

Xpeng Inc.

Investment Proposal

Prem Shankala

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LISTING

NYSE

SECTOR

Consumer Cyclical

INDUSTRY

Auto Manufacturers

CURRENT PRICE

\$58.76

REVENUE

US\$293.1 mn(Q3,2020)

MARKET CAP

47.23 bn

BETA

2.38

PE RATIO

N/A

XPeng designs, develops, manufactures and sells exclusively battery electric vehicles (BEVs) in China. Founded in 2015 by Xiaopeng He (formerly of Alibaba) and Heng Xia (GAC), XPeng launched its first vehicle, the G3 compact SUV, in November 2018. Contract manufactured by domestic Chinese automaker Haima in Zhengzhou, Henan province (minimizing capital outlay and speeding time to market), the G3 went on to become the third best-selling BEV SUV in China in 2019. XPeng began assembly of its second vehicle, the P7 mid-size sedan, in May 2020 at the firm's new wholly-owned assembly plant in Zhaoqing, Guangdong province (maximizing profit contribution per unit relative to contract manufacturing).

XPeng's vehicles target the mid-to-high end of the mass market and are characterized by a plentiful array of "Smart EV" features, including voice recognition, large infotainment displays, enhanced connectivity, and various advanced driver assist systems (ADAS) such as radar-assisted adaptive cruise control, lane centering, and automated parking. The vehicles are noted for having the longest range in their respective price categories, with the P7 providing up to 706 kilometers (439 miles) of driving range (more than a more expensive Tesla Model 3). The vehicle lineup is expected to expand over time to include a third model in 2021 (which we believe to be a compact sedan) and a fourth model in 2022 (perhaps a mid-size SUV). Currently available capacity includes 150,000 units annually via its venture with Haima and another 100,000 units at the wholly-owned Zhaoqing facility.

Beyond the selling of BEVs, XPeng earns revenue from various other services (e.g. ride-hailing, financing, supercharging, and maintenance) which together currently comprise ~5% of revenue, which may grow over time.

XPeng markets and sells its vehicles via a combination of independent franchise dealerships and its own wholly-owned stores, which together totaled 147 as of June 30, 2020, at which time the company employed 3,676 workers (43% in research and development), primarily in China with secondary offices in the United States (primarily for the development of autonomous driving capabilities).

Strong 2020 Company Performance :

- The company got listed in late 2020's and the stock price increased multi-fold times and outperformed the NASDAQ Composite and S&P 500 Index.
- Introduction of new high range model P7 with advanced new features and a more durable and bigger battery.

Industry Analysis:

- The global automotive sales are expected to decline by 20.6% due to the pandemic.
- Expected to grow to 9 trillions dollars globally by 2030 thanks to consequent growth expected from China and emerging markets such as India and the emerging EV market.
- A serious impact on traditional automakers that are struggling to keep up with the trend to shift their fleet to electric vehicles.

Company Analysis:

- Xpeng's general strategy is to establish themselves in China to capture their EV market and now has expanded to certain regions of Europe as well.
- Xpeng shows promising growth with high quality products, being called the 'Tesla Killer'.

Competitor Analysis:

- Intensifying competition in the NEV market.
- Limited track record and execution challenges of the franchise model, with well established brands like Tesla, Nio and also players like BMW, Daimler pose a considerable threat to Xpeng in the near future in terms of technological innovation and affordability.

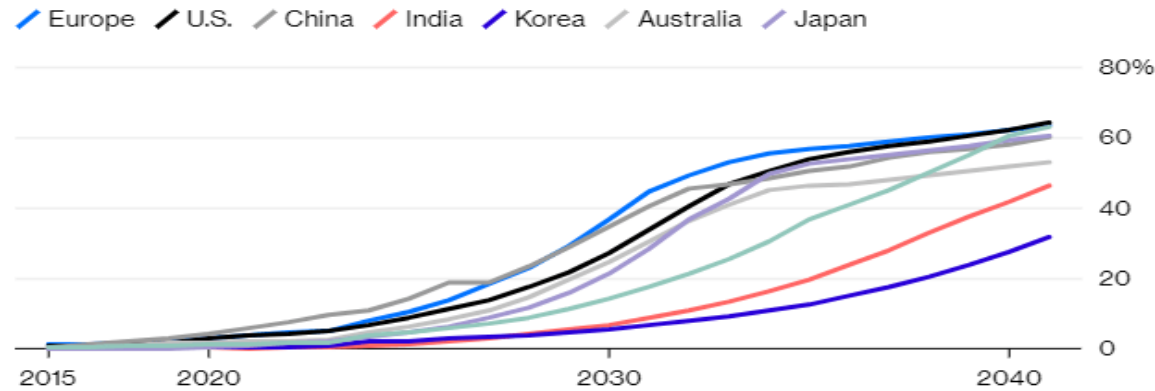
Technical Analysis:

- Technical indicators based on past performance such as MACD show BUY signals for the future.

- The automotive industry represents 320 billion dollar every single year. It is a cyclical sector that is expected to grow to 9 trillions dollars globally by 2030 thanks to consequent growth expected from China and emerging markets such as India. Nevertheless, passenger vehicle sales in the largest car markets in the world contracted by around 4% in 2019. Combined worldwide car sales of 65.5 million vehicles were the lowest number in four years.
- In 2020, the global automotive sales are expected to decline by 20.6% due to the pandemic. Automotive companies are expected to focus more on preserving their capital in the short term, developing a more robust online retailing strategy, and incorporating a wide range of Health Wellness and Wellbeing (HWW) features in their vehicles.
- Two main factors are impacting and transforming the automotive industry. The global pandemic is accelerating the development and the adoption of both electric and autonomous vehicles, despite the fact that it is difficult to keep investments without sales. According to S&P Global Market Intelligence Electric vehicle sales around the world is likely to rise to 6.2 million by 2024, almost three times higher than the volume sold in 2019. This two disturbing phenomenon have tremendous impact on traditional automakers that are struggling to keep up with to shift their fleet to electric vehicles.

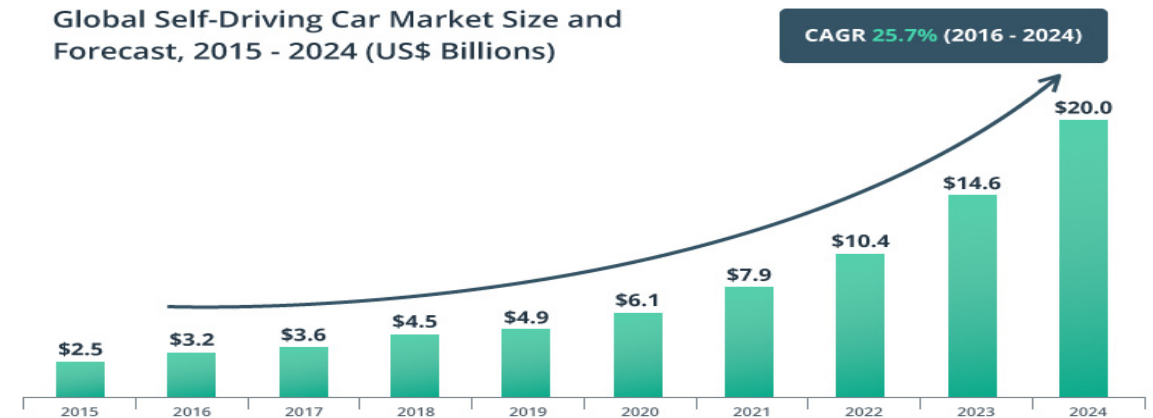
Electrified, But Not For A While

Electric vehicles' sales penetration is expected to rise sharply after 2030



Source: Bloomberg New Energy Finance

Global Self-Driving Car Market Size and Forecast, 2015 - 2024 (US\$ Billions)



Porter's Five Forces Analysis

Competitive Rivalry

- The level of customer loyalty is high and mature industry
- The number of recognized and influential brands is low and the exit barriers are very high
- High fixed costs due to constant research and development, digitalization and marketing.

