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End the Chaos, End the Involution

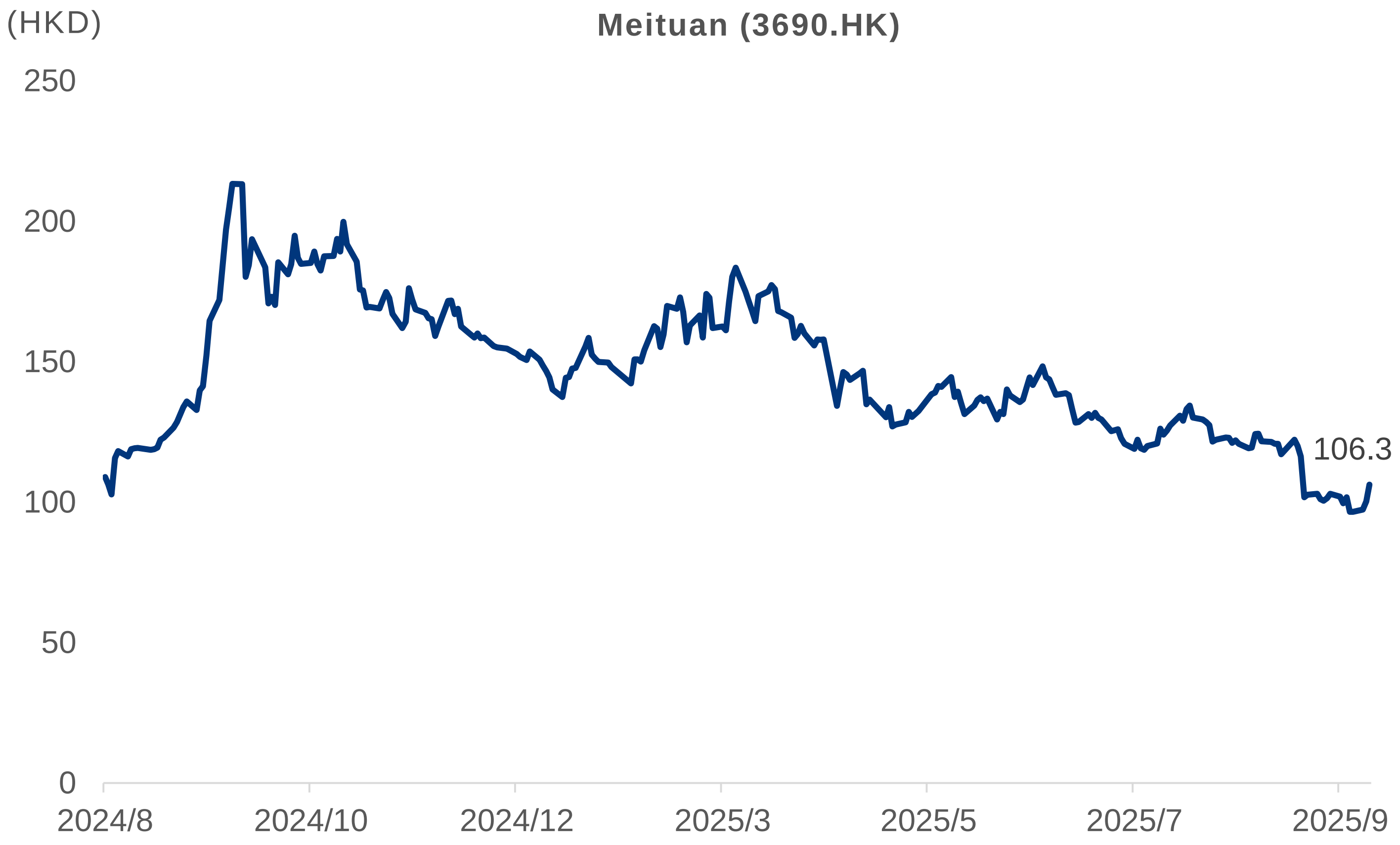
Resurrection for Nev, Food Delivery and Solar Industry

19 September 2025

Irrational Competition in China Is a Common Practice

The Latest Victim of Such Intense Price Competition Was Meituan

- Meituan reported Q2 adjusted net profit plunging 89% year-on-year, despite 12% revenue growth to ¥91.8 billion.
- The core food delivery was hit hardest, with "irrational competition" from Alibaba and JD.com eradicating most profits through subsidies and price wars.
- Profit per order fell ~60%, and the company warned of "significant losses" in Q3 for this segment. Shares dropped 11.2%, contributing to a $27 billion market value wipeout across Meituan, Alibaba, and JD.com.

