

Midea Group (000333 CH)

1Q22 beat and an excellent ToB game plan

1Q22 was a beat, thanks to better GP margin. We highly appreciate Midea's shift of focus to generate better than industry's growth in the next 3 years. Therefore, we maintain BUY but fine-tuned TP to RMB 67.79, based on 15x FY22E P/E (down from 22x), vs China/ Int'l peers' avg. of 13x/ 14x.

- FY21 results inline and 1Q22 results beat.** For FY21, sales/ net profit grew by 20%/ 5% YoY, 4%/0% above BBG est., while 1Q22, sales/ net profit increased by 10%/ 11%, 0%/8% above BBG est.. For FY21, domestic/ overseas sales growth were 25%/ 14% YoY, and ToC/ ToB sales growth were 13%/ 39% YoY. Within ToB business, Industrial Technology/ Building Technologies/ Digital Innovation/ Robotic & Automation sales growth were 44%/ 55%/ 51%/ 23%. We find 1Q22 results impressive, given the drag from pandemics, and the beat should be attributed to GPM improvement (+0.5ppt YoY to 22.2% in 1Q22), driven by ASP increases and better product mix. We are now more optimistic about GPM in FY22E, driven by more raw material hedging and CNY depreciation.
- Aiming to “optimize sales and improve margins” in FY22E.** We believe Midea maintains its guidance of “~10% sales and ~10% NP growth” in FY22E, supported by its robust ToB sales growth and its focus on “optimize sales and improve margins”. We think the actual drivers are: 1) premiumization, where COLMO sales could reach RMB 8.0bn (vs RMB 4.0bn in FY21 with 300%+ YoY), 2) ramp up of overseas business, as more than 600 Chinese management are deployed in various regions since last year and entered into more POSs and e-commerce platforms and 3) development of ToB business.
- Beware of potential sector downturn and the shift to ToC businesses is important.** Management is highly cautious about home appliances demand for the next 3 years and believes its ToB business can become a new growth driver, which mainly consists of Building control, Auto parts supply chain, Energy control and Automation businesses. Sales accounted for 22% in FY21, and we expect to reach ~30% by FY25E, with a 17% sales CAGR during FY21-25E. For auto parts supply chain, Midea has edges in drive system, thermal management system and auxiliary driving system. It has secured orders from Volkswagen, and already touched base with Tesla. For KUKA business, orders are extremely robust, as Midea had entered BYD, CATL and Apple's supply chain, and we expect it to deliver sales volume of 30K/ 50K-60K in FY22E/ 23E (vs about 20K at the time of acquisition).
- Maintain BUY but cut TP to RMB 67.79 (16% upside).** We reiterate BUY and cut FY22E/ 23E NP by 7%/ 6% to factor in a weaker GP margin. Our new TP is based on 15x FY22E P/E (down from 22x due to sector downturn). It is now trading at 13x 22E P/E (vs China/ overseas peers' avg. of 13x/ 14x).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	284,221	341,233	371,143	401,494	433,369
YoY growth (%)	2.2	20.1	8.8	8.2	7.9
Net income (RMB mn)	27,223	28,574	31,523	36,249	39,752
Diluted EPS (RMB)	3.90	4.14	4.52	5.15	5.59
YoY growth (%)	9.2	6.0	9.2	13.9	8.6
Consensus EPS (RMB)	n/a	n/a	4.65	5.28	5.86
P/E (x)	14.9	14.1	12.9	11.3	10.4
P/B (x)	3.4	3.2	2.8	2.4	2.1
Yield (%)	2.7	2.9	3.2	3.6	3.9
ROE (%)	23.2	22.9	21.8	21.6	20.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB67.79**
(Previous TP **RMB95.24**)
Up/Downside **16.5%**
Current Price **RMB58.20**

China Home Appliance Sector

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Stock Data

Mkt Cap (RMB mn)	407,229
Avg 3 mths t/o (RMB mn)	1,947.92
52w High/Low (RMB)	85.03/50.50
Total Issued Shares (mn)	6,997.1
Source: Bloomberg	

Shareholding Structure

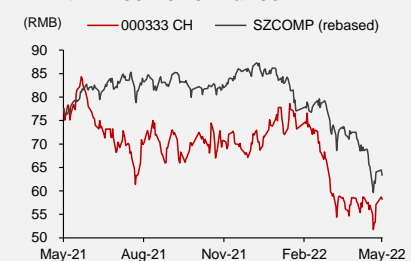
Midea Holding	31.56%
Ownership via stock connect	17.30%
China Securities Finance Corp	2.83%
Mr. Fang Hong Bo	1.95%
Employees incentive scheme	1.18%
Free float	45.26%
Source: Company's annual report, Bloomberg	

