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Retail

RESEARCH

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ACCUMULATE

## Huiyin Household Appliance (01280.HK)

### 2011 Hit Bottom, S-T Still Needs Watching

#### Financial highlights

(Rmb mn)	2008A	2009A	2010A	2011A	2012E	2013E
<b>Turnover</b>	<b>988</b>	<b>1,248</b>	<b>1,784</b>	<b>2,835</b>	<b>3,380</b>	<b>4,310</b>
( +/- )	97.5%	26.3%	43.0%	58.9%	19.2%	27.5%
<b>Gross Profit</b>	<b>121</b>	<b>206</b>	<b>320</b>	<b>361</b>	<b>498</b>	<b>648</b>
( +/- )	42.7%	70.6%	55.5%	12.8%	37.8%	30.2%
<b>Net Profit</b>	<b>38</b>	<b>92</b>	<b>92</b>	<b>16</b>	<b>52</b>	<b>68</b>
( +/- )	-12.1%	139.6%	0.2%	-83.1%	235.9%	30.1%
<b>Recurrent Net Profit</b>	<b>38</b>	<b>97</b>	<b>117</b>	<b>46</b>	<b>52</b>	<b>68</b>
( +/- )	-12.1%	155.1%	20.4%	-60.4%	12.3%	30.1%
Fully Diluted Shares (mn)	1,048	1,048	1,048	1,048	1,048	1,048
Diluted Recurrent EPS(HK\$)	0.04	0.11	0.13	0.05	0.06	0.08
<b>PE (x)</b>	<b>14.5</b>	<b>5.7</b>	<b>4.6</b>	<b>11.0</b>	<b>9.3</b>	<b>7.1</b>
<b>PB(x)</b>	<b>1.1</b>	<b>1.0</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>
ROAE	8.3%	17.4%	11.4%	1.7%	5.0%	6.1%
ROAA	5.2%	10.7%	6.5%	0.7%	2.0%	2.2%

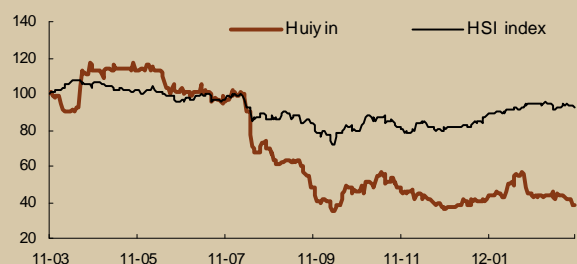
#### Share information

Bloomberg code	1280.HK
Share price	HK\$0.60
Target price	HK\$0.65
Market cap (mn)	629
52wk high/low	HK\$1.93/0.52
Issued shares (mn)	1,048
Free float (mn)	594
Major shareholders (%)	Mr.Cao (24.59%)

#### Recent price performance

	1W	1m	3m	YTD
<b>Huiyin</b>	-13.0	-11.8	3.4	-1.6
<b>HSI index</b>	-2.1	-2.5	15.5	13.3
<b>Sector</b>	2.2	5.7	20.8	20.2

#### 52wk performance



Source: Bloomberg, company data, CICC Research

#### Results in line; tough 2H2011

2011 revenue rose 59% to Rmb2.8bn and net profit dropped 83% YoY to Rmb16mn on falling gross margin, receivables provisions and one-off factors, especially in 2H. Excluding the impact of one-off expenses and acquisition costs, net profit was about Rmb46mn, down 60.4% and in line with expectation.

- **Business expansion in line, revenue up 59% (retail +40%, wholesale +73%).** Huiyin added eight self-operated stores in 2011 to reach 61 in total. Total number of all stores reached 218 in 31 cities/districts of Jiangsu and Anhui. Wholesale business continued to expand.
- **Gross margin fell and expense increase eroded earnings.** Gross margin 12.8%, down 5.2ppt due to higher operation cost and less supplier rebate recognition as a result of weak sector trend in 2H. S&D and admin expenses increased by 63%, including an Rmb32mn provision for impairment on receivables from suppliers due to upstream companies' operating pressure. Excluding this factor, expenses increased 46%. When the market recovers, we think some will write back.
- **One-off impact from acquisitions and option expenses,** mainly Rmb16.9mn from Huainan City Four Seas Huiyin and Nanjing Chaoming deals, and Rmb10.5mn from options.

