



AUTOMOTIVE

The Slowdown and the Stimulus

China Demand Outlook

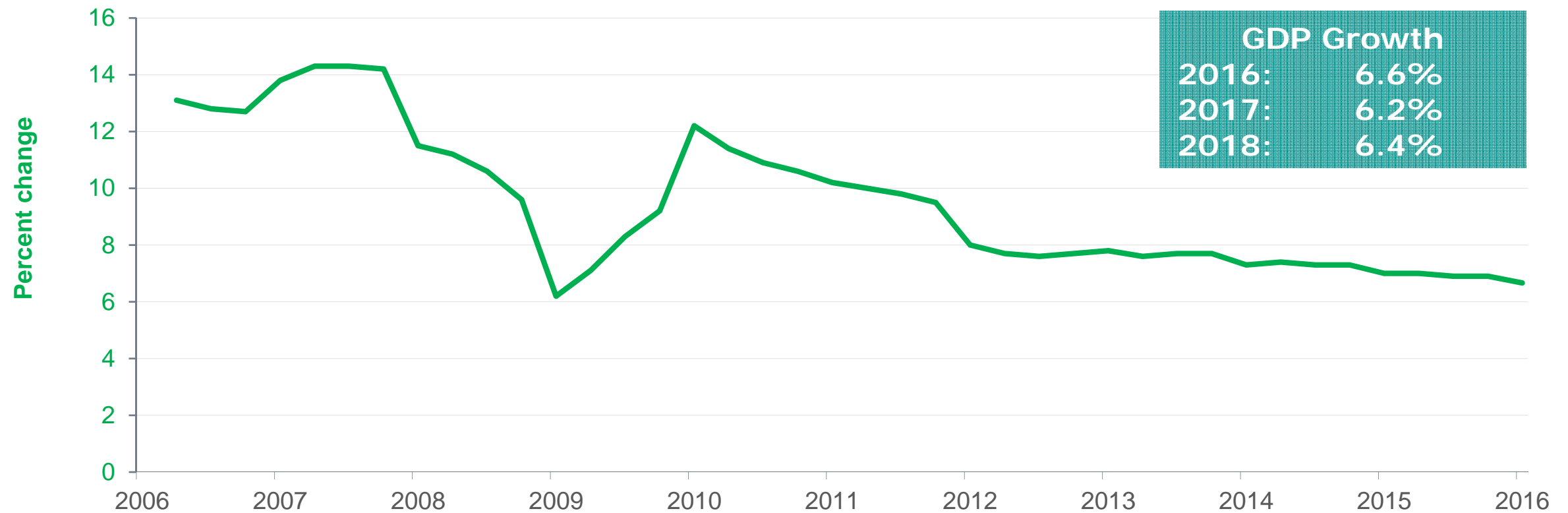
27 October 2016 | Shanghai

Lin Huaibin, Manager, China Light Vehicles Sales Forecast
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Chinese GDP growth

Slowing down gradually over years, not collapsing overnight

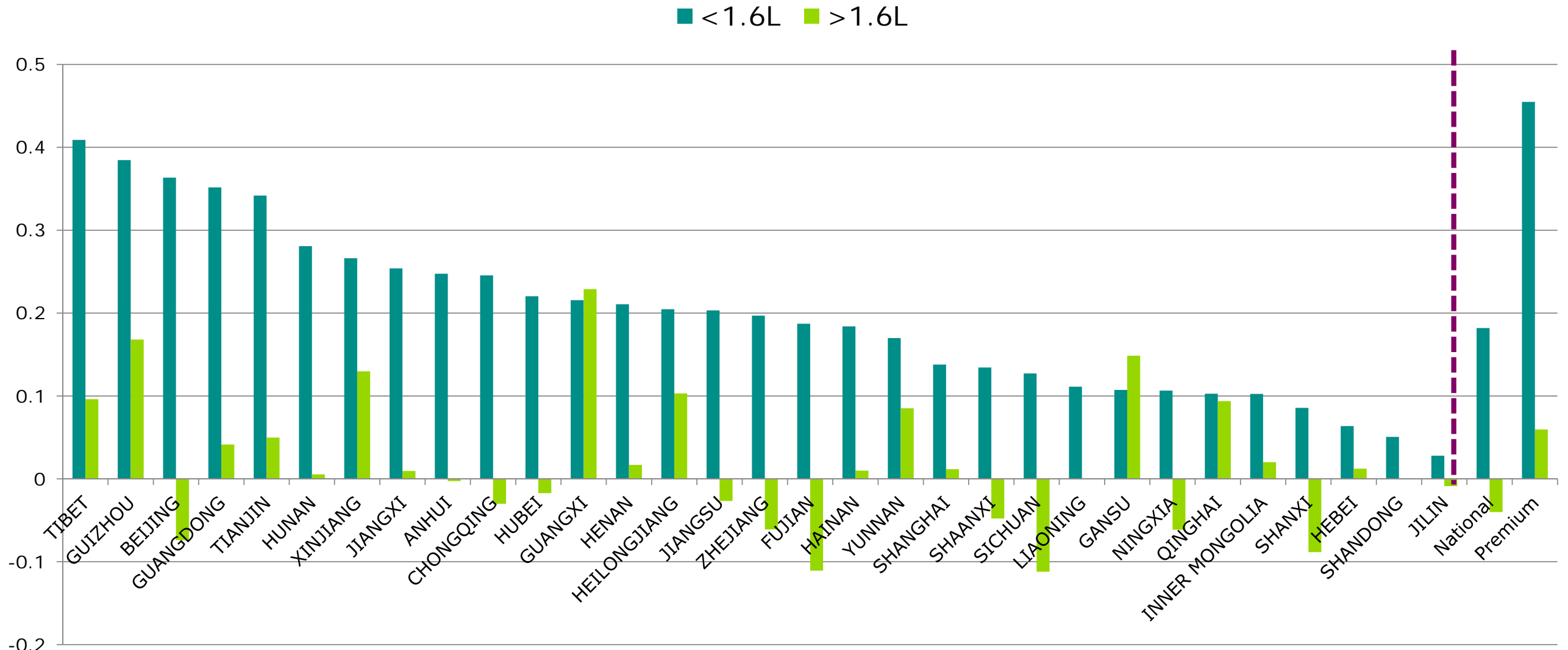
GDP development 2006–16



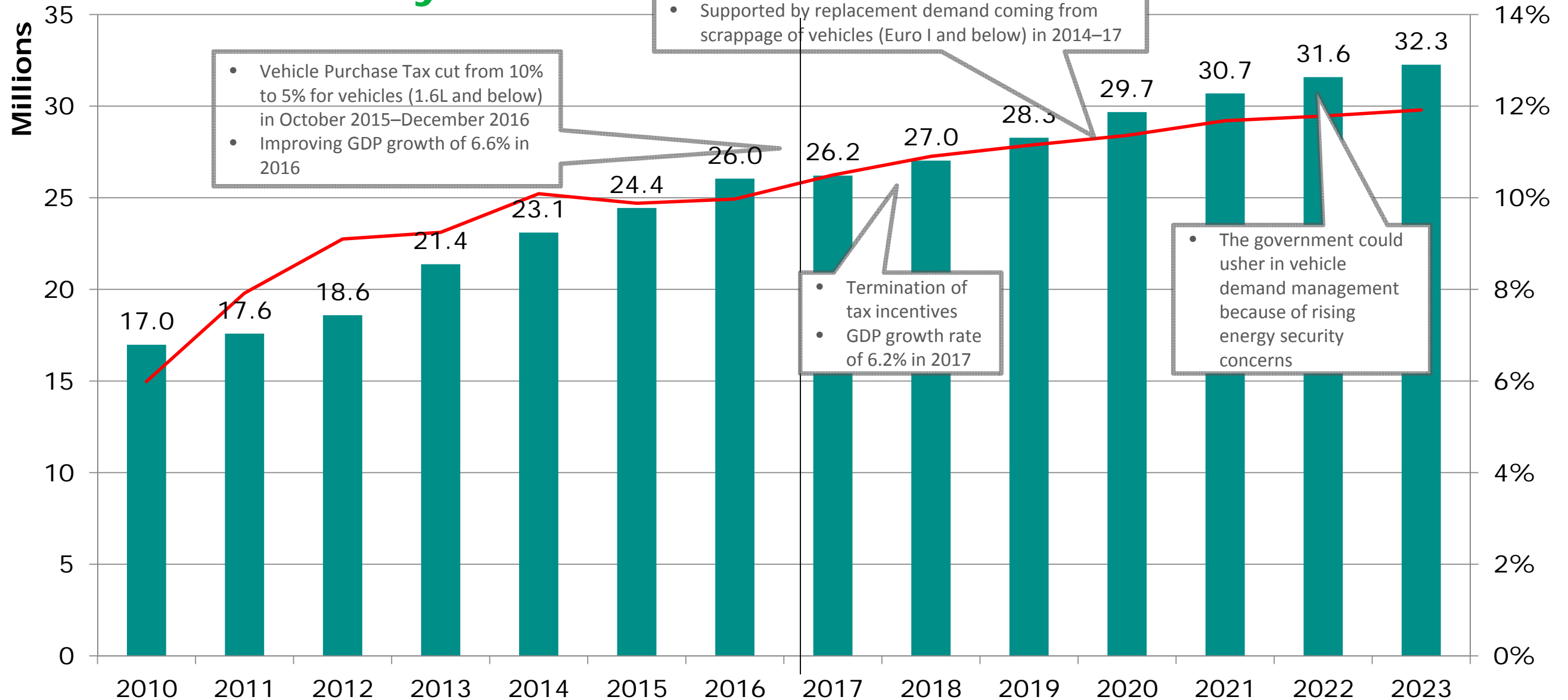
Source: IHS Markit

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How much payback should we expect in 2017?



