

## Xiaomi (1810.HK)

Short-term performance is under pressure; Expect some relief in later period of second quarter

Hong Kong | Information Technology Industry

19<sup>th</sup> July 2022

### Investment highlights

Xiaomi Corporation released its first quarterly report that the company's revenue was RMB73.4 billion, a decrease of 4.6% YoY; The gross profit was RMB12.7 billion, a decrease of 10.2% YoY; Adjusted net profit was RMB2.9 billion, a decrease of 52.9% YoY. In the first quarter of 2022, due to the supply shortage of key components, the domestic lockdown caused by the epidemic and the impact of the global economic environment, the shipments of smartphone business dropped sharply. However, thanks to the premiumization strategy of smartphones, the decline in shipments was partially offset by the increase in average selling price (ASP); As for the IoT and lifestyle products business, smart TVs, laptops, smart home and smart wearables all maintained rapid growth. Revenue from Internet services remained stable and the global and mainland China MAU of MIUI continued to grow. In general, the demand for smartphones in the first quarter of 2022 was weak. IoT and lifestyle products business was negatively affected. Internet service business maintained steady growth. At the same time, the company will continue to increase investment in research and development of electric vehicle in the next 1-2 years which may cause a negative impact on the company's overall profitability.

### Supply shortages of key components for smartphones; competition intensified; shipments in the next quarter will still be affected

Revenue from the smartphone business in the first quarter was RMB45.8 billion, a decrease of 11.1% YoY, mainly due to the continued shortage of key component supply, the resurgence of COVID-19 and the impact of fierce industry competition. The gross profit margin of the smartphone business was 9.9%, down 3 percentage points YoY, mainly due to the promotion of certain smartphone models. The company's global smartphone market shipments in the first quarter of 2022 were 38.5 million units, a decrease of 22.1% YoY. The shortage of key components such as mobile phone chips has largely restricted the shipments of Xiaomi's mobile phones. The management stated that shortage of 4G chips has a great impact on Xiaomi and the shortage of Xiaomi's models below US\$150 exceeded more than 10 million units. At the same time, thanks to the increase in the proportion of Xiaomi's high-end smartphone shipments, the global smartphone ASP reached RMB1,189, an increase of 14.1% YoY. The decline in shipments was partially offset by the increase in ASP.

According to Canalys, as for global market, the global overall smartphone market shipments fell by 10.5% YoY in the first quarter of 2022. Xiaomi's global market share was 12.6%, ranking No. 3. In the Latin American market, the company's smartphone business and carrier business have great potential for development and the growth rate continues to increase, which is Xiaomi's growth point of this and next year. In addition, 4G equipment is more widely promoted into the African market, which is also another market with great development potential. As for domestic mobile phone market, according to Canalys, Xiaomi's market share is 13.9%, ranking No. 5. Although most leading suppliers have slowed down the pace of new product releases in the first quarter, Honor ranked No.1 with a market share of 20% in the first quarter of 2022 and competition among smartphone providers remains fierce.

The company's high-end smartphones accounted for more than 50% of the domestic offline shipments. The epidemic has affected the company's offline store traffic and offline consumer demand was sluggish. In March 2022, MAU of MIUI in Xiaomi's global and mainland China both reached a record high. MAU of MIUI in global reached 529 million, an increase of 24.4% YoY; MAU of MIUI in mainland China reached 137 million, an increase of 14.3% YoY. In terms

## Buy

CMP HKD 12.78  
(Closing price as of 14<sup>th</sup> July )  
Target HKD 16.24 (+27.1%)

#### COMPANY DATA

O/S SHARES (MN) : 24,955  
MARKET CAP ( HKD MN) : 318,922  
52- WK HI/LO (HKD) : 28.65/10.30

#### SHARE HOLDING PATTERN %

Lei Jun	16.73% (Class A Shares)
Lei Jun	9.88% (Class B Shares)
Lin Bin	7.73% (Class B Shares)
Apoletto Managers Ltd.	6.48% (Class B Shares)
Lin Bin	1.85% (Class A Shares)

