

Xiaomi (1810 HK)

Raise TP and estimates on 4Q23 beat; All eyes on EV official launch on 28 March

Xiaomi's 4Q23 revenue/net profit of 11%/236% YoY growth beat our/consensus estimates, driven by stronger margins, improving mix and investment gains. Looking ahead, mgmt. is positive on smartphone recovery, premiumization strategy and EV business expansion. We believe Xiaomi's global smartphone share gain, AIoT overseas sales and internet revenue improvement will continue to drive growth into FY24E-25E. We are also positive on Xiaomi's upcoming EV launch event on 28 March. We think Xiaomi's pricing strategy of its SU 7 EV and initial market feedback will be the near-term catalyst for share price. Our new TP of HK\$20.25 is based on the same 24x FY24E P/E. Maintain BUY. Catalysts include EV product launch and smartphone market share gain.

- 4Q23 beat on better margins and improving mix.** Xiaomi's 4Q23 global smartphone shipment increased 23.9% YoY and ASP dropped 2.6% YoY due to increasing mix of lower-ASP model in emerging markets, partially offset by China ASP increase. By segment, smartphone/internet revenue increased 20.6%/9.9% YoY, boosted by strong shipment, large global user base and better advertising revenue. AIoT revenue dropped by 5.1% YoY due to weaker TV/NB sales. Blended GPM came in at 21.3%, in-line with our/consensus estimates, despite lower SP/AIoT GPM given higher BOM cost and change in product mix.
- 2024E outlook: All eyes on EV sales and initial market feedback; global smartphone share gain and AIoT expansion to continue.** Xiaomi's upcoming EV launch event is scheduled on 28 March, and EV models will be available for sales in 59 Xiaomi stores in 29 cities immediately after the event. Mgmt. is positive on Xiaomi's smartphone global market share gain especially in the Middle East, Africa and Latin America, and anticipated faster shipment improvement for FY24E. Overall, we expect Xiaomi's revenue/adj. net income to deliver +12%/2% YoY increase for FY24E.
- EV official launch as near-term catalyst; Maintain BUY.** We think that Xiaomi's EV pricing strategy and market response will be near-term share price catalysts. We slightly adjusted our estimates, and our new TP of HK\$20.25 is based on same 24x FY24E P/E. Maintain BUY. Upcoming catalysts include EV product launch event and global smartphone share gain.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue (RMB mn)	328,309	280,044	270,970	303,895	332,166
YoY growth (%)	33.5	(14.7)	(3.2)	12.2	9.3
Adjusted net profit (RMB mn)	22,039.5	8,518.0	19,272.8	19,738.4	21,135.6
YoY growth (%)	69.5	(61.4)	126.3	2.4	7.1
EPS (Adjusted) (RMB)	0.88	0.34	0.77	0.79	0.85
Consensus EPS (RMB)	N/A	N/A	N/A	0.64	0.69
P/E (x)	26.8	30.7	17.7	17.2	16.1
P/B (x)	3.8	1.8	2.1	1.9	1.7
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	14.8	1.8	11.3	9.0	9.0
Net gearing (%)	96.0	70.9	76.9	79.9	63.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$20.25
(Previous TP)	HK\$19.54
Up/Downside	36.3%
Current Price	HK\$14.86

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Stock Data

Mkt Cap (HK\$ mn)	302,282.1
Avg 3 mths t/o (HK\$ mn)	1,218.4
52w High/Low (HK\$)	16.80/9.99
Total Issued Shares (mn)	20342.0

Source: FactSet

Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.6%

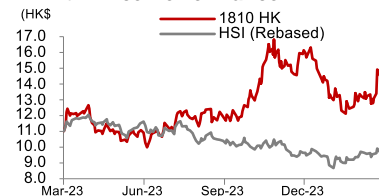
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	15.0%	12.4%
3-mth	-7.9%	-8.1%
6-mth	24.5%	35.5%

