

Xiaomi (1810 HK)

Weak 2Q22 in-line; Expect seasonal demand recovery in 2H22E

Xiaomi's 2Q22 weakness is well-anticipated given global macro challenges and smartphone demand decline. 2Q revenue/ adj. net profit decline of 20%/67% YoY is in-line with our/ consensus estimates ([note](#)), driven by 1) smartphone decline (-28% YoY), 2) soft IoT/internet revenue (-4%/-1% YoY), and 3) higher R&D (+23% YoY) for EV and new initiatives. Key takeaways from earnings call include 1) smartphone: healthy inventory level in China but high in overseas market, 2) AIoT: solid demand from large home appliances in China but challenging sales in overseas, and 3) internet: stable MAU growth and ad/gaming outlook. Looking ahead, despite our positive view on Xiaomi's global share gain and expanding user base, we believe inventory destocking and macro uncertainties will impact smartphone/AIoT demand in 2H22E, and we trimmed our FY22-24E EPS by 6-20%. Our new TP of HK\$13.93 is based on same 20x FY22E P/E.

- **Weak 2Q22 in-line with smartphone decline and slower AIoT/internet.** By segment, smartphone revenue dropped 28% YoY (shipment/ASP: -26%/-3% YoY), given promotions and lack of flagship launches in 2Q22. AIoT declined 4% YoY (vs +7% in 2Q) due to weak overseas market offsetting solid China recovery. Internet revenue also declined 1% YoY (vs +8% YoY in 1Q) due to weak ads budget and less smartphone shipment. 2Q GPM came in at 16.8% (vs 17.3% in 1Q) mainly dragged by lower smartphone GPM at 8.7% (vs 9.9% in 1Q) on promotions and destocking.
- **2H22E outlook: seasonal demand recovery despite challenges in overseas markets.** While inventory destocking and macro weakness will remain an overhang in 3Q22E, we believe promotion season (e.g. double 11, Black Friday and Xmas) will drive seasonal recovery in 2H22E. We now estimate revenue decline will narrow to -3%/-4% YoY in 3Q/4Q22E, following 28% decline in 2Q22. In addition, we are positive on market share expansion in LATAM/SEA markets and stable internet growth given growing premium smartphone user base and overseas channel expansion.
- **Attractive risk/reward; Maintain BUY.** We expect 3Q22 demand will remain sluggish due to near-term inventory destocking. However, we believe multiple flagship product launches (e.g. S12, Mix Fold) in 2H22E will drive QoQ shipment recovery. Current valuation at 16.2x FY23E P/E is close to 1-sd below 3-yr avg. P/E at 15.9x. Maintain BUY with new TP of HK\$13.93, based on same 20.0x FY23E P/E. Catalysts include smart EV progress, product launch and market share gain.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	245,866	328,309	300,939	332,971	380,164
YoY growth (%)	19.4	33.5	(8.3)	10.6	14.2
Adjusted net profit (RMB mn)	13,006.4	22,039.5	10,816.5	15,576.5	18,009.6
EPS (Adjusted) (RMB)	0.54	0.88	0.43	0.62	0.72
Consensus EPS (RMB)	na	na	0.51	0.71	0.84
P/E (x)	17.4	26.8	23.3	16.2	14.0
P/B (x)	2.9	3.8	1.8	1.6	1.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$13.93
 (Previous TP) HK\$14.81
Up/Downside 19.5%
Current Price HK\$11.66

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Stock Data

Mkt Cap (HK\$ mn)	237,187.7
Avg 3 mths t/o (HK\$ mn)	12.3
52w High/Low (HK\$)	25.40/10.36
Total Issued Shares (mn)	20342.0

Source: FactSet

Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.5%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.8%	-5.7%
3-mth	5.2%	7.1%
6-mth	-27.8%	-9.4%

