

# Li Auto Inc. (LI US)

## Solid 4Q21 results; new model as catalyst

Li Auto Inc.'s 4Q21 earnings are solid, especially in the bottom line, in our view. We believe Li Auto's operational efficiency and its culture to focus on consumer values could make it well positioned amid supply chain challenges and industry headwinds. We see its new model and autonomous driving (AD) catch up as catalysts for its share prices. We maintain our BUY rating and target price.

- **Top line in line, bottom line beat.** 4Q21 unaudited revenue was 2.6% higher than our prior expectation and its gross margin (22.4%) was 0.5 ppt wider than our estimates. Net profit was about RMB 275mn higher than our estimates largely due to the non-operating income from gains from disposal of used cars.
- **Positive margin outlook backed by operational efficiency.** The recent share price retreat for new-energy vehicle (NEV) stocks partially reflects investors' concerns about rising competition. We believe that Li Auto's operational efficiency and its culture to focus on consumer values could make it better positioned than most of its peers amid stiffer competition. The company still targets higher gross margin in FY22 versus FY21 despite raw-material price hikes. Li Auto's proven supply chain management last year has made us more confident about its sales and profitability outlook.
- **Catalysts: X01, AD.** We are of the view that the upcoming X01 could be a positive short-term catalyst for Li Auto's share price, especially as the management has described that the X01 has some features that cannot be found in other current rival models. The management also indicates that the company is catching up in proprietary AD development with a possible timeline of inter-city road AD functions feasible by the end of this year. Should this come true, Li Auto's valuation will be lifted drastically in our view. To the best of our knowledge, its CTO's resignation should have a minimal impact.
- **Maintain BUY.** We maintain our FY22 sales-volume projection of 180,000 units and raise FY22 revenue by 3.4% on higher ASP estimates. Accordingly, we now project a narrower net loss in FY22 than our prior estimates. We also forecast Li Auto to turn profitable in FY23 even with a 10% R&D ratio. We maintain our BUY rating and target price of US\$ 48.00, still based on 6x FY22E P/S, in line with its forward 12-month P/S in the past 12 months. Key risks to our rating and target price include slower AD development and lower sales volume than our expectation, as well as a sector de-rating.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	9,457	27,010	54,727	90,430	142,859
YoY growth (%)	3,225.5	185.6	102.6	65.2	58.0
Net income (RMB mn)	(792)	(321)	(337)	388	1,887
EPS (RMB)	(0.91)	(0.17)	(0.16)	0.19	0.90
YoY growth (%)	N/A	N/A	N/A	N/A	386.8
P/S (x)	8.4	6.1	3.3	2.0	1.3
P/B (x)	2.7	4.0	4.3	4.2	4.0
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(7)	(0.9)	(0.8)	0.9	4.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimates

**BUY (Maintain)**

Target Price **US\$ 48.00**  
 Up/Downside **+72.1%**  
 Current Price **US\$ 27.89**

### China Auto Sector

#### SHI Ji, CFA

(852) 3761 8728  
 shiji@cmbi.com.hk

#### DOU Wenjing, CFA

(852) 6939 4751  
 douwenjing@cmbi.com.hk

#### Stock Data

Mkt Cap (US\$ mn)	28,806
Avg 3 mths t/o (US\$ mn)	272
52w High/Low (US\$)	37.45/15.98
Total Issued Shares (mn)	2,066
Source: Bloomberg	

#### Shareholding Structure

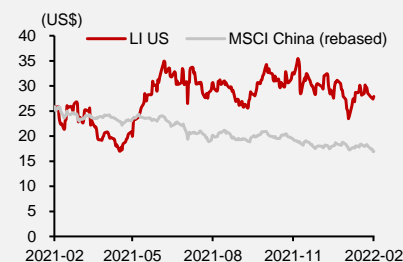
Li Xiang	22.5%
Wang Xing	18.9%
Others	58.6%
Source: Bloomberg	

#### Share Performance

	Absolute	Relative
1-mth	18.9%	21.5%
3-mth	-13.9%	-2.6%
6-mth	-3.9%	11.1%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers  
 Zhong Tian**

#### Related Reports

"China Auto Sector - Survival of the fittest: Pioneers in the NEV era" – 13 Jan 2022

