EU Autos

On The Road in China: Deep dive after China field trip & EU regulation update

Building on our initial field-trip observations, this note adds more detail and context on China Auto. Most conclusions are uncomfortable. EU regulation is a near-term upside risk. RNO/VW/STLA could benefit from 8/9 Oct trade talks. BMW/MBG face more pressure. EU Autos remains Negative-rated.

Why read this note? Is EU Autos finally getting to a bottom/inflection point? Barclays' EU/US Autos and China Tech teams did a China field trip in September (see our initial feedback here: On The Road in China: Key observations through the lens of EU Autos, 16 Sept). This note adds much more context, detail and client feedback. We also emphasise evolving EU-China trade regulation in this note – which could be a key share price driver for EU Autos in the near term.

In particular, we examine three key questions in this note: 1/ Are competitiveness and export ambitions of Chinese OEMs still underestimated (especially in the premium segment)? 2/ How can regulation slow down Chinese imports and what are next potential catalysts? and 3/ How vulnerable are Mercedes and BMW, given still c40-50% China profit exposure? Our analysis draws on channel checks and meetings with Auto and Tech players including BYD, Geely, Tesla, Leapmotor, Xiaomi, Li Auto, Horizon, Pony.AI, VW and MBG.

We offer five main conclusions/observations upfront, and explore a range of underpinning 'root causes' in the body of the note, framed as 'Understanding China' sub-categories. Overall we remain Negative on EU Autos – with our negativity continuing to be predicated largely on China.

1/ The China dilemma: Being large in China is a problem, but not being in China is not an option. China leads in EVs (electric vehicles) and ICVs (intelligent connected vehicles). It leads in speed of innovation, production efficiency and (by extension) production cost. So EU OEMs need to be in China to have exposure to this innovation-speed-cost ecosystem and stay relevant globally (even if they don't sell in China – but especially if they do). However, the Chinese market is down c20% YTD and, within that, the ICE market is down 43% YTD and price pressure remains immense. So high exposure here is almost impossible to absorb elsewhere. We see compelling value-for-money on part of Chinese OEMs across all segments (comparable cars cost 50% less in China than in the EU with far more specs), and China is redefining 'value' and

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'premium' around key customer pain points: space, comfort and intelligence. At the same time, the biggest Chinese OEMs are compensating local pressure through high-growth, high-margin exports – while EU OEMs and smaller Chinese OEMs are over-indexed to fast-declining ICE volumes and under-indexed to high-growth, high-margin exports.

2/ The new China export flywheel: Big get bigger, more profitable and more threatening globally. China passenger car retail volumes are down c20% YTD. But exports are up c75%. So wholesale/production is almost flat and employment and local value-add are virtually unchanged. So we don't think China sees a need to intervene near term. These dynamics should lead to consolidation in the mid term (or at least a reduction in small, local OEMs to quasi-irrelevance). But Chinese OEM profitability has already diverged significantly based on export exposure. Bigger players are getting bigger, gaining scale/profit overseas, and able to compete more aggressively domestically and internationally. This is a fairly new and recent dynamic. But as it keeps playing out, we think it will keep putting more pressure on incumbents in China and abroad – including at higher price points as BYD (YangWang, Denza, FangChengBao), Geely (Zeekr), Dongfeng (MHero, Voyah), SAIC (incl IM Mobility), Changan (incl Avatr) and Xiaomi (incl Skynomad) increasingly leverage their (global) scale and tech into higher price points.

3/ The inevitable China defense: More effective regulation. 8/9 Oct EU-China talks are next policy catalyst to watch. Our base case is a combination of export quota, minimum pricing and IAA. Europe is in a tough spot. It needs to address the steep gains in Chinese market share in Europe, but it wants to avoid a trade war. China remains a large target market for EU exports (incl. German cars), and Europe is dependent on China exports (incl. EV batteries and critical minerals). So we think between higher tariffs, all-new PHEV tariffs, IAA (Industrial Accelerator Act), volume quotas and MIP (Minimum Import Price), a combination of the latter three is a plausible scenario. The nature and timing of headlines, announcements and implementation will determine further Chinese market share development in Europe as well as EU (mass-market) OEM share prices to some degree. But in the long run, we think regulations are unlikely to effectively restrict further share gains by Chinese OEMs. RNO/VW/STLA would benefit most near term, with EU exposure of c70%/c55% (ex-China)/45%, respectively. The catch is mix: Constrained volumes and firmer pricing incentivise Chinese OEMs to move upmarket, similar to Japanese OEMs in the 80s, while MIP leaves more profit with OEMs to support dealer networks, RVs and brand building, potentially shifting competitive pressure towards higher price points. We think this could start hurting Mercedes/BMW, as even a 1% premium market share shift would weigh on c10% of their EU volumes (**see Figure 18 for key regulatory catalysts**).

4/ The China exposure misconception: We think still 40-50% of MBG/BMW profits and still under a lot of pressure. With weak domestic demand and intense premium competition, German OEM volumes keep falling sharply, dealer new car sale losses are widening, and new EV models are (so far) not performing well. All German OEMs are under-indexed to NEVs and exports. So far, there have been no signs of stabilisation and so we see further downside to volumes and profitability. Mercedes and BMW still remain highly exposed to China with c40-50% EBIT exposure (BARCe) – underestimated by the market, in our view.

5/ The China 'iceberg': Robotaxis are now commercially available with positive vehicle-level unit economics in China. Chinese robotaxi players such as Pony and Baidu have reduced vehicle costs sufficiently to achieve positive unit economics at the vehicle level. In our view, this demonstrates the commercial feasibility of scaling robotaxi fleets. Once costs per mile/fares per ride become sufficiently low, owing to lower vehicle depreciation and operating costs, we expect much higher MAAS (Mobility-as-a-Service) penetration at the expense of individual car ownership. And, while regulation remains a near-term constraint, limiting both the pace and scope of deployment, the mid-term significance is , in our view.

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Understanding China's weak domestic demand: A brief macro perspective

China's total retail sales, a key gauge of domestic demand, remain weak YTD. The Augustreading was +0.4% YoY (+1.1% YTD), extending the softness seen since Q4'25. Discretionary categories remain the most exposed, among which Autos remain the weakest, declining 18.5% in Aug and 13.9% YTD.

The weakness in domestic demand is attributable to several macro headwinds. 1/ the multi-year real estate downturn has eroded the primary household store of wealth and savings, weighing on consumer confidence and the wealth effect; 2/ an uncertain business outlook and employment risks have reinforced cautious spending behaviour, leading to precautionary saving and household deleveraging. Chinese household deposits have doubled since 2020, increasing by RMB14tn/RMB15tn (c11%/10% of GDP) in 2024/2025, with a further RMB7tn added YTD 2026 through August. In contrast, household mortgage balances declined by RMB0.5tn/ RMB0.7tn/RMB0.7tn in 2024/2025/2026H1; 3/ local government fiscal stress has constrained policy support. With the fiscal deficit forecast by the IMF at over 8% of GDP and government debt above 100% of GDP in 2026[1], local governments have less capacity to stimulate consumption through transfers, trade-in programmes, or infrastructure-related income effects. We think these pressures could persist for several years, similar to Japan's experience following the collapse of its real estate bubble in the 1990s, until household balance sheets are meaningfully repaired.

Weak consumer sentiment has also heightened deflationary risks. Chinese manufacturers in sectors such as EVs, batteries and solar have expanded capacity well beyond domestic demand and are exporting excess supply. At the same time, intense domestic price competition has kept CPI near zero, reinforcing a 'wait for prices to fall further' mentality among consumers. Weak domestic demand/pricing reduces companies' willingness to invest, produce and hire, which in turn pressures employment and household income, further undermining consumers' willingness to spend. This negative feedback loop intensifies deflationary pressures and increases the risk of a prolonged deflationary cycle. These views are from our EU Autos team but they are also consistent with those of Barclays' China economists, as published in Turnaround remains elusive, 15 Sept.

Domestic auto retail declined 20% YTD, but China appears comfortable with a weak domestic auto market offset by strong export momentum this year. Our discussions indicate intervention is not expected. In our view, policymakers are broadly comfortable with the current market dynamics: strong exports are offsetting weak domestic demand, helping to maintain GDP growth, tax revenue and employment stability. Given the profitability of export businesses, the industry does not appear to require additional subsidies at this stage. Strong exports benefit large OEMs and enable them to compete aggressively in the domestic market, accelerating industry consolidation – all intended consequences, with the government having already signalled its intention to curb disorderly competition and promote healthier long-term industry development. Measures include enhanced scrutiny of irrational below-cost pricing[1], restrictions on ultra-fast vehicle launch cycles[2], and tighter oversight of supplier payment terms[3].

The purchase tax subsidy remains a key swing factor for 2027 sales. Chinese NEV purchase tax is scheduled to revert to the full 10% from January 2028, up from the current 5%, which is likely to pull forward demand into 2027. Meanwhile, H1 2026 faces a low base, as part of demand was brought forward into 4Q25 following the first round of subsidy cuts. The shift in the

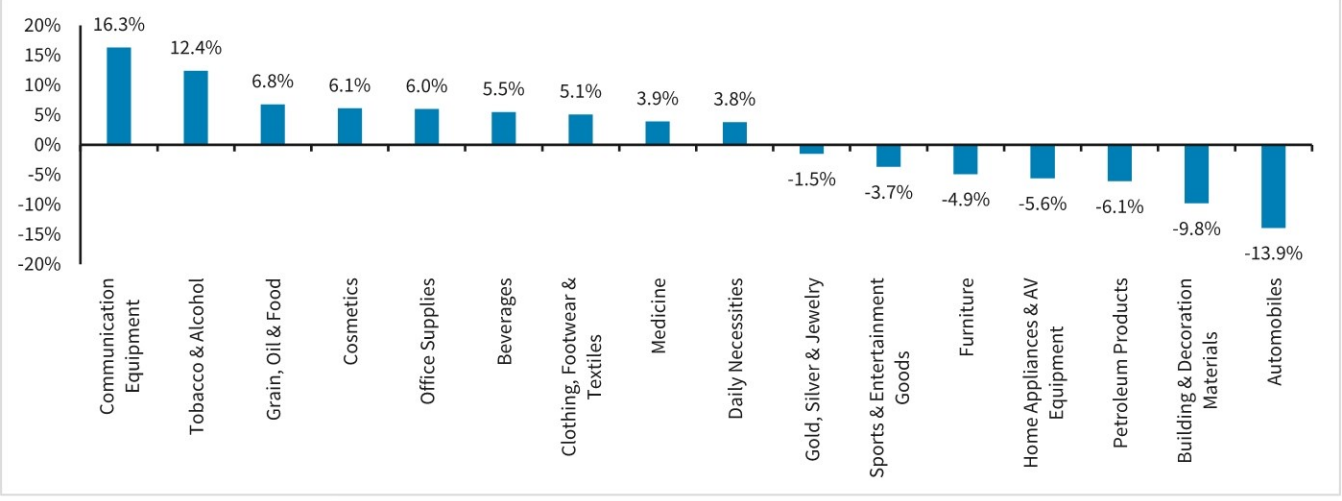
scrappage/replacement trade-in subsidy from a fixed RMB20k/15k to 12%/8% of the new vehicle purchase price (still capped at RMB20k/15k) is also weighing on 2026 demand. Consumers now need to purchase a vehicle priced above RMB187.5k to receive the full scrappage/replacement subsidy, while the mass-volume segment remains below this threshold.

