

Automotive sector

Resilient global auto market; EV & ADAS trends intact

Key message

1. While EV sales have decelerated in the US and Europe, global auto sales are still better than expected in 2024, with 11% YoY growth to 27.53mn units in the first four months.
2. We raise 2024F auto sales growth to 1% YoY, but trim 2024-25F EV penetration to 18% and 20%, respectively.
3. We believe that inventory digestion is nearing the end, and EV and ADAS will remain long-term trends.

Event

Resilient global auto market, despite decelerating EV sales. Global auto sales grew 4% YoY to 27.53mn units in January-April, according to GlobalData. Most major markets have seen sales growth YTD after a strong 2023, but Japan and South Korea are exceptions. Europe, which is gradually recovering from the impact of the ongoing Russia-Ukraine war, registered 11% YoY growth in the first four months of 2024, whereas China and the US delivered a respective 5% and 3% YoY growth. Global auto sales have been better than feared, despite lackluster macro conditions. EV sales totaled 4.51mn units in January-April, up 29% YoY, for 16% penetration, versus ICE sales growth flattish YoY. China, the largest EV market in the world with 58% market share, saw EV sales growth of 37% YoY in 1Q24, for 35% penetration. Meanwhile, EV sales growth in Europe and the US decelerated noticeably to 5% and 3% YoY in 1Q24, respectively, versus 16% and 54% in 2023, due to a lack of affordable mass market models, range anxiety (particularly in the US), and lower subsidies in Europe.

We lift 2024F auto sales growth to 1% YoY, but trim EV penetration to 18% in 2024F & 20% in 2025F. Our revised 2024 global auto sales forecast of 91.36mn units is still 4% below the historical peak in 2017, and we believe the gap will shrink to 1% in 2025. We project respective China, Europe, and US sales growth of 2%, 4%, and 1% YoY in 2024. We lower respective 2024-25F EV shipments to 16.19mn and 19.25mn units, up 18% and 19% YoY. We still believe EV will eventually become the global mainstream for both OEMs and consumers, supported by falling battery costs and increasing competition, but believe more public support is required for faster proliferation in the near-term, including, but not limited to, financial support for charging infrastructure and tax credits for EV purchases.

Inventory digestion nearing the end; EV & ADAS still long-term trends. Global IDMs expect moderate demand recovery in 2H24 after a year of inventory digestion, which we attribute to downward revision of global EV demand, as semiconductor content value in EVs is 73% higher than for ICE vehicles, according to TechInsights. That said, the key issues weighing on EV sales momentum will likely remain in place, and western OEMs are facing more pricing pressure on their products to compete with not only ICE models, but also their Chinese counterparts. Tesla (US) could face a full-year EV sales decline for the first time in 2024, while BYD (CN) will likely see 20% YoY growth on domestic market strength and increasing presence in the export market. Gartner has trimmed its 2024-25 auto semiconductor market forecasts by a respective 2% and 3%, to 12% and 16% YoY growth, but believes HPC, ADAS, and EV powertrains will remain the three major long-term growth catalysts, for respective 2023-28F revenue CAGRs of 42%, 14%, and 16%, reflecting further EV penetration, rising ADAS adoption, and functionality improvements.

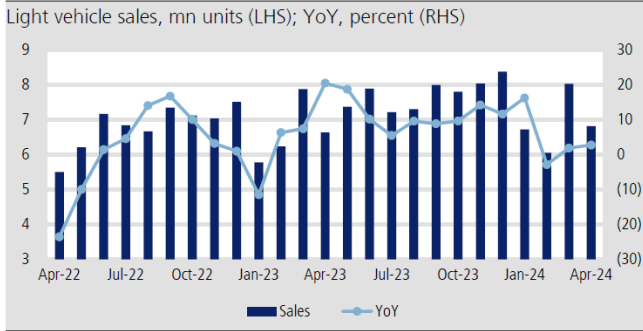
Stocks for Action

Taiwan's auto component sector posted 1Q24 revenue growth of 4% YoY, in line with the global auto market, for operating income growth of 31% YoY, partially on a weak NT dollar. Companies with higher exposure to EV and the China market outpaced their rivals. Aftermarket part (AM) manufacturers saw strong sales, mainly thanks to State Farm's (US) inclusion of AM parts in insurance coverage, but we foresee limited near-term share price catalysts now that the peak season has passed. Meanwhile, some suppliers could suffer from surging LME copper costs in the coming quarters. We are more positive about vendors that have strong EV offerings, niche market positions, and increasing emphasis outside of the auto sector. Our top picks are Delta Electronics (2308 TT, NT\$383, OP), Bizlink (3665 TT, NT\$332, OP), Alltop (3526 TT, NT\$254.5, OP), and Superalloy (1563 TT, NT\$78, OP).

