

Midea Group (000333 CH)

Prudent sales and rosy margins for 2H19E

Midea reported exceptional market shares gain in 1H19, thanks to its technology break-through in A.C and multi-brand strategy. Given a better raw material price and currency trend, we are more positive on 2H19E NP growth. Hence, we maintain BUY and raised TP to RMB 64.96, based on 16x FY20E P/E (rolled over from 18x FY19E), or 1.1x PEG.

- **1H19 net profit up 17%, slight beat.** Midea's net profit rose 17% YoY to RMB 15.2bn, inline with CMBI and 2% above BBG's est. Sales growth was 8%, inline. The beat was aided mainly by robust GP margin expansion, jumping by 2.3ppt to 29.5% in 1H19 (vs 27.2% in 1H18), thanks to: 1) falling raw material costs (copper -6%, aluminum -5% and steel -8%, etc), Midea benefited more vs peers due to its high self-production rate, 2) favorable FX (CNY -5% YTD), and 3) Midea's multi-brand strategy (launch of high-end positioned COLMO in Oct 2018 and Midea PRO series in Mar 2019, internet brand BUGU/ 布谷 in Mar 2019 and brand targeting youth WAHIN/ 华凌 in 2019). However, due to greater A&P and R&D expenses, NP margin only increased by 0.8ppt to 9.9%.
- **Exceptional achievement (esp. on A.C.) in 1H19.** Despite a ~4% drop in A.C industry sales, Midea's A.C sales surged by ~12% YoY in 1H19 (market share climbed to 27%/30% on offline/inline in 1H19, vs 25%/23% in 2018). We attribute such impressive results to its innovations (e.g. more products equipped with the "windless" technology, winning the 2019 AWE Epland Gold Award). Washing machines/ Refrigerator/ small appliances sales growth were ~6%/~10%/~low-single digit in 1H19, vs industry growth of ~3%/~-1%/~5%.
- **Prudent sales and rosy margins for 2H19E.** The Company targets a 5-10% sales growth in FY19E and expects a GP margin expansion plus a faster growth for net profit. A.C. sales growth slowed down to ~10% in Jul/Aug 2019, according to management. However, in our view, that should not be a worry as margin should continue to improve given softening raw material prices and highly healthy level of channel inventory, at ~5-6mn units (vs industry's ~20-30mn). Also, we see potential upsides from export business's GP margin since CNY had already further depreciated vs USD in 2H19E. KUKA sales missed in 1H19 but management suggested a better 2H19E, for both sales and EBITDA margin.
- **Maintain BUY and raised TP to RMB 64.96 (20% upside).** Our new TP is based on 16x FY20E P/E (rolled over from 18x FY19E). We lifted FY19E/20E/21E's net profit by 1.9%/1.1%/0.2%, to factor in: 1) better A.C. sales, 2) declining raw material costs and currency rate and 3) greater R&D expenses. The counter now trades at 15x/ 13x FY19E/ 20E P/E with 2.6% forward yield.

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	23,728	27,408	31,786
Diluted EPS (RMB)	2.632	3.051	3.547	4.060	4.662
YoY growth (%)	15.5	15.9	16.2	14.5	14.8
P/E (x)	20.6	17.8	15.3	13.4	11.6
P/B (x)	4.3	3.9	3.3	2.8	2.4
Yield (%)	2.2	2.4	2.6	3.0	3.4
ROE (%)	22.8	23.1	23.6	23.1	22.8
Net gearing (%)	21.6	26.8	11.3	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **RMB64.96**
 (Previous TP **RMB62.65**)
 Up/Downside **+19.8%**
 Current Price **RMB54.21**

China Home Appliance Sector

Walter Woo
 (852) 3761 8776
 walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	376,158
Avg 3 mths t/o (RMB mn)	1,368.19
52w High/Low (RMB)	56.35/34.10
Total Issued Shares (mn)	6,938.9
Source: Bloomberg	

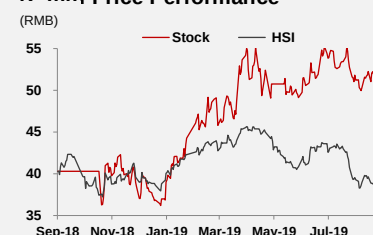
Shareholding Structure

Midea Holding	31.91%
Ownership via stock connect	16.23%
China Securities Finance Corp	2.86%
Mr. Fang Hong Bo	1.98%
Employees incentive scheme	1.18%
Free float	45.84%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	6.2%	3.5%
3-mth	10.4%	11.5%
6-mth	14.0%	22.9%
12-mth	34.5%	35.9%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

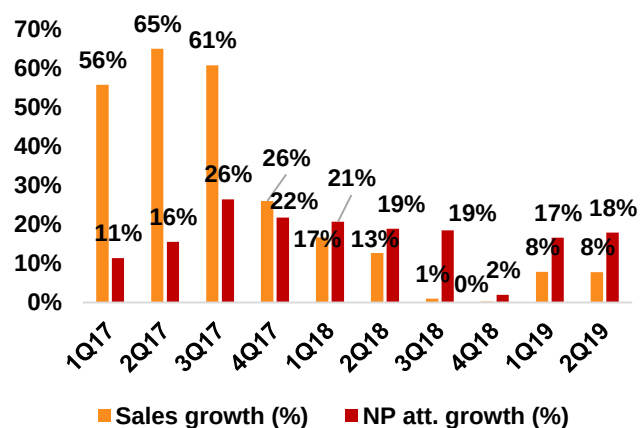
Auditor: PricewaterhouseCoopers

Related Reports

Midea Group (000333 CH) : Diversified portfolio with effective incentives – 28 Jun 2019

