Snapshot of China Automotive Industry Outlook

July 2019

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2019 Sales Volume To-date

Trends

June 2019 sales is up by about 5%, but half yearly YOY volume is still down nearly 10%

- June sales volume of passenger vehicles in China has increased by 4.9% year-on-year (YOY)* to reach 1.77 million units. This is a long awaited reversal of the decline of 11.9% in volume for the January to May 2019 period.
- A main reason for the spike in sales is the heavy price discounting by the dealers to clear vehicle stocks for the July 1st implementation of the China VI National Emission Standard.
- Despite this June increase, the January to June cumulative sales is still down by 9.3%* YOY.

* 乘联会和中汽协

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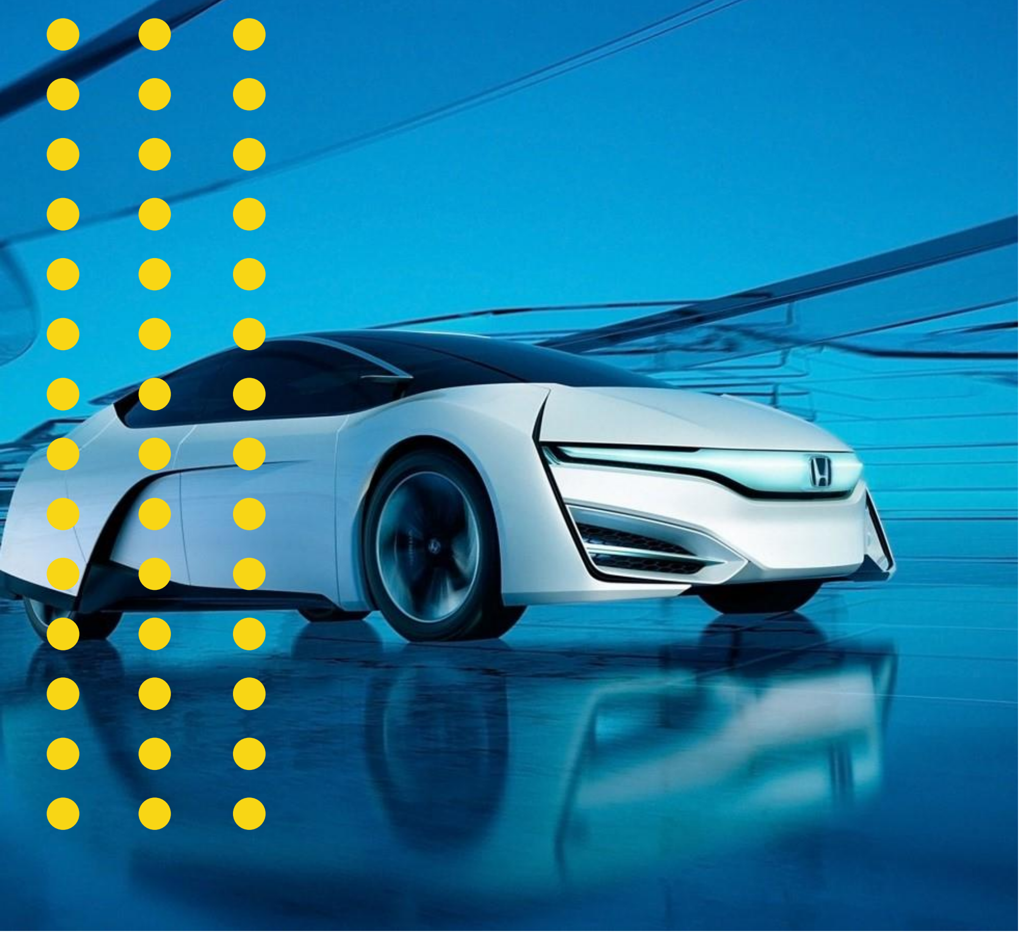

First half 2019 sales is up 50% YOY, but the ending of government subsidy and product quality issues are challenges.

Electric Vehicles (EV) sales is growing, but …

- Electric vehicles June sales volume clocked 134k units, 38% more than May and a 86% year-on-year increase.
- This brought the first 6 months cumulative sales to 617k units, nearly a 50% year-on-year increase.
- However the various local and national government subsidy and incentive plans for EV purchase have run to their end in June, and together with the lingering product quality issues which has negatively affecting consumer confidence, EV sales will face a uphill challenge going forward.

Factors impacting growth.
And where are the growth?

Factors

- The Chinese economy growth is slowing to 6.2% in the second quarter of the year, the weakest rate since at least 1992.
- Vehicles ownership in 1st and 2nd tier Chinese cities are regulated, and the rate of vehicle ownership per capital is getting higher in these cities.
- The stringent control on housing ownership and sales has dampen the fast pace wealth growth, reducing the dispensable income of the general public.
- Public transport and infrastructure has improved drastically.

