

# Xiaomi Corporation (1810 HK)

## SELL on increased smartphone competition

- Xiaomi (or “the Group”)s 2Q23 shareholders’ net profit went up 164.7% YoY, mainly due to the low base effect in 2Q22 and higher GPM.
- Huawei has resumed launching of smartphones, which may pose threats to Xiaomi
- Xiaomi’s smartphone revenue in 2023E would be affected by 9.0% YoY drop in shipments amid 2.1% YoY improvement in ASP
- We trim 2023E internet services revenue by 16.6% due to lower demand for online advertising amid weak economic growth
- We lower 2023E net profit by 32.5%
- Recommend SELL with TP of HK\$11.00, which implies 16.9x 2023E P/E

**We lower 2023E smartphone revenue by 32.7%.** We expect Xiaomi’s smartphone shipments to be affected by weak economic outlook and stiff competition. Huawei has also resumed launching new smartphones, which may pose threats to Xiaomi. 2Q23 smartphone ASP decreased 3.4% QoQ, which signaled a trend of downgraded consumption.

**IoT and lifestyle products business to face headwinds in 2023E.** We lower 2023E IoT and lifestyle products revenue by 26.2% due to reduced demand for smart home appliances and tablets as need for home office and home entertainment generally lessens post-COVID.

**We lower 2023E net profit by 32.5% due to the adjustment of revenue forecast and R&D expenses.** We expect R&D expenses-to-revenue ratio to rise 0.8ppt YoY to 6.5% in 2023E due to the need for electric vehicle development.

**Recommend SELL.** Our TP is HK\$11.00, which implies 16.9x 2023E P/E.

**Risk factors:** 1) Weak smartphone shipments; 2) Higher R&D expense-to-revenue ratio; 3) Stiffening competition; 4) Decreasing ROA and ROE in 2024E-25E

### Results and Valuation

FY ended Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	328,309	280,044	275,828	293,509	307,637
Chg (% YoY)	33.5	(14.7)	(1.5)	6.4	4.8
Shareholders’ profit (RMB mn)	19,339	2,474	14,643	14,834	15,091
Chg (% YoY)	(5.0)	(87.2)	491.9	1.3	1.7
EPS (RMB)	0.776	0.100	0.585	0.592	0.603
Chg (% YoY)	(5.0)	(87.2)	491.9	1.3	1.7
BPS (RMB)	5.490	5.786	6.376	6.973	7.581
Chg (% YoY)	11.8	5.4	10.2	9.4	8.7
P/E (x)	14.41	112.18	19.12	18.87	18.55
P/B (x)	2.04	1.93	1.75	1.60	1.47
ROE (%)	14.1	1.7	9.2	8.6	8.0
ROA (%)	6.6	0.9	5.0	4.7	4.3
DPS (RMB)	0.0	0.0	0.0	0.0	0.0

Source(s): Bloomberg, ABCI Securities estimates

\*Exchange rate assumption for FY23-25E: HKD 1 = RMB 0.90

## Company Report

Sep 5, 2023  
 Rating: SELL  
 TP: HK\$ 11.00

Analyst : Ricky Lai  
 Tel: (852) 2147 8895  
 rickylai@abci.com.hk

Share price (HK\$)	12.42
Est. share price return	(11.4%)
Est. dividend yield	0.0%
Est. total return	(11.4%)
Previous Rating & TP	HOLD/HK\$12.0
Previous Report Date	Jun 16, 2022

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L(HK\$)	14.10/8.31
Issued shares (mn)	25,046.5
Class B (listed)	20,460.5
Class A (unlisted)	4,585.9
Class B Market cap (HK\$ mn)	254,119.4
Avg daily turnover (HK\$ mn)	1,208.0
Major shareholder(s) of class B shares:	
Lei Jun	16.7%
Lin Bin	7.7%
Lou Yiting	1.2%

Source(s): Group, ABCI Securities estimates

### Share Performance (%)

	Absolute	Relative*
1-mth	0.7%	9.1%
3-mth	19.5%	18.7%
6-mth	4.2%	11.3%

\*Relative to HSI

Source(s): Bloomberg

## Xiaomi's revenue dropped 4.0% YoY in 2Q23

Xiaomi's 2Q23 revenue fell 4.0% YoY to RMB67.4 bn, due to 13.4% YoY drop in smartphone revenue despite the 12.3% YoY growth in IoT and lifestyle products revenue and 6.8% YoY growth in internet services revenue. GPM climbed 4.2ppt YoY to 21.0% in 2Q23, (smartphone GPM increased 4.6ppt YoY to 13.3%; IoT and lifestyle products GPM rose 3.3ppt YoY to 17.6%; internet services GPM rose 1.1ppt YoY to 74.1%). R&D expenses-to-revenue ratio increased 1.4ppt YoY to 6.8% due to the need for development of smart electric vehicles. 2Q23 shareholders' net profit grew 164.7% YoY to RMB3.7 bn. In 1H23, shareholders' net profit grew 885.7% YoY to RMB7.9 bn.

