

Xiaomi (1810 HK)

2Q21 beat on strong ads and margin; Maintain BUY

Xiaomi's 2Q21 revenue/ adj. net profit grew 64%/87% YoY, 3%/19% above consensus but largely in-line with [our preview](#), mainly driven by solid smartphone (+87% YoY), stronger advertising (+46% YoY) and record-high internet margin of 74.1% (CMBI/BBG: 68%/ 69.5%). Key takeaways include 1) smartphone share gain in China offline, Europe and LATAM, 2) challenges in global chip shortage, 3) weaker internet in 2H21E due to regulatory pressure, and 4) EV progress ahead of schedule, focusing on talent acquisition and technology investment (e.g. Deepmotion Tech in Aug). We raised FY21-23E EPS by 1-8% to reflect 2Q21 beat and better internet GPM. Our new TP of HK\$39.69 is based on same 30x FY22E P/E. Recent concern on Honor comeback is overdone. Reiterate BUY.

- Strong 2Q21 on stronger advertising with better GPM.** We believe Xiaomi's strong 2Q21 was a result of smartphone momentum in China offline and Europe carrier markets, better advertising revenue offsetting weaker gaming/fintech and improving product mix across all segments. By segment, smartphone/IoT/internet revenue grew 87%/36%/19% YoY in 2Q21 (vs 70%/41%/11% YoY in 1Q21). We remain positive on Xiaomi's premium model strategy amid Huawei/Honor's weakness in high-end segment. We expect Xiaomi shipment to grow 37%/21%/17% YoY to 201mn/242mn/283mn in FY21-23E.
- 2H21E outlook: stable growth, chip shortage, internet regulations and EV progress.** Mgmt. believes global chip shortage remains a major challenge to meet consumer demand from 100+ global markets, and Xiaomi expects significant growth potential in China offline market, LATAM and Europe. Mgmt. believes advertising segment will maintain healthy growth backed by smartphone momentum, while gaming/fintech biz will remain under pressure due to policy uncertainties. As for EV, mgmt. stated progress is now ahead of schedule, and will focus on team acquisition and technology investment. Xiaomi announced to acquire 71.2% of Deepmotion Tech for US\$62.5mn, which offers software solutions for ADAS and automated driving applications.
- Our FY21-23E NP are 15-20% above consensus; Reiterate BUY.** We believe recent stock correction has reflected uncertainties from COVID-19 and potential China demand slowdown. We raised FY21-23 EPS by 1-8% to reflect strong 2Q21 and better internet margin. Our new TP of HK\$39.69 is based on same 30x FY22E P/E. Catalysts include EV progress, product launch and market share gain.

Earnings Summary

(YE31Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	205,839	245,866	330,742	424,019	510,462
YoY growth (%)	17.7	19.4	34.5	28.2	20.4
Adj. Net income (RMB mn)	11,532	13,006	23,793	28,465	34,165
Adj. EPS (RMB)	0.49	0.54	1.00	1.20	1.42
YoY growth (%)	(10.7)	11.7	82.9	19.6	20.0
Consensus EPS (RMB)	NA	NA	0.83	1.03	1.24
P/E (x)	46.8	41.9	22.9	19.2	16.0
P/B (x)	8.2	5.5	4.4	3.6	3.0
ROE (%)	12.3	16.4	18.9	18.4	17.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$39.69
(Previous TP	HK\$38.44)
Upside	57%
Current Price	HK\$25.35

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	635,568
Avg. 3mths t/o (HK\$m)	3,741.96
52W High/Low (HK\$)	35.9/ 18.2
Total Issued Shares (mn)	20,417

