

# Midea Group (000333 CH)

## A rosy outlook for both domestic and export

3Q20 was a clear beat for Midea (even excluding the one-off investment and fair value gains) and we are more positive on 4Q20E given its highly competitive products and strong export order outlook. Therefore, we maintain BUY and lifted TP to RMB 95.24, based on 22x FY21E P/E (up from 20x), vs China/ Int'l peers' avg. of 21x/ 17x.

■ **3Q20 results was a strong beat.** Midea sales/ net profit att. increased by 16%/ 32% YoY to RMB 77.7bn/ 8.1bn in 3Q20, beating BBG and CMBI's est. by 9%/ 32% and 8%/27%. We attributed the beat to: 1) robust sales growth (both domestic and export) and 2) significant investment and fair value gains. Noted that 3.4ppt YoY GP margin drop was mainly due to: 1) relocating of installation fees to COGS (from selling expenses) and 2) higher mix of e-commerce sales. Even excluding one-off investment and fair value gains, adjusted net profit att. still managed to grow by 19% YoY, still a beat.

■ **Both domestic and export sales growth accelerated, while A.C. was the main driver.** Midea's domestic and export sales growth speeded up to 22%/ 18% YoY, from 16% drop and 0% in 1H20. We believe the beat in domestic sales was mainly driven by exceptional market shares gain in the A.C. segment (+3ppt YoY to 33% in online and +6ppt YoY to 35% in offline in 3Q20, according to AVC.). We think innovations such as No Wind Feeling (无风感) and 180° Rotation Wind Channel (180° 旋转风道) were the key. While the beat in export sales was more an industry-wise pick up, in our view, where sales growth for fridge/ W.M./ A.C. were booming at 57%/ 17%/ 15% YoY in Sep 2020. We now forecast a 14% sales and 24% net profit growth in 4Q20E. However, despite the momentum, we should be aware of potential drags on GP margin due to recent CNY appreciation.

■ **KUKA business begins to recover.** KUKA registered a turnaround in profit in 3Q20, which is certainly a beat, and its sales growth in 4Q20E should likely resume as its future orders also recorded ~20% YoY growth.

■ **Maintain BUY but raised TP to RMB 95.24 (22% upside).** We reiterate BUY because of: 1) industry leading sales growth, 2) robust exports market and 3) continual sector turnaround and re-rating. We fine-tuned FY20E/ 21E/ 22E NP by 7%/ 0%/ 0% to factor in better sales growth but a weaker GP margin. Our new TP is based on 22x FY21E P/E (up from 20x due to stronger than peers' growth). The counter now trades at 18x 21E P/E (vs China peers' avg. of 21x) or 1.9x PEG (vs China peers' 2.9x).

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	259,665	278,216	282,217	313,652	337,555
YoY growth (%)	7.9	7.1	1.4	11.1	7.6
Net income (RMB mn)	20,231	24,211	25,615	29,875	33,767
Diluted EPS (RMB)	3.05	3.58	3.75	4.33	4.84
YoY growth (%)	15.9	17.2	4.9	15.5	11.9
Consensus EPS (RMB)	n/a	n/a	3.54	4.14	4.68
P/E (x)	25.5	21.8	20.8	18.0	16.1
P/B (x)	6.2	5.0	4.5	3.9	3.4
Yield (%)	1.7	2.2	2.2	2.6	2.9
ROE (%)	25.8	26.2	23.5	23.8	23.3
Net gearing (%)	29.8	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	RMB95.24
(Previous TP)	RMB86.57)
Up/Downside	+22.3%
Current Price	RMB77.87

### China Home Appliance Sector

#### Walter Woo

(852) 3761 8776

walterwoo@cmbi.com.hk

#### Stock Data

Mkt Cap (RMB mn)	546,787
Avg 3 mths t/o (RMB mn)	1,641.94
52w High/Low (RMB)	82.50/46.30
Total Issued Shares (mn)	7,021.8

Source: Bloomberg

#### Shareholding Structure

Midea Holding	31.56%
Ownership via stock connect	17.30%
China Securities Finance Corp	2.83%
Mr. Fang Hong Bo	1.95%
Employees incentive scheme	1.18%
Free float	45.26%

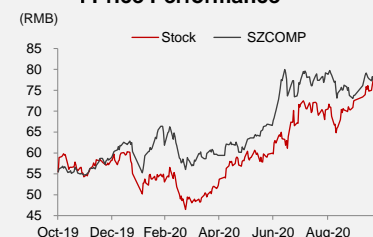
Source: Company's annual report, Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	7.3%	4.9%
3-mth	9.7%	11.2%
6-mth	44.9%	16.2%
12-mth	45.6%	7.9%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

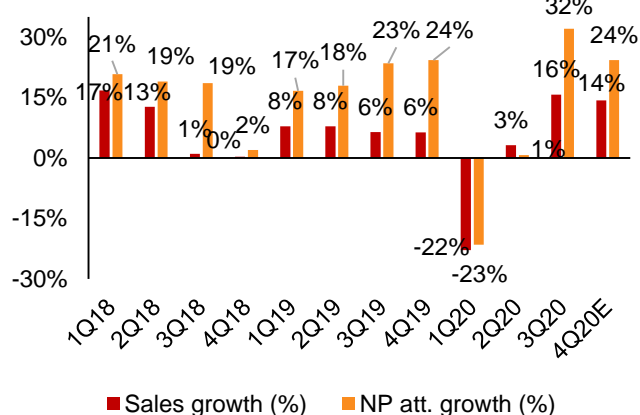
#### Auditor: PricewaterhouseCoopers

#### Related Reports

1. Midea Group (000333 CH, BUY) - Outperformer during sector turnaround - 2 Sep 2020
2. Midea Group (000333 CH, BUY) : China recovery to outweigh overseas pressure - May 2020
3. Midea Group (000333 CH, BUY) : Consistent outperformance by great strategy - Nov 2019

