China Consumer Durables

Revising white goods earnings amid coronavirus; consolidation opportunity for leaders; Buy Gree (on CL)

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We cut our China white goods coverage earnings forecasts 5%-14% in 2020E-21E to reflect our expectation of slower revenue growth in 1H20 amid the COVID-19 outbreak and margin pressure from potential pricing competition in AC during 2Q20.

On the supply side, we expect a significant but manageable impact on white goods production in areas including labor supply, upstream vendors and logistics, primarily in 1Q20. Although our coverage companies' direct exposure to Hubei is limited, government's measures to contain the spread of the virus have made it difficult for factories to resume full production capacity. As a result, we expect such measures to cause total white goods production to decline by 20%-30% in 1Q20 with most impact on domestic orders. While we take no view on how the current outbreak develops in the future, based on current information we expect production to return to normal levels in 2Q20.

On the demand side, we are generally positive about a recovery in 2H20 as it is supported by a two-year property completion cycle starting from 4Q19. In our view, property-related demand is likely to be delayed but will not disappear. That said, we are cautious about the impact from a possible decline in disposable income. Demand could be fundamentally impaired if there is a prolonged impact on disposable income growth. Competition in AC will be a major focus for white goods in 2Q20 as both Gree and Midea are seeking to gain more market share through more pricing promotion. This is likely to put margin pressure on the industry but also provide an opportunity of faster market consolidation for leaders.

We highlight Gree (Buy, on CL) as our top pick in China white goods. We believe the company is among the best positioned to weather current industry difficulties and benefit from any potential demand recovery as well as market consolidation opportunity. We expect management to adopt a more proactive pricing strategy and balanced channel strategy focusing on the online channel, which will result in market share gain and margin expansion once demand recovers. Haier Electronics (Buy, on CL) is also one of our preferred names due to its consistent market share gain in washing machine and water heater markets and attractive valuation.

Manageable supply risk; demand risk hinges on impact from disposable income

Production disrupted in 1Q20, yet recovering gradually

We expect a significant but manageable impact on white goods production in areas including labor supply, upstream vendors and logistics in 1Q20 due to disruption from coronavirus outbreak. The direct Hubei production exposure of our covered white goods companies is generally limited (less than 10% based on our estimates). However, government measures to contain the virus outbreak have created difficulty for migrant workers returning to factories, goods transportation, etc. As a result, we expect such measures to cause total white goods production to decline by 20%-30% in 1Q20. As the situation improves, labor supply and logistics have been gradually improving. While we take no view on how the current outbreak develops in the future, based on current information we expect production to return to normal levels in 2Q20.

Direct production exposure to Hubei is limited. The direct production exposure to Hubei for our white goods coverage amounts to less than 10% based on our estimates. Out of all the five white goods companies we cover, Midea and Haier Smart Home have relatively higher production exposure, each with two factories located in Hubei. That said, most of these companies have nation-wide manufacturing facilities and thus can leverage alternative manufacturing capacities to make up given generally lower production capacity utilization in 1Q.

Exhibit 1: Direct production exposure to Hubei is limited (less than 10% based on our estimates)
Production and revenue exposure to Hubei for our covered companies

	Production			Revenue
	Subsidiary	Rev (mn)	Rev %	Hubei %
White goods				
Gree	格力电器（武汉）有限公司 Gree Electric (Wuhan) Co., Ltd.	13,786.2	6.9%	n/a
	武汉凌达压缩机有限公司 Wuhan Landa Compressor Co., Ltd. 格力暖通制冷设备（武汉）有限公司 Gree HVAC Equipment (Wuhan) Co., Ltd. 格力智能装备（武汉）有限公司 Gree Intelligent Equipment (Wuhan) Co., Ltd. 格力精密模具（武汉）有限公司 Gree Precision Mould (Wuhan) Co., Ltd.	n/a	n/a	n/a
Midea	美的集团武汉制冷设备有限公司 Midea Group Wuhan Refrigeration Equipment Co., Ltd. 湖北美的电冰箱有限公司 Hubei Midea Refrigerator Co., Ltd.	n/a	< 20% AC capacity c.40% fridge capacity	n/a
Haier Smart Home	武汉海尔电器股份有限公司 Wuhan Haier Electric Co., Ltd.	2,251.0	1.2% (c.30% of AC capacity)	n/a
	武汉海尔电冰柜有限公司 Wuhan Haier Electric Freezer Co., Ltd. 武汉海尔能源动力有限公司 Wuhan Haier Energy Power Co., Ltd.	n/a	< 15% of freezer capacity n/a	n/a
Haier Electronics	武汉海尔热水器有限公司 Wuhan Haier Water Heater Co., Ltd. 青岛日日顺武汉物流公司 Qingdao Riri Shun Wuhan Logistics Company	n/a	c.15% of water heater capacity n/a	n/a
Hisense	武汉长荣（特定第三方） Wuhan Changrong (specific third party)	n/a	n/a	n/a

Source: Company data, Gao Hua Securities Research

Migrant workers gradually returned to work while labor gap remains. Since

February 10, our covered white goods companies have gradually resumed production except in Hubei. Some companies have used chartered buses and sometimes planes to take employees back to work. Based on information released by the companies, industry leaders such as Midea, Gree and Haier have resumed 70% of their production. However, as government control on people migration persists, there is still a labor supply shortage. According to an article by Caixin, up to February 26, Midea had c.30,000 employees in Shunde, its headquarters, yet still had a labor gap of c.7,000 workers. Further resumption of labor supply hinges on the development of the outbreak and government controls on people migration.

