

Deutsche Bank
Research

China Autos & Auto Technology

Finding Shelter in the Sector-wide Storm in 2H 2026

Bin Wang
+852-2203-5496
wang.bin@db.com

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Executive Summary – Overseas-Exposed Auto Parts Makers Offer Shelter from Sector Headwinds

Sector weakness to persist in 2H 2026 despite robust overseas expansion

— China's passenger vehicle sector-wide PBT declined 20% YoY in 1H 2026 despite 1.4% revenue growth, reflecting a 4% YoY decline in wholesale volume and continued margin pressure

— Sector-wide wholesale volume is estimated to decline 4% YoY to 15.7 million units in 2H 2026, with domestic retail volume down 15% YoY to 10.5 million units, partly offset by overseas sales volume increasing 61% YoY to 5.6 million units

Automaker margins remain under pressure from promotions, sourcing costs and policy risks

— Automakers are expected to face continued margin pressure from increased promotional activities and rising sourcing costs for lithium batteries and semiconductor memory

— The potential removal of the 13% vehicle export VAT rebate represents a key downside risk, particularly as overseas sales are projected to account for 36% of sector-wide wholesale volume in 2H 2026

Prefer auto parts makers with overseas exposure and lower sourcing-cost sensitivity

— Overseas markets generally offer Chinese vehicle and auto parts makers stronger volume growth and higher profitability, with Europe providing an important high-value market amid weak domestic demand

— We prefer auto parts makers with significant European exposure and limited reliance on lithium batteries and semiconductor memory, which should be relatively insulated from sector-wide volume and margin headwinds

Continued Headwinds Expected in 2H 2026; Prefer Auto Parts Makers with Overseas Exposure

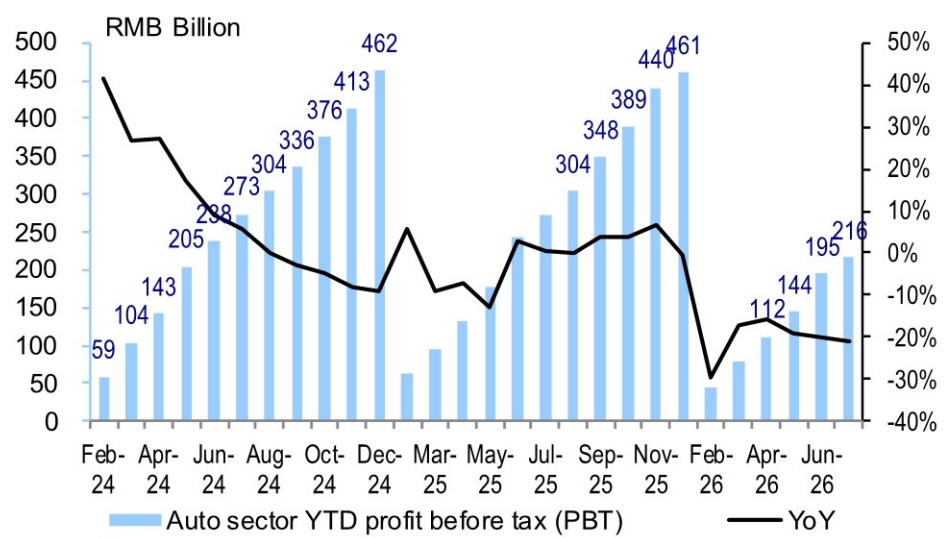
We maintain a conservative outlook on China's passenger vehicle sector, as continued volume declines and sourcing-cost pressure are expected to weigh on automaker margins in 2H 2026

— Sector-wide PBT declined 20% YoY in 1H 2026 despite 1.4% revenue growth, as a 6% YoY decline in passenger vehicle sales volume was partly offset by an 8% increase in blended ASP, driven by a higher overseas sales mix

