

Haier Smart Home (6690 HK)

Resilient FY24E guidance and decent dividend

4Q23 results were in line but the dividend raise was a bright spot. We do appreciate the resilience of Haier's business, esp. when macro-level demand in China was weak. Going forward, we are confident that FY24E guidance will be achieved, thanks to the steady growth for Casarte, ramp-up of Haier's Air-con businesses and reforms in the EU market, the potential subsidies, and other favorable macro policies, etc. We maintain BUY and raise TP to HK\$31.24.

- Management remained confident about its competitiveness and re-affirmed its FY24E guidance.** Management has maintained its FY24E guidance (MSD to HSD sales growth and 10%+ NP growth) and raised its dividend payout ratio to 45%+/ 50%+ for FY24E/ 25-25E, which should be highly appreciated by the investors given a weak macro environment and increased preference for dividends. For 1Q24E, management thinks the trend is on track and margin expansion is still valid (we believe sales/ NP growth of 5%+/ 10%+ in 1Q24E is likely).
- We see multiple sales growth and margin drivers in FY24E and onwards.** In terms of topline growth in FY24E, we expect: 1) Casarte brand sales growth remain steady at 10% to 15%, thanks to a higher presence in high-end shopping malls, greater sales from product sets and repeated orders from members, 2) Air-con business to further ramp up, driven by gradual improvement in efficiency (from R&D, to production and logistics) and increased in-house production of components, 3) potential subsidies or other favorable macro policies, 4) reform in the EU market, and as the CEO has changed, it is now aiming to achieve RMB40bn of sales in the medium term, 5) a rebound in demand in ANZ market, aided by the launch of a new round of innovative products, and 6) resilient demand from the high-end segment, e.g., in the US market. In terms of margins in FY24E, we think both GP margin and NP margin should be improving, thanks to: 1) increased efforts to centralize the sourcing of raw materials and the negotiation of freight rates, 2) a boost from more automation and digitation for all factories around the globe, 3) consistent product premiumization through sales of Casarte and high-end brands (e.g., Café, Monogram, GE Profile) in the US market, 4) profit margin improvement in the Air-Con and kitchen appliances segment, 5) more targeted marketing, e.g., doubling down on advertisement through new social media and more co-production of various contents, and 6) manpower rationalization in the EU market, as part of its reform.
- Maintain BUY and raised TP to HK\$31.24.** We fine-tune our FY24E/ 25E net profit estimates by -1%/ 2% to factor in: 1) slower growth for fridges and laundry machines, 2) a higher GP margin and higher interest costs. Our new TP is based on 14x FY24E P/E (rolled over from 13x FY23E P/E). The stock is trading at 12x FY24E P/E, still far below its 5-year average of 15x. BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	243,485	261,422	278,928	297,162	313,294
YoY growth (%)	7.0	7.4	6.7	6.5	5.4
Operating profit (RMB mn)	16,377.0	18,589.0	21,472.0	24,263.6	26,200.9
Net profit (RMB mn)	14,732.0	16,732.0	19,270.6	22,002.8	23,895.1
EPS (Reported) (RMB)	1.57	1.78	2.03	2.32	2.51
YoY growth (%)	12.9	13.3	14.0	14.2	8.6
P/E (x)	14.5	13.1	11.5	10.1	9.3
P/B (x)	2.0	1.9	1.7	1.5	1.4
Yield (%)	2.4	3.3	4.0	4.9	5.3
ROE (%)	17.0	16.9	17.4	17.9	17.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$31.24
(Previous TP)	HK\$30.91
Up/Downside	21.8%
Current Price	HK\$25.65

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Stock Data

Mkt Cap (HK\$ mn)	242,087.6
Avg 3 mths t/o (HK\$ mn)	272.7
52w High/Low (HK\$)	25.80/20.55
Total Issued Shares (mn)	9438.1

Source: FactSet

Shareholding Structure

Haier Group Corp	18.8%
JP Morgan Investment Management	3.1%

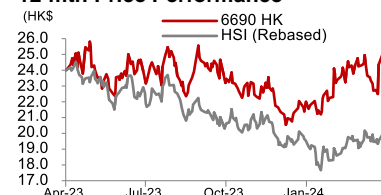
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.8%	2.2%
3-mth	16.6%	15.3%
6-mth	10.6%	13.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports

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(23 Aug 23)

- **FY23 results were in line but dividend has surprised the market.** Haier's sales increased 7% YoY to RMB262bn and net profit rose by 14% YOY to RMB16.7bn, both were in line with Bloomberg est. However, the DPS has rocketed by 42% YoY to RMB8.04, implying a payout ratio of around 45%, a large increase from 36% last year. Even though the results were in line, the trend in 4Q23 was still fairly healthy, where sales and net profit increased by 7%/ 13% YoY.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	278,928	297,162	313,294	281,040	298,670	n/a	-0.8%	-0.5%	n/a
Gross profit	87,059	93,369	99,050	87,075	92,642	n/a	0.0%	0.8%	n/a
EBIT	21,472	24,264	26,201	21,670	23,985	n/a	-0.9%	1.2%	n/a
Net profit att.	19,127	21,849	23,733	19,233	21,500	n/a	-0.6%	1.6%	n/a
Diluted EPS (RMB)	2.027	2.315	2.515	2.060	2.303	n/a	-1.6%	0.5%	n/a
Gross margin	31.2%	31.4%	31.6%	31.0%	31.0%	n/a	0.2ppt	0.4ppt	n/a
EBIT margin	7.7%	8.2%	8.4%	7.7%	8.0%	n/a	0ppt	0.1ppt	n/a
Net profit att. margin	6.9%	7.4%	7.6%	6.8%	7.2%	n/a	0ppt	0.2ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	278,928	297,162	313,294	281,180	302,198	322,980	-0.8%	-1.7%	-3.0%
Gross profit	87,059	93,369	99,050	89,168	96,274	102,600	-2.4%	-3.0%	-3.5%
EBIT	21,472	24,264	26,201	21,251	23,802	25,498	1.0%	1.9%	2.8%
Net profit att.	19,127	21,849	23,733	18,888	21,253	23,302	1.3%	2.8%	1.9%
Diluted EPS (RMB)	2.027	2.315	2.515	2.009	2.256	2.475	0.9%	2.6%	1.6%
Gross margin	31.2%	31.4%	31.6%	31.7%	31.9%	31.8%	-0.5ppt	-0.4ppt	-0.2ppt
EBIT margin	7.7%	8.2%	8.4%	7.6%	7.9%	7.9%	0.1ppt	0.3ppt	0.5ppt
Net profit att. margin	6.9%	7.4%	7.6%	6.7%	7.0%	7.2%	0.1ppt	0.3ppt	0.4ppt

