

Xiaomi Corporation

Maintain Buy on cost optimization focus and new product launches in FY23e

Bottoming out with upcoming recovery, maintain Buy

Going into FY23e, we see 1) focus on operating efficiencies leading to a downward trending OpEx ratio (excl. EV costs) by boosting offline sales channel efficiencies through cross-selling and other process optimizations; 2) smartphone premiumization push with software and hardware optimization to improve imaging capabilities; and 3) deepening integration of AIoT products, data, and software into the Xiaomi ecosystem leveraged by AI development and use cases as upside catalysts, in our view. Overall, we have a positive outlook towards the latter half of FY23e. Maintain Buy with a price target of HK\$14.5/sh.

Smartphone: further ASP and GPM upside through premiumization

Xiaomi's total global shipments reached 32.7mn in 4Q22, down 25.9% YoY due to prolonged macro headwinds and intensifying competition. Gross margin in Q4/FY22 declined to 8.2%/9.0% due to one-time charges related to after-sales policies, inventory reduction, and impairment. Xiaomi's premiumization strategy in mainland China, such as the MIX Fold 2 and Xiaomi 13 Series launched in Q3-Q4, expanded the proportion of premium smartphones to total smartphone shipments in mainland China by 6.8% YoY and ASP increased 14% YoY. We believe Xiaomi's edge in camera and photo processing through its long-term strategic cooperation with Leica will help in its premiumization push in both domestic and overseas markets, and thus improve ASP and GPM despite increasing competition in key regions.

AIoT & Internet: LT growth to be underpinned by new smart IoT launches

AIoT revenue in 4Q22/FY22 declined 14.4%/6.1% YoY to RMB21.4bn/RMB79.8bn primarily due to weakening global demand of smart TVs but offset by strong growth in smart big white goods (~40% YoY gain for both Q4 and FY22). Offline retail GMV of AIoT gained 27% YoY in FY22 due to strategic improvements, and we believe Xiaomi's 10,000-plus retail stores in mainland China remain a key sales driver for its growing suite of AIoT products. Internet services revenue in Q4 was RMB7.2bn, down 1.4% YoY. Overseas internet services saw record highs with a 19.4% YoY gain to RMB1.9bn. Steady improvements in ecosystem integration that boost user stickiness, along with new product R&D and launches in smart big white goods, will continue to support Xiaomi's strong growth in the AIoT segment and profitability in FY23e, in our view.

Q4 & FY22 results recap: macro headwinds weigh on 4Q22 results

Xiaomi reported Q4 results amid macroeconomic challenges. Q4 and full year revenue came in at RMB66bn and RMB280bn, down 22.8% and 14.7% YoY respectively, primarily due to weak global smartphone demand. Gross margin was 17.2% in Q4 vs 16.6% in Q3 resulting from increased gross margins in IoT products, while OpEx ratio was 17.9%, higher than Q3's 14.5%. Adj. net profit was RMB1.5bn, down 31% QoQ.

Risks

Key risks to our PT include: 1) higher-than-expected EV upfront investment; 2) slower-than-expected China reopening; and 3) weaker-than-expected global smartphone demand.

Stock code: 1810.HK

Rating: Buy

Price target (HK\$)	14.5
Current price (HK\$, 27 March 2023)	12.0
Upside/downside %	21%
Market cap (HK\$ m)	299,766
Market cap (US\$ m)	38,188
Avg daily turnover (HK\$ m)	1,068

Source: Bloomberg, AMTD Research

Key forecasts

(Rmb m)	2022	2023e	2024e
Non-IFRS net profit	8,518	10,140	12,408
yoy %	-61%	19%	22%
Revenue	280,044	288,752	311,014
yoy %	-15%	3%	8%
Smartphone shipment (mn units)	152	152	161
yoy %	-20%	0%	6%
Gross margin	17.0%	17.0%	17.2%
Non-IFRS net margin	3.0%	3.5%	4.0%
EPS (RMB/sh)	0.34	0.39	0.48

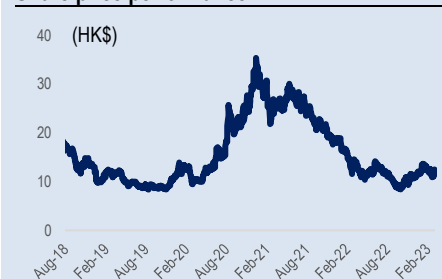
Source: Company data, AMTD Research estimates

