Xiaomi Corp (1810 HK)

2Q26: Smartphone May See Better-Than-Expected Trough Levels, But Other Segments Continue To Deteriorate

Highlights

- 2Q26's adjusted net profit was 6% above our estimate, but slightly missed consensus by 2.4% due to weaker-than-expected blended margins.
- The smartphone business was solid, with ASP and margins likely surprising on the upside in 2H26; but IoT, EVs and internet services remain sluggish.
- Maintain HOLD with a lower target price of HK$26.20.

2Q26 Results

Year to 31 Dec (Rmbm)	2Q25	1Q26	2Q26	yoy (%)	qoq (%)
Revenue	115,956	99,142	108,922	(6.1)	9.9
Smartphones	45,520	44,273	42,119	(7.5)	(4.9)
IoT & Lifestyle products	38,712	24,681	31,278	(19.2)	26.7
Internet services	9,098	9,468	9,044	(0.6)	(4.5)
EV	21,263	19,864	24,896	17.1	25.3
Other	1,363	854	1,585	16.3	85.6
Gross Profit	26,101	21,810	21,609	(17.2)	(0.9)
Adjusted Net Profit	10,831	6,072	6,219	(42.6)	2.4
GPM (%)	22.5	22.0	19.8	(2.7)	(1.0)
Smartphones	11.5	10.1	8.5	(3.0)	(1.4)
IoT & Lifestyle products	22.5	25.2	20.1	(2.4)	(4.8)
Internet services	75.4	76.1	76.8	1.4	(0.1)
EV	26.4	20.1	19.2	(7.2)	0.4

Source: Xiaomi, UOB Kay Hian

Analysis

- **2Q26 earnings above our conservative estimates but still below consensus due to weaker margins.** Xiaomi Corp's (Xiaomi) 2Q26 revenue declined 6.1% yoy but rose 9.9% qoq to Rmb109b (5.7% above our estimate and in line with consensus); blended gross margin dropped 2.7ppt yoy and 1.0ppt qoq to 19.8% (1.2ppt/1.1ppt below our/consensus forecasts), and adjusted net profit fell 42.6% yoy but rose 2.4% qoq to Rmb6.2b, beating our estimate by 5.7% but missing consensus by 2.4%.
- **Smartphone business is likely to see a better-than-expected trough on ASP hikes and mix enhancements.** Smartphone revenue of Rmb42.1b beat our/consensus estimates by 5.1%/3.1% respectively, driven by a higher-than-expected blended ASP. Gross margins were largely in line with consensus at 8.5% (-3.0ppt yoy, -1.4ppt qoq) with component prices hikes still being major drag. That said, with mix improvements continuing to surprise on the upside, we expect Xiaomi to deliver a better-than-expected performance during the cycle trough in 2H26-1H27, and we are now expecting higher ASPs and margins to offset the weakening shipment volume through 2H26.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	365,906	457,287	429,571	483,402	525,276
EBITDA	29,504	40,300	25,434	38,682	48,142
Operating profit	23,186	31,543	19,028	31,342	40,151
Net profit (rep./act.)	23,658	41,643	23,977	28,323	36,801
Net profit (adj.)	27,235	39,166	22,082	28,323	36,801
EPS (Fen)	109.7	162.3	93.5	110.4	143.4
PE (x)	21.7	14.7	25.5	21.6	16.6
P/B (x)	4.1	3.6	3.1	2.3	2.1
EV/EBITDA (x)	20.4	14.9	23.6	15.5	12.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	6.5	9.1	5.6	5.9	7.0
Net debt/(cash) to equity (%)	(20.9)	1.0	(4.0)	(7.4)	(7.7)
Interest cover (x)	(6.4)	(18.1)	(8.8)	(14.0)	(11.7)
ROE (%)	15.4	17.2	7.9	9.3	10.9
Consensus net profit			27,177	36,607	47,812
UOBKH/Consensus (x)			0.81	0.77	0.77

Source: Xiaomi, Bloomberg, UOB Kay Hian

Analyst(s)

Johnny Yum
johnny.yum@uobkh.com
+852 2235 6760

Murphy Li
murphy.li@uobkh.com
+852 2826 4867

HOLD (Maintained)

Share Price	HK$26.18
Target Price	HK$26.20
Upside	+0.1%
Previous TP	HK$31.50

Stock Data

Sector	Communications Equipment
Bloomberg ticker	1810 HK
Shares issued (m)	25,748
Market cap (HK$m)	674,094
Market cap (US$m)	99,132
3-mth avg daily t'over (US$m)	625.4

