

Xiaomi (1810 HK)

4Q20 beat on record-high GPM; Lift TP to HK\$34.0

Xiaomi delivered strong 4Q20 adj. net profit growth of 37% YoY to RMB3.2bn, 11% above consensus and 4% below our estimate, thanks to record-high blended GPM, higher smartphone ASP (+7% YoY) and rapid ads recovery (+23% YoY). Despite slight miss on revenue (+25% YoY) due to softer internet (gaming/fintech) and slower IoT (TV) growth, we believe continued MAU expansion, share gain in premium smartphone segment and network expansion will accelerate IoT/internet recovery and improve profitability in 2021. In addition, we expect global channel expansion and share gain in China/Europe/LATAM will boost Xiaomi shipment to grow 37%/19% YoY to 200mn/238mn in FY21/22E. We lifted FY21-22E EPS by 9-10% for higher share gain and GPM, and raised TP to HK\$34.0 based on same 35x FY21E P/E. Recommend to BUY after recent correction.

- **Strong 4Q20 on better smartphone ASP and record-high GPM.** We believe Xiaomi's strong 4Q20 is a result of strong execution of multi-channel expansion, premium strategy and advertising recovery despite weaker IoT/gaming/fintech revenue. We think smartphone's better mix (ASP +7% YoY) and record-high GPM at 10.5% suggested Xiaomi's share gain in premium segment (e.g. Mi 11 series), while slower internet growth at 8% YoY (vs 8% in 3Q) was due to gaming/fintech headwinds (VAS -6% YoY) in near term.
- **Promising outlook: multi-channel expansion and share gain in China/Europe/LATAM.** We believe Xiaomi will accelerate smartphone share gain from Huawei and boost IoT sales growth in China/ Europe/ LATAM in 2021, driven by offline store expansion into every county in China and stronger operator partnership in Europe/LATAM. We expect Xiaomi shipment to grow 37%/19% YoY to 200mn/ 238mn in FY21E/22E. In addition, mgmt. guided higher GPM will sustain into 2021, and share gain in premium segment will improve internet monetization (ads, gaming) and profitability in 2021.
- **Our FY21/22E NP are 21/18% above consensus; Raise TP to HK\$34.0.** We believe Xiaomi is poised to boost market share in China and outperform its Chinese peers overseas with strong AIoT product portfolio and expanding omni-channel network. We lifted FY21-22 EPS by 9-10% to reflect rapid share gain and better GPM. Our new TP of HK\$34 is based on same 35x FY21E P/E. Upcoming catalysts include product launches (Mi 11 Pro/Ultra), stronger shipment growth and faster internet recovery.

Earnings Summary

(YE31Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	205,839	245,866	332,687	409,386	484,684
YoY growth (%)	17.7	19.4	35.3	23.1	18.4
Adj. Net income (RMB mn)	11,532	13,006	20,894	25,890	31,480
Adj. EPS (RMB)	0.49	0.54	0.87	1.08	1.31
YoY growth (%)	(10.7)	11.7	60.6	23.9	21.6
Consensus EPS (RMB)	NA	0.52	0.71	0.87	0.97
P/E (x)	45.9	41.1	25.6	20.7	17.0
P/B (x)	8.1	6.5	5.3	4.3	3.5
ROE (%)	12.3	20.0	18.9	18.6	18.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$34.0
(Previous TP	HK\$31.1)
Upside	37.0%
Current Price	HK\$24.85

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	630,033
Avg. 3mths t/o (HK\$mn)	7,664.65
52W High/Low (HK\$)	35.90/ 9.83
Total Issued Shares (mn)	20,508

Source: Bloomberg

Shareholding Structure

Smart Mobile Holdings Ltd	11.18%
Lin Bin	8.97%
Vanguard	2.28%

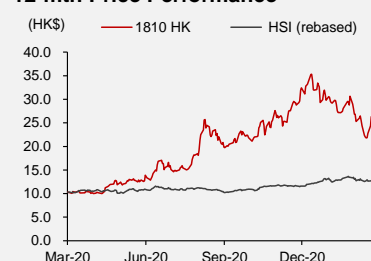
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.9%	-0.9%
3-mth	-23.0%	-27.2%
6-mth	26.0%	5.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

