

Xiaomi Corporation

Record quarterly results with impressive GM, raise est./PT to HK\$38.3 on continued strong smartphone momentum

Record quarterly results, raise est./PT on continued strong momentum

We reiterate Buy on Xiaomi, following a record quarterly results. In Q1'21, Xiaomi's total revenue reached RMB76.9bn, up 9.1% QoQ/54.7% YoY, driven by strong smartphone sales. Gross margin expanded substantially to 18.4% this quarter, vs 15.2%/16.1% in Q1'20/Q4'20. Opex ratio declined sequentially to 10.6% from 13.4% last quarter. Non-IFRS net profit came in at RMB6.1bn, up strongly 89.4% QoQ/163.8% YoY. As the anchor product in Xiaomi's ecosystem, the strong smartphone momentum will boost more sustainable growth of its AIoT products and internet services ahead, we revise up our EPS forecasts by 9.8%/8.8% to RMB0.71/RMB0.92 in FY21E/FY22E. At the same time, we reiterate Buy on Xiaomi with a new PT of HK\$38.3 on 45x FY21E P/E to reflect Xiaomi's future ambitions and its long-term commitment.

Smartphone: solid outlook despite supply-side headwinds

We raise our 2021 full year forecast of Xiaomi's smartphone shipment to 199mn units from previous 185mn units. The upside mainly comes from its continued gaining market share from competitors in both China and Europe market. In March quarter, the shipment jumped by 85% YoY in Europe with a market share of 23%, surpassing Apple and ranking top 2 for the first time. In China, Xiaomi is continuing to strengthen its offline channels in the competition with local rivals. As of 30 Apr 2021, the total number of fast-growing Mi-Home Store in China exceeded 5,500. On the cost side, due to chip supply constraints and potential inflation, gross margin could soften in the following quarters, however, the favorable product mix and tight product supply will offset this impact to some extent, in our view. Therefore, we expect its smartphone gross margin will continue to improve in the full year of 2021 compared to 2020.

AIoT ecosystem: back on rapid growth trajectory

This sector reported revenue of RMB18.2bn in Q1, up 40.5% YoY. The sector was gaining steam and returned to a rapid growth trajectory. Smart TV global shipments reached 2.6mn in Q1, maintaining the leadership in mainland China and top 5 globally. No. of AIoT platform devices continued to grow strongly to 351.1mn units as of March 31. In addition, the launch of MIJIA air con in March marked Xiaomi entering white home appliances. Xiaomi is the first manufacturer to introduce 5G smart white appliance products into the market segment dominated by traditional manufacturers, which is another growth driver for its AIoT sector, in our view. Besides, the rapidly growing brick and mortar Mi-Home Store will drive the sales of AIoT products as well.

Internet services: overseas expansion accelerating

Internet services revenue grew by 11.4% YoY to RMB6.6bn in Q1. Advertising/online game revenue was up 46.3% YoY/24.8% YoY, respectively. Thanks to strong smartphone sales, MIUI MAU increased steadily by 28.6% YoY to 425.3mn. On the other hand, overseas expansion is accelerating. Overseas internet services revenue increased 50.0% YoY to RMB0.9bn, accounting for 13.8% of total internet services revenue. The fast expanding smartphone user base and increasing number of connected AIoT devices will continue to boost future growth of the internet services, in our view.

Risks

Key risks to our PT include: 1) prolonged COVID-19 pandemic; 2) worse-than-expected chip supply constraints; 3) weaker-than-expected internet user acquisitions.

Stock code: 1810.HK

Rating: Buy

Price target (HK\$)	38.3
Previous price (HK\$)	35.0
Current price (HK\$, 28 May 2021)	28.6
Upside/downside %	34%
Market cap (HK\$ m)	720,898
Market cap (US\$ m)	92,882
Avg daily turnover (HK\$ m)	5,252

Source: Bloomberg, AMTD Research

Key forecasts

(Rmb m)	2020	2021e	2022e
Non-IFRS net profit	13,006	18,263	23,958
yoy %	13%	40%	31%
Revenue	245,86	336,809	415,263
yoy %	19%	37%	23%
Smartphone shipment (m)	146	199	241
yoy %	17%	36%	21%
Gross margin	14.9%	15.6%	15.7%
Non-IFRS net margin	5.3%	5.4%	5.8%
EPS (RMB/sh)	0.53	0.71	0.92

Source: Company data, AMTD Research estimates

Valuation

	2020	2021e	2022e
P/E (adjusted)	44.5	33.1	25.5
P/S	2.4	1.8	1.4
ROE	13.7%	15.6%	17.2%
ROA	6.8%	7.7%	8.4%

