

Investment Analysis and Research of Contemporary Amperex Technology Ltd, CATL

Lingjie Zhang¹, Yinzhi Sheng², Youyi Su³, Xiaoya Xiong⁴, and Yan Yang⁵

^{1,2,3,4,5}Shanghai Polytechnic University, China

Email: 1004239965@qq.com, syz000622@163.com, 13585766636@139.com, xy1812332@163.com, and yy7770620@163.com

Abstract— Climate change has led to global energy conservation and emission reduction. Under the pressure of dual-carbon goals and energy security, the penetration rate of electrification of new energy vehicles has further increased, and the CAGR of the power battery market has climbed. The consumer demand side and the government policy side are mutually beneficial to the development of new energy battery and energy storage business. As a global lithium power leader with core competitiveness, the CATL expanded its business space at the same time of product cost in terms of technology, product quality, industrial chain control, and formed its own industrial barriers. Good performance in financial indicators robustness and refinancing capacity expansion; under the horizontal and vertical comparison of EV / EBITDA financial valuation model, the expected rise space is 22.69 %.

Keywords— carbon reduction; CATL; lithium battery; energy storage; new energy vehicle.

I. POLICY AND CONTEXT: ENVIRONMENTAL AND ENERGY CRISES TO ADVANCE ENERGY STRUCTURE REFORM

i. Global climate and energy crisis, energy transformation is imminent

According to the UN survey, if the global warming environment temperature reaches 1.5 °C, at least 420 million people in the world will face more frequent extreme heat waves.

At the same time, the total number of people suffering from shortage of natural resources due to climate change will also increase by 50 %. International carbon energy conservation and emission reduction and curbing the greenhouse effect can no longer wait.

In order to achieve the goal of annual world carbon neutrality, the energy structure needs to be adjusted. However, the world is still dominated by fossil fuel consumption, accounting for less than 85 %.

ii. Countries (and international organizations) are active in reducing emissions with clear targets

China (29.3 %), the United States (14.2 %) and the European Union (9.2 %) are the major countries in the world's carbon emissions.

The total world's carbon emissions are 177 billion tons, accounting for about 52.7 %. They are the major carbon emissions regions in the world, and also important for carbon emission reduction.

China plans to reach its peak by 2030 and achieve carbon neutrality by 2060. Carbon emission reduction

will be raised to the national strategic level and will be one of the 14th Five-Year Plans.

According to the EU 's 2030 climate target plan for medium and long-term planning, the EU 2050 target is to reduce carbon emissions by 80-95 % compared with 1990, to achieve carbon neutrality.

The Biden administration proposed a clean energy action plan, such as reaching 100 % green economy and zero carbon emissions by 2050. Revert to the Paris Agreement of France.

iii. Dual carbon policy, increased market opportunities

Between now and 2060, when ' carbon neutrality ' will be achieved, China may have an investment demand of more than one trillion yuan. Specifically:

1. The new investment scale of new energy power generation is CNY 37.4-45.3 trillion;
2. The new investment scale of low-carbon transformation of industrial production may reach CNY 13.3 trillion;
3. The new investment scale of new energy vehicles may reach CNY 4.4 trillion;
4. The new scale of investment related to prefabricated buildings may reach CNY 10 trillion, and the winter heating electrification transformation may also bring about an investment demand of about CNY 3.5 trillion.
5. Afforestation may bring a cumulative investment demand of CNY 3.2 trillion.

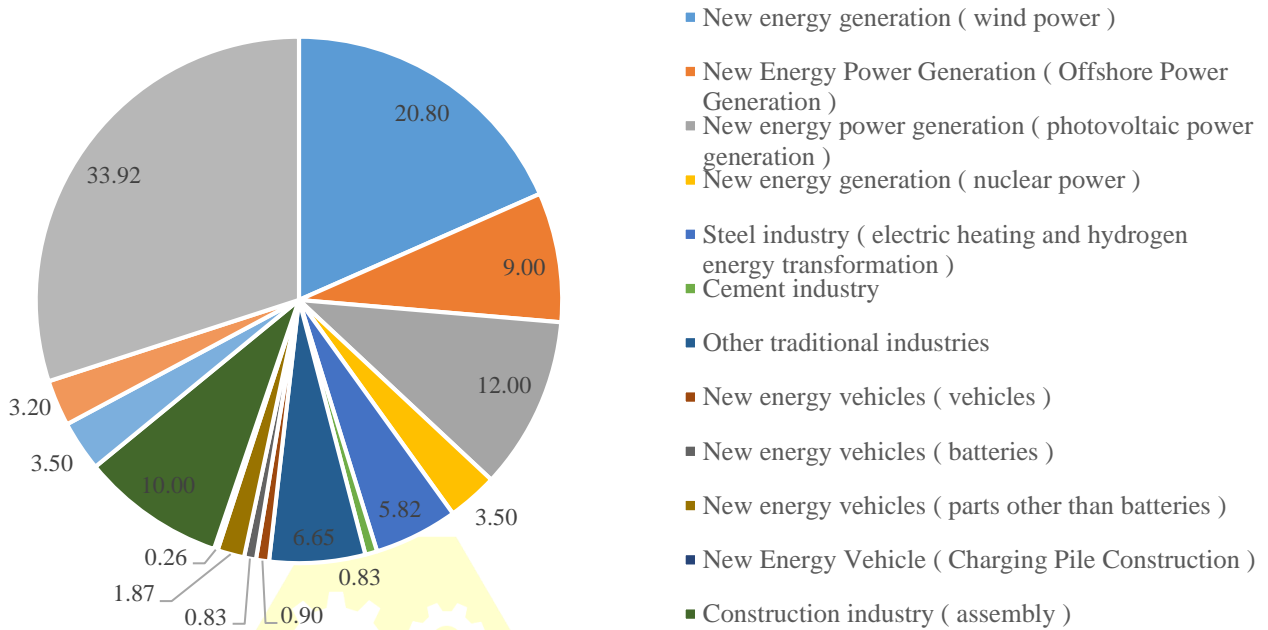


Figure 1: In the context of ' dual carbon ', there may be significant additional investment needs
Source: Oriental Wealth Choice

II. INDUSTRY ANALYSIS: GLOBAL EMISSION REDUCTION ENVIRONMENT PLUS, POWER BATTERY DEMAND IS SOARING

i. Globally promote carbon emission reduction; new energy market space is broad.