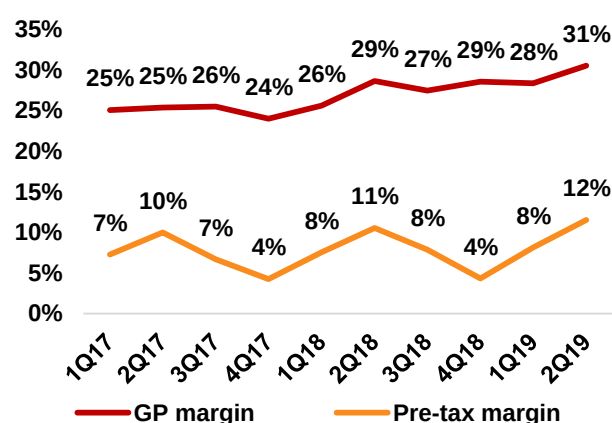
Focus Charts

Figure 1: Sales and net profit growth - quarterly



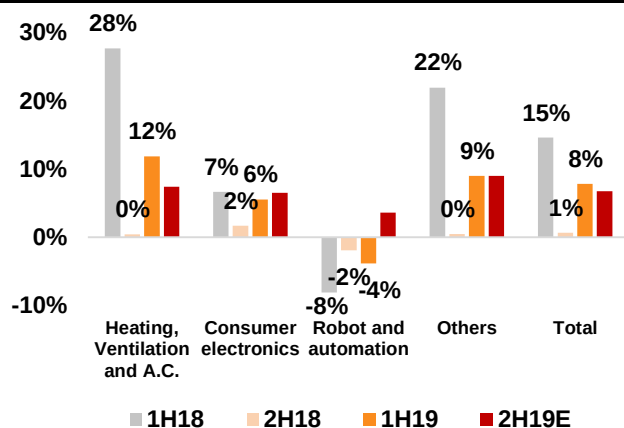
Source: Company data, CMBIS estimates

Figure 2: GP/ OP/ NP att. Margin - quarterly



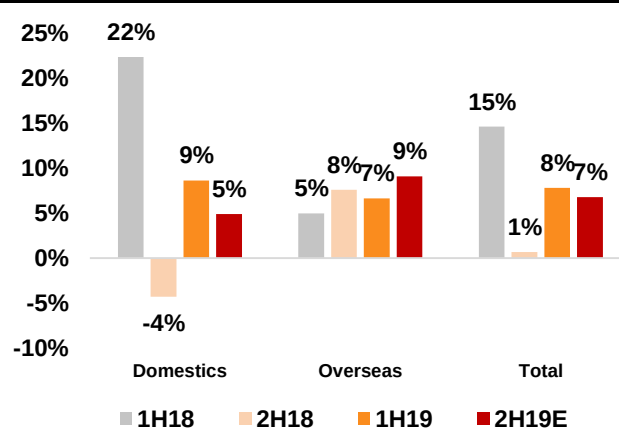
Source: Company data, CMBIS estimates

Figure 3: Sales growth by segment



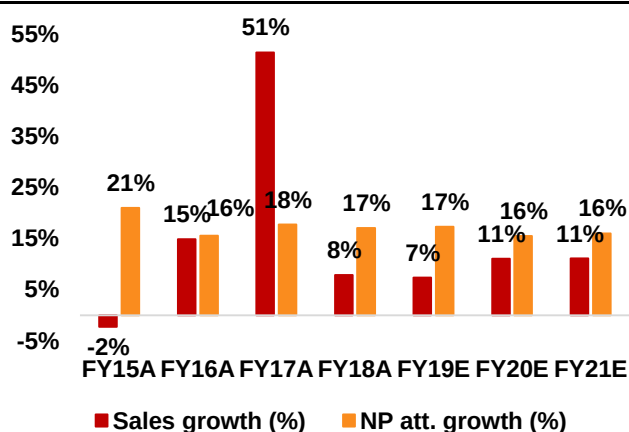
Source: NBS, CMBIS estimates

Figure 4: Sales growth by region



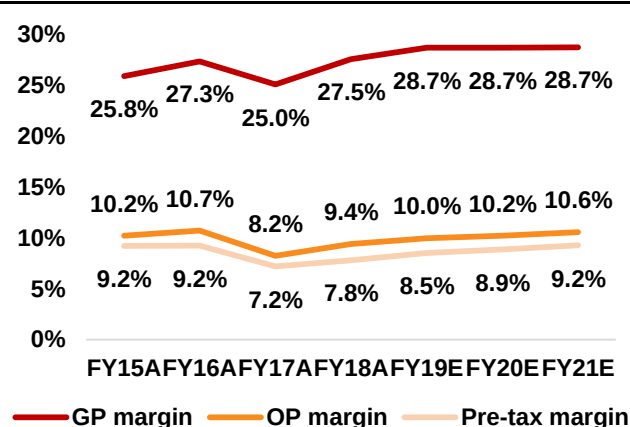
Source: China IOL, CMBIS estimates

Figure 5: Sales and net profit growth – full yearly



Source: Company data, CMBIS estimates

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



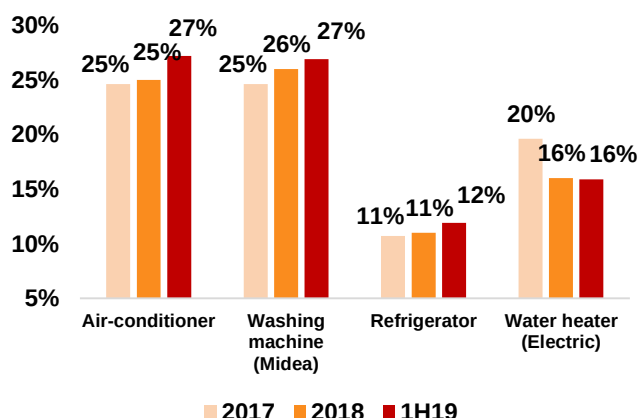
Source: Company data, CMBIS estimates

Figure 7: Midea's market share overview

	Offline's Mkt shs						Ranking in China						Online's mkt shs			Ranking in China		
	2014	2015	2016	2017	2018	1H19	2014	2015	2016	2017	2018	1H19	2017	2018	1H19	2017	2018	1H19
Large appliances																		
Air-conditioner	25%	25%	24%	25%	25%	27%	2	2	2	2	2	2	24%	23%	30%	2	2	1
Washing machine (Midea)	18%	21%	23%	25%	26%	27%	2	2	2	2	2	2	29%	31%	31%	1	2	2
Refrigerator	8%	10%	11%	11%	11%	12%	4	4	3	3	3	2	15%	16%	17%	2	2	2
Water heater (Electric)	11%	12%	13%	20%	16%	16%	3	3	3	3	3	3	34%	32%	33%	1	1	1
Water heater (Gas)				11%						3			21%	19%	19%	1	1	1