HIGH

Supplier Power

- Most of the suppliers are small and only few of them are significant in size
- Fairly standardised and less differentiated products
- Low switching costs, because raw material is always available

LOW

Buyer Power

- Many of the buyers are individuals but there are corporations and government agencies that buy fleets of vehicles
- There are no big costs involved in switching to another brand
- The buyers are mostly price sensitive

MEDIUM

Threat of New Entry

- The economies of scale is fairly difficult to achieve in the industry
- Level of competition from the existing brands with strong reputation and track record is high
- High capital and technological development cost weakens the threat

LOW

Threat of Substitution

- High substitute availability but none of them could offer the accessibility and convenience of the car
- Some threat from the substitute products where daily commuters may find it cheaper and easier to take a train or bus

HIGH

Main product: XPeng offers two models for sale: the G3 (a 5-passenger compact battery electric SUV) and the P7 (a 5-passenger mid-size battery electric sports sedan); however, we expect the company to roll out two additional models over the course of 2021 and 2022, and may roll out additional models over time, likely at a pace of one per year.

XPeng G3: The G3 (top car on the right) SUV, which went into production in November 2018, was XPeng's only mass-produced Smart EV in the market prior to the May 2020 debut of the P7. According to IHS Markit, the XPeng G3's main competitors consist of the Audi Q2L e-tron, the BYD Song Pro EV, and the Toyota C-HR EV. Compared to higher-priced competing models, the G3 features the longest range - from 460 km to 520 km as measured using the NEDC (New European Driving Cycle) methodology. XPeng has completed eight major over-the-air (OTA) updates and added 50 new features to the G3.

XPeng P7: The P7 Sedan (bottom car on the right) went into production and became available for delivery in May 2020 and is currently the flagship model for XPeng. The P7 boasts a range of 562 km to 706 km (NEDC standard), which is the highest in its category, exceeding that of competitor models such as the Tesla Model 3, BYD Han, Mercedes-Benz EQC, and BMW iX3. The P7 is estimated to be able to retain ~90% of its initial battery capacity after 160,000 km of driving.

XPeng's smartification solution includes adapted ADAS for China's sophisticated road conditions and in-car app ecosystems, to name a few. They are designed to capture China's young customers, who account for one-third of new car buyers. XPeng's XPILOT 3.0, scheduled to roll out in early 2021, is another example, where customers can subscribe to the service through OTA (over-the-air).

- XPILOT is customized for driving behavior and road conditions in China. XPILOT 2.5 is currently deployed on both the G3 and P7 models. The key capabilities of XPILOT 2.5 deliver essential autonomous driving features, including adaptive cruise control, lane centring control, automated parking, active safety features, etc. The company expects to roll out XPILOT 3.0, which takes autonomous driving to the next level (Level 3), in early 2021, featuring new functions in addition to those of XPILOT 2.5, such as navigation-guided pilot (NGP) and automated parking for memorized parking plots, etc.
- Smart OS, the in-car intelligent operating system, enables customers to enjoy an easy-to-use and smart experience on XPeng's cars. The AI voice assistant makes voice control with continuous dialogue possible, and its capability of receiving and executing ~10 requests within 25 seconds is efficient and welcomed by customers.

Target group size: XPeng targets the midrange to high-end segment in China's PV market, with prices in the \$20k-50k range for smart EVs. According to the IHS Markit Report, the midrange to high-end segment represented 30.6% of China's passenger vehicle market by sales volume in 2019 and accounted for ~47% of EV sales in 2019.

Revenue growth: XPeng derives its revenue from two sources: (1) vehicle sales; and (2) service and others. XPeng's total revenue is expected to enjoy a solid 73% CAGR over 2020-25 and reach \$700mn in 2020 and \$10.9bn in 2025.

- Vehicle sales: XPeng's revenue comes from sales of electric vehicles, and the company sells its vehicles through its sales and service network, consisting of 100 sales stores and 47 service centers covering 53 major cities in China. Sales currently consist only of the XPeng G3 SUV and P7 sedan, although the lineup is expected to expand to include the third model, to be launched in 2021 (likely to be an A-segment sedan), and the fourth model, to be launched in 2022 (likely to be a B-segment SUV). The expected revenue from vehicle sales to be \$670mn in 2020 and \$10.5bn in 2025, based on the volume assumptions of 21.5k units and 345k units in 2020 and 2025, respectively.

