

NIO Inc. (NIO US)

Margin dent from price cuts lingers into FY24-25

Maintain HOLD. We project NIO's net loss in 2Q23E to be similar to 1Q23, at around RMB 4.9bn. We estimate that its recent price cuts on margin dent to be limited in FY23E but more severe in FY24-25E. Such price cuts could also make its new brand less differentiated from the NIO brand, in our view.

- **We project net loss to be about RMB 4.9bn in 2Q23E.** We project NIO's revenue to fall 18% QoQ to RMB 8.8bn in 2Q23E. We forecast NIO's vehicle GPM to widen 4 pts QoQ to 9.1% in 2Q23E amid the new ES6 rollouts in May 2023. We expect the overall GPM to be 3.6 pts in 2Q23E, dragged by -23% GPM for other revenues. We also project R&D and SG&A expenses to rise slightly QoQ, which would lead to a net loss of RMB 4.9bn in 2Q23E.
- **Recent price cuts may weigh on margins in the next few years more than investors expect.** Revenue from battery swap and warranty, as a substantial portion of NIO's other revenues, is from the realization of deferred revenue from previously sold vehicles. Therefore, the margin dent from NIO's recent price cuts for fewer service benefits (mainly battery swap) could be limited in FY23E but more severe in FY24-25E, as vehicles sold after Jun 2023 are not to generate such revenue stream. It appears that NIO's new orders have been rising after the price cuts, which, in our view, should make NIO rethink if its heavy investment in battery swap is worthwhile.
- **We raise revenue but cut GP forecasts.** We revise up our FY23E sales volume forecast to 0.18mn units after the price cuts, or about 21,000 units per month in 2H23E. On the other hand, such price cuts could make its second brand, Alps, less differentiated from the NIO brand. We revise up NIO's revenue by 20% in FY23E and 5% in FY24E, but cut its gross profit by 7% in FY23E and 26% in FY24E amid the lingering dent on margins as noted above. We assume half of its price cuts to hurt other revenue and the other half to be related with vehicle price cuts. We still project similar net losses for FY23-25E (RMB 16.7bn-12.6bn), as we assume NIO to cut R&D and SG&A expenses.
- **Valuation/Risks.** We maintain our HOLD rating and raise target price slightly from US\$ 8.50 from US\$ 9.20, based on 1.7x (previously 2x 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 trades at 1.7x 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	62,009	69,692	80,045
YoY growth (%)	122.3	36.3	25.9	12.4	14.9
Net income (RMB mn)	(10,572)	(14,559)	(16,664)	(14,384)	(12,586)
EPS (RMB)	(6.72)	(8.89)	(9.75)	(8.16)	(7.10)
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	2.7	2.2	1.9	1.8	1.5
P/B (x)	2.8	4.6	8.0	44.3	(15.9)
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(34.2)	(49.7)	(85.9)	(162.4)	N/A
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBiGM estimates

HOLD (Maintain)

Target Price	US\$ 9.20
(Previous TP	US\$ 8.50)
Up/Downside	-8.3%
Current Price	US\$ 10.03

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Stock Data

Mkt Cap (US\$ mn)	16,279
Avg 3 mths t/o (US\$ mn)	440
52w High/Low (US\$)	23.28/7.00
Total Issued Shares (mn)	1,680

Source: Bloomberg

Shareholding Structure

Li Bin	10.3%
Tencent entities	9.7%
Others	80.0%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	30.8%	27.5%
3-mth	-7.4%	2.1%
6-mth	-0.6%	14.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers
Zhong Tian

