

# Haier Smarthome (06690.HK)

Global leader in home appliances, capture IoT  
Hong Kong | Technology | Initiation

26 Jan 2021

## Investment Summary

### Haier has maintained a leading position in the world

Haier ("the Company") pursue a global multi-brand strategy featuring seven home appliance brands: Haier, Casarte, Leader, GE Appliances, Candy, Fisher&Paykel and AQUA. It's brand portfolio is strategically deployed across our markets to ensure broad and in-depth user coverage through it's usercentred, global differentiated multi-brand operations. They combine self-grown brands from our China operations, such as Haier, Casarte and Leader, with our acquired brands, such as GE Appliances, Candy, Fisher&Paykel and AQUA, in key markets in order to grow our global market share across different consumer groups.

### Casarte benefits the consumption upgrade trend for high-end brands

The Company started to build a high-end brand Casarte in the Chinese market in 2006. In addition to focus, experience and patience, the creation of high-end brands also requires the technical ability for continuous innovation and differentiated service so to meet users' demand for high-quality experience. By combining its technical strengths, product development ability, manufacturing techniques and other advantages in the world as well as specialised marketing and differentiated services, Casarte brand has gradually gained the trust of users in China's high-end market. At present, Casarte has achieved development from single product to full-suite solutions and has the capability of providing users with a diversified product portfolio. During the Track Record Period, based on consolidating and improving revenue contributions from refrigeration appliances and laundry appliances, the percentage of revenue contributed by Casarte air-conditioners, water heaters and kitchen appliances also continued to increase.

### R&D capabilities promote continuous product leadership

The Company has established a leading global R&D innovation system. The Company has established 10 R&D centers around the world, forming a global R&D resource network. On this basis, the Company independently built the Haier Open Partnership System (HOPE platform). The HOPE platform has gathered more than 13,000 certified experts, more than 150,000 users, more than 10,000 cooperative enterprises and other external innovation resources, so that they can participate in them. User-centric iterative R&D process. Since its establishment, the HOPE platform has supported Haier's product R&D teams to create many innovative and best-selling products. According to the value-sharing mechanism, external innovative resources such as participating certified experts can also share value from it.

### Valuation and Investment Recommendation

As of the closing price on Jan 22, the Company's trailing P/E was 39.58x. We believe that based on the Company's sound fundamentals and it's brand advantage. We give the Company a target price to earnings ratio of 25.0x in 2022. We expect the Company's 2020/2021/2022 earnings per share to be RMB\$ 0.83/1.01/1.35, and 24 months target price of HKD\$40.00, corresponding to the P/E ratio of the earnings per share for 2020/2021/2022 is 41.1x/33.7x/25.0x. Accumulate rating is given for the first coverage. (Current price as at 22 January 2021)

### Accumulate (Initiation)

Current market price HKD35.50  
(Closing price as at 22 Jan 2021)  
Target price HKD 40.00 (+12.68%)

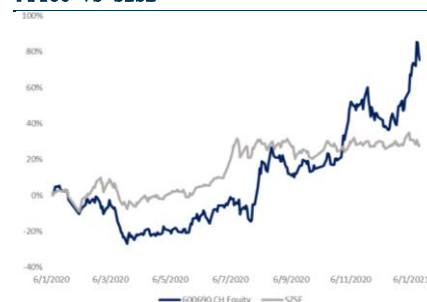
### COMPANY DATA

O/S SHARES (MN):	9,028
MARKET CAP(HKD MN):	320,489
52- WK HI/LO (HKD):	35.70/22.60

### Major Shareholder %

Haier Group	44.49%
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### Price vs SZSE



Source: Wind, PSHK

### KEY FINANCIALS

RMB'mm	FY19	FY20E	FY21E	FY22E
Net Sales	198,006	210,145	232,153	253,478
Net profit	8,206	7,452	9,075	12,227
EPS, RMB	0.91	0.83	1.01	1.35
P/E x	33.1	36.4	29.9	22.2
BVPS, RMB	5.92	5.86	7.13	8.22
P/BV, x	6.00	6.06	4.98	4.32
ROE%	15.4	14.1	14.1	16.5
ROA%	8.6	8.2	8.8	9.00

