

Haier Smart Home (6690 HK)

Outperforming by various self-upgrades

Maintain BUY on HSH-H, as we forecast 30% NP CAGR in FY20-23E vs 9% in FY17-20, driven by: 1) recovery in China and robust export growth, 2) various product and service upgrades, and 3) efficiency gain from digitalization and synergies. Our new TP of HK\$ 45.83 is based on 23x FY22E P/E (rolled over from 20x FY21E), in-line with leading China peer's avg. and 26% higher than Int'l peers' avg.. HSH-H's valuation is attractive at 15x FY22E P/E, vs HSH-A's 20x and Midea's 21x.

- FY20 results beat.** Haier's net profit from con. business rose by 26% YoY to RMB 11.3bn, beating BBG/ CMBI est. by 10%/ 12%. The beat was due to: 1) Impressive opex control and 2) lower-than-expected finance costs.
- Impressive fundamentals in 4Q20.** Domestic sales grew by 20% YoY in 4Q20 (excluding Cosmoplat), and accelerated from 16% YoY in 3Q20, thanks to digitalization (integrating inventory of 30K offline Haier stores with online platforms since 2H20). Organic growth for Fridge/ Washing machines/ AC/ Kitchen appliances/ Water heater were ~15%/ 10%/ 50%/ 20%/ 15% in 4Q20. Overseas sales growth also stayed fast at 17% YoY in 4Q20, vs 18% in 3Q20, thanks to robust stay home demand and better than peers localized factory productions. More importantly, OP margin rose by 3.6ppt to 6.5% in 4Q20.
- Positive FY21 guidance following a decent 1Q21.** Management highlighted an encouraging demand in 1Q21E given healthy channel inventory and ample room for ASP adjustments, and expect sales growth of double digit for domestic and HSD (given FX headwind) for overseas in FY21E. Moreover, Casarte, AC and Kitchen appliances are expected to deliver 20%+, 30+ and 30%+ growth in FY21E, driven by: 1) more high-tech product launches, 2) more user-friendly services, 3) more promotion of the "three winged bird" brand to push more sales of smart home system and categories cross-selling.
- Efficiency gains to offset GP margin drags.** GP margin may face a 4-6ppt drags in 1Q21 due to raw material inflation, but should be offset by: 1) ASP increase, 2) product premiumization and 3) efficiency gains from digitalization of services, management system and use of super factory. In long run, Haier SH targets ~10%/5% NP margin for domestic/ overseas segment.
- Maintain BUY with TP of HK\$ 45.83, based on 23x FY22E P/E.** We revised up FY21E/ 22E net profit forecasts by 10%/ 18%, to factor in: 1) faster sales growth, 2) lower GP margin but 3) better operating efficiency gain. Our new TP is based on 23.0x FY22E P/E (rolled over from 20x FY21E), equate to discount to China peers average of 22.6x and 26% premium over int'l peers' average of 18.2x. The stock is trading at 19x/ 17x FY21E/ 22E P/E, which are fairly attractive in our view.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	198,006	209,703	235,711	256,184	271,478
YoY growth (%)	11.5	5.9	12.4	8.7	6.0
NP att. (RMB mn)	8,206	8,877	11,752	14,932	18,616
Diluted EPS (RMB)	1.249	1.335	1.476	1.654	2.062
YoY growth (%)	5.5	8.2	12.5	12.1	24.7
Consensus EPS (RMB)	n/a	n/a	1.329	1.643	2.013
P/E (x)	22.9	21.1	18.8	16.8	13.4
P/B (x)	3.3	3.0	3.3	2.8	2.4
Yield (%)	1.4	1.7	2.1	2.4	3.0
ROE (%)	17.1	16.3	18.8	20.4	23.3
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$45.83
(Previous TP)	HK\$26.91)
Up/Downside	+24.1%
Current Price	HK\$33.10

China Home Appliance Sector

Walter Woo

(852) 3761 8776

walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	335,975
Avg 3 mths t/o (HK\$ mn)	732.77
52w High/Low (HK\$)	38.45/ 22.60
Total Issued Shares (mn)	9,027.8

