

Xiaomi (1810 HK)

2Q23E preview: earnings recovery to accelerate; Maintain BUY

Xiaomi will report 2Q23 results in late August. We estimate 2Q revenue will decline 6% YoY and adj. net profit will climb 92% YoY, mainly driven by improved GPM on lower BOM cost, better product mix and effective cost control. Looking ahead, we believe earnings recovery will continue into 2H23E and smartphone business will be boosted by new model launches and channel restocking. Overall, we maintain our view in 1Q23 that the worst is over for Xiaomi's earnings decline. We raised our FY23-25E EPS by 8-20% to reflect faster-than-expected earnings recovery, and lifted our TP to HK\$16.41, based on same 24x FY24E P/E with higher earnings forecasts. Maintain BUY. Catalysts include EV progress and market share gain.

- Smartphone: sluggish sales but improving GPM on lower BOM costs.** Canalys reported Xiaomi's shipment decline of 16% YoY in 2Q23 (vs -10% YoY for industry) with market share of 13% (No. 1 among Chinese brands). Xiaomi's sluggish smartphone was mainly dragged by macro headwinds and weakness in India market. In terms of ASP, we expect 2Q23E ASP to decline 4.5% QoQ, and GPM will reach 11.9% due to improving product mix backed by premiumization strategy, lower BOM costs and reduced headwinds on forex and inventory write-off. Looking into 2H23E, we are positive on Xiaomi's seasonal demand pull-in and new product launches. We expect Xiaomi's shipment to decline 7% to 140.6mn in FY23E and rebound 7%/3% YoY to 150mn/155mn in FY24/25E.
- AIoT/Internet: 618 festival, white goods and stronger gaming.** We estimate AIoT/Internet revenue will increase 6%/5% YoY in 2Q23E (vs -14%/-1% YoY in 1Q23), mainly due to 618 festival, summer seasonal sales of white goods and stronger gaming segment. We expect AIoT/Internet GPM to improve QoQ to 16%/72% driven by better product mix. Our FY23/24E EPS is 22%/17% above consensus mainly due to our positive view on higher GPM across all segments, prudent cost control and better operating leverage.
- Expect earnings recovery to accelerate; Raise TP to HK\$16.41 on better earnings visibility.** We believe Xiaomi will maintain investment expense of RMB 7.5-8.0bn for smart EV/new initiatives and Smart EV launch timeline in 1H24E. We raised our FY23-25E EPS by 8-20% to reflect stronger earnings recovery, and our new TP of HK\$ 16.41 is based on the same 24x FY24E P/E. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	328,309	280,044	268,732	293,285	325,746
YoY growth (%)	33.5	(14.7)	(4.0)	9.1	11.1
Adjusted net profit (RMB mn)	22,039.5	8,518.0	13,127.5	14,597.1	16,276.1
EPS (Adjusted) (RMB)	0.88	0.34	0.53	0.59	0.66
Consensus EPS (RMB)	na	na	0.43	0.50	0.57
P/E (x)	26.8	30.7	21.3	19.1	17.1
P/B (x)	3.8	1.8	1.8	1.7	1.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	14.8	1.8	7.7	5.5	6.1
Net gearing (%)	96.0	70.9	59.6	60.1	53.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$16.41**
 (Previous TP **HK\$15.22**)
 Up/Downside **34.3%**
 Current Price **HK\$12.22**

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Stock Data

Mkt Cap (HK\$ mn)	248,579.2
Avg 3 mths t/o (HK\$ mn)	688.8
52w High/Low (HK\$)	13.68/8.45
Total Issued Shares (mn)	20342.0

Source: FactSet

Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.6%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.9%	9.2%
3-mth	11.7%	14.0%
6-mth	-9.3%	0.5%

