

Xiaomi (1810 HK)

Beneficiary on Huawei weakness; Lift TP to HK\$21

We believe Xiaomi is poised to benefit from Huawei's smartphone weakness in China/Europe in 2H20E given recent US restrictions on Huawei and Xiaomi's strong 5G pipeline in China. We expect Xiaomi smartphone shipment to recover with -6%/5% YoY in 3Q/4Q20E (vs -11% in 2Q20E) and accelerate with 16%/16% YoY growth to 142mn/166mn in FY21E/22E. We revised up FY21-22E EPS by 7-8% to factor in better shipment and margin outlook, and raised our TP to HK\$21 based on higher 25x FY21E P/E (vs 20x prev.) given stronger 37% EPS FY20-22E CAGR and accelerated market share gain. Recommend to accumulate ahead of 2Q20 results.

- 2Q20E Preview.** Xiaomi will announce 2Q20 results on 26 Aug, and we estimate revenue/adj. net profit of RMB53,292mn/2,640mn (+3%/-27% YoY), 4%/10% above consensus. Gross margin could stay flattish YoY at 14.3% and opex ratio will be slightly higher at 9.9% (vs 8.8% in 2Q19) due to more promotion and India COVID-19 impact. We expect smartphone shipment to decline 11% YoY given better overseas sales despite 22%/48% YoY decline in China/India. We expect IoT/internet service to grow 12%/26% YoY in 2Q20E (vs 8%/39% YoY in 1Q20) as China demand recovery remains on track in 2Q20E.
- Worst is over; Expect share gain in China/Europe on Huawei weakness.** We believe Xiaomi's earnings will bottom in 2Q20E, as we expect smartphone demand recovery in China/India and Xiaomi's share gain in Europe/SEA given Huawei's overseas weakness since 3Q19 (-24%/-30%/-28% YoY in 4Q19/1Q20/2Q20). In particular, we believe Xiaomi will start to regain market share in China after share loss for the past 10 consecutive quarters (10.4% mkt shr in 2Q20, vs 15.1% in 1Q18). Overall, we estimate Xiaomi smartphone to recover with -6%/5% YoY growth in 3Q/4Q20E, and then grow 16%/16% YoY to 142mn/166mn in FY21E/22E, thanks to solid execution of 5G strategy and strong value proposition.
- Our FY20-22E EPS are 5-22% above consensus; Raise TP to HK\$21.** We believe Xiaomi will outperform its peers with share gain from Huawei and solid 5G product roadmap. We raised FY20-22 EPS by 7-8% to reflect higher shipment and better margin outlook. We lifted TP to HK\$21 based on higher 25x FY21E P/E given stronger 37% EPS FY20-22E CAGR, China 5G leadership and market share gain. Catalysts include 5G product launch and demand recovery.

Earnings Summary

(YE31Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	174,915	205,839	231,078	301,971	385,160
YoY growth (%)	52.6	17.7	12.3	30.7	27.5
Adj. Net income (RMB mn)	8,743	11,532	11,761	17,908	22,127
Adj. EPS (RMB)	0.54	0.49	0.49	0.75	0.93
YoY growth (%)	-	(10.7)	1.6	52.3	23.6
Consensus EPS (RMB)	NA	NA	0.47	0.62	0.76
P/E (x)	37.2	33.5	33.0	21.7	17.5
P/B (x)	4.6	5.9	5.2	4.4	3.7
ROE (%)	19	12.3	11.5	15.3	16.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$21.0
(Previous TP)	HK\$15.7
Upside	16.0%
Current Price	HK\$18.16

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	437,797
Avg. 3mths t/o (HK\$m)	2,885.96
52W High/Low (HK\$)	18.62/ 8.28
Total Issued Shares (mn)	17,613

Source: Bloomberg

Shareholding Structure

Smart Mobile Holdings Ltd	13.02%
Apoletto Ltd	4.86%
Qiming Corporate GP Ltd	4.73%

