



## China Consumer Durables

# 2H22 Outlook: Setup still tough but improving with major risks overseas; Supor up to Buy

While the market stays at the sidelines of the China Consumer Durables sector, we believe its setup in 2H22 is improving: 1) **domestic demand supported** by more policies in the property market and consumption stimulus – the market is yet to appreciate the downside protection of recent pro appliance consumption policies; and 2) **visible margin recovery trend** with moderating commodity prices and RMB depreciation. In comparison, we don't think the market has fully priced in the **increasing risks from overseas markets especially Europe/US** where macro economies and housing markets are slowing down, reflected in an average of 7%/10% lower GHe EPS in 2022E/23E compared to Wind consensus. In US, pending home sales, a leading indicator for appliance consumption, declined by 20% in June, dampening the demand outlook for consumer durables. Within this report, we present our proprietary top-down framework to analyze and track overseas demand changes. We also provide revenue/margin sensitivity analysis on our coverage companies with meaningful overseas exposure and stress test their earnings resilience under bear scenarios.

In this regard, we refresh our stock picking by identifying the mispriced risk perceptions. We prefer stocks: 1) **at low valuations with most risks already priced in. Midea** (Buy, on CL) remains our top pick that we expect to re-rate from both moderating cyclical factors and potential policy support in the short term and ample white space in the 2B/overseas 2C business in the mid-to-long term. We highlight **Hisense** (Buy) that also has significant margin recovery potential and emerging new businesses to drive re-rating once market risk perception changes. In contrast, we downgrade **Haier** from Buy to Neutral for its mispriced DM growth risk. We think the market has not fully priced in its overseas growth slowdown risk given its 80% overseas revenue exposure to DMs. We upgrade **Supor** from Neutral to Buy as we believe the recent correction provides an entry opportunity for the quality small appliance leader. With c.20% correction post reporting c.30% overseas revenue decline, we think the market has largely priced in its overseas risks but overlooked its domestic revenue/margin upside potential supported by product/channel expansion, and 2) **healthy short-term growth momentum and visible long-term growth trajectory**. We highlight **XGimi** (Buy) for its solid growth momentum and long-term growth potential supported by projector penetration

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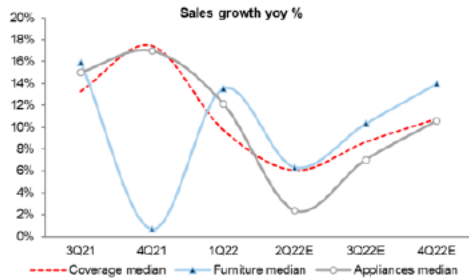
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increase and overseas expansion. On the contrary, we remain cautious on the sub-sectors which are highly-correlated with the property market, given POE developer liquidity issues. We downgrade **Man Wah** from Neutral to Sell for ongoing headwinds in both domestic and overseas markets.

*The authors would like to thank Jason English (Consumer) and Susan Maklari (Homebuilders and Building Products) from our US team, William Turner (Capital Goods) from our Europe team, and Serena Fu for their valuable contribution to this report.*

# Our insights in key charts

## Domestic demand still weak yet stabilizing



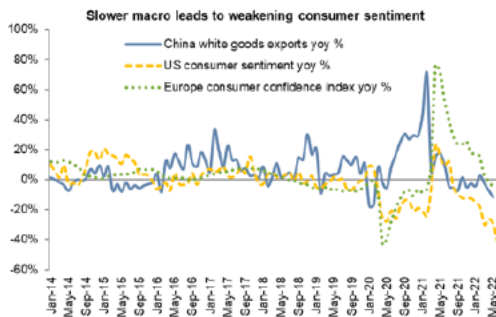
### Drivers for stabilizing domestic demand:

- ❑ More supportive government policies on consumption stimulus and property market stabilization
- ❑ Marginally loosening of COVID restrictions

### Key focuses:

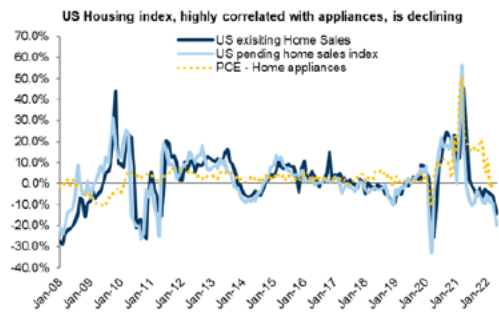
- **Consumer confidence:** weak recovery in 2H; product divergence
- **Stimulus policy:** a series of pro-consumption policies
- **Upside:** detailed follow-up policies from local government on appliances consumption stimulus
- **Property:** recover from trough
- **Downside:** concern from suspension of mortgage repayments

## Overseas durable demand weakening esp. in Europe/US



### High overseas exposure of coverage companies:

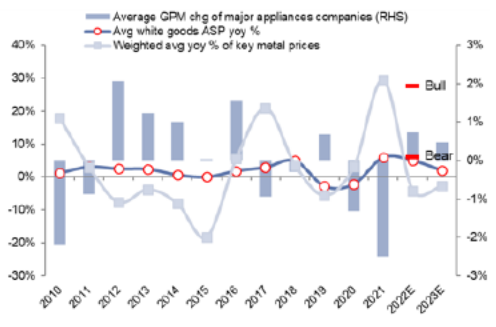
- ❑ **EU:** Roborock, Supor
- ❑ **US:** Haier, Man Wah, Jason Furniture
- ❑ **Total overseas:** Hisense, Midea, Ecovacs



### Company-specific mitigation measures:

- ❖ **Market share gains:** Midea OBM, Haier product expansion
- ❖ **Channel/market expansion:** Roborock new regions
- ❖ **Growing from a low penetration:** Projectors

## Increasingly visible margin improving trend



### Decreasing raw materials costs

- ❑ CRC/copper/aluminum prices declined by 19%/15%/9% YTD

### Can translate into domestic margin expansion as:

- ❑ Leading companies' intention to maintain pricing and improve margins
- ❑ Healthy channel inventory thus less risk of destocking-led pricing competition
- ❑ Weak demand leads to low possibility of cost inflation

### More conservative on overseas margins considering operating de-leverage and potential higher discounts

### Other company-specific tailwinds:

- ❑ **Product/channel mix improvements:** Midea, Hisense, Supor
- ❑ **RMB depreciation:** Midea

## Stock ideas

### Rating changes:

- ❖ **U/G Supor to Buy** on favorable risk/reward with domestic strength outweighing overseas weakness
- ❖ **D/G Haier to Neutral** on mispriced risks from overseas growth slowdown
- ❖ **D/G Man Wah to Sell** on ongoing domestic and overseas headwinds

### Highlighted Buy-rated ideas:

- ❖ **Midea:** Moderating headwinds (e.g. cost, FX) and potential policy support in the short term, ample white space in the 2B/overseas 2C business in the mid-to-long term
- ❖ **Hisense:** Leader in the structurally growing VRF category, improving profitability and expanding 2<sup>nd</sup> growth curve via Sanden
- ❖ **XGimi:** Strong product and brand in the favored home projectors, chip shortage easing and overseas expansion potential

Source: Bureau of Economic Analysis, Company data, National Association of Realtors (NAR), University of Michigan, Wind, Gao Hua Securities Research

## 1H22 Recap: Bumpy performance marked by changing demand expectation and improving margin outlook

**Share price rebounded on improving domestic demand and margin expectations with reopening and easing cost pressure, yet corrected again on property and overseas demand concerns** ([Exhibit 1](#)).

- **Jan-Apr: implications from correction of domestic demand drag and geopolitical tensions.** As we discussed in our previous sector note ([Demand drag and cost pressure pose headwinds, Mar 21](#)), China consumer durable stocks in our coverage corrected by 28%-56% from peak (mostly in Jan) to trough (mostly in Mid Mar or end Apr) this year due to a combination of 1) a new round of restrictive measures to contain Omicron spread in mainland China that mostly affected tier-1 cities with significant GDP contribution (i.e. Shanghai, Beijing), and 2) the Russia/Ukraine conflicts that affected both European demand and certain commodity prices such as aluminum. After a general share price correction since mid Jan, companies that saw share outperformance in 1Q such as Haier, Robam, Supor, Roborock first bottomed out in mid-Mar, before our whole coverage companies seeing a clear valuation recovery mode since late Apr as domestic COVID situation eased.
- **May-Jun: rebound with improving domestic demand and margin expectations.** Our coverage companies later recorded 12% to 61% share price rebound from the trough in Jun end, thanks to improvements in growth expectations on both domestic demand and margins, in our view: 1) Shanghai reopened on Jun 1 and [618 suggested a healthy but meaningful demand recovery](#) with mid-single-digit growth; 2) On the property side, [continuous policy easing and strong marginal improvements](#) post lockdowns likely helped rebuild demand expectations; 3) As local governments have disbursed consumption coupons in multiple cities, [though small in total value](#), investors are turning more positive towards upcoming potential policy stimulus; 4) On margins, key raw materials prices such as that of steel/copper/aluminum declined by 19%/15%/9% YTD, bringing yoy decline to 11%/3%/1% by Jul 29 ([Exhibit 3](#)). On the company level, furniture and kitchen appliances companies such as Suofeiya, Oppein, Jason Furniture and Robam with high exposure to property market experienced strong share price rally in Jun with the property market recovery. Emerging appliances names such as XGimi and Appotronics also rose significantly with robust 618 sales performance. While companies with strong demand recovery and low valuations rallied most, divergence remains as shown from the lagging performance of GZSP and Meida, which have been losing market share.
- **July: another round of property concerns meet Europe demand weakness.** The share price of property related names, especially furniture and kitchen appliances companies, again retreated significantly following [the news of mortgage suspension](#). Emerging appliances performance also started to diverge. Projector companies' share price further rose on robust growth momentum and overseas expansion, while cleaning appliances companies declined again on soft

domestic/overseas demand.

**What surprised us on fundamentals**

- **Overseas weakness came steeper:** The export ex-factory shipment declined by double-digit yoy in Apr-Jun for major white goods. Though we have been expecting moderation of exports off a high base boosted by stimulus, absolute levels dropping back to or even below 2019 levels was weaker than expected given China has gained share since 2020 on more stable supply chain. We think the steeper decline was likely due to both weaker overseas demand and some de-stocking amid rising concerns of recession and inventory buildup among overseas retailers.
- **Pricing divergence across products and brands:** During 618, which has contributed about half of 2Q sales historically, ASP of major appliances and lifestyle appliances kept largely stable, while innovation-driven products (e.g. robotic vacuum cleaner (RVC)) continued strong premiumization trend. Brands also exhibited divergence on ASP trends. Companies such as Midea, Hisense and Supor showed strong ASP growth, consistent with management’s determination for product mix and resultant margin improvements. In comparison, the industry generally showed much weaker trend on ASP during 618.

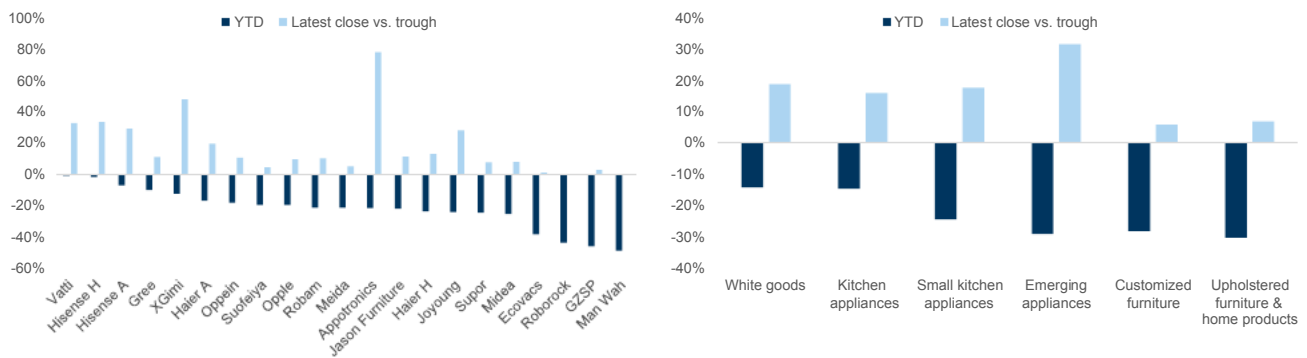
**Exhibit 1: Share price rebounded with improving domestic demand and margin expectations with reopening and easing cost pressures, and corrected again on property and overseas demand concerns**  
Share price performance of our coverage companies

	Midea	Gree	Haier A	Haier H	Hisense A	Hisense H	Robam	Meida	Vatti	Supor	Joyoung	Ecovacs	Roborock	XGimi	Appotronics	Opplle	Oppein	Suofeiya	GZSP	Man Wah	Jason Furniture
Trough vs peak	-35%	-26%	-33%	-34%	-36%	-39%	-35%	-29%	-28%	-30%	-45%	-40%	-51%	-41%	-56%	-29%	-28%	-38%	-53%	-54%	-30%
YTD	-26%	-10%	-17%	-24%	-7%	-2%	-21%	-22%	-1%	-25%	-24%	-39%	-44%	-13%	-22%	-20%	-18%	-20%	-46%	-49%	-22%
Latest close vs. trough	8%	11%	19%	13%	29%	33%	10%	5%	33%	7%	28%	1%	0%	48%	78%	9%	10%	4%	3%	0%	11%
Jun end vs. trough	18%	12%	32%	31%	30%	30%	40%	13%	23%	29%	34%	33%	35%	32%	61%	15%	38%	61%	27%	38%	36%
July MTD	-9%	-1%	-10%	-14%	-1%	2%	-21%	-7%	8%	-17%	-4%	-24%	-26%	12%	11%	-5%	-20%	-35%	-19%	-27%	-19%

Pricing as of Jul 29, 2022

Source: FactSet

**Exhibit 2: The YTD share price performance remains lackluster for our coverage companies after a bumpy ride in 1H22**  
Share performance YTD and rebound from trough (%)

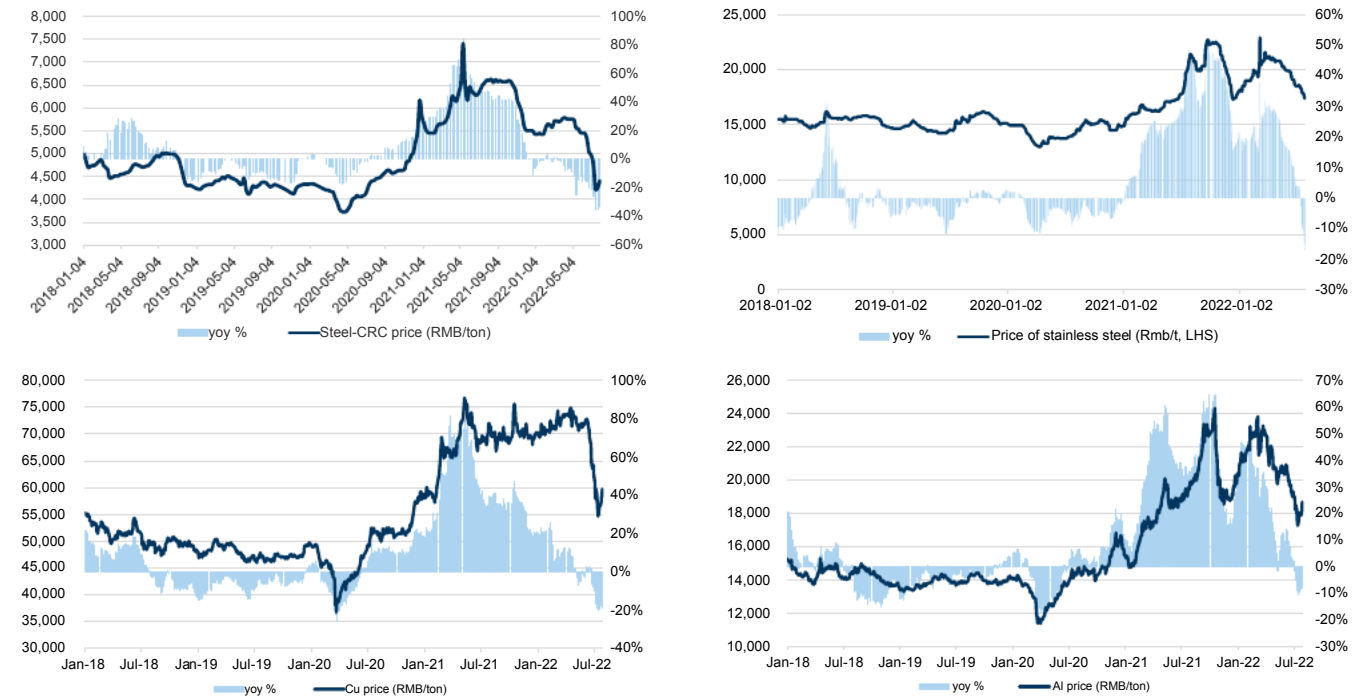


Pricing as of Jul 29, 2022

Source: FactSet

**Exhibit 3: Key commodity prices such as that of steel/copper/aluminum declined by 19%/15%/9% YTD, bringing yoy decline to 11%/3%/1% by Jul 29**

Key raw material prices - Steel/Copper/Al



Source: Wind

**Exhibit 4: Overseas demand weakness came steeper, especially in 2Q**

Ex-factory shipment and retail sales of major appliances

	yoy growth (%)								MoM trend			vs. 2019 CAGR			MoM trend		
	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	1H22	Apr-22	May-22	Jun-22	Apr-22	May-22	Jun-22	Apr-22	May-22	Jun-22	
<b>Ex-factory shipment</b>																	
<b>Total shipment</b>																	
AC	-5%	11%	5%	1%	-2%	-14%	-2%	▼	▼	▼	-5%	-2%	-2%	▼	▲	▲	
Washing machine	-10%	-2%	-15%	-22%	-11%	-6%	-11%	▼	▲	▲	-7%	-2%	0%	▼	▲	▲	
Refrigerator	-7%	2%	-7%	-16%	-15%	-8%	-9%	▼	▲	▲	-3%	-6%	-2%	▼	▲	▲	
VRF	18%	61%	7%	-13%	3%	8%	6%	▼	▲	▲	7%	12%	18%	▼	▲	▲	
<b>Domestic shipment</b>																	
AC	-9%	4%	3%	2%	7%	-11%	-1%	▲	▲	▼	-9%	-3%	-4%	▼	▲	▲	
Washing machine	-9%	7%	-11%	-21%	-10%	-4%	-9%	▼	▲	▲	-10%	-3%	-2%	▼	▲	▲	
Refrigerator	-9%	17%	-4%	-21%	-10%	-5%	-6%	▼	▲	▲	-9%	-7%	-4%	▼	▲	▲	
VRF	18%	66%	5%	-15%	2%	8%	5%	▼	▲	▲	7%	12%	19%	▼	▲	▲	
<b>Export shipment</b>																	
AC	-2%	15%	7%	-1%	-12%	-19%	-2%	▼	▼	▼	1%	0%	1%	▼	▼	▲	
Washing machine	-11%	-10%	-19%	-22%	-12%	-8%	-14%	▼	▼	▲	-3%	-2%	1%	▼	▼	▲	
Refrigerator	-5%	-10%	-10%	-11%	-18%	-12%	-11%	▼	▼	▲	4%	-4%	-1%	▼	▼	▲	
VRF	22%	22%	28%	20%	28%	11%	27%	▼	▲	▼	10%	6%	2%	▼	▼	▼	
<b>Retail sales</b>																	
<b>NBS (above designated size)</b>																	
AVC		13%	-4%	-8%	-11%	3%	0%	▼	▼	▲	-4%	-1%	7%	▼	▲	▲	
Offline	-21%	-10%	-20%	-23%	-29%	-8%	-19%	▼	▼	▲		-19%	-9%			▲	
Online	-6%	12%	-14%	-6%	26%	-15%	-4%	▲	▲	▼							
<b>ASP</b>																	
Offline	8%	26%	18%	10%	11%	12%	13%	▼	▲	▲		10%	12%			▲	
Online	10%	6%	13%	10%	26%	3%	10%	▼	▲	▼							

Source: AVC, IOL, Gao Hua Securities Research



## 1H22 Preview: Overseas revenue and margins the key focuses

**Earnings revision:** Compared to our [sector re-stack in late Mar](#), we think the lock down impacts on domestic demand have been largely priced in by the market. The lock down in Shanghai was longer than expected in our previous base case, but the magnitude of decline nationwide was less than feared (e.g. retail sales of appliances declined by 8%/11% in Apr/Mar vs. 20%+ of GHe). Domestic demand then recovered sequentially and modestly as shown from 7% yoy growth during 618. Structurally growing categories continued to outperform traditional appliances ([Exhibit 5](#)), echoing our view on more selective consumption behaviors in our [2022 outlook](#). Among them, projectors and VRF are even stronger than expected, leading to higher growth forecasts for XGimi, Appotronics and Hisense. We are generally more conservative on overseas demand especially in Europe, which leads to larger downward revisions for Supor and Roborock. On the company level, we adjust revenue forecasts based on retail and shipment performance, while we generally incorporate a more cautious view on sales expenses as some companies (e.g. Roborock) mentioned ramping up 618 marketing efforts.

Factoring in all the above, we adjust our 2Q22E revenue/profits by -14% - 16%/-18% - 10% to factor in the latest update on sub-sector performance, overseas situation and company data.

**Focus of the results:** Domestic sales of most appliances companies have high visibility post 618 data, and focus would be mostly on overseas sales and margins. That said, companies with significant offline and developer channel exposure offer less visibility as they suffered more from COVID and decreasing completions in Q2. For instance, Man Wah mentioned declining domestic sales in Q2 and Supor recorded LSD domestic growth despite 13% online growth during 618. Concern around overseas is under the spotlight as both our [expert call](#) and [Supor's preliminary results](#) point to sluggish demand with de-stocking risks in Europe. In the US, leading companies such as [Whirlpool](#) and [Electrolux](#) also revised down their revenue growth targets in 2022E. On margins, while cost pressure has been easing as commodity prices decline, sales expense allocation might be higher during 618. Overseas margin is also a rising focus with weaker demand and potentially more promotions.

**Potential beat and miss:** Under the current weak demand environment, we think it's difficult for our coverage companies to have a clean beat on both revenue and margin. However, given generally low market expectation, we think Midea, Robam and Roborock's results may come in better than expectation. In comparison, Suofeiya, Ecovacs and Appotronics' results may come in below expectation, mostly on margins.

From investors' feedback and recent share price performance, we think the market expectations for Midea, Robam and Roborock are low given concerns on property and overseas especially Europe market. Comparatively, Ecovacs and Appotronics reported robust 618 sales, yet the margins might fall below expectations on competition and drag from 2B business respectively. We think Suofeiya might miss expectations on revenue and/or margins given offline traffic hit by COVID, property completion decline and continued investments in new brand/business.



**Key debates/questions to answer:** 1) Overseas demand outlook and if any guidance cut; 2) Domestic demand outlook amid property concerns, and the latest business update in Jul-Aug; 3) Pricing and margin outlook in both domestic and overseas markets given recent changes in commodity prices and FX; 4) Update on the company's strategy to mitigate demand pressure e.g. product/channel expansion.

### Exhibit 5: Structurally growing categories continued to outperform traditional appliances in 1H22

Retail sales growth by category

By category yoy growth (1H22)	Total			Online			Offline		
	Val	Vol	ASP	Val	Vol	ASP	Val	Vol	ASP
<b>White goods</b>									
AC	-15%	-21%	7%	-10%	-16%	7%	-20%	-27%	9%
Refrigerator	-3%	-6%	2%	1%	2%	-1%	-8%	-20%	16%
Washing machine	-9%	-10%	1%	1%	-1%	2%	-20%	-28%	12%
<b>Kitchen appliances</b>									
Range hood	-9%	-15%	7%	6%	-4%	10%	-17%	-22%	6%
Gas hob	-6%	-14%	9%	-1%	-10%	10%	-18%	-23%	6%
Dishwasher	11%	2%	9%	11%	2%	8%	5%	-3%	7%
Integrated stove	10%	-1%	10%	12%	-5%	18%	-4%	-8%	5%
Gas water heater	-14%	-13%	-1%	-3%	-4%	2%	-30%	-31%	2%
Electric water heater	-17%	-18%	2%	-15%	-16%	1%	-23%	-27%	5%
<b>Small appliances</b>									
Small kitchen appliances	-5%	-13%	10%	-3%	-13%	11%	-10%	-16%	7%
RVC	9%	-28%	52%	5%	-29%	47%	10%	-37%	75%
Wet dry vacuums	84%	87%	-2%	61%	n.a.	n.a.	215%	n.a.	n.a.

Source: AVC

### Exhibit 6: 2Q preview of our coverage companies

Company	Ticker	Rating	Currency	Price	12m TP	U/D %	New					Change			
							Sales	Sales growth	OPM	OPM chg	Net profit	Net profit growth	Sales	OPM	Net profit
<b>White goods</b>															
Midea Group	000333.SZ	Buy*	Rmb	54.98	91.00	66%	93,338	1.6%	9.0%	0.3%	8,517	-0.3%	-2.0%	-0.3%	-8.8%
Gree Electric Appliances Inc.	000651.SZ	Buy	Rmb	33.26	42.00	26%	59,599	1.9%	11.1%	0.8%	6,248	3.9%	5.0%	0.4%	8.0%
Haier Smart Home Co.	600690.SS	Neutral	Rmb	24.79	27.00	9%	60,598	6.6%	7.2%	0.3%	4,157	9.5%	2.5%	0.3%	5.9%
Haier Smart Home Co.	6690.HK	Neutral	HK\$	25.10	29.00	16%									
Hisense Home Appliances	000921.SZ	Buy	Rmb	14.07	18.00	28%	20,026	8.3%	3.7%	0.0%	380	-4.3%	3.6%	-0.1%	0.5%
Hisense Home Appliances	0921.HK	Buy	HK\$	9.06	15.00	66%									
<b>Kitchen appliances</b>															
Hangzhou Robam Appliances	002508.SZ	Buy	Rmb	28.29	44.00	56%	2,457	1.6%	19.1%	-1.8%	426	-1.3%	-4.1%	-0.1%	-4.2%
Zhejiang Meida	002677.SZ	Sell	Rmb	13.60	14.00	3%	572	5.8%	29.3%	-2.3%	155	0.7%	0.0%	0.6%	2.1%
Vatti Corp	002035.SZ	Neutral	Rmb	6.30	6.30	0%	1,646	2.4%	11.0%	-2.0%	162	0.3%	4.5%	0.0%	4.0%
<b>Small appliances</b>															
Zhejiang Supor Co.	002032.SZ	Buy	Rmb	46.93	57.00	21%	4,712	-11.0%	10.0%	1.2%	395	9.4%	-13.6%	1.7%	10.1%
Joyoung Co.	002242.SZ	Neutral	Rmb	17.57	19.00	8%	2,546	1.8%	7.6%	-0.3%	225	-17.2%	-3.4%	0.4%	2.0%
Ecovacs	603486.SS	Neutral	Rmb	92.51	108.00	17%	3,773	20.4%	15.3%	-4.1%	523	1.2%	-4.8%	-2.2%	-17.9%
Roborock	688169.SS	Buy	Rmb	326.16	514.00	58%	1,616	30.7%	20.4%	-1.3%	342	1.6%	-6.8%	-2.6%	-14.4%
XGimi	688696.SS	Buy	Rmb	344.93	423.00	23%	1,114	27.7%	9.9%	-1.5%	110	6.9%	6.6%	-0.3%	2.8%
Appotronics	688007.SS	Neutral	Rmb	26.89	25.00	-7%	640	10.5%	2.8%	-10.1%	53	-45.2%	16.2%	-0.5%	-0.2%
<b>Furniture &amp; lighting</b>															
Opplle Lighting Co.	603515.SS	Neutral	Rmb	16.63	18.00	8%	1,731	-21.6%	6.4%	-4.6%	132	-57.1%	-2.4%	0.3%	1.5%
Oppein Home Group	603833.SS	Sell	Rmb	120.42	117.00	-3%	5,249	7.1%	16.1%	-1.3%	746	-3.0%	0.0%	0.0%	0.0%
Suofeiyu Home Collection Co.	002572.SZ	Neutral	Rmb	17.79	20.00	12%	2,701	6.3%	14.2%	-2.2%	313	-4.5%	-1.1%	0.4%	2.0%
Guangzhou Shangpin Home Collection	300616.SZ	Sell	Rmb	23.00	20.00	-13%	1,091	-38.3%	-2.1%	-3.7%	-16	-146.7%	-5.4%	-0.1%	-2.9%
Man Wah (1H FY23)	1999.HK	Sell	HK\$	6.15	6.90	12%	10,642	4.2%	13.1%	0.8%	1,110	12.3%	-1.1%	-2.4%	-16.6%
Jason Furniture	603816.SS	Buy	Rmb	46.15	65.00	41%	4,513	6.6%	12.1%	1.0%	441	13.9%	-6.1%	-0.6%	-11.4%

Source: Company data, Gao Hua Securities Research

## 2H22 Outlook: A still tough yet improving setup with stabilizing domestic demand/margin outlook but weakening overseas demand environment

### Domestic demand

While our China property team still sees uncertainties in the market, we think domestic demand is generally stabilizing with more supportive government policies and marginal loosening of COVID restrictions. Going forward, we expect domestic demand to remain volatile and see a weak recovery mode. The key factors determining the strength and path of recovery are: 1) how much consumer confidence could recover in 2H22, 2) potential policy stimulus, as well as 3) the sustainability of property market recovery.

Our macro team estimated that in general households' net financial assets are still healthy, standing at around 220% of disposable income, higher than in the pre-Covid period. However, consumer confidence has dampened, impacted by slower growth in cash flows due to COVID restrictions and resulting in weaker consumption power in 2Q22. With improving COVID situation from Q2, macro team expect household consumption to rebound to 4.5% yoy in 2H of this year from -1.5% yoy in Q2 in nominal terms. That said, this implies a 1% growth of household consumption in real terms in 2022. In this regard, we expect **product divergence to continue** with structurally growing appliances such as projectors, cleaning appliances, dishwashers and VRF growing at a faster pace, as we continue to believe consumers tend to be more selective on wallet share and spend more on life quality improving appliances with innovations in a weaker macro setting.

On the **property** side, our China real estate team expect market to **recover from trough** with yoy decline narrowing in the next 12 months but stay at 2016-17 levels. We thus factor in the latest forecasts into our industry models including 1) a larger decline in completions but a smaller decline in secondary market in 2H22, and 2) better completions in 2023 on a lower base (more details on primary and secondary property market).