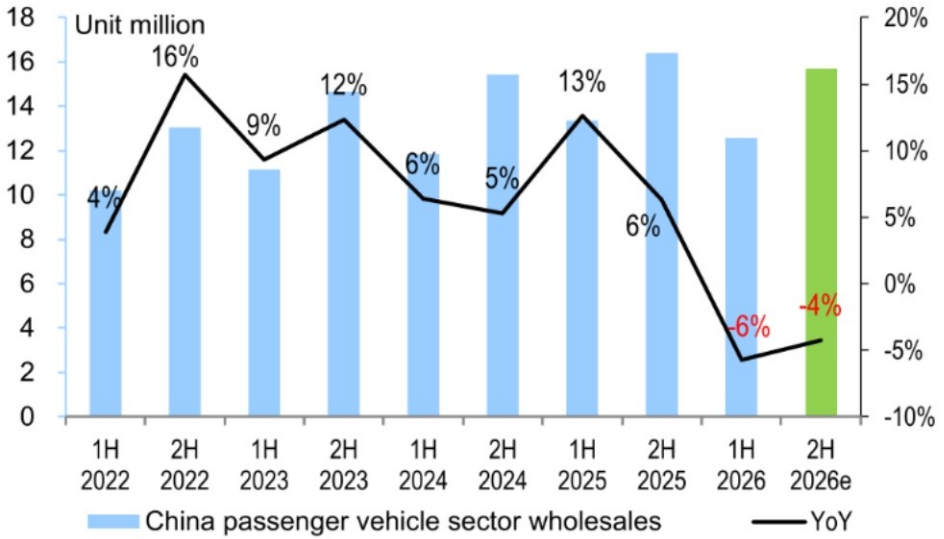
— We expect passenger vehicle wholesale volume to decline 4% YoY in 2H 2026, following a 6% YoY decline in 1H 2026, with continued promotional activity and higher battery and semiconductor memory costs likely to drive further margin deterioration

— Overseas markets generally offer stronger volume growth, higher ASPs and margins that are typically 5-10 ppts above the domestic market, supporting our preference for auto parts makers with significant overseas exposure

China auto sector-wide profit before tax (PBT) trend



China passenger vehicle semi-annual volume growth outlook



Source: Wind, Thinkercar, Deutsche Bank estimates

Slowing Volume Growth and Rising Battery Costs to Weigh on Automakers

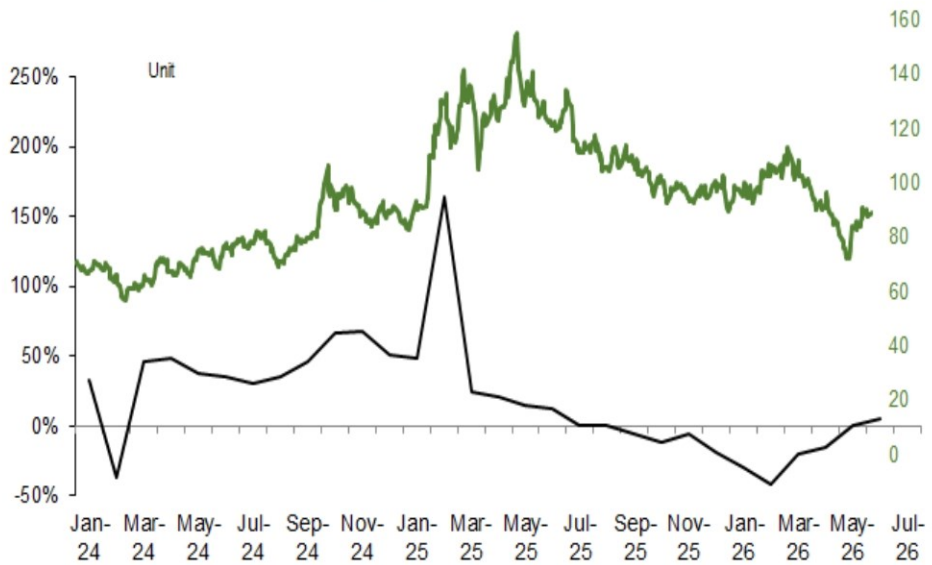
Automakers' share price performance has historically tracked sales growth, while rising sourcing costs are expected to intensify margin pressure

