

COMPANY RESULTS

Xiaomi Corp (1810 HK)

1Q24: Strong Beat On IoT Margins; EV Shipment Target Raised

Xiaomi's 1Q24 surprised on the upside, with adjusted net profit 18% above our estimate, driven by a surprise in the IoT business' margins, as well as a stronger-than-expected revenue for the internet service segment. For 2024, Xiaomi now targets to ship 120,000 units of EVs, and aims to improve its margins through product mix improvements. Maintain BUY. Target price: HK\$23.80.

1Q24 RESULTS

Year to 31 Dec	1Q23	4Q23	1Q24	yoy%	qoq %
Revenue	59,477	73,244	75,507	27.0	3.1
Smartphones	34,985	44,232	46,480	32.9	5.1
IoT & Lifestyle products	16,834	20,347	20,373	21.0	0.1
Internet services	7,028	7,880	8,048	14.5	2.1
Other	631	785	605	(4.0)	(22.9)
Gross Profit	11,592	15,614	16,830	45.2	7.8
Adjusted Net Profit	3,233	4,910	6,491	100.8	32.2
GPM (%)	19.5	21.3	22.3	2.8	1.0
Smartphones	11.2	16.4	14.8	3.6	(1.6)
IoT & Lifestyle products	15.7	13.9	19.9	4.1	5.9
Internet services	72.3	75.7	74.2	2.0	(1.5)

Source: Xiaomi, UOB Kay Hian

RESULTS

• **1Q24: Another solid beat on top of our elevated estimate.** Xiaomi Corp's (Xiaomi) 1Q24 results were above our and market estimates, with adjusted net profit growing 100.8% yoy and 32.2% qoq to Rmb6.5b, compared with our estimate of Rmb5.5b, and Bloomberg consensus forecast of Rmb5.1b. The beat mainly came from: a) much higher-than-expected margin of 19.9% in the IoT & lifestyle business (1.9ppt above our estimate), and b) a higher-than-expected internet service revenue at Rmb8.0b (vs our estimate of Rmb7.5b). Coupled with an in-line smartphone business, revenue and blended gross margins ended up at Rmb75.5b and 22.3%, which are 2.2% and 0.7ppt above our estimates respectively. On top of revenue and margins, financial income of Rmb1.5b is also higher than expected, which contributed to the 18% beat in bottom line.

STOCK IMPACT

• **Smartphones: Scale, premiumisation and inventory management to partially offset margin pressure** from rising component costs (mostly from storage). Thanks to Xiaomi's growing operating scale, the company's bargaining power against its suppliers had continuously improved over the past few quarters. Coupled with the premiumisation strategy (Rmb3,000 phones contributed to 21.7% of total shipment in 1Q24, +1.4ppt yoy), and inventory management, the company should be well positioned to weather through the surge in storage component costs.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	280,044	270,970	328,802	363,618	400,372
EBITDA	9,955	18,622	22,295	24,556	29,604
Operating profit	6,247	14,765	18,169	20,145	26,340
Net profit (rep./act.)	2,474	17,475	16,388	17,597	21,866
Net profit (adj.)	8,518	19,273	16,388	17,597	21,866
EPS (Fen)	34.3	76.9	65.9	70.7	87.9
PE (x)	39.4	17.6	26.1	24.3	19.6
P/B (x)	2.6	2.5	3.0	2.6	2.4
EV/EBITDA (x)	33.6	18.0	19.1	17.3	14.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	0.9	6.4	5.0	4.8	5.5
Net debt/(cash) to equity (%)	(23.6)	(35.7)	(45.7)	(18.4)	(29.8)
Interest cover (x)	(5.6)	(7.4)	(5.4)	(6.7)	(10.8)
ROE (%)	6.1	12.5	9.5	9.3	10.5
Consensus adjusted net profit	-	-	16,154	17,723	22,174
UOBKH/Consensus (x)	-	-	1.01	0.99	0.99

Source: Xiaomi, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$18.94
Target Price	HK\$23.80
Upside	25.5%
(Previous TP)	HK\$ 22.80)

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):	472,523
Market cap (US\$m):	69,489
3-mth avg daily t'over (US\$m):	259.0

