

China / Hong Kong Company Update

Li Auto Inc

Bloomberg: 2015 HK Equity | LI US Equity | Reuters: 2015.HK | LI.OQ

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Jan 2024

HK: BUY

Last Traded Price (23 Jan 2024): HK\$111.50 (HSI : 15,354)
Price Target 12-mth: HK\$170 (52.5% upside) (Prev HK\$224)

US: BUY

Last Traded Price (23 Jan 2024): US\$28.35 (NASDAQ : 15,426)
Price Target 12-mth: US\$43.00 (51.7% upside) (Prev US\$57.00)

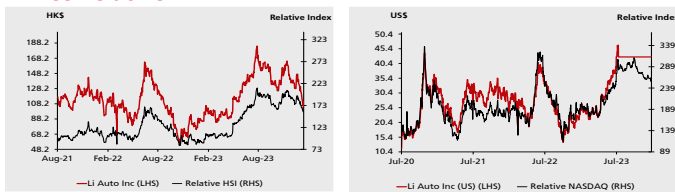
Analyst

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What's New

- Launch of first BEV and pivot into ADAS development to enhance long-term growth prospect
- Strong FY24 core net earnings growth of c.46%, one of the best in the NEV industry
- Expect market to closely watch MEGA's sales performance
- Maintain BUY; TPs of HK\$170/US\$43; benchmark to 23x PE FY24

Price Relative



Forecasts and Valuation (HK Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	45,287	123,688	198,492	261,613
EBITDA	(386)	9,860	15,451	22,118
Pre-tax Profit	(2,139)	7,241	11,933	18,055
Net Profit	(2,012)	6,879	11,098	16,791
Net Pft (Pre Ex) (core profit)	21	9,079	13,298	18,991
Net Profit Gth (Pre-ex) (%)	(526.0)	N/A	61.3	51.3
EPS (RMB)	(1.04)	3.49	5.63	8.52
EPS (HK\$)	(1.13)	3.81	6.14	9.29
Core EPS (RMB)	0.01	4.60	6.74	9.63
Core EPS (HK\$)	0.01	5.02	7.36	10.51
EPS Gth (%)	(497.6)	N/A	61.3	51.3
Core EPS Gth (%)	(97.5)	42,839.	46.5	42.8
Diluted EPS (HK\$)	(1.13)	3.81	6.14	9.29
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	25.39	28.80	34.94	44.23
PE (X)	nm	29.3	18.2	12.0
CorePE (X)	9533.6	22.2	15.2	10.6
P/Cash Flow (X)	26.9	19.6	13.0	9.3
P/Free CF (X)	87.9	61.1	24.1	13.1
EV/EBITDA (X)	nm	15.2	9.1	5.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	4.4	3.9	3.2	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	(4.7)	14.1	19.3	23.5

Earnings Rev (%): 13 (1) New
Consensus EPS (RMB): 3.42 5.35 8.30
Other Broker Recs: B:35 S:1 H:0
Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Key year for developing BEVs and ADAS systems

Investment Thesis

2024 is a key year for Li Auto to fully pivot to the electric technology segment, expect continuous upgrade of ADAS systems. Li Auto has been a leading player in the extended range electric vehicle (EREV) industry. The company will start deliveries of its first battery electric vehicle (BEV) "MEGA" in early Mar 24 (tentative ASP of c.Rmb600k) and expects to have three BEVs in 2H24. Apart from that, Li Auto's development of city "navigate on autopilot" (NOA) is progressing well, and the AD Pro3.0 version is slated for release in 1H24. Hence, 2024 will be the year Li Auto pivots into the fully electric technology segment and to solidify its market position in both the BEV and EREV industries.

EREV business a key earnings contributor. With other NEV peers rolling out competitive products, we estimate Li Auto's vehicle margins to hover around 20% in FY24F, lower than its peak of 22% in 3Q23. In response to the increasingly competitive industry landscape, management has guided for a RMB18bn R&D budget for 2024 for BEV development and battery and ADAS systems, signalling Li Auto's determination to achieve its long-term vision. We estimate Li Auto to achieve around a 60% y-o-y increase in sales volume for FY24F to about 600k units, and deliver adjusted net earnings growth of about 46% y-o-y.

Market watching its first BEV sales performance. We anticipate the market will keep a close watch on the sales of Li Auto's MEGA, as this is the first BEV model for the company (sales so far have been of extended range EVs). MEGA deliveries are scheduled for Mar 24.