#### Trends to watch

**Short term still under pressure, but some improvement likely.** Sales were still weak in 1Q, but March sales showed a stable up trend. GM improved at least 1ppt for Jan.~Feb. compared to 2011.

#### Valuation and recommendation

We are cautious on home appliance sector performance in the short term. Huiyin's earning profitability in 2H should gradually recover on margin improvement and low base, but short-term still need to be tracked. Weak earnings will likely pressure the share price, so watch for opportunities in 2H12.

#### Risks

Weak home appliance demand.

Figure 1: 2011 results analysis

Rmb mn	1H10	2H10	2010A	1H11	2H11	2011A	1H11 YoY	2H11 YoY	2011 YoY	CICC Comment
<b>Turnover</b>	<b>786</b>	<b>999</b>	<b>1,784</b>	<b>1,441</b>	<b>1,394</b>	<b>2,835</b>	<b>83.4%</b>	<b>39.6%</b>	<b>58.9%</b>	Business expansion in line, revenue increased 58.9% to Rmb2.8bn. Retailing grew 40.4% and bulk distribution by 83.4%.
Cost of Sales	-647	-817	-1,464	-1,229	-1,244	-2,474	90.1%	52.3%	69.0%	
<b>Gross Profit</b>	<b>139</b>	<b>181</b>	<b>320</b>	<b>212</b>	<b>149</b>	<b>361</b>	<b>52.3%</b>	<b>-17.6%</b>	<b>12.8%</b>	S&D and admin expenses increased by 63%
Other Income	11	5	16	8	10	18	-24.2%	82.0%	11.7%	
Selling and Distribution Costs	-43	-53	-97	-80	-92	-173	84.6%	73.4%	78.5%	
Administrative Expenses	-46	-51	-97	-57	-86	-143	23.3%	68.8%	47.2%	
Other operating Expenses	-1	-0	-1	-3	-7	-10	-	-	-	
<b>Operating Profit</b>	<b>59</b>	<b>83</b>	<b>142</b>	<b>79</b>	<b>-26</b>	<b>54</b>	<b>34.1%</b>	<b>-131.1%</b>	<b>-62.1%</b>	
Finance Income,net	-2	1	-1	-8	-5	-13	-	-	-	
<b>Profit Before Taxation</b>	<b>57</b>	<b>83</b>	<b>140</b>	<b>71</b>	<b>-30</b>	<b>41</b>	<b>24.8%</b>	<b>-136.4%</b>	<b>-70.8%</b>	
Taxation	-20	-26	-46	-22	0	-22	9.8%	-101.0%	-52.5%	
Effective Tax Rate	35.5%	31.4%	33.1%	31.2%	0.9%	53.6%	-4.3%	-30.5%	20.6%	
<b>Profit of Huiyin</b>	<b>37</b>	<b>57</b>	<b>94</b>	<b>49</b>	<b>-30</b>	<b>19</b>	<b>33.1%</b>	<b>-152.6%</b>	<b>-79.8%</b>	
Minority Interest	-1	-2	-2	-1	-2	-4	-	-	-	
<b>Net Profit</b>	<b>36</b>	<b>55</b>	<b>92</b>	<b>48</b>	<b>-32</b>	<b>16</b>	<b>32.2%</b>	<b>-158.5%</b>	<b>-83.1%</b>	Recurrent net profit declined significantly (60.4%), results in line.
<b>Recurrent Net Profit</b>	<b>50</b>	<b>67</b>	<b>117</b>	<b>59</b>	<b>-13</b>	<b>46</b>	<b>17.7%</b>	<b>-119.3%</b>	<b>-60.4%</b>	
<b>Gross Margin</b>	<b>17.7%</b>	<b>18.2%</b>	<b>18.0%</b>	<b>14.7%</b>	<b>10.7%</b>	<b>12.8%</b>	<b>-3.0%</b>	<b>-7.4%</b>	<b>-5.2%</b>	Gross margin down 5.2ppt due to higher operation cost and less supplier rebate recognition as a result of weak sector trend in 2H.
Other Income / Turnover	1.4%	0.5%	0.9%	0.6%	0.7%	0.6%	-0.8%	0.2%	-0.3%	
Integrated gross margin	19.1%	18.7%	18.9%	15.3%	11.4%	13.4%	-3.8%	-7.3%	-5.4%	
S&D Costs to Sales	5.5%	5.3%	5.4%	5.6%	6.6%	6.1%	0.0%	1.3%	0.7%	
Admin Expenses to Sales	5.9%	5.1%	5.4%	3.9%	6.1%	5.0%	-1.9%	1.1%	-0.4%	
Operating Profit Margin	7.5%	8.3%	7.9%	5.5%	-1.8%	1.9%	-2.0%	-10.1%	-6.0%	
<b>Net Margin</b>	<b>4.6%</b>	<b>5.5%</b>	<b>5.1%</b>	<b>3.3%</b>	<b>-2.3%</b>	<b>0.5%</b>	<b>-1.3%</b>	<b>-7.9%</b>	<b>-4.6%</b>	
<b>Recurrent Net Margin</b>	<b>6.4%</b>	<b>6.7%</b>	<b>6.6%</b>	<b>4.1%</b>	<b>-0.9%</b>	<b>1.7%</b>	<b>-2.3%</b>	<b>-7.6%</b>	<b>-4.9%</b>	