Source: FactSet

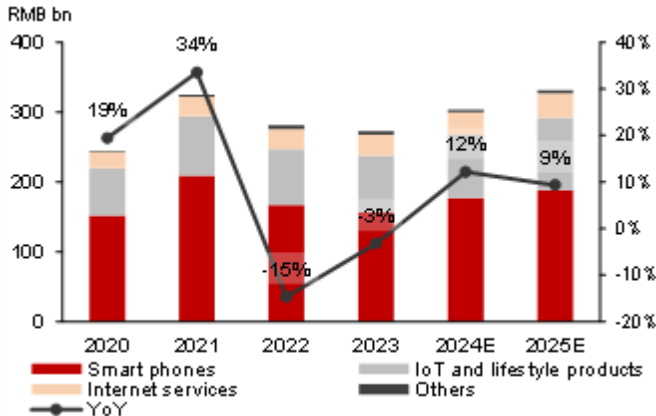
12-mth Price Performance



Source: FactSet

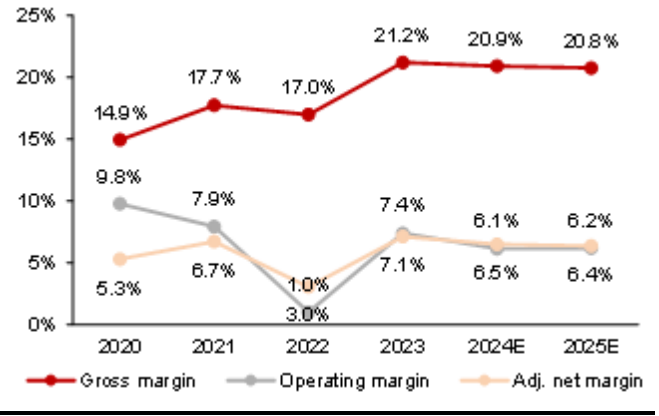
Focus Charts

Figure 1: Xiaomi's revenue trend



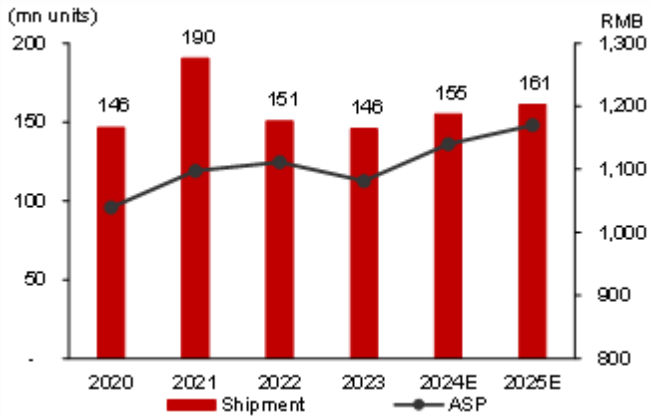
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi's margin trend



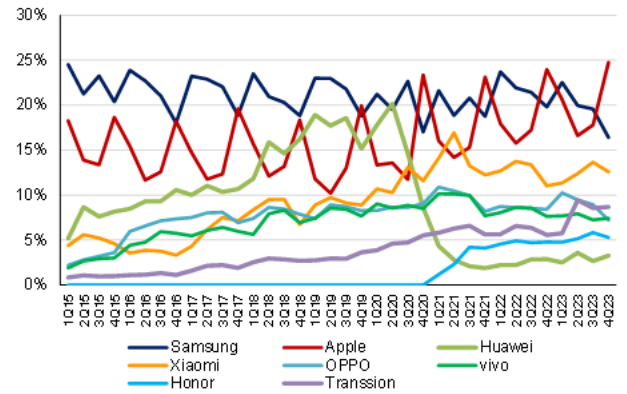
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi's smartphone shipment forecast



Source: Xiaomi, CMBIGM estimates

Figure 4: Global smartphone market share



Source: IDC, CMBIGM estimates

Figure 5: Global smartphone market share gain



Source: Company data, CMBIGM estimates

Figure 6: Smartphone premiumization strategy



Source: Company data, CMBIGM estimates

4Q23 Review

Figure 6: 4Q23 results review

RMB mn	4Q22	3Q23	4Q23	QoQ	YoY	CMBIGM	
						4Q23E	Diff %
Revenue	66,047	70,894	73,244	3.3%	11%	72,735	1%
Gross Profit	11,378	16,110	15,614	-3.1%	37%	15,428	1%
Operating Profit	3,356	5,011	5,057	0.9%	51%	4,246	19%
Adj. net profit	1,461	5,990	4,910	-18.0%	236%	4,096	20%
Adj. EPS (RMB)	0.06	0.24	0.20	-18.1%	235%	0.16	20%
Gross Margin	17.2%	22.7%	21.3%	-1.4 ppt	4.1 ppt	21.2%	0.1 ppt
Operating Margin	5.1%	7.1%	6.9%	-0.2 ppt	1.8 ppt	5.8%	1.1 ppt
Adj. Net Margin	2.2%	8.4%	6.7%	-1.7 ppt	4.5 ppt	5.6%	1.1 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 7: Revenue breakdown

