

Xiaomi (1810 HK)

2Q23 beat on record-high margin; Reiterate BUY

Xiaomi's 2Q23 adj. net income of RMB 5.14bn (+147% YoY) beat our/market estimates, mainly thanks to record-high GPM in smartphone/AIoT segments, healthy inventory levels and operating efficiency improvements. 2Q23 adj. net income RMB 5.14bn was 29%/26% above our estimate/consensus, while revenue of RMB 67.4bn (-4% YoY) was largely in-line. Looking into 2H23E, we maintain our positive view on Xiaomi's earnings recovery driven by smartphone premiumization strategy, easing component costs, efficiency enhancement and new model launches. We slightly adjusted our estimates and our new TP of HK\$17.69 is based on same 24x FY24E P/E. Maintain BUY. Catalysts include EV progress, product launches and market share gain.

- **2Q23 beat on strong GPM and improving operating efficiency.** Xiaomi's global smartphone shipment declined 16% YoY but ASP improved 2.8% YoY in 2Q23. By segment, smartphone/AIoT/internet revenue grew by -13%/12%/7% YoY, and GPM further improved to record-high 21.0% in 2Q23 (vs. 19.5% in 1Q23), thanks to lower component costs, reversal of smartphone inventory provision and broad-based GPM recovery. In particular, we are encouraged by continuous decline of inventory level to RMB 38.5bn (-34% YoY/-10% QoQ) in 2Q23. Looking ahead, we are positive on its business recovery and profitability improvement into 2H23E, and we expect its adj. net income to grow 54%/133% YoY in 3Q/4Q23E.
- **Key highlights: stronger AI R&D team, large model deployment on AI assistants and retail store efficiency improvement.** Mgmt. highlighted its strong capability in AI technology, and its well-established 3,000+ AI-related R&D team. In addition, large model deployment on Xiaomi's AI assistant has delivered impressive progress. Regarding efficiency improvement of its offline retail stores, mgmt. stated that 2Q23 offline store GMV increased 20%+YoY with 46%+ of China premium smartphone sales coming from offline channels.
- **Earnings recovery ahead of expectation; Reiterate BUY.** Despite near-term macro weakness, we believe Xiaomi's earnings will continue to maintain growth momentum into 3Q/4Q23E, driven by cost optimization, healthy inventory and product premiumization. We slightly adjusted our forecasts and our FY23-25E adj. NP are 27-31% above consensus. Our new TP of HK\$17.69 is based on same 24x FY24E P/E. Reiterate BUY. Upcoming catalysts include new product launches, EV progress and share gain in smartphone market.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	328,309	280,044	270,214	294,891	327,604
YoY growth (%)	33.5	(14.7)	(3.5)	9.1	11.1
Adjusted net profit (RMB mn)	22,039.5	8,518.0	14,974.0	16,100.7	17,939.2
EPS (Adjusted) (RMB)	0.88	0.34	0.60	0.65	0.72
Consensus EPS (RMB)	NA	NA	0.47	0.52	0.60
P/E (x)	26.8	30.7	19.1	17.8	15.9
P/B (x)	3.8	1.8	1.8	1.7	1.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	14.8	1.8	8.6	7.5	8.0
Net gearing (%)	96.0	70.9	57.6	54.9	45.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$17.69
 (Previous TP HK\$16.41)
Up/Downside 42.9%
Current Price HK\$12.38

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Stock Data

Mkt Cap (HK\$ mn)	251,834.0
Avg 3 mths t/o (HK\$ mn)	708.1
52w High/Low (HK\$)	13.68/8.45
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	1.6%	9.5%
3-mth	18.1%	18.6%
6-mth	4.4%	11.7%

