

Auto

3Q earnings preview: leading players to beat

We expect 3Q24 earnings of some leading Chinese automakers including BYD, Geely and Li Auto to rise substantially from 2Q24, which could beat investors' expectation. We expect Great Wall's 3Q24 earnings to be resilient and at a similar level as 2Q24. Although both Xpeng and NIO launched competitive new models in 3Q24, we do not expect their net losses to narrow QoQ as the increase in gross profits may not be able to cover the R&D and SG&A expenses growth. As valuation becomes less attractive now, we prefer automakers with more solid earnings, such as Geely and Li Auto. We view Xpeng's P7+'s pricing as competitive and the new model's gross margin could be key to its 1H25 earnings and investors' confidence in Xpeng's profit breakeven in the foreseeable future.

- **Li Auto: 3Q24 earnings to more than double QoQ.** We project Li Auto's total revenue to rise 34% QoQ to RMB42.4bn in 3Q24, slightly higher than its previous guidance, driven by QoQ sales volume increase of 41%. We expect its overall gross margin to improve to 19.9% in 3Q24 from 19.5% in 2Q24, aided by greater economies of scale despite worse product mix. We project its R&D expenses in 3Q24 to remain stable QoQ, which could lead to an operating margin of 5.5%. Its investment income in 3Q24 could miss many investors' expectation, as the share price of one of its investees listed in Hong Kong fell substantially last month. Therefore, we project Li Auto's net profit to more than double QoQ to about RMB2.5bn in 3Q24, implying a net profit per vehicle of RMB16,000, up from RMB10,000 in 2Q24.
- **Xpeng: 3Q24 net loss may widen QoQ despite the *Mona M03* contribution.** We expect Xpeng's revenue to rise 21% YoY to RMB10.3bn in 3Q24, higher than its previous guidance, aided by the *Mona M03*. We project Xpeng's vehicle gross margin to widen slightly by 0.2ppts QoQ to 6.4% in 3Q24, which could lead to a QoQ decline of 0.4ppts for the overall gross margin, because the high-margin IP licensing income from Volkswagen (VOW GR, NR) contributed a lower portion of revenue in 3Q24, as vehicle sales grew at a faster pace. Such trend is likely to extend into 4Q24 when the *Mona M03* and P7+ could lift Xpeng's 4Q24 sales volume to an all-time high level. We also assume that the QoQ growth in gross profit (+RMB270mn) in 3Q24 was not able to cover the growth in R&D and SG&A expenses combined. Accordingly, we project an operating loss of RMB2.0bn and a net loss of RMB1.8bn in 3Q24 for Xpeng. The P7+'s pre-sale price started from RMB209,800, as announced at the Paris Motor Show on 14 Oct, which was in line with our prior expectation that the P7+ should be priced lower than the P7i in order to drive sales. We are of the view that the P7+'s gross margin could be key to the earnings in 1H25.
- **NIO: 3Q24 net loss may still be RMB5.0bn.** We expect NIO's total revenue to rise 6% QoQ to RMB18.5bn, lower than its previous guidance, as incentives increased in 3Q24. We project both vehicle gross margin and overall gross margin in 3Q24 to be largely stable QoQ at 12% and 9.8%, respectively. We assume NIO to be more cautious in cost control and is managed to maintain flat R&D and SG&A expenses in 3Q24 compared with 2Q24 (RMB7bn). That would result in a net loss of about RMB5.0bn in 3Q24, or RMB150mn less than 2Q24.
- **Geely: 3Q24 net profit likely beat amid strong sales.** We expect Geely's total revenue to rise 12% QoQ to RMB55.0bn in 3Q24, aided by a sales volume increase of 14% QoQ for the Geely brand (including Geometry and Galaxy). We expect vehicle gross margins to widen QoQ for both Geely (+0.4ppts) and Zeekr (+2ppts) brands. However, we think Viridi's gross margin in 2Q24 was abnormally high (20.3%) and we assume it returned

OUTPERFORM
(Maintain)

