

Xiaomi Corporation

Supply constraints easing ahead + growing H/W installed base potential, maintain Buy on undemanding valuation

Supply constraints will be easing, reiterate Buy on undemanding valuation

Given the global supply chain constraints, we slightly lower our ets. of Xiaomi's FY21e smartphone shipment from 199mn units to 190mn units. As the high-end segment was less affected than the low-end segment and Xiaomi's solid position in the high-end segment, we raise Xiaomi's FY21e est. of gross margin (17.9% vs prev. 15.6%) and EPS (RMB0.82 vs. prev. RMB0.71) accordingly to reflect the favorable revenue mix change. For FY22e, we see more growth potential coming from: 1) supply chain constraints will be easing, which will unleash unsatisfied demand; 2) growing hardware installed base, in particular in high-end segment, will bring more upside in high margin internet services. The stock is now trading below its historical average of 22x P/E, indicating a big room for valuation expansion, in our view. We maintain Buy rating on Xiaomi with PT of HK\$38.3 on 34x FY22e P/E.

Smartphone: ST headwind in supply but in LT solid market position

Xiaomi's total shipment reached 44mn units globally in Q3, down 6.6% YoY. In India, Xiaomi maintained the leadership with a record of 11.2mn shipment in Q3, up 18% QoQ; in Europe, Xiaomi ranked No.2 with a market share of 20.8%; In China, Xiaomi has a market share of 13.8% with its continuous efforts on offline channel expansion. The total number of retail stores in mainland China exceeded 10,000 currently. On the product side, with an enriching high-end product lineup including the launch of Mix 4 in Q3, Xiaomi continued to strengthen its position in the premium market, which helped lift ASP and was accretive to the margin as well. In Q3, smartphone revenue was RMB47.8bn, up 0.5% YoY, with a gross margin of 12.8%, up 4.4ppt YoY and 1ppt QoQ. Given supply chain constraints easing next year, continuous offline channel expansion, and solid position in high-end segment, we expect Xiaomi's smartphone shipment will grow by more than 20% YoY in FY22e.

AIoT & internet service: growing H/W installed base potential

AIoT revenue was up 15.5% YoY to RMB20.9bn. Despite a YoY decline in global smart TV shipment, Xiaomi Smart TV global shipments grew by 19.5% YoY to 3.0mn in Q3, maintaining the leadership in mainland China and top 5 globally. In addition, Xiaomi has expanded premium smart home appliances by launching smart air-con, refrigerator and washing machine. No. of AIoT platform devices exceeded 400mn units as of 30 Sep. On the other hand, Internet services revenue grew by 27.1% YoY to RMB7.3bn with a gross margin of 73.6%, compared to 60.4% in Q3 last year. Thanks to growing H/W installed base, global MIUI MAU exceeded 500mn for the first time as of 22 Nov. The fast-expanding hardware sales will continue to fuel growth of high margin internet services, in our view.

Q3 results recap

Total revenue was RMB78.1bn, up 8.2% YoY/down 11.1% QoQ due to the global supply constraints. Gross margin expanded to 18.3% compared to 14.1% in Q3 last year, helped by GPM expansion in internet service and favorable revenue mix of smartphone. Opex ratio was up to 12.0% from 11.3% last quarter, reflecting the continued offline channel expansion and R&D investment in smartphone and EV. Non-IFRS net profit came in at RMB5.2bn, up 25.4% YoY.

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
Current price (HK\$, 25 Nov 2021)	19.6
Upside/downside %	96%
Market cap (HK\$ m)	489,163
Market cap (US\$ m)	62,739
Avg daily turnover (HK\$ m)	4,613

Source: Bloomberg, AMTD Research

Key forecasts

(Rmb m)	2020	2021e	2022e
Non-IFRS net profit	13,006	21,252	24,314
yoy %	13%	63%	14%
Revenue	245,866	326,971	402,947
yoy %	19%	33%	23%
Smartphone shipment (m)	146	190	231
yoy %	17%	30%	21%
Gross margin	14.9%	17.9%	16.0%
Non-IFRS net margin	5.3%	6.5%	6.0%
EPS (RMB/sh)	0.53	0.82	0.93

Source: Company data, AMTD Research estimates

Valuation

	2020	2021e	2022e
P/E (adjusted)	30.5	19.7	17.3
P/S	1.6	1.2	1.0
ROE	12.6%	15.6%	15.3%
ROA	5.9%	8.0%	7.9%

