

Exchange: Shenzhen Stock Exchange

Target Price: ¥88.8 (24.5%Upside)

Sector: Home appliances

Current Price as of November 27, 2024: ¥71.32

Executive Summary

Midea is in the midst of a transformative evolution.

We initiate coverage on Midea with a BUY Recommendation based on a 12-month target price of ¥ 88.8, implying a 24.5% upside to the last close of ¥ 71.32 as at 30 September 2024. This blended target price represents a weighted mix of our FCFF and Comps models.

Midea has become a global technology group that integrates two major sectors: Smart Home Solutions and Commercial & Industrial Solutions. It adheres to the four strategic axes of "technology leading, direct user access, digital intelligence driving, and global breakthrough" Over the past decade, Midea has continuously expanded its business empire through mergers and acquisitions, with total assets quadrupling and net profits tripling, becoming the leading enterprise in the white goods industry and actively investing in cutting-edge innovations and technology to comprehensively promote commercial and industrial solution businesses. Our proprietary analysis suggests that Midea's value has been materially mispriced as the market has underappreciated (1)The deepening of aging and the increase in labor costs are continuously intensifying the demand for automation.(2)Midea's industry status and customer loyalty bring a stable and continuous cash flow to the smart home business.(3)"Hedging derivatives and foreign exchange makes Midea to sacrifice a portion of profits, but increases operational stability."

Investment Thesis Highlights

Upon valuing Midea using a FCFF and comparable companies analysis, we believe Midea presents an attractive investment opportunity with a low risk return profile.

Thesis#1: Expansionary Global Competitiveness

Midea is strategically positioned as a highly defensive enterprise with a clear growth outlook, particularly in its Smart Home Solutions and Commercial & Industrial Solutions sectors. The growth of Smart Home Solutions is bolstered by government support, including a 150 billion yuan subsidy for trade-ins, which has influenced consumer behavior, as evidenced by a Morgan Stanley survey showing that 77% of respondents are aware of the policy and 54% plan to use the subsidies for appliance upgrades. Midea's Commercial & Industrial Solutions have also seen significant growth, increasing its revenue contribution from 21.4% in 2021 to 26.2% in 2023, driven by its focus on Robotics & Automation, Intelligent Building Technology, and Energy Solutions. The acquisition of Kuka Group in 2022 has further enhanced Midea's capabilities in robotics, particularly in the growing electronics and automotive sectors. The demand for robotics is expected to grow. Additionally, the smart building market is projected to expand significantly, indicating that Midea's Commercial & Industrial Solutions will serve as a long-term growth engine with substantial potential.

Thesis#2: Outstanding R&D Innovation Capability

Midea has demonstrated a strong commitment to research and development (R&D), investing nearly 60 billion yuan over the past five years, with a 2023 allocation of 14.5 billion yuan, representing 4% of its total revenue. The company employs over 23,000 R&D staff, accounting for more than 50% of its non-production workforce, and holds over 85,000 patents, ranking eighth globally and first among private enterprises in China. Midea has established a robust digital infrastructure that includes advanced technologies such as IoT solutions and low-code platforms, enhancing operational flexibility and efficiency. Midea's industrial technology portfolio includes 38 scientific and technological breakthroughs have been acknowledged as "internationally leading". The company has successfully transformed its R&D outcomes into commercial products, particularly in air conditioning and household appliances, resulting in reduced energy consumption in domestic appliances and improved operational efficiency.

Thesis#3: Continuous Business Revenue Growth Potential

Midea possesses strong global competitiveness, benefiting from digital transformation and global capacity expansion. Through the Mccloud system and IoT technology, it has optimized supply chain efficiency. During the 2018 U.S. tariff hikes, it passed costs to customers, maintaining a 28.1% gross profit margin, showcasing strong bargaining power. Midea has enhanced its global presence and efficiency by establishing overseas R&D centers, manufacturing bases, and employing substantial staff. Local procurement and supply chain integration have further reduced operating and transportation costs, driving growth in overseas sales. The company plans to boost overseas production capacity to 30% and raised HKD 8 billion through a Hong Kong listing to support global expansion and talent retention.

Figure 1 : Company Data

Last Close	¥71.32
Market Cap	¥551.5B
Shares Outstanding	7.0B
52-Week High	¥83.67
52-Week Low	¥48.53
EV/EBITDA	14.9x

Figure 2 : Valuation Results

FICC-Terminal Growth	¥95.9
Comp-PE	¥72.3
Target Price	¥88.8
Implied Return	24.5%

Figure 3 : Financial Data

	2023A	2024E	2025E	2026E
Rev. (¥M)	373,709.8	393,772.9	418,172.9	447,948.1
Rev. Growth	8.1%	5.4%	6.2%	7.1%
EBIT (¥M)	35,470.8	41,049.6	42,807.1	45,098.9
EBIT Growth	15.6%	15.7%	4.3%	5.4%
EBIT Margin	9.5%	10.4%	10.2%	10.1%

Figure 4 : Comps

	PS	PE	PB	ROE
Midea	1.4	14.7	3.2	17.1
Gree	1.3	8.0	2.0	18.1
Hair	1.0	14.7	2.5	14.2
Hisense	0.5	13.7	3.1	19.7

Figure 5 : Midea 1-year Stock Chart



Business Overview

Company Overview

Founded in 1968 and headquartered in Shunde, China, Midea Group is a global leader in Smart Home and Commercial & Industrial Solutions. With over 190,000 employees, Midea is listed on both HKEX and SZSE, and has ranked on the Fortune Global 500 for nine consecutive years.

Key operating segments

Midea Group's business is primarily divided into two major segments: Smart Home and Commercial & Industrial Solutions (Figure 6). The Smart Home segment offers a variety of household appliances, including air conditioners, refrigerators, washing machines, and kitchen appliances. These products integrate Internet of Things (IoT) and Artificial Intelligence (AI) technologies to enable scenario-based smart home setups and personalized user services. The Commercial & Industrial Solutions segment encompasses energy solutions, industrial technology, and smart building innovations. It provides services for green energy storage, intelligent building management systems, industrial robots, and automation solutions, supporting the digital and intelligent transformation of various industries (Figure 7).

History and Expansion

Midea Group was initially a local Chinese enterprise. In 1993, its subsidiary, Midea Appliances, was listed on the Shenzhen Stock Exchange. In 2013, Midea Group achieved a comprehensive listing by integrating Midea Appliances, ending its status as an independently listed company. The company further expanded into smart home, industrial automation, and intelligent supply chain sectors, gradually establishing a global industrial presence. Midea continuously broadens its product portfolio and market reach, operating in over 200 countries and regions with 33 research and development centers and 43 manufacturing bases. Through acquisitions of internationally leading companies like KUKA, Midea has secured a significant market position in the robotics and industrial automation fields. Currently, Midea Group holds a leading position in the global market, with several household appliances (such as air conditioners and washing machines) ranking among the top three in their categories and maintaining a substantial market share in industrial automation.

Industry Overview

Impact of the Trade-In Policy - Positive

On July 25, 2024, the National Development and Reform Commission and the Ministry of Finance issued the "Several Measures to Intensify Support for Large-Scale Equipment Renewal and Daily Replacement of Consumer Goods." The government provided subsidies totaling 150 billion RMB, covering eight categories of household appliances, including refrigerators, washing machines, and air conditioners. The swift implementation exceeded expectations, with some regions expanding product coverage. The policy significantly boosted sales of major appliances, and it is estimated to sustain its impact through the year, with household appliances accounting for approximately 25% of the funding, or RMB 417 billion (Figure 8).

Strong Overseas Demand and Continued Rapid Growth in Appliance Exports - Positive

According to data from the General Administration of Customs, China's household appliance exports in Q3 increased by 10.4% year-on-year. Driven by strong overseas demand, exports of major appliances, black goods, and small household appliances have maintained high growth. Notably, in recent years, exports to regions such as Latin America, Southeast Asia, the Middle East, and Africa have performed well, making emerging markets significant contributors to the growth of Chinese appliance companies (Figure 9). We believe that despite some increased risks related to overseas tariffs, emerging markets are expected to continue boosting the growth rate of household appliance exports. Additionally, Chinese appliance companies possess strong comprehensive competitiveness, which is likely to sustain their global market share.

Uncertainty in the Real Estate Market - Negative

The ongoing downturn in the real estate market has significantly weakened the demand for household appliances, as declining housing sales directly reduce new purchases of home equipment. While mortgage rates have been lowered multiple times this year, they have yet to generate a substantial recovery in consumer confidence or housing transactions. From January to October 2024, the cumulative sales area of commercial housing fell 32.7% year-on-year, and real estate investment remains sluggish (Figure 10). Moreover, rising inventory levels and stalled projects are exacerbating the uncertainty, further delaying a recovery in appliance demand.

Uncertainty in Exports Due to the U.S. Election - Mixed

After Trump's re-election, high tariff policies are expected to impact export chains in stages (Appendix 1). During the transitional period, domestic exporters may advance shipments to avoid costs, leading to a "rush to export" phenomenon that intensifies short-term competition.

Figure 6 : Business Distribution

Core Business		
Smart Home Solutions		
Air Conditioners		
Laundry Appliances & Refrigerators		
Kitchen & Other Appliances		
Commercial & Industrial Solutions		
Intelligent Building Technology		
Energy Solutions & Industrial Technology		
Robotics & Automation		

Figure 7 : Business Share

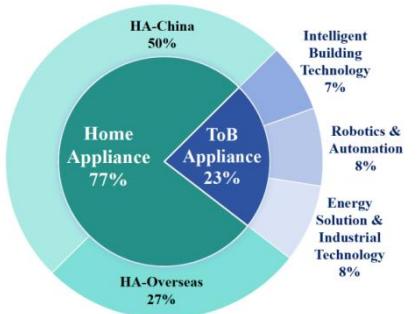


Figure 8 : Sales Driven by Policy



Figure 9 : Global HA Sales

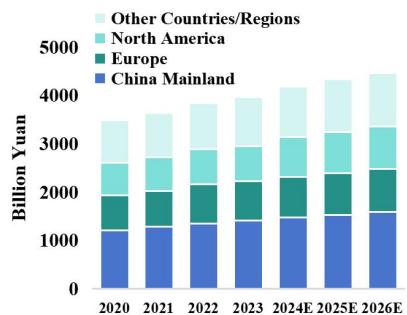
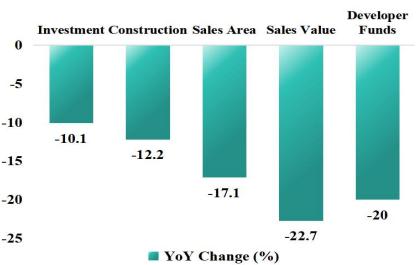


Figure 10 : Real Estate Indicators



Once implemented, high tariffs will directly impact export chains, though the rigid demand in the North American market may still allow some companies to enter. In the later stage, high tariffs may accelerate the globalization of home appliance companies, with industry leaders boasting strong competitiveness and well-established global production layouts gaining an advantage (**Figure 11**). Coupled with the growth in non-U.S. market share, competitive companies are expected to demonstrate resilience in export performance.

