

NIO Inc. (NIO US)

Little sign of profit turnaround after 2Q23 miss

Maintain HOLD. NIO's 2Q23 earnings missed our prior forecast on lower GPM, higher R&D and SG&A expenses. Its 3Q23 sales guidance may imply that the sales boost from the previous price cuts could be short-lived, or at least lower than some investors' expectation. More importantly, we have not seen its profitability turnaround signals, as losses from other revenue continue with the prior price cut and no signs to scale back its R&D and SG&A expenses.

- **No signs of cost reduction from 2Q23 earnings miss.** NIO's net loss of RMB 6.1bn in 2Q23 was about RMB 1.1bn wider than our prior expectation, as its GPM, SG&A and R&D expenses all missed our forecasts. It appears to us that NIO has not scaled back some non-core projects despite heavy losses. That makes us worry that its losses could continue for a long period of time.
- **2H23 outlook amid 3Q23 sales guidance miss.** NIO's 3Q23 sales volume guidance of 55,000-57,000 units was below the company and investors' prior expectation of at least 60,000 units. We maintain our FY23E sales forecast of 0.18mn units, or 21,000 units per month on average in 2H23E. We are of the view that management's GPM guidance of double digits for 3Q23 and 15% for 4Q23 could be feasible for vehicle margin, but not the overall GPM, as losses from other revenue drag down gross profit significantly. We project GPM of 9.7% in 2H23E, which is still far away from offsetting NIO's heavy R&D and SG&A expenses. We project a narrowed net loss of RMB 7.3bn in 2H23E.
- **Profitability turnaround signal not seen yet.** As we noted in our previous [report](#) that NIO's price cuts in Jun 2023 could weigh on margins in the next few years due to decreased realization of deferred revenue. Its mass-market brand, Alps, would likely generate lower GPM than the NIO brand. Therefore, heavy net loss at NIO is likely to continue in FY24E despite our sales assumption of 0.25mn units next year, should NIO not cut R&D and SG&A expenses significantly.
- **Valuation/Risks.** We maintain our HOLD rating and raise target price slightly from US\$ 9.20 to US\$ 10.00, based on 1.5x (previously 1.7x FY23E) our revised FY24E revenue estimates to reflect a tougher situation that NIO faces now. Li Auto (LI US, BUY), with much better profitability and cash position, now also trades at 1.5x our FY24E P/S. Key risks to our rating and target price include higher or lower sales volume and margins than we expect, as well as a sector re-rating or de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	36,136	49,269	61,821	86,939	88,385
YoY growth (%)	122.3	36.3	25.5	40.6	1.7
Net income (RMB mn)	(10,572)	(14,559)	(18,199)	(13,375)	(12,208)
EPS (RMB)	(6.72)	(8.89)	(10.65)	(7.59)	(6.89)
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	2.8	2.3	2.0	1.5	1.5
P/B (x)	2.9	4.8	9.4	57.5	(16.4)
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(34.2)	(49.7)	(97.6)	(170.8)	N/A
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	N/A

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	US\$ 10.00
(Previous TP	US\$ 9.20)
Up/Downside	-5.1%
Current Price	US\$ 10.54

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Stock Data

Mkt Cap (US\$ mn)	18,963
Avg 3 mths t/o (US\$ mn)	724
52w High/Low (US\$)	22.74/7.00
Total Issued Shares (mn)	1,680

Source: Bloomberg

Shareholding Structure

Li Bin	10.4%
Tencent entities	9.8%
Others	79.8%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-28.0%	-17.7%
3-mth	46.2%	44.7%
6-mth	15.2%	27.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
Zhong Tian**

