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CMB International Global Markets | Equity Research | Company Update

招银国际 CMB INTERNATIONAL
招商银行全资附属机构
A Wholly Owned Subsidiary Of China Merchants Bank

Li Auto Inc. (LI US/2015 HK)

Earnings recovery could take longer than expected

	LI US	2015 HK
	HOLD	HOLD
	Maintain	Maintain
TP	US$12.00	HK$47.00
Prior TP	US$16.00	HK$62.00
Up/Downside	(1.2%)	(2.3%)
Current Price	US$12.1	HK$48.1

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Maintain HOLD. We view Li Auto's 2Q26 earnings as in line but its 3Q26 guidance as a miss. Despite its stringent SG&A control, we cut our FY26-27E earnings substantially given its new-generation L-series sales momentum and a structural reset in baseline GPM. We believe Li Auto's advantage over peers has been narrowing before physical AI becomes a key differentiator.

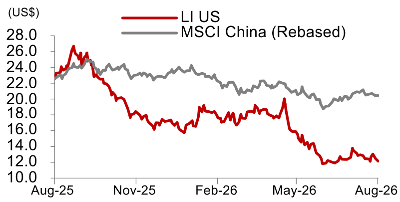
- **2Q26 earnings in line; 3Q26 guidance soft.** Li Auto's 2Q26 revenue fell 15.1% YoY amid an 11.5% YoY sales volume drop, yet beat our projection by 3.4%, likely due to a higher ASP from the *L9 Livis*. GPM in 2Q26 widened by 3.2ppts QoQ to 11.0%, while the combined SG&A and R&D ratio narrowed by 0.7ppts QoQ to 19.0%, leading to an operating loss of RMB2.3bn, all of which were in line with our prior projections. Net loss in 2Q26 narrowed slightly QoQ to RMB1.7bn, or 1.5% ahead of our forecast. However, management's 3Q26 sales volume guidance of 95,000-100,000 units missed our expectation, despite the recent launches of new-generation *L9*, *L8* and *L6*.
- **Heightened competition, model portfolio capping sales volume growth.** We cut our FY26E sales volume forecast by 12% to 414,000 units, implying a 4Q26E sales volume of about 120,000 units, which may prove challenging given its recent sales momentum. While Li Auto has maintained price integrity for its premium models, heightened competition could lead to volume miss, in our view. Management previously guided monthly sales of 6,000-8,000 units for the redesigned *L9*. That has also made us trim FY27E sales volume forecast by 11% to 0.5mn units. Without major new additions beyond the existing lineup, we see limited delivery growth headroom for FY27-28.
- **GPM's structural reset caps bottom-line growth.** Management now views 15-20% as its long-term sustainable GPM range (vs. 20%+ achieved in FY23-24, which generated 5-6% operating margins). Factoring in this lower baseline, we reset our FY27-28E operating margin expectations to 1.1-2.3% and cut our FY27E net profit forecast by 34% to RMB2.8bn.
- **Valuation/Key risks.** We maintain our HOLD rating and cut our ADS/H-share target prices from US$16.00/HK$62.00 to US$12.00/HK$47.00 based on 0.6x FY27E P/S, corresponding to 30x FY27E P/E. The P/S multiple aligns with sector peers and the premium P/E multiple already reflects its physical AI capabilities. Key risks include higher or lower sales volume and GPM than we expect, and a sector re-rating or de-rating.

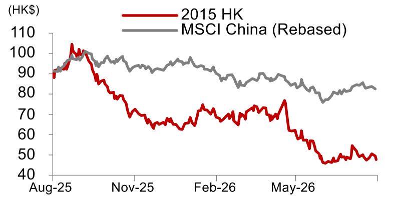
Earnings Summary - LI US

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	144,460	112,313	109,868	136,913	151,265
YoY growth (%)	16.6	(22.3)	(2.2)	24.6	10.5
Gross margin (%)	20.5	18.7	12.8	16.3	16.3
Operating profit (RMB mn)	7,019.1	(521.1)	(6,667.2)	1,442.0	3,519.2
Net profit (RMB mn)	8,032.4	1,124.4	(4,298.1)	2,753.3	4,703.0
YoY growth (%)	(31.4)	(86.0)	na	na	70.8
Adjusted net profit (RMB mn)	10,663.3	2,382.2	(3,066.6)	4,316.1	6,144.9
EPS (Reported) (RMB)	4.03	0.56	(2.11)	1.34	2.25
P/S (x)	0.6	0.8	0.8	0.6	0.6
P/E (x)	10.1	73.1	ns	30.5	18.1
P/B (x)	1.1	1.1	1.2	1.1	1.0

