

Xiaomi (1810 HK)

Premium strategy bearing fruits; Reiterate BUY

Xiaomi's 4Q21 revenue/ adj. net profit grew 21%/40% YoY, which are 4%/9% and 5%/7% above our/consensus estimates. The beat was mainly due to 1) better smartphone ASP (+13% YoY), stronger smart TV revenue (+48% YoY), solid advertising (+34% YoY) and better AIoT/internet margin of 13.0%/76.1% (vs 11.9%/71.7% BBG est.). Key takeaways include 1) chip shortage expected to ease in 2Q22E, 2) ASP increase in smartphone/smart TV products (+13%/20% YoY), 3) smart EV R&D team reaching 1,000+ staff, and 4) announcement of HK\$10bn share repurchase plan. Overall, we are positive on Xiaomi's progress of its premium strategy and expanding user base. Current valuation at 12.5x FY22E P/E is well below 1-sd below 3-yr avg. at 15.9x, and we view risk-reward is attractive compared to 15%/21% EPS growth in FY22/23E. Reiterate BUY.

- 4Q21 beat on smartphone/TV ASP and resilient ads.** Xiaomi's 4Q21 beat was driven by better smartphone ASP (+13.3% YoY), stronger advertising (+34% YoY) and better margins in AIoT/internet services. By segment, smartphone revenue rebounded with 18% YoY in 4Q21 (vs +0.5% in 3Q21), and AIoT/internet revenue grew 19%/18% YoY (vs 16%/27% YoY in 3Q21). We believe Xiaomi's premium model strategy started to bear fruits for smartphone and smart TV products, and expect its overseas expansion and product upgrade will continue to drive ASP upside in FY22/23E.
- 2022E outlook: EU/LATAM share gain, easing chip shortage, ads momentum.** Mgmt. expected global chip shortage to remain challenging in 1Q22E but the situation will start to improve in 2Q22E. In China, Xiaomi will focus on efficiency enhancement in its 10k+ offline stores and boost upgrade for its mid/high-tier products. In overseas market, Xiaomi will boost carrier network expansion in Europe and LATAM given huge market share potential. For internet, mgmt. expected advertising momentum backed by expansion of premium smartphone user base and overseas users. We estimate Xiaomi shipment to grow 11%/9%/10% YoY to 211mn/231mn/254mn in FY22-24E.
- Attractive valuation after recent pull-back; Reiterate BUY.** We believe recent stock correction was due to supply chain uncertainties and sector de-rating on Ukraine/Russia conflicts. We slightly adjusted forecasts to reflect lower shipment and stronger ASP. Current valuation at 12.5x FY22E P/E is well below 1-sd below 3-yr avg. at 15.9x. Reiterate BUY with TP of HK\$21.8 (20x FY22E P/E). Catalysts include EV progress, product launch and market share gain.

Earnings Summary

(YE31Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	245,866	328,309	383,207	445,272	517,843
YoY growth (%)	19.4	33.5	16.7	16.2	16.3
Adj. Net income (RMB mn)	13,006	22,039	25,427	30,668	37,214
Adj. EPS (RMB)	0.54	0.88	1.02	1.23	1.49
YoY growth (%)	11.7	63.1	15.4	20.6	21.3
Consensus EPS (RMB)	NA	NA	0.95	1.11	1.24
P/E (x)	23.5	14.4	12.5	10.4	8.5
P/B (x)	3.1	2.8	2.3	1.9	1.6
ROE (%)	16.4	13.5	17.2	16.8	16.7
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\$21.8)
Upside	54%
Current Price	HK\$14.2

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	354,680
Avg. 3mths t/o (HK\$mn)	1,370.97
52W High/Low (HK\$)	30.45/ 11.38
Total Issued Shares (mn)	20,351

