

KIMI Research

CATL (300750.SZ)

After the 3Q26 breakdown: earnings downgrades delivered,
valuation at its trough — moat intact, pessimism overdone — Buy, PT RMB346

Rating

Buy

Price Target

RMB346

A-share close (Oct 21, 2026)

RMB227.90

Upside (12-month)

+52%

Oct 21, 2026 · revised post-3Q26 results

EV Battery & ESS

In-depth research material for
institutional investors

This material compiles research and institutional views, including broker estimates and this report's own calculations, for reference only and not as investment advice. Data as of the Oct 21, 2026 close. KIMI Research · Oct 21, 2026

Focus: 3Q26 unit net profit fell below RMB0.090/Wh to RMB0.082; pessimism overdone, multiple recovery ahead; Buy, PT RMB346

Part 1 Investment Thesis; Part 2 3Q26 results review; Parts 3-5 evidence chain; Part 7 risks, catalysts and scenarios

Part	Section	Core message	Pages
01	Investment Thesis	- Buy, PT RMB346: unit net profit at the low end of the new equilibrium, RMB0.078; our own 2027E RMB100.0bn × 16x - The ESS second curve and licensing remain profit tailwinds	03-08
02	3Q26 Results Review	NP of RMB21.2bn missed the sell-side center by ~11-15%; unit net profit RMB0.082/Wh broke the RMB0.090 line Market watch, expectations vs actuals, earnings quality, sell-side revisions and the 4Q26 framework	09-14
03	Consensus and Variance	- The market shifts from 'pricing in downgrades' to 'downgrades delivered': current NTM ≈ 10.7x has broken the 11x trough; H/A premium narrowed to 35.5% - De-CATL-ization escalates to systematic in-house R&D, but the 0.082 was driven mainly by tax burden and mix	15-19
04	Industry & Competition	- Demand bandwidth of 2,537-3,092GWh intact; management guides 2027 industry growth of 20-30%; but October production schedule up only +1% MoM — a weak peak season - Dual-concentration structure unshaken; cost-sharing not delivered; base case: CATL absorbs nearly all policy tax	20-31
05	Company Deep Dive	- Four business layers share one manufacturing platform; battery swapping delivered on 10/20 (Tianxing II signed 13,000 units, Huawei Yinwang) - The manufacturing generation gap is hard to replicate	32-41
06	Financials & Valuation	- PT RMB346 = FY27E EPS RMB21.61 × 16x (16x = ~10% below the historical NTM median of 17.5x, in line with JPM's target multiple); cash reserves RMB432.6bn, net cash ~RMB184.0-246.7bn (9/30) - Post-breakdown valuation anchor: 10.5x → 16x is the main upside driver	42-53
07	Risks, Catalysts & Scenarios	- Stress scenario chain of RMB186-249; the current price is already inside the chain (bear probability raised to 30%); 4Q26 unit net profit is the next checkpoint - Probability-weighted expected value RMB328 (+44%)	54-57
A	Appendix	Methodology & data sources (data as of Oct 21, 2026)	58

PART ONE

Investment Thesis

Rating, price target, three core arguments, and checkpoint decision rules

4	5	6-8
Rating & Price Target	Unit Profitability in the Deflation Era	Second Curve & Characterizing the Pullback
Buy, conditional price target RMB346	3Q26 0.082 breakdown; new 2027E equilibrium of 0.079-0.085	ESS & licensing, pullback characterization, earnings and valuation

PT RMB346: +52% — downgrades delivered, pessimism overdone; moat intact, we look to multiple recovery; 4Q26 sets direction

3Q26 NP of RMB21.2bn missed consensus by 11-15%, 0.082 broke the line; 2027E cut 13% to RMB100bn — pessimism overdone, moat intact; multiple repair ahead



Price target (12-month, Buy) · 300750.SZ / 3750.HK

RMB346¹

= 2027E EPS RMB21.61 (RMB100.0bn ÷ 4.6272bn shares) × 16x (~10% below the historical NTM median of 17.5x); current price RMB227.90 (10/21 close) implies +52%; probability-weighted expected value RMB328 (+44%)

PT Construction & Sensitivity¹

Component	Value	Basis / Source
2027E own NP attributable	~RMB100.0bn	EPS RMB21.61 (~RMB0.078/Wh × 1,280GWh) sell-side forecasts RMB99.1-103.5bn
Target PE multiple	16x	≈10% below the historical NTM median of 17.5x, in line with JPM
Price target	RMB346	+52% vs current price; low end of the sell-side A-share range RMB340-507
Sensitivity	RMB332-376	1,280GWh × 0.075-0.085 × 16x; full grid 311-382
Weighted expectation	RMB328 (+44%)	Bull 20% / Base 50% / Bear 30% ²

Checkpoints: 3Q26 done, next 4Q26³



3Q26 results | delivered

NP attributable RMB21.2bn (missed the center by ~11-15%), unit net profit 0.082 < 0.090 → falsification trigger, earnings downgrade



4Q26 unit net profit (top priority)

≥0.090: trough confirmed, back to the RMB400 framework; 0.078≤u<0.090: maintain RMB346 (Buy); <0.078: downgrade to Hold, switch to the JPM framework



Production schedule & 314Ah

October production schedule +57% YoY but only +1% MoM; 314Ah at RMB0.363/Wh did not break RMB0.33 — neither triggered

KEY TAKEAWAYS

- **Current NTM ≈ 10.7x has broken the trough**

Below the Jan-2024 trough of 11.4x; 10.5x vs sell-side implied 16-23x; target PE 16x ≈10% below the NTM median of 17.5x
- **Non-consensus now: point estimates revised**

Mean catching up: price implies RMB87.9bn (12x) to RMB100.0bn (10.5x)
- **4Q26 sets the direction**

Q4 is the first full consumption-tax quarter; the company says pass-through is 'still under negotiation'; two consecutive quarters below 0.085 would challenge the earnings base

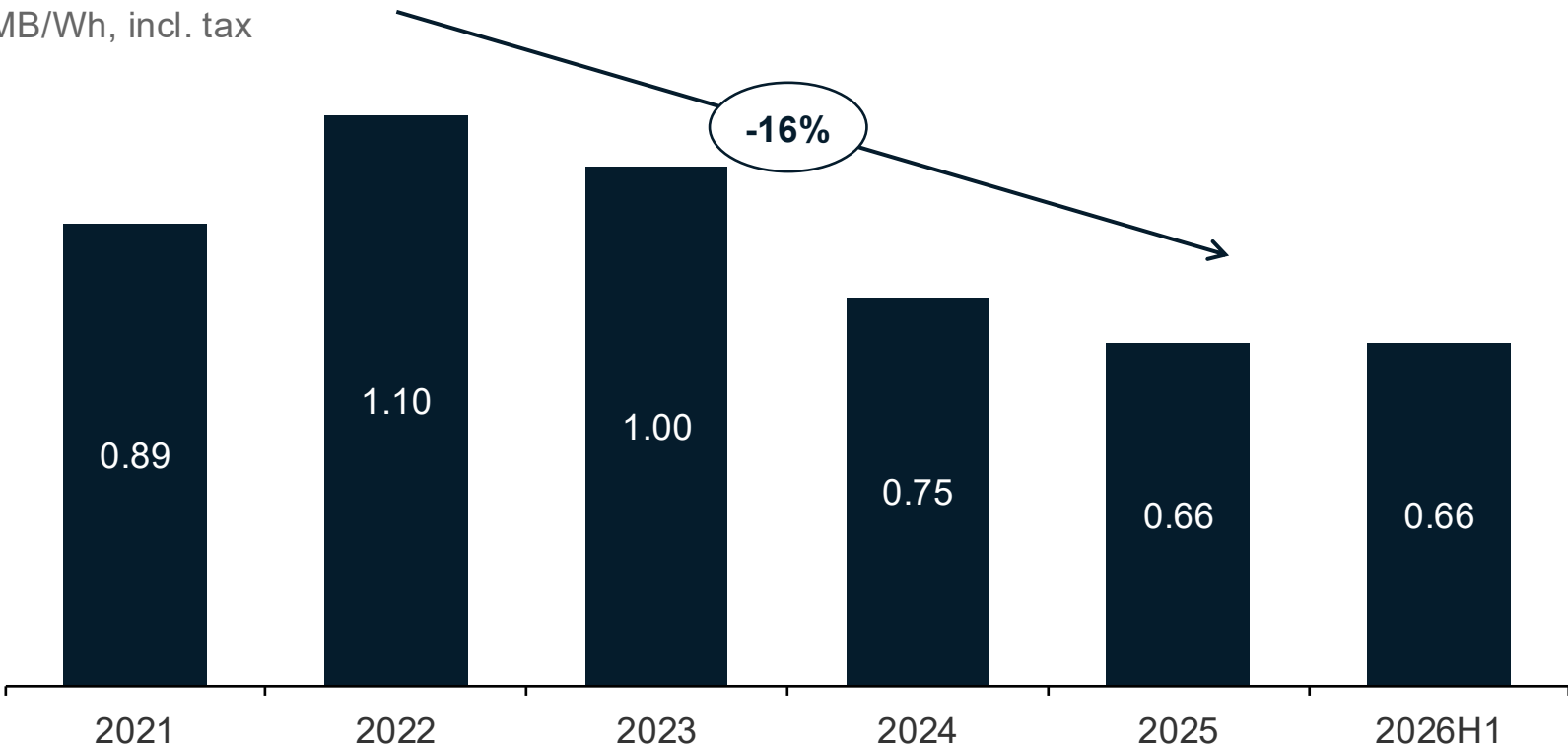
1. PT = 2027E EPS RMB21.61 (~RMB100.0bn ÷ 4.6272bn shares) × 16x; ~RMB100.0bn ≈ ~RMB0.078/Wh × 1,280GWh, hugging the cautious cluster (BofA 99.1 / JPM 99.7 / Soochow 99.8) and the low end of the new center RMB99.0-103.5bn; sell-side post-results disclosed quantified forecasts (Citi 103.0 / Nomura 103.5 / BofA 99.1 / JPM 99.7 / Soochow 99.8 / UBS range 90.0-131.0; UBS 2027E single point not disclosed). 2. The three scenarios are this report's assumptions (bull RMB448 / base RMB346 / bear RMB217); rating Buy (downgrade to Hold/trim if 4Q26 unit net profit <0.078), with verification gating expected return — RMB346 is conditional value upon verification, not an unconditional PT: 8 sell-side post-results updates + JPM pre-results; only JPM cut H shares to Neutral. 3. 3Q26 actual RMB21.2bn (disclosed 10/20); sell-side pre-results expectations RMB22.9-26.0bn; unit net profit = NP attributable ÷ sales volume (UBS basis: RMB82/kWh).

Three-year unit-profit range of RMB0.097-0.113/Wh broken for the first time: 3Q26 RMB0.082/Wh is an all-time low

Unit profit held through a 3-year, -40%-ASP deflation; 3Q26 broke on tax, rebates, cheap ESS and impairments — 4Q26 sets the new equilibrium

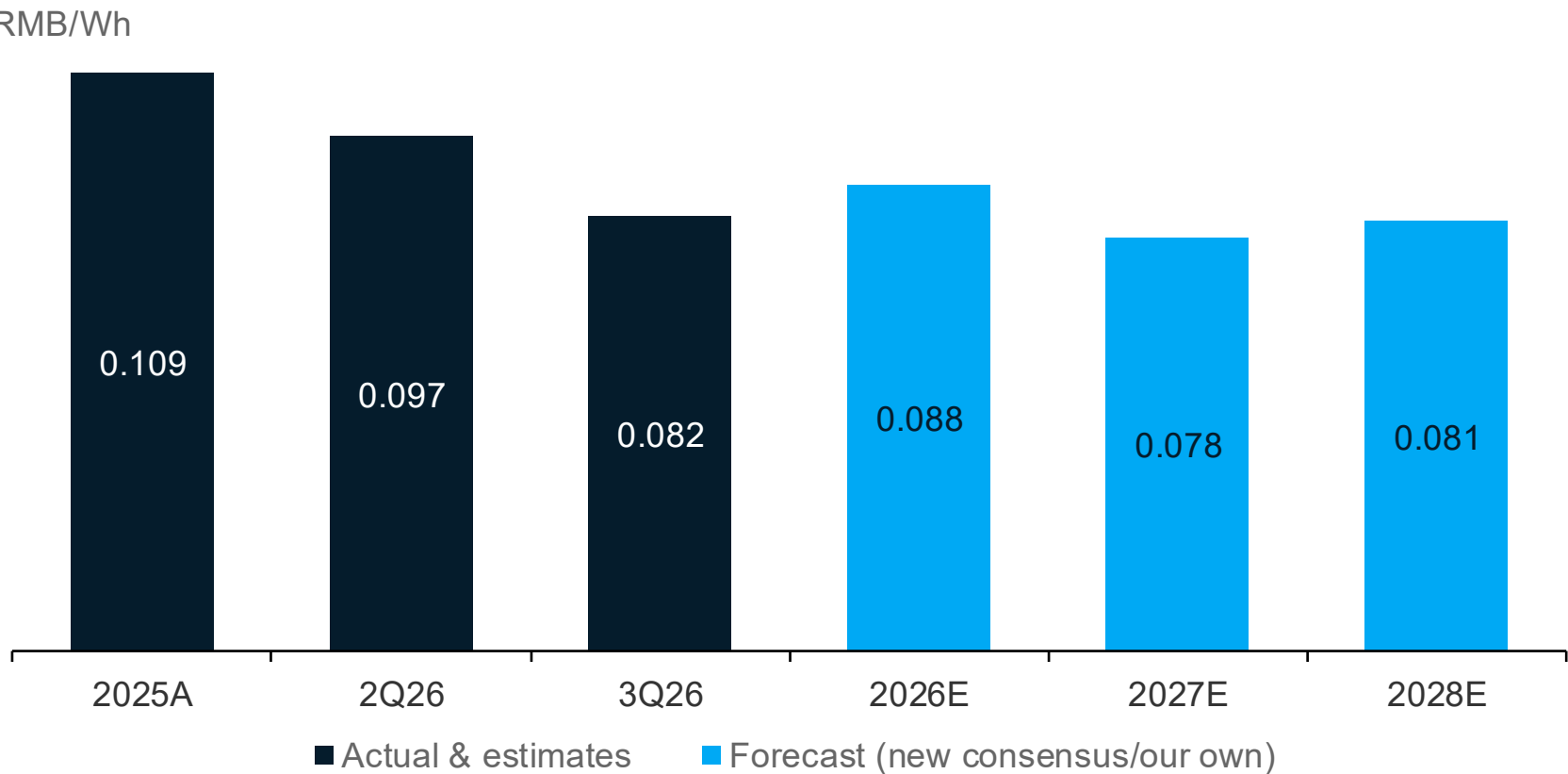
EV battery ASP incl. tax (RMB/Wh): -40% over three years¹

RMB/Wh, incl. tax



NP attributable per Wh (RMB/Wh): 2026-28E = new consensus center²

RMB/Wh



Four layers of mechanisms buffer cost shocks, with time lags



Price-linkage clauses

Pass-through lags 1-2 quarters; the 2Q26 0.097 embeds time-lag erosion



Inventory & long-term-contract buffer

~RMB30bn inventory + offtake locks smooth lithium price spikes³



Hedging & owned resources

Hedges + price locks; Jiangxi lithium mine to resume in 1Q27; unit profit held across two lithium cycles



Scale dilution

Shipments +55-60% dilute fixed costs, hedging per-Wh gross margin compression

Tier-2 comparison & worst-case tax bridge³

On the same Soochow basis (2Q26): CATL 0.07 / EVE 0.025 / CALB 0.025 / Sunwoda 0.01 / Gotion 0.003 RMB/Wh

The 3Q26 actual of 0.082 is below JPM's worst-case bridge for 4Q26 (0.093) and 1Q27 (0.085); mix and impairments add to tax; base case = near-full tax absorption by CATL

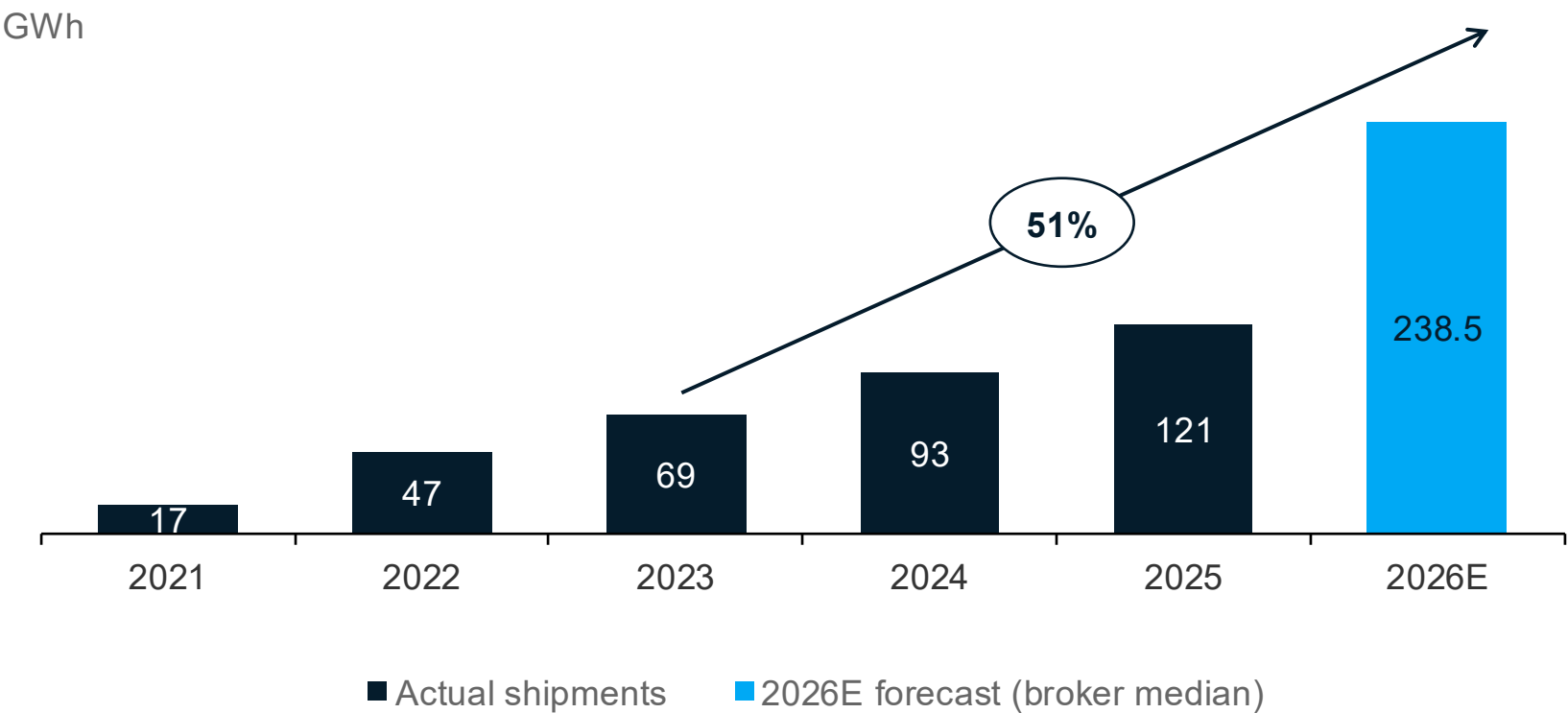
Bases shown side by side, not mixed: Macquarie NP attributable ÷ sales volume 2Q26 0.097; Soochow 1Q26 0.08 / 2Q26 0.07; UBS 2022-2024 at 0.102-0.113

1. ASPs on CMS's tax-inclusive basis; Soochow's 1H26 EV ASP RMB0.67/Wh (incl. tax) reconciles; peak 1.10 (2022) → 0.66 (2025), -40% over three years. 2. Company does not disclose unit net profit; all figures are broker estimates: 2025A on GS's basis; 2Q26 0.097 is Macquarie's (-12% YoY). 3. Same-basis unit profit is Soochow's (2026-09-05); JPM's worst-case tax bridge: 2026-09-10 report Tables 4/5/9 (100% borne by cell makers, not its base case); '~RMB30bn low-cost inventory' is this report's estimate; chart 2026-28E = new consensus center / this report's basis (original GS basis 0.104-0.112 outdated); 2027E unit net profit ~0.079 (was 0.090). 4. 3Q26 RMB0.082/Wh = NP attributable RMB21.2bn ÷ volume above 260GWh (UBS same basis: RMB82/kWh, all-time low); volume = Q3 alone. Data as of Oct 21, 2026.

ESS shipments up ~3.5x over 2023-2026E; system-integration GPM could rise to 30%+; the composition of the 'Other' profit pool awaits verification

ESS revenue +88% with ~70GWh nominal backlog (domestic basis, different from GS); swapping delivered on 10/20: 13,000 Tianxing II units

ESS battery shipments (GWh)¹



Demand & order evidence

1H26 ESS revenue RMB53.3bn (+88%), segment GM 23.96% vs EV battery 20.63%

Nominal large-order backlog ~70GWh (ex-Masdar); firm portion ~35-54GWh ≈ 15-23% of 2026E shipments

1H26 China utility-scale ESS tenders 304.8GWh (+193%), winning bids 263.9GWh (+298%)

3Q26 ESS sales volume growth near 60% (company earnings call, 10/20)

System integration: from selling cells to selling solutions (GS 2030E)²

BESS gross margin

30%+

2030E; ~27% in 2025 (GS, incl. integration premium)

System-integration share

~2/3

On GS's basis, AC/DC integration share of BESS volumes, ~1/3 in 2025 → 2030E

BESS gross profit per unit

~200

RMB/kWh, 2030E; ~RMB138/kWh in 2025

LTSA gross margin

60-70%

Long-term service agreements at 1.5-2.5% of capex per year

'Other' business profit pool: composition awaits verification³

Other-segment profit pool (1H26, Soochow est.)

~RMB6.8bn

15.7% of NP attributable (~RMB9.7bn, 13.4% in 2025); LRS three plants at full output 50GWh × USD7/kWh (MS) ≈ RMB2.36bn/yr explains only part

ATL cross-licensing annual fee of USD150mn (~RMB1.01bn, 10 years from 2021); LRS plus ATL total ~RMB3.4bn/yr, a revenue scale of about one-quarter of the 'Other' annualized profit (revenue comparison, not a profit bridge)

1. 2022-2025 shipments company-disclosed (2025 ESS 121GWh); 2026E 238.5GWh = median of 10 broker forecasts (this report's calculation, range 142-280GWh). 2. BESS integration share, GPM and unit gross profit are GS 2030E assumptions (2026-07-09), not realized data; reported ESS segment GM 23.96% (1H26) is a mixed cell + integration basis; LTSA contributes minimal revenue now. 3. 'Other' ~RMB6.8bn is Soochow's estimate; composition not disclosed; LRS ~RMB2.36bn/yr is this report's calculation (MS fee rate, CFETS 6.7330); ATL annual fee per announcement 2021-037; ESS-system share per the 7/24 investor relations record (may refer to domestic only).

Drawdown widens to -51.2%: from a 'multiple-only de-rating' to a 'double hit on earnings + multiple' — RMB4.6bn of the buyback executed, RMB432.6bn cash reserves

New sell-side 2026E center of RMB86-91bn and falling; shares -51.2% off the May-7 peak — pessimism overdone, moat intact; multiple recovery ahead

Price & Valuation Position¹ Drawdown (since the May 2026 peak) -51.2% RMB467.35 (intraday high on May 7, adjusted) → RMB227.90 (close on Oct 21), -51.2%; -2.97% on Oct 20, -12.03% on Oct 21 Position in 52-Week Range New Low 52-week range RMB254.55-467.06 (as of Oct 20); the Oct 21 close of RMB227.90 is the lowest since Jul 2025 (Cailian Press) PE TTM 12.03x Lowest since Oct 2023 (Oct 21, Wind), breaking below the prior Jan 2024 low of 13.98x	Fundamentals: Downgrade Channel Opens² 2026E Consensus NP to Shareholders RMB86-91bn UBS cut 2026-28E NP by 11-14%, Soochow -10/18/19%, Citi -9/14/15% (Oct 20-21); Wind/iFinD means falling (9M = 67% of the old consensus) 2026E Consensus EPS Center Downgrading iFinD's 37 brokers (Oct 9) at RMB20.82 = pre-downgrade basis; 4Q26 needs RMB31.7bn NP for old consensus — highly unlikely (+49% QoQ) Global EV Battery Share · 39.4% SNE Jan-Aug 39.4% (+1.7pct); October sample production schedule 214.6GWh (+57% YoY) but the top-5 makers only +1% MoM (ZE/Citi, Oct 20)	Buyback: Underway³ A-Share Buyback RMB20-40bn Price cap RMB571.60/share (was RMB573 pre Aug 10 ex-dividend), 49.8% above pre-announcement close; all for cancellation Executed (Sep 11-Oct 21) RMB4.6bn Cumulative ~16.23M shares as of Oct 21 at avg ≈RMB284 — 23% of the lower bound; five October tranches totaled RMB1.3bn Plan Size as % of Total Shares 1.90-3.79% At RMB227.90; at the RMB571.60 cap, 0.76-1.51%; ~0.35% executed
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READ ACROSS	Next checkpoint: 4Q26 unit net profit and CABIA's September share; the invalidation path is a 2027 policy stack-up with failed pass-through, or a price war
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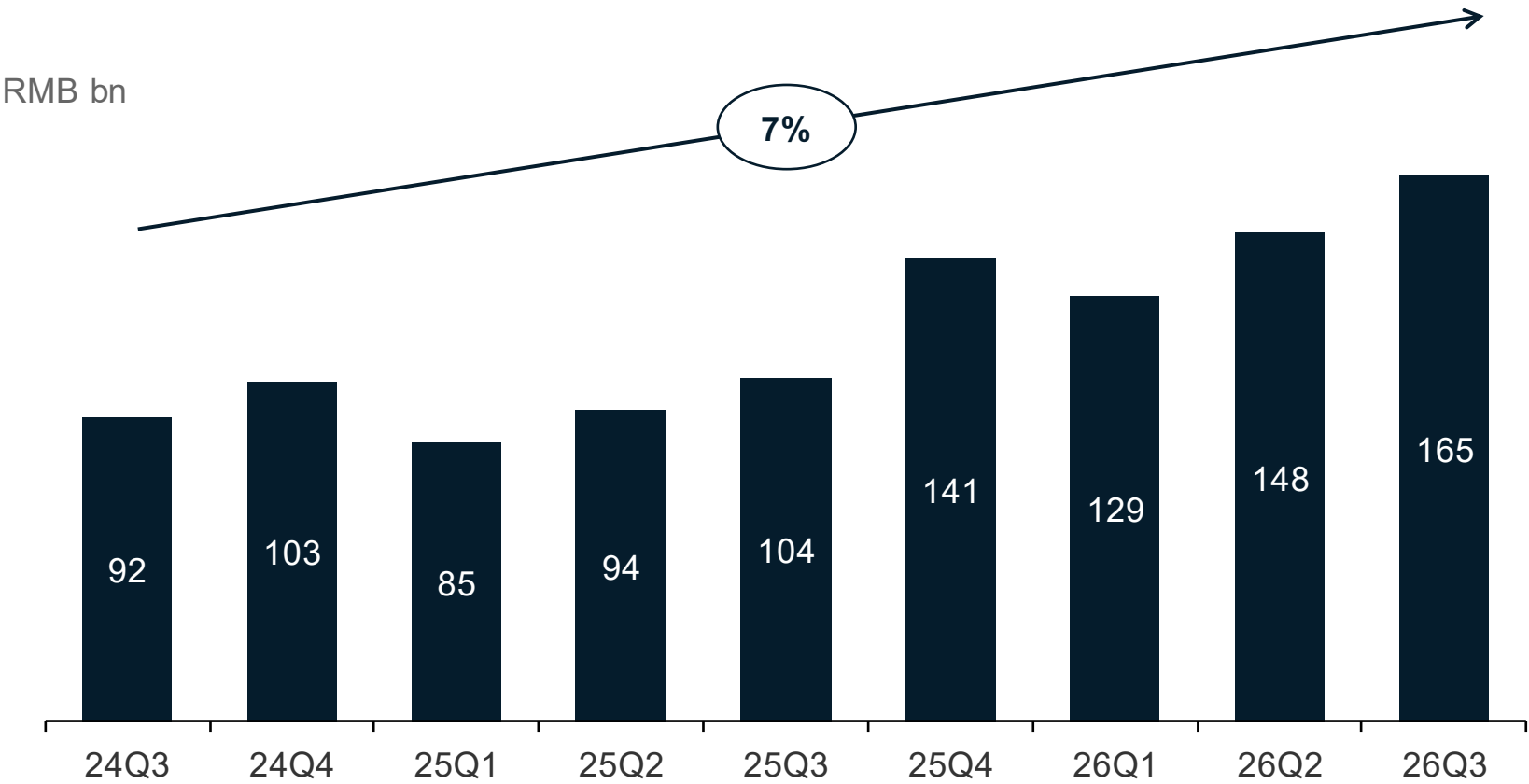
1. Drawdown and 52-week range calculated by this report (Tencent/Sina market data, as of the Oct 21, 2026 close); PE (TTM) quoted from iFinD (Oct 8, 15.61x). 2. Wind 2026-28E NP attributable to shareholders RMB96.2/120.0/144.1bn (as of Oct 9, 2026; 2028E computed as EPS RMB31.15 × 4.6272bn shares); iFinD's 37 brokers as of Oct 9, 2026; Macquarie (Sep 11, 2026): post-2Q earnings revisions were positive. 3. Buyback: plan announcement 2026-060 and HKEX next-day disclosure forms (as of Sep 30, 2026); share-count percentages calculated by this report.

