

Xiaomi (1810 HK)

2Q beat on ASP and ads recovery; Lift TP to HK\$22

Xiaomi posted better-than-expected 2Q20 adj. net profit of RMB3,373 (-7% YoY), 28%/43% above our/market estimates, thanks to improving smartphone ASP (+12%), stronger advertising (+23%) and internet GPM recovery to 60%+ level. 2Q20 revenue growth of 3% YoY is largely in-line, driven by -1%/+2%/+29% YoY in smartphone/IoT/internet. Backed by new 5G product launches, "Smartphone x ATOT" ecosystem and expanding overseas channels, we believe Xiaomi is set to take global share from Huawei and smartphone shipment will grow 24%/16% YoY to 161mn/189mn in FY21E/22E. We lifted our FY20-22E EPS by 4-13% for stronger smartphone and internet monetization, and raised TP to HK\$22, based on unchanged 25x FY21E P/E. Reiterate BUY.

- **2Q20 solid results with better smartphone ASP and advertising.** We believe solid 2Q20 is a result of Xiaomi's strong execution of 5G & premium strategy (higher ASP), IoT category expansion and diversification of internet revenue. We think smartphone's strong ASP hike (+12% YoY) is a positive surprise, while IoT delivered slower growth at 2% YoY due to launch delays on COVID-19. Internet remained solid at 29% YoY, thanks to advertising recovery (+23%) and solid gaming/other VAS (youpin, fintech) (+36%/+30%).
- **Share gain to accelerate in China/Europe on Huawei weakness.** We believe Xiaomi is poised to benefit from Huawei's weakness in China/Europe in 2H20E given Xiaomi's strong 5G pipeline in China and multi-channel expansion in Europe. We believe Xiaomi will start to expand market share in China in 3Q20E after share loss in past 10 quarters (10% shr in 2Q20, vs 15% in 1Q18). Overall, we estimate Xiaomi smartphone to recover with 13%/12% YoY in 3Q/4Q20E, and accelerate with 24%/17% YoY to 161mn/189mn in FY21E/22E. In addition, we expect increasing shipment mix in China/Europe will help boost internet monetization and improve profitability given higher ARPU in China/Europe (vs India).
- **Our FY20-22E EPS are 15-22% above consensus; Lift TP to HK\$22.** We believe Xiaomi is well positioned to regain share in China and outperform its Chinese peers overseas with solid 5G roadmap and stronger omni-channel sales network. We raised FY20-22 EPS by 4-13% to reflect rapid smartphone share gain and better internet monetization. Our new TP of HK\$22 is based on 25x FY21E P/E given 32% EPS FY20-22E CAGR, China 5G leadership and market share gain. Catalysts include 5G product launches and faster demand recovery.

Earnings Summary

(YE31Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	174,915	205,839	236,460	309,376	394,868
YoY growth (%)	52.6	17.7	14.9	30.8	27.6
Adj. Net income (RMB mn)	8,743	11,532	13,263	18,844	23,022
Adj. EPS (RMB)	0.54	0.49	0.56	0.79	0.97
YoY growth (%)	-	(10.7)	14.6	42.1	22.2
Consensus EPS (RMB)	NA	NA	0.47	0.62	0.77
P/E (x)	39.3	35.4	30.9	21.7	17.8
P/B (x)	4.8	6.2	5.3	4.4	3.6
ROE (%)	19	12.3	15.2	17.4	17.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$22.0
(Previous TP	HK\$21.0)
Upside	15.0%
Current Price	HK\$19.16

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	461,904
Avg. 3mths t/o (HK\$m)	2,871.75
52W High/Low (HK\$)	19.18/ 8.28
Total Issued Shares (mn)	17,613

Source: Bloomberg

Shareholding Structure

Smart Mobile Holdings Ltd	13.02%
Apoletto Ltd	4.86%
Qiming Corporate GP Ltd	4.73%

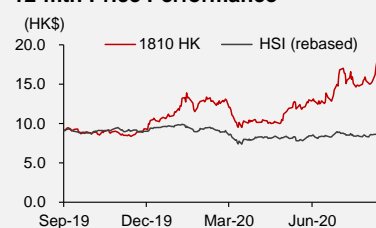
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	20.0%	16.3%
3-mth	47.8%	33.1%
6-mth	43.4%	51.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

