

Xiaomi Corporation

1Q19: smartphone bottoming out and accelerated monetization in internet services

Reiterate Buy rating; revenue beat during a transitioning quarter

Xiaomi reported 1Q19 revenue of Rmb43.8bn, +27.2% YoY/-1.5% QoQ and beating the consensus by 4.9%. 1Q19 gross profit came at Rmb5.2bn, +21.3% YoY/-7.9% QoQ, with gross margin softened at 11.9%. With the strong new product launch including high-end phone Mi9 in 1Q19, we expect a recovery in margin in 2Q19. AIoT segment maintained strong growth and internet service monetization has made progress in overseas markets. The company consistently demonstrates a high operating efficiency with expense as % of total revenue at 9.4%. Non-IFRS net profit reached Rmb2.1bn, +22.4% YoY/+12.3% QoQ, and Non-IFRS net margin expanded to 4.8%.

Smartphone: shipment bottomed up in 1Q and expect a recovery in 2Q

1Q19 smartphone shipment came to 27.9mn units, -1.8% YoY/+11.7% QoQ. Revenue amounted to Rmb27.0bn, +16.2% YoY/+7.7% QoQ, which was attributable to ASP expansion, +30%/+12% YoY in China and overseas, respectively. Gross margin declined to 3.3%, due to 1) lower ASP in overseas market as new models were launched in overseas markets towards end of 1Q19; 2) the supply shortage of its high margin flagship model of Mi9; and 3) the inventory clean-up. However, with production ramping up, shipments of Mi9 and new Redmi Note 7 series have exceeded 1.5mn units and 4mn units by early Apr-19, respectively. We expect Xiaomi's smartphone segment will recover in 2Q with margin back to normal.

IoT & lifestyle: building ecosystem on open AIoT platform to drive growth

This segment maintains a rapid growth in 1Q19. Sector revenue increased by 56.5% YoY to Rmb12.0bn with gross margin expanding to 12.0%. Smart TV shipments reached 2.6mn units, up 99.8% YoY and ranking as the top brand in smart TV shipment in China for two quarters in a row. The number of connected devices to its open AIoT platform grew by 70.0% YoY to 171mn units (excl. mobile and computer). To embrace the intelligent transformation of home appliance brought by 5G, Xiaomi has set up home appliance department to accelerate strategy execution in AIoT. A bunch of new ecosystem products and home appliances, such as Mural TV, washing machine and air conditioner, are being launched to strengthen its product portfolio.

Internet service: great effort to speed up monetization

Thanks to FinTech and Youpin, internet service revenue grew by +31.7% YoY/+5.4% QoQ to Rmb4.3bn in 1Q. High-margin gaming business lifted gross margin to 67.4%. Internet services revenue outside advertising and gaming from China smartphones grew by 167.3% YoY and accounted for 31.8% of total sector revenue. MIUI MAU reached 260.9mn, +37.3% YoY/+7.8% QoQ.

Reiterate Buy rating with PT of HK\$22.0 (125% upside)

We derive our Dec-19 price target of HK\$22.0 per share using a discounted cash flow model, assuming a 13.4% cost of equity, 3% long-term growth rate. Potential SH-HK stock connect for weighted voting rights stocks in the coming July may generate momentum for Xiaomi's stock price, in our view.

Stock code: 1810.HK

Rating: Buy

Price target (HK\$)	22.0
Current price (HK\$, 24 May 2019)	9.8
Upside/downside %	125%
Market cap (HK\$ m)	234,619
Market cap (US\$ m)	29,895
Avg daily turnover (HK\$ m)	991

Source: Bloomberg, AMTD Research

Key forecasts

(Rmb m)	2018	2019e	2020e
Non-IFRS net profit	8,555	10,665	14,851
yoY %	60%	25%	39%
Revenue	174,915	222,662	276,988
yoY %	53%	27%	24%
Smartphone shipment (m)	119	140	163
yoY %	30%	18%	17%
Gross margin	12.7%	13.3%	14.5%
Non-IFRS net margin	4.9%	4.8%	5.4%
EPS	0.53	0.44	0.58

