

Xiaomi (1810 HK)

2Q24E preview: expect resilient core earnings with better EV profitability; Reiterate BUY

Xiaomi will report 2Q24 results in late August. We estimate 2Q revenue/adj. net income of RMB 89.2bn/5.1bn (+30%/flattish YoY), 6%/15% above consensus, mainly driven by strong smartphone sales, strength in AIoT/internet and better EV sales with improving profitability. Looking ahead into 2H24E, we are positive on Xiaomi's global smartphone share gains backed by multiple product launches and expansion in LATAM/EMEA/SEA, and overseas AIoT growth, despite BOM cost hike in the near term. Overall, we are confident on Xiaomi's resilient core earnings and more EV models with better profitability in FY25/26E. Reiterate BUY with new SOTP-based TP of HK\$ 24.29, implying 25.5x FY24E P/E.

- Smartphone: strong shipment and share gains despite near-term GPM headwinds.** Canalys reported Xiaomi's global shipment grew 27% YoY (vs 12% YoY for the industry) with global market share of 15% (vs 13% in 2Q23). Xiaomi's strong 2Q24 smartphone shipment was driven by both overseas and domestic markets with outstanding 618 festival sales. We estimate a lower ASP due to promotion and slight drop in margin to 12.2% due to BOM cost hikes. Looking ahead, we are positive on Xiaomi's share gain momentum in key emerging markets (e.g. Mid-East, LATAM) and multiple model launches in 2H24E. We expect Xiaomi's shipment to increase 16% YoY to 169mn units in FY24E.
- AIoT overseas expansion, solid internet sales and stronger EV with better mix.** We estimate AIoT/Internet revenue to increase 21%/9% YoY in 2Q24 (vs +21%/15% in 1Q24), mainly driven by stronger air conditioner seasonality, tablet sales and expanding global user base. We expect AIoT GPM to maintain at 19.6% (vs 19.9% in 1Q) due to favourable product mix (more tablets and home appliances), and Internet GPM will remain resilient at 75.0%. With the first reported financials of EV business in 2Q24, we estimate Xiaomi's 2Q EV shipment of 26k units and higher ASP of RMB 230k, as model mix is shifting towards more premium model (SU7 Max).
- Recent correction offers good buying opportunities, reiterate BUY.** We believe recent market concerns on smartphone GPM and AIoT/internet slowdown are overdone, since we expect FY24E smartphone GPM to stay at high-end range of 9-13% given premiumization strategy and strategic component inventory. The stock now trades at 17.0x/14.8x FY24/25E P/E, which is attractive. Earnings upside is likely on further SP share gains and SU7's better margin. Reiterate BUY with new TP of HK\$ 24.29, implying 25.5x FY24E P/E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	280,044	270,970	343,507	380,506	418,218
YoY growth (%)	(14.7)	(3.2)	26.8	10.8	9.9
Adjusted net profit (RMB mn)	8,518.0	19,272.8	21,784.5	25,038.6	29,035.1
YoY growth (%)	(61.4)	126.3	13.0	14.9	16.0
EPS (Adjusted) (RMB)	0.34	0.77	0.88	1.01	1.17
Consensus EPS (RMB)	0.35	0.77	0.74	0.83	1.01
P/E (x)	43.3	19.2	17.0	14.8	12.7
P/B (x)	2.6	2.3	2.0	1.8	1.6
ROE (%)	1.8	11.3	9.9	10.7	11.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$24.29**
 (Previous TP **HK\$25.39**)
 Up/Downside **51.0%**
 Current Price **HK\$16.08**

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Stock Data

Mkt Cap (HK\$ mn)	327,099.4
Avg 3 mths t/o (HK\$ mn)	1,777.2
52w High/Low (HK\$)	19.98/11.32
Total Issued Shares (mn)	20342.0

Source: FactSet

Shareholding Structure

Lin Bin	8.6%
Smart Mobile Holdings Ltd	8.6%

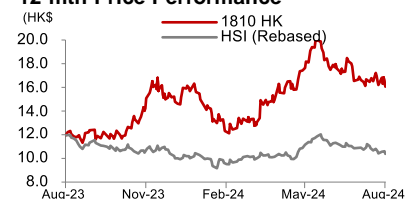
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.5%	1.2%
3-mth	-8.8%	-2.1%
6-mth	31.8%	20.8%

