

Research on the Investment Value of LI Auto based on Multiple Method

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Abstract. This study explores the investment value of LI Auto based on SWOT analysis, financial analysis, and valuation methods. The findings indicate that LI Auto has established a niche in the new energy vehicle market with its EREV technology and precise market demand grasp. The company demonstrates strengths in technological innovation, product appeal, and R&D investment, yet faces challenges in production scale, debt levels, and brand influence. Financial data show an upward trend in net profit margin and return on equity (ROE), with significant growth in revenue and net profit. Valuation analysis reveals that LI Auto has P/E, P/B, and P/S ratios that are lower than Tesla but shows market advantages over XPeng and NIO. The study provides a comprehensive reference for investors' decision-making.

Keywords: LI Auto, Investment Value, SWOT Analysis, Financial Analysis, Valuation Methods.

1. Introduction

With the transformation of the global energy structure and the enhancement of environmental awareness, in 2023, the national new energy policy subsidies were officially withdrawn, and the sales of new energy vehicles (NEV) immediately faced challenges [1]. In the upcoming years, maintaining sales or profitability will be a regular issue for NEV enterprises. LI Auto, as an important participant in China's market for NEV, has quickly secured a place in the market with its unique Extended-Range Electric Vehicle (EREV) technology and profound understanding of market demand. However, as market competition intensifies and industry technology rapidly iterates, LI Auto faces challenges and opportunities in multiple aspects, including the expansion of production scale, technological innovation, brand building, and debt management.

The stock performance of LI Auto has always been a focus of investors. Since its listing, its stock price has experienced a series of fluctuations, which not only reflect the market's expectations for LI Auto's future development prospects but are also closely related to the dynamics of the entire NEV market.

This paper is based on Qu M.'s financial analysis method to study the financial statement performance of BYD Company, concluding that BYD has strong competitiveness in the new energy vehicle industry [2]. The valuation analysis of BYD deeply explores the valuation methods and future development trends of NEV enterprises. Research indicates that financial analysis and valuation models can more accurately assess a company's intrinsic value and market potential. In addition, through case analysis of BYD Company, we can derive insights into how NEV enterprises can enhance their competitiveness and investment value through technological innovation, market expansion, and financial stability. This paper is based on Zhao Hongxia and Tian Meng's use of the SWOT analysis method to study Tesla's progress in the Chinese market, concluding that Tesla's successful marketing strategy has inspired Chinese new energy vehicle enterprises [3]. The SWOT analysis of new energy vehicles further deepens the understanding of the current state of the NEV market. The SWOT analysis reveals the advantages of the NEV industry in technological innovation, market demand, and policy support, while also pointing out the challenges faced in production scale, international competition, and technological updates. These analyses provide valuable references for LI Auto's market positioning and strategic planning.

Investors' interest in the new energy vehicle business continues to grow, and LI Auto, as a growing force in the industry, has been a hot issue in the capital market due to its investment value and market

performance. An in-depth study of LI Auto may help investors better understand the company's operating situation, market position, and future development potential, allowing them to make more informed investment decisions.

2. Method

2.1. SWOT analysis method

A strengths, weaknesses, opportunities, and threats (SWOT) analysis has become a key tool used by businesses for strategic planning [4]. This analysis may help firms better understand their competitive position and market environment, allowing them to develop successful strategic strategies. In the instance of Ideal Automobile, the SWOT analysis identified the company's strengths in technical innovation, product attractiveness, and R&D spending. It also highlights obstacles in production size and debt levels, opportunities given by governmental assistance and market demand development, and risks from quick technical updates and policy changes.

2.2. Financial analysis method

An examination of finances is a process of assessing A company's fiscal well-being and operational efficiency by studying and deciphering financial statements like the income statement, balance sheet, and cash flow statement. This analysis assists investors and management in understanding the company's profitability, asset status, debt level, and cash flow situation. In the case of Ideal Automobile, the financial analysis reveals the trend of various indicators, including the net operating margin, ratio of debt to assets and return on equity (ROE), thereby reflecting the financial stability and development prospects of the firm.