We thus revise our 2022E-25E industry growth by -4.3% to 3.7% to include the above mentioned factors and the latest industry data (Exhibit 7). The mixed revisions for 2022E forecasts reflect offsetting effects from weaker consumption power and completions but better secondary property market transactions, while we are more positive towards 2023E growth with better property completions and consumption power recovery on a low base. From 2024E onwards, we are more conservative on home durables demand based on the significant decline in our property team's new starts estimates.

That said, recent news on suspension of mortgage repayments pose new **downside** risks on both completions and consumer sentiment. Given guaranteeing home deliveries has always been emphasized as the priority in CBIRC's comments and reiterated in the July Politburo meeting, government has already taken actions to address this issue such as PBoC's move to fund stalled property projects. Yet the concern on completions and consumer sentiment might remain in the near-term, and will depend on how much these policies can revive consumer sentiment.

We therefore remain cautious towards sub-sectors with high exposure to primary property market, most notably customized furniture ([Exhibit 8](#)). Companies with receivables exposure to certain [POE developers](#) with liquidity pressure could also face bad debts risks. Robam, Suofeiya and Vatti already recorded bad debt impairment losses due to developer defaults in 2021. Yet we think the remaining receivables risk is manageable for companies with strong balance sheet and cash flow generation (e.g. estimated Rmb300-400mn receivables risk for Robam, 1.3% of its market cap with Rmb6bn+ cash and equivalents). In comparison, we are more positive towards white goods and small appliances with very limited exposure to primary property market.

The **upside** risks to our forecast are still primarily on further **potential government policy** support. Since April, government has been ramping up pro-consumption policies from the launch of consumption coupons to the recent joint announcement led by [MoC to promote consumption of green and smart home appliances](#). The overall effect of consumption coupons appears to be limited so far (less than 0.1% of overall household consumption estimated by [macro team](#)). However, if more local governments could issue detailed follow-up policies to MoC's announcement, there could still be upside risk to our current forecasts. Given the recent weakening in overseas demand, such supportive policies will provide downside protection for revenue growth of appliances manufacturers, in our view. We expect white goods and kitchen appliances to benefit most given their high installation base in urban China for the potential "trade-in" demand.

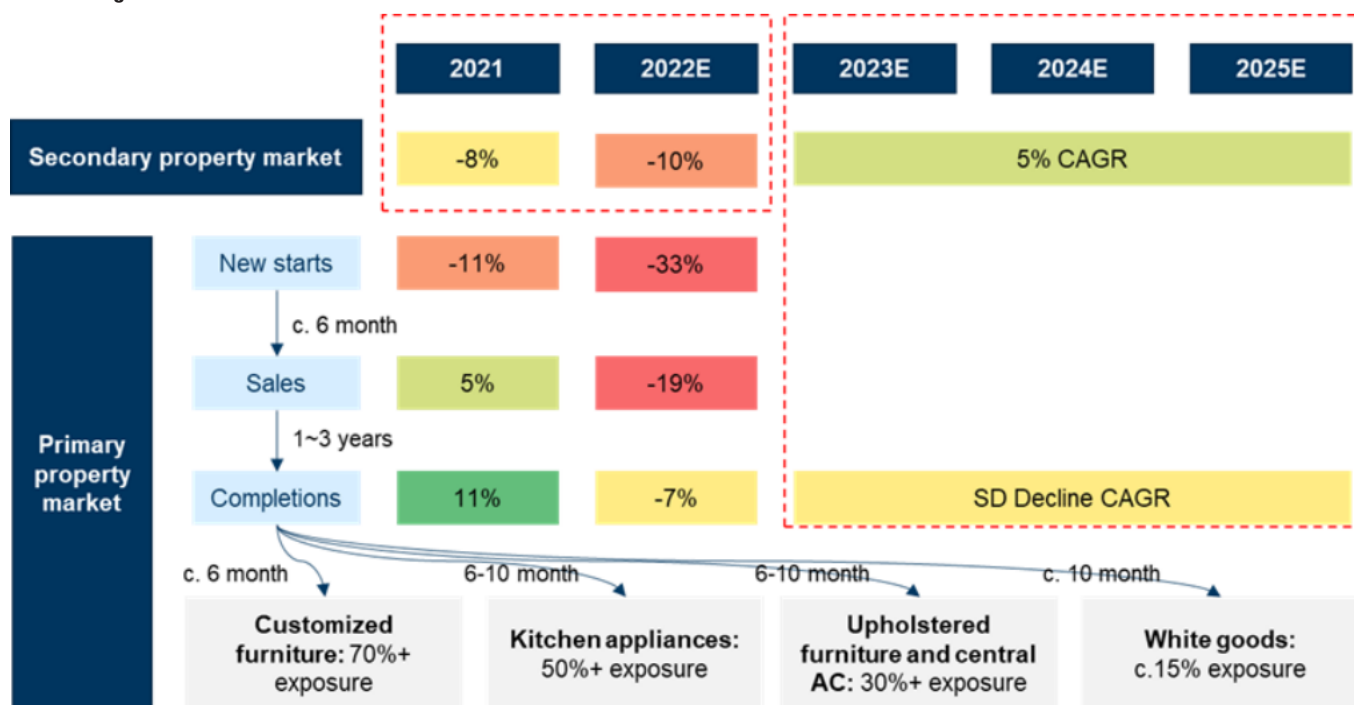
**Exhibit 7: We revise our 2022E-25E industry forecasts by -4.3% to 3.7% to factor in consumer power pressure in the near term and property market changes.**

Summary of industry forecast changes

Growth, yoy %	2019	2020	2021	2022E	New			Old			Change (ppt)				
					2023E	2024E	2025E	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E
<b>White goods (val)</b>															
AC	-1%	-13%	6%	-5%	4%	3%	0%	-5%	3%	4%	1%	-0.4%	1.1%	-1.0%	-0.7%
Washing machine	-1%	-5%	4%	-4%	2%	2%	0%	-3%	1%	3%	1%	-0.5%	0.8%	-0.8%	-0.5%
Refrigerator	1%	-2%	0%	-2%	2%	2%	0%	-2%	2%	3%	1%	-0.3%	0.8%	-0.8%	-0.5%
VRF (val)	5%	4%	32%	9%	13%	8%	10%	8%	10%	10%	11%	0.6%	2.8%	-1.2%	-1.1%
<b>Kitchen appliances (val)</b>															
Range hood	-12%	-9%	4%	-2%	4%	1%	2%	-1%	2%	3%	3%	-0.8%	1.9%	-1.6%	-1.5%
Gas hob	-4%	-6%	2%	-2%	5%	2%	2%	-2%	3%	4%	4%	0.2%	2.0%	-1.6%	-1.4%
Dishwasher	20%	16%	14%	12%	16%	13%	13%	9%	16%	14%	14%	2.2%	0.0%	-1.5%	-1.5%
Integrated stove	25%	12%	41%	13%	16%	13%	11%	14%	16%	13%	11%	-0.4%	0.2%	-0.4%	-0.4%
Water heater	-6%	-14%	1%	-8%	2%	-1%	3%	-4%	1%	0%	3%	-3.2%	0.7%	-0.6%	-0.1%
<b>Customized furniture (val)</b>															
Wardrobe	13%	6%	13%	4%	13%	10%	11%	4%	11%	11%	12%	0.3%	1.9%	-1.5%	-1.2%
Kitchen cabinet	9%	1%	3%	-5%	4%	1%	2%	-5%	2%	3%	3%	0.3%	1.8%	-1.4%	-1.1%
<b>Upholstered furniture (val)</b>															
Sofa	6%	4%	8%	0%	4%	2%	3%	1%	4%	4%	4%	-1.0%	0.5%	-1.5%	-1.0%
Mattress	8%	6%	12%	3%	7%	7%	6%	4%	7%	7%	6%	-0.8%	0.7%	-0.5%	-0.9%
<b>Emerging appliances (val)</b>															
RVC (val)	3%	18%	28%	9%	16%	7%	4%	14%	14%	3%	8%	-4.3%	2.1%	4.0%	-3.2%
Projector (000 units)	6%	-10%	13%	10%	15%	12%	11%	6%	15%	12%	11%	3.7%	0.1%	0.1%	0.1%

Source: AVC, Euromonitor, IOL, Gao Hua Securities Research

**Exhibit 8: Customized furniture has the highest exposure to primary property market, followed by kitchen appliances, upholstered furniture and white goods**



All property related numbers/forecasts come from our China real estate team.

Source: Company data, NBS, Gao Hua Securities Research

### Overseas demand

We now **turn more cautious towards overseas home durable goods demand in 2H22 and 2023 especially in Europe/US markets** with increasing macro slowdown risks. Our global macro research team expect a GDP growth slowdown worldwide and has been revising down estimates in recent months ([Exhibit 10](#)). They also argue that recession probabilities are significantly higher than the average 15% annual unconditional probability of advanced economies to enter a recession since the 1960s. Within this section, we introduce our top-down (macro-housing-industry/company) framework ([Exhibit 9](#)) to assess and track overseas demand changes.

From a macro perspective, our US macro team now expect US **growth would slow down significantly in 2022** on the back of fading fiscal support, rising inflation and interest rate increases. The moderating macro will impact home durable goods demand via both consumer sentiment and property market. Per recent survey, US consumer sentiment dropped to a historical low level in June. Historically, this index has shown good correlation with China export shipments of major white goods ([Exhibit 11](#)). On the back of rising mortgage rates, US property data is also trending down as shown in both pending home sales index and existing home sales ([Exhibit 14](#)). Accordingly, our US home builders team now expects an 8%/4% decline of existing home sales in 2022E/23E in their base case scenario. Based on our analysis, US appliances sales tend to have a higher correlation with existing home sales than new home sales ([Exhibit 13](#)). For illustration purpose, with a historical correlation expectation of 0.5 estimated by regression, our US team's base case scenario translates into a 4%/2% decline of

appliances shipments in 2022E/23E. Lastly, we note leading US appliance manufacturers and retailers have been revising down their guidance recently. Both [Whirlpool](#) and [Electrolux](#) revised down market outlook in North America to negative (vs. flattish/neutral previously) post their 2Q22 results. BestBuy also [guided down](#) its 2QFY23/FY23 topline growth (to -13%/-11% yoy from -8%/-3% to -6% per estimates in May).

Compared to the US, our global macro team expects a higher recession risk (60% in the Euro area, followed by 35% in the UK and 30% in the US) ([Exhibit 16](#)). Similar to US, Consumer confidence index has been falling ([Exhibit 11](#)) and retail sales are moderating. Our [expert call with a leading cross-border distributor for cleaning appliances](#) and [Supor's 1H21 preliminary results](#) both confirmed the drastic growth pressure and short-term trading down in Europe due to Russia-Ukraine conflict and related inflation.

Given the above demand situation, we now expect our coverage companies with high DM exposure to face greater growth pressure in 2H22/23E ([Exhibit 17](#)). However, the actual impacts depend on individual company's exposure to specific market and their mitigation measures (e.g., product/channel/market expansion) to cope with growth pressures. For instance, Roborock would see the highest pressure from its notable exposure to Europe market, while its expansion in more channels/regions such as direct sales/the US market has helped partially ease such pressures. Midea and Haier both have 40%+ exposure to overseas market, but Midea would be at lower risk with lower exposure to DM. From a sub-sectors perspective, projectors, kitchen appliances, customized furniture and lighting companies are more protected from overseas risks with less than 10% overseas exposure. In particular, we think **projector companies are most defensive in this regard**, given overseas market has been contributing a faster growth even in the current situation thanks to a very early stage in overseas market expansion. During the latest Amazon prime day, both XGimi and Appotronics mentioned over 100% growth.

Accordingly, we have revised overseas revenue growth for our coverage companies by -22ppt-5ppt/-17ppt-15ppt in 2022E/23E to reflect the above. We also further stress test the revenue growth impact under a bear case scenario where we assume the overseas market demand decline to widen by another 4ppt. In this case, the revenue growth of our coverage companies will be dragged by another 0-3ppt.

Aside from the above risk exposure, our stock picking strategy is also dependent upon how much risks have already been priced in by market. For example, market has been generally quick to price in Europe related risks (examples being Roborock/Supor's recent de-rating) and we therefore see more favorable risk/reward profile in such stocks.

**Exhibit 9: We now turn more cautious towards overseas demand in 2H22 and 2023 especially in Europe and the US**

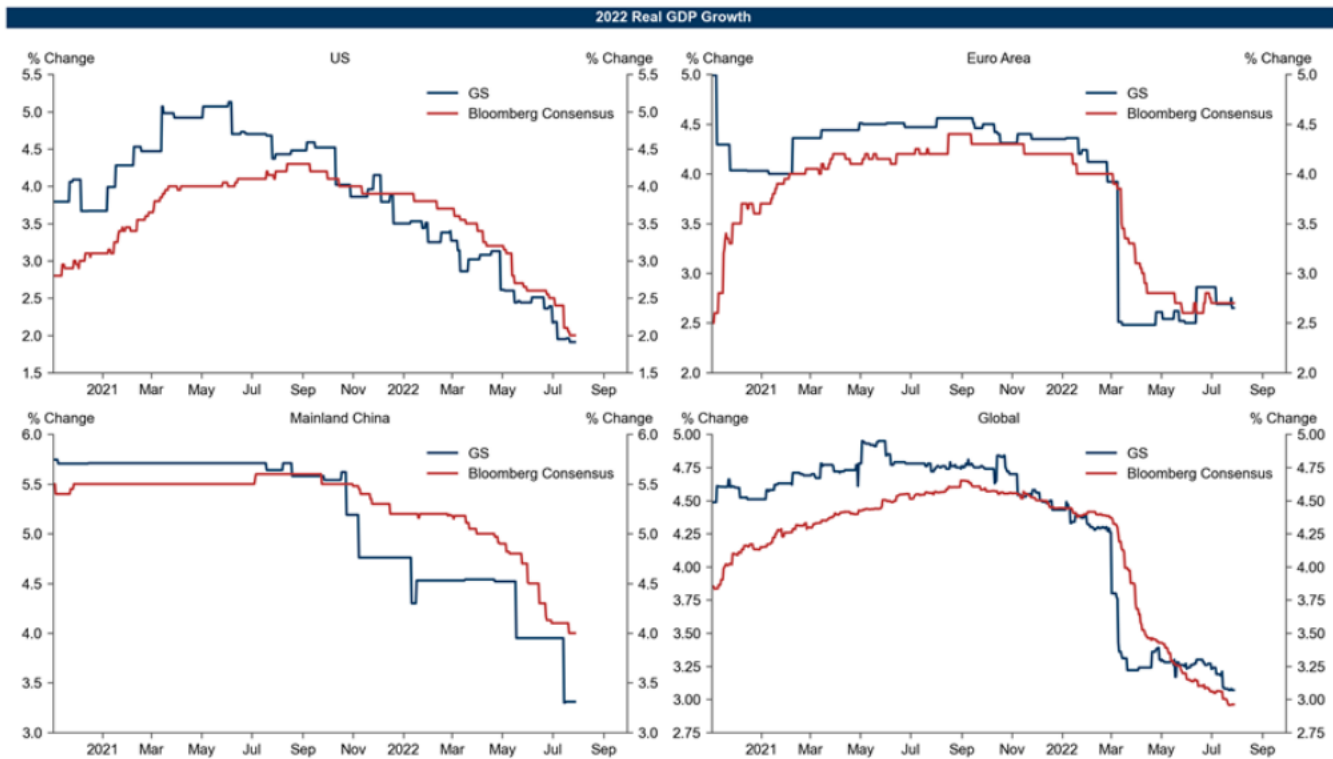
Home durables overseas demand framework

	Macro		Housing & Consumer sentiment		Home durables demand		Company comments	Key tracking data
	Base	Bear	Base	Bear	Base	Bear		
<b>General overseas</b>	<ul style="list-style-type: none"> <li>A general <b>GDP growth</b> slowdown globally</li> </ul>	<ul style="list-style-type: none"> <li><b>Recession</b> probabilities are significantly higher than the average 15% of advanced economies</li> </ul>	<ul style="list-style-type: none"> <li><b>Consumer sentiment</b> record low</li> <li>Concern on <b>purchasing power</b> impacted by global inflation</li> </ul>		<ul style="list-style-type: none"> <li>Larger decline of <b>durables</b> compared to staples</li> <li>Stay-at-home demand impacted more off a high base</li> </ul>	<ul style="list-style-type: none"> <li>Impacts spread from developed markets to developing markets</li> </ul>	<ul style="list-style-type: none"> <li><b>Whirlpool</b>: down to 4-6% decline from 0-2% decline</li> <li><b>SEB</b>: 2Q environment to persist (vs. improving previously)</li> </ul>	<ul style="list-style-type: none"> <li>Consumer sentiment index</li> <li>Leading companies' comments</li> </ul>
<b>US</b>	<ul style="list-style-type: none"> <li>Growth slow sharply in 2022 (GSe +0.4% yoy)</li> </ul>	<ul style="list-style-type: none"> <li>Recession risk: 30% vs 12% avg</li> </ul>	<ul style="list-style-type: none"> <li><b>Existing home sales</b> -8%/-4% in 2022E/23E (GSe)</li> </ul>	<ul style="list-style-type: none"> <li>Existing home sales -8%/-8% in 2022E/23E (GSe)</li> </ul>	<ul style="list-style-type: none"> <li><b>Appliances sales</b> decline more than a historical pattern (mid single digit decline)</li> </ul>	<ul style="list-style-type: none"> <li>Larger and longer declines esp. in 2023E</li> </ul>	<ul style="list-style-type: none"> <li><b>Whirlpool</b>: down to 5-7% decline from flattish</li> <li><b>Electrolux</b>: down to negative from neutral</li> </ul>	<ul style="list-style-type: none"> <li>Housing: home sales and HMI</li> <li>Retail: PCE and AHAM appliances sales</li> </ul>
<b>Europe</b>	<ul style="list-style-type: none"> <li>A subdued growth outlook with elevated recession risk and uncertainty</li> </ul>	<ul style="list-style-type: none"> <li>Recession risk: 60% in the Euro area, and 35% in the UK</li> </ul>	<ul style="list-style-type: none"> <li>Weaker consumer sentiment</li> <li>A housing market slowdown</li> </ul>		<ul style="list-style-type: none"> <li>Worsening from 2Q with de-stocking pressure</li> <li>Trading down in the short-term</li> </ul>	<ul style="list-style-type: none"> <li>Challenging till the end of 2023E</li> </ul>	<ul style="list-style-type: none"> <li><b>Electrolux</b>: maintain negative</li> <li><b>Whirlpool</b>: 3-5% decline for EMEA</li> </ul>	<ul style="list-style-type: none"> <li>Consumer confidence index</li> <li>Leading companies' comments</li> </ul>

Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research

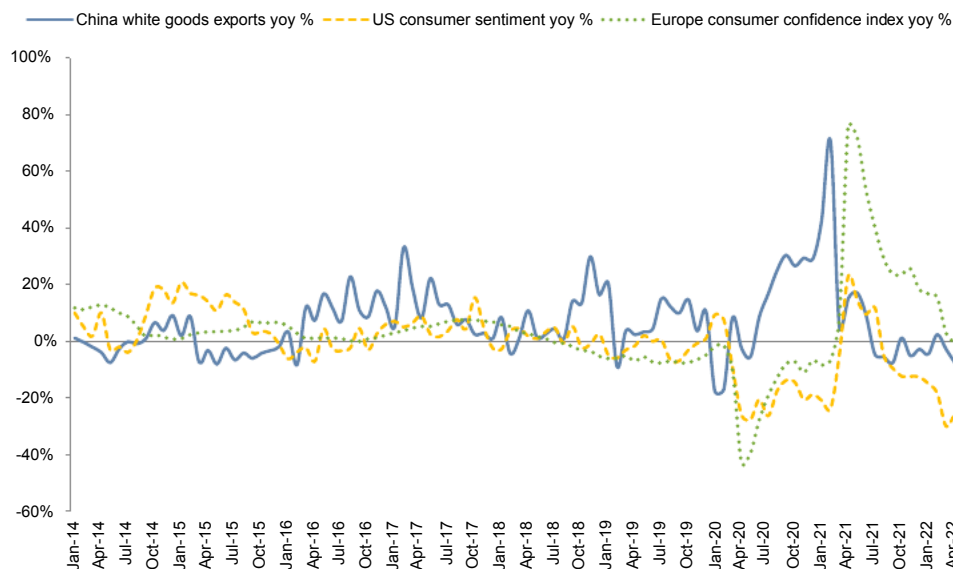
**Exhibit 10: Our global macro team has revised down global growth expectations**

GS Global GDP in 2022 vs. consensus



Source: Goldman Sachs Global Investment Research, Bloomberg

**Exhibit 11: China export shipment of major white goods has shown good correlation with US/Europe consumer sentiment, which have been declining**



Source: IOL, University of Michigan

**Exhibit 12: The NAHB housing market index declined in July, below consensus expectations and the largest drop outside of April 2020**

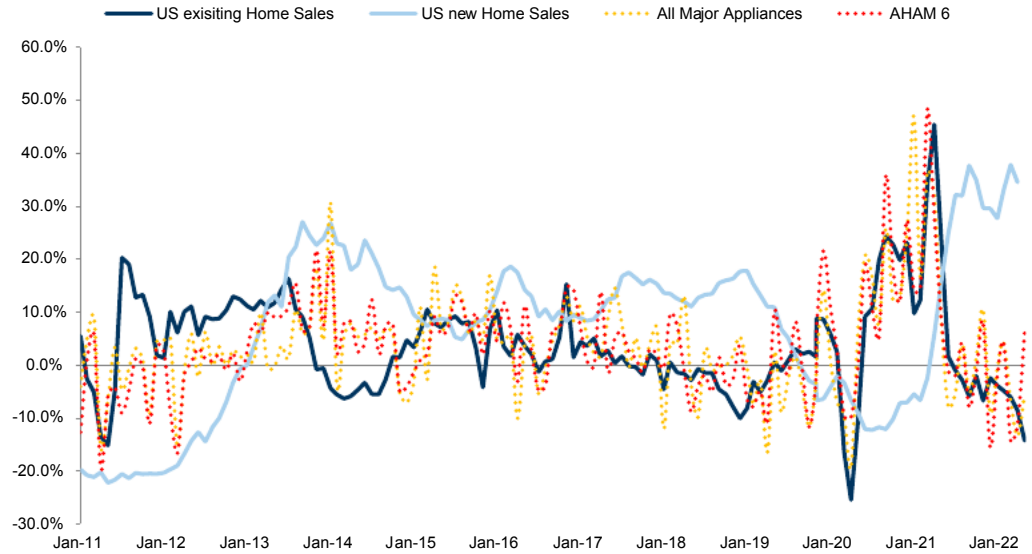
NAHB/Wells Fargo Housing Market Index (HMI)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	62	63	56	55	60	63	65	67	67	69	68	69
2004	68	66	66	69	69	68	67	70	67	69	70	71
2005	70	69	70	67	70	72	70	67	65	68	61	57
2006	57	56	54	51	46	42	39	33	30	31	33	33
2007	35	39	36	33	30	28	24	22	20	19	19	18
2008	19	20	20	20	19	18	16	16	17	14	9	9
2009	8	9	9	14	16	15	17	18	19	17	17	16
2010	15	17	15	19	22	16	14	13	13	15	16	16
2011	16	16	17	16	16	13	15	15	14	17	19	21
2012	25	28	28	24	28	29	35	37	40	41	45	47
2013	47	46	44	41	44	51	56	58	57	54	54	57
2014	56	46	46	46	45	49	53	55	59	54	58	58
2015	57	55	52	56	54	60	60	61	61	65	62	60
2016	61	58	58	58	58	60	58	59	65	63	63	69
2017	67	65	71	68	69	66	64	67	64	68	69	74
2018	72	71	70	68	70	68	68	67	67	68	60	56
2019	58	62	62	63	66	64	65	67	68	71	71	76
2020	75	74	72	30	37	58	72	78	83	85	90	86
2021	83	84	82	83	83	81	80	75	76	80	83	84
2022	83	81	79	77	69	67	55					

Source: NAHB



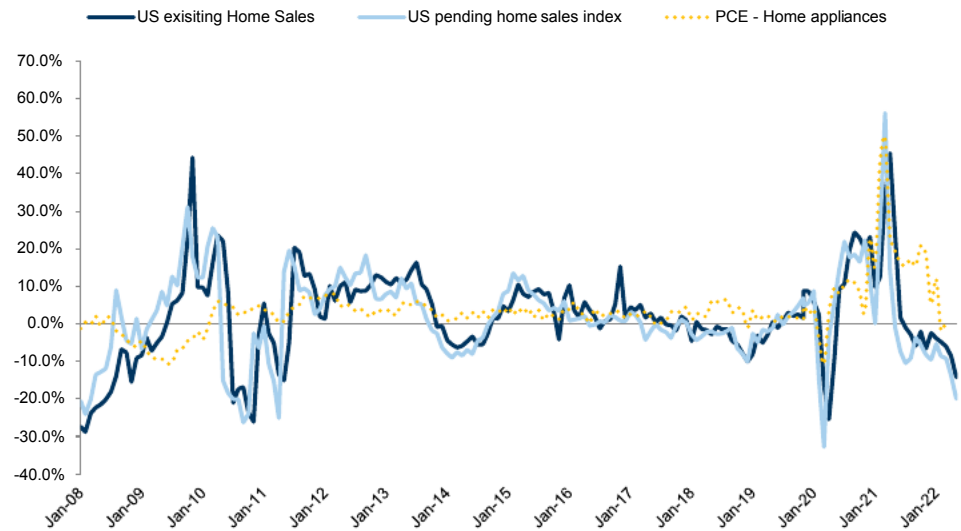
**Exhibit 13: US appliances sales are more correlated with existing home sales, which our US team expects to decline by 8%/4% in 2022E/23E in their base case scenario**  
 Home sales and appliances shipments yoy growths (%)



AHAM 6: Six biggest categories of white goods, Association of Home Appliance Manufacturers

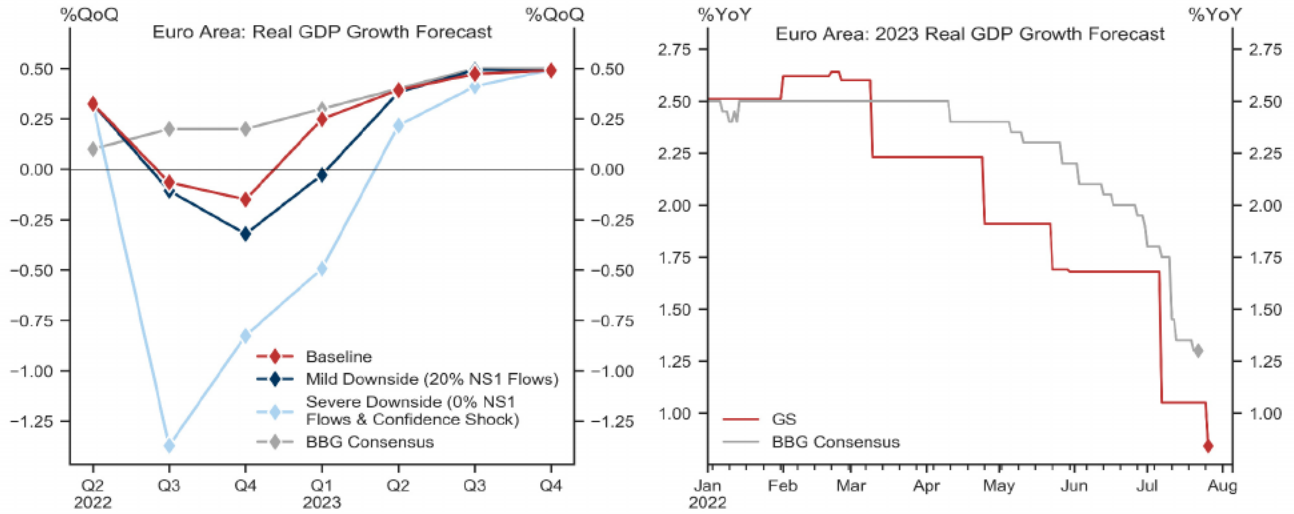
Source: AHAM, National Association of Realtors (NAR), Goldman Sachs Global Investment Research

**Exhibit 14: US pending home sales, a leading indicator of existing home sales, declined by 20% in Jun**



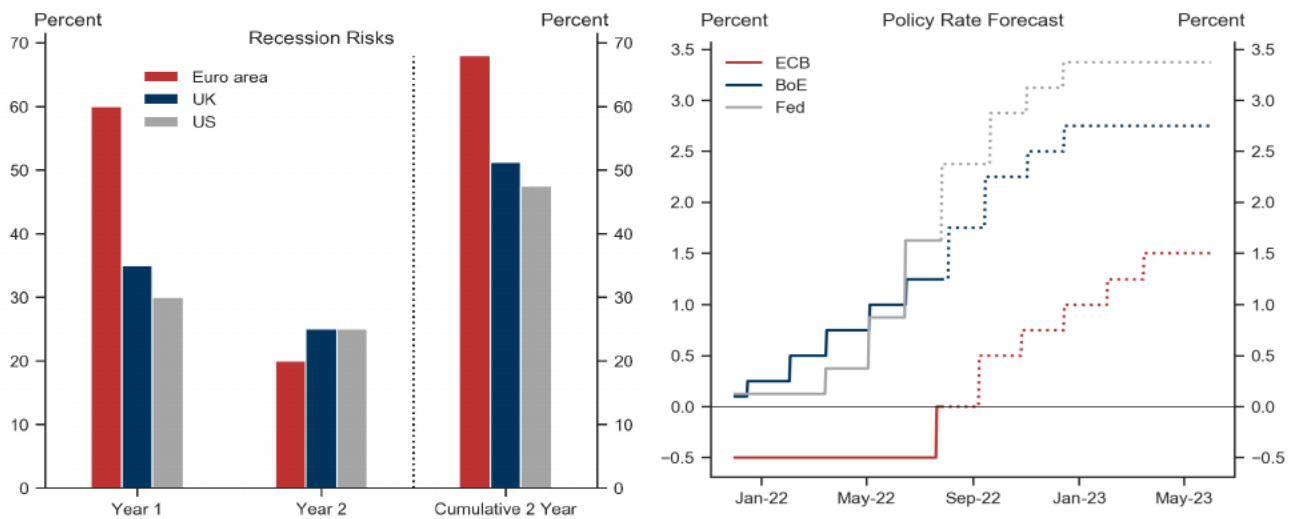
Source: Bureau of Economic Analysis, Wind, National Association of Realtors (NAR)