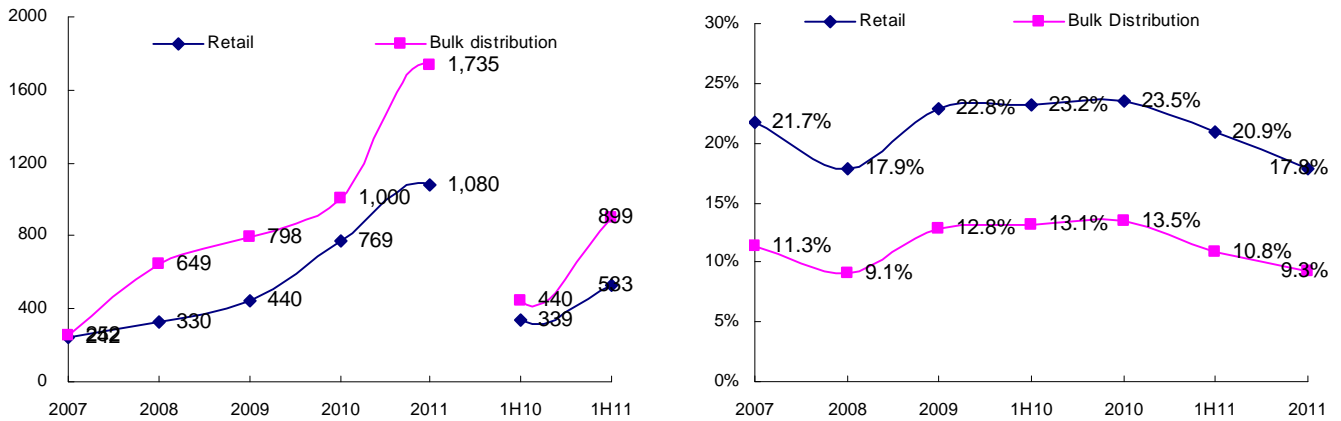
Source: Company data, CICC Research

Figure 2: Sales breakdown

Revenue	2009		1H10		2010		1H11		2011		2011 YoY RMB mn
	RMB mn	% of total	RMB mn	% of total	RMB mn	% of total	RMB mn	% of total	RMB mn	% of total	
<b>Retail Operation</b>	440	35.3%	339	43.1%	769	43.1%	533	37.0%	1080	38.1%	40.4%
<b>Bulk Distribution Operation</b>	798	64.0%	440	56.0%	1000	56.1%	899	62.4%	1735	61.2%	73.4%
Franchisees	373	29.9%	198	25.2%	448	25.1%	370	25.7%	692	24.4%	54.3%
Other third parties	425	34.1%	242	30.8%	552	30.9%	529	36.7%	1043	36.8%	88.9%
<b>Service Income</b>	9	0.7%	7	0.9%	15	0.8%	9	0.6%	20	0.7%	33.6%
<b>Total</b>	1248	100.0%	786	100.0%	1784	100.0%	1441	100.0%	2835	100.0%	58.9%

