



# Huiyin Household Ap 1280 HK

CHINA / RETAILING

TARGET  
PRIOR TP  
CLOSE  
UP/DOWNSIDE

HKD2.55  
N/A  
HKD1.90  
+34.2%

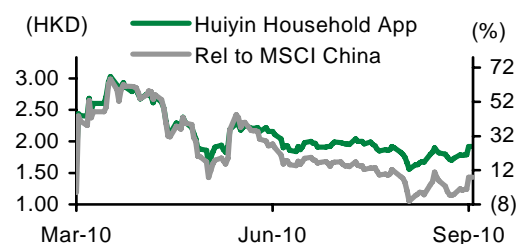
## BUY

### HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (HKD)	2.55	2.30	10.9
EPS 2010 (RMB)	0.12	0.10	20.0
EPS 2011 (RMB)	0.15	0.14	7.14
	Positive	Neutral	Negative
Market Recs.	1	0	0

### KEY STOCK DATA

YE Dec (RMB m)	2010E	2011E	2012E
Revenue	1,788	2,351	2,976
Rec. net profit	119	157	192
Recurring EPS (RMB)	0.12	0.15	0.18
Prior rec. EPS (RMB)	-	-	-
Chg. In EPS est. (%)	N/A	N/A	N/A
EPS growth (%)	(97.5)	23.4	22.4
Recurring P/E (x)	13.7	11.1	9.1
Dividend yield (%)	0.3	0.1	0.2
EV/EBITDA (x)	4.3	6.1	5.0
Price/book (x)	1.6	1.4	1.3
Net debt/Equity	(24.1)	(24.0)	(21.2)
ROE (%)	14.5	13.8	15.0



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(5.7)	(19.5)	-
Relative to country (%)	(6.5)	(26.1)	-

Next results	March 2011
Mkt cap (USD m)	257
3m avg daily turnover (USD m)	1.1
Free float (%)	36
Major shareholder	Cao Kuanping (24%)
12m high/low (HKD)	3.03/1.56
3m historic vol. (%)	54.3
ADR ticker	-
ADR closing price (USD)	-

Sources: Bloomberg consensus; BNP Paribas estimates

### INDUSTRY OUTLOOK ↑

INITIATION

## In a sweet spot

- A home-appliance retailer focused on the China rural market.
- Unique business model best fits for target markets.
- Major beneficiary of subsidy and booming local economy.
- Initiate with BUY and target price of HKD2.55.

Leading home-appliance retailer in lower-tier markets

We initiate coverage of Huiyin Household Appliances (Huiyin, 汇银) with a BUY rating and TP of HKD2.55. Huiyin is a leading wholesaler and retailer of home appliances focusing on third- and fourth-tier cities. About two-third of its revenue comes from wholesale distribution and one-third from retail sales through its 30 owned stores.

Unique business model suitable to target markets

Huiyin's business model has a retail network of self-owned stores in city centres and franchise stores in surrounding towns and rural areas. We believe the combination of two types of stores enables Huiyin to capture the fast-growing fourth-tier city market, which accounts for around 40% of the total China market. With less competition and lower operation costs in rural market, we believe Huiyin will achieve over 30% revenue CAGR and maintain above 17% gross margin over 2009-12.

**Benefiting from subsidies and booming local economy**  
The Chinese government has undertaken several initiatives since 2008 to stimulate domestic demand for home appliances. These policies are targeting low- to mid-end products and some subsidies are specifically designed for rural consumers. Compared with GOME (493 HK, BUY, CP: HKD2.65) and Suning (002024 CH, CP: RMB15.75, Not rated), Huiyin has larger exposure to these consumers and benefits more from the government's favourable policies.

**Margin expansion likely due to retail expansion**  
Huiyin focused on franchise-store expansion during the global economic downturn because the risk for franchise businesses is lower. As the economy recovers, Huiyin plans to focus on the more profitable, owned-store retail business. According to the company, the number of retail stores will increase 55% in 2010 and at least 35% in 2011. We believe this will improve Huiyin's gross margin by 120bp and drive 27% recurring net profit CAGR over 2009-11.

### Valuation

We initiate coverage of Huiyin with a BUY rating and target price of HKD2.55 based on a target FY11E P/E of 15x, which is in line with the average for consumer durable retailers listed in Hong Kong, based on our own and Bloomberg consensus estimates. Our DCF model indicates a higher intrinsic value of HKD2.81 per share. We believe our target P/E is undemanding given Huiyin's strong growth prospects in the rural market.