— Historically, decelerating sales growth has resulted in lower capacity utilization, higher fixed costs per vehicle and more intense price competition, consequently weighing on automakers' margins and share price performance

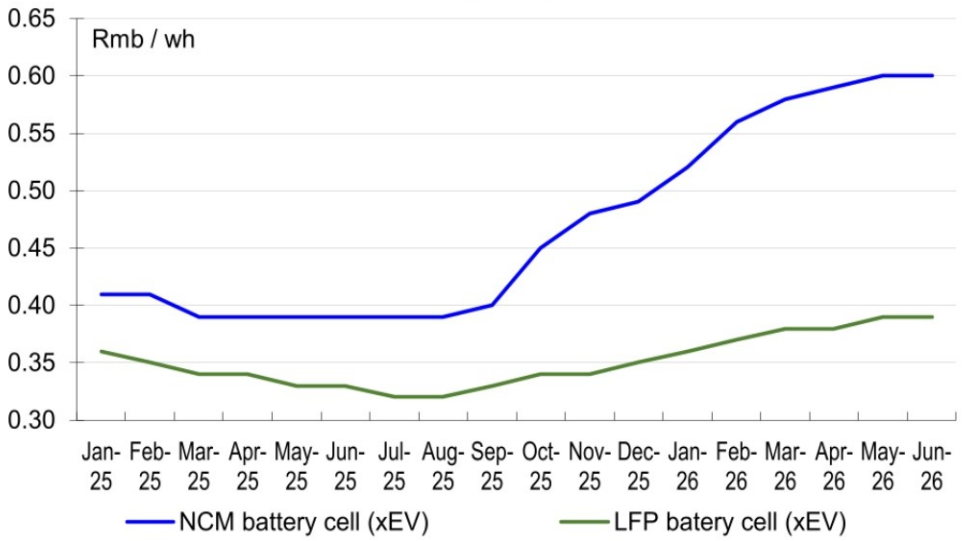
— BYD's share price weakened in 1Q 2024 as sales growth decelerated, before rallying as growth accelerated over the following 12 months; the share price subsequently weakened from 2Q 2025 amid deteriorating sales growth and began to recover in 2Q 2026 as volume growth returned to positive territory

— Battery costs have increased materially, with NCM battery cell prices rising 22% from RMB 0.49/Wh in December 2025 to RMB 0.60/Wh in June 2026, while LFP battery cell prices increased 11% from RMB 0.35/Wh to RMB 0.39/Wh over the same period

BYD volume growth YoY and share price



Lithium battery cell price trend



Source: Company data, Wind

Continued Domestic Weakness to Be Offset by Robust Overseas Expansion in 2H 2026

We expect passenger vehicle wholesales to decline 4% YoY in 2H 2026, as robust overseas growth partly offsets weak domestic demand and continued inventory reduction

- **Domestic passenger vehicle retail sales** are forecast to decline 15% YoY to 10.5 million units in 2H 2026, representing a YoY volume reduction of 1.8 million units, or 11% of wholesale volume. The modest improvement from the 18% YoY domestic retail decline in 1H 2026 mainly reflects demand normalization following the pull-forward into Q4 2025 ahead of lower vehicle trade-in subsidies and the introduction of a 5% vehicle purchase tax for NEVs
- **Overseas passenger vehicle sales** are forecast to increase 61% YoY to 5.6 million units in 2H 2026, representing a YoY volume increase of 2.1 million units, or 13% of wholesale volume. Overseas growth should be supported by four key drivers: new plants, new markets, new brands and new products, including additional models and powertrain options tailored to overseas demand
- **Dealer inventory** is forecast to decline by 0.33 million units in 2H 2026, compared with an increase of 0.69 million units in 2H 2025, representing a negative YoY swing of ~1.0 million units, or ~6% of 2H 2026 wholesale volume