Source: Bloomberg

Shareholding Structure

Lin Bin	8.62%
Smart Mobile Holdings Ltd	8.41%
Mini Stone	2.74%

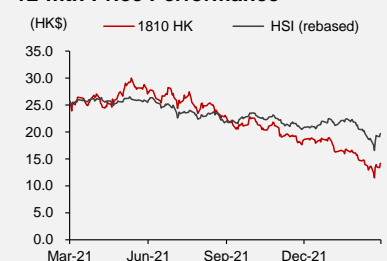
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-9.1%	-2.3%
3-mth	-23.2%	-19.0%
6-mth	-38.5%	-32.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

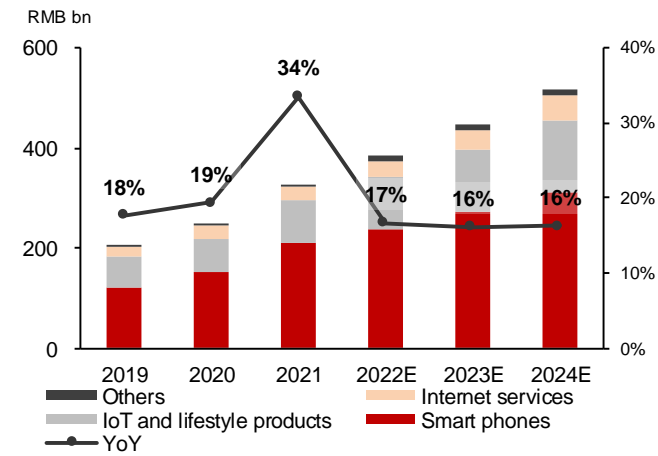
Auditor: PricewaterhouseCoopers

Recent Reports:

- 4Q21E preview: smartphone share gain to continue – 21 Mar 2022
- Solid 3Q21 despite supply chain challenge; Reiterate BUY - 24 Nov 2021

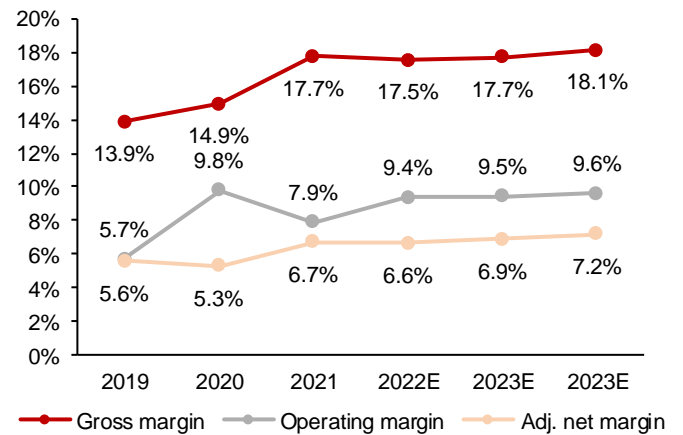
Focus Charts

Figure 1: Xiaomi revenue trend



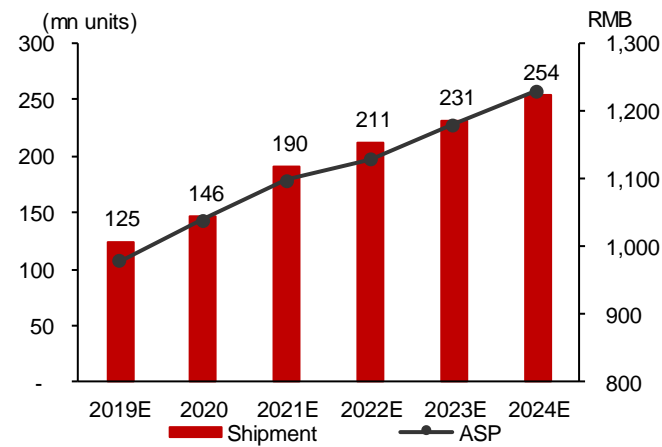
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi margin trend



