

# Li Auto Inc. (LI US)

## 1Q23 beat with sustainable profitability ahead

**Our top pick.** Li Auto's 1Q23 results beat our previous forecasts. We believe its profitability could sustain with GPM's sequential improvement. We are still of the view that Li Auto is best positioned among Chinese NEV start-ups, with the highest chance to become a long-term winner. Apart from its products, we like the company's high self-discipline in costs and business expansion even as it is much more resourceful than before.

- 1Q23 earnings beat on lower R&D, investment income.** Li Auto's revenue in 1Q23 almost doubled YoY, in line with our prior forecast. GPM in 1Q23 widened 0.2 ppt QoQ to 20.4%, slightly lower than our projection of 20.8%, as the aging *Li One* dragged down GPM by 1.6 pts. SG&A expenses were in line, whereas R&D expenses were RMB 280mn lower than our estimates. OPM of 2.2% in 1Q23 was the highest in its history. Non-operating income in 1Q23 was about RMB 360mn higher than our forecast. Accordingly, Li Auto's 1Q23 NP of RMB 930mn was about RMB 660mn higher than our prior forecast.
- 2Q23 outlook.** We expect Li Auto's GPM to improve QoQ in 2Q23, with greater economies of scale and lower impact from the Li One, which should be more than enough to offset rising R&D investments. Therefore, we project a similar OPM in 2Q23E vs 1Q23. We expect NP in 2Q23E to be at least similar to or even higher than NP in 1Q23, depending on investment return in non-operating income.
- Most cash among NEV trio, but still most self-discipline in costs and expansion.** Li Auto is on track to its full-year sales target, which is rare in 2023 amid intensifying price war. We raise our FY23E sales volume forecast by 6% to 0.29mn units. Li Auto is also well on track to become the first Chinese NEV start-up to make profit, and we raise our FY23E net profit to RMB 3.6bn from RMB 1.3bn. We are still of the view that Li Auto is best positioned among Chinese NEV start-ups, especially with its highly self-discipline in cost control and business expansion when it is much more resourceful than before.
- Valuation/Risks.** We maintain our BUY rating and target price of US\$ 44.00, still based on 3.0x our revised FY23E P/S. We are of the view that Li Auto now should deserve the highest valuation among the NEV trio given its profitability and net cash position. Key risks to our rating and target price include slower autonomous driving development, lower sales volume and/or gross margin than our expectation, as well as a sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	27,010	45,287	97,900	126,850	151,400
YoY growth (%)	186	68	116	30	19
Net income (RMB mn)	(321)	(2,012)	3,603	5,029	7,373
EPS (RMB)	(0.2)	(1.0)	1.8	2.5	3.7
YoY growth (%)	N/A	N/A	N/A	39.6	46.6
P/S (x)	5.4	3.7	1.7	1.3	1.1
P/B (x)	3.6	3.7	3.4	3.0	2.7
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(0.9)	(4.7)	7.6	9.5	12.3
Net gearing (%)	Net cash				

Source: Company data, CMBIGM estimates

### BUY (Maintain)

Target Price	US\$ 44.00
(Previous TP)	US\$ 44.00)
Up/Downside	+77.6%
Current Price	US\$ 24.77

### China Auto Sector

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### Stock Data

Mkt Cap (US\$ mn)	25,817
Avg 3 mths t/o (US\$ mn)	157
52w High/Low (US\$)	41.49/12.52
Total Issued Shares (mn)	2,085
Source:	Bloomberg

### Shareholding Structure

Li Xiang	22.3%
Wang Xing	18.8%
Others	58.9%

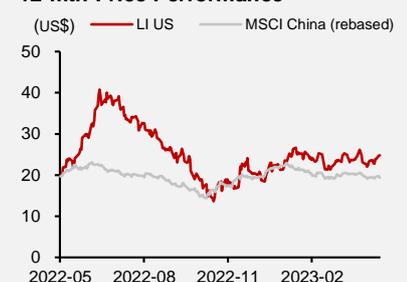
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	3.9%	9.0%
3-mth	3.9%	12.7%
6-mth	30.6%	17.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers  
 Zhong Tian**

### Related Reports

- ["Li Auto Inc. – Well on track" – 28 Feb 2023](#)
- ["Li Auto Inc. – Poised to make profit from 4Q22" – 16 Aug 2022](#)