Valuation

	2022	2023e	2024e
P/E (adjusted)	28.9	24.8	20.3
P/S	0.9	0.8	0.8
ROE	5.8%	6.6%	7.6%
ROA	3.2%	3.6%	4.2%

Source: Bloomberg, AMTD Research estimates

Share price performance



Source: Bloomberg

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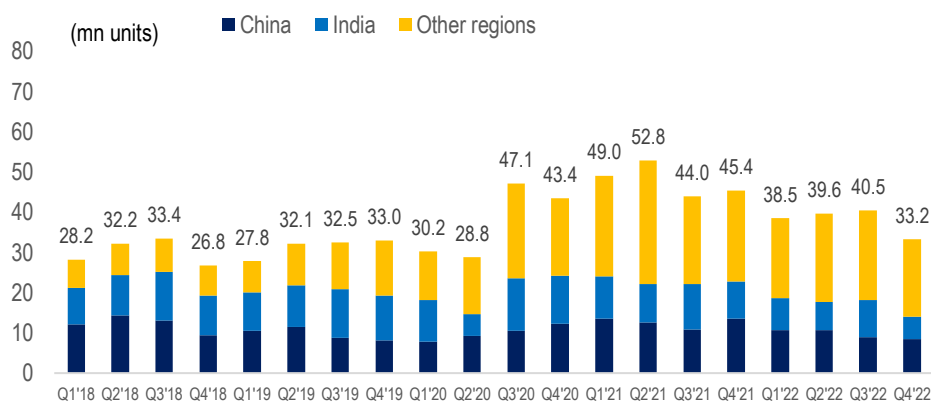
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Smartphone shipment

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



Source: Canalis, AMTD Research

Valuation

Figure 2: One year forward P/E of Xiaomi



Source: Bloomberg, AMTD Research estimates

Figure 3: Xiaomi's quarterly P&L

Rmb m	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Profit & loss									
Revenue	70,462	76,882	87,789	78,063	85,575	73,352	70,171	70,474	66,047
Smartphones	42,634	51,491	59,089	47,825	50,464	45,763	42,268	42,514	36,672
IoT and lifestyle products	21,054	18,243	20,735	20,936	25,067	19,477	19,812	19,059	21,447
Internet services	6,175	6,571	7,034	7,338	7,270	7,113	6,971	7,067	7,171
Advertising	3,677	3,894	4,476	4,775	4,927	4,525	4,503	4,633	4,839
IVAS	2,498	2,677	2,558	2,563	2,342	2,588	2,468	2,433	2,332
Others	599	577	932	1,965	2,775	999	1,120	1,835	757
Cost of sales	(59,137)	(62,721)	(72,641)	(63,771)	(70,916)	(60,642)	(58,403)	(58,752)	(54,669)
Gross profit	11,325	14,161	15,148	14,292	14,660	12,710	11,768	11,722	11,378
Gross margin	16.1%	18.4%	17.3%	18.3%	17.1%	17.3%	16.8%	16.6%	17.2%
Operating expenses	(9,472)	(8,163)	(9,895)	(9,395)	(11,434)	(9,995)	(10,411)	(10,208)	(11,851)
Selling and marketing expenses	(5,090)	(4,164)	(5,681)	(4,882)	(6,254)	(5,256)	(5,332)	(4,883)	(5,852)
Administrative expenses	(1,276)	(988)	(1,150)	(1,275)	(1,326)	(1,245)	(1,315)	(1,255)	(1,299)
R&D expenses	(3,106)	(3,012)	(3,064)	(3,238)	(3,853)	(3,495)	(3,763)	(4,070)	(4,700)
EBIT	1,854	5,998	5,253	4,898	3,226	2,714	1,357	1,514	(473)
Fair value changes on investments	7,042	2,063	4,165	(1,976)	3,879	(3,550)	514	(2,391)	3,766
Share of losses of investments	368	9	(26)	45	247	(201)	63	(265)	4
Other income	247	152	235	235	205	165	186	196	589
Other (losses)/gains, net	91	(65)	1,099	(472)	(3,142)	(39)	(386)	(415)	(528)
PBT	8,861	9,067	9,679	1,787	3,885	(416)	1,737	(1,191)	3,804
Income tax expenses	(66)	(1,278)	(1,415)	(999)	(1,442)	(115)	(372)	(283)	(662)
(Loss)/profit for the year	8,795	7,789	8,263	789	2,443	(531)	1,365	(1,474)	3,142
Minority interest	(18)	(4)	(5)	4	(51)	57	(21)	2	(10)
Attributable profit	8,813	7,793	8,268	785	2,493	(588)	1,386	(1,476)	3,152
Adjusted net profit (non-IFRS)	3,204	6,069	6,322	5,176	4,473	2,859	2,081	2,117	1,461
YoY growth %									
Total revenue	25%	55%	64%	8%	21.4%	-4.6%	-20.1%	-10%	-22.8%
Smartphones	38%	70%	87%	0%	18.4%	-11.1%	-28.5%	-11%	-27.3%
IoT and lifestyle products	8%	41%	36%	16%	19.1%	6.8%	-4.5%	-9%	-14.4%
Internet services	8%	11%	19%	27%	17.7%	8.2%	-0.9%	-4%	-1.4%
Advertising	24%	46%	46%	45%	34.0%	16.2%	0.6%	-3%	-1.8%
IVAS	-8%	-17%	-10%	4%	-6.2%	-3.3%	-3.5%	-5%	-0.4%
Others	24%	17%	24%	194%	363.5%	73.1%	20.2%	-7%	-72.7%
Gross profit	44%	87%	97%	41%	29.4%	-10.3%	-22.3%	-18%	-22.4%
Adjusted net profit (non-IFRS)	37%	163.8%	87%	25%	39.6%	-52.9%	-67.1%	-59%	-67.3%