#### 股價 & 恒生指數



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

RMB \$'mn	FY20	FY21	FY22E	FY23E
Net Sales	245,866	328,309	333,108	397,128
Net Profit	20,356	19,339	17,182	21,211
Non-IFRS net profit	13,006	22,039	19,339	23,520
Basic EPS (RMB)	0.85	0.78	0.69	0.85
P/E, x	15.1	16.4	18.5	15.0
Non-IFRS EPS (RMB)	0.5	0.9	0.8	0.9
BVPS (RMB)	5.2	5.5	6.2	7.0

來源: PSHK Est.

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of product research and development, company continues to expand its smartphone product line and develop new products, among which Xiaomi 12 series, Redmi K50, Redmi K50 Pro and the newly launched Xiaomi Civi 1S all accounted for more than 50% of new users. Although the supply of key components was tight in the first quarter of this year and the macroeconomic headwinds, geopolitics and industry competition were still challenging, the supply chain may improve in the second quarter. It is expected that the 618 shopping festival may partially help increase the shipments in the corresponding quarter.

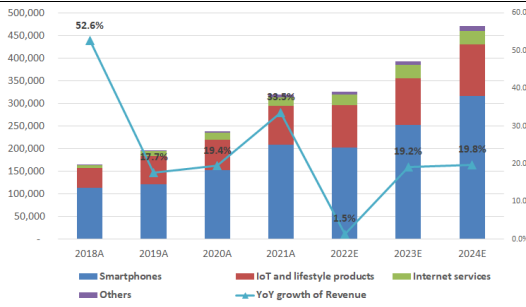
### **IoT and lifestyle products business are negatively affected by logistics, inflation and rising costs and are expected to resume stable growth after the epidemic eases**

The revenue of the IoT and lifestyle products business in the first quarter was RMB19.5 billion, an increase of 6.8% YoY. The gross profit margin of the IoT and lifestyle products business was 15.6%, an increase of 1.1 percentage points YoY, mainly due to the price decline of key components such as display panels. In the first quarter of 2022, the number of connected devices on AIoT reached about 478 million, an increase of 36.2% YoY; In terms of smart TVs, the global smart TV shipments in the first quarter of 2022 reached 3 million units, an increase of 15% YoY, ranking No.5 in the world. The YoY increase in the gross profit margin of the smart TV business in this quarter was mainly attributable to the cost advantage brought about by economies of scale and the price decline of key components; Smart devices maintained a good growth momentum. Since the release of the Xiaomi Pad5 series in August 2021, the shipment volume have exceeded 2 million units, ranking the top three in the first quarter in mainland China. In addition, the revenue of smart home (air conditioners, refrigerators, washing machines) in the first quarter increased by 25.0% YoY. The company will continue the high-end product market penetration strategy and launch new products this year, such as smart air conditioners and 630-liter super refrigerator series; Smart wearables continued to maintain its leading edge. Global shipments of TWS ranked No.3 in the first quarter and its domestic shipments ranked No.2. At present, the increase in overseas shipping logistics costs, inflation in Europe and the United States, the exchange rate impact caused by the conflict between Russia and Ukraine, and uncertainties in the overseas macro environment are the main challenges for the future growth of IoT and lifestyle products business. Gross profit of IoT and lifestyle products business is expected to increase in the second quarter. On the one hand, it is mainly due to the reduction in the cost of key components, such as the benefit of TV categories; On the other hand, newly launched household appliances are products with high gross profit margins, which are expected to improve overall gross profit in the future.

