

NIO Inc. (NIO US)

Premiumization no longer stands for high margin

We downgrade NIO's rating to HOLD from Buy as heightened competition drags its sales growth more severely than expected. NIO could face more challenges than its peers when its sales growth slows, amid its heavy investments, including battery swap, chips, mobile phones etc. We are of the view that its decision making to cut non-core projects is too slow. It now also faces a dilemma between brand positioning and profitability, as it has started to cut service benefits, which could dent its brand image and thus sales more severely than expected.

- **1Q23 earnings miss with heavier cash burn.** Both average selling price and gross margin in 1Q23 missed our prior estimates due to heavier promotion. Although NIO tightened R&D and SG&A expenses, its net loss of RMB 4.8bn was still wider than our prior forecast of RMB 4.0bn. Its net cash was reduced by about RMB 9.6bn in one quarter, much higher than we had expected.
- **A dilemma between brand positioning and margins.** 1Q23 gross margin of 1.5% has already showcased that premiumization is no longer a guarantee for high margins, as its pricing is weaker than expected during model transition period. We also estimate its *ET5*, a new sedan launched in Sep 2022 with the highest sales volume among all the models now, has a gross margin of below 10%. In our view, NIO now also faces a dilemma between its brand positioning and profitability. NIO has started to cut its service benefits for customers in a bid to lift margins, which may dent its sales more severely than it expects.
- **A lost in focus.** YTD sales volume for both sedans, the *ET7* and *ET5*, missed our expectation, which could cap FY23E total sales volume in our view, even if its new SUVs, the *ES6* and *EC7*, are successful. We cut our FY23E sales volume forecast to 0.14mn units. The sequential sales decline for both *ET7* and *ET5* after a strong start should be an alert for NIO to re-focus on product details and scale back non-core projects. We have seen a bit of improvement in the new *ES6*, such as seat comfort, but may not be enough yet.
- **Earnings/Valuation.** We cut FY23E revenue by 32% and gross margin by 9.1 ppts to 6.5% amid lower sales volume and loss-making other revenue. We expect NIO to cut R&D and SG&A expenses, but we still project a wider net loss in FY23E than before. We downgrade our rating to HOLD from Buy and cut target price to US\$ 8.50 from US\$ 21.00, based on 2x (previously 3x) our revised FY23E revenue estimates to reflect a tougher situation that NIO faces now. Key risks to our rating and target price include higher or lower sales volume and margins than we expect, as well as a sector re-rating or de-rating.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	36,136	49,269	51,741	66,146	78,266
YoY growth (%)	122.3	36.3	5.0	27.8	18.3
Net income (RMB mn)	(10,572)	(14,559)	(16,349)	(14,808)	(12,343)
EPS (RMB)	(6.72)	(8.89)	(9.81)	(8.83)	(7.32)
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	2.1	1.8	1.8	1.4	1.2
P/B (x)	2.2	3.7	9.2	(34.8)	(7.1)
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(34.2)	(49.7)	(96.7)	(406.2)	0.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price **US\$ 8.50**
 (Previous TP **US\$ 21.00**)
 Up/Downside **+10.0%**
 Current Price **US\$ 7.73**

China Auto Sector

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Stock Data

Mkt Cap (US\$ mn)	13,079
Avg 3 mths t/o (US\$ mn)	385
52w High/Low (US\$)	24.43/7.00
Total Issued Shares (mn)	1,692

Source: Bloomberg

Shareholding Structure

Li Bin	10.3%
Tencent entities	9.7%
Others	80.0%

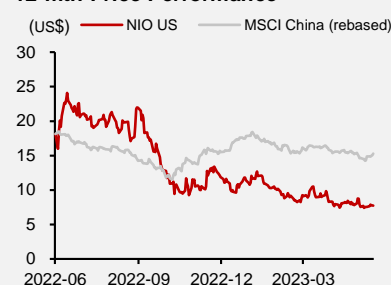
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-6.5%	-5.2%
3-mth	-13.8%	-11.6%
6-mth	-36.1%	-31.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers
Zhong Tian

