

Xiaomi (1810 HK)

Strong 5G momentum to outweigh India impact

We remain positive on Xiaomi's strong 5G product portfolio and potential share gain from Huawei in 2H20E. During recent 618 shopping festival from 1 Jun to 18 Jun, Xiaomi's total sales amount exceeded RMB10bn, up 54% YoY. JD's Top 3 best-selling 5G phones on 18 Jun were Redmi K30 Pro, Xiaomi Mi 10 and Redmi K30, beating Top 4-9 handset models from Huawei. Despite near-term impact on COVID-19 and China-India dispute, we believe Xiaomi is well-positioned to benefit from China 5G tailwinds and post-virus demand recovery in 2H20E. We adjusted FY20-22E EPS by -11%/-4%/+2%, and maintain BUY with new TP of HK\$15.7.

- **Xiaomi's 618 sales exceeded RMB10bn, up 54% YoY.** Xiaomi recorded total platform sales of above RMB10bn during 6.18 shopping festival, up 54% YoY from last year's RMB6.45bn, and it also took 256 first place on the three platforms of JD, Tmall and Suning. We believe Xiaomi's success was driven by a strong 5G market position with a competitive product portfolio covering mid-tier to premium 5G smartphones, smart TV and other IoT products.
- **Redmi K30 Pro and Xiaomi Mi 10 are the most popular 5G phone on JD.** As an early mover in China 5G market, Xiaomi has launched two flagship 5G models in 1H20 (high-end Xiaomi Mi 10, entry-level Redmi K30 Pro), and both were ranked Top 2 best-selling 5G phone on JD's 618 festival, surpassing Huawei's P40 Pro and Honor V30 Pro. We think Xiaomi's solid execution of 5G strategy and strong value proposition will continue to enhance its 5G leadership in China market.
- **2Q20 impacted by COVID-19 and China-India dispute.** While number of COVID-19 cases in India climbed to 425,000 on 22 Jun, 4th highest in the world, we expect Indian smartphone market will remain challenging in 2Q/3Q20 given partial lockdown, supply chain disruption and recent China-India dispute. As the largest smartphone brand in India (30% share in 1Q20), Xiaomi is not immune to the impact in our view. We expect its smartphone sales to decline 14% YoY in 2Q20E and recover with 2%/13% YoY in 3Q/4Q20E on China 5G demand and share gain from Huawei overseas.
- **Maintain BUY on 5G strength and share gain in 2H20E.** We believe Xiaomi will outperform its peers with a solid 5G product roadmap. We revised FY20-22E EPS by -11%/-4%/+2%, mainly to reflect India impact in 2Q20, and adjusted TP to HK\$15.7 based on same 20x FY21E P/E. Catalysts include 5G product launch, demand recovery and HSI inclusion.

Earnings Summary

(YE31Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	174,915	205,839	227,404	289,848	354,633
YoY growth (%)	52.6	17.7	10.5	27.5	22.4
Adj. Net income (RMB mn)	8,743	11,532	11,808	16,793	20,512
Adj. EPS (RMB)	0.54	0.49	0.50	0.70	0.86
YoY growth (%)	-	(10.7)	2.0	42.2	22.1
Consensus EPS (RMB)	NA	NA	0.48	0.62	0.76
P/E (x)	25.7	23.2	22.7	16.0	13.1
P/B (x)	3.2	4.1	3.6	3.1	2.6
ROE (%)	19	12.3	11.5	14.4	15.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$15.7
(Previous TP	HK\$16.3)
Upside	25.0%
Current Price	HK\$12.56

China Technology Sector

Alex Ng

(852) 3900 0881

alexng@cmbi.com.hk

Stock Data

Mkt. Cap. (HK\$m)	302,387
Avg. 3mths t/o (HK\$m)	1,854.95
52W High/Low (HK\$)	14.00/ 8.28
Total Issued Shares (mn)	17,580

Source: Bloomberg

Shareholding Structure

Smart Mobile	12.92%
Morningside China TMT	10.12%
Apoletto Ltd	4.92%

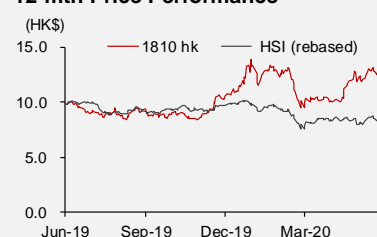
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.9%	-0.9%
3-mth	23.6%	15.0%
6-mth	21.5%	38.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Recent Reports:

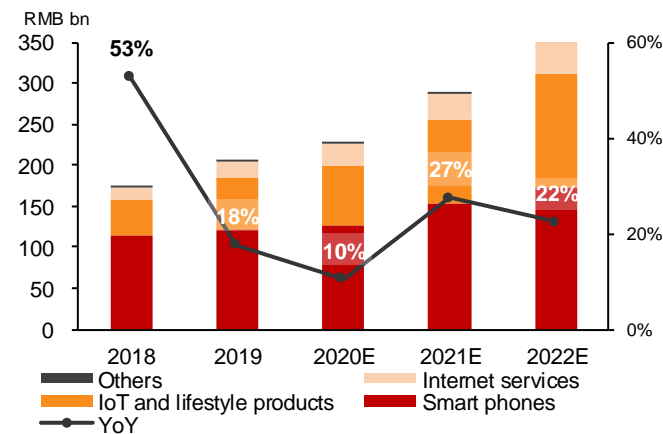
1. Xiaomi (1810 HK, Buy) - Strong 5G outlook and share gain; U/G to BUY – 21 May 2020
2. Xiaomi (1810 HK, Hold) – 4Q19 beat; COVID-19 uncertainty remains – 1 Apr 2020
3. Xiaomi (1810 HK, Hold) – Cautious on nCoV disruption – 6 Feb 2020

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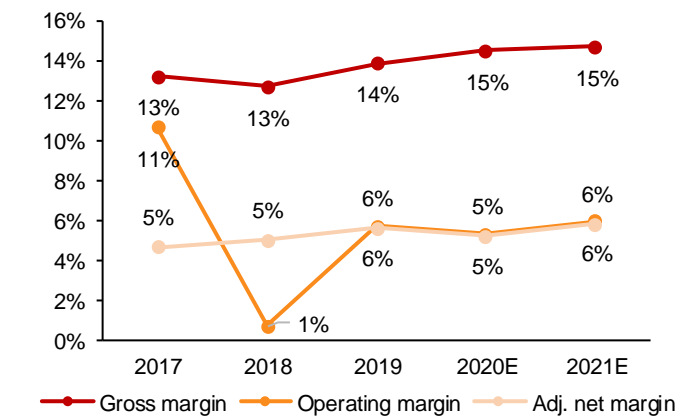
Focus Charts

Figure 1: Xiaomi revenue trend



Source: Company data, CMBIS estimates

Figure 2: Xiaomi margin trend



Source: Company data, CMBIS estimates

Figure 3: JD's 618 shopping festival



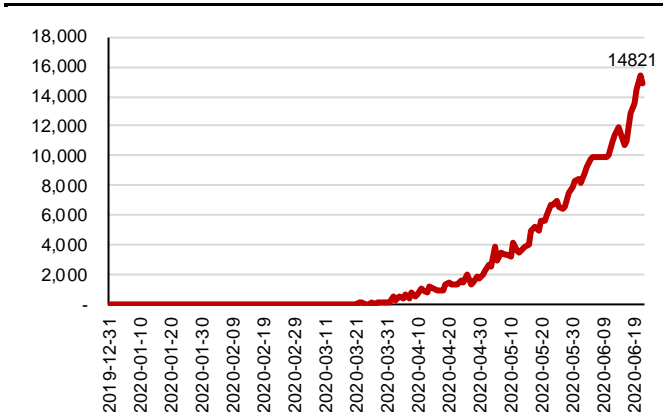
Source: Xiaomi, CMBIS

Figure 4: JD's 618 shopping festival



Source: Xiaomi, CMBIS

Figure 5: India new COVID-19 cases are still growing



Source: Company data, CMBIS

Figure 6: India smartphone market share in 1Q20

	1Q20 Volume (mn)	1Q20 Market Share	1Q19 Volume (mn)	1Q19 Market Share	YoY Growth
Xiaomi	10.1	31%	9.8	31%	3%
vivo	6.8	21%	4.2	13%	63%
Samsung	5.1	16%	7.1	22%	-28%
realme	4.3	13%	1.9	6%	119%
OPPO	3.4	11%	2.4	8%	41.0%
Others	2.8	9%	6.6	21%	-58%
Total	32.5	100%	32.0	100%	2%

