

Xiaomi (1810 HK)

Cautious on nCov disruption; Maintain Neutral

Xiaomi hosted a conf call to update business outlook amid recent nCov outbreak. Overall, we believe mgmt. is cautious on smartphone supply chain disruption in 1Q20E and demand slowdown in FY20E. We expect China market to decline significantly in 1Q20E and 5G replacement cycle will postpone in China. We trimmed FY19-21E EPS by 2-9% to reflect impact on smartphone and IoT. We lifted TP to HK\$11.47 on higher 25x FY20E P/E, but maintain Hold as we think valuation of 27.5x P/E is fair given supply uncertainty and demand slowdown.

- **Supply chain disruption: 1-2 week delay on production and logistics.** All factories across supply chain are now delayed by 10 days and Xiaomi expected some factories to resume production on 10 Feb, implying 30% loss of production time in February. Despite Xiaomi's multi-supplier strategy and overseas factories, mgmt. believes production impact on hardware products is significant but still manageable with channel inventory in near term.
- **Weak NT demand: China offline sales halted, Europe/India growth intact.** Mgmt. indicated that Xiaomi's offline sales of smartphone/IoT are seriously impacted due to quarantine across China. However, given higher exposure to online channel (~60%, vs 10-30% for Chinese peers), Xiaomi believes it will significantly outperform Chinese smartphone peers in 1Q20E. Also, Xiaomi is confident to continue share gain in overseas markets, backed by offline expansion in India and operator channels in Europe. In terms of GPM, mgmt. maintained 8-9% guidance in FY20-21E. Also, Xiaomi expects internet business to benefit as people will spend more time home and consume more online content, which will partly offset smartphone weakness.
- **China smartphone to slump in 1Q20; 5G upgrade cycle to postpone.** Mgmt. estimates China smartphone market will likely decline significantly in 1Q20E and 10% YoY in FY20E, which will delay 5G replacement cycle in FY20E. In view to recent situation, we believe China market recovery will resume in 2H20E, and brands with high China exposure (60%+ for Huawei/Oppo/ Vivo, vs 30% for Xiaomi) will face significant challenges in 1Q20E.
- **Maintain Hold with new TP of HK\$11.47.** We cut FY19-21E EPS by 2-9% to reflect smartphone/IoT in 1H20E. We lifted TP to HK\$11.47 on higher 25x FY20E P/E for 5G beneficiary and improving 2H20E sales, but maintain our neutral view due to rich valuation of 27.5x FY20E P/E. Downside risk is further production delay and disruption in overseas factory (e.g. India).

Earnings Summary

(YE31Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	114,625	174,915	206,147	234,235	283,879
YoY growth (%)	67.5	52.6	17.9	13.6	21.2
Adj. Net income (RMB mn)	5,362	8,743	11,628	12,171	15,548
Adj. EPS (RMB)	-	0.54	0.49	0.51	0.65
YoY growth (%)	-	-	(10.1)	4.7	27.8
P/E (x)	-	20.8	28.8	27.5	21.6
P/B (x)	(0.9)	2.6	3.4	3.0	2.7
Yield (%)	-	-	-	-	-
ROE (%)	34	19	11.3	9.4	11.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price **HK\$11.47**
 (Previous TP **HK\$9.12**)
 Upside **-9%**
 Current Price **HK\$12.64**

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Stock Data

Mkt. Cap. (HK\$m)	303,440
Avg. 3mths t/o (HK\$m)	1,911.56
52W High/Low (HK\$)	14.00/ 8.28
Total Issued Shares (mn)	17,405

Source: Bloomberg

Shareholding Structure

Smart Mobile	12.92%
Morningside China TMT	10.12%
Apoletto Ltd	4.92%

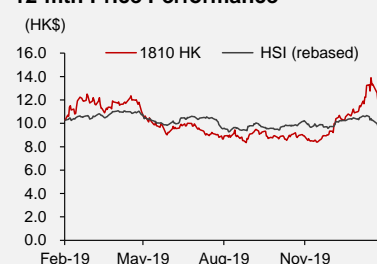
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	15.0%	22.7%
3-mth	38.9%	43.4%
6-mth	42.5%	43.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Recent Reports:

1. Xiaomi (1810 HK) - Solid 5G roadmap; Maintain Hold on fair valuation – 28 Nov 2019
2. Xiaomi (1810 HK) - 3Q19 preview: Mobile/Ads slowdown to persist – 25 Nov 2019

Earnings Revision

Our FY20-21E EPS are 1-7% below consensus

We trimmed FY19-21E EPS by 2-9% to reflect 1H20 demand weakness in smartphone and IoT amid nCoV disruption. Our FY20-21E EPS are 1-7% below consensus given our more conservative view on smartphone/IoT and internet growth.

