

# CHINA EV INSIGHT

THE MOST FASCINATING NEWS IN NEW ENERGY VEHICLE INDUSTRY

Brought to you by: SMM New Energy | Expertise in China New Energy

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## 1. POLICY

### ***Government Continued to Encourage Development of New Energy Vehicle Industry***

The State Council issued the 13th Five-Year Development Program of Strategic Emerging Industry, clarifying the importance of increasing the proportion of EV in automobile industry. Committee of Industry and Information Technology in Guangzhou released 2025 strategic plan, announcing the goal of 4 million EV capacity and energy-saving vehicle/EV accounting for 70% of total vehicle production.

Moreover, according to a recent notice issued by the State Council, government will strictly confine capacity expansion of traditional fuel vehicles, and suspend any approval of newly-built fuel automobile enterprises.

### ***Ban on Foreign Investment in Power Battery Industry to be Lifted***

The National Development and Reform Commission, Commerce Department issued a revised version of the Industry Guiding Catalogue for Foreign Investment, where restriction items for foreign investment were reduced from 93 to 62, emphasizing that ban on foreign manufacturers in power battery industry is to be lifted, which may accelerate the transformation and consolidation of domestic battery industry.

Still, foreign battery manufacturers face challenges of being listed in battery catalogue and high capacity requirement. So far, no foreign battery manufacturers has entered the list officially.

In conclusion, the permission of foreign investment may be a "double-edged sword", optimizing and upgrading domestic battery industry while causing even larger pressure on small-to-medium enterprises. As the increasingly faster industry consolidation is expected, we predict that lots of M&A opportunities are about to emerge.

## 2. MARKET

### ***Cobalt Price Showed No Signs of Slowing Down***

Overseas cobalt quotation continued to rise recently, which stimulated the booming of domestic cobalt market directly. Most of domestic mainstream suppliers are holding stock for better price, but few transaction has been cut. SMM quotation for refined cobalt is RMB 264,000-272,000/mt so far, RMB 13,200 higher on a weekly basis.

Greatly influenced by overseas quotation, prices of other cobalt products implied a strong upward trend as well. However, downstream buyers show no interest for such a price, and some of them indicated that they choose to wait and see with enough inventories at hand. It's estimated that more deals can be expected if the market situation is to be more clarified after the year end.

### ***Beijing and Shanghai Initiated Acceleration of Charging Facilities Construction***

Currently, China's EV/pile ratio is less than 4:1, restricting the development of China EV industry. By the end of 2015, Shanghai promoted 58,000 units of EVs with EV/pile ratio of about 2.7:1, which increased to 1.7:1 in 2016 with over 90,000 units of EVs put into service. Beijing Municipal Planning and Land Resources Management Commission announced its plan on of establishing charging facilities every radius of 5km in the city. To reach the goal of 1:1 EV/pile ratio in 2020 as planned, lots of business opportunities are expected in promising future.

## 3. BUSINESS STRATEGY

### ***LFP Manufacturers Have Already Begun Winding Down their LFP Business While Speeding Up the R&D on High-Performance Cathode Material***

According to SMM first-hand research, owing to high standards of battery energy density introduced in new subsidy policy, LFP battery manufacturers have begun to reduce production and even suspended operation from November, as a result, outputs and shipments of upstream LFP materials slid sharply in Q4 2016. Meanwhile, some manufacturers have started to upgrade and transform production line for high-performance material.

### ***Battery and Material Manufacturers are Pushed to Corner***

2015 national subsidy fund is now being allocated gradually to EV enterprises, still, financial pressure on upstream manufacturers are high because EV enterprises' payment to their suppliers can be delayed. Actually, AR (Account Receivables) period can be up to 9 months for battery manufacturers, and for cathode material suppliers it may reach to 3-6 months, thus, domestic upstream suppliers are encountering a bitter winter which can be even worse for LFP manufacturers.