

Li Auto Inc. (LI US)

A replica of FY20-21 Tesla?

We are of the view that Li Auto's 2Q23 earnings are strong, especially with 8% net margin. We therefore raise our 2H23E and FY24E earnings forecasts significantly. That reminds us of Tesla which turned profitable at the end of 2019 and enjoyed the highest net profit growth in FY21 (+666% YoY). We believe Li Auto's strong earnings growth could extend into FY24E, especially with four new model launches next year.

- **2Q23 results beat in almost all key metrics.** Li Auto's 2Q23 revenue was about 3% higher than our prior forecast due to the higher portion of its Max variants. Gross margin in 2Q23 beat our forecast by 1 ppt amid greater economies of scale than expected. R&D and SG&A expenses were both lower than our previous forecast, which resulted in 5.7% operating margin, or 3 pts higher than expected. Higher government grants and lower tax expenses also led to a net profit of RMB 2.3bn in 2Q23, or RMB 1.1bn higher than our prior estimates.
- **2H23 outlook.** We raise our FY23E sales-volume forecast by 9% to 0.36mn units. We expect gross margin in 2H23E to widen to above 23% amid the phase-out of the aging *Li One* and greater economies of scale. We project Li Auto's 2H23E operating and net margins to be 6.5% (vs. 5.7% in 2Q23) and 7.4% (vs. 8.0% in 2Q23), respectively. Accordingly, we raise Li Auto's FY23E net profit by 75% to RMB 8.8bn, or RMB 5.6bn for 2H23E, after a solid result in 2Q23.
- **Strong earnings growth could continue in FY24E amid doubled number of models on sale.** The company plans to launch its flagship BEV model, the *Mega*, at the end of this year and another four new models (L6 EREV and three BEVs). We project FY24E sales volume of 0.6mn units (+67% YoY), lower than the company's target to account for potential sales cannibalization and uncertainties of launch times. Accordingly, we estimate its FY24E net profit to double YoY to RMB 17.6bn.
- **Valuation/Risks.** We maintain our BUY rating and raise our target price from US\$ 44.00 to US\$ 55.00, based on 22x (previously 35x) our revised FY24E P/E. We lower our target valuation multiples as we expect net profit growth may start to slow down from FY25E. 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	122,453	199,650	264,640
YoY growth (%)	186	68	170	63	33
Net income (RMB mn)	(321)	(2,012)	8,790	17,591	23,496
EPS (RMB)	(0.2)	(1.0)	4.5	8.9	11.8
YoY growth (%)	N/A	N/A	N/A	100.1	33.6
P/S (x)	9.3	6.3	2.5	1.5	1.2
P/E (x)	N/A	N/A	34.3	17.3	13.1
P/B (x)	6.1	6.4	5.5	4.1	3.1
ROE (%)	(0.9)	(4.7)	17.6	27.4	27.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimates

BUY (Maintain)

Target Price	US\$ 55.00
(Previous TP	US\$ 44.00)
Up/Downside	+28.5%
Current Price	US\$ 42.80

China Auto Sector

SHI Ji, CFA

(852) 3761 8728

shiji@cmbi.com.hk

DOU Wenjing, CFA

(852) 6939 4751

douwenjing@cmbi.com.hk

Jason Gu

jasongu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	44,619
Avg 3 mths t/o (US\$ mn)	268
52w High/Low (US\$)	47.33/12.52
Total Issued Shares (mn)	2,085

Source: Bloomberg

Shareholding Structure

Li Xiang	22.3%
Wang Xing	18.8%
Others	58.9%

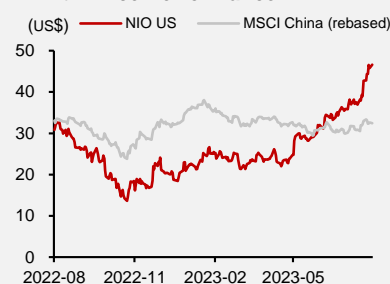
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	30.0%	21.6%
3-mth	88.5%	89.3%
6-mth	85.3%	93.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
Zhong Tian**

