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China Auto Industry

Read-through from Tesla and Xiaomi's recent price moves

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- ***A falling knife?*** China autos' share prices continued to slide post recent 2Q26 results (down 6% MTD vs. MXCN -1%) as we saw more misses/meets than beats (click here). Based on our discussions, investors' primary concern is "**uncertainty**" surrounding policy and earnings into 2027. Policy uncertainty includes domestic NEV subsidy, export VAT rebate reduction, EU tariff on PHEV and the EU's IAA non-tariff measure, while earnings uncertainty mainly relates to lingering weak domestic demand and a further hike in input prices especially for memory chips which may worsen in 2027. Our base case expectations are **1) domestic demand to be flat** (blue sky scenario, with some form of stimulus) **to down 5%** (no subsidy), **2) EU's tariff** on Chinese PHEV may happen by end-2027 while **IAA measures** (regarding market access) will take place from mid-2027 (click here). **3) Memory price** – DRAM or NAND likely up by over 20% in 2027 per our analyst, Jay Kwon's forecast (click here). **4) Export VAT rebate reduction** is less clear- potentially a 2H27 story if it does materialize. Each of the above headwinds may be mitigated individually; combined, however, they will be harder to contain; we think they will at least cap valuation upside, which is becoming our base case.
- **Read-through from Tesla and Xiaomi's recent price cuts**: After 19 months of "sustained" prices, Tesla China announced a c2-4% price reduction (Rmb5-10k) in Model 3&Y . This immediately followed Xiaomi's lower-than-expected price debut of the new SkyNomad SUV earlier this week (click here for Gokul Hariharan's analysis). Both moves have reminded investors about the difficult demand and pricing environment in China today. Indeed, Aug auto sales data released by CAAM is not encouraging.
- **Aug demand - domestic still weak vs. robust exports**: 1) Aug domestic PV sales fell 26%, bringing YTD to -25%. Domestic CV demand also slipped, by 17% yoy. On the positive side, 2) PV exports rose 67% yoy or at a YTD run rate of 72%. CV exports were also solid at 60% yoy in Aug. 3) NEV overall rose 18% in Aug, reaching a penetration of 61% (see Table 1 for details).
- **We revise our auto growth forecasts for 2026/27**: To reflect our latest stance, **1) we cut domestic PV demand** to a ~21% decline in 2026 (from -15%). For 2027, we estimate no growth assuming the govt will offer certain stimulus to sustain the economy and domestic consumption. The risk to this forecast is more on the downside. **2) We lift overseas export volume to 20% growth** from 9%. Our base case is that tariff or non-tariff measures will slow Chinese OEMs' overseas market share gains but won't stop them. By July, Chinese brands collectively had reached ~8% global market share outside of China (excluding the US, this number would top ~11-12%, click here). **Our expectation is that Chinese brands' global share outside of China and the US could be as high as 30-40% by 2030, if they execute well (including direct exports from China and localized production in overseas markets to mitigate geopolitical headwinds or tariff measures).**
- **Recommendation**: We are cautious on China auto and are increasingly of the view that stock performance in 2H26-2027 will be a relative rather than an absolute story. Our advice strategically is:

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

- 1) **HDT (heavy duty truck) over PV:** We like **Sinotruk**
- 2) Within PV, we prefer those with relative earnings resilience through scale, diversified product offerings and fast growing overseas footprint- **BYD** and **Geely**.
- 3) Stock with a potential company-specific story: **XPeng's** humanoid robot and robotaxi deployment in 1H27.
- 4) Sector-wise, **half of the ratings of stocks under our coverage are now UW.** This reflects our cautious stance on the sector over the next 6-9 months, as discussed above.

