

Haier Smart Home (6690 HK)

A rosy 4Q24E with mid-term reform announced

Haier's 3Q24 results were roughly inline, but we do have high hope of a decent pick up in 4Q24E, thanks to favorable "old for new" trade in subsidies in China and interest rate cut in the US. But more importantly, we are once again, impressed by Haier's ability to gain efficiency and save costs in both short and long run. We are confident on its 15% net profit growth target per annum, and hence maintain BUY and raise TP to HK\$ 36.41, based on 14x FY25E P/E.

■ **4Q24E outlook remains rosy, thanks to better macro in both China and the US.** Management has highlighted a rough guidance for 4Q24E, aiming for MSD or faster sales growth and faster than 3Q24E net profit growth. We do think this is feasible, thank to sales growth drivers such as: 1) gradual improvement in sales trend during Jul to Sep in China, 2) strong rebound in demand for Casarte (20%+ retail sales through growth in 3Q24, 100%+ online and 60%+ offline sales growth in 10-1 National Day holidays), 3) improvement in the US housing demand (both construction and completions have picked up) esp. after the interest rate cut, 4) encouraging sales growth in Europe, yielded from the successful reforms earlier this year, and 5) exceptional sales growth in South Asia (could accelerate to 40%+ in 4Q24E). Moreover, we are even more confident on its OP margin, due to massive efforts on efficiency gains and various costs control initiatives, namely: 1) structural changes in procurement and R&D processes, 2) further costs saving in manufacturing, raw material sources and by reducing the defect rates, etc., 3) further collaborations between various departments, 4) clear cut KPIs in costs saving on the financial statement level and 5) elimination of underperforming employees.

■ **We remain fairly positive about the Company's long-term growth and margin improvement, supported by the new round of reforms.** Management also announced a series of reforms in China and in overseas, to drive growth and refine efficiency. In China, Haier will: 1) take a more proactive role in developing its ToC business (to further expand its points of service (both online and offline) to the consumers, 2) carry on its digitalization (esp. on the marketing function and strategy), 3) refine its corporate structure once again. In overseas, Haier is likely to: 1) further localize its strategy, 2) use value-added products and services to boost its brand equity and ASP, 3) carry in its digitalization and 4) improve its total operation efficiency (including all the factories and supply chains).

■ **Maintain BUY and raise TP to HK\$ 36.41.** We revised up FY24E/ 25E/ 26E net profit forecasts by 1%/ 3%/ 2%, in order to factor in the exceptional efforts on efficiency gains and costs saving. Our new TP is based on 14x FY25E P/E (rolled over from 14x FY24E P/E). The stock is now trading at 13x/ 11x FY24E/ 25E P/E, still much below its 5-year average of 15x.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMBmn)	243,485	261,422	271,796	289,246	304,778
YoY growth (%)	7.0	7.4	4.0	6.4	5.4
Operating profit (RMBmn)	16,377.0	18,589.0	22,211.4	25,185.5	27,147.3
Net profit (RMBmn)	14,732.0	16,732.0	19,815.2	22,577.3	24,484.8
EPS (Reported) (RMB)	1.57	1.78	2.07	2.36	2.56
YoY growth (%)	12.9	13.3	16.5	14.0	8.5
P/E (x)	17.4	15.4	13.2	11.6	10.7
P/B (x)	2.8	2.5	2.2	2.0	1.8
Yield (%)	2.1	2.9	3.6	4.3	4.7
ROE (%)	17.0	17.0	18.1	18.4	17.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$36.41
(Previous TP)	HK\$31.58)
Up/Downside	22.2%
Current Price	HK\$29.80

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Stock Data

Mkt Cap (HK\$ mn)	281,255.8
Avg 3 mths t/o (HK\$ mn)	470.8
52w High/Low (HK\$)	35.75/20.55
Total Issued Shares(mn)	9438.1

