

China

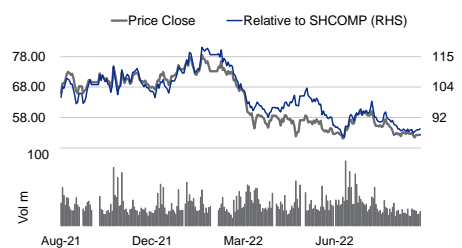
ADD (no change)

Consensus ratings*: Buy 38 Hold 0 Sell 1

| | |
|-------------------------|-------------|
| Current price: | Rmb52.30 |
| Target price: | Rmb76.00 ▲ |
| Previous target: | Rmb73.00 |
| Up/downside: | 45.3% |
| CGI / Consensus: | -3.9% |
| Reuters: | 000333.SZ |
| Bloomberg: | 000333 CH |
| Market cap: | US\$53,017m |
| | Rmb365,997m |
| Average daily turnover: | US\$243.2m |
| | Rmb1,636m |
| Current shares o/s: | 6,987m |
| Free float: | 41.0% |
| *Source: Bloomberg | |

Key changes in this note

- 2022E, 2023E and 2024E net profit increased by 4.5%, 4.0% and 3.9%, respectively.



Source: Bloomberg

| | | | |
|--------------------------|------|------|-------|
| Price performance | 1M | 3M | 12M |
| Absolute (%) | -4.9 | -2.1 | -20.7 |
| Relative (%) | -4.1 | -4.6 | -12.2 |

| | |
|---------------------------|--------|
| Major shareholders | % held |
| Midea Holding Co., Ltd. | 31.0 |
| HKEX (Stock Connect) | 16.9 |

Analyst

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Midea

2Q22 results remained resilient despite the challenging environment

- Midea's 2Q22 results indicate that it continued to deliver solid results despite the challenging environment.
- Despite concerns about the impact of weaker property sales, Midea's sales are expected to remain stable because of its growing toB business and overseas expansion.
- We revised up our net profit forecasts for 2022F–2024F after factoring in higher profitability assumptions (a result of better control of expenses).
- We reiterate our ADD rating with a higher target price of Rmb76.0, based on 18x 2022 P/E. Our target P/E multiple is higher than the mean of 16x, but we believe the Company's track record justifies a valuation premium.

Recap of 2Q22 results

Midea reported its 1H22 results, with revenue and net profit of Rmb182.7bn and Rmb16.0bn, respectively, up 5.1% and 6.6%, which implies that 2Q21 revenue and net profit yoy growth of 1.0% and 3.2% were slower than 10% and 11% yoy, respectively, in 1Q22. However, given the impact of COVID-19 control measures and increasing macro uncertainties, we believe that Midea's 2Q results were decent. Midea had a gross profit margin of 23.12% in 1H22, down slightly from 23.23% in 1H21. Midea achieved a gross profit of 24.05% in 2Q22, up 0.62ppt, and improving from 22.2% in 1Q22. The improved profitability of HVAC was one of the reasons for the pick-up in the gross profit margin. In terms of yoy top-line growth, the robotics and HVAC segments outperformed, while consumer appliances reported slower-than-average yoy top-line growth in 1H22. Midea achieved a net profit margin of 8.7% in 1H22, improving from 8.0% in 2H21 and 8.6% in 1H21. Midea managed its SG&A expenses to minimize the impact of the drop in its gross margin. We reiterate the view that Midea's margin recovery in 2Q22 is proof of the Company's execution and strategy of maintaining profitability during the challenging environment.

toB business continued to do well

Midea's toB business ramped up well in 2021 and continued to perform in 1H22. Revenue from its Industrial Technologies, Building Technologies, Robotics & Automation, and Digital Innovation divisions was Rmb41.7bn, up 17% yoy, accounting for 25% of total turnover (vs. 24% in 2021). In the toB business segment, Building Technologies, Industrial Technologies and Digital Innovation reported yoy revenue growth of 33%, 13% and 42%, respectively, in 1H22. The yoy revenue growth of Robotics & Automation was impacted by the currency conversion impact (Kuka) and reported only 2% yoy growth in 1H22. We believe that Midea will capture the impact of softer raw material prices and translate this into profitability, in addition to its product mix shifts, effective cost control through digitalization, and cost savings from channel streamlining.

