 20% global EV+ESS battery shipment growth in 2027E, compared with our estimate of 24%, representing a noticeable deceleration from ~36% growth expected in 2026E.

In particular, some investors question whether the exceptionally strong ESS growth seen over the past two years can be sustained into 2027, especially in China where project economics remain sensitive to power-market reforms, utilization rates, and policy implementation. As a result, the market's debate is increasingly centered on the quality and sustainability of 2027 growth rather than the strength of 2026 demand.

Overcapacity concerns are resurfacing

Another recurring concern is the industry's supply outlook beyond 2026. While supply-demand conditions have tightened considerably over the past 12 months and battery pricing has stabilized, investors are increasingly focused on the next wave of capacity additions (coming in meaningfully from 2H26).

Recent commentary from industry participants continues to point to aggressive expansion plans into 2027. Our estimates suggest industry effective capacity could increase by approximately 40% in 2027E, raising concerns that the sector may once again enter a period of oversupply. The market's concern is that if end-demand growth moderates while capacity continues to expand aggressively, pricing and profitability could come under pressure sooner than expected. This concern is particularly relevant because many investors still have fresh memories of the severe oversupply cycle experienced during 2023-24, which resulted in

intense price competition, margin compression, and significant earnings downgrades across the battery value chain.

JPM view: Capacity tightness should ease, but not return to 2023-24 conditions

While we agree that industry capacity constraints are likely to ease in 2027E, we believe current market concerns may overstate the risk of a return to the 2023-24 oversupply environment (Figures 5-6). Unlike the previous cycle, industry concentration is higher, capacity expansion is increasingly concentrated among leading players, and the central government has taken actions on the industry's supply control as we highlighted in our 12-June note .

As a result, we expect a more balanced normalization of supply-demand conditions rather than a renewed industry-wide glut. In our view, easing capacity tightness should help moderate returns from peak levels but is unlikely to trigger the same degree of pricing pressure and profitability destruction experienced during 2023-24. Therefore, while 2027 demand visibility and supply additions remain key areas of investor debate, we do not view them as thesis-breaking risks for leading battery manufacturers.

Potential catalysts

Looking ahead, we see two potential catalysts that could help improve investor sentiment and provide greater visibility into CATL's medium-term growth outlook.

- First, **CATL's 2Q26 results on 24 July (conference call at 8:00pm HKT)** could serve as an important near-term catalyst. While investors appear concerned about the possibility of softer near-term earnings, we believe management will have the opportunity to address market concerns, explain any temporary earnings volatility, and provide updated commentary on demand trends across both EV and ESS applications. More importantly, we expect investors to focus less on the quarter itself and more on management's outlook for 2027.
- Second, we believe the market will closely watch for **CATL's 2027 production planning discussions with key material suppliers**, which historically have taken place around December, although the process occurred as early as September in 2025. Given that investor focus has already shifted to 2027 demand visibility, any communication regarding production targets could provide an important read-through on management's demand expectations for next year.

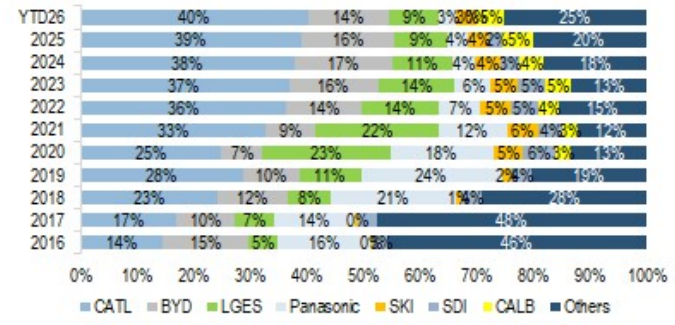
Current market expectations for 2027E battery demand growth appear relatively conservative at around 20% YoY, compared with our estimate of 24%, and we believe the risk is on the upside. We see scope for management to support upside to consensus expectations by conveying a more constructive demand outlook during the 2Q26 earnings call, post-result meetings, or through its 2027 production planning process. These events could improve visibility on 2027 growth and potentially alleviate concerns currently weighing on sector valuations.

