

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Xiaomi Equity Research –
The Smartification of Life

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MASTER'S IN FINANCE

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Abstract

Since its entry into the smartphone market, Xiaomi rapidly positioned itself as a leader in the low-cost, high-value segment. Leveraging its ability to deliver feature-rich products at competitive prices and innovate at exceptional speed, the company expanded its footprint into the smart home devices industry and established a centralized ecosystem where all devices seamlessly integrate. Now, Xiaomi is undertaking an even bolder initiative by entering the highly competitive yet rapidly growing electric vehicle market in China.

The aim of this equity research is to assess whether Xiaomi can replicate its historical success in this segment. Using a combination of analysis, forecasting and valuation methods, we evaluate the impact of this new venture on its stock price, following the release of its first EVs.

Keywords:

Smartphones; Internet of Things; Electric Vehicles; Equity Research

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This report is part of the Xiaomi Equity Report report (Xiaomi's New Frontier: Will EVs Drive Future Growth?), developed by Gates Wang and Xia Jiale and should be read as an integral part of it.

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Introduction

This document is half part of Equity Report of “Xiaomi New Frontier: Will EVs Drive Future Growth?”.

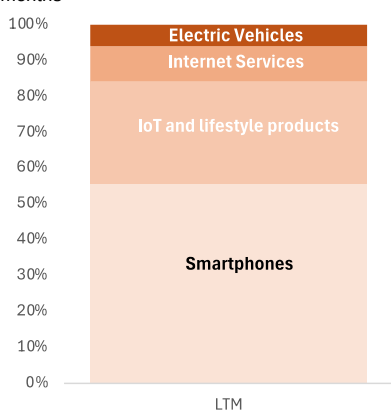
I begin by introducing Xiaomi and examining its business model and value creation strategy to provide proper context. A financial analysis of the company is then performed, in order to study how the company has faced past challenges (such as covid), how profitable and efficient it has been over time, and how resilient it may be in supporting emerging segments without compromising its long-term sustainability.

Building on this, a macroeconomic overview of China (its most significant market) is presented, as understanding future economic conditions is essential for informed forecasting. A forecast is produced for each one of the company’s core business lines, along with key indicators essential for the forecast of future free cash flows (such as R&D, CAPEX and Working Capital).

Lastly, the scenario analysis considers two cases derived from the market outlook which might significantly change share price: the possibility of a conflict between China and Taiwan, and a brighter-than-expected economic recovery in China. This serves as a complement to the valuation chapter present in the other half of the report and establishes the best- and worst-case scenarios for Xiaomi’s stock price, at the end of 2025.

Company Overview

Figure 1- Xiaomi revenue mix in the last twelve months



Source: Company report

Xiaomi Corporation is a China-based investment holding company founded in 2010 by Lei Jun, with the mission of “letting everyone in the world enjoy a better life through innovative technology”. It became a publicly traded company in 2018 and is listed on the Hong Kong Stock Exchange (1810.HK). In 2019, the company became **the youngest company to be ranked on the Fortune Global 500 list**.

Xiaomi’s stock price lately has increased substantially, **reaching levels close to the all-time high values during the pandemic** (for a complete description of stock price evolution, refer to *Appendix 1*).

The company operates across four core segments: **Smartphones, Internet of Things (IoT) and Lifestyle Products, and Internet Services**, with an emerging focus on the development of **Electric Vehicles (EVs)**.

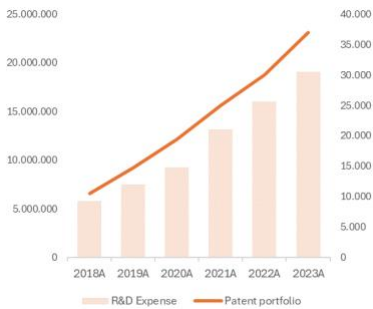
Xiaomi’s operations span over 100 countries, with China accounting for 55% of revenues. Its presence in overseas markets is pronounced in Europe and India, representing the company’s presence in both mature and developing markets.

Figure 2 - Revenue geographical breakdown



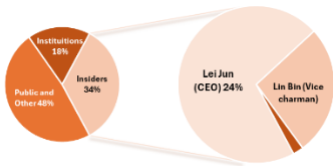
Source: Company report

Figure 3 - R&D expenses ('000 RMB) and patent portfolio



Source: Company report

Figure 4- Xiaomi's ownership structure



Source: Company report

Figure 5 - Xiaomi product ecosystem



Figure 6 – Smartphone Dual-brand model



Source: Company report

In the smartphone industry, it rapidly gained market share over time, being currently ranked as the **third-largest smartphone company in the world by shipments**, and its competitive edge lies on its cost-effective and high-quality products.

As an innovation-driven company, the company has a solid committed to R&D investments, which has historically grown at a CAGR of 27%. **Half of its 40,000 workforce is dedicated to R&D** and it was considered the 29th most innovative company in the world by BCG¹ and ranked 8th in global 5G Standard Essential Patents.

Xiaomi's ownership structure comprises insiders (34%), institutions (18%), and the general public (48%). CEO Lei Jun holds the largest stake at 24.3%. Institutions among the top 10 shareholders are passive investors and have low portfolio turnover (BlackRock is the largest one, owning 4% of total shares). Because of the company's weighted voting rights system, **Lei Jun concentrates over 62% of the voting power** and has been an essential factor for the success of the company (refer to *Appendix 2*).

Business model

The business model is built on three pillars: **(1) hardware sales**, since Xiaomi attracts new customers by offering the most competitive price-to-performance ratios particularly in the lower-end smartphone segment; **(2) customer retention** through its **MiHome** platform, that interconnects every product and enables users to create their smart home ecosystems; and **(3) monetization** through its internet services, that generate recurring income that compensates for the tight margins in hardware;

Pillar 1: Hardware Sales

The hardware pillar is composed by three segments: Smartphones, IoT and Lifestyle products and more recently, Electric Vehicles.

The smartphone segment is the foundation of Xiaomi's product portfolio, representing 56% of revenues. Xiaomi adopts a dual-brand model to target different markets and is recognized for its high-value-for money smartphones (which run their own operating systems 'MIUI' and 'HyperOS').

The **IoT segment** (28% of revenues) **comprises more than 200 everyday smart devices categories**, from wearable devices and smart TVs to electric scooters and large home appliances. What distinguishes these devices is Xiaomi's **capacity**

¹ Boston Consulting Group. (2023). *Most innovative companies 2023: Reaching new heights in uncertain times*. Retrieved from <https://web-assets.bcg.com/ce/fd/d7fa78e547a09d2eef5086fbbf79/bcg-most-innovative-companies-2023-reaching-new-heights-in-uncertain-times-may-2023.pdf>

Figure 7 - IoT product categories



Source: Company website

of turning any quotidian item into a smart item, with added features and at low prices, that get further enhanced when connected to MiHome.

Electric Vehicles debuted in April 2024 with the SU7 Series, which is built in house and possesses several core self-developed technologies. In two quarters time, it already represents 6% of total revenues, and similarly to the other segments, the pricing strategy is aggressive², undercutting Tesla’s Model 3 price by selling the base model for less than \$30,000 dollars.

In October, Xiaomi released a luxury version of its SU7 cars, with autonomy of 630km, and claiming to be the fastest four-door car in production while showcasing an outperformance vis-à-vis the Porsche Taycan Turbo, in acceleration and top speed specifications³. Commercialization will begin in 2025.

Pillar 2: Customer retention through device connectivity

MiHome is the pillar for user retention, because of the seamless integration of devices, enhanced convenience and data collection and processing.

The first feature allows users to create their own smart home and control everything through its smartphone (and eventually, electric cars). This enhances convenience since everything is centralized and can be automatized.

Moreover, the Company gathers data which is then used to adapt to consumers’ preferences, **providing a personalized service that learns about its user’s habits to improve their experience** and create upselling opportunities.

Most importantly, the more numerous and diverse the devices being sold become, the more likely users are to remain loyal to the brand, creating the **“walled garden effect”** which is also seen in other peers like Apple, in which customers end up building ecosystems of products around the same brand due to their integration.

Monthly Active Users of the MiHome App surpassed the 100 million mark in Q3 2024 and has been growing at a CAGR of 30%.

Pillar 3: Internet Service monetization

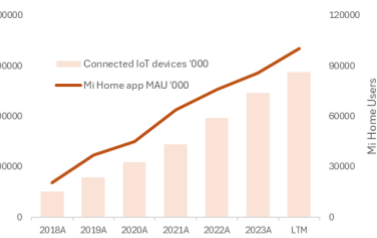
Internet services comprise a wide range of online services that Xiaomi distributes through its smartphones and IoT devices, such as advertising, gaming, fintech, e-commerce, streaming and cloud-service subscriptions, being the first two the biggest contributors to the segments’ revenue (85%).

Figure 8 - Average Selling Price (ASP) of Xiaomi SU7 Series

Xiaomi SU7 Series ASP	
SU7	RMB 215,900
SU7 Pro	RMB 245,900
SU7 Max	RMB 299,900

Source: Company report

Figure 9 - Mi Home active users & Connected devices over time

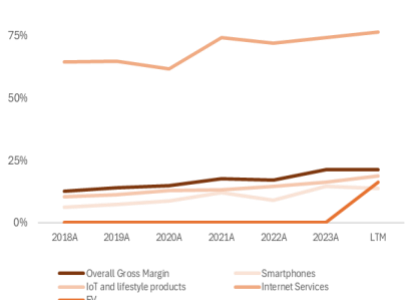


Source: Company report

² CNBC. (2024, April 24). *China's Xiaomi is selling so many electric cars it's closer to breaking even*. Retrieved from <https://www.cnbc.com/2024/04/24/chinas-xiaomi-is-selling-so-many-electric-cars-its-closer-to-breaking-even.html>

³ Reuters. (2024, October 29). *Xiaomi chief touts Nürburgring record ahead of EV launch*. Retrieved from <https://www.reuters.com/business/autos-transportation/xiaomi-chief-touts-nurburgring-record-ahead-ev-launch-2024-10-29/>

Figure 10 - Gross margin per segment, from 2018 to Q3 2024



Source: Company report

Figure 11 – ‘Human X Car X Home’ Strategy



Advertisements are integrated within their proprietary operating systems and its gaming operations include revenues from its Mi App store (commissions and in-app purchases).

Figure 10 portrays gross margin per segment and reiterates why this segment is crucial for the company’s financial sustainability: despite representing only 10% of the company’s revenues, it contributed to 36% of overall gross profit.

Strategy

Xiaomi’s vision is reflected in its goal of being present in 95% of user life scenarios and pretends to achieve it through its “**Human x Car x Home**” strategy, with the new HyperOS 2 operating system connecting the three dots through improved connectivity and user experience. This presents an important step, as the company transitions from being a provider of connectivity and automation tools that unify its ecosystem to building a new intelligent ecosystem powered by AI.

The strategic entry into EVs aligns with the company’s vision, as the **smart home concept is now extended to mobility**. This allows the company to leverage its expertise in hardware-software integration, create new cross-product synergies (such as the remote control of home devices, e.g., the ‘Go Home Mode’ which enables users to remotely activate lights and air conditioning before they arrive home) and unlock new monetization opportunities by entering in a high-growth and green industry.

On the other hand, while the company initially pursued volume growth, it has recently switched to a **double emphasis on scale and profitability**. Through premiumization, the company simultaneously develops products to serve the maturing smartphone markets in China and Europe and capitalizes on the higher margins. On the cost side, efficiency is being achieved through supply chain optimization and smart factories.

Figure 12 - Suppliers of Xiaomi components

Component	Supplier	
Processors	Qualcomm	
	MediaTek	
Displays	Samsung	
OLED panels	China Star	
Camera Modules	Sony	
EV Batteries	BYD	

Source: Company website

Value Chain Analysis

Raw Materials and Component Sourcing

Xiaomi’s value proposition, known for high value-to-price ratios, is enabled in part by lower production costs derived from its China-based operations. However, **what sets Xiaomi apart from other peers is its supply-chain management**. The company maintains a vast, geographically diversified network of component suppliers, sourcing key inputs such as chips from Qualcomm, OLED panels from

China Star⁴, screens from Samsung⁵, camera modules from Sony⁶, and EV batteries from BYD. By cultivating strong relationships and diversifying sourcing across multiple regions, Xiaomi minimizes potential disruptions/delays, enhancing supply chain resilience.

Still, the semiconductor shortage during the COVID-19 pandemic highlighted some weaknesses. Xiaomi was heavily affected by the supply constraints, losing its #2 position in the smartphone market to Apple⁷—who possessed stronger relations with its suppliers and had preferential component access.

Manufacturing, Product development and Production

Xiaomi focuses on designing, engineering, and developing devices. The company produces some smartphones in-house and has opened in 2024 its fully automated smartphone production facility⁸, **designed to produce over 10 million high-end smartphones annually**. However, **a big part of its production is outsourced**, falling into the ODM (original design manufacturer) category. This justifies the company's *asset light balance sheet* and allows the company to rapidly scale output and adapt production volumes when necessary.

Rather than allocating most of its resources to production, **Xiaomi instead invests in specialized companies and incubates startups, creating a network of minority investments**. Under these partnerships Xiaomi provides financing, R&D and access to distribution channels in exchange for production under the Xiaomi brand at advantageous prices. This arrangement is mutually beneficial, since **Xiaomi expands its portfolio of products without tying up capital in production, leverages on the specialized know-how of the startups and is able to maintain control over quality and branding**. On the investees' side, they receive funding to scale up and a loyal customer, without giving up on their majority stake in the company.

This model guarantees alignment of interests and has proved essential in expanding **the IoT segment to its current size of more than 200 products**. Furthermore, Xiaomi has historically profited significantly from the appreciation of its stake in the companies (e.g., when companies do their IPO).

Table 1 - Main ecosystem partners and its products

Producer	Category/Product
Huami	Smartwatches (Amazfit)
Roborock	Robot Vacuums
SmartMi	Air Purifiers & Fans
Xiaoyi	Cameras (Security/Dash)
Hooeasy	Smart Locks
Lumi	Smart Sensors (Aqara)
Miiw	Keyboards & Accessories
Ninebot	Electric Scooters
Runmi	Luggage & Backpacks
Forewin	Electronic Components

Source: Company report of 2021

⁴ Omdia. (2022, November). *Display dynamics: Xiaomi's new Redmi Note 12 Pro smartphones adopt OLED panels from China Star, Tianma, and Visionox*. Retrieved from <https://omdia.tech.informa.com/om027410/display-dynamics--november-2022-xiaomis-new-redmi-note-12-pro-smartphones-adopt-oled-panels-from-china-star-tianma-and-visionox>

⁵ Xiaomi. (n.d.). *What is the Xiaomi ecosystem?* Retrieved from <https://www.mi.com/global/support/fag/details/KA-91513/>

⁶ Xiaomi. (n.d.). *Xiaomi 13 Pro 5G*. Retrieved from <https://www.mi.com/in/product/xiaomi-13-pro-5g/>

⁷ India Today. (2021, November 24). *Xiaomi hit hard by global chip shortage, loses number 2 spot to Apple*. Retrieved from <https://www.indiatoday.in/technology/news/story/xiaomi-hit-hard-by-global-chip-shortage-loses-number-2-spot-to-apple-1880292-2021-11-24>

⁸ TrendForce. (2024, July 9). *News featuring MIX Fold 4: Xiaomi's smart factory opens with 10 million annual flagship smartphone capacity*. Retrieved from <https://www.trendforce.com/news/2024/07/09/news-featuring-mix-fold-4-xiaomis-smart-factory-opens-with-10-million-annual-flagship-smartphone-capacity/>

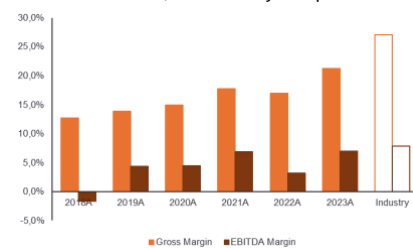
Distribution

Xiaomi initially capitalized on the e-commerce boom by selling its products on the Tmall platform, later establishing its own e-commerce platform⁹. This strategy broadened Xiaomi's reach and reduced costs by eliminating intermediaries. However, more recently Xiaomi started investing in retail stores with the goal of **showcasing the quality and use scenarios of its ever-expanding portfolio of products**, helping in its sales. As of September 2024, offline stores in China exceeded 13,000 vs 3,200 stores in December of 2020.

Financial Analysis

Profitability

Figure 13 - Gross and EBITDA Margin Evolution, from 2018 to 2023, and industry comparison



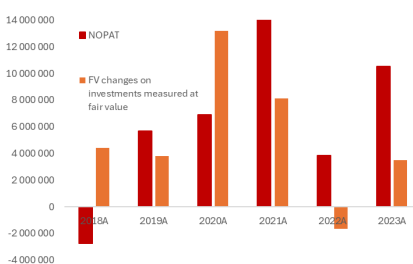
Source: Company report and Capital IQ (industry)

In general, **profitability has improved over the past six years**, increasing from 13% in 2018 to 21% in 2023. Even during the COVID-19 pandemic and amidst the global supply chain distress, Xiaomi continued increasing its margin, showcasing the resilience of its robust business model and the successful implementation of its high-end product strategy. The industry benchmark (calculated based on the weighted average of the four proxy industries in % revenues) for gross profit is around 27%.

Similarly, Xiaomi's **EBITDA margin has increased significantly** since the company first went public. From 4% in 2018¹⁰ the margin is now 7% (in 2023), close to the industry benchmark of 8%. This is mostly a reflection of the dilution of fixed costs (primarily administrative) as the company increased in scale.

Still, **this positions Xiaomi's below the benchmark in profitability, which is inherently related to its low-cost strategy**, coupled with its above average investments in R&D. In fact, as of 2023, the company invested 7% of its revenues in R&D, while the industry benchmark is 3.5%.

Figure 14 - NOPAT vs gains on investments measured at fair value, from 2018 to 2023



Source: Company Report

Overall operating profitability (NOPAT) has shown a similar trend. However, the company **profits significantly from the investments it makes on its network of producers/startups**. As portrayed in *figure 30*, gains on investments measured at fair value are extremely volatile, even surpassing the actual earnings of Xiaomi's core operations in some years. Despite being earnings derived from core

⁹ Zhou, Y., & Li, J. (2022). *The strategic path behind the success of China's typical internet intelligent terminal manufacturing enterprises: A case study based on Xiaomi*. Retrieved from https://www.researchgate.net/publication/362433650_The_Strategic_Path_Behind_the_Success_of_China's_Typical_Internet_Intelligent_Terminal_Manufacturing_Enterprises_A_Case_Study_Based_on_Xiaomi

¹⁰ Computing EBITDA margin in 2018 with the raw values, the EBITDA margin is -1.2%. After adjusting for the one-off share based compensations in 2018 associated to its IPO, the margin increases to 4%.

investments, we consider it non-recurrent, and therefore, they are not contemplated on the ratios calculated above.

Lastly, since the company maintained a net cash position, interest payments are not material.

Efficiency

Given the company's technological focus and low capex (¥7.6bn vs ¥19bn R&D, in 2023), **we capitalized R&D expenses since 2018 with a 5-year useful life** (the norm for "light manufacturing", as per Damodaran¹¹). This ends up affecting NOPAT and Invested Capital since R&D is now more diluted and capitalized every year on the reformulated balance sheet.

As a result, adjusted ROIC presents more accurately the company's economic reality. Adjusted ROIC increased from 21% in 2019 to 26% in 2021, followed by a sharp decline to 8% in 2022 before recovering to 13% in 2023.

By decomposing ROIC into its two key components, we see that during the initial increase, NOPAT margin remained at 5%, increasing slightly in 2021. Asset Turnover had a similar pattern, instead reducing in 2021 from 430% to 385%, reflecting Xiaomi's focus on the low-end hardware.

The next year, however, was market by a turning point with both ratios experiencing sharp declines and leading to a substantial decline in ROIC. This coincided with the period of turmoil in which Xiaomi's revenues decreased by 15% due to the harsh economic conditions in China. In 2023, an improvement in NOPAT (due to premiumization) supported a partial recovery in ROIC to 13%.

Capital Structure

Xiaomi has not maintained a constant capital structure over time (-9% in 2018, -27% in 2020, 3% in 2021). The company has high levels of financial autonomy and high concentrations of excess cash, that lead to net cash levels. This is common among the Chinese peers (*figure 33*) corroborating studies that show that on average, Chinese companies hold 23% more cash than US counterparts¹².

This extra buffer of equity and cash allows companies to have a safety margin and is important in emerging markets. **In Xiaomi's case, this buffer allows to absorb EV losses.** In its most levered state (during 2021), interest coverage ratio was 5, still higher than the industry average of 4.

Figure 15 - ROIC evolution, from 2019 to 2023

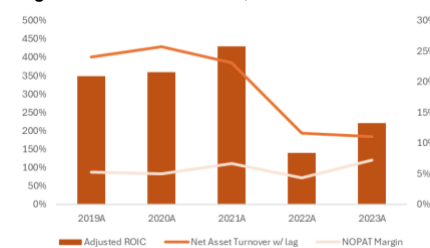
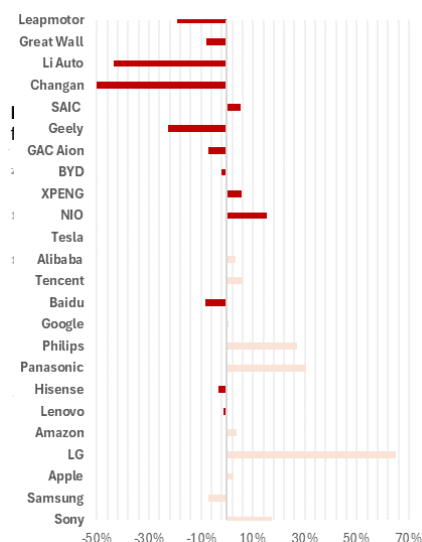


Figure 16 - Net Debt to Equity Ratio of peers in 2023 (chinese companies in red)



¹¹ Damodaran, A. (n.d.). *R&D conversion spreadsheet*. Retrieved from <https://pages.stern.nyu.edu/~adamodar/pc/R&DConv.xls>

¹² J.P. Morgan. (2023). *Working capital index: China report 2023*. Retrieved from [jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf](https://www.jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf)

Debt-to-EBITDA, another indicator that portrays the degree of leverage, was 1.8x in 2023, which is significantly lower than the industry benchmark of 4.3x. The lower leverage reflects in the much higher interest coverage ratio of 9x (vs industry average of 4x). Xiaomi is currently rated BBB by Fitch¹³.

Liquidity

On a general note, the current ratio has historically been above the industry benchmark (1.5x) at around 1.7x, showing resilience even during covid years, when the lowest ever value was 1.49x.

The quick ratio is also consistently above the 1x threshold, showing improvement over time and converging with the industry average at 1.3x in FY2023.

The cash ratio has also been improving in the last few years, reaching 0.75x. These metrics portray a robust liquidity position, and no notable concerns regarding its ability to immediately fulfil its short-term obligations.

Cash Flow Management

According to JP Morgan¹⁴, cash conversion cycle (CCC) of Chinese companies is on average, 11 days longer than to U.S. peers.

This does not seem to be the case of Xiaomi, since **cash flow management stands out as a key strength, with a CCC of -50 days in 2023**. This positions the company favourably against the industry benchmark (*figure 34*) since it collects revenues more quickly and takes much longer to pay its suppliers. On the revenue side, this **efficiency is driven by its direct-to-consumer channel**, which reduces reliance on intermediaries. On the supplier side, Xiaomi benefits from **advantageous contractual conditions through its partnership model**, as many of its suppliers are companies in which Xiaomi holds minority stakes.