Figure 1: Earnings revision

RMB mn	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	206,147	234,235	283,879	198,723	241,959	287,819	4%	-3%	-1%
Gross Profit	28,260	32,446	40,061	27,666	33,454	40,094	2%	-3%	0%
Operating Profit	10,664	9,269	12,875	11,008	14,424	17,195	-3%	-36%	-25%
Adj. net profit	11,628	12,171	15,548	11,906	13,437	16,201	-2%	-9%	-4%
Adj. EPS (RMB)	0.49	0.51	0.65	0.50	0.56	0.68	-2%	-9%	-4%
Gross Margin	13.7%	13.9%	14.1%	13.92%	13.83%	13.9%	-0.2 ppt	0 ppt	0.2 ppt
Operating Margin	5.2%	4.0%	4.5%	5.54%	5.96%	6.0%	-0.4 ppt	-2 ppt	-1.4 ppt
Adj. Net Margin	5.6%	5.2%	5.5%	5.99%	5.55%	5.6%	-0.4 ppt	-0.4 ppt	-0.2 ppt

Sources: Company data, CMBIS

Figure 2: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	206,147	234,235	283,879	203,908	249,450	297,051	1%	-6%	-4%
Gross Profit	28,260	32,446	40,061	28,202	35,231	42,815	0%	-8%	-6%
Operating Profit	10,664	9,269	12,875	11,222	13,407	17,351	-5%	-31%	-26%
Adj. net profit	11,628	12,171	15,548	11,044	12,972	16,106	5%	-6%	-3%
Adj. EPS (RMB)	0.49	0.51	0.65	0.46	0.55	0.66	5%	-7%	-1%
Gross Margin	13.7%	13.9%	14.1%	13.8%	14.1%	14.4%	-0.1 ppt	-0.3 ppt	-0.3 ppt
Operating Margin	5.2%	4.0%	4.5%	5.5%	5.4%	5.8%	-0.3 ppt	-1.4 ppt	-1.3 ppt
Adj. Net Margin	5.6%	5.2%	5.5%	5.4%	5.2%	5.4%	0.2 ppt	0 ppt	0.1 ppt

Source: Bloomberg, CMBIS

Figure 3: P&L forecast

RMB mn	FY17	FY18	FY19E	1Q20E	2Q20E	3Q20E	4Q20E	FY20E	FY21E
Revenue	114,625	174,915	206,147	44,096	58,382	62,543	69,214	234,235	283,879
...YoY	67%	53%	18%	1%	12%	17%	22%	14%	21%
Cost of sales	(99,471)	(152,723)	(177,887)	(38,053)	(50,378)	(53,651)	(59,707)	(201,789)	(243,818)
Gross profit	15,154	22,192	28,260	6,043	8,004	8,892	9,507	32,446	40,061
GPM (%)	13.2%	12.7%	13.7%	13.7%	13.7%	14.2%	13.7%	13.9%	14.1%
...YoY	109%	46%	27%	16%	10%	8%	26%	15%	23%
SG&A	(6,448)	(20,092)	(12,510)	(2,496)	(3,323)	(3,690)	(4,361)	(13,870)	(16,465)
...% of rev	-5.6%	-11.5%	-6.1%	-5.7%	-5.7%	-5.9%	-6.3%	-5.9%	-5.8%
R&D	(3,151)	(5,777)	(7,227)	(1,663)	(1,749)	(2,189)	(2,353)	(7,954)	(9,368)
...% of rev	-2.7%	-3.3%	-3.5%	-3.8%	-3.0%	-3.5%	-3.4%	-3.4%	-3.3%
Operating profit	12,215	1,196	10,664	1,277	2,755	2,771	2,466	9,269	12,875
OPM (%)	10.7%	0.7%	5.2%	2.9%	4.7%	4.4%	3.6%	4.0%	4.5%
...YoY	223%	-90%	791%	-65%	18%	-11%	54%	-13%	39%
Adj. net profit	5,362	8,555	11,628	1,873	3,125	3,210	2,959	12,171	15,548
NPM (%)	4.7%	4.9%	5.6%	4.2%	5.4%	5.1%	4.3%	5.2%	5.5%
...YoY	183%	60%	36%	-10%	-14%	-8%	33%	5%	28%

