

Xiaomi (1810 HK)

Weak 3Q22 as anticipated; Expect sequential recovery ahead

Xiaomi's 3Q22 weakness is well expected given global macro weakness and smartphone demand decline. 3Q revenue/ adj. net profit decline of 10%/59% YoY is largely in-line with our/ consensus estimates ([note](#)), driven by 1) smartphone decline (-11% YoY), 2) weak IoT/internet revenue (-9%/-4% YoY), and 3) higher R&D expense (+26% YoY) for EV and new initiatives. Key takeaways from earnings call include 1) smartphone: healthy inventory level in China but gradual destocking in overseas market, 2) AIoT: solid large home appliances in China but challenging sales in overseas (esp. EU), and 3) internet: stable MAU growth with weak ad sales. Looking ahead, we remain positive on Xiaomi's global share gain, expanding user base and EV upside, and we believe macro sequential recovery in 1H23E will be a major positive catalyst for the stock. We slightly adjusted our estimates and our new TP of HK\$12.28 is based on same 20x FY23E P/E.

- 3Q22 weakness largely in-line with smartphone decline and slower AIoT/internet.** By segment, smartphone revenue dropped 11% YoY with shipment /ASP down 8%/3% YoY, given weakness across all regions and heavy promotions in India during festival season. AIoT declined 9% YoY, mainly due to weak EU market on strong dollar and high inflation. Internet revenue also declined 3.7% YoY due to weak ads budget and less smartphone shipment. 3Q GPM came in at 16.6% (vs 18.3% in 3Q21) mainly dragged by lower smartphone GPM on promotions and destocking.
- 4Q22E outlook: seasonal demand to speed up destocking progress overseas.** While inventory destocking and macro weakness will remain an overhang in 4Q22E, we believe promotion season (e.g. Black Friday and Xmas) will speed up destocking overseas. We estimate revenue/earnings will decline to 15%/57% YoY in 4Q22E, following 10%/59% decline in 3Q22. In addition, we are positive on market share expansion in LATAM/SEA markets and healthy content value growth in TV ad business revenue.
- Attractive risk/reward; Maintain BUY.** While 4Q22 demand will remain sluggish, we believe most negatives have been priced in and sequential macro recovery will be the positive catalyst in 4Q22E. Current valuation at 16.2x FY23E P/E is close to 1-sd below 3-yr avg. P/E at 15.9x. Maintain BUY with new TP of HK\$12.28, based on same 20.0x FY23E P/E. Catalysts include smart EV progress, product launch and market share gain.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	245,866	328,309	286,870	308,047	346,419
YoY growth (%)	19.4	33.5	(12.6)	7.4	12.5
Adjusted net profit (RMB mn)	13,006.4	22,039.5	8,878.4	13,734.1	15,554.5
EPS (Adjusted) (RMB)	0.54	0.88	0.36	0.55	0.62
Consensus EPS (RMB)	na	na	0.37	0.55	0.67
P/E (x)	17.4	26.8	25.1	16.2	14.3
P/B (x)	2.9	3.8	1.6	1.5	1.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	19.8	14.8	0.5	8.5	8.9
Net gearing (%)	60.4	96.0	70.3	79.3	54.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$12.28

(Previous TP) HK\$12.51

Up/Downside 25.4%

Current Price HK\$9.80

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Stock Data

Mkt Cap (HK\$ mn)	199,351.6
Avg 3 mths t/o (HK\$ mn)	9.9
52w High/Low (HK\$)	19.66/8.45
Total Issued Shares (mn)	20342.0

Source: FactSet

Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.6%

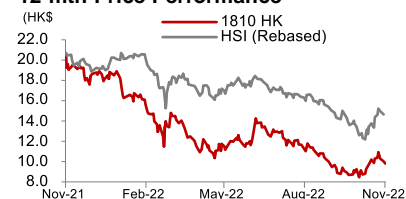
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.9%	-1.4%
3-mth	-12.3%	-1.9%
6-mth	-14.8%	0.1%

