Xpeng Inc. (XPEV US)

Mona *M03* may not be the game-changer

Maintain HOLD. Xpeng's 2Q24 earnings were largely in line with our forecast. Although we assume its 2H24E sales volume to more than double HoH, we see no loss narrowing HoH in 2H24E. We believe that Xpeng's vehicle gross margin could be capped by the lower-priced Mona models, as the company now bets on these models to boost sales. We are of the view that the underlying rationale of such strategy is Xpeng's diminishing brand image, especially as peers are narrowing the gap in autonomous driving (AD) technologies.

- **2Q24 earnings largely in line.** Xpeng's 2Q24 revenue was about 2% higher than our prior forecast, largely due to the R&D services from Volkswagen (VOW GR, NR). Its vehicle margin of 6.4% in 2Q24 was slightly higher than our forecast and 5.5% in 1Q24, despite a QoQ increase in discounts. We attribute such beat to the price cuts from suppliers. R&D and SG&A expenses were slightly higher than expected, which led to an in-line net loss of RMB1.3bn.
- **Gross margin dilemma.** We cut our FY24E sales volume forecast by 10% to 180,000 units, which implies an average monthly sales volume of about 28,000 units in 4Q24. On the other hand, we revise up revenue from R&D services from RMB1bn to RMB1.6bn in FY24E. We also raise our FY24E vehicle gross margin forecast from 5.8% to 7% following the 2Q24 beat. That would lead to an overall GPM of 13% in FY24E, which is still far away from breakeven at the net level. More importantly, we expect sales volume growth in 2H24E and FY25E to be driven by lower-priced Mona models, which could cap Xpeng's GPM lift. We project FY25E vehicle margin to be 7.9% even assuming the upcoming *P7+*'s GPM of 12%. Based on our estimates, services and other income (including income from VW) could account for about 50% of Xpeng's total gross profit in both FY24E and FY25E. Such profit could be unsustainable in the long term.
- **Leading AD brand image has been diminishing.** We noted several times in our reports in 2023 that other automakers could catch up in AD technologies and this becomes more apparent to us now. We think that partly explains why Xpeng leverages lower-priced models to boost sales. It appears to us that Xpeng took a detour by differentiating itself from Tesla (TSLA US, NR) with LiDAR and switching back to the vision-only approach.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	26,855	30,676	41,666	60,527	71,472
YoY growth (%)	28.0	14.2	35.8	45.3	18.1
Gross margin (%)	11.5	1.5	13.0	13.3	13.7
Operating profit (RMB mn)	(8,705.5)	(10,889.4)	(7,507.7)	(6,750.1)	(4,815.0)
Net profit (RMB mn)	(9,139.0)	(10,375.8)	(6,171.6)	(5,308.4)	(3,253.7)
EPS (Reported) (RMB cents)	(533.65)	(595.99)	(326.28)	(278.44)	(169.33)
P/S (x)	1.8	1.6	1.2	0.8	0.7
P/B (x)	1.2	1.2	1.6	1.9	2.2

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	**US$8.00**
(Previous TP	US$10.00)
Up/Downside	**11.1%**
Current Price	**US$7.20**

China Auto

Ji SHI, CFA
(852) 3761 8728
shiji@cmbi.com.hk

Wenjing DOU, CFA
(852) 6939 4751
douwenjing@cmbi.com.hk

Austin Liang
(852) 3900 0856
austinliang@cmbi.com.hk

Stock Data

Mkt Cap (US$ mn)	6,802.5
Avg 3 mths t/o (US$ mn)	24.0
52w High/Low (US$)	19.14/6.63
Total Issued Shares (mn)	1889.6

Source: FactSet

Shareholding Structure

Mr. He Xiaopeng	18.7%
Volkswagen AG	5.0%

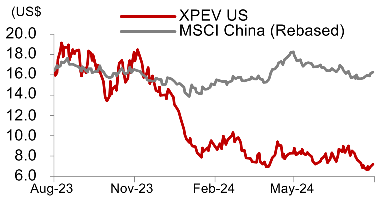
Source: NYSE

Share Performance

	Absolute	Relative
1-mth	-14.8%	-15.5%
3-mth	-13.0%	-2.4%
6-mth	-20.0%	-26.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Report