China passenger vehicle wholesale volume outlook in 2026

(Unit)	2025	2026e	2025 YoY	2026 YoY
Retail	22,714,127	19,000,000	0%	-16%
Export	6,037,959	10,000,000	22%	66%
Inventory change	1,007,926	(700,000)	-350%	-169%
Wholesales	**29,760,012**	**28,300,000**	**9%**	**-5%**

1H 2025	1H 2025	1H 2026	2H 2026	6 YoY
10,444,189	12,269,938	8,522,295	10,477,705	-15%
2,581,336	3,456,623	4,432,115	5,567,885	61%
322,818	685,108	(371,647)	(328,353	
13,348,343	**16,411,669**	**12,582,763**	**15,717,237**	**-4%**

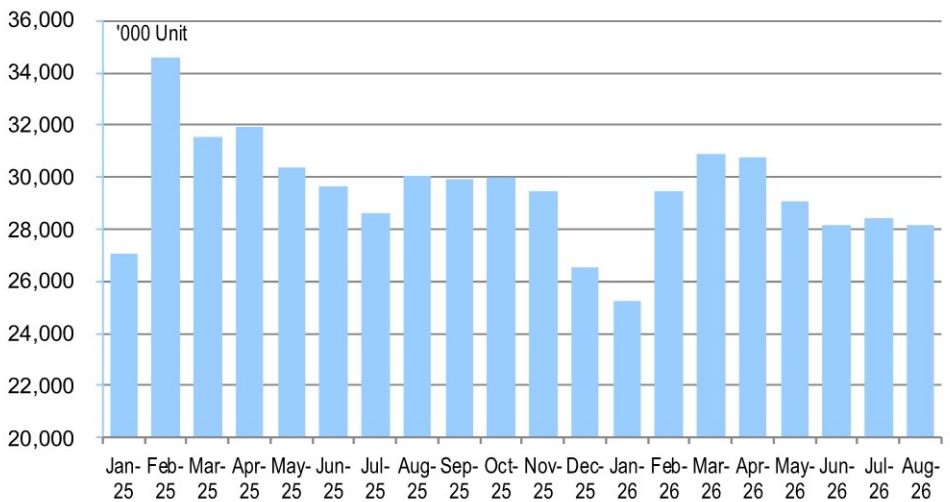


August SAAR Trends Broadly Support Our 2026 Volume Forecasts

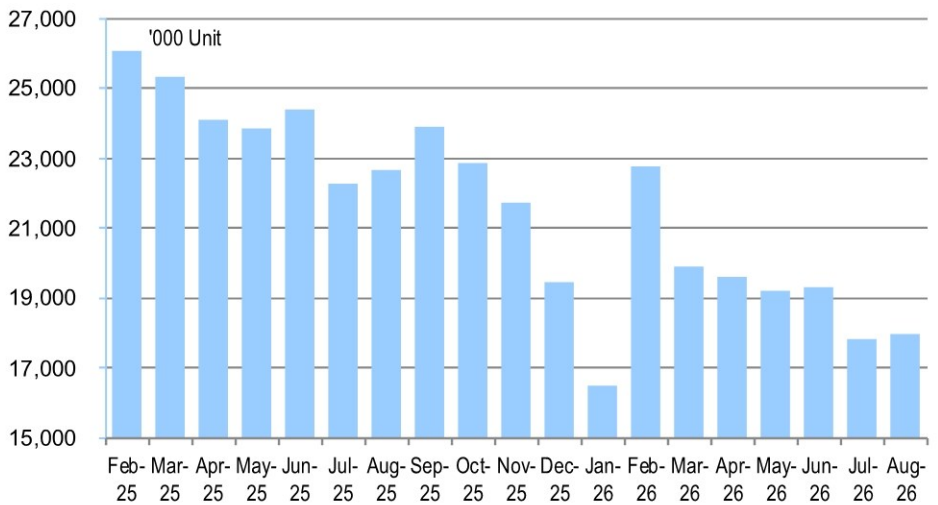
Wholesale SAAR of 28.2 million units and retail SAAR of 18.0 million units are broadly in line with our 2026 forecasts

- The August wholesale SAAR implies an annualized volume decline of 5.3% YoY, with 28.2 million units representing 94.7% of the 29.8 million units recorded in 2025.
- The August retail SAAR implies an annualized decline of 21% YoY, with 18.0 million units representing 80% of the 22.7 million units recorded in 2025.