However, data from Q3 2024, which marks the introduction of EVs, reveals a notable shift. The inventory holding period decreased from 76 to 69 days, **contrary to the expected inventory buildup associated with the new segment and seasonal preparations for holiday season**. We attribute this decrease to excess demand for EVs, leading to inventories being sold almost immediately upon arrival.~

Figure 18 - Net Working Capital Evolution, from 2018 to Q3 2024, and industry comparison



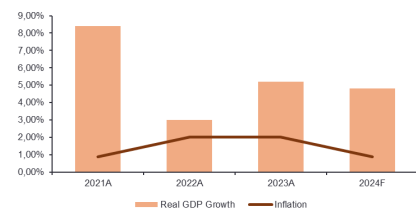
Source: Capital IQ (Industry data)

¹³ Fitch Ratings. (n.d.). *Xiaomi Corporation*. Retrieved from <https://www.fitchratings.com/entity/xiaomi-corporation-96674716>

¹⁴ J.P. Morgan. (2023). *Working capital index: China report 2023*. Retrieved from [jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf](https://www.jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf)

Macroeconomic overview

Figure 19 - China GDP and Inflation



Source: World Bank

Figure 20 – Manufacturing PMI in China, monthly, from 2022 to 2024



Source: National Bureau of Statistic of China

Figure 21 - Quarterly yoy GDP growth rate in China



Source: National Bureau of Statistic of China

The Chinese economy has faced significant challenges since the COVID-19 pandemic, exacerbated by **the real estate crisis triggered by Evergrande's collapse and by the strict lockdowns of 2022**, which weakened consumer sentiment and aggravated youth unemployment. In 2023, the real GDP growth target of 5% was narrowly reached, although monthly deflation levels raised concerns of a deflationary spiral¹⁵. Amid a slowing economy in 2024, the government released in September an **economic stimulus package**¹⁶ with **measures including interest cuts on mortgages to boost the housing market, reductions in reserve requirements for banks, and liquidity support for stock buybacks**, which strengthened investor confidence. China's credit rating is A+/A-1, according to S&P.

Looking ahead, China's Manufacturing PMI displayed an upward trend in recent months (*figure 36*), surpassing the “50” mark in November for the first time since April. This **indicates expansion in the manufacturing sector and may signal a potential stabilization in the next year**. On the other hand, quarterly GDP data reveals a slowing growth trend in 2024, with yoy growth at 4.6% in Q3, slightly down from earlier quarters. Even though the long-term effects of the stimulus remain uncertain, President Xi's declaration¹⁷ on December 10th of full confidence in achieving the 5% GDP growth target suggests that Q4 reflects an improvement in economic performance, **and a more optimistic outlook for the coming year**.

China-Taiwan tensions

Tensions between China and Taiwan have persisted for decades but have been escalating in recent years. Taiwan's Defense Ministry recently claimed, in December, that China had “fielded its largest regional maritime deployment in decades”, which is interpreted by some as a response to Taiwan's closer ties with Western nations and growing domestic discussions around independence¹⁸. Such developments heighten the risk of geopolitical conflict, which could further deteriorate China-US relations and disrupt global trade particularly in light of heightened tensions following Trump's re-election.

¹⁵ World Bank. (2023, December 14). *Sustained policy support and deeper structural reforms to revive China's growth momentum* - World Bank Report <https://www.worldbank.org/en/news/press-release/2023/12/14/sustained-policy-support-and-deeper-structural-reforms-to-revive-china-s-growth-momentum-world-bank-report>

¹⁶ The Guardian. (2024, September 24). *China economy stimulus package measures*. Retrieved from <https://www.theguardian.com/world/2024/sep/24/china-economy-stimulus-package-measures-yuan-pbc>

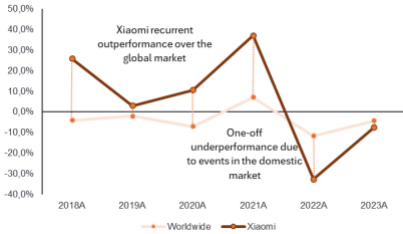
¹⁷ Reuters. (2024, December 10). *China has full confidence achieving this year's growth target, says Xi*. Retrieved from <https://www.reuters.com/world/china/china-has-full-confidence-achieving-this-years-growth-target-says-xi-2024-12-10/>

¹⁸ CNN. (2024, December 10). *China Taiwan maritime movement*. Retrieved from <https://edition.cnn.com/2024/12/10/china/china-taiwan-maritime-movements-intl-hnk/index.html>

Forecasts

Smartphones

Figure 22 - Smartphone shipments evolution, from 2018 to 2023 (Xiaomi vs global)



Source: Company Report (Xiaomi) & Canalys (Industry data)

Table 2 – Smartphone revenue growth forecast, until 2034F

Year	Smartphone Revenue growth	Worldwide
2018A	41%	-4%
2019A	7%	-2%
2020A	25%	-7%
2021A	37%	7%
2022A	-20%	-12%
2023A	-6%	-4%
Average	14%	-4%
2024F	23%	6%
2025F	16%	3%
2026F	16%	3%
2027F	12%	3%
2028F	12%	3%
2029F	10%	3%
2030F	8%	1%
2031F	8%	1%
2032F	3%	1%
2033F	3%	1%
2034F	3%	1%

Source: Company Report & IDC (for industry data)

For Smartphones, a **bottom-up**¹⁹ approach was adopted, decomposing sales into two key value drivers: shipment volume and average selling price (ASP)²⁰.

Over the past six years (excluding the 2022 correction year following unusually high sales in 2021), Xiaomi has consistently outperformed the global market in shipments growth (figure 38). We termed this as **volume premium**.

For future projections, we expect Xiaomi to sustain this *volume premium* over the global smartphone market, **although at declining levels in the medium-term as competition intensifies**. This goes in accordance with the latest data available which shows a revenue increase of more than 14% in the last twelve months. Over the long term, we project **shipment growth rate to align with the market average of 1.2% annually**, as the market matures.

We also expect ASP to increase: one part driven by **China's inflation** (since cashflows are in RMB) and another due to the **increased mix of high-end smartphones sold by Xiaomi**. This premiumization phenomenon was quantified by the historical premium between ASP increase and inflation, which represents the customer's willingness to pay more for more advanced technology.

On the cost side, we project that the **cost per smartphone will increase at an annualized rate of 3% over the next five years**, driven by the rising production costs of the MiSeries smartphones. Following this period, we applied the historical COGS CAGR (2021-LTM), reflecting the impact of Xiaomi's premiumization efforts.

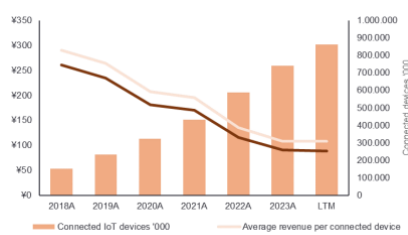
In the long-term, we estimate the gross margin to be at 19%, reflecting some improvement over time but still significantly below the industry average of 29.7%. This is because we expect the low-cost Redmi Series to remain a high portion of the revenue mix, since emerging markets show big growth prospects, and because **we expect that Xiaomi will need to continue undercutting the competition's prices even on high-end smartphones, resulting in lower margins**.

¹⁹ The lack of a detailed revenue breakdown within the "Rest of the World" category in the company report makes it impractical to use a top-down approach for forecasting.

²⁰ The annual report also allows a breakdown of sales by number of retail stores. However, we believe that store counts are a weak predictor of future sales, they have a supportive role rather than a sales-oriented function (e.g., to showcase the products, to provide after-sale services, etc.).

IoT and Lifestyle Products

Figure 23 - Average revenue and cost per devices and connected devices



Source: Company Report

For this segment, Connected Devices and Average Revenue per device (ARPD) were analysed as key value drivers. **However, the ARPD has shown a consistent declining trend over time, making it unreliable to forecast future values based on its historical patterns.** This led us to project the short-term growth rate of 16% based on the historical five-year CAGR of 14% and an additional volume premium reflecting Xiaomi's capacity advantage over the global growth rate of 2.2% in 2023. **This assumes that EVs' synergies will boost demand for smart devices**, because of features like the "Go Home Mode" already mentioned before. In the midterm, we estimate growth rate to moderate to 11%, aligning with global industry forecasts²¹, stabilizing at a long-term growth of 5% (Chinese GDP growth ceiling).

Average costs per connected device have also declined significantly, from ¥260 in 2018 to ¥88 in the LTM period. Due to the consistent downward trend and lack of clarity on a cost floor, we used **gross margin as the primary driver for forecasting costs and profitability.**

We assume that gross margin remains at 19% in the short-term, continuing the current trend of increased mix of large home appliances in revenues (no concrete values on the mix are given on the annual report) since competition in smart large appliances is still small. However, as time passes and new players enter in the subsegment, **we project the gross margin to decline and converge with the industry level of 13%.**

Internet services

Table 3 - Advertising revenue growth forecast, until 2034F

Year	Smartphone Volume growth	Connected Devices growth	Advertising growth
2018A	30%	193%	79.9%
2019A	5%	56%	5.5%
2020A	17%	38%	19.2%
2021A	30%	34%	42.5%
2022A	-21%	36%	2.2%
2023A	-3%	26%	10.8%
Average	10%	64%	26.7%
2024F	14.4%	24%	19.3%
2025F	11%	21%	16%
2026F	11%	18%	15%
2027F	6.9%	17%	11.8%
2028F	6.9%	17%	11.8%
2029F	4.8%	14%	9.4%
2030F	3.2%	14%	8.2%
2031F	3.2%	14%	8.2%
2032F	1.2%	5%	4.2%
2033F	1.2%	5%	4.2%
2034F	1.2%	5%	4.2%

Source: Own forecasts

The forecast for Xiaomi's advertising revenue was developed using a **regression analysis** on **smartphone shipments** and **connected devices**, since they act as platforms for targeted advertising: more smartphone users and connected devices (Smart TVs) translate into increased screen time and opportunities for ad placements.

Figure 24 - Regression output

Regression Statistics						
Multiple R	0,951					
R Square	0,905					
Adjusted R Square	0,842					
Standard Error	0,118					
Observations	6					
		Coefficients	Std Error	P-value	Lower 95%	Upper 95%
Intercept		0,019	0,071	0,808	-0,208	0,246
Smartphone Volume		0,756	0,304	0,089	-0,213	1,724
Connected Devices		0,275	0,095	0,063	-0,027	0,576

Advertising Growth = 0.019 + 0.76 * Smartphone Volume Growth + 0.27 * Growth in Connected Devices

²¹ Statista. (n.d.). *Consumer IoT - Worldwide*. Retrieved from <https://www.statista.com/outlook/tmo/internet-of-things/consumer-iot/worldwide>

Table 4 - Gaming Revenues growth for Xiaomi and the Chinese market, with forecast until 2032

Year	Xiaomi Gaming Revenues Growth	Chinese Gaming Market
2018A	7%	12%
2019A	18%	13%
2020A	31%	22%
2021A	-5%	12%
2022A	4%	0%
2023A	5%	10%
Average	10.35%	11.5%
2024F	7%	
2025F	5.4%	
2026F	5.2%	
2027F	5%	
2028F - 2032F	5.29%	

Source: Company Report & Statista (for industry data)

The regression analysis utilized yearly data since Xiaomi’s IPO and demonstrated a strong relationship, with an **R-squared of 90.5%²²**, with both variables statistically significant at a 90% confidence interval. This resulted in growth rates of 19% in 2024, which declined over time stabilizing at 4.17% in the long term.

For the Gaming segment, the previously mentioned industry-level forecasts were used to project revenues. We believe that Xiaomi’s gaming operations will grow along the Chinese gaming industry, since the **market will continue being largely dominated by Tencent**. Beyond 2029, the Chinese GDP growth of 5% was used.

Due to the lack of granular detail in the financial reports, which do not separate costs by subsegment, we projected costs through the COGS-to-revenue ratio. Historically, this ratio has decreased significantly, from 36% in 2018 to 24% in the LTM because of already mentioned economies of scale. We believe that the gross margin will remain at 75% for the remainder of the forecasting period.

While Xiaomi does generate revenue from its e-commerce and fintech activities, these segments remain too small to significantly influence the company’s overall value. Loan receivables account for less than 1% of invested capital, so incorporating a financial institution valuation framework would not meaningfully improve our overall valuation analysis.

Electric Vehicles

A **bottom-up approach** was also applied to forecast EV revenues by identifying the number of EV deliveries and the average selling price ASP, segmented into the SU7 Series and the luxury SU7 Ultra.

Our 2024F explicit forecast was based on the company’s annual target of delivering 130,000 SU7 series vehicles, which we believe will indeed be achieved (since the previous target was already beaten) and considering the market’s positive reception of the vehicles. We used the ASP of ¥228,644 per unit based on Q3 2024 data.

For the coming years, we considered the current average of 4,000 vehicle orders per week²³. We project that weekly demand will rise to 5,000 in 2025F and 5,500 in 2026F, **driven by increased production capacity from new EV manufacturing plants**. These facilities are expected to significantly reduce the current production time of approximately 21 weeks, thereby boosting demand.

Table 5- Xiaomi EVs Revenue Forecast until 2032F

Year	Xiaomi EVs Growth	Assumptions
2025F	126%	Explicit forecast
2026F	21%	
2027F	22%	Based on peer group, decreasing over time to reach terminal growth of 5%
2028F	22%	
2029F	22%	
2030F	18%	
2031F	13%	
CAGR (2026F-2031F)	19%	
2032F - 2034F	5%	China GDP growth

Source: Own forecasts

²² Although the model explains a substantial proportion of the variation in advertising revenue, we acknowledge the limitations of size of the sample.
²³ CnEVPost. (2024, November 5). *Xiaomi SU7 monthly production expected to reach 24,000 units in November and December: Report*. Retrieved from <https://cnevpost.com/2024/11/05/xiaomi-su7-monthly-production-24000-nov-dec-report/>

For the luxury version, which will begin commercialization in March 2025 at an ASP of ¥814 900 (around \$144,200), we forecast a demand of 8,000 deliveries (double of Goldman Sachs' forecast of 4,000²⁴, based on initial demand data (with SU7 Ultra receiving 3,680 orders within 10 minutes after its presentation") and their factory capacity. For 2026, we forecast double the demand (16,000 SU7 Ultra vehicles) **assuming inflation as the only factor changing the price over time.**

In future years, due to the challenges in forecasting sales within this emerging segment and the lack of reliable industry forecasts, we analyzed past growth rates of selected peers, which we deem to be the most comparable to Xiaomi (criteria for peer selection in *Appendix 4*). The growth rate chosen for our mid-term forecast [CAGR (2026-2031) = 19.2%] is based on their average growth during 2023, the only year we view as "business as usual", given that covid years are not representative of realistic future growth trends. **Over the long-term, the growth rates gradually with China's projected GDP growth of 5.3%.**

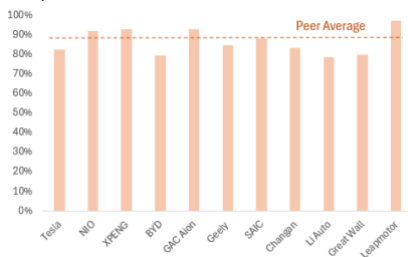
On the costs side, we projected the current COGS-to-revenue ratio of 84%, since it is already lower than the peer group average of 87% (figure 41). While Xiaomi could potentially narrow the gap with mature players like BYD in the future, the scale difference remains significant. Additionally, **BYD's specialization in EV batteries provides it with a long-term competitive advantage**, as Xiaomi currently relies on BYD batteries for its vehicles.

Assuming a 35% allocation of R&D expenses to the EV segment, and SG&A costs proportionate to its revenues, we forecast the EV segment to break even in 2028. For perspective:

- Fitch Ratings expects the segment to continue unprofitable for the next years²⁵;
- Citibank forecasts EV breakeven at 300k – 400k annual vehicle sales²⁶.

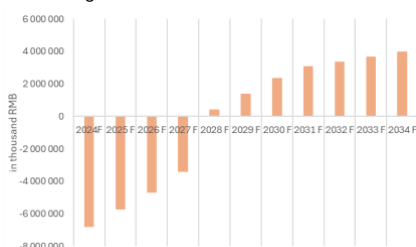
While the CEO has mentioned its plans of becoming a top-five EV automakers in the world in two decades time, we assumed that the focus in the foreseeable future would be in the domestic market, considering the global geoeconomic scenario, particularly after Trump's re-election, which will lead to even more tariffs for the industry and the prioritization of Tesla.

Figure 25 - Average COGS/Revenue ratio for EV peers



Source: Capital IQ

Figure 26 - Core result before taxes (NOPAT) of the EV segment



Source: Own forecasts

²⁴ CarNewsChina. (2024, October 29). *Xiaomi SU7 Ultra launched in China for \$114K USD*. Retrieved from <https://carnewschina.com/2024/10/29/xiaomi-su7-ultra-launched-in-china-for-114k-usd/>

²⁵ <https://www.fitchratings.com/research/corporate-finance/xiaomis-strong-core-businesses-increase-buffer-for-evs-26-08-2024>

²⁶ <https://www.carscoops.com/2024/08/xiaomi-lost-9200-for-every-ev-it-sold-and-still-did-better-than-rivian-and-ford/>

Net Working Capital

Table 6 – NWC/Revenues, from 2018 to 2035F

Year	Net working capital as % of revenue
2018A	1.9%
2019A	-4.8%
2020A	-6.4%
2021A	2.7%
2022A	7.1%
2023A	-2.3%
2024F	-2.3%
2025F	-2.0%
2026F	-1.5%
2027F	-2.1%
2028F	-2.1%
2029F	-1.7%
2030F	-1.8%
2031F	-1.6%
2032F	-1.6%
2033F	-1.6%
2034F	-1.6%
2035F	-1.6%

Source: Own forecasts

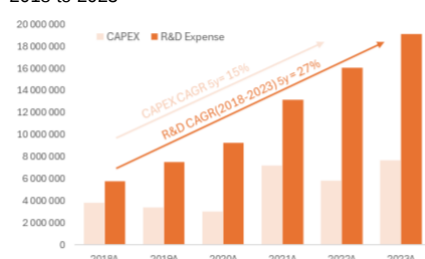
We believe that Xiaomi will continue maintaining a negative CCC in the future. Furthermore, as the EV segment becomes more important revenue-wise, we forecast an increase in inventory holding period, since industry data shows a holding period for the auto industry 14% higher than smartphones.

We project days sales outstanding higher than the past, since EVs take much longer to be paid. Regarding payables, an enhanced negotiating power is expected, considering that raw materials needed for all the segments are interrelated (lithium batteries, chips, etc.) **leading to a bigger scale and bargaining power against its suppliers.**

As for the other items not included in the CCC, we forecast operating cash as 7.5%, since companies in **emerging markets tend to keep higher amounts of cash**²⁷. Income tax liabilities are forecasted based on the historical average excluding covid-years (eliminating eventual government grants provided during covid). The value of 0.43% is lower than the past, but we consider it realistic since **EVs might bring tax benefits from the government's side** (the Chinese government has lower corporate tax rates for companies engaged in certain sectors and activities, e.g., pollution prevention and control²⁸). The long-term simplified forecast assumes that WC will remain at -1.6% of revenues.

Capex

Figure 27 – Xiaomi Capex vs R&D expenses, from 2018 to 2023



Source: Capital IQ

Xiaomi does not detail the specific allocation of its Capex in its annual reports, although it is evident that investments have been made in production plants. In 2024, the company completed the construction of its new smartphone production facility, which involved a total investment of around RMB 2,4bn.

We believe this is reflected in 2023's PPE increase in % of revenue, from 2.8% to 5.1%. Considering that Xiaomi aims to complete its EV production facility in H1 2025, we opted for maintaining this elevated PPE-ratio to represent the new trend towards some tangibility in Xiaomi's balance sheet.

According to this method, the 2024F value for gross CAPEX is RMB11bn, which is in line with the LTM data of RMB 9bn.

R&D

Our explicit R&D forecast is based on the company's announcement of investing over RMB 100 bn in R&D over the next five years. However, considering the

Table 7 - R&D/Revenues industry benchmark calculation

Industry Name	R&D as % of Revenue	Weights for proxy
Electronics (Consumer & Office)	3,83%	56%
Computers/Peripherals	3,68%	28%
Advertising	1,42%	10%
Auto & Truck	3,82%	6%

Source: Damodaran (industry data)

²⁷ J.P. Morgan. (2023). *Working capital index: China report 2023*. Retrieved from [jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf](https://www.jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf)

²⁸ PwC. (2024, June). *People's Republic of China: Taxes on corporate income*. Retrieved from <https://taxsummaries.pwc.com/peoples-republic-of-china/corporate/taxes-on-corporate-income>

investments made so far in 2024 and the more recent projections of RMB 35bn for 2025 (for a target CAGR since 2017 of 35%), we **believe R&D will exceed the RMB 100bn mark**. For the simplified long-term forecast, we based it on the assumption that R&D will converge to the industry benchmark of 3.5% of Revenues (*table 12*).

Transaction with Shareholders

Our projections for 2024 and 2025 reflect the repurchase of 249 million shares since January 2024 (*table 13*) which amount for HKD 3.7bn, as part of the HKD 10 bn buyback program approved by the Board. We assume the remaining shares, worth approximately HKD 6.3bn at an average price of HKD 25, will be repurchased in 2025. This will result in a reduction of approximately 240,000 shares, to a total of 24,762,422 shares outstanding (value to be used for valuation purposes).

For the future, we forecast that transactions with shareholders will continue at a similar proportion to the current program, with a **payout ratio of 18%**.

Scenario Analysis

Despite the low probability but high impact of a China/Taiwan conflict in 2025, we did a scenario analysis to assess how the impact in revenues, gross margin, SG&A would affect share price. According to Stimson Center, a conflict between China and Taiwan and with interference from the US could result in a 25%-35% contraction of China's GDP. We decided to reflect this into a slightly lower revenue reduction of 15%, since we consider that smartphones consumption is less cyclical and elastic to changes in the economy. Because of disruptions in supply chains likely in semiconductors, we assume a reduction in gross profit by 2 pp and predicted a doubling of SG&A expenses related to compliance, legal and restructuring costs. Lastly, a weaker RMB/HKD and a higher country risk premium were set.

In contrast, another plausible scenario is of an economic improvement faster than expected, following the Chinese government's stimulus package. We believe that with economic recovery, a bigger portion of sales will be on the premium segment, leading to an increase in ASP by 2.5%. This also reflects in improved margins and a stronger currency.

The outcome of these two scenarios is a **share price decline of 65% to HKD 14 in the war scenario and an increase of 25% to HKD 51 in the best-case scenario**.

Table 8- Xiaomi's latest share repurchases

	Share Repurchased (millions)	Aggregate Amount (million HKD)
January	112	1,533.1
February	26	324.7
March	6.8	101.9
April	18.2	285.9
May	5.6	98.8
June	39	676.5
July	39.5	656.1
September	1.7	31.4
Total	249.2	3,708

Source: Company report

Table 10 – War Scenario Assumptions

War Scenario		
Revenues	-15% in 2025F & -5% in 2026F	
Gross margin	2 p.p. ST Decrease	
SG&A	2x base case	
RMB/HKD	Depreciates by 10%	
Country Risk Premium	Increases to 1%	
Share Price		14.25 HKD
% over base case		-65%

Table 10 - Economic Recovery Assumptions

Economic Recovery Scenario		
Revenues	Small revenue increase of 2.5%	
Gross margin	2 p.p. ST Increase	
SG&A	Same as base case	
RMB/HKD	Appreciates by 10%	
Country Risk Premium	Decreases to 0.5%	
Share Price		50.9 HKD
% over base case		24%

Appendix

XIAOMI CORPORATION

CONSUMER ELECTRONICS/AUTOMOTIVE

STUDENT: GATES WANG & XIA JIALE

COMPANY REPORT

17 DECEMBER 2024

57865@novasbe.pt | 58223@novasbe.pt

“Xiaomi’s Next Frontier: Will EVs Drive Future Growth?”

Our recommendation for Xiaomi is **BUY**, with a target price of HKD 39.1 for end-2025, representing an upside potential of 24% from the current share price.

