NEW INFORMATION

COMPANY REPORT
EQUITIES RESEARCH

1280 HK

HUIYIN HOUSEHOLD APP

CHINA / RETAILING

↔ BUY

UNCHANGED

TARGET	HKD2.15
PRIOR TP	HKD2.15
CLOSE	HKD1.00
UP/DOWNSIDE	+115.0%

HOW WE DIFFER FROM THE STREET

	BNPP	Consensus	% Diff
Target Price (HKD)	2.15	1.83	17.5
EPS 2011 (RMB)	0.13	0.128	-
EPS 2012 (RMB)	0.15	0.165	-9.1
	Positive	Neutral	Negative
Market Recs	3	0	0

INDUSTRY OUTLOOK ↑

Chairman's confidence

CHANGE

Targets 50-60% full-year revenue growth, with new distributor

We took Huiyin's management to meet investors last week. The company's fundamentals remain very healthy, with full-year revenue to grow at least 50-60% and net margin expected to remain the same as in 1H. Huiyin recently acquired one air-conditioner distributorship in Anhui Province, which is likely to add RMB300m.

CATALYST

Chairman may consider increasing stake with weak stock

One piece of feedback we got from investors is that the chairman could consider increasing his stake in Huiyin because the share price is very low and such actions usually show the market strong confidence. We believe Huiyin is considering this action and the share price could see strong support in the short term if this goes ahead.

VALUATION

Maintain TP of HKD2.15 based on 11.5x FY12 P/E

Small-cap shares usually underperform in weak markets, and Huiyin suffers from being a USD100m mcap company. However, with solid fundamentals and the possibility that the chairman will buy back shares, we think now is a good time to BUY. It trades at 5x FY12 P/E, which looks attractive for a consumer company with a bottom line growing at 30%.

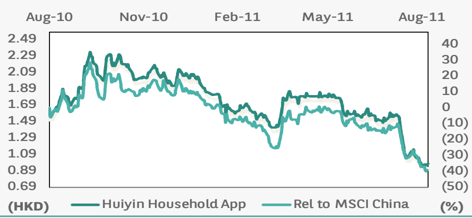
COMMENT

Worst seems to be over

Huiyin delivered 83% y-y revenue growth and net profit growth of 33% y-y in the first half. The big gap between top-line and bottom-line growth rates is mainly due to gross margin contraction. According to the company, the raw material price increase in 1H drove the COGS of home appliances up, but neither the manufacturers nor the distributors are able to pass through the costs to customers immediately. The company thinks that the net margin in 1H has bottomed and does not expect further margin deterioration in 2H. We believe the worst for Huiyin seems to be over. As it is growing in scale and continues to deliver solid results, it looks likely to be re-rated and the share price should recover.

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)	0.13	0.15	0.20
Chg. In EPS est. (%)	0.0	0.0	0.0
EPS growth (%)	12.2	17.2	31.4
Recurring P/E (x)	6.3	5.4	4.1
Dividend yield (%)	2.7	3.6	4.8
EV/EBITDA (x)	4.4	4.4	3.7
Price/book (x)	0.7	0.7	0.6
Net debt/Equity (%)	37.5	39.0	43.5
ROE (%)	12.5	13.3	15.5



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(36.3)	(44.4)	(40.5)
Relative to country (%)	(26.2)	(30.8)	(34.9)

Next results	March 2012
Mkt cap (USD m)	135
3m avg daily turnover (USD m)	0.3
Free float (%)	36
Major shareholder	Cao Kuanping (24%)
12m high/low (HKD)	2.35/0.96
3m historic vol. (%)	47.8
ADR ticker	INSERT
ADR closing price (USD; Date)	INSERT
Issued shares (m)	1,048

Sources: Bloomberg consensus; BNP Paribas estimates

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RISK EXPERTS

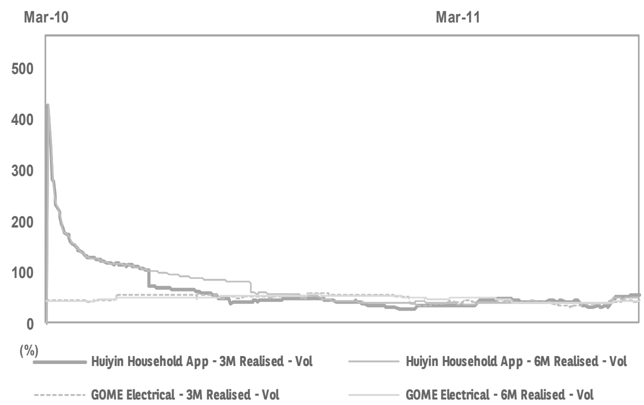
Key Earnings Drivers & Sensitivity

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

	---- Worst ----		----- Base -----		----- Best -----	
Year-end 31 Dec	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

