

Xiaomi (1810 HK)

4Q21E preview: smartphone share gain to continue

Xiaomi will report 4Q21 results this week and we expect revenue/adj. net profit to grow 16%/23% YoY, largely in-line with consensus. By segment, we estimate smartphone/IoT/internet revenue growth of 11%/25%/14% YoY, and GPM will improve 1.1ppt YoY to 17.2% in 4Q21E. Looking ahead, we believe Xiaomi will continue share gain and deliver 15%/9% YoY to 221mn/241mn shipment in FY22/23E, driven by operator channel expansion in Europe/LATAM offsetting slower China/India demand. We lowered FY21-23E EPS by 4-11% to reflect component shortage in 1H22E and better GPM on better product mix. Our new TP of HK\$21.8 is based on lowered 20x FY22E P/E given 20% FY21-23E EPS CAGR, (vs prior 26x P/E). Current valuation at 11.9x FY22E P/E is well below 1-sd below 3-yr avg. at 15.9x, and we view risk-reward is attractive. Reiterate BUY.

- 4Q21E smartphone: solid share gain with stable GPM.** IDC reported Xiaomi 4Q21 shipment of 45.0mn (+3.9% YoY), outperforming industry decline of -3.2% YoY, and its market share reached 12.4% (vs 11.6% in 4Q20). Looking ahead, we remain positive on Xiaomi's premium model strategy and global share gain (esp. Europe/LATAM) despite slower China/India demand. We expect Xiaomi shipment to grow 15%/9% YoY to 221mn/241mn and ASP to expand 3%/5% YoY in FY22/23E.
- 4Q21 preview and 2022E outlook: share gain, IoT global expansion, EV progress.** We estimate 4Q revenue/adj. net profit to grow 16%/23% YoY to RMB81.9bn/4.12bn. We expect smartphone revenue to grow 11% YoY with 7%/3% shipment/ASP growth, while IoT revenue will grow 25% YoY and internet revenue will climb 24% YoY backed by 30%/14% YoY in ads/VAS. For 2022E, we believe chip shortage and China demand weakness will remain challenging in 1H22E, but overseas share gain will accelerate given stronger operator partnership in EU/LATAM. In addition, IoT segment will continue to expand SKU in overseas market with better GPM, while AR/VR products will be an emerging opportunity in 2023 and beyond.
- Attractive valuation after recent correction; Reiterate BUY.** We believe recent stock correction mainly reflected supply chain uncertainties and sector de-rating due to Ukraine/Russia conflicts. Our new TP of HK\$21.8 is based on lowered 20x FY22E P/E given 20% FY21-23E EPS CAGR, (vs prior 24% CAGR). Current valuation is attractive at 11.9x FY22E P/E (vs 15.9x for 1-sd below 3-yr avg). 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	324,692	385,897	454,803
YoY growth (%)	17.7	19.4	32.1	18.9	17.9
Adj. Net income (RMB mn)	11,532	13,006	21,309	25,563	30,432
Adj. EPS (RMB)	0.49	0.54	0.85	1.02	1.22
YoY growth (%)	(10.7)	11.7	57.3	20.0	19.0
Consensus EPS (RMB)	NA	NA	0.86	0.95	1.11
P/E (x)	25.0	22.4	14.2	11.9	10.0
P/B (x)	4.4	2.9	2.7	2.3	2.0
ROE (%)	12.3	16.4	12.1	14.1	14.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$21.8**
(Previous TP **HK\$31.34**)
Upside **69%**
Current Price **HK\$13.52**

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	337,695
Avg. 3mths t/o (HK\$mn)	1,375.81
52W High/Low (HK\$)	30.45/ 11.38
Total Issued Shares (mn)	20,351

Source: Bloomberg

Shareholding Structure

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

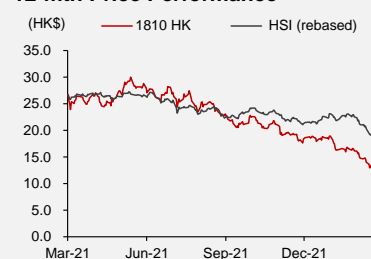
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-16.0%	-4.8%
3-mth	-23.3%	-18.5%
6-mth	-40.7%	-33.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