Source: FactSet

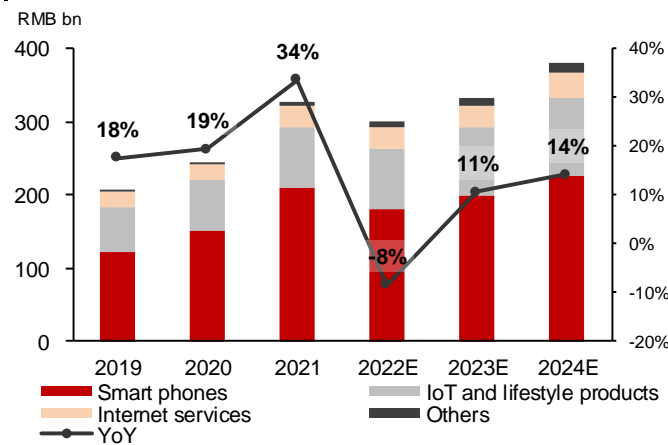
12-month Price Performance



Source: FactSet

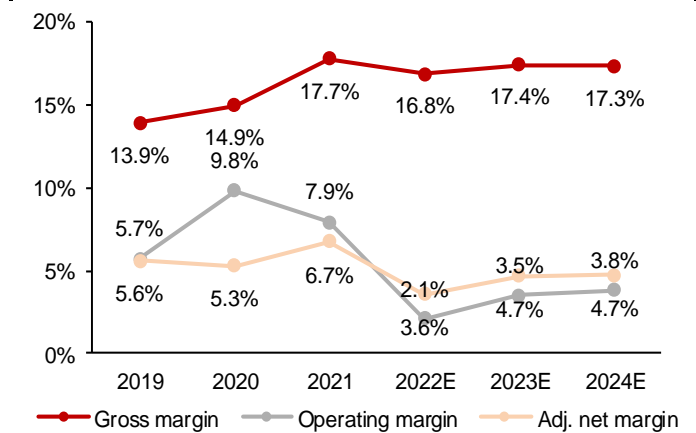
Focus Charts

Figure 1: Xiaomi revenue trend



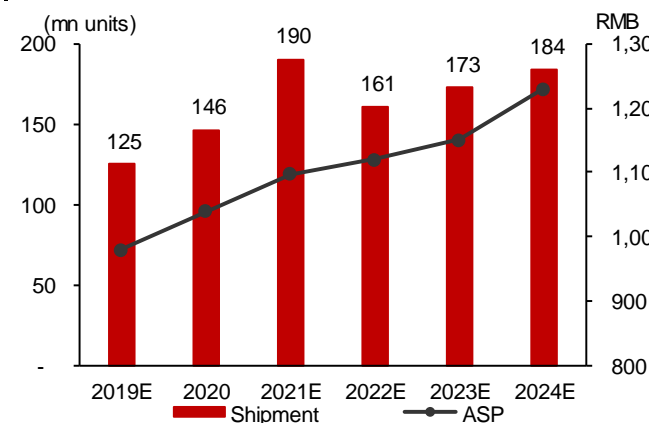
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi margin trend



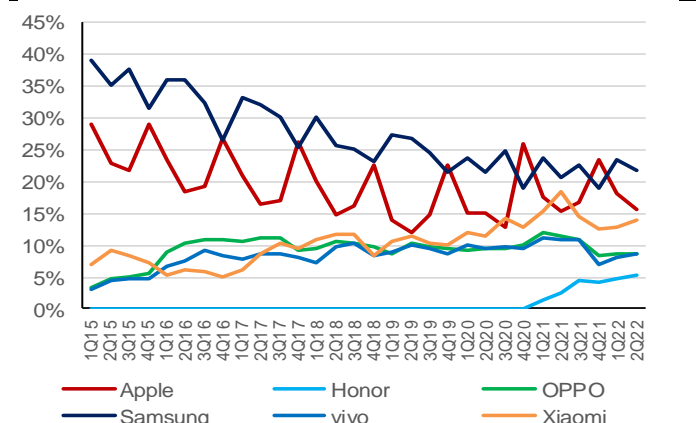
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi smartphone shipment forecast