Source: FactSet

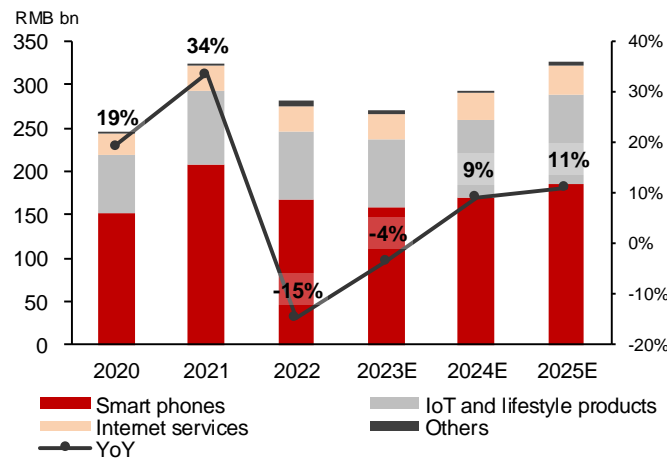
12-mth Price Performance



Source: FactSet

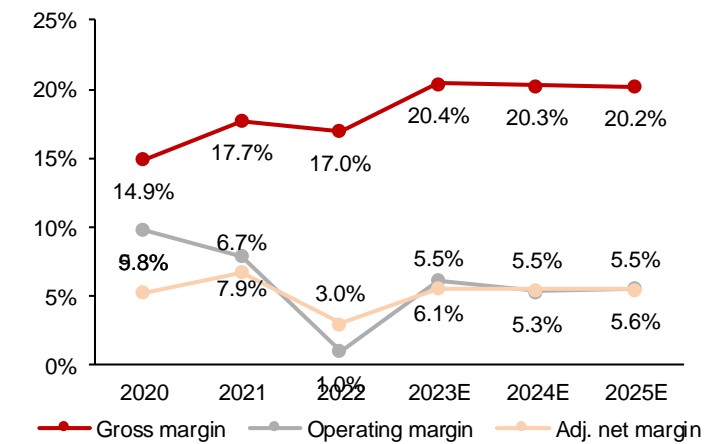
Focus Charts

Figure 1: Xiaomi's revenue trend



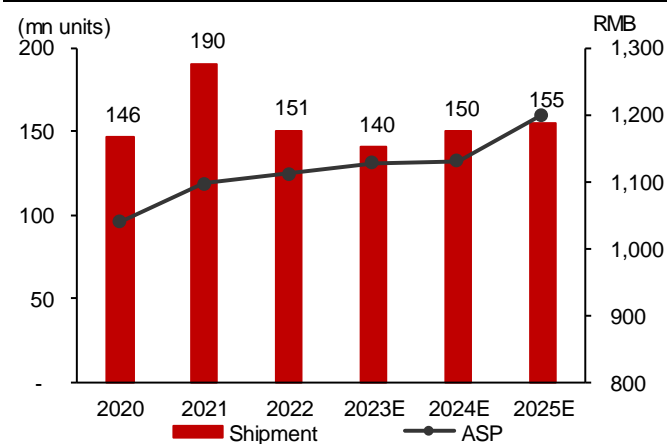
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi's margin trend



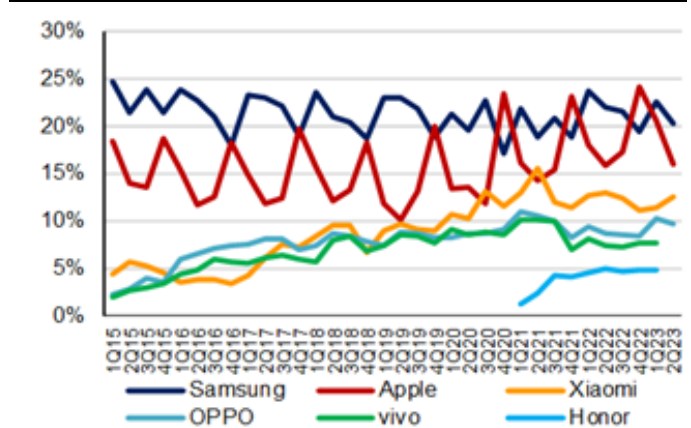
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi's smartphone shipment forecast