RMB mn	4Q22	1Q23	2Q23	3Q23	4Q23	CMBIGM	
						4Q23E	Diff %
Smart phones	36,672	34,985	36,595	41,649	44,232	42,735	4%
... YoY	-27%	-24%	-13%	-2%	21%	17%	
Shipment ('000')	32,700	30,400	32,900	41,800	40,500	40,700	0%
... YoY	-26%	-21%	-16%	4%	24%	24%	
ASP (RMB)	1,121	1,152	1,112	996	1,092	1,050	4%
... YoY	-1.9%	-3.1%	2.8%	-5.8%	-2.6%	-6.4%	
IoT and lifestyle products	21,447	16,834	22,254	20,673	20,347	21,272	-4%
... YoY	-14%	-14%	12%	8%	-5%	-1%	
Smart TVs and laptops	6,500	4,700	4,700	4,982	5,100	6,175	-17%
... YoY	-38%	-24%	-19%	-23%	-22%	-5%	
Other IoTs	14,947	12,134	17,554	15,691	15,247	15,097	1%
... YoY	3%	-9%	32%	5%	2%	1%	
Internet services	7,171	7,028	7,444	7,756	7,880	7,896	0%
... YoY	-1%	-1%	7%	10%	10%	10%	
Advertising services	4,766	4,400	5,100	5,400	5,600	5,433	3%
... YoY	-3%	-3%	12%	16%	18%	14%	
Internet VAS	2,406	2,628	2,344	2,356	2,280	2,464	-7%
... YoY	2%	2%	-4%	-2%	-5%	2%	
Gaming	1,000	1,345	1,013	1,075	954	1,100	-13%
... YoY	11%	16%	8%	6%	-5%	10%	
Other (Youpin fintech, etc.)	1,406	1,283	1,331	1,281	1,326	1,364	-3%
... YoY	-4%	-10%	-11%	-7%	-6%	-3%	
Others	757	630	1,062	817	785	832	-6%
... YoY	-73%	-37%	-5%	-55%	4%	10%	
Total	66,047	59,477	67,355	70,894	73,244	72,735	1%
... YoY	-23%	-19%	-4%	1%	11%	10%	
Gross Margin							
Smart phones	8.2%	11.2%	13.3%	16.6%	16.4%	16.0%	0.4 ppt
IoT and lifestyle products	14.3%	15.7%	17.6%	17.8%	13.9%	13.5%	0.4 ppt
Internet services	71.5%	72.3%	74.1%	74.4%	75.7%	74.0%	1.7 ppt
Others	24.9%	-10.8%	-13.4%	-33.9%	-54.8%	-15.0%	-39.8 ppt
Total	17.2%	19.5%	21.0%	22.7%	21.3%	21.2%	0.1 ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY24-25E adj. EPS are +24/+24% vs consensus

We slightly adjusted FY24/25E adj. EPS by 4%/6%. Our FY24/25E EPS are +24%/+24% vs consensus given our more positive view on expense controls and adjustment items.