**Exhibit 15: Higher recession risk in Euro Area**



Source: Goldman Sachs Global Investment Research, Bloomberg

**Exhibit 16: Elevated recession risk in Euro area**



Source: Goldman Sachs Global Investment Research

**Exhibit 17: Companies with high overseas exposure will face growth pressure**

Summary of overseas revenue exposure and overseas growth for our coverage companies

Company	Overseas exposure			Overseas growth (base)			Overseas growth (old)		Chg (ppt)		
	Total overseas	Europe	North America	Other overseas	2021	2022E	2023E	2022E	2023E	2022E	2023E
<b>White goods</b>											
Haier Smart Home	50%	9%	31%	10%	13%	3%	4%	4%	9%	-1.0%	-5.0%
Hisense Home Appliances*	44%				56%	8%	-1%	17%	9%	-9.2%	-9.8%
Midea Group	41%	5%	10%	25%	14%	3%	4%	7%	12%	-3.5%	-8.0%
Gree Electric Appliances.	16%				13%	1%	-3%	7%	5%	-5.9%	-8.0%
<b>Kitchen appliances</b>											
Vatti Corp	14%				54%	3%	3%	10%	6%	-7.0%	-3.0%
Hangzhou Robam Appliances	1%										
Zhejiang Meida	0%										
<b>Small appliances</b>											
Roborock	70%	39%	13%	19%	34%	-9%	2%	12%	17%	-21.7%	-14.8%
Ecovacs	36%				40%	7%	5%	19%	17%	-12.0%	-12.0%
Zhejiang Supor	34%	24%	5%	5%	28%	-12%	-5%	10%	10%	-21.9%	-15.0%
Joyoung	14%		12%		14%	7%	-4%	24%	13%	-17.1%	-16.5%
XGimi	11%				124%	51%	40%	46%	35%	5.0%	5.1%
Appotronics	7%				79%	54%	40%	50%	25%	4.1%	15.0%
<b>Furniture &amp; lighting</b>											
Jason Furniture	42%	7%	21%	14%	49%	3%	0%	18%	12%	-14.5%	-12.0%
Man Wah*	38%	6%	26%	6%	28%	-6%	-6%	2%	5%	-7.4%	-11.4%
Oppl Lighting	8%				10%	3%	0%	15%	10%	-12.0%	-10.0%
Suofeiya Home Collection	5%										
Oppein Home Group	1%										
Guangzhou Shangpin	0%										

\* Hisense revenue growth in 2021&amp;2022 is impacted by the acquisition of Sanden

\* FY ended by Mar 31

Overseas exposure in 2021

Source: Company data, Gao Hua Securities Research

**Exhibit 18: In the bear case scenario, we assume the overseas market decline to widen by c. 4ppt, the revenue growth of our coverage companies will be dragged by another 0-3ppt.**

Overseas bear case

Company	Overseas growth (base)			Overseas growth (bear)						Total revenue growth: bear vs base					
	2021	2022E	2023E	1) General bear		2) Bear Europe		3) Bear US		1) General bear		2) Bear Europe		3) Bear US	
				2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
White goods															
Haier Smart Home	13%	3%	4%	0%	0%	2%	3%	1%	2%	-1.7%	-2.0%	-0.5%	-0.5%	-0.9%	-0.9%
Hisense Home Appliances*	56%	8%	-1%	4%	-5%					-1.6%	-1.7%				
Midea Group	14%	3%	4%	0%	1%	3%	3%	3%	3%	-1.3%	-1.4%	-0.3%	-0.3%	-0.3%	-0.3%
Gree Electric Appliances.	13%	1%	-3%	-2%	-7%					-0.6%	-0.6%				
Kitchen appliances															
Vatti Corp	54%	3%	3%	-1%	-1%					-0.5%	-0.6%				
Hangzhou Robam Appliances															
Zhejiang Meida															
Small appliances															
Roborock	34%	-9%	2%	-14%	-2%	-12%	-1%	-10%	1%	-2.9%	-3.0%	-1.9%	-1.9%	-0.4%	-0.4%
Ecovacs	40%	7%	5%	3%	1%					-1.3%	-1.4%				
Zhejiang Supor	28%	-12%	-5%	-17%	-10%	-16%	-8%	-13%	-5%	-1.5%	-1.5%	-1.2%	-1.2%	-0.1%	-0.1%
Joyoung	14%	7%	-4%	3%	-8%			4%	-6%	-0.5%	-0.5%			-0.4%	-0.4%
XGimi	124%	51%	40%	47%	36%					-0.4%	-0.4%				
Apptonics	79%	54%	40%	51%	36%					-0.3%	-0.3%				
Furniture & lighting															
Jason Furniture	49%	3%	0%	2%	-2%	3%	0%	2%	-1%	-1.4%	-1.6%	-0.4%	-0.4%	-0.6%	-0.6%
Man Wah*	28%	-6%	-6%	-7%	-8%	-6%	-7%	-7%	-7%	-1.3%	-1.5%	-0.3%	-0.3%	-0.8%	-0.8%
Oppl Lighting	10%	3%	0%	3%	0%					-0.3%	-0.3%				
Suofeiya Home Collection															
Oppein Home Group															
Guangzhou Shangpin															

\* Hisense revenue growth in 2021&2022 is impacted by the acquisition of Sanden

\* FY ended by Mar 31

Overseas growth in bear case assumes 1) General bear: overseas market decline to widen by c. 4ppt; 2) Bear case Europe: only Europe market decline widen by 5ppt; 3) Bear case US: only US market decline widen by 3-4ppt.

Source: Company data, Gao Hua Securities Research

## Margin analysis

As cost deflation kicks in, we argue that **2H22 would be a sweet spot for our coverage companies' domestic margins** considering: 1) leading companies' intention to maintain pricing and improve margins; 2) healthy channel inventory thus less risk of destocking-led pricing competition; and 3) weak demand leads to low possibility of cost inflation. **In 2023**, our commodity team's forecasts suggest a further single-digit decline of raw materials costs, thus **we expect a further margin recovery**.

In our base case scenario, we price in our commodity team's latest commodity price forecasts. That is, we expect on average 4% cost decline in 2022E for major appliances together with other tailwinds including product mix improvements and RMB depreciation. This translates into c. 0.7ppt on average for major appliances companies (Exhibit 20). In our bear case, we expect cost in 2H22 would be similar as that in 1H22, implying cost rebound from recent cost decline. In the bull case, we assume cost to further decline that the annual average cost to stay at recent low levels. The scenario analysis on cost suggests on average 0.4% GPM downside in bear case, and 1.3% GPM upside in bull case in 2022E.

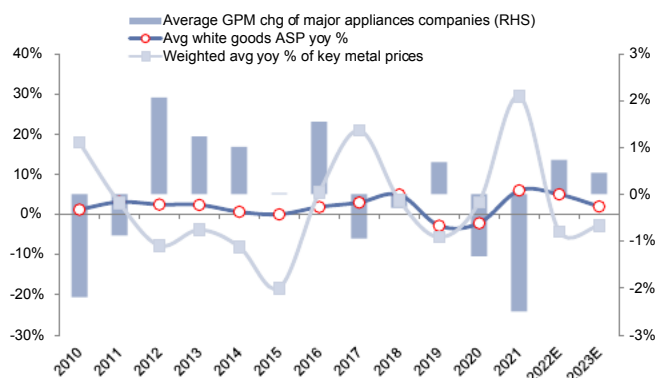
**Exhibit 19: We expect the cost of major white goods to decline by c. 4% yoy in 2022E**

Cost structure of major white goods

Product	Cost categories	Applications	COGS %	Cost yoy % (old)	Cost yoy % (new)	Cost yoy % (bear)	Cost yoy % (bull)
ACs	<b>Raw materials</b>		<b>88%</b>				
	Steel	Compressor, motor	45%				
	Copper	Heat exchange	20%				
	Aluminum		5%	5%	-4%	2%	-12%
	Chemicals (ABS/MDI/TDI)	Casing	9%				
	Packaging		4%				
	Other raw materials		5%				
Refrigerators	<b>Raw materials</b>		<b>84%</b>				
	Steel	Compressor, motor	43%				
	Chemicals (ABS/MDI/TDI)	Casing	25%				
	Packaging		5%	0%	-3%	1%	-9%
	Copper	Heat exchange	3%				
	Other raw materials		8%				
Washing machines	<b>Raw materials</b>		<b>86%</b>				
	Steel	Motor, clutch	52%				
	Chemicals (PP)		4%	0%	-4%	-1%	-10%
	Chemicals (ABS)		9%				
	Other raw materials		21%				

Source: IOL, Goldman Sachs Global Investment Research, Gao Hua Securities Research

**Exhibit 20: We expect GPM of our coverage companies to expand in 2H22 and 2023 amid cost deflation**



Source: Company data, Euromonitor, Gao Hua Securities Research

**Exhibit 21: Scenario analysis on cost suggests on average 0.4% GPM downside in bear case, and 1.3% GPM upside in bull case in 2022E.**

Sector	Company	Raw materials % of COGS	Cost structure Revenue exposure				2022E (base)		GPM breakdown	2022E (bear)			2022E (bull)		
			AC	Fridge	Washing machine	Kitchen, small appliances & others	GPM	GPM chg yoy (ppt)		Pass through rate	GPM chg yoy (ppt, bear)	Bear GPM vs. base	Pass through rate	GPM chg yoy (ppt, bull)	Bull GPM vs. base
White goods	Midea	84%	42%	10%	9%	24%	1.5%	Price, mix and FX	84%	-0.1%	-0.6%	70%	2.2%	1.7%	
	Gree	88%	70%		30%	25%	0.6%	Price hike and product mix	80%	-0.2%	-0.6%	70%	2.4%	2.0%	
	Haier	86%	14%	29%	23%	32%	0.3%	VRF and Sanden mix	91%	0.0%	-0.3%	70%	1.8%	1.5%	
	Hisense	93%	48%	39%	13%	21%	0.9%		78%	-0.2%	-0.6%	70%	2.4%	2.0%	
Kitchen appliances	Robam	88%				100%	53%	0.4%		70%	0.0%	-0.3%	70%	1.4%	1.1%
	Meida	89%				100%	52%	-0.1%	Intensifying competition	78%	0.0%	-0.2%	85%	0.7%	0.5%
	Vatti	89%				100%	41%	0.4%		70%	0.0%	-0.4%	70%	1.7%	1.3%
Small appliances	Supor	80%				100%	26%	3.0%	Exports re-negotiation	80%	0.0%	-0.4%	80%	1.4%	0.9%
	Joyoung	70%				100%	27%	-0.3%	Intensified competition	75%	0.0%	-0.2%	80%	1.1%	0.9%

VRF: variable refrigerant flow; Cost structure estimated using 2021 data.

Source: Company data, Gao Hua Securities Research

That said, we are **more conservative on overseas margins considering operating de-leverage and potential higher discounts**. For instance, Electrolux reported weak 2Q profitability due to supply chain disruptions, production volume loss and lower consumer demand (Europe and the US saw a 10% and 9% decline in industry volumes, respectively). In the US, promotional activity moved higher, though remains below

pre-COVID levels. To assess the potential downside, we assume 1ppt OPM for impacted regions in different scenarios. Together with the revenue bear scenario we mentioned above ([Exhibit 18](#)), companies with high overseas exposure and low margins will be more vulnerable to up to 13% EBIT downside.

### Exhibit 22: Companies with high overseas exposure and low margins will be more vulnerable

Company	Overseas OPM (base)			Overseas OPM (bear): If OPM decrease by 1ppt for impacted						EBIT downside (bear)					
	2021	2022E	2023E	1) General bear		2) Bear Europe		3) Bear US		1) General bear		2) Bear Europe		3) Bear US	
				2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
White goods															
Haier Smart Home	5.2%	5.1%	4.9%	4.1%	3.9%	4.9%	4.7%	4.5%	4.3%	-9.0%	-9.7%	-1.8%	-2.0%	-5.5%	-5.8%
Hisense Home Appliances*	0.6%	1.0%	1.2%	0.0%	0.2%					-12.8%	-9.7%				
Midea Group	7.7%	8.4%	8.8%	7.4%	7.8%	8.3%	8.7%	8.2%	8.6%	-5.8%	-6.6%	-0.8%	-1.0%	-1.5%	-1.6%
Gree Electric Appliances.	5.0%	6.0%	5.5%	5.0%	4.5%					-1.4%	-1.4%				
Kitchen appliances															
Vatti Corp	7.2%	8.5%	9.0%	7.5%	8.0%										
Hangzhou Robam Appliances															
Zhejiang Meida															
Small appliances															
Roborock	22.5%	21.2%	21.5%	20.2%	20.5%	20.6%	21.0%	21.0%	21.4%	-5.0%	-6.4%	-3.1%	-4.1%	-0.8%	-1.0%
Ecovacs	17.4%	14.9%	14.8%	13.9%	13.8%					-3.2%	-4.0%				
Zhejiang Supor	9.7%	10.8%	11.2%	9.8%	10.2%	10.1%	10.5%	10.7%	11.1%	-4.0%	-4.5%	-3.0%	-3.4%	-0.5%	-0.6%
Joyoung	5.9%	5.9%	6.4%	4.9%	5.4%			5.1%	5.6%	-2.8%	-2.8%			-2.4%	-2.3%
XGimi															
Appotronics															
Furniture & lighting															
Jason Furniture	2.4%	3.5%	3.5%	2.5%	2.5%	3.4%	3.4%	3.0%	3.0%	-3.3%	-2.9%	-0.6%	-0.5%	-1.7%	-1.4%
Man Wah*	5.0%	5.5%	5.5%	4.5%	4.5%	5.3%	5.3%	4.8%	4.8%	-2.8%	-2.5%	-0.5%	-0.4%	-1.9%	-1.7%
Oppl Lighting															
Suofeiya Home Collection															
Oppein Home Group															
Guangzhou Shangpin															

\* Hisense revenue growth in 2021&2022 is impacted by the acquisition of Sanden  
\* FY ended by Mar 31

Overseas OPM in bear case assumes 1) General bear: overseas OPM decline by 1ppt; 2) Bear Europe: only Europe OPM decline by 1ppt; 3) Bear US: only US OPM decline by 1ppt

Source: Company data, Gao Hua Securities Research

## Earnings/TP revisions and risks to our ratings/TPs

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To sum up, we revise 22E-26E revenue by -16% to 9% to factor in the weak demand mentioned above based on their respective exposure to different sub-sectors and regions. Projector companies in our coverage see the largest upward revisions given strong growth momentum, while we expect sales of traditional appliances to be mostly weaker in both domestic and overseas markets. We generally adjust up our margin assumptions based on our latest cost forecasts, but the margins of selective companies decline on higher expenses and mix changes (e.g. cleaning appliances companies). Accordingly, our 2022E to 2026E EPS forecasts change by -50% to 18% ([Exhibit 23](#)).

Our TPs of coverage companies are still based on discounted P/E approach by applying exit multiples to 2026E EPS and discounting back to 2023E with COE assumptions unchanged (9.5%/10% for A-share/H-share). We raise the exit multiple for XGimi/Appotronics from 23x/22x to 26x/25x, in line with RVC companies, given their faster growth outlooks. We revise down the multiple for Meida from 14x to 13x to reflect slower growth from intensifying competition. We lower the exit multiple for Man Wah from 15x to 11x to reflect slower growth outlook and applying a discount to industry leader (similar to Suofeiya vs. Oppein).

**Guidance vs GSe:** We are generally below or in-line with company guidance and WIND consensus due to our more conservative view on property impacts and overseas demand ([Exhibit 25](#)).



Exhibit 23: Summary of company forecast changes

Company	Rating	Price	Target Price				EPS change																
			new		old		2022E			2023E			2024E			2025E			2026E				
			new	old	change	U/D %	new	old	Change	new	old	Change	new	old	Change	new	old	Change	new	old	Change		
White goods																							
Midea Group	Buy*	Rmb	55.0	91.0	100.0	-9.0%	65.5%	Rmb	4.47	4.58	-2.3%	5.02	5.46	-8.1%	5.63	6.21	-9.3%	6.37	7.13	-10.7%	7.25	8.09	-10.4%
Gree Electric Appliances Inc.	Buy	Rmb	33.3	42.0	42.0	0.0%	26.3%	Rmb	4.00	3.89	3.0%	4.43	4.39	0.9%	4.71	4.81	-2.0%	5.01	5.14	-2.4%	5.24	5.33	-1.7%
Haier Smart Home Co.	Neutral	Rmb	24.8	27.0	29.0	-6.9%	8.9%	Rmb	1.53	1.60	-4.0%	1.68	1.85	-9.0%	1.88	2.06	-8.8%	2.09	2.28	-8.2%	2.30	2.49	-7.6%
Haier H	Neutral	HK\$	25.1	29.0	31.0	-6.5%	15.5%	Rmb	1.53	1.60	-4.0%	1.68	1.85	-9.0%	1.88	2.06	-8.8%	2.09	2.28	-8.2%	2.30	2.49	-7.6%
Hisense Home Appliances	Buy	Rmb	14.1	18.0	18.0	0.0%	27.9%	Rmb	1.00	1.01	-1.1%	1.28	1.38	-7.7%	1.53	1.55	-1.2%	1.77	1.82	-2.7%	2.02	2.08	-2.8%
Hisense Home Appliances	Buy	HK\$	9.1	15.0	15.0	0.0%	65.6%	Rmb	1.00	1.01	-1.1%	1.28	1.38	-7.7%	1.53	1.55	-1.2%	1.77	1.82	-2.7%	2.02	2.08	-2.8%
Kitchen appliances																							
Hangzhou Robam Appliances	Buy	Rmb	28.3	44.0	43.0	2.3%	55.5%	Rmb	2.28	2.30	-1.0%	2.64	2.66	-0.6%	2.93	2.97	-1.4%	3.22	3.30	-2.4%	3.52	3.62	-2.9%
Zhejiang Meida	Sell	Rmb	13.6	14.0	14.0	0.0%	2.9%	Rmb	1.09	1.10	-0.4%	1.24	1.25	-1.3%	1.35	1.38	-2.6%	1.43	1.49	-3.4%	1.52	1.59	-4.3%
Vatti Corp	Neutral	Rmb	6.3	6.3	5.60	12.5%	0.0%	Rmb	0.53	0.50	4.9%	0.60	0.56	8.1%	0.65	0.60	7.9%	0.69	0.64	8.4%	0.77	0.71	8.7%
Small appliances																							
Zhejiang Supor Co.	Buy	Rmb	46.9	57.0	56.0	1.8%	21.5%	Rmb	2.72	2.76	-1.3%	3.06	3.03	1.1%	3.32	3.29	0.9%	3.59	3.59	0.1%	3.88	3.91	-0.7%
Joyoung Co.	Neutral	Rmb	17.6	19.0	19.0	0.0%	8.1%	Rmb	1.02	1.00	2.1%	1.18	1.21	-2.2%	1.29	1.33	-3.5%	1.41	1.48	-4.8%	1.54	1.63	-6.0%
Ecovacs	Neutral	Rmb	92.5	108.0	121.0	-10.7%	16.7%	Rmb	3.79	4.40	-13.9%	4.27	5.12	-16.6%	4.74	5.51	-14.0%	5.16	6.01	-14.0%	5.65	6.46	-12.5%
Roborock	Buy	Rmb	326.2	514.0	611.43	-15.9%	57.6%	Rmb	16.27	17.98	-9.5%	18.30	21.84	-16.2%	21.05	25.04	-15.9%	23.44	28.26	-17.1%	26.89	32.74	-17.9%
XGimi	Buy	Rmb	344.9	423.0	342.86	23.4%	22.6%	Rmb	8.84	9.23	-4.2%	12.27	11.99	2.4%	15.49	14.65	5.7%	18.82	17.53	7.4%	22.10	20.68	6.9%
Apptronics	Neutral	Rmb	26.9	25.0	18.00	38.9%	-7.0%	Rmb	0.47	0.47	1.0%	0.74	0.70	5.7%	0.96	0.86	11.7%	1.12	0.97	16.0%	1.32	1.12	17.6%
Furniture & lighting																							
Opplle Lighting Co.	Neutral	Rmb	16.6	18.0	19.00	-5.3%	8.2%	Rmb	0.97	1.00	-2.4%	1.08	1.13	-4.5%	1.21	1.27	-5.0%	1.33	1.39	-4.7%	1.43	1.50	-4.5%
Opplein Home Group	Sell	Rmb	120.4	117.0	117.00	0.0%	-2.8%	Rmb	4.66	4.74	-1.7%	5.48	5.55	-1.2%	6.14	6.36	-3.4%	6.95	7.22	-3.7%	7.90	8.13	-2.9%
Suofeiyu Home Collection Co.	Neutral	Rmb	17.8	20.0	21.00	-4.8%	12.4%	Rmb	1.39	1.43	-3.2%	1.63	1.65	-1.5%	1.78	1.87	-4.9%	1.95	2.11	-7.4%	2.16	2.34	-7.9%
Guangzhou Shangpin Home Collec	Sell	Rmb	23.0	20.0	24.00	-16.7%	-13.0%	Rmb	-0.04	-0.07	-50.4%	0.67	0.91	-26.7%	1.23	1.53	-19.2%	1.64	1.99	-17.5%	2.08	2.49	-16.5%
Man Wah	Sell	HK\$	6.2	6.9	10.00	-31.0%	12.2%	HKD	0.63	0.66	-4.4%	0.70	0.76	-8.0%	0.77	0.86	-10.6%	0.83	0.94	-11.9%	0.90	1.03	-13.2%
Jason Furniture	Buy	Rmb	46.2	65.0	66.92	-2.9%	40.8%	Rmb	2.45	2.56	-4.4%	2.91	3.04	-4.3%	3.42	3.58	-4.3%	3.93	4.10	-4.2%	4.45	4.63	-4.0%

Company	Rating	Price	Target Price				Rev change (RMB bn)																
			new		old		2022E			2023E			2024E			2025E			2026E				
			new	old	change	U/D %	new	old	Change	new	old	Change	new	old	Change	new	old	Change	new	old	Change		
White goods																							
Midea Group	Buy*	Rmb	55.0	91.0	100.0	-9.0%	65.5%	Rmb	356.7	369.5	-3.5%	382.4	408.9	-6.5%	417.2	452.0	-7.7%	454.9	498.9	-8.8%	496.3	549.7	-9.7%
Gree Electric Appliances Inc.	Buy	Rmb	33.3	42.0	42.0	0.0%	26.3%	Rmb	192.9	191.4	0.7%	201.5	203.8	-1.1%	212.5	216.3	-1.7%	219.8	223.9	-1.8%	228.6	231.7	-1.4%
Haier Smart Home Co.	Neutral	Rmb	24.8	27.0	29.0	-6.9%	8.9%	Rmb	240.5	246.2	-2.3%	253.6	264.4	-4.1%	271.9	283.4	-4.0%	291.5	302.1	-3.5%	312.1	321.5	-3.0%
Haier H	Neutral	HK\$	25.1	29.0	31.0	-6.5%	15.5%	Rmb	240.5	246.2	-2.3%	253.6	264.4	-4.1%	271.9	283.4	-4.0%	291.5	302.1	-3.5%	312.1	321.5	-3.0%
Hisense Home Appliances	Buy	Rmb	14.1	18.0	18.0	0.0%	27.9%	Rmb	73.6	73.7	-0.2%	76.6	79.0	-3.0%	81.8	84.2	-2.9%	87.3	89.8	-2.8%	93.4	95.4	-2.2%
Hisense Home Appliances	Buy	HK\$	9.1	15.0	15.0	0.0%	65.6%	Rmb	73.6	73.7	-0.2%	76.6	79.0	-3.0%	81.8	84.2	-2.9%	87.3	89.8	-2.8%	93.4	95.4	-2.2%
Kitchen appliances																							
Hangzhou Robam Appliances	Buy	Rmb	28.3	44.0	43.0	2.3%	55.5%	Rmb	11.2	11.4	-1.7%	12.6	12.7	-0.8%	13.8	14.0	-1.4%	14.9	15.2	-2.0%	16.1	16.4	-2.1%
Zhejiang Meida	Sell	Rmb	13.6	14.0	14.0	0.0%	2.9%	Rmb	2.4	2.4	-0.9%	2.7	2.7	-1.7%	3.0	3.0	-1.7%	3.2	3.3	-1.7%	3.5	3.5	-1.7%
Vatti Corp	Neutral	Rmb	6.3	6.3	5.60	12.5%	0.0%	Rmb	5.9	5.7	2.6%	6.3	6.1	3.0%	6.6	6.4	2.7%	7.0	6.8	2.6%	7.3	7.2	2.6%
Small appliances																							
Zhejiang Supor Co.	Buy	Rmb	46.9	57.0	56.0	1.8%	21.5%	Rmb	21.9	23.3	-6.2%	23.9	25.4	-6.2%	25.8	27.5	-6.1%	27.9	29.7	-6.1%	30.1	32.0	-6.1%
Joyoung Co.	Neutral	Rmb	17.6	19.0	19.0	0.0%	8.1%	Rmb	11.0	11.3	-2.2%	11.8	12.3	-4.4%	12.7	13.3	-4.2%	13.6	14.2	-4.3%	14.6	15.3	-4.3%
Ecovacs	Neutral	Rmb	92.5	108.0	121.0	-10.7%	16.7%	Rmb	15.6	16.7	-6.6%	17.7	19.6	-9.6%	19.8	21.6	-8.0%	22.0	23.9	-7.7%	24.5	26.6	-7.6%
Roborock	Buy	Rmb	326.2	514.0	611.43	-15.9%	57.6%	Rmb	6.8	7.4	-7.4%	7.6	8.9	-14.4%	9.0	10.4	-13.4%	10.0	11.8	-15.1%	11.3	13.5	-16.4%
XGimi	Buy	Rmb	344.9	423.0	342.86	23.4%	22.6%	Rmb	5.2	5.2	0.9%	6.6	6.4	3.3%	8.0	7.6	5.4%	9.5	8.9	6.0%	10.9	10.2	7.4%
Apptronics	Neutral	Rmb	26.9	25.0	18.00	38.9%	-7.0%	Rmb	2.8	2.7	5.8%	3.6	3.3	8.8%	4.2	3.9	9.4%	4.8	4.4	9.4%	5.5	5.1	9.3%
Furniture & lighting																							
Opplle Lighting Co.	Neutral	Rmb	16.6	18.0	19.00	-5.3%	8.2%	Rmb	8.8	8.9	-1.3%	9.6	9.8	-2.4%	10.4	10.8	-3.0%	11.3	11.7	-3.5%	12.1	12.6	-4.1%
Opplein Home Group	Sell	Rmb	120.4	117.0	117.00	0.0%	-2.8%	Rmb	23.2	23.6	-1.7%	26.5	27.0	-1.7%	29.3	30.3	-3.4%	32.6	33.8	-3.7%	36.4	37.5	-2.8%
Suofeiyu Home Collection Co.	Neutral	Rmb	17.8	20.0	21.00	-4.8%	12.4%	Rmb	11.6	11.7	-1.2%	13.0	13.0	0.2%	14.0	14.3	-1.8%	15.2	15.4	-1.5%	16.5	16.6	-1.2%
Guangzhou Shangpin Home Collec	Sell	Rmb	23.0	20.0	24.00	-16.7%	-13.0%	Rmb	6.8	6.8	-0.8%	7.6	7.6	-0.1%	8.4	8.5	-0.7%	9.1	9.3	-1.3%	9.9	10.1	-1.9%
Man Wah	Sell	HK\$	6.2	6.9	10.00	-31.0%	12.2%	HKD	22.5	23.4	-3.9%	23.5	25.8	-8.8%	25.4	28.1	-9.8%	27.0	30.3	-10.7%	28.6	32.4	-11.7%
Jason Furniture	Buy	Rmb	46.2	65.0	66.92	-2.9%	40.8%	Rmb	20.5	21.5	-5.0%	23.3	24.6	-5.5%	26.5	27.9	-5.1%	29.9	31.4	-4.7%	33.5	35.0	-4.3%

Pricing as of Jul 29, 2022

Source: Company data, Gao Hua Securities Research

**Exhibit 24: We revise up exit multiples for XGimi and Appotronics, and revise down exit multiples for Meida and Man Wah.**

## Summary of valuation methodology

Company	Ticker	Rating	U/D %	Valuation method	COE	2026E exit multiple		2026E EPS growth		Multiple change note
						new	old	new	old	
White goods										
Midea Group	000333.SZ	Buy*	66%	Discounted P/E	9.5%	17	17	13.8%	13.4%	
Gree Electric Appliances Inc.	000651.SZ	Buy	26%	Discounted P/E	9.5%	11	11	4.4%	3.6%	
Haier Smart Home Co.	600690.SS	Neutral	9%	Discounted P/E	9.5%			9.9%	9.2%	
Haier Smart Home Co.	6690.HK	Neutral	16%	Discounted P/E		16		9.9%	9.2%	
Hisense Home Appliances	000921.SZ	Buy	28%	Discounted P/E		15x/5x		14.0%	14.1%	
Hisense Home Appliances	0921.HK	Buy	66%	Discounted P/E	9.5%	for central AC/others		14.0%	14.1%	
Kitchen appliances										
Hangzhou Robam Appliances	002508.SZ	Buy	56%	Discounted P/E	9.5%	17	17	9.1%	9.7%	
Zhejiang Meida	002677.SZ	Sell	3%	Discounted P/E	9.5%	13	14	6.0%	6.9%	Slower growth from intensifying competition
Vatti Corp	002035.SZ	Neutral	0%	Discounted P/E	9.5%	11	11	10.8%	10.5%	
Small appliances										
Zhejiang Supor Co.	002032.SZ	Buy	21%	Discounted P/E	9.5%	20	20	8.0%	8.9%	
Joyoung Co.	002242.SZ	Neutral	8%	Discounted P/E	9.5%	17	17	9.2%	10.7%	
Ecovacs	603486.SS	Neutral	17%	Discounted P/E	9.5%	26	26	9.4%	7.5%	
Roborock	688169.SS	Buy	58%	Discounted P/E	9.5%	26	26	14.7%	15.9%	
XGimi	688696.SS	Buy	23%	Discounted P/E	9.5%	26	23	17.5%	18.0%	Faster industry growth - comparable to RVC companies
Appotronics	688007.SS	Neutral	-7%	Discounted P/E	9.5%	25	22	17.6%	15.9%	
Furniture & lighting										
Oppl Lighting Co.	603515.SS	Neutral	8%	Discounted P/E	9.5%	18	18	7.9%	7.7%	
Oppein Home Group	603833.SS	Sell	-3%	Discounted P/E	9.5%	20	20	13.7%	12.7%	
Suofeiya Home Collection Co.	002572.SZ	Neutral	12%	Discounted P/E	9.5%	13	13	10.5%	11.1%	
Guangzhou Shangpin Home Collection	300616.SZ	Sell	-13%	Discounted P/E	9.5%	13	13	26.7%	25.1%	
Man Wah	1999.HK	Sell	12%	Discounted P/E	10.0%	11	15	7.6%	9.2%	Slower exit growth impacted by overseas; No.2 discount to leaders (Jason/Oppein)
Jason Furniture	603816.SS	Buy	41%	Discounted P/E	9.5%	20	20	13.2%	12.9%	

