

Analyst Express

China Air-conditioning Industry – Gree continued to outperform the sluggish sector--NEUTRAL (Reiterate)

- ❖ Sector output and sales were slow in Dec and increased steady in full-year 2011. In Dec 2011, China posted air-con output 7.15m units (-18% YoY) and sales of 6.11m units (-20% YoY). The performance was under par. Aggregate production in Jan-Dec 2011 tallied 110m units (+13% YoY) and sales totalled 109m units (+15% YoY). Growth was steady but the pace eased throughout the year.
- ❖ A sluggish domestic market dragged down growth; inventory was slightly higher MoM due to the year-end factor. In Dec 2011, domestic sales of air-cons dropped 22% YoY (to 3.25m units), dragging down the growth of the home appliances sector. The decline was partly attributable to the exit of government subsidies to rural households for buying appliances. Air-con inventory in Dec 2011 reached 11.98m units (+1.02m units MoM), possibly because of year-end inventory building. The figure was 10% higher than the year-ago period, indicating that excessive growth has been checked (YoY growth rate had been as high as 30% previously). However, due to relatively low domestic sales in absolute terms, the ratio between inventory and domestic sales has risen to 3.7, the highest in two years. In full-year 2011, air-con sales in the domestic market aggregated to 60.55m units (+18% YoY).
- ❖ Exports remained weak, but the decline narrowed. In Dec 2011, China exported a total of 2.86m units of air-cons (-17% YoY). The decline eased slightly. Full-year 2011 exports tallied 484.5bn units (+12% YoY). The economic crisis in EU and the US dampened inventory as well as consumer demand. Of late, leading indicators such as OECD business sentiment and consumer sentiment have showed signs of stabilizing, which may lend support to export recovery in the longer term.
- ❖ Gree remained an outstanding player, while Midea continued with strategic adjustment. In Dec 2011, Gree topped peers with total sales of 2.15m units (-9% YoY), including 1.6m units in the domestic market (+7% YoY). Given the general economic downturn, it was remarkable that Gree continued to increase sales in China, sustaining market share at close to 50%. Nevertheless, the company saw its exports plunge 35% YoY (to 550k units) in Dec 2011. Meanwhile, Midea was still in the midst of strategic adjustment, and posted domestic sales of 600k units (-52% YoY) and exports of 800k units (-16% YoY). Its domestic sales declined substantially, while exports fared somewhat better. Management hoped that the cost control measure and structural adjustment would safeguard future profitability. The Jan-Dec 2011 aggregate sales growth in Gree and Midea came to +31% YoY and +21% YoY, respectively. Other industry players posted the following YoY sales growth rates in Dec and in Jan-Dec 2011, respectively: (i) Hai'er: -10% and +4%; (ii) Chigo: -20% and flat; (iii) Hisense Kelon: -13% and +8%.
- ❖ Risks associated with investing in the sector: (i) Falling consumer sentiment on weak macro conditions; (ii) expansion of China's restriction on housing purchases to tier-2 and tier-3 cities, as well as delays in the construction and distribution of welfare housing units; (iii) slowing growth of developed economies; and (iv) RMB appreciation.

Principal Market Indices

Index	Close	Change %		
		1-d	5-d	YTD
CSI 300	2468.35	1.91	1.4	5
S&P/CITIC300	2070.43	1.83	1.1	5
S&P/CITIC 50	1826.95	1.96	2.1	6
Shanghai Composite	2296.08	1.31	0.9	4
Hang Seng Index	19942.95	1.30	4.4	8
H-share index	11138.49	1.70	5.9	12
Red Chip	3875.61	0.97	1.8	5
Nikkei 225	8639.68	1.04	3.0	3
Dow Jones	12623.98	0.36	1.4	3
S&P 500	1314.50	0.49	1.7	4
Nasdaq	2788.33	0.67	2.9	7
DAX	6416.26	0.97	3.8	10
CAC	3328.94	1.96	4.0	6
FTSE 100	5741.15	0.68	1.4	3
BDI	893.00	-3.56	-19.2	-49

Major mercantile futures

Futures	Close (USD)	Change %		
		1-d	5-d	YTD
NYME Oil	100.39	-0.20	1.3	1
NYME Gold	1654.50	-0.33	0.9	7
LME Copper	8363.25	1.56	4.6	13
LME Aluminum	2208.75	1.25	3.5	12
LME Zinc	2030.00	1.40	3.2	11
Spot silver	30.63	0.29	1.2	11
Corn futures	606.00	2.11	-7.0	-5
Soybean futures	1197.00	1.14	-0.5	0
Wheat futures	605.75	2.28	-5.5	-6
Cotton futures	98.17	0.66	1.3	7
Rough rice futures	14.53	-0.38	-1.9	0
Sugar	24.61	2.54	3.9	5

Major foreign exchanges

FX	Close	Change %		
		1-D	5-D	YTD
USD index	80.07	-0.67	-0.9	0
USD-RMB	6.32	0.05	0.0	0
USD-JPY	77.24	0.59	0.7	-1
EUR-USD	1.29	0.63	0.8	0
GBP-USD	1.55	0.26	0.8	0

Major stock index futures in China

Futures	Chg%	Basis	Position	Chn in position
IF1201	1.77	1.85	2976	-3602
IF1202	1.83	20.05	40609	3834
IF1203	1.80	34.85	8286	273
IF1206	1.89	57.05	2893	2

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Investment rating system

Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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