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China Auto/EV

EQUITY: AUTOS & AUTO PARTS

Aug-26: Domestic market demand remained largely unchanged

High-quality global expansion one of the key tasks for China automakers going ahead

Domestic market demand remained largely unchanged in Aug-26, while the long-term demand outlook for the China auto sector remains stable, in our view

The China auto industry reported 2.4mn wholesale shipments (-6.2% y-y; +5.1% m-m) in Aug-26; PV retail sales, excluding minivans, were at 1.5mn units (-23.6% y-y; +5.5% m-m), according to CAAM and CPCA, and continue to experience a muted demand trend within the domestic China market. China PV EV retail sales were at 1.0mn units in Aug-26 (-9.8% y-y; +5.6% m-m), while ICE car retail shipments showed another 40%+ y-y decline in the domestic China market. EV penetration, thus, slightly improved to 64.7% during the month.

Overall 8M26 data suggest China PV wholesale shipments came in at 17.4mn (-5.4% y-y) and retail sales – excluding minivans – were at 11.7mn (-20.7% y-y), while PV EV retail sales were at 6.7mn (-11.7% y-y) and the EV penetration rate was at 56.4%. With the central government maintaining a clear anti-involution stance (e.g. tightening the rules for OEMs on payables to the supply chain; refer to *news*) aimed at achieving high-quality industry development – rather than just volume growth – alongside pull-forward demand over the past two years owing to subsidy policies, we continue to view 2026 as a transition year for the China auto sector and anticipate no major policy changes in the remainder of the year.

On the other hand, according to CAAM's "2025 China Automotive Aftermarket Annual Development Report," China total motor vehicle ownership has already exceeded 371mn, within which 86.8% are still ICE cars. More importantly, for those ICE cars, the average vehicle age is at 8.2 years (and about 60% of those cars are over seven years), which suggests they have already reached the typical average replacement cycle or lifespan of about 8-12 years in the consumer market. Hence, we believe this will likely support the world's largest wave of auto replacement cycle in the China market in the next five years. Therefore, we still believe the long-term demand in the China auto market remains stable.

As China's automakers accelerate near-term overseas expansion, prioritizing high-quality development is a prerequisite for securing long-term, sustainable growth

The China auto industry exported 890k PVs (+67.0% y-y, -3.5% m-m) in Aug-26, according to CAAM, and YTD exports reached 6.2mn units (+73% y-y), reflecting an accelerated pace of overseas market development. EV players remain relatively more active in the overseas market. According to CPCA data, EV exports came in at 517k during the month (+154% y-y), while ICE car exports were at 377k (+26% y-y).

Meanwhile, the Ministry of Commerce, MIIT and the State Administration for Market Regulation of the PRC on 1 September (*news*) issued guidance for China OEMs regarding their overseas operations, with an aim to regulate their competitive practices and curb any potentially destructive price wars abroad. Such guidance, in our view, came at the right time and might help China automakers to adapt well to the global market environment with the least possible adverse effect. We believe that aiming for high-quality development and avoiding actions that could damage their brand image will be critical for helping China automakers achieve long-term sustainable growth in overseas markets. As the overseas market is inherently more challenging due to shifting geopolitical risks, China automakers need to leverage lessons learned from their domestic market to avoid falling into the same old traps.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

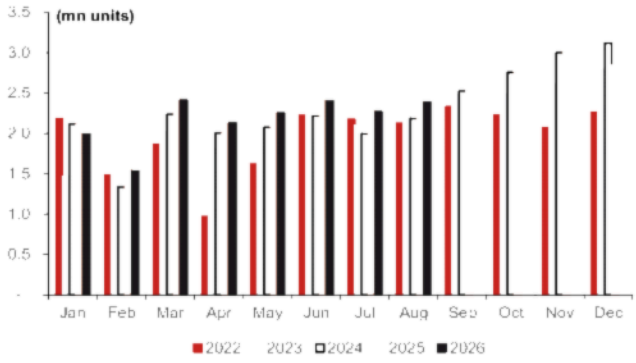
Domestic market demand remained largely unchanged in Aug-26; we see no significant improvement in the rest of 2026F

The China auto sector delivered 2.4mn units of PV wholesales in Aug-26 (-6.2% y-y but +5.1% m-m), according to the China Association of Automobile Manufacturers (CAAM), again as a result of muted domestic demand, albeit offset by strong overseas growth. PV retail sales, excluding minivans, were at 1.5mn units (-23.6% y-y but +5.5% m-m), according to the China Passenger Car Association (CPCA), with another 20% y-y decline in 2026. China PV EV monthly retail sales were at 1.0mn units in Aug-26 (-9.8% y-y and +5.6% m-m), continuing to outperform ICE cars as ICE cars suffered another 40%+ y-y decline in domestic China market sales. EV penetration was at 64.7% in the month, reaching a new record high.