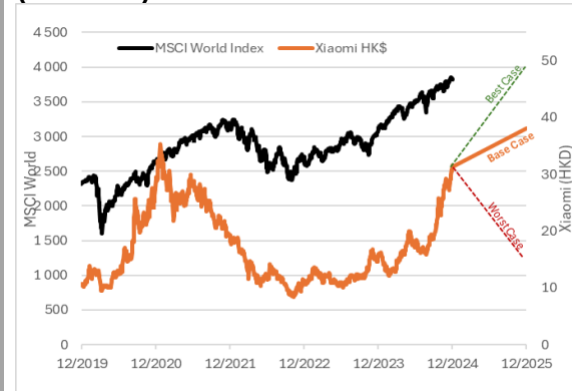
Despite trading near historic highs, we believe that Xiaomi’s growth trajectory is sustainable, since:

- It is the **#3 smartphone player in the world**, with leading positions in key emerging markets and is making strong progress in transitioning to premium segments, targeting new markets, and adapting to the maturing domestic market.
- The strategic move into the EV segment marked a major step forward, expanding Xiaomi’s ecosystem and is expected to play a pivotal role in driving future growth (**LTM data already shows overall revenues higher than its peak in 2021**).
- Xiaomi’s recent focus on both scale and profitability is addressing its long-standing weaknesses – sustainable profitability (**gross margin increased from 13% in 2018 to 21% in the LTM**).
- Management team demonstrates a long-term vision, a historical commitment to R&D, and most importantly, **effective execution of its ideas**.
- Financial analysis showcased a robust financial health, with a **net cash position and a negative CCC of -50 days in 2023**.

Recommendation:	BUY
<i>Vs Previous Recommendation</i>	-
Price Target end-25:	39.08 HK\$
<i>Vs Previous Price Target</i>	-
Price (as of 17-Dec-24)	31.65 HK\$
<i>Upside</i>	+24%
52-week range (HK\$)	11.84 – 32.15
Market Cap (HK\$)	781,435.3
Outstanding Shares (m)	24 962

Source: Capital IQ

Xiaomi Target Price (end-2025)



Source: Capital IQ and Own forecasts

(Values in million RMB)	2023A	2024F	2025F
Revenues	270,970	358,351	447,180
Smartphones	157,461	193,537	224,815
IoT and Lifestyle Products	80,108	96,773	111,945
Internet Services	30,107	34,376	38,554
Electric Vehicles (+ others)	-	33,665	71,866
Gross Profit	57,476	69,557	85,365
EBITDA (operating)	18,861	19,911	24,158
Comprehensive income	18,508	24,486	28,331
Adjusted NOPAT*	19,607	22,236	26,198
Adjusted Unlevered FCF*	33,181	3,887	7,242

Source: Company Annual Report & Own forecasts

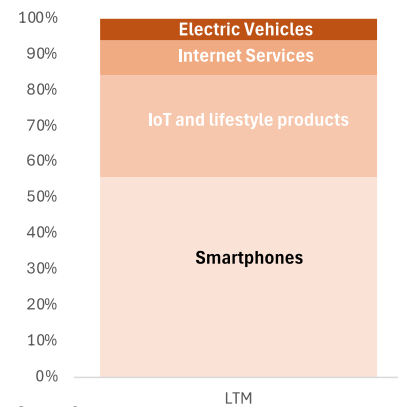
*non-IFRS measure

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY [GATES WANG AND XIA JIALE], A MASTER IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

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Figure 1- Xiaomi revenue mix in the last twelve months



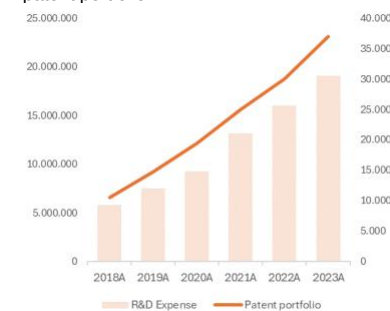
Source: Company report

Figure 2 - Revenue geographical breakdown



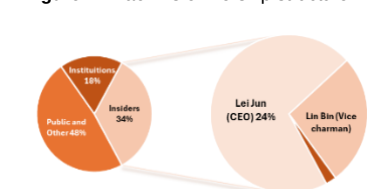
Source: Company report

Figure 3 - R&D expenses ('000 RMB) and patent portfolio



Source: Company report

Figure 4- Xiaomi's ownership structure



Source: Company report

Company Overview

Xiaomi Corporation is a China-based investment holding company founded in 2010 by Lei Jun, with the mission of “letting everyone in the world enjoy a better life through innovative technology”. It became a publicly traded company in 2018 and is listed on the Hong Kong Stock Exchange (1810.HK). In 2019, the company became **the youngest company to be ranked on the Fortune Global 500 list**.

Xiaomi's stock price lately has increased substantially, **reaching levels close to the all-time high values during the pandemic** (for a complete description of stock price evolution, refer to *Appendix 1*).

The company operates across four core segments: **Smartphones, Internet of Things (IoT) and Lifestyle Products**, and **Internet Services**, with an emerging focus on the development of **Electric Vehicles (EVs)**.

Xiaomi's operations span over 100 countries, with China accounting for 55% of revenues. Its presence in overseas markets is pronounced in Europe and India, representing the company's presence in both mature and developing markets. In the smartphone industry, it rapidly gained market share over time, being currently ranked as the **third-largest smartphone company in the world by shipments**, and its competitive edge lies on its cost-effective and high-quality products.

As an innovation-driven company, the company has a solid committed to R&D investments, which has historically grown at a CAGR of 27%. **Half of its 40,000 workforce is dedicated to R&D** and it was considered the 29th most innovative company in the world by BCG¹ and ranked 8th in global 5G Standard Essential Patents.

Xiaomi's ownership structure comprises insiders (34%), institutions (18%), and the general public (48%). CEO Lei Jun holds the largest stake at 24.3%. Institutions among the top 10 shareholders are passive investors and have low portfolio turnover (BlackRock is the largest one, owning 4% of total shares). Because of the company's weighted voting rights system, **Lei Jun concentrates over 62% of the voting power** and has been an essential factor for the success of the company (refer to *Appendix 2*).

¹ Boston Consulting Group. (2023). *Most innovative companies 2023: Reaching new heights in uncertain times*. Retrieved from <https://web-assets.bcg.com/ce/fd/d7fa78e547a09d2eef5086fbbf79/bcg-most-innovative-companies-2023-reaching-new-heights-in-uncertain-times-may-2023.pdf>

Business model



Figure 5 – Smartphone Dual-brand model



Figure 6 - IoT product categories



Source: Company website

Figure 7 - Average Selling Price (ASP) of Xiaomi SU7 Series

Xiaomi SU7 Series ASP	
SU7	RMB 215,900
SU7 Pro	RMB 245,900
SU7 Max	RMB 299,900

Source: Company report

The business model is built on three pillars: **(1) hardware sales**, since Xiaomi attracts new customers by offering the most competitive price-to-performance ratios particularly in the lower-end smartphone segment; **(2) customer retention** through its **MiHome** platform, that interconnects every product and enables users to create their smart home ecosystems; and **(3) monetization** through its internet services, that generate recurring income that compensates for the tight margins in hardware;

Pillar 1: Hardware Sales

The hardware pillar is composed by three segments: Smartphones, IoT and Lifestyle products and more recently, Electric Vehicles.

The smartphone segment is the foundation of Xiaomi's product portfolio, representing 56% of revenues. Xiaomi adopts a dual-brand model to target different markets and is recognized for its high-value-for money smartphones (which run their own operating systems 'MIUI' and 'HyperOS').

The **IoT segment** (28% of revenues) **comprises more than 200 everyday smart devices categories**, from wearable devices and smart TVs to electric scooters and large home appliances. What distinguishes these devices is Xiaomi's **capacity of turning any quotidian item into a smart item, with added features and at low prices**, that get further enhanced when connected to MiHome.

Electric Vehicles debuted in April 2024 with the SU7 Series, which is built in house and possesses several core self-developed technologies. In two quarters time, it already represents 6% of total revenues, and similarly to the other segments, the pricing strategy is aggressive², undercutting Tesla's Model 3 price by selling the base model for less than \$30,000 dollars.

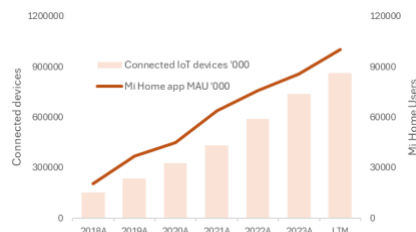
In October, Xiaomi released a luxury version of its SU7 cars, with autonomy of 630km, and claiming to be the fastest four-door car in production while showcasing an outperformance vis-à-vis the Porsche Taycan Turbo, in acceleration and top speed specifications³. Commercialization will begin in 2025.

² CNBC. (2024, April 24). *China's Xiaomi is selling so many electric cars it's closer to breaking even*. Retrieved from <https://www.cnbc.com/2024/04/24/chinas-xiaomi-is-selling-so-many-electric-cars-its-closer-to-breaking-even.html>

³ Reuters. (2024, October 29). *Xiaomi chief touts Nürburgring record ahead of EV launch*. Retrieved from <https://www.reuters.com/business/autos-transportation/xiaomi-chief-touts-nurburgring-record-ahead-ev-launch-2024-10-29/>

Pillar 2: Customer retention through device connectivity

Figure 8 - Mi Home active users & Connected devices over time



Source: Company report

MiHome is the pillar for user retention, because of the seamless integration of devices, enhanced convenience and data collection and processing.

The first feature allows users to create their own smart home and control everything through its smartphone (and eventually, electric cars). This enhances convenience since everything is centralized and can be automatized.

Moreover, the Company gathers data which is then used to adapt to consumers' preferences, **providing a personalized service that learns about its user's habits to improve their experience** and create upselling opportunities.

Most importantly, the more numerous and diverse the devices being sold become, the more likely users are to remain loyal to the brand, creating the **“walled garden effect”** which is also seen in other peers like Apple, in which customers end up building ecosystems of products around the same brand due to their integration.

Monthly Active Users of the MiHome App surpassed the 100 million mark in Q3 2024 and has been growing at a CAGR of 30%.

Pillar 3: Internet Service monetization

Internet services comprise a wide range of online services that Xiaomi distributes through its smartphones and IoT devices, such as advertising, gaming, fintech, e-commerce, streaming and cloud-service subscriptions, being the first two the biggest contributors to the segments' revenue (85%).

Advertisements are integrated within their proprietary operating systems and its gaming operations include revenues from its Mi App store (commissions and in-app purchases).

Figure 10 portrays gross margin per segment and reiterates why this segment is crucial for the company's financial sustainability: despite representing only 10% of the company's revenues, it contributed to 36% of overall gross profit.

Strategy

Xiaomi's vision is reflected in its goal of being present in 95% of user life scenarios and pretends to achieve it through its **“Human x Car x Home” strategy**, with the new HyperOS 2 operating system connecting the three dots through improved connectivity and user experience. This presents an important step, as the company **transitions from being a provider of connectivity and automation tools that unify its ecosystem to building a new intelligent ecosystem powered by AI.**

Figure 10 – ‘Human X Car X Home’ Strategy



The strategic entry into EVs aligns with the company’s vision, **as the smart home concept is now extended to mobility**. This allows the company to leverage its expertise in hardware-software integration, create new cross-product synergies (such as the remote control of home devices, e.g., the ‘Go Home Mode’ which enables users to remotely activate lights and air conditioning before they arrive home) and unlock new monetization opportunities by entering in a high-growth and green industry.

On the other hand, while the company initially pursued volume growth, it has recently switched to a **double emphasis on scale and profitability**. Through premiumization, the company simultaneously develops products to serve the maturing smartphone markets in China and Europe and capitalizes on the higher margins. On the cost side, efficiency is being achieved through supply chain optimization and smart factories.

Value Chain Analysis

Raw Materials and Component Sourcing

Figure 11 - Suppliers of Xiaomi components

Component	Supplier
Processors	Qualcomm 
	MediaTek 
Displays	Samsung 
OLED panels	China Star 
Camera Modules	Sony 
EV Batteries	BYD 

Source: Company website

Xiaomi’s value proposition, known for high value-to-price ratios, is enabled in part by lower production costs derived from its China-based operations. However, **what sets Xiaomi apart from other peers is its supply-chain management**. The company maintains a vast, geographically diversified network of component suppliers, sourcing key inputs such as chips from Qualcomm, OLED panels from China Star⁴, screens from Samsung⁵, camera modules from Sony⁶, and EV batteries from BYD. By cultivating strong relationships and diversifying sourcing across multiple regions, Xiaomi minimizes potential disruptions/delays, enhancing supply chain resilience.

Still, the semiconductor shortage during the COVID-19 pandemic highlighted some weaknesses. Xiaomi was heavily affected by the supply constraints, losing its #2 position in the smartphone market to Apple⁷—who possessed stronger relations with its suppliers and had preferential component access.

⁴ Omdia. (2022, November). *Display dynamics: Xiaomi’s new Redmi Note 12 Pro smartphones adopt OLED panels from China Star, Tianma, and Visionox*. Retrieved from <https://omdia.tech.informa.com/om027410/display-dynamics--november-2022-xiaomis-new-redmi-note-12-pro-smartphones-adopt-oled-panels-from-china-star-tianma-and-visionox>

⁵ Xiaomi. (n.d.). *What is the Xiaomi ecosystem?* Retrieved from <https://www.mi.com/global/support/faq/details/KA-91513/>

⁶ Xiaomi. (n.d.). *Xiaomi 13 Pro 5G*. Retrieved from <https://www.mi.com/in/product/xiaomi-13-pro-5g/>

⁷ India Today. (2021, November 24). *Xiaomi hit hard by global chip shortage, loses number 2 spot to Apple*. Retrieved from <https://www.indiatoday.in/technology/news/story/xiaomi-hit-hard-by-global-chip-shortage-loses-number-2-spot-to-apple-1880292-2021-11-24>

Manufacturing, Product development and Production

Xiaomi focuses on designing, engineering, and developing devices. The company produces some smartphones in-house and has opened in 2024 its fully automated smartphone production facility⁸, **designed to produce over 10 million high-end smartphones annually**. However, **a big part of its production is outsourced**, falling into the ODM (original design manufacturer) category. This justifies the company's *asset light balance sheet* and allows the company to rapidly scale output and adapt production volumes when necessary.

Rather than allocating most of its resources to production, **Xiaomi instead invests in specialized companies and incubates startups, creating a network of minority investments**. Under these partnerships Xiaomi provides financing, R&D and access to distribution channels in exchange for production under the Xiaomi brand at advantageous prices. This arrangement is mutually beneficial, since **Xiaomi expands its portfolio of products without tying up capital in production, leverages on the specialized know-how of the startups and is able to maintain control over quality and branding**. On the investees' side, they receive funding to scale up and a loyal customer, without giving up on their majority stake in the company.

This model guarantees alignment of interests and has proved essential in expanding the IoT segment to its current size of more than 200 products. Furthermore, Xiaomi has historically profited significantly from the appreciation of its stake in the companies (e.g., when companies do their IPO).

Distribution

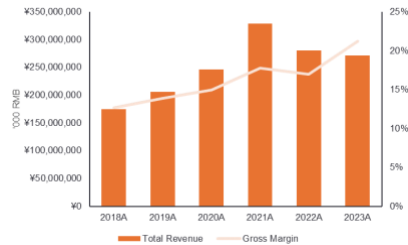
Xiaomi initially capitalized on the e-commerce boom by selling its products on the Tmall platform, later establishing its own e-commerce platform⁹. This strategy broadened Xiaomi's reach and reduced costs by eliminating intermediaries. However, more recently Xiaomi started investing in retail stores with the goal of **showcasing the quality and use scenarios of its ever-expanding portfolio of products**, helping in its sales. As of September 2024, offline stores in China exceeded 13,000 vs 3,200 stores in December of 2020.

⁸ TrendForce. (2024, July 9). *News featuring MIX Fold 4: Xiaomi's smart factory opens with 10 million annual flagship smartphone capacity*. Retrieved from <https://www.trendforce.com/news/2024/07/09/news-featuring-mix-fold-4-xiaomis-smart-factory-opens-with-10-million-annual-flagship-smartphone-capacity/>

⁹ Zhou, Y., & Li, J. (2022). *The strategic path behind the success of China's typical internet intelligent terminal manufacturing enterprises: A case study based on Xiaomi*. Retrieved from https://www.researchgate.net/publication/362433650_The_Strategic_Path_Behind_the_Success_of_China's_Typical_Internet_Intelligent_Terminal_Manufacturing_Enterprises_A_Case_Study_Based_on_Xiaomi

Segment Analysis

Figure 12 - Revenue and Gross Margin Evolution



Since its IPO, Xiaomi has shown an overall upward performance trend, with setbacks during the COVID-19 period. Revenues peaked in 2021, declined in 2022, and partially recovered in 2023. Meanwhile, gross margins steadily improved, reflecting efforts to balance scale and profitability.

To better understand Xiaomi's performance and growth trajectory, a per-segment analysis highlights the key drivers of revenue and margin evolution.

Smartphones

Xiaomi's smartphone business has experienced robust revenue growth between 2018 and 2021. In 2021, it witnessed a notable increase of 30% in shipments, despite the ongoing chip supply shortages. This was influenced by its successful launch of the Mi 11 Series, building on its premiumization strategy, but most importantly, because of the **decline of Huawei in international markets following US-imposed sanctions** that restricted the company's access to American suppliers (Qualcomm chips and Google mobile services).

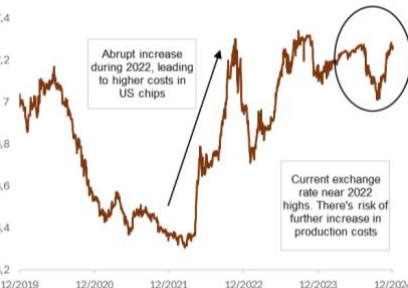
2022 marked a turning point, with the smartphone industry suffering from weak consumer demand for the first time since covid. Causes were economic uncertainty, high inflation, and geopolitical issues contributing to reduced spending on discretionary goods ¹⁰. **Chinese companies suffered even¹¹ more because of the strict covid-19 lockdowns**, with shipments falling by 21%. Xiaomi's gross profit decreased to 9%, from 12%, resulting from promotional campaigns used to drain excess inventory combined with the US dollar appreciation, which made components imported from US (e.g., Qualcomm chips) more expensive.

By 2023, there was an overall rebound. Xiaomi's once again outperformed the global market's shipments, and with gross margin improving significantly to 14.6%. The company cites decreased costs in key components, as well as better inventory turnover. Nonetheless, **profitability is still significantly below the smartphone industry average gross margin of 30%, because of its value-for-money strategy.**

Figure 13 - Revenue from smartphones and volume



Figure 14 - USD/RMB foreign exchange rate from 2019 to 2024



Source: Capital IQ

Table 2 - Xiaomi's market position in international markets

Market Position	2023A
Europe	Rank #3
India	Rank #3
China	Rank #5
Middle East	Rank #2
Southeast Asia	Rank #3
Global	Rank #3

Source: Company Presentation

¹⁰ Canalys. (2022, July). *Worldwide smartphone market Q2 2022*. Retrieved from <https://www.canalys.com/newsroom/worldwide-smartphone-market-Q2-2022>

¹¹ Bloomberg. (2022, March 30). *China's lockdowns are hurting electronics demand, TSMC head says*. Retrieved from <https://www.bloomberg.com/news/articles/2022-03-30/china-s-lockdowns-are-hurting-electronics-demand-tsmc-head-says?embedded-checkout=true>

Figure 15 - Worldwide smartphone shipment volume growth

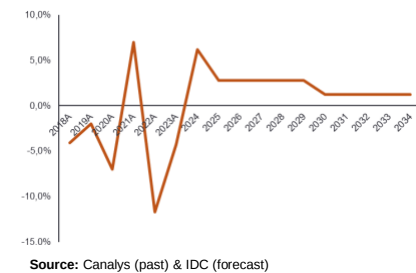
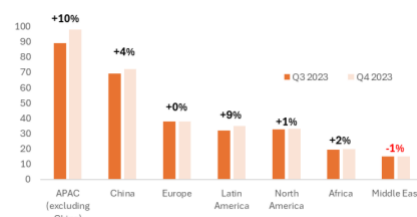


Table 3 - Global smartphone shipments (in millions) and market share, by producer

Company	3Q 2024 Shipments	3Q 2024 Market Share
Samsung	57.8	18.3%
Apple	56.0	17.7%
Xiaomi	42.8	13.5%
OPPO	28.8	9.1%
vivo	27.0	8.5%
Others	103.7	32.8%

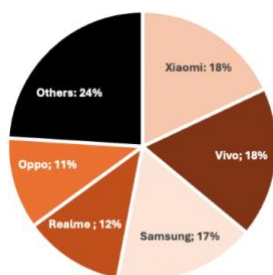
Source: Canalys

Figure 16 - Smartphone volume growth, by region, in Q3 2024



Source: Canalys

Figure 17 - Smartphone market share in India, Q2 2024



Source: Canalys

Today, Xiaomi holds a dominant position in several key markets, notably China, India and Europe. Globally, it is ranked among the top three smartphone manufacturers, competing with brands like Samsung, Apple, Oppo and Vivo.

Market Analysis

After two years of decline in global smartphone shipment volumes, contracting by 11.7% and 4.3% in 2022 and 2023, the outlook for 2024 and 2025 is brighter. The **preliminary data for 2024 shows a growth of more than 6%, and a projected growth of 3% in 2025** (according to IDC)¹², driven by improving macroeconomic conditions and consumer sentiment.

Q3 2024 data from Canalys¹³ shows that recovery on the global market is largely attributed to **macroeconomic stabilization in emerging economies** (particularly in Asia and LATAM, showing double digit growth). **Europe and North America have stagnated**, and the only region showing market decline is the Middle East, because of the ongoing conflicts (*figure 17*).

Contrary to the global market, the premium segment grew by 6% in 2023, mainly caused by sales in replacement markets like North America and Europe, characterized by a **demand driven by technological advancements**, and have higher average selling price (ASP), since GenAI smartphones are set to cost, on average, double than non-GenAI devices, as per IDC¹⁴. Globally, **Apple dominates the world's high-end smartphone segment, with a 63% market share**, supported by the release of the AI-integrated iPhone 16 in September¹⁵.

For emerging markets such as India, MEA, and LATAM, growth is closely tied to the budget segment (between \$150 and \$249), as internet penetration rates rise. These markets are highly competitive and fragmented¹⁶ and are dominated by players that offer low-cost alternatives – mostly Chinese companies. Despite holding the highest market share position along with Vivo, **the tight competitive environment might be one of the catalysts for Xiaomi's shift towards premium markets** (*figure 18*).

In China, the mix of premium smartphones sold is also increasing. On the top 10 best-selling models during 2024, 7 can be considered mid-high end, showing how

¹² IDC. (2024). *Worldwide smartphone shipments forecast to grow 4.5% in 2024 driven by recovery in China and new product innovations, according to IDC*. Retrieved from <https://www.idc.com/getdoc.jsp?containerId=prUS52757624>

¹³ Canalys. (2024). *Samsung leads global smartphone market in Q3 2024 as total shipments jump 5% to 310 million*. Retrieved from [Canalys Newsroom - Samsung leads global smartphone market in Q3 2024 as total shipments jump 5% to 310 million](https://www.canalys.com/newsroom/samsung-leads-global-smartphone-market-in-q3-2024-as-total-shipments-jump-5-to-310-million)

¹⁴ IDC. (2024). *Global smartphone market expected to decline 4.7% in 2023 but forecasted to recover in 2024, according to IDC*. Retrieved from <https://www.idc.com/getdoc.jsp?containerId=prUS52550324>

¹⁵ South China Morning Post. (2024). *Huawei premium smartphone shipments surge as Apple continues to lead the segment in China*. Retrieved from https://www.scmp.com/tech/big-tech/article/3289747/huawei-premium-smartphone-shipments-surge-apple-continues-lead-segment-china?module=perpetual_scroll_0&pgtype=article

Table 4 - Top 10 best-selling smartphone models in China, 2024

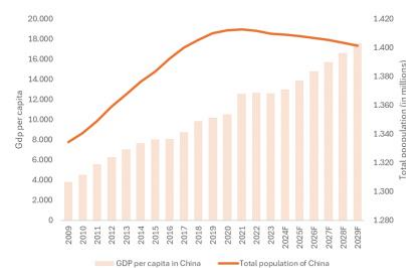
Rank	Model
1	iPhone 15 Pro Max
2	Honor X50
3	iPhone 16 Pro Max
4	OPPO A3x
5	iPhone 16 Pro
6	Huawei Pura 70
7	Redmi K70 Ultra
8	iPhone 15 Pro
9	iPhone 15
10	Vivo Y37

Source: Canals

China is becoming a mature market (population decline, increasing GDP per capita – characteristics of developed countries).