Source: FactSet

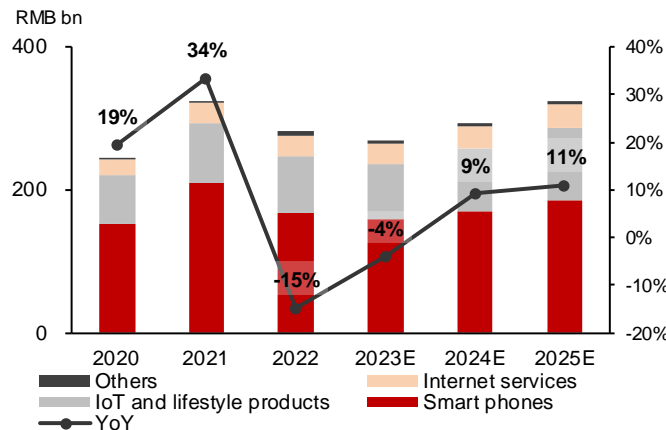
12-mth Price Performance



Source: FactSet

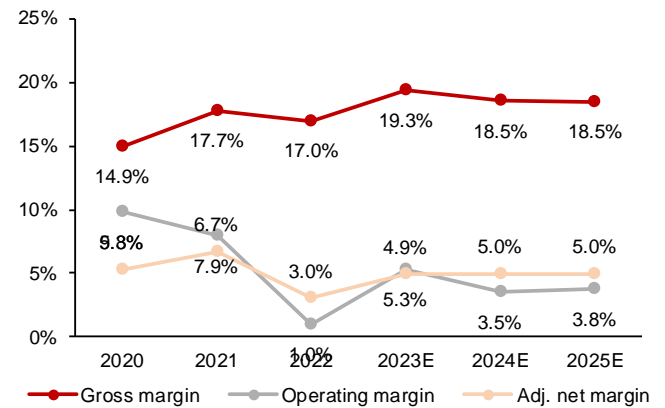
Focus Charts

Figure 1: Xiaomi's revenue trend



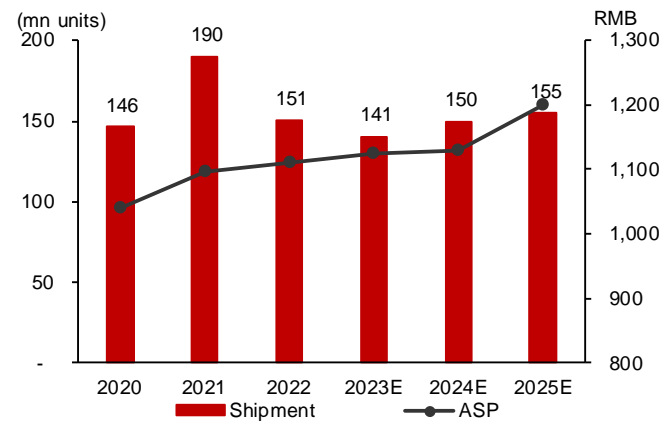
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi's margin trend



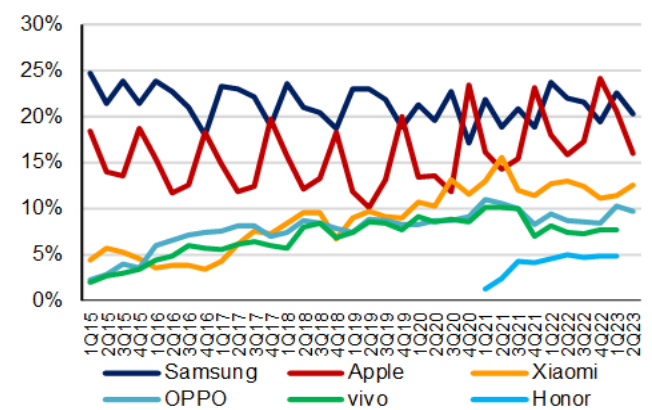
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi's smartphone shipment forecast



Source: Xiaomi, CMBIGM estimates

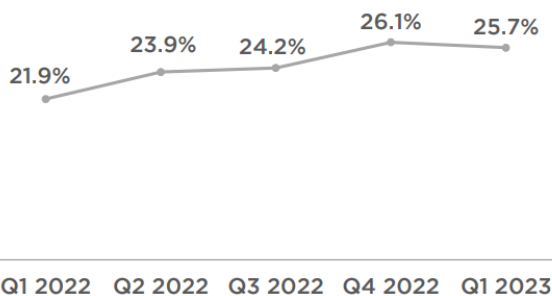
Figure 4: Global smartphone market share