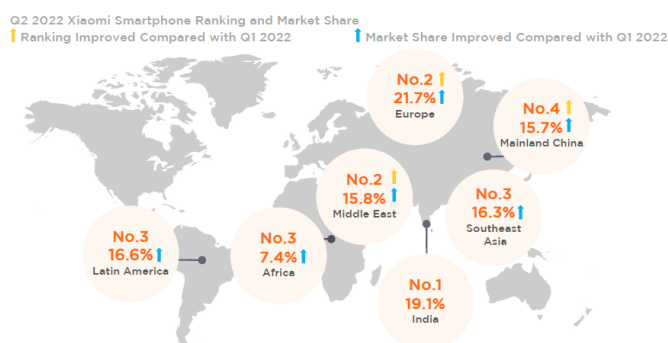
Source: Xiaomi, CMBIGM estimates

Figure 4: Global smartphone market share



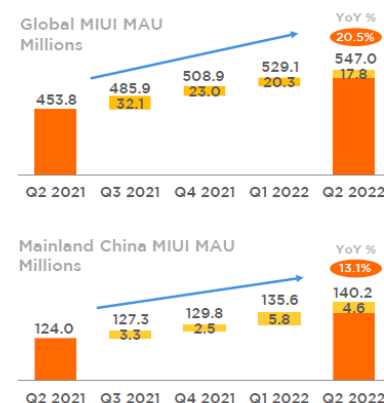
Source: IDC, CMBIGM estimates

Figure 5: Xiaomi's leadership in major markets



Source: Company data, CMBIGM estimates

Figure 6: Xiaomi's solid MIUI MAU growth



Source: Company data, CMBIGM estimates

2Q22 Review

Figure 7: 1Q22 results review

RMB mn	2Q21	1Q22	2Q22	QoQ	YoY	CMBIGM		Consensus	
						2Q22E	Diff %	2Q22E	Diff %
Revenue	87,789	73,352	70,171	-4.3%	-20%	69,482	1%	70,171	0%
Gross Profit	15,148	12,710	11,768	-7.4%	-22%	11,584	2%	11,768	0%
Operating Profit	10,726	(911)	1,733	-290.2%	-84%	(402)	-531%	1,670	4%
Adj. net profit	6,322	2,859	2,081	-27.2%	-67%	1,922	8%	2,081	0%
Adj. EPS (RMB)	0.32	(0.02)	0.08	-517.5%	-74%	0.08	8%	0.08	11%
Gross Margin	17.3%	17.3%	16.8%	-0.6 ppt	-0.5 ppt	16.7%	0.1 ppt	16.8%	0 ppt
Operating Margin	12.2%	-1.2%	2.5%	3.7 ppt	-9.7 ppt	-0.6%	3 ppt	2.4%	0.1 ppt
Adj. Net Margin	7.2%	3.9%	3.0%	-0.9 ppt	-4.2 ppt	2.8%	0.2 ppt	3.0%	0 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn						CMBIGM	
	2Q21	3Q21	4Q21	1Q22	2Q22	2Q22E	Diff %
Smart phones	59,089	47,825	50,464	45,763	42,268	42,510	-1%
...YoY	87%	0.5%	18.4%	-11%	-28%	-28%	
Shipment (000')	52,900	43,900	44,100	38,500	39,100	39,000	0%
...YoY	87%	-6%	4%	-22%	-26%	-26%	
ASP (RMB)	1,117	1,091	1,143	1,189	1,082	1,090	-1%
...YoY	0.0%	6.7%	13.3%	14.0%	-3.1%	-2.4%	
IoT and lifestyle products	20,735	20,936	25,067	19,477	19,812	18,956	5%
...YoY	36%	16%	19%	7%	-4%	-9%	
Smart TVs and laptops	6,000	5,900	10,493	6,200	5,300	5,400	-2%
...YoY	25%	2%	48%	11%	-12%	-10%	
Other IoTs	14,735	15,036	14,574	13,277	14,512	13,556	7%
...YoY	41%	22%	4%	5%	-2%	-8%	
Internet services	7,033	7,338	7,270	7,112	6,971	6,898	1%
...YoY	19%	27%	18%	8%	-1%	-2%	
Advertising services	4,512	4,791	4,903	4,525	4,539	4,286	6%
...YoY	46%	45%	34%	16%	1%	-5%	
Internet VAS	2,521	2,547	2,366	2,588	2,432	2,611	-7%
...YoY	-11%	3%	-8%	-3%	-4%	4%	
Gaming	900	1,000	900	1,157	942	909	4%
...YoY	-10%	25%	0%	3%	5%	1%	
Other (Youpin fintech, etc.)	1,621	1,547	1,466	1,431	1,490	1,702	-13%
...YoY	-11%	-7%	-12%	-8%	-8%	5%	
Others	932	1,965	2,775	999	1,120	1,118	0%
...YoY	24%	194%	363%	73%	20%	20%	
Total	87,789	78,063	85,575	73,352	70,171	69,482	1%
...YoY	64%	8%	21%	-5%	-20%	-21%	
Gross Margin							
Smart phones	11.8%	12.8%	10.1%	9.9%	8.7%	8.9%	-0.2 ppt
IoT and lifestyle products	13.2%	11.6%	13.0%	15.6%	14.3%	14.5%	-0.2 ppt
Internet services	74.1%	73.6%	76.1%	70.8%	73.0%	71.3%	1.7 ppt
Others	21.3%	18.0%	26.7%	12.0%	16.7%	12.0%	4.7 ppt
Total	17.3%	18.3%	17.1%	17.3%	16.8%	16.7%	0.1 ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY23-24E adj. NP are 15-18% above consensus