Xiaomi’s transition to premium smartphones is happening gradually (currently, 21.4% of shipments are premium, vs 17% in 2021), because still lacks brand equity and consumer loyalty in this segment. It is challenged by Apple and Huawei, who dominate the premium market in China: the former has 5 out of the 7 best-selling premium models and the latter is gaining ground with its AI-integrated smartphones, possessing already the bestselling foldable brand on China.

Figure 18 - China GDP per capita and population evolution (from 2009 to 2029)



Source: National Bureau of China

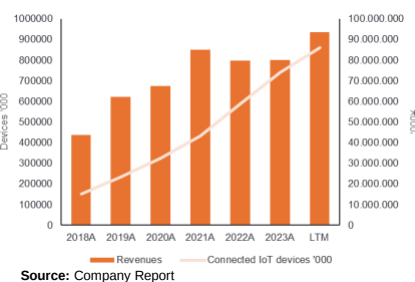
IoT and Lifestyle Products

From 2018 to 2021, the IoT segment demonstrated impressive growth, nearly doubling in terms of revenue from ¥43.8 billion to ¥85 billion and tripling in number of connected devices from 150.9 to 434 million units. This growth was driven by an expanding product portfolio and increased adoption of smart devices worldwide, **favoured by the covid-19 lockdowns which increased demand for home products.**

In 2022, IoT revenues declined mirroring the trend observed in smartphones, though to a lesser extent due to their lower price point. We believe this reflects a normalization following the sales surge during the pandemic. In 2023 revenues stagnated, despite the continued increase in connected devices.

Over time, profitability improved (to 19%, up from 10.3% in 2018), caused by an increase of high-margin devices (such as large home appliances like air conditioners and washing machines) in the product mix. Gross margin is **significantly higher than the industry benchmark of 13.2%.**

Figure 19 - IoT revenues and connected devices

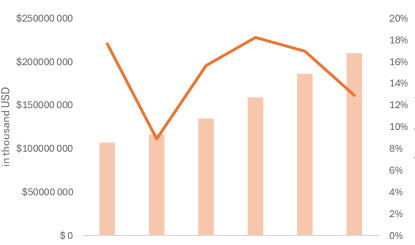


Source: Company Report

Market Analysis

Consumer IoT (CIoT) devices have experienced rapid growth supported by network effects, a broadening range of product categories, and rising consumer demand for innovation. According to Statista¹⁷, CIoT connections expanded from 3.1 billion in 2018 to over 10 billion in 2024 and are projected to double again by 2028. **Key drivers include ecosystem connectivity, affordability, increased emphasis on health and the integration of data analytics to personalize and improve user experience.** In terms of market size, it is expected to grow at a CAGR (2024-2029) of 11.26%.

Figure 20 - Global Consumer IoT industry revenues



Source: Statista

¹⁷ Statista. (n.d.). Consumer IoT - Worldwide. Retrieved from <https://www.statista.com/outlook/tmo/internet-of-things/consumer-iot/worldwide>

Figure 21 - IoT ecosystem offer in the market

Company	Core Offering
Amazon Alexa	Alexa voice assistant and Echo smart speakers; Small gadgets (smart plugs, light bulbs, doorbells)
Google Home	Google Assistant & Nest devices
Apple Homekit	HomePod, Apple TV
Mi Home	Broad range of low/mid priced devices

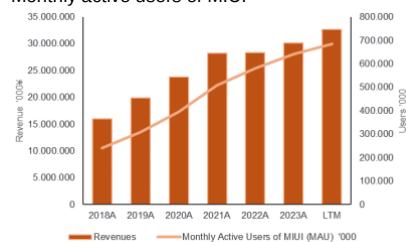
The most relevant peers on the ecosystem segments are **Amazon, Google and Apple**, who present innovative offerings prioritized on software and AI integration with their own core services to developed markets. However, their product diversity is small and pricy (for more details on the competitive position of the peers, refer to *Appendix 3*).

To expand market share in the Consumer IoT market, companies must offer a broad range of products and continuously innovate to ensure compatibility with an increasing number of connected devices. Within this competitive landscape, **Xiaomi stands out since its expansive and affordable product portfolio that leverages the integrated ecosystem of IoT partners is well suited to capture the growing demand in the emerging markets.**

Nonetheless, the industry faces persistent challenges related to data security and privacy, both of which remain central to sustaining consumer trust and long-term growth.

Internet Services

Figure 22 - Internet services revenues and Monthly active users of MIUI



Source: Company Report

Internet Services' revenues doubled since 2018 but have grown at a decelerated pace in the last two years (*figure 23*).

Advertisement income has been very volatile over the years, growing as much as 80% in 2018 and as low as 2% in 2022 – **showing a direct correlation with the evolution of smartphone shipments**, which is later tested in a regression analysis.

On the other hand, the gaming subsegment has grown more steadily, except in 2021 due to “adjustments of commercial terms beginning in Q3 2020”, which we deem as non-recurrent. Ever since, along with **premiumization in smartphones**, **the number of active and paying users on Xiaomi's gaming platform has increased**, reaching a historic high of RMB4.4 billion in 2023.

Monthly active users of MIUI (in smart TVs and smartphones) are increasing steadily (685.8 million MAU in Q3 2024) and this not only is essential to intensify the **network effect**, creating more demand for its advertising service, but also to **improve profitability**: since it's an intangible segment, economies of scale dilute its limited fixed costs. Gross margin has improved from 64% in 2018 to 77% in Q3 2024, outperforming the Chinese industry average of 59%.

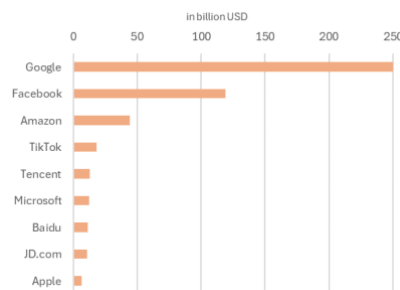
Market Analysis

Figure 23 - Global online advertising expenditure, from 2018 to 2026F



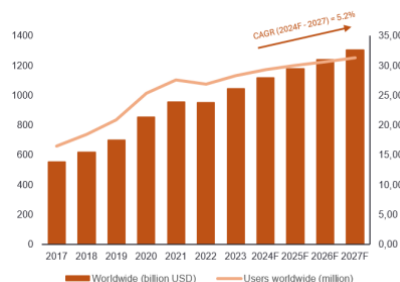
Source: Statista(past data) & PwC (forecast)

Figure 24 - Digital advertising revenues of major internet companies in 2023



Source: Statista

Figure 25 - Global gaming industry revenues and no. of users, from 2017 to 2027F



Source: Statista

Advertising

Globally 2/3 of the population are daily internet users. **Internet penetration rates are increasing rapidly** and are the biggest growth factor for internet services, including e-commerce, social media and online entertainment.

Demand for **digital advertising surges as a byproduct** of the growth in these services, being one of the most crucial marketing tools used to reach new customers.

It is a very competitive market, and according to Statista¹⁸ global digital advertising expenditure has grown at a CAGR(2014-2023) of 16%, expected to reach US\$694 billion in 2024 – equivalent to 70% of global ad investments¹⁹, showcasing how significantly it has impacted the offline advertising industry. PWC²⁰ forecasts a future CAGR of 9.1%.

Most of the revenues are concentrated in the American and Chinese big techs (figure 25). With almost 700 million monthly active users, Xiaomi is well positioned to expand its internet business, especially considering its growth in emerging markets.

Online Games

The global online games industry is expected to reach \$27.97 billion in 2024, and forecasts point to an annual growth rate (CAGR 2024-2027) of 5.2%, where it will reach around 1.2 bn users (Statista²¹). China and the US lead in terms of player engagement and revenue generation.

China is expected to be the biggest market, with forecasts pointing to more than \$6.5 bn in revenues. It is a market with more than 660 million players spending an average of 453 yuan (around \$63) on video games, led by Tencent²², the developer of well-known games such as Honor of Kings and PUBG Mobile (USD 830 million and USD 508 million, respectively). Mobile games are the biggest segment in the broad gaming market (around 45% of revenues²³) which portrays a big opportunity for Xiaomi.

¹⁸ Statista. (n.d.). *Internet advertising worldwide*. Retrieved from <https://www.statista.com/topics/7666/internet-advertising-worldwide/>

¹⁹ Statista. (n.d.). *Share of digital advertising spending worldwide*. Retrieved from <https://www.statista.com/statistics/375008/share-digital-ad-spend-worldwide/>

²⁰ PwC. (n.d.). *Changes in digital advertising spend*. Retrieved from <https://www.pwc.com/gx/en/industries/tmt/media/outlook/changes-in-digital-advertising-spend.html>

²¹ Statista. (n.d.). *Online games - Worldwide*. Retrieved from <https://www.statista.com/outlook/dmo/digital-media/video-games/online-games/worldwide>

²² Statista. (n.d.). *Leading online gaming operators in China*. Retrieved from <https://www.statista.com/statistics/428073/leading-online-gaming-operators-china/>

²³ Statista. (n.d.). *Gaming in China*. Retrieved from <https://www.statista.com/topics/4642/gaming-in-china/#topicOverview>

Electric Vehicles

In November 2024, Xiaomi has reached its initial target of 100,000 vehicle deliveries, a significant milestone since the April launch. With an ASP of RMB 228,644 per unit, the company has now updated its target for the third time, aiming to deliver 130,000 vehicles by the end of December. As already mentioned, the **high demand for Xiaomi’s EVs is due to its competitive pricing, its ecosystem integration capabilities, advanced technology coupled with driving range of up to 800km.**

Despite adopting an aggressive pricing strategy for its SU7 series, the gross margin remains slightly above the industry average (16% vs. 15.1%). This advantage can be attributed to the synergies within its well-established supply chain, which help maintain cost efficiency. However, the margin still lags behind more mature peers such as Tesla and BYD, whose gross margins reach 20%.

Market Analysis

Figure 26 - EV industry annual revenues, from 2018 to 2023

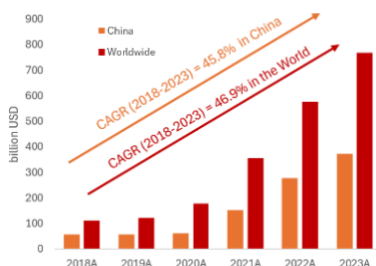
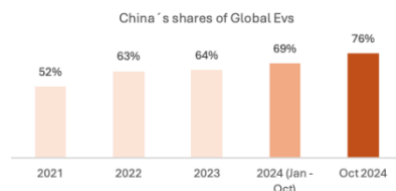


Figure 27 - Market share of the Chinese EV industry on the global scenery, from 2021 to 2024



The global EV market has seen remarkable expansion in recent years. According to Statista, global EV revenues increased from \$112.5bn in 2018 to approximately US\$769.4 billion in 2023²⁴, reflecting an almost **7-fold increase in 5 years** and a CAGR(2018-2023) of 47%. This high growth comes from a small base, and was driven by **technological advancements in the field, green policies which intensified during covid and consumer preference shift for sustainable products.** In 2017, one out of every seventy cars sold in 2017 was electric—a figure that improved to one in seven currently²⁵.

China stands out in the global scenery, with a market share of 76%²⁶ in October 2024, up from 64% in 2023. This is result of its significant investments in innovation, EV infrastructure and incorporation of advanced technology (autopilot), **encouraged by the Chinese government** especially due to their environmental impact. According to Bloomberg,²⁷ the Chinese EV industry received at least \$231 billion from the government since 2009, mostly in the form of tax exemptions.

Another relevant reason lies on the **supply chain dominance**²⁸. China accounts for more than 70% of the world's rare earth production, holding a significant

²⁴ Statista. (n.d.). *Electric vehicles market overview*. Retrieved from https://www.statista.com/outlook/mmo/electric-vehicles/custom?currency=usd&locale=en&token=q7JAiL63bbbleCLbDKcnj_v7HDnzdjg2ZAxab9iNKnMq4BiUpMgVkyDvChDmgD2NMif6xNu5PWaWXtoxbCC2Z-MVHezFt2fbO9h8pNN1vsDuFesglSC9SmsAJA%3D%3D

²⁵ World Economic Forum. (2023, March). *Electric vehicle sales are soaring – here's what it means for the energy transition*. Retrieved from <https://www.weforum.org/stories/2023/03/ev-car-sales-energy-environment-qas/>

²⁶ The Guardian. (2024, December 3). *China's share of global electric car market rises to 76%*. Retrieved from <https://www.theguardian.com/business/2024/dec/03/chinas-share-of-global-electric-car-market-rises-to-76>

²⁷ Bloomberg. (2024, June 21). *China's EV makers got \$231 billion in aid over last 15 years*. Retrieved from <https://www.bloomberg.com/news/articles/2024-06-21/china-s-ev-makers-got-231-billion-in-aid-over-last-15-years>

²⁸ <https://apcoworldwide.com/blog/the-rise-of-chinas-ev-industry/>

Table 5- NEV Sales by maker in China, 2023

FY2023	NEV Retail Sales	Market Share
BYD	2.706.075	35%
Tesla	603.664	8%
GAC Aion	483.632	6%
Geely	469.427	6%
SAIC-GM-Wuling	457.848	6%
Changan	384.915	5%
Li Auto	376.030	5%
Great Wall	236.856	3%
Nio	160.038	2%
Leapmotor	144.155	2%

Source: CPCA

competitive advantage in the global EV battery supply chain. This is particularly impactful, as **batteries constitute around 40% of EV total production costs**.

This reduces further EV prices: **the ASP in China of \$34,400 is considerably lower than the \$55,242 ASP in the US²⁹**, and makes Chinese consumers much more likely to buy EVs than the rest of the world (97%, vs 35% in the US and 43% in Europe, as per the World Economic Forum).

The main players in the Chinese market are BYD, followed by Tesla and GAC Aion. End of 2023 data³⁰ shows that BYD dominates the market by a far margin, with almost three million sales per year, however, with increasingly tight competition in the rest of the industry.

For the future, momentum is expected to decrease slightly, considering China's unstable macroeconomic condition caused by the real estate crisis. Sanctions and tariffs now emerge as an even greater threat after Trump's win, setting to further aggravate the already existent tariffs on Chinese EVs, on top of the already existent European sanctions³¹.

Table 6 - EU sanctions on Chinese EVs, as of Q3 2024

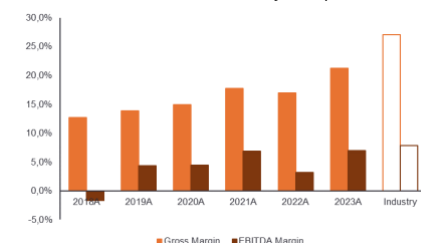
EU sanctions on Chinese EVs	
Tesla	7.8%
BYD	17%
Geely	18.8%
SAIC	35.5%
Other EV producers	20.7% - 35.3%

Source: Euronext

Financial Analysis

Profitability

Figure 28 - Gross and EBITDA Margin Evolution, from 2018 to 2023, and industry comparison



Source: Company report and Capital IQ (industry)

In general, **profitability has improved over the past six years**, increasing from 13% in 2018 to 21% in 2023. Even during the COVID-19 pandemic and amidst the global supply chain distress, Xiaomi continued increasing its margin, showcasing the resilience of its robust business model and the successful implementation of its high-end product strategy. The industry benchmark (calculated based on the weighted average of the four proxy industries in % revenues) for gross profit is around 27%.

Similarly, Xiaomi's **EBITDA margin has increased significantly** since the company first went public. From 4% in 2018³² the margin is now 7% (in 2023), close to the industry benchmark of 8%. This is mostly a reflection of the dilution of fixed costs (primarily administrative) as the company increased in scale.

Still, **this positions Xiaomi's below the benchmark in profitability, which is inherently related to its low-cost strategy**, coupled with its above average

²⁹ World Economic Forum. (2024, June). *China's electric vehicle advantage*. Retrieved from <https://www.weforum.org/stories/2024/06/china-electric-vehicle-advantage/>

³⁰ CNEV Post. (2024, January 10). *Automakers' NEV market share in China in 2023*. Retrieved from <https://cnevpost.com/2024/01/10/automakers-nev-market-share-in-china-in-2023/>

³¹ Euronews. (2024, October 29). *EU gives final green light to steep tariffs on Chinese electric vehicles*. Retrieved from <https://www.euronews.com/my-europe/2024/10/29/eu-gives-final-green-light-to-steep-tariffs-on-chinese-electric-cars>

³² Computing EBITDA margin in 2018 with the raw values, the EBITDA margin is -1.2%. After adjusting for the one-off share based compensations in 2018 associated to its IPO, the margin increases to 4%.

investments in R&D. In fact, as of 2023, the company invested 7% of its revenues in R&D, while the industry benchmark is 3.5%.

Overall operating profitability (NOPAT) has shown a similar trend. However, the company **profits significantly from the investments it makes on its network of producers/startups**. As portrayed in *figure 30*, gains on investments measured at fair value are extremely volatile, even surpassing the actual earnings of Xiaomi's core operations in some years. Despite being earnings derived from core investments, we consider it non-recurrent, and therefore, they are not contemplated on the ratios calculated above.

Lastly, since the company maintained a net cash position, interest payments are not material.

Efficiency

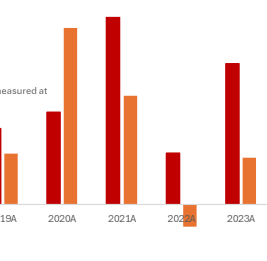
Given the company's technological focus and low capex (¥7.6bn vs ¥19bn R&D, in 2023), **we capitalized R&D expenses since 2018 with a 5-year useful life** (the norm for "light manufacturing", as per Damodaran³³). This ends up affecting NOPAT and Invested Capital since R&D is now more diluted and capitalized every year on the reformulated balance sheet.

As a result, adjusted ROIC presents more accurately the company's economic reality. Adjusted ROIC increased from 21% in 2019 to 26% in 2021, followed by a sharp decline to 8% in 2022 before recovering to 13% in 2023.

By decomposing ROIC into its two key components, we see that during the initial increase, NOPAT margin remained at 5%, increasing slightly in 2021. Asset Turnover had a similar pattern, instead reducing in 2021 from 430% to 385%, reflecting Xiaomi's focus on the low-end hardware.

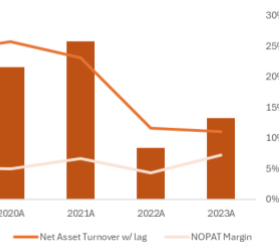
The next year, however, was marked by a turning point with both ratios experiencing sharp declines and leading to a substantial decline in ROIC. This coincided with the period of turmoil in which Xiaomi's revenues decreased by 15% due to the harsh economic conditions in China. In 2023, an improvement in NOPAT (due to premiumization) supported a partial recovery in ROIC to 13%.

Figure 29 - NOPAT vs gains on investments measured at fair value, from 2018 to 2023



Source: Company Report

Figure 30 - ROIC evolution, from 2019 to 2023

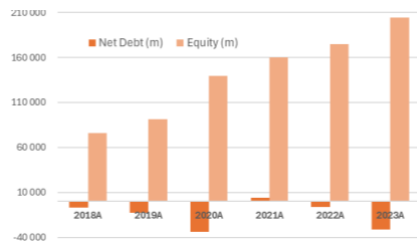


Source: Own analysis

³³ Damodaran, A. (n.d.). *R&D conversion spreadsheet*. Retrieved from <https://pages.stern.nyu.edu/~adamodar/pc/R&DConv.xls>

Capital Structure

Figure 31 - Xiaomi Net debt to Equity evolution, from 2018 to 2023



Source: Own analysis

Xiaomi has not maintained a constant capital structure over time (-9% in 2018, -27% in 2020, 3% in 2021). The company has high levels of financial autonomy and high concentrations of excess cash, that lead to net cash levels. This is common among the Chinese peers (*figure 33*) corroborating studies that show that on average, Chinese companies hold 23% more cash than US counterparts³⁴.

This extra buffer of equity and cash allows companies to have a safety margin and is important in emerging markets. **In Xiaomi's case, this buffer allows to absorb EV losses.** In its most levered state (during 2021), interest coverage ratio was 5, still higher than the industry average of 4.

Debt-to-EBITDA, another indicator that portrays the degree of leverage, was 1.8x in 2023, which is significantly lower than the industry benchmark of 4.3x. The lower leverage reflects in the much higher interest coverage ratio of 9x (vs industry average of 4x). Xiaomi is currently rated BBB by Fitch³⁵.

Liquidity

On a general note, the current ratio has historically been above the industry benchmark (1.5x) at around 1.7x, showing resilience even during covid years, when the lowest ever value was 1.49x.

The quick ratio is also consistently above the 1x threshold, showing improvement over time and converging with the industry average at 1.3x in FY2023.

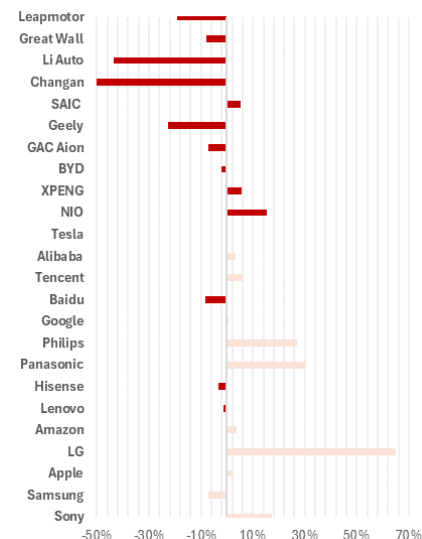
The cash ratio has also been improving in the last few years, reaching 0.75x. These metrics portray a robust liquidity position, and no notable concerns regarding its ability to immediately fulfil its short-term obligations.

Cash Flow Management

According to JP Morgan³⁶, cash conversion cycle (CCC) of Chinese companies is on average, 11 days longer than to U.S. peers.

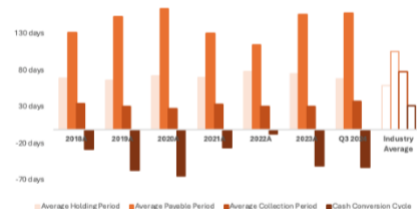
This does not seem to be the case of Xiaomi, since **cash flow management stands out as a key strength, with a CCC of -50 days in 2023**. This positions the company favourably against the industry benchmark (*figure 34*) since it collects

Figure 32 - Net Debt to Equity Ratio of peers in 2023 (chinese companies in red)



Source: Capital IQ

Figure 33 - Net Working Capital Evolution, from 2018 to Q3 2024, and industry comparison



Source: Capital IQ (Industry data)

³⁴ J.P. Morgan. (2023). *Working capital index: China report 2023*. Retrieved from [jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf](https://www.jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf)

³⁵ Fitch Ratings. (n.d.). *Xiaomi Corporation*. Retrieved from <https://www.fitchratings.com/entity/xiaomi-corporation-96674716>

³⁶ J.P. Morgan. (2023). *Working capital index: China report 2023*. Retrieved from [jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf](https://www.jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf)

revenues more quickly and takes much longer to pay its suppliers. On the revenue side, this **efficiency is driven by its direct-to-consumer channel**, which reduces reliance on intermediaries. On the supplier side, Xiaomi benefits from **advantageous contractual conditions through its partnership model**, as many of its suppliers are companies in which Xiaomi holds minority stakes.