2.3. Valuation analysis method

Valuation procedures are ways for determining the worth of a firm or its assets. In the capital markets, valuation is an important part of investment decision-making. Price-to-earnings (P/E), price-to-sales (P/S), and price-to-book (P/B) are common valuation methodologies. among others. These measurements calculate a company's stock's relative value by comparing its market price to financial indicators including profitability, net assets, and sales revenue. In the case of Ideal Automobile, by comparing its valuation measures to those of other businesses operating in the same sector, such as Tesla, XPeng, and NIO, one can deduce Ideal Automobile's relative position in the market and its investment appeal.

3. Results and discussion

3.1. SWOT Analysis Results

3.1.1. Strengths

Revenue Capability: In 2023, revenue broke ten billion, nearly tripling from the previous year. LI Auto is the most profitable among new forces, with superior costs compared to other new force brands.

Technological Innovation: LI Auto's unique EREV technology effectively addresses the short range of pure electric vehicles, meeting consumer demands for long-distance driving.

Product Appeal: LI Auto's product lineup, such as the LI ONE SUV, is popular among family users for its spacious interior, high-end interior design, and advanced technical configuration.

R&D Investment: The company actively invests in R&D, continuously innovating and upgrading products to maintain competitiveness in the new energy vehicle sector.

Supply Chain Management: LI Auto demonstrates strong supply chain management capabilities, establishing stable partnerships with multiple suppliers to ensure the stability of key component supplies.

Sales Network and Brand Building: The 2S+2S marketing model has expanded sales channels and market coverage, rapidly capturing the new energy vehicle market in tier 2, 3, 4, and 5 cities. The company also focuses on brand building and marketing, enhancing brand awareness and reputation.

3.1.2. Weaknesses

Production Scale: With a short establishment time, LI Auto has a relatively small production scale, making it difficult to compete with traditional car companies and unable to meet the demands of large-scale production.

Debt Level: According to financial analysis, LI Auto's debt-to-asset ratio has been rising year by year, which may require attention to its debt management strategy.

Profit Fluctuation: The return on equity (ROE) volatility observed in recent years suggests that there is a degree of uncertainty over the company's capacity to repay shareholder investments.

Brand Influence: Compared to traditional car companies, LI Auto, with its short establishment time, has limited brand influence.

3.1.3. Opportunities

Policy Support: To encourage NEV, The Chinese authorities have implemented legislative changes and monetary rewards that are in line with its advanced economic development and sustainability of the environment. A dual-credits policy regime with strictly guided subsidies was first announced in 2017 and then tightened up in 2019 by relevant authorities of the central government [5]. As the first step toward establishing the development of NEV as a national strategic priority, China's New Energy Vehicle Pilot City (NEVPC) policy has far-reaching significance for helping to develop China's capabilities in NEV industry [6]. All available data indicates that the transition from conventional fuel-powered vehicles to new energy vehicles will be a significant future development trend for China's automotive sector. On April 16, 2020, the Ministry of Finance issued the Notice on Policies related to vehicle purchase tax exemption for new energy vehicles [7]. It made the It is much more evident that the state supports the development and adoption of alternative NEV through policy. All available data indicates that the change from conventional fuel-powered vehicles to NEV will be a significant future development trend for China's automotive sector. **Market Demand Growth:** With the increasing global market demand for NEV, LI Auto is anticipated to further satisfy market diversification needs by continuously expanding its product lineup and improving product quality.

Environmental trends: NEV are becoming a necessary pattern in the growth of the automobile sector to resolve the conflict that appears to be developing between the supply and demand for gasoline and environmental damage. Vehicles that use unconventional fuels (alternative fuels, or modern on-board power equipment) for propulsion are referred to as NEV. Including both private and business vehicles, incorporate cutting-edge technology into vehicle power management and operation, and develop cutting-edge technological concepts, novel technologies, and innovative structural designs. NEV include pure electric vehicles, extended-range electric vehicles, hybrid electric vehicles, fuel cell electric vehicles, hydrogen engine vehicles, etc [8]. More and more governments are setting targets for the adoption of NEV. sending signals to industry players and manufacturers, fostering confidence through legislative frameworks, and encouraging investment. The NEV market is expanding quickly due to the push toward carbon neutrality and carbon peaking. The global emphasis on environmental protection and sustainable development has provided a vast prospect for the NEV market. Ideal Automobile can leverage this trend to achieve rapid growth.

