

Haier Smart Home (6690 HK)

Positive outlook for 2Q21E, after a strong 1Q21

Maintain BUY on HSH-H, backed by sales growth acceleration in 1Q21 and our positive view for 2Q21E on robust orders backlog. Thanks to its excellent sales growth momentum and meaningful room for long-term margin improvements, Haier is our top pick in the home appliance sector now. Our new TP of HK\$ 47.26 is based on 23x FY22E P/E (unchanged), 16%/ 37% higher than leading China peer's avg./ Int'l peers' avg. of 20x/ 17x. HSH-H's valuation is attractive at 16x FY22E P/E, vs HSH-A's 20x and Midea's 17x, given our forecast of 27% NP CAGR in FY20-23E.

- Robust 1Q21 amid input price pressure.** Haier's 1Q21 net profit surged by 185% YoY to RMB 3.1bn, in-line with BBG est., which is impressive given hike in raw material prices and freight rate, as well as CNY appreciation. Excluding deconsolidation of the logistic and Cosmoplat business in Jul 2019 and Sep 2020, Haier's sales should have grown by 38% YoY vs 1Q20 and 24% YoY vs 1Q19. Sales growth for domestic (adjusted for Cosmoplat)/ Casarte/ overseas accelerated to 56%/ 80%/ 25% in 1Q21, vs 20%/ 35%/ 17% in 4Q20.
- Prosperous outlook for 2Q21E.** We are fairly confident for both domestic and overseas sales growth in 2Q21E, thanks to: 1) decent customer receptions for new products, evidenced by strong market shares gained in all segments in 1Q21, 2) robust orders backlog in US and Europe, highlighted by the management, and 3) excellent execution of premiumization, aided by better marketing and understanding of customers demand, as a brand owner.
- Ample room for opex improvement in FY21E.** Management also expect more efficiency gains to come in FY21E, from: 1) digitalization in services, management system, inventory, supply chain and further upgrades in logistics and marketing 2) sales of more high margin smart home solutions thru promotion of "three winged bird" and 3) greater push on other categories like Air-con and kitchen appliances, esp. in the high-end segment.
- Substantial potential in long-term margins.** Management are determined on boosting the overall profitability and targets a long-term NP margin of ~10%/ 7-8% for domestic/ overseas segment, thru: 1) premiumization, 2) economies of scales, and 3) better supply chain (new factories in US and Europe will ramp up soon). NP margin were just at 5.4%/ 5.7% in FY20/ 1Q21.
- Maintain BUY with TP of HK\$ 47.26, based on 23x FY22E P/E.** We finetuned FY21E/ 22E/ 23E net profit forecasts by +3%/ +3%/ -2%, to factor in: 1) faster sales growth, 2) better GP margin and 3) more conservative FY23E view. Our new TP is based on 23x FY22E P/E (unchanged), 16%/ 37% higher than China peers average of 20x/ int'l peers' average of 17x. The stock is trading at 18x/ 16x FY21E/ 22E P/E, fairly attractive in our view.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	198,006	209,703	238,192	258,886	274,348
YoY growth (%)	11.5	5.9	13.6	8.7	6.0
NP att. (RMB mn)	8,206	8,877	12,070	15,396	18,323
Diluted EPS (RMB)	1.249	1.335	1.516	1.705	2.030
YoY growth (%)	5.5	8.2	15.5	12.5	19.0
Consensus EPS (RMB)	n/a	n/a	1.348	1.642	1.949
P/E (x)	23.0	21.3	18.4	16.4	13.7
P/B (x)	3.3	3.0	3.3	2.8	2.4
Yield (%)	1.3	1.7	2.2	2.4	2.9
ROE (%)	17.1	16.3	19.2	20.9	22.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$47.26
(Previous TP)	HK\$45.83)
Up/Downside	+40.6%
Current Price	HK\$33.60

China Home Appliance Sector

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Stock Data

Mkt Cap (HK\$ mn)	348,363
Avg 3 mths t/o (HK\$ mn)	449.82
52w High/Low (HK\$)	38.45/ 22.60
Total Issued Shares (mn)	2,768.7