**Figure 1: Quarterly results**

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	YoY	QoQ
Sales volume (units)	2,896	6,604	8,660	14,464	12,579	17,575	25,116	35,221	143.5%	40.2%
ASP (RMB)	294,087	294,857	289,931	286,705	284,220	286,711	309,571	301,537	5.2%	-2.6%
Revenue	852	1,947	2,511	4,147	3,575	5,039	7,775	10,620	156.1%	36.6%
Gross profit	68	260	497	725	617	953	1,812	2,380	228.5%	31.3%
R&D expenses	(190)	(201)	(335)	(374)	(515)	(653)	(888)	(1,230)	228.7%	38.4%
SG&A expenses	(113)	(235)	(342)	(429)	(510)	(835)	(1,021)	(1,126)	162.2%	10.2%
Operating profit	(234)	(176)	(180)	(79)	(408)	(536)	(98)	24	N/A	N/A
Net profit	(234)	(345)	(321)	108	(360)	(235)	(22)	296	174.8%	N/A
Gross margin	8.0%	13.3%	19.8%	17.5%	17.3%	18.9%	23.3%	22.4%	4.9 ppt	-0.9 ppt
Operating margin	-27.5%	-9.1%	-7.2%	-1.9%	-11.4%	-10.6%	-1.3%	0.2%	2.1 ppt	1.5 ppt
Net margin	-27.4%	-17.7%	-12.8%	2.6%	-10.1%	-4.7%	-0.3%	2.8%	0.2 ppt	3.1 ppt

Source: Company data, CMBIGM

**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	54,727	90,430	142,859	52,917	88,780	N/A	3.4%	1.9%	N/A
Gross profit	11,878	18,841	28,369	11,585	19,026	N/A	2.5%	-1.0%	N/A
Operating profit	(1,290)	(485)	1,149	(1,476)	(593)	N/A	N/A	N/A	N/A
Net profit	(337)	388	1,887	(838)	(233)	N/A	N/A	N/A	N/A
Gross margin	21.7%	20.8%	19.9%	21.9%	21.4%	N/A	-0.2 ppt	-0.6 ppt	N/A
Operating margin	-2.4%	-0.5%	0.8%	-2.8%	-0.7%	N/A	0.4 ppt	0.1 ppt	N/A
Net margin	-0.6%	0.4%	1.3%	-1.6%	-0.3%	N/A	1.0 ppt	0.7 ppt	N/A

Source: Bloomberg, CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	54,727	90,430	142,859	48,660	78,045	N/A	12.5%	15.9%	N/A
Gross profit	11,878	18,841	28,369	10,663	17,435	N/A	11.4%	8.1%	N/A
Operating profit	(1,290)	(485)	1,149	(850)	2,029	N/A	N/A	-123.9%	N/A
Net profit	(337)	388	1,887	(477)	2,532	N/A	N/A	-84.7%	N/A
Gross margin	21.7%	20.8%	19.9%	21.9%	22.3%	N/A	-0.2 ppt	-1.5 ppt	N/A
Operating margin	-2.4%	-0.5%	0.8%	-1.7%	2.6%	N/A	-0.6 ppt	-3.1 ppt	N/A
Net margin	-0.6%	0.4%	1.3%	-1.0%	3.2%	N/A	0.4 ppt	-2.8 ppt	N/A