Source: FactSet

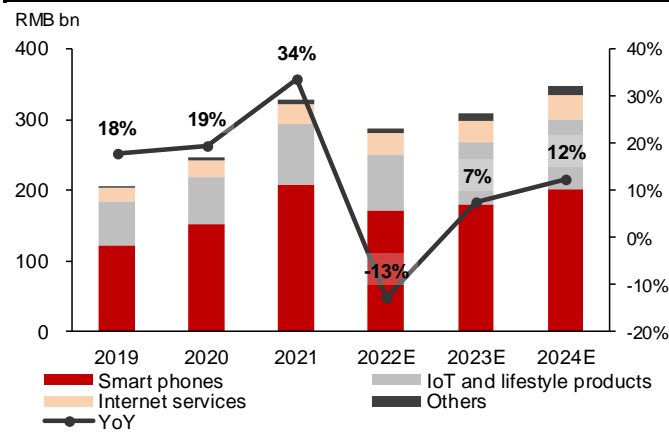
12-month Price Performance



Source: FactSet

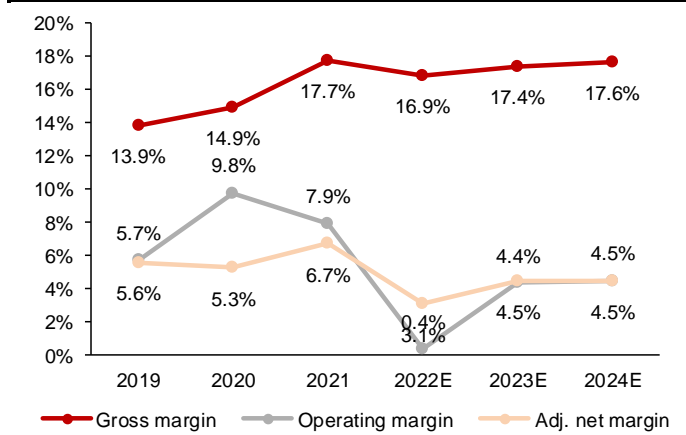
Focus Charts

Figure 1: Xiaomi revenue trend



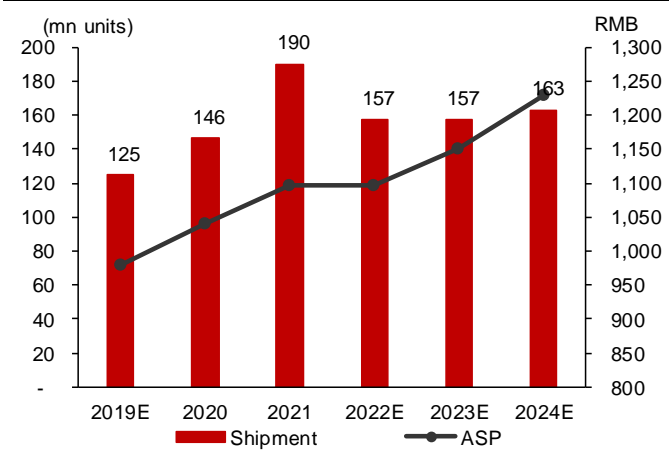
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi margin trend



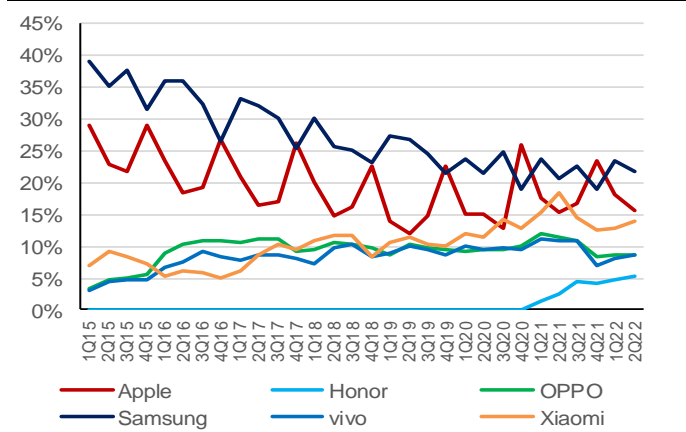
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi smartphone shipment forecast