Total industry volume



- Vehicle Purchase Tax cut from 10% to 5% for vehicles (1.6L and below) in October 2015–December 2016
- Improving GDP growth of 6.6% in 2016

- GDP growth to trough out from 2018 with an average growth of 6.4% in 2018–20
- Supported by replacement demand coming from scrappage of vehicles (Euro I and below) in 2014–17

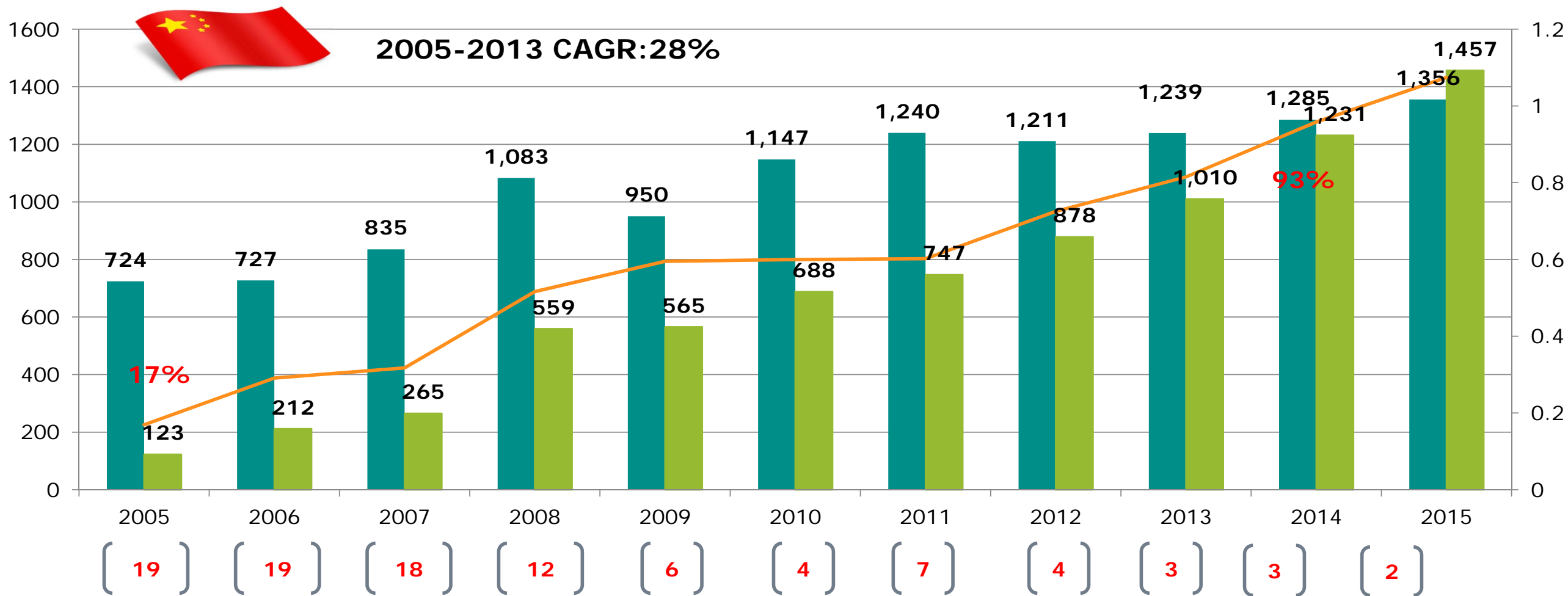
- Termination of tax incentives
- GDP growth rate of 6.2% in 2017

- The government could usher in vehicle demand management because of rising energy security concerns

When will the JV share cap be lifted in the auto industry?

Unit: 100 million USD

■ FDI inflow
 ■ FDI outflow
 — Outflow as % of inflow



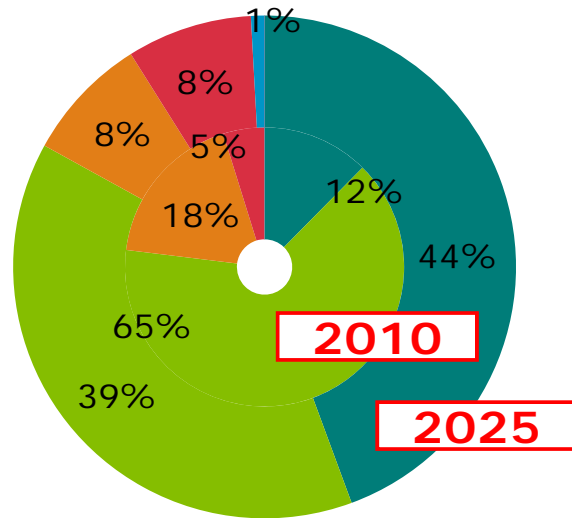
The day of JV share cap to be numbered



Body types diversity

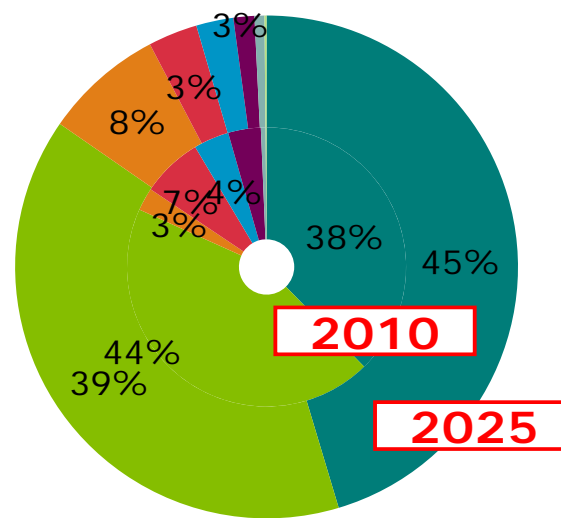
SUV sales keep expanding over proportionally in the long term

China



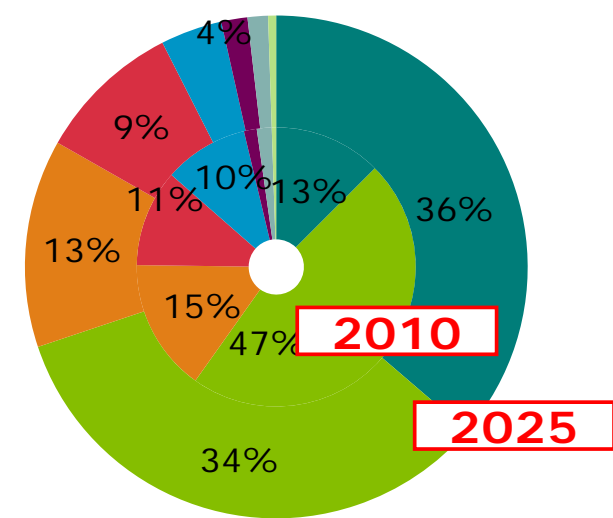
- SUV
- Hatchback
- Wagon
- Convertible
- Sedan
- MPV
- Coupe