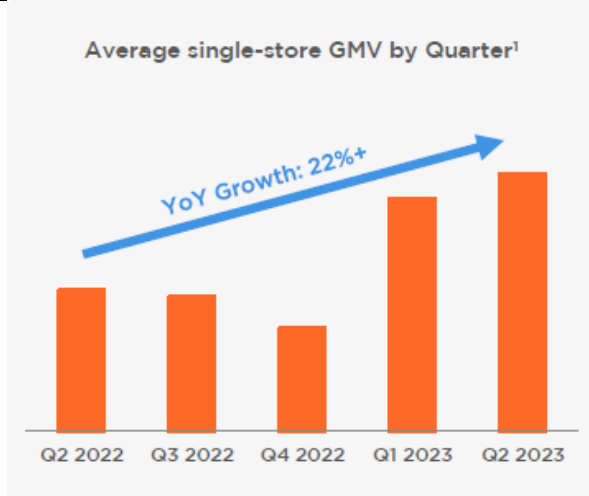
Source: Company data, CMBIGM estimates

Figure 4: Global smartphone market share



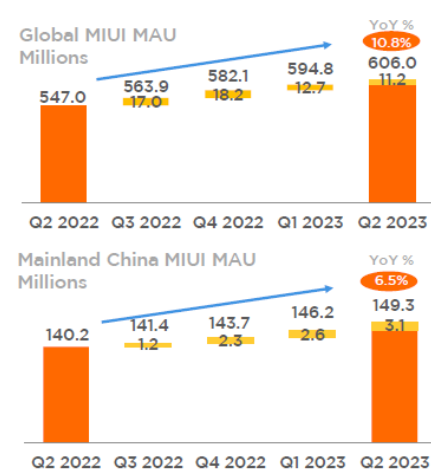
Source: IDC, CMBIGM estimates

Figure 5: Strengthened Offline Retail in China



Source: Company data, CMBIGM estimates

Figure 6: Xiaomi's solid MIUI MAU growth



Source: Company data, CMBIGM estimates

2Q23 Review

Figure 7: 2Q23 results review

RMB mn	2Q22	1Q23	2Q23	QoQ	YoY	CMBIGM		Consensus	
						2Q23E	Diff %	2Q23E	Diff %
Revenue	70,171	59,477	67,355	13.2%	-4%	66,155	2%	65,835	2%
Gross Profit	11,768	11,592	14,161	22.2%	20%	13,201	7%	13,241	7%
Operating Profit	1,733	5,900	4,041	-31.5%	133%	3,505	15%	3,662	10%
Adj. net profit	2,081	3,233	5,140	59.0%	147%	3,995	29%	4,084	26%
Adj. EPS (RMB)	0.08	0.13	0.21	58.7%	147%	0.16	28%	0.15	40%
Gross Margin	16.8%	19.5%	21.0%	1.5 ppt	4.3 ppt	20.0%	1.1 ppt	20.1%	0.9 ppt
Operating Margin	2.5%	9.9%	6.0%	-3.9 ppt	3.5 ppt	5.3%	0.7 ppt	5.6%	0.4 ppt
Adj. Net Margin	3.0%	5.4%	7.6%	2.2 ppt	4.7 ppt	6.0%	1.6 ppt	6.2%	1.4 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	CMBIGM	
							2Q23E	Diff
Smart phones	45,763	42,268	42,514	36,672	34,985	36,595	36,520	0%
...YoY	-11%	-28%	-11%	-27%	-17%	-13%	-14%	
Shipment (000')	38,500	39,100	40,200	32,700	30,400	32,900	33,200	-1%
...YoY	-22%	-26%	-8%	-26%	-21%	-16%	-15%	
ASP (RMB)	1,189	1,082	1,058	1,121	1,152	1,112	1,100	1%
...YoY	14.0%	-3.1%	-3.0%	-1.9%	-3.1%	2.8%	1.7%	
IoT and lifestyle products	19,477	19,812	19,059	21,447	16,834	22,254	20,998	6%
...YoY	7%	-4%	-9%	-14%	-15%	12%	6%	
Smart TVs and laptops	6,200	5,300	5,800	6,500	4,700	4,700	5,035	-7%
...YoY	11%	-12%	-2%	-38%	-11%	-19%	-13%	
Other IoTs	13,277	14,512	13,259	14,947	12,134	17,554	15,963	10%
...YoY	5%	-2%	-12%	3%	-16%	32%	20%	
Internet services	7,112	6,971	7,067	7,171	7,028	7,444	7,293	2%
...YoY	8%	-1%	-4%	-1%	1%	7%	5%	
Advertising services	4,525	4,539	4,671	4,766	4,400	5,100	4,675	9%
...YoY	16%	1%	-3%	-3%	-3%	12%	3%	
Internet VAS	2,588	2,432	2,396	2,406	2,628	2,344	2,618	-10%
...YoY	-3%	-4%	-6%	2%	8%	-4%	8%	
Gaming	1,157	942	1,018	1,000	1,345	1,013	1,084	-7%
...YoY	3%	5%	2%	11%	43%	8%	15%	
Other (Youpin fintech, etc.)	1,431	1,490	1,378	1,406	1,283	1,331	1,534	-13%
...YoY	-8%	-8%	-11%	-4%	-14%	-11%	3%	
Others	999	1,120	1,835	757	630	1,062	1,344	-21%
...YoY	73%	20%	-7%	-73%	-44%	-5%	20%	
Total	73,352	70,171	70,474	66,047	59,477	67,355	66,155	2%
...YoY	-5%	-20%	-10%	-23%	-15%	-4%	-6%	
Gross Margin								
Smart phones	9.9%	8.7%	8.9%	8.2%	11.2%	13.3%	11.9%	1.4 ppt
IoT and lifestyle products	15.6%	14.3%	13.5%	14.3%	15.7%	17.6%	16.0%	1.6 ppt
Internet services	70.8%	73.0%	72.1%	71.5%	72.3%	74.1%	72.4%	1.7 ppt
Others	11.2%	16.7%	15.0%	24.9%	-10.8%	-13.4%	16.0%	-29.4 ppt
Total	17.3%	16.8%	16.6%	17.2%	19.5%	21.0%	20.0%	1.1 ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY23-25E adj. NP are 27-31% above consensus