Volume no longer offsets price declines: 3Q26 revenue a record +58.6%, but NP only +14.5%; unit NP at low of RMB0.082

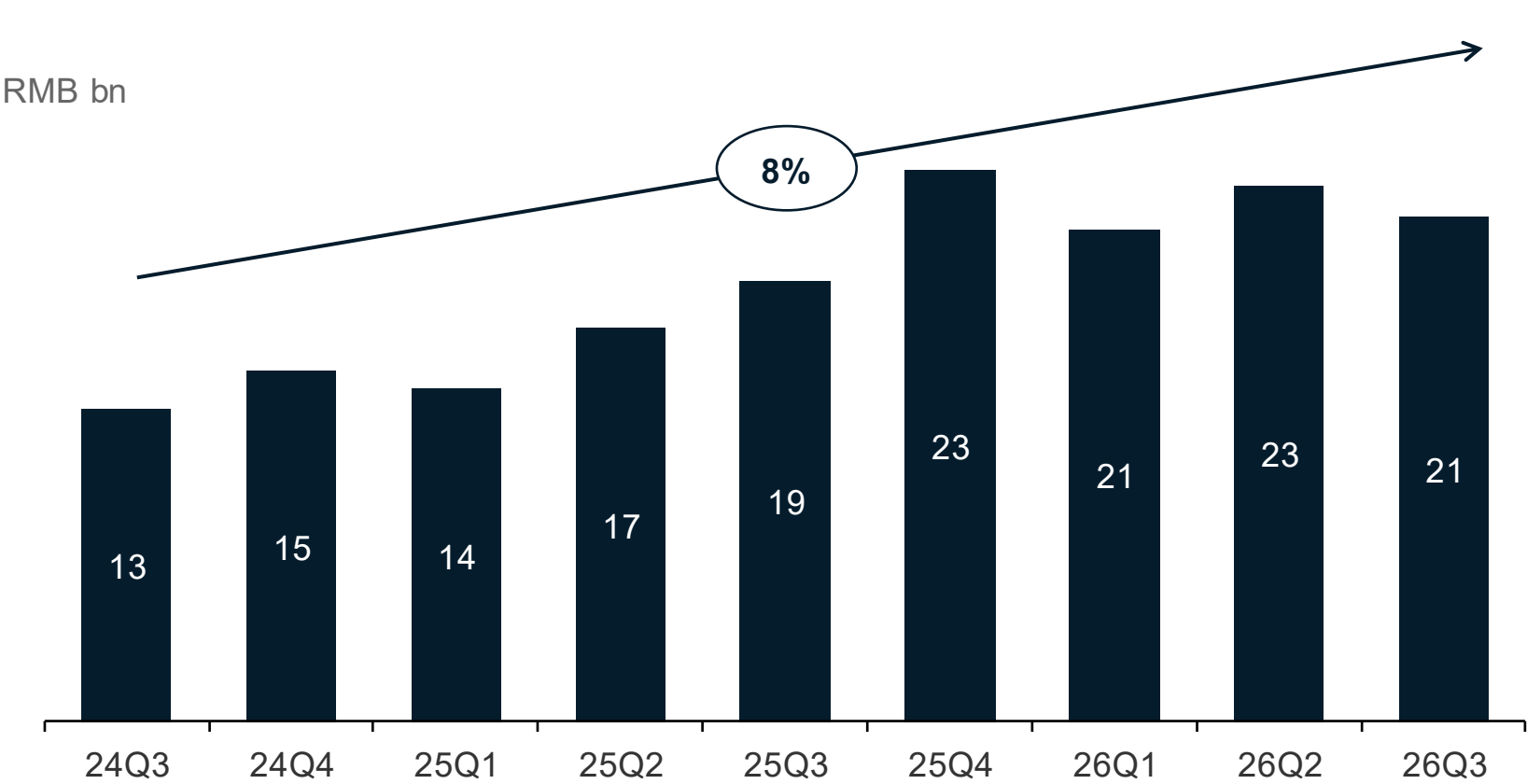
1H26's volume-price offset (revenue +54.8%, NP +42.0%) broke in 3Q26 on taxes and mix; PE (TTM) 12.03x (Oct 21) is the lowest since Oct 2023

9M26 Revenue ¹ RMB442.1bn +56.2% YoY Record high for the period	9M26 NP Attributable to Shareholders ¹ RMB64.5bn +31.6% YoY Attributable net margin 14.60%	2026H1 Sales Volume ² 432-440 GWh (broker est.); disclosed ~+60% YoY Output 498GWh, utilization 94.9% (company)	PE TTM ³ 12.03x Lowest since Oct 2023 (Oct 21, Wind)
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Quarterly Revenue (RMB bn): 26Q3 a Record Single-Quarter High¹



Quarterly NP Attributable to Shareholders (RMB bn)¹



READ ACROSS

Volume-driven revenue growth stays strong (3Q26 +58.6%), but GPM fell two straight quarters and NP slowed to +14.5% — the market now prices in downgrades

1. Revenue/attributable NP from company periodic reports; 1H26 GPM 23.93%, attributable net margin 15.63% (this report's calculations). 2. 1H26 sales volume of ~432-440GWh is estimated by Guosen/GS/CMS; the company's Jul 24, 2026 investor-relations record disclosed total volume ~+60% YoY with ESS ~1/4; output of 498GWh and capacity utilization of 94.9% are company disclosures. 3. PE (TTM) of 15.61x is iFinD's Oct 8, 2026 reading, the lowest since 2025; the ~16.2x at the Oct 9 close is self-calculated off RMB297.75 and TTM attributable NP of RMB85bn. 4. Chart series updated through 3Q26 (company 3Q report, Oct 20).

PART TWO

3Q26 Results Review

What the market is watching, expectations vs. actuals, an earnings-quality teardown, sell-side revisions and the follow-up verification framework — RMB0.082 breaks the line, the downgrade channel opens

10
What the Market Watches
Six focus points and their narratives

11
Expectations vs. Actuals
RMB21.2bn, an 11-15% miss; RMB0.082 breaks the line

12-14
Quality & What Follows
Earnings quality, sell-side, verification framework

What the Market Is Watching: Six Focus Points and the Narrative Behind Each, 3Q26 Delivered Below Expectations

The pre-results watch framework (checkpoints + sell-side previews) vs the actuals; the 'Narrative' column = what the market is really pricing

Unit Net Profit Breaks RMB0.090 Line Exp. Sell-side pre-results implied RMB0.086-0.100/Wh; this report's three tiers: <RMB0.090 triggers a downgrade Data RMB0.082/Wh (RMB21.2bn ÷ 260GWh), an all-time low Verdict The 'earnings resilience' narrative is broken; the only debate left is whether RMB0.082 is a short-term dip or the new equilibrium	Full-Year Consensus: Growing Doubt Exp. Full-year consensus RMB96.2bn (Wind, Oct 9) Data 9M RMB64.5bn = 67%; 4Q needs RMB31.7bn, +49% QoQ Verdict Consensus downgrade channel opens; UBS first to cut 11-14% — the 'downgrade ≤4%' thesis falsified	GPM & Product Mix Deteriorated Exp. 2Q26 23.15%; the market expected stabilization via cost pass-through + mix improvement Data 20.69%, down for two straight quarters (24.8% → 23.2% → 20.7%) Verdict Low-value-added projects + taxes are a mix-driven pressure, not mere cost timing lag
Consumption Tax Pass-Through Unclear Exp. Half of the tax burden shared (channel checks: EV makers split evenly, ESS integrators absorb) Data Taxes/surcharges RMB2.2bn (Q2: RMB0.7bn); not yet passed through Verdict 'Cost-sharing' unverified; base case modeled conservatively at near-full absorption; a full quarter of the tax in 4Q sets the 2027 starting point	Cash Flow & Earnings Quality Down Exp. CFO to follow high profit growth (1H26 RMB60.2bn, CFO/NI 1.28x) Data RMB1.4bn in 3Q alone; cash collection ratio 92.1% (9M25: 119.5%) Verdict 'Earnings quality validated' weakened; company attributes it to proactively supporting the supply chain — watch for a recovery in 4Q	ESS & 2027 Demand Still Strong Exp. Second curve growing fast (1H26 revenue +88%) vs fears of a production-schedule slowdown Data ESS sales volume growth near 60%; 2027 industry growth guided at 20-30% Verdict The demand narrative is unfalsified — the only one of the four pillars that held; but domestic installations were cut by CSC

READ ACROSS	Two worries — how deep downgrades run and whether demand breaks: former bearish, latter bullish (20-30% guidance) — Buy: a TP cut, not thesis overturned
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1. Watch framework: this report's verification sequence and scenario pages + sell-side pre-results previews (Bernstein RMB22.9bn / GS RMB24.0bn / CLSA RMB25-26bn, October). 2. Results column: company 3Q report (Oct 20), earnings briefing (Cailian Press, Oct 21, media relay), UBS (Oct 21). 3. The 'Narrative' column is this report's distillation of the market's pricing logic.

3Q26 attributable NP RMB21.2bn, ~11-15% below the sell-side center: revenue a record single-quarter high, unit net profit RMB0.082/Wh an all-time low

Disclosed after the Oct-20 close: 9M26 revenue RMB442.1bn (+56.2%), NP RMB64.5bn (+31.6%); 9M at 67% of the old consensus, 4Q needs +49% QoQ

NP Attributable to Shareholders (3Q26) RMB21.2bn +14.5%, below the sell-side center by ~11-15%	Unit Net Profit ≈RMB0.082/Wh All-time low — breakdown below the RMB0.090 line	Revenue RMB165.2bn +58.6%, record single-quarter high
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Metric	Pre-Results Expectations	Actual	Verdict
🕒 Sales Volume	260-265GWh (JPM; GSe ~260GWh consistent)	Over 260GWh (ESS ~25%)	In Line
📉 GPM	GSe 24.5% / BofAe 23.9% (Oct 21 original reports)	20.69%, down for two straight quarters	Deteriorated
⚠️ Operating Cash Flow	No quantified expectation seen (Q2 RMB26.5bn)	RMB1.4bn in 3Q (Q1 33.7/Q2 26.5)	Warning
📉 Attributable NP ex-Non-Recurring	No quantified expectation seen (2Q26 ex-non-recurring RMB21.0bn)	RMB18.9bn, +14.9% YoY, -10% QoQ	Up YoY, Down QoQ
⚠️ 9M Progress	Old full-year consensus RMB96.2bn	RMB64.5bn = 67% of old RMB96.2bn	4Q needs +49% QoQ

READ ACROSS	'An earnings miss + a cash flow warning'; volume and revenue are fine — all problems sit in unit profit and quality
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KEY TAKEAWAYS

• The miss is in profit, not revenue

Revenue RMB165.2bn +58.6% — a record single-quarter high; profit was eroded by the consumption tax, low-priced ESS long-term contracts, mix and impairments

• RMB0.082 is the core of the debate

Sell-side pre-results implied ~RMB0.086-0.100 (the low end already below RMB0.090); UBS calculates an all-time low of RMB82/kWh

• 4Q needs +49% QoQ to meet consensus

9M RMB64.5bn = 67% of the old consensus RMB96.2bn; the consensus downgrade channel is open

1. Sell-side pre-results expectations: Bernstein RMB22.9bn / GS RMB24.0bn (GSe, actual 12% below) / CLSA RMB25-26bn (October); pre-results GPM expectations GSe 24.5% / BofAe 23.9% (Oct 21 original reports). 2. Unit net profit = attributable NP ÷ sales volume; the 260GWh volume is the Q3 standalone caliber (National Business Daily/UBS); East Money's 'over 260GWh for the first three quarters' is a misprint. 3. The cash flow squeeze, per company attribution: proactively shortening supplier payment terms, prepayments and R&D funding support; the 20.69% GPM is the single-quarter blended caliber. 4. The unit-net-profit numerator is recognized attributable NP and the denominator shipments (the shipped-goods and tax-base caliber gap depresses the reading); see page 12 for caliber caveats.

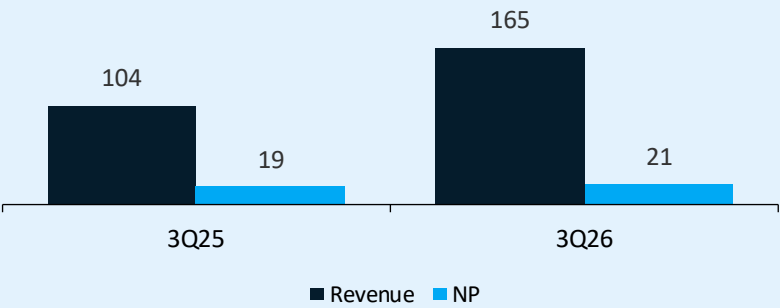
RMB61bn revenue gain only RMB2.7bn profit; RMB1.3bn QoQ decline driven by taxes and impairments, partly offset by FX

YoY: revenue up, profit not; QoQ: taxes + impairments + GPM; ex-non-recurring 88.8%, Q3 cash flow RMB1.4bn — quality weakened in tandem

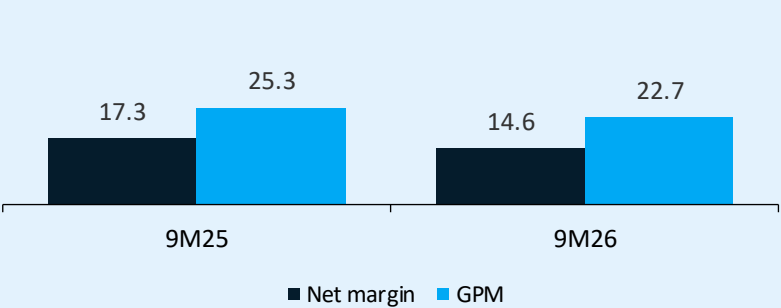
EARNINGS BRIDGE — YoY / QoQ Dual Calibers

What the miss is made of: not demand, but margin and quality

Revenue vs Attributable NP (RMB bn)

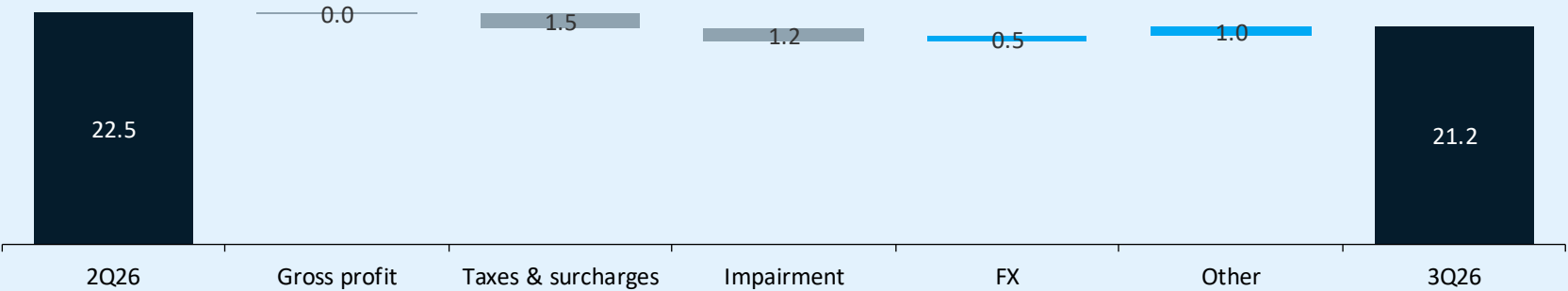


Net Margin vs GPM (9M cumulative, %)



9M taxes and surcharges +92.0%; 9M GPM 25.31% → 22.72% (-2.59pct)

QoQ (3Q26 vs 2Q26): where the RMB1.3bn attributable NP decline went



QUALITY FLAGS — Red Flags and Offsets

Beyond margins, quality metrics are weakening too

- ⚠ Non-Recurring Reliance**
Non-recurring items RMB2.4bn = attributable NP 11.2% (pre-tax: government grants RMB1.9bn + financial assets RMB1.5bn; after tax and offsets, total RMB2.4bn); ex-non-recurring / attributable 88.8%
- ⚠ Cash Flow Warning**
3Q operating cash flow RMB1.4bn (Q1 RMB33.7bn / Q2 RMB26.5bn); cash collection ratio 92.1% (9M26 cumulative; 9M25: 119.5%); company attributes it to proactively shortening supplier payment terms
- ⚠ Balance Sheet Signals**
Receivables +47.8%, inventory +53.2% (vs 2025 year-end; inventory is mainly shipped goods); contract liabilities -17.4%; short-term borrowings +208%, bonds payable +1,432%
- ⚠ FX Double Hit**
9M implied FX loss ≈RMB3.4bn; FX effect on the cash flow statement -RMB6.0bn; OCI FX translation difference -RMB4.3bn
- ✅ Offsets**
Cash reserves RMB432.6bn; 3Q interest income RMB2.5bn, covering interest expense 2.2x; buyback cumulative RMB4.6bn underway (Oct 21 single day RMB0.8bn)

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The miss = margin erosion from mix + tax + impairments, not demand; quality is deteriorating — 4Q26 must show pass-through and cash flow repair

1. 3Q standalone line items = company 3Q report (9M26) minus the 2026 interim report, backed out; 3Q25 standalone GPM and 2Q26 ex-non-recurring figures are on a UBS basis or calculated by this report, as marked. 2. Cash collection ratio = cash received from goods sold ÷ revenue (9M cumulative caliber). 3. Management attribution (earnings briefing Oct 20, Cailian Press media relay): proactively shortening payment terms / prepayments / R&D funding support; inventory growth is mainly shipped goods.

Sell-side cuts post-results: 6 cuts of 4-19%, MS unit profit -20%, Huatai TP -21%; key debate set on whether 0.082 is a trough or the new normal

New consensus center: 2026E ~RMB86.0-91.0bn / 2027E ~RMB99.0-103.5bn / 2028E ~RMB119.5-125.0bn — our 2027E cut from RMB115.2bn to ~RMB100.0bn

Broker	Rating	TP Old→New	Earnings revision (26E/27E NP attrib.)	Key logic	KEY TAKEAWAYS
UBS	Buy	H HK\$820→730 (-11%)	-11%~-14%	Unit profit under pressure but recoverable; 9M at only 62-67% of consensus	• Only JPM downgraded H shares to Neutral A-share TPs RMB340-507 vs current RMB227.90
JPM	H Neutral / A OW	A RMB520→340/H HK\$725→500	89.0 / 99.7bn (-6% / -14%)	Profit-pool reallocation just starting; 2027E unit net profit RMB0.08/Wh	
Citi	Buy	A RMB479 / H HK\$765→732	86.0 / 103.0bn (-9% / -14%)	Production schedule cut; 2026-28 to RMB86.0/103.0/122.0bn	• Cuts concentrated in earnings No evidence of a coordinated cut to 2027 demand (Citi cut schedules); management guides 2027 industry growth of 20-30%
MS	Overweight	A RMB500 (maintained)	Unit net profit 0.10→0.08	Q3 12% below its estimate	
BofA	Buy (H/A)	H 775→630 / A 599→487	88.1 / 99.1bn (-8.6% / -14.8%)	PO = average of DCF and EV/EBITDA	• One line of division MS: lower unit net profit is the new normal; JPM: the reallocation has only just begun; GS/UBS and the three Chinese brokers: mostly transitory tax/mix pressure
GS	Buy (CL)	A RMB507 / H 859→777	86.8 / 104.0bn (-7% / -10%)	Management deems pressure transitory; understates ESS margin upside	
Huatai	Buy	A RMB596.63→473.83 (-21%) / H HK\$907.73→715.95	—	Q3 profitability pressured QoQ; 10/10: overdone share/profit fears create an entry	
Soochow	Buy	A RMB431 (maintained)	86.8 / 99.8bn (-10% / -18%)	Strong shipments; fees/mix hit profit; cut to RMB86.8/99.8/119.5bn	
Q3 NP attrib. expectations vs actual RMB21.2bn		Bernstein 22.9 · GS 24.0 · MS ≈24.1 · CLSA 25.0-26.0 · Wind consensus 21.965 → actual RMB21.2bn: a miss of 3% (vs. Wind)			

TPs in RMB for A shares, HK\$ for H shares; Huatai A RMB596.63→473.83 / H HK\$907.73→715.95 compares its 10/10 (pre-results) and 10/21 (post-results) reports; Guojin 26-28E NP attributable RMB90.2/106.2/128.3bn and PE 13/11/9x as disclosed in its 10/21 report (eastmoney PDF original, no TP disclosed); JPM/Citi/BofA/GS from original reports, Soochow from in-library abstract; MS/UBS details via Gelonghui relay (10/21), MS original in library (MS 10/20, 8p) pending download verification; MS's Q3 expectation ≈RMB24.1bn backed out from "12% below its estimate".

Next checkpoint 4Q26: will unit net profit stay <0.085 for a second straight quarter, and when do recovery signals appear

Q4 is the first full consumption-tax quarter; lithium carbonate at RMB95.5k/t is a cost tailwind; management guides 20-30% growth in 2027

WATCHLIST — checkpoint list (by priority)

4Q26 unit net profit sets direction: trough confirmed or a lower base

Checkpoint	Trigger · Threshold	Latest reading (10/21)	Verdict
4Q26 unit net profit	≥0.090 → RMB400; 0.078-0.090 maintain RMB346; <0.078 → JPM bear case RMB186-249	3Q26 = 0.082, first quarter below 0.085	4Q26 call
Consumption tax pass-through	Q4 is the first full tax quarter; the landing magnitude sets the 2027 starting point	"Still negotiating across the chain, hard to say" (10/20 call)	Pending
November production schedule	Two consecutive YoY-negative months = demand stress signal	Top-5 makers +1% MoM in October (ZE/Citi)	Warning
314Ah cell price	Break below RMB0.33/Wh = price-war signal	RMB0.363/Wh (9/30)	Intact
ESS tenders and grid connection	A cut to domestic installation expectations damages the demand narrative	CSC cut to 230-250GWh; Q3 ESS sales +60%	Split

Bullish view (UBS/MS/Jefferies/Bernstein)

- RMB0.082/Wh reflects a mix- and tax-driven quarterly dip: low-priced ESS long-term contracts + a tax-free month, not a demand problem
- 2027 guidance 20-30%; lithium carbonate RMB95.5k/t (10/21) a cost tailwind
- Cash RMB432.6bn + buyback RMB4.6bn in execution
- ESS sales growth near 60%; swapping rollout (Tianxing II 13k units, Huawei Yinwang 2027, Chery JV RMB1.0bn)

BEAR · Shorts (JPM)

- JPM: profit-pool reallocation just starting (H shares cut to Neutral); export VAT rebate to zero from 2027-01
- Production schedule stalling: October top-5 makers MoM just +1% (ZE/Citi)
- CSC cut 2026 domestic ESS installations to 230-250GWh
- Chips dispersing: northbound quarterly selling, shareholder count +27.8%

KEY TAKEAWAYS

- Unit net profit is key: Hold if 4Q26 <0.078; trim after two quarters below

MS/JPM see structural reset; UBS/GS and Chinese brokers see transitory pressure — 4Q26 decides

- Buyback as downside buffer

Cash reserves RMB432.6bn + RMB4.6bn buyback in execution (up to RMB40.0bn proposed for cancellation); 2,000 heavy-truck swap stations by end-2027, Huawei Yinwang 2027 models

READ ACROSS

Valuation anchor = ~RMB100.0bn × 16x ≈ RMB346 (16x = ~10% below the historical NTM median of 17.5x); Buy — downgrade to Hold if 4Q26 <0.078

Market Consensus & Variance

What the market is pricing, and which priced-in assumption is wrong

16
Consensus vs Us
Line by line: which
assumption is mispriced

17
What the Price Implies
 $\text{RMB227.90} = \text{NTM} \approx 10.7x$

18
H/A Premium 35.5%
Price basis, using the
10/9 CFETS central
parity rate

19
De-CATL-ization
Compresses the
multiple, not EPS

Two narratives: our 2027E NP attributable RMB100.0bn vs the market-implied RMB87.9bn

Our 2027E NP of RMB100.0bn (cut -13% from RMB115.2bn); at RMB227.90 the price implies RMB87.9bn — well below the sell-side's new center

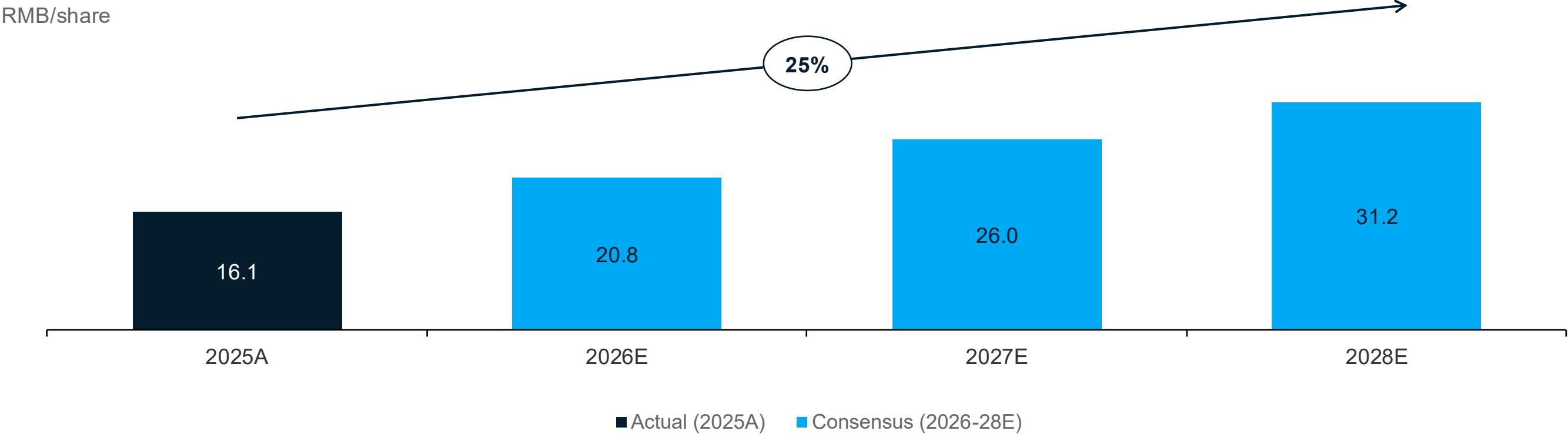
OUR VIEW — REBUILT BASE, 50% PROBABILITY³ New unit-profit equilibrium RMB0.079-0.085/Wh³ Tax pass-through still under negotiation 3Q26 RMB0.082/Wh (2% tax month 1 ~0.006 + low-price ESS + writedowns ~0.005); pass-through "still under negotiation"² Point estimates revised once; mean cuts still en route Our 2027E ~RMB100.0bn (~0.078 × 1,280GWh); price implies: 12x → RMB87.9bn, 10.5x → RMB100.0bn — limited downgrade room Balance sheet and buyback Cash reserves RMB432.6bn (cash & bank RMB369.8bn + trading financial assets RMB62.8bn); buybacks RMB4.61bn cumulative; cancellation up to RMB40.0bn runs to 2027-08¹ RMB346 2027E EPS RMB21.61 × 16x (~10% below the historical NTM median of 17.5x); 4Q26 sets direction <td> MARKET — PRICING THE CUT 0.082 starts a new equilibrium: profit-pool reallocation + stalling production schedule² Production schedule weak in peak season ZE/Citi: Top-5 October output +1% MoM (vs. 7% est.); CSC cut 2026 ESS installs to 230-250GWh Consumption tax + three-year rebate pass-through 3Q26 taxes RMB2.21bn; 4% consumption tax from 2027-09, zero rebate from 2027-01 — actuals exceed JPM worst case² OEM switching: from signaling to platform-level shift Li Auto's "Lianshan" system (10/20) brings in-house 5C batteries to the new L8, shifting to systematic in-house development; exposure only ~3-4% of shipments (JPM)² RMB180-250 NTM ≈ 10.7x (new consensus), breaking the 2024-01 trough of 11.4x; binary back-solve implies ~74% bear probability <td> KEY TAKEAWAYS • 4Q26 unit net profit in three tiers ≥0.090 upgrade to RMB400; 0.078≤u<0.090 keep RMB346; <0.078 downgrade to Hold (JPM) • Production schedule & grid connection October MoM just +1%; two straight months of negative YoY = stress signal • 314Ah cell price RMB0.363/Wh (9/30); break below 0.33 = price-war signal </td></td>	MARKET — PRICING THE CUT 0.082 starts a new equilibrium: profit-pool reallocation + stalling production schedule² Production schedule weak in peak season ZE/Citi: Top-5 October output +1% MoM (vs. 7% est.); CSC cut 2026 ESS installs to 230-250GWh Consumption tax + three-year rebate pass-through 3Q26 taxes RMB2.21bn; 4% consumption tax from 2027-09, zero rebate from 2027-01 — actuals exceed JPM worst case² OEM switching: from signaling to platform-level shift Li Auto's "Lianshan" system (10/20) brings in-house 5C batteries to the new L8, shifting to systematic in-house development; exposure only ~3-4% of shipments (JPM)² RMB180-250 NTM ≈ 10.7x (new consensus), breaking the 2024-01 trough of 11.4x; binary back-solve implies ~74% bear probability <td> KEY TAKEAWAYS • 4Q26 unit net profit in three tiers ≥0.090 upgrade to RMB400; 0.078≤u<0.090 keep RMB346; <0.078 downgrade to Hold (JPM) • Production schedule & grid connection October MoM just +1%; two straight months of negative YoY = stress signal • 314Ah cell price RMB0.363/Wh (9/30); break below 0.33 = price-war signal </td>	KEY TAKEAWAYS • 4Q26 unit net profit in three tiers ≥0.090 upgrade to RMB400; 0.078≤u<0.090 keep RMB346; <0.078 downgrade to Hold (JPM) • Production schedule & grid connection October MoM just +1%; two straight months of negative YoY = stress signal • 314Ah cell price RMB0.363/Wh (9/30); break below 0.33 = price-war signal
READ ACROSS	Price pays ~half of sell-side implied multiples (10.7x vs 16-23x); 16x = RMB346 (+52%)	

1. 3Q26 results: company Q3 report (10/20); sell-side cuts: UBS/Citi/Nomura/MS/Jefferies/Soochow/BofA/GS/Bernstein/JPM (10/20-21). 2. Production schedule: ZE/Citi (10/20); ESS installations: CSC (October); Li Auto Lianshan: company release (10/20). 3. Implied bear probability is the back-solved value of a binary model (base 346 / bear 217, r=10%); model-dependent.

