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S&P Global
China Ratings

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Credit Rating Report:

Midea Group Co. Ltd.

Issuer Credit Rating*: AAA_{spc}; Outlook: Stable

Rating Date: July 28, 2023

Date of Expiry: July 27, 2024

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Contents

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Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Date of Expiry	Outlook/CreditWatch
Midea Group Co. Ltd.	Issuer Credit Rating	AAA$_{spc}$	July 28, 2023	July 27, 2024	Stable

Industry Classification: Consumer durables.

Company Profile: Midea Group Co., Ltd. ("Midea Group" or "company") is the largest home appliance manufacturer in China. It has a leading share in the markets for residential air conditioning units, washing machines, refrigerators and small home appliances. Main business lines are smart home, industrial technologies, building technologies, robotics, automation systems and other innovative businesses. With particular strengths in air conditioning, its HVAC and consumer appliances businesses are the main sources of revenue and profit, accounting for more than 90% of total gross profit. Robotics, automation systems and other manufactured products contribute less than 10% of gross profit. Its products are sold to major global markets, with a balanced domestic-overseas income structure. In 2022, overseas revenue accounted for about 41%.

Economy and Industry Trends: We expect China's overall consumer sector to see demand recovery in 2023, with diverging momentum across sub-sectors. Specifically, sub-sectors relating to offline consumption scenes will enjoy stronger drivers for short-term recovery, whereas consumer durables may come under some pressure amid the real estate down cycle. In the long term, the growth of consumption demand will still be constrained due to insufficient consumer confidence. In 2023, home appliance companies may record mild single-digit growth in revenue. The weak recovery of real estate sector and inadequate domestic demand are expected to restrain the extent of rebound in domestic home appliances sector, and high inflation coupled with rate hike cycle will also weigh on overseas consumer demand. Despite that prices of raw materials such as copper and aluminum remain high amid volatility, elevated product prices seen across the sector over the last year should help mitigating profitability pressure for home appliance companies. We anticipate industrial profit margins will remain stable compared to 2022. As growth space for home appliance consumption continues to shrink in the future, we estimate that the domestic market will enter a stage where companies compete against each other for the existing market share. Comparatively, overseas home appliances market is broader, offering more potential for Chinese companies in terms of market share expansion. We expect the competition landscape of China's home appliances sector to maintain stable, given that top players have built competitive barriers through years of development in their specialized areas, shown by their strong scale advantages and mature distribution networks. Furthermore, they have good operating efficiency and cost control ability, giving them more resilience through the cycle.

Credit Highlights

Business Risk Profile: The company's "excellent" business risk profile reflects its excellent brand awareness, outstanding supply-chain integration and strong domestic distribution channels. It has a diverse product mix and brand layout, strong operating efficiency and cost control ability, elevating its competitive strengths above most of its peers. These strengths have seen Midea Group long maintain a leading market share in the domestic home appliances market. Its global operations also allow it to mitigate against fluctuating domestic demand. However, its overseas business is still predominantly original equipment manufacturing (OEM) and it has room for improvement in terms of pushing its brand retail. Considering high and volatile prices for upstream raw materials, the company manages to keep profit margins stable through improving product mix, enhancing production and distribution efficiency, and strengthening cost control. The impact of the ToB industrial segment on the company's credit profile is under control at present. We need to wait longer to see the operational and consolidation results and diversification of the ToB segment.

Financial Risk Profile: The company's "minimal" financial risk profile reflects its prudent financial policy, strong operating cash flow, abundant cash and low leverage level. We expect the company to see faster revenue growth and steady profit margin in 2023. Operating cash flow and cash reserves are estimated to fully meet capital expenditure and M&A demands over the next 1-2 years. Leverage (measured by debt/EBITDA) should remain very low.