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%

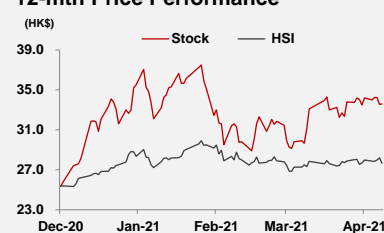
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.5%	2.3%
3-mth	1.2%	1.8%
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) – Outperforming by various self-upgrades - 7 Apr 2021
- Haier Smart Home (6690 HK, BUY) – Premiumization, globalization and synergies - 23 Dec 2021

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	238,192	258,886	274,348	235,711	256,184	271,478	1.1%	1.1%	1.1%
Gross profit	69,897	77,915	83,389	68,617	76,386	82,709	1.9%	2.0%	0.8%
EBIT	15,891	19,956	23,100	15,507	19,400	23,440	2.5%	2.9%	-1.5%
Net profit att.	12,070	15,396	18,323	11,752	14,932	18,616	2.7%	3.1%	-1.6%
Diluted EPS (RMB)	1.516	1.705	2.030	1.476	1.654	2.062	2.7%	3.1%	-1.6%
Gross margin	29.3%	30.1%	30.4%	29.1%	29.8%	30.5%	0.2ppt	0.3ppt	-0.1ppt
EBIT margin	6.7%	7.7%	8.4%	6.6%	7.6%	8.6%	0.1ppt	0.1ppt	-0.2ppt
Net profit att. margin	5.1%	5.9%	6.7%	5.0%	5.8%	6.9%	0.1ppt	0.1ppt	-0.2ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	238,192	258,886	274,348	233,391	255,360	275,407	2.1%	1.4%	-0.4%
Gross profit	69,897	77,915	83,389	69,055	77,055	85,009	1.2%	1.1%	-1.9%
EBIT	15,891	19,956	23,100	15,025	18,549	22,941	5.8%	7.6%	0.7%
Net profit att.	12,070	15,396	18,323	12,266	15,171	17,859	-1.6%	1.5%	2.6%
Diluted EPS (RMB)	1.516	1.705	2.030	1.348	1.642	1.949	12.4%	3.8%	4.1%
Gross margin	29.3%	30.1%	30.4%	29.6%	30.2%	30.9%	-0.2ppt	-0.1ppt	-0.5ppt
EBIT margin	6.7%	7.7%	8.4%	6.4%	7.3%	8.3%	0.2ppt	0.4ppt	0.1ppt
Net profit att. margin	5.1%	5.9%	6.7%	5.3%	5.9%	6.5%	-0.2ppt	0ppt	0.2ppt

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 3: 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	34,841	37,628	39,509
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	24,506	26,467	27,526
Water appliances	8,812	9,521	9,833	10,816	11,573	11,921
Overseas	74,896	92,392	100,044	111,184	120,109	127,407
Other businesses	17,704	21,041	22,284	24,735	26,961	28,309
Total	177,594	198,006	209,703	238,192	258,886	274,348
Sales by segment growth (%)						
Mainland China						
Refrigerators/freezers	12.2%	2.7%	0.5%	14.0%	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%	9.0%	8.0%	4.0%
Water appliances	11.1%	8.0%	3.3%	10.0%	7.0%	3.0%
Overseas	7.1%	23.4%	8.3%	11.1%	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%	13.6%	8.7%	6.0%
Sales by brand growth (%)						
Haier, Leader & others	21.0%	1.1%	2.8%	15.0%	8.3%	4.9%
Casarte	40.0%	32.1%	17.6%	25.0%	20.0%	15.0%
GEA	13.8%	9.0%	10.0%	7.0%	10.0%	6.0%
Candy	n/a	n/a	2.0%	5.0%	11.0%	4.0%
Others	-5.7%	13.5%	6.9%	22.8%	3.2%	6.9%
Total	15.2%	11.5%	5.9%	13.6%	8.7%	6.0%
GP margin (%)	29.4%	29.6%	29.0%	29.3%	30.1%	30.4%
Costs breakdown						
Selling & distribution expenses	16.4%	17.1%	16.0%	15.5%	15.4%	15.2%
Admin expenses	7.9%	8.7%	8.6%	8.0%	7.8%	7.7%
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%	6.1%	7.0%	7.7%
NP growth (con. bus.)	8.4%	-5.4%	25.5%	28.7%	24.3%	16.3%
NP att. margin	4.2%	4.1%	4.2%	5.1%	5.9%	6.7%
NP att. growth	7.8%	9.6%	8.2%	36.0%	27.6%	19.0%

