China Battery: Initiation Feedback: Diverging demand views, CATL in focus

We met or spoke with ~150 investors over the past month following our China battery coverage initiation (see sector note and CATL company note), with a balanced mix across onshore China, offshore and Western investors. The biggest takeaway was the sharp divergence between onshore and offshore/foreign investors on battery demand, with domestic ESS at the center of the debate. This divergence, combined with the different lenses through which the two investor groups assess CATL, helps explain the sizable premium of CATL's H-shares over A-shares. Below, we summarize the key feedback from our initiation marketing meetings and calls.

Nick Zheng, CFA
+852-2978-1405 | nick.zheng@gs.com
Goldman Sachs (Asia) L.L.C.

Selina Yan
+852-2978-0178 | shuling.yan@gs.com
Goldman Sachs (Asia) L.L.C.

Industry: Demand views diverge; domestic ESS is the swing factor

Our view of front-loaded ESS adoption differs meaningfully from prevailing sell-side forecasts, but most investors we spoke with were receptive to our analytical framework. Broadly, Western investors appeared more surprised, often starting from a more straight-line demand projection, while onshore Chinese investors were more cautious on domestic ESS and generally expected demand to peak this year.

- **EV:** Directionally, investors have largely reached consensus that EV batteries are unlikely to sustain the high growth seen in prior years. Onshore Chinese investors were notably more concerned about China EV penetration approaching a ceiling and potential export demand pull-in this year ahead of the VAT rebate policy phase-out, which could weigh on EV exports into next year.
- **Domestic ESS:** This remains the biggest debate and featured in almost every investor conversation. Onshore Chinese investors highlighted the risk of domestic ESS demand peaking this year, pointing to slower-than-expected ESS installations in 1H26, although we note the historically 4Q-skewed installation pattern and strong tendering/contracting activity YTD. Investors also cited policy uncertainty, including the duration of capacity payment schemes, as a potential drag on project IRR.
- **Overseas ESS:** Despite overseas ESS demand already surpassing China in 1H26, investors remain constructive on the outlook, citing under-penetrated developed markets and emerging-market potential as a long runway for growth. Concerns were more focused on residential ESS, where demand may have been pulled forward by the Middle East conflict, similar to the Russia-Ukraine period, as well as supportive policies in markets such as Australia.

Stocks: CATL dominates; Tier-2/3 appetite remains limited
At the stock level, CATL dominated investor discussions, reflecting both its mega-cap status and potential to consolidate further. By contrast, appetite for Tier-2/3 battery OEMs remained limited. Our overall impression is that battery has been one of the most crowded non-AI trades this year, supported by strong fundamentals and an emerging energy-security narrative following the Middle East conflict.

- **CATL-A vs. CATL-H:** One interesting observation is that CATL-A and CATL-H appear to be pricing in different scenarios. A-shares seem to reflect a more cautious battery demand outlook into 2026, while H-shares, which are more dominated by foreign investors, price in stronger long-term growth potential and a market-leader premium for CATL.
- **Competitive landscape:** Most investors broadly agreed that CATL has room to further consolidate market share, especially in light of recent industry policies such as the battery consumption tax and tighter approvals for new capacity.
- **BESS integration:** Our thesis on CATL's BESS integration was well received, although some investors remained cautious on CATL's competitiveness as a system integrator versus more established players such as Sungrow and BYD. CATL's AIDC BESS potential was also frequently raised, with many investors viewing it as a possible re-rating catalyst.
- **Sodium-ion:** Sodium-ion was another focus for foreign investors in CATL discussions, as many view it as a battery chemistry that could potentially widen CATL's gap versus Tier-2 players. Onshore Chinese investors appeared less focused on this topic for now.