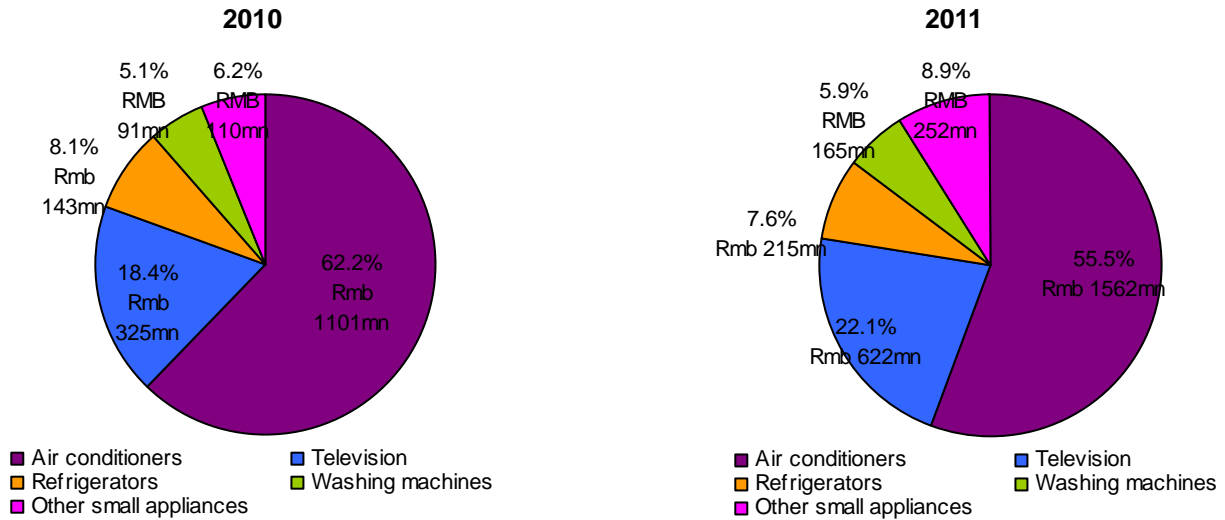
Source: Company data, CICC Research

Figure 3: Sales and gross margin breakdown



Source: Company data, CICC Research

Figure 4: Sales breakdown by product category



Source: Company data, CICC Research

Figure 5: Fast expansion of self-operated stores

	2009	2010	1H11	2011	Change	Change %
Self-operated stores	27	53	63	61	8	15%
Franchised stores	220	227	224	157	-70	-31%
After-sale service centers	126	135	132	63	-72	-53%

Source: Company data, CICC Research

Figure 6: Distribution of self-operated stores and franchised stores

Province	City	Self-operated stores	Franchised stores
Jiangsu Province	Yangzhou	21	114
	Taizhou	6	29
	Nanjing	7	2
	Huai'an	4	0
	Zhenjiang	2	4
	Suzhou	2	0
	Yancheng	1	2
	Nantong	1	1
	Changzhou	0	1
	Wuxi	0	1
	Lianyungang	0	1
	<b>Sub-total</b>	<b>44</b>	<b>155</b>
Anhui Province	Huainan	9	0
	Xuancheng	4	0
	Wuhu	2	0
	Chuzhou	1	2
	Ma'anshan	1	0
	<b>Sub-total</b>	<b>17</b>	<b>2</b>
	<b>Total</b>	<b>61</b>	<b>157</b>

Source: Company data, CICC Research

Figure 7: Total selling and marketing expenses breakdown (as % of total sales)

