

# Xiaomi Corporation

## Expect solid FY19 results based on smartphone GM recovery and healthy IoT growth

### Reiterate Buy rating: expect solid FY19 results

Xiaomi will report the annual results at the end of March. We expect solid FY19 results mainly benefiting from smartphone gross margin recovery and healthy growth of IoT. We expect full year revenue will grow 18% YoY to Rmb207bn, and adjusted net profit will come in at Rmb11.6bn, up 35% YoY. Looking ahead to 2020, we expect total revenue will grow by 23% YoY. Although uncertainties caused by COVID-19 are still around, we believe the growth will be driven by: 1) first-mover advantage in 5G; 2) strength of core IoT products and portfolio expansion; 3) diversification of Mi ecosystem monetization.

### Exiting FY19 with strong quarterly growth and entering FY20 with 5G edge

According to IDC, Xiaomi smartphone shipment was 32.8mn units in 4Q19, up 31.1% YoY, the strongest quarter since Q2 2018. Xiaomi continues to see demand strength in overseas market, in particular, in Europe. In India, in response to stiff competition from Realme and Samsung, Xiaomi announced in Jan to spin-off POCO as an independent brand, hoping to seize more market share. In 5G market, Xiaomi had launched the most affordable 5G smartphone last Dec and just launched 5G version in its flagship Mi10. Given that more 5G models will be launched this year, we expect total revenue from smartphone will grow by 18-20%, among which about 10% growth will come from ASP hike. On the other hand, as COVID-19 has hit the global market, uncertainties are still around. Nevertheless, Xiaomi's production is gradually ramping up and strength of online sale channels could mitigate the impact from the epidemic, in our view.

### Smart TV led the growth of IoT and upbeat outlook on products expansion

In FY19, Mi TV shipment exceeded 10mn units, ranking the first with 20%+ of market share in China. Newly launched Redmi AirDots TWS and Mi electric scooter are also very popular among the consumers. Apart from those, Xiaomi continues to make progress on high margin big white appliances. Xiaomi has now built up its AIoT ecosystem and product portfolio. We expect its IoT revenue will have a very healthy growth of 33% in FY20.

### New subscription services introduced to offset weakness in online ads

Xiaomi continues to introduce new subscription services on its smartphone and TV, hoping to offset the weakness in online ads. With contribution from other IVAS, such as Youpin and Fintech, we expect internet service can achieve decent growth in FY20.

### Price target: HK\$22.0 (82% upside)

We derive our Dec-20 price target of HK\$22.0 per share using a discounted cash flow model, assuming 13.4% cost of equity, 3% long-term growth rate.

Stock code: 1810.HK

Rating: Buy

Price target (HK\$)	22.0
Current price (HK\$, 9 Mar 2020)	12.1
Upside/downside %	82%
Market cap (HK\$ m)	289,703
Market cap (US\$ m)	37,289
Avg daily turnover (HK\$ m)	1,251

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)	30.1	22.2	18.0
P/S	1.5	1.2	1.0
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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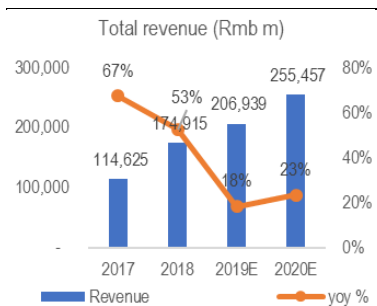
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*This report marks the transfer of coverage of Xiaomi Corporation (1810.HK) to Brian Li*