Figure 8: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	303,895	332,166	360,199	302,141	329,298	N/A	1%	1%	N/A
Gross profit	63,568	68,958	75,030	63,705	70,032	N/A	0%	-2%	N/A
Operating profit	18,642	20,505	23,977	18,670	19,912	N/A	0%	3%	N/A
Adj. net profit	19,738	21,136	23,740	19,001	19,933	N/A	4%	6%	N/A
Adj. EPS (RMB)	0.79	0.85	0.95	0.77	0.80	N/A	4%	6%	N/A
Gross margin	20.9%	20.8%	20.8%	21.1%	21.3%	N/A	-0.2 ppt	-0.5 ppt	N/A
Operating margin	6.1%	6.2%	6.7%	6.2%	6.0%	N/A	0 ppt	0.1 ppt	N/A
Adj. net margin	6.5%	6.4%	6.6%	6.3%	6.1%	N/A	0.2 ppt	0.3 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 9: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	303,895	332,166	360,199	302,396	339,345	376,103	0%	-2%	-4%
Gross profit	63,568	68,958	75,030	61,322	67,954	76,831	4%	1%	-2%
Operating profit	18,642	20,505	23,977	16,962	19,084	27,186	10%	7%	-12%
Adj. net profit	19,738	21,136	23,740	15,418	17,305	28,619	28%	22%	-17%
Adj. EPS (RMB)	0.79	0.85	0.95	0.64	0.69	0.89	24%	24%	7%
Gross margin	20.9%	20.8%	20.8%	20.3%	20.0%	20.4%	0.6 ppt	0.7 ppt	0.4 ppt
Operating margin	6.1%	6.2%	6.7%	5.6%	5.6%	7.2%	0.5 ppt	0.5 ppt	-0.6 ppt
Adj. net margin	6.5%	6.4%	6.6%	5.1%	5.1%	7.6%	1.4 ppt	1.3 ppt	-1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 10: P&L forecast

RMB mn	FY22	1Q23	2Q23	3Q23	4Q23	FY23	FY24E	FY25E
Revenue	280,044	59,477	67,355	70,894	73,244	270,970	303,895	332,166
...YoY	-15%	-19%	-4%	1%	11%	-3%	12%	9%
Cost of sales	(232,467)	(47,886)	(53,194)	(54,785)	(57,630)	(213,494)	(240,327)	(263,208)
Gross profit	47,577	11,592	14,161	16,110	15,614	57,476	63,568	68,958
GPM (%)	17.0%	19.5%	21.0%	22.7%	21.3%	21.2%	20.9%	20.8%
...YoY	-18%	-9%	20%	37%	37%	21%	11%	8%
SG&A	(26,437)	(5,239)	(5,620)	(6,102)	(7,393)	(24,353)	(27,351)	(29,563)
...% of rev	-9.4%	-8.8%	-8.3%	-8.6%	-10.1%	-9.0%	-9.0%	-8.9%
R&D	(16,028)	(4,113)	(4,555)	(4,966)	(5,463)	(19,098)	(21,273)	(22,587)
...% of rev	-5.7%	-6.9%	-6.8%	-7.0%	-7.5%	-7.0%	-7.0%	-6.8%
Operating profit	2,816	5,900	4,041	5,011	5,057	20,009	18,642	20,505
OPM (%)	1.0%	9.9%	6.0%	7.1%	6.9%	7.4%	6.1%	6.2%
...YoY	-89%	-747%	133%	-468%	51%	610%	-7%	10%
Adj. net profit	8,518	3,233	5,140	5,990	4,910	19,273	19,738	21,136
NPM (%)	3.0%	5.4%	7.6%	8.4%	6.7%	7.1%	6.5%	6.4%
...YoY	-61%	13%	147%	183%	236%	126%	2%	7%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$20.25 (36% upside)

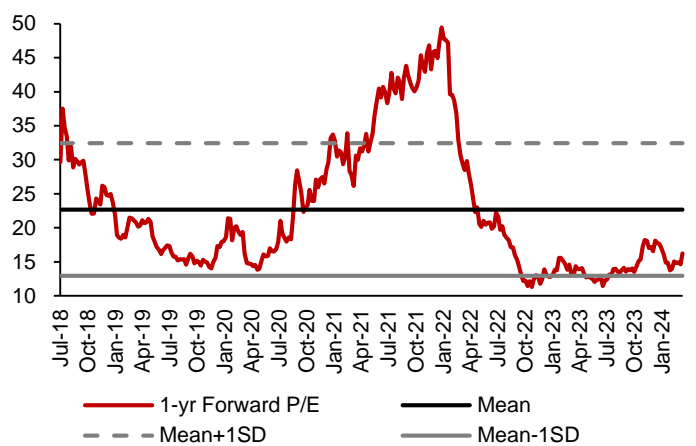
Our TP of HK\$20.25 is based on the same 24x FY24E P/E. The stock now trades at 19.7x FY24E P/E, and we view risk-reward as attractive given smart EV upside. Catalysts include EV product launch, and smartphone market share gain.

