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Asian Autos

Global Autos: EU hybrid quota a near-term hurdle for Chinese OEMs; Localization remains the endgame



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China and EU reached a "shared understanding" on hybrid cars. On October 9, China and the EU announced that they had reached a "shared understanding" on hybrid vehicles. (MOFCOM and Bloomberg) According to EU Trade Commissioner, Maros Sefcovic, the agreement will reduce China's exports of hybrids and plug-in hybrids (PHEVs) to the EU by more than half over the next 4 years. At the same time, China is expected to facilitate easier export licensing for rare earths and potentially support lower tariffs on selected goods, including auto components. The next key milestone will be the EU summit on October 15-16, with implementation of the measures potentially beginning as early as December.

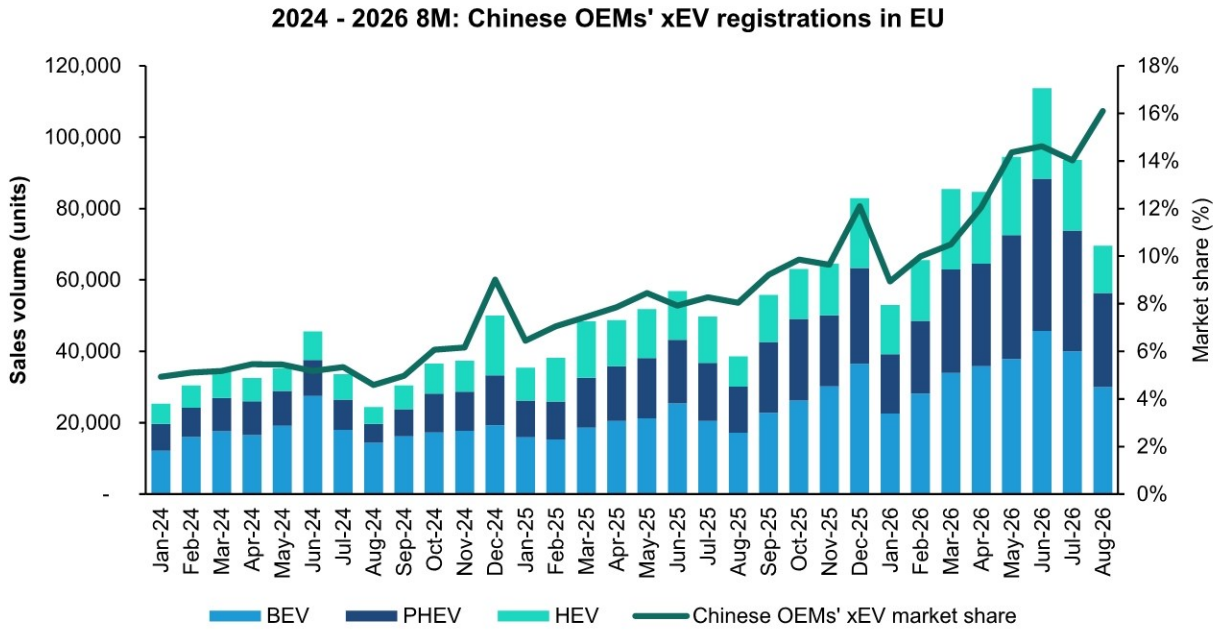
EU reportedly expect hybrid vehicle imports to be capped at c.400k units annually, vs. expectations of c.800k units in 2026, with the reduction phased in over four years. (LINK) Details remain limited at this stage, and key questions remain around both allocation and implementation. In particular, it is unclear how the volume quota would be distributed across OEMs and whether the measures would apply to all China-made hybrids or only hybrids sold by Chinese OEMs. *(Notably, the EU's previous countervailing duties on BEVs were based on production location rather than brand nationality, affecting all China-made BEVs regardless of manufacturer.)* Earlier reports suggested the mechanism could be implemented through a tariff-rate quota (TRQ) framework. (Global Autos: EU proposing higher trade barriers on Chinese hybrids - Our thoughts) In addition, negotiations regarding a potential minimum price undertaking for Chinese BEVs remain ongoing.

Chinese OEMs' exposure: In 2026 8M, Chinese OEMs registered c.386k HEV and PHEV units in the EU, representing c.12% of the region's hybrid market, including European brands owned by Chinese companies. (Exhibit 1) Excluding those brands (e.g. Volvo, Polestar), registrations totaled c.285k units, equivalent to a 9% market share, up from c.200k units and a 5% share in 2025 (or 364k units and 9% share including Chinese-owned European brands). Within the broader EU hybrid market, SAIC holds c.4% share, while BYD and Chery each account for c.3%; Geely Auto (excluding Volvo and Polestar, which are owned by Geely Holding) has c.0.5% share. We estimate EU HEV and PHEV sales account for c.8% of SAIC's total volumes, c.5% of BYD's, and c.3% of Geely Auto's.