Based on climate change, national mission, energy security and low-carbon economic policies, carbon reduction targets have risen to a global strategic height. Under the advocacy of China, countries around the world respond to carbon reduction, and put forward the high goal of renewable energy.

According to the composition of national carbon emissions in 2018, China 's carbon emissions mainly come from three industries: electric energy (41.71%), transportation (24.64%) and industry (18.37%), with total carbon emissions of 28.39 Gt, accounting for more than 85 % of the total, being the most important industry for China 's carbon emission reductions.

Energy promotes the increase in the proportion of non-fossil fuels from the perspective of power generation structure. Transportation should promote and increase the penetration rate of electric vehicles. The manufacturing industry should also improve the composition of energy consumption and further improve the energy efficiency of the manufacturing process. And improving the international carbon trading system to accelerate carbon emission reduction.

The carbon emission reduction of the transportation industry mainly depends on the comprehensive improvement of the penetration rate of electric vehicles in China, and the continuous development trend of automobile electronics is obvious. China has clearly put forward the target of 20% of new energy vehicles in 2025; according to the European Union ' s carbon emissions assessment, it is expected to reach 27%/45% of the global electric vehicle in 2025/2030, and corresponding to China 's electric vehicle sales of 45.8 million units/8.6 million units; America sold more than 3 million motors in 2025.

ii. Increased consumer acceptance of electric vehicles drives up sales of power batteries.

Demand side: In addition to the stimulation of high-quality supply, there are also the advantages of new energy vehicles, such as the new driving experience and the sense of science and technology brought about by intelligence, the linear acceleration brought about by electrification, green energy saving, and low cost of use. Consumers ' recognition of new energy vehicles has gradually increased.

Supply side: In recent years, the progress of power battery technology and the active guidance of government subsidy policy have greatly improved the endurance capacity of new energy vehicles and greatly alleviated consumers ' concerns about their endurance mileage. The city increases the number of charging piles, which facilitates the daily charging of electric

vehicle owners. Policy Side: Passenger car companies with negative points will be restricted from production or punished if they continue to produce models with substandard fuel consumption, so as to encourage

enterprises to produce new energy vehicles with low fuel consumption and promote the development of the new energy vehicle industry.

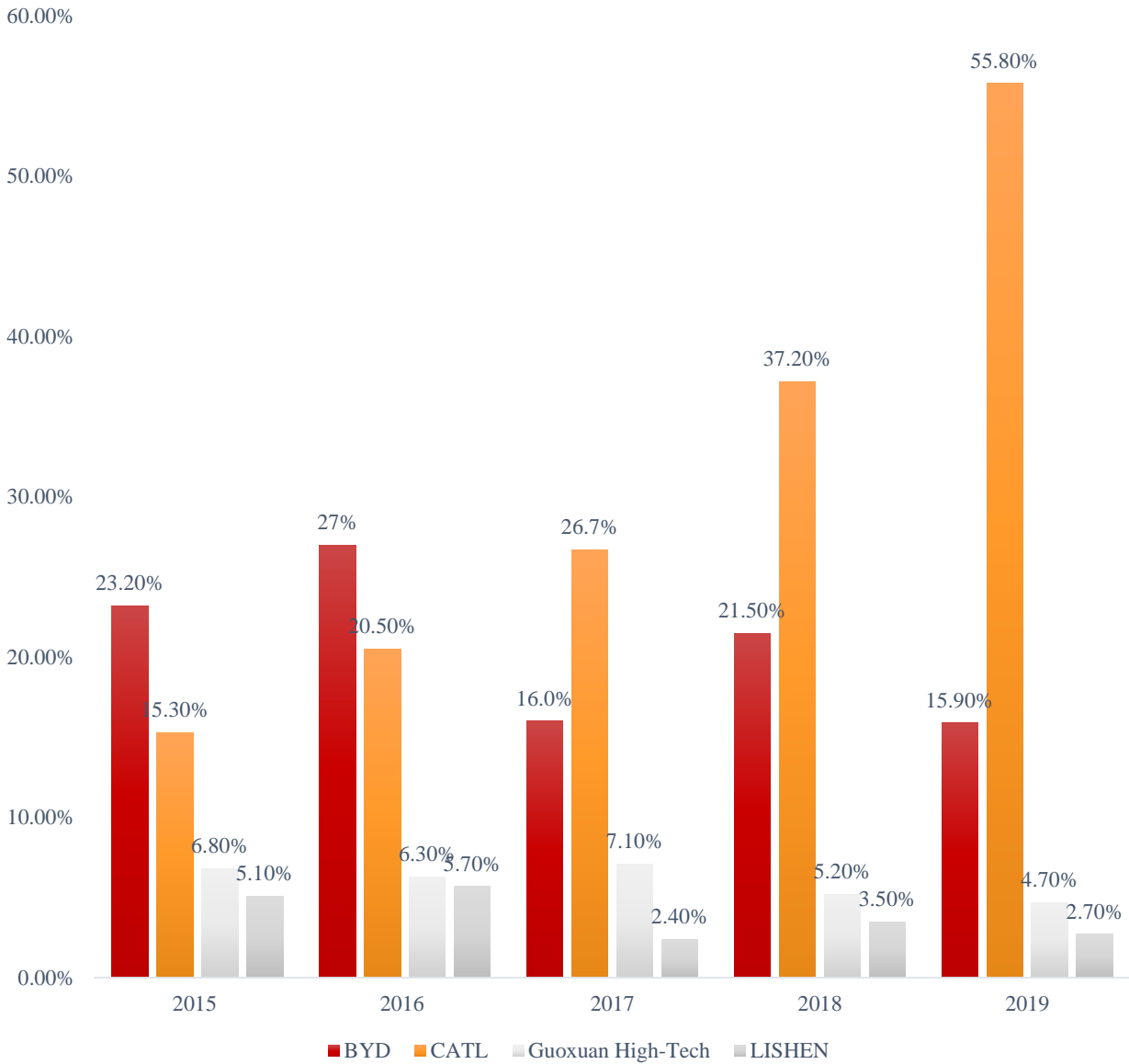


Figure 2: China's power battery enterprise shipments market share. Unit : %

Source: Choice

The most important driving force at the power battery demand side is the increase in new energy vehicle ownership. With consumers' increasing recognition of new energy vehicles, the power battery manufacturing industry will gain greater market size and more diversified development opportunities. CAGR is expected to reach 36.1% in 2020-2025.

iii. Energy storage industry under the influence of dual carbon policy: photovoltaic wind power industry is conducive to energy storage business growth

Electricity is the basic industry of production development and an important pillar of economic

development. Under the support of abundant natural resources, coal power generation still occupies the dominant position of power production and energy utilization, accounting for more than 60%. Non-fossil energy accounts for a relatively low proportion, only 30 per cent.