We trimmed FY22-24E adj. NP by 6-20% to reflect lower smartphone and higher expenses. Our FY22-24E EPS are 15-18% below consensus given our more conservative shipment estimates amid macro headwinds.

Figure 9: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	300,939	332,971	380,164	301,653	335,732	383,681	0%	-1%	-1%
Gross profit	50,700	57,949	65,724	51,342	59,099	67,264	-1%	-2%	-2%
Operating profit	6,224	11,603	14,432	2,930	5,745	8,875	112%	102%	63%
Adj. net profit	10,816	15,577	18,010	13,491	16,558	19,250	-20%	-6%	-6%
Adj. EPS (RMB)	0.43	0.62	0.72	0.54	0.66	0.77	-20%	-6%	-6%
Gross margin	16.8%	17.4%	17.3%	17.0%	17.6%	17.5%	-0.2 ppt	-0.2 ppt	-0.2 ppt
Operating margin	2.1%	3.5%	3.8%	1.0%	1.7%	2.3%	1.1 ppt	1.8 ppt	1.5 ppt
Adj. net margin	3.6%	4.7%	4.7%	4.5%	4.9%	5.0%	-0.9 ppt	-0.3 ppt	-0.3 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	300,939	332,971	380,164	319,801	365,706	406,030	-6%	-9%	-6%
Gross profit	50,700	57,949	65,724	54,584	63,727	71,260	-7%	-9%	-8%
Operating profit	6,224	11,603	14,432	13,107	19,571	23,445	-53%	-41%	-38%
Adj. net profit	10,816	15,577	18,010	13,167	17,799	21,142	-18%	-12%	-15%
Adj. EPS (RMB)	0.43	0.62	0.72	0.51	0.71	0.84	-15%	-12%	-14%
Gross margin	16.8%	17.4%	17.3%	17.1%	17.4%	17.6%	-0.2 ppt	0 ppt	-0.3 ppt
Operating margin	2.1%	3.5%	3.8%	4.1%	5.4%	5.8%	-2 ppt	-1.9 ppt	-2 ppt
Adj. net margin	3.6%	4.7%	4.7%	4.1%	4.9%	5.2%	-0.5 ppt	-0.2 ppt	-0.5 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: P&L forecast

