

Xiaomi (1810 HK)

3Q21E preview: improving margin to offset muted smartphone growth

Xiaomi will report 3Q21 results this week and we expect revenue/adj. net profit to grow 6%/21% YoY, slightly higher than consensus (+7%/16% YoY). By segment, we estimate smartphone/IoT/internet revenue growth of 0%/17%/19% YoY, and GPM will improve 0.1pt QoQ/3.3ppt YoY to 17.4% in 3Q21E. While IDC reported Xiaomi 3Q21 shipment of -4.6% YoY (vs -6.7% industry) due to supply chain shortage issues, we expect its market share gain will continue in 2022E with channel expansion in China, Europe and LATAM. We lowered FY21-23E EPS by 7-14% to reflect component shortage impact and better GPM. Our new TP of HK\$31.26 is based on lowered 26x FY22E P/E given 24% FY21-23E EPS CAGR, (vs prior 30% CAGR). Current valuation at 17.6x FY22E P/E is close to 1-sd below 3-yr average at 16.4x, and we view risk-reward is attractive. Reiterate BUY.

- 3Q21E smartphone: stable market share with better GPM.** IDC reported Xiaomi 3Q21 shipment of 44.3mn (-4.6% YoY), better than -6.7% YoY industry decline, and its market share reached 13.4% (vs 13.1% in 3Q20). In particular, we believe weakness in India (-17% YoY) and Mid-East & Africa (-2% YoY) was driven by continued chip shortage and logistic issues. Looking ahead, we remain positive on Xiaomi's premium model strategy amid Huawei's weakness in high-end segment. We expect Xiaomi shipment to grow 30%/27%/17% YoY to 191mn/242mn/283mn in FY21-23E.
- 3Q21 preview and 2022E outlook: share gain, component shortage, EV progress.** We estimate 3Q revenue/adj. net profit to grow 6%/21% YoY to RMB76.4bn/4.99bn. We expect smartphone revenue to stay flattish with -5%/+5% shipment/ASP growth, while IoT revenue will grow 17% YoY and internet revenue will climb 19% YoY backed by 25%/10% YoY in ads/VAS. Blended GPM will also continue to improve QoQ/YoY due to better mix and less marketing expense. For 1H22E, we believe component shortage will remain a major challenge, but share gain will stay on track given expansion in China offline channel and EU/LATAM operator partnership.
- Resilient growth despite global supply chain shortage; Reiterate BUY.** We believe recent stock correction has reflected uncertainties from Honor's threat and supply chain uncertainties. We reduced FY21-23 EPS by 7-14% to reflect lower shipment and better smartphone/internet margin. Our new TP of HK\$31.26 is based on lowered 26x FY22E P/E given 24% FY21-23E EPS CAGR, (vs prior 30% CAGR). 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	321,081	409,221	507,085
YoY growth (%)	17.7	19.4	30.6	27.5	23.9
Adj. Net income (RMB mn)	11,532	13,006	21,371	26,897	33,117
Adj. EPS (RMB)	0.49	0.54	0.86	1.08	1.33
YoY growth (%)	(10.7)	11.7	58.0	25.9	23.1
Consensus EPS (RMB)	NA	NA	0.87	1.01	1.20
P/E (x)	39.1	35.0	22.1	17.6	14.3
P/B (x)	6.9	4.6	3.9	3.2	2.7
ROE (%)	12.3	16.4	17.2	17.6	17.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$31.26
(Previous TP)	HK\$39.69)
Upside	48%
Current Price	HK\$21.15

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	528,386
Avg. 3mths t/o (HK\$m)	2,174.84
52W High/Low (HK\$)	35.90/ 19.86
Total Issued Shares (mn)	20,350

Source: Bloomberg

Shareholding Structure

Lin Bin	8.91%
Smart Mobile Holdings Ltd	8.41%
Mini Stone	2.74%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-6.0%	-3.2%
3-mth	-11.9%	-10.9%
6-mth	-20.5%	-9.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