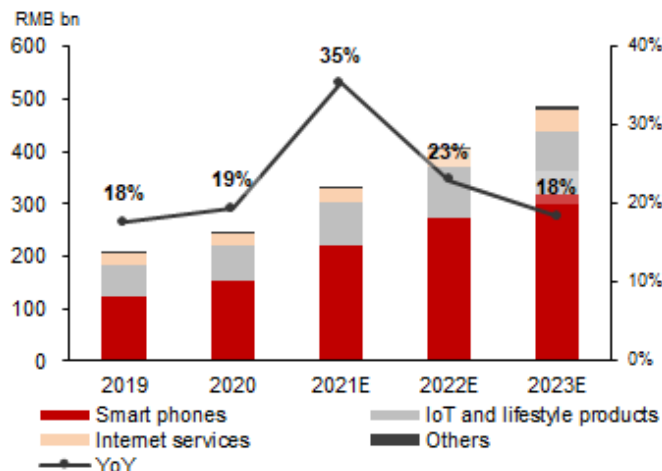
Auditor: PricewaterhouseCoopers

Recent Reports:

1. 3Q20 beat; Global share gain to accelerate in 2021 – 25 Nov 2020
2. 2Q beat on ASP and ads recovery – 27 Aug 2020
3. Beneficiary on Huawei weakness; Lift TP to HK\$21 – 24 Aug 2020

