

# Xiaomi Corporation

Company updates

## Redmi K30 5G – the game changer of 5G smartphone competition

### Reiterate Buy rating: Xiaomi poised to be 5G winner

On 10 Dec, Xiaomi officially launched the much-anticipated Redmi K30 5G smartphone. To our surprise, this flagship specs smartphone's retail price starts less than RMB2,000, 45% cheaper than the lowest price of 5G models on the market. This new 5G model will be available for sale in January 2020. We believe Redmi K30 5G model could be the game changer of 5G smartphone competition as the launch of a flagship specs 5G smartphone at such an affordable price has shown Xiaomi's leading edge in 5G competition:

- First mover advantage:** among those major smartphone manufacturers, Xiaomi was the one of earliest to launch 5G smartphone for commercial use. In Feb this year, Xiaomi launched its first ever 5G model – Mi MIX 3 in Europe with a starting price of EUR599. On the contrary, major rivals, such as Huawei, OPPO, Vivo, didn't launch their first 5G models until July. The feedback of daily use for more than half a year has helped Xiaomi improve the performance of its 5G models, and at the same time, helped Xiaomi optimize the 5G supply chain to support production ramp-up going forward.
- Proactive inventory management:** To prepare for 4G to 5G replacement next year, Xiaomi adopted proactive inventory management in the second half this year, in hope of paving the way for new 5G models' rollout next year. Compared to 4G models, smartphone buyers are more willing to buy 5G models given the acceleration of 5G deployment of telecom carriers. With less 4G inventory and strong 5G model pipeline, Xiaomi will be well positioned itself during the market transition. Xiaomi planned to launch more than 10 new 5G models in 2020.
- Competitive edge in supply chain:** due to the more detailed and complex design and more components used, 5G smartphone production places higher requirements on supply chain. A high efficient supply chain will effectively help company control costs and improve margins. The launch of a flagship specs 5G smartphone at such an affordable price proved Xiaomi's competitive edge in this area, which we believe will help Xiaomi to gain market share under a moderate margin, in particular, during the early 5G period when the production ramps up.

### Redmi K30 5G: flagship specs at low/mid-range price

The Redmi K30 5G is the first smartphone powered by the Snapdragon 765G SoC, which is built on a 7nm+ EUV process and has an integrated Snapdragon X52 modem that supports dual-mode 5G (SA and NSA) with MultiLink. The Redmi K30 5G is built around a 6.67" LCD with 120Hz refresh rate. The display also has a pill-shaped punch hole in the top-right corner for the 20MP selfie camera joined by a 2MP depth sensor. Coming to the back camera, it's a combination of 64MP main (Sony IMX686), 8MP ultrawide (120 degrees FOV), 5MP macro, and 2MP depth sensor modules. The Redmi K30 5G offers a 12-antenna design and includes dual-frequency GPS support. The Redmi K30 5G starts at a very attractive price of RMB1,999 (US\$284) for the 6GB/64GB model, making it the cheapest 5G phone around.

### Reiterate Buy rating with PT of HK\$22.0 (122% upside)

We projected Xiaomi's total smartphone shipment will reach 146mn units in 2020. Our HK\$22.0 per share Dec-20 price target is derived by using a discounted cash flow model, assuming a 13.4% cost of equity, 3% long-term growth rate.

Stock code: 1810.HK

Rating: Buy

Price target (HK\$)	22.0
Previous price target (HK\$)	22.0
Current price (HK\$, 12 Dec 2019)	9.9
Upside/downside %	122%
Market cap (HK\$ m)	238,543
Market cap (US\$ m)	30,557
Avg daily turnover (HK\$ m)	872

Source: Bloomberg, AMTD Research

### Key forecasts

(Rmb m)	2018	2019e	2020e
Non-IFRS net profit	8,555	11,590	14,309
yoy %	60%	35%	23%
Revenue	174,915	206,939	255,457
yoy %	53%	18%	23%
Smartphone shipment (m)	119	128	146
yoy %	30%	8%	14%
Gross margin	12.7%	13.8%	14.1%
Non-IFRS net margin	4.9%	5.6%	5.6%
EPS	0.53	0.48	0.55

Source: Company data, AMTD Research

### Valuation

	2018	2019e	2020e
P/E (adjusted)	24.8	18.3	14.8
P/S	1.2	1.0	0.8
ROE	8.6%	14.9%	15.6%
ROA	7.3%	7.5%	7.9%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 1: Redmi K30 5G



