

COMPANY UPDATE

Xiaomi Corp (1810 HK)

1Q24 Results Preview: Expect Another Beat Driven by AIoT Business

Xiaomi will report its 1Q24 earnings in late-May. We are expecting another set of strong results, with adjusted net profit set to grow 70% yoy and 12% qoq to Rmb5.5b. This will be primarily driven by a solid recovery in smartphone shipments, robust sales and margins at the AIoT business, as well as solid control on its operating expenses. Maintain BUY. Raise target price to HK\$22.80.

WHAT'S NEW

- 1Q24 results preview.** We expect Xiaomi Corp's (Xiaomi) revenue to grow 24.2% yoy to Rmb73.9b, driven by a robust recovery in smartphone shipments, strong IoT product sales (air-conditioners, Mi Pads). Margins are likely to reach 21.6%, primarily thanks to an improved product mix from the IoT business. Opex should have expanded yoy due to expenses incurred for the NEV business, but we now estimate opex for its core business to be better controlled than our previous expectations. Hence, we now expect Xiaomi to report an adjusted net profit of Rmb5.5b, which is well above market consensus estimates of Rmb4.4b.

STOCK IMPACT

- Smartphone segment should not have much surprise.** According to IDC, Xiaomi's smartphone shipments grew 33.8% yoy to 40.8m units in 1Q24. ASP should have remained stable, as the solid share gains in the premium segment in China and Europe should have been largely offset by the strong sales growth of lower-end phones in the emerging markets. As a result, we are now expecting its revenue to grow by 32.6% yoy to Rmb46.3b in 1Q24. Margins should reach 14.5%, recovering 3.3ppt yoy but declining by 1.9ppt qoq, as the mounting component costs are starting to impact the business' profitability.
- AIoT is benefitting from sales of home appliances and Mi Pads.** Xiaomi's Mi Pads and home appliances saw strong growth during the quarter, driven by: a) its product cycle (for Mi Pads), b) the recovery in end-demand for home appliances (most notably air-conditioners), and c) Xiaomi's sustained improvements in its offline channel management. As these products boast a higher margin, this should help with the company's profitability as well. We are now expecting the business' revenue to grow 18.8% yoy to Rmb20b, and margins to reach a near-term high of 18% for 1Q24.

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	21,278	24,435	29,471
Operating profit	6,247	14,765	17,152	20,025	26,207
Net profit (rep./act.)	2,474	17,475	15,419	17,451	21,725
Net profit (adj.)	8,518	19,273	15,419	17,451	21,725
EPS (Fen)	34.3	77.4	62.0	70.1	87.3
PE (x)	51.4	22.8	28.5	25.1	20.2
P/B (x)	3.4	3.2	3.0	2.7	2.4
EV/EBITDA (x)	43.8	23.4	20.5	17.8	14.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	0.9	6.4	4.7	4.8	5.4
Net debt/(cash) to equity (%)	(23.6)	(35.7)	(45.6)	(17.7)	(29.5)
Interest cover (x)	(5.6)	(7.4)	(5.5)	(6.8)	(11.0)
ROE (%)	6.1	12.5	9.0	9.3	10.5
Consensus net profit	-	-	15,254	17,049	21,507
UOBKH/Consensus (x)	-	-	1.01	1.02	1.01

Source: Xiaomi, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$19.40
Target Price	HK\$22.80
Upside	17.7%
(Previous TP:	HK\$21.00)

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):	483,999
Market cap (US\$m):	71,176
3-mth avg daily t'over (US\$m):	232.7

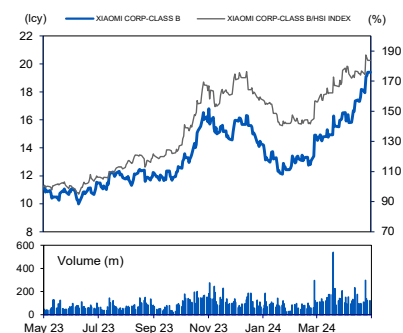
Price Performance (%)