Source: FactSet

12-mth Price Performance



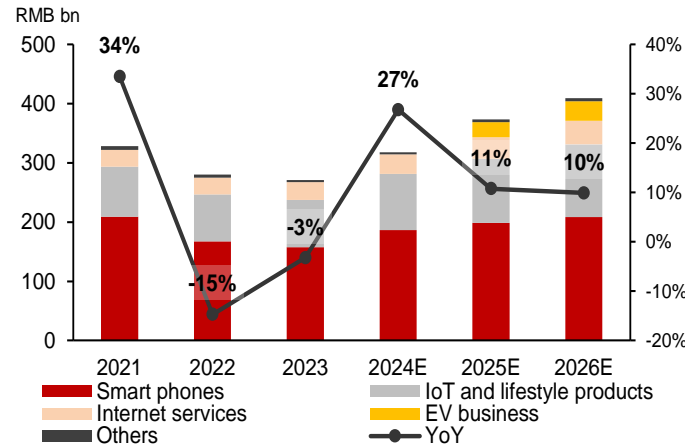
Source: FactSet

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- CMBI Corp Day takeaways: Growth outlook intact; market concerns overdone- 28 Jun 2024 ([link](#))
- 1Q24 beat on strong margins; Positive on upbeat SU7 delivery target - 24 May 2024 ([link](#))
- 1Q24E preview: Expect strong earnings ahead; Raise TP to HK\$ 23.77 - 9 May 2024 ([link](#))
- Key takeaways from Xiaomi Investor Day - 24 Apr 2024 ([link](#))

