

Xpeng Inc. (XPEV US)

New Xpeng in the making?

Xpeng's 3Q22 guidance could underscore our previous concerns of a possible price war. While valuation looks attractive, investors may wait for a clearer picture of Xpeng's second upmarket move, as it plans to launch two new more-premium models and likely scale back the G3 and P5 next year.

- **2Q22 core earnings in line, 3Q22 guidance miss.** Xpeng's operating loss of RMB 2,091mn in 2Q22 (1Q22: RMB -1,920mn) was in line with our prior forecast of RMB 2,056mn. Its forex loss of RMB 938mn resulted in worse-than-expected net loss. Sales guidance of 29,000-31,000 units for 3Q22 was below our expectation, with the G9 delivery postponed to Oct 2022. Such guidance could underscore our argument that price war is possible in the next six months in a report published on 15 Aug 2022. Therefore, we cut our FY22E sales-volume forecast to 147,000 units from 190,000 units.
- **Xpeng is set to upscale its branding again.** It appears to us that Xpeng will scale back the G3 and P5 from next year, and upscale its branding with two new more-premium models. The P7, along with the leading ADAS functionalities, has succeeded in the upmarket move once. Now, the G9 is the key to the second move, which could be more difficult, in our view. The ADAS features alone may not be enough to lure more demanding consumers. Xpeng has also prepared 800V fast charging and new platforms for the upmarket move, but it may be still too early to draw the conclusion. Therefore, we cut our FY23E sales volume forecast from 320,000 units to 250,000 units.
- **City NGP still crucial for valuation.** Management did not give an exact timeline for the XPilot 3.5 OTA, although it highlighted the city NGP for the G9. In our view, it is possible that the city NGP was more difficult or less practical than Xpeng's expectation. As its peers catch up in the highway NGP, the timeline of its city NGP and how it would be received by consumers are still crucial to Xpeng's unique positioning and valuation.
- **Valuation/Key risks.** We revise down our FY22E and FY23E revenue by 28% and 10%, respectively, amid sales-volume cuts. Accordingly, we project larger net losses in FY22E and FY23E than before. We maintain our BUY rating but lower our target price from US\$ 60.00 to US\$ 40.00, based on 3.2x our FY23E revenue estimates (prior 7.5x FY22E). 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	34,176	67,953	85,775
YoY growth (%)	151.8	259.1	62.8	98.8	26.2
Net income (RMB mn)	(4,890)	(4,863)	(7,507)	(4,189)	(714)
EPS (RMB)	(6.48)	(2.96)	(4.40)	(2.44)	(0.41)
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	7.6	4.5	2.9	1.4	1.2
P/B (x)	1.3	2.2	2.8	3.2	3.3
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(35.4)	(12.7)	(19.5)	(12.8)	(2.4)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$ 40.00
(Previous TP	US\$ 60.00)
Up/Downside	+90.5%
Current Price	US\$ 21.00

China Auto Sector

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Stock Data

Mkt Cap (US\$ mn)	18,022
Avg 3 mths t/o (US\$ mn)	276
52w High/Low (US\$)	56.45/18.01
Total Issued Shares (mn)	1,713
Source: Bloomberg	

Shareholding Structure

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

Share Performance

	Absolute	Relative
1-mth	-15.7%	-23.2%
3-mth	-4.5%	-17.7%
6-mth	-39.6%	-30.3%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers
Zhong Tian

Related Reports:

["Xpeng Inc. – In-line 1Q22 results: Awaiting the debut of G9" – 24 May 2022](#)

["China Auto Sector – Price war possible despite strong Jul wholesale" – 15 Aug 2022](#)