Source: Company data, Bloomberg, CMBIGM estimates

12-mth Price Performance





Source: FactSet

Stock Performance

	LI US		2015 HK	
	Abs.	Rel.	Abs.	Rel.
1-mth	-3.8%	-4.9%	0.0%	-4.9%
3-mth	-23.1%	-21.7%	-20.1%	-21.7%
6-mth	-31.0%	-24.4%	-30.0%	-24.4%

Source: FactSet

Stock Data

(LC)	LI US	2015 HK
Mkt Cap (mn)	13197.01	104576
Avg 3 mths t/o (mn)	16.71	671.72
52w High	26.69	104.5
52w Low	11.74	45.9
Issued Shares (mn)	2174.137	2174.1372

Source: FactSet

Figure 1: Quarterly results

RMB mn	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	YoY	QoQ
Sales volume (units)	92,864	111,074	93,211	109,194	95,142	98,330	-11.5%	3.4%
ASP (RMB)	279,191	272,301	293,578	263,526	241,564	261,028	-4.1%	8.1%
Revenue	25,927	30,246	27,365	28,775	22,983	25,667	-15.1%	11.7%
Gross profit	5,318	6,067	4,469	5,131	1,808	2,836	-53.3%	56.9%
R&D expenses	(2,514)	(2,810)	(2,974)	(3,017)	(2,722)	(2,776)	-1.2%	2.0%
SG&A expenses	(2,531)	(2,718)	(2,769)	(2,647)	(2,049)	(2,278)	-16.2%	11.2%
Operating profit	272	827	(1,177)	(443)	(2,999)	(2,301)	N/A	N/A
Net profit	650	1,093	(625)	7	(2,290)	(1,704)	N/A	N/A
Gross margin	20.5%	20.1%	16.3%	17.8%	7.9%	11.0%	-9.0 ppts	3.2 ppts
Operating margin	1.0%	2.7%	-4.3%	-1.5%	-13.0%	-9.0%	-11.7 ppts	4.1 ppts
Net margin	2.5%	3.6%	-2.3%	0.0%	-10.0%	-6.6%	-10.3 ppts	3.3 ppts

Source: Company data, CMBIGM

Figure 2: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	109,868	136,913	151,265	121,791	149,522	158,951	-9.8%	-8.4%	-4.8%
Gross profit	14,099	22,337	24,707	17,253	24,517	25,527	-18.3%	-8.9%	-3.2%
Operating profit	(6,667)	1,442	3,519	(3,988)	2,902	3,618	N/A	-50.3%	-2.7%
Net profit	(4,298)	2,753	4,703	(1,928)	4,151	4,913	N/A	-33.7%	-4.3%
Gross margin	12.8%	16.3%	16.3%	14.2%	16.4%	16.1%	-1.3 ppts	-0.1 ppts	0.3 ppts
Operating margin	-6.1%	1.1%	2.3%	-3.3%	1.9%	2.3%	-2.8 ppts	-0.9 ppts	0.1 ppts
Net margin	-3.9%	2.0%	3.1%	-1.6%	2.8%	3.1%	-2.3 ppts	-0.8 ppts	0.0 ppts

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	109,868	136,913	151,265	122,065	152,385	167,277	-10.0%	-10.2%	-9.6%
Gross profit	14,099	22,337	24,707	17,901	26,203	30,153	-21.2%	-14.8%	-18.1%
Operating profit	(6,667)	1,442	3,519	(2,860)	2,569	5,608	N/A	-43.9%	-37.3%
Net profit	(4,298)	2,753	4,703	(688)	4,321	7,285	N/A	-36.3%	-35.4%
Gross margin	12.8%	16.3%	16.3%	14.7%	17.2%	18.0%	-1.8 ppts	-0.9 ppts	-1.7 ppts
Operating margin	-6.1%	1.1%	2.3%	-2.3%	1.7%	3.4%	-3.7 ppts	-0.6 ppts	-1.0 ppts
Net margin	-3.9%	2.0%	3.1%	-0.6%	2.8%	4.4%	-3.3 ppts	-0.8 ppts	-1.2 ppts

