

Midea Group (000333 CH)

Consistent outperformance by great strategy

A solid 3Q19 for Midea, consists of 1) remarkable market shares gain in A.C., 2) consumer electronic segment recovery, and 3) favorable input costs and FX rate. Thanks to positive outlook in 2H19E, we maintain BUY and raised TP to RMB 75.33, based on 18x FY20E P/E (from 16x), or 1.3x PEG (vs peers' avg. of 1.8x).

- 3Q19 net profit up 23%, solid beat.** Midea's net profit att. increased by 23% YoY, 10% above BBG's est., backed by 6% YoY sales growth, noted that consolidation of Little Swan accounted for ~4% NP att. growth. GP margin expanded by 0.7ppt, in our view, helped by: 1) RMB depreciation, 2) softening raw material prices and 3) greater sales from high-end products series (e.g. COLMO, Midea PRO, etc.). Opex, as % of total sales also recorded a saving of 0.4ppt, thanks to the company's rigid costs control strategy.
- A.C sales slowed down, consumer electronics quicken up, robotics and automation stabilized.** Even though A.C. sales growth slowed down to just ~5% in 3Q19 (vs 12% in 1H19), it was still far better than the industry, where both volume and ASP had fallen by ~3% and ~5% (offline)/ ~10% (online), according to China IOL and A.V.C., implying solid market shares gain, thanks to successful new product launches in FY19E. Sales growth of consumer electronics in 3Q19 accelerated to ~10% (vs 6% in 1H19), driven mostly by strong recovery of washing machines, by ~12% (vs 6% in 1H19) and small appliances, by 13% (vs low single digit in 1H19), plus the improved exports sales (helped by favorable FX). Sales growth of robotic and automation was a small negative in 3Q19 (vs -4% in 1H19), on track to resume growth, while EBIT margin also rose to 4.3% (vs 3.1% last year), by effective costs control.
- Remains confident on sales growth and margin expansions in 2H19E.** The Company maintained its targets of a 5-10% sales growth in FY19E, a mild GP margin expansion and a stable opex ratio. It also expect online sales to accounted for ~35% of total retail sales (CMBI est. ~38% of group sales), implying a 20%+ YoY E-commerce sales growth. Moreover, for offline, the company aims to open more home decoration (now at ~150), multi-category (targeting ~1,000, now at ~500) and flagship stores (targeting ~1,900).
- Maintain BUY and raised TP to RMB 75.33 (27% upside).** We lifted FY19E/ 20E/ 21E's net profit by 2.6%/ 3.1%/ 2.8%, to factor in: 1) favorable input costs and currency rate and 3) greater efficiency gain. Our new TP is based on 18x FY20E P/E (lifted from 16x FY20E, thanks to picked up in NP growth). The counter now trades at 16x/ 14x FY19E/ 20E P/E or 1.0x 3 years PEG.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	240,712	259,665	278,728	309,486	343,792
YoY growth (%)	51.3	7.9	7.3	11.0	11.1
Net income (RMB mn)	17,284	20,231	24,339	28,253	32,679
Diluted EPS (RMB)	2.632	3.051	3.638	4.185	4.793
YoY growth (%)	15.5	15.9	19.2	15.0	14.5
P/E (x)	22.6	19.5	16.3	14.2	12.4
P/B (x)	5.3	4.7	4.0	3.4	2.9
Yield (%)	2.0	2.2	2.5	2.8	3.2
ROE (%)	25.6	25.8	26.8	26.1	25.5
Net gearing (%)	24.3	29.8	11.9	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	RMB75.33
(Previous TP)	RMB64.96)
Up/Downside	+26.8%
Current Price	RMB59.39

China Home Appliance Sector

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Stock Data

Mkt Cap (RMB mn)	412,101
Avg 3 mths t/o (RMB mn)	1,315.41
52w High/Low (RMB)	60.08/35.80
Total Issued Shares (mn)	6,938.9

Source: Bloomberg

Shareholding Structure

Midea Holding	31.77%
Ownership via stock connect	14.72%
China Securities Finance Corp	2.85%
Mr. Fang Hong Bo	1.97%
Employees incentive scheme	1.18%
Free float	47.51%