North America



- SUV
- Hatchback
- Coupe
- Convertible
- Sedan
- MPV
- Wagon
- Roadster

Europe

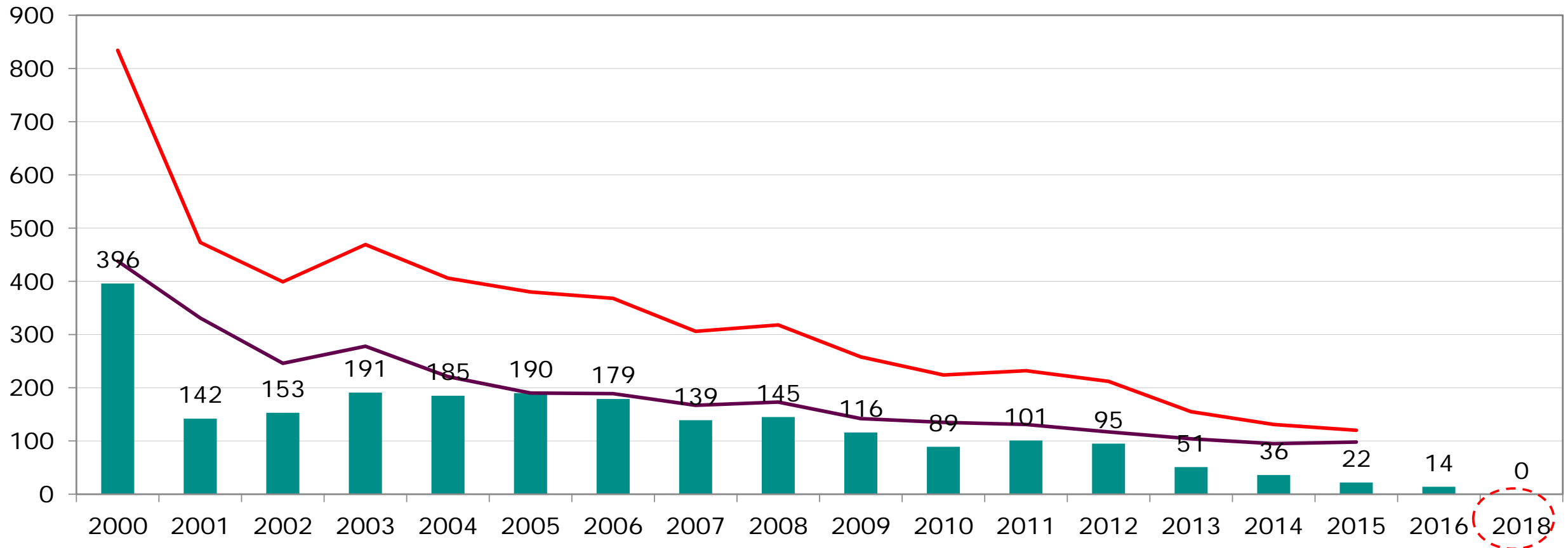


- SUV
- Sedan
- MPV
- Convertible
- Hatchback
- Wagon
- Coupe
- Roadster

IQS between domestic and international OEMs narrowed again in 2016...

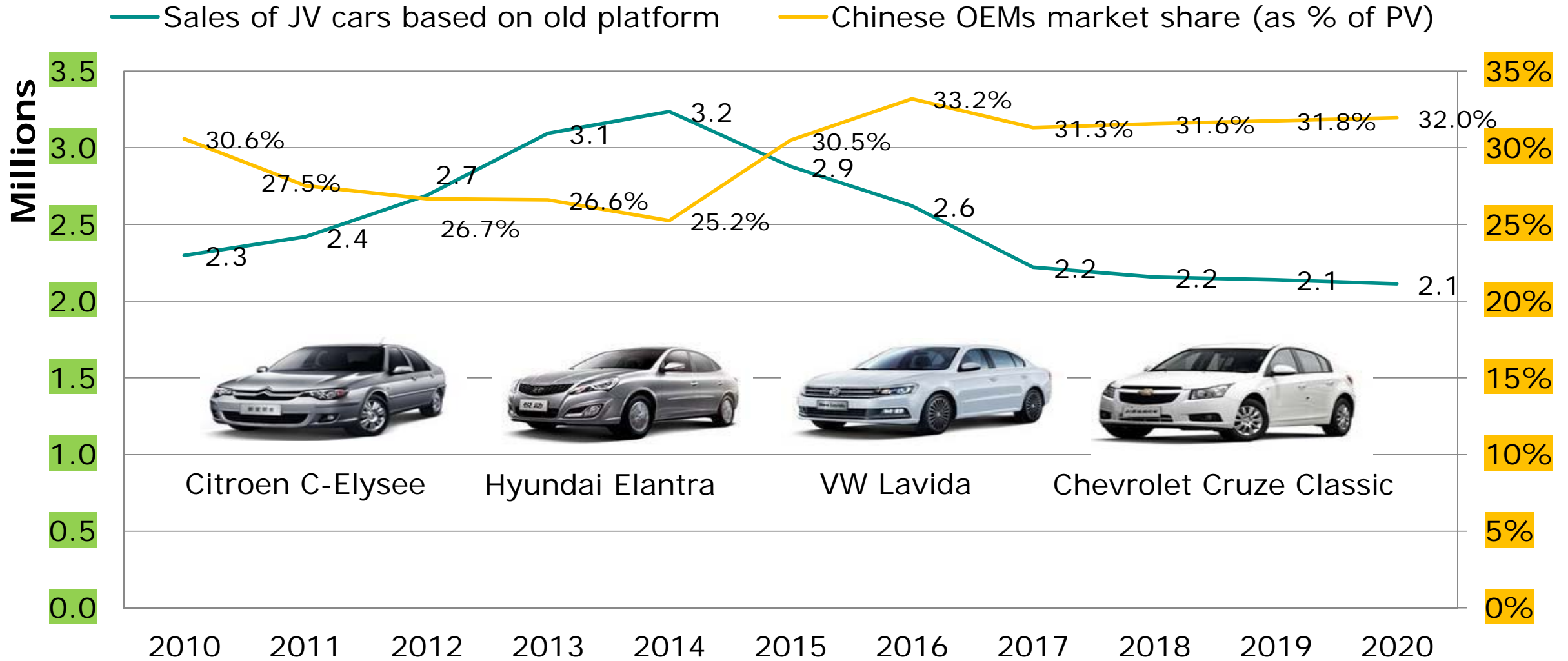
Unit: Problems per 100 Vehicles

■ GAP — Chinese OEMs IQS — International OEMs IQS


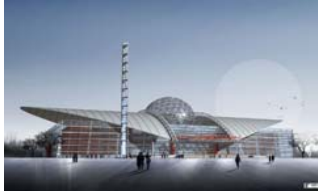






Source: JD Power

Would the Chinese OEMs' share continue to rise?



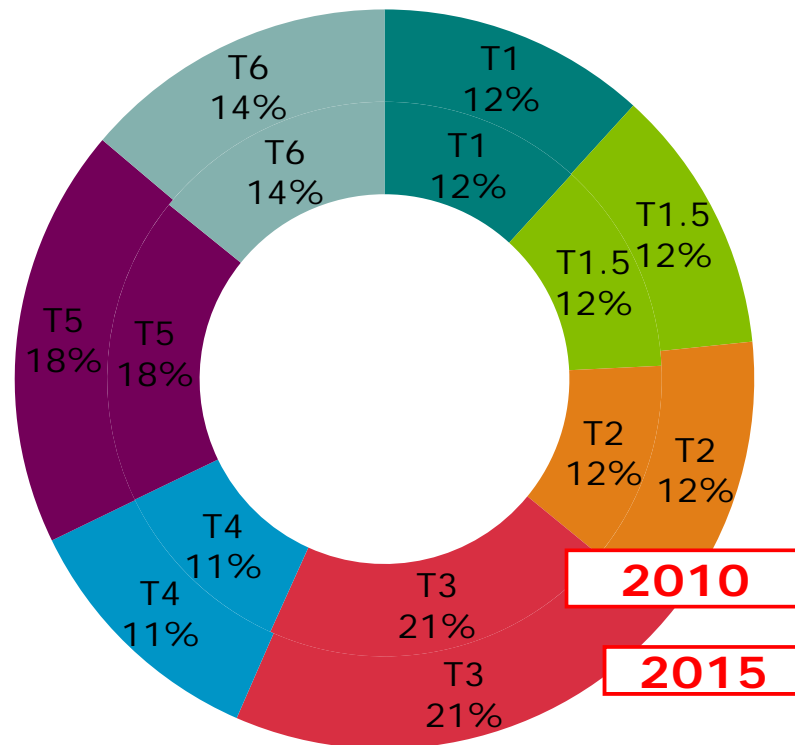
IHS definitions of China city tiers

	TIER-1	TIER-1.5	TIER-2	TIER-3	TIER-4	TIER-5	TIER-6
							
Major Cities	Beijing, Shanghai, Guangzhou, Shenzhen	Tianjin, Chongqing, Hangzhou, Suzhou	Changsha, Dongguan, Foshan, Qingdao	Changzhou, Changchun, Harbin, Shijiazhuang	Guiyang, Lanzhou, Luoyang, Handan	Anqing, Changde, Datong, Guilin	Aksu, Baiyin, Garzee, Puer
Number of Cities (%)	4 Cities (1.2%)	7 Cities (2.1%)	11 Cities (3.2%)	37 Cities (10.8%)	30 Cities (8.8%)	87 Cities (25.5%)	165 Cities (48.4%)
Location	Core area of major economic zones	Key cities in coastal or central China	Important cities in coastal or central China	Important cities in coastal or central China	Most cities in Central and West China	Most cities in West and Central China	Most cities in West and Central China
Total Population	70.7 million (6.5%)	98.8 million (9.0%)	72 million (6.6%)	177.4 million (16.2%)	98.3 million (9.0%)	278.6 million (25.5%)	295.7 million (27.1%)
GDP (%)	8,354 billion yuan (11.8%)	8,824 billion yuan (12.5%)	8,286 billion yuan (11.7%)	14,764 billion yuan (20.8%)	7,855 billion yuan (11.1%)	12,754 billion yuan (18.0%)	10,039 billion yuan (14.2%)
GDP per Capita (average)	125,000 renminbi	99,000 renminbi	90,000 renminbi	64,000 renminbi	45,000 renminbi	42,000 renminbi	28,000 renminbi
2015 PV SALES	1.2 million (6.4%)	2.2 million (11.8%)	2.5 million (13.3%)	4.5 million (23.8%)	2.1 million (11.2%)	3.4 million (17.9%)	3.0 million (15.7%)

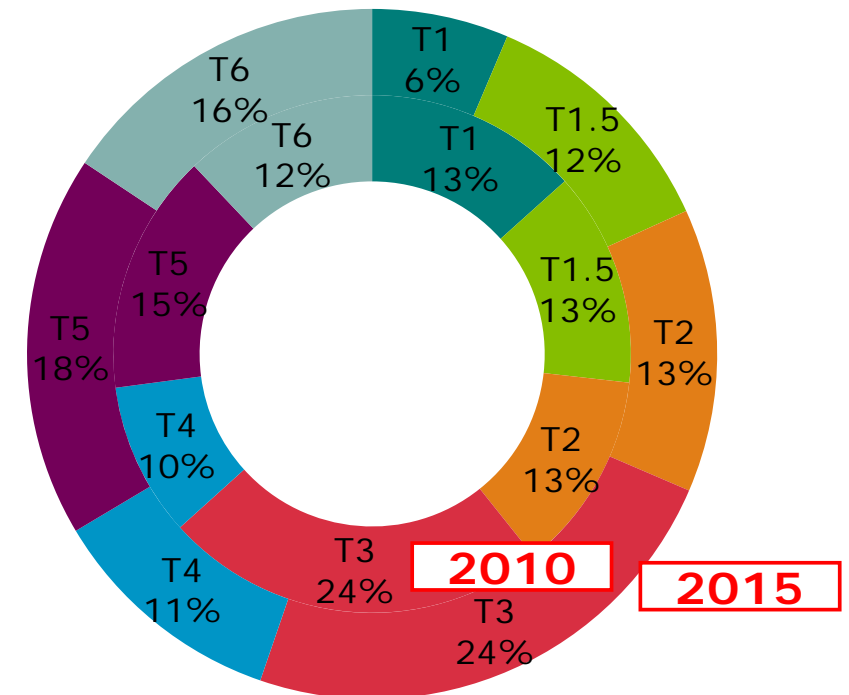
Economy vs. car sales: City tier development

Tier 4–Tier 6 cities market shares increase with Tier 1 share declining

GDP share by city tier 2010–15



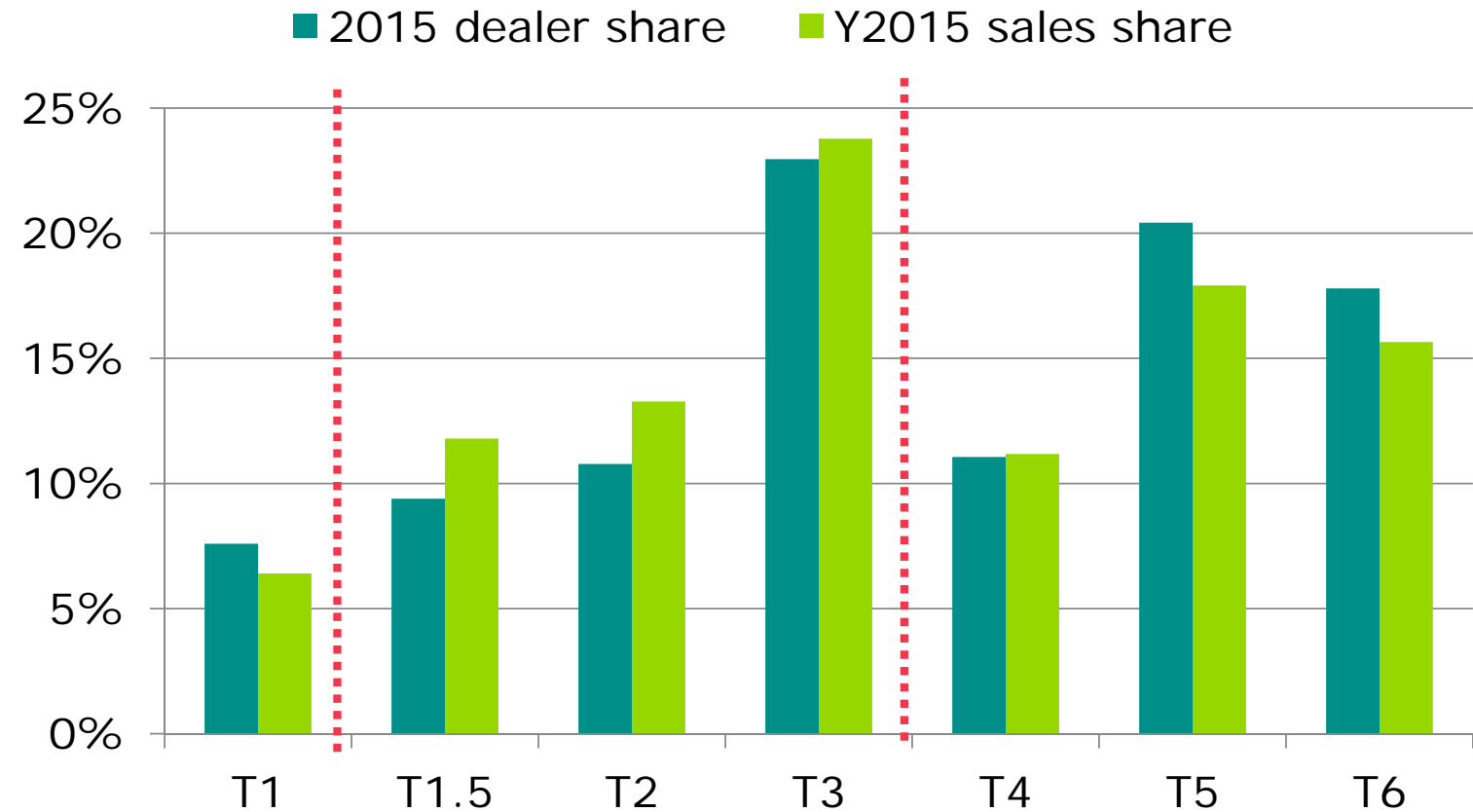
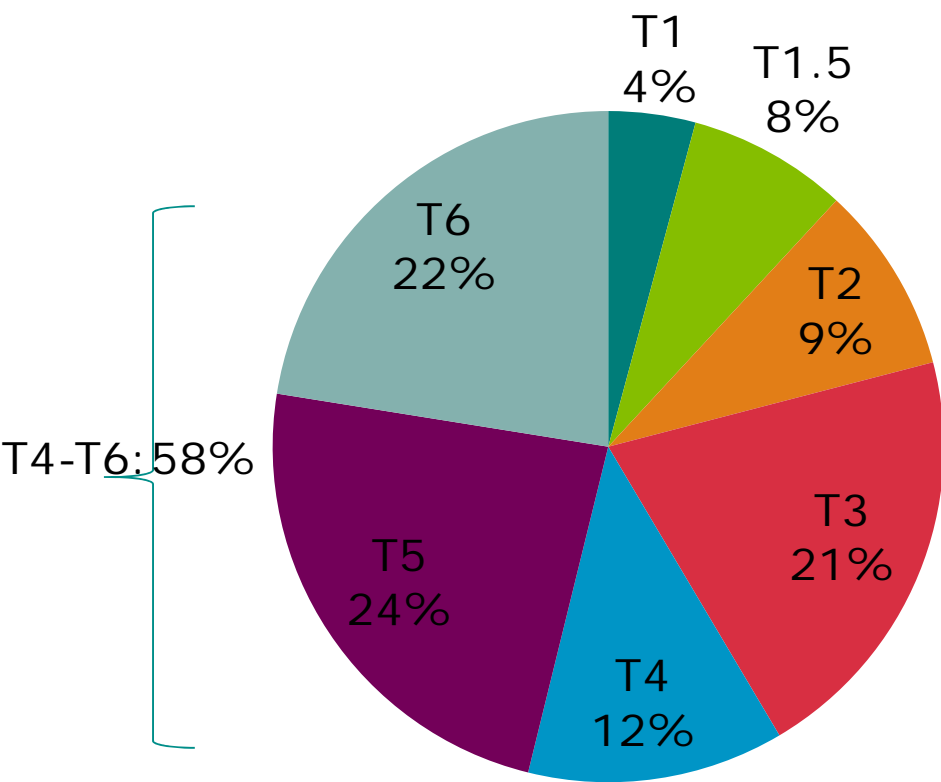
PV market share by city tier 2010–15



