

Xiaomi (1810 HK)

Target global No.1 in 3 years; Reiterate BUY

Xiaomi released several new flagship products last night, including Mi Mix 4, Pad 5 and Xiaomi Sound speaker. CEO Lei Jun also announced to target global No.1 position in smartphone market in 3 years, after passing Apple as global No.2 in 2Q21. We remain positive on Xiaomi's expansion roadmap on offline channel in China (No.3 in 2Q21) and carrier channel in Europe (No.1 in 2Q21). We revised up Xiaomi's smartphone shipment to 201mn/242mn/283mn (+37%/21%/17% YoY) in FY21/22/23E. For 2Q21E, we expect revenue/adj. NP to grow 67%/82% YoY, 8%/17% above consensus. We adjusted FY21-23E EPS by 1-7% to reflect chip shortage and COVID-19, and our new TP of HK\$38.44 is based on same 30x FY22E P/E. Recent concern on Honor comeback is overdone. Reiterate BUY.

- Mi Mix 4 launch to drive ASP upside; Target global No.1 in 3 years.** Xiaomi launched Mi Mix 4, featuring Qualcomm's Snapdragon 888 Plus chip, 120W charging, camera under panel (CUP) front camera, triple rear camera (108MP, 8MP 50x periscope, 13MP free-form wide-angle). The initial price was set at RMB4,999-6,299. We are positive on Xiaomi's premium model strategy amid Huawei/Honor's weakness in high-end segment. CEO Lei Jun also announced to aim for global No.1 spot in 3 years, implying surpassing Samsung's annual shipment of 280-300mn. We are confident on Xiaomi's share gain in FY21-23E backed by offline store expansion in China (10k target) and stronger carrier partnership in Europe/LATAM. We expect its shipment to grow 37%/21%/17% YoY to 201mn/242mn/283mn in FY21-23E.
- 2Q21E Preview: revenue/adj. NP to grow 66%/81% YoY.** We estimate Xiaomi 2Q revenue at RMB 88.7bn (+66% YoY, vs consensus RMB81.8bn) and adj. NP at RMB6.1bn (+81% YoY, vs consensus RMB5.2bn), driven by smartphone/ IoT/ internet growth of 89%/39%/13% YoY and GPM at 16.7% (+2.3ppt YoY, -1.7ppt QoQ). Despite recent chip shortage, we expect healthy GPM to sustain into 2021, and share gain in premium segment will improve internet monetization ahead.
- Our FY21-23E adj. NP are 8-18% above consensus; Reiterate BUY.** We believe market concerns on Honor's comeback is overdone as Honor's market share gain in July is seasonal on recent product launch. The stock price has reflected uncertainties from COVID-19 and potential China demand slowdown. We slightly revised down FY21-23 EPS by 1-7% to reflect chip shortage and COVID-19 impact. Our new TP of HK\$38.44 is based on same 30x FY22E P/E.

Earnings Summary

(YE31Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	205,839	245,866	331,344	423,690	509,952
YoY growth (%)	17.7	19.4	34.8	27.9	20.4
Adj. Net income (RMB mn)	11,532	13,006	23,637	27,479	31,589
Adj. EPS (RMB)	0.49	0.54	0.99	1.15	1.32
YoY growth (%)	(10.7)	11.7	81.7	16.3	15.0
Consensus EPS (RMB)	NA	NA	0.81	0.98	1.16
P/E (x)	50.7	45.4	25.0	21.5	18.7
P/B (x)	8.9	7.2	5.7	4.6	3.8
ROE (%)	12.3	20.0	20.6	19.1	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\$38.44
(Previous TP)	HK\$39.2)
Upside	40.0%
Current Price	HK\$27.45

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	688,583
Avg. 3mths t/o (HK\$m)	3,918.89
52W High/Low (HK\$)	35.90/ 14.54
Total Issued Shares (mn)	20,428