China's passenger vehicle wholesale SAAR trend



China's passenger vehicle retail sales SAAR trend



Source: Thinkercar, Deutsche Bank estimates

Automakers Face Persistent Margin Pressure in 2H 2026 from Rising Sourcing Costs and Potential Policy Headwinds

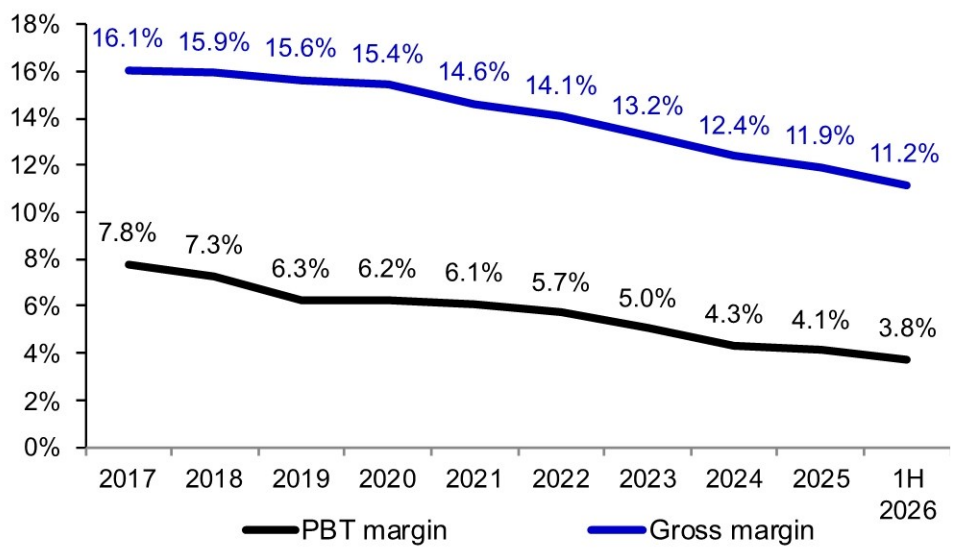
We anticipate automakers will experience further margin decline in 2H 2026, driven primarily by persistent and intensifying cost pressures from key components.

— Firstly, the escalating cost of semiconductor memory, particularly DRAM, is projected to be a significant headwind; following an already substantial ~50% QoQ increase in Q2 2026 DRAM contract prices, the outlook for Q3 2026 suggests an additional surge of 13-18% QoQ.

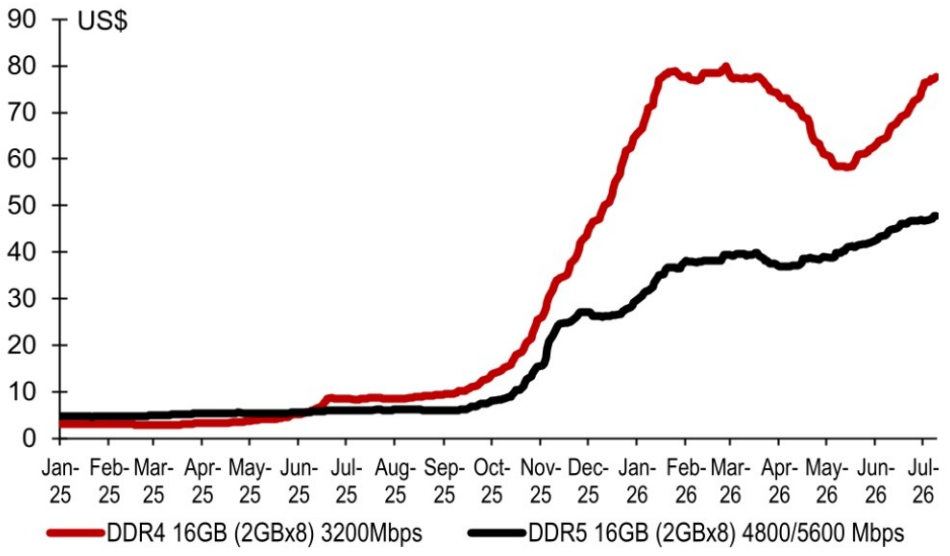
— Secondly, a new fiscal policy from the Chinese government is poised to add further strain on battery costs; effective September 1st, 2026, a 2% consumption tax will be levied on lithium batteries, with a planned increase to 4% from September 1st, 2027.

