Deutsche Bank
Research

Rating
Hold

Asia
China

Consumer
Retail / Wholesale Trade

Company
Midea

Reuters	Bloomberg	Exchange	Ticker
000333.SZ	000333 CH	SHZ	000333

Date
15 October 2018

Company Update

Price at 12 Oct 2018 (CNY)	40.30
Price target - 12mth (CNY)	43.00
52-week range (CNY)	62.12 - 40.30
Shenzhen Index	1,355

3Q18 channel observations: part 4: KUKA orders hurt by low utilization

Event: we concluded channel checks on KUKA's demand in China

Conclusion: weaker utilization at automobile, home appliances and smartphone factories in China may suppress KUKA's new order growth. We expect KUKA to build more inventory into its distributors globally to try to meet its 2018 revenue guidance.

Note: KUKA (KU2G.DE, NR, EUR67.2) is a 94.55%-held subsidiary of Midea.

Automobile: Reduced capacity utilization at Chinese automakers hurting orders

With China's automobile sales volume continuing to decline YoY, auto makers may face capacity under-utilization, thus hurting demand for new production lines and/or improvement. Incrementally, distributors we interviewed witnessed a slight recovery in client sentiment since late September (evidenced by more early-stage conversations regarding supplychain upgrades between KUKA and some NEV joint-venture brands), but it may take time for such conversations to translate into orders.

NEV battery cell: Very intense competition from local players

According to distributors, China's NEV battery cell makers prefer to adopt automation solutions designed by local automation makers. We believe it will be difficult for Chinese NEV battery cell makers to adopt KUKA's more expensive solutions considering cell makers' cost pressure amid over capacity and Chinese government's heavy influence (via subsidy) on the cell industry.

Other industries: Home appliances and 3C production capacity utilization also face pressure

Similar to automakers, we also forecast declining capacity utilization at home appliances factories, with the most significant deterioration at air conditioner and compressor factories.

Building inventory at distributors

KUKA maintained its guidance to grow 2018 sales YoY despite an 11% YoY decline in its 1H18 revenue. We believe distributors will bear more inventory to help drive KUKA's robotic revenue. We will thus closely monitor KUKA's accounts receivable (a close indicator of distributors' inventory level).

Valuation & Risks

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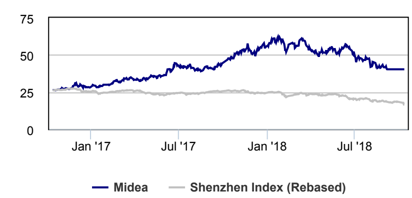
Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.0	-15.7	-15.5
Shenzhen Index	-7.6	-18.8	-36.0

Source: Deutsche Bank

Key indicators (FY1)	
ROE (%)	26.1
Net debt/equity (%)	-19.4
Book value/share (CNY)	13.03
Price/book (x)	3.1
Net interest cover (x)	–
Operating profit margin (%)	7.4

Source: Deutsche Bank

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Appendix 1

Important Disclosures

*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
Midea	000333.SZ	40.30 (CNY) 12 Oct 2018	1, 7, 14, 15

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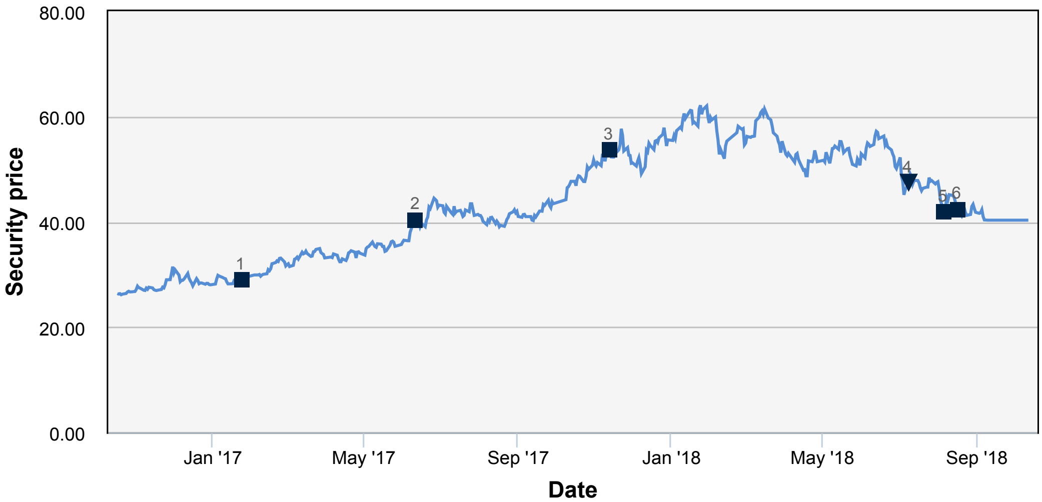
Historical recommendations and target price. Midea (000333.SZ)

(as of 10/12/2018)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	01/24/2017	Buy, Target Price Change CNY 35.50 Richard Rui-Huang**
2.	06/12/2017	Buy, Target Price Change CNY 44.57 Anne Ling
3.	11/13/2017	Buy, Target Price Change CNY 63.00 John Chou
4.	07/09/2018	Downgraded to Hold, Target Price Change CNY 52.00 John Chou
5.	08/06/2018	Hold, Target Price Change CNY 48.00 John Chou
6.	08/17/2018	Hold, Target Price Change CNY 43.00 John Chou

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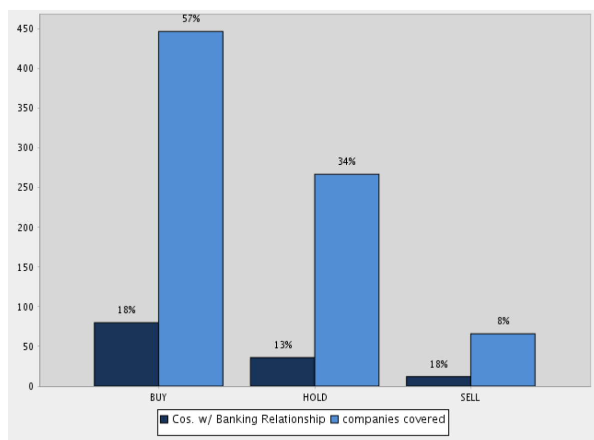

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