Source: IDC, CMBIS estimates

Earnings Revision

Our FY20-21E EPS are 4-14% above consensus

We adjusted FY20-22E EPS by -11%/-4%/+2% to reflect India impact in 2H20E. Our FY20-21E EPS are 4-14% above consensus given our more positive view on smartphone recovery and internet growth in 2H20E.

Figure 7: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	227,404	289,848	354,633	239,468	289,116	353,298	-5%	0%	0%
Gross Profit	32,974	42,570	51,627	34,570	42,046	50,768	-5%	1%	2%
Operating Profit	12,031	17,284	21,540	13,696	18,160	20,977	-12%	-5%	3%
Adj. net profit	11,808	16,793	20,512	13,243	17,426	20,093	-11%	-4%	2%
Adj. EPS (RMB)	0.50	0.70	0.86	0.56	0.73	0.84	-11%	-4%	2%
Gross Margin	14.5%	14.7%	14.6%	14.44%	14.5%	14.4%	0.1 ppt	0.1 ppt	0.2 ppt
Operating Margin	5.3%	6.0%	6.1%	5.72%	6.3%	5.9%	-0.4 ppt	-0.3 ppt	0.1 ppt
Adj. Net Margin	5.2%	5.8%	5.8%	5.53%	6.0%	5.7%	-0.3 ppt	-0.2 ppt	0.1 ppt

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	227,404	289,848	354,633	242,289	296,681	352,028	-6%	-2%	1%
Gross Profit	32,974	42,570	51,627	35,032	43,581	52,079	-6%	-2%	-1%
Operating Profit	12,031	17,284	21,540	11,407	15,231	19,012	5%	13%	13%
Adj. net profit	11,808	16,793	20,512	11,813	15,395	18,922	0%	9%	8%
Adj. EPS (RMB)	0.50	0.70	0.86	0.48	0.62	0.76	4%	14%	13%
Gross Margin	14.5%	14.7%	14.6%	14.5%	14.7%	14.8%	0 ppt	0 ppt	-0.2 ppt
Operating Margin	5.3%	6.0%	6.1%	4.7%	5.1%	5.4%	0.6 ppt	0.8 ppt	0.7 ppt
Adj. Net Margin	5.2%	5.8%	5.8%	4.9%	5.2%	5.4%	0.3 ppt	0.6 ppt	0.4 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: P&L forecast

RMB mn	FY19	1Q20	2Q20E	3Q30E	4Q20E	FY20E	FY21E	FY22E
Revenue	205,839	49,702	50,486	59,407	67,809	227,404	289,848	354,633
...YoY	18%	14%	-3%	11%	20%	10%	27%	22%
Cost of sales	(177,285)	(42,144)	(43,115)	(50,663)	(58,508)	(194,429)	(247,278)	(303,006)
Gross profit	28,554	7,558	7,371	8,744	9,301	32,974	42,570	51,627
GPM (%)	13.9%	15.2%	14.6%	14.7%	13.7%	14.5%	14.7%	14.6%
...YoY	29%	45%	2%	6%	19%	15%	29%	21%
SG&A	(13,482)	(3,406)	(3,231)	(3,505)	(3,933)	(14,075)	(16,231)	(18,441)
...% of rev	-6.5%	-6.9%	-6.4%	-5.9%	-5.8%	-6.2%	-5.6%	-5.2%
R&D	(7,493)	(1,871)	(1,666)	(2,495)	(3,119)	(9,151)	(11,594)	(14,185)
...% of rev	-3.6%	-3.8%	-3.3%	-4.2%	-4.6%	-4.0%	-4.0%	-4.0%
Operating profit	11,760	2,323	3,144	3,578	2,986	12,031	17,284	21,540
OPM (%)	5.7%	4.7%	6.2%	6.0%	4.4%	5.3%	6.0%	6.1%
...YoY	883%	-36%	35%	15%	11%	2%	44%	25%
Adj. net profit	11,532	2,301	3,032	3,425	2,966	11,808	16,793	20,512
NPM (%)	5.6%	4.6%	6.0%	5.8%	4.4%	5.2%	5.8%	5.8%
...YoY	35%	11%	-17%	-1%	27%	2%	42%	22%