Source: CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>9,457</b>	<b>27,010</b>	<b>54,727</b>	<b>90,430</b>	<b>142,859</b>
Cost of sales	(7,907)	(21,248)	(42,850)	(71,589)	(114,449)
<b>Gross profit</b>	<b>1,549</b>	<b>5,761</b>	<b>11,878</b>	<b>18,841</b>	<b>28,369</b>
R&D exp.	(1,100)	(3,286)	(6,164)	(9,320)	(13,261)
SG&A exp.	(1,119)	(3,492)	(7,003)	(10,006)	(13,959)
<b>Operating profit</b>	<b>(669)</b>	<b>(1,017)</b>	<b>(1,290)</b>	<b>(485)</b>	<b>1,149</b>
Net finance costs	(26)	117	178	202	246
Investment income	214	560	588	619	635
Other non-oper exp.	292	187	75	120	190
<b>Pre-tax profit</b>	<b>(189)</b>	<b>(153)</b>	<b>(449)</b>	<b>456</b>	<b>2,220</b>
Tax	23	(169)	112	(68)	(333)
Discontinued operations	14	-	-	-	-
Accr. on preferred shares	(640)	-	-	-	-
<b>Net profit</b>	<b>(792)</b>	<b>(321)</b>	<b>(337)</b>	<b>388</b>	<b>1,887</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before taxation</b>	<b>(189)</b>	<b>(153)</b>	<b>(449)</b>	<b>456</b>	<b>2,220</b>
Depreciation/amortization	321	454	960	2,074	3,507
Change in working capital	3,068	5,532	7,439	11,252	10,021
Others	(60)	2,508	1,450	1,240	996
<b>Net cash from operating</b>	<b>3,140</b>	<b>8,340</b>	<b>9,400</b>	<b>15,022</b>	<b>16,745</b>
Capex	(675)	(4,008)	(7,100)	(9,650)	(11,200)
Others	(18,063)	(250)	(2,100)	1,000	(3,600)
<b>Net cash from investing</b>	<b>(18,738)</b>	<b>(4,257)</b>	<b>(9,200)</b>	<b>(8,650)</b>	<b>(14,800)</b>
Share issuance	21,026	11,10	7	13	-
Net borrowings	(145)	(63)	(146)	(101)	(392)
Others	3,830	5,664	-	-	-
<b>Net cash from financing</b>	<b>24,711</b>	<b>16,710</b>	<b>(139)</b>	<b>(88)</b>	<b>(392)</b>
<b>Net change in cash</b>	<b>9,113</b>	<b>20,793</b>	<b>61</b>	<b>6,283</b>	<b>1,553</b>
Cash at beginning of the year	1,436	10,173	30,493	30,554	36,837
FX & discontinued operations	(377)	(472)	-	-	-
<b>Cash at the end of the year</b>	<b>10,173</b>	<b>30,493</b>	<b>30,554</b>	<b>36,837</b>	<b>38,390</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>31,391</b>	<b>52,380</b>	<b>56,254</b>	<b>63,353</b>	<b>71,408</b>
Cash & equivalents	8,938	27,854	27,554	33,837	34,890
Account receivables	116	121	450	991	1,566
Inventories	1,048	1,618	3,287	5,099	8,155
Other current assets	21,289	22,788	24,963	23,425	26,797
<b>Non-current assets</b>	<b>4,982</b>	<b>9,468</b>	<b>19,309</b>	<b>30,031</b>	<b>40,235</b>
PP&E	2,479	4,498	10,505	17,918	25,379
Intangibles	683	751	812	897	998
Right-of-use assets	1,277	2,061	4,647	6,586	7,585
Other non-current assets	543	2,157	3,345	4,629	6,273
<b>Total assets</b>	<b>36,373</b>	<b>61,849</b>	<b>75,563</b>	<b>93,383</b>	<b>111,643</b>
<b>Current liabilities</b>	<b>4,309</b>	<b>12,108</b>	<b>22,456</b>	<b>38,005</b>	<b>53,282</b>
Bank borrowings	-	37	(512)	(212)	(312)
Account payables	3,161	9,376	17,609	29,420	40,777
Current deferred revenue	272	305	1,777	4,089	7,625
Other current liabilities	877	2,390	3,582	4,707	5,192
<b>Non-current liabilities</b>	<b>2,260</b>	<b>8,676</b>	<b>11,308</b>	<b>12,120</b>	<b>12,210</b>
Bank borrowings	512	355	855	555	355
Lease liabilities	1,392	1,370	2,671	2,944	1,740
Other non-current liabilities	357	6,952	7,783	8,621	10,115
<b>Total liabilities</b>	<b>6,570</b>	<b>20,785</b>	<b>33,764</b>	<b>50,125</b>	<b>65,492</b>
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	29,802	41,063	41,797	43,257	46,149
<b>Shareholders' equity</b>	<b>29,804</b>	<b>41,064</b>	<b>41,798</b>	<b>43,258</b>	<b>46,150</b>
<b>Total equity and liabilities</b>	<b>36,373</b>	<b>61,849</b>	<b>75,563</b>	<b>93,383</b>	<b>111,643</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Vehicle sales	98.2	96.7	97.1	97.4	97.3
Other sales & services	1.8	3.3	2.9	2.6	2.7
<b>Growth (%)</b>					
Revenue	3,225.5	185.6	102.6	65.2	58.0
Gross profit	N/A	271.9	106.2	58.6	50.6
Operating profit	N/A	N/A	N/A	N/A	N/A
Net profit	N/A	N/A	N/A	N/A	386.8
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	16.4	21.3	21.7	20.8	19.9
Operating margin	(7.1)	(3.8)	(2.4)	(0.5)	0.8
Net profit margin	(8.4)	(1.2)	(0.6)	0.4	1.3
<b>Balance sheet ratio</b>					
Net cash (debt)/total equity (x)	1.0	1.1	1.1	1.2	1.2
Current ratio (x)	7.3	4.3	2.5	1.7	1.3
Receivable turnover days	4	2	3	4	4
Inventory turnover days	48	28	28	26	26
Payable turnover days	146	161	150	150	130
<b>Profitability (%)</b>					
ROE	(6.6)	(0.9)	(0.8)	0.9	4.2
ROA	(3.5)	(0.7)	(0.5)	0.5	1.8
<b>Per share data (RMB)</b>					
EPS	(0.91)	(0.17)	(0.16)	0.19	0.90
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.