

Xiaomi (1810 HK)

1Q21 strong beat on better margin; Reiterate BUY

Xiaomi posted 1Q21 revenue growth of 55% YoY, 4%/3% above our/consensus estimates, driven by strong smartphone/IoT (+70%/41% YoY) and softer internet biz (+11% YoY). Adj. NP reached RMB6.1bn (+164% YoY), 27%/54% above our/consensus estimates, due to record-high GPM of 18.4% (vs 16.5%/15.3% our/cons. est.). Key takeaways include 1) limited impact from chip shortage in 2021, 2) healthy GPM on better mix, 3) smartphone offline network in China and global carrier channel expansion and 4) strong advertising with more high-end users and MAU/DAU uptrend. We lifted FY21-23E EPS by 2-22% for strong 1Q21 and higher GPM, and roll over our TP to HK\$39.2 based on 30x FY22E P/E. Reiterate BUY.

- **Strong 1Q21 on better GPM across all segments.** We believe Xiaomi's strong 1Q21 was a result of successful channel expansion in China/Europe, premium model strategy and advertising momentum offsetting weaker gaming/fintech revenue. We are positive on its product mix improvement (smartphone/IoT) and record-high GPM at 18.4%, which suggested Xiaomi's continued premium share gain. For internet revenue, we think slower gaming/fintech (VAS -17% YoY, vs -6% in 4Q20) will continue to drag overall internet growth in near term.
- **Offline/Carrier-channel expansion and global share gain on track.** We believe Xiaomi will continue to boost smartphone global share gain and IoT revenue growth in 2021, driven by offline store expansion in China (10k target) and stronger carrier partnership in Europe/LATAM. We expect Xiaomi shipment to grow 35%/20% YoY to 198mn/ 238mn in FY21E/22E. Despite recent chip shortage, mgmt. guided healthy GPM will persist into 2021, and share gain in premium segment (e.g. Europe) will improve internet monetization ahead.
- **Our FY21-23E NP are 18-47% above consensus; Raise TP to HK\$39.2.** We believe the stock price have reflected uncertainties from COVID-19 in India and potential China demand slowdown, and Xiaomi is poised to expand global market share and outperform its Chinese peers with stronger AIoT product portfolio and expanding offline distribution network. We lifted FY21-23 EPS by 2-22% to reflect 1Q21 and better GPM. We roll over our TP to HK\$39.2 based on 30x FY22E P/E (vs prior 35x FY21E P/E). Upcoming catalysts include product launches, stronger shipment, faster internet recovery and smart EV progress.

Earnings Summary

(YE31Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	205,839	245,866	330,241	418,400	496,111
YoY growth (%)	17.7	19.4	34.3	26.7	18.6
Adj. Net income (RMB mn)	11,532	13,006	25,537	28,100	32,127
Adj. EPS (RMB)	0.49	0.54	1.06	1.17	1.34
YoY growth (%)	(10.7)	11.7	96.3	10.0	14.3
Consensus EPS (RMB)	NA	NA	0.71	0.88	1.05
P/E (x)	52.0	46.6	23.7	21.6	18.9
P/B (x)	9.1	7.4	5.8	4.7	3.8
ROE (%)	12.3	20.0	21.8	19.2	17.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$39.2
(Previous TP	HK\$34.0)
Upside	39.0%
Current Price	HK\$28.15

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	709,555
Avg. 3mths t/o (HK\$m)	4,931.20
52W High/Low (HK\$)	35.90/ 11.56
Total Issued Shares (mn)	20,513

Source: Bloomberg

Shareholding Structure

Smart Mobile Holdings Ltd	11.18%
Lin Bin	8.82%
Blackrock	1.96%

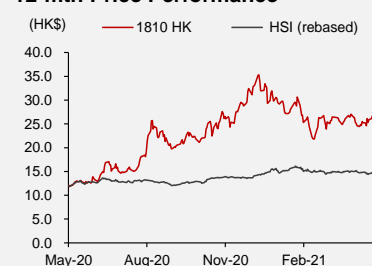
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	6.6%	5.8%
3-mth	11.3%	10.6%
6-mth	5.8%	-2.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