## We lower total 2023E revenue forecast by 30.7%

2Q23 smartphone ASP decreased 3.4% QoQ to RMB 1,112.2, (compared to RMB 1,115.6 in 1Q23). The QoQ decrease indicated a trend of downgraded consumption. According to CAICT, in 1H23, domestic mobile phone shipment fell 4.8%; meanwhile, 5G smartphone shipment dropped 6.4%, showing 5G smartphone demand was much lower than the non-5G ones. The declining shipment also indicates a downtrend in consumption, which may affect ASP. Huawei has resumed launching smartphones to the market in 2023, which will pose threats to Xiaomi. As such, we lower 2023E smartphones revenue forecast by 32.7% to RMB155.4 bn (-7.1% YoY). Xiaomi's advertising business will be affected by slow economic growth and competitions from other online advertising platforms, thus we lower 2023E internet services business revenue by 16.6% to RMB30.6 bn (+7.9% YoY). We also revise down 2023E IoT and lifestyle products revenue by 26.2% to RMB86.6 bn (+8.5% YoY), on weaker demand for smart home appliances and tablets, since the need for home office and home entertainment lessens post-COVID. Hence, the overall revenue is revised down by 30.7% to RMB275.8 bn (-1.5% YoY).

### Exhibit 1: Xiaomi's smartphone shipment and ASP estimates

	2021	2022	2023E	2024E	2025E
Smartphone shipments (mn)	190.3	150.5	137.0	145.2	151.7
Growth YoY	30.0%	(20.9%)	(9.0%)	6.0%	4.5%
Smartphone ASP (RMB)	1,097.5	1,111.3	1,134.6	1,149.4	1,159.7
Growth YoY	5.5%	1.3%	2.1%	1.3%	0.9%

Source(s): The Group, ABCI Securities estimates

## We lower 2023E net profit by 32.5%

We estimate GPM to go up 3.9ppt YoY to 20.9% in 2023E due to a higher smartphone GPM enabled by reduced inventory impairment provisions and lower key component prices. We expect R&D expenses-to-revenue ratio to rise 0.8ppt YoY to 6.5% in 2023E on electric vehicle development. Overall, we lower 2023E net profit by 32.5% to RMB14.6 bn (+491.9% YoY). In 2H23, we expect net profit to be RMB6.8 bn, (up 304.1% YoY, down 14.0% HoH).

### Exhibit 2: Changes in our financial estimates

(RMB mn)	OLD			NEW			CHANGE		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	397,792	439,380	N/A	275,828	293,509	307,637	(30.7%)	(33.2%)	N/A
Net profit	21,680	23,133	N/A	14,643	14,834	15,091	(32.5%)	(35.9%)	N/A
EPS (RMB)	0.867	0.925	N/A	0.585	0.592	0.603	(32.5%)	(36.0%)	N/A

Source(s): ABCI Securities estimates



**Recommend SELL with TP at HK\$11.00**

We apply the SOTP (sum-of the total parts) method for valuation since the Group has both the hardware and internet segments. We obtain an EV of RMB 253.9bn to RMB 297.0bn, with a fair equity value per share of HK\$11.0-13.0. Recommend **SELL** with the TP of HK\$ 11.00, which implies 16.9x 2023E P/E.

