

# Xiaomi Corporation

## Innovation and unique consumer IoT network key to growth

**Initiated with Buy rating; high-performance smartphones & smart hardware with “honest price” as gateway to attract users; OMNI-channel sales strategy with supreme efficiency**

Xiaomi offers a portfolio of award-winning, high-performance smartphones, smart hardware and lifestyle products with “honest price”. The smart devices serve as the gateway to offer internet services to its loyal users. Its price strategy is achieved through highly efficient distribution channels that seamlessly integrate direct online sales, self-operated Mi Home and offline retail partners. In particular, it has established an innovative direct supply network of over 37,000 locations in China, which will be key to its offline sales growth. In 2Q18, Xiaomi smartphone maintained its No.1 position in India and achieved No.2 in Indonesia. Its smart TV achieved No.1 by sales volume in China.

### 2017-2020E non-IFRS net profit to grow at a CAGR of 54%

We forecast revenue to grow at a CAGR of 45% during 2017-2019e. We forecast non-IFRS net margin to expand from 4.7% in 2017 to 5.6% in 2020e. Sustainable growth shall be driven by a continued innovation in hardware and internet services to further boost user engagement. In 2Q18, Xiaomi maintained a strong sales momentum with revenue growing by 68.3% yoy. International revenue grew by 152% yoy and accounted for 36% of revenue.

### Smartphones: replicate India’s success in ASEAN and Europe

We forecast hardware revenue to maintain fast growth and to grow at a CAGR of 38% in 2017-2019e. This will be driven by a fast growth of smartphones in overseas markets, the ASP improvement in China and the fast growth of IoT products. Leveraging on its experience in India, Xiaomi has the potential to replicate its success to ASEAN. Xiaomi also formed a Global Strategic Alliance with CK Hutchison which could help Xiaomi to expand in European market.

### Middle/high-end smartphone sales key to monetization; IoT products network may bring further upside

As of Jun-2018, Xiaomi had approximately 207 million MAUs on its MIUI. As Xiaomi gradually moves to middle/high-end segment, its monetization potential can be further explored - we forecast internet service segment’s contribution in revenue to increase to 10.7% in 2020e from 8.6% in 2017. Xiaomi has also built the world’s largest IoT platform with 115 million connected devices which enables the collection of a vast amount of real-time data, which in turn furthers the development of various consumer applications and consumption scenes.

### FinTech potential to be explored

Xiaomi’s data accumulation enables it to develop credit assessment and risk management model and provide innovative internet finance product including consumer finance and supply chain finance. Loans provided to its internet finance subsidiaries reached Rmb 8.2bn. We expect this to continue to grow at a relatively fast rate in the next 3 years.

### Price target: HK\$22.0 (33% upside)

We derive our Dec-19 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\$, 3 Sep 2018)	16.5
Upside/downside %	33%
Market cap (HK\$ m)	372,531
Market cap (US\$ m)	47,459
Avg daily turnover (HK\$ m)	1,937

Source: Bloomberg, AMTD Research

### Key forecasts

(Rmb m)	2017	2018e	2019e
Non-IFRS net profit	5,362	8,973	13,530
yoy %	183%	67%	51%
Revenue	114,625	197,891	261,846
yoy %	67%	73%	32%
Smartphone shipment (m)	91	135	158
yoy %	65%	48%	17%
Gross margin	13.2%	11.9%	13.6%
Non-IFRS net margin	4.7%	4.5%	5.2%
EPS	5.49	0.40	0.60

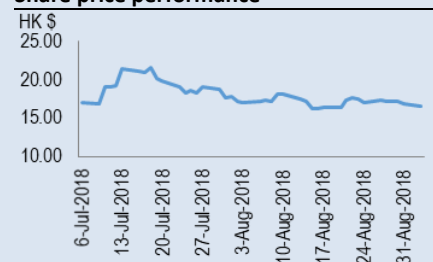
Source: Company data, AMTD Research

### Valuation

	2017	2018e	2019e
P/E (adjusted)	61.1	36.5	24.2
P/S	3.0	1.7	1.3
ROE	na	na	20.6%
ROA	na	8.2%	9.5%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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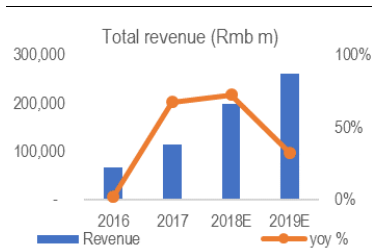
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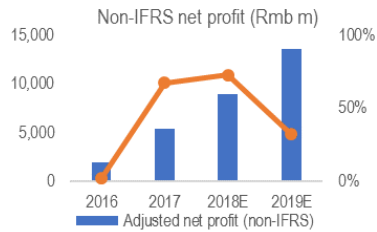
## Focus charts

**Figure 1: Xiaomi revenue forecast**



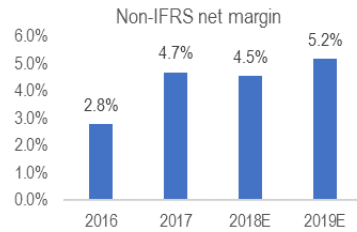
Source: Company data, AMTD estimates

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



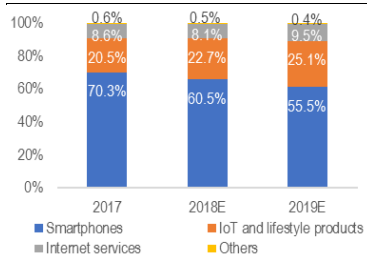
Source: Company data, AMTD estimates

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



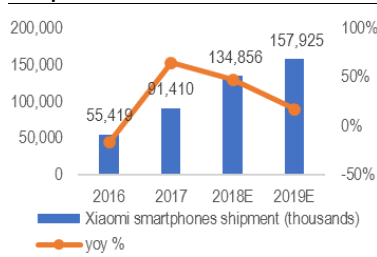
Source: Company data, AMTD estimates

**Figure 4: Xiaomi revenue mix forecast**



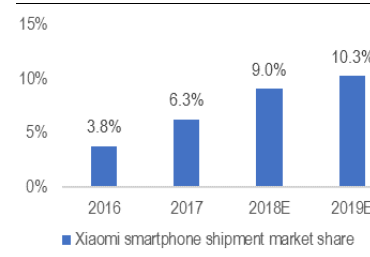
Source: Company data, AMTD estimates

**Figure 5: Xiaomi smartphone shipment forecast**



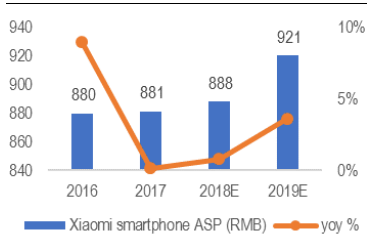
Source: Company data, AMTD estimates

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



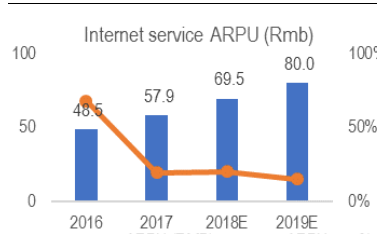
Source: Company data, AMTD estimates

**Figure 7: Xiaomi smartphone ASP forecast**



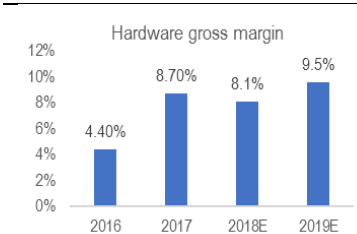
Source: Company data, AMTD estimates

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



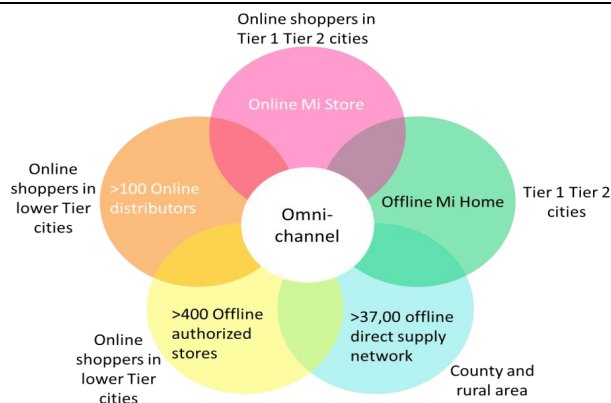
Source: Company data, AMTD estimates

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



Source: Company data, AMTD estimates

**Figure 10: Xiaomi's OMNI-channel sales strategy**



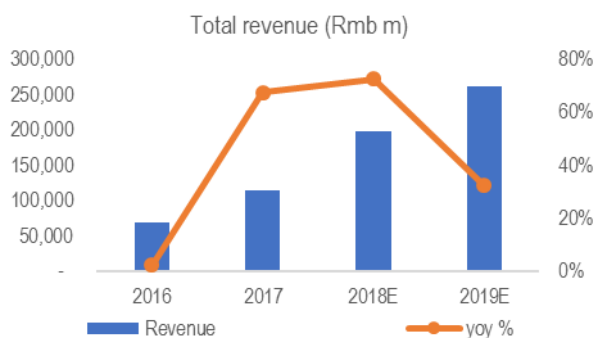
Source: Company disclosure

## Financial forecast

We forecast Xiaomi’s revenue to grow to Rmb 352.9bn in 2020e from Rmb 114.6bn in 2017, non-IFRS net profit to grow to Rmb19.8bn in 2020e from Rmb 5.4bn in 2017. We expect its gross margin to gradually improve as hardware gross margin improves and internet service revenue contribution increases. Hardware will remain a key growth driver in the next three years. This will be driven by:

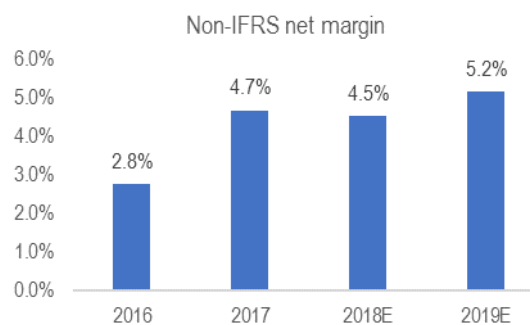
- 1) **Revenue to grow at a CAGR of 45% in 2017-2020e.** We forecast revenue from smartphones to grow at a CAGR of 30% driven by growth in shipment and improvement in ASP. We forecast revenue from IoT and lifestyle product to grow at a CAGR of 61%. Xiaomi has built a strong branding through smartphone sales which would help its sales of IoT and lifestyle products. We forecast revenue from internet service’s share in total revenue to grow to 10.7% in 2020e from 8.6% in 2017.
- 2) **Smartphone shipments driven by growth in overseas markets; ASP improvement will be key to internet service monetization:** We forecast Xiaomi’s market share in global smartphone market to increase from 6.3% in 2017 to 11.9% in 2020e. We forecast smartphone ASP to grow at a CAGR of 2.2% in 2017-2020e. Successful expansion into the middle and high-end market will be key to future monetization potential.
- 3) **Gross margin to improve gradually.** We forecast overall gross margin to improve to 14.4% in 2020e from 13.2% in 2017. We expect the gross margin of hardware to improve to 10.0% in 2020e from 8.7% in 2017, driven by the improvement of margin from smartphones and the faster growth of IoT product with higher margin.
- 4) **Non-IFRS net margin to expand.** We forecast non-IFRS net margin to improve to 5.6% in 2020e from 4.7% in 2017.