Competitive Positioning

1. Comparable Companies

The home appliance market is highly competitive, and Midea faces strong rivals both domestically and internationally. In the air conditioner sector, Midea and Gree are evenly matched, each holding approximately 33% of the domestic market share as of the first half of 2024. In the refrigerator market, Midea competes fiercely with Haier, holding market shares of 22% and 25%, respectively (**Figure 12**). Through a multi-brand strategy, including brands like Hualing and Little Swan, Midea covers various market segments from cost-effective to high-end products (**Figure 13**). This approach allows Midea to achieve widespread coverage and establish differentiated competitive advantages against both domestic and international competitors.

2. Market Dynamics

Midea Group has expanded globally through acquisitions like Toshiba Appliances and KUKA Robotics, solidifying its leadership in smart home and industrial automation sectors. In 2023, 77% of its revenue came from home appliances, while 23% was driven by ToB segments, including robotics, intelligent building technologies, and energy solutions. The global industrial control market, vital to Midea's ToB operations, is expected to reach RMB 1,930 billion by 2027, with China's market growing to RMB 470 billion at a CAGR of 4.9%. Meanwhile, global industrial control system sales are projected to exceed USD 150 billion by 2026, with steady growth in both China and other regions (**Figure 14**).

3. Customer Loyalty and Strategic Partnerships

Midea strengthens customer loyalty through a comprehensive global after-sales service system that ensures seamless support across regions (**Figure 15**). Meanwhile, the booming livestream e-commerce market, which grew to RMB 40 trillion by 2023, has contributed significantly to Midea's success. Online air conditioner sales surpassed 30 million units in 2023, accounting for 50% of total retail sales. Additionally, partnerships with technology companies such as Huawei and Google have enabled the deep integration of intelligent systems into home appliances, providing a seamless smart experience. Moreover, Midea has launched customized products for the elderly and individuals with disabilities, further opening up new markets.

Investment Summary

Investment Viewpoint #1: Continuous Business Revenue Growth Potential

Midea Group, with its steadily growing Smart Home Solutions and rapidly expanding Commercial & Industrial Solutions, is a highly defensive enterprise with a clear growth outlook.

Steady Growth in Smart Home Solutions

We believe that the growth potential of Midea Group's Smart Home Solutions is primarily driven by policy support for trade-ins. From the perspective of policy implementation, on September 25, 2024, the National Development and Reform Commission held a series of press conferences on the "two new" policies, announcing that the 150 billion yuan subsidy to support "trade-ins" has been fully allocated to local governments. When discussing whether there will be additional funds, the Deputy Director of the Department of Resource Conservation and Environmental Protection clearly mentioned "preparing for incremental policy research," indicating the central government's affirmation of the continuity of the "trade-in" policy. From the perspective of policy recipients, according to Morgan Stanley's AlphaWise survey, approximately 77% of respondents have heard of the "trade-in" policy, and 54% of respondents are planning to use subsidies to update their home appliances (**Figure 16**), demonstrating that the "trade-in" policy has indeed reached consumers and influenced their consumption plans.

Rapid Growth in Commercial & Industrial Solutions

Meanwhile, the impressive performance of Commercial & Industrial Solutions could bring an upside surprise to Midea Group's growth. As early as 2015, Midea Group entered the Commercial & Industrial Solutions sector with foresight, including 1) Robotics & Automation 2) Intelligent Building Technology 3) Energy Solutions & Industrial Technology 4) Other Businesses. According to Midea Group's prospectus in September 2024, the contribution rate of Commercial & Industrial Solutions to total revenue increased from 21.4% in 2021 to 26.2% in 2023, with a long growth runway ahead (**Figure 17**). In 2023, Midea's Energy Solutions & Industrial Technology, Robotics & Automation, and Intelligent Building Technology sectors achieved revenues of 27.9 billion yuan, 31.1 billion yuan, and 25.9 billion yuan, respectively, with year-on-year growth rates of 29%, 12%,

Figure 11 : Three-Stage Impact



Figure 12 : AC & FR Market Share

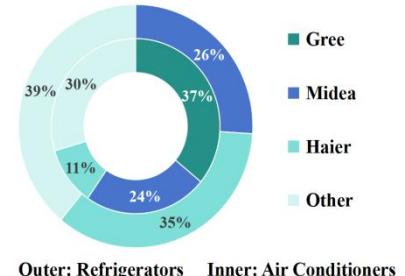


Figure 13 : L-M-H Brands



Figure 14 : IC Market Size & CAGR

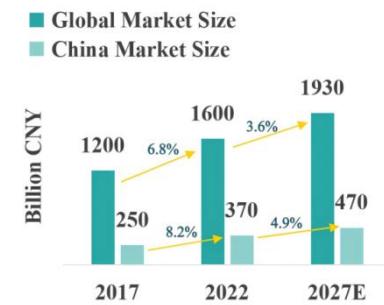


Figure 15: Main Sales Process

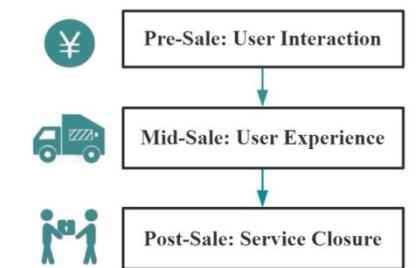
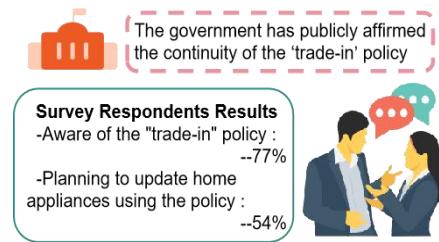


Figure 16 : Survey Feedback



and 14%. We believe that Commercial & Industrial Solutions, as a long-term growth engine for Midea, still holds significant potential. In terms of Robotics & Automation, Midea achieved full ownership of Kuka Group, a world-leading supplier of robotics and intelligent automation solutions based in Germany, in 2022, gaining full control over all of Kuka's technology and related supply chains. In 2023, Kuka ranked second in both heavy-load robot sales and revenue, with market shares of 18.6% and 17.9%, respectively. Midea fully absorbs Kuka's core technology, continuously driving product and technological innovation, and promoting sustained revenue growth in To-B business (Figure 18). The electronics and automotive industries are two key downstream applications for Robotics & Automation, and according to a Frost & Sullivan report, the compound annual growth rate of new energy vehicle sales in China over the next five years is 20.9%, and the compound annual growth rate of revenue in the electronics industry is 4%, indicating strong demand. For example, Midea signed a strategic cooperation agreement with NIO at Midea's Weiling Automobile Parts Anqing factory. Both parties will engage in extensive cooperation in areas such as new energy vehicle components, automation, digitalization, low-carbon sustainable parks, and smart logistics (Figure 19), which also promotes the growth of Energy Solutions & Industrial Technology. Regarding Intelligent Building Technology, according to Fortune Business Insights, the smart building market size reached \$80.65 billion in 2022 and is expected to reach \$328.62 billion by 2029, with a compound annual growth rate of 22.2%.

Investment Viewpoint #2: Outstanding R&D Innovation Capability

Prominent R&D Investment and Patent Achievements

Midea has been actively focused on implementing advanced technology and product innovation in its key business sectors. The company has developed a strategic plan that emphasizes technology, innovation, and added value to capture market share. Over the past five years, Midea has invested nearly 60 billion yuan in research and development, showing a consistent growth trend (Figure 20). In 2023, the company allocated 14.5 billion yuan for R&D, which represented 4% of its total revenue. By June 2024, Midea employed over 23,000 R&D staff globally, making up more than 50% of its non-production workforce. The company has also been granted over 85,000 patents, ranking eighth worldwide and first among private enterprises in China, highlighting Midea's strong commitment to technological innovation and research and development.

Innovative Digital Infrastructure and Energy Solutions

Midea has successfully created a comprehensive digital infrastructure for the group, which encompasses container cloud technology, distributed storage, DevOps, middleware platforms, low-code platforms, and IoT solutions (Figure 21). This unified digital base effectively addresses the digital application requirements of the group's operations and enhances the overall flexibility of the business system. Additionally, Midea has introduced innovative solutions for industrial park distributed photovoltaic systems, power supply and distribution systems, and energy-efficient frequency conversion, all aimed at boosting energy efficiency, reducing costs, and achieving exceptional operational effectiveness.

The Successful Transformation of R&D Outcomes

Midea's advancements in research and development within the domains of air conditioning units, refrigeration systems, washing machines, and other household appliances have been extensively integrated into commercial products, thereby enhancing their energy efficiency, user comfort, and intelligent functionality. Notably, three significant innovations spearheaded by Midea Group's industrial technology division—namely, the "Research and Industrialization of a 15-Groove 10-Pole Motor for Compressors and Its Key Control Technologies," the "Research and Industrialization of Key Technologies for High-Efficiency Silent Compressors for Wide Range Operation," and the "Research and Industrialization of High-Precision Flow Control Technology and Low-Noise Technology for Electronic Expansion Valves"—have been recognized as "Internationally Leading" by the China Light Industry Federation. Midea's industrial technology portfolio boasts a total of 38 scientific and technological achievements deemed "internationally leading," which have significantly contributed to the reduction of energy consumption in household appliances while simultaneously enhancing operational efficiency and noise reduction capabilities.

