



# Huiyin Household App 1280 HK

CHINA / RETAILING

TARGET  
PRIOR TP  
CLOSE  
UP/DOWNSIDE

HKD2.15  
HKD2.15  
HKD1.50  
+43.3%

**BUY**

UNCHANGED

## HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (HKD)	2.15	2.15	0.0
EPS 2011 (RMB)	0.14	0.14	0.0
EPS 2012 (RMB)	0.17	0.17	0.0
	Positive	Neutral	Negative
Market Recs.	1	0	0

## KEY STOCK DATA

	2011E	2012E	2013E
YE Dec (RMB m)			
Revenue	2,405	3,113	3,975
Rec. net profit	146	177	225
Recurring EPS (RMB)	0.14	0.17	0.21
Prior rec. EPS (RMB)	0.14	0.17	0.21
Chg. In EPS est. (%)	0.3	0.8	2.5
EPS growth (%)	18.2	21.8	27.0
Recurring P/E (x)	9.2	7.5	5.9
Dividend yield (%)	0.2	0.3	0.3
EV/EBITDA (x)	5.8	5.1	4.1
Price/book (x)	1.1	1.0	0.9
Net debt/Equity	28.2	20.5	21.3
ROE (%)	13.1	14.2	15.8

## INDUSTRY OUTLOOK ↑

# Pains of growing

- Huiyin reported in-line 2010 results; EPS flat versus 2009
- Revenue grew strongly, but new-store losses hurt profitability
- Net margin erosion likely to slow as IPO costs reduce
- Maintain BUY with target price of HKD2.15

## Satisfactory first year

Huiyin reported its first full-year results after its IPO in March 2010. Although revenue surged 43%, reported net profit was flat due to the RMB24.4m IPO-related professional fees and option-based compensation expenses. Excluding these one-offs, recurring net profit would have increased by a solid 21%.



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## Dilemma of growth or margins

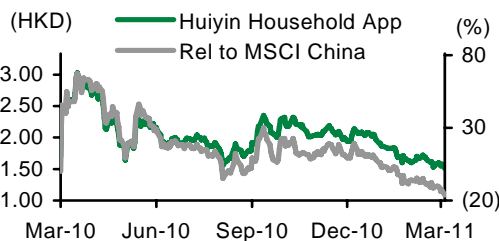
Huiyin's strong 43% revenue growth was driven by new retail store openings. In 2010, self-operated stores doubled to 53 (from 27), including acquisition of six stores of a small local retail chain in Anhui in November. However, new stores also entail start-up costs which normally require 8-10 months time to break even. Therefore, Huiyin's recurring net margin contracted to 6.5% in 2010, from 7.7% in 2009, despite gross margins expanding 150bp during the same period. Management realises this trend and admits that net margin will remain under pressure in 2011 and that it will try to maintain a balance between running after market share and profits.

## The worst seems to be over

Although Huiyin will continue to suffer the pains of a growing period, management believes the worst is over. In 2010, margins faced a double-whammy of IPO-related costs and high start-up costs (on a small operational base). We expect one-off IPO-related costs to fade quickly (RMB12m in 2011E vs. RMB24.4 in 2010) and start-up costs to become relatively less significant as Huiyin grows. Thus, the pace of net margin erosion should slow. We forecast net margin will fall 40bp in 2011 to 6.1%.

## Valuation and risks

Huiyin is trading at only 9.2x 2011E P/E, a 32% discount to its average of 13.4x forward P/E since IPO. We believe the damage from Huiyin's land acquisition is now over and that the stock may face pressure in the medium term from a potential sell-down by pre-IPO private-equity investors. However, the company's P/E valuation is at a historical low and we believe there is very little downside from current levels. We maintain BUY with an unchanged SoTP-based target price of HKD2.15. Key risks are faster-than-expected expansion and lower-than-expected margins due to large start-up costs and losses from the newly opened stores.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(6.8)	(23.4)	(37.3)
Relative to country (%)	(10.6)	(26.2)	(43.7)

