

Haier Smart Home (6690 HK)

Excellent 1Q22 and a brighter 2Q22E outlook

We maintain **BUY** on Haier and turn more optimistic on 2Q22E outlook, thanks to robust fridges sales, easing in margin pressure and government's attitude on relaxing property market and boosting consumptions. Our new TP of HK\$ 33.13 is based on 16x FY22E P/E (re-rated from 15x due to better sales and sentiment). Its current valuation is still attractive at 14x FY22E P/E, vs Haier-A's 16x, Midea's 12x and China peers average of 15x, given 15% NP CAGR in FY21-24E.

- 1Q22 results inline, even with pandemic.** Sales/ net profit grew by 10%/ 15% YoY to RMB 60.2bn/ 3.5bn in 1Q22, roughly inline with BBG est. Domestic sales was impressive with 16%+ growth (ASP +11%/ volume +4%) in 1Q22, despite the Covid-19 outbreaks and lockdowns, while overseas sales increased by 4%+, consisting of relatively weak US and EU but much better Asia, Australia and New Zealand markets. Despite the flattish GP margin, NP margin still managed to increase by 0.2ppt to 5.9% in 1Q22 thanks to more savings in opex thru digitalization and ASP increases.
- 2Q22E outlook turns more positive.** Management pointed out that sale growth had accelerated in Apr 2022 vs 1Q22E and we now forecast 12%/ 20% sales/ net profit growth in 2Q22E, driven by: 1) robust fridges sales growth in Apr (by 168%) and many unfulfilled orders, 2) faster air-con sales growth, after more investments in technology, products, personnel and digitalization, 3) more sales from series of products/ customized solutions, where the ASP can easily reach RMB 30-50K/ 200K+, 4) premiumization, where sales growth of Casarte and high-end brands in the overseas (Monogram/Café/GE Profile) were fast at 32% and 30%+ in 1Q22, 5) new categories expansion, where sales growth of dryers and dishes washers were exponential at 114%/ 57%.
- Costs pressure in FY22E should be manageable and efficiency improvement will continue.** GP margin in 1Q22 consisted of 0.2ppt drop due to higher raw material costs and freight rates but was offset by 0.3ppt increase thru efficiency improvement. We believe guidance of "stable GP margin" in FY22E is achievable, because of 1) recent RMB depreciation, 2) more localization of productions in the overseas markets, 3) more ASP increases if necessary (prices were already raised 4 times since end of last year). We also think a 0.5ppt improvement of opex in FY22E is feasible. Hence the long term target of 7%+ net profit margin by FY25E is still intact.
- Maintain BUY but raise TP to HK\$ 33.13.** We revise up our FY22E/ 23E/ 24E net profit forecasts by 1%/ 4%/ 8% to factor in: 1) faster fridges sales growth, 2) slightly better OP margin. New TP is based on 16x FY22E P/E (up from 15x). It is trading at 14x FY22E P/E, not demanding in our view, vs China peers average of 15x and ~15% discounts to Haier-A's 16x FY22E P/E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	209,703	227,531	249,556	267,757	285,696
YoY growth (%)	5.9	8.5	9.2	7.3	6.7
NP att. (RMB mn)	8,877	13,067	15,517	18,534	19,763
Diluted EPS (RMB)	1.335	1.390	1.719	2.053	2.189
YoY growth (%)	8.2	6.3	23.3	19.4	6.6
Consensus EPS (RMB)	n/a	n/a	1.626	1.878	2.143
P/E (x)	18.0	16.9	13.7	11.5	10.8
P/B (x)	2.1	2.2	1.9	1.7	1.5
Yield (%)	2.1	2.0	2.9	3.5	3.7
ROE (%)	13.3	16.4	17.0	17.8	16.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$33.13
(Previous TP)	HK\$30.66
Up/Downside	+16.7%
Current Price	HK\$28.40

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Stock Data

Mkt Cap (HK\$ mn)	278,455
Avg 3 mths t/o (HK\$ mn)	238.57
52w High/Low (HK\$)	34.35/ 21.90
Total Issued Shares (mn)	2,867.0

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%

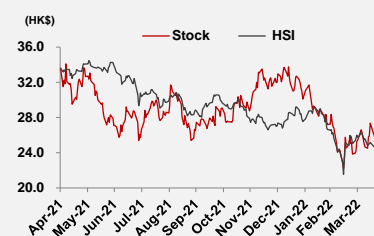
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	17.4%	22.0%
3-mth	-5.6%	5.4%
6-mth	-2.4%	17.4%
12-mth	-15.4%	17.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

