

Li Auto Inc. (LI US/2015 HK)

Cost control, AI as keys to FY25 profits, valuation

Maintain BUY. Li Auto's 4Q24 NP beat underscored its superb cost control capabilities, which could make its profits more resilient in a more competitive 2025. We are of the view that FY25 picture is a bit mixed for Li Auto given the rising competition. We are less worried than the market about the sales cannibalization from BEVs, given Li Auto's superb product positioning in the past. We also believe Li Auto's catch-up in AD has illustrated its AI capabilities and laid a solid foundation for more general AI devices.

■ **4Q24 GPM miss, NP beat.** Li Auto's 4Q24 revenue was in line with our prior forecast, whereas its GPM missed our projection by 1.4ppts, mainly due to the loss on purchase commitment. Its R&D and SG&A expenses combined were about RMB980mn lower than our forecast, more than offset the miss on gross profit. Li Auto's operating margin reached 8.4% in 4Q24, the highest in history. The automaker's stringent cost control in R&D and SG&A resulted in a NP of RMB3.5bn in 4Q24, or 4% higher than our estimates.

■ **FY25E outlook.** Management did not give a clear sales-volume guidance during the earnings call, largely due to the macro uncertainties. Instead, it has started to accelerate overseas sales from this year. We lower our FY25E sales volume forecast by 30,000 units (mainly EREVs) to 630,000 units, as the contribution from overseas this year may not be able to offset the stiffer competition. On the other hand, we are probably less worried about the sales cannibalization from BEVs than the market, given Li Auto's superb product positioning in the past. We also believe that the L6 EREV gives Li Auto more confidence in the segment priced RMB200,000-300,000. That could be the reason why the i6 is the next BEV product after the i8.

■ **Well-positioned in AI-related devices.** Li Auto has become a leading player in the autonomous driving (AD) technologies within a short period. Such catch-up has illustrated its AI capabilities and laid a solid foundation for more general AI devices, in our view, although the monetization may still take a fair amount of time. We believe such capabilities could be reflected in a higher-than-peer valuation.

■ **Earnings/Valuation.** We cut our FY25E revenue by 6% and GPM by 0.2ppts. We also cut our FY24E R&D and SG&A expenses. Accordingly, we cut our FY25E NP by 10% to RMB11.9bn. We maintain our BUY rating and raise our target price from US\$30.00 to US\$33.00 (or HK\$131), based on 20x (prior 16x) revised FY25E EPS to reflect its AI capabilities and recently improved market sentiment. Key risks to our rating and target price include lower sales and/or GPM than our expectation, as well as a sector de-rating.

Earnings Summary - LI US

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	45,287	123,851	144,460	173,947	218,582
YoY growth (%)	67.7	173.5	16.6	20.4	25.7
Gross margin (%)	19.4	22.2	20.5	20.5	20.2
Net profit (RMB mn)	(2,012.2)	11,704.1	8,032.4	11,890.3	17,241.2
YoY growth (%)	na	na	(31.4)	48.0	45.0
EPS (Reported) (RMB)	(1.04)	5.95	4.03	5.90	8.47
P/S (x)	4.7	1.7	1.5	1.2	1.0
P/E (x)	ns	16.7	24.6	16.8	11.7
P/B (x)	4.3	3.2	2.8	2.4	2.0

Source: Company data, Bloomberg, CMBIGM estimates

	LI US	2015 HK
	BUY	BUY
	Maintain	Maintain

TP	US\$33.00	HK\$131.00
Prior TP	US\$30.00	HK\$117.00
Up/Downside	20.2%	15.7%
Current Price	US\$27.5	HK\$113.2

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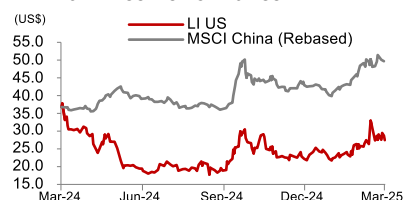
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12-mth Price Performance



Source: FactSet

Stock Performance

	LI US		2015 HK	
	Abs.	Rel.	Abs.	Rel.
1-mth	6.3%	3.6%	11.4%	3.6%
3-mth	23.7%	6.9%	31.7%	6.9%
6-mth	43.6%	5.1%	52.8%	5.1%

Source: FactSet

Stock Data

(LC)	LI US	2015 HK
Mkt Cap (mn)	29135.34	240212.7
Avg 3 mths t/o (mn)	166.87	1754.99
52w High	37.77	147.3
52w Low	17.8	69.15
Issued Shares (mn)	2122.02	2122.02