Maintain BUY rating, lower TPs to HK\$170/US\$43. Li Auto's share price corrected sharply recently after outperforming the market in 2023 by c.30%. Given the macro challenges and de-rating of market valuation, we cut our FY24 target PE to 23x, pegged to sector average (previous 32x). We maintain our BUY rating given that Li Auto is the first pure EV maker to achieve profitability and remains a leading EREV industry player.

Key Risks

Rising competition and a slowdown of the Chinese EV market could hurt Li Auto's earnings. Also, sales of its BEV model might disappoint.

At A Glance

Issued Capital (m shrs)	1,954
Mkt Cap (HKm/US\$m)	217,871 / 27,853
Major Shareholders (%)	
Meituan	14.6
Wang (Xing)	7.1
Li (Xiang)	6.1
Free Float (%)	72.1
3m Avg. Daily Val. (US\$m)	133.46
GICS Industry: Consumer Discretionary / Automobiles & Components	

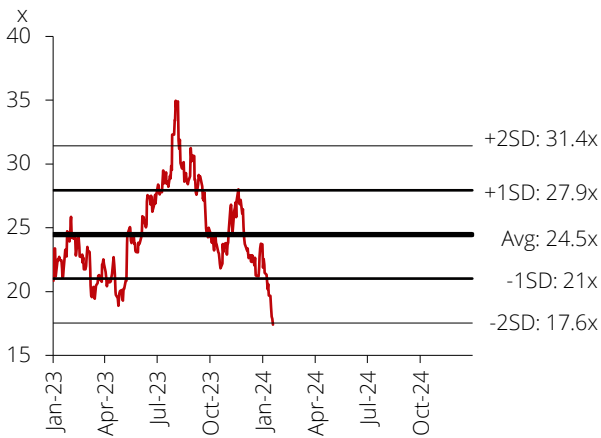
Li Auto Inc

Company Background

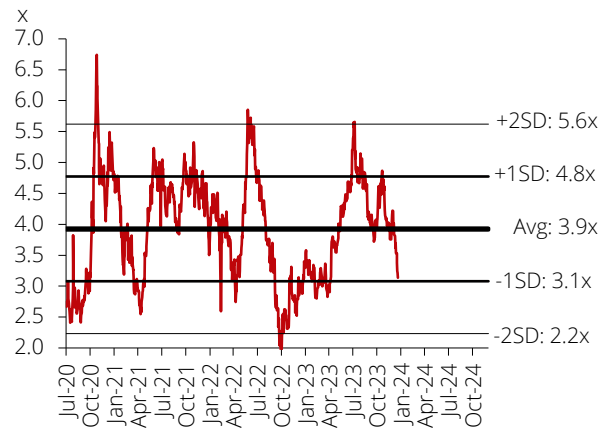
Li Auto Inc is a leading Chinese smart EV maker that targets the mid to high-end segment of the Chinese passenger electric vehicle market. It particularly focuses on the premium extended-range electric vehicle (EREV) market, which makes it a pioneer in having successfully commercialised EREVs in China. Li Auto has three EREV models in the market – Li L7, Li L8, and Li L9. It also has strong R&D capabilities to support the powertrain system and development of charging technology. Since the start of its EREV sales in 2020, the company has chalked up over 300,000 units in sales.

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

Li Auto Inc

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Vehicle sales volume (unit)	90,491	133,246	376,030	601,648	782,142
ASP (Rmb'000)	288.7	331.0	321.1	321.1	324.3

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Vehicle sales	26,128	44,106	120,737	193,180	253,645
Other sales and service	881	1,180	2,951	5,312	7,968
Total	27,010	45,287	123,688	198,492	261,613
Gross Profit (RMB m)					
Vehicle sales	5,373	8,418	24,751	38,636	49,968
Other sales and service	389	372	1,416	2,523	3,745
Total	5,761	8,790	26,168	41,159	53,713
Gross Profit Margins (%)					
Vehicle sales	20.6	19.1	20.5	20.0	19.7
Other sales and service	44.1	31.5	48.0	47.5	47.0
Total	21.3	19.4	21.2	20.7	20.5