FIGURE 1. China total social retails sale remains weak at +0.4% in August (YTD +1.1%)



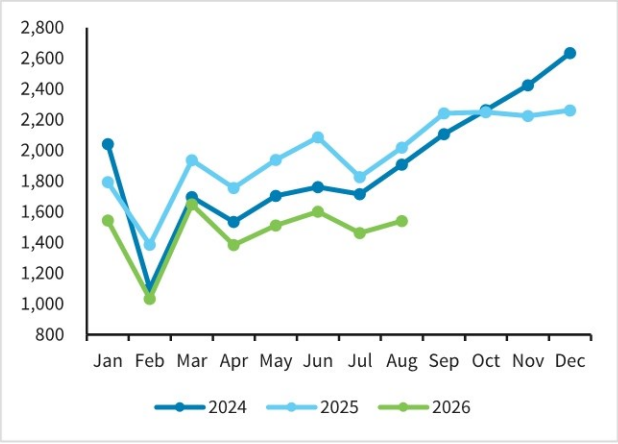
Source: NBS

FIGURE 2. Total social retail by category (in value; YTD): discretionary most exposed, with auto among the weakest in social retail basket



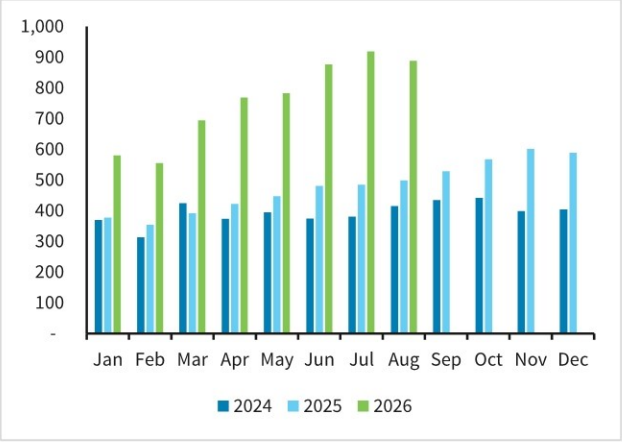
The gap between c14% YTD total auto retail sales decline and c20% volume decline reflects mix upgrade, as lower-end sales were more affected by the resumption of EV purchase tax and changes in trade-in policies.
Source: NBS

FIGURE 3. China passenger car retail volume (k units): Domestic market c-20% YTD



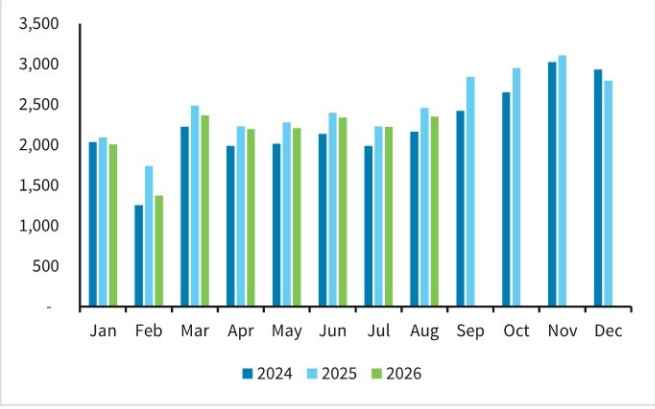
Source: CPCA

FIGURE 4. China passenger car export volume (k units): Exports +75% YTD



Source: CPCA

FIGURE 5. China passenger car production volume (k units): production c-5% YTD



Source: CPCA

FIGURE 6. Divergence between domestic demand and export growth; wholesale volumes remain stable



Source: CPCA

Understanding China/EU Auto Trade: EU is concerned at 14% China OEM market share in EU – but it's a complex and sensitive subject

The EU needs and wants to address China imports in the context of market share gains at the expense of EU OEM incumbents. The EU doesn't want to risk a trade war. But China wants to keep growing volumes globally and has leverage in the form of tariff retaliation and restricting critical exports. So we think there needs to be a compromise. The EU's rhetoric has become stricter recently. But we struggle to see very prohibitive measures, given the risk of Chinese retaliation. A combination of a volume quota, a MIP mechanism and IAA would be a plausible compromise, in our view. Timing and nature of headlines will determine near-term trading to some extent, starting with 8/9 October EU-China trade talks.

1. What is the status quo and which tools are available/conceivable?

Since 30 October 2024, following a one-year EU anti-subsidy investigation, Chinese BEVs have paid company-specific countervailing duties on top of the 10% MFN tariff. The rates are 7.8% for Tesla (Shanghai), 17.0% for BYD, 18.8% for Geely, 20.7% for other cooperating firms and 35.3% for SAIC, up to 45.3% in total. PHEVs, hybrids and ICE cars pay 10% only. **BEV tariffs have not stopped Chinese EVs into EU:** the overall EU BEV market grew c40% YTD, while Chinese BEVs grew c108%, reaching c13% market share. PHEVs have been more aggressive without additional duties: Chinese volumes grew c230% YTD, from c3k/month in Nov'24 to c30k in Aug'26, taking market share to c30%.

The concept of minimum import price (MIP)[1]. Under guidance issued on 12 January 2026, Chinese exporters can offer a 'price undertaking', meaning a commitment to sell above a set floor, in return for not paying the countervailing duty. The floor has to be set separately for each model and configuration. The Commission accepts two ways of calculating it. One is the exporter's historical CIF price from the investigation period, raised by its duty margin. The other is benchmarking against comparable EU-built BEVs, including SG&A costs and a reasonable profit. The offer must also cover three other areas: sales channels, cross-compensation (no offsetting discounts on other models sold to the same customers) and future investment in the EU. Exporters can also offer annual volume caps. If an exporter breaches the terms, including missing investment milestones, the Commission can withdraw the undertaking and reimpose the duties retroactively. So far, the only approval is VW Anhui's Cupra Tavascan, granted on 10 February, which previously paid a 20.7% duty. It combines a model-specific price floor, a fixed annual import quota, formal export requirements, detailed sales reporting with inspection visits, and EU BEV investment tied to set milestones[2].

The European Commission proposed the Industrial Accelerator Act (IAA) on 4 March 2026[3]. The IAA defines 'Made in EU' criteria for EVs, determining eligibility for public procurement, public financial support (including purchase subsidies), emissions super-credits and corporate fleet compliance (including company-car tax incentives). To qualify, an EV must be assembled in the EU, with at least 70% of non-battery components by value made in the EU. The battery must contain at least three EU-made components, including the cells. Separately, non-EU companies are to face stringent conditions on EU investments in 'emerging strategic manufacturing sectors' (battery, EV, solar and critical minerals). Council and Parliament aim to agree by year-end. Of course, this is only relevant if Chinese OEMs want to take advantage of above-mentioned 'Made in EU' benefits, and would not be per se prohibitive to continuing imports in the same way as is currently the case. However, the FDI regime will determine whether Chinese OEMs can localise in Europe on their own terms or only through European partners.

2. Latest update: Who said what and when? Brussels now openly wants a cap on Chinese PHEV market share. Beijing rejects the label but keeps the door open.

The EU has been ramping up the rhetoric ahead of EU-China trade talks. On 16 September, European Commission President Ursula von der Leyen addressed the EU's trade deficit with China. But she didn't explicitly address the automotive industry. As a result, the EU mass-market names sold off, as the 'stricter regulation' trade unwound for the time being. Nevertheless, we understand that the EU wants to curb imports in some form or fashion and we do think something will happen. One recent suggestion was to cap Chinese-built hybrids at 15% EU market share (from >30% today), with one official describing it as "managed trade" and asking China to voluntarily limit hybrid car exports[4], using the 1986 Japan voluntary export restraint (VER) as a template. The European Commission has set October as the deadline for "concrete results". Germany and France are urging the Commission to speed up a Section 301-style tool (allowing the EU to act alone without waiting for a WTO ruling), which would let Brussels "cut China off from the European market within 24 hours"[5]. The proposals came to light just before EU Trade Commissioner Maros Sefcovic arrives in Beijing on 8/9 October for two days of talks with Chinese officials to get a sense of where things stand ahead of the upcoming European Council meeting.

China's Ministry of Commerce has pushed back against the EU's call to restrict hybrid imports, saying that "so-called voluntary export restrictions seriously violate World Trade Organization (WTO) rules" and rejecting "their use to resolve automotive trade disputes between China and the European Union"[6]. On 29 September, China warned it would "respond firmly" to any new EU tool, calling it a "typical protectionist and unilateralist measure", and warned that broad EU tariffs modelled on US measures would trigger retaliation[7] [8].