Share Performance

	Absolute	Relative
1-mth	0.2%	12.7%
3-mth	-19.8%	-4.1%
6-mth	-17.0%	5.5%
12-mth	-26.8%	-11.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

Midea Group (000333 CH, BUY) – A rosy outlook for both domestic and export – 2 Nov 2020

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	371,143	401,494	433,369	337,555	361,343	n/a	10.0%	11.1%	n/a
Gross profit	87,727	95,979	103,809	86,428	93,605	n/a	1.5%	2.5%	n/a
EBIT	34,059	39,014	42,216	36,706	41,657	n/a	-7.2%	-6.3%	n/a
Net profit att.	31,523	36,249	39,752	33,767	38,612	n/a	-6.6%	-6.1%	n/a
Diluted EPS (RMB)	4.519	5.145	5.587	4.845	5.485	n/a	-6.7%	-6.2%	n/a
Gross margin	23.6%	23.9%	24.0%	25.6%	25.9%	n/a	-2ppt	-2ppt	n/a
EBIT margin	9.2%	9.7%	9.7%	10.9%	11.5%	n/a	-1.7ppt	-1.8ppt	n/a
Net profit att. margin	8.5%	9.0%	9.2%	10.0%	10.7%	n/a	-1.5ppt	-1.7ppt	n/a

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	371,143	401,494	433,369	366,886	403,417	444,701	1.2%	-0.5%	-2.5%
Gross profit	87,727	95,979	103,809	91,489	102,821	110,269	-4.1%	-6.7%	-5.9%
EBIT	34,059	39,014	42,216	38,128	43,566	45,762	-10.7%	-10.4%	-7.7%
Net profit att.	31,523	36,249	39,752	32,480	37,054	41,188	-2.9%	-2.2%	-3.5%
Diluted EPS (RMB)	4.519	5.145	5.587	4.651	5.284	5.858	-2.8%	-2.6%	-4.6%
Gross margin	23.6%	23.9%	24.0%	24.9%	25.5%	24.8%	-1.3ppt	-1.6ppt	-0.8ppt
EBIT margin	9.2%	9.7%	9.7%	10.4%	10.8%	10.3%	-1.2ppt	-1.1ppt	-0.5ppt
Net profit att. margin	8.5%	9.0%	9.2%	8.9%	9.2%	9.3%	-0.4ppt	-0.2ppt	-0.1ppt

Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 3: CMBIGM' assumptions

RMB mn	FY20A	FY21A	FY22E	FY23E	FY24E
Sales by segment (RMB mn)					
Heating, Ventilation & Air-Con.	121,215	141,879	150,676	159,716	169,299
Consumer electronics	113,891	131,866	140,042	148,444	157,351
Robot and automation system	21,589	27,281	31,374	35,452	38,997
Others	27,527	40,207	49,052	57,881	67,721
Total	284,221	341,233	371,143	401,494	433,369
Sales growth by segment (%)					
Heating, Ventilation & Air-Con.	1.3%	17.0%	6.2%	6.0%	6.0%
Consumer electronics	4.0%	15.8%	6.2%	6.0%	6.0%
Robot and automation system	-14.3%	26.4%	15.0%	13.0%	10.0%
Others	15.0%	46.1%	22.0%	18.0%	17.0%
Total	2.2%	20.1%	8.8%	8.2%	7.9%
Sales by region growth (%)					
Domestics	1.1%	24.8%	7.0%	6.5%	6.0%
Overseas	3.7%	13.7%	11.4%	10.6%	10.6%
Total	2.2%	20.1%	8.8%	8.2%	7.9%
GP margins by segment					
Heating, Ventilation and Air-Conditioning	24.2%	21.1%	24.0%	24.5%	25.0%
Consumer electronics	30.5%	27.8%	28.3%	28.7%	28.7%
Robot and automation system	19.9%	21.7%	22.4%	23.2%	23.8%
Others	11.0%	10.7%	10.0%	10.4%	10.4%
Total	25.1%	22.5%	23.6%	23.9%	24.0%
Opex breakdown					
S&D (ex- staff costs)/ sales	5.1%	3.9%	3.9%	3.7%	3.7%
Admin costs (ex-R&D, D&A, staff costs) / sales	1.3%	1.1%	1.0%	0.9%	0.9%
D&A - Admin / sales	0.7%	0.9%	0.8%	0.8%	0.8%
Labor costs / sales	5.8%	5.4%	5.5%	5.4%	5.3%
R&D expenses / sales	3.6%	3.5%	3.6%	3.8%	3.9%
Others / sales	0.0%	0.0%	0.0%	0.0%	0.0%
Total	16.5%	14.9%	14.9%	14.6%	14.6%
OP margins	9.1%	8.2%	9.2%	9.7%	9.7%
Effective tax rate	-13.1%	-13.9%	-15.0%	-15.0%	-15.0%
NP att. margins	9.6%	8.4%	8.5%	9.0%	9.2%
NP att. growth (%)	12.4%	5.0%	10.3%	15.0%	9.7%

