

COMPANY UPDATE

Xiaomi Corp (1810 HK)

2Q24 Results Preview: Expect Resilient Results; Downward Pressure On Margins

Xiaomi will report its 2Q24 earnings later this month. We expect another set of resilient results, with adjusted net profit reaching Rmb5.0b, 6% above consensus estimates. Earnings will be driven by the recovery in smartphone and IoT product's sales and solid control of operating expenses, although this will be partially offset by the rising component costs of smartphones. Maintain BUY. Trim target price to HK\$23.10.

WHAT'S NEW

- 2Q24 results preview.** We expect Xiaomi Corp's (Xiaomi) revenue to grow 29.1% yoy to Rmb87.0b, driven by a robust recovery in smartphone shipments, strong Internet of things (IoT) Product sales (Aircon, Mi Pads). Margins will likely moderate 1.8ppt yoy and 3.1ppt qoq to 19.2%, with product mix improvements for the smartphone and AIoT segments partially offsetting the increasing component costs in the smartphone business. Opex on Xiaomi's core business continues to be well controlled, with core business opex ratio declining by 1ppt qoq to 11.8%. As a result, we now expect 2Q24 adjusted net profit to decline 2.3% yoy to Rmb5,021m, which is above consensus estimates of Rmb4.7b.

STOCK IMPACT

- Smartphone segment remains strong; margins expected to trend downwards.** According to Canalys, Xiaomi's smartphone shipments grew 27.4% yoy to 42.3m units in 2Q24, with a market share of 14.8% (up 2.4ppt yoy). Driven by the solid growth in shipment volume and a stable ASP, we are now expecting revenue to grow by 27.1% yoy to Rmb46.5b in 2Q24. However, due to rising memory and bill of materials (BOM) prices, segment gross profit is estimated to decline 1.3ppt yoy and 2.8ppt qoq to 12.0% in 2Q24. Given that memory prices are expected to further increase in 2H24, we expect the segment's gross margins to continue moderating in 2H24, and full-year gross margins should remain close to the 12.0% mark.
- IoT is benefitting from home appliances and Pad sales.** Large home appliances, tablets and wearables continue to perform well, driven by the new product launches, and a recovery in end-demand. Notably, we believe that overseas growth was faster than domestic growth, as the company continue expand its overseas sales channels and offline stores. We are expecting the segment's revenue to grow 18.0% yoy to Rmb26.3b, with margins expanding 1.4ppt yoy to 19.0% in 2Q24.
- Internet services expected to remain steady in 2Q24.** Advertising revenue continues to perform well both domestically and internationally, with the segmental revenue expected to remain flattish qoq at Rmb8b in 2Q24. Margins are also expected to remain stable at 75%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	280,044	270,970	329,681	360,904	398,206
EBITDA	9,955	18,622	22,111	24,215	29,160
Operating profit	6,247	14,765	17,985	19,805	25,896
Net profit (rep./act.)	2,474	17,475	16,282	17,336	21,513
Net profit (adj.)	8,518	19,273	16,282	17,336	21,513
EPS (Fen)	34.3	77.4	65.4	69.7	86.5
PE (x)	42.0	18.6	22.0	20.7	16.7
P/B (x)	2.8	2.6	2.5	2.2	2.0
EV/EBITDA (x)	35.7	19.1	16.1	14.7	12.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	0.9	6.4	4.9	4.8	5.4
Net debt/(cash) to equity (%)	(23.6)	(35.7)	(46.2)	(17.9)	(29.9)
Interest cover (x)	(5.6)	(7.4)	(5.2)	(6.6)	(10.7)
ROE (%)	6.1	12.5	9.5	9.2	10.3
Consensus net profit	-	-	18,875	20,844	25,736
UOBKH/Consensus (x)	-	-	0.86	0.83	0.84

Source: Xiaomi, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$15.86
Target Price	HK\$23.10
Upside	45.6%
(Previous TP)	HK\$23.80

COMPANY DESCRIPTION

Xiaomi Corporation manufactures communication equipment and parts. The company produces and sells mobile phones, smart phone software, set-top boxes and related accessories. Xiaomi markets its products worldwide.

STOCK DATA

GICS sector:	Communications Equipment
Bloomberg ticker:	1810 HK
Shares issued (m):	24,948
Market cap (HK\$m):	395,681
Market cap (US\$m):	58,188
3-mth avg daily t'over (US\$m):	226.9

Price Performance (%)

52-week high/low	HK\$20.35 / HK\$11.22				
1mth	3mth	6mth	1yr	YTD	
(4.6)	(12.8)	30.9	29.8	1.7	

Major Shareholders

	%
Smart Mobile Holdings Ltd	8.89
Lin Bin	8.74
FY24 NAV/Share (RMB)	7.97
FY24 Net Cash/Share (RMB)	3.68

PRICE CHART



Source: Bloomberg

ANALYST(S)

Johnny Yum
 +852 2236 6706
 johnny.yum@uobkayhian.com.hk

- **SU7 delivery target on track.** As announced previously, Xiaomi is targeting to deliver 100,000 units of the SU7 cumulatively by Nov 24 and 120,000 units by Dec 24, which the company is on track to achieve as it continues to ramp up its production. Based on our understanding, new locked orders continue to be solid, and we are expecting a new model to be announced in 2025. For 2Q24, we expect revenue to come in at Rmb6.2b.

