



Rating

Asia

China

Consumer

Retail / Wholesale Trade

Company

Qingdao Haier

Reuters
600690.SS

Bloomberg
600690 CH

Exchange
SHH

Ticker
600690

Date

6 October 2018

Company Update

Price at 28 Sep 2018 (CNY)	16.52
Price target - 12mth (CNY)	–
52-week range (CNY)	22.88 - 14.74
Shanghai Composite	2,821

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Market presence, opportunities and strategies

Leading market share; growth in kitchen and EU; SmartHome and execution

Following the recent company announcement regarding an IPO in the German market, we have prepared this report to help investors better understand the company and the industry. In this report we analyse Qingdao Haier's competitive positioning, with a focus on (1) peer comparison; (2) kitchen and EU growth opportunities; and (3) Haier's strategies to grow Smart Home solutions while improving execution. **Please note we are restricted on the stock.**

Balanced product portfolio and strong brand presence globally

- Compared with its major Chinese competitors in the white goods segment, Midea and Gree, Qingdao Haier commands a **more balanced revenue mix** between washing machine, refrigerator and air conditioner (Figure 2). Haier also focuses on **branded revenue** (minimal contract manufacturing; Figure 3) and has one of the strongest track records in acquiring and building brands (Figure 4).
- Haier's business focus has secured a **leading market presence globally** (Figs. 7-9 China, Figs. 22-39 global), with expanding market share. We note that Haier is the only white goods company to command top-five market share positions in China, the US, SEA and North Asia.
- Financially**, Qingdao Haier's revenue growth profile has been more stable than those of Midea and Gree (Figure 13), with a strong gross margin. Yet, Qingdao Haier's opex-to-sales ratio is materially higher than peers' due to its different business structure (discussed below).

Growth opportunities: kitchen and Europe market share expansion

- Qingdao Haier plans to expand its share in **global kitchen appliances markets**, leveraging its premium brands (Casarte and Fisher & Paykel). Kitchen appliances are already a significant market when compared to traditional white goods. Euromonitor estimates China's kitchen appliances market is even bigger than washing machine (Figure 41).
- Qingdao Haier has announced a target of attaining a **top-five market share in Europe by 2022** (vs. currently ninth place with a 2.3% share, Figure 42). In our view, the EU is a more scattered market than China or the US, while Qingdao Haier's multi-brand strategy will help its expansion.

Smart Home strategy and improving execution

- By **selling a solution in a bundle** to consumers (vs. previously selling single items), Qingdao Haier aims to achieve market share gains and improved consumer loyalty. It is crucial to drive consumers' return purchases as replacement demand continues to rise against slowing new home sales.
- Haier conducts its business through both Qingdao Haier and Haier Electronics, forming a different business structure (Figure 50). Haier has been aligning the two entities' business goals to **enhance execution**.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	7.9	-9.6	10.9
Shanghai Composite	1.6	1.3	-15.5

Source: Deutsche Bank

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6 October 2018

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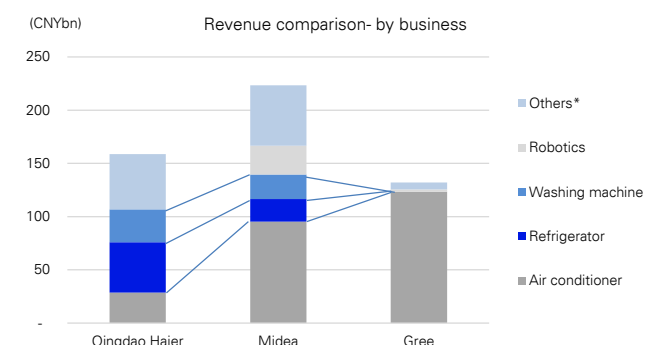
Peer comparison and market presence

Qingdao Haier vs. local champions

Qingdao Haier's differentiation: (1) balanced revenue mix; (2) focus on own-brand revenue; and (3) leading multi-brand portfolio

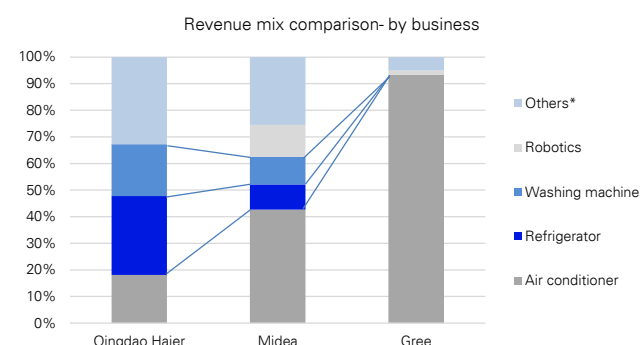
- **Balanced product portfolio**, including washing machines, refrigerators, air conditioners, kitchen appliances, etc. (although significantly smaller revenues than Midea, which has a much larger air conditioner business than Qingdao Haier).

Figure 1: Qingdao Haier's diversified revenue mix



Source: Deutsche Bank, company data, for full year 2017 *including kitchen appliances, small home appliances and logistics ** considering core revenue only

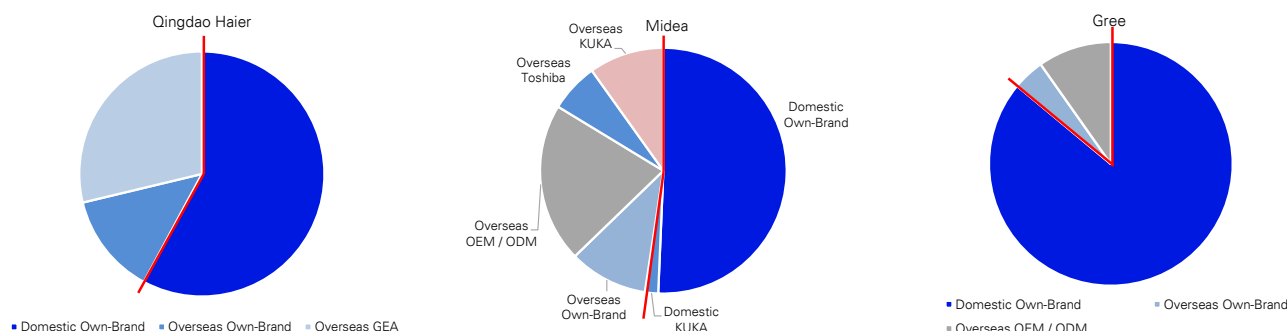
Figure 2: Mix-wise, refrigerator and washing machine are the two most important segments for Qingdao Haier



Source: Deutsche Bank, company data, for full year 2017 *including kitchen appliances, small home appliances and logistic ** considering core revenue only

- **A strong branded overseas business:** almost no contract manufacturing business, either domestically or overseas. Qingdao Haier's global branded revenue has been further reinforced since the acquisition of GEA (GE Appliances, the second-largest home appliances brand in the US). We show a revenue breakdown by geography in a later section of this report (Figure 53).

Figure 3: Local champions: almost all domestic business is branded, but both Midea and Gree operate scaled contract manufacturing business overseas



Source: Deutsche Bank estimates, company data, as of 2017

6 October 2018

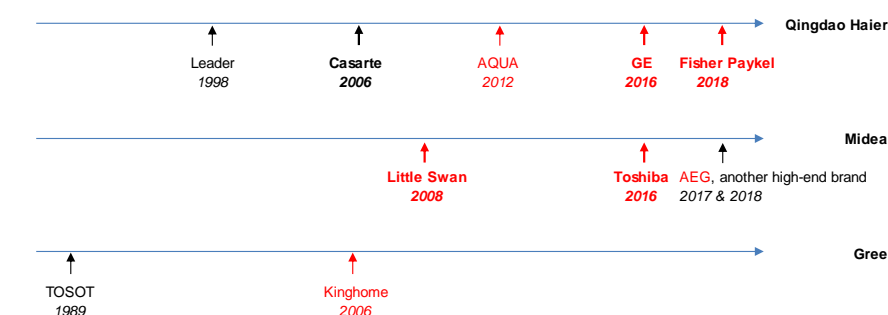
Retail / Wholesale Trade

Qingdao Haier



- **Leading multi-brand strategy:** Qingdao Haier is one of the first in the industry to build a multi-brand portfolio. It has successfully created a premium brand, Casarte.

Figure 4: Building brand portfolios: Qingdao Haier made significant acquisitions (red) while creating the Casarte brand



Source: Deutsche Bank, company data, Notes: Red= acquired brands or joint ventures, Bold= important brands today (Casarte, GE, Fisher Paykel, Little Swan, Toshiba)

Figure 5: Qingdao Haier's brand portfolio

Brand	Products	Region	Market presence	Future strategy
Organic				
Haier	Full range white goods	Global	Largest white goods brand globally	Smarthome bundle sell, global expansion.
Casarte	Full range white goods	China	2017 revenue up 41% YoY Market share: -White goods price over RMB10k: 35%, up 9ppt YoY -Refrigerator / washing machine price over RMB10k: 30% / 69% -AC price over RMB16k: 40%	Upgrade ASP in tier 1 & 2 cities, expansion into lower tier cities.
Leader	Full range white goods	China	Entry level positioning	Enhance design and value-for-money to attract younger consumers.
Acquired				
GE Appliances	Kitchen, refrigerator, dishwashers, washing machines...	N. America, EU, China	2nd largest home appliances brand in the US (c.20% market share) Market share: -Kitchen appliances: c.30% -Dish washers, refrigerator: c.20% -Washing machine: 15%	Enhance efficiency, global expansion.
Fisher & Paykel	Washing machines, kitchen, refrigerator...	AUS, NZ, N. America	Premium brand image, strong presence in New Zealand	Enhance efficiency, China and EU expansion.
AQUA	Washing machines, refrigerator...	Japan	Mid-to-high-end brand well-known for washing machine innovation (used to be Sanyo's washing machine brand).	Enhance presence in Japan.

Source: Deutsche Bank, company data, as of 2017

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Figure 6: Strategy and background comparison: Haier is one of the first listed private enterprises in China

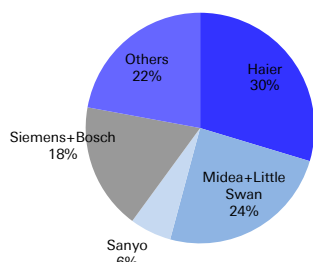
	Qingdao Haier 600690.SS	Haier Electronics 1169.HK	Midea 000333.SZ	Gree 000651.SZ
IPO date	1993-Oct	Renamed in 2005-Jan	2013-Sep (injecting group asset into listco)	1996-Nov
Major shareholder	Haier Group (41%)	Qingdao Haier (56%)	Founder He & Family (36%)	Gree Group (18%)
SOE / private	Private	Private	Private	SOE
Strategic investor(s)	KKR (less than 5%), GIC (4.69%)	n.a.	Xiaomi (1.26%)	n.a.
Key strategies	1. From selling appliances to acquiring users. 2. COSMOPlat as next generation manufacturing. 3. Aiming for the best consumer experiences.	Aiming for the best consumer experiences. KPIs aligned with Qingdao Haier	1. From selling appliances to acquiring users. 2. KUKA as next generation manufacturing. 3. Aiming for the best consumer experiences.	1. Air Conditioner: take domestic market share in house and central AC. 2. Branch into automation.
Connected party transactions	1. Part of raw material procured from Haier Group. 2. Haier Electronics is in charge of part of production,		n.a.	n.a.

Source: Deutsche Bank, company data

Qingdao Haier's market presence in China: (1) strong market share in washing machine and refrigerator; and (2) solid ASP growth

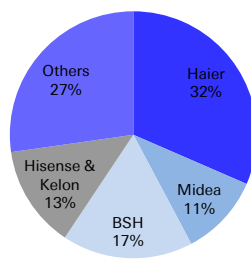
- Strong position in washing machine and refrigerator segment, relatively small presence in air conditioning.