RMB227.90 = NTM ≈ 10.7x (new-consensus basis): below the 2024-01 trough of 11.4x — the market is pricing a deep cut

On the new-consensus basis the price pays just ~10.4x 2027E and ~8.4x 2028E; sell-side disclosed TPs imply ~16-23x 2027E

EPS consensus: 2025A RMB16.14 → 2028E RMB31.15, +93% over three years¹



KEY TAKEAWAYS

• **Implied bear probability ~74%**

Back-solved from a base/bear binary model discounted at r=10% (base 346 / bear 217)²

• **Cuts have begun**

UBS -11~14%, Soochow -18% (2027E) / -19% (2028E); disclosed quantitative cuts of 9-19%¹

• **Checkpoint delivered**

3Q26 adjudicated = breakdown (0.082); next: 4Q26 unit net profit ≥0.090 upgrade to RMB400 / 0.078≤u<0.090 keep RMB346 (Buy) / <0.078 2 straight quarters, downgrade to Hold (JPM)³

Valuation at RMB227.90: four bases compared²

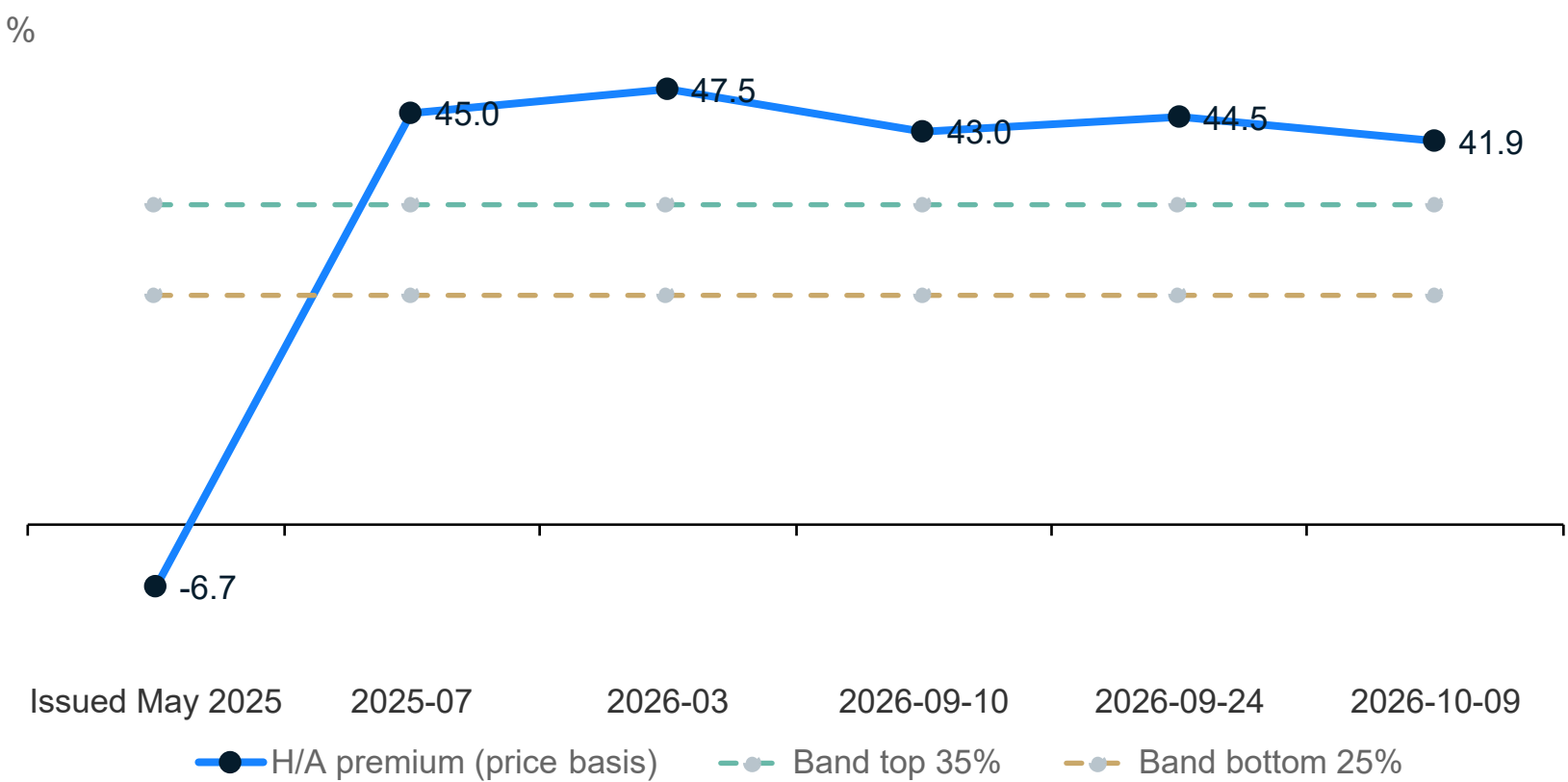
Basis	Value	Basis & how to read it
Nominal PE (2026E/27E/28E)	12.0x / 10.4x / 8.4x	RMB227.90 ÷ new-consensus 2026E EPS RMB19.02 (new center) ³
Our 2027E PE	10.5x	227.90 ÷ EPS RMB21.61 (RMB100.0bn) ²
Historical trough (early 2024)	11.4x	JPM; a period of overcapacity and earnings downgrades ³
Sell-side implied 2027E range	~16-23x	Sell-side disclosed TPs' new implication; CLSA 5-yr NTM median 18x ³

1. EPS: 2025A RMB16.14 is as-reported; 2026-28E are the mean of 37 iFinD consensus estimates (as of 2026-10-09, 2026E range RMB19.65-22.14); +93%/+49.6%/annualized +24.5% are this report's calculations. 2. Implied bear probability is back-solved from 12-month scenario prices (bull 448 / base 346 / bear RMB217) discounted at r=10%, this report's calculation; Bernstein's "8x ex gross cash" is on a gross-cash basis, before deducting interest-bearing debt, and is not used as evidence. 3. Trough 11x per JPM; CLSA 5-yr NTM median 18x (2026-08-02); sell-side implied P/E = recomputed from disclosed TPs (the 12-shop pre-cut basis as historical cross-validation); the three-tier thresholds are this report's setting; NTM 12.0x = 297.75 ÷ (0.25 × 2026E + 0.75 × 2027E iFinD EPS). 4. Chart series as of 10/9; text updated to the 10/21 new consensus.

H/A premium ~35.5% (estimated at the 10/9 CFETS central parity rate of 0.85798; 10/21 parity not obtained): a relative-value signal, not a standalone support for the price target

Small float (218mn H shares) + index flows + scarcity support a 25-35% center; 35.5% is above every shop's assumption

H/A premium: 6.7% at issue → 41.9% (10/9); 35.5% at 10/21 close¹



Institutional target H/A premium spectrum²

Institution (latest)	Target premium
GS (implied by TP)	31.5%
Citi	28%
HSBC	25%
MS / Macquarie	20%
JPM (H cut to Neutral)	15-30%
BofA	15%
Spot (2026-10-21) ¹	35.5%

KEY TAKEAWAYS

- **At a high plateau**
Hit a record 47-48% for an A+H company in 2026-03, ranged ~34-55% in Q3, converging to 42-43% since mid-August; 35.5% on the 10/21 close¹
- **Structural support exists**
218mn H float + index flows + scarcity → 25-35% center; placement price HK\$628.20 = ~43% paper loss vs 10/21 close²
- **A shares relatively favored**
MS Top Pick switched H→A; Bernstein upgraded H to Outperform 7/16 — identical ratings, A preference from MS³

Premium unlikely to reach zero (218mn H-share float, index flows, scarcity); center 25-35% (our view), 35.5% already prices in key positives; H-share TPs: JPM H 725→500 (Neutral), UBS 820→730, Citi H 765→732, GS H 777 (CL)³

READ ACROSS A/H is a relative-value signal, not built into our price target; JPM cut H to Neutral

1. Premium = H close × HKD/CNY ÷ A close – 1 (H HK\$360.00 (-12.58%) ÷ A RMB227.90, estimated at the 10/9 CFETS central parity rate 0.85798; 10/21 parity not obtained); path: 6.7% discount at issue (2025-05 pricing-day basis), ~45% in 2025-07 (JPM), 47-48% in 2026-03 (Bernstein citing BNEF, midpoint plotted), ~43% on 2026-09-10 (Macquarie). 2. Target premiums are each institution's latest assumption (GS implied by TP, HSBC, Macquarie cut from 25%, JPM benchmarking TSMC ADR, BofA on a float basis), not our forecasts; the placement paper loss is computed off the 10/21 close of HK\$360.00. 3. The 25-35% center is this report's judgment (structural factors + spectrum weighting); Macquarie's view in its 2026-09-11 report p.10–11; Bernstein's H-share upgrade in its 2026-07-16 report.

De-CATL goes systemic: Li Auto's 'Lianshan' 5C enters production — but direct exposure is only ~3-4%; 0.082 was tax/mix, not switching

Our call: de-CATL mainly caps the multiple — direct exposure only ~3-4% of shipments; 3Q26 was tax/mix, not switching; narrative risk persists

Evidence supporting the de-CATL narrative¹

In-house + second source: from rhetoric to models and orders

Li Auto i6: in-house 5C contracted to Sunwoda + CALB

In-house pack; launch end-Oct, deliveries Nov; i9 first batch still CATL 5C, switches after ramp — gradual, not a hard cut¹

Xiaomi 'Longjia battery': absent from Pengcheng series

CALB/Sunwoda supply cells, Xiaomi leads specs & BMS; SU7/YU7 volume still CATL; Leapmotor claims 100% in-house cells, XPeng makes own packs¹

Tier-2s win orders that once belonged to CATL

EVE-Fluence 206GWh ESS framework (Fluence named a deep-cooperation client in CATL's 2022 annual report); split orders in ESS centralized procurement becoming routine¹

September's market vote

CATL A/H -19% in one month vs CSI 300 -6%; Sunwoda +28%, Gotion +11% over the same period — the narrative is being priced³

Evidence challenging the de-CATL narrative²

Small direct exposure: the misjudgment is the de-CATL pricing²

Direct exposure only ~3-4% of shipments

Xiaomi + Li Auto combined just 3-4% of total shipments; diversification is a gradual, multi-platform, multi-cycle process, not replacement²

Share rising, not falling

Domestic PV share 44% in the first 8 months (+3pct), 56% ex-BYD; NIO wallet share recovered 60%→77%²

Tier-2 quality and profit chasm

Sunwoda cell defect recall of 38k Zeekr units, CALB swelling incidents; tier-2 combined profit less than 1/6 of CATL's, some with cash for only 2-5 quarters²

Official and industry endorsement

MIIT News Center 9/22: 'The de-CATL narrative is misguided'; Li Auto-CATL five-year comprehensive strategic partnership, Seres wallet 96.7%²

KEY TAKEAWAYS

• Caps the multiple; no order-switching hit to EPS

Our call: de-CATL caps the multiple, not the 2027 earnings path; diversification is gradual (i9 first batch still CATL)

• Limited direct exposure

Xiaomi + Li Auto = 3-4% of shipments; NP attrib. sensitivity ≈-3.4% (Macquarie: domestic EV -10%)³

• What to watch

Unit net profit below the line (0.082, tax/mix-driven); CABIA Jan-Sep domestic share 44.16% (+1.41pct) below 45% — await caliber verification (vs. earlier 44.7%) and October / 3-month moving share

1. Li Auto i6 contract manufacturing & launch: MIIT batch-411 announcement (9/9), CNMO (9/11), TMTPost (10/8); Xiaomi Longjia: Securities Times (Sep); Leapmotor/XPeng: tech days (9/16-17); EVE-Fluence: company announcement (9/18). 2. Exposure 3-4%, share 44%/56%, NIO wallet 77%, tier-2 cash runway 2-5 quarters per JPM (Oct 8); MIIT News Center (9/22); NIQ survey: 37% of Chinese consumers would reconsider purchase without CATL batteries. 3. Exposure quantification: Macquarie (Sep 11, 2026) sensitivity; September moves are media caliber (Wallstreetcn 10/8).

PART FOUR

Industry & Competition

Demand divergence, concentration, technology & policy

21-25

Value chain & divergence

2,537-3,092GWh; ESS
795-1,111GWh

26-27

Profit concentration

39.4% share, ~90%
profit concentration

28-31

Technology & policy

Technology roadmap,
policy, benchmarking &
competitiveness scoring

Li-battery value chain panorama & CATL's positioning: #1 midstream cell share at 39.4%, unit net profit ~2.8x tier-2s

Four-segment panorama × CATL positioning: segment definition × competitive landscape × bargaining-power trend × technology roadmap

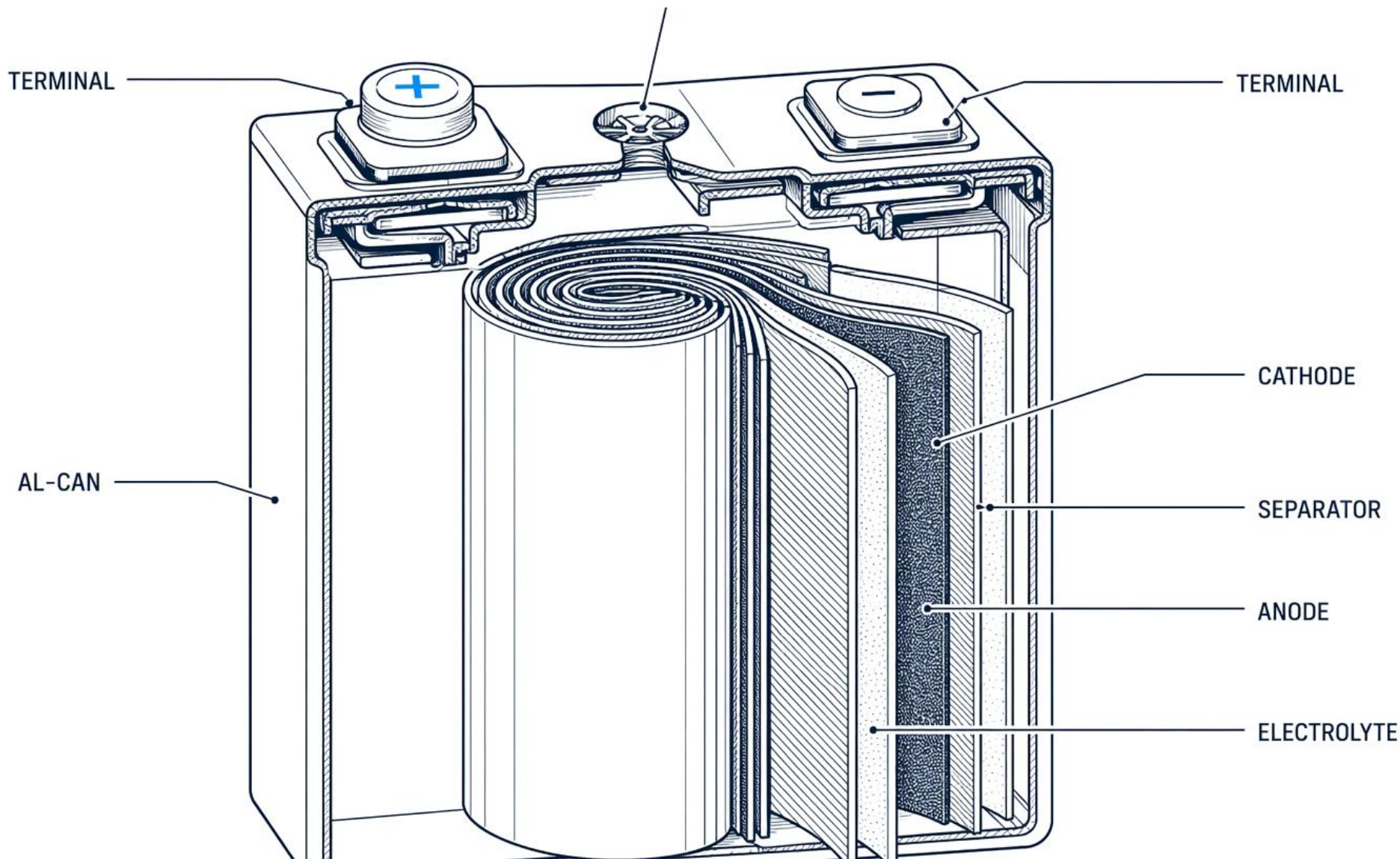
⌘ Upstream · Materials	⌘ Midstream · Cells & Systems	⌘ Downstream · Apps	⌘ Recycling Loop	KEY TAKEAWAYS
⌘ Segment · What it does Lithium salts / cathode = cost anchor Lithium salts & cathode materials; costs pass down the chain	⌘ Segment · What it does Cell mfg + system integration Cells, CTP/CTC system integration — the chain's profit core	⌘ Segment · What it does EV / ESS / swapping / licensing Multi-application shipments + new business models	⌘ Segment · What it does Ni/Co/Li recycling → re-supply Recycling closed loop (Brunp)	• Profit concentrated in midstream cells EV 20.63% / ESS 23.96% GPM (1H26) lead the chain (recycling 27.04%); unit net profit RMB0.07/Wh ≈ 2.8x tier-2s; 3Q26 RMB0.082/Wh (UBS caliber) record low • Pass-through lag is the swing source Lithium repricing lags 1–2 quarters; unit net profit YoY –12% in the 2Q26 upcycle • CATL's four-segment positioning Midstream profit core (39.4%) + upstream lock + downstream neutral (38.96%) + Brunp loop
🔗 Players & landscape CATL: three-line supply lock Lithium price increases pass into selling prices via long-term contracts (1–2 quarter lag); CATL smooths the cycle: contract price locks + mine stakes + Brunp recycling	🔗 Players & landscape CATL dominates FY25 EV battery shipments 541GWh (+42%); unit net profit RMB0.07/Wh ≈ 2.8x tier-2s (Soochow 26Q2); global EV share 39.4% (Jan–Aug, SNE); 3Q26 CATL 0.082 (UBS caliber), tier-2 3Q26 not obtained	🔗 Players & landscape CATL's position: neutral supplier Top-5 customers 38.96% combined — a neutral-supplier niche; ~2,000 swap stations; LRS licensing ~USD7/kWh	🔗 Players & landscape CATL's position: Brunp loop Brunp recycling system (public); pulls Ni/Co/Li critical metals back to the materials end, materials segment GPM swings with the cycle	
📈 Bargaining power · Trend → Now: cost-sensitive Unit net profit YoY -12% (upcycle) Next: pass-through drives swings Lithium × contract repricing	📈 Bargaining power · Trend ↑ Now: most profit-concentrated EV / ESS GPM lead the chain Next: rising Mfg generation gap & yield = moat	📈 Bargaining power · Trend ↑ Now: diversified binding Top-5 customers 38.96% combined Next: model leverage Swap + LRS amplify generation gap	📈 Bargaining power · Trend ↑ Now: loop complete Recycled feedstock already in materials Next: strategic value rising Smooths cycle + resource security	
🔗 Technology · drivers Recycled feedstock Ni/Co/Li recycling pulls materials back upstream	🔗 Technology · drivers Shenxing / Qilin iteration CTP 3.0 structural-part dilution	🔗 Technology · drivers Swapping network Vehicle-battery separation binds application scenarios	🔗 Technology · drivers Recycling & purification Ni/Co/Li recycling technology	

Chain sources: share & shipments (SNE, Jan–Aug 2026 / 1H26), unit net profit (Soochow, same caliber 26Q2), customer concentration & segment GPM (company 2026H1 report); pass-through lag is company caliber, recycling loop from Brunp's public disclosures.

Taking the cell apart: Shenxing teardown full cost \$54.62/kWh, lower than Tesla 4680 by ~38%

Cathode/anode/separator/structural parts compress costs layer by layer; the 8th-gen PSL line is the primary source of RMB0.07/Wh unit net profit (~2.8x tier-2s)

Cell deconstruction & teardown full-cost comparison: cost engineering happens at every layer (schematic)¹



Cell deconstruction: jelly roll/cathode/anode/separator/aluminum case/safety vent — the manufacturing generation gap happens at every layer (schematic)

\$54.62 /kWh

Shenxing LFP teardown full cost
(A2Mac1→UBS, 2026-02)

37-38% lower

~37% below LGES Ultium (\$86.32), ~38%
below Tesla 4680 (\$88.41)

RMB0.07/Wh

Unit net profit ≈ 2.8x tier-2s (Soochow
26Q2, p.26)

KEY TAKEAWAYS

• **Manufacturing generation gap is the primary source¹**

40-50% of the four-source gap:
8th-gen PSL cuts another 33%,
output per head CAGR 29% (2021-
24), engineers per project -53%
(p.41)

• **Structural innovation dilutes layer by layer²**

From CTP module-less to large
cells, structural & line costs fall
with each generation; the 587Ah
ESS cell shares the same lineage
with 42% cost reduction (p.37)

• **Cost advantage underpins pricing power³**

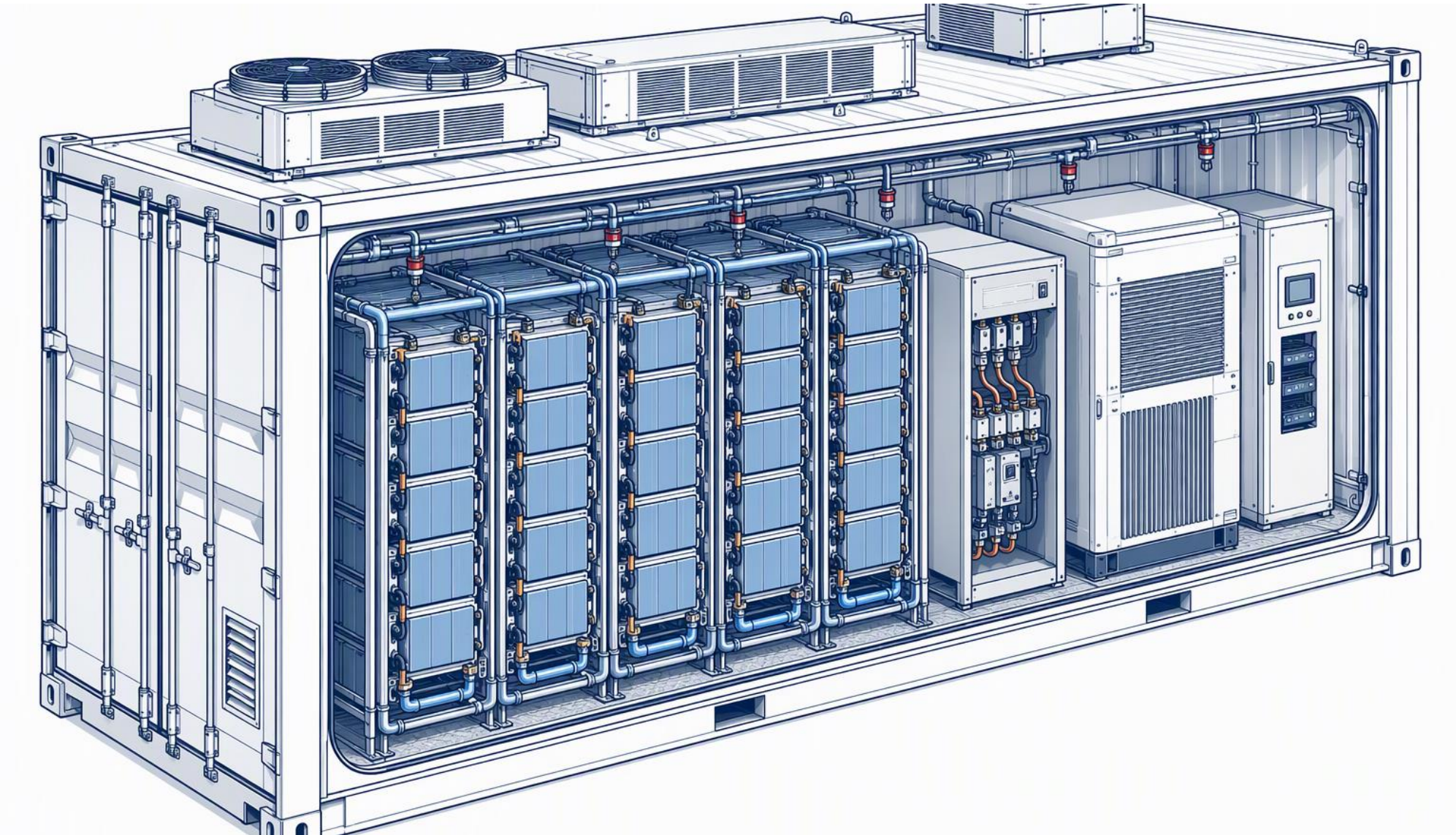
Tax-inclusive ASP stabilized at
RMB0.66/Wh (p.36); the full-cost
discount converts directly into profit
— the 2.8x unit net profit is the
result, not the cause

1. Teardown full cost (incl. allocated expenses & manufacturer profit): A2Mac1→UBS (Feb 6, 2026) — Shenxing \$54.62, Qilin \$63.99, LGES Ultium \$86.32, Tesla 4680 \$88.41/kWh.
2. Four-source attribution (manufacturing generation gap 40-50% / procurement price locks 20-30% / technology premium 20-30% / expense dilution ~10%) is this report's estimation framework (directional attribution, not additive), see p.41.
3. The cell structure on this page is an AI-generated schematic, not a physical teardown drawing.

Taking the ESS apart: 587Ah large cells cut cost 42%; integration lifts unit gross profit from 138 to 200 RMB/kWh

DC: large cells cut structural cost; AC: PCS/EMS integration captures 1.7-3.5x value — GS sees integration share 1/3→2/3

ESS deconstruction: 587Ah cell → battery cluster → PCS/EMS → 6.25MWh container (schematic)¹



System deconstruction: cell/cluster/PCS/EMS/liquid cooling/fire suppression — cost reduction on the DC side, value-add on the AC side (schematic)

-42%

587Ah large-cell cost at scaled delivery
(Soochow; Jining output >220k cells/day)

1/3 → 2/3

AC/DC integrated solution share
2025→2030E (GS forward-looking
assumption)

RMB138→200/kWh

BESS unit gross profit; LTSA long-term
service GM 60-70% (GS)

KEY TAKEAWAYS

• **Large cells: 42% cost reduction at scale¹**

587Ah scaled delivery cuts cost 42%; 314Ah cell price RMB0.363/Wh (InfoLink 9/30) +15-22% vs 6 months ago, new contract prices rising (p.37)

• **System integration expands unit gross profit²**

Forward integration captures 1.7-3.5x project value; overseas system profit ~RMB0.2/Wh, far above selling cells (Soochow, p.37)

• **Next-gen products drive orders³**

TENER 6.25MWh container, TENER Stack 9MWh world first; Europe black-start, Saudi 8GWh won (p.37)

1. The three-layer system-integration model, BESS/LTSA and the integration share are GS initiation (Jul 9, 2026) forward-looking assumptions, not realized; the 587Ah cost reduction of 42% is Soochow/Bernstein caliber, both on p. 37.

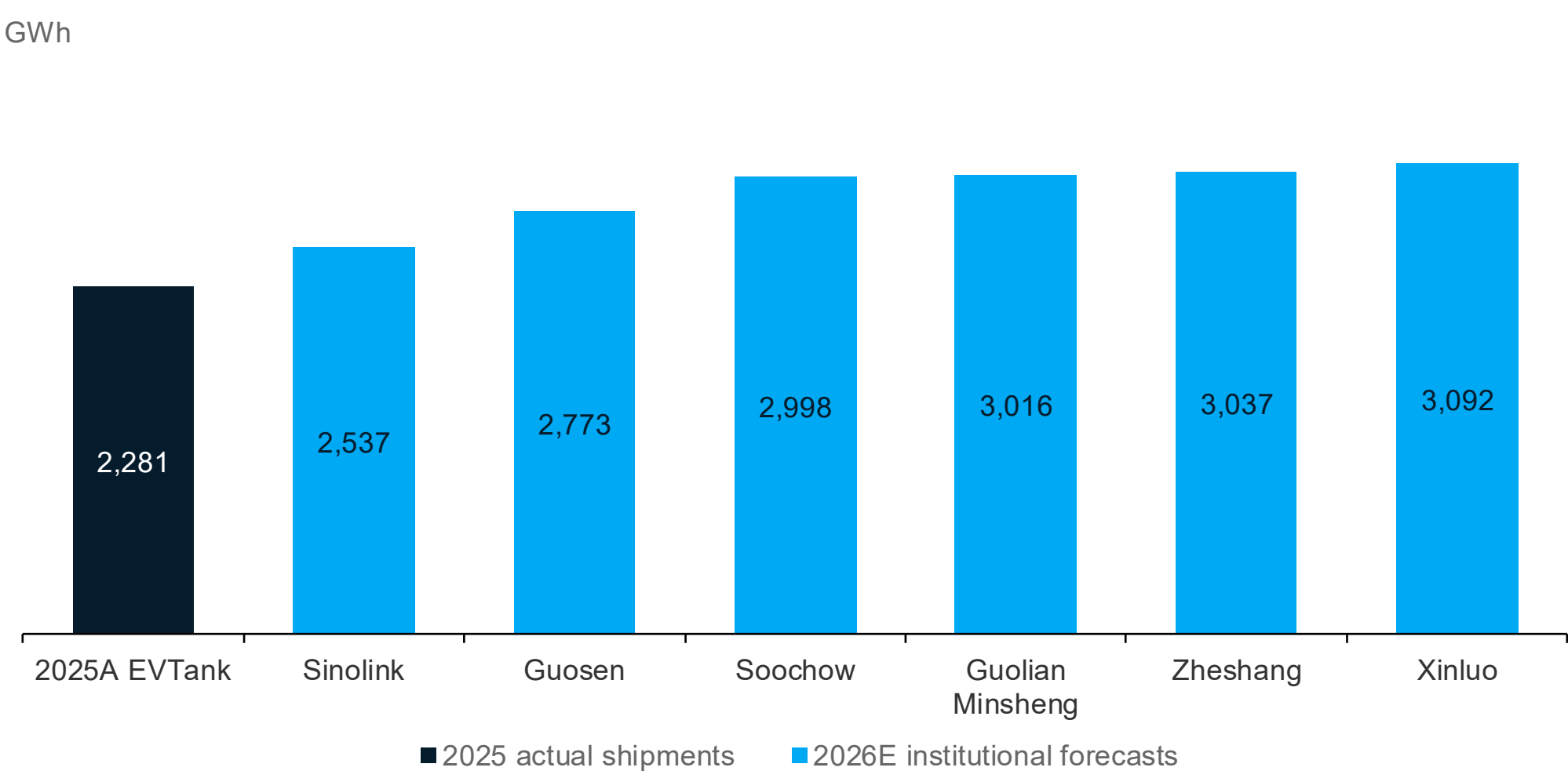
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2026E global li-battery demand 2,537-3,092GWh; the core divergence is data specification

1H26 output +47%, ESS shipments +71% support the upper half of the range; management (10/20) guides 2027 growth 20-30% — 'demand not as weak as feared'

2026E global li-battery demand: institutional ranges vs 2025 actual shipments¹

GWh



Actuals anchor: output & installations support the upper half

1H26 global EV+ESS battery output 1,342GWh (+47%): EV 849 (+25%) / ESS 493GWh (+113%, Xinluo via Soochow²)

Jan-Aug EV installations 844.2GWh (+19.7%, SNE); ESS shipments 725GWh (+97%, ICCSino) — supports growth; cannot adjudicate the range top; 3Q26 CATL sales >260GWh, ESS ~+60%

57-64% of divergence is ESS³

~57-64% of the 555GWh high-low gap comes from ESS (range 795-1,111GWh)
Institutional EV ranges only +18~24%; the debate centers on ESS

Caliber discipline

Shipments/installations/output are mixed-caliber extremes, not strictly comparable; every growth citation carries a caliber tag

Institutional range gap

22%

Every institution grows on its own caliber; none contracts

Chart: Soochow/Guosen at tops (2,939-2,998 / 2,773 EV+ESS)
Simple annualization: 2,684GWh

KEY TAKEAWAYS

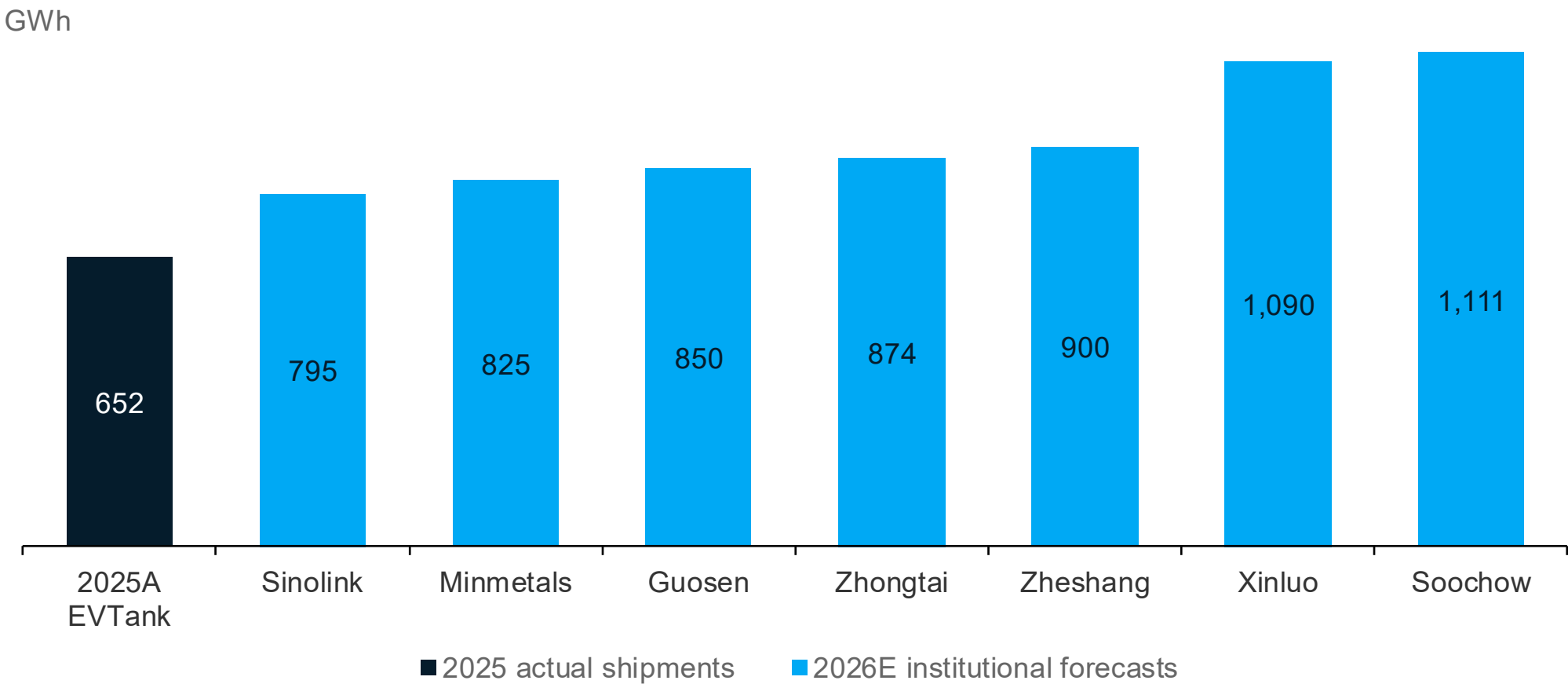
- Divergence is caliber, not direction**
All six institutions' 2026E sit above the 2025 base on their own calibers; 'peak demand' is absent
- Actuals support growth**
1H26 output +47%, ESS shipments +71%, EV installations +20%; the 2,537GWh floor is under pressure
- The adjudication variable is ESS**
~60% of the gap comes from ESS (795-1,111GWh); same source as checkpoint ① (Sep-Nov production/grid connection); unit-profit test triggered at 3Q26 (0.082 broke the line); next adjudication 4Q26

1. 2025 shipments of 2,280.5GWh are EVTank caliber; 2026E institutional forecasts are mixed-caliber literature extremes of shipments/installations, not strictly comparable (Guojin/Guosen/Soochow/Guolian Minsheng/Zheshang/Xinluo, Feb–Sep 2026). 2. Actuals anchor: 1H26 global EV+ESS output 1,342GWh (+47%, Xinluo via Soochow), EV installations +20%, ESS shipments +71% (SNE via Soochow, as of Jun 30, 2026); Jan-Aug EV installations SNE, Jan-Aug ESS shipments ICCSino (via JPM, Sep 16, 2026); the ~2,900GWh+ upper-half view is this report's call. 3. The 57-64% ESS share of divergence is this report's rough calc (high-low gap and paired decomposition, two calibers, uncertain).

