

# Xpeng Inc. (XPEV US)

## Mixed 4Q21 results; G9, new platforms key drivers

We view Xpeng Inc.'s 4Q21 results as a mixed bag with short-term lack of catalysts but medium-term continuous optimism. We maintain our BUY rating but cut our target price to US \$67.00 from US\$ 80.00.

- Gross margin miss.** Xpeng posted 10.9% gross margin for its vehicle sales in 4Q21 even amid a 63% QoQ sales volume improvement, lower than our prior expectation of 14.0%. Net loss of RMB 1.3bn in 4Q21 was RMB 500mn better than our estimates, largely due to its fair value gain of RMB 592mn from investments in the flying car company Xpeng Huitian.
- New platforms in FY23E to lift margins.** Xpeng's gross margin QoQ decline cannot be fully explained by product mix changes, based on our calculations. This raises our concerns about Xpeng's production efficiency especially in terms of its potential benefits from economies of scale. We cut our FY22E gross margin to 16.0% from 17.6%. In our view, Xpeng prioritized autonomous driving (AD) and smart cockpit technologies over manufacturing optimization at the initial stage, which has probably led to lower gross margin than NIO (NIO US, BUY) and Li Auto (Li US, BUY), apart from its lower selling prices. That probably explains why the company plans to launch two new platforms in FY23E, as per its 4Q21 earnings call. Therefore, we believe Xpeng's gross margin could be significantly improved from late FY23E or early FY24E.
- G9, XPilot 4.0 key to valuation premium.** According to management, the XPilot 3.5's (OTA in 2H22) test performance significantly exceeded its expectation and the take rate of the XPilot 4.0 (OTA in 2023) could be higher than 50%. We also expect the P7 to be facelifted in FY23E, as management targets at least four models to be capable of the XPilot 4.0 by the end of 2023. That could make the P5 a bit tricky, as the supply chain constraints capped its delivery ramp-up, which could result in lower take rate of the XPilot 3.5 than we had expected given the P5's more affordable prices. We lower our FY22E sales volume forecast by 10,000 units to 210,000 units, as we cut our sales projection for the P5 by 10,000 units. We believe it is also possible that Xpeng makes the XPilot 4.0 available for most trim levels of the more premium G9 SUV, if not all, in order to achieve more than 50% take rate. Li Auto has made its L2+ AD features as a basic function for its *Li One* in a bid to catch up with more data for faster software iteration. In addition, the G9 is also key to Xpeng's margin lift and upmarket capabilities.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue (RMB mn)	2,321	5,844	20,988	47,421	75,529
YoY growth (%)	23,815.3	151.8	259.1	125.9	59.3
Net income (RMB mn)	(4,643)	(4,890)	(4,863)	(5,112)	(2,659)
EPS (RMB)	(13.29)	(6.48)	(2.96)	(3.06)	(1.58)
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
P/S (x)	14.2	11.4	6.7	3.0	1.9
P/B (x)	(4.8)	1.9	3.4	3.9	4.2
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	N/A	(35.4)	(12.7)	(12.9)	(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\$ 67.00
(Previous TP)	US\$ 80.00)
Up/Downside	+147.0%
Current Price	US\$ 27.13

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#### Stock Data

Mkt Cap (US\$ mn)	23,235
Avg 3 mths t/o (US\$ mn)	436
52w High/Low (US\$)	56.45/18.01
Total Issued Shares (mn)	1,713
Source: Bloomberg	

#### Shareholding Structure

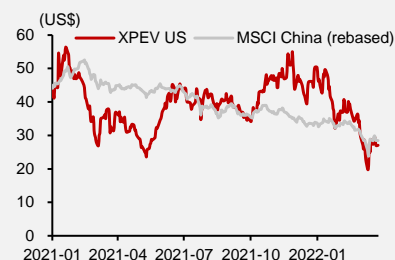
He Xiaopeng	21.2%
Taobao China	11.2%
Others	67.6%
Source: Bloomberg	

#### Share Performance

	Absolute	Relative
1-mth	-22.6%	-13.7%
3-mth	-39.0%	-26.4%
6-mth	-23.7%	-3.3%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers  
Zhong Tian

- **Possible QoQ improvement in sales and gross margin.** Management anticipates its sales volume's leading position to continue in 2022 among all NEV start-ups, with a guidance of the P7's monthly sales volume surpassing 10,000 units in FY22E and the P5's volume to be close to the P7's (should the supply constraints ease). Xpeng so far has a good track record in terms of providing such figures. Now we believe investors have been anticipating QoQ improvement for both sales volume and gross margin in FY22E, with 1Q22E gross margin at a similar level of that in 4Q21. The difference probably lies in the pace and magnitude of such improvement, as well as the confidence in the G9 and XPilot 4.0.
- **Valuation/Key risks.** We cut our FY22E revenue by 1% and gross profit by 10%, as elaborated above. We also expect a slightly wider net loss in FY22E versus FY21, as NEV start-ups race for the cutting-edge technology development and Xpeng's fast-charging infrastructure investments. Accordingly, we maintain our BUY rating but lower our target price from US\$ 80.00 to US\$ 67.00, based on 7.5x (previously 9.0x) our revised FY22E revenue estimates. We still give Xpeng a bit valuation premium (but narrowed) compared with Li Auto (6x our FY22E P/S) and NIO (7x our FY22E P/S), with its leading technologies in AD and smart cockpit and current on-track R&D.

