

Haier Smart Home (6690 HK)

Solid guidance and edges despite headwinds

We maintain **BUY** and raised TP to **HK\$ 34.74**. Despite various macro headwinds (pandemic, inflation, geo-political issues, etc.), Haier's in-line growth with guidance was really impressive which clearly demonstrated its world-class strategy and execution. We do expect these continue to play out in 2H22E with chances of better macro (e.g. more favorable raw material costs). Our new TP of HK\$ 34.74 is based on 14x FY23E P/E (rolled over from 16x FY22E P/E). Its current valuation is attractive at 10x FY23E P/E, vs Haier-A's 14x, Midea's 10x and China peers average of 11x, given 15% NP CAGR in FY21-24E.

■ **1H22 result slightly beat.** Sales increased 9% YoY to RMB 121.8bn, inline with CMBI / BBG est. while net profit grew 15% YoY to RMB 7.9bn, inline with CMBI/ beating BBG est. by 6%, which consisted of stable GP margin and opex, better than expected other income, finance costs but higher than expected tax. Sales grew 13%/ 8% YoY and GP margin +0.2ppt/ was flat in China/ overseas market in 1H22. But we are impressed with oversea sales acceleration in 2Q22 and all regions (except the Middle East and Africa) had recorded sales growth in 1H22. For domestic market, ASP growth slowed down but volume growth picked up in 2Q22.

■ **FY22E guidance maintained.** Management had reiterated its FY22E target: double-digit sales growth in both mainland China/ overseas market (HSD growth in RMB terms) and 15% or above net profit growth. They also believed that Casarte's sales growth in 2H22E should be no less than that in 1H22 and group level OP margin in 2H22E should be at least at par with 2H21.

■ **Domestic market: Casarte shall improve, air-con will outperform and digitalization to continue in 2H22E.** Haier's performance was excellent even under the pandemic and managed to gain shares in 1H22. We are fairly confident about its growth in 2H22E, because: 1) Casarte's growth already resumed to 20%+ in Jun 2022 (vs ~10%/ ~32% in 2Q22/ 1Q22) as management stated that high-end demand is much more resilient vs low-mid end demand, 2) air-con growth shall improve in Jul-Aug 2022, not just aided by the hot weather but numerous reforms (more external quality hires, upgrade R&D system and customer behavior analytics, as well as making more productions in-house) and 3) digitalization will continue, hence more savings in logistic costs, product production efficiency.

■ **Maintain BUY but raised TP to HK\$ 34.74.** We largely maintained our forecasts. New TP is based on 14x FY23E P/E (rolled over from 16x FY22E P/E). It is trading at 10x FY23E P/E, highly attractive in our view, vs China peers average of 11x and ~25% discounts to Haier-A's 14x FY22E P/E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	209,703	227,531	250,669	268,808	286,733
YoY growth (%)	5.9	8.5	10.2	7.2	6.7
NP att. (RMB mn)	8,877	13,067	15,613	18,596	19,782
Diluted EPS (RMB)	1.335	1.390	1.729	2.060	2.191
YoY growth (%)	8.2	6.3	24.1	19.1	6.4
Consensus EPS (RMB)	n/a	n/a	1.616	1.876	2.149
P/E (x)	15.7	14.7	11.9	10.0	9.4
P/B (x)	1.8	1.9	1.7	1.5	1.3
Yield (%)	2.4	2.3	3.4	4.0	4.3
ROE (%)	13.3	16.4	17.1	17.8	16.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$34.74
(Previous TP)	HK\$33.13)
Up/Downside	+40.4%
Current Price	HK\$24.75

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Stock Data

Mkt Cap (HK\$ mn)	255,999
Avg 3 mths t/o (HK\$ mn)	212.32
52w High/Low (HK\$)	33.85/ 21.90
Total Issued Shares (mn)	2,868.6

Source: Bloomberg

Shareholding Structure

Haier Group - A	28.54%
Haier Group - H	5.97%
Haier Group - D	0.63%
HKEX stock connect	6.06%
GIC	1.26%
Free Float - A	34.02%
Free Float - H	21.15%
Free Float - D	2.37%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.9%	10.2%
3-mth	=9.5%	-0.8%
6-mth	-7.6%	5.2%
12-mth	-10.1%	7.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

Haier Smart Home (6690 HK, BUY) – Excellent 1Q22 and a brighter 2Q22E outlook – 1 May 2022

- **Overseas market: Premiumization, environmental friendly products and online sales to drive growth.** Despite the global inflation and geo-political issues, we believe the solid performance from Haier in 2Q22 shall sustain into 2H22E, driven by: 1) premiumization (Cafe, Monogram, GE profile sales growth was 40%+, Fisher & Paykel's high-end lines of series 5/ 7/ 9 sales growth was 50%+ in 1H22 and Casarte's product launches in Thailand, etc., more sales from built-in products which are mostly high-end), 2) better sales momentum from energy/ environmental friendly products (almost all washing machines being sold are classified as grade A), 3) further penetration in the e-commerce and other channels, online sales mix was only less than 5% (~15% in EU, ~10% in South East Asia, very low in other regions).

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	250,669	268,808	286,733	249,556	267,757	285,696	0.4%	0.4%	0.4%
Gross profit	76,621	82,997	88,081	76,293	82,702	87,841	0.4%	0.4%	0.3%
EBIT	16,932	20,144	21,281	16,826	20,080	21,267	0.6%	0.3%	0.1%
Net profit att.	15,613	18,596	19,782	15,517	18,534	19,763	0.6%	0.3%	0.1%
Diluted EPS (RMB)	1.729	2.060	2.191	1.719	2.053	2.189	0.6%	0.3%	0.1%
Gross margin	30.6%	30.9%	30.7%	30.6%	30.9%	30.7%	0ppt	0ppt	0ppt
EBIT margin	6.8%	7.5%	7.4%	6.7%	7.5%	7.4%	0ppt	0ppt	0ppt
Net profit att. margin	6.2%	6.9%	6.9%	6.2%	6.9%	6.9%	0ppt	0ppt	0ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	250,669	268,808	286,733	248,764	269,619	290,811	0.8%	-0.3%	-1.4%
Gross profit	76,621	82,997	88,081	77,515	85,537	92,987	-1.2%	-3.0%	-5.3%
EBIT	16,932	20,144	21,281	17,291	19,936	22,681	-2.1%	1.0%	-6.2%
Net profit att.	15,613	18,596	19,782	15,274	17,721	20,494	2.2%	4.9%	-3.5%
Diluted EPS (RMB)	1.729	2.060	2.191	1.616	1.876	2.149	7.0%	9.8%	2.0%
Gross margin	30.6%	30.9%	30.7%	31.2%	31.7%	32.0%	-0.6ppt	-0.8ppt	-1.3ppt
EBIT margin	6.8%	7.5%	7.4%	7.0%	7.4%	7.8%	-0.2ppt	0.1ppt	-0.4ppt
Net profit att. margin	6.2%	6.9%	6.9%	6.1%	6.6%	7.0%	0.1ppt	0.3ppt	-0.1ppt

Source: Bloomberg, CMBIGM estimates

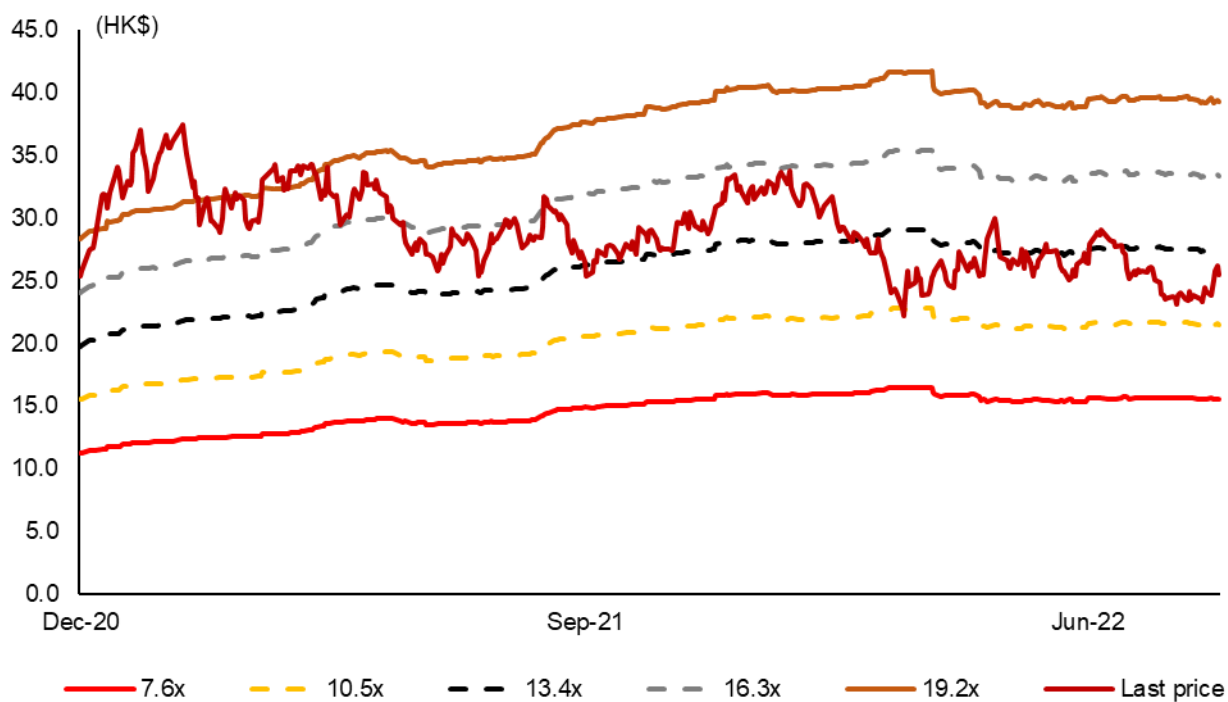
Valuation

Figure 3: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$m)	Year End	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
A+ H shares Home Appliances - White goods, Kitchen and Small Appliances														
Haier SH - H	6690 HK	BUY	34.74	24.75	40%	255,997	Dec-21	11.9	10.0	1.9	1.7	17.6	0.7	3.4
Gree Electronics	000651 CH	NR	n/a	33.02	n/a	211,537	Dec-21	7.6	6.8	1.6	1.5	21.8	1.0	7.5
Haier SH - A	600690 CH	NR	n/a	25.63	n/a	259,463	Dec-21	15.9	13.8	2.6	2.3	16.8	34.5	2.3
Midea Group	000333 CH	BUY	67.79	53.65	26%	427,108	Dec-21	11.7	10.3	2.5	2.2	22.1	1.2	3.6
Hisense JA	921 HK	NR	n/a	8.52	n/a	16,984	Dec-21	7.6	7.3	0.9	0.8	12.3	0.3	5.1
Hisense HA	000921 CH	NR	n/a	a	n/a	16,984	Dec-21	12.5	10.3	1.5	1.4	12.8	0.5	2.4
Whirlpool China	600983 CH	NR	n/a	7.37	n/a	6,426	Dec-21	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Zhejiang Aishida	002403 CH	NR	n/a	7.65	n/a	2,964	Dec-21	n/a	n/a	1.2	1.2	(2.4)	n/a	n/a
Bear Electric	002959 CH	NR	n/a	54.36	n/a	9,647	Dec-21	24.1	20.3	3.6	3.2	14.8	1.4	1.8
Ecovacs Robotics	603486 CH	NR	n/a	79.80	n/a	52,083	Dec-21	18.2	14.1	6.3	4.6	35.3	0.8	1.7
JS Global Lifestyle	1691 HK	BUY	11.51	9.39	23%	32,814	Dec-21	9.5	5.8	1.9	1.6	21.4	0.9	4.2
Joyoung Co	002242 CH	NR	n/a	15.52	n/a	13,542	Dec-21	14.6	12.8	2.7	2.5	18.0	1.6	5.7
Hangzhou Robam	002508 CH	NR	n/a	25.00	n/a	26,990	Dec-21	11.4	9.9	2.3	2.0	20.4	0.5	2.8
Zhejiang Supor	002032 CH	NR	n/a	45.80	n/a	42,133	Dec-21	16.8	14.9	4.4	3.8	26.0	1.6	4.1
Vatti Corporation	002035 CH	NR	n/a	5.82	n/a	5,612	Dec-21	10.0	8.9	1.4	1.2	14.1	0.2	3.8
Xinbao Electrica	002705 CH	NR	n/a	19.26	n/a	18,114	Dec-21	14.4	12.5	2.3	2.0	15.7	0.7	2.6
Avg.								13.1	11.1	2.4	2.1	17.8	3.3	3.7
Med.								12.1	10.3	2.2	1.9	17.6	0.8	3.5
International Home Appliances - White goods, Kitchen and Small Appliances														
Whirlpool Corp	WHR US	NR	n/a	154	n/a	65,758	Dec-21	6.9	6.7	2.1	1.8	26.0	(1.2)	4.6
Ingersoll-Rand Plc	IR US	NR	n/a	48	n/a	151,086	Dec-21	20.7	18.6	2.1	2.0	10.3	0.7	0.2
Smith (A.O.) Corp	AOS US	NR	n/a	56	n/a	68,218	Dec-21	16.1	15.3	4.8	4.3	29.7	1.7	2.0
Helen Of Troy	HELE US	NR	n/a	124	n/a	23,239	Feb-22	12.1	11.3	2.0	1.7	17.6	n/a	n/a
Irobot Corp	IRBT US	NR	n/a	59	n/a	12,617	Jan-22	54.3	33.8	2.3	2.4	5.4	1.8	0.0
Electrolux Ab	ELUXB SS	NR	n/a	132	n/a	27,335	Dec-21	13.3	8.3	2.0	1.9	17.5	(61.5)	6.8
Seb Sa	SK FP	NR	n/a	73	n/a	31,571	Dec-21	10.8	9.0	1.2	1.1	11.8	(3.8)	2.8
Koninklijke Philips	PHIA NA	NR	n/a	17	n/a	115,504	Dec-21	12.8	10.3	1.0	1.0	6.0	(0.6)	5.1
Daikin Industries	6367 JP	NR	n/a	24165	n/a	396,483	Mar-22	27.7	25.0	3.3	3.0	12.2	5.5	0.9
Panasonic Corp	6752 JP	NR	n/a	1121	n/a	153,990	Mar-22	10.8	9.3	0.8	0.7	7.5	(20.0)	2.8
Sony Corp	6758 JP	NR	n/a	10880	n/a	768,021	Mar-22	15.6	14.0	1.7	1.6	11.7	(27.9)	0.7
Hitachi	6501 JP	NR	n/a	6904	n/a	374,312	Mar-22	10.5	11.5	1.4	1.3	14.1	(2.3)	1.9
Sharp Corp	6753 JP	NR	n/a	1004	n/a	36,553	Mar-22	12.9	12.0	1.3	1.2	10.6	(0.7)	3.5
Fujitsu General	6755 JP	NR	n/a	2909	n/a	17,804	Mar-22	24.9	19.8	2.3	2.1	9.8	0.4	1.1
Lg Electronics	066570 KS	NR	n/a	97300	n/a	91,753	Dec-21	7.3	6.9	0.9	0.8	12.4	0.2	1.3
Samsung Elect.	005930 KS	NR	n/a	57500	n/a	1,977,991	Dec-21	9.1	9.4	1.2	1.1	13.2	3.4	2.5
Woongjin Coway	021240 KS	NR	n/a	61300	n/a	26,068	Dec-21	9.0	8.4	1.9	1.6	24.1	5.9	2.1
Avg.								16.1	13.5	1.9	1.7	14.1	(5.6)	2.4
Med.								12.7	11.3	1.9	1.6	12.2	(0.2)	2.1

Source: Bloomberg, CMBIGM estimates

Figure 4: P/E valuation band



Source: Bloomberg, CMBIS estimates

Assumptions

Figure 5: CMBIGM's assumptions

RMB mn	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Sales by segment (RMB mn)						
Mainland China						
Refrigerators/freezers	30,424	30,562	36,842	42,737	46,583	50,310
Kitchen appliances	2,149	2,636	3,013	3,375	3,712	3,972
Air-conditioners	20,366	21,861	27,409	29,328	32,847	35,803
Laundry appliances	22,113	22,483	25,917	29,805	31,593	34,120
Water appliances	9,521	9,833	12,479	14,351	15,068	16,123
Overseas	92,392	100,044	113,090	122,294	129,785	136,816
Other businesses	21,041	22,284	8,781	8,781	9,220	9,589
Total	198,006	209,703	227,531	250,669	268,808	286,733
Sales by segment growth (%)						
Mainland China						
Refrigerators/freezers	2.7%	0.5%	20.5%	16.0%	9.0%	8.0%
Kitchen appliances	-5.4%	22.7%	14.3%	12.0%	10.0%	7.0%
Air-conditioners	-13.0%	7.3%	25.4%	7.0%	12.0%	9.0%
Laundry appliances	6.0%	1.7%	15.3%	15.0%	6.0%	8.0%
Water appliances	8.0%	3.3%	26.9%	15.0%	5.0%	7.0%
Overseas	23.4%	8.3%	13.0%	8.1%	6.1%	5.4%
Other businesses	18.8%	5.9%	-60.6%	0.0%	5.0%	4.0%
Total	11.5%	5.9%	8.5%	10.2%	7.2%	6.7%
Sales by brand growth (%)						
Haier, Leader & others	1.1%	2.8%	0.6%	10.6%	7.3%	7.0%
Casarte	32.1%	17.6%	48.0%	25.0%	15.0%	13.0%
GEA	9.0%	10.0%	14.0%	8.0%	6.0%	6.0%
Candy	n/a	2.0%	13.0%	8.0%	4.0%	4.0%
Others	13.5%	6.9%	10.9%	8.5%	7.2%	4.6%
Total	11.5%	5.9%	8.5%	10.2%	7.2%	6.7%
GP margin (%)	29.6%	29.0%	30.5%	30.6%	30.9%	30.7%
Costs breakdown						
Selling & distribution expenses	17.1%	16.0%	16.1%	16.1%	15.9%	15.8%
Admin expenses	8.7%	8.6%	8.9%	8.5%	8.4%	8.4%
Effective tax rate	14.9%	16.5%	17.0%	15.5%	15.3%	15.3%
NP margin (con. bus.)	4.6%	5.4%	5.8%	6.3%	7.0%	7.0%
NP growth (con. bus.)	-5.4%	25.5%	16.7%	20.0%	18.9%	6.4%
NP att. margin	4.1%	4.2%	5.7%	6.2%	6.9%	6.9%
NP att. growth	9.6%	8.2%	47.2%	19.5%	19.1%	6.4%