**Figure 11: Xiaomi revenue forecast**



Source: Company data, AMTD estimates

**Figure 12: Xiaomi non-IFRS net profit forecast**



Source: Company data, AMTD estimates

Figure 13: Xiaomi's P&amp;L forecast

Rmb m	2015	2016	2017	2018E	2019E	2020E
<b>Profit &amp; loss</b>						
<b>Revenue</b>	<b>66,811</b>	<b>68,434</b>	<b>114,625</b>	<b>197,891</b>	<b>261,846</b>	<b>352,887</b>
Smartphones	53,715	48,764	80,564	119,800	145,396	177,917
IoT and lifestyle products	8,691	12,415	23,448	44,968	65,825	98,408
Internet services	3,239	6,538	9,896	16,095	24,823	37,768
Advertising	1,821	3,838	5,614	8,983	13,924	20,886
IVAS	1,419	2,699	4,282	7,112	10,899	16,882
Others	1,166	717	717	932	979	1,028
<b>Cost of sales</b>	<b>(64,111)</b>	<b>(61,185)</b>	<b>(99,471)</b>	<b>(158,259)</b>	<b>(201,344)</b>	<b>(264,222)</b>
<b>Gross profit</b>	<b>2,700</b>	<b>7,249</b>	<b>15,154</b>	<b>23,536</b>	<b>35,679</b>	<b>50,898</b>
<b>Gross margin</b>	<b>4.0%</b>	<b>10.6%</b>	<b>13.2%</b>	<b>11.9%</b>	<b>13.6%</b>	<b>14.4%</b>
<b>Operating expenses</b>	<b>(4,191)</b>	<b>(6,053)</b>	<b>(9,599)</b>	<b>(27,507)</b>	<b>(22,388)</b>	<b>(31,407)</b>
Selling and marketing expenses	(1,913)	(3,022)	(5,232)	(9,103)	(12,176)	(16,586)
Administrative expenses	(766)	(927)	(1,216)	(12,863)	(2,880)	(4,235)
R&D expenses	(1,512)	(2,104)	(3,151)	(5,541)	(7,332)	(10,587)
<b>EBIT</b>	<b>(1,491)</b>	<b>1,196</b>	<b>5,555</b>	<b>(3,971)</b>	<b>13,291</b>	<b>19,491</b>
Fair value changes on investments	2,813	2,727	6,371	3,500	2,000	2,000
Share of losses of investments	(93)	(150)	(231)	(200)	(200)	(200)
Other income	522	540	449	500	1,000	1,500
Other (losses)/gains, net	(379)	(528)	72	144	-	-
<b>Operating profit (reported)</b>	<b>1,373</b>	<b>3,785</b>	<b>12,215</b>	<b>(27)</b>	<b>16,091</b>	<b>22,791</b>
Finance (expense)/income, net	(86)	(86)	27	495	853	1,181
Fair value changes of convertible redeemable preferred shares	(8,759)	(2,523)	(54,072)	12,461	-	-
<b>PBT</b>	<b>(7,473)</b>	<b>1,176</b>	<b>(41,829)</b>	<b>12,930</b>	<b>16,944</b>	<b>23,972</b>
Income tax expenses	(155)	(684)	(2,060)	4	(2,414)	(3,419)
<b>(Loss)/profit for the year</b>	<b>(7,627)</b>	<b>492</b>	<b>(43,889)</b>	<b>12,934</b>	<b>14,530</b>	<b>20,553</b>
Minority interest	(46)	(62)	(63)	(69)	(76)	(84)
<b>Attributable profit</b>	<b>(7,581)</b>	<b>553</b>	<b>(43,826)</b>	<b>12,865</b>	<b>14,454</b>	<b>20,469</b>
Adjustment	7,323	1,404	49,251	(3,961)	(1,000)	(800)
<b>Adjusted net profit (non-IFRS)</b>	<b>(304)</b>	<b>1,896</b>	<b>5,362</b>	<b>8,973</b>	<b>13,530</b>	<b>19,753</b>
<b>Yoy growth %</b>						
<b>Total revenue</b>		<b>2%</b>	<b>67%</b>	<b>73%</b>	<b>32%</b>	<b>35%</b>
Smartphones		-9%	65%	49%	21%	22%
IoT and lifestyle products		43%	89%	92%	46%	49%
Internet services		102%	51%	63%	54%	52%
Advertising		111%	46%	60%	55%	50%
IVAS		90%	59%	66%	53%	55%
Others		-39%	0%	30%	5%	5%
<b>Gross profit</b>		169%	109%	55%	52%	43%
<b>(Loss)/profit for the year (reported)</b>		na	na	na	12%	41%
<b>Adjusted net profit (non-IFRS)</b>		na	183%	67%	51%	46%
<b>Per share</b>						
<b>Basic EPS (IFRS)</b>	<b>(7.88)</b>	<b>0.51</b>	<b>(44.98)</b>	<b>0.58</b>	<b>0.65</b>	<b>0.92</b>
<b>Diluted EPS (IFRS)</b>	<b>(8)</b>	<b>1</b>	<b>(45)</b>	<b>0.57</b>	<b>0.64</b>	<b>0.91</b>
<b>Basic EPS (non-IFRS)</b>	<b>(0.31)</b>	<b>1.96</b>	<b>5.49</b>	<b>0.40</b>	<b>0.60</b>	<b>0.88</b>
<b>Diluted EPS (non-IFRS)</b>	<b>(0.31)</b>	<b>1.95</b>	<b>5.49</b>	<b>0.40</b>	<b>0.60</b>	<b>0.87</b>

Source: Company data; AMTD estimates

Figure 14: Xiaomi key operating matrix

Operating matrix	2015	2016	2017	2018E	2019E	2020E
<b>Revenue mix</b>						
Smartphones	80.4%	71.3%	70.3%	60.5%	55.5%	50.4%
IoT and lifestyle products	13.0%	18.1%	20.5%	22.7%	25.1%	27.9%
Internet services	4.8%	9.6%	8.6%	8.1%	9.5%	10.7%
Advertising	2.7%	5.6%	4.9%	4.5%	5.3%	5.9%
IVAS	2.1%	3.9%	3.7%	3.6%	4.2%	4.8%
Others	1.7%	1.0%	0.6%	0.5%	0.4%	0.3%
Smartphone shipment (million)	67	55	91	135	158	189
yoy %		-17%	65%	48%	17%	20%
Smartphone ASP (RMB)	807	880	881	888	921	942
yoy %		9.0%	0.2%	0.8%	3.6%	2.3%
IoT and lifestyle product sales per smartphone	131	224	257	333	417	521
yoy %		71.5%	14.5%	30.0%	25.0%	25.0%
IoT and lifestyle product sales per MIUI MAU	77	92	137	194	212	238
yoy %		18.9%	49.1%	42%	9%	12%
End-of-the-period MIUI MAUs (millions)	112	135	171	231	310	414
yoy %		20%	27%	36%	34%	33%
Internet ARPU (RMB)	29	49	58	70	80	91
yoy %		68%	19%	20%	15%	14%
Gross margin for hardware (%)	-0.20%	4.40%	8.70%	8.1%	9.5%	10.0%
Gross margin for internet services segment (%)	64%	64%	60%	61%	61%	61%
Advertising	91%	86%	82%	82%	82%	82%
IVAS	30%	34%	32%	34%	34%	34%
Non-IFRS net margin (%)	-0.5%	2.8%	4.7%	4.5%	5.2%	5.6%
Operating margin (reported)	2.1%	5.5%	10.7%	0.0%	6.1%	6.5%
Cash conversion cycle (days)	-20	-35	-38	-35	-35	-35

Source: Company data, AMTD estimates

Figure 15: Xiaomi's cash flow forecast (Rmb m)

Re-arranged cash flow	2016	2017	2018E	2019E	2020E
<b>PBT</b>	1,176	(41,829)	12,930	16,944	23,972
<b>Adjustment</b>					
Investment income from financial investment	(2,727)	(6,371)	(3,500)	(2,000)	(2,000)
Depreciation and amortization	240	361	801	941	1,053
Income tax paid	(183)	(1,523)	4	(2,414)	(3,419)
Finance costs	138	207	495	853	1,181
Share-based compensation	871	909	12,000	1,000	1,200
Fair value change on convertibles	2,523	54,072	(12,461)	-	-
Share of losses of associates	150	231	200	200	200
Others	566	(2,844)	-	-	-
FFO before movement of working capital	2,754	3,213	10,469	15,524	22,187
Change in working capital	1,778	(4,209)	(1,197)	(752)	199
(Increase)/decrease in inventory	265	(7,965)	(6,337)	(4,287)	(11,218)
(Increase)/decrease in receivables & prepayment	(2,249)	(10,025)	(8,553)	(3,786)	(14,033)
(Increase)/decrease in loans to Xiaomi Finance	(1,497)	(6,546)	(4,072)	(3,665)	(3,176)
Increase/(decrease) in payables	5,259	20,328	17,766	10,985	28,626
Increase/(decrease) in net tax liability	104	18	-	-	-
<b>FFO</b>	<b>4,531</b>	<b>(996)</b>	<b>9,272</b>	<b>14,771</b>	<b>22,386</b>
Capex	(1,776)	(1,216)	(1,500)	(1,500)	(1,500)
<b>FOCF</b>	<b>2,755</b>	<b>(2,212)</b>	<b>7,772</b>	<b>13,271</b>	<b>20,886</b>
Interest paid	(138)	(207)	(495)	(853)	(1,181)
Dividend	-	-	-	-	-
<b>FCF</b>	<b>2,617</b>	<b>(2,419)</b>	<b>7,277</b>	<b>12,419</b>	<b>19,705</b>
Financial investment	(1,034)	(1,305)	(3,932)	(6,854)	(9,060)
Investment in associate	(925)	(157)	(742)	(851)	(981)
Proceeds from placing of convertibles	-	68	0	0	0
Proceeds from placing of shares	-	-	11,147	-	-
New bank borrowings raised	740	11,175	2,000	2,000	2,000
Repayment of bank borrowings	(50)	(4,531)	(5,000)	(1,000)	(1,000)
Repurchase of shares	-	-	-	-	-
Net placement of restricted cash	(624)	(289)	(500)	(500)	(500)
<b>Change in cash position</b>	<b>724</b>	<b>2,542</b>	<b>10,250</b>	<b>5,214</b>	<b>10,164</b>
Cash balance - beginning of period	8,394	9,230	11,563	21,814	27,028
Effect of FX rate changes	112	(209)	0	0	0
Cash balance - end of period	9,230	11,563	21,814	27,028	37,191

Source: Company data; AMTD estimates

Figure 16: Xiaomi's balance sheet forecast (Rmb m)