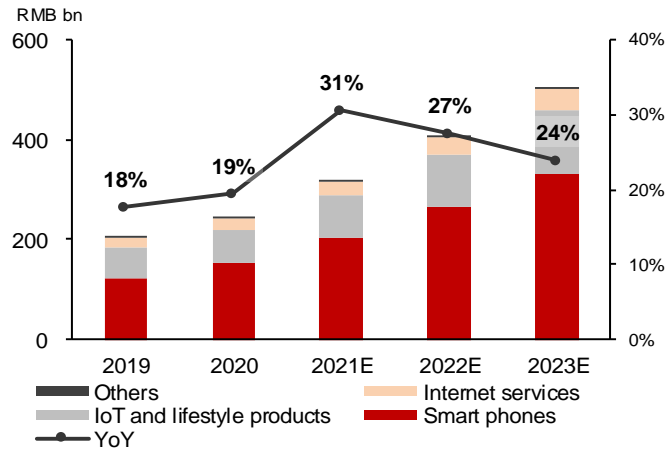
Auditor: PricewaterhouseCoopers

Recent Reports:

- 2Q21 beat on strong ads and margin – 26 Aug 2021
- Target global No.1 in 3 years; Reiterate BUY – 11 Aug 2021

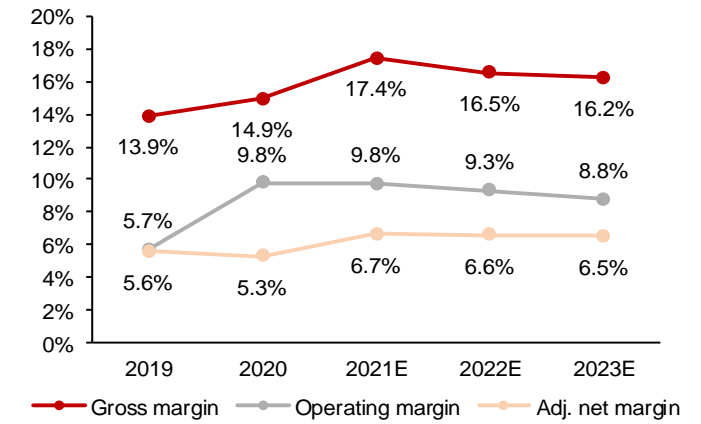
Focus Charts

Figure 1: Xiaomi revenue trend



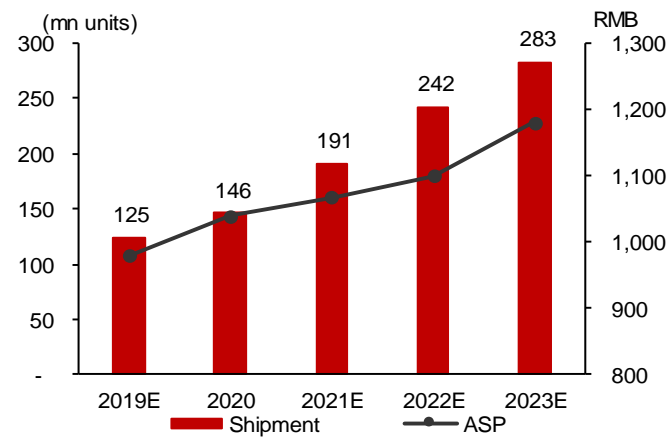
Source: Company data, CMBIS estimates

Figure 2: Xiaomi margin trend



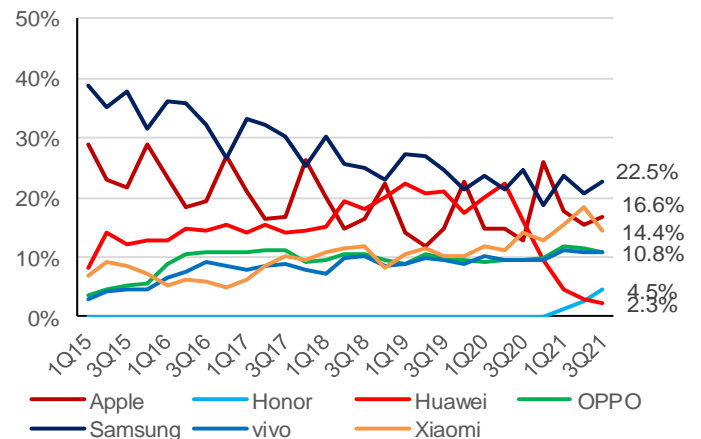
Source: Company data, CMBIS estimates

Figure 3: Xiaomi smartphone shipment forecast



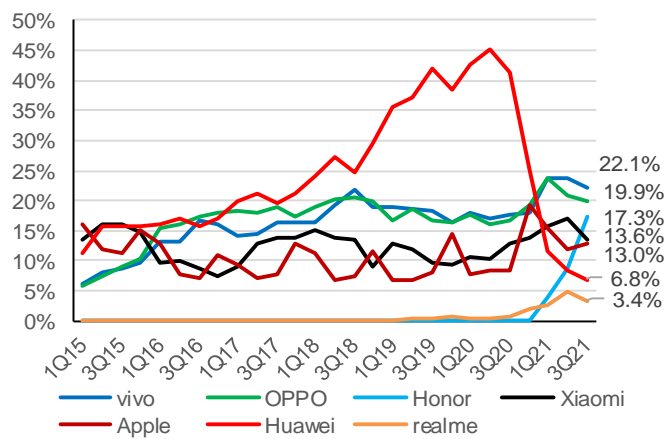
Source: Xiaomi, CMBIS estimates

Figure 4: Global smartphone market share



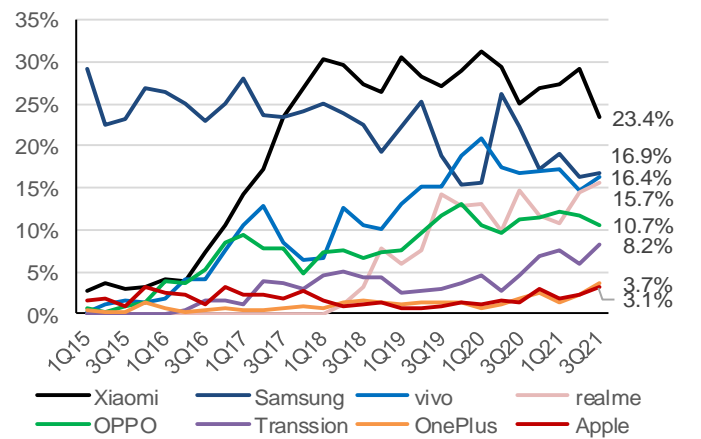
Source: IDC, CMBIS estimates

Figure 5: China smartphone market share



Source: IDC, CMBIS estimates

Figure 6: India smartphone market share



Source: IDC, CMBIS estimates

3Q21 Preview

Figure 7: 3Q21 results preview

RMB mn	3Q20	2Q21	3Q21E	QoQ	YoY	Consensus	
						3Q21E	Diff %
Revenue	72,163	87,789	76,429	-12.9%	6%	77,523	-1%
