

Haier Smart Home (6690 HK)

Tough 4Q21E but guidance maintained

We maintain BUY on HSH-H, as we believe the Company had already shown its first-class capability to navigate growth under such a tough market. Our new TP of HK\$ 36.91 is based on 17x FY22E P/E (from 18x for recent sector de-rating). HSH-H's valuation is attractive at 13x FY22E P/E, vs HSH-A's 17x, Midea's 15x and China peers average of 15x, given 29% NP CAGR in FY20-23E.

■ **3Q21 results inline but impressive given various headwinds.** Haier's sales/ net profit fell 1%/ 12% YoY to RMB 58.3bn/ RMB 3.1bn in 3Q21, below BBG est. by 2%/ 26%. But excluding disposal of COSMOplat and assuming 100% ownership of HEG in last year, sales/ net profit growth will be 9%/ 15% YoY, inline with expectation and far better than Midea's 13%/ 4% YoY and Gree's -17%/ -16% YoY. Domestic/ overseas sales growth were 13%/ 6% (13% in USD term) in 3Q21 and these are highly impressive amid headwinds like: 1) softening property market in mainland China, 2) global raw material inflation and transportation disruptions and 3) various power and chip shortages. 3Q21 GP margin and EBIT margin increased by 2.4ppt and 0.5ppt, thanks to: 1) ASP hike, 2) better product mix and 3) various improvements through digitalization.

■ **Remain confident on 4Q21E outlook.** Even though headwinds are likely to persist, management is still confident on the guidance (faster than peers and possibly double-digit sales growth for both overseas and domestic). For Casarte, sale growth was robust at 37% in 3Q21 and 30% is likely in 4Q21E and even in FY22E, thanks to: 1) its leadership in customer and distributor satisfaction, 2) superior product innovation and 3) category expansion (air-con sales was interrupted in 3Q21 but rapid growth already resumed in Oct 2021). For domestic market, Haier also performed very well during 10-1 holidays and the 1st day of double 11 festival pre-sales (achieved last year's sales within first 2 hours). For overseas market, demand continued to be greater than supply. Management is optimistic about the Black Friday as well as Christmas, and order back log from US retailers is very robust and lasting into 1Q22E.

■ **Margin improvement is still on track.** Management also reiterated their long-term EBIT margin target of 10%/ 7-8% for domestic/ overseas, driven by structural improvement in different areas, such as: 1) SKUs optimization, 2) premiumization and product mix, 3) product designs and supply chain and 4) digitalization of platforms, personnel (customers and staffs) and functions (services, logistics, supply chain and marketing). Management also believed at least 0.5ppt EBIT margin increase in FY21E and FY22E are achievable.

■ **Maintain BUY but trim TP to HK\$ 36.91, based on 17x FY22E P/E.** We cut our FY21E/ 22E/ 23E net profit forecasts by 3%/ 3%/ 3% to factor in slower China sales growth and lower GP margin. New TP is based on 17x FY22E P/E (from 18x). It is trading at 13x FY22E P/E, fairly attractive in our view, vs China peers average of 15x and ~21% discounts to HSH-A's 17x FY22E P/E.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	198,006	209,703	234,261	256,807	272,151
YoY growth (%)	11.5	5.9	11.7	9.6	6.0
NP att. (RMB mn)	8,206	8,877	12,801	16,271	18,977
Diluted EPS (RMB)	1.249	1.335	1.608	1.802	2.102
YoY growth (%)	5.5	8.2	22.5	12.1	16.6
Consensus EPS (RMB)	n/a	n/a	1.414	1.726	1.998
P/E (x)	19.4	18.0	14.7	13.1	11.2
P/B (x)	2.8	2.1	2.3	2.0	1.7
Yield (%)	1.6	2.1	2.7	3.1	3.6
ROE (%)	17.1	13.3	16.8	18.6	18.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$36.91
(Previous TP)	HK\$40.36)
Up/Downside	+30.0%
Current Price	HK\$28.40

China Home Appliance Sector

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Stock Data

Mkt Cap (HK\$ mn)	295.623
Avg 3 mths t/o (HK\$ mn)	263.76
52w High/Low (HK\$)	38.45/ 22.60
Total Issued Shares (mn)	2,814.3