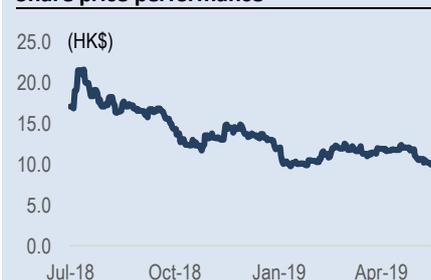
Source: Company data, AMTD Research

Valuation

	2018	2019e	2020e
P/E (adjusted)	24.4	19.6	14.1
P/S	1.2	0.9	0.8
ROE	8.6%	13.8%	16.3%
ROA	7.3%	6.8%	8.0%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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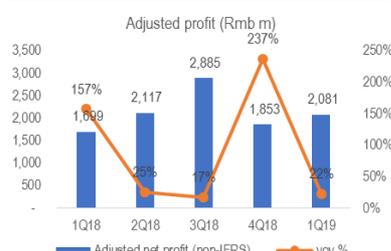
Focus charts

Figure 1: Xiaomi revenue growth bottoming up in 1Q19



Source: Company data

Figure 2: Xiaomi non-IFRS net profit grew by 22%



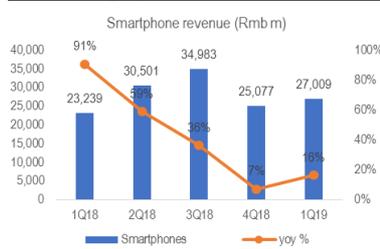
Source: Company data

Figure 3: Xiaomi non-IFRS net margin expanded strongly



Source: Company data

Figure 4: Smartphone revenue bottoming up



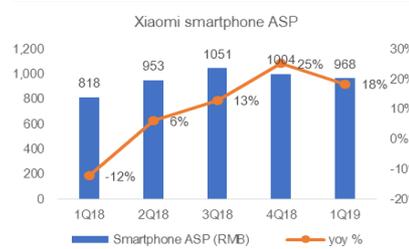
Source: Company data

Figure 5: Xiaomi smartphone shipment



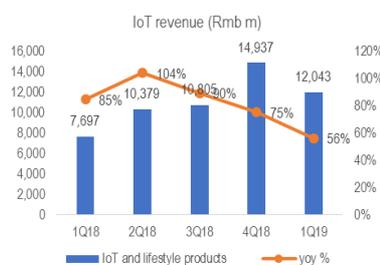
Source: Company data

Figure 6: Xiaomi smartphone ASP grew by 25% yoy



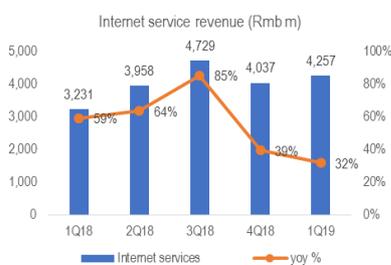
Source: Company data

Figure 7: IoT and life style revenue is fast growing



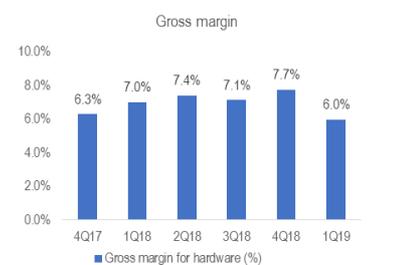
Source: Company data

Figure 8: Internet service revenue supported by strong ad business, FinTech and Youpin



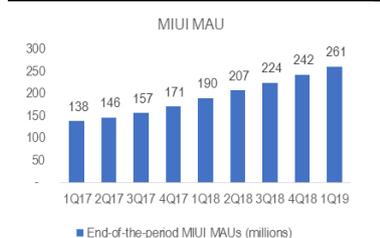
Source: Company data

Figure 9: Overall hardware gross margin declined due to lower smartphone gross margin