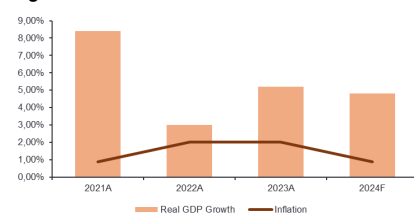
However, data from Q3 2024, which marks the introduction of EVs, reveals a notable shift. The inventory holding period decreased from 76 to 69 days, **contrary to the expected inventory buildup associated with the new segment and seasonal preparations for holiday season**. We attribute this decrease to excess demand for EVs, leading to inventories being sold almost immediately upon arrival.

Macroeconomic overview

The Chinese economy has faced significant challenges since the COVID-19 pandemic, exacerbated by **the real estate crisis triggered by Evergrande's collapse and by the strict lockdowns of 2022**, which weakened consumer sentiment and aggravated youth unemployment. In 2023, the real GDP growth target of 5% was narrowly reached, although monthly deflation levels raised concerns of a deflationary spiral³⁷. Amid a slowing economy in 2024, the government released in September an **economic stimulus package**³⁸ with **measures including interest cuts on mortgages to boost the housing market, reductions in reserve requirements for banks, and liquidity support for stock buybacks**, which strengthened investor confidence. China's credit rating is A+/A-1, according to S&P.

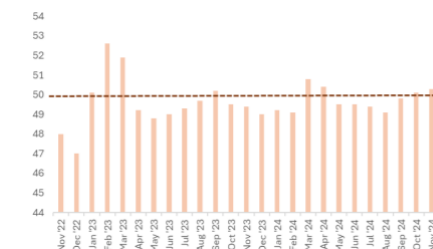
Looking ahead, China's Manufacturing PMI displayed an upward trend in recent months (*figure 36*), surpassing the “50” mark in November for the first time since April. This **indicates expansion in the manufacturing sector and may signal a potential stabilization in the next year**. On the other hand, quarterly GDP data reveals a slowing growth trend in 2024, with yoy growth at 4.6% in Q3, slightly down from earlier quarters. Even though the long-term effects of the stimulus remain uncertain, President Xi's declaration³⁹ on December 10th of full confidence in achieving the 5% GDP growth target suggests that Q4 reflects an improvement in economic performance, **and a more optimistic outlook for the coming year**.

Figure 34 - China GDP and Inflation



Source: World Bank

Figure 35 – Manufacturing PMI in China, monthly, from 2022 to 2024



Source: National Bureau of Statistic of China

Figure 36 - Quarterly yoy GDP growth rate in China



Source: National Bureau of Statistic of China

³⁷ World Bank. (2023, December 14). *Sustained policy support and deeper structural reforms to revive China's growth momentum - World Bank Report*
<https://www.worldbank.org/en/news/press-release/2023/12/14/sustained-policy-support-and-deeper-structural-reforms-to-revive-china-s-growth-momentum-world-bank-report>

³⁸ The Guardian. (2024, September 24). *China economy stimulus package measures*. Retrieved from
<https://www.theguardian.com/world/2024/sep/24/china-economy-stimulus-package-measures-yuan-pbc>

³⁹ Reuters. (2024, December 10). *China has full confidence achieving this year's growth target, says Xi*. Retrieved from
<https://www.reuters.com/world/china/china-has-full-confidence-achieving-this-years-growth-target-says-xi-2024-12-10/>

China-Taiwan tensions

Tensions between China and Taiwan have persisted for decades but have been escalating in recent years. Taiwan’s Defense Ministry recently claimed, in December, China had “fielded its largest regional maritime deployment in decades”, which is interpreted by some as a response to Taiwan’s closer ties with Western nations and growing domestic discussions around independence⁴⁰. Such developments heighten the risk of geopolitical conflict, which could further deteriorate China-US relations and disrupt global trade particularly in light of heightened tensions following Trump’s re-election.

Forecasts

Smartphones

For Smartphones, a **bottom-up**⁴¹ approach was adopted, decomposing sales into two key value drivers: shipment volume and average selling price (ASP)⁴².

Over the past six years (excluding the 2022 correction year following unusually high sales in 2021), Xiaomi has consistently outperformed the global market in shipments growth (*figure 38*). We termed this as **volume premium**.

For future projections, we expect Xiaomi to sustain this *volume premium* over the global smartphone market, **although at declining levels in the medium-term as competition intensifies**. This goes in accordance with the latest data available which shows a revenue increase of more than 14% in the last twelve months.

Over the long term, we project **shipment growth rate to align with the market average of 1.2%** annually, as the market matures.

We also expect ASP to increase: one part driven by **China’s inflation** (since cashflows are in RMB) and another due to the **increased mix of high-end smartphones sold by Xiaomi**. This premiumization phenomenon was quantified by the historical premium between ASP increase and inflation, which represents the customer’s willingness to pay more for more advanced technology.

On the cost side, we project that the **cost per smartphone will increase at an annualized rate of 3% over the next five years**, driven by the rising production

Figure 37 - Smartphone shipments evolution, from 2018 to 2023 (Xiaomi vs global)



Source: Company Report (Xiaomi) & Canalys (Industry data)

Table 7 – Smartphone revenue growth forecast, until 2034F

Year	Smartphone Revenue growth	Worldwide
2018A	41%	-4%
2019A	7%	-2%
2020A	25%	-7%
2021A	37%	7%
2022A	-20%	-12%
2023A	-6%	-4%
Average	14%	-4%
2024F	23%	6%
2025F	16%	3%
2026F	16%	3%
2027F	12%	3%
2028F	12%	3%
2029F	10%	3%
2030F	8%	1%
2031F	8%	1%
2032F	3%	1%
2033F	3%	1%
2034F	3%	1%

Source: Company Report & IDC (for industry data)

⁴⁰ CNN. (2024, December 10). *China Taiwan maritime movement*. Retrieved from <https://edition.cnn.com/2024/12/10/china/china-taiwan-maritime-movements-intl-hnk/index.html>

⁴¹ The lack of a detailed revenue breakdown within the "Rest of the World" category in the company report makes it impractical to use a top-down approach for forecasting.

⁴² The annual report also allows a breakdown of sales by number of retail stores. However, we believe that store counts are a weak predictor of future sales, they have a supportive role rather than a sales-oriented function (e.g., to showcase the products, to provide after-sale services, etc.).

costs of the MiSeries smartphones. Following this period, we applied the historical COGS CAGR (2021-LTM), reflecting the impact of Xiaomi's premiumization efforts.

In the long-term, we estimate the gross margin to be at 19%, reflecting some improvement over time but still significantly below the industry average of 29.7%. This is because we expect the low-cost Redmi Series to remain a high portion of the revenue mix, since emerging markets show big growth prospects, and because **we expect that Xiaomi will need to continue undercutting the competition's prices even on high-end smartphones, resulting in lower margins.**

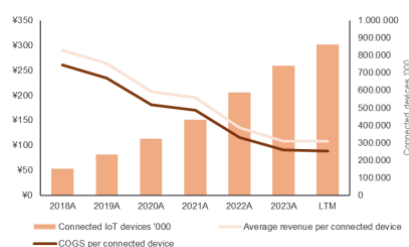
IoT and Lifestyle Products

For this segment, Connected Devices and Average Revenue per device (ARPD) were analysed as key value drivers. **However, the ARPD has shown a consistent declining trend over time, making it unreliable to forecast future values based on its historical patterns.** This led us to project the short-term growth rate of 16% based on the historical five-year CAGR of 14% and an additional volume premium reflecting Xiaomi's capacity advantage over the global growth rate of 2.2% in 2023. **This assumes that EVs' synergies will boost demand for smart devices**, because of features like the “Go Home Mode” already mentioned before. In the midterm, we estimate growth rate to moderate to 11%, aligning with global industry forecasts⁴³, stabilizing at a long-term growth of 5% (Chinese GDP growth ceiling).

Average costs per connected device have also declined significantly, from ¥260 in 2018 to ¥88 in the LTM period. Due to the consistent downward trend and lack of clarity on a cost floor, we used **gross margin as the primary driver for forecasting costs and profitability.**

We assume that gross margin remains at 19% in the short-term, continuing the current trend of increased mix of large home appliances in revenues (no concrete values on the mix are given on the annual report) since competition in smart large appliances is still small. However, as time passes and new players enter in the subsegment, **we project the gross margin to decline and converge with the industry level of 13%.**

Figure 38 - Average revenue and cost per devices and connected devices



Source: Company Report

⁴³ Statista. (n.d.). Consumer IoT - Worldwide. Retrieved from <https://www.statista.com/outlook/tmo/internet-of-things/consumer-iot/worldwide>

Internet services

Table 8 - Advertising revenue growth forecast, until 2034F

Year	Smartphone Volume growth	Connected Devices growth	Advertising growth
2018A	30%	193%	79.9%
2019A	5%	56%	5.5%
2020A	17%	38%	19.2%
2021A	30%	34%	42.5%
2022A	-21%	36%	2.2%
2023A	-3%	26%	10.8%
Average	10%	64%	26.7%
2024F	14.4%	24%	19.3%
2025F	11%	21%	16%
2026F	11%	18%	15%
2027F	6.9%	17%	11.8%
2028F	6.9%	17%	11.8%
2029F	4.8%	14%	9.4%
2030F	3.2%	14%	8.2%
2031F	3.2%	14%	8.2%
2032F	1.2%	5%	4.2%
2033F	1.2%	5%	4.2%
2034F	1.2%	5%	4.2%

Source: Own forecasts

The forecast for Xiaomi's advertising revenue was developed using a **regression analysis** on **smartphone shipments** and **connected devices**, since they act as platforms for targeted advertising: more smartphone users and connected devices (Smart TVs) translate into increased screen time and opportunities for ad placements.

Figure 39 - Regression output

Regression Statistics					
Multiple R	0,951				
R Square	0,905				
Adjusted R Square	0,842				
Standard Error	0,118				
Observations	6				
	Coefficients	Std Error	P-value	Lower 95%	Upper 95%
Intercept	0,019	0,071	0,808	-0,208	0,246
Smartphone Volume	0,756	0,304	0,089	-0,213	1,724
Connected Devices	0,275	0,095	0,063	-0,027	0,576

Advertising Growth = 0.019 + 0.76 * Smartphone Volume Growth + 0.27 * Growth in Connected Devices

The regression analysis utilized yearly data since Xiaomi's IPO and demonstrated a strong relationship, with an **R-squared of 90.5%⁴⁴**, with **both variables statistically significant at a 90% confidence interval**. This resulted in growth rates of **19% in 2024**, which declined over time stabilizing at **4.17% in the long term**.

Table 9 - Gaming Revenues growth for Xiaomi and the Chinese market, with forecast until 2032

Year	Xiaomi Gaming Revenues Growth	Chinese Gaming Market
2018A	7%	12%
2019A	18%	13%
2020A	31%	22%
2021A	-5%	12%
2022A	4%	0%
2023A	5%	10%
Average	10.35%	11.5%
2024F		7%
2025F		5.4%
2026F		5.2%
2027F		5%
2028F - 2032F		5.29%

Source: Company Report & Statista (for industry data)

For the Gaming segment, the previously mentioned industry-level forecasts were used to project revenues. We believe that Xiaomi's gaming operations will grow along the Chinese gaming industry, since the **market will continue being largely dominated by Tencent**. Beyond 2029, the Chinese GDP growth of 5% was used.

Due to the lack of granular detail in the financial reports, which do not separate costs by subsegment, we projected costs through the COGS-to-revenue ratio. Historically, this ratio has decreased significantly, from 36% in 2018 to 24% in the LTM because of already mentioned economies of scale. We believe that the gross margin will remain at 75% for the remainder of the forecasting period.

While Xiaomi does generate revenue from its e-commerce and fintech activities, these segments remain too small to significantly influence the company's overall value. Loan receivables account for less than 1% of invested capital, so incorporating a financial institution valuation framework would not meaningfully improve our overall valuation analysis.

⁴⁴ Although the model explains a substantial proportion of the variation in advertising revenue, we acknowledge the limitations of size of the sample.

Electric Vehicles

A **bottom-up approach** was also applied to forecast EV revenues by identifying the number of EV deliveries and the average selling price ASP, segmented into the SU7 Series and the luxury SU7 Ultra.

Our 2024F explicit forecast was based on the company’s annual target of delivering 130,000 SU7 series vehicles, which we believe will indeed be achieved (since the previous target was already beaten) and considering the market’s positive reception of the vehicles. We used the ASP of ¥228,644 per unit based on Q3 2024 data.

For the coming years, we considered the current average of 4,000 vehicle orders per week⁴⁵. We project that weekly demand will rise to 5,000 in 2025 and 5,500 in 2026, **driven by increased production capacity from new EV manufacturing plants**. These facilities are expected to significantly reduce the current production time of approximately 21 weeks, thereby boosting demand.

For the luxury version, which will begin commercialization in March 2025 at an ASP of ¥814 900 (around \$144,200), we forecast a demand of 8,000 deliveries (double of Goldman Sachs’ forecast of 4,000⁴⁶, based on initial demand data (with SU7 Ultra receiving 3,680 orders within 10 minutes after its presentation”) and their factory capacity. For 2026, we forecast double the demand (16,000 SU7 Ultra vehicles) **assuming inflation as the only factor changing the price over time**.

In future years, due to the challenges in forecasting sales within this emerging segment and the lack of reliable industry forecasts, we analyzed past growth rates of selected peers, which we deem to be the most comparable to Xiaomi (criteria for peer selection in *Appendix 4*). The growth rate chosen for our mid-term forecast [CAGR (2026-2031) = 19.2%] is based on their average growth during 2023, the only year we view as “business as usual”, given that covid years are not representative of realistic future growth trends. **Over the long-term, the growth rates gradually converge with China’s projected GDP growth of 5.3%.**

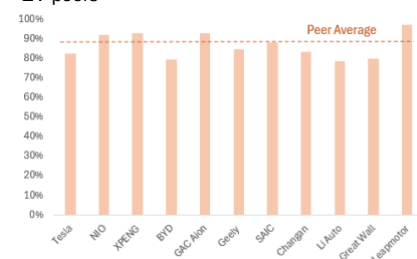
On the costs side, we projected the current COGS-to-revenue ratio of 84%, since it is already lower than the peer group average of 87% (figure 41). While Xiaomi could potentially narrow the gap with mature players like BYD in the future, the scale difference remains significant. Additionally, **BYD’s specialization in EV**

Table 10- Xiaomi EVs Revenue Forecast until 2032F

Year	Xiaomi EVs Growth	Assumptions
2025F	126%	Explicit forecast
2026F	21%	
2027F	22%	Based on peer group, decreasing over time to reach terminal growth of 5%
2028F	22%	
2029F	22%	
2030F	18%	
2031F	13%	5%
CAGR (2026F-2031F)	19%	China GDP growth
2032F - 2034F	5%	

Source: Own forecasts

Figure 40 - Average COGS/Revenue ratio for EV peers



Source: Capital IQ

⁴⁵ CnEVPost. (2024, November 5). *Xiaomi SU7 monthly production expected to reach 24,000 units in November and December: Report*. Retrieved from <https://cnevpost.com/2024/11/05/xiaomi-su7-monthly-production-24000-nov-dec-report/>

⁴⁶ CarNewsChina. (2024, October 29). *Xiaomi SU7 Ultra launched in China for \$114K USD*. Retrieved from <https://carnewschina.com/2024/10/29/xiaomi-su7-ultra-launched-in-china-for-114k-usd/>

batteries provides it with a long-term competitive advantage, as Xiaomi currently relies on BYD batteries for its vehicles.

Assuming a 35% allocation of R&D expenses to the EV segment, and SG&A costs proportionate to its revenues, we forecast the EV segment to break even in 2028. For perspective:

- Fitch Ratings expects the segment to continue unprofitable for the next years⁴⁷;
- Citibank forecasts EV breakeven at 300k – 400k annual vehicle sales⁴⁸.

While the CEO has mentioned its plans of becoming a top-five EV automakers in the world in two decades time, we assumed that the focus in the foreseeable future would be in the domestic market, considering the global geoeconomic scenario, particularly after Trump’s re-election, which will lead to even more tariffs for the industry and the prioritization of Tesla.

Net Working Capital

We believe that Xiaomi will continue maintaining a negative CCC in the future. Furthermore, as the EV segment becomes more important revenue-wise, we forecast an increase in inventory holding period, since industry data shows a holding period for the auto industry 14% higher than smartphones.

We project days sales outstanding higher than the past, since EVs take much longer to be paid. Regarding payables, an enhanced negotiating power is expected, considering that raw materials needed for all the segments are interrelated (lithium batteries, chips, etc.) leading to a bigger scale and bargaining power against its suppliers.

As for the other items not included in the CCC, we forecast operating cash as 7.5%, since companies in emerging markets tend to keep higher amounts of cash⁴⁹. Income tax liabilities are forecasted based on the historical average excluding covid-years (eliminating eventual government grants provided during covid). The value of 0.43% is lower than the past, but we consider it realistic since EVs might bring tax benefits from the government’s side (the Chinese government has lower corporate tax rates for companies engaged in certain sectors and activities, e.g., pollution prevention and control⁵⁰). The long-term simplified forecast assumes that WC will remain at -1.6% of revenues.

Figure 41 - Core result before taxes (NOPAT) of the EV segment



Source: Own forecasts

Table 11 – NWC/Revenues, from 2018 to 2035F

Year	Net working capital as % of revenue
2018A	1.9%
2019A	-4.8%
2020A	-6.4%
2021A	2.7%
2022A	7.1%
2023A	-2.3%
2024F	-2.3%
2025F	-2.0%
2026F	-1.5%
2027F	-2.1%
2028F	-2.1%
2029F	-1.7%
2030F	-1.8%
2031F	-1.6%
2032F	-1.6%
2033F	-1.6%
2034F	-1.6%
2035F	-1.6%

Source: Own forecasts

⁴⁷ <https://www.fitchratings.com/research/corporate-finance/xiaomis-strong-core-businesses-increase-buffer-for-evs-26-08-2024>

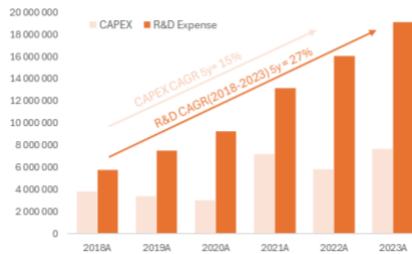
⁴⁸ <https://www.carscoops.com/2024/08/xiaomi-lost-9200-for-every-ev-it-sold-and-still-did-better-than-rivian-and-ford/>

⁴⁹ J.P. Morgan. (2023). Working capital index: China report 2023. Retrieved from [jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf](https://www.jpmorgan.com/content/dam/jpmorgan/documents/payments/working-capital-index-china-report-2023-en.pdf)

⁵⁰ PwC. (2024, June). People’s Republic of China: Taxes on corporate income. Retrieved from <https://taxsummaries.pwc.com/peoples-republic-of-china/corporate/taxes-on-corporate-income>

Capex

Figure 42 - Xiaomi Capex vs R&D expenses, from 2018 to 2023



Source: Capital IQ

Xiaomi does not detail the specific allocation of its Capex in its annual reports, although it is evident that investments have been made in production plants. In 2024, the company completed the construction of its new smartphone production facility, which involved a total investment of around RMB 2,4bn.

We believe this is reflected in 2023's PPE increase in % of revenue, from 2.8% to 5.1%. Considering that Xiaomi aims to complete its EV production facility in H1 2025, we opted for maintaining this elevated PPE-ratio to represent the new trend towards some tangibility in Xiaomi's balance sheet.

According to this method, the 2024F value for gross CAPEX is RMB11bn, which is in line with the LTM data of RMB 9bn.

R&D

Table 12 - R&D/Revenues industry benchmark calculation

Industry Name	R&D as % of Revenue	Weights for proxy
Electronics (Consumer & Office)	3,83%	56%
Computers/Peripherals	3,68%	28%
Advertising	1,42%	10%
Auto & Truck	3,82%	6%

Source: Damodaran (industry data)

Our explicit R&D forecast is based on the company's announcement of investing over RMB 100 bn in R&D over the next five years. However, considering the investments made so far in 2024 and the more recent projections of RMB 35bn for 2025 (for a target CAGR since 2017 of 35%), we **believe R&D will exceed the RMB 100bn mark**. For the simplified long-term forecast, we based it on the assumption that R&D will converge to the industry benchmark of 3.5% of Revenues (*table 12*).

Transaction with Shareholders

Table 13- Xiaomi's latest share repurchases

	Share Repurchased (millions)	Aggregate Amount (million HKD)
January	112	1,533.1
February	26	324.7
March	6.8	101.9
April	18.2	285.9
May	5.6	98.8
June	39	676.5
July	39.5	656.1
September	1.7	31.4
Total	249.2	3,708

Source: Company report

Our projections for 2024 and 2025 reflect the repurchase of 249 million shares since January 2024 (*table 13*) which amount for HKD 3.7bn, as part of the HKD 10 bn buyback program approved by the Board. We assume the remaining shares, worth approximately HKD 6.3bn at an average price of HKD 25, will be repurchased in 2025. This will result in a reduction of approximately 240,000 shares, to a total of 24,762,422 shares outstanding (value to be used for valuation purposes).

For the future, we forecast that transactions with shareholders will continue at a similar proportion to the current program, with a **payout ratio of 18%**.

Valuation

Cost of Capital

Table 14 - Country risk premium for Xiaomi

China Sovereign CDS spread	0,557%
China Sovereign CDS	0,916%
US Sovereign CDS	0,36%
Local currency rating (A+)	0,920%
CRP (Damodaran)	0,770%
Country Risk Premium	0,70%

Source: Investing.com & Damodaran

Table 15 - Unlevered beta calculation

Method 1: Regressed Beta	
Raw Beta	0,68
Standard Error	0,13
Adjusted beta	0,79
Unlevered Beta	0,80
Method 2: Peer Group	
β smartphone	0,75
β IoT	0,74
β Internet Services	0,79
β EV	0,90
Total weighted unlevered beta	0,79
Method 3: Proxy Industries	
β Electronics	0,86
β Computers/Peripherals	1,07
β Advertising	1,66
β Auto & Truck	1,31
Total weighted unlevered beta	1,05

Our valuation is conducted in local currency. However, as Chinese government bonds are not considered risk-free, the risk-free rate (R_f) was derived using the yield on 10-year US Treasury bond, which stands at 4.25%⁵¹. This rate was adjusted for inflation differentials between the US (10y expected inflation of 2.3%⁵²) and China (10y expected inflation of 2%⁵³, based on the average of the past decade excluding the COVID-19 years), resulting in a R_f of 3.92%.

We estimated the Equity Risk Premium (ERP) at 5.24%. This value includes a Market Risk Premium (MRP) of 4.53%, derived from monthly returns of the MSCI World Index and the average yield of the US 10y Treasury. To account for additional risks specific to the Chinese economy, a Country Risk Premium (CRP) of 0.7% was added (*table 14*).

To estimate Xiaomi's unlevered beta, we employed three approaches (*table 15*):

1. Regression analysis of Xiaomi's historical returns against the MSCI World Index over the past five years (262 weekly observations). After using Xiaomi's current capital structure, the resulting unlevered beta was 0.8.
2. Analysis of peer groups divided into two categories: (i) smartphones, IoT products, and internet services; (ii) electric vehicles. Outliers were excluded to ensure more robust results, including Baidu and Hisense in group (i) and Tesla, NIO, XPENG, Changan, Li Auto, and Leapmotor in group (ii) due to recent IPOs and limited data, the unlevered betas averaged 0.77 and 0.84, respectively. Weighting these betas by Xiaomi's expected segmental revenue contributions yielded a total unlevered beta of 0.78.
3. Proxy industry betas from Damodaran: Electronics and computer/peripheral segments, representing smartphones and IoT, exhibited lower betas due to less cyclical demand. In contrast, advertising and auto, proxies for Xiaomi's internet services and EVs, exhibited higher betas of 1.66 and 1.31, respectively, reflecting their sensitivity to economic conditions. Weighted by Xiaomi's segment revenue distribution, this method yielded an unlevered beta of 1.05.

