

# Li Auto Inc. (LI US)

## 4Q23 earnings preview: NP to be flat QoQ

We expect Li Auto's 4Q23E net profit to rise 2% QoQ to RMB 2.9bn, or a net profit of RMB 21,850 per vehicle. We lower our FY24E net profit by 14% to RMB 12.6bn amid a prolonged price war. We are of the view that its current valuation of 16x our FY24E P/E is attractive given Li Auto's growth potential and profitability.

■ **We expect 4Q23E net profit to be RMB 2.9bn.** We project Li Auto's vehicle average selling price (ASP) to fall by about RMB 13,000 (or 4%) QoQ to RMB 306,000 in 4Q23E amid heavier discounts. We also project its vehicle gross margin to narrow 1 ppt QoQ to 20.2% in 4Q23E, as we estimate that about 75% of the sales incentives in 4Q23 could be absorbed by the automaker's cost reduction efforts amid greater economies of scale and declining raw-material prices. Accordingly, we estimate its overall gross margin to also narrow 1 ppt to 21.0% in 4Q23E. Forecasting R&D and SG&A expenses in 4Q23E could be more difficult, as the automaker has accelerated its R&D spending. Li Auto increased its number of showrooms by 106 in 4Q23, the fastest pace in history. We project its R&D and SG&A combined to account for 15.1% of 4Q23E revenue, 0.4 ppt lower than 3Q23.

■ **FY24E outlook.** We maintain our FY24E full-year sales volume at 0.61mn units but lower the vehicle ASP by 3% amid rising discounts. We project its gross margin to narrow by 0.7 ppt YoY to 20.7%, reflecting the stiffer competition for Li Auto. We expect such margin deterioration to be offset by a lower ratio for SG&A expenses. Accordingly, we expect Li Auto's net profit to rise by 41% YoY to RMB 12.6bn in FY24E, 14% lower than our prior forecast. Our estimates imply a net profit per vehicle of RMB 20,600 in FY24E, about RMB 3,200 lower than our forecast for FY23E.

■ **Leading brand in the premium segment.** Based on the data we have compiled, retail sales volume for SUVs and MPVs priced above RMB 300,000 surged 35% YoY to about 3mn units in 2023. Li Auto surpassed BMW and Mercedes to become the best-selling brand in this segment with market share of almost 13% in China in 2023. We expect such segment to continue expanding and Li Auto to continue grabbing share from foreign brands in 2024.

■ **Valuation/Risks.** We lower our target price from US\$ 50.00 to US\$ 45.00, still based on 25x our revised FY24E P/E. Key risks to our rating and target price include slower autonomous driving development, lower sales 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	123,635	190,320	254,600
YoY growth (%)	186	68	173	54	34
Net income (RMB mn)	(321)	(2,012)	8,926	12,551	17,399
EPS (RMB)	(0.2)	(1.0)	4.6	6.3	8.7
YoY growth (%)	N/A	N/A	N/A	40.6	38.6
P/S (x)	6.4	4.3	1.6	1.1	0.8
P/E (x)	N/A	N/A	22.8	16.3	11.9
P/B (x)	4.2	4.4	3.7	3.0	2.4
ROE (%)	(0.9)	(4.7)	17.9	20.3	22.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **US\$ 45.00**  
 (Previous TP **US\$ 50.00**)  
 Up/Downside **+54.4%**  
 Current Price **US\$ 29.15**

### China Auto Sector

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#### Stock Data

Mkt Cap (US\$ mn) 31,671  
 Avg 3 mths t/o (US\$ mn) 213  
 52w High/Low (US\$) 47.33/20.80  
 Total Issued Shares (mn) 2,122  
 Source: Bloomberg

#### Shareholding Structure

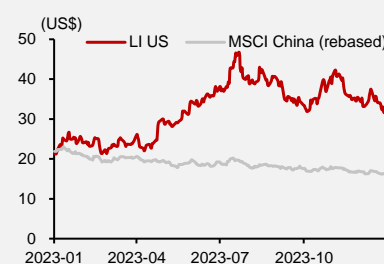
Li Xiang 21.9%  
 Wang Xing 18.1%  
 Others 60.0%  
 Source: HKEX

#### Share Performance

	Absolute	Relative
1-mth	-10.4%	-6.1%
3-mth	-3.4%	3.7%
6-mth	-15.6%	-2.7%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers**  
**Zhong Tian**

#### Related Report

["Li Auto Inc. – Best positioned among NEV start-ups" – 18 Dec 2023, page 253](#)

