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NIO Inc. | Asia Pacific

Inside NIO's Drive for Autonomy

We hosted a call with NIO's SVP of autonomous driving, who outlined how NIO aims to move into China's top tier of AD. While only 2H26 data feedback can validate this, we believe recent upgrades to NIOAD and NWM could help NIO complement established strengths in design and configuration.

NWM2.5: Meaningful increase in user AD adoption: NIO launched its Nio World Model 2.5 (NWM2.5), a software update for its assisted-driving systems, on multiple platforms on 18 June, and management said it had seen a meaningful increase in AD adoption, such as Navigate on Pilot (NOP)+ mileage and hours, in the past week.

Algorithm: NIO believes that early adoption of its world-model positions it to succeed in the space. The software now sits inside a three-tier stack: "world model", "supervised fine-tuning" and "closed-loop reinforcement learning", running across ~800k vehicles. NIO believes its software is the first to integrate all three, and the first in China to let the model directly output steering and pedal commands. NWM helps NIO enhance reliability in extreme scenarios.

Closed data loop: Cost-efficient scaling: A surprising takeaway for us, was financial rather than technical. As performance scales only in a log-linear way with data, uniform collection drives costs up exponentially, which NIO regards as unaffordable. So, since 2020 it has chased "golden data", which turns data from a cheap renewable input into a scarce, compute-gated one. Its group-intelligence system now leverages the spare compute of a sizeable fleet and yields denser information from the same volume of data. Cloud training use for AD rose only about 10% last year.

System engineering: Vertical integration as margin and speed: NIO has linked the data flywheel directly to gross margin. The shift from bought-in hardware to in-house silicon delivered a real step-change in cost performance, according to the company. Its proprietary AI compiler displaces NVIDIA's stack, with AI agents now compressing model-to-deployment from weeks to hours.

Installed-base drives recurring cash flow: Mgmt believes subscriptions to software upgrades will be the next source of monetisation. Buyers now get five years free. Management expects NT2 and NT3 volumes to reach their paying window in the next 1-2 years, but the used-car market already shows attach rates climbing with each release. As more cars roll off their free period, NIO thinks this will become recurring revenue tied to the installed base rather than new car sales.

Stock read-across: While near-term stock movement still hinges on vehicle sales, particularly ES9/ES8, and 2Q print, it's also worth monitoring if the latest generation of NIO AD and NWM can erase the stock's autonomy discount vs. startup peers. In our view, the key to watch is the next software release in 2H that should couple the smart-driving and chassis domains, moving part of the compute into the chassis to reduce latency, that could differentiate a vertically integrated OEM, like NIO, from supplier-based rivals.

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NIO Inc. (9866.HK, 9866 HK)

China Autos & Shared Mobility | China

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	HK$58.00
Up/downside to price target (%)	52
Shr price, close (Jun 29, 2026)	HK$38.22
52-Week Range	HK$61.75-26.15
Sh out, dil, curr (mn)	2,273
Mkt cap, curr (mn)	Rmb151,779.6
EV, curr (mn)	Rmb142,938.1
Avg daily trading value (mn)	HK$347

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (Rmb)**	(6.85)	(1.45)	0.35	1.90
EPS (Rmb)§	(7.03)	(0.93)	0.51	1.88
Revenue, net (Rmb mn)	87,487.5	128,580.1	156,629.1	182,131.2
EBITDA (Rmb mn)	(8,044.6)	2,615.4	6,003.3	9,556.1
ModelWare net inc (Rmb mn)	(15,570.7)	(3,300.7)	796.5	4,327.9
P/E	NM	NM	94.5	17.4
P/BV	9.8	10.8	7.8	4.7
RNOA (%)	(248.9)	1,031.0	1.1	(12.5)
ROE (%)	(116.1)	(38.6)	11.4	45.0
EV/EBITDA	(19.4)	49.5	19.3	10.5
Div yld (%)	0.0	0.0	0.0	0.0
FCF yld ratio (%)**	(9.8)	17.7	18.0	21.0
Leverage (EOP) (%)	(57.6)	(262.0)	(331.1)	(300.0)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Refinitiv Estimates
** = Based on consensus methodology
e = Morgan Stanley Research estimates