Source: FactSet

Figure 1: Quarterly results

RMB mn	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	YoY	QoQ
Sales volume (units)	52,584	86,533	105,108	131,805	80,400	108,581	152,831	158,696	20.4%	3.8%
ASP (RMB)	357,277	331,119	329,941	316,620	318,827	291,749	280,534	278,984	-11.9%	-0.6%
Revenue	18,787	28,653	34,679	41,732	25,634	31,678	42,874	44,274	6.1%	3.3%
Gross profit	3,830	6,235	7,644	9,787	5,284	6,177	9,225	8,970	-8.3%	-2.8%
R&D expenses	(1,852)	(2,426)	(2,817)	(3,491)	(3,049)	(3,028)	(2,587)	(2,408)	-31.0%	-6.9%
SG&A expenses	(1,645)	(2,309)	(2,544)	(3,270)	(2,978)	(2,815)	(3,360)	(3,077)	-5.9%	-8.4%
Operating profit	405	1,626	2,339	3,036	(585)	468	3,433	3,703	22.0%	7.9%
Net profit	930	2,293	2,823	5,658	593	1,103	2,814	3,523	-37.7%	25.2%
Gross margin	20.4%	21.8%	22.0%	23.5%	20.6%	19.5%	21.5%	20.3%	-3.2 ppt	-1.3 ppt
Operating margin	2.2%	5.7%	6.7%	7.3%	-2.3%	1.5%	8.0%	8.4%	1.1 ppt	0.4 ppt
Net margin	4.9%	8.0%	8.1%	13.6%	2.3%	3.5%	6.6%	8.0%	-5.6 ppt	1.4 ppt

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24A	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	144,460	173,947	218,582	147,717	184,558	228,876	-2.2%	-5.7%	-4.5%
Gross profit	29,656	35,724	44,155	31,244	38,234	46,061	-5.1%	-6.6%	-4.1%
Operating profit	7,019	10,024	15,643	7,637	10,786	15,633	-8.1%	-7.1%	0.1%
Net profit	8,032	11,890	17,241	8,844	13,160	18,054	-9.2%	-9.6%	-4.5%
Gross margin	20.5%	20.5%	20.2%	21.2%	20.7%	20.1%	-0.6 ppt	-0.2 ppt	0.1 ppt
Operating margin	4.9%	5.8%	7.2%	5.2%	5.8%	6.8%	-0.3 ppt	-0.1 ppt	0.3 ppt
Net margin	5.6%	6.8%	7.9%	6.0%	7.1%	7.9%	-0.4 ppt	-0.3 ppt	0.0 ppt

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24A	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	144,460	173,947	218,582	145,831	191,696	236,434	-0.9%	-9.3%	-7.6%
Gross profit	29,656	35,724	44,155	29,942	39,967	49,755	-1.0%	-10.6%	-11.3%
Operating profit	7,019	10,024	15,643	6,240	10,542	15,789	12.5%	-4.9%	-0.9%
Net profit	8,032	11,890	17,241	9,009	12,873	18,044	-10.8%	-7.6%	-4.4%
Gross margin	20.5%	20.5%	20.2%	20.5%	20.8%	21.0%	0.0 ppt	-0.3 ppt	-0.8 ppt
Operating margin	4.9%	5.8%	7.2%	4.3%	5.5%	6.7%	0.6 ppt	0.3 ppt	0.5 ppt
Net margin	5.6%	6.8%	7.9%	6.2%	6.7%	7.6%	-0.6 ppt	0.1 ppt	0.3 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	27,010	45,287	123,851	144,460	173,947	218,582
Cost of goods sold	(21,248)	(36,496)	(96,355)	(114,804)	(138,223)	(174,427)
Gross profit	5,761	8,790	27,497	29,656	35,724	44,155
Operating expenses	(6,779)	(12,445)	(20,354)	(23,301)	(26,600)	(29,712)
SG&A expense	(3,492)	(5,665)	(9,768)	(12,229)	(13,564)	(15,154)
R&D expense	(3,286)	(6,780)	(10,586)	(11,071)	(13,035)	(14,558)
Operating profit	(1,017)	(3,655)	7,143	6,355	9,124	14,443
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Investment gain/loss	527	376	783	320	1,283	1,778
Other gains/(losses)	187	626	1,048	664	720	720
EBITDA	501	(839)	12,343	12,254	17,826	25,648
Depreciation	590	1,214	1,805	2,750	4,057	5,420
EBIT	(90)	(2,053)	10,538	9,503	13,769	20,228
Interest income	213	600	1,300	1,500	1,742	2,087
Interest expense	(63)	(106)	(86)	(188)	(123)	(87)
Pre-tax profit	(153)	(2,159)	10,452	9,316	13,646	20,141
Income tax	(169)	127	1,357	(1,270)	(1,706)	(2,820)
After tax profit	(321)	(2,032)	11,809	8,045	11,940	17,321
Minority interest	0	20	(105)	(13)	(50)	(80)
Discontinued operations	0	0	0	0	0	0
Others	0	0	0	0	0	0
Net profit	(321)	(2,012)	11,704	8,032	11,890	17,241
Adjusted net profit	780	41	12,093	10,480	13,249	18,535

