

1Q26 results preview: Handset gross margin expected to remain well controlled, locked orders for the new-generation SU7 continue to climb

Key takeaway

In the short term, memory prices are still rising rapidly, and the inflection point of the cost cycle may come after 2027, but benefiting from the company's earlier memory inventory build rhythm, proactive product mix adjustment, and price increases for some products starting in April, handset gross margin is expected to remain well controlled, but at the same time handset shipments face pressure due to relatively weak demand, a high base from last year under national subsidies, and the company's proactive contraction of mid- to low-end models. On the auto side, new orders for the new SU7 continue to progress, and as of May 6, locked orders for the new-generation SU7 exceeded 80,000 units within 48 days of launch, rising rapidly from the 70,000 units announced on May 2. Looking ahead to 2026, based on the industry cycle and cost pressure, we believe the company will prioritize raising handset ASP as its primary operational focus, while the new auto product cycle and capacity ramp-up are expected to form catalysts.

Brief analysis

The tapering of national subsidies, pressure from rising memory prices, and weak demand jointly suppress short-term performance. 1Q revenue is expected to reach RMB98.9bn (YoY -11%), and adjusted net profit is expected to reach RMB6bn (YoY -44%), slightly better than market expectations.

On the handset side, gross margin is well controlled, while shipments remain under pressure. According to IDC data, global smartphone shipments declined 4.1% YoY to 290mn units in 1Q26, Xiaomi smartphone shipments were 33.8mn units, YoY -19.1%, with a market share of 11.7%, down 2.1pcts YoY, mainly due to the company's proactive contraction of mid- to low-end models, a higher base in the same period last year under national subsidies, and the fact that more than half of Xiaomi's shipments are concentrated in the low-end price band below USD200, which is more significantly impacted by rising memory prices. On the one hand, the company proactively adjusts its product mix, and on the other hand Xiaomi officially announced price increases for some models starting in April (relatively later than peers), Xiaomi's handset ASP is expected to continue rising, with 1Q expected to increase about 7% YoY to above RMB1,300,

XIAOMI-W (1810.HK)

Maintain
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Current Price: HKD 31.12

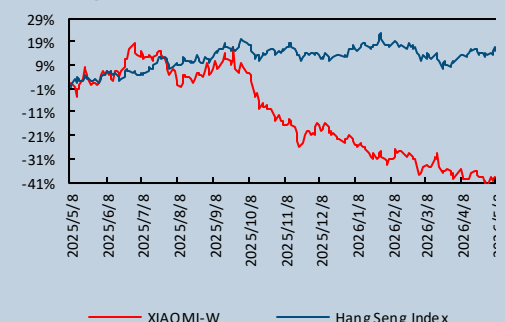
6-month TP: HKD 42.8

Main Data

Absolute/relative share performance (%)

1 month	3 months	12 months
0.78/-5.23	-11.54/-11.79	-39.63/-57.12
12-month high/low (HKD)		60.15/29.02
Total share capital (10,000 shares)		2,592,177.23
Tradable H shares (10,000 shares)		2,592,177.23
Total market cap (HKD'00mn)		8,066.86
Tradable market cap (HKD'00mn)		6,646.13
3-month average daily trading volume (10,000 shares)		16825.29
Main shareholders		
Smart Mobile Holdings Limited		22.66%

Share performance



while maintaining certain resilience in gross margin, and handset gross margin in 1Q is expected to increase QoQ to 9.5%-10%.

IoT & internet: Affected by the high base last year, 1Q26 IoT revenue is expected to decline YoY to RMB24.9bn (YoY -23%), basically flat QoQ versus 4Q25, with gross margin remaining stable YoY (25%). Internet revenue is expected to remain stable YoY, reaching RMB9.2bn.

Auto business is expected to record a loss due to purchase tax subsidy support and quarterly delivery fluctuations. 1Q deliveries reached 80k units, mainly the YU7 model, representing a temporary delivery trough. ASP declined QoQ by RMB15k. Affected by purchase tax subsidies, rising battery costs, and lower deliveries, gross margin is expected to decline to 20% in 1Q, and the auto and new businesses are expected to record an operating loss in 1Q. However, orders for the new-generation SU7 are ramping up rapidly: As of March 23/April 23/May 2/May 6, locked orders exceeded 30k/60k/70k/80k units respectively, indicating a rapid recovery in demand.

Earnings forecast and valuation: Revenue of XIAOMI-W (1810.HK) is expected to reach RMB477.9bn/RMB605.7bn in 2026/2027 (YoY +5%/+27%), with adjusted net profit of RMB30.7bn/RMB40.2bn (YoY -22%/+31%). We assign 20x 2026 PE to the company's core business and 2.5x 2026 PS to the auto business, with a target price of HKD42.8 and a "buy" rating.

Risks: New product shipments falling short of expectations; downward risks in the smartphone market, such as a decline in overall shipments and weaker new product promotions; inventory impairment provision risks; policy management risks, including domestic restrictions on internet business development; increased competition in overseas markets; strong cyclical nature of IoT, with weak demand; macroeconomic downturn leading to decreased demand for 3C products; impact of energy shortages in Europe; exchange rate fluctuation risks; geopolitical risks leading to business losses in certain countries; impact of macroeconomic conditions on internet business, with advertising revenue continuing to be under pressure; increasing R&D expenses for new product businesses such as automotive, leading to long-term pressure on profits.

Analysts

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		Underweight	Decrease by 5% -15% relative to the benchmark index
		Sell	Decrease by more than 15% relative to the benchmark index
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