

10 December 2013 | 14 pages

Household/Personal Care Products
Asia | China

Haier Electronics (1169.HK)

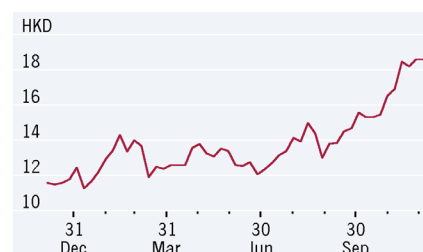
Re-rating on E-commerce Tied to Alibaba

- **Target price raised to HK\$25.6** – We reiterate our positive view on Haier and believe the strategic partnership with Alibaba could give rise to multiple expansions of Haier's logistics market size on e-commerce in rural China. We raise our FY14-15E earnings estimates by 3-9% on the back of the growing logistics business and EBIT margin improvement, as logistics' EBIT margin is 3-4% vs. the 1.6% of the distribution business. We also raise our TP to HK\$25.6 (from HK\$16.7) by employing a higher 25x PE (from 17x) on the ICS segment and 10.5x PE on the mfg unit for 2015E, implying blended 17x PER (or 14.4x ex-cash). The higher PE multiple is warranted due to Alibaba's endorsement of Haier's logistics value with the greatest coverage and capability in rural China and escalating earnings upgrade in the future backed by Alibaba's dominant position in the China B2C market with 56.7% share. Haier is one of our top picks in the China mid-cap space.
- **Details of the strategic partnership with Alibaba** – Total amount of investment by Alibaba SPV (Alibaba Investment Ltd) is HK\$2.8bn via 1) 9.9% interest in Qingdao Haier Logistics with cash contribution of HK\$541mn; 2) 2% stake in Haier Electronics (1169.HK) through issuance of new shares (HK\$961mn); and 3) subscription of Convertible Exchangeable Bonds (CEB), which Alibaba SPV should have 24.1% of Qingdao Haier Logistics upon completion of the capital injection or convertible into ordinary shares of Haier Electronics at the 3-year maturity. Alibaba SPV will appoint a non-executive director to Haier Electronics' board and be part of the strategic committee of the group. (See Fig. 4-6 for the corporate/ shareholding structure upon the completion of strategic investments.)
- **Growth drivers in 2014** – We expect logistics and e-commerce to be the two major growth drivers for Haier's ICS business in 2014. Haier plans to invest Rmb1bn to strengthen its logistics capabilities on 24-hour "delivery + installation," and the group targets to increase its 3rd-party logistics sales to 50% in 2-3 years from the current ~30%. Alibaba's and Haier's co-operation should accelerate the e-commerce penetration in T3 and lower cities in which logistics have been a key bottleneck.

- Estimate Change
- Target Price Change

Buy	1
Price (09 Dec 13)	HK\$21.05
Target price	HK\$25.60
	from HK\$16.70
Expected share price return	21.6%
Expected dividend yield	0.4%
Expected total return	22.0%
Market Cap	HK\$53,983M
	US\$6,962M

Price Performance (RIC: 1169.HK, BB: 1169 HK)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(RmbM)	(Rmb)	(%)	(x)	(x)	(%)	(%)
2011A	1,407	0.547	33.3	30.2	9.6	42.5	0.0
2012A	1,695	0.639	16.7	25.9	7.1	35.4	0.5
2013E	2,038	0.768	20.3	21.5	5.3	31.5	0.5
2014E	2,514	0.948	23.4	17.4	4.0	29.3	0.6
2015E	3,118	1.175	24.0	14.1	3.1	27.9	0.7

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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1169.HK: Fiscal year end 31-Dec						Price: HK\$21.05; TP: HK\$25.60; Market Cap: HK\$53,983m; Recomm: Buy					
Profit & Loss (Rmbm)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	50,090	55,615	64,646	77,076	95,153	PE (x)	30.2	25.9	21.5	17.4	14.1
Cost of sales	-42,583	-46,674	-54,558	-65,106	-80,659	PB (x)	9.6	7.1	5.3	4.0	3.1
Gross profit	7,507	8,941	10,088	11,970	14,494	EV/EBITDA (x)	20.3	16.0	12.9	10.1	7.9
Gross Margin (%)	15.0	16.1	15.6	15.5	15.2	FCF yield (%)	2.6	3.0	3.1	4.2	5.4
EBITDA (Adj)	1,945	2,396	2,869	3,526	4,286	Dividend yield (%)	0	0.5	0.5	0.6	0.7
EBITDA Margin (Adj) (%)	3.9	4.3	4.4	4.6	4.5	Payout ratio (%)	0	13	10	10	10
Depreciation	-85	-99	-145	-180	-212	ROE (%)	42.5	35.4	31.5	29.3	27.9
Amortisation	-5	-7	0	0	0	Cashflow (Rmbm)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	1,855	2,290	2,724	3,346	4,073	EBITDA	1,945	2,396	2,869	3,526	4,286
EBIT Margin (Adj) (%)	3.7	4.1	4.2	4.3	4.3	Working capital	-180	-427	-173	-248	-332
Net interest	-1	-29	-24	-14	57	Other	-456	-228	-607	-749	-931
Associates	0	0	0	0	0	Operating cashflow	1,310	1,740	2,089	2,529	3,023
Non-op/Except	0	-17	0	0	0	Capex	-210	-406	-720	-700	-650
Pre-tax profit	1,854	2,244	2,701	3,331	4,130	Net acq/disposals	0	0	0	0	0
Tax	-387	-537	-648	-800	-991	Other	-41	-243	0	0	0
Extraord./Min.Int./Pref.div.	-59	-12	-14	-17	-22	Investing cashflow	-251	-649	-720	-700	-650
Reported net profit	1,407	1,695	2,038	2,514	3,118	Dividends paid	-22	-40	-157	-204	-251
Net Margin (%)	2.8	3.0	3.2	3.3	3.3	Financing cashflow	356	115	-223	-269	-255
Core NPAT	1,407	1,695	2,038	2,514	3,118	Net change in cash	1,369	1,198	1,146	1,560	2,118
Per share data	2011	2012	2013E	2014E	2015E	Free cashflow to s/holders	1,100	1,334	1,369	1,829	2,373
Reported EPS (Rmb)	0.547	0.639	0.768	0.948	1.175						
Core EPS (Rmb)	0.547	0.639	0.768	0.948	1.175						
DPS (Rmb)	0	0.080	0.077	0.095	0.117						
CFPS (Rmb)	0.509	0.656	0.787	0.953	1.139						
FCFPS (Rmb)	0.428	0.502	0.516	0.689	0.894						
BVPS (Rmb)	1.723	2.337	3.131	4.106	5.315						
Wtd avg ord shares (m)	2,300	2,397	2,397	2,397	2,397						
Wtd avg diluted shares (m)	2,572	2,655	2,653	2,653	2,653						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	36.1	11.0	16.2	19.2	23.5						
EBIT (Adj) (%)	29.3	23.4	19.0	22.8	21.7						
Core NPAT (%)	44.5	20.4	20.2	23.4	24.0						
Core EPS (%)	33.3	16.7	20.3	23.4	24.0						
Balance Sheet (Rmbm)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	3,962	5,368	6,515	8,075	10,192						
Accounts receivables	5,581	6,924	7,262	8,658	10,688						
Inventory	2,115	2,479	2,989	3,567	4,420						
Net fixed & other tangibles	1,632	2,080	2,655	3,175	3,613						
Goodwill & intangibles	80	75	75	75	75						
Financial & other assets	986	1,287	1,287	1,519	1,857						
Total assets	14,356	18,213	20,783	25,069	30,845						
Accounts payable	2,551	2,962	3,222	3,845	4,763						
Short-term debt	25	40	40	40	40						
Long-term debt	0	0	0	0	0						
Provisions & other liab	7,474	9,372	9,786	11,122	13,091						
Total liabilities	10,050	12,373	13,048	15,006	17,894						
Shareholders' equity	4,025	5,540	7,421	9,731	12,597						
Minority interests	280	301	315	332	354						
Total equity	4,306	5,840	7,735	10,063	12,951						
Net debt	-3,937	-5,329	-6,475	-8,035	-10,153						
Net debt to equity (%)	-91.4	-91.2	-83.7	-79.8	-78.4						

For definitions of the items in this table, please click [here](#).

Re-rating on E-commerce Tied to Alibaba

We believe the re-rating of Haier Electronics is underpinned by the accelerated expansion in Haier's logistics/ e-commerce business on the back of its strategic partnership with Alibaba. While the logistics business only accounts for ~6% of the group's revenue, we believe this cooperation could further enhance Haier's ICS business by 1) increasing 3rd-party brand sales by providing more value-added services; 2) strengthening bulk goods logistics compatibilities (i.e., home appliance, furniture and sanitary ware) in T3 and lower cities with 24-hour "last-mile" delivery; 3) expanding Haier's 3rd-party logistics business to >50% from the current 30% with more sales coming from Alibaba's e-commerce platform Tmall.com. We raise our FY14-15E earnings estimates by 3-9% on the back of the growing logistics business and EBIT margin improvement, as logistics' EBIT margin is 3-4% vs. the 1.6% of the distribution business. We also raise our TP to HK\$25.6 (from HK\$16.7) based on 17x FY15E PER (14.4x ex-cash), as we think both parties would need time to ramp up the partnership and there will be better visibility in FY15.