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**123,851**	**144,460**	**112,313**	**109,868**	**136,913**	**151,265**
Cost of goods sold	(96,355)	(114,804)	(91,327)	(95,769)	(114,576)	(126,558)
Gross profit	**27,497**	**29,656**	**20,985**	**14,099**	**22,337**	**24,707**
Operating expenses	**(20,090)**	**(22,637)**	**(21,506)**	**(20,767)**	**(20,895)**	**(21,188)**
SG&A expense	(9,768)	(12,229)	(10,665)	(9,606)	(10,221)	(10,544)
R&D expense	(10,586)	(11,071)	(11,315)	(11,361)	(11,074)	(11,044)
Others	264	664	474	200	400	400
Operating profit	**7,407**	**7,019**	**(521)**	**(6,667)**	**1,442**	**3,519**
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Investment gain/loss	783	320	469	650	776	932
Other gains/(losses)	1,048	664	67	165	272	322
EBITDA	**12,343**	**12,561**	**6,100**	**682**	**9,375**	**12,405**
Depreciation	1,805	3,058	4,635	5,345	6,039	6,817
EBIT	**10,538**	**9,503**	**1,465**	**(4,662)**	**3,336**	**5,588**
Interest income	1,300	1,500	1,450	1,190	846	815
Interest expense	(86)	(188)	(168)	(211)	(184)	(159)
Pre-tax profit	**10,452**	**9,316**	**1,297**	**(4,873)**	**3,151**	**5,429**
Income tax	1,357	(1,270)	(158)	585	(378)	(706)
After tax profit	**11,809**	**8,045**	**1,139**	**(4,288)**	**2,773**	**4,723**
Minority interest	(105)	(13)	(15)	(10)	(20)	(20)
Discontinued operations	0	0	0	0	0	0
Others	0	0	0	0	0	0
Net profit	**11,704**	**8,032**	**1,124**	**(4,298)**	**2,753**	**4,703**
Adjusted net profit	**12,093**	**10,663**	**2,382**	**(3,067)**	**4,316**	**6,145**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**114,526**	**126,310**	**115,286**	**109,961**	**125,997**	**140,348**
Cash & equivalents	91,329	65,901	56,692	51,202	48,128	53,525
Restricted cash	0	7	216	80	100	100
Account receivables	144	135	120	181	225	249
Inventories	6,872	8,186	8,752	7,871	8,789	9,362
ST bank deposits	11,933	46,905	44,331	47,331	65,331	73,331
Other current assets	4,247	5,177	5,174	3,296	3,423	3,782
Non-current assets	**28,942**	**36,039**	**39,010**	**33,526**	**33,593**	**30,696**
PP&E	15,745	21,141	22,775	23,466	22,467	20,695
Right-of-use assets	5,939	8,324	9,099	4,640	5,322	3,620
Deferred income tax	1,990	2,542	3,334	1,500	1,500	1,500
Investment in JVs & assos	1,595	923	849	1,264	1,686	2,108
Intangibles	864	915	1,192	1,222	1,243	1,256
Other non-current assets	2,808	2,194	1,761	1,434	1,375	1,518
Total assets	**143,467**	**162,349**	**154,296**	**143,487**	**159,590**	**171,044**
Current liabilities	**72,743**	**69,216**	**63,548**	**55,911**	**70,712**	**72,860**
Short-term borrowings	688	100	0	0	0	0
Account payables	51,870	53,596	40,579	44,605	53,364	58,945
Other current liabilities	19,038	13,986	21,278	10,360	16,275	13,305
Lease liabilities	1,146	1,533	1,690	947	1,073	611
Non-current liabilities	**10,150**	**21,813**	**17,608**	**17,475**	**12,599**	**11,600**
Long-term borrowings	1,747	1,897	3,299	2,999	2,899	2,799
Convertible bonds	0	6,255	0	5,982	0	0
Obligations under finance leases	0	643	349	303	264	229
Deferred income	812	721	625	943	998	1,058
Other non-current liabilities	7,590	12,298	13,336	7,248	8,439	7,513
