

Xpeng Inc. (XPEV US)

GPM pressure persists despite possible sales beat

Maintain HOLD. Although we see upside potential for Xpeng's FY24E sales volume and revise it up to 0.26mn units, its low GPM could persist until 1H24E. We believe the new-model effect from the G6 has been priced in and its current valuation is fair. Its smart-EV brand image could be challenged by Huawei.

- **3Q23 GPM miss.** Xpeng's 3Q23 revenue was 2% lower than we had projected. Even excluding the higher-than-expected inventory write-down for the G3i, GPM in 3Q23 was still worse than our prior forecast, partially reflecting the fierce competition that Xpeng faces. Xpeng's non-GAAP net loss of RMB2.8bn was about RMB0.4bn wider than our prior forecast.
- **Likely limited GPM lift in 4Q23E and 1H24E despite upside surprise for FY24E sales.** We are of the view that Xpeng's sales volume in FY24E could be a positive surprise, given the two new models and collaboration with Didi. Xpeng could adopt an aggressive pricing strategy again for its two new models, should its sales miss expectation. We revise up our FY24E sales-volume forecast by 20,000 units to 0.26mn units to factor in such possibility. On the other hand, the 3Q23 GPM miss despite 72% QoQ sales-volume growth and meaningful battery price drops could imply a limited margin improvement for 4Q23E and even 1H24E, if the X9 could not contribute significant sales. We are of the view that the new-model effect from the G6 has largely been priced in and the next round of both significant sales and margin lift may only start in 2H24E, with more details about the two new models. We have not seen any clear signs for Xpeng to turn profitable.
- **The smart-EV brand image could be challenged by Huawei.** Although we believe Xpeng's autonomous driving (AD) technology is still leading in China now, it could be overtaken by Huawei, in our view. Other competitors could also catch up, as the R&D race for AD has already started. Xpeng's product positioning could face more competition than premium brands, should the AD experience become more or less the same to customers by different OEMs.
- **Earnings/valuation.** We raise our FY24E revenue by 13% with higher sales volume but expect a wider net loss (from RMB-8.7bn to RMB-9.3bn) with higher R&D expenses. We maintain our HOLD rating but raise our target price from US\$14.00 to US\$16.00, still based on 2x (unchanged) our revised FY24E P/S. We believe such valuation is justified, as Li Auto (LI US, BUY), which turned profitable from 1Q23 now only trades at 1.5x 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	31,208	52,806	64,243
YoY growth (%)	259.1	28.0	16.2	69.2	21.7
Net income (RMB mn)	(4,863)	(9,139)	(11,535)	(9,302)	(7,788)
EPS (RMB)	(2.96)	(5.34)	(6.59)	(5.20)	(4.31)
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	4.2	3.7	3.5	2.1	1.7
P/B (x)	2.1	2.7	3.5	4.9	7.2
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(12.7)	(23.1)	(33.9)	(34.7)	(41.1)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	US\$ 16.00
(Previous TP	US\$ 14.00)
Up/Downside	-5.9%
Current Price	US\$ 17.00

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Stock Data

Mkt Cap (US\$ mn)	15,226
Avg 3 mths t/o (US\$ mn)	210
52w High/Low (US\$)	23.62/6.82
Total Issued Shares (mn)	1,791

Source: Bloomberg

Shareholding Structure

He Xiaopeng	19.7%
Taobao China	10.7%
Others	69.6%

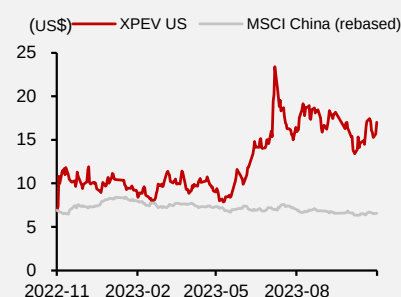
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	5.3%	6.9%
3-mth	3.5%	10.3%
6-mth	88.5%	99.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers
Zhong Tian**

