

# Xiaomi (1810 HK)

## 2Q19 above on one-off; Mobile/Ads headwinds likely to continue

**Summary.** Xiaomi's 2Q19 revenue/adj. net profit grew 15%/72% YoY. Revenue was 6% below our estimates but in-line with consensus, while adj. net profit was 50%/30% above our/consensus mainly due to better GPM and investment gains of RMB1.4bn (vs. loss of RMB511mn in 2Q18). Given slower growth and smartphone/ads uncertainty in 2H19E, we maintain HOLD with new TP HK\$9.38.

- **Slower 2Q19 across all segments despite better GPM.** Xiaomi revenue growth decelerated to 15% YoY (vs +27% in 1Q19) in 2Q19 with smartphone/IoT/internet services of 5%/44%/16% YoY (vs +16%/56%/32% YoY in 1Q19). GPM recovered QoQ to 14% in 2Q from 12% in 1Q, thanks to better smartphone GPM (8.1% vs 3.3% in 1Q19) with better mix.
- **Smartphone: Shipment/ASP still under pressure.** Xiaomi's smartphone delivered a lackluster 2Q19 with 5% YoY, due to weak ASP/shipment of 5%/0.2% YoY. We believe headwinds will persist into 2H19E: 1) stalling volume due to pressure from Huawei in China and Samsung in India, 2) ASP decline on deteriorating mix with new roll-outs of lower prices, and 3) limited near-term contribution from 5G smartphone models in China and network expansion into carrier retail channels in Europe. We expect sluggish Xiaomi shipment in 2H19E before 5G boom in 2Q20E.
- **AIoT: Solid pipeline with integrated ecosystem.** IoT biz continues robust growth on back of 1) broader scope of categories, ranging from best-selling smart TV (ranked 1<sup>st</sup> in China/India) to large home appliances (e.g. air-con) to smart kitchen appliance; 2) AI-empowered new launches, such as AI translator/door lock/wash and dryer. We believe Xiaomi's IoT products will continue to gain traction and deliver 38% FY18-21E revenue CAGR.
- **Internet: Soft ads/gaming offset by robust fintech/e-commerce.** Internet services decelerated to 16% YoY in 2Q19. Advertising/gaming revenue dropped by 0.6%/4% YoY, while revenue from fintech (consumer/supply chain finance) and Youpin e-commerce saw strong momentum of 90% YoY, accounting for 30% of 2Q internet revenue (vs 27%/20% in 1Q19/FY18).
- **Maintain HOLD with new TP of HK\$9.38.** Overall, we maintain our neutral view on the stock given slower growth and outlook uncertainty on mobile/ads in 2H19E. We slightly revised our FY19-21E EPS and revised TP to HK\$9.38, based on 18x FY20E P/E (vs prev 16x on better growth/margin outlook).

### Earnings Summary

| (YE31Dec)                | FY17A    | FY18A    | FY19E    | FY20E    | FY21E    |
|--------------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)         | 114,625  | 174,915  | 203,882  | 251,553  | 302,237  |
| YoY growth (%)           | 67.5     | 52.6     | 16.6     | 23.4     | 20.1     |
| Adj. Net income (RMB mn) | 5,362    | 8,555    | 11,512   | 13,813   | 17,166   |
| Adj. EPS (RMB)           |          | 0.53     | 0.48     | 0.58     | 0.72     |
| YoY growth (%)           | -        | -        | -        | 20.6     | 24.3     |
| P/E (x)                  |          | 15.9     | 21.8     | 18.1     | 14.6     |
| P/B (x)                  | (0.6)    | 1.9      | 2.5      | 2.1      | 1.8      |
| Yield (%)                | -        | -        | -        | -        | -        |
| ROE (%)                  | 34       | 19       | 11.4     | 14.0     | 14.9     |
| Net gearing (%)          | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, CMBIS estimate

**HOLD (Maintain)**

Target Price **HK\$9.38**  
 (Previous TP **HK\$8.02**)  
 Current Price **HK\$9.43**  
 Downside **-1.0%**

### China Technology Sector

#### Alex Ng

Tel: (852) 3900 0881  
 Email: alexng@cmbi.com.hk

#### Iris Zhang

Tel: (852) 3761 8780  
 Email: iriszhang@cmbi.com.hk

#### Stock Data

|                          |            |
|--------------------------|------------|
| Mkt. Cap. (HK\$mn)       | 225,979    |
| Avg. 3mths t/o (HK\$mn)  | 672.45     |
| 52W High/Low (HK\$)      | 18.96/8.37 |
| Total Issued Shares (mn) | 23,626.4   |