"Xpeng Inc. (XPEV US) - Await more details about Mona" - 22 May 2024

"Xpeng Inc. (XPEV US) - Margin lift mixed with unexciting new models" - 20 Mar 2024

- **Earnings/Valuation.** We revise up FY24E net loss by RMB0.1bn to RMB6.2bn largely due to our R&D assumption, as the company guided higher R&D spending in 2H24E. We cut FY25E net loss by RMB0.3bn to RMB5.3bn. We still see no signals for Xpeng to turn profitable in the foreseeable future. We maintain our HOLD rating and cut target price from US$10.00 to US$8.00, based on 0.9x (prior 1.1x) our revised FY25E P/S. We believe such valuation is justified given that Li Auto (LI US, BUY) and BYD (1211 HK, BUY) are both trading at 0.8x our FY25E P/S despite their much better profitability. Key risks to our rating and target price include faster or slower AD technology advancement than peers, higher or lower sales volume and/or GPM than we expect, as well as a sector re-rating or de-rating.

Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	YoY	QoQ
Sales volume (units)	18,230	23,205	40,008	60,158	21,821	30,207	30.2%	38.4%
ASP (RMB)	221,252	218,173	213,195	216,936	300,082	268,527	23.1%	-10.5%
Revenue	4,033	5,063	8,530	13,050	6,548	8,111	60.2%	23.9%
Gross profit	67	(197)	(228)	809	844	1,136	N/A	34.6%
R&D expenses	(1,296)	(1,367)	(1,306)	(1,308)	(1,350)	(1,467)	7.3%	8.6%
SG&A expenses	(1,387)	(1,544)	(1,692)	(1,937)	(1,388)	(1,574)	1.9%	13.3%
Operating profit	(2,585)	(3,090)	(3,161)	(2,053)	(1,646)	(1,609)	N/A	N/A
Net profit	(2,337)	(2,805)	(3,887)	(1,348)	(1,368)	(1,285)	N/A	N/A
Gross margin	1.7%	-3.9%	-2.7%	6.2%	12.9%	14.0%	17.9 ppt	1.1 ppt
Operating margin	-64.1%	-61.0%	-37.1%	-15.7%	-25.1%	-19.8%	41.2 ppt	5.3 ppt
Net margin	-57.9%	-55.4%	-45.6%	-10.3%	-20.9%	-15.8%	39.6 ppt	5.1 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	41,666	60,527	71,472	44,692	61,947	67,497	-6.8%	-2.3%	N/A
Gross profit	5,412	8,030	9,785	4,583	7,074	8,389	18.1%	13.5%	N/A
Operating profit	(7,508)	(6,750)	(4,815)	(7,717)	(7,356)	(6,411)	N/A	N/A	N/A
Net profit	(6,172)	(5,308)	(3,254)	(6,047)	(5,616)	(4,696)	N/A	N/A	N/A
Gross margin	13.0%	13.3%	13.7%	10.3%	11.4%	12.4%	2.7 ppt	1.8 ppt	N/A
Operating margin	-18.0%	-11.2%	-6.7%	-17.3%	-11.9%	-9.5%	-0.8 ppt	0.7 ppt	N/A
Net margin	-14.8%	-8.8%	-4.6%	-13.5%	-9.1%	-7.0%	-1.3 ppt	0.3 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	41,666	60,527	71,472	43,615	67,088	85,360	-4.5%	-9.8%	-16.3%
Gross profit	5,412	8,030	9,785	5,270	9,785	14,046	2.7%	-17.9%	-30.3%
Operating profit	(7,508)	(6,750)	(4,815)	(7,667)	(4,814)	(2,024)	N/A	N/A	N/A
Net profit	(6,172)	(5,308)	(3,254)	(5,847)	(3,263)	51	N/A	N/A	N/A
Gross margin	13.0%	13.3%	13.7%	12.1%	14.6%	16.5%	0.9 ppt	-1.3 ppt	-2.8 ppt
Operating margin	-18.0%	-11.2%	-6.7%	-17.6%	-7.2%	-2.4%	-0.4 ppt	-4.0 ppt	-4.4 ppt