Source: IDC, CMBIGM estimates

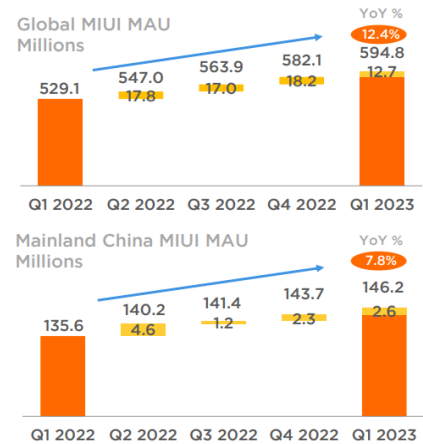
Figure 5: Overseas internet service revenue growth

Overseas Internet Services Revenue
as % of Total Internet Services Revenue



Source: Company data, CMBIGM estimates

Figure 6: Xiaomi's solid MIUI MAU growth



Source: Company data, CMBIGM estimates

2Q23 Preview

Figure 7: 2Q23 results preview

RMB mn	2Q22	3Q22	4Q22	1Q23	CMBIGM 2Q23E	QoQ	YoY	Consensus 2Q23E	Diff %
Revenue	70,171	70,474	66,047	59,477	66,155	11.2%	-6%	65,337	1%
Gross profit	11,768	11,722	11,378	11,592	13,201	13.9%	12%	12,404	6%
Operating profit	1,733	(1,361)	3,356	5,900	3,505	-40.6%	102%	2,510	40%
Adj. net profit	2,081	2,117	1,461	3,233	3,995	23.5%	92%	2,553	56%
Adj. EPS (RMB)	0.08	0.08	0.06	0.13	0.16	23.5%	93%	0.11	42%
Gross margin	16.8%	16.6%	17.2%	19.5%	20.0%	0.5 ppt	3.2 ppt	19.0%	1 ppt
Operating margin	2.5%	-1.9%	5.1%	9.9%	5.3%	-4.6 ppt	2.8 ppt	3.8%	1.5 ppt
Adj. net margin	3.0%	3.0%	2.2%	5.4%	6.0%	0.6 ppt	3.1 ppt	3.9%	2.1 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	FY22	1Q23	2Q23E	3Q23E	4Q23E	FY23E	FY24E	FY25E
Smart phones	167,217	34,985	36,520	41,800	44,850	158,155	169,500	186,000
...YoY	-20%	-24%	-14%	-2%	22%	-5%	7%	10%
Shipment ('000)	150,500	30,400	33,200	38,000	39,000	140,600	150,000	155,000
...YoY	-21%	-21%	-15%	-5%	19%	-7%	7%	3%
ASP (RMB)	1,111	1,152	1,100	1,100	1,150	1,125	1,130	1,200
...YoY	1.3%	-3.1%	1.7%	4.0%	2.5%	1.2%	0.5%	6.2%
AIoT and lifestyle products	79,795	16,834	20,998	18,686	21,025	77,542	88,041	100,001
...YoY	-6%	-14%	6%	-2%	-2%	-3%	14%	14%
Smart TVs and laptops	23,700	4,700	5,035	6,090	6,825	22,650	24,915	27,407
...YoY	-15%	-24%	-13%	-6%	45%	-4%	10%	10%
Other IoTs	56,095	12,134	15,963	12,596	14,200	54,892	63,126	72,595
...YoY	-2%	-9%	20%	-16%	17%	-2%	15%	15%
Internet services	28,321	7,028	7,293	7,512	7,650	29,484	31,483	34,631
...YoY	0%	-1%	5%	6%	7%	4%	7%	10%
Advertising services	18,500	4,400	4,675	4,904	5,004	18,983	19,933	21,926
...YoY	2%	-3%	3%	5%	5%	3%	5%	10%
Internet value-added	9,821	2,628	2,618	2,608	2,646	10,500	11,550	12,705
...YoY	-3%	2%	8%	9%	10%	7%	10%	10%
Gaming	4,100	1,345	1,084	1,120	1,100	4,649	5,114	5,625
...YoY	5%	16%	15%	10%	10%	13%	10%	10%
Other (incl. Youpin fintech, etc.)	5,721	1,283	1,534	1,488	1,546	5,851	6,436	7,080
...YoY	-8%	-10%	3%	8%	10%	2%	10%	10%
Others	4,711	630	1,344	2,202	908	3,551	4,261	5,114
...YoY	-25%	-37%	20%	20%	20%	-25%	20%	20%
Total	280,044	59,477	66,155	70,200	74,433	268,732	293,285	325,746
...YoY	-15%	-19%	-6%	0%	13%	-4%	9%	11%
Gross margin								
Smart phones	9.0%	11.2%	11.9%	11.5%	11.3%	11.5%	10.5%	10.5%
AIoT and lifestyle products	14.4%	15.7%	16.0%	15.0%	15.0%	15.4%	15.0%	15.0%
Internet services	71.8%	72.3%	72.4%	71.0%	71.0%	71.7%	71.5%	71.5%
Others	16.2%	-10.8%	16.0%	18.0%	18.0%	19.9%	19.0%	19.0%
Total	17.0%	19.5%	20.0%	19.0%	18.6%	19.3%	18.5%	18.5%