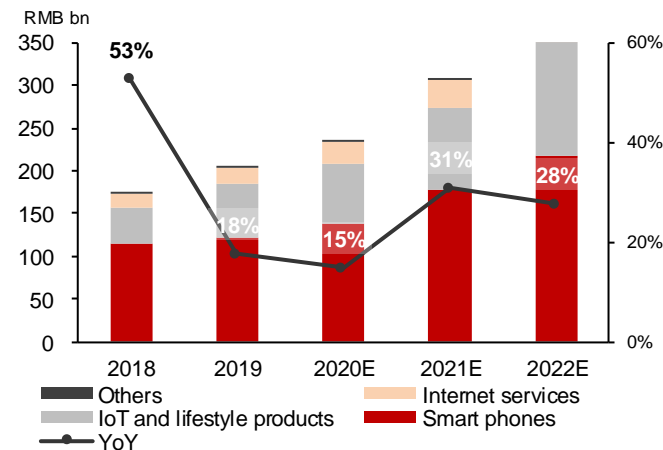
Auditor: PricewaterhouseCoopers

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1. Xiaomi (1810 HK, Buy) - Beneficiary on Huawei weakness; Lift TP to HK\$21 – 24 Aug 2020
2. Xiaomi (1810 HK, Buy) - Strong 5G momentum to outweigh India impact – 23 Jun 2020
3. Xiaomi (1810 HK, Buy) - Strong 5G outlook and share gain; U/G to BUY – 21 May 2020