ESS demand forecasts 795-1,111GWh: biggest increment, widest divergence — verdict hinges on Sep-Nov production schedule

The 316GWh ESS gap is ~60% of total divergence; 1H26 shipments +71% / tenders +193% support the upper end (our est.); verdict: Sep-Nov output & grid hookup

2026E global ESS battery demand: institutional range 795-1,111GWh¹



1H26 utility ESS tenders ² 304.8GWh +193% YoY	1H26 utility ESS bids 263.9GWh +298% YoY	Aug new installations 11.42GWh +20%; +4.3% cum. Jan-Aug	314Ah cell price 0.363 RMB/Wh; +15-22% (6M) ³
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Aug industry production schedule a record 311.85GWh (Baichuan Yingfu); Sep sample 211.3GWh (+6.3%)	Oct top-6 sample schedule 214.6GWh (+57%); Sep ESS tenders 73.7GWh (+84%); CSC cuts 2026 domestic ESS to 230-250GWh ³
--	--

Increment and divergence: ESS

316GWh high-low gap, 39.7% range width — ~57-64% of total demand divergence

EV battery institutional range only +18~24%; divergence concentrated in ESS

Multiple base spec coexist

2025 base: EVTank 651.5 / Xinluo 640 / GGII China 630 / Zhongtai 599GWh; growth rates each on their own base

Soochow takes the 1,111 top end, Guosen the 850 bottom end (see footnote 1)

ESS forecast range width

+39.7%

316GWh high-low gap; EV battery institutional range only +18~24%

KEY TAKEAWAYS

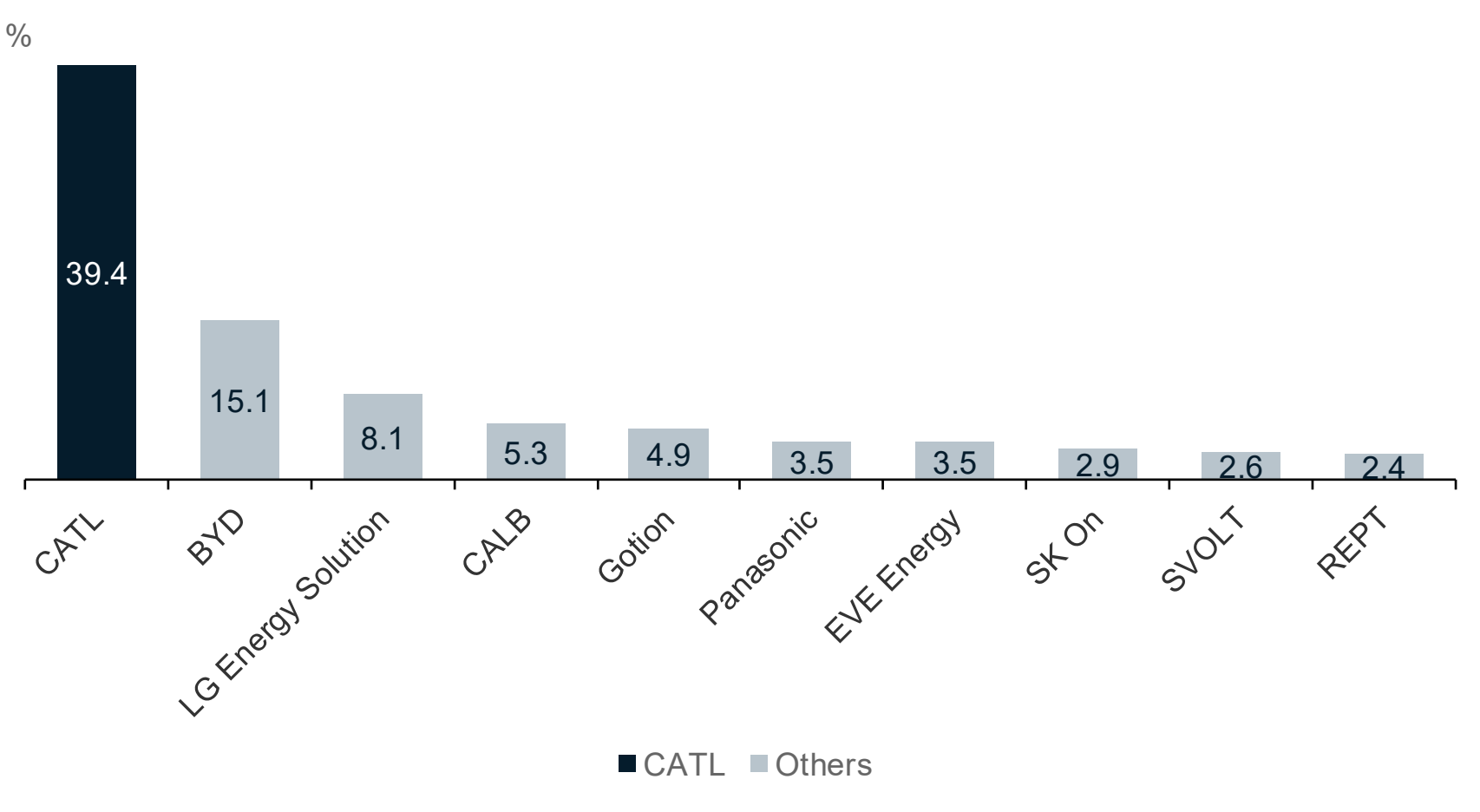
- **Actuals support upper end**
1H26 ESS shipments 461.3GWh (+71%); Sinolink's 795GWh looks conservative
- **Tenders are the leading anchor**
Tenders lead shipments 2-4 quarters: 1H26 tenders 304.8GWh (+193%), bids 263.9GWh (+298%); Jan-Aug installations 77.84GWh
- **Verdict = checkpoint ①**
Sep-Nov production: Aug inflated by pull-forward; Xinluo Sep 211.3GWh +6.3% MoM; Oct top-6 +57% YoY; top-5 only +1% MoM — stalling momentum is a warning

1. Institutional forecasts on shipment basis (Feb-Sep 2026, via brokers): Soochow upper end of 1,024-1,111GWh, Guosen lower end of 850-1,006GWh; 2025 base 651.5GWh (EVTank). 2. 1H26 actuals: ESS battery shipments 461.3GWh (+71%, SNE), ESS cell shipments 467.84GWh (+94.76%, InfoLink). 3. High-frequency data: Macquarie (9/11), CNESA, Cailian Press top-6 Oct schedule (10/9), Xunshang Sep tenders (10/9); 314Ah cell avg RMB0.363/Wh (InfoLink, 9/30).

Global EV battery share 39.4%: one company contributes ~90% of A-share battery-sector profit

Above the No.1 share (39.4%) lies a profit chasm: unit net profit differs ~2.8-23x; second-tier makers mostly take price-sensitive orders

Global EV battery installation share, Jan-Aug 2026: seven of the top ten are Chinese makers¹



Global share (SNE)	Domestic share (CABIA)	Overseas share (SNE)
39.4%	44.7%	34.0%
+1.7pct (Jan-Aug, SNE)	+2.0pct; Jan-Sep 44.16%	Jan-Jul, ex-China market

Trajectory: global 37.9% (2024) → 39.2% (2025) → 39.4% (Jan-Aug), record 42.1% in Jan-Feb; domestic Aug alone 41.45%, Jan-Aug 44.7% (CABIA, +1.99pct)¹

EV battery share

Cum. up, monthly down

39.4%

Global 39.4% / domestic 44.7% (both Jan-Aug) / overseas 34.0% (Jan-Jul); domestic Aug 41.45%

Share by region (%)

Global

Domestic

Overseas

39.4

44.7

34.0

Profit CR

Even more concentrated

≈90%²

2025: contributed ~90% of A-share battery-sector profit; 1Q26: 97.5% of the chain's net cash at CATL

Concentration (%)

Sector profit 2025

Segment cash 26Q1

90.0

97.5

Net profit gap

UE gap 2.8-23x³

0.07

Soochow: CATL 2Q26 RMB0.07/Wh = RMB70/kWh; peers 3-25 — share No.2 ≠ profit No.2

Unit net profit (RMB/kWh)

CATL

EVE

Sunwoda

Gotion

70

25

10

3

Other battery makers

CATL

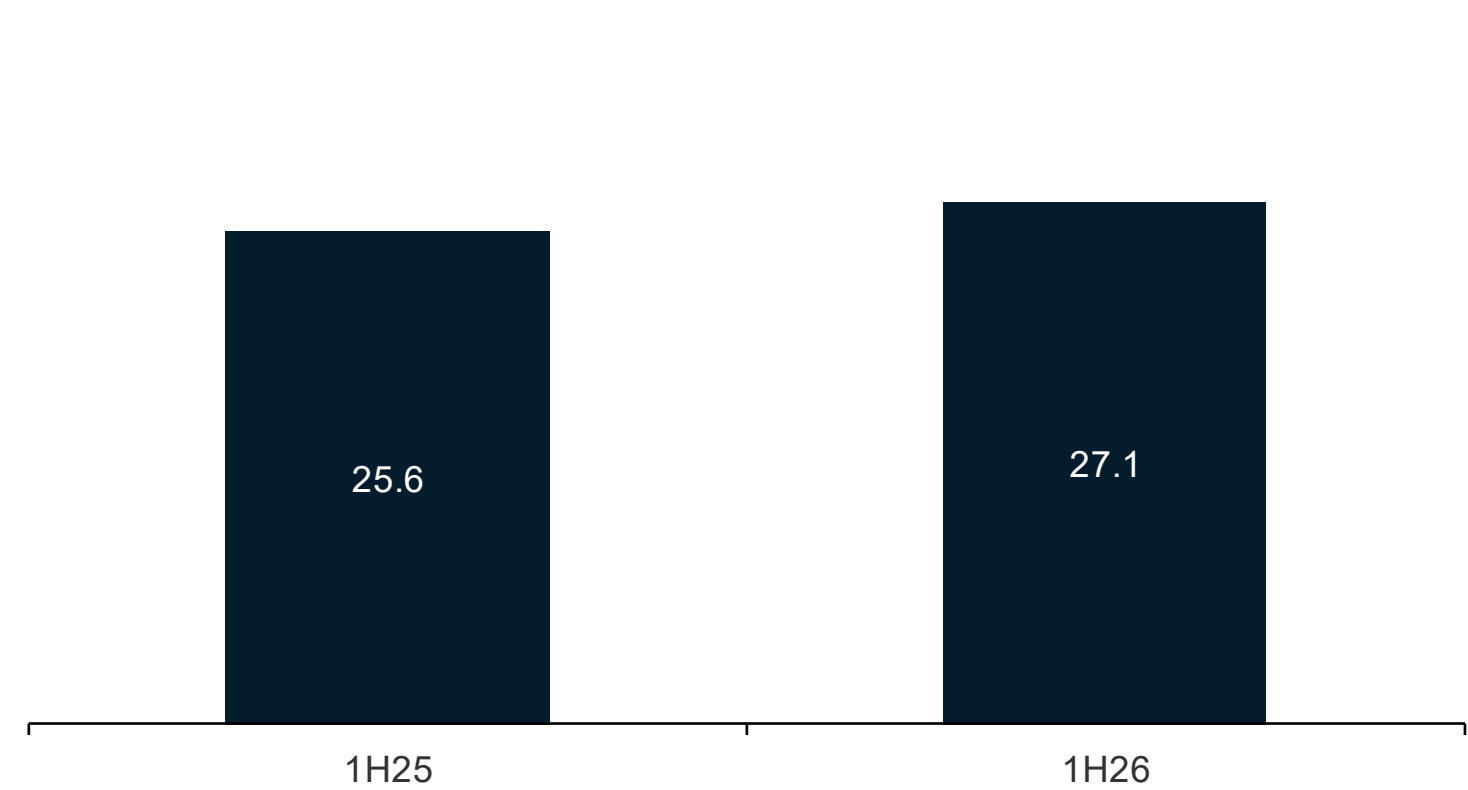
1. Share is on SNE's global EV battery installation caliber (relayed via Soochow, as of Aug 31, 2026, released by SNE 10/2); 2024/2025 on SNE annual caliber; domestic on CABIA caliber. 2. Profit concentration: CATL contributed ~90% of battery-sector profit in 2025 (Soochow); 1Q26 chain cash on hand minus short-term borrowings RMB320.1bn, of which CATL RMB312.1bn (97.5%, institutional caliber). 3. Unit net profit: CATL RMB0.07/Wh and the second-tier figures are both on Soochow's 2Q26 caliber (Soochow quarterly table 9/5); Macquarie's NP-attributable ÷ sales caliber puts CATL at 0.097 — not mixed into this chart. Domestic Jan-Sep share 44.16% (CABIA, October; caliber to be reconciled with the earlier 44.7%); SNE Jan-Sep not released as of 10/21.

ESS share on like-for-like caliber 25.6%→27.1% (+1.5pct): volume-driven share recovery, GPM still above EV battery

Absolute volume 125GWh still No.1 (SNE 1H26), GPM 23.96%, firm large orders 35-54GWh in hand

ESS battery share: SNE shipment caliber¹

%



ESS shipments	Industry CR10	ESS GPM
125GWh	92.0→82.3%	23.96%
1H26; 110GWh in 2024 ²	2023→1H26 (%)	1H26; 26.71% FY2025

SNE like-for-like share +1.5pct (25.6%→27.1%); 125GWh No.1 (1H26); 36.5% = 2024 annual caliber, not comparable

Backlog in hand: ~35-54GWh firm³

Nominal ~70GWh (Quinbrook 24 / Saudi 8+12 / Ford 20 etc.; Masdar 19 signed by Sungrow/BYD — excluded), firm ~35-54GWh ≈ 15-23% of 2026E shipments (estimates); No.1 on the system DC side; 314Ah +15-22% vs six months ago

Conflicting calibers shown side by side

Soochow: 1H26 global 25.4%; Bernstein: China ESS YTD 22.4%; Sinolink: 20% (2025), 22% (1Q26); levels vary, direction consistent

Read-across to the core divergence

Share recovered 1.5pct in 1H26, though CR10 fell 9.7pct since 2023 amid new entrants; GPM remains above EV battery, backed by large orders. 3Q26 unit net profit of 0.082 fell below RMB0.090, driven by low-price volume and tax burden; share data alone cannot judge profit quality

KEY TAKEAWAYS

- Share recovered on like-for-like caliber**
SNE 1H like-for-like share 25.6%→27.1% (+1.5pct); 125GWh No.1; CR10 92.0→82.3%
- GPM down, still above EV battery**
ESS GPM 23.96% (1H26), 26.71% FY2025; avg price +15-22%; firm orders 35-54GWh — low-price was never the profit pool
- The test is unit net profit**
Share data cannot adjudicate the share narrative; unit net profit triggered at 3Q26 (0.082 broke the RMB0.090 line); next adjudication 4Q26

1. Share is on SNE's ESS battery shipment caliber (relayed via Huatai/Soochow); conflicting calibers shown side by side: Soochow cites 1H26 global 25.4%, Sinolink/Xinluo caliber 20% in 2025 / 22% in 1Q26. 2. The 125GWh shipments are on SNE caliber (1H26), 110GWh in 2024 on EVTank caliber, 121GWh in 2025 on company sales caliber; CR10 from InfoLink (1H26, Aug 11, 2026). 3. Large orders: nominal ~70GWh / firm ~35-54GWh (compiled by institutions; shares are this report's calculation, estimates); Masdar RTC 19GWh already signed by Sungrow Power 7.5GWh (5/21) and BYD 11.275GWh (7/9) — excluded, the firm lower end deducted by its original inclusion; peer reference: EVE-Fluence 206GWh (9/18, 16GWh committed for 2027, remainder reserved); +15-22% avg price on Macquarie basis (Sep 11, 2026).

Supercharging is in the P&L, sodium-ion in framework agreements, solid-state still early in industrialization: scale-up timing of all three lines remains uncertain

The three lines' delivery windows each lag a notch; solid-state's 5x cost and TRL 4/9 make a five-year cost threat unlikely

Timeline of the three technology lines: delivery windows staggered by a notch¹

Supercharge LFP

Delivery: in the P&L



📅 Aug 2023

Shenxing 4C LFP launched

First mass-produced on Chery Exeed ET in Feb 2024 — supercharging moved from concept into the P&L



📅 2025

2nd-gen Shenxing 12C/1.3MW launched

12C, 1.3MW (Apr 2025); Shenxing Pro (Sep 2025) European 12C version



📅 2026

3rd-gen Shenxing launched

Equivalent 10C, peak 15C (Apr 2026); ≥4C penetration >50% in 2026E (Guolian Minsheng)

Sodium-ion battery

Delivery: in framework agreements



📅 Jul 2021

Gen-1 launched (160Wh/kg)

Deployed on Chery A00 in 1H23; scale-up delayed ~2 years



📅 Dec 2025

Passenger-vehicle mass production

Naxtra mass-production shipments on Choco-SEB swapping model; A06 sodium version first (deliveries unannounced); Tianheng year-end target 1GWh



📅 4Q26

Scaled mass production (company caliber)

Framework agreements 67GWh (HyperStrong 60 / Alfen 5 / Solarpro 2 — none are firm orders)²

All-solid-state battery

Delivery: in the narrative



📅 Mar 2026

Earnings call: two pilot lines built

Capacity undisclosed; the Hefei 0.2GWh sulfide line belongs to Gotion High-Tech



📅 2027E

Small-batch (target 400Wh/kg)

Wu Kai: TRL 7-8 by 2027; current cost ~5x liquid lithium³



📅 2030E

Scale-up in question

Robin Zeng: million units before 2030 highly unlikely; self-assessed TRL 4/9

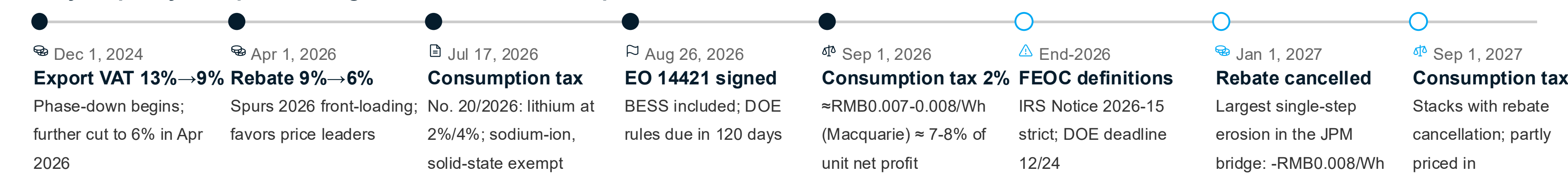
Three lines, three windows — supercharging in the P&L, sodium-ion in framework agreements (67GWh), solid-state early (TRL 4/9, 5x cost): market prices an accelerated timeline

1. Shenxing 4C (launched Aug 2023, first on Exeed ET Feb 2024), 2nd-gen Shenxing (Apr 2025), Shenxing Pro (Sep 2025) on company caliber; ≥4C penetration on Guolian Minsheng caliber. 2. Sodium-ion framework agreements 67GWh (HyperStrong 60 strategic cooperation / Alfen 5 MoU / Solarpro 2 strategic cooperation, Bernstein/Huatai, as of Jul 2026); Fuding 40GWh capacity; mass-production timing on company caliber; cost RMB0.35-0.40/Wh (BofA/Haitong Intl). 3. Solid-state: company says two pilot lines built (4Q25 earnings call); the Hefei 0.2GWh sulfide line belongs to Gotion High-Tech; 2027 small-batch (Wu Kai: TRL 7-8); TRL 4/9 and the million-unit judgment are Robin Zeng's public comments; cost ~5x (State Power Investment Corp. research institute et al.); condensed-matter 3Q26 mass production is Bernstein's media relay — listed as a watch item.

Consumption tax 2%→4% + rebate cancellation: actual unit profit below the bridge's later-quarter values — 'sharing half' unverified; base case assumes CATL absorbs nearly all of it

Worst-case tax stack ~RMB0.103→0.079/Wh; 3Q26's 0.082 sits below the bridge's 4Q26 value; the base case assumes near-full absorption by CATL

Three-year policy cost pass-through chain: Dec 2024 → Sep 2027¹



JPM worst-case bridge: ~RMB0.103→0.079/Wh under 100% self-absorption²

Timing	Unit net profit (RMB/Wh)	Policy step	Single-step erosion
1Q26	~0.103	Starting point (JPM implied)	—
2Q26	0.099	Export VAT rebate 9%→6%	-0.004
4Q26	0.093	Consumption tax 2% (from 9/1)	-0.006
1Q27	0.085	Export VAT rebate cancelled	-0.008
4Q27	0.079	Consumption tax 4%	-0.006

✓ Actual pass-through: 'sharing half' unverified (3Q26)

3Q26 taxes and surcharges RMB2.21bn (Q2: RMB0.69bn) incl. consumption tax paid at production; no price evidence yet — Oct 20 call: negotiations incomplete, absorption unclear; EVE/Lishen 2% hikes isolated, no CATL price letter

⚠️ FEOC: rule direction already strict; LRS direct revenue exposure ~2% of NP attributable³

EO 14421 (8/26) → DOE rules ≈ late December; IRS Notice 2026-15 signals strictness. Strict case: licensees lose 45X credit — CATL exposure ~2.0% (~RMB2.36bn/yr); lenient case: ~RMB2.36bn/yr high-margin revenue, largely unpriced — risk-reward skewed positive

1. Consumption tax (MOF/GACC/STA Ann. No. 20 of 2026): 2% from Sep 1, 2026, 4% from Sep 1, 2027; export VAT rebate cut to 6% on Apr 1, 2026, cancelled Jan 1, 2027 (MOF/STA Ann. No. 2 of 2026). 2. JPM worst-case bridge assumes 100% self-absorption (Sep 10, 2026; not base case; 2Q26 actual 0.097, Macquarie); actual pass-through: EVE/Lishen +2%, EV tax burden shared roughly equally with OEMs, CATL ESS price raised to RMB0.423/Wh (Macquarie, Sep 11, 2026). 3. FEOC scenarios are own calculation; US\$7/kWh royalty per MS; LRS ~RMB2.36bn/yr revenue at full production (~2% of 2027E NP, not profit). 4. 3Q26 actual RMB0.082/Wh, below bridge 4Q26 (0.093) and 1Q27 (0.085): no burden sharing, plus mix and impairments (taxes RMB2.21bn vs Q2 RMB0.69bn; 3Q report, Cailian Press 10/21).

BYD self-supply and Panasonic lock-in each have limits: CATL's top-5 customer concentration of 38.96% is hard to replicate

Self-supply concentrates external sales in mid-low-price models; lock-in is fragile on one large customer; the merchant niche is strongest

Three models compared: self-supply, lock-in and neutral merchant¹

 Vertical Self-Supply · SELF-SUPPLY BYD		 Single Lock-In · LOCKED-IN Panasonic		 Neutral Merchant · MERCHANT CATL	
1H26 global share	14.4% (-2.6pct)	2Q26 operating margin	13.2% (3.7% ex-IRA)	Top-10 global OEM customers	Nine
External share (1Q25)	8% (ex-BYD)	Comparison: Tesla 4680	\$88.41/kWh²	Seres wallet share	96.7% (2025)
External LFP share	12% (ex-BYD)	CATL Shenxing full cost	\$54.62/kWh (LFP)	Tesla wallet share	70.8% (2025)
Weighted model price	RMB174k vs RMB232k	4680 self-supply share	<4% of Tesla demand	Largest customer share	13.73% (unnamed)
External customers	XPeng/Xiaomi/NIO/Toyota	Continued retrenchment	Exits home solar-storage; sells EU device business	Switch-over exposure	Li Auto + Xiaomi ~3-4% combined (JPM 10/8)³
External sales limited by self-supply priority , closed OEM flagships, poor 10C compatibility, no NCM — concentrated in mid-low models (RMB174k)		Customer and route concentration. Tesla cylindrical NCM lock-in erodes leverage; margin 13.2%→3.7% ex-IRA; European device sale signals retrenchment		Neutral supplier leads. Top customer 13.73%, top five 38.96%; domestic EV <35% of shipments, unmatched diversification	

Consensus reads OEM diversification as 'de-single-sourcing'; self-supply and lock-in each have limits; second-tier makers mostly take price-sensitive orders (Soochow: 2nd-tier RMB0.003-0.025 vs CATL RMB0.07/Wh); Li Auto's Oct 20 'Lianshan' 5C debuts on the L8; CATL share of the i6 not obtained — unverified

1. BYD external sales share and customers per JPMorgan (1Q25, latest available); weighted model price ~RMB174k vs CATL ~RMB232k. 2. Panasonic 2Q26 operating margin 13.2%, 3.7% ex-IRA (company-disclosed); 4680 \$88.41 vs Shenxing \$54.62/kWh (UBS teardown); self-supply share <4% per JPM; European device sale per Panasonic Industry. 3. Wallet share per Soochow (2025 domestic passenger vehicles); largest customer per 2025 annual report; switch-over exposure 7-8% of domestic EV shipments and domestic EV share <35%→~30% (2027E) per JPM citing GGII.

CATL leads on 5 of 6 dimensions: US localization is the only laggard, tied to FEOC and licensing revenue risk

Tops in unit profit, scale, ESS, technology and customer mix; BYD is closest in ESS, while LGES wins on US local capacity and IRA subsidies

Competitive assessment: 6 dimensions × 4 players

	CATL Our coverage	BYD Self-supply	LGES JP/KR rep.	Tier-2 CALB·Gotion·EVE	Key evidence
Unit profit & cost Soochow like-for-like basis					CATL 0.07 vs tier-2 0.003–0.025 RMB/Wh (2Q26); LGES –1.7% ex-AMPC (op. margin)
Scale & share Global EV battery installations					SNE Jan–Aug: 39.4% / 15.1% / 8.1% / 3.5–5.3%
ESS Share & orders					CATL leads with 27.1% share; BYD signed Masdar 11.275GWh, EVE-Fluence 206GWh
Technology pipeline Superfast charging / sodium-ion / solid-state					3rd-gen Shenxing peaks at 15C, Naxtra mass-produced; LGES LFP lags 6–8 years
Customer mix External-supply neutrality					CATL top customer 13.73%, top five 38.96%; BYD external supply only 8%
US localization FEOC compliance					LGES enjoys AMPC (KRW241.0bn 2Q26); CATL enters only via LRS licensing (1260H)

Score None Weak Medium Strong Leading

Column colors distinguish companies, not scores; rows by thesis importance — unit profit first, US localization last

KEY TAKEAWAYS

- Widest gap in unit profit**
On Soochow's like-for-like basis, CATL's RMB0.07/Wh is ~2.8x tier-2s; LGES (operating-margin basis) still loss-making ex-AMPC (pp. 27, 31, 42)
- Smallest gap in ESS**
BYD signed Masdar 11.275GWh and EVE-Fluence 206GWh; industry CR10 fell to 82.3% — a share lead does not mean order exclusivity
- The US is the only laggard**
LGES enjoys AMPC; CATL enters only via LRS licensing (~RMB2.36bn/yr at full run-rate), constrained by FEOC rules and 1260H (pp. 41, 55)

1. Scores are this report's judgment (five tiers 0/25/50/75/100: none/weak/medium/strong/leading), based on evidence cited in this report: unit profit see pp. 5, 26, 41 (Soochow, 2026-09-05, like-for-like basis) (LGES 2Q26 operating margin on company-disclosed basis); scale see p. 26 (SNE, Jan–Aug); ESS see p. 27, BYD's ESS announcement (2026-07-09) and Soochow (2026-09-19); technology see pp. 28, 39; customer mix see p. 30 (company 2025 annual report, JPM 2025-06); US localization see pp. 31, 41. BYD does not disclose battery segment profit separately; assessed on a vertical-integration basis.