We adjusted FY23-25E adj. NP by 10-14% to reflect higher GPM and stronger margin recovery. Our FY23-25E adj. NP are 27-31% above consensus given our more positive view on efficiency improvement.

Figure 9: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	270,214	294,891	327,604	268,732	293,285	325,746	1%	1%	1%
Gross profit	55,147	59,738	66,244	51,949	54,324	60,263	6%	10%	10%
Operating profit	16,567	15,766	18,218	14,255	10,385	12,304	16%	52%	48%
Adj. net profit	14,974	16,101	17,939	13,128	14,597	16,276	14%	10%	10%
Adj. EPS (RMB)	0.60	0.65	0.72	0.53	0.59	0.66	14%	10%	10%
Gross margin	20.4%	20.3%	20.2%	19.3%	18.5%	18.5%	1.1 ppt	1.7 ppt	1.7 ppt
Operating margin	6.1%	5.3%	5.6%	5.3%	3.5%	3.8%	0.8 ppt	1.8 ppt	1.8 ppt
Adj. net margin	5.5%	5.5%	5.5%	4.9%	5.0%	5.0%	0.7 ppt	0.5 ppt	0.5 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	270,214	294,891	327,604	273,912	307,771	341,892	-1%	-4%	-4%
Gross profit	55,147	59,738	66,244	51,165	56,747	62,981	8%	5%	5%
Operating profit	16,567	15,766	18,218	11,752	12,583	14,728	41%	25%	24%
Adj. net profit	14,974	16,101	17,939	11,438	12,593	14,167	31%	28%	27%
Adj. EPS (RMB)	0.60	0.65	0.72	0.47	0.52	0.60	28%	24%	21%
Gross margin	20.4%	20.3%	20.2%	18.7%	18.4%	18.4%	1.7 ppt	1.8 ppt	1.8 ppt
Operating margin	6.1%	5.3%	5.6%	4.3%	4.1%	4.3%	1.8 ppt	1.3 ppt	1.3 ppt
Adj. net margin	5.5%	5.5%	5.5%	4.2%	4.1%	4.1%	1.4 ppt	1.4 ppt	1.3 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	70,200	74,433	270,214	294,891	327,604
...YoY	-15%	-19%	-4%	0%	13%	-4%	9%	11%
Cost of sales	(232,467)	(47,886)	(53,194)	(55,885)	(59,353)	(216,317)	(235,153)	(261,360)
Gross profit	47,577	11,592	14,161	14,315	15,080	55,147	59,738	66,244
GPM (%)	17.0%	19.5%	21.0%	20.4%	20.3%	20.4%	20.3%	20.2%
...YoY	-18%	12%	25%	23%	18%	16%	8%	11%
SG&A	(26,437)	(5,239)	(5,620)	(6,248)	(7,071)	(24,178)	(27,425)	(29,812)
...% of rev	-9.4%	-8.8%	-8.3%	-8.9%	-9.5%	-8.9%	-9.3%	-9.1%
R&D	(16,028)	(4,113)	(4,555)	(4,914)	(5,210)	(18,792)	(20,937)	(22,605)
...% of rev	-5.7%	-6.9%	-6.8%	-7.0%	-7.0%	-7.0%	-7.1%	-6.9%
Operating profit	2,816	5,900	4,041	3,294	3,333	16,567	15,766	18,218
OPM (%)	1.0%	9.9%	6.0%	4.7%	4.5%	6.1%	5.3%	5.6%
...YoY	-89%	-899%	143%	-343%	-12%	488%	-5%	16%
Adj. net profit	8,518	3,233	5,140	3,261	3,411	14,974	16,101	17,939
NPM (%)	3.0%	5.4%	7.6%	4.6%	4.6%	5.5%	5.5%	5.5%
...YoY	-61%	39%	147%	54%	133%	76%	8%	11%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$17.69 (43% upside)