Balance sheet	2015	2016	2017	2018E	2019E	2020E
<b>Assets</b>						
<b>Non-current assets</b>	<b>14,184</b>	<b>20,129</b>	<b>28,731</b>	<b>35,630</b>	<b>44,193</b>	<b>54,982</b>
Land use rights	0	3,494	3,416	3,416	3,416	3,416
Property and equipment	290	848	1,731	2,385	2,908	3,326
Intangible assets	554	1,120	2,274	2,319	2,356	2,384
Investments accounted for using the equity method	1,729	1,853	1,711	2,253	2,904	3,684
Long-term investments measured at fair value	8,391	12,349	18,857	24,514	31,868	41,429
Deferred income tax assets	394	446	592	592	592	592
Prepayments to land use rights	2,601	0	0	0	0	0
Other non-current assets	225	19	150	150	150	150
<b>Current assets</b>	<b>24,953</b>	<b>30,636</b>	<b>61,138</b>	<b>92,626</b>	<b>111,577</b>	<b>152,168</b>
Inventories	8,643	8,378	16,343	22,680	26,966	38,184
Trade receivables	1,470	2,090	5,470	10,795	10,726	18,278
Loan receivables	101	1,598	8,144	12,217	15,882	19,058
Prepayments and other receivables	3,119	4,748	11,394	14,621	18,476	24,957
Short-term investments measured at amortized cost	1,629	80	800	1,300	1,800	2,300
Short-term investments measured at fair value	790	3,438	4,488	5,488	6,488	7,488
Short-term bank deposits	739	440	225	500	500	500
Restricted cash	67	634	2,711	3,211	3,711	4,211
Cash and cash equivalents	8,394	9,230	11,563	21,814	27,028	37,191
<b>Total assets</b>	<b>39,137</b>	<b>50,766</b>	<b>89,870</b>	<b>128,256</b>	<b>155,771</b>	<b>207,150</b>
<b>Liabilities</b>						
<b>Non-current liabilities</b>	<b>109,311</b>	<b>116,760</b>	<b>169,948</b>	<b>5,497</b>	<b>6,497</b>	<b>7,497</b>
Borrowings	3,247	390	7,251	4,251	5,251	6,251
Deferred income tax liabilities	104	458	1,019	1,019	1,019	1,019
Warranty provision	12	102	191	191	191	191
Convertible redeemable preferred shares	105,933	115,802	161,451	0	0	0
Other non-current liabilities	15	8	35	35	35	35
<b>Current liabilities</b>	<b>16,464</b>	<b>26,063</b>	<b>47,133</b>	<b>64,898</b>	<b>75,883</b>	<b>104,510</b>
Trade payables	14,226	17,578	34,003	48,378	56,431	81,109
Other payables and accruals	1,275	1,876	4,224	5,069	6,083	7,299
Advance from customers	531	1,836	3,391	5,937	7,855	10,587
Borrowings	-	3,769	3,551	3,551	3,551	3,551
Income tax liabilities	101	258	421	421	421	421
Warranty provision	332	747	1,543	1,543	1,543	1,543
<b>Total liabilities</b>	<b>125,775</b>	<b>142,823</b>	<b>217,080</b>	<b>70,395</b>	<b>82,380</b>	<b>112,006</b>
Reserves	(86,714)	(92,192)	(127,272)	57,798	73,328	95,081
Share capital	0.15	0.15	0.15	1.50	1.50	1.50
<b>Equity attributable to owners of the Company</b>	<b>(86,714)</b>	<b>(92,192)</b>	<b>(127,272)</b>	<b>57,799</b>	<b>73,329</b>	<b>95,082</b>
Non-controlling interests	76	134	62	62	62	62
Total equity	86,638	92,058	127,211	57,861	73,391	95,144
Net cash/ (net debt)	8,373	9,663	8,986	24,511	30,725	41,888

Source: Company data; AMTD estimates



## Valuation

### DCF valuation – HK\$22.0 per share

We derive our Dec-19 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.

While we do expect Xiaomi to gradually boost its internet revenue, we believe further large scale re-rating for the stock would require significant improvement in its user engagement in different apps in terms of usage time and frequency – especially for the middle/high-end smartphone users.

As Xiaomi's monetization effort on the internet service just started, we may compare its P/S ratio to that of other internet apps at the beginning of their monetization: 57 P/S for Momo at its IPO, Weibo at 10.8x P/S at IPO, and Cheetah at 15.9x P/S at IPO.

**Figure 17: Derivation of DCF valuation**

Stage 1 (Rmb m)	211
Stage 2 (Rmb m)	222
Total valuation (Rmb bn)	433
Total valuation (HK\$ bn)	493
Total valuation (US\$ bn)	64
Shares outstanding (m)	22
<b>Dec-19 Price target (HK\$)</b>	<b>22.0</b>
Implied 2019e P/E	32.0
Implied 2020e P/E	21.9
Valuation per MIUI (US\$)	205

Source: AMTD estimates

### Sum-of-the-part valuation – HK\$ 16.3-23.0 per share

We cross check our DCF valuation with sum-of-the-part (SOTP) valuation. We divide SOTP valuation into three segments:

- 1) Valuation on hardware: We use 2019 P/E for this segment. Global peers is trading in the range of 6x-16x 2019 P/E. The high end being Apple, the low end being Samsung. Compared to peers, Xiaomi has better near term growth potential given its fast overseas expansion.
- 2) Valuation on internet service: This would reflect valuation of Xiaomi's monetization potential in its Xiaomi TV and mobile apps, through advertising and IVAS. We use 2019 P/S for this segment, which is commonly used for internet companies. The closely comparable for Xiaomi should be BAT. However, we believe Xiaomi should enjoy a higher multiple as it is still in an early stage of monetization. Therefore we set 7-11x 2019 P/S for Xiaomi.

**Figure 18: Xiaomi sum-of-the-part valuation**

	Net profit (Rmb bn)		P/E		Total valuation (Rmb bn)		Total valuation (HK\$ bn)	
	2019e	High end	Low end	High end	Low end	High end	Low end	
Smart hardware	11	17	14	180	148	204	168	
	Sales (Rmb bn)		P/S		Total valuation (Rmb bn)		Total valuation (HK\$ bn)	
	2019e	High end	Low end	High end	Low end	High end	Low end	
Internet	25	11.0	7.0	273	174	310	197	
Total valuation				453	322	514	365	
Per share valuation (HK\$)						23.0	16.3	

Source: AMTD estimates

## Cost of equity assumption

We expect Xiaomi to remain in a net cash position in the foreseeable future. Our cost of equity estimate is 13.4%, which is based on a beta of 1.6, a long-term risk-free rate of 5.4%, and an equity risk premium of 5%.

**Figure 19: Valuation comparison table (1) – Global smartphones and home appliance companies**

Code	Company	Price		Mkt Cap (US\$ m)	PE (x)			EPS g (%)			P/S (x)		EV/EBITDA		EV/EBIT	
		Curr.	3-Sep		2018e	2019e	2020e	2018e	2019e	2020e	2019e	2020e	2018e	2019e	2018e	2019e
<b>China smartphones &amp; home appliances</b>																
992 HK equity	Lenovo	HKD	5.1	7,867	na	13.6	9.5	(141.8)	387.4	43.8	0.2	0.2	10.6	6.8	27.5	11.7
000333 CH equity	Midea	CNY	41.7	40,549	13.2	11.3	9.7	18.5	17.6	16.2	0.9	0.8	11.3	9.9	14.0	12.0
000651 CH equity	Gree	CNY	38.5	33,925	8.5	7.7	6.9	21.6	10.3	11.6	1.2	1.1	4.8	4.7	5.2	5.3
600690 CH equity	Haier	CNY	14.9	13,313	11.4	9.9	8.8	15.1	15.1	12.2	0.5	0.4	8.8	7.7	11.3	9.6
000418 CH equity	Little Swan	CNY	44.4	3,788	15.6	13.0	11.0	19.9	19.4	18.3	0.9	0.8	13.5	11.4	13.8	11.3
1169 HK equity	Haier Electronics	HKD	20.3	7,262	12.4	10.6	9.2	17.8	16.6	15.5	0.5	0.4	6.7	5.7	7.6	6.4
000921 CH equity	Hisense Kelon	CNY	8.4	1,496	8.3	7.1	6.2	(31.0)	17.5	13.8	0.2	0.2	6.0	5.4	36.9	36.6
600983 CH equity	Whirlpool China	CNY	5.9	661	na	na	na	na	na	na	na	na	na	na	na	na
000521 CH equity	Meiling	CNY	3.3	483	12.8	11.5	11.7	722.6	11.8	(1.8)	0.2	0.2	na	na	na	na
<b>Average</b>					<b>11.7</b>	<b>10.6</b>	<b>9.1</b>	<b>80.3</b>	<b>62.0</b>	<b>16.2</b>	<b>0.6</b>	<b>0.5</b>	<b>8.8</b>	<b>7.4</b>	<b>16.6</b>	<b>13.3</b>
<b>China kitchen &amp; small appliance</b>																
002508 CH equity	Robam	CNY	21.9	3,049	12.6	10.7	9.5	13.2	17.8	12.3	2.3	2.0	9.0	7.8	9.8	8.6
002035 CH equity	Vatti	CNY	10.2	1,299	12.7	10.1	8.1	36.2	26.3	24.9	1.1	0.9	8.6	7.5	9.2	8.4
002242 CH equity	Joyoung	CNY	17.0	1,914	17.6	15.6	13.4	7.6	12.9	15.8	1.5	1.3	14.3	12.7	15.1	13.5
002032 CH equity	Supor	CNY	49.4	5,943	24.8	20.6	17.3	24.4	20.6	19.0	2.0	1.7	18.9	16.0	20.4	17.3
603868 CH equity	Flyco	CNY	49.0	3,130	22.4	18.9	16.1	14.1	18.3	17.1	4.2	3.7	15.8	13.3	15.9	13.3
603355 CH equity	Kingclean	CNY	26.9	1,581	21.0	15.8	12.2	41.0	32.5	30.0	1.4	1.2	14.7	11.2	16.8	13.4
<b>Average</b>					<b>16.9</b>	<b>14.2</b>	<b>12.2</b>	<b>117.4</b>	<b>25.3</b>	<b>16.7</b>	<b>1.7</b>	<b>1.4</b>	<b>12.9</b>	<b>10.8</b>	<b>14.8</b>	<b>12.5</b>
<b>China TV</b>																
751 HK equity	Skyworth Digital	HKD	2.5	975	15.4	5.4	4.4	(59.9)	156.7	23.7	0.2	0.1	6.0	3.3	11.9	4.4
1070 HK equity	TCL Multimidea	HKD	3.7	1,112	8.9	8.0	7.4	(11.4)	11.4	7.5	0.2	0.2	2.6	2.3	3.2	2.9
600060 CH equity	Hisense	CNY	10.0	1,919	10.3	8.3	7.0	35.4	23.0	19.8	0.3	0.3	6.5	5.5	7.6	6.1
<b>Average</b>					<b>17.2</b>	<b>13.3</b>	<b>11.2</b>	<b>21.1</b>	<b>37.6</b>	<b>18.7</b>	<b>1.4</b>	<b>1.2</b>	<b>11.5</b>	<b>9.4</b>	<b>13.2</b>	<b>10.4</b>
<b>Global automation</b>																
6954 JP equity	Faunc	JPY	21,345.0	39,236	22.5	26.1	24.7	42.5	(12.9)	5.7	6.3	6.0	13.6	15.1	15.7	18.6
6506 JP equity	Yaskawa Electric	JPY	3,630.0	8,722	23.9	19.1	17.8	95.0	27.4	7.1	1.9	1.8	14.0	12.2	17.2	14.9
KU2 GR equity	KUKA	EUR	89.0	4,110	23.8	21.8	19.1	68.1	9.4	13.7	0.9	0.9	11.8	na	na	na
ABB US equity	ABB	USD	23.5	50,973	17.4	15.2	13.8	na	14.3	9.9	1.3	1.2	10.8	9.7	13.7	11.9
300024 CH equity	Siasun Robotics	CNY	16.4	3,743	46.6	38.7	32.3	26.7	20.5	19.9	6.8	5.5	39.7	32.7	51.0	41.6
<b>Average</b>					<b>21.3</b>	<b>18.8</b>	<b>16.7</b>	<b>39.6</b>	<b>16.3</b>	<b>12.8</b>	<b>2.4</b>	<b>2.1</b>	<b>13.8</b>	<b>12.4</b>	<b>17.4</b>	<b>15.2</b>
<b>Global smartphones &amp; home appliances</b>																
AAPL US equity	Apple	USD	227.6	1,099,436	19.4	16.9	15.5	27.3	14.8	9.1	4.0	3.9	12.0	11.5	13.7	13.3
005930 KS equity	Samsung Electronics	KRW	47,450.0	273,997	6.7	6.5	6.3	11.3	1.9	2.8	1.2	1.1	2.6	2.5	3.6	3.6
066570 KS equity	LG Electronics	KRW	76,700.0	11,291	7.7	6.5	5.8	(5.3)	17.8	12.4	0.2	0.2	3.8	3.6	6.2	5.8
6758 JP equity	Sony	JPY	6,276.0	71,767	16.3	14.2	14.8	568.7	13.9	(4.1)	0.9	0.9	6.5	6.3	9.5	9.5
6752 JP equity	Panasonic	JPY	1,321.5	29,205	15.1	12.0	10.6	57.3	8.7	12.9	0.4	0.4	5.8	4.8	10.2	8.4
WHR US equity	Whirlpool	USD	125.0	8,069	8.7	7.5	6.7	5.0	15.2	12.5	0.4	0.4	7.0	6.8	10.4	9.7
ELUXB SS equity	Electrolux	SEK	202.4	6,863	11.8	10.2	9.5	(14.3)	15.2	8.0	0.5	0.5	6.2	5.4	10.1	8.2
AOS US equity	AO Smith	USD	58.1	9,909	22.2	19.9	18.2	20.3	12.0	8.9	2.8	2.6	14.3	13.0	16.5	14.8
SK FP equity	SEB	EUR	160.2	9,338	18.5	16.5	14.7	15.3	12.2	12.2	1.1	1.1	11.7	10.7	15.9	14.6
5947 JP equity	Rinnai	JPY	8,190.0	3,808	18.6	19.0	17.8	(4.4)	5.2	6.7	1.2	1.1	6.7	6.4	8.7	8.5
<b>Average</b>					<b>14.0</b>	<b>12.5</b>	<b>11.6</b>	<b>72.7</b>	<b>11.4</b>	<b>8.0</b>	<b>1.0</b>	<b>0.9</b>	<b>7.2</b>	<b>6.6</b>	<b>10.1</b>	<b>9.2</b>