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	5.8%	9.2%
3-mth	17.8%	10.8%
6-mth	n/a	n/a
12-mth	n/a	n/a

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Report

Haier Smart Home (6690 HK, BUY) – Premiumization, globalization and synergies - 23 Dec 2021

Results Summary

Figure 1: Results review – Half Year

Half yearly (RMB mn)	1H19	2H19	1H20	2H20	1H20 YoY	2H20 YoY	2H20E CMBIS	Actual vs CMBIS
Revenue	97,274	100,732	95,723	113,980	-2%	13%	111,962	2%
COGS	(68,974)	(70,419)	(69,496)	(79,374)			(77,374)	
Gross profit	28,300	30,313	26,227	34,606	-7%	14%	34,589	0%
GP margins	29.1%	30.1%	27.4%	30.4%			30.9%	
Other income & gains	1,404	1,920	688	3,306			3,725	-11%
S & D expenses	(14,939)	(18,904)	(14,527)	(19,114)	-3%	1%	(20,224)	-5%
S & D exp / sales	-15.4%	-18.8%	-15.2%	-16.8%			-18.1%	
Admin expenses	(7,413)	(9,752)	(8,085)	(9,845)	9%	1%	(10,168)	-3%
Admin exp / sales	-7.6%	-9.7%	-8.4%	-8.6%			-9.1%	
Other opex	0	0	0	0			0	
Operating profit (EBIT)	7,352	3,577	4,303	8,953	-41%	150%	7,922	13%
OP margins	7.6%	3.6%	4.5%	7.9%			7.1%	
Other items	0	0	0	0			0	
Net finance income	(851)	(881)	(709)	(612)			(811)	-25%
Net fin. income / sales	-0.9%	-0.9%	-0.7%	-0.5%			-0.7%	
Profit after financing costs	6,501	2,696	3,594	8,341			7,110	
Associated coms	543	866	679	941			775	
Jointly controlled coms	0	0	0	0			0	
Pre-tax profit	7,044	3,562	4,273	9,282	-39%	161%	7,885	18%
Tax	(1,009)	(575)	(661)	(1,571)			(1,345)	17%
Tax / sales	-1.0%	-0.6%	-0.7%	-1.4%			-1.2%	
Effective tax rate	-14.3%	-16.1%	-15.5%	-16.9%			-17.1%	
Net profit from con. bus.	6,035	2,987	3,612	7,711	-40%	158%	6,540	
Net profit from discon. bus.	150	3,163	0	0			0	
Minority interests	1,127	3,002	831	1,615			1,038	56%
Net profit att.	5,058	3,148	2,781	6,096	-45%	94%	5,502	11%
NP margins	5.2%	3.1%	2.9%	5.3%			4.9%	
Sales by channel								
Food Solutions	16,071	16,502	14,377	18,821	-11%	14%	19,477	-3%
Air Solutions	11,646	8,720	10,819	11,042	-7%	27%	8,936	24%
Clothing Solutions	9,748	12,365	8,958	13,525	-8%	9%	13,597	-1%
Water Solutions	4,656	4,865	4,405	5,428	-5%	12%	5,402	0%
Overseas	45,689	46,703	45,890	54,154	0%	16%	51,837	4%
Other business	9,464	11,577	11,274	11,010	19%	-5%	12,713	-13%
Total	97,274	100,732	95,723	113,980	-2%	13%	111,962	2%
Sales by segment								
Mainland China	51,585	54,029	49,833	59,826	-3%	11%	60,125	0%
Overseas	45,689	46,703	45,890	54,154	0%	16%	51,837	4%
Total	97,274	100,732	95,723	113,980	-2%	13%	111,962	2%

