

Li Auto Inc. (LI US)

2Q23 earnings preview: NP to rise QoQ in FY23E

We project Li Auto's net profit to rise 27% QoQ to RMB 1.2bn in 2Q23E, and therefore raise its FY23E net profit to RMB 5.0bn. Profitability in FY24E could also beat expectation on greater economies of scale. We raise FY24E net profit by 83% to RMB 9.2bn with a conservative sales-volume assumption of 0.45mn units. Apart from its products, we like the Company's high self-discipline in costs and business expansion even as it is much more resourceful than before.

- **We project 2Q23E net profit to RMB 1.2bn.** We project Li Auto's 2Q23E revenue to more than triple YoY to RMB 27.9bn, as its sales volume is to beat guidance. We expect its gross margin to widen QoQ and SG&A ratio to decline QoQ amid greater economies of scale, which result in an operating margin of 2.6% in 2Q23E (vs. 2.2% in 1Q23). Accordingly, we estimate its net profit to rise 27% QoQ to RMB 1.2bn in 2Q23E.
- **2H23 outlook.** We raise our FY23E sales-volume forecast from 0.29mn units to 0.33mn units, implying an average monthly sales of about 32,000 units in 2H23E. Greater economies of scale and the phase-out of the aging *Li One* could lead to a better gross margin in 2H23E, in our view. We project Li Auto's FY23E operating and net margins to be 3.3% and 4.5%, respectively. We expect Li Auto's FY23E net profit to be RMB 5.0bn, or RMB 2.9bn for 2H23E.
- **FY24E earnings could beat, should BEVs be well received.** We expect 6-7 models on sale for Li Auto in 2024, up from three now, based on its 2025 model pipeline. Although the key differentiation between its EREV and BEV models is still unclear, we are of view that the pricing for the *Mega* (the first BEV) and daily commute NOA are good strategies. We project FY24E sales volume to rise 36% YoY to 0.45mn units, taking rising competition, product cannibalization from the *L6* EREV and BEV uncertainties into consideration. Still, we estimate FY24E net profit to rise 84% YoY to RMB 9.2bn.
- **Valuation/Risks.** We maintain our BUY rating and target price of US\$ 44.00, based on 35x our revised FY24E P/E (previously 3.0x FY23E P/S). We believe such valuation is justified given that Tesla (TSLA US, NR) now trades at 50x FY24E consensus P/E and BYD-H (1211 HK, HOLD) trades at 30x our FY24E P/E. We expect Li Auto to enjoy the highest sales-volume growth rate among the three. 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	111,870	150,800	206,600
YoY growth (%)	186	68	147	35	37
Net income (RMB mn)	(321)	(2,012)	5,011	9,216	15,859
EPS (RMB)	(0.2)	(1.0)	2.6	4.7	7.9
YoY growth (%)	N/A	N/A	N/A	83.9	72.1
P/S (x)	7.2	4.9	2.0	1.5	1.1
P/E (x)	(608.7)	(110.5)	44.9	24.6	14.4
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(0.9)	(4.7)	10.4	16.4	22.8
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\$ 44.00)
Up/Downside	+32.5%
Current Price	US\$ 33.22

China Auto Sector

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Stock Data

Mkt Cap (US\$ mn)	34,625
Avg 3 mths t/o (US\$ mn)	202
52w High/Low (US\$)	40.89/12.52
Total Issued Shares (mn)	2,085
Source: Bloomberg	

Shareholding Structure

Li Xiang	22.3%
Wang Xing	18.8%
Others	58.9%

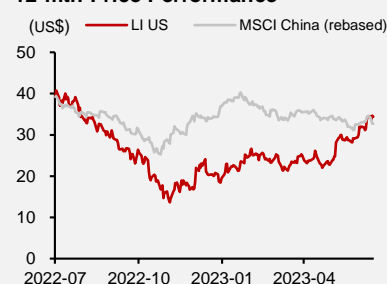
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	18.0%	17.5%
3-mth	43.1%	49.8%
6-mth	79.2%	84.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
Zhong Tian**