Source: Company data, CMBIS estimates

Figure 10: Revenue breakdown

RMB mn	FY18	FY19	1Q20	2Q20E	3Q20E	4Q20E	FY20E	FY21E	FY22E
Smart phones	113,800	122,095	30,325	27,616	32,767	34,826	125,534	154,000	172,500
...YoY	41%	7%	12%	-14%	2%	13%	3%	23%	12%
IoT and lifestyle products	43,817	62,088	12,984	16,669	19,711	25,527	74,891	102,164	139,891
...YoY	87%	42%	8%	12%	26%	31%	21%	36%	37%
Smart TVs and laptops	18,200	24,200	4,694	5,335	6,924	9,876	26,829	34,878	45,690
...YoY	119%	33%	-8%	-3%	20%	25%	11%	30%	31%
Other IoTs	25,617	37,888	8,290	11,334	12,787	15,651	48,062	67,287	94,202
...YoY	69%	48%	20%	20%	30%	35%	27%	40%	40%
Internet services	15,956	19,842	5,901	5,756	6,403	6,924	24,983	31,090	38,869
...YoY	61%	24%	39%	26%	21%	22%	26%	24%	25%
Advertising services	10,100	10,676	2,661	2,756	3,203	3,274	11,894	13,083	13,999
...YoY	80%	6%	17%	10%	10%	10%	11%	10%	7%
Internet value-added services	5,855	9,166	3,239	3,000	3,200	3,650	13,089	18,006	24,871
...YoY	37%	57%	64%	45%	33%	34%	43%	38%	38%
Gaming	2,700	3,195	1,500	1,000	1,000	1,150	4,650	5,348	5,882
...YoY		18%	82%	48%	22%	32%	46%	15%	10%
Other (incl. Youpin e-commerce, fintech)	3,200	5,971	1,739	2,000	2,200	2,500	8,439	12,659	18,988
...YoY		87%	51%	43%	40%	36%	41%	50%	50%
Others	1,343	1,814	493	446	525	532	1,995	2,594	3,372
...YoY	87%	35%	10%	10%	10%	10%	10%	30%	30%
Total	174,915	205,839	49,702	50,486	59,407	67,809	227,404	289,848	354,633
...YoY	53%	18%	14%	-3%	11%	20%	10%	27%	22%
Gross Margin									
Smart phones	6.2%	7.2%	8.1%	8.0%	8.1%	8.0%	8.0%	8.0%	7.9%
IoT and lifestyle products	10.3%	11.2%	13.4%	12.0%	12.3%	10.0%	11.6%	11.3%	11.0%
Internet services	64.4%	64.7%	57.1%	55.0%	57.0%	57.0%	56.6%	60.0%	58.0%
Others	27.3%	-0.1%	-1.4%	-1.0%	3.0%	3.0%	1.0%	2.0%	2.0%
Total	12.7%	13.9%	15.2%	14.6%	14.7%	13.7%	14.5%	14.7%	14.6%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP of HK\$15.7 (25% upside)

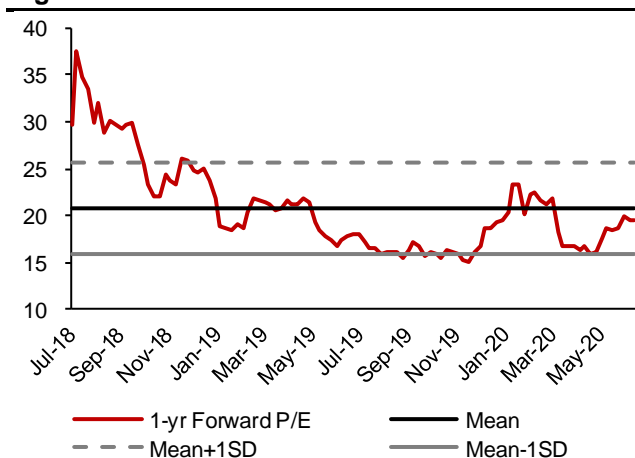
Our new 12m TP of HK\$ 15.7 is based on same 20x FY21E P/E. We think it is justified given share gain in smartphone market, product transition into AIoT, and improving internet revenue. Trading at 16.0x FY21E P/E, we view the stock is attractive. Catalysts include 5G product launch, share gain and rapid demand recovery.

