

# Why Xpeng (\$XPEV) is a good long term investment

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**Disclosures: this is not investment advice, I am not a registered investment/financial advisor, please do your own research; I hold this stock at the time of creating this presentation**  
**This presentation has been made for the benefit of retail investors who often do not have the time or energy to dive deep into promising companies**  
**Happy Learning!**

# What is Xpeng?

- Xpeng is a Chinese EV company which is listed in the NYSE as \$XPEV
- It primarily sells its cars in China; and has also started exporting to Europe
- However, it is uniquely well positioned to gain market share and achieve greater success than other EV companies
- Because the EV market is going to be so huge, there is obviously room for companies apart from Tesla to thrive
- Xpeng is uniquely positioned to be the No. 2 player after Tesla
- This presentation will provide insights that are not as well highlighted in the mainstream print and TV media

# Alignment of several uncorrelated\* factors

1. Amongst the cheapest electric vehicles (targets the middle class)
2. Potential Spawner (Mohnish Pabrai's criteria)
3. **Smart** EV – Tesla is the only other company centered around software
4. Heavily investing in R&D and ancillary infrastructure
5. Has a focus on exports – Tesla is the only other company
6. Macroeconomic factors: low interest rate cycle, support of the Chinese Govt., backed by big names

\*Uncorrelated factors produce independent tailwinds for the company, providing diversification and higher longevity. This is always a sign for a good investment return in the long term.

# Amongst the cheapest EVs

- Xpeng is targeting China's burgeoning and expansive middle class. Tesla is concentrated currently at the premium end of the market
- Chinese EV options (pre-subsidy prices):
  - **Tesla:** Model 3 - \$36,000 (post-subsidy); Model Y - \$50,000
  - **Nio:** EC6/ES6/ES8 SUV – minimum price at \$50,000
  - **BYD:** average price of various models at \$36,000
  - **Li Auto:** Li ONE SUV – price starts at \$46,000
  - **Xpeng:** G3 - \$36,000; P7 - \$40,000
- Therefore, from a price perspective, Xpeng is really solid

# Potential Spawner (Mohnish Pabrai criteria)

- A spawner is a company that has the ability to launch products in a host of different verticals backed by competitive moats providing it with revenue diversification and enhanced longevity. Examples: Amazon (AWS, Whole Foods), Google, Alibaba
- Why is Xpeng a spawner:
  - It can monetize its AI & Software suite: keeps getting better by the day (mirrors Nassim Taleb's Antifragile criteria)
  - Navigation Guided Pilot: XPilot 3.0
  - Robo-Taxi's – what Tesla is also trying to do
  - Ride hailing platform: Pengster
  - BaaS/CaaS: Battery as a Service, Charging as a service
- Because other EV competitors (excluding Tesla) are gluing tech onto cars rather than building cars around tech, only Xpeng & Tesla are spawners in this space

# Smart EV + Product delight

- 3 YouTube videos where the car has been reviewed, reviewers seemed unbiased—just shows how novel the product is: [Link 1](#), [Link 2](#), [Link 3](#)
- One of Xpeng's top advantages over other automakers is that it's building cars around tech, instead of gluing tech onto cars.
- Beyond Tesla no other car company is building a full software stack on top of a supercomputer. Give me a name, I'll wait!
- Software features:
  - Over the air software upgrades
  - Full auto-parking
  - NGP Xpilot 2.5 is already insane; 3.0 to be out this year in new model
  - AI powered infotainment systems
  - 360 degree camera and over 20 sensors
  - Will use LIDAR soon

# Heavily investing in R&D and ancillary infrastructure

- Their R&D has enabled them to switch to a new Lithium Iron Phosphate battery –reduces costs by around 20% and raises profit margins automatically
- Highlights from latest earnings call:
  - Its Navigation Guided Pilot has a 50% utilization rate
  - It's AI powered internal system has a 90% utilization rate (shows that consumers are loving it)
  - By December 31 2020: number of Xpeng supercharging stations was **159**.
  - By December 31 2021: number of Xpeng supercharging stations will be **500**
  - By December 31 2020: number of Xpeng sales stores was **160**.
  - By December 31 2021: number of Xpeng sales store will be **300, covering 110 cities**
- They consistently emphasize on high R&D spending – it grew by 46% YoY while Nio's R&D spending contracted by 42%. [Source](#)

# Macroeconomic factors: low interest rate cycle, support of the Chinese Govt.

- Some city police departments in China have started using it (read this on Reddit somewhere with a picture)
- Chinese Govt. has recently said no to Tesla for sensitive sectors due to issues of spying (basically because it is a USA based company)
- Heavy backing of the Chinese Govt: geopolitically makes sense for China to take the lead in EVs; how Japan did it earlier with Honda, Toyota, Suzuki etc.
  - Xpeng cars are exempt from purchase taxes by Ministry of Industry & Information Technology
- Low interest rate cycles favours automobiles historically –terms of financing, consumer boom
- Backed by big names: CEO [He Xiaopeng](#) has already built and sold a software company to Alibaba; Alibaba is biggest shareholder; Chinese local governments are also investing in it



