

Li Auto Inc. (LI US)

Mega could be a positive catalyst

We are of the view that Li Auto's 3Q23 earnings were largely in line, as investors have factored in the stiffer competition. We believe its upcoming flagship model, the Mega, could be a positive catalyst for share price, as its controversial design could lure more attention and lower the product cannibalization. We cut our FY24E net profit by RMB 3bn to RMB 14.5bn, mainly due to its accelerated R&D investments.

- **3Q23 results largely in line despite revenue miss.** Li Auto's 3Q23 revenue was about 2% lower than our prior forecast due to heavier-than-expected promotions. The gross margin of 22% in 2Q23 was largely in line with our projection. R&D expense was higher than expected while SG&A expense was lower than expected, leading to in-line operating profit. Accordingly, Li Auto's 3Q23 net profit of RMB 2.8bn was 3% lower than our prior forecast.
- **Mega could be a positive catalyst for share price.** Although the flagship model *Mega*'s exterior design looks controversial, we take it as positive, as it reminds us of the debut of the Tesla *Cybertruck*. It could also lower the cannibalization with the Li *L9*. Management guidance for *Mega*'s monthly sales volume is 5,000 units, although it anticipates more than this. We also project *Mega*'s gross margin to be the highest among all the models, should it reach such sales volume, although details including pricing are not available yet. We raise FY24E sales volume forecast slightly by 0.01mn units to 0.61mn units due to the *Mega*.
- **We expect FY24E net profit to surge 61% YoY despite accelerated R&D investments.** We cut our FY24E revenue forecast by 2% to account for trimmed average selling price from heightened competition. We expect its gross margin to be resilient, aided by falling battery prices, greater economies of scale and the *Mega*. Management guides RMB 18bn for FY24E R&D expenses, RMB 4bn higher than our prior forecast. Therefore, we cut our FY24E net profit by RMB 3bn to RMB 14.5bn with a net margin of 7.4%.
- **Valuation/Risks.** We maintain our BUY rating but lower our target price from US\$ 55.00 to US\$ 50.00, based on 25x (previously 22x) our revised FY24E P/E. We think such multiple is justified by its fast sales growth and potential earnings upside surprise amid economies of scale. Key risks to our rating and target price include slower autonomous driving development, lower sales volume and/or gross margin than our expectation, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	27,010	45,287	123,147	196,350	264,450
YoY growth (%)	186	68	172	59	35
Net income (RMB mn)	-321	-2,012	9,045	14,514	20,796
EPS (RMB)	(0.2)	(1.0)	4.6	7.3	10.4
YoY growth (%)	N/A	N/A	N/A	60.5	43.3
P/S (x)	8.6	5.8	2.3	1.4	1.1
P/E (x)	N/A	N/A	31.1	19.5	13.8
P/B (x)	5.6	5.9	5.1	4.0	3.1
ROE (%)	(0.9)	(4.7)	18.1	23.1	25.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimates

BUY (Maintain)

Target Price	US\$ 50.00
(Previous TP)	US\$ 55.00)
Up/Downside	+27.0%
Current Price	US\$ 39.36

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Stock Data

Mkt Cap (US\$ mn)	41,761
Avg 3 mths t/o (US\$ mn)	210
52w High/Low (US\$)	47.33/16.09
Total Issued Shares (mn)	2,085

Source: Bloomberg

Shareholding Structure

Li Xiang	21.9%
Wang Xing	18.1%
Others	60.0%

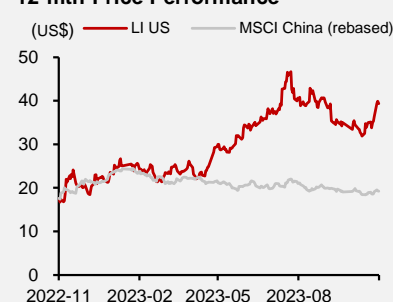
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	17.7%	17.4%
3-mth	-3.1%	5.4%
6-mth	33.7%	44.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers
Zhong Tian

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1. ["Li Auto Inc. – A replica of FY20-21 Tesla?" – 9 Aug 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
Sales volume (units)	31,716	28,687	26,524	46,319	52,584	86,533	105,108	296.3%	21.5%
ASP (RMB)	301,489	304,410	352,220	381,050	357,277	331,119	329,941	-6.3%	-0.4%
Revenue	9,562	8,733	9,342	17,650	18,787	28,653	34,679	271.2%	21.0%
Gross profit	2,164	1,878	1,182	3,566	3,830	6,235	7,644	546.8%	22.6%
R&D expenses	(1,374)	(1,532)	(1,804)	(2,070)	(1,852)	(2,426)	(2,817)	56.1%	16.1%
SG&A expenses	(1,203)	(1,325)	(1,507)	(1,630)	(1,645)	(2,309)	(2,544)	68.8%	10.2%
Operating profit	(413)	(978)	(2,130)	(134)	405	1,626	2,339	N/A	43.9%
Net profit	(11)	(618)	(1,640)	257	930	2,293	2,823	N/A	23.1%
Gross margin	22.6%	21.5%	12.7%	20.2%	20.4%	21.8%	22.0%	9.4 ppt	0.3 ppt
Operating margin	-4.3%	-11.2%	-22.8%	-0.8%	2.2%	5.7%	6.7%	29.5 ppt	1.1 ppt
Net margin	-0.1%	-7.1%	-17.6%	1.5%	4.9%	8.0%	8.1%	25.7 ppt	0.1 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	123,147	196,350	264,450	122,453	199,650	264,640	0.6%	-1.7%	-0.1%
Gross Profit	26,408	42,651	54,698	27,484	42,972	53,714	-3.9%	-0.7%	1.8%
Operating Profit	7,083	13,189	20,231	6,903	17,088	23,996	2.6%	-22.8%	-15.7%
Net profit	9,045	14,514	20,796	8,790	17,591	23,496	2.9%	-17.5%	-11.5%
Gross Margin	21.4%	21.7%	20.7%	22.4%	21.5%	20.3%	-1.0 ppt	0.2 ppt	0.4 ppt
Operating Margin	5.8%	6.7%	7.7%	5.6%	8.6%	9.1%	0.1 ppt	-1.8 ppt	-1.4 ppt
Net Margin	7.3%	7.4%	7.9%	7.2%	8.8%	8.9%	0.2 ppt	-1.4 ppt	-1.0 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	123,147	196,350	264,450	116,696	179,020	244,681	5.5%	9.7%	8.1%
Gross Profit	26,408	42,651	54,698	25,148	39,102	54,268	5.0%	9.1%	0.8%
Operating Profit	7,083	13,189	20,231	5,075	11,460	19,055	39.6%	15.1%	6.2%
Net profit	9,045	14,514	20,796	8,099	13,967	21,170	11.7%	3.9%	-1.8%
Gross Margin	21.4%	21.7%	20.7%	21.6%	21.8%	22.2%	-0.1 ppt	-0.1 ppt	-1.5 ppt
Operating Margin	5.8%	6.7%	7.7%	4.3%	6.4%	7.8%	1.4 ppt	0.3 ppt	-0.1 ppt
Net Margin	7.3%	7.4%	7.9%	6.9%	7.8%	8.7%	0.4 ppt	-0.4 ppt	-0.8 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	27,010	45,287	123,147	196,350	264,450
Cost of sales	(21,248)	(36,496)	(96,739)	(153,699)	(209,752)
Gross profit	5,761	8,790	26,408	42,651	54,698
R&D exp.	(3,286)	(6,780)	(10,311)	(16,514)	(19,074)
SG&A exp.	(3,492)	(5,665)	(9,374)	(13,448)	(15,993)
Operating profit	(1,017)	(3,655)	7,083	13,189	20,231
Net finance costs	150	494	677	932	1,437
Investment income	527	376	980	1,484	1,588
Other non-oper exp.	187	626	915	815	820
Pre-tax profit	(153)	(2,159)	9,654	16,420	24,075
Tax	(169)	127	(579)	(1,806)	(3,130)
Discontinued operations	-	-	-	-	-
Accr. on preferred shares	-	-	-	-	-
Net profit	(321)	(2,012)	9,045	14,514	20,796

