

Li Auto (LI US)

Facelifted Li ONE to continue boost sales growth

LI released 1Q21 results. Revenue was RMB3.58bn (vs. consensus RMB3.36bn), up 319.8% YoY/down 13.8% QoQ. 1Q21 net loss (USGAAP) was RMB360mn (vs. consensus RMB134mn). The Company guided 2Q21E auto delivery in range of 14.5-15.5k units, representing flat shipment outlook in May-Jun compared with Apr mainly due to chip supply constraint. Mgmt. are confident in auto sales in 2H21E, and expect Li ONE delivery to hit 10k unit mark in Sep if chip supply situation can be eased. We remain optimistic about LI's facelifted 2021 version ONE. Reiterate BUY with TP unchanged at US\$37.73.

- **1Q21 GPM declined 0.2ppt QoQ to 17.3%.** Auto sales GPM declined 0.2ppt QoQ to 16.9%, since increasing promotion in 1Q21 (low season and CNY holidays) brought slight margin impact. Material cost decline partially offset those margin impact during the quarter. Looking ahead, we think LI will still face slight margin pressure from old model destocking while new model is ramping output. With increasing auto delivery in 2H21E, we expect overall ASP and GPM to perform better than 1H21E.
- **2Q21E delivery guidance is lower than expected.** The Company guided 14.5k-15.5k units of delivery in 2Q21E, implying 4,700-5,000 units of auto sales on average in May-Jun. It reflects a largely flat shipment compared with Apr. We think the mgmt offered a conservative guidance as 1) launching new Li ONE in Jun may bring digesting impact to old models in Apr-May; 2) facelifted model takes time to ramp up capacity; and more importantly 3) chip is in shortage. In view of longer term outlook, mgmt. expected delivery to rise to 10k units in Sep if chip supply issue can be eased. We are optimistic about the demand end considering the popularity gained by new Li ONE and increasing distribution channel. Also, LI has started doubling shift in its Changzhou Plant to provide capacity support. Given stable material supply, we expect LI's auto delivery to beat market expectation.
- **Li ONE configuration upgrade to meet user needs.** The 2021 Li ONE comes with expanded fuel tank and increases efficiency of motor and range extender, making NEDC/WLTC mileage to cover 1,080/890km. For autonomous driving, new Li ONE switches processor from MobileyeEQ4 to two Horizon "Journey 3" to realize full stack development. In the sensor end, new Li ONE is equipped with 8MP camera, 5 mm wave radar and adopts high definition map support. New Li ONE will be capable for NOA features, and those functions will be enabled in 3Q21E.
- **Maintain BUY.** LI is trading at 8.0x 2021E P/S. We expect the Company may face limited pressure in 2Q21E due to 1) chip shortage and 2) shift to new model. However, we remain confident in LI's auto delivery and overall profitability improvement from 3Q21E. We are also positive on LI's R&D progress of new EREV platform and high voltage fast charging technology. Maintain BUY with TP unchanged at US\$37.73.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	284	9,457	16,564	21,583	40,356
YoY growth (%)	N/A	3,225	75	30	87
Net income (RMB mn)	(3,261)	(792)	(1,472)	(1,318)	(536)
EPADS(RMB)	N/A	(1.82)	(1.63)	(1.44)	(0.58)
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPADS (RMB)	NA	NA	(0.33)	0.87	2.27
P/E (x)	NA	NA	NA	NA	NA
P/S (x)	466.25	14.02	8.00	6.14	3.29
Yield (%)	-	-	-	-	-
ROE (%)	(71.2)	(2.7)	(5.1)	(4.7)	(1.9)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$37.73
(Target Price)	US\$37.73)
Up/Downside	+59.5%
Current Price	US\$23.65

China Auto Sector

Jack Bai, CFA

(852) 3900 0835

jackbai@cmbi.com.hk

Robin Xiao

(852) 3900 0849

robinxiao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	21,395
Avg 3 mths t/o (US\$ mn)	314.1
52w High/Low (US\$)	47.70/14.31
Total Issued Shares (mn)	727
Source: Bloomberg	