Source: Company data, CMBIS

Figure 4: Revenue breakdown

RMB mn	FY17	FY18	FY19E	1Q20E	2Q20E	3Q20E	4Q20E	FY20E	FY21E
Smart phones	80,564	113,800	121,670	24,538	33,372	35,041	33,289	126,241	140,000
...YoY	65%	41%	7%	-9%	4%	9%	10%	4%	11%
IoT and lifestyle products	23,448	43,817	64,055	14,452	19,318	20,780	29,723	84,272	114,703
...YoY	89%	87%	46%	20%	29%	33%	38%	32%	36%
Smart TVs and laptops	8,300	18,200	25,694	6,136	7,040	7,501	12,103	32,780	42,615
...YoY		119%	41%	20%	28%	30%	30%	28%	30%
Other IoTs	15,148	25,617	38,362	8,315	12,278	13,279	17,620	51,492	72,089
...YoY		69%	50%	20%	30%	35%	45%	34%	40%
Internet services	9,896	15,956	18,646	4,568	5,205	6,149	5,670	21,593	26,407
...YoY	51%	61%	17%	7%	14%	16%	26%	16%	22%
Advertising services	5,614	10,100	10,100	2,168	2,505	2,999	2,520	10,193	10,702
...YoY	46%	80%	0%	-5%	-0.6%	3%	5%	1%	5%
Internet value-added services	4,282	5,855	8,547	2,400	2,700	3,150	3,150	11,400	15,705
...YoY	59%	37%	46%	22%	30%	31%	50%	33%	38%
Others	717	1,343	1,775	537	486	573	533	2,129	2,768
...YoY	0%	87%	32%	20%	20%	20%	20%	20%	30%
Total	114,625	174,915	206,147	44,096	58,382	62,543	69,214	234,235	283,879
...YoY		53%	18%	1%	12%	17%	22%	14%	21%
Gross Margin									
Smart phones	8.8%	6.2%	7.2%	7.5%	8.0%	8.1%	8.3%	8.0%	8.0%
IoT and lifestyle products	8.3%	10.3%	11.7%	10.0%	11.1%	11.0%	11.0%	10.9%	11.3%
Internet services	60.2%	64.4%	64.2%	60.0%	61.0%	61.0%	61.0%	60.8%	60.0%
Others	19.7%	27.3%	1.2%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%
Total	13.2%	12.7%	13.7%	13.7%	13.7%	14.2%	13.7%	13.9%	14.1%

Source: Company data, CMBIS

Valuation

Maintain HOLD; TP revised to HK\$11.47

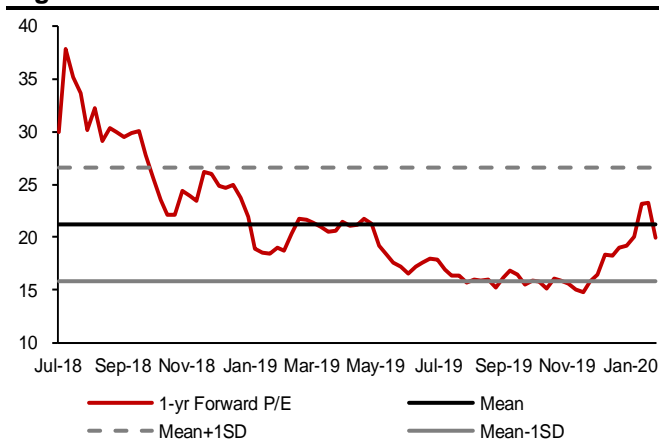
Our new 12m TP of HK\$ 11.47 is based on higher 25x FY20E P/E (from 18x) given 5G beneficiary and improving 2H20E sales). We believe it is justified given challenging smartphone market, product transition into AIoT, and advertising slowdown. Trading at 27.5x FY20E P/E, we view the stock is fairly valued and maintain HOLD rating on the stock.