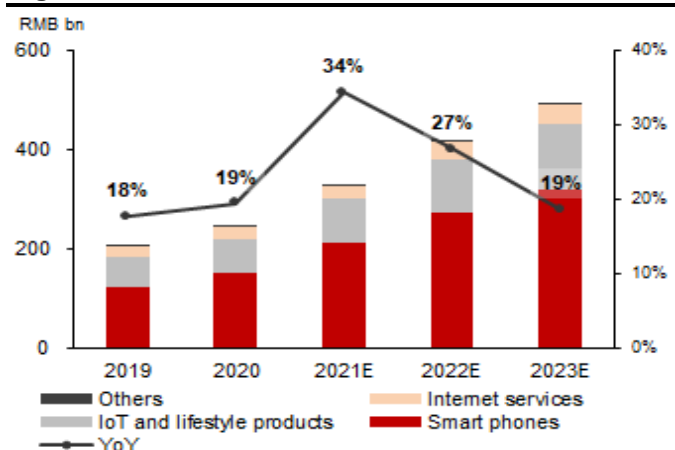
Auditor: PricewaterhouseCoopers

Recent Reports:

1. 4Q20 beat on record-high GPM; Lift TP to HK\$34.0 – 25 Mar 2021
2. 3Q20 beat; Global share gain to accelerate in 2021 – 25 Nov 2020
3. 2Q beat on ASP and ads recovery - 27 Aug 2020