Figure 1: Quarterly results

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	YoY	QoQ
Sales volume (units)	8,578	12,964	13,340	17,398	25,666	41,751	34,561	34,422	97.9%	-0.4%
ASP (RMB)	232,003	219,944	221,209	216,190	222,860	204,929	215,704	216,035	-0.1%	0.2%
Revenue	1,990	2,851	2,951	3,761	5,720	8,556	7,455	7,436	97.7%	-0.2%
Gross profit	92	211	330	449	821	1,023	911	809	80.4%	-11.1%
R&D expenses	(635)	(460)	(535)	(864)	(1,264)	(1,451)	(1,221)	(1,265)	46.5%	3.6%
SG&A expenses	(1,204)	(918)	(721)	(1,031)	(1,538)	(2,015)	(1,642)	(1,665)	61.5%	1.4%
Operating profit	(1,744)	(1,121)	(904)	(1,443)	(1,803)	(2,430)	(1,920)	(2,091)	N/A	N/A
Net profit	(865)	(713)	(696)	(1,096)	(1,492)	(1,198)	(1,528)	(2,464)	N/A	N/A
Gross margin	4.6%	7.4%	11.2%	11.9%	14.4%	12.0%	12.2%	10.9%	-1.0 ppt	-1.3 ppt
Operating margin	-87.6%	-39.3%	-30.6%	-38.4%	-31.5%	-28.4%	-25.8%	-28.1%	10.3 ppt	-2.4 ppt
Net margin	-43.5%	-25.0%	-23.6%	-29.2%	-26.1%	-14.0%	-20.5%	-33.1%	-4.0 ppt	-12.6 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	34,176	67,953	85,775	43,768	75,523	94,548	-21.9%	-10.0%	-9.3%
Gross profit	4,178	11,113	16,469	6,499	12,751	17,270	-35.7%	-12.8%	-4.6%
Operating profit	(7,709)	(5,187)	(1,632)	(6,691)	(3,889)	(1,030)	N/A	N/A	N/A
Net profit	(7,507)	(4,189)	(714)	(5,449)	(2,804)	11	N/A	N/A	N/A
Gross margin	12.2%	16.4%	19.2%	14.8%	16.9%	18.3%	-2.6 ppt	-0.5 ppt	0.9 ppt
Operating margin	-22.6%	-7.6%	-1.9%	-15.3%	-5.1%	-1.1%	-7.3 ppt	-2.5 ppt	-0.8 ppt
Net margin	-22.0%	-6.2%	-0.8%	-12.4%	-3.7%	0.0%	-9.5 ppt	-2.5 ppt	-0.8 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	34,176	67,953	85,775	40,393	67,831	98,780	-15.4%	0.2%	-13.2%
Gross profit	4,178	11,113	16,469	5,273	10,981	17,935	-20.8%	1.2%	-8.2%
Operating profit	(7,709)	(5,187)	(1,632)	(8,168)	(5,466)	(1,611)	N/A	N/A	N/A
Net profit	(7,507)	(4,189)	(714)	(7,189)	(4,475)	(263)	N/A	N/A	N/A
Gross margin	12.2%	16.4%	19.2%	13.1%	16.2%	18.2%	-0.8 ppt	0.2 ppt	1.0 ppt
Operating margin	-22.6%	-7.6%	-1.9%	-20.2%	-8.1%	-1.6%	-2.3 ppt	0.4 ppt	-0.3 ppt
Net margin	-22.0%	-6.2%	-0.8%	-17.8%	-6.6%	-0.3%	-4.2 ppt	0.4 ppt	-0.6 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,844	20,988	34,176	67,953	85,775
Cost of sales	(5,578)	(18,366)	(29,998)	(56,841)	(69,307)
Gross profit	266	2,623	4,178	11,113	16,469
R&D exp.	(1,726)	(4,114)	(5,600)	(7,500)	(8,500)
SG&A exp.	(2,921)	(5,305)	(6,687)	(9,500)	(10,600)
Other income	87	218	400	700	1,000
Operating profit	(4,294)	(6,579)	(7,709)	(5,187)	(1,632)
Net finance costs	111	688	702	498	418
Other non-oper exp.	1,452	1,055	(500)	500	500
Pre-tax profit	(2,731)	(4,837)	(7,507)	(4,189)	(714)
Income tax	(1)	(26)	-	-	-
Accr. on preferred shares	(2,158)	-	-	-	-
Net profit	(4,890)	(4,863)	(7,507)	(4,189)	(714)

Cash flow

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(2,731)	(4,837)	(7,507)	(4,189)	(714)
Depreciation/amortization	438	838	1,343	2,337	3,515
Change in working capital	2,495	3,584	1,748	2,705	4,055
Others	(340)	(653)	(623)	(413)	(355)
Net cash from operating	(140)	(1,095)	(5,039)	440	6,501
Capex	(1,362)	(4,318)	(6,650)	(9,150)	(10,150)
Others	(3,044)	(28,758)	7,764	6,156	3,885
Net cash from investing	(4,406)	(33,076)	1,114	(2,994)	(6,265)
Share issuance	27,399	13,110	-	-	-
Net borrowings	(352)	(143)	5,290	3,554	763
Others	7,283	1,660	-	-	-
Net cash from financing	34,330	14,627	5,290	3,554	763
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	46,895	52,679	57,893
Cash & equivalents	29,209	11,025	12,390	13,390	14,390
Account receivables	1,129	2,673	4,682	9,309	11,750
Inventories	1,343	2,662	4,109	7,008	7,595
Other current assets	7,998	32,470	25,714	22,972	24,157
Non-current assets	5,028	16,821	22,695	33,343	38,474
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	12,341	15,911	14,168
Total assets	44,707	65,651	69,590	86,022	96,367
Current liabilities	7,837	18,013	28,486	46,438	56,646
Bank borrowings	173	-	4,810	7,883	9,147
Account payables	5,112	12,362	16,437	28,031	34,179
Current deferred revenue	164	418	736	1,486	2,433
Other current liabilities	2,389	5,232	6,503	9,037	10,887
Non-current liabilities	2,440	5,492	6,344	8,954	9,745
Bank borrowings	1,645	1,675	2,155	2,635	2,135
Other non-current liabilities	795	3,817	4,189	6,319	7,610
Total liabilities	10,277	23,505	34,831	55,392	66,390
Mezzanine equity	-	-	-	-	-
Ordinary shares	0	0	0	0	0
Reserves	34,430	42,146	34,760	30,630	29,976
Shareholders' equity	34,430	42,147	34,760	30,630	29,976
Total equity and liabilities	44,707	65,651	69,590	86,022	96,367

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Vehicle sales	94.9	95.5	94.0	94.5	94.8
Services and others	5.1	4.5	6.0	5.5	5.2
Growth (%)					
Revenue	151.8	259.1	62.8	98.8	26.2
Gross profit	N/A	886.0	59.3	166.0	48.2
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	12.2	16.4	19.2
Operating margin	(73.5)	(31.3)	(22.6)	(7.6)	(1.9)
Net profit margin	(83.7)	(23.2)	(22.0)	(6.2)	(0.8)
Balance sheet ratio					
Net cash/total equity (x)	1.0	1.0	0.9	0.7	0.7
Current ratio (x)	5.1	2.7	1.6	1.1	1.0
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)	(19.5)	(12.8)	(2.4)
ROA	(18.1)	(8.8)	(11.1)	(5.4)	(0.8)
Per share data (RMB)					
EPS	(6.48)	(2.96)	(4.40)	(2.44)	(0.41)
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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