Member states are split. Germany now seems to side with France, which pushed for the original BEV probe and wants the strictest 'Made in EU' rules. Spain, host to Chery, Leapmotor and Geely plants, abstained on the 2024 BEV duties. On 23 September, Spanish Prime Minister Pedro Sánchez urged the EU to negotiate a rebalancing deal with China and avoid a damaging dispute[9]. Hungary, home to BYD's Szeged plant and CATL's battery investment, voted against the 2024 duties. Its dependence on Chinese investment remains. The UK has been pulled in as well. On 25 September, Brussels told London it must raise its tariffs on Chinese cars if UK products are to avoid 'Made in Europe' barriers under the Industrial Accelerator Act. UK Business Secretary Jonathan Reynolds is "keeping tariffs on Chinese EVs under review"[10].

3. Conclusion and our view for most plausible scenario: We view a combination of volume quotas, MIP and IAA as the most plausible scenario

Taking solar as a template for MIP + quota. In 2013, Brussels threatened a provisional anti-dumping duty on solar panels averaging 47.6%, phased in from 11.8%. It ultimately accepted a price undertaking instead: a minimum import price of €0.56/W and a 7GW annual duty-free quota. We think the automotive trade mechanism might move in a similar direction. The BEV MIP framework allows price floors by model, and the EU's market share ask would add the quota. **The setup is similar, but the politics have flipped.** In 2013, China could not afford to say no. The EU then accounted for c60% of global solar demand and was the largest market for an industry in deep overcapacity. The offer also appeared generous, as the EU wanted to push its renewable transition: the price floor was close to spot prices, while the 7GW quota was c40% of 2012 EU demand of c17GW. In 2026, Europe takes only c10-15% of China's car exports (c1.3m of c10m exports) and c4-5% of its total production. Beijing can tolerate a slower EU ramp-up, but cutting Chinese PHEV market share from >30% to 15% is unrealistic, in our view, without significant retaliation.

So what could the compromise look like? TheEU's rhetoric has become much stricter recently. But so have the Chinese responses. And so we struggle to see very prohibitive measures on part of the EU, given risk of Chinese retaliation. A quota and MIP mechanism is, in fact, already in place and is applied for the Cupra Tavascan. There is also precedent for a similar mechanism in the solar industry. And, while this would typically correspond to tariff-free imports up to the quota, a combination with an MIP mechanism would aim to protect incumbent EU OEM volumes and margins. And, although China said it wouldn't accept a VER/quota mechanism, we think if the level is calibrated carefully (and perhaps with mid-term step-downs), China might tolerate this if it can keep growing via localisation in the mid to long term. At the same time, IAA would decelerate the localisation of Chinese production in the EU, but allow Chinese companies a mid-term path to more growth (in addition to and regardless of an import volume quota) and eventually even allow them access to public financial support and corporate fleet compliance.

To be clear, this would be far from a perfect solution for EU OEMs, but it might be the best outcome available, without risking a trade war. Chinese OEMs reached a seasonally high 14% market share in the EU5 in September (given strong UK volumes where China OEMs are >20%), up from 11% in August and c6%/c3% in 2025/2024. Within this, China PHEV market share in the EU is c30%. We think a 15% quota overall might be a possible level for a volume ceiling – but at this stage the range of potential outcomes remains very broad. During the negotiation phase, stricter outcomes would be directionally more favourable for RNO/VW/STLA (due to more limited competition at low- to mid-price points) and more ambivalent for MBG/BMW (also less competition but with more risk of retaliation on exports to China).

FIGURE 7. **EU trade defence toolkit and potential market impact**

Scenarios	Potential Market Impact
No tariff / limited action	Worst case for EU OEMs, as Chinese OEMs can continue scaling in Europe with no further constraint
PHEV tariffs raised to BEV levels (27–45%)	This will not stop Chinese taking market shares, also provide limited support for pricing: 28-45% BEV tariffs have not stopped Chinese BEVs - they grew 100% vs market +40% YTD; The economics still work. We estimated Chinese OEM still have 25%+ gross profit margin with a 27% countervailing duty.
Prohibitive tariffs	This would be effective in stopping Chinese imports, but will escalate into a broader trade war. We doubt either side wants that. China also arguably has more room to tolerate losing access to Europe than it did in solar in 2013, given Europe represents only c10–15% of Chinese auto exports and c4-5% of total production.
MIP + quota	It directly limits Chinese market share without shutting the market completely. Solar provides the template. European mass-market OEMs should benefit in the near term as competitive pressure eases and pricing is supported, but we think Chinese OEMs may respond by shifting towards the premium segment
IAA	This could slow the localisation of Chinese production in the EU in the near term, but provide a medium-term path to further growth and ultimately allow Chinese OEMs to compete with European incumbents on the same ground. Whether the 49% ownership cap is mandatory remains unclear. This will determine whether Chinese OEMs can localise on their own terms in Europe or only through European partners.

Source: Barclays Research

FIGURE 8. Key regulation catalysts in next three months

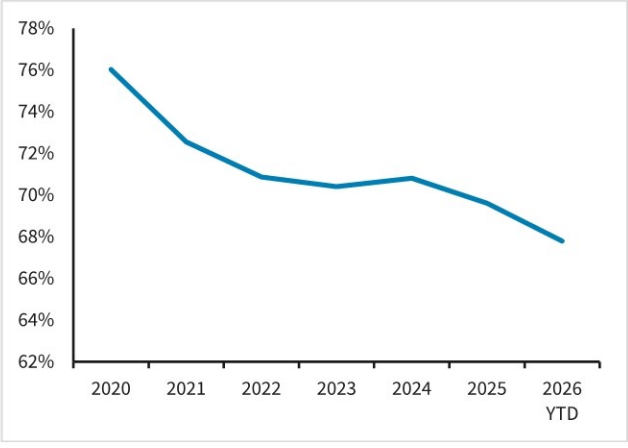
Date	Event	What to watch
8–9 Oct	Šefčovič–Wang Wentao talks, Beijing	This is the second session of the Trade and Investment Consultation and the EU's self-imposed deadline for concrete results. **Watch for how both sides address tariff/volume/pricing issues.**
14-Oct	German cabinet China package	Berlin aims to approve an economic-security package before taking it to Brussels. The list reportedly includes PHEV tariffs, mandatory JVs and tighter investment screening. **If PHEV tariffs survive into the final text, Germany moves firmly into the hawkish camp alongside France**.
15–16 Oct	European Council	EU leaders assess the outcome of the Beijing talks, after tasking the Commission in June with delivering results by October. The draft agenda frames the issue as "global macroeconomic imbalances". **Watch whether the conclusions name China and call on the Commission to use trade defence tools "without delay"**. That would signal political cover for a PHEV anti-subsidy case, which the Commission can launch on its own initiative.
10-Nov	China's rare-earth control suspension ends	The one-year pause on China's October 2025 rare-earth controls expires. Options range from a full extension to selective reimposition to full reinstatement, including rules on products with Chinese content. **The choice will reflect the state of both EU–China and US–China talks**. A lapse would hit European suppliers of motors, magnets and electronics first.
Dec	IAA Council–Parliament deal target	Leaders want the IAA agreed by year-end. The key fights are the geography of "Made in EU" (EU27 only, or including FTA partners such as the UK, Japan and Korea), local content requirement and the FDI conditions. **Watch whether the 49% ownership cap and minority JV become mandatory or stay as four of six options.** Together, these will decide whether Chinese OEMs can localise on their own terms in Europe or only through European partners.

Source: Barclays Research

Understanding China OEM Consolidation: New dynamic should finally drive consolidation

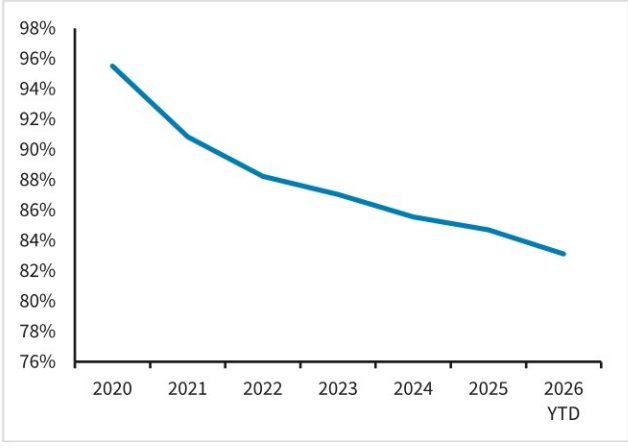
Although broadly anticipated, industry consolidation has yet to come, in our view. More than 100 brands/50 groups remain active in the Chinese market. The top 10 auto brands'/ groups' retail and wholesale market shares declined c2ppt to 68%/83% from 70%/85% in 2025, indicating that industry consolidation is still some way off. However, the number of brands with average monthly sales above 10k units has declined to 36 from 43 in 2025. We think this is due partly to weakness in the Chinese market. The seven brands dropping out of the '10k club' are Besturn (FAW), Denza (BYD), Ford, Geometry (Geely), Roewe (SAIC), Volvo and Voyah (Dongfeng). We think exporters will continue to benefit from the profitability of overseas markets, enabling them to compete more aggressively on pricing in the domestic market. This is likely to further squeeze smaller domestic brands and Western OEMs with limited export exposure.

FIGURE 9. Top 10 group Chinese retail market share



Source: Bloomberg, CATARC, Barclays Research

FIGURE 10. Top 10 group Chinese wholesale market share



Source: Bloomberg, CPCA, Barclays Research

FIGURE 11. No. of brands with avg monthly sales above 10k units in China (Retail)

Origin	2020	2021	2022	2023	2024	2025	2026 YTD
American	5	5	5	5	4	3	2
Chinese	14	19	19	20	25	30	25
German	4	4	4	4	4	4	4
Japanese	5	5	4	4	4	4	4
Others	4	4	2	2	2	2	1
Total	**32**	**37**	**34**	**35**	**39**	**43**	**36**

Source: Bloomberg, CATARC, Barclays Research

Understanding Chinese 'value-for-money': Half the price, better specs

Chinese consumers pay 50% less for even larger models, while getting significantly more specs and advanced features than European consumers. We deliberately select the most mainstream C-segment SUVs for a like-for-like comparison. The same models of BYD and Leapmotor are also exported to Europe. The value proposition in China is astonishing: consumers pay 50% less, yet get far more specs and advanced features than their European peers. Despite such aggressive pricing, Chinese OEMs can still generate c10-20% gross margins in the domestic market (see Figure 19).

