

Xpeng Inc. (XPEV US)

2Q23 GPM miss; Still a long way for healthy GPM

Maintain HOLD. Although we revise up Xpeng's FY24E sales volume forecast to 0.22mn units following the G6's aggressive pricing, its low GPM could persist, especially with two new models next year likely to be priced below the G6. We project single-digit GPM for FY24E and we believe its current valuation is fair.

- **2Q23 ASP and GPM miss.** Xpeng's 2Q23 revenue was 6% lower than we had expected, largely due to increased sales promotion, in our view. Excluding the write-down of RMB 0.2bn for the G3, its 2Q23 GPM would still have been lower than 1Q23, worse than our prior expectation. Xpeng's 2Q23 net loss of RMB 2.8bn was about RMB 0.35bn wider than our estimates, mainly due to the average selling price (ASP) and GPM miss.
- **G6 is unlikely to lift 2H23E GPM significantly.** Although we noted in our previous report that Xpeng's 1Q23 GPM could imply challenging FY23 profitability, the margin dent appears to be more severe than we had expected, especially with the G6's aggressive pricing. We lower our FY23E GPM from 7.9% to 1.8%, implying GPM of 3.2% in 2H23E, as Xpeng's product mix could improve in 2H23 with the G3 and P5 gradually phasing out. The G6's aggressive pricing could push Xpeng to adopt the same strategy for its new models. Therefore, it has to count on cost reduction to improve margins. We are of the view that management's guidance of 35% cost cuts by the end of FY24 is a bit unrealistic. Tesla's GPM only rose 4.3 ppts YoY in FY21 amid almost doubled sales volume and a number of technological advances. We project Xpeng's FY24E GPM to rise 4.8 ppts YoY to 6.6%.
- **City NGP is crucial, although it is still early to quantify sales and margin impact.** Xpeng plans to roll out city NGP without HD map in Oct 2023 to solidify its leading position in autonomous driving (AD). The user experience could be crucial to the consumer stickiness and therefore its sales growth. Our test drive in Shenzhen for its city NGP with HD map was a bit below our expectation as it is very limited to main roads. Peers such as Li Auto (LI US, BUY) are catching up and could make AD's monetization more difficult.
- **Earnings/Valuation.** We revise up FY24E sales volume by 40,000 units to 220,000 units following the G6's aggressive pricing. We maintain our HOLD rating but raise target price from US\$ 9.00 to US\$ 14.00, based on 2x our FY24E P/S (prior 2x FY23E). We believe such valuation is justified, as Li Auto, which has the highest projected sales growth, now only trades at 1.4x our FY24E P/S. Key risks to our rating and target price include faster or slower AD technology advancement than its peers, higher or lower sales volume and/or gross margin 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)	20,988	26,855	31,270	46,645	60,393
YoY growth (%)	259.1	28.0	16.4	49.2	29.5
Net income (RMB mn)	(4,863)	(9,139)	(10,033)	(8,725)	(7,119)
EPS (RMB)	(2.96)	(5.34)	(5.73)	(4.87)	(3.94)
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	2.3	2.0	3.1	2.1	1.6
P/B (x)	1.1	1.5	2.9	4.0	5.4
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(12.7)	(23.1)	(28.9)	(30.5)	(33.3)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	US\$ 14.00
(Previous TP	US\$ 9.00)
Up/Downside	-6.5%
Current Price	US\$ 14.98

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Stock Data

Mkt Cap (US\$ mn)	12,969
Avg 3 mths t/o (US\$ mn)	317
52w High/Low (US\$)	23.62/6.18
Total Issued Shares (mn)	1,727
Source: Bloomberg	

Shareholding Structure

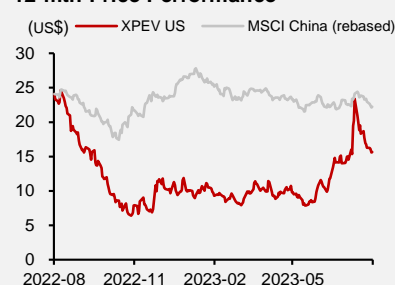
He Xiaopeng	21.2%
Taobao China	11.2%
Others	67.6%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	11.2%	15.3%
3-mth	59.4%	64.0%
6-mth	68.5%	80.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
Zhong Tian**

