

Xpeng Inc. (XPEV US)

4Q22E net loss to narrow; sales as key to FY23

We project Xpeng's 4Q22E net loss to narrow slightly QoQ to RMB 2.0bn, despite lower revenue and gross margin QoQ. Although a similar level of operating loss could occur in FY23E versus FY22E on our estimates, we believe investors would focus more on Xpeng's sales volume growth in FY23E, which is key to its long-term survival, as its RMB 35bn net cash position could still support Xpeng for 2-3 years. It is still difficult to quantify the improvement after the organizational structure and personnel changes, but the hard lesson learnt could make management more focused and cost cautious.

- **4Q22E earnings preview.** Xpeng's 4Q22 sales volume slightly beat its prior guidance with the G9 accounting for 28%. That could partially offset the margin dent from sales volume QoQ decline and higher incentive costs. We project Xpeng's 4Q22E gross margin to be 11.2%, 2.3 pts lower than 3Q22. Accordingly, we expect Xpeng's operating loss to widen QoQ in 4Q22E. Net loss could narrow slightly QoQ to RMB 2.0bn assuming forex gain amid RMB appreciation against USD in 4Q22.
- **Sales volume growth to be focal point in FY23E.** We project Xpeng's FY23E sales volume to rise 28% YoY to 155,000 units, aided by two new models and three facelifted versions of existing models. We expect new platforms and better product mix to partially offset Xpeng's margin pressure from stiffer competition, and therefore, project 13% gross margin in FY23E. We forecast Xpeng's net loss to narrow slightly in FY23E versus FY22E, assuming no significant forex loss. On the other hand, we believe investors would likely focus on Xpeng's sales volume growth in FY23E, especially on new models.
- **Still has chance to turn around.** It is still too early to draw the conclusion whether Xpeng could survive throughout the heightened NEV competition, given its RMB 35bn net cash position. However, we believe Li Auto (LI US, BUY) and NIO (NIO US, BUY) now are better positioned than Xpeng to be a long-term winner.
- **Valuation/Key risks.** We maintain our BUY rating and cut target price slightly from US\$ 20.00 to US\$ 18.00, still based on 2.5x of our revised FY23E revenue estimates, a lower target valuation than Li Auto (LI US, BUY) and NIO (NIO US, BUY), given its lower projected sales volume growth. Key risks to our rating and target price include slower autonomous driving technology advancement and a faster catch up from other automakers, lower sales volume and/or gross margin than we expect, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,844	20,988	27,100	41,060	51,380
YoY growth (%)	151.8	259.1	29.1	51.5	25.1
Net income (RMB mn)	(4,890)	(4,863)	(8,733)	(7,389)	(6,462)
EPS (RMB)	(6.48)	(2.96)	(5.12)	(4.31)	(3.75)
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	4.2	2.5	2.1	1.4	1.1
P/B (x)	0.7	1.2	1.7	2.2	3.0
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(35.4)	(12.7)	(23.1)	(24.7)	(28.1)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$ 18.00
(Previous TP	US\$ 20.00)
Up/Downside	+79.6%
Current Price	US\$ 10.02

China Auto Sector

SHI Ji, CFA

(852) 3761 8728

shiji@cmbi.com.hk

Dou Wenjing, CFA

(852) 6939 4751

douwenjing@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	8,644
Avg 3 mths t/o (US\$ mn)	305
52w High/Low (US\$)	40.73/6.41
Total Issued Shares (mn)	1,724

