

XPeng Inc

Key takeaways: expect GPM expansion in 2024 on better mix and cost reduction

Maintain Rating: BUY | PO: 18.00 USD | Price: 10.80 USD

Sales growth driven by new models + network expansion

We hosted a conference call with XPeng management on the company's business update and 2024 outlook. We summarize our key takeaways below. XPeng targets much higher sales volume growth than the industry's in 2024, mainly driven by 1) solid new models pipeline in 2024-25; 2) continuous sales network expansion, optimization and upgrade, and penetration into tier-3/4 cities; and 3) export sales.

GPM expansion in 2024 on better mix and cost reduction

Despite intensifying competition in 2024, XPeng is confident on gross margin expansion driven by better product mix (increasing contribution from X9) and cost reduction through engineering and stricter supply chain management in 2024. GPM guidance already considers price discount amid competition. In addition, management expects to see cost reduction driven by technology innovation in new models, and vehicle GPM to reach a healthy level for XPeng brand in 2H24. In addition, XPeng witnessed software algorithm improvement supported by more data from existing users, and expects the BOM cost of XNGP to decline from RMB25k to below RMB20k in 2024.

Solid new models pipeline for 2024-25

XPeng recently launched its first MPV model X9 in Jan (see [China "Future Car" Review #36: XPeng X9 – a flagship MPV aims high](#)), and management guides that X9 not only attracts MPV customers but also will gain share among large-size SUV users. XPeng targets to deliver 5k units X9 before the CNY (early Feb). It plans to accelerate new model launches starting 2H24. Firstly, it will launch one A-class sedan based on MONA project. The new sedan's price will be around 150k and will start mass production in 3Q24. In addition, it expects to launch more A-class new models based on MONA project in 2025-26. As for XPeng brand, it will have total 10 EV models based on SEPA 2.0 (Smart Electric Platform Architecture) platform, and many of them will be launched in 2024-25. According to management, XPeng brand will focus on models with price range of RMB200-400k, and MONA brand will target A-class market with price of 100-200k.

Overseas market expansion

XPeng exported a few thousands units of G9 and P7 in 2023, and it targets export sales to surpass more than ten thousands units in 2024. G9 has been well received in the Europe market, and management expects it continue to post solid export sales growth with country coverage expansion in 2024. In addition, XPeng plans to launch G6 in the overseas market in 2Q24, and expand to right-hand driving regions, including the UK, Australia, Southeast Asian countries, etc. to boost export sales. We have a Buy rating on Xpeng shares: (1) early mover advantage in AD development, which boost vehicle sales and contribution from partnerships (VW), (2) improving product mix and cost control to enhance margin.

16 January 2024

Equity

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Stock Data

Price (ADR / Common)	10.80 USD / 43.05 HKD
Price Objective	18.00 USD / 70.00 HKD
Date Established	9-Jan-2024 / 9-Jan-2024
Investment Opinion	C-1-9 / C-1-9
52-Week Range	7.51 USD-23.62 USD
Market Value (mn)	9,318 USD
Shares Outstanding (mn)	862.8 / 1,725.6
Average Daily Value (mn)	117.67 USD
Free Float	15.6%
BofA Ticker / Exchange	XPEV / NYS
BofA Ticker / Exchange	XPNGF / HKG
Bloomberg / Reuters	XPEV US / XPEV.N
ROE (2023E)	-36.9%
Net Dbt to Eqty (Dec-2022A)	-65.8%

BOM: bill of materials

XNGP: XPeng navigation guided pilot

CNY: Chinese New Year

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Timestamp: 16 January 2024 11:27AM EST



Price objective basis & risk

XPeng Inc (XPEV / XPNGF)

We derive our PO of USD18 per ADS (HKD70 per share) using an average of EV/sales valuation and DCF valuation.

DCF-based fair value: We derive a fair value of USD17.7 from our DCF calculation, with assumptions of 2% FCF perpetuity growth. We use a 3.5% risk-free rate, 11% market return and Beta of 1.15 to calculate and derive the discount rate (WACC) of 11.4%.

EV/sales-based fair value: We derive a fair value of USD19 from EV/sales method. We apply a target EV/sales multiple of 1.6x to 2024E sales. The 1.6x target multiple is in line with its Chinese EV start-up peers.

Downside risks: intensified competition from new model launches by Tesla and other EV start-ups, pricing pressure amid a competitive EV market, weak macro, which would impact auto consumption.

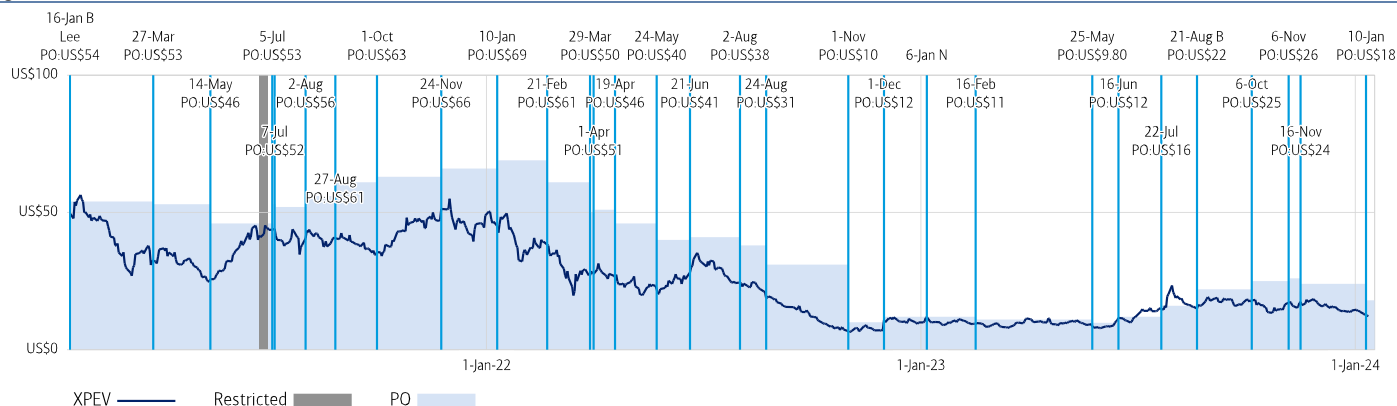
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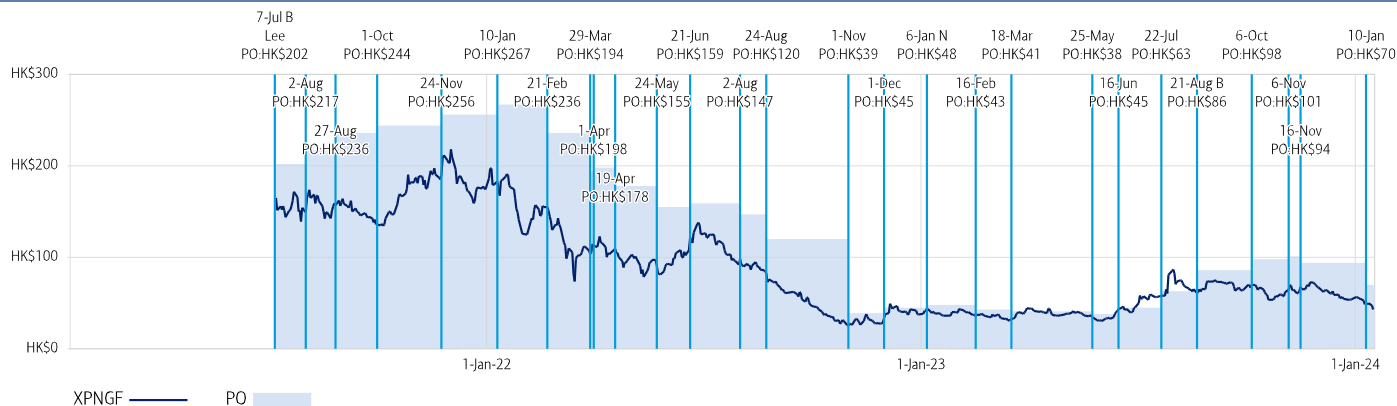
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XPeng (XPEV) Price Chart



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XPeng Inc. (XPNGF) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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