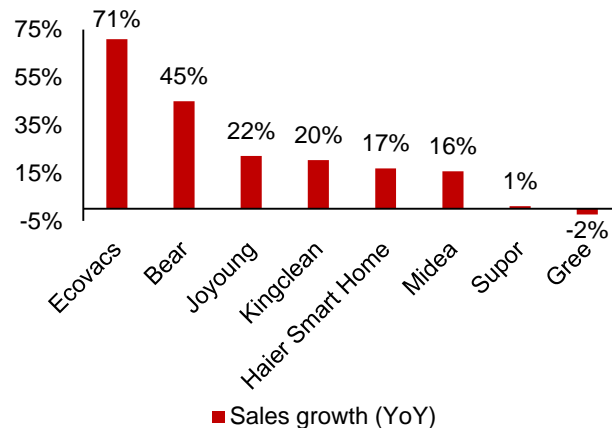
## Focus Charts

**Figure 1: Sales and net profit att. growth - quarterly**



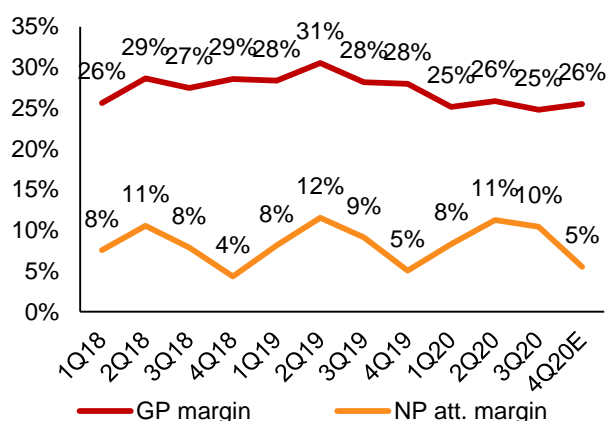
Source: Company data, CMBIS estimates

**Figure 2: Sales growth by brand – 3Q20**



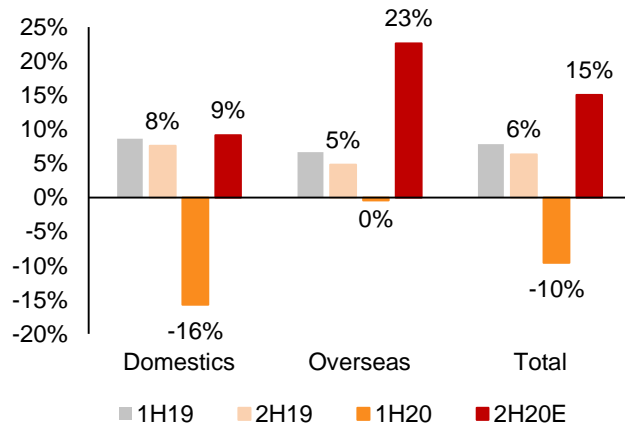
Source: Company data, CMBIS estimates

**Figure 3: GP/ NP att. margin - quarterly**



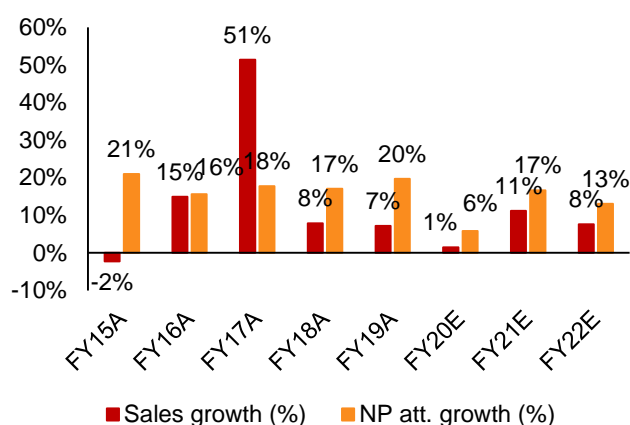
Source: Company data, CMBIS estimates

**Figure 4: Midea's sales growth by region**



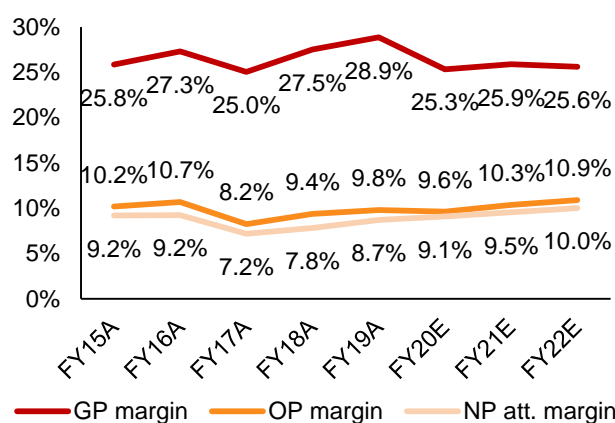
Source: Company data, CMBIS estimates

**Figure 5: Sales and net profit att. growth – full yearly**

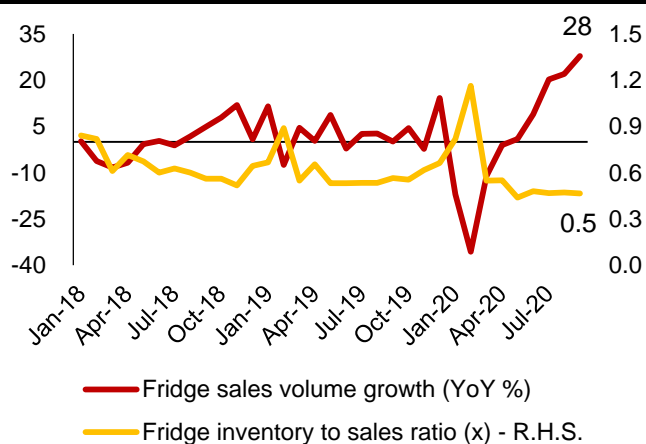


Source: Company data, CMBIS estimates

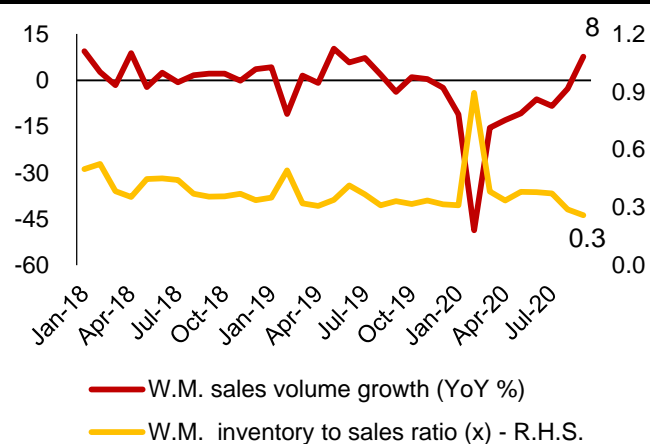
**Figure 6: GP/ OP/ NP att. margin – full yearly**



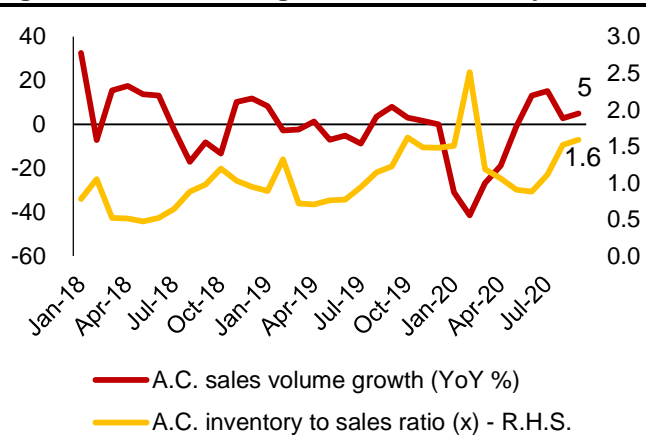
Source: Company data, CMBIS estimates

**Figure 7: Fridge volume growth and inventory level**

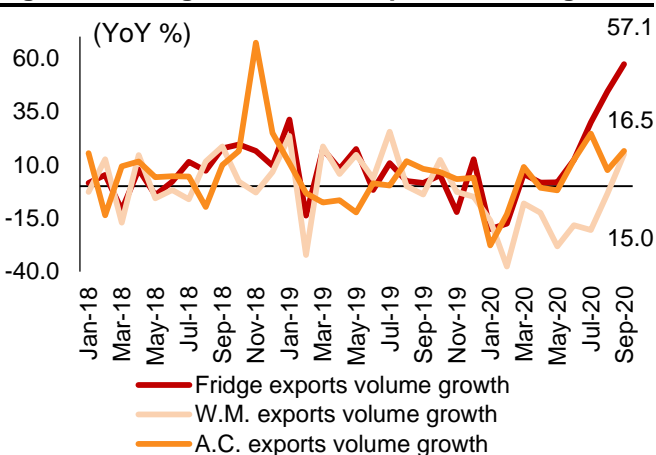
