

COMPANY UPDATE

Xiaomi Corp (1810 HK)

Stronger Confidence In EV Business After Investor Day And Factory Visit

We attended Xiaomi's investor day and visited its EV production base in Beijing. During the event, the company disclosed encouraging developments for the EV business, including: a) robust locked orders of 75,723 units, b) full-year shipment target of 100,000 units, c) better-than-expected gross margins of 5-10%, and d) accelerated production ramp-up. Maintain BUY and adjust target price to HK\$21.00.

WHAT'S NEW

- **Some 75,723 units of locked orders, target of shipment of 100,000 units for full-year 2024 is another beat.** As of 24 April, Xiaomi Corp's (Xiaomi) SU7 locked orders (锁单, equivalent to other brand's definition of "firmed orders" or 大定) reached 75,723 units. This compares to around 70,000/40,000 units as of 20 April/2 April, which indicates that orders momentum remained strong since launch. Xiaomi had started to deliver the standard SU7/SU7 Max models two weeks earlier than the original schedule, with total delivery reaching 5,781 units as of 24 April. Xiaomi is now targeting to ship 10,000 units by June, and 100,000 units for full-year 2024. This is higher than our/market expectations of 50,000 and 80,000 units respectively.
- **Positive gross margins of 5-10% are a big positive takeaway,** given that market was expecting a gross loss of 5-15% for the electric vehicle (EV) business in 2024.
- **High-end SU7 Max model dominates the sales mix** at 43% of locked orders. The baseline SU7 and SU7 Pro model each contributed to 28-29% of total orders.
- **R&D on EV business will continue to surge.** Xiaomi is targeting to spend Rmb11b-12b in R&D on the EV business (vs around Rmb6.7b in 2023) and Rmb24b for the entire group in 2024. This is higher than our estimates of Rmb7b and Rmb20b respectively.
- **Breakeven at annual shipment of 300,000-400,000 units.** Given that the phase 1 EV factory has a designed maximum annual capacity of only 150,000 units, Xiaomi will have to construct its phase 2 factory in order to reach the breakeven target. We understand that Xiaomi had already started to prepare for the construction of the phase 2 plant, and the entire construction and ramp-up process may take around two years' time. As such, Xiaomi's EV business may reach breakeven in 2026-27 earliest.
- **Market feedback on user experience.** We believe the SU7 series is well positioned as a performance EV sedan – great feedback in terms of driving experience, better seat designs and larger head/leg rooms. However, the passenger's experience, more notably for the backseat, received more criticism given the narrower space. As such, while Xiaomi's SU7 is well received as a performance model, we believe it is likely less competitive as a family car compared with its peers such as Aito's Luxeed brand.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	280,044	270,970	328,713	363,423	400,160
EBITDA	9,955	18,622	18,820	23,860	28,768
Operating profit	6,247	14,765	14,694	19,450	25,504
Net profit (rep./act.)	2,474	17,475	13,485	16,897	21,095
Net profit (adj.)	8,518	19,273	13,485	16,897	21,095
EPS (Fen)	34.3	77.4	54.2	67.9	84.8
PE (x)	42.3	18.8	26.8	21.4	17.1
P/B (x)	2.8	2.6	2.5	2.2	2.0
EV/EBITDA (x)	36.0	19.2	19.0	15.0	12.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	0.9	6.4	4.1	4.6	5.3
Net debt/(cash) to equity (%)	(23.6)	(35.7)	(45.2)	(16.6)	(28.6)
Interest cover (x)	(5.6)	(7.4)	(4.8)	(7.0)	(11.3)
ROE (%)	6.1	12.5	7.9	9.1	10.3
Consensus adjusted net profit	-	-	15,254	17,049	21,507
UOBKH/Consensus (x)	-	-	0.88	0.99	0.98

Source: Xiaomi, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$16.60
Target Price	HK\$21.00
Upside	26.3%
(Previous TP:	HK\$20.80)

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):	24,498
Market cap (HK\$m):	414,143
Market cap (US\$m):	60,903
3-mth avg daily t'over (US\$m):	202.2

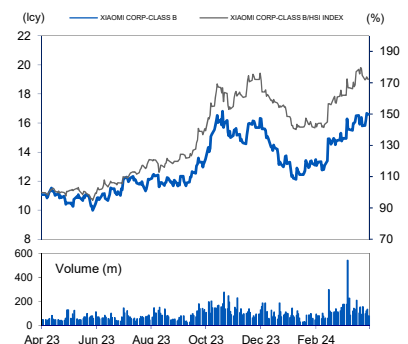
Price Performance (%)

52-week high/low	HK\$16.98 / HK\$9.86			
1mth	3mth	6mth	1yr	YTD
12.0	20.8	25.8	51.7	6.4