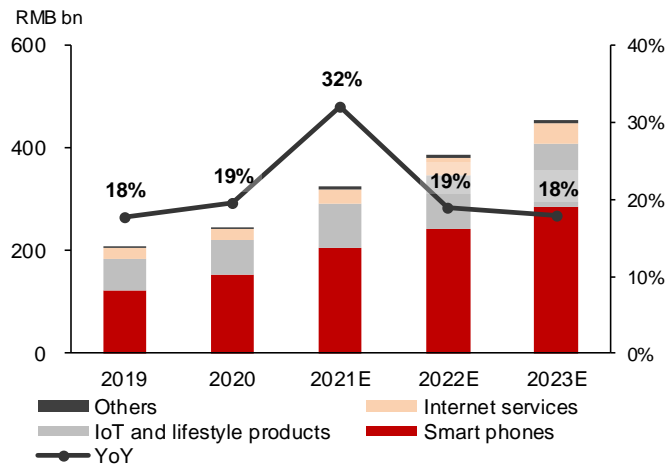
Auditor: PricewaterhouseCoopers

Recent Reports:

- Solid 3Q21 despite supply chain challenge; Reiterate BUY - 24 Nov 2021
- 2Q21 beat on strong ads and margin – 26 Aug 2021
- Target global No.1 in 3 years; Reiterate BUY – 11 Aug 2021

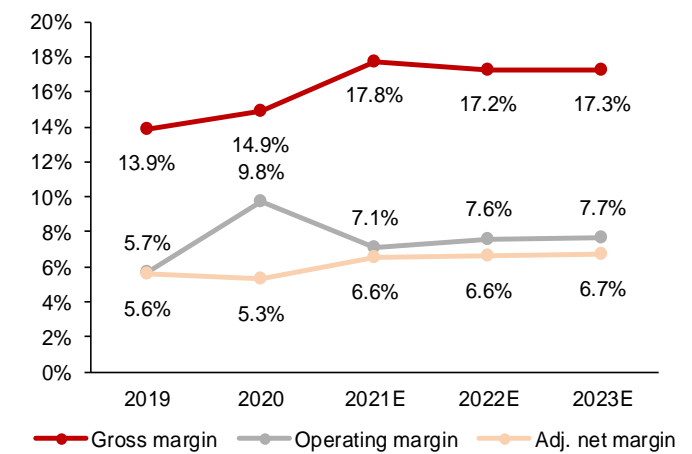
Focus Charts

Figure 1: Xiaomi revenue trend



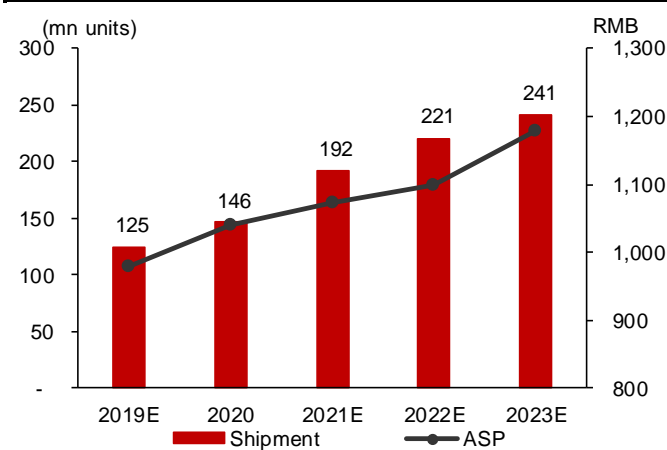
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi margin trend