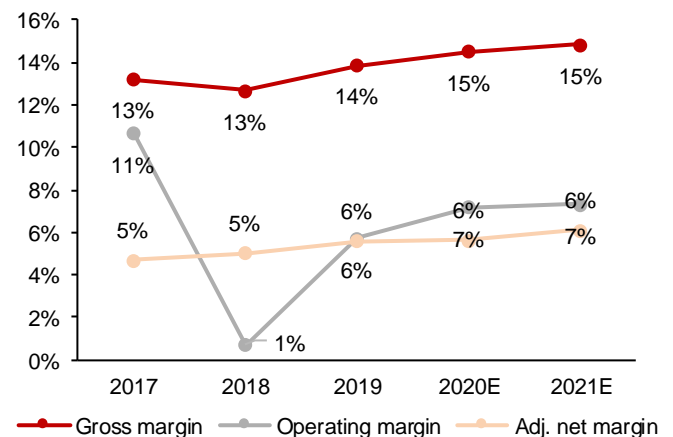
Focus Charts

Figure 1: Xiaomi revenue trend



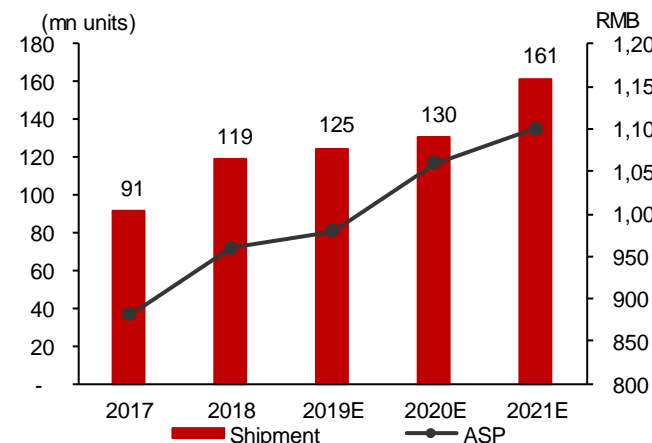
Source: Company data, CMBIS estimates

Figure 2: Xiaomi margin trend



Source: Company data, CMBIS estimates

Figure 3: Xiaomi smartphone shipment forecast



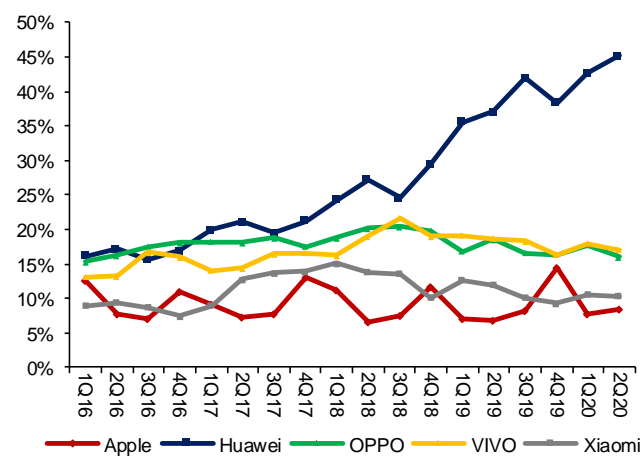
Source: Xiaomi, CMBIS estimates

Figure 4: Xiaomi 5G leadership during 618 festival



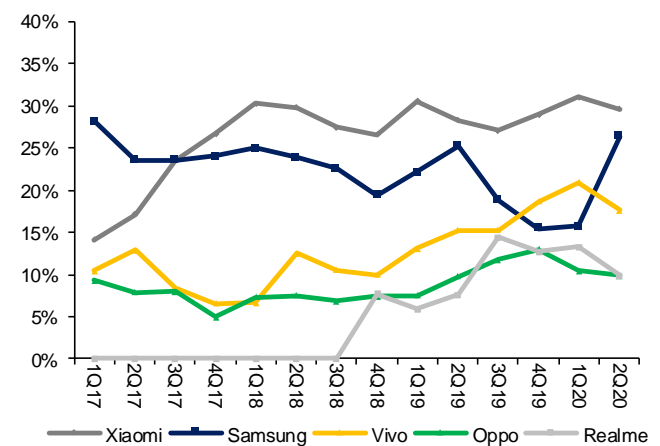
Source: Xiaomi, CMBIS estimates

Figure 5: China smartphone market share in 2Q20



Source: IDC, CMBIS estimates

Figure 6: India smartphone market share in 2Q20



Source: IDC, CMBIS estimates

2Q20 Review

Figure 7: 2Q20 results review

RMB mn	2Q19	1Q20	2Q20	QoQ	YoY	CMBIS		Consensus	
						2Q20E	Diff %	2Q20E	Diff %
Revenue	51,951	49,702	53,538	7.7%	3%	53,292	0%	51,400	4%
Gross Profit	7,259	7,558	7,701	1.9%	6%	7,595	1%	7,303	5%
Operating Profit	2,336	2,323	5,413	133.0%	132%	2,684	102%	2,255	140%
Adj. net profit	3,635	2,301	3,373	46.6%	-7%	2,640	28%	2,362	43%
Adj. EPS (RMB)	0.15	0.10	0.14	46.7%	-7%	0.11	28%	0.09	55%
Gross Margin	14.0%	15.2%	14.4%	-0.8 ppt	0.4 ppt	14.3%	0.1 ppt	14.2%	0.2 ppt
Operating Margin	4.5%	4.7%	10.1%	5.4 ppt	5.6 ppt	5.0%	5.1 ppt	4.4%	5.7 ppt
Adj. Net Margin	7.0%	4.6%	6.3%	1.7 ppt	-0.7 ppt	5.0%	1.3 ppt	4.6%	1.7 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 8: Revenue breakdown