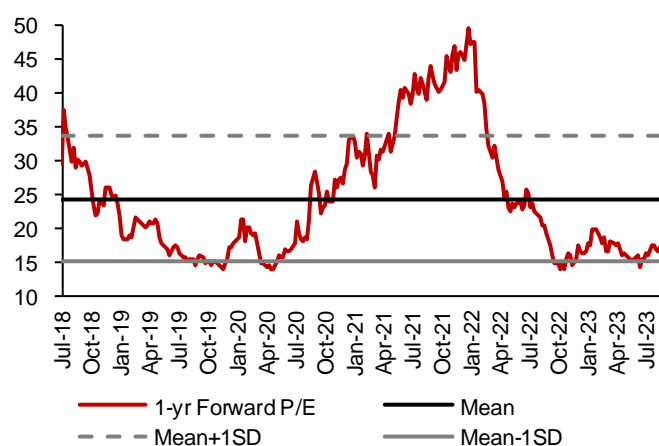
Our new TP of HK\$17.69 is based on same 24x FY24E P/E. The stock now trades at 17.8x FY24E P/E, and we view risk-reward as attractive given earnings recovery and smart EV upside. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
HK-listed												
Xiaomi	1810 HK	BUY	39,445	12.4	17.7	43%	19.1	17.8	1.8	1.7	8.6	7.5
Sunny Optical	2382 HK	HOLD	9,002	64.4	78.3	22%	34.8	22.6	2.7	2.5	7.8	11.2
AAC Tech	2018 HK	HOLD	2,371	15.5	15.6	0%	25.8	15.5	0.7	0.7	2.9	4.7
BYDE	285 HK	BUY	9,361	32.6	31.7	-3%	19.9	16.2	2.3	2.1	11.7	12.8
FIT Hon Teng	6088 HK	BUY	985	1.1	2.1	94%	7.1	5.7	0.4	0.4	5.2	6.3
Tongda	698 HK	BUY	99	0.1	0.2	113%	3.6	2.6	0.1	0.1	1.8	3.8
Q tech	1478 HK	BUY	447	3.0	3.6	22%	10.6	5.5	0.6	0.6	5.9	10.3
TK Group	2283 HK	BUY	140	1.3	3.4	156%	2.5	3.4	0.5	0.6	20.7	17.8
Average							17.2	12.2	1.2	1.1	6.4	8.4
Smartphone												
Apple	AAPL US	NR	2,880,842	184.3	NA	NA	30.4	27.9	46.0	35.7	166.4	145.7
Lenovo	992 HK	NR	12,891	8.3	NA	NA	7.7	10.3	2.1	2.0	30.6	20.2
Samsung	005930 KS	NR	302,267	66,800.0	NA	NA	44.9	14.2	1.3	1.2	2.9	8.6
LG Elec	066570 KS	NR	12,355	99,600.0	NA	NA	9.5	6.6	0.8	0.7	8.9	11.6
Average							23.1	14.8	12.5	9.9	52.2	46.5
IoT												
Skyworth	751 HK	NR	912	2.9	NA	NA	9.0	7.8	0.4	0.3	4.2	4.4
Hisense	600060 CH	NR	3,969	22.1	NA	NA	13.5	11.3	1.5	1.4	11.1	11.8
Midea	000333 CH	NR	54,066	56.1	NA	NA	11.7	10.6	2.4	2.1	21.0	20.5
Gree	000651 CH	NR	26,909	34.8	NA	NA	7.3	6.6	1.7	1.5	24.3	23.0
Average							10.4	9.1	1.5	1.3	15.1	14.9

