

Haier Smart Home (6690 HK)

A 4Q22 miss and a prudent FY23E guidance

It was quite a miss for Haier in 4Q22, but we think that was partly one-off. On one hand, the domestics business shall gradually bottom out. But on the other hand, the overseas business is still facing certain macro risks. Its FY23E guidance might bring some near-term pressure on share price but considering also the undemanding valuation of 12x FY23E P/E, we still maintain BUY.

- 4Q22 result missed, due to pandemic in China and margin drags in overseas.** FY22 sales rose by 7% YoY and net profit surged by 13%, missing BBG est. by 2% and 3%. 4Q22 sales increased by 2% while net profit actually dropped by 4%, missing BBG est. by 5% and 11%. We believe the miss was mainly due to: 1) 2% sales decline in 2H22, as offline foot traffic and e-commerce logistics were heavily affected during the pandemic and 2) meaningful reduction in OP margin for overseas, as GP margin was dragged by the promotional environment (price war is still on as inventory was abnormally high) and raw material inflations (e.g. steel).
- Turnaround in China is more certain.** Based on management, sales growth already recovered to HSD in Jan - Feb 2023, vs double digit decline in Dec 2022. We also see a few solid growth drivers in FY23E, such as: 1) various reforms carried out on the air-con segment (including hiring more outside talents, using in-house productions for spare parts and accessories and having a more DTC mentality), 2) improving business models on various e-commerce platforms like JD and TikTok for the kitchen appliances business and 3) Three-Wings-Bird to focus more on productivity or margins.
- But there are quite a few uncertainties for overseas.** Overseas sales growth also remained fast at HSD in Jan-Feb 2023, according to management, which is without doubt industry leading, thanks to the decent performance in the high-end segment (Monogram/ Cafe sales grew by 40%+/ 30%+ in FY22). We do expect its pressure from raw materials and freight rate to ease in FY23E, however, the demand in US, price war due to excessive inventory and the Ukraine war overhang are still there.
- A rather prudent FY23E guidance, but we are slightly more conservative.** Management is now expecting HSD sales growth and double digit net profit growth in FY23E (will try their best to achieve a 15%+ level), plus a 7%+ and 8%+ NP margin for FY23E and FY24E-25E.
- Maintain BUY and raise TP to HK\$ 29.10.** We cut our FY23E/ 24E net profit estimates by 11%/ 3% to factor in: 1) the miss in FY22, 2) slower than expected Casarte sales, 3) greater pressure on overseas margins. Our new TP is based on 14.5x FY23E P/E (up from 11x, due to turnaround ahead). It is trading at 12x FY23E P/E, still below its 5 years average of 15x.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	227,531	243,485	259,476	278,334	294,336
YoY growth (%)	8.5	7.0	6.6	7.3	5.7
Operating profit (RMB mn)	13,956	16,369	17,818	20,685	23,422
Net profit (RMB mn)	13,217.0	14,732.0	16,607.1	19,263.3	21,803.9
EPS (Reported) (RMB)	1.39	1.57	1.78	2.06	2.33
YoY growth (%)	4.1	12.9	13.2	16.0	13.2
P/E (x)	14.5	13.9	12.3	10.6	9.4
P/B (x)	1.9	2.0	1.8	1.6	1.4
Yield (%)	2.4	2.6	3.3	3.8	4.3
ROE (%)	16.4	16.3	15.9	16.6	16.7
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$29.10
(Previous TP)	HK\$27.30)
Up/Downside	17.8%
Current Price	HK\$24.70

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Stock Data

Mkt Cap (HK\$ mn)	230,624.8
Avg 3 mths t/o (HK\$ mn)	27.9
52w High/Low (HK\$)	30.70/19.64
Total Issued Shares (mn)	9337.0

Source: FactSet

Shareholding Structure

Haier Group Corp	18.8%
Green Court Capital Management	4.3%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.0%	-13.7%
3-mth	-7.1%	-10.0%
6-mth	2.7%	-13.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