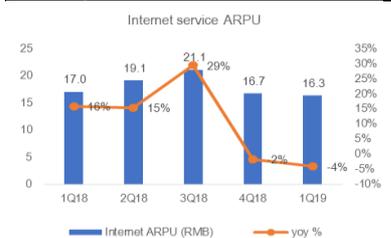
Source: Company data

Figure 10: MIUI MAU continued to expand, paving the way for further monetization



Source: Company data

Figure 11: Xiaomi internet service ARPU trends – 1Q19 drop was due to fast expansion of overseas MAU



Source: Company data

Figure 12: Operating efficiency was maintained at high level



Source: Company data

Figure 13: Xiaomi's quarterly P&L

Rmb m	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Profit & loss								
Revenue	26,879	34,100	35,114	34,412	45,235	50,846	44,421	43,757
Smartphones	19,219	25,711	23,440	23,239	30,501	34,983	25,077	27,009
IoT and lifestyle products	5,081	5,692	8,514	7,697	10,379	10,805	14,937	12,043
Internet services	2,420	2,550	2,898	3,231	3,958	4,729	4,037	4,257
Advertising	1,474	1,525	1,607	1,874	2,500	3,200	2,526	2,283
IVAS	946	1,024	1,291	1,357	1,458	1,529	1,509	1,975
Others	160	147	262	245	397	330	370	448
Cost of sales	(23,031)	(28,898)	(31,474)	(30,111)	(39,584)	(44,269)	(38,760)	(38,541)
Gross profit	3,848	5,202	3,640	4,301	5,652	6,578	5,661	5,216
Gross margin	14.3%	15.3%	10.4%	12.5%	12.5%	12.9%	12.7%	11.9%
Operating expenses	(2,080)	(2,548)	(3,399)	(2,972)	(13,896)	(4,305)	(4,696)	(4,127)
Selling and marketing expenses	(1,144)	(1,447)	(1,914)	(1,403)	(2,076)	(2,187)	(2,328)	(1,845)
Administrative expenses	(229)	(297)	(450)	(465)	(10,457)	(583)	(594)	(632)
R&D expenses	(707)	(805)	(1,035)	(1,104)	(1,364)	(1,534)	(1,775)	(1,651)
EBIT	1,768	2,654	241	1,330	(8,244)	2,273	965	1,088
Fair value changes on investments	1,738	-	3,453	1,763	527	65	2,075	2,633
Share of losses of investments	(85)	(67)	(14)	16	(129)	(184)	(318)	(145)
Other income	173	106	146	158	207	259	220	60
Other (losses)/gains, net	65	222	(140)	98	47	(202)	271	(22)
PBT	(11,340)	(10,264)	(12,703)	(6,689)	14,908	2,364	3,344	3,717
Income tax expenses	(626)	(729)	(360)	(338)	(276)	117	48	(525)
(Loss)/profit for the year	(11,967)	(10,993)	(13,063)	(7,027)	14,633	2,481	3,392	3,192
Minority interest	(6)	(3)	(33)	(22)	(19)	(18)	(17)	66
Attributable profit	(11,961)	(10,990)	(13,030)	(7,005)	14,651	2,499	3,409	3,126
Adjusted net profit (non-IFRS)	1,691	2,459	550	1,699	2,117	2,885	1,853	2,081
Yoy growth %								
Total revenue					68%	49%	27%	27%
Smartphones					59%	36%	7%	16%
IoT and lifestyle products					104%	90%	75%	56%
Internet services					64%	85%	39%	32%
Advertising					70%	110%	57%	22%
IVAS					54%	49%	17%	45%
Others					149%	125%	41%	83%
Gross profit					47%	26%	56%	21%
Adjusted net profit (non-IFRS)					25%	17%	237%	22%

