



China Telecom Sector

Positive signs for growth in 2021

Mar 4, 2021



China Telecom Sector

Positive signs for growth in 2021

- According to MIIT, overall telecom service revenue in China was up 3.6% YoY in 2020, driven by fixed-line revenue growth. The fixed-line segment's contribution rose from 28.5% in 2016 to 34.5% in 2020.
- China Mobile (941 HK) had the largest market share in mobile (58.9%) and fixed-line business (46.2%) in Dec 2020 thanks to its bundled service packages and extensive network coverage.
- Global smartphone shipment will be driven by the 5G network, we expect the shipment growth in 2021E to be 9.0%.
- OVERWEIGHT on the sector; China Mobile is our top pick based on its high dividend yield and attractive potential return.

China Mobile would maintain a dominant position in China's mobile and wireline broadband businesses. As of Dec 2020, mobile market shares of China Mobile (941 HK)/ China Unicom (762 HK)/ China Telecom (728 HK) were 58.9%/ 19.1%/ 22.0%. We expect China Mobile to maintain the highest market share in 2021 because of its extensive network development and abundant resources. We forecast overall 5G users in China to reach 550mn by the end of 2021E.

Contribution from fixed-line revenue is rising. According to MIIT, overall telecom service revenue in China grew 3.6% YoY in 2020, compared to 0.7% in 2019, which was due to the 12.0% growth in fixed-line business contribution but partially offset by 0.4% drop in mobile business revenue. There was a gradual change in revenue distribution marked by a declining contribution from mobile business and a rising proportion accounted by fixed-line business. Fixed-line revenue accounted for 28.5% of total telecom service revenue in 2016 to 34.5% in 2020.

We forecast global smartphone shipment in 2021E to grow by 9.0% YoY. According to IDC, global smartphone shipment grew 4.3% YoY in 4Q20 to 385.9mn. Global smartphone shipment rebounded in 4Q20, ending four consecutive quarters of YoY shipment decline, thanks to 5G smartphone upgrade demand and recovering consumption worldwide. We expect global smartphone shipment to rebound by 9.0% YoY in 2021E, driven by 5G smartphone demand and handset subsidies.

OVERWEIGHT on the sector. The sector's rating is **OVERWEIGHT** on the back of 5G network support. Our sector top pick is **China Mobile** based on its dominance in China's mobile and fixed-line markets, dividend yield, and attractive upside potential.

Risks: 1) Slowing down in 5G user growth ; 2) Further tariff reduction may affect margins of telecom operators; 3) Slow-than-expected adoption of 5G network and technology

Sector Report

Mar 4, 2021

OVERWEIGHT

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Key Data

Avg 21E P/E	15.8
Avg 21E P/B	2.4
Avg. 21E Dvd. Yield (%)	2.0

Source(s): Bloomberg, ABCI Securities

Sector Performance

	Absolute	Relative*
1-mth	8.9%	2.2%
3-mth	32.9%	10.5%
6-mth	33.9%	15.5%

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Sector Valuation Summary (Data as of Mar 3, 2021)

Company	Ticker	Rating	Price (HK\$)	TP (HK\$)	FY21E P/B(x)	FY22E P/B (x)	FY21E P/E (x)	FY22E P/E (x)	FY21E Yield (%)	FY22E Yield (%)
China Unicom	762 HK	HOLD	5.22	4.50	0.38	0.37	9.1	7.7	4.4	5.2
China Mobile	941 HK	BUY	56.25	82.00	0.77	0.74	8.5	8.4	6.3	6.4
China Telecom	728 HK	BUY	2.71	3.50	0.44	0.44	7.8	7.5	2.6	3.0
China Tower	788 HK	BUY	1.18	2.20	0.90	0.87	19.1	16.0	1.5	1.7
Xiaomi	1810 HK	HOLD	26.45	26.90	4.00	3.40	25.5	20.9	0.0	0.0
BYD Electronic	285 HK	BUY	46.20	63.00	4.10	3.10	15.4	11.8	0.2	0.1
CCS	552 HK	BUY	3.71	6.10	0.60	0.50	6.1	5.5	5.9	6.5
AAC Tech	2018 HK	SELL	43.25	40.00	1.90	1.80	22.2	18.9	0.4	0.5
Sunny Optical	2382 HK	BUY	204.40	220.00	8.00	6.30	29.3	23.9	0.6	0.8
ZTE - H	763 HK	BUY	21.60	29.00	1.90	1.50	10.9	8.6	0.0	0.0
ZTE - A	000063 CH	BUY	32.33	40.00	3.50	2.90	20.5	16.2	0.0	0.0

Source(s): Bloomberg, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

China Telecom Sector (OVERWEIGHT)
Mar 4, 2021

Contents

Industry analysis.....	4
Mobile business.....	6
Wireline business	7
Smartphone Market Analysis.....	8
Overweight on China Telecom Sector	9
Xiaomi Corporation (1810 HK, HOLD).....	10
Financial Statements	14
Risk factors.....	17
Disclosures	18



Industry analysis

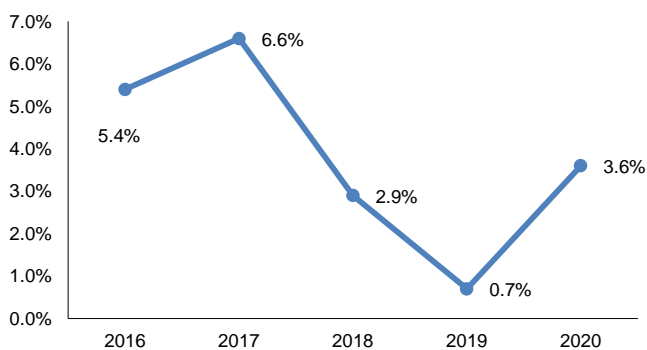
Overall telecom revenue driven by fixed-line business