Investment Viewpoint #3: Midea Has Expansive Global Competitiveness

Digital Transformation and Strong Bargaining Power

Midea has leveraged big data and IoT technologies, such as the Mccloud Sales V2.0.0 system, to enhance supply chain flexibility and production efficiency. During the 2018 U.S.-China trade war, Midea effectively managed to pass tariff costs onto customers, maintaining a gross margin of approximately 28%, thanks to its robust supply chain management and strong bargaining power. Alongside its digital upgrades and market expansion, the proportion of overseas appliance sales grew from about 33% in 2016 to over 40% in 2023, highlighting its sustained growth potential in international markets.

Global Production Base Layout and Localization of Supply Chain Management

Figure 17 : To-B Growth Rate

	Contribution to Midea Group's Total Revenue			
	2021	2022	2023	Overall Trend
Robotics & Automation	7.4%	8.0%	8.3%	↑
Intelligent Building Technology	5.7%	6.6%	6.9%	↑
Energy Solutions & Industrial Technology	5.9%	6.3%	7.5%	↑
Other Businesses	2.4%	3.3%	3.5%	↑
Commercial & Industrial Solutions	21.4%	24.2%	26.2%	↑

Figure 18 : Midea Acquires KUKA



Figure 19 : Midea Partners with NIO



Figure 20 : R&D spending

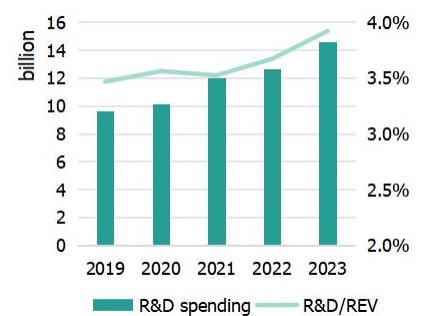
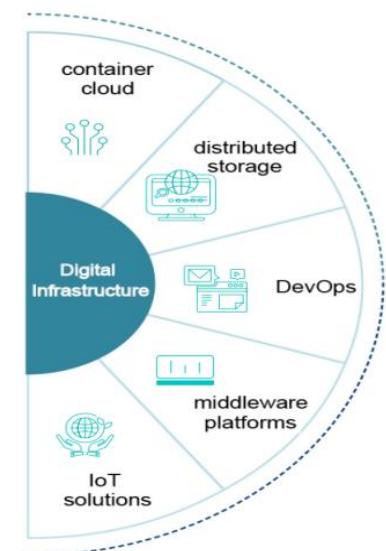


Figure 21 :Digital Infrastructure



Midea currently operates 22 major manufacturing bases and 17 overseas R&D centers across 16 countries, employing over 35,000 overseas staff to cover key target markets (**Figure 22**). Through local procurement and supply chain integration, the company reduced operating costs by approximately 8% and transportation costs by 5%-7% in 2023. Additionally, its global production layout improved supply chain efficiency by around 10%, reducing inventory turnover days to an average of 35 days. Under the strategy of “localization to serve local,” Midea plans to increase its overseas appliance production capacity from the current 20% to 30%, further strengthening its competitive edge in global markets.

Dual Listing Broadens Financing Channels and Enhances International Influence

Midea Group's dual listing on the Hong Kong Stock Exchange raised approximately HKD 8 billion, providing strong support for global business expansion and attracting more international investors. The listing process also improved the company's governance structure through higher governance and information disclosure requirements. Although this may temporarily dilute earnings per share for A-share shareholders, it is expected to enhance the company's overall value in the long term. Additionally, implementing stock incentive plans helps retain key talent, reflecting confidence in future growth.

Financial Analysis

Profitability: Stable to-C Business and Rapidly Growing to-B Business

Creating a Second Growth Curve for Revenue

Midea's revenue structure is primarily composed of two major segments: Smart Home Solutions and Commercial & Industrial Solutions (**Figure 23**). Smart Home Solutions, as Midea's core traditional business, contributes over 230 billion yuan in revenue annually, accounting for 65.9% of the company's total revenue. This segment mainly consists of white goods such as air conditioners, refrigerators, and washing machines, and is the primary source of the company's income. In the markets for air conditioners, refrigerators, and washing machines, Midea holds the second-highest market share. This market structure indicates that Midea is in an oligopolistic or monopolistically competitive market in the Smart Home Solutions sector, with a high market share, bringing in a continuous and stable revenue stream. In recent years, Midea's gross margin has shown an upward trend, with gross margins over the past three years at 25.1%, 27.0%, and 29.8%, respectively, reflecting the company's brand advantage in the home appliance market is gradually translating into stronger bargaining power (**Figure 24**). Compared to Gree Electric Appliances and Haier Smart Home, Midea's growth is mainly reflected in the rapid growth of its Commercial & Industrial Solutions. This segment, which includes Energy Solutions & Industrial Technology, Intelligent Building Technology, and Robotics & Automation, accounted for 34.1% of Midea's revenue according to the financial report for the first half of 2024. Midea emphasizes growth and innovation, continuously expanding its business boundaries to achieve accelerated growth. Against the backdrop of increasing R&D investment year by year, the revenue from Midea's Commercial & Industrial Solutions has also increased rapidly, with increases of 13.98% and 16.91% in the past two years, respectively, and its proportion in revenue has steadily risen, becoming the second growth curve driving the company's performance to continue growing.

Risk Control and Stable Profits

Risk Control

80% of the company's cost of revenue comes from raw materials and consumables used in product manufacturing, such as copper, steel, plastics, and aluminum (**Figure 25**). Controlling the stability of raw material prices is crucial for the quality of operating profits. On the one hand, the company uses its large-scale operations and resource sharing between businesses to centrally purchase raw materials to reduce costs. On the other hand, the company uses derivative instruments to hedge raw materials to ensure the stability of operating profits in the face of significant fluctuations in raw material prices. At the same time, considering that foreign exchange income accounts for more than 40% of the company's total revenue, the company also uses derivative instruments such as forward contracts and options to hedge foreign exchange income, further safeguarding profit stability.

Stable Growth in EBITDA

Compared to Gree and Haier, Midea's EBITDA is not only significantly higher than its competitors but is also the only one among the three that has maintained a consistently positive growth rate over the past five years. This stability and growth reflect Midea's outstanding performance in profit quality. Specifically, in 2023, Midea's EBITDA growth rate reached 16.1%, which is higher than that of Gree Electric Appliances and Haier Smart Home (**Figure 26**). The main driver of growth comes from its rapidly growing Commercial & Industrial Solutions segment.

ROE Deterioration Due to Declining Asset Turnover

Midea's ROE has been gradually deteriorating in recent years and is lower than that of Gree and Haier. Looking at net profit margin, asset turnover, and equity multiplier, all three indicators have

Figure 22 : Rev Breakdown

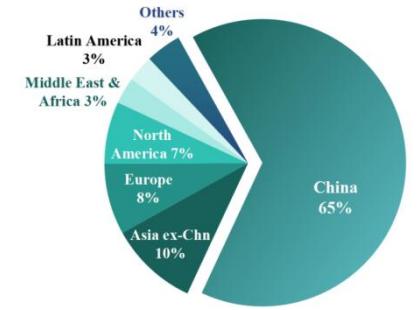


Figure 23 : Segment Revenue

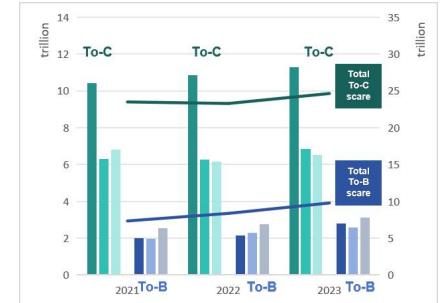


Figure 24 : Gross Margin

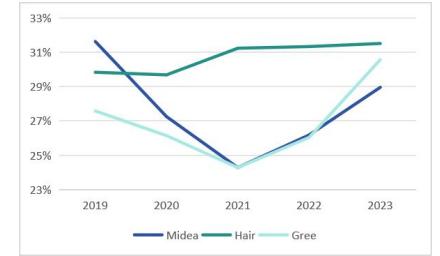


Figure 25 : Cost of Revenue

■ Raw materials ■ EBE ■ I&T Cost ■ D&A ■ Others



Figure 26 : EBITDA

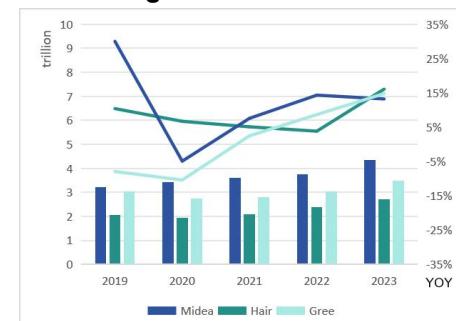


Figure 27 : ROE

	2019	2020	2021	2022	2023
Net Profit Margin (%)	6.14	5.40	5.81	6.05	6.40
Asset Turnover (times)	1.13	1.07	1.08	1.07	1.07
Equity Multiplier	4.06	3.41	2.87	2.62	2.48
Midea ROE(%)	26.21	24.84	23.58	22.07	22.05
Gree ROE(%)	24.52	19.68	21.08	24.46	27.18
Hair ROE(%)	18.80	15.48	17.82	16.98	16.85

declined to varying degrees, and the main reason for the decline in ROE is the decline in asset turnover, from nearly 100% in 2019 to 80% in 2023 (Figure 27). This is because Midea has rapidly expanded in the Commercial & Industrial Solutions sector through mergers and acquisitions and increased capital expenditures in recent years, making the speed of asset expansion greater than the increase in revenue, leading to a decline in asset turnover. It is expected that after Midea's layout is completed, the rapid increase in revenue from Commercial & Industrial Solutions will quickly improve Midea's ROE data.

Capital Management

Cash Flow Management

Midea not only has stable and growing profits but also generates continuous and reliable cash flow. Over the past decade, Midea's operating cash flow has maintained a stable upward trend, expanding nearly three times from a decade ago, driven by Midea's stable and strong profitability. The investment cash flow has remained negative because Midea has rapidly expanded overseas and laid out new businesses by acquiring related companies and purchasing fixed assets, laying the foundation for future profitability. The financing activity cash flow is negative because Midea continuously distributes dividends to employees and shareholders. If the dividend part is not deducted, the financing cash flow is positive for most of the time (Figure 28). From Midea's cash flow, it can be seen that it is still in the expansion period.

