

Xiaomi (1810 HK)

4Q22 better than feared; All eyes on profitability recovery in 2023

Xiaomi's 4Q22 weakness is largely anticipated, and adj. net profit decline of 67% YoY is 9%/13% above our/consensus estimates, driven by stronger margins and improved product mix. Looking ahead, we believe smartphone weakness in 1H23E has been largely priced in, and earnings growth will rebound sequentially given improving channel inventory, overseas AIoT recovery and better internet revenue. We are also positive on Xiaomi's focus on operating efficiency and profitability improvement amid macro headwinds in the near term. We revised down our FY23/24E EPS by 7%/7%, and our new TP of HK\$15.41 is based on rollovered P/E multiple of 24x FY24E P/E (vs prev. 24x FY23E P/E). Maintain BUY. Catalysts include EV progress, product launch and market share gain.

- **4Q22 results is better than feared on stronger margins.** Given COVID-19 impact and macro headwinds and inventory destocking in 4Q22, Xiaomi's global smartphone shipment declined 26% YoY and ASP dropped 2.0% YoY in 4Q22. By segment, smartphone/AIoT/internet revenue dropped 27%/14%/ 1% YoY. GPM came in at 17.2%, above our/consensus estimates of 16.8%, despite lower smartphone GPM due to inventory write-downs and one-off charges for warranty policy change. Looking ahead, backed by improving channel inventory and gaming/ads recovery, we are positive on gradual earning recovery in 2023.
- **2023E outlook: Focus on profitability improvement and smart EV progress amid macro headwinds.** We expect GPM improvement across all segments driven by lower components and shipping costs, better product mix, favorable FX and potential provision reversal of inventory impairment. Mgmt. is also positive on profitability and efficiency improvement in FY23E. To accelerate EV progress, we expect Xiaomi to focus on its investment on R&D for EV business and premiumization of flagship smartphone models.
- **Expect earnings QoQ recovery in FY23E; Maintain BUY.** Despite near-term macro weakness, we believe the worst is likely over for Xiaomi's earnings decline, and we expect revenue/earnings to recover QoQ in 1Q23E, driven by China's re-opening and healthy inventory level in China/India. After earnings revisions to reflect lower smartphone shipment, we adjusted our TP to HK\$15.41, based on rollovered 24x FY24E P/E. Maintain BUY. Upcoming catalysts include product launch in 2Q23E, inventory clearance and EV progress.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	328,309	280,044	286,590	329,956	357,739
YoY growth (%)	33.5	(14.7)	2.3	15.1	8.4
Adjusted net profit (RMB mn)	22,039.5	8,518.0	12,128.8	13,706.6	16,252.7
EPS (Adjusted) (RMB)	0.88	0.34	0.49	0.55	0.65
Consensus EPS (RMB)	na	0.34	0.45	0.57	0.08
P/E (x)	26.8	30.7	22.3	19.7	16.6
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	5.3	5.9	7.1
Net gearing (%)	96.0	70.9	41.6	65.1	32.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$15.41
(Previous TP HK\$14.73)
Up/Downside 23.8%
Current Price HK\$12.44

China Technology

Alex NG

(852) 3900 0881
alexng@cmbi.com.hk

Lily YANG, Ph.D

(852) 3916 3716
lilyyang@cmbi.com.hk

Claudia LIU

claudialiu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	253,054.5
Avg 3 mths t/o (HK\$ mn)	12.2
52w High/Low (HK\$)	14.48/8.45
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	3.7%	4.2%
3-mth	15.2%	13.3%
6-mth	31.5%	18.4%