Chinese OEMs' cost advantage can be described as 'engineering arbitrage' rather than broad-based government support. China has the world's largest pool of engineers, who are generally more productive while earning lower salaries than their global peers. These capabilities are embedded across the entire supply chain, resulting in highly competitive BoM (Bill of Material) costs. Industry participants estimate that manufacturing costs are c30% lower than those of overseas competitors. This is also the tariff threshold OEMs commonly cite when assessing whether it is economically viable to localise production overseas.

Chinese brands price to the European market when exporting, not to their cost. In Europe they sit close to VW, Renault and Stellantis list prices, sometimes above. The gap between home and export prices covers duty, shipping and dealer margin. It also lets them cut whenever they choose to trade margin for volume. At the same price, Chinese cars include as standard what European brands sell as options. Value in Europe is being redefined from 'how much' to 'what you get'. Competition and deflation at home keep pushing costs down and features up. Every annual model year resets the benchmark, and export models follow within months.

FIGURE 12. China EV price-for-value: Half the price, far richer specs

C/D-SEGMENT SUV

Model	*Unit*	BYD Sealion 7	Leapmotor C10	VW ID.4 Pro	Renault Scénic E-Tech	Peugeot e-3008
Origin		China	China	Europe	Europe	Europe
EU version compared		82.5 kWh RWD Comfort	RWD 81.9 kWh	Pro 79 kWh (MY27)	Techno 89 kWh (2026 facelift)	Allure 73 kWh
China trim compared		2025 智驾版 610 智航版	2026 605 悦享版 (74.9 kWh)	–	–	–
PRICE						
China list price (guide price)	*RMB*	199,800	132,800	–	–	–
China list price	*€*	**€25,948**	**€17,247**	–	–	–
Germany list price	*€*	€47,990	€41,900	**€46,825**	**€42,590**	**€48,750**
SIZE						
Length	*mm*	4,830	4,739	4,584	4,470	4,542
Width	*mm*	1,925	1,900	1,852	1,864	1,895
Height	*mm*	1,620	1,680	1,634	1,571	1,641
Wheelbase	*mm*	2,930	2,825	2,771	2,785	2,739
Boot (rear seats up)	*L*	520	435	533	545	588
BATTERY & RANGE						
Battery (usable, EU spec)	*kWh*	82.5	81.9	79.0	89.0	73.0
Cell chemistry		LFP	LFP	NMC	NMC	NMC
Range, WLTP (EU spec)	*km*	482	510	570	632	527
China trim battery	*kWh*	82.5	74.9	–	–	–
China trim range, CLTC	*km*	610	605	–	–	–
CHARGING						
DC peak charging power	*kW*	150	180	165	165	160
DC 10–80%	*min*	32	30	30	–	36
Voltage architecture	*V*	800	800	400	400	400
PERFORMANCE						
Motor output	*kW*	230	220	210	160	157
0–100 km/h	*s*	6.7	6.6	6.7	7.9	8.8
SMART / ADAS						
China		Highway NOA standard (DiPilot 100); lidar + city NOA (+RMB20k)	L2 only; lidar + highway NOA (+RMB10k)	–	–	–
EU		Not enabled in EU	Not enabled in EU	Not offered	Not offered	Not offered
EQUIPMENT						
Front seat heating		✓	Option (RMB10k pack)	✓	✗	✓
Front seat ventilation		✓	Option (RMB10k pack)	Option (€1,750)	✗	✗
Power-adjustable driver seat		✓	✓	Option	✗	Option (€1,200)
Panoramic glass roof		✓	✓	Option (€1,400)	✗	Option (€2,400 pack)
Power tailgate		✓	✓	✗	✓	✗
360° surround camera		✓	✓	✗	✗	✗
Heat pump		✓	✓	Option (€1,250)	✓	✓
Centre touchscreen	*inch*	15.6	14.6	12.9	12.0	10.0
Count of the 7 items above		**7**	**5**	**1**	**2**	**2**

Source: Autohome; EV Database; Barclays Research

Understanding 'China Speed': 12-18-month cycles the new normal

Faster technology cycles keep raising the competitive bar. BYD's 2020-26 roadmap demonstrates a sustained ability to advance across powertrains, batteries, charging, electrical architecture and ADAS, and rapidly roll these technologies out across models and sub-brands. The speed of product development and technology iteration in China is remarkable. New vehicle development typically takes 12-18 months, vs. 5-7 years for traditional auto business, and production cycle times can be as short as 30-40 seconds per vehicle in highly automated plants (and, in fact, even in less automated plants). This does not necessarily imply lower engineering or quality standards. For example, new models are still required to undergo testing across two winter seasons, but OEMs accelerate the process by conducting tests across different hemispheres. BYD has even built its own wind tunnel to support in-house aerodynamic validation.

At the Beijing Auto Show in April, we were impressed by BMW's iX3: its 800V architecture, 805km WLTP range, 10-80% charging in 20mins and ADAS suggested it was state-of-the-art and on par with best-in-class Chinese peers at the time. Yet half a year later, the iX3 has still not started deliveries, while BYD's Blade Battery 2.0 can now already support 1,000km+ range and 10-97% flash charging in 9 minutes (even under -30°C). The benchmark is moving faster than global OEMs can bring new technology to market, making it increasingly difficult for OEMs without deep roots in the local supply chain to keep pace.

FIGURE 13. **BYD EV technology roadmap: six years, six technology leaps**

	2020	2021	2022	2023	2024	2025	2026
MILESTONE	**Blade Gen 1**	**DM-i Super Hybrid; e-Platform 3.0**	**CTB**	**e4 + DiSus**	**e-Platform Evo**	**God's Eye; Super e-Platform**	**Blade Gen 2**
TECH PATH	Battery safety + life	Plug-in hybrid; 800V / heat pump / 8-in-1 eletric drive unit	Battery as structural floor	Electronically controlled damping / air and hydraulic suspension / four independent wheel motors	12-in-1 / CTB refinement	Driver assistance in three tiers; 1,000V / 10C / megawatt vehicle	FLASH battery + 1.5 MW charging ecosystem
USER LEAP	**3,000-cycle**	**3.8 L/100 km; Charge 5 min ≈ +150km**	**Body torsional stiffness doubled to >40,000 Nm/°**	**Independent wheel torque; active damping**	**More system integration**	**Even an entry car gets advanced driver assistance; Charge 5 min ≈ +400km**	**10–97% / 9min; -30°C /12min**

Source: BYD, Barclays Research

FIGURE 14. Technology deflation: what RMB200k buys you six years later

	2020 BYD Han EV	2026 BYD Han EV
MSRP (RMB)	**¥239,800**	**¥187,800**
Battery (kWh)	76.9	69.1
Energy use (kWh/100 km)	14.1	10.8
Kerb weight (kg)	2,020	1,940
Motor power (kW)	163	240
0–100 km/h (s)	7.9	6.5
Speakers (#)	8	12
Range (official)	605 km (NEDC)	705 km (CLTC)
Fast charging	30→80% in ~25-30 min	10→97% in 9 min
Driver assistance	Adaptive cruise + lane centring (5 cameras, 1 radar)	God's Eye C: 12 cameras, 5 radars, 84-TOPS chip; motorway navigation standard; LiDAR + city navigation optional
Parking	Remote parking	Automatic parking + remote parking
Voice and connectivity	4G; voice controls media, navigation, air-con	5G; no wake word needed, recognises 4 seat zones, controls seats (heat, ventilation, massage)
Front seats	Heating and ventilation for the driver only	Heating, ventilation and massage for both, driver memory
Rear seats	-	Heating and ventilation
Comfort extras	-	Heated steering wheel, fridge, adaptive damping, heat pump
Safety extras	-	Door-opening warning; sentry mode

Source: BYD, Autohome, Barclays Research

Understanding China 'New Luxury': Leading with space, comfort and intelligence

Chinese NEV brands are redefining automotive luxury. Three-row large SUVs and MPVs remain the most popular segments across the Chinese auto market. Chinese flagships offer more space, more comfort and more intelligence for far less money. The gap is widest in rear-seat comfort, cockpit intelligence and driver assistance, which Chinese premium buyers value most. Chinese brands have also learned from the Mercedes/BMW product hierarchy, building clear 7/8/9-series ladders similar to BMW's 3/5/7 Series or Mercedes' C/E/S-Class. Their pricing strategy is effective: Chinese 9-series flagships match the price of the GLE/X5, but offer specifications that surpass even the GLS/X7. The Germans still lead on brand, ride quality and craftsmanship. But for most Chinese buyers, those advantages no longer justify roughly double the price. With the exception of Tesla, our checks suggest that Chinese consumers generally view incumbent international OEMs as lacking innovation and pragmatism, a perception reflected in sales trends alongside factors such as value-for-money and brand appeal.

Chinese premium NEV brands define luxury around use cases rather than heritage. They start with the customer and design the vehicle around how it will actually be used: as a mobile office for executives, a living room for multi-generational families, or accommodation and an energy hub for outdoor users. Zero-gravity seats, worktables, privacy features and independent audio zones address the needs of rear-seat business passengers; genuinely usable six-seat cabins, easy third-row access, entertainment screens and refrigerators make long journeys easier for families; while camping modes (like Xiaomi Skynomad N90), fold-flat sleeping areas and external power supply extend the vehicle's role beyond transportation. Rather than simply adding unnecessary equipment, Chinese OEMs increasingly package hardware, software and services around specific customer pain points/use cases.

Premium Chinese brands are also accelerating their international expansion. BYD is bringing its premium brands Denza and Fangchengbao to Europe[11]. Zeekr (Geely's premium brand) has already reached c10k units/month in exports and plans to introduce additional models overseas. Xiaomi intends to enter Germany in 2027 and has already established an R&D centre in Munich, hiring experienced German automotive 'veterans'[12]. Li Auto plans to unveil the facelifted i6 at the Paris Motor Show in mid-October, while its current overseas focus remains the Middle East. We expect a growing number of higher-priced models to be exported – and we think the competitiveness of Chinese vehicles at higher price points is still vastly underestimated by the market. We acknowledge that expanding in the premium segment is likely to be more challenging than in the mass market, given greater consumer emphasis on brand equity and after-sales service. But challengers will eventually come, with new products that may not even be directly comparable with incumbent offerings.