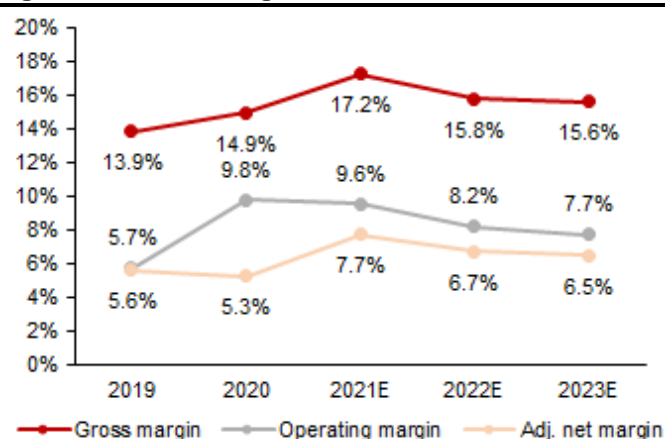
Focus Charts

Figure 1: Xiaomi revenue trend



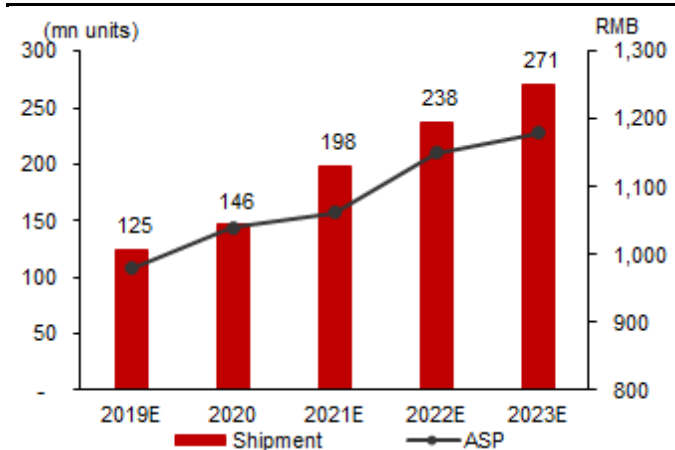
Source: Company data, CMBIS estimates

Figure 2: Xiaomi margin trend



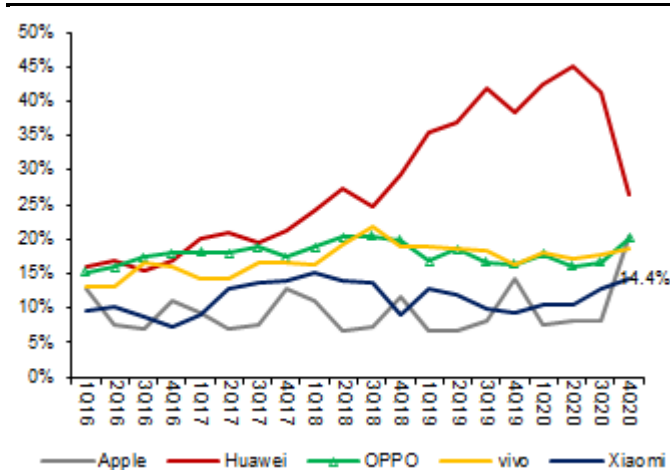
Source: Company data, CMBIS estimates

Figure 3: Xiaomi smartphone shipment forecast



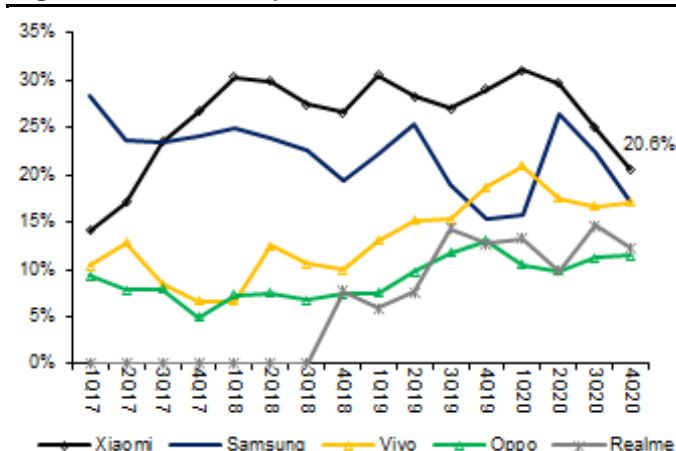
Source: Xiaomi, CMBIS estimates

Figure 4: China smartphone market share in 4Q20



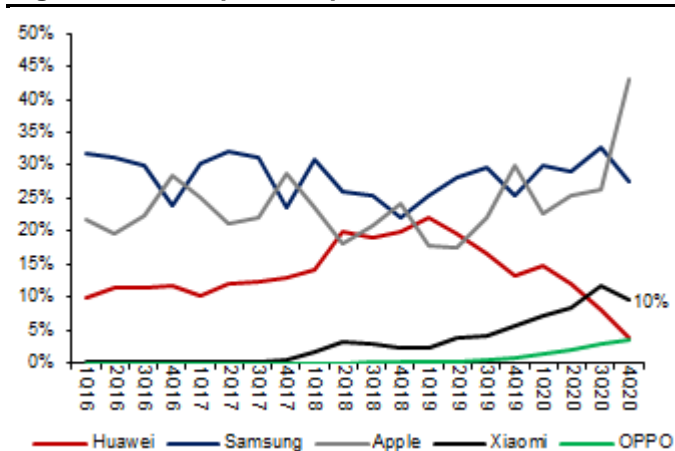
Source: IDC, CMBIS estimates

Figure 5: India smartphone market share in 4Q20



Source: IDC, CMBIS estimates

Figure 6: W.Europe smartphone market share in 4Q20



Source: IDC, CMBIS estimates

1Q21 Review

Figure 7: 1Q21 results review

RMB mn	1Q20	4Q20	1Q21	QoQ	YoY	CMBIS		Consensus	
						1Q21E	Diff %	1Q21E	Diff %
Revenue	49,702	70,463	76,882	9.1%	55%	74,183	4%	74,677	3%
Gross Profit	7,558	11,326	14,161	25.0%	87%	12,218	16%	11,424	24%
Operating Profit	2,323	9,602	8,158	-15.0%	251%	4,922	66%	6,647	23%
Adj. net profit	2,301	3,204	6,069	89.4%	164%	4,780	27%	3,930	54%
Adj. EPS (RMB)	0.10	0.13	0.30	126.1%	213%	0.20	52%	0.17	73%
Gross Margin	15.2%	16.1%	18.4%	-2.3 ppt	3.2 ppt	16.5%	1.9 ppt	15.3%	0.8 ppt
Operating Margin	4.7%	13.6%	10.6%	3 ppt	5.9 ppt	6.6%	4 ppt	8.9%	4.7 ppt
Adj. Net Margin	4.6%	4.5%	7.9%	-3.3 ppt	3.3 ppt	6.4%	1.5 ppt	5.3%	-0.7 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 8: Revenue breakdown