Redmi K30 5G
Qualcomm® Snapdragon™ 765G integrated 5G processor
120Hz screen refresh rate, 6.67-inch DualDotDisplay
64MP+2MP+5MP+8MP quad camera
20MP+2MP dual front camera
4500mAh
30W fast charge
Multi-functional NFC, IR Blaster, 5G dual-band GPS, 3.5mm headphone jack

Source: <http://blog.mi.com/>

Figure 2: Specs of 5G smartphone launched

Manufacturer	Model	Processor	5G Modem	Network	Launch date	Starting price
Xiaomi	MIX 3	Snapdragon 855	X50	NSA	Feb-19	EUR599
	9 Pro	Snapdragon 855+	X50	NSA	Sep-19	RMB3,699
	MIX Alpha	Snapdragon 855+	X50	NSA	Sep-19	RMB19,999
	Redmi K30	Snapdragon 765 SoC		NSA/SA	Dec-19	RMB1,999
Huawei	Mate20 X	Hisilicon Kirin 980	Balong 5000	NSA/SA	Jul-19	RMB6,199
	Mate 30	Hisilicon Kirin 990 5G SoC		NSA/SA	Sep-19	RMB4,999
	Mate 30 Pro	Hisilicon Kirin 990 5G SoC		NSA/SA	Sep-19	RMB6,899
	Mate X	Hisilicon Kirin 980	Balong 5000	NSA/SA	Oct-19	RMB16,999
Samsung	S10	Exynos 9820/Snapdragon 855	Exynos 5100/X50	NSA	Feb-19	RMB8,270
	Note10	Exynos 9820/Snapdragon 855	Exynos 5100/X50	NSA	Aug-19	HK\$5,020
	Note10+	Exynos 9820/Snapdragon 855	Exynos 5100/X50	NSA	Aug-19	RMB7,999
	A90	Snapdragon 855	X50	NSA	Sep-19	RMB4,000
	W20	Snapdragon 855+	X50	NSA	Nov-19	To be announced
OPPO	Reno	Snapdragon 855	X50	NSA	Jul-19	EUR899
Vivo	iQOO Pro	Snapdragon 855+	X50	NSA	Aug-19	RMB3,798
	NEX3	Snapdragon 855+	X50	NSA	Sep-19	RMB4,998
	X30	Exynos 980 SoC		NSA/SA	Dec-19	To be announced

