

Li Auto Inc. (LI US)

Still best positioned among NEV trio

Our top pick. Despite its 3Q22 earnings miss amid the unexpected inventory provision, Li Auto's stronger-than-expected 4Q22 guidance could make the automaker finish the year with the highest sales volume among the NEV trio with only two models. We believe Li Auto is still best positioned among the NEV trio to be a long-term winner, in terms of sales and profitability. We expect Li Auto to continue leading FY23E sales volume among the NEV trio, although we are a bit more conservative than management amid the overall industry headwinds.

- **Earnings miss on inventory provision.** Li Auto's 3Q22 revenue was 1% higher than our prior forecast, whereas its GPM of 12.7% was significantly lower than our estimates due to its inventory provision resulted from the lowered *Li One's* production than originally planned. Excluding such loss, its GPM would have been 21.2%, only 1 ppt lower than our estimates. Its net loss excluding such loss would have been only RMB 300mn larger than our forecast, because its 3Q22 R&D and SG&A expenses were also higher.
- **4Q22 outlook.** The 4Q22 sales-volume guidance was stronger than expected, implying strong order backlog despite new order dent in Nov from the COVID lockdowns. We still project net profit in 4Q22E but we lower our forecast by about RMB 500mn, as we raise our forecasts for R&D and SG&A in 4Q22E. We expect Li Auto's 4Q22E GPM to beat management's guidance of 20%.
- **FY23 outlook.** We project Li Auto's FY23E sales volume to be 0.25mn units, a bit more conservative than management's guidance of 0.3mn units amid the overall industry headwinds and potential product cannibalization. Still, we expect Li Auto to post the highest sales volume among the NEV trio in FY23. We still expect Li Auto to turn profitable in FY23E, the earliest among the NEV trio, but we lower our FY23E net profit by about RMB 470mn mainly due to higher forecast for R&D expenses. We project FY23E GPM to be about 22%.
- **Valuation/Risks.** We maintain our BUY rating and cut target price slightly from US\$ 48.00 to US\$ 44.00, mainly due to forex changes. The new target price is still based on 3.3x our FY23E P/S. We are of the view that Li Auto is still best positioned among the NEV trio with its superior product positioning capabilities. Key risks to our rating and target price include slower AD development, as well as lower sales volume and/or GPM than our expectation, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	9,457	27,010	45,170	90,650	129,950
YoY growth (%)	3,225.5	185.6	67.2	100.7	43.4
Net income (RMB mn)	(792)	(321)	(2,084)	517	2,730
EPS (RMB)	(0.91)	(0.17)	(1.08)	0.27	1.38
YoY growth (%)	N/A	N/A	N/A	N/A	428.2
P/S (x)	5.6	4.1	2.8	1.4	1.0
P/B (x)	1.8	2.7	3.2	3.1	3.0
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(6.6)	(0.9)	(5.2)	1.3	6.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimates

BUY (Maintain)

Target Price	US\$ 44.00
(Previous TP	US\$ 48.00)
Up/Downside	+108.3%
Current Price	US\$ 21.12

China Auto Sector

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Stock Data

Mkt Cap (US\$ mn)	22,013
Avg 3 mths t/o (US\$ mn)	266
52w High/Low (US\$)	41.49/12.52
Total Issued Shares (mn)	2,085
Source: Bloomberg	

Shareholding Structure

Li Xiang	22.3%
Wang Xing	18.8%
Others	58.9%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	21.3%	-5.1%
3-mth	-19.8%	-21.7%
6-mth	-27.3%	-21.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers
Zhong Tian

Related Reports

1. ["China Auto Sector - 2023 Outlook: A critical year for long-term survival" – 7 Dec 2022](#)
2. ["Li Auto Inc. - Poised to make profit from 4Q22" – 16 Aug 2022](#)