**Exhibit 3: Xiaomi’s SOTP valuation:**

	FY23E net profit (RMB mn)	FY23E P/E multiple	EV (RMB bn)
Smartphones business	3,107.9	7.5x to 9.5x	23.3 to 28.0
IoT & lifestyle products business	2,597.3	11.0x to 12.0x	28.6 to 31.2
Internet services business	8,952.1	15.0x to 19.0x	134.3 to 170.1
Investments			67.7
<b>Total</b>			<b>253.9 to 297.0</b>

Source(s): ABCI Securities estimates



## Financial Statements

### Consolidated income statement (2021A-2025E)

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Smartphones revenue	208,869	167,217	155,394	166,859	175,937
IoT & lifestyle products revenue	84,980	79,795	86,577	91,772	95,902
Internet services revenue	28,212	28,321	30,559	32,240	33,529
Others	6,248	4,711	3,297	2,638	2,269
<b>Total revenue</b>	<b>328,309</b>	<b>280,044</b>	<b>275,828</b>	<b>293,509</b>	<b>307,637</b>
Cost of sales	(270,048)	(232,467)	(218,153)	(231,362)	(241,294)
<b>Gross profit</b>	<b>58,261</b>	<b>47,577</b>	<b>57,675</b>	<b>62,147</b>	<b>66,342</b>
S&M expenses	(20,981)	(21,323)	(21,128)	(22,894)	(24,303)
Admin expenses	(4,739)	(5,114)	(4,689)	(4,990)	(5,230)
R&D expenses	(13,167)	(16,028)	(17,929)	(19,665)	(21,227)
Fair value changes on investments measured at fair value through profit or loss	8,132	(1,662)	3,177	2,542	2,033
Share of losses of investments accounted for using the equity method	275	(400)	(59)	(53)	(48)
Other income	827	1,136	1,655	1,761	1,846
Other gains, net	(2,580)	(1,369)	(1,232)	(1,109)	(998)
<b>Operating Profit</b>	<b>26,029</b>	<b>2,816</b>	<b>17,469</b>	<b>17,739</b>	<b>18,416</b>
Finance income/(costs), net	(1,612)	1,117	1,084	1,057	706
Profit before income tax	24,417	3,934	18,554	18,796	19,122
Income tax expenses	(5,134)	(1,431)	(3,896)	(3,947)	(4,016)
<b>Profit for the year</b>	<b>19,283</b>	<b>2,503</b>	<b>14,657</b>	<b>14,849</b>	<b>15,106</b>
<b>Shareholders' net profit</b>	<b>19,339</b>	<b>2,474</b>	<b>14,643</b>	<b>14,834</b>	<b>15,091</b>
Minority interests	(56)	29	15	15	15
<b>EPS (RMB)</b>	<b>0.776</b>	<b>0.100</b>	<b>0.585</b>	<b>0.592</b>	<b>0.603</b>
<b>Profit for the year</b>	<b>19,283</b>	<b>2,503</b>	<b>14,657</b>	<b>14,849</b>	<b>15,106</b>
Amortization of intangible assets	69	144	144	144	144
Share-based compensation	2,036	2,467	851	928	1,011
Net fair value changes on investments	(2,242)	4,406	(2,083)	(2,145)	(2,210)
Changes of value of financial liabilities to fund investors	2,057	(584)	538	562	587
Income tax effects	836	(418)	393	432	471
<b>Non-IFRS Measure: Adjusted net profit*</b>	<b>22,040</b>	<b>8,518</b>	<b>14,501</b>	<b>14,769</b>	<b>15,110</b>

Source(s): The Group, ABCI Securities estimates

\*The non-IFRS adjusted net profit exclude items of share-based compensation, net fair value changes on investments, amortization of intangible assets, changes of value of financial liabilities to fund investors, income tax effects



Consolidated balance sheet (2021A-2025E)