Figure 7: Washing machine share



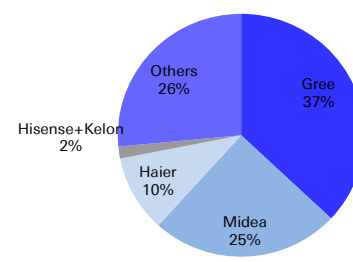
Source: Deutsche Bank, AVC, as of 2017

Figure 8: Refrigerator share



Source: Deutsche Bank AVC, as of 2017

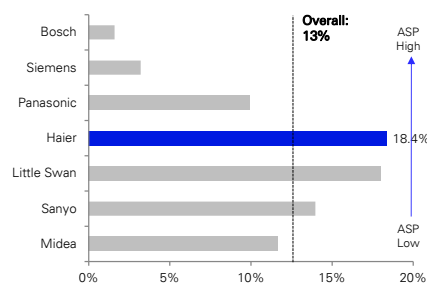
Figure 9: Air conditioner share



Source: Deutsche Bank AVC, as of 2017

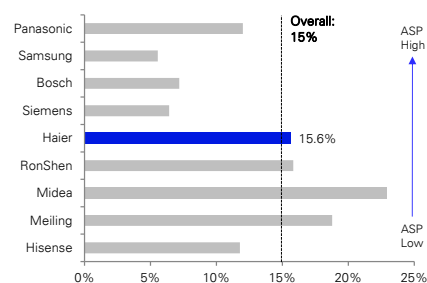
- The company has achieved strong ASP growth in China

Figure 10: Washing machine ASP



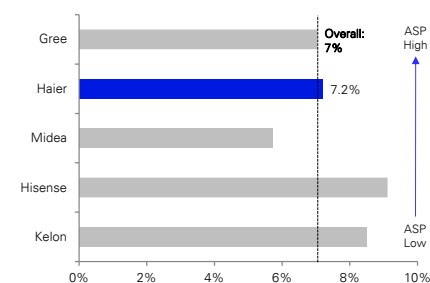
Source: Deutsche Bank, AVC, 2017 average ASP ranking and yoy

Figure 11: Refrigerator ASP



Source: Deutsche Bank, AVC, 2017 average ASP ranking and yoy

Figure 12: Air conditioner ASP



Source: Deutsche Bank, AVC, 2017 average ASP ranking and yoy

Qingdao Haier's financial performance: (1) more stable revenue growth profile; (2) comparable gross margin in key segments; (3) higher opex-to-sales ratio

- More stable revenue growth compared to peers:** this essentially reflects Qingdao Haier's greater revenue exposure to washing machine and refrigerator (segments that are less sensitive to the property cycle; Figure 15 and Figure 16).

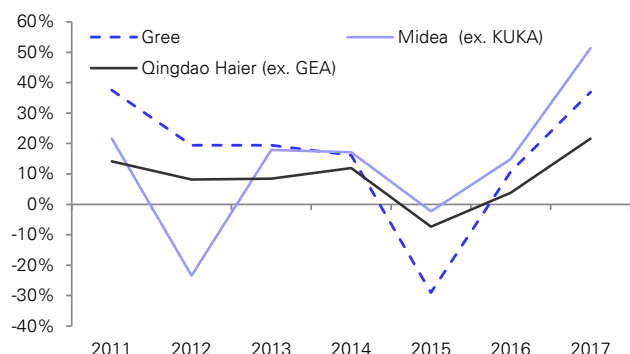
6 October 2018

Retail / Wholesale Trade

Qingdao Haier

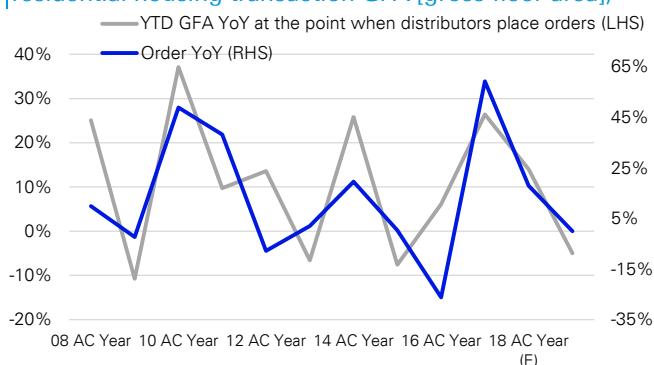


Figure 13: Revenue growth (ex. M&A)



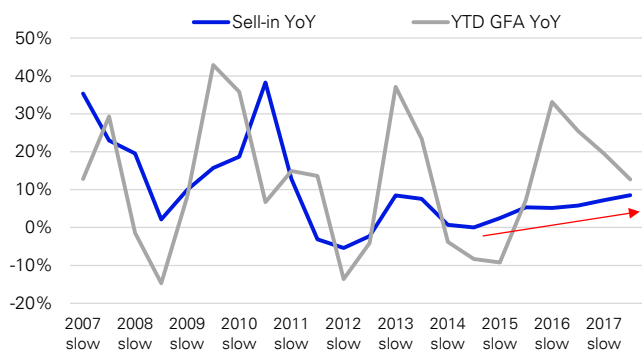
Source: Deutsche Bank, company data (for Qingdao Haier, ex. GEA M&A, for Midea, ex. KUKA M&A)

Figure 14: China air con growth vs. property (new residential housing transaction GFA [gross floor area])



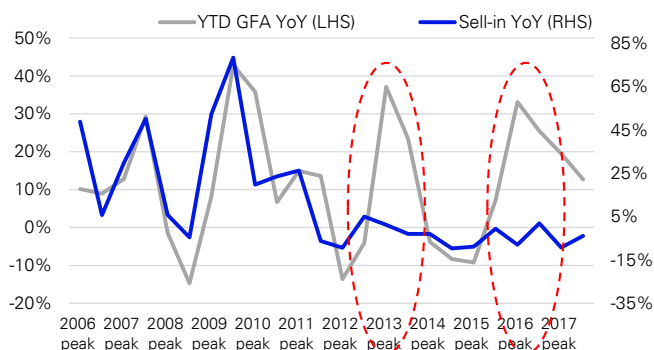
Source: Deutsche Bank estimates, China IOL, NBS

Figure 15: China washing machine vs. property (new residential housing transaction GFA [gross floor area])



Source: Deutsche Bank estimates, China IOL, NBS

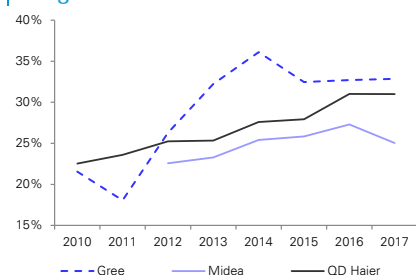
Figure 16: China refrigerator vs. property (new residential housing transaction GFA [gross floor area])



Source: Deutsche Bank estimates, China IOL, NBS

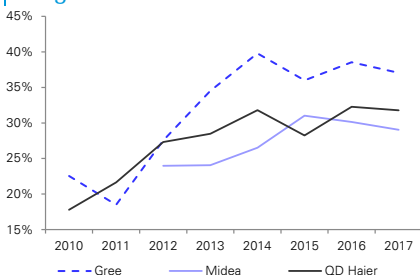
■ Gross margin: comparable with peers

Figure 17: Consolidated gross margin



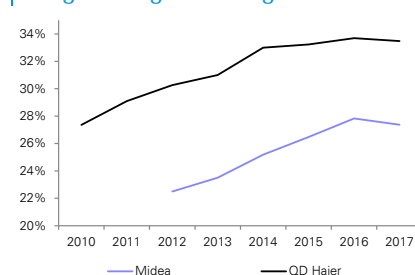
Source: Deutsche Bank, company data

Figure 18: Air conditioner gross margin



Source: Deutsche Bank, company data

Figure 19: Washing machine and refrigerator gross margin



Source: Deutsche Bank, company data

■ Higher opex-to-revenue ratio: we attribute Qingdao Haier's higher opex-to-revenue ratio to its heavier investments in Smart Home, as well as its different business structure (Figure 50 & Figure 51): Qingdao Haier co-

6 October 2018

Retail / Wholesale Trade

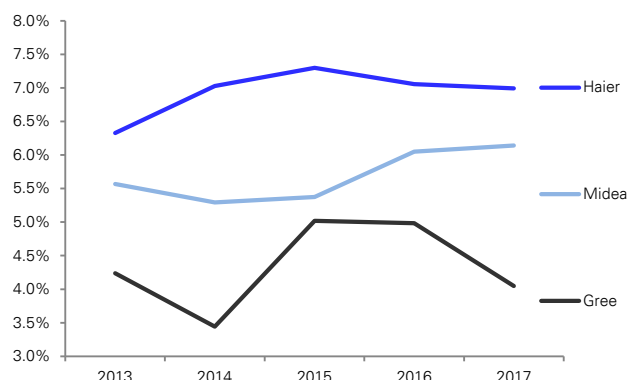
Qingdao Haier



works with Haier Electronics to produce and distribute its products, which is discussed in more detail in page 16 this report.

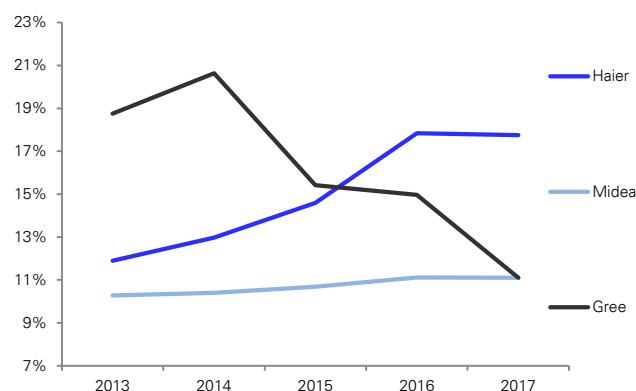
- **Increasing selling expenses-to-revenue:** likely due to increased investments in the distribution channel to help improve distributors' efficiency.

Figure 20: Admin expenses-to-revenue



Source: Deutsche Bank, company data

Figure 21: Selling expenses-to-revenue



Source: Deutsche Bank, company data

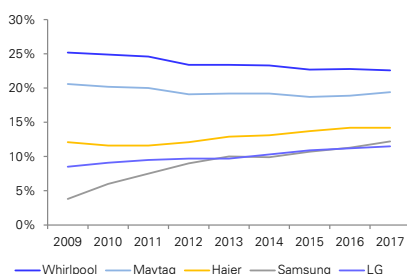
Haier vs. international players

Haier: a true global brand

We summarize below the global top players and their market share, as estimated by Euromonitor. The most important takeaway is that Haier (including GEA and Fisher & Paykel brands) is the only company that commands significant market share in washing machine, refrigerator and air conditioner in almost all major markets. Note that Midea and Gree do not command significant market share in overseas markets. We believe this stems from the duo's heavier focus on contract manufacturing, vs. Qingdao Haier's branded strategy.

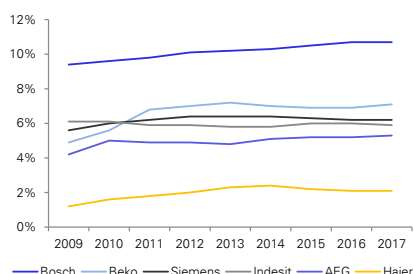
(1) Washing machine market share in key markets (the charts below illustrate the change in market share):

Figure 22: North America



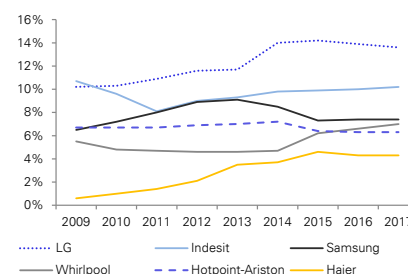
Source: Deutsche Bank, Euromonitor

Figure 23: Western Europe



Source: Deutsche Bank, Euromonitor

Figure 24: Eastern Europe



Source: Deutsche Bank, Euromonitor

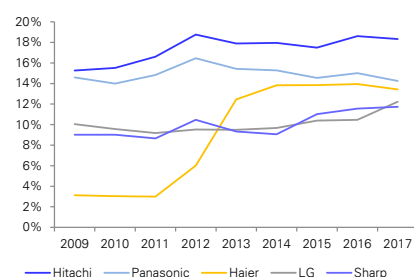
6 October 2018

Retail / Wholesale Trade

Qingdao Haier

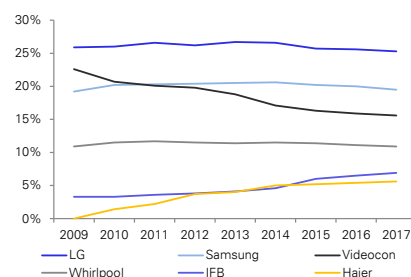


Figure 25: Japan & Korea



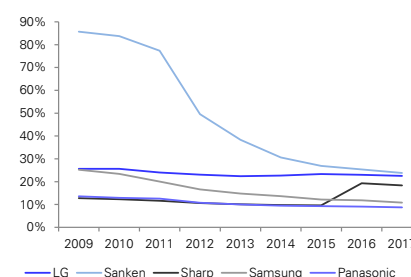
Source: Deutsche Bank, Euromonitor

Figure 26: India



Source: Deutsche Bank, Euromonitor

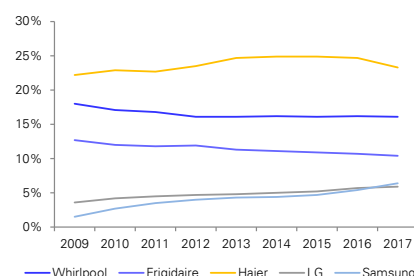
Figure 27: South Eastern Asia



Source: Deutsche Bank, Euromonitor

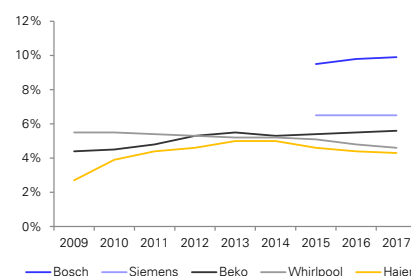
(2) Refrigerator market share in key markets (below charts illustrate the change in market share):