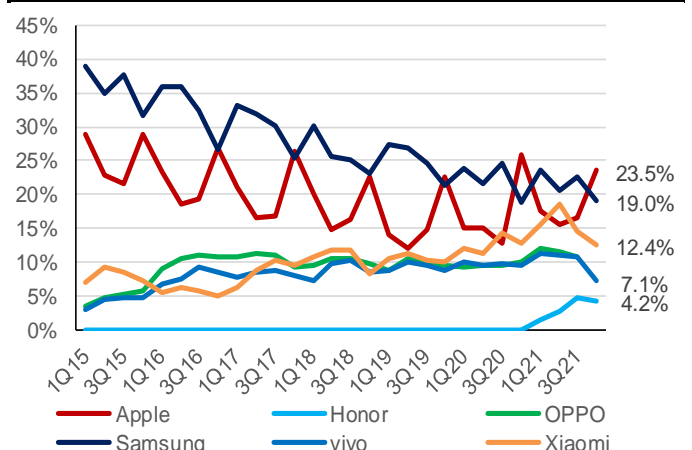
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi smartphone shipment forecast



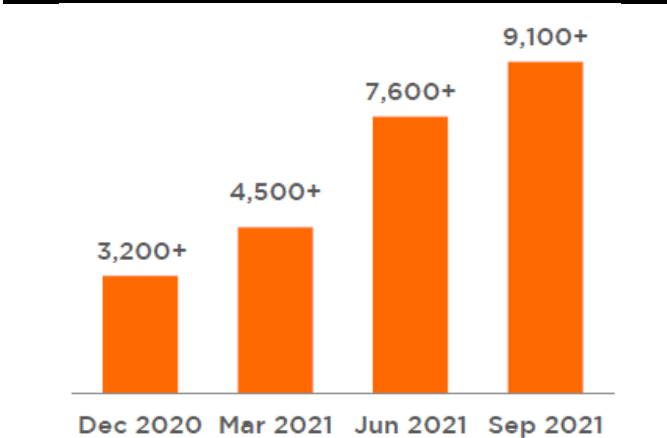
Source: Xiaomi, CMBIGM estimates

Figure 4: Global smartphone market share



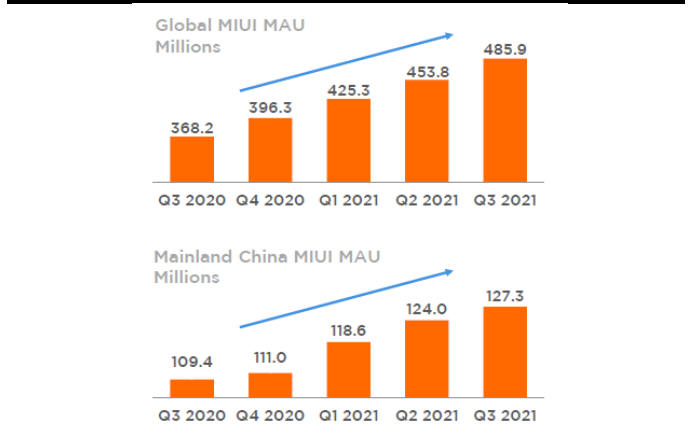
Source: IDC, CMBIGM estimates

Figure 5: Xiaomi Offline stores in China



Source: Company data, CMBIGM estimates

Figure 6: Xiaomi's solid MIUI MAU growth



Source: Company data, CMBIGM estimates

4Q21 Preview

Figure 7: 4Q21 results preview

RMB mn	4Q20	3Q21	4Q21E	QoQ	YoY	Consensus	
						4Q21E	Diff %
Revenue	70,463	78,063	81,937	5.0%	16%	81,460	1%
Gross Profit	11,326	14,292	14,071	-1.6%	24%	13,830	2%
Operating Profit	9,602	2,730	1,571	-42.4%	-84%	4,315	-64%
Adj. net profit	3,204	5,176	4,121	-20.4%	29%	4,129	0%
Adj. EPS (RMB)	0.13	0.21	0.16	-20.4%	23%	0.16	2%
Gross Margin	16.1%	18.3%	17.2%	1.1 ppt	1.1 ppt	17.0%	0.2 ppt
Operating Margin	13.6%	3.5%	1.9%	1.6 ppt	-11.7 ppt	5.3%	-3.4 ppt
Adj. Net Margin	4.5%	6.6%	5.0%	1.6 ppt	0.5 ppt	5.1%	0 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	FY20	1Q21	2Q21	3Q21	4Q21E	FY21E	FY22E	FY23E
Smart phones	152,191	51,491	59,089	47,825	47,183	205,609	242,734	284,911
... YoY	25%	70%	87%	0.5%	10.7%	35%	18%	17%
Shipment (mn)	146,400	49,400	52,900	43,900	45,400	191,600	220,668	241,450
... YoY	17%	69%	87%	-6%	7%	31%	15%	9%
ASP (RMB)	1,040	1,042	1,117	1,091	1,039	1,073	1,100	1,180
... YoY	6.2%	0.4%	0.0%	6.7%	3.0%	3.2%	2.5%	5.0%
IoT and lifestyle products	67,410	18,243	20,735	20,936	26,306	86,219	103,996	122,730
... YoY	9%	41%	36%	16%	25%	28%	21%	18%
Smart TVs and laptops	22,394	5,600	6,000	5,900	8,165	25,665	29,515	33,352
... YoY	-7%	19%	25%	2%	15%	15%	15%	13%
Other IoTs	45,016	12,643	14,735	15,036	18,141	60,554	74,482	89,378
... YoY	19%	53%	41%	22%	30%	35%	23%	20%
Internet services	23,755	6,571	7,033	7,338	7,669	28,612	33,639	39,976
... YoY	20%	11%	19%	27%	24%	20%	18%	19%