Next results	August 2011
Mkt cap (USD m)	202
3m avg daily turnover (USD m)	0.7
Free float (%)	36
Major shareholder	Cao Kuanping (24%)
12m high/low (HKD)	3.03/1.51
3m historic vol. (%)	33.1
ADR ticker	-
ADR closing price (USD)	-

Sources : Bloomberg consensus; BNP Paribas estimates

## RECENT COMPANY & SECTOR RESEARCH

A jump start in 2011 .....	16 Feb 2011
In a sweet spot .....	27 Sep 2010
Leaner and meaner .....	19 Mar 2011
Potential impact from Japan earthquake .....	12 Mar 2011

# RISK EXPERTS

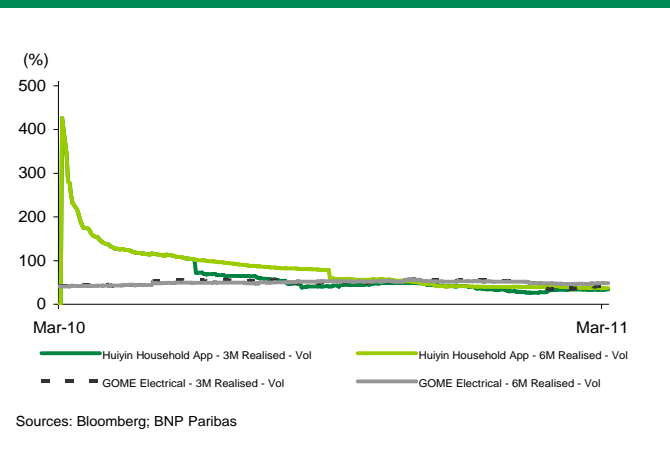
Year-end 31 Dec	Base		Best		Worst	
	2011E	2012E	2011E	2012E	2011E	2012E
Sales growth (%)	35	29	45	39	25	19
Recurring EPS (RMB)	0.137	0.167	0.149	0.198	0.125	0.136
Change (%)	—	—	8.8	18.6	(8.8)	(18.6)

**Key Earnings Drivers & Sensitivity**

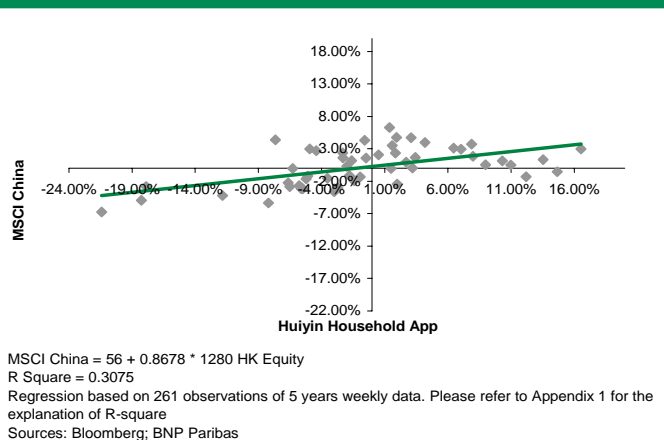
- Every 10% change in sales growth assumptions would lead to around 9% change in our 2011 EPS estimate and around 19% change in 2012 EPS estimate.

Sources: BNP Paribas estimates

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



## Regression – MXCN Index to Huiyin Household App

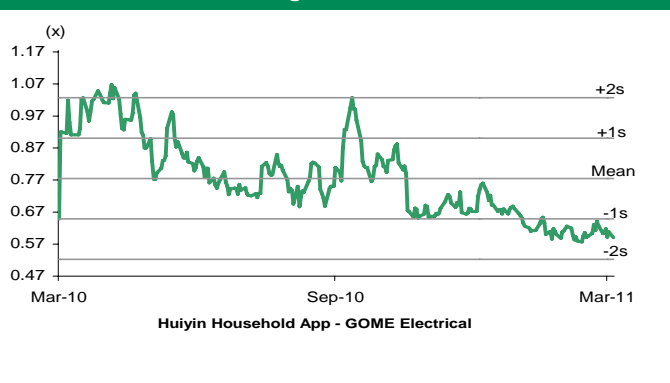


## China sector correlation matrix at 30 December 2010

	Banks	Insurance	Metal & Mining	Oil & Gas	Property	Telecom	Utilities	Coal
Banks	1.00	0.80	0.77	0.83	0.74	0.75	0.64	0.79
Insurance		1.00	0.79	0.83	0.71	0.75	0.66	0.80
Metal & Mining			1.00	0.82	0.72	0.71	0.63	0.85
Oil & Gas				1.00	0.68	0.79	0.65	0.87
Property					1.00	0.62	0.58	0.70
Telecom						1.00	0.66	0.72
Utilities							1.00	0.61
Coal								1.00

Source: BNP Paribas Sector Strategy

## Long/short chart

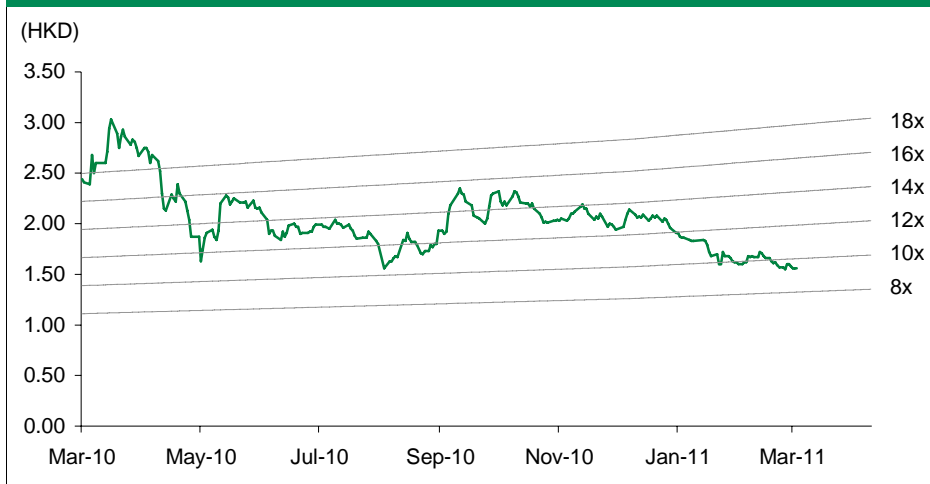


## The risk experts

### 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: Historical P/E band chart



Sources: Bloomberg; BNP Paribas

## FINANCIAL STATEMENTS

## Huiyin Household App

Profit and Loss (RMB m) Year Ending Dec	2009A	2010A	2011E	2012E	2013E
Revenue	1,248	1,784	2,405	3,113	3,975
Cost of sales ex depreciation	(1,042)	(1,464)	(1,945)	(2,514)	(3,211)
<b>Gross profit ex depreciation</b>	<b>206</b>	<b>320</b>	<b>460</b>	<b>599</b>	<b>764</b>
Other operating income	12	15	24	31	34
Operating costs	(77)	(158)	(234)	(305)	(396)
<b>Operating EBITDA</b>	<b>141</b>	<b>178</b>	<b>249</b>	<b>324</b>	<b>402</b>
Depreciation	(11)	(12)	(18)	(22)	(23)
Goodwill amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>130</b>	<b>166</b>	<b>231</b>	<b>303</b>	<b>378</b>
Net financing costs	2	(1)	(15)	(33)	(34)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	(5)	(24)	(12)	(3)	0
<b>Profit before tax</b>	<b>127</b>	<b>140</b>	<b>204</b>	<b>266</b>	<b>344</b>
Tax	(34)	(46)	(67)	(88)	(114)
<b>Profit after tax</b>	<b>93</b>	<b>94</b>	<b>137</b>	<b>178</b>	<b>231</b>
Minority interests	(1)	(2)	(3)	(4)	(6)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
<b>Reported net profit</b>	<b>91</b>	<b>92</b>	<b>133</b>	<b>174</b>	<b>225</b>
Non recurring items & goodwill (net)	5	24	12	3	0
<b>Recurring net profit</b>	<b>96</b>	<b>116</b>	<b>146</b>	<b>177</b>	<b>225</b>

Financial costs likely to increase as the company may look at debt rising to fund further expansion