Source: Bloomberg

Shareholding Structure

Lin Bin	8.88%
Smart Mobile Holdings Ltd	8.36%
Mini Stone	2.73%

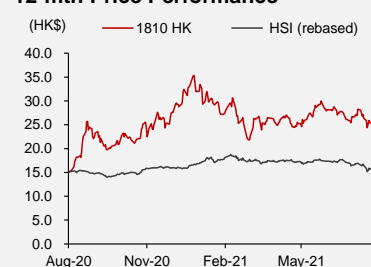
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	2.8%	5.7%
3-mth	8.9%	17.1%
6-mth	0.0%	12.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

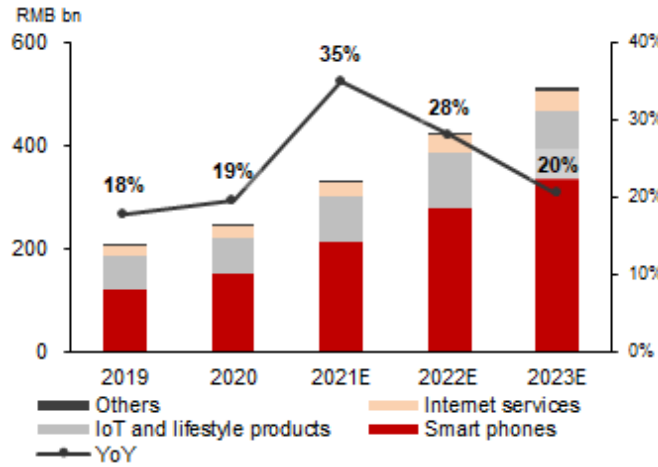
Auditor: PricewaterhouseCoopers

Recent Reports:

- 1Q21 strong beat on better margin; Reiterate BUY – 27 May 2021
- 4Q20 beat on record-high GPM; Lift TP to HK\$34.0 – 25 Mar 2021
- 3Q20 beat; Global share gain to accelerate in 2021 – 25 Nov 2020

