

# Xiaomi (1810 HK)

## 4Q22 preview: a challenging quarter but the worst is likely over; Maintain BUY

Xiaomi will report 4Q22 results in late March. We estimate 4Q revenue/adj. net profit to decline 23%/70% YoY to RMB65.5bn/1.33bn, mainly driven by global smartphone weakness, higher R&D expense for smart EV and one-off charges for warranty policy change. Looking ahead, we believe 4Q22E weakness has been priced in, and smartphone sales is poised to recover sequentially in 1Q23E, driven by China re-opening and improving channel inventory. Overall, we believe the worst is likely over for Xiaomi's earnings decline, and we adjusted our TP to HK\$14.73, based on P/E multiple of 24x FY23E P/E (vs prev. 20x FY23E P/E). Maintain BUY. Catalysts include EV progress and market share gain.

- Smartphone: sluggish shipment but accelerated inventory destocking in 4Q22.** Canalsys reported Xiaomi's global shipment declined 27% YoY in 4Q22 (vs -18% YoY for industry), and had market share of 11% in 4Q (No. 1 among Chinese brands). Xiaomi's 4Q22 weakness was mainly dragged by 40%/37% YoY decline in India/China. In terms of ASP, we estimate 4Q22 ASP to improve QoQ due to better product mix and flagship launches (e.g. Mi 13 Pro) in 4Q22. Looking ahead, we are positive on Xiaomi's diversified overseas exposure and accelerated inventory destocking in 2H22E. We expect Xiaomi's shipment to stay flattish YoY to 150mn in FY23E and grow 4% YoY to 156mn in FY24E, while ASP will grow -1%/+13% in FY23/24E.
- AIoT/internet: macro weakness on AIoT and ads business.** We estimate AIoT/Internet revenue to decline 16%/3% YoY in 4Q22E (vs -9%/ -3.7% YoY in 3Q22), mainly due to macro weakness and lower ads spending from major clients. We expect AIoT GPM to recover QoQ to 14% in 4Q (vs 13.5% in 3Q) given lower TV panel pricing, while AIoT GPM will slightly drop QoQ to 70.0% (vs 72.1% in 3Q). Looking ahead, backed by China re-opening and policy easing on gaming/ads sectors, we expect both AIoT/Internet segments to deliver gradual recovery in 2023. Our FY23E EPS is 10% above consensus mainly due to better mix of higher-GPM internet service.
- The worst is likely over; Raise TP to HK\$14.73 on higher visibility of earnings recovery.** Despite near-term macro weakness, we believe the worst is likely over for Xiaomi's earnings decline, and revenue/earnings will start to recover QoQ in 1Q23E, driven by China re-opening and healthy inventory level in China/India. As such, we adjusted our TP to HK\$14.73, based on higher 24x FY23E P/E (7% discount to 5-year avg. P/E) given post-COVID earnings recovery and improving sector sentiment. Maintain BUY.

### Earnings Summary

| (YE 31 Dec)                  | FY20A    | FY21A    | FY22E    | FY23E    | FY24E    |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)             | 245,866  | 328,309  | 279,547  | 290,990  | 338,541  |
| YoY growth (%)               | 19.4     | 33.5     | (14.9)   | 4.1      | 16.3     |
| Adjusted net profit (RMB mn) | 13,006   | 22,039   | 8,288    | 13,153   | 14,732   |
| EPS (Adjusted) (RMB)         | 0.54     | 0.88     | 0.33     | 0.53     | 0.59     |
| Consensus EPS (RMB)          | 11.7     | 63.1     | (62.4)   | 58.7     | 12.0     |
| P/E (x)                      | NA       | NA       | 0.36     | 0.48     | 0.61     |
| P/B (x)                      | 20.3     | 12.5     | 33.2     | 20.9     | 18.7     |
| Yield (%)                    | 0.0      | 0.0      | 0.0      | 0.0      | 0.0      |
| ROE (%)                      | 10.5     | 16.0     | 6.1      | 9.1      | 9.5      |
| Net gearing (%)              | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price **HK\$14.73**  
 (Previous TP **HK\$12.28**)  
 Up/Downside **15%**  
 Current Price **HK\$12.82**

### 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)        | 274,210.2  |
| Avg 3 mths t/o (HK\$ mn) | 11.1       |
| 52w High/Low (HK\$)      | 16.82/8.45 |
| Total Issued Shares (mn) | 20342.0    |

Source: FactSet

### Shareholding Structure

|                           |      |
|---------------------------|------|
| Lin Bin                   | 8.6% |
| Smart Mobile Holdings Ltd | 8.6% |

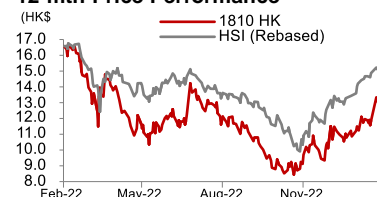
Source: HKEx

### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 20.1%    | 11.7%    |
| 3-mth | 47.8%    | 4.7%     |
| 6-mth | 16.2%    | 6.0%     |

