

Xpeng Inc. (XPEV US)

4Q22 earnings miss; sales may rise QoQ in FY23E

Both Xpeng's revenue and net loss in 4Q22 missed our prior forecasts, largely due to more intensified competition than expected. On the other hand, we expect its sales volume to rise sequentially every quarter in FY23E, based on our channel checks with its battery supplier and the rollouts of the G6 in 2Q23. It appears to us that the automaker has started to prioritize cost optimization and customer needs after senior management changes. The new G6 is pivotal to Xpeng as investors would take this as a signal whether the company could turn around and survive in the short to medium term.

- **4Q22 earnings miss.** Xpeng's 4Q22 revenue was 4% lower than our prior forecast due to higher sales promotion. Gross margin was 2.5 ppts lower than we had expected, as vehicle gross margin narrowed to 5.7%, the lowest since 4Q20. SG&A expenses were also about RMB 270mn higher than our prior estimates. Accordingly, Xpeng's 4Q22 net loss was about RMB 2.4bn, or RMB 400mn wider than we had expected. Xpeng's net cash was reduced by about RMB 4.5bn in 4Q22, larger than we had projected.
- **Sales volume may rise sequentially in FY23E.** Based on our channel checks with its battery supplier, Xpeng's production plan in 2Q23 should be higher than 1Q23. With the new G6 going on sale from Jun, sales volume at Xpeng may continue to rise sequentially. We cut our FY23E sales volume forecast by 20,000 units to 135,000 units. We also cut our FY23E average selling price forecast by 10% amid price war.
- **Cost reduction and customer needs are now prioritized.** Management projects a large room for cost reduction including a 50% cut in autonomous driving (AD) and a 25% cut for powertrain within two years. Should this be realized, we project its gross margin to be above 20%. This is the main reason why we keep our FY23E gross margin estimates largely unchanged. We also lower our SG&A forecasts amid new management. We believe Xpeng has learnt a lesson that it overestimated the contribution of AD to the P7's success.
- **Valuation/Key risks.** We maintain our BUY rating but cut target price from US\$ 18.00 to US\$ 14.00, still based on 2.5x our revised FY23E revenue estimates, a lower target valuation than Li Auto (LI US, BUY) and NIO (NIO US, BUY), given its lower projected sales volume growth. Key risks to our rating and target price include slower AD 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	26,855	31,995	47,210
YoY growth (%)	151.8	259.1	28.0	19.1	47.6
Net income (RMB mn)	(4,890)	(4,863)	(9,139)	(8,066)	(6,472)
EPS (RMB)	(6.48)	(2.96)	(5.34)	(4.70)	(3.75)
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	3.7	2.2	1.9	1.6	1.1
P/B (x)	0.6	1.1	1.6	2.1	2.8
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(35.4)	(12.7)	(24.3)	(27.7)	(29.5)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$ 14.00
(Previous TP	US\$ 18.00)
Up/Downside	+58.4%
Current Price	US\$ 8.84

China Auto Sector

SHI Ji, CFA
 (852) 3761 8728
 shiji@cmbi.com.hk

DOU Wenjing, CFA
 (852) 6939 4751
 douwenjing@cmbi.com.hk

GU Sijie
 jasongu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	7,627
Avg 3 mths t/o (US\$ mn)	169
52w High/Low (US\$)	35.35/6.18
Total Issued Shares (mn)	1,726
Source: Bloomberg	

Shareholding Structure

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

Share Performance

	Absolute	Relative
1-mth	-7.2%	-1.2%
3-mth	-8.5%	-8.9%
6-mth	-44.5%	-48.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
 Zhong Tian**

Related Reports:

["Xpeng Inc. – 4Q22E net loss to narrow: sales as key to FY23" – 1 Feb 2023](#)