Gross Profit	10,166	15,148	13,293	-12.2%	31%	13,646	-3%
Operating Profit	6,697	10,726	6,784	-36.7%	1%	6,361	7%
Adj. net profit	4,128	6,322	4,993	-21.0%	21%	4,801	4%
Adj. EPS (RMB)	0.17	0.32	0.20	-38.0%	16%	0.19	7%
Gross Margin	14.1%	17.3%	17.4%	-0.1 ppt	3.3 ppt	17.6%	-0.2 ppt
Operating Margin	9.3%	12.2%	8.9%	3.3 ppt	-0.4 ppt	8.2%	0.7 ppt
Adj. Net Margin	5.7%	7.2%	6.5%	0.7 ppt	0.8 ppt	6.2%	0.3 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	59,089	47,552	45,711	203,816	266,642	333,603
... YoY	25%	70%	87%	0%	7%	34%	31%	25%
Shipment (mn)	146,400	49,400	52,900	44,300	44,415	191,015	242,402	282,715
... YoY	17%	69%	87%	-5%	5%	30%	27%	17%
ASP (RMB)	1,040	1,042	1,117	1,073	1,029	1,067	1,100	1,180
... YoY	6.2%	0.4%	0.0%	5.0%	2.0%	2.6%	3.1%	7.3%
IoT and lifestyle products	67,410	18,243	20,735	21,163	26,373	86,513	105,047	127,812
... YoY	9%	41%	36%	17%	25%	28%	21%	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	14,783	18,141	60,723	75,904	94,880
... YoY	19%	53%	45%	20%	30%	35%	25%	25%
Internet services	23,755	6,571	7,033	6,846	7,146	27,596	33,429	40,337