Source: Bloomberg

#### Shareholding Structure

|                       |        |
|-----------------------|--------|
| Smart Mobile          | 12.87% |
| Morningside China TMT | 12.39% |
| Apoletto Ltd          | 4.94%  |

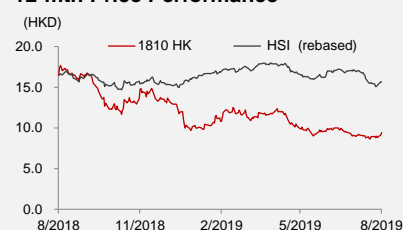
Source: HKEx

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 3.5%     | 13.5%    |
| 3-mth | -4.7%    | 1.0%     |
| 6-mth | -13.0%   | -5.4%    |

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

## Earnings Revision

Figure 1: 2Q19 results review

| RMB mn                 | 1Q19   | 2Q19   | QoQ      | YoY      | CMBI estimates |          | Consensus |          |
|------------------------|--------|--------|----------|----------|----------------|----------|-----------|----------|
|                        |        |        |          |          | 2Q19E          | Diff %   | 2Q19E     | Diff %   |
| Revenue                | 43,757 | 51,951 | 18.7%    | 14.8%    | 55,098         | -5.7%    | 52,173    | 0%       |
| Gross Profit           | 5,216  | 7,259  | 39.2%    | 28.4%    | 6,589          | 10.2%    | 7,242     | 0%       |
| Operating Profit       | 3,614  | 2,336  | -35.4%   | -130.8%  | 2,748          | -15.0%   | 2,840     | -18%     |
| Adj. net profit        | 2,081  | 3,635  | 74.7%    | 71.7%    | 2,429          | 49.7%    | 2,810     | 29%      |
| Adj. EPS (RMB)         | 0.13   | 0.08   | -37.8%   | -94.2%   | 0.12           | -30.6%   | 0.12      | -29%     |
| <b>Gross Margin</b>    | 11.9%  | 14.0%  | 2.1 ppt  | 1.5 ppt  | 12.0%          | -2 ppt   | 13.9%     | 0.1 ppt  |
| <b>Operating</b>       | 8.3%   | 4.5%   | -3.8 ppt | 21.3 ppt | 5.0%           | 0.5 ppt  | 5.4%      | -0.9 ppt |
| <b>Adj. Net Margin</b> | 4.8%   | 7.0%   | 2.2 ppt  | 2.3 ppt  | 4.4%           | -2.6 ppt | 5.4%      | 1.6 ppt  |