Source: China IOL, CMBIS estimates

**Figure 8: W.M. volume growth and inventory level**

Source: China IOL, CMBIS estimates

**Figure 9: A.C. volume growth and inventory level**

Source: China IOL, CMBIS estimates

**Figure 10: Fridge, W.M., A.C. exports volume growth**

Source: China IOL, CMBIS estimates

## Earnings revision

Figure 11: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	282,217	313,652	337,555	276,301	307,032	330,438	2.1%	2.2%	2.2%
Gross profit	71,523	81,184	86,428	70,718	80,246	85,440	1.1%	1.2%	1.2%
EBIT	27,083	32,444	36,706	27,592	32,938	37,204	-1.8%	-1.5%	-1.3%
Net profit att.	25,615	29,875	33,767	23,866	29,869	33,803	7.3%	0.0%	-0.1%
Diluted EPS (RMB)	3.749	4.329	4.845	3.493	4.328	4.850	7.3%	0.0%	-0.1%
Gross margin	25.3%	25.9%	25.6%	25.6%	26.1%	25.9%	-0.3ppt	-0.3ppt	-0.3ppt
EBIT margin	9.6%	10.3%	10.9%	10.0%	10.7%	11.3%	-0.4ppt	-0.4ppt	-0.4ppt
Net profit att. margin	9.1%	9.5%	10.0%	8.6%	9.7%	10.2%	0.4ppt	-0.2ppt	-0.2ppt