Risks

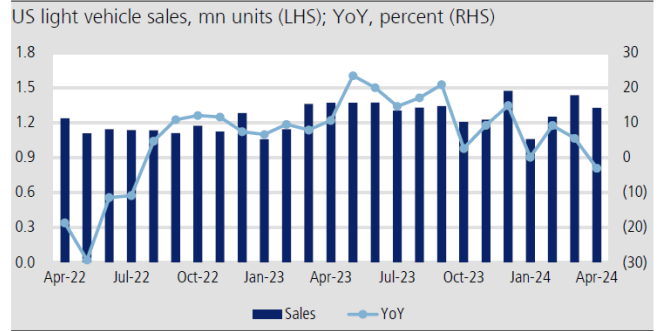
Macro uncertainties weigh on demand.

Figure 1: Global auto sales grew 4% YoY in January-April



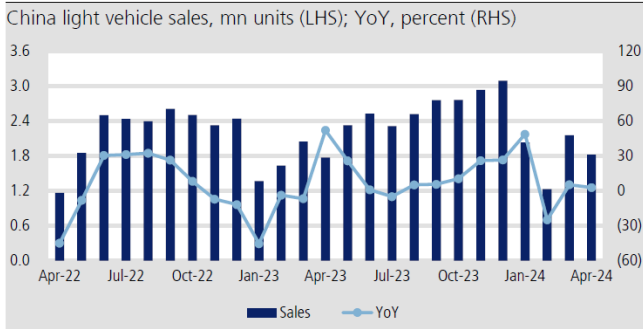
Source: LMC Automotive; KGI Research

Figure 2: US auto sales growth of 3% YoY in January-April



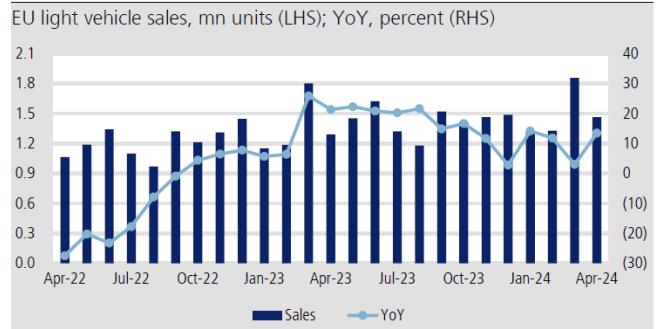
Source: LMC Automotive; KGI Research

Figure 3: China auto sales grew 5% YoY in January-April



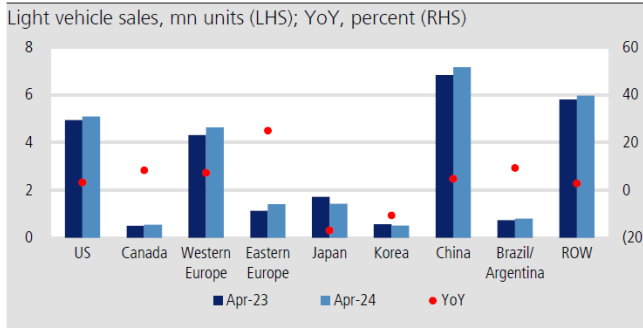
Source: LMC Automotive; KGI Research

Figure 4: EU auto sales growth of 11% YoY in January-April



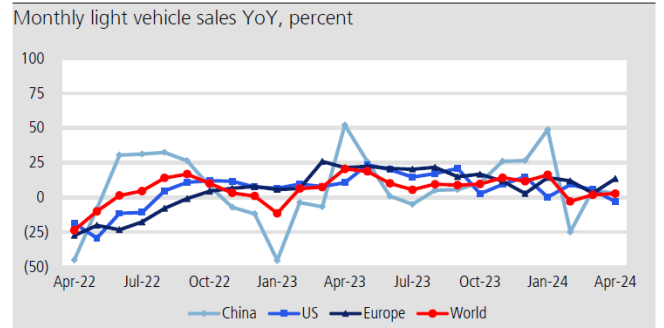
Source: LMC Automotive; KGI Research

Figure 5: Most of major markets saw sales growth YTD



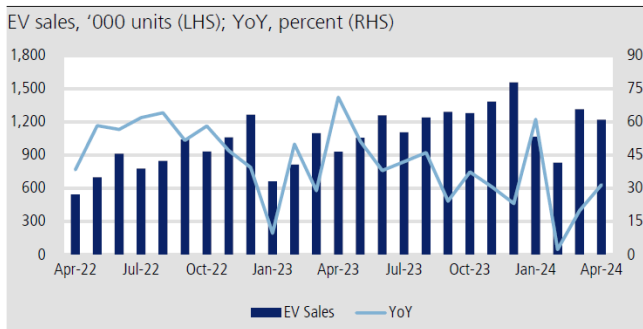
Source: LMC Automotive; KGI Research

Figure 6: US & Europe auto sales growth on low base



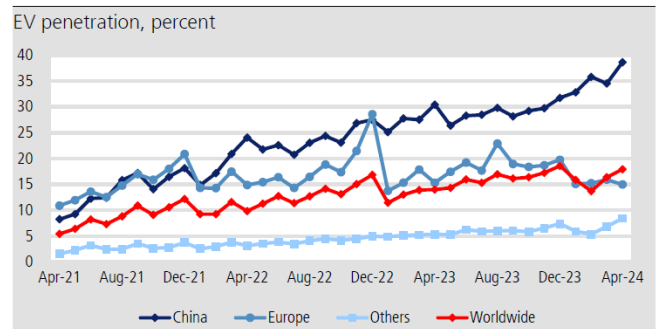
Source: LMC Automotive; KGI Research

Figure 7: Global EV sales rose 29% YoY to 4.51mn units in January-April



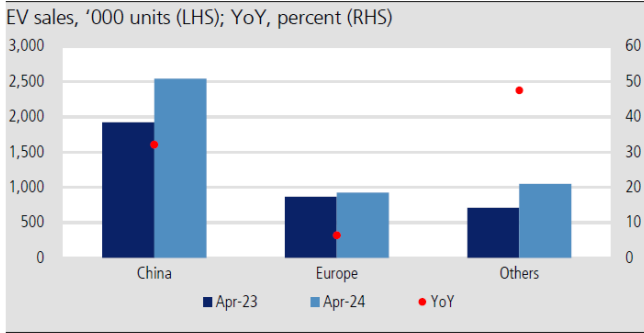
Source: LMC Automotive; EV-Volumes; KGI Research

Figure 8: Global EV penetration was 16% in April



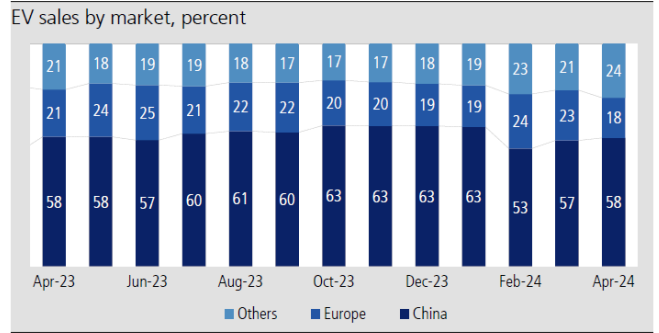
Source: LMC Automotive; EV-Volumes; KGI Research

Figure 9: China sustained strong EV sales growth YoY in January-April, despite a high base



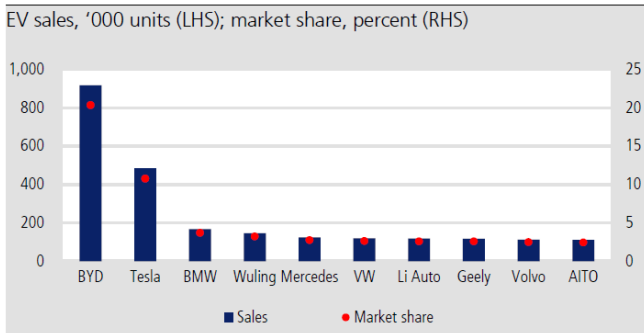
Source: EV-Volumes; KGI Research

Figure 10: China accounted for 58% of global EV shipments in January-April



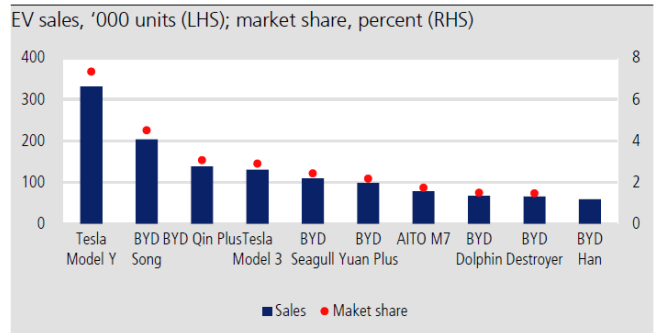
Source: EV-Volumes; KGI Research

Figure 11: BYD was top-selling global EV brand in January-April



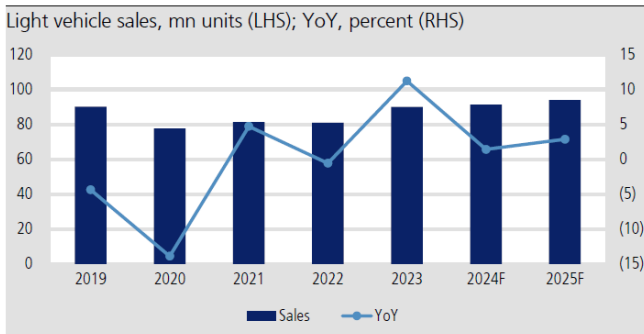
Source: EV-Volumes; KGI Research

Figure 12: Tesla Model Y was global top-selling EV in January-April



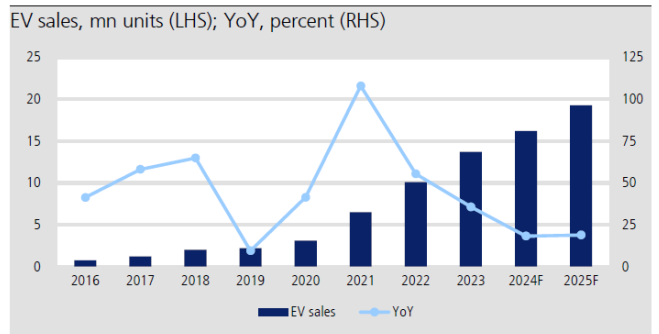
Source: EV-Volumes; KGI Research

Figure 13: Global auto sales to grow 1% YoY in 2024F



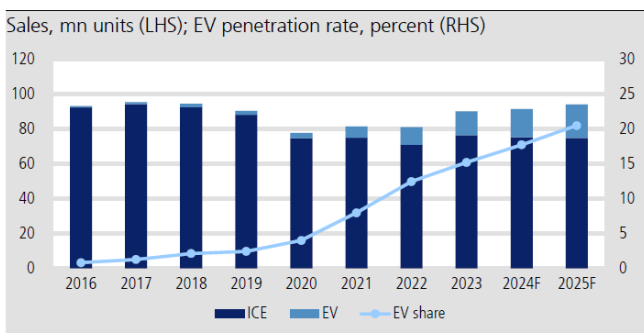
Source: LMC Automotive; KGI Research

Figure 14: We project EV sales CAGR of 24% in 2022-25



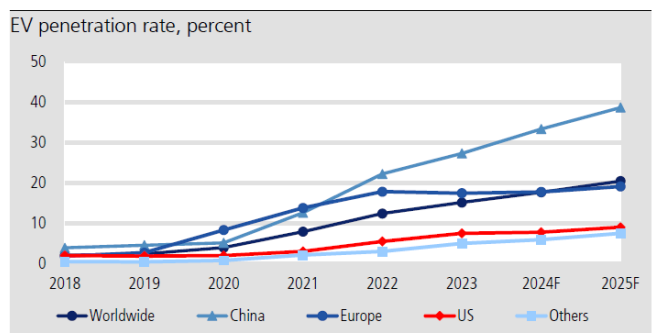
Source: EV-Volumes; KGI Research

Figure 15: We forecast global EV penetration of 20% by 2025



Source: LMC Automotive; EV-Volumes; KGI Research

Figure 16: EV to gain traction in major markets



Source: LMC Automotive; EV-Volumes; KGI Research

Figure 17: Our top picks – Valuations

Company	Ticker	KGI rating	Market cap (US\$m)	Share price (NT\$)	Target price (NT\$)	Upside (%)	EPS (NT\$)		
							2023	2024F	2025F
Delta Elec	2308.TW	Outperform	31,221	383.0	352.0	(8.1)	12.86	13.00	15.29
Bizlink	3665.TW	Outperform	1,703	332.0	402.0	21.1	14.37	20.82	29.49
SuperAlloy	1563.TW	Outperform	524	78.0	104.0	33.3	2.88	4.74	5.77
Alltop Tech	3526.TWO	Outperform	477	254.5	290.0	13.9	11.68	15.53	18.82

Source: Refinitive; KGI estimates

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