

Xiaomi (1810 HK)

3Q23E preview: Resilient smartphone sales with margin expansion; maintain BUY

Xiaomi will report 3Q23 results in late Nov. We estimate 3Q revenue will deliver -1% YoY/+3% QoQ growth and adj. net profit will climb 112% YoY to RMB4.49bn, driven by improving smartphone margin and better operating leverage. Looking ahead, we believe earnings recovery will continue into 4Q23E and smartphone business will be boosted by Xiaomi 14 model launch and Double 11 sales events. Overall, we are positive on Xiaomi's resilient smartphone sales with continued share gains, especially in emerging markets, as well as business upside of EV product launch. We raise our FY23-25E EPS by 10-14% to reflect faster earnings recovery and better smartphone outlook. We lift our TP to HK\$18.93, based on the same 24x FY24E P/E with higher earnings forecasts. Maintain BUY. Catalysts include EV progress and market share gains.

- Smartphone: Better-than-feared shipments with GPM strength.** Canals reported Xiaomi's shipments increased 2% YoY in 3Q23 (vs. -1% YoY for the industry) with market share of 14% (No. 1 among Chinese brands). Xiaomi's strong smartphone shipments were mainly boosted by share gains in emerging markets and stabilizing demand in India. In terms of ASP, we expect 3Q23E ASP to decline 11.9% QoQ due to a lack of high-end model launch and higher revenue share of low-to-medium-end models in overseas markets. We estimate GPM will stay strong at 13.6% due to tailwinds of lower BOM costs. Looking into 4Q23E, we are positive on seasonal demand pull-in, outstanding sales from Xiaomi 14 and Double 11 sales events. We expect Xiaomi's shipments to decline 4% YoY to 143.8mn units in FY23E and rebound 8%/3% YoY to 155mn/160mn units in FY24/25E.
- AIoT/Internet: Modest growth with recovery in advertising business.** We estimate AIoT/Internet revenue will increase 4%/5% YoY in 3Q23E (vs +12%/+7% YoY in 2Q23), mainly due to strong Pad/smart band/TV and advertising business recovery. Overall, Our FY23/24E adj. EPS is 19%/28% above consensus due to our positive view on higher GPM across all segments and better operating leverage.
- Raise TP to HK\$18.93 on stronger earnings visibility and better smartphone outlook; positive on EV product progress.** We believe Xiaomi is on track to launch smart EV products in 1H24E, which will become a major catalyst in the coming months. We raise our FY23-25E EPS by 10-14% to reflect stronger earnings recovery, and our new TP of HK\$18.93 is based on the same 24x FY24E P/E (5-year hist. avg.). Maintain BUY. Catalysts include EV launching progress and smartphone market share gain.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	328,309	280,044	267,661	303,370	336,863
YoY growth (%)	33.5	(14.7)	(4.4)	13.3	11.0
Adjusted net profit (RMB mn)	22,039.5	8,518.0	16,493.9	18,406.4	19,931.1
EPS (Adjusted) (RMB)	0.88	0.34	0.66	0.74	0.80
Consensus EPS (RMB)	N/A	N/A	0.56	0.58	0.66
P/E (x)	26.8	30.7	21.2	19.0	17.6
P/B (x)	3.8	1.8	2.2	2.0	1.9
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	14.8	1.8	9.6	8.8	8.9
Net gearing (%)	96.0	70.9	54.9	54.5	40.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$18.93
(Previous TP	HK\$17.69)
Up/Downside	25.5%
Current Price	HK\$15.08

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Stock Data

Mkt Cap (HK\$ mn)	306,757.4
Avg 3 mths t/o (HK\$ mn)	938.9
52w High/Low (HK\$)	15.08/9.12
Total Issued Shares (mn)	20342.0

Source: FactSet

Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.6%

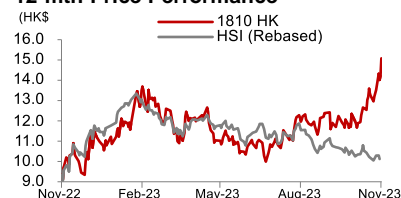
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	22.2%	26.3%
3-mth	26.1%	42.8%
6-mth	36.8%	58.3%