... YoY	20%	11%	19%	19%	16%	16%	21%	21%
Advertising services	12,722	3,894	4,512	4,139	4,396	16,941	21,176	26,470
... YoY	19%	46%	46%	25%	20%	33%	25%	25%
Internet value-added	11,082	2,677	2,454	2,707	2,817	10,655	12,253	13,868
... YoY	21%	-17%	-13%	10%	10%	-4%	15%	13%
Gaming	4,200	1,123	900	880	990	3,893	4,477	4,925
... YoY	31%	-25%	-10%	10%	10%	-7%	15%	10%
Other (incl. Youpin fintech, etc.)	6,882	1,554	1,554	1,827	1,827	6,762	7,776	8,943
... YoY	15%	-11%	-15%	10%	10%	-2%	15%	15%
Others	2,509	577	932	868	779	3,156	4,102	5,333
... YoY	38%	17%	24%	30%	30%	26%	30%	30%
Total	245,866	76,882	87,789	76,429	80,008	321,081	409,221	507,085
... YoY	19%	55%	64%	6%	14%	31%	27%	24%
Gross Margin								
Smart phones	8.7%	12.9%	11.8%	12.0%	11.0%	12.0%	11.3%	11.3%
IoT and lifestyle products	12.8%	14.5%	13.2%	13.0%	13.0%	13.4%	13.5%	13.5%
Internet services	61.6%	72.4%	74.1%	70.0%	68.0%	71.1%	68.0%	66.0%
Others	11.9%	20.9%	21.3%	5.0%	10.0%	13.9%	14.0%	14.0%
Total	14.9%	18.4%	17.3%	17.4%	16.7%	17.4%	16.5%	16.2%

