

Xiaomi Corporation (1810 HK)

Smartphone shipment slows ; maintain HOLD

- Xiaomi has shown slower growth in smartphone shipment. 2Q19 smartphone shipment was 32.3 mn, down 0.2% YoY
- Due to fierce market competition and weak demand, we project Xiaomi's smartphone shipment volume to grow -1.5%/ 5.5%/ 6.0% in 2019-21E, respectively
- We forecast overall revenue growth in FY19E to be 18.3%, down from 52.6% in FY18. On-year revenue growth slowed in 2Q19 due to reduced impetus in core businesses (smartphone, IoT & lifestyle services and internet services)
- We maintain **HOLD** on limited upside potential with TP at HK\$ 8.80, which implies 13.9x/11.5x FY19E/20E P/E

Slower smartphone shipment growth. According to IDC, Xiaomi's 2Q19 smartphone shipment was 32.3 mn, down 0.2% yoy, marking the second consecutive quarter of shipment decline. Xiaomi's smartphone shipment was affected by longer replacement cycle, limited innovative features in new models, and fierce market competition. We project the Group's smartphone shipment to grow -1.5%/ 5.5%/ 6.0% in FY19-21E, respectively. Driven by the launch of high-end smartphones and 5G models, we expect its smartphone ASP to grow 7.5%/ 6.0%/ 4.5% in FY19-21E, respectively.

Revenue growth affected by weaker smartphone shipment. The Group's overall revenue growth in 2Q19 was 20.2%, lower than 27.2% in 1Q19. The slower revenue growth in 2Q19 was due to the weakening momentum in smartphone, internet services and IoT & lifestyle products revenue. We forecast overall revenue growth in FY19E to be 18.3%, down from 52.6% in FY18.

Limited contributions from 5G smartphone. Although the 5G telecom network has been launched in China and some overseas countries, we expect contribution from the 5G smartphones will be limited in FY20E because of slower domestic growth weighing on demand for high-end durable goods.

Recommend HOLD. Due to potential return with -3.0%, we maintain **HOLD** on Xiaomi with the TP of HK\$8.80, implying 13.9x/11.5x FY19E/20E P/E.

Results and Valuation

FY ended Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	114,625	174,915	206,987	253,859	299,264
Chg (% YoY)	67.5	52.6	18.3	22.6	17.9
Shareholders' profit (RMB mn)	(43,826)	13,554	9,880	11,970	14,269
Chg (% YoY)	(8,021.6)	(130.9)	(27.1)	21.2	19.2
EPS (RMB)	(4.49)	0.84	0.57	0.69	0.82
Chg (% YoY)	(8,021.6)	(130.9)	(27.1)	21.2	19.2
BPS (RMB)	(13.04)	4.44	4.69	5.38	6.20
Chg (% YoY)	0.4	(1.3)	0.1	0.1	0.2
P/E (x)	(1.7)	9.4	14.3	11.8	9.9
P/B (x)	(0.6)	1.8	1.7	1.5	1.3
ROE (%)	34.4	19.0	12.2	12.8	13.3
ROA (%)	(48.8)	9.3	6.2	6.8	7.3

Source(s): Bloomberg, ABCI Securities estimates

*Exchange rate assumption for FY19E-21E: HKD 1 = RMB 0.900

Company Report

Sept 17, 2019

Rating: Hold
TP: HK\$8.80

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Share price (HK\$)	9.07
Est. share price return	-3.0%
Est. dividend yield	0.0%
Est. total return	-3.0%
Previous Rating & TP	HOLD/HK\$11.5
Previous Report Date	May 7, 2019

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	16.7/8.2
Issued shares (mn)	23,970.5
Class B (listed)	17,321.1
Class A (unlisted)	6,660.2
Class B Market cap (HK\$ mn)	157,102.4
Avg daily turnover (HK\$ mn)	834.8
Major shareholder(s) of class B shares:	
Lou Titing	16.8%
Shi Jianming	16.8%
Liu Qin	16.2%

Source(s): Company, ABCI Securities

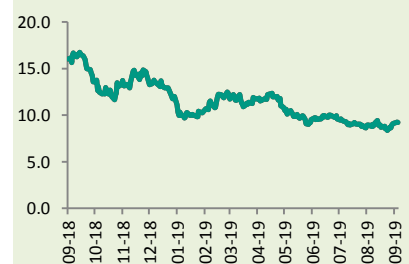
Share Performance (%)