Source: Company data, CMBIS estimates

Valuation

Figure 4: Peers' valuation

Company	Ticker	Rating	12m	Price	Up/	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE	3yrs	Yield	
			TP	(LC)	Down-			(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	(%)	PEG (x)
A+ H shares Home Appliances - White goods, Kitchen and Small Appliances															
Haier SH - H	6690 HK	BUY	47.26	33.60	41%	348,363	Dec-20	18.4	16.4	3.3	2.8	18.0	1.2	2.2	
Gree Electronics	000651 CH	NR	n/a	59.91	n/a	432,311	Dec-20	14.2	12.3	2.7	2.4	19.3	0.8	4.3	
Haier SH - A	600690 CH	NR	n/a	33.13	n/a	348,332	Dec-20	24.5	20.2	4.1	3.6	16.6	1.6	1.5	
Midea Group	000333 CH	BUY	95.24	80.17	19%	677,146	Dec-20	19.1	16.7	4.2	3.6	22.8	5.4	2.4	
Hisense JA	921 HK	NR	n/a	13.10	n/a	24,428	Dec-20	8.4	7.1	1.3	1.1	17.1	0.5	3.4	
Hisense HA	000921 CH	NR	n/a	16.99	n/a	24,426	Dec-20	12.8	11.0	2.1	1.8	16.3	0.7	2.7	
Whirlpool China	600983 CH	NR	n/a	9.90	n/a	9,102	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Zhejiang Aishida	002403 CH	NR	n/a	7.58	n/a	3,185	Dec-20	18.7	23.7	1.1	1.1	4.3	n/a	1.5	
Bear Electric	002959 CH	NR	n/a	73.00	n/a	13,660	Dec-20	21.1	16.7	4.6	3.8	21.5	0.9	2.3	
Ecovacs Robotics	603486 CH	NR	n/a	164.01	n/a	112,639	Dec-20	85.3	62.1	22.5	17.1	26.2	1.4	0.2	
JS Global Lifestyle	1691 HK	BUY	34.38	23.45	47%	81,949	Dec-20	24.7	19.4	5.5	4.5	22.0	0.9	1.0	
Joyoung Co	002242 CH	NR	n/a	31.80	n/a	29,264	Dec-20	24.0	21.1	5.4	5.0	22.5	1.8	3.1	
Hangzhou Robam	002508 CH	NR	n/a	38.37	n/a	43,680	Dec-20	18.8	16.6	3.9	3.4	20.7	1.2	2.3	
Zhejiang Supor	002032 CH	NR	n/a	75.40	n/a	74,262	Dec-20	29.0	25.5	7.3	6.4	25.6	1.8	1.9	
Vatti Corporation	002035 CH	NR	n/a	7.25	n/a	7,559	Dec-20	9.7	8.8	1.7	1.5	16.1	0.4	3.4	
Xinbao Electrica	002705 CH	NR	n/a	37.44	n/a	37,129	Dec-20	23.0	19.2	4.6	3.9	20.8	1.1	2.0	
								Avg.	23.4	19.8	5.0	4.1	19.3	1.4	2.3
								Med.	19.1	16.7	4.1	3.6	20.7	1.1	2.3
International Home Appliances - White goods, Kitchen and Small Appliances															
Whirlpool Corp	WHR US	NR	n/a	236	n/a	115,008	Dec-20	10.0	10.4	3.2	2.8	34.3	1.1	2.2	
Ingersoll-Rand Plc	IR US	NR	n/a	49	n/a	160,968	Dec-20	27.2	23.6	2.1	2.0	6.1	(0.1)	0.3	
Smith (A.O.) Corp	AOS US	NR	n/a	68	n/a	84,432	Dec-20	25.5	22.6	6.3	6.2	24.0	1.8	1.6	
Helen Of Troy	HELE US	NR	n/a	211	n/a	40,109	Feb-21	18.3	17.0	3.5	3.0	20.6	n/a	n/a	
Cree Inc	CREE US	NR	n/a	99	n/a	89,164	Jun-20	n/a	n/a	4.8	4.0	(9.8)	n/a	0.0	
Irobot Corp	IRBT US	NR	n/a	109	n/a	23,995	Jan-21	33.8	20.5	3.6	3.1	12.2	5.0	0.0	
Electrolux Ab	ELUXB SS	NR	n/a	238	n/a	67,571	Dec-20	13.4	13.4	3.2	2.9	26.0	(5.2)	4.3	
Seb Sa	SK FP	NR	n/a	152	n/a	78,313	Dec-20	18.5	16.9	2.9	2.5	16.2	0.8	1.6	
Koninklijke Philips	PHIA NA	NR	n/a	47	n/a	398,961	Dec-20	24.8	21.9	3.3	3.1	12.1	1.0	2.0	
Daikin Industries	6367 JP	NR	n/a	21930	n/a	456,770	Mar-20	39.5	32.1	4.1	3.8	11.0	3.7	0.7	
Panasonic Corp	6752 JP	NR	n/a	1289	n/a	224,736	Mar-20	19.0	13.4	1.4	1.3	7.5	4.0	1.8	
Sony Corp	6758 JP	NR	n/a	10900	n/a	976,751	Mar-21	18.3	15.8	2.3	2.0	13.4	(1.7)	0.5	
Hitachi	6501 JP	NR	n/a	5381	n/a	370,091	Mar-21	11.4	10.5	1.4	1.2	13.9	8.1	2.1	
Sharp Corp	6753 JP	NR	n/a	1847	n/a	80,317	Mar-20	21.5	18.2	3.5	2.9	18.0	0.3	1.4	
Fujitsu General	6755 JP	NR	n/a	2900	n/a	22,519	Mar-21	22.5	18.8	2.4	2.1	11.1	2.1	1.2	
Lg Electronics	066570 KS	NR	n/a	157500	n/a	179,309	Dec-20	10.6	9.0	1.5	1.3	15.6	0.5	0.7	
Samsung Elect.	005930 KS	NR	n/a	81500	n/a	3,384,751	Dec-20	14.8	11.4	1.9	1.7	12.9	0.5	2.1	
Woongjin Coway	021240 KS	NR	n/a	66900	n/a	34,347	Dec-20	11.2	10.4	2.8	2.3	28.1	0.9	1.9	
								Avg.	20.0	16.8	3.0	2.7	15.2	1.4	1.4
								Med.	18.5	16.9	3.0	2.7	13.6	1.0	1.6