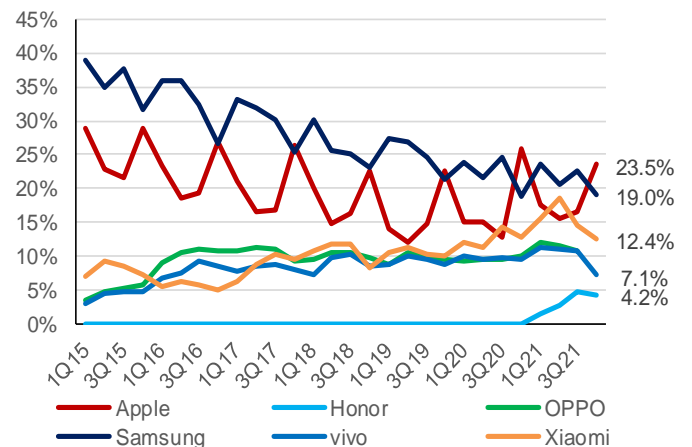
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi smartphone shipment forecast



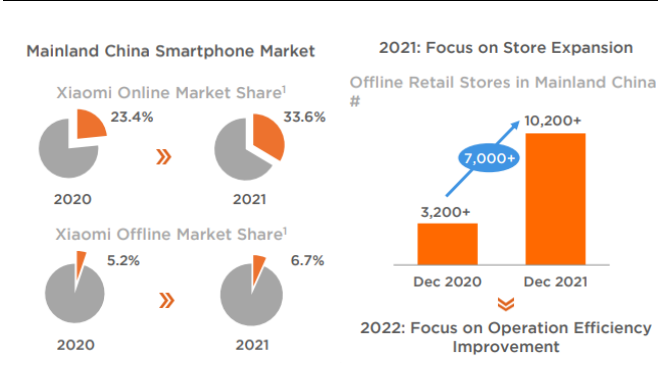
Source: Xiaomi, CMBIGM estimates

Figure 4: Global smartphone market share



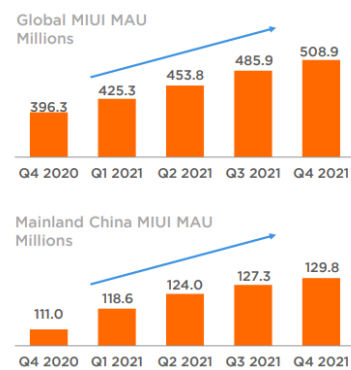
Source: IDC, CMBIGM estimates

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 Review

Figure 7: 4Q21 results review

RMB mn	3Q20	2Q21	4Q21	QoQ	YoY	CMBIGM		Consensus	
						3Q21E	Diff %	3Q21E	Diff %
Revenue	70,463	78,063	85,575	9.6%	21%	81,937	4%	81,460	5%
Gross Profit	11,326	14,292	14,659	2.6%	29%	14,071	4%	13,830	6%
Operating Profit	9,602	2,730	4,416	61.8%	-54%	1,571	181%	4,317	2%
Adj. net profit	3,204	5,176	4,473	-13.6%	40%	4,121	9%	4,169	7%
Adj. EPS (RMB)	0.13	0.21	0.18	-13.4%	34%	0.16	9%	0.16	11%
Gross Margin	16.1%	18.3%	17.1%	1.2 ppt	1.1 ppt	17.2%	0 ppt	17.0%	0.2 ppt
Operating Margin	13.6%	3.5%	5.2%	-1.7 ppt	-8.5 ppt	1.9%	3.2 ppt	5.3%	-0.1 ppt
Adj. Net Margin	4.5%	6.6%	5.2%	1.4 ppt	0.7 ppt	5.0%	0.2 ppt	5.1%	0.1 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	1Q21	2Q21	3Q21	4Q21	CMBIGM		Consensus	
					4Q21E	Diff %	4Q21E	Diff %
Smart phones	51,491	59,089	47,825	50,464	47,183	7%	50,184	1%
... YoY	70%	87%	0.5%	18.4%	11%		18%	
Shipment ('000')	49,400	52,900	43,900	44,100	45,400	-3%	44,601	-1%
... YoY	69%	87%	-6%	4%	7%		5%	
ASP (RMB)	1,042	1,117	1,091	1,143	1,039	10%	1,126	2%
... YoY	0.4%	0.0%	6.7%	13.3%	3.0%		12%	
IoT and lifestyle products	18,243	20,735	20,936	25,067	26,306	-5%	24,972	0%
... YoY	41%	36%	16%	19%	25%		19%	
Smart TVs and laptops	5,600	6,000	5,900	10,493	8,165	29%		
... YoY	19%	25%	2%	48%	15%			
Other IoTs	12,643	14,735	15,036	14,574	18,141	-20%		
... YoY	53%	41%	22%	4%	30%			
Internet services	6,571	7,033	7,338	7,270	7,669	-5%	7,407	-2%
... YoY	11%	19%	27%	18%	24%		20%	
Advertising services	3,894	4,512	4,791	4,903	4,762	3%	4,902	0%
... YoY	46%	46%	45%	34%	30%		34%	
Internet VAS	2,677	2,521	2,547	2,366	2,907	-19%	2,506	-6%
... YoY	-17%	-11%	3%	-8%	14%		-2%	
Gaming	1,123	900	1,000	900	1,080	-17%	1,085	-17%
... YoY	-25%	-10%	25%	0%	20%		21%	
Other (Youpin fintech, etc.)	1,554	1,621	1,547	1,466	1,827	-20%	1,420	3%