Source: Company data, CMBIS estimates

Figure 2: Results review - Full Year

Full yearly (RMB mn)	FY19	FY20	FY21E	FY19 YoY	FY20 YoY	FY21E YoY	FY20E CMBIS	Actual vs CMBIS
Revenue	198,006	209,703	235,711	11%	6%	12%	207,685	1%
COGS	(139,393)	(148,870)	(167,095)				(146,870)	
Gross profit	58,613	60,833	68,617	12%	4%	13%	60,816	0%
GP margins	29.6%	29.0%	29.1%				29.3%	
Other income & gains	3,324	3,994	2,809				4,413	-9%
S & D expenses	(33,843)	(33,641)	(36,486)	16%	-1%	8%	(34,751)	-3%
S & D exp / sales	-17.1%	-16.0%	-15.5%				-16.7%	
Admin expenses	(17,165)	(17,930)	(18,628)	22%	4%	4%	(18,253)	-2%
Admin exp / sales	-8.7%	-8.6%	-7.9%				-8.8%	
Other opex	0	0	0				0	
Operating profit (EBIT)	10,929	13,256	16,312	-5%	21%	23%	12,225	8%
OP margins	5.5%	6.3%	6.9%				5.9%	
Other items	0	0	0				0	
Net finance income	(1,732)	(1,321)	(1,321)				(1,520)	-13%
Net fin. income / sales	-0.9%	-0.6%	-0.6%				-0.7%	
Profit after financing costs	9,197	11,935	14,991				10,704	
Associated coms	1,409	1,620	1,886				1,454	
Jointly controlled coms	0	0	0				0	
Pre-tax profit	10,606	13,555	16,877	-6%	28%	25%	12,158	11%
Tax	(1,584)	(2,232)	(2,650)				(2,006)	11%
Tax / sales	-0.8%	-1.1%	-1.1%				-1.0%	
Effective tax rate	-14.9%	-16.5%	-15.7%				-16.5%	
Net profit from con. bus.	9,022	11,323	14,227				10,152	12%
Net profit from discon. bus.	3,313	0	0				0	
Minority interests	4,129	2,446	2,475				1,869	31%
Net profit att.	8,206	8,877	11,752	10%	8%	32%	8,283	7%
NP margins	4.1%	4.2%	5.0%				4.0%	
Sales by channel								
Food Solutions	32,573	33,198	37,920	2%	2%	14%	33,854	-2%
Air Solutions	20,366	21,861	28,419	-13%	7%	30%	19,755	11%
Clothing Solutions	22,113	22,483	24,057	6%	2%	7%	22,555	0%
Water Solutions	9,521	9,833	10,718	8%	3%	9%	9,807	0%
Overseas	92,392	100,044	109,862	23%	8%	10%	97,727	2%
Other business	21,041	22,284	24,735	19%	6%	11%	23,987	-7%
Total	198,006	209,703	235,711	11%	6%	12%	207,685	1%
Sales by segment								
Mainland China	105,614	109,659	125,849	3%	4%	15%	109,958	0%
Overseas	92,392	100,044	109,862	23%	8%	10%	97,727	2%
Total	198,006	209,703	235,711	11%	6%	12%	207,685	1%

Source: Company data, CMBIS estimates

Earnings revision

Figure 3: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	235,711	256,184	271,478	231,133	249,918	n/a	2.0%	2.5%	n/a
Gross profit	68,617	76,386	82,709	69,101	74,983	n/a	-0.7%	1.9%	n/a
EBIT	15,507	19,400	23,440	14,148	16,241	n/a	9.6%	19.4%	n/a
Net profit att.	11,752	14,932	18,616	10,656	12,672	n/a	10.3%	17.8%	n/a
Diluted EPS (RMB)	1.476	1.654	2.062	1.180	1.404	n/a	25.0%	17.8%	n/a
Gross margin	29.1%	29.8%	30.5%	29.9%	30.0%	n/a	-0.8ppt	-0.2ppt	n/a
EBIT margin	6.6%	7.6%	8.6%	6.1%	6.5%	n/a	0.5ppt	1.1ppt	n/a
Net profit att. margin	5.0%	5.8%	6.9%	4.6%	5.1%	n/a	0.4ppt	0.8ppt	n/a