Source: Company data, Bloomberg, CMBIS

Figure 2: Revenue breakdown

| RMB mn                            | FY17    | FY18    | 1Q19   | 2Q19   | 3Q19E  | 4Q19E  | FY19E   | FY20E   | FY21E   |
|-----------------------------------|---------|---------|--------|--------|--------|--------|---------|---------|---------|
| <b>Smart phones</b>               | 80,564  | 113,800 | 27,009 | 32,021 | 35,882 | 25,824 | 120,735 | 138,000 | 150,000 |
| ... YoY                           | 65%     | 41%     | 16%    | 5%     | 3%     | 3%     | 6%      | 14%     | 9%      |
| <b>IoT and lifestyle products</b> | 23,448  | 43,817  | 12,043 | 14,945 | 14,948 | 20,347 | 62,283  | 87,819  | 119,466 |
| ... YoY                           | 89%     | 87%     | 56%    | 44%    | 38%    | 36%    | 42%     | 41%     | 36%     |
| Smart TVs and laptops             | 8,300   | 18,200  | 5,113  | 5,500  | 5,411  | 8,195  | 24,220  | 31,486  | 37,783  |
| ... YoY                           |         | 119%    | 58%    | 32%    | 28%    | 25%    | 33%     | 30%     | 20%     |
| Other IoTs                        | 15,148  | 25,617  | 6,929  | 9,445  | 9,538  | 12,151 | 38,063  | 56,334  | 81,684  |
| ... YoY                           |         | 69%     | 55%    | 52%    | 45%    | 45%    | 49%     | 48%     | 45%     |
| <b>Internet services</b>          | 9,896   | 15,956  | 4,257  | 4,580  | 5,426  | 4,702  | 18,960  | 22,879  | 28,487  |
| ... YoY                           | 51%     | 61%     | 32%    | 16%    | 15%    | 16%    | 19%     | 21%     | 25%     |
| Advertising services              | 5,614   | 10,100  | 2,283  | 2,500  | 3,296  | 2,602  | 10,681  | 11,215  | 12,336  |
| ... YoY                           | 46%     | 80%     | 22%    | -0.6%  | 3%     | 3%     | 6%      | 5%      | 10%     |
| Internet value-added services     | 4,282   | 5,855   | 1,975  | 2,075  | 2,130  | 2,100  | 8,280   | 11,664  | 16,151  |
| ... YoY                           | 59%     | 37%     | 45%    | 42%    | 39%    | 39%    | 41%     | 41%     | 38%     |
| <b>Others</b>                     | 717     | 1,343   | 448    | 405    | 495    | 555    | 1,904   | 2,855   | 4,283   |
| ... YoY                           | 0%      | 87%     | 83%    | 2%     | 50%    | 50%    | 42%     | 50%     | 50%     |
| <b>Total</b>                      | 114,625 | 174,915 | 43,757 | 51,951 | 56,751 | 51,428 | 203,882 | 251,553 | 302,237 |
| ... YoY                           |         | 53%     | 27%    | 15%    | 12%    | 16%    | 17%     | 23%     | 20%     |
| <b>Gross Margin</b>               |         |         |        |        |        |        |         |         |         |
| Smart phones                      | 8.8%    | 6.2%    | 3.3%   | 8.1%   | 7.8%   | 7.8%   | 6.9%    | 7.5%    | 7.5%    |
| IoT and lifestyle products        | 8.3%    | 10.3%   | 12.0%  | 11.2%  | 11.3%  | 11.5%  | 11.5%   | 11.8%   | 11.8%   |
| Internet services                 | 60.2%   | 64.4%   | 67.4%  | 65.6%  | 65.8%  | 65.0%  | 65.9%   | 64.5%   | 64.0%   |
| Others                            | 19.7%   | 27.3%   | 2.7%   | -2.0%  | 3.0%   | 3.0%   | 1.9%    | 2.0%    | 2.0%    |
| <b>Total</b>                      | 13.2%   | 12.7%   | 11.9%  | 14.0%  | 14.2%  | 14.4%  | 13.7%   | 14.1%   | 14.4%   |

Source: Company data, CMBIS

## Our FY20-21E EPS are 2-7% below consensus

We raised FY19-21E EPS by 10%/4%/2% to reflect slower revenue growth but better smartphone GPM. Our FY20-21E EPS are 2-7% below consensus given our more conservative view on smartphone and advertising growth.

Figure 3: Earnings revision

| RMB mn           | New     |         |         | Old     |         |         | Change (%) |          |         |
|------------------|---------|---------|---------|---------|---------|---------|------------|----------|---------|
|                  | FY19E   | FY20E   | FY21E   | FY19E   | FY20E   | FY21E   | FY19E      | FY20E    | FY21E   |
| Revenue          | 203,882 | 251,553 | 302,237 | 209,362 | 260,988 | 314,302 | -3%        | -4%      | -4%     |
| Gross Profit     | 27,975  | 35,527  | 43,665  | 26,193  | 35,119  | 43,825  | 7%         | 1%       | 0%      |
| Operating Profit | 10,557  | 14,739  | 18,594  | 12,846  | 18,371  | 22,492  | -18%       | -20%     | -17%    |
| Adj. net profit  | 11,512  | 13,813  | 17,166  | 10,336  | 13,231  | 16,816  | 11%        | 4%       | 2%      |
| Adj. EPS (RMB)   | 0.48    | 0.58    | 0.72    | 0.44    | 0.56    | 0.71    | 10%        | 4%       | 2%      |
| Gross Margin     | 13.7%   | 14.1%   | 14.4%   | 12.5%   | 13.5%   | 13.9%   | 1.2 ppt    | 0.7 ppt  | 0.5 ppt |
| Operating Margin | 5.2%    | 5.9%    | 6.2%    | 6.1%    | 7.0%    | 7.2%    | -1 ppt     | -1.2 ppt | -1 ppt  |
| Adj. Net Margin  | 5.6%    | 5.5%    | 5.7%    | 4.9%    | 5.1%    | 5.4%    | 0.7 ppt    | 0.4 ppt  | 0.3 ppt |

