

NIO Inc. (NIO US)

Capacity laid out for new model acceleration

NIO Inc.'s 4Q21 earnings are largely in line with our estimates. The rollouts of new models appear to be on track, coupled with new production capacity laid out. We expect ET5-sized new models in the new plant in FY23E, which could include its planned mass-market brand. We revise up our sales volume forecasts slightly in FY22-23E and lower FY22E GPM by 1.8 ppts. We maintain our BUY rating.

- **GP in line, R&D and infrastructure investments accelerated.** Revenue in 4Q21 was 4% higher than our estimates and GPM was 0.7 ppt lower than expected. Vehicle GPM of 20.9% was solid, the second highest in history. Net loss was RMB 500mn worse than our forecast, mainly caused by higher SG&A.
- **New model launches, new brand on track.** The ET7 sedan will start deliveries on 28 Mar 2022 and the current orders backlog could be well above 15,000 units, according to management. The company plans to deliver the ES7 SUV in 3Q22, which is also produced in the first plant, along with the ET7 and all three existing models. The plant will reach an annualized production capacity of 240,000 units in mid-2022 on two shifts. The ET5 sedan, scheduled in September 2022, will be produced in the new plant with an annual capacity of 240,000 units. Therefore, it is reasonable to expect at least 1-2 new models with the ET5 size in 2023, which could include the new mass-market brand, as management said its core team has been formed.
- **Luxurious brand image to withstand margin headwinds.** In our view, management guidance for vehicle GPM of 18-20% in FY22E is feasible, given NIO's brand image. We also think that NIO has been following what it did in China for its brand building in early days for overseas markets in a bid to create its first-mover advantage.
- **Maintain BUY.** We revise up FY22E sales volume by 50,000 units to 170,000 units and lower GPM projection by 1.8 ppts. We also raise R&D and SG&A expenses based on its production, sales network and charging plans. Such expansion is likely to slow down in FY23E given its accumulated investments so far. We project net loss of RMB 8.2bn in FY22E and RMB 2.0bn in FY23E.

We maintain our BUY rating and target price of US\$ 45.00 based on 7.3x (previously 8.0x) our revised FY22E revenue estimates. Key risks to our rating and target price include slower autonomous driving technology advancement and a faster catch up from other OEMs than our expectation, lower sales volume of new models than we expect, as well as a sector de-rating.

Earnings Summary

| (YE 31 Dec) | FY19A | FY20A | FY21A | FY22E | FY23E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 7,825 | 16,258 | 36,136 | 66,596 | 105,838 |
| YoY growth (%) | 58.0 | 107.8 | 122.3 | 84.3 | 58.9 |
| Net income (RMB mn) | (11,413) | (5,611) | (10,572) | (8,231) | (2,022) |
| EPS (RMB) | (11.08) | (4.74) | (6.72) | (4.85) | (1.19) |
| YoY growth (%) | N/A | N/A | N/A | N/A | N/A |
| P/S (x) | 20.1 | 10.4 | 6.1 | 3.6 | 2.2 |
| P/B (x) | (25.0) | 6.2 | 6.3 | 8.5 | 8.8 |
| Yield (%) | N/A | N/A | N/A | N/A | N/A |
| ROE (%) | (4,248) | (53.8) | (34.2) | (26.3) | (7.4) |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$ 45.00**
 Up/Downside **+104.7%**
 Current Price **US\$ 21.98**

China Auto Sector

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Stock Data

| | |
|--------------------------|-------------|
| Mkt Cap (US\$ mn) | 37,727 |
| Avg 3 mths t/o (US\$ mn) | 1,539 |
| 52w High/Low (US\$) | 55.13/13.01 |
| Total Issued Shares (mn) | 1,692 |
| Source: Bloomberg | |

Shareholding Structure

| | |
|-------------------|-------|
| Li Bin | 10.3% |
| Tencent entities | 9.7% |
| Others | 80.0% |
| Source: Bloomberg | |