Source: FactSet

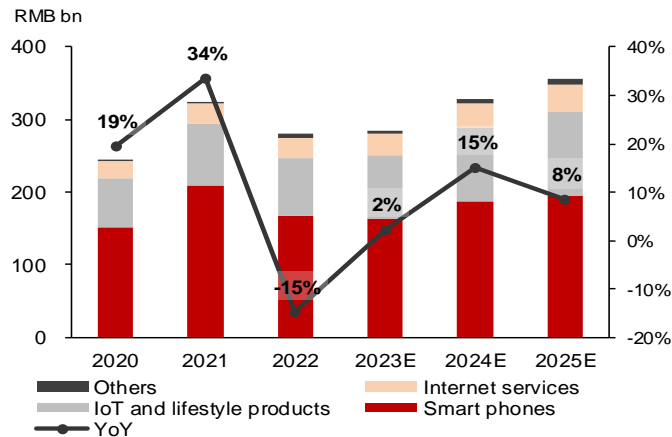
12-mth Price Performance



Source: FactSet

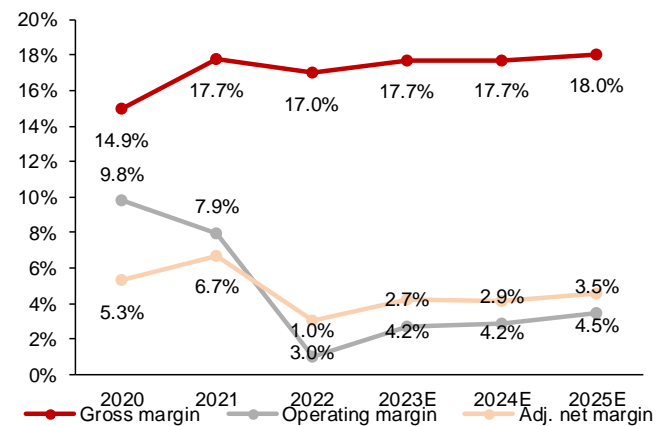
Focus Charts

Figure 1: Xiaomi's revenue trend



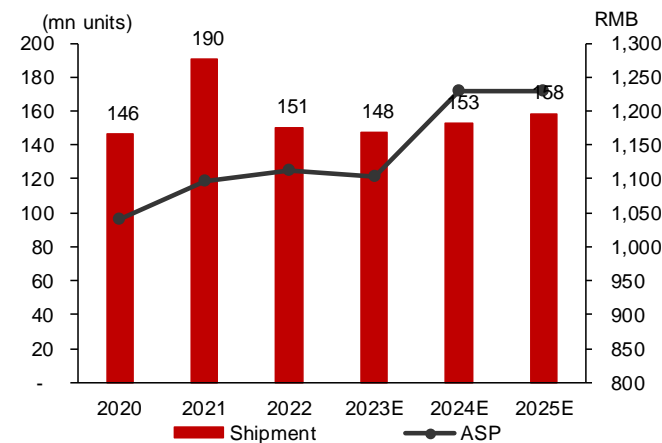
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi's margin trend



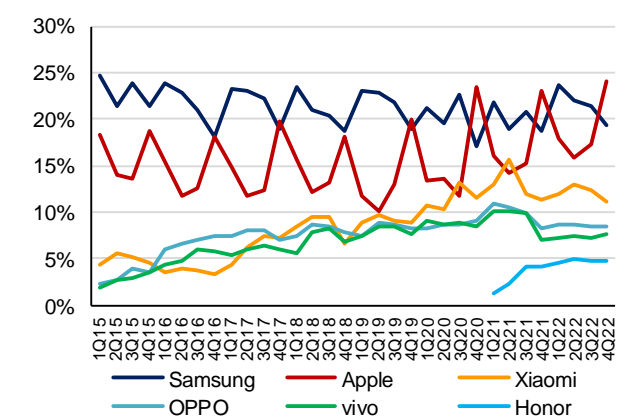
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi's smartphone shipment forecast



Source: Xiaomi, CMBIGM estimates

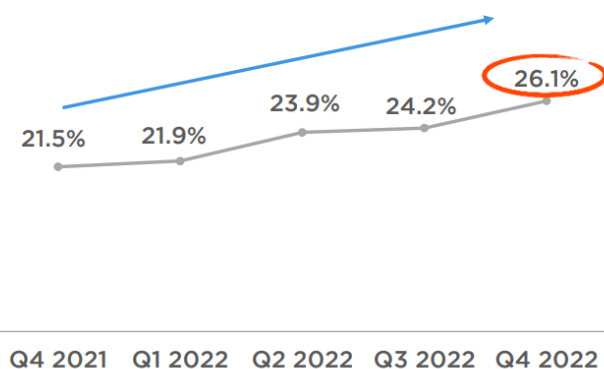
Figure 4: Global smartphone market share



