



Huiyin Household App 1280 HK

CHINA / RETAILING

TARGET
PRIOR TP
CLOSE
UP/DOWNSIDE

HKD2.15
HKD2.15
HKD1.52
+41.4%

BUY
UNCHANGED

HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (HKD)	2.15	2.20	(2.3)
EPS 2011 (RMB)	0.13	0.14	(7.1)
EPS 2012 (RMB)	0.15	0.19	(21.1)
	Positive	Neutral	Negative
Market Recs.	3	0	0

KEY STOCK DATA

YE Dec (RMB m)	2011E	2012E	2013E
Revenue	2,722	3,697	4,729
Rec. net profit	138	162	213
Recurring EPS (RMB)	0.13	0.15	0.20
Prior rec. EPS (RMB)	0.14	0.16	0.22
Chg. In EPS est. (%)	(4.8)	(7.2)	(7.4)
EPS growth (%)	12.2	17.2	31.4
Recurring P/E (x)	9.7	8.2	6.3
Dividend yield (%)	1.8	2.3	3.1
EV/EBITDA (x)	6.4	5.9	4.8
Price/book (x)	1.1	1.0	0.9
Net debt/Equity	37.5	39.0	43.5
ROE (%)	12.5	13.3	15.5

INDUSTRY OUTLOOK ↑

NEW INFORMATION

Stretched balance sheet

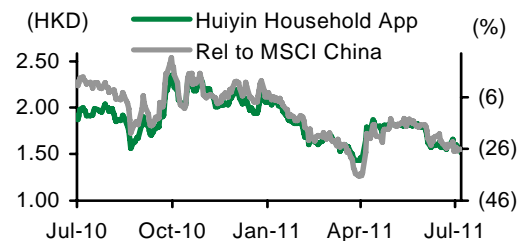
- 1H11 revenue growth exceeds 50% y-y, driven by wholesale
- Land purchase and working capital stretches balance sheet
- 2011E reported profit cut by HKD11m due to two exceptionals
- Maintain BUY rating with a SoTP-based TP of HKD2.15

Distribution sales accelerate
We had an update conference call with Huiyin's management regarding its first-half operations. Retail sales were broadly in line with our forecast of 40% y-y growth, while distribution sales grew over 70% y-y. The high growth in wholesale was driven by almost doubling of air-conditioner sales in 1H11. While we are happy to see revenue exceed our forecast, we lower our GP margin forecast 90bp to 16.2% for 2011 as the product mix is skewed toward the lower-margin wholesales business and as there has been a delay in margin catch-up from the acquired stores in Anhui.



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Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(6.8)	(14.2)	(24.5)
Relative to country (%)	(5.3)	(7.2)	(28.8)

Next results	August 2011
Mkt cap (USD m)	204
3m avg daily turnover (USD m)	0.7
Free float (%)	36
Major shareholder	Cao Kuanping (24%)
12m high/low (HKD)	2.35/1.43
3m historic vol. (%)	40.9
ADR ticker	-
ADR closing price (USD)	-

Sources : Bloomberg consensus; BNP Paribas estimates

RECENT COMPANY & SECTOR RESEARCH

Full of steam	27 Apr 2011
Pains of growing	29 Mar 2011
June shopper	5 Jul 2011
Consolidation taking place	5 Jul 2011

Stretched balance sheet

Huiyin's wholesale sales are growing faster than retail sales, thus its working-capital needs have increased. The company still needs to make the remaining payment of RMB120m for the Yangzhou land purchase and the remaining payment for the Anhui Huainan acquisition. Meanwhile, Huiyin plans to maintain at least 20 new store openings a year. We believe all these capital needs will stretch Huiyin's balance sheet. We expect net D/E ratio to rise to 37% at end-2011, from 2010's 12% net cash/equity position. According to the company, it prefers bonds or bank facilities to equity for fund raising, because the Chairman's shareholding in Huiyin is barely above 20% and the Chairman wants to maintain his position as the largest shareholder. We are not very concerned about any placement overhang, but the high gearing is likely to increase Huiyin's financial costs and a tight cash position may force it to slow its new-store expansion.

Valuation

We cut our recurring EPS forecasts 5% for 2011 and 7% for 2012 to reflect lower GP margin and higher interest costs. According to Huiyin, there may be two non-cash, non-recurring items related to the two acquisitions made last year: a RMB6m amortisation of deferred acquisition cost related to the Anhui Huainan acquisition and a RMB5m amortisation of the Nanjing SONY distributor acquisition. We have factored in these two expenses in our model, which lowers our reported net profit forecast to RMB116.3m for 2011. We believe Huiyin's long-term prospect remains positive, but share price has limited upside potential in the short term due to a stretched balance sheet. Main risk is a slowdown in the retail business may cause the company to be de-rated to distributor-level valuation.

