

Li Auto Inc. (LI US/2015 HK)

Time to take a breather

Downgrade to HOLD. We think that Li Auto may lack positive catalysts in the next few months, as it faces both sales and GPM challenges. Meanwhile, Li Auto has been undergoing a transformation to focus more on AI-related devices, which may take a while to monetize. We suggest investors watch its new-generation L-series next year closely and whether the current margin dent may persist in 2H26E or even FY27E.

- **3Q25 earnings excluding one-off costs largely in line.** Li Auto's 3Q25 revenue was about 2% higher than our prior forecast. GPM in 3Q25 narrowed by 3.7ppts QoQ to 16.3%, dragged by one-off costs of about RMB1.1bn related to the Mega recall. 3Q25 GPM would have been 20.4%, or 1ppt higher than our prior forecast without the recall costs. Operating loss without the recall costs of RMB76mn was in line with our projected loss of RMB15mn. Li Auto posted a first net loss (RMB625mn) in the past 12 quarters.
- **Lack of positive catalysts in the next few months.** Although we still believe Li Auto is an outstanding company which may make another comeback post the Mega launch incident, especially with the recent organizational restructuring, we expect the automaker to face both sales volume and GPM challenges in 4Q25 and 1Q26. Management guided a GPM of 16-17% for 4Q25 and even lower for 1Q26. That means its profit recovery may only start after 1Q26. It may lack positive catalysts for share price before the new-generation L-series.
- **Margin dent may persist, which makes valuation unattractive.** We are of the view that Li Auto's margin declines in 4Q25-1Q26 may not be short-lived, as it may have to lower prices for the redesigned L-series to push for higher sales volume amid stiffer competition in China, especially for EREVs. We project FY26E sales volume of 0.5mn units with GPM of 17.0%. That would result in a net profit of RMB3.4bn in FY26E on our estimates, which corresponds to 41x P/E based on the current share price.
- **Valuation/Key risks.** We downgrade our ADS/H-share ratings to HOLD from Buy and cut our target prices from US\$28/HK\$109 to US\$18/HK\$70, which now corresponds to 40x FY26E P/E and 18x FY27E P/E. We believe such valuation premium has already priced in Li Auto's leading technologies in autonomous driving. Key risks to our rating and target price include higher or lower sales volume and GPM than we expect, as well as a sector re-rating or de-rating.

Earnings Summary - LI US

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	123,851	144,460	111,099	129,858	155,038
YoY growth (%)	173.5	16.6	(23.1)	16.9	19.4
Gross margin (%)	22.2	20.5	18.4	17.0	17.5
Operating profit (RMB mn)	7,142.7	6,355.5	(1,483.5)	951.5	5,712.2
Net profit (RMB mn)	11,704.1	8,032.4	828.9	3,350.4	7,678.0
YoY growth (%)	na	(31.4)	(89.7)	304.2	129.2
Adjusted net profit (RMB mn)	12,092.6	10,663.3	1,989.5	4,544.9	9,222.3
EPS (Reported) (RMB)	5.95	4.03	0.41	1.60	3.63
P/S (x)	1.1	1.0	1.3	1.1	0.9
P/E (x)	10.9	16.1	160.3	40.6	17.9
P/B (x)	2.1	1.8	1.8	1.8	1.6

Source: Company data, Bloomberg, CMBIGM estimates

	LI US	2015 HK
	HOLD	HOLD
	Down	Down

TP	US\$18.00	HK\$70.00
Prior TP	US\$28.00	HK\$109.00
Up/Downside	(1.7%)	(2.4%)
Current Price	US\$18.3	HK\$71.7