FIGURE 15. Chinese redefining automotive luxury: More space, more comfort and more intelligence

FLAGSHIP 3-ROW SUV

Model	*Unit*	AITO M9	Li Auto L9	Zeekr 9X	Mercedes GLS 450 4MATIC	BMW X7 xDrive40i
China guide price	*k RMB*	490	460	466	968	928
China guide price	*€*	**€63,610**	**€59,714**	**€60,506**	**€125,714**	**€120,519**
Powertrain		EREV	EREV	PHEV	Petrol MHEV	Petrol MHEV
System power	*kW*	497	420	660	280	280
0–100 km/h	*s*	4.5	4.9	3.9	6.1	5.8
Length	*mm*	5,285	5,255	5,239	5,210	5,170
Wheelbase	*mm*	3,125	3,125	3,169	3,135	3,105
Seats		6	6	6	7	7
Electric range (CLTC)	*km*	340	420	300	–	–
Battery	*kWh*	60.0	72.7	55.0	–	–
Centre screen	*inch*	17.2	29.0	16.0	12.3	14.9
LiDAR units	*#*	6	1	1	0	0
Speakers		39 (HUAWEI SOUND)	33	32	10–11	16 (Harman Kardon)
LUXURY CONTENT CHECKLIST						
Air suspension		✓	✓	✓	✓	✓
Rear-wheel steering		✓	✓	✗	✗	✗
LiDAR fitted		✓	✓	✓	✗	✗
City NOA		Option	✓	✓	✗	✗
Head-up display		✓ AR	✓	✓ AR	✗	✗
Front-passenger screen		✓ 17.2"	(one-piece 29")	✓ 16"	✗	✗
Rear entertainment screen(s)		Option (projector)	✓ 21" 4K	✓ 6.3" (17" opt)	✗	✗
2nd-row heating + ventilation + massage		✓	✓	✓	✗	✗
2nd-row zero-gravity seat		Option	✓	✓	✗	✗
2nd-row leg rest		Option	✓	✓	✗	✗
Rear tables		Option	✓	✓	✗	✗
Fridge		✓	✓	✓	✗	✗
Fragrance system		✓	✓	✓	✗	✗
Items standard (of 13)	**#**	**8**	**12**	**12**	**1**	**1**

Source: Autohome, Barclays Research

Understanding Chinese OEMs' global ambitions: Looking for 5-10x

Chinese OEMs will pursue growth and intensify global competition. Almost all major Chinese exporters have raised their 2026 overseas targets: BYD from 1.5m to c1.8-1.9m, with a long-term oversea target of 5m; Geely from 640k to 920k; and Leapmotor from 150k to 200k, with a 2027 target of 350-400k and a long-term goal of 1m. The US remains the only major market effectively closed to Chinese OEMs due to the 100% import tariff. Chinese exporters view the TAM outside China and the US as a c45-50m-unit opportunity, of which c10m already achieved in 2026, equivalent to c20% market share. Even after applying large haircuts to their growth ambitions, we still think established players will need to cede further market share, as has already happened in the EU this year.

Chinese OEMs have found creative routes to flexible international expansion. There are essentially three models. 1/ Geely has secured more than 1m units capacity with RNO (Brazil), Ford (Spain) and Proton (Malaysia), which it can leverage flexibly for localisation when demand warrants and regulation requires; 2/ Leapmotor has a JV with STLA, which is focused on non-China distribution, but could still expand capacity sharing; 3/ BYD has established a greenfield factory in Hungary and is exploring a second location in Europe, with a view to expanding production if demand/regulation allows/requires. This clearly indicates to us that Chinese OEMs are preparing to navigate tighter regulation. Overall, overseas investments remain cautious but effective. For example, Geely spent $221m for a 34% stake in Ford España to secure c150k capacity. Building a new plant with similar capacity would cost c$1bn and require at least two years.

A potential headwind for Chinese exporters is from changes to the VAT rebate regime. Chinese vehicle exports currently benefit from a 13% VAT rebate, but this policy could be gradually phased out over the coming years, which was broadly anticipated by Chinese OEMs during the trip. Neither the scale nor the timing of any changes have been confirmed yet. Assuming a 25% export margin, the 13% VAT rebate contributes roughly 10ppt of gross margin, implying a potentially significant profitability headwind for Chinese exporters. We see three possible motivations behind such a policy shift: 1/the EV industry has reached sufficient scale and maturity, reducing the need for government support and driving consolidation; 2/it could strengthen China's position in negotiations with trade partners by demonstrating that the industry is not reliant on subsidies; 3/it may help support overseas pricing discipline by discouraging excessive competition in export markets. We have seen similar policy adjustments in the solar and battery industries in the past. We expect OEMs to offset part of the impact through product mix upgrades and higher overseas pricing.

FIGURE 16. Chinese OEMs' overseas volume targets (k units)

k units	FY25 Export volume	FY26 export target	FY26 target growth	FY25 Export to EU	EU exposure
Chery	1,344	1,500-1,600 (H1'26 exports reached 944k units, +71.5% YoY)	20%	119	9%
SAIC	1,071	1,500	50%	308	29%
BYD	1,050	1,800-1,900 Longterm: 5,000	80%	186	18%
Changan	637	2026: 800 2030: 1,500	30%	1	0%
Greatwall	507	2026: 600 2030: 1,000	20%	3	1%
Geely	427	920	115%	20	5%
GAC	130	250	90%	0	0%
Leapmotor	67	200 long term: 1,000	300%	34	50%
Xpeng	45	2026: 90 Next 10 years: half of XPeng sales is expected to come from global markets	100%	21	46%

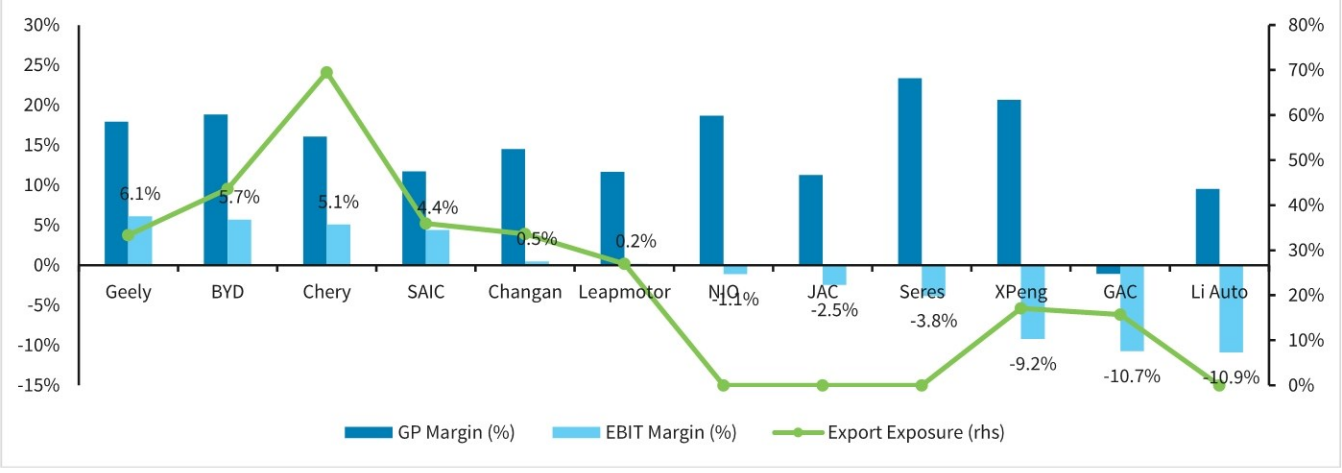
Source: Company filings, Barclays Research

Understanding Chinese OEMs' profitability: Big correlation with export and c€10k gross profit in EU vs. c€2.5k in China

'Everyone is losing money' is no longer true. The export business has become a major profit driver for Chinese OEMs. Compared with the highly competitive domestic market, export operations generate at least c10ppt higher gross margins, reaching c25-30% after tariffs (domestic gross margin roughly at 10-20%). Gross margin may underestimate overseas profitability, with higher net revenue driving net income per car to 4-5x the domestic market, according to the OEMs. **We see a clear positive correlation between EBIT margins and export exposure**. Leapmotor is an exception. Its cooperation with Stellantis generates only c5% gross margin, but the model requires minimal incremental expenses, with most of the profit retained at the LPMI JV level (consolidated by Stellantis). Management appears comfortable with this arrangement for now, prioritising volume growth during the global expansion phase.

Large exporters benefit from attractive overseas profitability, which in turn enables them to compete more aggressively in the domestic market, even at very thin margins. Smaller players lacking the capability to expand globally will face intensifying domestic competition, accelerating industry consolidation. **All European OEMs are currently under-indexed in this area.** VW appears to have the greatest sense of urgency, in our view, embracing the Chinese supply chain and seeking to turn China into an export hub (like Tesla; although in VW's case limited to the 'global South' for now). Nevertheless, VW's mid-term China volume target of 2.7m (excluding exports) looks overly ambitious to us (as does BMW's 'stable' China volume ambition).