### **Internet service business maintains steady growth**

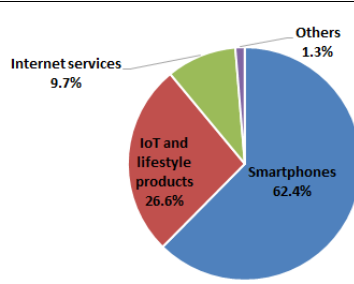
Revenue from the Internet service business in the first quarter was RMB7.1 billion, an increase of 8.2% YoY. Gross profit margin was 70.8%, representing a decrease of 1.6 percentage points YoY, mainly due to the increase in the proportion of revenue of certain advertising businesses with lower gross profit margins. In the first quarter of 2022, the scale of global and domestic Internet users will maintain a growth trend. Revenue of advertising business reached RMB4.5 billion with an increase of 16.2% YoY, mainly due to the increase in search, performance and brand advertising business revenue. The revenue of game business reached RMB1.1 billion, an increase of 3.0% YoY. The lower growth rate was mainly due to challenges from the regulatory environment and macro economy. In overseas markets, the revenue of overseas Internet service business reached RMB1.6 billion in the first quarter of 2022, an increase of 71.1% YoY. The proportion of overseas markets in overall Internet service revenue continued to increase to 21.9%, reaching a record high. In the domestic market, TV advertising revenue of China's TV Internet service in the first quarter accounted for 15.0% of the total domestic Internet service revenue, reaching a new record. Due to the high installed capacity in China, TV advertising and TV added value-added are expected to bring revenue growth in the future.

Figure 1: Segmental revenue breakdown (Rmb mn)



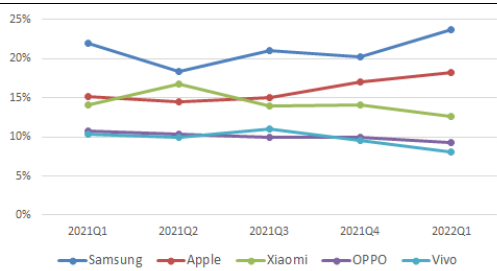
Source : Company, PSHK Est.

Figure 2: Percentage of Sales in 2022 Q1



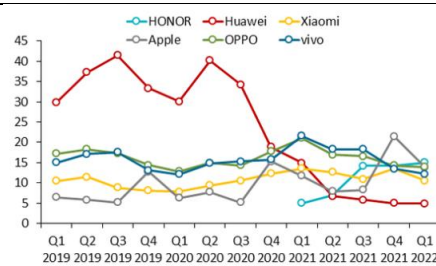
Source : Company

Figure 3: Global Smartphone User Market Share



Source : Canalys

Figure 4: Mainland China Smartphone Market Share



Source : Canalys

## Company Valuation and investment advice

Compared with companies in the same industry in domestic and global, Xiaomi's current PE ratio is only about 14x, which is lower than the industry average; due to the impact of the domestic epidemic and the macroeconomic headwinds, rising costs and logistics costs in the first quarter affected smartphone business and IoT and Consumer products business. Besides, the automotive business will also affect profits in the nearly 1-2 years. The epidemic is expected to ease in the second quarter and the 618 shopping festival may improve the smartphone business and IoT and lifestyle products business in the corresponding quarter. We predicted the company's adjusted net profit per share in 2022-2023 to be RMB0.78 and RMB0.94 respectively. We set our target price at HK\$ 16.24, corresponding to 18.0x and 14.8x PE ratio in 2022-2023 and our investment rating is "Buy".