Net margin	-14.8%	-8.8%	-4.6%	-13.4%	-4.9%	0.1%	-1.4 ppt	-3.9 ppt	-4.6 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**20,988**	**26,855**	**30,676**	**41,666**	**60,527**	**71,472**
Cost of goods sold	(18,366)	(23,767)	(30,225)	(36,254)	(52,497)	(61,687)
Gross profit	**2,623**	**3,088**	**451**	**5,412**	**8,030**	**9,785**
Operating expenses	**(9,202)**	**(11,794)**	**(11,341)**	**(12,920)**	**(14,780)**	**(14,600)**
SG&A expense	(5,305)	(6,688)	(6,559)	(7,420)	(9,780)	(9,800)
R&D expense	(4,114)	(5,215)	(5,277)	(6,500)	(6,200)	(6,200)
Others	218	109	495	1,000	1,200	1,400
Operating profit	**(6,579)**	**(8,706)**	**(10,889)**	**(7,508)**	**(6,750)**	**(4,815)**
Gain/loss on financial assets at FVTPL	671	84	(635)	(100)	(20)	80
Other gains/(losses)	384	(1,424)	139	100	150	150
EBITDA	**(3,944)**	**(7,571)**	**(7,963)**	**(3,048)**	**(1,911)**	**380**
Depreciation	573	915	1,646	2,028	2,311	2,584
Depreciation of ROU assets	229	379	182	258	273	283
Other amortisation	36	116	279	514	531	552
EBIT	**(4,782)**	**(8,982)**	**(10,070)**	**(5,848)**	**(5,025)**	**(3,038)**
Interest income	743	1,059	1,260	1,580	1,475	1,427
Interest expense	(55)	(132)	(269)	(324)	(283)	(215)
Pre-tax profit	**(4,837)**	**(9,114)**	**(10,339)**	**(6,172)**	**(5,308)**	**(3,254)**
Income tax	(26)	(25)	(37)	0	0	0
After tax profit	**(4,863)**	**(9,139)**	**(10,376)**	**(6,172)**	**(5,308)**	**(3,254)**
Others	0	0	0	0	0	0
Net profit	**(4,863)**	**(9,139)**	**(10,376)**	**(6,172)**	**(5,308)**	**(3,254)**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**48,831**	**43,527**	**54,522**	**53,723**	**60,686**	**66,913**
Cash & equivalents	11,025	14,608	21,127	20,982	24,582	29,673
Restricted cash	610	106	3,175	3,000	2,000	2,000
Account receivables	2,673	3,873	2,716	3,425	4,975	5,874
Inventories	2,662	4,521	5,526	5,463	7,191	8,450
ST bank deposits	25,858	15,349	16,812	15,000	14,000	12,000
Financial assets at FVTPL	2,834	1,262	781	591	601	611
Other current assets	3,169	3,808	4,384	5,263	7,337	8,304
Non-current assets	**16,821**	**27,964**	**29,641**	**31,486**	**29,095**	**28,620**
PP&E	5,425	10,607	10,954	10,854	10,493	9,854
Right-of-use assets	1,561	1,955	1,456	1,398	1,225	1,042
Investment in JVs & assos	1,549	2,295	2,085	2,055	2,125	2,325
Intangibles	879	1,043	4,949	4,599	4,285	3,954
Other non-current assets	7,407	12,064	10,197	12,580	10,967	11,445
Total assets	**65,651**	**71,491**	**84,163**	**85,209**	**89,781**	**95,533**
Current liabilities	**18,013**	**24,115**	**36,112**	**41,227**	**49,609**	**57,880**
Short-term borrowings	0	2,419	3,889	5,721	0	0
Account payables	12,362	14,223	22,210	26,818	38,833	45,632
Tax payable	23	28	6	40	50	50
Other current liabilities	5,254	6,954	9,640	8,311	10,433	11,942
Lease liabilities	373	491	366	337	293	257
Non-current liabilities	**5,492**	**10,465**	**11,722**	**13,415**	**14,603**	**15,028**
Long-term borrowings	1,675	4,613	5,651	6,651	7,151	6,851