Figure 1. Haier Electronics – Earnings revisions

YE Dec (Rmbmn)	Revenue		Net Income		Citi vs. Consensus	FD EPS (Rmb)		
	New	Old	New	Old		New	Old	Chg
FY13E	64,646	64,646	2,038	2,038	0.7%	0.77	0.77	0.0%
FY14E	77,076	74,366	2,514	2,443	3.1%	0.95	0.92	2.9%
FY15E	95,153	86,282	3,118	2,856	6.7%	1.175	1.076	9.2%

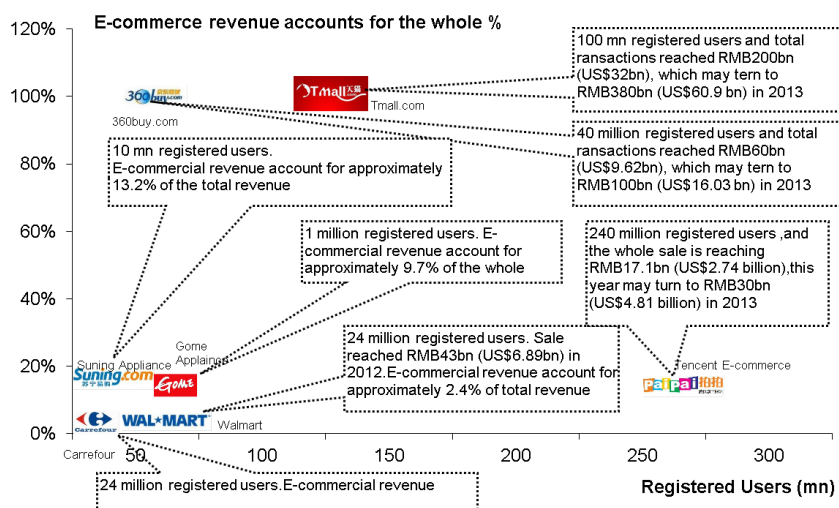
Source: Citi Research estimates

Rationale of this strategic partnership – The strategic alliance could strengthen the cooperation with Haier's logistics unit together with Alibaba's e-commerce platform, as Haier currently operates its online business under its own platforms (e-haier.com/ rrs.com) and Tmall.com. Consumers on Tmall can select "Goodaymart" as their delivery service provider, and Haier is able to leverage on Alibaba's consumer data analysis to further enhance its efficiency in the logistics services and distribution business in T3 and lower cities. Logistics orders from Tmall currently account for ~25% of Haier's e-commerce customers (other customers include: e-Haier.com, Amazon and Dang Dang), and we believe the expansion of Haier's logistics business will be supported by the increasing sales coming from Tmall in the long term. Tmall has the largest sales transactions with more than 100mn registered users among the leading e-commerce providers in China (see Fig. 2). According to iResearch, Alibaba (Tmall) accounts for 56.7% of market share in terms of transaction value of B2C e-commerce business (see Fig. 3).

More logistics business from e-commerce players – The net proceeds of HK\$960mn from the subscriptions of new shares by Alibaba SPV will be used in: 1) expanding and upgrading its warehousing capacity; 2) "last-mile" network development; 3) other online-to-offline integration business development; and 4) potential acquisitions in the logistics area. Besides, Haier plans a total capex of HK\$1bn on developing more automated systems in the logistics process. Logistics business to e-commerce customers (i.e., Tmall, Amazon China, Dang Dang) remains low at <10% currently; Haier's management targets e-commerce customers to account for 30-40% of its total logistics business in 3-5 years.

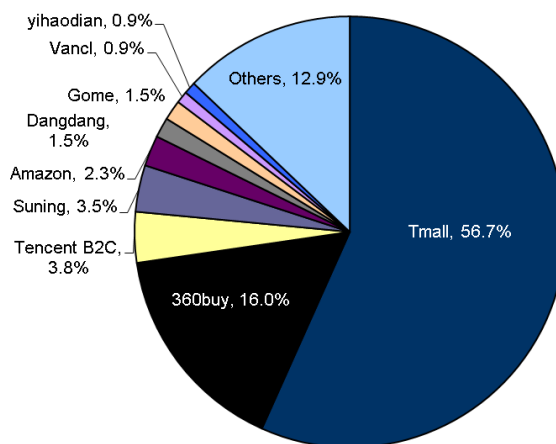
Haier's logistics business – Logistics accounts for ~6% of overall revenue and 10% of earnings in FY13. We expect the expansion of Haier's logistics business to accelerate to account for 8% and 11% of overall sales in FY14 and FY15, respectively. Haier targets to increase the profitability of its logistics business by focusing on the three main areas: 1) scale upgrade; 2) value-added services (i.e., installation service); and 3) on-line and off-line integration. Management targets its logistics GM to reach 13-14% with 5% net profit margin in the longer term (currently: 7.8% GM and 3-4% EBIT margin). Haier provides 24-hour "last-mile" services to over 1,500 regions in China, and the group targets to increase this coverage going forward. While the ~90% of its ICS's revenue is still coming from distribution business (Haier and Goodaymart), the management targets to focus on providing more value-added services to 3rd-party brands (e.g., brand building, marketing and logistics) rather than pure distribution in order to enhance its EBIT margin for the distribution business.