... YoY	-11%	-11%	-7%	-12%	10%		-14%	
Others	577	932	1,965	2,775	779	256%	1,074	158%
... YoY	17%	24%	194%	363%	30%		79%	
Total	76,882	87,789	78,063	85,575	81,937	4%	81,460	5%
... YoY	55%	64%	8%	21%	16%		16%	
Gross Margin								
Smart phones	12.9%	11.8%	12.8%	10.1%	11.6%	-1.5 ppt	10.9%	-0.8 ppt
IoT and lifestyle products	14.5%	13.2%	11.6%	13.0%	11.6%	1.4 ppt	11.9%	1.1 ppt
Internet services	72.4%	74.1%	73.6%	76.1%	71.5%	4.6 ppt	71.7%	4.4 ppt
Others	20.9%	21.3%	18.0%	26.7%	8.0%	18.7 ppt	9.1%	17.6 ppt
Total	18.4%	17.3%	18.3%	17.1%	17.2%	0 ppt	17.0%	0.2 ppt

Source: Company data, CMBIGM estimates

Earnings Forecasts

Our FY22-24E adj. NP are 8-20% above consensus

We adjusted FY21-22E adj. NP to reflect supply chain constraint and better margin. Our FY22-23E EPS are 8-9% above consensus given our more positive view on FY22E smartphone market share and better GPM ahead.

Figure 9: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	383,207	445,272	517,843	385,897	454,803	NA	-1%	-2%	NA
Gross Profit	67,236	78,736	93,896	66,507	78,564	NA	1%	0%	NA
Operating Profit	35,963	42,109	49,722	29,383	35,045	NA	22%	20%	NA
Adj. net profit	25,427	30,668	37,214	25,563	30,432	NA	-1%	1%	NA
Adj. EPS (RMB)	1.02	1.23	1.49	1.02	1.22	NA	0%	1%	NA
Gross Margin	17.5%	17.7%	18.1%	17.2%	17.3%	NA	0.3 ppt	0.4 ppt	NA
Operating Margin	9.4%	9.5%	9.6%	7.6%	7.7%	NA	1.8 ppt	1.8 ppt	NA
Adj. Net Margin	6.6%	6.9%	7.2%	6.6%	6.7%	NA	0 ppt	0.2 ppt	NA

Source: Company data, CMBIGM estimates

Figure 10: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	383,207	445,272	517,843	390,886	452,342	582,280	-2%	-2%	-11%
Gross Profit	67,236	78,736	93,896	66,905	78,830	103,617	0%	0%	-9%
Operating Profit	35,963	42,109	49,722	25,908	29,852	29,710	39%	41%	67%
Adj. net profit	25,427	30,668	37,214	23,341	27,715	33,338	9%	11%	12%
Adj. EPS (RMB)	1.02	1.23	1.49	0.95	1.11	1.24	8%	11%	20%
Gross Margin	17.5%	17.7%	18.1%	17.1%	17.4%	17.8%	0.4 ppt	0.3 ppt	0.3 ppt
Operating Margin	9.4%	9.5%	9.6%	6.6%	6.6%	5.1%	2.8 ppt	2.9 ppt	4.5 ppt
Adj. Net Margin	6.6%	6.9%	7.2%	6.0%	6.1%	5.7%	0.7 ppt	0.8 ppt	1.5 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: P&L forecast

