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Asian Autos

Chinese Autos: The second shoe has dropped – Export VAT rebate cut confirmed. Clearing event ahead?



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Chinese autos export VAT rebate cut from 13% to 9% confirmed, effective April 1, 2027. (LINK) After the Hong Kong market close today, China's Ministry of Finance and State Taxation Administration announced that the export VAT rebate for new energy vehicles (NEVs), including BEVs and PHEVs, will be reduced from 13% to 9%, confirming market speculation that has circulated for several months.

Chinese OEMs' exposure: BYD among the most exposed, but localization helps. Chery, SAIC and Great Wall are among the most export-oriented Chinese OEMs. However, by overseas NEV sales exposure, BYD ranks highest at c.45%, followed by Chery (36%), SAIC (27%), and Geely and Leapmotor (24%). Actual exposure is likely lower than these headline figures, as they include vehicles produced at overseas plants. For BYD, we estimate effective exposure could fall below 40% as production localizes further in Thailand and Brazil, and decline further once its Hungary plant comes online by end-2026.

Higher effective export costs, implying margin pressure. We do not expect OEMs to meaningfully raise prices, given the highly competitive nature of the industry. In our recent meetings with BYD and Geely, both management teams indicated they believe a 4ppt reduction in export VAT rebates can largely be absorbed through cost optimization and efficiency improvements. Only if rebate cuts go materially beyond the current level would price increases become a more realistic consideration. As such, we expect the near-term impact to be borne primarily through margin compression rather than higher vehicle prices.

Potential for further rebate reductions remains. Recent precedents suggest export VAT rebate cuts are often implemented in stages. Battery products saw rebates reduced from 13% to 9% in December 2024, then to 6% in April 2026, with a full phase-out scheduled for January 2027. Solar PV products followed a similar path, with rebates reduced from 13% to 9% in December 2024 before being fully eliminated from April 2026. Export rebates for aluminium and copper products were also eliminated in December 2024. While there is no indication of further changes at this stage, these precedents suggest the latest cut for NEVs may not necessarily be the final step, particularly as policymakers look to shift support away from mature industries. Based on our conversations with industry policy experts, we understand the reduction in export VAT rebates is primarily intended to curb industry involution and promote consolidation, favoring stronger and more disciplined OEMs. The move may also reflect broader geopolitical considerations, helping to reduce trade frictions associated with China's growing export presence.

Investment implications: With the export VAT rebate cut confirmed and China-EU trade negotiations now reaching a shared understanding, two major policy overhangs for the sector have largely been addressed. While neither development is positive in isolation, we believe the sector may be moving closer to a clearing event as uncertainty diminishes. The remaining missing piece is a recovery in domestic demand, where we do not believe the sector is out of the woods yet. That said, sales comparisons should begin to ease from December 2026 and reset more fully in Q1 2027. Against a backdrop of depressed valuations, this could present an opportunity for investors to gradually build positions.