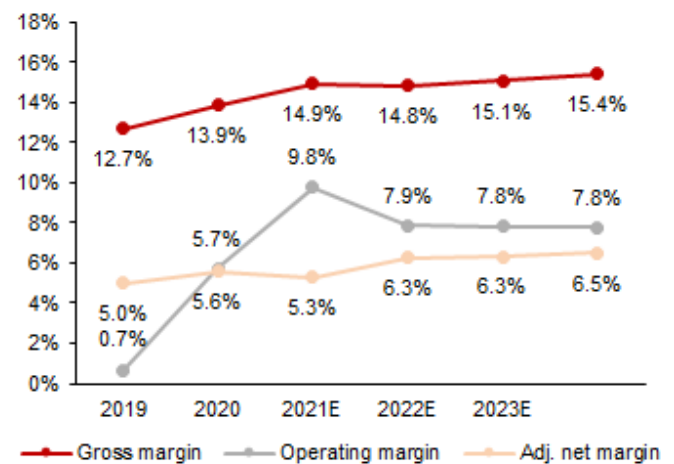
Focus Charts

Figure 1: Xiaomi revenue trend



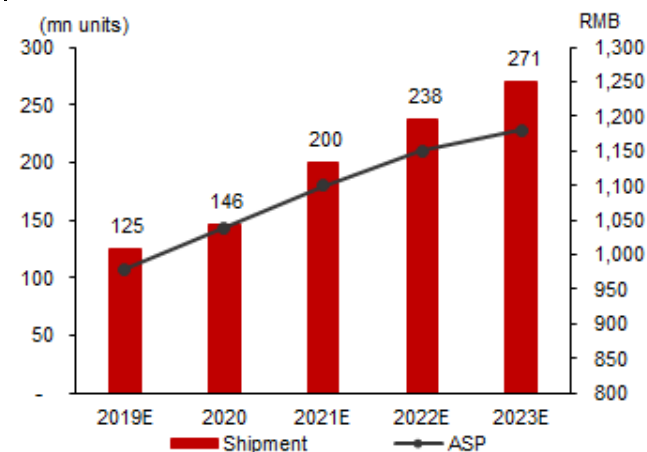
Source: Company data, CMBIS estimates

Figure 2: Xiaomi margin trend



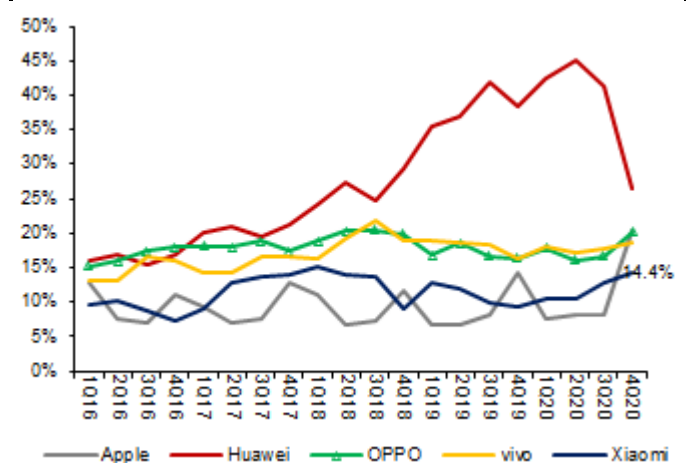
Source: Company data, CMBIS estimates

Figure 3: Xiaomi smartphone shipment forecast



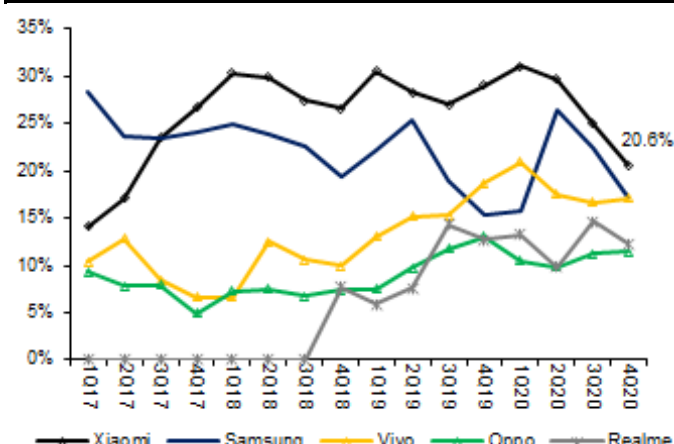
Source: Xiaomi, CMBIS estimates

Figure 4: China smartphone market share in 4Q20



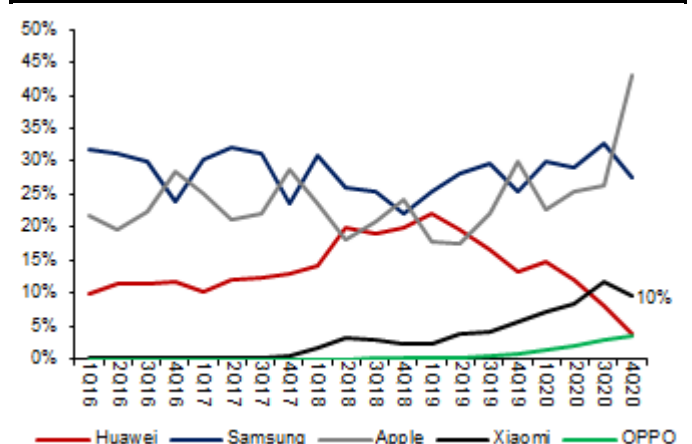
Source: IDC, CMBIS estimates

Figure 5: India smartphone market share in 4Q20



Source: IDC, CMBIS estimates

Figure 6: W.Europe smartphone market share in 4Q20



Source: IDC, CMBIS estimates

4Q20 Review

Figure 7: 4Q20 results review

RMB mn	4Q19	3Q20	4Q20	QoQ	YoY	CMBIS		Consensus	
						4Q20E	Diff %	4Q20E	Diff %
Revenue	56,470	72,163	70,463	-2.4%	25%	74,292	-5%	74,575	-6%
Gross Profit	7,843	10,166	11,326	11.4%	44%	10,819	5%	10,261	10%
Operating Profit	2,697	6,697	9,602	43.4%	256%	5,159	86%	3,370	185%
Adj. net profit	2,344	4,128	3,204	-22.4%	37%	3,353	-4%	2,889	11%
Adj. EPS (RMB)	0.10	0.17	0.13	-22.9%	35%	0.14	-5%	0.11	19%
Gross Margin	13.9%	14.1%	16.1%	-2 ppt	2.2 ppt	14.6%	1.5 ppt	13.8%	2.3 ppt
Operating Margin	4.8%	9.3%	13.6%	-4.3 ppt	8.9 ppt	6.9%	6.7 ppt	4.5%	9.1 ppt
Adj. Net Margin	4.2%	5.7%	4.5%	1.2 ppt	0.4 ppt	4.5%	0 ppt	3.9%	0.7 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 8: Revenue breakdown