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 (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
HK-listed												
Xiaomi	1810 HK	BUY	47,395	14.9	20.3	36%	17.7	17.2	2.1	1.9	11.3	9.0
Sunny Optical	2382 HK	HOLD	7,550	53.9	50.7	-6%	46.0	25.4	2.3	2.2	5.0	8.6
AAC Tech	2018 HK	HOLD	3,440	22.5	14.0	-37%	39.5	22.6	1.1	1.0	2.7	4.6
BYDE	285 HK	BUY	8,498	29.5	45.9	55%	15.1	11.1	2.0	1.7	13.4	15.7
FIT Hon Teng	6088 HK	BUY	1,640	1.8	2.2	26%	12.5	8.8	0.6	0.6	5.1	7.0
Tongda	698 HK	BUY	93	0.1	0.2	127%	4.2	2.6	0.1	0.1	2.3	3.5
Q tech	1478 HK	BUY	486	3.2	3.6	12%	11.5	6.0	0.7	0.6	5.9	10.3
TK Group	2283 HK	BUY	145	1.4	3.1	127%	4.9	3.6	0.6	0.6	13.3	16.3
Average							21.0	13.4	1.3	1.2	6.5	8.7
Smartphone												
Apple	AAPL US	NR	2,682,564	173.7	NA	NA	28.6	26.3	46.3	36.1	169.4	148.2
Lenovo	992 HK	NR	14,923	9.4	NA	NA	8.8	15.8	2.4	2.4	30.6	16.2
Samsung	005930 KS	NR	324,549	72,800.0	NA	NA	43.8	15.9	1.4	1.3	3.1	8.1
LG Elec	066570 KS	NR	11,756	96,200.0	NA	NA	11.7	8.0	0.8	0.8	7.1	9.7
Average							23.2	16.5	12.7	10.1	52.5	45.5
IoT												
Skyworth	751 HK	NR	890	2.9	NA	NA	9.2	7.9	0.4	0.4	4.2	4.4
Hisense	600060 CH	NR	4,341	23.9	NA	NA	14.7	12.7	1.6	1.5	11.3	11.9
Midea	000333 CH	NR	60,606	62.6	NA	NA	12.9	11.7	2.7	2.5	21.5	21.2
Gree	000651 CH	NR	29,944	38.3	NA	NA	7.8	7.3	1.9	1.7	25.0	23.2
Average							11.2	9.9	1.7	1.5	15.5	15.2