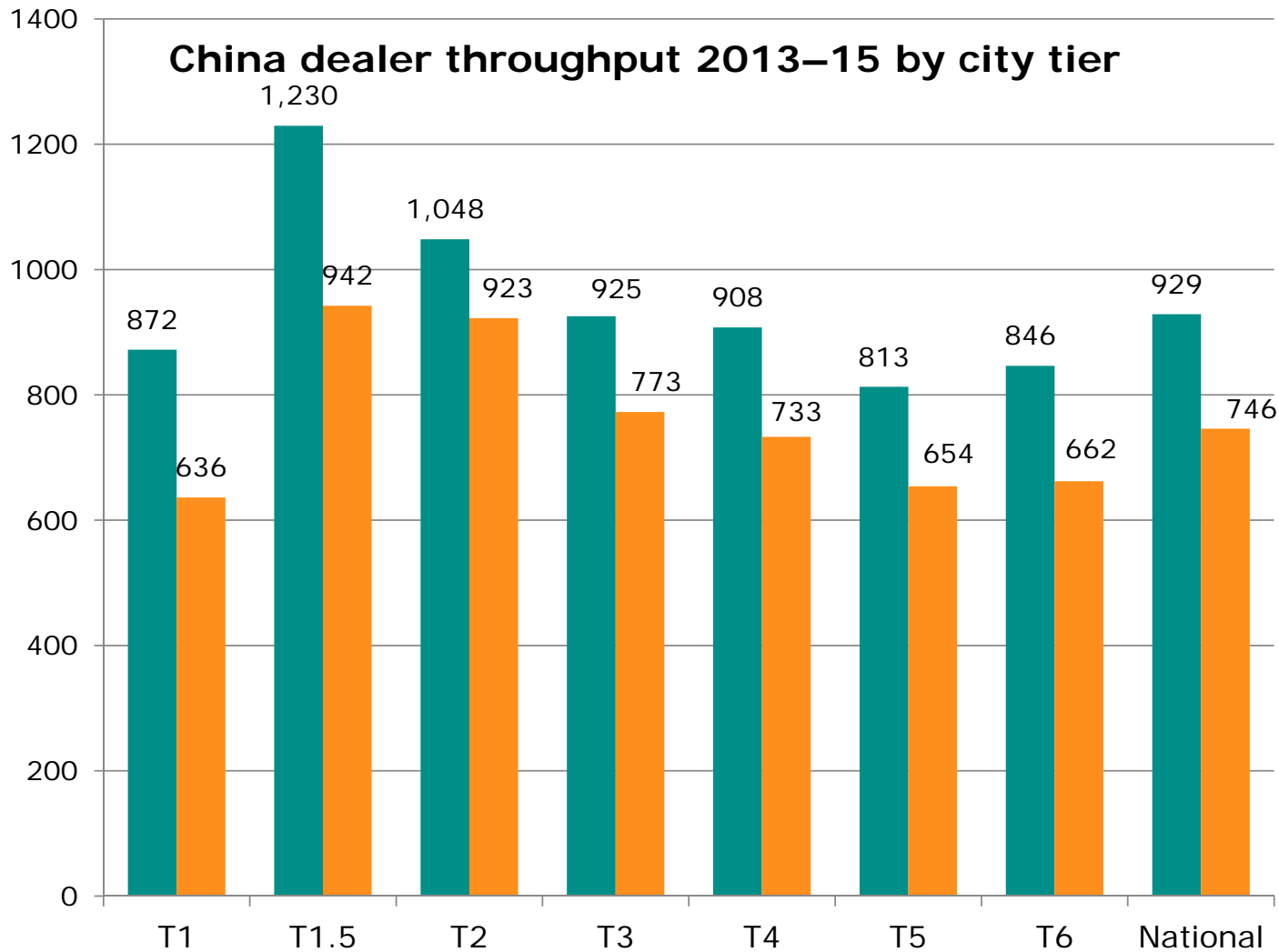
Are Tier 4-6 cities the new El Dorado?

Where are the +11k new dealers? Q2 2016 vs 2013

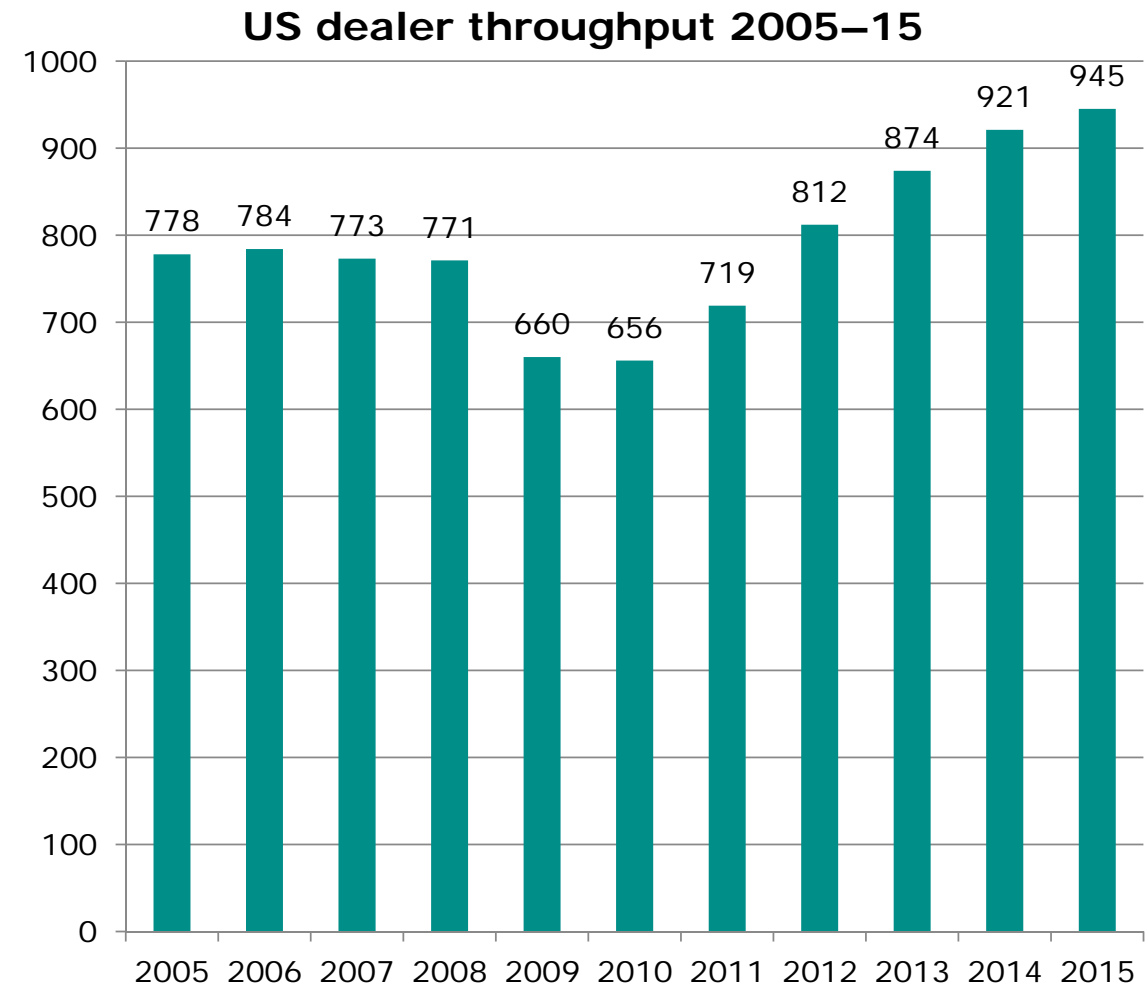
City tier dealer share vs. city tier sales share



Dealer throughput 2013–15: Profitability pressure not only for dealers but ultimately for OEMs/suppliers