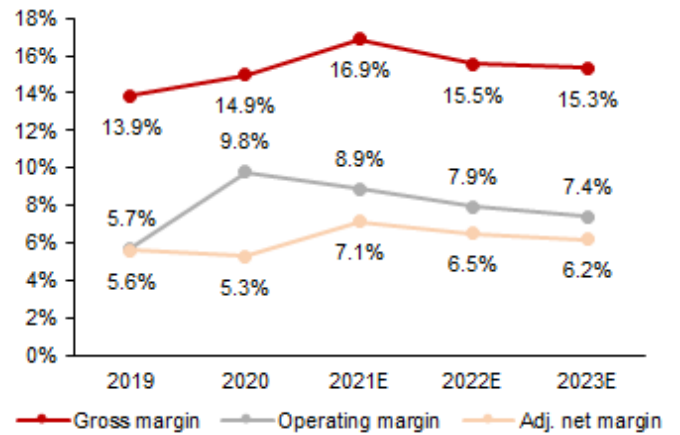
Focus Charts

Figure 1: Xiaomi revenue trend



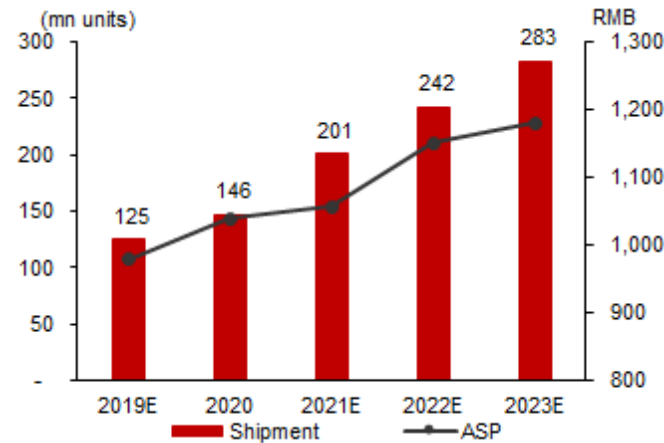
Source: Company data, CMBIS estimates

Figure 2: Xiaomi margin trend



Source: Company data, CMBIS estimates

Figure 3: Xiaomi smartphone shipment forecast



Source: Xiaomi, CMBIS estimates

Figure 4: Xiaomi Mi MIX 4



Source: Xiaomi, CMBIS estimates

Figure 5: Mi MIX 4 – camera spec



Source: Xiaomi, CMBIS estimates

Figure 6: Aiming to become global No. 1 in 3 years



Source: Xiaomi, CMBIS estimates

2Q21 Preview

Figure 7: 2Q21 results preview

RMB mn	2Q20	1Q21	2Q21E	QoQ	YoY	Consensus	
						2Q21E	Diff %
Revenue	53,538	76,882	88,692	15.4%	66%	81,849	8%
Gross Profit	7,701	14,161	14,843	4.8%	93%	13,735	8%
Operating Profit	5,413	8,158	8,379	2.7%	55%	6,565	28%
Adj. net profit	3,373	6,069	6,112	0.7%	81%	5,232	17%
Adj. EPS (RMB)	0.14	0.30	0.25	-15.6%	80%	0.21	21%
Gross Margin	14.4%	18.4%	16.7%	1.7 ppt	2.4 ppt	16.8%	-0.7 ppt
Operating Margin	10.1%	10.6%	9.4%	1.2 ppt	-0.7 ppt	8.0%	5.6 ppt
Adj. Net Margin	6.3%	7.9%	6.9%	1 ppt	0.6 ppt	6.4%	-1.8 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	59,868	51,484	49,143	211,974	278,763	333,603
... YoY	25%	70%	89%	8%	15%	39%	32%	20%
Shipment (mn)	146,400	49,400	53,100	49,862	48,222	200,584	242,402	282,715
... YoY	17%	69%	88%	7%	14%	37%	21%	17%
ASP (RMB)	1,040	1,042	1,127	1,033	1,019	1,057	1,150	1,180
... YoY	6.2%	0.4%	1.0%	1.0%	1.0%	1.7%	8.8%	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	6,662	7,269	27,194	32,642	39,281
... YoY	20%	11%	13%	15%	18%	14%	20%	20%
Advertising services	12,722	3,894	4,012	3,808	4,030	15,743	19,679	24,599
... YoY	19%	46%	30%	15%	10%	24%	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	88,692	82,640	83,141	331,344	423,690	509,952
... YoY	19%	55%	66%	15%	18%	35%	28%	20%
Gross Margin								
Smart phones	8.7%	12.9%	12.0%	11.0%	11.0%	11.7%	11.0%	10.5%
IoT and lifestyle products	12.8%	14.5%	14.0%	13.5%	13.5%	13.8%	13.0%	13.5%
Internet services	61.6%	72.4%	68.0%	65.0%	63.0%	67.0%	63.0%	63.0%
Others	11.9%	20.9%	15.0%	15.0%	15.0%	16.1%	13.0%	12.0%
Total	14.9%	18.4%	16.7%	16.1%	16.4%	16.9%	15.5%	15.3%