Haier Smart Home (6690 HK, BUY) – Still the outperformer in a tough market - 1 Apr 2022

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	249,556	267,757	285,696	243,916	258,567	270,886	2.3%	3.6%	5.5%
Gross profit	76,293	82,702	87,841	74,756	79,895	83,008	2.1%	3.5%	5.8%
EBIT	16,826	20,080	21,267	16,469	19,252	19,579	2.2%	4.3%	8.6%
Net profit att.	15,517	18,534	19,763	15,317	17,890	18,330	1.3%	3.6%	7.8%
Diluted EPS (RMB)	1.719	2.053	2.189	1.697	1.982	2.030	1.3%	3.6%	7.8%
Gross margin	30.6%	30.9%	30.7%	30.6%	30.9%	30.6%	-0.1ppt	0ppt	0.1ppt
EBIT margin	6.7%	7.5%	7.4%	6.8%	7.4%	7.2%	0ppt	0.1ppt	0.2ppt
Net profit att. margin	6.2%	6.9%	6.9%	6.3%	6.9%	6.8%	-0.1ppt	0ppt	0.2ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	249,556	267,757	285,696	249,781	272,164	295,962	-0.1%	-1.6%	-3.5%
Gross profit	76,293	82,702	87,841	78,003	86,185	94,234	-2.2%	-4.0%	-6.8%
EBIT	16,826	20,080	21,267	17,204	19,762	22,597	-2.2%	1.6%	-5.9%
Net profit att.	15,517	18,534	19,763	15,308	17,682	19,892	1.4%	4.8%	-0.6%
Diluted EPS (RMB)	1.719	2.053	2.189	1.626	1.878	2.143	5.7%	9.3%	2.2%
Gross margin	30.6%	30.9%	30.7%	31.2%	31.7%	31.8%	-0.7ppt	-0.8ppt	-1.1ppt
EBIT margin	6.7%	7.5%	7.4%	6.9%	7.3%	7.6%	-0.1ppt	0.2ppt	-0.2ppt
Net profit att. margin	6.2%	6.9%	6.9%	6.1%	6.5%	6.7%	0.1ppt	0.4ppt	0.2ppt

