

## Xiaomi Corporation

Impressive overall Q2 results, continued expansion in premium/overseas market drives future growth, reiterate Buy

### Impressive Q2 results, reiterate Buy on premium/overseas market upside

Xiaomi reported impressive Q2 results. Total revenue grew strongly by 14.2% QoQ/64.0% YoY to a record RMB87.8bn, driven by continuing momentum across all sectors. Gross margin was 17.3% compared to 14.4% in Q2'FY20, helped by GPM expansion in internet services. Opex ratio was up slightly to 11.3% from 10.6% last quarter, reflecting the continued offline channel expansion efforts and R&D investment. Non-IFRS net profit came in at RMB6.3bn, up 4.2% QoQ/87.4% YoY. In a long run, we see future upside coming from: 1) Xiaomi's smartphone and AIoT products are gaining a stronger position in the premium market, which will fuel the growth of high-margin internet services sector; 2) continuing momentum in higher growth potential overseas markets driven by solid demand. Therefore, we reiterate Buy rating on Xiaomi with PT of HK\$38.3 on 45x FY21E P/E on back of Xiaomi's future ambitions and its long-term commitment.

### Smartphone: record quarter with upside in LT market share gaining

Xiaomi had another record quarter in smartphone business. According to Canalys, total shipment reached 52.8mn units globally, up 86.8% YoY and ranking No. 2 for the first time with a market share of 16.7%. In Europe, Xiaomi ranked No.1 for the first time with a market share of 28.5%; in China, market share has been improved to 16.8% from 10.3% in Q2'FY20 underpinned by continued offline expansion efforts. The total number of retail stores in mainland China grew to more than 7,600 as of June 30, 2021. On the product side, with an enriching high-end product lineup, Xiaomi continued to strengthen its position in the premium market, which helped lift ASP and was accretive to the margin as well. In Q2, smartphone revenue was RMB59.1mn, up 86.8% YoY, with a gross margin of 11.8%. Given the continuous supply constraint, we expect smartphone business growth and margin could soften a little bit in the following quarters, however, in a long run, Xiaomi will continue to gain market share with the help of its dual-brand strategy, in our view.

### AIoT ecosystem: capturing the solid demand in premium/overseas market

This sector maintained robust growth for the second consecutive quarter. Revenue was up 35.9% YoY to RMB20.7bn. The strength mainly came from the expansion into the premium market and solid demand in overseas market, where revenue was up 93.8% YoY. Xiaomi launched premium and ultra-large screen TV lineup this quarter and Smart TV global shipments reached 2.5mn in Q2, maintaining the leadership in mainland China and top 5 globally. On the other hand, no. of AIoT platform devices reached 374.5mn units as of 30 June. With successful "Smartphone x AIoT" strategy, Xiaomi will lead the AIoT ecosystem competition in 5G era, in our view.

### Internet services: fueled by increase sales in premium hardware market

Internet services sector is gathering steam. Revenue grew by 19.1% YoY to RMB7.0bn. Gross margin rose to 74.1% vs. 72.4% last quarter and 60.3% in Q2'FY20, thanks to the increase in sales of premium hardware. On the other hand, overseas expansion is accelerating. Overseas internet services revenue rose by 96.8% YoY to RMB1.1bn. Total MIUI MAU increased steadily by 32.1% YoY to 453.8mn. The fast expanding premium hardware sales and surging overseas demand will continue to fuel future growth of the internet services, in our view.

Stock code: 1810.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>38.3</b>
Current price (HK\$, 27 Aug 2021)	24.9
Upside/downside %	54%
Market cap (HK\$ m)	623,040
Market cap (US\$ m)	79,983
Avg daily turnover (HK\$ m)	5,375

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	245,866	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)	38.6	28.7	22.2
P/S	2.1	1.5	1.2
ROE	12.6%	13.7%	15.4%
ROA	5.9%	6.9%	7.8%

