

### COMPANY RESULTS

## Xiaomi Corp (1810 HK)

1Q22: Results In Line But Headwinds To Persist

**Xiaomi's 1Q22 results were in line with our and consensus estimates. As expected, sales of smartphone and IoT slowed due to poor end-demand, chip shortage, competition and logistics issues, which in turned negatively affected its domestic internet service business. Going forward, visibility remains low amid the Ukraine-Russia war and China's lockdowns, and a significant recovery seems unlikely in the near term. Cut target price to HK\$14.20. Maintain BUY.**

### 1Q22 RESULTS

Year to 31 Dec	1Q21	4Q21	1Q22	yoy%	qoq %
<b>Revenue (Rmbm)</b>	76,882	85,575	73,352	(4.6)	(14.3)
Smartphones	51,491	50,464	45,763	(11.1)	(9.3)
IoT and lifestyle products	18,243	25,066	19,477	6.8	(22.3)
Internet services	6,571	7,270	7,113	8.2	(2.2)
Others	577	2,775	999	73.1	(64.0)
Gross profit	14,161	14,659	12,710	(10.2)	(13.3)
Net profit	6,069	4,473	2,859	(52.9)	(36.1)
<b>GPM (%)</b>	18.4	17.1	17.3	(1.1)	0.2
Smartphones	12.9	10.1	9.9	(3.0)	(0.2)
IoT and lifestyle products	14.5	13	15.6	1.1	2.6
Internet services	72.4	76.1	70.8	(1.6)	(5.3)
<b>ASP (Rmb/unit)</b>					
Smartphones	985	1080	1189	20.7	10.1

Source: Xiaomi, UOB Kay Hian

### RESULTS

- 1Q22 results largely in line with our and consensus estimates.** Xiaomi's 1Q22 revenue of Rmb73.4b (-4.6% yoy, -14.3% qoq) was slightly above our estimates; Gross margin was largely in line at 17.3% (-1.1ppt yoy, +0.2ppt qoq), while net profit of Rmb2,859m was also in line with both our and consensus estimates. However, operating expense ratio of 13.6% (+3ppt yoy and +0.2ppt qoq) was higher than our estimates, which was partially offset by a higher-than-expected interest income.
- Smartphone segment disappointed on margins.** Shipments of smartphones were impacted by intensifying competition in China, chip shortage for the lower-end smartphones, and poor demand and logistics issues amid the Ukraine-Russia war and China's lockdown. However, ASP of Rmb1,189 was actually higher than our estimates, thanks to higher contribution from the premium (Rmb4,000-6,000) phones. As such, revenue of Rmb45.8b (-11.1% yoy, -9.3% qoq) was slightly better than our expectations. However, as Xiaomi launched more promotions in 1Q22 to clear up inventory, margins disappointed at 9.9% (-3.0ppt yoy, -0.2ppt qoq). On the bright side, Xiaomi registered robust performance on both yoy and qoq basis in Latin America and Southeast Asia, and also gained market share in Middle East and Africa on a yoy basis. This partially offset the sluggish performance in China, India and Europe.

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	245,866	328,309	333,594	383,838	447,921
EBITDA	11,561	23,263	21,651	25,022	26,939
Operating profit	9,853	20,201	18,652	21,744	24,507
Net profit (rep./act.)	20,356	19,339	10,612	16,229	18,590
Net profit (adj.)	13,006	22,040	14,059	16,229	18,590
EPS (Fen)	54.2	88.4	56.4	65.1	74.6
PE (x)	16.6	10.2	16.4	14.2	12.4
P/B (x)	2.0	2.6	1.8	1.7	1.6
EV/EBITDA (x)	12.6	6.3	6.8	5.8	5.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	8.3	5.9	3.2	4.2	4.2
Net debt/(cash) to equity (%)	(30.0)	2.0	(5.4)	(0.7)	(16.8)
Interest cover (x)	4.1	12.5	8.7	9.7	11.3
ROE (%)	12.7	16.9	9.9	10.4	10.7
Consensus net profit	-	-	17,386	21,800	26,561
UOBKH/Consensus (x)	-	-	0.61	0.74	0.70

Source: Xiaomi, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$11.08
Target Price	HK\$14.20
Upside	+28.2%
(Previous TP)	HK\$16.30

### 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):	20,389
Market cap (HK\$m):	277,172
Market cap (US\$m):	35,763
3-mth avg daily t'over (US\$m):	195.8