Source: Company data, CMBIS estimates

Earnings Revision

Our FY21-23E adj. NP are 8-18% above consensus

We adjusted FY21-23E adj. NP by 2-7% to reflect chip shortage and COVID-19 impact. Our FY21-23E adj. NP are 8-18% 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	331,344	423,690	509,952	330,241	418,400	496,111	0%	1%	3%
Gross Profit	55,923	65,826	78,199	56,920	66,008	77,474	-2%	0%	1%
Operating Profit	29,392	33,650	37,742	31,578	34,340	38,346	-7%	-2%	-2%
Adj. net profit	23,637	27,479	31,589	25,537	28,100	32,127	-7%	-2%	-2%
Adj. EPS (RMB)	0.99	1.15	1.32	1.06	1.17	1.34	-7%	-2%	-2%
Gross Margin	16.9%	15.5%	15.3%	17.2%	15.8%	15.6%	-0.4 ppt	-0.2 ppt	-0.3 ppt
Operating Margin	8.9%	7.9%	7.4%	9.6%	8.2%	7.7%	-0.7 ppt	-0.3 ppt	-0.3 ppt
Adj. Net Margin	7.1%	6.5%	6.2%	7.7%	6.7%	6.5%	-0.6 ppt	-0.2 ppt	-0.3 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	331,344	423,690	509,952	336,092	409,384	474,931	-1%	3%	7%
Gross Profit	55,923	65,826	78,199	54,103	65,028	75,605	3%	1%	3%
Operating Profit	29,392	33,650	37,742	23,829	27,745	33,695	23%	21%	12%
Adj. net profit	23,637	27,479	31,589	20,020	23,947	29,244	18%	15%	8%
Adj. EPS (RMB)	0.99	1.15	1.32	0.81	0.98	1.16	22%	17%	13%
Gross Margin	16.9%	15.5%	15.3%	16.1%	15.9%	15.9%	0.8 ppt	-0.3 ppt	-0.6 ppt
Operating Margin	8.9%	7.9%	7.4%	7.1%	6.8%	7.1%	1.8 ppt	1.2 ppt	0.3 ppt
Adj. Net Margin	7.1%	6.5%	6.2%	6.0%	5.8%	6.2%	1.2 ppt	0.6 ppt	0 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	88,692	82,640	83,141	331,344	423,690	509,952
... YoY	19%	55%	66%	15%	18%	35%	28%	20%
Cost of sales	(209,114)	(62,721)	(73,849)	(69,327)	(69,536)	(275,421)	(357,864)	(431,753)
Gross profit	36,752	14,161	14,843	13,313	13,605	55,923	65,826	78,199
GPM (%)	14.9%	18.4%	16.7%	16.1%	16.4%	16.9%	15.5%	15.3%
... YoY	29%	87%	93%	31%	20%	52%	18%	19%
SG&A	(18,286)	(5,151)	(5,588)	(5,206)	(6,236)	(22,181)	(24,998)	(30,087)
... % of rev	-7.4%	-6.7%	-6.3%	-6.3%	-7.5%	-6.7%	-5.9%	-5.9%
R&D	(9,256)	(3,012)	(3,370)	(3,140)	(3,326)	(12,848)	(15,677)	(18,868)
... % of rev	-3.8%	-3.9%	-3.8%	-3.8%	-4.0%	-3.9%	-3.7%	-3.7%
Operating profit	24,035	8,158	8,379	8,468	4,388	29,392	33,650	37,742
OPM (%)	9.8%	10.6%	9.4%	10.2%	5.3%	8.9%	7.9%	7.4%
... YoY	104%	251%	55%	26%	-54%	22%	14%	12%
Adj. net profit	13,006	6,069	6,112	5,915	5,273	23,637	27,479	31,589
NPM (%)	5.3%	7.9%	6.9%	7.2%	6.3%	7.1%	6.5%	6.2%
... YoY	13%	164%	81%	43%	65%	82%	16%	15%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP of HK\$38.44

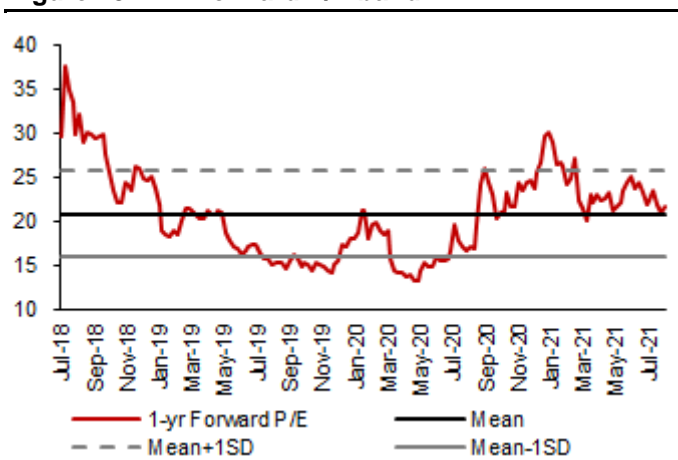
Our new TP is based on same 30x FY22E P/E. We think it is justified given accelerated share gain and strong earnings CAGR of 35% during F20-23E. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