Source: Company data, CMBIGM estimates

Valuation

Figure 4: 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	67.79	58.20	16%	479,491	Dec-21	12.9	11.3	2.8	2.4	23.4	1.2	3.4
Gree Electronics	000651 CH	NR	n/a	33.96	n/a	236,497	Dec-21	7.6	6.9	1.6	1.4	22.5	0.9	7.5
Haier Smart Home	600690 CH	NR	n/a	25.55	n/a	269,733	Dec-21	15.8	13.7	2.6	2.3	17.0	1.1	2.4
Haier Electronics	6690 HK	BUY	33.13	26.90	23%	269,730	Dec-21	14.0	12.1	2.4	2.1	17.0	0.9	2.8
Hisense JA	921 HK	NR	n/a	7.64	n/a	15,910	Dec-21	7.1	5.7	0.8	0.7	9.9	0.3	5.6
Hisense HA	000921 CH	NR	n/a	11.66	n/a	15,911	Dec-21	11.6	9.7	1.4	1.2	9.9	0.4	2.5
Whirlpool China	600983 CH	NR	n/a	7.23	n/a	6,525	Dec-21	n/a	n/a	n/a	n/a	(18.0)	n/a	n/a
Zhejiang Aishida	002403 CH	NR	n/a	8.23	n/a	3,301	Dec-21	n/a	137.2	1.3	1.3	n/a	n/a	1.3
Bear Electric	002959 CH	NR	n/a	52.08	n/a	9,593	Dec-21	23.5	19.4	3.5	3.1	14.1	1.2	2.0
Ecovacs Robotics	603486 CH	NR	n/a	97.50	n/a	65,887	Dec-21	21.0	16.2	7.8	5.6	46.5	0.7	1.5
Vesync Co	2148 HK	BUY	5.89	5.21	13%	6,070	Dec-21	11.4	9.3	2.2	1.9	14.5	0.3	2.9
JS Global Lifestyle	1691 HK	BUY	11.83	8.21	44%	28,691	Dec-21	7.3	4.7	1.6	1.3	24.2	0.5	5.3
Joyoung Co	002242 CH	NR	n/a	15.92	n/a	14,378	Dec-21	14.5	12.6	2.7	2.5	16.5	1.1	5.9
Hangzhou Robam	002508 CH	NR	n/a	28.98	n/a	32,383	Dec-21	12.5	10.9	2.6	2.2	15.4	0.4	2.6
Zhejiang Supor	002032 CH	NR	n/a	50.89	n/a	48,456	Dec-21	18.0	15.9	4.7	4.1	25.1	1.3	4.0
Vatti Corporation	002035 CH	NR	n/a	5.43	n/a	5,420	Dec-21	9.2	8.1	1.2	1.1	6.4	0.2	3.8
Xinbao Electrica	002705 CH	NR	n/a	17.34	n/a	16,879	Dec-21	13.9	11.6	2.0	1.8	12.8	0.7	2.7
Avg.								13.4	19.1	2.6	2.2	16.1	0.8	3.5
Med.								12.9	11.5	2.3	2.0	15.9	0.7	2.8
International Home Appliances - White goods, Kitchen and Small Appliances														
Whirlpool Corp	WHR US	NR	n/a	191	n/a	84,303	Dec-21	7.8	7.3	2.2	2.0	37.8	(4.6)	3.5
Ingersoll-Rand Plc	IR US	NR	n/a	44	n/a	139,566	Dec-21	18.9	16.7	2.2	1.8	8.4	0.6	0.1
Smith (A.O.) Corp	AOS US	NR	n/a	59	n/a	72,742	Dec-21	16.8	15.6	5.1	4.3	27.8	1.5	1.9
Helen Of Troy	HELE US	NR	n/a	204	n/a	38,132	Feb-22	15.5	14.6	3.2	2.9	17.4	n/a	n/a
Irobot Corp	IRBT US	NR	n/a	52	n/a	11,068	Jan-22	30.7	15.9	2.0	2.0	(1.0)	0.4	0.0
Electrolux Ab	ELUXB SS	NR	n/a	152	n/a	34,148	Dec-21	9.8	7.8	2.2	2.0	21.7	1.8	6.3
Seb Sa	SK FP	NR	n/a	109	n/a	49,858	Dec-21	12.3	11.3	1.8	1.6	16.6	4.0	2.4
Koninklijke Philips	PHIA NA	NR	n/a	25	n/a	181,055	Dec-21	15.8	13.1	1.5	1.4	25.2	(0.9)	3.5
Daikin Industries	6367 JP	NR	n/a	19725	n/a	347,960	Mar-21	26.3	23.3	3.1	2.9	12.1	2.0	1.0
Panasonic Corp	6752 JP	NR	n/a	1167	n/a	172,344	Mar-21	11.2	10.7	1.0	0.9	9.0	0.9	2.6
Sony Corp	6758 JP	NR	n/a	11110	n/a	843,204	Mar-21	15.8	16.0	2.0	1.8	14.3	(1.2)	0.6
Hitachi	6501 JP	NR	n/a	6510	n/a	379,348	Mar-22	10.6	10.9	1.4	1.3	14.8	(3.6)	2.0
Sharp Corp	6753 JP	NR	n/a	1096	n/a	40,365	Mar-21	8.6	10.9	1.6	1.5	23.2	7.2	3.5
Fujitsu General	6755 JP	NR	n/a	2237	n/a	14,715	Mar-22	16.5	13.9	1.7	1.6	3.0	0.3	1.6
Lg Electronics	066570 KS	NR	n/a	115000	n/a	116,416	Dec-21	6.9	6.4	1.0	0.9	5.7	0.2	1.1
Samsung Elect.	005930 KS	NR	n/a	66500	n/a	2,455,756	Dec-21	9.2	8.5	1.3	1.2	12.2	0.8	2.2
Woongjin Coway	021240 KS	NR	n/a	70200	n/a	32,048	Dec-21	10.3	9.4	2.2	1.9	27.4	2.0	2.0
Avg.								14.3	12.5	2.1	1.9	16.2	0.7	2.1
Med.								12.3	11.3	2.0	1.8	14.8	0.7	2.0

