

## 1Q26 earnings review: Continued increase in shareholder returns; Under short-term earnings pressure, focus on product cycle in 2H and progress in large models

### Key takeaway

Xiaomi Group released its 1Q26 results, with total revenue of RMB99.1bn (YoY -10.9%, QoQ -15.2%) and adjusted net profit of RMB6.1bn (YoY -43.1%, QoQ -4.4%). Operating loss from EV and other new businesses was RMB3.1bn, mainly due to lower vehicle deliveries and the impact of purchase tax subsidies. Adjusted net profit from core businesses was RMB9.2bn (YoY -18%). Short-term earnings were under pressure, mainly affected by memory price fluctuations, intensified industry competition, and a decline in vehicle deliveries. Despite short-term pressure on traditional core businesses under the broader industry cycle, the company continues to actively invest in AI. R&D spending in 1Q reached RMB9.0bn (YoY +33.4%), and the MiLM-V2.5 series large model was released and open-sourced in April. In addition, the company has been actively conducting share repurchases. Since the beginning of the year, the repurchase amount has reached HKD8.4bn, already exceeding the total for last year. The company also announced a new HKD20bn share repurchase plan for a 12-month period (the current share repurchase program will expire on June 2, 2026).

### Quick Take

**Smartphone business faces short-term pressure, while product mix continues to optimize to address the memory cycle.** Smartphone business revenue in 1Q was RMB44.3bn (YoY -12.5%). Shipments were 33.8mn units (YoY -19.2%). According to Omdia data, global smartphone shipments ranked third in 1Q with a market share of 11.3%, marking the 23rd consecutive quarter among the global top three. Smartphone ASP in 1Q increased 8.2% YoY to RMB1,310, a record high. This was mainly due to proactive product mix adjustments. Starting in April, Xiaomi officially announced price increases for certain models (relatively later than peers). For the full year, ASP is expected to continue rising. Smartphone gross margin in 1Q was 10.1%, down 2.3pcts YoY but up 1.8pcts QoQ, showing marginal improvement. However, cost pressure remains. In 2Q and 3Q, amid the 618 promotion and the absence of new models, gross margin is expected to decline QoQ.

**IoT business prioritizes profitability, while internet services maintain steady growth.** IoT business 1Q revenue was

## XIAOMI-W (1810.HK)

**Maintain**
**Buy**
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Current Price: HKD 28.4

6-month TP: HKD 42.8

### Main Data

#### Absolute/relative share performance (%)

1 month	3 months	12 months
-8.68/-6.38	-18.62/-13.73	-44.91/-53.22

The highest/lowest price in recent 12 months (HKD) 61.45/28.24

Total share capital (10,000 shares) 2,583,917.23

Tradable H shares (10,000 shares) 2,142,172.13

Total market cap (HKD'00mn) 7,338.19

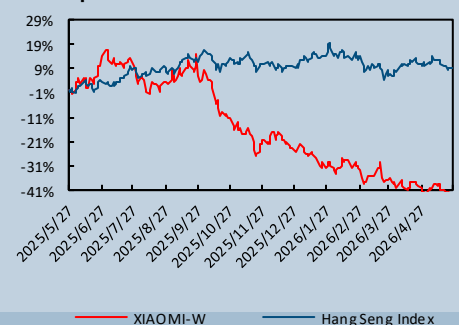
Tradable market cap (HKD'00mn) 6,086.43

3-month average daily trading volume (10,000 shares) 16925.29

Main shareholders

Smart Mobile Holdings Limited 22.66%

### Share performance



RMB24.7bn (YoY -23.7%), mainly due to the tapering of domestic subsidies and a high base last year. The company follows a profitability- first strategy, actively expanding overseas channels and product categories. Gross margin reached 25.2%, up 5.1pcts QoQ. Internet services maintained steady performance, with 1Q revenue RMB9.5bn (YoY +4.3%), with gross margin stable at 76.1%.

**Automobiles were affected by purchase tax subsidy support and quarterly delivery fluctuations, while new products are expected to drive sales growth.** 1Q deliveries reached 80,900 units, with the YU7 as the main delivered model. This represented a temporary delivery trough. ASP was around RMB235,000. Affected by purchase tax subsidies, rising battery costs and lower deliveries, the gross margin of the auto and new business segment declined QoQ to 20.1% in Q1. In May, the company further launched the sports-car-level YU7 GT and the cost-effective YU7 Standard Edition, continuing to enrich its product matrix and laying the foundation for subsequent sales growth.

**Earnings forecast and valuation:** Revenue of Xiaomi Group is expected to reach RMB484.6bn/RMB607.7bn in 2026/2027 (YoY +6%/+25%). Adjusted net profit is expected to reach RMB28.6bn/RMB39.3bn (YoY -27%/+37%). We assign 20x PE to the company's core businesses for 2026 and 2.5x PS to the automobile segment for 2026, with a target price of HKD38.7 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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Chief Analyst for Overseas Research, FRM, Master's degree in Finance from the University of Hong Kong. Joined the overseas research team of China Securities in 2020. Worked in the overseas team of the research institute of Changjiang Securities from 2018 to 2020. Ranked fifth in the Hong Kong stocks and overseas markets category of New Fortune in 2025/2024/2021/2020, third in the Hong Kong stocks and overseas markets category of Sina Golden Kylin Best Analysts in 2022, and first among rising analysts in the Hong Kong stocks and overseas markets category of Sina Golden Kylin in 2020.

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		Neutral	Increase by - 5% - 5% relative to the benchmark index
		Underweight	Decrease by 5% - 15% relative to the benchmark index
		Sell	Decrease by more than 15% relative to the benchmark index
	Industry ratings	Outperform	Increase by more than 10% relative to the benchmark index
		Neutral	Increase by - 10% - 10% relative to the benchmark index
		Underperform	Decrease by more than 10% relative to the benchmark index

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