

Xiaomi Corporation

Earnings Review

Resilient operations pave the way for upcoming recovery despite prolonged headwinds, maintain Buy

Maintain Buy on resilient operations

Despite prolonged headwinds, Xiaomi managed to achieve marginal QoQ growth (rev. up 0.4%/adj. net profit up 1.7%) in Q3. It is largely attributed to: 1) effective sales strategy to reduce smartphone inventory to a near healthy level; 2) continuous introduction of new high-end IoT smart products to tap different profitable market segments; 3) prudent expenses control given the new initiatives investment. Even though the headwinds may be longer than expected, we still believe Xiaomi's resilient operations and its differentiated strategy of shifting towards user experience have paved the way for upcoming recovery. We maintain Buy on Xiaomi.

Smartphone: inventory level declined with more upside in ASP and margin

According to Canals, Xiaomi's total global shipments reached 40.5mn units in Q3, up 0.6% QoQ, maintaining 3rd place globally with a market share of 13.6%. Smartphone revenue was up marginally by 0.6% QoQ to RMB42.5bn given the challenging market condition. In the backdrop of reducing inventory, Xiaomi smartphone gross margin increased slightly by 0.2ppts to 8.9% from last quarter, reflecting further enhancement in the profitability of its smartphone business. Given that its smartphone inventory has returned to a near healthy level and a few more high-end models are to be introduced in several overseas markets, we expect smartphone ASP and gross margin will continue to recover.

AIoT & internet: big white appliances post record growth

AIoT revenue was down 3.8% QoQ to RMB19.1bn in Q3, primarily due to the headwinds in overseas markets. Smart TV global shipments grew by 9.3% YoY to 3.3mn units in Q3, outperforming a declining global TV market. In the meanwhile, Smartphone x AIoT strategy, a unique edge over traditional manufacturers, is playing out. Revenues for smart big white appliances, such as air cons, refrigerators and washing machines, grew over a record high of 70% YoY in Q3. In addition, No. of AIoT platform devices exceeded 558.3mn units globally as of Q3, up 39.5% YoY, in particular, No. of users with five or more smart devices connected reached 10.9mn. We believe the user stickiness and improving ecosystem will drive AIoT growth in the future. In Q3, internet services revenue was up by 1.4% QoQ to RMB7.1bn with a gross margin of 72.1%. Global MIUI MAU increased to 563.9mn.

Q3 results recap & valuation adjustment

In Q3, Xiaomi's total revenue was RMB70.5bn, up 0.4% QoQ. Gross margin was 16.6% vs 16.8% in Q2. Opex ratio declined slightly to 14.5% in Q3 from 14.8% last quarter. Adj. net profit came in at RMB2.1bn, up 1.7% QoQ. We modestly reduced our Xiaomi FY22e smartphone shipment forecast to 155mn units and our FY22e/FY23e EPS forecasts to RMB0.36/shr/RMB0.55/shr due to slightly longer-than-expected headwinds. However, our LT view on Xiaomi is intact and we maintain Buy on Xiaomi with a lower PT of HK\$14.5 on 24x FY23e P/E.

Risks

Key risks to our PT include: 1) prolonged COVID-19 pandemic; 2) worse-than-expected chip supply constraints; 3) more-than-expected EV upfront investment.

Stock code: 1810.HK
Rating: Buy

Price target (HK\$)	14.5
Current price (HK\$, 24 November 2022)	9.5
Upside/downside %	53%
Market cap (HK\$ m)	235,266
Market cap (US\$ m)	30,122
Avg daily turnover (HK\$ m)	1,253

Source: Bloomberg, AMTD Research

Key forecasts

(Rmb m)	2021	2022e	2023e
Non-IFRS net profit	22,040	9,365	14,183
yoy %	69%	-58%	51%
Revenue	328,309	290,315	330,704
yoy %	34%	-12%	14%
Smartphone shipment (mn units)	190	155	181
yoy %	30%	-18%	16%
Gross margin	17.7%	16.9%	17.2%
Non-IFRS net margin	6.7%	3.2%	4.3%
EPS (RMB/sh)	0.86	0.36	0.55