Related Report

1. ["Li Auto Inc. – Well on track" – 28 Feb 2023](#)
2. ["Li Auto Inc. – 1Q23 beat with sustainable profitability ahead" – 11 May 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	YoY	QoQ
Sales volume (units)	31,716	28,687	26,524	46,319	52,584	85,000	196.3%	61.6%
ASP (RMB)	301,489	304,410	352,220	381,050	357,277	328,235	7.8%	-8.1%
Revenue	9,562	8,733	9,342	17,650	18,787	27,900	219.5%	48.5%
Gross profit	2,164	1,878	1,182	3,566	3,830	5,776	207.5%	50.8%
R&D expenses	(1,374)	(1,532)	(1,804)	(2,070)	(1,852)	(2,706)	76.7%	46.1%
SG&A expenses	(1,203)	(1,325)	(1,507)	(1,630)	(1,645)	(2,399)	81.1%	45.8%
Operating profit	(413)	(978)	(2,130)	(134)	405	721	N/A	77.8%
Net profit	(11)	(618)	(1,640)	257	930	1,179	N/A	26.8%
Gross margin	22.6%	21.5%	12.7%	20.2%	20.4%	20.7%	-0.8 ppt	0.3 ppt
Operating margin	-4.3%	-11.2%	-22.8%	-0.8%	2.2%	2.6%	13.8 ppt	0.4 ppt
Net margin	-0.1%	-7.1%	-17.6%	1.5%	4.9%	4.2%	11.3 ppt	-0.7 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	111,870	150,800	206,600	97,900	126,850	151,400	14.3%	18.9%	36.5%
Gross Profit	23,633	31,623	41,612	20,908	25,857	30,896	13.0%	22.3%	34.7%
Operating Profit	3,733	8,230	15,426	1,989	3,584	6,222	87.7%	129.6%	147.9%
Net profit	5,011	9,216	15,859	3,603	5,029	7,373	39.1%	83.3%	115.1%
Gross Margin	21.1%	21.0%	20.1%	21.4%	20.4%	20.4%	-0.2 ppt	0.6 ppt	-0.3 ppt
Operating Margin	3.3%	5.5%	7.5%	2.0%	2.8%	4.1%	1.3 ppt	2.6 ppt	3.4 ppt
Net Margin	4.5%	6.1%	7.7%	3.7%	4.0%	4.9%	0.8 ppt	2.1 ppt	2.8 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	111,870	150,800	206,600	99,505	147,050	190,186	12.4%	2.6%	8.6%
Gross Profit	23,633	31,623	41,612	21,205	32,354	42,727	11.4%	-2.3%	-2.6%
Operating Profit	3,733	8,230	15,426	2,663	7,687	12,600	40.2%	7.1%	22.4%
Net profit	5,011	9,216	15,859	4,446	8,566	13,567	12.7%	7.6%	16.9%
Gross Margin	21.1%	21.0%	20.1%	21.3%	22.0%	22.5%	-0.2 ppt	-1.0 ppt	-2.3 ppt
Operating Margin	3.3%	5.5%	7.5%	2.7%	5.2%	6.6%	0.7 ppt	0.2 ppt	0.8 ppt
Net Margin	4.5%	6.1%	7.7%	4.5%	5.8%	7.1%	0.0 ppt	0.3 ppt	0.5 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	27,010	45,287	111,870	150,800	206,600
Cost of sales	(21,248)	(36,496)	(88,237)	(119,177)	(164,989)
Gross profit	5,761	8,790	23,633	31,623	41,612
R&D exp.	(3,286)	(6,780)	(10,611)	(12,034)	(12,744)
SG&A exp.	(3,492)	(5,665)	(9,589)	(11,759)	(13,841)
Operating profit	(1,017)	(3,655)	3,733	8,230	15,426
Net finance costs	150	494	582	720	992
Investment income	527	376	679	854	1,048
Other non-oper exp.	187	626	515	715	820
Pre-tax profit	(153)	(2,159)	5,509	10,519	18,286
Tax	(169)	127	(468)	(1,262)	(2,377)
Discontinued operations	-	-	-	-	-
Accr. on preferred shares	-	-	-	-	-
Net profit	(321)	(2,012)	5,011	9,216	15,859