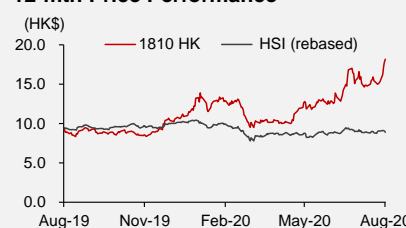
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.9%	16.5%
3-mth	42.0%	38.4%
6-mth	40.9%	51.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

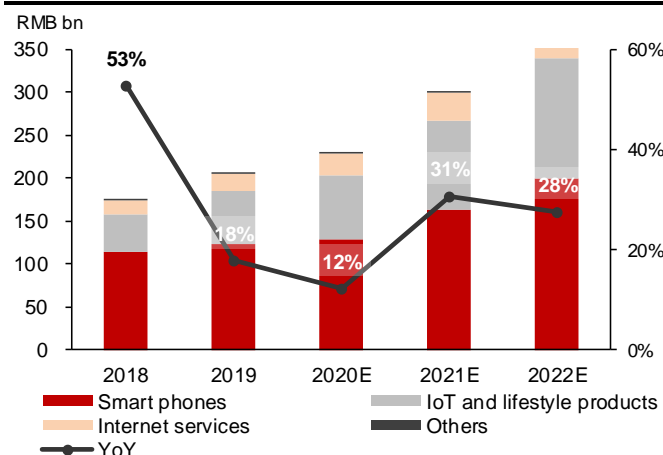
Auditor: PricewaterhouseCoopers

Recent Reports:

- Xiaomi (1810 HK, Buy) - Strong 5G momentum to outweigh India impact – 23 Jun 2020
- Xiaomi (1810 HK, Buy) - Strong 5G outlook and share gain; U/G to BUY – 21 May 2020
- Xiaomi (1810 HK, Hold) – 4Q19 beat; COVID-19 uncertainty remains – 1 Apr 2020

