

I China
HOLD

Consensus ratings*: Buy 23 Hold 5 Sell 1

Current price:	Rmb50.8
Target price:	Rmb48.0
Previous target:	Rmb46.0
Up/downside:	-5.4%
CGS-CIMB / Consensus:	na
Reuters:	
Bloomberg:	000333 CH
Market cap:	US\$49,389m
Average daily turnover:	Rmb334,531m
Current shares o/s:	US\$265.6m
Free float:	Rmb1,785m
*Source: Bloomberg	



	Source: Bloomberg		
Price performance	1M	3M	12M
Absolute (%)	-5.4	14.7	-3.2
Relative (%)	4.5	2.9	3.5

Major shareholders	% held
Midea Holding Co., Ltd.	33.3
HKEX (Stock Connect)	16.0

Midea

Annual Investor Day Takeaways

- We maintain our TP of 48 and HOLD rating on Midea

Midea's annual investor conference was, as usual, well attended, with over 400 attendees. The major takeaways are:

Margins likely to remain stable

Midea's gross margin expanded by 2.4ppt YoY in 1Q19, half of which came from forex translation gains and half of which came from lower raw material prices. Domestic market gross margin increased less than 1%, suggesting its upgrade strategy has yet to yield meaningful results. Without meaningful margin improvement, Midea's earnings growth in 2019-2020E earnings growth remain lackluster.

New brands

In October 2018, Midea added the COLMO brand to its higher end product portfolio, joining Beverly, Toshiba and Little Swan. In April 2019, Midea launched lower end BUGU brand to tap into lower end market, and solidify their younger customer base. However, we estimate limited earnings impact in 2-3 years, as Midea's new premium brand will likely need time to gain market traction (i.e. Haier Casarte).

No major M&A indicated in the foreseeable future

Although Midea held ~RMB 98Bn cash as of year-end 2018 (RMB 28Bn cash + RMB 70Bn Structured Products), Midea is not looking to take on any major acquisitions within the next 2-3 years. Management is focused on managing its recent KUKA and Toshiba acquisitions and remains cautious about taking on new ventures. Midea earns an estimated ~4% return on its structured deposits.

Maintain HOLD until near term catalysts emerge

We still like Midea's long term consumption upgrade story. However, in absence of any near term catalyst, we retain our TP and Hold rating.

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Financial Summary	2016	2017	2018	2019E	2020E
Revenue (Rmbm)	159,842	241,919	261,820	274,710	289,331
Net Profit (Rmbm)	14,684	17,284	20,231	22,975	25,158
Diluted EPS (Rmb)	2.28	2.63	3.05	3.42	3.68
Diluted EPS Growth	14%	16%	16%	12%	7%
DPS (Rmb)	1.00	1.20	1.30	1.54	1.66
Dividend Yield	2.0%	2.4%	2.6%	3.0%	3.3%
EV/EBITDA (x)	16.3	13.1	12.0	11.3	10.4
Net Gearing	-25%	-10%	5%	-3%	-9%
PER (x)	22.3	19.3	16.6	14.8	13.8
ROE	24%	23%	24%	24%	22%

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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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