

Li Auto Inc. (LI US)

Proven resilience gives us confidence in BEVs

Li Auto's 2Q24 operating expenses beat our forecast and such cost control could extend into 2H24. We are of the view that Li Auto has made a comeback on sales volume with resilient pricing and margins. Although some investors may wait for more details of its new BEVs, we think it could be oversold now.

- 2Q24 beat on tightened operating expenses.** Li Auto's revenue in 2Q24 was 1% higher than our prior forecast and GPM was 0.1ppt higher than our estimates. Operating profit beat of RMB600mn mainly came from SG&A and R&D expenses. Investment income in 2Q24 fell by RMB700mn QoQ mainly due to share price drop of a listed company that Li Auto holds. Net profit in 2Q24 of RMB1.1bn was about 7% higher than our prior estimates.
- Resilient sales volume and pricing give us more confidence in its upcoming BEVs.** Average selling prices (ASPs) for the L9, L8 and L7 in 2Q24 rose 3% QoQ based on our estimates despite stiffer competition. We are of the view that Li Auto has made a comeback after its gloomy 1Q24 with 3Q24 sales volume set to hit an all-time high. Management guided 3Q24 GPM as 20%, the same as that in 1H24. Its proven resilience has given us more confidence in its new BEV models in FY25. We maintain our FY24E sales volume forecast of 0.51mn units, with 0.5mn units from EREVs. We forecast FY25E sales volume to be 0.65mn units, with BEVs contributing 0.13mn units (assuming 18% market share in the BEV segment priced above RMB300,000).
- Higher operational efficiency to lower opex.** We cut our FY24E R&D by RMB1bn to RMB12bn, as the company guided down such expenses by RMB3bn from RMB15bn at the beginning of 2024. We think it is feasible as AI-powered end-to-end autonomous driving (AD) training requires much fewer personnel than rule-based AD programming. We are of the view that Li Auto's AD capability has been narrowing the gap with the market leaders. Although we cut our FY24E gross profit by 4% due to product mix changes, we keep our FY24E net profit unchanged, as the R&D expense cuts could offset the gross profit decline. We revise down our FY25E net profit by 3% amid our 5% revenue cut (2% on volume and 3% on ASP).
- Valuation/Key risks.** We maintain our BUY rating but cut our target price slightly from US\$26.00 to US\$25.00, still based on 15x our revised FY25E EPS. Key risks to our rating and target price include lower sales and/or gross margin than our expectation, as well as a sector-derating.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	45,287	123,851	145,604	184,278	220,498
YoY growth (%)	67.7	173.5	17.6	26.6	19.7
Gross margin (%)	19.4	22.2	19.8	20.1	20.0
Operating profit (RMB mn)	(3,654.9)	7,142.7	3,700.8	7,947.4	12,125.1
Net profit (RMB mn)	(2,012.2)	11,704.1	7,249.1	11,940.8	15,768.3
YoY growth (%)	na	na	(38.1)	64.7	32.1
Adjusted net profit (RMB mn)	41.0	12,092.6	8,961.8	13,195.0	17,009.5
EPS (Reported) (RMB)	(1.04)	5.95	3.63	5.93	7.74
P/S (x)	3.0	1.1	0.9	0.7	0.6
P/E (x)	ns	10.7	17.5	10.7	8.2
P/B (x)	2.7	2.1	1.8	1.6	1.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$25.00
(Previous TP)	US\$26.00)
Up/Downside	40.4%
Current Price	US\$17.80

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Stock Data

Mkt Cap (US\$ mn)	18,886.0
Avg 3 mths t/o (US\$ mn)	33.6
52w High/Low (US\$)	46.21/17.80
Total Issued Shares (mn)	2122.0

Source: FactSet

Shareholding Structure

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

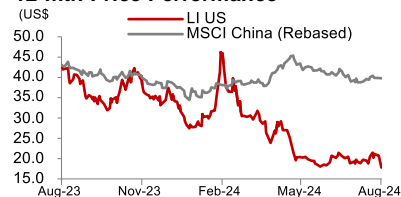
Source: NASDAQ

Share Performance

	Absolute	Relative
1-mth	-7.7%	-8.8%
3-mth	-11.7%	-5.1%
6-mth	-61.2%	-62.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Report

["Li Auto Inc. \(LI US\) - Is the Mega lesson worthwhile?" - 21 May 2024](#)

