

### COMPANY UPDATE

## Xiaomi Corp (1810 HK)

3Q22 Results Preview: Still Deteriorating yoy But Stabilising Sequentially

**Xiaomi will report its 3Q22 earnings on 23 Nov 22. We expect the company's revenue to grow 10% yoy but remain flat qoq, and adjusted net profit to decline both 62% yoy and 6% qoq. While the sharp yoy decline is well-expected, the sequential decline should have stabilised, while inventory level has been improving since end-2Q22. Maintain BUY but trim target price to HK\$11.30.**

### WHAT'S NEW

- **3Q22: Earnings decline should have stabilised.** We expect 3Q22 revenue to decline 9.9% yoy and remain largely flat qoq at Rmb70.3b, blended gross margins to fall 1.3ppt yoy but recover 0.2ppt qoq, and adjusted net profit to decline 62.2% yoy and 5.9% qoq to Rmb1,958m.

### 3Q22 RESULTS ESTIMATES

| Year to 31 Dec           | 3Q21   | 2Q22   | 3Q22F  | yoy%   | qoq %  |
|--------------------------|--------|--------|--------|--------|--------|
| Revenue                  | 78,063 | 70,171 | 70,226 | (10.0) | 0.1    |
| Smartphones              | 47,825 | 42,268 | 42,930 | (10.2) | 1.6    |
| IoT & Lifestyle products | 20,936 | 19,812 | 19,261 | (8.0)  | (2.8)  |
| Internet services        | 7,338  | 6,971  | 7,035  | (4.1)  | 0.9    |
| Other                    | 1,965  | 1,120  | 1,000  | (49.1) | (10.7) |
| Gross Profit             | 14,292 | 11,768 | 11,950 | (16.4) | 1.5    |
| Adjusted Net Profit      | 5,176  | 2,081  | 1,958  | (62.2) | (5.9)  |
| GPM (%)                  | 18.3   | 16.8   | 17.0   | (1.3)  | 0.2    |
| Smartphones              | 12.8   | 8.7    | 9.1    | (3.7)  | 0.4    |
| IoT & Lifestyle products | 11.6   | 14.3   | 14.5   | 2.9    | 0.2    |
| Internet services        | 73.6   | 73.0   | 72.5   | (1.1)  | (0.5)  |

Source: Xiaomi, UOB Kay Hian

- **Smartphone shipment remained sluggish as expected.** As reported by IDC, Xiaomi Corp's (Xiaomi) smartphone shipment in 3Q22 declined 8.6% yoy but grew 2.5% qoq to 40.5m units, which is below our estimate of 43m units, although not entirely unexpected given the ongoing destocking across the smartphone value chain and poor end-demand in China and Europe, the two largest markets for Xiaomi. We expect ASP to marginally decline by 2% on higher mix from low-end smartphone sales in India and LATAM, while its margins should recover slightly on less promotion events. As such, we estimate the segment's revenue to decline 10.2% yoy but remain stable qoq at 1.6% growth to Rmb43b, while margins should decline 3.7ppt yoy but recover 0.4ppt qoq to 9.1%.

- **We see a parallel in the IoT & lifestyle segment.** We are expecting an 8% yoy decline in the segment's revenue to Rmb19b in 3Q22, on the back of sluggish demand for wearables and home appliances in domestic and foreign markets, as well as the ASP declines in key IoT products such as TVs. On the bright side, we are expecting gross margins to remain stable at 14.5% (vs 14.3% in 2Q22), thanks to moderating component costs and less promotional events.

### KEY FINANCIALS

| Year to 31 Dec (Rmbm)         | 2020    | 2021    | 2022F   | 2023F   | 2024F   |
|-------------------------------|---------|---------|---------|---------|---------|
| Net turnover                  | 245,866 | 328,309 | 289,835 | 310,824 | 361,171 |
| EBITDA                        | 11,561  | 23,263  | 14,181  | 19,137  | 23,173  |
| Operating profit              | 9,853   | 20,201  | 11,222  | 15,943  | 20,837  |
| Net profit (rep./act.)        | 20,356  | 19,339  | 4,079   | 11,557  | 15,906  |
| Net profit (adj.)             | 13,006  | 22,040  | 8,820   | 11,557  | 15,906  |
| EPS (Fen)                     | 54.2    | 88.4    | 35.4    | 46.4    | 63.8    |
| PE (x)                        | 15.6    | 9.6     | 25.0    | 18.3    | 13.3    |
| P/B (x)                       | 1.9     | 2.5     | 1.7     | 1.5     | 1.5     |
| EV/EBITDA (x)                 | 11.7    | 5.8     | 9.5     | 7.1     | 5.8     |
| Dividend yield (%)            | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Net margin (%)                | 8.3     | 5.9     | 1.4     | 3.7     | 4.4     |
| Net debt/(cash) to equity (%) | (44.3)  | (20.6)  | (19.0)  | (21.8)  | (25.7)  |
| Interest cover (x)            | 4.1     | 12.5    | 5.8     | 7.7     | 12.1    |
| ROE (%)                       | 12.7    | 16.9    | 6.3     | 7.9     | 9.9     |
| Consensus net profit          | -       | -       | 13,241  | 17,852  | 21,189  |
| UOBKH/Consensus (x)           | -       | -       | 0.67    | 0.65    | 0.75    |

