

Xiaomi (1810 HK)

2023 Investor Day: All eyes on profitability and smart EV business upside

We attended Xiaomi's 2023 Investor Day in Beijing last week. Mgmt. targeted to maintain healthy profitability level while balancing growth. The strategic focus remains the smart EV business with launch schedule in 1H24E. Key takeaways included: 1) FY23E smartphone shipment to stay at FY22 level with potential upside on share gain. 2) EV business R&D spending will increase to RMB 7.5-8.0bn in FY23E (vs RMB 3bn in FY22). 3) AIoT overseas expansion remains key growth driver with more innovative SKUs. 4) Overseas internet revenue reached a new milestone, and expect gaming recovery due to policy relaxation and advertising headwinds due to macro weakness. Looking ahead, we believe the worst is likely over for Xiaomi's earnings decline, and we believe earnings recovery in 1H23E and EV upside will be major positive catalysts for the stock. Maintain BUY with TP of HK\$14.73 based on 24x FY23E P/E.

- **Conservative outlook on FY23E smartphone shipment.** Mgmt. guided a flattish or slightly trending up smartphone shipment for FY23E. In 4Q22, Xiaomi's smartphone market share declined mainly due to weakness in India/China market. Mgmt. stated that profitability is the business priority for smartphone business in India considering policy headwinds. In all, we are positive on Xiaomi smartphone's premiumization strategy, positive progress in channel destocking and share gain potential in emerging markets.
- **Smart EV business to ramp up in 1H24E with higher R&D spending.** Mgmt. guided R&D spending of RMB 7.5-8.0bn for smart EV business in FY23E compared to RMB 3.0bn in FY22. The launch schedule remains unchanged in 1H24E, and we are positive on Xiaomi's "Smartphone+AIoT+EV" strategy, benefiting from understanding of consumer electronics markets, supply chain management and synergies across product lines.
- **The worst is over with EV business upside; Maintain BUY.** We believe the worst is over for Xiaomi's earnings decline, and recovery will be driven by China reopening and healthy inventory level in China/India. Maintain BUY with TP of HK\$14.73, based on 24.0x 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	279,547	290,990	338,541
YoY growth (%)	19.4	33.5	(14.9)	4.1	16.3
Adjusted net profit (RMB mn)	13,006.4	22,039.5	8,287.7	13,153.1	14,731.7
EPS (Adjusted) (RMB)	0.54	0.88	0.33	0.53	0.59
Consensus EPS (RMB)	na	na	0.36	0.48	0.61
P/E (x)	17.4	26.8	34.1	21.5	19.2
P/B (x)	2.9	3.8	2.1	2.0	1.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	19.8	14.8	(1.2)	6.2	7.6
Net gearing (%)	60.4	96.0	71.3	84.3	62.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$14.73
(Previous TP	HK\$14.73)
Up/Downside	12.6%
Current Price	HK\$13.08

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Stock Data

Mkt Cap (HK\$ mn)	266,073.4
Avg 3 mths t/o (HK\$ mn)	11.4
52w High/Low (HK\$)	16.60/8.45
Total Issued Shares (mn)	20342.0

Source: FactSet

Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.6%

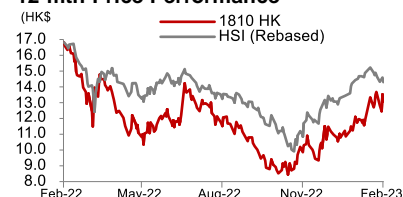
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.2%	9.9%
3-mth	32.7%	0.7%
6-mth	13.5%	5.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Valuation

Maintain BUY with TP of HK\$14.73 (12.6% upside)

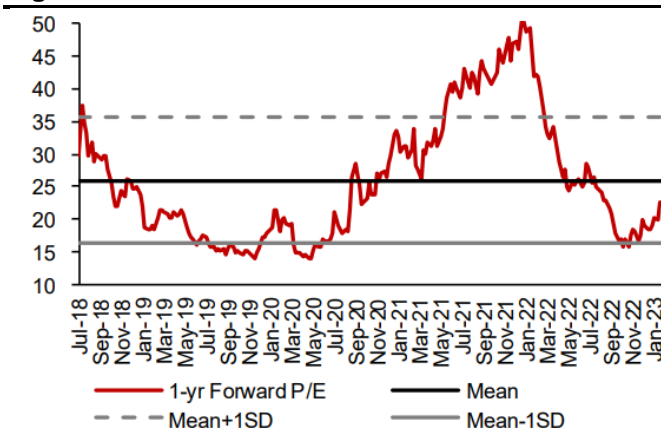
Our TP of HK\$14.73 is based on same 24x FY23E P/E. Current valuation at 16.0x FY23E P/E is close to 1-sd below 3-yr average at 15.9x, and we view risk-reward as attractive. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