Exhibit 2: Production has gradually resumed; over 70% for leading companies
Production resumption date and return rate

	Resume production since	Latest update
Air conditioner		
Gree	10-Feb (except Hubei)	70% resumed (21-Feb)
Midea	10-Feb (except Hubei)	70% resumed (26-Feb)
Haier	10-Feb (except Hubei)	90% resumed (26-Feb)
Hisense	10-Feb	
Washing machine		
Haier (Qingdao)	10-Feb	80% capacity (26-Feb)
Midea	10-Feb	70% resumed (26-Feb)

Source: IOL, Company news

Supply chain risk tilted toward small vendors. Production of white goods involves a large number of upstream vendors. Key suppliers such as GMCC, Landa and Sanhua have already resumed production since February 10. The direct exposure to Hubei of such suppliers is also limited. Compared to these large vendors, small vendors are more vulnerable to labor shortages and cash flow pressure. According to Caixin, a lot of small vendors have not resumed operation due to labor shortages. We note that the government has begun to issue labor and credit policy support for SMEs. However, if such policies fail to help small vendors weather the outbreak in the next 1-2 months, it may take a longer time for white goods companies to fully recover production.

Exhibit 3: Key suppliers have started to resume operation
Production resumption date and manufacturing facilities locations for key suppliers

Company	Resume production since	Production sites
Compressor		
Landa (subsidiary of Gree)	10-Feb (except Hubei)	Chongqing, Zhuhai, Hefei, Zhengzhou, Wuhan
GMCC (subsidiary of Midea)	10-Feb	Guangdong, Anhui, Zhejiang
Highly	10-Feb	Hangzhou, Sichuan
Control valve		
Sanhua	10-Feb	Zhejiang

Source: IOL, Company data

Logistics are recovering. According to data compiled by DB Schenker, by the end of February, road transportation has recovered to 50% and 36% in Guangdong and Shandong, respectively, where most major white goods companies reside. While transportation controls still exist in certain regions, we expect such controls to be fully lifted in the next 1-2 months.

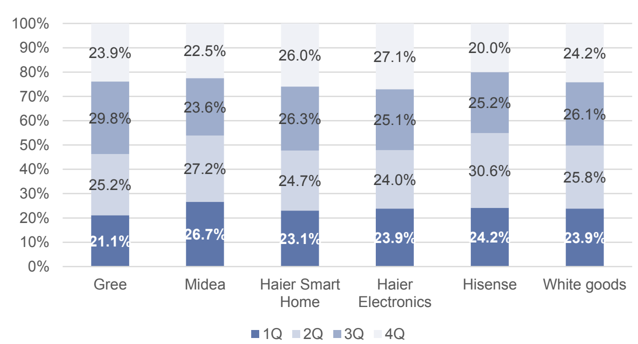
Exhibit 4: Logistics are recovering; c.40% recovered excluding Hubei
Vehicle transportation compared with 2019 as of 26-Feb

Province (City)	Vehicle transportation compared with 2019 (26-Feb)
Hubei	4%
Internal Hubei to Wuhan	8%
Guangxi, Inner Mongolia, Liaoning, Shanxi	70%
Jilin, Qinghai, Gansu, Shaanxi, Sichuan, Hunan, Hebei, Anhui, Guizhou	60%
Ningxia, Shanghai, Guangdong, Fujian, Tianjin, Yunnan, Beijing, Jiangxi	50%
Chongqing, Jiangsu, Henan, Zhejiang, Hainan, Heilongjiang	40%
Shandong	36%
Xinjiang	22%

Source: DB Schenker

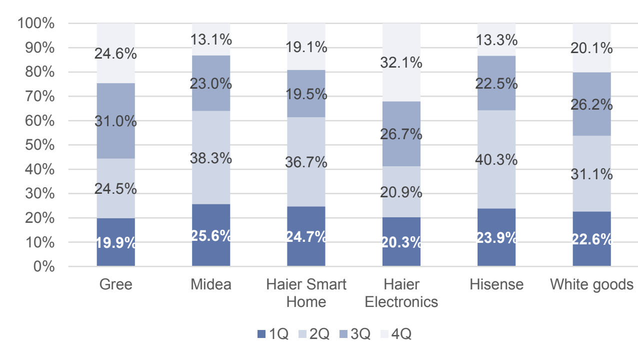
Adequate inventory, coupled with recovering supply, is likely to meet weaker 1Q demand. White goods distributors usually take 10%-20% more inventory ahead of Chinese New Year preparing for the one-week factory close. Based on our channel check, distributors currently have c. 1-2 months of inventory for washing machines and refrigerators. For AC, overall channel inventory is much higher with the majority from Gree's distributors. Given 1Q is usually a seasonally weak quarter, which has been further weakened by the virus outbreak, we believe current inventory level, coupled with recovering supply, will be able to meet 1Q demand.

Exhibit 5: 1Q accounts for 23.9% of annual revenue for our covered white goods companies...
Average quarterly revenue composition in 2014-18 for our coverage (%)



Source: Company data, Gao Hua Securities Research

Exhibit 6: ...and 22.6% of annual profit
Average quarterly net profits composition in 2014-18 for our coverage (%)