Source: Company reports, PSHK

Closing price as of 22 Jan 2021

### Research Analyst

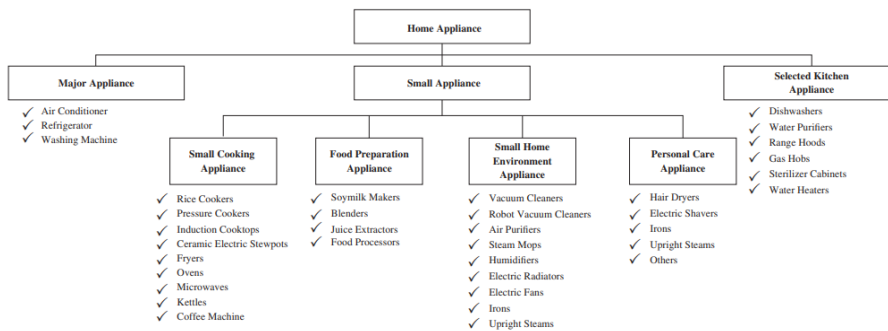
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## Industry analytics

Generally, the home appliance industry divides traditional home appliances into two categories: black home appliances and white home appliances. White goods refer to reducing people's labor. Black household appliances generally refer to household appliances that bring entertainment and leisure. The earliest source of the name refers to the TV with black casing. White goods appliances are mainly divided into main appliances, small appliances, and kitchen appliances. The main electrical appliances include air conditioners, refrigerators, and washing machines. Small appliances include small cooking appliance, food preparation appliance, small home environment appliance, personal care appliances. The following picture shows some examples of appliances:

Figure1: Home Appliance



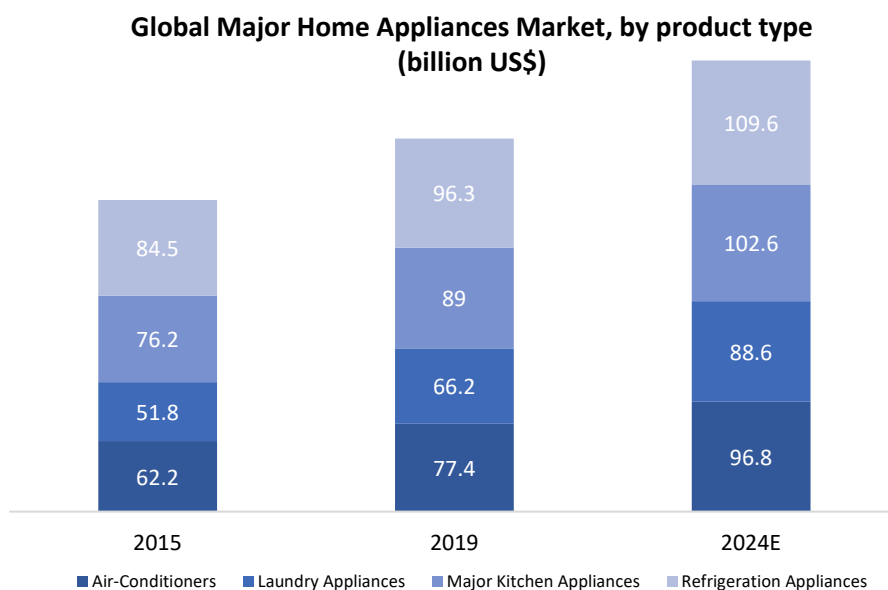
Source: Company data, PSHK

### The business model of integrated circuit manufacturing enterprises

The global market for major home appliances (including refrigeration appliances, laundry appliances, air-conditioners and major kitchen appliances) is characterised by its steady growth, primarily driven by the robust growth potential in three major markets including Asia, North America and Europe, and the rapid growth in developing countries. In terms of retail value, the global major home appliances market grew at a CAGR of 4.6% from 2015 to 2019, and is expected to steadily grow at a CAGR of 3.9% from 2019 to 2024. Asia, North America and Europe, the three largest markets in terms of retail value, representing 47.1%, 21.0% and 19.1% of global total retail value in 2019, respectively, are expected to grow at a CAGR of 4.5%, 2.7%, 3.3%, respectively, from 2019 to 2024. The current low penetration rate and the rapid growth in major home appliances market in developing countries is expected to further drive the continuous growth of the global major home appliances market in the future. For example, the India major home appliances market is expected to increase at a CAGR of 7.5% in terms of retail value from 2019 to 2024.