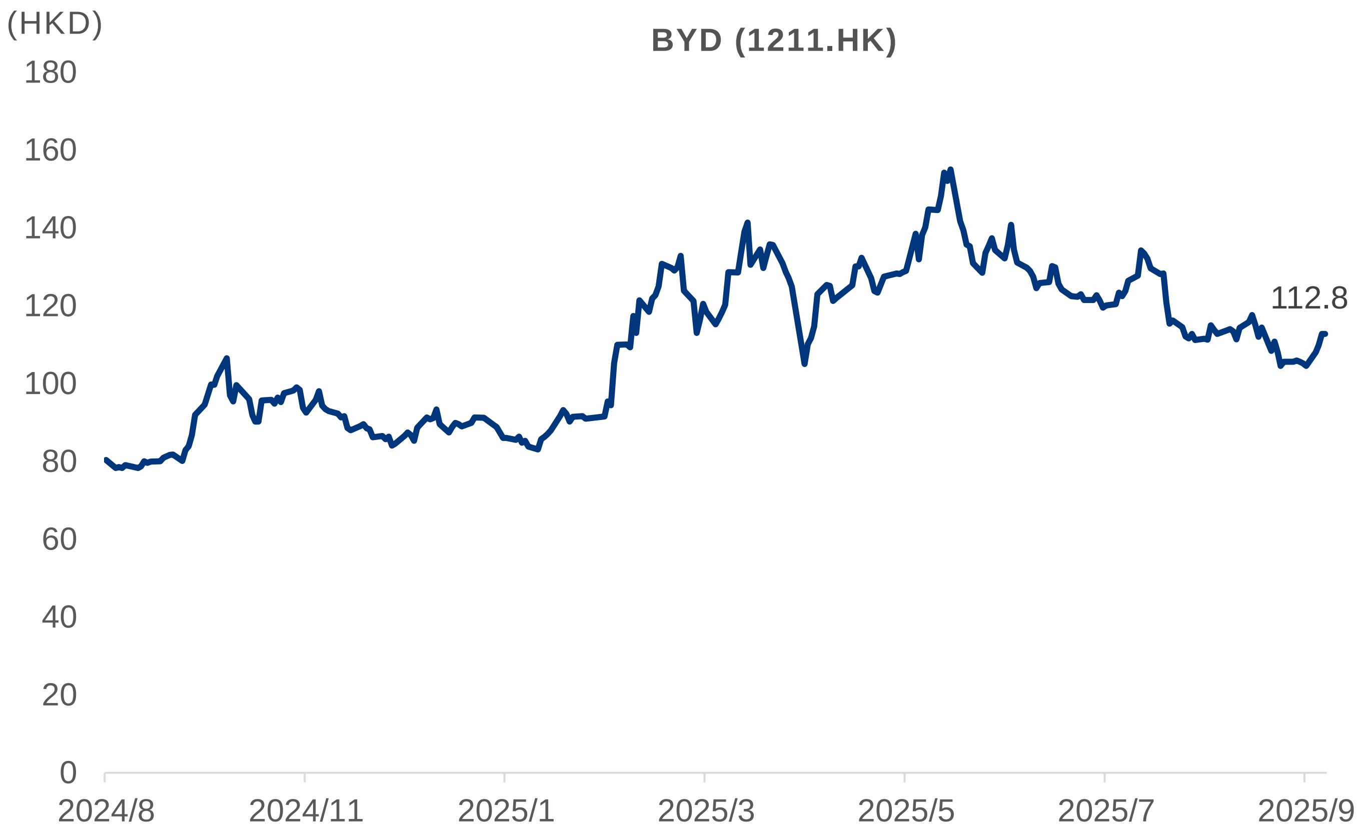


Source: Bloomberg, KGI

Cut-Throat Competition in the Nev Market

First Profit Decline (-30%) in Over 3 Years; Impacted by EV Price War and Higher Costs