Source: Bloomberg

Shareholding Structure

Lin Bin	8.88%
Smart Mobile Holdings Ltd	8.37%
Mini Stone	2.73%

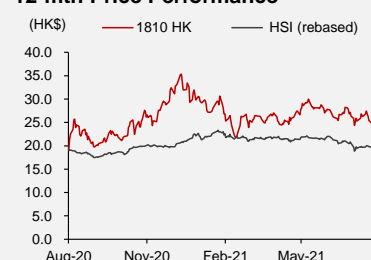
Source: Bloomberg

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

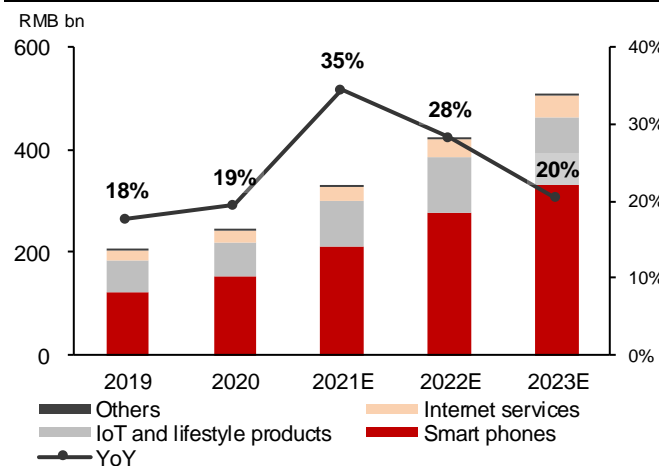
Auditor: PricewaterhouseCoopers

Recent Reports:

- Target global No.1 in 3 years; Reiterate BUY – 11 Aug 2021
- 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