	2011	2010
Employee benefit expenses	1.09%	0.86%
Service charges	0.53%	0.29%
Operating lease expenses in respect of buildings and warehouses	1.66%	1.09%
Promotion and advertising expenses	1.00%	1.49%
Depreciation of property, plant and equipment	0.73%	0.65%
Utilities and telephone expenses	0.31%	0.08
Transportation expenses	0.48%	0.49%
Travelling expenses	0.11%	0.18%
Others	0.17%	0.29%
Total selling and marketing expenses	6.08%	5.42%

Source: Company data, CICC Research

Figure 8: Historical and forecast financial data

(Rmb mn)	2008A	2009A	2010A	2011A	2012E	2013E
Turnover	988	1,248	1,784	2,835	3,380	4,310
Cost of Sales	-867	-1,042	-1,464	-2,474	-2,882	-3,662
Gross profit	121	206	320	361	498	648
Other Income	9	12	16	18	18	23
Distribution costs	-42	-51	-97	-173	-230	-306
Administrative expenses	-39	-41	-97	-143	-173	-225
Other Operation Expense	0	-0	-1	-10	-12	-16
Operating profit	49	125	142	54	101	124
Finance Income	6	2	-1	-13	-15	-18
Profit before taxation	56	127	140	41	86	106
Taxation	-17	-34	-46	-22	-30	-35
Profit after taxation	39	93	94	19	56	71
Net profit	38	92	92	16	52	68
<b>Cash Flow (Rmb mn)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
Operating cashflow	-46	-101	-123	-202	-77	-109
Investment cashflow	30	-24	-40	-227	-50	-70
Financing cashflow	-23	62	328	371	150	170
<b>Balance Statement (Rmb mn)</b>	<b>2008A</b>	<b>2009A</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
<b>Current Assets</b>						
Cash	82	18	182	124	146	137
Pledged deposits	98	134	207	411	441	471
A/R receivables	299	456	956	1,141	1,400	1,728
Inventories	161	163	276	383	376	468
	640	771	1,621	2,059	2,364	2,804
<b>Non-current Assets</b>						
Fixed assets, net	73	117	141	187	184	200
Intangible assets and others	28	22	59	216	208	199
	128	174	235	456	445	453
<b>Total Assets</b>	<b>768</b>	<b>946</b>	<b>1,857</b>	<b>2,515</b>	<b>2,809</b>	<b>3,257</b>
<b>Current Liabilities</b>						
ST bankloans	0	70	50	599	749	919
Payables to suppliers	178	196	527	547	632	834
Other Payables	72	61	87	137	137	137
Taxation payable	17	4	80	70	70	70
	267	331	777	1,396	1,634	2,011
<b>Non-current Liabilities</b>						
LT bankloans/CB	0	0	0	0	0	0
	19	42	7	14	14	14
<b>Total Liabilities</b>	<b>286</b>	<b>373</b>	<b>785</b>	<b>1,409</b>	<b>1,648</b>	<b>2,024</b>
<b>Total Equity</b>	<b>481</b>	<b>573</b>	<b>1,072</b>	<b>1,106</b>	<b>1,162</b>	<b>1,233</b>