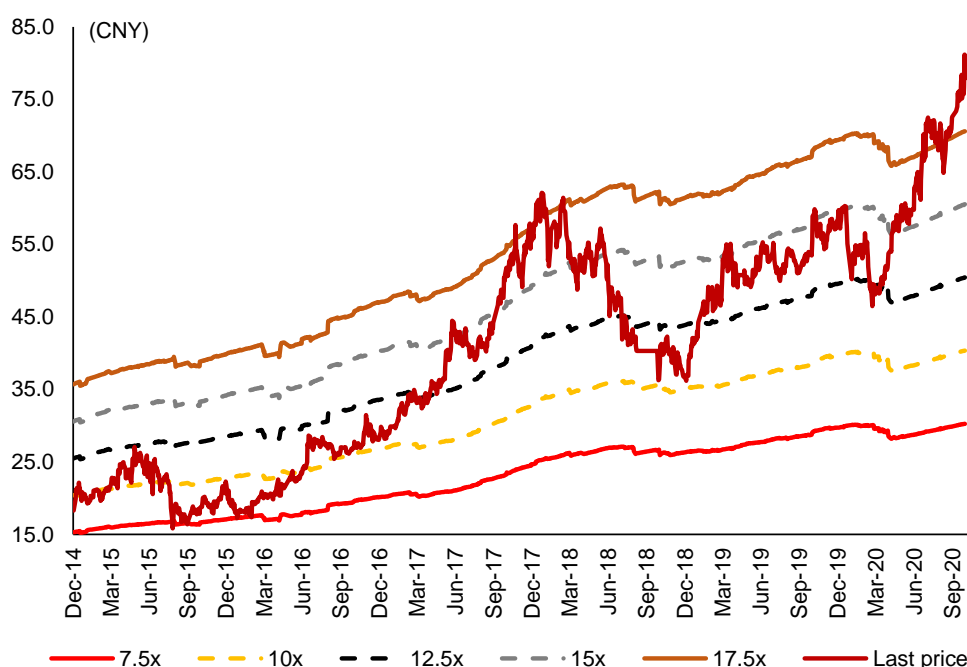
Source: Company data, CMBIS estimates

Figure 12: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	282,217	313,652	337,555	279,195	310,649	338,871	1.1%	1.0%	-0.4%
Gross profit	71,523	81,184	86,428	76,503	87,216	96,332	-6.5%	-6.9%	-10.3%
EBIT	27,083	32,444	36,706	26,507	31,138	35,254	2.2%	4.2%	4.1%
Net profit att.	25,615	29,875	33,767	24,824	28,907	32,649	3.2%	3.3%	3.4%
Diluted EPS (RMB)	3.749	4.329	4.845	3.543	4.141	4.679	5.8%	4.6%	3.5%
Gross margin	25.3%	25.9%	25.6%	28.4%	29.1%	29.5%	-3.1ppt	-3.2ppt	-3.9ppt
EBIT margin	9.6%	10.3%	10.9%	9.4%	9.9%	10.3%	0.2ppt	0.4ppt	0.6ppt
Net profit att. margin	9.1%	9.5%	10.0%	8.9%	9.3%	9.7%	0.2ppt	0.2ppt	0.3ppt

Source: Bloomberg, CMBIS estimates

Figure 13: Forward 1 year P/E band



Source: Company data, Bloomberg, CMBIS estimates

## Results preview

Figure 14: Results preview – Half Year

Half yearly (RMB mn)	1H19	2H19	1H20	2H20E	1H19 YoY	2H19 YoY	1H20 YoY	2H20E YoY
<b>Revenue</b>	<b>153,770</b>	<b>124,446</b>	<b>139,067</b>	<b>143,150</b>	<b>8%</b>	<b>6%</b>	<b>-10%</b>	<b>15%</b>
COGS	(108,441)	(89,473)	(103,524)	(107,171)				
<b>Gross profit</b>	<b>45,329</b>	<b>34,973</b>	<b>35,543</b>	<b>35,980</b>	<b>17%</b>	<b>7%</b>	<b>-22%</b>	<b>3%</b>
<b>GP margins</b>	<b>29.5%</b>	<b>28.1%</b>	<b>25.6%</b>	<b>25.1%</b>				
Other income & gains	280	482	420	709				
S & D expenses	(19,530)	(15,081)	(12,631)	(13,837)	<b>16%</b>	<b>6%</b>	<b>-35%</b>	<b>-8%</b>
<b>S &amp; D exp / sales</b>	<b>-12.7%</b>	<b>-12.1%</b>	<b>-9.1%</b>	<b>-9.7%</b>				
Admin expenses	(8,645)	(10,525)	(8,513)	(10,576)	<b>19%</b>	<b>-2%</b>	<b>-2%</b>	<b>0%</b>
<b>Admin exp / sales</b>	<b>-5.6%</b>	<b>-8.5%</b>	<b>-6.1%</b>	<b>-7.4%</b>				
Other opex	-4	-8	-5	-7				
<b>Operating profit (EBIT)</b>	<b>17,431</b>	<b>9,841</b>	<b>14,814</b>	<b>12,268</b>	<b>13%</b>	<b>11%</b>	<b>-15%</b>	<b>25%</b>
<b>OP margins</b>	<b>11.3%</b>	<b>7.9%</b>	<b>10.7%</b>	<b>8.6%</b>				
Other items	23	403	730	1,810				
Net finance income	1,436	796	852	(7)				
<b>Net finance income / sales</b>	<b>0.9%</b>	<b>0.6%</b>	<b>0.6%</b>	<b>0.0%</b>				
Profit after financing costs	18,890	11,040	16,396	14,071				
Associated coms	0	0	0	0				
Jointly controlled coms	0	0	0	0				
<b>Pre-tax profit</b>	<b>18,890</b>	<b>11,040</b>	<b>16,396</b>	<b>14,071</b>	<b>15%</b>	<b>18%</b>	<b>-13%</b>	<b>27%</b>
Tax	(2,830)	(1,822)	(2,329)	(2,241)				
<b>Tax / sales</b>	<b>-1.8%</b>	<b>-1.5%</b>	<b>-1.7%</b>	<b>-1.6%</b>				
<b>Effective tax rate</b>	<b>-15.0%</b>	<b>-16.5%</b>	<b>-14.2%</b>	<b>-15.9%</b>				
Minority interests	873	193	139	144				
<b>Net profit att.</b>	<b>15,187</b>	<b>9,024</b>	<b>13,928</b>	<b>11,687</b>	<b>17%</b>	<b>24%</b>	<b>-8%</b>	<b>30%</b>
<b>NP margins</b>	<b>9.9%</b>	<b>7.3%</b>	<b>10.0%</b>	<b>8.2%</b>				

Source: Company data, CMBIS estimates

Figure 15: Results preview - Full Year

Full yearly (RMB mn)	FY18	FY19	FY20E	FY21E	FY19 YoY	FY20E YoY	FY21E YoY
<b>Revenue</b>	<b>259,665</b>	<b>278,216</b>	<b>282,217</b>	<b>313,652</b>	<b>7%</b>	<b>1%</b>	<b>11%</b>
COGS	(188,165)	(197,914)	(210,694)	(232,467)			
<b>Gross profit</b>	<b>71,500</b>	<b>80,302</b>	<b>71,523</b>	<b>81,184</b>	<b>12%</b>	<b>-11%</b>	<b>14%</b>
<b>GP margins</b>	<b>27.5%</b>	<b>28.9%</b>	<b>25.3%</b>	<b>25.9%</b>			
Other income & gains	1,874	762	1,129	627			
S & D expenses	(31,086)	(34,611)	(26,468)	(28,593)	<b>11%</b>	<b>-24%</b>	<b>8%</b>
<b>S &amp; D exp / sales</b>	<b>-12.0%</b>	<b>-12.4%</b>	<b>-9.4%</b>	<b>-9.1%</b>			
Admin expenses	(17,949)	(19,169)	(19,089)	(20,762)	<b>7%</b>	<b>0%</b>	<b>9%</b>
<b>Admin exp / sales</b>	<b>-6.9%</b>	<b>-6.9%</b>	<b>-6.8%</b>	<b>-6.6%</b>			
Other opex	-3	-12	-12	-12			
<b>Operating profit (EBIT)</b>	<b>24,336</b>	<b>27,272</b>	<b>27,083</b>	<b>32,444</b>	<b>12%</b>	<b>-1%</b>	<b>20%</b>
<b>OP margins</b>	<b>9.4%</b>	<b>9.8%</b>	<b>9.6%</b>	<b>10.3%</b>			
Other items	(386)	426	2,540	1,568			
Net finance income	1,823	2,232	845	2,352			
<b>Net finance income / sales</b>	<b>0.7%</b>	<b>0.8%</b>	<b>0.3%</b>	<b>0.7%</b>			
Profit after financing costs	25,773	29,929	30,467	36,365			
Associated coms	0	0	0	0			
Jointly controlled coms	0	0	0	0			
<b>Pre-tax profit</b>	<b>25,773</b>	<b>29,929</b>	<b>30,467</b>	<b>36,365</b>	<b>16%</b>	<b>2%</b>	<b>19%</b>
Tax	(4,123)	(4,652)	(4,570)	(5,455)			
<b>Tax / sales</b>	<b>-1.6%</b>	<b>-1.7%</b>	<b>-1.6%</b>	<b>-1.7%</b>			
<b>Effective tax rate</b>	<b>-16.0%</b>	<b>-15.5%</b>	<b>-15.0%</b>	<b>-15.0%</b>			
Minority interests	1,420	1,066	282	1,035			
<b>Net profit att.</b>	<b>20,231</b>	<b>24,211</b>	<b>25,615</b>	<b>29,875</b>	<b>20%</b>	<b>6%</b>	<b>17%</b>
<b>NP margins</b>	<b>7.8%</b>	<b>8.7%</b>	<b>9.1%</b>	<b>9.5%</b>			