Water purifier	34%	28%		23%	27%	23%	1	1		2	1	2	12%	14%	16%	3	2	1
Range hood		9%	10%	9%	8%	8%		3	3	4	4	4	17%	14%	17%	1	3	1
Stove	7%	7%		7%			4	4		4				14%	12%		2	2
Small appliances																		
Rice cooker	42%	42%	42%	45%	43%	44%	1	1	1	1	1	1	33%	32%	32%	1	1	1
Pressure cooker	42%	43%	46%	48%	44%	46%	1	1	1	1	1	1		42%	41%		1	1
Microwave oven	45%	45%	46%	45%	43%	44%	2	2	2	2	2	2		49%	49%		1	1
Induction stove	48%	49%	50%	53%			1	1	1	1			42%	43%	45%	1	1	1
Food processor					37%	39%						1						
Drinking machines													30%	24%	25%	1	1	1

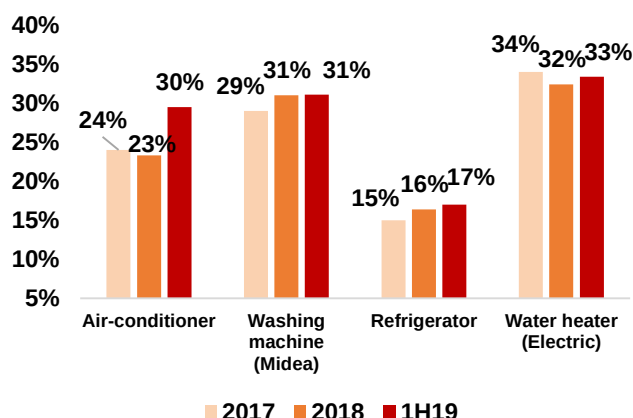
Source: Company data, CMBIS estimates

Figure 8: Offline market shares by segment - large appliances



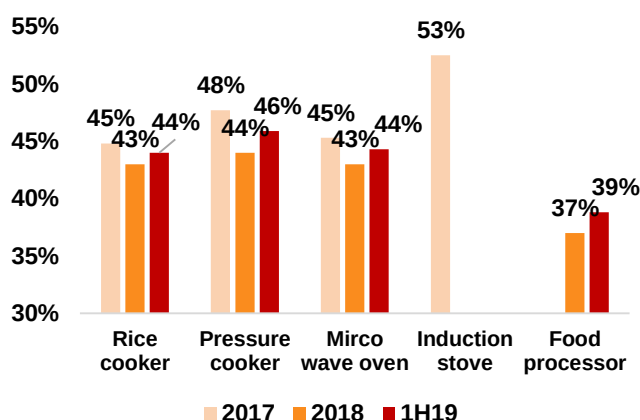
Source: Company data, CMBIS estimates

Figure 9: Online market shares by segment - large appliances



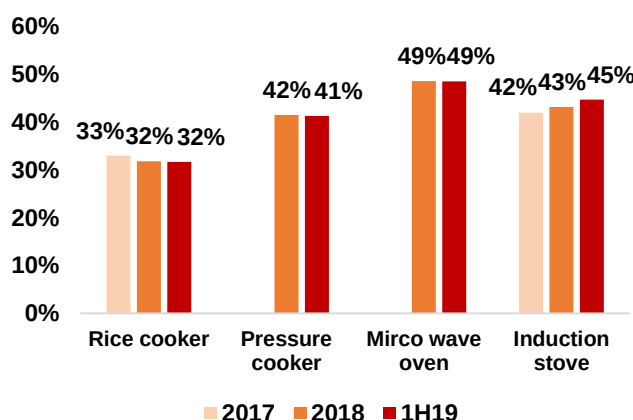
Source: Company data, CMBIS estimates

Figure 10: Offline market shares by segment - small appliances



Source: Company data, CMBIS estimates

Figure 11: Online market shares by segment - small appliances



Source: Company data, CMBIS estimates

Figure 12: New A.C. series - “东风” equipped with “Dual flow/ windless” technology



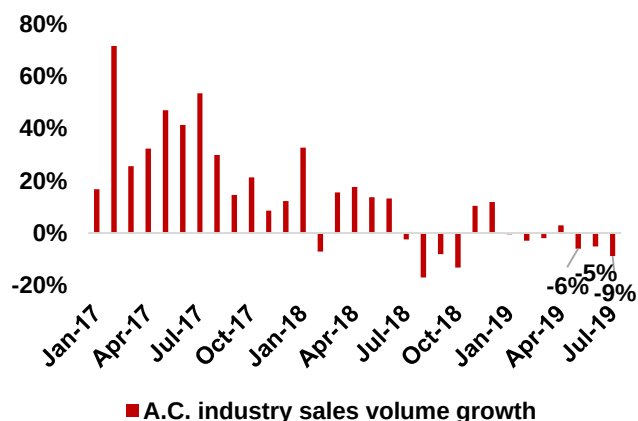
Source: Company data, CMBIS estimates

Figure 13: New A.C. series - “领鲜者” is able to control temperature, humidity, and air freshness.