China Auto

Ji SHI, CFA

(852) 3761 8728

shiji@cmbi.com.hk

Wenjing DOU, CFA

(852) 6939 4751

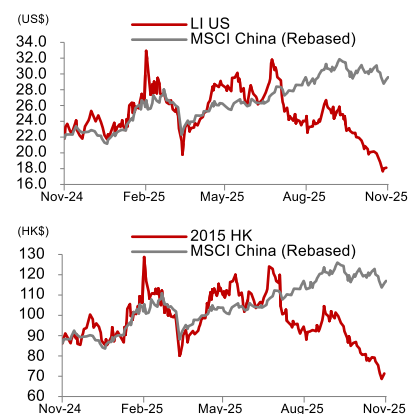
douwenjing@cmbi.com.hk

Austin Liang

(852) 3900 0856

austinliang@cmbi.com.hk

12-mth Price Performance



Source: FactSet

Stock Performance

	LI US		2015 HK	
	Abs.	Rel.	Abs.	Rel.
1-mth	-16.4%	-13.5%	-15.7%	-13.5%
3-mth	-25.7%	-26.4%	-22.6%	-26.4%
6-mth	-36.6%	-43.8%	-34.8%	-43.8%

Source: FactSet

Stock Data

(LC)	LI US	2015 HK
Mkt Cap (mn)	19610.48	153501.3
Avg 3 mths t/o (mn)	51.68	1464.51
52w High	32.92	128.7
52w Low	17.65	68.65
Issued Shares (mn)	2140.882	2140.882

Source: FactSet

Figure 1: Quarterly results

RMB mn	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	YoY	QoQ
Sales volume (units)	80,400	108,581	152,831	158,696	92,864	111,074	93,211	-39.0%	-16.1%
ASP (RMB)	318,827	291,749	280,534	278,984	279,191	272,301	293,578	4.6%	7.8%
Revenue	25,634	31,678	42,874	44,274	25,927	30,246	27,365	-36.2%	-9.5%
Gross profit	5,284	6,177	9,225	8,970	5,318	6,067	4,469	-51.6%	-26.3%
R&D expenses	(3,049)	(3,028)	(2,587)	(2,408)	(2,514)	(2,810)	(2,974)	15.0%	5.8%
SG&A expenses	(2,978)	(2,815)	(3,360)	(3,077)	(2,531)	(2,718)	(2,769)	-17.6%	1.9%
Operating profit	(585)	468	3,433	3,703	272	827	(1,177)	N/A	N/A
Net profit	593	1,103	2,814	3,523	650	1,093	(625)	N/A	N/A
Gross margin	20.6%	19.5%	21.5%	20.3%	20.5%	20.1%	16.3%	-5.2 pts	-3.7 pts
Operating margin	-2.3%	1.5%	8.0%	8.4%	1.0%	2.7%	-4.3%	-12.3 pts	-7.0 pts
Net margin	2.3%	3.5%	6.6%	8.0%	2.5%	3.6%	-2.3%	-8.8 pts	-5.9 pts

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	111,099	129,858	155,038	121,462	165,587	203,747	-8.5%	-21.6%	-23.9%
Gross profit	20,476	22,076	27,208	23,968	31,018	38,011	-14.6%	-28.8%	-28.4%
Operating profit	(833)	1,802	6,712	2,626	7,977	13,243	-131.7%	-77.4%	-49.3%
Net profit	829	3,350	7,678	3,986	9,190	14,103	-79.2%	-63.5%	-45.6%
Gross margin	18.4%	17.0%	17.5%	19.7%	18.7%	18.7%	-1.3 pts	-1.7 pts	-1.1 pts
Operating margin	-0.8%	1.4%	4.3%	2.2%	4.8%	6.5%	-2.9 pts	-3.4 pts	-2.2 pts
Net margin	0.7%	2.6%	5.0%	3.3%	5.6%	6.9%	-2.5 pts	-3.0 pts	-2.0 pts