Source: FactSet

12-mth Price Performance



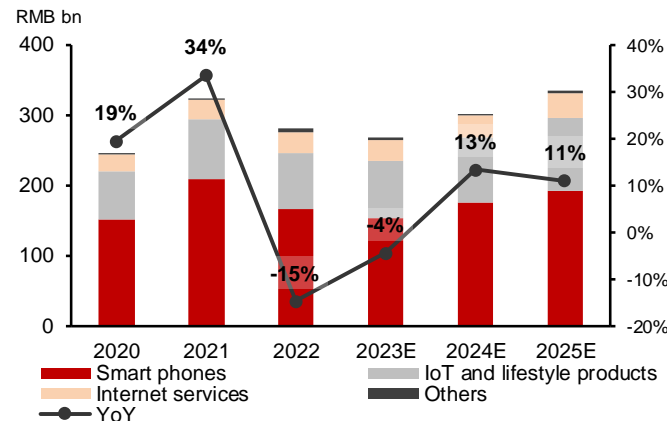
Source: FactSet

Related Reports:

- Xiaomi (1810 HK): 2Q23 beat on record-high margin; Reiterate BUY-30 Aug 2023 ([link](#))
- Xiaomi (1810 HK): Key takeaways from product launch event: MIX Fold 3/Redmi K60 Ultra/Pad 6 Max/CyberDog 2 and more-15 Aug 2023 ([link](#))

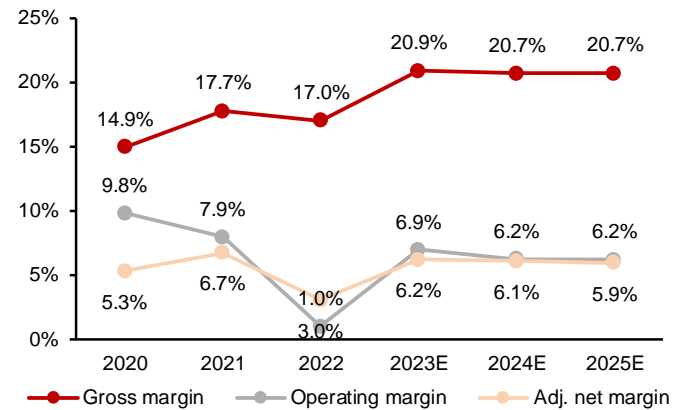
Focus Charts

Figure 1: Xiaomi's revenue trend



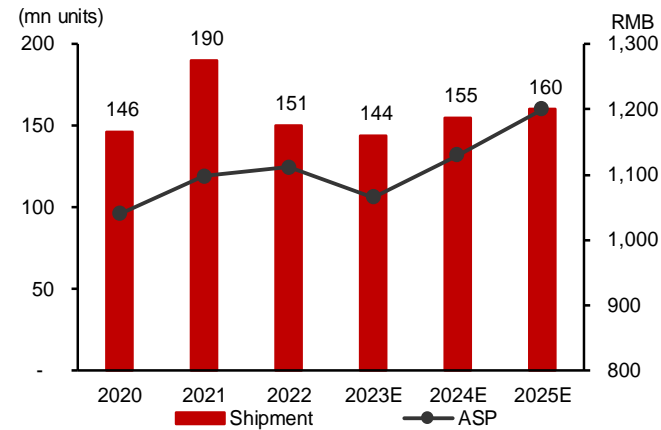
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi's margin trend



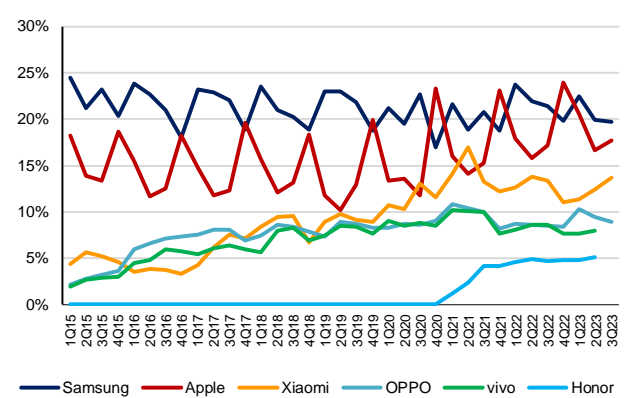
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi's smartphone shipment forecast