Financing Opportunities: The optimism of the capital market over the new energy sector is favorable for company finance.

Industry competition: Traditional joint venture OEM and BBA typically have low intelligence levels, and their positioning in the Chinese market is inadequate.

3.1.4. Threats

Rapid Technological Updates: The new energy vehicle industry is characterized by rapid technological updates, requiring LI Auto to continuously invest in R&D to maintain a technological

edge. Policy changes risk: The new energy industry's innovation investment may be extremely vulnerable to fiscal policy shocks and public support programs. The new energy sector is a strategically important developing market that is built on core technology with general technical characteristics. Its innovation operations fall into the category of long-term, high-risk investments, which deters businesses from becoming involved. According to new structural economics, government support policies can hedge market uncertainty for high-risk emerging industries, thereby encouraging enterprises to invest and innovate (Zheng et al., 2021). Government support policies could change the return on innovation investment, thereby influencing the innovation decisions of new energy enterprises [9]. Most important tools the Chinese government must aid in the target industries' development is fiscal policy, and the corporate innovation investment's net cash flow may be significantly impacted by uncertainties in fiscal policy.

International competition: With the opening of the international market, Ideal Automobile may face more competitive threats from international brands such as BBA traditional car companies.

Competitive environment: The elasticity research indicates that Tesla operates in a "shark" manner after It makes its debut in China, with changes in pricing having a significant impact on rival companies' market shares. Meanwhile, Chinese automakers, particularly the "new forces of car making," BYD, NIO, and Li-Auto, have begun to pose a threat to Tesla. For Tesla, this is when the "catfish effect" started. According to our counterfactual study, the arrival of Tesla enhances the overall well-being of consumers throughout 90 markets. After closely examining how the arrival of Tesla has affected customer welfare, we found various factors accounting for 73% of the increase, while the price effect accounted for the remaining 27% [10]. Additional findings based on the demand projection show that purchasers choose NEV that are big and large, moderately priced, use less power per 100 kilometers, and have decent mileage. Personal attributes that cannot be seen can explain a few variations in the preferences of customers regarding the price, mileage, and energy consumption of cars per 100 kilometers.

3.2. Financial Analysis Results

Profitability: Operating net profit margin: experiencing a significant improvement from -858.0% in 2019 to 9.45% in 2023, indicating a notable enhancement in the company's operational efficiency and profitability (figure 1).