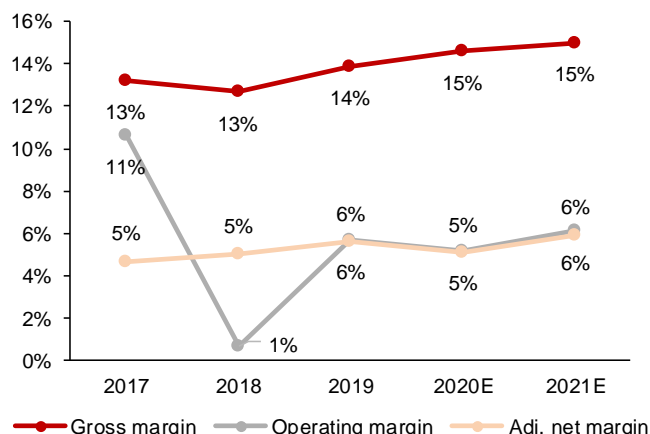
Focus Charts

Figure 1: Xiaomi revenue trend



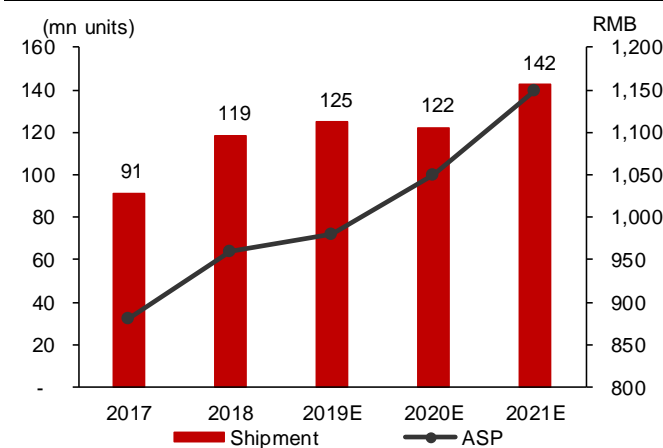
Source: Company data, CMBIS estimates

Figure 2: Xiaomi margin trend



Source: Company data, CMBIS estimates

Figure 3: Xiaomi smartphone shipment forecast



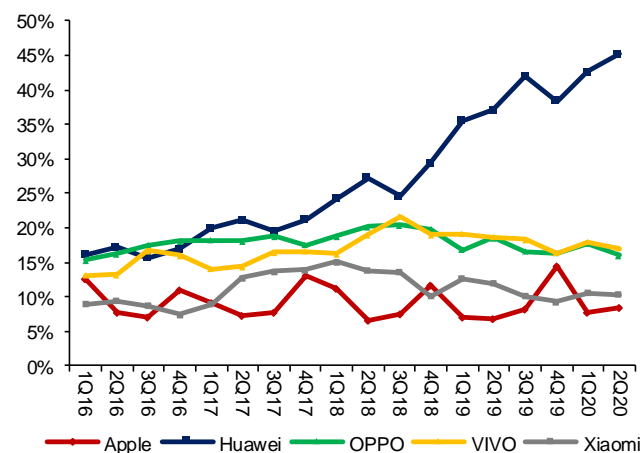
Source: Xiaomi, CMBIS estimates

Figure 4: Xiaomi 5G leadership during 618 festival



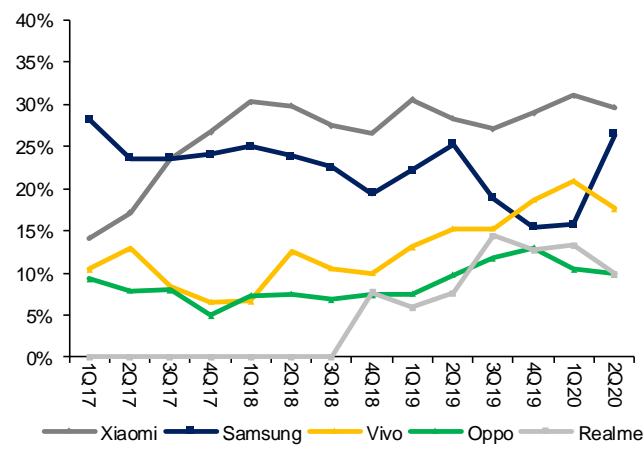
Source: Xiaomi, CMBIS estimates

Figure 5: China smartphone market share in 2Q20



Source: IDC, CMBIS estimates

Figure 6: India smartphone market share in 2Q20



Source: IDC, CMBIS estimates

2Q20E Preview

Figure 7: 2Q20E Preview

RMB mn	FY19	1Q20	2Q20E	3Q30E	4Q20E	FY20E	FY21E	FY22E
Revenue	205,839	49,702	53,292	59,936	68,148	231,078	301,971	385,160
...YoY	18%	14%	3%	12%	21%	12%	31%	28%
Cost of sales	(177,285)	(42,144)	(45,697)	(50,890)	(58,653)	(197,385)	(256,667)	(328,629)
Gross profit	28,554	7,558	7,595	9,046	9,495	33,694	45,304	56,531
GPM (%)	13.9%	15.2%	14.3%	15.1%	13.9%	14.6%	15.0%	14.7%
...YoY	29%	45%	5%	10%	21%	18%	34%	25%
SG&A	(13,482)	(3,406)	(3,517)	(3,536)	(3,953)	(14,413)	(16,910)	(20,028)
...% of rev	-6.5%	-6.9%	-6.6%	-5.9%	-5.8%	-6.2%	-5.6%	-5.2%
R&D	(7,493)	(1,871)	(1,759)	(2,517)	(3,135)	(9,282)	(12,079)	(15,406)
...% of rev	-3.6%	-3.8%	-3.3%	-4.2%	-4.6%	-4.0%	-4.0%	-4.0%
Operating profit	11,760	2,323	2,684	3,826	3,144	11,977	18,547	23,329
OPM (%)	5.7%	4.7%	5.0%	6.4%	4.6%	5.2%	6.1%	6.1%
...YoY	883%	-36%	15%	23%	17%	2%	55%	26%
Adj. net profit	11,532	2,301	2,640	3,636	3,101	11,761	17,908	22,127
NPM (%)	5.6%	4.6%	5.0%	6.1%	4.6%	5.1%	5.9%	5.7%
...YoY	35%	11%	-27%	5%	32%	2%	52%	24%