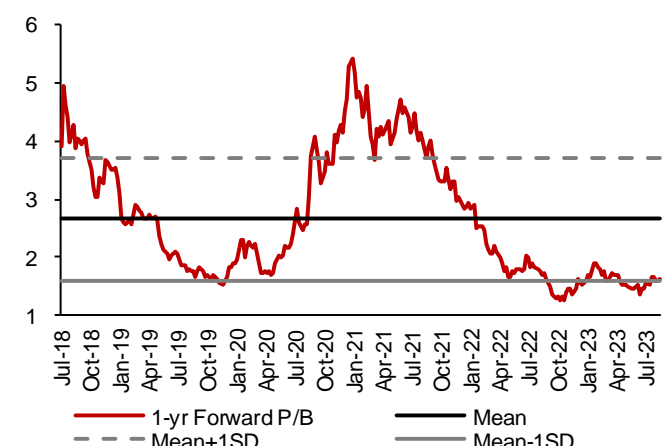
Source: Bloomberg, CMBIGM

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	270,214	294,891	327,604
Cost of goods sold	(209,114)	(270,048)	(232,467)	(216,317)	(235,153)	(261,360)
Gross profit	36,752	58,261	47,577	53,897	59,738	66,244
Selling expense	(14,539)	(20,981)	(21,323)	(19,077)	(21,822)	(23,915)
Admin expense	(3,746)	(4,739)	(5,114)	(5,101)	(5,603)	(5,897)
R&D expense	(9,256)	(13,167)	(16,028)	(18,792)	(20,937)	(22,605)
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	16,567	15,766	18,218
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	17,171	16,370	18,821
Income tax	(1,321)	(5,134)	(1,431)	(4,231)	(4,093)	(4,705)
Minority interest	(43)	(56)	29	(50)	140	161
Net profit	20,313	19,283	2,503	12,940	12,278	14,116
Adjusted net profit	13,006	22,039	8,518	14,974	16,101	17,939
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	176,682	190,204	211,620
Cash & equivalents	54,752	23,512	27,607	45,178	46,557	65,197
Account receivables	19,080	23,095	19,625	23,056	22,092	26,327
Inventories	41,671	52,398	50,438	45,703	58,809	57,351
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	115,751	118,288	120,797
PP&E	6,306	6,965	9,138	11,797	14,334	16,843
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	292,433	308,492	332,417
Current liabilities	107,927	115,727	89,628	95,613	99,395	109,203
Short-term borrowings	6,962	5,527	2,151	2,151	2,151	2,151
Account payables	72,199	74,643	53,094	59,079	62,861	72,669
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	135,570	139,351	149,160
Share capital	409	407	406	406	406	406
Other reserves	123,691	137,212	143,658	156,648	168,786	182,741
Total shareholders equity	124,014	137,432	143,923	156,863	169,141	183,257
Minority interest	322	220	265	215	355	516
Total equity and liabilities	253,680	292,892	273,507	292,433	308,492	332,417

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	21,633	24,417	3,934	17,171	16,370	18,821
Depreciation & amortization	1,708	3,062	2,182	2,746	3,361	4,044
Tax paid	(1,126)	(2,442)	(2,382)	(4,231)	(4,093)	(4,705)
Change in working capital	4,320	(15,725)	(15,675)	7,289	(8,361)	7,032
Others	(3,830)	474	7,552	0	0	0
Net cash from operations	22,706	9,785	(4,390)	22,975	7,277	25,192
Investing						
Capital expenditure	(3,026)	(7,169)	(5,800)	(5,404)	(5,898)	(6,552)
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	(5,404)	(5,898)	(6,552)
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	45,178	46,557
Exchange difference	(517)	791	0	0	0	0
Cash at the end of the year	55,580	24,339	27,607	45,178	46,557	65,197

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

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