In terms of product types, the global major home appliances market is split relatively evenly among refrigeration appliances, major kitchen appliances, laundry appliances and air-conditioners, which accounted for 29.3%, 27.1%, 20.1% and 23.5% of the global major appliances market in terms of retail value in 2019, respectively, and are expected to grow at a CAGR of 2.6%, 2.9%, 6.0% and 4.6% in terms of retail value, respectively, from 2019 to 2024.

Figure2: Global Major Home Appliances Market, Retail Value(billion US\$)



Source: Euromonitor Report, PSHK

**Coronavirus further promotes China’s major home appliance market**

China is a key player in the global major home appliances market, with large market size and strong consumption power. In 2019, in terms of retail value, the major home appliances market in China reached US\$93.9 billion, accounting for 28.5% of the global market in 2019. From 2017 to 2019, the major home appliances market in China had been relatively stable with slight fluctuations and is expected to steadily grow in the near future. The China home appliances market also demonstrates fast and revolutionary evolvement of new products driven by both consumer demand and technology improvement. Consumers in China desires for smarter, healthier, and more environmental-friendly major home appliances. The advancement of technology is going to drive the interconnectedness between different major home appliances, and is expected to create demand for intelligent, full-suite and scenario-based smart home solutions. Such trends generate greater opportunities for major home appliances companies that are well equipped with a comprehensive product portfolio and leading technology. The competitive landscape among major home appliance companies in China is expected to shift from competition in single appliances to competitions in integrated, interconnected smart home platforms. The outbreak of COVID-19 has increased consumers’ awareness of healthy lifestyle, and major home appliances that address consumers’ demand for healthy life are expected to further drive demand. In addition, the increasing awareness of environment protection, the implementation of environment policies and the improvement in relevant major home appliances technology drives demand for environment-friendly home appliances.

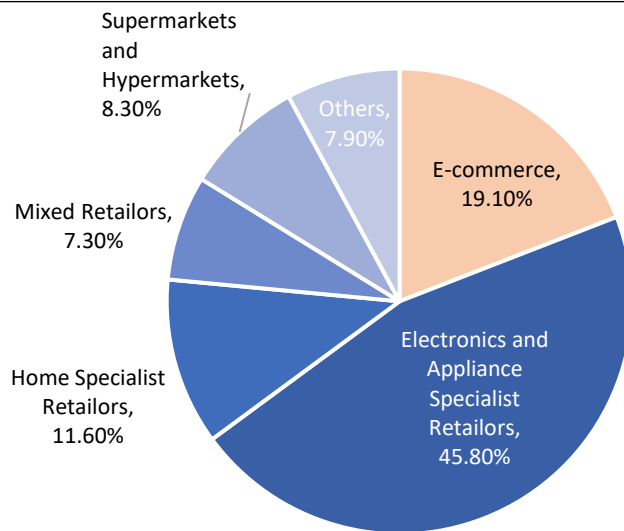
**Online and offline integration will accelerate in the future**

In 2019, the distribution channels in the global major home appliances market (excluding air-conditioners) demonstrate a trend towards increasing diversity, with offline channel remaining dominant while the online channel is developing rapidly. Among the offline channels, electronics and appliance specialist retailers remain to be the largest and consistently favored by consumers because of their outstanding services. Market shares of sales through electronics and appliance specialist retailers, in terms of retail volume, has diminished from 48.2% in 2017 to 45.8% in 2019 due to the fast development of online channels, and the revolutions in traditional retail business model and the integration of online and offline sales channels has further strengthened the growth potential of online channels. With a CAGR of nearly 8.7% from 2017 to 2019, online e-commerce channels has become one of the fastest-

growing channels in recent years in terms of retail volume, with its market share increased from 16.5% in 2017 to 19.1% in 2019.

In China, The online channel is expected to grow rapidly, taking advantage of new marketing tools such as short videos and streamings, and capitalising on the emerging opportunities for e-commerce channels in township and rural areas, so as to realise better integration with offline channels, and to improve the efficiency for the entire sales channel of major home appliances in China.

Figure3. 2019 Global Major Home Appliances Market (retail volume), breakdown by channel



Source: Euromonitor Report, PSHK

**Company profile**

Haier Smart Home Co., LTD. (formerly known as "Qingdao Haier"), headquartered in Qingdao, China, is a smart home ecological brand that customizes better life solutions for global users. The Company mainly engages in the research, development, production and sales of smart home appliances such as refrigerators/freezers, washing machines, air conditioners, water heaters, kitchen appliances, small home appliances and smart home scene solutions. Through a rich portfolio of product, brand and solutions, the Company creates a full scene of intelligent life experience to meet the needs of users to customize a better life. Founded in the 1980s, the Company was listed on Shanghai Stock Exchange (600690) in 1993 and Frankfurt Exchange (690D) in 2018, respectively.

