

# Xiaomi (01810.HK)

Stable core business makes progress while the innovative business is enhancing the third growth curve

China | Consumer electronics | Technology hardware

4 Dec 2024

## Company profile

Xiaomi Group was founded in 2010 and is a consumer electronics and smart manufacturing company with a focus on smart phones, smart hardware, and IoT platforms. In October 2023, Xiaomi announced its latest strategic upgrade to "Human × Car × Home", shifting from personal devices to smart homes and smart travel, with a human-centric approach dedicated to providing comprehensive and higher-quality interconnected experiences. The group's business has expanded to over 100 countries and regions globally. According to Canalys data, in the third quarter of 2024, the company ranked among the top three globally in terms of smartphone shipments, with a market share of 13.8%. The company's user ecosystem continues to grow, with a record high of 686 million monthly active users globally in 3Q24, representing a 10.1% year-over-year increase. In March 2024, the company released its first car product, the Xiaomi SU7 series, with new car deliveries reaching 39,790 in 3Q24.

## Core business is making steady progress, while innovative business drives revenue growth

In the third quarter of 2024, the company achieved a total revenue of 92.5 billion yuan. In terms of profitability, operating profit was 6.0 billion yuan, up 20.6% year-on-year, and adjusted net profit was 6.3 billion yuan, up 4.4% year-on-year. Regarding segment revenue, the revenue from the Mobile × AIoT sector in 3Q24 was 82.8 billion yuan, a 16.8% year-on-year increase, mainly driven by the increase in smartphone shipments. Innovative business sectors such as smart electric vehicles contributed 9.7 billion yuan in revenue. The total operating expenses for the quarter were 13 billion yuan, with core business operating expenses reaching 9.7 billion yuan after deducting 3.3 billion yuan in investments in new businesses. The expense ratio was 10.5%, down one percentage point year-on-year.

## Smartphones: High-end focuses on AI investment while mid-to-low-end expands shipment scale

Data released by Canalys shows that in the fourth quarter of 2023, the global smartphone market grew by 8.0% year-on-year to 320 million units, further indicating a signal of stabilization and recovery. The total global smartphone shipments for 2023 were 1.14 billion units, with a narrower decline of 4.0% compared to 2022. Driven by the recovery in both supply and demand, Canalys predicts a 3.0% recovery in global smartphone shipments to 1.18 billion units in 2024. In the third quarter of 2024, the company's smartphone business revenue was 47.5 billion yuan, up 13.9% year-on-year, mainly due to increased shipments.

Looking at different regions, the company's shipment ranking in mainland China rose to fourth place, with a market share increase of 1.2 percentage points to 14.7%. Additionally, the company achieved significant growth in smartphone market share in Latin America, Southeast Asia, the Middle East, and Africa. Since the beginning of 2024, inflation in emerging markets in the Asia-Pacific, Middle East, Africa, and Latin America has eased, with further growth expected in the mass market price segment. Despite the continuous rise in the cost of core components, the company's smartphone gross margin reached 11.7%, demonstrating the company's cost control and stable operational capabilities. It is expected that amidst rising prices of storage and memory chips and intensified market competition, the forecasted smartphone business gross margin for 4Q24 is 12.9%.

According to IDC forecasts, the shipment volume of the new generation of AI smartphones is expected to enter a rapid growth phase starting from 2024. Global AI smartphone shipments are projected to reach 230 million units in 2024 and are expected to grow to 830 million units by 2027, with a compound annual growth rate of 100.7% from 2023 to 2027.

## Neutral

CMP HKD 27.75

(Closing price as of 29 Nov)

Target HKD 26.74 (-3.6%)

### COMPANY DATA

O/S SHARES (MN) :	24,962.6
MARKET CAP (HKD BN) :	692.7
52 - WK HI/LO (HKD):	29.85/11.84

### SHARE HOLDING PATTERN, %

Smart Mobile Holdings Limited	23.59%
Apex Star LLC	8.61%

### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY22	FY23	FY24E	FY25E
Revenue	328,309	280,044	270,970	358,474
Net profit	19,283	2,503	17,474	20,694
PS	0.78	0.10	0.70	0.83
P/E ratio, x	20.0	98.6	20.3	29.0
Dividend Yield, %	0%	0%	0%	0%

Source: Company reports, Phillip Securities Est.

### Research Analyst

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In Q1 2024, relying on its position as a domestic manufacturer and the high-end market structure, mainland China's AI smartphone shipments reached 11.9 million units, accounting for 25.0% of global AI smartphone shipments, making it the world's second-largest AI smartphone market. AI will gradually transition from initial product-level differentiation to operational and company-level overall strategies, involving all smartphone manufacturers. Samsung views generative AI as a long-term product strategy. Chinese manufacturers such as vivo, OPPO, and Honor have already taken the lead in releasing flagship models with generative AI capabilities in the domestic market.

Focused on AI, the company's key strategy is to vigorously develop edge-side large models while also collaborating with general large models. Edge-side large models offer significant advantages over cloud inference in terms of cost, energy consumption, reliability, privacy, and personalization. They can provide efficient and secure AI processing with low energy consumption, reducing latency, protecting user privacy, and suiting personalized AI applications. Additionally, chip manufacturers like Qualcomm and MediaTek are continuously enhancing chip AI capabilities and providing numerous edge-side AI solutions that smartphone manufacturers can directly deploy, modify, and utilize.

In the third quarter of 2024, in mainland China, the company's high-end smartphone shipments accounted for 20.1% of the overall smartphone shipments, a 7.9% year-on-year increase. Management has indicated that the high-end strategy is steadily expanding from domestic to international markets. It is expected that high-end smartphone shipments will continue to increase in the future, while innovative AI smartphone features will drive up terminal prices, leading to a steady increase in smartphone average selling prices (ASPs) in the second half of 2024.

#### **IoT and Lifestyle Products: Strong overseas demand, continued enhancement in business capabilities**

In the third quarter of 2024, the company's IoT and lifestyle products business revenue reached 26.1 billion yuan, a year-on-year growth of 26.3%, with a gross profit margin reaching 20.8%, setting a new historical high and increasing by 2.9 percentage points compared to the previous year. As of September 30, 2024, the number of IoT devices connected to the AIoT platform (excluding smartphones, tablets, and laptops) reached 900 million, marking a 23.2% year-on-year growth. Given the strong demand in overseas markets, it is expected that the revenue from IoT and lifestyle products in 2024E/2025E could reach 98.1/101.1 billion yuan.

#### **Internet Services: Revenue reaches another historical high, overseas internet revenue expands market share**

In the third quarter of 2024, the company's internet business revenue reached 8.5 billion yuan, setting a new historical high with a year-on-year growth of 9.1%. The user base continues to expand, with record-high monthly active users globally and in mainland China. In September 2024, the global monthly active users reached 686 million, marking a 10.1% year-on-year growth. The gross profit margin increased by 3.1 percentage points to 77.5% year-on-year, primarily due to the company's continued increase in the proportion of advertising business this quarter, ongoing scale effects, product structure improvement towards higher-end products, and the expansion of overseas internet revenue market share.

Considering that the gross profit margin is higher in overseas markets compared to the Chinese market, the company is persistently developing its international strategies. It is expected that internet service revenue will steadily increase, reaching 33.2/34.2 billion yuan in 2024/2025.

### **Electric Vehicles: Innovative business enhances third growth curve, building the "Human × Car × Home" full ecosystem**

In the third quarter of 2024, the company delivered 39,790 units of the Xiaomi SU7 series new cars, achieving the target of cumulatively delivering 100,000 units of the Xiaomi SU7 series new cars ahead of schedule in November 2024. In the third quarter of 2024, smart electric vehicles generated revenue of 9.7 billion yuan with a gross profit margin of 17.1%, mainly supported by the strong backing of the surrounding supply chain and ecosystem products, as well as the company's accumulated experience in the manufacturing field.

Considering the cost reductions brought by economies of scale and lower rental costs compared to industry peers, the company anticipates a steady increase in the gross profit margin of smart electric vehicles in the future. Additionally, the net loss has been reduced to 1.5 billion yuan, showcasing the competitiveness, cost control capabilities, and robust delivery capabilities of smart electric vehicle products.

### **Company valuation**

In non-automotive businesses, with the recovery of consumer demand, the smartphone industry rebounding, and the October release of the flagship model Xiaomi 15 showcasing AI capabilities, the advancement of edge-side AI acceleration continues. In the automotive business, although the company is in the early stages of car manufacturing, revenue is expected to maintain high-speed growth, while the gross profit margin steadily improves.

Overall, we hold a positive outlook on the company's medium to long-term growth prospects, believing that the company's fair valuation is at 30x 2024 PE, corresponding to a target price of HKD 26.7 per share. We project the company's operating revenue for 2024 and 2025 to be 358.5/393.9 billion yuan respectively, with net profits of 20.7/22.7 billion yuan, corresponding to EPS of 0.83/0.91 yuan, and PE ratios of 29.0/26.3x. Overall, we rate it as a "Neutral" rating.

### **Risk factors**

1) Demand for smartphones and other personal electronic products is below expectations; 2) Component costs are increasing; 3) Demand in the new energy vehicle market is lower than expected.