- In May, BYD slashed prices on several lower-end battery-only and hybrid models by up to 30-34%, prompting rivals to follow suit. This move was described as a "price war nuke" that sent shockwaves through the industry, exacerbating deflationary pressures.
- As the price war escalated, concerns grew about a potential financial crisis in the EV sector. Led by BYD, manufacturers engaged in bruising discounts amid overcapacity, with warnings that smaller players could face collapse.
- Officials urged industry consolidation and limits on subsidies to tame the overcapacity. However, carmakers resisted, maintaining discounts to avoid falling behind in scale and technology, with limited immediate impact on the war



Source: Bloomberg, KGI

China Has a Perfectly Competitive Market Domestically

The Condition and Implication for Involution

Conditions

- Lack of a national champion in a vast market, resulting in a large number of small players.
- Government's subsidies to nurture an industry may result in the survival of a lots of unfitted players.
- Production/manufacturing based competition is much more severe than the service/knowledge based industry.
- Cross-subsidization from other profitable sub-market to sustain a price war

Positives

- Government's support is effective in create dominance in an industry.
- Production cost could come down quickly given the economy of scale and establishment of increasingly sophisticated supply chain.
- Export market will become a major source of subsidies to the domestic consumers.
- Consumer benefits from lower service/product prices.

Negative

- Eroding profit margin will eventually drive down the incentive for new investment in the industry.
- R&D for innovation is discouraged because of the focus on price competition.
- The eventual closing down of unviable players will create unemployment.
- Facing international criticism of channeling over-capacity overseas.