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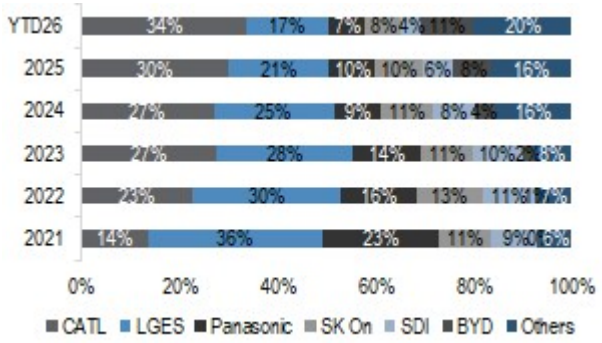
CATL continues to gain market share in global EV market

Figure 1: Global EV battery share by player



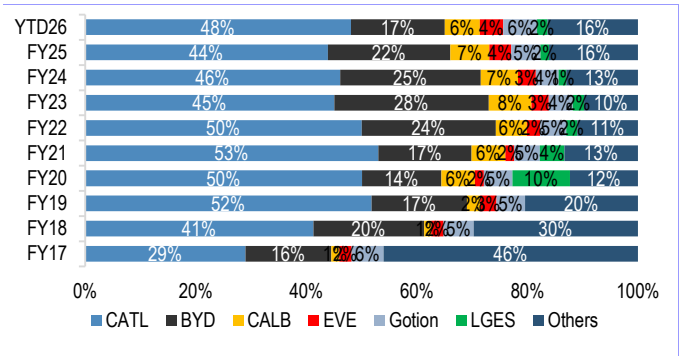
Source: SNE, J.P. Morgan. YTD26=5M26

Figure 2: Ex-China EV battery share by player



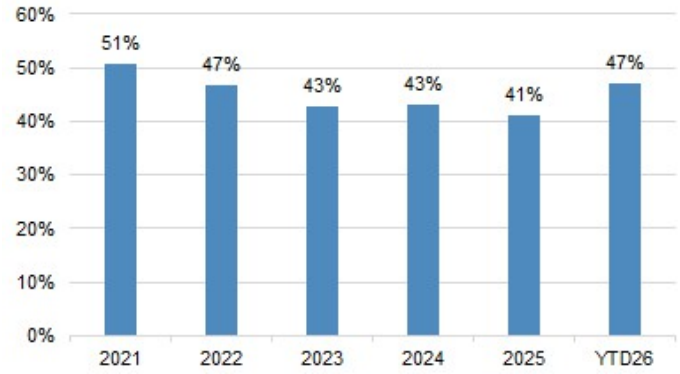
Source: SNE, J.P. Morgan. YTD26=5M26

Figure 3: China EV battery share by player



Source: GGII, J.P. Morgan. YTD26=5M26

Figure 4: CATL's m/s in China PV market



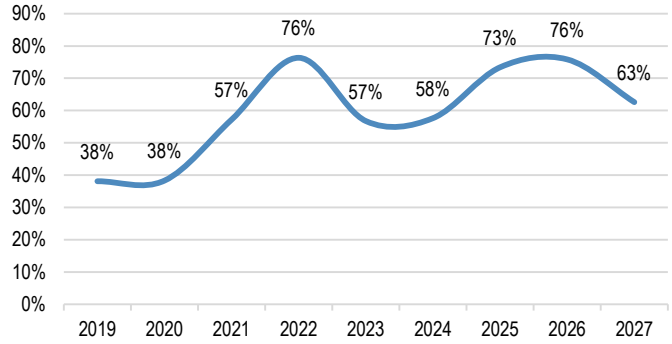
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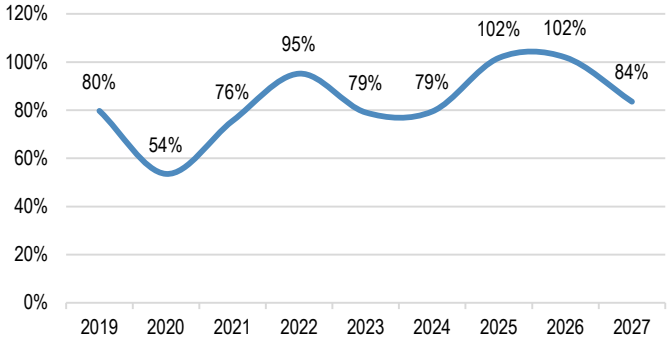
China battery capacity utilization to ease in 2027 but not back to 2023-24 levels