FIGURE 17. **Chinese OEM margins: 'Everyone is losing money' is no longer true; profitability is increasingly driven by export exposure**



Gross profit margin and EBIT margin as of H1'26.
Source: Bloomberg, Barclays Research

FIGURE 18. Our unit economics analysis suggests ~10ppt higher gross profit margin and 3-4x unit margin for EU exports, even after import tariffs

BYD Sealion 7 EV unit economics China domestic vs export to Germany	China (RMB)	China (€)	Germany (€)	Note
Retail price incl. VAT	**¥199,800**	**€26,255**	**€49,990**	CN 610 长续航版 80.64kWh vs DE Comfort 82.5kWh (battery differs +1.9kWh); both RWD 230kW
less: VAT	(¥22,986)	(€3,020)	(€7,982)	13% CN vs 19% DE
Retail price ex-VAT	**¥176,814**	**€23,234**	**€42,008**	
less: transaction discount	-	-	-	Base 0%
less: dealer margin	(¥8,841)	(€1,162)	(€4,201)	Assumption: China 5%, Germany 10%
OEM net revenue (ex-works CN / NSC wholesale DE)	**¥167,973**	**€22,073**	**€37,808**	
COGS	(¥146,000)	(€19,185)	(€19,185)	Assumption calibrated to c12% domestic gross profit margin. Ignores extra 1.9kWh in EU pack (c RMB1k)
Domestic logistics / plant-to-port	(¥1,500)	(€197)	(€200)	Assumption
Ocean freight + insurance			(€1,500)	
memo: customs value (CIF)			€23,573	FOB transfer price = China OEM net revenue + freight
EU import duty - MFN 10%			(€2,357)	On CIF
EU countervailing duty - BYD 17.0%			(€4,007)	On CIF
Customs clearance, brokerage & port handling			(€250)	Import VAT recoverable - not a cost
Inland logistics + PDI (Germany)			(€450)	
Total cost of sales	**(¥147,500)**	**(€19,382)**	**(€27,950)**	
Gross profit per unit	**¥20,473**	**€2,690**	**€9,858**	
Gross margin (% OEM net revenue)	*12.2%*	*12.2%*	*26.1%*	

Source: Autohome, EV Database, Barclays Research estimates

Understanding German OEM challenges in China

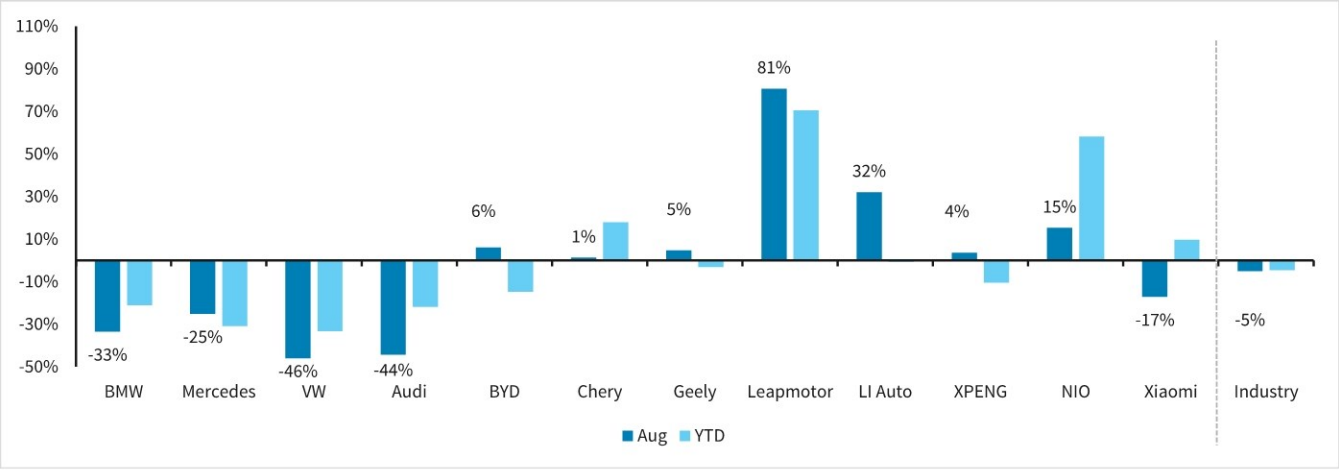
All major EU OEMs remained weak in China. August wholesale volumes declined sharply, with BMW -33% YoY (YTD -21%), MBG -25% (YTD -31%), VW -46% (YTD -33%) and Audi -44% (YTD -22%). Imports were also weak, with Mercedes -34% (YTD -26%), BMW -24% (YTD -33%) and Porsche -27% (YTD -37%).

Distribution network optimisation remains under way. We continue to view the companies' mid-term volume targets as unrealistic. Mercedes has closed c150 stores in China since last year and plans to close a further 30-40 in 2H26. BMW also closed more than 100 in 2025. Mercedes still targets a network of c500-550 stores, according to our channel checks, with each outlet selling c800-1,000 vehicles annually, implying mid-term target of 400-500k units in China. BMW is aiming to keep Chinese volume and JV EBIT broadly stable. According to BNEF, Chinese NEV penetration is expected to increase from c60% to c80%, implying ICE volumes could halve over the next 5-6 years. German OEMs remain significantly under-indexed in the segment, with NEVs accounting for less than 10% of their portfolios. As such, maintaining stable volumes will require either a substantial gain in ICE market share or a materially stronger position in the EV market; both are challenging, in our view.

New EV models have yet to gain traction. The Mercedes e-GLC sold c1k units/month since its launch in July, while dealers have also characterised order momentum for the BMW iX3 as 'unsatisfactory' (partly because of long waiting times and limited showroom availability of production vehicles). The AUDI E7X and VW ID ERA 9X have yet to demonstrate meaningful market success with c1-1.5k monthly sales. In our view, the definition of 'luxury' in the Chinese market has evolved, and Mercedes-Benz and BMW no longer hold the same appeal they once did and it's hard to defend their premium pricing. Both brands are working hard to retain their existing customer bases, but they continue to lose customers to Chinese premium NEV brands.

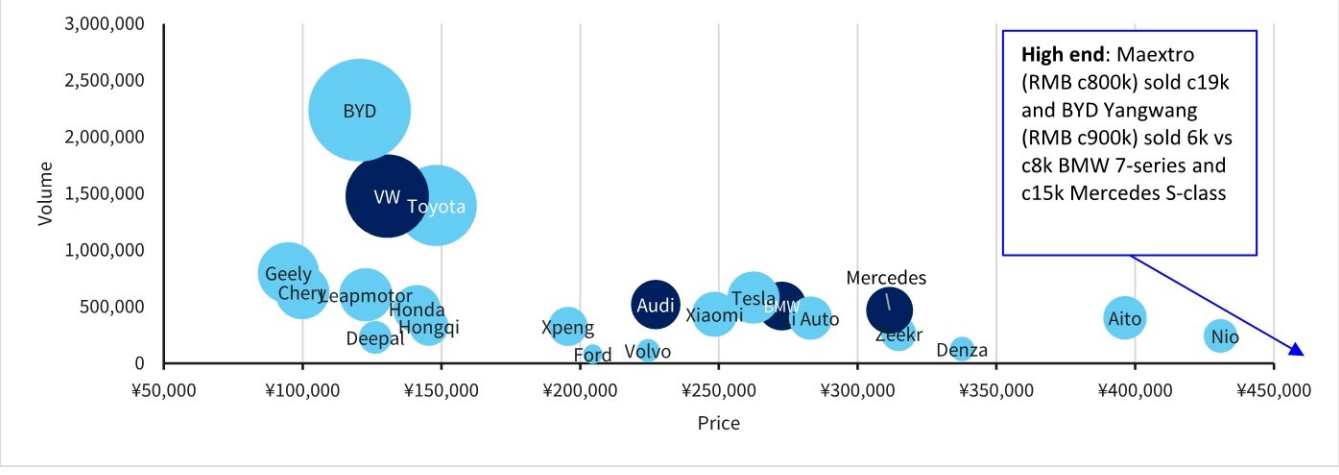
Volume and pricing remain the key dilemma for Mercedes and BMW, and we see further downside risk to JV profitability. The Mercedes e-GLC is priced at RMB340k, almost matching the flagship 8/9-series products of domestic peers. Consequently, sales have remained at c1,000 units/month, although it may be too early to assess fairly after only two months of sales. BMW prices the iX3 at RMB270k (c€35k vs. c€70k in Germany), broadly comparable to the 6/7-series offerings of premium domestic competitors. And regardless of our dealer feedback, we actually think that the iX3 has a very solid chance for commercial success at this price point (perhaps >5,000 units/month; BARCe). But we suspect that the base version will be highly dilutive to BMW's still high-single-digit China margins at this price point. Interestingly, the iX3 will also be the first model to transition to a 'direct-sales' model for BMW in China, under which dealers earn only a fixed service fee. As a result, any price adjustment would be directly visible.

FIGURE 19. China wholesale volume by brand in August 2026 and YTD 2026: Germans face pressure from weak domestic demand and share losses



Source: CPCA, Yiche, Barclays Research

FIGURE 20. The premium segment in China remains highly crowded, with a growing presence of domestic brands competing aggressively across price points and product categories



Volume shown as rolling 12-month retail sales from September 2025 to August 2026. Size of bubbles also reflects volumes.
Source: Bloomberg, CATARC, Barclays Research

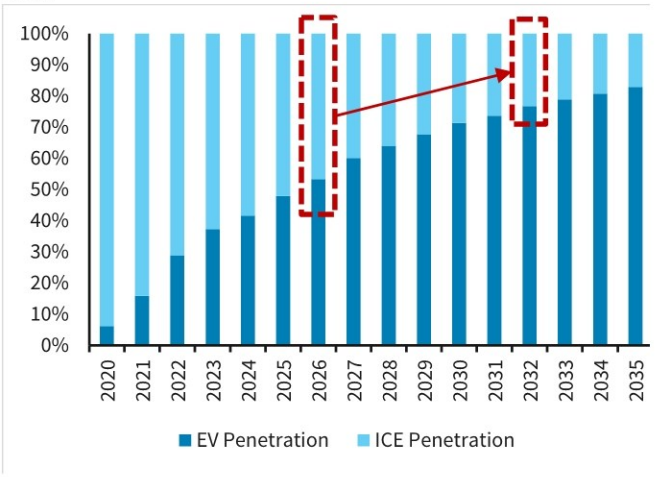
FIGURE 21. Chinese SUVs vs. German: Comparable product ladder, more content for less

BMW			Mercedes			Volkswagen			AUDI			Tesla		
Model	MSRP	Volume	Model	MSRP	Volume	Model	MSRP	Volume	Model	MSRP	Volume	Model	MSRP	Volume
iX3	269,900	-	e-GLC	339,800	1,228							Model Y	263,500	24,419
X3	318,000	5,672	GLC	351,800	7,957									
X5	598,000	3,494	GLE	699,800	1,971				E7X	269,800	1,431	Model Y L	339,000	4,612
X7	928,000	199	GLS	968,000	455	ID.ERA 9X	309,800	1,112						