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	238,192	258,886	274,348	Net income	10,090	12,575	15,891	19,956	23,100
Food Solutions	32,573	33,198	38,531	41,946	44,173	D&A	33,843	33,641	37,032	39,958	41,728
Air Solutions	20,366	21,861	28,419	31,830	35,013	Change in working capital	848	840	5,226	1,434	1,171
Clothing & Water Solutions	31,634	32,316	35,323	38,040	39,446	Income tax paid	(8,011)	(2,232)	(2,714)	(3,323)	(3,805)
Overseas & Other business	113,433	122,328	135,919	147,071	155,716	Others	(21,687)	(27,997)	(30,712)	(33,188)	(34,515)
Cost of goods sold	(139,393)	(148,870)	(168,296)	(180,971)	(190,959)	Net cash from operating	15,083	16,826	24,724	24,837	27,679
Gross profit	58,613	60,833	69,897	77,915	83,389	Capex & investments	(7,575)	(8,862)	(7,131)	(7,490)	(8,407)
Other net income	2,485	3,313	2,025	2,201	2,606	Associated companies	-	-	-	-	-
Operating expenses	(51,008)	(51,571)	(56,030)	(60,160)	(62,896)	Interest received	-	-	-	-	-
S & D costs	(33,843)	(33,641)	(37,032)	(39,958)	(41,728)	Others	(3,386)	-	-	-	-
Admin exp. (ex- R&D)	(10,944)	(11,070)	(11,376)	(11,918)	(12,388)	Net cash from investing	(10,962)	(8,862)	(7,131)	(7,490)	(8,407)
R & D exp.	(6,221)	(6,860)	(7,622)	(8,284)	(8,779)	Equity raised	(1,250)	-	-	-	-
Other operating exp.	-	-	-	-	-	Change of Debts	(559)	-	-	-	-
EBIT	10,090	12,575	15,891	19,956	23,100	Dividend paid	(2,467)	(2,467)	(3,400)	(4,543)	(5,112)
Finance costs, net	(893)	(640)	(512)	(330)	(149)	Others	(1,737)	(1,321)	(1,321)	(1,321)	(1,321)
JV & associates	-	-	-	-	-	Net cash from financing	(6,013)	(3,788)	(4,721)	(5,864)	(6,433)
Exceptional	1,409	1,620	1,906	1,812	1,920	Net change in cash	(1,892)	4,176	12,871	11,484	12,839
Pre-tax profit	10,606	13,555	17,284	21,438	24,872	Beginning cash balance	44,051	43,588	47,763	60,655	72,157
Income tax	(1,584)	(2,232)	(2,714)	(3,323)	(3,805)	Exchange difference	1,428	-	-	-	-
Less: Minority interests	816	2,446	2,501	2,718	2,743	Cash at the end of the year	43,588	47,763	60,635	72,138	84,996
Net profit	8,206	8,877	12,070	15,396	18,323						