Source: FactSet

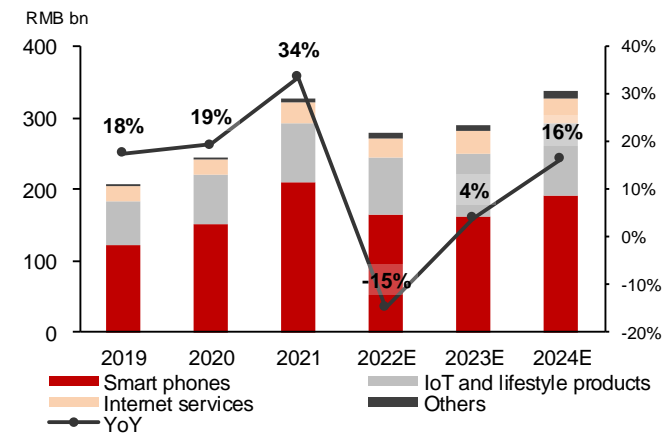
### 12-mth Price Performance



Source: FactSet

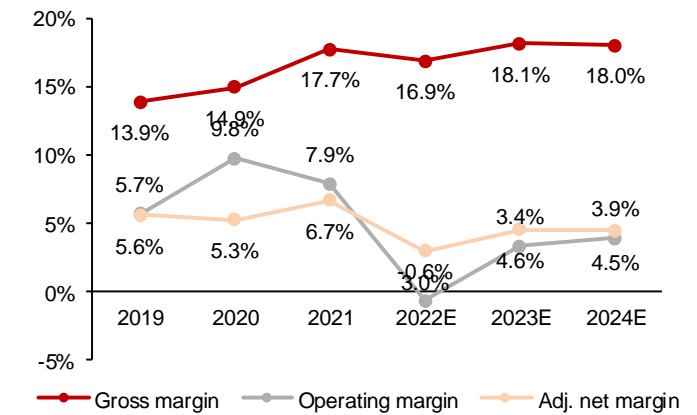
## Focus Charts

Figure 1: Xiaomi's revenue trend



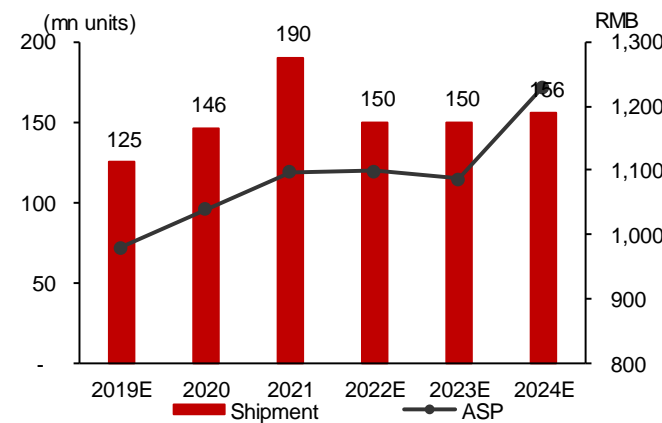
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi's margin trend



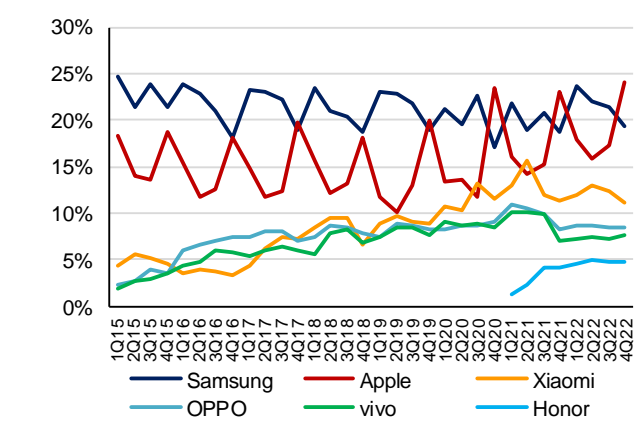
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi's smartphone shipment forecast



Source: Xiaomi, CMBIGM estimates

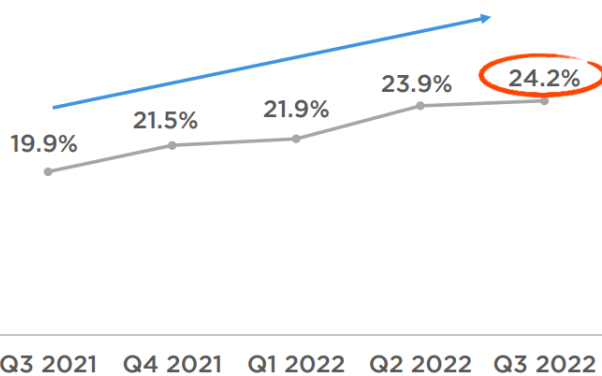
Figure 4: Global smartphone market share



Source: IDC, CMBIGM estimates

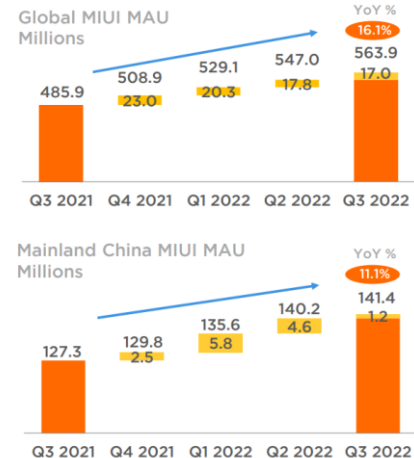
Figure 5: Overseas internet service revenue growth