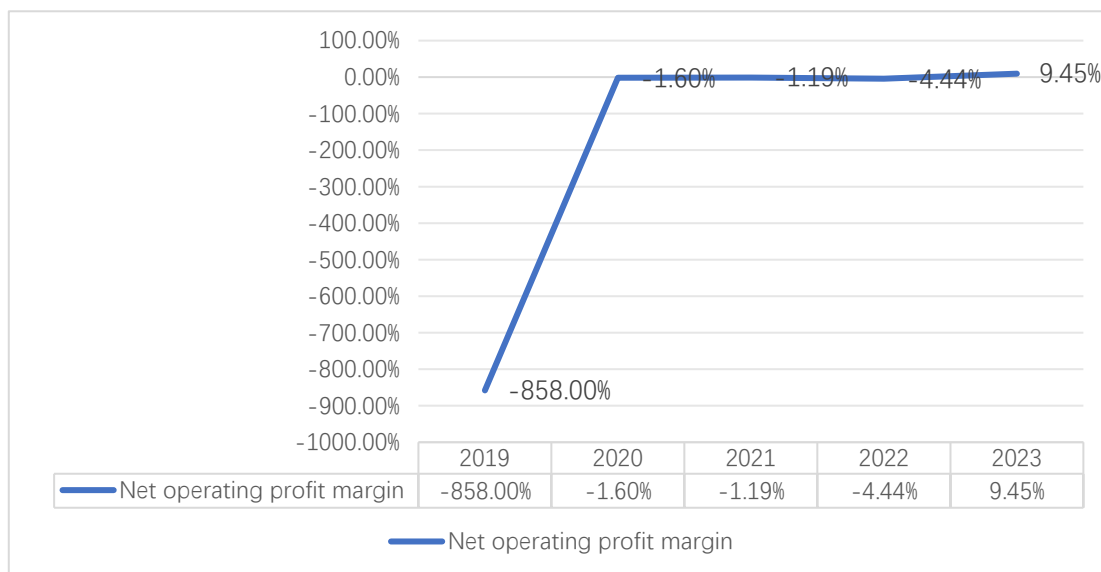


Figure 1. Five-year trend of operating net profit margin

Return on Equity (ROE): The ROE was 80.81% in 2019, but it declined in 2020 and 2021, reaching -6.68% and -0.91%, respectively. However, starting from 2022, ROE has resumed growth, reaching 22.29%, indicating an enhanced ability of the company to return on shareholder investments (figure 2).

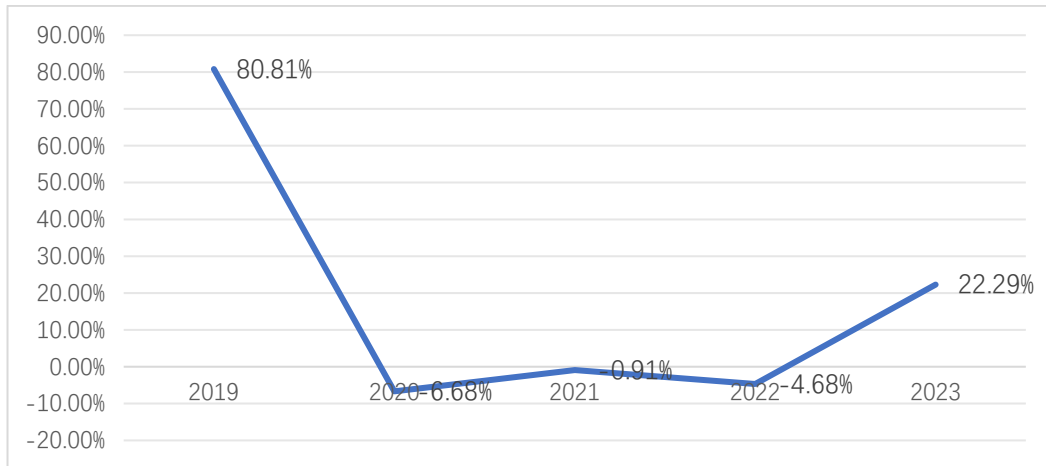


Figure 2. ROE five-year trend

Asset and liability status: The asset liability ratio has decreased year by year from 51.85% in 2019 to 18.06% in 2020, then increased to 33.61% in 2021, further increased to 47.78% in 2022, and finally reached 57.78% in 2023. This indicates that the company's debt level is increasing year by year and may require attention to its debt management strategy. Assets: The total assets increased from 1.366 billion in 2019 to 20.2 billion in 2023, indicating that the company's scale is expanding. Liabilities: Total liabilities increased from 708 million in 2019 to 11.7 billion in 2023, which is in line with asset growth, but also means that the company's financial leverage is increasing (figure 3 and figure 4).