China plans to build a new power system with new energy as its core, aiming at 'carbon peak and carbon neutralization'. In the long run, new energy represented by wind power and solar power will become the main force in 2030. Wind and solar power generation is expected to increase the proportion of power generation to 30% in 10 years.

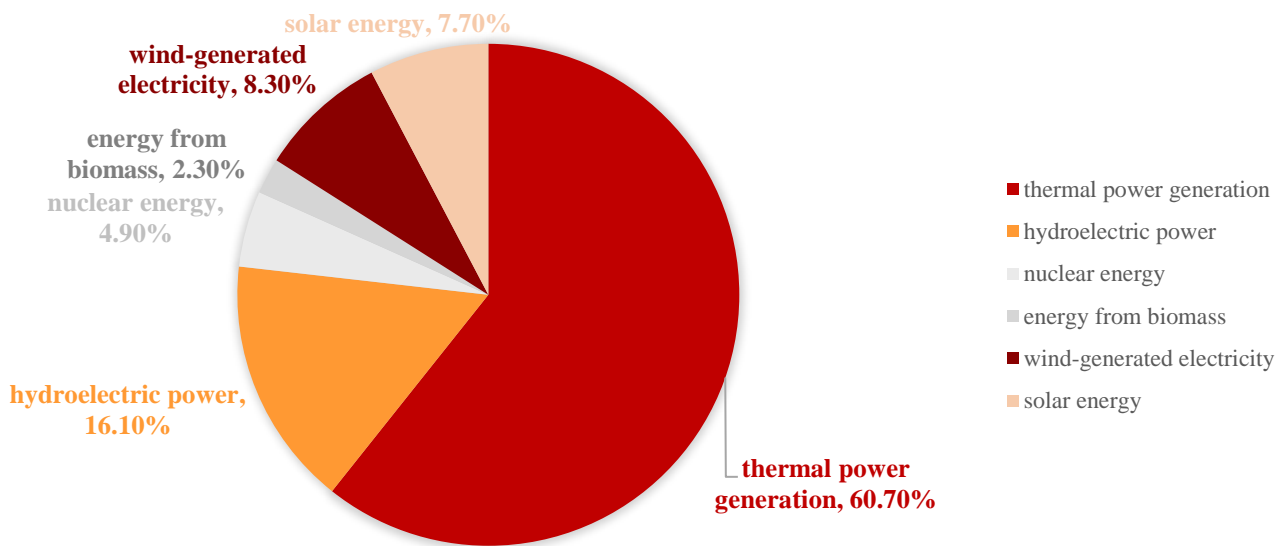


Figure 3: Projected power generation structure in China in 2025. Unit : %

Source: Choice

It is estimated that the electrochemical energy storage industry will maintain rapid growth in the late 14th Five-Year Plan.

Under conservative and optimistic estimates, the cumulative installed capacity reached 32.7 GW and 55.9 GW, respectively, to achieve the goal of wind energy photovoltaic installation in 2025, and the domestic electrochemical energy storage scale reached 10 times growth.

The energy storage system products of CATL can be used in power generation, carbon policy to promote downstream demand, the company's energy storage capacity increased significantly.

iv. Multi-dimensional comparison of enterprises, CATL development prospects are favorable

(1) Vertical comparison of enterprise valuation multiples

LG Chemical and Samsung SDI as international lithium giants, the overall valuation rating is far lower than the CATL, but both have no growth in the traditional business, so need to split, compare the three battery business.

Among them, LG Chemical's battery business accounted for only 27.8 per cent of revenue in 2019, with an overall rating of 10 times.

In the same year, Samsung SDI 's battery business income accounted for 76 %, and the overall valuation rating was higher. Due to the traditional business development downturn for many years, poor market reputation, its valuation is very low.

Taking LG Chemical as an example, the market gave a valuation of 5X – 7X during 2014 – 2016 when the power battery business developed slowly. Dismantling the battery business, compared with the CATL.

According to LG Chemical and Samsung SDI enterprise valuation multiple measurement, the gap between the two and CATL is small, are about 40X.

In 2020, the valuation of LG enterprises rose, and the power battery increased by 64 % year-on-year.

The main reason is that LG Chemical' s overseas electric vehicle sales surged. Scale growth, the battery business has broken the break-even line, the second quarter profit of about 900 million CNY, net interest rate reached 6%. In July 2020, the installed capacity of power batteries was 2.8 GWh, up 173 % year-on-year.

The EV / EBITDA evaluation of LG Chem 's battery business in 2020 is only 23X, compared with 49X of CATL valuation and 30X of Samsung SDI valuation, LG rating is significantly lower. Estimated EV / EBITDA in CATL next year is expected to be 74X.

