21 May 2024

CMB International Global Markets | Equity Research | Company Update

Li Auto Inc. (LI US)

Is the *Mega* lesson worthwhile?

We are of the view that Li Auto has lowered priority for its FY24E profitability and the sell-off after the 1Q24 earnings call has largely priced in such management mentality. We believe the key lies in its new BEV strategy, EREV sales recovery in 2H24 and FY25 sales growth with BEVs being postponed.

- **1Q24 GP in line; R&D and SG&A dragged NP.** Li Auto's 1Q24 revenue was about 3% higher than our prior forecast, largely due to its other sales and services. GP was 1% higher than our projection. On the other hand, R&D and SG&A combined exceeded our estimates by RMB1.6bn. Accordingly, 1Q24 NP was about RMB1.4bn lower than our forecast.
- **2Q24 and FY24E outlook.** Management expects 2Q24 to be challenging and guides vehicle gross margin at 18% (vs. 19.3% in 1Q24). R&D and SG&A in 2Q24 could be even more difficult to forecast, as its recent organizational restructuring may involve some one-off expenses. We cut FY24E R&D by RMB1.5bn to 8.9% of revenue and SG&A by RMB0.8bn to 8.8% of revenue. Both ratios are higher than those in FY23. Despite its cost reduction efforts, the automaker is still determined to increase its fast-charging network and optimize its store number and size.

  We cut our FY24E sales volume by 22% to 0.51mn units, as the automaker has postponed its BEV SUV launches to FY25 and the *Mega* sales volume was way below expectation. We also cut GPM by 0.8ppt to 20.1%. Therefore, we halve our FY24E NP estimate to RMB7.2bn.
- ***Mega* has pushed Li Auto to refine its BEV strategy.** It appears to us that the company has lowered its priority for FY24E profitability but has been focusing on laying a more solid foundation for BEV's success after the wrong expectation on the *Mega*. We believe such failure does not mean the company has lost its superb product design capabilities. We project FY25E sales volume to be 0.66mn units and NP to be RMB12.3bn (both are at similar levels as our prior forecasts for FY24E).
- **Valuation/Key risks.** We maintain our BUY rating but trim our target price from US$48.00 to US$26.00, based on 15x our revised FY25 EPS (prior 23x FY24 EPS). We roll over our valuation multiple to FY25, as we believe well-thought-out BEV products could help Li Auto regain traction. We lower our valuation multiple to reflect higher uncertainties and lower profit growth trajectory. Key risks to our rating and target price include lower sales and/or gross margin than our expectation, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	45,287	123,851	149,240	193,270	234,100
YoY growth (%)	67.7	173.5	20.5	29.5	21.1
Gross margin (%)	19.4	22.2	20.1	20.3	20.3
Operating profit (RMB mn)	(3,654.9)	7,142.7	3,561.5	8,919.6	14,309.3
Net profit (RMB mn)	(2,012.2)	11,704.1	7,227.8	12,268.1	17,325.9
YoY growth (%)	na	na	(38.2)	69.7	41.2
Adjusted net profit (RMB mn)	41.0	12,092.6	8,940.4	13,522.3	18,567.1
EPS (Reported) (RMB)	(1.04)	5.95	3.62	6.09	8.51
P/S (x)	3.7	1.3	1.1	0.9	0.7
P/E (x)	ns	13.2	21.7	12.9	9.2
P/B (x)	3.4	2.6	2.3	1.9	1.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$26.00**
(Previous TP	US$48.00)
Up/Downside	**19.8%**
Current Price	**US$21.71**

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Stock Data

Mkt Cap (US$ mn)	23,034.5
Avg 3 mths t/o (US$ mn)	170.4
52w High/Low (US$)	46.65/21.71
Total Issued Shares (mn)	2122.0

Source: FactSet

Shareholding Structure

Mr. Li Xiang	21.9%
Mr. Wang Xing	17.9%

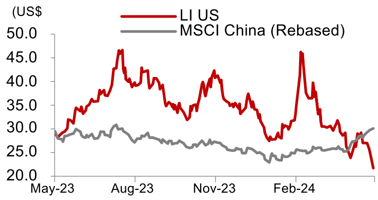
Source: NASDAQ

Share Performance

	Absolute	Relative
1-mth	-17.7%	-31.0%
3-mth	-34.5%	-45.0%
6-mth	-46.8%	-51.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Report

"Li Auto Inc. (LI US) - 4Q23 results set the tone for resilient FY24" - 27 Feb 2024

Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	4Q23	1Q24	YoY	QoQ
Sales volume (units)	52,584	86,533	105,108	131,805	80,400	52.9%	-39.0%
ASP (RMB)	357,277	331,119	329,941	316,620	318,827	-10.8%	0.7%
Revenue	18,787	28,653	34,679	41,732	25,634	36.4%	-38.6%
Gross profit	3,830	6,235	7,644	9,787	5,284	38.0%	-46.0%
R&D expenses	(1,852)	(2,426)	(2,817)	(3,491)	(3,049)	64.6%	-12.7%
SG&A expenses	(1,645)	(2,309)	(2,544)	(3,270)	(2,978)	81.0%	-8.9%
Operating profit	405	1,626	2,339	3,036	(585)	N/A	N/A
Net profit	930	2,293	2,823	5,658	593	-36.3%	-89.5%
Gross margin	20.4%	21.8%	22.0%	23.5%	20.6%	0.2 ppt	-2.8 ppt
Operating margin	2.2%	5.7%	6.7%	7.3%	-2.3%	-4.4 ppt	-9.6 ppt
Net margin	4.9%	8.0%	8.1%	13.6%	2.3%	-2.6 ppt	-11.2 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	149,240	193,270	234,100	201,900	263,000	N/A	-26.1%	-26.5%	N/A
Gross profit	29,952	39,210	47,580	42,472	53,933	N/A	-29.5%	-27.3%	N/A
Operating profit	4,061	9,620	15,109	13,648	17,960	N/A	-70.2%	-46.4%	N/A
Net profit	7,228	12,268	17,326	14,502	18,619	N/A	-50.2%	-34.1%	N/A
Gross margin	20.1%	20.3%	20.3%	21.0%	20.5%	N/A	-1.0 ppt	-0.2 ppt	N/A
Operating margin	2.7%	5.0%	6.5%	6.8%	6.8%	N/A	-4.0 ppt	-1.9 ppt	N/A
Net margin	4.8%	6.3%	7.4%	7.2%	7.1%	N/A	-2.3 ppt	-0.7 ppt	N/A