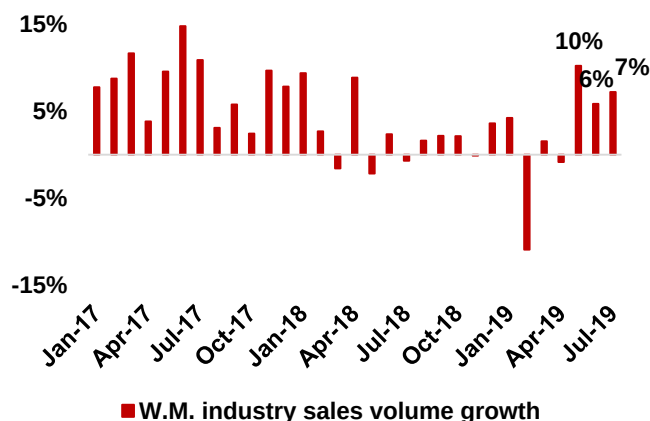
Source: Company data, CMBIS estimates

Figure 14: Air-conditioner industry sales volume growth



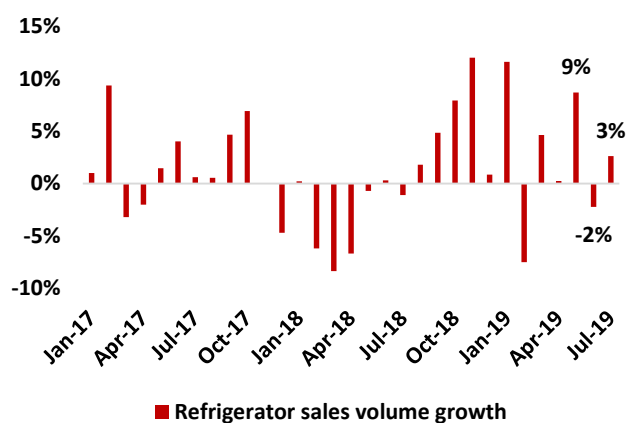
Source: China IOL, CMBIS estimates

Figure 15: Washing machine industry sales volume growth



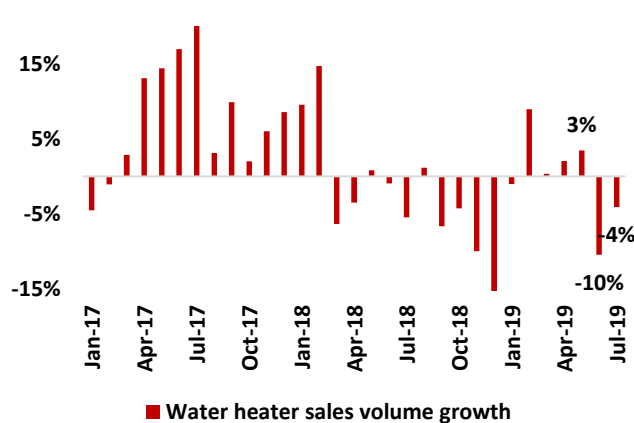
Source: China IOL, CMBIS estimates

Figure 16: Fridge industry sales volume growth

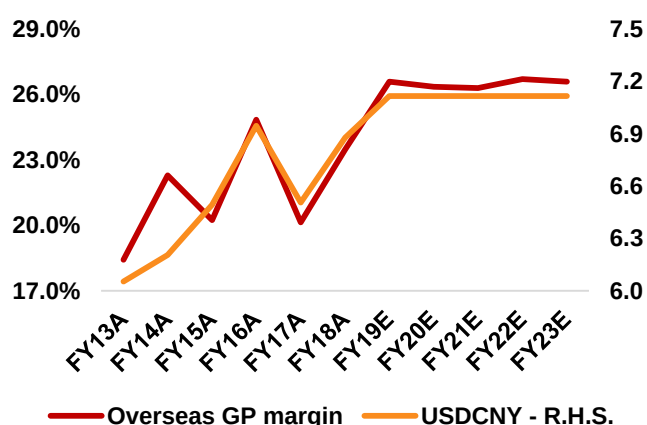


Source: China IOL, CMBIS estimates

Figure 17: Water heater industry sales volume growth



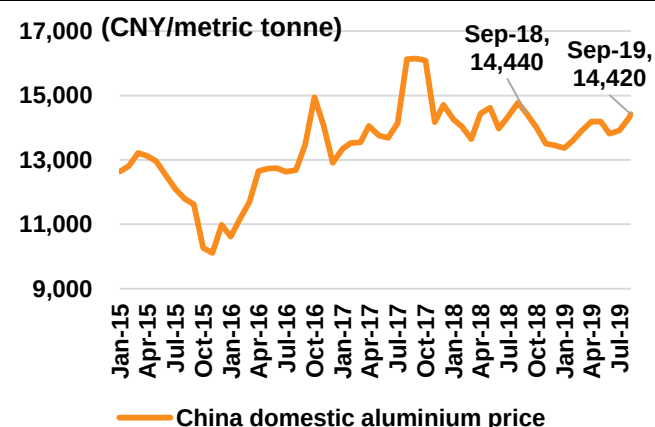
Source: China IOL, CMBIS estimates

Figure 18: Overseas GP margin vs USDCNY

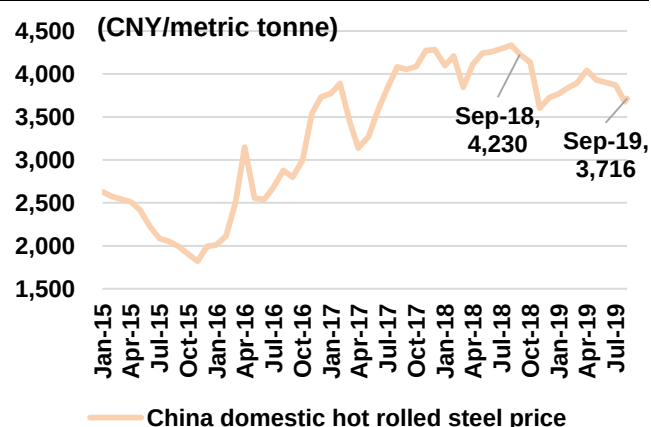
Source: Company data, Bloomberg, CMBIS estimates

Figure 19: China copper price

Source: Bloomberg, CMBIS estimates

Figure 20: China aluminium price

Source: Bloomberg, CMBIS estimates

Figure 21: China steel price

Source: Bloomberg, CMBIS estimates

Results Summary

Figure 22: Results summary - Half Year

Half yearly (Rmb mn)	1H17	2H17	1H18	2H18	1H19	2H19E	1H18 yoy	2H18 yoy	1H19 yoy	2H19E yoy
Revenue	124,450	116,262	142,624	117,041	153,770	124,958	15%	1%	8%	7%
COGS	(93,051)	(87,409)	(103,881)	(84,283)	(108,441)	(90,414)				
Gross profit	31,399	28,853	38,742	32,758	45,329	34,544	23%	14%	17%	5%
GP margins	25.2%	24.8%	27.2%	28.0%	29.5%	27.6%				
Other income & gains	266	811	817	1,057	280	1,113				
S & D expenses	(12,405)	(14,334)	(16,893)	(14,193)	(19,530)	(14,961)	36%	-1%	16%	5%
S & D exp / sales	-10.0%	-12.3%	-11.8%	-12.1%	-12.7%	-12.0%				
Admin expenses	(6,833)	(7,947)	(7,235)	(10,714)	(8,645)	(10,381)	6%	35%	19%	-3%
Admin exp / sales	-5.5%	-6.8%	-5.1%	-9.2%	-5.6%	-8.3%				
Other opex	-2	-1	-2	-2	-4	0				
Operating profit (EBIT)	12,426	7,382	15,431	8,905	17,431	10,315	24%	21%	13%	16%
OP margins	10.0%	6.3%	10.8%	7.6%	11.3%	8.3%				
Other items	1,528	1,335	(20)	(366)	23	256				
Net finance income	(347)	(469)	984	839	1,436	(68)				
Net fin. income / sales	-0.3%	-0.4%	0.7%	0.7%	0.9%	-0.1%				
Profit after fin. costs	13,607	8,248	16,395	9,378	18,890	10,502				
Associated coms	0	0	0	0	0	0				
Jointly controlled coms	0	0	0	0	0	0				
Pre-tax profit	13,607	8,248	16,395	9,378	18,890	10,502	20%	14%	15%	12%
Tax	(2,059)	(1,185)	(2,615)	(1,508)	(2,830)	(1,579)				
Tax / sales	-1.7%	-1.0%	-1.8%	-1.3%	-1.8%	-1.3%				
Effective tax rate	-15.1%	-14.4%	-15.9%	-16.1%	-15.0%	-15.0%				
Minority interests	737	591	843	577	873	381				
Net profit att.	10,811	6,472	12,937	7,294	15,187	8,541	20%	13%	17%	17%
NP margins	8.7%	5.6%	9.1%	6.2%	9.9%	6.8%				

Source: Company data, CMBIS estimates

Figure 23: Results summary - Full Year

Full yearly (Rmb mn)	FY17	FY18	FY19E	FY18 yoy	FY19E yoy
Revenue	240,712	259,665	278,728	8%	7%
COGS	(180,461)	(188,165)	(198,855)		
Gross profit	60,252	71,500	79,873	19%	12%
GP margins	25.0%	27.5%	28.7%		
Other income & gains	1,077	1,874	1,394		
S & D expenses	(26,739)	(31,086)	(34,491)	16%	11%
S & D exp / sales	-11.1%	-12.0%	-12.4%		
Admin expenses	(14,780)	(17,949)	(19,026)	21%	6%
Admin exp / sales	-6.1%	-6.9%	-6.8%		
Other opex	-3	-3	-4		
Operating profit (EBIT)	19,807	24,336	27,746	23%	14%
OP margins	8.2%	9.4%	10.0%		
Other items	2,863	(386)	279		
Net finance income	(816)	1,823	1,367		
Net fin. income / sales	-0.3%	0.7%	0.5%		
Profit after fin. costs	21,855	25,773	29,391		
Associated coms	0	0	0		
Jointly controlled coms	0	0	0		
Pre-tax profit	21,855	25,773	29,391	18%	14%
Tax	(3,244)	(4,123)	(4,409)		
Tax / sales	-1.3%	-1.6%	-1.6%		
Effective tax rate	-14.8%	-16.0%	-15.0%		
Minority interests	1,328	1,420	1,254		
Net profit att.	17,284	20,231	23,728	17%	17%
NP margins	7.2%	7.8%	8.5%		

Source: Company data, CMBIS estimates

Earnings revision

Figure 24: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	278,728	309,486	343,792	279,242	310,245	344,837	-0.2%	-0.2%	-0.3%
Gross profit	79,873	88,678	98,592	78,132	86,776	96,787	2.2%	2.2%	1.9%
EBIT	27,746	31,599	36,291	27,232	31,255	36,207	1.9%	1.1%	0.2%
Reported Net profit	23,728	27,408	31,786	23,286	27,106	31,708	1.9%	1.1%	0.2%
Diluted EPS (RMB)	3.547	4.060	4.662	3.481	4.015	4.651	1.9%	1.1%	0.2%
Gross margin	28.7%	28.7%	28.7%	28.0%	28.0%	28.1%	0.7ppt	0.7ppt	0.6ppt
EBIT margin	10.0%	10.2%	10.6%	9.8%	10.1%	10.5%	0.2ppt	0.1ppt	0.1ppt
Net profit att. margin	8.5%	8.9%	9.2%	8.3%	8.7%	9.2%	0.2ppt	0.1ppt	0.1ppt

