

Li Auto Inc. (LI US)

Poised to make profit from 4Q22

Maintain BUY. Solid 2Q22 earnings with gross margin beat have made us project a narrowing net loss in 3Q22. We expect sustainable net profit at Li Auto to start in 4Q22, with the ramp-up of *L9* and the debut of the *L8*.

- **Gross margin beat, net profit in line.** Li Auto's gross margin of 21.5% beat our prior estimates of 19-20% made on 11 May 2022. Cost of goods sold per vehicle only rose RMB 5,500, as the company managed to absorb part of the heightened battery costs. The automaker started to deliver vehicles with hiked price only from Jun 2022. Net loss of RMB 641mn in 2Q22 was in line with our forecast of RMB 500-800mn range made in May 2022.
- **We expect narrowing net loss despite transitioning 3Q22.** The company's sales guidance of 27,000-29,000 units in 3Q22, along with a delivery target of 10,000 units for the *L9* in Sep implies an average monthly volume of 3,500-4,500 units in Aug-Sep 2022 for the *Li One*. The company attributes such guidance to the cannibalization from the *L9* and customers' delayed purchases in anticipation of the upcoming *L8* to replace the *Li One*. We expect the *L8* to start deliveries in Oct-Nov 2022, which makes 3Q22 a transitioning quarter for Li Auto with priorities on the production ramp-up of two new models. Despite possible lower gross margin in 3Q22 than 2Q22 as the *Li One* winds down and *L9* ramps up, we still project narrowing net loss in 3Q22 versus 2Q22, as revenue grows sequentially.
- **Sustainable net profit could start in 4Q22.** Although Li Auto made profits in both 4Q20 and 4Q21, we are of the view that 4Q22 could mark a start of Li Auto's sustainable net profits, as the *L9*'s production ramps up. With two more new-model launches next year, we project Li Auto to turn profitable in FY23E despite slightly lower gross margin on our estimates, amid a new BEV and a possible EREV priced between RMB 200,000-300,000.
- **We raise our FY22-24E revenue forecasts by 1-2%.** We cut our FY22E sales-volume forecast by 10,000 units to 145,000 units but raise our projection for the *L9* from 25,000 units to 40,000 units, which lifts our FY22E revenue forecast by 1%. We maintain our BUY rating and target price of US\$ 48.00. We roll over our valuation to FY23E, with 3.3x our P/S estimates, a lower valuation to account for more challenging industry landscape next year. Key risks to our rating and target price include slower autonomous driving development and lower sales volume than our expectation.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	9,457	27,010	48,903	91,831	144,577
YoY growth (%)	3,225.5	185.6	81.1	87.8	57.4
Net income (RMB mn)	(792)	(321)	(485)	983	2,163
EPS (RMB)	(0.91)	(0.17)	(0.25)	0.50	1.10
YoY growth (%)	N/A	N/A	N/A	N/A	120.0
P/S (x)	9.9	7.2	4.1	2.2	1.4
P/B (x)	3.1	4.7	4.9	4.8	4.6
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(6.6)	(0.9)	(1.2)	2.3	4.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimates

BUY (Maintain)

Target Price	US\$ 48.00
Up/Downside	+47.7%
Current Price	US\$ 32.49

China Auto Sector

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Stock Data

Mkt Cap (US\$ mn)	33,864
Avg 3 mths t/o (US\$ mn)	409
52w High/Low (US\$)	41.49/16.86
Total Issued Shares (mn)	2,066

Source: Bloomberg

Shareholding Structure

Li Xiang	22.5%
Wang Xing	18.9%
Others	58.6%

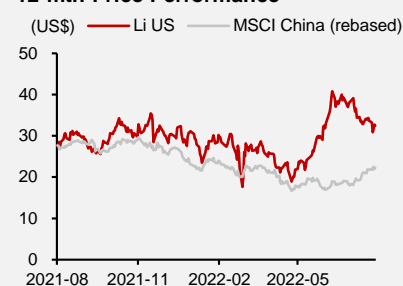
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-12.2%	-32.7%
3-mth	61.5%	-30.9%
6-mth	15.5%	-20.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
Zhong Tian**

