China / Hong Kong Company Update

Haier Smart Home Co Ltd

Bloomberg: 6690 HK Equity | 600690 CH Equity | Reuters: 6690.HK | 600690.SZ

DBS Group Research . Equity

6 Apr 2023

H: BUY

Last Traded Price (4 Apr 2023):HK$23.65(HSI : 20,275)
Price Target 12-mth: HK$36.36 (53.7% upside) (Prev HK$38.59)

A: BUY

Last Traded Price (4 Apr 2023):RMB22.00(CSI300 Index : 4,103)
Price Target 12-mth: RMB32.17 (46.2% upside) (Prev RMB34.15)

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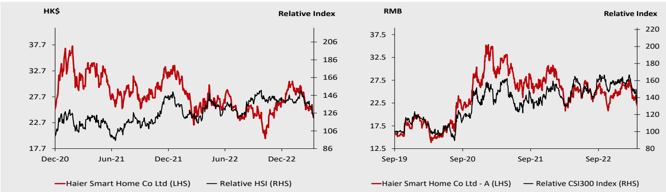
What's New

- FY22 results in line; successful product premiumisation fuelled performance both domestically and abroad
- Stable GP margin in FY22 despite higher raw material costs, along with enhancement in sourcing, product-mix, supply chain and sales channels
- Higher production capability in air conditioners also reinforces its positive outlook; BUY with TP of HK36.36 for H-share and RMB32.17 for A-share

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2021A	2022A	2023F	2024F
Turnover	227,556	243,514	264,532	287,008
EBITDA	17,098	20,153	22,867	25,824
Pre-tax Profit	15,916	17,790	21,818	25,262
Net Profit	13,067	14,711	16,984	19,665
EPS (RMB)	1.40	1.58	1.82	2.11
EPS (HK$)	1.60	1.80	2.08	2.40
EPS Gth (%)	42.4	12.6	15.5	15.8
Diluted EPS (HK$)	1.58	2.19	2.01	2.40
DPS (HK$)	0.52	0.65	0.69	0.79
BV Per Share (HK$)	9.76	11.42	12.17	13.24
PE (X)	14.8	13.2	11.4	9.8
P/Cash Flow (X)	8.4	9.6	8.7	8.2
P/Free CF (X)	6.3	6.8	8.8	8.3
EV/EBITDA (X)	9.9	8.3	7.2	6.3
Net Div Yield (%)	2.2	2.7	2.9	3.4
P/Book Value (X)	2.4	2.1	1.9	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	17.8	17.0	17.6	18.9
Earnings Rev (%):			(5)	New
Consensus EPS (RMB)			1.81	2.06
Other Broker Recs:		B:20	S:0	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Multiple drivers catapult top and bottom-line growth

Investment Thesis

Strong leadership in the high-end market. Casarte, the premium brand of Haier, posted rapid growth over the past few years, and is expected to sustain a similar growth pace in FY23 given its accelerating global high-end brand strategy. The brand continues to be a prime beneficiary of an accelerating premiumisation trend, especially in China, which is supporting group profitability.

Strong growth outlook. In 2023, Haier is expected to achieve high-single-digit top line growth. Key drivers include enhanced air-conditioner manufacturing capabilities, continuous expansion of scene brand and high-end business, and effective multi-market strategies. Besides, lower raw material prices and increasing revenue contribution from premium product-mix should support profitability ahead.

Double-digit earnings growth. In view of the decline in raw material prices, and increasing revenue contribution from premium products, we expect overall profitability to improve. We project 15.5%/15.8% y-o-y earnings growth for FY23/24F.

BUY with TP of HK$36.36 (H-share) and RMB32.17 (A-share). We fine-tuned our estimates and cut FY23 earnings by 5%, in view of lingering global macro headwinds. Nevertheless, its ongoing market share gains, revenue-mix improvement and falling raw material costs should benefit overall profitability and outlook. Our new target prices are HK$36.36 (H-share) and RMB32.17 (A-share), based on 16x 12-month rolling PE that continues to trail 1 S.D. above average PE, given diverse growth drivers in multiple markets to outperform peer operators.