RMB mn	FY19	1Q20	2Q20	3Q20	4Q20	FY20	FY21E	FY22E	FY23E
Smart phones	122,095	30,325	31,628	47,604	42,634	152,191	220,380	273,266	319,504
...YoY	7%	12%	-1%	48%	38%	25%	45%	24%	17%
Shipment (mn)	124,700	29,200	28,300	46,600	42,300	146,400	200,346	237,623	270,766
...YoY	5%	5%	-12%	45%	30%	17%	37%	19%	14%
ASP (RMB)	979	1,038	1,116	1,022	1,009	1,040	1,100	1,150	1,180
...YoY	2.1%	7.2%	11.9%	1.6%	6.8%	6.2%	5.8%	4.5%	2.6%
IoT and lifestyle products	62,088	12,984	15,253	18,119	21,054	67,410	81,123	98,314	119,400
...YoY	42%	8%	2%	16%	8%	9%	20%	21%	21%
Smart TVs and laptops	24,200	4,694	4,800	5,800	7,100	22,394	25,753	29,101	32,884
...YoY	33%	-8%	-13%	1%	-10%	-7%	15%	13%	13%
Other IoTs	37,888	8,290	10,453	12,319	13,954	45,016	55,370	69,213	86,516
...YoY	48%	20%	11%	25%	20%	19%	23%	25%	25%
Internet services	19,842	5,901	5,908	5,772	6,175	23,755	27,922	33,565	40,267
...YoY	24%	39%	29%	9%	8%	20%	18%	20%	20%
Advertising services	10,676	2,661	3,086	3,311	3,663	12,722	15,521	19,401	24,251
...YoY	6%	17%	23%	14%	23%	19%	22%	25%	25%
Internet value-added	9,166	3,239	2,821	2,461	2,561	11,082	12,401	14,164	16,016
...YoY	57%	64%	36%	3%	-6%	21%	12%	14%	13%
Gaming	3,195	1,500	1,000	800	900	4,200	4,830	5,458	6,004
...YoY	18%	82%	48%	-3%	3%	31%	15%	13%	10%
Other (incl. Youpin fintech, etc)	5,971	1,739	1,821	1,661	1,661	6,882	7,571	8,706	10,012
...YoY	87%	51%	30%	5%	-10%	15%	10%	15%	15%
Others	1,814	493	750	668	599	2,509	3,262	4,240	5,512
...YoY	35%	10%	85%	40%	24%	38%	30%	30%	30%
Total	205,839	49,702	53,538	72,163	70,463	245,866	332,687	409,386	484,684
...YoY	18%	14%	3%	34%	25%	19%	35%	23%	18%
Gross Margin									
Smart phones	7.2%	8.1%	7.2%	8.4%	10.5%	8.7%	9.3%	9.8%	10.0%
IoT and lifestyle products	11.2%	13.4%	11.4%	14.2%	12.1%	12.8%	13.0%	13.0%	13.5%
Internet services	64.7%	57.1%	60.3%	60.4%	68.4%	61.6%	64.0%	64.5%	64.5%
Others	-0.1%	-1.4%	15.0%	16.1%	14.1%	11.9%	12.0%	12.0%	12.0%
Total	13.9%	15.2%	14.4%	14.1%	16.1%	14.9%	14.8%	15.1%	15.4%

Source: Company data, CMBIS estimates

Earnings Revision

Our FY21-22E EPS are 15-18% above consensus

We adjusted FY21-22E EPS by 9-10% to reflect higher share gain and GPM. Our FY21-22E EPS are 18-21% above consensus given our more positive view on smartphone market share and better GPM ahead.

Figure 9: CMBIS earnings revision

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	332,687	409,386	484,684	323,983	414,370	na	3%	-1%	na
Gross Profit	49,303	61,719	74,703	47,483	60,843	na	4%	1%	na
Operating Profit	26,221	31,940	37,695	25,005	30,336	na	5%	5%	na
Adj. net profit	20,894	25,890	31,480	19,014	23,761	na	10%	9%	na
Adj. EPS (RMB)	0.87	1.08	1.31	0.80	1.00	na	9%	8%	na
Gross Margin	14.8%	15.1%	15.4%	14.7%	14.7%	na	0.2 ppt	0.4 ppt	na
Operating Margin	7.9%	7.8%	7.8%	7.7%	7.3%	na	0.2 ppt	0.5 ppt	na
Adj. Net Margin	6.3%	6.3%	6.5%	5.9%	5.7%	na	0.4 ppt	0.6 ppt	na

