

Li Auto Inc. (LI US)

2Q22 could be resilient after solid 1Q22

Maintain BUY. Li Auto Inc.'s 1Q22 earnings are solid, especially in gross margin, in our view. We project a net loss of RMB 500-800mn in 2Q22E based on the company's sales guidance, which should still be resilient than most of its peers. We cut FY22E sales-volume forecast but raise ASP projection. We believe Li Auto is still well positioned in the long term with its product positioning capabilities.

- Gross margin slightly beat, net profit in line.** Despite sequential decline in sales volume, Li Auto's gross margin in 1Q22 widened by 0.2 ppt versus 4Q21. Although SG&A expenses were higher than our prior estimates, its net profit in 1Q22 was still in line with our expectation, aided by other income of RMB 280mn.
- 2Q22 outlook.** The company's sales guidance of 21,000-24,000 units in 2Q22 implies an average monthly volume of 8,500-10,000 units in May-Jun 2022. We project a gross margin of 19-20% for Li Auto in 2Q22E and therefore a net loss of RMB 500-800mn. We believe that Li Auto's profitability could be more resilient than most of its peers amid the supply chain constraints. Battery price hike should also have a milder dent given its relatively lower battery capacity. We forecast Li Auto to turn profitable at net level in 2H22E, with higher sales volume and the higher-margin L9's deliveries.
- Product positioning: Li Auto's competitive edge.** It appears to us that Li Auto is still fine-tuning its new model launches for next year, although its building blocks (EREV, 800V fast-charging, autonomous driving, smart cockpit, E/E architecture) are already clear to the company. We are curious what body type Li Auto would create in a bid to optimize pure electric powertrain, but one message is clear to us that it is attempting to minimize product cannibalization, which underscores its efficiency mentality. The *Li One's* success has showcased the company's capabilities of creating product values for customers.
- We cut FY22E sales-volume forecast but raise ASP.** We cut our FY22E sales-volume forecast by 25,000 units to 155,000 units given the production loss in 2Q22, but we raise our average selling price (ASP) projection, which results in 11% decline in our FY22E revenue forecast. We maintain our BUY rating and target price of US\$ 48.00, based on 6x our FY22E P/S. 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	48,502	90,324	142,805
YoY growth (%)	3,225.5	185.6	79.6	86.2	58.1
Net income (RMB mn)	(792)	(321)	(596)	332	1,726
EPS (RMB)	(0.91)	(0.17)	(0.31)	0.17	0.87
YoY growth (%)	N/A	N/A	N/A	N/A	420.3
P/S (x)	5.7	4.1	2.4	1.3	0.8
P/B (x)	1.8	2.7	2.8	2.8	2.7
Yield (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	(7)	(0.9)	(1.4)	0.8	4.0
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	+154.0%
Current Price	US\$ 18.90

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Stock Data

Mkt Cap (US\$ mn)	19,521
Avg 3 mths t/o (US\$ mn)	250
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%

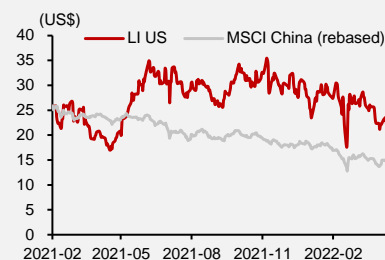
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-26.9%	-16.0%
3-mth	-37.3%	-12.7%
6-mth	-38.3%	-7.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers Zhong Tian

Related Reports

- "Li Auto Inc. - Solid 4Q21 results; new model as catalyst" – 28 Feb 2022
- "China Auto Sector - Survival of the fittest: Pioneers in the NEV era" – 13 Jan 2022

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	YoY	QoQ
Sales volume (units)	12,579	17,575	25,116	35,221	31,716	152.1%	-10.0%
ASP (RMB)	284,220	286,711	309,571	301,537	301,489	6.1%	0.0%
Revenue	3,575	5,039	7,775	10,620	9,562	167.5%	-10.0%
Gross profit	617	953	1,812	2,380	2,164	250.9%	-9.1%
R&D expenses	(515)	(653)	(888)	(1,230)	(1,374)	167.0%	11.7%
SG&A expenses	(510)	(835)	(1,021)	(1,126)	(1,203)	135.9%	6.8%
Operating profit	(408)	(536)	(98)	24	(413)	N/A	N/A
Net profit	(360)	(235)	(22)	296	(11)	N/A	N/A
Gross margin	17.3%	18.9%	23.3%	22.4%	22.6%	5.4 ppt	0.2 ppt
Operating margin	-11.4%	-10.6%	-1.3%	0.2%	-4.3%	7.1 ppt	-4.5 ppt
Net margin	-10.1%	-4.7%	-0.3%	2.8%	-0.1%	10.0 ppt	-2.9 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	48,502	90,324	142,805	54,727	90,430	142,859	-11.4%	-0.1%	0.0%
Gross profit	10,417	18,735	28,314	11,878	18,841	28,369	-12.3%	-0.6%	-0.2%
Operating profit	(2,050)	(538)	983	(1,290)	(485)	1,149	N/A	N/A	-14.4%
Net profit	(596)	332	1,726	(337)	388	1,887	N/A	-14.4%	-8.6%
Gross margin	21.5%	20.7%	19.8%	21.7%	20.8%	19.9%	-0.2 ppt	-0.1 ppt	0.0 ppt
Operating margin	-4.2%	-0.6%	0.7%	-2.4%	-0.5%	0.8%	-1.9 ppt	-0.1 ppt	-0.1 ppt
Net margin	-1.2%	0.4%	1.2%	-0.6%	0.4%	1.3%	-0.6 ppt	-0.1 ppt	-0.1 ppt

