China Battery

Is industry consolidation happening? Read-through from CATL's acquisition of Geely's battery assets

Asia Autos & EV Battery

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CATL has obtained approval to acquire Chongqing Yaoning, a Geely-affiliated battery manufacturer with a near-complete 24GWh battery project in Chongqing. We view the transaction as more than a simple capacity addition. In our view, it provides an early indication that China's battery industry may be entering a phase of consolidation, reinforces the challenges of OEM-led battery manufacturing, and highlights the increasing strategic value of approved battery capacity assets amid a potentially tighter regulatory environment. **CATL remains our top pick in China's battery value chain.**

Industry consolidation may be entering an early stage

- **Industry consolidation begins?** We view CATL's acquisition of Chongqing Yaoling as an early indication of battery industry consolidation in the current cycle.
- **Positive for industry structure.** Instead of adding another independent battery supplier into an already competitive market, the transaction places the asset under the operational control of an industry leader. We believe this could help reduce fragmented competition, improve capital discipline and support healthier industry profitability over time.

Another example of OEM self-supply challenges

- **Another example that battery self-supply remains difficult to execute.** Chongqing Yaoning was originally developed within the Geely ecosystem as part of its battery self-supply strategy, but appears set to be transferred to CATL (or potentially a CATL-led JV) before reaching commercial production. In our view, this reinforces the significant operational, technological and capital requirements associated with battery cell manufacturing.
- **Relevant read-through from recent Li Auto concerns.** Over the past several weeks, investors have become increasingly concerned that leading OEMs could accelerate battery self-supply and reduce reliance on third-party battery manufacturers. However, we note that most OEM battery projects remain at an early stage and currently contribute only a small portion of total battery demand. The Yaoning transaction suggests that even leading auto groups may prefer partnerships with established battery manufacturers over fully independent cell production.
- **Execution remains the key challenge.** Battery manufacturing requires consistently high utilization rates, large-scale procurement capabilities, process know-how, quality control and continuous capital investment. Achieving competitive economics can be challenging even for leading OEMs, particularly as battery technology continues to evolve rapidly.
- **Market may be overstating long-term self-supply risks.** We believe investors may continue to overestimate the speed and scale of OEM battery self-sufficiency, while underestimating the manufacturing advantages of industry leaders such as CATL.

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Approved capacity assets may become increasingly valuable

- **Approved battery capacity could become a scarce strategic resource.** Amid recent market discussions regarding tighter approvals for new battery projects in China, we believe existing qualified battery assets could become increasingly valuable.
- **CATL is acquiring more than capacity.** Beyond the 24GWh project itself, CATL is effectively acquiring a project that has already completed key approval, land acquisition and construction stages, significantly shortening the path to production.
- **Potential read-through for the sector**. We do not rule out a scenario where approved battery manufacturing capacity gradually evolves into a scarce strategic resource, similar to how vehicle production capacity was historically regulated in China. Future industry expansion could increasingly occur through acquisition of existing assets, consolidation of under-utilized facilities, and transfer of projects from weaker operators to industry leaders.
- **Beneficiaries are likely industry leaders.** If capacity approvals become more selective, leading battery manufacturers such as CATL are likely to benefit given their stronger balance sheets, higher utilization rates, superior execution capabilities and greater likelihood of securing regulatory support for future expansion.

Background of the transaction

- **What happened?** According to the latest list of unconditional merger clearance cases released by State Administration for Market Regulation (SAMR), the acquisition of equity interests in Chongqing Yaoning New Energy Technology Co., Ltd. by CATL was granted unconditional antitrust approval on 3 September 2026. The parties participating in the concentration were disclosed as CATL and ZEEKR Automobile (Shanghai) Co., Ltd.. While the transaction has cleared a key regulatory hurdle, the exact post-transaction shareholding structure and governance arrangements have not yet been disclosed publicly.
- **Who is Chongqing Yaoning?** Chongqing Yaoning traces its origins to Chihang New Energy, which was established in 2021 as a joint venture between Geely Technology Group and Farasis Energy. Following Farasis' exit, the company became wholly controlled by the Geely ecosystem and was subsequently renamed Chongqing Yaoning New Energy Technology Co., Ltd.. The company's current controlling shareholder is ultimately affiliated with Geely's battery platform. Yaoning shipped 3Gwh of batteries to Geely in 7M26, contributing to 9% of Geely's EV battery demand in China.
- **24Gwh capacity under construction.** The key asset involved in the transaction is the company's battery manufacturing project in Fuling, Chongqing. The project carries a planned investment of approximately RMB8.5bn and designed battery cell capacity of 24GWh. According to public information, the main production buildings have already been completed, with trial production originally planned for December 2026 and commercial production targeted for 1Q27.
- **Potential transaction structure.** While public disclosures do not specify ownership percentages, the participation of ZEEKR Automobile (Shanghai) Co., Ltd. in the SAMR filing suggests that the final structure may involve more than a straight forward CATL acquisition. We believe it is possible the the acquisition is done by CATL-Geely JV (51% owned by CATL, 49% owned by Zeekr).