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	YoY	QoQ
Sales volume (units)	13,340	17,398	25,666	41,751	34,561	34,422	29,570	22,204	-46.8%	-24.9%
ASP (RMB)	221,209	216,190	222,860	204,929	215,704	216,035	230,757	231,506	13.0%	0.3%
Revenue	2,951	3,761	5,720	8,556	7,455	7,436	6,823	5,140	-39.9%	-24.7%
Gross profit	330	449	821	1,023	911	809	923	445	-56.5%	-51.8%
R&D expenses	(535)	(864)	(1,264)	(1,451)	(1,221)	(1,265)	(1,499)	(1,230)	-15.3%	-17.9%
SG&A expenses	(721)	(1,031)	(1,538)	(2,015)	(1,642)	(1,665)	(1,626)	(1,756)	-12.9%	8.0%
Operating profit	(904)	(1,443)	(1,803)	(2,430)	(1,920)	(2,091)	(2,177)	(2,517)	N/A	N/A
Net profit	(787)	(1,195)	(1,595)	(1,287)	(1,701)	(2,701)	(2,376)	(2,361)	N/A	N/A
Gross margin	11.2%	11.9%	14.4%	12.0%	12.2%	10.9%	13.5%	8.7%	-3.3 ppt	-4.9 ppt
Operating margin	-30.6%	-38.4%	-31.5%	-28.4%	-25.8%	-28.1%	-31.9%	-49.0%	-20.6 ppt	-17.1 ppt
Net margin	-26.7%	-31.8%	-27.9%	-15.0%	-22.8%	-36.3%	-34.8%	-45.9%	-30.9 ppt	-11.1 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22	FY23E	FY24E	FY22E	FY23E	FY24E	FY22	FY23E	FY24E
Revenue	26,855	31,995	47,210	27,100	41,060	51,380	N/A	-22.1%	-8.1%
Gross profit	3,088	3,987	7,141	3,246	5,347	7,686	N/A	-25.4%	-7.1%
Operating profit	(8,706)	(9,213)	(7,389)	(8,651)	(8,363)	(7,224)	N/A	N/A	N/A
Net profit	(9,139)	(8,066)	(6,472)	(8,733)	(7,389)	(6,462)	N/A	N/A	N/A
Gross margin	11.5%	12.5%	15.1%	12.0%	13.0%	15.0%	N/A	-0.6 ppt	0.2 ppt
Operating margin	-32.4%	-28.8%	-15.7%	-31.9%	-20.4%	-14.1%	N/A	-8.4 ppt	-1.6 ppt
Net margin	-34.0%	-25.2%	-13.7%	-32.2%	-18.0%	-12.6%	N/A	-7.2 ppt	-1.1 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22	FY23E	FY24E	FY22E	FY23E	FY24E	FY22	FY23E	FY24E
Revenue	26,855	31,995	47,210	27,173	44,663	65,743	-1.2%	-28.4%	-28.2%
Gross profit	3,088	3,987	7,141	3,401	6,224	10,737	-9.2%	-35.9%	-33.5%
Operating profit	(8,706)	(9,213)	(7,389)	(8,498)	(7,090)	(4,103)	N/A	N/A	N/A
Net profit	(9,139)	(8,066)	(6,472)	(8,278)	(6,453)	(3,651)	N/A	N/A	N/A
Gross margin	11.5%	12.5%	15.1%	12.5%	13.9%	16.3%	N/A	-1.5 ppt	-1.2 ppt
Operating margin	-32.4%	-28.8%	-15.7%	-31.3%	-15.9%	-6.2%	N/A	-12.9 ppt	-9.4 ppt
Net margin	-34.0%	-25.2%	-13.7%	-30.5%	-14.4%	-5.6%	N/A	-10.8 ppt	-8.2 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	5,844	20,988	26,855	31,995	47,210
Cost of sales	(5,578)	(18,366)	(23,767)	(28,008)	(40,069)
Gross profit	266	2,623	3,088	3,987	7,141
R&D exp.	(1,726)	(4,114)	(5,215)	(6,500)	(6,800)
SG&A exp.	(2,921)	(5,305)	(6,688)	(7,400)	(8,730)
Other income	87	218	109	700	1,000
Operating profit	(4,294)	(6,579)	(8,706)	(9,213)	(7,389)
Net finance costs	111	688	927	447	217
Other non-oper exp.	1,452	1,055	(1,339)	700	700
Pre-tax profit	(2,731)	(4,837)	(9,114)	(8,066)	(6,472)
Income tax	(1)	(26)	(25)	-	-
Accr. on preferred shares	(2,158)	-	-	-	-
Net profit	(4,890)	(4,863)	(9,139)	(8,066)	(6,472)

