

COMPANY UPDATE

Xiaomi Corp (1810 HK)

3Q24 Results Preview: Share Gains And Premiumisation Drive Solid Beat In IoT Segment

Xiaomi will report its 3Q24 earnings later this month. We expect adjusted net profit to reach Rmb6.0b, 7% above Bloomberg consensus estimates. The earnings beat will be primarily driven by strong sales and profitability in the IoT products segment, whereas the smartphone, internet services and EV businesses will be largely in line. Maintain BUY; raise target price to HK\$31.70.

WHAT'S NEW

- 3Q24 results preview.** We expect Xiaomi Corp's (Xiaomi) 3Q24 revenue to grow 25.9% yoy to Rmb89.2b, driven by a continued recovery in smartphone shipments and strong Internet of Things (IoT) product sales in both domestic and overseas markets. Margins are expected to moderate 2.3ppt yoy and 0.3ppt qoq to 20.4%, with product mix improvements for IoT segment partially offsetting the increase in component costs in the smartphone business. Opex for Xiaomi's core business continues to be well controlled, with core business opex ratio declining 1.0ppt yoy to 14.6%. As a result, we now expect 3Q24 adjusted net profit to be flat yoy at Rmb6b, which is above consensus estimates of Rmb5.6b.

STOCK IMPACT

- Margin of smartphone segment holding up well.** According to IDC, Xiaomi's smartphone shipments grew 12.8% yoy in 3Q24, with a market share of 14.8% (+1.2ppt yoy and +0.8ppt qoq). Revenue for the segment is expected to arrive at Rmb47.1b, representing a growth of 13.0% yoy, with ASP expected to remain stable. We are also expecting margins to be better than feared, moderating 0.6ppt qoq to a trough of 11.5% in 3Q24 before rebounding in 4Q24 as component prices were more favourable than expected.
- IoT supported by better product mix.** Similar to 1H24, we expect growth in overseas markets to outpace that of domestic market. In overseas markets, products such as tablets, wearables and earbuds are the main contributors to growth, while the China domestic market has been supported by sales of large appliances (particularly white goods) which have received a demand boost from the recent government subsidies. Hence, we expect the IoT segment to rake in revenue of Rmb25.2b, which is an increase of 22.0% yoy, while we forecast margin to expand 3.2ppt yoy and 1.3ppt qoq to 21.0%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	280,044	270,970	341,884	382,894	420,966
EBITDA	9,955	18,622	27,195	33,904	40,948
Operating profit	6,247	14,765	23,069	29,493	37,684
Net profit (rep./act.)	2,474	17,475	20,439	26,723	32,720
Net profit (adj.)	8,518	19,273	21,880	26,723	32,720
EPS (Fen)	34.3	77.4	87.9	107.4	131.5
PE (x)	42.0	18.6	28.2	23.1	18.9
P/B (x)	2.8	2.6	4.3	3.8	3.3
EV/EBITDA (x)	35.7	19.1	22.6	18.1	15.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	0.9	6.4	6.0	7.0	7.8
Net debt/(cash) to equity (%)	(23.6)	(35.7)	(46.8)	(22.9)	(36.2)
Interest cover (x)	(5.6)	(7.4)	(6.0)	(7.5)	(11.7)
ROE (%)	6.1	12.5	12.6	13.5	14.4
Consensus net profit	-	-	22,040	25,126	29,463
UOBKH/Consensus (x)	-	-	0.99	1.06	1.11

Source: Xiaomi, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$27.30
Target Price	HK\$31.70
Upside	16.1%
(Previous TP:	HK\$24.40)

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):	681,091
Market cap (US\$m):	100,160
3-mth avg daily t'over (US\$m):	406.6

Price Performance (%)

52-week high/low HK\$28.00 / HK\$11.84

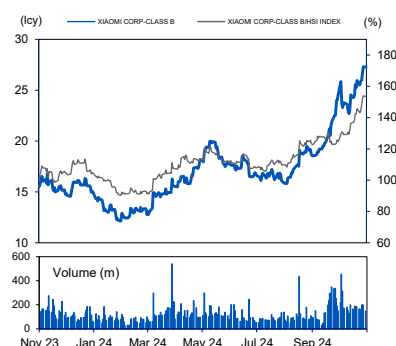
1mth	3mth	6mth	1yr	YTD
11.2	69.8	50.2	79.1	75.0

Major Shareholders

	%
Smart Mobile Holdings Ltd	8.97
Lin Bin	2.20

FY24 NAV/Share (RMB)	8.15
FY24 Net Cash/Share (RMB)	3.82

PRICE CHART



Source: Bloomberg

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- **Internet services business remains steady.** This segment's revenue is expected to rise 7.2% yoy and 0.6% qoq to Rmb8.3b in 3Q24, while margin is expected to trend back down to around 75% (-3.3ppt qoq). This is mainly due to increasing contribution from gaming-related products, which generally incur higher distribution fees and therefore carry lower margins.
- **SU7 deliveries on track.** As announced during the recent Mi15 launch event, Xiaomi has succeeded in delivering more than 20,000 units of the SU7 in Oct 24, and the company is well on track to reaching the target of 100,000 units cumulatively by Nov 24 and 120,000 units by Dec 24. Overall, the EV business is expected to generate revenue of Rmb8.2b (+28.2% qoq) in 3Q24, with margin expanding by 0.6ppt to 16.0%. Based on our understanding, new locked orders continue to be solid, while the recently announced SU7 Ultra variant has received strong pre-order numbers.