Source: IDC, CMBIGM estimates

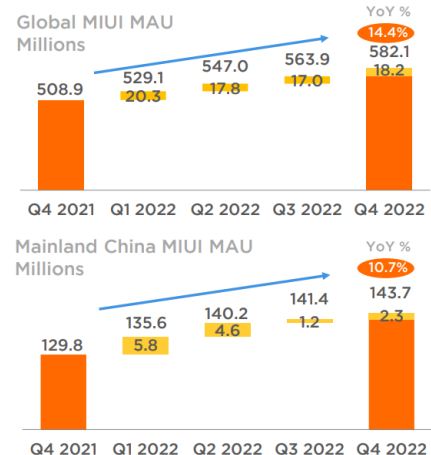
Figure 5: Overseas internet service revenue growth

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

4Q22 Review

Figure 7: 4Q22 results review

RMB mn	4Q21	3Q22	4Q22	QoQ	YoY	CMBIGM		Consensus	
						4Q22E	Diff %	4Q22E	Diff %
Revenue	85,575	70,474	66,047	-6.3%	-23%	65,550	1%	65,328	1%
Gross Profit	14,659	11,722	11,378	-2.9%	-22%	11,009	3%	10,951	4%
Operating Profit	4,416	(1,361)	3,356	-346.6%	-24%	(1,212)	-377%	232	1346%
Adj. net profit	4,473	2,117	1,461	-31.0%	-67%	1,339	9%	1,289	13%
Adj. EPS (RMB)	0.18	0.08	0.06	-30.7%	-67%	0.05	10%	0.05	14%
Gross Margin	17.1%	16.6%	17.2%	0.6 ppt	0.1 ppt	16.8%	0.4 ppt	16.8%	0.5 ppt
Operating Margin	5.2%	-1.9%	5.1%	7 ppt	-0.1 ppt	-1.8%	6.9 ppt	0.4%	4.7 ppt
Adj. Net Margin	5.2%	3.0%	2.2%	-0.8 ppt	-3 ppt	2.0%	0.2 ppt	2.0%	0.2 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	4Q21	1Q22	2Q22	3Q22	4Q22	CMBIGM	
						4Q22E	Diff %
Smart phones	50,464	45,763	42,268	42,514	36,672	34,613	6%
...YoY	18.4%	-11%	-28%	-11%	-27%	-31%	
Shipment (000')	44,100	38,500	39,100	40,200	32,700	32,500	1%
...YoY	4%	-22%	-26%	-8%	-26%	-26%	
ASP (RMB)	1,143	1,189	1,082	1,058	1,121	1,065	5%
...YoY	13.3%	14.0%	-3.1%	-3.0%	-1.9%	-6.9%	
IoT and lifestyle products	25,067	19,477	19,812	19,059	21,447	20,992	2%
...YoY	19%	7%	-4%	-9%	-14%	-16%	
Smart TVs and laptops	10,493	6,200	5,300	5,800	6,500	8,604	-24%
...YoY	48%	11%	-12%	-2%	-38%	-18%	
Other IoTs	14,574	13,277	14,512	13,259	14,947	12,388	21%
...YoY	4%	5%	-2%	-12%	3%	-15%	
Internet services	7,270	7,112	6,971	7,067	7,171	7,032	2%
...YoY	18%	8%	-1%	-4%	-1%	-3%	
Advertising services	4,903	4,525	4,539	4,671	4,766	4,756	0%
...YoY	34%	16%	1%	-3%	-3%	-3%	
Internet VAS	2,366	2,588	2,432	2,396	2,406	2,276	6%
...YoY	-8%	-3%	-4%	-6%	2%	-4%	
Gaming	900	1,157	942	1,018	1,000	927	8%
...YoY	0%	3%	5%	2%	11%	3%	
Other (Youpin fintech, etc.)	1,466	1,431	1,490	1,378	1,406	1,349	4%
...YoY	-12%	-8%	-8%	-11%	-4%	-8%	
Others	2,775	999	1,120	1,835	757	2,914	-74%
...YoY	363%	73%	20%	-7%	-73%	5%	
Total	85,575	73,352	70,171	70,474	66,047	65,550	1%
...YoY	21%	-5%	-20%	-10%	-23%	-23%	
Gross Margin							
Smart phones	10.1%	9.9%	8.7%	8.9%	8.2%	8.0%	0.2 ppt
IoT and lifestyle products	13.0%	15.6%	14.3%	13.5%	14.3%	14.0%	0.3 ppt
Internet services	76.1%	70.8%	73.0%	72.1%	71.5%	70.0%	1.5 ppt
Others	26.7%	11.2%	16.7%	15.0%	24.9%	13.0%	11.9 ppt
Total	17.1%	17.3%	16.8%	16.6%	17.2%	16.8%	0.4 ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY23-24E adj. EPS are +8/-3% vs consensus

We trimmed FY23/24E adj. EPS by 7%/7% to reflect lower overseas smartphone shipment and higher R&D expenses for EV/new initiatives. Our FY23/24E EPS are +8%/-3% vs consensus given our more positive view on efficiency improvement in FY23E, and lower smartphone estimates in FY24E.