Related Reports

["NIO Inc. – 4Q22 miss: 5 new models in the next 5 months" – 2 Mar 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	YoY	QoQ
Sales volume (units)	25,768	25,059	31,607	40,052	31,041	20.5%	-22.5%
ASP (RMB)	384,608	410,725	411,368	401,066	343,947	-10.6%	-14.2%
Revenue	9,911	10,292	13,002	16,064	10,676	7.7%	-33.5%
Gross profit	1,447	1,340	1,735	622	162	-88.8%	-73.9%
R&D expenses	(1,762)	(2,149)	(2,945)	(3,981)	(3,076)	74.6%	-22.7%
SG&A expenses	(2,015)	(2,282)	(2,712)	(3,527)	(2,446)	21.4%	-30.7%
Operating profit	(2,189)	(2,846)	(3,870)	(6,736)	(5,112)	N/A	N/A
Net profit	(1,825)	(2,745)	(4,142)	(5,847)	(4,804)	N/A	N/A
Gross margin	14.6%	13.0%	13.3%	3.9%	1.5%	-13.1 ppt	-2.4 ppt
Operating margin	-22.1%	-27.6%	-29.8%	-41.9%	-47.9%	-25.8 ppt	-5.9 ppt
Net margin	-18.4%	-26.7%	-31.9%	-36.4%	-45.0%	-26.6 ppt	-8.6 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	51,741	66,146	78,266	76,245	92,222	N/A	-32.1%	-28.3%	N/A
Gross profit	3,380	6,674	10,193	11,951	16,347	N/A	-71.7%	-59.2%	N/A
Operating profit	(17,149)	(15,414)	(12,839)	(12,999)	(11,232)	N/A	N/A	N/A	N/A
Net profit	(16,349)	(14,808)	(12,343)	(12,215)	(10,562)	N/A	N/A	N/A	N/A
Gross margin	6.5%	10.1%	13.0%	15.7%	17.7%	N/A	-9.1 ppt	-7.6 ppt	N/A
Operating margin	-33.1%	-23.3%	-16.4%	-17.0%	-12.2%	N/A	-16.1 ppt	-11.1 ppt	N/A
Net margin	-31.6%	-22.4%	-15.8%	-16.0%	-11.5%	N/A	-15.6 ppt	-10.9 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	51,741	66,146	78,266	84,423	117,913	150,519	-38.7%	-43.9%	-48.0%
Gross profit	3,380	6,674	10,193	12,105	20,979	29,175	-72.1%	-68.2%	-65.1%
Operating profit	(17,149)	(15,414)	(12,839)	(12,425)	(4,691)	710	N/A	N/A	N/A
Net profit	(16,349)	(14,808)	(12,343)	(11,415)	(2,526)	2,036	N/A	N/A	N/A
Gross margin	6.5%	10.1%	13.0%	14.3%	17.8%	19.4%	-7.8 ppt	-7.7 ppt	-6.4 ppt
Operating margin	-33.1%	-23.3%	-16.4%	-14.7%	-4.0%	0.5%	-18.4 ppt	-19.3 ppt	-16.9 ppt
Net margin	-31.6%	-22.4%	-15.8%	-13.5%	-2.1%	1.4%	-18.1 ppt	-20.2 ppt	-17.1 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	36,136	49,269	51,741	66,146	78,266
Cost of sales	(29,315)	(44,125)	(48,361)	(59,472)	(68,072)
Gross profit	6,821	5,144	3,380	6,674	10,193
R&D exp.	(4,592)	(10,836)	(10,866)	(11,203)	(11,495)
SG&A exp.	(6,878)	(10,537)	(10,663)	(11,884)	(12,637)
Other income	152	589	1,000	1,000	1,100
Operating profit	(4,496)	(15,641)	(17,149)	(15,414)	(12,839)
Net finance costs	274	1,026	695	347	80
Gain/(Loss) of investee	63	378	150	150	150
Other non-oper exp.	185	(145)	300	400	500
Pre-tax profit	(3,975)	(14,382)	(16,004)	(14,517)	(12,109)
Income tax	(42)	(55)	(48)	(44)	(36)
Accr. on redeemable int.	(6,587)	(279)	(300)	(250)	(200)
Minority interests	31	157	3	3	3
Net profit	(10,572)	(14,559)	(16,349)	(14,808)	(12,343)