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%

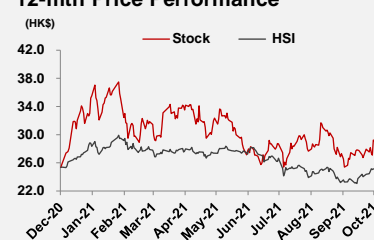
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.0%	2.7%
3-mth	9.4%	11.9%
6-mth	-13.4%	-2.0%
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) – Solid market share gain and 2H21E outlook - 6 Sep 2021
- Haier Smart Home (6690 HK, BUY) – Positive outlook for 2Q21E, after a strong 1Q21 - 3 May 2021
- Haier Smart Home (6690 HK, BUY) – Outperforming by various self-upgrades - 7 Apr 2021

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	234,261	256,807	272,151	237,583	260,537	276,214	-1.4%	-1.4%	-1.5%
Gross profit	69,806	78,342	83,762	70,909	79,620	85,164	-1.6%	-1.6%	-1.6%
EBIT	15,774	19,929	22,934	16,290	20,549	23,634	-3.2%	-3.0%	-3.0%
Net profit att.	12,801	16,271	18,977	13,239	16,801	19,581	-3.3%	-3.2%	-3.1%
Diluted EPS (RMB)	1.608	1.802	2.102	1.663	1.861	2.169	-3.3%	-3.2%	-3.1%
Gross margin	29.8%	30.5%	30.8%	29.8%	30.6%	30.8%	0ppt	-0.1ppt	-0.1ppt
EBIT margin	6.7%	7.8%	8.4%	6.9%	7.9%	8.6%	-0.1ppt	-0.1ppt	-0.1ppt
Net profit att. margin	5.5%	6.3%	7.0%	5.6%	6.4%	7.1%	-0.1ppt	-0.1ppt	-0.1ppt

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	234,261	256,807	272,151	233,739	256,740	278,882	0.2%	0.0%	-2.4%
Gross profit	69,806	78,342	83,762	70,289	78,453	86,214	-0.7%	-0.1%	-2.8%
EBIT	15,774	19,929	22,934	14,779	18,163	21,198	6.7%	9.7%	8.2%
Net profit att.	12,801	16,271	18,977	12,857	16,027	18,473	-0.4%	1.5%	2.7%
Diluted EPS (RMB)	1.608	1.802	2.102	1.414	1.726	1.998	13.7%	4.4%	5.2%
Gross margin	29.8%	30.5%	30.8%	30.1%	30.6%	30.9%	-0.3ppt	-0.1ppt	-0.1ppt
EBIT margin	6.7%	7.8%	8.4%	6.3%	7.1%	7.6%	0.4ppt	0.7ppt	0.8ppt
Net profit att. margin	5.5%	6.3%	7.0%	5.5%	6.2%	6.6%	0ppt	0.1ppt	0.3ppt

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	34,229	36,968	38,816
Kitchen appliances	2,271	2,149	2,636	3,058	3,578	3,864
Air-conditioners	23,420	20,366	21,861	26,233	29,381	32,319
Laundry appliances	20,853	22,113	22,483	24,956	26,953	28,031
Water appliances	8,812	9,521	9,833	11,210	11,994	12,354
Overseas	74,896	92,392	100,044	117,862	129,716	137,639
Other businesses	17,704	21,041	22,284	16,713	18,217	19,128
Total	177,594	198,006	209,703	234,261	256,807	272,151
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%	16.0%	17.0%	8.0%
Air-conditioners	8.7%	-13.0%	7.3%	20.0%	12.0%	10.0%
Laundry appliances	13.2%	6.0%	1.7%	11.0%	8.0%	4.0%
Water appliances	11.1%	8.0%	3.3%	14.0%	7.0%	3.0%
Overseas	7.1%	23.4%	8.3%	17.8%	10.1%	6.1%
Other businesses	121.7%	18.8%	5.9%	-25.0%	9.0%	5.0%
Total	15.2%	11.5%	5.9%	11.7%	9.6%	6.0%
Sales by brand growth (%)						
Haier, Leader & others	21.0%	1.1%	2.8%	2.4%	6.6%	4.4%
Casarte	40.0%	32.1%	17.6%	50.0%	30.0%	15.0%
GEA	13.8%	9.0%	10.0%	14.0%	12.0%	6.0%
Candy	n/a	n/a	2.0%	13.0%	11.0%	4.0%
Others	-5.7%	13.5%	6.9%	28.2%	5.8%	7.0%
Total	15.2%	11.5%	5.9%	11.7%	9.6%	6.0%
GP margin (%)	29.4%	29.6%	29.0%	29.8%	30.5%	30.8%
Costs breakdown						
Selling & distribution expenses	16.4%	17.1%	16.0%	15.9%	15.7%	15.5%
Admin expenses	7.9%	8.7%	8.6%	8.1%	7.9%	7.8%
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%	6.2%	7.0%	7.7%
NP growth (con. bus.)	8.4%	-5.4%	25.5%	27.5%	25.1%	15.6%
NP att. margin	4.2%	4.1%	4.2%	5.5%	6.3%	7.0%
NP att. growth	7.8%	9.6%	8.2%	44.2%	27.1%	16.6%