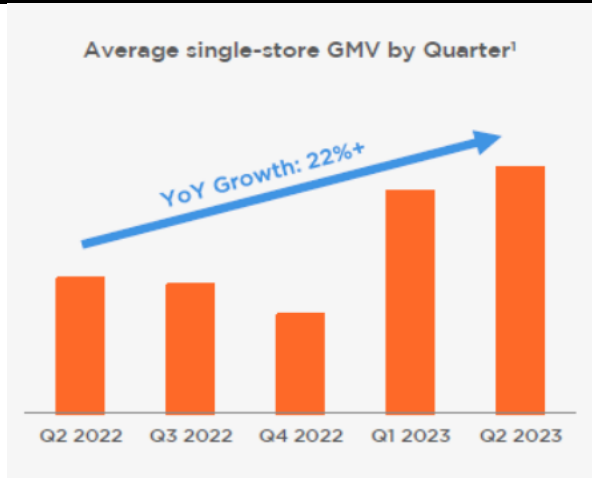
Source: Company data, CMBIGM estimates

Figure 4: Global smartphone market share



Source: IDC, CMBIGM

Figure 5: Strengthened offline retail in China



Source: Company data, CMBIGM

Figure 6: Xiaomi's solid MIUI MAU growth



Source: Company data, CMBIGM

3Q23 Preview

Figure 7: 3Q23 results preview

RMB mn	3Q22	4Q22	1Q23	2Q23	CMBIGM 3Q23E	QoQ	YoY	Consensus 3Q23E	Diff %
Revenue	70,474	66,047	59,477	67,355	69,566	3.3%	-1%	70,330	-1%
Gross profit	11,722	11,378	11,592	14,161	14,669	3.6%	25%	13,201	11%
Operating profit	(1,361)	3,356	5,900	4,041	4,931	22.0%	-	3,855	28%
Adj. net profit	2,117	1,461	3,233	5,140	4,490	-12.7%	112%	3,955	14%
Adj. EPS (RMB)	0.08	0.06	0.13	0.21	0.18	-12.7%	112%	0.16	16%
Gross margin	16.6%	17.2%	19.5%	21.0%	21.1%	0.1 ppt	4.5 ppt	20.2%	0.9 ppt
Operating margin	-1.9%	5.1%	9.9%	6.0%	7.1%	1.1 ppt	9 ppt	5.5%	1.6 ppt
Adj. net margin	3.0%	2.2%	5.4%	7.6%	6.5%	-1.2 ppt	3.4 ppt	5.6%	0.8 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	FY22	1Q23	2Q23	3Q23E	4Q23E	FY23E	FY24E	FY25E
Smart phones	167,217	34,985	36,595	40,670	40,950	153,200	175,150	192,000
...YoY	-20%	-24%	-13%	-4%	12%	-8%	14%	10%
Shipment (mn)	150,500	30,400	32,900	41,500	39,000	143,800	155,000	160,000
...YoY	-21%	-21%	-16%	3%	19%	-4%	8%	3%
ASP (RMB)	1,111	1,152	1,112	980	1,050	1,065	1,130	1,200
...YoY	1.3%	-3.1%	2.8%	-7.4%	-6.4%	-4.1%	6.1%	6.2%
IoT and lifestyle products	79,795	16,834	22,254	19,746	22,520	81,354	92,441	105,080
...YoY	-6%	-14%	12%	4%	5%	2%	14%	14%
Smart TVs and laptops	23,700	4,700	4,700	6,090	6,825	22,315	24,547	27,001
...YoY	-15%	-24%	-19%	-6%	5%	-6%	10%	10%
Other IoTs	56,095	12,134	17,554	13,656	15,695	59,039	67,894	78,079
...YoY	-2%	-9%	32%	-9%	5%	5%	15%	15%
Internet services	28,321	7,028	7,444	7,406	7,678	29,556	31,517	34,669
...YoY	0%	-1%	7%	5%	7%	4%	7%	10%
Advertising services	18,500	4,400	5,100	5,138	5,242	19,880	20,874	22,961
...YoY	2%	-3%	12%	10%	10%	7%	5%	10%
Internet value-added	9,821	2,628	2,344	2,268	2,435	9,676	10,643	11,708
...YoY	-3%	2%	-4%	-5%	1%	-1%	10%	10%
Gaming	4,100	1,345	1,013	1,028	1,100	4,487	4,935	5,429
...YoY	5%	16%	8%	1%	10%	9%	10%	10%
Other (incl. Youpin fintech, etc.)	5,721	1,283	1,331	1,240	1,335	5,189	5,708	6,279
...YoY	-8%	-10%	-11%	-10%	-5%	-9%	10%	10%
Others	4,711	630	1,062	1,743	832	3,551	4,261	5,114
...YoY	-25%	-37%	-5%	-5%	10%	-25%	20%	20%
Total	280,044	59,477	67,355	69,566	71,980	267,661	303,370	336,863
...YoY	-15%	-19%	-4%	-1%	9%	-4%	13%	11%
Gross margin								
Smart phones	9.0%	11.2%	13.3%	13.6%	13.8%	13.0%	13.1%	13.1%
IoT and lifestyle products	14.4%	15.7%	17.6%	17.6%	17.8%	17.3%	17.3%	17.5%
Internet services	71.8%	72.3%	74.1%	74.1%	74.0%	73.6%	74.0%	74.0%
Others	16.2%	-10.8%	-13.4%	10.0%	10.0%	1.3%	10.0%	10.0%
Total	17.0%	19.5%	21.0%	21.1%	21.4%	20.9%	20.7%	20.7%