Key Risks

Operational risk in overseas markets; catastrophic events; fluctuation of raw material prices & exchange rates.

At A Glance

Issued Capital - H shares (m shs)	2,867
- Non H shrs (m shs)	6,309
H shs as a % of Total	31
Total Mkt Cap (HK$m/US$m)	226,158 / 28,812
Major Shareholders (%)	
Haier Cosmo Co., Ltd.	20.0
Haier Group Corporation	17.0
Major H Shareholders (As % of H shares)	
HCH (HK) Investment Management Co., Ltd.	18.8
H Shares-Free Float (%)	81.2
3m Avg. Daily Val. (US$m)	34.88
GICS Industry: Consumer Discretionary / Consumer Durables & Apparel	

WHAT'S NEW

FY22 results - meeting takeaways

FY22 results largely in line. Driven by strengthened high-end market leadership, scenario-based solutions, continuous market expansion, and end-to-end digital transformation, Haier's FY22 revenue rose by 7.0% y-o-y to RMB243.5bn. 2022 gross profit showed 7.2% increase to RMB76bn, with a GP margin of 31.3% (FY21: 31.3%). Operating profit scored 11.5% increase to RMB15bn, with an operating margin of 6.2% (FY21: 5.9%). Attributable profit increased by 12.4% to RMB14.7bn, and attributable profit margin increased by 0.3ppts from the previous year to 6.0%. A final DPS of RMB0.566 was declared (FY21: RMB0.46), at 36% payout (FY21: 33%)

All segments achieved decent growth in China. In FY22, China division delivered 4.0% increase in revenue to RMB126bn. By product categories:

- Refrigerator. Revenue from refrigerators amounted to RMB43bn, up 3.5%, with a market share of 39.2% (up 0.5ppt) for online retailing and 43.9% (up 2.5ppts) for offline retailing.
- Kitchen appliance. Revenue from kitchen appliances increased by 7.7% to RMB3.7bn. The offline market share grew 1.4ppts to 8.4%, ranking in 3rd place.
- Washing machine. Revenue from washing machines rose by 3.1% to RMB31.6bn, and market share reached 40.4% for online retailing and 46.0% for offline retailing.
- Air conditioner. Revenue from air conditioners was up 5.4% to RMB33.9bn, and market share was up by 0.8ppt and 2.8ppts, respectively, to 14.4% and 19.5% for online and offline retailing.
- Water heaters & water purifiers saw 9.1% sales growth to RMB13.8bn.
- Casarte achieved market shares of 77.2% (FY21: 73.9%) and 38.5% (FY21: 36.2%), respectively, for washing machines and refrigerators selling at >RMB10,000 per unit, and 30.6% (FY21: 30.3%) for air conditioners priced at >RMB15,000 per unit.

Broadly positive performance across overseas markets. During FY22, Haier's overseas revenue grew by 10.3% to RMB125bn. North America remained as its biggest overseas market, with sales up 9% to RMB76bn. Europe, Japan, South Asia, and S. E. Asia achieved 16.7%, 2.2%, 16.1%, and 9.3% y-o-y sales growth to RMB23bn, RMB3.5bn, RMB8.2bn, and RMB5.1bn, respectively, while Australia posted 0.7% sales decline to RMB6.9bn. As of 2022, Haier achieved 21.4% market share in Asia, and ranked in 1st place; Haier ranked 2nd in North America and Australia, with market share of 15.6% and 12.8% respectively; and was in 3rd place in Middle East and Africa with 7.5% market share, and 4th place in Europe with 8.3% market share.