Since its establishment, the Company has been sticking to the operation philosophy of "taking users as the right, taking oneself as the wrong", adhering to the corporate values of "people-oriented, anything is born from nothing ", and constantly adapting to the development of eras through entrepreneurship and innovation. In overseas market, the Company has always adhered to its independent brand creation strategy. Through its continuous cultivation and merger and acquisition, it has successively acquired the white goods business of Sanyo of Japan, the household appliance business of GEA, Fisher & Paykel Company in New Zealand, Candy Company in Italian, and held 48.41% equity interest of MABE in Mexico. Furthermore, the Company also has built the local market competitiveness of 3-in-1 layout in respect of "R&D, manufacturing and marketing". Through continuously optimizing the resource integration and platform sharing and exerting the advantage of global strategic synergies, the Company achieves the layout and global operation of the seven world-class brands, including Haier, Casarte, Leader, GE Appliances, Fisher & Paykel, AQUA and Candy. In 2019, revenue from overseas operation represented 47% of the total revenue while near 100% of it was generated from self-owned brands. Oversea business covers five continents, namely Asia, Europe, America, Australia and Africa, providing comprehensive home appliance products and home scenario solutions for hundreds of millions of users worldwide.

Figure 4. Key Milestones



Source: Company website, PSHK

Table 1. Haier's brand

	<ul style="list-style-type: none"> <li>-World famous brand name</li> <li>-Products cover all categories and all price ranges</li> <li>-Core brands entering overseas markets</li> </ul>
	<ul style="list-style-type: none"> <li>-The world's leading home and kitchen appliance brand</li> <li>-The No. 1 kitchen appliance brand in North America</li> <li>-Product coverage of all categories: adhering to the human-centered design concept</li> </ul>
<b>FISHER &amp; PAYKEL</b>	<ul style="list-style-type: none"> <li>-New Zealand National Treasure Brand</li> <li>-The world's top luxury kitchen appliance brand</li> <li>-Focus on the social kitchen concept</li> </ul>
	<ul style="list-style-type: none"> <li>-A well-known home appliance brand acquired from Sanyo</li> <li>-Wide recognition of the Japanese and Southeast Asian markets</li> </ul>
<b>Casarte</b>	<ul style="list-style-type: none"> <li>-Own high-end brands in the Chinese market</li> <li>-Market leader in high-end white goods</li> <li>-Integrating European and American style artistic design concepts</li> </ul>
	<ul style="list-style-type: none"> <li>-Advocate of light fashion appliances</li> <li>-Products cover all categories, focusing on the young market</li> <li>-Focus on smart and minimalist design concepts</li> </ul>
	<ul style="list-style-type: none"> <li>-Famous Italian brand</li> <li>-Europe's first brand to introduce smart home appliances</li> <li>-European smart home appliance market occupancy rate</li> </ul>

Source: Company website, PSHK

The Company's business are divided into the following three business segments:

1) Smart home business in China: supported by its comprehensive portfolio of home appliances and our online Haier Smart Home App, as supplemented by offline experience stores, it provides smart home solutions, which combine smart home appliances with value-added services, to meet users' needs in different scenarios in life. Based on different user lifestyle scenarios, it's smart home business can be categorised into four different solutions: (i) Internet of Food solutions, centring on it's refrigeration appliances and kitchen appliances; (ii) Internet of Air solutions, centring on it's air-conditioners; (iii) Internet of Clothing solutions, centring on it's laundry appliances; and (iv) Internet of Water solutions, centring on it's water appliances.

2) Smart home business overseas: The Company started our business in China, and expanded it's footprint globally over the years. As at the Latest Practicable Date, in addition to it's Chinese market, it provides a comprehensive portfolio of home

appliance products and value-added services in more than 160 countries and regions including North America, Europe, South Asia and Southeast Asia, Australia, New Zealand, Japan, Middle East and Africa.

3) Other businesses: based on it's established capability of home appliance and smart home business, it also developed other businesses such as parts and components, small home appliances and distribution services.