- **Casarte shall get better in FY23E, but it takes time to return to rapid growth.**
 After HSD sales growth in 3Q22, we believe Casarte's sales growth may turn into negative in 4Q22, which is again because of pandemic. However, management is expecting its sales growth to be back to 25%+, in a gradual manner in FY23E, supported by: 1) completion of product innovation process, which may speed up new product launches in the future, 2) normalization of air-con inventory and 3) expansion into overseas market in FY23E.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	259,476	278,334	294,336	268,808	286,733	n/a	-3.5%	-2.9%	n/a
Gross profit	79,509	85,804	90,921	82,997	88,081	n/a	-4.2%	-2.6%	n/a
EBIT	17,818	20,685	23,422	20,144	21,281	n/a	-11.5%	-2.8%	n/a
Net profit att.	16,585	19,239	21,778	18,596	19,782	n/a	-10.8%	-2.7%	n/a
Diluted EPS (RMB)	1.776	2.061	2.332	2.060	2.191	n/a	-13.8%	-6.0%	n/a
Gross margin	30.6%	30.8%	30.9%	30.9%	30.7%	n/a	-0.2ppt	0.1ppt	n/a
EBIT margin	6.9%	7.4%	8.0%	7.5%	7.4%	n/a	-0.6ppt	0ppt	n/a
Net profit att. margin	6.4%	6.9%	7.4%	6.9%	6.9%	n/a	-0.5ppt	0ppt	n/a

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	259,476	278,334	294,336	267,488	289,459	n/a	-3.0%	-3.8%	n/a
Gross profit	79,509	85,804	90,921	84,687	92,424	n/a	-6.1%	-7.2%	n/a
EBIT	17,818	20,685	23,422	20,060	22,713	n/a	-11.2%	-8.9%	n/a
Net profit att.	16,585	19,239	21,778	17,504	20,121	n/a	-5.3%	-4.4%	n/a
Diluted EPS (RMB)	1.776	2.061	2.332	1.883	2.148	n/a	-5.7%	-4.1%	n/a
Gross margin	30.6%	30.8%	30.9%	31.7%	31.9%	n/a	-1ppt	-1.1ppt	n/a
EBIT margin	6.9%	7.4%	8.0%	7.5%	7.8%	n/a	-0.6ppt	-0.4ppt	n/a
Net profit att. margin	6.4%	6.9%	7.4%	6.5%	7.0%	n/a	-0.2ppt	0ppt	n/a

Source: Bloomberg, CMBIGM estimates

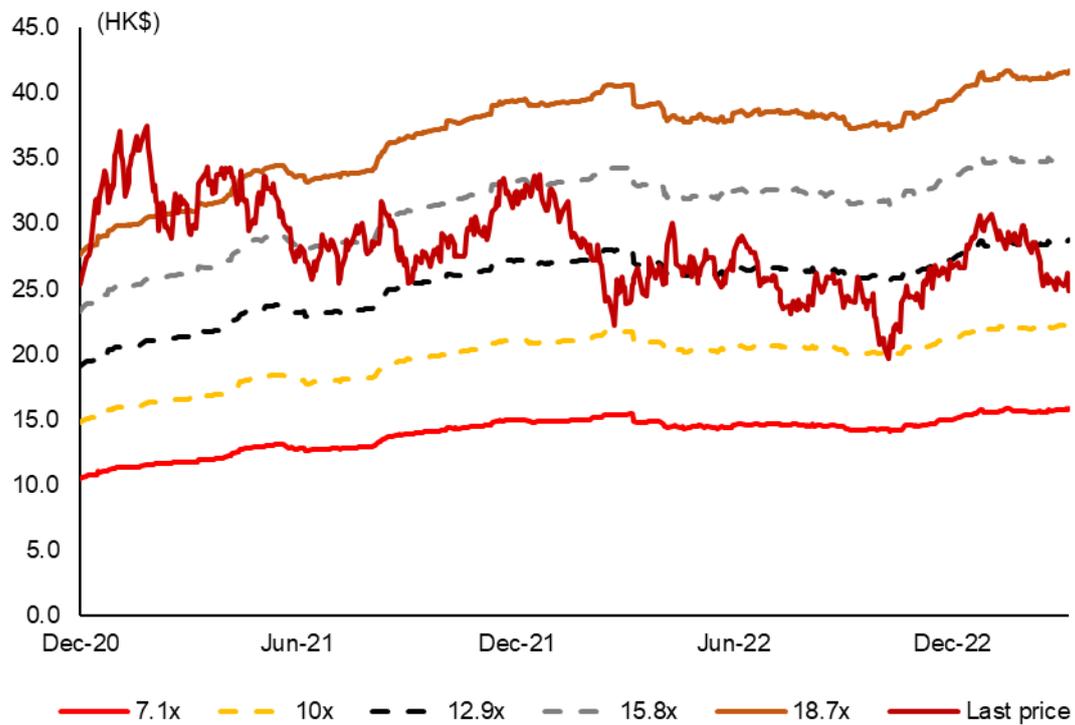
Valuation

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	29.10	24.70	18%	236,993	Dec-22	12.3	10.6	1.8	17.4	0.9	3.3	(7.1)	
Gree Electronics	000651 CH	NR	n/a	36.75	n/a	236,507	Dec-21	8.1	7.3	1.8	22.7	0.9	7.0	13.7	
Haier SH - A	600690 CH	NR	n/a	22.68	n/a	237,158	Dec-22	12.2	10.8	2.0	17.0	10.1	3.1	(7.3)	
Midea Group	000333 CH	BUY	67.79	53.81	26%	430,197	Dec-21	12.5	11.3	2.6	21.4	2.0	3.5	3.9	
Hisense JA	921 HK	NR	n/a	13.58	n/a	27,849	Dec-22	9.4	8.2	1.3	14.3	0.6	3.9	57.7	
Hisense HA	000921 CH	NR	n/a	a	n/a	27,868	Dec-22	17.2	14.8	2.3	13.8	1.6	2.1	59.1	
Whirlpool China	600983 CH	NR	n/a	8.15	n/a	7,138	Dec-21	n/a	n/a	n/a	n/a	n/a	n/a	17.8	
Zhejiang Aishida	002403 CH	NR	n/a	9.36	n/a	3,644	Dec-21	n/a	n/a	n/a	n/a	n/a	n/a	20.8	
Bear Electric	002959 CH	NR	n/a	70.40	n/a	12,551	Dec-21	29.5	24.1	4.7	16.0	1.4	1.4	16.7	
Ecovacs Robotics	603486 CH	NR	n/a	82.60	n/a	54,032	Dec-21	27.6	22.4	7.4	27.1	4.5	1.3	13.2	
JS Global Lifestyle	1691 HK	BUY	9.51	8.06	18%	28,167	Dec-22	8.0	7.0	1.4	18.8	0.1	5.1	(8.1)	
Joyoung Co	002242 CH	NR	n/a	17.92	n/a	15,708	Dec-22	16.7	14.9	3.2	18.6	0.7	5.0	8.7	
Hangzhou Robam	002508 CH	NR	n/a	28.36	n/a	30,758	Dec-21	14.5	12.7	2.7	18.8	0.7	2.3	2.2	
Zhejiang Supor	002032 CH	NR	n/a	54.15	n/a	50,042	Dec-22	19.0	17.1	5.0	26.5	1.7	3.4	9.5	
Vatti Corporation	002035 CH	NR	n/a	7.07	n/a	6,849	Dec-21	16.7	12.0	1.7	9.8	0.4	2.2	27.6	
Xinbao Electrica	002705 CH	NR	n/a	17.04	n/a	16,099	Dec-21	14.5	12.0	2.0	14.7	0.9	2.3	2.3	
								Avg.	15.6	13.2	2.9	18.4	1.9	3.3	14.4
								Med.	14.5	12.0	2.2	18.0	0.9	3.2	11.4
International Home Appliances - White goods, Kitchen and Small Appliances															
Whirlpool Corp	WHR US	NR	n/a	132	n/a	56,483	Dec-22	8.2	7.3	2.5	21.5	(0.0)	5.4	(6.7)	
Ingersoll-Rand Plc	IR US	NR	n/a	58	n/a	184,947	Dec-22	22.9	20.8	2.4	10.5	0.8	0.1	11.3	
Smith (A.O.) Corp	AOS US	NR	n/a	69	n/a	81,920	Dec-22	20.8	19.3	5.5	27.5	0.6	1.8	20.8	
Helen Of Troy	HELE US	NR	n/a	95	n/a	17,924	Feb-22	10.2	11.0	1.6	16.2	3.5	n/a	(14.2)	
Irobot Corp	IRBT US	NR	n/a	44	n/a	9,395	Dec-22	n/a	n/a	3.3	(28.9)	n/a	0.0	(9.3)	
Electrolux Ab	ELUXB SS	NR	n/a	126	n/a	27,144	Dec-22	20.2	8.3	1.9	10.7	(0.1)	3.8	(10.6)	
Seb Sa	SK FP	NR	n/a	105	n/a	49,481	Dec-22	14.0	11.6	1.7	12.7	0.6	2.3	33.9	
Koninklijke Philips	PHIA NA	NR	n/a	17	n/a	127,746	Dec-22	16.4	12.5	1.2	5.1	(0.1)	5.2	20.2	
Daikin Industries	6367 JP	NR	n/a	23655	n/a	409,943	Mar-22	27.1	24.4	3.2	12.5	3.6	0.9	17.1	
Panasonic Corp	6752 JP	NR	n/a	1182	n/a	171,501	Mar-22	12.9	10.5	0.8	6.5	(48.4)	2.6	6.4	
Sony Corp	6758 JP	NR	n/a	11985	n/a	893,605	Mar-22	16.9	16.0	2.0	12.0	n/a	0.6	19.4	
Hitachi	6501 JP	NR	n/a	7252	n/a	402,220	Mar-22	11.0	12.5	1.5	14.0	(3.1)	1.9	8.4	
Sharp Corp	6753 JP	NR	n/a	933	n/a	35,878	Mar-22	n/a	36.5	1.3	(3.4)	n/a	2.7	(1.3)	
Fujitsu General	6755 JP	NR	n/a	3735	n/a	24,145	Mar-22	40.5	25.5	3.0	8.5	0.7	0.9	18.0	
Lg Electronics	066570 KS	NR	n/a	115300	n/a	113,599	Dec-22	10.1	7.5	0.9	9.4	0.3	0.8	33.3	
Samsung Elect.	005930 KS	NR	n/a	64000	n/a	2,300,250	Dec-22	35.1	14.0	1.2	3.5	(5.7)	2.3	15.7	
Woongjin Coway	021240 KS	NR	n/a	52500	n/a	23,327	Dec-22	7.5	7.0	1.4	21.1	0.9	2.6	(6.1)	
								Avg.	18.3	15.3	2.1	9.4	(3.3)	2.1	9.2
								Med.	16.4	12.5	1.7	10.7	0.4	2.1	11.3

Source: Bloomberg, CMBIGM estimates

Figure 4: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 5: CMBIGM's assumptions

RMB mn	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Sales by segment (RMB mn)						
Mainland China						
Refrigerators/freezers	30,562	36,842	39,010	40,570	43,816	46,883
Kitchen appliances	2,636	3,013	3,114	3,363	3,699	3,995
Air-conditioners	21,861	27,409	28,384	31,790	36,241	38,778
Laundry appliances	22,483	25,917	27,076	28,159	30,412	32,541
Water appliances	9,833	12,479	13,542	14,219	15,214	16,432
Overseas	100,044	113,090	124,704	133,336	140,593	147,014
Other businesses	22,284	8,781	7,655	8,038	8,359	8,694
Total	209,703	227,531	243,485	259,476	278,334	294,336
Sales by segment growth (%)						
Mainland China						
Refrigerators/freezers	0.5%	20.5%	5.9%	4.0%	8.0%	7.0%
Kitchen appliances	22.7%	14.3%	3.4%	8.0%	10.0%	8.0%
Air-conditioners	7.3%	25.4%	3.6%	12.0%	14.0%	7.0%
Laundry appliances	1.7%	15.3%	4.5%	4.0%	8.0%	7.0%
Water appliances	3.3%	26.9%	8.5%	5.0%	7.0%	8.0%
Overseas	8.3%	13.0%	10.3%	6.9%	5.4%	4.6%
Other businesses	5.9%	-60.6%	-12.8%	5.0%	4.0%	4.0%
Total	5.9%	8.5%	7.0%	6.6%	7.3%	5.7%
Sales by brand growth (%)						
Haier, Leader & others	2.8%	0.6%	2.4%	5.2%	8.3%	6.5%
Casarte	17.6%	48.0%	15.0%	13.0%	15.0%	10.0%
GEA	10.0%	14.0%	6.5%	4.0%	6.0%	5.0%
Candy	2.0%	13.0%	9.0%	4.0%	4.0%	3.0%
Others	6.9%	10.9%	19.6%	14.0%	4.8%	4.2%
Total	5.9%	8.5%	7.0%	6.6%	7.3%	5.7%
GP margin (%)	29.0%	30.5%	30.6%	30.6%	30.8%	30.9%
Costs breakdown						
Selling & distribution expenses	16.0%	16.1%	15.9%	15.5%	15.4%	15.2%
Admin expenses	8.6%	8.9%	8.9%	9.1%	8.8%	8.6%
Effective tax rate	16.5%	17.0%	17.2%	15.3%	15.3%	15.3%
NP margin (con. bus.)	5.4%	5.8%	6.1%	6.4%	6.9%	7.4%
NP growth (con. bus.)	25.5%	16.7%	11.5%	12.7%	16.0%	13.2%
NP att. margin	4.2%	5.7%	6.0%	6.4%	6.9%	7.4%
NP att. growth	8.2%	47.2%	12.6%	12.7%	16.0%	13.2%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	209,703	227,531	243,485	259,476	278,334	294,336
Cost of goods sold	(148,870)	(158,059)	(168,919)	(179,967)	(192,531)	(203,415)
Gross profit	60,833	69,472	74,566	79,509	85,804	90,921
Operating expenses	(51,571)	(56,784)	(60,275)	(63,896)	(67,485)	(70,001)
Selling expense	(33,641)	(36,554)	(38,598)	(40,343)	(42,900)	(44,695)
Admin expense	(11,070)	(11,873)	(12,178)	(13,692)	(14,009)	(14,121)
R&D expense	(6,860)	(8,357)	(9,499)	(9,860)	(10,577)	(11,185)
Others	0	0	0	0	0	0
Operating profit	12,537	13,956	16,369	17,818	20,685	23,422
Other income	3,275	1,268	2,078	2,206	2,366	2,502
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	16,503	18,295	20,907	22,384	24,232	26,969
Depreciation	(3,255)	(3,433)	(3,632)	(3,659)	(2,641)	(2,641)
Other amortisation	(711)	(906)	(906)	(906)	(906)	(906)
Interest income	719	788	834	967	1,105	1,255
Interest expense	(1,321)	(714)	(995)	(995)	(995)	(995)
Other income/expense	1,620	1,886	1,582	1,816	1,948	2,060
Pre-tax profit	13,555	15,916	17,790	19,607	22,743	25,742
Income tax	(2,232)	(2,699)	(3,058)	(3,000)	(3,480)	(3,939)
Minority interest	(2,446)	(150)	(21)	(22)	(24)	(25)
Net profit	11,323	13,217	14,732	16,607	19,263	21,804
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	114,246	123,614	136,579	149,534	163,908	178,330
Cash & equivalents	45,635	44,958	52,772	60,523	68,877	78,135
Account receivables	30,066	27,986	29,948	31,915	34,235	36,203
Inventories	29,447	39,863	42,602	45,388	48,557	51,302
Prepayment	5,212	6,415	6,865	7,316	7,847	8,298
ST bank deposits	0	0	0	0	0	0
Other current assets	3,886	4,392	4,392	4,392	4,392	4,392
Non-current assets	89,196	93,846	97,696	102,538	109,009	115,998
PP&E	24,815	26,981	31,238	35,985	42,363	49,259
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	8,957	8,498	7,592	6,685	5,779	4,873
Other non-current assets	55,424	58,367	58,867	59,867	60,867	61,867
Total assets	203,442	217,460	234,275	252,071	272,916	294,329
Current liabilities	109,474	124,926	131,329	137,816	145,269	151,687
Short-term borrowings	12,643	17,968	17,968	17,968	17,968	17,968
Account payables	57,539	67,368	71,997	76,706	82,061	86,700
Tax payable	1,371	1,305	1,305	1,305	1,305	1,305
Other current liabilities	37,921	38,285	40,059	41,838	43,935	45,715
Non-current liabilities	27,169	12,722	12,743	12,765	12,789	12,815
Long-term borrowings	11,858	3,075	3,075	3,075	3,075	3,075
Other non-current liabilities	15,311	9,647	9,668	9,690	9,714	9,740
Total liabilities	136,643	137,648	144,072	150,582	158,058	164,502
Share capital	9,028	9,399	9,399	9,399	9,399	9,399
Retained earnings	55,304	70,413	75,506	86,220	98,649	112,718
Other reserves	2,467	0	5,298	5,871	6,810	7,709
Total shareholders equity	66,799	79,812	90,203	101,490	114,858	129,826
Total equity and liabilities	66,799	79,812	90,203	101,490	114,858	129,826

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	13,555	15,916	17,790	19,607	22,743	25,742
Depreciation & amortization	3,966	4,339	4,539	4,566	3,547	3,547
Tax paid	(8,019)	(8,309)	(3,058)	(3,000)	(3,480)	(3,939)
Change in working capital	1,928	4,418	1,252	1,283	1,432	1,254
Others	6,169	6,765	995	995	995	995
Net cash from operations	17,599	23,130	21,518	23,451	25,237	27,600
Investing						
Capital expenditure	(7,592)	(7,372)	(7,889)	(8,407)	(9,018)	(9,536)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	2,328	(695)	(500)	(1,000)	(1,000)	(1,000)
Net cash from investing	(5,264)	(8,067)	(8,389)	(9,407)	(10,018)	(10,536)
Financing						
Dividend paid	(4,980)	(3,411)	(4,320)	(5,298)	(5,871)	(6,810)
Net borrowings	(277)	(1,997)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	(3,221)	0	0	0	0
Others	4,231	(2,062)	(995)	(995)	(995)	(995)
Net cash from financing	(1,026)	(10,691)	(5,315)	(6,293)	(6,866)	(7,805)
Net change in cash						
Cash at the beginning of the year	43,588	45,635	44,958	52,772	60,523	68,877
Exchange difference	(9,262)	(5,049)	0	0	0	0
Others	11,309	4,372	7,814	7,751	8,354	9,258
Cash at the end of the year	45,635	44,958	52,772	60,523	68,877	78,135
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	5.9%	8.5%	7.0%	6.6%	7.3%	5.7%
Gross profit	3.8%	14.2%	7.3%	6.6%	7.9%	6.0%
Operating profit	24.3%	11.3%	17.3%	8.9%	16.1%	13.2%
EBITDA	19.2%	10.9%	14.3%	7.1%	8.3%	11.3%
Net profit	25.5%	16.7%	11.5%	12.7%	16.0%	13.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	29.0%	30.5%	30.6%	30.6%	30.8%	30.9%
Operating margin	6.0%	6.1%	6.7%	6.9%	7.4%	8.0%
EBITDA margin	7.9%	8.0%	8.6%	8.6%	8.7%	9.2%
Return on equity (ROE)	19.7%	18.0%	17.3%	17.3%	17.8%	17.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.0	1.0	1.0	1.1	1.1	1.2
Receivable turnover days	52.3	44.9	44.9	44.9	44.9	44.9
Inventory turnover days	72.2	92.1	92.1	92.1	92.1	92.1
Payable turnover days	141.1	155.6	155.6	155.6	155.6	155.6
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	15.6	14.5	13.9	12.3	10.6	9.4
P/E (diluted)	15.6	14.5	13.9	12.3	10.6	9.4
P/B	2.3	2.9	2.3	2.0	1.8	1.6
P/CFPS	8.5	10.3	9.8	8.6	8.0	7.3
Div yield (%)	2.2	1.9	2.5	3.3	3.8	4.3

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

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