Pricing as of Jul 29, 2022

Source: Gao Hua Securities Research

**Exhibit 25: We are generally below company guidance due to a more conservative view on property impacts and overseas demand**

GSe vs company guidance

Ticker	Company name	Period	Current Guidance if any	VS guidance		Key Assumptions
				GSe	Company Guidance	
	White goods			GS lower	GS in line	
	Kitchen appliances			GS above		
000333.SZ	Midea Group	2022	10% profits growth	c. 10% profits growth		4% overseas growth, 9% 2B growth, LSD domestic appliances sales growth; 0 ppt OPM expansion
000651.SZ	Gree Electric Appliances Inc.	2022		Sales/profits +2%/+3% yoy		
600690.SS/ 6690.HK	Haier Smart Home	2022	Double-digit revenue growth; 15% profits growth (ESOP)	6%/11% revenue/profits growth		4% overseas growth and slowed overseas margin expansion; HSD domestic appliances sales
000921.SZ/ 0921.HK	Hisense Home Appliances	2022		Sales/profits +9%/+41% yoy		low-teens VRF revenue growth
002508.SZ	Hangzhou Robam Appliances	2022	15% revenue growth	10% revenue growth		By product, traditional/emerging appliances to grow by LSD/DD; By channel, driven by online and innovative
002677.SZ	Zhejiang Meida	2022		Sales/profits +9%/+6% yoy		
002035.SZ	Vatti Corp	2022		5% revenue growth		
	Small appliances					
002032.SZ	Zhejiang Supor	2022	10% growth for related-party transaction with SEB	Overseas revenue decline; total sales/profits +1.5%/+13% yoy		Domestic share gains and margin expansion (OPM +1ppt)
002242.SZ	Joyoung	2022	13% growth for related-party transaction with SharkNinja	SD overseas growth; total sales/profits +5%/+5%		
603486.SS	Ecovacs	2022	25% profits growth (ESOP)	Sales/profits +19%/+8% yoy		20%+/SD growth for domestic/overseas sales
688169.SS	Roborock	2022		Sales/profits +17%/+9% yoy		c. 90%/-10% growth for domestic/overseas sales
688696.SS	XGIMI	2022		Sales/profits +29%/+28% yoy		
688007.SS	Appotronics	2022		Sales/profits +13%/-8% yoy		
	Furniture & lighting					
603515.SS	Opple Lighting	2022		Sales/profits -1%/-19% yoy		
603833.SS	Oppein Home Group	2022		Sales/profits +14%/+7% yoy		Driven by furnishing channel and product expansion
002572.SZ	Suofeiya Home Collection Co.	2022	15-20% revenue growth	11% revenue growth		Fast furnishing channel, flattish developer channel
300616.SZ	Guangzhou Shangpin Home Collection	2022		-7% revenue growth		
1999.HK	Man Wah	FY2023		Sales/profits +5%/+10% yoy		SD growth/decline for domestic/overseas sales
603816.SS	Jason Furniture	2022	20% revenue growth	12% revenue growth		mid-teens/SD domestic/overseas sales growth

Source: Company data, Gao Hua Securities Research

## Exhibit 26: Summary of key risks

Company	Ticker	Rating	Target price	Latest close price	U/D %	Key risks
<b>White goods</b>						
Midea Group	000333.SZ	Buy*	91.0	55.0	66%	Key risks: 1) A prolonged disruption from the coronavirus outbreak that could drag on white goods demand globally; 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 successfully and realize acquisition synergies.
Gree Electric Appliances Inc.	000651.SZ	Buy	42.0	33.3	26%	Key risks: 1) A prolonged disruption in AC demand from the COVID-19 outbreak and related containment measures; 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.
Haier Smart Home Co.	600690.SS	Neutral	27.0	24.8	9%	Key risks: 1) Better/worse-than-expected disruption on white goods demand from weaker macro and the COVID outbreak; 2) Moderating/rising raw materials costs; 3) More/less effective in marketing/channel expenses savings; 4) Successful/fail to integrate Candy and realize acquisition synergies.
Haier Smart Home Co.	6690.HK	Neutral	29.0	25.1	16%	
Hisense Home Appliances	000921.SZ	Buy	18.0	14.1	28%	Key risks: 1) a prolonged disruption from the coronavirus outbreak that could drag on appliance demand; 2) a further property market slowdown leading to sluggish demand for VRF (variable refrigerant flow); 3) increasing competition from domestic players that may jeopardize the leading position of the Hisense-Hitachi JV; 4) increasing penetration in the developer channel may result in margin dilution; 5) below-expectations integration of the Hisense-Hitachi JV; and 6) lower-than-expected performance of the company's legacy white goods business.
Hisense Home Appliances	0921.HK	Buy	15.0	9.1	66%	
<b>Kitchen appliances</b>						
Hangzhou Robam Appliances	002508.SZ	Buy	44.0	28.3	56%	Key risks: 1) A prolonged disruption from the coronavirus outbreak that could drag on kitchen appliances demand; 2) increasing competition from mass-market players such as Midea, Vatti and Supor, which could hurt growth, especially in the lower-tier cities and online channels; 3) an increasing share of the developer channel, which could dilute overall operating margins; 4) failure to launch new successful products such as dishwashers, steam ovens and integrated range hoods, which would impact revenue growth.
Zhejiang Meida	002677.SZ	Sell	14.0	13.6	3%	Key upside risks: 1) better macro and property market; 2) better-than-expected easing in raw materials costs; 3) less intense competition from new players and better market share gains; and 4) better-than-expected execution on online platforms.
Vatti	002035.SZ	Neutral	6.3	6.3	0%	Upside risks: 1) better-than-expected channel reform; 2) better-than-expected property completions, which could boost kitchen appliances demand. Downside risks: 1) disposable income and employment decline due to weak macroeconomic growth, which may drag on demand; 2) lower-than-expected channel reform; 3) lower-than-expected property completions; 4) rising raw material costs.
<b>Small appliances</b>						
Supor	002032.SZ	Buy	57.0	46.9	21%	Key downside risks: 1) sluggish consumer demand for cookware and small kitchen appliances in the event consumer confidence is further impacted by the macro economic slowdown; 2) failure to launch popular new products to further boost revenue growth; 3) over-reliance on the strategic relationship with parentco SEB on manufacturing order transfer and product development; and 4) failure to expand into premium segment leveraging premium brands shared by parentco SEB.
Joyoung	002242.SZ	Neutral	19.0	17.6	8%	Key risks: 1) Better/worse-than-expected small appliance demand; 2) Better/weaker-than-expected pricing from either premiumization and competitive dynamics; 3) Better/weaker-than-expected margins with related-party exports and supply chain management; and 4) Better/weaker-than-expected new product launches.
Ecovacs	603486.SS	Neutral	108.0	92.5	17%	Upside risks from better-than-expected product development; better-than-expected product expansion; faster demand recovery supported by better-than-expected macro conditions. Downside risks from intensifying competition; new product launches below expectation; a decline in disposable income and consumer confidence from weaker macro conditions; a semiconductor shortage and shipping disruption.
Roborock	688169.SS	Buy	514.0	326.2	58%	Key risks: 1) Intensifying competition; slower-than-expected product launch or new category expansion; 2) ineffective and/or poorly executed marketing and channel strategy; 3) a decline in disposable income and consumer confidence from weaker macro conditions; 4) semiconductor shortage and shipping disruption.
XGimi	688696.SS	Buy	423.0	344.9	23%	Key downside risks: 1) weaker-than-expected macro; 2) intensifying competition; 3) chip shortage; 4) rising raw material costs; 5) unsatisfying product launches or ineffective execution of marketing/channel strategy
Appotronics	688007.SS	Neutral	25.0	26.9	-7%	Key risks: 1) weaker/better-than-expected macro and COVID conditions; 2) more/less intensified competition; 3) worse/better-than-expected chip supply; 4) higher/lower-than-expected raw material costs; 5) worse/better-than-expected product launches and expansion.
<b>Furniture &amp; lighting</b>						
Oppl	603515.SS	Neutral	18.0	16.6	8%	Downside risks: (1) A further property tightening policy that could negatively affect industry/company growth; (2) rising competition which could negatively impact margins; and (3) further expansion into professional channels that could dilute margins. Upside risks: (1) a better-than-expected recovery in the offline retail channel; and (2) better-than-expected margins due to easing competition.
Oppein	603833.SS	Sell	117.0	120.4	-3%	Key risks: 1) Loosening on government property policies/actions; 2) faster-than-expected growth in emerging channels; 3) successful expansion of product portfolio.
Suofeiya	002572.SZ	Neutral	20.0	17.8	12%	Key risks: 1) Better/worse-than-expected property market impacting demand; 2) Product/channel expansion above/below expectations; 3) More/less intense competition; 4) Larger/smaller share of the developer channel to dilute/expand margins; and 5) Declining/rising raw materials cost.
Guangzhou Shangpin	300616.SZ	Sell	20.0	23.0	-13%	Key upside risks: 1) better-than-expected revenue growth from marketing strategy and contribution of outsourced products; 2) better-than-expected margin performance due to expense control; and 3) loosening of current property market tightening policies.
Man Wah	1999.HK	Sell	6.9	6.2	12%	Key risks: 1) Better-than-expected macro conditions; 2) Faster-than-expected product expansion; 3) Lower-than-expected raw material costs; 3) Less intensified competition; 4) Lower-than expected tariffs on overseas factories.
Jason Furniture	603816.SS	Buy	65.0	46.2	41%	Key risks: 1) Slower economic growth dragging demand; 2) Worse-than-expected integration of acquired companies; 3) Product/channel expansion below expectation; 4) Rising raw materials/shipping costs; 5) More intensified competition.

Source: Gao Hua Securities Research

**Exhibit 27: Global appliances & furniture comp table**

Company	Ticker	PCY	Last closing price	Target price	Upside/ (downside)	Rating	Mkt Cap (US\$bn)	19-22E EPS CAGR	P/E					P/B					EV/EBITDA				
									2018A	2019A	2020A	2021E	2022E	2018A	2019A	2020A	2021E	2022E	2018A	2019A	2020A	2021E	2022E
									<b>China appliances</b>														
Midea Group	000333.SZ	CNY	54.98	91.00	66%	Buy*	57.0	9%	18.1x	15.8x	14.2x	13.4x	12.3x	4.4x	3.8x	3.3x	3.1x	2.7x	13.0x	10.8x	14.6x	15.5x	8.9x
Gre Electric	000651.SZ	CNY	33.26	42.00	26%	Buy	29.7	-1%	7.6x	8.1x	9.0x	8.5x	8.3x	2.2x	1.8x	1.7x	1.9x	1.5x	5.4x	7.0x	9.4x	8.0x	3.5x
Haier A	600690.SS	CNY	24.79	27.00	9%	Neutral	33.2	7%	21.2x	19.9x	25.2x	17.8x	16.2x	4.0x	3.4x	3.3x	2.9x	2.6x	8.8x	8.9x	10.9x	13.3x	10.0x
Haier H	6690.HK	HKD	25.10	29.00	16%	Neutral	28.9	7%	18.4x	17.3x	21.9x	15.5x	14.0x	3.6x	3.1x	2.9x	2.4x	2.3x				11.3x	8.2x
Hisense A	000921.SZ	CNY	14.07	18.00	28%	Buy	2.8	-9%	13.9x	10.7x	12.1x	19.7x	14.0x	2.6x	2.2x	2.0x	1.9x	1.7x	9.9x	9.9x	4.1x	6.8x	5.1x
Hisense H	0921.HK	HKD	9.06	15.00	66%	Buy	1.6	-9%	7.7x	5.9x	6.7x	10.9x	7.7x	1.5x	1.3x	1.1x	1.0x	5.5x	6.1x	2.5x	4.5x	2.8x	
<b>Median</b>					<b>27%</b>		<b>29.3</b>	<b>3%</b>	<b>16.0x</b>	<b>13.3x</b>	<b>13.2x</b>	<b>14.5x</b>	<b>13.2x</b>	<b>3.1x</b>	<b>2.6x</b>	<b>2.4x</b>	<b>2.2x</b>	<b>2.0x</b>	<b>8.8x</b>	<b>8.9x</b>	<b>9.4x</b>	<b>9.6x</b>	<b>6.7x</b>
<b>China kitchen appliances</b>																							
Hangzhou Robam	002508.SZ	CNY	28.29	44.00	56%	Buy	4.0	11%	18.2x	16.9x	16.2x	20.2x	12.4x	4.4x	3.9x	3.3x	3.1x	2.6x	18.5x	12.8x	16.0x	14.7x	8.9x
Zhejiang Meida	002677.SZ	CNY	13.60	14.00	3%	Sell	1.3	15%	23.3x	19.1x	16.2x	13.2x	12.5x	6.4x	5.8x	5.2x	4.5x	3.9x	19.9x	13.8x	13.4x	13.7x	9.3x
Vatti	002035.SZ	CNY	6.30	6.30	0%	Neutral	0.8	-15%	8.2x	7.3x	13.4x	25.8x	11.9x	2.1x	1.8x	1.7x	1.6x	1.5x	15.4x	10.6x	16.8x	12.0x	7.8x
<b>Median</b>					<b>3%</b>		<b>0.7</b>	<b>11%</b>	<b>18.2x</b>	<b>16.9x</b>	<b>16.2x</b>	<b>20.2x</b>	<b>12.4x</b>	<b>4.4x</b>	<b>3.9x</b>	<b>3.3x</b>	<b>3.1x</b>	<b>2.6x</b>	<b>18.5x</b>	<b>12.8x</b>	<b>16.0x</b>	<b>13.7x</b>	<b>8.9x</b>
<b>China small appliances</b>																							
Supor	002032.SZ	CNY	46.93	57.00	21%	Buy	5.7	5%	23.1x	20.1x	20.9x	19.5x	17.2x	6.5x	5.6x	5.4x	5.0x	4.7x	20.3x	25.8x	28.3x	21.9x	13.8x
Joyoung	002242.SZ	CNY	17.57	19.00	8%	Neutral	2.0	-2%	17.9x	18.3x	14.3x	18.1x	17.2x	3.5x	3.6x	3.1x	3.2x	3.2x	17.8x	16.5x	22.8x	27.9x	15.3x
Ecovacs	603486.SS	CNY	92.51	108.00	17%	Neutral	7.7	161%	76.3x	432.6x	81.4x	26.3x	24.4x	14.9x	21.1x	16.8x	10.4x	8.0x	22.8x	67.4x	24.2x	35.6x	19.4x
Roborock	688169.SS	CNY	326.16	514.00	58%	Buy	3.2	1%	53.0x	20.8x	15.9x	15.5x	20.0x	23.3x	11.0x	3.1x	2.6x	3.1x			16.5x	35.9x	18.6x
XGIMI	688696.SS	CNY	344.93	423.00	23%	Buy	3.6	42%	366.9x	112.4x	48.1x	34.2x	39.0x	7.9x	22.6x	16.5x	6.2x	7.6x			38.4x	34.9x	
Apptronics	688007.SS	CNY	26.89	25.00	-7%	Neutral	1.8	2%	36.8x	59.8x	107.6x	52.7x	56.9x	12.5x	5.7x	5.6x	4.6x	4.4x			59.2x	44.0x	42.9x
<b>Median</b>					<b>19%</b>		<b>3.4</b>	<b>3%</b>	<b>44.8x</b>	<b>40.3x</b>	<b>34.5x</b>	<b>22.7x</b>	<b>22.2x</b>	<b>10.2x</b>	<b>8.4x</b>	<b>5.5x</b>	<b>4.8x</b>	<b>4.4x</b>	<b>20.3x</b>	<b>25.8x</b>	<b>24.2x</b>	<b>35.7x</b>	<b>19.0x</b>
<b>China furniture &amp; home products</b>																							
Suofeiya	002572.SZ	CNY	17.79	20.00	12%	Neutral	2.4	6%	17.1x	15.1x	13.6x	132.4x	12.8x	3.4x	3.0x	2.7x	2.9x	2.5x	16.9x	10.3x	11.1x	15.0x	7.3x
Opplein	603833.SS	CNY	120.42	117.00	-3%	Sell	10.8	2%	32.2x	27.5x	35.1x	27.5x	25.8x	6.7x	5.3x	6.1x	5.1x	4.6x	15.8x	13.8x	19.6x	23.2x	17.7x
GZSP	300616.SZ	CNY	23.00	20.00	-13%	Sell	0.7	-124%	9.6x	8.6x	45.1x	50.9x	-618.0x	1.5x	1.3x	1.3x	1.3x	33.1x	22.3x	63.8x	49.6x	23.0x	
Nan Wah	1990.HK	HKD	8.15	8.90	12%	Sell	3.0	14%	17.3x	14.3x	12.3x	10.8x	9.8x	3.8x	3.5x	2.2x	2.1x	1.9x	11.1x	8.0x	15.8x	16.3x	6.7x
Jason Furniture	603816.SS	CNY	46.15	65.00	41%	Buy	4.1	8%	20.1x	23.9x	34.5x	17.5x	18.9x	4.2x	4.7x	4.5x	3.6x	4.2x	11.7x	10.5x	23.1x	15.9x	13.8x
Opplie Lighting	603515.SS	CNY	16.83	18.00	8%	Neutral	1.9	-6%	14.0x	14.1x	15.7x	13.9x	17.1x	2.9x	2.5x	2.4x	2.2x	2.0x	31.1x	24.5x	22.7x	20.9x	15.8x
<b>Median</b>					<b>10%</b>		<b>2.7</b>	<b>4%</b>	<b>17.2x</b>	<b>14.7x</b>	<b>25.1x</b>	<b>22.5x</b>	<b>15.0x</b>	<b>3.6x</b>	<b>3.2x</b>	<b>2.5x</b>	<b>2.5x</b>	<b>2.2x</b>	<b>16.3x</b>	<b>12.0x</b>	<b>21.2x</b>	<b>18.6x</b>	<b>14.8x</b>
<b>Global appliances</b>																							
Whirlpool	WHR	USD	173	202	17%	Buy	9.7	13%	11.4x	10.8x	9.4x	6.5x	7.5x	3.7x	2.7x	2.3x	2.2x	2.3x	7.6x	6.9x	5.9x	5.8x	5.8x
A.O.Smith	AOS	USD	63	49	-23%	Sell	9.9	16%	23.9x	28.5x	28.7x	21.4x	18.1x	6.3x	6.3x	5.6x	5.6x	15.5x	14.4x	14.0x	15.3x	12.0x	
Electrolux	ELUXD.ST	SEK	146	140	-4%	Neutral	4.1	-9%	11.1x	16.8x	6.4x	9.0x	22.2x	1.9x	1.9x	2.2x	2.2x	2.5x	5.4x	6.3x	4.7x	5.8x	7.9x
Daikin	6367.T	JPY	23,250	32,000	38%	Buy	50.9	19%	36.0x	39.8x	43.5x	31.3x	23.5x	5.2x	4.8x	4.7x	4.1x	3.5x	10.7x	11.2x	15.5x	15.0x	
Panasonic	6752.T	JPY	1,094	1,100	1%	Neutral	19.1	-2%	10.8x	9.0x	11.3x	15.5x	10.0x	1.6x	1.3x	1.3x	1.0x	0.8x	5.9x	4.8x	3.8x	3.9x	5.6x
Arcelik	ARCLK.IS	TRY	65	60.00	-8%	Sell	2.4	83%	51.5x	47.4x	15.4x	14.3x	14.2x	6.4x	4.5x	3.2x	2.3x	6.4x	8.3x	3.7x	6.3x	7.4x	
Technic	0669.HK	HKD	87.05	113.50	30%	Buy	20.3	28%	36.7x	33.2x	25.4x	18.6x	16.7x	6.8x	6.0x	5.2x	5.2x	11.8x	12.5x	11.0x	11.0x	14.0x	
<b>Median</b>					<b>1%</b>		<b>9.9</b>	<b>16%</b>	<b>23.9x</b>	<b>28.5x</b>	<b>15.4x</b>	<b>15.5x</b>	<b>16.7x</b>	<b>5.2x</b>	<b>4.5x</b>	<b>3.2x</b>	<b>2.3x</b>	<b>2.5x</b>	<b>7.6x</b>	<b>6.9x</b>	<b>5.9x</b>	<b>6.3x</b>	<b>7.9x</b>

All prices are as of Jul 29, 2021 unless otherwise specified. \*denotes that the stock is on our regional Conviction List. Target prices are based on a 12-month time frame.

Source: Datastream, Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

**Exhibit 28: Global appliances & furniture comp table (cont'd)**

Company	Ticker	PCY	Last closing price	Target price	Upside/ (downside)	Rating	Mkt Cap (US\$bn)	ROE					CROCI					Dividend yield					FCF yield				
								2018A	2019A	2020A	2021E	2022E	2018A	2019A	2020A	2021E	2022E	2018A	2019A	2020A	2021E	2022E	2018A	2019A	2020A	2021E	2022E
								<b>China appliances</b>																			
Midea Group	000333.SZ	CNY	54.98	91.00	66%	Buy*	57.0	23%	24%	23%	22%	24%	23%	28%	36%	53%	3%	3%	2%	2%	3%	7%	10%	5%	5%	9%	
Gre Electric	000651.SZ	CNY	33.26	42.00	26%	Buy	29.7	33%	24%	19%	21%	19%	16%	13%	11%	5%	2%	7%	6%	6%	9%	7%	4%	-1%	7%		
Haier A	600690.SS	CNY	24.79	27.00	9%	Neutral	33.2	15%	14%	13%	18%	17%	31%	31%	37%	47%	45%	2%	2%	2%	10%	7%	5%	6%	7%		
Haier H	6690.HK	HKD	25.10	29.00	16%	Neutral	28.9	15%	14%	13%	18%	17%	31%	31%	37%	47%	45%										
Hisense A	000921.SZ	CNY	14.07	18.00	28%	Buy	2.8	18%	18%	12%	6%	8%	13%	14%	35%	24%	27%	3%	3%	3%	5%	8%	25%	13%	11%		
Hisense H	0921.HK	HKD	9.06	15.00	66%	Buy	1.6	18%	18%	12%	6%	8%	13%	14%	35%	24%	27%	5%	5%	4%	4%	6%	8%	12%	34%	18%	
<b>Median</b>					<b>27%</b>		<b>29.3</b>	<b>18%</b>	<b>13%</b>	<b>18%</b>	<b>17%</b>	<b>23%</b>	<b>18%</b>	<b>38%</b>	<b>30%</b>	<b>38%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>8%</b>	<b>8%</b>	<b>5%</b>	<b>8%</b>	<b>9%</b>		
<b>China kitchen appliances</b>																											
Hangzhou Robam	002508.SZ	CNY	28.29	44.00	56%	Buy	4.0	26%	24%	22%	16%	23%	23%	22%	27%	37%	39%	3%	2%	1%	1%	3%	4%	5%	4%	3%	
Zhejiang Meida	002677.SZ	CNY	13.60	14.00	3%	Sell	1.3	28%	32%	34%	36%	34%	59%	50%	44%	45%	3%	4%	4%	3%	5%	1%	3%	6%	5%	8%	
Vatti	002035.SZ	CNY	6.30	6.30	0%	Neutral	0.8	27%	26%	13%	6%	13%	51%	52%	23%	22%	19%	2%	3%	1%	1%	3%	5%	-3%	3%	9%	
<b>Median</b>					<b>3%</b>		<b>0.7</b>	<b>27%</b>	<b>26%</b>	<b>22%</b>	<b>16%</b>	<b>23%</b>	<b>51%</b>	<b>52%</b>	<b>27%</b>	<b>37%</b>	<b>39%</b>	<b>3%</b>	<b>3%</b>	<b>1%</b>	<b>1%</b>	<b>3%</b>	<b>3%</b>	<b>5%</b>	<b>4%</b>	<b>3%</b>	
<b>China small appliances</b>																											
Supor	002032.SZ	CNY	46.93	57.00	21%	Buy	5.7	30%	30%	26%	26%	28%	34%	33%	31%	32%	41%	2%	2%	2%	3%	5%	2%	3%	4%	6%	
Joyoung	00																										

## Supor: U/G to Buy on favorable risk/reward with domestic strength outweighing overseas weakness

002032.SZ	12m Price Target: Rmb57	Price: Rmb46.93	Upside: 21.5%		
<b>Buy</b>	<b>GS Forecast</b>				
		<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Market cap: Rmb38.5bn / \$5.7bn	<b>Revenue (Rmb mn) New</b>	<b>21,585.3</b>	<b>21,899.9</b>	<b>23,879.2</b>	<b>25,795.4</b>
Enterprise value: Rmb35.5bn / \$5.3bn	Revenue (Rmb mn) Old	21,585.3	23,340.9	25,445.6	27,482.0
3m ADTV :Rmb104.6mn/ \$15.6mn	EBITDA (Rmb mn)	2,246.0	2,525.6	2,846.0	3,084.6
China	<b>EPS (Rmb) New</b>	<b>2.40</b>	<b>2.72</b>	<b>3.06</b>	<b>3.32</b>
China Consumer Durables	EPS (Rmb) Old	2.40	2.76	3.03	3.29
	P/E (X)	26.7	17.2	15.3	14.1
M&A Rank: 3	P/B (X)	6.8	4.7	4.4	4.2
Leases incl. in net debt & EV?: No	Dividend yield (%)	3.0	4.7	5.2	5.7
	CROCI (%)	31.8	41.2	44.8	46.1
		<b>3/22</b>	<b>6/22E</b>	<b>9/22E</b>	<b>12/22E</b>
	EPS (Rmb)	0.67	0.49	0.60	0.98

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 Jul 2022 close.

### Investment thesis

We upgrade Supor to Buy from Neutral on favorable risk/reward post recent share price correction. The stock has fallen by over 15% Jul MTD (vs. CSI 300 Index at -7% as of Jul 29), and declined by 9% (vs. CSI 300 Index at -1%) post the 1H22 preliminary announcement on Jul 20 due to a miss on the topline growth, which was primarily dragged by the c.30% yoy decline in 2Q22 overseas revenue, per our estimates.

However, in our view: 1) the worse-than-expected demand drag in the EU has been largely baked post share underperformance as we think part of the sharp drop was due to its parent group SEB's (Not Covered) destocking to maintain a healthy inventory level, per management. The actual **decline at the retail level was not as high** (2Q22 EMEA -13% LFL as reported by SEB), and we expect **overseas revenue decline to narrow in the coming quarters**; 2) on **margin**, despite a drop on topline growth, Supor managed to record an expansion in GPM by 2.95ppt on like-for-like basis thanks to **improvements in channel and product mix**. We expect the easing of raw material prices and Supor's continuous efforts on channel reform would support further margin recovery; 3) Supor has been actively expanding to emerging categories such as cleaning appliances in recent quarters to **enrich its product portfolio**. The company recorded an overall (across all platforms) 13% yoy growth during 618, outgrowing the industry at LSD%. In addition, in our Jun data tracker, we highlighted Supor's continuing share gain in both online and offline channels within small kitchen appliances, according to AVC; and 4) lastly, we see the **current valuation as attractive** at 17x 2022E P/E, below 9-yr historical median at 20x, as we think at current levels the market is not fully appreciating the company for its strong execution capability and upside potential from further share gains.

### Earnings/TP revisions

We revise our 2022E-26E EPS by -1.3% to +1.1% on lower overseas demand/continuous share gain. Accordingly, our new 12-m TP increases to Rmb57.0 (from Rmb56.0), implying 22% upside vs coverage average of 21% and Neutral/Sell-rated stocks at 8%/-0.2% on average, still derived from a discounted P/E approach by applying an unchanged 20x exit P/E to 2026E EPS and discounting back at 9.5% COE, consistent with our A-share coverage.

**Where we are vs. consensus:** Our 2022E-24E EPS forecasts are 1%/2%/6% lower compared to Wind consensus, with 5%/6%/8% lower revenue forecasts and slight higher margins. Our lower revenue forecasts are driven by concerns on EU demand given its exposure to the parent group SEB. We forecast slightly higher margins as we think Supor is on track on its ASP improvements and product/category expansion.

**Key downside risks:**

- 1) Worse-than-expected macro conditions may drag demand: Demand for cookware and small kitchen appliances is largely impacted by macro-related factors including disposable incomes and consumer confidence;
- 2) Slower-than-expected product expansion may hinder growth: Improvement in the product mix has been a key growth driver. There is a chance that slower-than-expected implementation of product expansion may lead to slower-than-expected revenue growth;
- 3) Over-reliance on the strategic relationship with parentco SEB on manufacturing order transfer and product development: Revenue from its parentco SEB accounts for a majority of its revenue generated from overseas, a slowdown in order growth from SEB may pose a threat to overall revenue growth.