Dividend Policy

Since its listing on the Shenzhen Stock Exchange in 2013, Midea has accumulated 11 cash dividends, with a dividend frequency of 1.00 and a dividend payout ratio of 43.9%, which is at a relatively high level in the industry compared to Haier, Gree, and Hisense (Figure 29). At the same time, Midea insists on repurchasing company shares with its own funds and continues to implement stock incentive plans and employee stock ownership plans, reflecting that Midea has sufficient cash flow and its stock is undervalued. Subsequently, we analyzed the historical situation of EPS and predicted the trend of EPS under Bull, Bear, and Base scenarios for the next three years, expecting Midea to have good growth potential and profit prospects, with EPS expected to reach 6.54 by 2026 (Figure 30).

Asset Structure and Working Capital

In the analysis of Midea's financial statements over the past five years, it was observed that current assets have always been higher than current liabilities, showing that the company has a strong short-term debt-paying ability. In addition, the proportion of non-current assets in total assets has shown a year-by-year upward trend, mainly due to the significant increase in other non-current assets. (Figure 31) Specifically, this increase is mainly due to the increase in the number of fixed-income investment products with a maturity of more than one year held by the company, providing additional security for the company's long-term debt-paying ability. Over the past five years, Midea's operating liabilities have significantly exceeded operating assets, a trend mainly driven by the rapid growth of contract liabilities, leading to a continuous expansion of the difference between operating liabilities and operating assets. (Figure 32) This change reflects an increase in Midea's working capital, indicating that the company has strong bargaining power and capital occupation ability in the supply chain. Specifically, Midea can continue to use the funds of upstream and downstream for production and business activities, which is reflected in finance as strong bargaining power and capital occupation ability.

R&D and Capital Expenditure (Capex)

In 2023, Midea's R&D investment reached 14.583 billion yuan, accounting for 3.67% of its revenue, showing the company's continued emphasis on and investment in technological innovation. This investment not only consolidates Midea's technological leadership in the home appliance industry but also provides strong technical support for its expansion in smart homes, new energy, and industrial technology fields. At the same time, Midea's capital expenditure commitment for 2023 was 11.43 billion yuan, accounting for 38% of the net profit of 2022. This expenditure is mainly used for investment in key areas such as buildings, structures, and machinery and equipment, further strengthening the company's production capacity and market competitiveness (Figure 33). Through these investments, Midea's R&D and manufacturing capabilities have been significantly enhanced globally, laying a solid foundation for the company's long-term growth and innovation.

Valuation

Through intrinsic valuation and comparable company analysis(PE), we have determined the target price per share to be 88.8 yuan, representing a 24.5% increase from Midea's closing price of 71.32 yuan on November 27, 2024. Given Midea's clear growth trajectory and profitable model in specific markets, and its ability to generate stable cash flows, we have assigned a higher weight to the FCFF model, allocating 70% of the weight to FCFF and 30% to the comparable company analysis (Figure 34).

I. Intrinsic Valuation

Figure 28 : Cash Flow

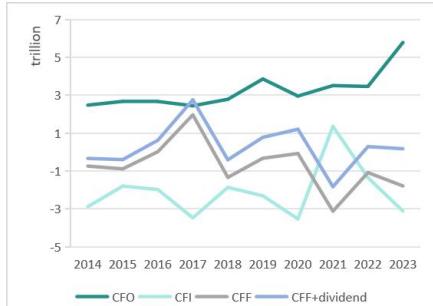


Figure 29 : Dividend Situation

	Haier	Midea	Gree	Hisense
IPO Date	1993	2013	1996	1999
Cumulative Dividend Payments	29	11	29	10
Dividend Frequency	0.94	1.00	1.04	0.40
Dividend Yield	30.84%	43.9%	47.13%	37.57%

Figure 30 : EPS Scenario Analysis

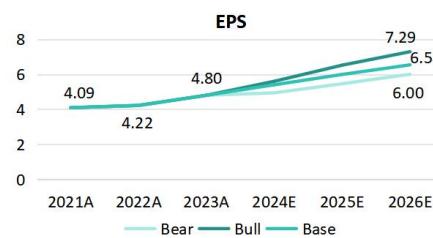


Figure 31 : Capital Structure

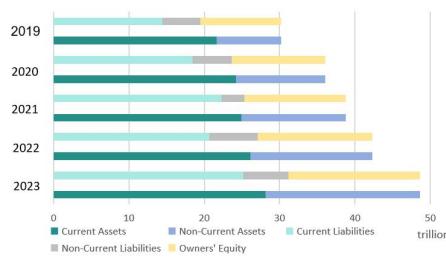


Figure 32 : OWC

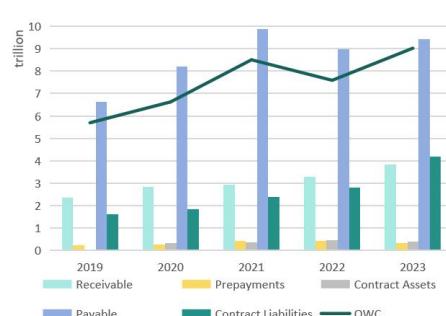
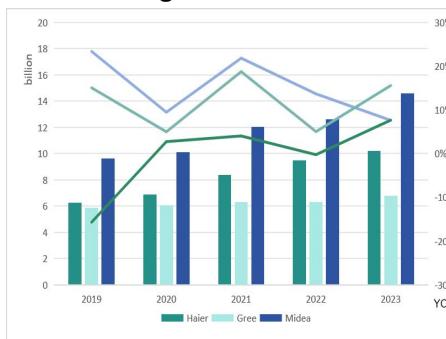


Figure 33 : R&D



1. Revenue Forecast for Two Major Business Segments

Midea's revenue is constituted by Smart Home Solutions and Commercial & Industrial Solutions. We analyze and forecast the data for these two segments using a revenue breakdown approach. For Smart Home Solutions, the introduction of trade-in policies has significantly activated domestic demand potential and positively impacted the home appliance industry. However, considering the long usage cycle of home appliances and the current downturn in the real estate industry, coupled with accelerated population aging and consumption downgrade, the demand for home appliance upgrades is limited, and we expect the home appliance revenue to remain unchanged. Leveraging its industry-leading position and bargaining power, Midea is expected to maintain stable raw material costs through hedging, with the gross margin for Smart Home business expected to remain at 30%. In the Commercial & Industrial Solutions sector, markets such as Energy Solutions & Industrial Technology, Intelligent Building Technology, and Robotics & Automation are expected to witness significant growth. The deepening global carbon reduction trend, along with the challenges of population aging and rising labor costs, are driving the application of robotics and automation technology across industries. For Midea, Commercial & Industrial Solutions are seen as key to building a second growth curve. We project that revenue in this area will maintain rapid growth, with CAGR increasing from 16.9% in 2023 to 19.4% in 2028, when it is expected to account for 47.5% of total revenue (Figure 35). Due to Midea's substantial investment in R&D and CAPEX in recent years, economies of scale are expected to form in the Commercial & Industrial Solutions sector, thereby reducing production costs. This will help to gradually improve the gross margin, but considering the sector remains in a highly competitive market environment and Midea's bargaining power is not dominant, the margin improvement is limited, with the gross margin expected to rise from 22.3% in 2023 to 24.8% by 2028.

2. Calculation of WACC

We calculate the cost of equity using the CAPM model, with a risk-free rate based on the five-year Treasury yield at 1.8%, and the expected return on the market portfolio derived from the average return of the CSI 300 over one year at 9.0%. Using the CSI 300 as the benchmark index, we calculate Midea's beta over five years to be 0.96, resulting in an equity capital cost of 8.6% according to the CAPM model. The borrowing rate is based on the coupon rate of Midea's CP001 at 4.8%, and considering the tax shield effect, the cost of debt is 4.0%. We calculate the WACC as a weighted average of the cost of equity and debt, resulting in a base case WACC of 8.0% (Figure 36). Midea's ROIC over the past year is 9.6%, indicating that the company's investment returns exceed the cost of capital, demonstrating high capital efficiency (Figure 37).

3. Forecasting and Discounting Free Cash Flow to the Firm (FCFF)

Based on past financial data and the company's future strategic planning, we have made financial forecasts for 2024 to 2028. During this extended period, Midea's EBIT is expected to grow at a rapid rate. Subsequently, entering a stable growth period, from 2029 to 2035, the to-C business will peak, and the to-B business growth will slow down, with the overall revenue growth rate beginning to decline. We project that the FCFF for 2029 will be 47,119.9 million yuan, with CAGR of approximately 9.3%, gradually decreasing until the FCFF reaches 61,636 million yuan in 2035, with CAGR of 2.4%. We discount the cash flows for the entire forecast period from 2024 to 2035, calculating the present value of each cash flow. Next, we estimate the enterprise value at the end of the forecast period using the terminal growth model, assuming a terminal growth rate g of 2%, resulting in an enterprise value of 91,024.5 million yuan at the end of the forecast period, with the present value of the terminal value discounted to 35,170.1 million yuan. Ultimately, the present value of the enterprise value is calculated to be 69,660.2 million yuan.

4. Calculating Equity Value Based on Enterprise Value

Using the formula: Enterprise Value + Non-core Asset Value + Cash = Debt + Market Value of Minority Interests + Equity Value, we derive Midea's current equity value to be 68,955.4 million yuan. Dividing by 700.4 million shares, we obtain a per-share value of 95.9 yuan.

5. Sensitivity Analysis and Scenario Analysis

To test the robustness of the model and identify key variables, we conducted a sensitivity analysis, examining the per-share value under scenarios where WACC fluctuates by 0.8% and 1.6% around 8%, and the terminal growth rate fluctuates by 0.5% and 1% around 2% (Figure 38). Additionally, we set up scenario analysis, with 95.9 yuan being the per-share value under the base case. We also considered bull and bear scenarios, with revenue growth rates at 0.9 and 1.1 times that of the base case, resulting in an optimistic per-share value of 102.1 yuan and a conservative per-share value of 90.0 yuan (Figure 39).