RMB mn	FY21	1Q22	2Q22	3Q22E	4Q22E	FY22E	FY23E	FY24E
Revenue	328,309	73,352	70,171	75,438	81,979	300,939	332,971	380,164
...YoY	34%	-5%	-20%	-3%	-4%	-8%	11%	14%
Cost of sales	(270,048)	(60,642)	(58,403)	(62,914)	(68,281)	(250,239)	(275,022)	(314,440)
Gross profit	58,261	12,710	11,768	12,524	13,698	50,700	57,949	65,724
GPM (%)	17.7%	17.3%	16.8%	16.6%	16.7%	16.8%	17.4%	17.3%
...YoY	59%	-10%	-22%	-12%	-7%	-13%	14%	13%
SG&A	(25,720)	(6,501)	(6,648)	(4,451)	(8,772)	(26,371)	(28,969)	(32,124)
...% of rev	-7.8%	-8.9%	-9.5%	-5.9%	-10.7%	-8.8%	-8.7%	-8.5%
R&D	(13,167)	(3,495)	(3,763)	(5,507)	(3,279)	(16,044)	(15,317)	(17,107)
...% of rev	-4.0%	-4.8%	-5.4%	-7.3%	-4.0%	-5.3%	-4.6%	-4.5%
Operating profit	26,029	(911)	1,733	3,176	2,227	6,224	11,603	14,432
OPM (%)	7.9%	-1.2%	2.5%	4.2%	2.7%	2.1%	3.5%	3.8%
...YoY	8%	-111%	-84%	16%	-50%	-76%	86%	24%
Adj. net profit	22,039	2,859	2,081	3,528	2,421	10,816	15,577	18,010
NPM (%)	6.7%	3.9%	3.0%	4.7%	3.0%	3.6%	4.7%	4.7%
...YoY	69%	-53%	-67%	-32%	-46%	-51%	44%	16%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$13.93 (19% upside)

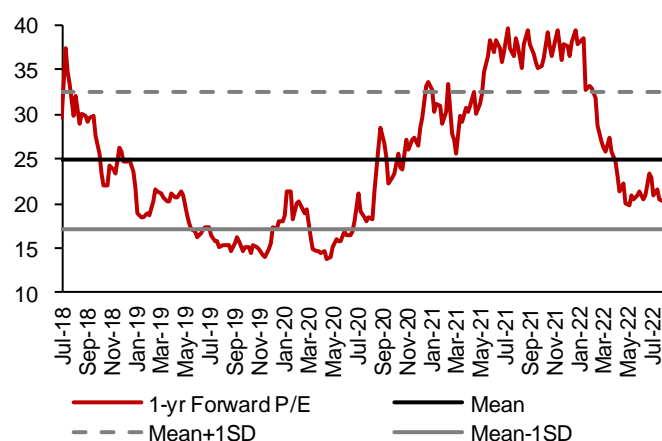
Our new TP of HK\$13.93 is based on same 20x FY23E P/E. Current valuation at 16.3x FY23E P/E is close to 1-sd below 3-yr average at 15.9x, and we view risk-reward as attractive. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