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 7.4% | 16.8% |
| 3-mth | -28.0% | -15.6% |
| 6-mth | -37.9% | -19.7% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers
 Zhong Tian

Figure 1: Quarterly results

| RMB mn | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | YoY | QoQ |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|
| Sales volume (units) | 3,838 | 10,331 | 12,206 | 17,353 | 20,060 | 21,896 | 24,439 | 25,034 | 44.3% | 2.4% |
| ASP (RMB) | 357,465 | 359,978 | 370,798 | 382,706 | 397,923 | 385,826 | 401,215 | 395,492 | 3.3% | -1.4% |
| Revenue | 1,372 | 3,719 | 4,526 | 6,641 | 7,982 | 8,448 | 9,805 | 9,901 | 49.1% | 1.0% |
| Gross profit | (167) | 313 | 586 | 1,142 | 1,555 | 1,574 | 1,993 | 1,700 | 48.8% | -14.7% |
| R&D expenses | (522) | (545) | (591) | (829) | (687) | (884) | (1,193) | (1,829) | 120.5% | 53.3% |
| SG&A expenses | (848) | (937) | (940) | (1,207) | (1,197) | (1,498) | (1,825) | (2,358) | 95.4% | 29.2% |
| Operating profit | (1,570) | (1,160) | (946) | (931) | (296) | (763) | (992) | (2,445) | N/A | N/A |
| Net profit | (1,723) | (1,208) | (1,188) | (1,492) | (4,875) | (659) | (2,859) | (2,179) | N/A | N/A |
| Gross margin | -12.2% | 8.4% | 12.9% | 17.2% | 19.5% | 18.6% | 20.3% | 17.2% | 0.0 ppt | -3.2 ppt |
| Operating margin | -114.5% | -31.2% | -20.9% | -14.0% | -3.7% | -9.0% | -10.1% | -24.7% | -10.7 ppt | -14.6 ppt |
| Net margin | -125.6% | -32.5% | -26.2% | -22.5% | -61.1% | -7.8% | -29.2% | -22.0% | 0.5 ppt | 7.1 ppt |

Source: Company data, CMBIGM

Figure 2: Earnings revision

| RMB mn | New | | Old | | Diff (%) | |
|------------------|---------|---------|---------|---------|----------|----------|
| | FY22E | FY23E | FY22E | FY23E | FY22E | FY23E |
| Revenue | 66,596 | 105,838 | 63,325 | 100,007 | 5.2% | 5.8% |
| Gross profit | 12,056 | 20,625 | 12,608 | 20,372 | -4.4% | 1.2% |
| Operating profit | (8,684) | (2,423) | (4,045) | (1,456) | N/A | N/A |
| Net profit | (8,231) | (2,022) | (3,887) | (1,294) | N/A | N/A |
| Gross margin | 18.1% | 19.5% | 19.9% | 20.4% | -1.8 ppt | -0.9 ppt |
| Operating margin | -13.0% | -2.3% | -6.4% | -1.5% | -6.7 ppt | -0.8 ppt |
| Net margin | -12.4% | -1.9% | -6.1% | -1.3% | -6.2 ppt | -0.6 ppt |

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

| RMB mn | CMBIGM | | Consensus | | Diff (%) | |
|------------------|---------|---------|-----------|---------|----------|----------|
| | FY22E | FY23E | FY22E | FY23E | FY22E | FY23E |
| Revenue | 66,596 | 105,838 | 63,412 | 100,416 | 5.0% | 5.4% |
| Gross profit | 12,056 | 20,625 | 12,726 | 21,580 | -5.3% | -4.4% |
| Operating profit | (8,684) | (2,423) | (1,994) | 2,298 | N/A | -205.4% |
| Net profit | (8,231) | (2,022) | (2,405) | 1,436 | N/A | -240.8% |
| Gross margin | 18.1% | 19.5% | 20.1% | 21.5% | -2.0 ppt | -2.0 ppt |
| Operating margin | -13.0% | -2.3% | -3.1% | 2.3% | -9.9 ppt | -4.6 ppt |
| Net margin | -12.4% | -1.9% | -3.8% | 1.4% | -8.6 ppt | -3.3 ppt |