Major Shareholders

Lin Bin	8.78%
FY24 NAV/Share (RMB)	7.85
FY24 Net Cash/Share (RMB)	3.52

PRICE CHART



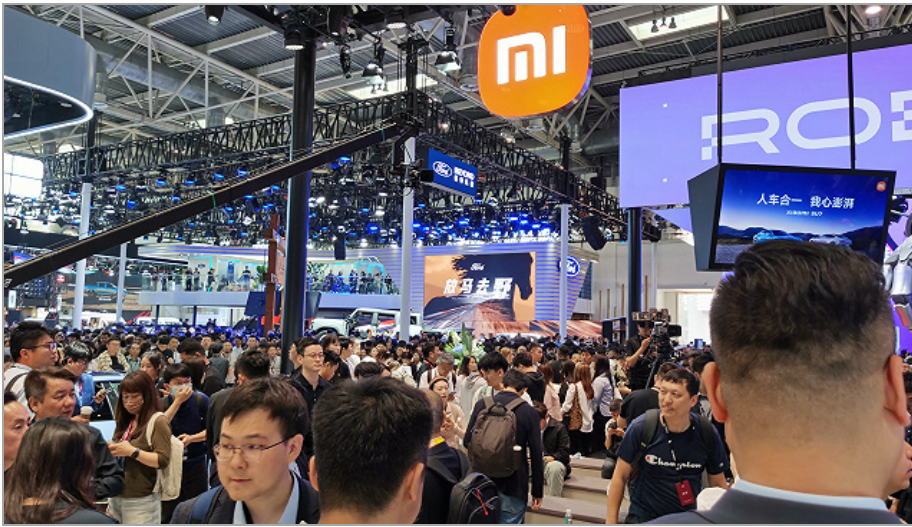
Source: Bloomberg

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- **We visited Xiaomi's EV production base.** The phase 1 production base covers an area of 400,000sqm. It is fully automated, utilising high-end equipment such as ultra-high tonnage die-casting machines, as well as full set of industrial robots from global robotics leader FANUC with settings similar to other more well-established EV OEMs such as Xpeng and Li-Auto. When we visited, production lines were operating at full capacity, with racks filled with automobile parts, and the company was actively ramping up its phase 1 production capacity in order to fulfil the strong demand.

XIAOMI WAS ONE OF THE MOST POPULAR BRANDS OF THE BEIJING AUTO SHOW



Source: Jiemiao News

- **Xiaomi targets smartphone shipment growth of 15m-20m units**, representing a yoy growth of 10-14% to 161m/166m units. Growth will be primarily driven by share gains (ie Xiaomi gained 1.2ppt market share in 1Q24), particularly in the emerging markets such as Middle East & Africa, Latin America, and Southeast Asia. By 2028, Xiaomi targets to become the top selling smartphone brand globally.
- **Margins will normalise in 2024** as component prices, particularly memory and storage, have been increasing since 2H23. Nevertheless, Xiaomi believes the impact will be controllable as the company had stocked up on components prior to the price hikes, which should help it partially offset the margin pressure from rising component prices.
- **Premiumisation in the overseas market to accelerate.** Xiaomi achieved a 28.2% market share in China's Rmb4,000-6,000 price segment. While Xiaomi will continue to implement its premiumisation strategy in China and expand into >Rmb6,000 market, the company is now looking to replicate its domestic business model to overseas ie the opening of more offline stores, and targeting to grow its >US\$600 price smartphone shipment by 49% in 2024.
- **Aims to open 10,000 new stores in 2024-26.** After a year of integration and optimisation, Xiaomi is now restarting its plans to open new stores. The new store opening will be targeting large stores with better location in order to better cater to its premiumisation strategy and to facilitate the sales of EVs. Xiaomi is also looking to start opening stores overseas, as the company realised that having self-owned offline stores can potentially accelerate penetration into the local market, as well as facilitate sales of AIoT products and premium smartphones.
- For the EV business, Xiaomi is now looking to expand its EV-ready stores to 219 stores in 46 cities by the end of 2024. In addition, Xiaomi is planning to expand its service centres to 139 stores over 82 cities.
- **Other updates:** Xiaomi is actively recruiting new engineers and developers for EV, autonomous driving, and robotics. Notably, Xiaomi stated that the company will showcase some new robotics technology in 2024.