Source: AMTD Research

Figure 3: Xiaomi's quarterly P&amp;L

Rmb m	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
<b>Profit &amp; loss</b>								
<b>Revenue</b>	<b>35,114</b>	<b>34,412</b>	<b>45,235</b>	<b>50,846</b>	<b>44,421</b>	<b>43,757</b>	<b>51,951</b>	<b>53,661</b>
Smartphones	23,440	23,239	30,501	34,983	25,077	27,009	32,021	32,268
IoT and lifestyle products	8,514	7,697	10,379	10,805	14,937	12,043	14,945	15,606
Internet services	2,898	3,231	3,958	4,729	4,037	4,257	4,580	5,309
Advertising	1,607	1,874	2,500	3,200	2,526	2,283	2,485	2,912
IVAS	1,291	1,357	1,458	1,529	1,509	1,975	2,095	2,397
Others	262	245	397	330	370	448	405	477
<b>Cost of sales</b>	<b>(31,474)</b>	<b>(30,111)</b>	<b>(39,584)</b>	<b>(44,269)</b>	<b>(38,760)</b>	<b>(38,541)</b>	<b>(44,692)</b>	<b>(45,425)</b>
<b>Gross profit</b>	<b>3,640</b>	<b>4,301</b>	<b>5,652</b>	<b>6,578</b>	<b>5,661</b>	<b>5,216</b>	<b>7,258</b>	<b>8,236</b>
<b>Gross margin</b>	<b>10.4%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>12.9%</b>	<b>12.7%</b>	<b>11.9%</b>	<b>14.0%</b>	<b>15.3%</b>
<b>Operating expenses</b>	<b>(3,399)</b>	<b>(2,972)</b>	<b>(13,896)</b>	<b>(4,305)</b>	<b>(4,696)</b>	<b>(4,127)</b>	<b>(4,575)</b>	<b>(5,414)</b>
Selling and marketing expenses	(1,914)	(1,403)	(2,076)	(2,187)	(2,328)	(1,845)	(2,295)	(2,537)
Administrative expenses	(450)	(465)	(10,457)	(583)	(594)	(632)	(724)	(844)
R&D expenses	(1,035)	(1,104)	(1,364)	(1,534)	(1,775)	(1,651)	(1,556)	(2,033)
<b>EBIT</b>	<b>241</b>	<b>1,330</b>	<b>(8,244)</b>	<b>2,273</b>	<b>965</b>	<b>1,088</b>	<b>2,684</b>	<b>2,823</b>
Fair value changes on investments	3,453	1,763	527	65	2,075	2,633	(671)	33
Share of losses of investments	(14)	16	(129)	(184)	(318)	(145)	(12)	(241)
Other income	146	158	207	259	220	60	406	448
Other (losses)/gains, net	(140)	98	47	(202)	271	(22)	(71)	50
<b>PBT</b>	<b>(12,703)</b>	<b>(6,689)</b>	<b>14,908</b>	<b>2,364</b>	<b>3,344</b>	<b>3,717</b>	<b>2,336</b>	<b>3,113</b>
Income tax expenses	(360)	(338)	(276)	117	48	(525)	(479)	(775)
<b>(Loss)/profit for the year</b>	<b>(13,063)</b>	<b>(7,027)</b>	<b>14,633</b>	<b>2,481</b>	<b>3,392</b>	<b>3,192</b>	<b>1,955</b>	<b>2,519</b>
Minority interest	(33)	(22)	(19)	(18)	(17)	66	4	(6)
<b>Attributable profit</b>	<b>(13,030)</b>	<b>(7,005)</b>	<b>14,651</b>	<b>2,499</b>	<b>3,409</b>	<b>3,126</b>	<b>1,952</b>	<b>2,525</b>
<b>Adjusted net profit (non-IFRS)</b>	<b>550</b>	<b>1,699</b>	<b>2,117</b>	<b>2,885</b>	<b>1,853</b>	<b>2,081</b>	<b>3,635</b>	<b>3,472</b>
<b>Yoy growth %</b>								
<b>Total revenue</b>			<b>68%</b>	<b>49%</b>	<b>27%</b>	<b>27%</b>	<b>15%</b>	<b>6%</b>
Smartphones			59%	36%	7%	16%	5%	-8%
IoT and lifestyle products			104%	90%	75%	56%	44%	44%
Internet services			64%	85%	39%	32%	16%	12%
Advertising			70%	110%	57%	22%	-1%	-9%
IVAS			54%	49%	17%	45%	44%	57%
Others			149%	125%	41%	83%	2%	45%
<b>Gross profit</b>			<b>47%</b>	<b>26%</b>	<b>56%</b>	<b>21%</b>	<b>28%</b>	<b>25%</b>
<b>Adjusted net profit (non-IFRS)</b>			<b>25%</b>	<b>17%</b>	<b>237%</b>	<b>22%</b>	<b>72%</b>	<b>20%</b>