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BERNSTEIN TICKER TABLE

			12 Oct 2026		TTM	Reported EPS				Reported P/E (x)	
Ticker	Rating	Cur	Closing Price	Price Target	Rel. Perf.	Cur	2025A	2026E	2027E	2025A	2026E	2027E
1211.HK (BYD)	O	HKD	74.35	130.00	(51.6)%	CNY	3.58	4.12	5.50	17.7	15.4	11.5
002594.CH (BYD)	O	CNY	84.60	114.00	(41.8)%	CNY	3.58	4.12	5.50	23.6	20.5	15.4
175.HK (Geely)	O	HKD	15.11	25.00	(41.0)%	CNY	1.67	2.09	2.29	7.7	6.2	5.6
2333.HK (Great Wall-H)	M	HKD	7.17	10.00	(77.3)%	CNY	1.16	0.98	1.25	5.3	6.3	4.9
2238.HK (GAC)	M	HKD	2.20	2.00	(53.4)%	CNY	(0.85)	(0.74)	(0.15)	(2.2)	(2.5)	(12.1)
LI (Li Auto)	M	USD	11.54	14.50	(65.4)%	CNY	1.13	(5.24)	1.08	68.3	(14.7)	71.2
2015.HK (Li Auto)	M	HKD	44.90	57.00	(71.6)%	CNY	0.57	(2.62)	0.54	67.7	(14.6)	70.6
9866.HK (NIO)	M	HKD	27.14	39.00	(73.4)%	CNY	(6.85)	(1.73)	(1.03)	(3.4)	(13.4)	(22.5)
NIO (NIO)	M	USD	3.58	5.00	(62.6)%	CNY	(6.85)	(1.73)	(1.03)	(3.5)	(13.9)	(23.3)
600104.CH (SAIC)	M	CNY	10.88	12.00	(56.8)%	CNY	0.89	0.72	0.85	12.3	15.2	12.8
1810.HK (Xiaomi)	O	HKD	24.52	35.00	(68.9)%	CNY	1.62	0.89	1.29	12.9	23.6	16.2
9868.HK (XPeng)	M	HKD	38.48	71.00	(76.1)%	CNY	(0.60)	(2.40)	(0.29)	(54.8)	(13.7)	(114.5)
XPEV (XPeng)	M	USD	9.90	18.00	(68.9)%	CNY	(1.20)	(4.80)	(0.57)	(55.4)	(13.8)	(115.6)
ASIAX			1,932.23									
SPX			7,811.54									

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

Source: Bloomberg, Bernstein estimates and analysis.

INVESTMENT IMPLICATIONS

Given recent developments that are less favorable for exports, we prefer OEMs with meaningful overseas manufacturing exposure. While BYD faces the highest direct exposure to the export VAT rebate cut, it also has the greatest ability to mitigate the impact through accelerating localization, a strategy already well underway. The company operates plants in Thailand (150k), Brazil (150k, with expansion potential to 300k), Uzbekistan (50k), and Indonesia (150k), while its Hungary plant is expected to commence operations by end-2026 and could eventually ramp to 300k units. In aggregate, this represents up to c.950k units of overseas capacity that could be operational by 2027, equivalent to roughly 40% of its 2.5mn overseas sales target for that year. We also see scope for further expansion in Europe, with management having identified France and Spain as potential locations, as well as additional opportunities in other regions over time. Beyond its overseas manufacturing footprint, BYD is benefiting from a strong product cycle driven by its ultra-fast charging capabilities, lifting its domestic market share. The company is also positioned to benefit from the structural growth of the global ESS market. Hence, **BYD remains our top Outperform pick in the sector.**

Among the rest of our coverage, we also rate **Geely and Xiaomi Outperform. XPeng, Li Auto, NIO, Great Wall, GAC, and SAIC are all rated Market-Perform**.

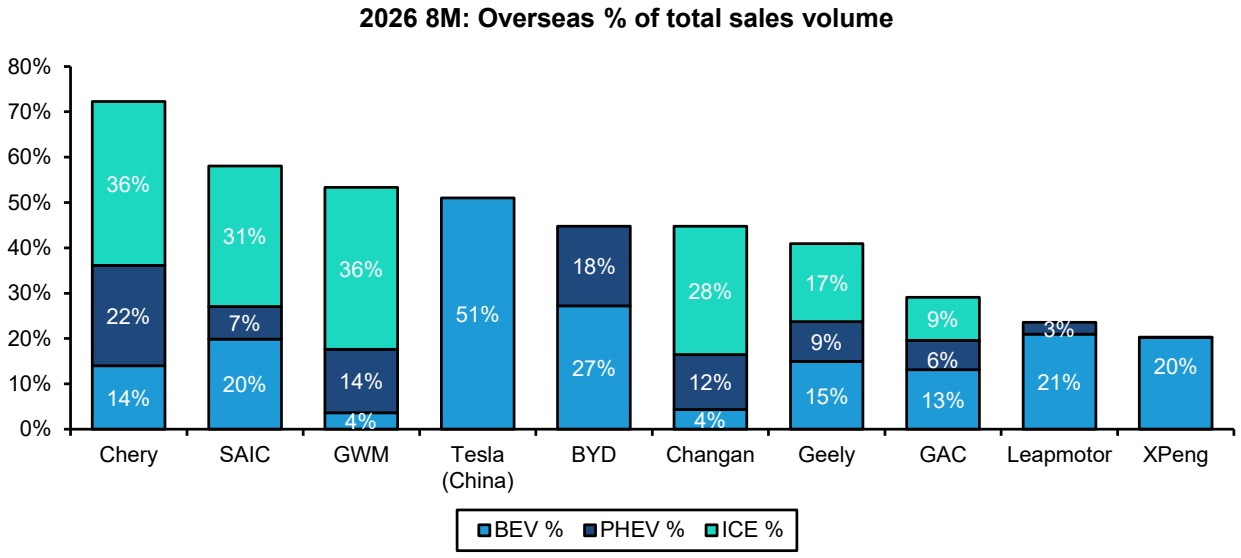
For our take on China-EU trade negotiations, please refer to:

12 Oct 2026 - Global Autos: EU hybrid quota a near-term hurdle for Chinese OEMs; Localization remains the endgame

9 Oct 2026 - Global Autos: EU proposing higher trade barriers on Chinese hybrids - Our thoughts

DETAILS

EXHIBIT 1: **Chery, SAIC and Great Wall are among the most export-oriented OEMs, however, by NEV overseas exposure, BYD leads at 45%, followed by Chery (36%), SAIC (27%), and Geely and Leapmotor (24%); actual exposure is lower after excluding vehicles produced at overseas plants**



Source: CAAM, CAM, and Bernstein analysis

EXHIBIT 2: **BYD and Geely have established the largest overseas manufacturing footprints among Chinese OEMs (~950K and 650K respectively)**

OEM	Countries	Total estimated capacity (end-2026)
BYD	Brazil (300K), Thailand (150K), Indonesia (150K), Hungary (300K), Uzbekistan (50K)	950K
Geely	Malaysia, Brazil, Belarus, Egypt, Indonesia, Kazakhstan	650K
GWM	Russia (150K), Thailand (80K), Brazil (50K), Malaysia (30K), Ecuador, Pakistan	310K
SAIC	Thailand (70K), Indonesia (60K), India (120K), Malaysia	250K
GAC	Thailand (50K), Malaysia (50K), Cambodia (10K)	110K
Li Auto	Kazakhstan	N.A.
XPeng	Austria, Indonesia, Malaysia	N.A.

Source: Company reports, Bernstein analysis and estimates

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EXHIBIT 3: **The illustrative analysis below represents a bear-case scenario, as export exposure should decline as OEMs accelerate overseas production localization, and part of the incremental cost burden could likely be mitigated through cost optimization and efficiency improvements; we do not assume any cost pass-through in our analysis**

Illustrative analysis on earnings impact from export VAT rebate cut from 13% to 9%

	Export	Domestic	Blended
Volume mix	45%	55%	100%
ASP (RMB)	200,000	100,000	145,000
Net profit per car (RMB)	20,000	2,000	10,100
Additional COGS (4%)	8,000	-	3,600
Pretax profit impact	(8,000)	-	(3,600)
Income tax benefit (25%)	2,000	-	900
Net profit impact	(6,000)	-	(2,700)
Net profit per car after VAT cut (RMB)	14,000	2,000	7,400
Illustrative earnings impact	-30%	0%	-27%

Bernstein comments

This illustrative analysis reflects a bear-case scenario and likely overstates the actual impact:

1. Export exposure should decline over time, as OEMs accelerate localization and shift more production to overseas facilities.
2. The rebate is calculated on export FOB value, which is likely lower than the overseas retail ASP used in our analysis.
3. The additional cost burden could be partially offset through cost optimization, supply chain efficiencies, and manufacturing improvements.

Source: Bernstein estimates and analysis



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