## Investment Highlights

### The Company has maintained a leading position in the world

The Company pursue a global multi-brand strategy featuring our seven home appliance brands: Haier, Casarte, Leader, GE Appliances, Candy, Fisher & Paykel and AQUA. Our brand portfolio is strategically deployed across our markets to ensure broad and in-depth user coverage through its usercentred, global differentiated multi-brand operations. We combine our self-grown brands from our China operations, such as Haier, Casarte and Leader, with its acquired brands, such as GE Appliances, Candy, Fisher&Paykel and AQUA, in key markets in order to grow global market share across different consumer groups.

According to Euromonitor, the Company has ranked first among major appliance companies worldwide, in terms of retail volume, for nine consecutive years from 2011 to 2019, and Haier brand has ranked first among major home appliances brands worldwide, in terms of retail volume, for 11 consecutive years from 2009 to 2019. According to Euromonitor, in 2019, our global market share in terms of retail volume was 14.7%. In terms of the brand's competitive landscape, among all major global home appliance brands, the Haier brand has consistently ranked first in 2017, 2018 and 2019. The market share in 2017, 2018 and 2019 has shown an upward trend, respectively. They are 10.2%, 10.6% and 10.7%.

Table 2. Global Major Home Appliance Market Ranking, by Brand

	2017		2018		2019	
	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share	Retail Volume (million units)	Market Share
Haier	71.3	10.2%	74.9	10.6%	75.8	10.7%
Brand 1	43.9	6.3%	45.1	6.4%	50.5	7.1%
Brand 2	37.8	5.4%	39.2	5.6%	40.2	5.6%
Brand 3	32.2	4.6%	32.9	4.7%	33.4	4.7%
Brand 4	33.9	4.9%	34.2	4.8%	30.2	4.2%
Others	477.3	68.6%	479.3	67.9%	481.9	67.7%
<b>Total</b>	<b>696.4</b>	<b>100.0%</b>	<b>705.6</b>	<b>100.0%</b>	<b>712.0</b>	<b>100.0%</b>

Source: Company data, PSHK

In the Chinese market, the Company maintains a leading market position in the Chinese home appliance market. According to Euromonitor, from 2011 to 2019, the Company's retail sales of major appliances ranked 1<sup>st</sup> among Chinese home appliance companies.

Table 3. Retail Volume ranking and market share of overseas markets in respect of major home appliances in 2019

Region	Retail volume ranking in 2019	Retail volume market share in 2019	Retail volume market share increases in 2019 compared with that in 2017
Asia	First	18.6%	0.5 percentage point
North America	Second	22.0%	2.1 percentage points
Australia and New Zealand	Second	13.4%	0.6 percentage point
Middle East and Africa	Third	8.4%	0.7 percentage point
Europe	Fifth	7.2%	4.8 percentage points

Source: Company data, PSHK

Table 4. Retail Volume ranking and market share of Haier's products in China in 2019

Category	Retail volume ranking	Retail volume market share	Total retail volume market share of the top three in the industry
Refrigeration appliances	First	42.0%	68.1%
Laundry appliances	First	43.9%	78.4%
Water heaters	First	22.0%	52.1%
Major kitchen appliances	Third	9.0%	35.2%
Air-conditioners	Third	12.0%	68.5%

Source: Company data, PSHK



### **Casarte benefits the consumption upgrade trend for high-end brands**

Currently the trend is transformation towards the high-end: Consumers are increasingly in pursuit of healthier lifestyle and demanding revolutionary of product designs for major home appliances. To address consumer's preferences, home appliance companies continue to launch new products with improved functions, leading to product premiumisation. In addition, consumers' increasing awareness for the environmental protection and the increasingly stringent regulations drive home appliances companies to launch more environmental-friendly products.

The Company started to build a high-end brand Casarte in the Chinese market in 2006. In addition to focus, experience and patience, the creation of high-end brands also requires the technical ability for continuous innovation and differentiated service, so as to meet users' demand for high-quality experience. By combining our technical strengths, product development ability, manufacturing techniques and other advantages in the world as well as specialised marketing and differentiated services, our Casarte brand has gradually gained the trust of users in China's high-end market. According to publicly available information, for the six months ended 30 June 2020, Casarte has established absolute leadership in China's high-end home appliance market, and ranked first in terms of the retail volume of refrigeration appliances, laundry appliances and air-conditioners in China's high-end market. Among which, in terms of offline retail volumes, the share of the Casarte laundry appliances, refrigerators category in China's market above RMB10,000 reached 68%, 38%, and the share of the air-conditioners category in Chinese market above RMB15,000 reached 28%. The offline market average price of refrigerators, air conditioners and washing machines has reached approximately two to three times the industry average price.

