

MIDEA Group [000333.CH]

Confidence in Q2 Shipments

We continue to like Midea Group on account of its product upgrade story and continued margin expansion. Since the beginning of 2018, Midea has been the largest beneficiary of foreign buying in China's white goods sector. Several factors set Midea apart from its peers: its global footprint, diversified product mix, corporate governance and technological edge. We maintain our BUY rating, with a 12-month target price of RMB67, based on a 16x 2019 earnings multiple. We believe that the Group's competitive exports, strong brand portfolio, leadership position in robotics and high 25%+ EPS growth warrant a premium to its peers.

Premium Brand to Expand Margins: Midea will launch a new high-end brand, including refrigerators, washing machines and kitchen appliances, through its dedicated flagship and experience stores, which will help drive margin improvement in 2018-2020E.

Air Con Sell-through Rate Remains Strong: Air conditioners, which account for >45% of Midea's gross profit, saw ~40% YoY growth in Q1. While April and May installations have slowed to a 20% growth rate YoY, Midea management still anticipates double-digit growth for the full year. With some industry peers such as Gree reporting an acceleration in AC installations since May, we believe the Group's sales are on track.

Stock Supported by Overseas Investors: Midea is the 6th largest name in the MSCI China A Inclusion Index, with a weighting of ~1.92%. Since the beginning of 2018, foreign investors have increased their stake to 11.2%, making Midea one of the most popular A-share blue-chips and home appliance makers. Since its MSCI inclusion, Midea has continued to capture more northbound flow on HK Stock Connect than other white goods names, with more than RMB2bn in net buying.

Figure 1: Northbound Ownership and Buying from June 1

Percent Ownership by Northbound Connect				Northbound Ownership / Net Buying Since June 1			
%	12-Jun-17	30-Dec-17	9-Jun-18	Shares (Mln)	31-May-17	9-Jun-18	Net Buying (RMB Mln)
Midea Group	5.02%	9.55%	11.20%	Midea Group	701.6	739.3	2,033
Qingdao Haier	7.31%	8.75%	8.32%	Qingdao Haier	499.8	507.5	157
Gree	5.08%	8.41%	7.69%	Gree	426.4	462.9	1,749

Source: HKEX, CGIS Research

We reiterate our Buy Call on the stock in anticipation of strong earnings growth in 1H2018, net of forex adjustments. The Group's strong 25%+ EPS growth should support its 13.5x 2019E PER.

	2016	2017	2018E	2019E	2020E
Revenue (RMB Mn)	159,842	241,919	276,958	308,571	341,427
Growth (%)		51%	14%	11%	11%
Net Profit (RMB Mn)	14,684	17,284	21,577	27,373	34,214
Growth (%)		18%	25%	27%	25%
EPS (RMB)	2.28	2.63	3.29	4.17	5.21
PER (x)	24.7	21.4	17.1	13.5	10.8
PBR (x)	5.9	5.0	4.2	3.5	2.9

Sources: Company Annual Report, CGIS Research

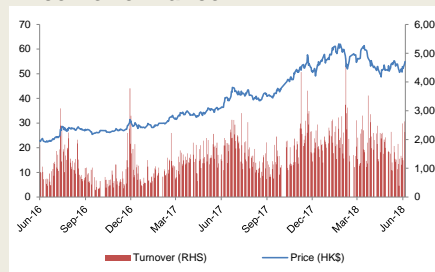
Home Appliances Sector

Buy

Close: RMB 56.32 (June 11, 2018)

Target Price: RMB 67 (+19%)

Price Performance



Market Cap	US\$57,945m
Shares Outstanding	6,590m
Free Float	45%
52W High	RMB\$62.69
52W Low	RMB\$38.67
3M Avg Daily T/O:	US\$226m
Major Shareholders:	Midea Hld Co (34%)

Sources: Company, Bloomberg

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Explanation on Equity Ratings

BUY : share price will increase by >20% within 12 months in absolute terms

SELL : share price will decrease by >20% within 12 months in absolute terms

HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

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