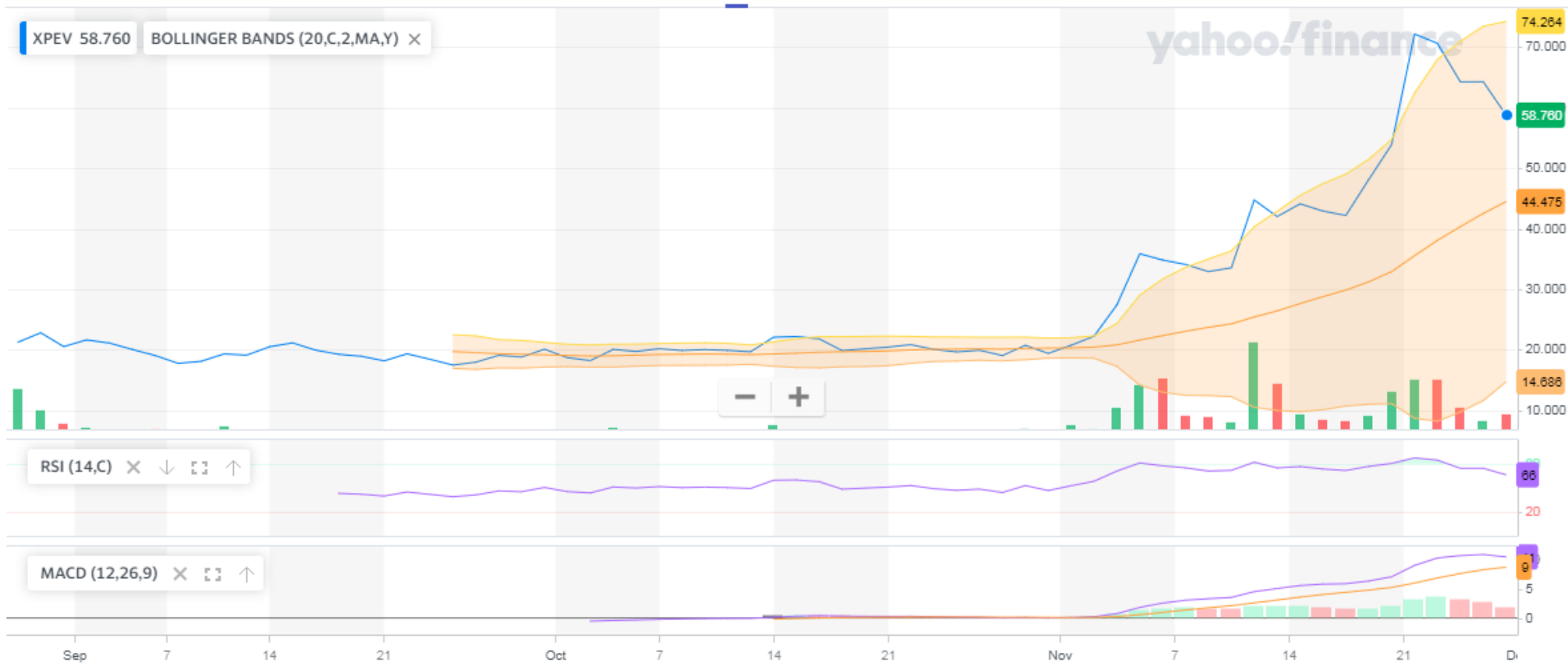


- Service and others: This includes mainly revenue from ride-hailing services, finance leases, supercharging services and maintenance services. The projected revenue from services and others of \$22.8mn in 2020 and \$400mn in 2025, contributing a relatively stable 4-5% of total revenue.
- **Growth drivers:**
 - ✓ China's NEV industry is entering the acceleration stage. The development of China's NEV industry can be classified into two stages: (1) **the 2015-19 development stage**, when penetration (from 1% to 5% during the period) was led by more by "push" factors (e.g., government subsidies and emissions requirements); and (2) **the 2020-25 acceleration stage**, when we forecast penetration should surge to 13-14%, driven by:
 - **Continued (battery) cost reduction** (8-10% p.a.) through improving energy density, rising scale and production yields. One important factor for price reduction, in our view, is OEMs continuing to push suppliers to lower prices, given that battery suppliers still enjoy rather healthy (GP) margins of ~25-30%. We expect that production cost-parity can be reached by 2023 in China and later, around 2025, in other regions (given the larger size of vehicles and higher battery prices).
 - **Fast growth of individual buyers and attractive Smart EV:** Tesla's entry into the Chinese market has led to an increasing trend of individual customers purchasing EVs – BEV sales to individual buyers in January-July 2020 accounted for ~64% of total sales vs. less than 50% in 2019. In addition, Smart EV's content and button-less design are attractive to customers.
 - Recent entry in Europe especially in Norway has opened the doors to a wide expansion for XPENG.
- **Sales by products:** XPeng's September deliveries hit a record 3,478 units and 8,578 (Q3 2020 sales were 6,210 **P7s** and 2,368 **G3s**) for the quarter (Q3, 2020). The September result would put XPeng on a run rate of 41,736 electric vehicle [EV] sales pa, suggesting that XPeng could exceed 50,000 deliveries in 2021. The September 2020 result was a 145% YoY increase, and the quarterly result was a 266% YoY increase. These are impressive growth rates, albeit from a low base and after a weak H1 2020 due to COVID-19