Source: Bloomberg, CMBIGM estimates

Valuation

Figure 3: Peers' valuation

Company	Ticker	Rating	12m	Price	Up/	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE	3yrs	Yield
			TP	(LC)	Down-			(HK\$m)	End	FY1E	FY2E	FY1E	FY2E	(%)
A+ H shares Home Appliances - White goods, Kitchen and Small Appliances														
Haier SH - H	6690 HK	BUY	33.13	28.40	17%	278,455	Dec-21	13.7	11.5	2.2	1.9	17.7	0.8	2.9
Gree Electronics	000651 CH	NR	n/a	31.21	n/a	219,171	Dec-21	7.1	6.3	1.4	1.3	19.9	0.9	7.9
Haier SH - A	600690 CH	NR	n/a	25.91	n/a	278,444	Dec-21	16.1	13.9	2.6	2.4	17.1	1.1	2.4
Midea Group	000333 CH	BUY	95.24	57.09	67%	474,295	Dec-21	12.0	10.6	2.6	2.3	21.9	9.1	3.7
Hisense JA	921 HK	NR	n/a	7.73	n/a	16,207	Dec-21	7.1	5.7	0.8	0.7	12.3	0.3	5.6
Hisense HA	000921 CH	NR	n/a	a	n/a	16,206	Dec-21	11.8	9.8	1.4	1.3	12.0	0.5	2.5
Whirlpool China	600983 CH	NR	n/a	7.38	n/a	6,716	Dec-21	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Zhejiang Aishida	002403 CH	NR	n/a	10.15	n/a	4,105	Dec-21	36.3	n/a	1.5	n/a	0.0	n/a	1.1
Bear Electric	002959 CH	NR	n/a	48.29	n/a	8,970	Dec-21	21.4	18.0	3.2	2.9	14.9	1.1	2.1
Ecovacs Robotics	603486 CH	NR	n/a	108.10	n/a	73,663	Dec-21	23.2	17.9	8.6	6.2	39.2	0.8	1.3
JS Global Lifestyle	1691 HK	BUY	11.54	9.45	22%	33,024	Dec-21	8.4	7.3	1.8	1.5	23.0	0.5	4.6
Joyoung Co	002242 CH	NR	n/a	15.11	n/a	13,761	Dec-21	13.7	11.9	2.5	2.3	18.7	0.9	6.3
Hangzhou Robam	002508 CH	NR	n/a	30.90	n/a	34,818	Dec-21	13.4	11.6	2.8	2.4	21.2	0.5	2.5
Zhejiang Supor	002032 CH	NR	n/a	55.08	n/a	52,886	Dec-21	19.4	17.2	4.9	4.3	26.0	1.4	3.4
Vatti Corporation	002035 CH	NR	n/a	5.05	n/a	5,083	Dec-21	8.7	7.7	1.1	1.0	13.4	n/a	3.7
Xinbao Electrica	002705 CH	NR	n/a	16.49	n/a	16,187	Dec-21	13.2	11.1	1.9	1.7	14.4	0.5	3.1
Avg.								15.0	11.5	2.6	2.3	18.1	1.4	3.5
Med.								13.4	11.3	2.2	2.1	17.7	0.8	3.1
International Home Appliances - White goods, Kitchen and Small Appliances														
Whirlpool Corp	WHR US	NR	n/a	182	n/a	80,049	Dec-21	7.4	6.9	2.1	1.9	27.7	(4.4)	3.7
Ingersoll-Rand Plc	IR US	NR	n/a	44	n/a	140,085	Dec-21	19.0	16.8	2.2	1.9	8.8	0.6	0.1
Smith (A.O.) Corp	AOS US	NR	n/a	58	n/a	71,990	Dec-21	16.5	15.3	5.0	4.3	30.0	1.5	1.9
Helen Of Troy	HELE US	NR	n/a	215	n/a	40,129	Feb-22	16.7	15.9	3.2	2.9	20.0	n/a	n/a
Irobot Corp	IRBT US	NR	n/a	51	n/a	10,777	Jan-22	22.9	12.8	1.9	1.7	8.8	0.3	0.0
Electrolux Ab	ELUXB SS	NR	n/a	151	n/a	34,550	Dec-21	9.3	7.7	2.2	2.0	24.0	1.5	6.3
Seb Sa	SK FP	NR	n/a	115	n/a	52,538	Dec-21	12.8	11.8	1.9	1.7	15.7	4.9	2.2
Koninklijke Philips	PHIA NA	NR	n/a	25	n/a	182,907	Dec-21	15.4	12.9	1.5	1.4	7.9	(0.8)	3.5
Daikin Industries	6367 JP	NR	n/a	20045	n/a	355,505	Mar-21	26.8	23.7	3.2	2.9	12.5	1.9	0.9
Panasonic Corp	6752 JP	NR	n/a	1161	n/a	172,305	Mar-21	11.1	10.7	1.0	0.9	9.0	0.9	2.6
Sony Corp	6758 JP	NR	n/a	11220	n/a	856,129	Mar-21	16.0	15.9	2.1	1.8	14.0	(1.3)	0.6
Hitachi	6501 JP	NR	n/a	6072	n/a	355,726	Mar-22	9.8	10.3	1.3	1.2	14.0	(3.3)	2.1
Sharp Corp	6753 JP	NR	n/a	1100	n/a	40,730	Mar-21	8.7	11.0	1.7	1.5	20.5	7.3	3.5
Fujitsu General	6755 JP	NR	n/a	2315	n/a	15,310	Mar-22	17.1	14.4	1.8	1.6	10.8	0.3	1.5
Lg Electronics	066570 KS	NR	n/a	116500	n/a	118,577	Dec-21	7.0	6.5	1.0	0.9	15.2	0.2	1.1
Samsung Elect.	005930 KS	NR	n/a	67400	n/a	2,502,552	Dec-21	9.4	8.5	1.4	1.2	14.9	0.8	2.1
Woongjin Coway	021240 KS	NR	n/a	70900	n/a	32,544	Dec-21	10.3	9.4	2.3	1.9	24.5	2.0	1.9
Avg.								13.9	12.4	2.1	1.9	16.4	0.8	2.1
Med.								12.8	11.8	1.9	1.7	14.9	0.7	2.0

Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 4: CMBIGM's assumptions

RMB mn	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Sales by segment (RMB mn)						
Mainland China						
Refrigerators/freezers	30,424	30,562	36,842	44,210	48,189	52,044
Kitchen appliances	2,149	2,636	3,013	3,375	3,712	3,972
Air-conditioners	20,366	21,861	27,409	31,520	35,303	38,480
Laundry appliances	22,113	22,483	25,917	29,027	30,769	33,230
Water appliances	9,521	9,833	12,479	13,727	14,413	15,422
Overseas	92,392	100,044	113,090	118,916	126,151	132,958
Other businesses	21,041	22,284	8,781	8,781	9,220	9,589
Total	198,006	209,703	227,531	249,556	267,757	285,696
Sales by segment growth (%)						
Mainland China						
Refrigerators/freezers	2.7%	0.5%	20.5%	20.0%	9.0%	8.0%
Kitchen appliances	-5.4%	22.7%	14.3%	12.0%	10.0%	7.0%
Air-conditioners	-13.0%	7.3%	25.4%	15.0%	12.0%	9.0%
Laundry appliances	6.0%	1.7%	15.3%	12.0%	6.0%	8.0%
Water appliances	8.0%	3.3%	26.9%	10.0%	5.0%	7.0%
Overseas	23.4%	8.3%	13.0%	5.2%	6.1%	5.4%
Other businesses	18.8%	5.9%	-60.6%	0.0%	5.0%	4.0%
Total	11.5%	5.9%	8.5%	9.7%	7.3%	6.7%
Sales by brand growth (%)						
Haier, Leader & others	1.1%	2.8%	0.6%	12.1%	7.4%	7.1%
Casarte	32.1%	17.6%	48.0%	30.0%	15.0%	13.0%
GEA	9.0%	10.0%	14.0%	6.0%	6.0%	6.0%
Candy	n/a	2.0%	13.0%	5.0%	4.0%	4.0%
Others	13.5%	6.9%	10.9%	3.2%	7.1%	4.5%
Total	11.5%	5.9%	8.5%	9.7%	7.3%	6.7%
GP margin (%)	29.6%	29.0%	30.5%	30.6%	30.9%	30.7%
Costs breakdown						
Selling & distribution expenses	17.1%	16.0%	16.1%	16.1%	15.9%	15.8%
Admin expenses	8.7%	8.6%	8.9%	8.6%	8.4%	8.4%
Effective tax rate	14.9%	16.5%	17.0%	15.5%	15.3%	15.3%
NP margin (con. bus.)	4.6%	5.4%	5.8%	6.3%	7.0%	7.0%
NP growth (con. bus.)	-5.4%	25.5%	16.7%	19.3%	19.3%	6.6%
NP att. margin	4.1%	4.2%	5.7%	6.2%	6.9%	6.9%
NP att. growth	9.6%	8.2%	47.2%	18.7%	19.4%	6.6%

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	209,703	227,531	249,556	267,757	285,696
Food Solutions	33,198	39,855	47,585	51,901	56,016
Air Solutions	21,861	27,409	31,520	35,303	38,480
Clothing & Water Solutions	32,316	38,396	42,754	45,182	48,652
Overseas & Other business	122,328	121,871	127,697	135,371	142,547
Cost of goods sold	(148,870)	(158,059)	(173,263)	(185,054)	(197,855)
Gross profit	60,833	69,472	76,293	82,702	87,841
Other net income	3,275	1,268	2,121	2,544	2,714
Operating expenses	(51,571)	(56,784)	(61,588)	(65,166)	(69,288)
S & D costs	(33,641)	(36,554)	(40,245)	(42,572)	(45,200)
Admin exp. (ex- R&D)	(11,070)	(12,949)	(13,357)	(14,026)	(14,945)
R & D exp.	(6,860)	(7,281)	(7,986)	(8,568)	(9,142)
Other operating exp.	-	-	-	-	-
EBIT	12,537	13,956	16,826	20,080	21,267
Finance costs, net	(602)	74	85	244	403
JV & associates	-	-	-	-	-
Exceptional	1,620	1,886	1,747	1,874	2,000
Pre-tax profit	13,555	15,916	18,659	22,198	23,670
Income tax	(2,232)	(2,699)	(2,892)	(3,396)	(3,622)
Less: Minority interests	2,446	150	250	268	286
Net profit	8,877	13,067	15,517	18,534	19,763

