Innovation on the road: Xiaomi enters the EV market

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Key Takeaways

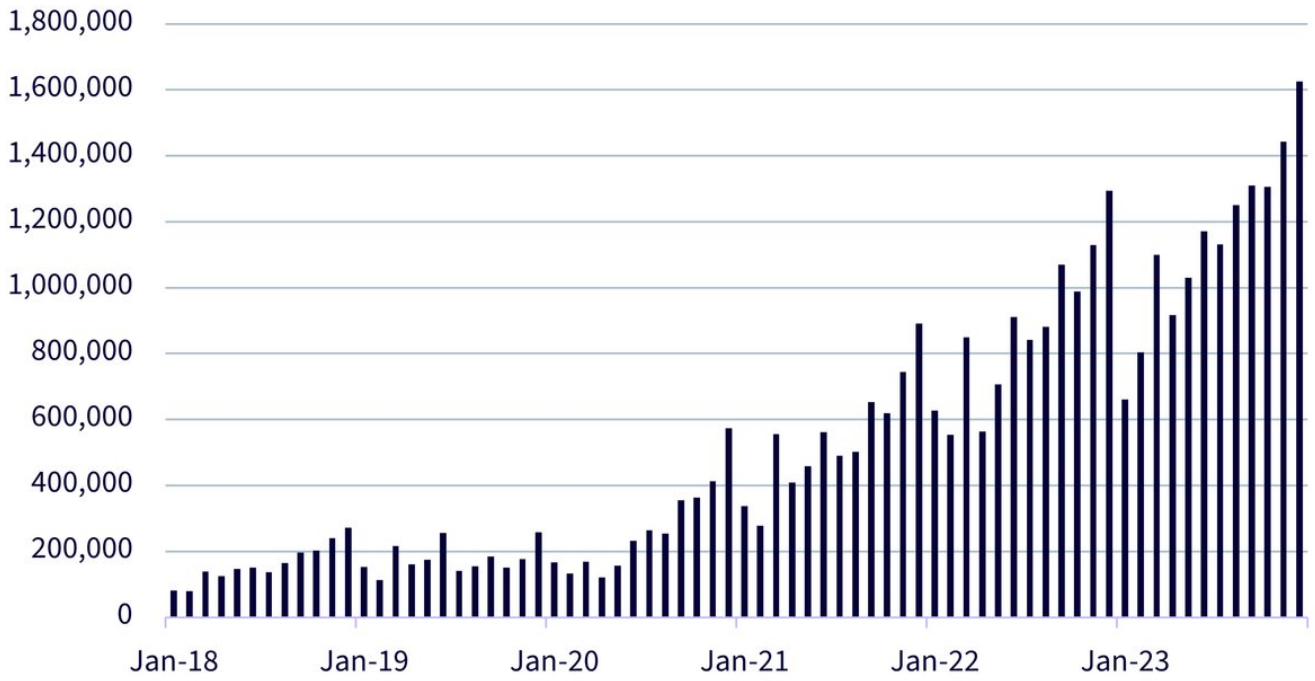
- Xiaomi's entry into the EV market marks its strategic pivot from electronics to automotive innovation.
- Chinese manufacturers continue to lead the global EV market, shaping its growth advancements.
- Connected car technologies are pivotal in transforming vehicles into integrated components of a broader digital ecosystem.

Xiaomi, primarily known for its consumer electronics, recently made headlines with its foray into the electric vehicle (EV) market by launching its first EV, Xiaomi Su7. Remarkably, the Xiaomi SU7 received nearly 90,000 preorders within 24 hours of its launch, and production for its first year on the market has sold out. This move not only marks Xiaomi's ambitious entry into the automotive industry but also signals the burgeoning growth and potential of the EV market.