RMB mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	205,839	245,866	328,309	383,207	445,272	517,843
...YoY	18%	19%	34%	17%	16%	16%
Cost of sales	(177,285)	(209,114)	(270,048)	(315,971)	(366,536)	(423,947)
Gross profit	28,554	36,752	58,261	67,236	78,736	93,896
GPM (%)	13.9%	14.9%	17.7%	17.5%	17.7%	18.1%
...YoY	29%	29%	59%	15%	17%	19%
SG&A	(13,482)	(18,286)	(25,720)	(28,107)	(32,060)	(37,285)
...% of rev	-6.5%	-7.4%	-7.8%	-7.3%	-7.2%	-7.2%
R&D	(7,493)	(9,256)	(13,167)	(12,847)	(14,249)	(16,571)
...% of rev	-3.6%	-3.8%	-4.0%	-3.4%	-3.2%	-3.2%
Operating profit	11,760	24,035	26,029	35,963	42,109	49,722
OPM (%)	5.7%	9.8%	7.9%	9.4%	9.5%	9.6%
...YoY	883%	104%	8%	38%	17%	18%
Adj. net profit	11,532	13,006	22,039	25,427	30,668	37,214
NPM (%)	5.6%	5.3%	6.7%	6.6%	6.9%	7.2%
...YoY	35%	13%	69%	15%	21%	21%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP of HK\$21.8 (54% upside)

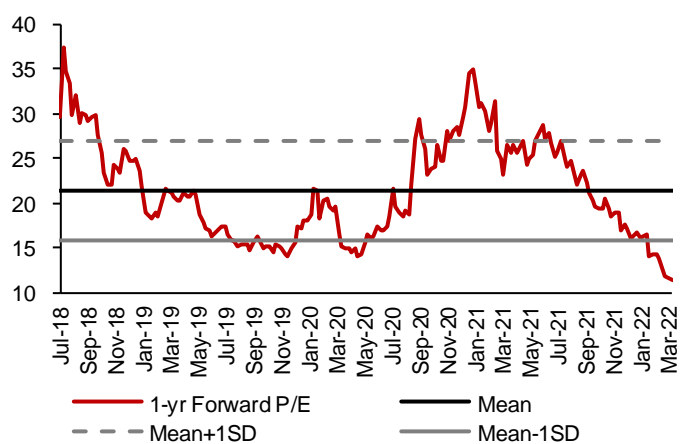
Our TP of HK\$21.8 is based on 20x FY22E P/E given 20% FY21-23E EPS CAGR. Current valuation at 12.5x FY22E P/E is below 1-sd below 3-yr average at 15.9x, and we view risk-reward is attractive. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