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	111,099	129,858	155,038	128,185	168,986	202,173	-13.3%	-23.2%	-23.3%
Gross profit	20,476	22,076	27,208	25,686	33,814	40,657	-20.3%	-34.7%	-33.1%
Operating profit	(833)	1,802	6,712	3,482	8,619	12,409	-123.9%	-79.1%	-45.9%
Net profit	829	3,350	7,678	5,973	10,230	14,610	-86.1%	-67.2%	-47.4%
Gross margin	18.4%	17.0%	17.5%	20.0%	20.0%	20.1%	-1.6 pts	-3.0 pts	-2.6 pts
Operating margin	-0.8%	1.4%	4.3%	2.7%	5.1%	6.1%	-3.5 pts	-3.7 pts	-1.8 pts
Net margin	0.7%	2.6%	5.0%	4.7%	6.1%	7.2%	-3.9 pts	-3.5 pts	-2.3 pts

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	45,287	123,851	144,460	111,099	129,858	155,038
Cost of goods sold	(36,496)	(96,355)	(114,804)	(90,623)	(107,782)	(127,830)
Gross profit	8,790	27,497	29,656	20,476	22,076	27,208
Operating expenses	(12,445)	(20,354)	(23,301)	(21,960)	(21,124)	(21,495)
SG&A expense	(5,665)	(9,768)	(12,229)	(10,818)	(10,803)	(11,409)
R&D expense	(6,780)	(10,586)	(11,071)	(11,141)	(10,321)	(10,086)
Operating profit	(3,655)	7,143	6,355	(1,483)	952	5,712
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Investment gain/loss	376	783	320	970	1,093	1,256
Other gains/(losses)	626	1,048	664	67	415	422
EBITDA	(839)	12,343	12,561	5,476	9,800	16,276
Depreciation	1,214	1,805	3,058	4,347	5,790	7,293
EBIT	(2,053)	10,538	9,503	1,129	4,010	8,983
Interest income	600	1,300	1,500	925	701	593
Interest expense	(106)	(86)	(188)	(165)	(147)	(135)
Pre-tax profit	(2,159)	10,452	9,316	964	3,863	8,848
Income tax	127	1,357	(1,270)	(130)	(502)	(1,150)
After tax profit	(2,032)	11,809	8,045	834	3,360	7,698
Minority interest	20	(105)	(13)	(5)	(10)	(20)
Discontinued operations	0	0	0	0	0	0
Others	0	0	0	0	0	0
Net profit	(2,012)	11,704	8,032	829	3,350	7,678
Adjusted net profit	41	12,093	10,663	1,989	4,545	9,222

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	66,992	114,526	126,310	114,564	125,905	145,645
Cash & equivalents	38,478	91,329	65,901	42,917	34,819	34,755
Restricted cash	1,940	0	7	50	80	100
Account receivables	48	144	135	152	213	255
Inventories	6,805	6,872	8,186	6,207	7,382	8,755
ST bank deposits	18,031	11,933	46,905	61,905	79,905	97,905
Other current assets	1,690	4,247	5,177	3,333	3,506	3,876
Non-current assets	19,545	28,942	36,039	38,700	42,954	44,902
PP&E	11,188	15,745	21,141	25,704	29,922	32,637
Right-of-use assets	3,539	5,939	8,324	7,408	6,954	5,858
Deferred income tax	75	1,990	2,542	1,500	1,500	1,500
Investment in JVs & assos	1,484	1,595	923	1,440	1,855	2,277
Intangibles	833	864	915	977	1,030	1,074
Other non-current assets	2,427	2,808	2,194	1,672	1,694	1,556
Total assets	86,538	143,467	162,349	153,264	168,860	190,547
Current liabilities	27,373	72,743	69,216	61,031	72,010	89,004
Short-term borrowings	0	688	0	0	0	0
Account payables	20,024	51,870	53,596	49,656	59,059	70,044
Other current liabilities	6,652	19,038	14,086	9,718	11,427	17,738
Lease liabilities	696	1,146	1,533	1,657	1,524	1,222
Non-current liabilities	13,979	10,150	21,813	18,863	18,910	12,519
Long-term borrowings	3,317	1,747	1,897	2,184	1,884	1,784
Convertible bonds	5,914	0	6,255	6,255	6,255	0
Obligations under finance leases	0	0	643	559	487	423
Deferred income	582	812	721	891	944	1,006
Other non-current liabilities	4,167	7,590	12,298	8,974	9,341	9,306
Total liabilities	41,352	82,892	91,029	79,895	90,920	101,523
Share capital	1	1	1	1	1	1
Capital surplus	53,869	57,480	60,127	61,341	62,551	65,938
Retained earnings	(9,012)	2,661	10,747	11,576	14,926	22,604
Other reserves	(0)	(0)	(0)	(0)	(0)	(0)
Total shareholders equity	44,859	60,143	70,875	72,918	77,479	88,543
Minority interest	328	433	445	450	460	480
Total equity and liabilities	86,538	143,467	162,349	153,264	168,860	190,547