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 Preview

Figure 7: 4Q22 results preview

| RMB mn           | 4Q21   | 1Q22   | 2Q22   | 3Q22    | CMBI Estimate |         | Consensus |        |          |
|------------------|--------|--------|--------|---------|---------------|---------|-----------|--------|----------|
|                  |        |        |        |         | 4Q22E         | QoQ     | YoY       | 4Q22E  | Diff %   |
| Revenue          | 85,575 | 73,352 | 70,171 | 70,474  | 65,550        | -7.0%   | -23%      | 70,116 | -7%      |
| Gross profit     | 14,659 | 12,710 | 11,768 | 11,722  | 11,009        | -6.1%   | -25%      | 11,768 | -6%      |
| Operating profit | 4,416  | (911)  | 1,733  | (1,361) | (1,212)       | -10.9%  | -127%     | 1,401  | -187%    |
| Adj. net profit  | 4,473  | 2,859  | 2,081  | 2,117   | 1,339         | -36.8%  | -70%      | 1,741  | -23%     |
| Adj. EPS (RMB)   | 0.18   | (0.02) | 0.08   | 0.08    | 0.05          | -36.8%  | -70%      | 0.07   | -19%     |
| Gross margin     | 17.1%  | 17.3%  | 16.8%  | 16.6%   | 16.8%         | 0.2 ppt | -0.3 ppt  | 16.8%  | 0 ppt    |
| Operating margin | 5.2%   | -1.2%  | 2.5%   | -1.9%   | -1.8%         | 0.1 ppt | -7 ppt    | 2.0%   | -3.8 ppt |
| Adj. net margin  | 5.2%   | 3.9%   | 3.0%   | 3.0%    | 2.0%          | -1 ppt  | -3.2 ppt  | 2.5%   | -0.4 ppt |

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

| RMB mn                             | FY21           | 1Q22          | 2Q22          | 3Q22          | 4Q22E         | FY22E          | FY23E          | FY24E          |
|------------------------------------|----------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
| <b>Smart phones</b>                | <b>208,869</b> | <b>45,763</b> | <b>42,268</b> | <b>42,514</b> | <b>34,613</b> | <b>165,158</b> | <b>162,905</b> | <b>191,341</b> |
| ...YoY                             | 37%            | -11%          | -28%          | -11%          | -31%          | -21%           | -1%            | 17%            |
| Shipment (mn)                      | 190,300        | 38,500        | 39,100        | 40,200        | 32,500        | 150,300        | 150,020        | 155,561        |
| ...YoY                             | 30%            | -22%          | -26%          | -8%           | -26%          | -21%           | 0%             | 4%             |
| ASP (RMB)                          | 1,098          | 1,189         | 1,082         | 1,058         | 1,065         | 1,099          | 1,086          | 1,230          |
| ...YoY                             | 5.6%           | 14.0%         | -3.1%         | -3.0%         | -6.9%         | 0.1%           | -1.2%          | 13.3%          |
| <b>IoT and lifestyle products</b>  | <b>84,980</b>  | <b>19,477</b> | <b>19,812</b> | <b>19,059</b> | <b>20,992</b> | <b>79,339</b>  | <b>87,906</b>  | <b>100,807</b> |
| ...YoY                             | 26%            | 7%            | -4%           | -9%           | -16%          | -7%            | 11%            | 15%            |
| Smart TVs and laptops              | 27,993         | 6,200         | 5,300         | 5,800         | 8,604         | 25,904         | 28,509         | 32,500         |
| ...YoY                             | 25%            | 11%           | -12%          | -2%           | -18%          | -7%            | 10%            | 14%            |
| Other IoTs                         | 56,987         | 13,277        | 14,512        | 13,259        | 12,388        | 53,435         | 59,397         | 68,307         |
| ...YoY                             | 27%            | 5%            | -2%           | -12%          | -15%          | -6%            | 11%            | 15%            |
| <b>Internet services</b>           | <b>28,212</b>  | <b>7,112</b>  | <b>6,971</b>  | <b>7,067</b>  | <b>7,032</b>  | <b>28,182</b>  | <b>31,251</b>  | <b>34,787</b>  |
| ...YoY                             | 19%            | 8%            | -1%           | -4%           | -3%           | 0%             | 11%            | 11%            |
| Advertising services               | 18,100         | 4,525         | 4,539         | 4,671         | 4,756         | 18,491         | 20,582         | 23,052         |
| ...YoY                             | 42%            | 16%           | 1%            | -3%           | -3%           | 2%             | 11%            | 12%            |
| Internet value-added               | 10,112         | 2,588         | 2,432         | 2,396         | 2,276         | 9,692          | 10,668         | 11,735         |
| ...YoY                             | -9%            | -3%           | -4%           | -6%           | -4%           | -4%            | 10%            | 10%            |
| Gaming                             | 3,923          | 1,157         | 942           | 1,018         | 927           | 4,044          | 4,460          | 4,906          |
| ...YoY                             | -7%            | 3%            | 5%            | 2%            | 3%            | 3%             | 10%            | 10%            |
| Other (incl. Youpin fintech, etc.) | 6,189          | 1,431         | 1,490         | 1,378         | 1,349         | 5,648          | 6,208          | 6,829          |
| ...YoY                             | -10%           | -8%           | -8%           | -11%          | -8%           | -9%            | 10%            | 10%            |
| <b>Others</b>                      | <b>6,248</b>   | <b>999</b>    | <b>1,120</b>  | <b>1,835</b>  | <b>2,914</b>  | <b>6,868</b>   | <b>8,928</b>   | <b>11,606</b>  |
| ...YoY                             | 149%           | 73%           | 20%           | -7%           | 5%            | 10%            | 30%            | 30%            |
| <b>Total</b>                       | <b>328,309</b> | <b>73,352</b> | <b>70,171</b> | <b>70,474</b> | <b>65,550</b> | <b>279,547</b> | <b>290,990</b> | <b>338,541</b> |
| ...YoY                             | 34%            | -5%           | -20%          | -10%          | -23%          | -15%           | 4%             | 16%            |
| <b>Gross margin</b>                |                |               |               |               |               |                |                |                |
| Smart phones                       | 11.9%          | 9.9%          | 8.7%          | 8.9%          | 8.0%          | 8.9%           | 9.6%           | 9.8%           |
| IoT and lifestyle products         | 13.1%          | 15.6%         | 14.3%         | 13.5%         | 14.0%         | 14.3%          | 14.4%          | 14.5%          |
| Internet services                  | 74.1%          | 70.8%         | 73.0%         | 72.1%         | 70.0%         | 71.5%          | 71.8%          | 71.5%          |
| Others                             | 22.6%          | 12.0%         | 16.7%         | 15.0%         | 13.0%         | 13.9%          | 19.0%          | 19.0%          |
| <b>Total</b>                       | <b>17.7%</b>   | <b>17.3%</b>  | <b>16.8%</b>  | <b>16.6%</b>  | <b>16.8%</b>  | <b>16.9%</b>   | <b>18.0%</b>   | <b>17.9%</b>   |