Source: Company data, CMBIS estimates

Figure 25: 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	282,575	309,073	337,387	-1.4%	0.1%	1.9%
Gross profit	79,873	88,678	98,592	80,592	89,176	98,250	-0.9%	-0.6%	0.3%
EBIT	27,746	31,599	36,291	25,989	29,613	32,875	6.8%	6.7%	10.4%
Net profit att.	23,728	27,408	31,786	23,471	26,825	29,978	1.1%	2.2%	6.0%
Diluted EPS (RMB)	3.547	4.060	4.662	3.462	3.933	4.406	2.4%	3.2%	5.8%
Gross margin	28.7%	28.7%	28.7%	28.5%	28.9%	29.1%	0.1ppt	-0.2ppt	-0.4ppt
EBIT margin	10.0%	10.2%	10.6%	9.2%	9.6%	9.7%	0.8ppt	0.6ppt	0.8ppt
Net profit att. margin	8.5%	8.9%	9.2%	8.3%	8.7%	8.9%	0.2ppt	0.2ppt	0.4ppt

Source: Bloomberg, CMBIS estimates

Assumption

Figure 26: 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%	31.7%	31.7%	31.7%
Consumer electronics	27.4%	29.2%	30.8%	30.8%	30.8%
Robot and automation system	14.5%	22.9%	22.2%	22.0%	22.0%
Others	8.3%	9.7%	10.2%	10.2%	10.4%
Total	25.0%	27.5%	28.7%	28.7%	28.7%
Opex breakdown					
S&D (ex- staff costs)/ sales	5.9%	7.0%	6.9%	6.7%	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%	19.2%	18.8%	18.5%
OP margins	8.2%	9.4%	10.0%	10.2%	10.6%
Effective tax rate	-14.8%	-16.0%	-15.0%	-15.0%	-15.0%
NP att. margins	7.2%	7.8%	8.5%	8.9%	9.2%
NP att. growth (%)	17.7%	17.1%	17.3%	15.5%	16.0%