Total liabilities	**82,892**	**91,029**	**81,156**	**73,386**	**83,311**	**84,460**
Share capital	1	1	1	1	1	2
Capital surplus	57,480	60,127	61,400	62,649	66,054	71,636
Retained earnings	2,661	10,747	11,218	6,920	9,673	14,376
Other reserves	(0)	(0)	(0)	(0)	(0)	(0)
Total shareholders equity	**60,143**	**70,875**	**72,619**	**69,570**	**75,728**	**86,013**
Minority interest	433	445	520	530	550	570
Total equity and liabilities	**143,467**	**162,349**	**154,296**	**143,487**	**159,590**	**171,044**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**10,452**	**9,316**	**1,297**	**(4,873)**	**3,151**	**5,429**
Depreciation & amortization	1,805	3,058	4,635	5,345	6,039	6,817
Change in working capital	36,612	2,070	(15,126)	(525)	9,923	5,844
Others	1,825	1,490	582	4,256	1,562	1,005
Net cash from operations	**50,694**	**15,933**	**(8,611)**	**4,202**	**20,676**	**19,096**
Investing						
Capital expenditure	(6,507)	(7,730)	(4,206)	(6,100)	(5,100)	(5,100)
Acquisition of subsidiaries/ investments	(198)	(31)	(61)	(300)	(300)	(300)
Net proceeds from disposal of short-term investments	16,316	(4,415)	(128)	(8,000)	(8,000)	(8,000)
Others	(9,622)	(28,961)	3,691	5,000	(10,000)	0
Net cash from investing	**(12)**	**(41,137)**	**(703)**	**(9,400)**	**(23,400)**	**(13,400)**
Financing						
Net borrowings	(1,001)	(996)	(944)	(446)	(330)	(299)
Proceeds from share issues	1,186	486	1,651	17	0	0
Others	0	95	60	0	0	0
Net cash from financing	**185**	**(416)**	**767**	**(429)**	**(330)**	**(299)**
Net change in cash						
Cash at the beginning of the year	40,418	91,330	65,908	56,908	51,282	48,228
Exchange difference	45	198	(453)	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	**91,330**	**65,908**	**56,908**	**51,282**	**48,228**	**53,625**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	173.5%	16.6%	(22.3%)	(2.2%)	24.6%	10.5%
Gross profit	212.8%	7.9%	(29.2%)	(32.8%)	58.4%	10.6%
Operating profit	na	(5.2%)	na	na	na	144.0%
EBITDA	na	1.8%	(51.4%)	(88.8%)	1,274.0%	32.3%
EBIT	na	(9.8%)	(84.6%)	na	na	67.5%
Net profit	na	(31.4%)	(86.0%)	na	na	70.8%
Adj. net profit	29,430.1%	(11.8%)	(77.7%)	na	na	42.4%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	22.2%	20.5%	18.7%	12.8%	16.3%	16.3%
Operating margin	6.0%	4.9%	(0.5%)	(6.1%)	1.1%	2.3%
EBITDA margin	10.0%	8.7%	5.4%	0.6%	6.8%	8.2%
Adj. net profit margin	9.8%	7.4%	2.1%	(2.8%)	3.2%	4.1%
Return on equity (ROE)	22.3%	12.3%	1.6%	(6.0%)	3.8%	5.8%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	1.6	1.8	1.8	2.0	1.8	1.9
Receivable turnover days	0.4	0.3	0.4	0.6	0.6	0.6
Inventory turnover days	26.0	26.0	35.0	30.0	28.0	27.0
Payable turnover days	196.5	170.4	162.2	170.0	170.0	170.0

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	6.9	10.1	73.1	ns	30.5	18.1
P/E (diluted)	7.4	10.8	77.7	ns	32.6	19.4
P/B	1.3	1.1	1.1	1.2	1.1	1.0
P/CFPS	1.6	5.1	ns	19.8	4.1	4.5
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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NOT RATED	: Stock is not rated by CMBIGM
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

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