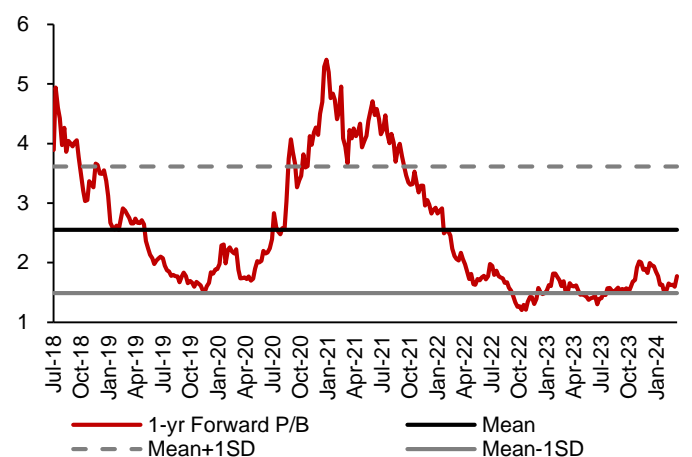
Source: Bloomberg, CMBIGM

Figure 12: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 13: 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	270,970	303,895	332,166
Cost of goods sold	(209,114)	(270,048)	(232,467)	(213,494)	(240,327)	(263,208)
Gross profit	36,752	58,261	47,577	57,476	63,568	68,958
Selling expense	(14,539)	(20,981)	(21,323)	(19,227)	(21,577)	(23,584)
Admin expense	(3,746)	(4,739)	(5,114)	(5,127)	(5,774)	(5,979)
R&D expense	(9,256)	(13,167)	(16,028)	(19,098)	(21,273)	(22,587)
Other income	643	827	1,136	740	901	901
Gain/loss on financial assets at FVTPL	13,173	8,132	(1,662)	3,501	3,501	3,501
Investment gain/loss	1,381	275	(400)	46	46	46
EBIT	24,035	26,029	2,816	20,009	18,642	20,505
Net Interest income/(expense)	(1,641)	(1,612)	1,117	2,002	2,002	2,002
Foreign exchange gain/loss	(372)	(2,580)	(1,369)	1,697	(751)	(751)
Others	0	0	0	0	0	0
Pre-tax profit	21,633	24,417	3,934	22,011	20,644	22,507
Income tax	(1,321)	(5,134)	(1,431)	(4,537)	(5,161)	(5,627)
Minority interest	(43)	(56)	29	(1)	(1)	(1)
Net profit	20,313	19,283	2,503	17,474	15,483	16,880
Adjusted net profit	13,006	22,039	8,518	19,273	19,738	21,136
Net dividends	0	0	0	0	0	0
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	176,283	185,851	160,415	199,053	206,231	224,635
Cash & equivalents	54,752	23,512	27,607	33,631	16,755	46,217
Account receivables	19,080	23,095	19,625	21,924	28,011	24,751
Inventories	41,671	52,398	50,438	44,423	62,389	54,592
Prepayment	16,182	19,852	18,578	20,079	20,079	20,079
ST bank deposits	17,599	31,041	29,875	52,798	52,798	52,798
Financial assets at FVTPL	22,376	30,910	9,846	20,194	20,194	20,194
Other current assets	4,623	5,045	4,446	6,005	6,005	6,005
Non-current assets	77,397	107,040	113,092	125,195	133,926	143,841
PP&E	6,306	6,965	9,138	13,721	22,452	32,367
Deferred income tax	2,011	1,662	2,278	2,161	2,161	2,161
Investment in JVs & assos	12,782	10,231	7,932	6,922	6,922	6,922
Intangibles	4,266	5,579	4,630	8,629	8,629	8,629
Financial assets at FVTPL	35,215	50,114	55,980	60,200	60,200	60,200
Other non-current assets	16,817	32,490	33,134	33,562	33,562	33,562
Total assets	253,680	292,892	273,507	324,247	340,157	368,476
Current liabilities	107,927	115,727	89,628	115,588	116,014	127,453
Short-term borrowings	6,962	5,527	2,151	6,183	6,183	6,183
Account payables	72,199	74,643	53,094	62,099	62,525	73,964
Tax payable	674	2,335	1,384	1,838	1,838	1,838
Other current liabilities	28,092	33,222	32,999	45,467	45,467	45,467
Non-current liabilities	21,739	39,732	39,957	44,398	44,398	44,398
Long-term borrowings	10,635	20,720	21,493	21,674	21,674	21,674
Deferred income	301	1,203	983	1,494	1,494	1,494
Other non-current liabilities	10,804	17,809	17,480	21,230	21,230	21,230
Total liabilities	129,666	155,459	129,584	159,986	160,412	171,851
Share capital	409	407	406	407	407	407
Other reserves	123,691	137,212	143,658	163,995	179,479	196,360
Total shareholders equity	124,014	137,432	143,923	164,262	179,745	196,625
Minority interest	322	220	265	266	265	264
Total equity and liabilities	253,680	292,892	273,507	324,247	340,157	368,476

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	21,633	24,417	3,934	22,011	20,644	22,507
Depreciation & amortization	1,708	3,062	3,707	(2,088)	(2,653)	(3,272)
Tax paid	(1,126)	(2,442)	(3,420)	(4,083)	(5,161)	(5,627)
Change in working capital	4,320	(15,725)	(21,255)	25,862	(23,628)	22,497
Others	(3,830)	474	12,644	(402)	0	0
Net cash from operations	22,706	9,785	(4,390)	41,300	(10,798)	36,105
Investing						
Capital expenditure	(3,026)	(7,169)	(5,800)	(2,495)	(6,078)	(6,643)
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)	(32,674)	0	0
Net cash from investing	(17,679)	(45,008)	15,549	(35,169)	(6,078)	(6,643)
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)	(505)	0	0
Net cash from financing	26,216	4,499	(7,855)	(505)	0	0
Net change in cash						
Cash at the beginning of the year	25,920	55,580	24,339	27,607	33,631	16,755
Exchange difference	(517)	791	398	0	0	0
Cash at the end of the year	55,580	24,339	27,607	33,631	16,755	46,217

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

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