Source: Company data, CMBIS estimates

## Assumptions

Figure 16: CMBIS' assumptions

RMB mn	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales by segment (RMB mn)</b>					
Heating, Ventilation & Air-Con.	109,395	119,607	119,607	130,372	140,802
Consumer electronics	102,993	109,487	113,866	129,808	138,894
Robot and automation system	25,678	25,192	22,421	23,990	25,430
Others	21,599	23,930	26,323	29,482	32,430
Total	259,665	278,216	282,217	313,652	337,555
<b>Sales growth by segment (%)</b>					
Heating, Ventilation & Air-Con.	14.7%	9.3%	0.0%	9.0%	8.0%
Consumer electronics	4.3%	6.3%	4.0%	14.0%	7.0%
Robot and automation system	-5.0%	-1.9%	-11.0%	7.0%	6.0%
Others	10.3%	10.8%	10.0%	12.0%	10.0%
Total	7.9%	7.1%	1.4%	11.1%	7.6%
<b>Sales by region growth (%)</b>					
Domestics	9.1%	8.2%	-5.0%	10.0%	5.0%
Overseas	6.2%	5.8%	10.3%	12.5%	10.7%
Total	7.9%	7.1%	1.4%	11.1%	7.6%
<b>GP margins by segment</b>					
Heating, Ventilation and Air-Conditioning	30.6%	31.8%	24.3%	25.0%	24.7%
Consumer electronics	29.2%	31.5%	31.3%	31.5%	31.3%
Robot and automation system	22.9%	20.8%	18.2%	19.2%	19.4%
Others	9.7%	10.9%	10.4%	10.5%	10.0%
Total	27.5%	28.9%	25.3%	25.9%	25.6%
<b>Opex breakdown</b>					
S&D (ex- staff costs)/ sales	7.0%	7.6%	4.4%	4.3%	3.9%
Admin costs (ex-R&D, D&A, staff costs) / sales	1.3%	1.6%	1.2%	1.2%	1.0%
D&A - Admin / sales	0.9%	0.9%	0.8%	0.8%	0.8%
Labor costs / sales	5.9%	5.8%	6.2%	5.8%	5.9%
R&D expenses / sales	3.8%	3.5%	3.6%	3.6%	3.5%
Others / sales	0.0%	0.0%	0.0%	0.0%	0.0%
Total	18.9%	19.3%	16.1%	15.7%	15.1%
OP margins	9.4%	9.8%	9.6%	10.3%	10.9%
Effective tax rate	-16.0%	-15.5%	-15.0%	-15.0%	-15.0%
<b>NP att. margins</b>	<b>7.8%</b>	<b>8.7%</b>	<b>9.1%</b>	<b>9.5%</b>	<b>10.0%</b>
<b>NP att. growth (%)</b>	<b>17.1%</b>	<b>19.7%</b>	<b>5.8%</b>	<b>16.6%</b>	<b>13.0%</b>

Source: Company data, CMBIS estimates

## Valuation

Figure 17: 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	(USDmn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
A+ H shares Home Appliances - White goods, Kitchen and Small Appliances															
Midea Group	000333 CH	BUY	95.24	77.87	22%	633,542	Dec-19	20.8	18.0	4.5	3.9	23.6	1.9	2.1	
Gree Electronics	000651 CH	NR	n/a	58.43	n/a	407,269	Dec-19	17.3	13.6	2.9	2.6	15.1	2.8	3.3	
Haier Smart Home	600690 CH	NR	n/a	24.86	n/a	183,746	Dec-19	21.9	18.0	3.1	2.8	14.1	2.6	1.5	
Haier Electronics	1169 HK	NR	n/a	29.40	n/a	82,820	Dec-19	18.9	15.9	2.3	2.0	25.6	(1.6)	1.6	
Hisense JA	921 HK	NR	n/a	11.08	n/a	20,398	Dec-19	9.4	7.5	1.4	1.2	16.1	3.3	3.0	
Hisense HA	000921 CH	NR	n/a	14.63	n/a	20,403	Dec-19	14.5	12.2	2.1	1.8	16.1	19.0	2.5	
