

Midea Group (000333 CH)

Outperformer during sector turnaround

2Q20 was highly resilient for Midea and we are more positive on 2H20E given a less promotional environment and strong export orders outlook. Therefore, we maintain BUY and lifted TP to RMB 86.57, based on 20x FY21E P/E (up from 17x FY20E), vs China/ Int'l peers' avg. of 22x/ 18x.

- 1H20E results slight beat.** Midea sales/ net profit att. declined by 10%/ 8% YoY to RMB 136.1bn/ 13.9bn in 1H20, above BBG's est. by 2%/ 9%. We attributed the beat to better-than-expected exports and cost control in 2Q20. 3.9ppt reduction of GP margin to 25.6% in 1H20 was due to: 1) change in accounting standard and 2) relocating of installation fees to COGS (from selling expenses). GP margin would have fallen by only 1ppt after adjustments.
- Rapid turnaround in 2Q20, where A.C. and fridge outperformed.** Midea resumed a 3% YoY sale growth in 2Q20, from 23% drop in 1Q20. A healthy pick up in domestic and resilient overseas was also seen in 2Q20, where sales growth for both A.C./ fridge accelerated to 8%/ 15% in 2Q20 (vs -10%/ 3% in 1Q20) and sales decline for washing machines/ small appliances also narrowed to 8%/ 5% in 2Q20 (vs -15%/ -10% in 1Q20).
- A better domestic as price war reverses with decent weather.** We reckon that ASP for A.C. had been climbing since Apr 2020 as Midea and Haier changed their focus from market shares to profitability (push for premium) while Gree is still being held back by its high channel inventory. Moreover, thanks to: 1) exceptionally hot weather during summer, 2) introduction of new energy-saving standard and 3) flexibly inventory level (powered by the efficient T+3 model), we believe ASP is likely to trend up from 2H20E onwards.
- Overseas to bottom out with an at least stable GP margin.** According to the management, overseas sales growth rebounded to 15% YoY in Jul-Aug 2020, much better than guidance of 0% growth in FY20E. Also, we believe more premium product sales and easing of raw material costs can more than offset CNY appreciation and driving an at least stable GP margin in 2H20E.
- Guiding for a flattish sales/ NP att. growth in FY20E.** We find this target reasonable as Midea is effectively gaining shares in both the recovering domestic and overseas markets, while the only let down is KUKA, as various clients are still conservative or reluctant to spend capex in near term.
- Maintain BUY but raised TP to RMB 86.57 (21% upside).** We reiterate BUY because of: 1) industry leading sales and inventory management, and 2) sector turnaround and potential re-rating. We fine-tuned FY20E/ 21E/ 22E NP by 1%/ 1%/ 2% to factor in better export and weaker KUKA. Our new TP is based on 20x FY21E P/E (up from 17x FY20E). The counter now trades at 17x 21E P/E (vs China peers' avg. of 22x) or 1.9x PEG (vs China peers' 2.1x).

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	259,665	278,216	276,301	307,032	330,438
YoY growth (%)	7.9	7.1	(0.7)	11.1	7.6
Net income (RMB mn)	20,231	24,211	23,866	29,869	33,803
Diluted EPS (RMB)	3.05	3.58	3.49	4.33	4.85
YoY growth (%)	15.9	17.2	(2.3)	23.9	12.0
Consensus EPS (RMB)	n/a	n/a	3.57	4.15	4.71
P/E (x)	23.5	20.1	20.5	16.6	14.8
P/B (x)	5.7	4.6	4.2	3.6	3.2
Yield (%)	1.8	2.4	2.2	2.8	3.1
ROE (%)	25.8	26.2	20.9	22.4	21.9
Net gearing (%)	29.8	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB86.57
(Previous TP)	RMB72.80)
Up/Downside	+20.7%
Current Price	RMB71.70

China Home Appliance Sector

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Stock Data

Mkt Cap (RMB mn)	503,463
Avg 3 mths t/o (RMB mn)	1,846.85
52w High/Low (RMB)	74.74/46.30
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	-1.7%	-2.4%
3-mth	19.5%	-5.4%
6-mth	33.0%	5.4%
12-mth	33.6%	-7.2%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

- Midea Group (000333 CH, BUY) : China recovery to outweigh overseas pressure – 7 May 2020
- Midea Group (000333 CH, BUY) : Consistent outperformance by great strategy – 6 Nov 2019
- Midea Group (000333 CH, BUY) : Prudent sales and rosy margin for 2H19E – 10 Sep 2019

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	276,301	307,032	330,438	273,269	303,586	326,704	1.1%	1.1%	1.1%
Gross profit	70,718	80,246	85,440	77,859	88,006	93,370	-9.2%	-8.8%	-8.5%
EBIT	27,592	32,938	37,204	27,188	32,366	36,133	1.5%	1.8%	3.0%
Net profit att.	23,866	29,869	33,803	23,725	29,552	33,058	0.6%	1.1%	2.3%
Diluted EPS (RMB)	3.493	4.328	4.850	3.472	4.282	4.743	0.6%	1.1%	2.3%
Gross margin	25.6%	26.1%	25.9%	28.5%	29.0%	28.6%	-2.9ppt	-2.9ppt	-2.7ppt
EBIT margin	10.0%	10.7%	11.3%	9.9%	10.7%	11.1%	0.0ppt	0.1ppt	0.2ppt
Net profit att. margin	8.6%	9.7%	10.2%	8.7%	9.7%	10.1%	0.0ppt	0.0ppt	0.1ppt

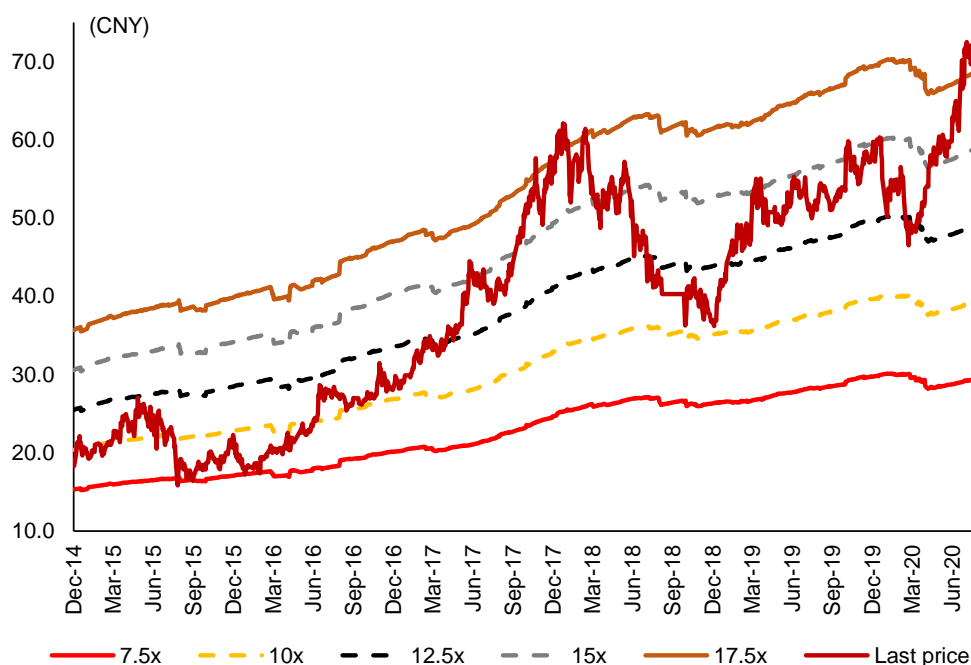
Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	276,301	307,032	330,438	277,731	308,041	334,987	-0.5%	-0.3%	-1.4%
Gross profit	70,718	80,246	85,440	78,975	89,559	98,836	-10.5%	-10.4%	-13.6%
EBIT	27,592	32,938	37,204	26,187	30,636	34,470	5.4%	7.5%	7.9%
Net profit att.	23,866	29,869	33,803	24,729	28,686	32,599	-3.5%	4.1%	3.7%
Diluted EPS (RMB)	3.493	4.328	4.850	3.571	4.151	4.709	-2.2%	4.3%	3.0%
Gross margin	25.6%	26.1%	25.9%	28.4%	29.1%	29.5%	-2.8ppt	-2.9ppt	-3.6ppt
EBIT margin	10.0%	10.7%	11.3%	9.4%	9.9%	10.3%	0.6ppt	0.8ppt	1.0ppt
Net profit att. margin	8.6%	9.7%	10.2%	8.9%	9.3%	9.7%	-0.3ppt	0.4ppt	0.5ppt

Source: Bloomberg, CMBIS estimates

Figure 3: Forward 1 year P/E band



Source: Company data, Bloomberg, CMBIS estimates

Results Summary

Figure 4: Results summary – Half Year

Half yearly (RMB mn)	1H19	2H19	1H20	2H20E	1H19 YoY	2H19 YoY	1H20 YoY	2H20E YoY	1H20E CMBIS	Actual vs CMBIS
Revenue	153,770	124,446	139,067	137,234	8%	6%	-10%	10%	136,578	2%
COGS	(108,441)	(89,473)	(103,524)	(102,060)					(100,780)	
Gross profit	45,329	34,973	35,543	35,174	17%	7%	-22%	1%	35,797	-1%
GP margins	29.5%	28.1%	25.6%	25.6%					26.2%	
Other income & gains	280	482	420	409					513	-18%
S & D expenses	(19,530)	(15,081)	(12,631)	(12,935)	16%	6%	-35%	-14%	(15,242)	-17%
S & D exp / sales	-12.7%	-12.1%	-9.1%	-9.4%					-11.2%	
Admin expenses	(8,645)	(10,525)	(8,513)	(9,864)	19%	-2%	-2%	-6%	(8,250)	3%
Admin exp / sales	-5.6%	-8.5%	-6.1%	-7.2%					-6.0%	
Other opex	-4	-8	-5	-7					-6	
Operating profit (EBIT)	17,431	9,841	14,814	12,777	13%	11%	-15%	30%	12,812	16%
OP margins	11.3%	7.9%	10.7%	9.3%					9.4%	
Other items	23	403	730	(177)					225	
Net finance income	1,436	796	852	(496)					503	69%
Net finance income / sales	0.9%	0.6%	0.6%	-0.4%					0.4%	
Profit after financing costs	18,890	11,040	16,396	12,104					13,540	
Associated coms	0	0	0	0					0	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	18,890	11,040	16,396	12,104	15%	18%	-13%	10%	13,540	21%
Tax	(2,830)	(1,822)	(2,329)	(1,946)					(2,002)	
Tax / sales	-1.8%	-1.5%	-1.7%	-1.4%					-1.5%	
Effective tax rate	-15.0%	-16.5%	-14.2%	-16.1%					-14.8%	
Minority interests	873	193	139	220					39	
Net profit att.	15,187	9,024	13,928	9,938	17%	24%	-8%	10%	11,499	21%
NP margins	9.9%	7.3%	10.0%	7.2%					8.4%	

Source: Company data, CMBIS estimates

Figure 5: Results review - Full Year

Full yearly (RMB mn)					FY19	FY20E	FY21E
	FY18	FY19	FY20E	FY21E	YoY	YoY	YoY
Revenue	259,665	278,216	276,301	307,032	7%	-1%	11%
COGS	(188,165)	(197,914)	(205,584)	(226,786)			
Gross profit	71,500	80,302	70,718	80,246	12%	-12%	13%
GP margins	27.5%	28.9%	25.6%	26.1%			
Other income & gains	1,874	762	829	614			
S & D expenses	(31,086)	(34,611)	(25,566)	(27,755)	11%	-26%	9%
S & D exp / sales	-12.0%	-12.4%	-9.3%	-9.0%			
Admin expenses	(17,949)	(19,169)	(18,377)	(20,155)	7%	-4%	10%
Admin exp / sales	-6.9%	-6.9%	-6.7%	-6.6%			
Other opex	-3	-12	-12	-12			
Operating profit (EBIT)	24,336	27,272	27,592	32,938	12%	1%	19%
OP margins	9.4%	9.8%	10.0%	10.7%			
Other items	(386)	426	553	1,535			
Net finance income	1,823	2,232	356	1,859			
Net finance income / sales	0.7%	0.8%	0.1%	0.6%			
Profit after financing costs	25,773	29,929	28,500	36,332			
Associated coms	0	0	0	0			
Jointly controlled coms	0	0	0	0			
Pre-tax profit	25,773	29,929	28,500	36,332	16%	-5%	27%
Tax	(4,123)	(4,652)	(4,275)	(5,450)			
Tax / sales	-1.6%	-1.7%	-1.5%	-1.8%			
Effective tax rate	-16.0%	-15.5%	-15.0%	-15.0%			
Minority interests	1,420	1,066	359	1,013			
Net profit att.	20,231	24,211	23,866	29,869	20%	-1%	25%
NP margins	7.8%	8.7%	8.6%	9.7%			

Source: Company data, CMBIS estimates

Assumptions

Figure 6: CMBIS' assumptions

RMB mn	FY18A	FY19A	FY20E	FY21E	FY22E
Sales by segment (RMB mn)					
Heating, Ventilation & Air-Con.	109,395	119,607	117,215	127,765	137,986
Consumer electronics	102,993	109,487	110,582	126,063	134,888
Robot and automation system	25,678	25,192	22,421	23,990	25,430
Others	21,599	23,930	26,084	29,214	32,135
Total	259,665	278,216	276,301	307,032	330,438
Sales growth by segment (%)					
Heating, Ventilation & Air-Con.	14.7%	9.3%	-2.0%	9.0%	8.0%
Consumer electronics	4.3%	6.3%	1.0%	14.0%	7.0%
Robot and automation system	-5.0%	-1.9%	-11.0%	7.0%	6.0%
Others	10.3%	10.8%	9.0%	12.0%	10.0%
Total	7.9%	7.1%	-0.7%	11.1%	7.6%
Sales by region growth (%)					
Domestics	9.1%	8.2%	-5.0%	10.0%	5.0%
Overseas	6.2%	5.8%	5.3%	12.5%	10.8%
Total	7.9%	7.1%	-0.7%	11.1%	7.6%
GP margins by segment					
Heating, Ventilation and Air-Conditioning	30.6%	31.8%	24.6%	25.3%	25.0%
Consumer electronics	29.2%	31.5%	31.6%	31.8%	31.6%
Robot and automation system	22.9%	20.8%	18.5%	19.5%	19.7%
Others	9.7%	10.9%	10.7%	10.8%	10.3%
Total	27.5%	28.9%	25.6%	26.1%	25.9%
Opex breakdown					
S&D (ex- staff costs)/ sales	7.0%	7.6%	4.2%	4.3%	3.9%
Admin costs (ex-R&D, D&A, staff costs) / sales	1.3%	1.6%	1.3%	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%	6.0%	5.7%	5.8%
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%	15.9%	15.6%	15.0%
OP margins	9.4%	9.8%	10.0%	10.7%	11.3%
Effective tax rate	-16.0%	-15.5%	-15.0%	-15.0%	-15.0%
NP att. margins	7.8%	8.7%	8.6%	9.7%	10.2%
NP att. growth (%)	17.1%	19.7%	-1.4%	25.2%	13.2%