Source: Xiaomi, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

|               |            |
|---------------|------------|
| Share Price   | HK\$10.16  |
| Target Price  | HK\$11.30  |
| Upside        | +11.2%     |
| (Previous TP) | HK\$12.30) |

### 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):              | 20,296                   |
| Market cap (HK\$m):             | 206,207                  |
| Market cap (US\$m):             | 30,325                   |
| 3-mth avg daily t'over (US\$m): | 157.8                    |

### Price Performance (%)

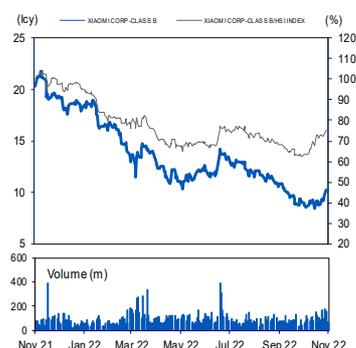
|                  |                    |             |            |            |
|------------------|--------------------|-------------|------------|------------|
| 52-week high/low | HK\$22.00/HK\$8.30 |             |            |            |
| <b>1mth</b>      | <b>3mth</b>        | <b>6mth</b> | <b>1yr</b> | <b>YTD</b> |
| 11.9             | (13.8)             | (8.5)       | (50.1)     | (46.2)     |

### Major Shareholders

|         |       |
|---------|-------|
| Lei Jun | 9.31% |
| Lin Bin | 9.22% |

|                           |      |
|---------------------------|------|
| FY22 NAV/Share (RMB)      | 6.69 |
| FY22 Net Debt/Share (RMB) | 1.27 |

### PRICE CHART



Source: Bloomberg

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• **Internet services business to face pressure from low advertising spending in China.**

We are expecting the segment's China business to register a 10.7% yoy and 0.9% qoq decline to Rmb5.3b, primarily due to the deteriorating advertising spending by domestic corporates amid the ongoing COVID-19 situation. This will be partially offset by a resilient 18.5% yoy and 6.7% qoq growth in the overseas business on the back of MAU expansion (+8% qoq to 440m). Overall, we expect the internet service segment's revenue to decline 4.1% yoy to Rmb7.0b, and its margins to decline slightly by 0.5ppt to 72.5% due to deterioration in the high-margin advertising business.

### STOCK IMPACT

• **Despite sluggish sales growth, market dynamics for Android smartphone supply chain should become more favourable through 4Q22-1Q23**, as according to our understanding, the destocking through the Android value chain (including Xiaomi) has been going smoothly in 3Q22, and the inventory levels for the Chinese brands are now at a healthier level. With the positive reception in the 11.11 sales so far (on the back of pent-up demand and sharper discounts on older models), we are now in line with the market's view that the destocking period can end by 1Q23. As such, we now believe 4Q22 will be the trough level for the Android value chain in the current downcycle.

• **However, we see no significant recovery in end-demand in 1H23**, given the ongoing global recession. As such, we trim our shipment forecast for Xiaomi by 3.1%/4.7%/3.2% to 162m/174m/199m units for 2022-24F respectively. We trim down our gross margin assumptions for smartphones by 0.7ppt/0.5ppt to 9.3%/9.5% in 2022-23 as we expect Xiaomi to provide more discounts/less aggressive pricing during the economic downturn. We also trimmed down internet services margins by 0.7ppt to 72.3% in 2022F, given the lower mix in advertising revenue.

### EARNING REVISION/RISK

• **We trimmed our 2022-24 adjust earnings estimates by 4.1%/9.7%/10.7% to Rmb8,820m/Rmb11,557m/Rmb15,906m respectively** as we cut our shipment and margins assumption for 2022-24 to reflect our cautious view on the end-demand of smartphones in the coming three years amid a softer economic outlook.

• **Risks:** a) Worse-than-expected share loss in the domestic market, b) intensifying competition in Europe and Latin America, c) sustained lockdowns in China, and d) further geopolitical risks in India.

### VALUATION/RECOMMENDATION

• **Maintain BUY, and cut target price to HK\$11.30**, as we factor in lower earnings estimates. Our target price is now based on 21.0x 2023F PE, still pegged to 0.5SD below mean. We believe the market is aware of the risks on Xiaomi, and expectations have already reached the lowest point with a visible trough in 4Q22-1Q23. As such, we are now turning more positive on the company.