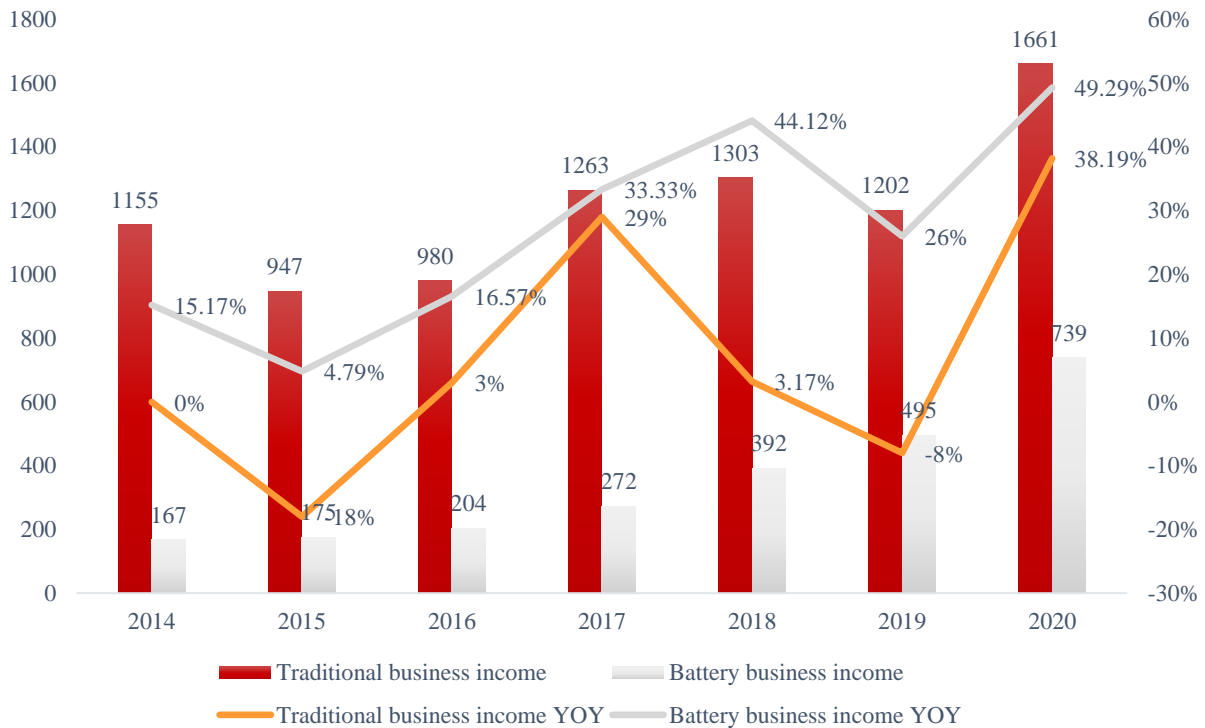


Figure 4: LG Chemical sub-business income. Unit : billion CNY, %
Sources : Bloomberg

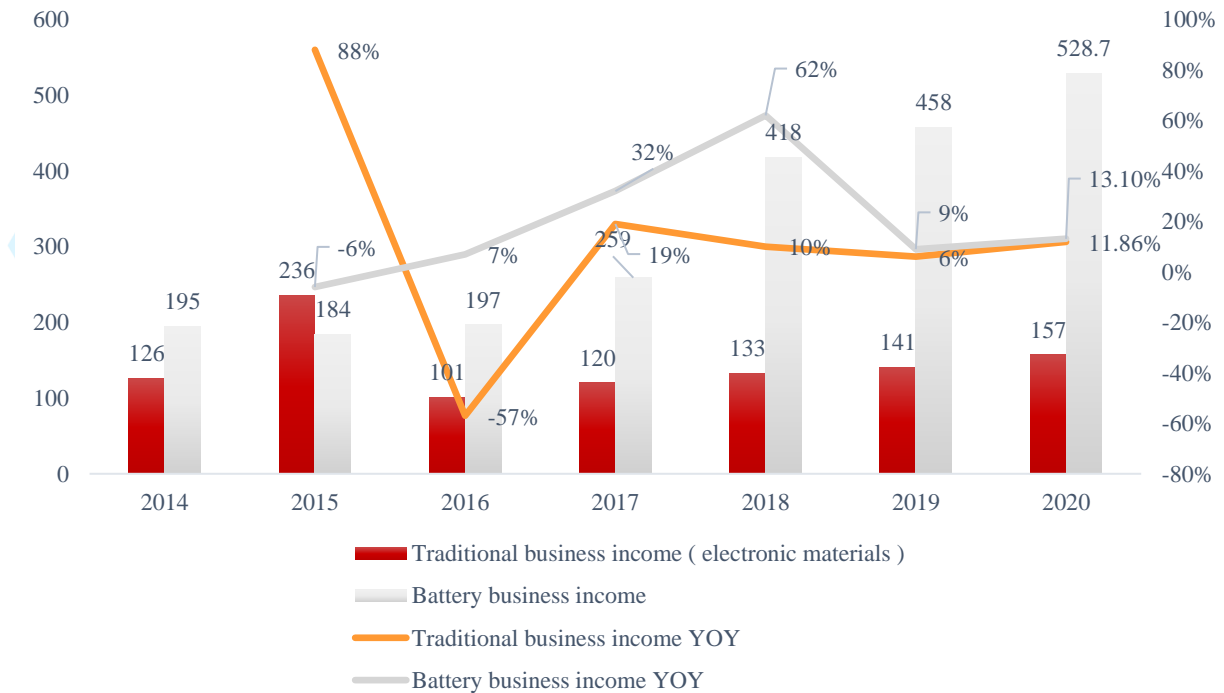


Figure 5: Samsung SDI business income. Unit : billion CNY, %
Sources: Bloomberg

(2) Horizontal comparison of enterprise valuation multiples.

In the smartphone industry, consumer electronics has an initial rating of more than 80X, fluctuating between 20 and 45X during high growth. Looking back on the changes in the penetration rate of smart phones, the embryonic stage of the development of the smart phone

industry was before 2010, 2010-2015 was the rapid growth period of smart phones, and after entering the mature period of 2015, the penetration rate increased slowly. The corresponding enterprises in CATL, such as Luxshare ICT, Goertek Inc and other industrial chain enterprises, have experienced more than 80X of enterprise value valuation in the early stage of industry

development, but after entering the growth period, the company's valuation multiple fluctuates between 20X and 45X. China's electric car penetration rate of less than 7%, less than 12% penetration in Europe, we can

see that new energy electric vehicles are still in the early stages of industrial development. Give CATL 70X dynamic enterprise multiple assessment, still in the effective valuation range.