Source: Company data, CMBIS estimates

Figure 8: Revenue breakdown

RMB mn	FY18	FY19	1Q20	2Q20E	3Q20E	4Q20E	FY20E	FY21E	FY22E
Smart phones	113,800	122,095	30,325	30,422	32,767	34,826	128,341	163,754	199,008
...YoY	41%	7%	12%	-5%	2%	13%	5%	28%	22%
IoT and lifestyle products	43,817	62,088	12,984	16,669	19,711	25,527	74,891	102,164	139,891
...YoY	87%	42%	8%	12%	26%	31%	21%	36%	37%
Smart TVs and laptops	18,200	24,200	4,694	5,335	6,924	9,876	26,829	34,878	45,690
...YoY	119%	33%	-8%	-3%	20%	25%	11%	30%	31%
Other IoTs	25,617	37,888	8,290	11,334	12,787	15,651	48,062	67,287	94,202
...YoY	69%	48%	20%	20%	30%	35%	27%	40%	40%
Internet services	15,956	19,842	5,901	5,756	6,932	7,263	25,851	33,458	42,889
...YoY	61%	24%	39%	26%	31%	28%	30%	29%	28%
Advertising services	10,100	10,676	2,661	2,756	3,232	3,363	12,012	14,415	16,577
...YoY	80%	6%	17%	10%	11%	13%	13%	20%	15%
Internet value-added services	5,855	9,166	3,239	3,000	3,700	3,900	13,839	19,044	26,312
...YoY	37%	57%	64%	45%	54%	43%	51%	38%	38%
Gaming	2,700	3,195	1,500	1,000	1,200	1,200	4,900	5,635	6,199
...YoY	-	18%	82%	48%	46%	37%	53%	15%	10%
Other (incl. Youpin fintech, etc)	3,200	5,971	1,739	2,000	2,500	2,700	8,939	13,409	20,113
...YoY	-	87%	51%	43%	59%	46%	50%	50%	50%
Others	1,343	1,814	493	446	525	532	1,995	2,594	3,372
...YoY	87%	35%	10%	10%	10%	10%	10%	30%	30%
Total	174,915	205,839	49,702	53,292	59,936	68,148	231,078	301,971	385,160
...YoY	53%	18%	14%	3%	12%	21%	12%	31%	28%
Gross Margin									
Smart phones	6.2%	7.2%	8.1%	8.0%	8.1%	8.0%	8.0%	8.2%	8.0%
IoT and lifestyle products	10.3%	11.2%	13.4%	12.0%	12.3%	10.0%	11.6%	11.5%	11.2%
Internet services	64.4%	64.7%	57.1%	55.0%	57.0%	57.0%	56.6%	60.0%	58.0%
Others	27.3%	-0.1%	-1.4%	-1.0%	3.0%	3.0%	1.0%	2.0%	2.0%
Total	12.7%	13.9%	15.2%	14.3%	15.1%	13.9%	14.6%	15.0%	14.7%

Source: Company data, CMBIS estimates

Earnings Revision

Our FY20-22E EPS are 5-22% above consensus

We adjusted FY20-22E EPS by 7-8% to reflect higher shipment and better margin outlook. Our FY20-22E EPS are 5-22% above consensus given our more positive view on smartphone recovery and internet growth ahead.

Figure 9: CMBIS earnings revision

RMB mn	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	231,078	301,971	385,160	227,404	289,848	354,633	2%	4%	9%
Gross Profit	33,694	45,304	56,531	32,974	42,570	51,627	2%	6%	9%
Operating Profit	11,977	18,547	23,329	12,031	17,284	21,540	0%	7%	8%
Adj. net profit	11,761	17,908	22,127	11,808	16,793	20,512	0%	7%	8%
Adj. EPS (RMB)	0.49	0.75	0.93	0.50	0.70	0.86	0%	7%	8%
Gross Margin	14.6%	15.0%	14.7%	14.50%	14.7%	14.6%	0.1 ppt	0.3 ppt	0.1 ppt
Operating Margin	5.2%	6.1%	6.1%	5.29%	6.0%	6.1%	-0.1 ppt	0.2 ppt	0 ppt
Adj. Net Margin	5.1%	5.9%	5.7%	5.19%	5.8%	5.8%	-0.1 ppt	0.1 ppt	0 ppt