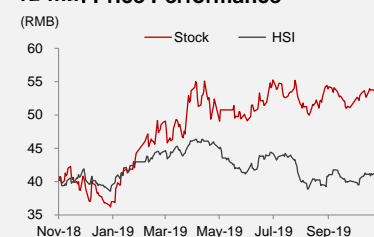
Source: Company's annual report, Bloomberg

Share Performance

	Absolute	Relative
1-mth	16.2%	8.4%
3-mth	15.1%	8.7%
6-mth	13.3%	23.2%
12-mth	43.9%	34.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

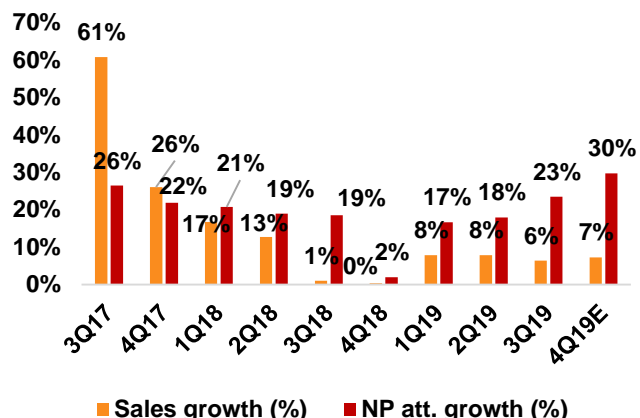
Auditor: PricewaterhouseCoopers

Related Reports

- Midea Group (000333 CH) : Prudent sales and rosy margin for 2H19E – 10 Sep 2019
- Midea Group (000333 CH) : Diversified portfolio with effective incentives – 28 Jun 2019