Source: Company data, Gao Hua Securities Research

Demand supported by property completion, uncertainty from income impact

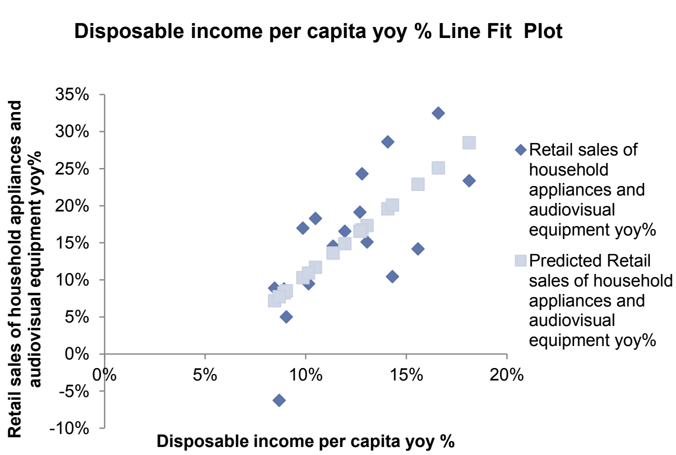
In our view, demand plays a more important role than supply in determining how white goods sales perform during the rest of 2020. As we stated in our previous report (*China consumer durables: assessing the impact of the virus outbreak*), demand for white goods is primarily driven by long-term factors such as housing and upgrading, which are correlated with property completion and disposable income. Our real estate team expects property completion to increase by a 20% CAGR in 2020-21. With the disruption from the coronavirus outbreak, completion in 2020 may be delayed for 1-2 months, but we expect limited impact in 2020-21. Compared to property completion, we think disposable income has a higher influence on upgrading demand. It is still uncertain how quickly the macro economy will recover from the disruption caused by the virus outbreak. However, it is possible that demand could be fundamentally impacted if there is a prolonged impact on the macro economy and disposable income growth.

As a result, we revise our demand volume growth forecast in 2020 (2021) for AC/washing machine/refrigerator from 6.4% (8.0%)/4.9% (3.9%)/3.6% (4.2%) to 5.6% (8.9%)/4.0% (4.2%)/2.9% (4.5%) to reflect the impact from the coronavirus outbreak in 2020 and fulfillment of potential pent-up demand in 2021.

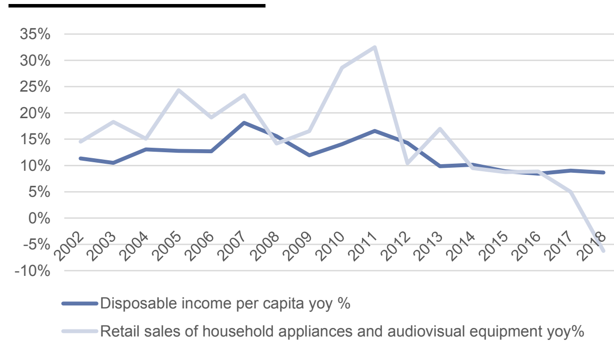
We expect demand to recover mildly in 2Q20 as customer traffic returns to normal level and brands begin to launch promotions. However, we do not expect the lost demand in 1Q20 to be fully recovered in 2Q20 as overall demand is still relatively weak. We expect a more meaningful recovery in 2H20 as the overall economy stabilizes. In the short term, we expect companies with diversified revenue sources, especially higher online exposure, to be less affected.

Demand could be fundamentally impacted in the case of s prolonged impact on disposable income growth. Historical data shows there was strong correlation between disposable income growth and appliances consumption growth until 2013. After 2013, the correlation began to weaken as appliances consumption grew at slower pace compared to disposable income growth. In our view, the likely reason for the decoupling is that the marginal propensity for appliances consumption declined after 2013 as major appliance penetration has reached a relatively high level in China. From a data perspective, it remains unclear how much appliance consumption will be impacted if disposable income declines. However, in the case of declining disposable income, we think consumers are likely to be more prudent in making purchase decisions as appliances are large ticket items and thus more discretionary in nature.

Exhibit 7: Regression shows retail sales of appliances is correlated with disposable income and the correlation is weakening since 2013
Regression results of retail sales of household appliances and audiovisual equipment growth on per capita disposable income growth



Regression Statistics	
Multiple R	0.69436
R Square	0.482136
Adjusted R Square	0.447611
Standard Error	0.068545
Observations	17

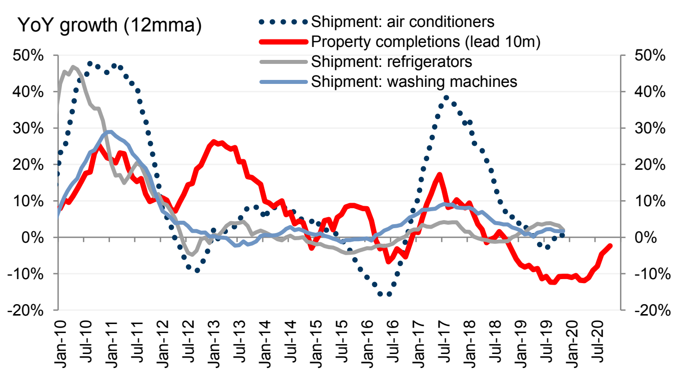


Source: NBS, Gao Hua Securities Research

Property-related demand is likely to be delayed rather than disappear. We expect increasing property completion to be a major demand driver in an earlier report (refer to *China consumer durables: A new cycle in sight*). According to NBS, residential property completions grew by 17% yoy in 4Q19, the strongest pace in the past two years. While there might be 1-2 month delay for property completion in 2020, our real estate team expect limited impact on completion growth in 2020-21. We expect such property completion increase to translate into demand for related products once the outbreak is controlled, assuming no significant change in macroeconomic conditions.

Exhibit 8: We expect increasing property completion to further boost sales of appliances in 2020

Correlation between growths of property completion and major appliances shipment



Source: NBS, IOL, Gao Hua Securities Research

Companies with higher online exposure are likely to recover first. The offline channel has been mostly severely impacted due to less foot traffic. In comparison, the online channel is the least impacted as some demand has shifted from offline to online despite the short-term issues of logistics and installation services. Revenue from the developer channel is likely to be postponed due to a delay in construction activities. The risk with sales in the overseas market, once considered a safe haven, has increased as the virus has spread outside China.