## Exhibit 29: Key assumptions for Supor

## Zhejiang Supor Co.

Major P&L items	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Total sales/revenues	14,187	17,851	19,853	18,597	21,585	21,900	23,879	25,795	27,863	30,095
yoy %	18.8%	25.8%	11.2%	-6.3%	16.1%	1.5%	9.0%	8.0%	8.0%	8.0%
Gross profit	4,193	5,509	6,185	4,914	4,964	5,702	6,360	6,892	7,468	8,089
Gross margin	29.6%	30.9%	31.2%	26.4%	23.0%	26.0%	26.6%	26.7%	26.8%	26.9%
change (bps)	(97)	131	29	(473)	(343)	304	60	8	8	8
SG&A	(2,723)	(3,674)	(4,128)	(2,987)	(2,854)	(3,318)	(3,663)	(3,964)	(4,289)	(4,646)
As % of sales	19.2%	20.6%	20.8%	16.1%	13.2%	15.2%	15.3%	15.4%	15.4%	15.4%
EBITDA	1,533	1,898	2,147	2,070	2,246	2,526	2,846	3,085	3,341	3,611
EBIT (operating profit)	1,428	1,779	2,023	1,938	2,095	2,369	2,683	2,914	3,164	3,429
yoy %	15.8%	24.8%	13.8%	-4.2%	8.1%	13.1%	13.2%	8.6%	8.6%	8.4%
EBIT margin	10.1%	10.0%	10.2%	10.4%	9.7%	10.8%	11.2%	11.3%	11.4%	11.4%
Net income to shareholders	1,308	1,670	1,920	1,846	1,944	2,204	2,476	2,685	2,905	3,138
yoy %	21.4%	27.7%	15.0%	-3.8%	5.3%	13.4%	12.4%	8.4%	8.2%	8.0%
EPS - basic	1.59	2.03	2.34	2.25	2.40	2.72	3.06	3.32	3.59	3.88
EPS - fully diluted (analyst)	1.59	2.03	2.34	2.25	2.40	2.72	3.06	3.32	3.59	3.88
Dividend payout ratio	45%	50%	57%	57%	80%	80%	80%	80%	80%	80%

Key assumptions	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Small kitchen appliances	9,077	11,866	13,524	12,915	14,641	15,005	16,377	17,706	19,144	20,699
Cookware	4,956	5,819	6,139	5,506	6,702	6,631	7,203	7,752	8,342	8,976
Rubber products	24	17	18	25	30	26	26	26	26	26
Others	130	149	172	151	212	237	273	311	351	393
<b>Group revenue</b>	<b>14,187</b>	<b>17,851</b>	<b>19,853</b>	<b>18,597</b>	<b>21,585</b>	<b>21,900</b>	<b>23,879</b>	<b>25,795</b>	<b>27,863</b>	<b>30,095</b>

% yoy	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Small kitchen appliances	21.6%	30.7%	14.0%	-4.5%	13.4%	2.5%	9.1%	8.1%	8.1%	8.1%
Cookware	13.7%	17.4%	5.5%	-10.3%	21.7%	-1.1%	8.6%	7.6%	7.6%	7.6%
Rubber products	13.9%	-29.6%	5.1%	40.4%	19.0%	-12.0%	0.0%	0.0%	0.0%	0.0%
Others	25.9%	14.9%	15.5%	-12.4%	40.4%	12.0%	15.0%	14.0%	13.0%	12.0%
<b>Group revenue</b>	<b>18.8%</b>	<b>25.8%</b>	<b>11.2%</b>	<b>-6.3%</b>	<b>16.1%</b>	<b>1.5%</b>	<b>9.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>

## GPM

Small kitchen appliances	28.2%	29.1%	29.7%	24.6%	21.7%	25.0%	25.4%	25.5%	25.6%	25.7%
Cookware	32.7%	35.1%	35.0%	31.2%	26.1%	28.7%	29.8%	29.8%	29.8%	29.8%
Rubber products	17.4%	31.1%	16.5%	18.7%	16.0%	20.3%	20.7%	20.7%	20.7%	20.7%
Others	6.9%	5.4%	14.0%	10.5%	18.6%	19.6%	19.6%	19.6%	19.6%	19.6%
<b>Group gross margin</b>	<b>29.6%</b>	<b>30.9%</b>	<b>31.2%</b>	<b>26.4%</b>	<b>23.0%</b>	<b>26.0%</b>	<b>26.6%</b>	<b>26.7%</b>	<b>26.8%</b>	<b>26.9%</b>

## By geography

Domestic	10,212	13,109	14,744	12,870	14,260	15,470	17,771	19,078	20,477	21,972
Overseas	3,975	4,742	5,110	5,727	7,326	6,430	6,109	6,717	7,387	8,123
<b>Group revenue</b>	<b>14,187</b>	<b>17,851</b>	<b>19,853</b>	<b>18,597</b>	<b>21,585</b>	<b>21,900</b>	<b>23,879</b>	<b>25,795</b>	<b>27,863</b>	<b>30,095</b>

## Geographic growth

Domestic	21.1%	28.4%	12.5%	-12.7%	10.8%	8.5%	14.9%	7.4%	7.3%	7.3%
Overseas	13.2%	19.3%	7.7%	12.1%	27.9%	-12.2%	-5.0%	10.0%	10.0%	10.0%
<b>Group revenue</b>	<b>18.8%</b>	<b>25.8%</b>	<b>11.2%</b>	<b>-6.3%</b>	<b>16.1%</b>	<b>1.5%</b>	<b>9.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>

## % of sales

SG&A	19.2%	20.6%	20.8%	16.1%	13.2%	15.2%	15.3%	15.4%	15.4%	15.4%
Sales expense	15.6%	15.8%	16.1%	11.4%	8.8%	10.8%	11.1%	11.1%	11.2%	11.2%
.. A&P	9.6%	9.8%	10.7%	5.5%	6.3%	8.2%	8.6%	8.6%	8.7%	8.7%
.. Payroll	2.5%	2.5%	2.2%	2.2%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
.. Other sales expense	3.5%	3.4%	3.3%	3.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Admin. expense	2.9%	4.2%	4.0%	4.1%	3.9%	3.8%	3.8%	3.8%	3.8%	3.8%
.. R&D expense	2.7%	2.3%	2.3%	2.4%	2.1%	2.0%	2.0%	2.0%	2.0%	2.0%
.. Other admin. expense	0.2%	1.9%	1.7%	1.7%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%

Source: Company data, Gao Hua Securities Research

## Supor's key financials

Profit model (Rmb mn)	12/21	12/22E	12/23E	12/24E	Balance sheet (Rmb mn)	12/21	12/22E	12/23E	12/24E
<b>Total revenue</b>	<b>21,585.3</b>	<b>21,899.9</b>	<b>23,879.2</b>	<b>25,795.4</b>	Cash & equivalents	2,654.1	3,075.8	3,596.8	3,851.6
Cost of goods sold	(16,621.6)	(16,198.2)	(17,518.8)	(18,903.0)	Accounts receivable	2,784.0	2,644.6	2,687.3	2,973.6
SG&A	(2,404.1)	(2,873.3)	(3,180.0)	(3,440.8)	Inventory	3,096.5	3,062.0	3,311.6	3,573.3
R&D	(450.1)	(445.1)	(483.4)	(523.2)	Other current assets	2,624.0	2,624.0	2,624.0	2,624.0
Other operating profit/(expense)	(14.1)	(14.1)	(14.1)	(14.1)	<b>Total current assets</b>	<b>11,158.6</b>	<b>11,406.4</b>	<b>12,219.7</b>	<b>13,022.5</b>
<b>EBITDA</b>	<b>2,246.0</b>	<b>2,525.6</b>	<b>2,846.0</b>	<b>3,084.6</b>	Net PP&E	1,318.4	1,274.1	1,232.9	1,194.0
Depreciation & amortization	(150.6)	(156.4)	(163.0)	(170.3)	Net intangibles	452.2	473.2	496.5	521.9
<b>EBIT</b>	<b>2,095.4</b>	<b>2,369.2</b>	<b>2,682.9</b>	<b>2,914.3</b>	Total investments	65.6	364.5	677.5	1,006.0
Interest income	32.3	49.9	57.8	67.6	Other long-term assets	904.7	904.7	904.7	904.7
Interest expense	(10.1)	0.0	0.0	0.0	<b>Total assets</b>	<b>13,899.5</b>	<b>14,422.9</b>	<b>15,531.3</b>	<b>16,649.1</b>
Income/(loss) from uncons. subs.	283.25	298.92	312.99	-	Accounts payable	4,956.3	4,830.1	5,223.9	5,636.6
Others	(15.1)	(4.0)	(3.8)	(3.6)	Short-term debt				
<b>Pretax profits</b>	<b>2,385.8</b>	<b>2,714.0</b>	<b>3,049.9</b>	<b>3,306.8</b>	Other current liabilities	1,112.7	1,321.2	1,540.0	1,707.4
Income tax	(444.4)	(503.6)	(566.1)	(613.8)	<b>Total current liabilities</b>	<b>6,069.1</b>	<b>6,151.2</b>	<b>6,763.8</b>	<b>7,344.0</b>
Minorities	2.6	(6.9)	(7.8)	(8.4)	Long-term debt				
<b>Net income pre-preferred dividends</b>	<b>1,943.9</b>	<b>2,203.5</b>	<b>2,476.1</b>	<b>2,684.6</b>	Other long-term liabilities	172.1	172.1	172.1	172.1
Preferred dividends					Total long-term liabilities	172.1	172.1	172.1	172.1
<b>Net income (pre-exceptionals)</b>	<b>1,943.9</b>	<b>2,203.5</b>	<b>2,476.1</b>	<b>2,684.6</b>	<b>Total liabilities</b>	<b>6,241.1</b>	<b>6,323.3</b>	<b>6,935.9</b>	<b>7,516.0</b>
Post-tax exceptionals					<b>Preferred shares</b>				
<b>Net income</b>	<b>1,943.9</b>	<b>2,203.5</b>	<b>2,476.1</b>	<b>2,684.6</b>	<b>Total common equity</b>	<b>7,622.6</b>	<b>8,057.0</b>	<b>8,545.1</b>	<b>9,074.3</b>
EPS (basic, pre-exception) (Rmb)	2.40	2.72	3.06	3.32	Minority interest	35.7	42.6	50.4	58.8
EPS (basic, post-exception) (Rmb)	2.40	2.72	3.06	3.32	<b>Total liabilities &amp; equity</b>	<b>13,899.5</b>	<b>14,422.9</b>	<b>15,531.3</b>	<b>16,649.1</b>
EPS (diluted, post-exception) (Rmb)	2.40	2.72	3.06	3.32	<b>BVPS (Rmb)</b>	<b>9.43</b>	<b>9.96</b>	<b>10.57</b>	<b>11.22</b>
DPS (Rmb)	1.93	2.19	2.46	2.67					
Dividend payout ratio (%)	80.3%	80.3%	80.3%	80.3%					
Free cash flow yield (%)	3.5%	5.9%	6.7%	6.7%					
<b>Growth &amp; margins (%)</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>	<b>Ratios</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Sales growth	16.1%	1.5%	9.0%	8.0%	ROE (%)	26.2%	28.1%	29.8%	30.5%
EBITDA growth	8.5%	12.4%	12.7%	8.4%	ROA (%)	14.8%	15.6%	16.5%	16.7%
EBIT growth	8.1%	13.1%	13.2%	8.6%	CROCI (%)	31.8%	41.2%	44.8%	46.1%
Net income growth	5.3%	13.4%	12.4%	8.4%	Inventory days	60.5	69.4	66.4	66.5
EPS growth	6.9%	13.4%	12.4%	8.4%	Receivables days	44.8	45.2	40.7	40.1
Gross margin	23.0%	26.0%	26.6%	26.7%	Payable days	96.5	110.3	104.7	104.9
EBITDA margin	10.4%	11.5%	11.9%	12.0%	Net debt/equity (%)	(34.7%)	(38.0%)	(41.8%)	(42.2%)
EBIT margin	9.7%	10.8%	11.2%	11.3%	Interest cover - EBIT (X)	NM	NM	NM	NM
<b>Cash flow statement (Rmb mn)</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>	<b>Valuation</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Net income pre-preferred dividends	1,943.9	2,203.5	2,476.1	2,684.6	P/E (analyst) (X)	26.7	17.5	15.6	14.4
D&A add-back	150.6	156.4	163.0	170.3	P/B (X)	6.8	4.8	4.5	4.2
Minorities interests add-back	(2.6)	6.9	7.8	8.4	EV/EBITDA (X)	21.9	14.1	12.3	11.3
Net (inc)/dec working capital	133.0	47.7	101.4	(135.2)	Dividend yield (%)	3.0%	4.6%	5.2%	5.6%
Other operating cash flow	(175.1)	(3.0)	(2.2)	(2.2)					
<b>Cash flow from operations</b>	<b>2,049.9</b>	<b>2,411.5</b>	<b>2,746.1</b>	<b>2,725.9</b>					
Capital expenditures	(228.4)	(133.1)	(145.1)	(156.8)					
Acquisitions	(1,028.9)								
Divestitures									
Others	1,686.7	(296.0)	(310.8)	(326.3)					
<b>Cash flow from investments</b>	<b>429.4</b>	<b>(429.1)</b>	<b>(455.9)</b>	<b>(483.1)</b>					
Dividends paid (common & pref)	(1,059.2)	(1,560.7)	(1,769.2)	(1,988.0)					
Inc/(dec) in debt	0.0								
Common stock issuance (repurchase)	2.7								
Other financing cash flows	(488.5)								
<b>Cash flow from financing</b>	<b>(1,545.0)</b>	<b>(1,560.7)</b>	<b>(1,769.2)</b>	<b>(1,988.0)</b>					
<b>Total cash flow</b>	<b>934.3</b>	<b>421.7</b>	<b>521.0</b>	<b>254.8</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Gao Hua Securities Research

## Haier: Down to Neutral on mispriced risks of overseas growth slowdown

600690.SS		12m Price Target: Rmb27	Price: Rmb24.79	Upside: 8.9%	
Neutral		GS Forecast			
		12/21	12/22E	12/23E	12/24E
Market cap: Rmb223.8bn / \$33.2bn	Revenue (Rmb mn) New	227,556.1	240,463.2	253,557.1	271,912.7
Enterprise value: Rmb187.1bn / \$27.8bn	Revenue (Rmb mn) Old	227,556.1	246,187.7	264,367.1	283,389.1
3m ADTV :Rmb823.4mn/ \$122.7mn	EBITDA (Rmb mn)	18,415.3	19,697.9	20,815.8	22,996.1
China	EPS (Rmb) New	1.39	1.53	1.68	1.88
China Consumer Durables	EPS (Rmb) Old	1.39	1.60	1.85	2.06
	P/E (X)	20.8	16.2	14.8	13.2
M&A Rank: 3	P/B (X)	3.4	2.6	2.4	2.2
Leases incl. in net debt & EV?: Yes	Dividend yield (%)	1.6	2.5	2.7	3.0
	CROCI (%)	46.8	45.4	46.6	48.1
		3/22	6/22E	9/22E	12/22E
	EPS (Rmb)	0.37	0.44	0.35	0.37

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 Jul 2022 close.

6690.HK		12m Price Target: HK\$29	Price: HK\$25.1	Upside: 15.5%	
Neutral		GS Forecast			
		12/21	12/22E	12/23E	12/24E
Market cap: HK\$226.6bn / \$28.9bn	Revenue (Rmb mn) New	227,556.1	240,463.2	253,557.1	271,912.7
Enterprise value: HK\$183.9bn / \$23.4bn	Revenue (Rmb mn) Old	227,556.1	246,187.7	264,367.1	283,389.1
3m ADTV :HK\$248.0mn/ \$31.6mn	EBITDA (Rmb mn)	18,415.3	19,697.9	20,815.8	22,996.1
China	EPS (Rmb) New	1.39	1.53	1.68	1.88
China Consumer Durables	EPS (Rmb) Old	1.39	1.60	1.85	2.06
	P/E (X)	18.1	14.0	12.8	11.5
M&A Rank: 3	P/B (X)	3.0	2.3	2.1	1.9
Leases incl. in net debt & EV?: Yes	Dividend yield (%)	1.8	2.8	3.1	3.5
	CROCI (%)	46.8	45.4	46.6	48.1
		6/21	12/21	6/22E	12/22E
	EPS (Rmb)	0.74	0.65	0.81	0.72

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 Jul 2022 close.

### Investment thesis

We downgrade Haier Smart Home A/H from Buy to Neutral on its mispriced risks of increasing possibility of overseas growth slowdown. We think the market has priced in a continuous margin improvement driven by premiumization and efficiency enhancement, as reflected in a global leading valuation at 17x 2022E P/E, vs. peers at c.13x on average, yet might have overlooked looming risks: 1) **on overseas, increasing possibility of growth slowdown** primarily emerging from Haier's **high exposure to the US market** (60%+ of total overseas revenue) amid weakening demand. Given recent development in the US appliance market, we think there is high possibility that Haier management will revise down its current overseas revenue growth target (FY22 at HSD%, implying DD% in 2H22). As a reference, Whirlpool management guided down the industry volume in its 2Q results as overall demand slows down due to rising inflation and broader macro uncertainty. In addition, Best Buy, the largest US retailer in home

electronics, also guided down its 2QFY23/FY23 topline growth (to -13%/-11% yoy from -8%/-3% to -6% per guidance in May) on Jul 27. As a result, we now expect Haier's overseas revenue to grow by 3%/4% (Rmb terms) in 2022E/23E, implying a slow down in 2H22/1H23; 2) **on domestic, moderating pace of offline expansion:** management has been reiterating their strategy to drive premiumization and full-suite product selling via fast expansion of "Three-Winged Bird" stores. However, given recent weak demand environment, we expect store expansion pace to moderate going forward. This is also consistent with our recent distributor interview in July.

We still appreciate Haier's margin improvement potential supported by its premiumization strategy and operating efficiency gains. However, if we were to consider the potential growth deceleration and margin impact from overseas market, its current share price appears to offer less favorable risk/reward profile compared to other Buy-rated stocks within our coverage. We therefore downgrade the stock from Buy to Neutral. Since we added the stock to our Buy list on 31 Mar 2022, the A/H share has moved by +1%/-6% vs. CSI 300/Hang Seng Index at -4%/-10% as of Aug 3.

### Earnings/TP revisions

We revise down our EPS forecasts by 4%-9% in 2022E-26E as we factor in weak domestic/overseas demand due to COVID resurgence and geopolitical issues but a margin tailwind from cost deflation. Accordingly, our 12-m TP for A/H-share decreases to Rmb27.0/HKD29.0 (from Rmb29.0/HKD31.0), implying 9%/16% upside vs. coverage average of 21%, still derived from a discounted P/E approach by applying an unchanged 16x exit P/E to 2026E EPS and discounting back to 2023E at 9.5%, consistent with our A-share coverage.

**Where we are vs. consensus:** Our 2022E-24E EPS forecasts are 5%/10%/12% lower compared to Wind consensus, with 5%/8%/10% lower revenue forecasts and slight higher margins. We have lower revenue forecasts due to concerns regarding overseas demand, especially in the US. We forecast slightly higher margins as we think Haier's premiumization could better mitigate cost pressures.

### Key risks

- 1) **Better/worse-than-expected disruption on white goods demand from weaker macro and COVID outbreak:** White goods demand is impacted by macro conditions. If economic growth is lower than expected impacted by factors like geological tension and COVID outbreak, consumers tend to postpone purchases or choose less expensive alternatives. Meanwhile, COVID lock-downs would have greater impact on appliances that require installation services such as AC.
- 2) **Lower/higher-than-expected raw materials costs:** Haier managed to expand margins amid cost inflation in 2022 mainly contributed by product mix improvements and efficiency gains. If costs were to further increase, this would weigh on margins given rapid price hikes would dampen demand.
- 3) **More/less effective in marketing/channel expenses savings:** Haier has been benefiting from efficiency gains post the privatization of Haier Electronics as evidenced

by more OPM expansion compared to GPM increase. With a lower base, it would be increasingly difficult for Haier to further cut marketing/channel expenses.

4) **Better/worse-than-expected integration of Candy and realization of acquisition synergies:** Management has turned Candy from loss to profit making and targets to further improve its profitability. There's a chance that the improvement may fall short of expectations, especially after Russia/Ukraine conflicts impacting cost and consumer confidence in Europe.

## Exhibit 30: Key assumptions for Haier Smart Home

## Haier Smart Home

Major P&L items	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Total sales/revenues	183,317	200,762	209,726	227,556	240,463	253,557	271,913	291,540	312,053
yoy %	15.1%	9.5%	4.5%	8.5%	5.7%	5.4%	7.2%	7.2%	7.0%
Gross profit	53,162	59,894	62,251	71,073	75,758	79,963	86,863	93,939	100,986
Gross margin	29.0%	29.8%	29.7%	31.2%	31.5%	31.5%	31.9%	32.2%	32.4%
change (bps)	(200)	83	(15)	155	27	3	41	28	14
SG&A	(42,915)	(50,864)	(51,215)	(56,162)	(59,541)	(62,581)	(67,258)	(72,191)	(77,216)
As % of sales	23.4%	25.3%	24.4%	24.7%	24.8%	24.7%	24.7%	24.8%	24.7%
EBITDA	12,441	12,799	14,663	18,415	19,698	20,816	22,996	25,382	27,664
EBIT (operating profit)	9,342	8,245	9,763	13,612	14,917	16,083	18,305	20,449	22,471
yoy %	2.6%	-11.7%	18.4%	39.4%	9.6%	7.8%	13.8%	11.7%	9.9%
EBIT margin	5.1%	4.1%	4.7%	6.0%	6.2%	6.3%	6.7%	7.0%	7.2%
Net income to shareholders	7,440	8,206	8,877	13,067	14,486	15,864	17,771	19,749	21,694
yoy %	7.4%	10.3%	8.2%	47.2%	10.9%	9.5%	12.0%	11.1%	9.9%
EPS - basic	1.17	1.25	0.98	1.39	1.53	1.68	1.88	2.09	2.30
EPS - fully diluted (analyst)	1.17	1.25	0.98	1.39	1.53	1.68	1.88	2.09	2.30
Dividend payout ratio	30%	30%	37%	33%	40%	40%	40%	40%	40%

Key assumptions	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Fridge & freezer	54,339	58,438	61,538	71,570	68,893	73,074	78,213	83,195	86,031
Air conditioner	31,773	29,128	29,999	37,531	39,480	41,544	44,715	47,838	47,324
Washing machine	36,268	44,714	48,452	54,759	57,832	61,183	65,643	70,053	60,303
Kitchen & small appliances	32,875	29,509	31,361	35,244	23,061	24,099	26,194	28,471	47,361
ICS	25,762	28,058	27,386	15,002	16,961	17,830	19,332	20,906	22,554
Candy	-	9,743	10,523	12,364	12,859	13,244	14,304	15,448	16,684
Others	2,300	1,172	467	1,086	21,377	22,582	23,512	25,628	31,797
<b>Group revenue</b>	<b>183,317</b>	<b>200,762</b>	<b>209,726</b>	<b>227,556</b>	<b>240,463</b>	<b>253,557</b>	<b>271,913</b>	<b>291,540</b>	<b>312,053</b>

## % yoy

Fridge & freezer	15.3%	7.5%	5.3%	16.3%	-3.7%	6.1%	7.0%	6.4%	3.4%
Air conditioner	10.5%	-8.3%	3.0%	25.1%	5.2%	5.2%	7.6%	7.0%	-1.1%
Washing machine	17.4%	23.3%	8.4%	13.0%	5.6%	5.8%	7.3%	6.7%	-13.9%
Kitchen & small appliances	15.1%	-10.2%	6.3%	12.4%	-34.6%	4.5%	8.7%	8.7%	66.3%
ICS	26.4%	8.9%	-2.4%	-45.2%	13.1%	5.1%	8.4%	8.1%	7.9%
Candy	0.0%	0.0%	8.0%	17.5%	4.0%	3.0%	8.0%	8.0%	8.0%
Others	-35.3%	374.5%	0.7%	22.4%	58.9%	5.6%	4.1%	9.0%	24.1%
<b>Group revenue</b>	<b>15.1%</b>	<b>9.5%</b>	<b>4.5%</b>	<b>8.5%</b>	<b>5.7%</b>	<b>5.4%</b>	<b>7.2%</b>	<b>7.2%</b>	<b>7.0%</b>

## GPM

Fridge & freezer	30.4%	32.3%	32.5%	31.8%	32.8%	33.3%	33.8%	34.3%	34.3%
Air conditioner	31.7%	31.2%	27.4%	27.9%	29.4%	30.7%	31.2%	31.7%	31.7%
Washing machine	33.9%	32.7%	33.1%	33.6%	34.6%	35.1%	35.6%	36.1%	36.1%
Kitchen & small appliances	34.5%	31.1%	31.7%	32.7%	33.7%	34.2%	34.7%	35.2%	35.2%
ICS	8.2%	10.3%	10.1%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%
Candy	25.0%	25.0%	25.0%	25.0%	25.0%	24.0%	24.2%	24.4%	24.4%
Others	36.3%	48.0%	48.2%	47.9%	56.6%	50.5%	51.5%	50.2%	49.8%
<b>Group gross margin</b>	<b>29.0%</b>	<b>29.8%</b>	<b>29.7%</b>	<b>31.2%</b>	<b>31.5%</b>	<b>31.5%</b>	<b>31.9%</b>	<b>32.2%</b>	<b>32.4%</b>

## By region

Domestic	106,640	107,443	108,374	112,830	122,297	130,665	137,961	145,534	152,811
Overseas	76,677	93,319	101,352	114,726	118,167	122,892	133,952	146,006	159,242
GEA	52,250	56,953	63,714	70,277	71,683	74,550	81,259	88,573	96,544
Candy	-	9,743	10,523	12,364	12,859	13,244	14,304	15,448	16,684
Others	24,427	26,624	27,115	32,085	33,625	35,098	38,388	41,985	46,014
<b>Group revenue</b>	<b>183,317</b>	<b>200,762</b>	<b>209,726</b>	<b>227,556</b>	<b>240,463</b>	<b>253,557</b>	<b>271,913</b>	<b>291,540</b>	<b>312,053</b>

## By region growth

Domestic	15.6%	0.8%	0.9%	4.1%	8.4%	6.8%	5.6%	5.5%	5.0%
Overseas	14.4%	21.7%	8.6%	13.2%	3.0%	4.0%	9.0%	9.0%	9.1%
GEA	13.8%	9.0%	11.9%	10.3%	2.0%	4.0%	9.0%	9.0%	9.0%
Candy	-	5.0%	8.0%	17.5%	4.0%	3.0%	8.0%	8.0%	8.0%
Others	15.5%	9.0%	1.8%	18.3%	4.8%	4.4%	9.4%	9.4%	9.6%
<b>Group revenue</b>	<b>15.1%</b>	<b>9.5%</b>	<b>4.5%</b>	<b>8.5%</b>	<b>5.7%</b>	<b>5.4%</b>	<b>7.2%</b>	<b>7.2%</b>	<b>7.0%</b>

## % of sales

SG&A	23.4%	25.3%	24.4%	24.7%	24.8%	24.7%	24.7%	24.8%	24.7%
Sales expense	15.6%	16.8%	16.0%	16.1%	16.2%	16.1%	16.3%	16.4%	16.4%
Admin. expense	7.3%	8.2%	8.1%	8.3%	8.2%	8.2%	8.1%	8.0%	8.0%
.. R&D expense	2.8%	3.1%	3.3%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
.. Other admin. expense	4.5%	5.0%	4.8%	4.6%	4.6%	4.5%	4.4%	4.3%	4.3%

Source: Company data, Gao Hua Securities Research

## Haier Smart Home's key financials

Profit model (Rmb mn)	12/21	12/22E	12/23E	12/24E	Balance sheet (Rmb mn)	12/21	12/22E	12/23E	12/24E
<b>Total revenue</b>	<b>227,556.1</b>	<b>240,463.2</b>	<b>253,557.1</b>	<b>271,912.7</b>	Cash & equivalents	45,857.2	55,092.6	63,608.3	73,090.8
Cost of goods sold	(156,482.7)	(164,705.5)	(173,593.6)	(185,049.9)	Accounts receivable	29,940.9	32,297.9	34,751.3	38,012.0
SG&A	(47,805.1)	(50,675.5)	(53,221.3)	(57,220.1)	Inventory	39,863.2	41,055.4	43,270.9	46,126.6
R&D	(8,357.3)	(8,866.0)	(9,360.1)	(10,037.7)	Other current assets	7,946.5	7,946.5	7,946.5	7,946.5
Other operating profit/(expense)	(1,299.5)	(1,299.5)	(1,299.5)	(1,299.5)	<b>Total current assets</b>	<b>123,607.8</b>	<b>136,392.5</b>	<b>149,577.1</b>	<b>165,176.0</b>
<b>EBITDA</b>	<b>18,415.3</b>	<b>19,697.9</b>	<b>20,815.8</b>	<b>22,996.1</b>	Net PP&E	26,542.5	25,892.1	24,972.5	24,320.2
Depreciation & amortization	(4,803.8)	(4,781.2)	(4,733.2)	(4,690.6)	Net intangibles	31,604.6	31,187.2	30,782.1	30,399.1
<b>EBIT</b>	<b>13,611.6</b>	<b>14,916.8</b>	<b>16,082.6</b>	<b>18,305.5</b>	Total investments	0.0	0.0	0.0	0.0
Interest income	564.6	557.2	669.5	773.0	Other long-term assets	35,704.6	39,165.7	42,799.8	46,615.6
Interest expense	(712.4)	(601.8)	(601.8)	(601.8)	<b>Total assets</b>	<b>217,459.5</b>	<b>232,637.5</b>	<b>248,131.5</b>	<b>266,510.8</b>
Income/(loss) from uncons. subs.	-	-	-	-	Accounts payable	91,599.2	96,412.5	101,615.3	108,321.4
Others	2,452.3	2,841.3	3,248.6	3,253.7	Short-term debt	11,226.2	11,226.2	11,226.2	11,226.2
<b>Pretax profits</b>	<b>15,916.0</b>	<b>17,713.5</b>	<b>19,398.8</b>	<b>21,730.3</b>	Other current liabilities	21,284.9	22,755.8	23,307.1	24,069.8
Income tax	(2,699.0)	(3,025.4)	(3,313.3)	(3,711.5)	<b>Total current liabilities</b>	<b>124,797.0</b>	<b>131,081.2</b>	<b>136,835.3</b>	<b>144,304.0</b>
Minorities	(150.0)	(202.3)	(221.5)	(248.1)	Long-term debt	3,038.6	3,038.6	3,038.6	3,038.6
<b>Net income pre-preferred dividends</b>	<b>13,067.0</b>	<b>14,485.8</b>	<b>15,864.0</b>	<b>17,770.7</b>	Other long-term liabilities	6,560.7	6,560.7	6,560.7	6,560.7
Preferred dividends	-	-	-	-	Total long-term liabilities	11,579.6	11,579.6	11,579.6	11,579.6
<b>Net income (pre-exceptionals)</b>	<b>13,067.0</b>	<b>14,485.8</b>	<b>15,864.0</b>	<b>17,770.7</b>	<b>Total liabilities</b>	<b>136,376.5</b>	<b>142,660.8</b>	<b>148,414.8</b>	<b>155,883.6</b>
Post-tax exceptionals	-	-	-	-	<b>Preferred shares</b>				
<b>Net income</b>	<b>13,067.0</b>	<b>14,485.8</b>	<b>15,864.0</b>	<b>17,770.7</b>	<b>Total common equity</b>	<b>79,810.9</b>	<b>88,502.4</b>	<b>98,020.8</b>	<b>108,683.3</b>
EPS (basic, pre-exception) (Rmb)	1.39	1.53	1.68	1.88	Minority interest	1,272.0	1,474.3	1,695.8	1,943.9
EPS (basic, post-exception) (Rmb)	1.39	1.53	1.68	1.88	<b>Total liabilities &amp; equity</b>	<b>217,459.5</b>	<b>232,637.5</b>	<b>248,131.5</b>	<b>266,510.8</b>
EPS (diluted, post-exception) (Rmb)	1.39	1.53	1.68	1.88	<b>BVPS (Rmb)</b>	<b>8.49</b>	<b>9.37</b>	<b>10.38</b>	<b>11.51</b>
DPS (Rmb)	0.46	0.61	0.67	0.75					
Dividend payout ratio (%)	33.1%	40.0%	40.0%	40.0%					
Free cash flow yield (%)	5.8%	7.1%	7.5%	8.2%					
<b>Growth &amp; margins (%)</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>	<b>Ratios</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Sales growth	8.5%	5.7%	5.4%	7.2%	ROE (%)	17.8%	17.2%	17.0%	17.2%
EBITDA growth	25.6%	7.0%	5.7%	10.5%	ROA (%)	6.2%	6.4%	6.6%	6.9%
EBIT growth	39.4%	9.6%	7.8%	13.8%	CROCI (%)	46.8%	45.4%	46.6%	48.1%
Net income growth	47.2%	10.9%	9.5%	12.0%	Inventory days	80.8	89.7	88.7	88.2
EPS growth	41.4%	10.3%	9.5%	12.0%	Receivables days	49.5	47.2	48.3	48.8
Gross margin	31.2%	31.5%	31.5%	31.9%	Payable days	201.0	208.3	208.2	207.0
EBITDA margin	8.1%	8.2%	8.2%	8.5%	Net debt/equity (%)	(35.7%)	(42.4%)	(46.8%)	(50.8%)
EBIT margin	6.0%	6.2%	6.3%	6.7%	Interest cover - EBIT (X)	92.1	334.7	NM	NM
<b>Cash flow statement (Rmb mn)</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>	<b>Valuation</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Net income pre-preferred dividends	13,067.0	14,485.8	15,864.0	17,770.7	P/E (analyst) (X)	20.8	16.4	15.0	13.4
D&A add-back	4,803.8	4,781.2	4,733.2	4,690.6	P/B (X)	3.4	2.7	2.4	2.2
Minorities interests add-back	150.0	202.3	221.5	248.1	EV/EBITDA (X)	13.3	10.2	9.3	8.0
Net (inc)/dec working capital	3,676.7	1,264.1	533.9	589.7	Dividend yield (%)	1.6%	2.4%	2.7%	3.0%
Other operating cash flow	1,432.1	0.0	0.0						
<b>Cash flow from operations</b>	<b>23,129.6</b>	<b>20,733.3</b>	<b>21,352.6</b>	<b>23,299.2</b>					
Capital expenditures	(7,372.4)	(3,713.4)	(3,408.5)	(3,655.2)					
Acquisitions	-	-	-	-					
Divestitures	70.5	-	-	-					
Others	(764.9)	(3,461.1)	(3,634.1)	(3,815.8)					
<b>Cash flow from investments</b>	<b>(8,066.8)</b>	<b>(7,174.4)</b>	<b>(7,042.6)</b>	<b>(7,471.0)</b>					
Dividends paid (common & pref)	(3,304.2)	(4,323.4)	(5,794.3)	(6,345.6)					
Inc/(dec) in debt	(7,497.8)	-	-	-					
Common stock issuance (repurchase)	41.5	-	-	-					
Other financing cash flows	(4,906.5)	-	-	-					
<b>Cash flow from financing</b>	<b>(15,667.0)</b>	<b>(4,323.4)</b>	<b>(5,794.3)</b>	<b>(6,345.6)</b>					
<b>Total cash flow</b>	<b>(604.2)</b>	<b>9,235.4</b>	<b>8,515.7</b>	<b>9,482.5</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Man Wah: D/G to Sell on ongoing domestic and overseas headwinds