Growth areas

- 3rd and 4th tier cities are experiencing faster growth. Demand in rural cities is increasing, but the general spending power is much lower than the larger cities.
- Despite the decline in sales, most Japanese vehicle brands are enjoying healthy growth. Guangzhou Honda has growth 12.7% YoY for the first six month to reach 380k units, DMC Honda has grown by 34.4%, and FAW Toyota by 3.2%.
- Main reasons can be attributed to Japanese made are generally economical to own, reliable, and has a stream of new or model upgrades. The German OEMs have also maintained a strong position, increasing its market share by over 2% to 23.2%.
- Luxury cars are too holding up. BMW has a 16.8% YOY increase for the first half year reaching more than 35k units. Mercedes Benz by 1.3% at 34.5k units, and Audi 1.9%. The higher income consumers seem not aversely affected by the economic slow down.

Japanese vehicles have greatly improved its position in this downturn, capturing 21.5% market share

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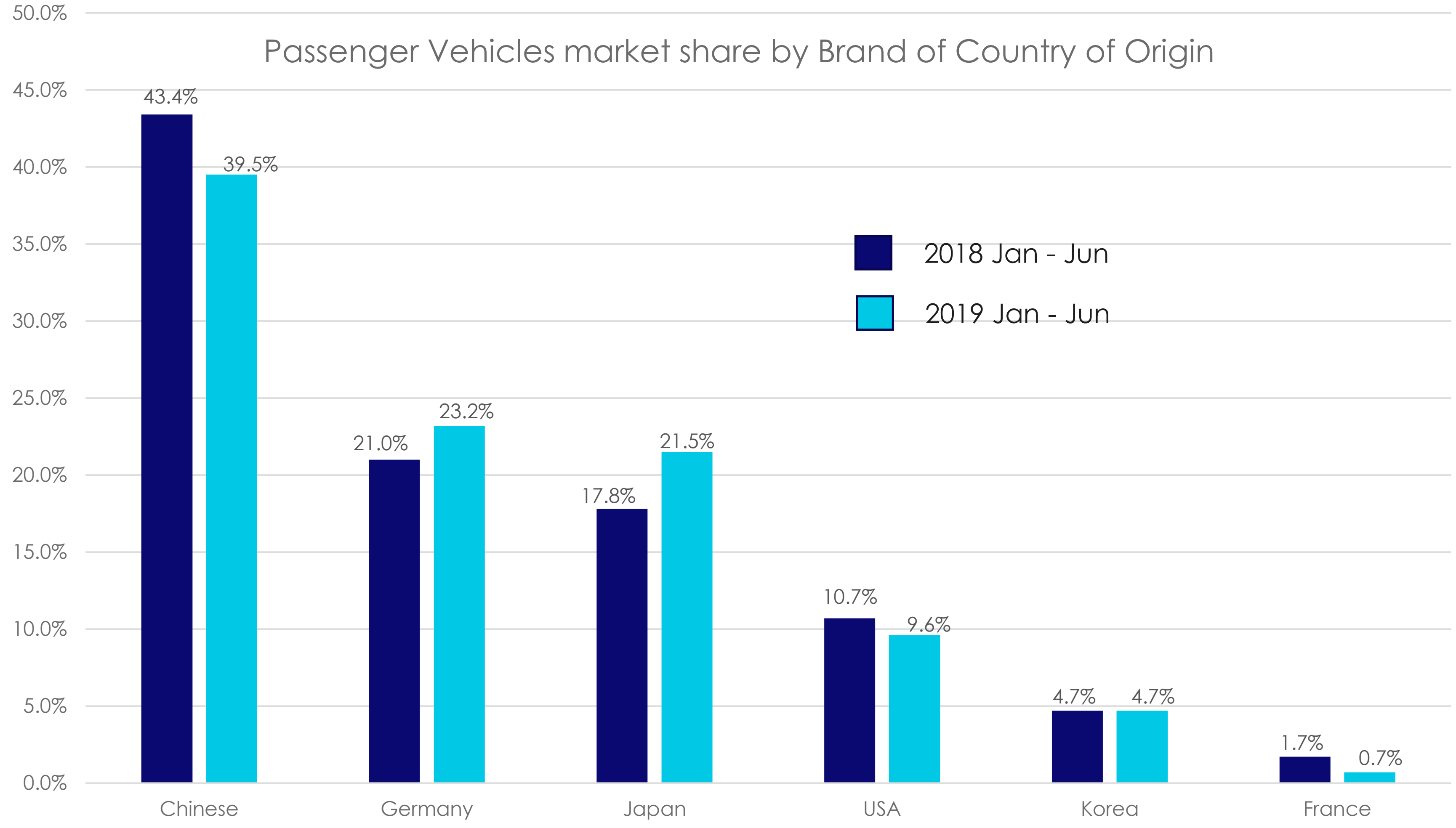
Foreign vs Local Chinese Brands