Source: Xiaomi, CMBIGM estimates

Figure 4: Global smartphone market share



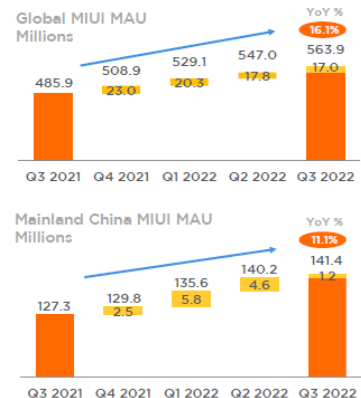
Source: IDC, CMBIGM estimates

Figure 5: Xiaomi's leadership in major markets



Source: Company data, CMBIGM estimates

Figure 6: Xiaomi's solid MIUI MAU growth



Source: Company data, CMBIGM estimates

3Q22 Review

Figure 7: 3Q22 results review

RMB mn	3Q21	2Q22	3Q22	QoQ	YoY	CMBIGM		Consensus	
						3Q22E	Diff %	3Q22E	Diff %
Revenue	78,063	70,171	70,474	0.4%	-10%	70,531	0%	70,162	0%
Gross Profit	14,292	11,768	11,722	-0.4%	-18%	11,680	0%	11,754	0%
Operating Profit	2,730	1,733	(1,361)	-178.5%	-150%	1,393	-198%	1,786	-176%
Adj. net profit	5,176	2,081	2,117	1.7%	-59%	1,974	7%	1,986	7%
Adj. EPS (RMB)	0.21	0.08	0.08	1.7%	-59%	0.08	7%	0.08	6%
Gross Margin	18.3%	16.8%	16.6%	-0.1 ppt	-1.7 ppt	16.6%	0.1 ppt	16.8%	-0.1 ppt
Operating Margin	3.5%	2.5%	-1.9%	-4.4 ppt	-5.4 ppt	2.0%	-3.9 ppt	2.5%	-4.5 ppt
Adj. Net Margin	6.6%	3.0%	3.0%	0 ppt	-3.6 ppt	2.8%	0.2 ppt	2.8%	0.2 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	3Q21	4Q21	1Q22	2Q22	3Q22	CMBIGM	
						3Q22E	Diff %
Smart phones	47,825	50,464	45,763	42,268	42,514	42,405	0%
...YoY	0.5%	18.4%	-11%	-28%	-11%	-11%	
Shipment (000')	43,900	44,100	38,500	39,100	40,200	40,005	0%
...YoY	-6%	4%	-22%	-26%	-8%	-9%	
ASP (RMB)	1,091	1,143	1,189	1,082	1,058	1,060	0%
...YoY	6.7%	13.3%	14.0%	-3.1%	-3.0%	-2.8%	
IoT and lifestyle products	20,936	25,067	19,477	19,812	19,059	19,019	0%
...YoY	16%	19%	7%	-4%	-9%	-9%	
Smart TVs and laptops	5,900	10,493	6,200	5,300	5,800	5,487	6%
...YoY	2%	48%	11%	-12%	-2%	-7%	
Other IoTs	15,036	14,574	13,277	14,512	13,259	13,532	-2%
...YoY	22%	4%	5%	-2%	-12%	-10%	
Internet services	7,338	7,270	7,112	6,971	7,067	7,005	1%
...YoY	27%	18%	8%	-1%	-4%	-5%	
Advertising services	4,791	4,903	4,525	4,539	4,671	4,551	3%
...YoY	45%	34%	16%	1%	-3%	-5%	
Internet VAS	2,547	2,366	2,588	2,432	2,396	2,453	-2%
...YoY	3%	-8%	-3%	-4%	-6%	-4%	
Gaming	1,000	900	1,157	942	1,018	1,030	-1%
...YoY	25%	0%	3%	5%	2%	3%	
Other (Youpin fintech, etc.)	1,547	1,466	1,431	1,490	1,378	1,423	-3%
...YoY	-7%	-12%	-8%	-8%	-11%	-8%	
Others	1,965	2,775	999	1,120	1,835	2,102	-13%
...YoY	194%	363%	73%	20%	-7%	7%	
Total	78,063	85,575	73,352	70,171	70,474	70,531	0%
...YoY	8%	21%	-5%	-20%	-10%	-10%	
Gross Margin							
Smart phones	12.8%	10.1%	9.9%	8.7%	8.9%	9.0%	-0.1 ppt
IoT and lifestyle products	11.6%	13.0%	15.6%	14.3%	13.5%	13.5%	0 ppt
Internet services	73.6%	76.1%	70.8%	73.0%	72.1%	72.0%	0.1 ppt
Others	18.0%	26.7%	12.0%	16.7%	15.0%	12.0%	3 ppt
Total	18.3%	17.1%	17.3%	16.8%	16.6%	16.6%	0.1 ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY23-24E adj. NP are +2/-6% vs consensus