According to MIIT, overall telecom service revenue in China grew 3.6% YoY in 2020, compared to 0.7% in 2019. The 2.9ppt rise in 2020 telecom service revenue growth was driven by the 12.0% growth in fixed-line business, though the gain was partially offset by a 0.4% drop in mobile business revenue. Nonetheless, the decline in mobile revenue lessened compared to the 2.9% YoY drop in 2019 due to increased 5G user contribution. Mobile business in China has been affected by the “Speed Upgrade and Tariff Reduction” policy pressuring mobile ARPU. As the 5G user population grows, we expect the overall mobile business revenue to regain momentum in 2021.

Fixed-line revenue growth in 2020 was 12.0%, compared to 9.5% in 2019. Fixed-line business in China is supported by demand from cloud computing, Big Data, AI technology, IPTV, etc. As a result of the gains in fixed-line business, telecom service revenue increased in 2020. There was a gradual change in revenue distribution marked by a decreased contribution from mobile revenue proportion and a rise in fixed-line revenue. Fixed-line revenue accounted for 28.5% of total telecom service revenue in 2016 vs. 34.5% in 2020.

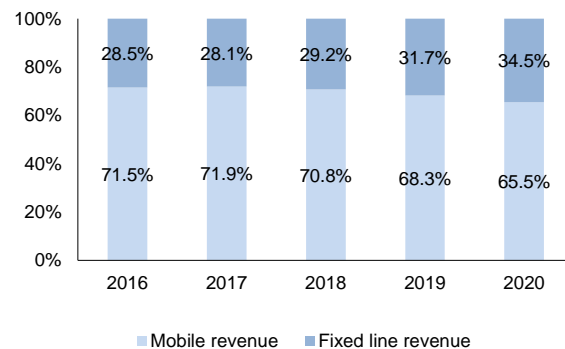
For 2021, we expect telecom service revenue growth to be driven by fixed-line business due to the increasing demand from cloud computing, home entertainment, and the growing prevalence of home office. The growing momentum will be propelled by improving growth rate of fixed line service revenue and rebounding growth of mobile service revenue.

Exhibit 1: Telecom service revenue growth rate



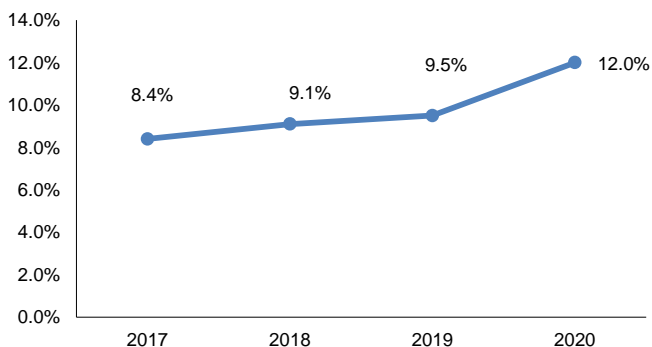
Source(s): MIIT

Exhibit 2: Telecom service revenue breakdown



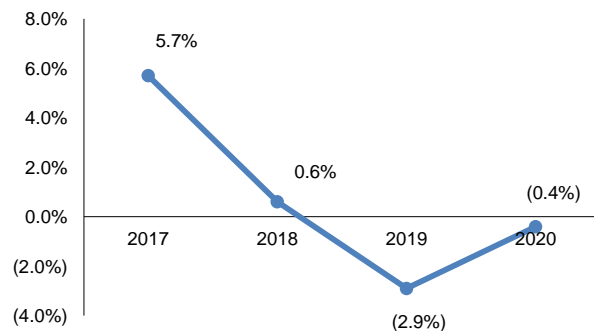
Source(s): MIIT

Exhibit 3: Fixed-line service revenue growth rate



Source(s): MIIT

Exhibit 4: Mobile service revenue growth rate



Source(s): MIIT



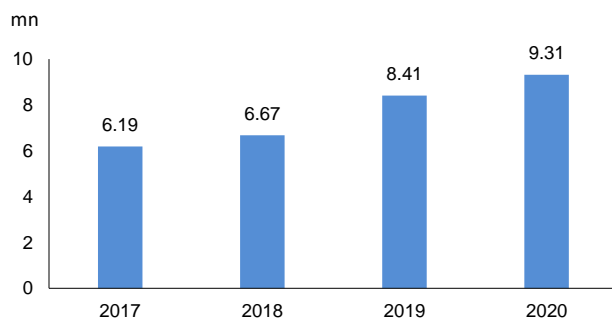
600,000 more new 5G base stations to be built in 2021

As of Dec 2020, telecom operators added 0.9mn new base stations in 2020, driving the total number of mobile base stations to 9.3mn. Of the 0.9mn new base stations, 0.6mn base stations are 5G base stations. 5G base stations in China exceeded 700,000 as of Dec 2020. The MIIT plans to build 600,000 more 5G base stations in 2021, bringing the total 5G base stations number to 1.3mn. Also, telecom operators are upgrading their 5G telecom network to standalone standard to improve network quality. For 2021E, we expect the total number of mobile base stations to exceed 10.21mn, of which 0.9mn would be new ones.