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 (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
HK-listed												
Xiaomi	1810 HK	Buy	45,313	14.2	21.80	54%	12.5	10.4	2.3	1.9	17.2	16.8
Sunny Optical	2382 HK	Hold	20,263	144.6	140.5	-3%	25.3	20.8	5.5	4.5	21.6	21.6
AAC Tech	2018 HK	Hold	3,063	19.8	37.4	89%	10.6	8.3	0.9	0.8	8.6	-
BYDE	285 HK	Hold	5,573	19.4	26.4	37%	10.7	7.6	1.4	1.2	13.2	15.9
FIT Hon Teng	6088 HK	Buy	1,057	1.2	1.8	52%	6.6	5.5	0.4	0.4	6.0	6.9
Tongda	698 HK	Buy	222	0.2	*0.6	NA	3.0	2.7	0.2	0.2	-	-
Q tech	1478 HK	Buy	936	6.2	8.6	39%	7.7	9.3	1.2	1.1	15.8	11.4
TK Group	2283 HK	Buy	245	2.3	*4.1	NA	3.6	3.6	1.5	1.5	41.7	41.7
Average							10.9	9.2	1.6	1.4	11.5	10.2
Smartphone												
Apple	AAPL US	NR	2,755,293	168.8	NA	NA	27.4	25.7	36.7	29.2	142.4	138.3
Lenovo	992 HK	NR	12,692	8.3	NA	NA	6.6	6.5	2.6	2.1	46.6	36.8
Samsung	005930 KS	NR	344,910	70,300.0	NA	NA	10.0	8.8	1.4	1.2	14.5	14.6
LG Elec	066570 KS	NR	16,677	124,000.0	NA	NA	7.3	6.3	1.1	0.9	15.7	15.9
Average							12.9	11.8	10.4	8.4	54.8	51.4
IoT												
Skyworth	751 HK	NR	1,465	4.3	NA	NA	7.4	6.0	0.5	0.4	7.4	6.5
Hisense	600060 CH	NR	2,347	11.4	NA	NA	9.4	7.8	0.8	0.8	9.1	10.0
Midea	000333 CH	NR	64,367	58.6	NA	NA	12.3	10.8	2.6	2.3	21.9	21.7
Gree	000651 CH	NR	30,147	32.5	NA	NA	7.3	6.5	1.4	1.3	19.7	19.8
Average							9.1	7.8	1.4	1.2	14.5	14.5
Internet												
Tencent	700 HK	NR	476,474	388.0	NA	NA	21.1	17.6	3.0	2.6	15.3	15.6
Alibaba	BABA US	NR	313,571	115.9	NA	NA	15.5	13.5	3.0	2.5	10.5	11.0
Baidu	BIDU US	NR	54,527	156.7	NA	NA	20.1	15.4	1.8	1.9	6.4	8.1
JD	JD US	NR	101,014	64.8	NA	NA	35.4	23.8	2.9	2.6	5.6	8.3
Average							23.0	17.6	2.7	2.4	9.5	10.8

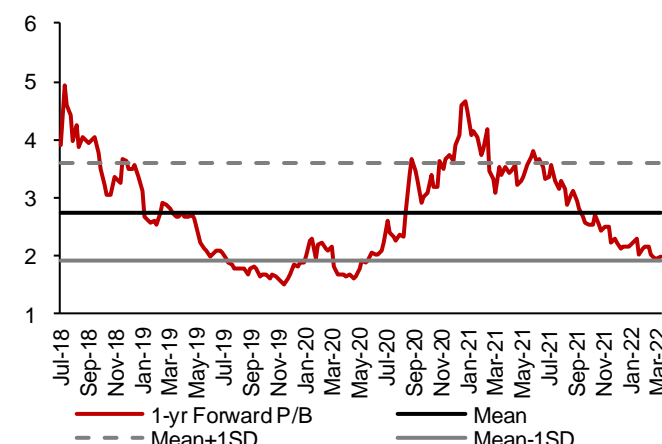
Source: Bloomberg, CMBIGM, *TP under review

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)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	245,866	328,309	383,207	445,272	517,843
COGS	(209,114)	(270,048)	(315,971)	(366,536)	(423,947)
Gross profit	36,752	58,261	67,236	78,736	93,896
Selling and marketing	(14,539)	(20,981)	(22,771)	(23,154)	(26,928)
Administrative	(3,746)	(4,739)	(5,336)	(8,905)	(10,357)
R&D	(9,256)	(13,167)	(12,847)	(14,249)	(16,571)
Other operating exp.	14,825	6,654	9,682	9,682	9,682
Operating profit	24,035	26,029	35,963	42,109	49,722
Financial cost	(1,641)	(1,612)	(1,612)	(1,612)	(1,612)
Other income/(losses)	(760)				
Pre-tax profit	21,633	24,417	34,352	40,498	48,110
Tax	(1,321)	(5,134)	(4,765)	(5,670)	(6,735)
Minority interest	(43)	(56)	(166)	(101)	(120)
Net profit	20,356	19,339	29,753	34,929	41,495
Adj. Net profit	13,006	22,039	25,427	30,668	37,214

