

China

**ADD** (no change)

Consensus ratings\*: Buy 36 Hold 4 Sell 0

Current price:	Rmb22.61
Target price:	Rmb31.50
Previous target:	Rmb32.00
Up/downside:	39.3%
CGI / Consensus:	4.4%

Reuters:	600690.SS
Bloomberg:	600690 CH
Market cap:	US\$28,216m
	Rmb206,135m
Average daily turnover:	US\$56.90m
	Rmb420.5m
Current shares o/s:	9,447m
Free float:	35.0%

\*Source: Bloomberg

**Key changes in this note**

- FY23F EPS cut by 1.2%.
- FY24F EPS cut by 1.1%.
- FY25F EPS cut by 1.1%.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	-4.2	-8.1	1.8
Relative (%)	-2.5	-1.1	2.2

<b>Major shareholders</b>	% held
Haier Group Corp	33.5
HKSCC Nominee	23.7
HKSCC	6.9

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# Haier Smart Home

## Sales recovery appears on track

- Haier's sales rose by 6.1% yoy in 3Q23, in line with our estimate, driven by the gradual demand recovery in both domestic and overseas' home appliance markets.
- Net profit grew by 12.9% yoy in 3Q23, slightly lower than our estimate, owing to new product launches in overseas markets leading to higher market spend.
- We think Haier's sales are on a recovery trend, given the low base in 4Q22. We expect sales to rise by 9.7% yoy and net profit to increase by 11.5% yoy in 4Q23F.
- Reiterate Add with slightly lower DCF-based TP of Rmb31.5 (WACC: 9.1%, TG: 1%).

### Domestic market sales recovery in line in 3Q23

Haier Smart Home's sales growth slowed from 8.2% yoy in 1H23 to 6.1% yoy in 3Q23, off a slightly high base of 9.1% yoy in 3Q22. We estimate sales growth in both the domestic and overseas markets grew by c.6%-7% yoy in 3Q23, each contributing c.50% of total sales in 3Q23. According to industry data provider Chinaiol, in the domestic market, sales volume of Haier's washing machines declined by 2% yoy in 3Q23, but sales volume of refrigerators rose by 8% yoy and air conditioners by 16% yoy. Haier had accelerated the store opening of its one-stop service brand Sanyiniao for whole house design in China; the number of Sanyiniao stores reached c.2,500 as at end-3Q23 (+1,000 new stores in 9M23). Management expects sales in Sanyiniao stores to reach c.Rmb5bn in FY23F and double to Rmb10bn in FY24F. Management said that its focus in FY23F for its high-end brand-Casarte is to expand its B2C channel and improve its product more diversified. 9M23 net profit was 80% of our full-year forecast.

### Product mix upgrade trend continued in overseas markets

Among overseas market sales (51% of total sales in 1H23), 3Q23 sales from North America market grew by 5.7% yoy (+1% yoy in local currency), while 3Q23 European market sales grew by 17.6% yoy (+4.5% yoy in local currency), equivalent to 30% and 10% of total sales in 1H23. For the North America market, Haier adheres to a product mix upgrade strategy for its GE appliances brand and has launched more high-end products in its core appliance segment (e.g. stainless steel inner dishwasher, French-door refrigerator, Ultrafast combo laundry machine) in 9M23; meanwhile, the company has started to penetrate into new product segments (e.g. air conditioners and water purification solutions) since 4Q22. For the European market, the company has attempted to upgrade the product mix under its Candy brand; in Sep, it launched a complete range of products from refrigerators, washing machines and kitchen appliances (including small appliances).

### NPM steadily improved yoy in 3Q23

Overall GPM expanded by 0.3% pt yoy to 31.2% in 3Q23 (+0.2% pt yoy in 9M23), owing to product mix upgrade and a lower raw material price. Sales & distribution expense (S&D) ratio declined 0.2% pt yoy to 15.5% in 3Q23, owing to: 1) overseas market S&D expense ratio increasing yoy in 3Q23, owing to intensified competition and new product launches, offset by 2) lower S&D expense ratio in China yoy, as its digital transformation has gradually improved Haier's efficiency in marketing resource allocation, logistics distribution and warehouse operations. Admin expense ratio also declined by 0.1% pt to 4% in 3Q23. NPM improved by 0.4% pt yoy to 6.2% in 3Q23 (+0.3% pt yoy in 9M23).