## Financials

### Key Financial Data

Dec Y/E	FY21	FY22	FY23	FY24E	FY25E
<b>Valuation Ratio</b>					
P/E ratio	20.0	98.6	20.3	29.0	26.3
Dividend Yield, %	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Per share data(RMB)</b>					
EPS	0.78	0.10	0.70	0.83	0.91
BVPS	6.7	6.5	7.2	8.7	8.7
<b>Growth &amp; Margin</b>					
<b>Growth</b>					
Net Revenue Growth	33.53%	-14.70%	-3.24%	32.29%	9.89%
Gross Profit Growth	58.53%	-18.34%	20.81%	31.82%	7.54%
EBIT Growth	8.30%	-83.89%	459.51%	-10.31%	14.02%
Net Profit Growth	-5.07%	-87.02%	598.25%	18.43%	9.89%
<b>Margin</b>					
Gross Profit Margin	17.75%	16.99%	21.21%	21.13%	20.68%
EBIT Margin	7.44%	1.40%	8.12%	5.51%	5.71%
Net Profit Margin	5.89%	0.88%	6.45%	5.77%	5.77%
<b>Key Ratios</b>					
ROE	14.03%	1.74%	10.64%	9.52%	10.48%
ROA	6.58%	0.91%	5.39%	5.47%	5.84%

### Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	2021	2022	2023	2024E	2025E
<b>REVENUE</b>	328309	280044	270970	358474	393916
Cost of revenue	-270048	-232467	-213494	-282712	-312438
Gross profit	58261	47577	57476	75763	81478
R&D expenses	-13167	-16028	-19098	-21896	-25366
Selling, administrative and general expenses	-25720	-26437	-24353	-28605	-32769
Operating profit	26029	2816	20009	21298	24066
Finance income	1230	1664	3558	0	0
Finance costs	-2841	-546	-1556	-1556	-1556
Profit before income tax and share of results of equity investees	24417	3934	22011	19742	22510
Income tax expenses	-5134	-1431	-4537	-4146	-4727
<b>Net profit</b>	19283	2503	17474	20694	22740
- Equity holders of the Company	19339	2474	17475	20695	22741
- Non-controlling interests	-56	29	-1	-1	-1

### Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
<b>Current assets</b>					
Accounts receivable	42946	38203	42002	49106	53961
Cash and cash equivalents	27831	31564	38425	36475	32665
Inventory	52398	50438	44423	54219	59920
Others	115074	90648	118625	108115	108115
<b>Total current assets</b>	185851	160415	199053	247915	254661
<b>Non-current assets</b>					
PPE	6965	9138	13721	19083	23075
Others	100076	103954	111474	111474	111474
<b>Total non-current assets</b>	107040	113092	125195	130557	134549
<b>Total Assets</b>	292892	273507	324247	378472	389210
<b>Current liabilities</b>					
Accounts payable	94868	71534	87713	92946	102719
Others	20860	18093	27874	22276	22276
<b>Total current liabilities</b>	115727	89628	115588	115222	124995
<b>Non-current liabilities</b>					
Long-term debt	20720	21493	21674	22107	22550
Others	19012	18463	22724	23860	24576
<b>Total non-current liabilities</b>	39732	39957	44398	45968	47126
<b>Total liabilities</b>	155459	129584	159986	161190	172121
Equity attributable to equity holders of the Company	137213	143658	163995	216934	216742
Non-controlling interests	220	265	266	348	347
<b>Total equity</b>	137432	143923	164262	217282	217089
<b>Total liabilities and equity</b>	292892	273507	324247	378472	389210

## Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	2021	2022	2023	2024E	2025E
CFO	9785	-4390	41300	37183	29070
Net profit	19283	2503	17474	20694	22740
Depreciation and Amortization	3062	3707	4836	5237	4899
Change in working capital	-15725	-21255	17319	11251	1431
Others	3165	10655	1671	0	0
CFI	-45008	15549	-35169	-33733	-32153
Short term and long term investment, net	-37839	21348	-28900	-26010	-23409
Purchase of property, equipment and intangible assets	-7169	-5800	-6269	-7723	-8744
CFF	4499	-7855	-505	-606	-727
Cash paid for distribution of dividends	0	0	0	0	0
Cash received from financing	4499	-7855	-505	-606	-727
<b>Effect of exchange rate changes on cash</b>	-517	791	398	224	471
<b>Net Change in Cash</b>	-30724	3304	5626	2844	-3810
Cash, CE and Restricted cash at Beg	54752	23512	27607	33631	36475
<b>Cash, CE and Restricted cash at Y/E</b>	23512	27607	33631	36475	32665

Current Price as of: Nov 29

Exchange rate: HKD/RMB = 0.93

Source: PSHK Est.

### 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

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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