Moderate growth in telecom operators' CAPEX in 2021

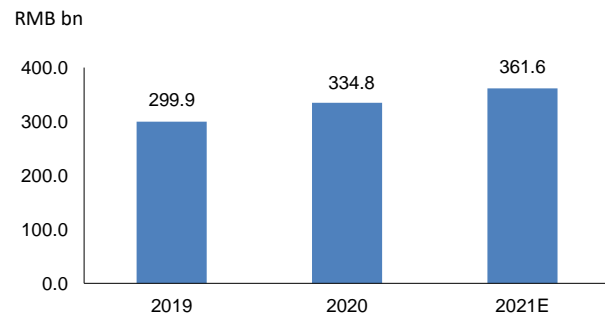
Overall CAPEX in 2020 was RMB 334.8bn, up 11.6% YoY. We expect overall telecom operators' CAPEX in 2021 to grow 8.0% YoY to RMB 361.6bn. The telecom operators are expected to build 0.9mn mobile base stations in 2021, including 0.6mn 5G base stations, to reach their targets set for standalone 5G base stations. CAPEX will also be devoted to developing the fixed-line broadband network, data center, and optical network to improve cloud computing, IPTV, and network quality.

Exhibit 5: The number of mobile base stations



Source(s): MIIT

Exhibit 6: Telecom operators' CAPEX



Source(s): MIIT

Mobile business

Overall 5G users are expected to reach 550mn in 2021

The number of overall mobile users was stable at ~1.6bn in Dec 2020, with a net loss of 7.3 mn mobile users for the year. As of Dec 2020, the market shares of China Mobile (941 HK)/ China Unicom (762 HK)/ China Telecom (728 HK), in terms of the number of mobile users, were 58.9%/ 19.1%/ 22.0%, respectively. China Mobile maintains the dominant position thanks to its abundant resources and efficient marketing strategies. Average data usage per user grew 32.4% YoY to 10.35GB in 2020, due to the lowering in mobile service tariff.

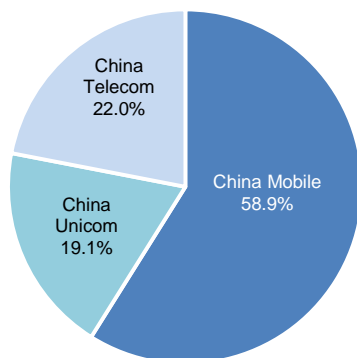
China Unicom and China Mobile saw 4.0%/0.9% decline in the number of mobile users in 2020; in contrast, China Telecom outperformed with a 4.6% growth thanks to the mobile number portability scheme. China Mobile's 5G users reached 165.0mn in Dec 2020. We estimate overall new 5G users in 2021E to reach 550mn, driven by the launch of bundled service packages, bargain mobile plans, the proliferation of short videos, online games, live broadcasting, e-commerce, and social networking. We expect users' average data usage will further increase in 2021 due to the launch of 5G telecom network and higher utilization rate of mobile applications.

Exhibit 7: Telecom operators' mobile and 5G users comparison table in 2020

(mn)	China Mobile	China Unicom	China Telecom
5G user additions	158.3	N/A	81.9
Aggregate 5G users	165.0	N/A	86.5
Mobile user additions	(8.4)	(12.7)	15.5
Aggregate mobile users	941.9	305.8	351.0
YoY	(0.9%)	(4.0%)	4.6%

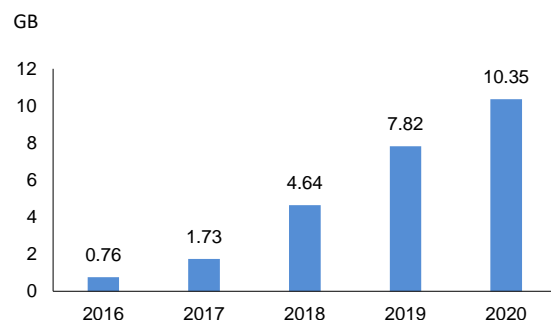
Source(s): Companies

Exhibit 8: Market share of PRC telecom operators by the no. of mobile users in Dec 2020



Source(s): Companies

Exhibit 9: Average data usage per user



Source(s): Companies

Wireline business

Fixed-line users reached 484mn in Dec 2020 with a user growth of 34.3mn in 2020. Supported by the stay-at-home economy, smart home system, home office, and home entertainment, the fixed-line network users showed sustainable growth in 2020. Users are pursuing better network quality with stable transmission speed, boosting demand for fiber-to-the-home (FTTH). FTTH penetration further increased, driven by higher urbanization rate, lower service tariff, better network coverage, higher transmission speed, and demand for video contents. We expect the demand for IPTV, online games, AR/VR and high video contents in China will support growth in fixed-line business.

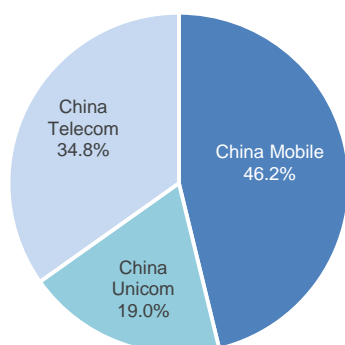
As of Dec 2020, wireline broadband market shares of China Mobile/ China Unicom/ China Telecom were 46.2%/ 19.0%/ 34.8%, respectively. China Mobile maintained the highest market share in fixed-line business. In 2020, China Mobile added the most number in wireline broadband users with 23.3mn, due to the launch of a wide range of fixed-line value-added services, such as video content, online games, and mobile-linked packages, for different market segments. In 2021, we expect telecom operators to benefit from the demand from cloud computing, IoT, home entertainment and video contents applications, and project the overall wireline broadband users in China to grow by 6.2% YoY for 2021E.