IPO-option based compensation expense will halve in 2011E

**Per share (RMB)**

Recurring EPS *	4.74	0.12	0.14	0.17	0.21
Reported EPS	4.57	0.09	0.13	0.17	0.21
DPS	0.00	0.01	0.00	0.00	0.00

**Growth**

Revenue (%)	26.3	43.0	34.8	29.5	27.7
Operating EBITDA (%)	132.0	26.1	40.1	30.2	23.7
Operating EBIT (%)	139.2	27.9	39.2	30.9	24.8
Recurring EPS (%)	121.3	(97.5)	18.2	21.8	27.0
Reported EPS (%)	139.5	(98.0)	36.0	30.4	29.2

**Operating performance**

Gross margin inc depreciation (%)	15.6	17.3	18.4	18.6	18.6
Operating EBITDA margin (%)	11.3	10.0	10.4	10.4	10.1
Operating EBIT margin (%)	10.4	9.3	9.6	9.7	9.5
Net margin (%)	7.7	6.5	6.1	5.7	5.7
Effective tax rate (%)	27.0	33.0	33.0	33.0	33.0
Dividend payout on recurring profit (%)	0.0	5.1	1.8	1.9	1.9
Interest cover (x)	-	119.1	15.3	9.1	11.2
Inventory days	56.8	54.8	60.2	57.7	55.6
Debtor days	19.9	27.6	30.2	28.5	26.7
Creditor days	65.5	90.1	114.9	116.2	116.8
Operating ROIC (%)	19.2	16.4	14.8	15.1	16.7
Operating ROIC – WACC (%)	8.2	5.4	3.8	4.1	5.6
ROIC (%)	17.2	14.8	13.4	13.8	15.4
ROIC – WACC (%)	6.2	3.8	2.4	2.8	4.4
ROE (%)	18.3	14.2	13.1	14.2	15.8
ROA (%)	11.2	8.5	7.2	7.4	7.9

\* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (RMB m)	2009A	2010A	2011E	2012E	2013E
Retail	440	769	1,234	1,794	2,508
Wholesale to Franchisees	350	448	515	564	617
Wholesale to Third Parties	449	552	635	730	819
Service Charges	9	15	21	25	31

Sources: Huiyin Household App; BNP Paribas estimates

## Huiyin Household App

<b>Cash Flow (RMB m)</b>					
<b>Year Ending Dec</b>	<b>2009A</b>	<b>2010A</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Recurring net profit	96	116	146	177	225
Depreciation	11	12	18	22	23
Associates & minorities	1	2	3	4	6
Other non-cash items	7	(22)	(8)	3	7
<b>Recurring cash flow</b>	<b>116</b>	<b>108</b>	<b>159</b>	<b>206</b>	<b>261</b>
Change in working capital	(217)	(220)	(200)	(71)	(246)
Capex - maintenance	0	0	0	0	0
Capex - new investment	(29)	(18)	(361)	(47)	(60)
<b>Free cash flow to equity</b>	<b>(130)</b>	<b>(130)</b>	<b>(402)</b>	<b>88</b>	<b>(45)</b>
Net acquisitions & disposals	0	(59)	(46)	0	0
Dividends paid	0	(47)	(18)	(27)	(35)
Non recurring cash flows	5	(94)	(1)	(1)	22
<b>Net cash flow</b>	<b>(126)</b>	<b>(330)</b>	<b>(467)</b>	<b>60</b>	<b>(58)</b>
Equity finance	0	444	0	0	0
Debt finance	62	57	379	(12)	53
<b>Movement in cash</b>	<b>(64)</b>	<b>171</b>	<b>(88)</b>	<b>48</b>	<b>(4)</b>

Large capex in 2011 for land acquisition in Yanzhou

<b>Per share (RMB)</b>					
Recurring cash flow per share	5.78	0.11	0.15	0.20	0.25
FCF to equity per share	(6.52)	(0.13)	(0.38)	0.08	(0.04)