Exhibit 9: Companies with diversified sales channels are likely to be less affected
Channel and product breakdown of covered white goods companies

		Gree	Midea	Haier Smart Home	Haier Electronics	Hisense
Revenue exposure to new property related demand						
Re. property	Rev as %	14.6%	7.6%	6.2%	17.1%	17.3%
Revenue exposure to different channels						
Domestic	Rev as %	83.4%	59.6%	53.0%	97.0%	72.9%
Retail	Rev as %	81.1%	58.3%	52.6%	96.5%	67.4%
Offline	Rev as %	68.6%	40.4%	39.3%	72.5%	49.2%
Online	Rev as %	12.5%	17.9%	13.2%	24.0%	18.2%
Developer	Rev as %	2.3%	1.3%	0.4%	0.5%	5.5%
Overseas	Rev as %	16.6%	40.4%	47.0%	3.0%	27.1%
Revenue exposure to different product categories						
VRF/VRV		4.5%	4.8%	1.2%	0.0%	26.7%
Split ACs		70.9%	32.0%	11.2%	16.9%	29.0%
Washing machines		0.0%	10.0%	13.5%	39.1%	0.0%
Refrigerators		0.0%	10.0%	20.2%	20.3%	34.6%
Kitchen appliances		0.0%	0.0%	6.6%	6.8%	0.0%
Small appliances		2.8%	20.0%	0.0%	0.0%	0.0%
Others		21.8%	23.2%	47.3%	17.0%	9.7%
Total		100.0%	100.0%	100.0%	100.0%	100.0%

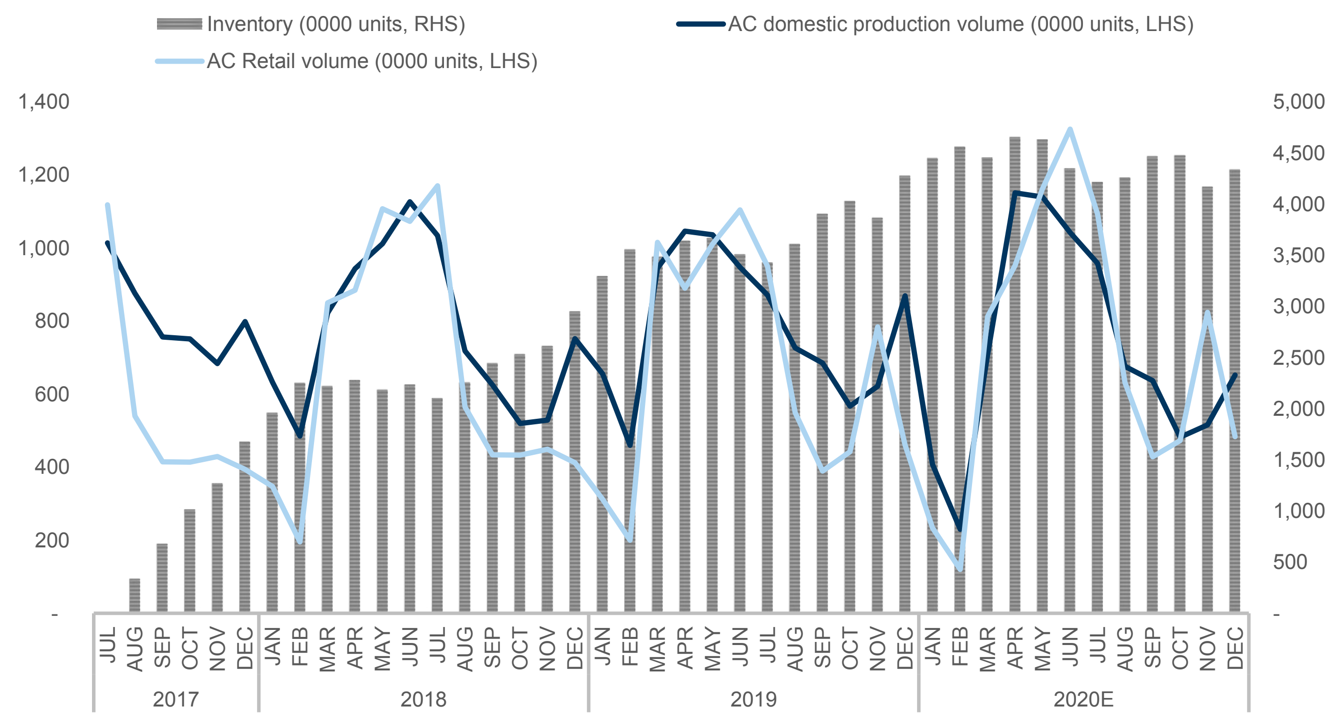
Source: Company data, Gao Hua Securities Research

Increasing pricing pressure for AC in 2Q20

Although we are positive about the premiumization trend and its boost for ASP in the mid-to-long term, we have seen increasing risk of declining retail prices for split AC in 2Q20 due to: 1) high channel inventory; 2) competition between Gree and Midea; and 3) change of national split AC energy standards.

Based on our estimates, there were c.45mn units of inventory for split ACs as of Jan 2020, most of which are with Gree distributors. Gree began to clear channel inventory by offering significant promotion since "Single's Day" in 2019, but this has been unexpectedly disrupted by the coronavirus outbreak. Based on our conversations with distributors, we believe both Gree and Midea are preparing for a new round of promotion, likely in either late March or early April once demand recovers. Given the current inventory level and cash flow pressure on distributors due to halted business activities, we expect more pressure on split AC retail prices in 2Q20.