### Price Performance (%)

52-week high/low	HK\$30.50/HK\$10.30			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(8.0)	(31.4)	(47.6)	(58.3)	(41.4)

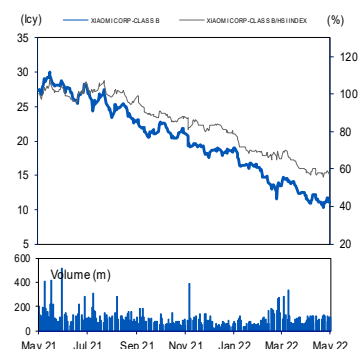
### Major Shareholders

Lei Jun	9.27
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### FY22 NAV/Share (RMB)

FY22 Net Debt/Share (RMB)	0.38
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### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- **IoT business beat our expectations on top-line and margins.** The IoT business' revenue reached Rmb19.5b (+6.8% yoy, -22.3% qoq), better than our expectations, as we expected worse impact from the abovementioned events. The margin of 15.6% (+1.1ppt yoy, +2.6ppt qoq) was also significantly better than expected, primarily thanks to lower TV panel prices.
- **Internet services segment disappointed due to domestic market.** The internet services segment's revenue of Rmb7.1b (+8.2% yoy, -2.2% qoq) was below our estimates, primarily due to the domestic market's underperformance. The domestic market was plagued by sluggish sales and pre-installation revenue declined yoy as a result. This was partially offset by the domestic market's monthly active users growth, thanks to the success in its strategy to target a wider demographic. The overseas business was in line with our estimates, with growth primarily driven by robust MAU growth. Margin of 70.8% (-1.6ppt yoy and -5.3ppt qoq) was also largely in line with our expectations.

### STOCK IMPACT

- **Chip shortage to improve sequentially in 2Q22 but visibility is still lacking in 2Q22.** Management believe the chip supply for low-end (primarily 4G) phones will improve in 2Q22, and the 618 sales event should support China's sales. However, management expressed concerns about the macro economy, primarily the COVID-19 situation in China and the Ukraine-Russia war, which are both likely to continue impacting Xiaomi in terms of logistics, supply chain, and sales of smartphones and IoT going forward.
- Specifically for smartphones, management has reiterated its emphasis in improving the efficiency of offline stores; its offline expansion has contributed to the brand's premiumisation (~50% of premium sales comes from offline stores). However, the store ramp-up will also be impacted by lockdown measures as they will be forced to temporarily shut if there is a COVID-19 outbreak. Furthermore, we believe all smartphone brands will provide fierce discounts in the coming promotional events in 2Q and 4Q in order to attract more sales, so we are not expecting meaningful improvements in margins for smartphones going forward.
- For internet services, we reiterate our view that domestic sales will remain flattish, given the deteriorating pre-installed app revenue amid slowing smartphone sales. Growth will be primarily driven by overseas business, although we believe that will also be impacted by the Ukraine Russia War as Europe is one of the key growth drivers for Xiaomi's Internet service segment.
- **More clarity on EV expenditure, but costs still ramping up.** Xiaomi's R&D expense of Rmb3.4b is higher than our estimates of Rmb3.1b. Of this amount, Xiaomi spent Rmb425m in R&D for EV and other new initiatives, which almost contributed to all of the yoy increase in R&D expenses (1Q21: Rmb3b). Management stated that as Xiaomi is still ramping up its EV business, the R&D expense into EV is likely to continue growing, going forward.

### EARNING REVISION/RISK

- **Cut our 2022-24 adjusted net profit forecasts by 18%-27%** to Rmb14,059m, Rmb16,229m and Rmb18,590m respectively. We have factored in a) a lower smartphone sales figure for 2022-24 by 8.7%/9.8%/5.8% to 175m/198m/224m due to the deteriorating macro environment, b) a lower gross margin assumption for both smartphones and internet services, and c) higher operating expenses in 2022 due to increased logistics costs, advertising costs, as well as investments towards EV.

### VALUATION/RECOMMENDATION

- **Maintain BUY, and cut target price to HK\$14.20**, based on a lower 2022 net profit estimates and unchanged 20.5x 2022F PE, on a par with historical mean. While Xiaomi's valuation is currently attractive at 1SD below mean (16.4x), we remain cautious on Xiaomi's outlook given the intensifying competition, a deteriorating smartphone market, and lack of visibility regarding the Ukraine-Russia war and COVID-19 lockdowns in China.