EARNING REVISION/RISK

- **We fine-tune our assumptions for the smartphone and IoT businesses for 2024-26,** mainly due to the improving product mix across both segments. Notably, we raise the IoT segment's margins by 1.3%/2.6%/3.5% for 2024-26 as we account for increased contribution from higher value products and overseas markets. For the EV segment, we expect deliveries to continue picking up in 2025-26, with ASP increasing slightly due to a better mix and the introduction of a new SUV model early next year.
- **Our 2024-26 net profit assumptions are raised by 13.9%/29.8%/29.9% respectively,** as we factor in: a) higher smartphone shipments, b) higher IoT revenue, c) higher margins assumption for smartphones and IoT products, and d) a significantly higher EV sales assumption.

VALUATION/RECOMMENDATION

- **Maintain BUY and raise target price to HK\$31.70,** based on: a) HK\$27.40 for the core business, which is based on 20.7x 2024F PE, still on par with the five-year historical forward mean, and b) HK\$4.30 for the EV business, which is based on the 10-year DCF valuation. Note that we have updated our WACC assumptions for its EV DCF valuation, and our EV valuation is now based on a WACC of 10.8%.

SOTP VALUATION

	EV		Core
Intrinsic value (Rmb)	\$96,560	EPS (Rmb)	1.21
CNY to HKD	1.1	CNY to HKD	1.1
Intrinsic value (HK\$)	106,216	EPS (HK\$)	1.32
Valuation	4.3	Valuation	27.4
EV/Sales (2025) (x)	2.3	PE Multiple (x)	20.7

Source: Xiaomi, UOB Kay Hian

Core EPS excludes operating expenses into EV business.

CHANGES TO KEY ESTIMATES

(Rmbm)	Old			New			Change (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Turnover	332,072	361,049	398,435	341,884	382,894	420,966	3.0	6.1	5.7
Smartphones	178,996	190,439	203,594	183,810	195,688	209,284	2.7	2.8	2.8
IoT and Lifestyle products	89,530	95,797	105,377	94,527	101,144	111,258	5.6	5.6	5.6
Internet services	33,031	35,837	39,602	33,031	35,842	39,614	0.0	0.0	0.0
EV	27,222	35,682	46,568	27,222	46,926	57,516	0.0	31.5	23.5
Margins (%)									
Smartphones	12.0	11.8	11.9	12.6	12.3	12.5	0.6	0.5	0.6
IoT and Lifestyle products	19.0	18.4	18.5	20.3	21.0	22.0	1.3	2.6	3.5
Internet services	76.0	76.0	76.0	76.0	76.0	76.0	0.0	0.0	0.0
EV	16.0	16.5	17.0	16.0	18.0	19.0	0.0	1.5	2.0

Source: Xiaomi, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	270,970	341,884	382,894	420,966
EBITDA	18,622	27,195	33,904	40,948
Deprec. & amort.	(3,857)	(4,126)	(4,410)	(3,264)
EBIT	14,765	23,069	29,493	37,684
Total other non-operating income	5,243	(1,354)	-	-
Associate contributions	46	86	-	-
Net interest income/(expense)	2,002	3,833	3,909	3,214
Pre-tax profit	22,011	25,548	33,402	40,898
Tax	(4,537)	(5,110)	(6,680)	(8,180)
Minorities	1	1	1	2
Net profit	17,475	20,439	26,723	32,720
Net profit (adj.)	19,273	21,880	26,723	32,720

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	41,300	31,920	17,481	43,090
Pre-tax profit	22,011	25,548	33,402	40,898
Tax	(4,537)	(5,110)	(6,680)	(8,180)
Deprec. & amort.	3,857	4,126	4,410	3,264
Associates	(46)	(86)	-	-
Working capital changes	18,395	11,189	(9,742)	10,321
Non-cash items	1,620	(3,747)	(3,909)	(3,214)
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)	3,833	3,909	3,214
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)	3,833	3,909	3,214
Net cash inflow (outflow)	5,626	27,753	14,889	39,804
Beginning cash & cash equivalent	27,607	33,631	61,384	76,273
Changes due to forex impact	398	-	-	-
Ending cash & cash equivalent	33,631	61,384	76,273	116,077

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	61,384	76,273	116,077
Other current assets	165,421	171,189	186,642	190,126
Total assets	324,247	361,642	394,074	440,598
ST debt	6,183	6,183	6,183	6,183
Other current liabilities	109,404	126,361	132,071	145,877
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	184,435	211,158	243,878
Minority interest	266	265	264	262
Total liabilities & equity	324,247	361,642	394,074	440,598

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
Gross margin	21.2	21.0	21.2	21.8
Pre-tax margin	7.5	7.3	8.7	9.7
Net margin	6.4	6.0	7.0	7.8
ROA	6.4	6.4	7.1	7.8
ROE	12.5	12.6	13.5	14.4
Growth				
Turnover	(3.2)	26.2	12.0	9.9
EBITDA	20.8	24.9	12.8	13.2
Pre-tax profit	459.5	16.1	30.7	22.4
Net profit	606.3	17.0	30.7	22.4
Net profit (adj.)	126.3	13.5	22.1	22.4
EPS	125.7	13.5	22.1	22.4
Leverage				
Debt to total capital	8.6	7.7	7.1	0.0
Debt to equity	17.0	15.1	13.2	11.4
Net debt/(cash) to equity	(35.7)	(46.8)	(22.9)	(36.2)
Interest cover (x)	(7.4)	(6.0)	(7.5)	(11.7)

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