Source: Company data, AMTD research

Figure 14: Xiaomi's P&L forecast

Rmb m	2016	2017	2018	2019E	2020E
Profit & loss					
Revenue	68,434	114,625	174,915	222,662	276,988
Smartphones	48,764	80,564	113,800	137,480	165,969
IoT and lifestyle products	12,415	23,448	43,817	62,403	80,175
Internet services	6,538	9,896	15,956	21,302	29,292
Advertising	3,838	5,614	10,100	15,655	23,483
IVAS	2,699	4,282	5,853	5,646	5,809
Others	717	717	1,343	1,477	1,551
Cost of sales	(61,185)	(99,471)	(152,723)	(193,071)	(236,942)
Gross profit	7,249	15,154	22,192	29,591	40,046
Gross margin	10.6%	13.2%	12.7%	13.3%	14.5%
Operating expenses	(6,053)	(9,599)	(25,869)	(20,708)	(27,145)
Selling and marketing expenses	(3,022)	(5,232)	(7,993)	(10,465)	(13,849)
Administrative expenses	(927)	(1,216)	(12,099)	(2,672)	(3,601)
R&D expenses	(2,104)	(3,151)	(5,777)	(7,570)	(9,695)
EBIT	1,196	5,555	(3,677)	8,883	12,901
Fair value changes on investments	2,727	6,371	4,430	1,000	1,000
Share of losses of investments	(150)	(231)	(615)	(200)	(200)
Other income	540	449	845	300	300
Other (losses)/gains, net	(528)	72	213	-	-
PBT	1,176	(41,829)	1,196	9,983	14,001
Income tax expenses	(684)	(2,060)	(449)	(1,697)	(2,380)
(Loss)/profit for the year	492	(43,889)	13,478	8,548	11,973
Minority interest	(62)	(63)	(76)	(84)	(92)
Attributable profit	553	(43,826)	13,554	8,632	12,065
Adjusted net profit (non-IFRS)	1,896	5,362	8,555	10,665	14,851
Yoy growth %					
Total revenue	2%	67%	53%	27%	24%
Smartphones	-9%	65%	41%	21%	21%
IoT and lifestyle products	43%	89%	87%	42%	28%
Internet services	102%	51%	61%	34%	38%
Advertising	111%	46%	80%	55%	50%
IVAS	90%	59%	37%	-4%	3%
Others	-39%	0%	87%	10%	5%
Gross profit	169%	109%	46%	33%	35%
(Loss)/profit for the year (reported)	na	na	na	-37%	40%
Adjusted net profit (non-IFRS)	na	183%	60%	25%	39%

Source: Company data; AMTD estimates

Figure 15: Xiaomi key operating matrix

Operating matrix	2016	2017	2018	2019E	2020E
Revenue mix					
Smartphones	71.3%	70.3%	65.1%	61.7%	59.9%
IoT and lifestyle products	18.1%	20.5%	25.1%	28.0%	28.9%
Internet services	9.6%	8.6%	9.1%	9.6%	10.6%
Advertising	5.6%	4.9%	5.8%	7.0%	8.5%
IVAS	3.9%	3.7%	3.3%	2.5%	2.1%
Others	1.0%	0.6%	0.8%	0.7%	0.6%
Smartphone shipment (million)	55	91	119	140	163
yoy %	-17%	65%	30%	18%	17%
Smartphone ASP (Rmb)	880	881	959	983	1,016
yoy %	9.0%	0.2%	8.8%	2.6%	3.4%
IoT and lifestyle product sales per smartphone	224	257	308	446	491
yoy %	71.5%	14.5%	20.0%	45.0%	10.0%
IoT and lifestyle product sales per MIUI MAU	92	137	181	212	218
yoy %	18.9%	49.1%	32%	17%	3%
End-of-the-period MIUI MAUs (millions)	135	171	242	294	367
yoy %	20%	27%	42%	21%	25%
Internet ARPU (Rmb)	49	58	66	72	80
yoy %	68%	19%	14%	10%	10%
Gross margin for hardware (%)	4.4%	8.7%	7.3%	7.4%	7.8%
Gross margin for internet services segment (%)	64%	60%	64%	68%	70%
Advertising	86%	82%	82%	82%	80%
IVAS	34%	32%	30%	30%	30%
Non-IFRS net margin (%)	2.8%	4.7%	4.9%	4.8%	5.4%
Operating margin (reported)	5.5%	10.7%	0.7%	4.5%	5.1%
Operating expense to revenue %	8.8%	8.4%	14.8%	9.3%	9.8%
Cash conversion cycle (days)	-35	-38	-36	-35	-35
Net cash/ (net debt)	9,663	8,986	28,794	40,536	24,898