	Absolute	Relative*
1-mth	4.4	(2.3)
3-mth	(3.6)	(3.2)
6-mth	(20.9)	(15.5)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

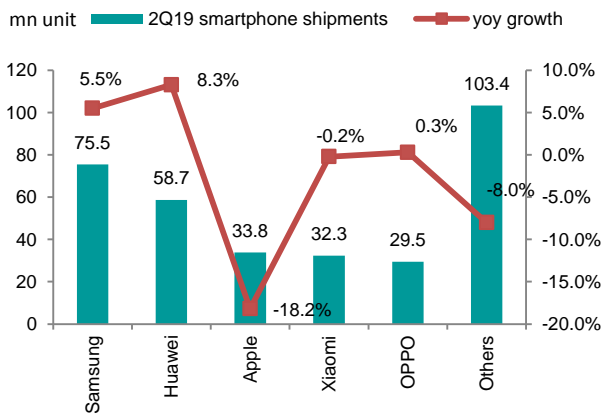
Share performance (HK\$)



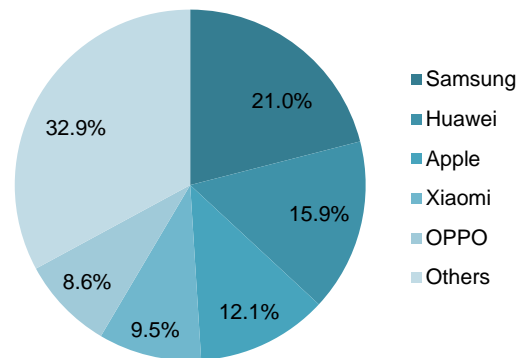
Source(s): Bloomberg, ABCI Securities

According to IDC, Xiaomi's 2Q19 smartphone shipment was 32.3 mn, down 0.2% YoY, marking the second consecutive quarter of YoY decline. The Group's smartphone shipment was affected by saturating market, longer replacement cycle, and little innovations. Xiaomi's smartphone shipment was much weaker than other major Chinese brands (e.g. Huawei, OPPO), which in our view signals weaknesses in marketing, brand building, and pricing strategy.

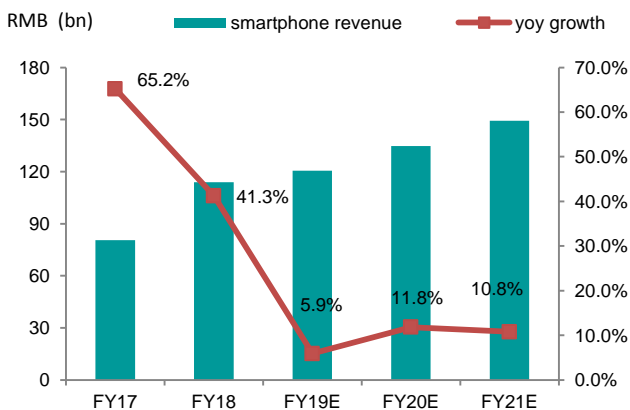
Due to the launch of mid/high-end smartphones, Xiaomi's smartphone ASP improved by 4.6% YoY or 3.0% QoQ to RMB 997 in 2Q19 (1Q19 ASP: +18.4%). Xiaomi has launched 5G smartphones in Europe and China in 2H19, but we expect its contribution will be limited due to slower growth in domestic economy, which will inevitably weigh on demand for high-end durable goods. We forecast the Group's smartphone ASP to rise by 7.5%/ 6.0%/ 4.5% in 2019E-21E, respectively. Affected by fierce market competition and slowing economy, we project its smartphone shipment (by unit) to grow -1.5%/ 5.5%/ 6.0% in 2019-21E, respectively.

Exhibit 1: Global smartphone shipment in 2Q19


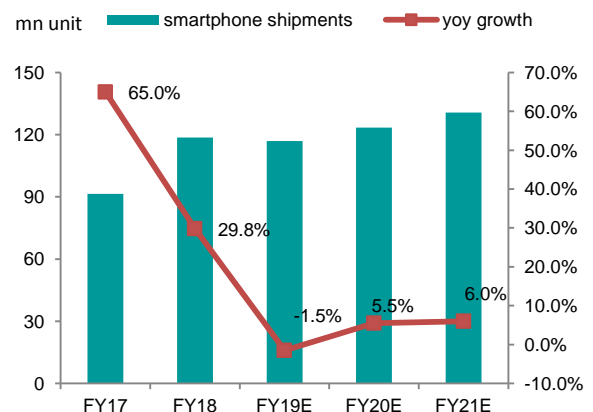
Source(s): IDC.