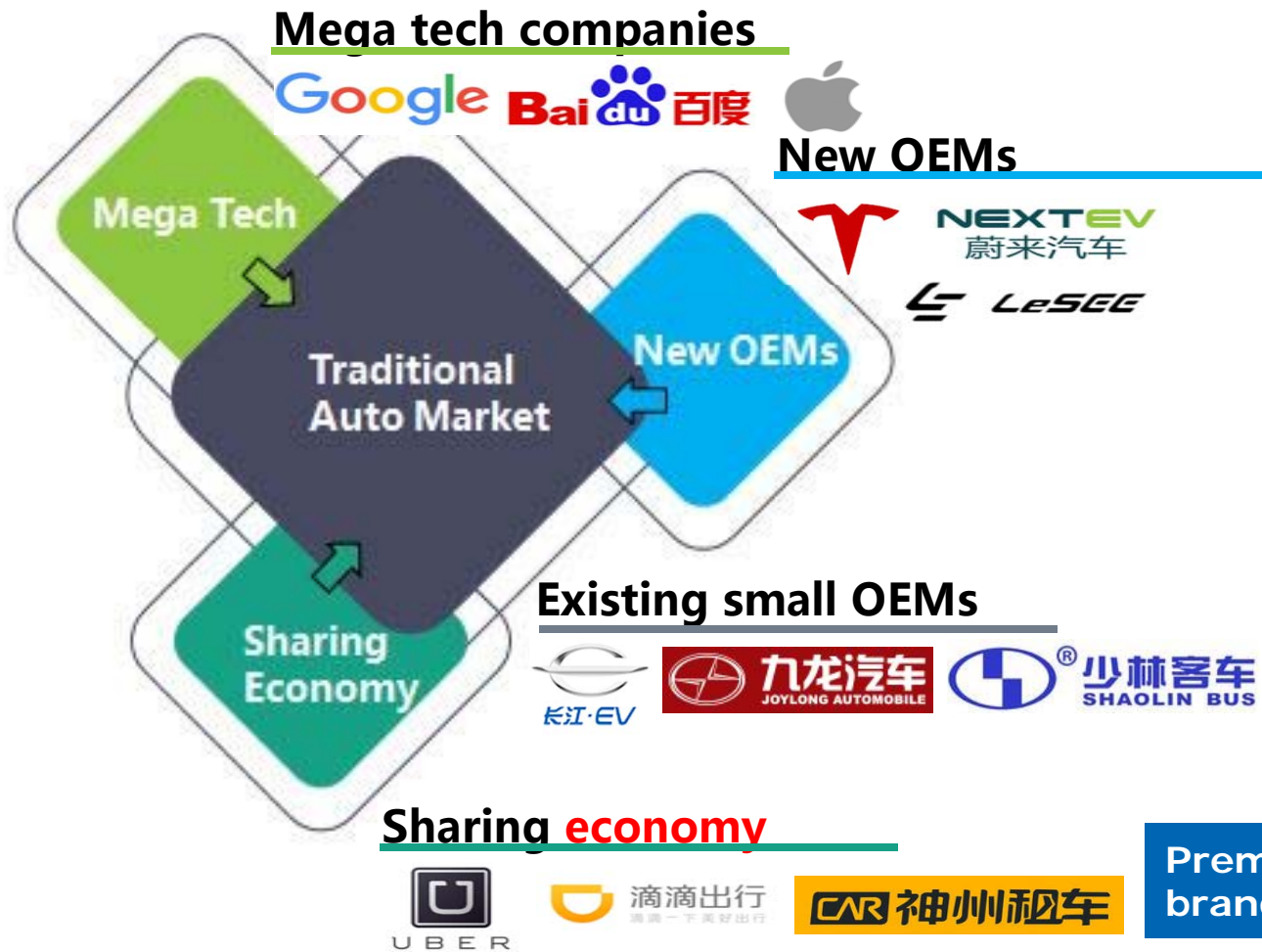


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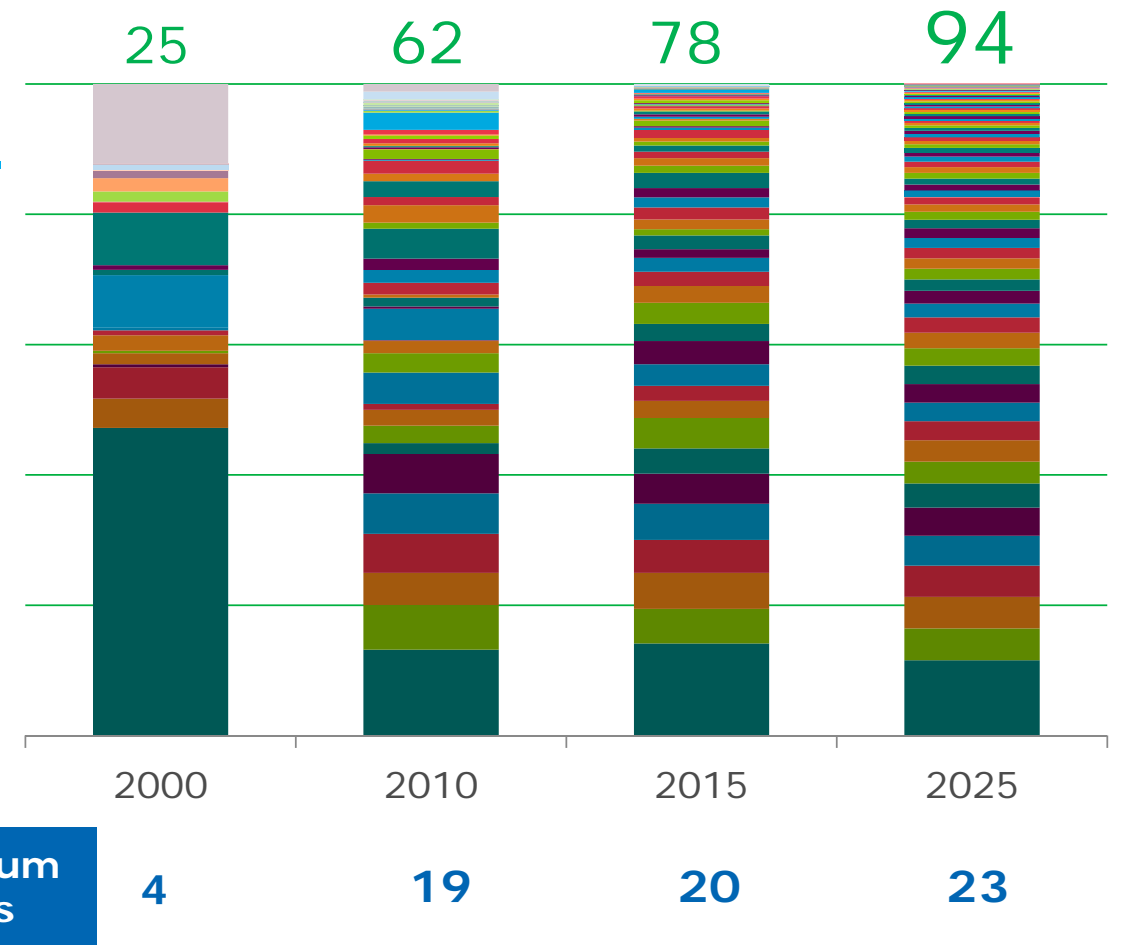


