

NIO Inc. (NIO US)

Back to square one?

Maintain HOLD. Despite NIO's 3Q23 earnings beat on R&D and SG&A, its 4Q23 sales guidance could imply a tough FY24, in our view. We see little chance for NIO to achieve double-digit GPM in FY24E given the lingering drag from battery swap. We believe the limited GPM lift from the completion of the NT2.0 shift and acquiring plants from JAC (600418 CH, NR) could not offset its heavy SG&A and R&D, even as it finally plans to cut non-core projects. We also think its battery swap sharing with other automakers could be of little help.

- **Bottom-line beat on R&D and SG&A.** NIO's 3Q23 revenue was in line with our prior forecast and GPM was 0.3 ppt higher than expected. Its net loss of RMB 4.6bn in 3Q23 was about RMB 0.5bn narrower than our projection, mainly due to its cost control in R&D and SG&A expenses.
- **Limited GPM lift in FY24E leads to continued heavy loss.** It appears that NIO prioritizes margins over sales volume in 4Q23, as it expects QoQ GPM improvement with Dec sales flat MoM. However, we see limited GPM lift in FY24E given no new models in 1H24 and stiffer competition ahead. We view its acquisition of JAC's plants as positive, but the margin lift could be limited if its sales volume remains at the current level. We project vehicle GPM to be 12% and overall GPM to be 8.1% in FY24E. Given NIO's expansion in sales network and personnel, we expect heavy net loss to continue in FY24E.
- **Battery swap sharing could be of little help.** We are of the view that NIO's move to open its battery swap network to other automakers may be of little help to its profitability. We do not think that other automakers would sacrifice their chassis flexibility to accommodate battery swap except for ride-hailing fleets. Therefore, the income contribution from battery swap sharing would be limited. To make it worse, NIO appears to plan to build new battery swap stations for other automakers and its mass-market brand Alps in order to mitigate the damage for the NIO brand. That could result in heavy capex again.
- **Valuation/Risks.** We project NIO's net loss of RMB 4.1bn in 4Q23E. We cut FY24E sales volume forecast by 16% to 0.21mn units and cut ASP by 4% to reflect rising competition. We maintain our HOLD rating and cut our target price from US\$ 10.00 to US\$ 8.50, still based on 1.5x our revised FY24E revenue estimates. Li Auto (LI US, BUY), with much better profitability and cash position, now trades at 1.4x our FY24E P/S. Key risks to our rating and target price include higher or lower sales volume and margins 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)	36,136	49,269	54,776	69,988	83,108
YoY growth (%)	122.3	36.3	11.2	27.8	18.7
Net income (RMB mn)	(10,572)	(14,559)	(19,653)	(14,699)	(12,042)
EPS (RMB)	(6.72)	(8.89)	(11.50)	(8.34)	(6.80)
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	2.2	1.8	1.7	1.4	1.2
P/B (x)	2.2	3.7	8.0	(186.5)	(9.4)
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(34.2)	(49.7)	(109.7)	(257.3)	N/A
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	N/A

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	US\$ 8.50
(Previous TP)	US\$ 10.00)
Up/Downside	-9.0%
Current Price	US\$ 7.80

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Stock Data

Mkt Cap (US\$ mn)	13,160
Avg 3 mths t/o (US\$ mn)	345
52w High/Low (US\$)	16.18/7.00
Total Issued Shares (mn)	1,798
Source: Bloomberg	

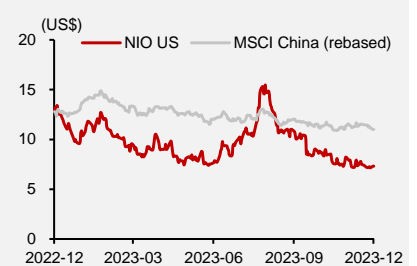
Shareholding Structure

Li Bin	9.7%
Tencent entities	9.1%
Others	81.2%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	-11.1%	-8.2%
3-mth	-30.8%	-22.5%
6-mth	-6.0%	3.5%
Source: Bloomberg		