Figure 5: China EV and ESS battery industry capacity utilization rate (based on designed capacity)



Source: J.P. Morgan calculations. Note: Calculations based on company reports.

Figure 6: China EV and ESS battery industry capacity utilization rate from top 8 players



Source: Company data, J.P. Morgan calculations. Note: We used industry demand to top 8 players' capacity for this chart. 8 players include: CATL, BYD, CALB, EVE, Gotion, Svolt, Sunwoda, Rept.

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Investment Thesis, Valuation and Risks

CATL - H *(Overweight; Price Target: HK$725.00)*

Investment Thesis
We like CATL's technology and leadership position in the global EV and ESS battery markets. Despite continued pricing pressure in the supply chain, CATL has demonstrated the ability to deliver resilient profits thanks to its technology leadership. We value the scarcity value of CATL-H in the H-share market as its limited share supply supports a valuation premium, in our view. We rate the stock OW.

Valuation
Our Dec-26 PT is HK$725, based on 30x 2026E PE. This is around the high-end of the trading range since the H-share listing, which we deem appropriate given the accelerated growth.

Risks to Rating and Price Target
Downside risks include lower-than-expected sales volume or margins, and US-China geopolitical risks.



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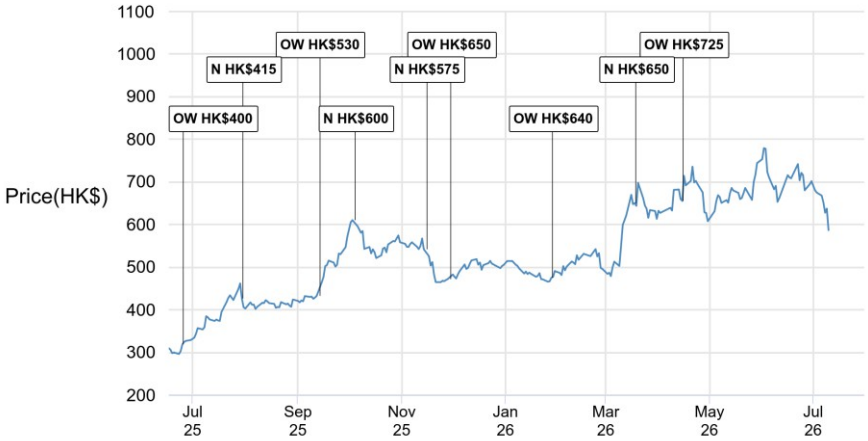
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CATL - H (3750.HK, 3750 HK) Price Chart



Date	Rating	Price (HK$)	Price Target (HK$)
26-Jun-25	OW	319.00	400
31-Jul-25	N	426.60	415
14-Sep-25	OW	432.80	530
05-Oct-25	N	610.50	600
16-Nov-25	N	542.00	575
30-Nov-25	OW	472.00	650
29-Jan-26	OW	475.40	640
19-Mar-26	N	650.50	650
16-Apr-26	OW	655.50	725

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 25, 2025. All share prices are as of market close on the previous business day.

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IB clients**	83%	80%	73%
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