RISK EXPERTS



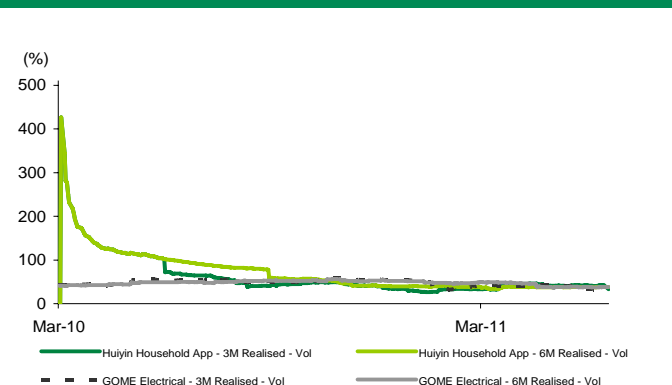
Key Earnings Drivers & Sensitivity

Every 10% change in sales growth assumptions would lead to around 8% change in our 2011 EPS estimate and 16-18% change in 2012 EPS estimate

Year-end 31 Dec	Worst		Base		Best	
	2011E	2012E	2011E	2012E	2011E	2012E
Sales growth (%)	43	26	53	36	60	46
Recurring EPS (RMB)	0.120	0.128	0.131	0.153	0.142	0.180
Change (%)	(8.3)	(16.4)	-	-	8.3	17.8

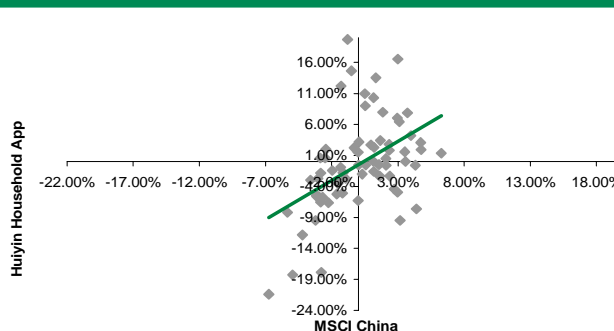
Sources: BNP Paribas estimates

Huiyin Household App and GOME Electrical (3M and 6M realised-vol)



Sources: Bloomberg; BNP Paribas

Regression – Huiyin Household App to MXCN Index



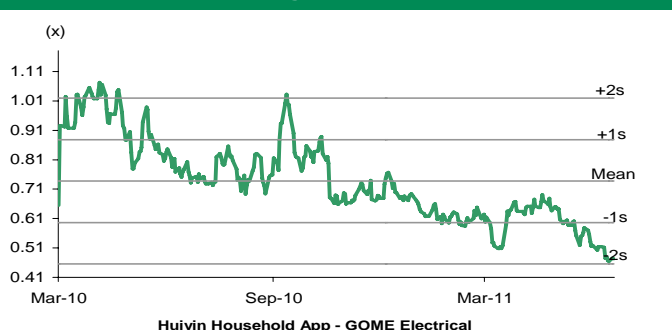
Huiyin Household App = 1 + 0.0159 * MXCN Index
 R Square = 0.2207
 Regression based on 68 observations of 5 years weekly data.
 Sources: Bloomberg; BNP Paribas

China sector correlation matrix at 31 March 2011

	Banks	Insurance	Metal & Mining	Oil & Gas	Property	Telecom	Utilities	Coal
Banks	1.00	0.77	0.78	0.81	0.73	0.71	0.61	0.78
Insurance		1.00	0.76	0.79	0.67	0.69	0.61	0.76
Metal & Mining			1.00	0.82	0.70	0.69	0.63	0.84
Oil & Gas				1.00	0.64	0.76	0.64	0.83
Property					1.00	0.55	0.54	0.67
Telecom						1.00	0.61	0.68
Utilities							1.00	0.56
Coal								1.00

Source: BNP Paribas Sector Strategy

Long/short chart



Sources: Bloomberg, BNP Paribas

The risk experts

The Risk Experts

- Our starting point for this page is a recognition of the macro factors that can have a significant impact on stock-price performance, sometimes independently of bottom-up factors.
- With our Risk Expert page, we identify the key macro risks that can impact stock performance.
- This analysis enhances the fundamental work laid out in the rest of this report, giving investors yet another resource to use in their decision-making process.