Source: Company data, CMBIS estimates

Figure 10: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	231,078	301,971	385,160	241,348	300,751	351,661	-4%	0%	10%
Gross Profit	33,694	45,304	56,531	35,058	44,228	52,240	-4%	2%	8%
Operating Profit	11,977	18,547	23,329	12,063	16,514	20,752	-1%	12%	12%
Adj. net profit	11,761	17,908	22,127	11,563	14,998	18,481	2%	19%	20%
Adj. EPS (RMB)	0.49	0.75	0.93	0.47	0.62	0.76	5%	22%	22%
Gross Margin	14.6%	15.0%	14.7%	14.5%	14.7%	14.9%	0.1 ppt	0.3 ppt	-0.2 ppt
Operating Margin	5.2%	6.1%	6.1%	5.0%	5.5%	5.9%	0.2 ppt	0.7 ppt	0.2 ppt
Adj. Net Margin	5.1%	5.9%	5.7%	4.8%	5.0%	5.3%	0.3 ppt	0.9 ppt	0.5 ppt

Source: Bloomberg, CMBIS estimates

Valuation

Maintain BUY and raised TP of HK\$21

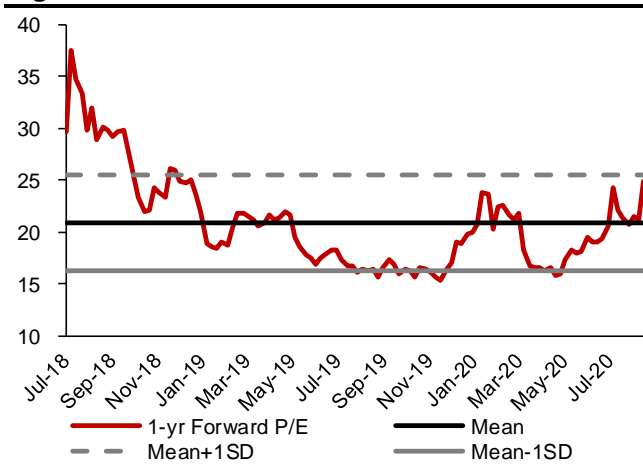
Our new 12m TP of HK\$ 21 is based on higher 25x FY21E P/E (vs. 20x prev). We think it is justified given share gain in smartphone market, product transition into AIoT, and improving internet revenue. Trading at 21.7x FY21E P/E, we view the stock is attractive. Catalysts include 5G product launch, share gain and rapid demand recovery.