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	95,932	99,436	103,700	Sales mix (%)					
Fixed asset	21,180	24,400	28,106	32,010	36,177	Food Solutions	16.5	15.8	16.2	16.2	16.1
Intangible assets & goodwill	34,232	33,332	32,431	31,531	30,630	Air Solutions	10.3	10.4	11.9	12.3	12.8
Prepaid lease payments	21,206	24,406	25,106	25,606	26,606	Clothing & Water Solutions	16.0	15.4	14.8	14.7	14.4
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	124,45	141,12	157,93	P&L ratios (%)					
Cash and cash equivalents	43,588	47,763	60,655	72,157	85,017	Gross margin	29.6	29.0	29.3	30.1	30.4
Inventories	28,229	28,550	29,970	32,228	34,006	Operating margin	5.1	6.0	6.7	7.7	8.4
Trade and other receivables	24,967	28,726	29,366	31,918	33,824	Pre-tax margin	5.4	6.5	7.3	8.3	9.1
Prepayments	3,436	3,639	4,134	4,493	4,761	Net margin	4.1	4.2	5.1	5.9	6.7
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	108,51	115,11	120,23	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	62,246	66,935	70,629	Quick ratio (x)	0.8	0.8	0.9	0.9	1.0
Accruals & other payables	18,312	19,394	22,028	23,942	25,372	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	48	41	35
Deferred income	1,970	1,970	1,970	1,970	1,970	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	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	19.2	20.9	21.1
Minority Interest	17,102	19,548	22,049	24,767	27,510	ROA	4.4	4.4	5.5	6.4	7.0
Total net assets	47,888	54,298	62,968	73,822	87,033	Per share					
Shareholders' equity	47,888	54,298	62,968	73,822	87,033	EPS (RMB)	1.25	1.33	1.52	1.71	2.03
						DPS (RMB)	0.39	0.49	0.61	0.68	0.81
						BVPS (RMB)	8.77	9.32	8.40	9.85	11.62

Source: Company data, CMBIS estimates

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