Related Reports

["NIO Inc. – Premiumization no longer stands for high margin" – 12 Jun 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	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	372,989	-9.2%	8.4%
Revenue	9,911	10,292	13,002	16,064	10,676	8,773	-14.8%	-17.8%
Gross profit	1,447	1,340	1,735	622	162	316	-76.5%	94.5%
R&D expenses	(1,762)	(2,149)	(2,945)	(3,981)	(3,076)	(3,100)	44.2%	0.8%
SG&A expenses	(2,015)	(2,282)	(2,712)	(3,527)	(2,446)	(2,650)	16.1%	8.3%
Operating profit	(2,189)	(2,846)	(3,870)	(6,736)	(5,112)	(5,184)	N/A	N/A
Net profit	(1,825)	(2,745)	(4,142)	(5,847)	(4,804)	(4,916)	N/A	N/A
Gross margin	14.6%	13.0%	13.3%	3.9%	1.5%	3.6%	-9.4 ppt	2.1 ppt
Operating margin	-22.1%	-27.6%	-29.8%	-41.9%	-47.9%	-59.1%	-31.4 ppt	-11.2 ppt
Net margin	-18.4%	-26.7%	-31.9%	-36.4%	-45.0%	-56.0%	-29.4 ppt	-11.1 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	62,009	69,692	80,045	51,741	66,146	78,266	19.8%	5.4%	2.3%
Gross profit	3,135	4,958	6,243	3,380	6,674	10,193	-7.3%	-25.7%	-38.8%
Operating profit	(17,602)	(15,232)	(13,292)	(17,149)	(15,414)	(12,839)	N/A	N/A	N/A
Net profit	(16,664)	(14,384)	(12,586)	(16,349)	(14,808)	(12,343)	N/A	N/A	N/A
Gross margin	5.1%	7.1%	7.8%	6.5%	10.1%	13.0%	-1.5 ppt	-3.0 ppt	-5.2 ppt
Operating margin	-28.4%	-21.9%	-16.6%	-33.1%	-23.3%	-16.4%	4.8 ppt	1.4 ppt	-0.2 ppt
Net margin	-26.9%	-20.6%	-15.7%	-31.6%	-22.4%	-15.8%	4.7 ppt	1.7 ppt	0.0 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	62,009	69,692	80,045	66,285	97,930	128,231	-6.5%	-28.8%	-37.6%
Gross profit	3,135	4,958	6,243	6,787	15,365	23,541	-53.8%	-67.7%	-73.5%
Operating profit	(17,602)	(15,232)	(13,292)	(15,880)	(8,573)	(2,697)	N/A	N/A	N/A
Net profit	(16,664)	(14,384)	(12,586)	(14,380)	(7,182)	(1,353)	N/A	N/A	N/A
Gross margin	5.1%	7.1%	7.8%	10.2%	15.7%	18.4%	-5.2 ppt	-8.6 ppt	-10.6 ppt
Operating margin	-28.4%	-21.9%	-16.6%	-24.0%	-8.8%	-2.1%	-4.4 ppt	-13.1 ppt	-14.5 ppt
Net margin	-26.9%	-20.6%	-15.7%	-21.7%	-7.3%	-1.1%	-5.2 ppt	-13.3 ppt	-14.7 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	36,136	49,269	62,009	69,692	80,045
Cost of sales	(29,315)	(44,125)	(58,874)	(64,733)	(73,803)
Gross profit	6,821	5,144	3,135	4,958	6,243
R&D exp.	(4,592)	(10,836)	(11,066)	(10,603)	(10,195)
SG&A exp.	(6,878)	(10,537)	(10,671)	(10,587)	(10,439)
Other income	152	589	1,000	1,000	1,100
Operating profit	(4,496)	(15,641)	(17,602)	(15,232)	(13,292)
Net finance costs	274	1,026	834	587	289
Gain/(Loss) of investee	63	378	150	150	150
Other non-oper exp.	185	(145)	300	400	500
Pre-tax profit	(3,975)	(14,382)	(16,318)	(14,095)	(12,352)
Income tax	(42)	(55)	(49)	(42)	(37)
Accr. on redeemable int.	(6,587)	(279)	(300)	(250)	(200)
Minority interests	31	157	3	3	3
Net profit	(10,572)	(14,559)	(16,664)	(14,384)	(12,586)

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(3,975)	(14,382)	(16,318)	(14,095)	(12,352)
Depreciation/amortization	2,352	3,994	6,222	7,912	9,207
Change in working capital	2,693	4,444	10,745	(510)	(459)
Others	896	2,078	1,730	1,554	1,382
Net cash from operating	1,966	(3,866)	2,379	(5,139)	(2,223)
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)	6,691	4,414
Others	1,627	(63)	10	(4,097)	(190)
Net cash from financing	18,129	(1,616)	650	3,194	4,824
Net change in cash	(19,670)	4,903	131	(5,146)	(500)
Cash at year beginning	38,545	18,375	23,155	23,286	18,140
Exchange difference	(501)	(122)	-	-	-
Cash at year end	18,375	23,155	23,286	18,140	17,640

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	63,641	59,150	52,740	44,149	43,109
Cash & equivalents	15,334	19,888	20,136	15,490	14,990
Account receivables	2,781	5,118	5,097	5,728	6,579
Inventories	2,056	8,191	5,645	4,611	5,257
Other current assets	43,470	25,953	21,861	18,320	16,282
Non-current assets	19,242	37,114	38,519	39,300	38,183
PP&E	7,400	15,659	19,128	20,131	19,105
Right-of-use assets	2,988	7,374	7,878	7,620	7,352
Other non-current assets	8,854	14,081	11,513	11,549	11,726
Total assets	82,884	96,264	91,258	83,450	81,291
Current liabilities	29,198	45,852	47,763	53,336	60,811
Bank borrowings	7,298	5,277	-	4,691	9,105
Account payables	12,639	25,224	30,647	31,923	34,374
Tax payable	628	286	286	286	286
Other current liabilities	8,633	15,065	16,830	16,436	17,046
Non-current liabilities	15,622	22,765	24,488	27,141	28,087
Bank borrowings incl. CB	9,739	10,886	10,886	12,886	12,886
Other non-current liabilities	5,883	11,879	13,602	14,255	15,202
Total liabilities	44,820	68,617	72,251	80,477	88,898
Mezzanine equity	3,278	3,557	3,857	-	-
Share capital	3	3	3	3	3
Treasury shares	(1,850)	(1,850)	(1,850)	(1,850)	(1,850)
Reserves	36,557	25,715	16,788	4,624	(5,943)
Non-controlling interests	76	221	208	195	182
Shareholders' equity	34,710	23,868	14,942	2,777	(7,789)
Total equity & liabilities	82,884	96,264	91,258	83,450	81,291

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Vehicle sales	91.8	92.4	89.7	87.5	86.0
Others	8.2	7.6	10.3	12.5	14.0
Growth (%)					
Revenue	122.3	36.3	25.9	12.4	14.9
Gross profit	264.1	(24.6)	(39.1)	58.2	25.9
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	18.9	10.4	5.1	7.1	7.8
Operating margin	(12.4)	(31.7)	(28.4)	(21.9)	(16.6)
Net profit margin	(29.3)	(29.6)	(26.9)	(20.6)	(15.7)
Balance sheet ratio					
Net cash/total equity (x)	1.0	0.9	1.4	4.2	(0.7)
Current ratio (x)	2.2	1.3	1.1	0.8	0.7
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)	(85.9)	(162.4)	N/A
ROA	(15.4)	(16.3)	(17.8)	(16.5)	(15.3)
Per share data (RMB)					
EPS	(6.72)	(8.89)	(9.75)	(8.16)	(7.10)
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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