

Xpeng Inc. (XPEV US)

Lack of turnaround signals in 2023

We **downgrade Xpeng to HOLD** from Buy, as we believe its lingering issues, such as product positioning and low margins may not be resolved this year. We believe both G6 and the new MPV could miss management's expectation given the competitive landscape and unclear positioning. The failure of the upmarket move by the G9 could have much more severe dent on Xpeng in the long term, in our view. In addition, its peers seem to catch up in autonomous driving (AD) with more data driven by more sales volume and higher R&D investments.

- **1Q23 GPM could imply challenging FY23 profitability.** Xpeng's 1Q23 revenue was 2% lower than we had expected and its gross margin was about 4 ppts lower than expected due to subsidy cuts and heavier promotion. Xpeng's 1Q23 operating loss of RMB 2.6bn was largely in line with our prior forecast, as Xpeng cut its SG&A expenses significantly. Its net loss of RMB 2.3bn was RMB60mn wider than our estimates.
- **Product positioning issue still lingers.** We are of the view that the G6 may face more intensified competition than management's expectation given that its price range of RMB 200,000-300,000 falls into the most competitive segment for BEVs. We expect the G6 to have a limited margin lift for Xpeng this year despite its new platform. It also appears to us that Xpeng has halted its upmarket move after the failure of the G9, as management said the majority of the 10 models on sale by 2025 will be priced between RMB 200,000-300,000. That could make us worry about its product cannibalization. We are also concerned about the target audience of its upcoming MPV, as family or business users may put AD as a lower priority.
- **Not much time left for Xpeng to turn around amid declining net cash, AD catch up from peers.** Xpeng's net cash was reduced to about RMB 24.7bn as of 1Q23 from RMB 44.0bn six quarters ago. In addition, peers seem to catch up in AD and smart cockpit which was Xpeng's competitive edge, with more data driven by more sales volume and higher R&D investments.
- **Earnings/Valuation.** We cut our FY23E sales volume by 15,000 units to 120,000 units and revise down our FY23E gross margin by 4.6 ppts to 7.9%. Accordingly, we cut our target price from US\$ 14.00 to US\$ 9.00, based on 2.0x our revised FY23E revenue estimates. We believe such valuation is justified, as the current valuation for Li Auto (LI US, BUY), which has the highest sales volume growth in FY23E among the NEV trio, is also 2.0x our FY23E P/S. Key risks to our rating and target price include faster or slower AD technology advancement than its peers, higher or lower sales volume and/or gross margin 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) | 20,988 | 26,855 | 27,555 | 42,640 | 47,700 |
| YoY growth (%) | 259.1 | 28.0 | 2.6 | 54.7 | 11.9 |
| Net income (RMB mn) | (4,863) | (9,139) | (8,664) | (7,926) | (6,291) |
| EPS (RMB) | (2.96) | (5.34) | (5.01) | (4.55) | (3.53) |
| YoY growth (%) | N/A | N/A | N/A | N/A | N/A |
| P/S (x) | 2.3 | 2.0 | 2.0 | 1.3 | 1.2 |
| P/B (x) | 1.1 | 1.5 | 1.9 | 2.6 | 2.5 |
| Yield (%) | N/A | N/A | N/A | N/A | N/A |
| ROE (%) | (12.7) | (23.1) | (26.3) | (31.1) | (28.0) |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

| | |
|---------------|-------------|
| Target Price | US\$ 9.00 |
| (Previous TP | US\$ 14.00) |
| Up/Downside | -1.2% |
| Current Price | US\$ 9.11 |

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (US\$ mn) | 7,864 |
| Avg 3 mths t/o (US\$ mn) | 117 |
| 52w High/Low (US\$) | 35.35/6.18 |
| Total Issued Shares (mn) | 1,727 |
| Source: Bloomberg | |

Shareholding Structure

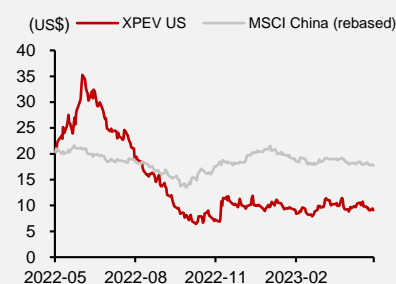
| | |
|-------------------|-------|
| He Xiaopeng | 21.2% |
| Taobao China | 11.2% |
| Others | 67.6% |
| Source: Bloomberg | |

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -1.5% | 2.6% |
| 3-mth | -1.1% | 5.9% |
| 6-mth | 24.6% | 16.4% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
Zhong Tian**

Related Reports:

["Xpeng Inc. – 4Q22 earnings miss: sales may rise QoQ in FY23E" – 20 Mar 2023](#)