RMB mn	FY18	FY19	1Q20	2Q20	3Q20E	4Q20E	FY20E	FY21E	FY22E
Smart phones	113,800	122,095	30,325	31,628	38,342	37,603	137,861	177,408	217,511
...YoY	41%	7%	12%	-1%	19%	22%	13%	29%	23%
Shipment (mn)	118,655	124,700	29,200	28,300	36,155	36,555	130,210	161,280	189,140
ASP (RMB)	959	979	1,038	1,116	1,060	1,029	1,059	1,100	1,150
IoT and lifestyle products	43,817	62,088	12,984	15,253	17,862	23,788	70,768	96,532	132,170
...YoY	87%	42%	8%	2%	14%	22%	14%	36%	37%
Smart TVs and laptops	18,200	24,200	4,694	4,800	6,059	9,876	25,428	33,057	43,304
...YoY	119%	33%	-8%	-13%	5%	25%	5%	30%	31%
Other IoTs	25,617	37,888	8,290	11,334	11,803	13,912	45,339	63,475	88,865
...YoY	69%	48%	20%	20%	20%	20%	20%	40%	40%
Internet services	15,956	19,842	5,901	5,908	6,753	6,971	25,532	32,446	41,302
...YoY	61%	24%	39%	29%	27%	22%	29%	27%	27%
Advertising services	10,100	10,676	2,661	3,086	3,553	3,571	12,871	16,089	18,825
...YoY	80%	6%	17%	23%	22%	20%	21%	25%	17%
Internet value-added services	5,855	9,166	3,239	2,821	3,200	3,400	12,661	16,357	22,477
...YoY	37%	57%	64%	36%	33%	25%	38%	29%	37%
Gaming	2,700	3,195	1,500	1,000	1,200	1,200	4,900	5,880	6,762
...YoY	-	18%	82%	48%	46%	37%	53%	20%	15%
Other (incl. Youpin fintech, etc)	3,200	5,971	1,739	1,821	2,000	2,200	7,761	10,477	15,715
...YoY	-	87%	51%	30%	27%	19%	30%	35%	50%
Others	1,343	1,814	493	750	525	532	2,300	2,989	3,886
...YoY	87%	35%	10%	85%	10%	10%	27%	30%	30%
Total	174,915	205,839	49,702	53,538	63,482	68,894	236,460	309,376	394,868
...YoY	53%	18%	14%	3%	18%	22%	15%	31%	28%
Gross Margin									
Smart phones	6.2%	7.2%	8.1%	7.2%	8.1%	8.0%	7.9%	8.2%	8.0%
IoT and lifestyle products	10.3%	11.2%	13.4%	11.4%	11.6%	10.0%	11.2%	11.5%	11.5%
Internet services	64.4%	64.7%	57.1%	60.3%	60.0%	61.0%	59.7%	61.5%	61.5%
Others	27.3%	-0.1%	-1.4%	15.0%	15.0%	15.0%	11.5%	11.0%	11.0%
Total	12.7%	13.9%	15.2%	14.4%	14.7%	14.1%	14.5%	14.8%	14.8%

Source: Company data, CMBIS estimates

Earnings Revision

Our FY20-22E EPS are 15-22% above consensus

We adjusted FY20-22E EPS by 4-13% to reflect higher smartphone shipment and internet monetization. Our FY20-22E EPS are 15-22% above consensus given our more positive view on smartphone recovery and internet growth ahead.

Figure 9: CMBIS earnings revision

RMB mn	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	236,460	309,376	394,868	231,078	301,971	385,160	2%	2%	3%
Gross Profit	34,287	45,932	58,428	33,694	45,304	56,531	2%	1%	3%
Operating Profit	16,928	22,636	27,373	11,977	18,547	23,329	41%	22%	17%
Adj. net profit	13,263	18,844	23,022	11,761	17,908	22,127	13%	5%	4%
Adj. EPS (RMB)	0.56	0.79	0.97	0.49	0.75	0.93	13%	5%	4%
Gross Margin	14.5%	14.8%	14.8%	14.58%	15.0%	14.7%	-0.1 ppt	-0.2 ppt	0.1 ppt
Operating Margin	7.2%	7.3%	6.9%	5.18%	6.1%	6.1%	2 ppt	1.2 ppt	0.9 ppt
Adj. Net Margin	5.6%	6.1%	5.8%	5.09%	5.9%	5.7%	0.5 ppt	0.2 ppt	0.1 ppt

Source: Company data, CMBIS estimates

Figure 10: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	236,460	309,376	394,868	241,995	302,184	353,749	-2%	2%	12%
Gross Profit	34,287	45,932	58,428	35,080	44,439	52,712	-2%	3%	11%
Operating Profit	16,928	22,636	27,373	11,852	16,488	20,906	43%	37%	31%
Adj. net profit	13,263	18,844	23,022	11,579	15,463	19,246	15%	22%	20%
Adj. EPS (RMB)	0.56	0.79	0.97	0.47	0.62	0.77	19%	28%	26%
Gross Margin	14.5%	14.8%	14.8%	14.5%	14.7%	14.9%	0 ppt	0.1 ppt	-0.1 ppt
Operating Margin	7.2%	7.3%	6.9%	4.9%	5.5%	5.9%	2.3 ppt	1.9 ppt	1 ppt
Adj. Net Margin	5.6%	6.1%	5.8%	4.8%	5.1%	5.4%	0.8 ppt	1 ppt	0.4 ppt