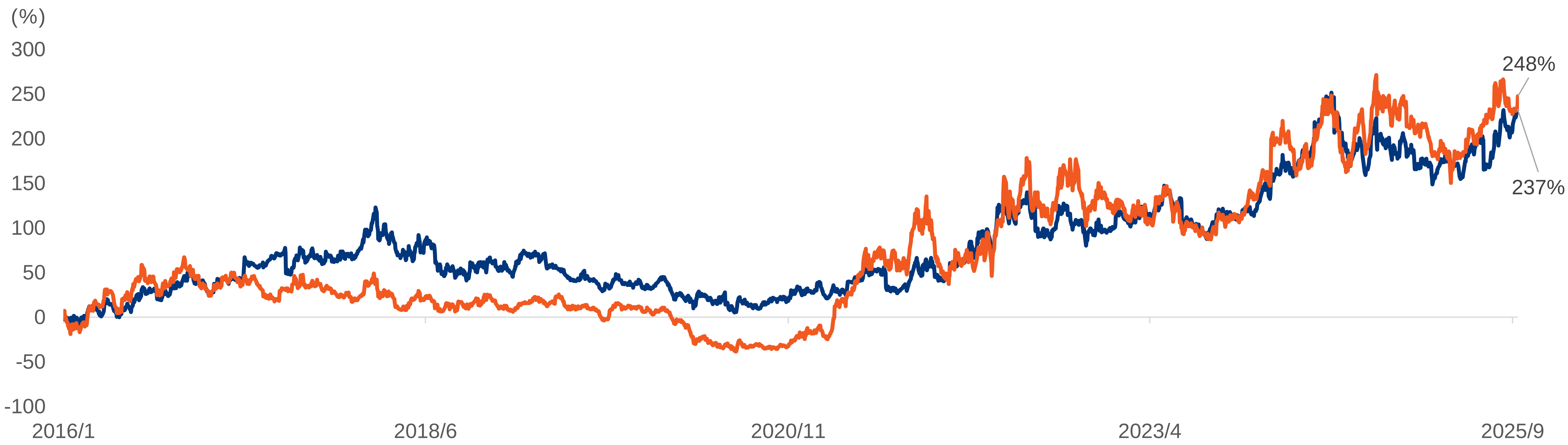
Source: KGI

Supply-Side Reform 1.0 – Reducing Excess Capacity

Coal Was the Most Successful Example

During the supply-side reform period, China Shenhua benefited from better profitability, and its stock price outperformed China Coal Energy. However, after the successful implementation of supply-side reforms, the overall industry's profit margins significantly rebounded, and the profitability of the two companies became much closer. Additionally, due to the lack of product differentiation in coal mining, we observe that the stock prices of the two companies have become more aligned.

Total Return(%) of China Shenhua Energy (1088.HK)(Blue Line) & China Coal Energy (1898.HK)(Orange Line)



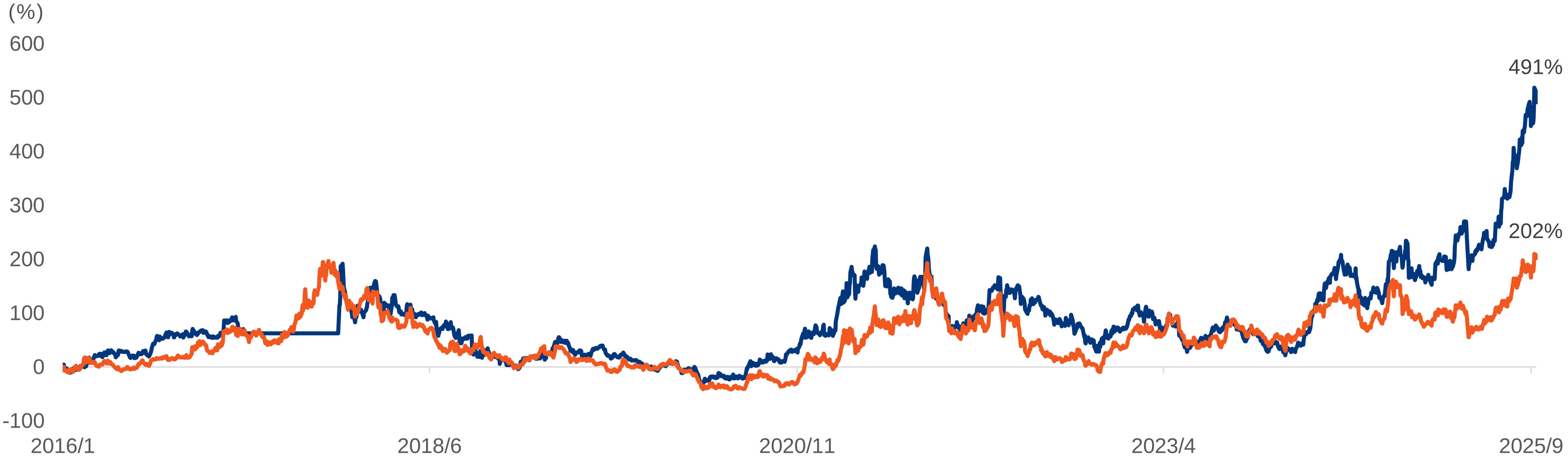
Source: KGI, Bloomberg, 17 Sep 2025

Aluminum – Government Determined to Cut Capacity

From a Race-To-Bottom to a Win-Win

Aluminum: The aluminum industry is also a successful case of reform. In 2017, the government set a cap on smelting capacity and shut down all illegal capacity. These measures improved the industry's supply-demand balance, allowing profits to be maintained at a relatively high level.