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	88,490	27.5	38.44	40%	25.0	21.5	5.7	4.6	20.6	19.1
Sunny Optical	2382 HK	Buy	31,010	220.0	254.3	16%	37.2	27.7	12.8	9.9	26.6	29.8
AAC Tech	2018 HK	Hold	7,431	47.9	45.3	-5%	28.4	16.0	2.4	2.3	8.0	12.1
BYDE	285 HK	Buy	11,814	40.8	55.0	35%	14.4	12.9	4.7	3.0	21.2	19.5
FIT Hon Teng	6088 HK	Buy	1,479	1.7	3.6	117%	6.9	7.4	0.7	0.6	8.9	7.8
Tongda	698 HK	Buy	250	0.3	0.6	87%	3.8	3.6	0.3	0.3	7.7	7.3
Q tech	1478 HK	Buy	2,099	13.8	22.0	59%	13.6	9.9	3.8	3.1	23.1	24.3
TK Group	2283 HK	Buy	336	3.1	4.1	31%	4.9	6.5	2.0	2.0	41.7	22.2
Average							18.9	14.3	4.4	3.4	16.0	16.6
Smartphone												
Apple	AAPL US	NR	2,406,792	145.6	NA	NA	26.2	26.0	40.7	36.9	143.8	145.9
Lenovo	992 HK	NR	11,544	7.5	NA	NA	10.2	8.3	2.7	2.4	30.7	34.7
Samsung	005930 KS	NR	415,432	80,200.0	NA	NA	13.4	11.1	1.9	1.7	14.0	15.2
LG Elec	066570 KS	NR	22,364	157,500.0	NA	NA	10.5	8.4	1.6	1.3	14.5	16.8
Average							15.1	13.5	11.7	10.6	50.8	53.1
IoT												
Skyworth	751 HK	NR	816	2.4	NA	NA	5.5	4.5	-	-	-	-
Hisense	600060 CH	NR	2,697	13.4	NA	NA	12.6	11.7	1.0	1.0	8.8	9.3
Midea	000333 CH	NR	79,197	72.9	NA	NA	17.6	15.3	3.8	3.3	22.2	21.9
Gree	000651 CH	NR	44,984	48.5	NA	NA	11.6	10.1	2.4	2.1	19.7	20.2
Average							11.8	10.4	2.4	2.1	16.9	17.2
Internet												
Tencent	700 HK	NR	599,820	486.2	NA	NA	27.5	22.3	4.6	3.8	18.2	17.9
Alibaba	BABA US	NR	532,029	195.7	NA	NA	19.4	21.6	3.4	3.2	19.0	14.0
Baidu	BIDU US	NR	58,539	165.6	NA	NA	16.9	15.0	1.7	1.5	12.4	8.7
JD	JD US	NR	111,873	71.8	NA	NA	59.1	34.4	3.6	3.3	5.5	8.0
Average							30.7	23.3	3.3	2.9	13.8	12.1