Source: Company data, CMBIGM estimates

## Earnings Revision

Our FY22-24E adj. NP are -7%/+9%/-2% vs consensus

We trimmed FY22-24E adj. NP by 5-7% to reflect lower smartphone forecasts and GPM. We estimate smartphone sales mix will decrease to 56% in 2023E from 59% in 2022E, while sales mix of higher-margin IoT/internet will increase to 30%/11% in 2023E from 28%/10% in 2022E. Our FY23E EPS is 10% above consensus mainly due to better mix of higher-GPM internet service.

**Figure 9: CMBIGM earnings revision**

| RMB mn           | New     |         |         | Old     |         |         | Change (%) |          |          |
|------------------|---------|---------|---------|---------|---------|---------|------------|----------|----------|
|                  | FY22E   | FY23E   | FY24E   | FY22E   | FY23E   | FY24E   | FY22E      | FY23E    | FY24E    |
| Revenue          | 279,547 | 290,990 | 338,541 | 286,870 | 308,047 | 346,419 | -3%        | -6%      | -2%      |
| Gross profit     | 47,209  | 52,362  | 60,446  | 48,367  | 53,650  | 61,089  | -2%        | -2%      | -1%      |
| Operating profit | (1,752) | 9,567   | 12,759  | 1,028   | 13,431  | 15,536  | -270%      | -29%     | -18%     |
| Adj. net profit  | 8,288   | 13,153  | 14,732  | 8,878   | 13,734  | 15,554  | -7%        | -4%      | -5%      |
| Adj. EPS (RMB)   | 0.33    | 0.53    | 0.59    | 0.36    | 0.55    | 0.62    | -7%        | -4%      | -5%      |
| Gross margin     | 16.9%   | 18.0%   | 17.9%   | 16.9%   | 17.4%   | 17.6%   | 0 ppt      | 0.6 ppt  | 0.2 ppt  |
| Operating margin | -0.6%   | 3.3%    | 3.8%    | 0.4%    | 4.4%    | 4.5%    | -1 ppt     | -1.1 ppt | -0.7 ppt |
| Adj. net margin  | 3.0%    | 4.5%    | 4.4%    | 3.1%    | 4.5%    | 4.5%    | -0.1 ppt   | 0.1 ppt  | -0.1 ppt |

Source: Company data, CMBIGM estimates

**Figure 10: CMBIGM estimates vs consensus**

| RMB mn           | CMBIGM  |         |         | Consensus |         |         | Diff (%) |          |          |
|------------------|---------|---------|---------|-----------|---------|---------|----------|----------|----------|
|                  | FY22E   | FY23E   | FY24E   | FY22E     | FY23E   | FY24E   | FY22E    | FY23E    | FY24E    |
| Revenue          | 279,547 | 290,990 | 338,541 | 286,965   | 313,016 | 343,974 | -3%      | -7%      | -2%      |
| Gross profit     | 47,209  | 52,362  | 60,446  | 48,400    | 54,619  | 60,979  | -2%      | -4%      | -1%      |
| Operating profit | (1,752) | 9,567   | 12,759  | 4,452     | 12,584  | 16,108  | -139%    | -24%     | -21%     |
| Adj. net profit  | 8,288   | 13,153  | 14,732  | 8,872     | 11,999  | 14,868  | -7%      | 10%      | -1%      |
| Adj. EPS (RMB)   | 0.33    | 0.53    | 0.59    | 0.36      | 0.48    | 0.61    | -7%      | 9%       | -2%      |
| Gross margin     | 16.9%   | 18.0%   | 17.9%   | 16.9%     | 17.4%   | 17.7%   | 0 ppt    | 0.5 ppt  | 0.1 ppt  |
| Operating margin | -0.6%   | 3.3%    | 3.8%    | 1.6%      | 4.0%    | 4.7%    | -2.2 ppt | -0.7 ppt | -0.9 ppt |
| Adj. net margin  | 3.0%    | 4.5%    | 4.4%    | 3.1%      | 3.8%    | 4.3%    | -0.1 ppt | 0.7 ppt  | 0 ppt    |