II. comparable company analysis

In comparable company analysis, we comprehensively considered valuation methods such as PS, PB, PE, PEG and EV/EBITDA multiples. Within the home appliance industry, we selected seven companies with market values close to Midea and compared their PS, PE, PB, PEG, and EV/EBITDA ratios to estimate the per-share value. In the home appliance industry, the industry average for PS, PE, and PB are 0.9, 13.1, and 2.8, respectively. It can be seen that Midea's PS,

Figure 34 : Target Price Ranges

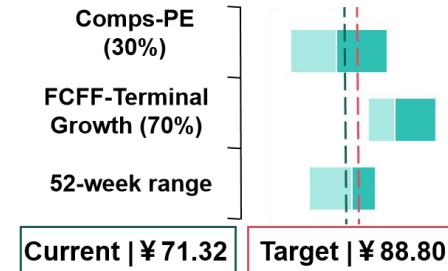


Figure 35 : Revenue Forecast

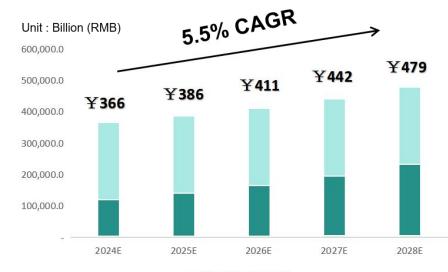


Figure 36 : WACC Buildup

Risk-free Rate	1.8%
Expected Market Return	9.0%
β	0.94
Cost of Equity	8.6%
Borrowing Rate	4.8%
Corporate Tax Rate	16.2%
Cost of Debt	4.0%
Equity Capital (E)	551478.0
Debt Capital (D)	74769.9
WACC	8.0%

Figure 37 : Industry WACC



Figure 38 : Sensitivity Analysis

Perpetuity Growth Rate		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	6.4%	113.1	120.1	128.8	139.6	153.7
	7.2%	98.1	103.0	108.8	115.9	124.7
	8.0%	86.6	90.1	95.9	99.1	104.9
	8.8%	77.4	80.0	83.0	86.5	90.6
	9.6%	70.0	72.0	74.2	76.8	79.8

Figure 39 : Scenario Analysis

Criteria	Bear	Base	Bull
2028E Operating Revenue	497723.4	513300.8	529262.5
2028E EBIT	46472.5	47927.0	49417.3
Target Price	83.0	88.8	94.2

PE, and PB are slightly higher than the industry average, indicating that investors are optimistic about Midea's future profitability, thus deriving a per-share value for Midea that is slightly lower than the current price through comparable company analysis. However, since 40% of Midea's revenue comes from Commercial & Industrial Solutions, we also referred to the automation equipment industry, whose industry averages for PS, PE, and PB are 4.8, 45.2, and 3.4, respectively, significantly higher than the home appliance industry. Therefore, we blended the home appliance industry and automation equipment industry, taking the PE as 15, to arrive at a per-share value for Midea of 86.7 yuan.

Investment Risks

The investment risks associated with Midea are primarily concentrated in the following risks: Risk #1: Fluctuations in the real estate market, Risk #2: Lower-than-expected sales due to consumer downgrading, Risk #3: Macroeconomic fluctuations and changes in tariff policies, Risk #4: Fluctuations in raw material costs, Risk #5: Financial Risk - Risks Associated with Acquisitions. The distribution of these five risks in the risk matrix is shown in the diagram (**Figure 40**). Among these, the most significant risks are the fluctuations in the real estate market and the lower-than-expected sales resulting from consumer downgrading. A detailed analysis is provided below:

Risk #1: Fluctuations in the real estate market

The downturn in the real estate market has led to a reduction in the number of new homes and a decline in the sales of commercial housing, which in turn has reduced the demand for household appliances. In China, compared to 2023, the sales of commercial housing in 2024 have dropped by 30%, and consumer purchasing willingness has also significantly decreased (**Figure 41**). During such a downturn, consumers' purchasing power weakens, leading to delays in appliance purchases. Appliance brands may need to adjust their pricing, possibly through discounts or promotional activities, or else inventory buildup could become a challenge.

Mitigation: In China, the government has already implemented measures to stimulate the real estate market, including several reductions in mortgage rates. On the other hand, considering the "multiple units per household" characteristic of products like AC, the increase in the number of rooms can help stabilize appliance sales. The number of homes with more than five rooms globally surged to 597 million in 2023 (**Figure 42**). Therefore, with the growth of urbanization and evolving lifestyle needs, the demand for household appliances remains strong.

Risk #2: Lower-than-expected sales due to consumer downgrading

Consumer confidence in China began to decline sharply in 2022 and has not yet returned to pre-pandemic levels (**Figure 43**). From the perspective of consumption composition, compared to 2019, by Q3 2024, Chinese consumers have increased spending on food, tobacco, and alcohol by 1.8%, as well as on transportation and communications, indicating a trend of downgrading. Meanwhile, the proportion of spending on housing has decreased by 1.3%. This trend of downgrading presents a risk of lower-than-expected sales. On the other hand, China is experiencing a clear decline in birth rates, while the dependency ratio continues to increase year by year (**Figure 44**). The accelerating aging population will also lead to slower appliance replacement cycles, causing overall demand to lag behind supply, which further reduces the likelihood of achieving expected sales.

Mitigation: Despite the risk of insufficient consumer spending power, in the short term, the trade-in subsidy policy has had a significant driving effect. From June 24, 2024 to September 15, 2024, the monthly sales growth rate has shown a noticeable upward trend, particularly after the launch of the trade-in policy in August 2024 (**Figure 45**). The month-on-month sales changes were all positive, indicating the clear impact of the policy. Moreover, Midea is also improving its brand portfolio and has completed product coverage from low-end to high-end, meeting the demand for appliances under the trend of consumer downgrading.

Risk #3: Macroeconomic fluctuations and changes in tariff policies

Firstly, the economic downturn caused by the pandemic has led to a reduction in aggregate demand. At the same time, technological advancements in the industry have increased the total supply of white goods, and the mismatch between demand and supply may result in insufficient shipments. Secondly, the appreciation of the Chinese yuan against the U.S. dollar since the beginning of 2024 has reduced export competitiveness (**Figure 46**). The intensified exchange rate fluctuations in the second half of the year may further damage exports, leading to potential losses. To maintain competitiveness, Midea may need to lower prices, which would impact profit margins. It is also important to note that the U.S. tariff policy on Chinese household appliances has been unstable over the years, and especially with the rise of Donald Trump, it may increase the difficulty of exporting Chinese home appliances, raising export costs and affecting profitability and competitiveness.

Mitigation: In the face of an unfavorable exchange rate, the company uses derivatives to hedge risks. To mitigate tariff risks, Midea Group has been gradually expanding production in Southeast

Figure 40 : Risk Matrix

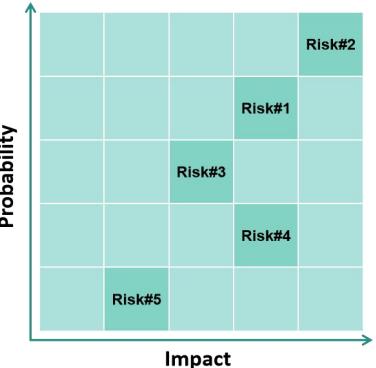


Figure 41 : Sales of Properties

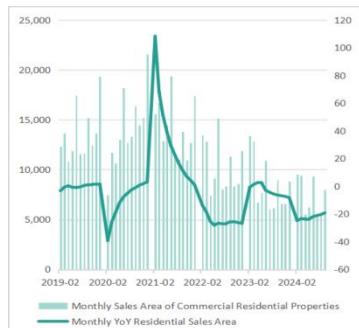


Figure 42 : Number of Rooms



Figure 43 : CCI

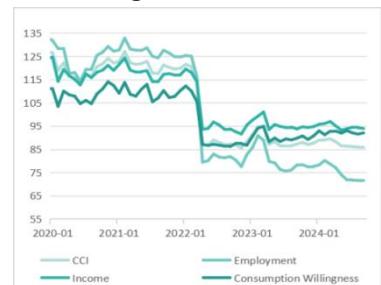
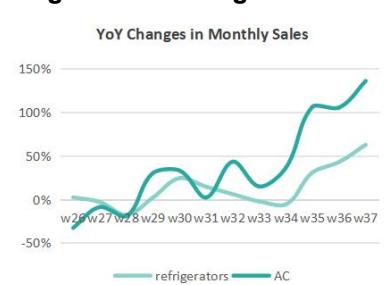


Figure 44 : Dependency Ratio



Figure 45 : Changes in Sales



Asia, which will further reduce its exposure to tariffs. Moreover, since 2023, the PPI has been below zero indicating low inflation risks in the short term, which should give investors confidence to buy and hold(**Figure 47**).

Risk #4: Fluctuations in raw material costs

Fluctuations in the cost of upstream raw materials pose a risk to Midea Group. The company's product manufacturing relies on various raw materials, such as metals, plastics, and electronic components. The price volatility of these materials directly impacts Midea Group's production costs. In recent years, raw materials have accounted for about 80% of the costs, and this high proportion makes fluctuations in raw material prices a potential risk. The chart (**Figure 48**) illustrates the volatility in raw material prices.

Mitigation: Midea Group mitigates the risks associated with raw material price fluctuations by using hedging strategies to lock in prices. Additionally, the company can diversify its supply chain by sourcing from different regions and suppliers, reducing its reliance on a single source and thus alleviating the impact of upstream cost fluctuations.

Risk#5: Financial Risk - Risks Associated with Acquisitions

Midea Group has been expanding into several industries through acquisitions in recent years(**Figure 49**). If the acquired target companies are already facing operational issues or financial risks, and if the post-acquisition integration does not meet expectations, it could negatively impact the company's profitability. Moreover, Midea Group manages its subsidiaries in a decentralized manner, with a significant portion of accounts receivable coming from its subsidiaries. If the subsidiaries perform poorly, it could have a substantial negative impact on the parent company. From the perspective of goodwill book value, as of the end of 2023, the book value of goodwill is 30.86 billion, which carries a relatively high impairment risk. In 2016, Midea's goodwill surged from 5.73 billion to 28.90 billion, primarily due to the acquisition of KUKA. However, KUKA is currently facing significant profitability challenges, which poses a higher risk of impairment.

Mitigation:In the past five years, the proportion of goodwill to total assets are below 10% and show a declining trend year by year. This indicates that the financial risk from goodwill impairment is gradually decreasing. Furthermore,Midea Group continues to diversify its acquisitions, and as of now, the company operates across five major business segments. This multi-brand portfolio helps mitigate performance issues from individual brands.

ENVIRONMENTAL, SOCIAL & GOVERNANCE

As a primary sector in resource consumption, the home appliance industry has a significant historical obligation towards sustainable development. As a result, there is an increasing societal emphasis on the environmental effects linked to home appliance manufacturers.