Advertising services	12,722	3,894	4,512	4,791	4,762	17,959	21,192	25,430
... YoY	19%	46%	46%	45%	30%	41%	18%	20%
Internet value-added	11,082	2,677	2,521	2,547	2,907	10,652	12,447	14,546
... YoY	21%	-17%	-11%	3%	14%	-4%	17%	17%
Gaming	4,200	1,123	900	1,000	1,080	4,103	4,719	5,426
... YoY	31%	-25%	-10%	25%	20%	-2%	15%	15%
Other (incl. Youpin fintech, etc.)	6,882	1,554	1,621	1,547	1,827	6,549	7,728	9,119
... YoY	15%	-11%	-11%	-7%	10%	-5%	18%	18%
Others	2,509	577	932	1,965	779	4,252	5,528	7,186
... YoY	38%	17%	24%	194%	30%	69%	30%	30%
Total	245,866	76,882	87,789	78,063	81,937	324,692	385,897	454,803
... YoY	19%	55%	64%	8%	16%	32%	19%	18%
Gross Margin								
Smart phones	8.7%	12.9%	11.8%	12.8%	11.6%	12.3%	11.8%	11.8%
IoT and lifestyle products	12.8%	14.5%	13.2%	11.6%	11.6%	12.6%	12.7%	13.0%
Internet services	61.6%	72.4%	74.1%	73.6%	71.5%	72.9%	71.0%	70.0%
Others	11.9%	20.9%	21.3%	18.0%	8.0%	17.3%	14.0%	14.0%
Total	14.9%	18.4%	17.3%	18.3%	17.2%	17.8%	17.2%	17.3%

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY22-23E adj. NP are 8-10% above consensus

We trimmed FY21-22E adj. NP by 4-11% reflect supply chain constraint and better IoT/internet margin. Our FY22-23E EPS are 8-10% above consensus given our more positive view on better GPM and operating leverage ahead.

Figure 9: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	324,692	385,897	454,803	323,220	406,429	496,369	0%	-5%	-8%
Gross Profit	57,672	66,507	78,564	57,657	69,741	83,980	0%	-5%	-6%
Operating Profit	23,184	29,383	35,045	24,249	32,879	39,613	-4%	-11%	-12%
Adj. net profit	21,309	25,563	30,432	22,222	28,417	34,175	-4%	-10%	-11%
Adj. EPS (RMB)	0.85	1.02	1.22	0.85	1.08	1.30	1%	-5%	-6%
Gross Margin	17.8%	17.2%	17.3%	17.8%	17.2%	16.9%	-0.1 ppt	0.1 ppt	0.4 ppt
Operating Margin	7.1%	7.6%	7.7%	7.5%	8.1%	8.0%	-0.4 ppt	-0.5 ppt	-0.3 ppt
Adj. Net Margin	6.6%	6.6%	6.7%	6.9%	7.0%	6.9%	-0.3 ppt	-0.4 ppt	-0.2 ppt