Japanese and German vehicles have improved their market positions

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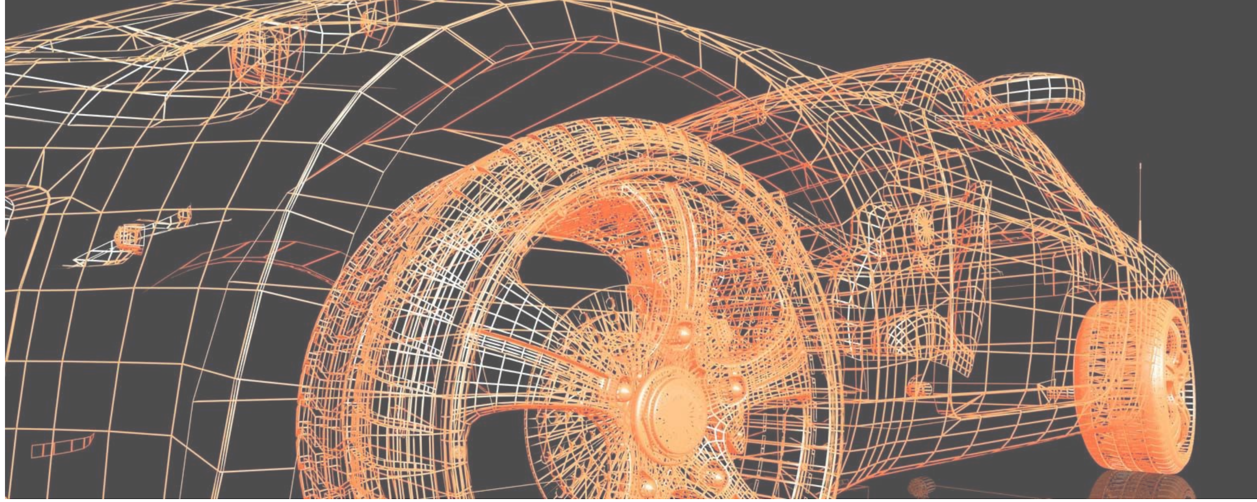
Impact

Market Change



01

Regulatory Changes

China is gradually relaxing the market restriction on foreign manufacturers, including the removal of the foreign company ownership share limit by 2022. This will create an even playing field for foreign and local automobile OEM.

02

Even Playing Field

Chinese OEMs have an edge in knowledge about the local market requirements and preferences. They can also produce lower cost products, hence positioning well for the mid and low end market segments. Established foreign OEMs have strong brand equity, quality & performance, and an edge in innovative technology.

03

Value Chain Excellence

Armed with their respective competitive advantages, OEMs are spending continuous effort to perfect their value chain activities especially in production and supply chain. This is to ensure their manufacturing foundation remains the corner stone of their business excellence.

04

Facing or Creating Disruption

Technology that delivers on customer needs first is in the front seat of business disruption. Automobile companies could either be a follower or leading the disruption.

Companies across the value chain, including parts & components, are forced to adapt to market changes to sustain revenue and profit. New Vehicles must be aligned with the current states of technology and consumer preferences.

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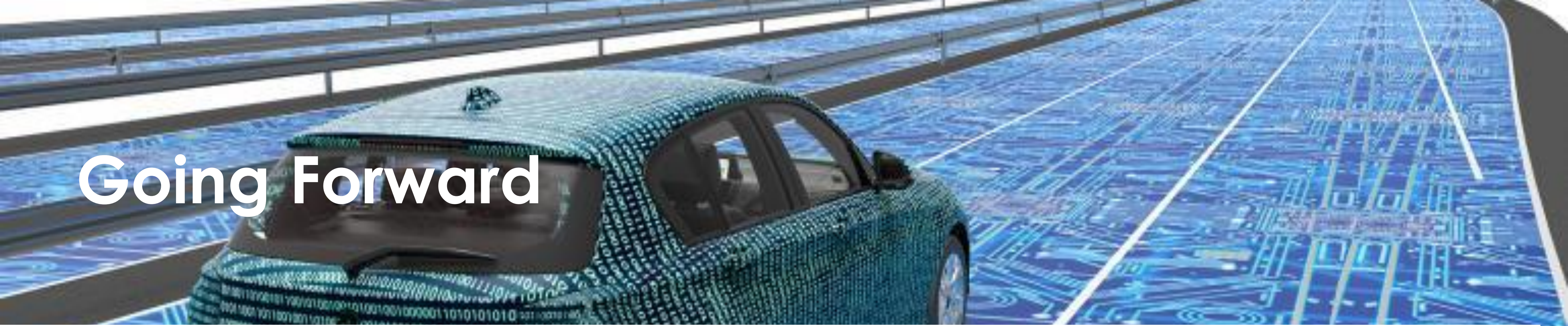

Going Forward

Market Change

- The 2019 vehicle sales is not likely to reach last year figure of 28 million units. This will be the second consecutive YOY decline after 2018 saw a YOY decrease of 3.2% from 2017.
- The China automotive market is gradually shifting towards a service oriented model with players focusing extensively on customer experience and consumer data. Transitions in automotive markets are providing opportunities for some while others face stiff challenges over the forecasts.

Brighter Future

- Given the ratio of vehicle to per thousand population in China is 173,* comparing to 837 in USA, 609 Japan and 411 South Korea, there is still much room for growth for China.
- Going forward, there will be many transformation and evolution of the industry and products along the way. Business disruption will be the new normal. Manufacturers need to adapt to this changes and market forces.

20%

China's vehicle to per thousand population is only 20% of the US ratio

* World Bank 2019

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