China Auto Sector

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

Stocks Covered:

Name	Ticker	Rating	TP (LC)
Li Auto	LI US	BUY	25
Li Auto	2015 HK	BUY	97.5
NIO	NIO US	HOLD	5.1
Xpeng	XPEV US	HOLD	8
Xpeng	9868 HK	HOLD	31.2
Geely	175 HK	BUY	14
GWM	2333 HK	BUY	14
GWM	601633 CH	BUY	32
BYD	1211 HK	BUY	262
BYD	002594 CH	BUY	286
GAC	2238 HK	BUY	3
GAC	601238 CH	BUY	9
EVA	838 HK	BUY	1.5
Yongda	3669 HK	BUY	1.8
Meidong	1268 HK	BUY	2.8
Mintu	425 HK	BUY	21
Tuhu	9690 HK	BUY	23

Source: Bloomberg, CMBIGM

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to 8% in 3Q24. That could drag down Geely's overall gross margin by 0.6ppts QoQ, on our estimates. We believe Geely's R&D and SG&A combined expense ratio (as % of revenue) could narrow by 0.5ppts QoQ to 12.3% in 3Q24, aided by greater economies of scale and cost control. We estimate the share-based payment may drop to about RMB250mn in 3Q24 from RMB1.1bn in 2Q24 (caused by Zeekr's IPO). Therefore, we project Zeekr's US-GAAP net loss to narrow QoQ to RMB1.7bn in 3Q24. Accordingly, we estimate Zeekr's HKFRS net loss to be RMB360mn. We forecast Geely's net profit to be RMB2.7bn in 3Q24, or 75% higher than net profit excluding extraordinary gains in 2Q24.

- **Great Wall Motor: 3Q24 earnings to be resilient.** We project Great Wall's total revenue to rise 1% QoQ to RMB48.2bn in 3Q24 on 5% QoQ growth in sales volume, as the sales contribution from Tank fell. We estimate Great Wall's gross margin to improve slightly QoQ to 21.6% in 3Q24, as higher contribution from exports (42% of sales volume in 3Q24 vs. 37% in 2Q24) and greater economies of scale could offset the 20% QoQ sales-volume decline for Tank. We expect its combined SG&A and R&D expenses to maintain flat QoQ in 3Q24. We assume the net finance gains to rise slightly QoQ as ruble appreciated against yuan in 3Q24. Accordingly, we project Great Wall's 3Q24 net profit to rise 8% YoY and 2% QoQ to RMB3.9bn, implying a net profit per vehicle of about RMB13,000.
- **BYD: GPM to recover in 3Q24.** We expect BYD's total revenue to rise 13% QoQ to RMB199.2bn in 3Q24 amid a sales volume increase of 15% QoQ. We expect the sales ramp-up of the Qin L and a slower revenue growth at BYDE (285 HK, BUY) to drag down BYD's average selling price slightly from 2Q24. We project its gross margin to recover to 21% in 3Q24 from 18.7% in 2Q24, as the Model Year 2023 inventories were largely cleared in 2Q24 based on our channel checks and sales of the DM-i 5.0 models ramped up. We expect its R&D expenses to rise 28% QoQ to RMB11.5bn in 3Q24, a similar level as 3Q23. Assuming other income (mainly government grants and VAT refund) to fall to RMB2.5bn in 3Q24 from RMB3.0bn in 2Q24, we project BYD's net profit to rise 32% YoY and 52% QoQ to RMB13.7bn in 3Q24, implying a net profit per vehicle of RMB12,000, up from RMB9,000 in 2Q24.
- **GAC: a possible net loss in 3Q24.** We expect GAC's revenue to fall 30% YoY and rise 2% QoQ to RMB25.3bn in 3Q24, as GAC Trumpchi and GAC Aion's combined sales volume fell 24% YoY and rose 4% QoQ in 3Q24. We estimate its overall gross margin to narrow by 0.3ppts QoQ to 4% in 3Q24 amid wider discounts. We assume R&D and SG&A expenses to be stable QoQ and no significant impairment in 3Q24. As profit for GAC Toyota was trimmed by 61% YoY in 1H24 and GAC Honda turned to net loss in 1H24, forecasting GAC's equity income became much more difficult, especially with more one-off expenses. We project 3Q24 equity income to be RMB400mn, up from RMB193mn in 2Q24, as GAC Toyota's sales volume rose QoQ. Investors may overlook a possible investment loss from Chenqi Technology (9680 HK, NR) due to its share price decline in 3Q24 (we assume a loss of RMB250mn). Therefore, we project GAC to make a net loss of RMB465mn in 3Q24, from a net profit of RMB300mn in 2Q24.