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(3,975)	(14,382)	(16,004)	(14,517)	(12,109)
Depreciation/amortization	2,352	3,994	6,222	7,912	9,207
Change in working capital	2,693	4,444	4,688	2,370	(881)
Others	896	2,078	1,717	1,548	1,379
Net cash from operating	1,966	(3,866)	(3,376)	(2,687)	(2,404)
Capex	(4,079)	(6,973)	(8,001)	(7,001)	(6,001)
Others	(35,686)	17,358	5,103	3,800	2,900
Net cash from investing	(39,765)	10,385	(2,898)	(3,201)	(3,101)
Share issuance	12,822	79	600	600	600
Net borrowings	3,680	(1,632)	1,767	8,267	4,595
Others	1,627	(63)	10	(4,097)	(190)
Net cash from financing	18,129	(1,616)	2,377	4,770	5,005
Net change in cash	(19,670)	4,903	(3,898)	(1,118)	(500)
Cash at beginning of the year	38,545	18,375	23,155	19,258	18,140
Exchange difference	(501)	(122)	-	-	-
Cash at the end of the year	18,375	23,155	19,258	18,140	17,640

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	63,641	59,150	46,448	43,359	42,501
Cash & equivalents	15,334	19,888	16,108	15,490	14,990
Account receivables	2,781	5,118	4,253	5,437	6,433
Inventories	2,056	8,191	4,637	4,236	4,849
Other current assets	43,470	25,953	21,451	18,196	16,229
Non-current assets	19,242	37,114	37,595	38,981	38,023
PP&E	7,400	15,659	19,128	20,131	19,105
Right-of-use assets	2,988	7,374	7,878	7,620	7,352
Other non-current assets	8,854	14,081	10,589	11,230	11,566
Total assets	82,884	96,264	84,043	82,340	80,523
Current liabilities	29,198	45,852	46,706	58,205	65,797
Bank borrowings	7,298	5,277	7,044	13,311	17,906
Account payables	12,639	25,224	25,174	29,329	31,705
Tax payable	628	286	286	286	286
Other current liabilities	8,633	15,065	14,202	15,278	15,900
Non-current liabilities	15,622	22,765	23,332	26,588	27,514
Bank borrowings incl. CB	9,739	10,886	10,886	12,886	12,886
Other non-current liabilities	5,883	11,879	12,446	13,702	14,629
Total liabilities	44,820	68,617	70,038	84,793	93,312
Mezzanine equity	3,278	3,557	3,857	-	-
Share capital	3	3	3	3	3
Treasury shares	(1,850)	(1,850)	(1,850)	(1,850)	(1,850)
Reserves	36,557	25,715	11,786	(802)	(11,124)
Non-controlling interests	76	221	208	195	182
Shareholders' equity	34,710	23,868	9,940	(2,648)	(12,971)
Total equity & liabilities	82,884	96,264	84,043	82,340	80,523

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Vehicle sales	91.8	92.4	88.4	87.3	85.8
Others	8.2	7.6	11.6	12.7	14.2
Growth (%)					
Revenue	122.3	36.3	5.0	27.8	18.3
Gross profit	264.1	(24.6)	(34.3)	97.5	52.7
Operating profit	N/A	N/A	N/A	N/A	N/A
Net profit	N/A	N/A	N/A	N/A	N/A
Profit & loss ratio (%)					
Gross margin	18.9	10.4	6.5	10.1	13.0
Operating margin	(12.4)	(31.7)	(33.1)	(23.3)	(16.4)
Net profit margin	(29.3)	(29.6)	(31.6)	(22.4)	(15.8)
Balance sheet ratio					
Net cash/total equity (x)	1.0	0.9	1.2	(1.6)	0.2
Current ratio (x)	2.2	1.3	1.0	0.7	0.6
Receivable turnover days	28	38	30	30	30
Inventory turnover days	26	68	35	26	26
Payable turnover days	157	209	190	180	170
Profitability (%)					
ROE	(34.2)	(49.7)	(96.7)	(406.2)	N/A
ROA	(15.4)	(16.3)	(18.1)	(17.8)	(15.2)
Per share data (RMB)					
EPS	-6.72	-8.89	-9.81	-8.83	-7.32
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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