Source: Bloomberg, AMTD Research estimates

Share price performance



Source: Bloomberg

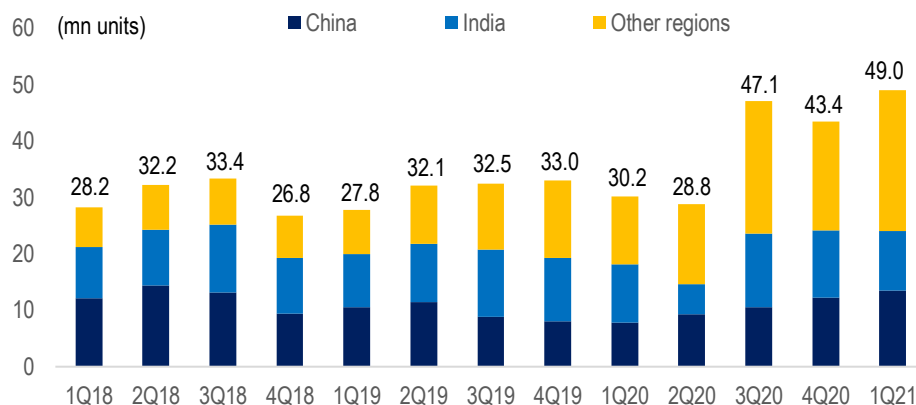
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Smartphone shipment

Figure 1: Xiaomi's quarterly smartphone shipment, by region



Source: Canalys, AMTD Research

Earnings forecast

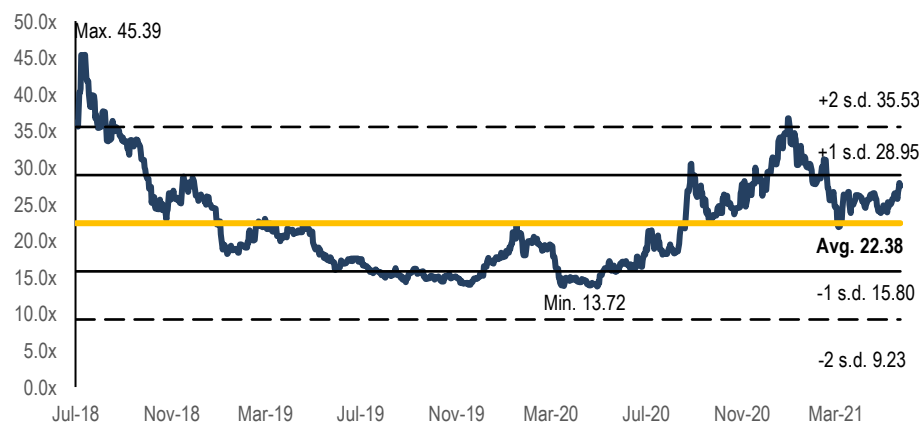
Figure 2: Earnings estimate changes

(RMB mn)	2021E			2022E		
	New	Old	% diff	New	Old	% diff
smartphone shipment (mn units)	199	185	7.6%	241	217	11.1%
Total revenue	336,809	321,453	4.8%	415,263	383,647	8.2%
Gross profit	52,645	47,161	11.6%	65,186	59,104	10.3%
gross margin	15.6%	14.7%	0.96ppt	15.7%	15.4%	0.29ppt
Operating income	20,391	18,723	8.9%	26,590	24,374	9.1%
Operating margin	6.1%	5.8%	0.23ppt	6.4%	6.4%	0.05ppt
Adjusted net profit	18,263	16,796	8.7%	23,958	22,007	8.9%
Adj. NPM	5.4%	5.2%	0.20ppt	5.8%	5.7%	0.03ppt
Adjusted EPS (RMB)	0.71	0.65	9.8%	0.92	0.84	8.8%