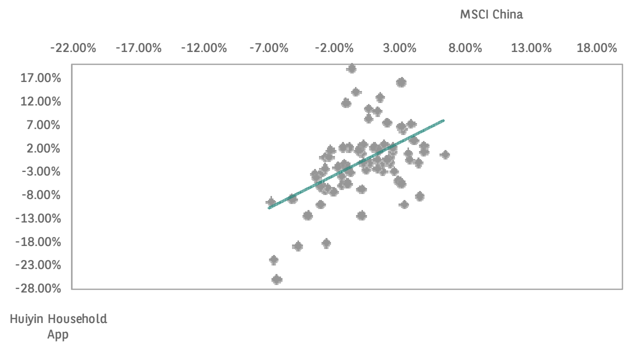
Source: BNP Paribas Estimates

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 + 0.0156 * MXCN Index
R Square = 0.2675
Regression based on 75 observations of 5 years weekly data. Please refer to Appendix 1 for the explanation of R-square
Sources: Bloomberg; BNP Paribas

China Sector Correlation Matrix at 25 July 2011

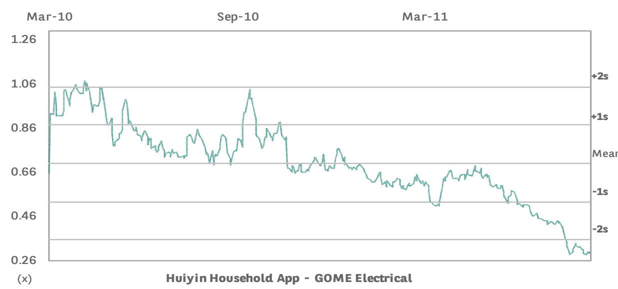
	Banks	Insurance	Metal & Mining	Oil & Gas	Property	Telecom	Utilities	Coal
Banks	1.00	0.74	0.77	0.79	0.72	0.68	0.60	0.75
Insurance		1.00	0.73	0.75	0.62	0.64	0.54	0.70
Metal & Mining			1.00	0.81	0.68	0.65	0.62	0.81
Oil & Gas				1.00	0.61	0.74	0.61	0.79
Property					1.00	0.51	0.52	0.62
Telecom						1.00	0.57	0.63
Utilities							1.00	0.51
Coal								1.00

Source: BNPP Paribas Sector Strategy

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

Long/Short Chart



Sources: Bloomberg; BNP Paribas

Sources: Bloomberg, BNPP Paribas

Financial statements

Huiyin Household App

Profit and Loss (RMBm)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**
Per share (RMB)					
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
Growth					
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					
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 (RMBm)	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

Significant rise in financial costs due to increasing gearing.

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

Huiyin Household App

Cash Flow (RMBm)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 (RMBm)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

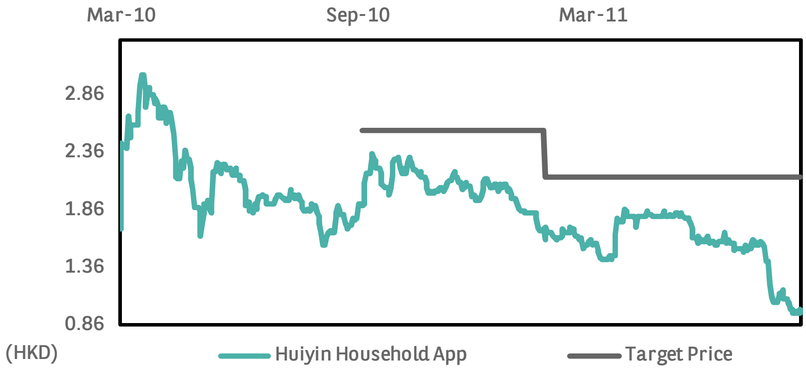
Valuation	2009A	2010A	2011E	2012E	2013E
Recurring P/E (x) *	0.2	7.0	6.3	5.4	4.1
Recurring P/E @ target price (x) *	0.4	15.2	13.5	11.5	8.8
Reported P/E (x)	0.2	8.8	7.4	5.6	4.1
Dividend yield (%)	0.0	2.1	2.7	3.6	4.8
P/CF (x)	0.1	5.4	6.1	4.6	3.5
P/FCF (x)	(0.1)	(7.8)	(1.7)	(18.1)	(8.0)
Price/book (x)	0.0	0.8	0.7	0.7	0.6
Price/tangible book (x)	0.0	0.9	0.8	0.7	0.6
EV/EBITDA (x) **	0.0	2.3	4.4	4.4	3.7
EV/EBITDA @ target price (x) **	0.1	4.2	7.7	6.9	5.6
EV/invested capital (x)	0.1	0.8	0.8	0.8	0.7

* 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 App (1280 HK)



Date	Reco	TP
27-Sep-10	BUY	2.55

Charlie Chen started covering this stock from 28-Sep-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.

Source: Bloomberg, BNP Paribas

Disclaimers and Disclosures

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Charlie Y Chen, BNP Paribas Securities (Asia) Ltd, +852 2825 1109, charlie.y.chen@asia.bnpparibas.com.

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Company	Disclosure (as applicable)
-	-

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2. It had an investment banking relationship with this company in the last 12 months.
3. It received compensation for investment banking services from this company in the last 12 months.
4. It beneficially owns 1% or more or the market capitalization of this company.
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All share prices are as at market close on 2 September 2011 unless otherwise stated.

RECOMMENDATION STRUCTURE

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.

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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.

RATING DISTRIBUTION (as at 2 September 2011)

Total BNP Paribas coverage universe	548	Investment Banking Relationship	(%)
Buy	352	Buy	4.30
Hold	139	Hold	4.30
Reduce	57	Reduce	1.80

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