<b>Balance Sheet (RMB m)</b>					
<b>Year Ending Dec</b>	<b>2009A</b>	<b>2010A</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Working capital assets	753	1,440	1,857	2,172	2,716
Working capital liabilities	(261)	(727)	(945)	(1,188)	(1,486)
<b>Net working capital</b>	<b>492</b>	<b>712</b>	<b>913</b>	<b>984</b>	<b>1,230</b>
Tangible fixed assets	117	141	483	509	545
<b>Operating invested capital</b>	<b>609</b>	<b>853</b>	<b>1,396</b>	<b>1,493</b>	<b>1,775</b>
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
<b>Invested capital</b>	<b>667</b>	<b>948</b>	<b>1,534</b>	<b>1,625</b>	<b>1,903</b>
Cash & equivalents	(18)	(182)	(93)	(142)	(137)
Short term debt	70	50	429	417	470
Long term debt *	0	0	0	0	0
<b>Net debt</b>	<b>52</b>	<b>(132)</b>	<b>336</b>	<b>275</b>	<b>333</b>
Deferred tax	39	2	2	2	2
Other liabilities	0	5	5	5	5
Total equity	573	1,057	1,172	1,320	1,533
Minority interests	3	15	19	23	29
<b>Invested capital</b>	<b>667</b>	<b>948</b>	<b>1,534</b>	<b>1,625</b>	<b>1,903</b>

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

<b>Per share (RMB)</b>					
Book value per share	28.65	1.01	1.12	1.26	1.46
Tangible book value per share	26.99	0.94	1.01	1.15	1.36

<b>Financial strength</b>					
Net debt/equity (%)	9.0	(12.3)	28.2	20.5	21.3
Net debt/total assets (%)	5.5	(7.1)	13.0	9.3	9.4
Current ratio (x)	2.3	2.1	1.4	1.4	1.5
CF interest cover (x)	-	(79.2)	(1.7)	5.0	1.4

<b>Valuation</b>					
	<b>2009A</b>	<b>2010A</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Recurring P/E (x) *	0.3	10.9	9.2	7.5	5.9
Recurring P/E @ target price (x) *	0.4	15.6	13.2	10.8	8.5
Reported P/E (x)	0.3	13.5	9.9	7.6	5.9
Dividend yield (%)	0.0	0.5	0.2	0.3	0.3
P/CF (x)	0.2	11.4	8.3	6.4	5.1
P/FCF (x)	(0.2)	(9.5)	(3.3)	15.0	(29.4)
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	0.9
EV/EBITDA (x) **	0.1	3.6	5.8	5.1	4.1
EV/EBITDA @ target price (x) **	0.1	4.5	7.4	6.3	5.1
EV/invested capital (x)	0.1	1.3	1.1	1.0	0.9

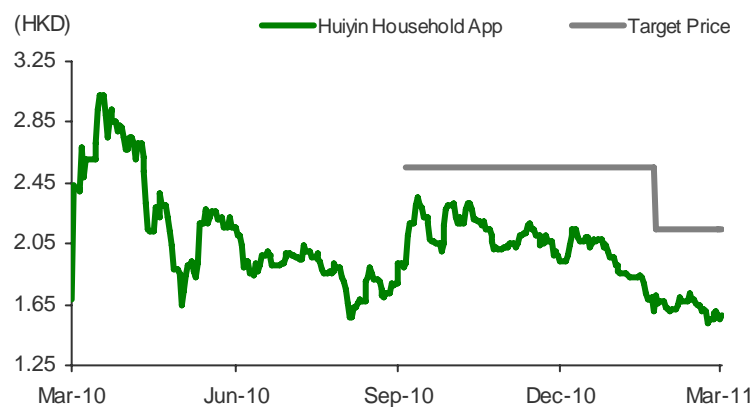
\* Pre exceptional, pre-goodwill and fully diluted

\*\* 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

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**Stock Ratings**

All share prices are as at market close on 29 March 2011 unless otherwise stated.

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.*

## RATING DISTRIBUTION (as at 28 March 2011)

Total BNP Paribas coverage universe	558	Investment Banking Relationship	(%)
Buy	367	Buy	5.45
Hold	140	Hold	3.57
Reduce	51	Reduce	1.96

Should you require additional information concerning this report please contact the relevant BNP Paribas research team or the author(s) of this report.

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