We trimmed FY23-24E adj. NP by 1-2% to reflect lower smartphone and higher expenses. Our FY22-24E EPS are -5%/+1%/-6% vs consensus given our more conservative shipment estimates amid macro headwinds.

Figure 9: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	286,870	308,047	346,419	292,504	327,612	373,918	-2%	-6%	-7%
Gross profit	48,367	53,650	61,089	48,884	55,666	63,973	-1%	-4%	-5%
Operating profit	1,028	13,431	15,536	3,469	13,656	15,569	-70%	-2%	0%
Adj. net profit	8,878	13,734	15,554	8,835	13,986	15,641	0%	-2%	-1%
Adj. EPS (RMB)	0.36	0.55	0.62	0.35	0.56	0.63	0%	-2%	-1%
Gross margin	16.9%	17.4%	17.6%	16.7%	17.0%	17.1%	0.1 ppt	0.4 ppt	0.5 ppt
Operating margin	0.4%	4.4%	4.5%	1.2%	4.2%	4.2%	-0.8 ppt	0.2 ppt	0.3 ppt
Adj. net margin	3.1%	4.5%	4.5%	3.0%	4.3%	4.2%	0.1 ppt	0.2 ppt	0.3 ppt

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	286,870	308,047	346,419	293,081	328,812	365,468	-2%	-6%	-5%
Gross profit	48,367	53,650	61,089	49,652	56,978	64,163	-3%	-6%	-5%
Operating profit	1,028	13,431	15,536	8,030	14,413	17,491	-87%	-7%	-11%
Adj. net profit	8,878	13,734	15,554	9,797	13,506	16,617	-9%	2%	-6%
Adj. EPS (RMB)	0.36	0.55	0.62	0.37	0.55	0.67	-5%	1%	-6%
Gross margin	16.9%	17.4%	17.6%	16.9%	17.3%	17.6%	-0.1 ppt	0.1 ppt	0.1 ppt
Operating margin	0.4%	4.4%	4.5%	2.7%	4.4%	4.8%	-2.4 ppt	0 ppt	-0.3 ppt
Adj. net margin	3.1%	4.5%	4.5%	3.3%	4.1%	4.5%	-0.2 ppt	0.4 ppt	-0.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: P&L forecast

RMB mn	FY21	1Q22	2Q22	3Q22	4Q22E	FY22E	FY23E	FY24E
Revenue	328,309	73,352	70,171	70,474	72,874	286,870	308,047	346,419
...YoY	34%	-5%	-20%	-10%	-15%	-13%	7%	12%
Cost of sales	(270,048)	(60,642)	(58,403)	(58,752)	(60,706)	(238,503)	(254,397)	(285,330)
Gross profit	58,261	12,710	11,768	11,722	12,168	48,367	53,650	61,089
GPM (%)	17.7%	17.3%	16.8%	16.6%	16.7%	16.9%	17.4%	17.6%
...YoY	59%	-10%	-22%	-18%	-17%	-17%	11%	14%
SG&A	(25,720)	(6,501)	(6,648)	(6,138)	(7,725)	(27,011)	(25,568)	(28,753)
...% of rev	-7.8%	-8.9%	-9.5%	-8.7%	-10.6%	-9.4%	-8.3%	-8.3%
R&D	(13,167)	(3,495)	(3,763)	(4,070)	(2,915)	(14,243)	(14,478)	(16,628)
...% of rev	-4.0%	-4.8%	-5.4%	-5.8%	-4.0%	-5.0%	-4.7%	-4.8%
Operating profit	26,029	(911)	1,733	(1,361)	1,567	1,028	13,431	15,536
OPM (%)	7.9%	-1.2%	2.5%	-1.9%	2.2%	0.4%	4.4%	4.5%
...YoY	8%	-111%	-84%	-150%	-65%	-96%	1207%	16%
Adj. net profit	22,039	2,859	2,081	2,117	1,930	8,878	13,734	15,554
NPM (%)	6.7%	3.9%	3.0%	3.0%	2.6%	3.1%	4.5%	4.5%
...YoY	69%	-53%	-67%	-59%	-57%	-60%	55%	13%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$12.28 (25% upside)

