

Li Auto Inc. (LI US)

Well on track

Our top pick. Li Auto's 4Q22 earnings were largely in line with our previous forecasts, in terms of both revenue and net profit. Management projects record-high sales volume in 1Q23, which could be followed by another all-time high deliveries in 2Q23. We believe such sequential growth in sales volume could be a positive catalyst for its share price. We are still of the view that Li Auto is best positioned among Chinese NEV start-ups, with the highest chance to become a long-term winner.

- **In-line 4Q22 earnings.** Li Auto's revenue rose 66% YoY in 4Q22 amid higher sales volume and average selling price, almost the same as we previously projected. The gross margin of 20.2% in 4Q22 was 1.7 pts lower than our expectation, whereas SG&A and R&D ratios narrowed more than we had estimated. Accordingly, Li Auto's 4Q22 net profit of RMB 257mn was largely in line with our estimates of RMB 205mn.
- **Strong sales guidance for FY23.** The automaker targets to double its market share to 20% in the SUV segment priced between RMB 300,000-500,000 in FY23, which translates into about 280,000-300,000 units. Management targets a monthly sales volume of 30,000 units by the end of 2Q23 when the Air version of the L7 starts to deliver. We revise up our FY23E sales volume forecast by 20,000 units to 270,000 units. We are more conservative than the company, as we take possible sales cannibalization into consideration.
- **Still best positioned in NEV trio.** Li Auto is likely to become the first Chinese NEV start-up to make profit, as we project its FY23E gross margin (21.9%) to offset its R&D (11%) and SG&A (11%). Therefore, we expect its net profit to be RMB 1.3bn in FY23E. We are still of the view that Li Auto is best positioned among Chinese NEV start-ups, with the highest chance to become a long-term winner.
- **Valuation/Risks.** We maintain our BUY rating and target price of US\$ 44.00, which is based on 3.0x (prior 3.3x) our revised FY23E P/S. 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)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	9,457	27,010	45,287	96,925	119,550
YoY growth (%)	3,225	186	68	114	23
Net income (RMB mn)	-792	-321	-2,012	1,280	1,248
EPS (RMB)	(0.9)	(0.2)	(1.0)	0.7	0.6
YoY growth (%)	N/A	N/A	N/A	N/A	(2.5)
P/S (x)	7.0	5.1	3.4	1.6	1.3
P/B (x)	2.2	3.3	3.9	3.7	3.6
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(6.6)	(0.9)	(5.0)	3.1	2.9
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	+89.4%
Current Price	US\$ 23.23

China Auto Sector

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Stock Data

Mkt Cap (US\$ mn)	24,217
Avg 3 mths t/o (US\$ mn)	210
52w High/Low (US\$)	41.49/12.52
Total Issued Shares (mn)	2,085
Source: Bloomberg	

Shareholding Structure

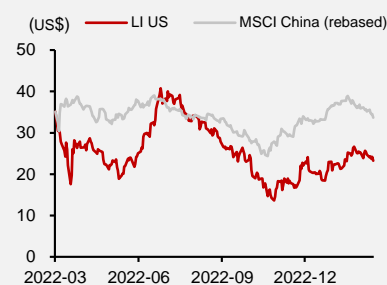
Li Xiang	22.3%
Wang Xing	18.8%
Others	58.9%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	-1.4%	9.3%
3-mth	26.5%	12.9%
6-mth	-25.3%	-27.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
Zhong Tian**

Related Reports

1. ["Li Auto Inc. – 4Q22E net profit likely to turn positive" – 31 Jan 2023](#)
2. ["Li Auto Inc. – Still best positioned among NEV trio" – 12 Dec 2022](#)

