

Li Auto Inc. (LI US)

4Q22E net profit likely to turn positive

Our top pick. We project Li Auto's net profit to be RMB 205mn in 4Q22E amid record-high quarterly sales volume. We also expect Li Auto's profitability to be more sustainable in FY23E, although we are more conservative than consensus by accounting for the overall industry headwinds. We believe Li Auto is still best positioned among the NEV trio to be a long-term winner, in terms of sales and profitability.

- **4Q22E earnings preview.** Similar to 4Q20 and 4Q21, we expect Li Auto's net profit in 4Q22E to turn to positive territory again amid record-high quarterly sales volume. We project its gross margin to be 21.9% in 4Q22E, which could result in RMB 205mn for the net profit by our estimates.
- **FY23E outlook largely unchanged.** We maintain our previous FY23E sales volume forecast of 0.25mn units for Li Auto and gross margin of 22%. We also project Li Auto's R&D and SG&A expenses to be about 11% and 12% of its revenue in FY23E, respectively. Accordingly, we forecast its FY23E net profit to be RMB 568mn, the first NEV start-up in China to turn profitable on our estimates.
- **Still best positioned in NEV trio.** Although our FY23E projection is more conservative than Bloomberg consensus to account for industry headwinds, we believe Li Auto is still best positioned among the NEV trio, with the highest chance to become a long-term winner. Our 0.25mn-unit sales volume forecast is also lower than the management's guidance, as we believe China's NEV sales in 1Q23 could be weaker than market expectation, especially with declining new orders in Nov-Dec 2022 for leading NEV players.
- **Valuation/Risks.** We maintain our BUY rating and target price of US\$ 44.00, which is still based on 3.3x our 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	45,279	90,650	119,550
YoY growth (%)	3,225	186	68	100	32
Net income (RMB mn)	(792)	(321)	(2,064)	568	854
EPS (RMB)	(0.9)	(0.2)	(1.1)	0.3	0.4
YoY growth (%)	N/A	N/A	N/A	N/A	50.4
P/S (x)	7.5	5.4	3.7	1.9	1.4
P/B (x)	2.4	3.6	4.3	4.2	4.1
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(6.6)	(0.9)	(5.1)	1.4	2.1
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 +76.2%
Current Price US\$ 24.97

China Auto Sector

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Stock Data

Mkt Cap (US\$ mn)	24,471
Avg 3 mths t/o (US\$ mn)	232
52w High/Low (US\$)	40.79/13.62
Total Issued Shares (mn)	2,085
Source: Bloomberg	

Shareholding Structure

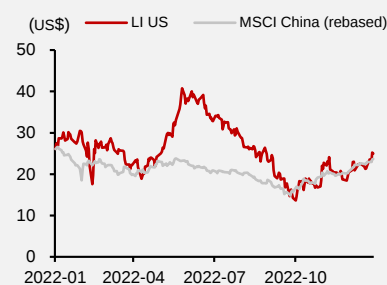
Li Xiang	22.3%
Wang Xing	18.8%
Others	58.9%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	34.7%	17.4%
3-mth	66.6%	19.2%
6-mth	-25.9%	-41.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers
Zhong Tian

