Should you invest in the Chinese electric vehicle sector?

By Gerald Wong, Founder and CEO of Beansprout
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This post was created in partnership with Nikko Asset Management Asia Limited. All views and opinions expressed in this article are Beansprout's objective and professional opinions.

What happened?

Chinese electric vehicle (EV) stocks have seen a rebound recently, driven by new stimulus measures aimed at boosting the economy.

During the week-long National Day holiday, EV sales in China surged, with the marketing director for General Motors' joint venture with SAIC Motor and Wuling Motors calling it the "best Golden Week in many years."

This uptick in sales has lifted sentiment towards Chinese EV stocks.

Take Nio, for example—its share price more than doubled in one month, reaching close to US$7.40, before easing to US$5.22 as of 22 October 2024. Even so, it remains well above its 52-week low of US$3.61.

With growing interest in the Chinese EV sector, I'll take a closer look at key reasons to watch this industry and explore ways we can gain exposure to its potential growth.

Fig 1: Share price of Chinese Electric Vehicle maker NIO

Source: Tradingview as of 22 October 2024

3 reasons to look at the Chinese EV market

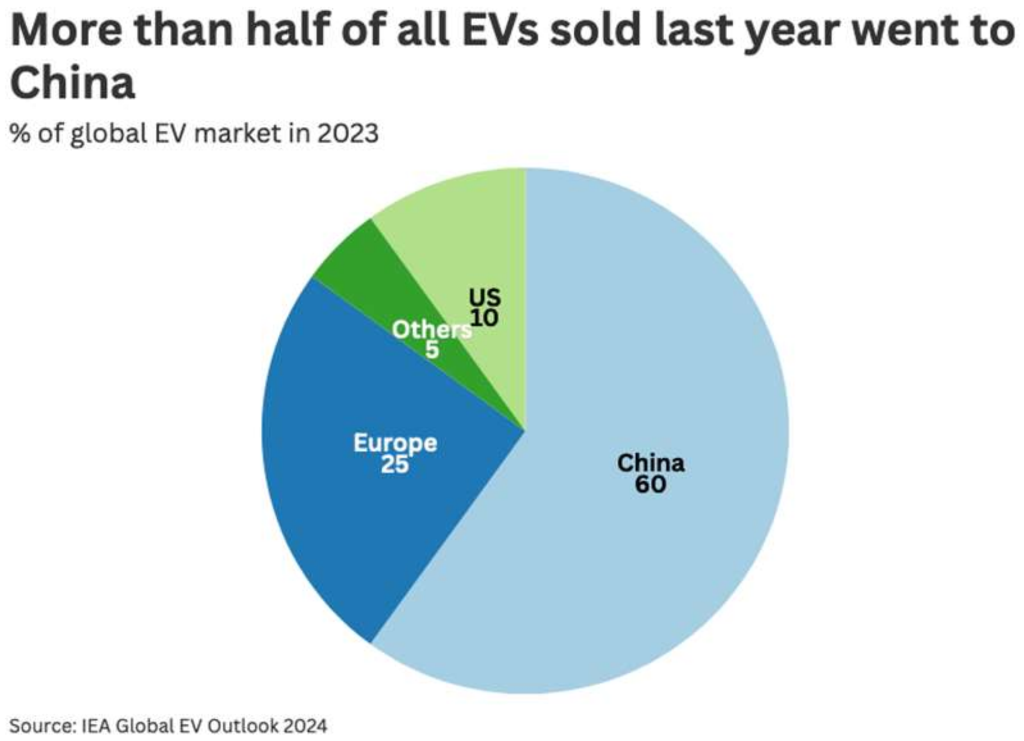
Let's break down why the Chinese EV sector has garnered the interest of many investors. China is the largest EV market in the world, according to the International Energy Agency (Source: IEA Global EV Outlook, April 2024).

From outselling the U.S. market to setting trends in adoption, the country's EV market growth shows no signs of slowing.

#1 - China leads the US in EV sales

China isn't just part of the EV revolution—it's leading it. In 2023, the country sold over 6.8 million electric vehicles, more than triple the sales in the U.S (Source: IEA Global EV Outlook, April 2024).