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Valuation Methodology and Risks

NIO Inc. (9866.HK)

Derived from our ADR price target using a HKD/USD exchange rate of 7.8. For the ADR, we assign 25%/50%/25% weightings to our bull/base/bear case scenarios - the bull/bear weighting reflects the potential for the macro outlook to improve/weaken and for sector competition to lessen/worsen. Key assumptions: WACC 17.8%, reflecting NIO's more mature stage of business, beta 2.4, and a long-term growth rate of 3%.

Risks to Upside

- Introduction of new models
- Stronger-than-expected sales volume
- Better-than-expected improvements in operating efficiency

Risks to Downside

- Weaker-than-expected sales volume
- Lack of signs of efficiency improvement
- Moderating auto sales growth pressuring overall industry valuations

NIO Inc. (NIO.N)

Probability-weighted valuation methodology. We factor in solid volume growth over time and expect net profit to break even in 2028. Key assumptions: WACC 17.8%, reflecting beta 2.4, and long-term growth rate 3.0%. Weightings for our bull/base/bear case scenarios are 25%/50%/25% - the bull/bear weightings reflect the potential for the macro outlook to improve/weaken and for sector competition to lessen/worsen.

Risks to Upside

- Introduction of new models
- Stronger-than-expected sales volume
- Better-than-expected improvements in operating efficiency

Risks to Downside

- Weaker-than-expected sales volume
- Lack of signs of efficiency improvement
- Moderating auto sales growth pressuring overall industry valuations

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(as of May 31, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1542	42%	465	51%	30%	707	43%
Equal-weight/Hold	1571	43%	369	40%	23%	723	44%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	551	15%	86	9%	16%	201	12%
Total	3,667		920			1632	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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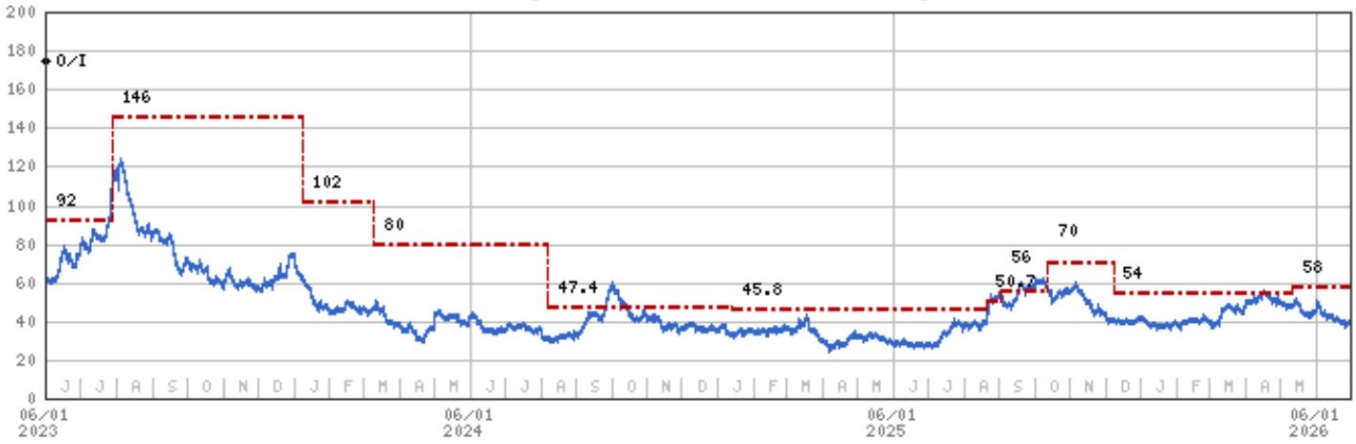
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Stock Price, Price Target and Rating History (See Rating Definitions)

NIO Inc. (9866.HK) - As of 06/30/26 GMT in HKD
Industry : China Autos & Shared Mobility