Source: Bloomberg

Shareholding Structure

He Xiaopeng	21.2%
Taobao China	11.2%
Others	67.6%

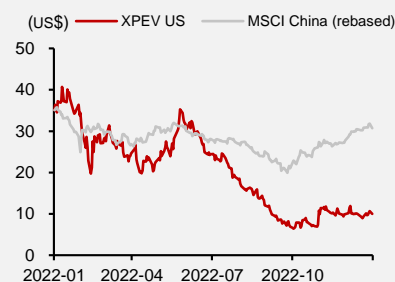
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	6.7%	-6.3%
3-mth	45.4%	-0.4%
6-mth	-58.7%	-68.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
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Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	YoY	QoQ
Sales volume (units)	13,340	17,398	25,666	41,751	34,561	34,422	29,570	22,204	-46.8%	-24.9%
ASP (RMB)	221,209	216,190	222,860	204,929	215,704	216,035	230,757	242,531	18.3%	5.1%
Revenue	2,951	3,761	5,720	8,556	7,455	7,436	6,823	5,385	-37.1%	-21.1%
Gross profit	330	449	821	1,023	911	809	923	603	-41.1%	-34.7%
R&D expenses	(535)	(864)	(1,264)	(1,451)	(1,221)	(1,265)	(1,499)	(1,615)	11.3%	7.8%
SG&A expenses	(721)	(1,031)	(1,538)	(2,015)	(1,642)	(1,665)	(1,626)	(1,485)	-26.3%	-8.7%
Operating profit	(904)	(1,443)	(1,803)	(2,430)	(1,920)	(2,091)	(2,177)	(2,462)	N/A	N/A
Net profit	(787)	(1,195)	(1,595)	(1,287)	(1,701)	(2,701)	(2,376)	(1,955)	N/A	N/A
Gross margin	11.2%	11.9%	14.4%	12.0%	12.2%	10.9%	13.5%	11.2%	-0.8 ppt	-2.3 ppt
Operating margin	-30.6%	-38.4%	-31.5%	-28.4%	-25.8%	-28.1%	-31.9%	-45.7%	-17.3 ppt	-13.8 ppt
Net margin	-26.7%	-31.8%	-27.9%	-15.0%	-22.8%	-36.3%	-34.8%	-36.3%	-21.3 ppt	-1.5 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	27,100	41,060	51,380	26,999	47,469	65,162	0.4%	-13.5%	-21.2%
Gross profit	3,246	5,347	7,686	3,270	7,057	11,133	-0.7%	-24.2%	-31.0%
Operating profit	(8,651)	(8,363)	(7,224)	(8,530)	(6,823)	(4,008)	N/A	N/A	N/A
Net profit	(8,733)	(7,389)	(6,462)	(8,527)	(5,822)	(3,148)	N/A	N/A	N/A
Gross margin	12.0%	13.0%	15.0%	12.1%	14.9%	17.1%	-0.1 ppt	-1.8 ppt	-2.1 ppt
Operating margin	-31.9%	-20.4%	-14.1%	-31.6%	-14.4%	-6.2%	-0.3 ppt	-6.0 ppt	-7.9 ppt
Net margin	-32.2%	-18.0%	-12.6%	-31.6%	-12.3%	-4.8%	-0.6 ppt	-5.7 ppt	-7.7 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	27,100	41,060	51,380	27,182	46,239	67,919	-0.3%	-11.2%	-24.4%
Gross profit	3,246	5,347	7,686	3,405	6,673	11,588	-4.6%	-19.9%	-33.7%
Operating profit	(8,651)	(8,363)	(7,224)	(8,524)	(6,523)	(3,343)	N/A	N/A	N/A
Net profit	(8,733)	(7,389)	(6,462)	(8,313)	(5,900)	(2,980)	N/A	N/A	N/A
Gross margin	12.0%	13.0%	15.0%	12.5%	14.4%	17.1%	-0.5 ppt	-1.4 ppt	-2.1 ppt
Operating margin	-31.9%	-20.4%	-14.1%	-31.4%	-14.1%	-4.9%	-0.6 ppt	-6.3 ppt	-9.1 ppt
Net margin	-32.2%	-18.0%	-12.6%	-30.6%	-12.8%	-4.4%	-1.6 ppt	-5.2 ppt	-8.2 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,844	20,988	27,100	41,060	51,380
Cost of sales	(5,578)	(18,366)	(23,853)	(35,713)	(43,693)
Gross profit	266	2,623	3,246	5,347	7,686
R&D exp.	(1,726)	(4,114)	(5,600)	(6,300)	(6,800)
SG&A exp.	(2,921)	(5,305)	(6,417)	(8,110)	(9,110)
Other income	87	218	120	700	1,000
Operating profit	(4,294)	(6,579)	(8,651)	(8,363)	(7,224)
Net finance costs	111	688	901	474	262
Other non-oper exp.	1,452	1,055	(940)	500	500
Pre-tax profit	(2,731)	(4,837)	(8,689)	(7,389)	(6,462)
Income tax	(1)	(26)	(43)	-	-
Accr. on preferred shares	(2,158)	-	-	-	-
Net profit	(4,890)	(4,863)	(8,733)	(7,389)	(6,462)