Source: Company data, CMBIS estimates

Figure 10: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	332,687	409,386	484,684	333,239	402,805	454,803	0%	2%	7%
Gross Profit	49,303	61,719	74,703	48,125	59,238	72,339	2%	4%	3%
Operating Profit	26,221	31,940	37,695	18,214	23,300	31,822	44%	37%	18%
Adj. net profit	20,894	25,890	31,480	17,233	21,876	30,795	21%	18%	2%
Adj. EPS (RMB)	0.87	1.08	1.31	0.71	0.87	0.97	23%	24%	36%
Gross Margin	14.8%	15.1%	15.4%	14.4%	14.7%	15.9%	0.4 ppt	0.4 ppt	-0.5 ppt
Operating Margin	7.9%	7.8%	7.8%	5.5%	5.8%	7.0%	2.4 ppt	2 ppt	0.8 ppt
Adj. Net Margin	6.3%	6.3%	6.5%	5.2%	5.4%	6.8%	1.1 ppt	0.9 ppt	-0.3 ppt

Source: Bloomberg, CMBIS estimates

Figure 11: P&L forecast

RMB mn	FY19	1Q20	2Q20	3Q20	4Q20	FY20	FY21E	FY22E	FY23E
Revenue	205,839	49,702	53,538	72,163	70,463	245,866	332,687	409,386	484,684
...YoY	18%	14%	3%	34%	25%	19%	35%	23%	18%
Cost of sales	(177,285)	(42,144)	(45,836)	(61,997)	(59,137)	(209,114)	(283,384)	(347,666)	(409,981)
Gross profit	28,554	7,558	7,701	10,166	11,326	36,752	49,303	61,719	74,703
GPM (%)	13.9%	15.2%	14.4%	14.1%	16.1%	14.9%	14.8%	15.1%	15.4%
...YoY	29%	45%	6%	23%	44%	29%	34%	25%	21%
SG&A	(13,482)	(3,406)	(4,060)	(4,453)	(6,366)	(18,286)	(19,961)	(24,154)	(28,596)
...% of rev	-6.5%	-6.9%	-7.6%	-6.2%	-9.0%	-7.4%	-6.0%	-5.9%	-5.9%
R&D	(7,493)	(1,871)	(1,958)	(2,321)	(3,106)	(9,256)	(12,642)	(15,147)	(17,933)
...% of rev	-3.6%	-3.8%	-3.7%	-3.2%	-4.4%	-3.8%	-3.8%	-3.7%	-3.7%
Operating profit	11,760	2,323	5,413	6,697	9,602	24,035	26,221	31,940	37,695
OPM (%)	5.7%	4.7%	10.1%	9.3%	13.6%	9.8%	7.9%	7.8%	7.8%
...YoY	883%	-36%	132%	115%	256%	104%	9%	22%	18%
Adj. net profit	11,532	2,301	3,373	4,128	3,204	13,006	20,894	25,890	31,480
NPM (%)	5.6%	4.6%	6.3%	5.7%	4.5%	5.3%	6.3%	6.3%	6.5%
...YoY	35%	11%	-7%	19%	37%	13%	61%	24%	22%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY and raised TP of HK\$34.0

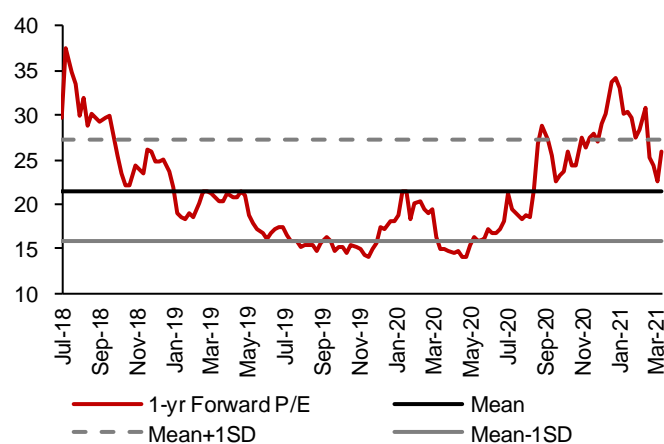
Our new 12m TP of HK\$ 34.0 is based on same 35x FY21E P/E. We think it is justified given accelerated share gain and strong earnings CAGR of 23% during F21-23E. Catalysts include product launch, stronger shipment, share gain and internet revenue recovery.