### Reiterate Add, with a lower DCF-based TP of Rmb31.5

We trim our EPS forecasts for FY23F-25F by 1.1-1.2% to reflect higher marketing spending on new products resulting in lower 3Q23 NPM improvement in overseas markets, which led to a lower TP. We reiterate Add, as we believe Haier's product mix upgrade strategy suits its China and US market development in the long term. Downside risks: higher-than-expected price competition in overseas markets, which would affect its margin improvement pace. Re-rating catalysts are stronger sales growth in 4Q23F.

### Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rmbm)	227,106	243,514	263,082	283,914	304,772
Operating EBITDA (Rmbm)	19,733	22,178	25,394	29,413	33,117
Net Profit (Rmbm)	13,079	14,711	16,543	19,477	22,150
Core EPS (Rmb)	1.47	1.65	1.86	2.17	2.46
Core EPS Growth	42.3%	12.2%	12.6%	16.8%	13.1%
FD Core P/E (x)	15.32	13.65	12.15	10.40	9.19
DPS (Rmb)	0.46	0.56	0.63	0.74	0.84
Dividend Yield	2.03%	2.48%	2.79%	3.28%	3.73%
EV/EBITDA (x)	8.84	8.00	6.53	5.17	4.11
P/FCFE (x)	27.61	14.29	12.10	10.25	8.90
Net Gearing	(42.3%)	(33.4%)	(41.1%)	(48.5%)	(55.4%)
P/BV (x)	2.65	2.29	2.05	1.83	1.63
ROE	18.8%	18.0%	17.8%	18.6%	18.8%
% Change In Core EPS Estimates			(1.22%)	(1.13%)	(1.07%)
CGI/consensus EPS (x)			0.98	1.01	1.01

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

# Sales recovery appears on track

**Figure 1: Haier's financial summary**

(Rmb m)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	FY22	FY23F	YoY	9M22	9M23	YoY
Revenue	60,235	61,405	63,166	58,708	65,066	66,560	67,031	6.1%	243,514	263,082	8.0%	184,806	198,657	7.5%
YoY(%)	10.0%	7.8%	9.1%	2.1%	8.0%	8.4%	6.1%		7.2%	8.0%		9%	7%	
Gross profit incl tax	17,116	19,348	19,294	19,719	18,422	21,116	20,686	7.2%	75,477	82,332	9.1%	55,758	60,224	8.0%
Sales and distribution expense	-8,437	-9,169	-9,890	-11,101	-8,837	-9,932	-10,393	5.1%	-38,598	-40,910	6.0%	-27,497	-29,162	6.1%
General administrative expense	-2,191	-2,949	-2,597	-3,100	-2,315	-3,147	-2,712	4.4%	-10,837	-11,182	3.2%	-7,737	-8,174	5.6%
R&D expense	-2,484	-2,114	-2,860	-2,042	-2,739	-2,287	-3,019	5.6%	-9,499	-10,526	10.8%	-7,458	-8,045	7.9%
Operating profit	4,004	5,115	3,947	3,476	4,531	5,751	4,561	15.5%	16,543	19,714	19.2%	13,067	14,843	13.6%
Other income	797	832	419	938	906	835	746	78.0%	2,987	3,500	17.2%	2,048	2,487	21.4%
Net profit	3,527	4,432	3,707	3,045	3,971	4,993	4,185	12.9%	14,711	16,543	12.5%	11,666	13,149	12.7%
YoY (%)	15%	17%	20%	-3%	13%	13%	13%		12.5%	12%		17%	13%	
<b>Margins</b>								<b>ppt chg</b>			<b>ppt chg</b>			<b>ppt chg</b>
Gross profit margin excl: sales tax (%)	28.7%	31.9%	30.9%	34.0%	28.7%	32.1%	31.2%	0.3%	31.3%	31.6%	0.3%	30.5%	30.7%	0.2%
Sales tax	0.2%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.0%	0.3%	0.3%	0.0%	0.3%	0.4%	0.1%
S&D expense ratio	14.0%	14.9%	15.7%	18.9%	13.6%	14.9%	15.5%	-0.2%	15.9%	15.6%	-0.3%	14.9%	14.7%	-0.2%
G&A expense ratio	3.6%	4.8%	4.1%	5.3%	3.6%	4.7%	4.0%	-0.1%	4.5%	4.3%	-0.2%	4.2%	4.1%	-0.1%
R&D expense ratio	4.1%	3.4%	4.5%	3.5%	4.2%	3.4%	4.5%	0.0%	3.9%	4.0%	0.1%	4.0%	4.0%	0.0%
Operating profit margin (%)	6.6%	8.3%	6.2%	5.9%	7.0%	8.6%	6.8%	0.6%	6.8%	7.5%	0.7%	7.1%	7.5%	0.4%
Net profit margin (%)	5.9%	7.2%	5.9%	5.2%	6.1%	7.5%	6.2%	0.4%	6.0%	6.3%	0.2%	6.3%	6.6%	0.3%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 2: Earnings revision**

	FY23F			FY24F			FY25F		
	Old	New	Change	Old	New	Change	Old	New	Change
Total revenue (Rmb m)	263,082	263,082	0.0%	283,914	283,914	0.0%	304,772	304,772	0.0%
Sales yoy growth	8.0%	8.0%	0.0%	7.9%	7.9%	0.0%	7.3%	7.3%	0.0%
GPM	31.7%	31.6%	-0.1%	32.0%	31.9%	-0.1%	32.2%	32.1%	-0.1%
OPM	7.6%	7.5%	-0.1%	8.3%	8.2%	-0.1%	8.8%	8.7%	-0.1%
Net profit (Rmb m)	16,760	16,543	-1.3%	19,712	19,477	-1.2%	22,402	22,150	-1.1%
Net profit growth	13.9%	12.5%	-1.5%	17.6%	17.7%	0.1%	13.6%	13.7%	0.1%
NPM	6.4%	6.3%	-0.1%	6.9%	6.9%	0.0%	7.4%	7.3%	-0.1%
Core EPS	1.88	1.86	-1.2%	2.19	2.17	-1.1%	2.49	2.46	-1.1%

SOURCES: CGIS RESEARCH ESTIMATES

## Valuation and Risks

We slightly cut our EPS forecasts for FY23F-25F by 1.1-1.2% to reflect higher marketing spending on the new products resulting in lower-than-our expected NPM improvement in 3Q23 in its overseas market, which led to a lower TP. We reiterate our Add rating, as we believe Haier's product mix upgrade strategy suits the China and US markets development in the long term. Besides, in the near term, we expect Haier's domestic sales to see strong yoy growth with its offline channels recovering, and its GPM in overseas markets to gradually improve with lower sea freight and raw material costs.

Our TP is derived from a DCF valuation, with 9.1% WACC and a 1% terminal growth rate. WACC components include 1.1 beta, a 3% risk-free rate, a 6.1% risk premium and a 17.2% tax rate. Downside risks include: 1) higher-than-expected price competition in overseas markets, which would affect its margin improvement pace; and 2) any significant changes in the overseas political and economic situations, legal systems and regulatory systems that would affect its overseas operations, since Haier has established production bases, R&D centres and marketing centres in many parts of the world, and overseas sales account for over half of its sales.

Re-rating catalysts: 1) stronger sales growth in the domestic market, driven by faster recovery in the offline channels; and 2) a possible stronger recovery in overseas markets, leading to stronger sales growth.

**Figure 3: DCF valuation**

(Rmb, m)	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F
Operating EBIT	19,714	23,262	26,495	25,981	26,761	27,286	27,536	27,634	27,577	27,498
Taxes	-3,438	-4,048	-4,604	-4,465	-4,599	-4,690	-4,733	-4,750	-4,740	-4,726
EBIT, tax-affected	16,275	19,214	21,891	21,516	22,162	22,596	22,804	22,885	22,837	22,771
Add: Depreciation & amortisation	5,680	6,151	6,622	5,437	5,400	5,292	5,113	4,889	4,624	4,342
Add Changes in Working capital	809	580	608	648	685	717	743	766	786	807
Less Capital Expenditure	-5,400	-5,400	-5,400	-5,328	-5,292	-5,186	-5,010	-4,791	-4,532	-4,255
Free Cash Flow to firm	17,365	20,544	23,721	22,272	22,954	23,419	23,649	23,749	23,716	23,666