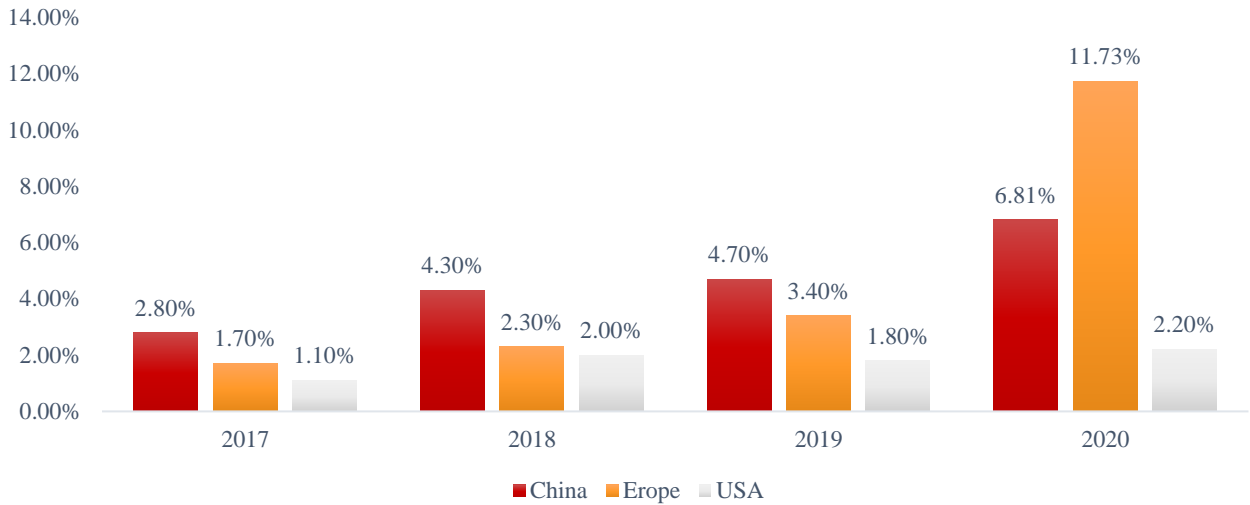


Figure 6: Permeability of Electric Vehicles in China, Europe and America. Unit : %

Sources : Choice

Can the valuation of CATL reach the height of the initial period of the smartphone industry chain? We believe that it is difficult, and the core of EV / EBITDA valuation is to reflect the market's expectations for future performance growth. Compared with the electric vehicle industry chain, the performance growth of the smart phone industry chain is higher, which is mainly reflected in : (1) The price reduction pressure of the industry chain is not as large as that of the electric vehicle, and with the improvement of the function of the smart phone, ASP of the components is even in an

upward trend, so the price elasticity of the smart phone industry chain is stronger than that of the electric vehicle industry chain ; (2) the car is bulk consumption, consumption frequency is low, and the consumption frequency of smart phones faster, so the penetration rate increased faster, higher ceiling, reflected in the industrial chain of shipments growth is also higher. Therefore, objectively speaking, we believe that the valuation of CATL is reasonable, but the possibility of sharply rising to 80X is low.

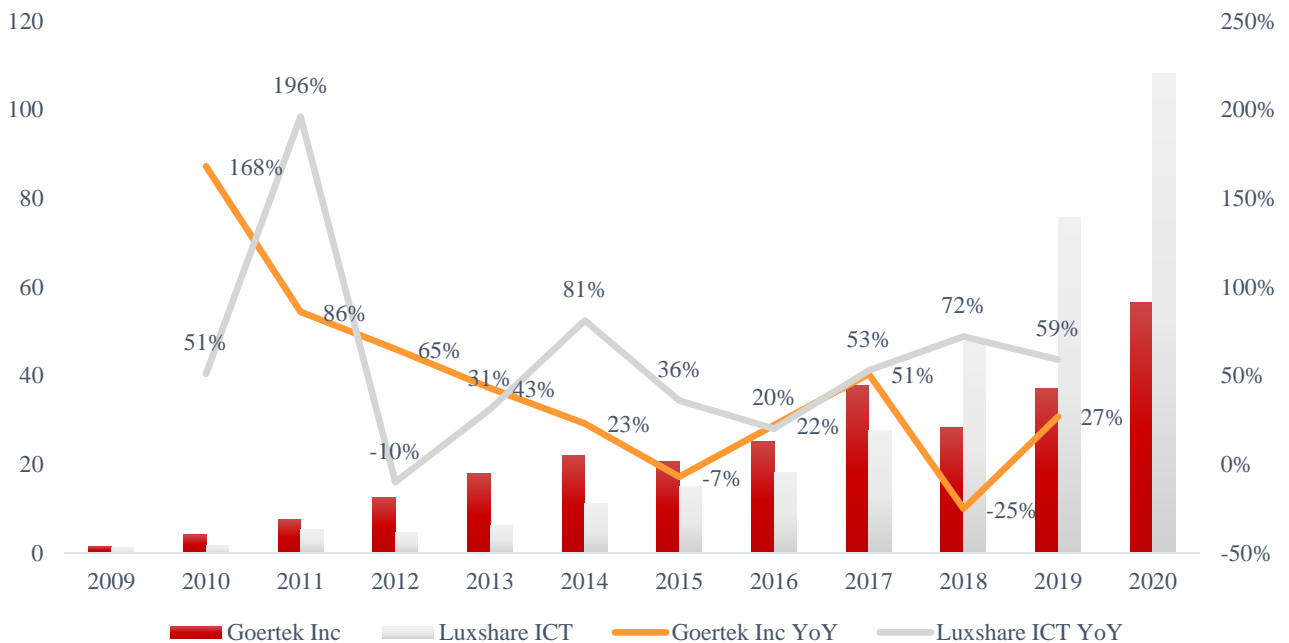


Figure 7: Goertek Inc and Luxshare ICT History EBITDA and Growth. Unit : billion CNY, %

Sources: Choice

III. COMPANY ANALYSIS: THE WHOLE INDUSTRY CHAIN LAYOUT TO ENSURE SUPPLY, FINANCIAL STABILITY ESCORT UNDER STRONG EXPANSION

i. Industry chain security: CTP, battery technology and thermal management system technology to build the cornerstone of industry chain security

The good product rate of core production line in CATL is high. There are some factors that affect the technical level of excellent product rate of square process: (1) The automation level of production line. Some production links require dust-free, metal-free and dry working environment conditions. With the continuous improvement of the automation technology level of the production line, the working environment of the production is also improving, so as to improve the rate of excellent products produced. (2) The safety and reliability of mechanical equipment and the ability to detect errors in the core production process. In the key operating procedures, coating and winding process is the easiest process to generate waste plates and unusable cores. If the advanced mechanical equipment with self-checking ability to damage parts can be equipped, the number of scraps will be reduced and the rate of good products will be greatly improved. (3) Ability of Testing 'Bad' Core. The production process of the core is complex and there are so many processes. The core manufacturing production line in CATL has basically achieved 100 % automation level in various links, to improve production yield rate.

