

Haier Smart Home (6690 HK)

Resilient growth and margins amid headwinds

We maintain BUY and revised down TP to HK\$ 27.30. Even though Haier's 3Q22 results were inline and we continued to be impressed by its strategy and outperformance, we still need to take into account of industry downturn. Therefore we cut our TP to HK\$ 27.30, based on 11x FY23E P/E (from 14x due to sector de-rating). Its current valuation is attractive at 8x FY23E P/E, vs Haier-A's 11x, Midea's 8x and China peers average of 10x, given 15% NP CAGR in FY21-24E.

■ **3Q22 results roughly inline.** Sales/ net profit grew by 9%/ 34% YoY to RMB 62.9bn/ 3.7bn, inline with BBG est. Domestic sales growth was resilient at 9%, driven by all categories, such as fridge (+10%), washing machines (+7%), water heater (+8%) and air-con (+9%) while overseas sales growth had also increased by 9% YoY, consisting of a rather strong EU (+28%), SEA (+27%), AU (+8%). We believe the main drivers remain to be: 1) successful premiumization, where sales growth for high-end products in US/ EU/ AU are 40%+/ 30%+/ 40%+ and 2) effective efficiency gains thru digitalization in many functions and processes within the Company (e.g. on R&D, sourcing, production, supply chain). Therefore, GP margin and OP margin for domestic/ overseas market increased to 34.4%/ 27.8% (+0.6ppt/ flat) and 7.3%/ 4.5% (+1.0ppt/ +0.5ppt).

■ **Relatively soft for Casarte in 3Q22, but long-term growth is still intact.** Casarte sales grew by 10%+ in 3Q22, consisting of strong growth in Jul/ Aug and slowdown in Sep 2022, due to: 1) more COVID-19 outbreaks, 2) shrinking sales from channels like GOME and 3) a weak property market. However, management is still foreseeing a similar growth in 4Q22E, supported by self-upgrades like: 1) further expansions into high-end shopping malls, 2) more sales from customized solutions, 3) better product launches in categories like air-con, water heater, TV and lifestyle appliance. Moreover, roadmap for Casarte oversea expansion is already set and will be carried out step by step.

■ **Remain cautious about the industry, but much better for Haier on 4Q22E and FY23E outlook.** We believe Haier can still outperform and be able to achieve their target (15%+ net profit growth), thanks to: 1) ASP hike in overseas market (even in EU), 2) widening client base in US, 3) GP margin improvements boosted by declining raw material prices (effect to be way more meaningful since 4Q22E), 4) further localization with ramp up of new factories in EU (e.g. fridges in Romania, dishes washers and dryers in Turkey), 5) even higher cost-consciousness among all the departments within the Company and 6) more in-house productions for spare parts and accessories.

■ **Maintain BUY but cut TP to HK\$ 27.30.** Our new TP is based on 11x FY23E P/E (from 14x). It is trading at 8x FY23E P/E, not demanding in our view, vs China peers average of 10x and ~30% discounts to Haier-A's 11x FY23E 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	1.632	1.894	2.167
P/E (x)	12.4	11.7	9.4	7.9	7.4
P/B (x)	1.4	1.5	1.3	1.2	1.0
Yield (%)	3.0	2.9	4.2	5.1	5.4
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\$27.30
(Previous TP	HK\$34.74)
Up/Downside	+39.0%
Current Price	HK\$19.64

China Home Appliance Sector

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Stock Data

Mkt Cap (HK\$ mn)	199,294
Avg 3 mths t/o (HK\$ mn)	194.94
52w High/Low (HK\$)	33.85/ 19.52
Total Issued Shares (mn)	2,865.8

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%

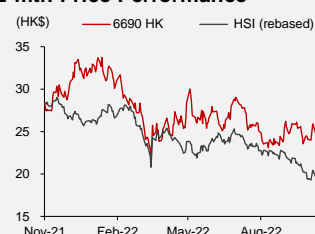
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.0%	-1.5%
3-mth	-18.5%	10.5%
6-mth	-28.0%	2.2%
12-mth	-29.7%	20.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

Haier Smart Home (6690 HK, BUY) – Solid guidance and edges despite headwinds – 6 Sep 2022

- **Heat pump is a rising star.** Separately speaking, benefiting from the heat wave experienced in EU, the demand of heat pump has surged, therefore Haier is likely to ramp up its sales volume from around 50K units this year to about 400K units in FY23E, since this category fits perfectly in the framework of carbon reductions and energy-savings and has fairly bright future.

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	250,669	268,808	286,733	0.0%	0.0%	0.0%
Gross profit	76,621	82,997	88,081	76,621	82,997	88,081	0.0%	0.0%	0.0%
EBIT	16,932	20,144	21,281	16,932	20,144	21,281	0.0%	0.0%	0.0%
Net profit att.	15,613	18,596	19,782	15,613	18,596	19,782	0.0%	0.0%	0.0%
Diluted EPS (RMB)	1.729	2.060	2.191	1.729	2.060	2.191	0.0%	0.0%	0.0%
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%	6.8%	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	247,729	269,565	292,185	1.2%	-0.3%	-1.9%
Gross profit	76,621	82,997	88,081	77,787	85,093	92,798	-1.5%	-2.5%	-5.1%
EBIT	16,932	20,144	21,281	17,526	20,372	23,290	-3.4%	-1.1%	-8.6%
Net profit att.	15,613	18,596	19,782	15,283	17,588	19,950	2.2%	5.7%	-0.8%
Diluted EPS (RMB)	1.729	2.060	2.191	1.632	1.894	2.167	5.9%	8.8%	1.1%
Gross margin	30.6%	30.9%	30.7%	31.4%	31.6%	31.8%	-0.8ppt	-0.7ppt	-1ppt
EBIT margin	6.8%	7.5%	7.4%	7.1%	7.6%	8.0%	-0.3ppt	-0.1ppt	-0.5ppt
Net profit att. margin	6.2%	6.9%	6.9%	6.2%	6.5%	6.8%	0.1ppt	0.4ppt	0.1ppt

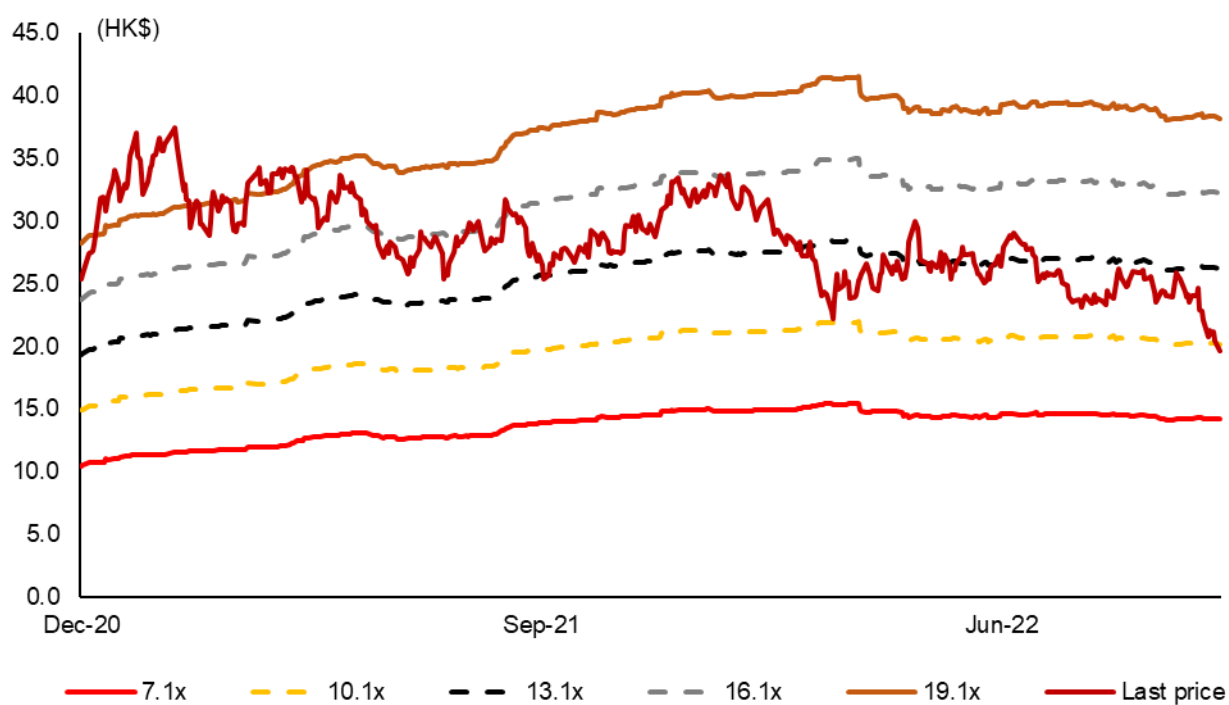
Source: Bloomberg, CMBIGM estimates

Valuation

Figure 3: Peers' valuation

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
A+ H shares Home Appliances - White goods, Kitchen and Small Appliances														
Haier SH - H	6690 HK	BUY	27.30	19.64	39%	199,179	Dec-21	9.4	7.9	1.5	1.3	17.5	0.6	4.2
Gree Electronics	000651 CH	NR	n/a	28.67	n/a	173,485	Dec-21	6.4	5.8	1.4	1.3	22.7	1.0	8.6
Haier SH - A	600690 CH	NR	n/a	20.80	n/a	199,179	Dec-21	12.9	11.2	2.1	1.9	17.0	(8.6)	2.9
Midea Group	000333 CH	BUY	67.79	40.18	69%	302,037	Dec-21	8.9	7.9	1.9	1.7	22.1	1.3	4.7
Hisense JA	921 HK	NR	n/a	6.50	n/a	13,390	Dec-21	6.4	5.1	0.7	0.7	11.6	0.3	6.6
Hisense HA	000921 CH	NR	n/a	a	n/a	13,390	Dec-21	11.0	8.8	1.3	1.2	12.1	0.5	2.7
Whirlpool China	600983 CH	NR	n/a	6.68	n/a	5,501	Dec-21	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Zhejiang Aishida	002403 CH	NR	n/a	7.26	n/a	2,657	Dec-21	n/a	n/a	1.2	1.2	(2.4)	n/a	n/a
Bear Electric	002959 CH	NR	n/a	57.18	n/a	9,585	Dec-21	25.2	20.3	3.8	3.3	15.3	1.4	1.9
Ecovacs Robotics	603486 CH	NR	n/a	58.30	n/a	35,927	Dec-21	15.2	12.0	4.9	3.7	33.2	1.0	2.2
JS Global Lifestyle	1691 HK	BUY	9.51	6.32	50%	22,086	Dec-21	6.5	5.6	1.3	1.1	19.9	0.7	6.0
Joyoung Co	002242 CH	NR	n/a	14.54	n/a	11,984	Dec-21	14.7	12.7	2.6	2.4	17.4	2.3	5.9
Hangzhou Robam	002508 CH	NR	n/a	20.50	n/a	20,905	Dec-21	10.3	9.0	1.9	1.7	19.0	0.6	3.4
Zhejiang Supor	002032 CH	NR	n/a	40.01	n/a	34,765	Dec-21	15.5	13.8	4.0	3.6	25.4	2.5	5.1
Vatti Corporation	002035 CH	NR	n/a	5.67	n/a	5,164	Dec-21	9.8	8.6	1.3	1.2	13.9	0.2	3.9
Xinbao Electrica	002705 CH	NR	n/a	15.99	n/a	14,205	Dec-21	12.0	10.5	1.9	1.6	15.7	0.7	3.0
Avg.								11.7	9.9	2.1	1.9	17.4	0.3	4.4
Med.								10.6	8.9	1.9	1.6	17.4	0.7	4.1
International Home Appliances - White goods, Kitchen and Small Appliances														
Whirlpool Corp	WHR US	NR	n/a	138	n/a	59,166	Dec-21	7.3	8.4	1.9	1.7	22.9	(0.5)	4.9
Ingersoll-Rand Plc	IR US	NR	n/a	51	n/a	160,135	Dec-21	22.1	20.2	2.3	2.2	10.2	0.8	0.1
Smith (A.O.) Corp	AOS US	NR	n/a	55	n/a	65,740	Dec-21	17.8	17.1	4.9	4.5	27.6	3.3	2.1
Helen Of Troy	HELE US	NR	n/a	93	n/a	17,575	Feb-22	10.1	9.8	1.5	1.3	16.4	1.3	n/a
Irobot Corp	IRBT US	NR	n/a	56	n/a	12,044	Jan-22	32.3	32.3	2.2	2.3	5.4	0.4	0.0
Electrolux Ab	ELUXB SS	NR	n/a	136	n/a	27,518	Dec-21	42.2	10.6	2.3	2.1	5.1	(10.1)	4.7
Seb Sa	SK FP	NR	n/a	66	n/a	28,307	Dec-21	11.3	9.3	1.2	1.1	10.6	(2.2)	2.7
Koninklijke Philips	PHIA NA	NR	n/a	13	n/a	88,484	Dec-21	15.7	10.6	0.9	0.9	0.3	(0.6)	6.8
Daikin Industries	6367 JP	NR	n/a	22385	n/a	346,563	Mar-22	25.4	22.9	3.0	2.8	12.3	6.4	1.0
Panasonic Corp	6752 JP	NR	n/a	1065	n/a	137,981	Mar-22	10.1	8.6	0.8	0.7	7.5	(12.3)	2.9
Sony Corp	6758 JP	NR	n/a	9988	n/a	665,289	Mar-22	14.7	13.4	1.6	1.4	11.3	(3.5)	0.7
Hitachi	6501 JP	NR	n/a	6760	n/a	345,833	Mar-22	10.4	11.6	1.4	1.3	13.6	(1.5)	2.0
Sharp Corp	6753 JP	NR	n/a	891	n/a	30,609	Mar-22	12.4	12.2	1.2	1.1	9.5	(0.5)	4.0
Fujitsu General	6755 JP	NR	n/a	3400	n/a	19,636	Mar-22	27.4	22.9	2.6	2.4	9.9	0.5	1.0
Lg Electronics	066570 KS	NR	n/a	81600	n/a	73,421	Dec-21	7.0	6.9	0.7	0.7	11.3	0.2	1.3
Samsung Elect.	005930 KS	NR	n/a	59400	n/a	1,949,677	Dec-21	10.3	13.7	1.2	1.1	12.1	(2.2)	2.4
Woongjin Coway	021240 KS	NR	n/a	55300	n/a	22,439	Dec-21	8.1	7.8	1.8	1.5	23.8	(7.3)	2.4
Avg.								16.7	14.0	1.8	1.7	12.3	(1.6)	2.4
Med.								12.4	11.6	1.6	1.4	11.3	(0.5)	2.2

Source: Bloomberg, CMBIGM estimates

Figure 4: 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	30,424	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

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	209,703	227,531	250,669	268,808	286,733
Food Solutions	33,198	39,855	46,111	50,295	54,282
Air Solutions	21,861	27,409	29,328	32,847	35,803
Clothing & Water Solutions	32,316	38,396	44,155	46,661	50,243
Overseas & Other business	122,328	121,871	131,075	139,005	146,404
Cost of goods sold	(148,870)	(158,059)	(174,048)	(185,810)	(198,652)
Gross profit	60,833	69,472	76,621	82,997	88,081
Other net income	3,275	1,268	2,131	2,554	2,724
Operating expenses	(51,571)	(56,784)	(61,819)	(65,407)	(69,523)
S & D costs	(33,641)	(36,554)	(40,401)	(42,732)	(45,357)
Admin exp. (ex- R&D)	(11,070)	(12,949)	(13,396)	(14,073)	(14,991)
R & D exp.	(6,860)	(7,281)	(8,021)	(8,602)	(9,175)
Other operating exp.	-	-	-	-	-
EBIT	12,537	13,956	16,932	20,144	21,281
Finance costs, net	(602)	74	87	246	405
JV & associates	-	-	-	-	-
Exceptional	1,620	1,886	1,755	1,882	2,007
Pre-tax profit	13,555	15,916	18,774	22,272	23,694
Income tax	(2,232)	(2,699)	(2,910)	(3,408)	(3,625)
Less: Minority interests	2,446	150	251	269	287
Net profit	8,877	13,067	15,613	18,596	19,782

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	12,537	13,956	16,932	20,144	21,281
D&A	33,641	36,554	40,401	42,732	45,357
Change in working capital	1,928	4,418	1,857	1,322	1,518
Income tax paid	(8,019)	(8,309)	(2,910)	(3,408)	(3,625)
Others	(22,488)	(23,489)	(33,718)	(35,620)	(38,554)
Net cash from operating	17,599	23,130	22,563	25,170	25,977
Capex & investments	(7,272)	(7,995)	(8,622)	(9,709)	(10,290)
Associated companies	-	-	-	-	-
Interest received	-	-	-	-	-
Others	2,008	(72)	-	-	-
Net cash from investing	(5,264)	(8,067)	(8,622)	(9,709)	(10,290)
Equity raised	-	(3,221)	-	-	-
Change of Debts	(277)	(1,997)	-	-	-
Dividend paid	(4,980)	(3,411)	(4,320)	(5,184)	(6,174)
Others	4,231	(2,062)	(772)	(772)	(772)
Net cash from financing	(1,026)	(10,691)	(5,092)	(5,956)	(6,946)
Net change in cash	11,309	4,372	8,849	9,504	8,741
Beginning cash balance	43,588	45,635	44,958	53,807	63,311
Exchange difference	(9,262)	(5,049)	-	-	-
Cash at the end of the year	45,635	44,958	53,807	63,311	72,052

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	89,196	93,846	98,398	103,896	110,569
Fixed asset	24,815	26,981	31,940	37,344	43,922
Intangible assets & goodwill	31,475	30,325	29,419	28,512	27,606
Prepaid lease payments	24,228	28,081	28,581	29,581	30,581
Interest in asso. & JV	-	-	-	-	-
Others	8,678	8,459	8,459	8,459	8,459
Current assets	114,246	123,614	139,994	155,207	169,897
Cash and cash equivalents	45,635	44,958	53,807	63,311	72,052
Inventories	29,447	39,863	43,896	46,862	50,101
Trade and other receivables	30,066	27,986	30,832	33,063	35,268
Prepayments	5,212	6,415	7,067	7,579	8,084
Others	3,886	4,392	4,392	4,392	4,392
Current liabilities	109,474	124,926	134,314	141,345	148,812
Borrowings	12,643	17,968	17,968	17,968	17,968
Trade payables	57,539	67,368	74,183	79,196	84,669
Accruals & other payables	22,519	25,305	27,878	29,896	31,889
Tax payables	1,371	1,305	1,305	1,305	1,305
Others	15,402	12,980	12,980	12,980	12,980
Non-current liabilities	25,874	11,450	11,450	11,450	11,450
Borrowings	11,858	3,075	3,075	3,075	3,075
Deferred income	-	-	-	-	-
Deferred tax	1,900	2,122	2,122	2,122	2,122
Others	12,116	6,253	6,253	6,253	6,253
Minority Interest	1,295	1,272	1,523	1,791	2,078
Total net assets	66,799	79,812	91,105	104,517	118,125
Shareholders' equity	66,799	79,812	91,105	104,517	118,125

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Food Solutions	15.8	17.5	18.4	18.7	18.9
Air Solutions	10.4	12.0	11.7	12.2	12.5
Clothing & Water Solutions	15.4	16.9	17.6	17.4	17.5
Overseas & Other business	58.3	53.6	52.3	51.7	51.1
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	29.0	30.5	30.6	30.9	30.7
Operating margin	6.0	6.1	6.8	7.5	7.4
Pre-tax margin	6.5	7.0	7.5	8.3	8.3
Net margin	4.2	5.7	6.2	6.9	6.9
Effective tax rate	16.5	17.0	15.5	15.3	15.3
Balance sheet ratios					
Current ratio (x)	1.0	1.0	1.0	1.1	1.1
Quick ratio (x)	0.8	0.7	0.7	0.8	0.8
Cash ratio (x)	0.4	0.4	0.4	0.4	0.5
Inventory turnover days	72	92	92	92	92
Trade receivables days	52	45	45	45	45
Trade payables days	141	156	156	156	156
Total debt / total equity ratio (%)	48	28	24	21	19
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	13.3	16.4	17.1	17.8	16.7
ROA	4.4	6.0	6.5	7.2	7.1
Per share					
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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