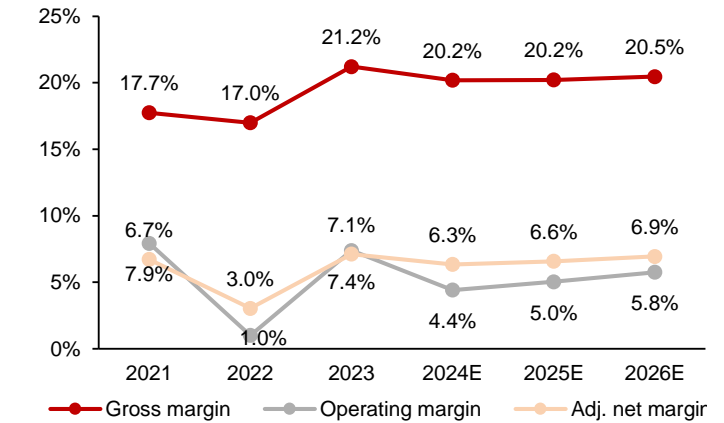
Focus Charts

Figure 1: Xiaomi revenue trend



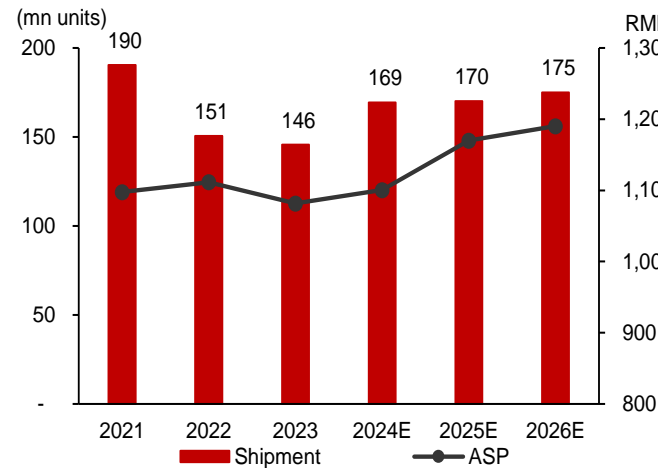
Source: Company data, CMBIGM estimates

Figure 2: Xiaomi margin trend



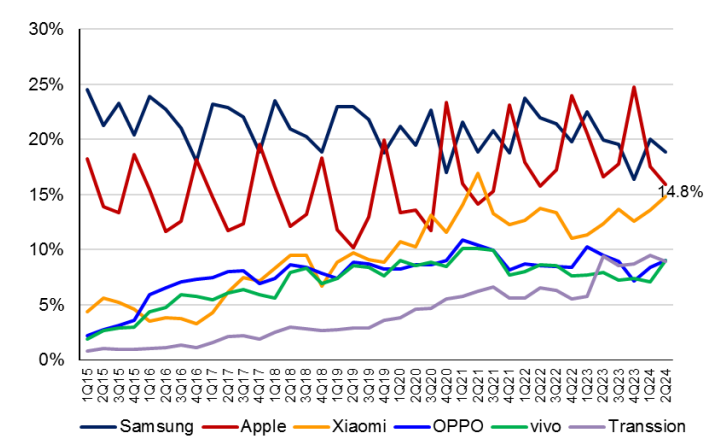
Source: Company data, CMBIGM estimates

Figure 3: Xiaomi smartphone shipment forecast



Source: Company data, CMBIGM estimates

Figure 4: Global smartphone market share



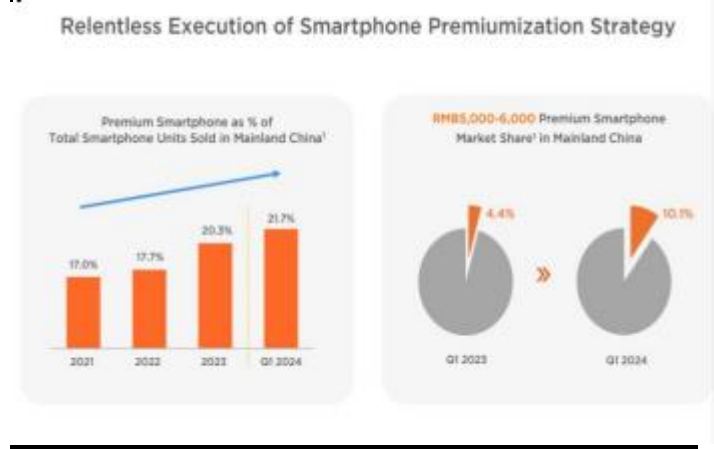
Source: IDC, CMBIGM

Figure 5: Global smartphone market share gains



Source: Company data, CMBIGM

Figure 6: Smartphone premiumization strategy



Source: Company data, CMBIGM

2Q24 Preview

Figure 7: 2Q24 results preview

RMB mn	1Q23	2Q23	3Q23	4Q24	CMBIGM Estimate			Consensus		
					1Q24	2Q24E	QoQ	YoY	2Q24E	Diff %
Revenue	59,477	67,355	70,894	73,244	75,507	89,226	18.2%	32%	84,552	6%
Gross profit	11,592	14,161	16,110	15,614	16,830	17,708	5.2%	25%	16,641	6%
Operating profit	5,900	4,041	5,011	5,057	3,683	4,128	12.1%	2%	3,952	4%
Adj. net profit	3,233	5,140	5,990	4,910	6,491	5,116	-21.2%	0%	4,459	15%
Adj. EPS (RMB)	0.13	0.21	0.24	0.20	0.26	0.21	-20.7%	0%	0.17	23%
Gross margin	19.5%	21.0%	22.7%	21.3%	22.3%	19.8%	-2.4 ppt	-1.2 ppt	19.7%	0.2 ppt
Operating margin	9.9%	6.0%	7.1%	6.9%	4.9%	4.6%	-0.3 ppt	-1.4 ppt	4.7%	0 ppt
Adj. net margin	5.4%	7.6%	8.4%	6.7%	8.6%	5.7%	-2.9 ppt	-1.9 ppt	5.3%	0.5 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: Revenue breakdown