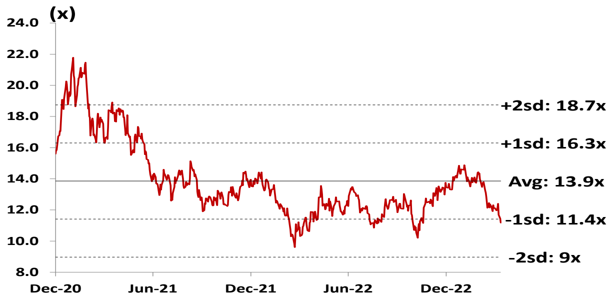
Overall outlook. Haier has improved its in-house components manufacturing capabilities of its air conditioner business, which should benefit the segment's revenue and profit growth prospects in the medium term. The new growth drivers of Haier continued to record sound performances in 2022. Three-Winged Bird, Haier's scene brand, achieved 257% y-o-y sales growth in 2022. Clothes dryers and heat pumps scored over 80% and 26% y-o-y growth, respectively. Besides, Casarte is expected to maintain double-digit growth in 2023 given Haier's global high-end brand strategy. Hence, high-single-digit top-line growth is expected in FY23, despite the uncertainties in overseas markets. The decreasing raw material prices, expanding revenue contribution from high-end products, and optimization of supply chain, channel, and production capacity should support GP margins and earnings.

Company Background

Haier Smart Home (Haier) is the largest global white goods manufacturer based in China, in terms of sales volume (source: Euromonitor). It mainly engages in the manufacturing and distribution of air conditioners, refrigerators, washing machines, kitchen appliances, and water heaters around the globe. Its brands include Haier, Casarte, Leader, GE Appliances, Fisher & Paykel, and Candy.

Historical PE and PB band

Forward PE band (x)



PB band (x)

Source: Thomson Reuters, DBS HK

Key Assumptions

FY Dec	2020A	2021A	2022A	2023F	2024F
Sales	209,725.8	227,556.1	243,513.5	264,532.0	287,007.6
Gross Margin	29.7	31.2	31.3	31.6	31.9
EBITDA Margin	7.0	7.5	8.3	8.6	9.0
Operating Cash Flows	17,599.1	23,129.6	20,153.5	22,355.9	23,617.4
Cash	46,461.3	45,857.2	54,138.8	58,623.2	60,158.2

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenues (RMB m)					
Refrigerator	61,538	71,570	77,637	83,267	89,351
Air Conditioner	29,999	37,531	40,059	42,959	46,068
Kitchen App & Water Heater	41,218	47,715	52,528	56,647	61,090
Washing Machines	48,452	54,759	57,722	60,504	63,775
Total	209,726	227,556	243,514	264,532	287,008
Gross profit (RMB m)					
Refrigerator	19,970	22,734	24,753	26,978	29,754
Air Conditioner	8,223	10,482	11,460	12,458	13,820
Kitchen App & Water Heater	14,448	17,219	18,870	20,726	22,699
Washing Machines	16,050	18,425	19,138	20,571	22,003
Total	62,251	71,073	76,724	83,560	91,687
Gross profit Margins (%)					
Refrigerator	32.5	31.8	31.9	32.4	33.3
Air Conditioner	27.4	27.9	28.6	29.0	30.0
Kitchen App & Water Heater	35.1	36.1	35.9	36.6	37.2
Washing Machines	33.1	33.6	33.2	34.0	34.5
Total	29.7	31.2	31.3	31.6	31.9

