

Xiaomi (1810 HK)

4Q22 preview: a challenging quarter but the worst is likely over; Maintain BUY

Xiaomi will report 4Q22 results in late March. We estimate 4Q revenue/adj. net profit to decline 23%/70% YoY to RMB65.5bn/1.33bn, mainly driven by global smartphone weakness, higher R&D expense for smart EV and one-off charges for warranty policy change. Looking ahead, we believe 4Q22E weakness has been priced in, and smartphone sales is poised to recover sequentially in 1Q23E, driven by China re-opening and improving channel inventory. Overall, we believe the worst is likely over for Xiaomi's earnings decline, and we adjusted our TP to HK\$14.73, based on P/E multiple of 24x FY23E P/E (vs prev. 20x FY23E P/E). Maintain BUY. Catalysts include EV progress and market share gain.

- Smartphone: sluggish shipment but accelerated inventory destocking in 4Q22.** Canals reported Xiaomi's global shipment declined 27% YoY in 4Q22 (vs -18% YoY for industry), and had market share of 11% in 4Q (No. 1 among Chinese brands). Xiaomi's 4Q22 weakness was mainly dragged by 40%/37% YoY decline in India/China. In terms of ASP, we estimate 4Q22 ASP to improve QoQ due to better product mix and flagship launches (e.g. Mi 13 Pro) in 4Q22. Looking ahead, we are positive on Xiaomi's diversified overseas exposure and accelerated inventory destocking in 2H22E. We expect Xiaomi's shipment to stay flattish YoY to 150mn in FY23E and grow 4% YoY to 156mn in FY24E, while ASP will grow -1%/+13% in FY23/24E.
- AIoT/internet: macro weakness on AIoT and ads business.** We estimate AIoT/Internet revenue to decline 16%/3% YoY in 4Q22E (vs -9%/ -3.7% YoY in 3Q22), mainly due to macro weakness and lower ads spending from major clients. We expect AIoT GPM to recover QoQ to 14% in 4Q (vs 13.5% in 3Q) given lower TV panel pricing, while AIoT GPM will slightly drop QoQ to 70.0% (vs 72.1% in 3Q). Looking ahead, backed by China re-opening and policy easing on gaming/ads sectors, we expect both AIoT/Internet segments to deliver gradual recovery in 2023. Our FY23E EPS is 10% above consensus mainly due to better mix of higher-GPM internet service.
- The worst is likely over; Raise TP to HK\$14.73 on higher visibility of earnings recovery.** Despite near-term macro weakness, we believe the worst is likely over for Xiaomi's earnings decline, and revenue/earnings will start to recover QoQ in 1Q23E, driven by China re-opening and healthy inventory level in China/India. As such, we adjusted our TP to HK\$14.73, based on higher 24x FY23E P/E (7% discount to 5-year avg. P/E) given post-COVID earnings recovery and improving sector sentiment. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	245,866	328,309	279,547	290,990	338,541
YoY growth (%)	19.4	33.5	(14.9)	4.1	16.3
Adjusted net profit (RMB mn)	13,006	22,039	8,288	13,153	14,732
EPS (Adjusted) (RMB)	0.54	0.88	0.33	0.53	0.59
Consensus EPS (RMB)	11.7	63.1	(62.4)	58.7	12.0
P/E (x)	NA	NA	0.36	0.48	0.61
P/B (x)	20.3	12.5	33.2	20.9	18.7
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	10.5	16.0	6.1	9.1	9.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$14.73**
(Previous TP) HK\$12.28
Up/Downside **15%**
Current Price **HK\$12.82**

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Stock Data

Mkt Cap (HK\$ mn)	274,210.2
Avg 3 mths t/o (HK\$ mn)	11.1
52w High/Low (HK\$)	16.82/8.45
Total Issued Shares (mn)	20342.0

Source: FactSet

Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.6%

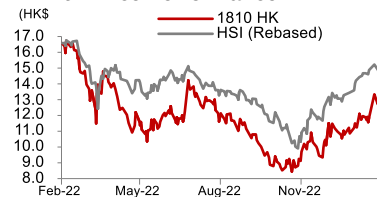
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	20.1%	11.7%
3-mth	47.8%	4.7%
6-mth	16.2%	6.0%