Figure 11: 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	39,017	12.6	15.7	25%	22.5	16.1	2.9	2.5	12.9	15.5
Sunny Optical	2382 HK	Hold	16,360	115.6	115.0	-1%	25.6	19.6	6.8	5.3	26.7	27.0
AAC Tech	2018 HK	Sell	7,383	47.4	36.0	-24%	30.6	23.7	2.5	2.4	8.3	9.9
BYDE	285 HK	Buy	5,158	17.7	22.2	25%	21.8	16.4	2.0	1.8	9.0	10.9
FIT Hon Teng	6088 HK	Buy	2,664	3.0	2.6	-12%	11.3	10.1	1.1	1.0	10.0	10.3
Tongda	698 HK	Hold	368	0.4	0.5	20%	5.9	5.1	0.4	0.4	7.1	8.1
Q tech	1478 HK	Buy	1,519	10.0	14.8	48%	14.9	11.7	3.0	2.5	20.0	21.0
TK Group	2283 HK	Buy	247	2.3	2.3	1%	4.2	3.6	1.5	1.5	35.7	41.7
Average							18.9	14.7	2.7	2.3	13.4	14.7
Smartphone												
Apple	AAPL US	NR	1,546,037	356.8	NA	NA	28.7	24.1	26.5	40.2	70.6	133.6
Lenovo	992 HK	NR	6,651	4.3	NA	NA	10.4	9.5	1.6	1.5	18.5	18.7
Samsung	005930 KS	NR	256,610	52,000.0	NA	NA	14.2	9.6	1.3	1.2	9.3	12.8
LG Elec	066570 KS	NR	9,131	67,500.0	NA	NA	9.3	7.6	0.8	0.7	8.3	9.3
Average							15.7	12.7	7.5	10.9	26.7	43.6
IoT												
Skyworth	751 HK	NR	944	2.4	NA	NA	8.2	6.7	0.4	0.4	4.8	5.4
Hisense	600060 CH	NR	2,251	12.2	NA	NA	25.2	19.5	1.1	1.0	4.3	5.2
Midea	000333 CH	Buy	58,533	59.1	72.8	23%	16.6	14.3	3.5	3.0	21.7	22.1
Gree	000651 CH	NR	48,732	57.3	NA	NA	14.7	12.6	2.8	2.5	20.2	20.8
Huami	HMI US	NR	711	11.5	NA	NA	19.9	15.3	1.8	1.4	17.9	24.6
Fitbit	FIT US	NR	1,710	6.4	NA	NA	-	-	4.6	5.4	(34.0)	(41.2)
Average							16.9	13.7	2.4	2.3	5.8	6.2
Internet												
Tencent	700 HK	Buy	584,545	474.2	500	5%	35.0	28.3	7.5	6.0	22.3	22.0
Alibaba	BABA US	Buy	592,801	221.0	251.6	14%	31.6	26.2	5.7	4.6	21.7	16.1
Baidu	BIDU US	Buy	42,108	122.2	151.2	24%	19.2	14.5	1.7	1.5	7.4	9.8
Average							28.6	23.0	5.0	4.0	17.1	16.0