The company's existing super-fast charging products are industry-leading. In September 2019, on the basis of the existing, the company introduced the constant potential closed-loop control algorithm to further reduce the charging time, thus achieving the excellent performance of charging for 5 minutes and having 150 kilometers of endurance.

ii. Industrial Chain Layouts: upstream and downstream joint venture holding to build strong bargaining power, two-way development of industry and investment

Upstream: Enterprises cooperate with overseas mineral enterprises mainly by subscribing shares and signing supply agreements to ensure the smooth supply of raw materials.

1. Precursor: a subsidiary is established by the enterprise to independently study the precursor to grasp the core of technological development.
2. Cathode materials: The upstream manufacturers represented by Zhenhua E-chem and MSDS have played a role of OEM. They are important partners of the company.

3. Negative materials: In the CATL, shareholders first took shares in Kaijin New Energy Technology Corp, Ltd. At present, half of the sales business of Kaijin New Energy Technology Corp, Ltd. comes from the CATL, which is the largest supplier of negative materials and accounts for half of the total procurement of negative materials in the CATL.
4. Electrolyte: In terms of mode of supply, CATL made the core formula process for Tinci Materials Technology Co., Ltd. instead of purchasing Capchem Technology Co., Ltd., while paying materials and processing costs was cheaper.

Downstream industry chain: Through the way of capital investment, strategic cooperation and the establishment of joint ventures, more than 20 enterprises directly or indirectly participate in the downstream ecological chain, and the cumulative investment is more than 1 billion CNY.

On the one hand, the upstream and downstream equity binding ensured the supply chain security in the CATL. On the other hand, as its investment business income, for example, for the equity binding of Australian lithium mines, when the prices of raw materials such as lithium and cobalt rose in 2021, they brought related investment income, and improved the income source curve of the bidirectional development of industry and investment.

iii. Energy Storage Business May Become the Second Growth Curve under Dual Carbon Background

In August 2020, the relevant national departments issued the 'guidance on the integration of scenery, water, heat and storage and the integration of load and storage in the source network' and proposed to moderately expand the corresponding proportion of energy storage.

In Hainan, Qinghai Province, CATL led the implementation of the first-generation side of the decentralized 100 MW lithium-ion energy storage project and UHV transmission 1000 MW photovoltaic power station configuration AC energy storage project into operation; in addition, Zhuhai Heng Qin energy storage frequency modulation project is also in active operation.

With the expansion of new energy industries such as photovoltaic and wind power, energy storage business has achieved explosive growth of 727.36 % year on year, and the gross interest rate is as high as 36.6 %. Thus, the direction of energy storage is expected to become the most important performance growth point in CATL.

iv. Financial robustness: sales net interest rate and asset-liability ratio performed well

(1) Strong earnings growth: net sales rate leading industry level

In terms of operating income, the total income in the first half of 2021 was CNY 440.75 billion, an increase of 134 % year-on-year. Among them, the power battery revenue of 30.451 billion CNY, an increase of 125.94%; energy storage system revenue of 4.693 billion CNY, an increase of 727.36 %. In terms of profits, the net profit

attributable to shareholders of listed companies was CNY 4.484 billion, up 131.45% year-on-year.

Under the strong expansion strategy, overseas business revenue is brilliant, with overseas revenue of 10.2 billion CNY, an increase of 355.45%. This business growth is directly related to the overseas expansion of CATL and the large number of export orders of Tesla Model 3 / Model Y. In addition, the gross profit margin of 34.39 % of overseas business is very impressive, much higher than the domestic 25.11 %.

Table 1: Analysis Unit of CATL Profitability Company 2017-2021 Unit : %

financial index	2017	2018	2019	2020	2021	Mean
net profit on net sale	21.44%	12.62%	10.95%	12.13%	12.08%	13.84%
returns on total assets	8.45%	5.06%	4.95%	2.14%	2.92%	4.70%
return on equity	15.70%	10.28%	11.96%	8.70%	6.52%	10.63%

Source: Eastmoney securities Choice

The gross margin of the same industry's power battery products has declined year by year. In this regard, CATL adopted joint research and development with upstream raw material manufacturers.

Adopting deepening cooperation to alleviate the impact of raw material price fluctuations. Compared with the same industry, CATL and Gotion High-tech can still maintain nearly 30 % of the gross margin, to retain more profits for the company.

(2) Good performance of operational capacity indicators such as inventory turnover and accounts receivable turnover

In 2019, the number of current assets of enterprises increased rapidly, and the turnover rate of accounts receivable increased rapidly, which was mainly. Due to the fact that there were more accounts receivable to be recovered in the year. At the same time, enterprises recovered accounts in time, and the turnover period of accounts receivable was shortened. The inventory turnover rate exceeded the average level of the industry from 2016 to 2019.

Table 2: Analysis of CATL operating capacity company from 2017 to 2021 unit: %

Financial Index	2017	2018	2019	2020	2021	Mean
accounts receivable turnover	197.00%	209.00%	270.00%	257.00%	217.00%	230.00%
rate of stock turnover	533.00%	379.00%	350.00%	294.00%	171.00%	345.40%
rate of stock turnover	51.00%	48.00%	52.00%	39.00%	24.00%	42.80%

CATL is far lower than peer enterprises in terms of business cycle, in a smaller fluctuation, operating capacity is stronger than rival enterprises ; enterprises in the inventory turnover rate has declined in recent years, but still maintain a high turnover rate between the same industry, inventory management capacity is better than the competitive enterprises ; the ability of accounts receivable in CATL is much higher than the industry level, and it performs well in accounts receivable turnover.

After 2017, it shows an upward trend year by year, and the discourse power on downstream customers is also increasing.

(3) Low levels of asset-liability ratio and broad space for debt-raising capacity and elastic development

Short-term and long-term debt repayment ability, CATL has shown a fluctuating rise in the past five years, reaching 63.67 % in 2021 After the completion of the increase in assets and shares in the CATL in 2016, the asset-liability ratio decreased significantly, and it was announced again in 2021 that it would increase by 45 billion CNY.

The industry is in the early stage of development, and the solvency of the CATL and the relatively low asset-liability ratio help it decide whether to expand debt according to market changes in the future. In the CATL, the liquidity ratio and the quick ratio decreased in 2019.

The value showed an upward trend in the first half of 2020 but still lower than the industry average, indicating

that the solvency of enterprises improved and the liquidity of assets was good.