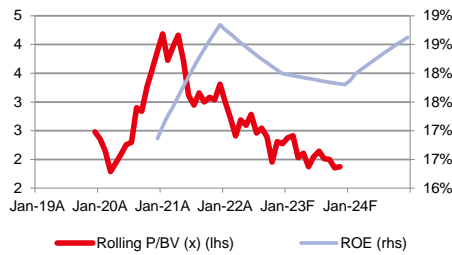
**Key assumptions**

NPV of FY23-27 cash flow	73,678	Company average beta	1.1
NPV of FY28-32 cash flow	73,379	Risk free rate	3.0%
NPV of Terminal Value	120,693	Risk premium	6.1%
Enterprise Value	267,750	Cost of equity	9.8%
Add Net cash/(Net Debt)	30,905	Cost of Debt	4.3%
Less Minority	-1,291	Debt %	9.9%
Equity value of firm	297,363	Tax rate	17.2%
Share outstanding (m)	9,447	WACC	9.1%
Target price (Rmb)	<b>31.5</b>	Terminal growth rate	1.0%

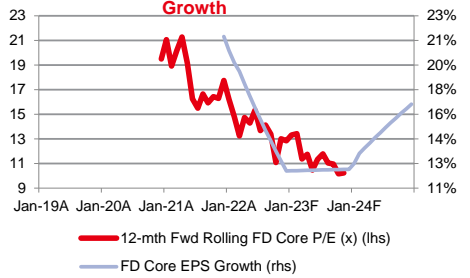
SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA, BLOOMBERG

## BY THE NUMBERS

**P/BV vs ROE**



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



### Profit & Loss

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Net Revenues</b>	<b>227,106</b>	<b>243,514</b>	<b>263,082</b>	<b>283,914</b>	<b>304,772</b>
<b>Gross Profit</b>	<b>70,348</b>	<b>75,477</b>	<b>82,332</b>	<b>89,703</b>	<b>96,902</b>
<b>Operating EBITDA</b>	<b>19,733</b>	<b>22,178</b>	<b>25,394</b>	<b>29,413</b>	<b>33,117</b>
Depreciation And Amortisation	-4,805	-5,635	-5,680	-6,151	-6,622
<b>Operating EBIT</b>	<b>14,928</b>	<b>16,543</b>	<b>19,714</b>	<b>23,262</b>	<b>26,495</b>
Financial Income/(Expense)	-685	246	-1,209	-1,209	-1,209
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	1,694	1,001	1,500	1,500	1,500
<b>Profit Before Tax (pre-EI)</b>	<b>16,843</b>	<b>18,865</b>	<b>21,248</b>	<b>24,827</b>	<b>28,091</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>15,937</b>	<b>17,790</b>	<b>20,005</b>	<b>23,553</b>	<b>26,786</b>
Taxation	-2,705	-3,058	-3,438	-4,048	-4,604
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>13,232</b>	<b>14,732</b>	<b>16,567</b>	<b>19,505</b>	<b>22,182</b>
Minority Interests	-153	-21	-24	-28	-32
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>13,079</b>	<b>14,711</b>	<b>16,543</b>	<b>19,477</b>	<b>22,150</b>
Recurring Net Profit	13,831	15,601	17,573	20,532	23,231
<b>Fully Diluted Recurring Net Profit</b>	<b>13,831</b>	<b>15,601</b>	<b>17,573</b>	<b>20,532</b>	<b>23,231</b>

### Cash Flow

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>EBITDA</b>	<b>19,733</b>	<b>22,178</b>	<b>25,394</b>	<b>29,413</b>	<b>33,117</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	3,768	-234	809	580	608
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	419	-1,790	-1,938	-2,548	-3,104
Net Interest (Paid)/Received	-685	0	-1,209	-1,209	-1,209
Tax Paid					
<b>Cashflow From Operations</b>	<b>23,235</b>	<b>20,154</b>	<b>23,056</b>	<b>26,236</b>	<b>29,412</b>
Capex	-7,372	-8,204	-5,400	-5,400	-5,400
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	-690	-716	0	0	0
<b>Cash Flow From Investing</b>	<b>-8,063</b>	<b>-8,920</b>	<b>-5,400</b>	<b>-5,400</b>	<b>-5,400</b>
Debt Raised/(repaid)	-7,499	3,672	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-4,036	-5,135	-5,957	-7,014	-7,977
Preferred Dividends					
Other Financing Cashflow	-3,790	-3,249	0	0	0
<b>Cash Flow From Financing</b>	<b>-15,326</b>	<b>-4,712</b>	<b>-5,957</b>	<b>-7,014</b>	<b>-7,977</b>
Total Cash Generated	-153	6,521	11,699	13,822	16,035
<b>Free Cashflow To Equity</b>	<b>7,673</b>	<b>14,905</b>	<b>17,656</b>	<b>20,836</b>	<b>24,012</b>
<b>Free Cashflow To Firm</b>	<b>15,857</b>	<b>11,233</b>	<b>18,865</b>	<b>22,044</b>	<b>25,221</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