EARNING REVISION/RISK

- **We fine-tune our assumptions for the EV business** as we lower our full-year blended ASP assumptions to Rmb226,700 after factoring in the value-added tax. This is partially offset by our 22% higher shipment assumption of 110,000 units for 2024. Our revenue estimates for the EV business are tweaked by +6.3%/-6.4%/-3.9% for 2024-26 respectively. We also raise our margins assumption slightly from 5% to 8% in 2024 to factor in a better operating scale.
- **Our net profit assumptions are trimmed by 0.6%/1.5%/1.6% for 2024-26F respectively,** as we factor in: a) the changes in EV's assumptions, b) higher memory and BOM prices for the smartphone segment, c) a slightly lower internet services revenue assumption, d) a higher IoT business margins assumption, and e) better operating expense control for its core business.

VALUATION/RECOMMENDATION

- **Maintain BUY and trim target price to HK\$23.10,** based on: a) HK\$22.40 for the core business, which is based on 20.0x 2024F PE, largely on par with the five-year historical forward mean; and b) HK\$0.70 for the EV business, which is based on the 10-year DCF valuation.

CHANGES TO KEY ASSUMPTIONS

(Rmbm)	Old			New			Change (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Turnover	328,802	363,618	400,372	329,681	360,904	398,206	0.3	(0.7)	(0.5)
Smartphones	178,996	190,439	203,594	178,996	190,439	203,594	-	-	-
IoT and Lifestyle products	89,530	95,797	105,377	89,530	95,797	105,377	-	-	-
Internet services	33,517	35,798	39,564	32,908	35,535	39,273	(1.8)	(0.7)	(0.7)
EV	23,466	38,290	48,544	24,954	35,840	46,669	6.3	(6.4)	(3.9)
Margins (%)									
Smartphones	13.8	13.5	13.0	12.0	12.0	12.0	(1.5)	(1.5)	(1.0)
IoT and Lifestyle products	18.2	16.7	16.8	18.6	18.0	18.0	0.4	1.3	1.2
Internet services	74.2	74.0	74.0	74.5	74.0	74.0	0.3	-	-
EV	5.0	7.5	10.0	8.0	7.5	10.0	3.0	-	-

Source: Xiaomi, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	270,970	329,681	360,904	398,206
EBITDA	18,622	22,111	24,215	29,160
Deprec. & amort.	(3,857)	(4,126)	(4,410)	(3,264)
EBIT	14,765	17,985	19,805	25,896
Total other non-operating income	5,243	-	-	-
Associate contributions	46	-	-	-
Net interest income/(expense)	2,002	3,437	3,005	2,410
Pre-tax profit	22,011	21,423	22,810	28,305
Tax	(4,537)	(5,141)	(5,474)	(6,793)
Minorities	1	1	1	1
Net profit	17,475	16,282	17,336	21,513
Net profit (adj.)	19,273	16,282	17,336	21,513

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	41,300	29,306	8,418	34,115
Pre-tax profit	22,011	21,423	22,810	28,305
Tax	(4,537)	(5,141)	(5,474)	(6,793)
Deprec. & amort.	3,857	4,126	4,410	3,264
Associates	(46)	-	-	-
Working capital changes	18,395	12,336	(10,323)	11,748
Non-cash items	1,620	(3,437)	(3,005)	(2,410)
Other operating cashflows	-	-	-	-
Investing	(35,169)	(8,000)	(6,500)	(6,500)
Capex (growth)	(8,000)	(8,000)	(6,500)	(6,500)
Investments	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Others	(27,169)	-	-	-
Financing	(505)	3,437	3,005	2,410
Dividend payments	-	-	-	-
Issue of shares	-	-	-	-
Proceeds from borrowings	20,000	20,000	20,000	20,000
Loan repayment	(19,858)	(20,000)	(20,000)	(20,000)
Others/interest paid	(647)	3,437	3,005	2,410
Net cash inflow (outflow)	5,626	24,743	4,923	30,024
Beginning cash & cash equivalent	27,607	33,631	58,375	63,298
Changes due to forex impact	398	-	-	-
Ending cash & cash equivalent	33,631	58,375	63,298	93,322

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	13,721	19,218	23,008	27,874
Other LT assets	111,474	109,851	108,151	106,521
Cash/ST investment	33,631	58,375	63,298	93,322
Other current assets	165,421	166,452	182,490	185,864
Total assets	324,247	353,896	376,946	413,581
ST debt	6,183	6,183	6,183	6,183
Other current liabilities	109,404	122,771	128,486	143,609
LT debt	21,674	21,674	21,674	21,674
Other LT liabilities	22,724	22,724	22,724	22,724
Shareholders' equity	163,995	180,278	197,614	219,128
Minority interest	266	265	264	263
Total liabilities & equity	324,247	353,896	376,946	413,581

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
Gross margin	21.2	19.6	19.1	19.4
Pre-tax margin	7.5	6.5	6.3	7.1
Net margin	6.4	4.9	4.8	5.4
ROA	6.4	4.8	4.7	5.4
ROE	12.5	9.5	9.2	10.3
Growth				
Turnover	(3.2)	21.7	9.5	10.3
EBITDA	20.8	12.5	6.9	11.7
Pre-tax profit	459.5	(2.7)	6.5	24.1
Net profit	606.3	(6.8)	6.5	24.1
Net profit (adj.)	126.3	(15.5)	6.5	24.1
EPS	125.7	(15.5)	6.5	24.1
Leverage				
Debt to total capital	8.6	7.9	7.4	0.0
Debt to equity	17.0	15.5	14.1	12.7
Net debt/(cash) to equity	(35.7)	(46.2)	(17.9)	(29.9)
Interest cover (x)	(7.4)	(5.2)	(6.6)	(10.7)

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W