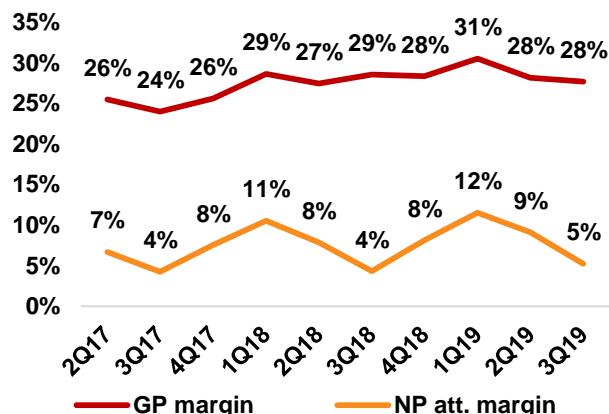
Focus Charts

Figure 1: Sales and net profit att. growth - quarterly



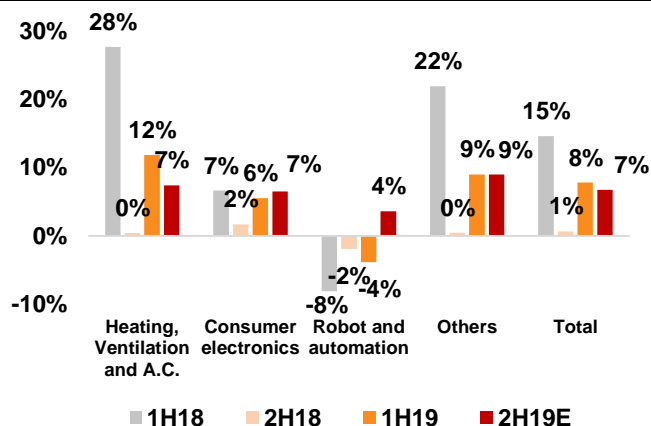
Source: Company data, CMBIS estimates

Figure 2: GP/ NP att. Margin - quarterly



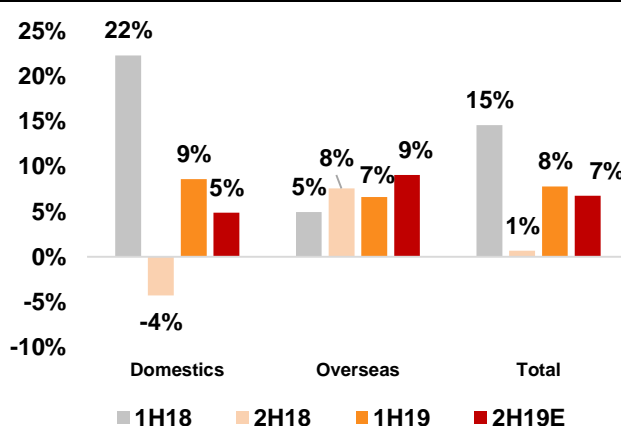
Source: Company data, CMBIS estimates

Figure 3: Midea's sales growth by segment



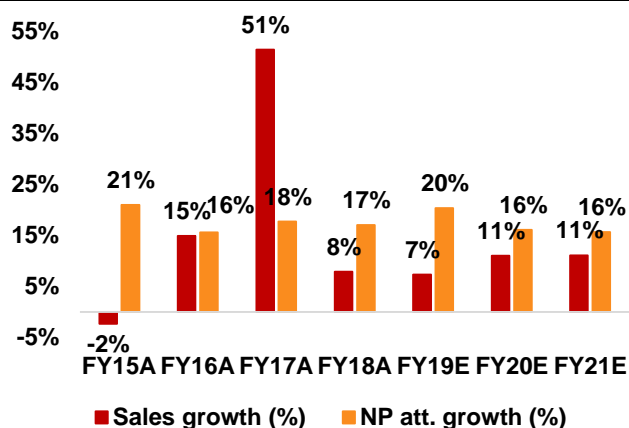
Source: Company data, CMBIS estimates

Figure 4: Midea's sales growth by region



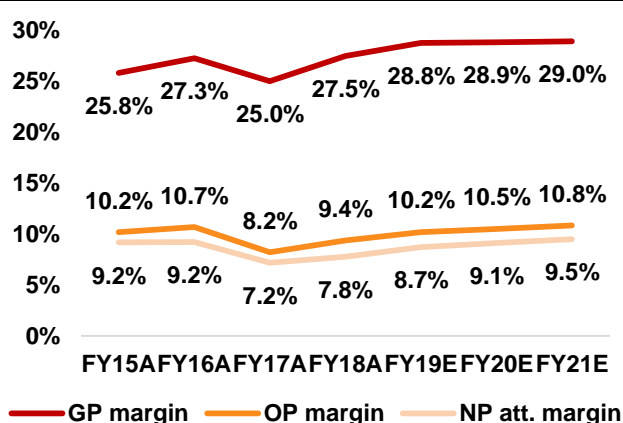
Source: Company data, CMBIS estimates

Figure 5: Sales and net profit att. growth – full yearly



Source: Company data, CMBIS estimates

Figure 6: GP/ OP/ NP att. Margin – full yearly



Source: Company data, CMBIS estimates

Earnings revision

Figure 7: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	278,728	309,486	343,792	278,728	309,486	343,792	0.0%	0.0%	0.0%
Gross profit	80,289	89,314	99,589	79,873	88,678	98,592	0.5%	0.7%	1.0%
EBIT	28,440	32,544	37,288	27,746	31,599	36,291	2.5%	3.0%	2.7%
Reported Net profit	24,339	28,253	32,679	23,728	27,408	31,786	2.6%	3.1%	2.8%
Diluted EPS (RMB)	3.638	4.185	4.793	3.547	4.060	4.662	2.6%	3.1%	2.8%
Gross margin	28.8%	28.9%	29.0%	28.7%	28.7%	28.7%	0.1ppt	0.2ppt	0.3ppt
EBIT margin	10.2%	10.5%	10.8%	10.0%	10.2%	10.6%	0.2ppt	0.3ppt	0.3ppt
Net profit att. margin	8.7%	9.1%	9.5%	8.5%	8.9%	9.2%	0.2ppt	0.3ppt	0.3ppt