Source: FactSet

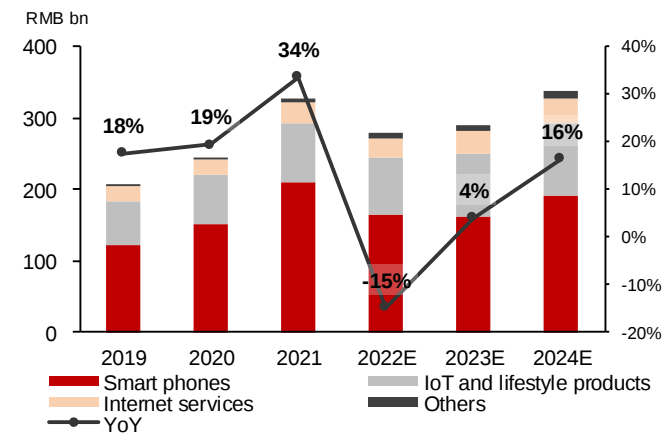
12-mth Price Performance



Source: FactSet

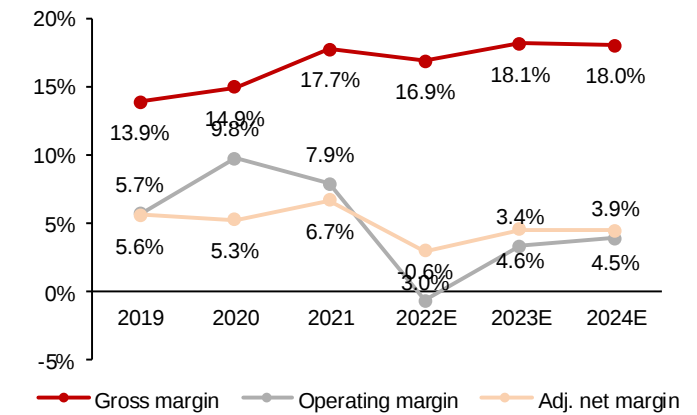
Focus Charts

Figure 1: Xiaomi's revenue trend



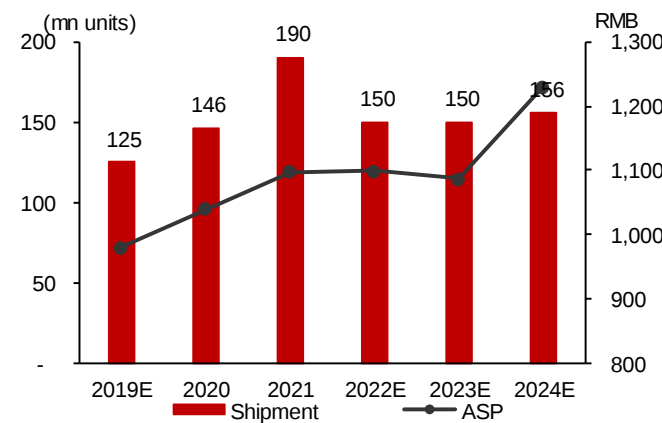
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi's margin trend



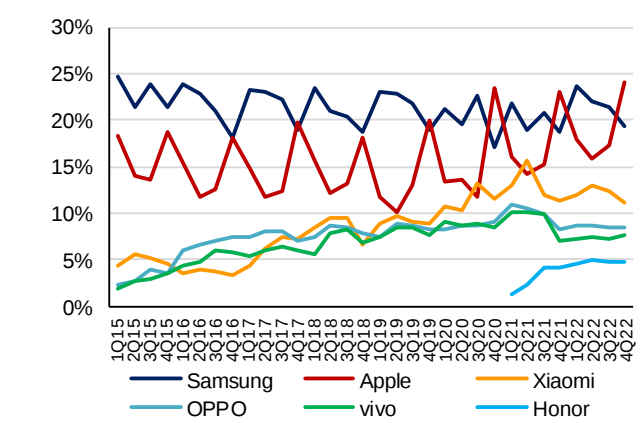
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi's smartphone shipment forecast



Source: Xiaomi, CMBIGM estimates

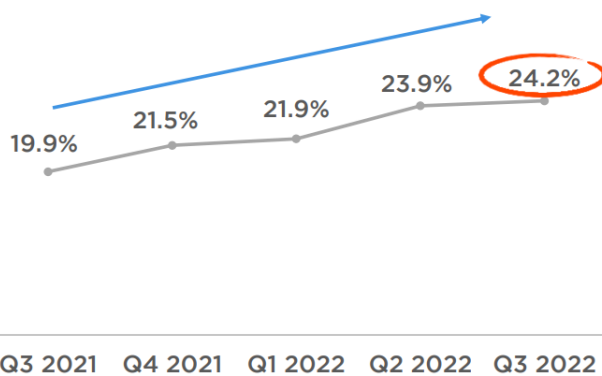
Figure 4: Global smartphone market share