Figure 28: North America



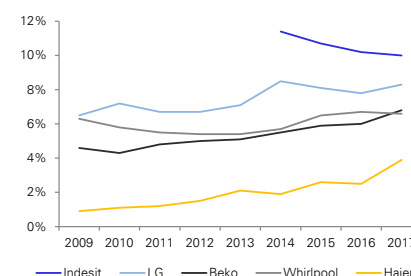
Source: Deutsche Bank, Euromonitor

Figure 29: Western Europe



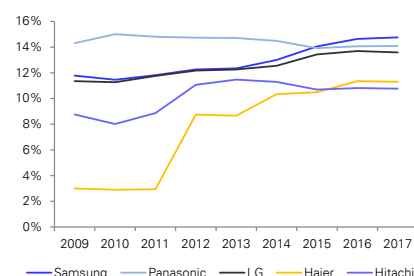
Source: Deutsche Bank, Euromonitor

Figure 30: Eastern Europe



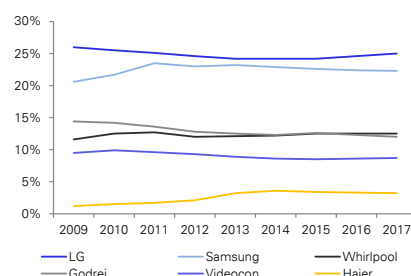
Source: Deutsche Bank, Euromonitor

Figure 31: Japan & Korea



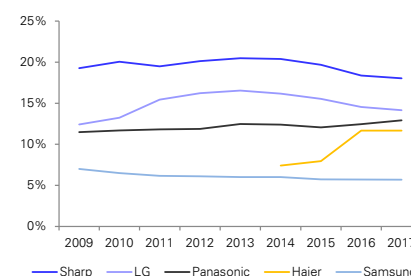
Source: Deutsche Bank, Euromonitor

Figure 32: India



Source: Deutsche Bank, Euromonitor

Figure 33: South Eastern Asia



Source: Deutsche Bank, Euromonitor

(3) Air conditioner: market share in key markets (below charts illustrate the change in market share):

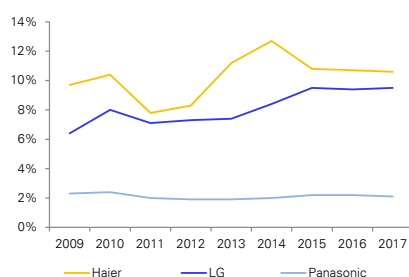
6 October 2018

Retail / Wholesale Trade

Qingdao Haier

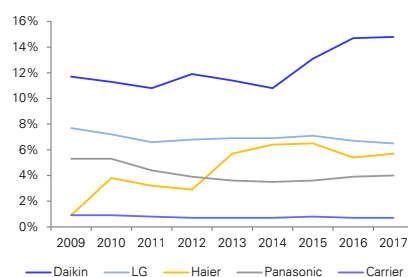


Figure 34: North America



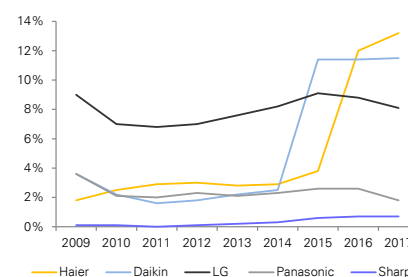
Source: Deutsche Bank, Euromonitor

Figure 35: Western Europe



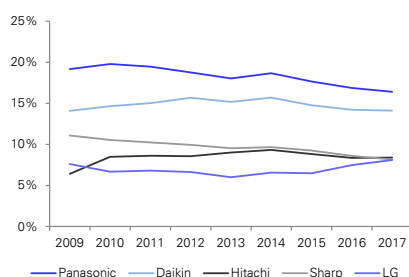
Source: Deutsche Bank, Euromonitor

Figure 36: Eastern Europe



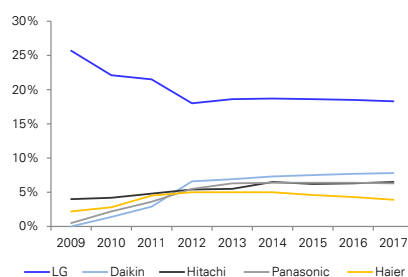
Source: Deutsche Bank, Euromonitor

Figure 37: Japan & Korea



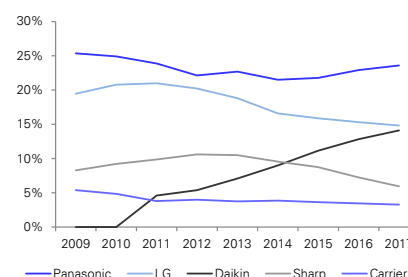
Source: Deutsche Bank, Euromonitor

Figure 38: India



Source: Deutsche Bank, Euromonitor

Figure 39: South Eastern Asia



Source: Deutsche Bank, Euromonitor

Qingdao Haier stacked up well in terms of operating margin vs. global peers in 2017 although we note that this was not the case in 2016. Margins across the peer group generally fell in 2017 YoY, likely due to rising raw material costs while margins for Qingdao Haier improved slightly due to better control of raw material costs and increased wholesale prices to pass on the additional costs.

Figure 40: Haier's efficiency as a global company: stronger than most peers in 2017

Operating margin	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Qingdao Haier	6.1%	6.6%	7.2%	5.6%	5.6%	5.7%
GEA	n.a.	n.a.	3.2%	5.7%	n.a.	n.a.
Whirlpool	4.8%	6.8%	6.1%	5.9%	6.6%	5.3%
Samsung Appliance	4.5%	3.3%	2.4%	2.7%	6.0%	3.7%
Siemens	8.5%	6.9%	8.6%	7.6%	9.0%	8.8%
Average	6.0%	5.9%	5.5%	5.5%	6.8%	5.9%

Source: Deutsche Bank estimates, company data, Note: for Qingdao Haier, we use consolidated DB operating margin (gross margin less OPEX-to-revenue ratio).

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



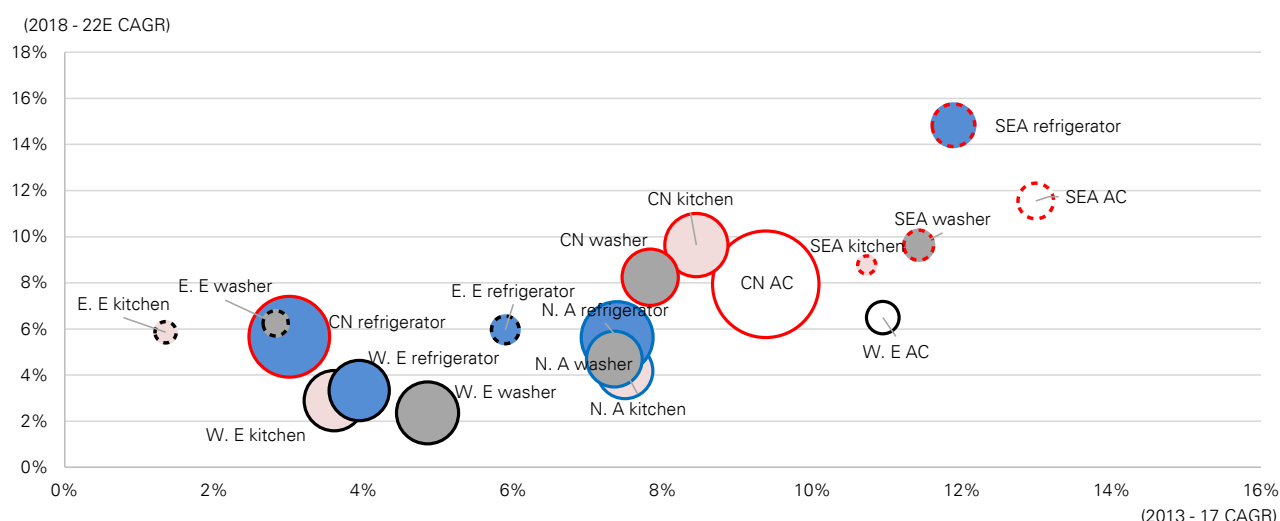
Growth opportunities

Identifying Haier's global growth opportunities

Top growth markets: (1) SEA; and (2) China kitchen appliances

Based on Euromonitor's forecasts (Figure 41), we have identified the South East Asia and China kitchen appliances markets as being the most lucrative opportunities (decent market scale with strong growth outlook). We also note that China's kitchen appliances market is a very scattered market. This could provide an opportunity for more resourceful new entrants (like Qingdao Haier) to consolidate the market and take market share. Although China's air conditioner market is seen by Euromonitor as a key growth opportunity in the global white goods industry, we do not expect Qingdao Haier to increase its investment significantly in this market due to the heavy competition and Haier's lack of scale. We expect Qingdao Haier to stay as a niche player targeting the premium split-type air conditioner markets in China.

Figure 41: Key growth areas for the global white goods market



	China				North America				Western Europe			
	AC	Kitchen	Fridge	Washer	AC	Kitchen	Fridge	Washer	AC	Kitchen	Fridge	Washer
2017 market value (USDbn)	38	14	22	11	3	11	17	11	4	12	12	13
2013-17 CAGR	9%	8%	3%	8%	0%	7%	7%	7%	11%	4%	4%	5%
2018-22E CAGR	8%	10%	6%	8%	1%	4%	6%	5%	6%	3%	3%	2%

	South East Asia				Eastern Europe			
	AC	Kitchen	Fridge	Washer	AC	Kitchen	Fridge	Washer
2017 market value (USDbn)	5	2	7	4	0	2	3	3
2013-17 CAGR	13%	11%	12%	11%	n.a.	1%	6%	3%
2018-22E CAGR	12%	9%	15%	10%	4%	6%	6%	6%

Source: Deutsche Bank, Euromonitor (Circle size= 2017 market size)

6 October 2018

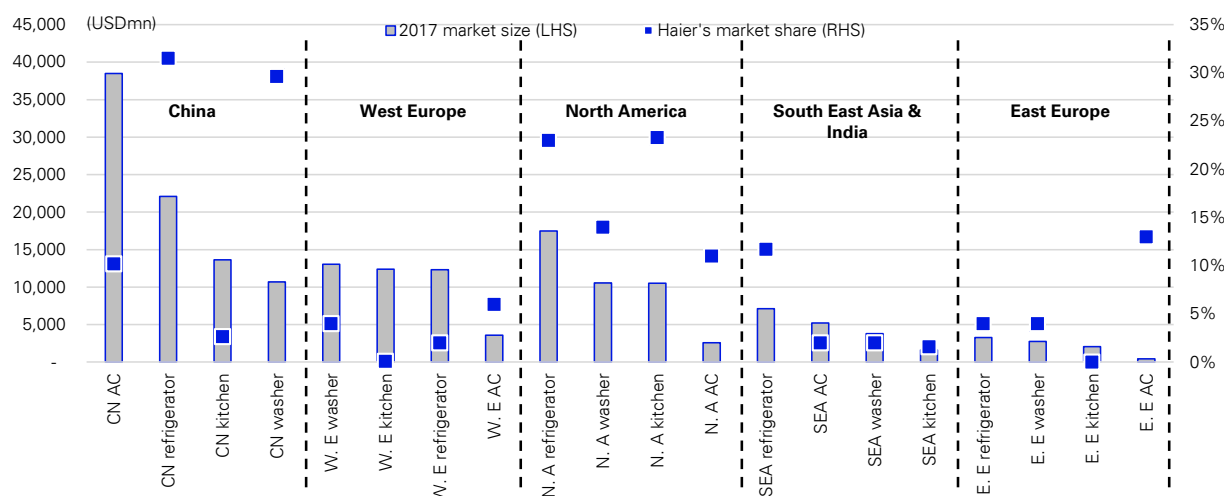
Retail / Wholesale Trade

Qingdao Haier



Identify markets with significant scale while Haier's market share remains low:

Figure 42: Western Europe is a large home appliances market, yet Haier's market share is relatively low; China's kitchen market is already bigger than its washing machine market



Source: Deutsche Bank, Euromonitor

Haier's ambitions for Europe

EU: a more scattered market requiring multi-brand strategy

We attribute Haier's lower market share in Western Europe (Figure 42) to the market nature – a more scattered market. Haier plans to leverage its multi-brand portfolio to capture opportunities in the scattered market.

Goals and strategies

- **Goal: 2022 market share:** Qingdao Haier announced a target to garner top-five market share in Europe by 2022 (vs. ninth place currently with 2.3% share, Figure 42), according to its analyst meeting on 31 May 2018.
- **Strategies: three key markets**
 - (1) **Western Europe:** Haier plans to upgrade its products, especially refrigerator and washing machine. Management believes its new premium brands (GEA and Fisher & Paykel) alongside improving the Haier brand image will fulfil these goals.
 - (2) **Russia:** Haier aims to expand domestic production to drive key segments, including high-end refrigerator.
 - (3) **Eastern Europe:** Haier plans to follow the Russia model to boost domestic production.

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



China's cyclical downtrend will eventually ease, while US economy remains robust

China air conditioner cyclical downtrend is our main concern, but Qingdao Haier's exposure is less significant

We expect China's air conditioner over-inventory issue to push the industry into a destocking mode. If we use the 2015 downcycle as an example, it could take 12-24 months to clear the excessive channel inventory. Having said that, Qingdao Haier's exposure to air conditioner is less significant vs. Midea and Gree (see "Key Risk" section for discussions on China air conditioner market).

China washing machine and refrigerator growth still driven by ASP

Management indicated sustainable washing machine and refrigerator revenue growth during the 1H18 earnings call. This is driven by ASP upgrades and better functionality (penetration of washer-drier). Latest revenue growth in 1H18 as well as China Market Monitor data also suggest that Qingdao Haier is taking washing machine market share in China from Midea & Little Swan using its Casarte brand.

China kitchen appliances: the long-term story remains intact

Key players (Robam and Fotile) saw the impact from property market slowdown. However, we think this headwind provides an important opportunity for more resourceful home appliances groups to enter the kitchen appliances market to take market share. In addition, based on previous property cycles, we expect the kitchen appliances headwind to ease along with recovering property transaction growth.

US economic growth remains resilient

Qingdao Haier, via GEA, has more than 20% revenue exposure to the US. DB economists forecast a resilient 2.9%/2.7% GDP growth in 2018/2019.

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Trade war risks

Industry impact: we worry more about price hikes and reduced demand

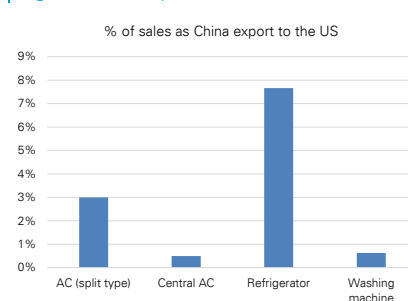
- **Direct impact appears limited:** The latest tariff list from the US (announced on September 17 2018) included most of China's white goods, **except for washing machines** (Figure 43). China's home appliances exports to the US are less significant, especially air conditioners (both split type and central type) and washing machines (Figure 44). We are also less concerned about other countries taking significant share from China's appliances manufacturers, due to China's leading scale and market share (Figure 45).

Figure 43: Trade war affected items

10% tariff effective 2018 September 24	
25% tariff effective 2018 January 1	
Tax code	Item
8415.10	Split type air conditioners
8415.81-83	Commercial air conditioners
8418	Refrigerators & heat pumps
8451	Drying machines
8414	Compressors
8516	Microwave
8505	Vacuum cleaner

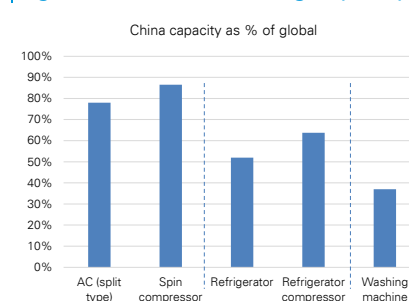
Source: Deutsche Bank, Office of the US Trade Representative

Figure 44: Exports to US are limited



Source: Deutsche Bank, China IOL

Figure 45: China's leading capacity



Source: Deutsche Bank, China IOL

- **But, we worry about increased costs hurting demand:** China is the biggest supplier of compressors globally (for both air conditioners and refrigerators, Figure 45) and one of the top motor makers. As a result, the tariff could increase global home appliances costs. Whirlpool indicated that the tariff could increase the costs of its dishwashers, which are made in Ohio, US (Nikkei News, dated 18 September 2018). If home appliances brands increase prices to pass on the additional costs, this might reduce consumer demand.

Qingdao Haier's impact: current operations intact, but synergies hindered

- **Current operation intact:** Qingdao Haier's global factories (especially those held by GEA) will help hedge it from the China-US trade disputes. We estimate Qingdao Haier's exports from China to the US account for less than 5% of its revenue.
- **Co-procurement and production synergy affected:** however, the additional tariff could affect Qingdao Haier's plan to shift GEA's manufacturing and raw material procurement back to China. Our calculation suggests a 10% tariff (the proposed tariff by the US government, to-be increased to 25% starting 1 January 2019) could increase GEA's costs by more than RMB2bn (if shifting production in China and export to the US), more than offsetting the guided cost saving (by management) of RMB1bn.
- **Suspending plans to introduce GEA in China:** Qingdao Haier has reportedly announced that it will no longer sell made-in-US GEA products in China (Financial Times, dated 20 September 2018). We note that the original plan was to introduce GEA's premium collection (especially kitchen appliances) in China. As a result, we now expect

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Qingdao Haier to rely more on Casarte and Fisher & Paykel for the premium segments.

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Smart Home strategy and execution turnaround

Smart Home = selling bundled solutions

Benefits of selling a solution: (1) market share gain; and (2) consumer stickiness

- As replacement demand continues to outpace new purchases (in China), home appliances players shift their focus from selling appliances to selling bundled solutions. For example, this could include water heater & purifier and/or air conditioners with sensors to detect movements.
- Such bundle sales benefits brands' market share and, more importantly, enables more return purchases by consumers.

Figure 46: Haier's Smart Home solution



Source: Deutsche Bank, company data

Haier's advantage to drive Smart Home: product and brand portfolio

Haier's leadership in refrigerator and washing machine, on top of innovative product offerings in air conditioner (self-cleaning) and kitchen appliances (embedded products) allow it to provide a more comprehensive solution (please refer to Figure 22 to Figure 39, in which we highlight Qingdao Haier's balanced leading market share in major markets). This is a major advantage when compared to other home appliances players (Samsung SmartThings, LG SmartThinQ, Midea M-Smart), in our view.

Haier's initiative to execute the Smart Home strategy:

- **A software platform to accommodate all the connected appliances:**
Haier U+ (operating system: UHomeOS)
- **A manufacturing system that caters to tailor-made demands:**
COSMOPlat

6 October 2018

Retail / Wholesale Trade

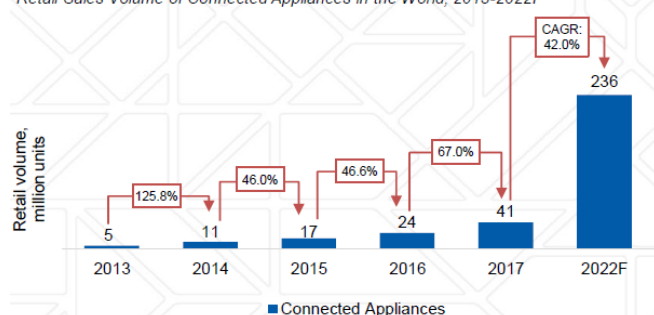
Qingdao Haier



- **Corporate culture:** RenDanHeYi (人单合一): realigning every employee's KPIs to focus on consumer satisfaction (see discussions below).

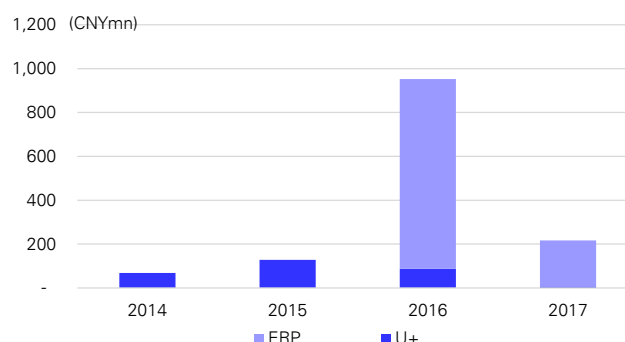
Figure 47: Connected device growth

Retail Sales Volume of Connected Appliances in the World, 2013-2022F



Source: Deutsche Bank, Euromonitor

Figure 48: Heavy investments in ERP and U+ to bear fruit



Source: Deutsche Bank, company data

Execution turnaround: aligning Qingdao Haier and Haier Electronics' business goals

Qingdao Haier and Haier Electronics: a different business structure

- Haier Electronics (56%-owned by Qingdao Haier) is closely embedded into Qingdao Haier's business to operate manufacturing, logistics and distribution.
 - Haier's business structure is very different from those of Midea and Gree (Figure 50 & Figure 51).
 - Currently, Haier Electronics' main responsibilities are related to distribution and logistics (on top of washing machine and water heater manufacturing).
 - As a result, we witnessed frequent related party transactions between Qingdao Haier, Haier Electronics and the private parent company: (Figure 49)
- (1) On the procurement side: Qingdao Haier's financial report records significant related party procurement from the private parent company.
 - (2) On the sales side, the recorded related party transactions are limited. We believe some of Qingdao Haier's related sales with Haier Electronics are not recorded in the financial statement: as Qingdao Haier consolidates Haier Electronics, so the transactions between the two entities will be eliminated.

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Figure 49: Related party transactions summary (please see important footnotes)

	FY13	FY14	FY15	FY16	FY17
Qingdao Haier...					
Related-party purchase of*					
Raw Material	18.0	13.7	7.9	8.9	11.6
Distribution Services	7.3	9.3	10.7	6.5	6.9
Logistics Services	2.5	2.6	2.8	3.5	4.9
Total purchase	27.9	25.6	21.3	19.0	23.4
% of COGS**	43%	36%	33%	23%	21%

Source: Deutsche Bank estimates, company data, *due to the format of disclosure, we may overestimate the transaction value ** this could be overestimated as some of the service purchase may be recognized under expenses.

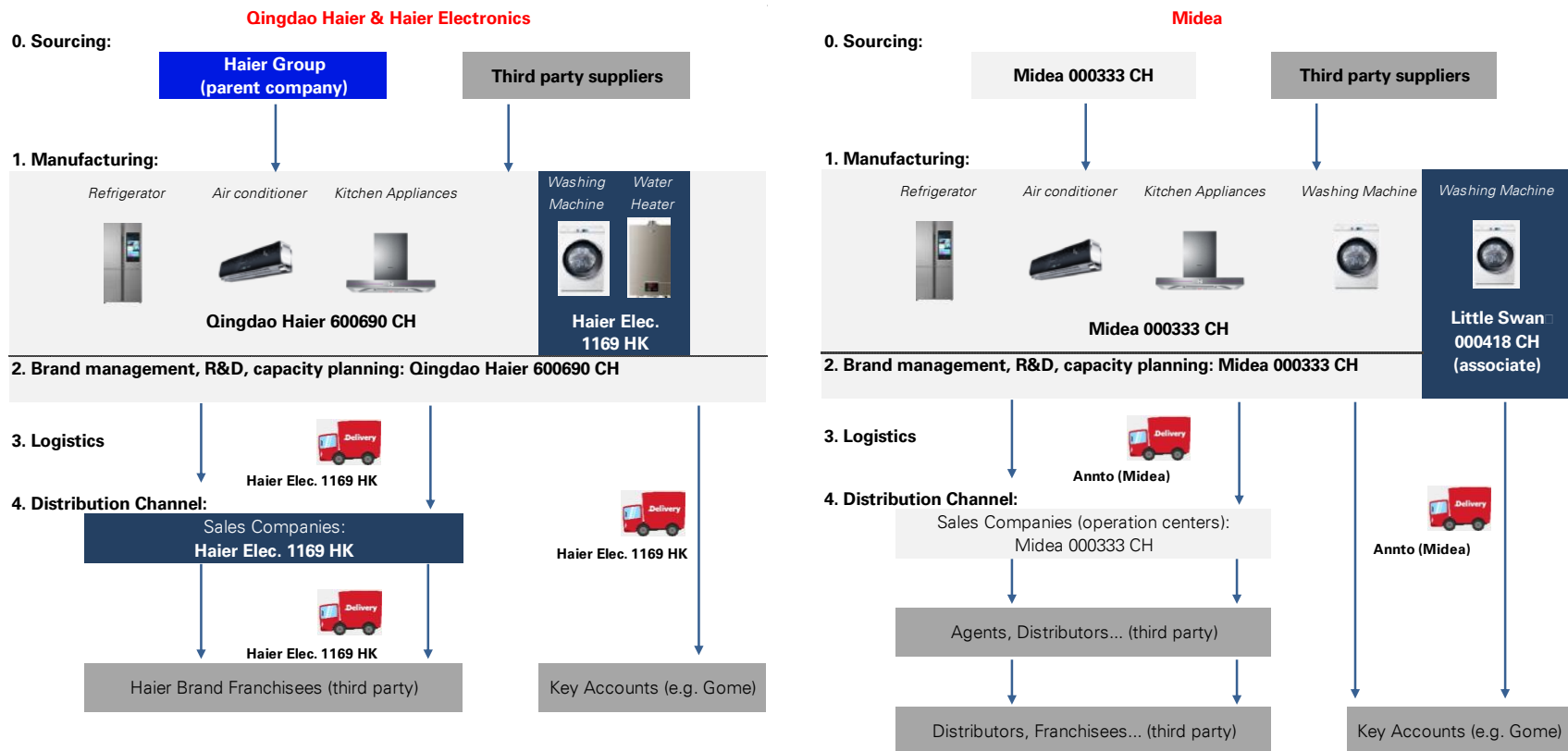
Some misalignments in the past...

- In the past, Qingdao Haier management operated more on KPIs related to branding and manufacturing. Haier Electronics' performance, on the other hand, is measured more by logistics and channel management.
- Such "misalignments" partly explained Qingdao Haier's higher opex-to-revenue ratio vs. peers (Figure 20, Figure 21 and Figure 40).

...addressed by RenDanHeYi (revamp KPIs to focus on consumer satisfaction)

- Qingdao Haier and Haier Electronics' business goals started to integrate under the RenDanHeYi (人單合一) guideline since 2015-2016.
- RenDanHeYi has significantly adjusted both Qingdao Haier and Haier Electronics' business goals to focus on consumer satisfaction. **In our view, this strengthens the cooperation between the two companies and will drive better execution.**

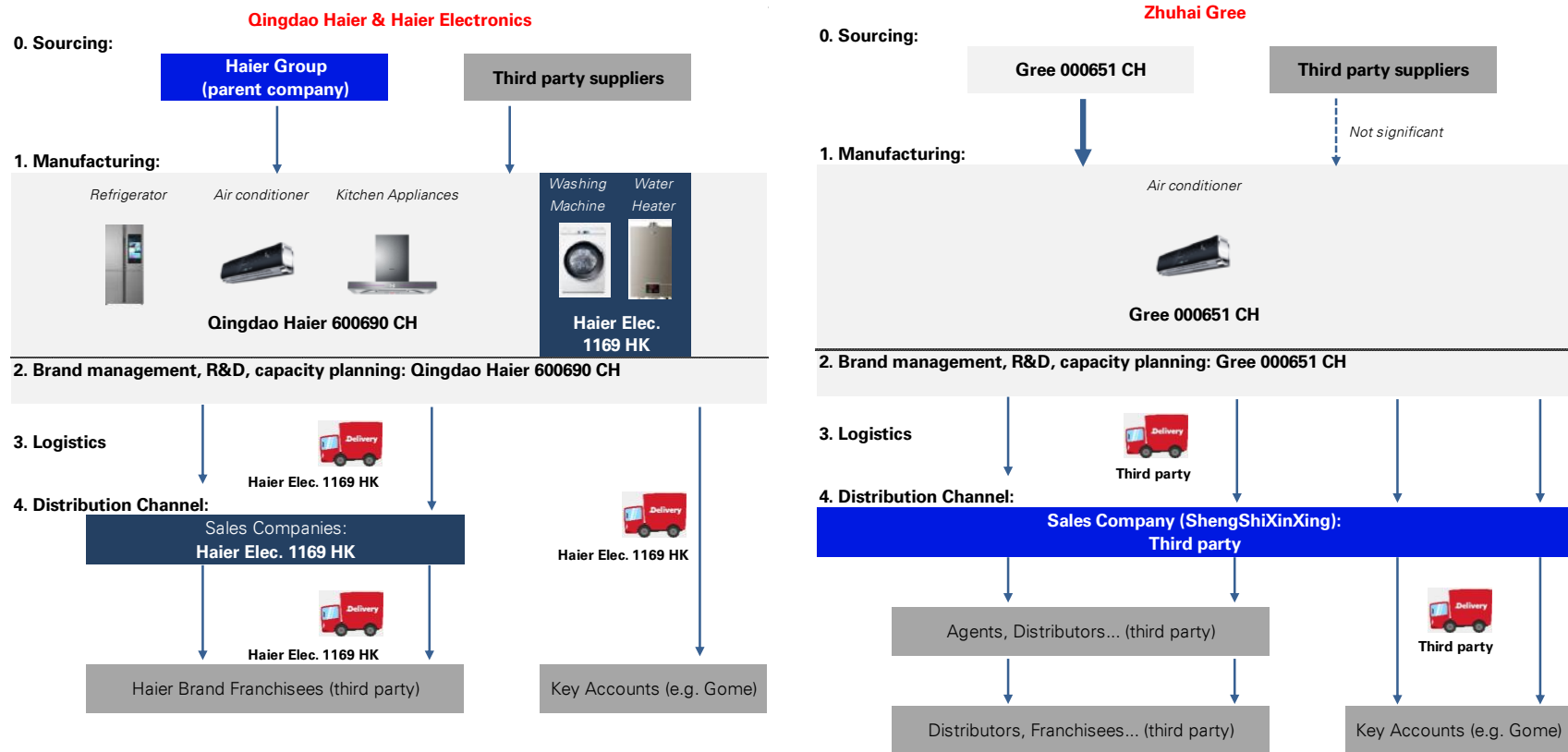
Figure 50: Qingdao Haier and Haier Electronics' business structure vs. Midea (a more common model, not considering Little Swan)



Source: Deutsche Bank estimates, company data



Figure 51: Qingdao Haier and Haier Electronics' business structure vs. Gree (whose sales company is not part of the Listco)



Source: Deutsche Bank estimates, company data



6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Earnings drivers

Income statement

We project 10% revenue CAGR in 2018 and 2019E, driven by:

- (1) A high-single-digit ASP increase for key segments including refrigerator, washing machine and air conditioners. Note: most of the ASP increases stem from mix upgrades (**washing machine**: rising drum-type and washer-drier penetration, **refrigerator**: rising large capacity French-door refrigerators, **air conditioner**: increased presence of Haier's proprietary self-cleaning technology).
- (2) High-single-digit volume growth for washing machine and refrigerator, reflecting the increased market share from Casarte.
- (3) Note that we are more conservative on kitchen appliances revenue growth in 2018; this is to reflect the drag from the slowdown in China's property market (note we use DB China property team's official forecasts, which estimate a 5% yoy decline in China's new housing GFA in 2018). However, we expect kitchen appliances growth rates to recover in 2019E.
- (4) FX assumptions: the majority of Qingdao Haier's revenue is from China (in RMB). For the company's export business (excluding GEA), it is denominated in local currency. For GEA, the revenue comes mainly from the US and is denominated in USD. We use DB's house view on FX rates in our model. As suggested by Figure 60, we expect recent RMB/USD moves to be positive for Qingdao Haier's revenue.

Figure 52: Qingdao Haier: DB revenue estimates by region

CNY millions		DBe				
Business	Region	2015	2016	2017	2018E	2019E
China Business	China	70,518	70,992	92,344	106,195	118,939
Haier Brand Export	US<33%	19,279	22,306	21,017	21,872	22,094
GEA	Mainly US	-	25,834	45,894	48,648	51,566
Mix						
China Business	China	79%	60%	58%	60%	62%
Haier Brand Export	US<33%	21%	19%	13%	12%	11%
GEA	Mainly US	0%	22%	29%	28%	27%

Source: Deutsche Bank estimates, company data

We project 17% EBIT CAGR in 2018 and 2019E, driven by:

- (1) Improved gross margin by 1.3ppt and 0.1ppt yoy in 2018 and 2019. This is driven by better business mix, margin improvements at key business segments (due to product upgrades) and easing raw material cost pressure.
- (2) Cost analysis: we expect Qingdao Haier's cost pressure to improve as the price of key raw materials stabilise (Figure 63 to Figure 66).

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



- (3) We forecast EBIT margin to be driven by gross margin expansion. We expect Qingdao Haier to control its opex-to-revenue ratio due to better operating efficiency.

We project 17% earnings CAGR in 2018 and 2019E, driven by EBIT growth

We expect Qingdao Haier's earnings growth to be similar vs. EBIT growth. While Midea and Gree have stronger earnings growth, we attribute part of their growth to the significant interest income from lending to their distributors (see reports on [Midea \[link\]](#) and [Gree \[link\]](#)). We note that the lending business could increase investors' risk exposure to the air conditioners downcycle.

Note that most of the minority interest is from Qingdao Haier's un-owned stake in Haier Electronics (44% in Haier Electronics).

Figure 53: Qingdao Haier: income statement summary

Qingdao Haier IS						
CNY millions				DBe		
	2014	2015	2016	2017	2018E	2019E
Revenue	96,930	89,797	119,132	159,254	176,715	192,600
Revenue growth	12%	-7%	33%	34%	11%	9%
By segment						
Air conditioners	20,472	16,251	18,676	28,745	35,448	39,826
Refrigerator	28,267	27,589	36,255	47,114	57,285	62,555
Washing machine	17,260	17,470	23,480	30,895	39,029	42,620
Kitchen & Bath	6,499	6,621	19,014	28,560	21,883	23,261
Logistics & Others	24,433	21,867	21,707	23,941	23,070	24,337
yoy growth						
Air conditioners	14%	-21%	15%	54%	23%	12%
Refrigerator	12%	-2%	31%	30%	22%	9%
Washing machine	20%	1%	34%	32%	26%	9%
Kitchen & Bath	8%	2%	187%	50%	-23%	6%
Logistics & Others	6%	-10%	-1%	10%	-4%	5%
By segment						
China	77,505	70,518	70,992	92,344	106,195	118,939
Haier Brand Export	19,424	19,279	22,306	21,017	21,872	22,094
GEA	-	-	25,834	45,894	48,648	51,566
China		-9%	1%	30%	15%	12%
Haier Brand Export		-1%	16%	-6%	4%	1%
GEA				78%	6%	6%
GOGS	70,170	64,717	82,167	109,890	119,646	130,116
GP	26,759	25,080	36,966	49,365	57,069	62,483
GP Margin	27.6%	27.9%	31.0%	31.0%	32.3%	32.4%
OP (as reported)	8,300	6,458	7,354	10,113	12,534	13,840
OP Margin	8.6%	7.2%	6.2%	6.4%	7.1%	7.2%
Non-op gain (loss)	276	523	834	431	53	114
Pre-tax Profit	8,576	6,981	8,189	10,544	12,587	13,954
Taxes	1,527	1,056	1,493	1,493	2,295	2,544
MI	1,711	1,621	1,654	2,126	1,839	1,850
NP	5,338	4,304	5,042	6,926	8,453	9,560
NP Margin	5.5%	4.8%	4.2%	4.3%	4.8%	5.0%
NP growth	28%	-19%	17%	37%	22%	13%

Source: Deutsche Bank estimates, company data

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Trade war impact

In our base case model, we assume RMB500m of synergy from GEA cost savings (producing GEA products in China) in 2019. As discussed in page 12, the modelled synergy could face downside risks.

Balance sheet

Healthy working capital conditions

We expect Qingdao Haier to continue leveraging its strong bargaining power to drive accounts payable days. We forecast the bargaining power to be strengthened with Qingdao Haier's improved scale, after it integrates the sourcing of GEA and Fisher & Paykel.

Overseas debt and management's efforts to refinance

We believe that Qingdao Haier has incurred overseas debt during the acquisition of GEA (this is our estimate based on management's public guidance on the transaction). During the acquisition, management indicated that 60% of the USD5.4bn consideration would be financed by bank loans. To refinance the borrowing, Qingdao Haier announced (on 7 November 2017) it would issue a HKD8bn convertible bond. We forecast Qingdao Haier to further improve its financial leverage. As of 1H18, Qingdao Haier disclosed over USD3bn of debt in USD, representing 60% of the USD5.4bn acquisition consideration, in our view. Such USD-denominated debt accounts for 66% of Qingdao Haier's total debt, based on our calculation.

Figure 54: Qingdao Haier: interest bearing debt by currency (as of 1H18)

(in millions)				
Currency	Balance in foreign currency	FX rate	Balance in RMB	% of total debt
Short-term borrowings				
USD	1,093	6.6166	7,229	21%
EUR	20	7.6515	152	0%
JPY	3,043	0.0599	182	1%
Current portion of long-term debt				
USD	409	6.6166	2,708	8%
Long-term borrowings				
USD	1,909	6.6166	12,634	37%
JPY	4,991	0.0599	299	1%
EUR	3	7.6515	26	0%
Summary				
USD	3,411	6.6166	22,571	66%
EUR	23	7.6515	178	1%
JPY	8,034	0.0599	481	1%
RMB			10,989	32%
Total debt			34,219	

Source: company data, compiled by Deutsche Bank

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Figure 55: Qingdao Haier: balance sheet summary

Qingdao Haier B/S						
CNY millions	2014	2015	2016	2017	DBe 2018E	2019E
Cash & equiv.	31,225	24,757	23,582	35,177	26,956	34,993
Receivables	23,815	19,265	27,242	26,442	40,410	31,979
Inventory	9,022	8,564	15,285	21,504	22,747	24,792
Other current asset	1,964	2,269	3,567	5,209	3,897	16,013
Current Asset	66,026	54,854	69,677	88,332	94,010	107,776
Net PP&E & intangible	8,381	9,878	22,819	23,023	28,702	29,370
LT equity investment	3,583	4,959	11,058	12,993		
Other L/T assets	4,359	6,269	27,916	27,115	48,380	49,517
L/T Assets	16,323	21,106	61,792	63,131	77,082	78,887
Trade payable	36,640	32,351	42,466	52,838	62,992	63,901
S/T loans	2,292	1,873	18,166	10,879	10,879	10,879
Other current liabilities	7,151	5,520	12,932	13,178	22,715	28,587
Current liabilities	46,083	39,744	73,564	76,894	96,586	103,366
L/T debt	-	297	15,531	16,036	19,746	19,746
Other L/T liabilities	4,343	3,478	4,694	11,782	2,919	3,169
L/T liabilities	4,343	3,775	20,225	27,819	22,665	22,915
Common Equity	3,046	6,123	6,098	6,097	6,097	6,097
Reserves	21,563	16,610	20,341	26,118	31,001	37,693
Minority equity	7,315	9,708	11,242	14,534	14,742	16,592
Equity	31,923	32,442	37,681	46,750	51,840	60,382
Net debt (cash) to equity	-91%	-70%	27%	-18%	7%	-7%
Average cash cycle						
AR Days (avg)	91	88	71	62	69	69
Inventory Days (avg)	45	50	53	61	67	67
AP Days (avg)	191	195	167	158	177	178
Cash cycle (avg)	(56)	(57)	(42)	(36)	(40)	(43)

Source: Deutsche Bank estimates, company data

Figure 56: Cash flow statement

CNY millions	2014	2015	2016	2017	DBe 2018E	2019E
Net Profit	5,338	4,304	5,042	6,926	8,453	9,560
Depre & Amort.	860	1,054	2,392	2,739	2,474	2,553
A/R Dec. (Inc.)	(1,561)	4,578	(3,018)	694	(479)	(2,854)
Inventory Dec. (Inc.)	(943)	376	(1,659)	(6,727)	771	(2,203)
A/P Inc. (Dec.)	2,011	(5,246)	4,314	10,189	(2,446)	5,355
Others	1,066	537	1,065	2,265	14,850	249
Operating cashflow	6,769	5,604	8,136	16,087	23,622	12,659
Capex	(2,270)	(2,492)	(2,627)	(3,967)	(3,779)	(4,180)
Investment related, net	(1,853)	(8,328)	(34,516)	2,789	148	155
Others	(7,763)	(21,094)	(76,770)	(6,800)	(11,481)	(12,479)
Investing cashflow	(3,639)	(10,273)	(39,626)	(5,622)	(7,849)	(8,454)
Dividend	(1,491)	(1,764)	(1,807)	(2,899)	(2,155)	(2,255)
Equity financing	7,110	342	94	1,380	146	154
S/T debt financing	6,698	6,603	43,565	18,695	1,088	1,197
L/T debt financing	-	-	-	6,796	(1,604)	-
Others	(5,163)	(5,182)	(12,003)	(23,049)	(11,761)	(6,031)
Financing cashflow	7,154	-	29,850	923	(14,285)	(6,935)
Adjustments	(138)	154	210	(343)	-	-
Change in cash	10,146	(6,411)	(1,430)	11,045	1,488	(2,729)
Beginning cash	20,974	31,136	24,726	23,295	34,340	44,199
Ending cash	31,120	24,725	23,295	34,340	44,199	49,330

Source: Deutsche Bank estimates, company data

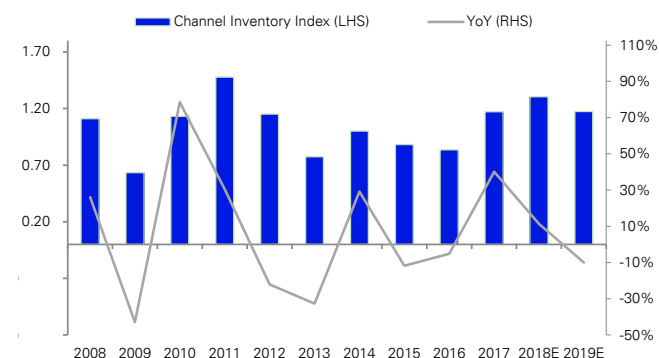
6 October 2018

Retail / Wholesale Trade

Qingdao Haier

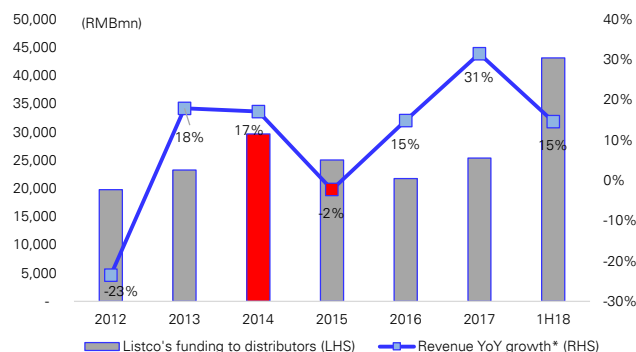


Figure 57: Our China air conditioner channel inventory model estimates unhealthy inventory level



Source: Deutsche Bank estimates, China IOL, AVC

Figure 58: Midea has increased lending to its distributors, a sign of liquidity constraints at distributors



Source: Deutsche Bank estimates, company data

- (1) **Weaker market share expansion in EU:** would hinder the company's growth.
- (2) **Trade war intensifying** (see above section "Trade war risks").
- (3) **Less favourable USDCNY FX rate:** we expect limited impact on gross margin (see below for calculation), but greater impact on non-operating loss (from balance sheet).

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Figure 59: Qingdao Haier: limited impact from FX on gross margin

CNY millions			
Revenue	2018E	Mix	Currency
China Business	106,195	60%	RMB
Haier Brand Export	21,872	12%	<33% is USD, limited EUR
GEA	48,648	28%	USD
Base case revenue	176,715		
Assumed Revenue by currency			
RMB	106,195	60%	
USD	55,865	32%	
Other currency	14,654	8%	
Assumed GPM			
	2018E		
China Business	33%		
Haier Brand Export	28%		
GEA	33%		
Base case GPM	32.29%		
Assumed COGS			
	2018E	Mix	Currency
China Business	71,304	60%	RMB
Haier Brand Export	15,748	13%	>50% RMB
GEA	32,594	27%	USD
Base case COGS	119,646		
Assumed COGS by currency			
RMB	79,178	66%	
USD	32,594	27%	
Other currency	7,874	7%	
Assume RMB appreciate against USD by 1%			
Revenue (after impact)	176,156		
vs. base case	-0.32%		
COGS (after impact)	119,320		
vs. base case	-0.27%		
GPM (after impact)	32.26%		
vs. base case (bps)	(3.0)		

Source: company data, compiled by Deutsche Bank

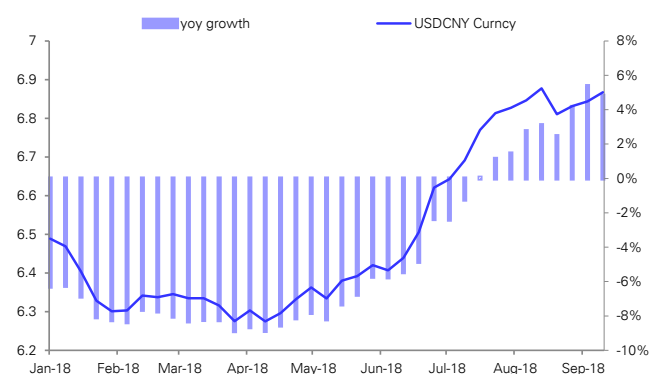
6 October 2018

Retail / Wholesale Trade

Qingdao Haier

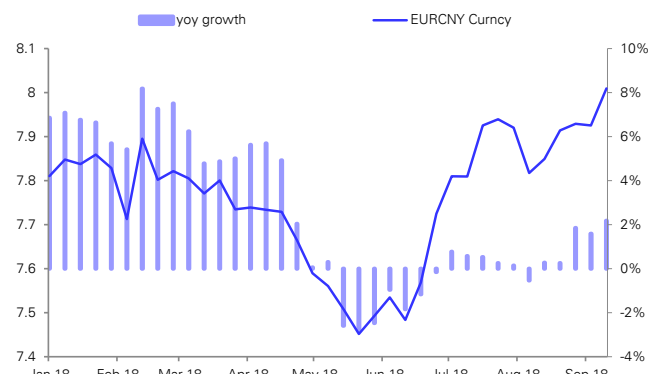


Figure 60: USD/CNY yoy positive for revenue



Source: Deutsche Bank, Bloomberg Finance LP

Figure 61: Same for EUR/CNY



Source: Deutsche Bank, Bloomberg Finance LP

(4) Less favourable raw material prices

Figure 62: Qingdao Haier: COGS tree

	2017 COGS (RMBmn)	Mix%	% of 2017 COGS
1. Raw material	\$76,259	69%	
Air Conditioner	\$16,858	15%	
Compressor (copper)	\$4,552	4%	Copper 27%
Other copper (pipe and valves)	\$2,866	3%	Plastics 22%
Electric motor (copper)	\$1,349	1%	Steel 9%
Steel	\$1,180	1%	Aluminum 5%
Aluminum	\$1,011	1%	Key raw material 63%
ABS Plastics	\$843	1%	
Others (plastics, refrigerant...etc.)	\$5,057	5%	
Refrigerator	\$27,498	25%	
Compressor (copper)	\$6,325	6%	
Other copper (pipe and valves)	\$5,225	5%	
Electric motor (copper)	\$1,650	2%	
Steel	\$1,925	2%	
Aluminum	\$1,650	2%	
ABS Plastics	\$2,200	2%	
Others (plastics, refrigerant...etc.)	\$8,524	8%	
Washing machine	\$17,112	16%	
Electric motor (copper)	\$5,133	5%	
Steel	\$2,567	2%	
Aluminum	\$1,711	2%	
ABS Plastics	\$1,711	2%	
Others (plastics)	\$5,989	5%	
Kitchen & Bath	\$14,792	13%	
Electric motor (copper)	\$2,958	3%	
Steel	\$3,698	3%	
Aluminum	\$1,479	1%	
ABS Plastics	\$1,479	1%	
Others (plastics)	\$5,177	5%	
2. Salary	\$6,143	6%	
3. Depreciation	\$1,638	1%	
4. Utilities	\$394	0%	
5. Others (logistics related...etc.)	\$25,456	23%	

Source: Deutsche Bank estimates, company data

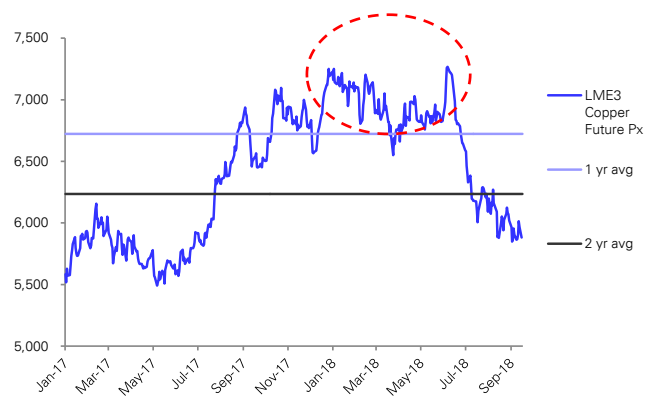
6 October 2018

Retail / Wholesale Trade

Qingdao Haier

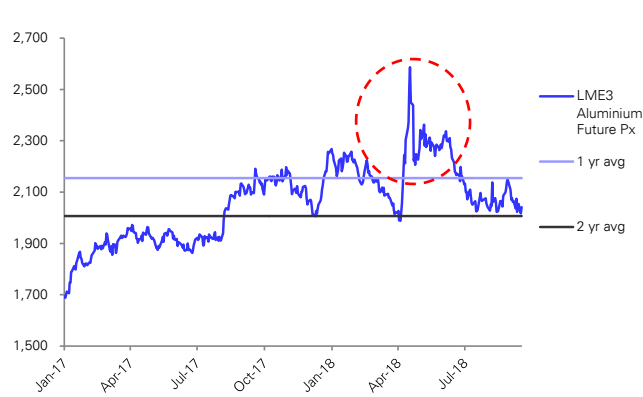


Figure 63: Copper prices have corrected...