Exhibit 1: P&L breakdown by half year

(RMB m)	2010E	2011E	1H10	2H10	1H11	2H11
Revenue	1,784	2,722	786	999	1,252	1,469
<i>Revenue growth (y-y %)</i>	43	53	43	43	59	47
- Retail	769	1,022	339	431	488	534
- Bulk distribution	1,000	1,678	440	560	754	924
- Service Income	15	22	7	8	10	12
Cost of sales	1,464	2,280	647	817	1,047	1,233
Gross profit	320	441	139	181	205	236
<i>Gross margin (%)</i>	18.0	16.2	17.7	18.2	16.4	16.1
Other Income	16.1	26.7	10.6	5.4	10.0	16.7
Other Gain (loss), Exceptional	(1.1)	(11.0)	(1.0)	(0.1)	(6.0)	(5.0)
Selling and marketing expenses	96.8	147.6	43.5	53.3	67.6	73.9
- as % of revenue	5.4	5.4	5.5	5.3	5.4	5.0
Administrative expenses	96.9	114.6	46.1	50.7	58.9	61.8
- as % of revenue	5.4	4.2	5.9	5.1	4.7	4.2
Total SG&A	193.6	262.2	89.6	104.0	126.5	135.7
<i>Total SG&A ratio (%)</i>	10.9	9.6	11.4	10.6	10.1	9.2
Operating profit	141.8	194.9	59.2	82.7	82.5	112.5
<i>Operating margin (%)</i>	7.9	7.2	7.5	8.3	6.6	7.7
Finance income	3.7	4.1	1.3	2.4	1.8	2.2
Finance costs	(5.1)	(25.2)	(3.3)	(1.8)	(12.6)	(12.6)
Total Financial income (costs), net	(1.4)	(21.1)	(2.0)	0.6	(10.8)	(10.4)
Profit before income tax	140.4	173.8	57.2	83.3	71.7	102.1
Income tax expense	46.4	53.9	20.3	26.1	22.2	31.7
- effective tax rate (%)	33.0	31.0	35.5	31.4	31.0	31.0
Profit after tax	94.0	119.9	36.9	57.1	49.5	70.5
Minority interest	2.3	3.6	0.6	1.7	1.6	2.0
- as % of PAT	2.5	3.0	1.7	3.0	3.3	2.8
Net profit attributable to shareholders	91.7	116.3	36.3	55.4	47.9	68.5
- growth (%)	0.3	26.8	4.6	(2.4)	32.0	23.5
<i>Net margin (%)</i>	5.1	4.3	4.6	5.6	3.8	4.7
Recurring net profit	116.1	138.2	50.8	65.4	59.3	79.0
- growth (%)	20.5	19.0	40.2	8.7	16.8	20.8
<i>Net margin (%)</i>	6.5	5.1	6.5	6.5	4.7	5.4

Sources: Huiyin Annual Report 2010; BNP Paribas estimates

Exhibit 2: Huiyin historical P/E band chart

Sources: Bloomberg; BNP Paribas

Exhibit 3: Peer valuation comparison

Company	BBG code	Mkt cap (USD m)	Share price (LC)	P/E		EPS growth		EV/EBITDA		P/BV		Yield		ROE	
				'11E (x)	'12E (x)	'11E (%)	'12E (%)	'11E (x)	'12E (x)	'11E (x)	'12E (x)	'11E (%)	'12E (%)	'11E (%)	'12E (%)
Huiyin Household Appliances	1280 HK	205	1.52	9.6	8.2	12.2	17.2	6.3	5.8	1.1	1.0	-	2.4	12.5	13.3
GOME	493 HK	7,337	3.39	16.4	14.0	25.4	16.3	10.0	7.9	2.7	2.4	1.8	2.2	18.1	18.5
Haier Electronics Group	1169 HK	2,853	9.51	13.2	10.1	27.6	30.4	7.9	6.1	4.7	3.3	1.8	2.4	45.7	40.5
Suning Appliance	002024 CH	14,080	13.00	17.4	14.4	31.1	21.2	12.4	9.7	3.9	3.2	0.9	1.1	22.0	22.1
Mcap weighted average		14,080		17.4	14.4	31.1	21.2	12.4	9.7	3.9	3.2	0.9	1.1	22.0	22.1

Sources: Huiyin and GOME are BNP Paribas estimates, Haier and Suning forecasts are Bloomberg consensus estimates