Source: Company data, CMBIS estimates

Earnings Revision

Our FY22-23E adj. NP are 7-11% above consensus

We trimmed FY21-22E adj. NP by 7-14% reflect supply chain constraint and better internet margin. Our FY22-23E EPS are 7-11% above consensus given our more positive view on FY22E 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	321,081	409,221	507,085	330,742	424,019	510,462	-3%	-3%	-1%
Gross Profit	55,996	67,618	82,321	56,268	67,303	81,129	0%	0%	1%
Operating Profit	31,310	38,080	44,518	31,821	37,966	43,831	-2%	0%	2%
Adj. net profit	21,371	26,897	33,117	23,793	28,465	34,165	-10%	-6%	-3%
Adj. EPS (RMB)	0.86	1.08	1.33	0.99	1.19	1.42	-14%	-9%	-7%
Gross Margin	17.4%	16.5%	16.2%	17.0%	15.9%	15.9%	0.4 ppt	0.7 ppt	0.3 ppt
Operating Margin	9.8%	9.3%	8.8%	9.6%	9.0%	8.6%	0.1 ppt	0.4 ppt	0.2 ppt
Adj. Net Margin	6.7%	6.6%	6.5%	7.2%	6.7%	6.7%	-0.5 ppt	-0.1 ppt	-0.2 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	321,081	409,221	507,085	333,635	407,087	476,357	-4%	1%	6%
Gross Profit	55,996	67,618	82,321	56,826	68,118	81,229	-1%	-1%	1%
Operating Profit	31,310	38,080	44,518	30,805	33,383	39,373	2%	14%	13%
Adj. net profit	21,371	26,897	33,117	20,933	25,024	30,639	2%	7%	8%
Adj. EPS (RMB)	0.86	1.08	1.33	0.87	1.01	1.20	-1%	7%	11%
Gross Margin	17.4%	16.5%	16.2%	17.0%	16.7%	17.1%	0.4 ppt	-0.2 ppt	-0.8 ppt
Operating Margin	9.8%	9.3%	8.8%	9.2%	8.2%	8.3%	0.5 ppt	1.1 ppt	0.5 ppt
Adj. Net Margin	6.7%	6.6%	6.5%	6.3%	6.1%	6.4%	0.4 ppt	0.4 ppt	0.1 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	76,429	80,008	321,081	409,221	507,085
...YoY	19%	55%	64%	6%	14%	31%	27%	24%
Cost of sales	(209,114)	(62,721)	(72,641)	(63,136)	(66,614)	(265,086)	(341,603)	(424,764)
Gross profit	36,752	14,161	15,148	13,293	13,394	55,996	67,618	82,321
GPM (%)	14.9%	18.4%	17.3%	17.4%	16.7%	17.4%	16.5%	16.2%
...YoY	29%	87%	97%	31%	18%	52%	21%	22%
SG&A	(18,286)	(5,151)	(6,831)	(5,656)	(6,481)	(24,119)	(25,781)	(30,425)
...% of rev	-7.4%	-6.7%	-7.8%	-7.4%	-8.1%	-7.5%	-6.3%	-6.0%
R&D	(9,256)	(3,012)	(3,064)	(2,675)	(3,200)	(11,951)	(15,141)	(18,762)
...% of rev	-3.8%	-3.9%	-3.5%	-3.5%	-4.0%	-3.7%	-3.7%	-3.7%
Operating profit	24,035	8,158	10,726	6,784	5,642	31,310	38,080	44,518
OPM (%)	9.8%	10.6%	12.2%	8.9%	7.1%	9.8%	9.3%	8.8%
...YoY	104%	251%	98%	1%	-41%	30%	22%	17%
Adj. net profit	13,006	6,069	6,322	4,993	3,987	21,371	26,897	33,117
NPM (%)	5.3%	7.9%	7.2%	6.5%	5.0%	6.7%	6.6%	6.5%
...YoY	13%	164%	87%	21%	24%	64%	26%	23%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP of HK\$31.26

