Deutsche Bank
Research

Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
Midea

Reuters	Bloomberg	Exchange	Ticker
000333.SZ	000333 CH	SHZ	000333

Date
21 November 2018

Breaking News

Price at 20 Nov 2018 (CNY)	40.80
Price target - 12mth (CNY)	50.00
52-week range (CNY)	62.12 - 36.27
Shenzhen Index	1,442

Valuation & Risks

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LS privatization: Deal sweetener (special cash dividend) announced

Events: both Midea and LS announce potential special cash dividends

(1) Midea announced that it will "appropriately increase the cash dividend payout ratio" upon completion of the LS (Little Swan) privatization deal.

(2) LS also announced that it may issue a special cash dividend of RMB4 per share (8.6% dividend yield) after regulatory approval of the deal.

Both announcements were dated 21 November 2018 after market close.

Positive for Midea's share price, in our view

- **Midea has strong capacity to pay cash to its shareholders, even after LS's special dividend:** Based on our latest model, we expect Midea to have RMB21bn net cash by the end of 2018. Deducting the RMB2.5bn that LS may pay its shareholders, this would still leave RMB19bn for Midea shareholders (or RMB2.8 per share, a 7% dividend). This does not consider the wealth management products that LS holds, which have a book value of over RMB10bn (an additional RMB1.5 for Midea shareholders).

- **Positive for sentiment if Midea parent reduces its pledging:** In our previous report we noted investors' disappointment regarding the lack of a special dividend by Midea. We believe this announcement will alter that sentiment. More importantly, as highlighted previously, we believe that a special dividend would improve liquidity at Midea's major shareholder and reduce share pledging, which has been a major concern for Midea's institutional investors (see "scenario 4" of the report in the link).

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Midea	000333.SZ	40.80 (CNY) 20 Nov 2018	1, 7, 14, 15

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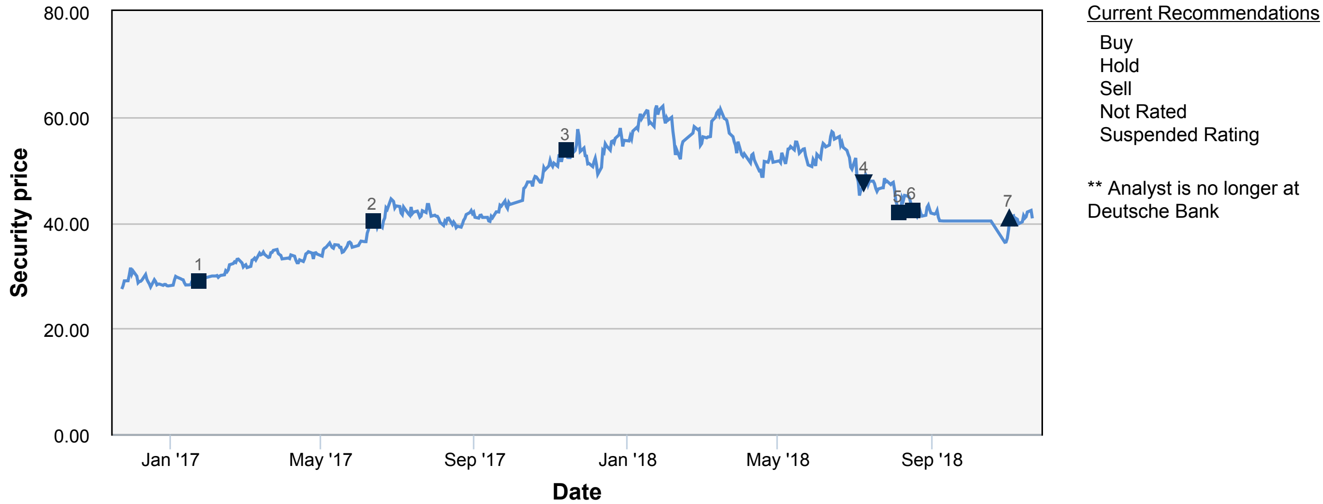
Historical recommendations and target price. Midea (000333.SZ)

(as of 11/20/2018)



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
7.	11/02/2018	Upgraded to Buy, Target Price Change CNY 50.00 John Chou

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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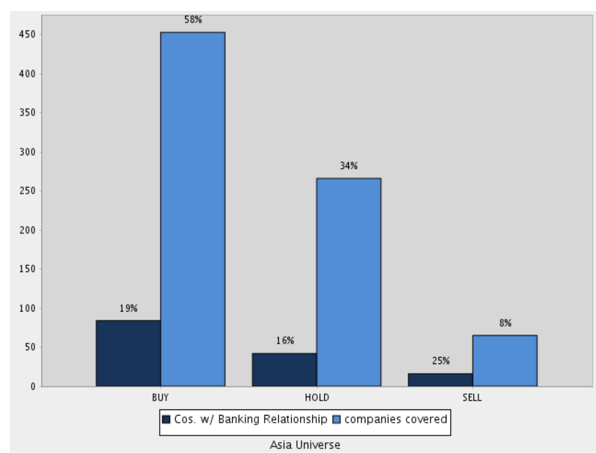
Equity rating dispersion and banking relationships



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