RMB mn	FY20	1Q21	2Q21E	3Q21E	4Q21E	FY21E	FY22E	FY23E
Smart phones	152,191	51,491	45,435	61,038	52,753	210,705	273,266	319,504
...YoY	25%	70%	44%	28%	24%	38%	30%	17%
Shipment (mn)	146,400	49,400	39,903	58,250	50,760	198,313	237,623	270,766
...YoY	17%	69%	41%	25%	20%	35%	20%	14%
ASP (RMB)	1,040	1,042	1,139	1,048	1,039	1,062	1,150	1,180
...YoY	6.2%	0.4%	2.0%	2.5%	3.0%	2.2%	8.2%	2.6%
IoT and lifestyle products	67,410	18,243	21,157	23,627	25,951	88,977	108,127	131,661
...YoY	9%	41%	39%	30%	23%	32%	22%	22%
Smart TVs and laptops	22,394	5,600	6,000	6,380	7,810	25,790	29,143	32,931
...YoY	-7%	19%	25%	10%	10%	15%	13%	13%
Other IoTs	45,016	12,643	15,157	17,247	18,141	63,187	78,984	98,730
...YoY	19%	53%	45%	40%	30%	40%	25%	25%
Internet services	23,755	6,571	6,692	6,827	7,269	27,359	32,849	39,540
...YoY	20%	11%	13%	18%	18%	15%	20%	20%
Advertising services	12,722	3,894	4,012	3,973	4,030	15,909	19,886	24,857
...YoY	19%	46%	30%	20%	10%	25%	25%	25%
Internet value-added	11,082	2,677	2,680	2,854	3,239	11,451	12,963	14,683
...YoY	21%	-17%	-5%	16%	26%	3%	13%	13%
Gaming	4,200	1,123	950	944	1,080	4,097	4,507	4,958
...YoY	31%	-25%	-5%	18%	20%	-2%	10%	10%
Other (incl. Youpin fintech, etc)	6,882	1,554	1,730	1,910	2,159	7,354	8,457	9,725
...YoY	15%	-11%	-5%	15%	30%	7%	15%	15%
Others	2,509	577	975	868	779	3,198	4,158	5,405
...YoY	38%	17%	30%	30%	30%	27%	30%	30%
Total	245,866	76,882	74,258	92,360	86,752	330,241	418,400	496,111
...YoY	19%	55%	39%	28%	23%	34%	27%	19%
Gross Margin								
Smart phones	8.7%	12.9%	12.0%	11.8%	11.5%	12.0%	11.0%	10.5%
IoT and lifestyle products	12.8%	14.5%	14.0%	13.8%	13.5%	13.9%	13.0%	13.5%
Internet services	61.6%	72.4%	68.0%	68.0%	65.0%	68.3%	65.0%	64.5%
Others	11.9%	20.9%	15.0%	15.0%	15.0%	16.1%	13.0%	12.0%
Total	14.9%	18.4%	17.7%	16.5%	16.6%	17.2%	15.8%	15.6%

Source: Company data, CMBIS estimates

Earnings Revision

Our FY21-23E adj. NP are 18-47% above consensus

We adjusted FY21-22E adj. NP by 2-22% to reflect higher GPM and strong 1Q21. Our FY21-23E EPS are 18-47% above consensus given our more positive view on smartphone market share and better GPM ahead.

Figure 9: CMBIS earnings revision

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	330,241	418,400	496,111	332,687	409,386	484,684	-1%	2%	2%
Gross Profit	56,920	66,008	77,474	49,303	61,719	74,703	15%	7%	4%
Operating Profit	31,578	34,340	38,346	26,221	31,940	37,695	20%	8%	2%
Adj. net profit	25,537	28,100	32,127	20,894	25,890	31,480	22%	9%	2%
Adj. EPS (RMB)	1.06	1.17	1.34	0.87	1.08	1.31	22%	9%	2%
Gross Margin	17.2%	15.8%	15.6%	14.8%	15.1%	15.4%	2.4 ppt	0.7 ppt	0.2 ppt
Operating Margin	9.6%	8.2%	7.7%	7.9%	7.8%	7.8%	1.7 ppt	0.4 ppt	0 ppt
Adj. Net Margin	7.7%	6.7%	6.5%	6.3%	6.3%	6.5%	1.5 ppt	0.4 ppt	0 ppt