PART FIVE

CATL In-Depth

Business mechanics, business panorama and moat

33-34

Mechanics & Panorama

The four-part business mechanics and the full business panorama

35-36

EV Battery & ESS

Core franchise and second curve

37-41

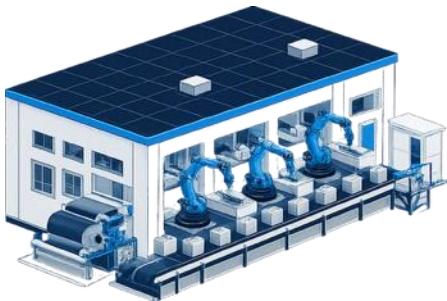
New Options & Moat

Swapping/sodium-ion/solid-state/licensing; moat ranking

Business matrix: 3Q26 sales of 260GWh+ defend the core franchise, ESS at ~1/4 of volume opens the second curve; swapping and sodium-ion are the two options

Four lines share one platform and recycling loop — EV battery delivers profit, ESS delivers growth; swapping and sodium-ion are options

Four-layer business panorama: core franchise, second curve and two options (structural schematic)¹



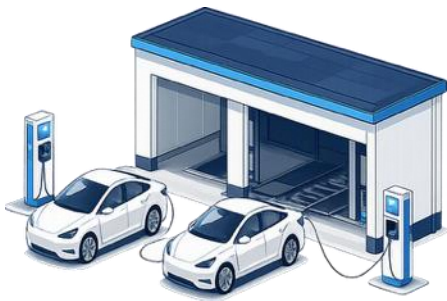
EV battery core franchise 39.4% share, No. 1

FY25 shipments 541GWh (+42%), 3Q26 sales of 260GWh+; top-5 customers 38.96%, premium external supply 75% (5M26) — volume-price structure is solid (p. 36)



ESS second curve GPM 23.96% (1H26)

1H26 revenue +88%; 587Ah cuts cost 42%, 27.1% share; integration mix 1/3→2/3 expands gross-profit headroom (p. 37)



Swapping new scenario 2,500+ stations (Oct)

100 swaps/day per station gives 5.5% IRR, battery bank 10–15%; On the Oct 20 earnings call, the company reported over 2,500 stations and guided to over 3,000 by year-end (p. 38)



Materials & recycling Cyclical + closed loop

Ni/Co/Li recycling → materials re-supply (Brunp); segment GPM swings with lithium prices, smoothing the cost cycle (p. 35)

KEY TAKEAWAYS

• EV battery is the profit base¹

541GWh (+42%) × RMB0.07/Wh unit net profit ≈ 2.8x the tier-2s; share and premium wallet defend volume and price (pp. 26, 41)

• ESS is the second curve²

1H26 revenue +88%, ESS ~1/4 of 3Q26 sales volume; GPM 23.96% above EV battery's 20.63%; Goldman Sachs sees integration mix 1/3→2/3 (p. 37)

• Two options not in the base case³

3,000 swap stations and sodium-ion mass production in 4Q26 are the year-end checkpoints; the recycling loop internalizes material costs again (pp. 38, 35)

1. Data sources by layer: EV battery p. 36 (company disclosures, GS ThinkerCar); ESS p. 37 (Soochow, Goldman Sachs); swapping p. 38 (Changjiang, JPM); materials & recycling p. 35 (segment basis).

2. This page is a structural schematic; the four scenario images are AI-generated; the 67GWh sodium-ion figure is a framework agreement — see p. 38.

ESS revenue recognition lags 6–9 months: part of the installations–revenue gap is recognition timing; demand change still needs production schedules and grid connections

EV battery is recognized in-quarter; ESS revenue at grid connection (cell sales on delivery) — the scissors gap is caliber and lag

The pass-through chain from framework to revenue recognition¹

- 1



Annual frameworks + long-term contracts lock volumes.
EV battery OEM sales fix volume and price annually; lithium carbonate costs pass through in 1–2 quarters
- 2



Monthly production schedules hit records.
August schedule hit a record 311.85GWh (partly pre-tax-reform rush); September 211.3GWh (+6.3% MoM); October top-6 at 214.6GWh (+57% YoY), but top-5 only +1% MoM
- 3

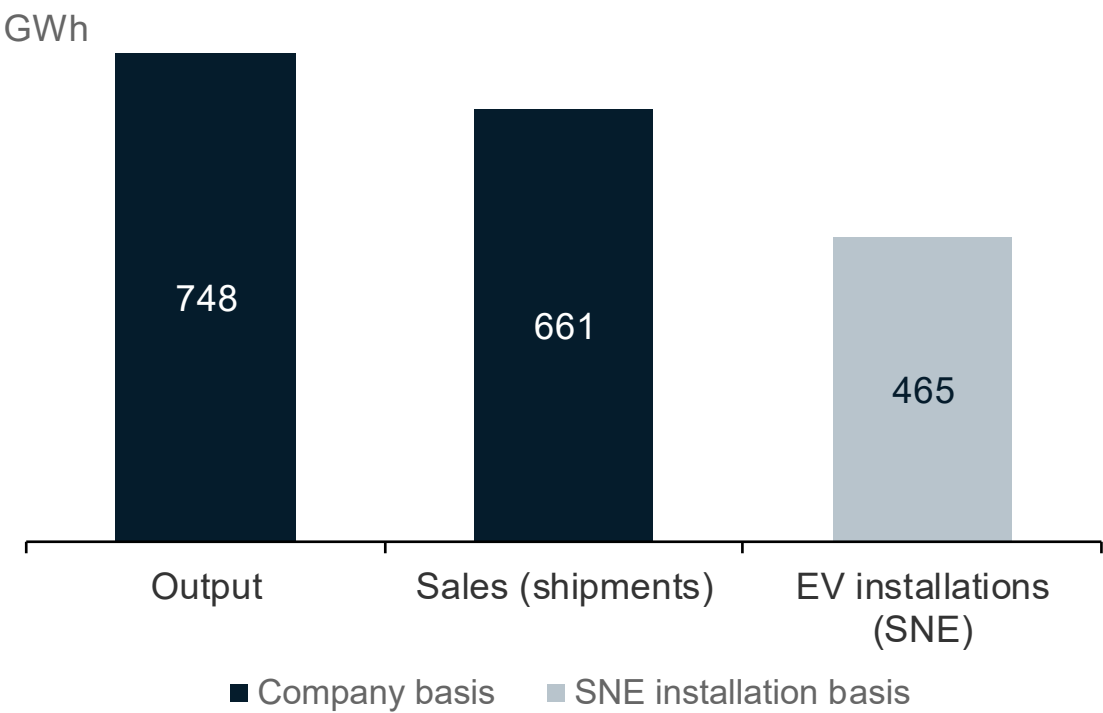


Shipment ≠ revenue; inventory is the evidence.
End-1H26: finished goods RMB47.6bn (+111% YTD), goods shipped RMB40.5bn (in transit, unrecognized); end-3Q26: inventory RMB144.8bn (+53.2%, mainly goods shipped), contract liabilities RMB40.7bn (–17.4%)³
- 4



Recognition diverges between EV battery and ESS.
EV battery converts ~85–90% in the same quarter; ESS systems are recognized at grid connection — 6–9 months from tender to grid connection domestically, longer for overseas project-based delivery

Three calibers each measured something different²



Scissors gap: output – sales = 87GWh (inventory and in-transit); recognition – installations 197GWh ≈ ESS 121GWh + channel/export stock

- 1H26 grid-scale ESS tenders 304.8GWh (+193%), winning bids 263.9GWh (+298%); order books into 2027³
- Aug new grid connections 11.42GWh (+20%), Jan–Aug +4.3% (CNESA) — recognition chasing schedules
- Tender → shipment leads by 2–4 quarters; current tenders map to 2027 revenue recognition

KEY TAKEAWAYS

• **The scissors gap is mainly caliber and timing**

The 87GWh output–sales gap is mainly the inventory pool (+111%); the 197GWh recognition–installation gap is ESS 121GWh

• **ESS recognition itself carries a 6–9-month lag**

ESS revenue is recognized at grid connection; quarterly readings fluctuate — not necessarily demand change

• **Verdict**

0.082 missed 0.09 — in-transit goods + tax caliber. Warning: Q3 CFO only RMB1.4bn; inventory RMB144.8bn (+53%), contract liabilities RMB40.7bn (–17%)

1. Pass-through mechanics: EV battery "annual framework + monthly rolling production schedule"; ESS systems recognized at grid connection (domestic tender → grid connection 6–9 months); lithium carbonate → customer repricing lags 1–2 quarters. Macquarie 2026-09-11; Soochow 2026 interim results review. 2. Output/sales are the company's 2025 annual report caliber (capacity 772GWh, utilization 96.9%); SNE installations of 464.7GWh are the global EV-battery-installation caliber (excluding ESS and non-installation channels), relayed via Soochow. 3. Finished goods RMB47.6bn (+111% vs start of year), goods shipped RMB40.5bn: company 2026 interim report (as of 2026-06-30); tenders/winning bids/grid connections: Macquarie 2026-09-11 (as of 2026-08).

3Q26 standalone GPM of 20.69% (9M 22.72%): ESS 23.96% vs EV battery 20.63%; 'Other' hides a RMB6.8bn profit pool

Four businesses in one P&L: EV battery on scale, ESS on integration, materials on the lithium cycle, 'Others' with licensing

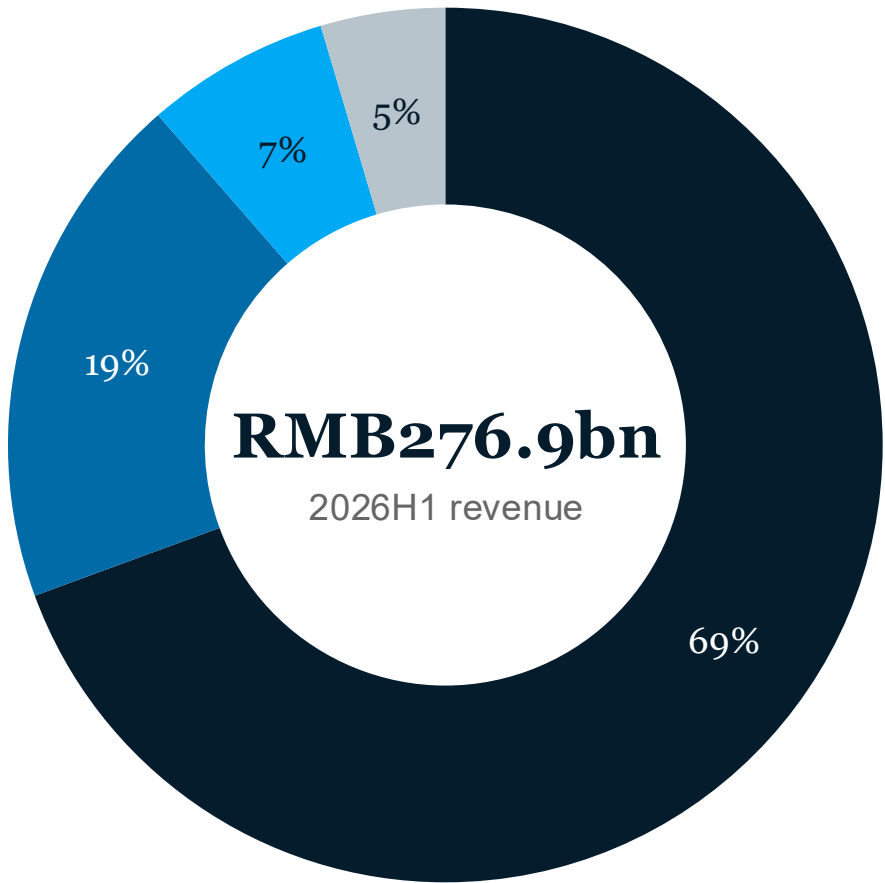
Segment revenue and GPM: 1H26 (no 3Q26 disclosure)

Segment	Revenue (RMB bn)	Share	GPM	Revenue YoY
EV battery systems	192.1	69.4%	20.63%	+46%
ESS battery systems	53.3	19.2%	23.96%	+88%
Materials, recycling & mining	18.8	6.8%	27.04%	+67%
Others (licensing/services etc.)	12.7	4.6%	69.04%	+66%
Total	276.9	100.0%	23.93% ²	+54.8%

9M26 GPM	EV battery GP/Wh	ESS GP/Wh	"Others" NP share
22.72%	RMB0.12 ²	RMB0.12 ²	15.7% ³

3Q26 revenue RMB165.22bn (+58.6%), NP RMB21.25bn (+14.5%); table shows 1H26; "Other" (licensing, 69% GPM) ~15.7% of NP on 4.6% of revenue; GPM 9M26 22.72%, 3Q26 20.69%

Revenue mix: four-layer business (2026H1)



"Others" GPM swung violently in the 52–74% range over 2023–2026H1, consistent with shifts in the licensing/services revenue mix (attributed to Changjiang Securities)

KEY TAKEAWAYS

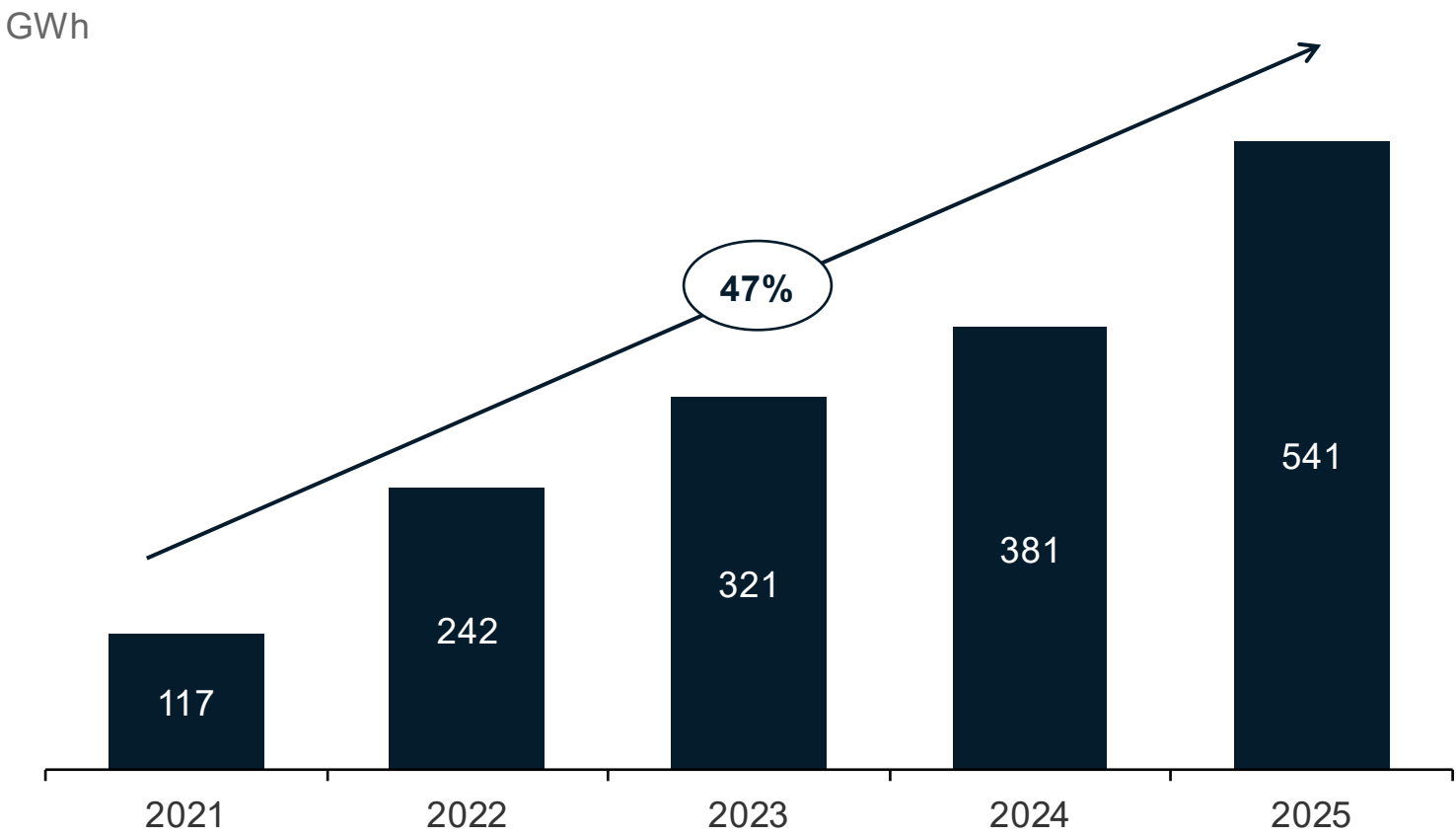
- **EV battery: scale base**
69.4% of revenue, GPM 20.63%; top-5 customers take 58.6% of domestic passenger-vehicle supply; volume was the sole driver of 26H1 growth
- **ESS & materials**
ESS GPM 23.96% (above EV battery yearly) rises with integration mix; materials GPM 27.04%, ~RMB4.0bn (Soochow est.), tied to lithium
- **"Others" = 15.7% of NP**
4.6% of revenue → ~RMB6.8bn profit (Soochow est.); JPM caliber: licensing + royalty + R&D service fees

1. Segment data: East Money 2026H1 segments (YTD basis, as of 2026-06-30); revenue YoY is Soochow's 2026 interim-review caliber (EV battery +46%/ESS +88%/materials +67%/others +66%). 2. Total GPM of 23.93% is calculated by this report (East Money); per-Wh gross profit is Soochow's estimate (tax-inclusive ASP: EV battery RMB0.67/ESS RMB0.55 per Wh). 3. "Others" profit of ~RMB6.8bn (15.7% of NP attributable to shareholders) is Soochow's estimate (no company breakdown); JPM caliber: includes licensing fees, royalty and R&D service fees

FY25 EV battery shipments 541GWh (+42%): volume up, price steady; premium wallet share 75% (5M26)

Shipments 4.6x in four years; tax-incl. ASP RMB0.66/Wh stable since 2025 — volume-led, price –3% YoY; premium external supply at 75% (5M26, GS)

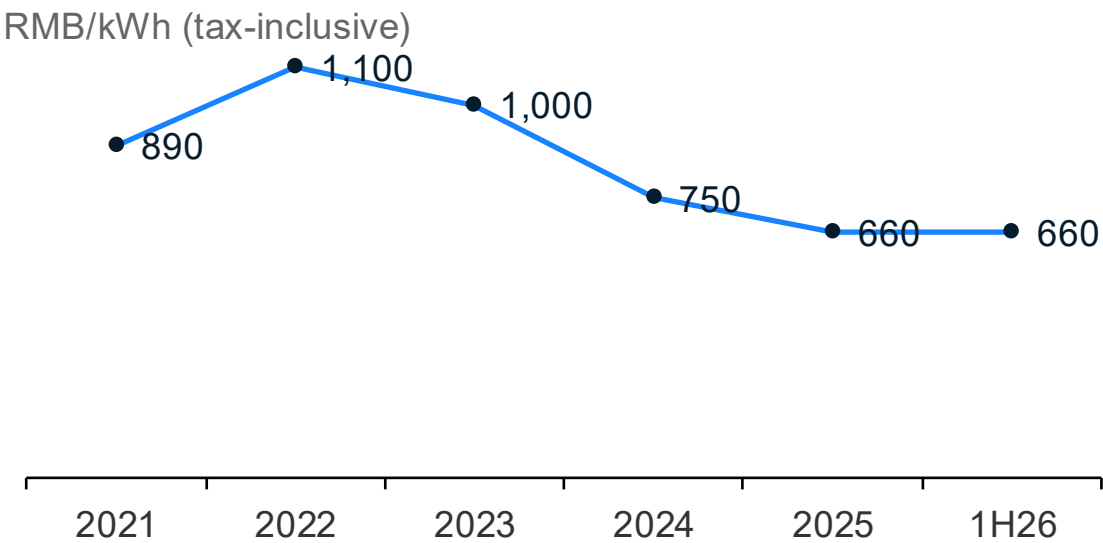
EV battery shipments 2021–2025: 4.6x in four years¹



1H26 EV battery shipments ~330GWh (Soochow estimate, +51% YoY); 3Q26 combined EV battery + ESS sales over 260GWh (ESS ~25%, earnings-call caliber); 26H1 EV battery revenue +46% is mainly volume (+51%), price –3% YoY and +4% QoQ in 2Q26

- 2026H1 EV battery revenue RMB192.1bn (+46%) ≈ volume +51% × price –3% (Soochow caliber)
- Gross profit per Wh RMB0.12 (about –14% YoY); scale provides a partial offset; unit net profit slipped slightly QoQ

Tax-inclusive ASP has stabilized since 2025²



Wallet share: premium solid, OEMs diversify³

Caliber (2025–5M26)	Share
Premium external supply (≥RMB250k, 5M26, GS)	75%
New-model wallet share	75-76%
Seres	96.7%
Xiaomi (adding a second supplier)	73.9%
Tesla (down YoY in 2025)	70.8%

KEY TAKEAWAYS

• Volume is the main growth engine

Shipments 4.6x in four years (CAGR +46.7%), +51% again in 1H26; 26H1 EV battery revenue +46% is mainly volume

• Price stabilized; bottom unconfirmed

Tax-incl. ASP RMB0.66/Wh stable since 2025, +4% QoQ in 2Q26; lithium pass-through lags 1–2 quarters

• Premium wallet solid

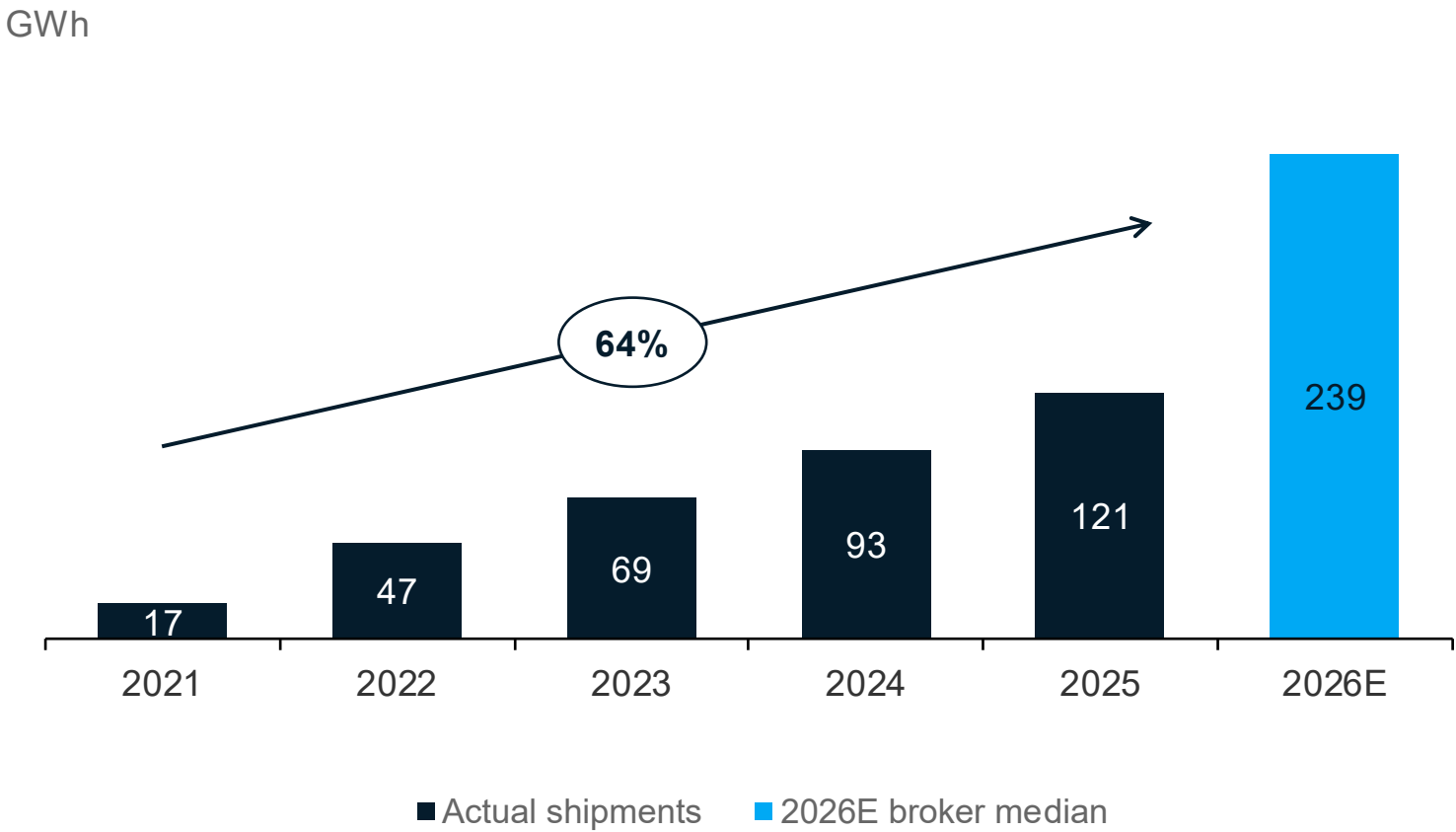
Premium external supply 75% (5M26), new models 75–76%; i6 share fell 100% (Q1) → ~60% (Q3, third-party caliber) — de-CATL-ization p. 19

1. Shipments: 2021–2025 company disclosures (541GWh in 2025, +41.85%; 116.71GWh in 2021); 1H26 ~330GWh, +51% YoY is Soochow's estimate. 2. Tax-inclusive ASP: China Merchants Securities Table 9 (RMB0.89/1.10/1.00/0.75/0.66/0.66 per Wh, 2021–2026H1); 2Q26 ASP +4% QoQ is Soochow's interim-review caliber. 3. Wallet share: premium external supply 75% (5M26) and new models 75–76% are Goldman Sachs citing ThinkerCar (5M26); customer wallet shares are Soochow (2025, CPCA caliber); NIO wallet share 60% (2025) → 77% (first 8 months, JPM 10/8); domestic passenger-vehicle share 44% in the first 8 months (+3pct), 56% ex-BYD (JPM).

ESS revenue +88%: 587Ah cuts cost 42%; GS sees integration mix going 1/3→2/3

Volume +102% × price -7% = revenue +88%; scaled 587Ah delivery cuts cost 42%; integration lifts unit gross profit from RMB138 to RMB200/kWh

ESS shipments: 2026E median nearly doubles¹



Revenue +88% = volume +102% × price -7% (26H1, Soochow basis): revenue RMB53.3bn, tax-included ASP RMB0.55/Wh; 2026E broker range 142-280GWh, a ~2x gap — fastest-growing segment, widest disagreement

- 587Ah large cell in scaled delivery, cost down 42%; Jining output exceeds 220k cells/day²
- Tianheng 6.25MWh container, TENER Stack 9MWh world-first; generation lead drives orders

Three-layer integration: cells → solutions³

	2025	2030E
Cell sales	~2/3	~1/3
AC/DC integration solutions	~1/3	~2/3
LTSA long-term services	Nascent	GM 60-70%

Comparable basis: GS's ~27% for 2025 (incl. integration premium) is close to the reported FY2025 figure of 26.71%; the dip to 23.96% in 1H26 is a period effect

- BESS GPM ~27% → 30%+, unit gross profit RMB138 → ~RMB200/kWh (GS)³
- Forward integration captures 1.7-3.5x project value; LTSA fee 1.5-2.5% of capex/yr
- Overseas systems earn ~RMB0.2/Wh, far above cells; won bids for European black-start and Saudi 8GWh projects

KEY TAKEAWAYS

- **587Ah cuts cost 42%**
Scaled delivery cuts cost 42%; 314Ah cell price at RMB0.363/Wh (InfoLink 9/30), +15-22% vs six months ago, newly signed prices trending up
- **Higher integration mix grows gross profit**
1/3→2/3 (2025→2030E): BESS GM 27%→30%+, RMB138→200/kWh (GS forecast)
- **Second-curve elasticity**
ESS GM beats EV battery, so a higher mix does not dilute GPM; 2026E forecasts span 142-280GWh — upside room

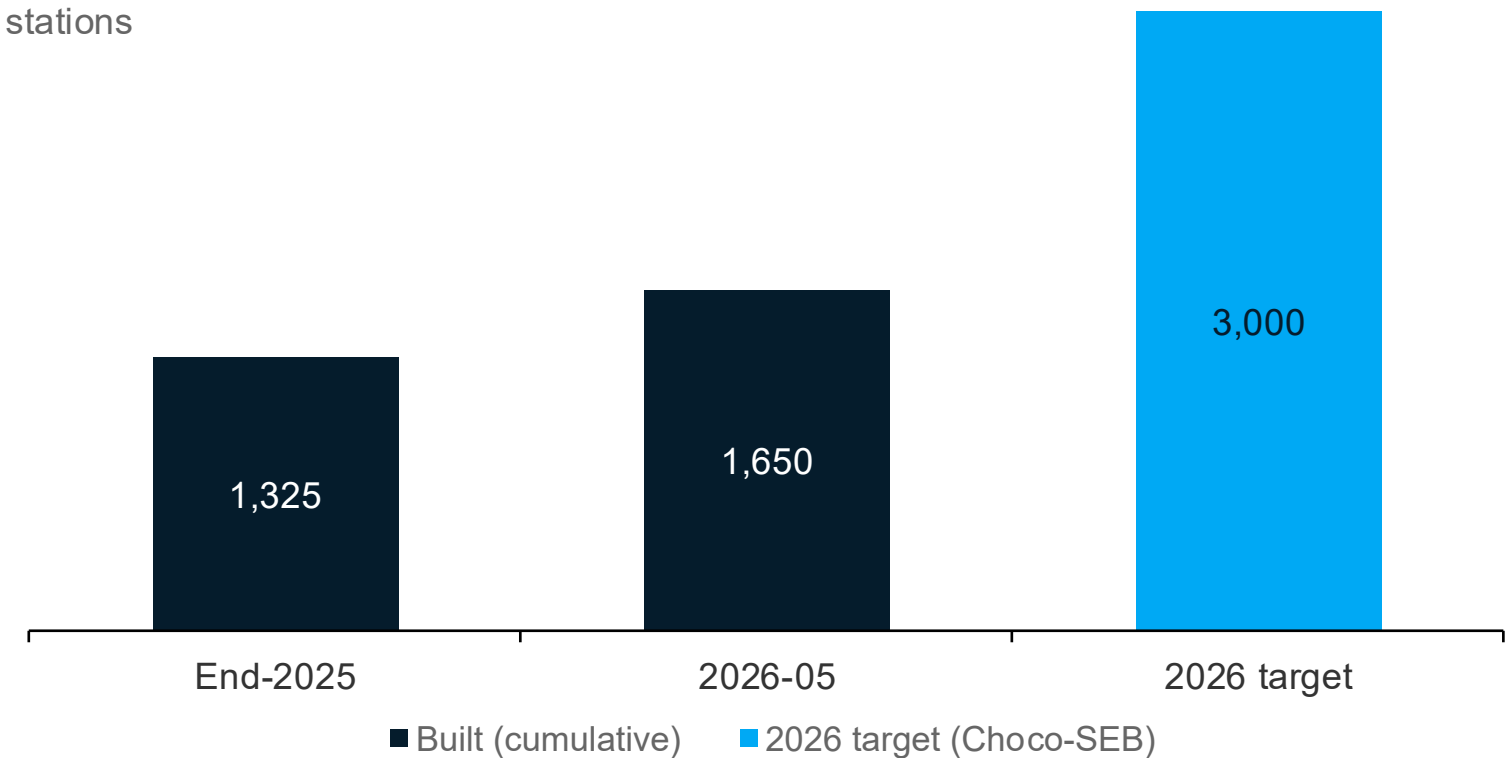
1. Shipments: company disclosures 2021-2025 (2025: 121GWh, +29.13%); 2026E is the median of 10 brokers' forecasts at 238.5GWh (range 142-280; this report's calculation, as of 2026-09). 2. 587Ah 42% cost cut, Jining >220k cells/day: Bernstein (2025-12-08), Soochow; 314Ah cell price: SMM (2026-09-24), +15-22% per Macquarie basis. 3. Three-layer system integration model and BESS/LTSA assumptions: Goldman Sachs initiation (2026-07-09, forward-looking assumptions); reported segment GM 23.96% per East Money 2026H1; overseas system profit ~RMB0.2/Wh: Soochow.