New OEM entrances and brand expansion

New entrants from other industries drive brand expansion



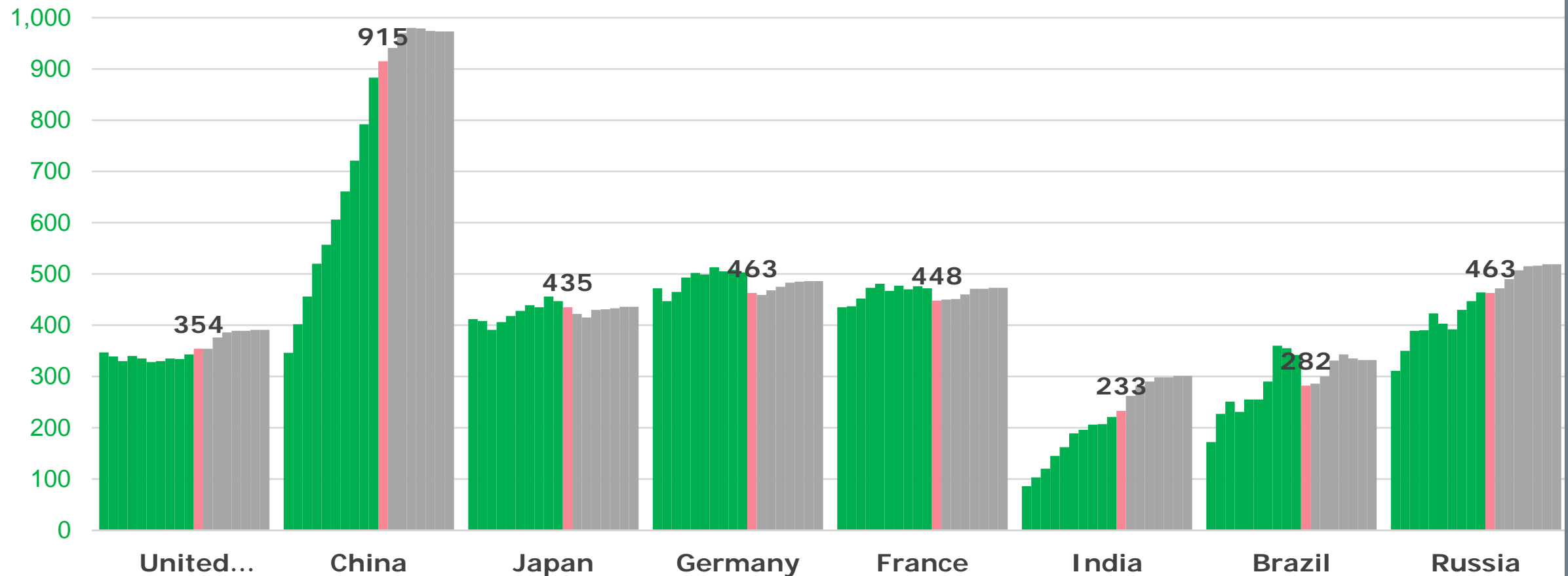
Brand number



Product nameplates for sales

OEMs moving to emerging market quickly to gain customers

Number of nameplates 2006–23

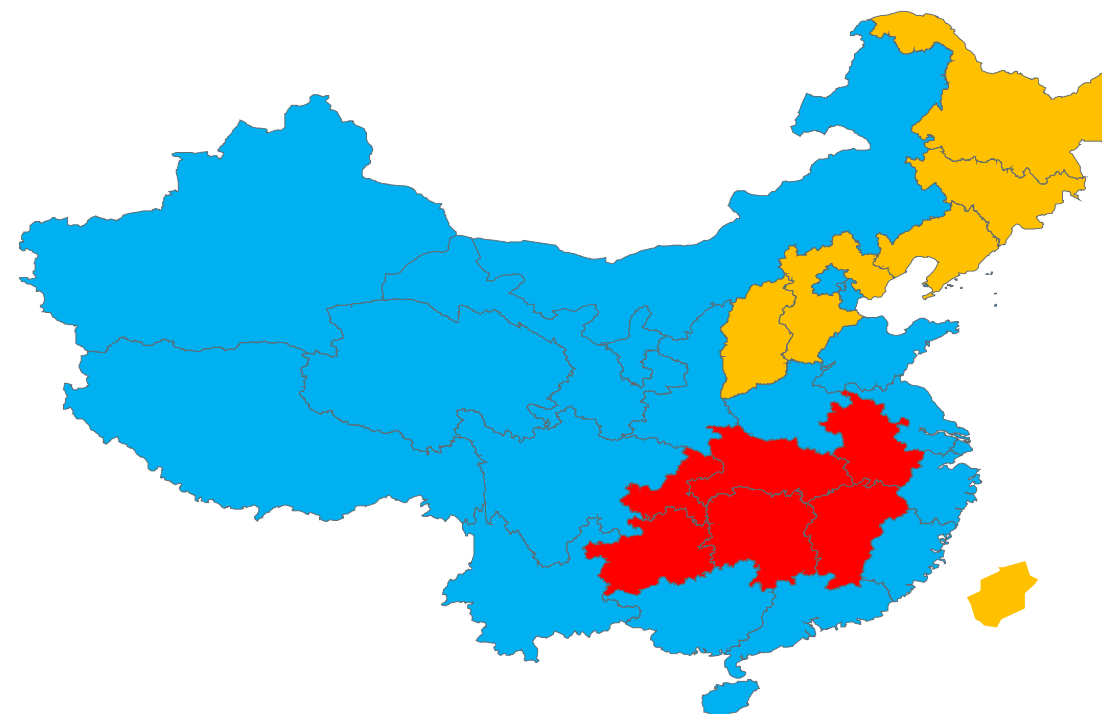
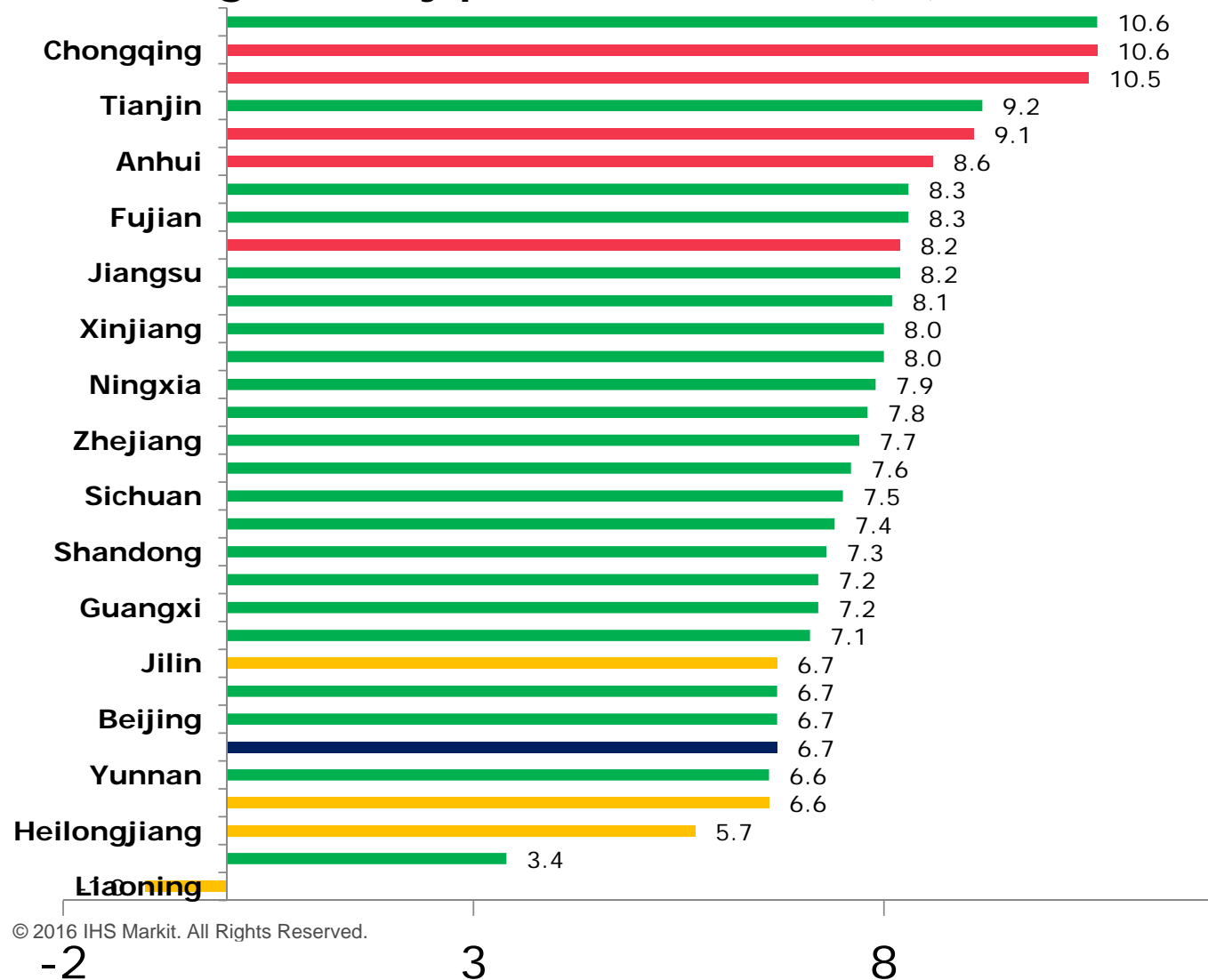