Source: Company data, CMBIS estimates

Figure 10: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	330,241	418,400	496,111	331,976	402,388	459,391	-1%	4%	8%
Gross Profit	56,920	66,008	77,474	49,800	60,921	70,950	14%	8%	9%
Operating Profit	31,578	34,340	38,346	21,351	25,631	33,237	48%	34%	15%
Adj. net profit	25,537	28,100	32,127	17,372	22,120	27,204	47%	27%	18%
Adj. EPS (RMB)	1.06	1.17	1.34	0.71	0.88	1.05	50%	33%	28%
Gross Margin	17.2%	15.8%	15.6%	15.0%	15.1%	15.4%	2.2 ppt	0.6 ppt	0.2 ppt
Operating Margin	9.6%	8.2%	7.7%	6.4%	6.4%	7.2%	3.1 ppt	1.8 ppt	0.5 ppt
Adj. Net Margin	7.7%	6.7%	6.5%	5.2%	5.5%	5.9%	2.5 ppt	1.2 ppt	0.6 ppt

Source: Bloomberg, CMBIS estimates

Figure 11: P&L forecast

RMB mn	FY20	1Q21	2Q21E	3Q21E	4Q21E	FY21E	FY22E	FY23E
Revenue	245,866	76,882	74,258	92,360	86,752	330,241	418,400	496,111
...YoY	19%	55%	39%	28%	23%	34%	27%	19%
Cost of sales	(209,114)	(62,721)	(61,147)	(77,124)	(72,340)	(273,321)	(352,392)	(418,637)
Gross profit	36,752	14,161	13,111	15,236	14,412	56,920	66,008	77,474
GPM (%)	14.9%	18.4%	17.7%	16.5%	16.6%	17.2%	15.8%	15.6%
...YoY	29%	87%	70%	50%	27%	55%	16%	17%
SG&A	(18,286)	(5,151)	(4,678)	(5,819)	(5,552)	(21,200)	(24,686)	(29,271)
...% of rev	-7.4%	-6.7%	-6.3%	-6.3%	-6.4%	-6.4%	-5.9%	-5.9%
R&D	(9,256)	(3,012)	(2,822)	(3,510)	(3,297)	(12,640)	(15,481)	(18,356)
...% of rev	-3.8%	-3.9%	-3.8%	-3.8%	-3.8%	-3.8%	-3.7%	-3.7%
Operating profit	24,035	8,158	8,105	9,409	5,907	31,578	34,340	38,346
OPM (%)	9.8%	10.6%	10.9%	10.2%	6.8%	9.6%	8.2%	7.7%
...YoY	104%	251%	50%	41%	-38%	31%	9%	12%
Adj. net profit	13,006	6,069	5,885	6,731	6,585	25,537	28,100	32,127
NPM (%)	5.3%	7.9%	7.9%	7.3%	7.6%	7.7%	6.7%	6.5%
...YoY	13%	164%	74%	63%	105%	96%	10%	14%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY and raised TP of HK\$39.2

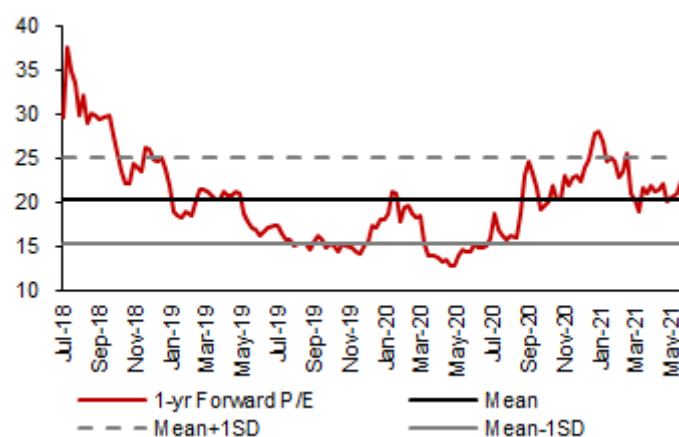
We roll over our 12m TP to HK\$39.2 which is based on 30x FY22E P/E (vs prior 35x FY21E P/E). We think it is justified given accelerated share gain and strong earnings CAGR of 35% during F20-23E. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