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	YoY	QoQ
Sales volume (units)	12,579	17,575	25,116	35,221	31,716	28,687	26,524	5.6%	-7.5%
ASP (RMB)	284,220	286,711	309,571	301,537	301,489	304,410	352,220	13.8%	15.7%
Revenue	3,575	5,039	7,775	10,620	9,562	8,733	9,342	20.2%	7.0%
Gross profit	617	953	1,812	2,380	2,164	1,878	1,182	-34.8%	-37.1%
R&D expenses	(515)	(653)	(888)	(1,230)	(1,374)	(1,532)	(1,804)	103.1%	17.8%
SG&A expenses	(510)	(835)	(1,021)	(1,126)	(1,203)	(1,325)	(1,507)	47.6%	13.8%
Operating profit	(408)	(536)	(98)	24	(413)	(978)	(2,130)	N/A	N/A
Net profit	(360)	(235)	(22)	296	(11)	(618)	(1,640)	N/A	N/A
Gross margin	17.3%	18.9%	23.3%	22.4%	22.6%	21.5%	12.7%	-10.7 ppt	-8.9 ppt
Operating margin	-11.4%	-10.6%	-1.3%	0.2%	-4.3%	-11.2%	-22.8%	-21.5 ppt	-11.6 ppt
Net margin	-10.1%	-4.7%	-0.3%	2.8%	-0.1%	-7.1%	-17.6%	-17.3 ppt	-10.5 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	45,170	90,650	129,950	48,903	91,831	144,577	-7.6%	-1.3%	-10.1%
Gross profit	9,009	19,909	27,381	10,690	19,446	29,918	-15.7%	2.4%	-8.5%
Operating profit	(3,887)	(1,065)	1,605	(1,927)	(128)	1,186	N/A	N/A	35.3%
Net profit	(2,084)	517	2,730	(485)	983	2,163	N/A	-47.4%	26.2%
Gross margin	19.9%	22.0%	21.1%	21.9%	21.2%	20.7%	-1.9 ppt	0.8 ppt	0.4 ppt
Operating margin	-8.6%	-1.2%	1.2%	-3.9%	-0.1%	0.8%	-4.7 ppt	-1.0 ppt	0.4 ppt
Net margin	-4.6%	0.6%	2.1%	-1.0%	1.1%	1.5%	-3.6 ppt	-0.5 ppt	0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	45,170	90,650	129,950	46,012	95,052	140,601	-1.8%	-4.6%	-7.6%
Gross profit	9,009	19,909	27,381	10,044	21,247	31,727	-10.3%	-6.3%	-13.7%
Operating profit	(3,887)	(1,065)	1,605	(2,044)	1,151	5,175	N/A	-192.5%	-69.0%
Net profit	(2,084)	517	2,730	(449)	2,497	5,844	N/A	-79.3%	-53.3%
Gross margin	19.9%	22.0%	21.1%	21.8%	22.4%	22.6%	-1.9 ppt	-0.4 ppt	-1.5 ppt
Operating margin	-8.6%	-1.2%	1.2%	-4.4%	1.2%	3.7%	-4.2 ppt	-2.4 ppt	-2.4 ppt
Net margin	-4.6%	0.6%	2.1%	-1.0%	2.6%	4.2%	-3.6 ppt	-2.1 ppt	-2.1 ppt

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	9,457	27,010	45,170	90,650	129,950
Cost of sales	(7,907)	(21,248)	(36,161)	(70,742)	(102,569)
Gross profit	1,549	5,761	9,009	19,909	27,381
R&D exp.	(1,100)	(3,286)	(7,026)	(10,202)	(12,422)
SG&A exp.	(1,119)	(3,492)	(5,870)	(10,771)	(13,354)
Operating profit	(669)	(1,017)	(3,887)	(1,065)	1,605
Net finance costs	(26)	150	198	224	242
Investment income	214	527	699	579	594
Other non-oper exp.	20	(0)	795	870	770
Pre-tax profit	(189)	(153)	(2,194)	608	3,211
Tax	23	(169)	110	(91)	(482)
Discontinued operations	14	-	-	-	-
Accr. on preferred shares	(640)	-	-	-	-
Net profit	(792)	(321)	(2,084)	517	2,730