Source: Bloomberg, CMBIS estimates

Figure 11: P&L forecast

RMB mn	FY19	1Q20	2Q20	3Q30E	4Q20E	FY20E	FY21E	FY22E
Revenue	205,839	49,702	53,538	63,482	68,894	236,460	309,376	394,868
...YoY	18%	14%	3%	18%	22%	15%	31%	28%
Cost of sales	(177,285)	(42,144)	(45,836)	(54,174)	(59,175)	(202,173)	(263,444)	(336,440)
Gross profit	28,554	7,558	7,701	9,308	9,719	34,287	45,932	58,428
GPM (%)	13.9%	15.2%	14.4%	14.7%	14.1%	14.5%	14.8%	14.8%
...YoY	29%	45%	6%	13%	24%	20%	34%	27%
SG&A	(13,482)	(3,406)	(4,060)	(4,126)	(4,409)	(16,002)	(18,563)	(22,902)
...% of rev	-6.5%	-6.9%	-7.6%	-6.5%	-6.4%	-6.8%	-6.0%	-5.8%
R&D	(7,493)	(1,871)	(1,958)	(2,666)	(3,169)	(9,665)	(12,375)	(15,795)
...% of rev	-3.6%	-3.8%	-3.7%	-4.2%	-4.6%	-4.1%	-4.0%	-4.0%
Operating profit	11,760	2,323	5,413	3,939	5,253	16,928	22,636	27,373
OPM (%)	5.7%	4.7%	10.1%	6.2%	7.6%	7.2%	7.3%	6.9%
...YoY	883%	-36%	132%	27%	95%	44%	34%	21%
Adj. net profit	11,532	2,301	3,373	3,996	3,372	13,263	18,844	23,022
NPM (%)	5.6%	4.6%	6.3%	6.3%	4.9%	5.6%	6.1%	5.8%
...YoY	35%	11%	-7%	15%	44%	15%	42%	22%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY and raised TP of HK\$22

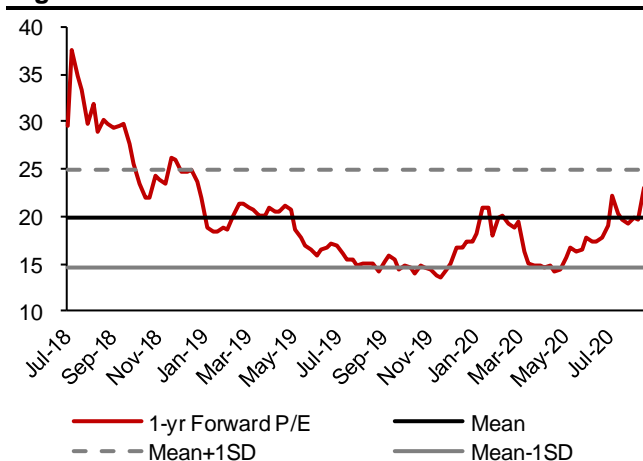
Our new 12m TP of HK\$ 22 is based on same 25x FY21E P/E. We think it is justified given share gain in smartphone market, product transition into AIoT, and improving internet revenue. Trading at 21.7x FY21E P/E, we view the stock is attractive. Catalysts include 5G product launch, share gain and rapid demand recovery.