Figure 9: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	286,590	329,956	357,739	290,990	338,541	na	-2%	-3%	na
Gross profit	50,675	58,495	64,472	52,362	60,446	na	-3%	-3%	na
Operating profit	7,829	9,526	12,435	9,567	12,759	na	-18%	-25%	na
Adj. net profit	12,129	13,707	16,253	13,153	14,732	na	-8%	-7%	na
Adj. EPS (RMB)	0.49	0.55	0.65	0.53	0.59	na	-7%	-7%	na
Gross margin	17.7%	17.7%	18.0%	18.0%	17.9%	na	-0.3 ppt	-0.1 ppt	na
Operating margin	2.7%	2.9%	3.5%	3.3%	3.8%	na	-0.6 ppt	-0.9 ppt	na
Adj. net margin	4.2%	4.2%	4.5%	4.5%	4.4%	na	-0.3 ppt	-0.2 ppt	na

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	286,590	329,956	357,739	306,847	341,327	374,522	-7%	-3%	-4%
Gross profit	50,675	58,495	64,472	53,896	60,662	66,172	-6%	-4%	-3%
Operating profit	7,829	9,526	12,435	11,113	14,349	16,569	-30%	-34%	-25%
Adj. net profit	12,129	13,707	16,253	11,608	14,712	na	4%	-7%	na
Adj. EPS (RMB)	0.49	0.55	0.65	0.45	0.57	0.66	8%	-3%	0%
Gross margin	17.7%	17.7%	18.0%	17.6%	17.8%	17.7%	0.1 ppt	0 ppt	0.4 ppt
Operating margin	2.7%	2.9%	3.5%	3.6%	4.2%	4.4%	-0.9 ppt	-1.3 ppt	-0.9 ppt
Adj. net margin	4.2%	4.2%	4.5%	3.8%	4.3%	0.0%	0.4 ppt	-0.2 ppt	4.5 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: P&L forecast

RMB mn	FY22	1Q23E	2Q23E	3Q23E	4Q23E	FY23E	FY24E	FY25E
Revenue	280,044	64,861	70,827	76,656	74,246	286,590	329,956	357,739
...YoY	-15%	-12%	1%	9%	12%	2%	15%	8%
Cost of sales	(232,467)	(53,411)	(58,392)	(63,272)	(60,841)	(235,916)	(271,460)	(293,268)
Gross profit	47,577	11,450	12,435	13,384	13,406	50,675	58,495	64,472
GPM (%)	17.0%	17.7%	17.6%	17.5%	18.1%	17.7%	17.7%	18.0%
...YoY	-18%	2%	5%	5%	5%	7%	15%	10%
SG&A	(26,437)	(5,965)	(6,445)	(6,439)	(7,399)	(26,249)	(31,016)	(32,554)
...% of rev	-9.4%	-9.2%	-9.1%	-8.4%	-10.0%	-9.2%	-9.4%	-9.1%
R&D	(16,028)	(4,216)	(3,825)	(4,369)	(4,381)	(16,791)	(18,148)	(19,676)
...% of rev	-5.7%	-6.5%	-5.4%	-5.7%	-5.9%	-5.9%	-5.5%	-5.5%
Operating profit	2,816	1,199	2,115	2,536	1,979	7,829	9,526	12,435
OPM (%)	1.0%	1.8%	3.0%	3.3%	2.7%	2.7%	2.9%	3.5%
...YoY	-89%	-249%	21%	-271%	-48%	178%	22%	31%
Adj. net profit	8,518	1,890	3,334	3,393	3,513	12,129	13,707	16,253
NPM (%)	3.0%	2.9%	4.7%	4.4%	4.7%	4.2%	4.2%	4.5%
...YoY	-61%	-25%	59%	47%	114%	42%	13%	19%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$15.41 (24% upside)