Table 1: China Auto August 2026 Wholesale Analysis

	Aug-26 Sales (000')	Aug-26 (MoM %)	Aug-26 (YoY%)	YTD (YoY%)
Total Auto	**2,712**	**4.9%**	**-5.1%**	**-3.7%**
Passenger vehicle (PV)	**2,383**	**5.1%**	**-6.2%**	**-5.4%**
Sedan	782	5.4%	-24.7%	-22.7%
MPV	86	-7.8%	-12.2%	-13.0%
SUV	1,487	5.4%	8.4%	9.3%
Crossover	28	33.2%	-14.0%	-21.6%
Commercial vehicle (CV)	**328**	**3.6%**	**3.8%**	**7.2%**
Bus	52	10.4%	16.7%	7.5%
Truck	276	2.5%	1.7%	7.2%

Source: CAAM



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Table 2: China auto sales forecasts

Sales Unit ('000)	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sedan	11,528	10,308	9,275	9,934	11,116	11,490	11,517	12,424	9,566	9,184	9,202
MPV	1,735	1,384	1,054	1,055	937	1,102	1,050	1,213	1,079	1,079	1,092
SUV	9,995	9,353	9,461	10,101	11,187	13,206	14,722	16,123	17,574	17,715	17,857
Crossover	453	400	388	391	323	265	274	343	264	251	256
Total PV	**23,710**	**21,444**	**20,178**	**21,481**	**23,563**	**26,063**	**27,563**	**30,103**	**28,484**	**28,229**	**28,407**
(yoy % change)	-4%	-10%	-6%	6%	10%	11%	6%	9%	-5%	-1%	1%
PV Export	758	725	760	1,603	2,527	4,140	4,955	6,038	9,697	11,636	12,335
(yoy % change)	19%	-4%	5%	111%	58%	64%	20%	22%	61%	20%	6%
PV Import	1,120	1,119	1,000	939	769	767	686	470	418	405	393
(yoy % change)	-1%	0%	-11%	-6%	-18%	0%	-11%	-31%	-11%	-3%	-3%
Total PV retail sales	**22,745**	**21,016**	**19,598**	**20,397**	**20,809**	**21,937**	**23,098**	**23,995**	**18,956**	**18,008**	**18,188**
(yoy % change)	-5%	-8%	-7%	4%	2.0%	5%	5%	4%	-21%	-5%	1%
Bus	450	444	430	489	398	483	503	565	604	616	628
Truck	2,871	2,720	3,140	2,972	2,324	2,786	2,594	2,786	2,925	2,983	3,043
Tractor	483	565	835	677	299	504	468	591	757	772	787
Bus chassis	35	30	18	16	10	8	8	9	10	10	10
Truck chassis	532	565	710	639	270	249	300	346	318	321	324
Total CV	**4,371**	**4,324**	**5,133**	**4,793**	**3,300**	**4,031**	**3,873**	**4,296**	**4,614**	**4,703**	**4,793**
(yoy % change)	5%	-1%	19%	-7%	-31%	22%	-4%	11%	7%	2%	2%
CV Export	283	299	235	402	581	770	904	1,060	1,272	1,425	1,524
(yoy % change)	12%	6%	-21%	71%	45%	33%	17%	17%	20%	12%	7%
CV Import	15	16	18	6	13	17	18	10	11	12	13
(yoy % change)	52%	11%	11%	-64%	103%	26%	10%	-43%	7%	7%	7%
Total domestic CV wholesales	**4,103**	**4,042**	**4,917**	**4,397**	**2,733**	**3,277**	**2,987**	**3,247**	**3,353**	**3,290**	**3,282**
(yoy % change)	5%	-1%	22%	-11%	-38%	20%	-9%	9%	3%	-2%	0%
Total vehicles	**28,081**	**25,769**	**25,311**	**26,274**	**26,864**	**30,094**	**31,436**	**34,400**	**33,098**	**32,932**	**33,201**
(yoy % change)	-3%	-8%	-2%	4%	2%	12%	4%	9%	-4%	-1%	1%
Total Export	1,041.00	1,024.00	995.00	2,005	3,108	4,910	5,859	7,098	10,969	13,061	13,859
(yoy % change)	17%	-2%	-3%	102%	55%	58%	19%	21%	55%	19%	6%
Total Import	1,135.02	1,135.39	1,018.46	945.02	782.43	784	704	480.00	429.06	417.30	405.96
(yoy % change)	-1%	0%	-10%	-7%	-17%	0%	-10%	-32%	-11%	-3%	-3%
Total domestic auto sales	**28,175**	**25,880**	**25,335**	**25,214**	**24,538**	**25,967**	**26,281**	**27,782**	**22,558**	**20,288**	**19,748**
(yoy % change)	-3%	-8%	-2%	0%	-3%	6%	1%	6%	-19%	-10%	-3%