FINANCIAL STATEMENTS

Huiyin Household App

Profit and Loss (RMB m) Year Ending Dec	2009A	2010A	2011E	2012E	2013E
Revenue	1,248	1,784	2,722	3,697	4,729
Cost of sales ex depreciation	(1,042)	(1,464)	(2,280)	(3,082)	(3,923)
Gross profit ex depreciation	206	320	441	615	806
Other operating income	12	15	16	31	41
Operating costs	(77)	(156)	(223)	(336)	(449)
Operating EBITDA	141	180	235	310	399
Depreciation	(11)	(13)	(18)	(23)	(26)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	130	166	217	286	373
Net financing costs	2	(1)	(21)	(48)	(57)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	(5)	(24)	(22)	(9)	(5)
Profit before tax	127	140	174	229	311
Tax	(34)	(46)	(54)	(71)	(96)
Profit after tax	93	94	120	158	214
Minority interests	(1)	(2)	(4)	(5)	(6)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	91	92	116	153	208
Non recurring items & goodwill (net)	5	24	22	9	5
Recurring net profit	96	116	138	162	213

Significant rise in financial costs due to increasing gearing

Per share (RMB)	2009A	2010A	2011E	2012E	2013E
Recurring EPS *	4.74	0.12	0.13	0.15	0.20
Reported EPS	4.57	0.09	0.11	0.15	0.20
DPS	0.00	0.02	0.02	0.03	0.04

Revenue growth revised up from 40% to 53% to reflect higher-than-expected wholesale business growth

Growth	2009A	2010A	2011E	2012E	2013E
Revenue (%)	26.3	43.0	52.5	35.8	27.9
Operating EBITDA (%)	132.0	27.3	30.7	32.0	28.7
Operating EBIT (%)	139.2	27.9	30.4	32.0	30.3
Recurring EPS (%)	121.3	(97.5)	12.2	17.2	31.4
Reported EPS (%)	139.5	(98.0)	18.5	31.8	35.6

Operating performance	2009A	2010A	2011E	2012E	2013E
Gross margin inc depreciation (%)	15.6	17.2	15.6	16.0	16.5
Operating EBITDA margin (%)	11.3	10.1	8.6	8.4	8.4
Operating EBIT margin (%)	10.4	9.3	8.0	7.7	7.9
Net margin (%)	7.7	6.5	5.1	4.4	4.5
Effective tax rate (%)	27.0	33.0	31.0	31.0	31.0
Dividend payout on recurring profit (%)	0.0	15.0	17.0	19.1	19.7
Interest cover (x)	-	119.1	10.3	5.9	6.5
Inventory days	56.8	54.8	54.3	54.8	55.4
Debtor days	19.9	27.6	27.7	27.1	26.7
Creditor days	65.5	90.1	107.2	113.2	116.3
Operating ROIC (%)	19.2	16.4	13.4	13.0	14.5
Operating ROIC – WACC (%)	8.2	5.4	2.3	2.0	3.4
ROIC (%)	17.2	14.8	12.2	12.0	13.5
ROIC – WACC (%)	6.2	3.8	1.1	0.9	2.5
ROE (%)	18.3	14.2	12.5	13.3	15.5
ROA (%)	11.2	8.5	6.7	6.6	7.1

* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (RMB m)	2009A	2010A	2011E	2012E	2013E
Retail	440	769	1,022	1,494	2,110
Wholesale to Franchisees	350	448	715	1,047	1,319
Wholesale to Third Parties	449	552	963	1,129	1,268
Service Charges	9	15	22	26	32

Sources: Huiyin Household App; BNP Paribas estimates

Huiyin Household App

Cash Flow (RMB m)					
Year Ending Dec	2009A	2010A	2011E	2012E	2013E
Recurring net profit	96	116	138	162	213
Depreciation	11	13	18	23	26
Associates & minorities	1	2	4	5	6
Other non-cash items	7	17	(18)	(4)	0
Recurring cash flow	116	148	141	186	245
Change in working capital	(217)	(220)	(240)	(179)	(294)
Capex - maintenance	0	0	0	0	0
Capex – new investment	(29)	(31)	(408)	(55)	(59)
Free cash flow to equity	(130)	(103)	(507)	(48)	(108)
Net acquisitions & disposals	0	(3)	(46)	0	0
Dividends paid	0	(41)	(18)	(23)	(31)
Non recurring cash flows	5	(52)	0	0	0
Net cash flow	(126)	(198)	(572)	(71)	(139)
Equity finance	0	404	0	0	0
Debt finance	62	(35)	486	51	133
Movement in cash	(64)	171	(85)	(20)	(6)

Per share (RMB)

Recurring cash flow per share	5.78	0.15	0.13	0.18	0.23
FCF to equity per share	(6.52)	(0.10)	(0.48)	(0.05)	(0.10)

Balance Sheet (RMB m)