Price Performance (%)

52-week high/low				HK$35.46/HK$8.52
1mth	3mth	6mth	1yr	YTD
(2.6)	(14.6)	(28.3)	(50.7)	(33.2)

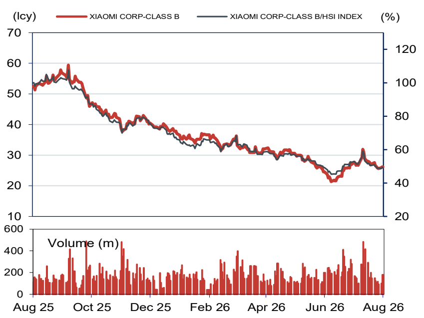
Major Shareholders (%)

Smart Mobile Holdings Ltd	8.54
Lin Bin	2.08

Balance Sheet Metrics

FY26 NAV/Share (HK$)	12.52
FY26 Net Debt/Share (HK$)	(0.66)

Price Chart



Source: Bloomberg

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.

- **1H26 IoT sales were a slight beat vs our estimates, but 2H26 recovery remains unlikely.** IoT sales of Rmb31.3b are 5.6% above our estimates, thanks to solid overseas sales. However, the growth in 2H is likely to remain sluggish and we are now expecting full-year sales to register an 8% yoy decline while margins should be able to hold up relatively stable yoy. Recovery is likely to arrive in 2027 when Xiaomi registers more meaningful growth from the overseas market, particularly from large home appliances which is now a key development focus for the segment.
- **Revising down EV sales forecast amid weakening broader market.** Xiaomi's EV sales registered a 17.1% yoy growth from a low base, but shipment reached only 104,000 units or 18.9 % of Xiaomi's previous full-year target of 550,000 units. Given the weaker EV market in China, we believe it will be difficult to achieve the previous target and as such we cut out full-year assumption to 430,000 units. We are also expecting the EV + new initiative business margins to deteriorate to 20.1% given mounting cost pressure and dilution from new businesses.
- **AI remained a key development focus,** as Xiaomi continues to prioritise: a) the development of next gen LLMs; and b) deployment and integration of its LLMs into its corporate structure and across its full spectrum of products including smartphones, IoT products, EVs, and robots. We are expecting the release of new MiMo models, AI-integrated OS, as well as AI applications in the near future, which could be key catalyst events showcasing Xiaomi's capabilities to differentiate itself from its competitors.

Valuation/Recommendation

- **Maintain HOLD with a lower target price of HK$26.20** as we roll over to 2027 estimates. Our target price is now based on: a) HK$19.28 for the core business, using 15.0x 2027F PE; and b) HK$6.92 for the EV business, using a 10-year DCF valuation with a WACC of 10.8%.

Earnings Revision/Risk

- We revise down our 2026-28 adjusted net profit estimates by 14.7%/13.1%/12.6% to Rmb22b/Rmb31b/Rmb40b respectively. We have: a) revised our smartphone shipment estimates down by 9.7%/3.5%/0.3% respectively; b) lowered our IoT products revenue assumptions; c) cut our gaming revenue forecasts; d) trimmed our EV shipment estimates by 21.8%/21.4%/16.0% respectively; e) a lower EV margin assumption; and f) assumed a high operating expense given elevated spending towards new initiatives. This is partially offset by: a) a 7.3%/9.4%/11.6% higher smartphone ASP assumption, and b) higher margin estimates for smartphone and IoT products.

Share Price Catalyst

- a) Delivery ramp of the Kunlun-based Sky Nomad models from September, and b) more clarity on the AI-related business. We believe the market struggles to value Xiaomi's AI-related business (such as API revenue) given the minimal official disclosures. Further clarity on its size, profitability, and growth targets will likely provide a meaningful value boost to Xiaomi's valuation.

SOTP Valuation

EV		Core	
Intrinsic value (Rmb)	152,237	Intrinsic value (Rmb)	1.1
CNY to HKD	1.2	CNY to HKD	1.2
Intrinsic value (HK$)	178,117	Intrinsic value (HK$)	1.29
Valuation	6.92	Valuation	19.28
EV/Sales (2026) (x)	1.4	PE multiple (x)	15.0