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	284,221	341,233	371,143	401,494	433,369	EBIT	25,913	27,941	34,059	39,014	42,216
Heating, Ventilation & Air-Con.	121,215	141,879	150,676	159,716	169,299	D & A	4,287	4,429	4,723	5,103	5,252
Consumer electronics	113,891	131,866	140,042	148,444	157,351	Change in working capital	1,574	4,253	286	876	1,086
Robot and automation system	21,589	27,281	31,374	35,452	38,997	Income tax paid	(13,408)	(15,613)	(5,845)	(6,737)	(7,382)
Others	27,527	40,207	49,052	57,881	67,721	Others	11,190	14,082	5,133	6,130	7,247
Cost of goods sold	(212,840)	(264,526)	(283,416)	(305,516)	(329,560)	Net cash from operating CF	29,557	35,092	38,357	44,385	48,420
Gross profit	71,382	76,707	87,727	95,979	103,809	Capex & investments	(4,657)	(6,825)	(7,424)	(8,031)	(8,668)
Other income	1,437	2,162	1,473	1,594	1,733	Associated companies	-	-	-	-	-
Operating expenses	(46,905)	(50,929)	(55,140)	(58,558)	(63,326)	Interest received	4,875	5,648	-	-	-
Selling & distribution	(27,522)	(28,647)	(31,294)	(32,655)	(34,903)	Others	(35,529)	14,777	-	-	-
Admin	(9,257)	(10,253)	(10,353)	(10,750)	(11,574)	Net cash from investing CF	(35,311)	13,600	(7,424)	(8,031)	(8,668)
R & D	(10,119)	(12,015)	(13,481)	(15,142)	(16,850)	Equity raised	-	-	-	-	-
Other operating expenses	(7)	(13)	(12)	(12)	-	Net change in bank loans	12,715	(5,192)	-	-	-
EBIT	25,913	27,941	34,059	39,014	42,216	Dividend paid	(12,823)	(12,894)	(11,678)	(12,897)	(14,831)
Finance costs, net	2,638	4,386	3,049	3,892	4,831	Others	(649)	(13,118)	(228)	(231)	(249)
JVs & associates	-	-	-	-	-	Net cash from financing CF	(756)	(31,205)	(11,906)	(13,128)	(15,080)
Exceptional	3,112	1,391	1,856	2,007	2,167	Net change in cash	(6,510)	17,487	19,027	23,226	24,672
Pre-tax profit	31,664	33,718	38,964	44,913	49,214	Beginning cash balance	49,166	81,210	71,876	90,903	114,129
Income tax	(4,157)	(4,702)	(5,845)	(6,737)	(7,382)	Exchange difference	38,555	(26,822)	-	-	-
Less: Minority interests	284	442	1,596	1,927	2,080	Cash at the end of the year	81,210	71,876	90,903	114,129	138,801
Net profit	27,223	28,574	31,523	36,249	39,752						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	118,727	139,082	141,783	144,710	148,127	Sales mix (%)					
Fixed asset	25,546	27,509	31,227	35,172	39,606	Heating, Ventilation & Air-Con.	42.6	41.6	40.6	39.8	39.1