Figure 2. Scale matrix of leading e-commerce providers in China



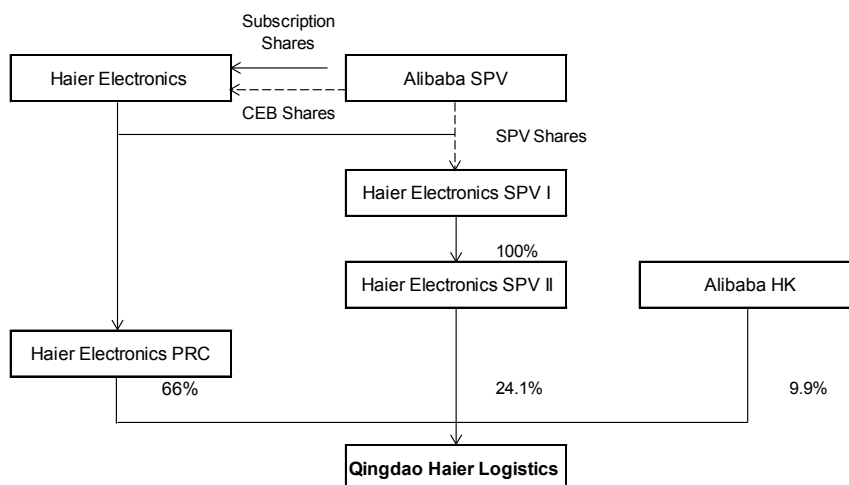
Source: Company data and Citi Research

Figure 3. China B2C market share breakdown in 2012



Source: iResearch, Enfodesk, and Citi Research. Another popular one Taobao.com (owned by Alibaba) is defined as C2C online market place in China. So this name is not shown in the chart.

Figure 4. Corporate structure of Qingdao Haier Logistics upon the completion of the strategic investments



Source: Company

Figure 5. HE – Shareholding structure upon completion of share subscription

			Upon the completion of the share subscription	
	No. of shares	%	No. of shares	%
Qingdao Haier Investment Development	346,364,000	13%	346,364,000	13%
Qingdao Haier Co., Ltd	392,677,482	15%	392,677,482	15%
Haier shareholding (HK)	831,762,110	32%	831,762,110	32%
Alibaba SPV		0%	52,389,996	2%
Other public shareholders	996,306,223	39%	996,306,223	38%
	2,567,109,815	100%	2,619,499,811	100%

Source: Company

Figure 6. HE – Shareholding structure upon completion of the share subscription and upon full exercise of the conversion rights of CEB

	Upon the completion of the share subscription		Upon full exercise of Conversion Rights on maturity	
	No. of shares	%	No. of shares	%
Qingdao Haier Investment Development	346,364,000	13%	346,364,000	13%
Qingdao Haier Co., Ltd	392,677,482	15%	392,677,482	15%
Haier shareholding (HK)	831,762,110	32%	831,762,110	31%
Alibaba SPV	52,389,996	2%	123,521,560	5%
Other public shareholders	996,306,223	38%	996,306,223	37%
	2,619,499,811	100%	2,690,631,375	100%

Note: Maturity of CEB is 3-years

Source: Company

Figure 7. Haier – Valuation Comparison (HK/ China)