Exhibit 10: Telecom operators' wireline users comparison table in 2020

(mn)	China Mobile	China Unicom	China Telecom
Wireline broadband user additions	23.3	2.6	5.4
Aggregate wireline broadband users	210.3	86.1	158.5

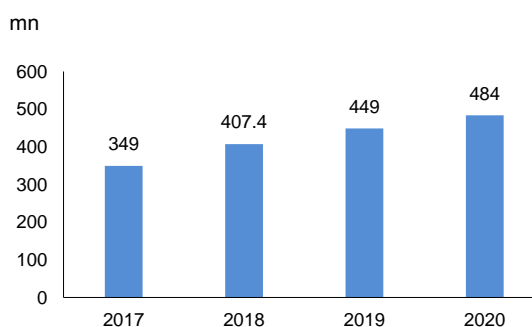
Source(s): Companies

Exhibit 11: Market share of PRC telecom operators in the wireline broadband market by the no. of users (Dec 2020)



Source(s): MIIT

Exhibit 12: Fixed-line users in China



Source(s): MIIT

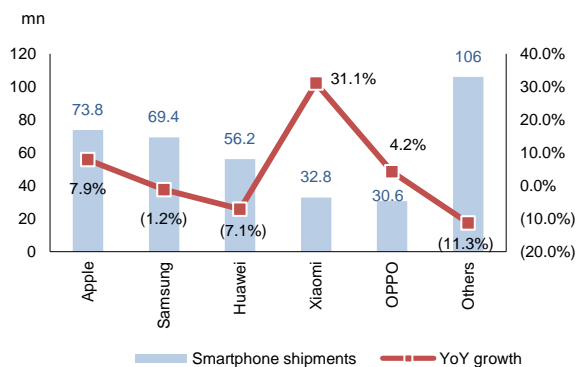


Smartphone market analysis

According to IDC, global smartphone shipment grew 4.3% YoY in 4Q20 to 385.9mn, ending four consecutive quarters of YoY decline in shipment. The rebound was supported by 5G smartphone upgrade demand and recovering consumption. The four major smartphone makers (Xiaomi, Apple, OPPO, and Vivo) showed growth in shipment and market share at the expense of Huawei, whose smartphone shipment in 4Q20 fell 7.1% YoY. Xiaomi's shipment gained 31.1% YoY in 4Q20 on 5G smartphone upgrade demand and consumers' shifting away from Huawei's smartphone. Apple shipped the highest number of smartphones in 4Q20, thanks to the launch of iPhone 12. For 2021E, we expect global smartphone shipment to grow by 9.0% YoY; more specifically, China's smartphone shipment would increase by 11.0% YoY, thanks to incentive schemes and service packages by telecom operators to boost 5G adoption. We also expect smartphone ASP to grow due to the 5G upgrade. The rebounding smartphone shipment will bode well for component suppliers, including Sunny Optical (2382 HK).

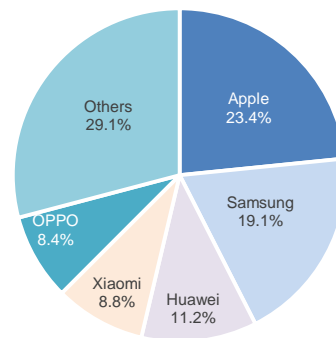
According to China Academy of Information and Communications Technology (CAICT), China's mobile phone shipment in Jan 2021 was 39.6mn, up 94.3% YoY, while 5G smartphones accounted for 68.9% of total shipment.

Exhibit 13: Smartphone shipment in 4Q19



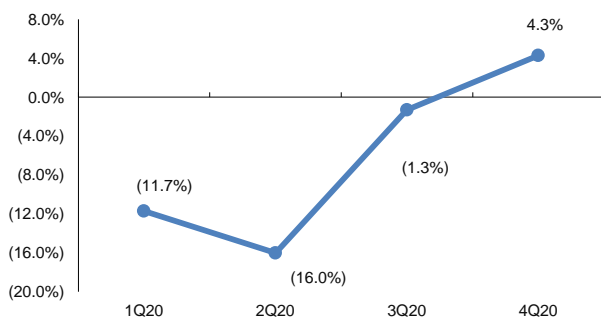
Source(s): IDC

Exhibit 14: Market share of global smartphone makers in 4Q20 by shipment volume



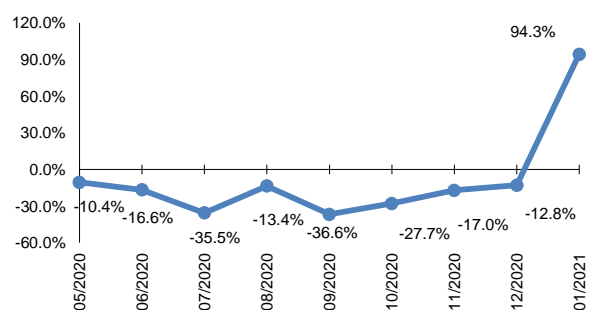
Source(s): IDC

Exhibit 15: Quarterly global smartphone shipment growth



Source(s): IDC

Exhibit 16: Monthly domestic smartphone shipment



Source(s): CAICT

Overweight on China telecom sector

The overall telecom network revenue is improving. In 2021, we expect fixed-line business to continue to propel the growth in overall telecom revenue; meanwhile, the declining mobile business revenue would rebound. The rapid 5G telecom network is driving new applications, which would encourage mobile data usage.

