

NIO Inc. (NIO US)

Five new models in 1H23 to regain market share

NIO's 3Q22 earnings missed on lower GPM and higher R&D costs. It plans to launch five new models in 1H23, which could help NIO's sales volume outperform the NEV market next year. The upcoming NIO Day could be a positive catalyst, as it may debut these new models. Although we have been more conservative about NIO's breakeven point than consensus, we calculate its current cash should be more than enough to support its operation at least throughout FY24E.

- GP miss, R&D and SG&A rose QoQ.** Revenue in 3Q22 was 2% lower than our prior expectation, mainly due to higher incentives given for the old models. Vehicle gross margin of 16.4% was 1 ppt lower than our forecast and income from NEV credits was also lower than expected. R&D expenses rose 37% QoQ amid investments in chips, batteries and smart phones. Wider-than-our-expected net loss was also due to 19% QoQ increase in SG&A and forex loss.
- Five new models in 1H23.** The company plans to launch five new models, including the new-generation *ES8*, *ES6* and *EC6* by Jun 2023. The other two new models should include an SUV version of the *ET5*, which could be well received by consumers based on the current order backlog for the *ET5*, in our view. Therefore, we project NIO's sales volume to rise 80% YoY to 230,000 units in FY23E, regaining market share.
- Enough cash reserves for the next two years.** We have been more conservative about NIO's breakeven point than consensus from the very beginning. Although management still targets breakeven for NIO's core business in 4Q23E, we project the company to continue making loss in FY24E, given its huge investments in R&D. However, we forecast its operating cash flow to be close to 0 in FY23E and turn positive in FY24E. NIO's current cash reserves should be more than enough to support its businesses at least throughout FY24E even without any new financing, based on our calculations.
- Maintain BUY.** We cut our FY22E revenue by 4% based on our sales-volume assumption of 128,000 units. We also cut FY23E revenue by 6% as we lower our FY23E sales volume by 20,000 units to 230,000 units. We expect wider net loss in FY23-24E than before, amid new R&D expense guidance. We maintain our BUY rating but lower target price from US\$ 28.00 to US\$ 25.00, still based on 3.5x our revised FY23E revenue estimates. Key risks to our rating and target price include lower sales volume and margins amid intensifying competition than we expect, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	16,258	36,136	51,433	87,177	109,373
YoY growth (%)	107.8	122.3	42.3	69.5	25.5
Net income (RMB mn)	-5,611	-10,572	-12,149	-10,907	-7,498
EPS (RMB)	-4.74	-6.72	-7.26	-6.44	-4.39
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	4.4	2.6	2.2	1.3	1.0
P/B (x)	2.6	2.7	4.3	6.5	9.1
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(53.8)	(34.2)	(39.9)	(49.8)	(49.8)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$ 25.00
(Previous TP)	US\$ 28.00)
Up/Downside	+70.35%
Current Price	US\$ 9.25

China Auto Sector

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Stock Data

Mkt Cap (US\$ mn)	15,450
Avg 3 mths t/o (US\$ mn)	799
52w High/Low (US\$)	43.55/8.38
Total Issued Shares (mn)	1,692

Source: Bloomberg

Shareholding Structure

Li Bin	10.5%
Tencent entities	9.8%
Others	79.7%

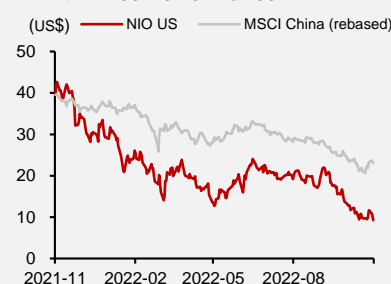
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-30.3%	-24.9%
3-mth	-51.7%	-33.5%
6-mth	-31.7%	-13.8%