RMB mn	FY23	1Q24	2Q24E	3Q24E	4Q24E	FY24E	FY25E	FY26E
Smart phones	157,461	46,480	46,953	45,675	47,300	186,408	198,900	208,250
...YoY	-6%	33%	28%	10%	7%	18%	7%	5%
Shipments (000 units)	145,600	40,600	42,300	43,500	43,000	169,400	170,000	175,000
...YoY	-3%	34%	29%	4%	6%	16%	0%	3%
ASP (RMB)	1,081	1,145	1,110	1,050	1,100	1,100	1,170	1,190
...YoY	-2.7%	-0.6%	-0.2%	5.4%	0.7%	1.8%	6.3%	1.7%
IoT and lifestyle products	80,108	20,373	26,877	24,061	23,601	94,913	108,128	123,223
...YoY	0%	21%	21%	16%	16%	18%	14%	14%
Smart TVs and laptops	19,482	4,656	4,935	5,231	5,610	20,433	22,476	24,723
...YoY	-18%	-1%	-1%	3%	10%	5%	10%	10%
Other IoTs	60,626	15,717	21,942	18,829	17,991	74,480	85,652	98,500
...YoY	8%	30%	40%	23%	18%	23%	15%	15%
Internet services	30,107	8,048	8,142	8,268	8,398	32,856	36,142	39,756
...YoY	6%	15%	9%	7%	7%	9%	10%	10%
Advertising services	20,500	5,500	5,610	5,724	5,936	22,770	25,047	27,552
...YoY	11%	25%	10%	6%	6%	11%	10%	10%
Internet value-added	9,607	2,548	2,532	2,544	2,462	10,086	11,095	12,204
...YoY	-2%	-3%	8%	8%	8%	5%	10%	10%
Gaming	4,387	1,200	1,094	1,161	1,030	4,485	4,933	5,427
...YoY	7%	-11%	8%	8%	8%	2%	10%	10%
Other (incl. Youpin fintech, etc.)	5,220	1,348	1,438	1,383	1,432	5,601	6,161	6,777
...YoY	-9%	5%	8%	8%	8%	7%	10%	10%
EV Business						25,530	32,775	41,515
Others	3,294	605	1,274	980	942	3,801	4,561	5,473
...YoY	-30%	-4%	20%	20%	20%	15%	20%	20%
Total	270,970	75,507	89,226	87,034	91,741	343,507	380,506	418,218
...YoY	-3%	27%	32%	23%	25%	27%	11%	10%
Gross margin								
Smart phones	14.6%	14.8%	12.2%	11.9%	11.9%	12.7%	13.0%	13.5%
IoT and lifestyle products	16.3%	19.9%	19.6%	19.3%	19.3%	19.5%	18.5%	18.0%
Internet services	74.2%	74.2%	75.0%	75.0%	75.0%	74.8%	74.5%	74.5%
EV Business	-	-	8.0%	9.0%	10.0%	9.2%	11.0%	12.0%
Others	-27.8%	-11.9%	10.0%	10.0%	10.0%	6.5%	11.0%	12.0%
Total	21.2%	22.3%	20.7%	20.7%	20.7%	19.5%	21.1%	21.4%

Source: Company data, CMBIGM estimates

Earnings Revision

Our FY24-25E adj. NP are 19%/21% above consensus

We trimmed FY24E adj. EPS by 5% to reflect lower smartphone margin. Our FY24/25E EPS are 19%/21% above consensus given our more positive view on EV business profitability, other core business strength and efficiency improvement in FY24/25E.

Figure 8: CMBIGM earnings revision

RMB mn	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	343,507	380,506	418,218	337,161	377,185	414,232	2%	1%	1%
Gross profit	69,367	76,893	85,551	71,259	77,530	84,980	-3%	-1%	1%
Operating profit	15,150	19,158	24,080	17,569	20,308	24,106	-14%	-6%	0%
Adj. net profit	21,785	25,039	29,035	22,974	25,196	28,277	-5%	-1%	3%
Adj. EPS (RMB)	0.88	1.01	1.17	0.92	1.01	1.14	-5%	-1%	3%
Gross margin	20.2%	20.2%	20.5%	21.1%	20.6%	20.5%	-0.9 ppt	-0.3 ppt	-0.1 ppt
Operating margin	4.4%	5.0%	5.8%	5.2%	5.4%	5.8%	-0.8 ppt	-0.3 ppt	-0.1 ppt
Adj. net margin	6.3%	6.6%	6.9%	6.8%	6.7%	6.8%	-0.5 ppt	-0.1 ppt	0.1 ppt