Source: Bloomberg, CMBIGM estimates

**Figure 11: P&L forecast**

| RMB mn                  | FY21           | 1Q22          | 2Q22          | 3Q22           | 4Q22E          | FY22E          | FY23E          | FY24E          |
|-------------------------|----------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>          | <b>328,309</b> | <b>73,352</b> | <b>70,171</b> | <b>70,474</b>  | <b>65,550</b>  | <b>279,547</b> | <b>290,990</b> | <b>338,541</b> |
| ...YoY                  | 34%            | -5%           | -20%          | -10%           | -23%           | -15%           | 4%             | 16%            |
| Cost of sales           | (270,048)      | (60,642)      | (58,403)      | (58,752)       | (54,541)       | (232,338)      | (238,628)      | (278,094)      |
| <b>Gross profit</b>     | <b>58,261</b>  | <b>12,710</b> | <b>11,768</b> | <b>11,722</b>  | <b>11,009</b>  | <b>47,209</b>  | <b>52,362</b>  | <b>60,446</b>  |
| GPM (%)                 | 17.7%          | 17.3%         | 16.8%         | 16.6%          | 16.8%          | 16.9%          | 18.0%          | 17.9%          |
| ...YoY                  | 59%            | -10%          | -22%          | -18%           | -25%           | -19%           | 11%            | 15%            |
| SG&A                    | (25,720)       | (6,501)       | (6,648)       | (6,138)        | (7,014)        | (26,300)       | (26,733)       | (30,807)       |
| ...% of rev             | -7.8%          | -8.9%         | -9.5%         | -8.7%          | -10.7%         | -9.4%          | -9.2%          | -9.1%          |
| R&D                     | (13,167)       | (3,495)       | (3,763)       | (4,070)        | (3,933)        | (15,261)       | (16,109)       | (16,927)       |
| ...% of rev             | -4.0%          | -4.8%         | -5.4%         | -5.8%          | -6.0%          | -5.5%          | -5.5%          | -5.0%          |
| <b>Operating profit</b> | <b>26,029</b>  | <b>(911)</b>  | <b>1,733</b>  | <b>(1,361)</b> | <b>(1,212)</b> | <b>(1,752)</b> | <b>9,567</b>   | <b>12,759</b>  |
| OPM (%)                 | 7.9%           | -1.2%         | 2.5%          | -1.9%          | -1.8%          | -0.6%          | 3.3%           | 3.8%           |
| ...YoY                  | 8%             | -111%         | -84%          | na             | na             | na             | na             | 33%            |
| <b>Adj. net profit</b>  | <b>22,039</b>  | <b>2,859</b>  | <b>2,081</b>  | <b>2,117</b>   | <b>1,339</b>   | <b>8,288</b>   | <b>13,153</b>  | <b>14,732</b>  |
| NPM (%)                 | 6.7%           | 3.9%          | 3.0%          | 3.0%           | 2.0%           | 3.0%           | 4.5%           | 4.4%           |
| ...YoY                  | 69%            | -53%          | -67%          | -59%           | -70%           | -62%           | 59%            | 12%            |

Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with new TP of HK\$14.73 (15% upside)

Our new TP of HK\$14.73 is based on higher 24x FY23E P/E (vs prior 20x P/E), which is 7% discount to 5-year avg. P/E. We adopted higher P/E multiple as we believe smartphone market will bottom out in 1Q23 after China re-opening and easing destocking pressure, and Xiaomi revenue/earnings will recover sequentially in 1Q23E.

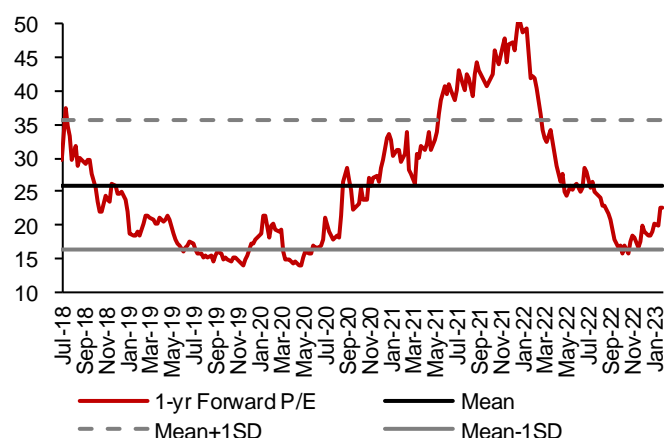
We believe the stock's closest peers are Apple/Samsung, which share similar smartphone+IoT+internet business model. Both of them trade at 25x or above forward P/E. For HK-listed peers, sector leaders like Sunny Optical trades at above 27x forward P/E. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