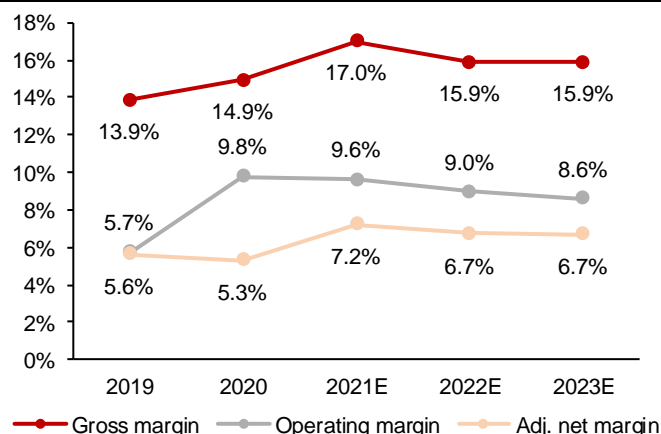
Focus Charts

Figure 1: Xiaomi revenue trend



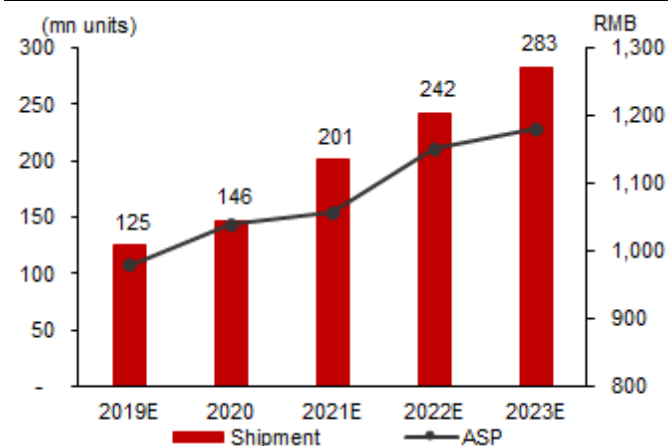
Source: Company data, CMBIS estimates

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 Review

Figure 7: 2Q21 results review

RMB mn	2Q20	1Q21	2Q21	QoQ	YoY	CMBIS		Consensus	
						2Q21E	Diff %	2Q21E	Diff %
Revenue	53,538	76,882	87,789	14.2%	64%	88,692	-1%	85,007	3%
Gross Profit	7,701	14,161	15,148	7.0%	97%	14,843	2%	14,107	7%
Operating Profit	5,413	8,158	10,726	31.5%	98%	8,379	28%	6,961	54%
Adj. net profit	3,373	6,069	6,322	4.2%	87%	6,112	3%	5,498	15%
Adj. EPS (RMB)	0.14	0.30	0.26	-12.7%	86%	0.25	3%	0.22	19%
Gross Margin	14.4%	18.4%	17.3%	1.2 ppt	2.9 ppt	16.7%	0.5 ppt	16.6%	-0.5 ppt
Operating Margin	10.1%	10.6%	12.2%	-1.6 ppt	2.1 ppt	9.4%	2.8 ppt	8.2%	5.4 ppt
Adj. Net Margin	6.3%	7.9%	7.2%	0.7 ppt	0.9 ppt	6.9%	0.3 ppt	6.5%	-1.9 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 8: Revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	CMBI		Consensus	
							2Q21E	Diff %	2Q21E	Diff %
Smart phones	30,325	31,628	47,604	42,634	51,491	59,089	59,868	-1%	57,267	3%
... YoY	12%	-1%	48%	38%	70%	87%	89%		81%	
Shipment (000')	29,200	28,300	46,600	42,300	49,400	52,900	53,100	0%	51,793	2%
... YoY	5%	-12%	45%	30%	69%	87%	88%		83%	
ASP (RMB)	1,038	1,116	1,022	1,009	1,042	1,117	1,127	-1%	1,111	1%
... YoY	7.2%	11.9%	1.6%	6.8%	0.4%	0.0%	1.0%		0%	
IoT and lifestyle products	12,984	15,253	18,119	21,054	18,243	20,735	21,157	-2%	20,813	0%
... YoY	8%	2%	16%	8%	41%	36%	39%		36%	
Smart TVs and laptops	4,694	4,800	5,800	7,100	5,600	6,000	6,000	0%		
... YoY	-8%	-13%	1%	-10%	19%	25%	25%			
Other IoTs	8,290	10,453	12,319	13,954	12,643	15,157	15,157	0%		
... YoY	20%	11%	25%	20%	53%	45%	45%			
Internet services	5,901	5,908	5,772	6,175	6,571	7,033	6,692	5%	6,921	2%
... YoY	39%	29%	9%	8%	11%	19%	13%		17%	
Advertising services	2,661	3,086	3,311	3,663	3,894	4,512	4,012	12%	4,089	10%
... YoY	17%	23%	14%	23%	46%	46%	30%		32%	
Internet VAS	3,239	2,821	2,461	2,561	2,677	2,454	2,680	-8%		
... YoY	64%	36%	3%	-6%	-17%	-13%	-5%			
Gaming	1,500	1,000	800	900	1,123	900	950	-5%		
... YoY	82%	48%	-3%	3%	-25%	-10%	-5%			
Other (Youpin fintech, etc)	1,739	1,821	1,661	1,661	1,554	1,554	1,730	-10%		
... YoY	51%	30%	5%	-10%	-11%	-15%	-5%			
Others	493	750	668	599	577	932	975	-4%	589	58%
... YoY	10%	85%	40%	24%	17%	24%	30%		-22%	
Total	49,702	53,538	72,163	70,463	76,882	87,789	88,692	-1%	85,007	3%
... YoY	14%	3%	34%	25%	55%	64%	66%		59%	
Gross Margin										
Smart phones	8.1%	7.2%	8.4%	10.5%	12.9%	11.8%	12.0%	-0.2 ppt	11.5%	0.3 ppt
IoT and lifestyle products	13.4%	11.4%	14.2%	12.1%	14.5%	13.2%	14.0%	-0.8 ppt	13.2%	0 ppt
Internet services	57.1%	60.3%	60.4%	68.4%	72.4%	74.1%	68.0%	6.1 ppt	69.5%	4.6 ppt
Others	-1.4%	15.0%	16.1%	14.1%	20.9%	21.3%	15.0%	6.3 ppt	15.0%	6.3 ppt
Total	15.2%	14.4%	14.1%	16.1%	18.4%	17.3%	16.7%	0.5 ppt	16.6%	0.7 ppt