Source: IDC, CMBIGM estimates

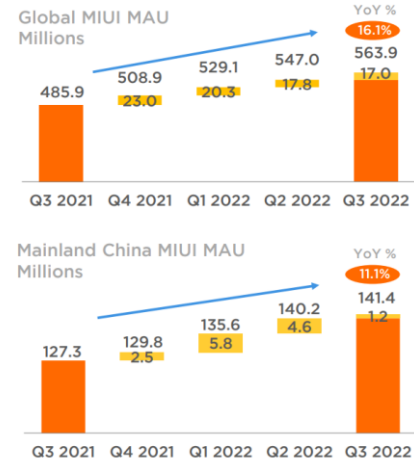
Figure 5: Overseas internet service revenue growth

Overseas Internet Services Revenue
as % of Total Internet Services Revenue



Source: Company data, CMBIGM estimates

Figure 6: Xiaomi's solid MIUI MAU growth



Source: Company data, CMBIGM estimates

4Q22 Preview

Figure 7: 4Q22 results preview

RMB mn	4Q21	1Q22	2Q22	3Q22	CMBI Estimate		Consensus		
					4Q22E	QoQ	YoY	4Q22E	Diff %
Revenue	85,575	73,352	70,171	70,474	65,550	-7.0%	-23%	70,116	-7%
Gross profit	14,659	12,710	11,768	11,722	11,009	-6.1%	-25%	11,768	-6%
Operating profit	4,416	(911)	1,733	(1,361)	(1,212)	-10.9%	-127%	1,401	-187%
Adj. net profit	4,473	2,859	2,081	2,117	1,339	-36.8%	-70%	1,741	-23%
Adj. EPS (RMB)	0.18	(0.02)	0.08	0.08	0.05	-36.8%	-70%	0.07	-19%
Gross margin	17.1%	17.3%	16.8%	16.6%	16.8%	0.2 ppt	-0.3 ppt	16.8%	0 ppt
Operating margin	5.2%	-1.2%	2.5%	-1.9%	-1.8%	0.1 ppt	-7 ppt	2.0%	-3.8 ppt
Adj. net margin	5.2%	3.9%	3.0%	3.0%	2.0%	-1 ppt	-3.2 ppt	2.5%	-0.4 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	FY21	1Q22	2Q22	3Q22	4Q22E	FY22E	FY23E	FY24E
Smart phones	208,869	45,763	42,268	42,514	34,613	165,158	162,905	191,341
...YoY	37%	-11%	-28%	-11%	-31%	-21%	-1%	17%
Shipment (mn)	190,300	38,500	39,100	40,200	32,500	150,300	150,020	155,561
...YoY	30%	-22%	-26%	-8%	-26%	-21%	0%	4%
ASP (RMB)	1,098	1,189	1,082	1,058	1,065	1,099	1,086	1,230
...YoY	5.6%	14.0%	-3.1%	-3.0%	-6.9%	0.1%	-1.2%	13.3%
IoT and lifestyle products	84,980	19,477	19,812	19,059	20,992	79,339	87,906	100,807
...YoY	26%	7%	-4%	-9%	-16%	-7%	11%	15%
Smart TVs and laptops	27,993	6,200	5,300	5,800	8,604	25,904	28,509	32,500
...YoY	25%	11%	-12%	-2%	-18%	-7%	10%	14%
Other IoTs	56,987	13,277	14,512	13,259	12,388	53,435	59,397	68,307
...YoY	27%	5%	-2%	-12%	-15%	-6%	11%	15%
Internet services	28,212	7,112	6,971	7,067	7,032	28,182	31,251	34,787
...YoY	19%	8%	-1%	-4%	-3%	0%	11%	11%
Advertising services	18,100	4,525	4,539	4,671	4,756	18,491	20,582	23,052
...YoY	42%	16%	1%	-3%	-3%	2%	11%	12%
Internet value-added	10,112	2,588	2,432	2,396	2,276	9,692	10,668	11,735
...YoY	-9%	-3%	-4%	-6%	-4%	-4%	10%	10%
Gaming	3,923	1,157	942	1,018	927	4,044	4,460	4,906
...YoY	-7%	3%	5%	2%	3%	3%	10%	10%
Other (incl. Youpin fintech, etc.)	6,189	1,431	1,490	1,378	1,349	5,648	6,208	6,829
...YoY	-10%	-8%	-8%	-11%	-8%	-9%	10%	10%
Others	6,248	999	1,120	1,835	2,914	6,868	8,928	11,606
...YoY	149%	73%	20%	-7%	5%	10%	30%	30%
Total	328,309	73,352	70,171	70,474	65,550	279,547	290,990	338,541
...YoY	34%	-5%	-20%	-10%	-23%	-15%	4%	16%
Gross margin								
Smart phones	11.9%	9.9%	8.7%	8.9%	8.0%	8.9%	9.6%	9.8%
IoT and lifestyle products	13.1%	15.6%	14.3%	13.5%	14.0%	14.3%	14.4%	14.5%
Internet services	74.1%	70.8%	73.0%	72.1%	70.0%	71.5%	71.8%	71.5%
Others	22.6%	12.0%	16.7%	15.0%	13.0%	13.9%	19.0%	19.0%
Total	17.7%	17.3%	16.8%	16.6%	16.8%	16.9%	18.0%	17.9%