**Figure 1: Quarterly results**

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	YoY	QoQ
Sales volume (units)	31,716	28,687	26,524	46,319	52,584	86,533	105,108	131,805	184.6%	25.4%
ASP (RMB)	301,489	304,410	352,220	381,050	357,277	331,119	329,941	314,978	-17.3%	-4.5%
Revenue	9,562	8,733	9,342	17,650	18,787	28,653	34,679	41,516	135.2%	19.7%
Gross profit	2,164	1,878	1,182	3,566	3,830	6,235	7,644	8,721	144.5%	14.1%
R&D expenses	(1,374)	(1,532)	(1,804)	(2,070)	(1,852)	(2,426)	(2,817)	(3,266)	57.8%	15.9%
SG&A expenses	(1,203)	(1,325)	(1,507)	(1,630)	(1,645)	(2,309)	(2,544)	(2,986)	83.2%	17.4%
Operating profit	(413)	(978)	(2,130)	(134)	405	1,626	2,339	2,575	N/A	10.1%
Net profit	(11)	(618)	(1,640)	257	930	2,293	2,823	2,880	1021.0%	2.0%
Gross margin	22.6%	21.5%	12.7%	20.2%	20.4%	21.8%	22.0%	21.0%	0.8 ppt	-1.0 ppt
Operating margin	-4.3%	-11.2%	-22.8%	-0.8%	2.2%	5.7%	6.7%	6.2%	7.0 ppt	-0.5 ppt
Net margin	-0.1%	-7.1%	-17.6%	1.5%	4.9%	8.0%	8.1%	6.9%	5.5 ppt	-1.2 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	123,635	190,320	254,600	123,147	196,350	264,450	0.4%	-3.1%	-3.7%
Gross profit	26,431	39,462	51,057	26,408	42,651	54,698	0.1%	-7.5%	-6.7%
Operating profit	6,946	10,752	16,543	7,083	13,189	20,231	-1.9%	-18.5%	-18.2%
Net profit	8,926	12,551	17,399	9,045	14,514	20,796	-1.3%	-13.5%	-16.3%
Gross margin	21.4%	20.7%	20.1%	21.4%	21.7%	20.7%	-0.1 ppt	-1.0 ppt	-0.6 ppt
Operating margin	5.6%	5.6%	6.5%	5.8%	6.7%	7.7%	-0.1 ppt	-1.1 ppt	-1.2 ppt
Net margin	7.2%	6.6%	6.8%	7.3%	7.4%	7.9%	-0.1 ppt	-0.8 ppt	-1.0 ppt