Sources: Company data, CMBIS

Figure 4: CMBI estimates vs consensus

| RMB mn           | CMBI    |         |         | Consensus |         |         | Diff (%) |         |         |
|------------------|---------|---------|---------|-----------|---------|---------|----------|---------|---------|
|                  | FY19E   | FY20E   | FY21E   | FY19E     | FY20E   | FY21E   | FY19E    | FY20E   | FY21E   |
| Revenue          | 203,882 | 251,553 | 302,237 | 218,951   | 272,221 | 335,462 | -7%      | -8%     | -10%    |
| Gross Profit     | 27,975  | 35,527  | 43,665  | 28,739    | 37,264  | 46,623  | -3%      | -5%     | -6%     |
| Operating Profit | 10,557  | 14,739  | 18,594  | 12,146    | 14,857  | 19,824  | -13%     | -1%     | -6%     |
| Adj. net profit  | 11,512  | 13,813  | 17,166  | 10,881    | 14,160  | 18,396  | 6%       | -2%     | -7%     |
| Adj. EPS (RMB)   | 0.48    | 0.58    | 0.72    | 0.46      | 0.59    | 0.77    | 5%       | -2%     | -7%     |
| Gross Margin     | 13.7%   | 14.1%   | 14.4%   | 13.1%     | 13.7%   | 13.9%   | 0.6 ppt  | 0.4 ppt | 0.5 ppt |
| Operating Margin | 5.2%    | 5.9%    | 6.2%    | 5.5%      | 5.5%    | 5.9%    | -0.4 ppt | 0.4 ppt | 0.2 ppt |
| Adj. Net Margin  | 5.6%    | 5.5%    | 5.7%    | 5.0%      | 5.2%    | 5.5%    | 0.6 ppt  | 0.3 ppt | 0.2 ppt |

Source: Bloomberg, CMBIS

Figure 5: P&L forecast

| RMB mn           | FY17     | FY18      | 1Q19     | 2Q19     | 3Q19E    | 4Q19E    | FY19E     | FY20E     | FY21E     |
|------------------|----------|-----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Revenue          | 114,625  | 174,915   | 43,757   | 51,951   | 56,751   | 51,428   | 203,882   | 251,553   | 302,237   |
| ...YoY           | 67%      | 53%       | 27%      | 15%      | 12%      | 16%      | 17%       | 23%       | 20%       |
| Cost of sales    | (99,471) | (152,723) | (38,541) | (44,692) | (48,678) | (44,001) | (175,913) | (216,027) | (258,572) |
| Gross profit     | 15,154   | 22,192    | 5,216    | 7,259    | 8,073    | 7,427    | 27,975    | 35,527    | 43,665    |
| GPM (%)          | 13%      | 12.7%     | 12%      | 14.0%    | 14%      | 14%      | 13.7%     | 14.1%     | 14.4%     |
| ...YoY           | 109%     | 46%       | 21%      | 28%      | 23%      | 31%      | 26%       | 27%       | 23%       |
| SG&A             | (6,448)  | (20,092)  | (2,477)  | (3,019)  | (3,348)  | (3,080)  | (11,924)  | (14,464)  | (17,228)  |
| ...% of rev      | -6%      | -11%      | -6%      | -6%      | -6%      | -6%      | -6%       | -6%       | -6%       |
| R&D              | (3,151)  | (5,777)   | (1,651)  | (1,556)  | (1,711)  | (1,800)  | (6,717)   | (7,547)   | (9,067)   |
| ...% of rev      | -3%      | -3%       | -4%      | -3%      | -3%      | -4%      | -3%       | -3%       | -3%       |
| Operating profit | 12,215   | 1,196     | 3,614    | 2,336    | 2,386    | 2,220    | 10,557    | 14,739    | 18,594    |
| OPM (%)          | 11%      | 1%        | 8%       | 4%       | 4%       | 4%       | 5%        | 6%        | 6%        |
| ...YoY           | 223%     | -90%      | 7%       | -131%    | 8%       | -31%     | 782%      | 40%       | 26%       |
| Adj. net profit  | 5,362    | 8,555     | 2,081    | 3,635    | 2,999    | 2,671    | 11,512    | 13,813    | 17,166    |
| NPM (%)          | 5%       | 5%        | 5%       | 7%       | 5%       | 5%       | 6%        | 5%        | 6%        |
| ...YoY           | 183%     | 60%       | 22%      | 72%      | 4%       | 44%      | 35%       | 20%       | 24%       |