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Property and equipment	6,965	9,138	10,418	11,876	13,539
Long-term investments measured at fair value through profit or loss	50,114	55,980	60,458	65,295	70,519
Intangible assets	5,579	4,630	4,352	4,091	3,845
Long-term bank deposits	16,195	16,788	17,174	17,569	17,974
Investments accounted for using the equity method	10,231	7,932	7,139	6,425	5,783
Others	17,957	18,624	19,571	20,568	21,615
<b>Total non-current assets</b>	<b>107,040</b>	<b>113,092</b>	<b>119,113</b>	<b>125,824</b>	<b>133,274</b>
Cash & cash equivalents	23,512	27,607	29,549	36,582	44,995
Inventories	52,398	50,438	51,447	52,476	53,525
Trade receivables	17,986	11,795	13,918	16,423	19,380
Prepayments and other receivables	19,852	18,578	20,065	21,670	23,404
Short-term investments measured at fair value through profit or loss	29,312	9,846	10,141	10,446	10,759
Short-term bank deposits	31,041	29,875	35,850	43,020	51,623
Others	11,752	12,275	12,410	12,552	12,839
<b>Total current assets</b>	<b>185,851</b>	<b>160,415</b>	<b>173,379</b>	<b>193,168</b>	<b>216,525</b>
<b>Total assets</b>	<b>292,892</b>	<b>273,507</b>	<b>292,491</b>	<b>318,992</b>	<b>349,799</b>
Trade payables	74,643	53,094	50,439	47,917	45,521
Other payables and accruals	20,224	18,441	17,519	16,643	15,811
Advance from customers	9,289	9,588	9,876	10,172	10,477
Borrowings	5,527	2,151	2,753	3,441	4,301
Income tax liabilities	2,335	1,384	1,246	1,121	1,009
Warranty provision	3,709	4,970	5,467	6,014	6,616
<b>Total current liabilities</b>	<b>115,727</b>	<b>89,628</b>	<b>87,299</b>	<b>85,308</b>	<b>83,735</b>
Borrowings	20,720	21,493	26,652	38,645	54,103
Others	19,012	18,463	19,948	21,585	23,388
<b>Total non-current liabilities</b>	<b>39,732</b>	<b>39,957</b>	<b>46,599</b>	<b>60,230</b>	<b>77,491</b>
<b>Total liabilities</b>	<b>155,459</b>	<b>129,584</b>	<b>133,899</b>	<b>145,538</b>	<b>161,226</b>
<b>Equity attributable to owners of the Group</b>	<b>137,213</b>	<b>143,658</b>	<b>158,301</b>	<b>173,135</b>	<b>188,226</b>
Non-controlling interests	220	265	292	319	347
<b>Total equity</b>	<b>137,432</b>	<b>143,923</b>	<b>158,593</b>	<b>173,454</b>	<b>188,573</b>

Source(s): The Group, ABCI Securities estimates



**Consolidated Cash Flow Statement (2021A-2025E)**

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Operating profit before change in working capital	27,953	20,285	23,895	24,378	25,270
Change in working capital	(15,725)	(21,255)	(2,025)	(2,015)	(2,145)
Tax	(2,442)	(3,420)	(3,499)	(3,579)	(3,662)
<b>Operating cash flow</b>	9,785	(4,390)	18,371	18,784	19,463
CAPEX	(7,169)	(5,800)	(6,148)	(6,516)	(6,907)
Change in bank deposits	(22,711)	351	(6,361)	(7,565)	(9,008)
Others	(15,128)	20,997	(7,145)	(8,157)	(9,454)
<b>Investing cash flow</b>	(45,008)	15,549	(19,654)	(22,238)	(25,369)
Change in borrowings	9,227	(2,791)	5,761	12,681	16,318
Contribution from fund investors	3,471	806	838	872	907
Payments for shares repurchase	(7,007)	(2,386)	(1,670)	(1,169)	(818)
Others	(1,193)	(3,483)	(2,417)	(2,538)	(2,665)
<b>Financing cash flow</b>	4,499	(7,855)	2,511	9,846	13,742
<b>Net increase in cash and cash equivalents</b>	(30,724)	3,304	1,229	6,392	7,836
Cash and cash equivalents at beginning of year	54,752	23,512	27,607	29,549	36,582
Effect of changes in foreign exchange rate	(517)	791	712	641	577
<b>Cash and cash equivalents at end of year</b>	23,512	27,607	29,549	36,582	44,995

Source(s): Group, ABCI Securities estimates

**Financial ratios (2021A-2025E)**

As of Dec 31	2021A	2022A	2023E	2024E	2025E
<b><u>Profit margins:</u></b>					
Gross margin (%)	17.7%	17.0%	20.9%	21.2%	21.6%
Net profit margin (%)	5.9%	0.9%	5.3%	5.1%	4.9%
<b><u>Profitability ratios:</u></b>					
ROA (%)	6.6%	0.9%	5.0%	4.7%	4.3%
ROE (%)	14.1%	1.7%	9.2%	8.6%	8.0%
<b><u>YoY Growth:</u></b>					
Revenue (%)	33.5%	(14.7%)	(1.5%)	6.4%	4.8%
Net profit (%)	(5.0%)	(87.2%)	491.9%	1.3%	1.7%

Source(s): The Group, ABCI Securities estimates



## Disclosures

### Analyst Certification

I, LAI Pak Kin, being the person 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.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 9\%$ )
Hold	- Market return rate ( $\sim 9\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim 9\%$ )
Sell	Stock return $<$ - Market return ( $\sim 9\%$ )

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 2006 (HSI total return index 2006-22 averaged at 8.4%)

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.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2023 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.  
Tel: (852) 2147 8863**