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Figure 1: Quarterly results

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
Sales volume (units)	34,561	34,422	29,570	22,204	18,230	23,205	40,008	35.3%	72.4%
ASP (RMB)	215,704	216,035	230,757	231,506	221,252	218,173	213,195	-7.6%	-2.3%
Revenue	7,455	7,436	6,823	5,140	4,033	5,063	8,530	25.0%	68.5%
Gross profit	911	809	923	445	67	(197)	(228)	N/A	N/A
R&D expenses	(1,221)	(1,265)	(1,499)	(1,230)	(1,296)	(1,367)	(1,306)	-12.9%	-4.5%
SG&A expenses	(1,642)	(1,665)	(1,626)	(1,756)	(1,387)	(1,544)	(1,692)	4.0%	9.6%
Operating profit	(1,920)	(2,091)	(2,177)	(2,517)	(2,585)	(3,090)	(3,161)	N/A	N/A
Net profit	(1,701)	(2,701)	(2,376)	(2,361)	(2,337)	(2,805)	(3,887)	N/A	N/A
Gross margin	12.2%	10.9%	13.5%	8.7%	1.7%	-3.9%	-2.7%	-16.2 ppt	1.2 ppt
Operating margin	-25.8%	-28.1%	-31.9%	-49.0%	-64.1%	-61.0%	-37.1%	-5.2 ppt	24.0 ppt
Net margin	-22.8%	-36.3%	-34.8%	-45.9%	-57.9%	-55.4%	-45.6%	-10.7 ppt	9.8 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	31,208	52,806	64,243	31,270	46,645	60,393	-0.2%	13.2%	6.4%
Gross Profit	(2)	3,935	6,123	578	3,059	5,119	N/A	28.6%	19.6%
Operating Profit	(11,830)	(10,685)	(9,097)	(11,532)	(10,121)	(8,471)	N/A	N/A	N/A
Net profit	(11,535)	(9,302)	(7,788)	(10,033)	(8,725)	(7,119)	N/A	N/A	N/A
Gross Margin	0.0%	7.5%	9.5%	1.8%	6.6%	8.5%	-1.9 ppt	0.9 ppt	1.1 ppt
Operating Margin	-37.9%	-20.2%	-14.2%	-36.9%	-21.7%	-14.0%	-1.0 ppt	1.5 ppt	-0.1 ppt
Net Margin	-37.0%	-17.6%	-12.1%	-32.1%	-18.7%	-11.8%	-4.9 ppt	1.1 ppt	-0.3 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	31,208	52,806	64,243	31,750	55,338	76,820	-1.7%	-4.6%	-16.4%
Gross profit	(2)	3,935	6,123	1,379	6,323	11,604	N/A	-37.8%	-47.2%
Operating profit	(11,830)	(10,685)	(9,097)	(11,141)	(8,290)	(4,799)	N/A	N/A	N/A
Net profit	(11,535)	(9,302)	(7,788)	(10,077)	(7,176)	(3,855)	N/A	N/A	N/A
Gross margin	0.0%	7.5%	9.5%	4.3%	11.4%	15.1%	-4.3 ppt	-4.0 ppt	-5.6 ppt
Operating margin	-37.9%	-20.2%	-14.2%	-35.1%	-15.0%	-6.2%	-2.8 ppt	-5.3 ppt	-7.9 ppt
Net margin	-37.0%	-17.6%	-12.1%	-31.7%	-13.0%	-5.0%	-5.2 ppt	-4.6 ppt	-7.1 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	20,988	26,855	31,208	52,806	64,243
Cost of sales	(18,366)	(23,767)	(31,210)	(48,871)	(58,120)
Gross profit	2,623	3,088	(2)	3,935	6,123
R&D exp.	(4,114)	(5,215)	(5,400)	(6,500)	(6,500)
SG&A exp.	(5,305)	(6,688)	(6,598)	(8,370)	(9,020)
Other income	218	109	170	250	300
Operating profit	(6,579)	(8,706)	(11,830)	(10,685)	(9,097)
Net finance costs	688	927	1,015	883	709
Other non-oper exp.	1,055	(1,339)	(790)	400	400
Pre-tax profit	(4,837)	(9,114)	(11,535)	(9,302)	(7,788)
Income tax	(26)	(25)	-	-	-
Accr. on preferred shares	-	-	-	-	-
Net profit	(4,863)	(9,139)	(11,535)	(9,302)	(7,788)