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
HK-listed												
Xiaomi	1810 HK	Buy	59,599	19.2	22.0	15%	30.7	21.8	4.3	3.5	13.9	16.1
Sunny Optical	2382 HK	Buy	16,431	116.1	148.0	27%	25.1	19.3	6.8	5.3	27.2	27.2
AAC Tech	2018 HK	Hold	7,485	48.0	47.3	-1%	24.2	17.3	2.6	2.4	10.7	13.9
BYDE	285 HK	Buy	7,559	26.0	*22.2	NA	31.9	24.0	2.9	2.6	9.0	10.9
FIT Hon Teng	6088 HK	Buy	2,514	2.8	4.1	45%	15.0	10.3	1.1	1.0	7.3	9.8
Tongda	698 HK	Hold	376	0.5	0.5	11%	16.1	6.4	0.4	0.4	2.8	6.9
Q tech	1478 HK	Buy	1,475	9.8	16.6	70%	12.8	10.6	2.8	2.3	22.0	21.8
TK Group	2283 HK	Buy	234	2.2	2.3	7%	3.9	3.4	1.4	1.4	35.7	41.7
Average							22.3	15.7	3.0	2.5	13.3	15.2
Smartphone												
Apple	AAPL US	NR	2,134,824	499.3	NA	NA	38.7	33.1	34.6	51.0	71.8	124.1
Lenovo	992 HK	NR	7,751	5.0	NA	NA	12.2	9.9	1.9	1.8	18.5	20.7
Samsung	005930 KS	NR	283,803	56,400.0	NA	NA	15.3	11.0	1.4	1.3	9.2	11.9
LG Elec	066570 KS	NR	12,125	87,900.0	NA	NA	10.7	9.0	1.0	0.9	9.4	10.2
Average							19.2	15.8	9.7	13.7	27.2	41.7
IoT												
Skyworth	751 HK	NR	1,047	2.7	NA	NA	8.5	7.4	0.4	0.4	5.1	5.4
Hisense	600060 CH	NR	2,788	14.7	NA	NA	26.5	21.6	1.3	1.2	4.8	5.5
Midea	000333 CH	NR	70,624	69.3	NA	NA	19.5	16.8	4.1	3.6	21.6	22.2
Gree	000651 CH	NR	46,630	53.4	NA	NA	14.9	12.2	2.7	2.4	18.4	20.1
Huami	HMI US	NR	837	13.5	NA	NA	15.2	11.7	2.0	1.6	19.5	24.3
Fitbit	FIT US	NR	1,742	6.5	NA	NA	-	-	4.8	6.0	(42.1)	(60.8)
Average							16.9	13.9	2.5	2.5	4.5	2.8
Internet												
Tencent	700 HK	NR	681,856	551.5	NA	NA	38.6	31.1	8.4	6.7	22.9	22.5
Alibaba	BABA US	NR	773,812	286.0	NA	NA	39.8	31.5	7.2	5.8	21.7	17.4
Baidu	BIDU US	NR	43,325	125.7	NA	NA	16.8	14.1	1.7	1.5	8.3	9.9
JD	JD US	NR	122,810	79.0	NA	NA	50.2	35.4	7.3	6.1	16.7	14.5
Average							36.4	28.0	6.1	5.0	17.4	16.1

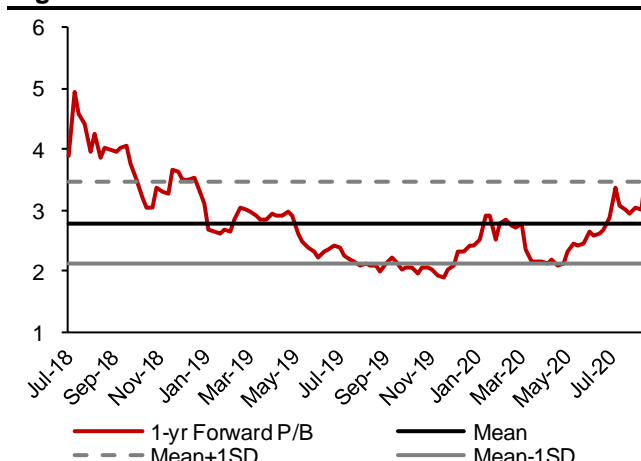
Source: Bloomberg, CMBIS, * TP under review

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	174,915	205,839	236,460	309,376	394,868
COGS	(152,723)	(177,285)	(202,173)	(263,444)	(336,440)
Gross profit	22,192	28,554	34,287	45,932	58,428
Selling and marketing	(7,993)	(10,378)	(12,467)	(14,850)	(17,769)
Administrative	(12,099)	(3,104)	(3,535)	(3,713)	(5,133)
R&D	(5,777)	(7,493)	(9,665)	(12,375)	(15,795)
Other operating exp.	4,874	4,181	8,307	7,642	7,642
Operating profit	1,196	11,760	16,928	22,636	27,373
Financial cost	216	402	(213)	1,153	1,555
Other income/(losses)	12,514				
Pre-tax profit	13,927	12,163	16,715	23,788	28,928
Tax	(449)	(2,060)	(2,077)	(3,378)	(4,339)
Minority interest	(76)	59	40	55	67
Net profit	13,554	10,044	14,598	20,355	24,522
Adj. Net profit	8,743	11,532	13,263	18,844	23,022