As a leading enterprise in home appliances, Midea's ESG profile has emerged as a crucial element in evaluating the company's quality and investment potential. A number of awards highlight Midea's commitment and outstanding achievements in ESG practices (**Figure 50**). **Figure 51** provides an overview of Midea's ESG ratings, which rank among the top in the industry. Over the last five years, Midea's ESG ratings have consistently improved, and we believe there is still potential for further enhancement.

Environmental

Carbon Management

Midea's sustainability goals are more ambitious than its rivals. As the first major industrial company in China to pledge to reach its carbon peak by 2030 and achieve carbon neutrality by 2060, Midea is actively pursuing its green transformation efforts.Despite a reported 52.62% increase in carbon emissions in 2023 (**Figure 52**), this rise is attributed to a new measurement approach that includes refrigerant (process emissions) as well as steam, heating and cooling (purchased), while actual emissions from Scope 1 and Scope 2 decreased when these factors are excluded (**Figure 53**).The expansion of ToB operations has also led to an increase in carbon emissions. To address its higher emissions relative to its competitors, Midea is advancing its clean energy transition strategy, which aims to lessen reliance on fossil fuels, promote the use of renewable electricity, and encourage the widespread adoption of distributed photovoltaic power generation systems. The company's photovoltaic generation has surpassed 220 million kilowatt-hours, resulting in a reduction of 158,947 tons of carbon emissions. Midea is also advocating for the use of environmentally friendly refrigerants and is investing in the creation of high-efficiency products. Notably, it has developed the first prototype in the industry of a household air conditioning unit that utilizes carbon dioxide as a refrigerant, offering a fluoride-free and eco-friendly cooling solution. Furthermore, Midea intends to implement initiatives such as recycling green electricity, using sustainable materials, and reducing emissions within its supply chain to comprehensively tackle Scope 3 greenhouse gas emissions.

Waste Management

Midea is committed to advancing source reduction and resource utilization in waste management.

Figure 46 : USD/CNY in 2024

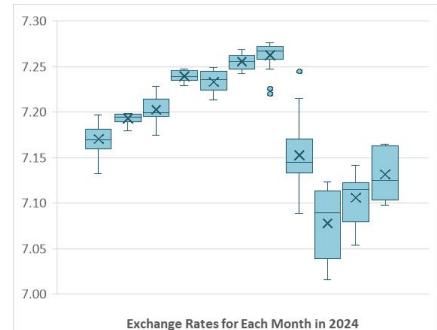


Figure 47 : PPI in China

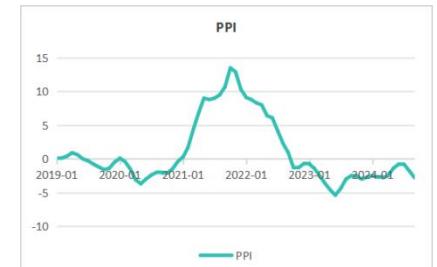


Figure 48 : raw material prices



Figure 49 : Acquisition History

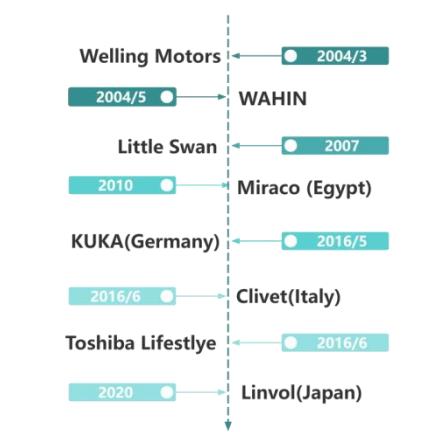


Figure 50 : Company Awards



The company has achieved full compliance with the treatment of wastewater, exhaust emissions, and waste electricity. Midea's home appliance recycling service network has successfully established a comprehensive presence across district, county, and key township markets in China, resulting in the recycling of 3.098 million used home appliances. These appliances are directed to state-authorized professional enterprises for standardized dismantling and treatment, thereby facilitating resource recycling, promoting energy conservation, reducing emissions and fostering the development of a green circular economy.

Social

Employee development

Midea Group has established a diverse talent development system that fully acknowledges employees of various ages, races, genders, and physical conditions. Figure reveals the diversity of Midea's workforce, with 30.15% identifying as female, women are playing a growing role in it (**Figure 54**). In 2023, Midea Group was recognized in Forbes' list of the world's most suitable companies for women to work for, as well as in the Forbes List of the World's Best Employers in 2022. The company prioritizes the rights and interests of female employees by offering numerous benefits such as maternity leave, designated parking spaces, and mother and baby rooms, while also facilitating a smooth transition back to work for postpartum women.

Customer management

Recently, Midea's reputation has suffered due to several issues, including failure to honor lottery prizes in live-stream, price increases prior to the Double Eleven discounts and the discovery of subpar products during random inspections. This highlights the need for Midea to enhance the transparency of its customer service and live event regulations. Midea has committed to establishing prompt and effective communication and complaint channels for users. Customers can reach out for inquiries or complaints through a 24/7 free 400 customer service hotline, the official service public account, and mini-programs, among other options. The company will continue to improve its pre-sale, sales, and after-sales service levels, maintain a "user-centered" service approach, and strictly adhere to data security and privacy protection standards.

Social responsibility

Midea places a high priority on environmental and social responsibility, striving for sustainable development. Starting in 2024, Midea initiated a "village-enterprise co construction, village-village pairing" tripartite cooperation agreement with Huanglong Village in Beijiao and Baiqiao Village in Gaozhou. This initiative aims to address the infrastructure and industrial upgrading challenges faced by Baiqiao Village. Additionally, Midea engages in various charitable activities both domestically and internationally, including volunteer efforts in Thailand, Singapore, the Philippines, and other locations.

Governance

Midea has established an effective governance framework. Each committee undertakes its respective responsibilities to ensure the rational allocation of internal resources and the efficacy of business decisions. The formation of the ESG Committee underscores Midea's commitment to the sustainable development of the organization (**Figure 55**).

Ownership structure

The equity structure of the company is well-defined. Midea Holding Co., LTD., which is predominantly owned (94.55%) by the actual controller, He Xiangjian, remains the largest shareholder of Midea Group, holding a 28.69% stake (**Figure 56**). This ownership ratio has demonstrated a degree of stability, and the concentration of management and control rights is advantageous for the company's long-term and stable development strategy.

Board of Directors

Midea's board of directors consists of 10 members, including 4 independent non-executive directors, one of whom is female. This composition allows for unbiased perspectives in board decisions and ensures the board's independence. All board members hold at least a master's degree and possess extensive experience and expertise in areas such as accounting, engineering, and finance. However, the governance rating is negatively impacted by the lack of gender diversity, with only 10% of board members being women, indicating potential for improvement.

Management Compensation

Midea has moved away from the family inheritance model and implemented a comprehensive professional management system along with a stable management team. In 2023, the average executive compensation at Midea Group is considerably higher than that of its competitors. We believe that substantial compensation targets encourages management to make strategic choices that enhance long-term profitability, sustainability, and overall shareholder returns. To acknowledge employee contributions and performance, Midea has initiated seven buyback programs since 2015. By the end of 2023, the company has also introduced nine stock option incentive plans, seven restricted stock incentive plans, and fourteen stock ownership plans for various levels of management and key employees.

Figure 51 : ESG Ratings

	Overall score	Environ.	Social	Gov.
LSEG	A-	A-	A-	A
Wind	AA (8.19)	9.03/10	6.48/10	7.97/10
iFinD	A (73.79)	65.56/100	68.18/100	67.93/100
SSI	BBB (84.88)	BB (79.00)	BBB(80.03)	A(87.47)

Figure 52 : Peer GHG emissions

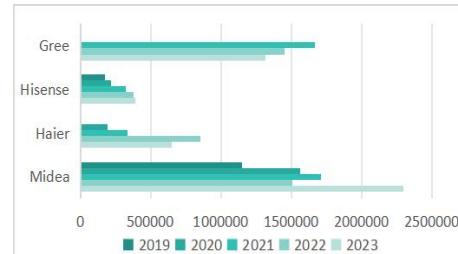


Figure 53 : Specific GHG emissions

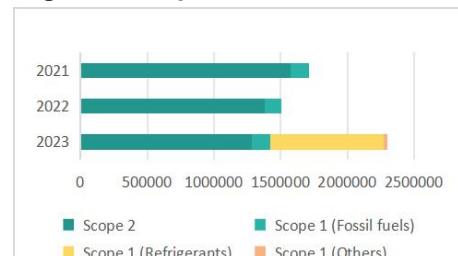


Figure 54 : Peer Female Staff Ratio



Figure 55 : Governance Framework

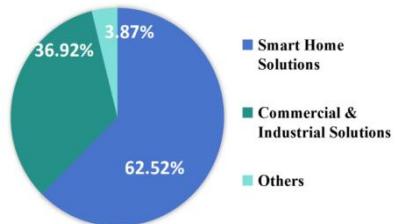


Figure 56 : Top Institutional Owners



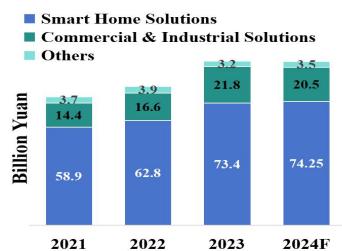
APPENDIX1: INDUSTRY OVERVIEW

2024H1 Revenue Segment



Source: Company Filings, 2024H1

Revenue Breakdown 2021-2024F



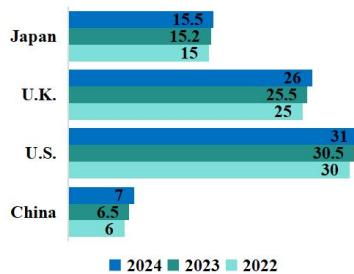
Source: Company Filings

Core Business Overview



Source: Company Filings

Average Number of Small Household Appliances Owned Per Household in Major Countries (2022-2024)



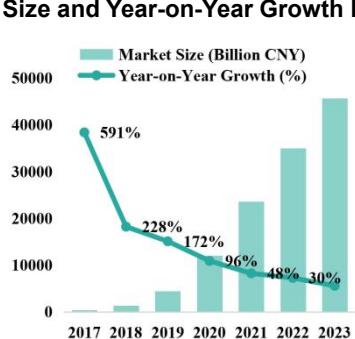
Source: Ouwei International, Momma Intelligence Database