Its scale enables economies of production, making Chinese EVs far more affordable than those in Western markets, with entry-level models priced as low as US$5,000 to US$10,000.



China's dominance also extends across the global EV supply chain. The country produces over 60% of the world's EV batteries and controls key raw materials like lithium and cobalt.[1]

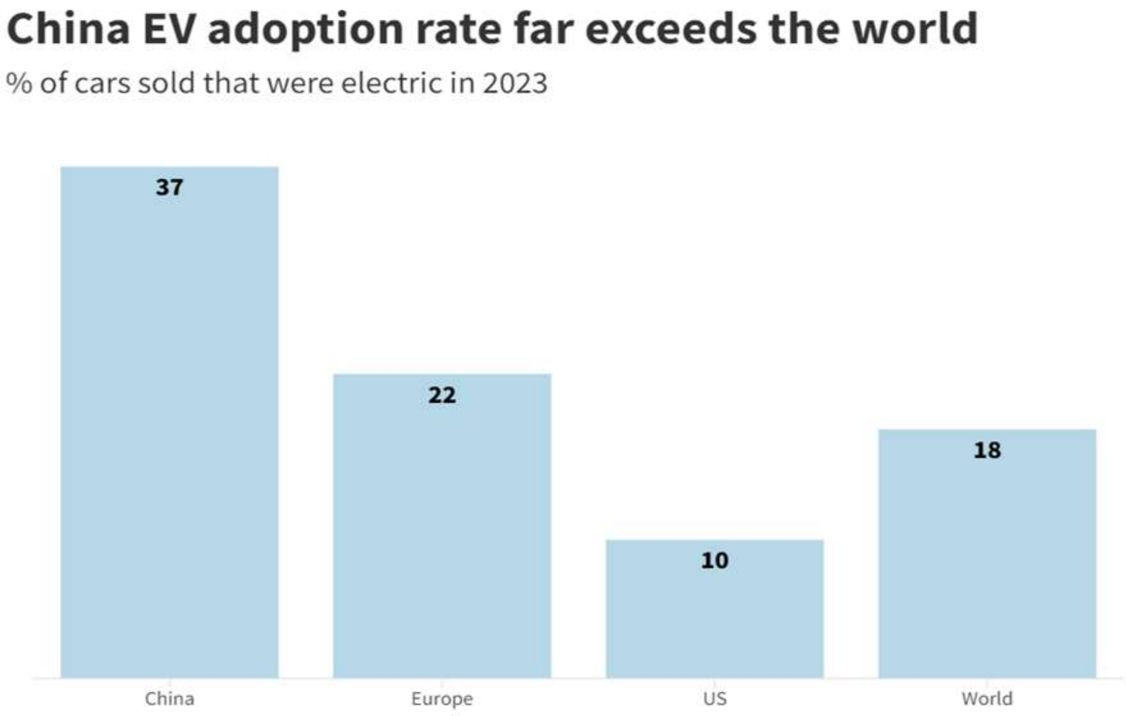
This vertical integration provides Chinese automakers with a competitive advantage in both pricing and technological innovation.

#2 - Adoption of EVs in China has continued to grow

China's rapid adoption of EVs has been fuelled by urbanisation, strong government support, and a growing consumer preference for sustainable solutions.

In 2023, over 35% of new vehicles sold in China were electric, signalling that EVs have moved from niche to mainstream.

[1] Source: IEA Global EV Outlook, April 2024



Source: IEA Global EV Outlook 2024

A key driver of this success is China's robust EV infrastructure, including an extensive network of charging and battery-swapping stations.

Cities like Beijing and Shanghai have implemented zero-emission vehicle mandates, accelerating the shift to EVs by restricting the sale of internal combustion engine (ICE) vehicles.

Additionally, changing consumer sentiment plays a big role. Chinese buyers increasingly prefer tech-savvy, connected vehicles, aligning with the offerings of local EV makers like XPeng, which focuses on autonomous driving, NIO, with its luxury tech ecosystem, and BYD, which leverages its vertical integration in battery manufacturing to offer affordable yet innovative EV models.