Figure 1: Quarterly results

| RMB mn | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | YoY | QoQ |
|----------------------|---------|---------|---------|---------|---------|-----------|-----------|
| Sales volume (units) | 34,561 | 34,422 | 29,570 | 22,204 | 18,230 | -47.3% | -17.9% |
| ASP (RMB) | 215,704 | 216,035 | 230,757 | 231,506 | 221,252 | 2.6% | -4.4% |
| Revenue | 7,455 | 7,436 | 6,823 | 5,140 | 4,033 | -45.9% | -21.5% |
| Gross profit | 911 | 809 | 923 | 445 | 67 | -92.6% | -84.9% |
| R&D expenses | (1,221) | (1,265) | (1,499) | (1,230) | (1,296) | 6.1% | 5.3% |
| SG&A expenses | (1,642) | (1,665) | (1,626) | (1,756) | (1,387) | -15.5% | -21.0% |
| Operating profit | (1,920) | (2,091) | (2,177) | (2,517) | (2,585) | N/A | N/A |
| Net profit | (1,701) | (2,701) | (2,376) | (2,361) | (2,337) | N/A | N/A |
| Gross margin | 12.2% | 10.9% | 13.5% | 8.7% | 1.7% | -10.6 ppt | -7.0 ppt |
| Operating margin | -25.8% | -28.1% | -31.9% | -49.0% | -64.1% | -38.3 ppt | -15.1 ppt |
| Net margin | -22.8% | -36.3% | -34.8% | -45.9% | -57.9% | -35.1 ppt | -12.0 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 | 27,555 | 42,640 | 47,700 | 31,995 | 47,210 | N/A | -13.9% | -9.7% | N/A |
| Gross profit | 2,165 | 4,204 | 6,175 | 3,987 | 7,141 | N/A | -45.7% | -41.1% | N/A |
| Operating profit | (9,875) | (8,997) | (7,326) | (9,213) | (7,389) | N/A | N/A | N/A | N/A |
| Net profit | (8,664) | (7,926) | (6,291) | (8,066) | (6,472) | N/A | N/A | N/A | N/A |
| Gross margin | 7.9% | 9.9% | 12.9% | 12.5% | 15.1% | N/A | -4.6 ppt | -5.3 ppt | N/A |
| Operating margin | -35.8% | -21.1% | -15.4% | -28.8% | -15.7% | N/A | -7.0 ppt | -5.4 ppt | N/A |
| Net margin | -31.4% | -18.6% | -13.2% | -25.2% | -13.7% | N/A | -6.2 ppt | -4.9 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 | 27,555 | 42,640 | 47,700 | 36,497 | 57,138 | 72,715 | -24.5% | -25.4% | -34.4% |
| Gross profit | 2,165 | 4,204 | 6,175 | 3,958 | 8,343 | 12,724 | -45.3% | -49.6% | -51.5% |
| Operating profit | (9,875) | (8,997) | (7,326) | (8,470) | (6,118) | (2,951) | N/A | N/A | N/A |
| Net profit | (8,664) | (7,926) | (6,291) | (7,660) | (4,888) | (2,057) | N/A | N/A | N/A |
| Gross margin | 7.9% | 9.9% | 12.9% | 10.8% | 14.6% | 17.5% | -3.0 ppt | -4.7 ppt | -4.6 ppt |
| Operating margin | -35.8% | -21.1% | -15.4% | -23.2% | -10.7% | -4.1% | -12.6 ppt | -10.4 ppt | -11.3 ppt |
| Net margin | -31.4% | -18.6% | -13.2% | -21.0% | -8.6% | -2.8% | -10.5 ppt | -10.0 ppt | -10.4 ppt |

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 20,988 | 26,855 | 27,555 | 42,640 | 47,700 |
| Cost of sales | (18,366) | (23,767) | (25,390) | (38,437) | (41,526) |
| Gross profit | 2,623 | 3,088 | 2,165 | 4,204 | 6,175 |
| R&D exp. | (4,114) | (5,215) | (6,000) | (6,500) | (6,600) |
| SG&A exp. | (5,305) | (6,688) | (6,340) | (7,300) | (7,600) |
| Other income | 218 | 109 | 300 | 600 | 700 |
| Operating profit | (6,579) | (8,706) | (9,875) | (8,997) | (7,326) |
| Net finance costs | 688 | 927 | 611 | 370 | 254 |
| Other non-oper exp. | 1,055 | (1,339) | 550 | 600 | 580 |
| Pre-tax profit | (4,837) | (9,114) | (8,664) | (7,926) | (6,291) |
| Income tax | (26) | (25) | - | - | - |
| Accr. on preferred shares | - | - | - | - | - |
| Net profit | (4,863) | (9,139) | (8,664) | (7,926) | (6,291) |

Cash flow

| YE 31 Dec (RMB mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|--------------------------------|-----------------|----------------|----------------|----------------|----------------|
| Profit before taxation | (4,837) | (9,114) | (8,664) | (7,926) | (6,291) |
| Depreciation/amortization | 838 | 1,411 | 2,305 | 3,378 | 4,285 |
| Change in working capital | 3,584 | (2,709) | 1,315 | 1,652 | (653) |
| Others | (653) | 2,209 | 174 | 231 | 215 |
| Net cash from operating | (1,095) | (8,232) | (4,921) | (2,765) | (2,645) |
| Capex | (4,318) | (4,680) | (6,100) | (8,100) | (4,400) |
| Others | (28,758) | 9,526 | 7,341 | 6,812 | 2,834 |
| Net cash from investing | (33,076) | 4,846 | 1,241 | (1,288) | (1,566) |
| Share issuance | 13,110 | (2) | - | - | 7,000 |
| Net borrowings | (143) | 6,119 | 2,966 | 5,066 | (1,776) |
| Others | 1,660 | (113) | (13) | (13) | (14) |
| Net cash from financing | 14,627 | 6,004 | 2,953 | 5,053 | 5,210 |
| Net change in cash | (19,543) | 2,617 | (727) | 999 | 999 |
| Cash at beginning of year | 31,542 | 11,635 | 14,714 | 13,987 | 14,987 |
| Exchange difference | (363) | 462 | - | - | - |
| Cash at the end of year | 11,635 | 14,714 | 13,987 | 14,987 | 15,986 |