Source: Company data, CMBIS estimates

Figure 8: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	278,728	309,486	343,792	281,871	307,668	334,201	-1.1%	0.6%	2.9%
Gross profit	80,289	89,314	99,589	81,309	89,416	98,407	-1.3%	-0.1%	1.2%
EBIT	28,440	32,544	37,288	26,248	29,911	33,329	8.3%	8.8%	11.9%
Net profit att.	24,339	28,253	32,679	23,694	27,099	30,380	2.7%	4.3%	7.6%
Diluted EPS (RMB)	3.638	4.185	4.793	3.498	3.975	4.468	4.0%	5.3%	7.3%
Gross margin	28.8%	28.9%	29.0%	28.8%	29.1%	29.4%	0ppt	-0.2ppt	-0.5ppt
EBIT margin	10.2%	10.5%	10.8%	9.3%	9.7%	10.0%	0.9ppt	0.8ppt	0.9ppt
Net profit att. margin	8.7%	9.1%	9.5%	8.4%	8.8%	9.1%	0.3ppt	0.3ppt	0.4ppt

Source: Bloomberg, CMBIS estimates

Assumption

Figure 9: CMBI's assumption

RMB mn	FY17A	FY18A	FY19E	FY20E	FY21E
Sales by segment (RMB mn)					
Heating, Ventilation & Air-Con.	95,352	109,395	120,334	131,164	142,969
Consumer electronics	98,748	102,993	109,172	124,457	141,880
Robot and automation system	27,037	25,678	25,678	27,732	29,673
Others	19,575	21,599	23,543	26,133	29,269
Total	240,712	259,665	278,728	309,486	343,792
Sales growth by segment (%)					
Heating, Ventilation & Air-Con.	38.7%	14.7%	10.0%	9.0%	9.0%
Consumer electronics	29.0%	4.3%	6.0%	14.0%	14.0%
Robot and automation system		-5.0%	0.0%	8.0%	7.0%
Others	42.1%	10.3%	9.0%	11.0%	12.0%
Total	51.3%	7.9%	7.3%	11.0%	11.1%
Sales by region growth (%)					
Domestics	44.0%	9.1%	7.0%	10.0%	11.0%
Overseas	62.2%	6.2%	7.8%	12.4%	11.2%
Total	51.3%	7.9%	7.3%	11.0%	11.1%
GP margins by segment					
Heating, Ventilation and Air-Conditioning	29.0%	30.6%	31.8%	31.9%	32.0%
Consumer electronics	27.4%	29.2%	31.0%	31.1%	31.2%
Robot and automation system	14.5%	22.9%	22.5%	22.0%	22.0%
Others	8.3%	9.7%	10.2%	10.2%	10.4%
Total	25.0%	27.5%	28.8%	28.9%	29.0%
Opex breakdown					
S&D (ex- staff costs)/ sales	5.9%	7.0%	6.8%	6.6%	6.5%
Admin costs (ex-R&D, D&A, staff costs) / sales	0.3%	1.3%	1.2%	1.1%	1.0%
D&A - Admin / sales	1.7%	0.9%	0.8%	0.8%	0.8%
Labor costs / sales	5.8%	5.9%	6.5%	6.5%	6.4%
R&D expenses / sales	3.5%	3.8%	3.8%	3.8%	3.8%
Others / sales	0.0%	0.0%	0.0%	0.0%	0.0%
Total	17.2%	18.9%	19.1%	18.7%	18.5%
OP margins	8.2%	9.4%	10.2%	10.5%	10.8%
Effective tax rate	-14.8%	-16.0%	-15.0%	-15.0%	-15.0%
NP att. margins	7.2%	7.8%	8.7%	9.1%	9.5%
NP att. growth (%)	17.7%	17.1%	20.3%	16.1%	15.7%