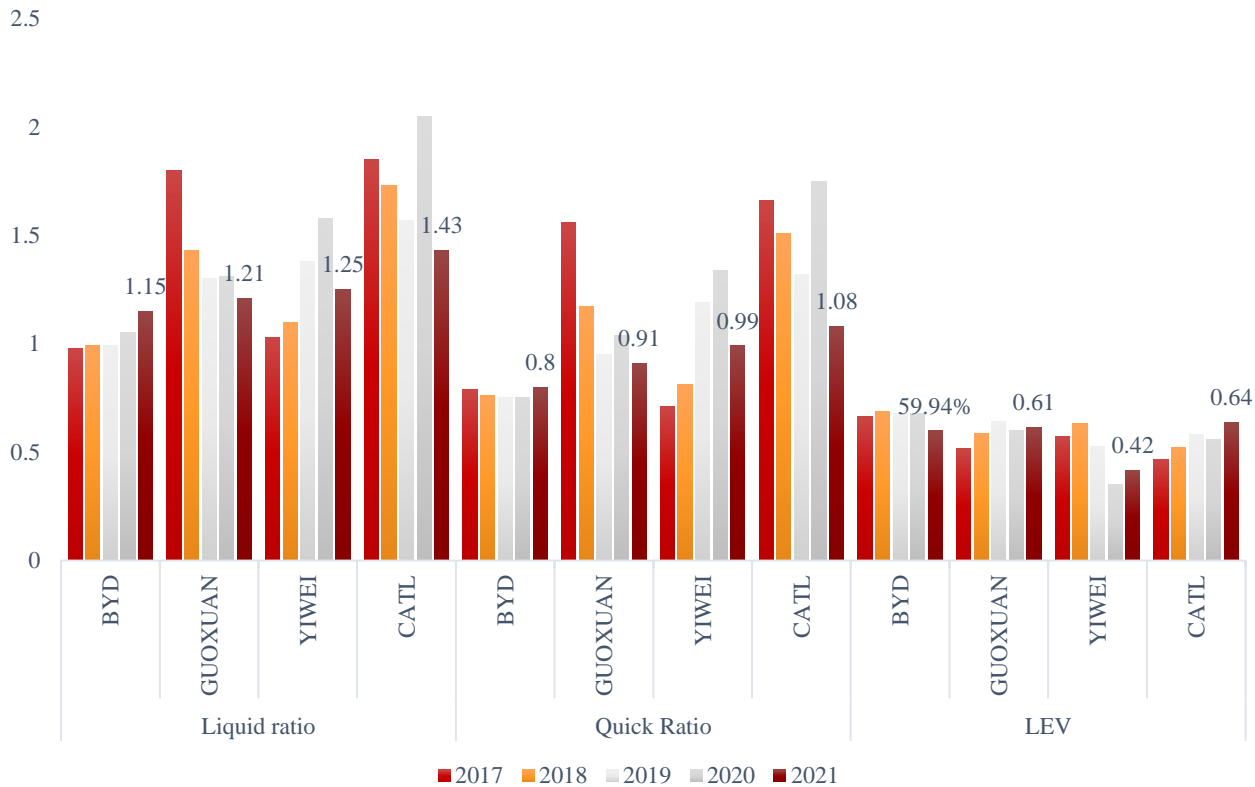


Figure 8: Industry Analysis of Debt Repayment Capacity in the Era of BYD, Guoxuan Gaoke, Yiwei and CATL 2017-2021 | Source: Wind

v. Capacity Expansion Plan in CATL, refinancing to Ensure Capacity Expansion

In 2021, CATL will add 45 billion supplementary ammunition, production capacity and R & D will jointly lay the foundation for the development of the company. On February 27,2020, the company announced that it plans to raise 20 billion CNY in non-public offering, of which 4 billion will be used for the expansion of 16 GWh project in Huxi, 5.5 billion will be used for the expansion of 24 GWh project in Jiangsu era, 3 billion will be used for the 12 GWh project in Sichuan era, with a total capacity of 52 GWh. The other 2 billion will be used for the research and development project of electrochemical energy storage frontier technology reserve, and 5.5 billion will be used to supplement liquidity. This increase will further strengthen the company’s capital, capacity scale and R & D advantages. The power battery system is continuously updated in the fields of raw materials, processes, formulations and structures. High R & D investment is conducive to deepening the company’s moat. The company plans to invest 3 billion in frontier electrochemical energy storage systems to further enhance the company’s leadership.

IV. PROFIT FORECAST: EV / EBITDA VALUATION METHOD

i. Selection of Valuation Methods: Absolute Valuation DCF Method and Relative Valuation PE, EV / EBITDA Method

Current mainstream valuation methods include relative valuation method and absolute valuation method. However, for growth stocks such as new energy vehicles, the company ' s internal management and external environment change rapidly and have a great impact, and it is difficult to make correct assumptions for the next 10 years or even 20 years. Therefore, DCF valuation has become a ' calculation model ' and has little practical significance.

At present, EV / EBITDA (enterprise valuation multiple) mainly compares the operating profit before depreciation, so it is a reasonable valuation method. According to the current plate EV / EBITDA valuation comparison, CATL in the plate reasonable valuation, there is no overestimation.

In summary, this paper uses the EV / EBITDA financial valuation method to predict, and the correlation is below.