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 (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
HK-listed												
Xiaomi	1810 HK	Buy	37,089	11.7	13.9	19%	23.3	16.2	1.8	1.6	7.5	10.1
Sunny Optical	2382 HK	Hold	16,384	117.2	102.3	-13%	42.1	28.5	5.0	4.3	11.8	15.3
AAC Tech	2018 HK	Hold	2,261	14.7	14.0	-5%	17.3	12.1	0.7	0.7	4.0	5.6
BYDE	285 HK	Hold	6,146	21.4	12.5	-42%	24.3	14.4	1.7	1.5	6.9	10.6
FIT Hon Teng	6088 HK	Buy	1,111	1.2	1.8	48%	6.8	5.9	0.4	0.4	6.0	6.3
Tongda	698 HK	Buy	159	0.1	0.2	72%	3.2	2.1	0.1	0.1	3.1	4.5
Q tech	1478 HK	Buy	726	4.8	5.6	16%	18.8	9.2	1.0	0.9	5.5	10.3
TK Group	2283 HK	Buy	194	1.8	3.4	85%	4.5	3.5	0.8	0.7	18.6	20.7
Average							19.5	12.7	1.5	1.4	6.4	8.9
Smartphone												
Apple	AAPL US	NR	2,756,455	171.5	NA	NA	28.1	26.6	49.6	40.4	159.4	161.7
Lenovo	992 HK	NR	11,114	7.2	NA	NA	5.8	5.8	2.2	1.6	44.4	34.5
Samsung	005930 KS	NR	271,999	60,900.0	NA	NA	9.6	9.8	1.2	1.1	13.3	11.9
LG Elec	066570 KS	NR	12,366	101,000.0	NA	NA	7.6	7.2	0.9	0.8	12.4	11.6
Average							12.8	12.3	13.5	11.0	57.4	54.9
IoT												
Skyworth	751 HK	NR	1,223	3.7	NA	NA	5.0	4.1	-	-	8.9	10.0
Hisense	600060 CH	NR	2,473	12.9	NA	NA	11.1	9.2	1.0	0.9	8.9	9.9
Midea	000333 CH	NR	54,001	52.6	NA	NA	11.5	10.1	2.5	2.2	22.2	21.7
Gree	000651 CH	NR	25,160	30.5	NA	NA	7.0	6.3	1.5	1.4	21.9	21.7
Average							8.7	7.4	1.7	1.5	15.5	15.8