Stock Rating History: 10/3/22 : O/I

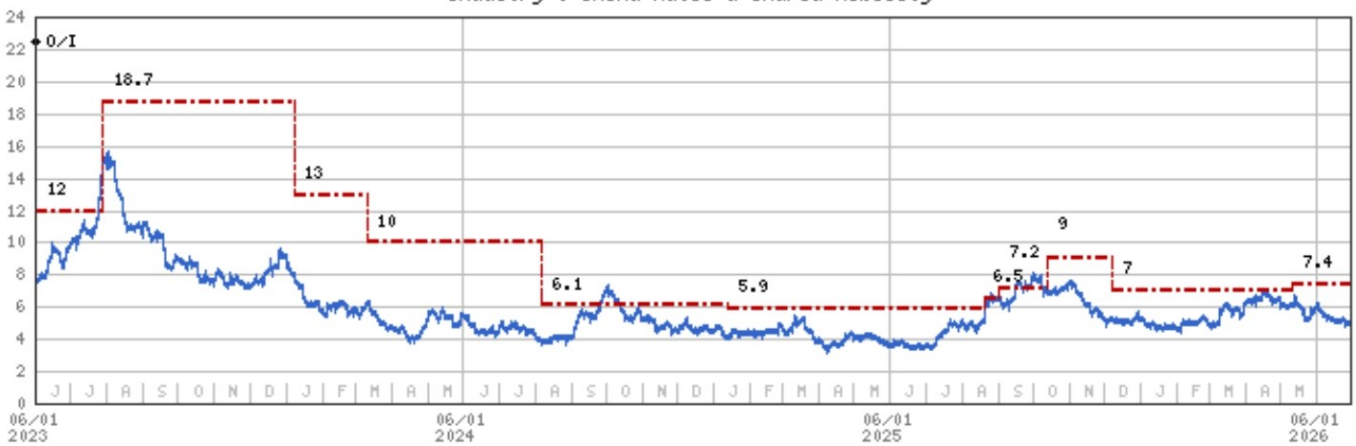
Price Target History: 10/3/22 : 192; 11/3/22 : 125; 3/20/23 : 92; 7/28/23 : 146; 1/8/24 : 102; 3/10/24 : 80; 8/7/24 : 47.4; 1/13/25 : 45.8; 8/20/25 : 50.7; 9/2/25 : 56; 10/13/25 : 70; 12/8/25 : 54; 5/11/26 : 58

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -·- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ▬
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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NIO Inc. (NIO.N) - As of 06/29/26 GMT in USD
Industry : China Autos & Shared Mobility



Stock Rating History: 6/1/21 : O/C; 9/1/21 : O/A; 8/25/22 : O/I

Price Target History: 3/26/21 : 64; 12/2/21 : 66; 3/23/22 : 34; 6/10/22 : 31; 10/3/22 : 25; 11/3/22 : 16.1; 3/20/23 : 12; 7/28/23 : 18.7; 1/8/24 : 13; 3/10/24 : 10; 8/7/24 : 6.1; 1/13/25 : 5.9; 8/20/25 : 6.5; 9/2/25 : 7.2; 10/13/25 : 9; 12/8/25 : 7; 5/11/26 : 7.4

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -·- No Price Target Assigned (NA)
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INDUSTRY COVERAGE: China Autos & Shared Mobility

COMPANY (TICKER)	RATING (AS OF)	PRICE* (06/29/2026)