**Figure 12: Peers' valuation**

| Company           | Ticker    | Rating | Market Cap<br>US\$(mn) | Price<br>(LC) | TP<br>(LC) | Up/Down<br>-side | P/E (x)     |             | P/B (x)     |             | ROE (%)     |             |
|-------------------|-----------|--------|------------------------|---------------|------------|------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                   |           |        |                        |               |            |                  | FY22E       | FY23E       | FY22E       | FY23E       | FY22E       | FY23E       |
| <b>HK-listed</b>  |           |        |                        |               |            |                  |             |             |             |             |             |             |
| Xiaomi            | 1810 HK   | Buy    | 40,766                 | 12.8          | 14.7       | 15%              | 33.2        | 20.9        | 2.7         | 2.6         | 6.1         | 9.1         |
| Sunny Optical     | 2382 HK   | Hold   | 14,608                 | 104.5         | 96.3       | -8%              | 38.6        | 27.2        | 4.4         | 3.9         | 11.5        | 14.4        |
| AAC Tech          | 2018 HK   | Hold   | 3,108                  | 20.4          | 15.4       | -24%             | 27.7        | 17.1        | 1.0         | 1.0         | 3.5         | 5.6         |
| BYDE              | 285 HK    | Hold   | 7,667                  | 26.7          | 20.4       | -24%             | 32.8        | 19.5        | 2.1         | 1.9         | 6.4         | 9.9         |
| FIT Hon Teng      | 6088 HK   | Buy    | 2,053                  | 2.2           | 1.8        | -17%             | 10.8        | 9.6         | 0.8         | 0.7         | 6.9         | 7.4         |
| Tongda            | 698 HK    | Buy    | 166                    | 0.1           | 0.2        | 64%              | 4.5         | 3.4         | 0.1         | 0.1         | 2.3         | 3.0         |
| Q tech            | 1478 HK   | Buy    | 815                    | 5.4           | 5.8        | 7%               | 24.2        | 10.1        | 1.2         | 1.1         | 4.8         | 10.6        |
| TK Group          | 2283 HK   | Buy    | 179                    | 1.7           | 3.4        | 100%             | 4.1         | 3.3         | 0.8         | 0.7         | 18.6        | 20.7        |
| <b>Average</b>    |           |        |                        |               |            |                  | <b>24.7</b> | <b>15.5</b> | <b>1.7</b>  | <b>1.5</b>  | <b>5.9</b>  | <b>8.6</b>  |
| <b>Smartphone</b> |           |        |                        |               |            |                  |             |             |             |             |             |             |
| Apple             | AAPL US   | NR     | 2,444,491              | 154.5         | NA         | NA               | 25.3        | 25.5        | 44.2        | 42.7        | 160.8       | 162.7       |
| Lenovo            | 992 HK    | NR     | 9,753                  | 6.3           | NA         | NA               | 5.1         | 5.3         | 1.9         | 1.5         | 44.4        | 32.5        |
| Samsung           | 005930 KS | NR     | 292,329                | 61,600.0      | NA         | NA               | 11.4        | 24.8        | 1.2         | 1.2         | 11.4        | 4.9         |
| LG Elec           | 066570 KS | NR     | 13,217                 | 101,600.0     | NA         | NA               | 10.2        | 9.9         | 0.9         | 0.8         | 9.4         | 8.6         |
| <b>Average</b>    |           |        |                        |               |            |                  | <b>13.0</b> | <b>16.4</b> | <b>12.1</b> | <b>11.6</b> | <b>56.5</b> | <b>52.2</b> |
| <b>IoT</b>        |           |        |                        |               |            |                  |             |             |             |             |             |             |
| Skyworth          | 751 HK    | NR     | 1,608                  | 4.9           | NA         | NA               | 9.3         | 6.6         | 0.6         | 0.5         | 3.5         | 3.5         |
| Hisense           | 600060 CH | NR     | 2,952                  | 15.3          | NA         | NA               | 11.8        | 10.3        | 1.1         | 1.0         | 9.6         | 10.4        |
| Midea             | 000333 CH | NR     | 52,870                 | 51.3          | NA         | NA               | 11.8        | 10.7        | 2.5         | 2.2         | 21.4        | 20.4        |
| Gree              | 000651 CH | NR     | 28,101                 | 33.8          | NA         | NA               | 7.4         | 6.8         | 1.7         | 1.5         | 22.8        | 22.2        |
| <b>Average</b>    |           |        |                        |               |            |                  | <b>10.1</b> | <b>8.6</b>  | <b>1.5</b>  | <b>1.3</b>  | <b>14.3</b> | <b>14.2</b> |