Source: Xiaomi, UOB Kay Hian

Changes to 2026-28 estimates

Year to 31 Dec	Old estimates			New estimates			Differences (%)		
(Rmbm)	2026F	2027F	2028F	2026F	2027F	2028F	2026F	2027F	2028F
Turnover	476,269	523,110	565,462	429,571	494,947	541,746	(9.8)	(5.4)	(4.2)
Smartphones	172,642	170,673	178,986	167,239	180,108	199,016	(3.1)	5.5	11.2
IoT and Lifestyle products	129,360	133,241	143,900	113,344	119,011	124,962	(12.4)	(10.7)	(13.2)
Internet services	39,295	41,907	43,151	37,510	40,683	42,464	(4.5)	(2.9)	(1.6)
EV	130,835	173,151	195,288	107,341	151,008	171,168	(18.0)	(12.8)	(12.4)
Margins (%)									
Smartphones	6.5	6.2	6.7	9.0	8.3	8.5	2.5	2.1	1.8
IoT and Lifestyle products	20.0	19.5	19.5	22.8	23.3	23.9	2.8	3.8	4.4
Internet services	76.0	76.0	76.0	76.0	76.0	76.0	-	-	-
EV	23.4	23.1	24.3	20.1	21.5	22.2	(3.3)	(1.6)	(2.1)

Source: Xiaomi, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	457,287	429,571	483,402	525,276
EBITDA	40,300	25,434	38,682	48,142
Deprec. & amort.	(8,757)	(6,406)	(7,341)	(7,991)
EBIT	31,543	19,028	31,342	40,151
Total other non-operating income	16,358	8,827	-	-
Associate contributions	326	86	-	-
Net interest income/(expense)	1,746	2,158	2,231	3,429
Pre-tax profit	49,647	30,013	33,572	43,580
Tax	(8,080)	(6,080)	(5,302)	(6,847)
Minorities	77	44	52	68
Net profit	41,643	23,977	28,323	36,801
Net profit (adj.)	39,166	22,082	28,323	36,801

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	27,950	37,696	47,182	56,469
Other LT assets	209,572	226,420	242,593	258,316
Cash/ST investment	26,914	41,105	53,221	56,753
Other current assets	243,660	201,891	220,636	223,396
Total assets	508,096	507,112	563,632	594,934
ST debt	6,649	6,649	6,649	6,649
Other current liabilities	185,756	160,839	189,088	183,658
LT debt	22,921	22,921	22,921	22,921
Other LT liabilities	26,446	26,446	26,446	26,446
Shareholders' equity	266,219	290,196	318,519	355,320
Minority interest	105	60	8	(60)
Total liabilities & equity	508,096	507,112	563,632	594,934

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	34,142	45,032	42,885	33,104
Pre-tax profit	49,647	30,013	33,572	43,580
Tax	(8,080)	(6,080)	(5,302)	(6,847)
Deprec. & amort.	8,757	6,406	7,341	7,991
Associates	(326)	(86)	-	-
Working capital changes	(12,677)	1,088	9,504	(8,191)
Non-cash items	(3,178)	13,691	(2,231)	(3,429)
Other operating cashflows	-	-	-	-
Investing	(71,679)	(33,000)	(33,000)	(33,000)
Capex (growth)	(13,000)	(13,000)	(13,000)	(13,000)
Investments	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Others	(58,679)	(20,000)	(20,000)	(20,000)
Financing	30,766	2,158	2,231	3,429
Dividend payments	-	-	-	-
Issue of shares	-	-	-	-
Proceeds from borrowings	10,000	10,000	10,000	10,000
Loan repayment	(25,998)	(10,000)	(10,000)	(10,000)
Others/interest paid	46,764	2,158	2,231	3,429
Net cash inflow (outflow)	(6,770)	14,190	12,116	3,533
Beginning cash & cash equivalent	33,661	26,914	41,105	53,221
Changes due to forex impact	23	-	-	-
Ending cash & cash equivalent	26,914	41,105	53,221	56,753

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	22.3	21.2	21.4	21.6
Pre-tax margin	10.3	6.7	6.9	8.3
Net margin	9.1	5.6	5.9	7.0
ROA	8.6	4.4	5.3	6.4
ROE	17.2	7.9	9.3	10.9
Growth				
Turnover	25.0	(6.1)	12.5	8.7
EBITDA	33.0	(10.7)	13.9	9.5
Pre-tax profit	76.5	(39.5)	11.9	29.8
Net profit	76.0	(42.4)	18.1	29.9
Net profit (adj.)	43.8	(43.6)	28.3	29.9
EPS	48.0	(42.4)	18.1	29.9
Leverage				
Debt to total capital	5.8	5.8	5.2	0.0
Debt to equity	11.1	10.2	9.3	8.3
Net debt/(cash) to equity	1.0	(4.0)	(7.4)	(7.7)
Interest cover (x)	(18.1)	(8.8)	(14.0)	(11.7)