Figure 11: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
HK-listed												
Xiaomi	1810 HK	Buy	56,488	18.2	21.0	16%	33.2	21.7	4.2	3.6	12.7	16.4
Sunny Optical	2382 HK	Hold	17,563	124.1	148.0	19%	26.8	20.7	7.3	5.6	27.2	27.2
AAC Tech	2018 HK	Sell	8,413	54.0	45.3	-16%	34.1	25.2	2.9	2.7	8.5	10.7
BYDE	285 HK	Buy	8,649	29.8	22.2	-25%	36.6	27.5	3.3	3.0	9.0	10.9
FIT Hon Teng	6088 HK	Buy	2,576	2.9	4.1	41%	15.4	10.6	1.1	1.0	7.3	9.8
Tongda	698 HK	Hold	380	0.5	0.5	10%	16.3	6.4	0.5	0.5	2.8	7.0
Q tech	1478 HK	Buy	1,603	10.6	16.6	57%	14.0	11.5	3.1	2.5	22.0	21.8
TK Group	2283 HK	Buy	223	2.1	2.3	13%	3.7	3.2	1.3	1.3	35.7	41.7
Average							25.7	17.9	3.2	2.7	12.7	14.7
Smartphone												
Apple	AAPL US	NR	2,022,802	473.1	NA	NA	36.7	31.4	32.8	48.3	71.8	124.1
Lenovo	992 HK	NR	7,550	4.9	NA	NA	11.9	9.7	1.8	1.7	18.5	20.7
Samsung	005930 KS	NR	280,762	55,900.0	NA	NA	15.2	10.9	1.4	1.3	9.2	11.9
LG Elec	066570 KS	NR	12,433	90,300.0	NA	NA	11.0	9.3	1.0	0.9	9.4	10.2
Average							18.7	15.3	9.3	13.1	27.2	41.7
IoT												
Skyworth	751 HK	NR	1,019	2.6	NA	NA	8.3	7.2	0.4	0.4	5.1	5.4
Hisense	600060 CH	NR	2,599	13.7	NA	NA	27.0	21.1	1.2	1.1	4.3	5.2
Midea	000333 CH	NR	70,466	69.4	NA	NA	19.6	16.8	4.1	3.6	21.6	22.2
Gree	000651 CH	NR	47,178	54.2	NA	NA	15.1	12.3	2.7	2.4	18.4	20.1
Huami	HMI US	NR	844	13.6	NA	NA	15.4	11.8	2.1	1.6	19.5	24.3
Fitbit	FIT US	NR	1,715	6.4	NA	NA	-	-	4.7	5.9	(42.1)	(60.8)
Average							17.1	13.9	2.5	2.5	4.5	2.7
Internet												
Tencent	700 HK	NR	640,437	518.0	NA	NA	36.4	29.3	7.9	6.3	22.9	22.5
Alibaba	BABA US	NR	692,062	258.0	NA	NA	36.0	29.0	6.5	5.3	21.7	16.9
Baidu	BIDU US	NR	42,559	123.5	NA	NA	16.5	14.3	1.6	1.5	8.3	9.9
JD	JD US	NR	114,987	73.9	NA	NA	47.5	33.6	6.8	5.6	15.7	14.6
Average							34.1	26.5	5.7	4.7	17.2	16.0

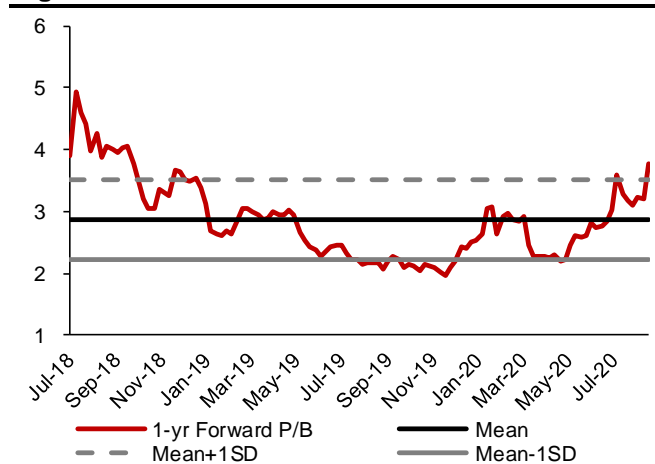
Source: Bloomberg, CMBIS

Figure 12: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 13: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	174,915	205,839	231,078	301,971	385,160
COGS	(152,723)	(177,285)	(197,385)	(256,667)	(328,629)
Gross profit	22,192	28,554	33,694	45,304	56,531
Selling and marketing	(7,993)	(10,378)	(10,985)	(13,287)	(15,406)
Administrative	(12,099)	(3,104)	(3,427)	(3,624)	(4,622)
R&D	(5,777)	(7,493)	(9,282)	(12,079)	(15,406)
Other operating exp.	4,874	4,181	1,977	2,233	2,233
Operating profit	1,196	11,760	11,977	18,547	23,329
Financial cost	216	402	430	995	1,315
Other income/(losses)	12,514	0	0	0	0
Pre-tax profit	13,927	12,163	12,407	19,542	24,644
Tax	(449)	(2,060)	(1,787)	(2,814)	(3,697)
Minority interest	(76)	59	47	74	93
Net profit	13,554	10,044	10,573	16,654	20,854
Adj. Net profit	8,743	11,532	11,761	17,908	22,127