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY23-25E adj. EPS are 19-28% above consensus

We raised FY23-25E adj. EPS by 10-14% to reflect better GPM and operating leverage. We estimate smartphone sales will decrease 8% in FY23E and increase 14%/10% YoY in FY24/25E, while AIoT will increase 2% YoY in FY23E and rebound strongly 14%/14% YoY in FY24/25E. Our FY23-25E EPS is 19-28% 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	267,661	303,370	336,863	270,214	294,891	327,604	-1%	3%	3%
Gross profit	55,845	62,686	69,707	55,147	59,738	66,244	1%	5%	5%
Operating profit	18,594	18,840	20,873	16,567	15,766	18,218	12%	19%	15%
Adj. net profit	16,494	18,406	19,931	14,974	16,101	17,939	10%	14%	11%
Adj. EPS (RMB)	0.66	0.74	0.80	0.60	0.65	0.72	10%	14%	11%
Gross margin	20.9%	20.7%	20.7%	20.4%	20.3%	20.2%	0.5 ppt	0.4 ppt	0.5 ppt
Operating margin	6.9%	6.2%	6.2%	6.1%	5.3%	5.6%	0.8 ppt	0.9 ppt	0.6 ppt
Adj. net margin	6.2%	6.1%	5.9%	5.5%	5.5%	5.5%	0.6 ppt	0.6 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	267,661	303,370	336,863	272,121	304,678	337,428	-2%	0%	0%
Gross profit	55,845	62,686	69,707	54,291	58,667	64,841	3%	7%	8%
Operating profit	18,594	18,840	20,873	14,819	14,775	16,685	25%	28%	25%
Adj. net profit	16,494	18,406	19,931	13,672	13,890	15,889	21%	33%	25%
Adj. EPS (RMB)	0.66	0.74	0.80	0.56	0.58	0.66	19%	28%	21%
Gross margin	20.9%	20.7%	20.7%	20.0%	19.3%	19.2%	0.9 ppt	1.4 ppt	1.5 ppt
Operating margin	6.9%	6.2%	6.2%	5.4%	4.8%	4.9%	1.5 ppt	1.4 ppt	1.3 ppt
Adj. net margin	6.2%	6.1%	5.9%	5.0%	4.6%	4.7%	1.1 ppt	1.5 ppt	1.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: P&L forecast

RMB mn	FY22	1Q23	2Q23	3Q23E	4Q23E	FY23E	FY24E	FY25E
Revenue	280,044	59,477	67,355	69,566	71,980	267,661	303,370	336,863
...YoY	-15%	-19%	-4%	-1%	9%	-4%	13%	11%
Cost of sales	(232,467)	(47,886)	(53,194)	(54,897)	(56,555)	(212,532)	(240,684)	(267,155)
Gross profit	47,577	11,592	14,161	14,669	15,424	55,845	62,686	69,707
GPM (%)	17.0%	19.5%	21.0%	21.1%	21.4%	20.9%	20.7%	20.7%
...YoY	-18%	-9%	20%	25%	36%	17%	12%	11%
SG&A	(26,437)	(5,239)	(5,620)	(5,844)	(7,126)	(23,828)	(27,910)	(30,654)
...% of rev	-9.4%	-8.8%	-8.3%	-8.4%	-9.9%	-8.9%	-9.2%	-9.1%
R&D	(16,028)	(4,113)	(4,555)	(4,035)	(5,111)	(17,814)	(20,326)	(22,570)
...% of rev	-5.7%	-6.9%	-6.8%	-5.8%	-7.1%	-6.7%	-6.7%	-6.7%
Operating profit	2,816	5,900	4,041	4,931	3,722	18,594	18,840	20,873
OPM (%)	1.0%	9.9%	6.0%	7.1%	5.2%	6.9%	6.2%	6.2%
...YoY	-89%	-	133%	-	11%	560%	1%	11%
Adj. net profit	8,518	3,233	5,140	4,490	3,703	16,494	18,406	19,931
NPM (%)	3.0%	5.4%	7.6%	6.5%	5.1%	6.2%	6.1%	5.9%
...YoY	-61%	13%	147%	112%	153%	94%	12%	8%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$18.93 (26% upside)