#3 – EV sales in China expected to continue growing

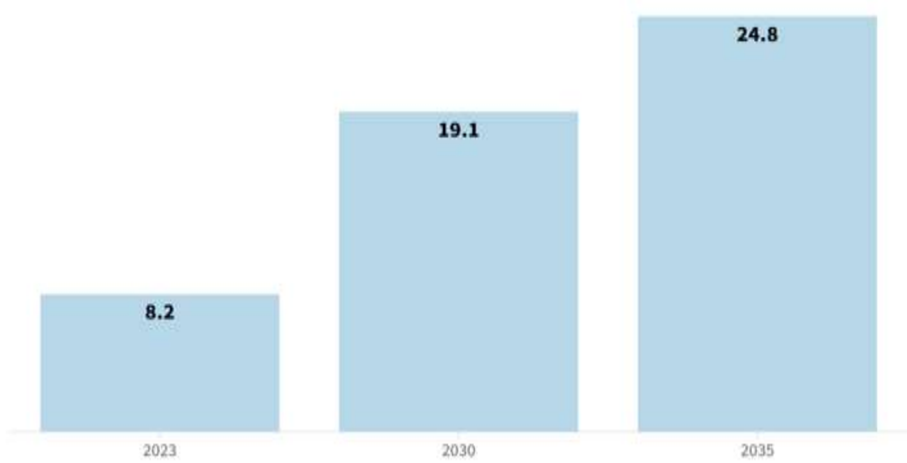
Looking ahead, EV sales in China are expected to grow at a double-digit rate through 2030, fuelled by supportive policies and ongoing technological advancements.

The government aims for 40% of all new car sales to be electric by 2035, reinforcing sustained long-term demand.[2]

[2] Source: Energy Saving and New Energy Vehicle Technology Roadmap 2.0, Beansprout estimates

EV sales in China expected to grow to above 24 million units in 2035 from 8.2 million units in 2023

units of EV cars sold (millions)



Source: IEA Global EV Outlook 2024

As more countries tighten emission regulations, Chinese EV makers are well-positioned to meet the global demand for affordable electric cars.

Advancements in battery technology—such as solid-state batteries and ultra-fast charging—are expected to lower costs, increase driving ranges, and attract new buyers.

Domestically, EV-specific incentives, including tax breaks and preferential license plate policies in crowded cities, will further drive demand and sustain growth in the sector.

How have Chinese EV stocks performed?

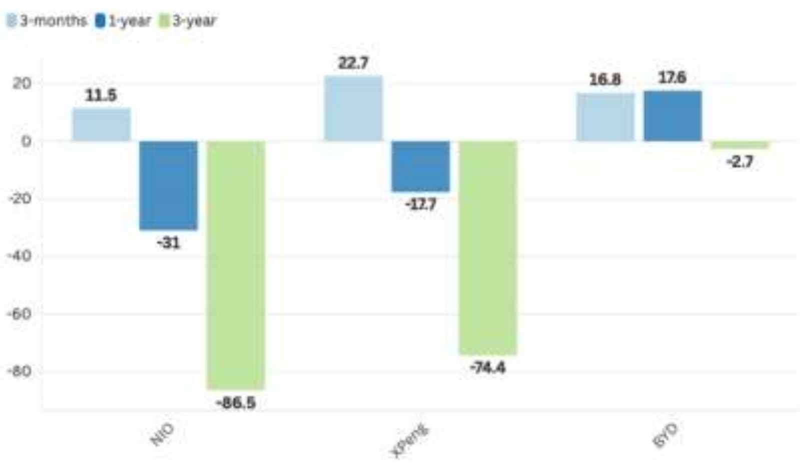
Despite the long term structural growth expected in the demand for electric vehicles, the share prices of Chinese EV companies have been mixed over the past few years.

In the past one year, the share prices of Nio and Xpeng have declined by about 31% and 18%, respectively. However, the share price of BYD has increased by about 18%.

The share prices of the Chinese EV companies would reflect how they have also been impacted by various supply chain challenges, concerns about significant reliance on government support, as well as rising international competition.