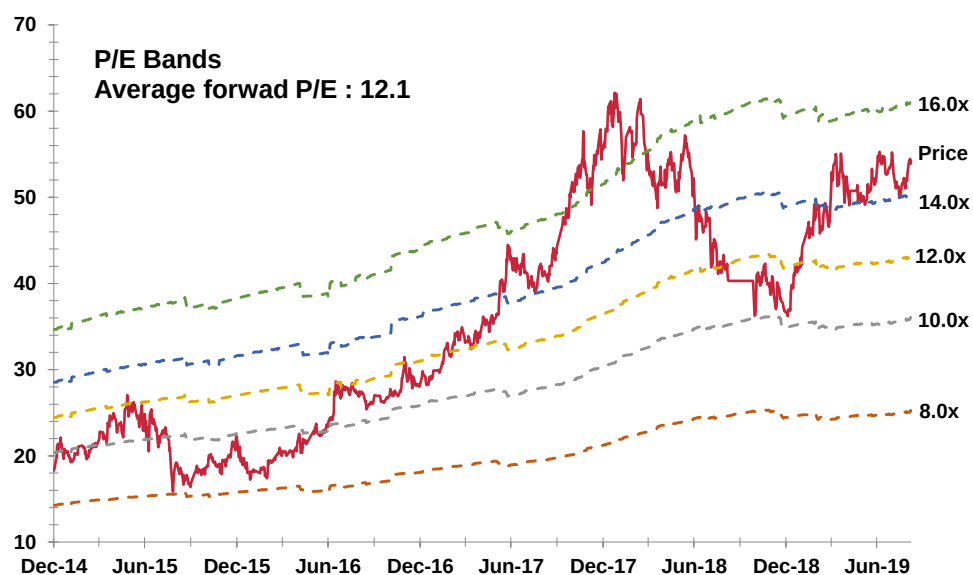
Source: Company data, CMBIS

Valuation

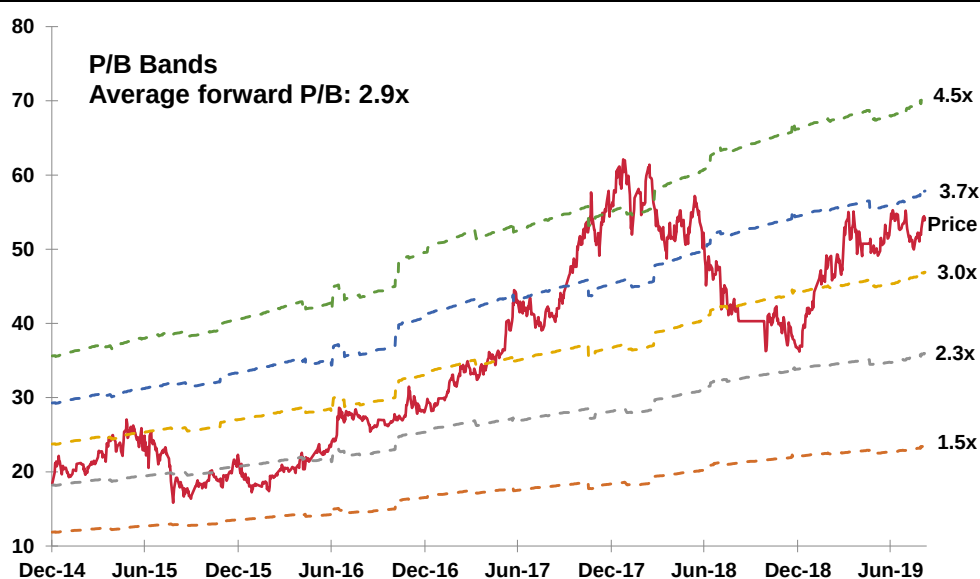
Figure 27: Peers' valuation

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)	
Company	Ticker	Rati ng	(LC)	(LC)	side	(USDmn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
A+ H shares Home Appliances - White goods, Kitchen and Small Appliances															
Midea Group	000333 CH	BUY	64.96	54.21	20%	414,362	Dec-18	15.3	13.4	3.3	2.8	26.2	1.0	2.9	
Gree Electronics	000651 CH	NR	n/a	58.80	n/a	389,651	Dec-18	12.5	11.3	3.3	2.9	31.8	1.7	4.2	
Haier Smart Home	600690 CH	NR	n/a	16.02	n/a	109,870	Dec-18	12.3	11.0	2.2	1.9	20.0	1.6	2.4	
Haier Electronics	1169 HK	NR	n/a	21.70	n/a	60,912	Dec-18	12.0	11.9	2.0	1.7	16.9	1.5	2.1	
Hisense JA	921 HK	NR	n/a	8.30	n/a	15,396	Dec-18	6.2	5.4	1.2	1.1	20.8	0.6	4.6	
Hisense HA	000921 CH	NR	n/a	11.64	n/a	15,394	Dec-18	9.9	8.8	1.9	1.6	20.8	1.0	3.6	
Whirlpool China	600983 CH	NR	n/a	5.34	n/a	4,508	Dec-18	n/a	n/a	n/a	n/a	(2.1)	n/a	n/a	
Zhejiang Aishida	002403 CH	NR	n/a	8.23	n/a	3,176	Dec-18	18.1	16.0	1.2	1.1	6.9	1.5	1.9	
Joyoung	002242 CH	NR	n/a	23.46	n/a	19,831	Dec-18	21.3	18.6	4.5	4.1	22.3	2.1	3.2	
Hangzhou Robam	002508 CH	NR	n/a	26.99	n/a	28,216	Dec-18	16.0	14.4	3.6	3.2	26.5	2.2	3.2	
Zhejiang Supor	002032 CH	NR	n/a	70.40	n/a	63,678	Dec-18	29.6	25.1	8.2	7.0	31.4	2.1	1.7	
Vatti Corporation	002035 CH	NR	n/a	10.94	n/a	10,625	Dec-18	12.6	11.2	3.0	2.5	29.1	1.4	2.7	
Xinbao Electrica	002705 CH	NR	n/a	12.17	n/a	10,745	Dec-18	15.8	13.6	2.3	2.0	16.2	1.1	3.2	
								Avg.	15.1	13.4	3.1	2.7	20.5	1.5	3.0
								Med.	14.0	12.6	2.6	2.3	20.8	1.5	3.1
International Home Appliances - White goods, Kitchen and Small Appliances															
Whirlpool Corp	WHR US	NR	n/a	144	n/a	71,646	Dec-18	9.5	8.6	3.2	2.6	35.7	(0.0)	3.3	
Ingersoll-Rand Plc	IR US	NR	n/a	122	n/a	230,259	Dec-18	19.0	17.1	4.0	3.7	20.5	1.5	1.8	
Smith (A.O.) Corp	AOS US	NR	n/a	48	n/a	61,611	Dec-18	20.1	17.8	4.7	4.2	24.4	6.5	1.9	
Helen Of Troy	HELE US	NR	n/a	150	n/a	29,545	Feb-19	18.4	17.3	n/a	n/a	16.6	n/a	n/a	
Cree Inc	CREE US	NR	n/a	46	n/a	38,421	Jun-19	318.2	44.7	2.3	2.0	(18.3)	(1.8)	n/a	
Irobot Corp	IRBT US	NR	n/a	62	n/a	13,699	Dec-18	16.4	15.4	3.0	2.8	16.7	1.4	0.0	
Electrolux Ab	ELUXB SS	NR	n/a	222	n/a	55,988	Dec-18	14.0	11.3	2.7	2.4	19.2	1.0	4.0	
Seb Sa	SK FP	NR	n/a	144	n/a	62,666	Dec-18	16.3	14.6	3.0	2.6	21.9	2.5	1.6	
Koninklijke Philips	PHIA NA	NR	n/a	43	n/a	337,166	Dec-18	23.2	20.0	3.2	3.0	11.6	1.0	2.0	
Daikin Industries	6367 JP	NR	n/a	14075	n/a	302,648	Mar-19	20.5	18.7	2.6	2.4	14.0	2.0	1.2	
Panasonic Corp	6752 JP	NR	n/a	850	n/a	153,031	Mar-19	10.4	9.8	1.0	0.9	15.4	(1.6)	3.6	
Sony Corp	6758 JP	NR	n/a	6360	n/a	593,348	Mar-19	14.6	13.3	1.9	1.7	23.8	(1.6)	0.6	
Hitachi	6501 JP	NR	n/a	3923	n/a	278,371	Mar-19	8.5	7.7	1.0	0.9	7.2	0.2	2.6	
Sharp Corp	6753 JP	NR	n/a	1186	n/a	46,322	Mar-19	10.5	10.5	1.8	1.5	31.1	11.4	1.3	
Fujitsu General	6755 JP	NR	n/a	1780	n/a	14,269	Mar-19	15.9	14.4	1.6	1.4	7.4	0.7	1.6	
Lg Electronics	066570 KS	NR	n/a	62000	n/a	66,723	Dec-18	10.5	6.9	0.7	0.7	5.6	0.9	1.2	
Samsung Elect.	005930 KS	NR	n/a	46300	n/a	1,817,675	Dec-18	14.6	11.4	1.2	1.2	11.6	(1.6)	3.1	
Woongjin Coway	021240 KS	NR	n/a	83500	n/a	40,524	Dec-18	15.8	14.5	5.0	4.4	34.8	2.8	4.3	
								Avg.	32.0	15.2	2.5	2.3	16.6	1.5	2.1
								Med.	15.9	14.4	2.6	2.4	16.7	1.0	1.8