Source: FactSet

Shareholding Structure

Haier Group Corp	18.8%
JP Morgan Investment Management	3.1%

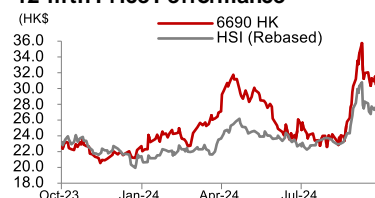
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.7%	-2.0%
3-mth	16.9%	-2.7%
6-mth	10.0%	-5.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **Haier has reported roughly inline 3Q24 results.** In 3Q24, Haier's sales increased by 1% YoY to RMB 67.3bn, missing BBG est. by 4%. The miss was mainly due to weaker-than-expected sales in China in Jul-Aug 2024 (esp. for Casarte brand, kitchen appliance and air conditioner categories). However, net profit has climbed by 13% YoY to RMB 4.7bn, inline with BBG est. Despite the miss in sales, Haier's OP margin was better than expected even with higher interest costs in overseas region, thanks to benefits from digitalization, efficiency gains and costs saving. In addition, sales growth was -3%/ +4% and OP margin has improved by +1.1ppts to 7.6%/ +0.6ppts to 5% in China/ overseas. By specific regions, sales growth was -1%/ +8%/ +34%/ +5%/ +8%/ -3% and OP margin has changed by -0.2ppts/ +1ppt/ +4.3ppts/ +2.6ppts/ +0.9ppts/ flattish in America/ Europe/ South Asia/ ANZ/ Southeast Asia/ Japan.
- **Announced the acquisition of Goodday (also named as RiRiShun Logistic).** Goodday is an industry-leading logistic provider (mostly on home appliances) for Haier Smart Home, currently owned by Haier group and Alibaba. Goodday had planned to list in Mainland China but the plan was cancelled and now Haier Smart Home has pushed for a merger with it, as the management believes that there will be meaningful benefits and synergies onwards, such as: 1) being a critical part of Haier's transformation into a more DTC Company (to better serve the demand of end-customers), 2) further reduction in costs, as the admin costs between these two groups actually increased after the previous split off, 3) it could help Haier to further improve its logistic and even the supply chain management during the international expansion. In fact, management has also laid down the financial targets of this deal, including: 1) reducing the inventory level in China by 20% to 30%, freeing up around RMB 4 to 6bn cash, 2) optimizing the distributors' CCC from 64 days to just 45 days (20% efficiency gains), 3) total logistics costs to fall by 10% and 4) improvement in SKU management (number of SKUs to go down while volume per item to go up by 20%, starting from the air conditioner products).
- **Key risks:** 1) greater-than-expected drop in demand after the subsidies expire, 2) weaker-than-expected economic growth in the overseas, 3) higher-than-expected raw material price inflation, 4) lack of product innovation, etc.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	271,796	289,246	304,778	273,704	291,487	307,244	-0.7%	-0.8%	-0.8%
Gross profit	84,722	90,768	96,244	85,454	91,613	97,167	-0.9%	-0.9%	-1.0%
EBIT	22,211	25,186	27,147	21,957	24,547	26,482	1.2%	2.6%	2.5%
Net profit att.	19,543	22,288	24,180	19,336	21,749	23,609	1.1%	2.5%	2.4%
Diluted EPS (RMB)	2.071	2.361	2.562	2.049	2.304	2.501	1.1%	2.5%	2.4%
Gross margin	31.2%	31.4%	31.6%	31.2%	31.4%	31.6%	0ppt	0ppt	0ppt
EBIT margin	8.2%	8.7%	8.9%	8.0%	8.4%	8.6%	0.1ppt	0.3ppt	0.3ppt
Net profit att. margin	7.2%	7.7%	7.9%	7.1%	7.5%	7.7%	0.1ppt	0.2ppt	0.2ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	271,796	289,246	304,778	276,123	293,452	313,026	-1.6%	-1.4%	-2.6%
Gross profit	84,722	90,768	96,244	86,910	92,657	99,151	-2.5%	-2.0%	-2.9%
EBIT	22,211	25,186	27,147	21,163	24,017	26,562	5.0%	4.9%	2.2%
Net profit att.	19,543	22,288	24,180	19,125	21,582	24,026	2.2%	3.3%	0.6%
Diluted EPS (RMB)	2.071	2.361	2.562	2.035	2.299	2.560	1.8%	2.7%	0.1%
Gross margin	31.2%	31.4%	31.6%	31.5%	31.6%	31.7%	-0.3ppt	-0.2ppt	-0.1ppt
EBIT margin	8.2%	8.7%	8.9%	7.7%	8.2%	8.5%	0.5ppt	0.5ppt	0.4ppt
Net profit att. margin	7.2%	7.7%	7.9%	6.9%	7.4%	7.7%	0.3ppt	0.4ppt	0.3ppt

Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 3: CMBIGM's assumptions

RMB mn	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales by segment (RMB mn)						
Mainland China						
Refrigerators/freezers	36,842	39,010	40,727	41,541	43,619	45,363
Kitchen appliances	3,013	3,114	3,394	3,564	3,849	4,080
Air-conditioners	27,409	28,384	32,358	33,167	37,478	40,477
Laundry appliances	25,917	27,076	26,534	27,596	28,700	29,848
Water appliances	12,479	13,542	14,219	14,788	15,675	16,616
Overseas	113,090	124,704	136,412	143,130	151,594	159,731
Other businesses	8,781	7,655	7,777	8,011	8,331	8,664
Total	227,531	243,485	261,422	271,796	289,246	304,778
Sales by segment growth (%)						
Mainland China						
Refrigerators/freezers	20.5%	5.9%	4.4%	2.0%	5.0%	4.0%
Kitchen appliances	14.3%	3.4%	9.0%	5.0%	8.0%	6.0%
Air-conditioners	25.4%	3.6%	14.0%	2.5%	13.0%	8.0%
Laundry appliances	15.3%	4.5%	-2.0%	4.0%	4.0%	4.0%
Water appliances	26.9%	8.5%	5.0%	4.0%	6.0%	6.0%
Overseas	13.0%	10.3%	9.4%	4.9%	5.9%	5.4%
Other businesses	-60.6%	-12.8%	1.6%	3.0%	4.0%	4.0%
Total	8.5%	7.0%	7.4%	4.0%	6.4%	5.4%
Sales by brand growth (%)						
Haier, Leader & others	0.6%	2.4%	4.0%	1.8%	6.5%	4.7%
Casarte	48.0%	15.0%	14.0%	10.0%	10.0%	9.0%
GEA	14.0%	6.5%	6.0%	2.0%	5.0%	5.0%
Candy	13.0%	9.0%	6.0%	8.0%	3.0%	3.0%
Others	10.9%	19.6%	17.6%	9.5%	8.4%	6.7%
Total	8.5%	7.0%	7.4%	4.0%	6.4%	5.4%
GP margin (%)	30.5%	30.6%	30.9%	31.2%	31.4%	31.6%
Costs breakdown						
Selling & distribution expenses	16.1%	15.9%	15.7%	15.2%	15.0%	15.0%
Admin expenses	8.9%	8.9%	8.9%	8.6%	8.5%	8.5%
Effective tax rate	17.0%	17.2%	15.1%	15.3%	15.3%	15.3%
NP margin (con. bus.)	5.8%	6.1%	6.4%	7.3%	7.8%	8.0%
NP growth (con. bus.)	16.7%	11.5%	13.6%	18.4%	13.9%	8.4%
NP att. margin	5.7%	6.0%	6.3%	7.2%	7.7%	7.9%
NP att. growth	47.2%	12.6%	12.8%	17.8%	14.0%	8.5%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	227,531	243,485	261,422	271,796	289,246	304,778
Cost of goods sold	(158,059)	(168,919)	(180,719)	(187,074)	(198,478)	(208,535)
Gross profit	69,472	74,566	80,703	84,722	90,768	96,244
Operating expenses	(56,784)	(60,275)	(64,130)	(64,599)	(67,805)	(71,439)
Selling expense	(36,554)	(38,598)	(40,978)	(41,321)	(43,322)	(45,673)
Admin expense	(11,873)	(12,178)	(12,931)	(12,652)	(13,175)	(13,850)
R&D expense	(8,357)	(9,499)	(10,221)	(10,627)	(11,309)	(11,916)
Others	0	0	0	0	0	0
Operating profit	13,956	16,377	18,589	22,211	25,186	27,147
Other income	1,268	2,086	2,016	2,089	2,223	2,342
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	18,295	21,309	23,917	25,761	28,735	30,697
Depreciation	(3,433)	(4,026)	(4,422)	(2,644)	(2,644)	(2,644)
Other amortisation	(906)	(906)	(906)	(906)	(906)	(906)
Interest income	788	826	1,447	1,527	1,694	1,879
Interest expense	(714)	(995)	(2,111)	(2,202)	(2,202)	(2,202)
Other income/expense	1,886	1,582	1,787	1,858	1,977	2,083
Pre-tax profit	15,916	17,790	19,712	23,395	26,656	28,908
Income tax	(2,699)	(3,058)	(2,980)	(3,579)	(4,078)	(4,423)
Minority interest	(150)	(21)	(135)	(272)	(289)	(305)
Net profit	13,217	14,732	16,732	19,815	22,577	24,485
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	123,614	130,383	132,621	140,737	152,760	163,607
Cash & equivalents	44,958	53,369	53,977	59,283	66,422	72,942
Account receivables	27,986	25,494	28,890	30,036	31,965	33,681
Inventories	39,863	41,543	39,524	40,914	43,408	45,607
Prepayment	6,415	6,552	6,908	7,182	7,643	8,054
ST bank deposits	0	0	0	0	0	0
Other current assets	4,392	3,425	3,322	3,322	3,322	3,322
Non-current assets	93,846	105,460	120,759	128,509	136,921	145,921
PP&E	26,981	31,857	35,495	43,151	51,469	60,376
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	8,498	9,135	9,101	8,195	7,288	6,382
Other non-current assets	58,367	64,468	76,163	77,163	78,163	79,163
Total assets	217,460	235,843	253,380	269,246	289,681	309,527
Current liabilities	124,926	118,747	120,083	123,605	129,804	135,285
Short-term borrowings	17,968	12,485	10,408	10,408	10,408	10,408
Account payables	67,368	66,975	69,278	71,714	76,086	79,941
Tax payable	1,305	1,703	1,556	1,556	1,556	1,556
Other current liabilities	38,285	37,584	38,841	39,927	41,754	43,380
Non-current liabilities	12,722	23,673	29,783	30,055	30,344	30,649
Long-term borrowings	3,075	13,627	17,988	17,988	17,988	17,988
Other non-current liabilities	9,647	10,046	11,795	12,067	12,356	12,661
Total liabilities	137,648	142,420	149,866	153,660	160,148	165,934
Share capital	9,399	9,447	9,438	9,438	9,438	9,438
Retained earnings	70,413	83,976	94,076	97,807	109,975	123,177
Other reserves	0	0	0	8,341	10,120	10,979
Total shareholders equity	79,812	93,423	103,514	115,586	129,533	143,593
Total equity and liabilities	217,460	235,843	253,380	269,246	289,681	309,527