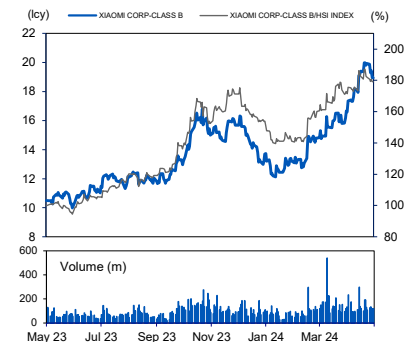
Price Performance (%)

52-week high/low	HK\$20.35 / HK\$9.86			
1mth	3mth	6mth	1yr	YTD
17.1	43.3	22.7	76.0	21.4

Major Shareholders

Lin Bin	8.78%
FY24 NAV/Share (RMB)	7.97
FY24 Net Cash/Share (RMB)	3.65

PRICE CHART



Source: Bloomberg

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SOTP VALUATION

	EV		Core
Intrinsic value (Rmb)	15,115	EPS (Rmb)	1.05
CNY to HKD	1.1	CNY to HKD	1.1
Intrinsic value (HK\$)	16,627	EPS (HK\$)	1.16
Valuation	0.7	Valuation	23.1
EV/Sales (2024) (x)	0.7	PE Multiple (x)	20.0

Note: Core EPS excludes operating expenses into EV business.

Source: Xiaomi, UOB Kay Hian

• IoT business' operation optimisation to provide sustained improvements in margins.

The IoT business' high margins in 1Q24 were mainly driven by product mix, as the high-margin home appliances such as air-conditioners (+63% yoy to 690,000 units), refrigerators (+52% yoy to 530,000 units), and washing machines (+47% yoy to 360,000 units) saw robust shipment growth during the quarter. On top of that, Xiaomi had been making reforms in its operating structure for the IoT business.

Previously, Xiaomi was more reliant on ODMs, and the ecosystem partner's R&D and production capacity for the IoT products; this made it more difficult to control the products' quality. However, in the past quarters, Xiaomi had gradually shifted more internal resources in the development and manufacturing process of IoT products, and this allowed the launch of more competitive products, along with better cost controls. As such, we believe Xiaomi may continue to register an elevated margin for the IoT business going forward.

• **Xiaomi is shifting its focus to the expansion of overseas channels.** Xiaomi is now planning to open 10,000 self-operated Mi stores in the overseas market (vs 5,000 stores now) in the next five years. The company is now trying to replicate its new retail business model into the overseas market, and this will likely bolster its operating efficiency, as well as its reach in the overseas market for both its smartphone and IoT business. We believe the expansion of Mi stores will be especially beneficial for the IoT business, given that: a) the IoT business had only around 20% revenue contribution from overseas market, and b) most existing offline stores overseas are only catered to the smartphones.

• **EV business – Continues to focus on ramp-up.** Xiaomi is now looking to deliver up to 120,000 units in 2024, compared with the previous target of 100,000 units. Currently the key priority remains unchanged – to double production and achieve monthly shipments of 10,000 units in June. Note that if shipment units ended up higher than the previous guidance, there should be upside to the 5-10% gross margin guidance as well due to a better operating scale.

EARNING REVISION/RISK

- **We raised our IoT and internet services segments margins for 2024** by 1.0ppt/0.2ppt to 18.2%/74.2% respectively, as we factor in an improving product mix for both businesses.
- For 2025/26, we adjusted our assumptions for internet services without much meaningful adjustments to the net profit for respective years.
- Our 2024 net profit estimate is raised by 6.3% to Rmb16.4b.

VALUATION/RECOMMENDATION

• **Maintain BUY and raise target price to HK\$23.80**, due to a higher net profit assumption. We utilise SOTP to factor in its EV business' valuation with the following components: a) HK\$23.10 for the core business, which is based on 20.0x 2024F PE, largely on a par with five-year historical forward mean; and b) HK\$0.70 for the EV business which is based on 10-year DCF valuation based on a WACC of 16%. The valuation for the EV business also implies 0.7x 2024F P/S.