Source: Company data, CMBIGM estimates

Figure 10: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	324,692	385,897	454,803	326,052	391,486	453,565	0%	-1%	0%
Gross Profit	57,672	66,507	78,564	57,720	66,997	79,064	0%	-1%	-1%
Operating Profit	23,184	29,383	35,045	24,954	26,072	30,076	-7%	13%	17%
Adj. net profit	21,309	25,563	30,432	21,352	23,436	27,840	0%	9%	9%
Adj. EPS (RMB)	0.85	1.02	1.22	0.86	0.95	1.11	-1%	8%	10%
Gross Margin	17.8%	17.2%	17.3%	17.7%	17.1%	17.4%	0.1 ppt	0.1 ppt	-0.2 ppt
Operating Margin	7.1%	7.6%	7.7%	7.7%	6.7%	6.6%	-0.5 ppt	1 ppt	1.1 ppt
Adj. Net Margin	6.6%	6.6%	6.7%	6.5%	6.0%	6.1%	0 ppt	0.6 ppt	0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: P&L forecast

RMB mn	FY20	1Q21	2Q21E	3Q21	4Q21E	FY21E	FY22E	FY23E
Revenue	245,866	76,882	87,789	78,063	81,937	324,692	385,897	454,803
...YoY	19%	55%	64%	8%	16%	32%	19%	18%
Cost of sales	(209,114)	(62,721)	(72,641)	(63,771)	(67,866)	(267,020)	(319,390)	(376,239)
Gross profit	36,752	14,161	15,148	14,292	14,071	57,672	66,507	78,564
GPM (%)	14.9%	18.4%	17.3%	18.3%	17.2%	17.8%	17.2%	17.3%
...YoY	29%	87%	97%	41%	24%	57%	15%	18%
SG&A	(18,286)	(5,151)	(6,831)	(8,120)	(7,374)	(27,476)	(28,556)	(32,746)
...% of rev	-7.4%	-6.7%	-7.8%	-10.4%	-9.0%	-8.5%	-7.4%	-7.2%
R&D	(9,256)	(3,012)	(3,064)	(1,275)	(3,441)	(10,792)	(12,349)	(14,554)
...% of rev	-3.8%	-3.9%	-3.5%	-1.6%	-4.2%	-3.3%	-3.2%	-3.2%
Operating profit	24,035	8,158	10,726	2,730	1,571	23,184	29,383	35,045
OPM (%)	9.8%	10.6%	12.2%	3.5%	1.9%	7.1%	7.6%	7.7%
...YoY	104%	251%	98%	-59%	-84%	-4%	27%	19%
Adj. net profit	13,006	6,069	6,322	5,176	4,121	21,309	25,563	30,432
NPM (%)	5.3%	7.9%	7.2%	6.6%	5.0%	6.6%	6.6%	6.7%
...YoY	13%	164%	87%	25%	29%	64%	20%	19%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$21.8