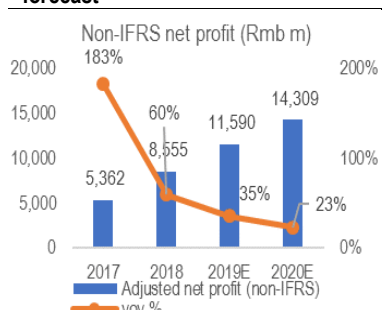
## Focus charts

**Figure 1: Xiaomi revenue forecast**



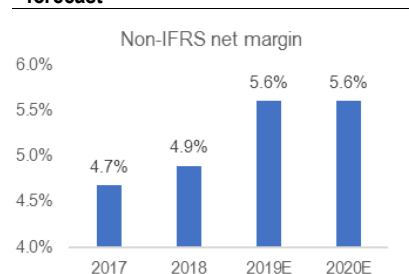
Source: Company data, AMTD estimates

**Figure 2: Xiaomi non-IFRS net profit forecast**



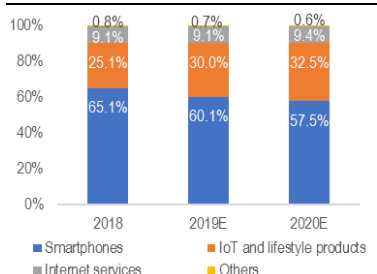
Source: Company data, AMTD estimates

**Figure 3: Xiaomi non-IFRS net margin forecast**



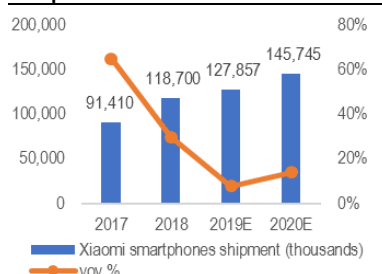
Source: Company data, AMTD estimates

**Figure 4: Xiaomi revenue mix forecast**



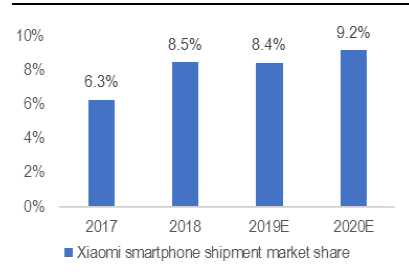
Source: Company data, AMTD estimates

**Figure 5: Xiaomi smartphone shipment forecast**



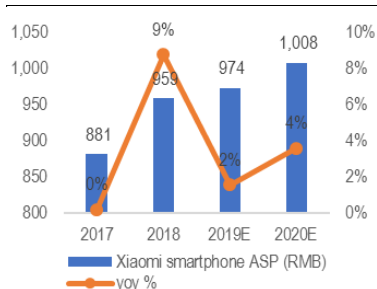
Source: Company data, AMTD estimates

**Figure 6: Xiaomi global smartphone market share forecast**



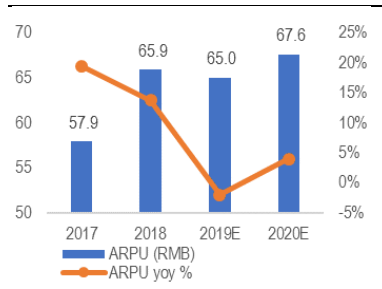
Source: Company data, AMTD estimates

**Figure 7: Xiaomi smartphone ASP forecast**



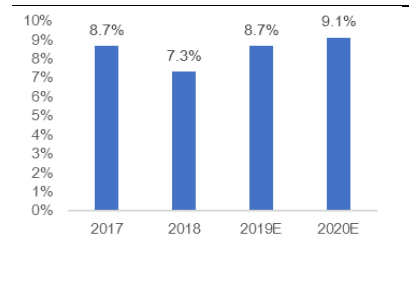
Source: Company data, AMTD estimates

**Figure 8: Xiaomi internet service ARPU forecast**



Source: Company data, AMTD estimates

**Figure 9: Xiaomi hardware gross margin forecast**



Source: Company data, AMTD estimates

Figure 10: 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	(684)	(2,060)	(449)	(1,932)	(2,331)
<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 11: 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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<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
<b>Underweight</b>	Industry sector expected to underperform the market over the next 12 months
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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