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 (%)	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HK-listed												
Xiaomi	1810 HK	Buy	91,406	28.2	39.2	39%	23.7	21.6	5.8	4.7	21.8	19.2
Sunny Optical	2382 HK	Buy	26,988	191.0	254.3	33%	32.3	24.1	11.1	8.6	26.6	28.7
AAC Tech	2018 HK	Hold	7,340	47.2	45.3	-4%	28.0	16.1	2.3	2.2	8.0	12.1
BYDE	285 HK	Buy	14,513	50.0	55.0	10%	17.6	15.1	5.8	3.7	21.2	20.3
FIT Hon Teng	6088 HK	Buy	1,891	2.1	3.6	70%	8.8	9.5	0.9	0.8	8.9	7.9
Tongda	698 HK	Buy	509	0.6	0.6	-8%	7.6	6.8	0.6	0.6	7.7	7.7
Q tech	1478 HK	Buy	2,039	13.4	23.0	72%	12.7	9.4	3.7	3.0	23.8	24.2
TK Group	2283 HK	Buy	331	3.1	4.1	33%	4.8	-	2.0	2.0	41.7	-
Average							19.4	15.3	4.3	3.4	16.1	16.4
Smartphone												
Apple	AAPL US	NR	2,115,157	126.8	NA	NA	24.8	24.0	35.0	30.2	131.8	155.0
Lenovo	992 HK	NR	15,016	9.7	NA	NA	13.3	11.4	3.5	2.9	30.7	27.5
Samsung	005930 KS	NR	426,245	79,800.0	NA	NA	14.5	11.1	1.8	1.6	13.0	15.3
LG Elec	066570 KS	NR	22,256	152,000.0	NA	NA	10.1	8.6	1.5	1.3	15.8	16.0
Average							15.7	13.8	10.5	9.0	47.8	53.5
IoT												
Skyworth	751 HK	NR	773	2.3	NA	NA	5.3	4.3	0.3	0.3	6.1	7.1
Hisense	600060 CH	NR	2,486	12.1	NA	NA	12.7	11.2	1.0	0.9	8.4	8.9
Midea	000333 CH	NR	92,965	84.3	NA	NA	20.1	17.6	4.4	3.8	22.3	22.4
Gree	000651 CH	NR	52,892	56.2	NA	NA	13.3	11.5	2.6	2.3	19.5	20.1
Average							12.8	11.1	2.1	1.8	14.1	14.6
Internet												
Tencent	700 HK	NR	763,879	618.0	NA	NA	33.7	27.2	5.8	4.8	18.5	18.3
Alibaba	BABA US	NR	576,167	212.5	NA	NA	20.7	20.7	3.7	3.3	19.0	14.9
Baidu	BIDU US	NR	68,872	194.8	NA	NA	19.4	16.8	1.7	1.6	11.7	9.4
JD	JD US	NR	114,188	73.2	NA	NA	42.9	29.6	3.7	3.4	7.4	9.5
Average							29.2	23.6	3.7	3.2	14.1	13.0

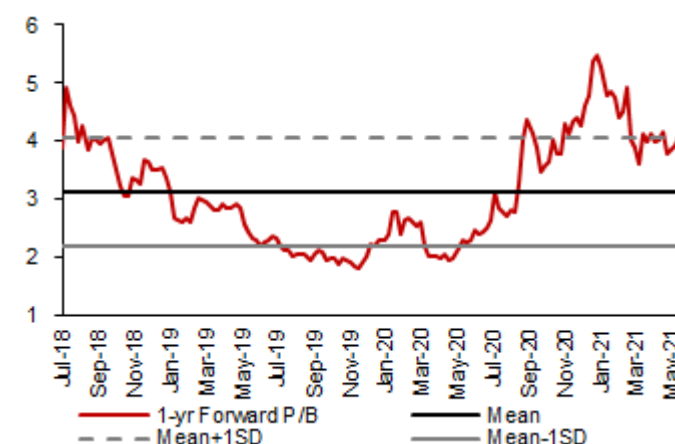
Source: Bloomberg, CMBIS

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	205,839	245,866	330,241	418,400	496,111
COGS	(177,285)	(209,114)	(273,321)	(352,392)	(418,637)
Gross profit	28,554	36,752	56,920	66,008	77,474
Selling and marketing	(10,378)	(14,539)	(16,832)	(19,246)	(22,821)
Administrative	(3,104)	(3,746)	(4,368)	(5,439)	(6,449)
R&D	(7,493)	(9,256)	(12,640)	(15,481)	(18,356)
Other operating exp.	4,181	14,825	8,498	8,498	8,498
Operating profit	11,760	24,035	31,578	34,340	38,346
Financial cost	402	(1,641)	1,414	1,988	2,721
Other income/(losses)	-	(760)	-	-	-
Pre-tax profit	12,163	21,633	32,992	36,329	41,067
Tax	(2,060)	(1,321)	(4,675)	(5,449)	(6,160)
Minority interest	59	(43)	(60)	(65)	(74)
Net profit	10,044	20,356	28,376	30,944	34,980
Adj. Net profit	11,532	13,006	25,537	28,100	32,127