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	13,927	12,163	16,715	23,788	28,928
Depreciation	748	2,192	1,073	1,525	2,101
Change in working capital	(13,396)	9,641	(989)	12,725	1,348
Others	(2,693)	(186)	(2,077)	(3,378)	(4,339)
Net cash from operating	(1,415)	23,810	14,721	34,660	28,038
Capex	(3,758)	(4,117)	(4,729)	(6,188)	(7,897)
Other	(3,750)	(27,453)	-	-	-
Net cash from investing	(7,508)	(31,570)	(4,729)	(6,188)	(7,897)
Net bank borrowings	(236)	-	-	-	-
Dividend paid	-	-	-	-	-
Other	26,810	3,121	-	-	-
Net cash from financing	26,574	3,121	-	-	-
Net change in cash	17,652	(4,639)	9,992	28,473	20,141
Cash at beginning of the yr	11,563	30,230	25,920	35,911	64,384
Exchange difference	1,015	328	-	-	-
Cash at the end of the year	30,230	25,920	35,911	64,384	84,525

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	106,013	137,539	134,302	196,040	206,695
Cash & equivalents	30,230	25,920	35,911	64,384	84,525
Account receivables	5,598	6,949	8,645	11,757	14,283
Inventories	29,481	32,585	17,660	47,813	35,802
ST bank deposits	1,366	21,523	21,523	21,523	21,523
Other	39,337	50,562	50,562	50,562	50,562
Non-current assets	39,215	46,090	49,747	54,410	60,206
PPE	5,068	6,992	10,649	15,312	21,108
Deferred income tax	1,312	1,283	1,283	1,283	1,283
Intangibles	2,061	1,672	1,672	1,672	1,672
Other	30,774	36,142	36,142	36,142	36,142
Total assets	145,228	183,629	184,049	250,449	266,901
Current liabilities	61,940	92,181	77,963	123,953	115,816
Short-term borrowings	3,075	12,837	12,837	12,837	12,837
Account payables	46,287	59,528	45,310	91,300	83,163
Tax payable	662	479	479	479	479
Other	11,916	19,337	19,337	19,337	19,337
Non-current liabilities	12,038	9,791	9,791	9,791	9,791
Long-term borrowings	7,856	4,787	4,787	4,787	4,787
Deferred tax liability	778	580	580	580	580
Other	3,404	4,424	4,424	4,424	4,424
Total liabilities	73,978	101,972	87,754	133,744	125,606
Share capital	0	0	0	0	0
Reserves	71,323	81,330	95,928	116,283	140,806
Minority interest	(73)	327	367	422	489
Shareholders' equity	71,250	81,658	96,295	116,706	141,295
Total equity/liabilities	145,228	183,629	184,049	250,449	266,901

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Smart phones	65	59	58	57	55
IoT and lifestyle products	25	30	30	31	33
Internet services	9	10	11	10	10
Others	1	1	1	1	1
Growth (%)					
Revenue	52.6	17.7	14.9	30.8	27.6
Gross profit	46.4	28.7	20.1	34.0	27.2
Operating profit	-	882.9	43.9	33.7	20.9
Adj. Net profit	63.1	31.9	15.0	42.1	22.2
Profit & loss ratio (%)					
Gross margin	12.7	13.9	14.5	14.8	14.8
Operating margin	0.7	5.7	7.2	7.3	6.9
Net profit margin	7.7	4.9	6.2	6.6	6.2
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.7	1.5	1.7	1.6	1.8
Receivable turnover days	32	30	30	30	30
Inventory turnover days	7	8	8	8	8
Payable turnover days	4	4	4	4	4
Profitability (%)					
ROE	19.0	12.3	15.2	17.4	17.4
ROA	9.3	5.5	7.9	8.1	9.2
Per share data (RMB)					
Adj. EPS	0.54	0.49	0.56	0.79	0.97
DPS	-	-	-	-	-

Source: Company data, CMBIS estimates

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