

COMPANY RESULTS

Xiaomi Corp (1810 HK)

3Q23: Another Beat On Solid Execution

Xiaomi's 3Q23 results beat expectations, with adjusted net profit 20% above our and consensus estimates on the back of better-than-expected margins for its smartphone business. The recovery in consumer spending is on track, and the implementation of AI in smartphones can bolster replacement demand going forward. Maintain BUY. Raise target price to HK\$21.60 as we factor in the EV business' valuation.

3Q23 RESULTS

Year to 31 Dec	3Q22	2Q23	3Q23	yoy%	qoq %	9M22	9M23	yoy%
Revenue	70,474	67,355	70,894	0.6	5.3	213,997	197,726	(7.6)
Smartphones	42,514	36,596	41,649	(2.0)	13.8	130,545	113,229	(13.3)
IoT & Lifestyle products	19,059	22,254	20,673	8.5	(7.1)	58,348	59,761	2.4
Internet services	7,067	7,444	7,756	9.7	4.2	21,150	22,228	5.1
Other	1,835	1,061	817	(55.5)	(23.1)	3,954	2,509	(36.6)
Gross Profit	11,722	14,161	16,110	37.4	13.8	36,200	41,862	15.6
Adjusted Net Profit	2,117	5,140	5,990	182.9	16.5	7,057	14,363	103.5
GPM (%)	16.6	21.0	22.7	6.1	1.7	16.9	21.2	4.3
Smartphones	8.9	13.3	16.6	7.7	3.3	9.2	13.9	4.7
IoT & Lifestyle products	13.5	17.6	17.8	4.3	0.3	14.5	17.1	2.7
Internet services	72.1	74.1	74.4	2.4	0.3	71.9	73.6	1.7

Source: Xiaomi, UOB Kay Hian

RESULTS

- **3Q23 results another strong beat.** Xiaomi Corp's (Xiaomi) 3Q23 results was largely in line at Rmb70.9b (+0.6% yoy and +5.3% qoq). However, the margin of the smartphone business was a big beat at 16.6% (2.6ppt above our estimates), driven by a better profit mix (more new products) and a recovery in impairment costs. With operating expenses well-controlled at 15.6% of revenue (+0.5ppt qoq, in line), adjusted net profit surged 1.8x yoy and 16.5% qoq to Rmb5,990m, which is 19.8% above our estimates.

STOCK IMPACT

- **Better outlook for smartphones in 2024; AI to bolster replacement demand going forward.** Management highlighted that the strong recovery in sales in the past month showcased that consumers' appetite for new features in smartphones remained high. The development of AI and LLMs in smartphones will bring a lot of new features to smartphones in the coming years which can bolster replacement demand going forward.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	328,309	280,044	276,907	317,384	356,111
EBITDA	23,263	9,955	20,174	23,634	25,137
Operating profit	20,201	6,247	16,317	19,508	20,727
Net profit (rep./act.)	19,339	2,474	16,311	17,065	17,824
Net profit (adj.)	22,040	8,518	17,432	17,065	17,824
EPS (Fen)	88.4	34.3	69.8	68.3	71.3
PE (x)	15.3	42.9	19.3	20.8	19.9
P/B (x)	3.9	2.9	2.4	2.5	2.2
EV/EBITDA (x)	12.9	30.1	14.9	12.7	11.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	5.9	0.9	5.9	5.4	5.0
Net debt/(cash) to equity (%)	(20.6)	(23.6)	(45.7)	(45.5)	(38.9)
Interest cover (x)	12.5	(5.6)	(8.6)	(6.4)	(7.3)
ROE (%)	16.9	6.1	11.5	10.1	9.6
Consensus adjusted net profit	-	-	15,635	14,748	16,912
UOBKH/Consensus (x)	-	-	1.11	1.16	1.05

Source: Xiaomi, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$16.18
Target Price	HK\$21.60
Upside	30.4%
(Previous TP)	HK\$ 16.80)

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):	24,988
Market cap (HK\$m):	404,310
Market cap (US\$m):	59,457
3-mth avg daily t'over (US\$m):	167.7

Price Performance (%)