Related Report

1. ["Li Auto Inc. – 2Q23 earnings preview: NP to rise QoQ in FY23E" – 26 Jun 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ
Sales volume (units)	31,716	28,687	26,524	46,319	52,584	86,533	201.6%	64.6%
ASP (RMB)	301,489	304,410	352,220	381,050	357,277	331,119	8.8%	-7.3%
Revenue	9,562	8,733	9,342	17,650	18,787	28,653	228.1%	52.5%
Gross profit	2,164	1,878	1,182	3,566	3,830	6,235	232.0%	62.8%
R&D expenses	(1,374)	(1,532)	(1,804)	(2,070)	(1,852)	(2,426)	58.4%	31.0%
SG&A expenses	(1,203)	(1,325)	(1,507)	(1,630)	(1,645)	(2,309)	74.3%	40.4%
Operating profit	(413)	(978)	(2,130)	(134)	405	1,626	N/A	301.2%
Net profit	(11)	(618)	(1,640)	257	930	2,293	N/A	146.7%
Gross margin	22.6%	21.5%	12.7%	20.2%	20.4%	21.8%	0.3 ppt	1.4 ppt
Operating margin	-4.3%	-11.2%	-22.8%	-0.8%	2.2%	5.7%	16.9 ppt	3.5 ppt
Net margin	-0.1%	-7.1%	-17.6%	1.5%	4.9%	8.0%	15.1 ppt	3.1 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	122,453	199,650	264,640	111,870	150,800	206,600	9.5%	32.4%	28.1%
Gross Profit	27,484	42,972	53,714	23,633	31,623	41,612	16.3%	35.9%	29.1%
Operating Profit	6,903	17,088	23,996	3,733	8,230	15,426	84.9%	107.6%	55.6%
Net profit	8,790	17,591	23,496	5,011	9,216	15,859	75.4%	90.9%	48.2%
Gross Margin	22.4%	21.5%	20.3%	21.1%	21.0%	20.1%	1.3 ppt	0.6 ppt	0.2 ppt
Operating Margin	5.6%	8.6%	9.1%	3.3%	5.5%	7.5%	2.3 ppt	3.1 ppt	1.6 ppt
Net Margin	7.2%	8.8%	8.9%	4.5%	6.1%	7.7%	2.7 ppt	2.7 ppt	1.2 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	122,453	199,650	264,640	102,920	151,299	199,044	19.0%	32.0%	33.0%
Gross Profit	27,484	42,972	53,714	21,908	33,266	44,683	25.4%	29.2%	20.2%
Operating Profit	6,903	17,088	23,996	2,861	7,830	13,760	141.2%	118.2%	74.4%
Net profit	8,790	17,591	23,496	4,634	8,798	14,653	89.7%	99.9%	60.4%
Gross Margin	22.4%	21.5%	20.3%	21.3%	22.0%	22.4%	1.2 ppt	-0.5 ppt	-2.2 ppt
Operating Margin	5.6%	8.6%	9.1%	2.8%	5.2%	6.9%	2.9 ppt	3.4 ppt	2.2 ppt
Net Margin	7.2%	8.8%	8.9%	4.5%	5.8%	7.4%	2.7 ppt	3.0 ppt	1.5 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	27,010	45,287	122,453	199,650	264,640
Cost of sales	(21,248)	(36,496)	(94,969)	(156,678)	(210,927)
Gross profit	5,761	8,790	27,484	42,972	53,714
R&D exp.	(3,286)	(6,780)	(10,611)	(12,594)	(14,124)
SG&A exp.	(3,492)	(5,665)	(10,370)	(13,790)	(16,193)
Operating profit	(1,017)	(3,655)	6,903	17,088	23,996
Net finance costs	150	494	638	938	1,515
Investment income	527	376	949	1,394	1,588
Other non-oper exp.	187	626	915	915	720
Pre-tax profit	(153)	(2,159)	9,405	20,335	27,819
Tax	(169)	127	(564)	(2,644)	(4,173)
Discontinued operations	-	-	-	-	-
Accr. on preferred shares	-	-	-	-	-
Net profit	(321)	(2,012)	8,790	17,591	23,496

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(153)	(2,159)	9,405	20,335	27,819
Depreciation/amortization	590	1,214	2,393	4,042	5,825
Change in working capital	6,565	5,035	27,926	18,641	27,191
Others	1,338	3,290	964	(1,424)	(3,047)
Net cash from operating	8,340	7,380	40,688	41,594	57,787
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	(1,710)	(922)	(781)
Others	5,533	90	-	-	-
Net cash from financing	16,710	5,639	(1,701)	(910)	(766)
Net change in cash	20,793	8,655	3,337	24,884	36,221
Cash at beginning of the year	10,173	30,493	40,418	43,755	68,639
FX & discontinued operations	(472)	1,270	-	-	-
Cash at the end of the year	30,493	40,418	43,755	68,639	104,861

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	52,380	66,992	98,968	135,382	182,713
Cash & equivalents	27,854	38,478	41,255	65,639	101,361
Account receivables	121	48	671	1,094	1,450
Inventories	1,618	6,805	9,107	15,024	17,336
Other current assets	22,788	21,661	47,936	53,625	62,566
Non-current assets	9,468	19,545	31,199	40,868	49,864
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	5,908	6,364	6,662
Other non-current assets	2,157	3,986	6,094	8,281	10,796
Total assets	61,849	86,538	130,168	176,250	232,577
Current liabilities	12,108	27,373	58,959	83,159	111,094
Bank borrowings	37	391	848	734	-
Account payables	9,376	20,024	46,834	64,388	86,682
Current deferred revenue	305	569	1,200	2,218	3,568
Other current liabilities	2,390	6,388	10,076	15,819	20,844
Non-current liabilities	8,676	13,979	15,952	19,174	23,029
Bank borrowings	563	3,317	1,269	535	535
Lease liabilities	1,370	1,946	3,551	3,991	4,325
Other non-current liabilities	6,744	8,716	11,132	14,649	18,169
Total liabilities	20,785	41,352	74,911	102,333	134,123
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	41,063	44,857	54,878	73,438	97,825
Shareholders' equity	41,064	44,859	54,879	73,439	97,827
Total equity and liabilities	61,849	86,538	130,168	176,250	232,577

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Vehicle sales	96.7	97.4	97.4	97.0	96.5
Other sales & services	3.3	2.6	2.6	3.0	3.5
Growth (%)					
Revenue	185.6	67.7	170.4	63.0	32.6
Gross profit	271.9	52.6	212.7	56.4	25.0
Operating profit	N/A	N/A	N/A	147.6	40.4
Net profit	N/A	N/A	N/A	100.1	33.6
Profit & loss ratio (%)					
Gross margin	21.3	19.4	22.4	21.5	20.3
Operating margin	(3.8)	(8.1)	5.6	8.6	9.1
Net profit margin	(1.2)	(4.4)	7.2	8.8	8.9
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)	17.6	27.4	27.4
ROA	(0.7)	(2.7)	8.1	11.5	11.5
Per share data (RMB)					
EPS	-0.17	-1.04	4.48	8.90	11.76
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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