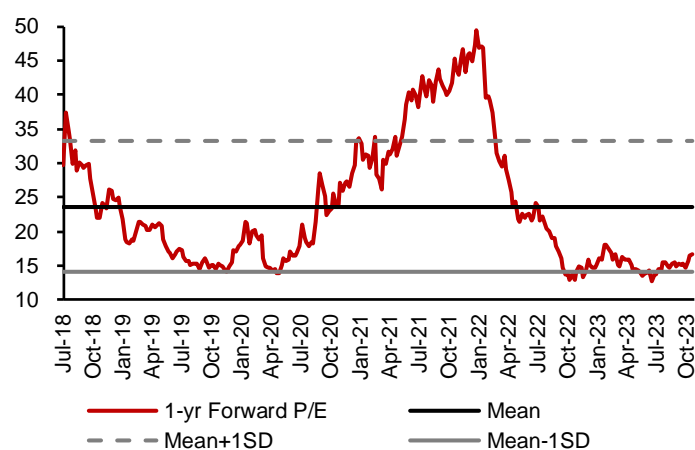
Our new TP of HK\$18.93 is based on the same 24x FY24E P/E. The stock now trades at 19.0x FY24E P/E, and we view its risk-reward as attractive given earnings recovery and smart EV upside. Catalysts include product launch, stronger shipments, share gains, internet revenue recovery, and smart EV progress.

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	48,238	15.1	18.9	26%	21.2	19.0	2.2	2.0	9.6	8.8
Sunny Optical	2382 HK	HOLD	9,161	65.4	78.3	20%	35.3	22.9	2.8	2.6	7.8	11.2
AAC Tech	2018 HK	HOLD	2,215	14.5	14.0	-3%	25.4	14.6	0.7	0.7	2.7	4.6
BYDE	285 HK	BUY	9,777	34.0	44.2	30%	17.3	13.8	2.4	2.1	13.6	15.1
FIT Hon Teng	6088 HK	BUY	969	1.0	2.1	98%	6.9	5.6	0.4	0.4	5.2	6.3
Tongda	698 HK	BUY	163	0.1	0.2	30%	7.3	4.5	0.2	0.2	2.3	3.5
Q tech	1478 HK	BUY	596	3.9	3.6	-9%	14.1	7.4	0.8	0.8	5.9	10.3
TK Group	2283 HK	BUY	141	1.3	3.1	134%	4.7	3.4	0.6	0.6	13.3	17.0
Average							18.1	12.4	1.3	1.2	6.8	8.8
Smartphone												
Apple	AAPL US	NR	2,719,887	174.0	NA	NA	28.7	26.5	46.3	35.6	169.4	155.0
Lenovo	992 HK	NR	14,400	9.3	NA	NA	8.6	12.1	2.3	2.2	30.6	19.6
Samsung	005930 KS	NR	311,263	69,700.0	NA	NA	45.5	15.4	1.3	1.2	2.9	8.3
LG Elec	066570 KS	NR	12,205	99,700.0	NA	NA	10.2	6.7	0.8	0.8	8.7	11.7
Average							23.2	15.2	12.7	9.9	52.9	48.6
IoT												
Skyworth	751 HK	NR	908	2.9	NA	NA	9.1	7.9	0.4	0.3	4.2	4.4
Hisense	600060 CH	NR	4,210	23.6	NA	NA	13.8	11.7	1.6	1.4	11.6	12.3
Midea	000333 CH	NR	51,032	53.2	NA	NA	11.0	10.0	2.3	2.0	21.3	20.8
Gree	000651 CH	NR	26,185	34.0	NA	NA	7.1	6.5	1.7	1.4	24.6	23.0
Average							10.3	9.0	1.5	1.3	15.4	15.1