Source: Company data, CMBIS

## Valuation

### Maintain HOLD; TP revised to HK\$9.38 (-1% downside)

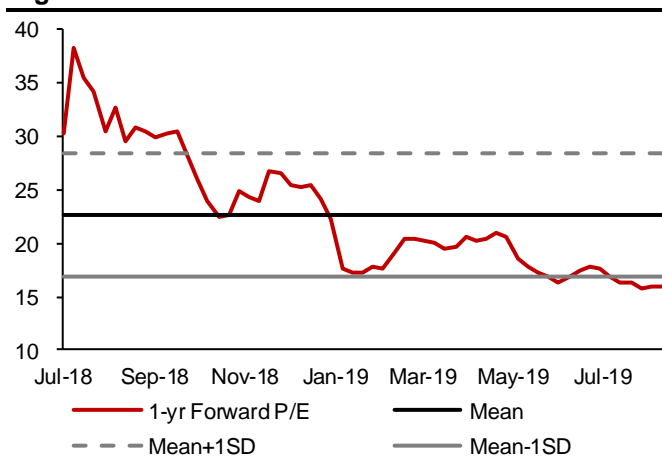
Our new 12m TP of HK\$ 9.38 is based on 18x FY20E P/E (vs prev 16x on better growth/margin outlook). We think it is justified given challenging smartphone market, product transition into AIoT, and advertising slowdown. Trading at 18.1x FY20E P/E, we view the stock is fairly valued and maintain HOLD rating on the stock.

Figure 6: Peers' valuation

| Company           | Ticker    | Rating | Market Cap<br>US\$(mn) | Price<br>(LC) | TP<br>(LC) | Up/Down<br>-side | P/E (x)     |             | P/B (x)    |            | ROE (%)     |             |
|-------------------|-----------|--------|------------------------|---------------|------------|------------------|-------------|-------------|------------|------------|-------------|-------------|
|                   |           |        |                        |               |            |                  | FY19E       | FY20E       | FY19E      | FY20E      | FY19E       | FY20E       |
| <b>HK-listed</b>  |           |        |                        |               |            |                  |             |             |            |            |             |             |
| Xiaomi            | 1810 HK   | Hold   | 28,809                 | 9.4           | 9.38       | -1%              | 21.7        | 18.1        | 2.5        | 2.1        | 11.4        | 14.0        |
| Sunny Optical     | 2382 HK   | Buy    | 14,766                 | 105.6         | 114.0      | 8%               | 30.3        | 21.9        | 8.7        | 6.8        | 28.8        | 31.2        |
| AAC Tech          | 2018 HK   | Sell   | 5,931                  | 38.5          | 43.3       | 12%              | 16.0        | 13.4        | 2.4        | 2.4        | 15.0        | 17.8        |
| BYDE              | 285 HK    | Hold   | 3,533                  | 12.3          | 11.8       | -4%              | 11.8        | 10.4        | 1.4        | 1.3        | 12.0        | 12.3        |
| FIT Hon Teng      | 6088 HK   | Buy    | 2,892                  | 3.4           | 3.8        | 13%              | 11.1        | 9.8         | 1.3        | 1.2        | 12.1        | 12.2        |
| Tongda            | 698 HK    | Buy    | 454                    | 0.6           | 0.8        | 38%              | 4.3         | 3.6         | 0.5        | 0.5        | 11.7        | 12.8        |
| Q tech            | 1478 HK   | Buy    | 1,130                  | 7.8           | 9.5        | 23%              | 19.1        | 14.7        | 3.1        | 2.6        | 16.4        | 18.0        |
| TK Group          | 2283 HK   | Buy    | 354                    | 3.3           | 4.5        | 35%              | 7.2         | 6.0         | 2.1        | 2.1        | 29.7        | 35.7        |
| <b>Average</b>    |           |        |                        |               |            |                  | <b>15.7</b> | <b>12.6</b> | <b>2.9</b> | <b>2.4</b> | <b>15.5</b> | <b>16.8</b> |
| <b>Smartphone</b> |           |        |                        |               |            |                  |             |             |            |            |             |             |
| Apple             | AAPL US   | NR     | 950,610                | 210.4         | NA         | NA               | 18.1        | 16.5        | 10.8       | 12.7       | 57.4        | 75.8        |