During 8M26, China PV wholesale shipments were at 17.4mn (-5.4% y-y), and retail sales, excluding minivans, were at 11.7mn (-20.7% y-y). PV EV retail sales were at 6.7mn, -11.7% y-y, and 8M26 EV penetration was at 56.4%.

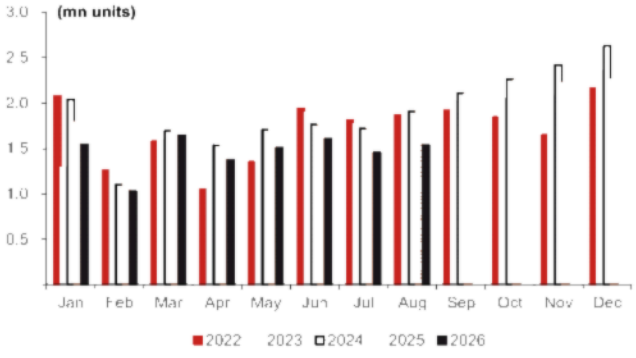
Although the peak season for auto sales has arrived and some active OEMs have already launched promotions, overall the weak demand sentiment persists. Furthermore, given the government's continued anti-involution stance, we continue to believe that the domestic auto market is unlikely to see significant changes in the remainder of 2026. In the mean time, individual players' performance will mainly depend on their new models, substantial upgrades for new technologies in the domestic market, or solid development in overseas markets, in our view.

Fig. 1: China – PV monthly wholesales volumes



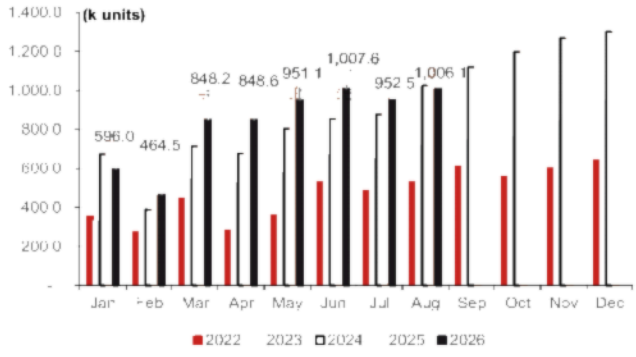
Source: CAAM, Nomura research

Fig. 2: China – PV retail sales excluding minivans



Source: CPCA, Nomura research

Fig. 3: China – PV EV monthly retail sales



Source: CPCA, Nomura research

Fig. 4: China – PV market EV penetration trends (retail)



Source: CPCA, Nomura research

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In terms of individual company performance in the domestic retail market, BYD recorded 233.9k units of retail sales in Aug-26 (-24.6% y-y, +4.7% m-m). Its EV retail market share was at 23.3% (-4.6pp y-y). According to our channel check, the Seal Lion 08, its latest release, has received a favorable response (orders) in the market, again indicating that Blade Battery 2.0 with supercharging capability is still being viewed favorably by the market. With the ramp up of its battery capacity, we continue to expect the company to gradually improve its local market performance, with a more evident improvement likely to materialize next year.

Geely delivered 110.6k units of EV retail sales in Aug-26 (-17.7% y-y, +4.8% m-m). The company's EV market share remains at 11.0% (-1.1% y-y but stable m-m). Leapmotor's retail sales were at 84.9k units in the month (+65.9% y-y, +1.4% m-m). The company enjoyed EV market share of 8.4% (+3.8pp y-y but -0.4pp m-m) during the month.

HIMA (Harmony Intelligent Mobility Alliance) delivered 45.1k of retail sales in Aug-26 (-5.5% y-y, -7.3% m-m), while Xiaomi's retail sales were at 30.2k (-17.2% y-y, -3.6% m-m). Tesla delivered 50.0k units of retail sales in the month (-12.4% y-y while +83.7% m-m).