Exhibit 2: Global smartphone market share in 2Q19 (by shipment unit)


Source(s): IDC.

Exhibit 3: Smartphone revenue and YoY growth


Source(s): The Group, ABCI Securities estimates

Exhibit 4: Smartphone shipment and YoY growth


Source(s): The Group, ABCI Securities estimates



Exhibit 5: Xiaomi's quarterly smartphone shipment with YoY growth

Mn unit	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Smartphone shipments	28.0	32.3	34.3	28.6	25.0	32.3
YoY growth	87.8%	-0.2%	21.2%	1.4%	-10.2%	-0.2%

Source(s): IDC

The Group's overall revenue in 2Q19 grew 20.2%, compared to 27.2% in 1Q19; the slower revenue growth in 2Q19 was due to the reduced impetus in revenue from smartphone, internet services and IoT and lifestyle products. While smartphone ASP improves, Xiaomi's overall smartphone revenue was affected by decrease in smartphone shipment. We forecast its smartphone revenue to grow 5.9%/11.8%/10.8% in FY19E-21E, respectively. Internet service revenue growth (15.7% in 2Q19, 31.8% in 1Q19) was affected by weaker Internet MAU whose growth decreased from 37.3% YoY in 1Q19 to 34.7% YoY in 2Q19. Due to weaker smartphone shipment, we expect internet services revenue to increase by 18.0% in FY19E, much lower than the 61.2% growth in FY18

Exhibit 6: Revenue growth comparison table for 1Q19 and 2Q19

Revenue Growth (YoY)	1Q19	2Q19
Smartphone	16.2%	5.0%
IoT and lifestyle products	56.5%	44.0%
Internet services	31.8%	15.7%
Overall revenue	27.2%	20.2%

Source(s): The Group

IoT& lifestyle products revenue grew 44% YoY in 2Q19, down from 56.5% YoY in 1Q19. Xiaomi has introduced a number of new products and smart TVs. Affected by the economic headwinds, trade tension, market competition and limited customer loyalty, we project growth in its IoT& lifestyle products revenue to slide further to 50.0%/ 42.0%/ 29.0% in 2019-21E, respectively.

Exhibit 7: Changes in our financial estimates

(RMB mn)	OLD			NEW			CHANGE		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	213,389	264,989	315,347	206,987	253,859	299,264	-3.0%	-4.2%	-5.1%
Operating profit	11,833	14,672	17,796	11,419	13,982	16,764	-3.5%	-4.7%	-5.8%
Net Profit	10,260	12,574	15,180	9,880	11,970	14,269	-3.7%	-4.8%	-6.0%

Source(s): The Group, ABCI Securities estimates

**Recommend HOLD with TP at HK\$8.8**

We apply sum-of-the-parts valuation (SOTP) for the Group since it has both the hardware and internet segments. Our EV arrives at RMB 102.5bn-RMB 124.5bn with a fair equity value per share of HK\$ 6.6 – 8.0. We apply a 10% premium to the higher end to obtain our TP of HK\$ 8.8 (implying 13.9x/11.5x FY19E/20E P/E), given that Xiaomi has launched the share repurchase scheme which would have some support to its share price.

Exhibit 8: Xiaomi's SOTP valuation:

	FY19E core profit (RMB mn)	FY19E P/E multiple	EV (RMB bn)
Smartphone business	1,205	9x to 18x	10.8 – 21.7
IoT & lifestyle products business	657	9x to 15x	5.9 – 9.9
Internet services business	1,773	28x to 32x	49.6 – 56.7
Investments			30.0
Others			6.2
Total			102.5 – 124.5