Source: Company data, AMTD Research estimates

Valuation

	2021	2022e	2023e
P/E (adjusted)	8.9	21.1	13.9
P/S	0.6	0.7	0.6
ROE	16.4%	6.3%	8.9%
ROA	8.4%	3.5%	4.8%

Source: Bloomberg, AMTD Research estimates

Share price performance



Source: Bloomberg

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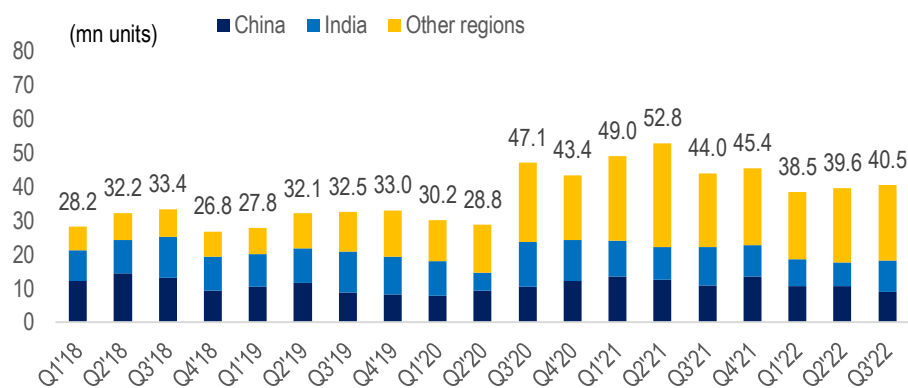
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Smartphone shipment

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



Source: Canalys, AMTD Research

Valuation

Figure 2: One year forward P/E of Xiaomi



Source: Bloomberg, AMTD Research estimates

Figure 3: Xiaomi's quarterly P&L

Rmb m	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Profit & loss									
Revenue	72,163	70,462	76,882	87,789	78,063	85,575	73,352	70,171	70,474
Smartphones	47,604	42,634	51,491	59,089	47,825	50,464	45,763	42,268	42,514
IoT and lifestyle products	18,119	21,054	18,243	20,735	20,936	25,067	19,477	19,812	19,059
Internet services	5,772	6,175	6,571	7,034	7,338	7,270	7,113	6,971	7,067
Others	668	599	577	932	1,965	2,775	999	1,120	1,835
Cost of sales	(61,997)	(59,137)	(62,721)	(72,641)	(63,771)	(70,916)	(60,642)	(58,403)	(58,752)
Gross profit	10,166	11,325	14,161	15,148	14,292	14,660	12,710	11,768	11,722
Gross margin	14.1%	16.1%	18.4%	17.3%	18.3%	17.1%	17.3%	16.8%	16.6%
Operating expenses	(6,775)	(9,472)	(8,163)	(9,895)	(9,395)	(11,434)	(9,995)	(10,411)	(10,208)
Selling and marketing expenses	(3,601)	(5,090)	(4,164)	(5,681)	(4,882)	(6,254)	(5,256)	(5,332)	(4,883)
Administrative expenses	(853)	(1,276)	(988)	(1,150)	(1,275)	(1,326)	(1,245)	(1,315)	(1,255)
R&D expenses	(2,321)	(3,106)	(3,012)	(3,064)	(3,238)	(3,853)	(3,495)	(3,763)	(4,070)
EBIT	3,391	1,854	5,998	5,253	4,898	3,226	2,714	1,357	1,514
Fair value changes on investments	3,418	7,042	2,063	4,165	(1,976)	3,879	(3,550)	514	(2,391)
Share of losses of investments	(11)	368	9	(26)	45	247	(201)	63	(265)
Other income	139	247	152	235	235	205	165	186	196
Other (losses)/gains, net	(241)	91	(65)	1,099	(472)	(3,142)	(39)	(386)	(415)
PBT	5,451	8,861	9,067	9,679	1,787	3,885	(416)	1,737	(1,191)
Income tax expenses	(586)	(66)	(1,278)	(1,415)	(999)	(1,442)	(115)	(372)	(283)
(Loss)/profit for the year	4,864	8,795	7,789	8,263	789	2,443	(531)	1,365	(1,474)
Minority interest	(16)	(18)	(4)	(4)	4	(51)	57	(21)	2
Attributable profit	4,881	8,813	7,793	8,268	785	2,494	(588)	1,386	(1,476)
Adjusted net profit (non-IFRS)	4,128	3,204	6,069	6,322	5,176	4,473	2,859	2,081	2,117
YoY growth %									
Total revenue	34%	25%	55%	64%	8%	21%	-5%	-20%	-10%
Smartphones	48%	38%	70%	87%	0%	18%	-11%	-28%	-11%
IoT and lifestyle products	16%	8%	41%	36%	16%	19%	7%	-4%	-9%
Internet services	9%	8%	11%	19%	27%	18%	8%	-1%	-4%
Others	40%	24%	17%	24%	194%	364%	73%	20%	-7%
Gross profit	23%	44%	87%	97%	41%	29%	-10%	-22%	-18%
Adjusted net profit (non-IFRS)	19%	37%	164%	87%	25%	40%	-53%	-67%	-59%