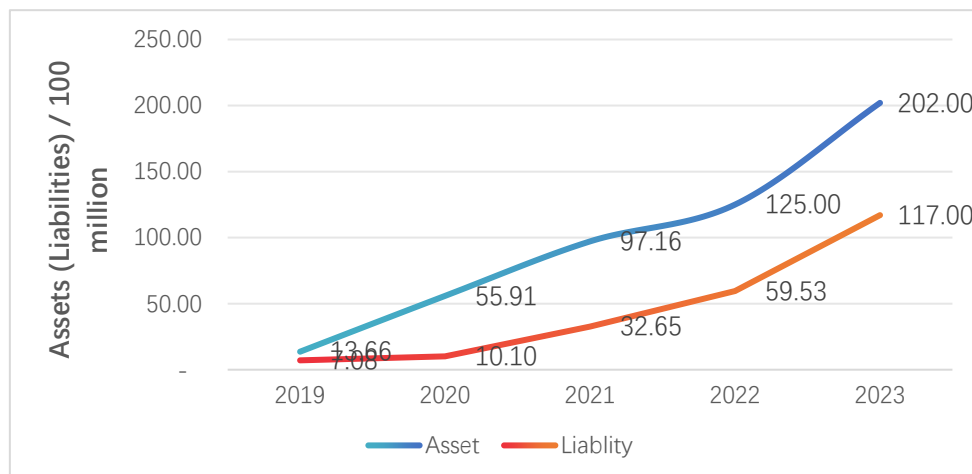


Figure 3. Asset liability

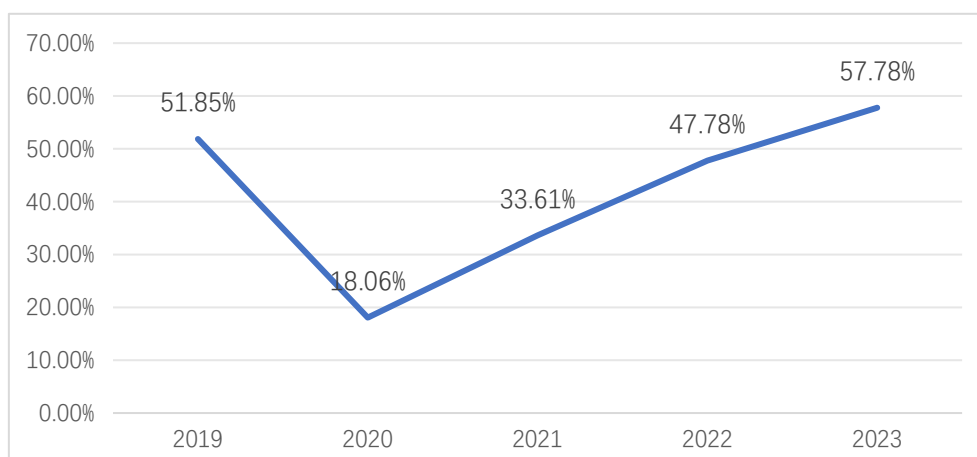


Figure 4. debt to asset

Operating revenue: Operating revenue: increased from 411 million in 2019 to 17.4 billion in 2023, demonstrating the company's sales and market expansion capabilities (figure 5).

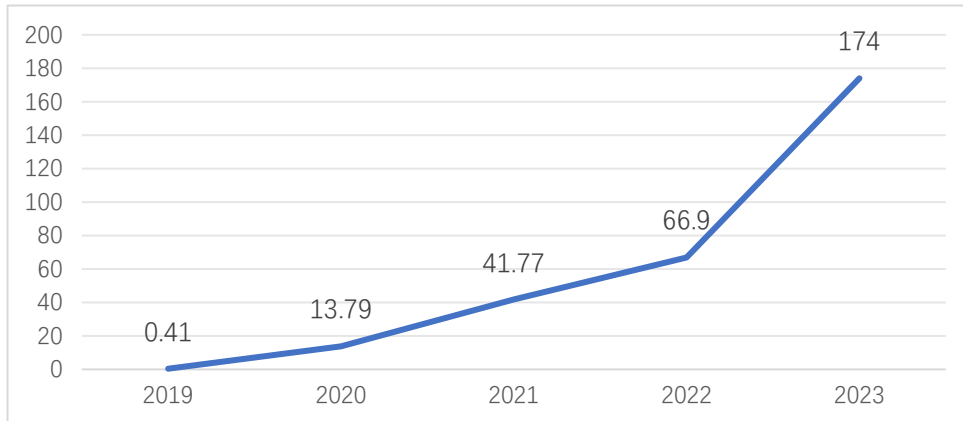


Figure 5. Operating revenue

LI Auto has undergone significant financial transformation in the past five years. The company's profitability, operating efficiency, and return on equity all show an improving trend. Although the debt to asset ratio has increased, the growth of the company's operating revenue and net profit indicates its business expansion and improved market competitiveness. At the same time, the growth of operating cash flow also provides support for the continuous operation of the company. However, the negative value of investment cash flow indicates that the company needs to be more cautious in expansion and investment to ensure long-term financial stability and growth. Overall, LI Auto's financial situation is showing a positive development trend, but attention still needs to be paid to debt management and investment efficiency.