Exhibit 10: Considering current high inventory level, we expect increasing retail pricing risk for split ACs in 2Q20
Inventory, production and retail volume of AC

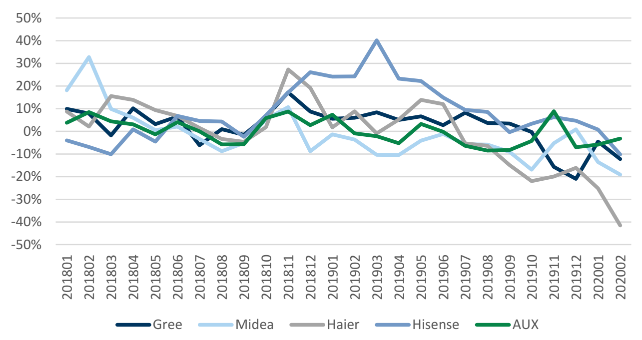


Source: IOL, CMM, Gao Hua Securities Research

The planned promotion is also concurrent with the proposed split AC energy efficiency standards change. According to the new energy efficiency standards, manufacturers are required to improve efficiency of their split AC products and stop manufacturing less efficient models by July 1, 2020. We expect major split AC companies to try to clear less energy efficient products before the new standards take effect.

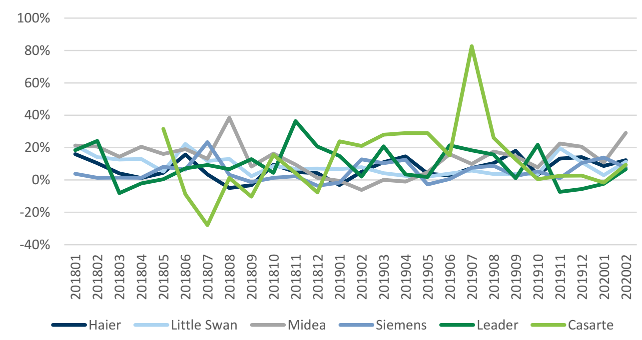
We expect less pricing risk for washing machines and refrigerators in 1H20 due to low inventory and a stable competitive landscape. However, the industry's trend of premiumization might be disrupted as industry leaders have delayed the launch of new products.

Exhibit 11: Online ASP for AC continues to decline since November 2019
Online ASP yoy change by selected AC brands



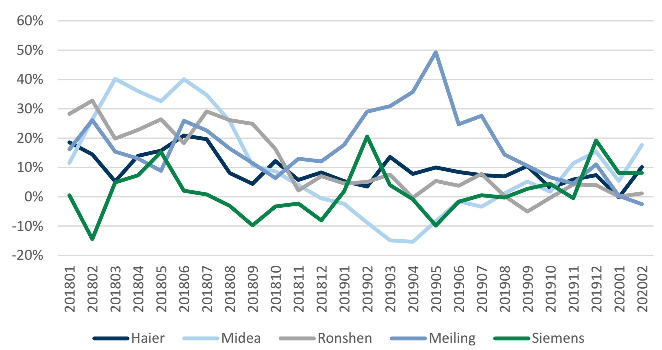
Source: Taosj

Exhibit 12: Meanwhile online ASP remains largely stable for washing machines...
Online ASP yoy change by selected washing machine brands



Source: Taosj

Exhibit 13: ...and refrigerators
Online ASP yoy change by selected refrigerator brands



Source: Taosj

Implications for the industry

The coronavirus outbreak has caused short-term disruption to white goods supply and demand. However, we think it may also have implications for the industry in the mid and long term.

Accelerating industry consolidation. We believe large companies could better weather the outbreak than small companies due to their advantages in terms of: 1) stronger balance sheets; and 2) better control over labor supply and the supply chain. The outbreak has put pressure on cash flows for both the manufacturers and distributors. Industry leaders have both higher cash balance and easier access to cheap bank credit, which they could use to fund their own operations and support distributors. We note that Gree and Midea recently announced plans to issue Rmb18bn and Rmb20bn of corporate bonds, respectively. Gree has also proposed extending a Rmb1.4bn credit line to Henan Shengshixinxing, one of its largest distributors. Similarly, large companies have better control over labor supply and supply chain and thus could resume operations faster than small competitors.

Diversifying channel strategy. The shift from offline to online for white goods has been a long-term trend for the industry and is still ongoing. We think the current outbreak is going to accelerate the process as most white goods companies have placed more resources into online marketing.

Summary of earnings and TP revisions

We revise down our 2020E net income estimates for our white goods coverage by 5%-14% to reflect demand disruptions and margin pressure from AC price competition in 1H20. We expect industry leaders to benefit from accelerating industry consolidation and a diversifying channel strategy in the long run. We summarize our updated forecasts and investment views for individual company below.

Gree: We cut Gree's NI by 9.7% in 2020E and 7.2% in 2021E to reflect demand disruptions in 1H20E due to the virus outbreak and expected margin pressure from price competition. We now expect revenue to grow by 6.6%/8.4% in 2020E/21E, driven by both an AC demand recovery and market share gains due to the company's proactive pricing strategy. We expect NI to grow by -18.5%/17.6% in 2020E/21E, driven by operational improvements post the mixed ownership reform. As management's shareholding increases after the reform, we expect it to boost revenue growth through a proactive pricing strategy and revamped online strategy, as well as to optimize capital allocation through a dividend payout increase and a better CAPEX plan. We believe Gree is still the best positioned to weather any industry difficulties and benefit from any potential demand recovery.

Our new 12-m TP of Rmb71.0 (previously Rmb76.0) is derived by applying an unchanged 14X exit P/E (industry P/E) to 2023E EPS, discounting back to 2020E using a COE of 9%. Key risks include: 1) a prolonged disruption from the coronavirus outbreak that could drag on AC demand; 2) rising material costs such as those for steel and copper, which could erode GPM; 3) high channel inventory, which could negatively impact ex-factory shipments and thus revenue growth; and 4) diversification into other areas including other home appliances, which could reduce return on capital in the short term.

Midea: We cut Midea's NI by 9.5% in 2020E and 7.5% in 2021E to reflect lower sales in 1H20E and margin pressure from AC price competition. We now expect revenue to grow by 2.6%/9.4% in 2020E/21E, driven by its flexible product/channel strategy and market consolidation. We expect NI to grow by 6.9%/19.1% in 2020E/21E, driven by operating margin expansion. We expect Midea, similar to Gree, to be another major beneficiary of the potential AC market consolidation.

Our new 12-m TP of Rmb62.0 (previously Rmb65.0) is based on applying an unchanged 14X industry average exit P/E to 2023E EPS, discounted back to 2020E using a COE of 9%. Key risks include: 1) a prolonged disruption from the coronavirus outbreak that could drag on white goods demand; 2) rising material costs affecting product margins; 3) execution risk of its premiumization strategy; 4) rising competition in the low-to-mid end segment; and 5) failure to integrate KUKA and realize acquisition synergies.

Haier Smart Home: We cut Haier Smart Home's NI by 5.9% in 2020E and 5.6% in 2021E to reflect sales disruptions in 1H20E and margin pressure from AC price competition. We now expect revenue to grow by 3.5%/6.7% in 2020E/21E, driven by share gain in its core washing machine and refrigerator market, AC strategy adjustment and overseas market expansion. We expect NI to grow by -7.6%/14.2% in 2020E/21E, driven by operating efficiency improvement from the company's ongoing channel reform.

Our new 12-m TP of Rmb19.0 (previously Rmb20.0) is derived by applying an unchanged 14X industry average exit P/E to 2023E EPS, discounted back to 2020E using a COE of 9%. Key risks include: 1) a prolonged disruption from the coronavirus outbreak that could drag on white goods demand; 2) slower-than-expected growth of Casarte; 3) higher-than-expected marketing/channel expenses; 4) failure to integrate Candy; 5) Revenue growth and margin risk for air conditioners (ACs).

Haier Electronics: We cut Haier Electronics' NI by 8.3% in 2020E and 4.7% in 2021E to reflect slower sales growth in 2020E. We now expect revenue to grow by 0.4%/9.4% in 2020E/21E, driven by its market share gain in washing machine and water heater markets. We expect NI to grow by -43.7%/15.3% in 2020E/21E, driven by increasing share of higher-margin Casarte products. We remain positive on Haier Electronics' share gain in washing machine and water heater market through the Casarte (premium) and Leader (value-for-money) brands. We expect the company to be the major beneficiary once demand for these products recovers.

Our new 12-m TP of HK$26.0 (previously HK$27.0) is derived by applying an unchanged 14X industry average exit P/E to 2023E EPS, discounted back to 2020E using a COE of 9%. Key risks include: 1) a prolonged disruption from the coronavirus outbreak that could drag on white goods demand; 2) slower-than-expected growth in premium products such as Casarte could impact overall revenue growth and operating margins.

Hisense Home Appliances: We cut Hisense's NI by 13.7% in 2020E and 13.1% in 2021E to reflect negative sales growth in 1Q20 and margin pressure of split AC. Unlike Gree and Midea, Hisense has a much thinner AC EBIT margin (c. 2%) and is likely to be more severely hit by pricing competition. We now expect revenue to grow by 2.0%/5.8% in 2020E/21E, driven by demand recovery in 2H20. We expect NI to grow by -0.1%/13.7% in 2020E/21E, driven by changing AC operating leverage and growth in its VRF products. We expect Hisense-Hitachi to continue gaining share in China's VRF market by leveraging its well-recognized brand and balanced distribution network. We expect the company to gradually re-rate as VRF contributes to an increasing portion of its net profits.

Our new 12-m A/H share TPs of Rmb15.0/HK$11.0 (previously Rmb16.0/HK$12.0) are based on a 2023E discounted P/E valuation approach. We assign 16X/5X exit multiples to Hisense-Hitachi JV/legacy white goods EPS in 2022E and discount back to 2020E using a 9% cost of equity in line with our coverage. Key risks include: 1) a prolonged disruption from the coronavirus outbreak that could drag on white goods demand; 2) increasing competition from domestic players that may jeopardize the leading position of the Hisense-Hitachi JV; 3) increasing penetration in the developer channel that may result in margin dilution; 4) below-expectations integration of the Hisense-Hitachi JV; and 5) lower-than-expected performance of the company's legacy white goods business.

Exhibit 14: Summary of changes to our estimates and 12-m TPs

Company	Ticker	Reporting Date	Rating	Price		Target Price					EPS change								
											2019E			2020E			2021E		
						new	old	change	U/D %		new	old	Change	new	old	Change	new	old	Change
Midea Group	000333.SZ	4/29/2020	Buy	Rmb	54.5	62.0	65.0	-4.6%	13.8%	Rmb	3.44	3.44	0.0%	3.67	4.06	-9.5%	4.38	4.73	-7.5%
Gree Electric Appliances Inc.	000651.SZ	4/29/2020	Buy*	Rmb	59.6	71.0	76.0	-6.6%	19.1%	Rmb	5.70	5.70	0.0%	4.65	5.15	-9.7%	5.47	5.89	-7.2%
Haier Smart Home Co.	600690.SS	4/29/2020	Buy	Rmb	17.4	19.0	20.0	-5.0%	9.5%	Rmb	1.41	1.41	0.0%	1.31	1.39	-5.9%	1.49	1.58	-5.6%
									18.5%	Rmb	2.63	2.63	0.0%	1.48	1.61	-8.3%	1.70	1.79	-4.7%
Hisense Home Appliances	000921.SZ	3/26/2020	Buy	Rmb	10.4	15.0	16.0	-6.3%	44.2%	Rmb	1.05	1.05	-0.4%	1.05	1.21	-13.7%	1.19	1.37	-13.1%
Hisense Home Appliances	0921.HK	3/26/2020	Buy	HK$	8.1	11.0	12.0	-8.3%	35.1%	Rmb	1.05	1.05	-0.4%	1.05	1.21	-13.7%	1.19	1.37	-13.1%