Li Auto			Aito			Nio			Zeekr			Xiaomi		
Model	MSRP	Volume	Model	MSRP	Volume	Model	MSRP	Volume	Model	MSRP	Volume	Model	MSRP	Volume
i6/L6	249,800	26,802	M6	259,800	7,632	ES6	338,000	1,006	7X	229,800	5,106	YU7	233,500	12,353
L7	319,800	11	M7	309,800	2,922							Skynomad N70	209,900	
i8/L8	369,800	7,962	M8	369,800	984	ES8	406,800	11,042	8X	356,800	2,885			
L9 Livis	509,800	1,771	M9	479,800	9,510	ES9	498,000	6,365	9X	465,900	4,155	Skynomad N90	269,900	

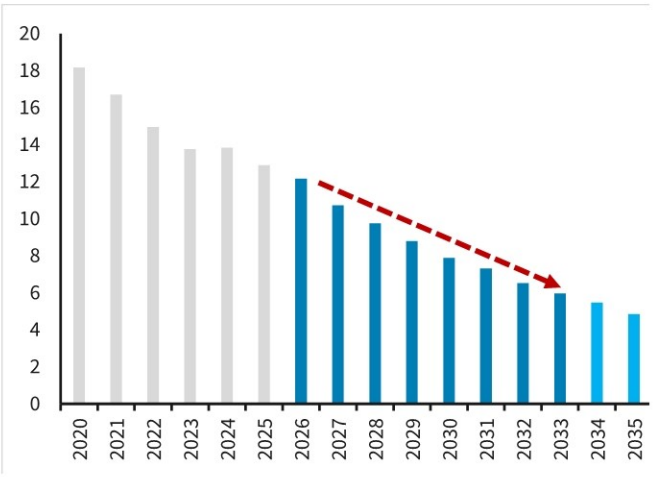
Volume as retail in August 2026.
Source: Bloomberg, CATARC, Yiche

FIGURE 22. ICE penetration projected to halve by 2032 from 2026 in China



Source: BloombergNEF

FIGURE 23. ICE absolute volumes projected to halve by 2033



Source: BloombergNEF

FIGURE 24. However, German OEMs remain over-indexed to ICE and under-indexed to NEV, with <10% EV penetration in their portfolios

OEM	Powertrain	Sales			Y/Y Δ		Penetration- month %			Market share - month %					Market share -YTD %		
		Aug-26	Jul-26	Aug-25	Aug-26	YTD	Aug-26	Jul-26	Aug-25	Aug-26	Jul-26	Aug-25	Y/Y Δ	M/M Δ	2026	2025	Y/Y Δ
VW Group	xEV	9,578	9,996	7,537	27.1%	11.7%	7.2%	7.9%	3.8%	1.0%	1.1%	0.7%	29bps	-11bps	1.0%	1.1%	-9bps
	ICE	124,242	117,011	193,287	-35.7%	-29.2%	92.8%	92.1%	96.2%	21.8%	21.1%	21.8%	1bps	64bps	21.9%	17.7%	416bps
	Total	**133,820**	**127,007**	**200,824**	**-33.4%**	**-27.8%**				**8.6%**	**8.6%**	**10.1%**	**-147bps**	**3bps**	**10.5%**	**11.7%**	**-122bps**
Mercedes Benz Group	xEV	3,705	3,329	4,822	-23.2%	-11.3%	11.2%	9.7%	9.9%	0.4%	0.4%	0.4%	-6bps	2bps	0.4%	0.5%	-13bps
	ICE	29,384	31,015	44,035	-33.3%	-27.7%	88.8%	90.3%	90.1%	5.2%	5.6%	5.0%	19bps	-45bps	5.1%	4.1%	107bps
	Total	**33,089**	**34,344**	**48,857**	**-32.3%**	**-26.7%**				**2.1%**	**2.3%**	**2.5%**	**-32bps**	**-19bps**	**2.5%**	**2.8%**	**-25bps**
BMW Group	xEV	2,425	2,593	5,051	-52.0%	-41.3%	7.0%	7.7%	10.6%	0.2%	0.3%	0.5%	-21bps	-3bps	0.4%	0.7%	-38bps
	ICE	32,294	31,274	42,498	-24.0%	-20.0%	93.0%	92.3%	89.4%	5.7%	5.6%	4.8%	87bps	1bps	5.4%	3.9%	154bps
	Total	**34,719**	**33,867**	**47,549**	**-27.0%**	**-22.1%**				**2.2%**	**2.3%**	**2.4%**	**-15bps**	**-6bps**	**2.7%**	**2.7%**	**-9bps**
BYD	xEV	225,283	215,356	301,958	-25.4%	-8.3%	100.0%	100.0%	100.0%	23.0%	23.4%	27.5%	-446bps	-37bps	22.3%	29.6%	-729bps
	ICE	0	0	0	n.a	n.a	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bps	0bps	-0.3%	6.1%	-645bps
	Total	**225,283**	**215,356**	**301,958**	**-25.4%**	**-33.6%**				**14.5%**	**14.6%**	**15.2%**	**-66bps**	**-6bps**	**12.0%**	**14.6%**	**-258bps**
Geely	xEV	74,018	68,026	93,990	-21.2%	-0.7%	40.4%	39.6%	40.2%	7.6%	7.4%	8.6%	-99bps	18bps	7.2%	8.8%	-162bps
	ICE	109,365	103,773	139,922	-21.8%	-20.7%	59.6%	60.4%	59.8%	19.2%	18.7%	15.8%	341bps	43bps	17.2%	12.4%	477bps
	Total	**183,383**	**171,799**	**233,912**	**-21.6%**	**-15.0%**				**11.8%**	**11.6%**	**11.8%**	**6bps**	**19bps**	**11.7%**	**11.1%**	**60bps**
Chery	xEV	47,175	41,150	42,633	10.7%	8.5%	62.9%	61.5%	40.0%	4.8%	4.5%	3.9%	94bps	35bps	3.9%	4.4%	-47bps
	ICE	27,784	25,807	63,883	-56.5%	-46.9%	37.1%	38.5%	60.0%	4.9%	4.7%	7.2%	-232bps	21bps	6.0%	6.5%	-47bps
	Total	**74,959**	**66,957**	**106,516**	**-29.6%**	**-31.5%**				**4.8%**	**4.5%**	**5.4%**	**-52bps**	**30bps**	**4.8%**	**5.7%**	**-86bps**
Li Auto	xEV	37,310	30,281	28,078	32.9%	24.3%	100.0%	100.0%	100.0%	3.8%	3.3%	2.6%	126bps	52bps	4.0%	3.9%	9bps
	ICE	0	0	0	n.a	n.a	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bps	0bps	0.0%	0.6%	-64bps
	Total	**37,310**	**30,281**	**28,078**	**32.9%**	**-3.2%**				**2.4%**	**2.1%**	**1.4%**	**100bps**	**35bps**	**2.2%**	**1.8%**	**37bps**
Nio	xEV	35,989	37,981	33,055	8.9%	130.7%	100.0%	100.0%	100.0%	3.7%	4.1%	3.0%	67bps	-45bps	4.2%	2.2%	198bps
	ICE	0	0	0	n.a	n.a	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bps	0bps	0.0%	0.6%	-60bps
	Total	**35,989**	**37,981**	**33,055**	**8.9%**	**55.9%**				**2.3%**	**2.6%**	**1.7%**	**66bps**	**-25bps**	**2.3%**	**1.2%**	**111bps**
Xpeng	xEV	30,431	25,663	35,240	-13.6%	5.5%	100.0%	100.0%	100.0%	3.1%	2.8%	3.2%	-10bps	32bps	2.9%	3.4%	-45bps
	ICE	0	0	0	n.a	n.a	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bps	0bps	0.0%	0.7%	-73bps
	Total	**30,431**	**25,663**	**35,240**	**-13.6%**	**-23.3%**				**2.0%**	**1.7%**	**1.8%**	**19bps**	**22bps**	**1.6%**	**1.7%**	**-8bps**
Xiaomi	xEV	30,156	31,264	36,119	-16.5%	56.5%	100.0%	100.0%	100.0%	3.1%	3.4%	3.3%	-21bps	-31bps	3.8%	3.0%	86bps
	ICE	0	0	0	n.a	n.a	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bps	0bps	0.0%	0.7%	-71bps
	Total	**30,156**	**31,264**	**36,119**	**-16.5%**	**10.3%**				**1.9%**	**2.1%**	**1.8%**	**13bps**	**-17bps**	**2.1%**	**1.5%**	**57bps**
Leapmotor	xEV	71,536	64,397	48,629	47.1%	121.0%	100.0%	100.0%	100.0%	7.3%	7.0%	4.4%	288bps	32bps	6.1%	3.4%	276bps
	ICE	0	0	0	n.a	n.a	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bps	0bps	0.0%	0.9%	-94bps
	Total	**71,536**	**64,397**	**48,629**	**47.1%**	**48.4%**				**4.6%**	**4.4%**	**2.4%**	**217bps**	**25bps**	**3.4%**	**1.8%**	**153bps**
Total Market	xEV	978,671	920,923	1,098,732	-10.9%	21.7%	63.2%	62.4%	55.3%	100.0%	100.0%	100.0%	0bps	0bps	100.0%	100.0%	0bps
	ICE	570,555	553,747	888,060	-35.8%	-42.7%	36.8%	37.6%	44.7%	100.0%	100.0%	100.0%	0bps	0bps	100.0%	100.0%	0bps
	Total	**1,549,226**	**1,474,670**	**1,986,792**	**-22.0%**	**-19.4%**				**100.0%**	**100.0%**	**100.0%**	**0bps**	**0bps**	**100.0%**	**100.0%**	**0bps**

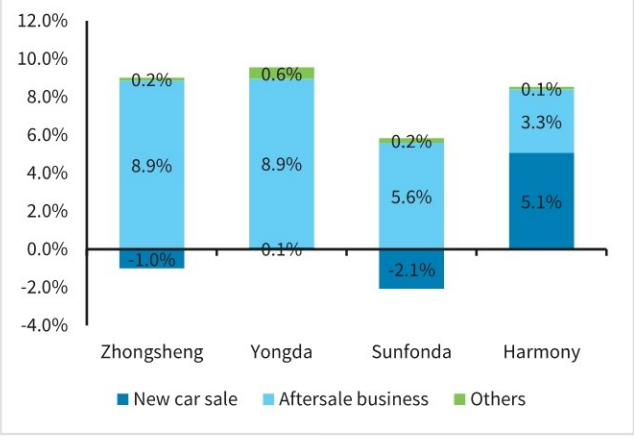
Source: Bloomberg, CATARC, Barclays Research

Understanding Chinese premium-brand dealerships

Chinese dealers of EU premium brands are broadly loss-making on new car sales, with aftersales increasingly (or even solely) supporting breakeven. According to our channel checks, MBG/BMW dealers are losing cRMB20-30k per new vehicle sold even after OEM support. Losses have widened since our last channel checks in June, as ATPs fell to a c25-30% discount to MSRPs following the list-price reduction in March. Dealer supports are retrospective and do not cover the wholesale-retail price gap. So dealers are effectively absorbing part of the burden that would otherwise fall on OEMs. We expect OEMs to provide additional support to sustain dealer operations and liquidity if ATPs continue to deteriorate, leaving further downside risk to JV profitability, in our view.