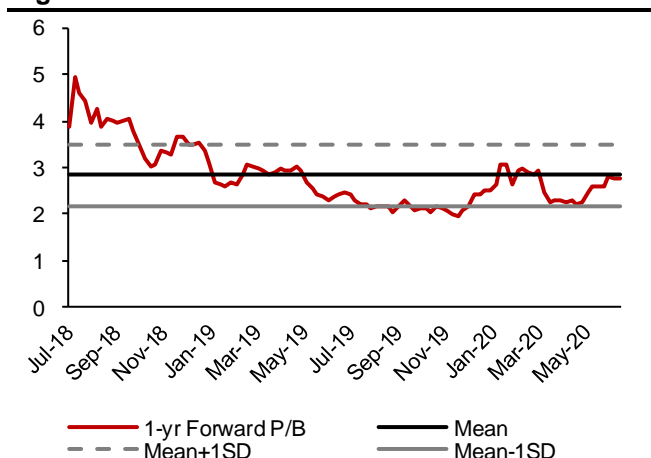
Source: Bloomberg, CMBIS

Figure 12: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 13: 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	227,404	289,848	354,633
COGS	(152,723)	(177,285)	(194,429)	(247,278)	(303,006)
Gross profit	22,192	28,554	32,974	42,570	51,627
Selling and marketing	(7,993)	(10,378)	(10,806)	(12,753)	(14,185)
Administrative	(12,099)	(3,104)	(3,269)	(3,478)	(4,256)
R&D	(5,777)	(7,493)	(9,151)	(11,594)	(14,185)
Other operating exp.	4,874	4,181	2,284	2,539	2,539
Operating profit	1,196	11,760	12,031	17,284	21,540
Financial cost	216	402	430	956	1,203
Other income/(losses)	12,514	-	-	-	-
Pre-tax profit	13,927	12,163	12,462	18,239	22,743
Tax	(449)	(2,060)	(1,795)	(2,626)	(3,411)
Minority interest	(76)	59	47	69	86
Net profit	13,554	10,044	10,619	15,544	19,246
Adj. Net profit	8,743	11,532	11,808	16,793	20,512

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	13,927	12,163	12,462	18,239	22,743
Depreciation	748	2,192	1,059	1,483	2,001
Change in working capital	(13,396)	9,641	(2,483)	12,636	(1,860)
Others	(2,693)	(186)	(1,795)	(2,626)	(3,411)
Net cash from operating	(1,415)	23,810	9,243	29,731	19,473
Capex	(3,758)	(4,117)	(4,548)	(5,797)	(7,093)
Other	(3,750)	(27,453)	-	-	-
Net cash from investing	(7,508)	(31,570)	(4,548)	(5,797)	(7,093)
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)	4,695	23,934	12,380
Cash at beginning of the yr	11,563	30,230	25,920	30,614	54,549
Exchange difference	1,015	328	-	-	-
Cash at the end of the year	30,230	25,920	30,614	54,549	66,929

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	106,013	137,539	126,483	183,420	180,920
Cash & equivalents	30,230	25,920	30,614	54,549	66,929
Account receivables	5,598	6,949	8,048	11,067	12,320
Inventories	29,481	32,585	15,736	45,720	29,586
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	49,579	53,893	58,985
PPE	5,068	6,992	10,481	14,795	19,887
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	176,062	237,314	239,905
Current liabilities	61,940	92,181	73,947	119,586	102,845
Short-term borrowings	3,075	12,837	12,837	12,837	12,837
Account payables	46,287	59,528	41,294	86,933	70,192
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	83,738	129,377	112,636
Share capital	0	0	0	0	0
Reserves	71,323	81,330	91,949	107,493	126,739
Minority interest	(73)	327	375	444	530
Shareholders' equity	71,250	81,658	92,324	107,937	127,269
Total equity/liabilities	145,228	183,629	176,062	237,314	239,905

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Smart phones	65	59	55	53	49
IoT and lifestyle products	25	30	33	35	39
Internet services	9	10	11	11	11
Others	1	1	1	1	1
Growth (%)					
Revenue	52.6	17.7	10.5	27.5	22.4
Gross profit	46.4	28.7	15.5	29.1	21.3
Operating profit	-	882.9	2.3	43.7	24.6
Adj. Net profit	63.1	31.9	2.4	42.2	22.1
Profit & loss ratio (%)					
Gross margin	12.7	13.9	14.5	14.7	14.6
Operating margin	0.7	5.7	5.3	6.0	6.1
Net profit margin	7.7	4.9	4.7	5.4	5.4
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	1.5	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	11.5	14.4	15.1
ROA	9.3	5.5	6.0	6.5	8.0
Per share data (RMB)					
Adj. EPS	0.54	0.49	0.50	0.70	0.86
DPS	-	-	-	-	-

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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