Cash flow

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(2,731)	(4,837)	(8,689)	(7,389)	(6,462)
Depreciation/amortization	438	838	1,343	2,337	3,515
Change in working capital	2,495	3,584	(139)	570	2,648
Others	(340)	(653)	(993)	(623)	(531)
Net cash from operating	(140)	(1,095)	(8,523)	(5,106)	(829)
Capex	(1,362)	(4,318)	(6,650)	(9,150)	(10,150)
Others	(3,044)	(28,758)	7,989	6,253	3,976
Net cash from investing	(4,406)	(33,076)	1,339	(2,897)	(6,174)
Share issuance	27,399	13,110	-	-	-
Net borrowings	(352)	(143)	8,549	9,003	8,002
Others	7,283	1,660	-	-	-
Net cash from financing	34,330	14,627	8,549	9,003	8,002
Net change in cash	29,784	(19,543)	1,365	1,000	1,000
Cash at beginning of year	2,408	31,542	11,635	13,000	14,000
Exchange difference	(650)	(363)	-	-	-
Cash at the end of year	31,542	11,635	13,000	14,000	15,000

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	39,679	48,831	44,376	43,970	47,450
Cash & equivalents	29,209	11,025	12,390	13,390	14,390
Account receivables	1,129	2,673	3,712	5,625	7,038
Inventories	1,343	2,662	3,268	4,403	4,788
Other current assets	7,998	32,470	25,007	20,552	21,234
Non-current assets	5,028	16,821	22,088	30,754	35,307
PP&E	3,082	5,425	9,461	16,534	23,412
Intangibles	608	879	893	899	894
Other non-current assets	1,338	10,517	11,733	13,321	11,001
Total assets	44,707	65,651	66,464	74,723	82,757
Current liabilities	7,837	18,013	27,072	41,183	55,365
Bank borrowings	173	-	8,069	16,592	25,095
Account payables	5,112	12,362	13,070	17,612	21,547
Current deferred revenue	164	418	658	1,111	1,679
Other current liabilities	2,389	5,232	5,274	5,868	7,045
Non-current liabilities	2,440	5,492	5,858	7,335	7,588
Bank borrowings	1,645	1,675	2,155	2,635	2,135
Other non-current liabilities	795	3,817	3,703	4,700	5,453
Total liabilities	10,277	23,505	32,930	48,519	62,954
Mezzanine equity	-	-	-	-	-
Ordinary shares	0	0	0	0	0
Reserves	34,430	42,146	33,534	26,205	19,803
Shareholders' equity	34,430	42,147	33,534	26,205	19,803
Total equity and liabilities	44,707	65,651	66,464	74,723	82,757

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Vehicle sales	94.9	95.5	92.9	94.3	94.5
Services and others	5.1	4.5	7.1	5.7	5.5
Growth (%)					
Revenue	151.8	259.1	29.1	51.5	25.1
Gross profit	N/A	886.0	23.8	64.7	43.8
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	4.6	12.5	12.0	13.0	15.0
Operating margin	(73.5)	(31.3)	(31.9)	(20.4)	(14.1)
Net profit margin	(83.7)	(23.2)	(32.2)	(18.0)	(12.6)
Balance sheet ratio					
Net cash/total equity (x)	1.0	1.0	0.8	0.5	0.2
Current ratio (x)	5.1	2.7	1.6	1.1	0.9
Receivable turnover days	71	46	50	50	50
Inventory turnover days	88	53	50	45	40
Payable turnover days	334	246	200	180	180
Profitability (%)					
ROE	(35.4)	(12.7)	(23.1)	(24.7)	(28.1)
ROA	(18.1)	(8.8)	(13.2)	(10.5)	(8.2)
Per share data (RMB)					
EPS	-6.48	-2.96	-5.12	-4.31	-3.75
DPS	N/A	N/A	N/A	N/A	N/A

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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