- **Profitability:** Limited track record and execution challenges of the franchise model, XPeng was founded in 2015 and started vehicle delivery only from end-18. With only five years of history and ~20 months of mass delivery, XPeng's track record is still limited compared with those of traditional OEMs and currently loss making as it is only at its inception stage. Also, XPeng may face execution challenges from its franchise model. Execution risks may arise and its brand image could be damaged if franchisees fail to deliver satisfying and qualified services to XPeng's customers.

Name	Revenue (USD million)	Sales growth (QoQ)	Gross margin TTM	Net margin (Recent Quarter)	Price Momentum			ROA	Current Ratio	Market Cap (USD billion)
					1m ret	3m ret	1y return			
Nio Inc	1,387	21.7%	-3.29%	-31.59%	97.7%	201%	2519%	-47.62%	0.76	57.48
Ford Motor	130,400	27.2%	19.63%	7.35%	11.3%	30.9%	0.9%	1.25%	1.25	36.16
General Motors	115,790	20.3%	20.66%	13.82%	23.4%	53.1%	26.9%	1.44%	1.04	63.7
Ferrari	3,702	12.3%	58.73%	2.81%	11.8%	7.6%	26.7%	9.21%	4.3	39.3
Tesla Inc	28,180	218%	29.06%	6.33	36.5%	41.8%	753.3%	1.46%	1.33	544
Xpeng Inc	700	159.2%	-	-24.9%	220.5%	202.5%	-	-27.6%	1.30	47.23
Kandi Technologies	119.34	-2.6%	25.91%	40.87%	104.5%	117.4%	193.5%	1.89%	1.58	0.740

- XPENG has a lot of growth opportunities to capitalize on, in China as well as in the Global markets
- Since it is an early stage company the Net margin and ROA are distorted against its peers.
- Compelling products targeting the most sizable market segment
- XPeng models are equipped with a variety of smart connectivity and autonomous driving features.
- Customers are embracing advanced in-vehicle technologies, smartification is more and more valued by them. XPeng's proprietary software, XPILOT and Xmart OS, optimizes customers' mobility experience.
- A recent growth in Sales QoQ has been well captured by the recent momentum in their stock price with a positive sales data on their new model P7.

- High R&D Expenses lined up for XPENG.
- Limited track record and execution challenges of the franchise model
- Intensifying competition in the NEV market: Competition in China's NEV market is intensifying, while OEMs are striving to offer electrification solutions to customers and comply with China's strict fuel efficiency/emissions targets. NEV-focused OEMs include Tesla, NIO, Li Auto, WM, etc., which are actively launching models.
- Subsidy cuts in the industry: OEMs bear the burden of subsidy cuts in the industry. In April 2020, the Chinese government announced a revised NEV subsidy policy out to 2022. For passenger vehicles, the 2020 subsidy for EVs was cut 10% and further cuts of 20%/30% will be applied in 2021/22. While NEV subsidies are now fairly limited in dollar amounts, they still account for 10-13% of G3's MSRP and 6-8% of P7's MSRP.