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	(%)
A+ H shares Home Appliances - White goods, Kitchen and Small Appliances														
Haier SH - H	6690 HK	BUY	36.91	28.40	30%	295,673	Dec-20	14.7	13.1	2.3	2.0	17.5	0.9	2.7
Gree Electronics	000651 CH	NR	n/a	36.97	n/a	270,581	Dec-20	9.4	8.2	1.8	1.7	19.1	0.7	6.5
Haier SH - A	600690 CH	NR	n/a	27.58	n/a	295,671	Dec-20	19.7	16.5	3.4	2.9	17.1	1.2	1.9
Midea Group	000333 CH	BUY	95.24	72.81	31%	618,426	Dec-20	17.8	15.3	3.8	3.3	21.9	1.2	2.5
Hisense JA	921 HK	NR	n/a	8.52	n/a	16,629	Dec-20	5.8	4.5	0.8	0.7	0.2	0.3	4.3
Hisense HA	000921 CH	NR	n/a	a	n/a	16,629	Dec-20	11.2	8.4	1.4	1.3	11.6	0.8	3.4
Whirlpool China	600983 CH	NR	n/a	9.02	n/a	8,411	Dec-20	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Zhejiang Aishida	002403 CH	NR	n/a	6.33	n/a	2,698	Dec-20	57.5	22.6	1.0	0.9	0.0	n/a	0.6
Bear Electric	002959 CH	NR	n/a	58.30	n/a	11,097	Dec-20	25.1	19.0	4.1	3.5	15.7	1.9	1.3
Ecovacs Robotics	603486 CH	NR	n/a	182.46	n/a	126,982	Dec-20	52.3	38.9	21.4	14.9	43.9	0.7	0.8
JS Global Lifestyle	1691 HK	BUY	22.35	14.16	58%	49,484	Dec-20	13.5	10.8	3.1	2.5	23.3	0.5	2.1
Joyoung Co	002242 CH	NR	n/a	23.66	n/a	22,079	Dec-20	18.7	16.4	4.0	3.7	21.3	1.4	3.6
Hangzhou Robam	002508 CH	NR	n/a	31.58	n/a	36,463	Dec-20	15.5	13.4	3.2	2.7	20.6	0.8	2.1
Zhejiang Supor	002032 CH	NR	n/a	53.74	n/a	52,873	Dec-20	21.5	18.9	5.2	4.5	24.7	1.4	2.6
Vatti Corporation	002035 CH	NR	n/a	5.91	n/a	6,095	Dec-20	9.9	8.3	1.4	1.3	14.3	0.5	3.0
Xinbao Electrica	002705 CH	NR	n/a	23.19	n/a	23,325	Dec-20	19.7	15.4	2.9	2.6	13.8	1.8	2.5
Avg.								20.8	15.3	4.0	3.2	17.7	1.0	2.6
Med.								17.8	15.3	3.1	2.6	17.5	0.9	2.5
International Home Appliances - White goods, Kitchen and Small Appliances														
Whirlpool Corp	WHR US	NR	n/a	211	n/a	99,670	Dec-20	8.0	8.4	2.6	2.3	35.2	0.5	2.6
Ingersoll-Rand Plc	IR US	NR	n/a	54	n/a	175,794	Dec-20	28.8	24.5	2.4	2.6	6.7	(0.1)	0.0
Smith (A.O.) Corp	AOS US	NR	n/a	73	n/a	90,514	Dec-20	25.3	21.1	6.6	6.1	26.2	1.3	1.5
Helen Of Troy	HELE US	NR	n/a	225	n/a	42,241	Feb-21	20.9	18.6	n/a	n/a	20.0	1.8	n/a
Irobot Corp	IRBT US	NR	n/a	83	n/a	18,212	Jan-21	48.4	24.1	3.3	3.1	6.1	24.2	0.0
Electrolux Ab	ELUXB SS	NR	n/a	195	n/a	54,794	Dec-20	11.0	11.2	3.1	2.9	28.9	(3.8)	4.6
Seb Sa	SK FP	NR	n/a	132	n/a	65,748	Dec-20	15.5	14.6	2.5	2.2	17.1	0.7	1.8
Koninklijke Philips	PHIA NA	NR	n/a	41	n/a	337,203	Dec-20	17.2	20.6	2.7	2.6	15.3	0.8	2.1
Daikin Industries	6367 JP	NR	n/a	25965	n/a	518,402	Mar-21	34.0	30.3	4.1	3.8	12.9	1.8	0.7
Panasonic Corp	6752 JP	NR	n/a	1382	n/a	230,994	Mar-21	13.0	12.0	1.2	1.1	9.4	0.7	2.2
Sony Corp	6758 JP	NR	n/a	13850	n/a	1,189,671	Mar-21	23.2	20.1	2.6	2.3	12.2	(2.7)	0.4
Hitachi	6501 JP	NR	n/a	6799	n/a	448,402	Mar-21	11.0	12.2	1.7	1.5	15.9	2.8	1.7
Sharp Corp	6753 JP	NR	n/a	1354	n/a	56,439	Mar-21	11.8	12.8	2.1	1.8	18.7	2.6	2.4
Fujitsu General	6755 JP	NR	n/a	2825	n/a	21,032	Mar-21	22.6	18.8	2.3	2.1	10.5	2.2	1.1
Lg Electronics	066570 KS	NR	n/a	120500	n/a	130,303	Dec-20	11.0	6.4	1.2	1.0	10.7	0.5	1.0
Samsung Elect.	005930 KS	NR	n/a	69900	n/a	2,757,355	Dec-20	11.8	10.7	1.6	1.4	14.1	0.5	2.1
Woongjin Coway	021240 KS	NR	n/a	79100	n/a	38,573	Dec-20	12.7	11.4	3.2	2.6	27.7	1.2	1.6
Avg.								19.2	16.3	2.7	2.5	16.9	2.0	1.6
Med.								15.5	14.6	2.5	2.3	15.3	0.8	1.7

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	198,006	209,703	234,261	256,807	272,151
Food Solutions	32,573	33,198	37,287	40,545	42,680
Air Solutions	20,366	21,861	26,233	29,381	32,319
Clothing & Water Solutions	31,634	32,316	36,166	38,947	40,385
Overseas & Other business	113,433	122,328	134,575	147,933	156,767
Cost of goods sold	(139,393)	(148,870)	(164,455)	(178,465)	(188,390)
Gross profit	58,613	60,833	69,806	78,342	83,762
Other net income	2,485	3,275	1,991	2,183	2,585
Operating expenses	(51,008)	(51,571)	(56,023)	(60,596)	(63,413)
S & D costs	(33,843)	(33,641)	(37,150)	(40,393)	(42,229)
Admin exp. (ex- R&D)	(10,944)	(11,070)	(11,377)	(11,986)	(12,475)
R & D exp.	(6,221)	(6,860)	(7,496)	(8,218)	(8,709)
Other operating exp.	-	-	-	-	-
EBIT	10,090	12,537	15,774	19,929	22,934
Finance costs, net	(893)	(602)	(518)	(343)	(185)
JV & associates	-	-	-	-	-
Exceptional	1,409	1,620	1,874	1,798	1,905
Pre-tax profit	10,606	13,555	17,130	21,383	24,654
Income tax	(1,584)	(2,232)	(2,689)	(3,314)	(3,772)
Less: Minority interests	816	2,446	1,640	1,798	1,905
Net profit	8,206	8,877	12,801	16,271	18,977