Source: Company data, CMBIGM estimates

Figure 9: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	343,507	380,506	418,218	334,039	381,867	430,934	3%	0%	-3%
Gross profit	69,367	76,893	85,551	67,527	76,057	87,200	3%	1%	-2%
Operating profit	15,150	19,158	24,080	15,588	19,288	24,229	-3%	-1%	-1%
Adj. net profit	21,785	25,039	29,035	18,357	20,464	25,233	19%	22%	15%
Adj. EPS (RMB)	0.88	1.01	1.17	0.74	0.83	1.01	19%	21%	15%
Gross margin	20.2%	20.2%	20.5%	20.2%	19.9%	20.2%	0 ppt	0.3 ppt	0.2 ppt
Operating margin	4.4%	5.0%	5.8%	4.7%	5.1%	5.6%	-0.3 ppt	0 ppt	0.1 ppt
Adj. net margin	6.3%	6.6%	6.9%	5.5%	5.4%	5.9%	0.8 ppt	1.2 ppt	1.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 11: P&L forecast

RMB mn	FY23	1Q24	2Q24E	3Q24E	4Q24E	FY24E	FY25E	FY26E
Revenue	270,970	75,507	89,226	87,034	91,741	343,507	380,506	418,218
...YoY	-3%	27%	32%	23%	25%	27%	11%	10%
Cost of sales	(213,494)	(58,677)	(71,518)	(69,931)	(74,015)	(274,141)	(303,613)	(332,667)
Gross profit	57,476	16,830	17,708	17,103	17,727	69,367	76,893	85,551
GPM (%)	21.2%	22.3%	19.8%	19.7%	19.3%	20.2%	20.2%	20.5%
...YoY	21%	45%	25%	6%	14%	21%	11%	11%
SG&A	(24,353)	(7,004)	(7,584)	(7,398)	(8,624)	(30,610)	(32,914)	(36,176)
...% of rev	-9.0%	-9.3%	-8.5%	-8.5%	-9.4%	-8.9%	-8.7%	-8.7%
R&D	(19,098)	(5,159)	(6,067)	(6,005)	(6,789)	(24,021)	(25,874)	(26,348)
...% of rev	-7.0%	-6.8%	-6.8%	-6.9%	-7.4%	-7.0%	-6.8%	-6.3%
Operating profit	20,009	3,683	4,128	3,726	3,613	15,150	19,158	24,080
OPM (%)	7.4%	4.9%	4.6%	4.3%	3.9%	4.4%	5.0%	5.8%
...YoY	610%	-38%	2%	-26%	-29%	-24%	26%	26%
Adj. net profit	19,273	6,491	5,116	5,212	5,002	21,785	25,039	29,035
NPM (%)	7.1%	8.6%	5.7%	6.0%	5.5%	6.3%	6.6%	6.9%
...YoY	126%	101%	0%	-13%	2%	13%	15%	16%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new SOTP-based TP of HK\$24.29

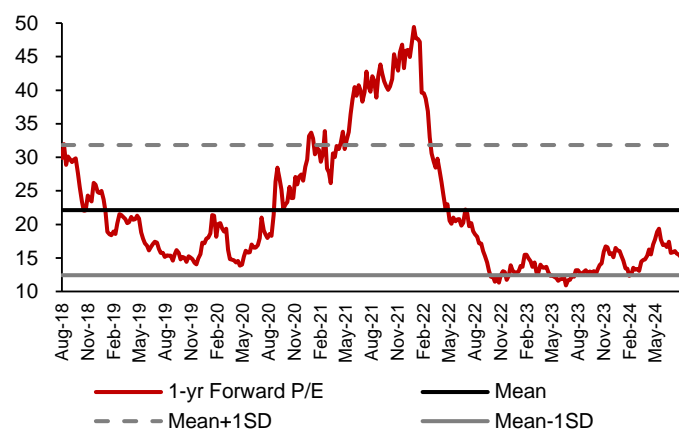
We derive a new SOTP-based TP of HK\$24.29 in order to reflect different growth profiles of Xiaomi's various businesses. We assign 15x/15x/15x FY24E P/E to its smartphone/AIoT/Internet businesses, in-line with its peers. For EV business, we assign 0.75x FY25E P/S, in-line with the average of its Chinese EV peers (Li Auto, Xpeng, NIO, BYD). Earnings upside is likely on further SP share gain and SU7's better margin.