Cash flow

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(2,731)	(4,837)	(9,114)	(8,066)	(6,472)
Depreciation/amortization	438	838	1,343	2,337	3,515
Change in working capital	2,495	3,584	(121)	(1,091)	3,214
Others	(340)	(653)	(792)	(664)	(542)
Net cash from operating	(140)	(1,095)	(8,709)	(7,484)	(285)
Capex	(1,362)	(4,318)	(6,650)	(9,150)	(10,150)
Others	(3,044)	(28,758)	8,002	6,253	3,976
Net cash from investing	(4,406)	(33,076)	1,352	(2,897)	(6,174)
Share issuance	27,399	13,110	-	-	-
Net borrowings	(352)	(143)	8,722	11,381	7,458
Others	7,283	1,660	-	-	-
Net cash from financing	34,330	14,627	8,722	11,381	7,458
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	44,307	40,962	46,128
Cash & equivalents	29,209	11,025	12,390	13,390	14,390
Account receivables	1,129	2,673	3,679	4,383	6,467
Inventories	1,343	2,662	3,256	3,453	4,391
Other current assets	7,998	32,470	24,982	19,736	20,879
Non-current assets	5,028	16,821	21,848	29,632	34,695
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	11,493	12,199	10,389
Total assets	44,707	65,651	66,154	70,594	80,822
Current liabilities	7,837	18,013	27,177	38,676	54,893
Bank borrowings	173	-	8,242	19,143	27,102
Account payables	5,112	12,362	13,023	13,812	19,760
Current deferred revenue	164	418	655	1,009	1,530
Other current liabilities	2,389	5,232	5,257	4,712	6,501
Non-current liabilities	2,440	5,492	5,849	6,796	7,220
Bank borrowings	1,645	1,675	2,155	2,635	2,135
Other non-current liabilities	795	3,817	3,694	4,161	5,085
Total liabilities	10,277	23,505	33,026	45,472	62,113
Mezzanine equity	-	-	-	-	-
Ordinary shares	0	0	0	0	0
Reserves	34,430	42,146	33,127	25,122	18,710
Shareholders' equity	34,430	42,147	33,128	25,122	18,710
Total equity and liabilities	44,707	65,651	66,154	70,594	80,822

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Vehicle sales	94.9	95.5	92.5	92.8	93.9
Services and others	5.1	4.5	7.5	7.2	6.1
Growth (%)					
Revenue	151.8	259.1	28.0	19.1	47.6
Gross profit	N/A	886.0	17.8	29.1	79.1
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	11.5	12.5	15.1
Operating margin	(73.5)	(31.3)	(32.4)	(28.8)	(15.7)
Net profit margin	(83.7)	(23.2)	(34.0)	(25.2)	(13.7)
Balance sheet ratio					
Net cash/total equity (x)	1.0	1.0	0.8	0.4	0.1
Current ratio (x)	5.1	2.7	1.6	1.1	0.8
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)	(24.3)	(27.7)	(29.5)
ROA	(18.1)	(8.8)	(13.9)	(11.8)	(8.5)
Per share data (RMB)					
EPS	(6.48)	(2.96)	(5.34)	(4.70)	(3.75)
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.