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	235,711	256,184	271,478	233,158	254,458	274,952	1.1%	0.7%	n/a
Gross profit	68,617	76,386	82,709	69,148	76,737	86,610	-0.8%	-0.5%	n/a
EBIT	15,507	19,400	23,440	14,877	18,229	22,858	4.2%	6.4%	n/a
Net profit att.	11,752	14,932	18,616	12,285	15,187	18,331	-4.3%	-1.7%	n/a
Diluted EPS (RMB)	1.476	1.654	2.062	1.329	1.643	2.013	11.1%	0.7%	n/a
Gross margin	29.1%	29.8%	30.5%	29.7%	30.2%	31.5%	-0.5ppt	-0.3ppt	n/a
EBIT margin	6.6%	7.6%	8.6%	6.4%	7.2%	8.3%	0.2ppt	0.4ppt	n/a
Net profit att. margin	5.0%	5.8%	6.9%	5.3%	6.0%	6.7%	-0.3ppt	-0.1ppt	n/a

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 5: CMBI's assumptions

RMB mn	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Sales by segment (RMB mn)						
Mainland China						
Refrigerators/freezers	29,638	30,424	30,562	34,229	36,968	38,816
Kitchen appliances	2,271	2,149	2,636	3,690	4,318	4,663
Air-conditioners	23,420	20,366	21,861	28,419	31,830	35,013
Laundry appliances	20,853	22,113	22,483	24,057	25,981	27,021
Water appliances	8,812	9,521	9,833	10,718	11,468	11,812
Overseas	74,896	92,392	100,044	109,862	118,657	125,843
Other businesses	17,704	21,041	22,284	24,735	26,961	28,309
Total	177,594	198,006	209,703	235,711	256,184	271,478
Sales by segment growth (%)						
Mainland China						
Refrigerators/freezers	12.2%	2.7%	0.5%	12.0%	8.0%	5.0%
Kitchen appliances	17.1%	-5.4%	22.7%	40.0%	17.0%	8.0%
Air-conditioners	8.7%	-13.0%	7.3%	30.0%	12.0%	10.0%
Laundry appliances	13.2%	6.0%	1.7%	7.0%	8.0%	4.0%
Water appliances	11.1%	8.0%	3.3%	9.0%	7.0%	3.0%
Overseas	7.1%	23.4%	8.3%	9.8%	8.0%	6.1%
Other businesses	121.7%	18.8%	5.9%	11.0%	9.0%	5.0%
Total	15.2%	11.5%	5.9%	12.4%	8.7%	6.0%
Sales by brand growth (%)						
Haier, Leader & others	21.0%	1.1%	2.8%	13.9%	8.3%	4.9%
Casarte	40.0%	32.1%	17.6%	25.0%	20.0%	15.0%
GEA	13.8%	9.0%	10.0%	5.0%	10.0%	6.0%
Candy	n/a	n/a	2.0%	4.0%	11.0%	4.0%
Others	-5.7%	13.5%	6.9%	22.9%	3.2%	6.8%
Total	15.2%	11.5%	5.9%	12.4%	8.7%	6.0%
GP margin (%)	29.4%	29.6%	29.0%	29.1%	29.8%	30.5%
Costs breakdown						
Selling & distribution expenses	16.4%	17.1%	16.0%	15.5%	15.4%	15.1%
Admin expenses	7.9%	8.7%	8.6%	7.9%	7.7%	7.6%
Effective tax rate	15.8%	14.9%	16.5%	15.7%	15.5%	15.3%
NP margin (con. bus.)	5.4%	4.6%	5.4%	6.0%	6.9%	7.9%
NP growth (con. bus.)	8.4%	-5.4%	25.5%	25.7%	23.9%	21.0%
NP att. margin	4.2%	4.1%	4.2%	5.0%	5.8%	6.9%
NP att. growth	7.8%	9.6%	8.2%	32.4%	27.1%	24.7%