Priced as of 3 September 2018; Source: Bloomberg, company data, AMTD estimates

Figure 20: Valuation comparison table (2) – Global internet companies

Code	Company	Price		Mkt Cap (US\$ m)	PE (x)		Non-GAAP			P/S (x)		EV/EBITDA	
		Curr.	3-Sep		2018e	2019e	EPS 3yr%	PE/G (x)		2019e	2020e	2018e	2019e
<b>China Internet</b>													
BABA US equity	Alibaba	USD	175.0	453,658	35.7	30.9	26.4%	1.2	1.0	7.8	5.6	28.4	22.3
700 HK equity	Tencent	HKD	332.8	403,715	33.6	26.1	29.4%	1.6	1.2	6.4	5.0	23.1	18.5
BIDU US equity	Baidu	USD	226.5	79,292	22.0	19.3	17.5%	1.2	1.1	4.3	3.7	17.2	14.6
JD US equity	JD.com	USD	31.3	44,894	72.5	41.4	48.9%	0.9	0.5	0.5	0.4	59.7	28.5
NTES US equity	Netease	USD	197.7	25,965	18.5	15.1	21.0%	na	na	2.1	1.8	15.0	11.7
CTRP US equity	Ctrip	USD	39.2	21,345	32.2	24.2	35.7%	1.2	0.9	3.7	3.0	29.1	19.0
WB US equity	Weibo	USD	76.7	17,125	27.7	19.8	39.2%	na	na	7.0	5.4	24.2	16.8
WUBA US equity	58.com	USD	76.1	11,221	30.6	22.6	31.7%	0.8	0.6	4.9	4.1	25.7	17.4
ATHM US equity	Autohome	USD	82.6	9,700	24.0	20.1	22.3%	0.9	0.8	7.5	6.2	19.4	15.4
SINA US equity	Sina	USD	71.0	5,072	23.0	15.6	45.3%	na	na	1.8	1.4	7.1	4.8
YY US equity	YY	USD	76.4	4,836	10.2	8.4	18.4%	0.4	0.3	1.7	1.4	7.1	5.0
VIPS US equity	Vipshop	USD	7.0	4,620	12.4	10.6	28.7%	na	na	0.3	0.3	8.6	6.6
2858 HK equity	Yixin	HKD	2.5	2,045	25.4	10.0	122.6%	na	na	1.8	1.5	53.1	20.6
MOMO US equity	Momo	USD	46.3	9,466	18.4	14.4	24.4%	0.4	0.3	3.6	3.0	15.1	11.2
BITA US equity	Bitauto	USD	23.7	1,725	17.3	12.4	29.3%	na	na	0.9	0.8	27.7	17.7
FANG US equity	Fang	USD	121.1	11,941	18.1	11.6	46.9%	0.8	0.5	3.1	2.4	9.0	4.4
BZUN US equity	Baozun	USD	53.4	3,041	52.1	32.8	48.2%	118.4	74.7	2.8	2.3	37.1	22.0
<b>Average</b>					<b>27.9</b>	<b>19.7</b>	<b>37.4%</b>	<b>11.6</b>	<b>7.4</b>	<b>3.5</b>	<b>2.8</b>	<b>23.9</b>	<b>15.1</b>
<b>Average ex-Tencent</b>					<b>27.5</b>	<b>19.3</b>	<b>37.9%</b>	<b>12.5</b>	<b>8.0</b>	<b>3.4</b>	<b>2.7</b>	<b>24.0</b>	<b>14.9</b>
<b>Leading global Internet</b>													
FB US equity	Facebook	USD	175.7	507,371	21.9	18.6	13.8%	1.1	0.9	7.3	6.1	14.0	11.8
GOOGL US equity	Google	USD	1,231.8	851,855	23.8	21.4	14.2%	1.3	1.2	6.5	5.7	14.9	12.4
AMZN US equity	Amazon	USD	2,012.7	981,682	75.4	54.8	35.2%	1.7	1.3	3.4	2.9	31.3	23.5
<b>Average</b>					<b>40.4</b>	<b>31.6</b>	<b>21.1%</b>	<b>1.4</b>	<b>1.1</b>	<b>5.7</b>	<b>4.9</b>	<b>20.1</b>	<b>15.9</b>

Priced as of 3 September 2018; Source: Bloomberg, company data, AMTD estimates

## Risks

### Fierce competition in the hardware segment

The hardware market is highly competitive and occupied by a large number of players offering similar products and services. Many hardware manufacturers do not have significant R&D investment and are lack of intellectual property. They may find it increasingly difficult to build sustainable competitive differentiators as most physical products could be replicated easily. Therefore, hardware players may not be able to charge a premium for its hardware product without a content ecosystem supported by a strong community. Xiaomi's hardware business is confronted by aggressive competition in almost every product line. Their competitive advantage is built on frequent product introductions and rapid technological advances in these markets. Therefore, If Xiaomi fails to maintain its lead in technological innovation and to attract interest to its Mi Community, it may not be able to sell products in high volumes and survive on such slim profit margins.

### Challenges to ecosystem management

Xiaomi has built an extensive ecosystem with a wide range of products and services through collaboration with its outsourcing ecosystem partners. The Company largely depends on production, component, product assembly and logistical services provided by these partners, which significantly reduces its direct control over production and distribution. Therefore, Xiaomi needs to facilitate partnerships and strengthen relationships with a large number of partners. It can be increasingly difficult for Xiaomi to monitor supply chain and manage ecosystem partners efficiently as the partner number continues to grow. Potential failure of its ecosystem partners to perform may have a material negative impact on Xiaomi. In addition, Xiaomi and ecosystem partners are co-owners of certain patents and user data. The partners may take advantage of these resources to compete against Xiaomi, which could have a material adverse effect on its business.

### FX fluctuation could weight on earnings

In 2018, emerging markets witness big fluctuation in FX rate. In 2Q18, 36% of Xiaomi's revenue is from overseas market. The relative depreciation of these currencies against Rmb could weight on Xiaomi's hardware margin. Some of Xiaomi's core hardware parts are priced in USD. Further depreciation of Rmb could impact Xiaomi's gross margin. Given fierce competition, Xiaomi may not raise prices to offset the currency fluctuations, which could materially and adversely affect its margins. In addition, the Company may have limited instruments to reduce foreign currency risk exposure at reasonable costs. Therefore, weakening of RMB relative to the U.S. dollar may have a material and adverse effect on Xiaomi's business, results of operations and financial condition.

### Product quality

Xiaomi's products and services may experience quality problems, which can result in decreased sales and harm its reputation. The Company has a comprehensive product portfolio with around 1,600 SKUs of products as of 1Q18. The fast expanding product offerings may have quality or other defects or deficiencies, especially in the early stages of introduction. Similar defects can occur in its software and internet services from time to time as well. Xiaomi may not be able to detect and fix all defects and therefore could experience an unanticipated warranty liability.

## Smartphones

### Xiaomi's global shipment to grow at a CAGR of 27% during 2017-2020e

We forecast Xiaomi's global smartphone shipment to grow from 91.4 million in 2017 to 188.9 million in 2020. This would imply a CAGR of 27%. Its global market share would increase from 6.3% in 2017 to 11.9% in 2020e. ASP would increase from Rmb 826 to Rmb 942 in 2020e.

As of 2Q18, Xiaomi ranked top five in the smartphone markets in 25 countries and regions, according to IDC. Going forward, the shipment growth would be mainly driven by increasing penetration into other markets such as Indonesia, Russia and Western Europe and a recovery in market share in China. Please see detailed forecast in Figure 21.

In addition, we expect Xiaomi to increase its product launch in the middle/high-end market. This will drive its ASP to gradually increase, especially in China.