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(189)	(153)	(2,194)	608	3,211
Depreciation/amortization	321	590	1,255	2,303	3,942
Change in working capital	3,068	6,616	5,160	10,825	4,500
Others	(60)	1,287	977	496	93
Net cash from operating	3,140	8,340	5,198	14,232	11,745
Capex	(675)	(3,445)	(7,100)	(9,650)	(11,200)
Others	(18,063)	(813)	(2,100)	1,000	(3,600)
Net cash from investing	(18,738)	(4,257)	(9,200)	(8,650)	(14,800)
Share issuance	21,026	11,006	6	13	19
Net borrowings	(145)	170	375	(73)	(365)
Others	3,830	5,533	-	-	-
Net cash from financing	24,711	16,710	381	(60)	(346)
Net change in cash	9,113	20,793	(3,621)	5,522	(3,401)
Cash at beginning of the year	1,436	10,173	30,493	26,872	32,394
FX & discontinued operations	(377)	(472)	-	-	-
Cash at the end of the year	10,173	30,493	26,872	32,394	28,993

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	31,391	52,380	51,563	58,401	60,502
Cash & equivalents	8,938	27,854	23,872	29,394	25,493
Account receivables	116	121	371	993	1,424
Inventories	1,048	1,618	2,774	5,039	7,306
Other current assets	21,289	22,788	24,546	22,975	26,278
Non-current assets	4,982	9,468	17,280	27,652	39,456
PP&E	2,479	4,498	10,203	17,372	24,374
Intangibles	683	751	823	926	1,053
Right-of-use assets	1,277	2,061	3,181	4,458	7,738
Other non-current assets	543	2,157	3,073	4,896	6,290
Total assets	36,373	61,849	68,844	86,053	99,957
Current liabilities	4,309	12,108	18,900	35,196	44,483
Bank borrowings	-	37	-	300	200
Account payables	3,161	9,376	14,861	29,072	36,531
Current deferred revenue	272	305	1,183	1,926	2,920
Other current liabilities	877	2,390	2,856	3,898	4,831
Non-current liabilities	2,260	8,676	10,243	10,118	11,632
Bank borrowings	512	563	1,063	763	563
Lease liabilities	1,392	1,370	2,037	1,680	2,909
Other non-current liabilities	357	6,744	7,143	7,675	8,160
Total liabilities	6,570	20,785	29,143	45,313	56,114
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	29,802	41,063	39,699	40,738	43,842
Shareholders' equity	29,804	41,064	39,701	40,740	43,843
Total equity and liabilities	36,373	61,849	68,844	86,053	99,957

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Vehicle sales	98.2	96.7	97.0	97.2	96.9
Other sales & services	1.8	3.3	3.0	2.8	3.1
Growth (%)					
Revenue	3,225.5	185.6	67.2	100.7	43.4
Gross profit	N/A	271.9	56.4	121.0	37.5
Operating profit	N/A	N/A	N/A	N/A	N/A
Net profit	N/A	N/A	N/A	N/A	428.2
Profit & loss ratio (%)					
Gross margin	16.4	21.3	19.9	22.0	21.1
Operating margin	(7.1)	(3.8)	(8.6)	(1.2)	1.2
Net profit margin	(8.4)	(1.2)	(4.6)	0.6	2.1
Balance sheet ratio					
Net cash (debt)/total equity (x)	1.0	1.1	1.0	1.1	1.0
Current ratio (x)	7.3	4.3	2.7	1.7	1.4
Receivable turnover days	4	2	3	4	4
Inventory turnover days	48	28	28	26	26
Payable turnover days	146	161	150	150	130
Profitability (%)					
ROE	(6.6)	(0.9)	(5.2)	1.3	6.5
ROA	(3.5)	(0.7)	(3.2)	0.7	2.9
Per share data (RMB)					
EPS	(0.91)	(0.17)	(1.08)	0.27	1.38
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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