

# China / Hong Kong

## Flash Note

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DBS Group Research . Equity

17 Jul 2020

### Xiaomi Corp (1810 HK) : BUY

**Mkt. Cap:** US\$48,152m | **3m Avg. Daily Val:** US\$336.5m

**Last Traded Price ( 16 Jul 2020):** HK\$15.08

**Price Target 12-mth:** HK\$16.00 (6.1% upside)

#### Analyst

Susanna Chui, CFA +852 36684194; susanna\_chui@db.com

Tsz-Wang TAM, CFA +852 36684195; tszwangtam@db.com

#### Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### Group call takeaways: Stronger premium and international smartphones to drive Internet services growth

- **Smartphones:** Launching more affordable 5G smartphones at ASP of US\$100-150 in 2H20 to improve mid-to-low end market share, while enlarging market share in high end market
- **IOT:** Revenue and margin growth driven by product expansion
- **Internet services:** Higher ARPU from growing premium and international smartphone users, which will structurally drive Internet services
- **Reiterate BUY and TP of HK\$16**

#### Forecasts and Valuation

FY Dec (RMB m)	2018A	2019A	2020F	2021F
Turnover	174,915	205,839	243,793	311,500
EBITDA	1,945	13,141	12,990	17,023
Pre-tax Profit	13,927	12,163	11,933	15,751
Net Profit	13,478	10,103	9,913	13,084
Net Pft (Pre Ex) (core profit)	8,555	11,532	11,453	15,052
Net Profit Gth (Pre-ex) (%)	(90.5)	948.7	(1.9)	32.0
EPS (RMB)	0.84	0.43	0.42	0.55
EPS (HK\$)	0.93	0.47	0.46	0.61
Core EPS (HK\$)	0.59	0.54	0.53	0.70
Core EPS (RMB)	0.53	0.49	0.48	0.63
EPS Gth (%)	N/A	(49.3)	(1.9)	32.0
Core EPS Gth (%)	(3.1)	(8.8)	(0.7)	31.4
Diluted EPS (HK\$)	0.63	0.46	0.45	0.59
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	3.35	3.74	4.20	4.80
PE (X)	16.2	32.0	32.6	24.7
Core PE (X)	25.5	28.0	28.2	21.4
P/Cash Flow (X)	32.3	18.1	18.6	13.6
P/Free CF (X)	68.1	21.5	27.8	39.9
EV/EBITDA (X)	97.5	21.0	20.4	15.1
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	4.5	4.0	3.6	3.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	(48.2)	13.2	11.5	13.4

Earnings Rev (%): Nil Nil  
 Consensus EPS (RMB) 0.47 0.61  
 Other Broker Recs: B:34 S:2 H:8

Source: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

#### What's New

We hosted a group call for Xiaomi on 15 July 2020 with Xiang Wang, President of Xiaomi. Investors were mostly interested in the outlook for smartphones and Internet services. Below are the key takeaways:

**Smartphones (32% of 1Q20 gross profit).** Management disclosed that around 40% of its smartphones currently sold in China are 5G smartphones. The company expects majority of smartphones, say 70-90% of its smartphones sold in China, will be 5G smartphones by end of 2021. Xiaomi will launch more affordable 5G smartphones at ASP of US\$100-150 in 2H20 to improve its mid-to-low end market share in China as well as in Europe. Meanwhile, the company's market share is expanding in the high-end market.

#### IoT and lifestyle products (23% of 1Q20 gross profit).

Overseas was supposed to be a very strong growth driver for this year. But due to the pandemic, launches of a number of IOT products in China and overseas markets were delayed. However, management is very positive on this segment's long-term growth, driven by product category expansion. A lot of new product categories are small right now but have the potential to grow. This includes, for example, white appliances such as refrigerators, washing machines, air conditioners, as well as wearables such as TWS earbuds and smart watches.