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	209,726	227,556	243,514	264,532	287,008
Cost of Goods Sold	(147,475)	(156,483)	(167,223)	(180,972)	(195,321)
Gross Profit	62,251	71,073	76,291	83,560	91,687
Other Opng (Exp)/Inc	(52,551)	(57,581)	(61,247)	(66,587)	(71,773)
Operating Profit	9,700	13,492	15,043	16,973	19,914
Other Non Opg (Exp)/Inc	1,012	100	4,597	2,367	24,561
Associates & JV Inc	1,620	2,403	1,833	2,300	2,300
Net Interest (Exp)/Inc	(1,196)	(211)	(516)	(322)	(21,512)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	2,419	132	(3,167)	500	0
Pre-tax Profit	13,554	15,916	17,790	21,818	25,262
Tax	(2,232)	(2,699)	(3,058)	(3,750)	(4,342)
Minority Interest	(2,446)	(150)	(21)	(1,084)	(1,255)
Preference Dividend	0	0	0	0	0
Net Profit	8,877	13,067	14,711	16,984	19,665
Net Profit before Except.	6,458	12,935	17,878	16,484	19,665
EBITDA	14,601	17,098	20,153	22,867	25,824
Growth					
Revenue Gth (%)	4.5	8.5	7.0	8.6	8.5
EBITDA Gth (%)	14.8	17.1	17.9	13.5	12.9
Opg Profit Gth (%)	18.7	39.1	11.5	12.8	17.3
Net Profit Gth (%)	8.2	47.2	12.6	15.5	15.8
Margins & Ratio					
Gross Margins (%)	29.7	31.2	31.3	31.6	31.9
Opg Profit Margin (%)	4.6	5.9	6.2	6.4	6.9
Net Profit Margin (%)	4.2	5.7	6.0	6.4	6.9
ROAE (%)	15.5	17.8	17.0	17.6	18.9
ROA (%)	4.5	6.2	6.5	7.1	7.8
ROCE (%)	8.9	12.1	12.2	12.3	13.5
Div Payout Ratio (%)	37.2	32.9	35.9	33.0	33.0
Net Interest Cover (x)	8.1	63.8	29.2	52.8	0.9

Source: Company, DBS HK

Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	24,492	26,490	31,253	31,253	31,253
Invts in Associates & JVs	21,568	23,232	24,528	23,833	24,758
Other LT Assets	43,152	44,129	49,679	51,306	52,526
Cash & ST Invts	49,181	48,960	56,925	61,623	63,158
Inventory	29,447	39,863	41,543	43,521	47,007
Debtors	30,066	27,986	25,494	28,551	30,976
Other Current Assets	5,554	6,799	6,421	5,740	5,740
Total Assets	203,459	217,459	235,842	245,827	255,417
ST Debt	15,211	20,849	16,138	17,752	17,752
Creditors	57,539	67,368	66,975	65,718	64,499
Other Current Liab	36,643	36,580	35,520	37,882	39,168
LT Debt	18,535	3,373	13,591	13,863	14,140
Other LT Liabilities	7,421	8,206	8,905	9,945	10,288
Shareholder's Equity	66,816	79,811	93,423	99,583	108,315
Minority Interests	1,295	1,272	1,291	1,084	1,255
Total Cap. & Liab.	203,459	217,459	235,842	245,827	255,417
Non-Cash Wkg. Capital	(29,115)	(29,300)	(29,037)	(25,789)	(19,944)
Net Cash/(Debt)	15,435	24,737	27,196	30,009	31,266
Debtors Turn (avg days)	47.9	46.6	40.1	37.3	37.9
Creditors Turn (avg days)	141.6	149.1	151.2	138.3	125.5
Inventory Turn (avg days)	73.8	82.7	91.6	88.7	87.2
Asset Turnover (x)	1.1	1.1	1.1	1.1	1.1
Current Ratio (x)	1.0	1.0	1.1	1.1	1.2
Quick Ratio (x)	0.7	0.6	0.7	0.7	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	(23.1)	(30.4)	(27.6)	0.9	0.9
Z-Score (X)	NA	NA	NA	NA	NA