At present, Casarte has achieved development from single product to full-suite solutions and has the capability of providing users with a diversified product portfolio. During the Track Record Period, based on consolidating and improving revenue contributions from refrigeration appliances and laundry appliances, the percentage of revenue contributed by Casarte air-conditioners, water heaters and kitchen appliances also continued to increase.

### **Superior R&D capabilities promote continuous product leadership**

The Company has established a leading global R&D innovation system. The Company has established 10 R&D centers around the world, forming a global R&D resource network. On this basis, the Company independently built the Haier Open Partnership System (HOPE platform). The HOPE platform has gathered more than 13,000 certified experts, more than 150,000 users, more than 10,000 cooperative enterprises and other external innovation resources, so that they can participate in them. User-centric iterative R&D process. Since its establishment, the HOPE platform has supported Haier's product R&D teams to create many innovative and best-selling products. According to the value-sharing mechanism, external innovative resources such as participating certified experts can also share value from it.

As at 30 June 2020, the projects the Company led had been awarded 13 National Science and Technology Awards, making the Company leading home appliance provider that has been granted the greatest number of such awards in the industry since 2000, accounting for more than half of the all the awards granted to enterprises in the home appliance industry. The Company has applied for more than 57,000 patents worldwide in more than 28 countries and regions, including more than 32,000 invention patents and more than 11,000 overseas invention patents. As at 30 June 2020, as the main operating body of Haier Group for white goods business, the Company participated in the development or amendment of 61 international standards and 500 national-industry standards. The Company are seated in and connected to a total of 101 international standards associations in the world, undertaking the work for the secretariat unit of four national subcommittees including

smart home appliances and one international standardisation subcommittee. In addition, the Company took part in the work for the national technological standard innovation base (home appliances).

