

HKG Group 4

Monthly Report

October 2024

The OIC Group

OIC Research Group | Analyst Group Report

Advisor: Jason Chiang Analysts: Karson Shi, Richard Lo, and Yvonne Do

October 2024

Midea's IPO in Hong Kong (HK.0300)

Transaction Summary

IPO Date	September 17, 2024
Amount Raised	HK\$ 31 bn
Offered Price (Range)	HK\$ 54.8 (HK\$ 52 – 54.8)
Opening Price	HK\$ 54.8
IPO Date Closing Price	HK\$ 59.1
IPO Date Premium	7.85%
Expected and Actual A-H Share Discount	21.5%
Number of Shares	492 mn Shares
Over-Allotment Option	74 mn Shares
Listing Structure	H-share
Pre-IPO Cornerstone Investors	Cosco Shipping, UBS, BYD, etc.
Lead Underwriters	CICC and BofA Securities

Deal Background

- **Holding large amounts of cash:** Midea is a cash cow with cash being the biggest item on its balance sheet as of 2024 Q2 (CNY 102 bn, accounting for around 20% of total assets). It has kept distributing dividends up to a total of CNY 107.5 bn since its IPO in SZEX for 11 consecutive years.
- **Seeking new development:** The traditional home appliance market (B2C) is close to saturated. Being the giant in the industry, Midea is seeking to expand towards building technology, new energy, and industrial automation (B2B) by providing integrated solutions for the intelligent building ecosystem through the iBUILDING platform, offering advanced robotics and automation from KUKA, and optimizing supply chain services with data-driven technologies.
- **Lack of foreign capital:** With nearly 60% of Midea's revenue coming from the Chinese market, it may face challenges in transferring domestic funds to overseas due to foreign exchange restrictions.

Deal Rationale

- **Foreign Capital Raising:** Midea's H-share IPO raised around HK\$31 bn. The capital is intended to support Midea's overseas expansion in high-tech industries such as industrial automation, as well as its global supply chain, using 35% of capital. Another 35% will be used to improve sales channels, while the other 30% is allocated for overseas R&D and daily operations.
- **Boosting International Image and Influence:** Given a large amount of cash, Midea's listing is not aimed at raising funds but aims to enhance its global presence and reputation through the Hong Kong listing. Hong Kong's status as a leading financial center enables Midea to attract international investors, increasing its visibility and credibility in markets such as Southeast Asia, Europe, and North America. For the listing in Hong Kong, international allotment accounts for 95%.

Company

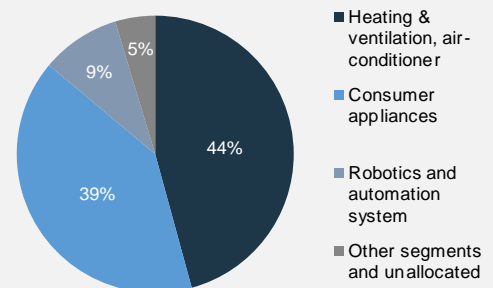
Midea Group (HKG: 0300)



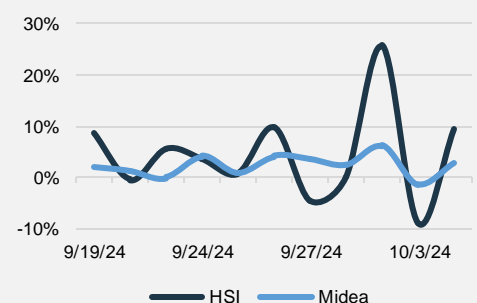
Midea Group (美的集團) is a **Chinese electrical appliance manufacturer** and listed on both SZEX and HKEX. As of 2024, the firm employed approximately 190,000 people in China and overseas with 400 subsidiaries. It has established 43 major manufacturing bases and 33 R&D centers, of which, 22 and 17 of them are located outside of China respectively. It is the largest home appliance manufacturer and a leading player in other appliances and industrial manufacturing.