Figure 5: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
HK-listed												
Xiaomi	1810 HK	Hold	39,087	12.64	11.47	-9%	28.8	27.5	3.4	3.0	11.3	9.4
Sunny Optical	2382 HK	Buy	18,509	134.60	140.0	4%	38.5	26.5	11.1	8.6	28.9	32.4
AAC Tech	2018 HK	Sell	9,021	57.40	29.6	-48%	31.8	24.2	3.2	2.9	9.9	12.0
BYDE	285 HK	Buy	4,510	15.76	18.4	17%	21.4	14.6	1.9	1.7	8.7	11.6
FIT Hon Teng	6088 HK	Buy	2,101	2.40	3.8	57%	8.0	7.0	1.0	0.9	12.1	12.2
Tongda	698 HK	Buy	734	0.89	1.2	29%	6.9	5.9	0.8	0.8	11.7	12.8
Q tech	1478 HK	Buy	1,658	11.54	16.7	44%	23.0	17.3	4.5	3.7	19.5	21.3
TK Group	2283 HK	Buy	416	3.88	4.1	5%	8.4	7.0	2.5	2.5	29.7	35.7
Average							21.9	16.7	3.7	3.1	15.0	16.5
Smartphone												
Apple	AAPL US	NR	1,395,122	318.9	NA	NA	27.3	23.1	16.3	22.0	57.1	76.1
Lenovo	992 HK	NR	8,187	5.2	NA	NA	13.6	11.0	2.0	1.9	15.7	19.5
Samsung	005930 KS	NR	300,456	58,900.0	NA	NA	18.4	13.2	1.6	1.5	8.6	11.2
LG Elec	066570 KS	NR	9,025	65,100.0	NA	NA	13.4	9.0	0.8	0.7	6.0	8.7
Average							18.2	14.1	5.2	6.5	21.8	28.9
IoT												
Skyworth	751 HK	NR	820	2.1	NA	NA	8.9	6.3	0.3	0.3	3.8	4.9
Hisense	600060 CH	NR	2,389	11.8	NA	NA	45.5	33.7	1.2	1.1	2.5	3.0
Midea	000333 CH	NR	52,570	52.8	NA	NA	15.2	13.3	3.6	3.1	25.0	24.4
Gree	000651 CH	NR	54,179	61.6	NA	NA	13.5	12.2	3.5	3.1	27.4	26.0
Huami	HMI US	NR	838	13.7	NA	NA	10.5	9.5	2.5	1.9	24.4	22.8
Fitbit	FIT US	NR	1,710	6.5	NA	NA	-	-	2.9	3.4	(31.9)	(25.7)
Average							18.7	15.0	2.3	2.2	8.5	9.2
Internet												
Tencent	700 HK	NR	482,608	393.0	NA	NA	35.7	29.3	8.0	6.4	24.7	23.4
Alibaba	BABA US	NR	597,925	222.9	NA	NA	42.4	30.5	8.4	5.8	16.0	21.3
Baidu	BIDU US	NR	45,520	131.4	NA	NA	18.6	15.1	1.9	1.7	4.0	8.8
JD	JD US	NR	58,917	40.4	NA	NA	39.4	28.9	5.4	4.5	12.5	14.8
Average							34.0	26.0	5.9	4.6	14.3	17.1