Source: Company data, CMBIS estimates

Valuation

Figure 6: 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 (%)
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
A+ H shares Home Appliances - White goods, Kitchen and Small Appliances														
Haier SH - H	6690 HK	BUY	45.83	33.10	38%	335,975	Dec-20	18.8	16.8	3.3	2.8	18.5	1.2	2.1
Gree Electronics	000651 CH	NR	n/a	62.44	n/a	444,780	Dec-19	19.3	14.9	3.1	2.8	16.0	2.8	2.6
Haier SH - A	600690 CH	NR	n/a	32.13	n/a	335,983	Dec-20	23.9	19.6	4.0	3.4	16.9	1.6	1.6
Midea Group	000333 CH	BUY	95.24	87.11	9%	726,312	Dec-19	23.8	20.7	5.2	4.5	22.5	2.1	2.0
Hisense JA	921 HK	NR	n/a	13.96	n/a	26,200	Dec-20	9.0	8.0	1.4	1.2	16.8	0.5	3.1
Hisense HA	000921 CH	NR	n/a	18.50	n/a	26,200	Dec-20	14.2	12.4	2.3	2.0	16.6	0.8	2.5
Whirlpool China	600983 CH	NR	n/a	8.12	n/a	7,369	Dec-19	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Zhejiang Aishida	002403 CH	NR	n/a	7.24	n/a	3,003	Dec-19	19.1	16.1	1.1	1.1	4.7	4.0	1.7
Bear Electric	002959 CH	NR	n/a	84.14	n/a	15,543	Dec-19	28.7	23.2	6.3	5.2	22.0	0.9	1.7
Ecovacs Robotics	603486 CH	NR	n/a	126.52	n/a	85,775	Dec-19	150.3	85.4	24.1	19.3	16.5	1.3	0.1
JS Global Lifestyle	1691 HK	BUY	22.64	25.20	-10%	88,064	Dec-20	28.7	23.1	6.5	5.4	20.4	0.8	0.9
Joyoung Co	002242 CH	NR	n/a	33.70	n/a	30,614	Dec-20	25.4	22.2	5.9	5.5	23.3	2.0	3.0
Hangzhou Robam	002508 CH	NR	n/a	38.15	n/a	42,871	Dec-19	21.1	18.6	4.5	3.9	21.3	1.7	1.9
Zhejiang Supor	002032 CH	NR	n/a	74.20	n/a	72,142	Dec-20	28.7	25.2	7.1	6.2	24.6	1.7	2.0
Vatti Corporation	002035 CH	NR	n/a	7.69	n/a	7,915	Dec-19	12.6	10.1	2.1	1.9	13.6	66.1	2.9
Xinbao Electrica	002705 CH	NR	n/a	36.90	n/a	36,123	Dec-19	26.8	22.4	5.8	4.7	21.6	0.8	1.7
Avg.								30.0	22.6	5.5	4.7	18.3	5.9	2.0
Med.								23.8	19.6	4.5	3.9	18.5	1.6	2.0
International Home Appliances - White goods, Kitchen and Small Appliances														
Whirlpool Corp	WHR US	NR	n/a	225	n/a	109,974	Dec-20	11.3	11.0	3.2	2.9	27.3	1.5	2.2
Ingersoll-Rand Plc	IR US	NR	n/a	50	n/a	161,550	Dec-20	26.3	22.9	2.0	2.0	6.3	(0.1)	0.3
Smith (A.O.) Corp	AOS US	NR	n/a	68	n/a	85,342	Dec-20	26.8	24.4	6.4	6.2	23.4	2.4	1.6
Helen Of Troy	HELE US	NR	n/a	213	n/a	40,366	Feb-20	18.3	17.8	4.4	3.6	21.2	0.7	n/a
Cree Inc	CREE US	NR	n/a	115	n/a	103,260	Jun-20	n/a	n/a	6.4	6.0	(10.2)	n/a	0.0
Irobot Corp	IRBT US	NR	n/a	122	n/a	26,870	Jan-21	38.7	23.2	4.0	3.5	10.5	5.7	0.0
Electrolux Ab	ELUXB SS	NR	n/a	242	n/a	66,593	Dec-20	16.1	14.0	3.3	3.0	22.4	(2.8)	3.5
Seb Sa	SK FP	NR	n/a	151	n/a	76,471	Dec-20	19.9	17.9	2.9	2.6	15.5	1.0	1.5
Koninklijke Philips	PHIA NA	NR	n/a	49	n/a	409,607	Dec-20	23.7	20.8	3.4	3.2	12.6	0.8	1.9
Daikin Industries	6367 JP	NR	n/a	22945	n/a	472,438	Mar-20	41.5	33.8	4.3	3.9	10.8	4.3	0.7
Panasonic Corp	6752 JP	NR	n/a	1436	n/a	247,412	Mar-20	22.1	15.1	1.5	1.4	7.4	6.2	1.6
Sony Corp	6758 JP	NR	n/a	12200	n/a	1,080,724	Mar-20	14.2	21.2	2.9	2.6	23.2	1.3	0.4
Hitachi	6501 JP	NR	n/a	4947	n/a	336,345	Mar-20	12.4	11.0	1.5	1.3	12.5	0.2	2.0
Sharp Corp	6753 JP	NR	n/a	1929	n/a	82,922	Mar-20	22.4	19.3	3.6	3.0	18.0	0.3	1.3
Fujitsu General	6755 JP	NR	n/a	3100	n/a	23,796	Mar-20	24.0	24.5	2.8	2.5	12.1	0.6	1.0
Lg Electronics	066570 KS	NR	n/a	158500	n/a	178,668	Dec-20	12.0	10.7	1.6	1.4	13.4	1.1	0.6
Samsung Elect.	005930 KS	NR	n/a	84800	n/a	3,487,084	Dec-20	15.6	12.0	2.0	1.7	12.7	0.6	1.9
Woongjin Coway	021240 KS	NR	n/a	66400	n/a	33,754	Dec-20	11.1	10.3	2.8	2.3	28.2	1.2	1.9
Avg.								21.0	18.2	3.3	3.0	14.9	1.5	1.3
Med.								19.9	17.9	3.1	2.8	13.1	1.0	1.5