Founded Year	1968
HQ	Foshan, China
Sector	Home appliance
Market Cap (H-share)	HK\$ 634.6 bn
FY23 Revenue	HK\$ 407.5 bn
FY23 EBITDA	HK\$ 45.4 bn
EV/Sales	1.4x
EV/EBITDA	12.2x

Revenue Segmentation in 2023



Change in Stock Price of Midea VS HSI



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Pre-IPO: Resilient Growth Amid Market Challenges

- **Market optimism:** Trade tensions between the U.S. and China, along with high global interest rates and China's economic slowdown, have dampened foreign investors' interest in Hong Kong and Chinese equity markets, leading to underperformance in 1H 2024. However, the Hong Kong stock market has shown **signs of recovery in the second half**, evidenced by US\$5.5 bn funds raised in the 3rd quarter, a threefold increase from the first half 2024. This movement is driven by **favorable macroeconomics conditions** (expected US rate cuts, stimulus package, etc.) and **incentive measures to encourage enterprises enhancing mutual accessibility between capital markets of Mainland China and Hong Kong** (e.g., expanding ETFs and REITs, including yuan stocks, enhancing mutual fund recognition).
- **Sustained growth despite economic slowdowns:** Despite China's property woes, low consumer sentiment and COVID-19 impact, **Midea's performance has been solid in the past 3 years**. In the first half of 2024, Midea Group achieved revenue of CNY 217.274 bn, a year-on-year increase of 10.30%; net profit attributable to shareholders of the listed company reached CNY 20.804 bn, reflecting a 14.11% rise. Simultaneously, the Group has **strengthened its market position**, achieving a growing share of 16.9% in consumer appliances. The drivers of this stable growth include investments in direct-to-consumer sales and research and development to enhance product offerings, as well as an increased focus on online channels, which accounted for 52% of total revenue in 2023.

Post-IPO: A Short Statement to Summarize Post-IPO Performance

- **Resilient despite market fluctuations:** Although Midea's stock encountered a 6.27% drop in early October, the stock stabilized in subsequent weeks, outperforming the Hang Seng Index in broader market challenges, such as concerns over the Chinese market. Its revenue increased 10% YoY, achieving 14% growth in Net Profit and its plan for global expansion plans continue to drive optimism.
- **Foreign Capital and Global Reach:** Midea's **HK\$31 bn** capital raise post-IPO is being channelled into expanding its global operations, especially in **R&D** and **industrial automation** sectors, whereby it targets international revenue to contribute **50%** of total sales by **2030**, focusing on **SEA, Europe, and North America**. This reduces reliance on the domestic market where growth is slowing. The company plans to allocate **HK\$10 bn** for R&D to enhance its global product offerings and strengthen its supply chain.
- **Long-term business model:** Midea is advancing its **automation** and **AI** efforts, with key projects like the **"High Torque Density Motor"**, designed for more efficient industrial applications, smart building solutions, and AC units for large-scale commercial use. These innovations are central as Midea transitions from being a primarily **B2C company** to a **B2B solutions provider**.

Risk and Considerations

- **Highly competitive industry requiring constant innovations:** Midea products and services face **intense competition in global markets**, with over 2,000 new entrants in the home appliance sector since 2017, posing risks to market share, sales, and profitability as rivals adopt aggressive pricing and innovation rapidly. **Maintaining brand image is crucial**, as any failure could harm its reputation and financial performance.
- **Financial risk from increased raw material price:** Operating mostly as an Original Equipment Manufacturer (OEM), Midea **heavily depends on the price of raw materials**, which might see fluctuations in price from **increased demand or disrupted supply chains**.

Precedent Transaction

IPO Date	Company	Ticker	Amount Raised (US\$)	EV/Sales	EV/EBITDA
Sep 17, 2024	Midea Group (H-Shares)	HKG:0300	2.53 bn	1.4x	12.2x
Sep 13, 2013	Midea Group (A-Shares)	SZSE:000333	870 mn	1.3x	11.13x
Aug 15, 2023	Gree Electric	SZSE:000651	2.1 bn	1.8x	14.3x
Mar 18, 2022	Hisense Home	SHSE:600060	1.95 bn	1.6x	10.8x
Jul 10, 2020	Haier Electronics	HKG:1169	2.65 bn	1.5x	11.8x
Jul 9, 2018	Xiaomi Corp	HKG:1810	4.72 bn	2.1x	14.3x
Mean				1.62x	12.4x
Median				1.55x	12.0x