Cash flow

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	21,633	24,417	34,352	40,498	48,110
Depreciation	1,708	1,590	2,150	2,800	3,557
Chg. in working capital	4,320	10,536	(1,755)	11,317	(600)
Others	(5,784)	(5,134)	(4,765)	(5,670)	(6,735)
Net cash from Op.	21,879	31,409	29,981	48,945	44,332
Capex	(2,962)	(6,566)	(7,664)	(8,905)	(10,357)
Other	(14,716)				
Net cash from investing	(17,679)	(6,566)	(7,664)	(8,905)	(10,357)
Net bank borrowings	(2,004)	-	-	-	-
Dividend paid	-	-	-	-	-
Other	28,220	-	-	-	-
Net cash from financing	26,216	-	-	-	-
Net change in cash	30,415	24,842	22,317	40,039	33,975
Cash at beg of year	25,920	54,752	79,595	101,912	141,951
Exchange difference	(1,583)				
Cash at end of year	54,752	79,595	101,912	141,951	175,926

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	176,283	186,227	238,476	265,243	331,544
Cash & equivalents	54,752	79,595	101,912	141,951	175,926
Account receivables	10,161	11,490	13,781	15,583	18,567
Inventories	41,671	25,444	53,084	38,011	67,352
ST bank deposits	17,599	17,599	17,599	17,599	17,599
Other	52,100	52,100	52,100	52,100	52,100
Non-current assets	77,397	82,373	87,888	93,993	100,793
PPE	6,306	11,282	16,796	22,902	29,702
Deferred income tax	2,011	2,011	2,011	2,011	2,011
Intangibles	4,266	4,266	4,266	4,266	4,266
Other	64,815	64,815	64,815	64,815	64,815
Total assets	253,680	268,600	326,364	359,236	432,337
Current liabilities	107,927	103,564	131,740	129,785	161,511
Short-term borrowings	6,962	6,962	6,962	6,962	6,962
Account payables	72,199	67,836	96,012	94,057	125,783
Tax payable	674	674	674	674	674
Other	28,092	28,092	28,092	28,092	28,092
Non-current liabilities	21,739	21,739	21,739	21,739	21,739
Long-term borrowings	10,635	10,635	10,635	10,635	10,635
Deferred tax liability	301	301	301	301	301
Other	10,804	10,804	10,804	10,804	10,804
Total liabilities	129,666	125,304	153,480	151,525	183,251
Share capital	0	0	0	0	0
Reserves	123,691	143,031	172,784	207,713	249,208
Minority interest	322	266	100	(2)	(122)
Shareholders' equity	124,014	143,297	172,884	207,712	249,086
Total equity/liabilities	253,680	268,600	326,364	359,236	432,337

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Smart phones	62	64	62	61	60
IoT and lifestyle products	27	26	27	27	28
Internet services	10	9	9	9	9
Others	1	2	2	2	3
Growth (%)					
Revenue	19.4	33.5	16.7	16.2	16.3
Gross profit	28.7	58.5	15.4	17.1	19.3
Operating profit	104.4	8.3	38.2	17.1	18.1
Adj. Net profit	12.8	69.5	15.4	20.6	21.3
Profit & loss ratio (%)					
Gross margin	14.9	17.7	17.5	17.7	18.1
Operating margin	9.8	7.9	9.4	9.5	9.6
Net profit margin	8.3	5.9	7.8	7.8	8.0
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.6	1.8	1.8	2.0	2.1
Receivable turnover days	29	30	30	30	30
Inventory turnover days	6	8	8	8	8
Payable turnover days	3	4	4	4	4
Profitability (%)					
ROE	16.4	13.5	17.2	16.8	16.7
ROA	8.0	7.2	9.1	9.7	9.6
Per share data (RMB)					
Adj. EPS	0.54	0.88	1.02	1.23	1.49
DPS	-	-	-	-	-

Source: Company data, CMBIGM estimates

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