Short-term headwind, but broadly neutral over the medium to longer term. Based on Chinese OEMs' volume exposure and the proposed quota's four-year phase-in, we see the near-term impact as modestly negative but manageable. Longer term, the impact should be largely neutral, as major Chinese OEMs are already localizing production in Europe, with BYD set to begin production in Hungary by year-end 2026, Leapmotor leveraging Stellantis' manufacturing footprint in Spain, and Geely targeting production at Ford's Spain plant from 2028. We therefore do not expect the measures to materially derail Chinese OEMs' market share gains beyond an initial adjustment period, similar to the EU's BEV tariffs. The key question is whether OEMs can preserve unit economics as production localizes. Based on our estimates, BYD's European production economics could ultimately be comparable to, or even more profitable than, exports once plants are fully ramped up, as savings from tariffs, duties, freight, logistics and importer-related costs largely offset higher local manufacturing expenses. (Exhibit 2)

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EXHIBIT 1: **In 2026 8M, Chinese OEMs registered c.386k HEV and PHEV units in the EU, representing c.12% of the region's hybrid market, including European brands owned by Chinese companies, such as Volvo and Polestar; Excluding those brands, registrations totaled c.285k units, equivalent to a 9% market share**



Source: SNE and Bernstein analysis

EXHIBIT 2: **We estimate BYD's overseas production economics in Europe could potentially be on par with, or even more profitable than, exports once its plants are fully ramped up; Savings from import duties and tariffs, ocean freight, inland logistics, and importer-related overheads could largely offset higher localized production costs**

Illustration of BYD EU export & local manufacturing financials

	BYD Yuan Plus / Atto 3 Compact SUV												
	China			Europe (export)			Europe (export, additional tariff)			Europe (local mfg.)			Notes
			%			%			%			%	
MSRP	**CNY**	**135,800**		**EUR**	**38,990**		**EUR**	**38,990**		**EUR**	**38,990**		(1)
USD equivalent	*USD*	*18,819*		*USD*	*43,322*		*USD*	*43,322*		*USD*	*43,322*		
Import duty		-	n/a	EUR	1,574	10%	EUR	1,574	10%		-	n/a	(2)
Contervailing duties		-	n/a				**EUR**	**2,676**	**17%**		-	n/a	
Value added tax	CNY	17,654	13%	EUR	6,333	20%	EUR	6,333	20%	EUR	6,333	20%	(3)
Revenue/ unit	**CNY**	**118,146**		**EUR**	**28,751**		**EUR**	**26,986**		**EUR**	**31,024**		(4)
Vehicle COGS	CNY	100,000	15%	EUR	14,650	49%	EUR	14,650	46%	EUR	23,220	25%	(5)
Dealer & distributor margin	CNY	4,726	4%	EUR	5,552	17%	EUR	5,552	17%	EUR	3,266	10%	(6)
Freight transportation		-	n/a	EUR	1,700		EUR	1,700			-	n/a	(7)
Overseas overhead		-	nil	EUR	1,500		EUR	1,500		EUR	500		(8)
Vehicle contribution/ unit*	**CNY**	**13,420**	**11%**	**EUR**	**5,350**	**19%**	**EUR**	**3,584**	**13%**	**EUR**	**4,038**	**13%**	
USD equivalent	*USD*	*1,860*		*USD*	*5,944*		*USD*	*3,983*		*USD*	*4,487*		
Incremental profit / unit*	**Bernstein est.**			**CNY**	**29,000**		**CNY**	**15,000**		**CNY**	**18,000**		

* Note: Contribution profit calculation above does not include allocation of R&D expenses or other SG&A overhead.

Key assumptions:

(1) Yuan Plus / Atto 3: 60 kWh battery, 510km CLTC / 420 km WLTP, 18" Alloy wheels, 12.8" Electrically rotatable touchscreen
China (Yuan Plus 2025 Intelligent Driving Edition 510KM Superior Model) MSRP at RMB 135.8k
Europe (Atto 3 Comfort) MSRP starts EUR 38,990

(2) Tariff was previously only 10% for EU, applied on CIF border prices
Since Nov 2024, an additiional countervailing tariff is imposed on BEVs made in China

(3) Varies by country, est. to be c. 20% of retail price before VAT for EU

(4) Estimated revenue per unit, adjusted for tariffs, VAT, and promotions; BYD may pull back some promotion to offset higher tariffs

(5) Assume vehicle COGS is higher (+c.15%) for EU models due to retrofitting to adhere to safety standards; assume local manufacturing would bring COGS higher by c.50-70% (BOM +30% & operating costs +100-150%)

(6) Assume dealers' incentives is c.6-8% of revenue in China and 8-10% in EU; BYD likely has below-market rates in CN; For imports, OEMs also have to pay additional distributor margin, estimated to be c.17% for BYD