Source: Company data; AMTD research

Figure 4: Xiaomi's P&L forecast

Rmb m	2018	2019	2020	2021	2022E	2023E
Profit & loss						
Revenue	174,915	205,839	245,866	328,309	290,315	330,704
Smartphones	113,800	122,095	152,190	208,869	176,369	207,174
IoT and lifestyle products	43,817	62,088	67,411	84,980	77,551	84,921
Internet services	15,956	19,842	23,755	28,212	29,834	31,720
Others	1,343	1,814	2,509	6,248	6,561	6,889
Cost of sales	(152,723)	(177,285)	(209,114)	(270,048)	(241,325)	(273,804)
Gross profit	22,192	28,554	36,752	58,261	48,989	56,900
Gross margin	12.7%	13.9%	14.9%	17.7%	16.9%	17.2%
Operating expenses	(25,869)	(20,975)	(27,542)	(38,887)	(39,773)	(42,330)
Selling and marketing expenses	(7,993)	(10,378)	(14,539)	(20,981)	(19,741)	(20,834)
Administrative expenses	(12,099)	(3,104)	(3,746)	(4,739)	(4,935)	(5,291)
R&D expenses	(5,777)	(7,493)	(9,256)	(13,167)	(15,096)	(16,204)
EBIT	(3,677)	7,580	9,210	19,374	9,216	14,570
PBT	13,927	12,163	21,633	24,417	5,516	15,870
Income tax expenses	(449)	(2,060)	(1,321)	(5,134)	(652)	(1,687)
(Loss)/profit for the year	13,478	10,103	20,313	19,283	4,865	14,183
Minority interest	(76)	59	(43)	(56)	(62)	(68)
Attributable profit	13,554	10,044	20,356	19,339	4,926	14,250
Adjusted net profit (non-IFRS)	8,555	11,532	13,006	22,040	9,365	14,183
Yoy growth %						
Total revenue	53%	18%	19%	34%	-12%	14%
Smartphones	41%	7%	25%	37%	-16%	17%
IoT and lifestyle products	87%	42%	9%	26%	-9%	10%
Internet services	61%	24%	20%	19%	6%	6%
Others	87%	35%	38%	149%	5%	5%
Gross profit	46%	29%	29%	59%	-16%	16%
(Loss)/profit for the year (reported)	na	-25%	101%	-5%	-75%	192%
Adjusted net profit (non-IFRS)	60%	35%	13%	69%	-58%	51%

Source: Company data; AMTD Research estimates

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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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