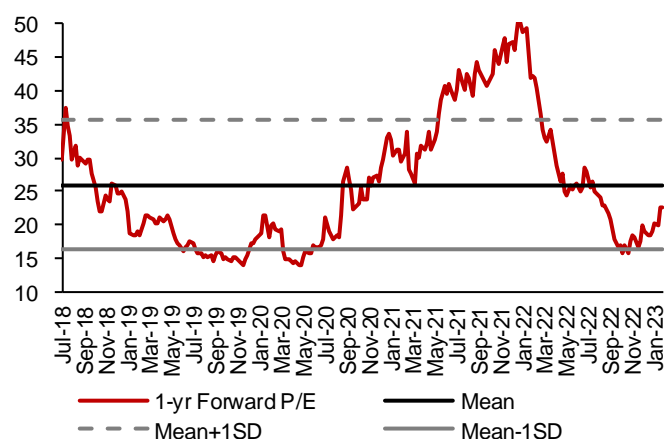
Our new TP of HK\$15.41 is based on rollovered 24x FY24E P/E. The stock now trades at 19.7x FY24E P/E, and we view risk-reward as attractive given earnings recovery and smart EV upside. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

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	39,589	12.4	15.4	24%	22.3	19.7	1.8	1.7	5.3	5.9
Sunny Optical	2382 HK	HOLD	13,603	97.4	86.8	-11%	29.7	25.7	4.0	3.6	13.4	14.1
AAC Tech	2018 HK	HOLD	2,852	18.7	15.6	-16%	17.1	13.4	0.9	0.8	5.1	6.2
BYDE	285 HK	HOLD	6,832	23.8	20.4	-14%	17.4	10.8	1.7	1.5	9.9	14.2
FIT Hon Teng	6088 HK	BUY	1,765	1.9	2.5	29%	10.7	8.5	0.7	0.6	6.2	7.4
Tongda	698 HK	BUY	144	0.1	0.2	90%	2.9	2.9	0.1	0.1	3.0	-
Q tech	1478 HK	BUY	679	4.5	5.2	16%	9.4	7.0	0.9	0.8	9.8	12.0
TK Group	2283 HK	BUY	161	1.5	3.4	122%	2.9	3.5	0.6	0.6	20.7	17.9
Average							15.5	12.6	1.5	1.3	8.1	10.3
Smartphone												
Apple	AAPL US	NR	2,535,467	160.3	NA	NA	26.9	24.2	46.2	31.1	165.9	149.5
Lenovo	992 HK	NR	13,581	8.8	NA	NA	8.0	7.6	2.1	1.7	31.5	26.9
Samsung	005930 KS	NR	290,106	63,000.0	NA	NA	31.2	13.3	1.2	1.1	3.9	8.9
LG Elec	066570 KS	NR	14,264	113,000.0	NA	NA	10.0	7.5	0.9	0.8	9.3	11.3
Average							19.0	13.2	12.6	8.7	52.6	49.1
IoT												
Skyworth	751 HK	NR	1,156	3.5	NA	NA	4.8	3.9	0.4	0.3	7.9	8.7
Hisense	600060 CH	NR	3,374	17.7	NA	NA	11.8	10.4	1.2	1.1	10.4	10.9
Midea	000333 CH	NR	53,064	52.1	NA	NA	10.9	9.9	2.2	1.9	20.4	20.0
Gree	000651 CH	NR	30,226	36.9	NA	NA	7.4	6.7	1.6	1.4	22.1	21.5
Average							8.7	7.7	1.3	1.2	15.2	15.3