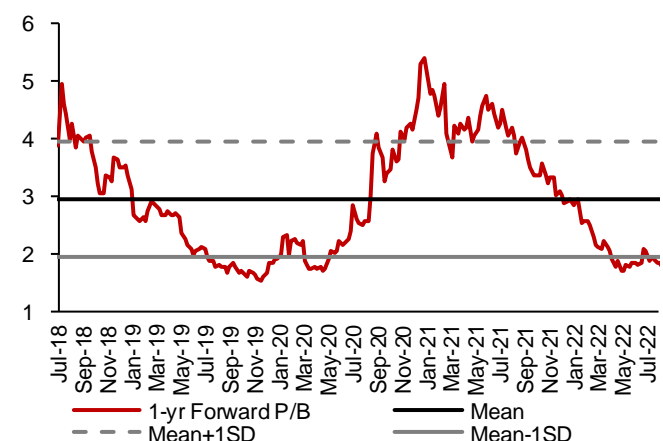
Source: Bloomberg, CMBIGM

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	300,939	332,971	380,164
Cost of goods sold	(177,285)	(209,114)	(270,048)	(250,239)	(275,022)	(314,440)
Gross profit	28,554	36,752	58,261	50,700	57,949	65,724
Selling expense	(10,378)	(14,539)	(20,981)	(21,141)	(23,308)	(25,851)
Admin expense	(3,104)	(3,746)	(4,739)	(5,230)	(5,661)	(6,273)
R&D expense	(7,493)	(9,256)	(13,167)	(16,044)	(15,317)	(17,107)
Other income	1,266	643	827	791	791	791
Gain/loss on financial assets at FVTPL	3,813	13,173	8,132	(2,010)	(2,010)	(2,010)
Investment gain/loss	(672)	1,381	275	356	356	356
EBIT	11,760	24,035	26,029	6,224	11,603	14,432
Net Interest income/(expense)	402	(1,641)	(1,612)	379	379	379
Foreign exchange gain/loss	(226)	(372)	(2,580)	(1,198)	(1,198)	(1,198)
Others	0	0	0	0	0	0
Pre-tax profit	12,163	21,633	24,417	6,603	11,982	14,811
Income tax	(2,060)	(1,321)	(5,134)	(1,184)	(1,677)	(2,073)
Minority interest	59	(43)	(56)	(10)	(30)	(37)
Net profit	10,103	20,313	19,283	5,420	10,304	12,737
Adjusted net profit	11,532	13,006	22,039	10,816	15,577	18,010
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	168,193	207,370	204,520
Cash & equivalents	25,920	54,752	23,512	38,128	48,306	59,419
Account receivables	19,672	19,080	23,095	12,202	24,654	15,977
Inventories	32,585	41,671	52,398	31,015	47,563	42,277
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	111,633	115,135	118,787
PP&E	6,992	6,306	6,965	11,557	15,059	18,711
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	279,826	322,505	323,307
Current liabilities	92,181	107,927	115,727	96,204	128,579	116,644
Short-term borrowings	12,837	6,962	5,527	5,527	5,527	5,527
Account payables	59,528	72,199	74,643	55,120	87,495	75,560
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	135,936	168,311	156,376
Share capital	388	409	407	407	407	407
Other reserves	81,330	123,691	137,212	142,642	152,976	165,750
Total shareholders equity	81,658	124,014	137,432	142,852	153,156	165,893
Minority interest	327	322	220	210	180	143
Total equity and liabilities	183,629	253,680	292,892	278,788	321,467	322,270
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	12,163	21,633	24,417	6,603	11,982	14,811
Depreciation & amortization	1,381	1,708	3,062	2,464	3,158	3,951
Tax paid	(2,242)	(1,126)	(2,442)	(1,184)	(1,677)	(2,073)
Change in working capital	9,553	4,320	(15,725)	12,752	3,375	2,028
Others	2,956	(4,658)	474	0	0	0
Net cash from operations	23,810	21,879	9,785	20,636	16,837	18,716

Investing						
Capital expenditure	(3,405)	(3,026)	(7,169)	(6,019)	(6,659)	(7,603)
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
Net cash from investing	(31,570)	(17,679)	(45,008)	(6,019)	(6,659)	(7,603)
Financing						
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
Net cash from financing	3,121	26,216	4,499	0	0	0
Net change in cash						
Cash at the beginning of the year	30,230	25,920	54,752	23,512	38,128	48,306
Exchange difference	(1,583)	(517)	0	0	0	0
Cash at the end of the year	25,920	54,752	23,512	38,128	48,306	59,419
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	17.7%	19.4%	33.5%	(8.3%)	10.6%	14.2%
Gross profit	28.7%	28.7%	58.5%	(13.0%)	14.3%	13.4%
EBIT	882.9%	104.4%	8.3%	(76.1%)	86.4%	24.4%
Net profit	(25.0%)	101.1%	(5.1%)	(71.9%)	90.1%	23.6%
Adj. net profit	31.9%	12.8%	69.5%	(50.9%)	44.0%	15.6%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	13.9%	14.9%	17.7%	16.8%	17.4%	17.3%
Adj. net profit margin	5.6%	5.3%	6.7%	3.6%	4.7%	4.7%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	0.9	0.6	1.0	0.7	0.8	0.6
Current ratio (x)	1.5	1.6	1.6	1.7	1.6	1.8
Receivable turnover days	11.1	12.7	15.6	12.0	12.0	12.0
Inventory turnover days	63.9	64.8	63.6	45.4	45.4	45.4
Payable turnover days	108.9	115.0	99.2	94.6	94.6	94.6
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	20.8	17.4	26.8	23.3	16.2	14.0
P/E (diluted)	18.1	27.3	23.5	23.3	16.2	14.0
P/B	2.6	2.9	3.8	1.8	1.6	1.5
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

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

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