Company	RIC	FY			Price	Mkt-Cap	P/E (x)			P/B (x)			Dividend yield (%)		13- 15E 2yr EPS CAGR (%)	ROE		Share Price Mvmt (%)			
		End	Rating	Ccy			FY13E	FY14E	FY15E	FY13E	FY14E	FY15	FY13E	FY14E		FY13E	FY14E	1-week	1-mth	3-mth	YTD
Haier Elec Grp	1169.HK	Dec	1	HKD	21.0	6,945	21.4	17.9	17.5	5.3	4.0	3.1	0.5	0.6	23.7	31%	29%	11.8	25.6	52.0	85.2
Manufacturing																					
Changhong	600839.SS	Nov	NR	CNY	3.3	2,535	27.8	23.9	na	na	na	na	na	na	na	na	na	5.4	25.6	54.6	62.1
Chigo Holding	0449.HK	Dec	NR	HKD	0.2	225	10.4	5.8	5.6	0.5	0.5	0.5	0.5	3.9	36.0	4%	8%	3.0	16.3	15.0	6.2
GREE	000651.SZ	Dec	NR	CNY	33.1	16,346	9.8	8.4	7.3	2.9	2.3	1.9	2.8	3.2	16.5	30%	28%	9.2	14.4	28.1	29.6
Hefei Sanyo	600983.SS	Dec	NR	CNY	16.2	1,416	21.5	17.2	14.6	4.5	3.2	3.1	0.8	1.1	21.4	21%	20%	19.5	42.9	68.0	112.4
HXDQ	600060.SS	Nov	NR	CNY	12.5	2,681	8.8	7.8	7.0	1.6	1.5	1.3	2.8	3.2	12.2	19%	18%	10.4	11.4	10.5	23.2
Joyoung	002242.SZ	Dec	NR	CNY	7.7	958	12.2	10.9	9.5	2.0	1.8	1.7	na	na	13.4	16%	17%	7.7	4.6	7.3	9.7
Little Swan	000418.SZ	Dec	NR	CNY	9.3	898	13.3	11.0	9.6	1.5	1.3	1.2	1.7	na	17.7	11%	12%	12.7	12.6	15.0	(1.3)
Macro	000533.SZ	Dec	NR	CNY	4.1	468	na	na	na	na	na	na	na	na	na	na	na	4.0	0.5	3.3	1.7
Meiling	000521.SZ	Dec	NR	CNY	5.1	599	14.4	12.1	10.2	1.2	1.1	1.0	2.6	2.6	19.1	8%	9%	26.1	34.1	35.6	33.8
Midea	000333.SZ	Dec	NR	CNY	48.7	13,467	11.1	9.3	8.0	3.2	2.6	2.3	2.9	3.4	11.6	32%	29%	5.6	6.7	na	na
Haier	600690.SS	Dec	NR	CNY	18.1	8,023	12.1	10.5	8.9	3.5	2.8	2.3	2.2	2.7	16.8	30%	28%	8.9	22.2	44.0	35.1
Hisense Kelon	0921.HK	Dec	NR	HKD	11.2	1,952	na	na	na	na	na	na	na	na	na	na	na	8.1	51.9	105.5	235.7
Skyworth	0751.HK	Mar	3	HKD	4.4	1,599	8.1	7.7	7.2	1.2	1.1	1.0	3.7	3.9	6.1	16%	15%	(4.9)	19.1	5.0	11.3
TCL Multimedia	1070.HK	Dec	NR	HKD	3.9	674	13.6	8.2	6.4	1.0	0.9	0.9	2.5	3.9	45.5	7%	12%	4.8	16.7	(2.5)	(9.3)
Vatti	002035.SZ	Dec	NR	CNY	13.3	655	16.2	12.8	11.1	3.2	2.7	2.2	1.8	2.2	20.9	21%	21%	13.3	11.9	17.0	68.0
Supor	002032.SZ	Dec	NR	CNY	16.1	1,681	17.8	15.1	12.1	3.0	2.6	2.2	1.9	2.2	20.9	17%	18%	1.6	16.8	28.5	30.1
Weighted Avg (By Mkt-Cap)							12.5	10.6	8.3	2.8	2.3	1.9	2.5	2.9	16.9	26%	24%				
Distribution																					
Digital China	0861.HK	Mar	NR	HKD	9.3	1,317	7.4	8.7	8.1	1.3	1.2	1.0	4.2	3.7	(4.1)	19%	13%	3.4	(7.5)	0.8	(29.3)
GOME	0493.HK	Dec	1H	HKD	1.3	2,720	22.3	11.8	9.4	1.1	1.0	0.9	1.3	2.5	54.0	5%	9%	(3.1)	(4.6)	35.9	35.9
Huiyin Household	1280.HK	Dec	NR	HKD	0.3	39	na	na	na	na	na	na	na	na	na	na	na	1.8	3.6	14.5	(9.5)
Suning Appliance	002024.SZ	Dec	NR	CNY	9.7	11,715	93.7	81.1	44.1	2.4	2.4	2.3	0.2	0.2	45.8	2%	2%	(2.1)	(9.9)	19.3	45.1
Synnex	2347.TW	Dec	NR	TWD	44.0	2,357	12.5	11.0	10.1	1.6	1.6	1.5	5.6	6.9	11.3	13%	15%	(0.5)	(1.3)	(8.3)	(17.8)
Weighted Avg (By Mkt-Cap)							66.1	56.3	31.8	2.0	2.0	1.9	1.4	1.7	38.9	5%	6%				
Asian CE Distribution																					
K'S Holdings	8282.T	Mar	NR	JPY	3,240.0	1,653	13.0	12.0	11.0	1.1	1.0	1.0	1.9	1.9	8.5	9%	9%	(3.7)	4.2	7.1	47.4
Yamada Denki	9831.T	Mar	NR	JPY	343.0	3,084	14.6	33.6	14.8	0.6	0.6	0.6	1.7	1.8	(0.9)	4%	2%	(4.2)	11.4	13.6	3.2
LOTTE Himart	071840.KS	Dec	NR	KRW	88200.0	1,970	14.6	12.1	10.4	1.3	1.2	1.1	0.3	0.3	18.6	9%	10%	4.4	3.9	17.4	28.2
Weighted Avg (By Mkt-Cap)							14.2	22.1	12.6	0.9	0.9	0.8	1.4	1.4	7.2	7%	6%				
Global CE distributions																					
Best Buy Co Inc	BBY.N	Feb	1	USD	41.1	14,019	16.1	17.5	14.4	3.7	3.1	2.6	0.0	0.0	5.9	22%	20%	(0.1)	(3.2)	10.5	246.4
Yamada Denki	9831.T	Mar	NR	JPY	343.0	3,084	14.6	33.6	14.8	0.6	0.6	0.6	1.7	1.8	(0.9)	4%	2%	(4.2)	11.4	13.6	3.2
Harvey Norman	HVN.AX	Jun	3	AUD	3.0	2,940	19.8	16.8	13.9	1.4	1.3	1.1	3.0	3.3	19.4	6%	8%	(3.8)	(7.3)	(1.3)	60.0
K'S Holdings	8282.T	Mar	NR	JPY	3,240.0	1,653	13.0	12.0	11.0	1.1	1.0	1.0	1.9	1.9	8.5	9%	9%	(3.7)	4.2	7.1	47.4
LOTTE Himart	071840.KS	Dec	NR	KRW	88,200	1,970	14.6	12.1	10.4	1.3	1.2	1.1	0.3	0.3	18.6	9%	10%	4.4	3.9	17.4	28.2
JB Hi-Fi Ltd	JBH.AX	Jun	3	AUD	19.2	1,748	16.3	15.8	17.7	7.8	6.5	5.8	3.8	3.8	(4.0)	54%	45%	(2.7)	(12.5)	(1.5)	85.0
Dixons Retail	DXNS.L	Apr	1	GBP	0.5	3,048	41.8	19.1	16.2	12.5	6.8	4.5	0.0	0.0	60.8	17%	47%	(0.9)	8.6	9.0	79.6
RadioShack	RSH.N	Dec	NR	USD	2.9	291	na	na	na	0.6	0.6	0.6	5.2	6.5	na	-37%	-30%	2.5	7.0	(22.2)	37.3
hhgregg	HGG.N	Dec	NR	USD	14.4	438	19.5	16.6	15.3	1.3	1.2	1.2	0.0	0.0	12.6	7%	7%	2.8	(11.3)	(18.9)	105.1
Weighted Avg (By Mkt-Cap)							18.8	18.5	14.3	3.9	2.9	2.4	0.9	0.9	12.8	17%	19%				

Source: IBES estimates for non-rated (NR) companies and Citi Research estimates

Figure 8. Haier – Valuation Comparison (HK/ China)

		FY			Price	Mkt-Cap	P/E (x)			P/B (x)			Dividend yield (%)		13- 15E 2yr EPS	ROE		Share Price Mvmt (%)			
Company	RIC	End	Rating	Ccy	9-Dec	US\$M	FY13E	FY14E	FY15E	FY13E	FY14E	FY15	FY13E	FY14E	CAGR (%)	FY13E	FY14E	1-week	1-mth	3-mth	YTD
Asian Appliance Manufacturing																					
Daikin Inds	6367.T	Mar	2	JPY	6,500.0	18,415	43.5	22.3	19.1	3.1	2.7	2.4	0.6	0.7	51.0	8%	13%	1.1	12.1	32.5	120.9
LG Elec	066570.KS	Dec	2	KRW	66,100.0	10,234	26.2	11.6	10.8	0.9	0.8	0.8	0.3	0.3	55.6	3%	7%	(2.8)	-	(12.0)	(10.2)
Panasonic	6752.T	Mar	1	JPY	1,185.0	26,618	na	41.2	22.7	2.2	2.0	1.9	0.0	0.8	na	-47%	5%	1.6	19.2	29.5	127.0
Samsung Elec.	005930.KS	Dec	1	KRW	1,454,000	202,624	6.9	6.2	5.8	1.5	1.2	1.0	0.7	0.7	8.8	23%	21%	(0.9)	3.1	5.9	(4.5)
Sharp	6753.T	Mar	3	JPY	337.0	5,537	na	na	25.8	3.0	3.1	3.2	0.0	0.0	na	-145%	-3%	(3.4)	20.4	(15.1)	11.2
Sony	6758.T	Mar	2	JPY	1,857.0	18,724	44.8	46.8	18.1	0.8	0.8	0.8	1.3	1.3	57.2	2%	2%	(2.2)	12.6	(11.2)	93.8
Toshiba	6502.T	Mar	1	JPY	438.0	18,023	23.9	13.5	10.7	1.8	1.6	1.4	1.8	1.8	49.8	8%	12%	(0.9)	8.4	4.5	30.0
Weighted Avg (By Mkt-Cap)							13.9	13.6	9.7	1.6	1.4	1.2	0.7	0.8	19.6	10%	17%				
Global Appliance Manufacturing																					
Arcelik	ARCLK.IS	Dec	1	TRY	12.7	4,221	13.8	11.4	10.2	2.1	1.9	1.7	4.1	3.6	16.0	16%	17%	(7.7)	5.0	19.3	8.1
Electrolux	ELUXb.ST	Dec	1	SEK	156.6	7,444	18.4	11.2	8.2	3.0	2.9	2.5	4.5	4.6	49.6	14%	26%	(1.7)	(3.7)	(12.5)	(8.2)
General Electric	GE.N	Dec	1	USD	26.9	272,562	16.3	15.8	13.5	2.2	2.0	1.8	2.9	3.1	10.1	13%	13%	1.1	(0.4)	15.2	28.3
Philips	PHG.AS	Dec	1	EUR	25.7	32,995	16.9	14.6	13.2	2.2	2.1	1.9	2.9	2.9	13.3	11%	12%	(2.4)	(2.0)	2.4	29.0
SEB	SEBF.PA	Dec	NR	EUR	67.3	4,625	15.5	14.2	12.4	2.3	2.0	1.8	2.1	2.3	11.6	15%	15%	(1.1)	0.7	10.3	20.8
United Tech	UTX.N	Dec	1	USD	111.1	101,962	18.1	16.0	14.3	3.9	3.8	3.8	2.0	2.1	12.6	22%	25%	0.7	2.4	6.4	35.5
Whirlpool Corp	WHR.N	Dec	NR	USD	149.6	11,739	14.8	12.2	10.5	2.4	2.1	1.7	1.6	1.8	18.7	18%	18%	0.2	3.0	10.3	47.0
Weighted Avg (By Mkt-Cap)							16.7	15.5	13.4	2.6	2.4	2.3	2.7	2.8	11.9	15%	16%				
Logistics & Supply Chain - Asia																					
Ascendas REIT	AEMN.SI	Mar	1	SGD	2.2	4,150	15.7	16.0	15.6	1.1	1.1	1.1	6.4	6.4	0.1	8%	7%	(4.0)	(7.7)	(1.4)	(8.8)
CRT	600125.SS	Dec	NR	CNY	5.9	1,275	15.7	13.6	11.3	1.7	1.6	1.4	2.1	2.4	18.2	11%	12%	5.1	4.0	(6.9)	(17.4)