**Figure 21: Xiaomi smartphone revenue forecast breakdown**

	2015	2016	2017	2018e	2019e	2020e
<b>Xiaomi smartphones shipment (thousands)</b>	<b>66,546</b>	<b>55,419</b>	<b>91,410</b>	<b>134,856</b>	<b>157,925</b>	<b>188,877</b>
China	64,900	41,500	55,100	57,855	60,748	63,785
India	1,034	7,614	25,916	40,622	42,609	48,696
RoW	612	6,305	10,394	36,379	54,569	76,396
<b>Xiaomi smartphones shipment yoy %</b>		-17%	65%	48%	17%	20%
China		-36%	33%	5%	5%	5%
India		636%	240%	57%	5%	14%
RoW		930%	65%	250%	50%	40%
<b>Xiaomi smartphone ASP (RMB)</b>	<b>807</b>	<b>880</b>	<b>881</b>	<b>888</b>	<b>921</b>	<b>942</b>
China	810	900	930	1,070	1,166	1,259
India	810	820	800	760	798	838
RoW	505	820	826	744	744	744
<b>Xiaomi smartphone ASP yoy % (RMB)</b>		9%	0%	1%	4%	2%
China		11%	3%	15%	9%	8%
India		1%	-2%	-5%	5%	5%
RoW		62%	1%	-10%	0%	0%
<b>Xiaomi smartphones sales (Rmb m)</b>	<b>53,715</b>	<b>48,764</b>	<b>80,564</b>	<b>119,800</b>	<b>145,396</b>	<b>177,917</b>
China	52,569	37,350	51,243	61,876	70,817	80,306
India	838	6,244	20,733	30,873	34,002	40,802
RoW	309	5,171	8,588	27,052	40,577	56,808
<b>Xiaomi smartphones sales yoy %</b>		-9%	65%	49%	21%	22%
China		-29%	37%	21%	14%	13%
India		645%	232%	49%	10%	20%
RoW		1574%	66%	215%	50%	40%
<b>Xiaomi smartphone shipment market share</b>	<b>4.6%</b>	<b>3.8%</b>	<b>6.3%</b>	<b>9.0%</b>	<b>10.3%</b>	<b>11.9%</b>
China	15.0%	8.9%	12.4%	13.3%	14.1%	14.8%
India	1.0%	7.0%	20.9%	28.0%	28.0%	28.0%
RoW	0.1%	0.7%	1.2%	4.0%	5.7%	7.7%
<b>Global smartphone shipment (IDC) ('000)</b>	<b>1,437,600</b>	<b>1,468,900</b>	<b>1,462,000</b>	<b>1,493,200</b>	<b>1,540,300</b>	<b>1,591,200</b>
China	434,100	467,300	444,300	435,700	429,900	431,100
India	103,395	108,772	124,000	145,080	152,174	173,913
RoW	900,105	892,828	893,700	912,420	958,226	986,187

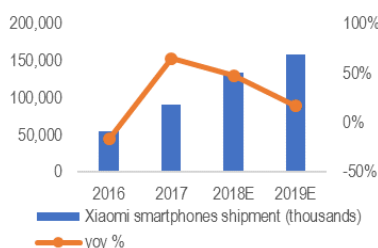
Source: Company data, AMTD estimates

**Figure 22: Global smartphone market share and ranking – Xiaomi enjoys the fastest growth**

3Q17				4Q17				1Q18				2Q18			
Vendor	Shipments	Market Share	yoy %	Vendor	Shipments	Market Share	yoy %	Vendor	Shipments	Market Share	yoy %	Vendor	Shipments	Market Share	yoy %
Samsung	83.3	22.3%	9.5%	Apple	77.3	19.2%	-1.3%	Samsung	78.2	23.4%	-2.4%	Samsung	71.5	20.9%	-10.4%
Apple	46.7	12.5%	2.6%	Samsung	74.1	18.4%	-4.4%	Apple	52.2	15.6%	2.8%	Huawei	54.2	15.8%	40.9%
Huawei	39.1	10.5%	16.1%	Huawei	41.0	10.2%	-9.7%	Huawei	39.3	11.8%	13.8%	Apple	41.3	12.1%	0.7%
OPPO	30.7	8.2%	19.0%	Xiaomi	28.1	7.0%	96.9%	Xiaomi	28	8.4%	87.8%	Xiaomi	31.9	9.3%	48.8%
Xiaomi	27.6	7.4%	102.6%	OPPO	27.4	6.8%	-13.2%	OPPO	23.9	7.1%	-7.5%	OPPO	29.4	8.6%	5.1%
Others	145.7	39.1%	-13.6%	Others	155.6	38.6%	-17.6%	Others	112.7	33.7%	-18.5%	Others	113.7	33.2%	-18.5%
Total	373.1	100.0%	2.7%	Total	403.5	100.0%	-6.3%	Total	334.3	100.0%	-2.9%	Total	342.0	100.0%	-1.8%

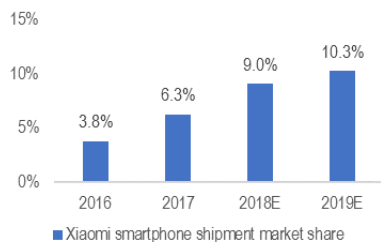
Source: IDC

**Figure 23: Xiaomi global smartphone shipment forecast**



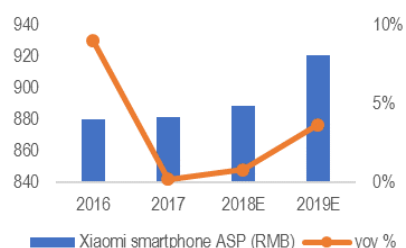
Source: Company data

**Figure 24: Xiaomi global smartphone market share forecast**



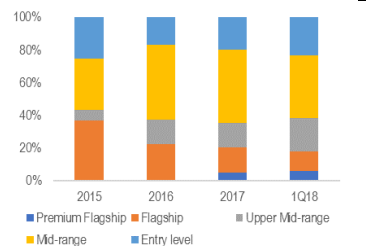
Source: Company data

**Figure 25: Xiaomi global smartphone ASP forecast**



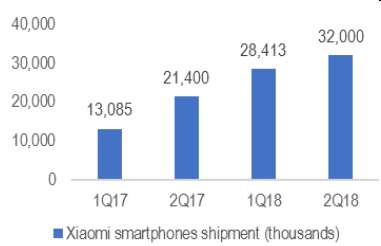
Source: Company data

**Figure 26: Xiaomi smartphone sales by segment**



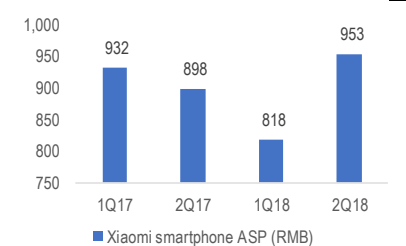
Source: Company data

**Figure 27: Xiaomi quarterly smartphone shipment**



Source: Company data; IDC

**Figure 28: Xiaomi quarterly smartphone ASP**



Source: Company data

**China: moving towards middle/high-end market**

Xiaomi entered the smartphone market in China in 2011 with its flagship phone priced at Rmb 1,999. Xiaomi spotted a middle-market vacuum while low-end market (<Rmb 1,000) and high-end market (>Rmb 3,000) were seeing fierce competition among established brands. It later also extended its portfolio to offer higher-end and entry level smartphones.

Xiaomi has established a strong value proposition for its smartphone users by offering smartphones with the best value for same performance. This is achieved through its high efficiency and innovative distribution strategy.

**Figure 29: China smartphone market share and ranking – Xiaomi maintains No.4 position**

3Q17				4Q17				1Q18				2Q18			
Vendor	Shipments	Market Share	yoy %	Vendor	Shipments	Market Share	yoy %	Vendor	Shipments	Market Share	yoy %	Vendor	Shipments	Market Share	yoy %
Huawei	22.3	19.4%	23.4%	Huawei	24.3	21.3%	6.5%	Huawei	21.2	24.2%	1.9%	Huawei	28.5	27.2%	21.7%
OPPO	21.6	18.8%	7.5%	OPPO	20.0	17.5%	-18.5%	OPPO	16.5	18.9%	-12.6%	OPPO	21.2	20.2%	5.5%
vivo	18.9	16.4%	-1.8%	vivo	18.9	16.5%	-13.0%	vivo	14.2	16.3%	-4.0%	vivo	19.9	19.0%	24.3%
Xiaomi	15.7	13.7%	56.6%	Xiaomi	15.9	13.9%	57.6%	Xiaomi	13.2	15.1%	41.8%	Xiaomi	14.5	13.8%	2.0%
Apple	8.8	7.7%	7.3%	Apple	14.8	12.9%	-0.9%	Apple	9.8	11.3%	2.5%	Apple	7.0	6.7%	-12.5%
Others	27.5	24.0%	-31.7%	Others	20.5	18.0%	-50.7%	Others	12.6	14.2%	-59.3%	Others	13.7	13.1%	-53.8%
Total	114.7	100.0%	-1.0%	Total	114.3	100.0%	-15.7%	Total	87.5	100.0%	-16.0%	Total	104.8	100.0%	-5.9%

Source: IDC

**Mi 8 and Mi Mix: Innovative products strengthening the premium segment**

Since 2017, Xiaomi has launched a selection of middle-high end smartphones including Mi Mix and Mi 8 which received strong market response.

**Figure 30: Mi 8 was launched in June 2018**



Source: Company data

**Figure 31: Mi Mix 2 was launched in September 2017 and Mi Mix 2S was launched in March 2018**



Source: Company data



Figure 32: Xiaomi smartphone models in comparison with similar products in China

Retail price range (Rmb)	2899-3999	2799	2599-3299	1699	1299-1899	1199	999-1599	899-1199	1099	899-999	769-899	549-669
Model	Mi MIX 2S	Mi MIX 2	Mi 8	Mi Max3	Mi 6X	Mi Max2	Redmi Note 5	Redmi 6 Pro	Redmi 5 Plus	Redmi S2	Redmi 6	Redmi 6A
Xiaomi												
Retail price range (Rmb)	3399-3999	2799-2999	2599-2799	1499-1699			1399	999-1299			799-999	
Model	Huawei Mate 10	Huawei nova 3	Huawei nova 2s	Huawei 8 Plus			Huawei Maimang 6	Huawei 8			Huawei 8e	
Huawei												
Retail price range (Rmb)	2799-3298	1899-3299	2399-3398		999-1799	1099-1999	1399	899-1299			699-899	599-699
Model	Honor NOTE10	Honor V10	Honor 10GT		Honor 9	Honor 7XGT	Honor 9i	Honor 7C			Honor 7A	Honor 7
Honor												
Retail price range (Rmb)		2399-2699			1999		1499			999		
Model		OPPO R15			OPPO A3		OPPO A5			OPPO A1		
OPPO												
Retail price range (Rmb)	3298-3398	2598	2698-2998	1598	1598-2198		999-1398	999-1068			899	
Model	vivo X21	vivo X20	vivo XPlay6	vivo Y85	vivo Z1		vivo Y71	vivo Y69			vivo Y53	
vivo												
Retail price range (Rmb)	2999				1999		1299-1399					
Model	Samsung A9				Samsung A9 lite		Samsung C8					
Samsung												
Retail price range (Rmb)		2498-2798			1799-1999		999-1209	799-1099		799		
Model		Meizu 15 PLUS			Meizu PRO 7 Plus		Meizu S6	Meizu 6T		Meizu 6		
Meizu												
Retail price range (Rmb)	3199-3999											
Model	OnePlus 6											
OnePlus												
Retail price range (Rmb)	2999-3799											
Model	Smartisan R1											
Smartisan												