## BY THE NUMBERS... cont'd

<b>Balance Sheet</b>					
<b>(Rmbm)</b>	<b>Dec-21A</b>	<b>Dec-22A</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Total Cash And Equivalents	48,963	54,842	66,541	80,363	96,398
Total Debtors	30,802	28,996	32,334	34,700	37,071
Inventories	39,914	41,543	43,809	47,070	50,380
Total Other Current Assets	4,233	5,002	5,002	5,002	5,002
<b>Total Current Assets</b>	<b>123,912</b>	<b>130,383</b>	<b>147,686</b>	<b>167,136</b>	<b>188,852</b>
Fixed Assets	22,308	27,158	27,722	27,845	27,528
Total Investments	28,078	30,405	30,405	30,405	30,405
Intangible Assets	31,377	34,149	33,306	32,432	31,527
Total Other Non-Current Assets	12,066	13,747	13,747	13,747	13,747
<b>Total Non-current Assets</b>	<b>93,829</b>	<b>105,460</b>	<b>105,180</b>	<b>104,429</b>	<b>103,207</b>
Short-term Debt	11,226	9,643	9,643	9,643	9,643
Current Portion of Long-Term Debt					
Total Creditors	94,984	93,816	100,230	106,438	112,726
Other Current Liabilities	18,677	15,173	15,173	15,173	15,173
<b>Total Current Liabilities</b>	<b>124,887</b>	<b>118,632</b>	<b>125,046</b>	<b>131,254</b>	<b>137,542</b>
Total Long-term Debt	3,039	13,591	13,591	13,591	13,591
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,296	2,824	2,824	2,824	2,824
<b>Total Non-current Liabilities</b>	<b>5,334</b>	<b>16,415</b>	<b>16,415</b>	<b>16,415</b>	<b>16,415</b>
Total Provisions	6,245	6,081	6,081	6,081	6,081
<b>Total Liabilities</b>	<b>136,467</b>	<b>141,129</b>	<b>147,543</b>	<b>153,750</b>	<b>160,039</b>
Shareholders' Equity	79,985	93,423	104,008	116,471	130,645
Minority Interests	1,290	1,291	1,315	1,343	1,375
<b>Total Equity</b>	<b>81,275</b>	<b>94,714</b>	<b>105,323</b>	<b>117,814</b>	<b>132,020</b>

<b>Key Ratios</b>					
	<b>Dec-21A</b>	<b>Dec-22A</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Revenue Growth	8.29%	7.22%	8.04%	7.92%	7.35%
Operating EBITDA Growth	23.8%	12.4%	14.5%	15.8%	12.6%
Operating EBITDA Margin	8.7%	9.1%	9.7%	10.4%	10.9%
Net Cash Per Share (Rmb)	3.66	3.35	4.58	6.05	7.75
BVPS (Rmb)	8.52	9.89	11.01	12.33	13.83
Gross Interest Cover	23.12	N/A	17.34	20.30	23.00
Effective Tax Rate	17.0%	17.2%	17.2%	17.2%	17.2%
Net Dividend Payout Ratio	30.9%	33.6%	33.5%	33.8%	34.0%
Accounts Receivables Days	46.65	40.08	37.72	38.71	38.70
Inventory Days	80.75	88.47	86.18	85.63	85.56
Accounts Payables Days	145.4	145.9	140.6	141.3	141.1
ROIC (%)	55.0%	65.2%	50.4%	60.6%	70.9%
ROCE (%)	20.0%	19.1%	19.5%	20.4%	20.8%
Return On Average Assets	7.04%	6.86%	7.78%	8.39%	8.76%

<b>Key Drivers</b>					
	<b>Dec-21A</b>	<b>Dec-22A</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Domestic sales growth (%)	3.5%	4.4%	7.4%	6.8%	6.2%
Oversea market sales growth yoy (%)	12.4%	9.9%	9.6%	8.9%	8.4%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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634 companies under coverage for quarter ended on 30 Sep 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**

**Haier Smart Home (600690 CH)**

— Price Close



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### Stock Ratings

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more 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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