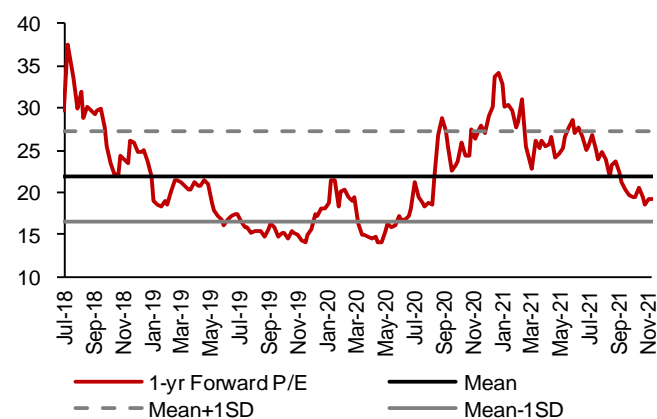
Our new TP of HK\$31.26 is based on lowered 26x FY22E P/E given 24% FY21-23E EPS CAGR, (vs prior 30% CAGR). Current valuation at 17.6x FY22E P/E is close to 1-sd below 3-yr average at 16.4x, and we view risk-reward is attractive. Catalysts include product launch, stronger shipment, share gain, internet 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	67,823	21.2	31.26	48%	22.1	17.6	3.9	3.2	17.2	17.6
Sunny Optical	2382 HK	Hold	30,636	217.6	210.1	-3%	39.5	30.9	12.6	9.9	25.2	28.3
AAC Tech	2018 HK	Hold	5,344	34.5	37.4	9%	23.6	18.4	1.7	1.6	6.9	9.3
BYDE	285 HK	Hold	8,590	29.7	26.4	-11%	20.7	16.3	2.7	2.5	11.9	15.1
FIT Hon Teng	6088 HK	Buy	1,547	1.7	*3.6	NA	7.0	10.8	0.7	0.6	8.9	5.4
Tongda	698 HK	Buy	368	0.3	0.6	90%	3.7	4.8	0.3	0.3	7.7	6.5
Q tech	1478 HK	Buy	1,730	11.4	22.0	93%	11.2	9.4	3.2	2.6	23.1	25.7
TK Group	2283 HK	Buy	291	2.7	4.1	51%	4.2	4.2	1.8	1.8	41.7	21.2
Average							17.8	15.2	3.6	2.9	14.2	15.1
Smartphone												
Apple	AAPL US	NR	2,634,047	160.6	NA	NA	28.8	28.3	44.5	37.3	143.7	137.8
Lenovo	992 HK	NR	12,257	7.9	NA	NA	10.8	7.1	2.8	2.4	30.7	41.1
Samsung	005930 KS	NR	356,896	71,200.0	NA	NA	12.0	10.9	1.6	1.5	14.1	13.6
LG Elec	066570 KS	NR	18,344	133,500.0	NA	NA	12.0	7.1	1.4	1.2	10.9	16.9
Average							15.9	13.4	12.6	10.6	49.8	52.4
IoT												
Skyworth	751 HK	NR	1,882	5.5	NA	NA	13.0	10.3	-	-	-	-
Hisense	600060 CH	NR	2,848	13.9	NA	NA	13.4	11.0	1.1	1.0	8.4	9.4
Midea	000333 CH	NR	76,512	70.0	NA	NA	17.2	14.8	3.6	3.2	21.7	22.3
Gree	000651 CH	NR	33,253	35.9	NA	NA	9.2	8.0	1.8	1.6	19.0	19.8
Average							13.2	11.0	2.2	1.9	16.4	17.2
Internet												
Tencent	700 HK	NR	610,881	496.0	NA	NA	29.7	25.9	4.5	3.8	18.1	16.3
Alibaba	BABA US	NR	380,450	140.3	NA	NA	13.7	16.1	2.4	2.6	19.0	12.3
Baidu	BIDU US	NR	52,825	151.8	NA	NA	18.8	16.4	1.6	1.7	7.8	7.6
JD	JD US	NR	142,725	91.6	NA	NA	61.6	44.7	4.5	4.5	2.9	6.5
Average							30.9	25.8	3.2	3.1	11.9	10.7

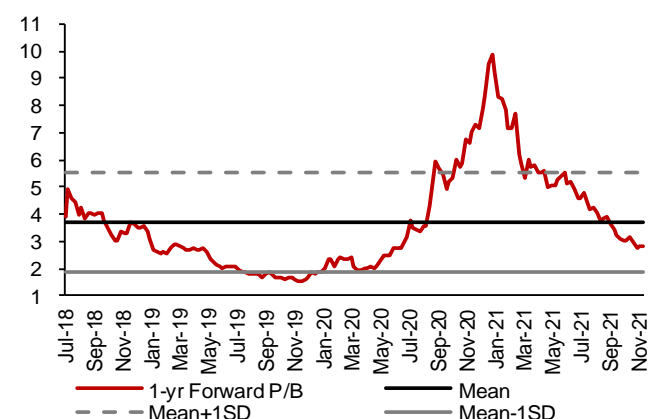
Source: Bloomberg, CMBIS, TP under review