### PROFIT & LOSS

Year to 31 Dec (RMBm)	2021	2022F	2023F	2024F
Net turnover	328,309	333,594	383,838	447,921
EBITDA	23,263	21,651	25,022	26,939
Deprec. & amort.	(3,062)	(2,999)	(3,278)	(2,432)
EBIT	20,201	18,652	21,744	24,507
Total other non-operating income	5,828	(3,752)	-	-
Associate contributions	275	(201)	-	-
Net interest income/(expense)	(1,612)	(2,152)	(2,248)	(2,175)
Pre-tax profit	24,417	12,749	19,496	22,332
Tax	(5,134)	(2,167)	(3,314)	(3,797)
Minorities	56	31	47	54
Net profit	19,339	10,612	16,229	18,590
Net profit (adj.)	22,040	14,059	16,229	18,590

### CASH FLOW

Year to 31 Dec (RMBm)	2021	2022F	2023F	2024F
Operating	9,785	29,387	11,887	49,286
Pre-tax profit	24,417	12,749	19,496	22,332
Tax	(5,134)	(2,167)	(3,314)	(3,797)
Deprec. & amort.	3,062	2,999	3,278	2,432
Associates	(275)	201	-	-
Working capital changes	(9,363)	9,903	(9,821)	26,143
Non-cash items	(2,922)	5,702	2,248	2,175
Other operating cashflows	(2)	(1)	-	-
Investing	(45,008)	(16,500)	(16,500)	(17,500)
Capex (growth)	(3,500)	(6,000)	(6,000)	(7,000)
Investments	(500)	(500)	(500)	(500)
Proceeds from sale of assets	-	-	-	-
Others	(41,008)	(10,000)	(10,000)	(10,000)
Financing	4,499	(2,152)	(2,248)	(2,175)
Dividend payments	-	-	-	-
Issue of shares	-	-	-	-
Proceeds from borrowings	30,000	30,000	30,000	30,000
Loan repayment	(30,582)	(30,000)	(30,000)	(30,000)
Others/interest paid	5,081	(2,152)	(2,248)	(2,175)
Net cash inflow (outflow)	(30,724)	10,735	(6,861)	29,611
Beginning cash & cash equivalent	54,752	23,512	34,247	27,386
Changes due to forex impact	(517)	-	-	-
Ending cash & cash equivalent	23,512	34,247	27,386	56,997

### BALANCE SHEET

Year to 31 Dec (RMBm)	2021	2022F	2023F	2024F
Fixed assets	107,040	110,542	113,763	118,831
Other LT assets	100,076	99,511	98,864	98,134
Cash/ST investment	90,507	111,242	114,381	153,993
Other current assets	-4,731	293	26,320	27,430
<b>Total assets</b>	<b>292,892</b>	<b>321,589</b>	<b>353,328</b>	<b>398,387</b>
ST debt	5,527	5,527	5,527	5,527
Other current liabilities	110,200	124,564	140,121	166,645
LT debt	20,720	20,720	20,720	20,720
Other LT liabilities	580	301	1,203	1,203
Shareholders' equity	137,213	147,825	164,054	182,644
Minority interest	220	189	142	88
<b>Total liabilities &amp; equity</b>	<b>292,892</b>	<b>317,837</b>	<b>349,576</b>	<b>394,636</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	17.7	17.3	17.0	16.7
Pre-tax margin	8.2	3.8	5.1	5.0
Net margin	5.9	3.2	4.2	4.2
ROA	8.1	4.6	4.8	4.9
ROE	16.9	9.9	10.4	10.7
<b>Growth</b>				
Turnover	33.5	1.6	15.1	16.7
EBITDA	58.5	(1.0)	12.9	14.7
Pre-tax profit	12.9	(47.8)	52.9	14.5
Net profit	(5.0)	(45.1)	52.9	14.5
Net profit (adj.)	69.5	(36.2)	15.4	14.5
EPS	(8.6)	(45.1)	52.9	14.5
<b>Leverage</b>				
Debt to total capital	9.0	8.2	7.4	0.0
Debt to equity	19.1	17.8	16.0	14.4
Net debt/(cash) to equity	2.0	(5.4)	(0.7)	(16.8)
Interest cover (x)	12.5	8.7	9.7	11.3

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