Joey Xu, CFA		
Anhui Jianghuai Automobile (600418.SS)	E (08/19/2023)	Rmb26.20
BAIC Motor (1958.HK)	E (10/02/2025)	HK$0.80
Brilliance China Automotive (1114.HK)	E (03/31/2025)	HK$1.95
Chongqing Changan Automobile (000625.SZ)	E (03/03/2026)	Rmb7.23
Guangzhou Automobile Group (601238.SS)	U (10/23/2019)	Rmb5.12
Guangzhou Automobile Group (2238.HK)	O (05/05/2020)	HK$2.09
Huayu Automotive (600741.SS)	O (09/08/2020)	Rmb16.00
Jiangsu Changshu Automotive Trim Group (603035.SS)	E (08/14/2023)	Rmb10.56
Ningbo Huaxiang Electronic Co., Ltd. (002048.SZ)	E (05/05/2026)	Rmb21.98
SAIC Motor Corp. Ltd. (600104.SS)	O (11/25/2021)	Rmb9.82
Voyah Automotive Technology Co. Ltd, (7489.HK)	O (03/31/2026)	HK$3.03
Zhengzhou Yutong Bus Co (600066.SS)	E (09/22/2023)	Rmb26.92
Shelley Wang, CFA		
Beijing Jingwei Hirain Technologies (688326.SS)	U (09/27/2024)	Rmb68.18
Bethel Automotive Safety Systems Co Ltd (603596.SS)	O (12/11/2023)	Rmb23.97
Changzhou Xingyu Automotive Lighting Sys (601799.SS)	O (09/27/2024)	Rmb90.75
China MeiDong Auto Holdings Ltd (1268.HK)	E (01/08/2024)	HK$0.51
China Yongda Automobiles Services (3669.HK)	E (08/13/2024)	HK$0.70
Foryou Corporation (002906.SZ)	O (03/06/2024)	Rmb25.06
Fuyao Glass Industry Group (600660.SS)	E (12/01/2016)	Rmb52.15
Fuyao Glass Industry Group (3606.HK)	E (12/01/2016)	HK$51.25
Huizhou Desay SV Automotive Co Ltd (002920.SZ)	O (02/28/2025)	Rmb78.60
Keboda (603786.SS)	O (01/17/2024)	Rmb40.35
Minth Group Limited (0425.HK)	O (08/24/2015)	HK$26.50
NavInfo Co Ltd (002405.SZ)	U (03/06/2024)	Rmb6.40
Nexteer Automotive Group (1316.HK)	E (02/28/2025)	HK$3.84
Ningbo Joyson Electronic Corp (600699.SS)	E (03/11/2026)	Rmb20.90
Ningbo Tuopu Group Co Ltd (601689.SS)	E (11/12/2025)	Rmb52.35
Ningbo Xusheng Group Co Ltd (603305.SS)	E (06/18/2025)	Rmb11.54
Suzhou Recodeal Interconnect System (688800.SS)	U (09/27/2024)	Rmb89.86
TUHU Car Inc (9690.HK)	O (07/29/2024)	HK$12.64
Zhejiang Sanhua Intelligent Controls (002050.SZ)	E (11/12/2025)	Rmb41.27
Zhongsheng Group Holdings (0881.HK)	O (10/12/2021)	HK$5.04
Tim Hsiao		
BAIC BluePark New Energy (600733.SS)	U (08/07/2024)	Rmb4.89
BYD Company Limited (002594.SZ)	O (04/14/2025)	Rmb79.64
BYD Company Limited (1211.HK)	O (04/14/2025)	HK$72.90
EHang Holdings Ltd (EH.O)	O (03/13/2025)	US$6.33
Geely Automobile Holdings (0175.HK)	O (06/26/2024)	HK$16.92
Great Wall Motor Company Limited (601633.SS)	U (03/16/2022)	Rmb15.45
Great Wall Motor Company Limited (2333.HK)	E (01/08/2024)	HK$9.13
Hesai Group (HSAI.O)	O (07/28/2025)	US$15.76
Horizon Robotics (9660.HK)	O (12/02/2024)	HK$4.14
Li Auto Inc. (LI.O)	O (08/24/2020)	US$11.89
Li Auto Inc. (2015.HK)	O (11/16/2021)	HK$45.90
NIO Inc. (9866.HK)	O (10/03/2022)	HK$38.22
NIO Inc. (NIO.N)	O (08/26/2020)	US$4.95
WeRide Inc (WRD.O)	O (11/19/2024)	US$5.71
XPeng Inc. (9868.HK)	O (11/16/2021)	HK$47.40
XPeng Inc. (XPEV.N)	O (01/29/2021)	US$12.80

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* Historical prices are not split adjusted.

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