Related Reports:

["Xpeng Inc. – Lack of turnaround signals in 2023" – 25 May 2023](#)

Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ
Sales volume (units)	34,561	34,422	29,570	22,204	18,230	23,205	-32.6%	27.3%
ASP (RMB)	215,704	216,035	230,757	231,506	221,252	218,173	1.0%	-1.4%
Revenue	7,455	7,436	6,823	5,140	4,033	5,063	-31.9%	25.5%
Gross profit	911	809	923	445	67	(197)	N/A	N/A
R&D expenses	(1,221)	(1,265)	(1,499)	(1,230)	(1,296)	(1,367)	8.1%	5.5%
SG&A expenses	(1,642)	(1,665)	(1,626)	(1,756)	(1,387)	(1,544)	-7.3%	11.3%
Operating profit	(1,920)	(2,091)	(2,177)	(2,517)	(2,585)	(3,090)	N/A	N/A
Net profit	(1,701)	(2,701)	(2,376)	(2,361)	(2,337)	(2,805)	N/A	N/A
Gross margin	12.2%	10.9%	13.5%	8.7%	1.7%	-3.9%	-14.8 ppt	-5.6 ppt
Operating margin	-25.8%	-28.1%	-31.9%	-49.0%	-64.1%	-61.0%	-32.9 ppt	3.1 ppt
Net margin	-22.8%	-36.3%	-34.8%	-45.9%	-57.9%	-55.4%	-19.1 ppt	2.5 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	31,270	46,645	60,393	27,555	42,640	47,700	13.5%	9.4%	26.6%
Gross profit	578	3,059	5,119	2,165	4,204	6,175	-73.3%	-27.2%	-17.1%
Operating profit	(11,532)	(10,121)	(8,471)	(9,875)	(8,997)	(7,326)	N/A	N/A	N/A
Net profit	(10,033)	(8,725)	(7,119)	(8,664)	(7,926)	(6,291)	N/A	N/A	N/A
Gross margin	1.8%	6.6%	8.5%	7.9%	9.9%	12.9%	-6.0 ppt	-3.3 ppt	-4.5 ppt
Operating margin	-36.9%	-21.7%	-14.0%	-35.8%	-21.1%	-15.4%	-1.0 ppt	-0.6 ppt	1.3 ppt
Net margin	-32.1%	-18.7%	-11.8%	-31.4%	-18.6%	-13.2%	-0.6 ppt	-0.1 ppt	1.4 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	31,270	46,645	60,393	32,298	54,660	71,595	-3.2%	-14.7%	-15.6%
Gross profit	578	3,059	5,119	2,437	7,168	11,537	-76.3%	-57.3%	-55.6%
Operating profit	(11,532)	(10,121)	(8,471)	(9,681)	(6,942)	(3,758)	N/A	N/A	N/A
Net profit	(10,033)	(8,725)	(7,119)	(8,756)	(5,855)	(2,715)	N/A	N/A	N/A
Gross margin	1.8%	6.6%	8.5%	7.5%	13.1%	16.1%	-5.7 ppt	-6.6 ppt	-7.6 ppt
Operating margin	-36.9%	-21.7%	-14.0%	-30.0%	-12.7%	-5.2%	-6.9 ppt	-9.0 ppt	-8.8 ppt
Net margin	-32.1%	-18.7%	-11.8%	-27.1%	-10.7%	-3.8%	-5.0 ppt	-8.0 ppt	-8.0 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	20,988	26,855	31,270	46,645	60,393
Cost of sales	(18,366)	(23,767)	(30,692)	(43,586)	(55,274)
Gross profit	2,623	3,088	578	3,059	5,119
R&D exp.	(4,114)	(5,215)	(5,500)	(5,500)	(5,000)
SG&A exp.	(5,305)	(6,688)	(6,710)	(7,980)	(8,990)
Other income	218	109	100	300	400
Operating profit	(6,579)	(8,706)	(11,532)	(10,121)	(8,471)
Net finance costs	688	927	919	696	552
Other non-oper exp.	1,055	(1,339)	510	600	600
Pre-tax profit	(4,837)	(9,114)	(10,033)	(8,725)	(7,119)
Income tax	(26)	(25)	-	-	-
Accr. on preferred shares	-	-	-	-	-
Net profit	(4,863)	(9,139)	(10,033)	(8,725)	(7,119)