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY22-24E adj. NP are -7%/+9%/-2% vs consensus

We trimmed FY22-24E adj. NP by 5-7% to reflect lower smartphone forecasts and GPM. We estimate smartphone sales mix will decrease to 56% in 2023E from 59% in 2022E, while sales mix of higher-margin IoT/internet will increase to 30%/11% in 2023E from 28%/10% in 2022E. Our FY23E EPS is 10% above consensus mainly due to better mix of higher-GPM internet service.

Figure 9: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	279,547	290,990	338,541	286,870	308,047	346,419	-3%	-6%	-2%
Gross profit	47,209	52,362	60,446	48,367	53,650	61,089	-2%	-2%	-1%
Operating profit	(1,752)	9,567	12,759	1,028	13,431	15,536	-270%	-29%	-18%
Adj. net profit	8,288	13,153	14,732	8,878	13,734	15,554	-7%	-4%	-5%
Adj. EPS (RMB)	0.33	0.53	0.59	0.36	0.55	0.62	-7%	-4%	-5%
Gross margin	16.9%	18.0%	17.9%	16.9%	17.4%	17.6%	0 ppt	0.6 ppt	0.2 ppt
Operating margin	-0.6%	3.3%	3.8%	0.4%	4.4%	4.5%	-1 ppt	-1.1 ppt	-0.7 ppt
Adj. net margin	3.0%	4.5%	4.4%	3.1%	4.5%	4.5%	-0.1 ppt	0.1 ppt	-0.1 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	279,547	290,990	338,541	286,965	313,016	343,974	-3%	-7%	-2%
Gross profit	47,209	52,362	60,446	48,400	54,619	60,979	-2%	-4%	-1%
Operating profit	(1,752)	9,567	12,759	4,452	12,584	16,108	-139%	-24%	-21%
Adj. net profit	8,288	13,153	14,732	8,872	11,999	14,868	-7%	10%	-1%
Adj. EPS (RMB)	0.33	0.53	0.59	0.36	0.48	0.61	-7%	9%	-2%
Gross margin	16.9%	18.0%	17.9%	16.9%	17.4%	17.7%	0 ppt	0.5 ppt	0.1 ppt
Operating margin	-0.6%	3.3%	3.8%	1.6%	4.0%	4.7%	-2.2 ppt	-0.7 ppt	-0.9 ppt
Adj. net margin	3.0%	4.5%	4.4%	3.1%	3.8%	4.3%	-0.1 ppt	0.7 ppt	0 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	65,550	279,547	290,990	338,541
...YoY	34%	-5%	-20%	-10%	-23%	-15%	4%	16%
Cost of sales	(270,048)	(60,642)	(58,403)	(58,752)	(54,541)	(232,338)	(238,628)	(278,094)
Gross profit	58,261	12,710	11,768	11,722	11,009	47,209	52,362	60,446
GPM (%)	17.7%	17.3%	16.8%	16.6%	16.8%	16.9%	18.0%	17.9%
...YoY	59%	-10%	-22%	-18%	-25%	-19%	11%	15%
SG&A	(25,720)	(6,501)	(6,648)	(6,138)	(7,014)	(26,300)	(26,733)	(30,807)
...% of rev	-7.8%	-8.9%	-9.5%	-8.7%	-10.7%	-9.4%	-9.2%	-9.1%
R&D	(13,167)	(3,495)	(3,763)	(4,070)	(3,933)	(15,261)	(16,109)	(16,927)
...% of rev	-4.0%	-4.8%	-5.4%	-5.8%	-6.0%	-5.5%	-5.5%	-5.0%
Operating profit	26,029	(911)	1,733	(1,361)	(1,212)	(1,752)	9,567	12,759
OPM (%)	7.9%	-1.2%	2.5%	-1.9%	-1.8%	-0.6%	3.3%	3.8%
...YoY	8%	-111%	-84%	na	na	na	na	33%
Adj. net profit	22,039	2,859	2,081	2,117	1,339	8,288	13,153	14,732
NPM (%)	6.7%	3.9%	3.0%	3.0%	2.0%	3.0%	4.5%	4.4%
...YoY	69%	-53%	-67%	-59%	-70%	-62%	59%	12%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$14.73 (15% upside)