Chinese EV stocks performance

Returns (%)



Source: Yahoo Finance as of 22 October 2024

#1 - Supply Chain Challenges

While China leads in EV battery technology, it remains vulnerable to supply chain disruptions, particularly amid geopolitical tensions.

The industry relies heavily on lithium, cobalt, and rare earth materials, all of which are prone to price volatility, posing risks to production and profitability.

#2 - Heavy Reliance on Government Support

China's EV sector has benefited from subsidies, but with these being phased out, companies that rely heavily on them may find it difficult to maintain margins, making profitability a challenge.

This could lead to industry consolidation, with only the most competitive players able to thrive in the long run.

#3 - International Competition Heating Up

Chinese EV makers are expanding globally, but they face growing competition from Western and Southeast Asian manufacturers.

For example, Tesla's aggressive price cuts has put pressure on industry margins.

Adding to these challenges, the U.S. has begun restricting certain technology exports to China, creating additional headwinds for companies like NIO and XPeng.

What would we be looking out for?

Despite the mixed performance of Chinese EV stocks in recent years, there are several key factors to watch when evaluating the future outlook of the Chinese EV sector.

These include a potential increase in orders driven by recent stimulus measures, new model launches attracting consumer interest, and technological advancements enhancing product offerings and competitiveness.

#1 – Potential increase in orders driven by recent stimulus measures

A potential surge in orders for Chinese EV makers is being driven by recent government stimulus measures aimed at boosting the economy and the EV industry.

Incentives such as subsidies, tax exemptions, and cash rebates make EV ownership more affordable, stimulating demand and encouraging consumers to buy.

Easier access to financing and lower interest rates further support this trend, helping more buyers secure EVs. Early successes during China's Golden Week holiday also point to an upward trajectory in orders.

As these measures take hold, rising consumer confidence and continued government support are likely to fuel further growth, creating a more optimistic outlook for Chinese EV makers.

#2 – New model launches

Upcoming new model launches by Chinese electric vehicle (EV) makers will play a key role in driving consumer demand and strengthening their market positions.

Here's a look at some of the key releases:

Nio is expanding its line-up with the **EC7**, a premium electric coupe SUV, and the **ET5 Touring**, a station wagon version of its popular ET5 sedan. These models are designed to appeal to families and tech-savvy consumers, featuring advanced autonomous driving capabilities to enhance the user experience.

Source: Nio website

XPeng is gearing up to launch the **G6 SUV**, aimed at competing with Tesla's Model Y. The G6 boasts fast-charging capabilities, advanced driver assistance features, and a competitive price point, positioning it to attract buyers in both domestic and international markets.

Source: XPeng website

BYD is expanding rapidly with new models in its **Dynasty** and **Ocean series**, including the **Seal** and **Dolphin** electric cars, aimed at mass-market consumers. In addition, BYD is venturing into the premium segment with upcoming luxury models under its **Yangwang brand**, positioning itself as a leading high-end EV maker.

Source: BYD website

Li Auto is focusing on SUVs with hybrid and fully electric powertrains. Its upcoming release, the **Li MEGA**, is a large all-electric SUV designed for the premium segment, offering long-range capabilities and advanced technologies to attract high-end consumers.

Source: Li Auto website

These new models are expected to boost orders and help Chinese EV makers maintain momentum in an increasingly competitive market.

In addition to domestic growth, Chinese EV manufacturers are benefiting from rising export demand. Companies like BYD are expanding aggressively into Southeast Asia and Europe, signalling growing global interest in Chinese EVs.

#3 – Technological improvements

Chinese EV makers are pushing forward with key innovations in battery technology, autonomous driving, fast charging, and in-car software to stay ahead of the competition.

Battery advancements are key to Chinese EV makers' success. BYD's Blade Battery offers improved safety and efficiency, while Nio's upcoming 150 kWh solid-state battery promises over 1,000 km of range on a single charge. Additionally, companies like BYD are developing sodium-ion batteries to reduce costs and make EVs more accessible to mass-market consumers.

Source: Nio website]

In autonomous driving, **XPeng** is enhancing its **XPILOT 4.0** system with semi-autonomous highway driving and parking assistance, while **Nio** continues refining its **NAD system** for both highway and urban navigation.