Shareholding Structure

Li Xiang	19.7%
Wang Xing	21.6%
Amp Lee Ltd.	19.7%

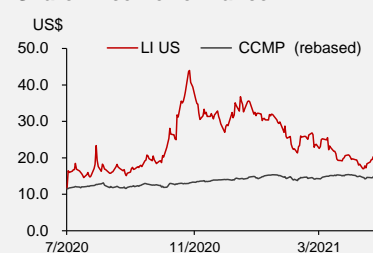
Source: Company data

Share Performance

	Absolute	Relative
1-mth	14.6%	17.6%
3-mth	-6.8%	-10.5%
6-mth	-40.1%	-46.8%

Source: Bloomberg

Share Price Performance



Source: Bloomberg

Auditor: PwC Zhong Tian LLP

Figure 1: NIO's 1Q21 results summary

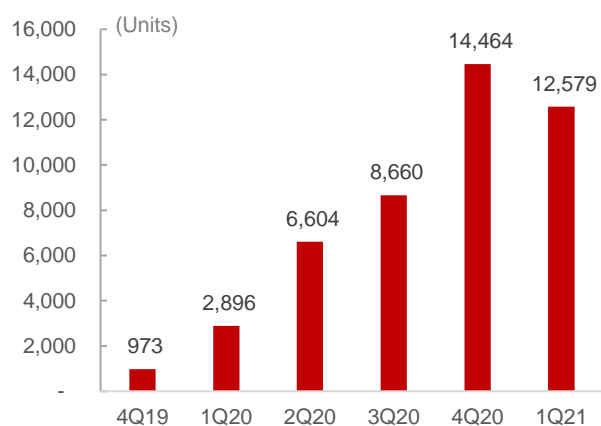
	1Q20	2Q20	3Q20	4Q20	1Q21	YoY	QoQ
Revenue	852	1,947	2,511	4,147	3,575	320%	-14%
Vehicle sales	841	1,919	2,465	4,058	3,464	312%	-15%
Other sales	11	28	46	89	112	950%	25%
Costs of sales	(783)	(1,688)	(2,014)	(3,422)	(2,958)	278%	-14%
Vehicle sales	(770)	(1,655)	(1,976)	(3,362)	(2,879)	274%	-14%
Other sales	(13)	(32)	(38)	(60)	(79)	493%	32%
Gross profit/(loss)	68	260	497	725	617	803%	-15%
Gross profit margin	8.0%	13.3%	19.8%	17.5%	17.3%	9.2ppt	-0.2ppt
Vehicle GPM	8.4%	13.7%	19.8%	17.1%	16.9%	8.4ppt	-0.3ppt
Other GPM	-26.1%	-14.4%	17.6%	32.5%	28.7%	54.9ppt	-3.8ppt
Vehicle shipment volume	2,896	6,604	8,660	14,464	12,579	334%	-13%
ASP - k RMB tax excl.	290.4	290.6	284.6	280.5	275.4	-5%	-2%
QoQ change	n/a	0.1%	-2.1%	-1.4%	-1.8%	n/a	29%
Operating expenses	(302)	(436)	(677)	(804)	(1,024)	239%	27%
R&D exps	(190)	(201)	(335)	(374)	(515)	171%	37%
SG&A exps	(113)	(235)	(342)	(429)	(510)	352%	19%
Profit/(loss) from operation	(234)	(176)	(180)	(79)	(408)	74%	416%
Interest income							
Interest expenses	(20)	(21)	(13)	(13)	(15)	-26%	11%
Investment income, net	(16)	32	70	169	178	-1203%	5%
Other income/(loss), net	2	7	4	7	(90)	-4193%	-1307%
Profit/(loss) before tax	(91)	(75)	(107)	85	(334)	265%	-494%
Discontinued operation	14	0	0	0	0	-100%	N/A
Income tax expenses	0	0	0	23	(26)	n/a	-214%
Profit/(loss) for the period	(77)	(75)	(107)	108	(360)	367%	-435%
Accretion on preferred share value	(266)	(264)	(121)	0	0	n/a	n/a
Accretion on NCI value	110	(6)	(93)	0	0	n/a	n/a
Non-controlling interests	0			0	0	n/a	n/a
Net profit/loss attributable to shareholders	(234)	(345)	(321)	108	(360)	54%	-435%
Weighted Number of ADS	128	128	615	864	905	610%	5%
EPADS	(1.83)	(2.71)	(0.52)	0.12	(0.40)	n/a	n/a

Source: Company data, CMBIS

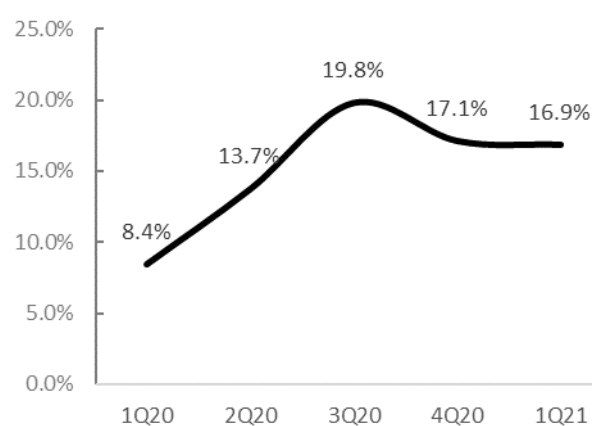
Figure 2: Key function upgrade summary for 2021 version Li ONE

	2020	2021
Standard model price - RMB k	328	338
Special color	Baby blue	Tech blue, Deep Green, Baby blue
Special color price - RMB k	338	348
AD Processor	Mobile EyeQ4 2.5 TOPS	2xHorizon Journey 3 10 TOPS
Monocular camera	1.3MP	8MP
HD map	N/A	AMAP
NOA	N/A	Enable in 3Q21E
mm wave radar #	1	5