Source: Company data, CMBIS estimates

Valuation

Figure 7: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (USDmn)	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														
Midea Group	000333 CH	BUY	86.57	71.70	21%	571,781	Dec-19	20.5	16.6	4.2	3.6	23.2	1.9	2.3
Gree Electronics	000651 CH	NR	n/a	54.75	n/a	374,055	Dec-19	15.6	12.5	2.7	2.4	16.8	2.6	3.5
Haier Smart Home	600690 CH	NR	n/a	22.00	n/a	159,469	Dec-19	20.0	16.4	2.7	2.4	12.9	3.0	1.6
Haier Electronics	1169 HK	NR	n/a	27.20	n/a	76,622	Dec-19	18.0	15.1	2.1	1.9	25.6	(1.4)	1.7
Hisense JA	921 HK	NR	n/a	10.98	n/a	19,683	Dec-19	10.2	7.9	1.4	1.2	16.1	7.7	2.8
Hisense HA	000921 CH	NR	n/a	14.27	n/a	19,683	Dec-19	14.2	11.9	2.0	1.8	16.1	(142.5)	2.6
Whirlpool China	600983 CH	NR	n/a	9.28	n/a	8,078	Dec-19	n/a	n/a	n/a	n/a	(9.9)	n/a	n/a
Zhejiang Aishida	002403 CH	NR	n/a	9.30	n/a	3,700	Dec-19	16.3	19.0	1.4	1.3	2.2	n/a	2.9
Bear Electric	002959 CH	NR	n/a	142.00	n/a	25,158	Dec-19	50.5	40.7	10.9	9.1	25.2	1.7	1.2
Ecovacs Robotics	603486 CH	NR	n/a	40.40	n/a	25,842	Dec-19	62.3	43.1	8.0	6.9	4.8	0.8	0.1
JS Global Lifestyle	1691 HK	BUY	14.10	12.50	13%	42,658	Dec-19	23.7	20.4	3.8	3.3	n/a	0.6	0.6
Joyoung Co	002242 CH	NR	n/a	45.09	n/a	39,286	Dec-19	37.5	31.9	8.5	7.8	22.5	2.6	2.0
Hangzhou Robam	002508 CH	NR	n/a	38.81	n/a	41,830	Dec-19	21.7	19.2	4.6	4.0	23.6	2.1	2.0
Zhejiang Supor	002032 CH	NR	n/a	82.53	n/a	76,959	Dec-19	35.3	29.6	8.8	7.5	28.8	3.4	1.6
Vatti Corporation	002035 CH	NR	n/a	10.84	n/a	10,701	Dec-19	12.9	11.1	2.6	2.2	18.7	1.5	2.5
Xinbao Electrica	002705 CH	NR	n/a	45.20	n/a	41,142	Dec-19	36.8	30.2	7.3	6.3	21.2	1.3	1.3
Avg.								26.4	21.7	4.7	4.1	16.5	(8.2)	1.9
Med.								20.5	19.0	3.8	3.3	18.7	1.8	2.0
International Home Appliances - White goods, Kitchen and Small Appliances														
Whirlpool Corp	WHR US	NR	n/a	178	n/a	85,799	Dec-19	13.8	11.4	3.6	3.4	28.9	(8.6)	2.8
Ingersoll-Rand Plc	IR US	NR	n/a	35	n/a	113,321	Dec-19	27.9	21.6	2.6	2.5	(2.8)	0.8	0.0
Smith (A.O.) Corp	AOS US	NR	n/a	49	n/a	61,259	Dec-19	26.8	21.7	4.6	4.5	17.6	7.4	2.0
Helen Of Troy	HELE US	NR	n/a	207	n/a	40,589	Feb-20	21.0	20.1	3.3	n/a	15.2	n/a	n/a
Cree Inc	CREE US	NR	n/a	63	n/a	53,637	Jun-20	n/a	n/a	3.5	3.3	(9.3)	n/a	n/a
Irobot Corp	IRBT US	NR	n/a	74	n/a	16,068	Dec-19	31.0	39.2	2.9	2.7	15.2	(10.5)	0.0
Electrolux Ab	ELUXB SS	NR	n/a	185	n/a	51,299	Dec-19	27.9	14.1	2.3	2.1	19.2	1.1	3.6
Seb Sa	SK FP	NR	n/a	147	n/a	68,393	Dec-19	25.0	17.4	2.8	2.5	12.9	2.9	1.0
Koninklijke Philips	PHIA NA	NR	n/a	40	n/a	340,106	Dec-19	20.8	18.2	2.8	2.6	8.8	0.8	2.2
Daikin Industries	6367 JP	NR	n/a	20065	n/a	430,857	Mar-20	43.2	29.0	3.8	3.5	9.8	3.5	0.8
Panasonic Corp	6752 JP	NR	n/a	970	n/a	174,388	Mar-20	22.6	12.7	1.1	1.0	8.6	(17.7)	2.7
Sony Corp	6758 JP	NR	n/a	8349	n/a	771,306	Mar-20	20.9	16.0	2.2	2.0	16.2	2.4	0.6
Hitachi	6501 JP	NR	n/a	3457	n/a	245,121	Mar-20	8.1	8.2	1.0	0.9	6.0	0.1	2.8
Sharp Corp	6753 JP	NR	n/a	1349	n/a	52,616	Mar-20	16.8	13.9	2.5	2.1	6.4	0.4	1.4
Fujitsu General	6755 JP	NR	n/a	2782	n/a	22,271	Mar-20	29.3	23.3	2.5	2.3	6.6	0.8	1.1
Lg Electronics	066570 KS	NR	n/a	87700	n/a	93,898	Dec-19	10.6	9.0	1.0	0.9	2.7	0.0	0.9
Samsung Elect.	005930 KS	NR	n/a	54200	n/a	2,116,910	Dec-19	14.8	10.6	1.3	1.2	7.5	0.7	2.7
Woongjin Coway	021240 KS	NR	n/a	80400	n/a	38,820	Dec-19	14.3	13.4	4.2	3.4	29.5	1.3	1.4
Avg.								22.0	17.6	2.7	2.4	11.1	(0.9)	1.6
Med.								21.0	16.0	2.7	2.5	9.3	0.8	1.4

Source: Bloomberg, CMBIS estimates

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

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

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