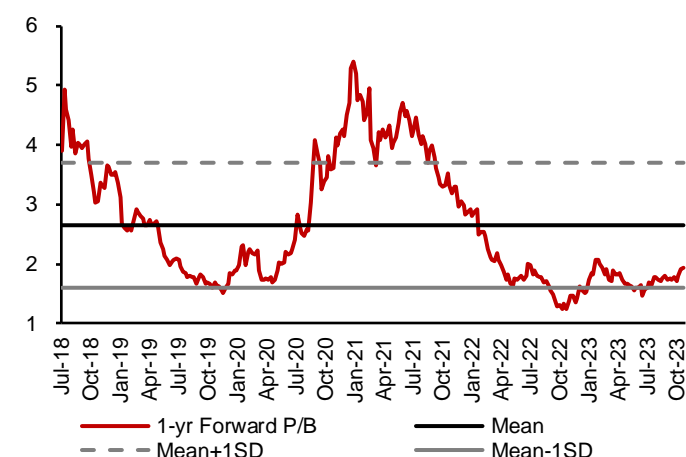
Source: Bloomberg, CMBIGM

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	267,661	303,370	336,863
Cost of goods sold	(209,114)	(270,048)	(232,467)	(212,532)	(240,684)	(267,155)
Gross profit	36,752	58,261	47,577	55,129	62,686	69,707
Selling expense	(14,539)	(20,981)	(21,323)	(18,858)	(22,146)	(24,591)
Admin expense	(3,746)	(4,739)	(5,114)	(4,970)	(5,764)	(6,064)
R&D expense	(9,256)	(13,167)	(16,028)	(17,814)	(20,326)	(22,570)
Other income	643	827	1,136	1,134	1,134	1,134
Gain/loss on financial assets at FVTPL	13,173	8,132	(1,662)	2,777	2,777	2,777
Investment gain/loss	1,381	275	(400)	89	89	89
EBIT	24,035	26,029	2,816	18,594	18,840	20,873
Net Interest income/(expense)	(1,641)	(1,612)	1,117	604	604	604
Foreign exchange gain/loss	(372)	(2,580)	(1,369)	390	390	390
Others	0	0	0	0	0	0
Pre-tax profit	21,633	24,417	3,934	19,198	19,444	21,477
Income tax	(1,321)	(5,134)	(1,431)	(4,738)	(4,861)	(5,369)
Minority interest	(43)	(56)	29	(61)	166	184
Net profit	20,313	19,283	2,503	14,460	14,583	16,108
Adjusted net profit	13,006	22,039	8,518	16,494	18,406	19,931
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	176,284	198,749	215,346
Cash & equivalents	54,752	23,512	27,607	46,718	49,859	70,666
Account receivables	19,080	23,095	19,625	22,801	23,196	26,150
Inventories	41,671	52,398	50,438	44,021	62,950	55,786
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	115,705	118,400	121,062
PP&E	6,306	6,965	9,138	11,751	14,446	17,107
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	291,990	317,149	336,408
Current liabilities	107,927	115,727	89,628	93,650	104,226	107,377
Short-term borrowings	6,962	5,527	2,151	2,151	2,151	2,151
Account payables	72,199	74,643	53,094	57,116	67,692	70,843
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	133,607	144,183	147,333
Share capital	409	407	406	406	406	406
Other reserves	123,691	137,212	143,658	158,179	172,596	188,521
Total shareholders equity	124,014	137,432	143,923	158,383	172,966	189,075
Minority interest	322	220	265	204	370	554
Total equity and liabilities	253,680	292,892	273,507	291,990	317,149	336,408

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	21,633	24,417	3,934	19,198	19,444	21,477
Depreciation & amortization	1,708	3,062	2,182	2,740	3,373	4,075
Tax paid	(1,126)	(2,442)	(2,382)	(4,738)	(4,861)	(5,369)
Change in working capital	4,320	(15,725)	(15,675)	7,264	(8,748)	7,361
Others	(3,830)	474	7,552	0	0	0
Net cash from operations	22,706	9,785	(4,390)	24,464	9,208	27,544
Investing						
Capital expenditure	(3,026)	(7,169)	(5,800)	(5,353)	(6,067)	(6,737)
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	(5,353)	(6,067)	(6,737)
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	46,718	49,859
Exchange difference	(517)	791	0	0	0	0
Cash at the end of the year	55,580	24,339	27,607	46,718	49,859	70,666

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

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