| Lenovo            | 992 HK    | NR     | 8,593                  | 5.6           | NA         | NA               | 14.3        | 10.5        | 2.1        | 2.0        | 15.6        | 19.6        |
| Samsung           | 005930 KS | NR     | 219,604                | 44,450.0      | NA         | NA               | 14.1        | 11.0        | 1.2        | 1.1        | 8.4         | 10.2        |
| LG Elec           | 066570 KS | NR     | 8,234                  | 60,800.0      | NA         | NA               | 9.6         | 6.6         | 0.7        | 0.6        | 7.5         | 9.7         |
| <b>Average</b>    |           |        |                        |               |            |                  | <b>14.0</b> | <b>11.1</b> | <b>3.7</b> | <b>4.1</b> | <b>22.2</b> | <b>28.8</b> |
| <b>IoT</b>        |           |        |                        |               |            |                  |             |             |            |            |             |             |
| Skyworth          | 751 HK    | NR     | 792                    | 2.0           | NA         | NA               | 6.0         | 4.8         | 0.3        | 0.3        | 5.5         | 6.1         |
| Hisense           | 600060 CH | NR     | 1,428                  | 7.7           | NA         | NA               | 14.1        | 14.3        | 0.7        | 0.7        | 2.9         | 3.6         |
| Midea             | 000333 CH | NR     | 50,558                 | 51.5          | NA         | NA               | 14.9        | 13.1        | 3.5        | 3.0        | 24.5        | 23.7        |
| Gree              | 000651 CH | NR     | 44,964                 | 52.8          | NA         | NA               | 11.5        | 10.4        | 3.0        | 2.6        | 27.1        | 25.8        |
| Huami             | HMI US    | NR     | 645                    | 10.5          | NA         | NA               | 10.4        | 8.6         | 2.0        | 1.6        | -           | -           |
| Fitbit            | FIT US    | NR     | 760                    | 2.9           | NA         | NA               | -           | -           | 1.3        | 1.5        | (30.5)      | (23.0)      |
| <b>Average</b>    |           |        |                        |               |            |                  | <b>11.4</b> | <b>10.3</b> | <b>1.8</b> | <b>1.6</b> | <b>5.9</b>  | <b>7.2</b>  |
| <b>Internet</b>   |           |        |                        |               |            |                  |             |             |            |            |             |             |
| Tencent           | 700 HK    | NR     | 406,126                | 333.4         | NA         | NA               | 30.4        | 24.9        | 6.8        | 5.4        | 25.0        | 23.5        |
| Alibaba           | BABA US   | NR     | 464,165                | 178.3         | NA         | NA               | 34.3        | 26.3        | 6.8        | 5.1        | 16.0        | 17.6        |
| Baidu             | BIDU US   | NR     | 36,479                 | 104.2         | NA         | NA               | 25.4        | 16.5        | 1.5        | 1.4        | 5.3         | 7.6         |
| JD                | JD US     | NR     | 45,916                 | 31.6          | NA         | NA               | 37.9        | 27.0        | 4.4        | 3.9        | 9.9         | 8.2         |
| <b>Average</b>    |           |        |                        |               |            |                  | <b>32.0</b> | <b>23.7</b> | <b>4.9</b> | <b>4.0</b> | <b>14.1</b> | <b>14.2</b> |