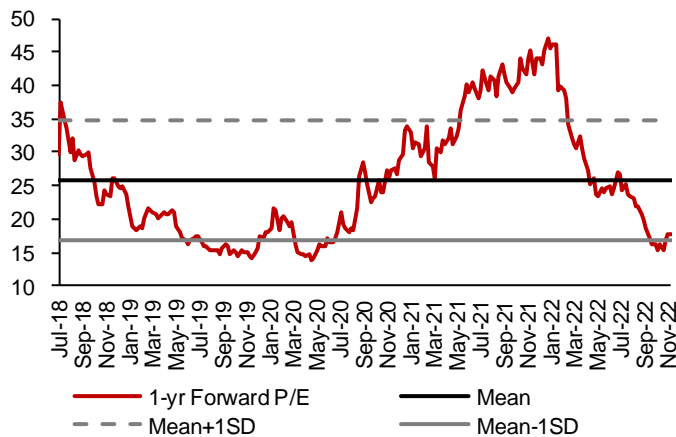
Our new TP of HK\$12.28 is based on same 20x FY23E P/E. Current valuation at 16.2x FY23E P/E is close to 1-sd below 3-yr average at 15.9x, and we view risk-reward as attractive. Catalysts include product launch, stronger shipment, share gain, internet revenue recovery and smart EV progress.

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	31,207	9.8	12.3	25%	25.1	16.2	1.6	1.5	0.5	8.5
Sunny Optical	2382 HK	HOLD	12,171	86.8	102.3	18%	31.1	21.1	3.7	3.2	11.8	15.3
AAC Tech	2018 HK	HOLD	2,564	16.6	15.4	-7%	22.6	13.9	0.8	0.8	3.5	5.6
BYDE	285 HK	HOLD	6,326	22.0	20.4	-7%	27.0	16.0	1.7	1.6	6.4	9.9
FIT Hon Teng	6088 HK	BUY	1,396	1.5	1.8	23%	7.4	6.5	0.5	0.5	6.9	7.4
Tongda	698 HK	BUY	143	0.1	0.2	91%	3.8	2.9	0.1	0.1	2.3	3.0
Q tech	1478 HK	BUY	565	3.7	5.6	50%	14.5	7.1	0.8	0.7	5.5	10.3
TK Group	2283 HK	BUY	171	1.6	3.4	111%	3.9	3.1	0.7	0.6	18.6	20.7
Average							18.7	11.9	1.3	1.2	6.1	8.9
Smartphone												
Apple	AAPL US	NR	2,403,239	151.1	NA	NA	24.7	24.1	43.2	40.5	160.8	167.5
Lenovo	992 HK	NR	9,928	6.4	NA	NA	5.2	5.4	2.0	1.5	44.4	33.1
Samsung	005930 KS	NR	272,332	61,000.0	NA	NA	10.7	14.5	1.2	1.2	12.0	8.1
LG Elec	066570 KS	NR	11,039	90,200.0	NA	NA	8.5	8.2	0.8	0.7	10.0	9.5
Average							12.3	13.1	11.8	11.0	56.8	54.6
IoT												
Skyworth	751 HK	NR	896	2.7	NA	NA	3.6	3.1	0.3	0.3	8.4	9.2
Hisense	600060 CH	NR	2,560	14.0	NA	NA	11.2	9.8	1.0	1.0	9.6	10.0
Midea	000333 CH	NR	45,215	46.3	NA	NA	10.6	9.6	2.2	2.0	21.4	20.7
Gree	000651 CH	NR	24,537	31.2	NA	NA	6.9	6.3	1.5	1.4	22.7	22.1
Average							8.1	7.2	1.3	1.2	15.5	15.5