Fast-charging and battery-swapping technologies are also advancing. **Nio's battery-swapping stations** enable users to swap batteries in under five minutes, while **XPeng** and **Li Auto** are developing **800-volt fast chargers**, cutting charging time to just 15 minutes.

Additionally, **AI-powered smart cockpits** are elevating user experiences with voice controls, personalized infotainment, and over-the-air updates. Innovations from **BYD** and **XPeng** focus on seamless connectivity and enhanced convenience, driving consumer adoption and market growth.

Source: BYD website

How can investors gain exposure to the Chinese EV sector

If you want exposure to the sector but are wary of individual stock risk, consider **ETFs that offer more diversified exposure to the EV space**, such as NikkoAM-StraitsTrading MSCI China Electric Vehicles and Future Mobility (EVFM) ETF.

The ETF provides you with diversified exposure across the value chain of the fast-growing Chinese EV sector.

You would be able to gain access to the structural theme at a low fee while reducing the risks that come along with owning individual stocks.

The ETF also covers the scope of future mobility, which is a broader concept covering the future of transport.

This would include companies involved in autonomous vehicles and ride-hailing services. As an owner of the ETF, you will be holding on to a basket of stocks* that include the following:

- EV makers – NIO, Xpeng, BYD, Li Auto
- Battery makers – CATL, Eve Energy
- Lithium producers - Qinghai Salt Lake Industry
- Renewable energy and charging infrastructure - Sungrow Power Supply

Top 10 Holdings

Holdings	Weight	Holdings	Weight
CONTEMPORARY AMPEREX TECHNOLOGY CO., LTD. CLASS A	10.5 %	SUNGROW POWER SUPPLY CO., LTD. CLASS A	5.1 %
LI AUTO, INC. CLASS A	9.5 %	XPENG, INC. CLASS A	4.2 %
NIO INC. CLASS A	8.1 %	BYD COMPANY LIMITED CLASS A	3.5 %
GEELY AUTOMOBILE HOLDINGS LIMITED	7.8 %	EVE ENERGY CO. LTD. CLASS A	3.5 %
BYD COMPANY LIMITED CLASS H	5.6 %	QINGHAI SALT LAKE INDUSTRY CO., LTD. CLASS A	3.2 %

Source: Nikko Asset Management Asia Limited as of 30 September 2024.

Source: NikkoAM as of 30 September 2024

*based on the holdings of the ETF as of 21 October 2024. Reference to any particular securities is purely for portfolio information as at indicated date only and does not constitute a recommendation to buy, sell or hold any securities or to be relied upon as financial advice in any way.

What would Beansprout do?

The Chinese EV sector offers long-term growth potential as EV adoption continues to rise.

However, share prices of Chinese EV stocks have faced headwinds from supply chain challenges and growing competition.

On the flip side, recent government stimulus, new model launches, and technological advancements may offer reasons for investors to take a look at the sector once again.

For those concerned with the volatility of individual EV stocks, an ETF offers broader exposure.

The **NikkoAM-StraitsTrading MSCI China Electric Vehicles and Future Mobility (EVFM) ETF** diversifies across the EV value chain, giving investors exposure beyond just EV car manufacturers.

Available for trading in both Singapore Dollar and US Dollar, the ETF can be easily bought and sold through your regular stock brokerage account. Learn more about the NikkoAM-StraitsTrading MSCI China EVFM ETF here.

To explore more ETF options and unlock your investment potential, check out **NikkoAM**'s full suite of ETFs here.

Important information:

The Fund is a sub-fund of Nikko AM Asia Limited VCC, an umbrella variable capital company incorporated in Singapore ("the Issuer/Company"). The Manager of the Fund is Nikko Asset Management Asia Limited.

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The performance of the ETF's price on the Singapore Exchange Securities Trading Limited ("SGX-ST") may be different from the net asset value per unit of the ETF. The ETF may also be suspended or delisted from the SGX-ST. Listing of the units does not guarantee a liquid market for the units. Investors should note that the ETF differs from a typical unit trust and units may only be created or redeemed directly by a participating dealer in large creation or redemption units.

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