**Table 1: Comparable Company valuation table**

Ticker	Last Price 13/7/2022	Mkt Cap (bhd m)	P/E (x)			P/B (x)			ROE (%)			EV/EBITDA		Dividend yield (%)					
			FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY21F	FY22F				
<b>China peers</b>																			
SHENZHEN TRANS-A	688036 CH	88.20107	75.49	70710.00	15	13.1	10.4	3.9	3.4	2.7	29.7	28.8	28.6	8.4	7.4	5.6	2.0	2.1	2.6
HAIER SMART XIA	600690 CH	30.76347	26.33	274372.33	18	16.3	14.3	2.0	2.7	2.4	17.3	17.2	17.3	9.7	8.8	7.7	1.8	2.3	2.8
GUANGDONG XINBA	002705 CH	23.32088	19.96	19280.02	20	16.3	13.6	2.5	2.4	2.1	12.2	14.5	15.4	9.8	8.5	7.4	1.0	2.8	3.3
JOYOUNG CO-A	002242 CH	21.54494	18.44	16525.34	18	16.9	14.7	3.0	3.2	3.0	20.9	18.7	20.3	10.2	12.1	10.7	5.6	4.9	5.5
MIDEA GROUP CO-A	000333 CH	68.1166	58.30	479659.44	14	12.7	11.2	2.8	2.8	2.4	21.8	22.2	21.7	10.3	9.8	8.6	3.0	3.3	3.8
GREE ELECTRIC-A	000651 CH	40.85828	34.67	230089.53	8	8.1	7.3	1.9	1.7	1.6	19.2	21.8	21.6	4.8	4.6	4.1	5.9	7.0	7.7
HISENSE H A-A	000921 CH	15.9484	13.65	18562.85	19	13.3	11.0	1.7	1.8	1.5	12.5	12.5	13.3	5.2	5.0	4.3	1.6	2.3	2.9
HISENSE VISUAL-A	600800 CH	15.17727	12.89	19855.83	15	11.3	9.2	1.0	1.0	0.9	8.1	8.7	9.8	5.8	5.2	4.4	0.7	2.2	2.6
ECOVACS ROBOT-A	603486 CH	120.43669	103.08	69097.23	28	22.4	17.3	9.8	8.0	5.8	44.2	38.1	35.8	18.1	15.0	11.7	1.1	1.4	1.8
BEIJING ROBOBO-A	688189 CH	419.68238	359.20	39252.40	23	19.2	14.8	3.6	3.4	2.8	17.4	17.6	18.6	14.7	12.6	9.7	0.4	0.6	0.9
<b>Average</b>					<b>17.8</b>	<b>15.0</b>	<b>12.4</b>	<b>3.2</b>	<b>3.0</b>	<b>2.5</b>	<b>20.3</b>	<b>19.8</b>	<b>20.0</b>	<b>9.7</b>	<b>8.9</b>	<b>7.4</b>	<b>2.3</b>	<b>2.9</b>	<b>3.4</b>
<b>HK peers</b>																			
XIAMI CORP-B	1810 HK	12.8	12.80	319420.97	14	18.1	13.6	1.5	1.8	1.6	16.0	9.3	11.8	6.9	10.5	8.1	0.0	0.0	0.0
TENCENT	700 HK	335.4	335.40	3227373.10	12	23.9	19.5	2.9	3.0	2.6	17.4	13.5	14.5	13.4	15.1	12.7	0.5	0.5	0.5
ZTE-H	763 HK	16.8	16.80	123142.68	9	8.3	7.3	1.3	1.2	1.0	15.0	14.9	15.2	6.9	7.2	6.5	2.2	2.5	2.8
SUNNY OPTICAL	2382 HK	108.5	108.50	118008.19	20	20.3	16.3	4.7	4.2	3.4	28.4	21.3	22.3	10.0	11.4	9.3	1.0	0.9	1.1
AAC TECHNOLOGIES	2018 HK	15.98	15.98	19311.83	12	14.6	11.4	0.7	0.7	0.7	6.8	5.1	6.2	4.2	4.3	4.0	1.3	1.5	1.9
BYD ELECTRONIC	285 HK	21.1	21.10	47542.62	17	18.1	12.1	1.6	1.6	1.4	12.1	8.9	11.9	7.1	7.2	5.8	0.6	0.6	0.8