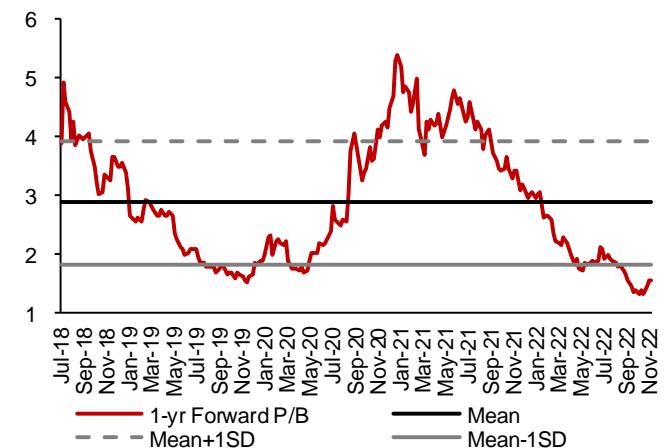
Source: Bloomberg, CMBIGM

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	205,839	245,866	328,309	286,870	308,047	346,419
Cost of goods sold	(177,285)	(209,114)	(270,048)	(238,503)	(254,397)	(285,330)
Gross profit	28,554	36,752	58,261	48,367	53,650	61,089
Selling expense	(10,378)	(14,539)	(20,981)	(22,030)	(20,639)	(23,210)
Admin expense	(3,104)	(3,746)	(4,739)	(4,981)	(4,929)	(5,543)
R&D expense	(7,493)	(9,256)	(13,167)	(14,243)	(14,478)	(16,628)
Other income	1,266	643	827	752	752	752
Gain/loss on financial assets at FVTPL	3,813	13,173	8,132	(4,914)	1,000	1,000
Investment gain/loss	(672)	1,381	275	(669)	(669)	(669)
EBIT	11,760	24,035	26,029	1,028	13,431	15,536
Net Interest income/(expense)	402	(1,641)	(1,612)	699	699	699
Foreign exchange gain/loss	(226)	(372)	(2,580)	(1,255)	(1,255)	(1,255)
Others	0	0	0	0	0	0
Pre-tax profit	12,163	21,633	24,417	1,726	14,130	16,234
Income tax	(2,060)	(1,321)	(5,134)	(985)	(1,908)	(2,192)
Minority interest	59	(43)	(56)	14	(36)	(41)
Net profit	10,103	20,313	19,283	742	12,222	14,043
Adjusted net profit	11,532	13,006	22,039	8,878	13,734	15,554
Net dividends	0	0	0	0	0	0
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	137,539	176,283	185,851	157,681	200,671	193,773
Cash & equivalents	25,920	54,752	23,512	32,701	44,409	56,886
Account receivables	19,672	19,080	23,095	11,029	23,832	14,099
Inventories	32,585	41,671	52,398	27,103	45,582	35,941
Prepayment	19,837	16,182	19,852	19,852	19,852	19,852
ST bank deposits	21,523	17,599	31,041	31,041	31,041	31,041
Financial assets at FVTPL	16,463	22,376	30,910	30,910	30,910	30,910
Other current assets	1,538	4,623	5,045	5,045	5,045	5,045
Non-current assets	46,090	77,397	107,040	111,381	114,465	117,595
PP&E	6,992	6,306	6,965	11,305	14,390	17,519
Deferred income tax	1,283	2,011	1,662	1,662	1,662	1,662
Investment in JVs & assos	9,301	12,782	10,231	10,231	10,231	10,231
Intangibles	1,672	4,266	5,579	5,579	5,579	5,579
Financial assets at FVTPL	20,679	35,215	50,114	50,114	50,114	50,114
Other non-current assets	6,163	16,817	32,490	32,490	32,490	32,490
Total assets	183,629	253,680	292,892	269,062	315,136	311,368
Current liabilities	92,181	107,927	115,727	90,119	123,970	106,159
Short-term borrowings	12,837	6,962	5,527	5,527	5,527	5,527
Account payables	59,528	72,199	74,643	49,034	82,885	65,074
Tax payable	479	674	2,335	2,335	2,335	2,335
Other current liabilities	19,337	28,092	33,222	33,222	33,222	33,222
Non-current liabilities	9,791	21,739	39,732	39,732	39,732	39,732
Long-term borrowings	4,787	10,635	20,720	20,720	20,720	20,720
Deferred income	580	301	1,203	1,203	1,203	1,203
Other non-current liabilities	4,424	10,804	17,809	17,809	17,809	17,809
Total liabilities	101,972	129,666	155,459	129,850	163,702	145,891
Share capital	388	409	407	407	407	407
Other reserves	81,330	123,691	137,212	137,940	150,198	164,282
Total shareholders equity	81,658	124,014	137,432	138,174	150,397	164,439
Minority interest	327	322	220	233	198	157
Total equity and liabilities	183,629	253,680	292,892	268,025	314,098	310,330
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	12,163	21,633	24,417	1,726	14,130	16,234
Depreciation & amortization	1,381	1,708	3,062	2,434	3,077	3,799
Tax paid	(2,242)	(1,126)	(2,442)	(985)	(1,908)	(2,192)
Change in working capital	9,553	4,320	(15,725)	11,751	2,569	1,563
Others	2,956	(4,658)	474	0	0	0
Net cash from operations	23,810	21,879	9,785	14,927	17,868	19,406