Figure 1: 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	41,776	13.1	14.7	12%	34.1	21.5	2.1	2.0	6.1	9.1
Sunny Optical	2382 HK	HOLD	13,952	99.9	96.3	-4%	36.9	26.0	4.2	3.7	11.5	14.4
AAC Tech	2018 HK	HOLD	3,026	19.8	15.4	-22%	26.9	16.6	0.9	0.9	3.5	5.6
BYDE	285 HK	HOLD	7,635	26.6	20.4	-23%	32.7	19.4	2.1	1.9	6.4	9.9
FIT Hon Teng	6088 HK	BUY	1,950	2.1	1.8	-12%	10.3	9.2	0.7	0.7	6.9	7.4
Tongda	698 HK	BUY	180	0.1	0.2	52%	4.8	3.6	0.1	0.1	2.3	3.0
Q tech	1478 HK	BUY	779	5.2	5.8	12%	23.1	9.6	1.1	1.0	4.8	10.6
TK Group	2283 HK	BUY	175	1.7	3.4	105%	4.0	3.2	0.7	0.7	18.6	20.7
Average							24.3	15.2	1.6	1.5	5.9	8.6
Smartphone												
Apple	AAPL US	NR	2,389,272	151.0	NA	NA	24.7	25.0	43.2	43.1	160.8	162.7
Lenovo	992 HK	NR	10,135	6.6	NA	NA	5.3	5.6	2.0	1.5	44.4	31.9
Samsung	005930 KS	NR	294,018	62,900.0	NA	NA	11.7	26.2	1.3	1.2	11.4	4.7
LG Elec	066570 KS	NR	13,736	107,200.0	NA	NA	10.7	10.4	1.0	0.9	9.4	8.6
Average							13.1	16.8	11.9	11.7	56.5	52.0
IoT												
Skyworth	751 HK	NR	1,551	4.7	NA	NA	9.0	6.3	0.5	0.5	3.5	3.5
Hisense	600060 CH	NR	2,956	15.4	NA	NA	11.9	10.4	1.1	1.1	9.6	10.4
Midea	000333 CH	NR	53,719	52.4	NA	NA	12.1	10.9	2.5	2.2	21.4	20.4
Gree	000651 CH	NR	28,622	34.7	NA	NA	7.6	6.9	1.7	1.5	22.8	22.2
Average							10.1	8.6	1.5	1.3	14.3	14.2

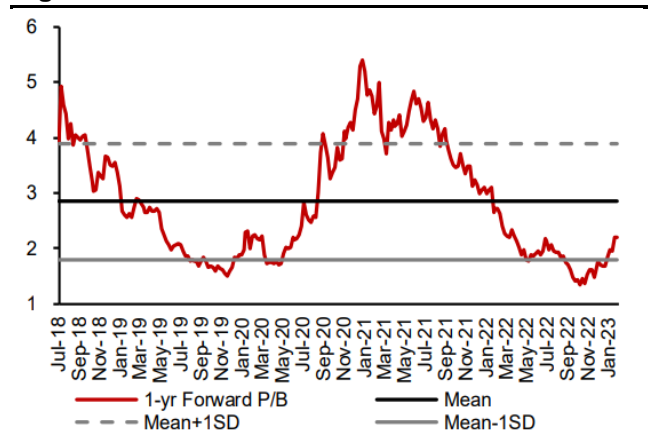
Source: Bloomberg, CMBIGM

Figure 2: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 3: 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
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	12,163	21,633	24,417	(1,053)	9,843	13,034
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
Net cash from operations	23,810	21,879	9,785	11,976	12,977	19,197

Investing						
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
Net cash from investing	(31,570)	(17,679)	(45,008)	(5,591)	(5,820)	(6,771)
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	29,897	37,054
Exchange difference	(1,583)	(517)	0	0	0	0
Cash at the end of the year	25,920	54,752	23,512	29,897	37,054	49,481
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	17.7%	19.4%	33.5%	(14.9%)	4.1%	16.3%
Gross profit	28.7%	28.7%	58.5%	(19.0%)	10.9%	15.4%
EBIT	882.9%	104.4%	8.3%	na	na	33.4%
Net profit	(25.0%)	101.1%	(5.1%)	na	na	32.2%
Adj. net profit	31.9%	12.8%	69.5%	(62.4%)	58.7%	12.0%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	13.9%	14.9%	17.7%	16.9%	18.0%	17.9%
Adj. net profit margin	5.6%	5.3%	6.7%	3.0%	4.5%	4.4%
Return on equity (ROE)	13.2%	19.8%	14.8%	(1.2%)	6.2%	7.6%
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	1.8	1.6	1.7
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	34.1	21.5	19.2
P/E (diluted)	18.1	27.3	23.5	34.1	21.5	19.2
P/B	2.6	2.9	3.8	2.1	2.0	1.8
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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