# Wisdom of the Crowd: how is the market predicting the future of EV companies

- Most Recent tech sell-off due to rising bond yields heavily impacted EV companies
- But Market is predicting that Xpeng has a safer and better future- Can you notice the share price pattern?
- See next slide: observe the information that the share price pattern provides

Market Summary > Xpeng Inc - ADR

37.48 USD

+2.48 (7.09%) ↑

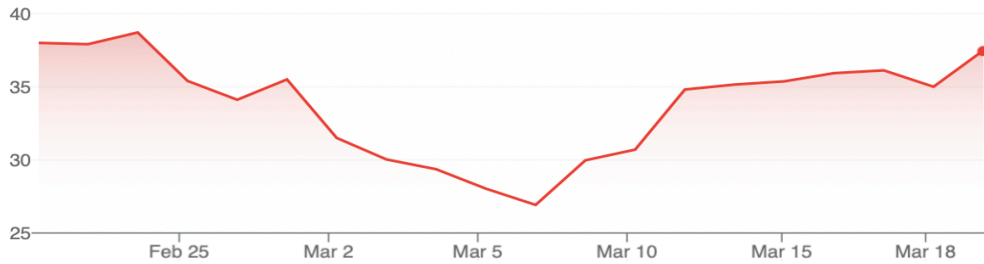
Closed: Mar 19, 7:59 PM EDT · Disclaimer

After hours 37.67 +0.19 (0.51%)

NYSE: XPEV

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1 day | 5 days | 1 month | 6 months | ytd | 1 year | 5 years | max



Market Summary > Li Auto Inc.

26.28 USD

+1.22 (4.87%) ↑

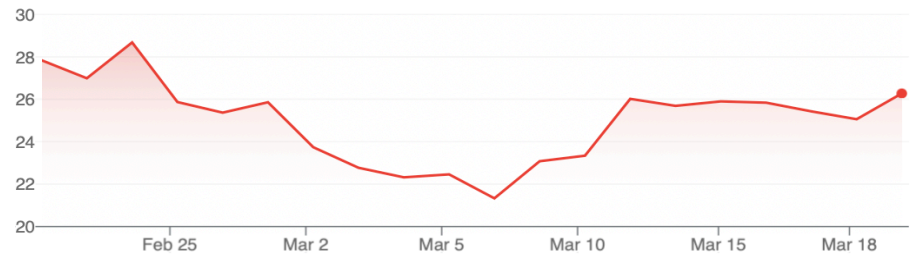
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After hours 26.12 -0.16 (0.61%)

NASDAQ: LI

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Market Summary > BYD Ord Shs H

24.10 USD

-0.043 (0.18%) ↓

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Market Summary > Nio Inc - ADR

43.35 USD

+1.72 (4.13%) ↑

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After hours 43.07 -0.28 (0.65%)

NYSE: NIO

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1 day | 5 days | 1 month | 6 months | ytd | 1 year | 5 years | max



# Risks

- Competition from other EV companies in China: over 50 or so brands
  - But this is not as worrying given Xpeng's product differentiation and already enhanced lead
- How good is the software – issues of stealing software from Tesla
  - Do they have very talented software programmers and engineers like Tesla? Maybe check their LinkedIn
- Needs to successfully execute on its export markets – especially Europe
- Suspicion/lack of trust down the line of surveillance and national security – risk inherent in all Chinese companies (Huawei)

# Back of the envelope valuation

- Size of Chinese car market (annual) – approx 25 Million Units (2020)
- 25% EV by 2025 (Chinese Govt. target, and they are usually bang on with their targets): 5 Million units (let's say they achieve 20% instead of 25%)
- Expect it to take 15% share (pretty reasonable) of the EV market in the next 3-4 years: 750,000 units\*
- Therefore, total sales per year: 750K multiplied by \$25,000 (average price of its car post subsidies): \$18 Billion
- Current price multiple is 20x sales
- Therefore, in a few years, its market cap should be: \$18B X 20 = \$360 Billion
- May seem laughable now: current market cap is only about \$30 Billion. But you remember what happened to Tesla's stock price some months ago, right?

\* Just to be conservative and to have margin of safety, I have not taken export sales in calculating its valuation  
| Please note: this is a very simplified way of valuing companies, is only meant to provide perspective

# Thank You!

- Please provide any feedback/thoughts to [vatsal.nahata@gmail.com](mailto:vatsal.nahata@gmail.com)
- If you feel this was worthy of your time, please think of helping me out so that I can make more presentations like these. Any amount with as little as \$10 would help.
- My Venmo ID is @VatsalNahata