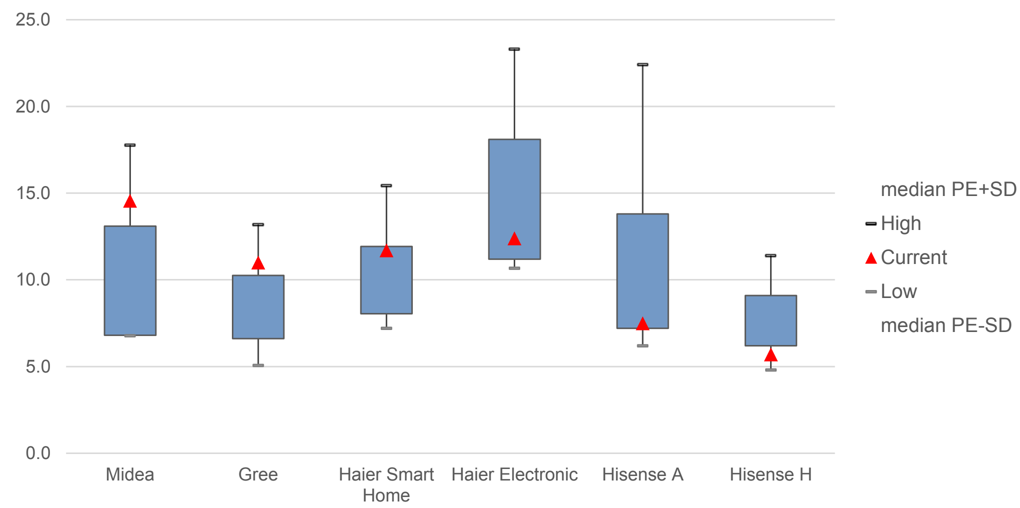
Source: Gao Hua Securities Research

Exhibit 15: Summary of quarterly and semi-annual forecasts

Ticker	Company name		1Q20E	2Q20E	3Q20E	4Q20E	1H20E	2H20E
000333.SZ	Midea Group	Sales	63,588	85,092	74,934	63,873	148,680	138,807
		yoy	*(15.8%)*	*7.9%*	*11.1%*	*9.4%*	*(3.7%)*	*10.3%*
		OP	**5,460**	**9,793**	**7,483**	**3,803**	**15,252**	**11,286**
		yoy	*(28.0%)*	*5.2%*	*21.3%*	*47.0%*	*(10.2%)*	*28.9%*
		OPM	*8.6%*	*11.5%*	*10.0%*	*6.0%*	*10.3%*	*8.1%*
		NI	**5,403**	**8,985**	**7,076**	**4,033**	**14,388**	**11,109**
		yoy	*(11.9%)*	*(0.8%)*	*15.4%*	*59.1%*	*(5.9%)*	*28.2%*
000651.SZ	Gree Electric Appliances Inc.	Sales	26,949	63,080	70,002	56,917	90,029	126,920
		yoy	*(34.3%)*	*10.0%*	*20.0%*	*21.3%*	*(8.5%)*	*20.6%*
		OP	**4,258**	**8,263**	**11,620**	**7,407**	**12,521**	**19,027**
		yoy	*(31.7%)*	*(6.4%)*	*24.4%*	*35.7%*	*(16.9%)*	*28.6%*
		OPM	*15.8%*	*13.1%*	*16.6%*	*13.0%*	*13.9%*	*15.0%*
		NI	**3,927**	**7,306**	**10,137**	**6,583**	**11,233**	**16,721**
		yoy	*(30.8%)*	*(9.6%)*	*21.2%*	*(45.9%)*	*(18.3%)*	*(18.5%)*
600690.SS	Haier Smart Home Co.	Sales	42,736	54,016	54,864	51,188	96,752	106,052
		yoy	*(11.0%)*	*6.0%*	*9.9%*	*8.6%*	*(2.3%)*	*9.3%*
		OP	**2,642**	**3,331**	**2,352**	**3,351**	**5,973**	**5,704**
		yoy	*(17.0%)*	*5.5%*	*22.1%*	*48.0%*	*(5.8%)*	*36.1%*
		OPM	*6.2%*	*6.2%*	*4.3%*	*6.5%*	*6.2%*	*5.4%*
		NI	**1,901**	**2,350**	**1,713**	**2,362**	**4,251**	**4,076**
		yoy	*(11.0%)*	*(22.1%)*	*(34.7%)*	*91.5%*	*(17.5%)*	*5.7%*
1169.HK	Haier Electronics Group	Sales	13,738	19,054	21,207	22,373	32,792	43,580
		yoy	*(26.6%)*	*5.2%*	*17.9%*	*5.3%*	*(11.0%)*	*11.1%*
		OP					**1,710**	**2,946**
		yoy					*(20.5%)*	*16.6%*
		OPM					*5.2%*	*6.8%*
		NI					**1,557**	**2,573**
		yoy					*(13.8%)*	*(53.5%)*
000921.SZ 0921.HK	Hisense Home Appliances	Sales	6,748	11,174	9,040	7,711	17,921	16,751
		yoy	*(22.3%)*	*8.9%*	*12.2%*	*10.7%*	*(5.4%)*	*11.5%*
		OP	**94**	**112**	**25**	**(55)**	**206**	**(30)**
		yoy	*(62.4%)*	*(49.3%)*	*(150.1%)*	*(63.0%)*	*(56.2%)*	*(84.9%)*
		OPM	*1.4%*	*1.0%*	*0.3%*	*(0.7%)*	*1.1%*	*(0.2%)*
		NI	**336**	**486**	**359**	**248**	**822**	**607**
		yoy	*(20.4%)*	*(9.6%)*	*(7.8%)*	*202.6%*	*(14.4%)*	*28.8%*