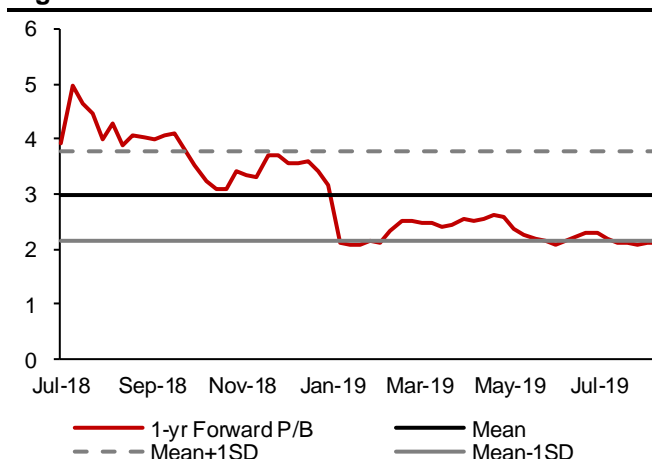
Source: Bloomberg, CMBIS

Figure 7: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 8: 12M forward P/B band



Source: Bloomberg, CMBIS

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)      | FY17A           | FY18A          | FY19E          | FY20E          | FY21E          |
|-------------------------|-----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>          | <b>114,625</b>  | <b>174,915</b> | <b>203,882</b> | <b>251,553</b> | <b>302,237</b> |
| COGS                    | (99,471)        | (152,723)      | (175,913)      | (216,027)      | (258,572)      |
| <b>Gross profit</b>     | <b>15,154</b>   | <b>22,192</b>  | <b>27,975</b>  | <b>35,527</b>  | <b>43,665</b>  |
| Selling and marketing   | (5,232)         | (7,993)        | (9,054)        | (11,068)       | (13,298)       |
| Administrative          | (1,216)         | (12,099)       | (2,870)        | (3,396)        | (3,929)        |
| R&D                     | (3,151)         | (5,777)        | (6,717)        | (7,547)        | (9,067)        |
| Other operating exp.    | 6,660           | 4,874          | 1,224          | 1,224          | 1,224          |
| <b>Operating profit</b> | <b>12,215</b>   | <b>1,196</b>   | <b>10,557</b>  | <b>14,739</b>  | <b>18,594</b>  |
| Financial cost          | 27              | 216            | 398            | 398            | 398            |
| Other income/(losses)   | (54,072)        | 12,514         | -              | -              | -              |
| <b>Pre-tax profit</b>   | <b>(41,829)</b> | <b>13,927</b>  | <b>10,955</b>  | <b>15,137</b>  | <b>18,991</b>  |
| Tax                     | (2,060)         | (449)          | (1,725)        | (1,968)        | (2,469)        |
| Minority interest       | (63)            | (76)           | 64             | 92             | 115            |
| <b>Net profit</b>       | <b>(43,826)</b> | <b>13,554</b>  | <b>9,166</b>   | <b>13,078</b>  | <b>16,408</b>  |
| <b>Adj. Net profit</b>  | <b>5,362</b>    | <b>8,555</b>   | <b>11,457</b>  | <b>13,813</b>  | <b>17,166</b>  |

### Cash flow summary

| YE 31 Dec (RMB mn)                 | FY17A          | FY18A          | FY19E          | FY20E          | FY21E          |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Profit before taxation</b>      | (41,829)       | 13,927         | 10,955         | 15,137         | 18,991         |
| Depreciation                       | 361            | 748            | 724            | 1,092          | 1,533          |
| Change in working capital          | (7,283)        | (13,396)       | 11,640         | (3,952)        | 12,098         |
| Others                             | 47,756         | (2,693)        | (1,725)        | (1,968)        | (2,469)        |
| <b>Net cash from operating</b>     | <b>(996)</b>   | <b>(1,415)</b> | <b>21,594</b>  | <b>10,309</b>  | <b>30,153</b>  |
| Capex                              | (1,216)        | (3,758)        | (4,078)        | (5,031)        | (6,045)        |
| Other                              | (1,461)        | (3,750)        | -              | -              | -              |
| <b>Net cash from investing</b>     | <b>(2,678)</b> | <b>(7,508)</b> | <b>(4,078)</b> | <b>(5,031)</b> | <b>(6,045)</b> |
| Net bank borrowings                | 6,644          | (236)          | -              | -              | -              |
| Dividend paid                      | -              | -              | -              | -              | -              |
| Other                              | (429)          | 26,810         | -              | -              | -              |
| <b>Net cash from financing</b>     | <b>6,215</b>   | <b>26,574</b>  | <b>-</b>       | <b>-</b>       | <b>-</b>       |
| <b>Net change in cash</b>          | <b>2,542</b>   | <b>17,652</b>  | <b>17,516</b>  | <b>5,278</b>   | <b>24,109</b>  |
| Cash at beginning of the year      | 9,230          | 11,563         | 30,230         | 47,746         | 53,025         |
| Exchange difference                | (209)          | 1,015          | -              | -              | -              |
| <b>Cash at the end of the year</b> | <b>11,563</b>  | <b>30,230</b>  | <b>47,746</b>  | <b>53,025</b>  | <b>77,133</b>  |

