



Rating
Hold

Asia
 China

Automobiles &
 Components

Company
Li Auto

Reuters
 LI.OO

Bloomberg
 LI US

Exchange
 NSM

Ticker
 LI

Date
 10 November 2023

Forecast Change

Price at 9 Nov 2023 (USD)	37.65
Price target - 12mth (USD)	45.00
52-week range (USD)	46.65 - 16.73
S P 500	4,383

Sacrificing some margin for volume

While the order book remains robust, we underestimated the level of incentives needed to preserve volume growth in the face of aggressive competition particularly from Huawei-backed AITO. This appears to be a classic situation of trading off some margin for units which in LI's case does make tactical sense considering it has more cushion to play with compared to other upstarts. Looking ahead, we still believe Li Auto emerges a winner in this battle (for EREVs) and raise our volume forecasts but lower vehicle margin to account for greater incentives and weaker mix. We raise our price target to \$48 but stay on sidelines as we see room to disappoint around the upcoming BEV slate where pricing will seemingly start quite high.

3Q23 earnings recap

Li Auto delivered somewhat mixed 3Q results. Deliveries were already reported for 3Q at 105,108 units, leading to revenue of 34.7bn RMB, about in-line with our forecast but saw greater services contribution. Total gross margin of 22.0% was below our 22.9% estimate on weaker vehicle margin of 21.2% (up only 15bps QoQ likely due to greater impact from incentives). Services margin approached 50%. Opex of 5.4bn was below our expectation, mainly due to lower SG&A, reflecting prudent spending. Adjusted EPS was 3.29, easily beating DBc/consensus, helped by other income (~23c benefit). Free cash flow came in at >13bn, materially better than anticipated, boosted by working capital (payables and inventory).

Robust 4Q volume outlook but weaker pricing

Management provided strong 4Q guidance calling for 125,000-128,000 in deliveries, higher than our ingoing 119,000 forecast, implying continued growth following October's record 40,422 units. Management typically guides conservatively so we suspect 130,000 is achievable. Revenue is expected to be 38.46-39.38bn RMB in 4Q, implying lower ASP QoQ; this suggests fairly aggressive promotional activity in order to preserve order book growth against onslaught from AITO. On gross margin, management expects to maintain 20%+ and for opex, we expect 4Q to be around 6.2bn assuming both R&D and SG&A increase sequentially.

Early 2024 thoughts

With 4 new models to be launched next year (L6 EREV SUV targeting a younger family audience in 1H24 plus 3 BEV SUVs in 2H24 in addition to MEGA starting deliveries in Feb), Li Auto is aspiring to sell 650,000-800,000 units (or >200bn RMB

Valuation & Risks

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Key changes

TP	40.00 to 45.00	↑	12.5%
Sales (FYE)	120,939 to 121,722	↑	0.6%
Op prof margin (FYE)	4.8 to 5.4	↑	11.5%
Net profit (FYE)	9,925.7 to 10,880.9	↑	9.6%

Source: Deutsche Bank

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in revenue). Gross margin is expected to be at least 20%, suggesting limited dilution from the BEVs. We think initially the BEVs will be very high ASP so the structural headwind may be manageable however should competition further intensify on EREVs, management may need to get more aggressive on incentives to ensure growth. Ultimately, this would in our view still be the correct move as LI has decent cushion margin to play with unlike other start-ups.

In respect to opex, LI is targeting around 18bn in R&D and SG&A to decline YoY as a % of sales (<8%). The capex plan hasn't been finalized yet but the company alluded to very big year, potentially upwards of 14bn RMB. Overall, we raise our deliveries forecast by 70,000 to 615,000 (+65% YoY) or revenue ~186bn but lower our gross margin by 140bps to 20.4%, reflecting more aggressive pricing and weaker mix. This takes our price target up by \$5 to \$45 as we pivot methodology to 21x EV/Ebitda (average of Tesla and BYD) vs. prior 2x 2023E EV/Sales.

Figure 1: Li MEGA



Source : Company reports

Big slate of BEVs

LI's first BEV model MEGA (luxury MPV, estimated to be priced > 500,000 RMB) will be launched in December and should begin deliveries in Feb 2024. Based on a 800V platform, MEGA is capable of 5C charging and can gain up to 500km range with a 12-minute charge. Through aerodynamic design, MEGA's drag coefficient is only 0.215 Cd (according to LI, every 0.01 reduction in drag coefficient will increase CLTC driving range by 7km). In 2H24, three more BEV models are expected to be launched. To-date, LI has built 130 highway supercharging stations, and plans to increase the number to ~300 by the end of this year.