Related Reports

["NIO Inc. – Margin dent from price cuts lingers into FY24-25" – 4 Jul 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ
Sales volume (units)	25,768	25,059	31,607	40,052	31,041	23,520	-6.1%	-24.2%
ASP (RMB)	384,608	410,725	411,368	401,066	343,947	372,948	-9.2%	8.4%
Revenue	9,911	10,292	13,002	16,064	10,676	8,772	-14.8%	-17.8%
Gross profit	1,447	1,340	1,735	622	162	87	-93.5%	-46.4%
R&D expenses	(1,762)	(2,149)	(2,945)	(3,981)	(3,076)	(3,345)	55.6%	8.7%
SG&A expenses	(2,015)	(2,282)	(2,712)	(3,527)	(2,446)	(2,857)	25.2%	16.8%
Operating profit	(2,189)	(2,846)	(3,870)	(6,736)	(5,112)	(6,074)	N/A	N/A
Net profit	(1,825)	(2,745)	(4,142)	(5,847)	(4,804)	(6,122)	N/A	N/A
Gross margin	14.6%	13.0%	13.3%	3.9%	1.5%	1.0%	-12.0 ppt	-0.5 ppt
Operating margin	-22.1%	-27.6%	-29.8%	-41.9%	-47.9%	-69.2%	-41.6 ppt	-21.4 ppt
Net margin	-18.4%	-26.7%	-31.9%	-36.4%	-45.0%	-69.8%	-43.1 ppt	-24.8 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	61,821	86,939	88,385	62,009	69,692	80,045	-0.3%	24.7%	10.4%
Gross profit	4,438	8,203	8,010	3,135	4,958	6,243	41.6%	65.5%	28.3%
Operating profit	(18,949)	(14,251)	(13,031)	(17,602)	(15,232)	(13,292)	N/A	N/A	N/A
Net profit	(18,199)	(13,375)	(12,208)	(16,664)	(14,384)	(12,586)	N/A	N/A	N/A
Gross margin	7.2%	9.4%	9.1%	5.1%	7.1%	7.8%	2.1 ppt	2.3 ppt	1.3 ppt
Operating margin	-30.7%	-16.4%	-14.7%	-28.4%	-21.9%	-16.6%	-2.3 ppt	5.5 ppt	1.9 ppt
Net margin	-29.4%	-15.4%	-13.8%	-26.9%	-20.6%	-15.7%	-2.6 ppt	5.3 ppt	1.9 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	61,821	86,939	88,385	62,885	96,591	128,387	-1.7%	-10.0%	-31.2%
Gross profit	4,438	8,203	8,010	5,802	14,821	23,441	-23.5%	-44.7%	-65.8%
Operating profit	(18,949)	(14,251)	(13,031)	(16,395)	(8,862)	(2,276)	N/A	N/A	N/A
Net profit	(18,199)	(13,375)	(12,208)	(14,907)	(7,231)	(933)	N/A	N/A	N/A
Gross margin	7.2%	9.4%	9.1%	9.2%	15.3%	18.3%	-2.0 ppt	-5.9 ppt	-9.2 ppt
Operating margin	-30.7%	-16.4%	-14.7%	-26.1%	-9.2%	-1.8%	-4.6 ppt	-7.2 ppt	-13.0 ppt
Net margin	-29.4%	-15.4%	-13.8%	-23.7%	-7.5%	-0.7%	-5.7 ppt	-7.9 ppt	-13.1 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	36,136	49,269	61,821	86,939	88,385
Cost of sales	(29,315)	(44,125)	(57,383)	(78,736)	(80,375)
Gross profit	6,821	5,144	4,438	8,203	8,010
R&D exp.	(4,592)	(10,836)	(12,916)	(11,903)	(10,995)
SG&A exp.	(6,878)	(10,537)	(11,271)	(11,551)	(11,146)
Other income	152	589	800	1,000	1,100
Operating profit	(4,496)	(15,641)	(18,949)	(14,251)	(13,031)
Net finance costs	274	1,026	799	686	509
Gain/(Loss) of investee	63	378	60	80	100
Other non-oper exp.	185	(145)	200	400	500
Pre-tax profit	(3,975)	(14,382)	(17,890)	(13,086)	(11,922)
Income tax	(42)	(55)	(54)	(39)	(36)
Accr. on redeemable int.	(6,587)	(279)	(300)	(300)	(300)
Minority interests	31	157	45	50	50
Net profit	(10,572)	(14,559)	(18,199)	(13,375)	(12,208)