Swapping delivered in a burst on 10/20: Tianxing II range-extender first orders 13k units, 2,000 heavy-truck swap stations next year — sodium-ion awaits 4Q26

Swapping shows the highest delivery ratio (1,000 promised vs 1,020 delivered); sodium-ion scales up in 4Q26 on 67GWh of framework agreements

Swap stations: 3,000 target¹

stations



Per-station economics: IRR 5.5% at 100 swaps/day, battery-bank 10-yr IRR 10-15% (Changjiang est.); Chongqing sites already profitable

- 1,020 stations (45 cities) + 305 Qiji heavy-truck stations ('two-horizontal, two-vertical' corridors, 78k km)
- ~2,000 stations (2026-07, 31 provinces); >2,520 by 9/29; Sinopec ≥500, Didi JV
- Integrated super-swap: 4,000 planned by end-2026 (2026-04 Tech Day); Tianxing II first-batch orders 13k units (Caillian Press 10/20)

1. Swap stations: 1,020+305 cumulative at end-2025 (Changjiang Securities 2026-01-29); ~2,000 as of 2026-07 (JPM, covering 31 provinces / 180 cities; 9/29 reports >2,520 stations, 200 cities); 1,650 as a 2026-05-30 point-in-time reading (Aijian Securities); 3,000 is the 2026 target (company); per-station IRR per Changjiang Securities estimates. 2. Sodium-ion orders: HyperStrong 60GWh (2026-04-27) + Alfen 5GWh + Solarpro 2GWh, Huatai/BofA/Bernstein; cost RMB0.35-0.40/Wh: BofA/Haitong International; production ramp: Guosheng/JPM. 3. Tianheng sodium-ion deliveries: Huatai/Guolian Minsheng/East Money (2026-09-22); consumption tax exemption: Ministry of Finance (2026-09-01→2028-12-31); Fuding 40GWh capacity: UBS/East Money.

Sodium-ion: 67GWh orders, scaled in 4Q26²

Counterparty	Scale	Basis
HyperStrong	60GWh	3-year strategic cooperation
Alfen (Netherlands)	5GWh	MoU, deployment from 2027
Solarpro	2GWh	Strategic cooperation, from 2026
Total	67GWh	Plus ~70GWh ESS (nameplate)

- Naxtra 175Wh/kg, 5C, >10,000 cycles, 90% retention at -40° C; cost RMB0.35-0.40/Wh nearing LFP price parity
- Dec 2025 passenger-vehicle production → scaled production in 2026Q4; Fuding 40GWh capacity
- Tianheng first domestic deliveries in September (none seen) → 1GWh by year-end, global supply by Jun 2027³
- Sodium-ion exempt from consumption tax through end-2028 — a phase-specific cost advantage

Schedule discipline: sodium-ion scale-up runs ~2 years behind the original 2021 narrative; another slip would further dent credibility, but the 67GWh framework agreements and 40GWh capacity are already in place

KEY TAKEAWAYS

• Swapping: highest delivery ratio

1,000 promised vs 1,020 delivered; 2,000 heavy-truck stations next year, Yinwang 2027, Chery JV RMB1bn

• Sodium-ion: self-substitution

67GWh framework + 40GWh capacity + tax exemption through end-2028; cost nearing LFP parity

• Verification timing for both lines

3,000 swap stations and 4Q26 sodium-ion mass production are both verifiable within 2026; neither is in baseline earnings — delivery would be upside

Solid-state: 2027 small-batch at 400Wh/kg — a defensive follow; the industrialization pace remains to be observed

A 1,000-strong team and two pilot lines reportedly built, but TRL is only 4/9 and cost is 5x liquid; solid-state is a defensive follow

Solid-state timeline: narrative runs 2-3 years ahead of fundamentals¹

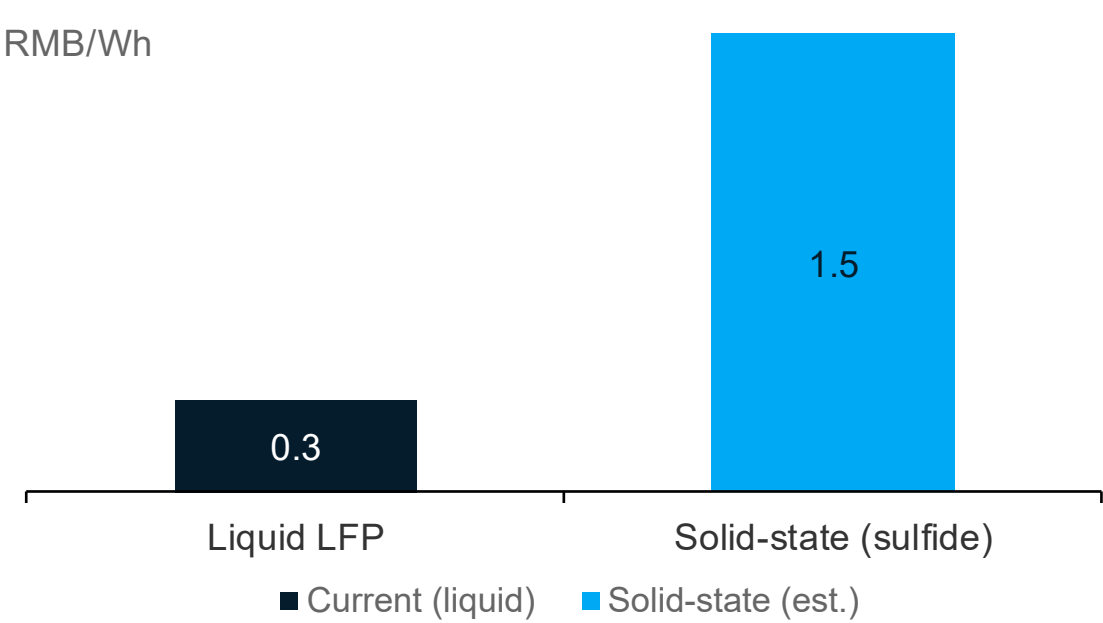
Milestone	Event	Status
2023-04	Condensed battery unveiled (~500Wh/kg at launch)	Delivered
2025-11	Samples sent for testing per JPM expert call (60Ah is the project spec)	Unconfirmed
2026-03	Earnings call: two pilot lines built (locations undisclosed)	Company claim
2027	Small-batch (400Wh/kg; TRL 7-8)	Company commitment
2030	Scale-up; Robin Zeng: million-unit vehicle installations before 2030 highly unlikely	Long-term vision

Robin Zeng himself rates current TRL at only 4/9 and has reframed production as 'event-driven rather than time-driven' (Caijing 6/10 interview, relayed by Citi) — the timeline is a defensive follow; CATL remains in follower mode

- 1,000+ R&D staff, 20Ah sample prototyping, sulfide route as the main path (multiple sources: SDIC/Guotai Haitong/Soochow)
- Qilin condensed 3Q mass production is a Bernstein relay, no company date — a watch item; solid-state 2027 is the next-gen theme

1. Timeline: company 4Q25 earnings call, JPM expert call 2025-12-06, Bernstein 2026-04-21; Hefei 0.2GWh sulfide line is Gotion's 'Jinshi' (2025-05-17); Zeng comments: Sinolink/Citi; Wu Kai TRL 7-8. 2. Costs: State Power Investment Research Institute/Debang/Everbright (solid-state ~RMB1.5 vs liquid ~RMB0.3/Wh); semi-solid equipment ~RMB150mn/GWh (liquid ~RMB100-120mn): CMS/Founder. 3. <10% breakthrough probability is this report's scenario judgment; consumption tax exemption: Ministry of Finance.

Economics: 5x cost, equipment 3x semi-solid²



- Equipment RMB400-500mn/GWh (~3x semi-solid's ~RMB150mn), production-line modifications 80-90%
- Domestic (ex-leaders) planned solid-state capacity already exceeds 75GWh with over RMB10bn invested — attention is running ahead of industrialization³
- Consumption tax exemption through end-2028; 80-90% line modifications mean first movers bear all learning costs

Adjudication checkpoint: whether 2027 brings scaled solid-state production (>1GWh class) outside the CATL camp in demo vehicles — that is the true moat test

KEY TAKEAWAYS

• R&D is progressing, industrialization still lags

1,000-strong team, two pilot lines, 20Ah samples; but Zeng himself rates TRL 4/9 — positioned as follower, not leader

• Economics unsolvable within 5 years

Cost 5x liquid Li-ion, equipment ~3x semi-solid, line modifications 80-90%; no cost threat to the liquid LFP base

• Positioned as a defensive R&D reserve

Solid-state is a defensive R&D reserve, contributing no growth near term; 2027 demo installations are the first checkpoint, to be re-tested every six months

LRS royalty ~US\$7/kWh: three plants at full 50GWh output ≈ RMB2.36bn/yr; FEOC direction already turning strict

'Upfront fee + volume royalty + service fee' hybrid, ~RMB0.94bn/yr per 20GWh (MS rate); EO 14421 and FEOC turned strict (IRS Notice 2026-15)

Three US licensed plants: revenue math at full 50GWh output¹

Project	Capacity	Status	Royalty revenue at full output
Ford Michigan LFP	20GWh	Pilot validation from Jun 2026	~RMB0.94bn/yr
Tesla Nevada	10GWh	Equipment + licensing, mainly for Megapack	~RMB0.47bn/yr
Ford Energy Kentucky	20GWh	Five-year supply, system shipments 2027	~RMB0.94bn/yr
Total	50GWh	—	~RMB2.36bn/yr

Cross-check of the hybrid structure: JPM's conditional 'If total fee income amounts to around 12%...' (upfront license fee + volume-based royalty + service fee) converges to the same order of magnitude as MS's \$7/kWh³

- The '12% royalty' is Manchin's personal relay, unconfirmed by both parties; the actual structure is a hybrid fee model (JPM)
- Precedents: ATL 2017 one-time \$55mn + 3% royalty; ATL cross-license fixed annual fee \$150mn/yr (from 2021)
- US indirectly related revenue was ~3-4% of total 2025 revenue (Macquarie); licensing revenue remains small

FEOC two paths: RMB2.36bn/yr at stake²

MS royalty	Full output	Royalty/yr	Exposure
\$7/kWh	50GWh	RMB2.36bn²	~2%



Licensing-friendly: royalty revenue preserved, Ford Michigan in pilot validation, Nevada ramping; 'Others' profit pool ~RMB6.8bn in 26H1 (15.7% of NP, Soochow est.)



Restrictive:45X credit restricted, royalty revenue under pressure; direct exposure ~2% of NP (revenue basis, this report's calc.); ATL cross-license fee ~RMB1.01bn/yr, non-US R&D unaffected

- EO 14421 (signed 2026-08-26): BESS explicitly covered, DOE rules within 120 days ≈ late December
- IRS Notice 2026-15 (2026-02-12) already signals a strict direction; DOE rules due under the EO deadline 2026-12-24
- EO 14421 Sec.2(a)(i) already covers software/firmware/remote-access
- US DOT letter to Ford on 9/3 named the Michigan plant's use of CATL-licensed technology (made public 9/8)

KEY TAKEAWAYS

• LRS is one optional route into the US market

Collect royalties instead of selling batteries; ~RMB0.94bn/yr per 20GWh (MS rate)

• Part of the 'Others' profit pool

~RMB6.8bn profit in 26H1 (Soochow est.); LRS + ATL at full output ~RMB3.4bn/yr, roughly a quarter

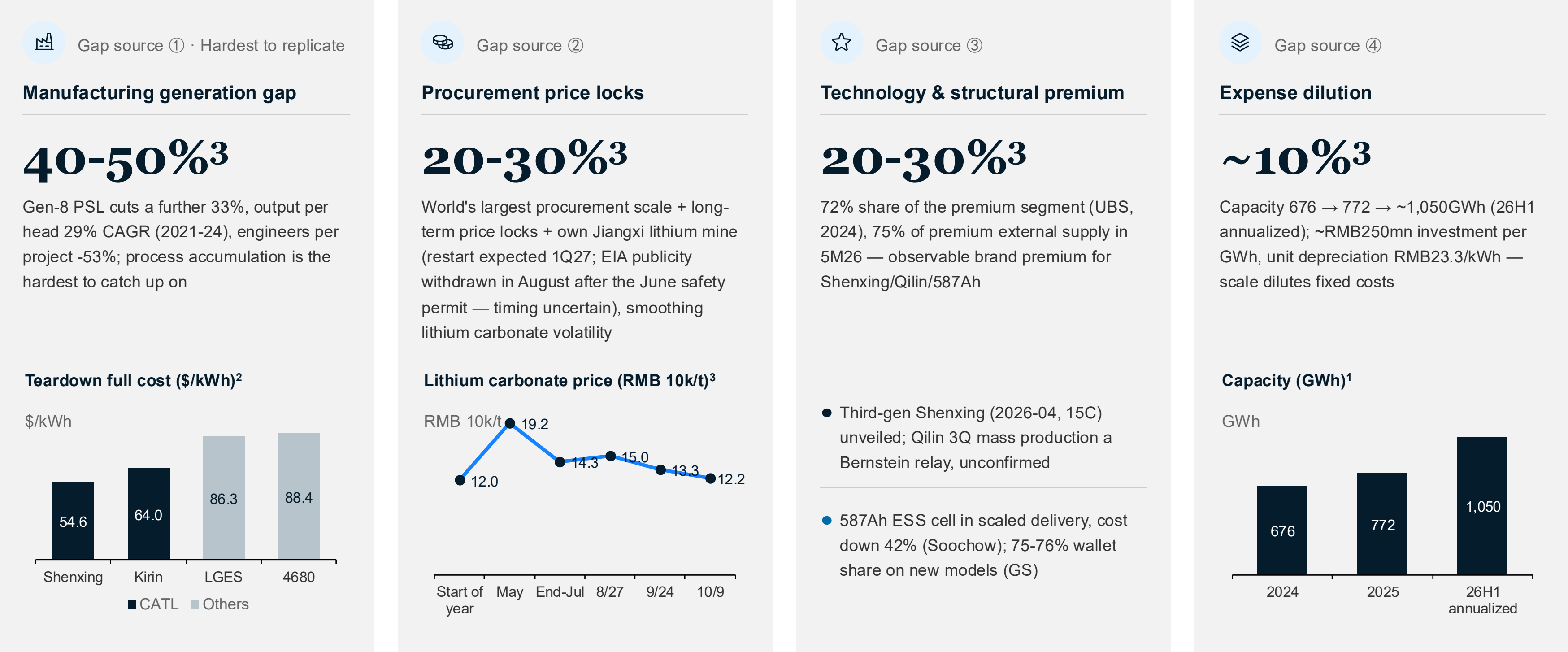
• FEOC rules land by year-end; direct exposure ~2%

In the restrictive scenario, direct revenue exposure is estimated at ~2% (revenue basis, not EPS); license as option value rather than core cash flow (Macquarie)

1. Plants: Ford Michigan 20GWh (pilot from 2026-06), Tesla Nevada 10GWh, Ford Energy Kentucky 20GWh (shipments 2027); royalty revenue is our calculation (MS \$7/kWh × capacity, CFETS parity 6.7330). 2. FEOC/EO 14421: Macquarie (2026-09-11); ~2% revenue exposure is our calculation; 'Others' profit RMB6.8bn per Soochow (15.7% of NP); US DOT letter to Ford public 9/8. 3. Hybrid structure: JPM (2025-06, Table 54); ATL fee per announcement 2021-037; US revenue share 3-4% per Macquarie.

Unit net profit ~2.8x second-tier peers: the manufacturing generation gap is the hardest edge to replicate

RMB0.07 vs RMB0.025/Wh (Soochow 26Q2): the gap = manufacturing generation gap + procurement locks + technology premium + expense dilution¹



1. Unit net profit: CATL RMB0.07/Wh and second-tier on Soochow 26Q2 basis; 3Q26 CATL RMB0.082 (UBS; ~RMB0.057 Soochow battery-segment basis); 2.8x gap on Soochow basis, pending 3Q26 second-tier check; depreciation RMB23.3/kWh, ~RMB250mn/GWh: CMS. 2. Teardown (A2Mac1→UBS, 2026-02-06; full cost incl. overhead and margin): Shenxing \$54.62, Qilin \$63.99, LGES Ultium \$86.32, Tesla 4680 \$88.41/kWh. 3. Four-factor split is directional, not additive; PSL -33%, output/head 29% CAGR: UBS; premium share 72% (UBS, 2024)/external supply 75% (5M26, GS/ThinkerCar); lithium sensitivity (+RMB 10k/t → +RMB0.006/Wh): Macquarie/SMM.

Financials & Valuation

Earnings quality, forecasts, and the valuation backbone

43-44
GPM & net cash
Net cash ~RMB184.0-246.7bn (9/30); cash reserves RMB432.6bn

45-48
Earnings forecasts
In-house 2027E
RMB100.0bn; 9 sell-side updates

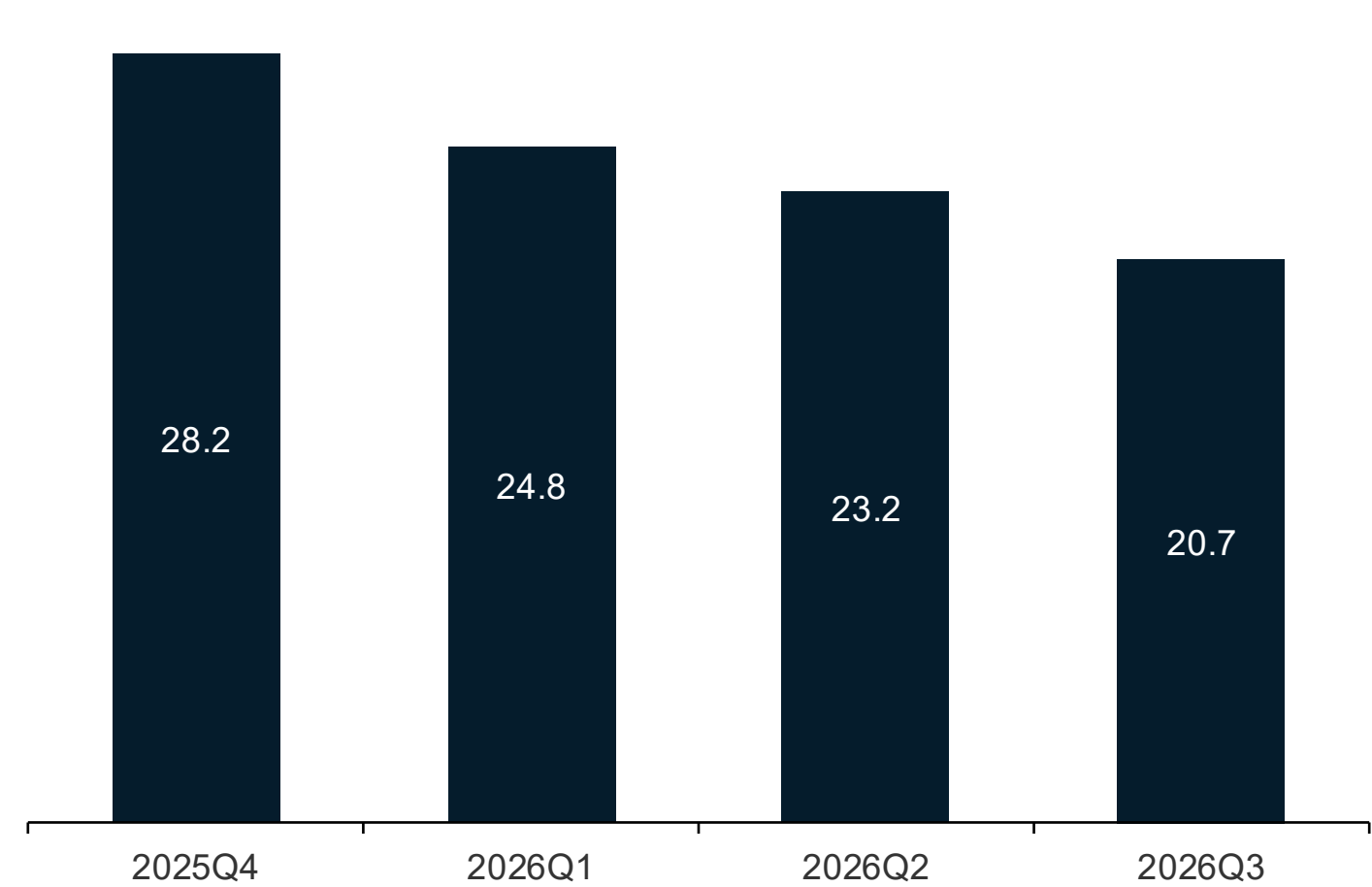
49-51
Target & valuation
RMB346: the valuation chain and its attribution

Quarterly GPM falls for a second straight quarter: 24.82% → 23.15% → 20.69%; no evidence of tax pass-through yet, management says negotiations are ongoing

Of the -1.09pct YoY 1H decline, segment-level GPM contributed -1.01pct; 3Q26 fell to 20.69% — mix and price cuts hit GPM; consumption tax hit earnings below gross profit

Quarterly GPM: -4.1pct over two quarters¹

%



- Lithium carbonate RMB119.5k→192k→122k/t (10/9); +RMB10k ≈ +0.006/Wh
- 2% consumption tax into taxes and surcharges from 9/1, not into GPM (JPM)
- Unit net profit ~0.10 → 0.097 → 0.082 (1Q→3Q26, RMB/Wh), below 0.090

- 2Q26 EV battery avg price RMB0.68/Wh, +4% QoQ; no tax pass-through yet
- 2Q26 opex ratio 6.46%, -0.80pct QoQ, partly hedging GPM decline (Huatai)
- Peers' unit net profit RMB0.003–0.025/Wh; CATL >2.8x (Soochow caliber)

1. Quarterly GPM = 1 – COGS/revenue (East Money F10 quarterly income statement, calculated), through 2026Q2; cumulative 2026H1 23.93% vs 2025H1 25.02%. 2. YoY bridge is this report's decomposition of East Money semi-annual segment data. 3. Unit net profit = NP attributable to shareholders ÷ sales volume (UBS/JPM/Macquarie/Soochow, estimates); the RMB0.09/Wh scenario dividing line is Macquarie's 2026-09-11 criterion. 4. Chart series updated through 3Q26; the 3Q26 value of 20.69% is in the main text (company 3Q report).

YoY bridge: 2026H1 vs 2025H1 = -1.09pct²

Driver (YoY bridge component)	Contribution (pct)
EV battery segment GPM 22.41%→20.63%	-1.23
EV battery revenue mix 73.55%→69.38%	-0.93
ESS revenue mix 15.88%→19.23%	+0.85
ESS GPM 25.52%→23.96%	-0.30
Materials recycling & mining GPM up to 27.04%	+0.50
Other businesses (licensing/services etc.)	+0.02
Total (23.93% vs 25.02%)	-1.09

Sum of components = disclosed -1.09pct; bridge closes (residual from rounding)

KEY TAKEAWAYS

• ~90% from segment GPM

Of the -1.09pct YoY bridge, segment-level GPM items total -1.01pct (92.7%); mix ≈ -0.08pct; decline driven by GPM erosion in EV battery and ESS

• Cost time-lag is narrowing

Costs tied to lithium carbonate's May RMB192k/t peak reset under linkage in 1–2 quarters; futures RMB95.5k/t on 10/21 (-4%) — cost side turns tailwind

• Verdict in: line not held

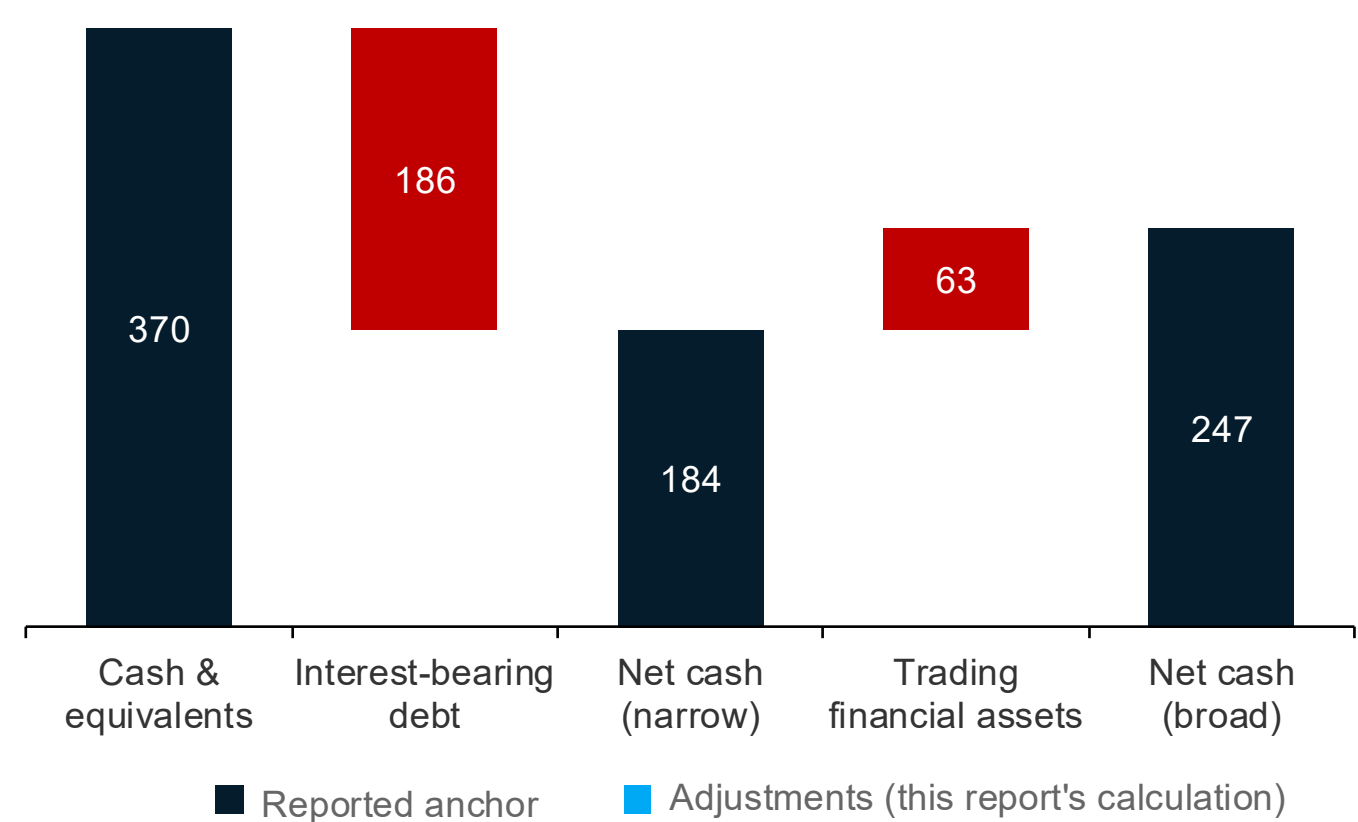
3Q26 unit net profit of RMB0.082/Wh broke the line; UBS attributes it to: product mix volatility + low value-add projects + consumption tax + rebate cut 9%→6% + inventory impairment³

Cash reserves of RMB432.6bn with RMB4.6bn buyback underway; but Q3 single-quarter operating cash flow of only RMB1.4bn — first earnings-quality warning

Cash reserves RMB432.6bn; net cash at 9/30 ≈ RMB184.0–246.7bn (vs RMB223.0–291.2bn at 6/30); Q3 operating cash flow RMB1.409bn

Net cash: narrow ≈ RMB184.0bn → broad ≈ RMB246.7bn¹

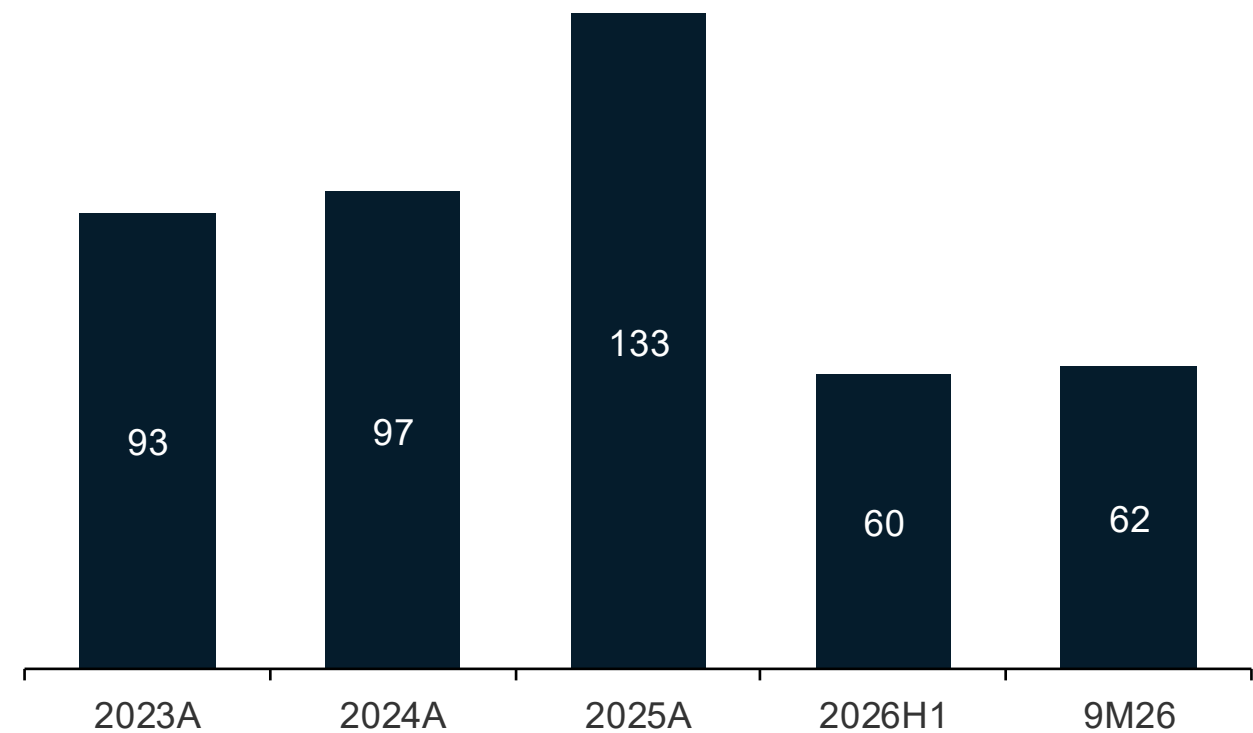
RMB bn



- Net occupied funds ~RMB75.2bn at 9/30 (vs RMB135.47bn at 6/30)
- Interest-bearing debt RMB185.86bn (9/30, incl. RMB16.87bn current portion)
- 2026H1 FCF ≈ RMB35.14bn (CapEx RMB25.07bn, +24% into battery capacity)
- Financing inflows: bonds RMB25.49bn + capital injections RMB36.91bn

Operating cash flow: 9M26 61.6 (-23.6%); Q3 only 1.4²

RMB bn



- 9M interest coverage ~2.9x; Q3 alone ~2.2x
- Short-term debt RMB56.77bn vs cash RMB333.40bn, ~5.9x cover
- 50% payout for three straight years + RMB20-40bn buyback for cancellation; second ESOP launched 9/30
- Cash & bank balances = 32.7% of assets; liabilities/assets 63.65% (6/30)

KEY TAKEAWAYS

• Ample net cash, negative finance costs

Cash RMB369.81bn – debt RMB185.86bn (incl. RMB16.87bn due <1y) = ≈RMB184.0bn (9/30); 9M interest cover ~2.9x (3Q ~2.2x)

• Occupied payables are pricing power in cash

~RMB75.2bn at 9/30 vs RMB135.47bn at 6/30 (peak-season stocking + term shortening); re-verify in 4Q