FRONT DOOR EV FACTORY'S RECEPTION AND DELIVERY CENTRE



Source: Xiaomi, UOB Kay Hian

SU7 DELIVERY CENTRE



Source: Xiaomi, UOB Kay Hian

SU7 INVENTORY PARKED OUTSIDE FACTORY



Source: Xiaomi, UOB Kay Hian

SU7'S DRIVER SEAT



Source: Xiaomi, UOB Kay Hian

STOCK IMPACT

- We revise up our EV sales assumptions to 90,000/150,000/190,000 units in 2024-26 respectively to factor in the much stronger-than-expected locked orders from consumers. This compares with our previous estimates of 50,000/120,000/160,000 units.
- We also revise up EV business' margin assumptions to 5.0%/8.5% in 2024-25 respectively, compared with our previous estimates of -15%/-5%. Our margins assumptions are on the conservative side, as we expect a sustained margin pressure across the entire EV market due to intensifying competition. Our assumption for 2026 onwards remains unchanged at 10% for now.
- We also raise our opex assumptions for the EV business from Rmb7b-9b in 2024-26 to Rmb11b-12b in order to factor in the higher-than-expected R&D spending guidance.
- Changes for non-EV business. We factor in a stronger-than-expected 1Q24 shipment (40.8m units, vs our estimates of 35m units), and Xiaomi's better-than-expected share gains in both China (+0.2ppt to 14.6% in 1Q24 despite competition from Huawei), and overseas (+1.2ppt yoy to 14.8% in 1Q24), and raise our smartphone shipment assumption to 163m/170m/180m units in 2024-26 respectively. We also raised our opex ratio assumption for the non-EV business as we expect increased activities in the overseas market to incur a higher cost.

EARNING REVISION/RISK

- We factor in a higher operating expense, primarily due to EVs' high R&D expenses, and our net profit estimates are trimmed by 15.7%/4.0%/9.0% to Rmb13.5b/16.9b/21.1b respectively. Our non-EV (core) business net profit estimates ended up largely unchanged, as the higher smartphone sales was mostly offset by a higher non-EV opex.
- Main risk now lies in production ramp-up. If Xiaomi falls behind in production schedule, the long order lead time may incentivise customers to switch to other brands. This is especially the case, as market news indicate that some competitors are now offering to provide subsidy for the non-refundable down-payment (Rmb5,000 for Xiaomi) if the buyers are to switch to their brand. As such, if Xiaomi somehow fails to deliver its production ramp-up, we see potential downside risks to our shipment estimates.

VALUATION/RECOMMENDATION

- Maintain BUY and adjust target price to HK\$21.00, based on: a) HK\$20.30 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 10-year DCF valuation. The valuation for the EV business also implies 0.7x 2024F P/S, which is very conservative, as the market is now valuing the EV business at 1x P/S. Our more conservative view stems from the still-limited track record, as well as concerns of an intensifying competition in China's EV market.

SU7 MODERNA PLATFORM



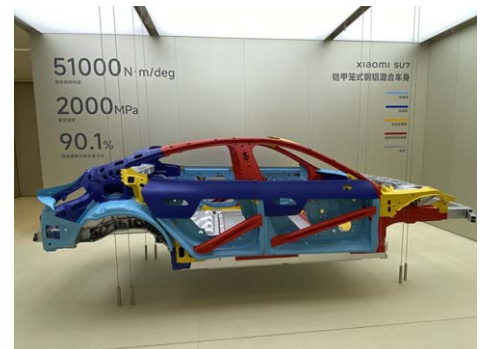
Source: Xiaomi, UOB Kay Hian

ELECTRIC MOTORS UTILISED IN SU7



Source: Xiaomi, UOB Kay Hian

SU7'S METAL FRAME



Source: Xiaomi, UOB Kay Hian

EV BUSINESS VALUATION

(Rmbm)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Revenue											
EV Sales	-	23,457	38,170	48,200	60,000	72,500	85,000	97,500	110,000	120,000	130,000
Service	-	9	120	344	670	1,152	1,950	3,042	4,473	6,264	8,451
Total revenue	-	23,466	38,290	48,544	60,670	73,652	86,950	100,542	114,473	126,264	138,451
Gross profit											
EV	-	1,173	3,244	4,820	9,000	13,050	16,150	19,500	22,000	24,000	26,000
GPM (%)	-	5	9	10	15	18	19	20	20	20	20
Internet service	-	-	84	241	469	806	1,365	2,129	3,131	4,385	5,916
GPU (%)	-	-	70	70	70	70	70	70	70	70	70
Total GP	-	1,173	3,328	5,061	9,469	13,856	17,515	21,629	25,131	28,385	31,916
Opex	(6,700)	(11,000)	(12,000)	(12,000)	(11,000)	(10,000)	(10,000)	(9,000)	(9,000)	(8,000)	(8,000)
Operating profit	(6,700)	(9,827)	(8,672)	(6,939)	(1,531)	3,856	7,515	12,629	16,131	20,385	23,916
Tax expenses	-	-	-	-	-	-	1,127	1,894	2,420	3,058	3,587
Capex	(4,500)	(4,500)	(4,000)	(3,500)	(3,000)	(3,000)	(3,000)	(2,500)	(2,500)	(2,000)	(2,000)
FCF	(11,200)	(14,327)	(12,672)	(10,439)	(4,531)	856	4,515	10,129	13,631	18,385	21,916
Terminal value											174,580
Cashflow	(11,200)	(14,327)	(12,672)	(10,439)	(4,531)	856	4,515	10,129	13,631	18,385	196,496