Source: Company data

Figure 33: Xiaomi key smartphone product by segment

	Premium Flagship	Flagship	Upper Mid-range	Mid-range	Entry Level
Price range (Rmb)	>3,000	2,000-2,999	1,300-1,999	800-1,299	<799
Model	Mi MIX 2 Mi MIX 2S	Mi 8 Mi 6 Mi Note 3	Mi Max 2 Mi 5C Mi 5X/Mi A1	Redmi Note 5/5 Pro Redmi 5 Plus	Redmi 5/5A Redmi Note 5A/Redmi Y1
Key features	<b>Mi MIX 2S:</b> the first Chinese smartphone featuring the latest Qualcomm Snapdragon 845 processor; AI-powered dual camera with a 1.4µm-pixel sensor, Dual Pixel Autofocus and a structured light 3D module for facial scanning. <b>Mi MIX 2:</b> designed in collaboration with Philippe Starck; a full screen display and ceramic unibody; Qualcomm Snapdragon 835 processor; minimized bezel size.	<b>Mi 8:</b> Qualcomm Snapdragon 845 processor; AI-powered dual camera with a 1.4µm-pixel sensor, Dual Pixel Autofocus and a structured light 3D module for facial scanning. <b>Mi 6:</b> Qualcomm Snapdragon 835 processor, up to 6GB of RAM, a dual-camera setup, a 3,350mAh battery, dual-camera with wide angle and telephoto lenses, supporting 2x optical zoom and 10x digital zoom. <b>Mi Note:</b> A dual camera setup with wide angle and telephoto lenses, enabling users to shoot beautiful portraits with bokeh effect; front camera with 2µm-pixel sensor; AI-based facial recognition unlocking	<b>Mi Max 2:</b> A large 6.44" display and a massive two-day 5,300mAh battery. <b>Mi 5C:</b> Xiaomi's first smartphone powered by Surge S1, an eight-core SoC designed and developed in-house; ARM Cortex-A53 processor; a 5.15" display and weighs only 135g. <b>Mi 5X/Mi A1:</b> A dual camera with wide angle and telephoto lenses. Mi A1 is the global version of Mi 5X that was launched in collaboration with Google.	<b>Redmi Note 5:</b> A dual camera equipped with a large 1.4µm-pixel sensor, its AI-based camera features and an LED selfie light on its front camera. <b>Redmi 5 Plus:</b> A 5.99" display with an 18:9 aspect ratio, Qualcomm Snapdragon 625 processor and a 4,000mAh battery.	<b>Redmi 5:</b> 5.7" display, a Qualcomm Snapdragon 450 processor and a 3,300mAh battery. <b>Redmi Note 5A:</b> Redmi Note 5A Prime is a smartphone equipped with a 16MP front camera; a 5.5" display, a fingerprint sensor, a Qualcomm Snapdragon 435 processor, and a dedicated microSD card slot in addition to dual-SIM slots.
2017 sales (Rmb bn)	4.0	12.2	12.4	35.9	16.0

Source: Company data



### India: Xiaomi at No. 1 position but a tight game

India has been one of the fastest growing markets. Xiaomi’s growth in India will be a key growth driver in the next 3 years. Xiaomi entered India market in 2014 and became the No.1 brand in terms of smartphone shipment in 4Q17 with 30% market share. Xiaomi’s flagship and most popular smartphones in India include Xiaomi Redmi Note 5 Pro (No.2) and Xiaomi Redmi Note 5 (No.7) and Xiaomi Redmi S2 (No.10). Xiaomi has been in tight competition with Samsung.

Xiaomi replicates this new retail strategy in India by collaborating with both online and offline distributors such as Flipkart, TVS Electronics and Amazon and its offline partners. Xiaomi has built a strong branding in India and can further expand its product into IoT and lifestyle product.

Figure 34: Most popular smartphone models in India

Rank	Model	Change in ranking	Price range	Launched in
1	Samsung Galaxy J6	1	10k-20k	May 2018
2	Xiaomi Redmi Note 5 Pro	1	10k-20k	Feb 2018
3	Samsung Galaxy J8 2018	New entrant	10k-20k	Jun 2018
4	Vivo V9	-3	20k-30k	Apr 2018
5	Samsung Galaxy A6 Plus	8	20k-30k	May 2018
6	OnePlus 6	-2	>30k	May 2018
7	Xiaomi Redmi Note 5	-1	10k-20k	Feb 2018
8	Oppo F7	-3	20k-30k	Apr 2018
9	Honor 9 Lite	-2	10k-20k	Jan 2018
10	Xiaomi Redmi S2	New entrant	5k-10k	Jun 2018

Source: 91mobile

Figure 35: India smartphone market share and ranking – Xiaomi maintains No.1

3Q17				4Q17				1Q18				2Q18			
Vendor	Shipments	Market Share	yoy %	Vendor	Shipments	Market Share	yoy %	Vendor	Shipments	Market Share	yoy %	Vendor	Shipments	Market Share	yoy %
Samsung	10.8	27.6%	23%	Xiaomi	15.0	26.8%	444%	Xiaomi	9.1	30.3%	138%	Xiaomi	10.0	29.7%	108%
Xiaomi	9.2	23.5%	283%	Samsung	13.6	24.2%	109%	Samsung	7.5	25.1%	0%	Samsung	8.0	23.9%	21%
Lenovo	3.5	9.0%	13%	vivo	3.6	6.5%	86%	OPPO	2.2	7.4%	-11%	vivo	4.2	12.6%	18%
vivo	3.3	8.5%	153%	Lenovo	3.1	5.6%	23%	vivo	2.0	6.7%	-29%	OPPO	2.5	7.6%	15%
OPPO	3.1	7.9%	81%	OPPO	2.7	4.9%	24%	Transsion	1.4	4.6%		Transsion	1.7	5.0%	53%
Others	10.8	27.6%	-27%	Others	17.9	32.0%	82%	Others	7.8	25.9%	2%	Others	7.1	21.3%	-27%
Total	39	100.0%	21%	Total	56	100%	117%	Total	30	100%	12%	Total	33.5	100.0%	20%

Source: IDC

Figure 36: Xiaomi smartphone models in comparison with similar products in India



Source: Company data, Amazon.com

### Indonesia: Xiaomi rising to No. 2

Indonesia is the largest market in ASEAN with 30.4 million smartphone shipment in 2017, compared to 25.9 million in India. In merely a year, Xiaomi climbed to the No.2 position with 22% market share in Indonesia with a broad range of product launch. Indonesia is still a fast growing market with relatively low smartphone penetration rate. It will remain an important growth driver for Xiaomi.

Figure 37: Smartphone shipment market share in Indonesia

Indonesia Smartphone Shipment Market Share (%)	Q2 2017	Q2 2018
SAMSUNG	26%	25%
XIAOMI	2%	22%
OPPO	26%	20%
VIVO	2%	6%
ADVAN	5%	4%
OTHERS	39%	23%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

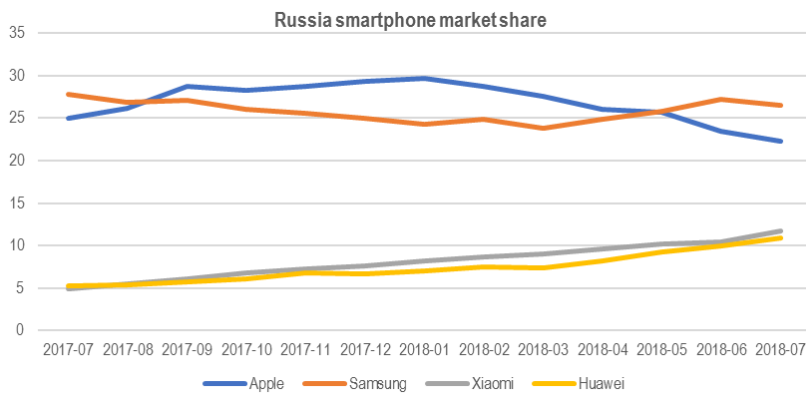
Source: Counterpoint

### European market: Leveraging on the strategic partnership with CK Hutchison

Xiaomi smartphone entered Russia in 2016 and became No.3 in 2017 with 11.7% market share according to statcounter. Xiaomi entered Western Europe first in Spain in late 2017 and later to France and Italy in May 2018. Its smartphone shipment in western Europe recorded over 2700% growth in 2Q18.

Xiaomi also formed a Global Strategic Alliance with CK Hutchison which could help Xiaomi to expand in European market. CK Hutchison owns more than 17,700 retail and telecom stores around the globe and has a strong presence in Western European market.

**Figure 38: Smartphone shipment market share in Russia**

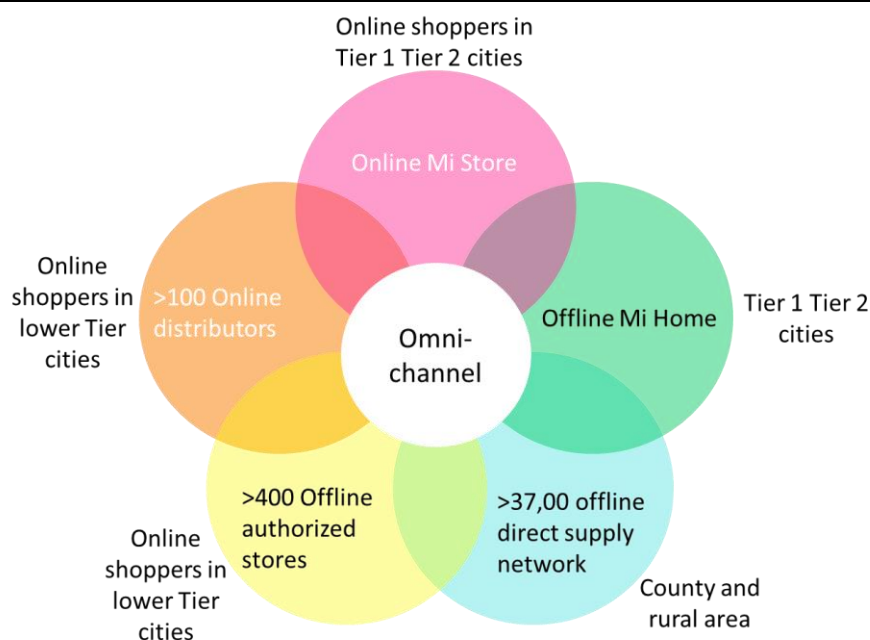


Source: statcounter

## OMNI-channel sales strategy with supreme efficiency

Xiaomi’s OMNI-channel strategy is key to its price strategy. In 2Q18, its operating cost was as low as 8.8% of revenue. It has adopted a very different cost structure compared to other smartphone makers. Its distribution network comprises of its self-operated online store Mi Store, online distributors, more than 400 self-operated offline store Mi Homes, over 360 offline authorized stores and over 37,000 direct supply points as of 2Q18. Each of the channels cover a different segment of the market.