Traditional premium-brand dealers are seeking new growth opportunities, with networks diverging sharply between traditional and NEV brands. Zhongsheng (0881.HK, not covered) closed net 60 traditional-brand stores from 2025 to 1H26, including 10 Mercedes and 10 BMW stores, with most of the remaining closures from Japanese brands. Yongda (3669.HK, not covered) cut 31 traditional-brand stores, including 7 BMW, 6 Porsche and 1 Audi. Nearly all new store openings by traditional premium dealers are now for NEV brands. Zhongsheng has opened 102 new stores since 2025 selling Aito, Lynk, Galaxy, Qijing, Voyah and Leapmotor, and targets 300 by year-end. Yongda and Zhengtong are expanding with HIMA (Huawei). **Harmony** (3836.HK, not covered) **is supporting BYD/Denza's global expansion, with sales volume up 70% in 1H vs. c20% declines across other dealer peers, and is the only dealer with a positive new-car sales gross margin.**

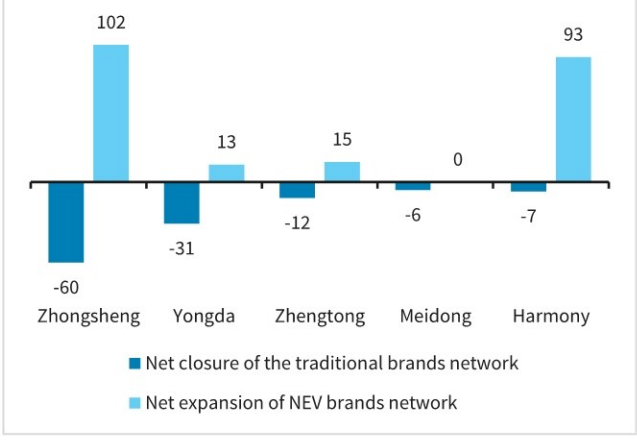
FIGURE 25. New car sales broadly loss-making for premium-brand dealers in China; Harmony stands out on BYD/Denza overseas expansion



Segment gross margin as % of total dealer group revenue in H1'26

Source: Company filings, Barclays Research

FIGURE 26. Diverging network trends: Premium-brand dealers pivoting to new NEV brand opportunities



Note: for Harmony, we use China network net closures (traditional brands) and overseas network expansion (mostly BYD and Denza)
Source: Company filings, Barclays Research

Sizing MBG/BMW's China Exposure

China was the key headwind for the German OEMs in H1, but is not yet fully de-risked. Brilliance Auto reported BMW brand wholesale volumes in China -19% in H1. We estimate BBA EBIT margin at c8.0% in H1 (vs 7.9% in FY25 / 12.8% in H1'25, at 25% tax rate, pre-PPA). On our estimates, BBA generated c€650m H1'26 EBIT pre-PPA, equivalent to c25% of BMW Group Automotive EBIT pre-PPA. **We lowered our H1'26 import and parts business EBIT margin estimate from 10% to 7.5%**, reflecting weaker demand/pricing for imported luxury vehicles and increased localisation by JVs. Including imports, parts and royalty income, China still accounts for c40% of BMW's earnings before PPA (BARCe). Mercedes faces a similar situation. The China JV reported c€350m net profit in H1'26 excluding a c€800m impairment charge, representing c20% of Mercedes-Benz Cars' adjusted EBIT. But when including imports (relatively higher for MBG vs. BMW), spare parts and royalty income, China still accounts for c50% of Mercedes' earnings (BARCe). Despite significant earnings compression over the past two years, both German premium OEMs still remain heavily exposed to the Chinese market. VW and Porsche are relatively less exposed, with exposure at c20% and c10%, respectively (BARCe).

FIGURE 27. Mercedes China exposure

Mercedes	2022	2023	2024	2025	H1'26
Total China Wholesale Volume (reported)	**753,851**	**737,226**	**683,568**	**551,932**	**210,245**
YoY	*3%*	*-2%*	*-7%*	*-19%*	*-28%*
Import (BARCe)	162,135	146,636	120,512	98,734	44,369
YoY	*-7%*	*-10%*	*-18%*	*-18%*	*-15%*
BBAC JV (reported)	591,716	590,590	563,056	453,198	165,876
YoY	*5%*	*0%*	*-5%*	*-20%*	*-31%*
Revenue					
Import (@c.€100k ASP)	15,235	14,090	11,720	9,650	4,350
BBAC (reported)	24,820	22,484	21,747	16,720	6,060
Parts (reported)	7,821	6,581	7,671	4,821	1,765
Royalty (@2.5% of JV sales)	621	560	540	420	150
EBIT margin					
Import (BARCe)	20.0%	17.5%	15.0%	10.0%	7.5%
BBAC (BARCe)	19.6%	15.6%	15.0%	12.0%	15.8%
Parts (BARCe)	10.0%	10.0%	10.0%	10.0%	7.5%
Royalty (BARCe)	100.0%	100.0%	100.0%	100.0%	100.0%
Impact on Auto EBIT	**6,161**	**5,153**	**4,138**	**2,628**	**960**
Import (BARCe)	3,047	2,466	1,758	965	326
BBAC NI (49% Stake) (reported)	1,711	1,470	1,073	761	351
Parts (BARCe)	782	658	767	482	132
Royalty (BARCe)	621	560	540	420	150
Adjusted MBC EBIT	**16,245**	**14,252**	**8,677**	**4,773**	**1,842**
China as % of Auto EBIT	***38%***	***36%***	***48%***	***55%***	***52%***
BBAC Dividend payment to MBG	**1,431**	**1,660**	**1,286**	**917**	**297**
MBG Industrial FCF	**8,128**	**11,316**	**9,152**	**5,414**	**2,959**
Dividend as % of IFCF	***18%***	***15%***	***14%***	***17%***	***10%***

Source: Company data, Barclays Research estimates

FIGURE 28. BMW China exposure

BMW	2022	2023	2024	2025	H1'26
Total China Retail Volume (reported)	**791,985**	**824,932**	**714,530**	**625,527**	**261,999**
YoY	*-7%*	*4%*	*-13%*	*-12%*	*-18%*
Import (BARCe)	141,216	121,371	94,217	73,812	26,068
YoY	*-28%*	*-14%*	*-22%*	*-22%*	*-33%*
BBA (BARCe)	650,769	703,561	620,313	551,715	235,931
YoY	*3%*	*8%*	*-12%*	*-11%*	*-16%*
Revenue					
Import (@€75k ASP)	10,591	9,103	7,066	5,536	1,700
BBA (reported)	33,275	33,227	26,453	20,499	8,110
Parts (BARCe)	6,971	8,211	7,475	3,915	1,568
Royalty (@2.5% JV sales)	832	831	661	512	203
EBIT margin					
Import (BARCe)	17.5%	15.0%	15.0%	10.0%	7.5%
BBA (BARCe)	23.2%	16.6%	12.4%	7.9%	8.0%
Parts (BARCe)	10.0%	10.0%	10.0%	10.0%	7.5%
Royalty (BARCe)	100.0%	100.0%	100.0%	100.0%	100.0%
Impact on Auto EBIT	**11,103**	**8,548**	**5,746**	**3,076**	**1,093**
Import (BARCe)	1,853	1,365	1,060	554	128
BBA (BARCe)	7,720	5,531	3,277	1,619	645
Parts (BARCe)	697	821	747	392	118
Royalty (BARCe)	832	831	661	512	203
Automotive reported EBIT	**10,635**	**12,981**	**7,893**	**6,259**	**1,974**
PPA	1,300	1,300	1,300	1,300	650
Automotive EBIT before PPA	**11,935**	**14,281**	**9,193**	**7,559**	**2,624**
China as % of Auto EBIT	***93%***	***60%***	***63%***	***41%***	***42%***

Source: Company data, Barclays Research estimates

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Materially Mentioned Stocks (Ticker, Date, Price)
BMW AG (BMWG.DE, 06-Oct-2026, EUR 54.64), Underweight/Negative, A/D/E/J/K/L/M/N

Mercedes-Benz Group AG (MBGn.DE, 06-Oct-2026, EUR 40.70), Equal Weight/Negative, CD/FA/FB/J/K/M/N

Porsche AG (P911_p.DE, 06-Oct-2026, EUR 42.53), Equal Weight/Negative, D/E/J/K/L/M/N

Renault SA (RENA.PA, 06-Oct-2026, EUR 25.80), Equal Weight/Negative, CD/FA/J/K/M/N

Stellantis N.V. (STLAM.MI, 06-Oct-2026, EUR 4.07), Equal Weight/Negative, A/CD/CE/D/E/J/K/L/M/N

Volkswagen AG Prefs (VOWG_p.DE, 06-Oct-2026, EUR 68.88), Overweight/Negative, A/D/E/J/K/L/M/N

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FORVIA (FRVIA.PA)	Gestamp (GEST.MC)	Mercedes-Benz Group AG (MBGn.DE)

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