Source: Company data, CMBIS estimates

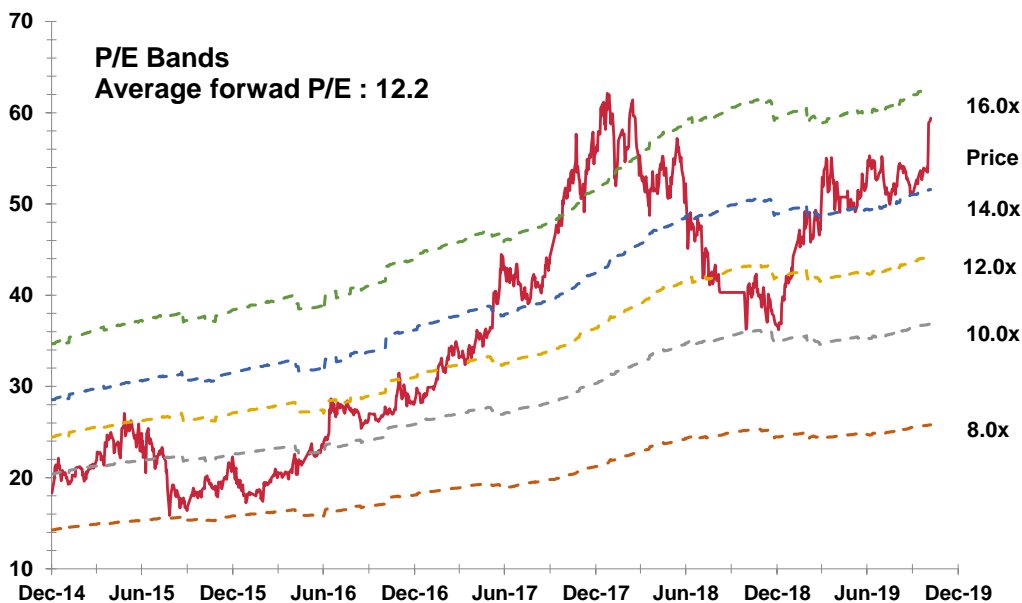
Valuation

Figure 10: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/ Down- side	Mkt. Cap (USDm)	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	74.59	59.39	26%	460,492	Dec-18	16.5	14.3	3.6	3.1	26.1	1.0	2.7
Gree Electronics	000651 CH	NR	n/a	64.08	n/a	430,753	Dec-18	13.6	12.3	3.6	3.1	29.0	1.9	4.1
Haier Smart Home	600690 CH	NR	n/a	18.01	n/a	125,119	Dec-18	13.4	12.6	2.5	2.1	22.4	1.7	2.0
Haier Electronics	1169 HK	NR	n/a	23.00	n/a	64,521	Dec-18	11.9	12.5	2.1	1.8	16.9	1.5	2.3
Hisense JA	921 HK	NR	n/a	8.20	n/a	15,455	Dec-18	6.4	5.5	1.2	1.0	20.3	0.6	4.7
Hisense HA	000921 CH	NR	n/a	11.58	n/a	15,455	Dec-18	10.0	8.7	1.9	1.6	20.3	0.9	3.5
Whirlpool China	600983 CH	NR	n/a	5.06	n/a	4,334	Dec-18	n/a	n/a	n/a	n/a	(3.9)	n/a	n/a
Zhejiang Aishida	002403 CH	NR	n/a	8.82	n/a	3,453	Dec-18	20.5	18.3	1.3	1.3	6.6	2.3	1.9
Bear Electric	002959 CH	NR	n/a	73.96	n/a	9,917	Dec-18	36.7	29.5	8.8	6.9	50.6	3.3	0.7
Ecovacs Robotics	603486 CH	NR	n/a	20.10	n/a	12,678	Dec-18	26.2	19.9	3.9	3.4	12.6	2.9	1.9
Hangzhou Robam	002508 CH	NR	n/a	32.67	n/a	34,645	Dec-18	19.3	17.2	4.4	3.9	25.9	2.2	2.7
Zhejiang Supor	002032 CH	NR	n/a	80.36	n/a	73,733	Dec-18	34.2	29.0	9.3	7.9	31.0	2.4	1.6
Vatti Corporation	002035 CH	NR	n/a	12.66	n/a	12,345	Dec-18	14.4	12.4	3.4	2.8	28.6	1.2	2.6
Xinbao Electrica	002705 CH	NR	n/a	17.13	n/a	15,341	Dec-18	20.6	17.7	3.2	2.8	16.7	1.0	2.6
Avg.								19.1	16.5	3.9	3.3	21.7	1.8	2.6
Med.								17.9	15.8	3.5	3.0	22.4	1.8	2.6
International Home Appliances - White goods, Kitchen and Small Appliances														