52-week high/low	HK\$17.00/HK\$9.00			
1mth	3mth	6mth	1yr	YTD
21.7	37.8	49.0	57.1	47.9

Major Shareholders

Lin Bin	8.78
FY23 NAV/Share (RMB)	7.28
FY23 Net Cash/Share (RMB)	3.32

PRICE CHART



Source: Bloomberg

ANALYST(S)

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PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	280,044	276,907	317,384	356,111
EBITDA	9,955	20,174	23,634	25,137
Deprec. & amort.	(3,707)	(3,857)	(4,126)	(4,410)
EBIT	6,247	16,317	19,508	20,727
Total other non-operating income	(3,431)	3,422	-	-
Associate contributions	(400)	74	-	-
Net interest income/(expense)	1,117	1,887	3,058	2,844
Pre-tax profit	3,934	21,570	22,566	23,571
Tax	(1,431)	(5,177)	(5,416)	(5,657)
Minorities	(29)	(82)	(86)	(90)
Net profit	2,474	16,311	17,065	17,824
Net profit (adj.)	8,518	17,432	17,065	17,824

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	(4,390)	45,307	12,555	28,487
Pre-tax profit	3,934	21,570	22,566	23,571
Tax	(3,420)	(5,177)	(5,416)	(5,657)
Deprec. & amort.	3,707	3,857	4,126	4,410
Associates	400	(74)	-	-
Working capital changes	(21,255)	26,944	(5,663)	9,007
Non-cash items	12,244	(1,813)	(3,058)	(2,844)
Other operating cashflows	-	-	-	-
Investing	15,549	(8,000)	(8,000)	(6,500)
Capex (growth)	(5,800)	(8,000)	(8,000)	(6,500)
Investments	(80,563)	-	-	-
Proceeds from sale of assets	98,068	-	-	-
Others	3,843	-	-	-
Financing	(7,855)	2,029	3,058	2,844
Dividend payments	-	-	-	-
Issue of shares	84	-	-	-
Proceeds from borrowings	19,858	20,000	20,000	20,000
Loan repayment	(22,649)	(19,858)	(20,000)	(20,000)
Others/interest paid	(5,147)	1,887	3,058	2,844
Net cash inflow (outflow)	3,304	39,337	7,613	24,831
Beginning cash & cash equivalent	23,512	27,607	67,016	74,500
Changes due to forex impact	791	-	-	-
Ending cash & cash equivalent	27,607	66,944	74,629	99,331

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	9,138	14,828	20,326	24,115
Other LT assets	103,954	102,407	100,784	99,084
Cash/ST investment	27,607	67,016	74,500	99,515
Other current assets	132,808	117,921	137,519	139,826
Total assets	273,507	302,337	332,909	362,817
ST debt	2,151	2,293	2,293	2,293
Other current liabilities	87,477	99,607	113,341	124,967
LT debt	21,493	21,493	21,493	21,493
Other LT liabilities	18,463	18,463	18,463	18,463
Shareholders' equity	143,658	160,014	177,077	194,903
Minority interest	265	347	432	522
Total liabilities & equity	273,507	302,336	332,981	362,760

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
Gross margin	17.0	21.3	19.9	18.6
Pre-tax margin	1.9	7.7	7.1	6.6
Net margin	0.9	5.9	5.4	5.0
ROA	3.0	6.1	5.4	5.1
ROE	6.1	11.5	10.1	9.6
Growth				
Turnover	(14.7)	(1.1)	14.6	12.2
EBITDA	(18.3)	23.9	7.2	4.9
Pre-tax profit	(83.9)	448.3	4.6	4.5
Net profit	(87.2)	559.3	4.6	4.5
Net profit (adj.)	(61.4)	104.6	(2.1)	4.5
EPS	(61.2)	103.3	(2.1)	4.5
Leverage				
Debt to total capital	8.6	7.9	7.1	6.6
Debt to equity	16.5	14.9	13.4	12.2
Net debt/(cash) to equity	(23.6)	(45.7)	(45.5)	(38.9)
Interest cover (x)	(5.6)	(8.6)	(6.4)	(7.3)

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