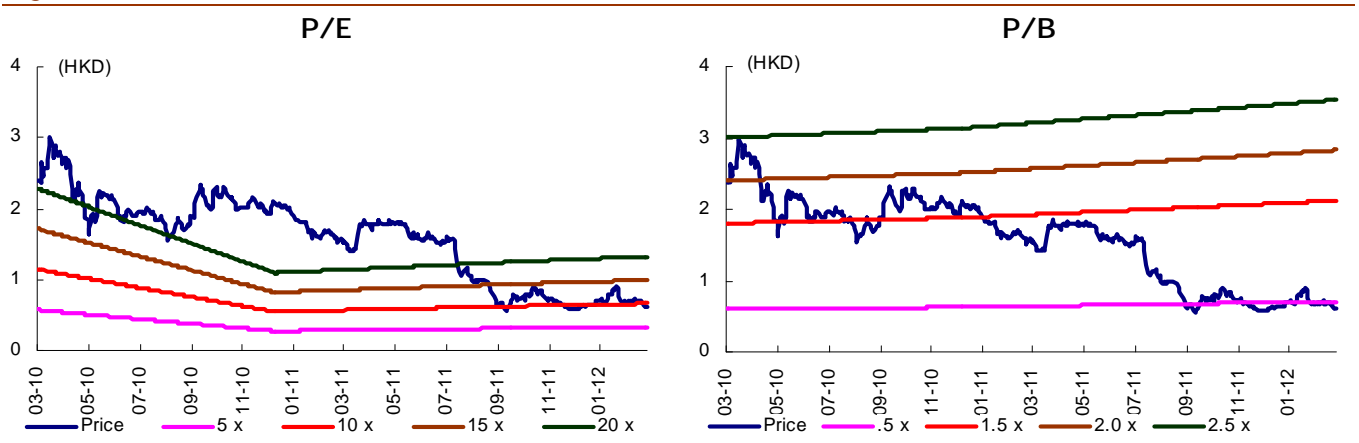
Source: Company data, CICC Research

Figure 9: Valuations of comparables

Sub-Industry Classification	Ticker	Company	Price	Mkt cap (mn)	Net Profit						EPS			P/E			10 End - 12 End Net Profit CAGR	PEG	
					2010A	YoY	2011E	YoY	2012E	YoY	2010A	2011E	2012E	2010A	2011E	2012E			
<b>Department Store Listcos</b>																			
Cross-Regional Players	600694.CH	Dashang	30.39	8,926	122	-	324	165.7%	440	36.0%	0.41	1.10	1.50	73.3	27.6	20.3	90.1%	0.3	
	600859.CH	Wangfujing	32.12	14,864	408	-	595	45.9%	763	31.6%	0.88	1.29	1.69	36.5	25.0	19.0	38.5%	0.6	
	002419.CH	Rainbow Dept. store	18.90	15,124	485	36.3%	574	18.3%	726	26.5%	0.61	0.72	0.91	31.2	26.4	20.8	22.3%	1.2	
	3368.HK	Parkson	9.36	26,306	992	8.9%	1123	13.2%	1,242	10.6%	0.42	0.49	0.57	22.5	19.0	16.3	11.9%	1.6	
	825.HK	New World	5.39	9,088	578	5.5%	624	8.0%	687	10.2%	0.34	0.37	0.41	15.7	14.6	13.2	9.1%	1.6	
Midwest and Northeast	000417.CH	Hefei Department Store	16.37	8,516	308	42.6%	416	35.0%	528	27.0%	0.59	0.80	1.02	27.6	20.5	16.1	31.0%	0.7	
	600778.CH	Youhao	11.20	3,489	85	40.7%	130	52.6%	163	25.4%	0.27	0.42	0.52	41.0	26.9	21.4	38.3%	0.7	
	000501.CH	Wuhan Dept. store	16.60	8,420	294	22.9%	362	23.4%	464	28.2%	0.58	0.71	0.92	28.7	23.2	18.1	25.8%	0.9	
	600729.CH	Chongqing Dept. Store	32.04	11,954	527	30.5%	599	13.7%	734	22.4%	1.41	1.61	1.97	22.7	19.9	16.3	18.0%	1.1	
	600697.CH	Eurasia	24.43	3,887	132	18.5%	162	23.0%	215	25.2%	0.83	1.02	1.35	29.5	24.0	18.1	27.7%	0.9	
	600785.CH	Xinhua Dept.	22.80	4,729	215	12.3%	259	20.2%	307	18.7%	1.04	1.25	1.48	22.0	18.3	15.4	19.4%	0.9	
	002277.CH	Your-mart	17.40	6,076	216	44.5%	290	34.4%	362	24.5%	0.62	0.83	1.04	28.1	20.9	16.8	29.3%	0.7	
	600858.CH	Yinzuo	21.61	6,244	111	-39.3%	116	4.3%	258	122.8%	0.38	0.40	0.89	56.3	54.0	24.2	52.4%	1.0	
	600828.CH	Chengshang	9.53	4,182	138	8.2%	196	41.5%	232	18.7%	0.32	0.45	0.53	30.2	21.4	18.0	29.6%	0.7	
	600827.CH	Bailian(Merge)	13.46	23,185	1060	35.6%	1342	26.7%	1678	25.0%	0.62	0.78	0.97	21.9	17.3	13.8	25.8%	0.7	
	600628.CH	Shanghai New World	7.76	4,127	199	10.1%	201	1.0%	217	8.2%	0.37	0.38	0.41	20.8	20.6	19.0	4.5%	4.5	
	1833.HK	Intime	10.28	19,704	513	54.8%	760	48.1%	989	30.2%	0.30	0.47	0.64	34.0	21.8	16.0	38.8%	0.6	