Year Ending Dec	2009A	2010A	2011E	2012E	2013E
Working capital assets	753	1,440	2,034	2,554	3,206
Working capital liabilities	(261)	(727)	(1,081)	(1,422)	(1,781)
Net working capital	492	712	953	1,131	1,425
Tangible fixed assets	117	141	531	563	597
Operating invested capital	609	853	1,484	1,694	2,022
Goodwill	0	0	0	0	0
Other intangible assets	33	71	114	110	106
Investments	0	0	0	0	0
Other assets	25	24	23	22	22
Invested capital	667	948	1,621	1,827	2,149
Cash & equivalents	(18)	(182)	(96)	(76)	(70)
Short term debt	70	50	536	587	720
Long term debt *	0	0	0	0	0
Net debt	52	(132)	440	511	649
Deferred tax	39	2	2	2	2
Other liabilities	0	5	5	5	5
Total equity	573	1,057	1,155	1,285	1,462
Minority interests	3	15	19	24	30
Invested capital	667	948	1,621	1,827	2,149

* includes convertibles and preferred stock which is being treated as debt

Per share (RMB)

Book value per share	28.65	1.01	1.10	1.23	1.39
Tangible book value per share	26.99	0.94	0.99	1.12	1.29

Financial strength

Net debt/equity (%)	9.0	(12.3)	37.5	39.0	43.5
Net debt/total assets (%)	5.5	(7.1)	15.7	15.4	16.2
Current ratio (x)	2.3	2.1	1.3	1.3	1.3
CF interest cover (x)	-	(50.5)	(3.7)	1.2	0.1

Valuation	2009A	2010A	2011E	2012E	2013E
Recurring P/E (x) *	0.3	10.8	9.7	8.2	6.3
Recurring P/E @ target price (x) *	0.4	15.3	13.7	11.7	8.9
Reported P/E (x)	0.3	13.5	11.4	8.6	6.4
Dividend yield (%)	0.0	1.4	1.8	2.3	3.1
P/CF (x)	0.2	8.3	9.4	7.1	5.4
P/FCF (x)	(0.2)	(12.1)	(2.6)	(27.8)	(12.2)
Price/book (x)	0.0	1.3	1.1	1.0	0.9
Price/tangible book (x)	0.0	1.3	1.3	1.1	1.0
EV/EBITDA (x) **	0.1	3.6	6.4	5.9	4.8
EV/EBITDA @ target price (x) **	0.1	4.3	7.9	7.0	5.7
EV/invested capital (x)	0.1	1.3	1.1	1.0	0.9

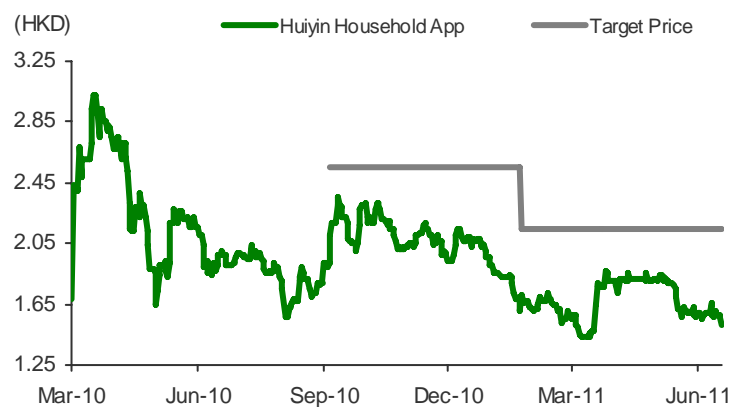
* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: Huiyin Household App; BNP Paribas estimates

HISTORY OF CHANGE IN INVESTMENT RATING AND/OR TARGET PRICE

Huiyin Household Appliances (1280 HK)



Date	Reco	TP
28-Sep-10	BUY	2.55

Charlie Y Chen started covering this stock from 28 September 2010
 Price and TP are in local currency

Valuation and risks: Key risks to our SoTP-based TP are faster-than-expected expansion and lower-than-expected margins due to large start-up costs and losses from the newly opened stores.
 Sources: Bloomberg, BNP Paribas

DISCLAIMERS & DISCLOSURES

ANALYST(S) CERTIFICATION

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Company	Disclosure (as applicable)
Huiyin Household	3

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All share prices are as at market close on 13 July 2011 unless otherwise stated.

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Stock Ratings

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Improving (↑): The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral (↔): The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Deteriorating (↓): The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

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Total BNP Paribas coverage universe	558	Investment Banking Relationship	(%)
Buy	369	Buy	4.61
Hold	131	Hold	3.82
Reduce	58	Reduce	1.72

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