(7) Shipping costs estimated to be US$2-2.5k/unit; BYD has its own RoRo fleet

(8) Assume incremental overhead (e.g. higher warranty, marketing, g&a, etc.) per unit to come down with scale

Source: Bernstein estimates and analysis

INVESTMENT IMPLICATIONS

Chinese Autos: While a potential tariff-rate-quota framework could slow near-term volume growth, we believe the medium-term impact on Chinese OEM market-share expansion may prove manageable and broadly neutral relative to our longer-term expectations. Also, even for the nearer term, overall earnings exposure appears manageable for OEMs under our coverage given the relatively low contribution of European PHEV sales to group volumes. We estimate EU HEV & PHEV represent c.8% of SAIC's sales volumes, c.5% of BYD's, and c.3% of Geely's. For our EV names, we rate **BYD and Xiaomi Outperform**, and **XPeng, Li Auto, and NIO Market-Perform**. Within our traditional Chinese OEMs coverage, we rate **Geely Outperform and Great Wall, GAC, and SAIC Market-Perform.**

European OEMs. While potentially providing some respite in the pace of market share gains for Chinese OEMs in Europe, EU automakers should continue to face a more competitive European market with new competition in many cases offering technologically superior products at attractive prices. 'Made in Europe' local content rules may level the playing field, at a time when many EU OEMs have been speaking publicly about utilising their Chinese supply chain more internationally to reduce bill of materials costs. For suppliers localisation rules may help keep companies more relevant than existing valuations imply (see Electric Revolution: Resilience - Legacy suppliers' important and undervalued role in a shifting global automotive world). **We rate Aumovio Outperform, Aston Martin Market-Perform, and Volvo Cars Underperform.**

BERNSTEIN TICKER TABLE

			9 Oct 2026		TTM	Reported EPS				Reported P/E (x)		
			Closing	Price	Rel.							
Ticker	Rating	Cur	Price	Target	Perf.	Cur	2025A	2026E	2027E	2025A	2026E	2027E
1211.HK (BYD)	O	HKD	75.60	130.00	(51.7)%	CNY	3.58	4.12	5.50	18.0	15.7	11.7
002594.CH (BYD)	O	CNY	84.95	114.00	(43.5)%	CNY	3.58	4.12	5.50	23.7	20.6	15.5
175.HK (Geely)	O	HKD	15.13	25.00	(43.7)%	CNY	1.67	2.09	2.29	7.7	6.2	5.6
2333.HK (Great Wall-H)	M	HKD	7.18	10.00	(77.4)%	CNY	1.16	0.98	1.25	5.3	6.3	4.9
2238.HK (GAC)	M	HKD	2.23	2.00	(53.5)%	CNY	(0.85)	(0.74)	(0.15)	(2.3)	(2.6)	(12.3)
LI (Li Auto)	M	USD	10.90	14.50	(69.8)%	CNY	1.13	(5.24)	1.08	64.5	(13.9)	67.3
2015.HK (Li Auto)	M	HKD	44.66	57.00	(73.1)%	CNY	0.57	(2.62)	0.54	67.4	(14.5)	70.2
9866.HK (NIO)	M	HKD	27.10	39.00	(75.8)%	CNY	(6.85)	(1.73)	(1.03)	(3.4)	(13.4)	(22.5)
NIO (NIO)	M	USD	3.41	5.00	(70.3)%	CNY	(6.85)	(1.73)	(1.03)	(3.3)	(13.2)	(22.2)
600104.CH (SAIC)	M	CNY	10.83	12.00	(58.5)%	CNY	0.89	0.72	0.85	12.2	15.1	12.8
1810.HK (Xiaomi)	O	HKD	25.96	35.00	(67.3)%	CNY	1.62	0.89	1.29	13.6	25.0	17.2
9868.HK (XPeng)	M	HKD	38.34	71.00	(78.1)%	CNY	(0.60)	(2.40)	(0.29)	(54.6)	(13.6)	(114.1)
XPEV (XPeng)	M	USD	9.55	18.00	(74.3)%	CNY	(1.20)	(4.80)	(0.57)	(53.4)	(13.3)	(111.5)
AML.LN (Aston Martin)	M	GBp	36.36	50.00	(43.3)%	GBP	(0.44)	(0.29)	(0.20)	(0.8)	(1.2)	(1.8)
VOLCARB.SS (Volvo Car)	U	SEK	14.30	16.00	(43.2)%	SEK	0.06	1.38	2.58	244.2	10.4	5.6
AMV0.GR (Aumovio)	O	EUR	34.20	54.00	(13.1)%	EUR	(6.56)	(3.28)	5.17	(5.2)	(10.4)	6.6
ASIAX			1,932.23									
SPX			7,811.54									
EDME			1,567.06									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

AML.LN estimate is Adjusted EPS; AML.LN, VOLCARB.SS valuation is Adjusted P/E (x);

Source: Bloomberg, Bernstein estimates and analysis.

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