Source: Bloomberg

12-mth Price Performance



**Auditor: PricewaterhouseCoopers
Zhong Tian**

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	YoY	QoQ
Sales volume (units)	20,060	21,896	24,439	25,034	25,768	25,059	31,607	45,566	82.0%	44.2%
ASP (RMB)	397,923	385,826	401,215	395,492	384,608	410,725	411,368	400,036	1.1%	-2.8%
Revenue	7,982	8,448	9,805	9,901	9,911	10,292	13,002	18,228	84.1%	40.2%
Gross profit	1,555	1,574	1,993	1,700	1,447	1,340	1,735	2,523	48.5%	45.4%
R&D expenses	(687)	(884)	(1,193)	(1,829)	(1,762)	(2,149)	(2,945)	(2,945)	146.8%	37.0%
SG&A expenses	(1,197)	(1,498)	(1,825)	(2,358)	(2,015)	(2,282)	(2,712)	(2,712)	48.6%	18.8%
Operating profit	(296)	(763)	(992)	(2,445)	(2,189)	(2,846)	(3,870)	(3,870)	N/A	N/A
Net profit	(4,875)	(659)	(2,859)	(2,179)	(1,825)	(2,745)	(4,142)	(4,142)	N/A	N/A
Gross margin	19.5%	18.6%	20.3%	17.2%	14.6%	13.0%	13.3%	13.8%	-3.3 ppt	0.5 ppt
Operating margin	-3.7%	-9.0%	-10.1%	-24.7%	-22.1%	-27.6%	-29.8%	-29.8%	-19.7 ppt	-2.1 ppt
Net margin	-61.1%	-7.8%	-29.2%	-22.0%	-18.4%	-26.7%	-31.9%	-31.9%	-2.7 ppt	-5.2 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	51,433	87,177	109,373	53,591	93,104	117,788	-4.0%	-6.4%	-7.1%
Gross profit	7,045	13,720	19,434	8,062	16,818	22,126	-12.6%	-18.4%	-12.2%
Operating profit	(12,310)	(11,812)	(8,408)	(10,295)	(7,219)	(4,521)	N/A	N/A	N/A
Net profit	(12,149)	(10,907)	(7,498)	(9,668)	(6,397)	(3,692)	N/A	N/A	N/A
Gross margin	13.7%	15.7%	17.8%	15.0%	18.1%	18.8%	-1.3 ppt	-2.3 ppt	-1.0 ppt
Operating margin	-23.9%	-13.5%	-7.7%	-19.2%	-7.8%	-3.8%	-7.0 ppt	-9.5 ppt	-6.6 ppt
Net margin	-23.6%	-12.5%	-6.9%	-18.0%	-6.9%	-3.1%	-8.5 ppt	-9.3 ppt	-6.5 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	51,433	87,177	109,373	57,158	104,988	141,014	-10.0%	-17.0%	-22.4%
Gross profit	7,045	13,720	19,434	9,084	19,968	29,296	-22.4%	-31.3%	-33.7%
Operating profit	(12,310)	(11,812)	(8,408)	(8,590)	(3,836)	2,102	N/A	N/A	-476.4%
Net profit	(12,149)	(10,907)	(7,498)	(7,806)	(3,235)	1,097	N/A	N/A	-398.3%
Gross margin	13.7%	15.7%	17.8%	15.9%	19.0%	20.8%	-2.2 ppt	-3.3 ppt	-3.0 ppt
Operating margin	-23.9%	-13.5%	-7.7%	-15.0%	-3.7%	1.5%	-11.0 ppt	-10.8 ppt	-9.2 ppt
Net margin	-23.6%	-12.5%	-6.9%	-13.7%	-3.1%	0.8%	-12.3 ppt	-10.5 ppt	-8.6 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	16,258	36,136	51,433	87,177	109,373
Cost of sales	(14,385)	(29,315)	(44,388)	(73,457)	(89,940)
Gross profit	1,873	6,821	7,045	13,720	19,434
R&D exp.	(2,488)	(4,592)	(9,867)	(11,697)	(11,904)
SG&A exp.	(3,932)	(6,878)	(10,289)	(14,735)	(16,937)
Other income	(61)	152	800	900	1,000
Operating profit	(4,608)	(4,496)	(12,310)	(11,812)	(8,408)
Net finance costs	(259)	274	922	685	479
Gain/(Loss) of investee	(66)	63	180	150	150
Other non-oper exp.	(365)	185	(650)	200	300
Pre-tax profit	(5,298)	(3,975)	(11,858)	(10,777)	(7,479)
Income tax	(6)	(42)	(36)	(32)	(22)
Accr. on redeemable int.	(312)	(6,587)	(260)	(100)	-
Minority interests	5	31	5	3	3
Net profit	(5,611)	(10,572)	(12,149)	(10,907)	(7,498)