Source: Bloomberg, AMTD Research estimates

Share price performance



Source: Bloomberg

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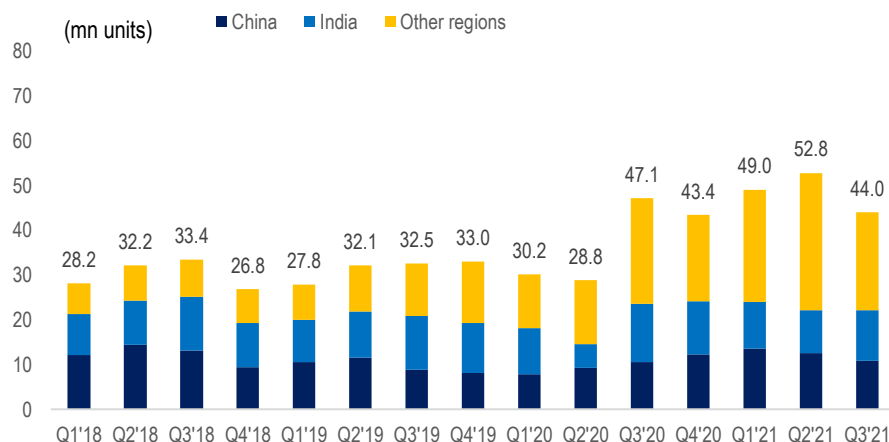
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Smartphone shipment

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



Source: Canalys, AMTD Research

Earnings forecast

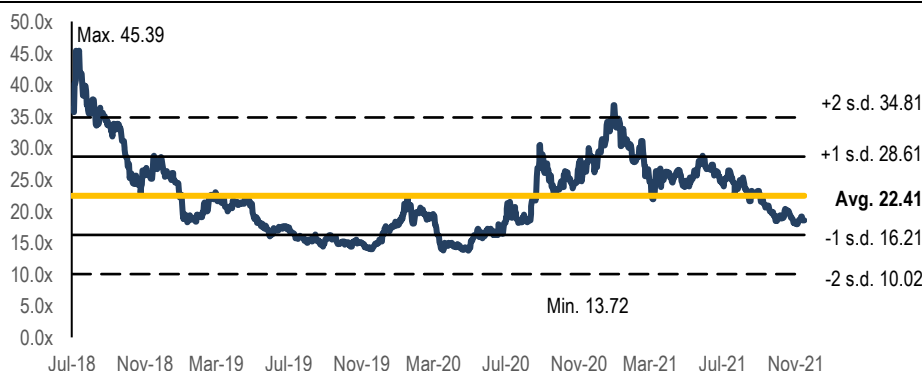
Figure 2: Earnings estimate changes

(RMB mn)	2021E			2022E		
	New	Old	% diff	New	Old	% diff
Smartphone shipment (mn units)	190	199	-4.4%	231	241	-4.4%
Total revenue	326,971	336,809	-2.9%	402,947	415,263	-3.0%
Gross profit	58,634	52,645	11.4%	64,384	65,186	-1.2%
<i>gross margin</i>	17.9%	15.6%	2.30ppt	16.0%	15.7%	0.28ppt
Operating income	23,787	20,391	16.7%	26,995	26,590	1.5%
<i>Operating margin</i>	7.3%	6.1%	1.22ppt	6.7%	6.4%	0.30ppt
Adjusted net profit	21,252	18,263	16.4%	24,314	23,958	1.5%
<i>Adj. NPM</i>	6.5%	5.4%	1.08ppt	6.0%	5.8%	0.26ppt
Adjusted EPS (RMB)	0.82	0.71	16.4%	0.93	0.92	1.5%