Total Return(%) of China Hongqiao Group (1378.HK)(Blue Line) & Aluminum Corporation of China (Chalco, 2600.HK)(Orange Line)



Source: KGI, Bloomberg, 17 Sep 2025

From Supply Side Reform 1.0 to 2.0

The Focus Now Is Anti-Involution

	SSSR 1.0 (2015 to 2018/19: Initial Phase)	SSSR 2.0 (2019 to Present: Advanced Phase)
Primary Focus	Eliminating excess capacity ('de-capacity'), destocking (reducing inventory), de-leveraging (reducing debt), cost reduction, and addressing weak links in traditional industries like steel, coal, and cement.	Building on 1.0's foundations, emphasizing high-quality development, technological innovation, upgrading industries, and fostering new growth drivers (e.g., digital economy, green tech). Focus on 'anti-involution' and sustainability.
Policy Tools	Heavy reliance on administrative measures: capacity closures, subsidies for restructuring (e.g., RMB 20 billion annual fund for steel/coal), environmental regulations to shut down 'zombie companies.'	More market-oriented tools: R&D incentives, tax reforms, innovation subsidies, supply chain optimizations. Includes 'anti-involution' campaigns (e.g., 2025 warnings against price wars) for consolidation and international expansion.
Economic Context	Addressed the 'New Normal' slowdown post-2008, with GDP growth at ~6–7%. Targeted overcapacity from stimulus-fueled lending.	Responds to post-COVID recovery, trade tensions, and 'dual circulation' (domestic/international markets). Faces higher debt and slower growth, prioritizing resilience over rapid deleveraging.
Outcomes and Challenges	Reduced excess capacity (e.g., steel output cut by ~150 million tons by 2018), improved profit margins, lowered corporate leverage (e.g., industrial firms' asset-liability ratio to 57% by 2019). Risked job losses and short-term growth dips.	Achieved better industrial structure (e.g., high-tech output grew 11.7% in 2018), but faces overcapacity in renewables and services. Modest commodity spillovers, with emphasis on avoiding financial crises.

Source: KGI

KGI

New Energy Vehicle Industry

Focus On Premium and Innovative Models

- The State Council's anti-involution campaign, launched mid-2025, targets the EV sector specifically, urging halts to extreme discounting and promoting consolidation.
- This will evolve through stricter capacity controls (strict approval for new capacity expansion), reduced subsidies for low-end models, and incentives for tech upgrades (e.g., autonomous driving, batteries).
- Export market to absorb excess, while trade tensions (e.g., EU tariffs) force diversification.
- Industry consolidation, we expect a shakeout: 20-30% of smaller firms exit, leading to an "anti-involution" market with stabilized prices and higher satisfaction scores. Long-term, evolution toward premium, innovative models will prevail over pure volume competition.

Winners | Larger, vertically integrated players with strong R&D and export capabilities. BYD (global leader in sales) and Li Auto (premium focus) are poised to dominate, with gains from pre-sales and anti-involution policies. Geely and XPeng also benefit from tech edges.

Source: KGI

Food Delivery Industry

Compete on Eco-System

- Major platforms (Meituan, Ele.me, JD) vowed in August 2025 to end disorderly competition, protecting merchant margins and avoiding irrational promotions—signaling a truce under government pressure
- Resolution will involve integration into broader e-commerce ecosystems (e.g., Ele.me folded into Alibaba's core business), regulatory curbs on subsidies, and focus on efficiency (e.g., AI algorithms, fewer riders).
- By end-2025, we also expect consolidation via mergers or exits, stabilizing the "golden age" of ultra-cheap delivery into a more sustainable model.
- Broader anti-involution policies will enforce labor protections, reducing burnout and fostering innovation in integrated services (e.g., grocery + delivery).

Winners

Meituan, as the market leader with the largest user base, is best positioned despite current losses, potentially recovering through diversified revenue (e.g., travel). Alibaba (via Ele.me) gains from e-commerce synergies.

Source: KGI

Solar Industry

An Over-Capacity Problem

- China's anti-involution drive for the solar industry includes curbs on excess capacity (20-30% cuts targeted) and price stabilization measures.
- Restructuring via shutdowns of inefficient plants, export pushes (e.g., Belt and Road projects), and innovation incentives should help to resolve it.
- Global trade tensions will accelerate overseas factories, reducing domestic pressure.

Winners

Vertically integrated giants like LONGi which can weather losses and benefit from recovery signals.
LONGi dominates polysilicon and modules, gaining from higher prices and anti-overcapacity enforcement.

Source: KGI

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