52-week high/low	HK\$19.70 / HK\$9.86			
1mth	3mth	6mth	1yr	YTD
21.3	55.9	20.9	71.7	24.4

Major Shareholders

	%
Smart Mobile Holdings Ltd	8.89
Lin Bin	8.79
FY24 NAV/Share (RMB)	7.93
FY24 Net Cash/Share (RMB)	3.62

PRICE CHART



Source: Bloomberg

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- **Internet services likely remained stable in 1Q24.** The recovery in advertising spending in China, and expanding monetisation in overseas market should have supported the segment's growth during the quarter. We are expecting revenue to reach Rmb7.5b in 1Q24, and margins to remain stable at 75%.
- **Locked orders for SU7 increase in May, a promising sign.** We note that locked orders for the SU7 have continued to increase in May, despite a lower purchase incentive ie Xiaomi provided Rmb16,000-22,000 in free upgrades for locked orders placed in April, vs Rmb8,000 in May.

EARNING REVISION/RISK

- **Our 2024-26 net profit assumptions are raised by 14.3%/3.3%/3.0% respectively**, as we: a) factor in a much better 1Q24 earnings estimates, and b) expect Xiaomi to have a better control on operating expenses for its core business.

VALUATION/RECOMMENDATION

- **Maintain BUY and raise target price to HK\$22.80**, based on: a) HK\$22.10 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.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	270,970	328,713	363,423	400,160
EBITDA	18,622	21,278	24,435	29,471
Deprec. & amort.	(3,857)	(4,126)	(4,410)	(3,264)
EBIT	14,765	17,152	20,025	26,207
Total other non-operating income	5,243	-	-	-
Associate contributions	46	-	-	-
Net interest income/(expense)	2,002	3,134	2,936	2,378
Pre-tax profit	22,011	20,286	22,960	28,584
Tax	(4,537)	(4,868)	(5,510)	(6,860)
Minorities	1	1	1	1
Net profit	17,475	15,419	17,451	21,725
Net profit (adj.)	19,273	15,419	17,451	21,725

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	41,300	28,147	9,429	33,761
Pre-tax profit	22,011	20,286	22,960	28,584
Tax	(4,537)	(4,868)	(5,510)	(6,860)
Deprec. & amort.	3,857	4,126	4,410	3,264
Associates	(46)	-	-	-
Working capital changes	18,395	11,738	(9,495)	11,151
Non-cash items	1,620	(3,134)	(2,936)	(2,378)
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)	3,134	2,936	2,378
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)	3,134	2,936	2,378
Net cash inflow (outflow)	5,626	23,282	5,865	29,639
Beginning cash & cash equivalent	27,607	33,631	56,913	62,778
Changes due to forex impact	398	-	-	-
Ending cash & cash equivalent	33,631	56,913	62,778	92,417

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	56,913	62,778	92,417
Other current assets	165,421	165,388	184,402	184,758
Total assets	324,247	351,370	378,338	411,569
ST debt	6,183	6,183	6,183	6,183
Other current liabilities	109,404	121,109	130,628	142,134
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	179,414	196,865	218,590
Minority interest	266	265	264	263
Total liabilities & equity	324,247	351,370	378,338	411,569

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
Gross margin	21.2	20.1	19.5	19.5
Pre-tax margin	7.5	6.2	6.3	7.1
Net margin	6.4	4.7	4.8	5.4
ROA	6.4	4.6	4.8	5.5
ROE	12.5	9.0	9.3	10.5
Growth				
Turnover	(3.2)	21.3	10.6	10.1
EBITDA	20.8	14.8	7.4	10.2
Pre-tax profit	459.5	(7.8)	13.2	24.5
Net profit	606.3	(11.8)	13.2	24.5
Net profit (adj.)	126.3	(20.0)	13.2	24.5
EPS	125.7	(20.0)	13.2	24.5
Leverage				
Debt to total capital	8.6	7.9	7.4	0.0
Debt to equity	17.0	15.5	14.2	12.7
Net debt/(cash) to equity	(35.7)	(45.6)	(17.7)	(29.5)
Interest cover (x)	(7.4)	(5.5)	(6.8)	(11.0)

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