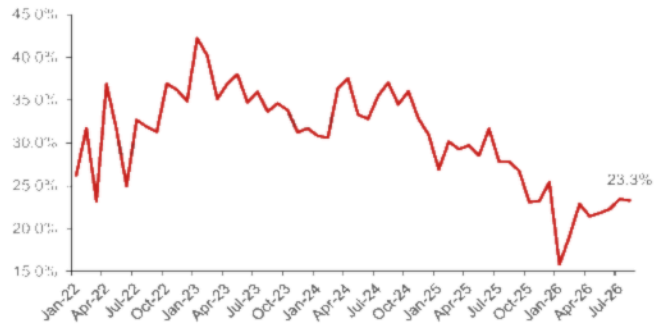
NIO's retail sales were at 35.7k units (+14.7% y-y, -0.5% m-m). XPENG reported 31.0k units of retail sales in Aug-26 (-10.7% y-y, +9.4% m-m). With still ample backlog orders in hand, we continue to expect stable or improved shipments for both the names in the next few months. Li Auto delivered 37.7k units of retail sales during the month (+32.1% y-y, +23.7% m-m). While the stiff competitive environment persists, with the latest promotions of the L8/L9 and initial solid orders from the new MEGA, we see the company striving to protect its existing market share.

Fig. 5: Select China EV OEMs' retail sales vs wholesales in Aug-26

Unit k	Aug-26	Jul-26	Aug-25	y-y	m-m	Market share	Aug-26 wholesales	Retail vs wholesales
BYD	233.9	223.5	310.2	-24.6%	4.7%	23.3%	433.4	-46.0%
Geely	110.6	105.5	134.4	-17.7%	4.8%	11.0%	175.9	-37.1%
Tesla China	50.0	27.2	57.2	-12.4%	83.7%	5.0%	86.2	-41.9%
Changan Auto	57.9	59.9	72.3	-20.0%	-3.4%	5.8%		
SAIC GM Wuling	53.1	49.0	61.4	-13.5%	8.4%	5.3%		
HIMA	42.1	45.4	44.6	-5.5%	-7.3%	4.2%	42.1	0.0%
Leapmotor	84.9	83.7	51.2	65.9%	1.4%	8.4%	103.1	-17.7%
Li Auto	37.7	30.5	28.5	32.1%	23.7%	3.7%	37.7	0.0%
XPENG	31.0	28.3	34.7	-10.7%	9.4%	3.1%	39.1	-20.8%
Xiaomi	30.2	31.3	36.4	-17.2%	-3.6%	3.0%	30.2	0.0%
NIO	35.7	35.8	31.1	14.7%	-0.5%	3.5%	35.8	-0.5%
GAC Aion	24.5	24.1	24.3	0.7%	1.7%	2.4%	36.4	-32.6%
Zeekr	20.8	26.3	15.5	34.0%	-20.8%	2.1%	37.0	-43.7%
Seres	22.6	22.6	40.0	-43.5%	0.1%	2.2%	20.7	9.4%

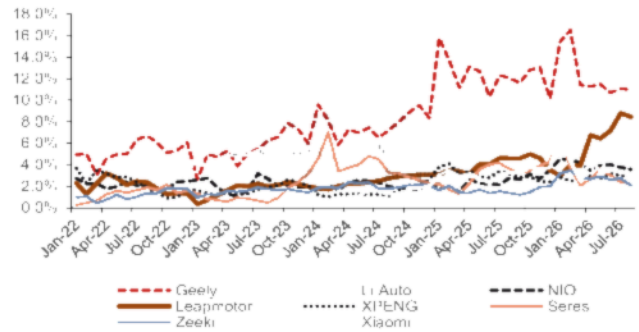
Source: CPCA, CAAM, Company data, Nomura research

Fig. 6: BYD's EV retail sales market share trend



Source: CPCA, Nomura research

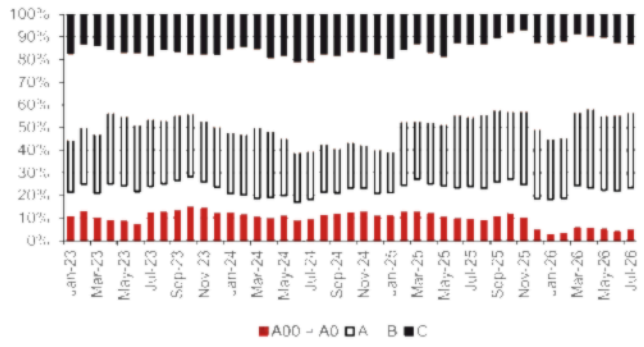
Fig. 7: Select EV OEMs' retail sales market share trend