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Acquisition target: Chongqing Yaoning's 24Gwh Fuling battery project

Chongqing Yaoning (重庆耀宁) is a wholly owned subsidiary of Jiangsu Yaoning New Energy (江苏耀宁新能源). Jiangsu Yaoning is the parent company of Chongqing Yaoning, with Zhejiang Jiyao Tongxing Energy Technology (浙江吉曜通行能源科技), a key battery platform under Geely, being its largest shareholder. Chongqing Yaoning was originally established in December 2021 as Chihang New Energy (Chongqing) (驰航新能源（重庆）有限公司), a JV between Geely Technology Group (吉利科技集团) and Farasis Energy (孚能科技), and was subsequently renamed following Farasis' exit. The proposed acquisition targets Chongqing Yaoning, with the Fuling battery project (涪陵动力电池项目) being its key asset. The Fuling project has a total planned investment of c.Rmb8.5bn, covering c.480 mu of land with 24GWh of planned annual battery capacity, primarily serving Geely's vehicle production bases in Chongqing, Guiyang and other parts of southwestern China. The phase 1 plant was topped out in June 2026 and is expected to start trial production in December 2026, followed by commercial production in 1Q27.

Yaoning's battery shipments reached 1.66 GWh in 2024, rising to 3.38 GWh in 2025. For the first seven months of 2026, shipments stood at 3.09 GWh. Within the Geely group, Yaoning supplied 3% of the group's battery demand in 2024, 5% in 2025 and 9% in 7M26.

Geely's battery supplier mix

Figure 1: Geely's battery supply (China domestic market only)

	2023	2024	2025	7M26
Geely internal	0%	14%	17%	25%
Of which: Yaoning		3%	5%	9%
CATL-Geely JV	5%	28%	17%	24%
CATL	63%	25%	41%	34%

Source: GGII, pls note Yaoning refers to Jiangsu Yaoning New Energy. CATL-Geely JV is owned 51% by CATL and 49% by Zeekr.

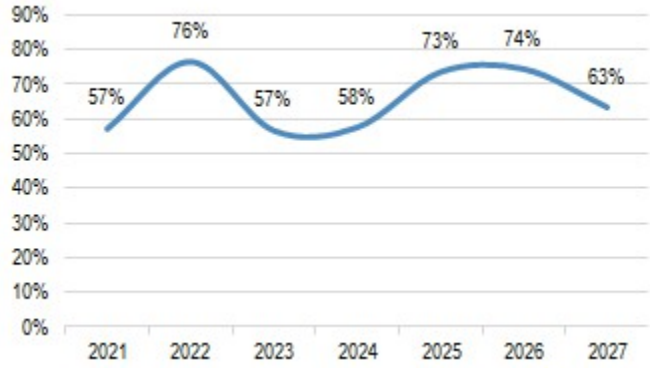
2027 to see easing of supply-demand, but not overcapacity situation

2027 may see easing supply-demand dynamics, but we do not expect a repeat of the 2023-24 overcapacity cycle. The current capex cycle differs meaningfully from the aggressive expansion phase seen in 2021-22, when capacity additions were broad-based across industry leaders, smaller players and new entrants, many of whom expanded before securing meaningful customer orders. This time, expansion has become significantly more disciplined. Financing conditions are tighter, local government subsidies for battery projects have largely disappeared, and project economics have become more demanding. More importantly, China's central government has tightened oversight of battery capacity growth, with new approval requirements and delays or suspensions affecting a number of planned expansion projects. **We therefore believe actual industry capacity additions could ultimately fall short of currently announced plans, implying that industry utilization rates in 2027 may be higher than our current supply-demand model assumes.**

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We would also note that exceptionally high utilization rates are neither sustainable nor necessarily desirable. Industry leaders, including CATL, operated at more than 95% utilization throughout 2025 and 1H26, leaving limited room for operational flexibility, equipment maintenance and demand volatility. In our view, a normalization of utilization rates toward 80-85% would represent a healthier operational state than evidence of oversupply. As such, we expect 2027 to be characterized by lower utilization and moderating profitability versus peak-cycle levels, but not by the severe excess capacity, irrational competition and widespread margin pressure experienced during 2023-24.

Figure 2: 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 3: China EV and ESS battery industry capacity utilization rate (industry demand vs. top 8 players capacity)



Source: Company data, J.P. Morgan calculations. Note: We used industry demand vs. top 8 players' capacity for this chart. The eight names are: CATL, BYD, CALB, EVE, Gotion, Svolt, Sunwoda, REPT.

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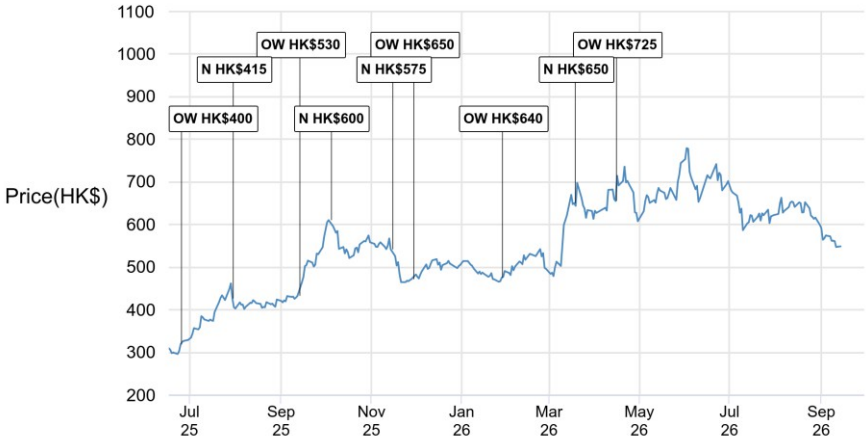
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CATL - H (3750.HK, 3750 HK) Price Chart



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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