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(3,975)	(14,382)	(17,890)	(13,086)	(11,922)
Depreciation/amortization	2,352	3,994	6,222	7,862	8,924
Change in working capital	2,693	4,444	9,616	7,531	(4,238)
Others	896	2,078	1,814	1,646	1,443
Net cash from operating	1,966	(3,866)	(238)	3,954	(5,794)
Capex	(4,079)	(6,973)	(8,001)	(7,001)	(6,001)
Others	(35,686)	17,358	5,103	3,800	2,900
Net cash from investing	(39,765)	10,385	(2,898)	(3,201)	(3,101)
Share issuance	12,822	79	5,918	600	600
Net borrowings	3,680	(1,632)	(5,277)	2,000	1,892
Others	1,627	(63)	10	10	10
Net cash from financing	18,129	(1,616)	650	2,610	2,502
Net change in cash	(19,670)	4,903	(2,486)	3,363	(6,392)
Cash at year beginning	38,545	18,375	23,155	20,670	24,032
Exchange difference	(501)	(122)	-	-	-
Cash at year end	18,375	23,155	20,670	24,032	17,640

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	63,641	59,150	49,957	53,060	44,512
Cash & equivalents	15,334	19,888	17,520	21,382	14,990
Account receivables	2,781	5,118	5,081	7,146	7,265
Inventories	2,056	8,191	5,503	5,609	5,725
Other current assets	43,470	25,953	21,854	18,924	16,533
Non-current assets	19,242	37,114	38,412	40,385	37,032
PP&E	7,400	15,659	19,128	20,131	19,105
Right-of-use assets	2,988	7,374	7,878	7,312	5,661
Other non-current assets	8,854	14,081	11,406	12,942	12,267
Total assets	82,884	96,264	88,369	93,445	81,545
Current liabilities	29,198	45,852	46,615	58,569	57,625
Bank borrowings	7,298	5,277	-	-	1,892
Account payables	12,639	25,224	29,871	38,829	37,435
Tax payable	628	286	286	286	286
Other current liabilities	8,633	15,065	16,457	19,454	18,012
Non-current liabilities	15,622	22,765	24,324	28,361	27,351
Bank borrowings incl. CB	9,739	10,886	10,886	12,886	12,886
Other non-current liabilities	5,883	11,879	13,438	15,475	14,466
Total liabilities	44,820	68,617	70,939	86,929	84,977
Mezzanine equity	3,278	3,557	3,857	4,157	4,457
Share capital	3	3	3	3	3
Treasury shares	(1,850)	(1,850)	(1,850)	(1,850)	(1,850)
Reserves	36,557	25,715	15,253	4,099	(6,089)
Non-controlling interests	76	221	166	106	46
Shareholders' equity	34,710	23,868	13,407	2,252	(7,936)
Total equity & liabilities	82,884	96,264	88,369	93,445	81,545

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Vehicle sales	91.8	92.4	89.0	88.3	84.6
Others	8.2	7.6	11.0	11.7	15.4
Growth (%)					
Revenue	122.3	36.3	25.5	40.6	1.7
Gross profit	264.1	(24.6)	(13.7)	84.8	(2.3)
Operating profit	N/A	N/A	N/A	N/A	N/A
Net profit	N/A	N/A	N/A	N/A	N/A
Profit & loss ratio (%)					
Gross margin	18.9	10.4	7.2	9.4	9.1
Operating margin	(12.4)	(31.7)	(30.7)	(16.4)	(14.7)
Net profit margin	(29.3)	(29.6)	(29.4)	(15.4)	(13.8)
Balance sheet ratio					
Net cash/total equity (x)	1.0	0.9	1.4	3.6	N/A
Current ratio (x)	2.2	1.3	1.1	0.9	0.8
Receivable turnover days	28	38	30	30	30
Inventory turnover days	26	68	35	26	26
Payable turnover days	157	209	190	180	170
Profitability (%)					
ROE	(34.2)	(49.7)	(97.6)	(170.8)	N/A
ROA	(15.4)	(16.3)	(19.7)	(14.7)	(14.0)
Per share data (RMB)					
EPS	(6.72)	(8.89)	(10.65)	(7.59)	(6.89)
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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