Investing						
Capital expenditure	(3,405)	(3,026)	(7,169)	(5,737)	(6,161)	(6,928)
Acquisition of subsidiaries/ investments	0	39	(1,086)	0	0	0
Net proceeds from disposal of short-term investments	124,633	190,494	166,947	0	0	0
Others	(152,798)	(205,186)	(203,699)	0	0	0
Net cash from investing	(31,570)	(17,679)	(45,008)	(5,737)	(6,161)	(6,928)
Financing						
Net borrowings	6,619	(2,004)	9,227	0	0	0
Proceeds from share issues	0	19,908	0	0	0	0
Share repurchases	(2,932)	(455)	(7,007)	0	0	0
Others	(566)	8,767	2,278	0	0	0
Net cash from financing	3,121	26,216	4,499	0	0	0
Net change in cash						
Cash at the beginning of the year	30,230	25,920	54,752	23,512	32,701	44,409
Exchange difference	(1,583)	(517)	0	0	0	0
Cash at the end of the year	25,920	54,752	23,512	32,701	44,409	56,886
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	17.7%	19.4%	33.5%	(12.6%)	7.4%	12.5%
Gross profit	28.7%	28.7%	58.5%	(17.0%)	10.9%	13.9%
EBIT	882.9%	104.4%	8.3%	(96.1%)	1,206.7%	15.7%
Net profit	(25.0%)	101.1%	(5.1%)	(96.2%)	1,547.9%	14.9%
Adj. net profit	31.9%	12.8%	69.5%	(59.7%)	54.7%	13.3%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	13.9%	14.9%	17.7%	16.9%	17.4%	17.6%
Adj. net profit margin	5.6%	5.3%	6.7%	3.1%	4.5%	4.5%
Return on equity (ROE)	13.2%	19.8%	14.8%	0.5%	8.5%	8.9%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	0.9	0.6	1.0	0.7	0.8	0.5
Current ratio (x)	1.5	1.6	1.6	1.7	1.6	1.8
Receivable turnover days	11.1	12.7	15.6	12.0	12.0	12.0
Inventory turnover days	63.9	64.8	63.6	45.4	45.4	45.4
Payable turnover days	108.9	115.0	99.2	94.6	94.6	94.6
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	20.8	17.4	26.8	25.1	16.2	14.3
P/E (diluted)	18.1	27.3	23.5	25.1	16.2	14.3
P/B	2.6	2.9	3.8	1.6	1.5	1.4
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Note: The calculation of net cash includes financial assets. Source: Company data, CMBIGM estimates

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