Figure 43 - Unlevered betas of peer group 1 (Smartphone, IoT and Internet Services)

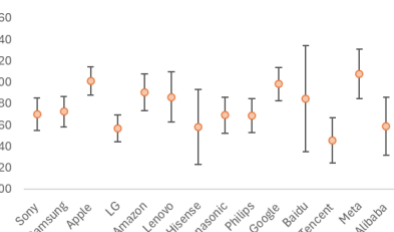
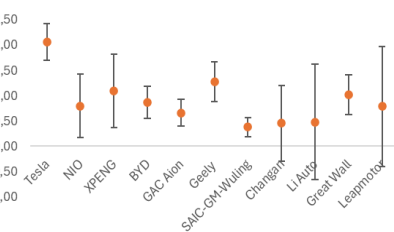


Figure 44 - Unlevered betas of peer group 2 (Electric Vehicles)



Source: Bloomberg (regressed betas) and own analysis

⁵¹ Federal Reserve Bank of St. Louis. (n.d.). 10-Year Treasury constant maturity rate (DGS10). Retrieved from <https://fred.stlouisfed.org/series/dgs10>

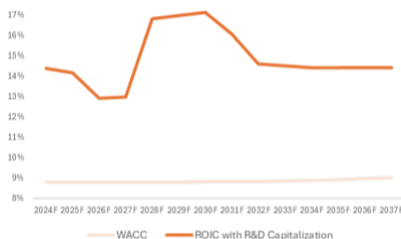
⁵² Federal Reserve Bank of St. Louis. (n.d.). 10-Year breakeven inflation rate (EXPINF10YR). Retrieved from <https://fred.stlouisfed.org/series/EXPINF10YR>

⁵³ World Bank. (n.d.). Inflation database. Retrieved from <https://www.worldbank.org/en/research/brief/inflation-database>

Considering the low beta from the first two methods, our choice for the unlevered beta was the average of method 2 and 3. We believe that this represents Xiaomi's real risk of operations in a less biased way, by incorporating both peer and industry inputs.

Terminal Growth and Value Creation

Figure 45 - ROIC and Cost of Capital for Xiaomi, from 2025F to 2038F



Source: Own analysis

Based on our 13-year forecast for Xiaomi, we project that adjusted ROIC will increase from **13.6% in 2025** to a peak of **17.8% in 2030**, before stabilizing at **15.3% from 2035F onwards**. Notably, throughout the forecast period, ROIC consistently exceeds our estimated WACC (*figure 46*). This positive spread between ROIC and WACC indicates that Xiaomi will generate significant economic value, as its returns on invested capital will consistently surpass its cost of capital.

The terminal growth for Xiaomi was calculated using the formula $g = \text{RONIC} \times \text{RR}$. With a stable RONIC of **14%** and a perpetual retention rate (RR) of **31%**, the resulting terminal growth value is **4.4%**. This remains below the ceiling defined by China's long-term nominal GDP growth of **5.3%**, which is derived from a real GDP growth forecast of **3.3%** (IMF⁵⁴) and a long-term inflation rate of **2%**.

The consistent value creation, as evidenced by the positive ROIC-WACC spread, underscores Xiaomi's strong potential to deliver substantial shareholder value over the long term.

Cash Flow Valuation

Given Xiaomi's variable capital structure, the Adjusted Present Value model was determined to be the most appropriate method for absolute valuation since it accounts for fluctuating leverage the best, despite the DCF being also computed⁵⁵.

Moreover, despite Xiaomi generating cash flows from multiple segments, **we did not adopt a sum-of-the-parts valuation approach**, since (i) the risk of operations (unlevered beta) between the EV segment and the other three is similar, given its shared technological nature; (ii) the fact that all segments end up related, because of cross-product synergies in the Mi ecosystem; (iii) data constraints which impedes us from forecasting accurately balance sheet per segment.

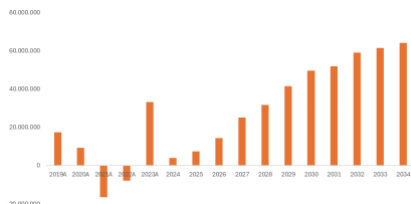
The APV model was computed (*appendix 6*) by projecting unlevered free cash flows. The terminal value was estimated at RMB 1.407trillion, using a perpetual growth rate of 4.45%. The Unlevered Enterprise Value was calculated by

Table 16 - Terminal growth for Xiaomi

Operating RONIC	14,4%
Operating Reinvestment Rate	30,8%
Terminal Growth	4,4%
Terminal Growth (ceiling)	5,3%

Source: Own forecasts

Figure 46 - FCF evolution projections for Xiaomi



Source: Own forecasts

Table 17 - Cost of Capital (APV)

Ru	8,80%
Rf	3,9%
β_u	0,92
Equity Risk Premium	5,3%
Rd	5,4%
YTM	5,6%
Probability of default	2,6%
Loss given default (Moody's)	53,9%

Source: Own analysis

⁵⁴ International Monetary Fund. (2024, May 28). *IMF staff completes 2024 Article IV mission for China*. Retrieved from <https://www.imf.org/en/News/Articles/2024/05/28/pr24184-china-imf-staff-completes-2024-art-iv-mission>

⁵⁵ Although the company possesses loans receivables, from its fintech business, we did not use the FTE method for financial business units, because we deem it as immaterial (they represent 1% of total invested capital) and are intra-group/consumer finance loans

discounting future cash flows and the terminal value at the unlevered cost of capital (Ru) of 8.8%. To derive the Levered Enterprise Value, the PV of tax shields was added, discounted at the cost of debt (Rd) of 5.4% (*table 17*).

Incorporating the value of non-core invested capital resulted in an enterprise value of RMB 942 bn. After subtracting net debt and minority interests, the equity value was estimated at RMB 935 bn, translating to a **price per share of HKD 41** (based on the six-month forward exchange rate of 1.1, given the absence of one-year contracts). With the current share price at HKD 31.6, this implies a **30% upside potential**.

In the DCF model (*appendix 6*) a similar methodology was used, starting with the UFCF and calculating the terminal value of RMB 1.3trillion, using the same perpetual growth rate and the terminal WACC of 9%. To reach to the EV, the different cash flows were discounted at the WACC, adjusted annually to reflect capital structure changes, and summed the non-core invested capital. Subtracting net debt and minority interests yielded an equity value of RMB 774bn million, translating to a **price per share of HKD 34**. Versus the current share price, this reflects an upside potential of 11%.

Relative valuation

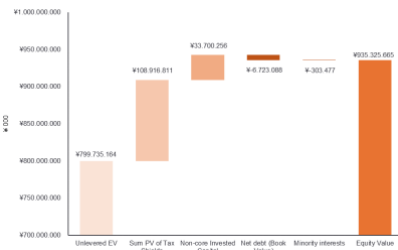
In addition to the previous methods, a multiples valuation method was employed to assess the current market pricing of Xiaomi. The peers used in this analysis were consistent with those selected for the unlevered beta peer group assessment (*appendix 4*).

A set of four multiples were chosen: three general multiples ($\frac{EV}{Revenues^*}$, $\frac{EV}{Adj\ EBITDA^*}$ and $\frac{EV}{Adj\ EBIT^*}$) and one operating multiples for the EV segment $\frac{EV}{EV\ shipments}$.

Operating multiples such as $\frac{EV}{Shipments}$ or $\frac{EV}{Connected\ Devices}$ were not used for the first group, as results would be biased since most companies possess several sources of income. Furthermore, the P/E ratio was not used since capital structures vary significantly among peers (*figure 33*).

Because the EV segment will remain unprofitable in 2025F, the multiples based on EBIT and EBITDA cannot be used. Therefore, the EV/Revenues multiple was considered to be the most reliable. Through this method, computed with both the median and the average excluding outliers, a **share price of HKD 35.3 was obtained, equivalent to an upside of 12%**.

Figure 47 - Xiaomi Equity Value 2025F (APV)



Source: Own analysis

Table 18 - Relative Valuation

	Xiaomi Valuation	EV/Revenues
Median	Implied EV	¥698.906
	Net Debt	¥6.723
	Minority Interests	-¥303
	Implied Market Value	¥705.326
	Shout (million)	¥24.762
	Implied Value per share	¥28
	RMB to HKD (1 RMB = 1.1 HKD)	31,3HKD
Average excluding Outliers	Implied EV	¥885.884
	Net Debt	¥6.723
	Minority Interests	-¥303
	Implied Market Value	¥892.304
	Shout (million)	¥24.962
	Implied Value per share	¥36
	RMB to HKD (1 RMB = 1.1 HKD)	39,3HKD
Price	Average share price in HKD	35,33
	Current Price	31,6HKD
	Upside	12%

Source: Own calculations (financial statements of peers from Capital IQ)

Main Risks

Below are presented the primary risks that could materially impact Xiaomi's operations, financial performance and valuation. These risks encompass both external macroeconomic factors and internal operational challenges and should be carefully assessed by investors, regarding both the probability of materializing and their potential impact on Xiaomi's business.

M1: As the Chinese market matures, other **emerging markets will seem more attractive for low-cost peer's smartphone brands** (figure 18) This might lead to a market share loss, affecting volume growth.

M2: Difficulty in premiumization because of the market perception of **Xiaomi as a low-cost brand** and the associated **limited useful lifetime**.

M3: Further appreciation of USD against RMB (figure 15). **The PBOC will probably favour further depreciation⁵⁶, aiming to reduce the impact of Trump tariffs through a weaker yuan.** This will affect its costs of semiconductors for Xiaomi.

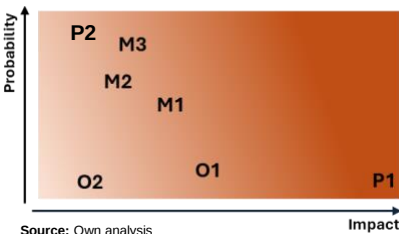
P1: War between China / Taiwan – While unlikely, the impact of an invasion would be severe. Given Taiwan's role in supplying the world's semiconductors, disruptions in global supply chains and the depreciation of the yuan would affect profitability.

P2: Trump 2.0 and the new 60% tariffs over Chinese imports – While the imposition of new tariffs would be broadly detrimental to Chinese companies, the impact on Xiaomi is expected to be limited, since the company has limited exposure to the NA market.

O1: Worse than expected EV quality – EV production facilities are working double-shift to satisfy the market's huge demand. This raises operational risks and can potentially compromise product quality.

O2: Reliance on Internet Services for profitability – Xiaomi's devices are known for having a high number of ads⁵⁷, which can be considered intrusive and degrade user experience. On the other side, Xiaomi users are also more likely to accept this, since these devices' value-for-money is extremely high, so the impact is low.

Figure 48 - Risk heat map



Market Risk

Political risk

Business/Operational Risk

⁵⁶ Reuters. (2024, December 11) *Chinese authorities are considering a weaker yuan as Trump trade risks loom*. Retrieved from <https://www.reuters.com/markets/currencies/chinese-authorities-are-considering-weaker-yuan-trump-trade-risks-loom-sources-2024-12-11/>

*each multiple was adjusted for the peer company's non-recurrent items (mostly asset sales), in order to get the core items only

⁵⁷ India Today. (2019, April 9). *Xiaomi phones running MIUI are full of ads, but you can use these steps to block them*. Retrieved from <https://www.indiatoday.in/technology/tech-tips/story/xiaomi-phones-running-miui-are-full-of-ads-but-you-can-use-these-steps-to-block-them-1497560-2019-04-09>

Scenario Analysis

Table 20 – War Scenario Assumptions

War Scenario		
Revenues	-15% in 2025F & -5% in 2026F	
Gross margin	2 p.p. ST Decrease	
SG&A	2x base case	
RMB/HKD	Depreciates by 10%	
Country Risk Premium	Increases to 1%	
Share Price		14.25 HKD
% over base case		-65%

Table 20 - Economic Recovery Assumptions

Economic Recovery Scenario		
Revenues	Small revenue increase of 2.5%	
Gross margin	2 p.p. ST Increase	
SG&A	Same as base case	
RMB/HKD	Appreciates by 10%	
Country Risk Premium	Decreases to 0.5%	
Share Price		50.9 HKD
% over base case		24%

Despite the low probability but high impact of a China/Taiwan conflict in 2025, we did a scenario analysis to assess how the impact in revenues, gross margin, SG&A would affect share price. According to Stimson Center⁵⁸, a conflict between China and Taiwan and with interference from the US could result in a 25%-35% contraction of China's GDP. We decided to reflect this into a slightly lower revenue reduction of 15%, since we consider that smartphones consumption is less cyclical and elastic to changes in the economy. Because of disruptions in supply chains likely in semiconductors, we assume a reduction in gross profit by 2 pp and predicted a doubling of SG&A expenses related to compliance, legal and restructuring costs. Lastly, a weaker RMB/HKD and a higher country risk premium were set.

In contrast, another plausible scenario is of an economic improvement faster than expected, following the Chinese government's stimulus package. We believe that with economic recovery, a bigger portion of sales will be on the premium segment, leading to an increase in ASP by 2.5%. This also reflects in improved margins and a stronger currency.

The outcome of these two scenarios is a **share price decline of 65% to HKD 14 in the war scenario and an increase of 25% to HKD 51 in the best-case scenario.**

Sensitivity Analysis

Apart from the scenarios considered above, we also developed a sensitivity analysis on our APV valuation, to evaluate the impact of separate factors on the stock price, considering that it is more likely that single variables or two variables change at a time, and not all of them, as portrayed before.

- Firstly, we examined **RONIC** (ranging from 12% to 17%) and the **Reinvestment Rate** (ranging from 24.6% to 36.8%), with the upper and lower bounds based on (i) the normal values and (ii) after R&D capitalization adjustments.
- We also assessed the impact of the different **unlevered betas** (ranging from 0.79 to 1.05) which resulted from the three methods used before. This was

⁵⁸ Stimson Center. (2024). *The US-China-Taiwan conflict and the global economy*. Retrieved from <https://www.stimson.org/2024/us-china-taiwan-conflict-global-economy/>

combined with different **country risk premiums** (ranging from 0.56% to 0.92%).

- Additionally, we assessed the influence of the **HKD/RMB exchange rate** on the share price, based on the upper and lower bound seen during the past 5 years.

Our sensitivity analysis reveals that the impact of g ($RONIC \cdot RR$) is significant but irregular, since in some cases, terminal growth exceeds R_d which makes the share price swing between negative and positive values. This occurs because the compensation effect between g and R_u in the tax shield ($g - R_d$) creates variability in the results. Moreover, higher **unlevered betas**, **country risk premiums** and **HKD/RMB exchange rates** exacerbate the decline in the share price, however, the price is still above the current price of 31.6 HKD.

Table 21 - Sensitivity Analysis

		Lower case		Our assumption		Upper case	
		12%	13%	14%	16%	17%	
RR	Share price = 41,0						
	24,60%	33,20 HKD	34,14 HKD	35,20 HKD	37,64 HKD	39,33 HKD	
	27,83%	34,79 HKD	36,11 HKD	37,68 HKD	41,84 HKD	45,55 HKD	
	30,83%	36,61 HKD	38,49 HKD	40,96 HKD			
	33,83%	38,95 HKD	41,90 HKD	46,79 HKD	N/A since it results in a terminal growth > cost of capital		
	36,83%	42,27 HKD	48,24 HKD	80,41 HKD			
CRP	Share price = 41,0	Method 2: Peers	Method 1: Xiaomi regression	Beta Our assumption	Method 3: Industry		
		0,79	0,80	0,92	1,05		
	0,56%	49,45 HKD	48,80 HKD	42,46 HKD	37,38 HKD		
	0,75%	47,63 HKD	47,01 HKD	40,96 HKD	36,10 HKD		
	0,77%	47,44 HKD	46,83 HKD	40,80 HKD	35,97 HKD		
	0,92%	46,14 HKD	45,54 HKD	39,72 HKD	35,05 HKD		
HKD/RMB	Share price = 41,0						
	1,053	35,88 HKD	Lower case				
	0,926	40,79 HKD					
	0,922	40,96 HKD	Our assumption				
	0,862	43,82 HKD					
	0,806	46,84 HKD	Upper case				

ESG Analysis

Xiaomi presents an overall medium-low ESG risk rating.

It performs slightly worst comparing with smartphone peers (Samsung, Apple) who present low overall ESG risks. A comparison with peers such as Huawei, Oppo and Vivo would be insightful since their profiles are more similar, however, since they are not public companies, no ESG rating is available.

On a general note, Xiaomi has a good performance vis-à-vis its Chinese peers, who are related mostly to environmental problems (pollution) and social (employee rights). Tencent is the best performing Chinese company in the peer group, although a reason might be its size (market cap 5x larger than Xiaomi), making it more exposed to investor scrutiny.

Table 22 - Overall ESG rating for Xiaomi and selected peers

Company	Overall ESG Rating	Risk
Samsung	13	Low Risk
Apple	17	Low Risk
Tencent	19	Low Risk
Alibaba	20	Medium Risk
Xiaomi	21	Medium Risk
Google	23	Medium Risk
Tesla	25	Medium Risk
Xpeng	25	Medium Risk
BYD	26	Medium Risk
Amazon	29	Medium Risk
Hisense	29	Medium Risk
Great Wall Motor	31	High Risk

Source: Sustainalytics

Environmental

Table 23 - Carbon footprint of selected smartphones

Product Carbon Footprint (KG CO2e) - 5G Version + 256GB	
Xiaomi 14 Pro	60,5
Iphone 16 Pro	66,0
Samsung S24 FE	61,6
Huawei Mate40 Pro	73,3

Source: Company reports

Smartphones have a significant environmental impact, with carbon emissions being a critical concern across their lifecycle. The manufacturing phase accounts for most of the environmental impact, although day-to-day usage requires energy-intensive data centres further increasing carbon footprint. While manufacturers have developed mitigation measures, such as using recycled materials on the production, its impact is still limited. Xiaomi has recycling program that allows users to trade-in their devices in exchange for coupons and has a refurbishment factory for its products in Hong Kong.

Table 24 - Average smartphone lifespan, by producer

Average Smartphone LifeSpan	
iPhone	4-8 years
Samsung	3-6 years
Huawei	2-4 years
Xiaomi	2-4 years
Oppo	2-3 years

Source: Everphone

A more effective way to mitigate the inevitable impact of production is increasing the lifespan of smartphones. In a world dominated by low-cost brands, the average lifespan of smartphones is 2.5 years, with studies showing higher lifespans in more premium brands⁵⁹. We believe that Xiaomi's strategy towards premiumization is positive in this aspect.

Despite EV companies helping in the green transition, ESG risks remain high due to their supply chains' impact especially regarding raw material sourcing for battery production. Xiaomi has adopted measures to compensate, such as using its factories as PV panel stations, generating 16.4 million kWh of electricity annually, and keeping emissions 50% lower than the Municipal Standards in Beijing. The company has apledged to reach carbon neutrality by 2040, by prioritizing the use of low-carbon technologies, increasing the share of renewable energy used and encouraging key suppliers to do so too.

Table 25 - Ranking of Xiaomi and selected peers in Forbes' Best Employers of 2024 list

Best Employers 2024 - Forbes		
Alphabet		#2
Samsung		#3
Sony		#13
Apple		#15
Amazon		#24
Panasonic		#48
Meta		#91
Alibaba	🇨🇳	#94
Tencent	🇨🇳	#120
Xiaomi	🇨🇳	#142
LG		#171
Lenovo	🇨🇳	#232
BYD	🇨🇳	#263
Great Wall Motor	🇨🇳	#270
Hisense	🇨🇳	#322
Geely	🇨🇳	#335
Baidu	🇨🇳	#433
SAIC Motor	🇨🇳	#480

Source: Forbes

Social

According to Sustainalytics, the most material social issues are related to Business Ethics and Data Privacy & Cybersecurity, relating to data collection malpractices, particularly through its web browsers.

In 2021, Xiaomi smartphones were accused by Lithuania's state cybersecurity body of having built-in censorship capabilities, although further investigation by the German authorities found no evidence⁶⁰. This comes from a general scrutiny on Chinese Big Tech companies, who are being accused of data malpractices (on April 2024, Joe Biden signed a legislation banning TikTok⁶¹ over data security concerns).

⁵⁹ Everphone. (n.d.). *What is the average lifespan of a smartphone?* Retrieved from <https://everphone.com/en/blog/smartphone-lifespan/>

⁶⁰ Reuters. (2022, January 13). *German IT security watchdog finds no evidence of censorship function in Xiaomi phones.* Retrieved from <https://www.reuters.com/technology/german-it-security-watchdog-no-evidence-censorship-function-xiaomi-phones-2022-01-13/>

⁶¹ The New York Times. (n.d.). *Why is TikTok being banned?* Retrieved from <https://www.nytimes.com/article/tiktok-ban.html>

On the other hand, Xiaomi provides training and career development opportunities for its employees, being considered the #142 best employer by Forbes⁶², leading among the Chinese peers together with Alibaba and Tencent. It also has several initiatives for community engagement, namely disaster relief efforts and donations to leading Chinese universities (in 2023, Lei Jun donated the largest ever individual amount given to a Chinese university⁶³, around \$182.5 million).

Governance

Regarding structure and board diversity, Xiaomi's board consists of seven members, out of which 43% are independent (slightly below the average of 47% in Hong Kong listed companies). All board committees are chaired by independent non-executive directors, which strengthens oversight and governance quality but the board lacks gender diversity (the first female member was appointed in 2023).

Xiaomi's executive compensation framework comprises a significant portion performance-based metrics, most of them financial but also ESG-related (GHG reduction, renewable energy adoption, employer attractiveness, etc). Currently, ESG-related compensation accounts for 3% of total executive compensation, with plans to increase to 5% within three years.

The board has shown responsiveness to the previously mentioned data privacy and cybersecurity concerns by implementing measures to enhance transparency and compliance, such as adhering to global information management standards (ISO/IEC 27001) and by establishing a Security Privacy Committee that reports directly to the board, reinforcing accountability and demonstrating its commitment to aligning governance practices with international expectations.

Final Recommendation

Due to certain limitations encountered during the valuation process that affected our forecasting capabilities (detailed in Appendix 7), our final recommendation is based on the weighted average of the chosen absolute valuation method (the APV), and the multiple valuation method. A bigger weight was attributed to APV, since it reflects Xiaomi's situation more clearly, while the multiple valuation was used to normalize it to market pricing of peer companies. Our final target price is HKD 39.08 per share, a 24% upside potential versus the current price of HKD 31.6.

Table 26 - Average Board Independence Levels across countries, in 2024

Average Board Independence Levels around the world	
US	85%
Hong Kong	47%
UK	94%
Brazil	41%
Germany	57%

Source: Spencer Stuart

Table 27 - Target price for Xiaomi

	Price	Weight
APV	40.95 HKD	67%
Multiples	35.32 HKD	33%
Target price	39.08 HKD	
Upside	24%	

⁶² Forbes. (n.d.). *World's best employers*. Retrieved from <https://www.forbes.com/lists/worlds-best-employers/>

⁶³ Sixth Tone. (n.d.). *China sees record rise in electric vehicle production and sales*. Retrieved from <https://www.sixthtone.com/news/1014193>

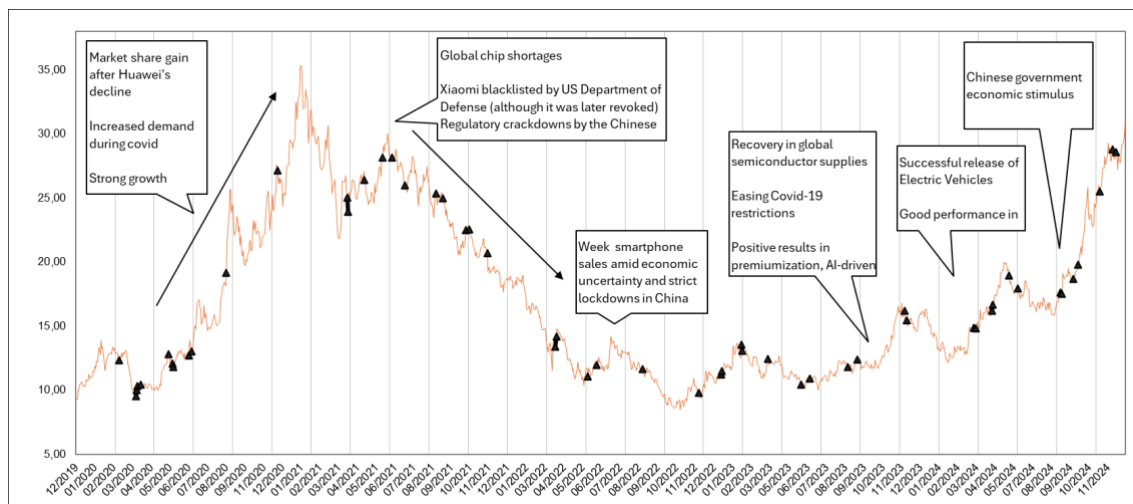
Appendix

Appendix 1 - Xiaomi Stock Price Evolution

Xiaomi's stock price has experienced significant fluctuations over time. The stock peaked at 35.9 HKD in early 2021, fuelled by strong growth expectations, a 30% rise in smartphone shipments, benefits from Huawei's struggle with sanctions⁶⁴ and covid, since it prompted most Chinese and tech stocks to all-time highs.