Whirlpool China	600983 CH	NR	n/a	6.16	n/a	5,470	Dec-19	n/a	n/a	n/a	n/a	(9.7)	n/a	n/a	
Zhejiang Aishida	002403 CH	NR	n/a	8.31	n/a	3,373	Dec-19	17.5	17.0	1.3	1.2	7.7	n/a	2.3	
Bear Electric	002959 CH	NR	n/a	116.24	n/a	21,011	Dec-19	41.2	32.8	8.9	7.4	25.2	1.3	1.4	
Ecovacs Robotics	603486 CH	NR	n/a	62.60	n/a	40,852	Dec-19	86.2	54.9	12.3	10.5	10.4	1.0	0.3	
JS Global Lifestyle	1691 HK	BUY	19.57	13.90	41%	48,499	Dec-19	23.9	19.7	4.5	3.7	n/a	0.5	0.7	
Joyoung Co	002242 CH	NR	n/a	35.36	n/a	31,431	Dec-19	29.6	25.1	6.7	6.1	22.6	1.9	2.3	
Hangzhou Robam	002508 CH	NR	n/a	36.53	n/a	40,168	Dec-19	20.3	17.8	4.3	3.8	23.4	1.8	2.1	
Zhejiang Supor	002032 CH	NR	n/a	70.66	n/a	67,223	Dec-19	30.9	26.4	7.6	6.6	27.1	3.2	1.8	
Vatti Corporation	002035 CH	NR	n/a	8.94	n/a	9,004	Dec-19	12.5	10.3	2.2	2.0	17.5	2.2	3.1	
Xinbao Electrica	002705 CH	NR	n/a	44.26	n/a	41,101	Dec-19	34.4	28.4	7.1	6.1	23.9	1.1	1.3	
								Avg.	26.6	21.2	4.7	4.1	17.3	2.9	2.0
								Med.	20.8	18.0	4.3	3.7	17.5	1.9	2.1
International Home Appliances - White goods, Kitchen and Small Appliances															
Whirlpool Corp	WHR US	NR	n/a	185	n/a	89,703	Dec-19	10.9	10.1	3.2	2.7	27.3	3.3	2.7	
Ingersoll-Rand Plc	IR US	NR	n/a	35	n/a	112,992	Dec-19	27.5	21.2	1.6	1.6	(2.8)	0.8	0.0	
Smith (A.O.) Corp	AOS US	NR	n/a	52	n/a	64,695	Dec-19	26.4	22.0	4.7	4.6	18.6	6.3	1.9	
Helen Of Troy	HELE US	NR	n/a	190	n/a	37,273	Feb-20	17.1	16.8	3.1	n/a	17.8	0.7	n/a	
Cree Inc	CREE US	NR	n/a	64	n/a	54,415	Jun-20	n/a	n/a	3.3	3.4	(17.2)	n/a	0.0	
Irobot Corp	IRBT US	NR	n/a	80	n/a	17,356	Dec-19	22.5	37.1	2.9	2.8	21.9	3.5	0.0	
Electrolux Ab	ELUXB SS	NR	n/a	201	n/a	54,051	Dec-19	16.4	13.9	2.5	2.3	25.6	0.6	3.9	
Seb Sa	SK FP	NR	n/a	140	n/a	63,419	Dec-19	23.8	16.7	2.7	2.4	12.9	3.0	1.1	
Koninklijke Philips	PHIA NA	NR	n/a	40	n/a	328,055	Dec-19	21.1	19.0	2.7	2.6	8.8	0.8	2.2	
Daikin Industries	6367 JP	NR	n/a	19480	n/a	423,029	Mar-20	40.9	28.5	3.7	3.4	9.8	3.2	0.8	
Panasonic Corp	6752 JP	NR	n/a	961	n/a	174,635	Mar-20	22.6	12.7	1.1	1.0	8.6	(15.2)	2.7	
Sony Corp	6758 JP	NR	n/a	8674	n/a	810,401	Mar-20	17.3	17.1	2.2	2.0	20.9	1.8	0.6	
Hitachi	6501 JP	NR	n/a	3502	n/a	251,122	Mar-20	8.7	8.2	1.0	0.9	4.8	0.1	2.7	
Sharp Corp	6753 JP	NR	n/a	1200	n/a	47,335	Mar-20	15.3	12.8	2.2	1.8	6.4	0.3	1.5	
Fujitsu General	6755 JP	NR	n/a	2884	n/a	23,349	Mar-20	25.0	21.4	2.6	2.3	7.4	0.6	1.0	
Lg Electronics	066570 KS	NR	n/a	84000	n/a	93,634	Dec-19	8.3	7.5	0.9	0.8	2.7	0.0	0.9	
Samsung Elect.	005930 KS	NR	n/a	56600	n/a	2,301,554	Dec-19	14.3	10.9	1.4	1.3	7.5	0.5	2.5	
Woongjin Coway	021240 KS	NR	n/a	69400	n/a	34,887	Dec-19	12.2	11.4	3.6	2.9	29.5	0.9	1.7	
								Avg.	19.4	16.9	2.5	2.3	11.7	0.7	1.5
								Med.	17.3	16.7	2.6	2.3	9.3	0.8	1.5