**Figure 39: Xiaomi’s OMNI-channel sales strategy**



Source: Company disclosure

### From online to offline

During Xiaomi’s early years, it exclusively sold its products through self-owned online distribution channels to maintain a low distribution cost. It later expanded its online distribution channels through cooperation with leading online e-commerce platforms to capture more customers. Starting in 2015, Xiaomi started to catch up with other smartphone brands in offline distribution channels. It operates Mi Home in Tier 1 and Tier 2 cities. It collaborates with telecom operators and distributors to open authorized stores. Most importantly, it has built an innovative direct offline supply network which eliminates layers of distributors.

### Offline direct supply network eliminates layers of distributors

As of 2Q18, Xiaomi had 37,000 offline direct supply network which essentially consists of individual retail sellers. The sellers can order directly from Xiaomi Direct Supply Platform which enables Xiaomi to directly monitor end market demand and maintain a tight control of its distribution network. This approach is Xiaomi’s core strategy in penetration into the county level and rural market to compete with strong players in offline market such as OPPO and VIVO.

**Sales driven by increase in number of distributors and SSS**

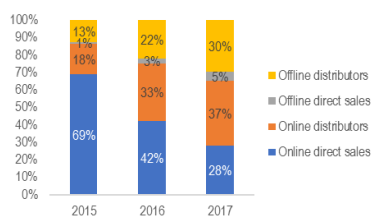
**Expanded distributors:** Xiaomi’s online distributors grew from 58 by end of 2015 to 109 by end of 2017. In merely two years, it has built a strong direct supply network. The growth in this network will be a key thing to watch. The distributors’ contribution in sales is likely to continue to grow.

**New retail – integrated online and offline:** By offering the high-performance smartphone, Xiaomi has established a strong brand image of reliable, high performance and reasonably priced products. By expanding its offline channels, Xiaomi is able to 1) attract its online users to offline stores; 2) further penetrate into market outside of Tier 1/Tier 2 cities, which further boosts its brand image across the country and boosts its online sales in return. We can see that the increase in offline stores and distributors has also contributed to the strong sales in online channels.

Xiaomi replicates this new retail strategy in India by collaborating with both online and offline distributors such as Flipkart, TVS Electronics and Amazon and its offline partners.

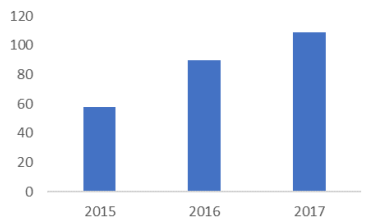
**Expanding product categories:** Xiaomi also quickly expands its product category by collaborating with its ecosystem companies. Xiaomi is able to provide early stage investment, incubation support, technological and design support, supply chain management and brand and marketing to its ecosystem companies.

**Figure 40: Xiaomi hardware sales by distribution channel**



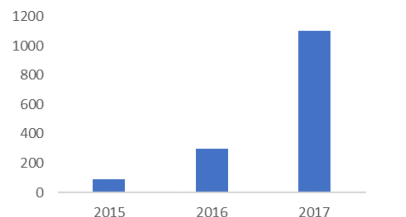
Source: Company data

**Figure 41: Xiaomi hardware – number of online distributor**



Source: Company data

**Figure 42: Xiaomi hardware – number of offline distributor**



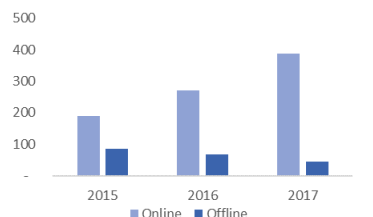
Source: Company data

**Figure 43: 2017 revenue growth from different channels**



Source: Company data

**Figure 44: Distributor same store sales (Rmb m)**



Source: Company data

**Figure 45: Mi Store (self-operated online store)**



Source: Company data

Figure 46: Mi Home (self-operated offline store)



Source: Company data

Figure 47: You Pin (self-operated e-commerce marketplace)



Source: Company data

## IoT and lifestyle products

Xiaomi offers a portfolio of award-winning, high-performance smartphones, smart hardware and lifestyle products with “honest price”. The smart devices serve as the gateway to offer internet services to its loyal users.

Xiaomi develops smartphones, smart TV, laptops, AI speakers and smart routers in-house while collaborating with its ecosystem partners to develop other smart hardware and lifestyle products.

### IoT and lifestyle product sales to grow at a CAGR of 61% in 2017-2020e.

We forecast IoT and lifestyle product’s contribution to revenue to increase from 20.5% in 2017 to 27.9% in 2020e.

**Figure 48: IoT and lifestyle product sales forecast**

	2015	2016	2017	2018E	2019E	2020E
IoT and lifestyle products sales	8,691	12,415	23,448	44,968	65,825	98,408
In-house product	3,815	4,627	10,039	20,077	36,139	57,823
Ecosystem product	4,875	7,789	13,409	24,890	29,686	40,585
<b>Xiaomi smartphone ASP yoy %</b>		<b>9.0%</b>	<b>0.2%</b>	<b>0.8%</b>	<b>3.6%</b>	<b>2.3%</b>
IoT and lifestyle product sales per smartphone	131	224	257	333	417	521
yoy %		72%	15%	30%	25%	25%
IoT and lifestyle product sales per MIUI MAU	77	92	137	194	212	238
yoy %		19%	49%	42%	9%	12%
Gross margin for hardware (%)	-0.2%	4.4%	8.7%	8.1%	9.5%	10.0%

Source: Company data, AMTD estimates

### Home IoT

Xiaomi’s smart hardware are all connected by a single app such as the Mi Home app. This provides users a wider range of smart hardware that can be controlled under a single app. The smart devices can also interact with each other to give user different experiences that are not provided by devices from other brands.

The large and rapidly growing base of IoT devices enables the collection of a vast amount of real-time data, which in turn furthers the development of various consumer applications. IoT endpoints enable streaming data analytics used to better understand consumer needs and preferences in order to optimize product performance, deliver better consumer product experiences and launch new products across application scenarios.

Xiaomi had over 115 million connected devices, excluding smartphones and laptops, as of June 30, 2018, which was the largest consumer IoT platform globally. It has around 1.7 million users with more than 5 Xiaomi IoT devices.

Figure 49: Xiaomi hardware in comparison with similar products

	Smart TV	AI Speaker	Router	Scooter	Wearable	Air Purifier	Induction Heating Rice-cookers	Robot Vacuum Cleaner	Smart Camera	Water Purifier	Total Cost
<b>Xiaomi Model Name</b>	Mi TV	Mi AI Speaker	Mi Router	Mi Electric Scooter	Mi Band	Mi Air Purifier	Mi Induction Heating Pressure Rice Cooker	Mi Robot Vacuum	Mi Home Security Camera	Mi Water Purifier	US\$1,185-\$2,990
<b>Price</b>	US\$138-\$1,492	US\$26-\$46	US\$15-\$107	US\$308	US\$23	US\$108-\$231	US\$62-\$154	US\$260	US\$15-\$62	US\$230-\$307	
<b>System</b>	Controlled by Mi Home app										
<b>Counter-part Model Name</b>	Samsung UA series	Sonos One	TP-Link DR series	INMOTION V series	iWatch	Honeywell KJ series	Panasonic SR series	Roomba® series	Ezviz Smart Camera	Philips WP4170	US\$3,200-\$7,864
<b>Price</b>	US\$446-\$3,333	US\$279	US\$13-\$230	US\$508	US\$249	US\$325-\$833	US\$156-\$586	US\$741-\$1,304	US\$22-\$81	US\$461	
<b>System</b>	Samsung Smarthings	Amazon Alexa	TP-Link Mobile APP	INMOTION Mobile APP	Watch OS 4	JD Smart	Panasonic Smart	iRobot	Ezviz Cloud	Ali Smart Cloud	


Source: iResearch, company data

### Smart TVs

Xiaomi offers a selection of smart TVs in different sizes at the best price-to-specification ratio among major comparable products, according to iResearch. Its smart TV products include the premium Mi TV 4, as well as Mi TV 4A/4C. All of Xiaomi’s TVs are equipped with PatchWall, Xiaomi’s MIUI-based proprietary AI TV operating system, which understands user preference and can intelligently classify content.

Xiaomi also offer Mi Box, a content streaming device and gaming device, with retail price starting from RMB199. In March 2018, Xiaomi had approximately 5 million and over 8 million MAUs on Mi TV and Mi Box, respectively.

Figure 50: Xiaomi Smart TV

Model	Mi TV 4	Mi TV 4A	Mi TV 4C	Mi Box (content streaming device and gaming device)
<b>Retail price range (Rmb)</b>	3,399-9,999	1,599-2,899	999-4,799	249
<b>Display size</b>	49"/55"/65"	32"/40"/43"/49"/50"/55"/65"	32"/40"/43"/49"/50"/55"/65"	
<b>Display type</b>	4K LED	32"-49" FHD / 50"-65" 4K	32"-49" FHD / 50"-65" 4K	

Source: Company data

### Laptops

Xiaomi designs its laptops with a focus on delivering lightweight, portable products equipped with comprehensive features to offer the best quality and price among all peer products with similar specifications.



**Figure 51: Xiaomi notebook**

	Mi Notebook Air	Mi Notebook Pro	Mi Gaming Laptop
<b>Retail price range (Rmb)</b>	3,499-4,999	5,299-6,799	5,999-8,999
<b>Display size</b>	12.5"/13.3"	15.6"	15.6"

Source: Company data

**AI Speakers**

Xiaomi AI speakers offer the best price-to-specification ratio among major comparable products, according to iResearch. Users can connect its voice-controlled AI speakers with other Xiaomi smart hardware products via Wi-Fi and program customized voice commands. In 2017, Xiaomi ranked number one in mainland China by AI speaker unit shipments, according to iResearch.

**Smart Routers**

Xiaomi’s smart routers offer the best price-to-specification ratio among major comparable products, according to iResearch. Current models include Mi Router 3 (RMB149), 3C (RMB99), 3G (RMB249), 3A (RMB139), Mi Router Pro (RMB499) and Mi Router HD (RMB1,199).

**Figure 52: Xiaomi AI Speaker**



Source: Company data

**Figure 53: Xiaomi Smart Router**



Source: Company data

**Products produced in collaboration with ecosystem partners**

These products can be divided into three categories, including mobile peripherals, smart devices and lifestyle products. Xiaomi’s power bank, air purifier, fitness bank and robot vacuum cleaner are among the most popular home appliances in China. Xiaomi Air Purifier was number one in terms of shipments globally in 2017, according to iResearch. Xiaomi Fitness Band was number one in terms of shipment in mainland China and number two globally, according to iResearch.

**Xiaomi’s key ecosystem hardware suppliers include:**

SmartMi: SmartMi is the supplier of Xiaomi’s smart air purifiers and air quality monitors.

Huami: Huami is the supplier of Xiaomi’s fitness bands, watches (excluding children’s watches and quartz watches), scales and associated accessories.

Zimi Technology: Zimi Technology is the supplier of mobile power-related hardware products.

Roborock: Roborock is the supplier of Xiaomi smart robot vacuum cleaners.