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY23-25E adj. EPS are 16-22% above consensus

We raised FY23-24E adj. EPS by 8-20% to reflect better GPM and operating leverage. We estimate smartphone sales will decrease 5% in FY23E and increase 7%/10% YoY in FY24/25E, while AIoT will decline 3% YoY in FY23E and rebound 14%/14% YoY in FY24/25E. Our FY23-25E EPS is 16-22% above consensus mainly due to better GPM and operating leverage.

Figure 9: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	268,732	293,285	325,746	266,872	293,595	327,086	1%	0%	0%
Gross profit	51,949	54,324	60,263	50,437	53,641	59,711	3%	1%	1%
Operating profit	14,255	10,385	12,304	10,799	8,258	9,851	32%	26%	25%
Adj. net profit	13,128	14,597	16,276	10,954	13,544	14,938	20%	8%	9%
Adj. EPS (RMB)	0.53	0.59	0.66	0.44	0.55	0.60	20%	8%	9%
Gross margin	19.3%	18.5%	18.5%	18.9%	18.3%	18.3%	0.4 ppt	0.3 ppt	0.2 ppt
Operating margin	5.3%	3.5%	3.8%	4.0%	2.8%	3.0%	1.3 ppt	0.7 ppt	0.8 ppt
Adj. net margin	4.9%	5.0%	5.0%	4.1%	4.6%	4.6%	0.8 ppt	0.4 ppt	0.4 ppt

Source: Company data, CMBIGM estimates

Figure 10: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	268,732	293,285	325,746	276,144	310,267	344,390	-3%	-5%	-5%
Gross profit	51,949	54,324	60,263	50,661	56,350	62,658	3%	-4%	-4%
Operating profit	14,255	10,385	12,304	11,039	12,140	14,142	29%	-14%	-13%
Adj. net profit	13,128	14,597	16,276	10,521	12,313	13,795	25%	19%	18%
Adj. EPS (RMB)	0.53	0.59	0.66	0.43	0.50	0.57	22%	17%	16%
Gross margin	19.3%	18.5%	18.5%	18.3%	18.2%	18.2%	1 ppt	0.4 ppt	0.3 ppt
Operating margin	5.3%	3.5%	3.8%	4.0%	3.9%	4.1%	1.3 ppt	-0.4 ppt	-0.3 ppt
Adj. net margin	4.9%	5.0%	5.0%	3.8%	4.0%	4.0%	1.1 ppt	1 ppt	1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: P&L forecast