12-mth Price Performance



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)	25,768	25,059	31,607	40,052	31,041	23,520	55,432	75.4%	135.7%
ASP (RMB)	384,608	410,725	411,368	401,066	343,947	372,948	343,963	-16.4%	-7.8%
Revenue	9,911	10,292	13,002	16,064	10,676	8,772	19,067	46.6%	117.4%
Gross profit	1,447	1,340	1,735	622	162	87	1,523	-12.2%	1651.8%
R&D expenses	(1,762)	(2,149)	(2,945)	(3,981)	(3,076)	(3,345)	(3,039)	3.2%	-9.1%
SG&A expenses	(2,015)	(2,282)	(2,712)	(3,527)	(2,446)	(2,857)	(3,609)	33.1%	26.4%
Operating profit	(2,189)	(2,846)	(3,870)	(6,736)	(5,112)	(6,074)	(4,844)	N/A	N/A
Net profit	(1,825)	(2,745)	(4,142)	(5,847)	(4,804)	(6,122)	(4,629)	N/A	N/A
Gross margin	14.6%	13.0%	13.3%	3.9%	1.5%	1.0%	8.0%	-5.4 ppt	7.0 ppt
Operating margin	-22.1%	-27.6%	-29.8%	-41.9%	-47.9%	-69.2%	-25.4%	4.4 ppt	43.8 ppt
Net margin	-18.4%	-26.7%	-31.9%	-36.4%	-45.0%	-69.8%	-24.3%	7.6 ppt	45.5 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	54,776	69,988	83,108	61,821	86,939	88,385	-11.4%	-19.5%	-6.0%
Gross profit	3,175	5,693	7,775	4,438	8,203	8,010	-28.5%	-30.6%	-2.9%
Operating profit	(20,457)	(15,497)	(12,762)	(18,949)	(14,251)	(13,031)	N/A	N/A	N/A
Net profit	(19,653)	(14,699)	(12,042)	(18,199)	(13,375)	(12,208)	N/A	N/A	N/A
Gross margin	5.8%	8.1%	9.4%	7.2%	9.4%	9.1%	-1.4 ppt	-1.3 ppt	0.3 ppt
Operating margin	-37.3%	-22.1%	-15.4%	-30.7%	-16.4%	-14.7%	-6.7 ppt	-5.8 ppt	-0.6 ppt
Net margin	-35.9%	-21.0%	-14.5%	-29.4%	-15.4%	-13.8%	-6.4 ppt	-5.6 ppt	-0.7 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	54,776	69,988	83,108	62,188	93,758	123,085	-11.9%	-25.4%	-32.5%
Gross profit	3,175	5,693	7,775	4,413	12,733	20,572	-28.1%	-55.3%	-62.2%
Operating profit	(20,457)	(15,497)	(12,762)	(19,363)	(12,700)	(6,314)	N/A	N/A	N/A
Net profit	(19,653)	(14,699)	(12,042)	(15,825)	(8,657)	(1,907)	N/A	N/A	N/A
Gross margin	5.8%	8.1%	9.4%	7.1%	13.6%	16.7%	-1.3 ppt	-5.4 ppt	-7.4 ppt
Operating margin	-37.3%	-22.1%	-15.4%	-31.1%	-13.5%	-5.1%	-6.2 ppt	-8.6 ppt	-10.2 ppt
Net margin	-35.9%	-21.0%	-14.5%	-25.4%	-9.2%	-1.5%	-10.4 ppt	-11.8 ppt	-12.9 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	36,136	49,269	54,776	69,988	83,108
Cost of sales	(29,315)	(44,125)	(51,602)	(64,295)	(75,333)
Gross profit	6,821	5,144	3,175	5,693	7,775
R&D exp.	(4,592)	(10,836)	(12,616)	(10,653)	(10,195)
SG&A exp.	(6,878)	(10,537)	(11,865)	(11,537)	(11,441)
Other income	152	589	850	1,000	1,100
Operating profit	(4,496)	(15,641)	(20,457)	(15,497)	(12,762)
Net finance costs	274	1,026	848	607	413
Gain/(Loss) of investee	63	378	60	80	100
Other non-oper exp.	185	(145)	200	400	500
Pre-tax profit	(3,975)	(14,382)	(19,349)	(14,410)	(11,749)
Income tax	(42)	(55)	(39)	(29)	(23)
Accr. on redeemable int.	(6,587)	(279)	(300)	(300)	(300)
Minority interests	31	157	35	40	30
Net profit	(10,572)	(14,559)	(19,653)	(14,699)	(12,042)