GLP	GLPL.SI	Mar	1	SGD	2.9	11,085	31.0	35.0	30.3	1.3	1.3	1.3	1.4	1.0	1.2	8%	4%	(2.0)	(3.0)	4.3	4.7
Mapletree Logistics	MAPL.SI	Mar	2	SGD	1.0	2,025	15.7	14.8	14.7	1.1	1.1	1.1	6.6	6.9	3.3	7%	8%	(2.8)	(4.2)	(3.7)	(9.1)
Weighted Avg (By Mkt-Cap)							25.1	27.4	24.2	1.3	1.3	1.2	3.1	2.9	2.4	8%	5%				
Logistics & Supply Chain - N. America																					
CH Robinson WW	CHRW.O	Dec	2	USD	57.9	8,778	21.5	19.3	17.6	9.4	8.8	8.5	2.4	2.6	10.5	35%	47%	(1.0)	(3.0)	(0.9)	(8.4)
Expeditors Intl	EXPD.O	Dec	NR	USD	43.4	8,930	24.9	22.0	20.1	4.2	4.0	3.5	1.3	1.7	11.3	17%	19%	0.0	2.4	(0.4)	9.8
Fedex Corp	FDX.N	May	1	USD	139.4	44,137	22.5	19.4	14.8	2.5	2.0	1.7	0.4	0.4	23.0	10%	11%	(0.6)	5.1	27.8	52.0
JB Hunt Trans	JBHT.O	Dec	2	USD	76.7	9,043	26.4	22.5	19.7	9.5	7.7	6.1	0.8	0.8	15.7	40%	37%	0.9	4.8	4.2	28.5
Landstar Sys	LSTR.OQ	Nov	NR	USD	56.4	2,576	22.3	19.5	18.0	6.0	5.5	4.5	0.1	0.2	11.2	29%	28%	(1.6)	1.6	0.6	7.4
Ryder System Inc	R	Nov	NR	USD	68.8	3,616	14.3	12.6	11.0	2.1	1.8	1.6	1.6	1.7	14.0	14%	15%	(1.2)	6.5	19.1	37.7
UTi Worldwide	UTIW.O	Nov	NR	USD	16.9	1,769	43.3	101.1	27.2	2.2	2.2	2.0	0.4	0.4	26.1	5%	2%	8.1	10.2	10.6	26.0
Hub Group	HUBG.OQ	Nov	NR	USD	38.2	1,438	20.0	18.2	16.1	2.5	2.3	2.0	0.0	0.0	11.3	13%	13%	1.7	5.2	1.4	13.7
Forward Air	FWRD.O	Dec	NR	USD	42.6	1,303	23.3	20.2	17.9	3.0	2.8	2.5	0.9	1.0	14.2	14%	14%	0.5	3.8	11.8	21.6
Horizon North	HNL.TO	Nov	NR	CAD	9.1	943	16.1	12.9	10.3	3.2	2.9	2.3	2.7	2.8	25.4	21%	23%	0.3	10.0	28.4	33.0
Pacer Intl	PACR.OQ	Nov	NR	USD	8.5	299	29.2	21.1	18.0	2.3	2.2	1.8	0.0	0.0	27.5	9%	11%	(2.8)	6.0	35.4	116.7
United Parcel	UPS.N	Dec	2	USD	102.4	95,091	21.6	18.4	16.4	8.9	8.3	6.6	2.4	2.7	14.9	58%	47%	0.1	2.8	17.6	38.9
Weighted Avg (By Mkt-Cap)							22.3	19.8	16.4	6.8	6.2	5.0	1.7	1.9	16.6	39%	34%				
Logistics & Supply Chain - Europe																					
Deutsche Post	DPWGn.DE	Dec	1	EUR	25.4	42,121	16.0	16.1	14.6	3.2	2.9	2.6	3.0	3.1	4.7	18%	19%	(3.4)	4.5	11.2	53.1
FESCO	FESH.RTS	Dec	NR	USD	0.2	537	6.3	5.4	3.6	na	na	na	na	na	32.6	7%	7%	-	-	-	(41.3)
VTG	VT9G.DE	Dec	NR	EUR	14.9	437	19.8	15.5	12.9	1.0	1.0	0.9	2.8	3.3	24.1	5%	6%	(3.0)	(2.0)	8.8	22.9
Logwin	TGHG.DE	Dec	NR	EUR	1.0	322	15.8	10.8	9.0	1.5	1.3	1.1	0.0	0.0	33.0	8%	14%	(2.0)	(12.2)	(4.4)	8.4
TNT Express	TNTE.AS	Dec	2	EUR	6.3	4,741	49.1	16.5	13.6	1.2	1.2	1.1	0.8	2.4	89.8	3%	7%	(7.1)	(3.4)	(8.4)	(24.7)
Weighted Avg (By Mkt-Cap)							19.2	16.0	14.3	3.0	2.7	2.4	2.7	3.0	13.8	16%	17%				