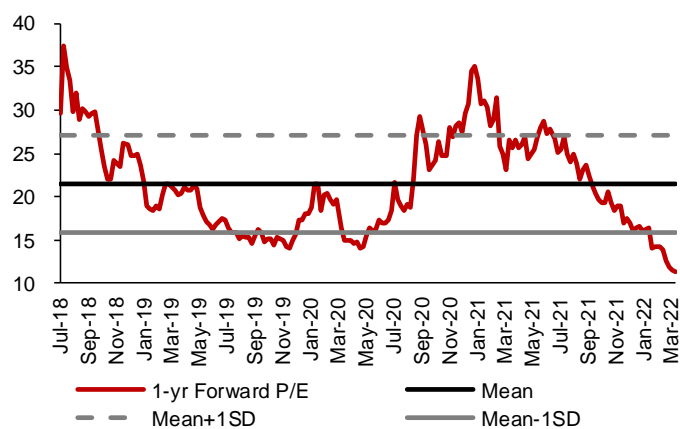
Our new TP of HK\$21.8 is based on lowered 20x FY22E P/E given 20% FY21-23E EPS CAGR, (vs prior 24% CAGR). Current valuation at 11.9x FY22E P/E is below 1-sd below 3-yr average at 15.9x, and we view risk-reward is attractive. Catalysts include product launch, stronger shipment, share gain, internet revenue 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 (%)	
							FY21	FY22E	FY21	FY22E	FY21	FY22E
HK-listed												
Xiaomi	1810 HK	Buy	43,179	13.5	21.8	69%	14.2	11.9	2.7	2.3	12.1	14.1
Sunny Optical	2382 HK	Hold	19,312	137.7	140.5	2%	26.3	24.1	8.0	6.3	23.9	27.4
AAC Tech	2018 HK	Hold	2,961	19.2	37.4	95%	13.1	10.2	1.0	0.9	7.0	8.0
BYDE	285 HK	Hold	5,422	18.8	26.4	40%	13.1	10.4	1.7	1.6	11.9	15.3
FIT Hon Teng	6088 HK	Buy	985	1.1	1.76	63%	6.1	5.2	0.4	0.4	6.1	6.8
Tongda	698 HK	Buy	152	0.1	*0.6	N/A	1.5	2.0	0.1	0.1	7.7	7.1
Q tech	1478 HK	Buy	957	6.3	*22.0	N/A	6.2	5.2	1.8	1.4	23.1	24.5
TK Group	2283 HK	Buy	231	2.2	*4.1	N/A	3.4	3.4	1.4	1.4	41.7	27.9
Average							11.1	9.4	2.2	1.9	14.2	14.8
Smartphone												
Apple	AAPL US	NR	2,621,229	160.6	NA	NA	28.8	26.1	44.6	34.9	143.7	142.4
Lenovo	992 HK	NR	12,364	8.0	NA	NA	10.9	6.5	2.9	2.5	30.7	46.6
Samsung	005930 KS	NR	347,649	70,700.0	NA	NA	11.8	10.1	1.6	1.4	14.2	14.5
LG Elec	066570 KS	NR	16,647	123,500.0	NA	NA	14.0	7.3	1.3	1.1	9.3	15.7
Average							16.4	12.5	12.6	10.0	49.5	54.8
IoT												
Skyworth	751 HK	NR	1,371	4.0	NA	NA	8.8	6.9	0.5	0.5	6.4	7.4
Hisense	600060 CH	NR	2,345	11.4	NA	NA	11.3	9.3	0.9	0.8	8.2	9.1
Midea	000333 CH	NR	64,770	58.9	NA	NA	14.5	12.5	3.0	2.6	21.7	21.9
Gree	000651 CH	NR	29,994	32.3	NA	NA	8.3	7.2	1.6	1.4	19.2	19.9
Average							10.7	9.0	1.5	1.4	13.9	14.6
Internet												
Tencent	700 HK	NR	468,273	381.0	NA	NA	23.3	20.8	3.4	2.9	17.4	15.3
Alibaba	BABA US	NR	272,094	100.4	NA	NA	9.7	13.5	1.7	2.5	19.0	10.5
Baidu	BIDU US	NR	51,217	147.2	NA	NA	20.0	18.7	1.5	1.7	6.9	6.4
JD	JD US	NR	96,564	61.9	NA	NA	38.9	33.8	2.9	2.8	2.8	5.6
Average							23.0	21.7	2.4	2.5	11.5	9.5

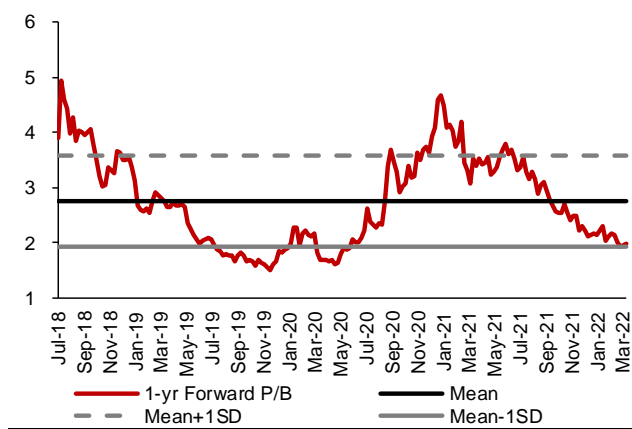
Source: Bloomberg, CMBIGM, *TP under review