The potential removal of the 13% vehicle export VAT rebate could significantly weigh on sector-wide profitability, with overseas sales projected to account for 36% of wholesale volume in 2H 2026

China auto sector-wide margin trend



Memory (DRAM) spot price trend



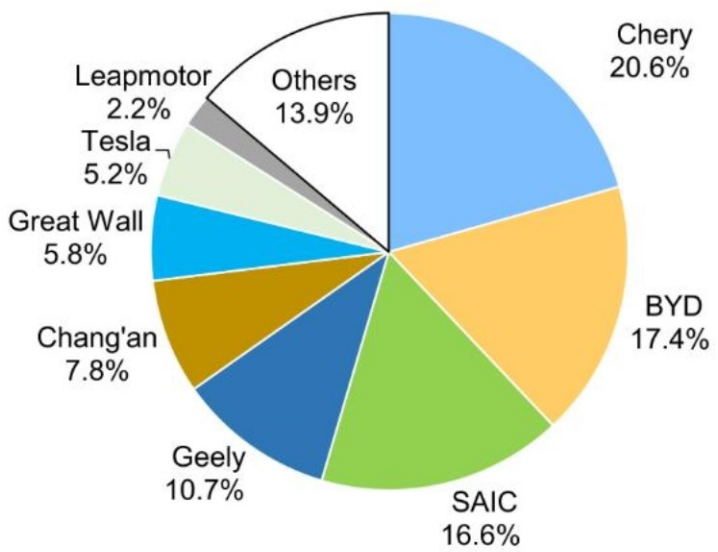
Source: Wind

Defensive Positioning in 2H 2026: Favoring European Exposure and Cost Beneficiaries

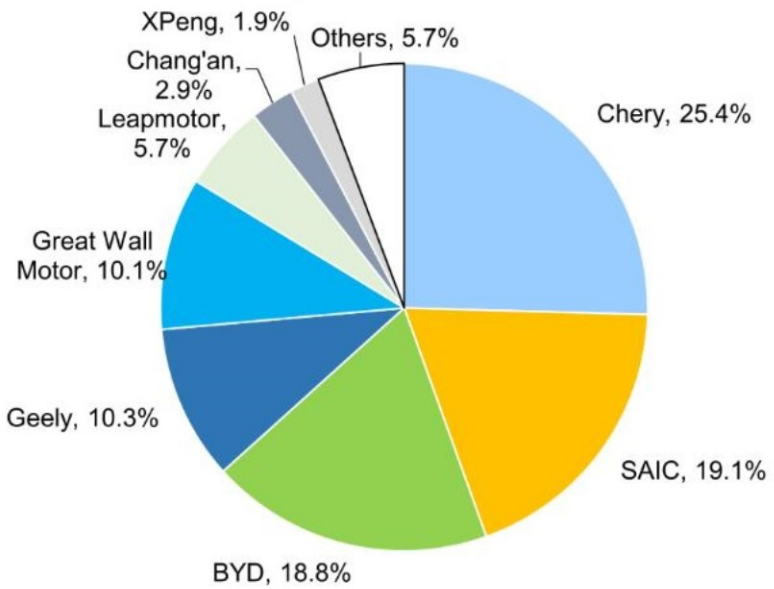
We maintain a conservative outlook on China's passenger vehicle sector in 2H 2026, favoring vehicle and auto parts makers with significant overseas exposure