Ninebot: Ninebot is the supplier of smart scooters.

Viomi: Viomi is the supplier of water purifiers and certain other smart IoT home appliances.

1More: 1More is the supplier of headphones.

**Figure 54: Xiaomi products produced together with ecosystem partners**

Product	Power Bank		Headphones		Fitness Band	Robot Vacuum Cleaner	Scooter/Self-balancing Scooter	
Model	10000mAh	20000mAh	Dual drivers in-ear	Bluetooth	Mi band 3		Ninebot Mini	Ninebot Plus
Retail price (Rmb)	79	119	69	59	169	1599	1949	3399
Product	Water Purifier		Home Security Camera	Laser Projector	Backpack & Bag		Suitcase	
Model		1A	Home security camera 360°		Crossbody bag	Backpack	20 inch	28 inch
Retail price (Rmb)	1999	1499	199	3799	69	79	299	499
Product	Kettle	Scale	Rice Cooker	WiFi Range Extender	Air Purifier		Lamp	Light
Model			3L	Router 3	2S	Pro	LED table lamp	Sensor night light
Retail price (Rmb)	99	114	389	89	799	1199	159	49
Product	Men Sneakers	Shaver	Box	Power Strip	Toothbrush	Induction Cooker	Selfie-Stick	Charger
Model			Box 4					
Retail price (Rmb)	199	179	299	49	179	289	89	29.9
Product	Cable		Battery	Pillow	Umbrella	Toy	Mug	
Model	USB C cable	Micro USB Cable	Double A 10 count			Story machine mini	Fidget cube	
Retail price (Rmb)	19.9	9.9	9.9	99	89	149	9.9	99
Product	Thermometer	Neck Pillow	Mosquito Dispeller	Screwdriver Kit	Temperature Sensor	Towel	Lumbar Cushion	
Model	Non-Contact							
Retail price (Rmb)	129	19	79	59	99	59	19.9	79
Product	Glasses		Watch	Children watch	Fan	Pen	Flashlight	
Model	Computer glasses	Sunglasses			USB			
Retail price (Rmb)	89	169	349	599	19.9	349	9.9	79

Source: Bloomberg, company data

## Internet service monetization potential

In 1H18, more than 90% of Xiaomi's revenue is generated from selling smartphones and IoT and lifestyle products, mainly in China. Xiaomi uses hardware to attract traffic. Xiaomi is still in early stage of monetization of its internet service. We expect advertising revenue and IVAS revenue's contribution in revenue to significantly increase over time from 8.6% in 2017 to 9.5% in 2019e.

The key to monetization on internet services is to maintain a strong user engagement and long daily usage time. Xiaomi offers a wide range of mobile apps with ranks at top download chart on Android.

### Internet service as % of revenue to rise to 10.7% in 2020e

We forecast internet service revenue to grow at a CAGR of 56% during 2017-2020e. This will be driven by the increase in MIUI MAU, ARPU and improving click-through rate for advertising. The exploration of advertising and purchasing scenario on the IoT devices is also key area to watch.

Figure 55: Xiaomi internet service revenue forecast

Advertising and IVAS	2015	2016	2017	2018E	2019E	2020E
End-of-the-period MIUI MAUs (millions)	112	135	171	231	310	414
MAU yoy %		20%	27%	36%	34%	33%
Newly increased MAU		22.6	36	61	79	104
% of smartphone shipment		41%	39%	45%	50%	55%
ARPU (RMB)	28.9	48.5	57.9	69.5	80.0	91.2
ARPU yoy %		68%	19%	20%	15%	14%
Advertising	16.2	28.5	32.9	38.8	44.9	50.4
IVAS	12.6	20.0	25.1	30.7	35.1	40.7
Internet services revenue	3,239	6,538	9,896	16,095	24,823	37,768
Advertising	1,821	3,838	5,614	8,983	13,924	20,886
IVAS	1,419	2,699	4,282	7,112	10,899	16,882

Source: Company data

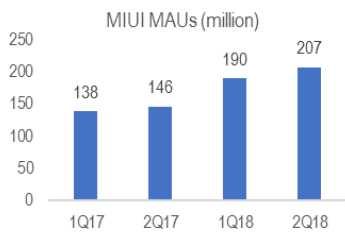
## MIUI

Xiaomi provides internet services to give its users a complete mobile internet experience. In June 2018, Xiaomi had approximately 207 million MAUs on MIUI, its proprietary operating system built on the Android kernel. MIUI functions as an open platform for Xiaomi to deliver its wide range of internet services, such as content, entertainment, financial services and productivity tools. The connectivity between its devices and the seamless integration between hardware and internet services enable it to provide its users with better user experience.

### Xiaomi apps

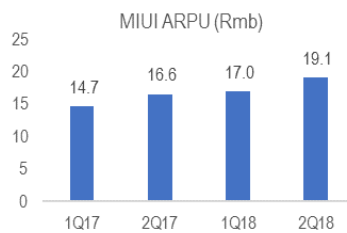
Xiaomi has a proven track record of developing killer apps. In March 2018, it had 38 apps with more than 10 million MAUs and 18 apps with more than 50 million MAUs, including Mi App Store, Mi Browser, Mi Music and Mi Video apps. Its smartphone users spent an average of approximately 4.5 hours per day on its smartphones in March 2018. Compared to other internet platforms that acquire new users at high costs, Xiaomi leverages the sale of its hardware to acquire users at a profit.

Figure 56: MIUI MAU



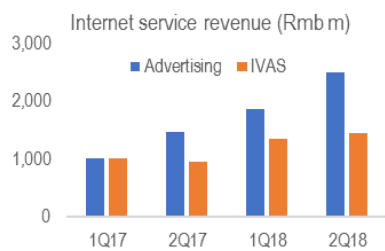
Source: Company data

Figure 57: MIUI ARPU has room for growth



Source: Company data

Figure 58: Xiaomi internet service at early stage of monetization

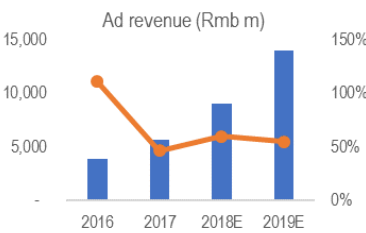


Source: Company data

### Advertising – Low hanging fruit

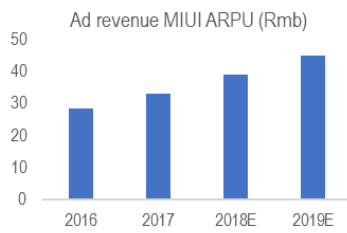
Xiaomi’s advertising distribution channels primarily include its mobile apps and smart TVs. We believe its IoT devices offer extensive scenarios for its ad customers to explore marketing opportunities and purchasing scenarios. We forecast Xiaomi’s ad revenue to grow from Rmb 5,614 million in 2017 to Rmb 13,924 million in 2019e; Ad revenue’s contribution to total revenue to increase from 4.9% in 2017 to 5.3% in 2019e. The growth in advertising revenue will be driven by an increase in ad load and ad format across all apps, the growth in MAU, the improvement in user engagement and click-through rate.

Figure 59: Xiaomi ad revenue forecast



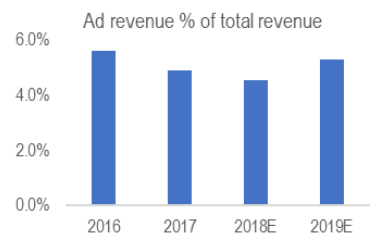
Source: Company data; AMTD estimate

Figure 60: Ad revenue ARPU forecast



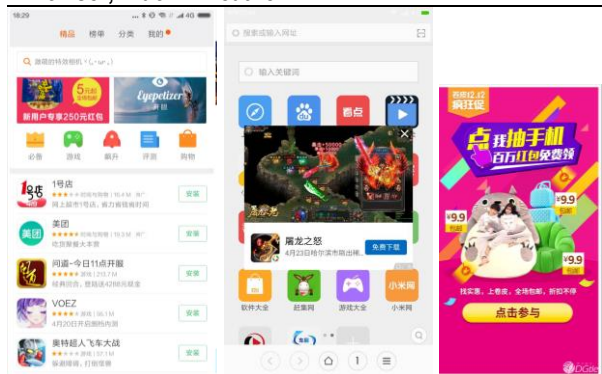
Source: Company data; AMTD estimate

Figure 61: Xiaomi ad revenue contribution to revenue



Source: Company data; AMTD estimate

Figure 62: Advertising on Xiaomi app store, Xiaomi Browser, Xiaomi Weather



Source: Company data

Figure 63: Advertising on Xiaomi Video and Xiaomi Music



Source: Company data

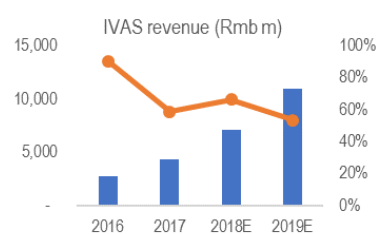
Xiaomi offers diverse types of advertising formats to its advertising customers, such as display and performance-based advertising. Utilizing its robust big data analytics and AI capabilities, Xiaomi customizes the look, feel and timing of the display of the marketing messages to allow their seamless integration into content while not compromising user experience. Xiaomi’s advertising customers cover diverse industries, ranging from auto

and consumer goods to internet services and financial services, and they place advertisements directly with Xiaomi or by engaging advertising agencies and resellers which in turn enter into contracts with Xiaomi. Xiaomi generates advertising revenue primarily by offering display-based and performance-based advertisement services.

**IVAS**

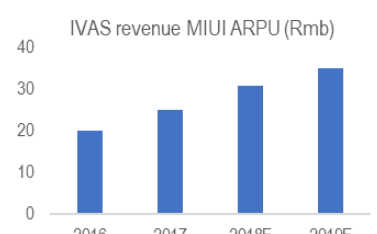
A significant portion of Xiaomi’s internet value-added service revenues were derived from online games. Apart from publishing third-party games, Xiaomi co-develops games and precisely targets its smartphone users. Xiaomi offers streamlined digital sales, distribution and operational support services to third-party game developers. We believe Xiaomi can generate higher IVAS income from mobile games, virtual gifting and premium membership from its live streaming service. We forecast IVAS revenue to grow from Rmb 4,282 million in 2017 to Rmb 10,899 million in 2019e; its contribution to revenue to increase to 4.2% in 2019e from 3.7% in 2017. The growth will be driven by an increasing share of paying users as a % of MAU, as well as ARPU per paying user.

**Figure 64: IVAS revenue forecast**



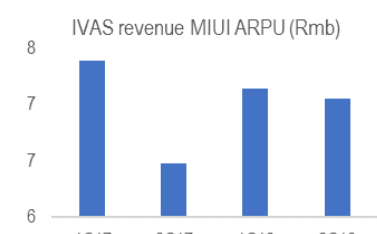
Source: Company data; AMTD estimate

**Figure 65: IVAS ARPU per MIUI MAU**



Source: Company data; AMTD estimate

**Figure 66: IVAS ARPU growth trajectory**



Source: Company data

**Figure 67: Xiaomi Game Centre**



Source: Company data

**Figure 68: One of Xiaomi’s popular mobile games**



Source: Company data

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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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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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