["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	2Q24	YoY	QoQ
Sales volume (units)	52,584	86,533	105,108	131,805	80,400	108,581	25.5%	35.1%
ASP (RMB)	357,277	331,119	329,941	316,620	318,827	291,749	-11.9%	-8.5%
Revenue	18,787	28,653	34,679	41,732	25,634	31,678	10.6%	23.6%
Gross profit	3,830	6,235	7,644	9,787	5,284	6,177	-0.9%	16.9%
R&D expenses	(1,852)	(2,426)	(2,817)	(3,491)	(3,049)	(3,028)	24.8%	-0.7%
SG&A expenses	(1,645)	(2,309)	(2,544)	(3,270)	(2,978)	(2,815)	21.9%	-5.5%
Operating profit	405	1,626	2,339	3,036	(585)	468	-71.2%	N/A
Net profit	930	2,293	2,823	5,658	593	1,103	-51.9%	86.1%
Gross margin	20.4%	21.8%	22.0%	23.5%	20.6%	19.5%	-2.3 ppt	-1.1 ppt
Operating margin	2.2%	5.7%	6.7%	7.3%	-2.3%	1.5%	-4.2 ppt	3.8 ppt
Net margin	4.9%	8.0%	8.1%	13.6%	2.3%	3.5%	-4.5 ppt	1.2 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	145,604	184,278	220,498	149,240	193,270	234,100	-2.4%	-4.7%	-5.8%
Gross profit	28,888	37,106	44,179	29,952	39,210	47,580	-3.6%	-5.4%	-7.1%
Operating profit	4,201	8,647	12,925	4,061	9,620	15,109	3.4%	-10.1%	-14.5%
Net profit	7,249	11,941	15,768	7,228	12,268	17,326	0.3%	-2.7%	-9.0%
Gross margin	19.8%	20.1%	20.0%	20.1%	20.3%	20.3%	-0.2 ppt	-0.2 ppt	-0.3 ppt
Operating margin	2.9%	4.7%	5.9%	2.7%	5.0%	6.5%	0.2 ppt	-0.3 ppt	-0.6 ppt
Net margin	5.0%	6.5%	7.2%	4.8%	6.3%	7.4%	0.1 ppt	0.1 ppt	-0.2 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	145,604	184,278	220,498	147,608	200,984	247,205	-1.4%	-8.3%	-10.8%
Gross profit	28,888	37,106	44,179	29,575	41,011	51,604	-2.3%	-9.5%	-14.4%
Operating profit	4,201	8,647	12,925	5,214	10,493	15,771	-19.4%	-17.6%	-18.0%
Net profit	7,249	11,941	15,768	8,968	13,808	18,949	-19.2%	-13.5%	-16.8%
Gross margin	19.8%	20.1%	20.0%	20.0%	20.4%	20.9%	-0.2 ppt	-0.3 ppt	-0.8 ppt
Operating margin	2.9%	4.7%	5.9%	3.5%	5.2%	6.4%	-0.6 ppt	-0.5 ppt	-0.5 ppt
Net margin	5.0%	6.5%	7.2%	6.1%	6.9%	7.7%	-1.1 ppt	-0.4 ppt	-0.5 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	145,604	184,278	220,498
Cost of goods sold	(21,248)	(36,496)	(96,355)	(116,716)	(147,172)	(176,319)
Gross profit	5,761	8,790	27,497	28,888	37,106	44,179
Operating expenses	(6,779)	(12,445)	(20,354)	(25,187)	(29,158)	(32,054)
SG&A expense	(3,492)	(5,665)	(9,768)	(13,161)	(14,757)	(16,278)
R&D expense	(3,286)	(6,780)	(10,586)	(12,026)	(14,401)	(15,776)
Operating profit	(1,017)	(3,655)	7,143	3,701	7,947	12,125
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Investment gain/loss	527	376	783	745	1,497	2,111
Other gains/(losses)	187	626	1,048	1,115	1,220	1,220
EBITDA	501	(839)	12,343	11,015	18,102	24,703
Depreciation	590	1,214	1,805	2,953	4,679	6,399
EBIT	(90)	(2,053)	10,538	8,061	13,423	18,304
Interest income	213	600	1,300	2,000	2,058	2,047
Interest expense	(63)	(106)	(86)	(117)	(77)	(64)
Pre-tax profit	(153)	(2,159)	10,452	7,945	13,345	18,239
Income tax	(169)	127	1,357	(636)	(1,335)	(2,371)
After tax profit	(321)	(2,032)	11,809	7,309	12,011	15,868
Minority interest	0	20	(105)	(60)	(70)	(100)
Discontinued operations	0	0	0	0	0	0
Others	0	0	0	0	0	0
Net profit	(321)	(2,012)	11,704	7,249	11,941	15,768
Adjusted net profit	780	41	12,093	8,962	13,195	17,010