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(153)	(2,159)	9,654	16,420	24,075
Depreciation/amortization	590	1,214	2,393	4,042	5,825
Change in working capital	6,565	5,035	28,849	16,475	27,861
Others	1,338	3,290	915	(620)	(2,029)
Net cash from operating	8,340	7,380	41,811	36,317	55,732
Capex	(3,445)	(5,128)	(9,650)	(11,200)	(12,200)
Others	(813)	763	(26,000)	(4,600)	(8,600)
Net cash from investing	(4,257)	(4,365)	(35,650)	(15,800)	(20,800)
Share issuance	11,006	2,469	9	12	15
Net borrowings	170	3,080	(2,276)	(890)	(757)
Others	5,533	90	-	-	-
Net cash from financing	16,710	5,639	(2,267)	(878)	(742)
Net change in cash	20,793	8,655	3,895	19,639	34,190
Cash at beginning of the year	10,173	30,493	40,418	44,313	63,952
FX & discontinued operations	(472)	1,270	-	-	-
Cash at the end of the year	30,493	40,418	44,313	63,952	98,142

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	52,380	66,992	99,712	130,332	175,894
Cash & equivalents	27,854	38,478	41,813	60,952	94,642
Account receivables	121	48	675	1,076	1,449
Inventories	1,618	6,805	9,276	14,738	17,240
Other current assets	22,788	21,661	47,948	53,566	62,563
Non-current assets	9,468	19,545	30,097	41,486	50,020
PP&E	4,498	11,188	18,247	25,121	31,173
Intangibles	751	833	951	1,102	1,234
Right-of-use assets	2,061	3,539	4,784	7,065	6,822
Other non-current assets	2,157	3,986	6,114	8,199	10,791
Total assets	61,849	86,538	129,809	171,818	225,913
Current liabilities	12,108	27,373	59,663	81,848	110,535
Bank borrowings	37	391	848	734	-
Account payables	9,376	20,024	47,707	63,164	86,199
Current deferred revenue	305	569	1,203	2,205	3,554
Other current liabilities	2,390	6,388	9,905	15,745	20,782
Non-current liabilities	8,676	13,979	14,654	18,896	22,468
Bank borrowings	563	3,317	669	(65)	(65)
Lease liabilities	1,370	1,946	2,779	4,445	4,426
Other non-current liabilities	6,744	8,716	11,207	14,517	18,107
Total liabilities	20,785	41,352	74,317	100,744	133,003
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	41,063	44,857	55,133	70,615	92,302
Shareholders' equity	41,064	44,859	55,134	70,617	92,303
Total equity and liabilities	61,849	86,538	129,809	171,818	225,913

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Vehicle sales	96.7	97.4	97.3	96.9	96.8
Other sales & services	3.3	2.6	2.7	3.1	3.2
Growth (%)					
Revenue	185.6	67.7	171.9	59.4	34.7
Gross profit	271.9	52.6	200.4	61.5	28.2
Operating profit	N/A	N/A	N/A	86.2	53.4
Net profit	N/A	N/A	N/A	60.5	43.3
Profit & loss ratio (%)					
Gross margin	21.3	19.4	21.4	21.7	20.7
Operating margin	(3.8)	(8.1)	5.8	6.7	7.7
Net profit margin	(1.2)	(4.4)	7.3	7.4	7.9
Balance sheet ratio					
Net cash (debt)/total equity (x)	1.1	1.1	1.4	1.5	1.6
Current ratio (x)	4.3	2.4	1.7	1.6	1.6
Receivable turnover days	2	0	2	2	2
Inventory turnover days	28	68	35	35	30
Payable turnover days	161	200	180	150	150
Profitability (%)					
ROE	(0.9)	(4.7)	18.1	23.1	25.5
ROA	(0.7)	(2.7)	8.4	9.6	10.5
Per share data (RMB)					
EPS	-0.17	-1.04	4.61	7.34	10.41
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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