Deferred income	479	694	669	1,012	1,350	1,749
Other non-current liabilities	3,338	5,158	5,403	5,752	6,102	6,428
Total liabilities	**23,505**	**34,580**	**47,834**	**54,642**	**64,212**	**72,909**
Share capital	0	0	0	0	0	0
Capital surplus	59,987	60,697	70,258	70,658	70,958	71,258
Retained earnings	(17,840)	(23,787)	(33,930)	(40,091)	(45,390)	(48,633)
Other reserves	0	0	0	0	0	0
Total shareholders equity	**42,147**	**36,911**	**36,329**	**30,567**	**25,568**	**22,625**
Total equity and liabilities	**65,651**	**71,491**	**84,163**	**85,209**	**89,781**	**95,533**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(4,837)**	**(9,114)**	**(10,339)**	**(6,172)**	**(5,308)**	**(3,254)**
Depreciation & amortization	838	1,411	2,107	2,800	3,115	3,419
Change in working capital	3,584	(2,709)	7,352	1,044	7,479	3,942
Others	(679)	2,181	1,836	(588)	(720)	(769)
Net cash from operations	**(1,095)**	**(8,232)**	**956**	**(2,915)**	**4,565**	**3,338**
Investing						
Capital expenditure	(4,318)	(4,680)	(2,312)	(2,250)	(2,500)	(2,500)
Acquisition of subsidiaries/ investments	(1,033)	(619)	(699)	0	0	0
Net proceeds from disposal of short-term investments	(27,762)	9,736	2,837	815	5,000	3,000
Others	37	408	805	1,580	1,475	1,427
Net cash from investing	**(33,076)**	**4,846**	**631**	**145**	**3,975**	**1,927**
Financing						
Net borrowings	(143)	6,119	3,110	2,468	(5,721)	0
Proceeds from share issues	13,110	(2)	5,020	0	0	0
Others	1,660	(113)	(114)	(18)	(219)	(173)
Net cash from financing	**14,627**	**6,004**	**8,015**	**2,450**	**(5,940)**	**(173)**
Net change in cash						
Cash at the beginning of the year	31,542	11,635	14,714	24,302	23,982	26,582
Exchange difference	(363)	462	(15)	0	0	0
Cash at the end of the year	**11,635**	**14,714**	**24,302**	**23,982**	**26,582**	**31,673**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	259.1%	28.0%	14.2%	35.8%	45.3%	18.1%
Gross profit	886.0%	17.8%	(85.4%)	1,099.7%	48.4%	21.9%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	12.5%	11.5%	1.5%	13.0%	13.3%	13.7%
Operating margin	(31.3%)	(32.4%)	(35.5%)	(18.0%)	(11.2%)	(6.7%)
EBITDA margin	(18.8%)	(28.2%)	(26.0%)	(7.3%)	(3.2%)	0.5%
Return on equity (ROE)	(12.7%)	(23.1%)	(28.3%)	(18.5%)	(18.9%)	(13.5%)

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.7	1.8	1.5	1.3	1.2	1.2
Receivable turnover days	46.5	52.6	32.3	30.0	30.0	30.0
Inventory turnover days	52.9	69.4	66.7	55.0	50.0	50.0
Payable turnover days	245.7	218.4	268.2	270.0	270.0	270.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	ns
P/E (diluted)	ns	ns	ns	ns	ns	ns
P/B	1.0	1.2	1.2	1.6	1.9	2.2
P/CFPS	ns	ns	46.8	ns	10.7	14.8
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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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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