Source: Gao Hua Securities Research

Exhibit 16: 12-m forward P/Es of our coverage companies vs. the historical range (since 2012)



Source: Wind

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Reg AC

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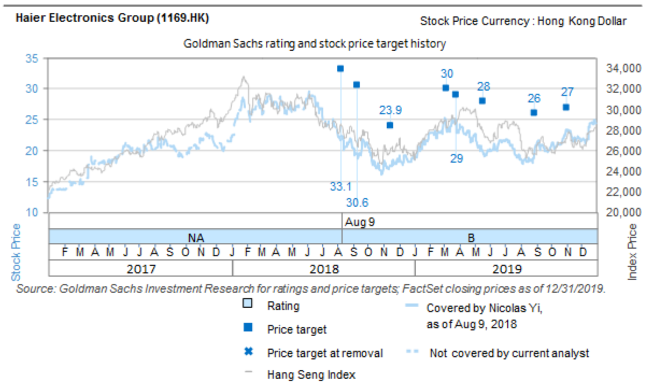

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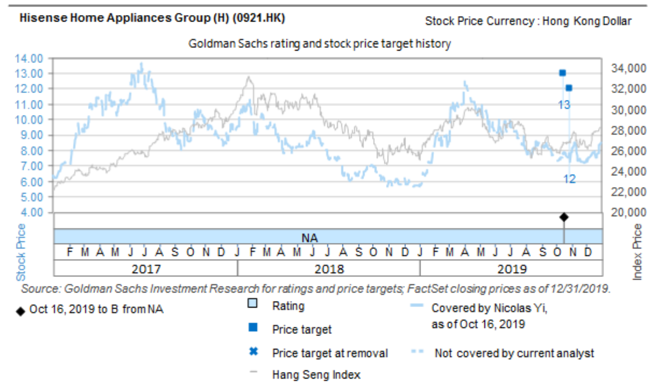

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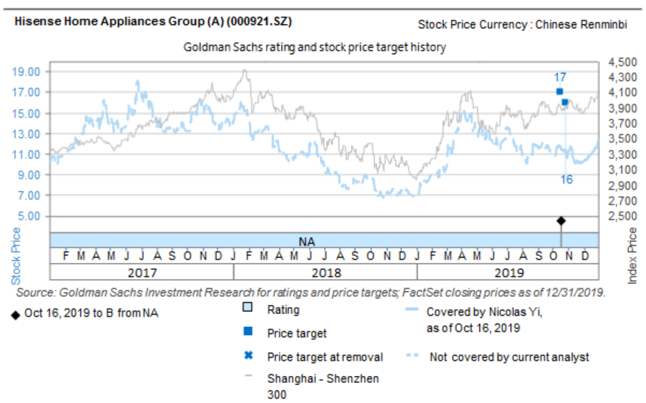

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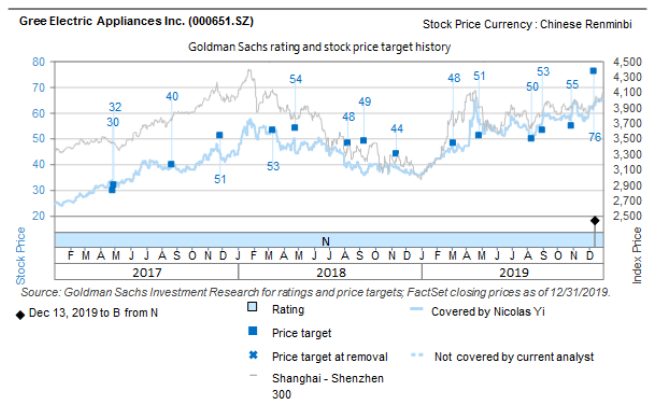

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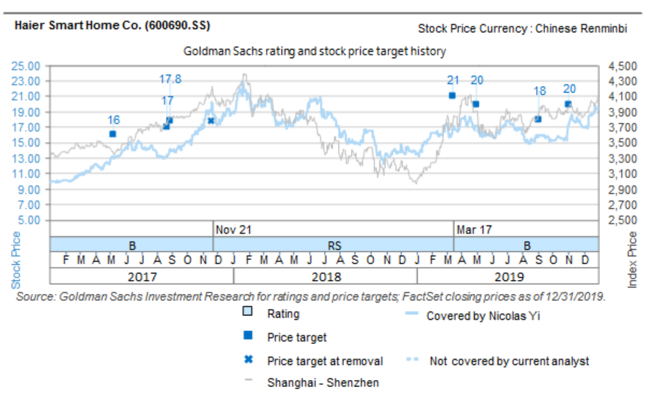

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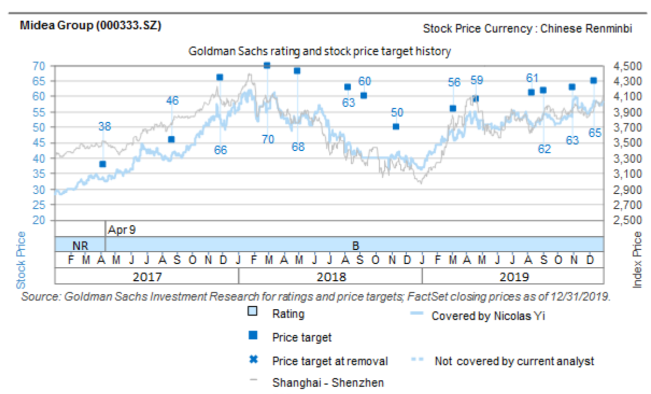

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