1999.HK	12m Price Target: HK\$6.9	Price: HK\$6.15	Upside: 12.2%		
<b>Sell</b>	<b>GS Forecast</b>				
		<b>3/22</b>	<b>3/23E</b>	<b>3/24E</b>	<b>3/25E</b>
Market cap: HK\$23.5bn / \$3.0bn	<b>Revenue (HK\$ mn) New</b>	<b>21,496.8</b>	<b>22,479.5</b>	<b>23,538.7</b>	<b>25,353.2</b>
Enterprise value: HK\$25.4bn / \$3.2bn	Revenue (HK\$ mn) Old	21,496.8	23,393.9	25,824.1	28,099.8
3m ADTV :HK\$82.1mn/ \$10.5mn	EBITDA (HK\$ mn)	3,503.3	3,929.0	4,299.1	4,666.6
China	<b>EPS (HK\$) New</b>	<b>0.57</b>	<b>0.63</b>	<b>0.70</b>	<b>0.77</b>
China Consumer Durables	EPS (HK\$) Old	0.57	0.66	0.76	0.86
	P/E (X)	24.2	9.8	8.8	8.0
M&A Rank: 3	P/B (X)	4.6	1.9	1.7	1.6
Leases incl. in net debt & EV?: Yes	Dividend yield (%)	2.2	5.5	6.3	7.1
	CROCI (%)	18.0	20.9	21.6	22.5
		<b>9/21</b>	<b>3/22</b>	<b>9/22E</b>	<b>3/23E</b>
	EPS (HK\$)	0.25	0.32	0.28	0.35

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 Jul 2022 close.

### Investment thesis

Following our downgrade of Man Wah on Mar 31, the stock has further fallen by 28% as of the latest closing (Jul 29). Although the stock has dropped by nearly 50% YTD vs. our coverage avg at -22% (CSI 300/Hang Seng Index at -16%/-14% as of Jul 29), we see limited short-term catalysts that would be positive enough to lift the stock in the near term and expect its underperformance to continue. Thus, we downgrade Man Wah to Sell from Neutral on a relative basis.

We believe the company faces two major headwinds, from both overseas and domestic markets (at c.40%/-60%+ revenue contribution respectively): 1) **on overseas**, we think Man Wah's high exposure in North America and Europe (together accounting for over 90%/30%+ of overseas/total sales as of FY22) will continue to weigh on its growth in the overseas market, **amid the weakening demand in the US and EU** (see the *2H22 Outlook* section) **and**; 2) **on domestic**, the initial strong revenue growth contribution from the aggressive store expansion initiative (net store openings at 1,000+ per year from 2 years ago) has started to taper. As overall consumption slows down, we see its SSSG dropping by 8%/20%+ in FY22/2HFY22, and a GPM contraction by 1ppt in FY22 in its main business in Greater China. As a contrast, we saw an improvement of GPM from Jason Furniture at a sequential expansion of 1ppt from 4Q21 to 1Q22, and expect its FY22E GPM to grow by nearly 1ppt as well.

**What could make us more constructive on the stock:** 1) since last year, the company started to expand its business to include customized furniture in order to **diversify its product range** and to benefit from incremental demand for new home furnishings. Though it's still at an early stage, we believe the market's perception of mid/long term growth will improve if Man Wah can deliver sustained fast growth in this new business. 2) A **recovery in SSSG**, potentially due to a rebound in offline traffic on the back of easing anti-pandemic controls or modernization/digitalization of offline stores. 3) A **strong recovery in margins** due to either improvements in product mix or declining



input prices.

### **Earnings/TP revisions**

We cut our FY2023E-27E EPS forecasts by 4% to 13% after factoring in weaker overseas demand and declining SSSG in the domestic market. Accordingly, our 12-month target price decreases to HK\$6.9 (from HK\$10.0 previously), still based on a discounted P/E approach. We lower our target exit multiple from 15x to 11x to reflect a slower growth outlook, and apply it to our FY2027E EPS, discounting back with a 10.0% COE. Our new target price offers 12% upside vs. our coverage average of 21% (pricing based on July 29 close), thus downgrade the stock to Sell.

**Where we are vs. consensus:** Our FY2023E-25E EPS forecasts are 7%/14%/20% lower compared to Wind consensus, with our lower revenue growth yet slightly higher margin forecasts reflecting improvements in product mix. Our more bearish view on overseas demand vs consensus is discussed in our *2H22 Outlook* section.

### **Key risks:**

- 1) Better-than-expected macro conditions may lift demand: Demand for upholstered furniture is largely impacted by macro-related factors including disposable incomes and consumer confidence;
- 2) Faster-than-expected product expansion may boost growth: Expansion to more products (e.g. mattresses) and customized furniture leveraging its cost advantages from economies of scale and vertical integration has been a key growth driver. There is a chance of slower/faster-than-expected implementation of its expansion that may lead to slower/faster-than-expected growth;
- 3) Lower-than-expected raw material costs: Raw material costs accounted for c. 80% of Man Wah's COGS and thus fluctuations will have an impact on GPM. If cost of raw materials increases less than expected, GPM is likely to improve more than expected;
- 4) Less intensified competition: More intensified competition may lead to lower prices that impact both sales and margins. On the contrary, the company may be able to better pass through its cost pressure through measures like price hikes;
- 5) Lower-than expected tariffs on overseas factories: Faced with higher tariffs on Chinese imports, Man Wah has been shifting most of its production for the US market to South-East Asia, to take advantage of lower tariffs

## Exhibit 31: Key assumptions for Man Wah

## Man Wah Holdings

Major P&L items	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
Total sales/revenues	10,027	11,258	12,144	16,434	21,497	22,480	23,539	25,353	27,013	28,598
yoy %	28.9%	12.3%	7.9%	35.3%	30.8%	4.6%	4.7%	7.7%	6.5%	5.9%
Gross profit	3,743	3,837	4,418	5,929	7,891	8,320	8,796	9,486	10,123	10,737
Gross margin	37.3%	34.1%	36.4%	36.1%	36.7%	37.0%	37.4%	37.4%	37.5%	37.5%
change (bps)	(455)	(325)	229	(30)	63	31	36	5	6	7
SG&A	(2,135)	(2,356)	(2,624)	(3,897)	(5,243)	(5,375)	(5,557)	(5,958)	(6,324)	(6,690)
As % of sales	21.3%	20.9%	21.6%	23.7%	24.4%	23.9%	23.6%	23.5%	23.4%	23.4%
EBITDA	2,137	2,010	2,540	2,925	3,503	3,929	4,299	4,667	5,011	5,327
EBIT (operating profit)	1,936	1,753	2,138	2,432	2,819	3,124	3,426	3,730	4,014	4,274
yoy %	3.4%	-9.5%	22.0%	13.7%	15.9%	10.8%	9.7%	8.9%	7.6%	6.5%
EBIT margin	19.3%	15.6%	17.6%	14.8%	13.1%	13.9%	14.6%	14.7%	14.9%	14.9%
Net income to shareholders	1,536	1,364	1,638	1,925	2,247	2,483	2,748	3,023	3,286	3,536
yoy %	-12.4%	-11.2%	20.1%	17.5%	16.8%	10.5%	10.6%	10.0%	8.7%	7.6%
EPS - basic	0.40	0.36	0.43	0.50	0.57	0.63	0.70	0.77	0.83	0.90
EPS - fully diluted (analyst)	0.40	0.36	0.43	0.50	0.57	0.63	0.69	0.76	0.83	0.89
Dividend payout ratio	62%	34%	44%	52%	53%	54%	56%	57%	57%	57%

Segmental information	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
Sofa and ancillary products	8,076	8,616	8,155	11,724	14,617	14,838	15,276	16,220	16,995	17,723
Other products	926	1,819	2,453	3,708	5,618	6,468	7,148	7,948	8,767	9,553
Other business	-	-	792	238	371	390	409	430	451	474
Home Group	871	824	744	764	891	784	706	755	800	848
Others	154	-	-	-	-	-	-	-	-	-
<b>Group revenue</b>	<b>10,027</b>	<b>11,258</b>	<b>12,144</b>	<b>16,434</b>	<b>21,497</b>	<b>22,480</b>	<b>23,539</b>	<b>25,353</b>	<b>27,013</b>	<b>28,598</b>

## % yoy

Sofa and ancillary products	15.7%	6.7%	-5.3%	43.8%	24.7%	1.5%	3.0%	6.2%	4.8%	4.3%
Other products	55.7%	96.4%	34.9%	51.2%	51.5%	15.1%	10.5%	11.2%	10.3%	9.0%
Other business	-	-	-	-69.9%	55.7%	5.0%	5.0%	5.0%	5.0%	5.0%
Home Group	330.1%	-5.4%	-9.7%	2.7%	16.6%	-12.0%	-10.0%	7.0%	6.0%	6.0%
Others	-	-100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Group revenue</b>	<b>28.9%</b>	<b>12.3%</b>	<b>7.9%</b>	<b>35.3%</b>	<b>30.8%</b>	<b>4.6%</b>	<b>4.7%</b>	<b>7.7%</b>	<b>6.5%</b>	<b>5.9%</b>

## Segment profits (recurring profits before tax)

Sofa and ancillary products	23.2%	20.6%	19.8%	16.5%	14.7%	15.0%	15.6%	15.9%	16.2%	16.5%
Other products	22.8%	19.9%	18.9%	15.4%	16.1%	16.5%	16.9%	17.2%	17.5%	17.8%
Other business	-	-	36.6%	11.7%	53.3%	53.3%	53.3%	53.3%	53.3%	53.3%
Home Group	1.8%	2.1%	5.5%	11.3%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Others	16.4%	-	-	-	-	-	-	-	-	-
<b>Group margin</b>	<b>21.2%</b>	<b>19.1%</b>	<b>19.8%</b>	<b>15.9%</b>	<b>15.1%</b>	<b>15.6%</b>	<b>16.2%</b>	<b>16.5%</b>	<b>16.8%</b>	<b>17.1%</b>

## By geography

Overseas	5,195	5,769	5,190	6,220	7,933	7,466	7,000	7,339	7,650	8,074
North America	3,590	4,148	3,508	4,579	5,667	5,343	4,987	5,236	5,488	5,742
Europe and others	1,605	1,621	1,682	1,641	2,265	2,123	2,013	2,103	2,162	2,332
Domestic	4,831	5,489	6,955	10,214	13,564	15,014	16,539	18,014	19,363	20,525
<b>Group revenue</b>	<b>10,027</b>	<b>11,258</b>	<b>12,144</b>	<b>16,434</b>	<b>21,497</b>	<b>22,480</b>	<b>23,539</b>	<b>25,353</b>	<b>27,013</b>	<b>28,598</b>

## Geographic growth

Overseas	17.6%	11.0%	-10.0%	19.9%	27.5%	-5.9%	-6.2%	4.8%	4.2%	5.5%
North America	2.6%	15.5%	-15.4%	30.5%	23.8%	-5.7%	-6.7%	5.0%	4.8%	4.6%
Europe and others	74.9%	1.0%	3.8%	-2.4%	38.1%	-6.3%	-5.2%	4.4%	2.8%	7.9%
Domestic	43.7%	13.6%	26.7%	46.9%	32.8%	10.7%	10.2%	8.9%	7.5%	6.0%
<b>Group revenue</b>	<b>28.9%</b>	<b>12.3%</b>	<b>7.9%</b>	<b>35.3%</b>	<b>30.8%</b>	<b>4.6%</b>	<b>4.7%</b>	<b>7.7%</b>	<b>6.5%</b>	<b>5.9%</b>

## % of sales

SG&A	21.3%	20.9%	21.6%	23.7%	24.4%	23.9%	23.6%	23.5%	23.4%	23.4%
Sales expense	16.9%	16.0%	16.5%	19.0%	19.5%	19.0%	18.8%	18.7%	18.7%	18.7%
.. A&P	2.3%	1.9%	2.3%	2.9%	2.5%	2.7%	2.8%	2.8%	2.8%	2.8%
.. Payroll	2.9%	2.5%	2.8%	3.0%	3.7%	3.8%	3.8%	3.8%	3.8%	3.8%
.. Other sales expense	11.6%	11.6%	11.4%	13.1%	13.2%	12.5%	12.1%	12.1%	12.0%	12.0%
Admin. expense	4.4%	4.9%	5.1%	4.7%	4.9%	4.9%	4.8%	4.8%	4.7%	4.7%
.. R&D expense	0.3%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
.. Other admin. expense	4.1%	4.2%	4.4%	4.0%	4.2%	4.2%	4.2%	4.1%	4.1%	4.0%

Source: Company data, Gao Hua Securities Research

## Man Wah's key financials

Profit model (HK\$ mn)	3/22	3/23E	3/24E	3/25E	Balance sheet (HK\$ mn)	3/22	3/23E	3/24E	3/25E
<b>Total revenue</b>	<b>21,496.8</b>	<b>22,479.5</b>	<b>23,538.7</b>	<b>25,353.2</b>	Cash & equivalents	2,825.7	3,828.3	5,236.8	6,797.7
Cost of goods sold	(13,606.2)	(14,159.5)	(14,743.0)	(15,867.0)	Accounts receivable	2,245.1	2,347.7	2,329.4	2,370.0
SG&A	(5,094.8)	(5,220.4)	(5,394.9)	(5,783.7)	Inventory	2,698.7	2,847.2	2,964.6	3,190.6
R&D	(148.1)	(154.8)	(162.1)	(174.6)	Other current assets	1,571.3	1,571.3	1,571.3	1,571.3
Other operating profit/(expense)	171.0	178.8	187.2	201.7	<b>Total current assets</b>	<b>9,340.7</b>	<b>10,594.6</b>	<b>12,101.9</b>	<b>13,929.6</b>
<b>EBITDA</b>	<b>3,503.3</b>	<b>3,929.0</b>	<b>4,299.1</b>	<b>4,666.6</b>	Net PP&E	8,983.1	9,259.7	9,399.6	9,422.8
Depreciation & amortization	(684.5)	(805.4)	(873.3)	(937.0)	Net intangibles	1,309.9	1,261.9	1,213.9	1,166.4
<b>EBIT</b>	<b>2,818.7</b>	<b>3,123.7</b>	<b>3,425.9</b>	<b>3,729.6</b>	Total investments	495.8	495.8	495.8	495.8
Interest income	71.2	83.6	113.3	155.0	Other long-term assets	391.7	391.7	391.7	391.7
Interest expense	(79.7)	(89.1)	(89.1)	(89.1)	<b>Total assets</b>	<b>20,521.2</b>	<b>22,003.7</b>	<b>23,602.9</b>	<b>25,406.3</b>
Income/(loss) from uncons. subs.	9.65				Accounts payable	2,647.3	2,754.9	2,868.4	3,087.1
Others	(0.4)	(0.4)	(0.4)	(0.4)	Short-term debt	4,441.5	4,441.5	4,441.5	4,441.5
<b>Pretax profits</b>	<b>2,819.5</b>	<b>3,117.9</b>	<b>3,449.8</b>	<b>3,795.2</b>	Other current liabilities	354.9	516.5	701.1	899.8
Income tax	(502.9)	(558.1)	(617.5)	(679.3)	<b>Total current liabilities</b>	<b>7,443.7</b>	<b>7,713.0</b>	<b>8,011.1</b>	<b>8,428.4</b>
Minorities	(69.1)	(76.4)	(84.5)	(93.0)	Long-term debt	166.4	166.4	166.4	166.4
<b>Net income pre-preferred dividends</b>	<b>2,247.5</b>	<b>2,483.4</b>	<b>2,747.8</b>	<b>3,022.9</b>	Other long-term liabilities	163.0	163.0	163.0	163.0
Preferred dividends					Total long-term liabilities	329.4	329.4	329.4	329.4
<b>Net income (pre-exceptionals)</b>	<b>2,247.5</b>	<b>2,483.4</b>	<b>2,747.8</b>	<b>3,022.9</b>	<b>Total liabilities</b>	<b>7,773.1</b>	<b>8,042.4</b>	<b>8,340.5</b>	<b>8,757.8</b>
Post-tax exceptionals					<b>Preferred shares</b>				
<b>Net income</b>	<b>2,247.5</b>	<b>2,483.4</b>	<b>2,747.8</b>	<b>3,022.9</b>	<b>Total common equity</b>	<b>11,709.7</b>	<b>12,846.5</b>	<b>14,063.1</b>	<b>15,356.2</b>
EPS (basic, pre-exception) (HK\$)	0.57	0.63	0.70	0.77	Minority interest	1,038.5	1,114.8	1,199.4	1,292.3
EPS (basic, post-exception) (HK\$)	0.57	0.63	0.70	0.77	<b>Total liabilities &amp; equity</b>	<b>20,521.2</b>	<b>22,003.7</b>	<b>23,602.9</b>	<b>25,406.3</b>
EPS (diluted, post-exception) (HK\$)	0.57	0.63	0.69	0.76	<b>BVPS (HK\$)</b>	<b>2.96</b>	<b>3.25</b>	<b>3.56</b>	<b>3.89</b>
DPS (HK\$)	0.30	0.34	0.39	0.44					
Dividend payout ratio (%)	52.7%	54.2%	55.7%	57.2%					
Free cash flow yield (%)	1.1%	8.3%	10.4%	11.7%					
<b>Growth &amp; margins (%)</b>	<b>3/22</b>	<b>3/23E</b>	<b>3/24E</b>	<b>3/25E</b>	<b>Ratios</b>	<b>3/22</b>	<b>3/23E</b>	<b>3/24E</b>	<b>3/25E</b>
Sales growth	30.8%	4.6%	4.7%	7.7%	ROE (%)	20.0%	20.2%	20.4%	20.6%
EBITDA growth	19.8%	12.2%	9.4%	8.5%	ROA (%)	11.8%	11.7%	12.0%	12.3%
EBIT growth	15.9%	10.8%	9.7%	8.9%	CROCI (%)	18.0%	20.9%	21.6%	22.5%
Net income growth	16.8%	10.5%	10.6%	10.0%	Inventory days	66.5	71.5	71.9	70.8
EPS growth	13.2%	10.5%	10.6%	10.0%	Receivables days	33.3	37.3	36.3	33.8
Gross margin	36.7%	37.0%	37.4%	37.4%	Payable days	61.0	69.6	69.6	68.5
EBITDA margin	16.3%	17.5%	18.3%	18.4%	Net debt/equity (%)	14.0%	5.6%	(4.1%)	(13.2%)
EBIT margin	13.1%	13.9%	14.6%	14.7%	Interest cover - EBIT (X)	330.4	574.5	NM	NM
<b>Cash flow statement (HK\$ mn)</b>	<b>3/22</b>	<b>3/23E</b>	<b>3/24E</b>	<b>3/25E</b>	<b>Valuation</b>	<b>3/22</b>	<b>3/23E</b>	<b>3/24E</b>	<b>3/25E</b>
Net income pre-preferred dividends	2,247.5	2,483.4	2,747.8	3,022.9	P/E (analyst) (X)	24.2	10.2	9.2	8.3
D&A add-back	684.5	805.4	873.3	937.0	P/B (X)	4.6	2.0	1.8	1.6
Minorities interests add-back	69.1	76.4	84.5	93.0	EV/EBITDA (X)	16.3	6.9	6.0	5.2
Net (inc)/dec working capital	(261.5)	(143.5)	14.6	(48.0)	Dividend yield (%)	2.2%	5.3%	6.1%	6.9%
Other operating cash flow	(415.9)								
<b>Cash flow from operations</b>	<b>2,323.7</b>	<b>3,221.7</b>	<b>3,720.1</b>	<b>4,004.9</b>					
Capital expenditures	(1,737.7)	(1,034.1)	(965.1)	(912.7)					
Acquisitions									
Divestitures									
Others	638.3								
<b>Cash flow from investments</b>	<b>(1,099.4)</b>	<b>(1,034.1)</b>	<b>(965.1)</b>	<b>(912.7)</b>					
Dividends paid (common & pref)	(1,147.4)	(1,185.0)	(1,346.6)	(1,531.2)					
Inc/(dec) in debt									
Common stock issuance (repurchase)	17.3								
Other financing cash flows	327.5								
<b>Cash flow from financing</b>	<b>(802.6)</b>	<b>(1,185.0)</b>	<b>(1,346.6)</b>	<b>(1,531.2)</b>					
<b>Total cash flow</b>	<b>421.7</b>	<b>1,002.6</b>	<b>1,408.4</b>	<b>1,561.0</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Midea: Moderating headwinds ahead and ample white space in the 2B/overseas 2C business; reiterate Buy (on CL)

000333.SZ	12m Price Target: Rmb91	Price: Rmb54.98	Upside: 65.5%		
<b>Buy - CL</b>	<b>GS Forecast</b>				
		<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Market cap: Rmb384.1bn / \$57.0bn	<b>Revenue (Rmb mn) New</b>	<b>343,360.8</b>	<b>356,708.8</b>	<b>382,376.7</b>	<b>417,234.8</b>
Enterprise value: Rmb326.0bn / \$48.4bn	Revenue (Rmb mn) Old	343,360.8	369,547.3	408,880.1	452,033.3
3m ADTV :Rmb1.9bn/ \$281.2mn	EBITDA (Rmb mn)	32,712.2	36,626.4	40,585.5	45,377.2
China	<b>EPS (Rmb) New</b>	<b>4.09</b>	<b>4.47</b>	<b>5.02</b>	<b>5.63</b>
China Consumer Durables	EPS (Rmb) Old	4.09	4.58	5.46	6.21
M&A Rank: 3	P/E (X)	19.0	12.3	11.0	9.8
Leases incl. in net debt & EV?: No	P/B (X)	4.3	2.7	2.4	2.1
Asia ex. Japan Conviction List	Dividend yield (%)	2.2	3.4	3.8	4.3
	CROCI (%)	35.8	52.9	53.8	55.6
		<b>3/22</b>	<b>6/22E</b>	<b>9/22E</b>	<b>12/22E</b>
	EPS (Rmb)	1.03	1.22	1.26	0.97

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 Jul 2022 close.

### Investment thesis

Midea remains our top pick (CL Buy) within our major white goods coverage universe. However, the stock has corrected by 22% YTD vs. our coverage avg at -21% (CSI 300/Hang Seng Index at -14%/-10% as of Jul 26), currently trading at 13x 2022E P/E, below peers at c.17x. We think investors' concerns are primarily centered around 1) **rising commodity prices, shipping costs and RMB appreciation**, which had been weighing on margins throughout 2021; 2) the **sluggish property market in China** post 2H21, which might have a ripple effect to drag down home appliances demand; 3) the **outbreak of the Russia-Ukraine war** in late-Feb has pushed up commodity prices such as aluminum temporarily, as well as lingering concerns over geopolitical issues, and implications for investing in China.

Notwithstanding, into 1H22, we're seeing a turnaround on the above mentioned concerns: 1) **Moderating cyclical factors to dispel gloom over the margin recovery path**: a) as we highlighted in 1H22 recap, key raw materials prices such as that of steel/copper/aluminum have declined by 19%/15%/9% YTD, bringing yoy decline to 11%/3%/1% by Jul 29 ([Exhibit 3](#)); b) after bottoming out in Mar-22, USD turned stronger and has now rebounded back to similar level as in 2H20; c) shipping costs have been moderating YTD as of [our latest check on CCFI index](#). With these acting as tailwinds for Midea's margin recovery, we've already seen some progress along the trajectory in the [2021/1Q22 results](#), as in a beat in 1Q22 NI (Rev/NI at flat/2% above GHe) and easing pressure on GPM from 4Q21 (18.7%/22.9%/22.6% in 4Q21/2021/1Q22); 2) **Potential policy support to boost demand**: as pointed out in our 2H22 outlook, the government has been ramping up pro-consumption policies from launch of consumption coupons to the recent joint announcement led by [MoC to promote consumption of green and smart home appliances](#). We see these as positive catalysts going forward, especially with the easing of movement restrictions since June, which has led to offline activities starting to

revitalize; 3) Despite the dampening overseas demand, Midea's **diversification in geography** (DM exposure at <50% of total overseas revenue) could equip it with both the tool to reap upside potential (we previously did an analysis on the [white space in the Rmb2,400bn overseas 2C business](#)), and a shield to mitigate downside risk. We believe Midea's on-track development in EM markets and its OBM business, leveraging **competitive products/channel strategy and execution agility/efficiency**, could partially offset the negative impact from the weaker DM demand and further gain share in respective markets.

Last but not least, we think the market has not fully appreciated Midea's **mid-to-long term potential in the 2B business**: as we highlighted in our previous note ([Midea Group \(000333.SZ\): TAM expansion to sustain LT growth, margin recovery ST catalyst; reiterate Buy, add to CL](#)), Midea has been actively expanding its layout in the 2B business (which could bring an incremental Rmb800bn TAM), i.e. smart building, robotics and automation, industrial components and digital business. Among the four segments, we are most constructive on the smart building business, which emphasizes a reduction in energy consumption/carbon emissions, as a response to an industry-level ESG initiative and China's carbon neutrality plan. We see Midea as one of the few players which have the resources and technologies to provide full-suite solutions across HVAC, elevator and BMS. Based on our estimates, Midea would have accounted for less than 10% market share in the 2B business for now, implying ample space to grow. The latest [2021/1Q22 results](#) have also demonstrated the company's efforts in building the 2B franchise; for instance, the beat in FY21 Rev/NI (3%/1% higher than GHe) was primarily driven by the better-than-expected 2B business growth.

### Earnings/TP revisions

We revise down our 2022E-26E EPS by 2-10% as we factor in weak demand due to disruption from COVID resurgence and geopolitical issues. Accordingly, our new 12-m TP decreases to Rmb91.0 (from Rmb100.0), implying 66% upside vs coverage average of 21%, still derived from a discounted P/E approach by applying an unchanged 17x exit P/E to 2026E EPS and discounting back at 9.5%, consistent with our A-share coverage.

**Where we are vs. consensus:** Our 2022E-24E EPS forecasts are 2%/3%/2% lower compared to Wind consensus, with 5%/7%/7% lower revenue forecasts and slight higher margins. We have lower revenue forecasts due to concerns on overseas demand. We forecast slightly higher margins as we appreciate Midea's execution capability on premiumization strategy and operating efficiencies.

**Key risks:** 1) A prolonged disruption from the coronavirus outbreak that could drag on white goods demand globally; 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 successfully and realize acquisition synergies.