Adjusted net profit forecasts; reiterate ADD

We raised our net profit forecast for 2022E, 2023E and 2024E by 4.5%, 4.0% and 3.9%, respectively. The upward revision in forecasts for 2022 was mainly because of better-than-expected OPEX controls. We reiterate our ADD rating, with a higher target price of Rmb76.0, based on 18x 2022 P/E. Our target P/E multiple is higher than the mean of 16x, but we believe that given Midea's good track record, a valuation premium is justified.

| Financial Summary | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue (Rmbm) | 285,710 | 343,361 | 360,184 | 393,797 | 429,194 |
| Operating EBITDA (Rmbm) | 29,653 | 31,339 | 34,317 | 40,972 | 44,101 |
| Net Profit (Rmbm) | 27,223 | 28,574 | 29,652 | 35,660 | 39,076 |
| Core EPS (Rmb) | 3.90 | 4.09 | 4.24 | 5.10 | 5.59 |
| Core EPS Growth | 9.2% | 4.7% | 3.8% | 20.3% | 9.6% |
| FD Core P/E (x) | 13.45 | 12.83 | 12.32 | 10.25 | 9.35 |
| DPS (Rmb) | 1.67 | 1.70 | 1.91 | 2.29 | 2.51 |
| Dividend Yield | 3.18% | 3.25% | 3.65% | 4.39% | 4.81% |
| EV/EBITDA (x) | 10.91 | 11.35 | 10.03 | 7.90 | 6.94 |
| P/FCFE (x) | 29.72 | 5.67 | 40.02 | 11.12 | 11.03 |
| Net Gearing | (38.5%) | (14.6%) | (20.7%) | (29.8%) | (35.5%) |
| P/BV (x) | 3.13 | 2.93 | 2.56 | 2.21 | 1.94 |
| ROE | 24.8% | 23.6% | 22.2% | 23.2% | 22.1% |
| % Change In Core EPS Estimates | | | 4.49% | 3.95% | 3.91% |
| CGI/consensus EPS (x) | | | 0.93 | 0.98 | 0.96 |

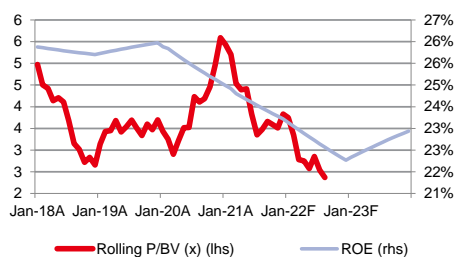
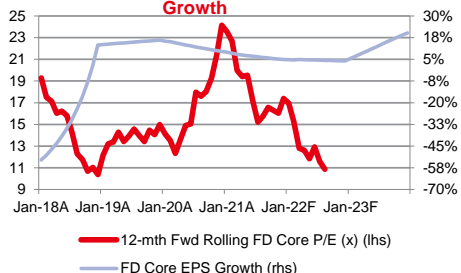
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Change in assumptions

| | 2022F | | | 2023F | | | 2024F | | |
|------------------------|------------|------------|-------|------------|------------|-------|------------|------------|-------|
| | Old | New | (%) | Old | New | (%) | Old | New | (%) |
| Turnover (RMBm) | | | | | | | | | |
| Consumer Appliances | 143,084.4 | 134,574.5 | -6% | 157,392.8 | 148,032.0 | -6% | 173,132.1 | 162,835.1 | -6% |
| HVAC | 153,993.6 | 153,993.6 | 0% | 164,670.8 | 164,670.8 | 0% | 177,155.2 | 177,155.2 | 0% |
| Robotics | 31,335.6 | 29,447.9 | -6% | 36,035.9 | 33,865.1 | -6% | 39,639.5 | 37,251.6 | -6% |
| Other | 47,414.4 | 42,168.5 | -11% | 53,104.1 | 47,228.8 | -11% | 58,414.5 | 51,951.6 | -11% |
| YoY Change (%) | | | | | | | | | |
| Consumer Appliances | 8.5 | 2.1 | | 10.0 | 10.0 | | 10.0 | 10.0 | |
| HVAC | 8.5 | 8.5 | | 6.9 | 6.9 | | 7.6 | 7.6 | |
| Robotics | 14.9 | 7.9 | | 15.0 | 15.0 | | 10.0 | 10.0 | |
| Other | 12.0 | (0.4) | | 12.0 | 12.0 | | 10.0 | 10.0 | |
| | | | (ppt) | | | (ppt) | | | (ppt) |
| Gross margin (%) | 22.6 | 22.4 | (0.2) | 23.6 | 23.6 | 0.0 | 23.6 | 23.6 | 0.0 |
| Consumer Appliances | 26.8 | 28.1 | 1.3 | 27.8 | 27.8 | (0.0) | 27.8 | 27.8 | (0.0) |
| HVAC | 21.6 | 21.4 | (0.2) | 22.8 | 22.8 | 0.0 | 22.8 | 22.8 | 0.0 |
| Robotics | 21.3 | 21.6 | 0.4 | 22.3 | 22.3 | 0.0 | 22.3 | 22.3 | 0.0 |
| Other | 14.5 | 8.7 | (5.8) | 14.5 | 14.5 | 0.0 | 14.5 | 14.5 | 0.0 |
| Net margin (%) | 7.6 | 8.2 | 0.7 | 8.3 | 9.1 | 0.7 | 8.4 | 9.1 | 0.7 |
| Cost (RMBm) | | | (%) | | | (%) | | | (%) |
| S,G&A | (41,257.1) | (38,642.8) | -6% | (45,659.5) | (43,752.0) | -4% | (49,783.2) | (47,684.7) | -4% |
| R&D | (14,537.8) | (11,479.5) | -21% | (15,674.0) | (12,303.7) | -22% | (17,342.8) | (13,678.9) | -21% |
| YoY Change (%) | | | | | | | | | |
| S,G&A | 6.0 | (0.7) | | 8.8 | 13.2 | | 9.0 | 9.0 | |
| Financial Expenses | 21.0 | (4.5) | | 7.8 | 7.2 | | 10.6 | 11.2 | |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth


Profit & Loss

| (Rmbm) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 285,710 | 343,361 | 360,184 | 393,797 | 429,194 |
| Gross Profit | 68,911 | 78,835 | 80,763 | 92,955 | 101,344 |
| Operating EBITDA | 29,653 | 31,339 | 34,317 | 40,972 | 44,101 |
| Depreciation And Amortisation | (5,222) | (5,042) | (5,240) | (5,803) | (6,007) |
| Operating EBIT | 24,431 | 26,297 | 29,077 | 35,169 | 38,094 |
| Financial Income/(Expense) | 2,638 | 3,824 | 3,115 | 3,551 | 4,248 |
| Pretax Income/(Loss) from Assoc. | 0 | 135 | 0 | 0 | 0 |
| Non-Operating Income/(Expense) | 4,594 | 3,461 | 2,779 | 3,233 | 3,579 |
| Profit Before Tax (pre-EI) | 31,664 | 33,718 | 34,971 | 41,952 | 45,922 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 31,664 | 33,718 | 34,971 | 41,952 | 45,922 |
| Taxation | (4,157) | (4,702) | (4,877) | (5,851) | (6,404) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 27,507 | 29,015 | 30,094 | 36,102 | 39,518 |
| Minority Interests | (284) | (442) | (442) | (442) | (442) |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 27,223 | 28,574 | 29,652 | 35,660 | 39,076 |
| Recurring Net Profit | 27,223 | 28,574 | 29,652 | 35,660 | 39,076 |
| Fully Diluted Recurring Net Profit | 27,223 | 28,574 | 29,652 | 35,660 | 39,076 |

Cash Flow

| (Rmbm) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| EBITDA | 29,653 | 31,339 | 34,317 | 40,972 | 44,101 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (2,589) | (4,521) | (14,071) | 202 | 1,127 |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | (582) | 5,555 | 1,852 | 1,852 | 1,852 |
| Other Operating Cashflow | 4,875 | 3,461 | 2,779 | 3,233 | 3,579 |
| Net Interest (Paid)/Received | 2,357 | 3,824 | 3,115 | 3,551 | 4,248 |
| Tax Paid | (4,157) | (4,702) | (4,877) | (5,851) | (6,404) |
| Cashflow From Operations | 29,557 | 34,956 | 23,115 | 43,959 | 48,503 |
| Capex | (4,657) | (6,825) | (8,985) | (6,094) | (10,365) |
| Disposals Of FAs/subsidiaries | 43 | 188 | 0 | 0 | 0 |
| Acq. Of Subsidiaries/investments | (1,045) | (2,029) | 0 | 0 | 0 |
| Other Investing Cashflow | (29,651) | 22,265 | (5,000) | (5,000) | (5,000) |
| Cash Flow From Investing | (35,310) | 13,600 | (13,985) | (11,094) | (15,365) |
| Debt Raised/(repaid) | 18,071 | 16,034 | 0 | 0 | 0 |
| Proceeds From Issue Of Shares | 2,657 | 1,551 | 14,590 | 1,222 | 1,223 |
| Shares Repurchased | | | | | |
| Dividends Paid | (12,823) | (12,894) | (11,678) | (13,343) | (16,047) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (8,662) | (35,895) | (5,000) | (5,000) | (5,000) |
| Cash Flow From Financing | (756) | (31,205) | (2,088) | (17,121) | (19,824) |
| Total Cash Generated | (6,509) | 17,351 | 7,042 | 15,743 | 13,313 |
| Free Cashflow To Equity | 12,318 | 64,590 | 9,129 | 32,864 | 33,137 |
| Free Cashflow To Firm | (4,447) | 49,914 | 10,328 | 33,838 | 33,887 |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