Figure 12: Xiaomi – SOTP valuation

Business segment	FY24E Rev (RMB mn)	% of FY24E Core NP	FY24E Core NP (RMB mn)	Valuation methodology	Target multiple (x)	Valuation (RMB mn)
Smart phones	186,408	35%	10,926	P/E	15.0	163,891
AIoT and lifestyle products	94,913	28%	8,546	P/E	15.0	128,183
Internet services	32,856	37%	11,346	P/E	15.0	170,188
Others	3,801	0%	114	P/E	10.0	1,141
EV (FY25E)	32,775			P/S	0.75	24,581
						487,985
Investment (RMB mn)						68,000
Total (RMB mn)						555,985
No of shares (mn)						24,885
TP (RMB)						22.34
TP (HK\$)						24.29

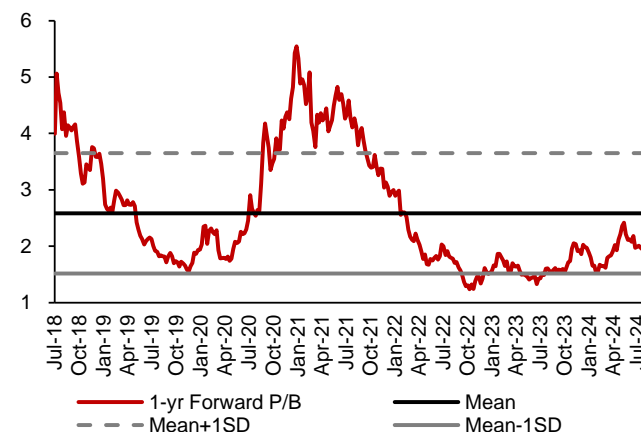
Source: Company data, CMBIGM estimates

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	328,309	280,044	270,970	343,507	380,506	418,218
Cost of goods sold	(270,048)	(232,467)	(213,494)	(274,141)	(303,613)	(332,667)
Gross profit	58,261	47,577	57,476	69,367	76,893	85,551
Selling expense	(20,981)	(21,323)	(19,227)	(24,347)	(26,255)	(28,857)
Admin expense	(4,739)	(5,114)	(5,127)	(6,263)	(6,659)	(7,319)
R&D expense	(13,167)	(16,028)	(19,098)	(24,021)	(25,874)	(26,348)
Other income	827	1,136	740	898	898	898
Gain/loss on financial assets at FVTPL	8,132	(1,662)	3,501	(1,179)	(1,179)	(1,179)
Investment gain/loss	275	(400)	46	334	334	334
EBIT	26,029	2,816	20,009	15,150	19,158	24,080
Net Interest income/(expense)	(1,612)	1,117	2,002	5,979	5,979	5,979
Foreign exchange gain/loss	(2,580)	(1,369)	1,697	361	1,000	1,000
Others	0	0	0	0	0	0
Pre-tax profit	24,417	3,934	22,011	21,130	25,137	30,059
Income tax	(5,134)	(1,431)	(4,537)	(3,973)	(4,727)	(5,653)
Minority interest	(56)	29	(1)	(22)	(26)	(31)
Net profit	19,283	2,503	17,474	17,156	20,410	24,407
Adjusted net profit	22,039	8,518	19,273	21,785	25,039	29,035
Net dividends	0	0	0	0	0	0
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	185,851	160,415	199,053	229,297	242,100	279,316
Cash & equivalents	23,512	27,607	33,631	20,832	59,880	54,167
Account receivables	23,095	19,625	21,924	31,972	25,623	35,744
Inventories	52,398	50,438	44,423	77,417	57,522	90,330
Prepayment	19,852	18,578	20,079	20,079	20,079	20,079
ST bank deposits	31,041	29,875	52,798	52,798	52,798	52,798
Financial assets at FVTPL	30,910	9,846	20,194	20,194	20,194	20,194
Other current assets	5,045	4,446	6,005	6,005	6,005	6,005
Non-current assets	107,040	113,092	125,195	130,067	134,997	139,931
PP&E	6,965	9,138	13,721	18,593	23,523	28,457
Deferred income tax	1,662	2,278	2,161	2,161	2,161	2,161
Investment in JVs & assos	10,231	7,932	6,922	6,922	6,922	6,922
Intangibles	5,579	4,630	8,629	8,629	8,629	8,629
Financial assets at FVTPL	50,114	55,980	60,200	60,200	60,200	60,200
Other non-current assets	32,490	33,134	33,562	33,562	33,562	33,562
Total assets	292,892	273,507	324,247	359,364	377,097	419,247
Current liabilities	115,727	89,628	115,588	133,548	130,871	148,614
Short-term borrowings	5,527	2,151	6,183	6,183	6,183	6,183
Account payables	74,643	53,094	62,099	80,059	77,381	95,125
Tax payable	2,335	1,384	1,838	1,838	1,838	1,838
Other current liabilities	33,222	32,999	45,467	45,467	45,467	45,467
Non-current liabilities	39,732	39,957	44,398	44,398	44,398	44,398
Long-term borrowings	20,720	21,493	21,674	21,674	21,674	21,674
Deferred income	1,203	983	1,494	1,494	1,494	1,494
Other non-current liabilities	17,809	17,480	21,230	21,230	21,230	21,230
Total liabilities	155,459	129,584	159,986	177,946	175,269	193,012
Share capital	407	406	407	407	407	407
Other reserves	137,212	143,658	163,995	181,173	201,610	226,048
Total shareholders equity	137,432	143,923	164,262	181,418	201,828	226,235
Minority interest	220	265	266	244	218	187
Total equity and liabilities	292,892	273,507	324,247	359,364	377,097	419,247