However, it has since declined. By the third quarter of 2022, Xiaomi's market cap had fallen to \$34 billion, below its IPO valuation, primarily due to weak smartphone sales—down 11% - driven mostly by China's strict COVID-19 policies⁶⁵, semiconductor supply chain disruptions but also due to idiosyncratic issues, e.g., the targeting by the US Department of Defense as “Communist Chinese Military Company”⁶⁶, although this was later revoked.

Recently, Xiaomi's stock has shown a notable recovery, rising from 16 HKD in August to 30.45 HKD in December 2024. This surge was largely driven by China's largest economic stimulus package, stabilizing equity markets and attracting investors to the undervalued equity market (PE ratio of 9x, compared to US' ratio of 26x⁶⁷). This, combined with successful launches of new products, mainly the electric vehicles, has led the stock price near the records seen during covid. Overall, price has surged more than 80% since the IPO and more than 230% since its lowest point.



Appendix Figure 1 - Analysis of Xiaomi's stock price evolution, from 2019 to 2024

⁶⁴ Reuters. (2022, August 19). *Xiaomi Q2 revenue drops as COVID restrictions hit China sales*. Retrieved from <https://www.reuters.com/business/media-telecom/xiaomi-q2-revenue-drops-covid-restrictions-hit-china-sales-2022-08-19/>

⁶⁵ Reuters. (2022, November 23). *Xiaomi Q3 revenue falls 9.7% year-on-year, net income down 59.1%*. Retrieved from <https://www.reuters.com/business/xiaomi-q3-revenue-falls-97-year-on-year-net-income-down-591-2022-11-23/>

⁶⁶ CNBC. (2021, January 15). *Xiaomi added to US blacklist of Chinese military companies*. Retrieved from <https://www.cnbc.com/2021/01/15/xiaomi-added-to-us-blacklist-of-chinese-military-companies.html>

⁶⁷ World P/E Ratio. (n.d.). *China P/E ratio overview*. Retrieved from <https://worldperatio.com/area/china/>

Appendix 2 - Management team

Name	Position	Key Responsibilities	Experience and Background
Lei Jun	Chairman and CEO	Strategic direction, overall leadership of Xiaomi Group	Renowned tech entrepreneur and investor Former CEO of Kingsoft Corporation Founder of Joyo.com, which was acquired by Amazon Angel investor in JOYY.inc and UCWeb
Lin Bin	Co-Founder & Vice Chairman	Talent acquisition, HR, finance, strategic supplier relationships, and market development in India and Indonesia	Former Engineering Director at Google SDE Manager and Engineering Director at Microsoft
Liu De	Senior Vice President & Co-Founder	Responsible for recruitment, training, and evaluation of middle/senior management. Also oversees organizational design and approval processes.	Co-founder of Beijing Xinfengrui Industrial Design Co., Ltd. Holds directorships in Zepp Health Corp. and Ninebot Limited.

Appendix Figure 2 - Xiaomi Executive Directors

The analysis of the management team is crucial to understanding the company's future prospects. Historically, the team has demonstrated a mix of successes and setbacks:

Past Missteps: In the past, internationalization efforts faced setbacks when the company tried ambitiously to enter several markets simultaneously following the success in India, leaving the Brazilian market a few months after. This early exit suggests that past expansion strategies may have lacked the required market alignment or resource commitment for sustainable growth.

Similarly, the delayed launch of the Mi Mix 3 5G in 2019, initially poised to be the world's first 5G smartphone, reflected over-optimism.

Past successes: In recent years Xiaomi seems to have a more realistic behaviour. In 2021, the company announced its investment plans for the EVs, and set a target to begin mass production by H1 2024— a milestone the company successfully achieved.

Furthermore, as of Q3 2024, the company has revised upward its EV delivery goal for the third time, from 76,000 to 130,000 units. This conservatism in setting its goals likely results from lessons learnt from the past and helps restore investor confidence in its management team's projections.

Additionally, the company has a recent history of continuously beating the market's forecasts when it comes to earnings per share.



Appendix Figure 3 - Earnings per share surprise
Source: Capital IQ

Appendix 3 - IoT industry ecosystems

Big tech firms present strong competition to Xiaomi, especially in developed market.

Company	Core Offering	Focus Markets	Product Diversity	Key Strengths	Key Weaknesses
Amazon Alexa	 Alexa voice assistant and Echo smart speakers; Small gadgets (smart plugs, light bulbs, doorbells)	Developed (US & Europe)	Medium	i. Dominant position in voice assistant technology; ii. Strong ecosystem compatibility iii. Integration of Amazon services	i. Regional dependence on developed markets ii. Privacy concerns
Google Home	 Google Assistant & Nest devices	Developed	Medium	i. Deep integration with Android and Google services, allowing more personalization; ii. Superior AI capabilities;	i. Privacy concerns ii. Limited hardware offering
Apple Homekit	 HomePod, Apple TV	Premium	Low	i. Closed ecosystem with strong brand loyalty; ii. Privacy focused ecosystem; iii. Seamless iOS integration	i. Limited compatibility outside the Apple ecosystem ii. High cost iii. Feature development takes longer time
Mi Home	 Broad range of low/mid priced devices	Emerging & Developed (Particularly strong in Asia)	High	i. Mi AI Assistant (Primarily in China); ii. Broad categories with constant release of new products; iii. Competitive pricing; iv. Extensive ecosystem integration with HyperOS 2	i. Limited AI capabilities for foreign markets ii. Limited brand recognition outside Asia iii. Perceived lower quality

Appendix Figure 4 - Comparison of the biggest IoT ecosystems

Appendix 4 - Peer group selection

Peer groups were used in two occasions: the method 2 of assessing unlevered beta for Xiaomi and for the multiple's valuation.

Smartphone segment: In top list of players in the smartphone market, a large number of what we believe are true Xiaomi comparable are the Chinese peers, such as Huawei and BBK Electronics (who owns Oppo, Vivo, OnePlus, etc.) are private. Therefore, there is no data to use in market regressions and pricing. The result would be a regression biased by Apple's high market valuation for the multiple valuation. Our solution was to add into the peer list other smaller/legacy players such as Sony, LG who also have some presence on the market.

IoT and lifestyle products: The same rationale was applied in the consumer IoT. The greatest IoT ecosystems in the market belong to big tech companies (Apple, Amazon, Google) which would eventually lead to unrealistic multiples. For this reason, producers of products that compete with Xiaomi's IoT segment such as tablets, computers, smart TV and other large home appliances were added to the peer group (Lenovo, Hisense, Panasonic, Philips).

Internet Services: Based on *figure 25*, major players in the online advertising space are big tech companies. The peer group is composed by US and Chinese biggest tech companies.

Electric Vehicles: In China, BYD is the market leader, by a far margin (*table 5*). A wide range of EV producers in China were added to the list, because (i) Xiaomi's SU7 Series and SU7 Ultra compete in

the various segments of the market (ii) Since size of some players is small and some IPOs were recent, a broader sample of companies was needed to improve the sample for beta regressions.

Segments	Comparables	Public	Ticker	Comparable Products
Smartphones and IoT comparables	Sony	Yes	SONY	Xperia smartphones, PlayStation, Smart TVs
	BBK electronics (Oppo, Vivo, etc.)	No	N/A	Oppo Find, Vivo X Series, OnePlus, Realme
	Huawei	No	N/A	Mate Series, Huawei Watch
	Samsung	Yes	005930.KS	Galaxy Series (smartphones), Smart TVs, Galaxy Watch
	Apple	Yes	AAPL	iPhone, Apple Watch, HomePod, Apple TV
	LG	Yes	LPL	Home electronics (smart TVs, Home Appliances); Smartphones are discontinued
	Amazon	Yes	AMZN	Alexa assistant and ecosystem, Fire TV, Echo smart speakers
	Lenovo	Yes	992	PC, IoT and Tablets
	Hisense	Yes	600060.SS	Focus on Home Appliances, but smart TVs too
	Panasonic	Yes	PCRFY	Smart TVs, Home Appliances, Batteries
	Philips	Yes	PHG	Smart Home Appliances
Internet Services	Google (includes FitBit)	Yes	GOOGL	Android OS, Google Play, Google Home, Nest devices, FitBit
	Baidu	Yes	BIDU	Online browser and advertising
	Tencent	Yes	0700.HK	WeChat and QQ (advertising platforms); Gaming leader in China
	Meta	Yes	META	Advertising on Facebook, Instagram, WhatsApp
	Alibaba	Yes	BABA	Major competitor on digital advertising (Alimama) and cloud (Alibaba Cloud)
Electric Vehicles	Tesla	Yes	TSLA	World EV leader; Model 3, Model Y, Autopilot
	NIO	Yes	NIO	Premium EV focus; Battery Swap technology; Software integration with autopilot
	XPeng	Yes	XPEV	Mass Market Evs
	BYD	Yes	1211.HK	Market leader; Expertise in EV batteries (supplies batteries to Xiaomi)
	GAC Aion	Yes	2238.HK	Mid-to-high end Evs; Large network on the GAC group
	Geely	Yes	0175.HK	Diversified EV producer, with joint ventures with western players. Owns sub-brand Zeekr
	SAIC Motor Corp	Yes	600104.SS	Joint producer with VW and GM
	Changan	Yes	000625.SZ	Mid-range Evs
	Li Auto	Yes	2015.HK	Hybrid-EV maker; extended range vehicles
	Great Wall	Yes	2333.HK	Entry-level Evs
	Leap Motor	Yes	9863.HK	Entry-level Evs

Appendix Figure 5 - Peer group selection, for beta and multiples valuation

Appendix 5 - Industry benchmark calculations

Since Xiaomi's revenue mix is diversified across four segments, an industry benchmark was developed by combining industry averages of four proxy industries, weighted according to their contribution to Xiaomi's revenues. Proxy industries were selected based on Damodaran's & Capital IQ's classification of Xiaomi.

This methodology allows us to compare Xiaomi's data with a composite benchmark, rather than limiting the comparison to single industries or players (as no direct comparable with the same revenue mix exist). A key limitation, however, is that the proxy industries may not perfectly reflect the specific

Proxy industry	Damodaran (Electronics & Capital IQ (Telephone)	Capital IQ (Consumer Elec.)	Capital IQ (Global Internet Advertising)	Capital IQ (Automobile)	Industry Average (weighted by segment revenue/COGS)
	Smartphones	IoT and lifestyle Products	Internet Services	Electric Vehicles	Proxy for Xiaomi
Liquidity					
Current Ratio	1,60	1,2	2,3	1,1	1,53
Quick Ratio	1,4	1,4	1,1	1,3	1,36
CF Management					
Average Holding Period	60 days	64 days	15 days	69 days	60 days
Average Collection Period	83 days	82 days	54 days	68 days	79 days
Average Payable Period	103 days	110 days	63 days	158 days	108 days
Cash Conversion Cycle	40 days	36 days	6 days	-21 days	32 days
Capital Structure					
D/E	74,30%	92,60%	48,60%	40,00%	75%
Debt to EBITDA	5,5	6,9	2,8	2,9	5,48
Interest Coverage Ratio	3,2	4,6	11,9	9,5	4,82
Profitability					
Gross Margin	29,70%	13,20%	58,60%	15,10%	27,03%
EBITDA Margin	7,40%	7,10%	13,70%	6,40%	7,88%
NOPAT Margin	5,10%	1,10%	6,10%	1,80%	3,87%

Total Revenue	100%
Smartphones	56%
IoT and	28%
Internet	10%
EV and other	6%
Total COGS	100%
Smartphones	61%
IoT and	29%
Internet	3%
EV and other	7%

Appendix Figure 6 - Industry benchmark for Xiaomi. Source: Damodaran & Capital IQ Industry Data

segments in which Xiaomi operates. Nevertheless, our analysis indicates that this methodology serves as a valuable complement to peer comparison.

Appendix 6 – Valuation

APV Model

Valuation Assumptions	
Risk free	3.92%
Market risk premium	4.53%
Country risk premium	0.75%
Beta unlevered	0.92
Ru	8.80%
Rd	5.4%
RONIC	14.4%
RR	30.8%
Terminal Growth	4.45%

	Explicit Forecast							Simplified Forecast							
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	
Currency: ¥ 000	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F
Core UFCF	¥ 7,241,628	¥ 14,372,560	¥ 24,968,347	¥ 31,696,512	¥ 41,382,555	¥ 49,535,085	¥ 51,719,450	¥ 58,874,353	¥ 61,368,568	¥ 63,975,051	¥ 51,443,367	¥ 53,730,447	¥ 56,119,207	¥ 58,614,167	¥ 61,220,048
Unlevered Enterprise Value	¥ 799,735,164	¥ 855,707,166	¥ 906,006,668	¥ 954,002,341	¥ 996,533,661	¥ 1,034,653,499	¥ 1,073,941,985	¥ 1,109,531,378	¥ 1,145,756,991	¥ 1,182,562,520	¥ 1,235,137,141	¥ 1,290,049,136	¥ 1,347,402,421	¥ 1,407,305,530	
Annual tax shield	¥ 233,437	¥ 281,295	¥ 331,543	¥ 374,211	¥ 422,232	¥ 472,635	¥ 524,243	¥ 577,048	¥ 631,057	¥ 686,273	¥ 742,697	¥ 799,330	¥ 856,173	¥ 913,226	¥ 970,499
Discounted Tax Shield	¥ 233,437	¥ 266,830.3	¥ 298,321.4	¥ 328,864.8	¥ 358,512.9	¥ 387,226.8	¥ 415,068.8	¥ 442,004.5	¥ 468,101.4	¥ 493,336.2	¥ 517,681.2	¥ 541,216.0	¥ 563,911.2	¥ 585,747.5	¥ 606,814.6
Non-Core Invested Capital	¥ 33,700,256	¥ 36,994,674	¥ 38,798,651	¥ 40,515,438	¥ 42,419,964	¥ 44,688,347	¥ 47,458,040	¥ 47,272,803	¥ 46,957,296	¥ 46,494,985	¥ 45,860,233	¥ 45,032,055	¥ 43,987,369	¥ 42,700,796	
Unlevered EV	¥ 799,735,164														
Sum PV of Tax Shields	108,916,811														
(Levered) Operating Enterprise Value	908,651,975														
Non-core Invested Capital	33,700,256														
Total Enterprise Value	942,352,230														
Net debt (Book Value)	6,723,088														
Minority interests	303,477														
Equity Value	935,325,665														
# Shares Outstanding (in thousands)	24,762,422														
Per Share Value	37.8														
HKD/RMB	0.92														
RMB to HKD exchange (expected for 2025F)	1.08432														
Per Share Value in HKD	41														
Current Price	31.6														
Upside	30%														

Appendix Figure 7 - APV Model

DCF															
Valuation Assumptions															
Terminal Growth	4.45%														
	Explicit Forecast							Simplified Forecast							
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	
Currency: ¥ 000	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F	2036F	2037F	2038F	2039F
Core UFCF	¥ 7,241,628	¥ 14,372,560	¥ 24,968,347	¥ 31,696,512	¥ 41,382,555	¥ 49,535,085	¥ 51,719,450	¥ 58,874,353	¥ 61,368,568	¥ 63,975,051	¥ 51,443,367	¥ 53,730,447	¥ 56,119,207	¥ 58,614,167	¥ 61,220,048
WACC	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.9%	8.9%	8.9%	9.0%	9.0%	
Levered Enterprise Value	¥ 774,811,415	¥ 828,563,621	¥ 876,370,263	¥ 921,659,853	¥ 961,268,614	¥ 996,256,461	#####	#####	#####	#####	#####	#####	#####	#####	
Non-Core Invested Capital	¥ 33,700,256	¥ 36,994,674	¥ 38,798,651	¥ 40,515,438	¥ 42,419,964	¥ 44,688,347	¥ 47,458,040	¥ 47,272,803	¥ 46,957,296	¥ 46,494,985	¥ 45,860,233	¥ 45,032,055	¥ 43,987,369	¥ 42,700,796	
(Operating) Levered Enterprise Va	¥774,811,415														
Non-core Invested Capital	¥33,700,256														
Enterprise Value	¥808,511,670														
Net debt (Book Value)	¥6,723,088														
Minority interests	¥303,477														
Equity Value, as of September 202	¥801,485,105.39														
# Shares Outstanding (in thousan	24,762,422														
Per Share Value	32.4														
RMB to HKD exchange	1.1														
Per Share Value in HKD	35														
Current Price (9/11)	31.6														
Upside	11%														

Appendix Figure 8 - DCF Model

Comparables	EV/ Revenues	EV/ Adj EBITDA	EV/ Adj EBIT	Shipmen ts
Smartphones + IoT + Internet Services				
Sony	1.69x	120.08x	-75.41x	-
Samsung	1.23x	4.78x	10.50x	-
Apple	9.35x	27.35x	29.88x	-
LG	0.22x	3.32x	7.78x	-
Amazon	3.75x	21.46x	40.52x	-
Lenovo	0.23x	5.55x	10.13x	-
Hisense	0.56x	-18.00x	-12.30x	-
Panasonic	0.48x	5.00x	8.91x	-
Philips	1.69x	25.84x	112.72x	-
Baidu	2.39x	-22.61x	-8.35x	-
Tencent	5.88x	15.83x	17.94x	-
Meta	9.68x	18.61x	22.35x	-
Alibaba	1.62x	2.71x	12.98x	-
Google (includes FitBit)	6.38x	17.08x	19.21x	-
Electric Vehicles				
Tesla	11.58x	76.55x	118.51x	1.83x
NIO	1.20x	-5.69x	-4.17x	0.48x
XPeng	2.40x	-18.99x	-13.00x	0.61x
BYD	1.17x	8.35x	23.24x	0.27x
GAC Aion	0.63x	17.44x	56.10x	0.14x
Geely	0.45x	7.52x	10.46x	0.21x
SAIC-GM Wuling	0.33x	6.99x	17.86x	0.47x
Changan	0.34x	15.88x	-25.91x	0.13x
Li Auto	0.69x	7.61x	9.31x	0.26x
Great Wall	0.90x	9.18x	15.31x	0.74x
Leap Motor	1.44x	-8.63x	-7.31x	0.20x

Appendix Figure 9 - Multiples for Xiaomi Peers

Appendix 7 – Other limitations

A major limitation, in our view, was the lack of detail in Xiaomi's financial statements.

This challenge became evident when analysing the company's geographical revenue mix. While the annual report provides revenue data for China, it does not offer a detailed breakdown of revenues within the "Rest of the World" category, which would have been valuable for forecasting regional performance.

Similarly, the company's progress in premiumization over time is described primarily in qualitative terms. A more detailed breakdown of smartphone revenues—such as separating contributions from the **Mi Series** (premium), **Redmi** (budget), and **Others** (e.g., **POCO Series**, which targets niche markets)—would enable more precise revenue forecasting.

Additionally, there is no detailed breakdown of the components within the **Cost of Goods Sold (COGS)** item. This limits the accuracy of our operating cost forecasts. A reason for this might be Xiaomi's partnership model with IoT producers, who develop products on Xiaomi's behalf and then sell back to the company, creating a mix of different cost categories within the reported figure and complicating the breakdown.

Lastly, our analysis was constrained by the financial data available since the company's IPO in 2018, which limits our analysis to 6 years. Notably, half of this period was marked by outliers and one-off events, such as the pandemic. Moreover, the entry in the EV segment in April 2024 introduced new complexities, since only the last two quarterly reports reflect this new reality. This made forecasting significantly more challenging, not only because it is a fast-growing segment, but also because it reflects a differing strategy from the historical 'asset-light' business model.