### CHANGES TO KEY ASSUMPTIONS

| (Rmbm)                        | ----- OLD ----- |         |         | ----- New ----- |         |         | ----- Change (%) ----- |       |        |
|-------------------------------|-----------------|---------|---------|-----------------|---------|---------|------------------------|-------|--------|
|                               | 2022F           | 2023F   | 2024F   | 2022F           | 2023F   | 2024F   | 2022F                  | 2023F | 2024F  |
| Revenue                       | 305,290         | 336,011 | 390,898 | 289,835         | 310,824 | 361,171 | (5.1)                  | (7.5) | (7.6)  |
| Smartphone                    | 185,075         | 212,691 | 250,910 | 176,762         | 194,024 | 232,413 | (4.5)                  | (8.8) | (7.4)  |
| IoT and Lifestyle products    | 84,980          | 84,980  | 97,727  | 80,731          | 80,731  | 88,804  | (5.0)                  | (5.0) | (9.1)  |
| Internet services             | 28,987          | 32,092  | 36,012  | 28,342          | 32,069  | 35,953  | (2.2)                  | (0.1) | (0.2)  |
| Smartphone shipment (m units) | 167             | 183     | 205     | 162             | 174     | 199     | (3.1)                  | (4.7) | (3.2)  |
| Smartphone ASP (Rmb)          | 1,109           | 1,164   | 1,222   | 1,092           | 1,114   | 1,170   | (1.5)                  | (4.3) | (4.3)  |
| Gross Profit                  | 52,677          | 58,556  | 67,215  | 49,480          | 54,796  | 63,692  | (6.1)                  | (6.4) | (5.2)  |
| Reported NP                   | 9,197           | 12,802  | 17,814  | 8,820           | 11,557  | 15,906  | (4.1)                  | (9.7) | (10.7) |
| GPM (%)                       | 17.3            | 17.4    | 17.2    | 17.1            | 17.6    | 17.6    | (0.2)                  | 0.2   | 0.4    |
| Smartphones                   | 10.0            | 10.0    | 10.0    | 9.3             | 9.5     | 10.0    | (0.7)                  | (0.5) | -      |
| IoT and Lifestyle products    | 14.5            | 15.5    | 15.5    | 15.0            | 15.5    | 15.5    | 0.5                    | -     | -      |
| Internet Services             | 73.0            | 73.0    | 73.0    | 72.3            | 73.0    | 73.0    | (0.7)                  | -     | -      |

Source: Xiaomi, UOB Kay Hian

### PROFIT & LOSS

| Year to 31 Dec (Rmbm)            | 2021           | 2022F          | 2023F          | 2024F          |
|----------------------------------|----------------|----------------|----------------|----------------|
| <b>Net turnover</b>              | <b>328,309</b> | <b>289,835</b> | <b>310,824</b> | <b>361,171</b> |
| EBITDA                           | 23,263         | 14,181         | 19,137         | 23,173         |
| Deprec. & amort.                 | (3,062)        | (2,959)        | (3,194)        | (2,336)        |
| <b>EBIT</b>                      | <b>20,201</b>  | <b>11,222</b>  | <b>15,943</b>  | <b>20,837</b>  |
| Total other non-operating income | 5,828          | (4,201)        | -              | -              |
| Associate contributions          | 275            | (139)          | -              | -              |
| Net interest income/(expense)    | (1,612)        | (1,937)        | (2,060)        | (1,728)        |
| <b>Pre-tax profit</b>            | <b>24,417</b>  | <b>5,083</b>   | <b>13,883</b>  | <b>19,109</b>  |
| Tax                              | (5,134)        | (1,017)        | (2,360)        | (3,248)        |
| Minorities                       | 56             | 12             | 34             | 46             |
| <b>Net profit</b>                | <b>19,339</b>  | <b>4,079</b>   | <b>11,557</b>  | <b>15,906</b>  |
| Net profit (adj.)                | 22,040         | 8,820          | 11,557         | 15,906         |