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	27,010	45,287	123,688	198,492	261,613
Cost of Goods Sold	(21,248)	(36,496)	(97,521)	(157,333)	(207,900)
Gross Profit	5,761	8,790	26,168	41,159	53,713
Other Opng (Exp)/Inc	(5,677)	(10,392)	(18,085)	(28,566)	(35,211)
Operating Profit	84	(1,602)	8,083	12,593	18,502
Other Non Opg (Exp)/Inc	187	626	563	676	709
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	677	870	795	865	1,043
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(1,101)	(2,033)	(2,200)	(2,200)	(2,200)
Pre-tax Profit	(153)	(2,139)	7,241	11,933	18,055
Tax	(169)	127	(362)	(835)	(1,264)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	(321)	(2,012)	6,879	11,098	16,791
Net Profit before Except.	780	21	9,079	13,298	18,991
EBITDA	592	(386)	9,860	15,451	22,118
Growth					
Revenue Gth (%)	185.6	67.7	173.1	60.5	31.8
EBITDA Gth (%)	N/A	N/A	N/A	56.7	43.2
Opg Profit Gth (%)	(116.0)	(2,006.0)	(604.6)	55.8	46.9
Net Profit Gth (%)	59.4	(526.0)	N/A	61.3	51.3
Margins & Ratio					
Gross Margins (%)	21.3	19.4	21.2	20.7	20.5
Opg Profit Margin (%)	0.3	(3.5)	6.5	6.3	7.1
Net Profit Margin (%)	(1.2)	(4.4)	5.6	5.6	6.4
ROAE (%)	(0.9)	(4.7)	14.1	19.3	23.5
ROA (%)	(0.7)	(2.7)	7.5	10.8	14.1
ROCE (%)	0.2	(2.9)	12.3	16.6	20.5
Div Payout Ratio (%)	N/A	N/A	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Li Auto Inc
Interim Income Statement (RMB m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	8,614	18,396	18,295	26,992	47,440
Cost of Goods Sold	(7,045)	(14,204)	(14,253)	(22,244)	(37,374)
Gross Profit	1,570	4,192	4,042	4,748	10,065
Other Oper. (Exp)/Inc	(2,160)	(3,517)	(4,488)	(5,904)	(7,137)
Operating Profit	(590)	674	(446)	(1,156)	2,929
Other Non Opg (Exp)/Inc	31	157	384	241	506
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	377	301	381	489	788
Exceptional Gain/(Loss)	(353)	(748)	(922)	(1,111)	(919)
Pre-tax Profit	(536)	383	(603)	(1,536)	3,304
Tax	(59)	(109)	(26)	153	(81)
Minority Interest	0	0	0	0	0
Net Profit	(595)	274	(629)	(1,383)	3,223
Net profit bef Except.	(242)	1,022	294	(273)	4,142
Growth					
Revenue Gth (%)	207.8	176.3	112.4	46.7	159.3
Opg Profit Gth (%)	43.8	(680.9)	(24.5)	(271.4)	(756.7)
Net Profit Gth (%)	(2.9)	N/A	(5.6)	N/A	N/A
Margins					
Gross Margins (%)	18.2	22.8	22.1	17.6	21.2
Opg Profit Margins (%)	(6.9)	3.7	(2.4)	(4.3)	6.2
Net Profit Margins (%)	(6.9)	1.5	(3.4)	(5.1)	6.8

Source: Company, DBS HK

Li Auto Inc

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	4,498	11,188	15,944	20,087	22,724
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	4,970	8,358	9,491	10,245	10,961
Cash & ST Invt	50,161	58,450	59,747	67,103	81,530
Inventory	1,618	6,805	8,506	9,782	10,956
Debtors	121	48	58	75	98
Other Current Assets	481	1,690	2,112	2,429	2,794
Total Assets	61,849	86,538	95,858	109,721	129,063
ST Debt	37	391	391	391	391
Creditors	9,414	20,032	23,037	25,341	27,370
Other Current Liab	2,658	6,950	7,803	8,588	9,320
LT Debt	5,961	9,231	7,231	6,231	5,231
Other LT Liabilities	2,715	4,748	5,332	6,008	6,798
Shareholder's Equity	41,064	45,186	52,065	63,163	79,954
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	61,849	86,538	95,858	109,721	129,063
Non-Cash Wkg. Capital	(9,852)	(18,439)	(20,163)	(21,642)	(22,842)
Net Cash/(Debt)	44,163	48,828	52,125	60,482	75,908
Debtors Turn (avg days)	1.6	0.7	0.2	0.1	0.1
Creditors Turn (avg days)	109.8	149.7	81.6	56.9	46.9
Inventory Turn (avg days)	23.2	42.8	29.0	21.5	18.5
Asset Turnover (x)	0.5	0.6	1.4	1.9	2.2
Current Ratio (x)	4.3	2.4	2.3	2.3	2.6
Quick Ratio (x)	4.2	2.1	1.9	2.0	2.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	57.4	53.2	91.8	107.2	110.3
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