| (Rmbm) | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 109,871 | 78,301 | 85,342 | 101,085 | 114,399 |
| Total Debtors | 42,185 | 39,695 | 45,023 | 49,225 | 53,649 |
| Inventories | 31,077 | 45,924 | 38,809 | 41,784 | 45,535 |
| Total Other Current Assets | 58,523 | 84,945 | 89,945 | 94,945 | 99,945 |
| Total Current Assets | 241,655 | 248,865 | 259,119 | 287,038 | 313,527 |
| Fixed Assets | 23,717 | 25,544 | 29,320 | 33,201 | 37,209 |
| Total Investments | 3,307 | 4,656 | 4,656 | 4,656 | 4,656 |
| Intangible Assets | 44,980 | 45,048 | 45,017 | 41,426 | 41,778 |
| Total Other Non-Current Assets | 46,724 | 63,834 | 60,760 | 57,687 | 54,614 |
| Total Non-current Assets | 118,727 | 139,082 | 139,752 | 136,970 | 138,256 |
| Short-term Debt | 9,944 | 5,382 | 5,382 | 5,382 | 5,382 |
| Current Portion of Long-Term Debt | 6,310 | 28,948 | 28,948 | 28,948 | 28,948 |
| Total Creditors | 82,180 | 98,736 | 96,245 | 103,623 | 112,926 |
| Other Current Liabilities | 85,716 | 89,787 | 89,787 | 89,787 | 89,787 |
| Total Current Liabilities | 184,151 | 222,851 | 220,361 | 227,739 | 237,042 |
| Total Long-term Debt | 42,827 | 21,268 | 16,268 | 11,268 | 6,268 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 3,646 | 3,741 | 3,741 | 3,741 | 3,741 |
| Total Non-current Liabilities | 46,473 | 25,009 | 20,009 | 15,009 | 10,009 |
| Total Provisions | 5,522 | 5,261 | 5,261 | 5,261 | 5,261 |
| Total Liabilities | 236,146 | 253,121 | 245,631 | 248,009 | 252,312 |
| Shareholders' Equity | 117,516 | 124,868 | 142,842 | 165,159 | 188,189 |
| Minority Interests | 6,721 | 9,957 | 10,399 | 10,840 | 11,282 |
| Total Equity | 124,237 | 134,825 | 153,240 | 176,000 | 199,471 |

Key Ratios

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 2.3% | 20.2% | 4.9% | 9.3% | 9.0% |
| Operating EBITDA Growth | (4.8%) | 5.7% | 9.5% | 19.4% | 7.6% |
| Operating EBITDA Margin | 10.4% | 9.1% | 9.5% | 10.4% | 10.3% |
| Net Cash Per Share (Rmb) | 6.80 | 2.81 | 4.54 | 7.51 | 10.13 |
| BVPS (Rmb) | 16.72 | 17.87 | 20.45 | 23.64 | 26.94 |
| Gross Interest Cover | 18.71 | 19.37 | 24.25 | 36.10 | 50.85 |
| Effective Tax Rate | 13.1% | 13.9% | 13.9% | 13.9% | 13.9% |
| Net Dividend Payout Ratio | 42.9% | 40.9% | 45.0% | 45.0% | 45.0% |
| Accounts Receivables Days | 40.42 | 38.16 | 35.43 | 33.97 | 34.12 |
| Inventory Days | 53.62 | 53.12 | 55.34 | 48.89 | 48.74 |
| Accounts Payables Days | 81.43 | 82.73 | 83.65 | 78.22 | 77.98 |
| ROIC (%) | 27.3% | 33.2% | 25.0% | 28.6% | 30.5% |
| ROCE (%) | 15.8% | 16.1% | 16.3% | 18.0% | 18.0% |
| Return On Average Assets | 7.51% | 6.73% | 6.86% | 7.91% | 8.05% |

Key Drivers

| | Dec-20A | Dec-21A | Dec-22F | Dec-23F | Dec-24F |
|---------------------------|---------|---------|---------|---------|---------|
| Aircon - sales volume (m) | 45.1 | 46.4 | 48.3 | 50.2 | 52.2 |
| Aircon - ASPs (Rmb) | 2,672.4 | 2,806.0 | 2,946.3 | 3,093.7 | - |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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|---------------------|-----------|-----------|---------|----------|------------------|
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|---|-------------------------|--------------------------------|
| Distribution of stock ratings and investment banking clients for quarter ended on 30 Jun 2022 | | |
| 643 companies under coverage for quarter ended on 30 Jun 2022 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 68.4% | 0.8% |
| Hold | 24.6% | 0.0% |
| Reduce | 7.0% | 0.2% |

Spitzer Chart for stock being researched (2 year data)

Midea (000333 CH)

RECOMMENDATION FRAMEWORK

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| | |
|--------|---|
| Add | The stock's total return is expected to reach 15% or higher over the next 12 months. |
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| Reduce | The stock's total return is expected to fall below negative 10% over the next 12 months. |

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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|-------------|--|
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| | |
|-------------|--|
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