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	12,163	21,633	32,992	36,329	41,067
Depreciation	2,192	1,086	1,569	2,180	2,905
Change in working capital	9,641	265	11,509	4,029	8,734
Others	(186)	(1,321)	(4,675)	(5,449)	(6,160)
Net cash from operating	23,810	21,664	41,394	37,088	46,546
Capex	(4,117)	(4,917)	(6,605)	(8,368)	(9,922)
Other	(27,453)	-	-	-	-
Net cash from investing	(31,570)	(4,917)	(6,605)	(8,368)	(9,922)
Net bank borrowings	-	-	-	-	-
Dividend paid	-	-	-	-	-
Other	3,121	-	-	-	-
Net cash from financing	3,121	-	-	-	-
Net change in cash	(4,639)	16,746	34,789	28,720	36,624
Cash at beg of year	30,230	25,920	42,666	77,455	106,176
Exchange difference	328	-	-	-	-
Cash at end of year	25,920	42,666	77,455	106,176	142,799

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	137,539	143,402	210,596	232,377	297,529
Cash & equivalents	25,920	42,666	77,455	106,176	142,799
Account receivables	6,949	9,265	12,513	15,079	17,637
Inventories	32,585	19,385	48,543	39,037	65,007
ST bank deposits	21,523	21,523	21,523	21,523	21,523
Other	50,562	50,562	50,562	50,562	50,562
Non-current assets	46,090	49,921	54,957	61,145	68,163
PPE	6,992	10,823	15,859	22,047	29,065
Deferred income tax	1,283	1,283	1,283	1,283	1,283
Intangibles	1,672	1,672	1,672	1,672	1,672
Other	36,142	36,142	36,142	36,142	36,142
Total assets	183,629	193,323	265,553	293,522	365,691
Current liabilities	92,181	81,562	125,476	122,565	159,827
Short-term borrowings	12,837	12,837	12,837	12,837	12,837
Account payables	59,528	48,909	92,823	89,912	127,175
Tax payable	479	479	479	479	479
Other	19,337	19,337	19,337	19,337	19,337
Non-current liabilities	9,791	9,791	9,791	9,791	9,791
Long-term borrowings	4,787	4,787	4,787	4,787	4,787
Deferred tax liability	580	580	580	580	580
Other	4,424	4,424	4,424	4,424	4,424
Total liabilities	101,972	91,353	135,267	132,356	169,618
Share capital	0	0	0	0	0
Reserves	81,330	101,686	130,062	161,006	195,987
Minority interest	327	284	225	160	86
Shareholders' equity	81,658	101,970	130,287	161,166	196,073
Total equity/liabilities	183,629	193,323	265,553	293,522	365,691

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Smart phones	59	62	64	65	64
IoT and lifestyle products	30	27	27	26	27
Internet services	10	10	8	8	8
Others	1	1	1	1	1
Growth (%)					
Revenue	17.7	19.4	34.3	26.7	18.6
Gross profit	28.7	28.7	54.9	16.0	17.4
Operating profit	882.9	104.4	31.4	8.7	11.7
Adj. Net profit	31.9	12.8	96.3	10.0	14.3
Profit & loss ratio (%)					
Gross margin	13.9	14.9	17.2	15.8	15.6
Operating margin	5.7	9.8	9.6	8.2	7.7
Net profit margin	4.9	8.3	8.6	7.4	7.1
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.5	1.8	1.7	1.9	1.9
Receivable turnover days	30	30	30	30	30
Inventory turnover days	8	8	8	8	8
Payable turnover days	4	4	4	4	4
Profitability (%)					
ROE	12.3	20.0	21.8	19.2	17.8
ROA	5.5	10.5	10.7	10.5	9.6
Per share data (RMB)					
Adj. EPS	0.49	0.54	1.06	1.17	1.34
DPS	-	-	-	-	-

Source: Company data, CMBIS estimates

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