4Q26 is the key demand checkpoint; reiterate Buy on CATL
We think onshore Chinese investors' cautious stance on demand may be overdone, and **4Q26 is likely the best window to address this concern**. Domestic ESS installations should see a seasonal spike, ESS policy clarity and follow-on measures are likely to improve, and supply-chain channel checks should provide an early read into the 2027E demand outlook. For CATL, we also expect the negative 2Q margin trends to reverse in 2H as the unfavorable mix impact fades, while ESS market-share gains could become more visible as capacity constraints ease. **We reiterate Buy on both CATL-A and CATL-H.**

Price Target Risks and Methodology - CATL
Valuation methodology: We apply a SoTP framework to reflect CATL's distinct power battery and BESS growth profiles, BESS-led rerating potential, and ecosystem investments. For CATL-A, we value power batteries at 11x 2026-27E EBITDA and BESS using a discounted 2030E EV/EBITDA approach with an 18x exit multiple. For CATL-H, we use a global framework, valuing power batteries at 20x EV/EBITDA and BESS at a 25x 2030E exit multiple, reflecting CATL's superior ROIC, global leadership, and scarcity value. This yields 12-month TPs of HK$947/Rmb565 and implies a 54% H-share premium versus A-shares.

Key risks: 1) slower-than-expected global EV demand growth; 2) weaker-than-expected global ESS demand growth; 3) unexpected rise in raw material costs, mainly battery metals; 4) slower-than-expected progress in BESS integration; 5) execution and trade-policy risks in overseas expansion; 6) more intense-than-expected competition in power and ESS batteries.

Disclosure Appendix

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Contributing Authors: Nick Zheng, CFA Goldman Sachs (Asia) L.L.C., Selina Yan Goldman Sachs (Asia) L.L.C..

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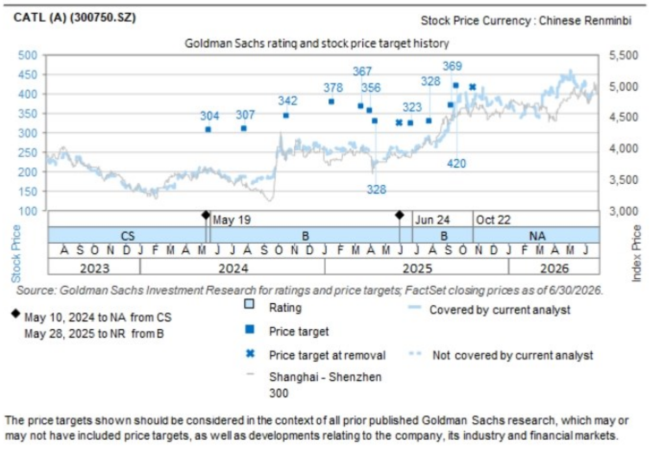
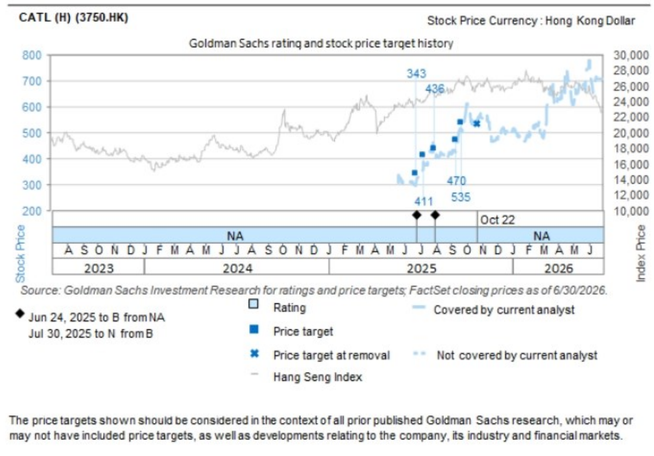
Price target and rating history chart(s)





Target price history table(s)

CATL (A) (300750.SZ)

Date of report	Target price (Rmb)	Closing price (Rmb)
24-Jul-26	565.00	383.01
08-Jul-26	566.00	361.00
21-Sep-25	420.00	368.49
11-Sep-25	369.00	322.55
30-Jul-25	328.00	277.09
24-Jun-25	323.00	245.92
14-Apr-25	328.00	224.00
04-Apr-25	356.00	243.08
16-Mar-25	367.00	262.00
19-Jan-25	378.00	251.50
20-Oct-24	342.00	249.89
28-Jul-24	307.00	189.35
19-May-24	304.00	203.00

CATL (H) (3750.HK)

Date of report	Target price (HK$)	Closing price (HK$)
24-Jul-26	947.00	622.00
08-Jul-26	946.00	628.00
21-Sep-25	535.00	515.50
11-Sep-25	470.00	428.80
30-Jul-25	436.00	426.60
09-Jul-25	411.00	385.00
24-Jun-25	343.00	303.00

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