• Cash flow risk vs buyback

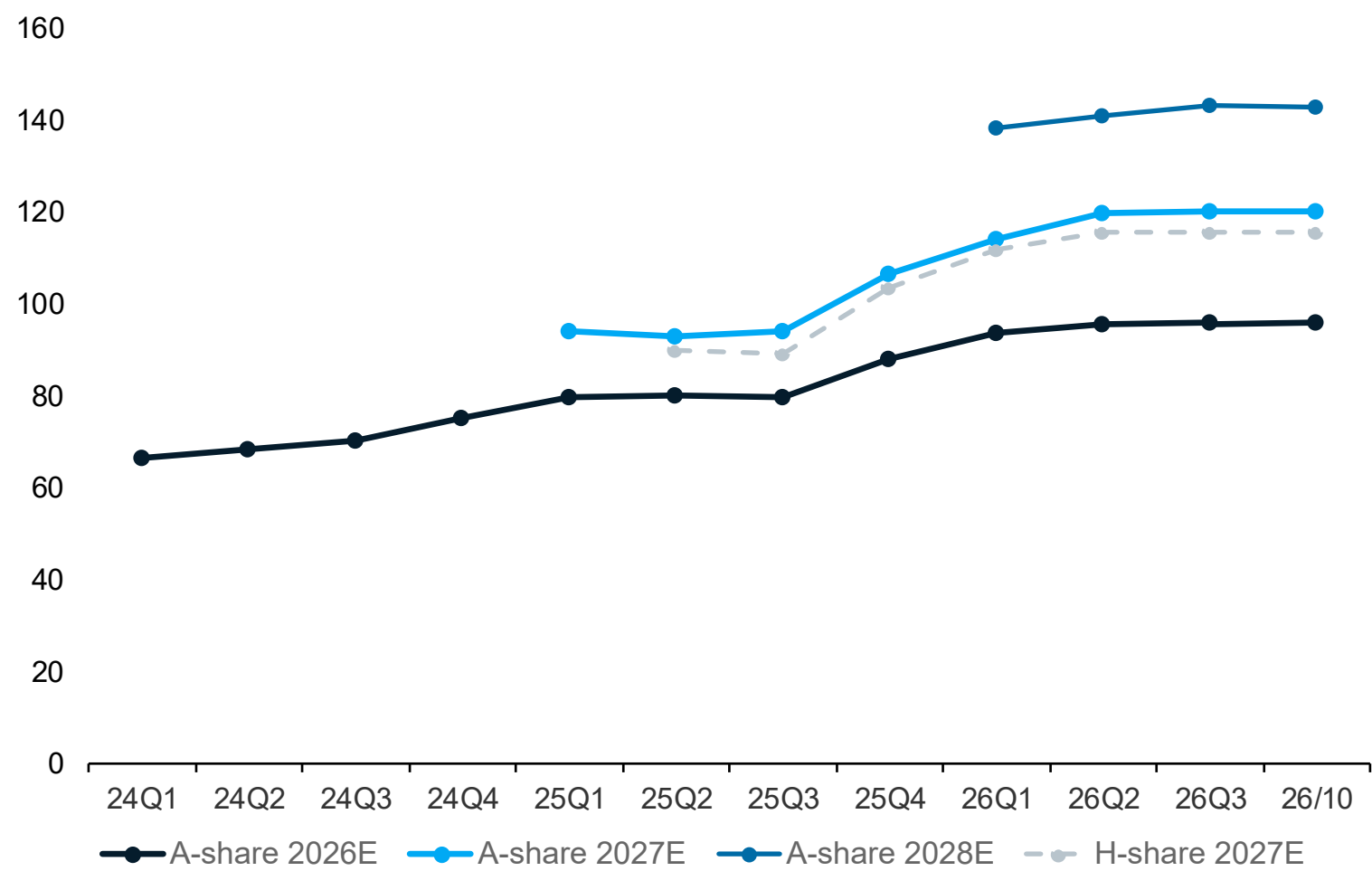
Q3 CFO fell to RMB1.409bn; buyback RMB4.607bn; watch inventory +53%, contract liabilities -17%³

1. Net cash (own calculation, 3Q report 2026-09-30): narrow = cash RMB369.814bn – interest-bearing debt RMB185.862bn (ST borrowings, current portion, bonds payable, LT borrowings); broad = + trading financial assets RMB62.780bn. 2. CFO cumulative (East Money); CFO/NI = 1.28x; net occupied funds = notes & accounts payable – receivables – inventory (own calculations). 3. Eight green tech-innovation bond tranches issued; cumulative buyback RMB4.607bn, ≈16.23m shares (avg ≈RMB284) as of 10/21 (HKEX disclosure). 4. 3Q26 data: company 3Q report (10/20); cash reserves RMB432.6bn = cash + trading financial assets.

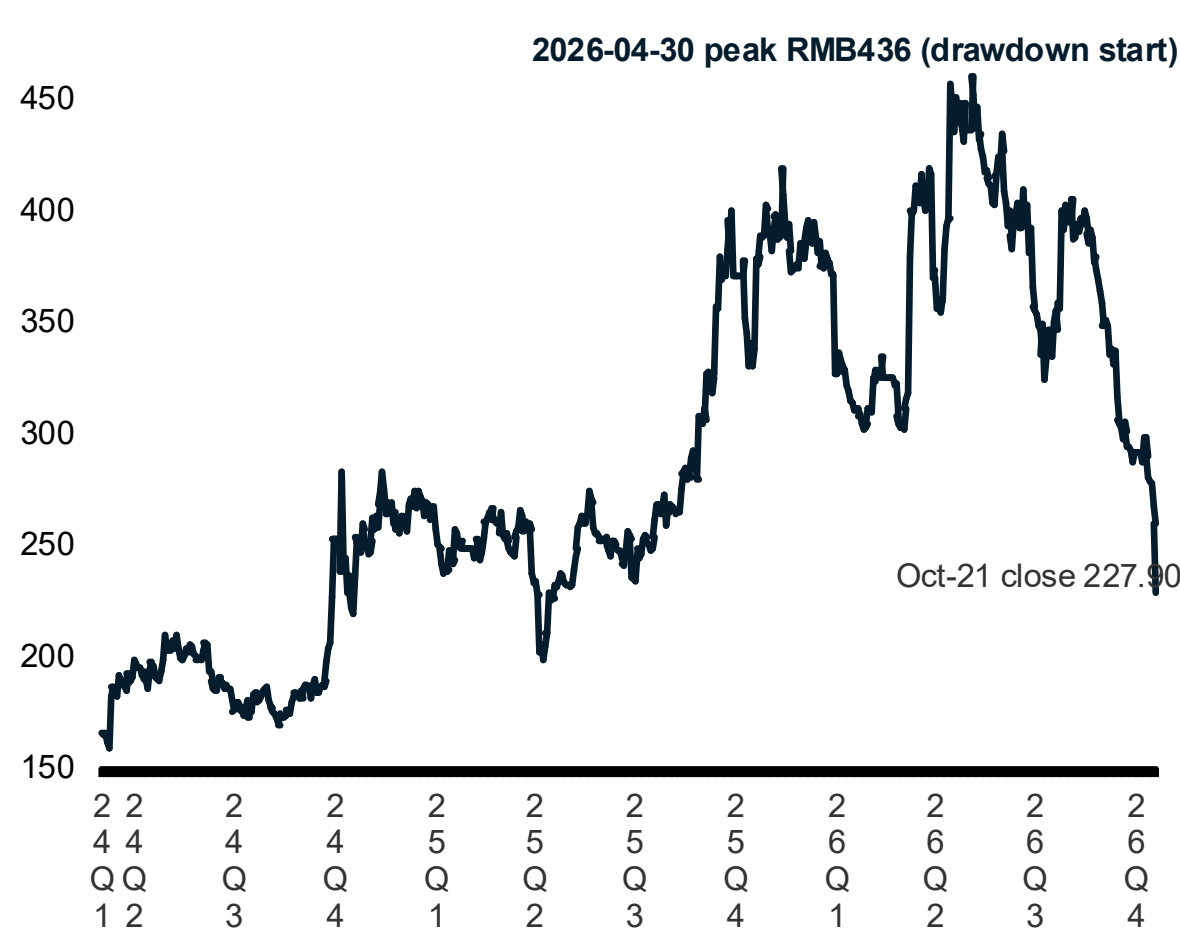
Consensus trajectory: two years of upgrades pause, entering a recalibration phase

Shares -47.7% since 2026-04-30 (436 → 227.90); -51.2% drawdown from the 5/7 peak of 467.35; consensus entered a downgrade cycle from 10/20

Consensus NP trajectory (RMB bn, 90-day median)¹



Share price (RMB, daily close)³



KEY TAKEAWAYS

• Scissors reversal

Apr–early Oct: 'numerator up, denominator killed' (shares -32% × fixed-year consensus +2–3%, +14.5% rolling NTM); from 10/20 both fall together

• The downgrade cycle has just begun

Sell-side action clustered in 48h post-results (8 + JPM pre-empt); Wind/10jqka mean downgrades on the way (9M at just 67%)

• A/H moving in the same direction

Sell-side has cut H-share numbers; the consolidated value awaits update, coverage 2 → 4

2026E +44%: RMB66.5→96.0bn

2027E +28%: RMB94.0→120.1bn

H 2027E +28%: RMB90.1→115.5bn

Double kill starts from 10/20

Full window 2026-04-30 → 2026-10-21: shares -47.7% (RMB436 → RMB227.90); -51.2% since the 5/7 peak; expectation downgrades from 10/20 — double kill under way

- Quarterly points: 12 points from 2024-03; 2028E has 4 points from 2026-03; H shares have 7 points from mid-2025² — the trajectory is not a single-point splice
- 2028E coverage in its first quarter RMB138.3 → RMB142.9bn (+3.4%): long-dated expectations rose in sync — upgrades extended beyond near-term years

1. A-share consensus: iFinD forecast median, trailing 90 days at quarter-end (2026-10-09: 2026E RMB96.1bn, 2027E RMB120.2bn, 2028E RMB142.9bn; n=32–34). 2. H-share consensus: iFinD HK quarter-end median (2026-10: 2027E RMB115.5bn n=4, 2026E RMB93.8bn n=5). 3. Share price calculated as PE(TTM) × TTM NP attributable ÷ share count, calibrated to 2026-10-08/09 closes (RMB286.75/297.75) and extended to the 10/21 close of RMB227.90; 04-30 → 10-21 drawdown is our calculation. JPM moved on 10/20, UBS cut on 10/21; Wind mean not yet updated.

Peer valuation: CATL's 2027E 10.4x already below the tier-2 median of 11.6x, PEG 0.54x

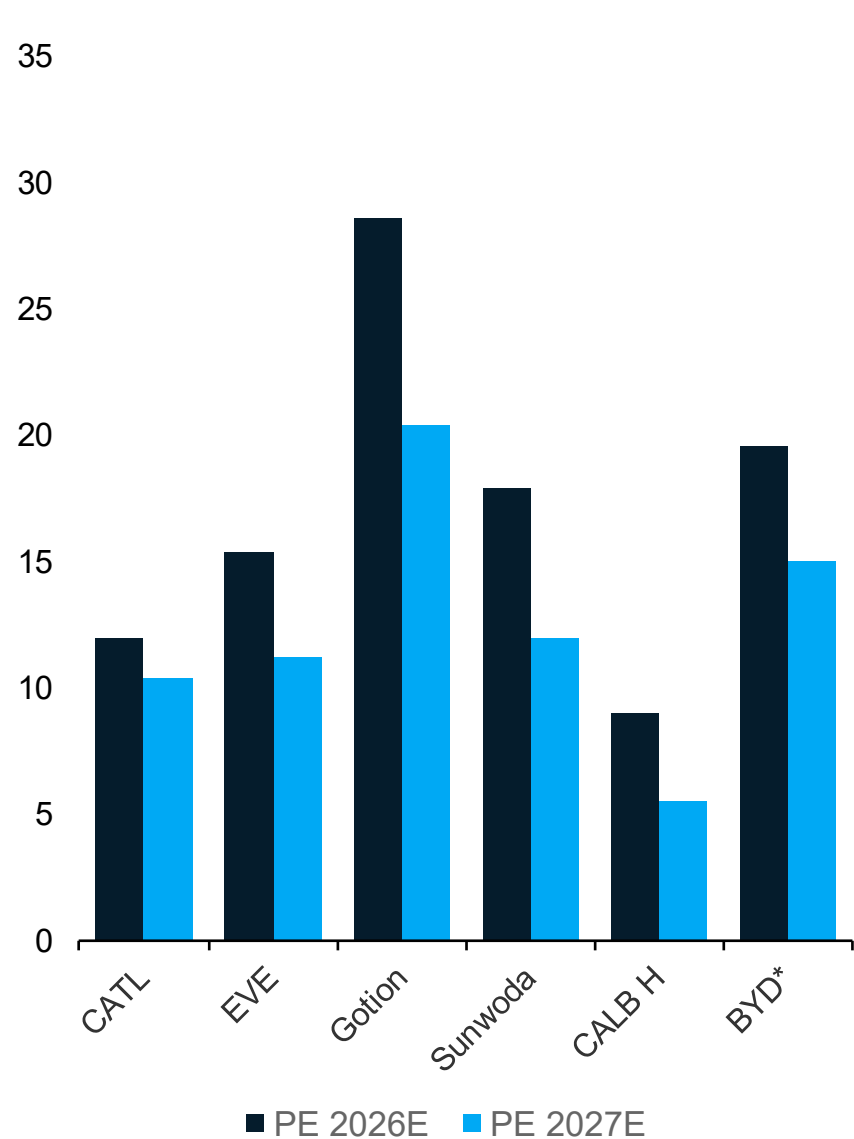
2026E PE of 12.0x is the lowest among A-share battery peers; 39.4% share + ~2.8x unit net profit, yet trades ~10% below second-tier (peers on 10/9 basis)

PE vs PEG comparison (2026-10-09)¹

Company (market cap)	PE 26E	PE 27E	PE 28E	CAGR ²	PEG ³
CATL (RMB1.05tn)	12.0x	10.4x	8.4x	+19.2%	0.54
EVE Energy (RMB111.5bn)	15.4x	11.2x	9.0x	+30.5%	0.37
Gotion High-tech (RMB55.2bn)	28.6x	20.4x	16.2x	+33.0%	0.62
Sunwoda (RMB38.2bn)	17.9x	12.0x	9.0x	+40.9%	0.29
CALB H (HK\$28.5bn)	9.0x	5.5x	4.4x	+43.0%	0.13
Battery peer median (ex-BYD)	16.6x	11.6x	9.0x	+37.0%	0.33
BYD* (RMB774.5bn)	19.6x	15.0x	12.3x	+26.2%	0.58

CATL 2027E 10.4x already below second-tier median 11.6x — trading at a ~10% discount to second-tier (peers on 10/9 basis); PEG 0.54 corresponds to 19% organic growth

PE 2026E / 2027E (x)



KEY TAKEAWAYS

• Tier-2 parity: biggest non-consensus opportunity

PE 27E of 10.4x is below the tier-2 median of 11.6x, yet unit net profit is ~2.8x tier-2's, ~90% profit share

• Second-tier low PEG is rebound arithmetic

Gotion/Sunwoda/CALB 33–43% CAGR is low-base recovery; PEG 0.1–0.6x distorted; CATL 0.54x = 19.2% organic

• BYD listed separately; CALB flagged for caliber

BYD's PE spans autos+electronics, out of the peer median; CALB's 9.0x not just HK discount (utilization, margins, cash weak); regime vs fundamentals inseparable

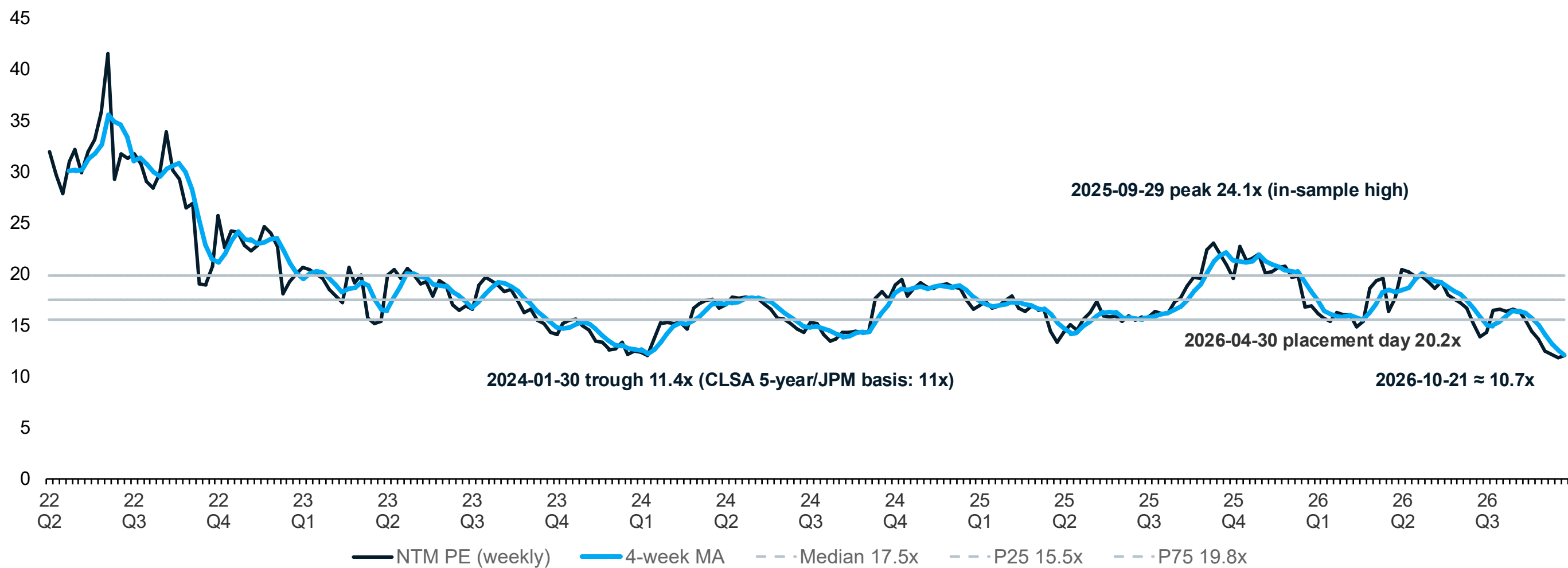
- H-share premium 35.5% (10/21): the same issuer's H shares imply 2027E PE ≈14.1x
- Disclosed sell-side TPs imply 2027E P/E of ~16–23x; this report takes 16x = ~10% below the historical NTM median of 17.5x, in line with JPM's target multiple

1. Market caps and prices as of 2026-10-09 close; 2026E PE is Wind's 'P/E (forecast)'; 2027E/2028E PE = 2026E PE × 2026E NP attributable ÷ 2027E/2028E NP attributable (this report's calculation). 2. NP consensus: iFinD earnings forecast detail, median of reports since 2026-06-01 (n=9–65; CALB uses the HK consolidated value). 3. PEG = 2027E PE ÷ 2026–28E EPS CAGR. *BYD is an auto+battery conglomerate, shown for reference only and excluded from the peer median; CALB's market cap is in HKD and forecasts in RMB, PE converted pro rata on Wind's basis. CATL PE calculated at RMB227.90 and the new consensus; peers on 10/9 basis.

NTM ≈10.7x has broken the Jan-2024 trough of 11.4x: the price fell more than earnings were cut

Daily backtrack over a rolling 90-day window; spot NTM ≈10.7x (new consensus), ~9.3x on the old — both below the Jan-2024 trough

NTM PE weekly line with 4-week MA and median/quartile bands (2022-04 → 2026-10)¹



Window (weekly) ²	Median	P25	P75	Current %ile
Full sample 2022-04+ (n=234)	17.5	15.5	19.8	≈0%
Since 2024 (n=145)	16.7	15.3	18.6	≈0%
Since 2025 (n=93)	16.7	15.8	19.2	≈0%

Current ≈10.7x: lowest of the full sample, breaking the Jan-2024 trough of 11.4x — price is overshooting earnings cuts (still below trough on revised earnings); bottom confirmation awaits 4Q26

KEY TAKEAWAYS

• Strictly point-in-time caliber

Daily: 90-day trailing report median; current-/next-year NP weighted by (13-month)/12³; weekly = week-end values; Jan-2024 11.4x; JPM 11x trough; 12.07x (10/9) = our 12.1x

• Cross-checked against TTM — different anchor

(10/9) PE(TTM) 15.6x flattered by rising EPS; NTM 12.1x prices in 2027E growth; 10/21: TTM 12.03x, NTM ≈10.7x, ≈0%

• Recovery discipline

16x on FY2027 = RMB346 (+52%); 16x on NTM ≈ RMB335; percentiles are occupancy statistics, not commitments — 4Q26 unit net profit and the 45% share line are preconditions (ladder: p.51)

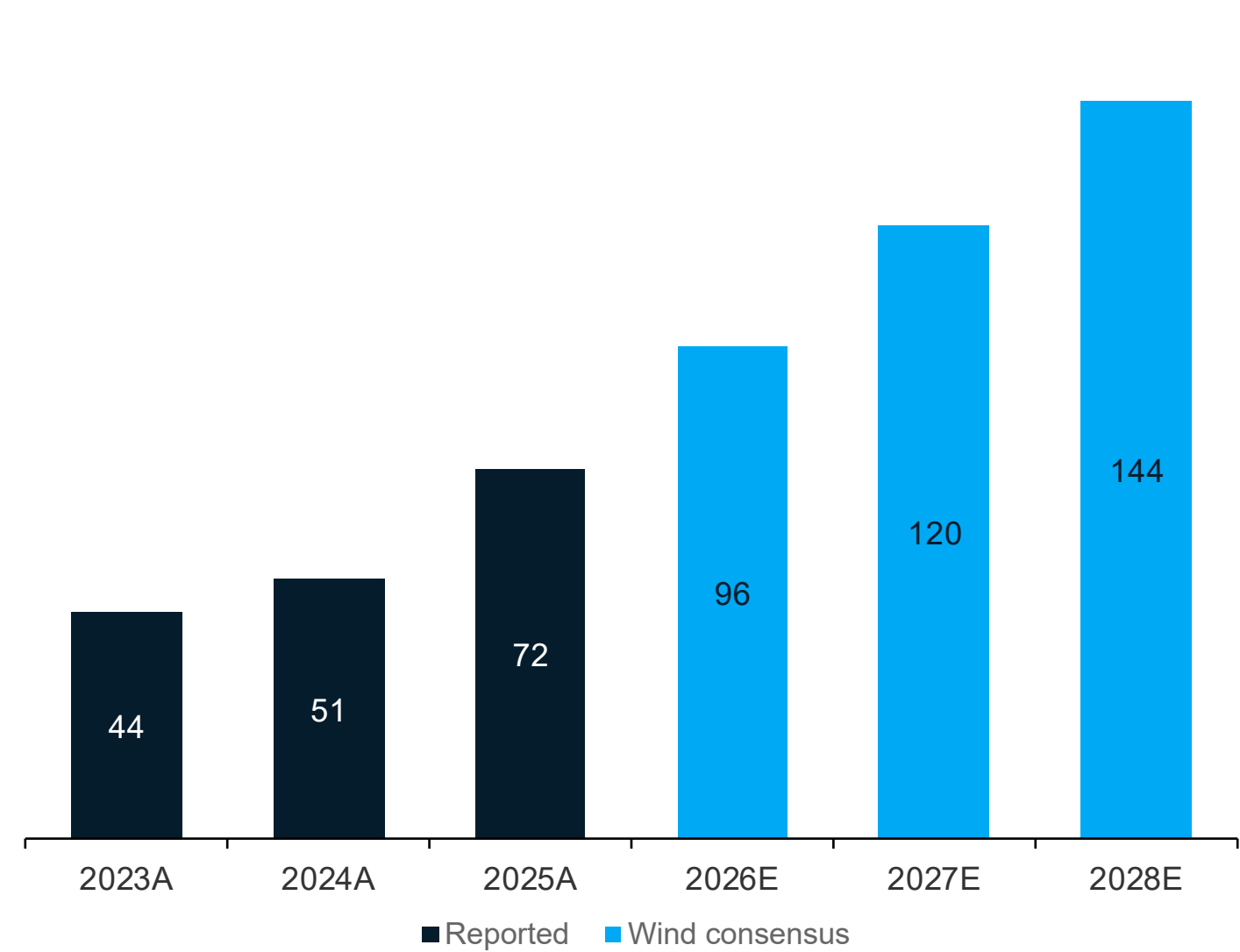
1. NTM PE = PE(TTM) × TTM NP attributable ÷ NTM consensus NP attributable (this report's calculation): NTM NP = current year × (13-month)/12 + next year × (month-1)/12, taking the median of reports over the trailing 90 days (iFinD earnings forecast detail); TTM NP enters on disclosure dates from company periodic reports; weekly line takes week-end observations with a 4-week MA overlay. 2. Weekly sample: the week of 2022-04 through 2026-10-09, 234 observations; percentile = share of observations ≤ current value; extrema are exact daily values (2024-01-30 trough 11.43x, 2025-09-29 peak 24.10x). 3. The weighted caliber matches this report's NTM 12.1x (0.25 × 2026E + 0.75 × 2027E iFinD EPS); JPM's '11x trough' is on the NTM basis. Historical NTM median 17.5x and trough 11.4x are from this report's 10/9 calculation series (iFinD, as of 10/9); the 10/21 latest values are in the main text (new-consensus NTM ≈10.7x).

Sell-side: 6 of 9 brokers cut 4-19%; consensus 2026E RMB86.0-91.0bn / 2027E RMB99.0-103.5bn; our 2027E cut to ~RMB100.0bn

Ratings intact: only JPM cut H to Neutral; A-share TP's RMB340-507 vs spot RMB227.90; the downgrade cycle has begun (9M = 67% of old consensus)

NP attrib.: 2026E Wind cons. RMB96.2bn / 2028E RMB144.1bn¹

RMB bn



- 3Q26 NP RMB21.246bn; preview center RMB24–25bn → ~11–15% miss
- 2027E NP: this report RMB100.0bn / sell-side new center 99.0–103.5
- JPM worst case (100% tax absorption): 0.103→0.079; 2027 –RMB13.4bn

Latest sell-side price targets and implied multiples²

Institution (date · rating)	TP	Revision	One-liner
UBS (10-21) Buy	H HK\$730	-11~14%	Recoverable
JPM (10-19/20) N/OW	340A/500H	-6%/-14%	Reallocation starts
Citi (10-21) Buy	A RMB479	-9/14/15%	To 86/103/122
MS (10-21) Overweight	A RMB500	0.10→0.08	12% below est.
BofA (10-21) Buy	630H/487A	-8.6~15.5%	DCF+EV/EBITDA avg
GS (10-21) Buy (CL)	507A/777H	-4~7%	Mostly transitory
Huatai (10-21) Buy	474A/716H	TP -21%	Buy overdone fears
Soochow (10-21) Buy	A RMB431	-10/18/19	To 86.8/99.8/119.5
Guojin (10-21) Buy	—	Rating kept	Near-term pressure

Pre-results Q3 expectations (RMB bn): Bernstein 22.9 / GS 24.0 / CLSA 25.0–26.0 (actual 21.2); CITIC/CSC/CMS/Macquarie no update as of 10/21³

- 3Q26 unit net profit ≈RMB0.082/Wh, broke the RMB0.090 line
- 9M26 NP attributable RMB64.530bn = 67% of old consensus RMB96.2bn
- 2026E ESS shipment forecasts span 142–280GWh (caliber disagreement)

KEY TAKEAWAYS

• Downgrades concentrated in earnings

No quantitative evidence of clustered sell-side 2027 demand cuts; management guides 2027 industry growth of 20–30%

• Sell-side multiple anchor

Disclosed sell-side TP's imply 2027E P/E ~16–23x; we take 16x = ~10% below the historical NTM median 17.5x, in line with JPM's target multiple²

• Our own forecast

2026E ~RMB88.0bn (9M 64.5 + 4Q ~23.5; old RMB96.2bn needs 4Q 31.7, +49% QoQ — abandoned); 2027E cut RMB115.2→100.0bn (0.078 × 1,280GWh); 2028E ~RMB120bn (0.081 × ~1,480GWh)

1. Sell-side TP's and revisions are institutions' 10/20–21 updates (JPM/Citi/BofA/GS from original reports; Huatai compares its 10/10 pre-results and 10/21 post-results reports; Soochow from in-library abstract; MS/UBS via Gelonghui relay pending corroboration, MS original in library (MS 10/20); Nomura/Jefferies/Bernstein not listed). 2. New consensus center is this report's aggregation of disclosed quantitative forecasts (UBS/Citi/Nomura/BofA/GS/JPM). 3. 3Q26 actual RMB21.246bn; unit net profit RMB0.082/Wh. 4. Chart series data as of 10/9 (consensus on pre-downgrade basis). Data as of 2026-10-21.