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

Income

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	205,839	245,866	324,692	385,897	454,803
COGS	(177,285)	(209,114)	(267,020)	(319,390)	(376,239)
Gross profit	28,554	36,752	57,672	66,507	78,564
Selling and marketing	(10,378)	(14,539)	(18,817)	(20,067)	(23,650)
Administrative	(3,104)	(3,746)	(8,659)	(8,490)	(9,096)
R&D	(7,493)	(9,256)	(10,792)	(12,349)	(14,554)
Other operating exp.	4,181	14,825	3,781	3,781	3,781
Operating profit	11,760	24,035	23,184	29,383	35,045
Financial cost	402	(1,641)	(2,401)	(2,401)	(2,401)
Other income/(losses)		(760)			
Pre-tax profit	12,163	21,633	20,783	26,982	32,644
Tax	(2,060)	(1,321)	(3,781)	(3,777)	(4,570)
Minority interest	59	(43)	(15)	(21)	(26)
Net profit	10,044	20,356	17,017	23,226	28,099
Adj. Net profit	11,532	13,006	21,309	25,563	30,432

Cash flow

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	12,163	21,633	20,783	26,982	32,644
Depreciation	1,381	1,708	1,585	2,148	2,813
Chg. in working capital	9,553	4,320	9,956	149	10,658
Others	714	(5,784)	(3,781)	(3,777)	(4,570)
Net cash from Op.	23,810	21,879	28,543	25,502	41,544
Capex	(3,337)	(2,962)	(6,494)	(7,718)	(9,096)
Other	(28,233)	(14,716)			
Net cash from investing	(31,570)	(17,679)	(6,494)	(7,718)	(9,096)
Net bank borrowings	6,619	(2,004)	-	-	-
Dividend paid	-	-	-	-	-
Other	(3,498)	28,220	-	-	-
Net cash from financing	3,121	26,216	-	-	-
Net change in cash	(4,639)	30,415	22,049	17,784	32,448
Cash at beg of year	30,230	25,920	54,752	76,801	94,585
Exchange difference	328	(1,583)	-	-	-
Cash at end of year	25,920	54,752	76,801	94,585	127,034

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	137,539	176,283	182,443	233,167	251,347
Cash & equivalents	25,920	54,752	76,801	94,585	127,034
Account receivables	6,949	10,161	11,251	14,197	15,795
Inventories	32,585	41,671	24,691	54,686	38,820
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	82,306	87,876	94,159
PPE	6,992	6,306	11,215	16,785	23,068
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	264,749	321,043	345,507
Current liabilities	92,181	107,927	101,994	135,084	131,474
Short-term borrowings	12,837	6,962	6,962	6,962	6,962
Account payables	59,528	72,199	66,266	99,356	95,746
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	123,733	156,823	153,213
Share capital	0	0	0	0	0
Reserves	81,330	123,691	140,709	163,934	192,033
Minority interest	327	322	306	285	260
Shareholders' equity	81,658	124,014	141,016	164,220	192,294
Total equity/liabilities	183,629	253,680	264,749	321,043	345,507

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Smart phones	59	62	63	63	63
IoT and lifestyle products	30	27	27	27	27
Internet services	10	10	9	9	9
Others	1	1	1	1	2
Growth (%)					
Revenue	17.7	19.4	32.1	18.9	17.9
Gross profit	28.7	28.7	56.9	15.3	18.1
Operating profit	882.9	104.4	(3.5)	26.7	19.3
Adj. Net profit	31.9	12.8	63.8	20.0	19.0
Profit & loss ratio (%)					
Gross margin	13.9	14.9	17.8	17.2	17.3
Operating margin	5.7	9.8	7.1	7.6	7.7
Net profit margin	4.9	8.3	5.2	6.0	6.2
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	1.8	1.7	1.9
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	12.1	14.1	14.6
ROA	5.5	8.0	6.4	7.2	8.1
Per share data (RMB)					
Adj. EPS	0.49	0.54	0.85	1.02	1.22
DPS	-	-	-	-	-

Source: Company data, CMBIGM estimates

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