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
HK-listed												
Xiaomi	1810 HK	Buy	81,108	25.0	34.0	36%	41.4	25.7	5.3	4.3	12.8	16.6
Sunny Optical	2382 HK	Buy	23,751	168.2	254.3	51%	33.8	28.5	9.8	7.6	28.9	26.6
AAC Tech	2018 HK	Hold	6,239	40.1	43.2	8%	33.0	22.1	2.1	2.0	6.5	9.3
BYDE	285 HK	Buy	11,806	40.7	49.5	22%	15.0	13.4	3.8	3.0	25.1	22.4
FIT Hon Teng	6088 HK	Buy	2,236	2.5	3.6	44%	18.3	10.4	1.0	0.9	5.5	8.9
Tongda	698 HK	Buy	467	0.6	*0.6	na	11.4	7.0	0.5	0.5	4.7	7.7
Q tech	1478 HK	Buy	2,188	14.5	16.6	14%	19.1	15.8	4.2	3.4	22.0	21.8
TK Group	2283 HK	Buy	294	2.7	*2.3	na	5.0	4.2	1.8	1.8	35.7	41.7
Average							24.6	17.5	3.8	3.1	15.1	16.2
Smartphone												
Apple	AAPL US	NR	2,036,916	121.3	NA	NA	37.4	27.4	33.3	41.2	70.7	129.0
Lenovo	992 HK	NR	15,068	9.7	NA	NA	23.6	13.3	3.6	3.4	18.5	30.7
Samsung	005930 KS	NR	426,462	81,000.0	NA	NA	19.9	15.0	2.0	1.9	10.1	12.5
LG Elec	066570 KS	NR	21,144	146,500.0	NA	NA	12.5	11.1	1.6	1.4	13.2	13.4
Average							23.4	16.7	10.1	12.0	28.1	46.4
IoT												
Skyworth	751 HK	NR	869	2.5	NA	NA	5.4	5.8	0.3	0.3	7.9	5.8
Hisense	600060 CH	NR	2,232	11.1	NA	NA	15.9	13.7	0.9	0.9	6.9	7.5
Midea	000333 CH	NR	88,150	81.7	NA	NA	22.3	19.4	4.9	4.3	22.5	22.8
Gree	000651 CH	NR	56,565	61.4	NA	NA	19.1	14.6	3.1	2.8	15.9	18.8
Average							15.7	13.4	2.3	2.1	12.4	14.0
Internet												
Tencent	700 HK	NR	770,126	623.5	NA	NA	40.4	32.4	8.8	7.0	23.6	22.2
Alibaba	BABA US	NR	627,028	231.3	NA	NA	30.5	22.5	5.5	4.5	21.7	19.2
Baidu	BIDU US	NR	83,818	241.2	NA	NA	25.3	23.2	2.9	2.6	12.5	10.2
JD	JD US	NR	124,175	79.3	NA	NA	48.9	39.0	6.5	4.7	20.1	9.8
Average							36.3	29.3	5.9	4.7	19.5	15.4

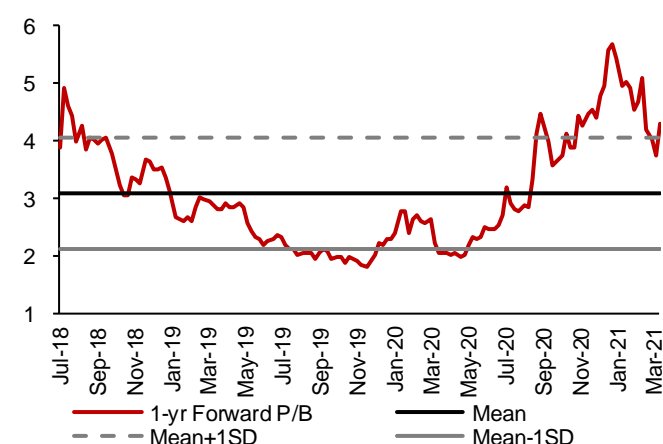
Source: Bloomberg, CMBIS, * TP under review

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	205,839	245,866	332,687	409,386	484,684
COGS	(177,285)	(209,114)	(283,384)	(347,666)	(409,981)
Gross profit	28,554	36,752	49,303	61,719	74,703
Selling and marketing	(10,378)	(14,539)	(15,636)	(18,832)	(22,295)
Administrative	(3,104)	(3,746)	(4,325)	(5,322)	(6,301)
R&D	(7,493)	(9,256)	(12,642)	(15,147)	(17,933)
Other operating exp.	4,181	14,825	9,521	9,521	9,521
Operating profit	11,760	24,035	26,221	31,940	37,695
Financial cost	402	(1,641)	1,371	1,789	2,610
Other income/(losses)	-	(760)	-	-	-
Pre-tax profit	12,163	21,633	27,592	33,729	40,305
Tax	(2,060)	(1,321)	(3,918)	(5,059)	(6,046)
Minority interest	59	(43)	(50)	(60)	(72)
Net profit	10,044	20,356	23,724	28,730	34,332
Adj. Net profit	11,532	13,006	20,894	25,890	31,480