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21A | FY22E | FY23E |
|--------------------------|-----------------|----------------|-----------------|----------------|----------------|
| Revenue | 7,825 | 16,258 | 36,136 | 66,596 | 105,838 |
| Cost of sales | (9,024) | (14,385) | (29,315) | (54,540) | (85,212) |
| Gross profit | (1,199) | 1,873 | 6,821 | 12,056 | 20,625 |
| R&D exp. | (4,429) | (2,488) | (4,592) | (9,241) | (9,728) |
| SG&A exp. | (5,452) | (3,932) | (6,878) | (11,699) | (13,570) |
| Other income | - | (61) | 152 | 200 | 250 |
| Operating profit | (11,079) | (4,608) | (4,496) | (8,684) | (2,423) |
| Net finance costs | (210) | (259) | 274 | 591 | 464 |
| Gain/(Loss) of investee | (64) | (66) | 63 | 50 | 100 |
| Other non-oper exp. | 66 | (365) | 185 | (20) | 10 |
| Pre-tax profit | (11,288) | (5,298) | (3,975) | (8,062) | (1,849) |
| Income tax | (8) | (6) | (42) | (24) | (6) |
| Accr. on redeemable int. | (127) | (312) | (6,587) | (150) | (170) |
| Minority interests | 9 | 5 | 31 | 5 | 3 |
| Net profit | (11,413) | (5,611) | (10,572) | (8,231) | (2,022) |

Cash flow summary

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21A | FY22E | FY23E |
|------------------------------------|-----------------|----------------|-----------------|----------------|----------------|
| Profit before taxation | (11,288) | (5,298) | (3,975) | (8,062) | (1,849) |
| Depreciation/amortization | 1,521 | 1,546 | 2,134 | 3,007 | 4,071 |
| Change in working capital | 437 | 4,830 | 2,183 | 4,833 | 4,316 |
| Others | 608 | 873 | 963 | 626 | 587 |
| Net cash from operating | (8,722) | 1,951 | 1,305 | 405 | 7,125 |
| Capex | (1,707) | (1,128) | (3,201) | (4,501) | (6,001) |
| Others | 5,089 | (3,943) | (33,257) | 11,058 | (500) |
| Net cash from investing | 3,382 | (5,071) | (36,458) | 6,557 | (6,501) |
| Share issuance | 51 | 34,76 | 13,234 | 800 | 600 |
| Net borrowings | (1,234) | 615 | - | (7,298) | 2,096 |
| Others | 4,279 | 5,981 | (1,754) | 20 | (3,578) |
| Net cash from financing | 3,095 | 41,357 | 11,479 | (6,478) | (882) |
| Net change in cash | (2,245) | 38,237 | (20,171) | 483 | (258) |
| Cash at beginning of the year | 3,224 | 990 | 38,545 | 18,375 | 18,858 |
| Exchange difference | 10 | (682) | - | - | - |
| Cash at the end of the year | 990 | 38,545 | 18,375 | 18,858 | 18,600 |