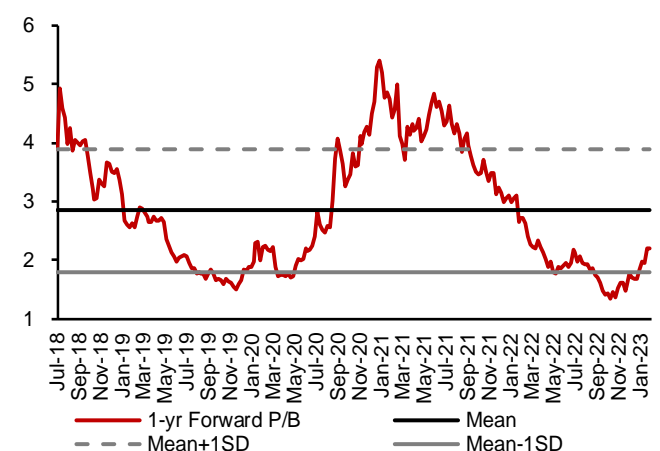
Source: Bloomberg, CMBIGM

**Figure 13: 12M forward P/E band**



Source: Bloomberg, CMBIGM

**Figure 14: 12M forward P/B band**



Source: Bloomberg, CMBIGM

## Financial Summary

| INCOME STATEMENT                       | 2019A     | 2020A     | 2021A     | 2022E     | 2023E     | 2024E     |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| YE 31 Dec (RMB mn)                     |           |           |           |           |           |           |
| Revenue                                | 205,839   | 245,866   | 328,309   | 279,547   | 290,990   | 338,541   |
| Cost of goods sold                     | (177,285) | (209,114) | (270,048) | (232,338) | (238,628) | (278,094) |
| Gross profit                           | 28,554    | 36,752    | 58,261    | 47,209    | 52,362    | 60,446    |
| Selling expense                        | (10,378)  | (14,539)  | (20,981)  | (21,370)  | (21,717)  | (25,391)  |
| Admin expense                          | (3,104)   | (3,746)   | (4,739)   | (4,930)   | (5,016)   | (5,417)   |
| R&D expense                            | (7,493)   | (9,256)   | (13,167)  | (15,261)  | (16,109)  | (16,927)  |
| Other income                           | 1,266     | 643       | 827       | 752       | 752       | 752       |
| Gain/loss on financial assets at FVTPL | 3,813     | 13,173    | 8,132     | (6,228)   | (800)     | (800)     |
| Investment gain/loss                   | (672)     | 1,381     | 275       | (669)     | 251       | 251       |
| EBIT                                   | 11,760    | 24,035    | 26,029    | (1,752)   | 9,567     | 12,759    |
| Net Interest income/(expense)          | 402       | (1,641)   | (1,612)   | 699       | 276       | 276       |
| Foreign exchange gain/loss             | (226)     | (372)     | (2,580)   | (1,255)   | (156)     | (156)     |
| Others                                 | 0         | 0         | 0         | 0         | 0         | 0         |
| Pre-tax profit                         | 12,163    | 21,633    | 24,417    | (1,053)   | 9,843     | 13,034    |
| Income tax                             | (2,060)   | (1,321)   | (5,134)   | (610)     | (1,216)   | (1,629)   |
| Minority interest                      | 59        | (43)      | (56)      | 56        | (39)      | (33)      |
| Net profit                             | 10,103    | 20,313    | 19,283    | (1,663)   | 8,626     | 11,405    |
| Adjusted net profit                    | 11,532    | 13,006    | 22,039    | 8,288     | 13,153    | 14,732    |
| Net dividends                          | 0         | 0         | 0         | 0         | 0         | 0         |
| BALANCE SHEET                          | 2019A     | 2020A     | 2021A     | 2022E     | 2023E     | 2024E     |
| YE 31 Dec (RMB mn)                     |           |           |           |           |           |           |
| Current assets                         | 137,539   | 176,283   | 185,851   | 152,211   | 190,111   | 186,876   |
| Cash & equivalents                     | 25,920    | 54,752    | 23,512    | 29,897    | 37,054    | 49,481    |
| Account receivables                    | 19,672    | 19,080    | 23,095    | 10,419    | 23,078    | 14,223    |
| Inventories                            | 32,585    | 41,671    | 52,398    | 25,048    | 43,131    | 36,324    |
| Prepayment                             | 19,837    | 16,182    | 19,852    | 19,852    | 19,852    | 19,852    |
| ST bank deposits                       | 21,523    | 17,599    | 31,041    | 31,041    | 31,041    | 31,041    |
| Financial assets at FVTPL              | 16,463    | 22,376    | 30,910    | 30,910    | 30,910    | 30,910    |
| Other current assets                   | 1,538     | 4,623     | 5,045     | 5,045     | 5,045     | 5,045     |
| Non-current assets                     | 46,090    | 77,397    | 107,040   | 111,250   | 114,044   | 117,083   |
| PP&E                                   | 6,992     | 6,306     | 6,965     | 11,174    | 13,968    | 17,007    |
| Deferred income tax                    | 1,283     | 2,011     | 1,662     | 1,662     | 1,662     | 1,662     |
| Investment in JVs & assos              | 9,301     | 12,782    | 10,231    | 10,231    | 10,231    | 10,231    |
| Intangibles                            | 1,672     | 4,266     | 5,579     | 5,579     | 5,579     | 5,579     |
| Financial assets at FVTPL              | 20,679    | 35,215    | 50,114    | 50,114    | 50,114    | 50,114    |
| Other non-current assets               | 6,163     | 16,817    | 32,490    | 32,490    | 32,490    | 32,490    |
| Total assets                           | 183,629   | 253,680   | 292,892   | 263,461   | 304,155   | 303,958   |
| Current liabilities                    | 92,181    | 107,927   | 115,727   | 86,922    | 118,989   | 107,387   |
| Short-term borrowings                  | 12,837    | 6,962     | 5,527     | 5,527     | 5,527     | 5,527     |
| Account payables                       | 59,528    | 72,199    | 74,643    | 45,837    | 77,905    | 66,303    |
| Tax payable                            | 479       | 674       | 2,335     | 2,335     | 2,335     | 2,335     |
| Other current liabilities              | 19,337    | 28,092    | 33,222    | 33,222    | 33,222    | 33,222    |
| Non-current liabilities                | 9,791     | 21,739    | 39,732    | 39,732    | 39,732    | 39,732    |
| Long-term borrowings                   | 4,787     | 10,635    | 20,720    | 20,720    | 20,720    | 20,720    |
| Deferred income                        | 580       | 301       | 1,203     | 1,203     | 1,203     | 1,203     |
| Other non-current liabilities          | 4,424     | 10,804    | 17,809    | 17,809    | 17,809    | 17,809    |
| Total liabilities                      | 101,972   | 129,666   | 155,459   | 126,654   | 158,721   | 147,119   |
| Share capital                          | 388       | 409       | 407       | 407       | 407       | 407       |
| Other reserves                         | 81,330    | 123,691   | 137,212   | 135,494   | 144,159   | 155,597   |
| Total shareholders equity              | 81,658    | 124,014   | 137,432   | 135,770   | 144,396   | 155,801   |
| Minority interest                      | 327       | 322       | 220       | 276       | 237       | 204       |
| Total equity and liabilities           | 183,629   | 253,680   | 292,892   | 262,423   | 303,117   | 302,921   |