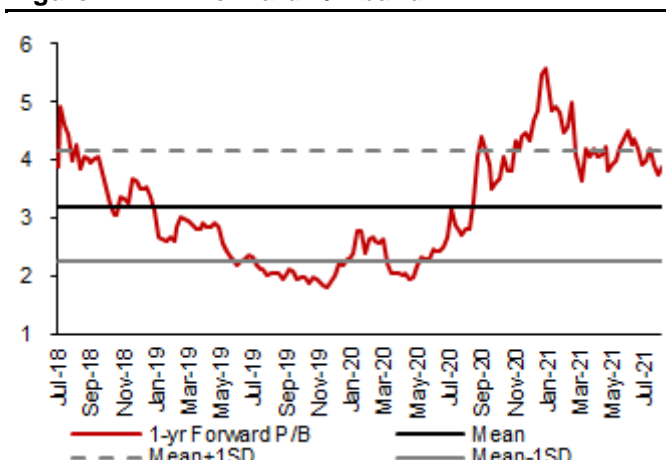
Source: Bloomberg, CMBIS

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	331,344	423,690	509,952
COGS	(177,285)	(209,114)	(275,421)	(357,864)	(431,753)
Gross profit	28,554	36,752	55,923	65,826	78,199
Selling and marketing	(10,378)	(14,539)	(17,719)	(19,490)	(23,458)
Administrative	(3,104)	(3,746)	(4,462)	(5,508)	(6,629)
R&D	(7,493)	(9,256)	(12,848)	(15,677)	(18,868)
Other operating exp.	4,181	14,825	8,498	8,498	8,498
Operating profit	11,760	24,035	29,392	33,650	37,742
Financial cost	402	(1,641)	1,385	1,948	2,692
Other income/(losses)		(760)			
Pre-tax profit	12,163	21,633	30,778	35,598	40,434
Tax	(2,060)	(1,321)	(4,361)	(5,340)	(6,065)
Minority interest	59	(43)	(56)	(64)	(72)
Net profit	10,044	20,356	26,472	30,322	34,441
Adj. Net profit	11,532	13,006	23,637	27,479	31,589

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	12,163	21,633	30,778	35,598	40,434
Depreciation	2,192	1,086	1,570	2,189	2,934
Change in working capital	9,641	265	12,003	4,169	10,094
Others	(186)	(1,321)	(4,361)	(5,340)	(6,065)
Net cash from operating	23,810	21,664	39,990	36,617	47,398
Capex	(4,117)	(4,917)	(6,627)	(8,474)	(10,199)
Other	(27,453)	-	-	-	-
Net cash from investing	(31,570)	(4,917)	(6,627)	(8,474)	(10,199)
Net bank borrowings	-	-	-	-	-
Dividend paid	-	-	-	-	-
Other	3,121	-	-	-	-
Net cash from financing	3,121	-	-	-	-
Net change in cash	(4,639)	16,746	33,363	28,143	37,199
Cash at beg of year	30,230	25,920	42,666	76,030	104,173
Exchange difference	328	-	-	-	-
Cash at end of year	25,920	42,666	76,030	104,173	141,371

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	137,539	143,402	209,765	231,488	299,159
Cash & equivalents	25,920	42,666	76,030	104,173	141,371
Account receivables	6,949	9,265	12,585	15,355	18,274
Inventories	32,585	19,385	49,065	39,875	67,428
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	54,978	61,262	68,527
PPE	6,992	10,823	15,880	22,164	29,429
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	264,743	292,750	367,685
Current liabilities	92,181	81,562	126,565	124,313	164,880
Short-term borrowings	12,837	12,837	12,837	12,837	12,837
Account payables	59,528	48,909	93,912	91,661	132,228
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	136,356	134,104	174,671
Share capital	0	0	0	0	0
Reserves	81,330	101,686	128,158	158,480	192,921
Minority interest	327	284	229	165	93
Shareholders' equity	81,658	101,970	128,387	158,646	193,014
Total equity/liabilities	183,629	193,323	264,743	292,750	367,685

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Smart phones	59	62	64	66	65
IoT and lifestyle products	30	27	27	26	26
Internet services	10	10	8	8	8
Others	1	1	1	1	1
Growth (%)					
Revenue	17.7	19.4	34.8	27.9	20.4
Gross profit	28.7	28.7	52.2	17.7	18.8
Operating profit	882.9	104.4	22.3	14.5	12.2
Adj. Net profit	31.9	12.8	81.7	16.3	15.0
Profit & loss ratio (%)					
Gross margin	13.9	14.9	16.9	15.5	15.3
Operating margin	5.7	9.8	8.9	7.9	7.4
Net profit margin	4.9	8.3	8.0	7.2	6.8
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	1.8
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	20.6	19.1	17.8
ROA	5.5	10.5	10.0	10.4	9.4
Per share data (RMB)					
Adj. EPS	0.49	0.54	0.99	1.15	1.32
DPS	-	-	-	-	-

Source: Company data, CMBIS estimates

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