Intangible assets & goodwill	44,980	45,048	44,030	43,013	41,996	Consumer electronics	40.1	38.6	37.7	37.0	36.3
Prepaid lease payments	12,852	16,371	16,371	16,371	16,371	Robot and automation system	7.6	8.0	8.5	8.8	9.0
Interest in joint ventures	-	-	-	-	-	Others	9.7	11.8	13.2	14.4	15.6
Other non-current assets	35,349	50,154	50,154	50,154	50,154	Total	100.0	100.0	100.0	100.0	100.0
Current assets	241,655	248,865	275,032	306,013	338,974	P&L ratios (%)					
Cash and cash equivalents	81,210	71,876	90,903	114,129	138,801	Gross margin	25.1	22.5	23.6	23.9	24.0
Inventories	31,077	45,924	49,204	53,041	57,215	Operating margin	9.1	8.2	9.2	9.7	9.7
Trade and other receivables	42,185	39,695	43,174	46,705	50,413	Pre-tax margin	11.1	9.9	10.5	11.2	11.4
Prepayments	2,764	4,353	4,734	5,122	5,528	Net margin	9.6	8.4	8.5	9.0	9.2
Other current assets	84,420	87,017	87,017	87,017	87,017	Effective tax rate	13.1	13.9	15.0	15.0	15.0
Current liabilities	184,151	222,851	230,278	238,908	248,283	Balance sheet ratios					
Bank loans	16,342	34,586	34,586	34,586	34,586	Current ratio (x)	1.3	1.1	1.2	1.3	1.4
Trade payables	82,180	98,736	105,786	114,035	123,010	Quick ratio (x)	1.1	0.9	1.0	1.1	1.1
Accruals & other payables	4,501	4,288	4,664	5,045	5,446	Cash ratio (x)	0.4	0.3	0.4	0.5	0.6
Tax payables	5,758	5,404	5,404	5,404	5,404	Inventory turnover days	53	63	63	63	63
others	75,369	79,837	79,837	79,837	79,837	Trade receivables days	54	42	42	42	42
Non-current liabilities	51,995	30,270	30,270	30,270	30,270	Trade payables days	141	136	136	136	136
Bank loans	42,827	19,734	19,734	19,734	19,734	Total debt / total equity ratio (%)	50	44	38	32	28
Deferred income	13	-	-	-	-	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	5,224	4,950	4,950	4,950	4,950	Returns (%)					
Others	3,931	5,585	5,585	5,585	5,585	ROE	23.2	22.9	21.8	21.6	20.6
Minority Interest	6,721	9,957	11,553	13,480	15,560	ROA	7.6	7.4	7.6	8.0	8.2
Total net assets	117,516	124,868	144,714	168,066	192,987	Per share					
Shareholders' equity	117,516	124,868	144,714	168,066	192,987	Diluted EPS (RMB)	3.9	4.1	4.5	5.1	5.6
						DPS (RMB)	1.6	1.7	1.8	2.1	2.3
						BVPS (RMB)	16.9	18.1	20.7	23.8	27.1

Source: Company data, CMBIGM estimates

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