- **European exposure:** Overseas markets generally offer stronger volume growth and higher profitability than China, while Europe provides a high-value destination to offset weak domestic demand and establish global brand credibility.
- **European market growth:** European car registrations increased 6.1% YoY to 7.2 million units in 1H 2026, supported by market incentives, rising oil prices and robust demand for electrified vehicles.
- **Electrification momentum:** European BEV and PHEV registrations rose 35.1% and 24.8% YoY, respectively, in 1H 2026, creating growth opportunities for Chinese NEV and auto parts makers with competitive technologies.

China Auto Makers' Total Oversea Sales Volume Breakdown in 1H 2026



China Auto Makers' Europe Sales Volume Breakdown in 5M 2026



Source: Wind, Thinkercar

Top Picks – Minth (425 HK) and Nexteer (1316 HK)

BYD (1211 HK)

— We maintain our highly constructive investment thesis on BYD, driven by its revolutionary second-generation "Blade Battery" and "Flash Charging" technology alongside rapid, high-margin international market expansion. Under normal temperatures, the Gen-2 Blade Battery charges from 10% to 70% in five minutes and up to 97% in nine minutes, maintaining exceptional extreme low-temperature performance (-30°C) with a 20% to 97% charge in just 12 minutes—advancements backed by a 2.5% battery warranty extension and a planned 90,000-station super-fast charging network to be built out through 2028 (beginning with 20k by end-2026). While near-term domestic volume growth is temporarily bottlenecked by a Gen-2 cell supply shortage—causing one-to-two-month delivery lead times and zero dealer discounting—management expects this to be fully resolved in 1Q27, paving the way for strong sequential domestic acceleration. This is complemented by a highly profitable overseas campaign where BYD targets 1.9–2.0 million vehicle sales in full-year 2026, representing a massive 90% YoY increase, and aims to exceed 2.5 million units in 2027 as its dedicated shipping carrier fleet scales and localized assembly plants in Indonesia, Brazil (ramping to 300,000 units of annual capacity), and Hungary (commencing late 2026) come online. Crucially, these international volumes command far superior pricing power—generating approximately RMB 20k in profit per vehicle in 1H 2026 despite foreign exchange headwinds—which will heavily insulate BYD's overall margins from domestic price competition.

Minth (425 HK)

— Considering the anticipated persistence of declining sector-wide volumes and margins in 2H 2026 and 2027, we maintain a conservative top-down outlook on China's passenger vehicle sector, preferring names with significant overseas exposure where higher volume growth and superior pricing power insulate margins. Consequently, we highly favor Minth, which is expected to continue delivering double-digit revenue and earnings growth due to its 68% overseas revenue exposure in 1H 2026 and its position as the world's largest battery housing manufacturer. This resilient base is supported by Minth's ambitious 2030 strategic target to achieve total revenue of RMB 82 billion—representing a 26% CAGR from RMB 25.7 billion in 2025—driven by a dual-engine strategy where core auto parts scale at a 23% CAGR to RMB 72 billion (comprising RMB 30 billion from battery housing, RMB 20 billion from plastics, RMB 11.5 billion from aluminum, and RMB 10.5 billion from metals and trims) to deliver a 20% net profit CAGR and a 15% RoE. Simultaneously, its high-potential emerging sectors are projected to scale rapidly from RMB 0.3 billion in 2026 to RMB 1.4 billion in 2027 before reaching RMB 10 billion by 2030—led by Humanoid Robotics (RMB 5 billion), AI Server Liquid Cooling (RMB 4 billion), and eVTOL components (RMB 1 billion)—securing a highly diversified, high-margin pipeline that underpins robust growth prospects far beyond traditional automotive cycles.