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	52,380	66,992	114,526	128,317	154,535	185,822
Cash & equivalents	27,854	38,478	91,329	90,010	96,083	107,642
Restricted cash	2,639	1,940	0	500	500	500
Account receivables	121	48	144	239	252	362
Inventories	1,618	6,805	6,872	7,994	10,080	12,077
ST bank deposits	19,668	18,031	11,933	25,933	43,933	61,933
Other current assets	481	1,690	4,247	3,640	3,686	3,307
Non-current assets	9,468	19,545	28,942	41,046	50,658	56,606
PP&E	4,498	11,188	15,745	23,804	31,134	36,743
Right-of-use assets	2,061	3,539	5,939	9,525	9,963	8,929
Deferred income tax	20	75	1,990	1,200	1,500	1,500
Investment in JVs & assos	156	1,484	1,595	1,960	2,480	2,900
Intangibles	751	833	864	911	968	1,016
Other non-current assets	1,981	2,427	2,808	3,646	4,612	5,518
Total assets	61,849	86,538	143,467	169,363	205,193	242,427
Current liabilities	12,108	27,373	72,743	79,614	100,343	119,722
Short-term borrowings	0	0	688	0	0	0
Account payables	9,376	20,024	51,870	63,954	80,642	96,613
Other current liabilities	2,259	6,652	19,038	13,530	17,448	21,101
Lease liabilities	473	696	1,146	2,130	2,253	2,008
Non-current liabilities	8,676	13,979	10,150	20,139	21,960	22,690
Long-term borrowings	563	3,317	1,747	1,513	1,213	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	1,520	2,261	3,148
Other non-current liabilities	2,326	4,167	7,590	11,075	12,454	12,798
Total liabilities	20,785	41,352	82,892	99,753	122,303	142,412
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	9,910	21,851	37,620
Other reserves	(0)	(0)	(0)	(0)	(0)	(0)
Total shareholders equity	41,064	44,859	60,143	69,117	82,328	99,353
Total equity and liabilities	61,849	86,210	143,035	168,870	204,631	241,765

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(153)	(2,159)	10,452	7,945	13,345	18,239
Depreciation & amortization	590	1,214	1,805	2,953	4,679	6,399
Change in working capital	6,565	5,035	36,612	12,043	19,081	19,185
Others	1,338	3,290	1,825	2,267	(235)	(1,015)
Net cash from operations	8,340	7,380	50,694	25,208	36,870	42,808
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)	(5,000)	(10,000)	(10,000)
Net cash from investing	(4,257)	(4,365)	(12)	(25,480)	(30,500)	(30,400)
Financing						
Net borrowings	170	3,080	(1,001)	(560)	(312)	(864)
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	(548)	(296)	(849)
Net change in cash						
Cash at the beginning of the year	10,173	30,493	40,418	91,330	90,510	96,583
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	90,510	96,583	108,142
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	185.6%	67.7%	173.5%	17.6%	26.6%	19.7%
Gross profit	271.9%	52.6%	212.8%	5.1%	28.4%	19.1%
Operating profit	na	na	na	(48.2%)	114.7%	52.6%
EBITDA	151.6%	na	na	(10.8%)	64.3%	36.5%
EBIT	na	na	na	(23.5%)	66.5%	36.4%
Net profit	na	na	na	(38.1%)	64.7%	32.1%
Adj. net profit	na	(94.7%)	29,430.1%	(25.9%)	47.2%	28.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	21.3%	19.4%	22.2%	19.8%	20.1%	20.0%
Operating margin	(3.8%)	(8.1%)	5.8%	2.5%	4.3%	5.5%
EBITDA margin	1.9%	(1.9%)	10.0%	7.6%	9.8%	11.2%
Adj. net profit margin	2.9%	0.1%	9.8%	6.2%	7.2%	7.7%
Return on equity (ROE)	(0.9%)	(4.7%)	22.3%	11.2%	15.8%	17.4%
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	1.6
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	10.7	17.5	10.7	8.2
P/E (diluted)	ns	ns	11.5	18.7	11.4	8.8
P/B	2.9	2.7	2.1	1.8	1.6	1.3
P/CFPS	14.1	16.7	2.5	5.0	3.5	3.0
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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