Related Reports

["Li Auto Inc. - 2Q22 could be resilient after solid 1Q22" - 11 May 2022](#)

Figure 1: Quarterly results

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	YoY	QoQ
Sales volume (units)	8,660	14,464	12,579	17,575	25,116	35,221	31,716	28,687	63.2%	-9.6%
ASP (RMB)	289,931	286,705	284,220	286,711	309,571	301,537	301,489	304,410	6.2%	1.0%
Revenue	2,511	4,147	3,575	5,039	7,775	10,620	9,562	8,733	73.3%	-8.7%
Gross profit	497	725	617	953	1,812	2,380	2,164	1,878	97.1%	-13.2%
R&D expenses	(335)	(374)	(515)	(653)	(888)	(1,230)	(1,374)	(1,532)	134.4%	11.5%
SG&A expenses	(342)	(429)	(510)	(835)	(1,021)	(1,126)	(1,203)	(1,325)	58.6%	10.2%
Operating profit	(180)	(79)	(408)	(536)	(98)	24	(413)	(978)	N/A	N/A
Net profit	(321)	108	(360)	(235)	(22)	296	(11)	(641)	N/A	N/A
Gross margin	19.8%	17.5%	17.3%	18.9%	23.3%	22.4%	22.6%	21.5%	2.6 ppt	-1.1 ppt
Operating margin	-7.2%	-1.9%	-11.4%	-10.6%	-1.3%	0.2%	-4.3%	-11.2%	-0.6 ppt	-6.9 ppt
Net margin	-12.8%	2.6%	-10.1%	-4.7%	-0.3%	2.8%	-0.1%	-7.3%	-2.7 ppt	-7.2 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	48,903	91,831	144,577	48,502	90,324	142,805	0.8%	1.7%	1.2%
Gross profit	10,690	19,446	29,918	10,417	18,735	28,314	2.6%	3.8%	5.7%
Operating profit	(1,927)	(128)	1,186	(2,050)	(538)	983	N/A	N/A	20.7%
Net profit	(485)	983	2,163	(596)	332	1,726	N/A	196.2%	25.3%
Gross margin	21.9%	21.2%	20.7%	21.5%	20.7%	19.8%	0.4 ppt	0.4 ppt	0.9 ppt
Operating margin	-3.9%	-0.1%	0.8%	-4.2%	-0.6%	0.7%	0.3 ppt	0.5 ppt	0.1 ppt
Net margin	-1.0%	1.1%	1.5%	-1.2%	0.4%	1.2%	0.2 ppt	0.7 ppt	0.3 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	48,903	91,831	144,577	51,507	95,291	135,553	-5.1%	-3.6%	6.7%
Gross profit	10,690	19,446	29,918	11,326	21,373	30,516	-5.6%	-9.0%	-2.0%
Operating profit	(1,927)	(128)	1,186	(1,472)	1,443	4,836	N/A	-108.8%	-75.5%
Net profit	(485)	983	2,163	176	3,056	6,615	-376.3%	-67.8%	-67.3%
Gross margin	21.9%	21.2%	20.7%	22.0%	22.4%	22.5%	-0.1 ppt	-1.3 ppt	-1.8 ppt
Operating margin	-3.9%	-0.1%	0.8%	-2.9%	1.5%	3.6%	-1.1 ppt	-1.7 ppt	-2.7 ppt
Net margin	-1.0%	1.1%	1.5%	0.3%	3.2%	4.9%	-1.3 ppt	-2.1 ppt	-3.4 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	9,457	27,010	48,903	91,831	144,577
Cost of sales	(7,907)	(21,248)	(38,213)	(72,385)	(114,659)
Gross profit	1,549	5,761	10,690	19,446	29,918
R&D exp.	(1,100)	(3,286)	(6,106)	(9,652)	(14,522)
SG&A exp.	(1,119)	(3,492)	(6,512)	(9,921)	(14,210)
Operating profit	(669)	(1,017)	(1,927)	(128)	1,186
Net finance costs	(26)	150	243	255	295
Investment income	214	527	568	559	574
Other non-oper exp.	20	(0)	545	470	490
Pre-tax profit	(189)	(153)	(571)	1,157	2,545
Tax	23	(169)	86	(174)	(382)
Discontinued operations	14	-	-	-	-
Accr. on preferred shares	(640)	-	-	-	-
Net profit	(792)	(321)	(485)	983	2,163