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,159)	10,452	9,316	964	3,863	8,848
Depreciation & amortization	1,214	1,805	3,058	4,347	5,790	7,293
Change in working capital	5,035	36,612	2,070	(6,244)	10,094	11,791
Others	3,290	1,825	1,490	2,380	1,014	731
Net cash from operations	7,380	50,694	15,933	1,447	20,761	28,663
Investing						
Capital expenditure	(5,128)	(6,507)	(7,730)	(9,000)	(10,100)	(10,100)
Acquisition of subsidiaries/ investments	(762)	(198)	(31)	(400)	(300)	(300)
Net proceeds from disposal of short-term investments	1,686	16,316	(4,415)	(8,000)	(8,000)	(8,000)
Others	(161)	(9,622)	(28,961)	(7,000)	(10,000)	(10,000)
Net cash from investing	(4,365)	(12)	(41,137)	(24,400)	(28,400)	(28,400)
Financing						
Net borrowings	3,080	(1,001)	(996)	(42)	(444)	(307)
Proceeds from share issues	2,469	1,186	486	54	16	0
Others	90	0	95	0	0	0
Net cash from financing	5,639	185	(416)	12	(428)	(307)
Net change in cash						
Cash at the beginning of the year	30,493	40,418	91,330	65,908	42,967	34,899
Exchange difference	1,270	45	198	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	40,418	91,330	65,908	42,967	34,899	34,855
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	67.7%	173.5%	16.6%	(23.1%)	16.9%	19.4%
Gross profit	52.6%	212.8%	7.9%	(31.0%)	7.8%	23.2%
Operating profit	na	na	(11.0%)	na	na	500.3%
EBITDA	na	na	1.8%	(56.4%)	79.0%	66.1%
EBIT	na	na	(9.8%)	(88.1%)	255.1%	124.0%
Net profit	na	na	(31.4%)	(89.7%)	304.2%	129.2%
Adj. net profit	(94.7%)	29,430.1%	(11.8%)	(81.3%)	128.4%	102.9%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	19.4%	22.2%	20.5%	18.4%	17.0%	17.5%
Operating margin	(8.1%)	5.8%	4.4%	(1.3%)	0.7%	3.7%
EBITDA margin	(1.9%)	10.0%	8.7%	4.9%	7.5%	10.5%
Adj. net profit margin	0.1%	9.8%	7.4%	1.8%	3.5%	5.9%
Return on equity (ROE)	(4.7%)	22.3%	12.3%	1.2%	4.5%	9.2%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.4	1.6	1.8	1.9	1.7	1.6
Receivable turnover days	0.4	0.4	0.3	0.5	0.6	0.6
Inventory turnover days	68.1	26.0	26.0	25.0	25.0	25.0
Payable turnover days	200.3	196.5	170.4	200.0	200.0	200.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	10.9	16.1	160.3	40.6	17.9
P/E (diluted)	ns	11.7	17.2	171.3	43.3	19.1
P/B	2.8	2.1	1.8	1.8	1.8	1.6
P/CFPS	17.1	2.5	8.1	91.9	6.6	4.8
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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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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