Source: Bloomberg, AMTD Research estimates

### Share price performance



Source: Bloomberg

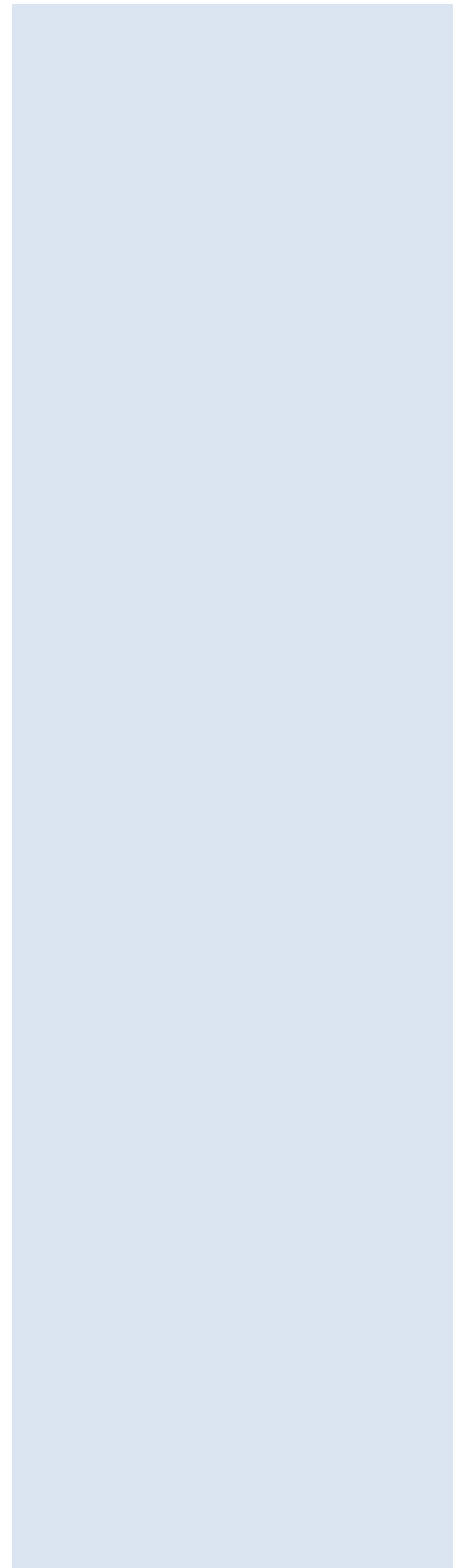
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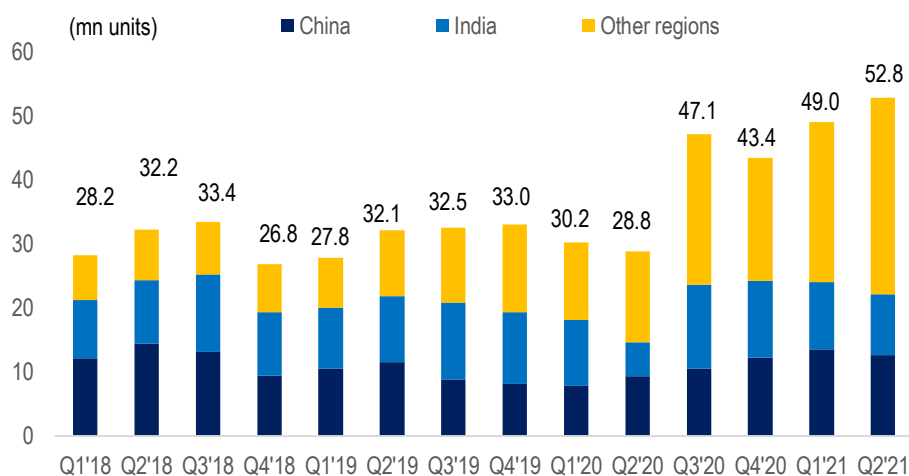
**Risks**

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.