Key Metrics:

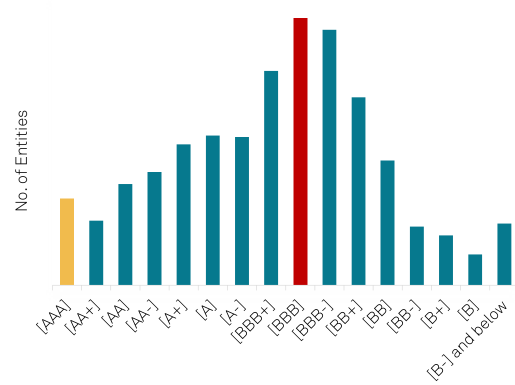
	2021A	2022A	2023E	2024F
EBITDA margin (%)	9.6	11.1	11.0-12.0	11.0-12.0
Debt/EBITDA (x)	0.8	0.8	0.5-1.5	0.5-1.5
EBITDA interest coverage (x)	24.2	20.8	20.0-26.0	20.0-26.0

Note: Above data adjusted by S&P Global (China) Ratings. A--Actual. E--Estimate. F--Forecast.

Rating Snapshot:

Issuer Credit Rating:	AAA$_{spc}$/Stable
Business Risk Profile:	1/Excellent
Industry Risk:	3/Intermediate
Competitive Position:	1/Excellent
Financial Risk Profile:	1/Minimal
Anchor:	aaa
Adjustments	
Diversification:	Neutral (no impact)
Capital Structure:	Neutral (no impact)
Financial Policy:	Neutral (no impact)
Liquidity:	Exceptional (no impact)
Management & Governance:	Neutral (no impact)
Comparable Ratings Analysis:	Neutral (no impact)
Stand-alone Credit Profile:	aaa$_{spc}$
External Influence:	0

Position of Midea Group's Credit Quality Among Indicative Credit Quality of 1,400 Chinese Companies



Note: The red bar represents the median indicative credit quality of top 1,400 entities, and the yellow bar represents the position of Midea Group.

Peer Comparison

(2021-2022 two-year average, RMB, millions)	Midea Group	Haier	Gree Electric	Hisense Home Appliances
Revenue	342,575	235,310	188,429	70,839
EBITDA	35,451	20,550	28,967	4,009
EBITDA margin (%)	10.3	8.7	15.4	5.7
Debt/EBITDA (x)	0.8	1.6	1.8	1.1
EBITDA interest coverage (x)	22.5	24.6	12.9	15.2

Note: Above data adjusted by S&P Global (China) Ratings. Haier -- Haier Smart Home Co., Ltd., Gree Electric -- Gree Electric Appliances, Inc. of Zhuhai, Hisense Home Appliances -- Hisense Home Appliances Group Co., Ltd. Source: Wind, S&P Global (China) Ratings.

Assumptions and Forecasts

Assumptions

— We expect revenue growth of 4-7% in 2023, based on factors including the economic recovery and bottoming out of China's real estate sector. 2024 revenue growth is expected to maintain stable.

— 2023-2024 EBITDA margin should stay at 11.0-12.0% thanks to improved product structures, enhanced operating efficiency and tighter cost controls.

— R&D expenditure as a proportion of revenue is expected to remain between 3.5-3.8% over 2023 and 2024.

— 2023 capital expenditure is expected to be 6-8 billion RMB, M&A is expected to be 3-5 billion RMB. In 2024, capex and M&A activity are set to remain stable.

— Over 2023 and 2024, its dividend payout ratio is expected to be 40-50%.

Outlook

The rating outlook for Midea Group is stable. We expect Midea Group to continue maintaining its leading market share in China's home appliances market over the next 24 months, considering its excellent brand awareness, rich and diversified product mix and proprietary brands, strong distribution channels, leading operating efficiency and cost control ability. The company has a prudent financial policy with leverage long maintained at a very low level. Operating cash flow and cash reserves are estimated to fully meet capital expenditure and M&A demands over the next 1-2 years. Leverage (measured by debt/EBITDA) should remain very low.

Downside scenario: In the following circumstances, we may consider downgrading the company's issuer credit rating: 1. The company's financial risk increases, with leverage (measured by debt/EBITDA) reaching and maintaining a level significantly higher than 1.5 times. Such a scenario could, for example, be caused by large-scale capital expenditure or M&A, leading to a substantial increase in debt; 2. The company's competitive position in China's home appliances market weakens. For example, its share of the markets for white goods and small household appliances enters a long-term significant decline, or operating efficiency and cost advantages weaken significantly.

Upside scenario: N/A.