3.3. Valuation Analysis Results

3.3.1. Price to earnings ratio (P/E)

From a price to earnings ratio perspective, Li Auto's valuation is lower than Tesla, but higher than XPeng and NIO. Tesla, as an industry leader, the company's high P/E ratio shows the market's projections for more expansion. The negative P/E ratios of XPeng and NIO indicate that they have not yet achieved profitability (figure 6).

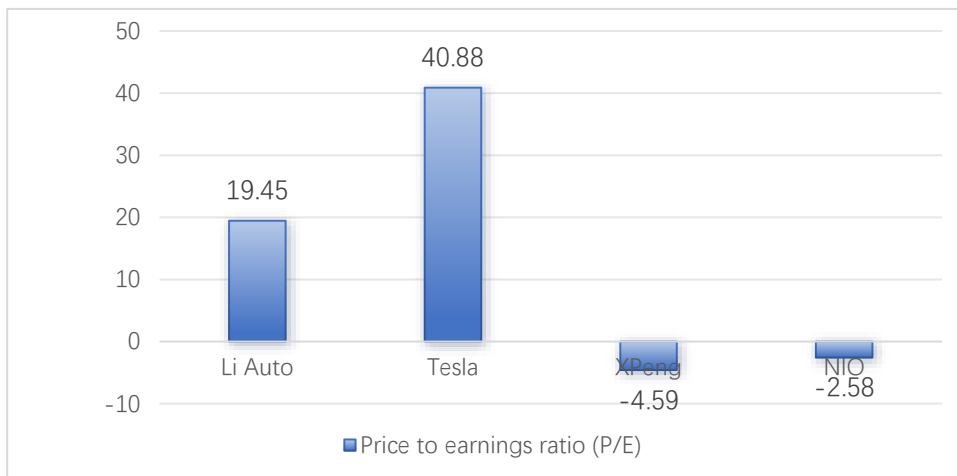


Figure 6. Price to earnings ratio (P/E)

3.3.2. Market to book ratio (P/B)

In terms of price to book ratio, Li Auto's valuation is lower than Tesla, but higher than XPeng and NIO. This may reflect a positive market view on Li Auto's asset quality and future profitability (figure 7).

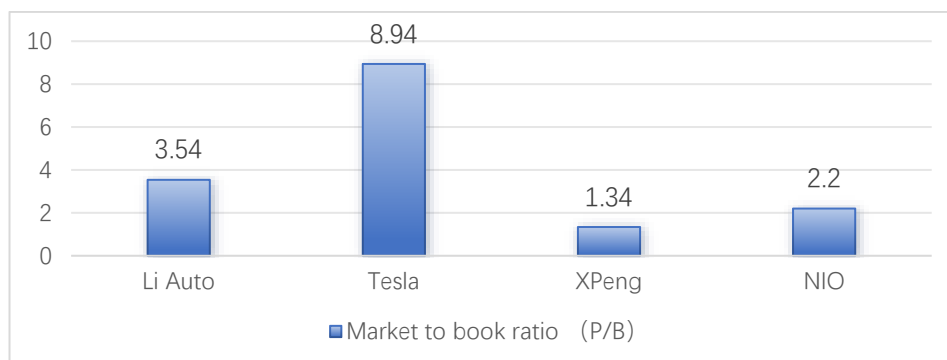


Figure 7. Market to book ratio (P/B)

3.3.3. Market to sales ratio (P/S)

In the comparison of market to sales ratio, Li Auto's valuation is lower than Tesla, but higher than XPeng and NIO. This indicates that the market has given a relatively high evaluation of Li Auto's sales revenue (figure 8).