Key risks to our rating and target price include slower AD technology advancement and a faster catch up from other automakers, lower sales volume and/or gross margin than we expect, as well as a sector de-rating.

**Figure 1: Quarterly results**

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	YoY	QoQ
Sales volume (units)	2,271	3,228	8,578	12,964	13,340	17,398	25,666	41,751	222.1%	62.7%
ASP (RMB)	181,448	183,018	232,003	219,944	221,209	216,190	222,860	204,929	-6.8%	-8.0%
Revenue	412	591	1,990	2,851	2,951	3,761	5,720	8,556	200.1%	49.6%
Gross profit	(20)	(16)	92	211	330	449	821	1,023	386.0%	24.7%
R&D expenses	(311)	(320)	(635)	(460)	(535)	(864)	(1,264)	(1,451)	215.6%	14.8%
SG&A expenses	(322)	(477)	(1,204)	(918)	(721)	(1,031)	(1,538)	(2,015)	119.6%	31.0%
Operating profit	(649)	(779)	(1,744)	(1,121)	(904)	(1,443)	(1,803)	(2,430)	N/A	N/A
Net profit	(645)	(769)	(865)	(713)	(696)	(1,096)	(1,492)	(1,198)	N/A	N/A
Gross margin	-4.8%	-2.7%	4.6%	7.4%	11.2%	11.9%	14.4%	12.0%	4.6 ppt	-2.4 ppt
Operating margin	-157.6%	-131.9%	-87.6%	-39.3%	-30.6%	-38.4%	-31.5%	-28.4%	10.9 ppt	3.1 ppt
Net margin	-156.5%	-130.2%	-43.5%	-25.0%	-23.6%	-29.2%	-26.1%	-14.0%	11.0 ppt	12.1 ppt

Source: Company data, CMBIGM

**Figure 2: Earnings revision**

RMB mn	New		Old		Diff (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	47,421	75,529	47,851	73,634	-0.9%	2.6%
Gross profit	7,569	13,405	8,405	15,050	-9.9%	-10.9%
Operating profit	(5,831)	(3,235)	(3,635)	(1,400)	N/A	N/A
Net profit	(5,112)	(2,659)	(3,026)	(876)	N/A	N/A
Gross margin	16.0%	17.7%	17.6%	20.4%	-1.6 ppt	-2.7 ppt
Operating margin	-12.3%	-4.3%	-7.6%	-1.9%	-4.7 ppt	-2.4 ppt
Net margin	-10.8%	-3.5%	-6.3%	-1.2%	-4.5 ppt	-2.3 ppt

Source: CMBIGM estimates

**Figure 3: CMBI estimates vs consensus**

RMB mn	CMBIGM		Consensus		Diff (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	47,421	75,529	40,880	65,986	16.0%	14.5%
Gross profit	7,569	13,405	6,274	11,893	20.7%	12.7%
Operating profit	(5,831)	(3,235)	(6,156)	(3,329)	N/A	N/A
Net profit	(5,112)	(2,659)	(5,431)	(2,848)	N/A	N/A
Gross margin	16.0%	17.7%	15.3%	18.0%	0.6 ppt	-0.3 ppt
Operating margin	-12.3%	-4.3%	-15.1%	-5.0%	2.8 ppt	0.8 ppt
Net margin	-10.8%	-3.5%	-13.3%	-4.3%	2.5 ppt	0.8 ppt

Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>2,321</b>	<b>5,844</b>	<b>20,988</b>	<b>47,421</b>	<b>75,529</b>
Cost of sales	(2,879)	(5,578)	(18,366)	(39,852)	(62,124)
<b>Gross profit</b>	<b>(558)</b>	<b>266</b>	<b>2,623</b>	<b>7,569</b>	<b>13,405</b>
R&D exp.	(2,070)	(1,726)	(4,114)	(6,400)	(7,500)
SG&A exp.	(1,165)	(2,921)	(5,305)	(7,400)	(9,840)
Other income	12	87	218	400	700
<b>Operating profit</b>	<b>(3,781)</b>	<b>(4,294)</b>	<b>(6,579)</b>	<b>(5,831)</b>	<b>(3,235)</b>
Net finance costs	57	111	688	669	526
Other non-oper exp.	32	1,452	1,055	50	50
<b>Pre-tax profit</b>	<b>(3,692)</b>	<b>(2,731)</b>	<b>(4,837)</b>	<b>(5,112)</b>	<b>(2,659)</b>
Income tax	(0)	(1)	(26)	-	-
Accr. on preferred shares	(951)	(2,158)	-	-	-
<b>Net profit</b>	<b>(4,643)</b>	<b>(4,890)</b>	<b>(4,863)</b>	<b>(5,112)</b>	<b>(2,659)</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profit before taxation</b>	<b>(3,692)</b>	<b>(2,731)</b>	<b>(4,837)</b>	<b>(5,112)</b>	<b>(2,659)</b>
Depreciation/amortization	227	438	726	1,239	2,138
Change in working capital	(190)	2,495	4,845	1,502	2,492
Others	92	(340)	(884)	(438)	(376)
<b>Net cash from operating</b>	<b>(3,563)</b>	<b>(140)</b>	<b>(177)</b>	<b>(2,809)</b>	<b>1,596</b>
Capex	(1,908)	(1,362)	(2,550)	(5,150)	(9,150)
Others	2,649	(3,044)	(26,361)	4,145	4,252
<b>Net cash from investing</b>	<b>740</b>	<b>(4,406)</b>	<b>(28,911)</b>	<b>(1,005)</b>	<b>(4,898)</b>
Share issuance	-	27,39	13,592	-	-
Net borrowings	872	(352)	-	5,180	5,302
Others	2,722	7,283	-	-	-
<b>Net cash from financing</b>	<b>3,594</b>	<b>34,330</b>	<b>13,592</b>	<b>5,180</b>	<b>5,302</b>
<b>Net change in cash</b>	<b>771</b>	<b>29,784</b>	<b>(19,907)</b>	<b>1,365</b>	<b>2,000</b>
Cash at beginning of the year	1,632	2,408	31,542	11,635	13,000
Exchange difference	5	(650)	-	-	-
<b>Cash at the end of the year</b>	<b>2,408</b>	<b>31,542</b>	<b>11,635</b>	<b>13,000</b>	<b>15,000</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Current assets</b>	<b>4,961</b>	<b>39,679</b>	<b>48,831</b>	<b>57,560</b>	<b>64,220</b>
Cash & equivalents	1,947	29,209	11,025	12,390	14,390
Account receivables	539	1,129	2,673	7,795	10,346
Inventories	454	1,343	2,662	4,913	6,808
Other current assets	2,020	7,998	32,470	32,461	32,675
<b>Non-current assets</b>	<b>4,291</b>	<b>5,028</b>	<b>16,821</b>	<b>22,633</b>	<b>32,991</b>
PP&E	3,230	3,082	5,425	9,581	16,836
Intangibles	118	608	879	851	814
Other non-current assets	943	1,338	10,517	12,202	15,341
<b>Total assets</b>	<b>9,251</b>	<b>44,707</b>	<b>65,651</b>	<b>80,193</b>	<b>97,211</b>
<b>Current liabilities</b>	<b>3,298</b>	<b>7,837</b>	<b>18,013</b>	<b>35,886</b>	<b>52,972</b>
Bank borrowings	480	173	-	4,700	9,522
Account payables	954	5,112	12,362	21,837	30,637
Current deferred revenue	16	164	418	871	1,687
Other current liabilities	1,847	2,389	5,232	8,479	11,127
<b>Non-current liabilities</b>	<b>3,091</b>	<b>2,440</b>	<b>5,492</b>	<b>7,153</b>	<b>9,684</b>
Bank borrowings	1,690	1,645	1,675	2,155	2,635
Other non-current liabilities	1,401	795	3,817	4,998	7,049
<b>Total liabilities</b>	<b>6,388</b>	<b>10,277</b>	<b>23,505</b>	<b>43,039</b>	<b>62,656</b>
Mezzanine equity	9,693	-	-	-	-
Ordinary shares	0	0	0	0	0
Reserves	(6,830)	34,430	42,146	37,154	34,555
<b>Shareholders' equity</b>	<b>(6,830)</b>	<b>34,430</b>	<b>42,147</b>	<b>37,154</b>	<b>34,555</b>
<b>Total equity and liabilities</b>	<b>9,251</b>	<b>44,707</b>	<b>65,651</b>	<b>80,193</b>	<b>97,211</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Sales mix (%)</b>					
Vehicle sales	93.5	94.9	95.5	95.6	96.2
Services and others	6.5	5.1	4.5	4.4	3.8
<b>Growth (%)</b>					
Revenue	23,815.3	151.8	259.1	125.9	59.3
Gross profit	N/A	N/A	886.0	188.6	77.1
Operating profit	N/A	N/A	N/A	N/A	N/A
Net profit	N/A	N/A	N/A	N/A	N/A
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	(24.0)	4.6	12.5	16.0	17.7
Operating margin	(162.9)	(73.5)	(31.3)	(12.3)	(4.3)
Net profit margin	(200.0)	(83.7)	(23.2)	(10.8)	(3.5)
<b>Balance sheet ratio</b>					
Net cash/total equity (x)	0.2	1.0	0.9	0.8	0.7
Current ratio (x)	1.5	5.1	2.7	1.6	1.2
Receivable turnover days	85	71	46	60	50
Inventory turnover days	58	88	53	45	40
Payable turnover days	121	334	246	200	180
<b>Profitability (%)</b>					
ROE	N/A	(35.4)	(12.7)	(12.9)	(7.4)
ROA	(54.9)	(18.1)	(8.8)	(7.0)	(3.0)
<b>Per share data (RMB)</b>					
EPS	(13.29)	(6.48)	(2.96)	(3.06)	(1.58)
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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