Expanding horizons in EV markets

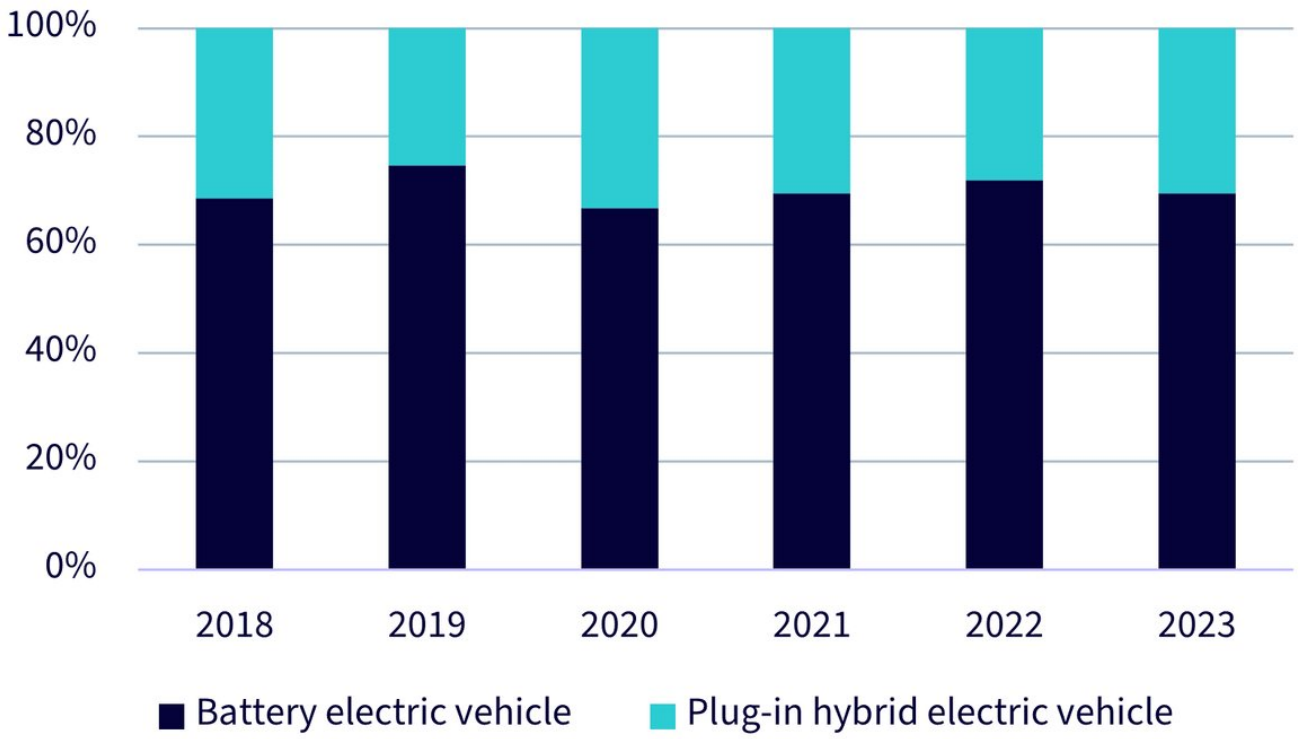
The global EV market has witnessed steady growth with seasonal patterns over the past few years. Figure 1 shows the substantial rise in sales across the years. Compared to 2022, global EV sales rose by 32% last year, reflecting a growing consumer preference for cleaner and more sustainable modes of transportation – a significant shift in the automotive industry. Among these sales, battery electric vehicles (BEV) accounted for around 70% of the market from 2017 to 2023 (see Figure 2), indicating a strong preference for fully electric models, while plug-in hybrid electric vehicles (PHEVs) made up the remaining ~30%. This robust growth underscores the significant shift towards electrification in the automotive industry, setting the stage for innovative companies like Xiaomi to enter and potentially thrive in this evolving market.

Figure 1: EV monthly sales in unit (2018-2023), worldwide



Source: Bloomberg. **Historical performance is not an indication of future performance and any investments may go down in value.**

Figure 2: Battery EVs vs. plug-in hybrid EVs sales in unit (2018-2023), worldwide