Source: Xiaomi, UOBKH

XIAOMI'S VALUATION

	EV		Core
Intrinsic value (Rmb)	15,115	EPS (Rmb)	0.92
CNY to HKD	1.1	CNY to HKD	1.1
Intrinsic value (HK\$)	16,627	EPS (HK\$)	1.02
Valuation (HK\$)	\$0.7	Valuation	\$20.3
Price/Sales (2024) (x)	0.7	PE Multiple (x)	20.0

Source: Xiaomi, UOBKH

CHANGES TO KEY ESTIMATES

Rmbm	----- Old -----			----- New -----			----- Change (%) -----		
	2024F	2025F	2026F	2024F	2025F	2026F	2024	2025	2026
Turnover	309,745	350,118	386,510	328,713	363,423	400,160	6.1	3.8	3.5
Smartphones	171,010	185,379	198,271	178,996	190,439	203,594	4.7	2.7	2.7
IoT and Lifestyle products	89,530	95,797	105,377	89,530	95,797	105,377	0.0	0.0	0.0
Internet services	33,407	35,564	39,304	33,428	35,604	39,352	0.1	0.1	0.1
EV	12,505	30,085	40,264	23,466	38,290	48,544	87.7	27.3	20.6
Margins (%)									
Smartphones	13.8	13.5	13.0	13.8	13.5	13.0	0.0	0.0	0.0
IoT and Lifestyle products	16.5	16.7	16.8	16.5	16.7	16.8	0.0	0.0	0.0
Internet services	74.0	74.0	74.0	74.0	74.0	74.0	0.0	0.0	0.0
EV	(15.0)	(5.0)	10.0	5.0	7.5	10.0	20.0	12.5	0.0

Source: Xiaomi, UOBKH

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	270,970	328,713	363,423	400,160
EBITDA	18,622	18,820	23,860	28,768
Deprec. & amort.	(3,857)	(4,126)	(4,410)	(3,264)
EBIT	14,765	14,694	19,450	25,504
Total other non-operating income	5,243	-	-	-
Associate contributions	46	-	-	-
Net interest income/(expense)	2,002	3,049	2,781	2,251
Pre-tax profit	22,011	17,743	22,231	27,755
Tax	(4,537)	(4,258)	(5,336)	(6,661)
Minorities	1	1	1	1
Net profit	17,475	13,485	16,897	21,095
Net profit (adj.)	19,273	13,485	16,897	21,095

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	41,300	26,523	8,584	33,703
Pre-tax profit	22,011	17,743	22,231	27,755
Tax	(4,537)	(4,258)	(5,336)	(6,661)
Deprec. & amort.	3,857	4,126	4,410	3,264
Associates	(46)	-	-	-
Working capital changes	18,395	11,961	(9,941)	11,597
Non-cash items	1,620	(3,049)	(2,781)	(2,251)
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)	3,049	2,781	2,251
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)	3,049	2,781	2,251
Net cash inflow (outflow)	5,626	21,572	4,865	29,455
Beginning cash & cash equivalent	27,607	33,631	55,203	60,068
Changes due to forex impact	398	-	-	-
Ending cash & cash equivalent	33,631	55,203	60,068	89,523

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	55,203	60,068	89,523
Other current assets	165,421	165,611	184,178	184,981
Total assets	324,247	349,883	375,405	408,898
ST debt	6,183	6,183	6,183	6,183
Other current liabilities	109,404	121,555	130,181	142,581
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	177,481	194,378	215,473
Minority interest	266	266	265	263
Total liabilities & equity	324,247	349,883	375,405	408,898

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
Gross margin	21.2	19.9	19.5	19.5
Pre-tax margin	7.5	5.4	6.1	6.9
Net margin	6.4	4.1	4.6	5.3
ROA	6.4	4.0	4.7	5.4
ROE	12.5	7.9	9.1	10.3
Growth				
Turnover	(3.2)	21.3	10.6	10.1
EBITDA	20.8	13.8	8.5	10.2
Pre-tax profit	459.5	(19.4)	25.3	24.8
Net profit	606.3	(22.8)	25.3	24.8
Net profit (adj.)	126.3	(30.0)	25.3	24.8
EPS	125.7	(30.0)	25.3	24.8
Leverage				
Debt to total capital	8.6	8.0	7.4	0.0
Debt to equity	17.0	15.7	14.3	12.9
Net debt/(cash) to equity	(35.7)	(45.2)	(16.6)	(28.6)
Interest cover (x)	(7.4)	(4.8)	(7.0)	(11.3)

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