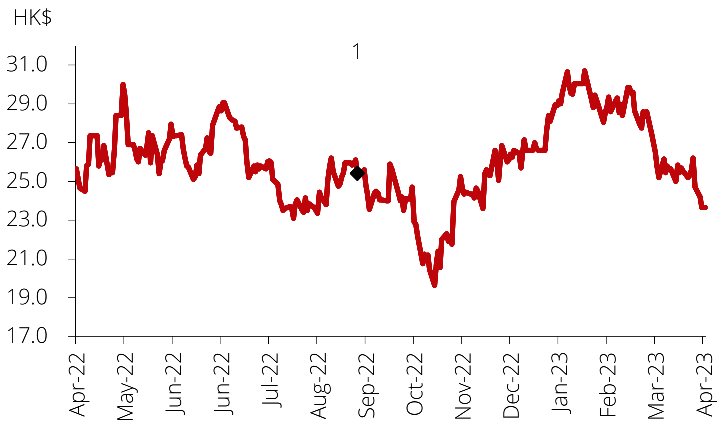
Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	13,554	15,916	17,790	21,818	25,262
Dep. & Amort.	4,901	3,605	5,109	5,895	5,910
Tax Paid	(1,859)	(2,296)	(2,232)	(2,699)	(3,058)
Assoc. & JV Inc/(loss)	(1,620)	(1,886)	(2,100)	(2,300)	(2,300)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	1,457	3,677	(2,590)	543	(1,023)
Other Operating CF	1,165	4,114	4,176	(901)	(1,174)
Net Operating CF	17,599	23,130	20,154	22,356	23,617
Capital Exp.(net)	7,783	7,372	8,204	(286)	(286)
Other Invts.(net)	617	700	686	693	690
Invts in Assoc. & JV	324	290	229	259	244
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(13,998)	(16,429)	(18,040)	(12,235)	(10,137)
Net Investing CF	(5,274)	(8,067)	(8,920)	(11,568)	(9,489)
Div Paid	(4,290)	(4,018)	(5,135)	(4,576)	(4,856)
Chg in Gross Debt	(2,467)	(11,409)	5,841	519	2,096
Capital Issues	1,331	42	987	514	751
Other Financing CF	4,400	(256)	(5,516)	(4,623)	(4,495)
Net Financing CF	(1,026)	(15,641)	(3,822)	(8,166)	(6,504)
Currency Adjustments	(637)	(105)	760	327	544
Chg in Cash	10,663	(684)	8,171	2,949	8,168
Opg CFPS (RMB)	1.79	2.08	2.44	2.34	2.64
Free CFPS (RMB)	2.81	3.27	3.04	2.36	2.50

Source: Company, DBS HK

H Share - Target Price & Ratings 12-mth History

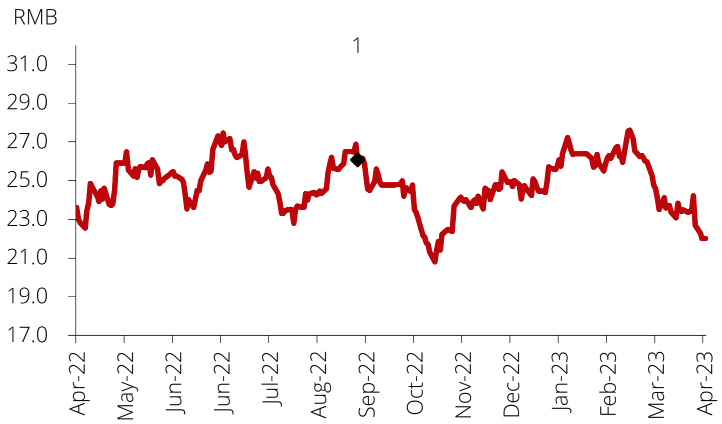


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Sep-22	HK$26.10	HK$38.59	Buy

Source: DBS HK

Analyst: Mavis Hui
Kay Tan

A Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Sep-22	RMB26.88	RMB34.15	Buy

Source: DBS HK

Analyst: Mavis Hui
Kay Tan

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 6 Apr 2023 11:08:23 (HKT)
Dissemination Date: 6 Apr 2023 17:44:04 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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