Whirlpool Corp	WHR US	NR	n/a	156	n/a	77,279	Dec-18	10.2	9.5	3.1	2.8	39.6	(0.0)	3.1
Ingersoll-Rand Plc	IR US	NR	n/a	131	n/a	246,281	Dec-18	20.5	18.8	4.3	4.1	18.8	1.7	1.6
Smith (A.O.) Corp	AOS US	NR	n/a	52	n/a	66,357	Dec-18	22.7	20.2	5.2	4.7	23.7	19.4	1.8
Helen Of Troy	HELE US	NR	n/a	152	n/a	29,952	Feb-19	18.4	17.2	n/a	n/a	16.0	1.3	n/a
Cree Inc	CREE US	NR	n/a	51	n/a	43,014	Jun-19	n/a	115.1	2.8	2.5	(19.1)	n/a	n/a
Irobot Corp	IRBT US	NR	n/a	51	n/a	11,380	Dec-18	13.8	25.4	2.3	2.2	16.1	(9.4)	0.0
Electrolux Ab	ELUXB SS	NR	n/a	256	n/a	64,014	Dec-18	17.1	13.5	3.3	2.9	16.8	1.3	3.4
Seb Sa	SK FP	NR	n/a	141	n/a	61,467	Dec-18	16.2	14.7	2.9	2.5	21.9	2.8	1.6
Koninklijke Philips	PHIA NA	NR	n/a	40	n/a	312,205	Dec-18	22.2	19.0	3.0	2.8	11.6	0.9	2.2
Daikin Industries	6367 JP	NR	n/a	15590	n/a	328,046	Mar-19	22.7	20.7	2.9	2.6	14.0	2.4	1.0
Panasonic Corp	6752 JP	NR	n/a	1010	n/a	177,793	Mar-19	12.9	12.3	1.2	1.1	14.7	(1.6)	2.9
Sony Corp	6758 JP	NR	n/a	6693	n/a	611,296	Mar-19	15.2	13.9	2.0	1.8	23.6	(1.6)	0.6
Hitachi	6501 JP	NR	n/a	4051	n/a	281,298	Mar-19	9.0	8.0	1.1	1.0	6.4	0.3	2.5
Sharp Corp	6753 JP	NR	n/a	1410	n/a	53,892	Mar-19	13.0	13.1	2.1	1.8	25.5	(5.8)	1.2
Fujitsu General	6755 JP	NR	n/a	2004	n/a	15,721	Mar-19	17.4	15.6	1.8	1.6	7.4	0.8	1.4
Lg Electronics	066570 KS	NR	n/a	68300	n/a	75,656	Dec-18	12.9	8.1	0.8	0.7	5.6	1.0	1.2
Samsung Elect.	005930 KS	NR	n/a	52700	n/a	2,129,519	Dec-18	16.2	12.5	1.4	1.3	11.6	(2.9)	2.7
Woongjin Coway	021240 KS	NR	n/a	94100	n/a	47,006	Dec-18	17.4	15.9	5.5	4.9	34.8	2.0	3.8
Avg.								16.3	20.7	2.7	2.4	16.1	0.7	1.9
Med.								16.2	15.1	2.8	2.5	16.1	0.9	1.7

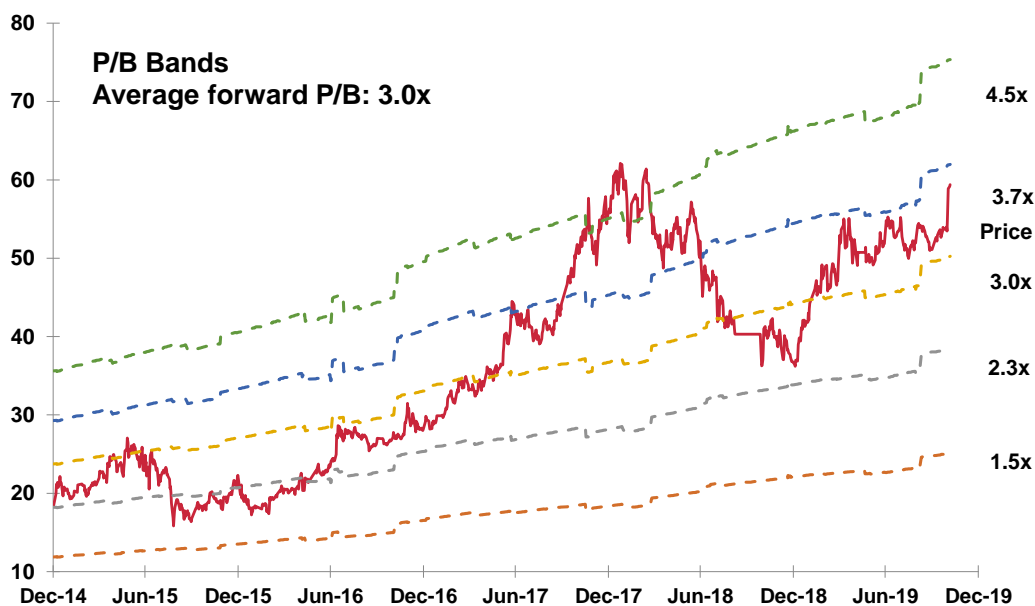
Source: Bloomberg, CMBIS estimates

Figure 11: 12M forward P/E band



Source: Bloomberg, CMBIS estimates

Figure 12: 12M forward P/B band



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	240,712	259,665	278,728	309,486	343,792
Heating, Ventilation & Air-Con.	95,352	109,395	120,334	131,164	142,969
Consumer electronics	98,748	102,993	109,172	124,457	141,880
Robot and automation system	27,037	25,678	25,678	27,732	29,673
Others	19,575	21,599	23,543	26,133	29,269
Cost of goods sold	(180,461)	(188,165)	(198,439)	(220,172)	(244,203)
Gross profit	60,252	71,500	80,289	89,314	99,589
Other income	1,075	1,870	1,390	1,234	1,372
Operating expenses	(41,519)	(49,035)	(53,239)	(58,004)	(63,673)
D & A	(4,374)	(378)	(2,522)	(2,557)	(2,644)
Staff costs	(13,903)	(15,276)	(18,100)	(20,001)	(21,997)
S & D costs (ex-staff, D&A)	(17,601)	(21,826)	(22,814)	(24,755)	(27,204)
Admin exp. (ex-staff, D&A)	(5,638)	(11,553)	(9,799)	(10,688)	(11,825)
Other operating expenses	(3)	(3)	(4)	(4)	(4)
EBIT	19,807	24,336	28,440	32,544	37,288
Finance costs, net	(816)	1,823	1,391	1,223	1,057
JVs & associates	-	-	-	-	-
Exceptional	2,863	(386)	279	928	1,719
Pre-tax profit	21,855	25,773	30,110	34,695	40,064
Income tax	(3,244)	(4,123)	(4,517)	(5,204)	(6,010)
Less: Minority interests	1,328	1,420	1,254	1,238	1,375
Net profit	17,284	20,231	24,339	28,253	32,679

Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	19,807	24,336	28,440	32,544	37,288
D & A	6,275	2,346	4,689	4,773	4,984
Change in working capital	2,815	1,282	2,422	212	199
Income tax paid	(11,139)	(13,739)	(4,517)	(5,204)	(6,010)
Others	6,684	13,637	2,277	2,921	3,475
Net cash from operating CF	24,443	27,861	33,312	35,246	39,937
Capex & investments	(3,218)	(5,612)	(6,132)	(6,809)	(7,563)
Associated companies	-	-	-	-	-
Interest received	2,728	2,098	-	-	-
Others	(34,249)	(15,128)	(5,000)	(5,000)	(5,000)
Net cash from investing CF	(34,740)	(18,642)	(11,132)	(11,809)	(12,563)
Equity raised	-	-	-	-	-
Net change in bank loans	26,096	(854)	(1,000)	(3,000)	(4,000)
Dividend paid	(7,908)	(9,303)	(8,562)	(9,679)	(11,247)
Others	1,464	(3,230)	(607)	(770)	(700)
Net cash from financing CF	19,652	(13,387)	(10,169)	(13,449)	(15,947)
Net change in cash	9,355	(4,168)	12,011	9,988	11,427
Beginning cash balance	17,196	22,221	15,981	27,992	37,980
Exchange difference	(4,329)	(2,072)	-	-	-
Cash at the end of the year	22,221	15,981	27,992	37,980	49,406

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	78,296	81,012	87,455	94,491	102,070
Fixed asset	25,655	25,542	27,972	30,993	34,559
Intangible assets & goodwill	44,071	45,287	44,301	43,315	42,329
Prepaid lease payments	5,245	5,648	10,648	15,648	20,648
Interest in joint ventures	-	-	-	-	-
Other non-current assets	3,325	4,535	4,535	4,535	4,535
Current assets	169,811	182,689	197,537	214,855	234,425
Cash and cash equivalents	22,575	16,201	28,212	38,200	49,627
Inventories	29,444	29,645	29,902	33,177	36,798
Trade and other receivables	28,383	31,946	34,364	38,156	42,385
Prepayments	1,672	2,216	2,379	2,641	2,934
Other current assets	87,737	102,681	102,681	102,681	102,681
Current liabilities	119,092	130,231	134,490	139,032	143,374
Bank loans	2,830	8,137	7,137	4,137	137
Trade payables	60,353	60,227	65,240	72,385	80,286
Accruals & other payables	3,361	3,346	3,592	3,988	4,430
Tax payables	3,544	3,875	3,875	3,875	3,875
others	49,005	54,646	54,646	54,646	54,646
Non-current liabilities	46,090	41,016	41,016	41,016	41,016
Bank loans	32,986	32,091	32,091	32,091	32,091
Deferred income	251	89	89	89	89
Deferred tax	3,973	4,422	4,422	4,422	4,422
Others	8,880	4,413	4,413	4,413	4,413
Minority Interest	9,188	9,382	10,637	11,875	13,250
Total net assets	73,737	83,072	98,850	117,423	138,855
Shareholders' equity	73,737	83,072	98,850	117,423	138,855

Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Heating, Ventilation & Air-Con.	7.5	42.1	43.2	42.4	41.6
Consumer electronics	41.0	39.7	39.2	40.2	41.3
Robot and automation system	11.2	9.9	9.2	9.0	8.6
Others	8.1	8.3	8.4	8.4	8.5
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	25.0	27.5	28.8	28.9	29.0
Operating margin	8.2	9.4	10.2	10.5	10.8
Pre-tax margin	9.1	9.9	10.8	11.2	11.7
Net margin	7.2	7.8	8.7	9.1	9.5
Effective tax rate	14.8	16.0	15.0	15.0	15.0
Balance sheet ratios					
Current ratio (x)	1.4	1.4	1.5	1.5	1.6
Quick ratio (x)	1.2	1.2	1.2	1.3	1.4
Cash ratio (x)	0.2	0.1	0.2	0.3	0.3
Inventory turnover days	60	58	55	55	55
Trade receivables days	43	45	45	45	45
Trade payables days	122	117	120	120	120
Total debt / total equity	55	49	40	31	24
Net debt / equity ratio (%)	24	30	12	Net cash	Net cash
Returns (%)					
ROE	23.4	24.4	24.6	24.1	23.5
ROA	7.0	7.7	8.5	9.1	9.7
Per share					
Diluted EPS (RMB)	2.63	3.05	3.64	4.19	4.79
DPS (RMB)	1.20	1.30	1.46	1.67	1.92
BVPS (RMB)	11.20	12.61	14.86	17.48	20.46

Source: Company data, CMBIS estimates

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