Our new TP of HK\$14.73 is based on higher 24x FY23E P/E (vs prior 20x P/E), which is 7% discount to 5-year avg. P/E. We adopted higher P/E multiple as we believe smartphone market will bottom out in 1Q23 after China re-opening and easing destocking pressure, and Xiaomi revenue/earnings will recover sequentially in 1Q23E.

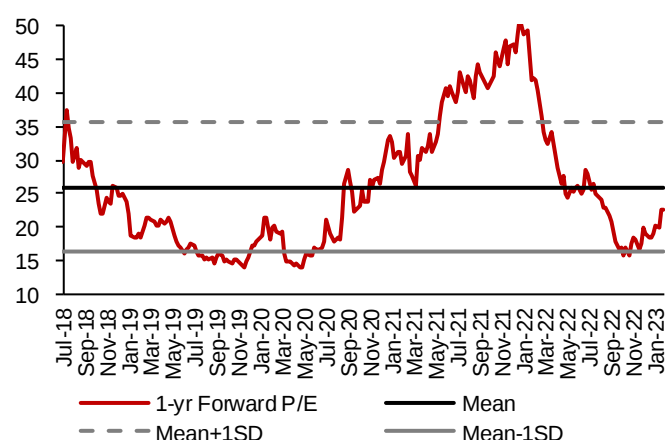
We believe the stock's closest peers are Apple/Samsung, which share similar smartphone+IoT+internet business model. Both of them trade at 25x or above forward P/E. For HK-listed peers, sector leaders like Sunny Optical trades at above 27x forward P/E. Catalysts include product launch, stronger shipment, 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	40,766	12.8	14.7	15%	33.2	20.9	2.7	2.6	6.1	9.1
Sunny Optical	2382 HK	Hold	14,608	104.5	96.3	-8%	38.6	27.2	4.4	3.9	11.5	14.4
AAC Tech	2018 HK	Hold	3,108	20.4	15.4	-24%	27.7	17.1	1.0	1.0	3.5	5.6
BYDE	285 HK	Hold	7,667	26.7	20.4	-24%	32.8	19.5	2.1	1.9	6.4	9.9
FIT Hon Teng	6088 HK	Buy	2,053	2.2	1.8	-17%	10.8	9.6	0.8	0.7	6.9	7.4
Tongda	698 HK	Buy	166	0.1	0.2	64%	4.5	3.4	0.1	0.1	2.3	3.0
Q tech	1478 HK	Buy	815	5.4	5.8	7%	24.2	10.1	1.2	1.1	4.8	10.6
TK Group	2283 HK	Buy	179	1.7	3.4	100%	4.1	3.3	0.8	0.7	18.6	20.7
Average							24.7	15.5	1.7	1.5	5.9	8.6
Smartphone												
Apple	AAPL US	NR	2,444,491	154.5	NA	NA	25.3	25.5	44.2	42.7	160.8	162.7
Lenovo	992 HK	NR	9,753	6.3	NA	NA	5.1	5.3	1.9	1.5	44.4	32.5
Samsung	005930 KS	NR	292,329	61,600.0	NA	NA	11.4	24.8	1.2	1.2	11.4	4.9
LG Elec	066570 KS	NR	13,217	101,600.0	NA	NA	10.2	9.9	0.9	0.8	9.4	8.6
Average							13.0	16.4	12.1	11.6	56.5	52.2
IoT												
Skyworth	751 HK	NR	1,608	4.9	NA	NA	9.3	6.6	0.6	0.5	3.5	3.5
Hisense	600060 CH	NR	2,952	15.3	NA	NA	11.8	10.3	1.1	1.0	9.6	10.4
Midea	000333 CH	NR	52,870	51.3	NA	NA	11.8	10.7	2.5	2.2	21.4	20.4
Gree	000651 CH	NR	28,101	33.8	NA	NA	7.4	6.8	1.7	1.5	22.8	22.2
Average							10.1	8.6	1.5	1.3	14.3	14.2