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	YoY	QoQ
Sales volume (units)	12,579	17,575	25,116	35,221	31,716	28,687	26,524	46,319	31.5%	74.6%
ASP (RMB)	284,220	286,711	309,571	301,537	301,489	304,410	352,220	381,050	26.4%	8.2%
Revenue	3,575	5,039	7,775	10,620	9,562	8,733	9,342	17,650	66.2%	88.9%
Gross profit	617	953	1,812	2,380	2,164	1,878	1,182	3,566	49.8%	201.7%
R&D expenses	(515)	(653)	(888)	(1,230)	(1,374)	(1,532)	(1,804)	(2,070)	68.3%	14.7%
SG&A expenses	(510)	(835)	(1,021)	(1,126)	(1,203)	(1,325)	(1,507)	(1,630)	44.8%	8.1%
Operating profit	(408)	(536)	(98)	24	(413)	(978)	(2,130)	(134)	N/A	N/A
Net profit	(360)	(235)	(22)	296	(11)	(618)	(1,640)	257	-13.1%	N/A
Gross margin	17.3%	18.9%	23.3%	22.4%	22.6%	21.5%	12.7%	20.2%	-2.2 ppt	7.6 ppt
Operating margin	-11.4%	-10.6%	-1.3%	0.2%	-4.3%	-11.2%	-22.8%	-0.8%	-1.0 ppt	22.0 ppt
Net margin	-10.1%	-4.7%	-0.3%	2.8%	-0.1%	-7.1%	-17.6%	1.5%	-1.3 ppt	19.0 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22	FY23E	FY24E	FY22E	FY23E	FY24E	FY22	FY23E	FY24E
Revenue	45,287	96,925	119,550	45,279	90,650	119,550	0.0%	6.9%	0.0%
Gross Profit	8,790	21,181	25,136	9,081	19,909	25,136	-3.2%	6.4%	0.0%
Operating Profit	(3,655)	(193)	(196)	(3,815)	(1,065)	(636)	N/A	N/A	N/A
Net profit	(2,012)	1,280	1,248	(2,064)	568	854	N/A	125.4%	46.2%
Gross Margin	19.4%	21.9%	21.0%	20.1%	22.0%	21.0%	-0.6 ppt	-0.1 ppt	0.0 ppt
Operating Margin	-8.1%	-0.2%	-0.2%	-8.4%	-1.2%	-0.5%	0.4 ppt	1.0 ppt	0.4 ppt
Net Margin	-4.4%	1.3%	1.0%	-4.6%	0.6%	0.7%	0.1 ppt	0.7 ppt	0.3 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22	FY23E	FY24E	FY22E	FY23E	FY24E	FY22	FY23E	FY24E
Revenue	45,287	96,925	119,550	45,198	92,720	138,786	0.2%	4.5%	-13.9%
Gross Profit	8,790	21,181	25,136	9,021	20,630	31,314	-2.6%	2.7%	-19.7%
Operating Profit	(3,655)	(193)	(196)	(3,255)	620	4,739	N/A	-131.1%	-104.1%
Net profit	(2,012)	1,280	1,248	(1,317)	2,199	5,838	N/A	-41.8%	-78.6%
Gross Margin	19.4%	21.9%	21.0%	20.0%	22.3%	22.6%	-0.5 ppt	-0.4 ppt	-1.5 ppt
Operating Margin	-8.1%	-0.2%	-0.2%	-7.2%	0.7%	3.4%	-0.9 ppt	-0.9 ppt	-3.6 ppt
Net Margin	-4.4%	1.3%	1.0%	-2.9%	2.4%	4.2%	-1.5 ppt	-1.1 ppt	-3.2 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	9,457	27,010	45,287	96,925	119,550
Cost of sales	(7,907)	(21,248)	(36,496)	(75,744)	(94,414)
Gross profit	1,549	5,761	8,790	21,181	25,136
R&D exp.	(1,100)	(3,286)	(6,780)	(10,702)	(12,422)
SG&A exp.	(1,119)	(3,492)	(5,665)	(10,672)	(12,910)
Operating profit	(669)	(1,017)	(3,655)	(193)	(196)
Net finance costs	(26)	150	239	300	301
Investment income	214	527	631	579	594
Other non-oper exp.	20	(0)	626	820	770
Pre-tax profit	(189)	(153)	(2,159)	1,506	1,468
Tax	23	(169)	127	(226)	(220)
Discontinued operations	14	-	-	-	-
Accr. on preferred shares	(640)	-	-	-	-
Net profit	(792)	(321)	(2,012)	1,280	1,248

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(189)	(153)	(2,159)	1,506	1,468
Depreciation/amortization	321	590	1,255	2,303	3,942
Change in working capital	3,068	6,616	5,295	12,460	408
Others	(60)	1,287	1,013	362	350
Net cash from operating	3,140	8,340	5,404	16,630	6,169
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	357	(73)	(365)
Others	3,830	5,533	-	-	-
Net cash from financing	24,711	16,710	363	(60)	(346)
Net change in cash	9,113	20,793	(3,433)	7,921	(8,977)
Cash at beginning of the year	1,436	10,173	30,493	27,060	34,980
FX & discontinued operations	(377)	(472)	-	-	-
Cash at the end of the year	10,173	30,493	27,060	34,980	26,003

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	31,391	52,380	51,779	61,475	56,743
Cash & equivalents	8,938	27,854	24,060	31,980	22,503
Account receivables	116	121	372	1,062	1,310
Inventories	1,048	1,618	2,800	5,395	6,725
Other current assets	21,289	22,788	24,548	23,037	26,205
Non-current assets	4,982	9,468	17,285	27,840	39,196
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	3,181	4,458	7,738
Other non-current assets	543	2,157	3,078	5,084	6,030
Total assets	36,373	61,849	69,064	89,315	95,939
Current liabilities	4,309	12,108	19,058	37,526	41,263
Bank borrowings	-	37	-	300	200
Account payables	3,161	9,376	14,999	31,128	33,627
Current deferred revenue	272	305	1,185	1,976	2,890
Other current liabilities	877	2,390	2,875	4,123	4,546
Non-current liabilities	2,260	8,676	10,253	10,234	11,499
Bank borrowings	512	563	1,063	763	563
Lease liabilities	1,392	1,370	2,037	1,680	2,909
Other non-current liabilities	357	6,744	7,154	7,791	8,028
Total liabilities	6,570	20,785	29,312	47,761	52,762
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	29,802	41,063	39,751	41,553	43,175
Shareholders' equity	29,804	41,064	39,752	41,555	43,177
Total equity and liabilities	36,373	61,849	69,064	89,315	95,939

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Vehicle sales	98.2	96.7	97.4	97.2	96.9
Other sales & services	1.8	3.3	2.6	2.8	3.1
Growth (%)					
Revenue	3,225.5	185.6	67.7	114.0	23.3
Gross profit	N/A	271.9	52.6	141.0	18.7
Operating profit	N/A	N/A	N/A	N/A	N/A
Net profit	N/A	N/A	N/A	N/A	(2.5)
Profit & loss ratio (%)					
Gross margin	16.4	21.3	19.4	21.9	21.0
Operating margin	(7.1)	(3.8)	(8.1)	(0.2)	(0.2)
Net profit margin	(8.4)	(1.2)	(4.4)	1.3	1.0
Balance sheet ratio					
Net cash (debt)/total equity (x)	1.0	1.1	1.0	1.1	1.0
Current ratio (x)	7.3	4.3	2.7	1.6	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)	(5.0)	3.1	2.9
ROA	(3.5)	(0.7)	(3.1)	1.6	1.3
Per share data (RMB)					
EPS	-0.91	-0.17	-1.04	0.66	0.63
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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