Source: Company data; AMTD Research

Figure 4: Xiaomi's P&L forecast

Rmb m	2019	2020	2021	2022	2023E	2024E
Profit & loss						
Revenue	205,839	245,866	328,309	280,044	288,752	311,014
Smartphones	122,095	152,190	208,869	167,217	174,986	190,231
IoT and lifestyle products	62,088	67,411	84,980	79,795	80,536	85,085
Internet services	19,842	23,755	28,212	28,321	28,284	30,504
Others	1,814	2,509	6,248	4,711	4,946	5,193
Cost of sales	(177,285)	(209,114)	(270,048)	(232,466)	(239,596)	(257,674)
Gross profit	28,554	36,752	58,261	47,578	49,157	53,340
Gross margin	13.9%	14.9%	17.7%	17.0%	17.0%	17.2%
Operating expenses	(20,975)	(27,542)	(38,887)	(42,465)	(41,003)	(42,609)
Selling and marketing expenses	(10,378)	(14,539)	(20,981)	(21,323)	(21,656)	(22,704)
Administrative expenses	(3,104)	(3,746)	(4,739)	(5,114)	(4,909)	(4,976)
R&D expenses	(7,493)	(9,256)	(13,167)	(16,028)	(14,438)	(14,929)
EBIT	7,580	9,210	19,374	5,112	8,154	10,731
PBT	12,163	21,633	24,417	3,934	7,209	9,787
Income tax expenses	(2,060)	(1,321)	(5,134)	(1,431)	(731)	(1,040)
(Loss)/profit for the year	10,103	20,313	19,283	2,503	6,478	8,746
Minority interest	59	(43)	(56)	29	31	35
Attributable profit	10,044	20,356	19,339	2,474	6,447	8,712
Adjusted net profit (non-IFRS)	11,532	13,006	22,040	8,518	10,140	12,408
Yoy growth %						
Total revenue	18%	19%	34%	-15%	3%	8%
Smartphones	7%	25%	37%	-20%	5%	9%
IoT and lifestyle products	42%	9%	26%	-6%	1%	6%
Internet services	24%	20%	19%	0%	0%	8%
Others	5%	19%	43%	2%	5%	5%
Gross profit	57%	20%	-9%	-3%	3%	9%
(Loss)/profit for the year (reported)	35%	38%	149%	-25%	159%	35%
Adjusted net profit (non-IFRS)	29%	29%	59%	-18%	19%	22%

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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