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(4,837)	(9,114)	(11,535)	(9,302)	(7,788)
Depreciation/amortization	838	1,411	2,102	2,728	3,310
Change in working capital	3,584	(2,709)	2,036	4,650	2,838
Others	(653)	2,209	833	(120)	(132)
Net cash from operating	(1,095)	(8,232)	(6,633)	(2,144)	(1,972)
Capex	(4,318)	(4,680)	(3,100)	(4,100)	(3,400)
Others	(28,758)	9,526	3,445	4,461	1,058
Net cash from investing	(33,076)	4,846	345	361	(2,342)
Share issuance	13,110	(2)	4,935	-	-
Net borrowings	(143)	6,119	(360)	2,796	6,327
Others	1,660	(113)	(13)	(13)	(14)
Net cash from financing	14,627	6,004	4,562	2,783	6,313
Net change in cash	(19,543)	2,617	(1,727)	999	1,999
Cash at beginning of year	31,542	11,635	14,714	12,987	13,987
Exchange difference	(363)	462	-	-	-
Cash at the end of year	11,635	14,714	12,987	13,987	15,986

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	48,831	43,527	42,613	48,274	53,002
Cash & equivalents	11,025	14,608	12,881	13,881	15,880
Account receivables	2,673	3,873	3,848	5,787	7,040
Inventories	2,662	4,521	5,130	7,364	7,962
Other current assets	32,470	20,525	20,754	21,242	22,120
Non-current assets	16,821	27,964	28,609	30,983	33,149
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	16,433	17,729	19,270
Total assets	65,651	71,491	71,222	79,257	86,151
Current liabilities	18,013	24,115	26,470	40,470	53,340
Bank borrowings	-	3,181	1,321	3,117	8,943
Account payables	12,362	14,223	17,101	26,779	31,847
Current deferred revenue	418	389	604	796	1,030
Other current liabilities	5,232	6,322	7,444	9,779	11,520
Non-current liabilities	5,492	10,465	13,632	16,258	17,460
Bank borrowings	1,675	4,613	6,113	7,113	7,613
Other non-current liabilities	3,817	5,852	7,519	9,145	9,847
Total liabilities	23,505	34,580	40,102	56,728	70,800
Mezzanine equity	-	-	-	-	-
Ordinary shares	0	0	0	0	0
Reserves	42,146	36,911	31,121	22,529	15,351
Shareholders' equity	42,147	36,911	31,121	22,529	15,351
Total equity and liabilities	65,651	71,491	71,222	79,257	86,151

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Vehicle sales	95.5	92.5	91.5	91.5	89.4
Services and others	4.5	7.5	8.5	8.5	10.6
Growth (%)					
Revenue	259.1	28.0	16.2	69.2	21.7
Gross profit	886.0	17.8	(100.0)	N/A	55.6
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	(0.0)	7.5	9.5
Operating margin	(31.3)	(32.4)	(37.9)	(20.2)	(14.2)
Net profit margin	(23.2)	(34.0)	(37.0)	(17.6)	(12.1)
Balance sheet ratio					
Net cash/total equity (x)	1.0	0.8	0.9	1.0	1.1
Current ratio (x)	2.7	1.8	1.6	1.2	1.0
Receivable turnover days	46	53	45	40	40
Inventory turnover days	53	69	60	55	50
Payable turnover days	246	218	200	200	200
Profitability (%)					
ROE	(12.7)	(23.1)	(33.9)	(34.7)	(41.1)
ROA	(8.8)	(13.3)	(16.2)	(12.4)	(9.4)
Per share data (RMB)					
EPS	-2.96	-5.34	-6.59	-5.20	-4.31
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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