Source(s): The Group, ABCI Securities estimates



Exhibit 9: Peer Comparison Table

Ticker	Price*	Currency	P/E				P/B				ROE	ROA	EV/EBITDA	
			18A	19E	20E	21E	18A	19E	20E	21E	19E	19E	19E	
Handset companies														
Apple	AAPL US	219.90	USD	18.3	18.9	17.3	15.3	9.8	11.1	13.3	12.4	74.5	17.3	12.0
Samsung	5930 KS	46,900.0	WON	7.3	14.7	11.5	8.8	1.2	1.2	1.2	1.1	10.1	7.8	3.0
LG	3550 KS	71,400.0	WON	6.7	7.5	6.9	5.6	0.7	0.7	0.6	0.6	9.0	7.6	4.8
Xiaomi	1810 HK	9.07	HKD	9.0	17.9	14.1	11.0	2.6	2.3	2.0	1.6	14.8	7.7	9.9
Simple Average				10.3	14.7	12.4	10.2	3.6	3.8	4.2	3.9	27.1	10.1	7.4
Weighted Average				16.0	18.0	16.1	13.9	7.9	9.0	10.7	10.0	60.7	15.3	10.2
Internet companies														
Tencent	700 HK	346.00	HKD	35.0	31.5	26.0	21.9	8.9	7.2	5.7	4.5	23.9	12.6	18.6
Alibaba	BABA US	176.09	USD	46.5	34.8	25.7	20.8	7.8	6.2	5.0	4.2	17.8	8.6	20.5
Baidu	BIDU US	111.79	USD	9.4	26.4	18.0	14.1	1.6	1.7	1.6	1.4	7.1	3.5	11.2
Netease	NTES US	275.68	USD	38.3	22.3	21.2	19.3	5.5	5.1	4.4	3.8	17.9	10.5	12.5
Simple Average				32.3	28.8	22.7	19.0	6.0	5.0	4.2	3.5	16.7	8.8	15.7
Weighted Average				39.6	32.5	25.4	20.9	8.0	6.4	5.2	4.2	20.0	10.2	19.0
IoT & lifestyle														
Skyworth Digital	751 HK	1.98	HKD	11.7	7.0	5.2	3.8	0.3	0.4	0.3	0.2	5.7	2.1	3.1
Tcl Electronics	1070 HK	4.06	HKD	9.6	7.8	8.0	6.8	1.0	0.9	0.8	0.8	10.5	3.7	0.7
Haier Electronics	1169 HK	20.65	HKD	12.8	11.4	11.4	10.2	2.1	1.9	1.7	1.5	15.8	9.7	6.2
Hisense Home	921 HK	8.11	HKD	6.9	6.3	5.4	5.1	1.3	1.2	1.1	1.0	19.4	7.9	n.a.
Midea Group	333 CH	52.90	CNY	17.3	15.4	13.6	12.1	4.3	3.7	3.1	2.7	24.0	9.0	11.2
Simple Average				11.7	10.2	9.6	8.6	2.2	1.9	1.7	1.5	17.4	7.6	6.0
Weighted				16.3	14.5	12.9	11.6	3.9	3.3	2.9	2.5	22.6	9.0	10.4

*Based on closing price on Sep 17, 2019

Source(s): Bloomberg



Financial Statements

Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Smartphone revenue	80,564	113,800	120,500	134,756	149,269
IoT & lifestyle products revenue	23,448	43,817	65,725	93,330	120,396
Internet services revenue	9,896	15,956	18,828	22,970	25,956
Others	717	1,343	1,933	2,803	3,644
Total revenue	114,625	174,915	206,987	253,859	299,264
Gross profit	15,154	22,192	28,978	36,302	43,992
S&M expenses	(5,232)	(7,993)	(9,107)	(11,170)	(13,168)
Admin expenses	(1,216)	(12,099)	(7,865)	(9,900)	(11,671)
R&D expenses	(3,151)	(5,777)	(6,831)	(8,885)	(11,372)
Fair value changes on investments measured at fair value through profit or loss	6,371	4,430	5,243	6,430	7,580
Share of losses of investments accounted for using the equity method	(231)	(615)	(50)	(45)	(41)
Others	521	1,058	1,052	1,251	1,444
Operating Profits	12,215	1,196	11,419	13,982	16,764
Net finance costs	27	216	418	358	331
Fair value changes of convertible redeemable preferred shares	(54,072)	12,514	0	0	0
Profit before tax	(41,829)	13,927	11,837	14,340	17,095
Tax	(2,060)	(449)	(2,012)	(2,438)	(2,906)
Profit after tax	(43,889)	13,478	9,824	11,902	14,189
Minority interests	(63)	(76)	(56)	(67)	(80)
Shareholders' net profit	(43,826)	13,554	9,880	11,970	14,269
EPS (RMB)	(4.491)	0.843	0.570	0.691	0.824
Non-IFRS adjusted net profit*	5,362	8,555	3,635	4,334	5,286