Source: Deutsche Bank

Peer valuation comparison table

Company	BBG ticker	Listing Currency	Price (Latest)	Market Cap (USD MN)	Price / sales			P/E (x)			P/B (x)			ROE (%)		
					2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Auto Parts Suppliers																
Fuyao Glass Industry Group Co	3606 HK	HKD	55.9	20,851	2.8	2.5	2.1	12.8	10.7	9.3	3.0	2.6	2.2	24	25	26
Minth Group Ltd	425 HK	HKD	25.0	3,740	0.9	0.7	0.6	8.1	7.0	6.0	1.0	0.9	0.8	12	13	13
Nexteer Automotive Group Ltd	1316 HK	HKD	4.8	1,547	0.3	0.3	0.3	9.5	8.0	6.9	0.7	0.6	0.6	7	8	9
Segment Average					**1.3**	**1.2**	**1.0**	**10.1**	**8.6**	**7.4**	**1.5**	**1.4**	**1.2**	**14.6**	**15.5**	**15.9**
Traditional Automakers																
BYD Co Ltd	1211 HK	HKD	82.1	108,138	0.8	0.7	0.7	16.2	12.6	10.5	2.3	2.0	1.7	15	16	17
Geely Automobile Holdings Ltd	175 HK	HKD	16.6	22,844	0.4	0.3	0.3	7.1	5.9	5.0	1.4	1.2	1.0	20	21	21
Chery Automobile Co Ltd	9973 HK	HKD	25.0	18,502	0.4	0.3	0.3	6.2	4.9	4.1	1.8	1.3	1.1	35	34	32
Great Wall Motor Co Ltd	2333 HK	HKD	7.6	15,974	0.4	0.4	0.4	5.9	4.8	4.2	0.6	0.5	0.5	10	11	12
Guangzhou Automobile Group Co	2238 HK	HKD	2.2	6,481	0.4	0.4	0.3				0.2	0.2	0.2	-6	-4	-1
Brilliance China Automotive Ho	1114 HK	HKD	1.8	1,181	6.1	5.7	5.3	5.4	5.0	4.5	0.4	0.4	0.4	7	7	8
BAIC Motor Corp Ltd	1958 HK	HKD	0.7	731	0.04	0.04	0.04				0.1	0.1	0.1	-4	-3	-2
Segment Average					**1.2**	**1.1**	**1.0**	**8.2**	**6.6**	**5.7**	**1.0**	**0.8**	**0.7**	**10.9**	**11.9**	**12.3**
New Energy Vehicle Makers																
Xiaomi Corp	1810 HK	HKD	26.3	86,517	1.3	1.1	1.0	22.4	17.1	13.7	2.0	1.8	1.6	9	10	12
Li Auto Inc	2015 HK	HKD	47.4	12,567	0.7	0.6	0.5		33.0	16.2	1.8	1.6	1.6	-4	2	6
XPeng Inc	9868 HK	HKD	42.3	10,340	0.8	0.6	0.5		358.3	25.6	2.5	2.5	2.4	-11	1	8
NIO Inc	9866 HK	HKD	29.4	9,393	0.5	0.4	0.4		37.1	14.7	8.0	7.0	4.6	-10	25	1157
Zhejiang Leapmotor Technology	9863 HK	HKD	35.3	6,084	0.4	0.3	0.2	14.2	8.0	5.9	2.4	1.8	1.4	18	25	26
Segment Average					**0.7**	**0.6**	**0.5**	**18.3**	**90.7**	**15.2**	**3.3**	**2.9**	**2.3**	**0.4**	**12.7**	**241.8**

Source: Bloomberg Finance LP (Priced September 9, 2026)

Appendix 1
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*Other information available upon request

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w/ Banking relationship	43%	35%	0%
w/ MiFID services	64%	52%	67%

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w/ Banking relationship	46%	32%	31%
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