Source: CPCA, Nomura research

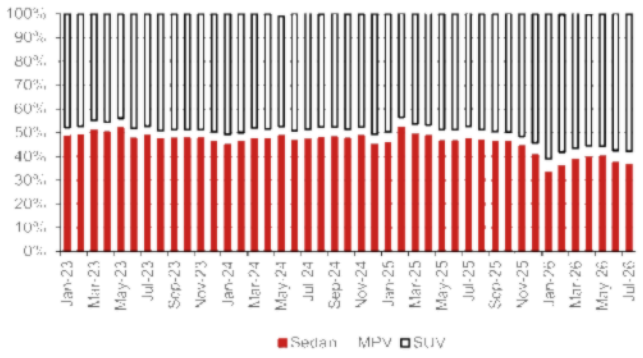
As the tightening subsidy policy this year is impacting low-end cars the most in the market, A00 EV's contribution to the EV segment remained at a low level of 5% while A0 EV's contribution rose further to 18% in Jul-26. And such a trend will likely continue.

Fig. 8: China EV retail sales by size



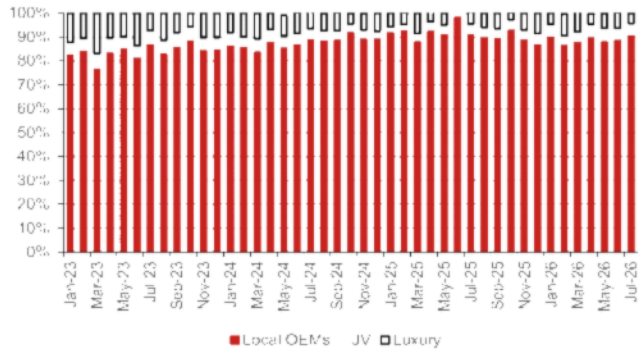
Source: CPCA, Nomura research

Fig. 9: China EV retail sales by vehicle type



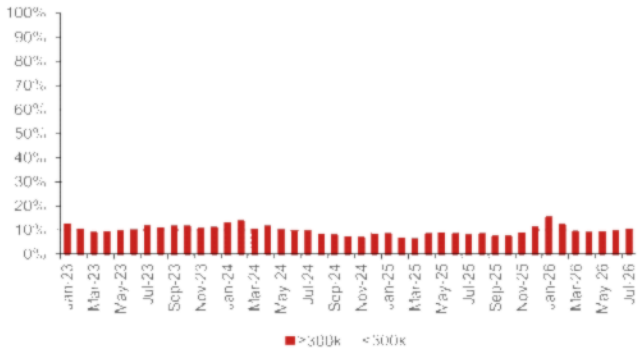
Source: CPCA, Nomura research

Fig. 10: China EV retail sales by brand type



Source: CPCA, Nomura research

Fig. 11: China EV retail sales by price range

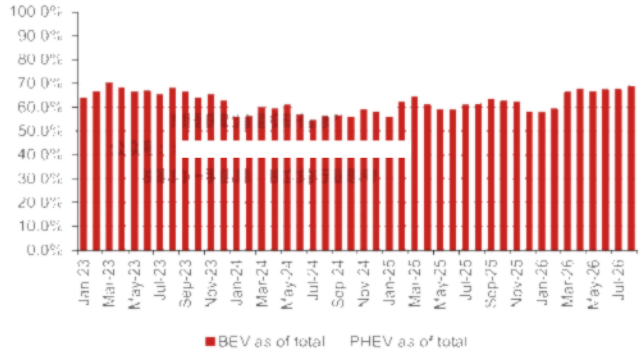


Source: CPCA, Nomura research

BEV sales remained dominant within the EV segment, representing 69.5% of the total EV sales in Aug-26, while PHEVs/EREVs together represented 30.5% of total EV sales.

The Inventory Alert Index was at 62.3% in Aug-26, remaining above the threshold, and for the third time crossed 60% in 2026, as local demand remained muted.