Source(s): The Group, ABCI Securities estimates

*The non-IFRS adjusted net profit exclude items of fair value changes of convertible redeemable preferred shares, share-based compensation, net fair value gains on investments, amortization of intangible assets resulting from acquisitions, changes of value of financial liabilities to fund investors



Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
PPE	1,731	5,068	6,150	7,045	7,770
Long-term investments measured at fair value through profit or loss	18,857	18,636	30,054	41,601	53,259
Other non-current assets	8,143	15,511	16,349	17,261	18,253
Total non-current assets	28,731	39,215	52,553	65,908	79,282
Cash & cash equivalents	11,563	30,230	27,653	26,653	28,671
Inventories	16,343	29,481	31,544	34,383	36,790
Trade & loan receivables	13,614	15,892	16,304	16,732	17,177
Restricted cash	2,711	1,480	1,436	1,393	1,351
Others	16,907	28,929	30,247	31,660	33,171
Total current assets	61,138	106,013	107,184	110,821	117,161
Total assets	89,870	145,228	159,737	176,729	196,442
Trade payables	34,003	46,287	49,990	53,989	58,309
Borrowings	3,551	3,075	2,921	2,775	2,637
Others	9,579	12,578	13,415	14,322	15,306
Total current liabilities	47,133	61,940	66,326	71,087	76,251
Borrowings	7,251	7,856	8,170	8,497	8,837
Others	162,696	4,182	4,121	4,068	4,023
Total non-current liabilities	169,948	12,038	12,291	12,565	12,860
Total liabilities	217,080	73,978	78,617	83,652	89,110
Equity attributable to shareholders	(127,272)	71,323	81,203	93,173	107,442
Non-controlling interests	62	(73)	(83)	(95)	(110)
Total equity	(127,211)	71,250	81,120	93,077	107,332

Source(s): The Group, ABCI Securities estimates



Consolidated Cash Flow Statement (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Operating profit before change in working capital	7,811	23,842	7,060	9,314	11,806
Change in working capital	(7,283)	(23,699)	(8,565)	(9,364)	(8,955)
Tax	(1,523)	(1,558)	(1,594)	(1,631)	(1,668)
Operating cash flow	(996)	(1,415)	(3,099)	(1,681)	1,183
CAPEX	(1,218)	(1,096)	(986)	(888)	(799)
Others	(1,460)	(6,412)	532	578	628
Investing cash flow	(2,678)	(7,508)	(454)	(310)	(171)
Change in borrowings	6,644	129	160	181	201
Change in restricted cash	(289)	1,231	44	43	42
Others	(140)	25,214	(244)	(248)	(252)
Financing cash flow	6,215	26,574	(39)	(24)	(10)
Net increase in cash & cash equivalents	2,542	17,652	(3,592)	(2,015)	1,003
Cash & cash equivalents at beginning of year	9,230	11,563	30,230	27,653	26,653
Effect of changes in foreign exchange rate	(209)	1,015	1,015	1,015	1,015
Cash & cash equivalents at end of year	11,563	30,230	27,653	26,653	28,671
Financial Ratios:					
Gross margin (%)	13.2%	12.7%	14.0%	14.3%	14.7%
Operating margin (%)	10.7%	0.7%	5.5%	5.5%	5.6%
Net profit margin (%)	(38.2%)	7.7%	4.8%	4.7%	4.8%
ROA (%)	(48.8%)	9.3%	6.2%	6.8%	7.3%
ROE (%)	34.4%	19.9%	12.2%	12.8%	13.3%
Trade receivables turnover days	12.0	11.5	9.9	8.0	6.8
Inventory turnover days	45.4	54.8	62.6	55.3	50.9
Trade payable turnover days	94.6	95.9	98.7	87.2	80.3
Cash conversion cycle	(37.2)	(29.6)	(26.3)	(23.9)	(22.6)

Source(s): The Group, ABCI Securities estimates

Disclosures

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Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate $<$ Market return rate (+10%)
Sell	Stock return $<$ - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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