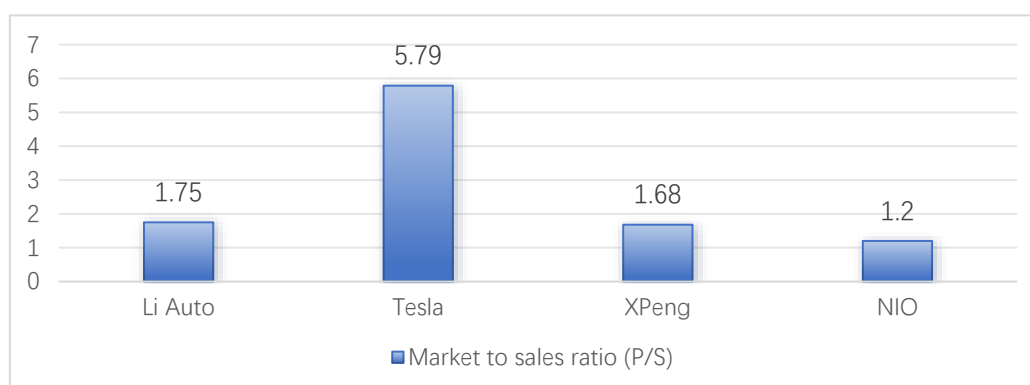


Figure 8. Market to sales ratio (P/S)

Considering the above indicators, Li Auto has a relatively low valuation compared to Tesla in terms of P/E ratio, P/B ratio, and P/S ratio, but shows certain

market advantages compared to XPeng and NIO. When conducting valuation analysis,

To make more informed and objective investment selections, investors should consider elements such as the financial standing of the business, industry standing, development potential, and market trends.

4. Conclusion

This paper conducts a value investment analysis of LI Auto through the application of SWOT analysis, financial analysis, and valuation analysis methods. The SWOT analysis reveals that LI Auto possesses distinct advantages in innovation, product appeal, R&D investment, supply chain management, and the establishment of sales networks. However, the company also faces challenges in production scale, debt levels, profit volatility, and brand influence. Opportunities such as policy support, market demand growth, environmental trends, and financing opportunities present favorable conditions for the company's development. Yet, threats including rapid technological change, policy risks, international competition, and competitive environments require LI Auto's sufficient attention and strategic response. From a financial perspective, LI Auto has undergone significant transformation over the past five years. The company's net operating margin and return on equity (ROE) have shown an improving trend, with growth in operating revenue and net profit indicating business expansion and enhanced market competitiveness. Nevertheless, the rising debt-to-asset ratio and negative investment cash flow underscore the importance of debt management and investment efficiency. In terms of valuation, LI Auto exhibits a lower valuation compared to industry leader Tesla in terms of price-to-earnings (P/E), price-to-book (P/B), and price-to-sales (P/S) ratios, yet it

demonstrates a market advantage over competitors such as XPeng and NIO. The company's profitability surpasses that of XPeng and NIO but still has room for improvement when compared to Tesla. LI Auto's moderate debt-to-asset ratio and leverage level suggest a need for balance between risk and growth potential.

The paper provides four implications for LI Auto:

1. Importance of Technological Innovation: Sustained technological innovation is key for new energy vehicle companies to gain a market advantage. LI Auto's Extended Range Electric Vehicle (EREV) technology serves as a prime example.

2. Necessity of Financial Stability: A company's capacity to maintain its finances is crucial for its long-term growth. The financial figures for LI Auto show that the company is profitable and has room to develop.

3. Market Positioning and Brand Building: LI Auto has successfully expanded its market share through effective market positioning and brand-building strategies, emphasizing the importance of brand and market strategies.

4. Seizing Opportunities and Addressing Challenges: The external opportunities and challenges faced by LI Auto indicate that the company needs to be agile in responding to market changes and grasping the trends and opportunities in industry development.

This study, while providing a comprehensive analysis of LI Auto's investment value, has several limitations that should be acknowledged for a balanced perspective. The financial data used in this analysis is limited to the years available up to the study's completion. Future financial performance, which is critical for investment decisions, cannot be predicted with certainty and may vary significantly. The analysis assumes a stable market environment. However, the new energy vehicle market is highly dynamic, with rapid changes in consumer preferences, technological advancements, and competitive strategies that could impact LI Auto's future performance.

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