ii. EV / EBITDA Valuation Method: Business Breakup and Valuation Model

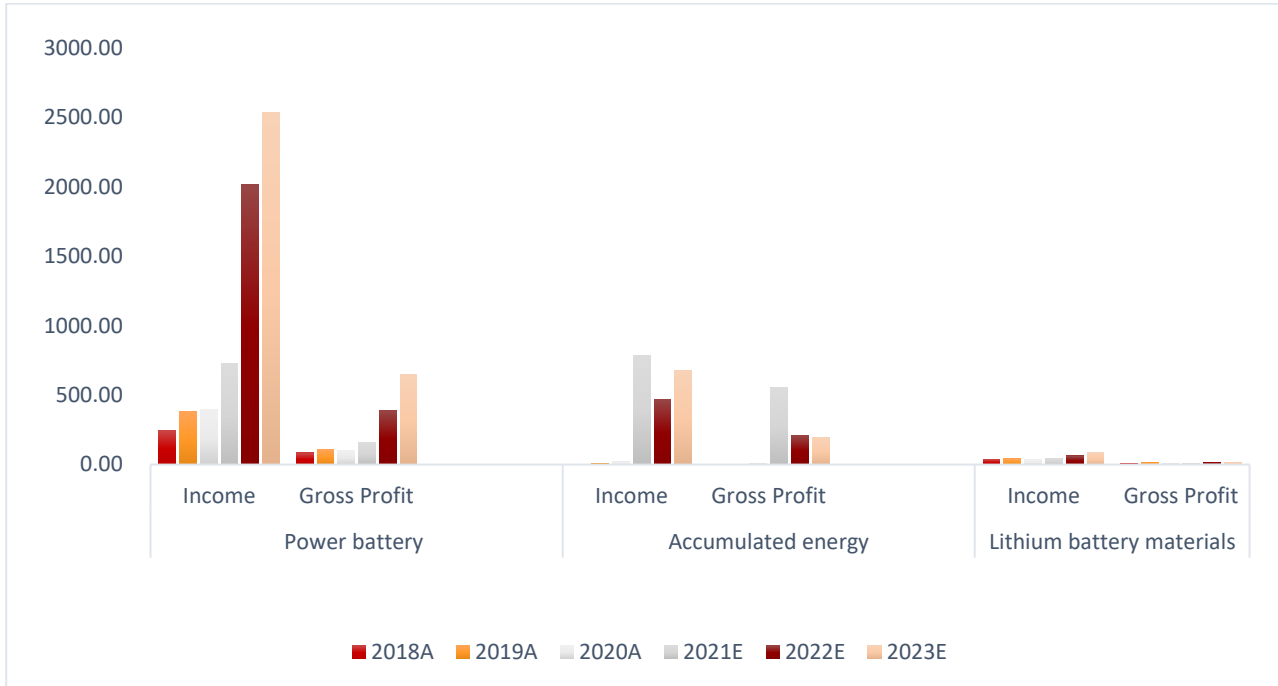


Figure 9: Different product business forecast valuation analysis (Unit: billion CNY)

Source: Wind

Power battery business: from the market point of view, the company's power battery business from domestic and overseas markets. Domestic market: The installed share of the company in the domestic / overseas market in 2020 is about 50 % / 10 %. Overseas market: With the smooth implementation of the production capacity of European factories and the expansion of the company's terminal customers, the company's overseas market will become a new fulcrum of growth. Taking into account the cost increase brought by the rise of upstream material prices in 2021, and the company's strong cost control ability.

In summary, the corresponding income of power battery business in 2021 / 2022 / 2023 was 725.01 / 2015.69 / 2537.70 billion CNY, with gross profit of 158.49, 391.34 and 646.38.

Energy storage business: As the global leader of power battery, the company prospectively layouts the energy storage business. The corresponding income of energy storage business in 2021 / 2022 / 2023 is 787.23 / 472.05 / 675.53 billion CNY, and the gross profit is 554.47 / 210.04 / 197.63.

Lithium material business: The company deeply layouts the lithium material business through the establishment of subsidiaries and acquisitions, reduces costs and increases revenue, giving the corresponding revenue of CNY 4.602 / 62.42 / 90.31 billion in 2021 / 2022 / 2023 and gross profit of 8.32 / 12.38 / 15.61.

Other business: We assume that the gross interest rate of patent fees is raised to 42 %, and the revenue of other businesses in 2021 / 2022 / 2023 is 104.9 / 136.4 / 163.7 billion CNY, and the gross interest rate is 42 % / 38 % / 38 %, corresponding to 44.1 / 51.8 / 6.22 billion CNY.

Table 8: CATL EBITDA prediction

Unit: billion	2018A	2019A	2020A	2021E	2022E	2023E
Operating income	296.1	457.88	503.19	1055.70	1866.48	2941.95
YoY	48.00%	54.63%	9.90%	109.80%	76.80%	57.62%
Operating cost	199	324.8	363.49	500.03	687.86	946.25
Gross-profit ratio	33%	29%	27.76%	27.40%	27.50%	27.10%
Cost	46.81	62	68.41	154.10	274.18	429.19
Depreciation amortization	23	44.09	48.68	11.28	12.00	12.44

The proportion of depreciation amortization in income	7.80%	9.60%	9.67%	1.07%	0.64%	0.42%
Asset deficiency	9.7	14.34	8.27	8.00	8.00	8.00
Other income	5.08	6.46	11.36	14.04	17.27	21.43
Total profit	42	57.6	69.83	90.21	116.54	150.56
Income tax	4.7	7.5	8.79	12.16	16.83	23.30
Income tax rate	11%	13%	12.59%	13.54%	14.55%	15.65%
Net profit	37.36	50.13	61.04	121.14	220.00	342.18
Minority shareholders' interests	-3.5	-4.5	-5.21	-10.86	-19.42	-30.03
Returned net profit	33.87	45.60	55.83	110.28	200.32	312.14
YoY	-13%	35%	22.43%	97.53%	81.65%	55.82%
EBITDA	67.13	146.77	153.99	184.79	241.2	365.58
YoY	6%	56%	4.92%	20.00%	67.95%	51.57%
EV/EBITDA		14.23	49.89	79.1	74	58.94

Source : choice

The company is expected to achieve operating income of 1866.48 / 294.195 million in 2022 / 2023 respectively; EBITDA is expected to achieve 241.2 / 365.58 in 2022 / 2023; the given EV / EBITDA is 74 / 58.94 in 2022 / 2023; EV is expected to achieve 18818.98 / 22582.76 in 2022 / 2023, a year-on-year increase of 22.8 % / 19.99 % and total equity of 23.31, so EPS is expected to be 807.027 in 2022.

VI. CONCLUSION

First, the company takes the power battery as the core, the industrial layout is based on the upstream mineral, the battery material industry, the downstream to create new energy vehicles, battery recycling, charging and swapping operations. Through the construction of a complete industrial chain, can form a synergistic effect, while reducing the cost of materials products to expand business space, the formation of their own industrial barriers, enhance the company's core competitiveness.

Second, The Matthew effect of the global and Chinese power battery market is prominent, and the market share is accumulated to the head enterprises, which helps to stabilize the leading position in the CATL. With the increase in domestic shipments, new energy vehicles overseas sales rise, the company's business will gradually open with the development of new energy vehicle market.

Third, affected by the development of new energy vehicles and lithium battery industry, the CATL, as a leading enterprise, has excellent business revenue and strong risk resistance, which promotes the sustainable development of the company.

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