Source: AMTD Research estimates

Valuation

Figure 3: One year forward P/E of Xiaomi



Source: Bloomberg, AMTD Research

Figure 3: Xiaomi's quarterly P&L

Rmb m	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21
Profit & loss								
Revenue	51,951	53,661	56,470	49,702	53,538	72,163	70,463	76,882
Smartphones	32,021	32,268	30,797	30,325	31,628	47,604	42,635	51,491
IoT and lifestyle products	14,945	15,606	19,494	12,984	15,253	18,119	21,054	18,243
Internet services	4,580	5,309	5,695	5,901	5,908	5,772	6,175	6,571
Advertising	2,485	2,912	2,976	2,661	3,062	3,300	3,677	3,894
IVAS	2,095	2,397	2,719	3,239	2,846	2,472	2,498	2,677
Others	405	477	484	493	750	668	599	577
Cost of sales	(44,692)	(45,425)	(48,626)	(42,144)	(45,836)	(61,997)	(59,137)	(62,721)
Gross profit	7,258	8,236	7,844	7,559	7,701	10,166	11,325	14,161
Gross margin	14.0%	15.3%	13.9%	15.2%	14.4%	14.1%	16.1%	18.4%
Operating expenses	(4,575)	(5,414)	(6,859)	(5,277)	(6,018)	(6,775)	(9,472)	(8,163)
Selling and marketing expenses	(2,295)	(2,537)	(3,701)	(2,625)	(3,224)	(3,601)	(5,090)	(4,164)
Administrative expenses	(724)	(844)	(905)	(782)	(836)	(853)	(1,276)	(988)
R&D expenses	(1,556)	(2,033)	(2,253)	(1,871)	(1,958)	(2,321)	(3,106)	(3,012)
EBIT	2,684	2,823	985	2,281	1,683	3,391	1,854	5,998
Fair value changes on investments	(671)	33	1,819	348	2,366	3,418	7,042	2,063
Share of losses of investments	(12)	(241)	(274)	131	893	(11)	368	9
Other income	406	448	351	74	183	139	247	152
Other (losses)/gains, net	(71)	50	(183)	(510)	288	(241)	91	(65)
PBT	2,434	3,295	2,717	2,454	4,868	5,451	8,861	9,067
Income tax expenses	(479)	(775)	(280)	(294)	(374)	(586)	(66)	(1,278)
(Loss)/profit for the year	1,955	2,519	2,436	2,160	4,493	4,864	8,795	7,789
Minority interest	4	(6)	(5)	(4)	(5)	(16)	(18)	(4)
Attributable profit	1,952	2,525	2,441	2,163	4,498	4,881	8,813	7,793
Adjusted net profit (non-IFRS)	3,635	3,472	2,344	2,301	3,373	4,128	3,204	6,069
YoY growth %								
Total revenue	15%	6%	27%	14%	3%	34%	25%	55%
Smartphones	5%	-8%	23%	12%	-1%	48%	38%	70%
IoT and lifestyle products	44%	44%	31%	8%	2%	16%	8%	41%
Internet services	16%	12%	41%	39%	29%	9%	8%	11%
Advertising	-1%	-9%	18%	17%	23%	13%	24%	46%
IVAS	44%	57%	80%	64%	36%	3%	-8%	-17%
Others	2%	45%	31%	10%	85%	40%	24%	17%
Gross profit	28%	25%	39%	45%	6%	23%	44%	87%
Adjusted net profit (non-IFRS)	72%	20%	27%	11%	-7%	19%	37%	164%

Source: Company data, AMTD research

Figure 4: Xiaomi's P&L forecast

Rmb m	2017	2018	2019	2020	2021E	2022E
Profit & loss						
Revenue	114,625	174,915	205,839	245,866	336,809	415,263
Cost of sales	(99,471)	(152,723)	(177,285)	(209,114)	(284,164)	(350,077)
Gross profit	15,154	22,192	28,554	36,752	52,645	65,186
Gross margin	13.2%	12.7%	13.9%	14.9%	15.6%	15.7%
Operating expenses	(9,599)	(25,869)	(20,975)	(27,542)	(34,355)	(40,696)
Selling and marketing expenses	(5,232)	(7,993)	(10,378)	(14,539)	(16,840)	(19,933)
Administrative expenses	(1,216)	(12,099)	(3,104)	(3,746)	(4,379)	(5,398)
R&D expenses	(3,151)	(5,777)	(7,493)	(9,256)	(13,136)	(15,365)
EBIT	5,555	(3,677)	7,580	9,210	18,291	24,490
PBT	(41,829)	13,927	12,163	21,633	20,897	27,335
Income tax expenses	(2,060)	(449)	(2,060)	(1,321)	(2,447)	(3,191)
(Loss)/profit for the year	(43,889)	13,478	10,103	20,313	18,450	24,144
Minority interest	(63)	(76)	59	(43)	(47)	(52)
Attributable profit	(43,826)	13,554	10,044	20,356	18,497	24,196
Adjusted net profit (non-IFRS)	5,362	8,555	11,532	13,006	18,263	23,958
Yoy growth %						
Total revenue	67%	53%	18%	19%	37%	23%
Gross profit	109%	46%	29%	29%	43%	24%
(Loss)/profit for the year (reported)	na	na	-25%	101%	-9%	31%
Adjusted net profit (non-IFRS)	183%	60%	35%	13%	40%	31%

Source: Company data; AMTD Research estimates

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AMTD Investment Ratings

Stock Rating

Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

Analyst Certification

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