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	198,006	209,703	235,711	256,184	271,478	Net income	10,090	12,575	15,507	19,400	23,440
Food Solutions	32,573	33,198	37,920	41,286	43,479	D&A	33,843	33,641	36,486	39,365	41,108
Air Solutions	20,366	21,861	28,419	31,830	35,013	Change in working capital	848	840	5,115	1,450	984
Clothing & Water Solutions	31,634	32,316	34,775	37,450	38,833	Income tax paid	(8,011)	(2,232)	(2,650)	(3,232)	(3,853)
Overseas & Other business	113,433	122,328	134,598	145,619	154,153	Others	(21,687)	(27,997)	(30,171)	(32,610)	(33,912)
Cost of goods sold	(139,393)	(148,870)	(167,095)	(179,798)	(188,769)	Net cash from operating	15,083	16,826	24,287	24,372	27,767
Gross profit	58,613	60,833	68,617	76,386	82,709	Capex & investments	(7,575)	(8,862)	(7,064)	(7,417)	(8,330)
Other net income	2,485	3,313	2,004	2,178	2,579	Associated companies	-	-	-	-	-
Operating expenses	(51,008)	(51,571)	(55,114)	(59,164)	(61,848)	Interest received	-	-	-	-	-
S & D costs	(33,843)	(33,641)	(36,486)	(39,365)	(41,108)	Others	(3,386)	-	-	-	-
Admin exp. (ex- R&D)	(10,944)	(11,070)	(11,085)	(11,601)	(12,052)	Net cash from investing	(10,962)	(8,862)	(7,064)	(7,417)	(8,330)
R & D exp.	(6,221)	(6,860)	(7,543)	(8,198)	(8,687)	Equity raised	(1,250)	-	-	-	-
Other operating exp.	-	-	-	-	-	Change of Debts	(559)	-	-	-	-
EBIT	10,090	12,575	15,507	19,400	23,440	Dividend paid	(2,467)	(2,467)	(3,400)	(4,424)	(4,957)
Finance costs, net	(893)	(640)	(515)	(338)	(157)	Others	(1,737)	(1,321)	(1,321)	(1,321)	(1,321)
JV & associates	-	-	-	-	-	Net cash from financing	(6,013)	(3,788)	(4,721)	(5,745)	(6,278)
Exceptional	1,409	1,620	1,886	1,793	1,900	Net change in cash	(1,892)	4,176	12,502	11,211	13,159
Pre-tax profit	10,606	13,555	16,877	20,855	25,184	Beginning cash balance	44,051	43,588	47,763	60,265	71,476
Income tax	(1,584)	(2,232)	(2,650)	(3,232)	(3,853)	Exchange difference	1,428	-	-	-	-
Less: Minority interests	816	2,446	2,475	2,690	2,715	Cash at the end of the year	43,588	47,763	60,265	71,476	84,635
Net profit	8,206	8,877	11,752	14,932	18,616						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	86,907	92,427	95,868	99,305	103,50	Sales mix (%)					
Fixed asset	21,180	24,400	28,042	31,880	35,979	Food Solutions	16.5	15.8	16.1	16.1	16.0