Figure 1: 3Q24 earnings forecasts for NEV Trio, Geely, GWM, BYD and GAC

(RMB mn)	Li Auto			Xpeng			NIO		
	3Q23	2Q24	3Q24E	3Q23	2Q24	3Q24E	3Q23	2Q24	3Q24E
Sales volume (units)	105,108	108,581	152,831	40,008	30,207	46,533	55,432	57,373	61,855
Revenue	34,679	31,678	42,388	8,530	8,111	10,304	19,067	17,446	18,476
Gross profit	7,644	6,177	8,422	(228)	1,136	1,405	1,523	1,689	1,803
Gross margin %	22.0%	19.5%	19.9%	-2.7%	14.0%	13.6%	8.0%	9.7%	9.8%
R&D and SG&A	(5,361)	(5,843)	(6,250)	(2,998)	(3,040)	(3,550)	(6,648)	(6,976)	(7,050)
Operating profit	2,339	468	2,322	(3,161)	(1,609)	(1,995)	(4,844)	(5,209)	(5,097)
OPM %	6.7%	1.5%	5.5%	-37.1%	-19.8%	-19.4%	-25.4%	-29.9%	-27.6%
Net profit	2,823	1,103	2,508	(3,887)	(1,285)	(1,775)	(4,629)	(5,126)	(4,972)
Net margin %	8.1%	3.5%	5.9%	-45.6%	-15.8%	-17.2%	-24.3%	-29.4%	-26.9%

(RMB mn)	Geely		Great Wall Motor			BYD			GAC		
	3Q24E	QoQ	3Q24E	YoY	QoQ	3Q24E	YoY	QoQ	3Q24E	YoY	QoQ
Sales volume (units)	533,960	11.2%	294,144	-14.7%	5.2%	1.13mn	37.7%	15.0%	472,012	-25.0%	4.1%
Revenue	61,669	12.1%	48,240	-2.6%	-0.7%	199,210	22.9%	13.1%	25,261	-30.4%	2.3%
Gross profit	9,795	7.9%	10,420	-2.9%	0.4%	41,834	16.6%	27.1%	1,010	-65.9%	-3.8%
Gross margin %	15.9%	-0.6 ppt	21.6%	-0.1 ppt	0.2 ppt	21.0%	-1.1 ppt	2.3 ppt	4.0%	-4.2 ppt	-0.3 ppt
R&D and SG&A	(7,600)	8.2%	(5,355)	10.0%	0.6%	(23,308)	11.2%	14.0%	(2,880)	-11.6%	-0.5%
Operating profit	2,695	12.4%	4,556	10.3%	1.2%	17,086	32.4%	48.3%	(845)	-157%	-572%
OPM %	4.4%	0.0 ppt	9.4%	1.1 ppt	0.2 ppt	8.6%	0.6 ppt	2.0 ppt	-3.3%	-7.4 ppt	-4.1 ppt
Net profit	2,747	-69.6%	3,931	8.2%	2.1%	13,735	31.9%	51.6%	(465)	-130%	-255%
Net margin %	4.5%	-12.0 ppt	8.1%	0.8 ppt	0.2 ppt	6.9%	0.5 ppt	1.8 ppt	-1.8%	-6.1 ppt	-3.1 ppt

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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