Source: Company data, CMBIS estimates

Earnings Revision

Our FY21-23E adj. NP are 15-21% above consensus

We raised FY21-22E adj. NP by 1-8% reflect strong 2Q21 and better internet margin. Our FY21-23E EPS are 15-21% 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	330,742	424,019	510,462	331,344	423,690	509,952	0%	0%	0%
Gross Profit	56,268	67,303	81,129	55,923	65,826	78,199	1%	2%	4%
Operating Profit	31,821	37,966	43,831	29,392	33,650	37,742	8%	13%	16%
Adj. net profit	23,793	28,465	34,165	23,637	27,479	31,589	1%	4%	8%
Adj. EPS (RMB)	0.99	1.19	1.42	0.99	1.15	1.32	1%	4%	8%
Gross Margin	17.0%	15.9%	15.9%	16.9%	15.5%	15.3%	0.1 ppt	0.3 ppt	0.6 ppt
Operating Margin	9.6%	9.0%	8.6%	8.9%	7.9%	7.4%	0.8 ppt	1 ppt	1.2 ppt
Adj. Net Margin	7.2%	6.7%	6.7%	7.1%	6.5%	6.2%	0.1 ppt	0.2 ppt	0.5 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	330,742	424,019	510,462	335,044	411,624	480,793	-1%	3%	6%
Gross Profit	56,268	67,303	81,129	53,911	65,595	77,758	4%	3%	4%
Operating Profit	31,821	37,966	43,831	25,776	30,842	37,089	23%	23%	18%
Adj. net profit	23,793	28,465	34,165	20,430	23,989	30,205	16%	19%	13%
Adj. EPS (RMB)	0.99	1.19	1.42	0.83	1.03	1.24	20%	16%	15%
Gross Margin	17.0%	15.9%	15.9%	16.1%	15.9%	16.2%	0.9 ppt	-0.1 ppt	-0.3 ppt
Operating Margin	9.6%	9.0%	8.6%	7.7%	7.5%	7.7%	1.9 ppt	1.5 ppt	0.9 ppt
Adj. Net Margin	7.2%	6.7%	6.7%	6.1%	5.8%	6.3%	1.1 ppt	0.9 ppt	0.4 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	87,789	82,659	83,439	330,742	424,019	510,462
...YoY	19%	55%	64%	15%	18%	35%	28%	20%
Cost of sales	(209,114)	(62,721)	(72,641)	(69,307)	(69,832)	(274,474)	(356,716)	(429,333)
Gross profit	36,752	14,161	15,148	13,351	13,608	56,268	67,303	81,129
GPM (%)	14.9%	18.4%	17.3%	16.2%	16.3%	17.0%	15.9%	15.9%
...YoY	29%	87%	97%	31%	20%	53%	20%	21%
SG&A	(18,286)	(5,151)	(6,831)	(5,869)	(6,425)	(24,276)	(25,865)	(30,628)
...% of rev	-7.4%	-6.7%	-7.8%	-7.1%	-7.7%	-7.3%	-6.1%	-6.0%
R&D	(9,256)	(3,012)	(3,064)	(3,141)	(3,171)	(12,388)	(15,689)	(18,887)
...% of rev	-3.8%	-3.9%	-3.5%	-3.8%	-3.8%	-3.7%	-3.7%	-3.7%
Operating profit	24,035	8,158	10,726	6,580	6,358	31,821	37,966	43,831
OPM (%)	9.8%	10.6%	12.2%	8.0%	7.6%	9.6%	9.0%	8.6%
...YoY	104%	251%	98%	-2%	-34%	32%	19%	15%
Adj. net profit	13,006	6,069	6,322	5,968	5,434	23,793	28,465	34,165
NPM (%)	5.3%	7.9%	7.2%	7.2%	6.5%	7.2%	6.7%	6.7%
...YoY	13%	164%	87%	45%	70%	83%	20%	20%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP of HK\$39.69

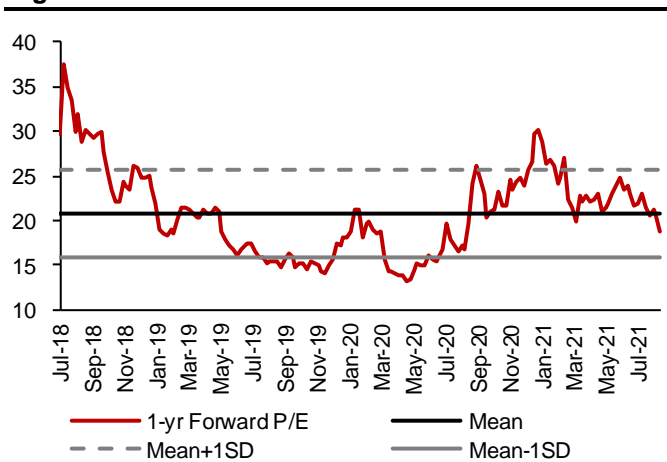
Our new TP is based on same 30x FY22E P/E. We think it is justified given accelerated share gain and strong earnings CAGR of 35% during F20-23E. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