Source: Company data; AMTD estimates

Figure 16: Valuation comparison table (1) – Global smartphone and home appliance companies

Code	Company	Price		Mkt Cap (US\$ m)	PE (x)			EPS g (%)			P/S (x)		EV/EBITDA		EV/EBIT	
		Curr.	23-May		2018e	2019e	2020e	2018e	2019e	2020e	2019e	2020e	2018e	2019e	2018e	2019e
China smartphones & home appliances																
992 HK equity	Lenovo	HKD	5.9	9,002	na	15.0	11.2	(141.8)	400.0	33.7	0.2	0.2	11.3	5.9	29.3	10.0
000333 CH equity	Midea	CNY	49.5	47,107	15.9	14.2	12.6	15.8	12.4	13.3	1.2	1.1	12.7	11.5	15.3	13.6
000651 CH equity	Gree	CNY	52.9	46,181	11.9	11.6	10.4	17.2	5.1	11.5	1.5	1.4	6.9	6.9	7.4	7.6
600690 CH equity	Haier	CNY	16.1	14,498	13.1	12.1	10.7	6.5	10.0	12.5	0.5	0.5	8.8	7.8	11.2	10.0
000418 CH equity	Little Swan	CNY	57.4	4,923	20.7	17.3	15.3	23.5	12.7	13.3	1.3	1.2	19.8	16.2	24.1	21.2
1169 HK equity	Haier Electronics	HKD	19.0	6,851	12.3	10.7	10.0	12.4	15.7	7.2	0.5	0.5	6.2	5.8	7.0	6.9
000921 CH equity	Hisence Kelon	CNY	12.6	2,164	11.9	10.6	9.2	(31.3)	16.4	14.8	0.4	0.4	13.1	10.2	na	na
000521 CH equity	Meiling	CNY	3.5	498	38.9	58.3	29.2	19.4	62.2	100.0	0.2	0.2	na	na	na	na
Average					17.8	18.7	13.6	(9.8)	66.8	25.8	0.7	0.7	11.3	9.2	15.7	11.5
China kitchen & small appliance																
002508 CH equity	Robam	CNY	27.3	3,726	17.1	15.7	13.9	0.6	11.3	12.8	3.2	2.9	13.9	12.9	14.7	13.9
002035 CH equity	Vatti	CNY	12.5	1,578	16.0	13.6	11.5	32.1	17.3	18.5	1.7	1.5	11.5	10.2	12.6	11.3
002242 CH equity	Joyoung	CNY	21.3	2,361	21.6	19.4	16.7	10.0	10.6	16.1	1.8	1.5	18.5	16.4	18.7	17.7
002032 CH equity	Supor	CNY	73.2	8,438	35.5	29.6	25.3	27.6	17.4	17.2	2.8	2.4	27.5	23.0	29.6	23.2
603868 CH equity	Flyco	CNY	38.5	2,406	18.6	17.3	15.6	1.0	13.9	11.0	3.8	3.4	12.8	12.4	na	na
603355 CH equity	Kingclean	CNY	20.7	1,201	17.4	15.1	13.1	15.4	30.8	15.3	1.3	1.2	11.6	8.9	na	na
Average					21.0	18.5	16.0	14.5	16.9	15.1	2.4	2.2	16.0	13.9	18.9	16.5
China TV																
751 HK equity	Skyworth Digital	HKD	2.0	764	na	5.6	4.7	(59.9)	97.0	19.0	0.1	0.1	na	3.9	na	na