Source: CAAM, J.P. Morgan forecasts.

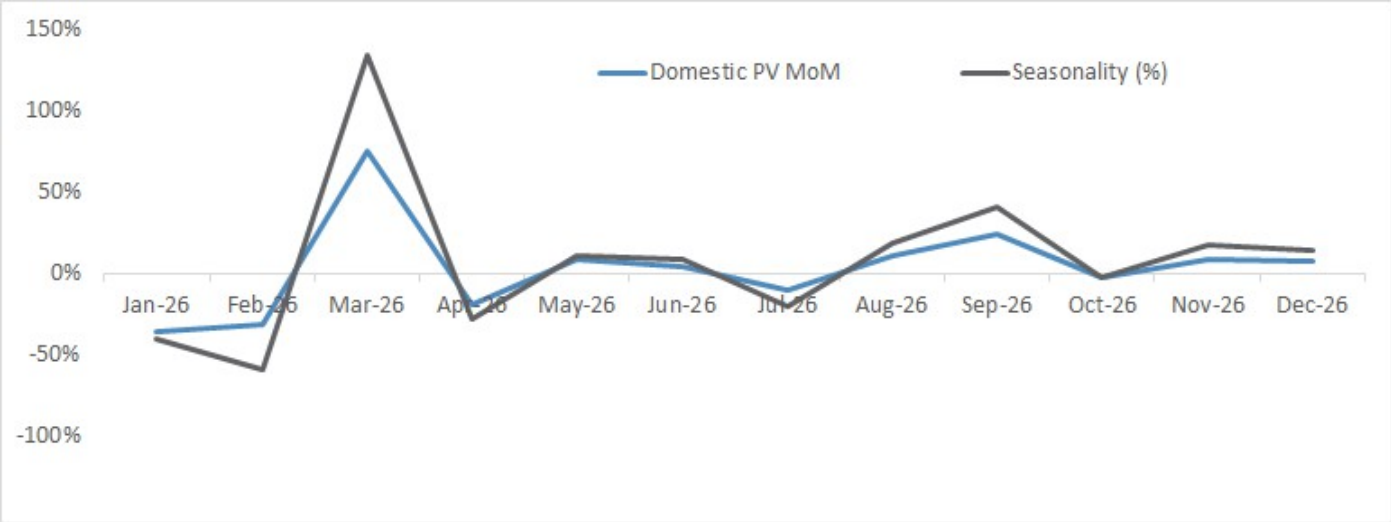
Table 3: China auto PV wholesales and retail forecasts

	1Q26A	2Q26A	3Q26E	4Q26E	FY26 yoy
PV Wholesales	5,935,284	6,784,141	7,344,325	8,374,782	
QOQ-JPMe	-33%	14%	8%	14%	
Seasonal qoq	-10%	4%	-1%	22%	
YOY-JPMe	-8%	-5%	-4%	-5%	-5.4%
Retail PV	4,012,284	4,274,641	4,682,325	5,824,782	
QoQ	-43%	7%	10%	24%	
YoY	-23%	-25%	-23%	-17%	-21.9%

Source: CAAM, J.P. Morgan estimates

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Figure 1: China autos- Domestic (retail) PV demand growth analysis and projection for 2026 vs. historical seasonality (we project domestic demand may largely fall below seasonality in 2H26)