Smartphone shipment is expected to rebound in 2021, driven by higher 5G smartphone demand; as such, the upstream component supplier chain will benefit from the device upgrade.

Based on our optimistic outlook, we assign an **OVERWEIGHT** rating for the China telecom sector. Our top pick for the sector is **China Mobile (941 HK)**.

We maintain our financial estimates for most of our covered companies except Xiaomi due to their in-line operational data. We have made some changes to our forecast in our latest Xiaomi report. Please refer to P.10 for our Xiaomi company report for the changes.

China Mobile (BUY; TP: HK\$82.0)

China Mobile is expected to benefit from its dominant position in mobile and fixed-line markets. With the improving 5G user penetration, China Mobile can outperform the market with improving revenue growth. We recommend **BUY** on China Mobile based on its attractive dividend yield (FY21E: 6.3%) and upside potential. Our DCF-based TP for China Mobile is HK\$ 82.0, which implies 3.1x FY21E EV/EVITDA.

Exhibit 17: Changes in our net profit estimates

(RMB mn)	OLD			NEW			CHANGE		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
China Unicom	12,231	13,985	16,629	12,231	13,985	16,629	0%	0%	0%
China Mobile	108,031	108,944	110,895	108,031	108,944	110,895	0%	0%	0%
China Telecom	20,950	21,934	22,949	20,950	21,934	22,949	0%	0%	0%
China Tower	7,168	9,065	10,831	7,168	9,065	10,831	0%	0%	0%
Xiaomi	14,548	17,947	21,042	16,433	22,180	27,046	13.0%	23.6%	28.5%
BYD Electronic	5,948	7,846	10,201	5,948	7,846	10,201	0%	0%	0%
CCS	3,425	3,758	4,145	3,425	3,758	4,145	0%	0%	0%
AAC Tech	1,342	1,927	2,267	1,342	1,927	2,267	0%	0%	0%
Sunny Optical	4,297	5,627	6,894	4,297	5,627	6,894	0%	0%	0%
ZTE - H	5,507	7,142	9,045	5,507	7,142	9,045	0%	0%	0%
ZTE - A	5,507	7,142	9,045	5,507	7,142	9,045	0%	0%	0%

Source(s): Company, ABCI Securities estimates

Xiaomi Corporation (1810 HK)

Picking up growth; recommend HOLD

- Xiaomi (or “the Company”)’s smartphone shipment in FY21E is estimated to grow 20.0% YoY, driven by upgrades to 5G smartphone and global recovery.
- Driven by China’s consumption policies and economic recovery in 2021, we revise up Xiaomi’s IoT & lifestyle business revenue by 5.8%/ 14.4% for FY21E/22E.
- Internet revenue growth has been slowing in recent quarters due to weak online game revenue contribution.
- Recommend HOLD with TP of HK\$26.9, which implies 26.0x/ 21.3x FY21E/22E P/E.

Below average 4Q20 smartphone growth in India. According to IDC, Xiaomi’s smartphone shipment to the Indian market in 4Q20 was 12mn, up 12% YoY, much lower than the country’s average growth of 21% growth. Samsung showed a much better growing momentum in the Indian market compared to the Chinese brand smartphone makers (Vivo, OPPO, Realme, and Xiaomi).

We expect Xiaomi’s smartphone shipment to grow 20.0% YoY in 2021E. The global smartphone shipment in 2021 is expected to rebound due to increasing 5G smartphone contributions and economic recovery. We adjust our forecasts for Xiaomi’s smartphone shipment in FY21E/22E up by 44.0%/ 49.4% YoY to 177.4mn/ 193.3mn, representing a growth of 20%/ 9.0% YoY. Due to the increased 5G smartphone contribution with higher ASP, we adjust our forecasts for Xiaomi’s smartphone ASP in FY21E/22E by 1.8%/1.9%.

IoT & lifestyle products business benefited from stimulus for domestic consumption. According to 14th Five Year Plans, China is fostering the “double circulation” economy to stimulate domestic consumption. We expect more stimulus measures to roll out, which will benefit Xiaomi’s smart home products. We revise up its IoT & lifestyle products business revenue forecasts by 5.8%/ 14.4% for FY21E/22E.

Recommend HOLD. Recommend HOLD with TP of HK\$26.9, which implies 26.0x/ 21.3x FY21E/22E P/E.

Risk factors: 1) Slowdown in 5G development; 2) Fierce market competition may affect profit margin; 3) High R&D expenses drag on net profit growth; 4) On Jan 14, 2021, the Department of Defense of the United States added Xiaomi to the list of “Communist Chinese Military Company”.