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	10,090	12,537	15,774	19,929	22,934
D&A	33,843	33,641	37,150	40,393	42,229
Change in working capital	848	1,928	6,659	1,768	1,278
Income tax paid	(8,011)	(8,019)	(2,689)	(3,314)	(3,772)
Others	(21,687)	(22,488)	(30,701)	(33,395)	(34,782)
Net cash from operating	15,083	17,599	26,193	25,380	27,887
Capex & investments	(7,575)	(7,272)	(9,181)	(9,797)	(10,853)
Associated companies	-	-	-	-	-
Interest received	-	-	-	-	-
Others	(3,386)	2,008	-	-	-
Net cash from investing	(10,962)	(5,264)	(9,181)	(9,797)	(10,853)
Equity raised	(1,250)	-	-	-	-
Change of Debts	(559)	(277)	-	-	-
Dividend paid	(2,467)	(4,980)	(3,400)	(4,818)	(5,402)
Others	(1,737)	4,231	(1,352)	(1,352)	(1,352)
Net cash from financing	(6,013)	(1,026)	(4,752)	(6,170)	(6,754)
Net change in cash	(1,892)	11,309	12,259	9,412	10,280
Beginning cash balance	44,051	43,588	54,897	67,156	76,568
Exchange difference	1,428	-	-	-	-
Cash at the end of the year	43,588	54,897	67,156	76,568	86,848

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	86,907	89,196	94,636	100,243	106,721
Fixed asset	21,180	24,815	30,461	36,474	42,859
Intangible assets & goodwill	34,232	31,475	30,569	29,662	28,756
Prepaid lease payments	21,206	24,228	24,928	25,428	26,428
Interest in asso. & JV	-	-	-	-	-
Others	10,289	8,678	8,678	8,678	8,678
Current assets	100,547	114,246	125,771	141,017	155,338
Cash and cash equivalents	43,588	45,635	57,894	67,306	77,586
Inventories	28,229	29,447	29,286	31,781	33,549
Trade and other receivables	24,967	30,066	28,881	31,661	33,553
Prepayments	3,436	5,212	5,822	6,383	6,764
Others	327	3,886	3,886	3,886	3,886
Current liabilities	95,610	109,474	115,398	123,001	128,319
Borrowings	8,585	12,643	12,643	12,643	12,643
Trade payables	53,059	57,539	60,826	66,007	69,678
Accruals & other payables	18,312	22,519	25,156	27,577	29,225
Tax payables	2,117	1,371	1,371	1,371	1,371
Others	13,537	15,402	15,402	15,402	15,402
Non-current liabilities	26,855	25,874	25,874	25,874	25,874
Borrowings	14,675	11,858	11,858	11,858	11,858
Deferred income	-	-	-	-	-
Deferred tax	1,154	1,900	1,900	1,900	1,900
Others	11,025	12,116	12,116	12,116	12,116
Minority Interest	17,102	1,295	2,935	4,732	6,638
Total net assets	47,888	66,799	76,200	87,653	101,228
Shareholders' equity	47,888	66,799	76,200	87,653	101,228

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Food Solutions	16.5	15.8	15.9	15.8	15.7
Air Solutions	10.3	10.4	11.2	11.4	11.9
Clothing & Water Solutions	16.0	15.4	15.4	15.2	14.8
Overseas & Other business	57.3	58.3	57.4	57.6	57.6
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	29.6	29.0	29.8	30.5	30.8
Operating margin	5.1	6.0	6.7	7.8	8.4
Pre-tax margin	5.4	6.5	7.3	8.3	9.1
Net margin	4.1	4.2	5.5	6.3	7.0
Effective tax rate	14.9	16.5	15.7	15.5	15.3
Balance sheet ratios					
Current ratio (x)	1.1	1.0	1.1	1.1	1.2
Quick ratio (x)	0.8	0.8	0.8	0.9	0.9
Cash ratio (x)	0.5	0.4	0.5	0.5	0.6
Inventory turnover days	74	72	65	65	65
Trade receivables days	46	52	45	45	45
Trade payables days	139	141	135	135	135
Total debt / total equity ratio (%)	63	48	42	36	31
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	17.1	13.3	16.8	18.6	18.7
ROA	4.4	4.4	5.8	6.7	7.2
Per share					
EPS (RMB)	1.25	1.33	1.61	1.80	2.10
DPS (RMB)	0.39	0.49	0.64	0.72	0.84
BVPS (RMB)	8.77	11.47	10.17	11.70	13.51

Source: Company data, CMBIS estimates

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