**Figure 1: Quarterly results**

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	YoY	QoQ
Sales volume (units)	31,716	28,687	26,524	46,319	52,584	65.8%	13.5%
ASP (RMB)	301,489	304,410	352,220	381,050	357,277	18.5%	-6.2%
Revenue	9,562	8,733	9,342	17,650	18,787	96.5%	6.4%
Gross profit	2,164	1,878	1,182	3,566	3,830	77.0%	7.4%
R&D expenses	(1,374)	(1,532)	(1,804)	(2,070)	(1,852)	34.8%	-10.5%
SG&A expenses	(1,203)	(1,325)	(1,507)	(1,630)	(1,645)	36.8%	0.9%
Operating profit	(413)	(978)	(2,130)	(134)	405	N/A	N/A
Net profit	(11)	(618)	(1,640)	257	930	N/A	261.8%
Gross margin	22.6%	21.5%	12.7%	20.2%	20.4%	-2.2 ppt	0.2 ppt
Operating margin	-4.3%	-11.2%	-22.8%	-0.8%	2.2%	6.5 ppt	2.9 ppt
Net margin	-0.1%	-7.1%	-17.6%	1.5%	4.9%	5.1 ppt	3.5 ppt

Source: Company data, CMBIGM estimates

**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	97,900	126,850	151,400	96,925	119,550	N/A	1.0%	6.1%	N/A
Gross Profit	20,908	25,857	30,896	21,181	25,136	N/A	-1.3%	2.9%	N/A
Operating Profit	1,989	3,584	6,222	(193)	(196)	N/A	N/A	N/A	N/A
Net profit	3,603	5,029	7,373	1,280	1,248	N/A	181.5%	302.9%	N/A
Gross Margin	21.4%	20.4%	20.4%	21.9%	21.0%	N/A	-0.5 ppt	-0.6 ppt	N/A
Operating Margin	2.0%	2.8%	4.1%	-0.2%	-0.2%	N/A	2.2 ppt	3.0 ppt	N/A
Net Margin	3.7%	4.0%	4.9%	1.3%	1.0%	N/A	2.4 ppt	2.9 ppt	N/A

Source: CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	97,900	126,850	151,400	93,087	138,090	175,944	5.2%	-8.1%	-13.9%
Gross Profit	20,908	25,857	30,896	20,032	30,367	39,552	4.4%	-14.9%	-21.9%
Operating Profit	1,989	3,584	6,222	360	5,832	9,904	452.2%	-38.5%	-37.2%
Net profit	3,603	5,029	7,373	1,988	6,095	10,484	81.2%	-17.5%	-29.7%
Gross Margin	21.4%	20.4%	20.4%	21.5%	22.0%	22.5%	-0.2 ppt	-1.6 ppt	-2.1 ppt
Operating Margin	2.0%	2.8%	4.1%	0.4%	4.2%	5.6%	1.6 ppt	-1.4 ppt	-1.5 ppt
Net Margin	3.7%	4.0%	4.9%	2.1%	4.4%	6.0%	1.5 ppt	-0.4 ppt	-1.1 ppt

Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>27,010</b>	<b>45,287</b>	<b>97,900</b>	<b>126,850</b>	<b>151,400</b>
Cost of sales	(21,248)	(36,496)	(76,992)	(100,993)	(120,504)
<b>Gross profit</b>	<b>5,761</b>	<b>8,790</b>	<b>20,908</b>	<b>25,857</b>	<b>30,896</b>
R&D exp.	(3,286)	(6,780)	(10,011)	(11,734)	(12,744)
SG&A exp.	(3,492)	(5,665)	(9,208)	(10,889)	(12,330)
<b>Operating profit</b>	<b>(1,017)</b>	<b>(3,655)</b>	<b>1,989</b>	<b>3,584</b>	<b>6,222</b>
Net finance costs	150	314	369	383	467
Investment income	527	556	722	839	973
Other non-oper exp.	187	626	815	815	870
<b>Pre-tax profit</b>	<b>(153)</b>	<b>(2,159)</b>	<b>3,895</b>	<b>5,621</b>	<b>8,532</b>
Tax	(169)	127	(273)	(562)	(1,109)
Discontinued operations	-	-	-	-	-
Accr. on preferred shares	-	-	-	-	-
<b>Net profit</b>	<b>(321)</b>	<b>(2,012)</b>	<b>3,603</b>	<b>5,029</b>	<b>7,373</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profit before taxation</b>	<b>(153)</b>	<b>(2,159)</b>	<b>3,895</b>	<b>5,621</b>	<b>8,532</b>
Depreciation/amortization	590	1,214	2,393	4,042	5,825
Change in working capital	6,565	5,035	12,129	6,692	10,039
Others	1,338	3,290	1,300	698	36
<b>Net cash from operating</b>	<b>8,340</b>	<b>7,380</b>	<b>19,718</b>	<b>17,053</b>	<b>24,431</b>
Capex	(3,445)	(8,719)	(9,650)	(11,200)	(12,200)
Others	(813)	4,354	(8,000)	(3,600)	(5,600)
<b>Net cash from investing</b>	<b>(4,257)</b>	<b>(4,365)</b>	<b>(17,650)</b>	<b>(14,800)</b>	<b>(17,800)</b>
Share issuance	11,00	2,469	9	12	15
Net borrowings	170	3,080	(557)	(993)	(844)
Others	5,533	90	-	-	-
<b>Net cash from financing</b>	<b>16,710</b>	<b>5,639</b>	<b>(547)</b>	<b>(981)</b>	<b>(829)</b>
<b>Net change in cash</b>	<b>20,793</b>	<b>8,655</b>	<b>1,520</b>	<b>1,272</b>	<b>5,802</b>
Cash at beginning of the year	10,17	30,493	40,418	41,939	43,211
FX & discontinued operations	(472)	1,270	-	-	-
<b>Cash at the end of the year</b>	<b>30,493</b>	<b>40,418</b>	<b>41,939</b>	<b>43,211</b>	<b>49,013</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Current assets</b>	<b>52,380</b>	<b>66,992</b>	<b>77,906</b>	<b>83,905</b>	<b>95,001</b>
Cash & equivalents	27,854	38,478	39,439	40,211	45,513
Account receivables	121	48	536	695	830
Inventories	1,618	6,805	8,437	9,684	9,904
Other current assets	22,788	21,661	29,494	33,315	38,754
<b>Non-current assets</b>	<b>9,468</b>	<b>19,545</b>	<b>30,463</b>	<b>38,870</b>	<b>46,828</b>
PP&E	4,498	11,188	18,247	25,121	31,173
Intangibles	751	833	951	1,102	1,234
Right-of-use assets	2,061	3,539	5,908	6,186	6,457
Other non-current assets	2,157	3,986	5,357	6,461	7,965
<b>Total assets</b>	<b>61,849</b>	<b>86,538</b>	<b>108,369</b>	<b>122,775</b>	<b>141,829</b>
<b>Current liabilities</b>	<b>12,108</b>	<b>27,373</b>	<b>42,022</b>	<b>49,180</b>	<b>58,057</b>
Bank borrowings	37	391	848	734	-
Account payables	9,376	20,024	31,640	35,970	42,919
Current deferred revenue	305	569	1,075	1,722	2,494
Other current liabilities	2,390	6,388	8,458	10,754	12,644
<b>Non-current liabilities</b>	<b>8,676</b>	<b>13,979</b>	<b>16,308</b>	<b>17,528</b>	<b>19,392</b>
Bank borrowings	563	3,317	2,469	1,735	1,735
Lease liabilities	1,370	1,946	3,551	3,868	4,180
Other non-current liabilities	6,744	8,716	10,288	11,925	13,478
<b>Total liabilities</b>	<b>20,785</b>	<b>41,352</b>	<b>58,330</b>	<b>66,708</b>	<b>77,449</b>
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	41,063	44,857	49,690	55,688	63,951
<b>Shareholders' equity</b>	<b>41,064</b>	<b>44,859</b>	<b>49,691</b>	<b>55,689</b>	<b>63,953</b>
<b>Total equity and liabilities</b>	<b>61,849</b>	<b>86,538</b>	<b>108,369</b>	<b>122,775</b>	<b>141,829</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Vehicle sales	96.7	97.4	97.1	96.9	96.8
Other sales & services	3.3	2.6	2.9	3.1	3.2
<b>Growth (%)</b>					
Revenue	185.6	67.7	116.2	29.6	19.4
Gross profit	271.9	52.6	137.9	23.7	19.5
Operating profit	N/A	N/A	N/A	80.2	73.6
Net profit	N/A	N/A	N/A	39.6	46.6
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	21.3	19.4	21.4	20.4	20.4
Operating margin	(3.8)	(8.1)	2.0	2.8	4.1
Net profit margin	(1.2)	(4.4)	3.7	4.0	4.9
<b>Balance sheet ratio</b>					
Net cash (debt)/total equity (x)	1.1	1.1	1.2	1.1	1.2
Current ratio (x)	4.3	2.4	1.9	1.7	1.6
Receivable turnover days	2	0	2	2	2
Inventory turnover days	28	68	40	35	30
Payable turnover days	161	200	150	130	130
<b>Profitability (%)</b>					
ROE	(0.9)	(4.7)	7.6	9.5	12.3
ROA	(0.7)	(2.7)	3.7	4.4	5.6
<b>Per share data (RMB)</b>					
EPS	(0.17)	(1.04)	1.84	2.54	3.69
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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