Balance sheet

| YE 31 Dec (RMB mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Current assets | 48,831 | 43,527 | 39,093 | 41,446 | 41,583 |
| Cash & equivalents | 11,025 | 14,608 | 13,881 | 14,881 | 15,880 |
| Account receivables | 2,673 | 3,873 | 3,775 | 5,841 | 6,534 |
| Inventories | 2,662 | 4,521 | 3,478 | 4,739 | 5,120 |
| Other current assets | 32,470 | 20,525 | 17,959 | 15,986 | 14,049 |
| Non-current assets | 16,821 | 27,964 | 29,074 | 33,196 | 34,816 |
| PP&E | 5,425 | 10,607 | 13,918 | 18,339 | 18,995 |
| Intangibles | 879 | 1,043 | 1,048 | 1,035 | 1,006 |
| Other non-current assets | 10,517 | 16,314 | 14,108 | 13,821 | 14,814 |
| Total assets | 65,651 | 71,491 | 68,167 | 74,642 | 76,399 |
| Current liabilities | 18,013 | 24,115 | 26,474 | 38,413 | 38,068 |
| Bank borrowings | - | 3,181 | 4,647 | 8,713 | 6,437 |
| Account payables | 12,362 | 14,223 | 14,260 | 21,061 | 22,185 |
| Current deferred revenue | 418 | 389 | 584 | 739 | 913 |
| Other current liabilities | 5,232 | 6,322 | 6,983 | 7,900 | 8,533 |
| Non-current liabilities | 5,492 | 10,465 | 12,636 | 14,388 | 15,172 |
| Bank borrowings | 1,675 | 4,613 | 6,113 | 7,113 | 7,613 |
| Other non-current liabilities | 3,817 | 5,852 | 6,523 | 7,275 | 7,559 |
| Total liabilities | 23,505 | 34,580 | 39,110 | 52,801 | 53,240 |
| Mezzanine equity | - | - | - | - | - |
| Ordinary shares | 0 | 0 | 0 | 0 | 0 |
| Reserves | 42,146 | 36,911 | 29,057 | 21,840 | 23,159 |
| Shareholders' equity | 42,147 | 36,911 | 29,057 | 21,840 | 23,159 |
| Total equity and liabilities | 65,651 | 71,491 | 68,167 | 74,642 | 76,399 |

Key ratios

| YE 31 Dec | FY21A | FY22A | FY23E | FY24E | FY25E |
|------------------------------------|--------|--------|--------|--------|--------|
| Sales mix (%) | | | | | |
| Vehicle sales | 95.5 | 92.5 | 89.1 | 88.2 | 88.3 |
| Services and others | 4.5 | 7.5 | 10.9 | 11.8 | 11.7 |
| Growth (%) | | | | | |
| Revenue | 259.1 | 28.0 | 2.6 | 54.7 | 11.9 |
| Gross profit | 886.0 | 17.8 | (29.9) | 94.1 | 46.9 |
| 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 | 12.5 | 11.5 | 7.9 | 9.9 | 12.9 |
| Operating margin | (31.3) | (32.4) | (35.8) | (21.1) | (15.4) |
| Net profit margin | (23.2) | (34.0) | (31.4) | (18.6) | (13.2) |
| Balance sheet ratio | | | | | |
| Net cash/total equity (x) | 1.0 | 0.8 | 0.7 | 0.5 | 0.5 |
| Current ratio (x) | 2.7 | 1.8 | 1.5 | 1.1 | 1.1 |
| Receivable turnover days | 46 | 53 | 50 | 50 | 50 |
| Inventory turnover days | 53 | 69 | 50 | 45 | 45 |
| Payable turnover days | 246 | 218 | 205 | 200 | 195 |
| Profitability (%) | | | | | |
| ROE | (12.7) | (23.1) | (26.3) | (31.1) | (28.0) |
| ROA | (8.8) | (13.3) | (12.4) | (11.1) | (8.3) |
| Per share data (RMB) | | | | | |
| EPS | (2.96) | (5.34) | (5.01) | (4.55) | (3.53) |
| DPS | N/A | N/A | N/A | N/A | N/A |

Source: Company data, CMBIGM estimates

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| | |
|------------------|---|
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| SELL | : Stock with potential loss of over 10% over next 12 months |
| NOT RATED | : Stock is not rated by CMBIGM |

| | |
|-----------------------|---|
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