

Xiaomi Corporation

Strong smartphone momentum driving more sustainable growth ahead, reiterate Buy on recent market correction

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According to Canalys, Xiaomi achieved its record high of smartphone shipment in the first quarter of 2021. Its global smartphone shipment grew strongly by 62% YoY to 49mn units in Q1, ranking third for the second quarter in a row; in particular, the shipment jumped by 85% YoY in Europe with a market share of 23% in Q1, surpassing Apple and ranking top 2 for the first time. 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, in our view. On the other hand, with the backdrop of the broader tech sector's valuation correction triggered by inflation concerns, we see a great buying opportunity of Xiaomi for LT investors. We reiterate Buy on Xiaomi with a PT of HK\$35.0 on 45x FY21E P/E, factoring in Xiaomi's future ambitions and its long-term commitment.

Smartphone: gaining market share with continuous innovation

Given its leading position in 5G cycle and successful strategy and execution, Xiaomi continues to gain market share from major rivals. We expect Xiaomi's smartphone to grow by 24% - 28% YoY in full year of 2021, driven by:

- Enriched product matrix:** Xiaomi further expanded its Mi 11 series by newly introducing Mi 11 Pro, Mi 11 Ultra and Mi 11 Lite this Mar. So far, Xiaomi offers 5 models of Mi 11, covering the price range of RMB2,299 to RMB 5,999. The diversified product line with colorful variants can tap into more customers in different segments. In addition, Xiaomi released its first foldable flagship smartphone, the Mix Fold, priced starting from RMB9,999. Mix Fold is expected to ship 500K units in 2021, further solidifying Xiaomi's strong position in premium smartphone segment.
- Cutting-edge technologies:** Camera still dominates the competition. Xiaomi continues to introduce cutting-edge technologies in this field: 1) liquid lens, which is firstly equipped with Mix Fold, allows the lens itself to move and change shape, and enables the same lens to function as telephoto, macro shots as well as offer fast autofocus; 2) 108MP sensor, highest pixel among the peers; and 3) Snapdragon 888 processor with powerful AI engine, both of which are equipped with Mi 11 models.
- Acceleration of offline channels:** Xiaomi is now starting to strengthen its offline channels in the competition with other rivals. Building brick and mortar store will help Xiaomi to promote its brand and achieve ambitions of "Smartphone x AIoT" ecosystem. At the same time, a wide variety of its smartphone and AIoT product offerings can also help improve the operating efficiency of those offline stores. By 3 Apr 2021, the total number of Mi-Home Store in China exceeded 5,000.

AIoT ecosystem: launch of smart home appliances and EV business

With the launch of MIJIA air con in March, Xiaomi entered white home appliances. We see this a huge growth potential for Xiaomi because as a game changer, Xiaomi is the first manufacturer to introduce 5G smart product into the market segment dominated by traditional manufacturers. For EV, AIoT ecosystem will be Xiaomi's unique competitive edge, 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\$)	35.0
Current price (HK\$, 11 May 2020)	24.6
Upside/downside %	42%
Market cap (HK\$ m)	620,073
Market cap (US\$ m)	79,838
Avg daily turnover (HK\$ m)	5,105

Source: Bloomberg, AMTD Research

Key forecasts

(Rmb m)	2020	2021e	2022e
Non-IFRS net profit	13,006	16,796	22,007
yoy %	13%	29%	31%
Revenue	245,866	321,453	383,647
yoy %	19%	31%	19%
Smartphone shipment (m)	146	185	217
yoy %	17%	26%	18%
Gross margin	14.9%	15.0%	15.4%
Non-IFRS net margin	5.3%	5.3%	5.7%
EPS (RMB/sh)	0.53	0.65	0.84

Source: Company data, AMTD Research estimates

Valuation

	2020	2021e	2022e
P/E (adjusted)	42.5	34.7	26.5
P/S	2.3	1.8	1.5
ROE	13.7%	14.4%	16.1%
ROA	6.8%	7.1%	8.0%

Source: Bloomberg, AMTD Research estimates

Share price performance



Source: Bloomberg

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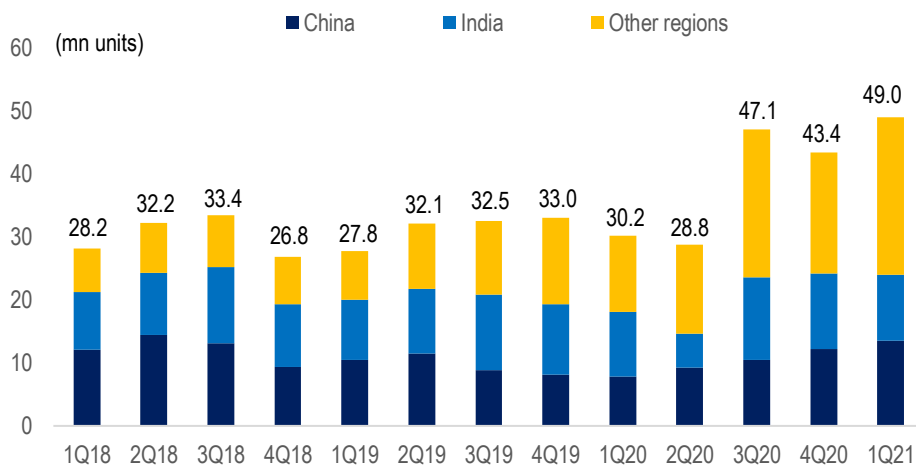
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Smartphone

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



Source: Canalys, AMTD Research

Valuation

Figure 2: One year forward P/E of Xiaomi



Source: Bloomberg, AMTD Research

IMPORTANT DISCLOSURES

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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AMTD Global Markets Limited has an investment banking relationship with Xiaomi Corporation and/or its affiliate(s) within the past 12 months.

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