### CASH FLOW

| Year to 31 Dec (Rmbm)                    | 2021            | 2022F          | 2023F          | 2024F          |
|--|-----------------|----------------|----------------|----------------|
| <b>Operating</b>                         | <b>9,785</b>    | <b>8,485</b>   | <b>16,600</b>  | <b>19,757</b>  |
| Pre-tax profit                           | 24,417          | 5,083          | 13,883         | 19,109         |
| Tax                                      | (2,442)         | (1,017)        | (2,360)        | (3,248)        |
| Deprec. & amort.                         | 3,062           | 2,959          | 3,194          | 2,336          |
| Associates                               | (275)           | 139            | -              | -              |
| Working capital changes                  | (9,363)         | (478)          | (176)          | (168)          |
| Non-cash items                           | (5,613)         | 1,799          | 2,060          | 1,728          |
| Other operating cashflows                | -               | -              | -              | -              |
| <b>Investing</b>                         | <b>(45,008)</b> | <b>(8,000)</b> | <b>(8,000)</b> | <b>(8,000)</b> |
| Capex (growth)                           | (7,169)         | (8,000)        | (8,000)        | (8,000)        |
| Investments                              | (209,603)       | -              | -              | -              |
| Proceeds from sale of assets             | 170,237         | -              | -              | -              |
| Others                                   | 1,527           | -              | -              | -              |
| <b>Financing</b>                         | <b>4,499</b>    | <b>5,534</b>   | <b>(2,060)</b> | <b>(1,728)</b> |
| Dividend payments                        | -               | -              | -              | -              |
| Issue of shares                          | 83              | -              | -              | -              |
| Proceeds from borrowings                 | 22,529          | 30,000         | 30,000         | 30,000         |
| Loan repayment                           | (13,301)        | (22,529)       | (30,000)       | (30,000)       |
| Others/interest paid                     | (4,812)         | (1,937)        | (2,060)        | (1,728)        |
| <b>Net cash inflow (outflow)</b>         | <b>(30,724)</b> | <b>6,019</b>   | <b>6,540</b>   | <b>10,028</b>  |
| Beginning cash & cash equivalent         | 54,752          | 23,512         | 29,531         | 36,072         |
| Changes due to forex impact              | (517)           | -              | -              | -              |
| <b>Ending cash &amp; cash equivalent</b> | <b>23,512</b>   | <b>29,531</b>  | <b>36,072</b>  | <b>46,100</b>  |

### BALANCE SHEET

| Year to 31 Dec (Rmbm)                 | 2021           | 2022F          | 2023F          | 2024F          |
|---------------------------------------|----------------|----------------|----------------|----------------|
| <b>Fixed assets</b>                   | <b>6,965</b>   | <b>13,030</b>  | <b>18,900</b>  | <b>25,697</b>  |
| Other LT assets                       | 100,076        | 99,051         | 97,988         | 96,855         |
| Cash/ST investment                    | 23,512         | 29,531         | 36,072         | 46,100         |
| Other current assets                  | 162,340        | 133,759        | 173,472        | 161,813        |
| <b>Total assets</b>                   | <b>292,892</b> | <b>275,371</b> | <b>326,431</b> | <b>330,464</b> |
| ST debt                               | 5,527          | 12,998         | 12,998         | 12,998         |
| Other current liabilities             | 110,200        | 81,141         | 120,678        | 108,851        |
| LT debt                               | 20,720         | 20,720         | 20,720         | 20,720         |
| Other LT liabilities                  | 19,012         | 19,012         | 19,012         | 19,012         |
| Shareholders' equity                  | 137,213        | 141,291        | 152,848        | 168,755        |
| Minority interest                     | 220            | 208            | 174            | 128            |
| <b>Total liabilities &amp; equity</b> | <b>292,892</b> | <b>275,371</b> | <b>326,431</b> | <b>330,464</b> |

### KEY METRICS

| Year to 31 Dec (%)        | 2021   | 2022F  | 2023F  | 2024F  |
|---------------------------|--------|--------|--------|--------|
| <b>Profitability</b>      |        |        |        |        |
| Gross margin              | 17.7   | 17.1   | 17.6   | 17.6   |
| Pre-tax margin            | 8.2    | 2.1    | 4.5    | 5.3    |
| Net margin                | 5.9    | 1.4    | 3.7    | 4.4    |
| ROA                       | 8.1    | 3.1    | 3.8    | 4.8    |
| ROE                       | 16.9   | 6.3    | 7.9    | 9.9    |
| <b>Growth</b>             |        |        |        |        |
| Turnover                  | 33.5   | (11.7) | 7.2    | 16.2   |
| EBITDA                    | 58.5   | (15.1) | 10.7   | 16.2   |
| Pre-tax profit            | 12.9   | (79.2) | 173.1  | 37.6   |
| Net profit                | (5.0)  | (78.9) | 183.4  | 37.6   |
| Net profit (adj.)         | 69.5   | (60.0) | 31.0   | 37.6   |
| EPS                       | (8.6)  | (78.9) | 183.4  | 37.6   |
| <b>Leverage</b>           |        |        |        |        |
| Debt to total capital     | 9.0    | 12.2   | 10.3   | 0.0    |
| Debt to equity            | 19.1   | 23.9   | 22.1   | 20.0   |
| Net debt/(cash) to equity | (20.6) | (19.0) | (21.8) | (25.7) |
| Interest cover (x)        | 12.5   | 5.8    | 7.7    | 12.1   |

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