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	321,081	409,221	507,085
COGS	(177,285)	(209,114)	(265,086)	(341,603)	(424,764)
Gross profit	28,554	36,752	55,996	67,618	82,321
Selling and marketing	(10,378)	(14,539)	(19,630)	(20,461)	(23,833)
Administrative	(3,104)	(3,746)	(4,488)	(5,320)	(6,592)
R&D	(7,493)	(9,256)	(11,951)	(15,141)	(18,762)
Other operating exp.	4,181	14,825	11,384	11,384	11,384
Operating profit	11,760	24,035	31,310	38,080	44,518
Financial cost	402	(1,641)	(1,234)	(610)	226
Other income/(losses)	0	(760)	0	0	0
Pre-tax profit	12,163	21,633	30,076	37,470	44,744
Tax	(2,060)	(1,321)	(4,321)	(5,433)	(6,488)
Minority interest	59	(43)	(15)	(19)	(23)
Net profit	10,044	20,356	25,770	32,055	38,279
Adj. Net profit	11,532	13,006	21,371	26,897	33,117

Cash flow

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	12,163	21,633	30,076	37,470	44,744
Depreciation	2,192	5,604	1,555	2,153	2,894
Chg. in working capital	9,641	10,324	9,672	5,177	10,825
Others	(186)	(15,683)	(4,321)	(5,433)	(6,488)
Net cash from Op.	23,810	21,879	36,982	39,367	51,975
Capex	(4,117)	(4,917)	(6,422)	(8,184)	(10,142)
Other	(27,453)	(12,762)	0	0	0
Net cash from investing	(31,570)	(17,679)	(6,422)	(8,184)	(10,142)
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	30,561	31,183	41,833
Cash at beg of year	30,230	25,920	54,752	85,313	116,496
Exchange difference	328	(1,583)	-	-	-
Cash at end of year	25,920	54,752	85,313	116,496	158,329

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	137,539	176,283	190,235	262,855	290,373
Cash & equivalents	25,920	54,752	85,313	116,496	158,329
Account receivables	6,949	10,161	11,013	15,973	17,467
Inventories	32,585	41,671	24,211	60,687	44,879
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	82,263	88,294	95,542
PPE	6,992	6,306	11,172	17,203	24,451
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	272,499	351,150	385,915
Current liabilities	92,181	107,927	100,991	147,605	144,115
Short-term borrowings	12,837	6,962	6,962	6,962	6,962
Account payables	59,528	72,199	65,263	111,877	108,387
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	122,730	169,345	165,854
Share capital	0	0	0	0	0
Reserves	81,330	123,691	149,461	181,517	219,796
Minority interest	327	322	307	288	265
Shareholders' equity	81,658	124,014	149,768	181,805	220,061
Total equity/liabilities	183,629	253,680	272,499	351,150	385,915

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Smart phones	59	62	63	65	66
IoT and lifestyle products	30	27	27	26	25
Internet services	10	10	9	8	8
Others	1	1	1	1	1
Growth (%)					
Revenue	17.7	19.4	30.6	27.5	23.9
Gross profit	28.7	28.7	52.4	20.8	21.7
Operating profit	882.9	104.4	30.3	21.6	16.9
Adj. Net profit	31.9	12.8	64.3	25.9	23.1
Profit & loss ratio (%)					
Gross margin	13.9	14.9	17.4	16.5	16.2
Operating margin	5.7	9.8	9.8	9.3	8.8
Net profit margin	4.9	8.3	8.0	7.8	7.5
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	2.0
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	17.2	17.6	17.4
ROA	5.5	8.0	9.5	9.1	9.9
Per share data (RMB)					
Adj. EPS	0.49	0.54	0.86	1.08	1.33
DPS	-	-	-	-	-

Source: Company data, CMBIS estimates

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