3308.HK	Golden Eagle (Recurrent)	20.25	39,303	959	24.9%	1212	26.4%	1516	25.1%	0.58	0.77	1.01	34.8	26.3	20.0	25.7%	1.0		
1700.HK	Springland	5.49	13,725	456	50.2%	581	27.4%	720	23.9%	0.21	0.29	0.37	25.6	19.1	14.7	25.7%	0.7		
Beijing and Guangzhou	000987.CH	Guangzhou Friendship	17.45	6,264	327	14.7%	376	15.0%	447	18.8%	0.91	1.05	1.25	19.1	16.6	14.0	16.9%	1.0	
	600723.CH	Beijing Capital Retailing	10.55	6,946	239	47.8%	346	44.7%	408	18.1%	0.36	0.53	0.62	29.1	20.1	17.0	30.7%	0.7	
<b>Supermarket Listcos</b>																			
	601933.CH	Yonghui Superiores	30.46	23,390	306	20.2%	489	60.2%	676	38.2%	0.40	0.64	0.88	76.6	47.8	34.6	48.8%	1.0	
	000759.CH	Zhongbai holding	9.59	6,531	251	20.1%	267	6.3%	316	18.5%	0.37	0.39	0.46	26.0	24.5	20.7	12.3%	2.0	
	600361.CH	Hualian Hypermarket	6.50	4,328	55	-9.4%	62	13.4%	102	63.4%	0.08	0.09	0.15	78.6	69.3	42.4	36.2%	1.9	
	002336.CH	Renrenle	14.90	5,960	237	3.2%	169	-28.5%	192	13.2%	0.59	0.42	0.48	25.1	35.2	31.1	-10.0%	-3.5	
	002264.CH	Nhd-mart	11.76	4,199	77	26.0%	138	78.4%	168	22.1%	0.22	0.39	0.47	54.4	30.5	25.0	47.6%	0.6	
	980.HK	Lianhua	10.74	12,025	623	22.8%	706	13.5%	819	16.0%	0.65	0.78	0.95	16.4	13.8	11.3	14.7%	0.9	
	6808.HK	Sun Art	10.36	98,831	1,031	27.1%	1,600	55.2%	2,281	42.6%	0.13	0.21	0.31	81.5	50.0	33.4	48.7%	1.0	
	6808.HK	Sun Art(Recurrent)	10.36	98,831	1,440	27.1%	1,838	27.7%	2,281	24.1%	0.18	0.24	0.31	58.3	43.5	33.4	25.8%	1.7	
	814.HK	JKL	7.26	2,993	181	22.1%	212	17.2%	251	18.6%	0.52	0.63	0.79	14.1	11.5	9.2	17.9%	0.6	
	1025.HK	Wumart(Recurrent)	17.30	22,166	530	21.0%	659	24.3%	782	18.7%	0.49	0.63	0.79	35.6	27.3	21.8	21.5%	1.3	
	<b>Consumer Electronics and Home Appliance Listcos</b>																		
	Home Appliance	002024.CH	Suning	10.71	74,929	4012	38.8%	4820	20.1%	5658	17.4%	0.54	0.65	0.76	19.9	16.5	14.1	18.8%	0.9
493.HK		GOME	2.10	35,436	1,962	40.7%	2,365	20.5%	2,652	12.2%	0.13	0.16	0.19	16.4	13.0	11.0	16.3%	0.8	
1280.HK		HUIYIN HOUSEHOLD(Recurrent)	0.60	629	117	20.4%	46	-60.4%	52	12.3%	0.13	0.05	0.06	4.6	11.0	9.3	-33.4%	-0.3	

Source: Bloomberg, CICC Research

Figure 10: P/E and P/B bands



Source: Company data, CICC Research

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