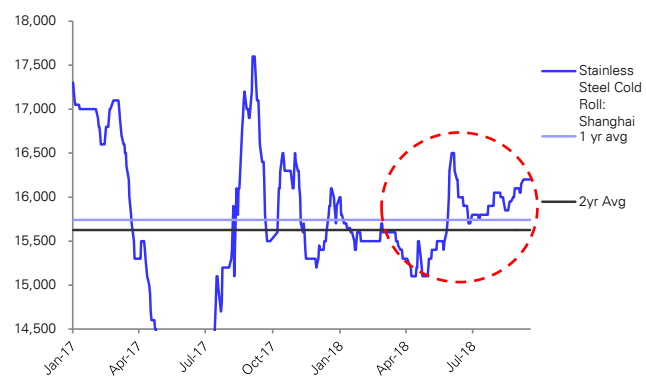
Source: Deutsche Bank, Wind

Figure 64: ...as have aluminium prices



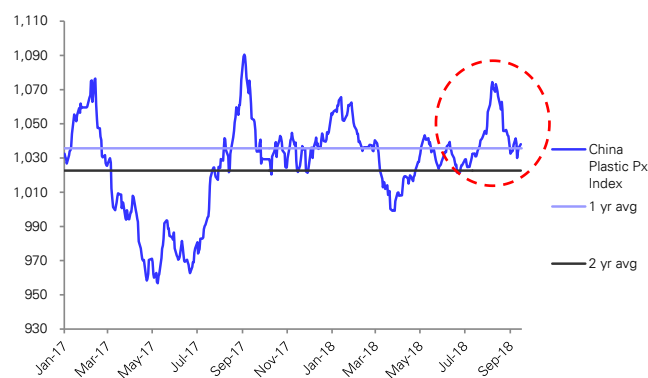
Source: Deutsche Bank, Wind

Figure 65: Stainless steel prices still high (negative for kitchen appliances and washing machines mainly)



Source: Deutsche Bank, Bloomberg Finance LP

Figure 66: Plastics prices generally off from recent high



Source: Deutsche Bank, Wind

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



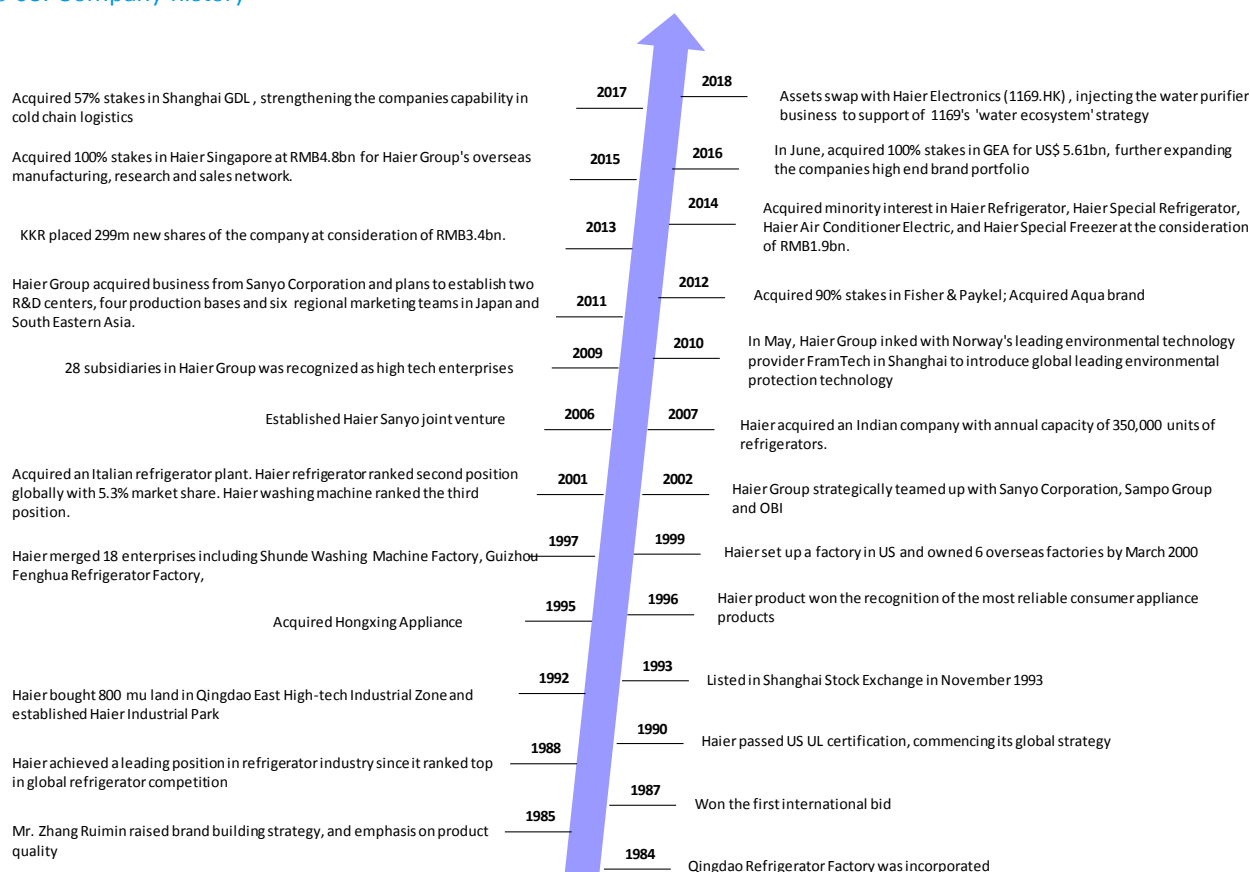
SWOT & background

Figure 67: SWOT analysis for Qingdao Haier

Strengths	Weakness
<ul style="list-style-type: none"> -Balanced product portfolio -Strong multi-brand portfolio -Global presence especially in China and US (proven track record) 	<ul style="list-style-type: none"> -More complicated business structure (Haier Electronics) than major Chinese peers -Lower market share in air conditioners
Opportunities	Threats
<ul style="list-style-type: none"> -Rising consumer demand for smart home solutions -China's consumption upgrade -New premium brands (GEA and F&P) to support EU expansions -New premium brands to support kitchen appliances expansions -Better align with Haier Electronics to improve execution 	<ul style="list-style-type: none"> -Trade War -China air conditioner market: decelerating retail sales and excessive channel inventory may cause irrational price competition. -Decelerating Chinese market to trigger more aggressive moves by major Chinese peers -New entrants (e.g. Xiaomi) into smart home -E-commerce disrupting traditional channels

Source: Deutsche Bank estimates [Global presence, especially ; Better alignment with Haier]

Figure 68: Company history



Source: Company data, compiled by Deutsche Bank

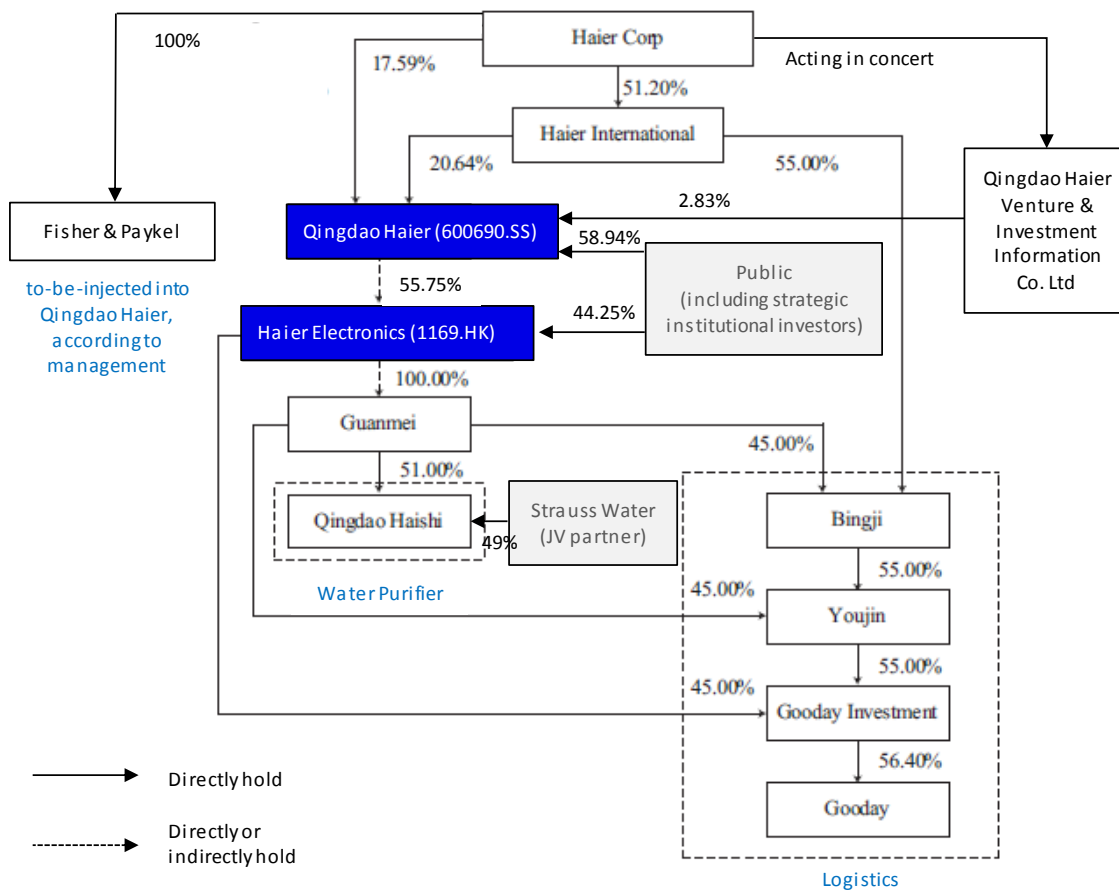
6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Figure 69: Group organization (assumes Haier Electronics' asset swap is complete, rest as of 30 June 2018)



Source: Company data, compiled by Deutsche Bank

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Figure 70: Recent significant announcements

Time	Event	Key summary
31-Aug-18	Asset Swap	Exchanged 49% ownership of water purifier business to listed subsidiary Haier Elec. (1169.HK) for 9.4% of Haier Elec. Logistic business -Water purifier business delivered 11% ROA and 32% ROE -Logistics ROE at c. 6%
31-Aug-18	1H18 earnings call	(1) 2Q18: industry growth under pressure, but Haier sales YoY actually accelerated. (2) Sales growth recorded at all major categories. (3) Market share gain. (4) Casarte: accelerating growth. (5) Overseas: GEA still able to grow, US revenue up 11% (in USD). (6) Smarthome strategy improving.
25-Aug-18	Issued convertible bonds	Proceeds from IPO to be used in (1) WM and AC smart production; (2) kitchen appliances capacity expansion; (3) overseas production base; (4) R&D
13-Jun-18	Dual listing in Frankfurt SE approved by CSRC	CSRC approved QD Haier's dual listing in Frankfurt stock exchange
17-May-18	KKR sold shares	KKR lowering its holding by 4.94% shares through open markets to 4.99% after lockup period. KKR helped with GE acquisition and Casarte strategy
26-Apr-18	New Zealand turned subsidiaries	Full controlled in FPA limited as a 100% subsidiaries
26-Apr-18	FY17 earnings call	(1) Organic growth, especially high end (Casarte 41% yoy growth in FY17, 50% in 1Q18) (2) GEA (consolidated in June 2016) 5.9% yoy growth in USD, better than industry (+2.6-2.9%) (3) GPM decrease due to GEA accounting treatment adjustment and raw material price hike

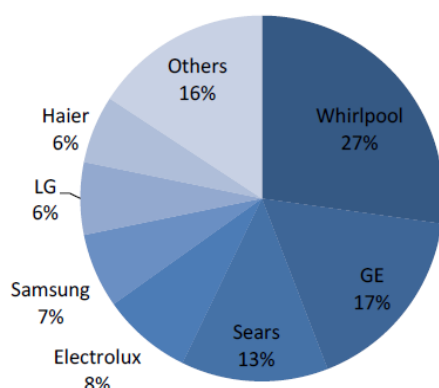
Source: Company data, compiled by Deutsche Bank

GEA acquisition background

Qingdao Haier announced on 15 January 2016 that it had reached an agreement with GE to acquire the entire asset and liability of GE's home appliances business for a cash consideration of USD5.4bn (40%/60% financed by Qingdao Haier's cash in hand/bank borrowing). According to Qingdao Haier, the valuation of the acquisition is 8.2x EV/EBITDA, vs. global home appliances transaction comp of 8-10x.