RMB mn	FY22	1Q23	2Q23E	3Q23E	4Q23E	FY23E	FY24E	FY25E
Revenue	280,044	59,477	66,155	70,200	74,433	268,732	293,285	325,746
...YoY	-15%	-19%	-6%	0%	13%	-4%	9%	11%
Cost of sales	(232,467)	(47,886)	(52,954)	(56,860)	(60,616)	(218,316)	(238,962)	(265,483)
Gross profit	47,577	11,592	13,201	13,340	13,817	51,949	54,324	60,263
GPM (%)	17.0%	19.5%	20.0%	19.0%	18.6%	19.3%	18.5%	18.5%
...YoY	-18%	12%	19%	14%	8%	9%	5%	11%
SG&A	(26,437)	(5,239)	(5,425)	(5,897)	(7,046)	(23,606)	(27,569)	(29,643)
...% of rev	-9.4%	-8.8%	-8.2%	-8.4%	-9.5%	-8.8%	-9.4%	-9.1%
R&D	(16,028)	(4,113)	(4,300)	(4,774)	(5,061)	(18,248)	(20,530)	(22,476)
...% of rev	-5.7%	-6.9%	-6.5%	-6.8%	-6.8%	-6.8%	-7.0%	-6.9%
Operating profit	2,816	5,900	3,505	2,708	2,141	14,255	10,385	12,304
OPM (%)	1.0%	9.9%	5.3%	3.9%	2.9%	5.3%	3.5%	3.8%
...YoY	-89%	-899%	115%	-300%	-43%	406%	-27%	18%
Adj. net profit	8,518	3,233	3,995	3,142	2,794	13,128	14,597	16,276
NPM (%)	3.0%	5.4%	6.0%	4.5%	3.8%	4.9%	5.0%	5.0%
...YoY	-61%	13%	92%	48%	91%	54%	11%	12%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$16.41 (34% upside)

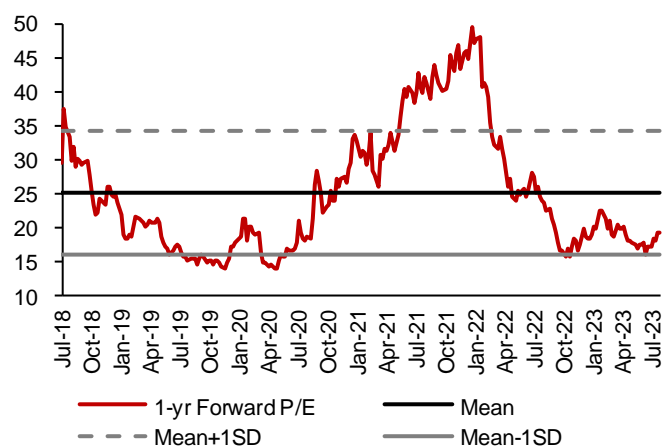
Our new TP of HK\$16.41 is based on same 24x FY24E P/E. The stock now trades at 19.1x FY24E P/E, and we view risk-reward as attractive given earnings recovery and smart EV upside. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