Results and Valuation

FY ended Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	174,915	205,839	270,390	350,519	405,200
Chg (% YoY)	52.6	17.7	31.4	29.6	15.6
Shareholders' profit (RMB mn)	13,554	10,044	16,433	22,180	27,046
Chg (% YoY)	(130.9)	(25.9)	63.6	35.0	21.9
EPS (RMB)	0.843	0.423	0.652	0.880	1.073
Chg (% YoY)	(130.9)	(25.9)	63.6	35.0	21.9
BPS (RMB)	4.438	3.425	4.691	5.569	6.643
Chg (% YoY)	(134.0)	(22.8)	37.0	18.7	19.3
P/E (x)	27.5	55.7	34.5	25.5	20.9
P/B (x)	5.2	6.9	4.8	4.0	3.4
ROAE (%)	19.0	12.3	13.9	15.8	16.2
ROAA (%)	9.3	5.5	7.1	8.6	9.3

Source(s): Bloomberg, ABCI Securities estimates

*Exchange rate assumption for FY21E-22E: HKD 1 = RMB 0.85

Company Report

Mar 4, 2021

Rating: HOLD

TP: HK\$26.90

A Analyst : Ricky Lai
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Share price (HK\$)	26.45
Est. share price return	1.7%
Est. dividend yield	0.0%
Est. total return	1.7%
Previous Rating & TP	HOLD/HK\$20.0
Previous Report Date	Sept 30, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	35.90/9.20
Issued shares (mn)	25,196.7
Class B (listed)	20,503.6
Class A (unlisted)	4,693.1
Class B Market cap (HK\$ mn)	542,320.2
Avg daily turnover (HK\$ mn)	3,708.0
Major shareholder(s) of class B shares:	
Morningside Springfield Group	19.0%
Lei Jun	12.0%
Lin Bin	9.5%

Source(s): Company, ABCI Securities estimates

Share Performance (%)

	Absolute	Relative*
1-mth	(5.5%)	(10.0%)
3-mth	(11.8%)	(28.6%)
6-mth	52.7%	32.2%

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

4Q20 Smartphone shipment growth in the Indian market came in weaker than the country's average

According to IDC, Xiaomi's smartphone shipment to the Indian market in 4Q20 was 12mn, up 12% YoY, much lower than the country's average growth of 21%. Samsung showed a much better momentum in the Indian market compared to the Chinese brand smartphone makers (Vivo, OPPO, Realme, and Xiaomi).

Exhibit 18: India's smartphone market in 4Q20

	Shipments (mn)	YoY growth	Market share
Xiaomi	12.0	12%	27%
Samsung	7.7	35%	17%
Vivo	7.6	10%	17%
Realme	5.2	11%	12%
OPPO	5.1	7%	11%
Others	7.2	75%	16%
Total	44.8	21%	100%

Source(s): IDC

Xiaomi's smartphone shipment to grow 20.0% YoY in FY21E

The global smartphone shipment in 2021 is expected to rebound due to upgrade to 5G smartphone and economic recovery. We revise up Xiaomi's smartphone shipment in FY21E/22E by 44.0%/ 49.4%, meaning that the shipment would increase by 20.0%/ 9.0% YoY to 177.4mn/ 193.3mn for FY21E/22E. Due to the higher ASP of 5G smartphone and the enlarged contribution of the product, we adjust Xiaomi's smartphone ASP FY21E/22E up by 1.8%/1.9% to RMB1,201.8/RMB1,254.7.

Exhibit 19: Xiaomi's smartphone shipment and ASP estimates with YoY growth

	FY18	FY19	FY20E	FY21E	FY22E
Smartphone shipment (mn)	118.7	124.6	147.8	177.4	193.3
Growth YoY	29.8%	5.0%	18.6%	20.0%	9.0%
Smartphone ASP (RMB)	958.7	979.9	1,092.6	1,201.8	1,254.7
Growth YoY	8.8%	2.2%	11.5%	10.0%	4.4%

Source(s): the Company, ABCI Securities estimates

IoT & lifestyle products business benefited from stimulus for domestic consumption

According to 14th Five Year Plans, China is fostering the "double circulation" economy to stimulate domestic consumption. In May 2020, Guangdong province announced to offer subsidies for home appliance and vehicle purchases in the rural regions until Dec 2020. We expect more stimulus measures to roll out, which will benefit Xiaomi's smart home products. We revise up our forecasts for Xiaomi's IoT & lifestyle products business revenue by 5.8%/ 14.4% to RMB103,314mn/RMB123,977mn for FY21E/22E.

Slowdown in internet revenue growth

Xiaomi's internet revenue growth has slowed in recent quarters. The YoY growth of internet revenue in 3Q20 was just 8.7% compared to 29.0% in 2Q20, mostly due to the drop in online game revenue in 3Q20. Online game revenue decreased by 1.9% YoY in 3Q20 on reduced time spent by users on online entertainment activities as China resumes normalcy after the COVID-19 pandemic peaked in 1H20 within the country. We expect the internet revenue growth to trend down from 30.0% YoY in FY20E to 20.0%/13.0% in FY21E/22E.

Exhibit 20: Xiaomi's quarter internet revenue and growth

RMB bn	3Q19	4Q19	1Q20	2Q20	3Q20
Internet revenue	5.3	5.7	5.9	5.9	5.8
Growth YoY	12.3%	41.1%	38.6%	29.0%	8.7%

Source(s): the Company

We revise up our FY21E/22E net profit by 23.6%/28.5% due to our adjustments in smartphone ASP and IoT & lifestyle products business revenue forecasts.