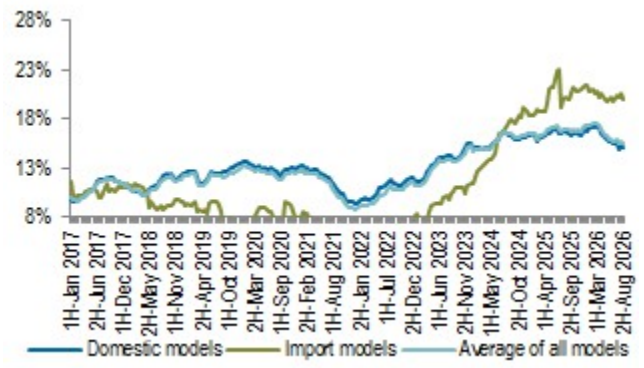


Source: CAAM, CPCA, J.P. Morgan estimates

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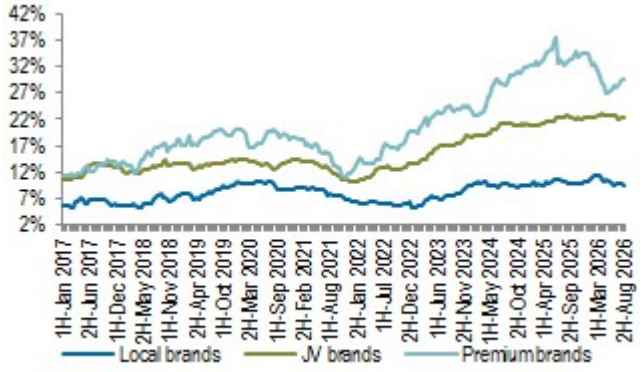
Average price discounts

Figure 2: Average price discounts of domestic-made models vs. imported models



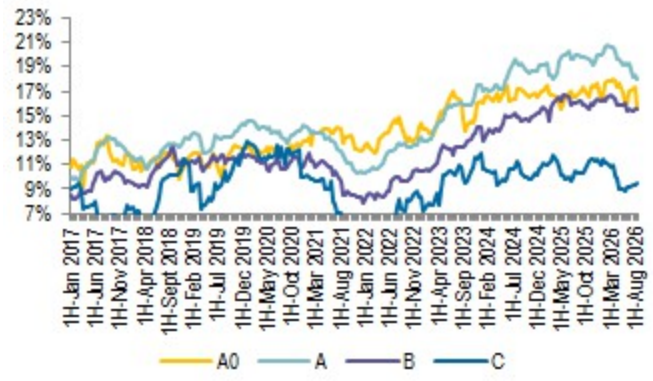
Source: China Auto Market

Figure 3: Average price discounts of domestic by segment (domestic models)



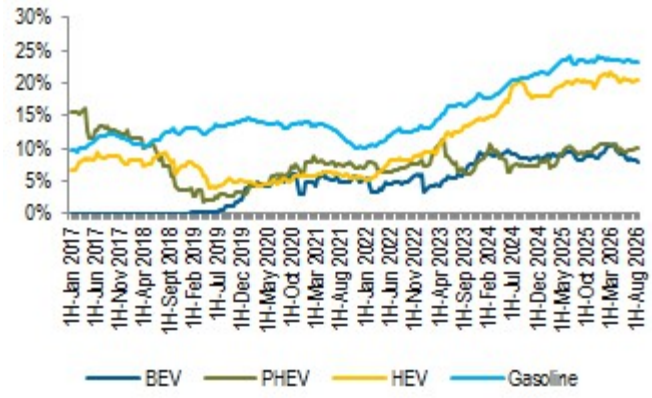
Source: China Auto Market

Figure 4: Average retail price of domestic by size (domestic models)



Source: China Auto Market

Figure 5: Average price discounts of domestic by energy type (domestic models)



Source: China Auto Market