OLD KEY ESTIMATES

(Rmbm)	Old		
	2024	2025	2026
Turnover	309,745	350,118	386,510
Smartphones	171,010	185,379	198,271
IoT and Lifestyle products	89,530	95,797	105,377
Internet services	33,407	35,564	39,304
EV	12,505	30,085	40,264
Margins (%)			
Smartphones	13.8	13.5	13.0
IoT and Lifestyle products	16.5	16.7	16.8
Internet services	74.0	74.0	74.0
EV	(15.0)	(5.0)	10.0

Source: Xiaomi, UOB Kay Hian

NEW KEY ESTIMATES

(Rmbm)	New		
	2024	2025	2026
Turnover	328,802	363,618	400,372
Smartphones	178,996	190,439	203,594
IoT and Lifestyle products	89,530	95,797	105,377
Internet services	33,517	35,798	39,564
EV	23,466	38,290	48,544
Margins (%)			
Smartphones	13.8	13.5	13.0
IoT and Lifestyle products	18.2	16.7	16.8
Internet services	74.2	74.0	74.0
EV	5.0	7.5	10.0

Source: Xiaomi, UOB Kay Hian

% CHANGES OLD VS NEW

(Rmbm)	Change (%)		
	2024	2025	2026
Turnover	6.2	3.9	3.6
Smartphones	4.7	2.7	2.7
IoT and Lifestyle products	0.0	0.0	0.0
Internet services	0.3	0.7	0.7
EV	87.7	27.3	20.6
Margins (%)			
Smartphones	0.0	0.0	0.0
IoT and Lifestyle products	1.7	0.0	0.0
Internet services	0.2	0.0	0.0
EV	20.0	12.5	0.0

Source: Xiaomi, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	270,970	328,802	363,618	400,372
EBITDA	18,622	22,295	24,556	29,604
Deprec. & amort.	(3,857)	(4,126)	(4,410)	(3,264)
EBIT	14,765	18,169	20,145	26,340
Total other non-operating income	5,243	-	-	-
Associate contributions	46	-	-	-
Net interest income/(expense)	2,002	3,393	3,008	2,430
Pre-tax profit	22,011	21,562	23,153	28,770
Tax	(4,537)	(5,175)	(5,557)	(6,905)
Minorities	1	1	1	1
Net profit	17,475	16,388	17,597	21,866
Net profit (adj.)	19,273	16,388	17,597	21,866

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	41,300	28,502	10,187	33,164
Pre-tax profit	22,011	21,562	23,153	28,770
Tax	(4,537)	(5,175)	(5,557)	(6,905)
Deprec. & amort.	3,857	4,126	4,410	3,264
Associates	(46)	-	-	-
Working capital changes	18,395	11,382	(8,812)	10,465
Non-cash items	1,620	(3,393)	(3,008)	(2,430)
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)	3,393	3,008	2,430
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)	3,393	3,008	2,430
Net cash inflow (outflow)	5,626	23,895	6,695	29,094
Beginning cash & cash equivalent	27,607	33,631	57,526	64,221
Changes due to forex impact	398	-	-	-
Ending cash & cash equivalent	33,631	57,526	64,221	93,315

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	57,526	64,221	93,315
Other current assets	165,421	165,075	184,780	184,450
Total assets	324,247	351,670	380,159	412,160
ST debt	6,183	6,183	6,183	6,183
Other current liabilities	109,404	120,440	131,333	141,469
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	180,383	197,981	219,847
Minority interest	266	265	264	263
Total liabilities & equity	324,247	351,670	380,159	412,160

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
Gross margin	21.2	20.4	19.5	19.6
Pre-tax margin	7.5	6.6	6.4	7.2
Net margin	6.4	5.0	4.8	5.5
ROA	6.4	4.8	4.8	5.5
ROE	12.5	9.5	9.3	10.5
Growth				
Turnover	(3.2)	21.3	10.6	10.1
EBITDA	20.8	16.6	6.0	10.2
Pre-tax profit	459.5	(2.0)	7.4	24.3
Net profit	606.3	(6.2)	7.4	24.3
Net profit (adj.)	126.3	(15.0)	7.4	24.3
EPS	125.7	(15.0)	7.4	24.3
Leverage				
Debt to total capital	8.6	7.9	7.3	0.0
Debt to equity	17.0	15.4	14.1	12.7
Net debt/(cash) to equity	(35.7)	(45.7)	(18.4)	(29.8)
Interest cover (x)	(7.4)	(5.4)	(6.7)	(10.8)

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