Source: IBES estimates for non-rated (NR) companies and Citi Research estimates

Haier Electronics

Company description

Haier Electronics is the leading integrated channel service provider of home appliances to rural areas in China. Through its distribution arm Goodaymart, it offers comprehensive services, including Haier and non-Haier brand home appliance distribution through a network that covers 94% of the counties in China, as well as efficient logistics and prompt after-sales services. The company is also the No. 1 manufacturer of washing machines and water heaters in China with respective nationwide market shares of 26% and 27% in 1H11.

Investment strategy

We have a Buy on HE, which we expect to deliver a 23% earnings CAGR in 12-15E. Rural income growth (21%) is growing faster than urban (15%). White goods penetration rates (16-57%) are generally lower than TV (over 100%) in rural areas. Distribution is more leveraged to rural consumer demand than manufacturing given sales of multi-brands and a wider product range. We like Haier for the following reasons: 1) largest white-goods manufacturer for washing machines and water heaters; 2) transformation into distribution from manufacturing and its potential to evolve into the largest rural home appliance distributor; and 3) a rising proportion of non-Haier products in the sales mix.

Valuation

Our target price of HK\$25.6 for HE is based on a sum-of-the-parts (SOTP) valuation, in which we value the white goods manufacturing operation at 10.5x 2015E P/E (previously 12x) on conservative outlook in the white goods industry in China and low-end of the FY15E PE multiple for Asian home appliance manufacturers. We value the downstream channel division at 25x 2015E PE (previously 17x) as we believe the expansion in logistics/ e-commerce business under the strategic alliance with Alibaba supports further re-rating of this segment. Our target price implies a 2015E P/E of 17x and ex-cash 2015E P/E of 14.4x. We think the premium to the peer group is justified for 1) its leading market position with No.1 market shares in washing machine, refrigerators and water heater businesses; 2) HE has a 12-15E earnings CAGR of 23%, higher than 14% and 8% for the home appliance manufacturers and distribution sector, respectively; 3) HE has a top-of-the class 2014E ROE of 29%, compared to 23% and 12% for home-appliance manufacturers and the distribution sector, respectively.

Risks

Key downside risks that could impede the shares from reaching our target price include: 1) Slow expansion in non-Haier mandates; 2) Negative impact from subsidy expiration; 3) Weakening consumer confidence amid economic slowdown; 4) Fierce competition; 5) Surging material and labor costs; 6) Challenge from online shopping channel; and 7) Cannibalization from non-Haier product sales.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Haier Electronics (1169.HK)

Ratings and Target Price History Fundamental Research

Analyst: Catherine Chan

Covered since February 6 2013



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	11-Nov-11	*1	*11.00	7.25

* Indicates change

	Date	Rating	Target Price	Closing Price
3	1-Apr-12	1	*10.60	8.80
4	6-Feb-13	1	*15.90	13.42

	Date	Rating	Target Price	Closing Price
5	20-Mar-13	1	*15.70	12.56
6	28-Aug-13	1	*16.70	14.02

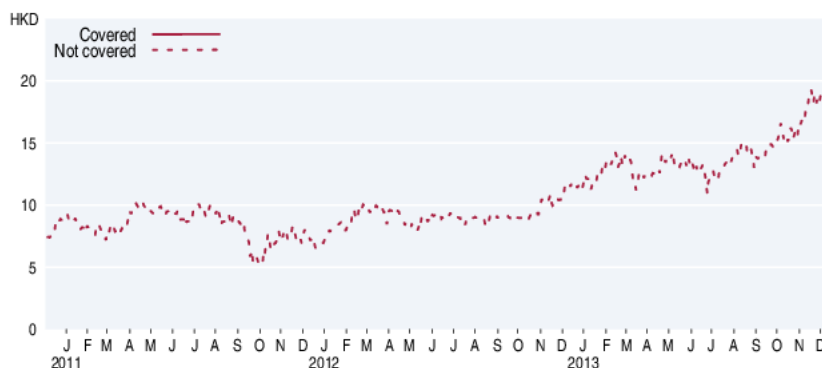
Rating/target price changes above reflect Eastern Standard Time

Haier Electronics (1169.HK)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Catherine Chan

Covered since February 6 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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