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	149,240	193,270	234,100	187,562	251,659	312,571	-20.4%	-23.2%	-25.1%
Gross profit	29,952	39,210	47,580	39,062	52,909	66,421	-23.3%	-25.9%	-28.4%
Operating profit	4,061	9,620	15,109	11,109	18,206	23,730	-63.4%	-47.2%	-36.3%
Net profit	7,228	12,268	17,326	15,040	22,559	27,987	-51.9%	-45.6%	-38.1%
Gross margin	20.1%	20.3%	20.3%	20.8%	21.0%	21.2%	-0.8 ppt	-0.7 ppt	-0.9 ppt
Operating margin	2.7%	5.0%	6.5%	5.9%	7.2%	7.6%	-3.2 ppt	-2.3 ppt	-1.1 ppt
Net margin	4.8%	6.3%	7.4%	8.0%	9.0%	9.0%	-3.2 ppt	-2.6 ppt	-1.6 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**27,010**	**45,287**	**123,851**	**149,240**	**193,270**	**234,100**
Cost of goods sold	(21,248)	(36,496)	(96,355)	(119,288)	(154,060)	(186,520)
Gross profit	**5,761**	**8,790**	**27,497**	**29,952**	**39,210**	**47,580**
Operating expenses	**(6,779)**	**(12,445)**	**(20,354)**	**(26,391)**	**(30,290)**	**(33,271)**
SG&A expense	(3,492)	(5,665)	(9,768)	(13,165)	(15,089)	(16,495)
R&D expense	(3,286)	(6,780)	(10,586)	(13,226)	(15,201)	(16,776)
Operating profit	**(1,017)**	**(3,655)**	**7,143**	**3,561**	**8,920**	**14,309**
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Investment gain/loss	527	376	783	1,400	1,737	2,232
Other gains/(losses)	187	626	1,048	915	1,020	1,020
EBITDA	**501**	**(839)**	**12,343**	**11,282**	**18,846**	**26,828**
Depreciation	590	1,214	1,805	2,953	4,679	6,399
EBIT	**(90)**	**(2,053)**	**10,538**	**8,328**	**14,167**	**20,429**
Interest income	213	600	1,300	1,952	1,790	2,067
Interest expense	(63)	(106)	(86)	(69)	(56)	(50)
Pre-tax profit	**(153)**	**(2,159)**	**10,452**	**8,259**	**14,111**	**20,379**
Income tax	(169)	127	1,357	(991)	(1,693)	(2,853)
After tax profit	**(321)**	**(2,032)**	**11,809**	**7,268**	**12,418**	**17,526**
Minority interest	0	20	(105)	(40)	(150)	(200)
Discontinued operations	0	0	0	0	0	0
Others	0	0	0	0	0	0
Net profit	**(321)**	**(2,012)**	**11,704**	**7,228**	**12,268**	**17,326**
Adjusted net profit	**780**	**41**	**12,093**	**8,940**	**13,522**	**18,567**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**52,380**	**66,992**	**114,526**	**129,162**	**158,556**	**194,407**
Cash & equivalents	27,854	38,478	91,329	85,582	92,440	113,302
Restricted cash	2,639	1,940	0	500	500	500
Account receivables	121	48	144	245	265	385
Inventories	1,618	6,805	6,872	8,170	10,552	12,775
ST bank deposits	19,668	18,031	11,933	30,933	50,933	63,933
Other current assets	481	1,690	4,247	3,731	3,865	3,512
Non-current assets	**9,468**	**19,545**	**28,942**	**43,321**	**50,848**	**59,226**
PP&E	4,498	11,188	15,745	23,804	31,134	36,743
Right-of-use assets	2,061	3,539	5,939	11,159	9,378	10,709
Deferred income tax	20	75	1,990	1,200	1,500	1,500
Investment in JVs & assos	156	1,484	1,595	2,510	3,030	3,400
Intangibles	751	833	864	911	968	1,016
Other non-current assets	1,981	2,427	2,808	3,736	4,837	5,858
Total assets	**61,849**	**86,538**	**143,467**	**172,483**	**209,403**	**253,633**
Current liabilities	**12,108**	**27,373**	**72,743**	**81,623**	**103,931**	**126,271**
Short-term borrowings	0	0	688	0	0	0
Account payables	9,376	20,024	51,870	65,363	84,416	102,203
Other current liabilities	2,259	6,652	19,038	13,783	17,444	21,677
Lease liabilities	473	696	1,146	2,477	2,070	2,391
Non-current liabilities	**8,676**	**13,979**	**10,150**	**21,292**	**22,217**	**25,323**
Long-term borrowings	563	3,317	1,747	1,513	1,713	1,713
Convertible bonds	5,398	5,914	0	6,032	6,032	6,032
Obligations under finance leases	0	0	0	0	0	0
Deferred income	390	582	812	1,535	2,312	3,253
Other non-current liabilities	2,326	4,167	7,590	12,213	12,160	14,326
Total liabilities	**20,785**	**41,352**	**82,892**	**102,915**	**126,147**	**151,594**
Share capital	1	1	1	1	1	1
Capital surplus	49,390	53,869	57,480	59,205	60,475	61,732
Retained earnings	(8,328)	(9,012)	2,661	9,889	22,157	39,483
Other reserves	(0)	(0)	(0)	(0)	(0)	(0)
Total shareholders equity	**41,064**	**44,859**	**60,143**	**69,096**	**82,633**	**101,216**
Total equity and liabilities	**61,849**	**86,210**	**143,035**	**172,011**	**208,781**	**252,810**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(153)**	**(2,159)**	**10,452**	**8,259**	**14,111**	**20,379**
Depreciation & amortization	590	1,214	1,805	2,953	4,679	6,399
Change in working capital	6,565	5,035	36,612	13,203	21,650	21,073
Others	1,338	3,290	1,825	1,318	(609)	(1,454)
Net cash from operations	**8,340**	**7,380**	**50,694**	**25,733**	**39,832**	**46,397**
Investing						
Capital expenditure	(3,445)	(5,128)	(6,507)	(11,080)	(12,100)	(12,100)
Acquisition of subsidiaries/ investments	(631)	(762)	(198)	(400)	(400)	(300)
Net proceeds from disposal of short-term investments	(504)	1,686	16,316	(9,000)	(8,000)	(8,000)
Others	323	(161)	(9,622)	(10,000)	(12,000)	(5,000)
Net cash from investing	**(4,257)**	**(4,365)**	**(12)**	**(30,480)**	**(32,500)**	**(25,400)**
Financing						
Net borrowings	170	3,080	(1,001)	(513)	(490)	(150)
Proceeds from share issues	11,006	2,469	1,186	13	15	15
Others	5,533	90	0	0	0	0
Net cash from financing	**16,710**	**5,639**	**185**	**(501)**	**(474)**	**(135)**
Net change in cash						
Cash at the beginning of the year	10,173	30,493	40,418	91,330	86,082	92,940
Exchange difference	(472)	1,270	45	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	**30,493**	**40,418**	**91,330**	**86,082**	**92,940**	**113,802**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	185.6%	67.7%	173.5%	20.5%	29.5%	21.1%
Gross profit	271.9%	52.6%	212.8%	8.9%	30.9%	21.3%
Operating profit	na	na	na	(50.1%)	150.4%	60.4%
EBITDA	151.6%	na	na	(8.6%)	67.1%	42.4%
EBIT	na	na	na	(21.0%)	70.1%	44.2%
Net profit	na	na	na	(38.2%)	69.7%	41.2%
Adj. net profit	na	(94.7%)	29,430.1%	(26.1%)	51.2%	37.3%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	21.3%	19.4%	22.2%	20.1%	20.3%	20.3%
Operating margin	(3.8%)	(8.1%)	5.8%	2.4%	4.6%	6.1%
EBITDA margin	1.9%	(1.9%)	10.0%	7.6%	9.8%	11.5%
Adj. net profit margin	2.9%	0.1%	9.8%	6.0%	7.0%	7.9%
Return on equity (ROE)	(0.9%)	(4.7%)	22.3%	11.2%	16.2%	18.8%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	4.3	2.4	1.6	1.6	1.5	1.5
Receivable turnover days	1.6	0.4	0.4	0.6	0.5	0.6
Inventory turnover days	27.8	68.1	26.0	25.0	25.0	25.0
Payable turnover days	161.1	200.3	196.5	200.0	200.0	200.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	13.2	21.7	12.9	9.2
P/E (diluted)	ns	ns	14.2	21.7	12.9	9.2
P/B	3.5	3.4	2.6	2.3	1.9	1.6
P/CFPS	17.4	20.6	3.0	6.1	4.0	3.4
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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