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(5,298)	(3,975)	(11,858)	(10,777)	(7,479)
Depreciation/amortization	1,546	2,352	3,389	4,645	5,869
Change in working capital	4,830	2,693	2,317	4,537	2,661
Others	873	896	1,632	1,503	1,446
Net cash from operating	1,951	1,966	(4,521)	(92)	2,498
Capex	(1,128)	(4,079)	(4,501)	(6,001)	(7,001)
Others	(3,943)	(35,686)	11,058	6,500	7,500
Net cash from investing	(5,071)	(39,765)	6,557	499	499
Share issuance	34,762	12,822	800	600	1,080
Net borrowings	615	3,680	(4,189)	(830)	(300)
Others	5,981	1,627	20	(3,618)	20
Net cash from financing	41,357	18,129	(3,369)	(3,848)	800
Net change in cash	38,237	(19,670)	(1,334)	(3,441)	3,796
Cash at beginning of the year	990	38,545	18,375	17,041	13,600
Exchange difference	(682)	(501)	-	-	-
Cash at the end of the year	38,545	18,375	17,041	13,600	17,396

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	46,207	63,641	52,009	47,072	46,289
Cash & equivalents	38,426	15,334	13,441	9,950	13,746
Account receivables	1,079	2,781	3,664	6,210	7,791
Inventories	1,082	2,056	3,040	5,233	6,407
Other current assets	5,620	43,470	31,864	25,679	18,345
Non-current assets	8,435	19,242	23,497	28,087	32,715
PP&E	4,996	7,400	9,552	12,158	14,708
Right-of-use assets	1,350	2,988	3,239	2,853	2,289
Other non-current assets	2,089	8,854	10,706	13,075	15,718
Total assets	54,642	82,884	75,506	75,159	79,005
Current liabilities	13,976	29,198	29,081	38,634	46,316
Bank borrowings	1,931	7,298	2,130	300	-
Account payables	6,368	12,639	17,025	27,169	33,265
Tax payable	182	628	628	628	628
Other current liabilities	5,496	8,633	9,298	10,537	12,423
Non-current liabilities	8,803	15,622	16,573	18,941	20,046
Bank borrowings incl. CB	5,938	9,739	9,625	10,625	10,625
Other non-current liabilities	2,865	5,883	6,948	8,316	9,420
Total liabilities	22,780	44,820	45,654	57,575	66,362
Mezzanine equity	4,691	3,278	3,538	-	-
Share capital	3	3	3	3	3
Treasury shares	-	(1,850)	(3,672)	(3,672)	(3,672)
Reserves	27,166	36,557	29,912	21,186	16,248
Non-controlling interests	2	76	71	68	65
Shareholders' equity	27,169	34,710	26,243	17,517	12,578
Total equity & liabilities	54,642	82,884	75,506	75,159	79,005

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Vehicle sales	93.4	91.8	93.2	91.8	91.2
Others	6.6	8.2	6.8	8.2	8.8
Growth (%)					
Revenue	107.8	122.3	42.3	69.5	25.5
Gross profit	N/A	264.1	3.3	94.7	41.6
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	11.5	18.9	13.7	15.7	17.8
Operating margin	(28.3)	(12.4)	(23.9)	(13.5)	(7.7)
Net profit margin	(34.5)	(29.3)	(23.6)	(12.5)	(6.9)
Balance sheet ratio					
Net cash/total equity (x)	1.1	1.0	1.0	1.2	1.3
Current ratio (x)	3.3	2.2	1.8	1.2	1.0
Receivable turnover days	24	28	26	26	26
Inventory turnover days	27	26	25	26	26
Payable turnover days	162	157	140	135	135
Profitability (%)					
ROE	(53.8)	(34.2)	(39.9)	(49.8)	(49.8)
ROA	(16.2)	(15.4)	(15.3)	(14.5)	(9.7)
Per share data (RMB)					
EPS	-4.74	-6.72	-7.26	-6.44	-4.39
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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