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 (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
HK-listed												
Xiaomi	1810 HK	BUY	39,182	12.2	16.4	34%	21.3	19.1	1.8	1.7	7.7	5.5
Sunny Optical	2382 HK	HOLD	10,034	71.5	78.3	10%	38.8	24.7	2.9	2.7	7.5	10.8
AAC Tech	2018 HK	HOLD	2,679	17.5	15.6	-11%	29.0	17.4	0.8	0.8	2.9	4.7
BYDE	285 HK	BUY	8,741	30.3	31.7	5%	18.5	15.1	2.2	1.9	11.7	12.8
FIT Hon Teng	6088 HK	BUY	1,204	1.3	2.2	69%	8.1	6.5	0.4	0.4	5.6	6.7
Tongda	698 HK	BUY	117	0.1	0.2	81%	4.3	3.0	0.1	0.1	1.8	3.8
Q tech	1478 HK	BUY	523	3.5	3.6	4%	10.3	6.6	0.7	0.7	7.0	10.1
TK Group	2283 HK	BUY	157	1.5	3.4	130%	2.8	3.8	0.6	0.6	20.7	17.8
Average							18.5	13.1	1.3	1.2	6.4	8.3
Smartphone												
Apple	AAPL US	NR	2,845,274	182.0	NA	NA	30.1	27.6	47.6	38.8	165.4	144.3
Lenovo	992 HK	NR	13,556	8.7	NA	NA	8.1	9.0	2.2	2.0	30.6	25.0
Samsung	005930 KS	NR	313,576	68,300.0	NA	NA	46.0	14.5	1.3	1.2	2.9	8.6
LG Elec	066570 KS	NR	13,039	103,600.0	NA	NA	9.6	6.7	0.9	0.8	9.1	11.9
Average							23.4	14.5	13.0	10.7	52.0	47.5
IoT												
Skyworth	751 HK	NR	1,098	3.5	NA	NA	4.9	3.9	0.4	0.4	8.8	10.3
Hisense	600060 CH	NR	3,963	21.7	NA	NA	13.2	11.2	1.5	1.3	11.2	12.0
Midea	000333 CH	NR	56,728	57.9	NA	NA	12.1	11.0	2.5	2.2	21.0	20.2
Gree	000651 CH	NR	30,189	38.4	NA	NA	8.0	7.3	1.9	1.6	24.2	23.0
Average							9.6	8.3	1.6	1.4	16.3	16.4