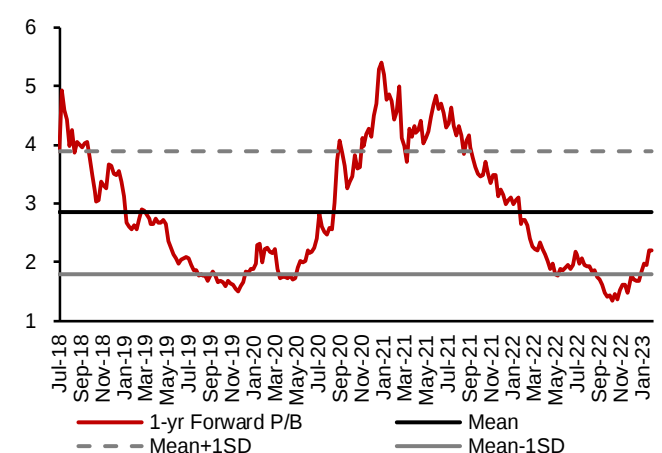
Source: Bloomberg, CMBIGM

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	279,547	290,990	338,541
Cost of goods sold	(177,285)	(209,114)	(270,048)	(232,338)	(238,628)	(278,094)
Gross profit	28,554	36,752	58,261	47,209	52,362	60,446
Selling expense	(10,378)	(14,539)	(20,981)	(21,370)	(21,717)	(25,391)
Admin expense	(3,104)	(3,746)	(4,739)	(4,930)	(5,016)	(5,417)
R&D expense	(7,493)	(9,256)	(13,167)	(15,261)	(16,109)	(16,927)
Other income	1,266	643	827	752	752	752
Gain/loss on financial assets at FVTPL	3,813	13,173	8,132	(6,228)	(800)	(800)
Investment gain/loss	(672)	1,381	275	(669)	251	251
EBIT	11,760	24,035	26,029	(1,752)	9,567	12,759
Net Interest income/(expense)	402	(1,641)	(1,612)	699	276	276
Foreign exchange gain/loss	(226)	(372)	(2,580)	(1,255)	(156)	(156)
Others	0	0	0	0	0	0
Pre-tax profit	12,163	21,633	24,417	(1,053)	9,843	13,034
Income tax	(2,060)	(1,321)	(5,134)	(610)	(1,216)	(1,629)
Minority interest	59	(43)	(56)	56	(39)	(33)
Net profit	10,103	20,313	19,283	(1,663)	8,626	11,405
Adjusted net profit	11,532	13,006	22,039	8,288	13,153	14,732
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	152,211	190,111	186,876
Cash & equivalents	25,920	54,752	23,512	29,897	37,054	49,481
Account receivables	19,672	19,080	23,095	10,419	23,078	14,223
Inventories	32,585	41,671	52,398	25,048	43,131	36,324
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	111,250	114,044	117,083
PP&E	6,992	6,306	6,965	11,174	13,968	17,007
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	263,461	304,155	303,958
Current liabilities	92,181	107,927	115,727	86,922	118,989	107,387
Short-term borrowings	12,837	6,962	5,527	5,527	5,527	5,527
Account payables	59,528	72,199	74,643	45,837	77,905	66,303
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	126,654	158,721	147,119
Share capital	388	409	407	407	407	407
Other reserves	81,330	123,691	137,212	135,494	144,159	155,597
Total shareholders equity	81,658	124,014	137,432	135,770	144,396	155,801
Minority interest	327	322	220	276	237	204
Total equity and liabilities	183,629	253,680	292,892	262,423	303,117	302,921

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	12,163	21,633	24,417	(1,053)	9,843	13,034
Depreciation & amortization	1,381	1,708	3,062	2,419	3,026	3,732
Tax paid	(2,242)	(1,126)	(2,442)	(610)	(1,216)	(1,629)
Change in working capital	9,553	4,320	(15,725)	11,220	1,325	4,060
Others	2,956	(4,658)	474	0	0	0
Net cash from operations	23,810	21,879	9,785	11,976	12,977	19,197
Investing						
Capital expenditure	(3,405)	(3,026)	(7,169)	(5,591)	(5,820)	(6,771)
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)	(5,591)	(5,820)	(6,771)
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	29,897	37,054
Exchange difference	(1,583)	(517)	0	0	0	0
Cash at the end of the year	25,920	54,752	23,512	29,897	37,054	49,481

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

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