

Xiaomi Corporation

Macro headwinds still around, maintain Buy on upbeat outlook on new product launches

Macro headwinds still around, maintain Buy

Global smartphone shipments fell 12% YoY in 2022 according to Canalys, reflecting slowing global demand. We therefore lower our est. of Xiaomi's FY22e smartphone shipments from 155mn to 152mn units and full-year revenue to RMB279.6bn. Moreover, we prudently raised Xiaomi's operating expenses due to intensified competition and continuous investment in new businesses. As a result, our est. of FY22e adj. net profit has reduced by 10.9% to RMB8.3bn. Despite longer-than-expected headwinds, we still believe Xiaomi's resilient operations and its differentiated strategy of shifting towards user experience have paved the way for upcoming recovery. For FY23e, 1) China reopening theme; 2) continuous introduction of new high-end IoT smart products to tap different profitable market segments; and 3) launch of brand-new products will drive the growth of Xiaomi, in our view. We maintain Buy rating on Xiaomi.

Smartphone: pressure on OpEx amid intensifying competition

According to Canalys, Xiaomi's total global shipments reached 151.8mn units in 2022, maintaining its position as third largest with a market share of 12.7%. The 20.6% YoY decline in full-year shipments was partly attributable to an 18% QoQ drop in Q4 to 33.2mn, according to Canalys. Xiaomi's shipments in India fell by 40% in Q4 to 5.5mn, leading to a drop in market share to 3rd compared to 1st in Q3. While we believe Xiaomi's strategic repositioning and introduction of higher-end models in overseas markets will help recover smartphone ASP and gross margin, competition has markedly intensified in key regions and will have near-term impact on OpEx.

AIoT & internet: new smart IoT products to drive growth in the LT

Xiaomi's competitive edge in smart home ecosystem will help continue to grow its AIoT and internet products, especially smart TV and smart big white appliances such as air cons, refrigerators, and washing machines that have seen record YoY growth in Q3. We believe Xiaomi's strong focus on seamless integration and ecosystem building will boost user stickiness and enhance user experience, thus further supporting Xiaomi's AIoT segment growth. In addition, continued investment in R&D and resulting new products, in particular high-end products that tap into different profitable market segments, will drive segment revenue growth for FY23e.

Risks

Key risks to our PT include: 1) higher-than-expected EV upfront investment; 2) slower-than-expected COVID-19 reopening; and 3) worse-than-expected chip supply constraints.

Stock code: 1810.HK

Rating: Buy

Price target (HK\$)	13.8
Current price (HK\$, 20 March 2023)	11.0
Upside/downside %	32%
Market cap (HK\$ m)	275,440
Market cap (US\$ m)	35,120
Avg daily turnover (HK\$ m)	1,089

Source: Bloomberg, AMTD Research

Key forecasts

(Rmb m)	2021	2022e	2023e
Non-IFRS net profit	22,040	8,343	11,653
yoy %	69%	-62%	40%
Revenue	328,309	279,576	307,351
yoy %	34%	-15%	10%
Smartphone shipment (mn units)	190	152	165
yoy %	30%	-20%	9%
Gross margin	17.7%	17.0%	17.2%
Non-IFRS net margin	6.7%	3.0%	3.8%
EPS (RMB/sh)	0.86	0.32	0.45

Source: Company data, AMTD Research estimates

Valuation

	2021	2022e	2023e
P/E (adjusted)	10.3	27.6	19.7
P/S	0.7	0.8	0.6
ROE	16.4%	5.6%	7.4%
ROA	8.4%	3.1%	4.1%