Source: Company data, CMBIGM estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	209,703	227,531	250,669	268,808	286,733	Net income	12,537	13,956	16,932	20,144	21,281
Food Solutions	33,198	39,855	46,111	50,295	54,282	D&A	33,641	36,554	40,401	42,732	45,357
Air Solutions	21,861	27,409	29,328	32,847	35,803	Change in working capital	1,928	4,418	1,857	1,322	1,518
Clothing & Water Solutions	32,316	38,396	44,155	46,661	50,243	Income tax paid	(8,019)	(8,309)	(2,910)	(3,408)	(3,625)
Overseas & Other business	122,328	121,871	131,075	139,005	146,404	Others	(22,488)	(23,489)	(33,718)	(35,620)	(38,554)
Cost of goods sold	(148,870)	(158,059)	(174,048)	(185,810)	(198,652)	Net cash from operating	17,599	23,130	22,563	25,170	25,977
Gross profit	60,833	69,472	76,621	82,997	88,081	Capex & investments	(7,272)	(7,995)	(8,622)	(9,709)	(10,290)
Other net income	3,275	1,268	2,131	2,554	2,724	Associated companies	-	-	-	-	-
Operating expenses	(51,571)	(56,784)	(61,819)	(65,407)	(69,523)	Interest received	-	-	-	-	-
S & D costs	(33,641)	(36,554)	(40,401)	(42,732)	(45,357)	Others	2,008	(72)	-	-	-
Admin exp. (ex- R&D)	(11,070)	(12,949)	(13,396)	(14,073)	(14,991)	Net cash from investing	(5,264)	(8,067)	(8,622)	(9,709)	(10,290)
R & D exp.	(6,860)	(7,281)	(8,021)	(8,602)	(9,175)	Equity raised	-	(3,221)	-	-	-
Other operating exp.	-	-	-	-	-	Change of Debts	(277)	(1,997)	-	-	-
EBIT	12,537	13,956	16,932	20,144	21,281	Dividend paid	(4,980)	(3,411)	(4,320)	(5,184)	(6,174)
Finance costs, net	(602)	74	87	246	405	Others	4,231	(2,062)	(772)	(772)	(772)
JV & associates	-	-	-	-	-	Net cash from financing	(1,026)	(10,691)	(5,092)	(5,956)	(6,946)
Exceptional	1,620	1,886	1,755	1,882	2,007	Net change in cash	11,309	4,372	8,849	9,504	8,741
Pre-tax profit	13,555	15,916	18,774	22,272	23,694	Beginning cash balance	43,588	45,635	44,958	53,807	63,311
Income tax	(2,232)	(2,699)	(2,910)	(3,408)	(3,625)	Exchange difference	(9,262)	(5,049)	-	-	-
Less: Minority interests	2,446	150	251	269	287	Cash at the end of the year	45,635	44,958	53,807	63,311	72,052
Net profit	8,877	13,067	15,613	18,596	19,782						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	89,196	93,846	98,398	103,896	110,569	Sales mix (%)					
Fixed asset	24,815	26,981	31,940	37,344	43,922	Food Solutions	15.8	17.5	18.4	18.7	18.9
Intangible assets & goodwill	31,475	30,325	29,419	28,512	27,606	Air Solutions	10.4	12.0	11.7	12.2	12.5
Prepaid lease payments	24,228	28,081	28,581	29,581	30,581	Clothing & Water Solutions	15.4	16.9	17.6	17.4	17.5
Interest in asso. & JV	-	-	-	-	-	Overseas & Other business	58.3	53.6	52.3	51.7	51.1
Others	8,678	8,459	8,459	8,459	8,459	Total	100.0	100.0	100.0	100.0	100.0
Current assets	114,246	123,614	139,994	155,207	169,897	P&L ratios (%)					
Cash and cash equivalents	45,635	44,958	53,807	63,311	72,052	Gross margin	29.0	30.5	30.6	30.9	30.7
Inventories	29,447	39,863	43,896	46,862	50,101	Operating margin	6.0	6.1	6.8	7.5	7.4
Trade and other receivables	30,066	27,986	30,832	33,063	35,268	Pre-tax margin	6.5	7.0	7.5	8.3	8.3
Prepayments	5,212	6,415	7,067	7,579	8,084	Net margin	4.2	5.7	6.2	6.9	6.9
Others	3,886	4,392	4,392	4,392	4,392	Effective tax rate	16.5	17.0	15.5	15.3	15.3
Current liabilities	109,474	124,926	134,314	141,345	148,812	Balance sheet ratios					
Borrowings	12,643	17,968	17,968	17,968	17,968	Current ratio (x)	1.0	1.0	1.0	1.1	1.1
Trade payables	57,539	67,368	74,183	79,196	84,669	Quick ratio (x)	0.8	0.7	0.7	0.8	0.8
Accruals & other payables	22,519	25,305	27,878	29,896	31,889	Cash ratio (x)	0.4	0.4	0.4	0.4	0.5
Tax payables	1,371	1,305	1,305	1,305	1,305	Inventory turnover days	72	92	92	92	92
Others	15,402	12,980	12,980	12,980	12,980	Trade receivables days	52	45	45	45	45
Non-current liabilities	25,874	11,450	11,450	11,450	11,450	Trade payables days	141	156	156	156	156
Borrowings	11,858	3,075	3,075	3,075	3,075	Total debt / total equity ratio (%)	48	28	24	21	19
Deferred income	-	-	-	-	-	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	1,900	2,122	2,122	2,122	2,122	Returns (%)					
Others	12,116	6,253	6,253	6,253	6,253	ROE	13.3	16.4	17.1	17.8	16.7
Minority Interest	1,295	1,272	1,523	1,791	2,078	ROA	4.4	6.0	6.5	7.2	7.1
Total net assets	66,799	79,812	91,105	104,517	118,125	Per share					
Shareholders' equity	66,799	79,812	91,105	104,517	118,125	EPS (RMB)	1.33	1.39	1.73	2.06	2.19
						DPS (RMB)	0.49	0.48	0.69	0.82	0.88
						BVPS (RMB)	11.47	10.68	12.16	13.95	15.76

Source: Company data, CMBIGM estimates

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