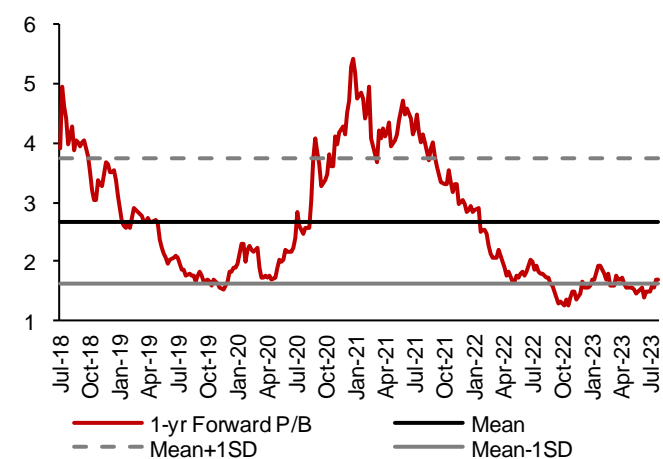
Source: Bloomberg, CMBIGM

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	245,866	328,309	280,044	268,732	293,285	325,746
Cost of goods sold	(209,114)	(270,048)	(232,467)	(218,316)	(238,962)	(265,483)
Gross profit	36,752	58,261	47,577	50,416	54,324	60,263
Selling expense	(14,539)	(20,981)	(21,323)	(18,690)	(22,583)	(24,431)
Admin expense	(3,746)	(4,739)	(5,114)	(4,917)	(4,986)	(5,212)
R&D expense	(9,256)	(13,167)	(16,028)	(18,248)	(20,530)	(22,476)
Other income	643	827	1,136	1,135	1,135	1,135
Gain/loss on financial assets at FVTPL	13,173	8,132	(1,662)	2,853	2,853	2,853
Investment gain/loss	1,381	275	(400)	(532)	(532)	(532)
EBIT	24,035	26,029	2,816	14,255	10,385	12,304
Net Interest income/(expense)	(1,641)	(1,612)	1,117	(433)	(433)	(433)
Foreign exchange gain/loss	(372)	(2,580)	(1,369)	704	704	704
Others	0	0	0	0	0	0
Pre-tax profit	21,633	24,417	3,934	13,822	9,952	11,871
Income tax	(1,321)	(5,134)	(1,431)	(2,340)	(1,244)	(1,484)
Minority interest	(43)	(56)	29	(36)	99	118
Net profit	20,313	19,283	2,503	11,481	8,708	10,387
Adjusted net profit	13,006	22,039	8,518	13,128	14,597	16,276
Net dividends	0	0	0	0	0	0
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	176,283	185,851	160,415	176,286	186,167	204,141
Cash & equivalents	54,752	23,512	27,607	44,042	41,728	56,864
Account receivables	19,080	23,095	19,625	22,908	22,080	26,154
Inventories	41,671	52,398	50,438	46,591	59,614	58,379
Prepayment	16,182	19,852	18,578	18,578	18,578	18,578
ST bank deposits	17,599	31,041	29,875	29,875	29,875	29,875
Financial assets at FVTPL	22,376	30,910	9,846	9,846	9,846	9,846
Other current assets	4,623	5,045	4,446	4,446	4,446	4,446
Non-current assets	77,397	107,040	113,092	115,725	118,236	120,718
PP&E	6,306	6,965	9,138	11,770	14,282	16,763
Deferred income tax	2,011	1,662	2,278	2,278	2,278	2,278
Investment in JVs & assos	12,782	10,231	7,932	7,932	7,932	7,932
Intangibles	4,266	5,579	4,630	4,630	4,630	4,630
Financial assets at FVTPL	35,215	50,114	55,980	55,980	55,980	55,980
Other non-current assets	16,817	32,490	33,134	33,134	33,134	33,134
Total assets	253,680	292,892	273,507	292,011	304,403	324,859
Current liabilities	107,927	115,727	89,628	96,649	100,334	110,402
Short-term borrowings	6,962	5,527	2,151	2,151	2,151	2,151
Account payables	72,199	74,643	53,094	60,115	63,800	73,868
Tax payable	674	2,335	1,384	1,384	1,384	1,384
Other current liabilities	28,092	33,222	32,999	32,999	32,999	32,999
Non-current liabilities	21,739	39,732	39,957	39,957	39,957	39,957
Long-term borrowings	10,635	20,720	21,493	21,493	21,493	21,493
Deferred income	301	1,203	983	983	983	983
Other non-current liabilities	10,804	17,809	17,480	17,480	17,480	17,480
Total liabilities	129,666	155,459	129,584	136,606	140,290	150,359
Share capital	409	407	406	406	406	406
Other reserves	123,691	137,212	143,658	155,176	163,784	174,053
Total shareholders equity	124,014	137,432	143,923	155,405	164,113	174,500
Minority interest	322	220	265	229	328	446
Total equity and liabilities	253,680	292,892	273,507	292,011	304,403	324,859

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	21,633	24,417	3,934	13,822	9,952	11,871
Depreciation & amortization	1,708	3,062	2,182	2,742	3,354	4,033
Tax paid	(1,126)	(2,442)	(2,382)	(2,340)	(1,244)	(1,484)
Change in working capital	4,320	(15,725)	(15,675)	7,585	(8,511)	7,230
Others	(3,830)	474	7,552	0	0	0
Net cash from operations	22,706	9,785	(4,390)	21,809	3,552	21,651
Investing						
Capital expenditure	(3,026)	(7,169)	(5,800)	(5,375)	(5,866)	(6,515)
Acquisition of subsidiaries/ investments	39	(1,086)	(25)	0	0	0
Net proceeds from disposal of short-term investments	190,494	166,947	23,136	0	0	0
Others	(205,186)	(203,699)	(1,763)	0	0	0
Net cash from investing	(17,679)	(45,008)	15,549	(5,375)	(5,866)	(6,515)
Financing						
Net borrowings	(2,004)	9,227	(2,791)	0	0	0
Proceeds from share issues	19,908	0	0	0	0	0
Share repurchases	(455)	(7,007)	(2,386)	0	0	0
Others	8,767	2,278	(2,677)	0	0	0
Net cash from financing	26,216	4,499	(7,855)	0	0	0
Net change in cash						
Cash at the beginning of the year	25,920	55,580	24,339	27,607	44,042	41,728
Exchange difference	(517)	791	0	0	0	0
Cash at the end of the year	55,580	24,339	27,607	44,042	41,728	56,864

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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