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	12,537	13,956	16,826	20,080	21,267
D&A	33,641	36,554	40,245	42,572	45,200
Change in working capital	1,928	4,418	1,765	1,324	1,510
Income tax paid	(8,019)	(8,309)	(2,892)	(3,396)	(3,622)
Others	(22,488)	(23,489)	(33,573)	(35,473)	(38,410)
Net cash from operating	17,599	23,130	22,372	25,107	25,947
Capex & investments	(7,272)	(7,995)	(8,586)	(9,675)	(10,257)
Associated companies	-	-	-	-	-
Interest received	-	-	-	-	-
Others	2,008	(72)	-	-	-
Net cash from investing	(5,264)	(8,067)	(8,586)	(9,675)	(10,257)
Equity raised	-	(3,221)	-	-	-
Change of Debts	(277)	(1,997)	-	-	-
Dividend paid	(4,980)	(3,411)	(4,320)	(5,152)	(6,153)
Others	4,231	(2,062)	(772)	(772)	(772)
Net cash from financing	(1,026)	(10,691)	(5,092)	(5,924)	(6,926)
Net change in cash	11,309	4,372	8,694	9,508	8,764
Beginning cash balance	43,588	45,635	44,958	53,652	63,160
Exchange difference	(9,262)	(5,049)	-	-	-
Cash at the end of the year	45,635	44,958	53,652	63,160	71,924

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	89,196	93,846	98,364	103,830	110,471
Fixed asset	24,815	26,981	31,905	37,278	43,825
Intangible assets & goodwill	31,475	30,325	29,419	28,512	27,606
Prepaid lease payments	24,228	28,081	28,581	29,581	30,581
Interest in asso. & JV	-	-	-	-	-
Others	8,678	8,459	8,459	8,459	8,459
Current assets	114,246	123,614	139,473	154,706	169,411
Cash and cash equivalents	45,635	44,958	53,652	63,160	71,924
Inventories	29,447	39,863	43,697	46,671	49,900
Trade and other receivables	30,066	27,986	30,695	32,934	35,140
Prepayments	5,212	6,415	7,036	7,549	8,055
Others	3,886	4,392	4,392	4,392	4,392
Current liabilities	109,474	124,926	133,856	140,906	148,357
Borrowings	12,643	17,968	17,968	17,968	17,968
Trade payables	57,539	67,368	73,848	78,874	84,330
Accruals & other payables	22,519	25,305	27,755	29,779	31,774
Tax payables	1,371	1,305	1,305	1,305	1,305
Others	15,402	12,980	12,980	12,980	12,980
Non-current liabilities	25,874	11,450	11,450	11,450	11,450
Borrowings	11,858	3,075	3,075	3,075	3,075
Deferred income	-	-	-	-	-
Deferred tax	1,900	2,122	2,122	2,122	2,122
Others	12,116	6,253	6,253	6,253	6,253
Minority Interest	1,295	1,272	1,522	1,789	2,075
Total net assets	66,799	79,812	91,009	104,391	118,001
Shareholders' equity	66,799	79,812	91,009	104,391	118,001

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Food Solutions	15.8	17.5	19.1	19.4	19.6
Air Solutions	10.4	12.0	12.6	13.2	13.5
Clothing & Water Solutions	15.4	16.9	17.1	16.9	17.0
Overseas & Other business	58.3	53.6	51.2	50.6	49.9
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	29.0	30.5	30.6	30.9	30.7
Operating margin	6.0	6.1	6.7	7.5	7.4
Pre-tax margin	6.5	7.0	7.5	8.3	8.3
Net margin	4.2	5.7	6.2	6.9	6.9
Effective tax rate	16.5	17.0	15.5	15.3	15.3
Balance sheet ratios					
Current ratio (x)	1.0	1.0	1.0	1.1	1.1
Quick ratio (x)	0.8	0.7	0.7	0.8	0.8
Cash ratio (x)	0.4	0.4	0.4	0.4	0.5
Inventory turnover days	72	92	92	92	92
Trade receivables days	52	45	45	45	45
Trade payables days	141	156	156	156	156
Total debt / total equity ratio (%)	48	28	24	21	19
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	13.3	16.4	17.0	17.8	16.7
ROA	4.4	6.0	6.5	7.2	7.1
Per share					
EPS (RMB)	1.33	1.39	1.72	2.05	2.19
DPS (RMB)	0.49	0.48	0.69	0.82	0.88
BVPS (RMB)	11.47	10.68	12.15	13.93	15.75

Source: Company data, CMBIGM estimates

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