Source: Bloomberg, CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>259,665</b>	<b>278,216</b>	<b>282,217</b>	<b>313,652</b>	<b>337,555</b>	<b>EBIT</b>	<b>24,336</b>	<b>27,272</b>	<b>27,083</b>	<b>32,444</b>	<b>36,706</b>
Heating, Ventilation & Air-Con.	109,395	119,607	119,607	130,372	140,802	D & A	2,346	4,477	4,246	4,241	4,315
Consumer electronics	102,993	109,487	113,866	129,808	138,894	Change in working capital	1,282	11,800	1,771	412	674
Robot and automation system	25,678	25,192	22,421	23,990	25,430	Income tax paid	(13,739)	(14,898)	(4,570)	(5,455)	(6,215)
Others	21,599	23,930	26,323	29,482	32,430	Others	13,637	9,939	3,620	4,138	4,935
<b>Cost of goods sold</b>	<b>(188,165)</b>	<b>(197,914)</b>	<b>(210,694)</b>	<b>(232,467)</b>	<b>(251,127)</b>	<b>Net cash from operating CF</b>	<b>27,861</b>	<b>38,590</b>	<b>32,150</b>	<b>35,781</b>	<b>40,415</b>
<b>Gross profit</b>	<b>71,500</b>	<b>80,302</b>	<b>71,523</b>	<b>81,184</b>	<b>86,428</b>	Capex & investments	(5,612)	(3,452)	(3,502)	(3,892)	(4,188)
<b>Other income</b>	<b>1,870</b>	<b>750</b>	<b>1,117</b>	<b>615</b>	<b>1,338</b>	Associated companies	-	-	-	-	-
<b>Operating expenses</b>	<b>(49,035)</b>	<b>(53,781)</b>	<b>(45,557)</b>	<b>(49,355)</b>	<b>(51,060)</b>	Interest received	2,098	4,027	-	-	-
Selling & distribution	(31,086)	(34,611)	(26,468)	(28,593)	(29,557)	Others	(15,128)	(23,682)	(5,000)	(5,000)	-
Admin	(8,135)	(9,520)	(9,051)	(9,485)	(9,550)	<b>Net cash from investing CF</b>	<b>(18,642)</b>	<b>(23,108)</b>	<b>(8,502)</b>	<b>(8,892)</b>	<b>(4,188)</b>
R & D	(9,811)	(9,638)	(10,027)	(11,265)	(11,941)	Equity raised	-	-	-	-	-
Other operating expenses	(3)	(12)	(12)	(12)	(12)	Net change in bank loans	(854)	8,474	(3,000)	(4,000)	-
<b>EBIT</b>	<b>24,336</b>	<b>27,272</b>	<b>27,083</b>	<b>32,444</b>	<b>36,706</b>	Dividend paid	(9,303)	(11,056)	(11,131)	(11,465)	(13,372)
Finance costs, net	1,823	2,232	845	2,352	3,039	Others	(3,230)	(692)	(235)	(218)	(208)
JVs & associates	-	-	-	-	-	<b>Net cash from financing CF</b>	<b>(13,387)</b>	<b>(3,274)</b>	<b>(14,367)</b>	<b>(15,683)</b>	<b>(13,580)</b>
Exceptional	(386)	426	2,540	1,568	1,688	<b>Net change in cash</b>	<b>(4,168)</b>	<b>12,209</b>	<b>9,281</b>	<b>11,206</b>	<b>22,647</b>
<b>Pre-tax profit</b>	<b>25,773</b>	<b>29,929</b>	<b>30,467</b>	<b>36,365</b>	<b>41,433</b>	Beginning cash balance	22,221	15,981	49,166	58,447	69,654
Income tax	(4,123)	(4,652)	(4,570)	(5,455)	(6,215)	Exchange difference	(2,072)	20,976	-	-	-
Less: Minority interests	1,420	1,066	282	1,035	1,451	<b>Cash at the end of the year</b>	<b>15,981</b>	<b>49,166</b>	<b>58,447</b>	<b>69,654</b>	<b>92,301</b>
<b>Net profit</b>	<b>20,231</b>	<b>24,211</b>	<b>25,615</b>	<b>29,875</b>	<b>33,767</b>						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>81,012</b>	<b>85,473</b>	<b>89,728</b>	<b>94,378</b>	<b>94,251</b>	<b>Sales mix (%)</b>					
Fixed asset	25,542	24,855	25,128	25,795	26,686	Heating, Ventilation & Air-Con.	42.1	43.0	42.4	41.6	41.7
Intangible assets & goodwill	45,287	43,691	42,674	41,656	40,639	Consumer electronics	39.7	39.4	40.3	41.4	41.1
Prepaid lease payments	5,648	9,994	14,994	19,994	19,994	Robot and automation system	9.9	9.1	7.9	7.6	7.5
Interest in joint ventures	-	-	-	-	-	Others	8.3	8.6	9.3	9.4	9.6
Other non-current assets	4,535	6,932	6,932	6,932	6,932	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current assets</b>	<b>182,689</b>	<b>216,483</b>	<b>228,337</b>	<b>246,869</b>	<b>275,432</b>	<b>P&amp;L ratios (%)</b>					
Cash and cash equivalents	15,981	49,166	58,447	69,654	92,301	Gross margin	27.5	28.9	25.3	25.9	25.6
Inventories	29,645	32,443	34,538	38,108	41,166	Operating margin	9.4	9.8	9.6	10.3	10.9
Trade and other receivables	31,946	30,998	31,444	34,946	37,610	Pre-tax margin	9.9	10.8	10.8	11.6	12.3
Prepayments	2,216	2,246	2,278	2,532	2,725	Net margin	7.8	8.7	9.1	9.5	10.0
Other current assets	102,901	101,629	101,629	101,629	101,629	Effective tax rate	16.0	15.5	15.0	15.0	15.0
<b>Current liabilities</b>	<b>130,231</b>	<b>144,318</b>	<b>145,663</b>	<b>149,400</b>	<b>155,989</b>	<b>Balance sheet ratios</b>					
Bank loans	8,137	7,224	4,224	224	224	Current ratio (x)	1.4	1.5	1.6	1.7	1.8
Trade payables	60,227	66,427	70,717	78,025	84,288	Quick ratio (x)	1.2	1.3	1.3	1.4	1.5
Accruals & other payables	3,346	3,801	3,855	4,285	4,611	Cash ratio (x)	0.1	0.3	0.4	0.5	0.6
Tax payables	3,875	5,096	5,096	5,096	5,096	Inventory turnover days	58	60	60	60	60
others	54,646	61,770	61,770	61,770	61,770	Trade receivables days	45	41	41	41	41
<b>Non-current liabilities</b>	<b>41,016</b>	<b>50,141</b>	<b>50,141</b>	<b>50,141</b>	<b>50,141</b>	Trade payables days	117	123	123	123	123
Bank loans	32,091	41,298	41,298	41,298	41,298	Total debt / total equity ratio (%)	49	48	39	31	27
Deferred income	89	34	34	34	34	Net debt / equity ratio (%)	30	Net cash	Net cash	Net cash	Net cash
Deferred tax	4,422	4,556	4,556	4,556	4,556	<b>Returns (%)</b>					
Others	4,413	4,253	4,253	4,253	4,253	ROE	24.4	23.8	22.1	22.2	21.8
<b>Minority Interest</b>	<b>9,382</b>	<b>5,827</b>	<b>6,109</b>	<b>7,144</b>	<b>8,596</b>	ROA	7.7	8.0	8.1	8.8	9.1
<b>Total net assets</b>	<b>83,072</b>	<b>101,669</b>	<b>116,153</b>	<b>134,562</b>	<b>154,957</b>	<b>Per share</b>					
<b>Shareholders' equity</b>	<b>83,072</b>	<b>101,669</b>	<b>116,153</b>	<b>134,562</b>	<b>154,957</b>	Diluted EPS (RMB)	3.1	3.6	3.7	4.3	4.8
						DPS (RMB)	1.3	1.7	1.7	2.0	2.2
						BVPS (RMB)	12.6	15.4	17.5	20.0	22.8

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## Disclaimer

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

## CMBIS Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.