Source: Company data; AMTD research

Figure 4: Xiaomi's P&amp;L forecast

Rmb m	2016	2017	2018	2019E	2020E
<b>Profit &amp; loss</b>					
<b>Revenue</b>	<b>68,434</b>	<b>114,625</b>	<b>174,915</b>	<b>206,939</b>	<b>255,457</b>
Smartphones	48,764	80,564	113,800	124,471	146,980
IoT and lifestyle products	12,415	23,448	43,817	62,180	82,929
Internet services	6,538	9,896	15,956	18,811	23,997
Advertising	3,838	5,614	10,100	10,302	12,363
IVAS	2,699	4,282	5,853	8,509	11,635
Others	717	717	1,343	1,477	1,551
<b>Cost of sales</b>	<b>(61,185)</b>	<b>(99,471)</b>	<b>(152,723)</b>	<b>(178,465)</b>	<b>(219,344)</b>
<b>Gross profit</b>	<b>7,249</b>	<b>15,154</b>	<b>22,192</b>	<b>28,474</b>	<b>36,113</b>
<b>Gross margin</b>	<b>10.6%</b>	<b>13.2%</b>	<b>12.7%</b>	<b>13.8%</b>	<b>14.1%</b>
<b>Operating expenses</b>	<b>(6,053)</b>	<b>(9,599)</b>	<b>(25,869)</b>	<b>(18,211)</b>	<b>(23,502)</b>
Selling and marketing expenses	(3,022)	(5,232)	(7,993)	(8,898)	(11,240)
Administrative expenses	(927)	(1,216)	(12,099)	(2,276)	(3,321)
R&D expenses	(2,104)	(3,151)	(5,777)	(7,036)	(8,941)
<b>EBIT</b>	<b>1,196</b>	<b>5,555</b>	<b>(3,677)</b>	<b>10,263</b>	<b>12,611</b>
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	-	-
<b>PBT</b>	<b>1,176</b>	<b>(41,829)</b>	<b>13,927</b>	<b>11,625</b>	<b>14,063</b>
Income tax expenses	(155)	(684)	(2,060)	(449)	(1,932)
<b>(Loss)/profit for the year</b>	<b>492</b>	<b>(43,889)</b>	<b>13,478</b>	<b>9,693</b>	<b>11,732</b>
Minority interest	(62)	(63)	(76)	(84)	(92)
<b>Attributable profit</b>	<b>553</b>	<b>(43,826)</b>	<b>13,554</b>	<b>9,777</b>	<b>11,824</b>
<b>Adjusted net profit (non-IFRS)</b>	<b>1,896</b>	<b>5,362</b>	<b>8,555</b>	<b>11,590</b>	<b>14,309</b>
<b>Yoy growth %</b>					
<b>Total revenue</b>	<b>2%</b>	<b>67%</b>	<b>53%</b>	<b>18%</b>	<b>23%</b>
Smartphones	-9%	65%	41%	9%	18%
IoT and lifestyle products	43%	89%	87%	42%	33%
Internet services	102%	51%	61%	18%	28%
Advertising	111%	46%	80%	2%	20%
IVAS	90%	59%	37%	45%	37%
Others	-39%	0%	87%	10%	5%
<b>Gross profit</b>	<b>169%</b>	<b>109%</b>	<b>46%</b>	<b>28%</b>	<b>27%</b>
<b>(Loss)/profit for the year (reported)</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>-28%</b>	<b>21%</b>
<b>Adjusted net profit (non-IFRS)</b>	<b>na</b>	<b>183%</b>	<b>60%</b>	<b>35%</b>	<b>23%</b>

Source: Company data; AMTD estimates

Figure 5: Xiaomi key operating matrix

Operating matrix	2016	2017	2018	2019E	2020E
<b>Revenue mix</b>					
Smartphones	71.3%	70.3%	65.1%	60.1%	57.5%
IoT and lifestyle products	18.1%	20.5%	25.1%	30.0%	32.5%
Internet services	9.6%	8.6%	9.1%	9.1%	9.4%
Advertising	5.6%	4.9%	5.8%	5.0%	4.8%
IVAS	3.9%	3.7%	3.3%	4.1%	4.6%
Others	1.0%	0.6%	0.8%	0.7%	0.6%
Smartphone shipment (million)	55	91	119	128	146
yoy %	-17%	65%	30%	8%	14%
Smartphone ASP (Rmb)	880	881	959	974	1,008
yoy %	9.0%	0.2%	8.8%	1.5%	3.6%
IoT and lifestyle product sales per smartphone	224	257	308	486	569
yoy %	71.5%	14.5%	20.0%	58.0%	17.0%
IoT and lifestyle product sales per MIUI MAU	92	137	181	215	234
yoy %	18.9%	49.1%	31.8%	19%	9%
End-of-the-period MIUI MAUs (millions)	135	171	242	289	355
yoy %	20%	27%	42%	20%	23%
Internet ARPU (Rmb)	49	58	66	65	68
yoy %	68%	19%	14%	-1%	4%
Gross margin for hardware (%)	4.40%	8.70%	7.33%	8.7%	9.1%
Gross margin for internet services segment (%)	64%	60%	64%	63%	62%
Advertising	86%	82%	82%	87%	87%
IVAS	34%	32%	30%	35%	35%
Non-IFRS net margin (%)	2.8%	4.7%	4.9%	5.6%	5.6%
Operating margin (reported)	5.5%	10.7%	0.7%	5.5%	5.4%
Operating expense to revenue %	-35	-38	-36	-35	-35
Cash conversion cycle (days)	8.8%	8.4%	14.8%	8.8%	9.2%
Net cash/ (net debt)	9,663	8,986	28,794	40,681	24,784

Source: Company data; AMTD estimates

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## IMPORTANT DISCLOSURES

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<b>Overweight</b>	Industry sector expected to outperform the market over the next 12 months
<b>Neutral</b>	Industry sector expected to perform in-line with the market over the next 12 months
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Stock Rating	
<b>Buy</b>	Stock with potential return of over 20% over the next 12 months
<b>Hold</b>	Stock with potential return of -20% to +20% over the next 12 months
<b>Sell</b>	Stock with potential loss of over 20% over the next 12 months

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