Source: Bloomberg, AMTD Research estimates

Share price performance



Source: Bloomberg

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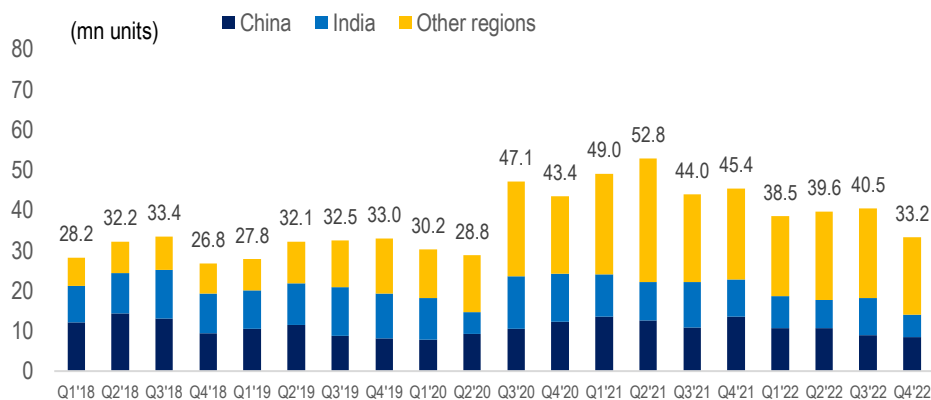
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Smartphone shipment

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



Source: Canalis, AMTD Research

Earnings forecast

Figure 2: Earnings estimate changes

(RMB mn)	2022E		
	New	Old	% diff
Smartphone shipment (mn units)	152	155	-1.9%
Total revenue	279,576	290,315	-3.7%
Gross profit	47,501	48,989	-3.0%
<i>gross margin</i>	<i>17.0%</i>	<i>16.9%</i>	<i>0.09ppt</i>
Operating income	8,081	9,216	-12.3%
Adjusted net profit	8,343	9,365	-10.9%
<i>Adj. NPM</i>	<i>3.0%</i>	<i>5.4%</i>	<i>-2.44ppt</i>
Adjusted EPS (RMB)	0.32	0.36	-10.3%

Source: AMTD Research estimates

Valuation

Figure 3: One year forward P/E of Xiaomi



Source: Bloomberg, AMTD Research estimates

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	279,576	307,351
Smartphones	113,800	122,095	152,190	208,869	171,597	191,940
IoT and lifestyle products	43,817	62,088	67,411	84,980	72,134	77,670
Internet services	15,956	19,842	23,755	28,212	29,284	30,853
Others	1,343	1,814	2,509	6,248	6,561	6,889
Cost of sales	(152,723)	(177,285)	(209,114)	(270,048)	(232,075)	(254,408)
Gross profit	22,192	28,554	36,752	58,261	47,501	52,944
Gross margin	12.7%	13.9%	14.9%	17.7%	17.0%	17.2%
Operating expenses	(25,869)	(20,975)	(27,542)	(38,887)	(39,420)	(41,185)
Selling and marketing expenses	(7,993)	(10,378)	(14,539)	(20,981)	(20,129)	(21,207)
Administrative expenses	(12,099)	(3,104)	(3,746)	(4,739)	(4,753)	(4,918)
R&D expenses	(5,777)	(7,493)	(9,256)	(13,167)	(14,538)	(15,060)
EBIT	(3,677)	7,580	9,210	19,374	8,081	11,759
PBT	13,927	12,163	21,633	24,417	4,381	13,059
Income tax expenses	(449)	(2,060)	(1,321)	(5,134)	(538)	(1,406)
(Loss)/profit for the year	13,478	10,103	20,313	19,283	3,843	11,653
Minority interest	(76)	59	(43)	(56)	(62)	(68)
Attributable profit	13,554	10,044	20,356	19,339	3,905	11,721
Adjusted net profit (non-IFRS)	8,555	11,532	13,006	22,040	8,343	11,653
Yoy growth %						
Total revenue	53%	18%	19%	34%	-15%	10%
Smartphones	41%	7%	25%	37%	-18%	12%
IoT and lifestyle products	87%	42%	9%	26%	-15%	8%
Internet services	61%	24%	20%	19%	4%	5%
Others	87%	35%	38%	149%	5%	5%
Gross profit	46%	29%	29%	59%	-18%	11%
(Loss)/profit for the year (reported)	na	-25%	101%	-5%	-80%	203%
Adjusted net profit (non-IFRS)	60%	35%	13%	69%	-62%	40%

Source: Company data; AMTD Research estimates

IMPORTANT DISCLOSURES

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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

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