

Hesai

# Call takeaways: looking forward to more orders breakthrough

Maintain Rating: BUY | PO: 16.00 USD | Price: 8.12 USD

## Likely positive development on overseas orders gain

We hosted a conference call with Hesai on 4 Jan, and provide our key takeaways below. Hesai announced its monthly lidar shipment exceeded 50k units in Dec 2023, and Hesai's accumulated lidar shipment also exceeded 300k units. Both numbers mark new milestones in the lidar industry. Hesai has received orders from a total of 14 OEMs and 50 models, mostly focused in China market. In 2024, the company will mass-produce for 13 OEMs and 40 models. Hesai is deeply engaged in 9 RFI/RFQ (request for information/quote) discussions, with 6 leading global OEMs from North America and Europe. Of these, Hesai is likely to hear back from 3 OEMs further on orders.

## Confidence in escalating competitive landscape

Facing more competition from other lidar suppliers (incl. Huawei, Robosense, Seyond, etc.), Hesai is less concerned as it believes it has the following advantages: 1) top performance on lidar products; 2) 100k of its lidars have been installed on smart vehicles, running for over 1 year, which suggests strong product reliability; 3) capacity and delivery capability have built good credit among clients; and 4) solid financial performance with highest GPM, fastest breakeven timelines, and cash generation.

## Gross margin ensured by technology/production upgrades

Hesai has started to mass-produce in both Hertz in Hangzhou and Maxwell in Shanghai from 3Q23. The two plants bode well for the upcoming lidar shipment target in 2024. Hesai also transitioned into new design for AT128, its ADAS lidar product, and rolled out migration with clients. With a higher automation level and also new design, Hesai is able to manage cost and generate higher GPM. 3Q23 GPM came in at 30.6%, up 0.8ppt QoQ, the GPM target for 2023-24 is 30-35%, and it expects 2024 GPM to see YoY expansion. Hesai expects to continue to manage cost through migration on ASIC.

## Uncertainty on robotaxi lidar shipment

Although there is concern over autonomous mobility (or robotaxi) lidar orders, management remains confident on its total shipment target in FY24 as it is seeing strong demand in the ADAS side as city NOA (navigation on autopilot) is picking up quickly among China OEMs over the past few quarters and will be a key battlefield to differentiate brands and products. We believe the strong demand and orders momentum will continue in the ADAS front. We maintain Buy on Hesai as we believe the company, as an industry leader, will ride on the explosive lidar demand growth in coming years and also see positive breakthrough in overseas orders gain.

04 January 2024

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### Stock Data

Price	8.12 USD
Price Objective	16.00 USD
Date Established	14-Nov-2023
Investment Opinion	C-1-9
52-Week Range	7.35 USD-30.36 USD
Mrkt Val / Shares Out (mn)	1,020 USD / 125.7
Average Daily Value (mn)	5.96 USD
Free Float	7.9%
BofA Ticker / Exchange	HSAL / NAS
Bloomberg / Reuters	HSAL US / HSAI.OQ
ROE (2023E)	-95.0%
Net Dbt to Eqty (Dec-2022A)	-64.77%

ADAS: advanced driver assistance system

ASIC: application-specific integrated circuit

Lidar: light detection and ranging

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Timestamp: 04 January 2024 09:13AM EST

## Price objective basis & risk

### Hesai (HSAI)

Our PO of USD16 is based on average from DCF valuation and EV/sales valuation.

#### DCF valuation methodology:

The fair value of USD15.2 is derived from our DCF calculation, with an assumption of 2% FCF perpetuity growth and 15.3% WACC. We come up with WACC of 15.3%, consisting of 2.7% risk free rate and 12% expected market return. Lastly, we assigned 3.5% perpetual growth rate to the company, which is reasonable, in our view, given the overall LiDAR penetration in ADAS is still relatively low and CAGR growth could be sustained in longer term.

#### EV/Sales methodology:

The fair value of USD16.8 is derived from our EV/sales valuation, as we assign 4x EV/sales to Hesai's 2024E sales, in line with its peers' average. We believe that Hesai deserves a valuation premium considering its leading position in the industry (market share in terms of shipment, order gain), superior margins, faster breakeven timeline, and stronger B/S management. This characteristic set Hesai a solid foundation to survive through industry shuffling and remain as one of the top suppliers in the segment. However, this is offset by the stock's low liquidity, resulting in a peers' average multiple.

Risk: client concentration, ASP/GPM downside, slower EV/ smart vehicle growth

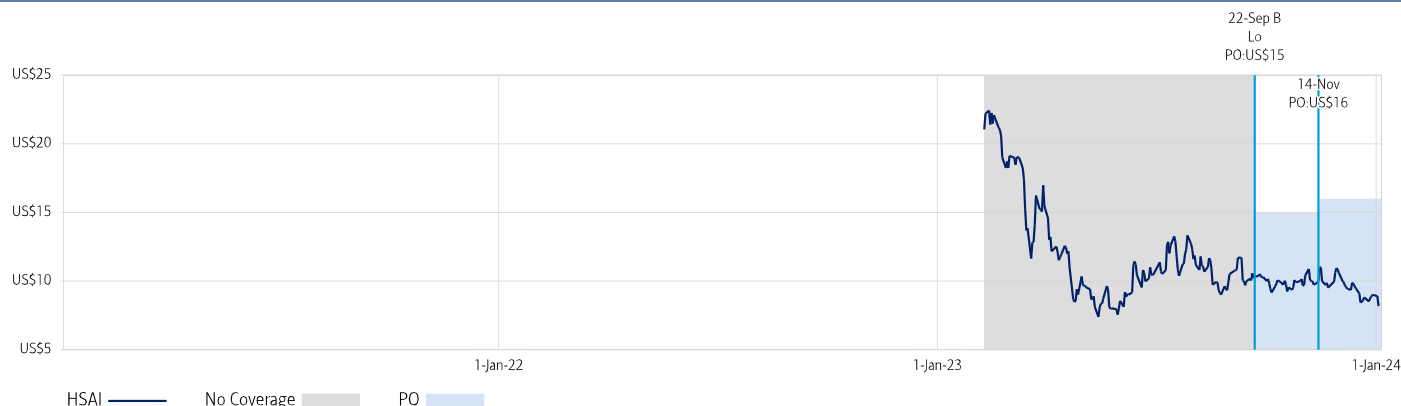
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### Hesai (HSAI) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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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Sell	807	22.84%	Sell	383	47.46%

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