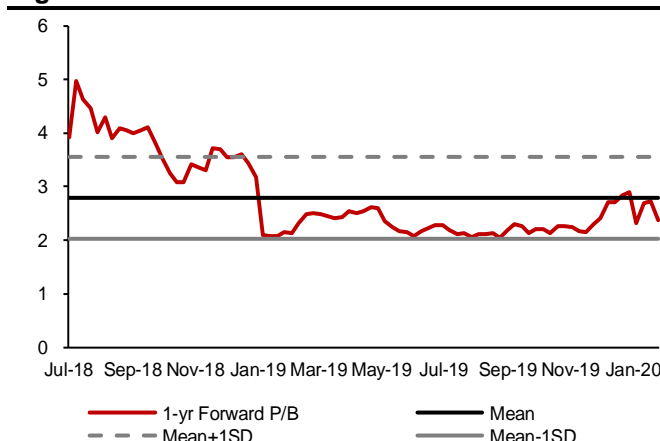
Source: Bloomberg, CMBIS

Figure 6: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 7: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	114,625	174,915	206,147	234,235	283,879
COGS	(99,471)	(152,723)	(177,887)	(201,789)	(243,818)
Gross profit	15,154	22,192	28,260	32,446	40,061
Selling and marketing	(5,232)	(7,993)	(9,516)	(10,575)	(12,491)
Administrative	(1,216)	(12,099)	(2,994)	(3,295)	(3,974)
R&D	(3,151)	(5,777)	(7,227)	(7,954)	(9,368)
Other operating exp.	6,660	4,874	2,142	(1,353)	(1,353)
Operating profit	12,215	1,196	10,664	9,269	12,875
Financial cost	27	216	574	574	941
Other income/(losses)	(54,072)	12,514			
Pre-tax profit	(41,829)	13,927	11,238	9,843	13,816
Tax	(2,060)	(449)	(2,048)	(1,476)	(2,072)
Minority interest	(63)	(76)	62	(11)	79
Net profit	(43,826)	13,554	9,128	8,377	11,665
Adj. Net profit	5,362	8,743	11,628	12,171	15,548

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before taxation	(41,829)	13,927	11,238	9,843	13,816
Depreciation	361	748	728	1,070	1,484
Change in working capital	(7,283)	(13,396)	12,024	(7,422)	15,497
Others	47,756	(2,693)	(2,048)	(1,476)	(2,072)
Net cash from operating	(996)	(1,415)	21,941	2,014	28,725
Capex	(1,216)	(3,758)	(4,123)	(4,685)	(5,678)
Other	(1,461)	(3,750)			
Net cash from investing	(2,678)	(7,508)	(4,123)	(4,685)	(5,678)
Net bank borrowings	6,644	(236)	-	-	-
Dividend paid	-	-	-	-	-
Other	(429)	26,810	-	-	-
Net cash from financing	6,215	26,574	-	-	-
Net change in cash	2,542	17,652	17,818	(2,670)	23,047
Cash at beginning of the yr	9,230	11,563	30,230	48,048	45,378
Exchange difference	(209)	1,015	-	-	-
Cash at the end of the year	11,563	30,230	48,048	45,378	68,425

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	61,138	106,013	111,477	128,953	145,573
Cash & equivalents	11,563	30,230	48,048	45,378	68,425
Account receivables	5,470	5,598	7,996	7,451	11,270
Inventories	16,343	29,481	14,729	35,421	25,175
ST bank deposits	225	1,366	1,366	1,366	1,366
Other	27,538	39,337	39,337	39,337	39,337
Non-current assets	28,731	39,215	42,611	46,226	50,419
PPE	1,731	5,068	8,463	12,078	16,272
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
Total assets	89,870	145,228	154,087	175,178	195,992
Current liabilities	47,133	61,940	61,610	74,335	83,404
Short-term borrowings	3,551	3,075	3,075	3,075	3,075
Account payables	34,003	46,287	45,957	58,682	67,751
Tax payable	421	662	662	662	662
Other	9,157	11,916	11,916	11,916	11,916
Non-current liabilities	169,948	12,038	12,038	12,038	12,038
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
Total liabilities	217,080	73,978	73,648	86,372	95,442
Share capital	0	0	0	0	0
Reserves	(127,273)	71,323	80,450	88,827	100,492
Minority interest	62	(73)	(11)	(22)	57
Shareholders' equity	(127,211)	71,250	80,440	88,806	100,550
Total equity/liabilities	89,870	145,228	154,087	175,178	195,992

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Smart phones	70	65	59	54	49
IoT and lifestyle products	20	25	31	36	40
Internet services	9	9	9	9	9
Others	1	1	1	1	1
Growth (%)					
Revenue	67.5	52.6	17.9	13.6	21.2
Gross profit	109.0	46.4	27.3	14.8	23.5
Operating profit	222.7	-	791.3	(13.1)	38.9
Adj. Net profit	-	63.1	33.0	4.7	27.8
Profit & loss ratio (%)					
Gross margin	13.2	12.7	13.7	13.9	14.1
Operating margin	10.7	0.7	5.2	4.0	4.5
Net profit margin	(38.2)	7.7	4.4	3.6	4.1
Balance sheet ratio					
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	1.7
Receivable turnover days	30	32	30	30	30
Inventory turnover days	8	7	8	8	8
Payable turnover days	4	4	4	4	4
Profitability (%)					
ROE	34.5	19.0	11.3	9.4	11.6
ROA	(48.8)	9.3	5.9	4.8	6.0
Per share data (RMB)					
Adj. EPS	-	0.54	0.49	0.51	0.65
DPS	-	-	-	-	-

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

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CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
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