Rev growth compare



GM comp



I think 1) strong mgmt. team and 2) unique and somewhat protected product positioning

BOFA Q1 notes:

1Q23 GPM slightly miss, NP beat on better OPEX ratio

Li Auto (Li) announced 1Q23 results and hosted a conference call on 10 May. Total revenue came in at RMB18.8bn, up 97% YoY/6% QoQ. Overall GPM was down 2.2ppt YoY/up 0.2ppt QoQ to 20.4%, behind our expectation of 20.7%, while vehicle GPM was down 2.6ppt YoY/0.2ppt QoQ to 19.8%. **Opex to sales ratio came in at 18.2%, down 8.7ppt YoY/2.7ppt QoQ**. Net income was RMB930mn, up 262% QoQ, beating our estimate/consensus on better OPEX to sales ratio.

GPM expansion from 2Q; monthly delivery hit 30k in Jun

Despite that 1Q23 GPM was slightly lower than expectation given the inferior product mix (Li One brought negative impact of 1.6ppt), Li is confident on improving GPM from 2Q23 onwards, thanks to higher shipment/revenue scale, ramp-up of L7 to increase utilization, and lower battery price. OPEX to sales ratio is well controlled in 1Q23, and management maintains 2023 R&D expense guidance at RMB10-12bn and SG&A expense to sales ratio to be better than 4Q22 level. Capex for 2023-2025 is guided at RMB18bn, including investment over HPC BEV product. It expects the margin of BEV to be similar to its EREV in the long term thanks to its early preparation in the supply chain.

Lift sales and earnings; new PO USD37 per ADS

Li gave guidance on 2Q23 delivery of 76-81k units, up 165-182% YoY and 45-54% QoQ. It indicates monthly sales to hit 30k units in June. Li expects 2Q23 revenue of RMB24.2bn-25.9bn, suggesting YoY growth of 177-196% and QoQ growth of 29-38%. Li indicated that it prioritizes the market share over further profitability expansion. It will not consider price adjustment or discount in order to gain more order because its product lineup plan and pricing segment have been set in a longer-term perspective. We lifted 2023-25E volume sales and lifted 2023E net income significantly. Our new PO is USD37 per ADS / HKD144 per share (see details on page 5). Reiterate Buy given we see its brand building and volume sales top among the major EV start-ups and profitability improvement is sustainable.

Q1 earnings a solid beat - Rare find this quarter. Li Auto posted a solid set of numbers for Q1 with revenue RMB18.8bn, up 6.4% QoQ and 96.5% YoY. Revenue growth was mainly driven by higher sales volume (52,584 cars were delivered in Q1, up 13.5% QoQ and 65.8% YoY) and better ASP (RMB 349k in Q1, down 6.5% QoQ and 18.8% YoY). GPM held up well at 20.4%, in line with our estimates & Bloomberg consensus. Vehicle margin recorded 19.8% in Q1 23, vs. 20.0% in Q4 22 and 22.4% in Q1 22, as a result of production ...[more]

MS NDR takeaway:

Li Auto is confident of sustaining ~30k monthly sales into 2H and reaching 1mn annual sales by 2025 on the back of a well-defined product strategy. Long-term success will hinge on Li Auto's ability to maintain its edge in technology, product differentiation and service quality to stand out from the crowd.

|  |  |  |
| --- | --- | --- |
| 2023 | 2025 | CAGR |
| 360,000 | 1,000,000 | 67% |

Li Auto is confident of sustaining about 30k monthly sales in 2H by leveraging organic growth from its enriched product lineup and improving store efficiency, which was further propelled by a recent reorganization of their store management structure. The largest risk to order intake, in management's view, is macro uncertainty, which could curb consumer confidence. Longer term, Li Auto reiterated their annual sales target of 1mn units by 2025, which will be supported by their 11 model BEV+EREV lineup within the Rmb200-500k price range.

No near-term plans to adjust pricing or specs despite margin expansion expected in 2H: Management shed additional light on the margin recovery trajectory expected in 2H. Negotiations with L7/L8 suppliers are held on a semi-annual basis and should yield positive results in 2H given the sales trajectory since launch. Moreover, lower cost battery inventory will start kicking in more substantially by 3Q. According to management, each Rmb100k decline in lithium carbonate prices could translate into Rmb2.2-2.3k savings of BoM costs, equivalent to around 50-70bps of GpM expansion per our simulations. Despite the fall in costs, Li Auto has no plans to adjust pricing or specs in the short run but will take that into consideration when upgrading the lineup. Management also indicated that the design GpM level of their L-series models is about 25%.

Long-term competitive advantage will come from the combination of technology edge, product differentiation, and service quality: Regarding Li Auto's long-term differentiation vs. peers, management indicated that the company's success so far has been driven by being focused on delivering the best products for family users. Such a clear strategy has also helped in delivering higher operating efficiency. Longer term, Li Auto needs to maintain its edge in technology, product differentiation, and service quality in order to stand out from the competition.

With group profitability turning positive this year, Li Auto expects an effective tax rate of 5-10% due to offsets from deferred tax assets as well as R&D tax credits provided by the government.