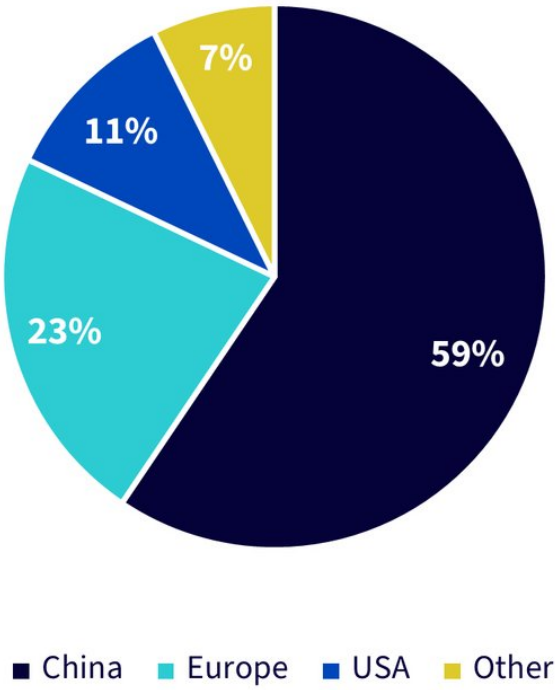


Source: Bloomberg. **Historical performance is not an indication of future performance and any investments may go down in value.**

China’s unmistakable role in the EV market

Among the leading players in the global EV market, China has carved a prominent role as a large consumer market and a pivotal manufacturer. In 2023, China accounted for a staggering 59% of global EV sales, demonstrating its dominant position in the industry. Moreover, over 55%[1] of the EVs sold were produced by Chinese automotive companies, underlining China's significant influence and manufacturing capability in the EV sector, in the same year. Notably, BYD alone produced over 20%[2] of the EVs sold worldwide in 2023, showcasing its considerable impact and leadership within the market. The entry of Chinese companies like Xiaomi into the EV sector is reflective of this trend. The prominent role of China in the EV market highlights not only the scale of its impact but also the strategic importance of monitoring and potentially engaging with this rapidly expanding market segment.

Figure 3: Electric Vehicle Sales in Unit by Region in 2023



Source: Bloomberg

Connected cars and the future of the automotive industry

The concept of connected cars, which integrate communication technologies into vehicles, represents significant innovation and transformation in the automotive industry. Connected carts like the Xiaomi SU7 are equipped with technology that enables them to communicate and interact with other devices both inside and outside the vehicle. Xiaomi's emphasis on connected car features even extends to potential synergies with its range of smart home appliances. For example, As the driver nears home, the vehicle might send a signal to adjust the thermostat, turn on the lights, and even preheat the oven, all seamlessly integrated through the car's onboard system. Such synergistic capabilities are not just futuristic – they are imminent. About 95% of new vehicles sold globally will be connected by 2030[3].

A systematic way to capture the Automobile Innovation

As we explore the evolution of EVs and connected cars and their impacts on the automotive sector, capturing investment opportunities that arise from this shift could be challenging.

The WisdomTree Berylls LeanVal Global Automotive Innovators Index (WTCAR, its NTR tracked by WCAR) offers a systematic approach to capture the exciting opportunities for investors, focusing on companies transforming the automotive and mobility ecosystem automotive innovation, including the electrification and connectivity of vehicles:

- Electrification
- Connectivity
- Autonomous driving
- Shared mobility

The WTCAR index strategically includes a range of Chinese EV and EV parts manufacturers, which account for around 12% weight in the index, as of the end of March 2024. This allocation captures the growth opportunities presented by China's rising prominence in EV production and sales, offering investors exposure to this dynamic segment of the market. Besides, the index encompasses constituents that are involved in developing connected car technologies, highlighting its alignment with next-wave automotive advancements.

Although Xiaomi is not currently a constituent of the index, its focus on innovation and integrating advanced technologies, like connected car features, resonates with the index's investment philosophy. As Xiaomi continues to develop its automotive capabilities, its potential inclusion in the WTCAR index could offer investors a unique opportunity to participate in the growth of automotive innovation.

Conclusion

Xiaomi's recent entry into the EV market represents a significant step for a company traditionally focused on consumer electronics. As a new entrant, Xiaomi is positioning itself as a challenger in a rapidly evolving industry increasingly leaning towards integrating advanced technologies in vehicles. This shift towards EVs equipped with smart technologies highlights the ongoing transformation within the automotive sector. The WTCAR Index, reflecting broader automotive innovation, does not yet include Xiaomi but aligns with the industry's direction. This situation highlights the potential for investors to engage with a market in transition, influenced by both established leaders and innovative newcomers.

Sources

[1] Source: Bloomberg NEF

[2] Source: Bloomberg NEF

[3] McKinsey & Company, "Unlocking the full life-cycle value from connected-car data".

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