Exhibit 1 – Revenue & Cost drivers

		2022A	2023A	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F	2030 F	2031 F	2032 F	2033 F	2034 F
Smartphones	Revenues	167,217.177	157,461.309	¥193,536.924	¥224,814.968	¥261,147.945	¥292,067.751	¥326,648.450	¥358,338.222	¥387,208.571	¥418,404.927	¥431,803.053	¥445,630.213	¥459,900.145
	COGS	-152,248.415	-134,480.722	-¥170,626.290	-¥195,866.865	-¥224,841.252	-¥248,595.131	-¥274,588.543	-¥289,047.018	-¥312,334.761	-¥337,486.735	-¥348,306.090	-¥359,455.517	-¥370,790.098
	Gross Profit	14,968.762	22,980.587	¥22,910.633	¥28,948.103	¥36,306.692	¥43,472.620	¥51,789.907	¥69,291.204	¥74,873.810	¥80,906.192	¥83,496.963	¥86,174.696	¥89,109.046
	margin	9.0%	14.6%	11.8%	12.9%	13.9%	14.9%	15.9%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%
	R&D	-8,511.590	-7,605.002	-9,686.208	-11,680.583	-11,741.294	-11,783.492	-9,310.332	-10,408.051	-11,420.249	-12,444.373	-12,880.722	-13,332.477	-13,800.178
SGA		-15,785.925	-14,151.776	-16,687.950	-19,384.937	-22,517.791	-25,183.887	-28,165.649	-30,898.137	-33,367.517	-36,077.460	-37,232.729	-38,424.992	-39,655.434
	Core result before taxes	-8,668.753	-1,223.809	-3,463.525	-2,117.416	2,047.608	6,505.251	14,313.925	27,985.015	30,066.044	32,384.359	33,383.512	34,413.226	35,474.434
IoT and lifestyle products		2022A	2023A	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F	2030 F	2031 F	2032 F	2033 F	2034 F
IoT and lifestyle products	Revenues	79,794.877	80,107.740	¥96,772.843	¥111,945.232	¥129,406.402	¥144,073.226	¥160,290.898	¥178,334.119	¥198,408.384	¥202,742.319	¥232,416.166	¥244,707.378	¥257,648.605
	COGS	-68,296.397	-67,029.144	-¥80,872.677	-¥95,534.891	-¥109,366.884	-¥124,779.707	-¥142,389.112	-¥157,984.594	-¥175,288.205	-¥194,487.033	-¥204,211.384	-¥214,421.953	-¥225,143.051
	Gross Profit	11,498.480	13,078.596	¥15,900.166	¥16,410.341	¥20,139.518	¥19,293.519	¥17,901.786	¥20,349.525	¥23,120.179	¥26,255.286	¥28,204.781	¥30,285.425	¥32,505.554
	margin	14.4%	16.3%	16%	15%	16%	13%	11%	12%	12%	12%	12%	12%	13%
	R&D	-3,746.724	-3,869.011	-4,843.323	-5,816.274	-5,822.199	-5,812.639	-4,568.709	-5,179.773	-5,851.816	-6,565.410	-6,932.994	-7,321.217	-7,731.236
SGA		-7,532.934	-7,199.653	-8,344.353	-9,652.610	-11,165.981	-12,422.884	-13,821.272	-15,377.070	-17,107.998	-19,033.768	-20,040.399	-21,100.183	-22,216.056
	Core result before taxes	218.822	2,009.932	¥2,712.490	¥941.457	¥3,141.339	¥1,057.996	-¥488.195	-¥207.318	¥160.366	¥656.109	¥1,231.428	¥1,864.024	¥2,558.262
Internet services		2022A	2023A	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F	2030 F	2031 F	2032 F	2033 F	2034 F
Internet services	Revenues	28,321.444	30,107.494	¥34,376.109	¥38,554.282	¥43,071.484	¥47,189.928	¥51,789.595	¥55,920.063	¥59,885.826	¥64,166.442	¥66,700.999	¥69,345.254	¥72,103.993
	Advertising	18,500.000	20,500.000	¥24,461.055	¥28,385.020	¥32,646.194	¥36,503.227	¥40,817.975	¥44,648.708	¥48,299.151	¥52,248.050	¥54,427.704	¥56,698.288	¥59,063.594
	Gaming	4,176.000	4,400.000	¥4,707.560	¥4,961.768	¥5,217.795	¥5,479.207	¥5,764.126	¥6,063.960	¥6,379.181	¥6,710.898	¥7,065.801	¥7,439.472	¥7,832.905
	Others	5,645.444	5,207.494	¥5,207.494	¥5,207.494	¥5,207.494	¥5,207.494	¥5,207.494	¥5,207.494	¥5,207.494	¥5,207.494	¥5,207.494	¥5,207.494	¥5,207.494
	COGS	-7,974.356	-7,773.544	-¥6,484.619	-¥9,515.864	-¥10,630.788	-¥11,647.292	-¥12,782.596	-¥13,802.400	-¥14,780.859	-¥15,837.389	-¥16,462.962	-¥17,115.610	-¥17,796.514
SGA		-1,329.818	-1,454.119	-1,720.468	-2,003.143	-1,936.507	-1,903.879	-1,476.138	-1,624.217	-1,766.260	-1,908.465	-1,989.697	-2,074.689	-2,163.617
	Core result before taxes	18,343.620	18,173.931	¥21,206.901	¥23,710.886	¥26,790.299	¥29,569.750	¥33,065.268	¥35,672.033	¥38,174.980	¥40,887.761	¥42,496.968	¥44,175.579	¥45,926.610
Other projects (includes EVs)		2022A	2023A	2024F	2025 F	2026 F	2027 F	2028 F	2029 F	2030 F	2031 F	2032 F	2033 F	2034 F
Other projects (includes EVs)	Revenues	4,710.518	3,293.598	¥33,664.804	¥71,865.502	¥86,961.497	¥105,155.935	¥127,179.938	¥153,643.079	¥180,133.277	¥203,849.089	¥214,629.546	¥225,980.122	¥237,593.967
	Electric Vehicles			¥25,723.720	¥27,149.644	¥31,518.553	¥39,958.321	¥120,424.538	¥146,547.247	¥172,326.736	¥195,574.156	¥205,916.990	¥216,906.615	¥228,272.535
	Other projects	4,710.518	3,293.598	¥3,941.084	¥4,715.858	¥5,642.944	¥6,197.615	¥6,755.400	¥7,295.832	¥7,806.540	¥8,274.933	¥8,712.548	¥9,173.307	¥9,658.433
	COGS	-3,947.658	-4,210.492	-¥28,809.936	-¥60,897.742	-¥73,679.485	-¥88,992.765	-¥107,510.624	-¥129,907.062	-¥151,986.616	-¥171,905.355	-¥180,996.483	-¥190,568.392	-¥200,646.505
	Electric Vehicles			-¥24,868.853	-¥56,181.884	-¥68,036.541	-¥82,795.151	-¥100,755.224	-¥122,611.230	-¥144,180.075	-¥162,630.422	-¥172,283.935	-¥181,395.085	-¥190,988.073
SGA		-3,947.658	-4,210.492	-¥3,941.084	-¥4,715.858	-¥5,642.944	-¥6,197.615	-¥6,755.400	-¥7,295.832	-¥7,806.540	-¥8,274.933	-¥8,712.548	-¥9,173.307	-¥9,658.433
	Gross Profit Total	762.860	-916.894	4,854.867	10,967.760	13,282.012	16,163.170	19,669.314	23,336.017	28,146.661	31,943.734	33,633.063	35,411.730	37,284.462
margin		16.2%	-27.8%	14.4%	15.3%	15.3%	15.4%	15.5%	15.6%	15.6%	15.7%	15.7%	15.7%	15.7%
	Gross Profit Electric Vehicles			4,854.867	10,967.760	13,282.012	16,163.170	19,669.314	23,336.017	28,146.661	31,943.734	33,633.063	35,411.730	37,284.462
margin		16.2%	-27.8%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%
	Gross Profit other projects	762.860	-916.894	0	0	0	0	0	0	0	0	0	0	0
margin		16%	-28%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
R&D		-3,100.000	-6,169.567	-8,750.000	-10,500.000	-10,500.000	-10,500.000	-8,268.174	-9,268.022	-10,251.406	-11,263.672	-11,740.299	-12,238.360	-12,758.863
	as % of total R&D	19%	32%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
SG&A		-444.690	-296.011	-2,902.788	-6,196.688	-7,498.358	-9,067.195	-10,966.241	-13,265.302	-15,532.205	-17,577.129	-18,506.667	-19,485.403	-20,515.879
	Core result before taxes	-2,781.830	-7,382.472	-6,797.920	-5,728.928	-4,716.346	-3,404.025	434.900	1,402.693	2,363.050	3,102.933	3,386.077	3,687.967	4,009.719

Exhibit 2 – Income Statement Forecast

REFORMULATED INCOME STATEMENT																		
ANR		2022A	2023A	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
	Revenue	280,044.016	270,970.141	358,356.680	447,179.984	520,677.328	588,486.841	665,906.880	746,435.743	825,636.058	907,162.777	945,549.764	985,462.967	1,027,583.710	1,071,254.546	1,116,849.767	1,164,349.941	1,213,870.332
	Cost of sales	-232,466.826	-213,493.902	-288,793.523	-361,815.362	-418,518.410	-474,014.895	-537,540.849	-600,740.714	-664,390.441	-719,728.111	-749,076.919	-781,565.472	-814,556.189	-849,109.664	-886,389.644	-925,815.615	-967,446.842
	Gross Profit	47,577.190	57,476.239	69,563.157	85,364.622	102,158.918	114,471.946	128,366.032	145,695.029	161,245.617	187,434.266	195,572.845	204,097.495	213,027.541	222,087.710	230,460.123	238,534.326	246,423.489
	R&D expenses	-18,028.132	-19,067.699	-25,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000	-30,000.000
	Selling and marketing expenses	-21,323.323	-19,226.542	-20,899.211	-18,558.623	-14,896.019	-10,362.337	-9,716.781	-14,364.283	-71,191.446	-78,221.184							
	Administrative expenses	-5,113.877	-5,126.798	-5,113.877	-5,126.798	-5,113.877	-5,126.798	-5,113.877	-5,126.798	-5,113.877	-5,126.798	-5,113.877	-5,126.798	-5,113.877	-5,126.798	-5,113.877	-5,126.798	-5,113.877
	Operating result before taxes	1,277.965	1,311.868	13,657.848	16,805.996	27,262.899	33,728.872	47,325.887	64,852.423	70,764.446	77,031.161	80,290.768	83,896.956	87,256.630	90,967.698			
	Taxation	-1,277.965	-1,311.868	-13,657.848	-16,805.996	-27,262.899	-33,728.872	-47,325.887	-64,852.423	-70,764.446	-77,031.161	-80,290.768	-83,896.956	-87,256.630	-90,967.698			
	Operating result after tax (NOPAT)	3,833.894	10,518.900	20,243.459	12,604.499	20,447.174	25,296.728	35,494.423	48,639.317	53,773.329	57,371.379	60,218.075	62,722.716	65,442.473	68,225.773	71,127.449	74,152.526	77,396.280
	Adjustments to NOPAT for R&D capitalization																	
	Back: R&D expenses																	
	R&D amortization	-7,737.621	-10,090.637	-12,037.710	-16,406.138	-21,299.947	-27,164.628	-32,277.715	-34,024.118	-35,665.679	-37,233.286	-38,779.977	-40,314.761	-41,852.668				
	Adjusted NOPAT	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264	19,606.264
	Fair value changes on financial instruments measured at fair value through profit or loss	-1,662.010	-3,501.033															
	Share of net profits/(losses) of investments accounted for using the equity method	-400.100	-45.015															
	Other income	740.000	740.000	866.492	1,004.256	1,153.787	1,316.779	1,494.298	1,687.767	1,897.527	2,126.685	2,376.656	2,647.522	2,943.162	3,265.053	3,615.522	3,971.412	4,413.371
	Other gains/(losses), net	-1,368.810	1,696.711															
	Finance income	1,863.941	3,558.347	2,919.352	2,799.550	2,610.401	2,249.297	2,149.751	2,617.631	2,891.932	3,160.253	2,757.414	2,928.744	3,565.676	4,237.364	4,940.152	5,695.391	6,475.285
	-NOPAT/(Loss) Not Recurring before taxes	-621.419	9,541.817	3,785.444	3,802.887	3,768.997	3,569.874	3,768.997	4,295.872	4,788.972	5,338.672	5,878.972	6,429.472	7,000.472	7,582.472	8,184.472	8,800.472	9,440.472
	Statutory Taxes	17,855.285	-2,385.454	-945.461	-260.040	-2,610.401	-891.518	-978.240	-1,076.252	-1,197.406	-1,321.735	-1,283.359	-1,394.067	-1,627.209	-1,875.614	-2,148.452	-2,423.202	-2,725.108
	Tax adjustments	-3,447.899	965.911															
	-CT attributable to non controlling interest	-2,462.554	-2,513	-17,052	-20,146	-30,215	-36,457	-50,087	-67,856	-73,856	-80,448	-83,366	-87,267	-91,655	-96,257	-101,075	-106,122	-111,415
	Other comprehensive income	7,749.355	1,035.865															
	Non operating/ Not Recurring after tax	2,777.638	8,155.628	2,822.331	2,832.588	2,792.811	2,638.097	2,884.632	3,161.153	3,518.362	3,884.738	3,766.873	4,084.933	4,789.970	5,530.585	6,320.284	7,163.481	8,063.932
	Fair value changes of convertible redeemable preferred shares																	
	Finance costs	-546.483	-1,555.970	-763.491	-933.659	-1,125.075	-1,320.045	-1,496.216	-1,728.755	-1,924.883	-2,153.822	-2,406.995	-2,684.963	-3,064.523	-3,544.744	-4,021.300	-4,589.257	-5,288.257
	Financial Result before taxes	-546.483	-1,555.970	-763.491	-933.659	-1,125.075	-1,320.045	-1,496.216	-1,728.755	-1,924.883	-2,153.822	-2,406.995	-2,684.963	-3,064.523	-3,544.744	-4,021.300	-4,589.257	-5,288.257
	Financial Result (tax paid)	130.623	386.199	233.415	281.903	342.803	419.251	474.009	549.251	634.511	729.771	834.511	949.771	1,074.511	1,219.771	1,384.511	1,569.771	1,764.511
	Financial result after taxes	-409.862	-1,169.777	-529.716	-700.244	-843.806	-994.534	-1,262.162	-1,268.188	-1,425.749	-1,593.662	-1,400.366	-1,499.404	-1,683.772	-1,927.399	-2,256.575	-2,675.973	-3,453.803

Exhibit 3 – Balance Sheet Forecast

REFORMULATED BALANCE SHEET																								Simplified Forecast				
RMB'000	2022A	2023A	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2036	2036	2036										
Core Business																												
(+) Operating Cash	21,003.301	20,322.761	26,876.301	33,538.499	39,050.800	44,136.513	49,943.166	55,982.661	61,922.704	68,037.208																		
(+) Inventories	50,427.891	44,422.837	54,684.858	70,380.523	83,367.776	94,422.551	107,076.735	117,074.016	134,483.789	149,861.279																		
(+) Trade and notes receivables + prepayments	23,623.438	23,204.398	37,706.782	47,780.875	55,634.016	59,654.830	67,580.092	75,966.063	79,170.581	86,988.212																		
(+) Income taxes liabilities	1,384.133	1,838.222	1,540.462	1,922.316	2,238.262	2,529.759	2,862.577	3,208.741	3,549.204	3,899.667																		
(+) Trade payables + accruals + advance from customers	73,858.566	92,217.961	126,125.763	158,603.994	183,460.125	207,787.351	235,634.945	258,954.833	286,856.084	315,497.430																		
Net Working Capital	19,821.931	-4,106.187	-8,398.282	-8,826.414	-7,645.796	-12,103.235	-13,973.928	-12,840.841	-14,848.213	-14,510.398	-15,124.412	-15,766.037	-16,436.575	-17,135.630														
(+) PPE	9,138.221	13,720.825	18,275.885	22,806.179	26,554.544	30,012.829	33,961.353	38,068.210	42,107.439	46,205.302	48,223.038	50,268.811	52,406.769	54,635.656														
(+) Short-term investments measured at fair value through other comprehensive income	449.109	0	582.131	582.131	582.131	582.131	582.131	582.131	582.131	582.131																		
(+) Short-term investments measured at amortized cost	0	502,816	502,816	502,816	502,816	502,816	502,816	502,816	502,816	502,816																		
(+) Short-term investments measured at fair value through profit or loss	9,845.910	20,193.662	20,193.662	20,193.662	20,193.662	20,193.662	20,193.662	20,193.662	20,193.662	20,193.662																		
(+) ST warranty provisions	4,970.441	6,238.092	8,608.059	11,189.036	13,548.715	15,313.208	17,327.832	19,423.241	21,484.145	23,605.579																		
(+) Intangible Assets	4,629.678	8,628.739	8,628.739	8,628.739	8,628.739	8,628.739	8,628.739	8,628.739	8,628.739	8,628.739																		
(+) Other non current assets	13,076.594	12,616.712	16,842.482	21,017.459	24,471.834	27,658.882	31,297.717	35,082.468	38,804.895	42,636.651																		
(+) Net deferred income tax assets	1,294.919	666.463	703.387	829.710	1,260.930	1,516.767	2,013.247	2,757.379	3,012.039	3,281.791	329,996.888	343,996.375	358,626.715	373,879.290														
(+) Investments accounted for using the equity method	7,932.152	6,922.241	6,622.180	6,335.126	6,060.514	5,797.807	5,546.487	5,306.961	5,076.057	4,856.023																		
(+) Long-term investments measured at fair value through profit or loss	55,979.974	60,199.798	76,110.142	96,225.467	121,657.118	137,753.639	155,934.610	176,540.769	199,869.951	226,281.999																		
(+) Long-term investments measured at amortized costs	405.371	364.476	423.219	491.430	570.635	662.606	769.399	893.405	1,037.397	1,204.596																		
(+) Land use rights	0	0	0	0	0	0	0	0	0	0																		
(+) LT Warranty provisions	945.270	1,215.548	1,075.052	1,341.540	1,562.032	1,765.461	1,997.727	2,239.306	2,476.908	2,721.448																		
(+) Other non current liabilities	149.863	2,398.512	779.096	972.222	1,132.014	1,279.440	1,447.764	1,622.638	1,795.030	1,972.278																		
Net operating Non Current Assets/ Non-WC items	96,686.392	114,104.713	138,422.436	164,109.921	194,240.164	214,931.769	238,656.838	263,270.253	294,059.045	326,134.364	378,219.905	394,265.187	411,033.484	428,534.946	-	-	-	-										
Operating Invested Capital	116,508.323	107,998.526	130,624.154	155,283.508	186,594.368	202,828.533	224,682.910	252,428.412	279,210.832	311,623.966	363,095.494	378,498.150	394,586.919	411,379.315	428,875.485	447,115.778	466,131.838											
R&D expenses capitalization																												
(+) Capitalized R&D	30,950.486	40,038.546	52,030.838	65,624.670	76,499.736	85,199.789	87,058.514	90,830.861	96,096.474	102,622.715	108,933.142	115,119.908	121,259.043	127,410.673	133,625.050	139,944.621	146,405.600											
Adjusted Operating Invested Capital, for ROIC calculation	147,458.809	148,037.073	182,654.992	220,908.178	263,094.104	288,028.322	311,741.423	340,260.724	375,307.305	414,246.681	472,028.638	493,619.067	515,855.962	538,789.988	562,743.630	587,762.209	613,895.068											
Non Core Business																												
(+) Restricted cash	3,956.796	4,794.031	4,794.031	4,794.031	4,794.031	4,794.031	4,794.031	4,794.031	4,794.031	4,794.031	0	0	0	0	0	0	0											
(+) Long term bank deposits	16,788.346	18,293.650	24,192.857	30,189.873	35,151.802	39,729.736	44,956.629	50,393.115	55,740.079	61,244.085	63,835.655	66,543.765	69,372.965	72,324.412	75,400.406	78,607.223	81,950.428											
(+) Bills receivables measured at fair value through other comprehensive income	4,003	125.661	125.661	125.661	125.661	125.661	125.661	125.661	125.661	125.661	125.661	125.661	125.661	125.661	125.661	125.661	125.661	125.661										
(+) Prepayments and other receivables (non operating portion)	6,780.127	9,025.405	9,076.217	9,127.314	9,178.700	9,230.374	9,282.340	9,334.598	9,387.150	9,439.998	9,493.144	9,546.589	9,600.335	9,654.383	9,708.728	9,763.394	9,818.361											
(+) Other non current assets (non operating portion)	2,863.867	2,287.548	2,242.500	2,198.138	2,155.047	2,112.609	2,071.004	2,030.220	1,990.239	1,951.048	1,912.624	1,874.959	1,838.035	1,801.839	1,766.556	1,731.571	1,697.471											
(+) Loan receivables	7,820.563	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589	9,772.589											
(+) Other non current liabilities (non operating portion)	14,920.232	15,918.066	17,332.059	18,871.016	20,546.621	22,371.007	24,357.384	26,520.138	28,874.927	31,438.804	34,230.335	37,269.732	40,579.095	44,182.117	48,105.157	52,376.535	57,027.179											
(+) Other payables and accruals (non operating portion)	1,980.529	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525	3,626.525											
Non operating Invested Capital	21,327.931	24,743.743	29,235.260	33,770.256	36,994.674	38,798.651	40,515.438	42,149.964	43,888.347	47,458.400	47,272.803	46,967.296	46,494.985	45,860.233	45,032.055	43,987.369	42,709.798											
Total Invested Capital	168,786.740	172,786.816	211,290.252	254,068.434	300,688.778	326,826.974	352,256.861	385,680.238	419,995.652	461,704.721	519,301.439	540,576.353	562,350.937	584,650.221	607,775.085	631,748.577	656,593.865											
Financial																												
(+) Excess Cash	36,478.667	66,106.409	56,342.624	44,244.026	35,407.627	43,526.566	54,338.752	71,285.765	92,500.001	112,810.953	121,641.368	161,395.396	203,344.465	247,646.465	294,519.725	344,106.547	396,557.800											
(+) LT Borrowings	21,493.261	21,673.969	26,504.669	31,938.588	37,643.733	40,997.825	44,187.801	48,380.496	52,685.089	57,917.158	65,142.205	67,810.972	70,542.419	73,339.686	76,240.590	79,247.923	82,364.439											
(+) LT Lease Liabilities	1,464.716	1,256.155	1,536.127	1,851.000	2,181.712	2,376.105	2,590.966	2,833.981	3,053.462	3,256.996	3,775.437	3,930.110	4,088.417	4,250.537	4,418.865	4,592.960	4,773.584											
(+) ST Borrowings	2,150.741	6,183.376	7,561.529	9,111.774	10,739.397	11,686.267	12,606.357	13,802.493	15,030.552	16,323.211	18,564.448	19,345.822	20,923.111	21,750.711	22,606.674	23,497.787	24,427.957											
(+) ST debt like instruments (leases + deposits payable)	5,283.123	5,473.410	6,693.325	8,065.573	9,506.315	10,353.337	11,158.914	12,117.711	13,304.766	14,626.041	16,450.009	17,124.563	18,520.759	19,253.327	20,012.780	20,799.806	21,619.806											
Net financial debt	-6,088.806	-31,519.499	-14,046.973	-24,663.539	-24,663.539	-24,663.539	-16,735.305	-15,918.916	-14,826.131	-10,387.847	-17,688.669	-53,183.928	-90,774.206	-136,612.361	-172,856.433	-217,644.210	-265,122.185											
Total Equity	174,873.546	204,300.316	225,337.226	247,885.464	275,425.248	304,929.886	336,061.556	378,761.322	428,421.783	482,092.568	536,990.108	583,760.281	633,125.143	715,262.602	780,632.118	848,393.787	921,716.050											
Equity attributable to the shareholders	174,688.944	204,034.037	225,053.895	247,581.967	275,091.441	304,559.722	335,681.205	377,379.367	427,859.972	481,450.289	536,264.324	582,947.231	632,220.434	714,261.366	779,530.077	846,185.623	920,396.471											
Share repurchases	242.641	1,828.647	-3,465.604	-5,802.553	-5,761.792	-4,172.063	-6,514.134	-9,134.467	-10,176.332	-11,224.388	-11,480.973	-11,872.104	-12,414.638	-12,994.387	-13,670.424	-14,370.748	-15,124.396											
Noncontrolling interest	264.602	266.279	283.331	303.477	333.807	370.264	420.351	487.955	561.811	642.279	725.784	813.051	904.790	1,000.966	1,102.841	1,206.165	1,319.579											
Total Funding	168,786.740	172,786.816	211,290.252	254,068.434	300,688.778	326,826.974	352,256.861	385,680.238	419,995.652	461,704.721	519,301.439	540,576.353	562,350.937	584,650.221	607,775.085	631,748.577	656,593.865											

Exhibit 6 – Cost of Capital

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Shares outstanding as of November, in thousand	24,961.530	24,762.422													
Share price as of December 2024	31,6 HKD														
Equity (Market value) in HKD	788,784.348	782,492.544	782,492.544	782,492.544	782,492.544	782,492.544	782,492.544	782,492.544	782,492.544	782,492.544	782,492.544	782,492.544	782,492.544	782,492.544	782,492.544
HKD/RMB exchange rate	0,9														
Equity (Market value) in RMB	727,448.477	721,645.924	721,645.924	721,645.924	721,645.924	721,645.924	721,645.924	721,645.924	721,645.924	721,645.924	721,645.924	721,645.924	721,645.924	721,645.924	721,645.924
Net Debt	-14,046.922	6,723.088	24,663.729	21,897.283	16,175.989	5,920.049	-8,424.500	-20,385.672	-17,686.354	-53,181.500	-90,771.659	-130,609.711	-172,853.634	-217,641.277	-265,119.111
Enterprise Value	713,401.555	728,369.011	746,309.653	743,543.206	737,821.913	727,565.973	713,221.423	701,260.252	703,959.570	668,464.424	630,874.264	591,036.212	548,792.289	504,004.647	456,526.812
Net Debt/Enterprise Value	-1,97%	0,92%	3,30%	2,94%	2,19%	0,81%	-1,18%	-2,91%	-2,51%	-7,96%	-14,39%	-22,10%	-31,50%	-43,18%	-58,07%
Equity/Enterprise Value	102%	99%	97%	97%	98%	99%	101%	103%	103%	108%	114%	122%	131%	143%	158%
Net Debt/Equity	-1,9%	0,9%	3,4%	3,0%	2,2%	0,8%	-1,2%	-2,8%	-2,5%	-7,4%	-12,6%	-18,1%	-24,0%	-30,2%	-36,7%
Corporate tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Risk Free Rate (%)	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%
Equity Risk Premium	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%	5,3%
β unlevered	0,92	0,92	0,92	0,92	0,92	0,92	0,92	0,92	0,92	0,92	0,92	0,92	0,92	0,92	0,92
β equity	0,91	0,93	0,95	0,95	0,94	0,93	0,91	0,90	0,90	0,86	0,82	0,77	0,73	0,67	0,62
β debt	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
Ru	8,80%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%
Re	8,71%	8,84%	8,94%	8,93%	8,89%	8,83%	8,75%	8,67%	8,69%	8,48%	8,25%	8,01%	7,76%	7,49%	7,20%
Rd	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%
WACC	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,8%	8,9%	8,9%	8,9%	9,0%	9,0%

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Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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