Figure 2: Estimate changes

Prior	2022	2023E	2024E
Deliveries	133,246	363,225	545,000
Revenue (m RMB)	45,287	120,939	174,184
ASP (000 RMB)	331	326	312
Opex	12,445	21,121	29,002
Gross margin	19.4%	22.1%	21.9%
EPS	0.04	9.30	11.10
Revised	2022	2023E	2024E
Deliveries	133,246	371,725	615,000
Revenue (m RMB)	45,287	121,722	186,319
ASP (000 RMB)	331	318	294
Opex	12,445	19,811	30,072
Gross margin	19.4%	21.5%	20.4%
EPS	0.04	10.25	10.30

Source : Company reports, Deutsche Bank



Appendix 1

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Company	Ticker	Recent price*	Disclosure
Li Auto	LI.OQ	39.36 (USD) 08 Nov 2023	8, 13, 14, 15, 24

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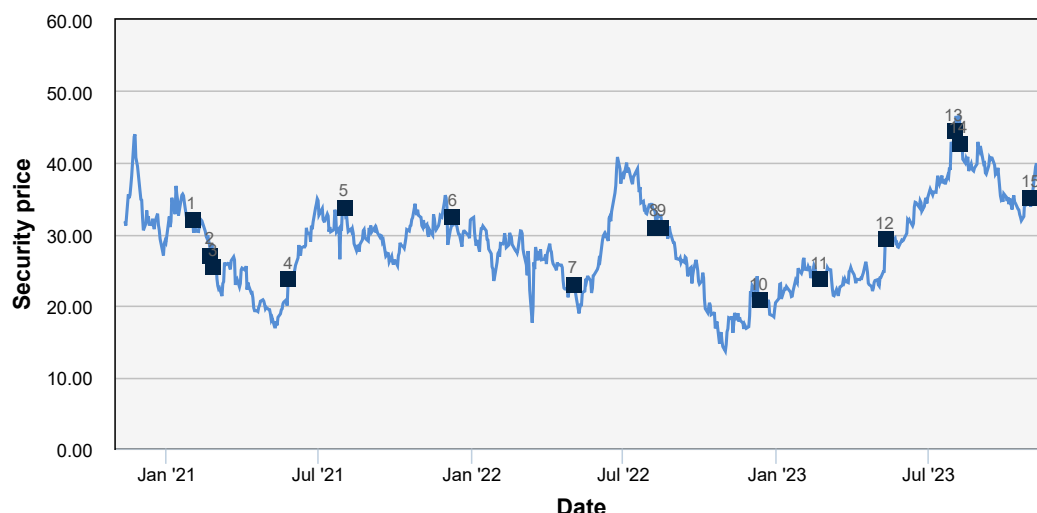
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Historical recommendations and target price: Li Auto (LI.OQ)

(as of 11/09/2023)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

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2.	02/23/2021	Hold, Target Price Change USD 34.00, Current Price USD 26.99 Edison Yu	10.	12/12/2022	Hold, Target Price Change USD 27.00, Current Price USD 20.72 Edison Yu
3.	02/26/2021	Hold, Target Price Change USD 32.00, Current Price USD 25.37 Edison Yu	11.	02/22/2023	Hold, Target Price Change USD 28.00, Current Price USD 23.69 Edison Yu
4.	05/27/2021	Hold, Target Price Change USD 27.00, Current Price USD 23.65 Edison Yu	12.	05/11/2023	Hold, Target Price Change USD 31.00, Current Price USD 29.27 Edison Yu
5.	08/02/2021	Hold, Target Price Change USD 32.00, Current Price USD 33.68 Edison Yu	13.	08/02/2023	Hold, Target Price Change USD 41.00, Current Price USD 44.40 Edison Yu
6.	12/10/2021	Hold, Target Price Change USD 34.00, Current Price USD 32.46 Edison Yu	14.	08/08/2023	Hold, Target Price Change USD 42.00, Current Price USD 42.63 Edison Yu
7.	05/03/2022	Hold, Target Price Change USD 28.00, Current Price USD 22.93 Edison Yu	15.	11/01/2023	Hold, Target Price Change USD 40.00, Current Price USD 34.99 Edison Yu
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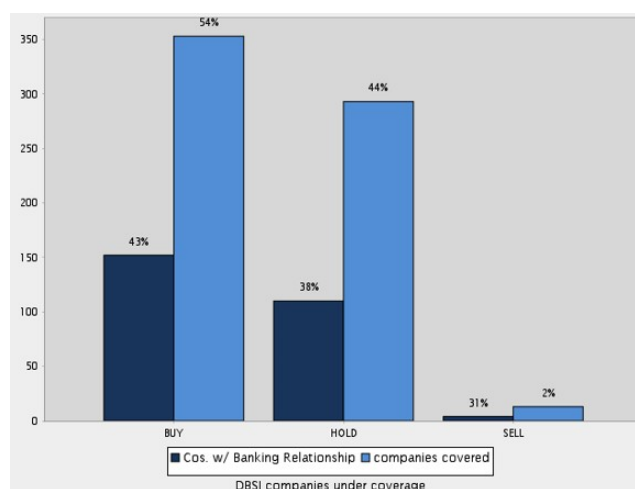
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