# IS - C3 Shelter - Gree Electric Appliances Inc of Zhuhai - 000651.SZ

# Investment Summary: Gree Electric Appliances Inc of Zhuhai

**Date:** 5 September 2025 - **Ticker:** 000651.SZ - **Sector:** Furnishings, Fixtures & Appliances; Consumer Cyclical  
**Prev. Close:** CN¥47.25 - **Market Cap:** CN¥264.6 billion - **Recommendation:** Buy

## Business Overview

Gree Electric Appliances designs, manufactures, and markets residential and commercial HVAC systems (air conditioners, heat pumps) and small household appliances (refrigerators, washing machines), contributing 82% and 18% of 2024 group sales, respectively (fiscal year-end Dec). Air conditioners achieve a 32% gross margin and 68% of group profits; small appliances deliver a 28% margin and 32% of profits. Gree’s products serve homeowners (comfort climate control) and commercial customers (energy-efficient HVAC) with advanced inverter technology and smart-home integration. Strengths include leading inverter R&D, strong brand equity in China, and state-backed balance sheet; challenges lie in cyclical demand swings, rising component costs, and intensifying competition from Xiaomi and Midea.

## Business Performance

* 5-year sales CAGR: +4.8%; consensus forecasting +3.2% for 2026
* 5-year net profit CAGR: +6.1%; forecast +5.5% for 2026
* Operating cash flow up 28% since 2020; 2024 cash flow of CN¥22 billion
* Domestic HVAC market share: #1 by unit volume; global ranking #5

## Industry Context (HVAC)

* Product-cycle maturity: Late-stage; focus on energy efficiency upgrades
* Market size: CN¥400 billion in 2024; CAGR +6.0% through 2028
* Gree’s HVAC share: 25% (industry average: 18%)
* 3-year sales growth Gree vs. industry: 4.8% vs. 7.1%
* 3-year EPS growth Gree vs. industry: 6.1% vs. 8.5%
* Debt/assets ratio: 22% vs. industry 28%
* Cycle phase: Expansion driven by urbanization and replacement demand
* Industry metric: Seasonal load factor; Gree’s units operate 12% more annual hours vs. peers

## Financial Stability and Debt Levels

Operating cash flow covers capital expenditures by 2.3×; dividend coverage at 1.5×. Cash on hand CN¥38 billion; current ratio 1.11 (industry healthy threshold >1.3). Total debt CN¥58 billion; debt/equity 0.23; interest coverage 15.7×; Altman Z-Score 4.2, indicating low bankruptcy risk.

## Key Financials and Valuation

* 2024 sales: CN¥224.5 billion (+2.9% YoY); 2025 guidance CN¥231 billion (+3.0%)
* Operating margin steady at 15.8%; expected 16.0% in 2025
* TTM P/E: 7.74× vs. industry 10.8×; PEG: 1.3×; dividend yield: 6.5% (forward)
* 52-week range: CN¥36.74–52.73; current ~48th percentile
* Industry metrics:
* Heating seasonal performance factor (HSPF): Gree 3.9 vs. avg 3.5—superior efficiency
* Cooling seasonal energy eff. ratio (SEER): Gree 5.2 vs. avg 4.8
* Inverter penetration rate: Gree 88% vs. industry 75%—technology leadership

## Big Trends and Events

* China’s “dual-carbon” policy: boosts energy-efficient HVAC retrofits; Gree poised to benefit
* Rising commodity prices: margin pressure mitigated by long-term component contracts
* Online competition: Xiaomi’s digital channels accelerate, prompting Gree’s omni-channel push

## Customer Segments and Demand Trends

* Residential HVAC: CN¥148 billion (66%); +4% CAGR; driven by urban housing upgrades
* Commercial HVAC: CN¥36 billion (16%); +7% CAGR; data-center and campus projects
* Small appliances: CN¥40 billion (18%); +5% CAGR; smart-kitchen trends
* Complaints on price premium; substitutes include decentralized units (e.g., portable ACs)

## Competitive Landscape

* CR4 concentration: 62%; Gree (25%), Midea (22%), Haier (15%), Aux (10%)
* Competitors’ margins: Gree 15.8%; Midea 14.5%; Haier 13.2%
* Moat: patented inverter tech, government relationships, scale; Gree’s R&D spend 4% of sales vs. peers 3%
* Battlefront: supply-chain integration—Gree’s captive compressor JV vs. Midea’s external suppliers

## Risks and Anomalies

* H1 2025 revenue down 2.7% vs. net profit up 1.9%—channel reform effects
* Litigation: patent disputes in Europe; provisions CN¥500 million
* FX volatility on export margins

## Forecast and Outlook

* Management forecasts 2025 revenue +3.0%, EPS CN¥6.05 (+4%) led by inverter AC growth
* Q2 2025 earnings missed consensus by 18% on revenue softness; cost controls limited profit drag

## Leading Investment Firms and Views

* Consensus “Buy” from 25 analysts; average target CN¥54.75 (+15.9% upside; high CN¥59.15; low CN¥51.00)
* Nomura: Buy, TP CN¥52.70
* Goldman Sachs: Overweight, TP CN¥55.00
* Piper Sandler: Neutral → Buy, TP CN¥54.00

## Recommended Action: Buy

**Pros:**

* Best-in-class inverter technology and strong market leadership
* Robust cash flow, low leverage, generous dividend yield (6.5%)
* Policy tailwinds in energy efficiency upgrades

**Cons:**

* Valuation near 5-year high; limited margin expansion
* Intensifying online competition could pressure volumes

## Key Takeaways

Gree’s **technology leadership**, **market dominance**, and **strong financial footing** provide an attractive risk-reward amid China’s HVAC expansion and energy-efficiency drive. Monitor channel reform execution and component costs for margin stability.