#### Internet services (45% of 1Q20 gross profit).

Management disclosed that online games continues to be solid in 2Q20 versus 1Q20. Online advertising is picking up compared to 1Q20 which was the peak of the pandemic in China. Management sees a couple of good drivers ahead. Firstly,



Live more, Bank less

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higher average revenue per user from premium smartphone users with higher spending power as a structural driver of Internet services. Meanwhile, the company has been making sure its smartphone specifications, not only in premium smartphones but also in mid end smartphones, are capable to run a sufficient number of online games. Secondly, international internet revenue is another driver. Currently international users are mainly in India and Indonesia. ARPU of Indonesian users is 10-20x the ARPU of Indian users. The company continues to expand shipments into more developed markets which have better ARPU upside potential.

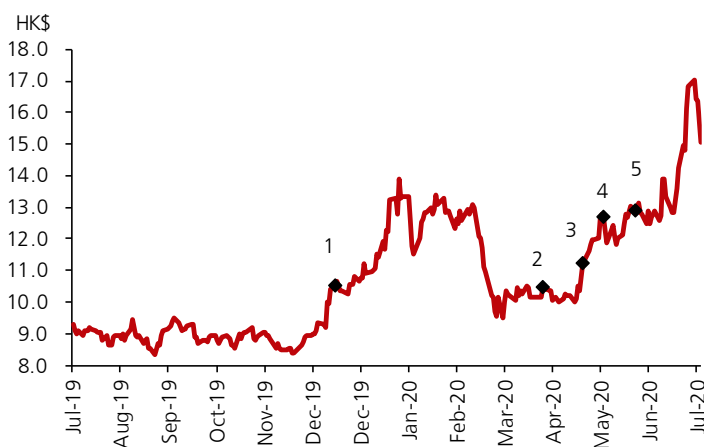
**Margin outlook.** (1) Smartphones: Management expects stable smartphone margin. While management is positive on margin trend of overseas smartphones and increasing market share in overseas markets, the margin trend of China's smartphones depends on competition. (2) IoT and lifestyle products: Management is positive on the margin trend of IoT and lifestyle products. While smart TVs and laptops have relatively low margins, faster growing white appliance and wearables have relatively high margins. (3)

Internet services: Management expects stable margins for internet services.

**COVID-19 impact.** Management expressed the impact is more on supply constraints. Ramp-up of the Indian production has been slow, mainly because the COVID-19 situation there is still relatively severe and there are certain restrictions on production resumption. Xiaomi is redirecting smartphones produced from other regions to meet India's demand. However, a 30% tariff is imposed on those imported smartphones. The company continues to work with the Indian supply chain to improve this.

**Reiterate BUY with TP of HK\$16.** We expect net profit to decline 1% in FY20, given the slowdown in smartphone demand due to COVID-19, but stage a strong 34% rebound in FY21F, driven by online ad monetisation revival and smartphone market share gains from Huawei. We reiterate our BUY rating on Xiaomi with TP of HK\$16 based on 25x FY21F PE (1SD above historical average).

## Target Price & Ratings History



Source: DBS HK

Analyst: Susanna Chui, CFA

Tsz-Wang TAM, CFA

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

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**DBS Bank (Hong Kong) Limited**13<sup>th</sup> Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

**Flash Note**

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**DBS Regional Research Offices**

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**HONG KONG****DBS Bank (Hong Kong) Ltd****Contact: Carol Wu**

13th Floor One Island East,

18 Westlands Road,

Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

**MALAYSIA****AllianceDBS Research Sdn Bhd****Contact: Wong Ming Tek (128540 U)**

19th Floor, Menara Multi-Purpose,

Capital Square,

8 Jalan Munshi Abdullah 50100

Kuala Lumpur, Malaysia.

Tel.: 603 2604 3333

Fax: 603 2604 3921

e-mail: general@alliancedbs.com

**SINGAPORE****DBS Bank Ltd****Contact: Janice Chua**

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

Fax: 65 65353 418

e-mail: equityresearch@dbs.com

Company Regn. No. 196800306E

**INDONESIA****PT DBS Vickers Sekuritas (Indonesia)****Contact: Maynard Priajaya Arif**

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

**THAILAND****DBS Vickers Securities (Thailand) Co Ltd****Contact: Chanpen Sirithanarattanakul**

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand