

Haier Smart Home (6690 HK)

Confident on FY24E due to internal drivers

3Q23 was roughly inline, but that was already impressive given the tough environment. FY23E guidance should be intact and FY24E growth could stay fast, but all the growth would be driven by internal improvement. Based on the highly certain growth, we do think its current valuation of 11x FY23E P/E is not demanding at all, maintain BUY.

3Q23 result was roughly inline. Sales rose by 7% YoY to RMB 67bn in 3Q23, inline with BBG est., while net profit increased by 13% to RMB 4.2bn, also inline with BBG est. Net profit was 5% below CMBI est. just because of a higher-than-expected tax rate. Sales growth might have slowed down from 8% in 1H23. However, if we also consider the negative/ flattish industry growth in China/ US, high base last year and higher finance costs, Haier has already done a great job and gained more market share.

■ Stable outlook in 4Q23E and FY23E guidance should be maintained.

We believe the target of MSD to HSD sales growth and 10%+ net profit growth in FY23E should remain intact, supported by the low base in China in 4Q22 and sales acceleration in the EU (driven by strong product pipeline), even though the industry environment could stay rather promotional.

■ Still confident on China's growth in FY24E, but more from self-improvement.

Management expects the industry sales to stay sluggish in FY24E in China, but still see many internal growth drivers: 1) rapid growth from Casarte may resume, as it will wrap up its reforms in 4Q23E and will have more upgrades on its products and branding in FY24E, as well as more DTC transformation, 2) "Three wings bird"'s growth may become explosive (targeting RMB 5bn in FY23E and RMB 10bn in FY24E), thanks to better new products (after upgrades in R&D tools), better services (more seamless O2O services to clients) and higher efficiency (more integration with various BUs within Haier group etc.), 3) air-con business's reform, management is targeting 20%-25% sales CAGR, plus a gradual improvement in efficiency (from design to production to logistics), through increasing the mix of in-house production of different components (e.g. factory of compressor may start in FY24E and drive up around 1 ppt margin). Also, the margin can still be improved through driving up the productivity per labour (by digitalization) and more costs savings (e.g. on marketing).

■ Maintain BUY and cut TP to HK\$ 26.34.

We revised down our FY23E/ 24E/ 25E net profit estimates by 2%/ 4%/ 3% to factor in: 1) lower other income & gains, and 2) higher tax rate. Our new TP is based on 13x FY23E P/E (down from 15x, due to an even tougher industry outlook). It is trading at 11x FY23E P/E, still far below its 5-year average of 15x.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	227,531	243,485	262,045	281,040	298,670
YoY growth (%)	8.5	7.0	7.6	7.2	6.3
Operating profit (RMB mn)	13,956	16,369	19,049	21,670	23,985
Net profit (RMB mn)	13,217.0	14,732.0	16,762.1	19,257.3	21,525.9
EPS (Reported) (RMB)	1.39	1.57	1.79	2.06	2.30
YoY growth (%)	4.1	12.9	14.3	14.9	11.8
P/E (x)	13.1	12.6	11.1	9.6	8.6
P/B (x)	1.7	1.8	1.6	1.4	1.3
Yield (%)	1.9	2.5	3.4	3.9	4.4
ROE (%)	18.0	17.3	17.5	17.8	17.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$26.34

(Previous TP HK\$30.91)

Up/Downside 17.6%

Current Price HK\$22.40

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	209,149.6
Avg 3 mths t/o (HK\$ mn)	187.2
52w High/Low (HK\$)	30.70/20.55
Total Issued Shares (mn)	9337.0
Source: FactSet	

Shareholding Structure

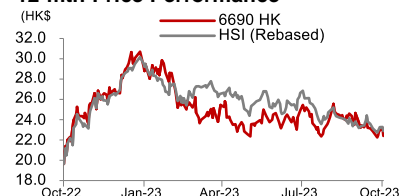
Haier Group Corp	18.8%
Green Court Capital Management	4.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-9.1%	-5.4%
3-mth	-12.0%	3.3%
6-mth	-12.0%	2.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **Opportunities are still there in the overseas market in FY24E.** We believe overseas market sales growth in FY24E can be boosted through: 1) product premiumization, new products launched from Colmo, Monogram and Café were very successful in the US market, 2) rollout of new Candy product series (including fridges, washing machines, kitchen appliances) with upgrade functions, where its ASP are roughly 40% higher than before, and may drive up GP margin by at least 5ppt, 3) penetration into the South East Asia (long-term sales target is as high as US\$ 3bn, capturing around 20% of the market shares (out of US\$ 20bn) and to become one of the top 3 brands. Moreover, margin-wise, we also see some room for improvements, thanks to: 1) continual capex investment (already over US\$ 2bn) on the smart production, smart logistics as well as management and operation systems and 2) stepping up on digitalization (in the factories, warehouses and in the logistic).

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	262,045	281,040	298,670	262,914	282,370	300,124	-0.3%	-0.5%	-0.5%
Gross profit	80,720	87,075	92,642	81,001	87,756	93,382	-0.3%	-0.8%	-0.8%
EBIT	19,049	21,670	23,985	18,900	22,083	24,427	0.8%	-1.9%	-1.8%
Net profit att.	16,739	19,233	21,500	17,026	19,946	22,155	-1.7%	-3.6%	-3.0%
Diluted EPS (RMB)	1.793	2.060	2.303	1.823	2.136	2.373	-1.7%	-3.6%	-3.0%
Gross margin	30.8%	31.0%	31.0%	30.8%	31.1%	31.1%	0ppt	-0.1ppt	-0.1ppt
EBIT margin	7.3%	7.7%	8.0%	7.2%	7.8%	8.1%	0.1ppt	-0.1ppt	-0.1ppt
Net profit att. margin	6.4%	6.8%	7.2%	6.5%	7.1%	7.4%	-0.1ppt	-0.2ppt	-0.2ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	262,045	281,040	298,670	263,011	283,779	307,164	-0.4%	-1.0%	-2.8%
Gross profit	80,720	87,075	92,642	82,832	90,440	98,332	-2.5%	-3.7%	-5.8%
EBIT	19,049	21,670	23,985	19,336	22,089	24,903	-1.5%	-1.9%	-3.7%
Net profit att.	16,739	19,233	21,500	16,778	19,238	21,782	-0.2%	0.0%	-1.3%
Diluted EPS (RMB)	1.793	2.060	2.303	1.784	2.035	2.308	0.5%	1.2%	-0.2%
Gross margin	30.8%	31.0%	31.0%	31.5%	31.9%	32.0%	-0.7ppt	-0.9ppt	-1ppt
EBIT margin	7.3%	7.7%	8.0%	7.4%	7.8%	8.1%	-0.1ppt	-0.1ppt	-0.1ppt
Net profit att. margin	6.4%	6.8%	7.2%	6.4%	6.8%	7.1%	0ppt	0.1ppt	0.1ppt

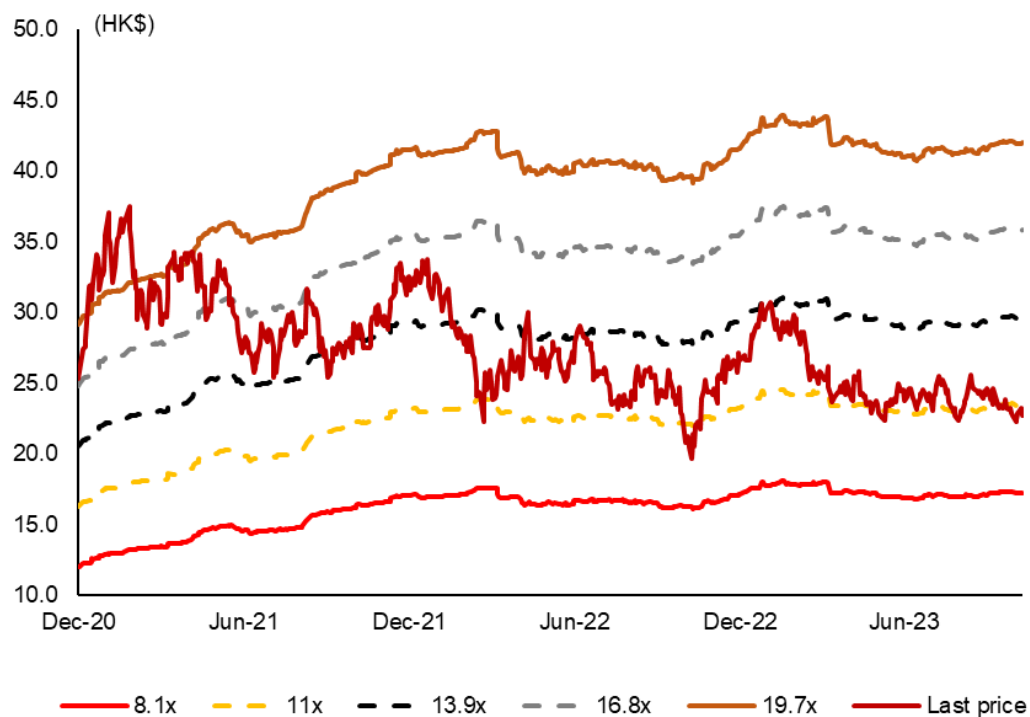
Source: Bloomberg, CMBIGM estimates

Valuation

Figure 3: Peers' valuation

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per.(%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY2E	FY1E	FY1E	FY1E	FY1E
A+ H shares Home Appliances - White goods, Kitchen and Small Appliances														
Haier SH - H	6690 HK	BUY	26.34	22.40	18%	216,384	Dec-22	11.1	9.6	1.6	16.6	0.8	3.6	(15.8)
Gree Electronics	000651 CH	NR	n/a	33.93	n/a	204,332	Dec-22	7.1	6.5	1.7	24.5	1.2	6.9	5.0
Haier SH - A	600690 CH	NR	n/a	22.22	n/a	216,383	Dec-22	12.4	10.9	2.0	16.3	1.2	3.0	(9.2)
Midea Group	000333 CH	BUY	66.70	52.92	26%	397,446	Dec-22	11.0	10.0	2.3	21.3	1.5	4.9	2.2
Hisense JA	921 HK	NR	n/a	21.50	n/a	33,515	Dec-22	9.4	8.1	2.1	22.6	0.3	4.5	149.7
Hisense HA	000921 CH	NR	n/a	23.80	n/a	33,514	Dec-22	12.2	10.4	2.5	20.4	0.4	4.5	80.7
Whirlpool China	600983 CH	NR	n/a	8.02	n/a	6,573	Dec-22	n/a	n/a	n/a	n/a	n/a	n/a	15.9
Zhejiang Aishida	002403 CH	NR	n/a	8.27	n/a	3,013	Dec-22	n/a	165.4	1.4	(0.0)	n/a	n/a	6.7
Bear Electric	002959 CH	NR	n/a	54.58	n/a	9,139	Dec-22	17.7	14.7	3.1	17.9	1.0	2.4	(9.5)
Ecovacs Robotics	603486 CH	NR	n/a	43.16	n/a	26,612	Dec-22	16.9	13.7	3.3	19.7	3.5	1.9	(40.8)
JS Global Lifestyle	1691 HK	BUY	1.84	1.23	50%	4,274	Dec-22	1.8	2.2	0.3	8.9	(0.4)	7.6	(18.1)
Joyoung Co	002242 CH	NR	n/a	13.35	n/a	10,950	Dec-22	17.0	14.7	2.9	17.4	1.6	4.6	(19.0)
Hangzhou Robam	002508 CH	NR	n/a	23.10	n/a	23,444	Dec-22	11.7	10.5	2.0	17.1	1.1	2.7	(16.8)
Zhejiang Supor	002032 CH	NR	n/a	50.13	n/a	43,247	Dec-22	18.4	16.5	5.7	30.6	2.8	4.1	1.4
Vatti Corporation	002035 CH	NR	n/a	5.89	n/a	5,339	Dec-22	9.9	8.6	1.3	13.1	0.2	5.0	6.3
Xinbao Electrica	002705 CH	NR	n/a	16.78	n/a	14,835	Dec-22	13.7	12.0	1.8	13.1	2.0	2.3	0.8
Avg.								12.2	20.9	2.3	17.3	1.2	4.1	8.7
Med.								12.0	10.5	2.0	17.4	1.2	4.3	1.1
International Home Appliances - White goods, Kitchen and Small Appliances														
Whirlpool Corp	WHR US	NR	n/a	102	n/a	43,964	Dec-22	6.4	6.5	2.6	37.3	(0.0)	6.8	(27.6)
Ingersoll-Rand Plc	IR US	NR	n/a	60	n/a	190,922	Dec-22	21.8	19.8	2.5	11.9	0.7	0.1	15.5
Smith (A.O.) Corp	AOS US	NR	n/a	70	n/a	81,011	Dec-22	18.5	17.5	5.7	31.4	0.5	1.8	21.6
Helen Of Troy	HELE US	NR	n/a	97	n/a	18,001	Feb-23	11.0	9.8	1.4	16.1	0.5	n/a	(12.6)
Irobot Corp	IRBT US	NR	n/a	33	n/a	7,129	Dec-22	n/a	n/a	n/a	(38.0)	n/a	0.0	(31.6)
Electrolux Ab	ELUXB SS	NR	n/a	94	n/a	18,782	Dec-22	n/a	10.0	1.7	(7.8)	n/a	3.1	(33.3)
Seb Sa	SK FP	NR	n/a	93	n/a	42,511	Dec-22	12.7	10.6	1.5	12.0	0.6	2.7	18.3
Koninklijke Philips	PHIA NA	NR	n/a	18	n/a	137,610	Dec-22	14.6	12.6	1.3	3.4	(0.1)	4.8	33.2
Daikin Industries	6367 JP	NR	n/a	21630	n/a	328,603	Mar-23	22.5	20.2	2.6	11.9	3.2	1.2	7.1
Panasonic Corp	6752 JP	NR	n/a	1309	n/a	166,509	Mar-23	7.4	8.6	0.8	11.6	0.6	2.7	17.9
Sony Corp	6758 JP	NR	n/a	12425	n/a	812,115	Mar-23	16.9	15.0	2.0	12.2	6.9	0.6	23.8
Hitachi	6501 JP	NR	n/a	9477	n/a	455,415	Mar-23	16.4	15.2	1.7	10.5	(8.0)	1.6	41.6
Sharp Corp	6753 JP	NR	n/a	940	n/a	31,678	Mar-23	38.8	18.1	2.4	5.3	(0.3)	1.6	(0.6)
Fujitsu General	6755 JP	NR	n/a	2680	n/a	15,192	Mar-23	22.5	19.7	2.0	9.7	1.1	1.3	(15.3)
Lg Electronics	066570 KS	NR	n/a	99700	n/a	94,445	Dec-22	10.2	6.7	0.8	8.6	0.3	0.8	15.3
Samsung Elect.	005930 KS	NR	n/a	66900	n/a	2,311,922	Dec-22	50.6	15.4	1.3	2.6	(5.7)	2.1	21.0
Woongjin Coway	021240 KS	NR	n/a	43200	n/a	18,456	Dec-22	6.8	6.3	1.2	18.9	2.4	3.1	(22.7)
Avg.								18.5	13.2	2.0	9.3	0.2	2.1	4.2
Med.								16.4	13.8	1.7	11.6	0.5	1.7	15.3

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	30,562	36,842	39,010	41,741	44,663	47,342
Kitchen appliances	2,636	3,013	3,114	3,332	3,599	3,886
Air-conditioners	21,861	27,409	28,384	34,061	39,851	45,032
Laundry appliances	22,483	25,917	27,076	27,888	29,283	30,747
Water appliances	9,833	12,479	13,542	14,896	15,939	17,214
Overseas	100,044	113,090	124,704	133,620	140,939	147,411
Other businesses	22,284	8,781	7,655	6,507	6,767	7,038
Total	209,703	227,531	243,485	262,045	281,040	298,670
Sales by segment growth (%)						
Mainland China						
Refrigerators/freezers	0.5%	20.5%	5.9%	7.0%	7.0%	6.0%
Kitchen appliances	22.7%	14.3%	3.4%	7.0%	8.0%	8.0%
Air-conditioners	7.3%	25.4%	3.6%	20.0%	17.0%	13.0%
Laundry appliances	1.7%	15.3%	4.5%	3.0%	5.0%	5.0%
Water appliances	3.3%	26.9%	8.5%	10.0%	7.0%	8.0%
Overseas	8.3%	13.0%	10.3%	7.1%	5.5%	4.6%
Other businesses	5.9%	-60.6%	-12.8%	-15.0%	4.0%	4.0%
Total	5.9%	8.5%	7.0%	7.6%	7.2%	6.3%
Sales by brand growth (%)						
Haier, Leader & others	2.8%	0.6%	2.4%	7.4%	8.2%	7.6%
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%	14.8%	4.9%	4.3%
Total	5.9%	8.5%	7.0%	7.6%	7.2%	6.3%
GP margin (%)	29.0%	30.5%	30.6%	30.8%	31.0%	31.0%
Costs breakdown						
Selling & distribution expenses	16.0%	16.1%	15.9%	15.6%	15.4%	15.2%
Admin expenses	8.6%	8.9%	8.9%	8.8%	8.7%	8.7%
Effective tax rate	16.5%	17.0%	17.2%	17.3%	16.8%	16.3%
NP margin (con. bus.)	5.4%	5.8%	6.1%	6.4%	6.9%	7.2%
NP growth (con. bus.)	25.5%	16.7%	11.5%	13.8%	14.9%	11.8%
NP att. margin	4.2%	5.7%	6.0%	6.4%	6.8%	7.2%
NP att. growth	8.2%	47.2%	12.6%	13.8%	14.9%	11.8%

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	262,045	281,040	298,670
Cost of goods sold	(148,870)	(158,059)	(168,919)	(181,324)	(193,965)	(206,028)
Gross profit	60,833	69,472	74,566	80,720	87,075	92,642
Operating expenses	(51,571)	(56,784)	(60,275)	(63,899)	(67,794)	(71,196)
Selling expense	(33,641)	(36,554)	(38,598)	(40,941)	(43,280)	(45,278)
Admin expense	(11,070)	(11,873)	(12,178)	(13,001)	(13,835)	(14,569)
R&D expense	(6,860)	(8,357)	(9,499)	(9,958)	(10,680)	(11,349)
Others	0	0	0	0	0	0
Operating profit	12,537	13,956	16,369	19,049	21,670	23,985
Other income	3,275	1,268	2,078	2,227	2,389	2,539
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	16,503	18,295	20,907	23,615	25,217	27,532
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	971	1,114	1,265
Interest expense	(1,321)	(714)	(995)	(1,324)	(1,324)	(1,324)
Other income/expense	1,620	1,886	1,582	1,572	1,686	1,792
Pre-tax profit	13,555	15,916	17,790	20,269	23,146	25,718
Income tax	(2,232)	(2,699)	(3,058)	(3,506)	(3,888)	(4,192)
Minority interest	(2,446)	(150)	(21)	(23)	(24)	(26)
Net profit	11,323	13,217	14,732	16,762	19,257	21,526
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	114,246	123,614	136,579	150,714	165,249	180,207
Cash & equivalents	45,635	44,958	52,772	60,972	69,448	78,698
Account receivables	30,066	27,986	29,948	32,231	34,567	36,736
Inventories	29,447	39,863	42,602	45,731	48,919	51,961
Prepayment	5,212	6,415	6,865	7,388	7,924	8,421
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	102,621	109,180	116,310
PP&E	24,815	26,981	31,238	36,068	42,534	49,570
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	253,335	274,429	296,517
Current liabilities	109,474	124,926	131,329	138,680	146,181	153,283
Short-term borrowings	12,643	17,968	17,968	17,968	17,968	17,968
Account payables	57,539	67,368	71,997	77,284	82,672	87,813
Tax payable	1,371	1,305	1,305	1,305	1,305	1,305
Other current liabilities	37,921	38,285	40,059	42,123	44,236	46,197
Non-current liabilities	27,169	12,722	12,743	12,766	12,790	12,816
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	9,691	9,715	9,741
Total liabilities	136,643	137,648	144,072	151,446	158,971	166,099
Share capital	9,028	9,399	9,399	9,399	9,399	9,399
Retained earnings	55,304	70,413	75,506	86,320	98,745	112,634
Other reserves	2,467	0	5,298	5,925	6,808	7,611
Total shareholders equity	66,799	79,812	90,203	101,644	114,952	129,644
Total equity and liabilities	203,442	217,460	234,275	253,091	273,923	295,743

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	13,555	15,916	17,790	20,269	23,146	25,718
Depreciation & amortization	3,966	4,339	4,539	4,566	3,547	3,547
Tax paid	(8,019)	(8,309)	(3,058)	(3,506)	(3,888)	(4,192)
Change in working capital	1,928	4,418	1,252	1,417	1,440	1,394
Others	6,169	6,765	995	1,568	1,586	1,592
Net cash from operations	17,599	23,130	21,518	24,312	25,830	28,059
Investing						
Capital expenditure	(7,592)	(7,372)	(7,889)	(8,490)	(9,106)	(9,677)
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)	(9,490)	(10,106)	(10,677)
Financing						
Dividend paid	(4,980)	(3,411)	(4,320)	(5,298)	(5,925)	(6,808)
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)	(1,324)	(1,324)	(1,324)
Net cash from financing	(1,026)	(10,691)	(5,315)	(6,622)	(7,249)	(8,132)
Net change in cash						
Cash at the beginning of the year	43,588	45,635	44,958	52,772	60,972	69,448
Exchange difference	(9,262)	(5,049)	0	0	0	0
Others	11,309	4,372	7,814	8,200	8,475	9,250
Cash at the end of the year	45,635	44,958	52,772	60,972	69,448	78,698
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	5.9%	8.5%	7.0%	7.6%	7.2%	6.3%
Gross profit	3.8%	14.2%	7.3%	8.3%	7.9%	6.4%
Operating profit	24.3%	11.3%	17.3%	16.4%	13.8%	10.7%
EBITDA	19.2%	10.9%	14.3%	12.9%	6.8%	9.2%
Net profit	25.5%	16.7%	11.5%	13.8%	14.9%	11.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	29.0%	30.5%	30.6%	30.8%	31.0%	31.0%
Operating margin	6.0%	6.1%	6.7%	7.3%	7.7%	8.0%
EBITDA margin	7.9%	8.0%	8.6%	9.0%	9.0%	9.2%
Return on equity (ROE)	19.7%	18.0%	17.3%	17.5%	17.8%	17.6%
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	14.2	13.1	12.6	11.1	9.6	8.6
P/E (diluted)	14.2	13.1	12.6	11.1	9.6	8.6
P/B	1.6	1.7	1.8	1.6	1.4	1.3
P/CFPS	8.5	10.3	9.8	8.0	7.6	7.0
Div yield (%)	2.2	1.9	2.5	3.4	3.9	4.4

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

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