Source: Bloomberg, CMBIS estimates

Figure 28: 12M forward P/E band

Source: Bloomberg, CMBIS estimates

Figure 29: 12M forward P/B band

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	240,71	259,66	278,72	309,48	343,79	EBIT	19,807	24,336	27,746	31,599	36,291
Heating, Ventilation & Air-Con.	95,352	109,39	120,33	131,16	142,96	D & A	6,275	2,346	4,689	4,773	4,984
Consumer electronics	98,748	102,99	109,17	124,45	141,88	Change in working capital	2,815	1,282	2,497	251	264
Robot and automation system	27,037	25,678	25,678	27,732	29,673	Income tax paid	(11,13)	(13,73)	(4,409)	(5,055)	(5,852)
Others	19,575	21,599	23,543	26,133	29,269	Others	6,684	13,637	2,253	2,872	3,422
Cost of goods sold	(180,461)	(188,165)	(198,855)	(220,808)	(245,199)	Net cash from operating CF	24,443	27,861	32,775	34,440	39,108
Gross profit	60,252	71,500	79,873	88,678	98,592	Capex & investments	(3,218)	(5,612)	(6,132)	(6,809)	(7,563)
Other income	1,075	1,870	1,390	1,234	1,372	Associated companies	-	-	-	-	-
Operating expenses	(41,519)	(49,035)	(53,517)	(58,314)	(63,673)	Interest received	2,728	2,098	-	-	-
D & A	(4,374)	(378)	(2,522)	(2,557)	(2,644)	Others	(34,24)	(15,12)	(5,000)	(5,000)	(5,000)
Staff costs	(13,903)	(15,276)	(18,100)	(20,001)	(21,997)	Net cash from investing CF	(34,74)	(18,64)	(11,13)	(11,80)	(12,56)
S & D costs (ex-staff, D&A)	(17,601)	(21,826)	(23,093)	(25,065)	(27,204)	Equity raised	-	-	-	-	-
Admin exp. (ex-staff, D&A)	(5,638)	(11,553)	(9,799)	(10,688)	(11,825)	Net change in bank loans	26,096	(854)	(1,000)	(3,000)	(4,000)
Other operating expenses	(3)	(3)	(4)	(4)	(4)	Dividend paid	(7,908)	(9,303)	(8,562)	(9,437)	(10,91)
EBIT	19,807	24,336	27,746	31,599	36,291	Others	1,464	(3,230)	(607)	(770)	(700)
Finance costs, net	(816)	1,823	1,367	1,174	1,003	Net cash from financing CF	19,652	(13,38)	(10,16)	(13,20)	(15,61)
JVs & associates	-	-	-	-	-	Net change in cash	9,355	(4,168)	11,474	9,425	10,935
Exceptional	2,863	(386)	279	928	1,719	Beginning cash balance	17,196	22,221	15,981	27,455	36,880
Pre-tax profit	21,855	25,773	29,391	33,701	39,013	Exchange difference	(4,329)	(2,072)	-	-	-
Income tax	(3,244)	(4,123)	(4,409)	(5,055)	(5,852)	Cash at the end of the year	22,221	15,981	27,455	36,880	47,814
Less: Minority interests	1,328	1,420	1,254	1,238	1,375						
Net profit	17,284	20,231	23,728	27,408	31,786						

Balance sheet						Key ratios					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	78,296	81,012	87,455	94,491	102,07	Sales mix (%)					
Fixed asset	25,655	25,542	27,972	30,993	34,559	Heating, Ventilation & Air-Con.	39.6	42.1	43.2	42.4	41.6
Intangible assets & goodwill	44,071	45,287	44,301	43,315	42,329	Consumer electronics	41.0	39.7	39.2	40.2	41.3
Prepaid lease payments	5,245	5,648	10,648	15,648	20,648	Robot and automation system	11.2	9.9	9.2	9.0	8.6
Interest in joint ventures	-	-	-	-	-	Others	8.1	8.3	8.4	8.4	8.5
Other non-current assets	3,325	4,535	4,535	4,535	4,535	Total	100.0	100.0	100.0	100.0	100.0
Current assets	169,81	182,68	197,06	213,85	232,98	P&L ratios (%)					
Cash and cash equivalents	22,575	16,201	27,675	37,100	48,035	Gross margin	25.0	27.5	28.7	28.7	28.7
Inventories	29,444	29,645	29,964	33,272	36,948	Operating margin	8.2	9.4	10.0	10.2	10.6
Trade and other receivables	28,383	31,946	34,364	38,156	42,385	Pre-tax margin	9.1	9.9	10.5	10.9	11.3
Prepayments	1,672	2,216	2,379	2,641	2,934	Net margin	7.2	7.8	8.5	8.9	9.2
Other current assets	87,737	102,68	102,68	102,68	102,68	Effective tax rate	14.8	16.0	15.0	15.0	15.0
Current liabilities	119,09	130,23	134,62	139,24	143,70	Balance sheet ratios					
Bank loans	2,830	8,137	7,137	4,137	137	Current ratio (x)	1.4	1.4	1.5	1.5	1.6
Trade payables	60,353	60,227	65,377	72,594	80,614	Quick ratio (x)	1.2	1.2	1.2	1.3	1.4
Accruals & other payables	3,361	3,346	3,592	3,988	4,430	Cash ratio (x)	0.2	0.1	0.2	0.3	0.3
Tax payables	3,544	3,875	3,875	3,875	3,875	Inventory turnover days	60	58	55	55	55
others	49,005	54,646	54,646	54,646	54,646	Trade receivables days	43	45	45	45	45
Non-current liabilities	46,090	41,016	41,016	41,016	41,016	Trade payables days	122	117	120	120	120
Bank loans	32,986	32,091	32,091	32,091	32,091	Total debt / total equity	49	44	37	29	22
Deferred income	251	89	89	89	89	Net debt / equity ratio (%)	22	27	11	Net	Net
Deferred tax	3,973	4,422	4,422	4,422	4,422	Returns (%)					
Others	8,880	4,413	4,413	4,413	4,413	ROE	20.8	21.9	21.8	21.4	21.1
Minority Interest	9,188	9,382	10,637	11,875	13,250	ROA	7.0	7.7	8.3	8.9	9.5
Total net assets	73,737	83,072	98,239	116,21	137,08	Per share					
Shareholders' equity	82,925	92,455	108,87	128,08	150,33	Diluted EPS (RMB)	2.63	3.05	3.55	4.06	4.66
						DPS (RMB)	1.20	1.30	1.42	1.62	1.86
						BVPS (RMB)	12.5	14.0	16.3	19.0	22.1

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.