Source: IHS Markit

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Economics of pepper

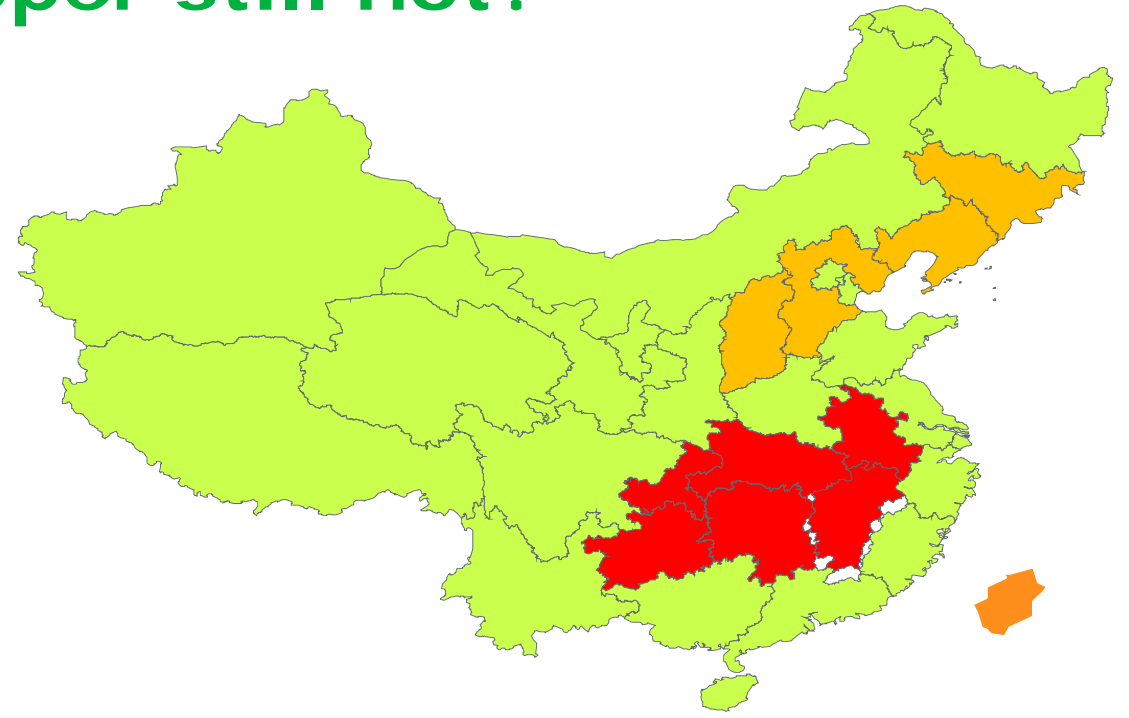
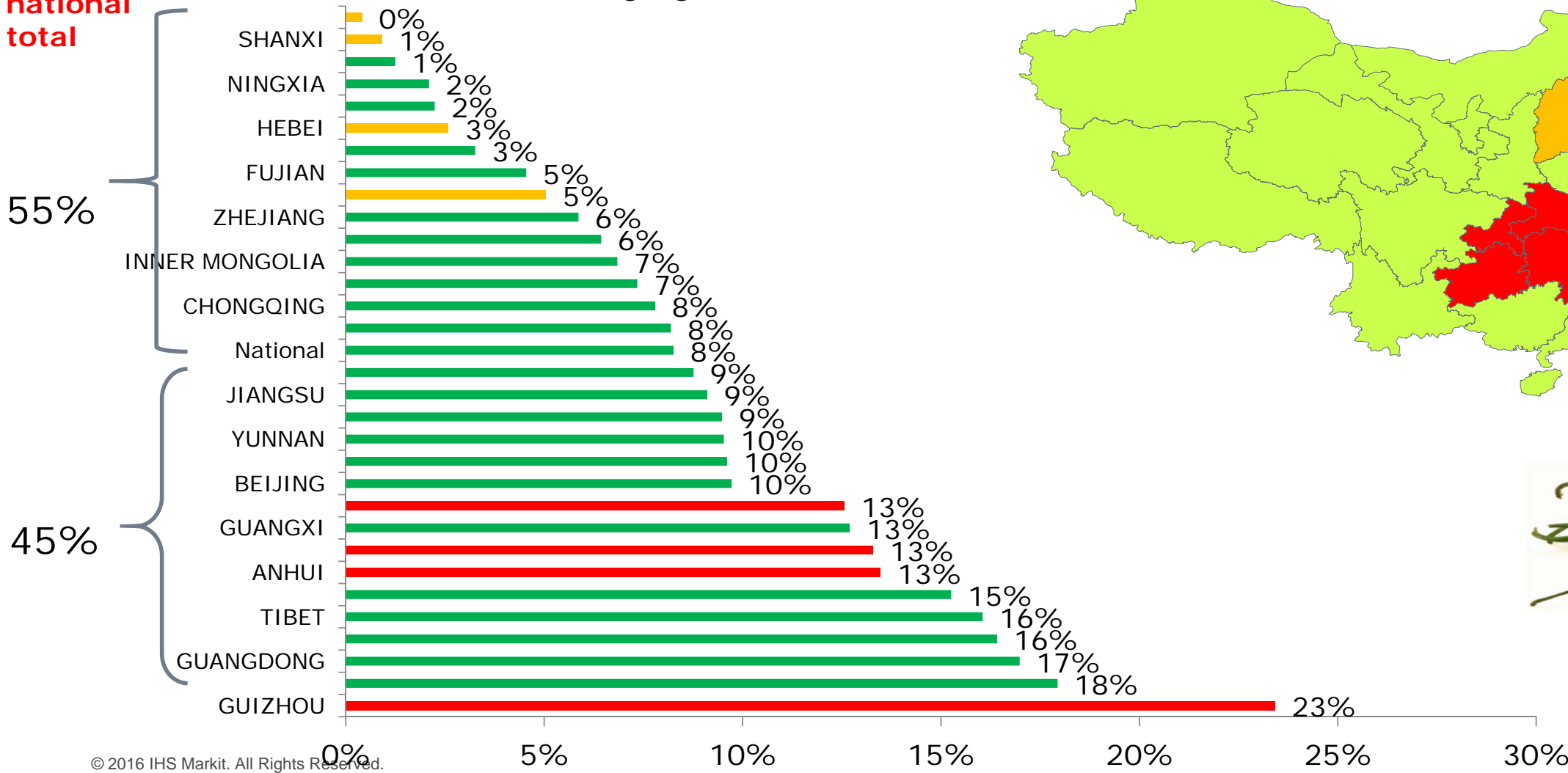
GDP growth by province H1 2016(%)



Car sales by provinces: Is pepper still hot?

As % of national total

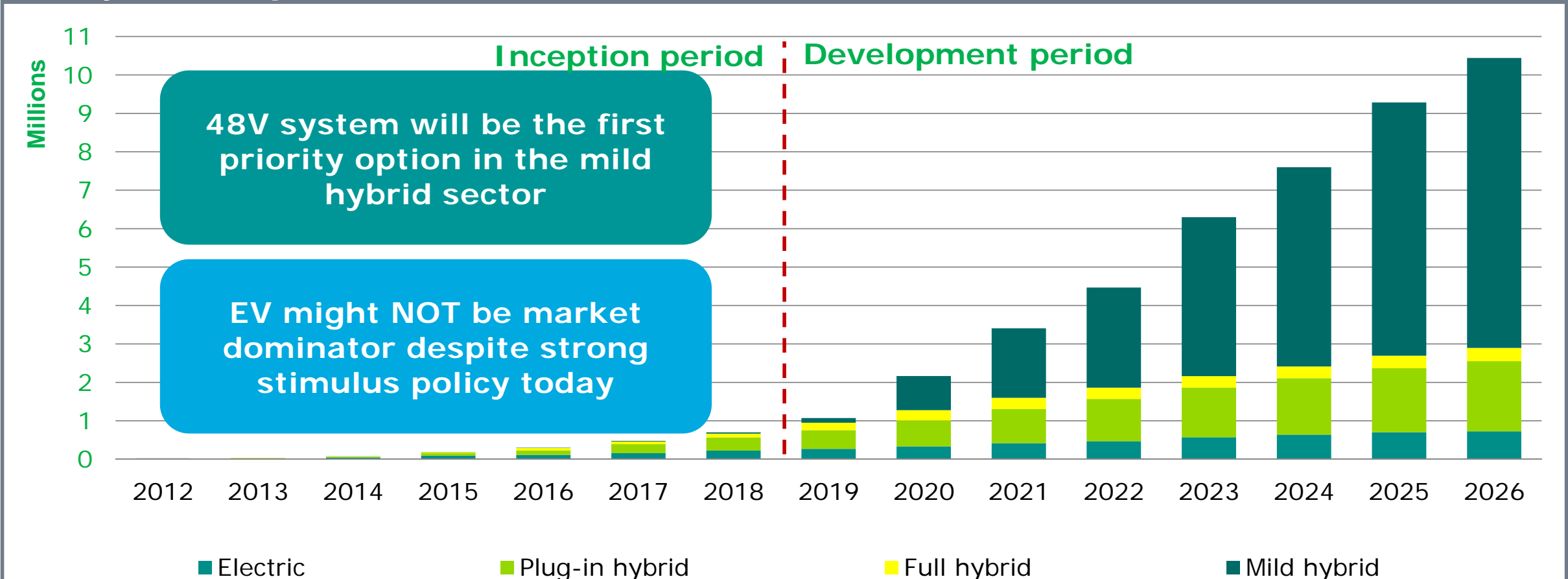
2016 YTD PV sales y/y (%)



NEV development in China

EV demand is exploding in the near future; hybrid as main driver in the long

EV/hybrid PV production in China



Source: IHS Markit

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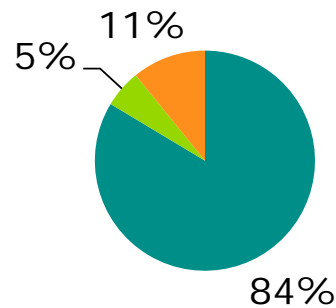
Car sharing growing rapidly but business models challenged with lack of profitability



Is car sharing becoming a real threat to vehicle demand?: What P2P tells us

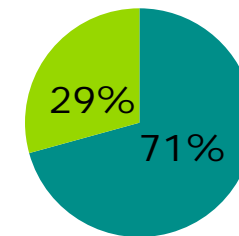
No. of models by body type

■ Sedan ■ MPV ■ SUV



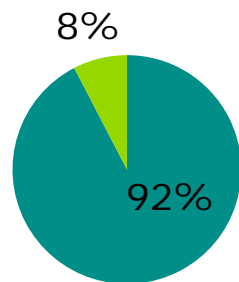
No. of models by car age

■ ≥3 yrs ■ <3 yrs



No. of models by brand positioning

■ Mass ■ Luxury



Total No of cars: +17k
Cities Covered: 22





Car sharing, or really?



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