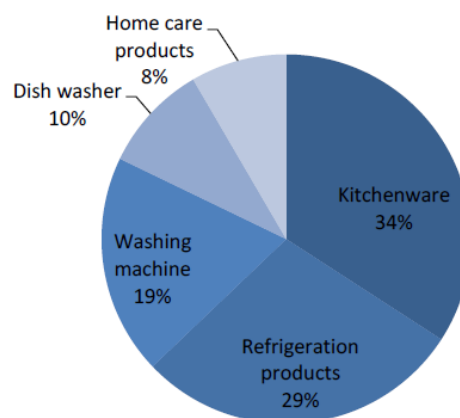
At the time of acquisition, GEA was the second-largest home appliance brand in the US, with a focus on kitchen appliances, refrigerators and washing machines (Figure 71 & Figure 72).

Figure 71: GEA's strong market share in the US (2015)



Source: Deutsche Bank, Euromonitor

Figure 72: GEA's revenue mix ahead of acquisition



Source: Deutsche Bank, company data

GEA has manufacturing bases in five states in the US (laundry, dishwasher and refrigerators in Louisville, Kentucky; refrigeration in Alabama and kitchen appliances in Georgia), with 12,000 employees.

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Figure 73: Management profile

Board of Directors				
Name	Current Position	Stakes	Age	Experience & Qualifications
Mr. Liang Haishan	Chairman and CEO	0.18%	52	Previously served as Supervisor of Enterprise Management Division of Qingdao Haier Refrigerator Factory, Chief of Quality Division of Qingdao Haier Refrigerator Company, General Manager of Qingdao Haier Air Conditioner Company, Senior Vice President of Haier group, Executive Vice President of Haier Group.
Ms. Tan Lixia	Vice chairman	0.08%	48	Previously served as assistant general manager of Haier Air Conditioner Electronics Company, Chief of Overseas Expansion Division of Haier Group, and Chief of Finance Department of Haier Group. Currently serves as Senior Vice President and CFO of Haier Group.
Mr. Peng Jianfeng	Director		57	Serves as Professor and Doctorial Tutor at School of Labor and Human Resources at Renmin University of China and Chairman of China Stone Management Consulting Group.
Mr. Wu Changqi	Director		63	Serves as Professor and Doctorial tutor of Strategic Management Studies at Guanghua Management School of Peking University.
Mr. Zhou Hongbo	Director		56	Serves as Chairman of UbiLink, Board Director of Han Bang Gao Ke. Previously served as General Manager of Foton Vehicles Networking Company, Chief Software Expert of Tsinghua Tongfang, Senior Engineer and R&D manager of IBM/BEA.
Mr. Liu Haifeng	Director		48	Serves as Founder and Managing Director of Dehong Capital. Previously served as the Global Partner of KKR, President of KKR China, and Co-head of KKR Asia Private Equity.
Mr. Wu Cheng	Independent Director		78	Serves as Professor at Automation Department at Tsinghua University and Chief of Research at National CIMS Engineering Research Center
Mr. Dai Deming	Independent Director		56	Serves as a Professor of Accounting at Renmin University of China and Deputy Head of China Accounting Association.
Mr. Shi Tiantao	Independent Director		56	Serves as Professor and Doctorial tutor of Law at Tsinghua University, Vice Chairman of China Securities Law Research Association, and Vice Chairman of China Insurance and Legal Research Institute.
Management Team				
Mr. Liang Haishan	Chairman and CEO	0.18%	52	As stated above
Mr. Gong Wei	CFO, Vice President	0.02%	45	Previously served as finance manager of the company, senior finance manager, and senior finance analyst of Haier Group. Mr. Gong also served as CFO of Haier Washing Machine division and Haier Air Conditioner division.
Ms. Ming Guozhen	Board Secretary, Vice President	0.02%	54	Previously served as Lecturer and Deputy Director of the Investment Department of the China Institute of Finance. Ms. Ming also served as General Manager of operation division, General Manager of Human Resource division, and Assistant General Manager of China Everbright International Trust and Investment Corporation.
Mr. Zhang Ruimin	Chairman of Haier Group		70	Founder of Haier Group, Chief Secretary of Haier Group CPC committee. 2015 Thinkers50 global leader

Source: Company annual report, compiled by Deutsche Bank

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



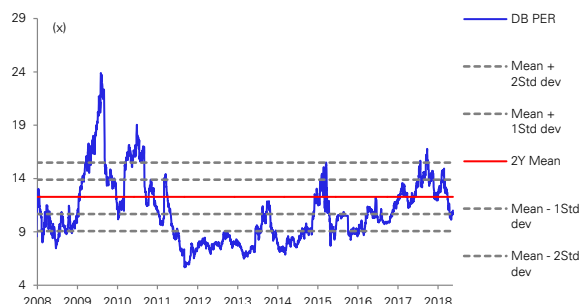
Valuation: trading multiples

Figure 74: Valuation comparison

	Ticker	PX_Last	Market Cap	DB rating	PE		EPS YoY		PB		ROE		Div. Yield	
		(local cur.)	(US\$mn)		FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19
China domestic														
	Qingdao Haier	600690 CH	16.52	14,665	NA	12.0	10.5	23%	14%	2.7	2.3	24.8%	23.6%	2.5%
	Midea	000333 CH	40.3	38,880	Hold	12.7	11.6	27%	9%	3.1	2.7	26.1%	25.1%	3.5%
	Haier Elec.	1169 HK	19.48	6,974	Hold	14.0	11.4	14%	23%	2.0	1.7	16.6%	16.5%	1.6%
	Gree	000651 CH	40.2	35,207	Hold	8.4	10.7	29%	-22%	2.7	2.4	36.7%	23.5%	n.a.
	Robam	002508 CH	23.42	3,236	Hold	13.7	12.4	11%	11%	3.6	3.2	28.4%	27.4%	3.5%
Covered Average					11.1	11.3	26%	-2%	2.8	2.5	29.9%	23.8%	3.3%	4.1%
	Joyoung	002242 CH	16.28	1,819	NR	16.8	14.9	8%	13%	3.4	3.1	19.9%	20.5%	4.0%
	Supor	002032 CH	53.98	6,454	NR	27.2	22.6	24%	20%	7.1	5.9	27.4%	27.7%	1.7%
	Little Swan	000418 CH	46.5	3,871	NR	14.2	11.9	21%	19%	3.5	2.9	22.6%	22.9%	2.6%
	Hisense Kelon	000921 CH	8.88	1,569	NR	8.7	7.4	-31%	18%	1.6	1.3	18.4%	18.3%	4.0%
	TCL	000100 CH	2.81	5,543	NR	8.9	7.5	28%	18%	1.1	1.0	11.7%	12.9%	4.7%
	Hisense	600060 CH	10.15	1,934	NR	9.5	7.8	30%	23%	0.9	0.8	8.8%	10.1%	2.8%
	Skyworth	751 HK	2.13	832	NR	5.5	3.8	118%	45%	0.3	0.3	6.2%	8.1%	7.3%
China Average					12.0	11.7	26%	2%	3.1	2.6	27.6%	22.9%	3.3%	4.0%
International														
	Panasonic	6752 JT	1336.5	28,809	Hold	12.6	11.9	5%	6%	1.7	1.5	13.8%	13.3%	2.6%
	Philips	PHIA NA	37.425	40,920	Buy	26.4	18.2	-27%	45%	2.9	3.0	9.7%	13.9%	2.1%
	Daikin	6367 JT	14835	38,210	Hold	22.3	19.7	3%	14%	3.0	2.7	11.0%	11.6%	1.0%
	Mitsubishi	6503 JT	1534.5	28,953	Buy	12.7	11.2	-5%	13%	1.4	1.3	17.3%	18.1%	2.6%
	United Tech	UTX UN	140.39	112,325	NR	18.9	18.1	29%	4%	3.8	3.1	18.0%	17.3%	2.0%
	Whirlpool	WHR US	114.19	7,372	NR	n.a.	7.6	n.a.	n.a.	3.1	2.7	23.3%	36.7%	4.0%
	LG Corp	003550.KS	72200	10,994	NR	6.7	6.2	-20%	7%	0.7	0.7	11.2%	10.8%	2.0%
International Average					17.8	15.3	3%	14%	2.6	2.3	14.4%	15.1%	2.5%	2.6%

Source: Deutsche Bank estimates, Bloomberg Finance LP consensus. Note 2: for companies under DB coverage, use DBe, else, use Bloomberg Finance LP consensus, to determine if a stock is under DB coverage, and refer to column "DB rating".

Figure 75: Qingdao Haier: consensus PER



Source: Deutsche Bank estimates, Bloomberg Finance LP consensus. Note: we calculate the PER using the Bloomberg Finance LP consensus earnings at each point of time in the history. This tells us what multiples that investors are willing to pay based on the consensus earnings at that particular time.

Figure 76: Haier Electronics: consensus PER



Source: Deutsche Bank estimates, Bloomberg Finance LP consensus. Note: we calculate the PER using the Bloomberg Finance LP consensus earnings at each point of time in the history. This tells us what multiples that investors are willing to pay based on the consensus earnings at that particular time.

Figure 77: Midea: consensus PER



Source: Deutsche Bank estimates, Bloomberg Finance LP consensus. Note: we calculate the PER using the Bloomberg Finance LP consensus earnings at each point of time in the history. This tells us what multiples that investors are willing to pay based on the consensus earnings at that particular time.

Figure 78: Gree: consensus PER



Source: Deutsche Bank estimates, Bloomberg Finance LP consensus. Note: we calculate the PER using the Bloomberg Finance LP consensus earnings at each point of time in the history. This tells us what multiples that investors are willing to pay based on the consensus earnings at that particular time.

6 October 2018

Retail / Wholesale Trade

Qingdao Haier



Appendix 1

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*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
Qingdao Haier	600690.SS	16.52 (CNY) 28 Sep 18	13

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Equity rating key

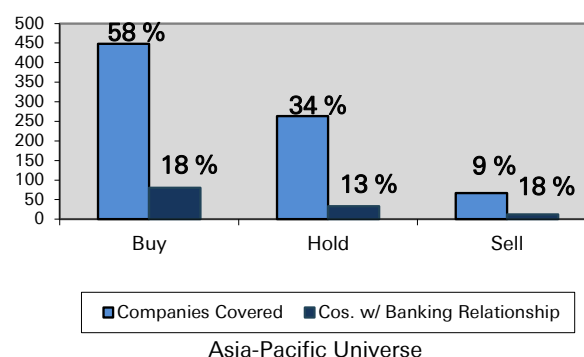
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



6 October 2018

Retail / Wholesale Trade

Qingdao Haier



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6 October 2018

Retail / Wholesale Trade

Qingdao Haier



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6 October 2018

Retail / Wholesale Trade

Qingdao Haier



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6 October 2018

Retail / Wholesale Trade

Qingdao Haier



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6 October 2018

Retail / Wholesale Trade

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