Intangible assets & goodwill	34,232	33,332	32,431	31,531	30,630	Air Solutions	10.3	10.4	12.1	12.4	12.9
Prepaid lease payments	21,206	24,406	25,106	25,606	26,606	Clothing & Water Solutions	16.0	15.4	14.8	14.6	14.3
Interest in asso. & JV	-	-	-	-	-	Overseas & Other business	57.3	58.3	57.1	56.8	56.8
Others	10,289	10,289	10,289	10,289	10,289	Total	100.0	100.0	100.0	100.0	100.0
Current assets	100,54	109,00	123,50	139,85	156,76	P&L ratios (%)					
Cash and cash equivalents	43,588	47,763	60,265	71,476	84,635	Gross margin	29.6	29.0	29.1	29.8	30.5
Inventories	28,229	28,550	29,757	32,019	33,616	Operating margin	5.1	6.0	6.6	7.6	8.6
Trade and other receivables	24,967	28,726	29,060	31,584	33,470	Pre-tax margin	5.4	6.5	7.2	8.1	9.3
Prepayments	3,436	3,639	4,091	4,446	4,712	Net margin	4.1	4.2	5.0	5.8	6.9
Others	327	327	327	327	327	Effective tax rate	14.9	16.5	15.7	15.5	15.3
Current liabilities	95,610	100,73	107,84	114,43	119,16	Balance sheet ratios					
Borrowings	8,585	8,585	8,585	8,585	8,585	Current ratio (x)	1.1	1.1	1.1	1.2	1.3
Trade payables	53,059	57,101	61,802	66,500	69,819	Quick ratio (x)	0.8	0.8	0.9	0.9	1.0
Accruals & other payables	18,312	19,394	21,799	23,692	25,107	Cash ratio (x)	0.5	0.5	0.6	0.6	0.7
Tax payables	2,117	2,117	2,117	2,117	2,117	Inventory turnover days	74	70	65	65	65
Others	13,537	13,537	13,537	13,537	13,537	Trade receivables days	46	50	45	45	45
Non-current liabilities	26,855	26,855	26,855	26,855	26,855	Trade payables days	139	140	135	135	135
Borrowings	21,680	21,680	21,680	21,680	21,680	Total debt / total equity ratio (%)	63	56	49	42	35
Deferred income	1,970	1,970	1,970	1,970	1,970	Net debt / equity ratio (%)	Net cash				
Deferred tax	1,154	1,154	1,154	1,154	1,154	Returns (%)					
Others	2,050	2,050	2,050	2,050	2,050	ROE	17.1	16.3	18.8	20.4	21.4
Minority Interest	17,102	19,548	22,023	24,712	27,427	ROA	4.4	4.4	5.4	6.2	7.2
Total net assets	47,888	54,298	62,651	73,159	86,818	Per share					
Shareholders' equity	47,888	54,298	62,651	73,159	86,818	EPS (RMB)	1.25	1.33	1.48	1.65	2.06
						DPS (RMB)	0.39	0.49	0.59	0.66	0.82
						BVPS (RMB)	8.77	9.32	8.36	9.76	11.59

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.

CMBIS Ratings

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

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.