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(189)	(153)	(571)	1,157	2,545
Depreciation/amortization	321	590	1,255	2,303	3,942
Change in working capital	3,068	6,616	5,760	11,897	7,616
Others	(60)	1,287	1,032	564	279
Net cash from operating	3,140	8,340	7,476	15,921	14,381
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	408	(73)	(365)
Others	3,830	5,533	-	-	-
Net cash from financing	24,711	16,710	414	(60)	(346)
Net change in cash	9,113	20,793	(1,309)	7,211	(765)
Cash at beginning of the year	1,436	10,173	30,493	29,184	36,395
FX & discontinued operations	(377)	(472)	-	-	-
Cash at the end of the year	10,173	30,493	29,184	36,395	35,630

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	31,391	52,380	54,119	62,544	68,262
Cash & equivalents	8,938	27,854	26,184	33,395	32,130
Account receivables	116	121	402	1,006	1,584
Inventories	1,048	1,618	2,931	5,156	8,167
Other current assets	21,289	22,788	24,602	22,987	26,380
Non-current assets	4,982	9,468	18,796	29,576	39,359
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	4,657	6,607	7,616
Other non-current assets	543	2,157	3,112	4,671	6,316
Total assets	36,373	61,849	72,915	92,120	107,621
Current liabilities	4,309	12,108	20,326	36,952	49,696
Bank borrowings	-	37	-	300	200
Account payables	3,161	9,376	15,704	29,747	40,837
Current deferred revenue	272	305	1,240	1,994	3,100
Other current liabilities	877	2,390	3,382	4,911	5,559
Non-current liabilities	2,260	8,676	11,290	12,364	12,583
Bank borrowings	512	563	1,063	763	563
Lease liabilities	1,392	1,370	3,000	3,870	3,619
Other non-current liabilities	357	6,744	7,226	7,730	8,401
Total liabilities	6,570	20,785	31,615	49,315	62,279
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	29,802	41,063	41,298	42,803	45,340
Shareholders' equity	29,804	41,064	41,299	42,805	45,342
Total equity and liabilities	36,373	61,849	72,915	92,120	107,621

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Vehicle sales	98.2	96.7	97.3	97.4	97.3
Other sales & services	1.8	3.3	2.7	2.6	2.7
Growth (%)					
Revenue	3,225.5	185.6	81.1	87.8	57.4
Gross profit	N/A	271.9	85.5	81.9	53.9
Operating profit	N/A	N/A	N/A	N/A	N/A
Net profit	N/A	N/A	N/A	N/A	120.0
Profit & loss ratio (%)					
Gross margin	16.4	21.3	21.9	21.2	20.7
Operating margin	(7.1)	(3.8)	(3.9)	(0.1)	0.8
Net profit margin	(8.4)	(1.2)	(1.0)	1.1	1.5
Balance sheet ratio					
Net cash (debt)/total equity (x)	1.0	1.1	1.1	1.1	1.1
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)	(1.2)	2.3	4.9
ROA	(3.5)	(0.7)	(0.7)	1.2	2.2
Per share data (RMB)					
EPS	-0.91	-0.17	-0.25	0.50	1.10
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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