Balance sheet

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21A | FY22E | FY23E |
|---------------------------------------|----------------|---------------|---------------|---------------|---------------|
| Current assets | 4,928 | 46,207 | 63,641 | 56,119 | 61,786 |
| Cash & equivalents | 863 | 38,426 | 15,334 | 15,258 | 14,450 |
| Account receivables | 1,352 | 1,079 | 2,798 | 4,744 | 7,539 |
| Inventories | 890 | 1,082 | 2,056 | 3,736 | 6,070 |
| Other current assets | 1,824 | 5,620 | 43,453 | 32,382 | 33,726 |
| Non-current assets | 9,654 | 8,435 | 19,242 | 25,557 | 30,527 |
| PP&E | 5,533 | 4,996 | 7,400 | 9,911 | 13,110 |
| Right-of-use assets | 1,998 | 1,350 | 2,988 | 3,250 | 2,842 |
| Other non-current assets | 2,123 | 2,089 | 8,854 | 12,396 | 14,575 |
| Total assets | 14,582 | 54,642 | 82,884 | 81,676 | 92,313 |
| Current liabilities | 9,499 | 13,976 | 29,198 | 32,615 | 45,235 |
| Bank borrowings | 1,208 | 1,931 | 7,298 | 33 | 1,130 |
| Account payables | 3,112 | 6,368 | 12,639 | 20,919 | 31,517 |
| Tax payable | 44 | 182 | 628 | 628 | 628 |
| Other current liabilities | 5,135 | 5,496 | 8,633 | 11,034 | 11,961 |
| Non-current liabilities | 9,905 | 8,803 | 15,622 | 17,688 | 19,987 |
| Bank borrowings incl. CB | 7,155 | 5,938 | 9,739 | 9,699 | 10,699 |
| Other non-current liabilities | 2,750 | 2,865 | 5,883 | 7,989 | 9,287 |
| Total liabilities | 19,404 | 22,780 | 44,820 | 50,303 | 65,222 |
| Mezzanine equity | 1,456 | 4,691 | 3,278 | 3,428 | - |
| Share capital | 2 | 3 | 3 | 3 | 3 |
| Treasury shares | - | - | (1,850) | (2,514) | (2,514) |
| Reserves | (6,302) | 27,166 | 36,557 | 30,386 | 29,535 |
| Non-controlling interests | 22 | 2 | 76 | 71 | 68 |
| Shareholders' equity | (6,300) | 27,169 | 34,710 | 27,875 | 27,023 |
| Total equity & liabilities | 14,582 | 54,642 | 82,884 | 81,676 | 92,313 |

Key ratios

| YE 31 Dec | FY19A | FY20A | FY21A | FY22E | FY23E |
|------------------------------------|---------|--------|--------|--------|--------|
| Sales mix (%) | | | | | |
| Vehicle sales | 94.1 | 93.4 | 91.8 | 93.6 | 92.4 |
| Others | 5.9 | 6.6 | 8.2 | 6.4 | 7.6 |
| Growth (%) | | | | | |
| Revenue | 58.0 | 107.8 | 122.3 | 84.3 | 58.9 |
| Gross profit | N/A | N/A | 264.1 | 76.7 | 71.1 |
| 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 | (15.3) | 11.5 | 18.9 | 18.1 | 19.5 |
| Operating margin | (141.6) | (28.3) | (12.4) | (13.0) | (2.3) |
| Net profit margin | (145.9) | (34.5) | (29.3) | (12.4) | (1.9) |
| Balance sheet ratio | | | | | |
| Net cash/total equity (x) | 1.5 | 1.1 | 1.0 | 1.1 | 1.2 |
| Current ratio (x) | 0.5 | 3.3 | 2.2 | 1.7 | 1.4 |
| Receivable turnover days | 63 | 24 | 28 | 26 | 26 |
| Inventory turnover days | 36 | 27 | 26 | 25 | 26 |
| Payable turnover days | 126 | 162 | 157 | 140 | 135 |
| Profitability (%) | | | | | |
| ROE | (4.247) | (53.8) | (34.2) | (26.3) | (7.4) |
| ROA | (68.3) | (16.2) | (15.4) | (10.0) | (2.3) |
| Per share data (RMB) | | | | | |
| EPS | (11.08) | (4.74) | (6.72) | (4.85) | (1.19) |
| DPS | N/A | N/A | N/A | N/A | N/A |

Source: Company data, CMBIGM estimates

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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

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