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(4,837)	(9,114)	(10,033)	(8,725)	(7,119)
Depreciation/amortization	838	1,411	2,102	2,728	3,310
Change in working capital	3,584	(2,709)	1,235	2,623	3,270
Others	(653)	2,209	7	89	120
Net cash from operating	(1,095)	(8,232)	(6,758)	(3,386)	(620)
Capex	(4,318)	(4,680)	(3,100)	(4,100)	(3,400)
Others	(28,758)	9,526	7,619	7,014	2,990
Net cash from investing	(33,076)	4,846	4,519	2,914	(410)
Share issuance	13,110	(2)	4,935	-	-
Net borrowings	(143)	6,119	(1,181)	1,000	500
Others	1,660	(113)	(13)	(13)	(14)
Net cash from financing	14,627	6,004	3,741	987	486
Net change in cash	(19,543)	2,617	1,502	514	(543)
Cash at beginning of year	31,542	11,635	14,714	16,216	16,730
Exchange difference	(363)	462	-	-	-
Cash at the end of year	11,635	14,714	16,216	16,730	16,187

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	48,831	43,527	43,901	46,023	47,333
Cash & equivalents	11,025	14,608	16,109	16,624	16,081
Account receivables	2,673	3,873	4,284	6,390	8,273
Inventories	2,662	4,521	5,045	6,568	7,572
Other current assets	32,470	20,525	18,463	16,441	15,408
Non-current assets	16,821	27,964	26,615	27,421	29,810
PP&E	5,425	10,607	11,128	12,219	12,873
Intangibles	879	1,043	1,048	1,035	1,006
Other non-current assets	10,517	16,314	14,439	14,167	15,931
Total assets	65,651	71,491	70,515	73,444	77,143
Current liabilities	18,013	24,115	25,257	33,984	42,788
Bank borrowings	-	3,181	500	500	500
Account payables	12,362	14,223	16,817	23,883	30,287
Current deferred revenue	418	389	604	774	994
Other current liabilities	5,232	6,322	7,335	8,827	11,008
Non-current liabilities	5,492	10,465	12,636	14,852	16,256
Bank borrowings	1,675	4,613	6,113	7,113	7,613
Other non-current liabilities	3,817	5,852	6,523	7,739	8,643
Total liabilities	23,505	34,580	37,892	48,836	59,045
Mezzanine equity	-	-	-	-	-
Ordinary shares	0	0	0	0	0
Reserves	42,146	36,911	32,623	24,608	18,098
Shareholders' equity	42,147	36,911	32,623	24,608	18,098
Total equity and liabilities	65,651	71,491	70,515	73,444	77,143

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Vehicle sales	95.5	92.5	90.8	90.7	89.7
Services and others	4.5	7.5	9.2	9.3	10.3
Growth (%)					
Revenue	259.1	28.0	16.4	49.2	29.5
Gross profit	886.0	17.8	(81.3)	429.3	67.3
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	12.5	11.5	1.8	6.6	8.5
Operating margin	(31.3)	(32.4)	(36.9)	(21.7)	(14.0)
Net profit margin	(23.2)	(34.0)	(32.1)	(18.7)	(11.8)
Balance sheet ratio					
Net cash/total equity (x)	1.0	0.8	0.8	0.8	0.9
Current ratio (x)	2.7	1.8	1.7	1.4	1.1
Receivable turnover days	46	53	50	50	50
Inventory turnover days	53	69	60	55	50
Payable turnover days	246	218	200	200	200
Profitability (%)					
ROE	(12.7)	(23.1)	(28.9)	(30.5)	(33.3)
ROA	(8.8)	(13.3)	(14.1)	(12.1)	(9.5)
Per share data (RMB)					
EPS	-2.96	-5.34	-5.73	-4.87	-3.94
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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