1070 HK equity	TCL Multimidea	HKD	3.4	1,026	8.3	7.6	6.6	(23.4)	23.0	16.3	0.2	0.1	1.7	1.7	2.0	2.0
600060 CH equity	Hisence	CNY	8.3	1,572	10.4	13.0	12.5	(58.3)	112.3	3.9	0.3	0.3	12.6	11.5	na	na
Average					9.3	8.7	7.9	(47.2)	77.4	13.1	0.2	0.2	7.2	5.7	2.0	2.0
Global automation																
6954 JP equity	Faunc	JPY	18,635.0	34,276	19.4	24.0	33.6	42.5	(15.3)	(31.1)	6.0	6.4	11.7	15.9	13.6	20.2
6506 JP equity	Yaskawa Electric	JPY	3,230.0	7,840	21.3	19.3	24.0	95.0	4.4	(13.8)	1.8	1.9	12.7	13.0	15.5	16.6
KU2 GR equity	KUKA	EUR	50.3	2,237	34.7	74.5	26.9	(85.4)	107.5	177.0	0.6	0.6	na	na	na	na
ABB US equity	ABB	USD	18.7	40,523	17.8	16.9	14.1	na	na	20.3	1.4	1.3	11.6	12.2	16.3	16.8
300024 CH equity	Siasun Robotics	CNY	15.5	3,497	46.0	42.6	35.1	4.0	26.4	21.2	6.5	5.4	41.2	34.5	49.1	43.0
Average					27.8	35.5	26.7	14.0	30.7	34.7	3.2	3.1	19.3	18.9	23.6	24.1
Global smartphones & home appliances																
AAPL US equity	Apple	USD	179.7	826,629	15.2	15.6	13.9	28.9	(3.2)	12.1	3.2	3.1	8.8	9.6	10.6	11.4
005930 KS equity	Samsung Electronic	KRW	43,850.0	216,011	6.4	12.6	9.6	14.8	(53.4)	30.9	1.1	1.1	2.1	3.2	2.9	6.1
066570 KS equity	LG Electronics	KRW	75,300.0	10,495	8.6	8.9	7.1	(28.1)	13.6	24.0	0.2	0.2	4.5	4.2	7.3	7.8
6758 JP equity	Sony	JPY	5,366.0	62,572	14.0	8.2	12.5	568.7	86.3	(40.5)	0.8	0.8	5.6	4.9	8.1	6.9
6752 JP equity	Panasonic	JPY	896.6	19,844	10.1	8.5	9.5	57.3	20.4	(23.4)	0.3	0.3	4.1	3.8	7.2	6.6
WHR US equity	Whirlpool	USD	126.1	7,984	8.6	8.6	7.7	10.3	(3.0)	11.7	0.4	0.4	7.7	7.7	11.5	11.1
ELUXB SS equity	Electrolux	SEK	216.8	6,972	13.6	13.2	10.9	(16.2)	(2.3)	21.1	0.5	0.5	6.8	6.4	11.0	10.6
AOS US equity	AO Smith	USD	43.7	7,305	17.0	16.1	14.8	20.3	3.8	9.2	2.2	2.1	10.9	10.6	12.3	12.0
SK FP equity	SEB	EUR	152.0	8,527	18.2	16.5	14.9	9.6	3.9	11.0	1.0	1.0	11.0	10.3	14.1	13.0
5947 JP equity	Rinnai	JPY	7,140.0	3,350	16.2	18.5	17.3	(4.4)	(2.9)	3.3	1.1	1.0	5.4	5.7	7.1	na
Average					12.8	12.7	11.8	66.1	6.3	5.9	1.1	1.0	6.7	6.6	9.2	9.5