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	15,916	17,790	19,712	23,395	26,656	28,908
Depreciation & amortization	4,339	4,932	5,328	3,550	3,550	3,550
Tax paid	(8,309)	(2,358)	(3,701)	(3,579)	(4,078)	(4,423)
Change in working capital	4,418	(2,969)	202	712	1,315	1,155
Others	6,765	2,758	3,721	2,202	2,202	2,202
Net cash from operations	23,130	20,153	25,262	26,278	29,644	31,391
Investing						
Capital expenditure	(7,372)	(8,204)	(9,907)	(10,300)	(10,961)	(11,550)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(695)	(716)	(7,178)	(1,000)	(1,000)	(1,000)
Net cash from investing	(8,067)	(8,920)	(17,085)	(11,300)	(11,961)	(12,550)
Financing						
Dividend paid	(3,411)	(4,297)	(5,254)	(7,471)	(8,341)	(10,120)
Net borrowings	(1,997)	3,677	1,535	0	0	0
Proceeds from share issues	0	940	0	0	0	0
Share repurchases	(3,221)	(2,012)	(1,802)	0	0	0
Others	(7,012)	(2,130)	(2,320)	(2,202)	(2,202)	(2,202)
Net cash from financing	(15,641)	(3,822)	(7,841)	(9,673)	(10,543)	(12,321)
Net change in cash						
Cash at the beginning of the year	45,635	44,958	53,369	53,977	59,283	66,422
Exchange difference	(99)	1,000	272	0	0	0
Others	(578)	7,411	336	5,306	7,139	6,520
Cash at the end of the year	44,958	53,369	53,977	59,283	66,422	72,942
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	8.5%	7.0%	7.4%	4.0%	6.4%	5.4%
Gross profit	14.2%	7.3%	8.2%	5.0%	7.1%	6.0%
Operating profit	11.3%	17.3%	13.5%	19.5%	13.4%	7.8%
EBITDA	10.9%	16.5%	12.2%	7.7%	11.5%	6.8%
Net profit	16.7%	11.5%	13.6%	18.4%	13.9%	8.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	30.5%	30.6%	30.9%	31.2%	31.4%	31.6%
Operating margin	6.1%	6.7%	7.1%	8.2%	8.7%	8.9%
EBITDA margin	8.0%	8.8%	9.1%	9.5%	9.9%	10.1%
Return on equity (ROE)	18.0%	17.0%	17.0%	18.1%	18.4%	17.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.0	1.1	1.1	1.1	1.2	1.2
Receivable turnover days	44.9	38.2	40.3	40.3	40.3	40.3
Inventory turnover days	92.1	89.8	79.8	79.8	79.8	79.8
Payable turnover days	155.6	144.7	139.9	139.9	139.9	139.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	19.7	17.4	15.4	13.2	11.6	10.7
P/E (diluted)	19.7	17.4	15.4	13.2	11.6	10.7
P/B	3.1	2.8	2.5	2.2	2.0	1.8
P/CFPS	11.1	12.7	10.1	9.8	8.7	8.2
Div yield (%)	1.8	2.1	2.9	3.6	4.3	4.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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