

## Home Appliance - China

## Expert call takeaways: 2024 to be a year of flattish growth

## Industry Overview

We recently hosted calls with the home appliance data vendor China AVC. We present our key takeaways below. Please note the takeaways below are based on the expert's view.

**2024 – a flattish year, largely driven by ASP**

The expert expects home appliance sales value to grow 0.6% YoY in 2024, by taking a conservative view, given the property completion downcycle and weak macro. AVC expects property completion to be 5.85mn (-10% from 6.5mn in 2023), and second-hand sales to be 3.5mn (+9% from 3.2mn in 2023) in 2024. ASP is likely to grow by LSD% in 2024 for air-con and washing machines, flat for fridges, and decline for small appliances. Volume is expected to be flattish or declining. AVC expects commodity costs to serve as a base for price competition for small home appliances, but the washing machine and fridge industries enjoy rational competition by focusing on mix upgrades, and are thus less likely to see price competition. By category, AVC estimates sales growth of TVs at +2.5%, fridges at +0.9%, and washing-related at +4.4%, but forecasts air-con at -1.5% and kitchen appliances at -1.7% on a high base.

**2023 – rebounded, but below expectation**

Overall retail sales: Home appliance retail sales were up 3.6% YoY to c.RMB855bn in 2023 off a low base (-5% in 2022), but still below AVC's expectation, largely due to 3Q weakness and the below-expectations 4Q rebound.

By categories, positive growth was reported in segments including air-con (+7.5%; on channel restocking and favorable weather during summer), fridge (+7%; on mix upgrade, but volume was lower YoY, given COVID beneficiary), washing machine (+5.8%; on integrated dryers), major kitchen appliances (+5.6%; delayed benefit from completion) and cleaning appliances (+6.8% thanks to strong product innovation and upgrading)]. However, the sales value of TVs (-2.3%; on lower volume, but supported by the panel price hike), integrated stoves (-4%; given demand slowdown) and small kitchen appliances (-9.6%; on the absence of new product launches) declined YoY.

Key trends observed: 1) Market continues to observe a K-shape consumption trend, with rising demand for both premium and value-for-money products; 2) AVC sees balanced growth of online vs offline channels with more integrations; 3) further channel fragmentation, both online and offline; 4) Shopping holidays became less important with smoothed sales pattern throughout the year.

**Export market to be 1H-loaded in 2024**

The export market in 2023 saw a mix upgrade with stabilized pricing. Thanks to higher ASPs, easing commodity costs, favorable FX and normalizing logistic costs, AVC expects profitability to meaningfully improve for home appliance exports. Compared with 2023, the expert believes 2024 export growth to be front-loaded in 1H.

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**Chen Luo, CFA** >>  
Research Analyst  
Merrill Lynch (Hong Kong)  
+852 3508 2009  
[chen.luo@bofa.com](mailto:chen.luo@bofa.com)

**Lucy Yu** >>  
Research Analyst  
Merrill Lynch (Singapore)  
+65 6678 0417  
[lucy.yu@bofa.com](mailto:lucy.yu@bofa.com)

ASP: average selling price

LSD: low single digit

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## Comments on major brands

**Haier:** Haier's air-con has gained market share in 2023 from mid-end players, with improving profitability. AVC believes Haier's air-con might be able to further gain share with its production capacity release and integration with upstream compressor manufacturing. The fridge business also grew steadily. The washing machine segment lagged overall growth amid rising penetration, and further led to Casarte's slower growth. Overseas has been a meaningful contributor to Haier's growth, but whether such growth could be sustained remains to be seen in 2024.

**Gree:** Topline recovery could be subject to risk in the near term, given its high exposure to air-cons. However, AVC believes that margin should improve, given cost and expense optimization.

**Hisense:** Profit margin improvement should remain the key earnings driver in 2024, but to a lesser extent than in 2023, due to fading tailwinds from falling commodity costs.

**Robam:** Robam suffered from account receivables impairment during 2021-23. Traditional large kitchen appliances see limited room for further upgrading, and are highly correlated with property cycles. New growth drivers may come from potential market share gain by sub-brands in low-tiered cities, aided by Robam's brand equity.

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