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	81,634	25.4	39.69	57%	22.9	19.2	4.4	3.6	18.8	18.3
Sunny Optical	2382 HK	Hold	31,614	224.4	210.1	-6%	40.7	28.3	13.0	10.3	25.2	28.9
AAC Tech	2018 HK	Hold	7,272	46.9	45.3	-3%	27.8	15.6	2.3	2.2	8.0	12.1
BYDE	285 HK	Buy	10,390	35.9	55.0	53%	12.6	11.4	4.2	2.7	21.2	19.2
FIT Hon Teng	6088 HK	Buy	1,403	1.6	3.6	131%	6.5	9.6	0.6	0.6	8.9	6.2
Tongda	698 HK	Buy	350	0.3	0.6	100%	3.5	3.6	0.3	0.3	7.7	7.8
Q tech	1478 HK	Buy	2,046	13.5	22.0	63%	13.2	9.7	3.7	3.1	23.1	24.1
TK Group	2283 HK	Buy	347	3.2	4.1	27%	5.0	7.0	2.1	2.1	41.7	21.3
Average							18.6	14.1	4.2	3.3	15.8	16.2
Smartphone												
Apple	AAPL US	NR	2,448,200	148.1	NA	NA	26.7	26.4	41.2	37.2	143.8	144.9
Lenovo	992 HK	NR	12,435	8.0	NA	NA	11.0	7.9	2.9	2.5	30.7	38.5
Samsung	005930 KS	NR	388,184	75,700.0	NA	NA	12.7	10.5	1.8	1.6	14.0	15.2
LG Elec	066570 KS	NR	19,961	142,000.0	NA	NA	9.8	7.6	1.4	1.2	14.3	16.8
Average							15.0	13.1	11.8	10.6	50.7	53.8
IoT												
Skyworth	751 HK	NR	829	2.4	NA	NA	5.6	4.6	-	-	-	-
Hisense	600060 CH	NR	2,526	12.5	NA	NA	11.7	10.7	1.0	0.9	8.8	9.3
Midea	000333 CH	NR	75,317	69.2	NA	NA	16.7	14.5	3.6	3.1	22.2	21.9
Gree	000651 CH	NR	41,255	44.4	NA	NA	10.8	9.4	2.2	1.9	19.6	20.2
Average							11.2	9.8	2.2	2.0	16.8	17.1
Internet												
Tencent	700 HK	NR	585,214	474.6	NA	NA	27.9	23.0	4.5	3.8	18.1	17.2
Alibaba	BABA US	NR	453,718	166.9	NA	NA	16.5	19.0	2.9	3.0	19.0	13.8
Baidu	BIDU US	NR	53,067	152.5	NA	NA	15.7	14.2	1.9	1.7	12.3	8.4
JD	JD US	NR	116,901	75.0	NA	NA	59.2	36.1	3.8	3.4	4.7	7.4
Average							29.8	23.1	3.3	3.0	13.5	11.7

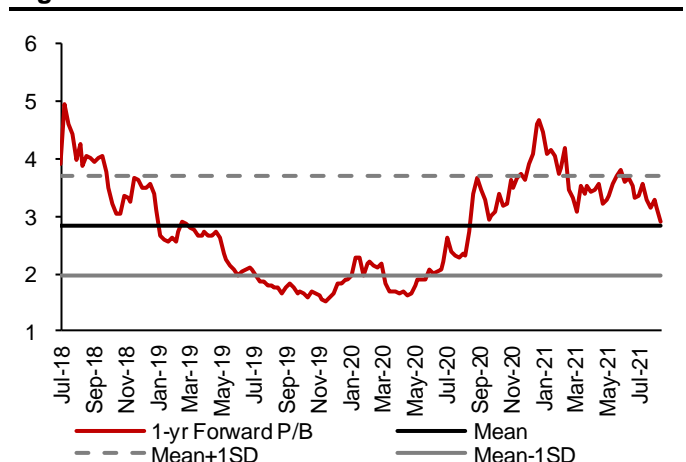
Source: Bloomberg, CMBIS

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	330,742	424,019	510,462
COGS	(177,285)	(209,114)	(274,474)	(356,716)	(429,333)
Gross profit	28,554	36,752	56,268	67,303	81,129
Selling and marketing	(10,378)	(14,539)	(19,479)	(19,929)	(23,992)
Administrative	(3,104)	(3,746)	(4,464)	(5,512)	(6,636)
R&D	(7,493)	(9,256)	(12,388)	(15,689)	(18,887)
Other operating exp.	4,181	14,825	12,217	12,217	12,217
Operating profit	11,760	24,035	32,153	38,390	43,831
Financial cost	402	(1,641)	1,634	2,289	3,131
Other income/(losses)	-	(760)	-	-	-
Pre-tax profit	12,163	21,633	33,787	40,679	46,961
Tax	(2,060)	(1,321)	(4,829)	(6,102)	(7,044)
Minority interest	59	(43)	(17)	(21)	(24)
Net profit	10,044	20,356	28,975	34,598	39,941
Adj. Net profit	11,532	13,006	24,083	28,837	34,177