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	13,927	12,163	12,407	19,542	24,644
Depreciation	748	2,192	1,065	1,506	2,069
Change in working capital	(13,396)	9,641	(1,927)	13,260	685
Others	(2,693)	(186)	(1,787)	(2,814)	(3,697)
Net cash from operating	(1,415)	23,810	9,757	31,494	23,701
Capex	(3,758)	(4,117)	(4,622)	(6,039)	(7,703)
Other	(3,750)	(27,453)	-	-	-
Net cash from investing	(7,508)	(31,570)	(4,622)	(6,039)	(7,703)
Net bank borrowings	(236)	-	-	-	-
Dividend paid	-	-	-	-	-
Other	26,810	3,121	-	-	-
Net cash from financing	26,574	3,121	0	0	0
Net change in cash	17,652	(4,639)	5,136	25,455	15,998
Cash at beginning of the yr	11,563	30,230	25,920	31,056	56,510
Exchange difference	1,015	328	-	-	-
Cash at the end of the year	30,230	25,920	31,056	56,510	72,509

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	106,013	137,539	127,901	187,538	192,725
Cash & equivalents	30,230	25,920	31,056	56,510	72,509
Account receivables	5,598	6,949	8,290	11,624	13,776
Inventories	29,481	32,585	16,470	47,319	34,355
ST bank deposits	1,366	21,523	21,523	21,523	21,523
Other	39,337	50,562	50,562	50,562	50,562
Non-current assets	39,215	46,090	49,647	54,181	59,815
PPE	5,068	6,992	10,549	15,083	20,717
Deferred income tax	1,312	1,283	1,283	1,283	1,283
Intangibles	2,061	1,672	1,672	1,672	1,672
Other	30,774	36,142	36,142	36,142	36,142
Total assets	145,228	183,629	177,548	241,719	252,540
Current liabilities	61,940	92,181	75,480	122,922	112,796
Short-term borrowings	3,075	12,837	12,837	12,837	12,837
Account payables	46,287	59,528	42,827	90,269	80,143
Tax payable	662	479	479	479	479
Other	11,916	19,337	19,337	19,337	19,337
Non-current liabilities	12,038	9,791	9,791	9,791	9,791
Long-term borrowings	7,856	4,787	4,787	4,787	4,787
Deferred tax liability	778	580	580	580	580
Other	3,404	4,424	4,424	4,424	4,424
Total liabilities	73,978	101,972	85,271	132,713	122,587
Share capital	0	0	0	0	0
Reserves	71,323	81,330	91,903	108,557	129,411
Minority interest	(73)	327	374	448	541
Shareholders' equity	71,250	81,658	92,278	109,006	129,953
Total equity/liabilities	145,228	183,629	177,548	241,719	252,540

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Smart phones	65	59	56	54	52
IoT and lifestyle products	25	30	32	34	36
Internet services	9	10	11	11	11
Others	1	1	1	1	1
Growth (%)					
Revenue	52.6	17.7	12.3	30.7	27.5
Gross profit	46.4	28.7	18.0	34.5	24.8
Operating profit	-	882.9	1.8	54.9	25.8
Adj. Net profit	63.1	31.9	2.0	52.3	23.6
Profit & loss ratio (%)					
Gross margin	12.7	13.9	14.6	15.0	14.7
Operating margin	0.7	5.7	5.2	6.1	6.1
Net profit margin	7.7	4.9	4.6	5.5	5.4
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.7	1.5	1.7	1.5	1.7
Receivable turnover days	32	30	30	30	30
Inventory turnover days	7	8	8	8	8
Payable turnover days	4	4	4	4	4
Profitability (%)					
ROE	19.0	12.3	11.5	15.3	16.0
ROA	9.3	5.5	6.0	6.9	8.3
Per share data (RMB)					
Adj. EPS	0.54	0.49	0.49	0.75	0.93
DPS	-	-	-	-	-

Source: Company data, CMBIS estimates

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