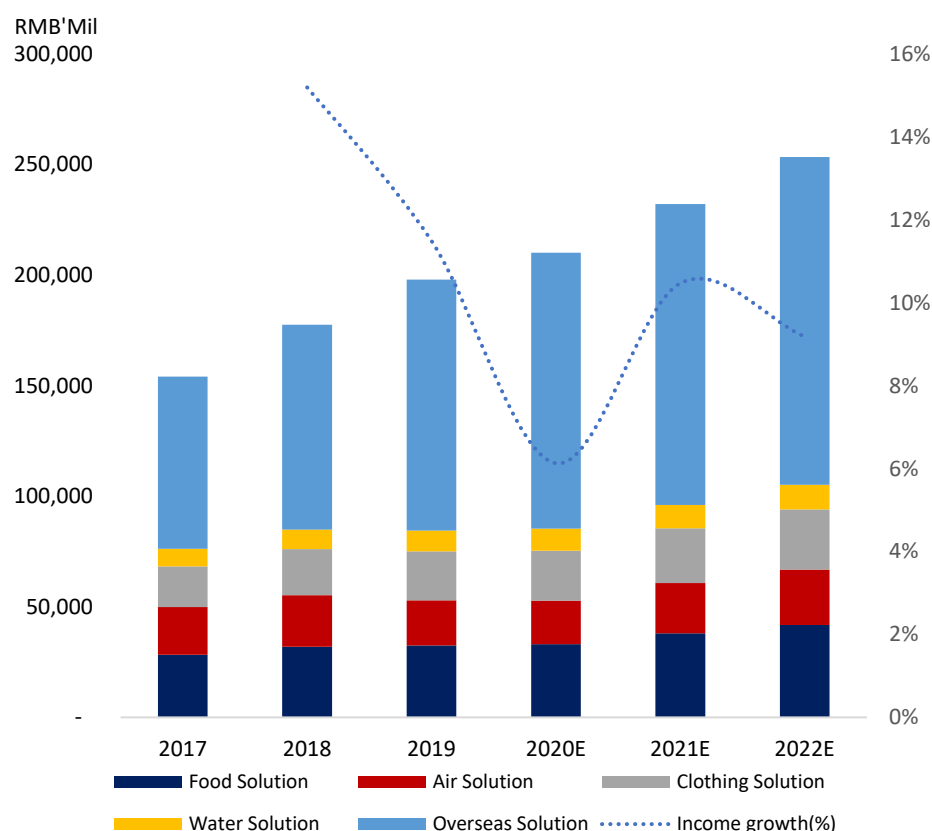
## Financial Analysis

### Revenue analysis

The Company's revenue is mainly divided into 4 parts, including 1) Food Solutions, 2) Air solutions, 3) Clothing solutions, 4) Water solutions and 5) Overseas and other businesses. Among them, the Company's 2017/2018/2019 food solution revenue was RMB 28.4/31.9/32.6 billion, accounting for 18.4%/18.0%/16.5% of the total revenue, and the average annual compound growth rate was 7.2%. We expect the Company's 2020/2021/2022 food solutions segment revenue to be RMB33.1/38.0/41.8 billion, an increase of 2%/15%/10% year-on-year. The Company's 2017/2018/2019 air solutions segment revenues were RMB 21.6/23.4/20.4 billion, accounting for 14.0%/13.2%/10.3% of total revenue, respectively, with an average annual compound growth rate of negative 2.8%. We expect that the Company's 2020/2021/2022 air network solution revenue will be RMB 19.8/22.7/25.0 billion, an increase of -4%/+15%/+10% year-on-year. The Company's 2017/2018/2019 clothing solution revenue was RMB 18.4/20.9/22.1 billion, accounting for 11.9%/11.7%/11.2% of total revenue, respectively. We expect the Company's 2020/2021/2022 clothing solution revenue will be RMB22.6/24.8/27.3 billion, an increase of 2%/10%/10% year-on-year. The Company's revenue from water solutions in 2017/2018/2019 was RMB 7.9/8.8/9.5 billion, accounting for 18.4%/18.0%/16.5% of total revenue, with an average annual compound growth rate of 9.56%. We expect the Company's 2020/2021/2022 water solutions segment revenue to be RMB 9.9/10.6/11.1 billion, an increase of 5%/6%/5% year-on-year. The Company's 2017/2018/2019 overseas smart home business and other business revenues were RMB 77.9/92.6/113.4 billion, accounting for 50.5%/52.1%/57.3% of total revenue, respectively, with an average annual compound growth rate of 20.67%. We expect the Company's 2020/2021/2022 overseas smart home business and other business segment revenues to be RMB 124.8/136.0/148.3 billion, respectively, up 10%/9%/9% year-on-year.

All in all, due to the impact of the new coronavirus in the supply chain in the first half of 2020, revenue fell by 1.59% year-on-year. However, with the recovery of the supply chain and the advent of different holidays (such as Double Eleven, Thanksgiving, etc.), we expect the second half of the year Income will resume growth. In addition, the Company will transition to the high-end trend, and high-end brands such as Casarte will show a clear growth trend. We expect the Company's forecasted total revenue for 2020/2021/2022 to be RMB 210.2/232.2/253.5 billion, respectively. The year-on-year growth was 6.1%/10.5%/9.2% respectively.

Figure5. Company income and forecast



Source: Company reports, PSHK

Table5. the Company Revenue segment

	2017	2018	2019	2020E	2021E	2022E
Food solution	28,356	31,909	32,573	33,062	38,021	41,823
Air solution	21,555	23,420	20,366	19,755	22,718	24,990
Clothing solution	18,421	20,853	22,113	22,555	24,811	27,292
Water solution	7,932	8,812	9,521	9,997	10,597	11,127
Overseas solution	77,901	92,600	113,433	124,776	136,006	148,247
	154,165	177,594	198,006	210,145	232,153	253,478

Source: Company reports, PSHK

### Costs and expenses analysis

The main cost of the Company is the cost of sales, and the main expenses are sales and marketing expenses, and general and administrative expenses. In 2019, they were RMB 139.3/33.8/17.2 billion, accounting for 70.4%/17%/9% of revenue. In terms of gross profit, the brand Casarte would contribute more. We expect the Company's gross profit margin to be 29.0%/29.5%/29.7% in 2020-2022. We believe that the ratio of sales and marketing expenses and general and administrative expenses of revenue will slightly decrease because of brand consolidation. Based on the above, we estimate that the operating costs of the Company in 2020-2022 will be RMB 114.2/126.4/136.4 billion.

### Valuation

As of the closing price on Jan 22, the Company's trailing P/E was 39.58x. We believe that based on the Company's sound fundamentals and its brand advantage. We give the Company a target price to earnings ratio of 25.0x in 2022.