### Smartphone shipment

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



Source: Canalis, AMTD Research

### Valuation

**Figure 2: One year forward P/E of Xiaomi**



Data as of 27 Aug 2021; Source: Bloomberg, AMTD Research

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

Rmb m	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
<b>Profit &amp; loss</b>									
<b>Revenue</b>	<b>51,951</b>	<b>53,661</b>	<b>56,470</b>	<b>49,702</b>	<b>53,538</b>	<b>72,163</b>	<b>70,463</b>	<b>76,882</b>	<b>87,789</b>
Smartphones	32,021	32,268	30,797	30,325	31,628	47,604	42,635	51,491	59,089
IoT and lifestyle products	14,945	15,606	19,494	12,984	15,253	18,119	21,054	18,243	20,735
Internet services	4,580	5,309	5,695	5,901	5,908	5,772	6,175	6,571	7,034
Advertising	2,485	2,912	2,976	2,661	3,062	3,300	3,677	3,894	4,476
IVAS	2,095	2,397	2,719	3,239	2,846	2,472	2,498	2,677	2,558
Others	405	477	484	493	750	668	599	577	932
<b>Cost of sales</b>	<b>(44,692)</b>	<b>(45,425)</b>	<b>(48,626)</b>	<b>(42,144)</b>	<b>(45,836)</b>	<b>(61,997)</b>	<b>(59,137)</b>	<b>(62,721)</b>	<b>(72,641)</b>
<b>Gross profit</b>	<b>7,258</b>	<b>8,236</b>	<b>7,844</b>	<b>7,559</b>	<b>7,701</b>	<b>10,166</b>	<b>11,325</b>	<b>14,161</b>	<b>15,148</b>
<b>Gross margin</b>	<b>14.0%</b>	<b>15.3%</b>	<b>13.9%</b>	<b>15.2%</b>	<b>14.4%</b>	<b>14.1%</b>	<b>16.1%</b>	<b>18.4%</b>	<b>17.3%</b>
<b>Operating expenses</b>	<b>(4,575)</b>	<b>(5,414)</b>	<b>(6,859)</b>	<b>(5,277)</b>	<b>(6,018)</b>	<b>(6,775)</b>	<b>(9,472)</b>	<b>(8,163)</b>	<b>(9,895)</b>
Selling and marketing expenses	(2,295)	(2,537)	(3,701)	(2,625)	(3,224)	(3,601)	(5,090)	(4,164)	(5,681)
Administrative expenses	(724)	(844)	(905)	(782)	(836)	(853)	(1,276)	(988)	(1,150)
R&D expenses	(1,556)	(2,033)	(2,253)	(1,871)	(1,958)	(2,321)	(3,106)	(3,012)	(3,064)
<b>EBIT</b>	<b>2,684</b>	<b>2,823</b>	<b>985</b>	<b>2,281</b>	<b>1,683</b>	<b>3,391</b>	<b>1,854</b>	<b>5,998</b>	<b>5,253</b>
Fair value changes on investments	(671)	33	1,819	348	2,366	3,418	7,042	2,063	4,165
Share of losses of investments	(12)	(241)	(274)	131	893	(11)	368	9	(26)
Other income	406	448	351	74	183	139	247	152	235
Other (losses)/gains, net	(71)	50	(183)	(510)	288	(241)	91	(65)	1,099
<b>PBT</b>	<b>2,434</b>	<b>3,295</b>	<b>2,717</b>	<b>2,454</b>	<b>4,868</b>	<b>5,451</b>	<b>8,861</b>	<b>9,067</b>	<b>9,679</b>
Income tax expenses	(479)	(775)	(280)	(294)	(374)	(586)	(66)	(1,278)	(1,415)
<b>(Loss)/profit for the year</b>	<b>1,955</b>	<b>2,519</b>	<b>2,436</b>	<b>2,160</b>	<b>4,493</b>	<b>4,864</b>	<b>8,795</b>	<b>7,789</b>	<b>8,263</b>
Minority interest	4	(6)	(5)	(4)	(5)	(16)	(18)	(4)	(4)
<b>Attributable profit</b>	<b>1,952</b>	<b>2,525</b>	<b>2,441</b>	<b>2,163</b>	<b>4,498</b>	<b>4,881</b>	<b>8,813</b>	<b>7,793</b>	<b>8,268</b>
<b>Adjusted net profit (non-IFRS)</b>	<b>3,635</b>	<b>3,472</b>	<b>2,344</b>	<b>2,301</b>	<b>3,373</b>	<b>4,128</b>	<b>3,204</b>	<b>6,069</b>	<b>6,322</b>
<b>YoY growth %</b>									
<b>Total revenue</b>	<b>15%</b>	<b>6%</b>	<b>27%</b>	<b>14%</b>	<b>3%</b>	<b>34%</b>	<b>25%</b>	<b>55%</b>	<b>64%</b>
Smartphones	5%	-8%	23%	12%	-1%	48%	38%	70%	87%
IoT and lifestyle products	44%	44%	31%	8%	2%	16%	8%	41%	36%
Internet services	16%	12%	41%	39%	29%	9%	8%	11%	19%
Advertising	-1%	-9%	18%	17%	23%	13%	24%	46%	46%
IVAS	44%	57%	80%	64%	36%	3%	-8%	-17%	-10%
Others	2%	45%	31%	10%	85%	40%	24%	17%	24%
<b>Gross profit</b>	<b>28%</b>	<b>25%</b>	<b>39%</b>	<b>45%</b>	<b>6%</b>	<b>23%</b>	<b>44%</b>	<b>87%</b>	<b>97%</b>
<b>Adjusted net profit (non-IFRS)</b>	<b>72%</b>	<b>20%</b>	<b>27%</b>	<b>11%</b>	<b>-7%</b>	<b>19%</b>	<b>37%</b>	<b>164%</b>	<b>87%</b>

Source: Company data; AMTD research

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

Rmb m	2017	2018	2019	2020	2021E	2022E
<b>Profit &amp; loss</b>						
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
<b>Yoy growth %</b>						
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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<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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