INDICATORS:

Relative strength index (RSI):

- a momentum indicator that measures the magnitude of recent price changes.

Bollinger Bands:

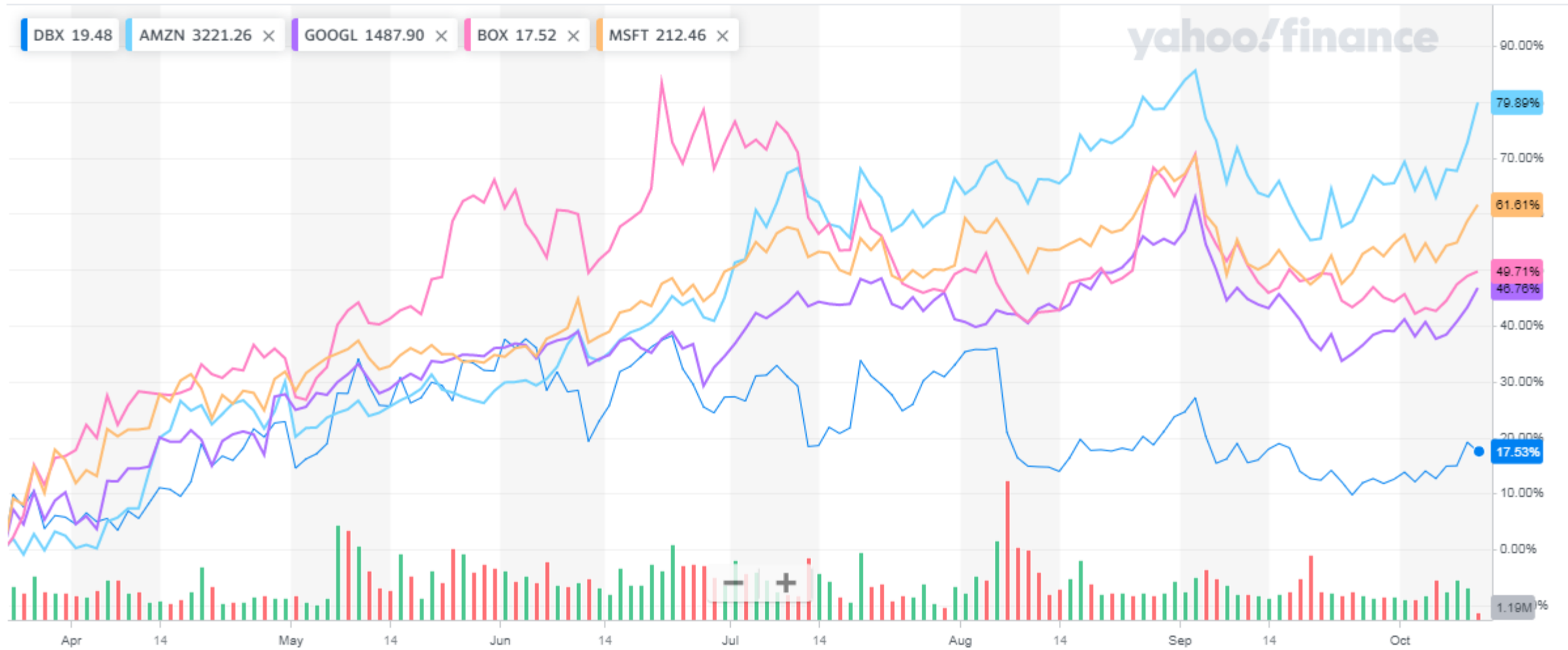
- a set of lines plotted two standard deviations away from a simple moving average (SMA) of the security's

Moving Average Convergence Divergence (MACD):

- shows the relationship between two moving averages of a security's price

- RSI:** Reading of 30 or below indicates an oversold or undervalued condition. BYND has a value of 66 which indicates a SELL signal.
- Bollinger Bands:** The price of XPEV is close to the upper band which means that the prices are thought to be overbought, triggering a SELL signal.
- MACD:** calculated by subtracting the 26-period Exponential Moving Average (EMA) from the 12-period EMA. XPEV has a signal line of 9 and the MACD is at 11. The MACD crosses above its signal line which indicates a BUY signal.

UPDATE





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