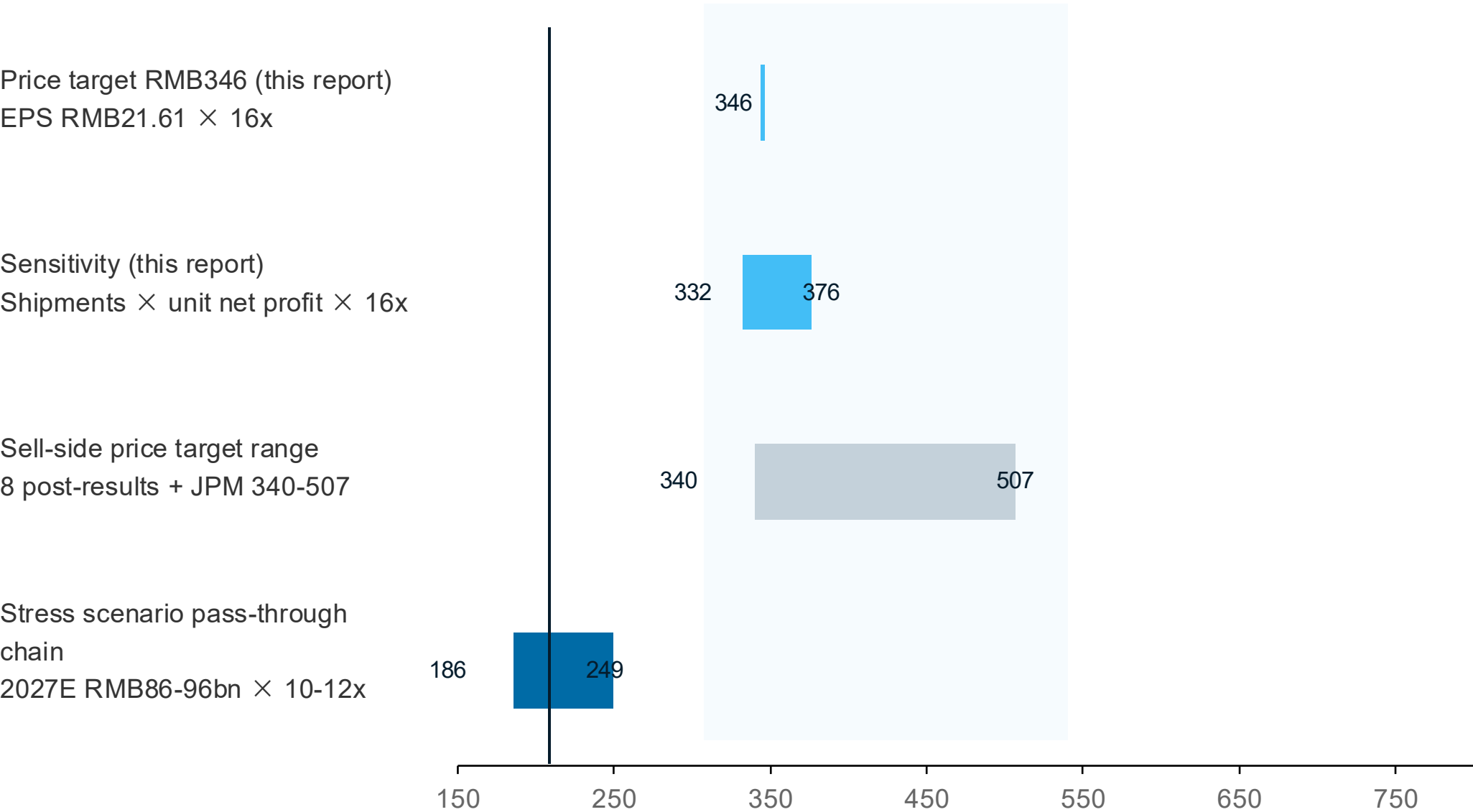
Price target: 2027E EPS RMB21.61 × 16x = RMB346, +52% vs the current price

Conditional on 4Q26 holding RMB0.085 (top of the new equilibrium); upside from multiple repair (10.4x → 16x); ±RMB0.005/Wh ≈ ±RMB22 on PT

Valuation football field: our EPS, the sell-side range and stress scenarios¹

Implied share price (RMB)

Dark blue line: current price RMB227.90 · light blue band: sell-side A-share range RMB340-507



Stress chain parameters JPM/Macquarie · sell-side: 8 post-results + JPM pre-results (10/20-21) · price target RMB346 = RMB21.61 × 16x (~10% below the historical NTM median of 17.5x)

■ Multiple method ■ Stress-chain anchor ■ Sell-side (others) ■ Sell-side A-share range

Price target summary²

Price target (Buy)	RMB346
Upside vs current price RMB227.90	+52%
Probability-weighted expectation ²	RMB328 (+44%)
Bear (stress scenario chain, 30%)	RMB186-249 — price already in chain
Sell-side price targets (8 post-results + JPM) ³	A-share RMB340-507
Current price vs lowest target	Discount of ~33%

Where the multiple comes from
16x = ~10% below the historical NTM median of 17.5x; disclosed sell-side implied ~16-23x is the upper bound and the 11x trough the lower bound; RMB346 = FY2027 16x

- Multiple sensitivity: 13.4x/16x/19.2x (PEG 0.7/0.84/1.0) → RMB290/346/415
- Growth match: 2026-28E CAGR ~19.2%; 16x → PEG ~0.84, below median 0.91
- Scarcity premium: only ROIC>WACC name in GS-covered global battery stocks
- Current price = 2027E ~10.4x; needs RMB0.082 to hold + multiple recovery

1. Price target = 2027E EPS RMB21.61 (~RMB100.0bn ÷ 4.6272bn shares) × 16x = RMB346; ~RMB100.0bn ≈ ~RMB0.078/Wh × 1,280GWh; sensitivity RMB332-376. 2. Weighted expectation RMB328 (RMB448 / 346 / 217 at 20% / 50% / 30%, this report's assumptions); stress scenario chain 2027E NP attributable to shareholders RMB86-96bn × 10-12x (JPM/Macquarie). 3. Sell-side targets are post-results updates on 10/20-21; the current price is the 10/21 close. 4. Chart series data as of 10/9 (sell-side range and targets on the old basis; 10/21 values in annotations).

How RMB346 is built: the base case hugs the low end of the new center, and all of the +52% comes from multiple recovery (2027E 10.5x → 16x)

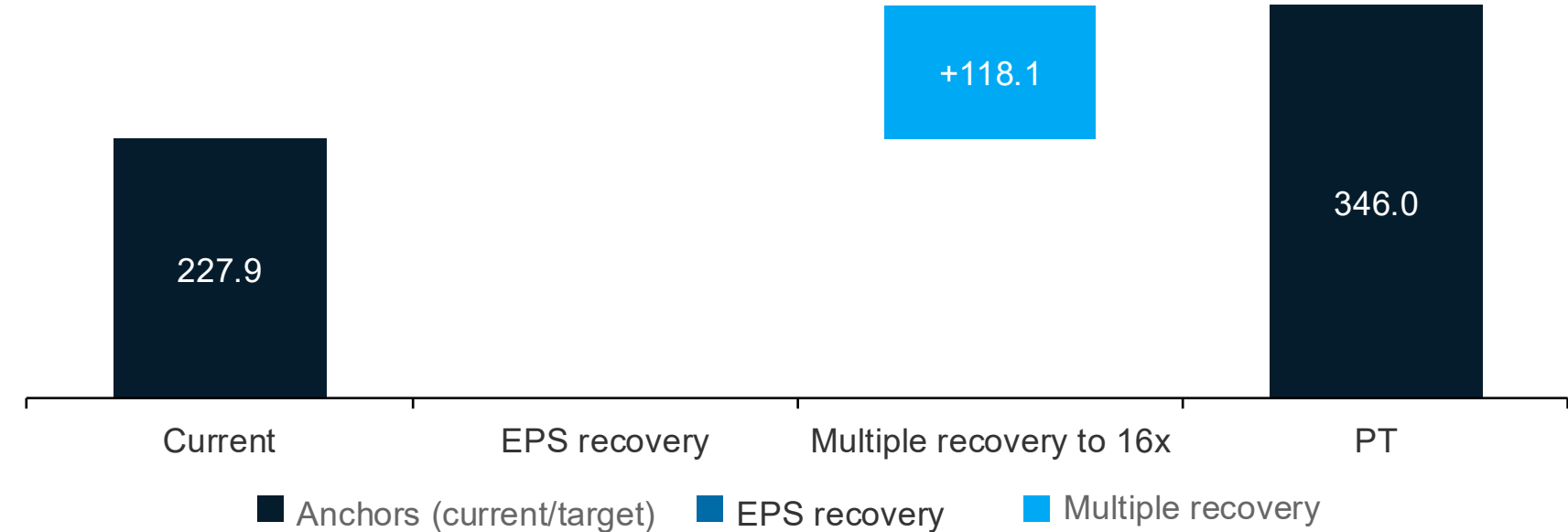
Current price = 10.5x × RMB21.61 (our 2027E); target = 16x × RMB21.61 = RMB346; the JPM-framework bear case of RMB186-249 already contains it

Price target calculation chain

2027E GWh volume	Unit NP (RMB/Wh)	2027E NP (RMBbn)	EPS (RMB)	Target multiple	Price target (RMB)
1,280	~0.078	~100.0	21.61	16x	346
JPM base-case basis	3Q26 actual 0.082	New center 99-103.5bn	÷ 4.6272bn shares	~10% < NTM med 17.5x	+52% vs current price

RMB227.90 → RMB346: attribution of the +52%

RMB/share



If the recovery is discounted

Multiple unchanged (FY2027 basis)	RMB228 (0%)
Multiple to 2027E 16x (price target)	RMB346 (+52%)
Multiple to 2027E 18x	RMB389 (+71%)
Sell-side implied 16-23x	RMB389-497 (+71~118%)
Bear case (JPM framework)	RMB186-249 (price inside)

KEY TAKEAWAYS

• 16x × RMB21.61 = RMB346

Base-case 2027E EPS of RMB21.61 hugs the low end of the new center (10.5x); the +52% comes entirely from multiple recovery (10.5x → 16x), with zero contribution from EPS

• Bear case (JPM framework)

JPM's RMB186-249 framework corresponds to estimate downgrades + 10-12x; the current price of RMB227.90 is already inside the chain

• Verdict waits for 4Q26

Unit net profit ≥0.090 → RMB400 framework / 0.078≤u<0.090 → stay at RMB346 / <0.078 two straight quarters → downgrade to Hold, switch to JPM framework

1. Unit net profit ~0.078 = ~RMB100.0bn ÷ 1,280GWh; sell-side new consensus center: Citi RMB103bn / Nomura RMB103.5bn / BofA RMB99.1bn / JPM RMB99.7bn / Soochow RMB99.8bn / UBS 2026-28E range RMB90-131bn (2027E point not disclosed). 2. Implied NP attributable to shareholders = RMB227.90 × 4.6272bn shares ÷ 12x = RMB87.9bn. 3. Attribution on a 2027E basis: current price = 10.5x × RMB21.61 (our own), target = 16x × RMB21.61; NTM reference (own basis): current NTM EPS RMB20.96 → 10.9x; NTM EPS ~RMB24.85 in 12 months → 13.9x = RMB346 (EPS roll +18.6% × multiple +28.1%). Data as of Oct 21, 2026.

At 12x, the current price implies 2027E NP of RMB87.9bn — the debate has shifted from 'whether downgrades come' to 'whether RMB0.082 is the bottom'

The bear framework (JPM) has partly materialized; the bull stance: pessimism overdone, moat intact — downgrades nearly priced + RMB432.6bn cash

Bull case	Bear case
• Pessimism overdone At 12x the price implies RMB87.9bn, 11-15% below the sell-side new center and 24% below this report's original forecast (RMB115.2bn); at 10.5x it implies ~RMB100.0bn, already inside the center — a conditional sensitivity, not independent evidence • Sell-side and capital allocation aligned Of the 9 updates (8 post-results + JPM pre-empt), none cut the A-share rating; listed A-share TPs span RMB340-507; JPM A-share Overweight / H-share Neutral; RMB4.607bn buyback in execution + RMB432.6bn cash • Moat intact: volume & share 3Q26 sales volume 260GWh+, domestic share 44% in the first 8 months (+3pct), tier-2 combined profit below 1/6 of CATL's; management guides 2027 industry growth of 20-30%, ESS growth near 60%	• RMB0.082 may be the start of a new equilibrium JPM's profit-pool redistribution (H-share cut to Neutral, TP HK\$500); consumption tax in Q4's first quarter + export VAT rebate going to zero in 2027 • Production schedule and cash flow warnings October production schedule only +1% MoM; Q3 operating cash flow RMB1.409bn, inventory +53%, contract liabilities -17% • Positioning deteriorated Northbound channel holdings fell ~93.48mn shares in Q3 (894.16mn in the interim report → 800.68mn in the Q3 report; includes settlement timing, not equivalent to net selling); shareholder count +27.8%; net main-force outflow of RMB3bn+ over two days

Verdict ladder (watch list)

① Unit net profit 4Q26 ²	<0.078 for two consecutive quarters → earnings-base re-downgrade, downgrade to Hold (3Q26 already at 0.082); ≥0.090 → trough confirmed, upgrade to the RMB400 framework
② Share & competitiveness CABIA monthly	Jan-Sep 44.16%, staying below the 45% line (basis to be verified); awaiting CABIA basis verification and October single-month / 3-month moving share
③ Consensus drift weekly	Representative houses have broken -10% (UBS -11~14%); the consensus mean (Wind/10jqka) has not updated — do not declare the line broken
④ Cash returns & market access quarterly	Q3 CFO of RMB1.4bn is a warning; buyback execution and Q4 cash flow are the hedge watchpoints

1. Implied NP attributable to shareholders = RMB227.90 × 4.6272bn shares ÷ 12x = RMB87.9bn. 2. Sell-side actions: Cailian Press/Gelonghui (10/20-21). 3. Positioning: company 3Q report, Cailian Press market monitoring, HKEX disclosures. Data as of Oct 21, 2026.

Risks, Catalysts & Scenarios

Stress tests, catalyst calendar and scenario probabilities

54-55

Stress Scenario Chain

Stress tests; the current price is already inside the RMB186-249 stress chain

56

12-Month Catalysts

Catalyst calendar and checkpoints

58

Scenario Probabilities

Base case 50%, price target RMB346

Positioning turns negative: Q3 northbound holdings fell ~93.48mn shares, shareholder count +27.8%, net outflow RMB3bn+ — the RMB4.6bn buyback hedges the medium term

Planned buying (RMB15.4-35.4bn of remaining buybacks ≈ 1.5-3.4% of market cap) continues, but positioning has turned 'negative' (P52)

Buybacks: all three plans¹ • Oct 2023 plan: RMB2-3bn Cap RMB294.45→289.44, completed Oct 30, 2024 • Apr 2025 plan: RMB4-8bn Cap RMB392.32→386.78, completed Apr 7, 2026 • Jul 2026: RMB20-40bn (cancellation) Cap RMB571.60, to Aug 2027; RMB4.607bn done (~23%)	Placements & offerings • May 2025 H-share listing H float 218mn shares; H/A premium 35.5% (10/21) • Apr 30, 2026 H-share placement: 62.385mn shares² @HK\$628.20, net HK\$39.1bn (7.0% discount); floating loss ~43% (10/21) • Jun 2022 A-share private placement RMB410/share, ~RMB45bn raised, lockup expired	Pledges & ESOP³ • Zero pledges from the controlling shareholder Ruiting Investment has no pledge records on file; no margin-call tail • Li Ping: 24.55mn shares pledged (Q3 report) ~12.4% of his holdings, ~0.53% of total shares; no new records since Nov 2023 • ESOP tranche 2 (Sep 2026) RMB158.42/share, ≤8.0816mn shares (~30% discount to the current price), locked in 30%/30%/40% tranches	PRICE-IN CHECK • Negative near term, buyback-driven medium term +27.8% holders, Q3 northbound selling = chip dispersion; Oct buybacks RMB1.303bn below the monthly floor • Limited buyback floor, mostly a signal RMB4.607bn = 0.44% of market cap, limited support; the market prices the 'undervaluation' signal and predictability • Watch positioning-deterioration signals Triggers: buyback halt / unlock selling / new pledges; 'negative' until then (P52); Q3 northbound -93.48mn shares, RMB3bn+ two-day outflow								
Expected events and price-in analysis <table><tr><td>❶ Remaining buyback quota through Aug 11, 2027</td><td>RMB15.4-35.4bn ≈ 1.5-3.4% of market cap, the largest planned buyer; RMB1.7-3.3bn monthly absorbs ~0.15-0.3% of market cap</td></tr><tr><td>❷ H placement free-float restriction terms to be verified</td><td>62.385mn shares (~1.3%), lockup terms unverified; selling unlikely given ~43% floating loss; watch volume</td></tr><tr><td>❸ ESOP tranche 2 vesting from 12 months</td><td>8.08mn shares @RMB158.42, deep in the money — retention outweighs selling pressure; track vesting conditions</td></tr><tr><td>❹ A-share lockup expiry calendar clean</td><td>Only small 0.3-3.4mn-share tranches in 12 months; no large unlocks or new pledges</td></tr></table>				❶ Remaining buyback quota through Aug 11, 2027	RMB15.4-35.4bn ≈ 1.5-3.4% of market cap, the largest planned buyer; RMB1.7-3.3bn monthly absorbs ~0.15-0.3% of market cap	❷ H placement free-float restriction terms to be verified	62.385mn shares (~1.3%), lockup terms unverified; selling unlikely given ~43% floating loss; watch volume	❸ ESOP tranche 2 vesting from 12 months	8.08mn shares @RMB158.42, deep in the money — retention outweighs selling pressure; track vesting conditions	❹ A-share lockup expiry calendar clean	Only small 0.3-3.4mn-share tranches in 12 months; no large unlocks or new pledges
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1. Buybacks: iFinD proposals, company announcements, HKEX next-day disclosures (cumulative RMB4.607bn / ~16.23mn shares as of 10/21, avg ~RMB284; all for cancellation); monthly pace calculated by this report. 2. H-share placement: announced Apr 28, 2026 (62.385mn shares @HK\$628.20, net HK\$39.12bn, 7.0% discount); ~43% floating loss is 10/21 close vs placement price; 6-month lockup assumed. 3. Pledges: iFinD records (as of Oct 21, 2026); none for Ruiting Investment; Li Ping's latest Nov 24, 2023. Lockup expiry: iFinD; Jun 2022 placement per company announcements. 4. Positioning: company 3Q report, Cailian Press (10/20-21); northbound Q3 disclosure; buybacks per HKEX (as of 10/19).

Stress test: "50-50 cost sharing" unverified — base case models near-full tax absorption; lithium at RMB95.5k leaves the spike scenario untriggered

3Q26 tracked JPM's worst bridge, faster; lithium futures RMB95.5k/t (10/21, -4%) leave the spike case untriggered; floors RMB213/177 imply -7%~-22%

Stress test register: triggers, pass-through & exposure, mitigants

Stress test	Pass-through parameters & quantified exposure	Mitigants & hedges
 2027 policy stack Consumption tax 2% (Sep 2026) → 4% (Sep 2027); export VAT rebate 9%→6% (Apr 2026), abolished Jan 2027 "50-50 sharing" unverified; watch 4Q26 tax season	Full-absorption case: 2% tax ≈ RMB0.007-0.008/Wh ≈ 7-8% of unit net profit (Macquarie); JPM worst-case bridge ~RMB0.103→0.079/Wh (-0.024); 2027 NP ~RMB13.4bn below its base1; Macquarie: 2027 shock several times 2026's ¹	Channel checks: new EV orders split the tax ~evenly between battery makers and OEMs (ESS integrators take part1); sodium-ion/solid-state exempt to end-2028 (semi-solid-state not). Base case = near-full absorption: 2027E NP RMB100.0bn, ~15% below old Wind consensus ¹
 Lithium scenario (not triggered): RMB95.5k Lithium carbonate futures RMB95.5k/t, spot ~RMB102k (10/21); down over 50% from the June peak of RMB210k² Valuation floor ~RMB177-213 · in 30% bear case²	From the RMB122k (10/9) cost anchor to RMB200k = +RMB0.047/Wh; current RMB95.5k leaves the spike untriggered; 50% pass-through, pre-hedges = RMB30.0bn pre-tax = ~RMB25.5bn NP at 15% tax — floors RMB213 (11x, 115.2bn base) / RMB177 (100.0bn	~RMB30bn of low-cost inventory bought before the price rally; Jianxiawo restart (>100kt LCE/yr, expected 1Q27) caps lithium upside ²
 Platform-level order switching (OEMs) Li Auto in-house 5C i6 (Sunwoda + CALB) launches end-Oct; took 11.17% of Sunwoda EVB; CV share 61.1%→44.0% Li Auto full-range switch exposure ~2-3%³	base); UBS 9/23 cut 2027 lithium to RMB120k/t Domestic EV -10% → NP -3.4% (Macquarie); ASP -10% → -44%. Share trigger (CABIA cumulative) <45% — 44.7% Jan-Aug breached; PT cut to RMB346 (Buy); trigger pending CABIA caliber and October / 3-month share ³	Xiaomi and Li Auto each ~7-8% of domestic EV shipments (combined ~3-4% of total shipments, JPM 10/8); NCM share intact at 77%; 9/3 approval to acquire Geely-affiliated Chongqing Yaoning (public notice 9/11) ³

Read across	"50-50 sharing" unverified, modeled at near-full absorption; lithium untriggered (RMB95.5k); switching in Li Auto; price in the bear chain (30%, RMB186-249)
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1. Tax bridge: JPM 9/10 worst case (Tables 4/5/9, not its base case); sharing evidence from Macquarie 9/11 channel checks; exemption scope per Announcement No. 20 of 2026. 2. Lithium sensitivities and inventory parameters from Macquarie; lithium prices from SMM 10/9 and 100ppi 8/27; valuation floor is our calculation (1,280GWh, 50% pass-through, 11x). 3. Order switching: Li Auto 9/7 announcement, CnEVPost (9/16); share data CABIA (9/15); 1260H per the 6/8 list; Hungary trial production: Caixin (9/30), Tencent (10/6); UBS lithium price via media relay; Yaoning per SAMR 9/11 public notice; export controls per MOFCOM / GACC Announcements No. 58 and 70 of 2025; the EU tabled the Public Procurement Act draft on 9/9. As of 2026-10-09. 4. This report's conclusions (10/21); lithium prices: SMM/futures (10/21); 3Q26 taxes and surcharges RMB2.214bn.

Bear scenario: 2027E NP attributable to shareholders RMB86-96bn × 10-12x = RMB186-249 (probability raised to 30%) — current price already inside the chain

Earnings downgrades and multiple compression have both begun: UBS/Citi/Soochow -9~19%, NTM below the 11.4x trough; spot RMB227.90 sits inside the chain

The pass-through chain in four steps

- 1

Volume: zero ESS growth in 2027 + wider order switching

ESS shipments flat at 271GWh of 2026E (Macquarie; 10-broker median 238.5) + domestic EV -5% to -10% → total 1,050-1,080GWh (JPM base 1,280, sensitivity floor 1,200)
- 2

Price/tax: full consumption-tax absorption + rebate abolition

JPM worst-case tax bridge ~RMB0.103 → 0.079/Wh
(-0.004/-0.006/-0.008/-0.006)1; 2027 full-year avg ≈ RMB0.082-0.085/Wh (volume offset: bear 1,050-1,200GWh vs base 1,280GWh)
- 3

NP attributable to shareholders: RMB86-96bn

1,050-1,080GWh × RMB0.082-0.085 ≈ RMB86-92bn; top end JPM worst sensitivity RMB0.080 × 1,200GWh = RMB96bn → EPS 18.6-20.7
- 4

Valuation: ex-growth 10-12x

10-12x → RMB186-249; trough 11x → RMB204-228 (-11% to 0%); bottom end RMB186 (-18%); price war (ASP -10%) ~RMB123-147, a tail within the bear case, not counted in the RMB217 median

2027E NP attributable to shareholders × PE → share price (RMB)²

NP attributable to shareholders 2027E (RMB bn)	10x	11x	12x
RMB86bn EPS 18.6 Conservative floor	186	204	223
RMB89bn EPS 19.2 Conservative mid	192	212	231
RMB96bn EPS 20.7 Conservative top	207	228	249
RMB120bn EPS 25.9 Wind consensus	259	285	311

Current RMB227.90 ≈ new consensus 2027E × 10.4x (implying RMB87.9bn × 12x)

Devil's advocate: why this is not a 2023-24 replay³

- ① Capacity discipline strong (tighter financing, subsidies and approvals);
- ② depreciation only ~5% of COGS, so 95%→80-85% utilization is a limited shock;
- ③ 1H23-1H24 unit profitability held at 60-65% utilization;
- ④ new capacity after 2028 constrained, favoring leaders (JPM/Bernstein)

Read across	Bear probability 25% → 30% (2 of 3 triggers hit); price war (RMB123-147) remains tail; base PT RMB346 Triggers: unit net profit <RMB0.090 (0.082, hit); 2027E cut >10% (UBS -11~-14%, hit); share <45% (44.16%, pending)
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1. Tax bridge: JPM 2026-09-10 worst case (Tables 4/5, battery makers absorb 100% of the tax, not its base case; its base case 2027 ≈ RMB0.09/Wh). 2. Matrix on 4.6272bn shares, our calculations (rounded); consensus takes Wind 2027E NP attributable to shareholders RMB120bn; price-war sensitivity from Macquarie, prices are our calculation (our 2027E NP attributable to shareholders × 56% × 10-12x). 3. Devil's advocate: JPM 2026-09-10, Bernstein 2026-09-17; the 30% bear probability is our estimate (raised 10/21). As of 2026-10-21. 4. Current price and trigger status as of 2026-10-21.

4Q26 unit net profit sets direction, 1Q27 tests rebate abolition: the two checkpoints for multiple repair (3Q26 adjudicated = breakdown)

The 3Q26 checkpoint has materialized: RMB21.2bn missed, 0.082 broke the line, price target cut to RMB346; the next checkpoints follow

Dated catalysts, Sep 2026 – Aug 2027

●	●	●	●	●	●	●
📅 Oct 20, 2026	📅 4Q26 (Oct-Dec)	📅 Sep-Nov 2026	📅 4Q26	📅 ~late Dec 2026	📅 Buyback execution	📅 Mar/Apr 2027
3Q26 results	4Q26 unit net profit	Production & grid	Naxtra mass production	DOE + FEOC rules	RMB20-40bn buyback	Annual report & 1Q27
[Materialized] RMB21.2bn; unit profit 0.082 broke line → PT RMB400 → RMB346 ¹	≥0.090 → RMB400 / 0.078-0.090 → RMB346 / <0.078 two in a row → Hold + JPM framework	Oct schedule sample 214.6GWh (+57%); Sep ESS tenders +84%; CABIA 44.16% Jan-Sep	Cost RMB0.35-0.40/Wh ~ LFP parity; 67GWh deal; Tianheng targets 1GWh by year-end	DOE RFI closed 10/9, EO due 12/24; Treasury pending; tightening hits LRS ~RMB2.36bn/yr ²	RMB1.7-3.3bn/month; to 10/21 RMB4.607bn done, all cancelled, cap RMB571.60/share	First quarter after rebate abolition; RMB0.090 hold = repair trigger; lower payout = squeeze signal
● Decisive impact ³	🕒 Decisive impact	🕒 High impact	🕒 High impact	🕒 High impact	🕒 Medium impact	🕒 Medium impact

Verdict thresholds: what counts as failure

Event	Threshold (delivery path)	Failure action (fallback)
4Q26 unit net profit	≥0.090 → back to the RMB400 framework; 0.078-0.090 → hold RMB346	4Q26 <0.085 (two straight quarters) → Hold + JPM framework (PT cut to RMB186-249)
DOE / FEOC	DOE rules do not bring US-based licensed lines into the restrictions	Tightening → LRS revenue ~RMB2.36bn/yr at risk (~2.3% of NP)
Buyback execution	RMB1.7-3.3bn per month; progress announced at the start of each month	Slow execution / close to the RMB20bn floor → the support signal weakens

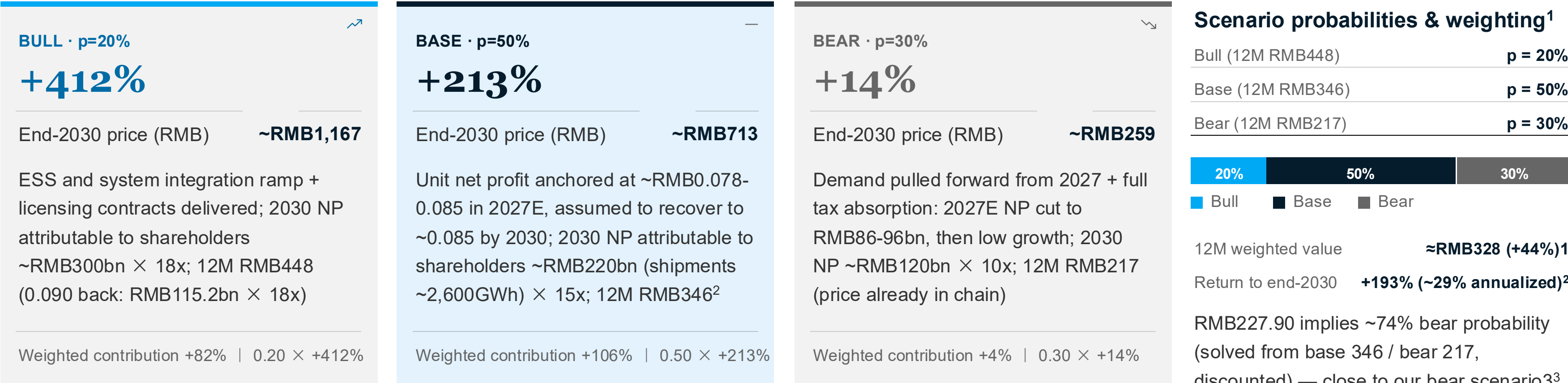
How we read this calendar

- 🎯 Two-step multiple repair: 4Q26 confirms if 0.082 is a pit or new equilibrium; 1Q27 tests unit net profit post-rebate abolition
- 📄 4Q26 is the only "near and heavy" checkpoint; the three-tier decision table is used for the second time (the first already materialized = breakdown)
- ⚠️ Kirin condensed-matter 3Q mass production is relayed by Bernstein; the company gave no date — listed as a watch item, not on this calendar

1. 3Q26 expectations: volume 260-265GWh (JPM), NP attributable to shareholders RMB22.9-26.0bn, center ~RMB24-25bn (Bernstein 22.9 / Goldman Sachs 24.0 / CLSA 25-26); the three-tier thresholds are set by this report. 2. DOE rule deadline per EO 14421 (2026-08-26); Treasury's effective-control rules have no published date (IRS Notice 2026-15 gave the direction); LRS revenue is our calculation. 3. Impact ratings are the team's judgment; buyback RMB1.7-3.3bn per month = RMB20-40bn ÷ 12 months (our calculation). As of 2026-10-21.

Base case 50% maps to the RMB346 price target; probability-weighted expectation RMB328 (+44%); risk-reward is asymmetric (price-war tail counted separately)

12M: multiple repair (10.4x → 16x); +52% vs bear median -5% (floor RMB186 = -18%; price-war tail 123-147 not priced) — bear largely priced in



Analytical architecture & methodology — three rounds of agent review

How every number in this report is sourced, tiered, and challenged

I. Research pipeline

Sell-side reports and announcements collected → 100+ reading tasks → 11 thematic syntheses → a complete question pool → 100+ page deep-research report → PPT

II. Data tiering

T1 Company announcements / official disclosures — reported actuals
T2 Data vendors: East Money / iFinD / Wind / SNE / ICC / CABIA, etc.
T3 Broker research: Goldman Sachs / JPM / Macquarie / Bernstein / Soochow, etc.
T4 Our calculations / scenario assumptions — estimates are flagged in page footnotes; conflicting institutional figures are shown side by side, not reconciled

III. Adversarial review

① Independent review across six dimensions: internal consistency, arithmetic recomputation, company facts, industry policy, data timeliness, valuation logic; ② key numbers checked back to announcements, government originals, and broker source documents; ③ items that could not be verified are flagged in footnotes

DOCUMENT STATUS	This report is a research compilation and synthesis of institutional views, including broker estimates and our own calculations; it is for reference only and does not constitute investment advice. Data as of the 2026-10-21 close. KIMI Research · 2026-10-21
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IV. Key caliber declarations

Unit net profit = NP attributable to shareholders ÷ company sales volume; not disclosed by the company — a broker-estimated caliber

H/A premium ~35.5% (estimated at the 10/9 CFETS central parity rate of 0.85798; the 10/21 central parity rate was not obtained)

"Other" business profit pool estimated by Soochow; the company does not disclose its composition — not used as valuation support

Condensed-matter battery mass-production timing downgraded to a watch item — excluded from base-case earnings

V. Data sources¹

Quotes & consensus: Tencent / Sina / iFinD / East Money / Wind

Sell-side research: latest original reports from domestic and foreign brokers

Company announcements: periodic reports, HKEX disclosures, IR & policy originals

Market data as of the 2026-10-21 close

1. The report list and review records are compiled in the project working papers. 2. Revised after 3Q26 results: unit net profit RMB0.082/Wh (NP attributable to shareholders RMB21.2bn ÷ volume over 260GWh, same caliber as UBS); new sell-side consensus center 2026E RMB86-91bn / 2027E RMB99-103.5bn / 2028E RMB119.5-125bn; target PE 16x = ~10% below the historical NTM median of 17.5x (earnings-downgrade-cycle discount), in line with JPM's target multiple; our own 2026E ~RMB88.0bn (9M RMB64.53bn + 4Q ~RMB23.5bn) / 2028E ~RMB120bn, both within the new center.