| <b>CASH FLOW</b>                                     | <b>2019A</b>    | <b>2020A</b>    | <b>2021A</b>    | <b>2022E</b>   | <b>2023E</b>   | <b>2024E</b>   |
|--|-----------------|-----------------|-----------------|----------------|----------------|----------------|
| <b>YE 31 Dec (RMB mn)</b>                            |                 |                 |                 |                |                |                |
| <b>Operating</b>                                     |                 |                 |                 |                |                |                |
| <b>Profit before taxation</b>                        | <b>12,163</b>   | <b>21,633</b>   | <b>24,417</b>   | <b>(1,053)</b> | <b>9,843</b>   | <b>13,034</b>  |
| Depreciation & amortization                          | 1,381           | 1,708           | 3,062           | 2,419          | 3,026          | 3,732          |
| Tax paid   | (2,242)         | (1,126)         | (2,442)         | (610)          | (1,216)        | (1,629)        |
| Change in working capital                            | 9,553           | 4,320           | (15,725)        | 11,220         | 1,325          | 4,060          |
| Others   | 2,956           | (4,658)         | 474             | 0              | 0              | 0              |
| <b>Net cash from operations</b>                      | <b>23,810</b>   | <b>21,879</b>   | <b>9,785</b>    | <b>11,976</b>  | <b>12,977</b>  | <b>19,197</b>  |
| <b>Investing</b>                                     |                 |                 |                 |                |                |                |
| Capital expenditure                                  | (3,405)         | (3,026)         | (7,169)         | (5,591)        | (5,820)        | (6,771)        |
| Acquisition of subsidiaries/ investments             | 0               | 39              | (1,086)         | 0              | 0              | 0              |
| Net proceeds from disposal of short-term investments | 124,633         | 190,494         | 166,947         | 0              | 0              | 0              |
| Others   | (152,798)       | (205,186)       | (203,699)       | 0              | 0              | 0              |
| <b>Net cash from investing</b>                       | <b>(31,570)</b> | <b>(17,679)</b> | <b>(45,008)</b> | <b>(5,591)</b> | <b>(5,820)</b> | <b>(6,771)</b> |
| <b>Financing</b>                                     |                 |                 |                 |                |                |                |
| Net borrowings                                       | 6,619           | (2,004)         | 9,227           | 0              | 0              | 0              |
| Proceeds from share issues                           | 0               | 19,908          | 0               | 0              | 0              | 0              |
| Share repurchases                                    | (2,932)         | (455)           | (7,007)         | 0              | 0              | 0              |
| Others   | (566)           | 8,767           | 2,278           | 0              | 0              | 0              |
| <b>Net cash from financing</b>                       | <b>3,121</b>    | <b>26,216</b>   | <b>4,499</b>    | <b>0</b>       | <b>0</b>       | <b>0</b>       |
| <b>Net change in cash</b>                            |                 |                 |                 |                |                |                |
| Cash at the beginning of the year                    | 30,230          | 25,920          | 54,752          | 23,512         | 29,897         | 37,054         |
| Exchange difference                                  | (1,583)         | (517)           | 0               | 0              | 0              | 0              |
| <b>Cash at the end of the year</b>                   | <b>25,920</b>   | <b>54,752</b>   | <b>23,512</b>   | <b>29,897</b>  | <b>37,054</b>  | <b>49,481</b>  |

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



# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

|                       |   |
|-----------------------|---|
| <b>BUY</b>            | : Stock with potential return of over 15% over next 12 months                                       |
| <b>HOLD</b>           | : Stock with potential return of +15% to -10% over next 12 months                                   |
| <b>SELL</b>           | : Stock with potential loss of over 10% over next 12 months   |
| <b>NOT RATED</b>      | : Stock is not rated by CMBIGM  |
| <b>OUTPERFORM</b>     | : Industry expected to outperform the relevant broad market benchmark over next 12 months           |
| <b>MARKET-PERFORM</b> | : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months |
| <b>UNDERPERFORM</b>   | : Industry expected to underperform the relevant broad market benchmark over next 12 months         |

## CMB International Global Markets Limited

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

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.