Export Value of Household Appliances



Source: National Bureau of Statistics of China, 2024

2017-2023 Livestream E-commerce Market Size and Year-on-Year Growth Rate



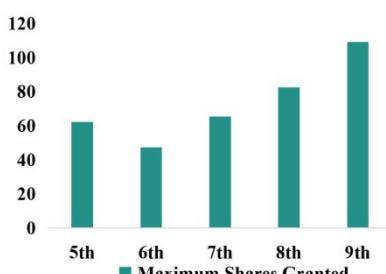
Source: CMM

Online Retail Sales Volume and Proportion of Air Conditioners



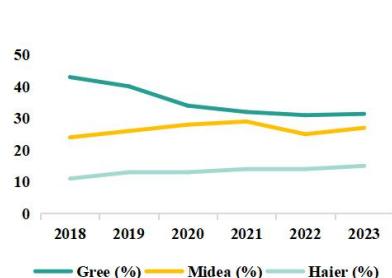
Source: CMM

Midea Group Stock Option Incentive Plan-Maximum Number of Shares Granted



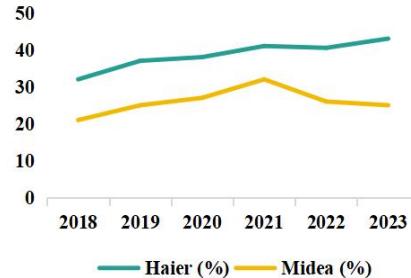
Source: Prospectus

Domestic market share of air conditioner



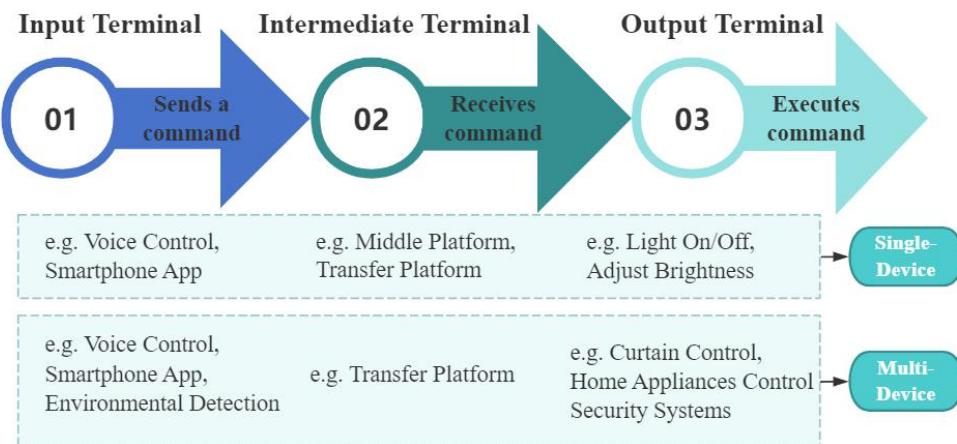
Source: CMM

Domestic market share of fridge



Source: CMM

Smart Lighting Solution and Whole-House Smart Control



Trump's Trade Policy Stances

Trump's Trade Policy Stances	Industries Involved	Source
Will impose a 10% universal baseline tariff on all foreign imported goods, and impose a 60% or higher tariff on China; cancel China's most-favored-nation trade status.	All industry	Public speeches or interviews
Introduce the "Trump Reciprocal Trade Act", stipulating that if any country imposes a higher tariff on US goods than the US imposes on that country's goods, the US will have the right to impose an equivalent tariff on that country; when the country agrees to reduce tariffs on US goods, it can negotiate to reduce tariffs on its goods. If a country imposes significantly higher non-tariff barriers, the US will have the right to negotiate with it to eliminate its non-tariff barriers, and if negotiations fail, the US will have the right to impose tariffs to offset the other party's non-tariff barriers.	All industry	Agenda 47, project 2025
Prevent US companies from investing in China; prevent China from acquiring US real estate and infrastructure in energy and technology sectors (except for investments that are in the interest of the United States); strengthen the "Hire Americans" policy, prohibiting the federal government from doing business with companies that outsource jobs overseas.	All industry	Agenda 47, 2024 Republican Platform

Strengthen export controls on emerging and foundational technologies, and cooperate with allies to implement complementary export control policies; tighten export controls on China and Russia, add more Chinese and Russian companies to the entity list, and prohibit exports to the aforementioned companies	All industry	project 2025
Provide financial and tax incentives for companies that move production from China back to the US mainland.	All industries	project 2025
Strengthen the review of low-value packages (goods under \$800), and exclude products covered by the 201, 301, and 232 tariff provisions from low-value tariff exemptions.	Cross-border e-commerce	project 2025
Adopt a four-year plan to gradually stop importing electronic products, steel, and pharmaceuticals from China. At the same time, it will include strong protective measures to ensure that China cannot circumvent restrictions by transshipping goods through other countries.	Electronics, Steel, Pharmaceuticals	Agenda 47
Repeal the subsidies for electric vehicles under the "Inflation Reduction Act", return to traditional automotive manufacturing; prohibit the import of cars from China; impose a 200% tariff on cars manufactured by China in Mexico.	Automobiles	Agenda 47, 2024 Republican Platform, Public speeches or interviews
Eliminate dependence on China or India for pharmaceuticals, and bring the production of all essential drugs back to the United States.	Pharmaceuticals	Agenda 47
Systematically reduce and ultimately eliminate the United States' dependence on China's supply chain for critical goods, such as pharmaceuticals, chips, rare earth minerals, computer motherboards, flat panel display modules, and military components.	Pharmaceuticals, Chips, Rare Earth Minerals, Computer Motherboards, Flat Panel Display Modules, and Military Components	project 2025

APPENDIX2: Financial Key Items

Financial Key Items (Unit : 1M , CNY)	2019/12/31	2020/12/31	2021/12/31	2022/12/31	2023/12/31
Period	Ann.	Ann.	Ann.	Ann.	Ann.
Report Type	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
Income Statement Summary					
Total Operating Revenue	279,380.51	285,709.73	343,360.83	345,708.71	373,709.80
YoY (%)	6.71	2.27	20.18	0.68	8.1
Total Operating Costs	251,317.89	258,752.44	312,777.89	311,691.53	335,012.54
Operating Income	29683.09	31493.46	33281.19	34763.27	40317.44
YoY (%)	16.11	6.10	5.68	4.45	15.98
Total Profit / Loss	29929.11	31663.54	33717.54	34955.93	40277.16

YoY (%)	16.13	5.80	6.49	3.67	15.22
Net Profit	25277.14	27506.54	29015.38	29810.23	33745.35
YoY (%)	16.75	8.82	5.49	2.74	13.20
Net Profit Attributable to Parent Company Shareholders	24211.22	27222.97	28573.65	29553.51	33719.93
YoY (%)	19.68	12.44	4.96	3.43	14.10
Non-recurring Gains and Losses	1486.83	2608.32	2644.56	945.53	745.03
Net Profit Attributable to Shareholders of the Parent Company	22,724.39	24,614.65	25,929.09	28,607.97	32,974.91
YoY (%)	13.29	8.32	5.34	10.33	15.26
R&D Expenditure	9,638.14	10,118.67	12,014.91	12,618.51	14,583.31
EBIT	26618.01	25140.05	26673.53	31563.52	36993.99
EBITDA	31,786.27	30,160.31	32,856.38	38,071.44	44,342.91
Balance Sheet Summary					
Current Assets	216,482.69	241,655.33	248,864.51	261,099.27	281,320.98
Fixed Assets	21664.68	22239.21	22852.85	26082.99	30937.96
Long-Term Equity Investments	2,790.81	2,901.34	3,796.70	5,188.82	4,976.11
Total Assets	301955.42	360382.6	387946.1	422555.27	486038.18
YoY (%)	14.51	19.35	7.65	8.92	15.02
Current Liabilities	144318.48	184150.5	222851.48	206341.74	251245.72
Non-current Liabilities	50,140.84	51,995.00	30,269.55	64,289.72	60,492.81
Total Liabilities	194459.32	236145.5	253121.03	270631.47	311738.53
YoY (%)	13.56	21.44	7.19	6.92	15.19
Shareholders Equity	107496.1	124237.1	134825.08	151923.8	174299.65
Equity Attributable to Parent Company Shareholders	101,669.16	117,516.26	124,868.12	142,935.24	162,878.83
YoY (%)	22.39	15.59	6.26	14.47	13.95
Capital Reserve	19,640.31	22,488.10	20,516.93	19,693.14	21,243.16
Surplus Reserve	6447.66	7966.36	9449.9	10702.93	10702.93
Unallocated Profit	72,713.63	87,074.45	102,982.76	119,679.20	136,284.35
Cash Flow Statement Summary					
Cash Received from Sales of Goods and Services	238,815.59	240,052.50	310,489.82	316,997.83	356,076.01
Net Cash Flow from Operating Activities	38590.4	29557.12	35091.7	34657.83	57902.61
Cash Paid for Acquisition or Construction of Fixed Intangible Long-term Assets	3,451.86	4,656.58	6,825.36	7,352.11	6,314.05
Cash Paid for Investing Activities	108457.4	176621.35	105347.25	108149.2	146998.17

Net Cash Flow from Investing Activities	-23,107.70	-35,310.66	13,599.59	-13,509.51	-31,219.85
Cash Received from Investment	2897.92	2657.49	1550.95	1348.28	2357.84
Cash Received from Borrowing	17,117.68	18,070.96	16,033.80	46,476.32	33,888.70
Net Cash Flow from Fundraising Activities	-3273.6	-756.29	-31204.54	-10854.88	-17910.21
Net Increase in Cash	12,489.48	-6,893.25	17,001.53	10,581.93	8,755.29
EOP Cash Balance	30441.76	23548.51	40550.04	51131.97	59887.26
Depreciation and amortization	5,168.26	5,020.26	6,182.85	6,507.92	7,348.92

APPENDIX3: Absolute Valuation Method

Financial Key Items (Unit : 1M , CNY)	2024E	2025E	2026E	2027E	2028E
Total Operating Revenue	393,772.9	418,172.9	447,948.1	484,417.5	529,262.5
Total Operating Costs	(284,489.1)	(302,485.3)	(324,331.5)	(350,947.9)	(383,501.6)
Taxes and Surcharges.	(1,914.0)	(2,032.6)	(2,177.4)	(2,354.6)	(2,572.6)
Sales Expenses	(37,147.3)	(39,867.3)	(43,153.9)	(47,151.6)	(52,046.0)
Administrative Expenses	(13,806.7)	(14,662.2)	(15,706.2)	(16,984.9)	(18,557.3)
R&D Expenses	(15,366.2)	(16,318.4)	(17,480.3)	(18,903.5)	(20,653.5)
EBIT	41,049.6	42,807.1	45,098.9	48,074.9	51,931.6
Financial Expenses	(909.6)	(648.3)	(392.9)	(102.3)	231.8
Non-recurring Gains and Losses	1,884.4	1,884.4	1,884.4	1,884.4	1,884.4
Pre-tax profit	43,164.2	46,320.3	50,061.8	54,691.8	60,437.1
Income tax expense	(6,993.9)	(7,505.3)	(8,111.5)	(8,861.7)	(9,792.6)
Net profit	36,170.3	38,815.0	41,950.3	45,830.1	50,644.5
Minority shareholder gains and losses	26.8	28.4	30.5	33.0	36.0
Net profit attributable to parent company owners	36,143.1	38,785.6	41,918.3	45,795.0	50,605.6
Dividends to shareholders of the parent company	(14,720.1)	(15,796.3)	(17,072.1)	(18,651.0)	(20,610.3)
EBIT	41,049.6	42,807.1	45,098.9	48,074.9	51,931.6
Depreciation and amortization	209.4	226.9	245.6	265.9	288.0
EBITDA	41,259.0	43,034.0	45,344.5	48,340.8	52,219.6

APPENDIX4: Relative Valuation Method

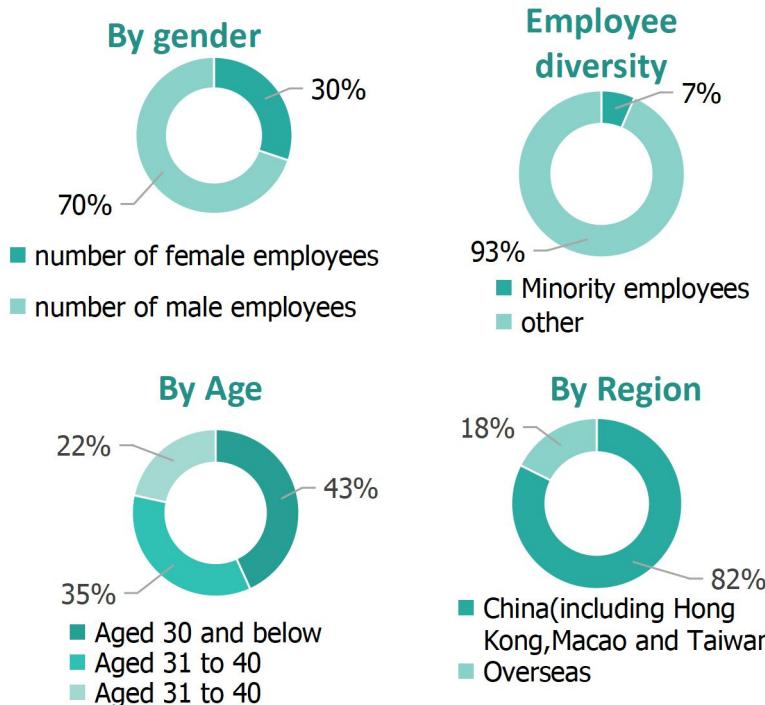
Stock code	Securities name	Total market value	Revenue in 2022Q3	Net profit in 2022 Q3	PS ratio(TTM)	PE ratio(TTM)	PB ratio	PEG (LYR)	EV / EBITDA
000651.SZ	Gree	247,862	146,722	21,215	1.3	8.0	2.0	0.46	9.74

002050.SZ	SANHUA	93,608	20,563	2,320	3.6	30.6	5.1	2.37	22.19
002668.SZ	TCL	12,142	13,945	1,574	0.7	12.5	7.5	0.18	7.02
000521.SZ	HFML	8,953	22,758	543	0.3	12.6	1.6	0.06	10.53
000921.SZ	HISENSE	40,342	70,579	4,167	0.5	13.7	3.1	0.16	6.72
600690.SH	Haier	255,719	202,971	15,436	1.0	14.7	2.5	1.29	10.92
	MAX	255,719	202,971	21,215	3.6	30.6	7.5	2.4	22.19
	MIN	8,953	13,945	543	0.3	8.0	1.6	0.1	6.72
	AVERAGE	109,771	79,590	7,542	1.2	15.3	3.6	0.8	11.19
	MEDIAN	66,975	46,668	3,243	0.9	13.1	2.8	0.3	10.14
Target company index	Securities name	Total market value	Total shares	Latest share price	2023 Revenue	Net profit	Net assets	Net profit YoY (%)	EBITDA
000333.SZ	Midea	551,478	7,005	70.39	373,710	33,755	162,879	13%	41,259
				Stock value	PS ratio method	PE ratio method	PB ratio method	PEG method	EBITDA law
				MAX	191.0	147.3	173.5	149.8	131.7
				MIN	18.6	38.7	37.8	4.1	40.5
				AVERAGE	65.6	73.9	84.7	47.6	66.9
				MEDIAN	45.7	63.2	65.2	20.3	60.7

APPENDIX5: Midea's goodwill

	2019	2020	2021	2022	2023
Goodwill (in billion CNY)	28.21	29.56	27.87	28.55	30.86
impairment of goodwill (in billion CNY)	0.06	0.05	0.05	0.05	0.05
Goodwill/Asset	9.34%	8.2%	7.19%	6.76%	6.35%

APPENDIX6: Employee diversity



ESG Focus Topics

Environmental Focus	
	Climate change
	Pollution control
	Water resource management
Social Focus	
	Employee rights and friendly workplace
	Human rights management and labor relation
	Occupational health and safety
Governance Focus	
	Corporate performance
	Ethical management and good governance
	Compliance

APPENDIX7: Overview of board members

Name	Age	Positions	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities	Education
	Mr. Fang Hongbo 57	Executive Director, Chairman of the Board and Chief Executive Officer	November-1992	August-2012	Overall strategic planning, business development and management of our Group.	accounting business administration
	Mr. Zhao Jun 48	Non-executive Director	March-2000	July-2024	Providing advice on the operation and management of our Group.	accounting EMBA
	Mr. Wang Jianguo 47	Executive Director and Vice President	July-1999	September-2021	Overall strategic planning and management of our Group.	accounting EMBA
	Mr. Fu Yongjun 55	Executive Director and Vice President	October-1999	July-2023	Overall strategic planning and management of our Group.	EMBA engineering
	Dr. Gu Yanmin 60	Executive Director and Vice President	June-2000	April-2014	Overall strategic planning and management of our Group.	sociology
	Mr. Guan Jinwei 45	Executive Director and Vice President	July-2002	July-2024	Responsible for the overall strategy and operations of Intelligent Building Technology.	EMBA business administration mechanical engineering and automation
	Dr. Xiao Geng 61	Independent non executive Director	July-2024	July-2024	Supervising and providing independent opinion and judgment to the Board.	economics systems science and management science

	Dr. Xu Dingbo	61	Independent non executive Director	July-202 4	July-202 4	Supervising and providing independent opinion and judgment to the Board.	accounting business administration
	Dr. Liu Qiao	54	Independent non executive Director	July-202 4	July-202 4	Supervising and providing independent opinion and judgment to the Board.	economics international finance
	Dr. Qiu Lili	49	Independent non executive Director	July-202 4	July-202 4	Supervising and providing independent opinion and judgment to the Board.	computer science and physics

APPENDIX8: Overview of executive committee

Name	Age	Positions	Date of joining our Group	Roles and responsibilities	Education	Pay value(1,000C NY)	Shares Held(10,000 shares)	
	Mr. Fang Hongbo	57	Executive Director, Chairman of the Board and Chief Executive Officer	November -1992	Overall strategic planning, business development and management of our Group.	accounting business administration	1354	11699.05
	Mr. Wang Jianguo	47	Executive Director and Vice President	July -1999	Overall strategic planning and management of our Group.	accounting EMBA	1143	0.00

	Mr. Fu Yongjun	55	Executive Director and Vice President	October -1999	Overall strategic planning and management of our Group.	EMBA engineering	1154	20.00
	Dr. Gu Yanmin	60	Executive Director and Vice President	June -2000	Overall strategic planning and management of our Group.	sociology	988	0.00
	Mr. Guan Jinwei	45	Executive Director and Vice President	July -2002	Responsible for the overall strategy and operations of Intelligent Building Technology.	EMBA business administration mechanical engineering and automation	1178	53.50
	Mr. Bai Lin	42	Vice President	July-2003	Responsible for the domestic sales of our Smart Home Solutions.	international economics and trade	1009	9.51
	Mr. Zhao Lei	39	Vice President	July-2018	Responsible for the overall strategy and operations of our residential air conditioning division.	enterprise management international economics and trade	1548	10.27
	Ms. Zhong Zheng	42	Vice President, Chief Financial Officer and Finance Director	July-2002	Responsible for the overall finance strategy, accounting, tax, treasury related matters and finance business of our Group.	MBA accounting	945	27.62

	Mr. Zhang Xiaoyi	51	Vice President and Chief Digital Officer	August-2 010	Responsible for digital transformation and system development of our Group.	MBA mechanical manufacturi ng process and equipment	799	51.66
	Mr. Li Guolin	47	Vice President and Chairperson of the ESG Committee	July-199 8	Responsible for intelligent manufacturing and quality control of our Group.	EMBA engineering heating ventilation and air conditionin g	649	44.07
	Mr. Wang Jinlian g	57	Vice President	October- 1995	Responsible for brand communication and public relations of our Group.	EMBA	606	37.80
	Dr. Wei Chang	60	Vice President and Chief Technology Officer	August-2 022	Responsible for technology strategy and technical operations of our Group.	science chemistry	773	0.00
	Ms. Zhao Wenxi n	41	Chief People Officer	July-200 4	Responsible for the overall strategy and management of human resources of our Group.	MBA German	635	44.40
	Mr. Jiang Peng	50	Board Secretary	October- 2007	Responsible for Board related matters, capital markets, and corporate governance of our Group.	accounting investment economics administrati on	336	49.46