### Balance sheet

| YE 31 Dec (RMB mn)              | FY17A            | FY18A          | FY19E          | FY20E          | FY21E          |
|---------------------------------|------------------|----------------|----------------|----------------|----------------|
| <b>Current assets</b>           | <b>61,138</b>    | <b>106,013</b> | <b>110,535</b> | <b>141,920</b> | <b>153,838</b> |
| Cash & equivalents              | 11,563           | 30,230         | 47,746         | 53,025         | 77,133         |
| Account receivables             | 5,470            | 5,598          | 7,847          | 8,742          | 11,189         |
| Inventories                     | 16,343           | 29,481         | 14,239         | 39,450         | 24,812         |
| ST bank deposits                | 225              | 1,366          | 1,366          | 1,366          | 1,366          |
| Other                           | 27,538           | 39,337         | 39,337         | 39,337         | 39,337         |
| <b>Non-current assets</b>       | <b>28,731</b>    | <b>39,215</b>  | <b>42,569</b>  | <b>46,508</b>  | <b>51,020</b>  |
| PPE                             | 1,731            | 5,068          | 8,421          | 12,361         | 16,872         |
| Deferred income tax             | 592              | 1,312          | 1,312          | 1,312          | 1,312          |
| Intangibles                     | 2,274            | 2,061          | 2,061          | 2,061          | 2,061          |
| Other                           | 24,135           | 30,774         | 30,774         | 30,774         | 30,774         |
| <b>Total assets</b>             | <b>89,870</b>    | <b>145,228</b> | <b>153,104</b> | <b>188,429</b> | <b>204,858</b> |
| <b>Current liabilities</b>      | <b>47,133</b>    | <b>61,940</b>  | <b>60,586</b>  | <b>82,742</b>  | <b>82,648</b>  |
| Short-term borrowings           | 3,551            | 3,075          | 3,075          | 3,075          | 3,075          |
| Account payables                | 34,003           | 46,287         | 44,933         | 67,089         | 66,995         |
| Tax payable                     | 421              | 662            | 662            | 662            | 662            |
| Other                           | 9,157            | 11,916         | 11,916         | 11,916         | 11,916         |
| <b>Non-current liabilities</b>  | <b>169,948</b>   | <b>12,038</b>  | <b>12,038</b>  | <b>12,038</b>  | <b>12,038</b>  |
| Long-term borrowings            | 7,251            | 7,856          | 7,856          | 7,856          | 7,856          |
| Deferred tax liability          | 1,019            | 778            | 778            | 778            | 778            |
| Other                           | 161,678          | 3,404          | 3,404          | 3,404          | 3,404          |
| <b>Total liabilities</b>        | <b>217,080</b>   | <b>73,978</b>  | <b>72,624</b>  | <b>94,779</b>  | <b>94,686</b>  |
| Share capital                   | 0                | 0              | 0              | 0              | 0              |
| Reserves                        | (127,273)        | 71,323         | 80,488         | 93,566         | 109,974        |
| Minority interest               | 62               | (73)           | (9)            | 83             | 198            |
| <b>Shareholders' equity</b>     | <b>(127,211)</b> | <b>71,250</b>  | <b>80,480</b>  | <b>93,649</b>  | <b>110,172</b> |
| <b>Total equity/liabilities</b> | <b>89,870</b>    | <b>145,228</b> | <b>153,104</b> | <b>188,429</b> | <b>204,858</b> |

### Key ratios

| YE 31 Dec                          | FY17A    | FY18A    | FY19E    | FY20E    | FY21E    |
|------------------------------------|----------|----------|----------|----------|----------|
| <b>Sales mix (%)</b>               |          |          |          |          |          |
| Smart phones                       | 70       | 65       | 59       | 55       | 50       |
| IoT and lifestyle products         | 20       | 25       | 31       | 35       | 40       |
| Internet services                  | 9        | 9        | 9        | 9        | 9        |
| Others                             | 1        | 1        | 1        | 1        | 1        |
| <b>Growth (%)</b>                  |          |          |          |          |          |
| Revenue                            | 67       | 53       | 17       | 23       | 20       |
| Gross profit                       | 109      | 46       | 26       | 27       | 23       |
| Operating profit                   | 223      | -        | 782      | 40       | 26       |
| Adj. Net profit                    | -        | 60       | 34       | 21       | 24       |
| <b>Profit &amp; loss ratio (%)</b> |          |          |          |          |          |
| Gross margin                       | 13.2     | 12.7     | 13.7     | 14.1     | 14.4     |
| Operating margin                   | 10.7     | 0.7      | 5.2      | 5.9      | 6.2      |
| Net profit margin                  | (38.2)   | 7.7      | 4.5      | 5.2      | 5.4      |
| <b>Balance sheet ratio</b>         |          |          |          |          |          |
| Net debt/total equity (x)          | Net cash | Net cash | Net cash | Net cash | Net cash |
| Current ratio (x)                  | 1.3      | 1.7      | 1.8      | 1.7      | 1.9      |
| Receivable turnover days           | 30       | 32       | 30       | 30       | 30       |
| Inventory turnover days            | 8        | 7        | 8        | 8        | 8        |
| Payable turnover days              | 4        | 4        | 4        | 4        | 4        |
| <b>Profitability (%)</b>           |          |          |          |          |          |
| ROE                                | 34.5     | 19.0     | 11.4     | 14.0     | 14.9     |
| ROA                                | (48.8)   | 9.3      | 6.0      | 6.9      | 8.0      |
| <b>Per share data (RMB)</b>        |          |          |          |          |          |
| Adj. EPS                           | -        | -        | 0.48     | 0.58     | 0.72     |
| DPS                                | -        | -        | -        | -        | -        |

Source: Company data, CMBIS estimates



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## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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