## Exhibit 32: Key assumptions for Midea

Midea Group										
Major P&L items	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
<b>Total sales/revenues</b>	<b>241,919</b>	<b>261,820</b>	<b>279,381</b>	<b>285,710</b>	<b>343,361</b>	<b>356,709</b>	<b>382,377</b>	<b>417,235</b>	<b>454,894</b>	<b>496,257</b>
yoy %	51.3%	8.2%	6.7%	2.3%	20.2%	3.9%	7.2%	9.1%	9.0%	9.1%
<b>Gross profit</b>	<b>61,205</b>	<b>73,462</b>	<b>81,332</b>	<b>72,758</b>	<b>78,735</b>	<b>87,118</b>	<b>96,594</b>	<b>106,301</b>	<b>116,968</b>	<b>128,693</b>
Gross margin	25.3%	28.1%	29.1%	25.5%	22.9%	24.4%	25.3%	25.5%	25.7%	25.9%
change (bps)	(209)	276	105	(365)	(254)	149	84	22	24	22
SG&A	(42,935)	(50,652)	(55,501)	(48,439)	(52,538)	(56,505)	(62,934)	(68,254)	(74,415)	(80,188)
As % of sales	17.7%	19.3%	19.9%	17.0%	15.3%	15.8%	16.5%	16.4%	16.4%	16.2%
EBITDA	24,250	25,949	31,488	30,397	32,712	36,626	40,585	45,377	50,322	56,746
<b>EBIT (operating profit)</b>	<b>17,975</b>	<b>21,552</b>	<b>26,320</b>	<b>25,377</b>	<b>26,529</b>	<b>30,079</b>	<b>33,660</b>	<b>38,047</b>	<b>42,554</b>	<b>48,504</b>
yoy %	18.7%	19.9%	22.1%	-3.6%	4.5%	13.4%	11.9%	13.0%	11.8%	14.0%
EBIT margin	7.4%	8.2%	9.4%	8.9%	7.7%	8.4%	8.8%	9.1%	9.4%	9.8%
<b>Net income to shareholders</b>	<b>17,284</b>	<b>20,231</b>	<b>24,211</b>	<b>27,223</b>	<b>28,574</b>	<b>31,288</b>	<b>35,111</b>	<b>39,410</b>	<b>44,579</b>	<b>50,749</b>
yoy %	17.7%	17.1%	19.7%	12.4%	5.0%	9.5%	12.2%	12.2%	13.1%	13.8%
EPS - basic	2.63	3.04	3.47	3.87	4.09	4.47	5.02	5.63	6.37	7.25
EPS - fully diluted (analyst)	2.63	3.04	3.47	3.87	4.09	4.47	5.02	5.63	6.37	7.25
Dividend payout ratio	46%	42%	46%	41%	42%	42%	42%	42%	42%	42%
Key assumptions	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Air conditioner	95,352	109,395	119,607	121,215	141,879	151,110	157,811	171,467	185,346	200,368
Washing machine	25,714	27,530	29,996	29,053	33,063	33,987	36,248	38,984	41,760	44,739
Small appliances	51,800	53,889	54,440	56,511	66,309	69,894	75,485	81,524	88,046	95,090
Fridge & freezer	19,768	21,574	25,051	28,326	32,495	34,528	36,847	39,645	42,491	45,548
KUKA	27,037	25,678	25,192	21,589	27,281	30,009	33,611	37,644	42,161	47,220
Others	22,247	23,754	25,094	29,015	42,334	37,180	42,374	47,970	55,089	63,292
<b>Group revenue</b>	<b>241,919</b>	<b>261,820</b>	<b>279,381</b>	<b>285,710</b>	<b>343,361</b>	<b>356,709</b>	<b>382,377</b>	<b>417,235</b>	<b>454,894</b>	<b>496,257</b>
<b>% yoy</b>										
Air conditioner	42.8%	14.7%	9.3%	1.3%	17.0%	6.5%	4.4%	8.7%	8.1%	8.1%
Washing machine	59.5%	7.1%	9.0%	-3.1%	13.8%	2.8%	6.7%	7.5%	7.1%	7.1%
Fridge & freezer	32.2%	9.1%	16.1%	13.1%	14.7%	6.3%	6.7%	7.6%	7.2%	7.2%
Small appliances	19.7%	4.0%	1.0%	3.8%	17.3%	5.4%	8.0%	8.0%	8.0%	8.0%
KUKA		-5.0%	-1.9%	-14.3%	26.4%	10.0%	12.0%	12.0%	12.0%	12.0%
Others	18.9%	6.8%	5.6%	15.6%	45.9%	-12.2%	14.0%	13.2%	14.8%	14.9%
<b>Group revenue</b>	<b>51.3%</b>	<b>8.2%</b>	<b>6.7%</b>	<b>2.3%</b>	<b>20.2%</b>	<b>3.9%</b>	<b>7.2%</b>	<b>9.1%</b>	<b>9.0%</b>	<b>9.1%</b>
<b>GPM</b>										
Air conditioner	29.0%	30.6%	31.8%	24.2%	21.1%	22.2%	23.7%	24.0%	24.4%	24.8%
Washing machine	32.3%	32.6%	34.9%	33.7%	32.7%	33.0%	33.6%	33.9%	34.1%	34.2%
Fridge & freezer	22.0%	22.3%	25.6%	24.4%	23.0%	23.0%	24.0%	24.3%	24.7%	25.1%
Small appliances	30.5%	30.2%	32.3%	32.0%	27.6%	31.6%	31.9%	32.2%	32.5%	32.8%
KUKA	21.7%	22.9%	20.8%	19.9%	21.7%	22.7%	23.2%	23.7%	24.2%	24.7%
Others	-3.6%	17.1%	14.5%	15.2%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
<b>Group gross margin</b>	<b>25.3%</b>	<b>28.1%</b>	<b>29.1%</b>	<b>25.5%</b>	<b>22.9%</b>	<b>24.4%</b>	<b>25.3%</b>	<b>25.5%</b>	<b>25.7%</b>	<b>25.9%</b>
<b>% of sales</b>										
SG&A	17.7%	19.3%	19.9%	17.0%	15.3%	15.8%	16.5%	16.4%	16.4%	16.2%
Sales expense	11.1%	11.9%	12.4%	9.6%	8.3%	8.8%	9.4%	9.4%	9.5%	9.4%
Admin. expense	6.1%	6.9%	6.9%	6.8%	6.5%	6.6%	6.6%	6.5%	6.4%	6.3%
.. R&D expense	3.5%	3.7%	3.4%	3.5%	3.5%	3.7%	3.7%	3.7%	3.7%	3.7%
.. Other admin. expense	2.6%	3.1%	3.4%	3.2%	3.0%	2.9%	2.9%	2.8%	2.7%	2.6%

Source: Company data, Gao Hua Securities Research

## Midea's key financials

Profit model (Rmb mn)	12/21	12/22E	12/23E	12/24E	Balance sheet (Rmb mn)	12/21	12/22E	12/23E	12/24E
<b>Total revenue</b>	<b>343,360.8</b>	<b>356,708.8</b>	<b>382,376.7</b>	<b>417,234.8</b>	Cash & equivalents	71,875.6	93,452.5	109,280.6	136,534.7
Cost of goods sold	(264,626.1)	(269,591.2)	(285,782.5)	(310,933.7)	Accounts receivable	32,525.4	38,676.2	41,459.3	45,238.8
SG&A	(40,523.0)	(43,307.0)	(48,786.1)	(52,816.3)	Inventory	45,924.4	39,342.1	45,619.7	49,634.6
R&D	(12,014.9)	(13,198.2)	(14,147.9)	(15,437.7)	Other current assets	98,539.1	98,539.1	98,539.1	98,539.1
Other operating profit/(expense)	332.5	(533.8)	0.0	0.0	<b>Total current assets</b>	<b>248,864.5</b>	<b>270,009.9</b>	<b>294,898.7</b>	<b>329,947.3</b>
<b>EBITDA</b>	<b>32,712.2</b>	<b>36,626.4</b>	<b>40,585.5</b>	<b>45,377.2</b>	Net PP&E	25,594.1	24,409.8	23,163.1	21,934.8
Depreciation & amortization	(6,182.9)	(6,547.9)	(6,925.4)	(7,330.1)	Net intangibles	45,047.8	44,528.9	44,043.4	43,608.4
<b>EBIT</b>	<b>26,529.3</b>	<b>30,078.6</b>	<b>33,660.1</b>	<b>38,047.1</b>	Total investments	0.0	0.0	0.0	0.0
Interest income	5,181.7	5,538.8	6,445.0	7,109.8	Other long-term assets	68,439.7	70,805.5	73,171.2	75,537.0
Interest expense	(1,121.5)	(875.5)	(875.5)	(875.5)	<b>Total assets</b>	<b>387,946.1</b>	<b>409,754.0</b>	<b>435,276.5</b>	<b>471,027.4</b>
Income/(loss) from uncons. subs.	560.68	560.68	560.68	-	Accounts payable	115,963.1	118,138.9	121,319.4	131,996.4
Others	1,443.3	1,443.3	1,443.3	1,443.3	Short-term debt	5,381.6	5,381.6	5,381.6	5,381.6
<b>Pretax profits</b>	<b>33,717.5</b>	<b>36,745.8</b>	<b>41,233.6</b>	<b>46,285.3</b>	Other current liabilities	101,506.7	102,635.2	104,224.1	106,011.1
Income tax	(4,702.2)	(5,236.5)	(5,886.0)	(6,617.0)	<b>Total current liabilities</b>	<b>222,851.5</b>	<b>226,155.7</b>	<b>230,925.1</b>	<b>243,389.2</b>
Minorities	(441.7)	(220.8)	(236.7)	(258.3)	Long-term debt	19,734.0	19,734.0	19,734.0	19,734.0
<b>Net income pre-preferred dividends</b>	<b>28,573.7</b>	<b>31,288.5</b>	<b>35,110.9</b>	<b>39,410.0</b>	Other long-term liabilities	10,535.5	10,535.5	10,535.5	10,535.5
Preferred dividends					Total long-term liabilities	30,269.6	30,269.6	30,269.6	30,269.6
<b>Net income (pre-exceptionals)</b>	<b>28,573.7</b>	<b>31,288.5</b>	<b>35,110.9</b>	<b>39,410.0</b>	<b>Total liabilities</b>	<b>253,121.0</b>	<b>256,425.3</b>	<b>261,194.6</b>	<b>273,658.7</b>
Post-tax exceptionals					<b>Preferred shares</b>				
<b>Net income</b>	<b>28,573.7</b>	<b>31,288.5</b>	<b>35,110.9</b>	<b>39,410.0</b>	<b>Total common equity</b>	<b>124,868.1</b>	<b>143,151.0</b>	<b>163,667.4</b>	<b>186,695.9</b>
EPS (basic, pre-exception) (Rmb)	4.09	4.47	5.02	5.63	Minority interest	9,957.0	10,177.8	10,414.5	10,672.7
EPS (basic, post-exception) (Rmb)	4.09	4.47	5.02	5.63	<b>Total liabilities &amp; equity</b>	<b>387,946.1</b>	<b>409,754.0</b>	<b>435,276.5</b>	<b>471,027.4</b>
EPS (diluted, post-exception) (Rmb)	4.09	4.47	5.02	5.63	<b>BVPS (Rmb)</b>	<b>17.87</b>	<b>20.45</b>	<b>23.38</b>	<b>26.67</b>
DPS (Rmb)	1.70	1.86	2.08	2.34					
Dividend payout ratio (%)	41.6%	41.6%	41.6%	41.6%					
Free cash flow yield (%)	5.1%	8.8%	7.6%	10.9%					
<b>Growth &amp; margins (%)</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>	<b>Ratios</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Sales growth	20.2%	3.9%	7.2%	9.1%	ROE (%)	23.6%	23.3%	22.9%	22.5%
EBITDA growth	7.6%	12.0%	10.8%	11.8%	ROA (%)	7.6%	7.8%	8.3%	8.7%
EBIT growth	4.5%	13.4%	11.9%	13.0%	CROCI (%)	35.8%	52.9%	53.8%	55.6%
Net income growth	5.0%	9.5%	12.2%	12.2%	Inventory days	53.1	57.7	54.3	55.9
EPS growth	5.6%	9.3%	12.2%	12.2%	Receivables days	33.9	36.4	38.2	37.9
Gross margin	22.9%	24.4%	25.3%	25.5%	Payable days	148.5	158.5	152.9	148.7
EBITDA margin	9.5%	10.3%	10.6%	10.9%	Net debt/equity (%)	(34.7%)	(44.6%)	(48.3%)	(56.5%)
EBIT margin	7.7%	8.4%	8.8%	9.1%	Interest cover - EBIT (X)	NM	NM	NM	NM
<b>Cash flow statement (Rmb mn)</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>	<b>Valuation</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Net income pre-preferred dividends	28,573.7	31,288.5	35,110.9	39,410.0	P/E (analyst) (X)	19.0	12.5	11.1	9.9
D&A add-back	6,182.9	6,547.9	6,925.4	7,330.1	P/B (X)	4.3	2.7	2.4	2.1
Minorities interests add-back	441.7	220.8	236.7	258.3	EV/EBITDA (X)	15.5	9.1	7.8	6.4
Net (inc)/dec working capital	4,253.3	2,607.3	(5,880.3)	2,882.7	Dividend yield (%)	2.2%	3.3%	3.7%	4.2%
Other operating cash flow	(4,359.8)	(560.7)	(560.7)	(560.7)					
<b>Cash flow from operations</b>	<b>35,091.7</b>	<b>40,103.8</b>	<b>35,832.0</b>	<b>49,320.4</b>					
Capital expenditures	(6,825.4)	(4,844.6)	(5,193.2)	(5,666.7)					
Acquisitions									
Divestitures	336.2								
Others	(6,247.7)	(1,805.1)	(1,805.1)	(1,805.1)					
<b>Cash flow from investments</b>	<b>(12,736.9)</b>	<b>(6,649.7)</b>	<b>(6,998.3)</b>	<b>(7,471.8)</b>					
Dividends paid (common & pref)	(11,248.0)	(11,877.2)	(13,005.6)	(14,594.5)					
Inc/(dec) in debt	1,368.9								
Common stock issuance (repurchase)	1,551.0								
Other financing cash flows	(23,361.7)								
<b>Cash flow from financing</b>	<b>(31,689.8)</b>	<b>(11,877.2)</b>	<b>(13,005.6)</b>	<b>(14,594.5)</b>					
<b>Total cash flow</b>	<b>(9,334.9)</b>	<b>21,576.9</b>	<b>15,828.1</b>	<b>27,254.2</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Hisense: Leader in the growing VRF category; reiterate Buy

000921.SZ	12m Price Target: Rmb18	Price: Rmb14.07	Upside: 27.9%		
<b>Buy</b>	<b>GS Forecast</b>				
		<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Market cap: Rmb19.2bn / \$2.8bn	<b>Revenue (Rmb mn) New</b>	<b>67,562.6</b>	<b>73,628.1</b>	<b>76,646.4</b>	<b>81,763.2</b>
Enterprise value: Rmb19.7bn / \$2.9bn	Revenue (Rmb mn) Old	67,562.6	73,741.2	79,006.9	84,188.9
3m ADTV :Rmb276.3mn/ \$41.1mn	EBITDA (Rmb mn)	2,988.1	3,825.5	4,864.6	5,795.7
China	<b>EPS (Rmb) New</b>	<b>0.71</b>	<b>1.00</b>	<b>1.28</b>	<b>1.53</b>
China Consumer Durables	EPS (Rmb) Old	0.71	1.01	1.38	1.55
	P/E (X)	19.9	14.0	11.0	9.2
M&A Rank: 3	P/B (X)	1.9	1.7	1.6	1.5
Leases incl. in net debt & EV?: No	Dividend yield (%)	2.4	3.5	4.4	5.3
	CROCI (%)	24.3	27.2	28.8	28.5
		<b>3/22</b>	<b>6/22E</b>	<b>9/22E</b>	<b>12/22E</b>
	EPS (Rmb)	0.20	0.28	0.30	0.23

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 Jul 2022 close.

0921.HK	12m Price Target: HK\$15	Price: HK\$9.06	Upside: 65.6%		
<b>Buy</b>	<b>GS Forecast</b>				
		<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Market cap: HK\$12.3bn / \$1.6bn	<b>Revenue (Rmb mn) New</b>	<b>67,562.6</b>	<b>73,628.1</b>	<b>76,646.4</b>	<b>81,763.2</b>
Enterprise value: HK\$13.0bn / \$1.7bn	Revenue (Rmb mn) Old	67,562.6	73,741.2	79,006.9	84,188.9
3m ADTV :HK\$5.5mn/ \$702.2k	EBITDA (Rmb mn)	2,988.1	3,825.5	4,864.6	5,795.7
China	<b>EPS (Rmb) New</b>	<b>0.71</b>	<b>1.00</b>	<b>1.28</b>	<b>1.53</b>
China Consumer Durables	EPS (Rmb) Old	0.71	1.01	1.38	1.55
	P/E (X)	12.6	7.7	6.1	5.1
M&A Rank: 3	P/B (X)	1.2	1.0	0.9	0.8
Leases incl. in net debt & EV?: No	Dividend yield (%)	3.9	6.3	8.0	9.6
	CROCI (%)	24.3	27.2	28.8	28.5
		<b>6/21</b>	<b>12/21</b>	<b>6/22E</b>	<b>12/22E</b>
	EPS (Rmb)	0.45	0.26	0.47	0.53

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 Jul 2022 close.

### Investment thesis

We reiterate Buy on Hisense Home Appliances as: 1) the structurally growing VRF category continued to outperform split AC, and Hisense-Hitachi's leading position in China's variable refrigerant flow (VRF) market remains intact; 2) moderating commodity prices to help improve legacy white goods profitability in the coming quarters; and 3) further business progress in the acquired Sanden.

Hisense Home Appliances A/H-share has corrected by 7%/2% YTD vs. our coverage avg at -22% (CSI 300/Hang Seng Index at -16%/-14% as of Jul 29). We expect future upside potential to come from:

1) **Continuous market share gain riding on the growing VRF category:** In our latest [channel check with an appliance distributor](#), the expert highlighted a **robust demand for VRF products used in residential and light commercial applications**, and a **stable**



**pricing trend**, i.e. less promotion in this product category. In addition, he pointed out the achievement Hisense made in localizing the Hitachi brand has been well-received by domestic consumers, and he expects domestic brands (Hisense-Hitachi included) to further gain share, leveraging their pricing/channel strategy. Our latest shipment data from IOL echoes this view: domestic shipment of VRF had further elevated to 41% vs. 2019 levels in Jan-May (vs. -18% for split ACs), among which Hisense-Hitachi had seen a consecutive yoy growth in Jan-May by month, yielding an overall 14% yoy increase in Jan-May combined, faster than most competitors.

2) **White space for a 2nd growth curve:** We view the recent news on **Sanden winning the Five-Year electric compressor order from a leading electric vehicle manufacturer** (total annual order size of \$100+mn per news) as a positive signal for Hisense to expand into the EV supply chain leveraging Sanden's brand and technology.

### **Earnings/TP revisions**

We revise down our EPS forecasts by 1%-8% in 2022E-26E as we factor in weak demand due to disruption from COVID resurgence and geopolitical issues. Our 12-m TP (A/H-share) of Rmb18/HK\$15 is unchanged, still based on 15x/5x 2026E P/E for Hisense-Hitachi JV/legacy white goods, discounted back to 2023E at a 9.5% COE.

**Where we are vs. consensus:** Our 2022E-24E EPS forecasts are -1%/+6%/+10% compared to Wind consensus, with 5%/10%/11% lower revenue forecasts and higher margins. We have lower revenue forecasts due to concerns regarding overseas demand. We forecast higher margins as we appreciate the stable pricing trend of the VRF category going forward.

**Key risks:** 1) a prolonged disruption from the coronavirus outbreak that could pose a drag on appliance demand; 2) a further property market slowdown leading to sluggish demand for VRF; 3) increasing competition from domestic players that may jeopardize the leading position of the Hisense-Hitachi JV; 4) increasing penetration in the developer channel may result in margin dilution; 5) below-expectations integration of the Hisense-Hitachi JV; and 6) lower-than-expected performance of the company's legacy white goods business.

**Exhibit 33: Key assumptions for Hisense Home Appliances****Hisense Home Appliances**

Major P&L items	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Total sales/revenues	33,488	36,020	37,453	48,393	67,563	73,628	76,646	81,763	87,283	93,369
yoy %	25.3%	7.6%	4.0%	29.2%	39.6%	9.0%	4.1%	6.7%	6.8%	7.0%
Gross profit	6,518	6,848	8,028	11,637	13,313	15,156	16,402	18,130	19,931	21,810
Gross margin	19.5%	19.0%	21.4%	24.0%	19.7%	20.6%	21.4%	22.2%	22.8%	23.4%
change (bps)	(389)	(45)	242	261	(434)	88	81	77	66	52
SG&A	(6,142)	(6,430)	(7,447)	(9,122)	(11,385)	(12,635)	(13,066)	(14,101)	(15,228)	(16,477)
As % of sales	18.3%	17.9%	19.9%	18.9%	16.9%	17.2%	17.0%	17.2%	17.4%	17.6%
EBITDA	1,037	1,086	1,344	3,506	2,988	3,825	4,865	5,796	6,709	7,588
EBIT (operating profit)	328	413	568	2,516	1,901	2,528	3,337	4,029	4,703	5,334
yoy %	-28.3%	26.0%	37.6%	342.7%	-24.5%	33.0%	32.0%	20.7%	16.8%	13.4%
EBIT margin	1.0%	1.1%	1.5%	5.2%	2.8%	3.4%	4.4%	4.9%	5.4%	5.7%
Net income to shareholders	2,018	1,377	1,794	1,579	973	1,367	1,738	2,089	2,413	2,751
yoy %	85.5%	-31.7%	30.2%	-12.0%	-38.4%	40.6%	27.1%	20.2%	15.5%	14.0%
EPS - basic	1.48	1.01	1.32	1.16	0.71	1.00	1.28	1.53	1.77	2.02
EPS - fully diluted (analyst)	1.48	1.01	1.32	1.16	0.71	1.00	1.28	1.53	1.77	2.02
Dividend payout ratio	30%	30%	30%	30%	49%	49%	49%	49%	49%	49%

Key assumptions	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Washing machines and refrigerators	14,111	16,073	16,128	18,709	23,018	21,781	21,097	22,548	23,946	25,449
Split ACs	14,588	14,891	13,628	10,055	11,991	13,674	13,632	14,698	15,706	16,794
Other major businesses	1,732	1,827	1,700	1,749	7,342	10,556	11,295	11,747	12,217	12,705
Other businesses	3,058	3,229	3,256	4,548	6,800	6,800	7,140	7,497	7,872	8,266
Hisense-Hitachi (central AC)	9,402	10,987	12,038	13,331	18,412	20,817	23,482	25,273	27,541	30,154
<b>Group revenue</b>	<b>33,488</b>	<b>36,020</b>	<b>37,453</b>	<b>48,393</b>	<b>67,563</b>	<b>73,628</b>	<b>76,646</b>	<b>81,763</b>	<b>87,283</b>	<b>93,369</b>

**% yoy**

Washing machines and refrigerators	10.4%	13.9%	0.3%	16.0%	23.0%	-5.4%	-3.1%	6.9%	6.2%	6.3%
Split ACs	40.5%	2.1%	-8.5%	-26.2%	19.3%	14.0%	-0.3%	7.8%	6.9%	6.9%
Other major businesses	14.6%	5.5%	-6.9%	2.9%	319.7%	43.8%	7.0%	4.0%	4.0%	4.0%
Other businesses	48.5%	5.6%	0.9%	39.7%	49.5%	0.0%	5.0%	5.0%	5.0%	5.0%
Hisense-Hitachi (central AC)	44.2%	16.9%	9.6%	10.7%	38.1%	13.1%	12.8%	7.6%	9.0%	9.5%
<b>Group revenue</b>	<b>25.3%</b>	<b>7.6%</b>	<b>4.0%</b>	<b>29.2%</b>	<b>39.6%</b>	<b>9.0%</b>	<b>4.1%</b>	<b>6.7%</b>	<b>6.8%</b>	<b>7.0%</b>

**GPM**

Washing machines and refrigerators	19.4%	20.7%	23.7%	21.5%	16.7%	17.6%	17.6%	18.6%	19.0%	19.4%
Split ACs	22.7%	20.4%	19.1%	15.3%	9.1%	12.3%	12.9%	14.2%	15.0%	15.8%
Other major businesses	19.8%	18.5%	18.7%	20.9%	15.5%	15.2%	15.5%	16.0%	16.5%	17.0%
Other businesses	4.1%	4.4%	6.1%	5.4%	4.9%	4.9%	4.9%	5.2%	5.5%	5.8%
Hisense-Hitachi (central AC)	42.5%	39.2%	39.5%	41.0%	37.5%	37.0%	37.6%	37.9%	38.4%	38.4%
<b>Group gross margin</b>	<b>19.5%</b>	<b>19.0%</b>	<b>21.4%</b>	<b>24.0%</b>	<b>19.7%</b>	<b>20.6%</b>	<b>21.4%</b>	<b>22.2%</b>	<b>22.8%</b>	<b>23.4%</b>

**By region**

Domestic	20,575	22,039	22,712	29,205	37,602	41,362	44,644	46,858	49,558	52,611
Overseas	9,855	10,752	11,485	14,639	23,160	25,465	24,863	27,407	29,853	32,492
Other businesses	3,058	3,229	3,256	4,548	6,800	6,800	7,140	7,497	7,872	8,266
<b>Group revenue</b>	<b>33,488</b>	<b>36,020</b>	<b>37,453</b>	<b>48,393</b>	<b>67,563</b>	<b>73,628</b>	<b>76,646</b>	<b>81,763</b>	<b>87,283</b>	<b>93,369</b>

**By region growth**

Domestic	26.9%	7.1%	3.1%	28.6%	28.7%	10.0%	7.9%	5.0%	5.8%	6.2%
Overseas	16.5%	9.1%	6.8%	27.5%	58.2%	10.0%	-2.4%	10.2%	8.9%	8.8%
Other businesses	48.5%	5.6%	0.9%	39.7%	49.5%	0.0%	5.0%	5.0%	5.0%	5.0%
<b>Group revenue</b>	<b>25.3%</b>	<b>7.6%</b>	<b>4.0%</b>	<b>29.2%</b>	<b>39.6%</b>	<b>9.0%</b>	<b>4.1%</b>	<b>6.7%</b>	<b>6.8%</b>	<b>7.0%</b>

**% of sales**

SG&A	18.3%	17.9%	19.9%	18.9%	16.9%	17.2%	17.0%	17.2%	17.4%	17.6%
Sales expense	14.2%	13.9%	15.1%	14.2%	11.4%	11.6%	11.6%	11.8%	12.0%	12.2%
Admin. expense	3.1%	3.1%	3.9%	3.9%	4.9%	4.8%	4.6%	4.6%	4.6%	4.6%
.. R&D expense	1.8%	1.9%	2.5%	2.7%	2.9%	2.9%	2.8%	2.8%	2.8%	2.8%
.. Other admin. expense	1.3%	1.2%	1.4%	1.3%	2.0%	1.8%	1.8%	1.8%	1.8%	1.8%

Source: Company data, Gao Hua Securities Research

## Hisense Home Appliances' key financials

Profit model (Rmb mn)	12/21	12/22E	12/23E	12/24E	Balance sheet (Rmb mn)	12/21	12/22E	12/23E	12/24E
<b>Total revenue</b>	<b>67,562.6</b>	<b>73,628.1</b>	<b>76,646.4</b>	<b>81,763.2</b>	Cash & equivalents	7,022.6	9,156.0	10,292.9	12,423.9
Cost of goods sold	(54,250.1)	(58,471.6)	(60,244.0)	(63,633.2)	Accounts receivable	9,315.9	9,950.5	10,358.4	11,049.9
SG&A	(9,398.0)	(10,470.0)	(10,888.6)	(11,779.0)	Inventory	8,436.7	8,772.8	9,038.7	9,547.2
R&D	(1,986.7)	(2,165.0)	(2,177.1)	(2,322.5)	Other current assets	14,924.7	14,924.7	14,924.7	14,924.7
Other operating profit/(expense)	(27.4)	6.8			<b>Total current assets</b>	<b>39,699.8</b>	<b>42,804.0</b>	<b>44,614.7</b>	<b>47,945.8</b>
<b>EBITDA</b>	<b>2,988.1</b>	<b>3,825.5</b>	<b>4,864.6</b>	<b>5,795.7</b>	Net PP&E	5,854.5	7,472.0	9,134.1	10,598.7
Depreciation & amortization	(1,087.6)	(1,297.3)	(1,527.8)	(1,767.1)	Net intangibles	1,870.9	1,767.2	1,656.8	1,465.1
<b>EBIT</b>	<b>1,900.5</b>	<b>2,528.2</b>	<b>3,336.8</b>	<b>4,028.6</b>	Total investments	1,671.6	2,178.7	2,685.8	3,192.9
Interest income	81.9	80.9	105.5	118.6	Other long-term assets	6,851.8	6,851.8	6,851.8	6,851.8
Interest expense	(40.5)	(80.5)	(80.5)	(80.5)	<b>Total assets</b>	<b>55,948.5</b>	<b>61,073.6</b>	<b>64,943.2</b>	<b>70,054.2</b>
Income/(loss) from uncons. subs.	150.21	150.21	150.21	-	Accounts payable	28,372.7	31,061.1	32,002.6	33,803.0
Others	824.5	882.7	894.3	885.2	Short-term debt	2,859.0	2,859.0	2,859.0	2,859.0
<b>Pretax profits</b>	<b>2,916.5</b>	<b>3,561.5</b>	<b>4,406.3</b>	<b>5,102.1</b>	Other current liabilities	6,780.8	6,972.8	7,153.0	7,323.7
Income tax	(573.7)	(652.0)	(813.4)	(946.4)	<b>Total current liabilities</b>	<b>38,012.5</b>	<b>40,892.8</b>	<b>42,014.6</b>	<b>43,985.7</b>
Minorities	(1,370.2)	(1,542.2)	(1,854.7)	(2,066.6)	Long-term debt	32.4	32.4	32.4	32.4
<b>Net income pre-preferred dividends</b>	<b>972.6</b>	<b>1,367.3</b>	<b>1,738.1</b>	<b>2,089.0</b>	Other long-term liabilities	2,312.4	2,312.4	2,312.4	2,312.4
Preferred dividends					Total long-term liabilities	2,344.8	2,344.8	2,344.8	2,344.8
<b>Net income (pre-exceptionals)</b>	<b>972.6</b>	<b>1,367.3</b>	<b>1,738.1</b>	<b>2,089.0</b>	<b>Total liabilities</b>	<b>40,357.3</b>	<b>43,237.7</b>	<b>44,359.5</b>	<b>46,330.5</b>
Post-tax exceptionals					<b>Preferred shares</b>				
<b>Net income</b>	<b>972.6</b>	<b>1,367.3</b>	<b>1,738.1</b>	<b>2,089.0</b>	<b>Total common equity</b>	<b>10,342.4</b>	<b>11,044.9</b>	<b>11,938.0</b>	<b>13,011.3</b>
EPS (basic, pre-exception) (Rmb)	0.71	1.00	1.28	1.53	Minority interest	5,248.9	6,791.1	8,645.8	10,712.5
EPS (basic, post-exception) (Rmb)	0.71	1.00	1.28	1.53	<b>Total liabilities &amp; equity</b>	<b>55,948.5</b>	<b>61,073.6</b>	<b>64,943.2</b>	<b>70,054.2</b>
EPS (diluted, post-exception) (Rmb)	0.71	1.00	1.28	1.53	<b>BVPS (Rmb)</b>	<b>7.59</b>	<b>8.11</b>	<b>8.76</b>	<b>9.55</b>
DPS (Rmb)	0.35	0.49	0.62	0.75					
Dividend payout ratio (%)	48.6%	48.6%	48.6%	48.6%					
Free cash flow yield (%)	13.0%	11.4%	7.7%	11.1%					
<b>Growth &amp; margins (%)</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>	<b>Ratios</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Sales growth	39.6%	9.0%	4.1%	6.7%	ROE (%)	9.7%	12.8%	15.1%	16.7%
EBITDA growth	-14.8%	28.0%	27.2%	19.1%	ROA (%)	2.0%	2.3%	2.8%	3.1%
EBIT growth	-24.5%	33.0%	32.0%	20.7%	CROCI (%)	24.3%	27.2%	28.8%	28.5%
Net income growth	-38.4%	40.6%	27.1%	20.2%	Inventory days	42.8	53.7	54.0	53.3
EPS growth	-38.4%	40.6%	27.1%	20.2%	Receivables days	45.5	47.8	48.4	47.8
Gross margin	19.7%	20.6%	21.4%	22.2%	Payable days	166.9	185.5	191.0	188.7
EBITDA margin	4.4%	5.2%	6.3%	7.1%	Net debt/equity (%)	(26.5%)	(35.1%)	(36.0%)	(40.2%)
EBIT margin	2.8%	3.4%	4.4%	4.9%	Interest cover - EBIT (X)	NM	NM	NM	NM
<b>Cash flow statement (Rmb mn)</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>	<b>Valuation</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Net income pre-preferred dividends	972.6	1,367.3	1,738.1	2,089.0	P/E (analyst) (X)	19.9	14.1	11.1	9.2
D&A add-back	1,087.6	1,297.3	1,527.8	1,767.1	P/B (X)	1.9	1.7	1.6	1.5
Minorities interests add-back	1,370.2	1,542.2	1,854.7	2,066.6	EV/EBITDA (X)	6.8	5.2	4.2	3.5
Net (inc)/dec working capital	1,404.7	1,717.7	267.7	600.4	Dividend yield (%)	2.4%	3.5%	4.4%	5.3%
Other operating cash flow	(521.3)	(150.2)	(150.2)	(150.2)					
<b>Cash flow from operations</b>	<b>4,313.8</b>	<b>5,774.3</b>	<b>5,238.2</b>	<b>6,373.0</b>					
Capital expenditures	(1,107.2)	(2,811.1)	(3,079.6)	(3,039.9)					
Acquisitions	(20,856.9)								
Divestitures									
Others	17,540.8	(356.9)	(356.9)	(356.9)					
<b>Cash flow from investments</b>	<b>(4,423.3)</b>	<b>(3,168.0)</b>	<b>(3,436.5)</b>	<b>(3,396.8)</b>					
Dividends paid (common & pref)	(472.9)	(472.9)	(664.8)	(845.1)					
Inc/(dec) in debt	3,231.1								
Common stock issuance (repurchase)	28.9								
Other financing cash flows	(2,765.8)								
<b>Cash flow from financing</b>	<b>21.3</b>	<b>(472.9)</b>	<b>(664.8)</b>	<b>(845.1)</b>					
<b>Total cash flow</b>	<b>(88.2)</b>	<b>2,133.4</b>	<b>1,136.9</b>	<b>2,131.1</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## XGimi: Strong product and brand in the favored “Experience” theme; reiterate Buy

688696.SS	12m Price Target: Rmb423	Price: Rmb344.93	Upside: 22.6%		
<b>Buy</b>	<b>GS Forecast</b>				
		<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Market cap: Rmb24.1bn / \$3.6bn	<b>Revenue (Rmb mn) New</b>	<b>4,037.7</b>	<b>5,219.5</b>	<b>6,643.9</b>	<b>8,049.0</b>
Enterprise value: Rmb22.9bn / \$3.4bn	Revenue (Rmb mn) Old	4,037.7	5,172.9	6,432.7	7,639.5
3m ADTV :Rmb241.2mn/ \$35.9mn	EBITDA (Rmb mn)	504.5	656.6	931.0	1,178.7
China	<b>EPS (Rmb) New</b>	<b>10.09</b>	<b>8.84</b>	<b>12.27</b>	<b>15.49</b>
China Consumer Durables	EPS (Rmb) Old	7.21	9.23	11.99	14.65
	P/E (X)	41.6	39.0	28.1	22.3
M&A Rank: 3	P/B (X)	7.6	7.6	6.4	5.3
Leases incl. in net debt & EV?: No	Dividend yield (%)	0.7	0.8	1.1	1.4
	CROCI (%)	37.3	31.9	44.1	55.3
		<b>3/22</b>	<b>6/22E</b>	<b>9/22E</b>	<b>12/22E</b>
	EPS (Rmb)	2.43	1.58	1.95	3.57

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 Jul 2022 close.

We reiterate our Buy rating on XGimi as it is a leading player in the structurally growing smart home projector category with 1) a **deep understanding of consumers’ needs**: XGimi is known for its user-friendly products which are well catered to the ever-changing consumer needs. The comprehensive product portfolio across different pricing segments also captures demand from various consumer cohorts; 2) a **strong presence in both online and offline**: unlike smaller players which are concentrated on the online channel, XGimi has been aggressively building an offline presence, e.g. by opening stores in heavy-traffic locations such as shopping malls, as the in-store experience is essential in educating consumers/promoting products for projectors; 3) **high visibility on margin expansion potential** supported by its rising share within in-house developed optical engines and improving economies of scale.

Since our initiation on May 10, the stock has outperformed the broader market (up 42% as of Jul 29 vs. 6% for the CSI 300 index). With the rocky 1H22 now behind, we see the following upside drivers for XGimi:

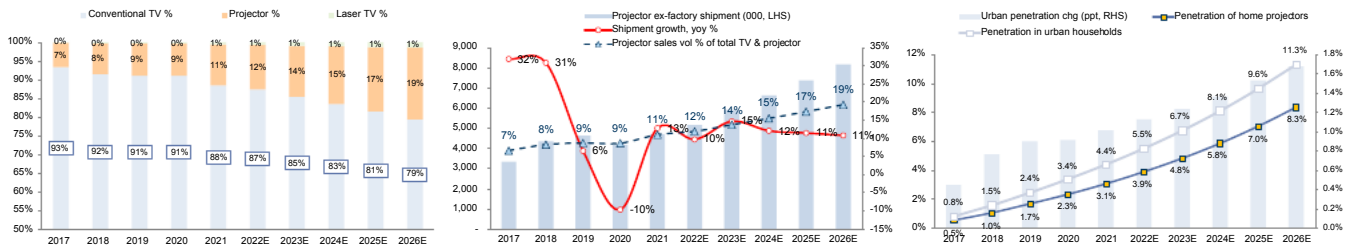
1) **“Experience” emerging as favored theme, especially among the Gen Z**: On the one hand, China’s home projector industry is still under-penetrated at only 3%/4% in total/urban households as of 2021, and remains relatively fragmented (CR3/CR5 at 37%/44% in 2021 vs. CR3/CR5 at 60-70%/70-90% for kitchen appliances and white goods), suggesting ample **market consolidation potential for leading players**. On the other hand, the outbreak of the pandemic has acted as a catalyst for the proliferation of the “stay-at-home” economy, expanding in a variety of new contexts such as online working/education/fitness/entertainment (e.g. gaming), etc. Moreover, as highlighted in our [Post-95s report](#), young consumers, especially the Gen Z, are pursuing small pleasures in life and attaching more emphasis on the “experience.” Home projectors, as a result, are successfully been riding this tailwind, as can be seen in the recent surge in the Baidu Info Index (which reflects the popularity of certain topics via volume tracking

of relevant news/reports). Using keywords, “Projector”/“XGimi” for cities that entered lockdowns in late-Mar, we see index values have risen by over 600%/1600% yoy, and 200%/250% wow. XGimi also delivered solid results during the 618 shopping festival this year, topping in projectors with Rmb700mn sales on Tmall according to Moojing, implying DD growth per our estimates. Lastly, Runto’s latest projector data tracker also reflects market consolidation of XGimi, where it continued to gain share from 40%+ in 2H21 to c.50% in 1H22 in DLP products in the online channel.

**2) Chip shortage easing offers support for more mass-market product launches and continuing share gains:** As mentioned in our initiation note, the supply of semi-conductor chips has been one of the bottlenecks for XGimi as chips account for nearly 50% of total raw material costs. Due to the global chip shortage, Texas Instruments (covered by Toshiya Hari), XGimi’s primary chip supplier, allocated more manufacturing capacity to more advanced chips than the DLP used in projectors. As a result, XGimi has had to squeeze its mass-market product lines during the shortage to maintain supply for its mid-to-high-end products, in an effort to optimize its portfolio mix. As the chip supply outlook has improved, we are seeing XGimi resuming mass-market product offerings e.g. the recent “618” event, thus helping expand the current product range and elevating future share gain potential.

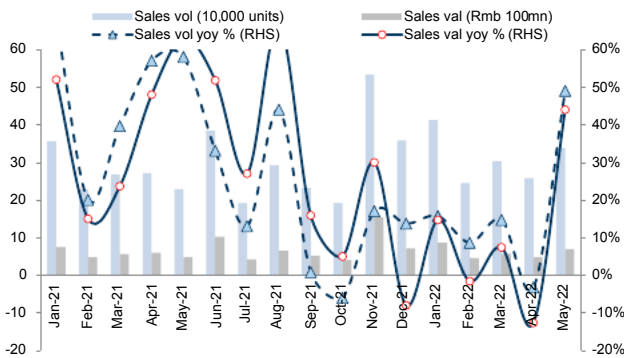
**3) Overseas expansion to yield further upside:** XGimi has been actively expanding overseas, leveraging its innovative products and online channel via platforms like Amazon. In the latest Amazon Prime day (Jul 12-13), the company recorded 155%/197%/147%/128% yoy growth in overseas/US/Japan/EU GMV, amid a general soft demand backdrop. XGimi has also noted it is proactively seeking collaboration opportunities with global streaming platforms to broaden its user base. The company is among the projector brands that have reached an official collaboration with Android TV. In terms of content, XGimi’s systems are compatible with over 4,000 applications overseas, incl. Youtube and Hulu. Per management, XGimi has been exploring a potential collaboration with Netflix though nothing definitive has been announced. For illustrative purposes, if we were to assume a 1% penetration rate for XGimi of Netflix users, and a 2.4% US penetration rate (estimated based on market data of projectors and TVs in the US), with 75mn UCAN paid membership on Netflix (all as of 2021), this would suggest 18,000 units projector units in potential incremental overseas volume, accounting for 22% of total overseas volume on 2021 data. Although nothing has been announced or suggested, a potential collaboration would provide XGimi with an opportunity to expand market share and solidify a position in North America.

**Exhibit 34: Projector (ex-factory) shipments have been rising at a 13% CAGR over 2016-21, and are expected to continue at a similar pace in 2021-26E, significantly outgrowing the industry/traditional TVs, driven by a steady increase in penetration rate (total/urban at only 3%/4% in 2021)**



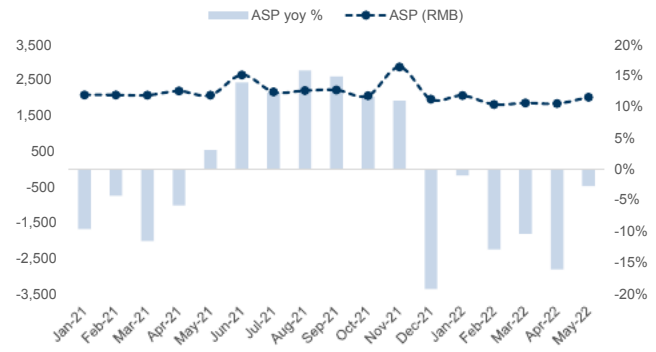
Source: AVC, IDC, Runto, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 35: According to Runto, online sales/volume of smart projectors have been expanding steadily in China since 2021, except for a slight decline in Oct-21/Apr-22, likely due to consumers holding back purchases before shopping festivals in Nov/May-Jun. Projector sales/volume have also seen a surge during 618 pre-sale this year (ended May 31), with May YTD sales/volume growing at 6%/15% yoy...**



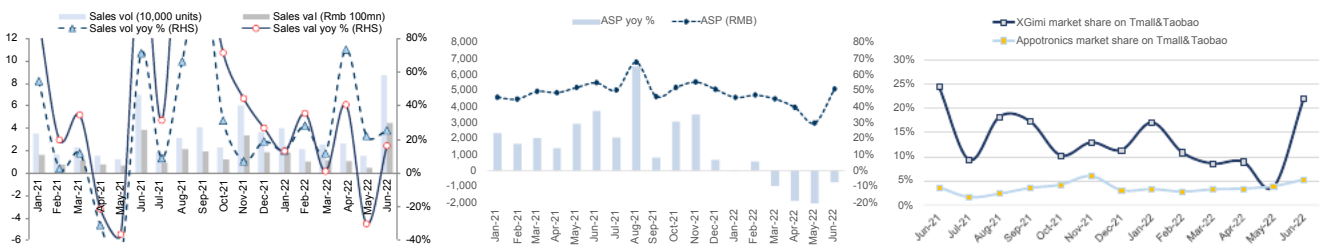
Source: Runto, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 36: ...we also note that ASP has been weak in 1H of the year, though appears to be turning stronger in later months, suggesting a likely rebound in pricing in 2H22E**



Source: Runto, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 37: Based on Moojing data on Tmall&Taobao, projector sales appear to be expanding, in particular, with a jump in Jun-22 sales/volume thanks to the 618 event (May likely lower due to a different sales recognition per Moojing). Specifically, XGimi leveraged the 618 event to secure its leading position, owning over 20% market share on Tmall&Taobao, well ahead of its peers**



Source: Moojing, Data compiled by Goldman Sachs Global Investment Research

**Earnings/TP revisions**

We revise our 2022E-26E EPS forecasts by -4.2% to +7.4% to reflect both the near-term slowdown in demand due to the weak macro, but ongoing penetration story in the home projector industry. Accordingly, our 12-m TP increases to Rmb423.0 (from Rmb342.86 previously), on our forecast changes and an increase in our exit multiple (from 23x) to 26x to reflect the white space potential. We base our TP on a 2026E exit

P/E discounted at 9.5% COE to 2023E, consistent with our A-share coverage. Our Rmb423 TP implies 23% upside vs. our coverage average of 21%; reiterate Buy.

**Where we are vs. consensus:** Our 2022E-24E EPS forecasts are 7%/6%/10% lower vs. the Wind consensus, with 6%/11%/17% lower revenue forecasts and higher margins in 2023E-24E. We have lower revenue forecasts due to concerns on weak domestic demand. We forecast higher margins however as we appreciate XGimi's leading product innovations and R&D capability.

**Key risks:** 1) weaker-than-expected macro; 2) intensifying competition; 3) chip shortages; 4) rising raw material costs; 5) missed or delayed product launches or ineffective execution of marketing/channel strategy.

## Exhibit 38: Key assumptions for XGimi

## Chengdu Xgimi Technology Co Ltd

Major P&L items	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Total sales/revenues	999	1,659	2,116	2,828	4,038	5,219	6,644	8,049	9,464	10,907
yoy %		66.1%	27.6%	33.6%	42.8%	29.3%	27.3%	21.1%	17.6%	15.2%
Gross profit	191	299	494	895	1,449	1,932	2,570	3,188	3,822	4,456
Gross margin	19.1%	18.0%	23.3%	31.6%	35.9%	37.0%	38.7%	39.6%	40.4%	40.9%
change (bps)		(109)	528	831	425	113	167	93	78	47
SG&A	(173)	(296)	(412)	(621)	(1,013)	(1,364)	(1,747)	(2,131)	(2,526)	(2,927)
As % of sales	17.3%	17.8%	19.5%	21.9%	25.1%	26.1%	26.3%	26.5%	26.7%	26.8%
EBITDA	17	(3)	83	282	504	657	931	1,179	1,435	1,687
EBIT (operating profit)	16	(5)	78	266	468	599	855	1,089	1,328	1,561
yoy %		-130.1%	-1736.9%	240.8%	75.6%	28.0%	42.7%	27.3%	22.0%	17.6%
EBIT margin	1.6%	-0.3%	3.7%	9.4%	11.6%	11.5%	12.9%	13.5%	14.0%	14.3%
Net income to shareholders	15	10	93	269	483	619	859	1,084	1,317	1,547
yoy %		-35.3%	881.4%	187.8%	79.9%	27.9%	38.9%	26.2%	21.5%	17.5%
EPS - basic	1.63	0.94	3.07	7.17	10.09	8.84	12.27	15.49	18.82	22.10
EPS - fully diluted (analyst)	1.63	0.94	3.07	7.17	10.09	8.84	12.27	15.49	18.82	22.10
Dividend payout ratio	0%	0%	0%	22%	31%	31%	31%	31%	31%	31%

Segmental information	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
The whole machine products	940	1,552	1,978	2,651	3,785	4,904	6,257	7,587	8,933	10,305
Projectors	896	1,339	1,745	2,304	3,501	4,570	5,863	7,124	8,392	9,702
Innovative products	-	57	60	227	219	246	276	310	348	390
Laser television	44	155	173	120	64	88	118	153	193	213
Accessories products	49	82	101	111	159	193	231	272	309	345
Internet service & others	9	25	38	66	94	122	156	189	223	257
<b>Group revenue</b>	<b>999</b>	<b>1,659</b>	<b>2,116</b>	<b>2,828</b>	<b>4,038</b>	<b>5,219</b>	<b>6,644</b>	<b>8,049</b>	<b>9,464</b>	<b>10,907</b>

% yoy	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
The whole machine products		65.1%	27.4%	34.1%	42.7%	29.6%	27.6%	21.3%	17.7%	15.4%
Projectors		49.5%	30.3%	32.0%	52.0%	30.5%	28.3%	21.5%	17.8%	15.6%
Innovative products			5.0%	279.3%	-3.5%	12.2%	12.2%	12.2%	12.2%	12.2%
Laser television		252.7%	11.4%	-30.7%	-46.7%	37.5%	34.3%	29.7%	25.8%	10.6%
Accessories products		65.8%	24.0%	9.5%	43.4%	21.8%	19.4%	18.0%	13.4%	11.7%
Internet service & others		171.9%	49.1%	75.8%	43.1%	29.6%	27.6%	21.3%	17.7%	15.4%
<b>Group revenue</b>		<b>66.1%</b>	<b>27.6%</b>	<b>33.6%</b>	<b>42.8%</b>	<b>29.3%</b>	<b>27.3%</b>	<b>21.1%</b>	<b>17.6%</b>	<b>15.2%</b>

## Revenue mix

Revenue mix	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
The whole machine products	94.1%	93.6%	93.4%	93.8%	93.7%	94.0%	94.2%	94.3%	94.4%	94.5%
Projectors	89.7%	80.8%	82.4%	81.5%	86.7%	87.6%	88.2%	88.5%	88.7%	89.0%
Innovative products	0.0%	3.4%	2.8%	8.0%	5.4%	4.7%	4.2%	3.8%	3.7%	3.6%
Laser television	4.4%	9.4%	8.2%	4.2%	1.6%	1.7%	1.8%	1.9%	2.0%	2.0%
Accessories products	4.9%	4.9%	4.8%	3.9%	3.9%	3.7%	3.5%	3.4%	3.3%	3.2%
Internet service & others	0.9%	1.5%	1.8%	2.3%	2.3%	2.3%	2.4%	2.4%	2.4%	2.4%
<b>Group revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## GPM

GPM	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
The whole machine products	17.6%	16.4%	21.5%	30.2%	34.5%	35.7%	37.5%	38.5%	39.3%	39.8%
Projectors	18.1%	16.4%	21.2%	30.8%	35.5%	36.7%	38.5%	39.5%	40.4%	40.9%
Innovative products		23.7%	27.0%	22.6%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%
Laser television	7.0%	13.8%	22.4%	32.0%	24.7%	27.7%	27.7%	27.7%	27.7%	27.7%
Accessories products	40.8%	35.1%	41.5%	43.7%	50.3%	50.3%	50.3%	50.3%	50.3%	50.3%
Internet service & others	56.8%	64.6%	70.9%	70.8%	68.7%	68.7%	68.7%	68.7%	68.7%	68.7%
<b>Group gross margin</b>	<b>19.1%</b>	<b>18.0%</b>	<b>23.3%</b>	<b>31.6%</b>	<b>35.9%</b>	<b>37.0%</b>	<b>38.7%</b>	<b>39.6%</b>	<b>40.4%</b>	<b>40.9%</b>

## By geography

By geography	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Domestic	994	1,570	2,059	2,626	3,574	4,550	5,704	6,818	7,923	9,082
Overseas	0	76	41	177	434	632	894	1,174	1,471	1,738
<b>Group revenue</b>	<b>999</b>	<b>1,659</b>	<b>2,116</b>	<b>2,828</b>	<b>4,038</b>	<b>5,219</b>	<b>6,644</b>	<b>8,049</b>	<b>9,464</b>	<b>10,907</b>

## Geographic growth

Geographic growth	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Domestic		57.9%	31.2%	27.5%	36.1%	27.3%	25.4%	19.5%	16.2%	14.6%
Overseas		24027.5%	-46.1%	330.4%	145.2%	45.7%	41.4%	31.4%	25.3%	18.2%
<b>Group revenue</b>		<b>66.1%</b>	<b>27.6%</b>	<b>33.6%</b>	<b>42.8%</b>	<b>29.3%</b>	<b>27.3%</b>	<b>21.1%</b>	<b>17.6%</b>	<b>15.2%</b>

## GPM

GPM	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Domestic				30.4%	35.5%	36.4%	38.1%	39.1%	40.0%	40.6%
Overseas				48.5%	40.4%	42.4%	43.4%	43.4%	43.4%	43.4%
<b>Group gross margin</b>			<b>23.3%</b>	<b>31.6%</b>	<b>35.9%</b>	<b>37.0%</b>	<b>38.7%</b>	<b>39.6%</b>	<b>40.4%</b>	<b>40.9%</b>

## % of sales

% of sales	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
SG&A	17.3%	17.8%	19.5%	21.9%	25.1%	26.1%	26.3%	26.5%	26.7%	26.8%
Sales expense	10.9%	11.3%	12.2%	13.9%	15.4%	15.6%	16.1%	16.2%	16.5%	16.7%
.. A&P	0.0%	3.9%	3.5%	5.8%	7.7%	8.0%	8.5%	8.8%	9.0%	9.2%
.. Payroll	1.6%	2.4%	3.1%	2.6%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%
.. Other sales expense	9.3%	5.0%	5.7%	5.5%	4.8%	4.7%	4.6%	4.6%	4.6%	4.6%
Admin. expense	6.0%	6.2%	6.9%	7.3%	9.1%	10.0%	9.7%	9.7%	9.7%	9.6%
.. R&D expense	3.3%	3.8%	3.8%	4.9%	6.5%	7.2%	7.0%	7.0%	7.0%	7.0%
.. Other admin. expense	2.7%	2.4%	3.0%	2.4%	2.6%	2.8%	2.7%	2.7%	2.7%	2.7%

Source: Company data, Gao Hua Securities Research



## XGimi's key financials

Profit model (Rmb mn)	12/21	12/22E	12/23E	12/24E	Balance sheet (Rmb mn)	12/21	12/22E	12/23E	12/24E
<b>Total revenue</b>	<b>4,037.7</b>	<b>5,219.5</b>	<b>6,643.9</b>	<b>8,049.0</b>	Cash & equivalents	1,113.7	1,583.7	2,268.0	3,105.3
Cost of goods sold	(2,588.9)	(3,287.8)	(4,074.2)	(4,861.3)	Accounts receivable	109.5	155.9	216.7	284.5
SG&A	(749.8)	(986.4)	(1,284.8)	(1,571.3)	Inventory	965.2	1,180.8	1,407.4	1,679.3
R&D	(262.9)	(377.9)	(462.0)	(559.7)	Other current assets	1,632.2	1,632.2	1,632.2	1,632.2
Other operating profit/(expense)	31.9	31.9	31.9	31.9	<b>Total current assets</b>	<b>3,820.7</b>	<b>4,552.6</b>	<b>5,524.3</b>	<b>6,701.4</b>
<b>EBITDA</b>	<b>504.5</b>	<b>656.6</b>	<b>931.0</b>	<b>1,178.7</b>	Net PP&E	1,145.7	1,260.2	1,369.4	1,464.3
Depreciation & amortization	(36.5)	(57.4)	(76.2)	(90.2)	Net intangibles	65.3	71.5	79.7	88.9
<b>EBIT</b>	<b>468.0</b>	<b>599.2</b>	<b>854.9</b>	<b>1,088.6</b>	Total investments	0.0	72.8	149.3	229.6
Interest income	10.9	22.1	31.4	44.9	Other long-term assets	109.2	109.2	109.2	109.2
Interest expense	(2.5)	(2.6)	(2.6)	(2.6)	<b>Total assets</b>	<b>5,140.8</b>	<b>6,066.4</b>	<b>7,231.9</b>	<b>8,593.4</b>
Income/(loss) from uncons. subs.	69.37	72.84	76.48	-	Accounts payable	1,859.6	2,316.7	2,814.9	3,358.8
Others	(3.2)	(1.1)	(1.1)	(1.1)	Short-term debt	76.5	76.5	76.5	76.5
<b>Pretax profits</b>	<b>542.7</b>	<b>690.3</b>	<b>959.0</b>	<b>1,210.1</b>	Other current liabilities	59.3	101.2	175.9	245.7
Income tax	(59.2)	(71.8)	(99.7)	(125.9)	<b>Total current liabilities</b>	<b>1,995.4</b>	<b>2,494.4</b>	<b>3,067.3</b>	<b>3,681.0</b>
Minorities					Long-term debt	300.0	300.0	300.0	300.0
<b>Net income pre-preferred dividends</b>	<b>483.5</b>	<b>618.5</b>	<b>859.2</b>	<b>1,084.2</b>	Other long-term liabilities	83.4	83.4	83.4	83.4
Preferred dividends					Total long-term liabilities	383.4	383.4	383.4	383.4
<b>Net income (pre-exceptionals)</b>	<b>483.5</b>	<b>618.5</b>	<b>859.2</b>	<b>1,084.2</b>	<b>Total liabilities</b>	<b>2,378.9</b>	<b>2,877.8</b>	<b>3,450.7</b>	<b>4,064.4</b>
Post-tax exceptionals					<b>Preferred shares</b>				
<b>Net income</b>	<b>483.5</b>	<b>618.5</b>	<b>859.2</b>	<b>1,084.2</b>	<b>Total common equity</b>	<b>2,761.9</b>	<b>3,188.5</b>	<b>3,781.2</b>	<b>4,529.0</b>
EPS (basic, pre-exception) (Rmb)	10.09	8.84	12.27	15.49	Minority interest				
EPS (basic, post-exception) (Rmb)	10.09	8.84	12.27	15.49	<b>Total liabilities &amp; equity</b>	<b>5,140.8</b>	<b>6,066.4</b>	<b>7,231.9</b>	<b>8,593.4</b>
EPS (diluted, post-exception) (Rmb)	10.09	8.84	12.27	15.49	<b>BVPS (Rmb)</b>	<b>55.24</b>	<b>45.55</b>	<b>54.02</b>	<b>64.70</b>
DPS (Rmb)	3.13	2.74	3.81	4.81					
Dividend payout ratio (%)	31.0%	31.0%	31.0%	31.0%					
Free cash flow yield (%)	2.2%	2.8%	3.8%	4.8%					
<b>Growth &amp; margins (%)</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>	<b>Ratios</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Sales growth	42.8%	29.3%	27.3%	21.1%	ROE (%)	27.3%	20.8%	24.7%	26.1%
EBITDA growth	78.7%	30.1%	41.8%	26.6%	ROA (%)	12.7%	11.0%	12.9%	13.7%
EBIT growth	75.6%	28.0%	42.7%	27.3%	CROCI (%)	37.3%	31.9%	44.1%	55.3%
Net income growth	79.9%	27.9%	38.9%	26.2%	Inventory days	118.6	119.1	115.9	115.9
EPS growth	40.7%	-12.4%	38.9%	26.2%	Receivables days	8.9	9.3	10.2	11.4
Gross margin	35.9%	37.0%	38.7%	39.6%	Payable days	222.0	231.8	229.9	231.8
EBITDA margin	12.5%	12.6%	14.0%	14.6%	Net debt/equity (%)	(26.7%)	(37.9%)	(50.0%)	(60.3%)
EBIT margin	11.6%	11.5%	12.9%	13.5%	Interest cover - EBIT (X)	NM	NM	NM	NM
<b>Cash flow statement (Rmb mn)</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>	<b>Valuation</b>	<b>12/21</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Net income pre-preferred dividends	483.5	618.5	859.2	1,084.2	P/E (analyst) (X)	41.6	40.2	29.0	23.0
D&A add-back	36.5	57.4	76.2	90.2	P/B (X)	7.6	7.8	6.6	5.5
Minorities interests add-back					EV/EBITDA (X)	38.4	36.1	24.7	18.8
Net (inc)/dec working capital	31.8	195.1	210.9	204.1	Dividend yield (%)	0.7%	0.8%	1.1%	1.4%
Other operating cash flow	(15.6)								
<b>Cash flow from operations</b>	<b>536.2</b>	<b>871.0</b>	<b>1,146.3</b>	<b>1,378.4</b>					
Capital expenditures	(100.4)	(178.2)	(193.6)	(194.3)					
Acquisitions									
Divestitures	0.0								
Others	(1,426.6)	(72.8)	(76.5)	(80.3)					
<b>Cash flow from investments</b>	<b>(1,527.0)</b>	<b>(251.0)</b>	<b>(270.1)</b>	<b>(274.6)</b>					
Dividends paid (common & pref)	(60.0)	(150.0)	(191.9)	(266.6)					
Inc/(dec) in debt	55.3								
Common stock issuance (repurchase)	1,579.7								
Other financing cash flows	(20.6)								
<b>Cash flow from financing</b>	<b>1,554.4</b>	<b>(150.0)</b>	<b>(191.9)</b>	<b>(266.6)</b>					
<b>Total cash flow</b>	<b>563.6</b>	<b>470.0</b>	<b>684.3</b>	<b>837.3</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

# Disclosure Appendix

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