Source: Bloomberg, CMBIGM estimates

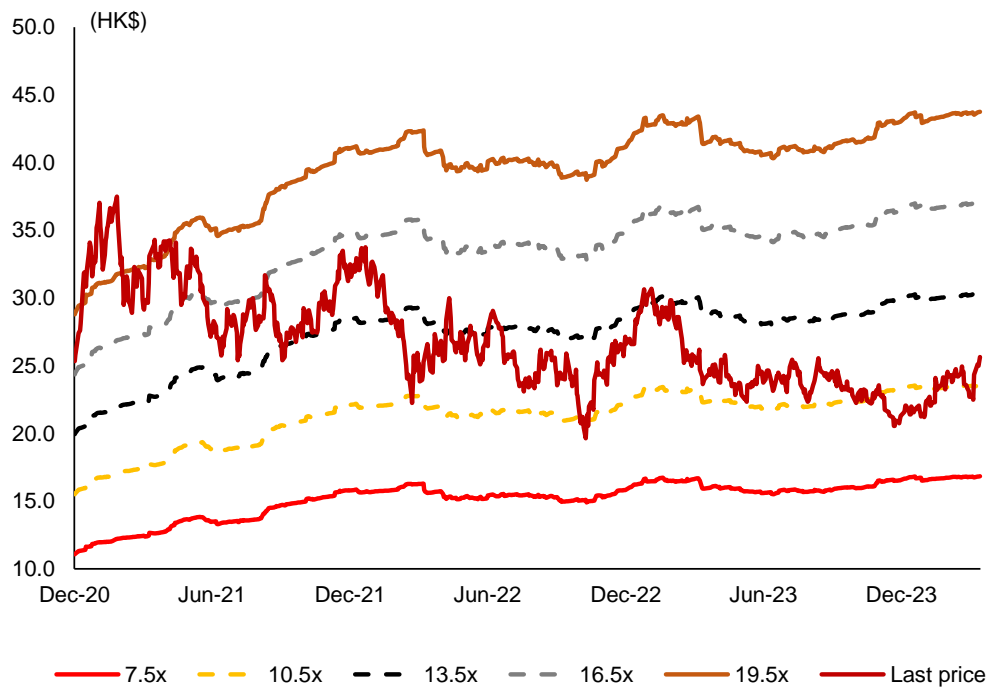
Valuation

Figure 3: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$mn)	Year End	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per.(%)	
								FY1E	FY2E	FY2E	FY1E	FY1E	FY1E	FY1E	
A+ H shares Home Appliances - White goods, Kitchen and Small Appliances															
Haier SH - H	6690 HK	BUY	31.24	25.65	22%	256,296	Dec-23	11.5	10.1	1.7	17.3	0.9	3.4	16.3	
Gree Electronics	000651 CH	NR	n/a	40.37	n/a	246,057	Dec-22	8.3	7.7	2.0	25.0	1.3	6.1	25.5	
Haier SH - A	600690 CH	NR	n/a	26.35	n/a	256,250	Dec-23	13.1	11.8	2.1	16.6	1.2	3.3	25.5	
Midea Group	000333 CH	BUY	66.70	66.73	0%	503,325	Dec-23	12.3	11.2	2.6	21.3	1.3	4.7	22.1	
Hisense JA	921 HK	NR	n/a	27.65	n/a	45,037	Dec-23	10.6	9.3	2.3	22.2	0.8	4.8	64.0	
Hisense HA	000921 CH	NR	n/a	32.17	n/a	45,029	Dec-23	13.6	11.8	2.9	21.0	1.0	3.7	57.7	
Whirlpool China	600983 CH	NR	n/a	8.77	n/a	7,275	Dec-22	n/a	n/a	n/a	n/a	n/a	n/a	(1.3)	
Zhejiang Aishida	002403 CH	NR	n/a	8.60	n/a	3,171	Dec-22	n/a	n/a	n/a	n/a	n/a	n/a	0.5	
Bear Electric	002959 CH	NR	n/a	55.00	n/a	9,337	Dec-22	19.4	16.9	3.2	16.6	1.7	1.9	5.9	
Ecovacs Robotics	603486 CH	NR	n/a	33.99	n/a	21,207	Dec-22	24.5	15.5	2.9	10.8	(5.8)	1.5	(18.0)	
JS Global Lifestyle	1691 HK	BUY	1.84	1.23	50%	4,274	Dec-23	4.2	3.7	0.4	9.1	(0.6)	6.4	(20.6)	
Joyoung Co	002242 CH	NR	n/a	10.51	n/a	8,725	Dec-23	15.0	13.4	2.1	14.1	1.0	2.8	(17.3)	
Hangzhou Robam	002508 CH	NR	n/a	24.19	n/a	24,847	Dec-22	12.4	11.1	2.1	17.0	1.2	2.9	13.7	
Zhejiang Supor	002032 CH	NR	n/a	57.30	n/a	50,030	Dec-23	19.4	17.7	6.6	34.0	2.5	4.0	8.1	
Vatti Corporation	002035 CH	NR	n/a	6.07	n/a	5,569	Dec-22	10.9	9.3	1.4	13.3	0.2	4.3	(2.3)	
Xinbao Electrica	002705 CH	NR	n/a	18.07	n/a	16,074	Dec-22	15.1	13.2	1.9	12.9	2.2	2.3	24.0	
								Avg.	13.6	11.6	2.4	17.9	0.6	3.7	12.7
								Med.	12.7	11.5	2.1	16.8	1.1	3.6	10.9
International Home Appliances - White goods, Kitchen and Small Appliances															
Whirlpool Corp	WHR US	NR	n/a	115	n/a	49,341	Dec-23	8.6	8.0	2.4	27.0	0.4	6.1	(5.3)	
Ingersoll-Rand Plc	IR US	NR	n/a	95	n/a	299,442	Dec-23	29.5	26.8	3.7	11.9	1.1	0.1	22.6	
Smith (A.O.) Corp	AOS US	NR	n/a	88	n/a	100,875	Dec-23	21.6	20.2	6.7	31.6	3.5	1.5	6.2	
Helen Of Troy	HELE US	NR	n/a	106	n/a	19,707	Feb-23	11.9	10.7	1.6	13.4	0.5	n/a	(12.3)	
Irobot Corp	IRBT US	NR	n/a	9	n/a	1,935	Dec-23	n/a	n/a	2.7	(66.5)	n/a	0.0	(77.2)	
Electrolux Ab	ELUXB SS	NR	n/a	93	n/a	19,472	Dec-23	85.5	8.4	2.2	2.4	(0.5)	1.5	(14.0)	
Seb Sa	SK FP	NR	n/a	115	n/a	54,032	Dec-23	13.2	11.6	1.8	14.5	0.8	2.6	1.9	
Koninklijke Philips	PHIA NA	NR	n/a	19	n/a	144,372	Dec-23	13.9	11.5	1.4	8.5	(0.1)	4.6	(11.6)	
Daikin Industries	6367 JP	NR	n/a	20165	n/a	305,265	Mar-23	23.1	20.9	2.4	11.1	6.6	1.2	(12.3)	
Panasonic Corp	6752 JP	NR	n/a	1382	n/a	175,175	Mar-23	7.4	8.8	0.8	11.6	0.6	2.7	(1.0)	
Sony Corp	6758 JP	NR	n/a	12780	n/a	832,469	Mar-23	17.0	15.7	2.1	12.8	8.7	0.6	(4.7)	
Hitachi	6501 JP	NR	n/a	13865	n/a	663,927	Mar-23	23.1	21.0	2.5	11.0	(50.1)	1.1	36.3	
Sharp Corp	6753 JP	NR	n/a	853	n/a	28,637	Mar-23	629.6	21.1	2.2	0.3	(4.3)	1.2	(15.2)	
Fujitsu General	6755 JP	NR	n/a	1839	n/a	10,385	Mar-23	23.1	17.3	1.4	6.8	1.7	1.9	(20.7)	
Lg Electronics	066570 KS	NR	n/a	95900	n/a	90,814	Dec-23	8.1	6.4	0.8	9.7	0.1	1.5	(5.8)	
Samsung Elect.	005930 KS	NR	n/a	84500	n/a	2,919,040	Dec-23	17.5	12.2	1.5	8.6	0.3	1.7	7.6	
Woongjin Coway	021240 KS	NR	n/a	55200	n/a	23,573	Dec-23	7.8	7.2	1.3	18.1	0.9	2.6	(3.5)	
								Avg.	58.8	14.3	2.2	7.8	(1.8)	1.9	(6.4)
								Med.	17.2	11.9	2.1	11.1	0.6	1.5	(5.3)

Source: Bloomberg, CMBIGM estimates

Figure 4: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 5: CMBIGM's assumptions

RMB mn	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Sales by segment (RMB mn)						
Mainland China						
Refrigerators/freezers	36,842	39,010	40,727	42,763	44,901	46,697
Kitchen appliances	3,013	3,114	3,394	3,734	4,032	4,274
Air-conditioners	27,409	28,384	32,358	37,211	42,049	45,413
Laundry appliances	25,917	27,076	26,534	27,331	28,424	29,561
Water appliances	12,479	13,542	14,219	14,930	15,826	16,775
Overseas	113,090	124,704	136,412	144,948	153,599	161,909
Other businesses	8,781	7,655	7,777	8,011	8,331	8,664
Total	227,531	243,485	261,422	278,928	297,162	313,294
Sales by segment growth (%)						
Mainland China						
Refrigerators/freezers	20.5%	5.9%	4.4%	5.0%	5.0%	4.0%
Kitchen appliances	14.3%	3.4%	9.0%	10.0%	8.0%	6.0%
Air-conditioners	25.4%	3.6%	14.0%	15.0%	13.0%	8.0%
Laundry appliances	15.3%	4.5%	-2.0%	3.0%	4.0%	4.0%
Water appliances	26.9%	8.5%	5.0%	5.0%	6.0%	6.0%
Overseas	13.0%	10.3%	9.4%	6.3%	6.0%	5.4%
Other businesses	-60.6%	-12.8%	1.6%	3.0%	4.0%	4.0%
Total	8.5%	7.0%	7.4%	6.7%	6.5%	5.4%
Sales by brand growth (%)						
Haier, Leader & others	0.6%	2.4%	4.0%	6.4%	6.7%	4.8%
Casarte	48.0%	15.0%	14.0%	12.0%	10.0%	9.0%
GEA	14.0%	6.5%	6.0%	6.0%	5.0%	5.0%
Candy	13.0%	9.0%	6.0%	4.0%	3.0%	3.0%
Others	10.9%	19.6%	17.6%	7.4%	8.6%	6.8%
Total	8.5%	7.0%	7.4%	6.7%	6.5%	5.4%
GP margin (%)	30.5%	30.6%	30.9%	31.2%	31.4%	31.6%
Cost breakdown						
Selling & distribution expenses	16.1%	15.9%	15.7%	15.4%	15.2%	15.2%
Admin expenses	8.9%	8.9%	8.9%	8.9%	8.8%	8.8%
Effective tax rate	17.0%	17.2%	15.1%	15.8%	15.3%	15.3%
NP margin (con. bus.)	5.8%	6.1%	6.4%	6.9%	7.4%	7.6%
NP growth (con. bus.)	16.7%	11.5%	13.6%	15.2%	14.2%	8.6%
NP att. margin	5.7%	6.0%	6.3%	6.9%	7.4%	7.6%
NP att. growth	47.2%	12.6%	12.8%	15.2%	14.2%	8.6%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	227,531	243,485	261,422	278,928	297,162	313,294
Cost of goods sold	(158,059)	(168,919)	(180,719)	(191,869)	(203,793)	(214,244)
Gross profit	69,472	74,566	80,703	87,059	93,369	99,050
Operating expenses	(56,784)	(60,275)	(64,130)	(67,730)	(71,389)	(75,257)
Selling expense	(36,554)	(38,598)	(40,978)	(42,988)	(45,134)	(47,609)
Admin expense	(11,873)	(12,178)	(12,931)	(13,837)	(14,637)	(15,399)
R&D expense	(8,357)	(9,499)	(10,221)	(10,905)	(11,618)	(12,249)
Others	0	0	0	0	0	0
Operating profit	13,956	16,377	18,589	21,472	24,264	26,201
Other income	1,268	2,086	2,016	2,144	2,284	2,408
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	18,295	20,927	23,177	25,041	27,833	29,770
Depreciation	(3,433)	(3,644)	(3,682)	(2,663)	(2,663)	(2,663)
Other amortisation	(906)	(906)	(906)	(906)	(906)	(906)
Interest income	788	826	1,447	1,619	1,793	1,980
Interest expense	(714)	(995)	(2,111)	(2,111)	(2,111)	(2,111)
Other income/expense	1,886	1,582	1,787	1,907	2,031	2,142
Pre-tax profit	15,916	17,790	19,712	22,887	25,977	28,211
Income tax	(2,699)	(3,058)	(2,980)	(3,616)	(3,975)	(4,316)
Minority interest	(150)	(21)	(135)	(144)	(153)	(162)
Net profit	13,217	14,732	16,732	19,271	22,003	23,895
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	123,614	130,383	143,096	154,264	167,238	179,007
Cash & equivalents	44,958	53,369	60,819	66,941	74,583	81,658
Account receivables	27,986	25,494	27,372	29,205	31,114	32,803
Inventories	39,863	41,543	44,445	47,187	50,120	52,690
Prepayment	6,415	6,552	7,035	7,506	7,996	8,431
ST bank deposits	0	0	0	0	0	0
Other current assets	4,392	3,425	3,425	3,425	3,425	3,425
Non-current assets	93,846	105,460	110,680	117,509	124,952	132,939
PP&E	26,981	31,857	36,983	43,719	51,068	58,961
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	8,498	9,135	8,229	7,322	6,416	5,510
Other non-current assets	58,367	64,468	65,468	66,468	67,468	68,468
Total assets	217,460	235,843	253,776	271,773	292,190	311,946
Current liabilities	124,926	118,747	125,246	131,443	138,021	143,802
Short-term borrowings	17,968	12,485	12,485	12,485	12,485	12,485
Account payables	67,368	66,975	71,654	76,075	80,802	84,946
Tax payable	1,305	1,703	1,703	1,703	1,703	1,703
Other current liabilities	38,285	37,584	39,404	41,181	43,031	44,668
Non-current liabilities	12,722	23,673	23,808	23,952	24,105	24,267
Long-term borrowings	3,075	13,627	13,627	13,627	13,627	13,627
Other non-current liabilities	9,647	10,046	10,181	10,325	10,478	10,640
Total liabilities	137,648	142,420	149,054	155,395	162,127	168,070
Share capital	9,399	9,447	9,447	9,447	9,447	9,447
Retained earnings	70,413	83,976	87,804	98,767	110,696	123,653
Other reserves	0	0	7,471	8,163	9,921	10,776
Total shareholders equity	79,812	93,423	104,722	116,378	130,064	143,876
Total equity and liabilities	217,460	235,843	253,776	271,773	292,190	311,946

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	15,916	17,790	19,712	22,887	25,977	28,211
Depreciation & amortization	4,339	4,550	4,588	3,569	3,569	3,569
Tax paid	(8,309)	(2,358)	(2,980)	(3,616)	(3,975)	(4,316)
Change in working capital	4,418	(2,969)	1,236	1,151	1,246	1,087
Others	6,765	3,140	2,111	2,111	2,111	2,111
Net cash from operations	23,130	20,153	24,667	26,102	28,929	30,663
Investing						
Capital expenditure	(7,372)	(8,204)	(8,808)	(9,398)	(10,013)	(10,556)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(695)	(716)	(1,000)	(1,000)	(1,000)	(1,000)
Net cash from investing	(8,067)	(8,920)	(9,808)	(10,398)	(11,013)	(11,556)
Financing						
Dividend paid	(3,411)	(4,297)	(5,298)	(7,471)	(8,163)	(9,921)
Net borrowings	(1,997)	3,677	0	0	0	0
Proceeds from share issues	0	940	0	0	0	0
Share repurchases	(3,221)	(2,012)	0	0	0	0
Others	(7,012)	(2,130)	(2,111)	(2,111)	(2,111)	(2,111)
Net cash from financing	(15,641)	(3,822)	(7,409)	(9,582)	(10,274)	(12,032)
Net change in cash						
Cash at the beginning of the year	45,635	44,958	52,369	59,819	65,941	73,583
Exchange difference	(99)	0	0	0	0	0
Others	(578)	7,411	7,450	6,122	7,642	7,075
Cash at the end of the year	44,958	52,369	59,819	65,941	73,583	80,658
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	8.5%	7.0%	7.4%	6.7%	6.5%	5.4%
Gross profit	14.2%	7.3%	8.2%	7.9%	7.2%	6.1%
Operating profit	11.3%	17.3%	13.5%	15.5%	13.0%	8.0%
EBITDA	10.9%	14.4%	10.8%	8.0%	11.1%	7.0%
Net profit	16.7%	11.5%	13.6%	15.2%	14.2%	8.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	30.5%	30.6%	30.9%	31.2%	31.4%	31.6%
Operating margin	6.1%	6.7%	7.1%	7.7%	8.2%	8.4%
EBITDA margin	8.0%	8.6%	8.9%	9.0%	9.4%	9.5%
Return on equity (ROE)	18.0%	17.0%	16.9%	17.4%	17.9%	17.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.0	1.1	1.1	1.2	1.2	1.2
Receivable turnover days	44.9	38.2	38.2	38.2	38.2	38.2
Inventory turnover days	92.1	89.8	89.8	89.8	89.8	89.8
Payable turnover days	155.6	144.7	144.7	144.7	144.7	144.7
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	15.0	14.5	13.1	11.5	10.1	9.3
P/E (diluted)	15.0	14.5	13.1	11.5	10.1	9.3
P/B	1.9	2.0	1.9	1.7	1.5	1.4
P/CFPS	9.6	11.0	9.0	8.6	7.7	7.3
Div yield (%)	2.0	2.4	3.3	4.0	4.9	5.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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