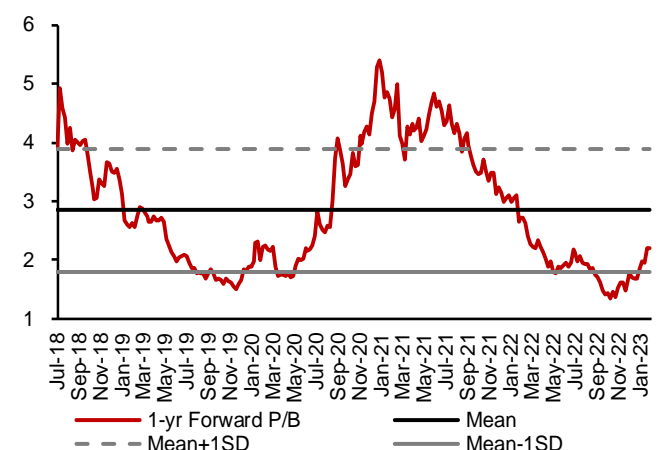
Source: Bloomberg, CMBIGM

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	286,590	329,956	357,739
Cost of goods sold	(209,114)	(270,048)	(232,467)	(235,916)	(271,460)	(293,268)
Gross profit	36,752	58,261	47,577	50,675	58,495	64,472
Selling expense	(14,539)	(20,981)	(21,323)	(21,111)	(25,737)	(26,830)
Admin expense	(3,746)	(4,739)	(5,114)	(5,138)	(5,279)	(5,724)
R&D expense	(9,256)	(13,167)	(16,028)	(16,791)	(18,148)	(19,676)
Other income	643	827	1,136	1,136	1,136	1,136
Gain/loss on financial assets at FVTPL	13,173	8,132	(1,662)	(800)	(800)	(800)
Investment gain/loss	1,381	275	(400)	14	14	14
EBIT	24,035	26,029	2,816	7,829	9,526	12,435
Net Interest income/(expense)	(1,641)	(1,612)	1,117	1,034	1,034	1,034
Foreign exchange gain/loss	(372)	(2,580)	(1,369)	(156)	(156)	(156)
Others	0	0	0	0	0	0
Pre-tax profit	21,633	24,417	3,934	8,863	10,559	13,469
Income tax	(1,321)	(5,134)	(1,431)	(1,101)	(1,320)	(1,684)
Minority interest	(43)	(56)	29	(51)	105	134
Net profit	20,313	19,283	2,503	7,762	9,239	11,785
Adjusted net profit	13,006	22,039	8,518	12,129	13,707	16,253
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	181,373	189,764	207,634
Cash & equivalents	54,752	23,512	27,607	82,699	43,332	100,507
Account receivables	19,080	23,095	19,625	18,962	23,094	21,184
Inventories	41,671	52,398	50,438	16,967	60,594	23,197
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	116,045	119,176	122,117
PP&E	6,306	6,965	9,138	12,090	15,222	18,162
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	297,417	308,940	329,750
Current liabilities	107,927	115,727	89,628	105,776	108,059	117,084
Short-term borrowings	6,962	5,527	2,151	2,151	2,151	2,151
Account payables	72,199	74,643	53,094	69,242	71,525	80,550
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	145,733	148,016	157,041
Share capital	409	407	406	406	406	406
Other reserves	123,691	137,212	143,658	151,470	160,604	172,255
Total shareholders equity	124,014	137,432	143,923	151,685	160,924	172,709
Minority interest	322	220	265	214	319	454
Total equity and liabilities	253,680	292,892	273,507	297,417	308,940	329,750

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	21,633	24,417	3,934	8,863	10,559	13,469
Depreciation & amortization	1,708	3,062	2,182	2,780	3,468	4,214
Tax paid	(1,126)	(2,442)	(2,382)	(1,101)	(1,320)	(1,684)
Change in working capital	4,320	(15,725)	(15,675)	50,283	(45,476)	48,330
Others	(4,658)	474	7,552	0	0	0
Net cash from operations	21,879	9,785	(4,390)	60,824	(32,768)	64,330
Investing						
Capital expenditure	(3,026)	(7,169)	(3,318)	(5,732)	(6,599)	(7,155)
Acquisition of subsidiaries/ investments	39	(1,086)	0	0	0	0
Net proceeds from disposal of short-term investments	190,494	166,947	0	0	0	0
Others	(205,186)	(203,699)	18,867	0	0	0
Net cash from investing	(17,679)	(45,008)	15,549	(5,732)	(6,599)	(7,155)
Financing						
Net borrowings	(2,004)	9,227	0	0	0	0
Proceeds from share issues	19,908	0	0	0	0	0
Share repurchases	(455)	(7,007)	0	0	0	0
Others	8,767	2,278	(7,855)	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	54,752	23,512	27,607	82,699	43,332
Exchange difference	(517)	791	0	0	0	0
Cash at the end of the year	54,752	23,512	27,607	82,699	43,332	100,507

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

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CMB International Global Markets Limited

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

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