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1. ["China Auto Sector - 2023 Outlook: A critical year for long-term survival" – 7 Dec 2022](#)
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	4Q22E	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	380,883	26.3%	8.1%
Revenue	3,575	5,039	7,775	10,620	9,562	8,733	9,342	17,642	66.1%	88.8%
Gross profit	617	953	1,812	2,380	2,164	1,878	1,182	3,857	62.0%	226.3%
R&D expenses	(515)	(653)	(888)	(1,230)	(1,374)	(1,532)	(1,804)	(2,316)	88.3%	28.3%
SG&A expenses	(510)	(835)	(1,021)	(1,126)	(1,203)	(1,325)	(1,507)	(1,834)	62.9%	21.7%
Operating profit	(408)	(536)	(98)	24	(413)	(978)	(2,130)	(294)	N/A	N/A
Net profit	(360)	(235)	(22)	296	(11)	(618)	(1,640)	205	-30.7%	N/A
Gross margin	17.3%	18.9%	23.3%	22.4%	22.6%	21.5%	12.7%	21.9%	-0.5 ppt	9.2 ppt
Operating margin	-11.4%	-10.6%	-1.3%	0.2%	-4.3%	-11.2%	-22.8%	-1.7%	-1.9 ppt	21.1 ppt
Net margin	-10.1%	-4.7%	-0.3%	2.8%	-0.1%	-7.1%	-17.6%	1.2%	-1.6 ppt	18.7 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	45,279	90,650	119,550	45,170	90,650	129,950	0.2%	0.0%	-8.0%
Gross Profit	9,081	19,909	25,136	9,009	19,909	27,381	0.8%	0.0%	-8.2%
Operating Profit	(3,815)	(1,065)	(636)	(3,887)	(1,065)	1,605	N/A	N/A	-139.6%
Net profit	(2,064)	568	854	(2,084)	517	2,730	N/A	9.8%	-68.7%
Gross Margin	20.1%	22.0%	21.0%	19.9%	22.0%	21.1%	0.1 ppt	0.0 ppt	0.0 ppt
Operating Margin	-8.4%	-1.2%	-0.5%	-8.6%	-1.2%	1.2%	0.2 ppt	0.0 ppt	-1.8 ppt
Net Margin	-4.6%	0.6%	0.7%	-4.6%	0.6%	2.1%	0.1 ppt	0.1 ppt	-1.4 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	45,279	90,650	119,550	45,198	92,720	138,786	0.2%	-2.2%	-13.9%
Gross Profit	9,081	19,909	25,136	9,021	20,630	31,314	0.7%	-3.5%	-19.7%
Operating Profit	(3,815)	(1,065)	(636)	(3,255)	620	4,739	N/A	-271.7%	-113.4%
Net profit	(2,064)	568	854	(1,317)	2,199	5,838	N/A	-74.2%	-85.4%
Gross Margin	20.1%	22.0%	21.0%	20.0%	22.3%	22.6%	0.1 ppt	-0.3 ppt	-1.5 ppt
Operating Margin	-8.4%	-1.2%	-0.5%	-7.2%	0.7%	3.4%	-1.2 ppt	-1.8 ppt	-3.9 ppt
Net Margin	-4.6%	0.6%	0.7%	-2.9%	2.4%	4.2%	-1.6 ppt	-1.7 ppt	-3.5 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	9,457	27,010	45,279	90,650	119,550
Cost of sales	(7,907)	(21,248)	(36,198)	(70,742)	(94,414)
Gross profit	1,549	5,761	9,081	19,909	25,136
R&D exp.	(1,100)	(3,286)	(7,026)	(10,202)	(12,422)
SG&A exp.	(1,119)	(3,492)	(5,870)	(10,771)	(13,350)
Operating profit	(669)	(1,017)	(3,815)	(1,065)	(636)
Net finance costs	(26)	150	256	284	276
Investment income	214	527	699	579	594
Other non-oper exp.	20	(0)	795	870	770
Pre-tax profit	(189)	(153)	(2,064)	668	1,004
Tax	23	(169)	-	(100)	(151)
Discontinued operations	14	-	-	-	-
Accr. on preferred shares	(640)	-	-	-	-
Net profit	(792)	(321)	(2,064)	568	854

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(189)	(153)	(2,064)	668	1,004
Depreciation/amortization	321	590	1,255	2,303	3,942
Change in working capital	3,068	6,616	5,171	10,816	2,113
Others	(60)	1,287	867	487	423
Net cash from operating	3,140	8,340	5,229	14,274	7,482
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	375	(73)	(236)
Others	3,830	5,533	-	-	-
Net cash from financing	24,711	16,710	381	(60)	(217)
Net change in cash	9,113	20,793	(3,590)	5,564	(7,535)
Cash at beginning of the year	1,436	10,173	30,493	26,903	32,467
FX & discontinued operations	(377)	(472)	-	-	-
Cash at the end of the year	10,173	30,493	26,903	32,467	24,932

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	31,391	52,380	51,599	58,474	55,672
Cash & equivalents	8,938	27,854	23,903	29,467	21,432
Account receivables	116	121	372	993	1,310
Inventories	1,048	1,618	2,777	5,039	6,725
Other current assets	21,289	22,788	24,547	22,975	26,205
Non-current assets	4,982	9,468	17,285	27,652	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	3,077	4,896	6,030
Total assets	36,373	61,849	68,884	86,126	94,868
Current liabilities	4,309	12,108	18,919	35,197	41,347
Bank borrowings	-	37	-	300	332
Account payables	3,161	9,376	14,876	29,072	33,627
Current deferred revenue	272	305	1,185	1,928	2,842
Other current liabilities	877	2,390	2,858	3,898	4,546
Non-current liabilities	2,260	8,676	10,244	10,118	11,483
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	7,145	7,675	8,012
Total liabilities	6,570	20,785	29,164	45,316	52,830
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	29,802	41,063	39,719	40,809	42,036
Shareholders' equity	29,804	41,064	39,720	40,810	42,038
Total equity and liabilities	36,373	61,849	68,884	86,126	94,868

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Vehicle sales	98.2	96.7	97.1	97.2	96.9
Other sales & services	1.8	3.3	2.9	2.8	3.1
Growth (%)					
Revenue	3,225.5	185.6	67.6	100.2	31.9
Gross profit	N/A	271.9	57.6	119.2	26.3
Operating profit	N/A	N/A	N/A	N/A	N/A
Net profit	N/A	N/A	N/A	N/A	50.4
Profit & loss ratio (%)					
Gross margin	16.4	21.3	20.1	22.0	21.0
Operating margin	(7.1)	(3.8)	(8.4)	(1.2)	(0.5)
Net profit margin	(8.4)	(1.2)	(4.6)	0.6	0.7
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	1.7	1.3
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)	(5.1)	1.4	2.1
ROA	(3.5)	(0.7)	(3.2)	0.7	0.9
Per share data (RMB)					
EPS	-0.91	-0.17	-1.07	0.29	0.43
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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