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	12,163	21,633	33,787	40,679	46,961
Depreciation	2,192	5,604	1,569	2,189	2,935
Change in working capital	9,641	10,324	11,570	4,486	9,422
Others	(186)	(15,683)	(4,829)	(6,102)	(7,044)
Net cash from operating	23,810	21,879	42,098	41,252	52,274
Capex	(4,117)	(4,917)	(6,615)	(8,480)	(10,209)
Other	(27,453)	(12,762)	-	-	-
Net cash from investing	(31,570)	(17,679)	(6,615)	(8,480)	(10,209)
Net bank borrowings	-	-	-	-	-
Dividend paid	-	-	-	-	-
Other	3,121	26,216	-	-	-
Net cash from financing	3,121	26,216	-	-	-
Net change in cash	(4,639)	30,415	35,483	32,772	42,065
Cash at beg of year	30,230	25,920	54,752	90,235	123,007
Exchange difference	328	(1,583)	-	-	-
Cash at end of year	25,920	54,752	90,235	123,007	165,072

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	137,539	176,283	198,128	271,128	296,713
Cash & equivalents	25,920	54,752	90,235	123,007	165,072
Account receivables	6,949	10,161	11,650	16,312	17,351
Inventories	32,585	41,671	26,544	62,110	44,591
ST bank deposits	21,523	17,599	17,599	17,599	17,599
Other	50,562	52,100	52,100	52,100	52,100
Non-current assets	46,090	77,397	82,442	88,734	96,008
PPE	6,992	6,306	11,351	17,642	24,917
Deferred income tax	1,283	2,011	2,011	2,011	2,011
Intangibles	1,672	4,266	4,266	4,266	4,266
Other	36,142	64,815	64,815	64,815	64,815
Total assets	183,629	253,680	280,570	359,862	392,721
Current liabilities	92,181	107,927	105,859	150,574	143,515
Short-term borrowings	12,837	6,962	6,962	6,962	6,962
Account payables	59,528	72,199	70,131	114,846	107,787
Tax payable	479	674	674	674	674
Other	19,337	28,092	28,092	28,092	28,092
Non-current liabilities	9,791	21,739	21,739	21,739	21,739
Long-term borrowings	4,787	10,635	10,635	10,635	10,635
Deferred tax liability	580	301	301	301	301
Other	4,424	10,804	10,804	10,804	10,804
Total liabilities	101,972	129,666	127,599	172,313	165,255
Share capital	0	0	0	0	0
Reserves	81,330	123,691	152,667	187,264	227,205
Minority interest	327	322	305	284	260
Shareholders' equity	81,658	124,014	152,972	187,549	227,466
Total equity/liabilities	183,629	253,680	280,570	359,862	392,721

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	34.5	28.2	20.4
Gross profit	28.7	28.7	53.1	19.6	20.5
Operating profit	882.9	104.4	33.8	19.4	14.2
Adj. Net profit	31.9	12.8	85.2	19.7	18.5
Profit & loss ratio (%)					
Gross margin	13.9	14.9	17.0	15.9	15.9
Operating margin	5.7	9.8	9.7	9.1	8.6
Net profit margin	4.9	8.3	8.8	8.2	7.8
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.5	1.6	1.9	1.8	2.1
Receivable turnover days	33	29	30	30	30
Inventory turnover days	6	6	8	8	8
Payable turnover days	3	3	4	4	4
Profitability (%)					
ROE	12.3	16.4	18.9	18.4	17.6
ROA	5.5	8.0	10.3	9.6	10.2
Per share data (RMB)					
Adj. EPS	0.49	0.54	1.00	1.20	1.42
DPS	-	-	-	-	-

Source: Company data, CMBIS estimates

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