Exhibit 21: Change in our financial estimates

	OLD			NEW			CHANGE		
(RMB mn)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	234,151	278,409	309,854	270,389	350,518	405,200	15.5%	25.9%	30.8%
Operating profit	17,917	21,962	25,570	20,164	26,865	32,558	12.5%	22.3%	27.3%
Net Profit	14,548	17,947	21,042	16,433	22,180	27,046	13.0%	23.6%	28.5%
EPS (RMB)	0.603	0.744	0.872	0.654	0.883	1.076	8.5%	18.7%	23.4%

Source(s): the Company, ABCI Securities estimates

Recommend HOLD with TP at HK\$ 26.90

We apply the SOTP (sum of the total parts) method for valuation since the Group has both the hardware and internet segments. We use 6.5x to 8.0x as the 2021 PE multiple range for Xiaomi's smartphone business which is below the market average of 19.8x in 2021 PE in the handset companies because Xiaomi is more focused on the low end market compared with other companies. We use 15.0x to 17.0x as the 2021 PE multiple range for Xiaomi's IoT & lifestyle products business which is above the market average of 13.6x in 2021 PE in the home appliance companies as Xiaomi's products are more related to the smart home products and smart TVs instead of the traditional domestic home appliances.

We conclude an EV of RMB 552.6bn to RMB 639.9bn with a fair equity value per share of HK\$25.8 to HK\$30.0. We recommend **HOLD** for Xiaomi with the TP of HK\$26.9, which implies 26.0x/ 21.3x FY21E/22E P/E.

Exhibit 22: Xiaomi's SOTP valuation:

	FY21E net profit (RMB mn)	FY21E P/E (x)	EV (RMB bn)
Smartphone business	4,263	6.5x to 8.0x	27.7 to 34.1
IoT & lifestyle products business	3,099	15.0x to 17.0x	46.5 to 52.7
Internet services business	14,947	30.0x to 35.0x	448.4 to 523.1
Investments			30.0
Total			552.6 to 639.9

Source(s): the Company, ABCI Securities estimates



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ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

Xiaomi (1810 HK) - HOLD
China Telecom Sector
Mar 4, 2021

Exhibit 23: Peer comparison

				P/E				P/B				ROE	ROA
Ticker	Price*	Currency		19A	20E	21E	22E	19A	20E	21E	22E	21E	21E
Handset companies													
Apple	AAPL US	127.79	USD	40.4	36.6	27.4	26.3	23.8	31.4	40.1	51.1	130.9	22.6
Samsung	5935 KS	73,900.00	WON	26.9	22.2	15.8	12.2	2.0	1.9	2.0	1.8	12.6	9.2
LG	66570 KS	150,500.00	WON	15.7	9.6	9.1	8.3	0.9	0.8	0.8	0.7	8.6	7.5
Lenovo	992 HK	10.30	HKD	26.1	23.5	14.4	12.7	4.6	5.0	3.7	3.0	29.9	3.2
Xiaomi	1810 HK	26.45	HKD	56.0	43.3	32.1	26.0	7.1	5.5	4.7	4.0	15.2	6.7
Simple Average				33.0	27.0	19.8	17.1	7.7	8.9	10.2	12.1	39.4	9.8
Internet companies													
Tencent	700 HK	723.00	HKD	61.8	44.4	35.8	29.6	13.6	9.7	7.7	6.2	22.6	11.6
Baidu	BIDU US	295.58	USD	344.1	30.8	29.6	24.7	4.4	2.8	2.0	1.7	10.0	5.4
Netease	9999 HK	174.30	USD	22.8	41.0	25.8	21.9	8.1	6.0	4.7	4.0	17.7	11.9
Simple Average				142.9	38.8	30.4	25.4	8.7	6.2	4.8	4.0	16.7	9.6
Home appliances													
Skyworth Digital	751 HK	2.64	HKD	8.6	6.5	5.8	4.7	0.4	0.3	0.3	n.a.	5.9	2.0
TCL Electronics	1070 HK	6.41	HKD	6.6	12.5	10.3	8.4	1.4	1.3	1.2	1.0	10.8	4.6
Haier Electronics	6690 HK	31.30	HKD	8.4	10.2	8.3	7.9	1.7	1.5	1.3	n.a.	15.5	4.0
Hisense Home	921 HK	13.38	HKD	26.1	25.7	22.2	19.6	6.4	5.6	4.9	4.3	22.8	8.9
Simple Average				13.7	16.1	13.6	12.0	3.2	2.8	2.4	2.6	16.4	5.8

*Based on closing price on Mar 3, 2021

Source(s): Bloomberg

Financial Statements

Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Smartphone revenue	113,800	122,095	161,485	213,160	242,567
IoT & lifestyle products revenue	43,817	62,088	80,714	103,314	123,977
Internet services revenue	15,956	19,842	25,794	30,953	34,977
Others	1,343	1,814	2,397	3,092	3,679
Total revenue	174,915	205,839	270,390	350,519	405,200
Gross profit	22,192	28,554	38,125	50,475	59,159
S&M expenses	(7,993)	(10,378)	(13,790)	(17,526)	(19,450)
Admin expenses	(12,099)	(3,104)	(4,056)	(5,258)	(5,673)
R&D expenses	(5,777)	(7,493)	(12,438)	(14,722)	(16,208)
Fair value changes on investments measured at fair value through profit or loss	4,430	3,813	6,760	8,062	8,631
Share of losses of investments accounted for using the equity method	(615)	(672)	2,200	2,310	2,426
Others	1,058	1,040	3,363	3,524	3,674
Operating Profits	1,196	11,760	20,164	26,865	32,559
Net finance costs	216	402	(580)	(432)	(326)
Fair value changes of convertible Redeemable preferred shares	12,514	0	0	0	0
Profit before tax	13,927	12,163	19,584	26,433	32,233
Tax	(449)	(2,060)	(3,055)	(4,124)	(5,028)
Profit after tax	13,478	10,103	16,529	22,310	27,204
Minority interests	(76)	59	96	130	158
Shareholders' net profit	13,554	10,044	16,433	22,180	27,046
EPS (RMB)	0.843	0.423	0.652	0.880	1.073
Non-IFRS adjusted net profit*	8,555	11,532	12,337	16,782	21,079