Fig. 12: China EV retail sales by type



Note: PHEV includes EREV
Source: CPCA, Nomura research

Fig. 13: China vehicle Inventory Alert Index

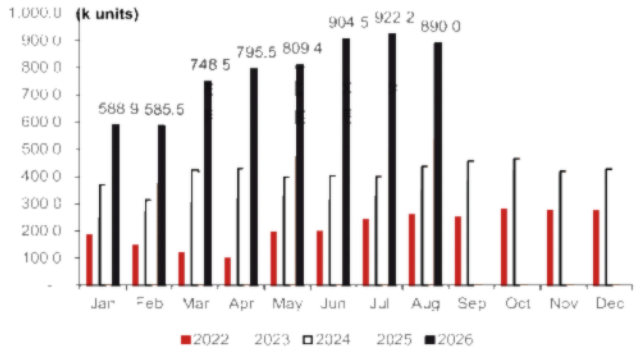


Note: Readings above 50 give cause for concern over inventory levels, with higher numbers indicating greater inventory build-up pressure.
Source: CADA, Nomura research

Overseas remain the key highlight for the 2026 China auto industry

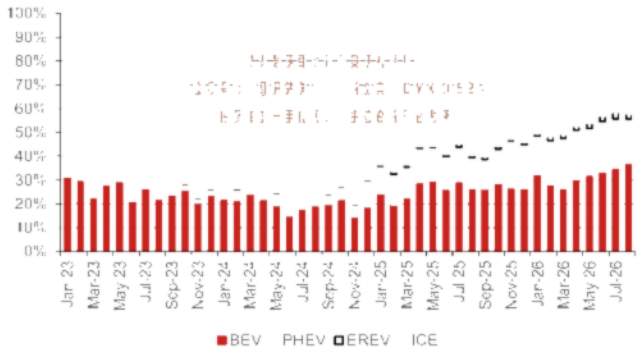
Exports kept the positive sentiment intact in Aug-26. According to CAAM, China's auto industry exported 890k units of PVs (+67.0% y-y, -3.5% m-m) in August. EV players continue to be more active than ICE players in the segment. According to CPCA data, EV exports were at 517k (+154% y-y), while ICE car exports were at 377k (+26% y-y).

Fig. 14: China – monthly PV exports



Source: CAAM, MarkLines, Nomura research

Fig. 15: China - monthly PV exports by vehicle type



Source: CPCA, Nomura research

For the PV export market, the top 10 players together contributed 79.3% y-y shipment growth in 8M26. And within the entire EV segment, the top 10 players have enjoyed 145%+ y-y growth so far in 2026. Considering the weak demand sentiment within the domestic China market, the intense competitive environment and the active business process in the overseas market, we expect the strong export momentum for the China auto sector to continue in the near term, especially for China EV players, with increased shift in focus into overseas business expansion, which is not only helping them to increase shipments but, more importantly, to improve their financial performance, too.

Fig. 16: 8M26 PV exports of top 10 players

Unit k	8M26	8M25	y-y	Market share
Chery	1,323.7	789.8	67.6%	21.7%
BYD	1,126.8	601.0	87.5%	18.5%
Geely	688.1	254.3	170.6%	11.3%
SAIC Motor PV	547.0	327.5	67.0%	9.0%
Great Wall Motor	365.1	243.2	50.1%	6.0%
Tesla China	331.4	154.4	114.7%	5.4%
Changan Auto	256.6	203.8	25.9%	4.2%
SAIC GM Wuling	213.7	155.3	37.6%	3.5%
Leapmotor	132.1	30.9	327.8%	2.2%
Dongfeng Motor	123.1	78.4	57.0%	2.0%

Source: CPCA, Nomura research

Fig. 17: 8M26 EV exports of top 10 players

Unit k	8M26	8M25	y-y	Market share
BYD	1,126.8	601.0	87.5%	33.9%
Chery	441.5	159.1	177.5%	13.3%
Geely	405.9	61.0	565.8%	12.2%
Tesla China	331.4	154.4	114.7%	10.0%
SAIC Motor PV	174.5	59.6	193.1%	5.2%
Leapmotor	132.1	30.9	327.8%	4.0%
Changan Auto	107.8	44.1	144.6%	3.2%
SAIC GM Wuling	92.8	52.9	75.5%	2.8%
Dongfeng Motor	83.2	31.8	162.0%	2.5%
GAC Aion	60.2	11.6	419.2%	1.8%

Source: CPCA, Nomura research