LENOVO GROUP	992 HK	7.05	7.05	84894.02	5	5.8	5.7	2.2	1.6	1.3	44.4	36.2	30.2	0.3	0.3	0.3	42.0	5.8	7.3
<b>Average</b>					<b>12.7</b>	<b>15.6</b>	<b>12.3</b>	<b>2.1</b>	<b>2.0</b>	<b>1.7</b>	<b>20.0</b>	<b>15.6</b>	<b>16.0</b>	<b>7.0</b>	<b>8.0</b>	<b>6.7</b>	<b>6.8</b>	<b>1.7</b>	<b>2.1</b>
<b>US peers</b>																			
APPLE INC	AAPL US	1142.0965	145.49	18485000.00	26	23.9	22.4	35.1	39.4	33.0	143.7	155.7	158.0	2.4	2.2	2.2	0.6	0.6	0.7
ALIBABA GRP-ADR	BABA US	856.43499	109.10	2321700.00	31	16.9	12.7	2.0	2.4	2.1	NA	10.4	10.7	NA	8.4	6.9	0.0	0.0	0.0
AMAZON.COM INC	AMZN US	866.93999	110.40	8617600.00	34	56.6	30.2	8.4	7.7	6.1	19.7	7.7	16.0	2.2	2.1	1.6	0.0	0.0	0.0
WHIRLPOOL CORP	WHR US	1282.847	163.42	72099.03	6	6.7	6.4	2.0	1.9	1.7	35.2	28.9	NA	0.6	0.7	0.7	3.3	4.1	4.4
<b>Average</b>					<b>24.1</b>	<b>26.5</b>	<b>17.9</b>	<b>11.9</b>	<b>12.9</b>	<b>10.7</b>	<b>66.2</b>	<b>50.7</b>	<b>61.5</b>	<b>1.7</b>	<b>3.3</b>	<b>2.8</b>	<b>1.0</b>	<b>1.2</b>	<b>1.3</b>
<b>Korea and Japan Markets</b>																			
SAMSUNG ELECTRON	005930 KS	349.18053	58000.00	2084500.00	9	8.8	8.6	1.1	1.2	1.1	14.2	13.9	12.7	440.4	426.6	410.7	2.8	2.5	2.9
LG ELECTRONICS	066570 KS	548.45424	91100.00	89753.34	14	6.3	6.1	0.7	0.8	0.7	9.3	13.4	12.5	835.6	524.0	508.1	1.1	1.5	1.7
SONY GROUP CORP	6758 JP	640.15084	11190.00	807282.56	13	15.8	14.4	1.7	1.8	1.6	14.1	12.0	11.8	140.3	144.1	134.5	0.7	0.6	0.7
PANASONIC HOLDIN	6752 JP	63.55742	1111.00	159861.42	8	10.6	9.3	0.7	0.8	0.8	9.0	7.8	8.7	89.1	87.0	79.6	3.3	2.9	3.1
TOSHIBA CORP	6502 JP	303.14203	5299.00	131302.32	10	11.6	12.0	1.7	1.8	1.6	12.3	15.5	14.3	158.8	151.2	140.4	5.0	3.6	3.5
<b>Average</b>					<b>10.9</b>	<b>10.6</b>	<b>10.1</b>	<b>1.2</b>	<b>1.3</b>	<b>1.2</b>	<b>11.8</b>	<b>12.5</b>	<b>11.9</b>	<b>272.8</b>	<b>266.6</b>	<b>254.6</b>	<b>2.6</b>	<b>2.2</b>	<b>2.4</b>
<b>Overall Average</b>					<b>17.7</b>	<b>18.0</b>	<b>13.8</b>	<b>4.7</b>	<b>4.9</b>	<b>4.1</b>	<b>28.8</b>	<b>24.1</b>	<b>27.0</b>	<b>74.0</b>	<b>72.6</b>	<b>68.4</b>	<b>2.7</b>	<b>1.4</b>	<b>1.7</b>

## Risk factors

Uncertainties in the epidemic resurgence; continued supply shortage of key components such as chips; macroeconomic headwinds; intensified competition in the industry



**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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