Source(s): the Group, ABCI Securities estimates

*The non -IFRS adjusted net profit exclude items of fair value changes of convertible redeemable preferred shares, share-based compensation, net fair value gains on investments, amortization of intangible assets resulting from acquisitions, and changes of value of financial liabilities to fund investors



Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
PPE	5,068	6,992	7,888	8,756	9,644
Long-term investments measured at fair value through profit or loss	18,636	20,679	16,003	10,458	4,130
Other non-current assets	15,511	18,418	19,312	20,122	21,676
Total non-current assets	39,215	46,090	43,202	39,335	35,449
Cash & cash equivalents	30,230	25,920	72,889	100,650	134,117
Inventories	29,481	32,585	34,215	35,925	37,722
Trade & loan receivables	15,892	19,672	20,389	21,133	21,905
Restricted cash	1,480	1,538	1,574	1,610	1,647
Others	28,929	57,823	58,170	58,582	59,059
Total current assets	106,013	137,539	187,236	217,900	254,450
Total assets	145,228	183,629	230,439	257,235	289,899
Trade payables	46,287	59,528	61,909	64,385	66,961
Borrowings	3,075	12,837	13,350	13,884	14,439
Others	12,578	19,816	20,618	21,453	22,324
Total current liabilities	61,940	92,181	95,877	99,722	103,724
Borrowings	7,856	4,787	4,978	5,177	5,385
Others	4,182	5,004	10,609	10,577	10,552
Total non-current liabilities	12,038	9,791	15,587	15,755	15,936
Total liabilities	73,978	101,972	111,464	115,477	119,661
Equity attributable to shareholders	71,323	81,331	118,146	140,326	167,372
Non-controlling interests	(73)	327	475	564	673
Total equity	71,250	81,658	118,621	140,890	168,045

Source(s): the Group, ABCI Securities estimates



Consolidated Cash Flow Statement (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Operating profit before change in working capital	23,842	7,386	32,558	39,145	44,668
Change in working capital	(23,699)	18,019	(8,110)	(8,211)	(8,315)
Tax	(1,558)	(1,594)	(1,631)	(1,668)	(1,706)
Operating cash flow	(1,415)	23,810	22,817	29,265	34,647
CAPEX	(1,096)	(986)	(1,031)	(1,051)	(1,072)
Others	(6,412)	(30,584)	(1,702)	(1,250)	(896)
Investing cash flow	(7,508)	(31,570)	(2,733)	(2,302)	(1,969)
Change in borrowings	129	6,692	705	733	762
Change in restricted cash	1,231	(58)	(35)	(36)	(37)
Others	25,214	(3,513)	25,200	(915)	(952)
Financing cash flow	26,574	3,121	25,870	(218)	(226)
Net increase in cash & cash equivalents	17,652	(4,639)	45,954	26,745	32,452
Cash & cash equivalents at beginning of year	11,563	30,230	25,920	72,889	100,650
Effect of changes in foreign exchange rate	1,015	328	1,015	1,015	1,015
Cash & cash equivalents at end of year	30,230	25,920	72,889	100,650	134,117

Source(s): the Group, ABCI Securities estimates

Financial ratios (2018A-2022E)

As of Dec 31	2018A	2019A	2020E	2021E	2022E
Gross margin (%)	12.7%	13.9%	14.1%	14.4%	14.6%
Operating margin (%)	0.7%	5.7%	7.5%	7.7%	8.0%
Net profit margin (%)	7.7%	4.9%	6.1%	6.3%	6.7%
ROA (%)	9.3%	5.5%	7.1%	8.6%	9.3%
ROE (%)	19.9%	12.3%	13.9%	15.8%	16.2%
YoY Growth:					
Revenue	52.6%	17.7%	31.4%	29.6%	15.6%
Operating profit	(90.2%)	882.9%	71.5%	33.2%	21.2%
Net profit	(130.9%)	(25.9%)	63.6%	35.5%	21.9%

Source(s): Company, ABCI Securities estimates



Risk factors

Slowdown in 5G user growth

If the 5G user growth slows down, it would affect telecom operators' revenue growth and smartphone shipment.

Forecasts based on our assumptions

Our forecasts are based on a number of assumptions (such as user growth, ARPU, tenancy ratio, etc.). These assumptions may deviate from the actual outcomes and result in discrepancy.

Telecom sector may be affected by further tariff reduction policy

The telecom services sector has been affected by a series of policies, including the Speed Upgrade and Tariff Reduction that mandates fee reduction. Further policy or regulatory change may result in higher operating cost or lower margin.

Smartphone manufacturers and suppliers business may be affected by international trade tension

International trade tension or disputes may affect smartphone manufacturers and suppliers' product shipments.

Political risk

On Jan 14, 2021, the Department of Defense of the United States added Xiaomi to the list of "Communist Chinese Military Company". Xiaomi has released announcement to reiterate that it provides products and services for civilian and commercial use. Xiaomi may be exposed to the risk of limiting the US investors from investing in its stock. We have not factored in the related political risk to our financial forecast.

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The analyst, LAI Pak Kin, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim 10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (For reference: HSI total return index 2008-20CAGR at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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