Priced as of 23 May 2019; Source: Bloomberg, company data, AMTD estimates

Figure 17: Valuation comparison table (2) – Global internet companies

Code	Company	Price		Mkt Cap (US\$ m)	Non-GAAP					P/S (x)		EV/EBITDA	
		Curr.	23-May		PE (x)		EPS 3yr% 2018e-2020e	PE/G (x)		2019e	2020e	2018e	2019e
					2018e	2019e		2018e	2019e				
China Internet													
BABA US equity	Alibaba	USD	156.0	403,341	32.3	29.5	26.4%	1.8	1.6	7.4	5.4	25.3	22.4
700 HK equity	Tencent	HKD	326.0	395,487	35.9	29.5	29.4%	2.0	1.7	6.9	5.4	26.1	20.9
BIDU US equity	Baidu	USD	113.5	39,713	12.1	19.5	17.5%	3.7	6.0	2.4	2.1	8.7	13.2
JD US equity	JD.com	USD	26.7	38,821	118.3	38.0	48.9%	1.9	0.6	0.5	0.4	68.1	25.7
NTES US equity	Netease	USD	260.2	33,292	27.8	23.0	21.0%	1.9	1.6	2.8	2.4	22.1	15.8
CTRP US equity	Ctrip	USD	36.5	20,181	33.6	26.7	35.7%	1.1	0.9	3.8	3.3	39.9	25.0
WB US equity	Weibo	USD	45.4	10,214	17.2	15.4	39.2%	0.8	0.7	5.0	4.2	14.9	12.8
WUBA US equity	58.com	USD	55.9	8,307	21.3	19.8	31.7%	0.6	0.5	3.7	3.1	18.6	16.0
ATHM US equity	Autohome	USD	89.6	10,583	25.3	20.0	22.3%	1.2	1.0	8.3	7.0	21.4	16.5
SINA US equity	Sina	USD	42.5	2,951	14.3	13.6	45.3%	na	na	1.2	1.1	5.9	5.0
YY US equity	YY	USD	65.0	5,124	9.2	9.7	18.4%	na	na	1.5	1.2	8.0	7.2
VIPS US equity	Vipshop	USD	7.5	4,991	13.0	11.5	28.7%	na	na	0.4	0.4	8.5	6.6
2858 HK equity	Yixin	HKD	1.7	1,372	42.5	19.8	122.6%	na	na	1.6	1.4	115.6	52.9
MOMO US equity	Momo	USD	26.6	5,524	11.7	9.8	24.4%	0.4	0.3	2.3	2.0	8.8	7.1
BITA US equity	Bitauto	USD	9.7	682	7.4	8.2	29.3%	na	na	0.4	0.4	34.2	27.9
FANG US equity	Fang	USD	104.0	17,131	15.9	13.6	46.9%	0.8	0.7	4.0	3.0	14.0	6.7
BZUN US equity	Baozun	USD	36.6	2,115	41.2	26.3	48.2%	na	na	2.0	1.6	30.5	19.7
Average					28.2	19.6	37.4%	1.5	1.4	3.2	2.6	27.7	17.7
Average ex-Tencent					27.7	19.1	37.9%	1.4	1.4	3.0	2.4	27.8	17.5
Leading global Internet													
FB US equity	Facebook	USD	180.9	516,330	21.3	21.0	13.8%	1.1	1.1	7.4	6.1	14.5	13.2
GOOGL US equity	Google	USD	1,145.3	793,447	21.1	20.6	14.2%	1.7	1.7	6.0	5.2	13.7	11.9
AMZN US equity	Amazon	USD	1,815.5	893,818	63.0	48.9	35.2%	1.4	1.1	3.3	2.8	27.9	21.6
Average					35.1	30.2	21.1%	1.4	1.3	5.6	4.7	18.7	15.5

Priced as of 23 May 2019; Source: Bloomberg, company data, AMTD estimates

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