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before taxation	(3,975)	(14,382)	(19,349)	(14,410)	(11,749)
Depreciation/amortization	2,352	3,994	6,422	7,944	9,202
Change in working capital	2,693	4,444	6,403	3,313	379
Others	896	2,078	1,821	1,638	1,449
Net cash from operating	1,966	(3,866)	(4,704)	(1,516)	(719)
Capex	(4,079)	(6,973)	(8,001)	(7,001)	(6,001)
Others	(35,686)	17,358	5,103	3,800	2,900
Net cash from investing	(39,765)	10,385	(2,898)	(3,201)	(3,101)
Share issuance	12,822	79	5,918	600	600
Net borrowings	3,680	(1,632)	(2,223)	2,990	2,710
Others	1,627	(63)	10	10	10
Net cash from financing	18,129	(1,616)	3,704	3,600	3,320
Net change in cash	(19,670)	4,903	(3,898)	(1,118)	(500)
Cash at year beginning	38,545	18,375	23,155	19,258	18,140
Exchange difference	(501)	(122)	-	-	-
Cash at year end	18,375	23,155	19,258	18,140	17,640

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	63,641	59,150	47,130	44,153	43,561
Cash & equivalents	15,334	19,888	16,108	15,490	14,990
Account receivables	2,781	5,118	4,502	5,752	6,831
Inventories	2,056	8,191	4,948	4,580	5,366
Other current assets	43,470	25,953	21,572	18,331	16,374
Non-current assets	19,242	37,114	39,009	39,159	37,989
PP&E	7,400	15,659	19,128	20,131	19,105
Right-of-use assets	2,988	7,374	9,109	7,612	7,092
Other non-current assets	8,854	14,081	10,772	11,416	11,792
Total assets	82,884	96,264	86,139	83,312	81,550
Current liabilities	29,198	45,852	45,463	52,393	59,445
Bank borrowings	7,298	5,277	3,054	4,043	6,753
Account payables	12,639	25,224	26,861	31,707	35,087
Tax payable	628	286	286	286	286
Other current liabilities	8,633	15,065	15,262	16,356	17,319
Non-current liabilities	15,622	22,765	24,689	27,162	28,110
Bank borrowings incl. CB	9,739	10,886	10,886	12,886	12,886
Other non-current liabilities	5,883	11,879	13,803	14,276	15,224
Total liabilities	44,820	68,617	70,153	79,554	87,555
Mezzanine equity	3,278	3,557	3,857	4,157	4,457
Share capital	3	3	3	3	3
Treasury shares	(1,850)	(1,850)	(1,850)	(1,850)	(1,850)
Reserves	36,557	25,715	13,800	1,320	(8,702)
Non-controlling interests	76	221	176	126	86
Shareholders' equity	34,710	23,868	11,953	(526)	(10,548)
Total equity & liabilities	82,884	96,264	86,139	83,312	81,550

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Vehicle sales	91.8	92.4	89.2	87.8	85.7
Others	8.2	7.6	10.8	12.2	14.3
Growth (%)					
Revenue	122.3	36.3	11.2	27.8	18.7
Gross profit	264.1	(24.6)	(38.3)	79.3	36.6
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	18.9	10.4	5.8	8.1	9.4
Operating margin	(12.4)	(31.7)	(37.3)	(22.1)	(15.4)
Net profit margin	(29.3)	(29.6)	(35.9)	(21.0)	(14.5)
Balance sheet ratio					
Net cash/total equity (x)	1.0	0.9	1.3	3.5	N/A
Current ratio (x)	2.2	1.3	1.0	0.8	0.7
Receivable turnover days	28	38	30	30	30
Inventory turnover days	26	68	35	26	26
Payable turnover days	157	209	190	180	170
Profitability (%)					
ROE	(34.2)	(49.7)	(109.7)	(257.3)	N/A
ROA	(15.4)	(16.3)	(21.5)	(17.3)	(14.6)
Per share data (RMB)					
EPS	(6.72)	(8.89)	(11.50)	(8.34)	(6.80)
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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