We expect the Company's 2020/2021/2022 earnings per share to be RMB\$ 0.83/1.01/1.35, and 24 months target price of HK\$40.00, corresponding to the P/E

ratio of the earnings per share for 2020/2021/2022 is 41.1x/33.7x/25.00x. Accumulate rating is given for the first coverage. (Current price as at 22 January 2021)

### Peer comparison

Company	Stock code	Closing Price	Market Cap	P/E			P/B		
				TTM	2020	2021	TTM	2020	2021
(listed currency) (million RMB)									
美的集团	000333 ch equity	100.10	707,019	27.9x	27.5x	23.8x	6.3x	6.0x	5.2x
格力电器	000651 ch equity	61.36	362,327	22.2x	18.6x	14.3x	3.1x	3.0x	2.7x
海尔智家	600690 ch equity	34.00	293,369	33.3x	30.4x	24.7x	4.5x	4.5x	4.1x
老板电器	002508 ch equity	42.99	38,749	23.8x	22.6x	19.8x	5.2x	4.8x	4.1x
JS环球生活	1691 hk equity	19.00	55,736	64.9x	30.5x	23.7x	6.5x	7.0x	5.6x
<b>Average</b>				<b>34.4x</b>	<b>25.9x</b>	<b>21.3x</b>	<b>5.1x</b>	<b>5.1x</b>	<b>4.4x</b>
<b>Median</b>				<b>27.9x</b>	<b>27.5x</b>	<b>23.7x</b>	<b>5.2x</b>	<b>4.8x</b>	<b>4.1x</b>

Closing price as of 21 January 2021

Source: Bloomberg, PSHK

### Risks

- 1) The Company's sales volume fell short of expectations
- 2) Another outbreak of the epidemic impacts production and sales
- 3) The global economic development is not as expected

## Financial statements

### Key financial data

FYE DEC	FY18	FY19	FY20E	FY21E	FY22E
<b>Valuation Ratio</b>					
P/E ratio	36.29	33.10	36.45	29.93	22.21
P/B ratio	7.05	6.00	6.06	4.98	4.32
<b>Per share data (RMB)</b>					
EPS	0.83	0.91	0.83	1.01	1.35
Book value per share	5.04	5.92	5.86	7.13	8.22
<b>Growth &amp; Margin</b>					
Revenue growth	15%	11%	6%	10%	9%
Net profit growth	8%	10%	-9%	22%	35%
Net profit margin	4%	4%	4%	4%	5%
Gross profit margin	29%	30%	29%	30%	30%
<b>Key Ratios</b>					
ROE	16.5%	15.4%	14.1%	14.1%	16.5%
ROA	7.9%	8.6%	8.2%	8.8%	9.0%

Closing price as at 22 January 2021

Source: Company data, PSHK

### Consolidated Statement of Profit or Loss and Other Comprehensive income

(RMB' in million)

Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E
Fiscal year end date	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Revenue	154,165	177,594	198,006	210,145	232,153	253,478
Cost of Sales	(104,001)	(125,415)	(139,393)	(149,203)	(163,668)	(178,195)
<b>Gross Profit</b>	<b>50,164</b>	<b>52,179</b>	<b>58,613</b>	<b>60,942</b>	<b>68,485</b>	<b>75,283</b>
Other gains or losses	2,228	2,389	3,324	2,647	2,787	2,919
Selling and distribution expenses	(29,979)	(29,076)	(33,843)	(35,077)	(37,822)	(39,269)
Administrative expenses	(11,994)	(14,027)	(17,165)	(18,217)	(20,125)	(21,799)
Finance costs	(1,396)	(1,464)	(1,732)	(1,531)	(1,576)	(1,613)
Share of profits and losses of associates	1,189	1,325	1,409	1,308	1,347	1,355
Profit before income tax	10,212	11,326	10,606	10,072	13,096	16,876
Income tax benefits (expenses)	(1,421)	(1,793)	(1,584)	(1,581)	(2,056)	(2,650)
Profit for the year from continuing operations	8,791	9,533	9,022	8,490	11,040	14,227
Discontinued operation						
Profit for the year from a discontinued operation	353	367	3,313	831	-	-
Profit for the year	9,144	9,900	12,335	9,321	11,040	14,227
Less Minority interests	(2,200)	(2,416)	(4,129)	(1,869)	(1,965)	(2,000)
<b>Profit for the year attributable to owners of the Company</b>	<b>6,944</b>	<b>7,484</b>	<b>8,206</b>	<b>7,452</b>	<b>9,075</b>	<b>12,227</b>

Source: Company data, PSHK



**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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