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	24,417	3,934	22,011	21,130	25,137	30,059
Depreciation & amortization	3,062	3,707	(1,383)	1,998	2,680	3,430
Tax paid	(2,442)	(3,420)	(4,083)	(3,973)	(4,727)	(5,653)
Change in working capital	(15,725)	(21,255)	25,862	(25,083)	23,568	(25,186)
Others	474	12,644	(1,107)	0	0	0
Net cash from operations	9,785	(4,390)	41,300	(5,929)	46,658	2,651
Investing						
Capital expenditure	(7,169)	(5,800)	(3,200)	(6,870)	(7,610)	(8,364)
Acquisition of subsidiaries/ investments	(1,086)	(25)	0	0	0	0
Net proceeds from disposal of short-term investments	166,947	23,136	0	0	0	0
Others	(203,699)	(1,763)	(31,969)	0	0	0
Net cash from investing	(45,008)	15,549	(35,169)	(6,870)	(7,610)	(8,364)
Financing						
Net borrowings	9,227	(2,791)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(7,007)	(2,386)	0	0	0	0
Others	2,278	(2,677)	(505)	0	0	0
Net cash from financing	4,499	(7,855)	(505)	0	0	0
Net change in cash						
Cash at the beginning of the year	55,580	24,339	27,607	33,631	20,832	59,880
Exchange difference	791	398	0	0	0	0
Cash at the end of the year	24,339	27,607	33,631	20,832	59,880	54,167
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	33.5%	(14.7%)	(3.2%)	26.8%	10.8%	9.9%
Gross profit	58.5%	(18.3%)	20.8%	20.7%	10.8%	11.3%
EBIT	8.3%	(89.2%)	610.4%	(24.3%)	26.5%	25.7%
Net profit	(5.1%)	(87.0%)	598.3%	(1.8%)	19.0%	19.6%
Adj. net profit	69.5%	(61.4%)	126.3%	13.0%	14.9%	16.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	17.7%	17.0%	21.2%	20.2%	20.2%	20.5%
Adj. net profit margin	6.7%	3.0%	7.1%	6.3%	6.6%	6.9%
Return on equity (ROE)	14.8%	1.8%	11.3%	9.9%	10.7%	11.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	1.0	0.7	0.8	0.9	0.6	na
Current ratio (x)	1.6	1.8	1.7	1.7	1.8	1.9
Receivable turnover days	15.6	19.4	16.1	12.0	12.0	12.0
Inventory turnover days	63.6	80.7	81.1	45.4	45.4	45.4
Payable turnover days	99.2	100.3	98.5	94.6	94.6	94.6
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	19.1	43.3	19.2	17.0	14.8	12.7
P/E (diluted)	16.8	43.3	19.2	17.0	14.8	12.7
P/B	2.7	2.6	2.3	2.0	1.8	ns
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

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

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