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(153)	(2,159)	5,509	10,519	18,286
Depreciation/amortization	590	1,214	2,393	4,042	5,825
Change in working capital	6,565	5,035	16,374	8,759	20,050
Others	1,338	3,290	1,105	8	(1,211)
Net cash from operating	8,340	7,380	25,382	23,327	42,950
Capex	(3,445)	(5,128)	(9,650)	(11,200)	(12,200)
Others	(813)	763	(8,000)	(4,600)	(8,600)
Net cash from investing	(4,257)	(4,365)	(17,650)	(15,800)	(20,800)
Share issuance	11,006	2,469	9	12	15
Net borrowings	170	3,080	(557)	(993)	(844)
Others	5,533	90	-	-	-
Net cash from financing	16,710	5,639	(547)	(981)	(829)
Net change in cash	20,793	8,655	7,185	6,546	21,321
Cash at beginning of the year	10,173	30,493	40,418	47,603	54,149
FX & discontinued operations	(472)	1,270	-	-	-
Cash at the end of the year	30,493	40,418	47,603	54,149	75,470

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	52,380	66,992	85,131	98,149	130,300
Cash & equivalents	27,854	38,478	45,103	51,149	71,970
Account receivables	121	48	613	826	1,132
Inventories	1,618	6,805	9,670	11,428	13,561
Other current assets	22,788	21,661	29,745	34,746	43,637
Non-current assets	9,468	19,545	30,882	39,469	48,208
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	6,186	6,457
Other non-current assets	2,157	3,986	5,776	7,060	9,345
Total assets	61,849	86,538	116,013	137,618	178,508
Current liabilities	12,108	27,373	47,726	57,487	78,379
Bank borrowings	37	391	848	734	-
Account payables	9,376	20,024	36,262	42,447	58,763
Current deferred revenue	305	569	1,146	1,915	2,969
Other current liabilities	2,390	6,388	9,470	12,391	16,647
Non-current liabilities	8,676	13,979	16,829	18,449	21,646
Bank borrowings	563	3,317	2,469	1,735	1,735
Lease liabilities	1,370	1,946	3,551	3,868	4,180
Other non-current liabilities	6,744	8,716	10,809	12,846	15,732
Total liabilities	20,785	41,352	64,555	75,936	100,026
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	41,063	44,857	51,098	61,284	78,034
Shareholders' equity	41,064	44,859	51,100	61,285	78,035
Total equity and liabilities	61,849	86,538	116,013	137,618	178,508

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Vehicle sales	96.7	97.4	97.3	97.0	96.5
Other sales & services	3.3	2.6	2.7	3.0	3.5
Growth (%)					
Revenue	185.6	67.7	147.0	34.8	37.0
Gross profit	271.9	52.6	168.9	33.8	31.6
Operating profit	N/A	N/A	N/A	120.5	87.4
Net profit	N/A	N/A	N/A	83.9	72.1
Profit & loss ratio (%)					
Gross margin	21.3	19.4	21.1	21.0	20.1
Operating margin	(3.8)	(8.1)	3.3	5.5	7.5
Net profit margin	(1.2)	(4.4)	4.5	6.1	7.7
Balance sheet ratio					
Net cash (debt)/total equity (x)	1.1	1.1	1.2	1.2	1.3
Current ratio (x)	4.3	2.4	1.8	1.7	1.7
Receivable turnover days	2	0	2	2	2
Inventory turnover days	28	68	40	35	30
Payable turnover days	161	200	150	130	130
Profitability (%)					
ROE	(0.9)	(4.7)	10.4	16.4	22.8
ROA	(0.7)	(2.7)	4.9	7.3	10.0
Per share data (RMB)					
EPS	(0.17)	(1.04)	2.55	4.66	7.94
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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