Source: CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

(RMB mn)	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	123,635	190,320	254,600	122,378	199,166	270,529	1.0%	-4.4%	-5.9%
Gross profit	26,431	39,462	51,057	26,210	42,293	58,586	0.8%	-6.7%	-12.9%
Operating profit	6,946	10,752	16,543	6,654	12,432	20,565	4.4%	-13.5%	-19.6%
Net profit	8,926	12,551	17,399	9,276	14,279	22,002	-3.8%	-12.1%	-20.9%
Gross margin	21.4%	20.7%	20.1%	21.4%	21.2%	21.7%	0.0 ppt	-0.5 ppt	-1.6 ppt
Operating margin	5.6%	5.6%	6.5%	5.4%	6.2%	7.6%	0.2 ppt	-0.6 ppt	-1.1 ppt
Net margin	7.2%	6.6%	6.8%	7.6%	7.2%	8.1%	-0.4 ppt	-0.6 ppt	-1.3 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>123,635</b>	<b>190,320</b>	<b>254,600</b>
Cost of sales	(21,248)	(36,496)	(97,204)	(150,858)	(203,543)
<b>Gross profit</b>	<b>5,761</b>	<b>8,790</b>	<b>26,431</b>	<b>39,462</b>	<b>51,057</b>
R&D exp.	(3,286)	(6,780)	(10,361)	(16,014)	(19,074)
SG&A exp.	(3,492)	(5,665)	(9,484)	(13,247)	(16,040)
<b>Operating profit</b>	<b>(1,017)</b>	<b>(3,655)</b>	<b>6,946</b>	<b>10,752</b>	<b>16,543</b>
Net finance costs	150	494	678	905	1,337
Investment income	527	376	990	1,484	1,588
Other non-oper exp.	187	626	915	915	820
<b>Pre-tax profit</b>	<b>(153)</b>	<b>(2,159)</b>	<b>9,528</b>	<b>14,056</b>	<b>20,288</b>
Tax	(169)	127	(572)	(1,406)	(2,739)
Discontinued operations	-	-	-	-	-
Accr. on preferred shares	-	-	-	-	-
<b>Net profit</b>	<b>(321)</b>	<b>(2,012)</b>	<b>8,926</b>	<b>12,551</b>	<b>17,399</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>9,528</b>	<b>14,056</b>	<b>20,288</b>
Depreciation/amortization	590	1,214	2,393	4,042	5,825
Change in working capital	6,565	5,035	29,050	15,304	26,307
Others	1,338	3,290	912	(221)	(1,641)
<b>Net cash from operating</b>	<b>8,340</b>	<b>7,380</b>	<b>41,884</b>	<b>33,181</b>	<b>50,778</b>
Capex	(3,445)	(5,128)	(9,650)	(11,200)	(12,200)
Others	(813)	763	(26,000)	(4,600)	(8,600)
<b>Net cash from investing</b>	<b>(4,257)</b>	<b>(4,365)</b>	<b>(35,650)</b>	<b>(15,800)</b>	<b>(20,800)</b>
Share issuance	11,006	2,469	9	12	15
Net borrowings	170	3,080	(2,276)	(890)	(757)
Others	5,533	90	-	-	-
<b>Net cash from financing</b>	<b>16,710</b>	<b>5,639</b>	<b>(2,267)</b>	<b>(878)</b>	<b>(742)</b>
<b>Net change in cash</b>	<b>20,793</b>	<b>8,655</b>	<b>3,967</b>	<b>16,503</b>	<b>29,236</b>
Cash at beginning of the year	10,173	30,493	40,418	44,385	60,889
FX & discontinued operations	(472)	1,270	-	-	-
<b>Cash at the end of the year</b>	<b>30,493</b>	<b>40,418</b>	<b>44,385</b>	<b>60,889</b>	<b>90,125</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>99,841</b>	<b>126,854</b>	<b>167,154</b>
Cash & equivalents	27,854	38,478	41,885	57,889	86,625
Account receivables	121	48	677	1,043	1,395
Inventories	1,618	6,805	9,321	14,466	16,730
Other current assets	22,788	21,661	47,957	53,457	62,405
<b>Non-current assets</b>	<b>9,468</b>	<b>19,545</b>	<b>31,408</b>	<b>40,679</b>	<b>49,870</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	6,070	6,398	6,908
Other non-current assets	2,157	3,986	6,139	8,058	10,555
<b>Total assets</b>	<b>61,849</b>	<b>86,538</b>	<b>131,248</b>	<b>167,534</b>	<b>217,024</b>
<b>Current liabilities</b>	<b>12,108</b>	<b>27,373</b>	<b>60,316</b>	<b>80,214</b>	<b>107,377</b>
Bank borrowings	37	391	848	734	-
Account payables	9,376	20,024	47,936	61,996	83,648
Current deferred revenue	305	569	1,206	2,177	3,475
Other current liabilities	2,390	6,388	10,325	15,307	20,255
<b>Non-current liabilities</b>	<b>8,676</b>	<b>13,979</b>	<b>15,560</b>	<b>18,328</b>	<b>22,215</b>
Bank borrowings	563	3,317	669	(65)	(65)
Lease liabilities	1,370	1,946	3,663	4,018	4,500
Other non-current liabilities	6,744	8,716	11,228	14,375	17,780
<b>Total liabilities</b>	<b>20,785</b>	<b>41,352</b>	<b>75,875</b>	<b>98,542</b>	<b>129,592</b>
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	41,063	44,857	55,014	68,533	86,823
<b>Shareholders' equity</b>	<b>41,064</b>	<b>44,859</b>	<b>55,015</b>	<b>68,535</b>	<b>86,824</b>
<b>Total equity and liabilities</b>	<b>61,849</b>	<b>86,538</b>	<b>131,248</b>	<b>167,534</b>	<b>217,024</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Vehicle sales	96.7	97.4	97.3	96.8	96.7
Other sales & services	3.3	2.6	2.7	3.2	3.3
<b>Growth (%)</b>					
Revenue	185.6	67.7	173.0	53.9	33.8
Gross profit	271.9	52.6	200.7	49.3	29.4
Operating profit	N/A	N/A	N/A	54.8	53.9
Net profit	N/A	N/A	N/A	40.6	38.6
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	21.3	19.4	21.4	20.7	20.1
Operating margin	(3.8)	(8.1)	5.6	5.6	6.5
Net profit margin	(1.2)	(4.4)	7.2	6.6	6.8
<b>Balance sheet ratio</b>					
Net cash (debt)/total equity (x)	1.1	1.1	1.4	1.5	1.6
Current ratio (x)	4.3	2.4	1.7	1.6	1.6
Receivable turnover days	2	0	2	2	2
Inventory turnover days	28	68	35	35	30
Payable turnover days	161	200	180	150	150
<b>Profitability (%)</b>					
ROE	(0.9)	(4.7)	17.9	20.3	22.4
ROA	(0.7)	(2.7)	8.2	8.4	9.0
<b>Per share data (RMB)</b>					
EPS	(0.17)	(1.04)	4.55	6.35	8.71
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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