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before taxation	12,163	21,633	27,592	33,729	40,305
Depreciation	2,192	1,086	1,572	2,170	2,879
Change in working capital	9,641	265	14,065	(1,765)	13,626
Others	(186)	(1,321)	(3,918)	(5,059)	(6,046)
Net cash from operating	23,810	21,664	39,311	29,075	50,764
Capex	(4,117)	(4,917)	(6,654)	(8,188)	(9,694)
Other	(27,453)	-	-	-	-
Net cash from investing	(31,570)	(4,917)	(6,654)	(8,188)	(9,694)
Net bank borrowings	-	-	-	-	-
Dividend paid	-	-	-	-	-
Other	3,121	-	-	-	-
Net cash from financing	3,121	-	-	-	-
Net change in cash	(4,639)	16,746	32,657	20,887	41,070
Cash at beginning of the yr	30,230	25,920	42,666	75,324	96,211
Exchange difference	328	-	-	-	-
Cash at the end of the year	25,920	42,666	75,324	96,211	137,281

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	137,539	143,402	211,127	217,980	293,537
Cash & equivalents	25,920	42,666	75,324	96,211	137,281
Account receivables	6,949	9,265	12,674	14,323	17,640
Inventories	32,585	19,385	51,044	35,361	66,531
ST bank deposits	21,523	21,523	21,523	21,523	21,523
Other	50,562	50,562	50,562	50,562	50,562
Non-current assets	46,090	49,921	55,003	61,020	67,835
PPE	6,992	10,823	15,905	21,922	28,737
Deferred income tax	1,283	1,283	1,283	1,283	1,283
Intangibles	1,672	1,672	1,672	1,672	1,672
Other	36,142	36,142	36,142	36,142	36,142
Total assets	183,629	193,323	266,129	279,000	361,372
Current liabilities	92,181	81,562	130,694	114,896	163,008
Short-term borrowings	12,837	12,837	12,837	12,837	12,837
Account payables	59,528	48,909	98,041	82,243	130,355
Tax payable	479	479	479	479	479
Other	19,337	19,337	19,337	19,337	19,337
Non-current liabilities	9,791	9,791	9,791	9,791	9,791
Long-term borrowings	4,787	4,787	4,787	4,787	4,787
Deferred tax liability	580	580	580	580	580
Other	4,424	4,424	4,424	4,424	4,424
Total liabilities	101,972	91,353	140,485	124,687	172,799
Share capital	0	0	0	0	0
Reserves	81,330	101,686	125,409	154,139	188,471
Minority interest	327	284	234	174	102
Shareholders' equity	81,658	101,970	125,644	154,314	188,573
Total equity/liabilities	183,629	193,323	266,129	279,000	361,372

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Smart phones	59	62	66	67	66
IoT and lifestyle products	30	27	24	24	25
Internet services	10	10	8	8	8
Others	1	1	1	1	1
Growth (%)					
Revenue	17.7	19.4	35.3	23.1	18.4
Gross profit	28.7	28.7	34.2	25.2	21.0
Operating profit	882.9	104.4	9.1	21.8	18.0
Adj. Net profit	31.9	12.8	60.6	23.9	21.6
Profit & loss ratio (%)					
Gross margin	13.9	14.9	14.8	15.1	15.4
Operating margin	5.7	9.8	7.9	7.8	7.8
Net profit margin	4.9	8.3	7.1	7.0	7.1
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.5	1.8	1.6	1.9	1.8
Receivable turnover days	30	30	30	30	30
Inventory turnover days	8	8	8	8	8
Payable turnover days	4	4	4	4	4
Profitability (%)					
ROE	12.3	20.0	18.9	18.6	18.2
ROA	5.5	10.5	8.9	10.3	9.5
Per share data (RMB)					
Adj. EPS	0.49	0.54	0.87	1.08	1.31
DPS	-	-	-	-	-

Source: Company data, CMBIS estimates

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