Source: Company data, CMBIS

Figure 3: LI's quarter shipment performance

Source: Company data, CMBIS

Figure 4: LI's quarterly auto sales GPM trend

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	284	9,457	16,564	21,583	40,356
Vehicle sales	281	9,283	16,271	21,160	39,487
Other sales	3	174	293	423	869
Cost of sales	(284)	(7,907)	(13,458)	(17,306)	(32,787)
Gross profit	(0)	1,549	3,106	4,277	7,569
R&D exps	(1,169)	(1,100)	(3,300)	(3,795)	(4,364)
SG&A exps	(689)	(1,119)	(1,920)	(2,433)	(4,344)
Other operating	-	-	-	-	-
EBIT	(1,859)	(669)	(2,114)	(1,951)	(1,139)
Interest income	30	41	144	197	228
Interest expenses	(84)	(67)	(96)	(106)	(122)
Investment income	49	214	561	505	455
Share profit/(loss)	(163)	(3)	2	7	12
Other income/(loss)	(392)	295	30	30	30
Pre-tax profit	(2,418)	(189)	(1,472)	(1,318)	(536)
Income tax	-	23	-	-	-
Accretion on NCI value	(843)	(640)	-	-	-
Minority interests	-	-	-	-	-
Net profit	(3,261)	(792)	(1,472)	(1,318)	(536)

Cash flow

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	(2,418)	(189)	(1,472)	(1,318)	(536)
Net interest payment	4	(188)	(610)	(596)	(560)
Depreciation and amortization	152	442	544	675	779
Change in working capital	(187)	1,398	(302)	(803)	648
Taxation	-	-	(2)	(3)	(3)
Others	468	3,075	1,099	1,108	1,258
Operating Cash Flow	(1,794)	3,140	(743)	(936)	1,586
Change in investments	(2,805)	(18,349)	698	608	531
Others	230	(389)	-	-	-
Investing Cash Flow	(2,575)	(18,738)	698	608	531
Equity raised	5,207	27,035	-	-	-
Change of Debts	307	1,096	7,911	1,770	1,529
Dividend paid	-	-	-	-	-
Others	142	(4,180)	610	596	560
Financing Cash Flow	5,656	24,71	8,521	2,365	2,089
Net change in cash	1,287	9,113	8,476	2,037	4,206
Cash at the beginning of the yr.	96	1,436	10,173	18,649	20,686
Exchange difference	54	(377)	-	-	-
Restricted cash	140	1,234	1,604	2,086	2,503
Cash at the end of the yr.	1,296	8,938	17,045	18,601	22,389

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	4,448	4,982	5,709	6,217	6,514
Fixed asset	2,795	2,479	2,618	2,714	2,744
Right-of-use assets	510	1,277	1,854	2,248	2,506
Long-term investments	126	163	163	163	163
Others	1,016	1,064	1,073	1,092	1,101
Current assets	5,066	31,391	39,816	42,200	50,853
Cash	1,296	8,938	17,045	18,601	22,389
Trade receivables	8	116	497	1,079	2,018
Inventory	518	1,048	1,988	2,806	5,650
Short term investments	2,273	19,701	17,731	15,958	14,362
Others	971	1,588	2,555	3,756	6,433
Current liabilities	4,680	4,309	7,048	8,722	15,617
Short-term borrowings	239	-	355	392	467
Trade payable	625	3,161	4,710	6,057	11,475
Accruals and other liabilities	867	647	828	1,079	2,018
Others	2,949	501	1,154	1,194	1,657
Non-current liabilities	253	2,260	9,569	11,524	13,528
Borrowings	-	512	2,010	2,222	2,647
Operating lease liabilities	241	1,025	2,101	3,361	4,202
Others	11	724	5,459	5,940	6,679
Total net assets	4,581	29,804	28,907	28,171	28,222
Mezzanine Equity	10,256	-	-	-	-
Shareholders' equity	(5,675)	29,804	28,907	28,171	28,222

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Vehicle	98.8	98.2	98.2	98.0	97.8
Other	1.2	1.8	1.8	2.0	2.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	(0.0)	16.4	18.8	19.8	18.8
Pre-tax margin	(850.3)	(2.0)	(8.9)	(6.1)	(1.3)
Net margin	(1,147)	(8.4)	(8.9)	(6.1)	(1.3)
Effective tax rate	N/A	N/A	N/A	N/A	N/A
Balance sheet ratios					
Current ratio (x)	1.1	7.3	5.6	4.8	3.3
Quick ratio (x)	1.0	7.0	5.4	4.5	2.9
Cash ratio (x)	0.8	6.6	4.9	4.0	2.4
Debtors turnover days	5.3	2.4	6.7	13.3	14.0
Inventory turnover days	332.5	36.1	41.2	50.6	47.1
Creditors turnover days	617.0	87.4	106.7	113.5	97.6
Total debt / equity ratio (%)	22.2	7.1	8.2	9.3	11.0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	(71.2)	(2.7)	(5.2)	(4.9)	(2.1)
ROA	(34.3)	(2.2)	(3.7)	(3.1)	(1.1)
Per share					
EPADS (RMB)	N/A	(1.8)	(1.7)	(1.5)	(0.6)
DPADS (RMB)	N/A	N/A	N/A	N/A	N/A
BVPADS (RMB)	35.93	33.15	31.81	30.64	30.33

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.