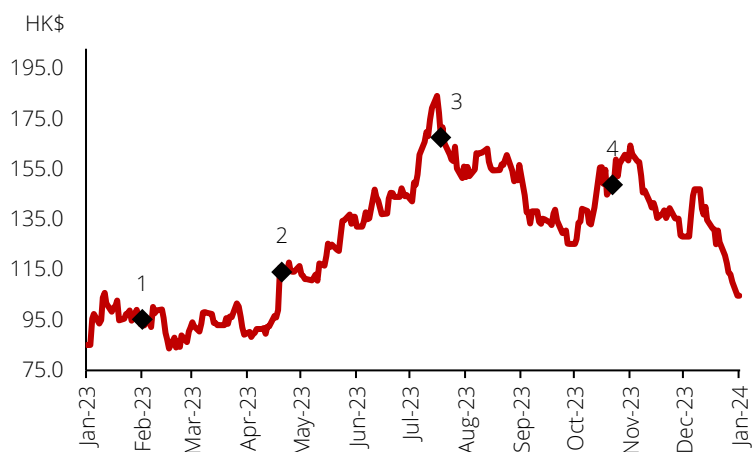
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	(321)	(2,032)	6,879	11,098	16,791
Dep. & Amort.	590	1,214	2,182	2,907	3,527
Tax Paid	0	0	0	0	0
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	34	65	0	0	0
Chg in Wkg.Cap.	6,616	5,035	(964)	(748)	(891)
Other Operating CF	1,422	3,098	2,200	2,200	2,200
Net Operating CF	8,340	7,380	10,297	15,456	21,627
Capital Exp.(net)	(3,445)	(5,123)	(7,000)	(7,100)	(6,200)
Other Invt.(net)	(182)	807	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(631)	(48)	0	0	0
Net Investing CF	(4,257)	(4,365)	(7,000)	(7,100)	(6,200)
Div Paid	0	0	0	0	0
Chg in Gross Debt	170	3,080	(2,000)	(1,000)	(1,000)
Capital Issues	11,006	2,469	0	0	0
Other Financing CF	5,533	90	0	0	0
Net Financing CF	16,710	5,639	(2,000)	(1,000)	(1,000)
Currency Adjustments	(472)	1,270	0	0	0
Chg in Cash	20,321	9,925	1,297	7,356	14,427
Opg CFPS (RMB)	0.93	1.21	5.71	8.22	11.42
Free CFPS (RMB)	2.64	1.16	1.67	4.24	7.82

Source: Company, DBS HK

Li Auto Inc

HK Share - Target Price & Ratings 12-mth History

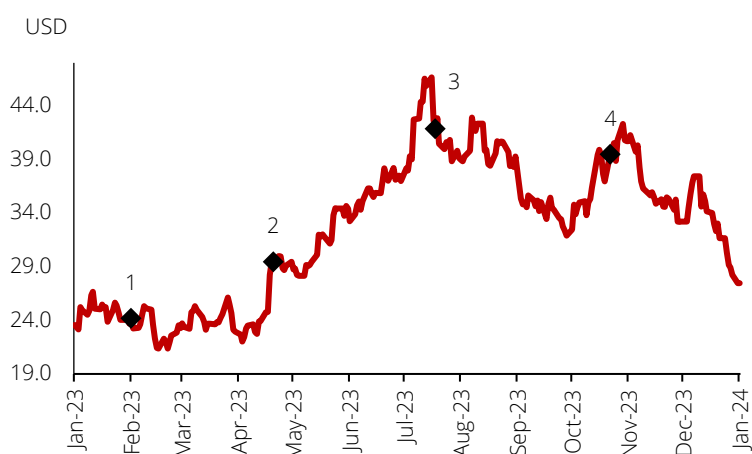


S.No.	Date	Closing Price	Target Price	Rating
1	23-Feb-23	HK\$93.40	HK\$115.00	BUY
2	12-May-23	HK\$115.90	HK\$156.00	BUY
3	9-Aug-23	HK\$167.70	HK\$224.00	BUY
4	13-Nov-23	HK\$154.90	HK\$224.00	BUY

Source: DBS HK

Analyst: Rachel Miu

US Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	23-Feb-23	US\$23.69	US\$29.00	BUY
2	12-May-23	US\$23.61	US\$40.00	BUY
3	9-Aug-23	US\$42.63	US\$57.00	BUY
4	13-Nov-23	US\$42.63	US\$57.00	BUY

Source: DBS HK

Analyst: Rachel Miu

Li Auto Inc

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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