Source: AMTD Research estimates

Valuation

Figure 3: One year forward P/E of Xiaomi



Source: Bloomberg, AMTD Research

Figure 4: Xiaomi's quarterly P&L

Rmb m	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Profit & loss									
Revenue	53,661	56,470	49,702	53,538	72,163	70,462	76,882	87,789	78,063
Smartphones	32,268	30,797	30,325	31,628	47,604	42,634	51,491	59,089	47,825
IoT and lifestyle products	15,606	19,494	12,984	15,253	18,119	21,054	18,243	20,735	20,936
Internet services	5,309	5,695	5,901	5,908	5,772	6,175	6,571	7,034	7,338
Advertising	2,912	2,976	2,661	3,062	3,300	3,677	3,894	4,476	4,775
IVAS	2,397	2,719	3,239	2,846	2,472	2,498	2,677	2,558	2,563
Others	477	484	493	750	668	599	577	932	1,965
Cost of sales	(45,425)	(48,626)	(42,144)	(45,836)	(61,997)	(59,137)	(62,721)	(72,641)	(63,771)
Gross profit	8,236	7,844	7,559	7,701	10,166	11,325	14,161	15,148	14,292
Gross margin	15.3%	13.9%	15.2%	14.4%	14.1%	16.1%	18.4%	17.3%	18.3%
Operating expenses	(5,414)	(6,859)	(5,277)	(6,018)	(6,775)	(9,472)	(8,163)	(9,895)	(9,395)
Selling and marketing expenses	(2,537)	(3,701)	(2,625)	(3,224)	(3,601)	(5,090)	(4,164)	(5,681)	(4,882)
Administrative expenses	(844)	(905)	(782)	(836)	(853)	(1,276)	(988)	(1,150)	(1,275)
R&D expenses	(2,033)	(2,253)	(1,871)	(1,958)	(2,321)	(3,106)	(3,012)	(3,064)	(3,238)
EBIT	2,823	985	2,281	1,683	3,391	1,854	5,998	5,253	4,898
Fair value changes on investments	33	1,819	348	2,366	3,418	7,042	2,063	4,165	(1,976)
Share of losses of investments	(241)	(274)	131	893	(11)	368	9	(26)	45
Other income	448	351	74	183	139	247	152	235	235
Other (losses)/gains, net	50	(183)	(510)	288	(241)	91	(65)	1,099	(472)
PBT	3,295	2,717	2,454	4,868	5,451	8,861	9,067	9,679	1,787
Income tax expenses	(775)	(280)	(294)	(374)	(586)	(66)	(1,278)	(1,415)	(999)
(Loss)/profit for the year	2,519	2,436	2,160	4,493	4,864	8,795	7,789	8,263	789
Minority interest	(6)	(5)	(4)	(5)	(16)	(18)	(4)	(4)	4
Attributable profit	2,525	2,441	2,163	4,498	4,881	8,813	7,793	8,268	785
Adjusted net profit (non-IFRS)	3,472	2,344	2,301	3,373	4,128	3,204	6,069	6,322	5,176
YoY growth %									
Total revenue	6%	27%	14%	3%	34%	25%	55%	64%	8%
Smartphones	-8%	23%	12%	-1%	48%	38%	70%	87%	0%
IoT and lifestyle products	44%	31%	8%	2%	16%	8%	41%	36%	16%
Internet services	12%	41%	39%	29%	9%	8%	11%	19%	27%
Advertising	-9%	18%	17%	23%	13%	24%	46%	46%	45%
IVAS	57%	80%	64%	36%	3%	-8%	-17%	-10%	4%
Others	45%	31%	10%	85%	40%	24%	17%	24%	194%
Gross profit	25%	39%	45%	6%	23%	44%	87%	97%	41%
Adjusted net profit (non-IFRS)	20%	27%	11%	-7%	19%	37%	164%	87%	25%

Source: Company data; AMTD research

Figure 5: Xiaomi's P&L forecast

Rmb mn	2017	2018	2019	2020	2021E	2022E
Profit & loss						
Revenue	114,625	174,915	205,839	245,866	326,971	402,947
Cost of sales	(99,471)	(152,723)	(177,285)	(209,114)	(268,336)	(338,563)
Gross profit	15,154	22,192	28,554	36,752	58,634	64,384
Gross margin	13.2%	12.7%	13.9%	14.9%	17.9%	16.0%
Operating expenses	(9,599)	(25,869)	(20,975)	(27,542)	(36,948)	(39,489)
Selling and marketing expenses	(5,232)	(7,993)	(10,378)	(14,539)	(19,291)	(19,341)
Administrative expenses	(1,216)	(12,099)	(3,104)	(3,746)	(4,905)	(5,238)
R&D expenses	(3,151)	(5,777)	(7,493)	(9,256)	(12,752)	(14,909)
EBIT	5,555	(3,677)	7,580	9,210	21,687	24,895
PBT	(41,829)	13,927	12,163	21,633	24,293	27,740
Income tax expenses	(2,060)	(449)	(2,060)	(1,321)	(2,854)	(3,239)
(Loss)/profit for the year	(43,889)	13,478	10,103	20,313	21,438	24,501
Minority interest	(63)	(76)	59	(43)	(47)	(52)
Attributable profit	(43,826)	13,554	10,044	20,356	21,485	24,553
Adjusted net profit (non-IFRS)	5,362	8,555	11,532	13,006	21,252	24,314
Yoy growth %						
Total revenue	67%	53%	18%	19%	33%	23%
Gross profit	109%	46%	29%	29%	60%	10%
(Loss)/profit for the year (reported)	na	na	-25%	101%	6%	14%
Adjusted net profit (non-IFRS)	183%	60%	35%	13%	63%	14%

Source: Company data; AMTD Research estimates

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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

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