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	48,502	90,324	142,805	51,858	88,119	123,862	-6.5%	2.5%	15.3%
Gross profit	10,417	18,735	28,314	11,368	19,688	27,766	-8.4%	-4.8%	2.0%
Operating profit	(2,050)	(538)	983	(1,789)	1,206	4,228	N/A	-144.6%	-76.8%
Net profit	(596)	332	1,726	(129)	2,342	4,914	N/A	-85.8%	-64.9%
Gross margin	21.5%	20.7%	19.8%	21.9%	22.3%	22.4%	-0.4 ppt	-1.6 ppt	-2.6 ppt
Operating margin	-4.2%	-0.6%	0.7%	-3.4%	1.4%	3.4%	-0.8 ppt	-2.0 ppt	-2.7 ppt
Net margin	-1.2%	0.4%	1.2%	-0.2%	2.7%	4.0%	-1.0 ppt	-2.3 ppt	-2.8 ppt

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	9,457	27,010	48,502	90,324	142,805
Cost of sales	(7,907)	(21,248)	(38,085)	(71,589)	(114,490)
Gross profit	1,549	5,761	10,417	18,735	28,314
R&D exp.	(1,100)	(3,286)	(6,106)	(9,352)	(13,322)
SG&A exp.	(1,119)	(3,492)	(6,362)	(9,921)	(14,010)
Operating profit	(669)	(1,017)	(2,050)	(538)	983
Net finance costs	(26)	150	243	249	284
Investment income	214	527	568	559	574
Other non-oper exp.	20	(0)	445	120	190
Pre-tax profit	(189)	(153)	(795)	390	2,030
Tax	23	(169)	199	(59)	(305)
Discontinued operations	14	-	-	-	-
Accr. on preferred shares	(640)	-	-	-	-
Net profit	(792)	(321)	(596)	332	1,726

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	(189)	(153)	(795)	390	2,030
Depreciation/amortization	321	590	1,255	2,303	3,942
Change in working capital	3,068	6,616	5,724	11,665	7,863
Others	(60)	1,287	1,145	679	356
Net cash from operating	3,140	8,340	7,329	15,037	14,190
Capex	(675)	(3,445)	(7,100)	(9,650)	(11,200)
Others	(18,063)	(813)	(2,100)	1,000	(3,600)
Net cash from investing	(18,738)	(4,257)	(9,200)	(8,650)	(14,800)
Share issuance	21,026	11,006	6	13	19
Net borrowings	(145)	170	408	(73)	(365)
Others	3,830	5,533	-	-	-
Net cash from financing	24,711	16,710	414	(60)	(346)
Net change in cash	9,113	20,793	(1,457)	6,327	(956)
Cash at beginning of the year	1,436	10,173	30,493	29,036	35,363
FX & discontinued operations	(377)	(472)	-	-	-
Cash at the end of the year	10,173	30,493	29,036	35,363	34,407

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	31,391	52,380	53,952	61,424	66,996
Cash & equivalents	8,938	27,854	26,036	32,363	30,907
Account receivables	116	121	399	990	1,565
Inventories	1,048	1,618	2,922	5,099	8,155
Other current assets	21,289	22,788	24,596	22,971	26,368
Non-current assets	4,982	9,468	18,780	29,531	39,315
PP&E	2,479	4,498	10,203	17,372	24,374
Intangibles	683	751	823	926	1,053
Right-of-use assets	1,277	2,061	4,657	6,607	7,616
Other non-current assets	543	2,157	3,096	4,626	6,271
Total assets	36,373	61,849	72,732	90,955	106,311
Current liabilities	4,309	12,108	20,260	36,571	49,599
Bank borrowings	-	37	-	300	200
Account payables	3,161	9,376	15,651	29,420	40,777
Current deferred revenue	272	305	1,234	1,976	3,068
Other current liabilities	877	2,390	3,375	4,875	5,553
Non-current liabilities	2,260	8,676	11,284	12,342	12,570
Bank borrowings	512	563	1,063	763	563
Lease liabilities	1,392	1,370	3,000	3,870	3,619
Other non-current liabilities	357	6,744	7,220	7,708	8,388
Total liabilities	6,570	20,785	31,544	48,913	62,169
Mezzanine equity	-	-	-	-	-
Share capital	1	1	1	1	1
Reserves	29,802	41,063	41,187	42,041	44,141
Shareholders' equity	29,804	41,064	41,189	42,042	44,142
Total equity and liabilities	36,373	61,849	72,732	90,955	106,311

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Vehicle sales	98.2	96.7	97.4	97.5	97.3
Other sales & services	1.8	3.3	2.6	2.5	2.7
Growth (%)					
Revenue	3,225.5	185.6	79.6	86.2	58.1
Gross profit	N/A	271.9	80.8	79.9	51.1
Operating profit	N/A	N/A	N/A	N/A	N/A
Net profit	N/A	N/A	N/A	N/A	420.3
Profit & loss ratio (%)					
Gross margin	16.4	21.3	21.5	20.7	19.8
Operating margin	(7.1)	(3.8)	(4.2)	(0.6)	0.7
Net profit margin	(8.4)	(1.2)	(1.2)	0.4	1.2
Balance sheet ratio					
Net cash (debt)/total equity (x)	1.0	1.1	1.1	1.1	1.1
Current ratio (x)	7.3	4.3	2.7	1.7	1.4
Receivable turnover days	4	2	3	4	4
Inventory turnover days	48	28	28	26	26
Payable turnover days	146	161	150	150	130
Profitability (%)					
ROE	(6.6)	(0.9)	(1.4)	0.8	4.0
ROA	(3.5)	(0.7)	(0.9)	0.4	1.7
Per share data (RMB)					
EPS	(0.91)	(0.17)	(0.31)	0.17	0.87
DPS	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

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