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	52,380	66,992	114,526	131,532	155,552	193,802
Cash & equivalents	27,854	38,478	91,329	87,387	94,934	112,784
Restricted cash	2,639	1,940	0	500	500	500
Account receivables	121	48	144	237	238	359
Inventories	1,618	6,805	6,872	7,863	9,467	11,947
ST bank deposits	19,668	18,031	11,933	31,933	46,933	64,933
Other current assets	481	1,690	4,247	3,611	3,479	3,279
Non-current assets	9,468	19,545	28,942	35,945	44,270	49,036
PP&E	4,498	11,188	15,745	21,109	25,966	30,559
Right-of-use assets	2,061	3,539	5,939	7,437	9,290	7,878
Deferred income tax	20	75	1,990	1,200	1,500	1,500
Investment in JVs & assos	156	1,484	1,595	1,672	2,192	2,612
Intangibles	751	833	864	911	968	1,016
Other non-current assets	1,981	2,427	2,808	3,617	4,354	5,470
Total assets	61,849	86,538	143,467	167,478	199,823	242,838
Current liabilities	12,108	27,373	72,743	77,874	94,485	118,162
Short-term borrowings	0	0	688	0	0	0
Account payables	9,376	20,024	51,870	62,906	75,739	95,577
Other current liabilities	2,259	6,652	19,038	13,351	16,673	20,850
Lease liabilities	473	696	1,146	1,617	2,073	1,736
Non-current liabilities	8,676	13,979	10,150	18,523	20,942	21,650
Long-term borrowings	563	3,317	1,747	1,513	1,113	613
Convertible bonds	5,398	5,914	0	6,032	6,032	6,032
Obligations under finance leases	0	0	0	0	0	0
Deferred income	390	582	812	1,516	2,215	3,094
Other non-current liabilities	2,326	4,167	7,590	9,463	11,582	11,912
Total liabilities	20,785	41,352	82,892	96,397	115,427	139,812
Share capital	1	1	1	1	1	1
Capital surplus	49,390	53,869	57,480	59,940	61,315	62,624
Retained earnings	(8,328)	(9,012)	2,661	10,694	22,584	39,825
Other reserves	(0)	(0)	(0)	(0)	(0)	(0)
Total shareholders equity	41,064	44,859	60,143	70,635	83,900	102,451
Total equity and liabilities	61,849	86,210	143,035	167,032	199,327	242,263

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(153)	(2,159)	10,452	9,316	13,646	20,141
Depreciation & amortization	590	1,214	1,805	2,750	4,057	5,420
Change in working capital	6,565	5,035	36,612	10,968	15,056	23,058
Others	1,338	3,290	1,825	2,722	(470)	(1,397)
Net cash from operations	8,340	7,380	50,694	25,756	32,289	47,222
Investing						
Capital expenditure	(3,445)	(5,128)	(6,507)	(8,180)	(9,000)	(10,100)
Acquisition of subsidiaries/ investments	(631)	(762)	(198)	(400)	(400)	(300)
Net proceeds from disposal of short-term investments	(504)	1,686	16,316	0	(8,000)	(8,000)
Others	323	(161)	(9,622)	(20,000)	(7,000)	(10,000)
Net cash from investing	(4,257)	(4,365)	(12)	(28,580)	(24,400)	(28,400)
Financing						
Net borrowings	170	3,080	(1,001)	(632)	(357)	(987)
Proceeds from share issues	11,006	2,469	1,186	13	15	15
Others	5,533	90	0	0	0	0
Net cash from financing	16,710	5,639	185	(619)	(342)	(972)
Net change in cash						
Cash at the beginning of the year	10,173	30,493	40,418	91,330	87,887	95,434
Exchange difference	(472)	1,270	45	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	30,493	40,418	91,330	87,887	95,434	113,284
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	185.6%	67.7%	173.5%	16.6%	20.4%	25.7%
Gross profit	271.9%	52.6%	212.8%	7.9%	20.5%	23.6%
Operating profit	na	na	na	(11.0%)	43.6%	58.3%
EBITDA	151.6%	na	na	(0.7%)	45.5%	43.9%
EBIT	na	na	na	(9.8%)	44.9%	46.9%
Net profit	na	na	na	(31.4%)	48.0%	45.0%
Adj. net profit	na	(94.7%)	29,430.1%	(13.3%)	26.4%	39.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	21.3%	19.4%	22.2%	20.5%	20.5%	20.2%
Operating margin	(3.8%)	(8.1%)	5.8%	4.4%	5.2%	6.6%
EBITDA margin	1.9%	(1.9%)	10.0%	8.5%	10.2%	11.7%
Adj. net profit margin	2.9%	0.1%	9.8%	7.3%	7.6%	8.5%
Return on equity (ROE)	(0.9%)	(4.7%)	22.3%	12.3%	15.4%	18.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	4.3	2.4	1.6	1.7	1.6	1.6
Receivable turnover days	1.6	0.4	0.4	0.6	0.5	0.6
Inventory turnover days	27.8	68.1	26.0	25.0	25.0	25.0
Payable turnover days	161.1	200.3	196.5	200.0	200.0	200.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	16.7	24.6	16.8	11.7
P/E (diluted)	ns	ns	17.9	26.3	18.0	12.5
P/B	4.5	4.3	3.2	2.8	2.4	2.0
P/CFPS	22.1	26.1	3.9	7.7	6.2	4.3
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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