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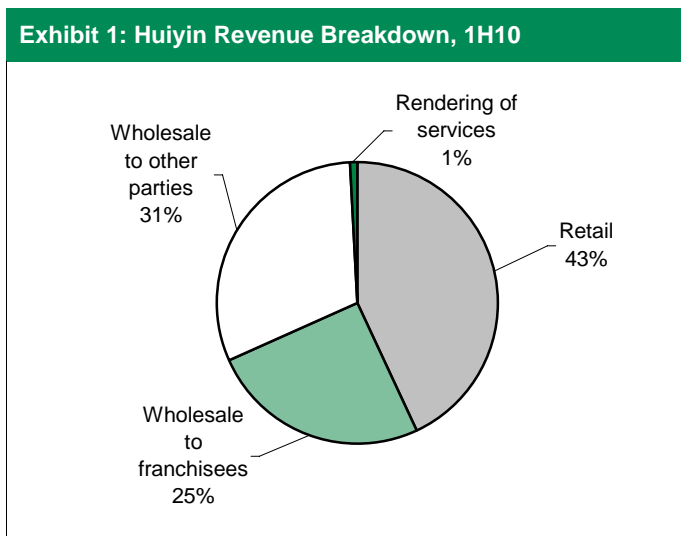
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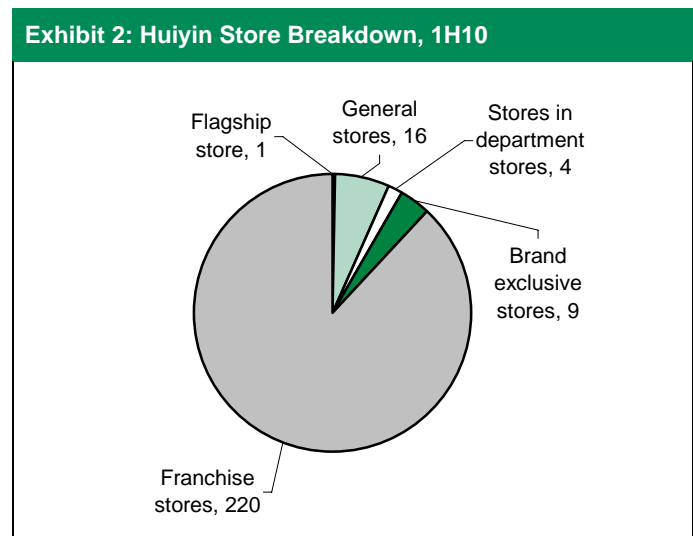
## A leading suburban/rural consumption play

Huiyin is a retail-chain operator and distributor of quality home appliances and consumer electronics products in third- and fourth-tier cities in China. Headquartered in Yangzhou, Huiyin has expanded its sales and after-sales network to 27 cities in Jiangsu and Anhui provinces.

Mr. Cao Kuanping founded Huiyin in 1995 and started to distribute home appliances in Yangzhou, Jiangsu. In the next 15 years, Huiyin has expanded rapidly through continuous mergers with local distributors of leading, home-appliance brands. By the end of 2009, Huiyin had developed a distribution network of 27 self-owned stores, where home-appliance products are sold directly to customers and 220 franchise stores. For the franchise stores, Huiyin is the exclusive wholesaler. Huiyin also has 126 service centres (seven self-operated and 119 authorized) to provide after-sales service to its covered markets.



Sources: Huiyin Household Appliances FY10 Interim Report , BNP Paribas



Sources: Huiyin Household Appliances FY10 Interim Report , BNP Paribas

Unlike other leading retail-chain players such as GOME and Suning, which focus more on first- and second-tier cities, Huiyin is very focused on fast-developing, lower-tier cities and rural markets. Huiyin's target markets are mostly in Jiangsu, where small-city economies have boomed in recent years. The cities that Huiyin covers in Jiangsu showed an average per-capita GDP of RMB40,766 and average GDP growth of 19.3% during 2005-08. We believe the relatively affluent markets and vibrant economic growth provide a good growth opportunity for Huiyin, while the competition is less intense than in larger cities.

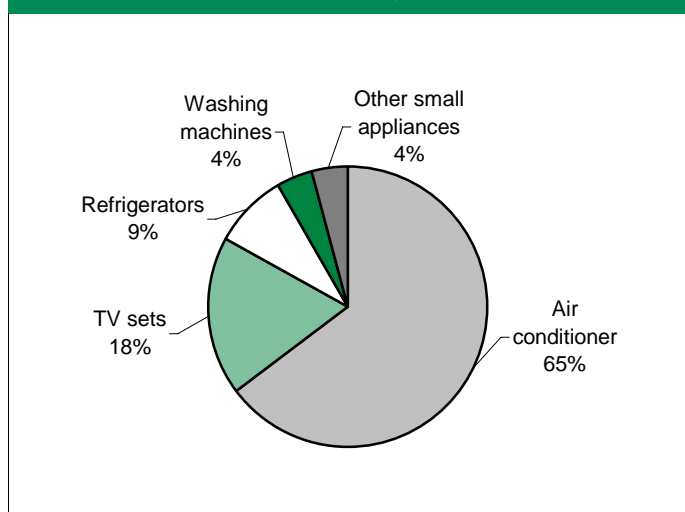
**Exhibit 3: Comparison of Per Capita GDP and CAGR**

	2008	2005	CAGR		2008	2005	CAGR
	GDP P.C.	GDP P. C.	(%)		GDP P.C.	GDP P. C.	(%)
Nanjing	60,807	40,887	14.1	Yangzhou	34,238	20,251	19.1
Wuxi	95,460	62,323	15.3	Baoying	18,259	10,703	19.5
Jiangyin	127,617	66,670	24.2	Yizheng	34,442	18,010	24.1
Changzhou	61,504	37,207	18.2	Gaoyou	22,099	12,671	20.4
Lianyungang	15,458	9,691	16.8	Jiangdu	31,449	17,881	20.7
Huian	17,104	10,683	17.0	Zhenjiang	52,390	32,597	17.1
Yancheng	19,775	12,585	16.3	Danyang	52,767	31,791	18.4
Binhai	11,362	7,344	15.7	Yangzhong	62,871	39,652	16.6
Taizhou	27,840	16,366	19.4	Taixing	23,549	13,594	20.1
Xinghua	17,423	9,744	21.4	Jiangyan	25,912	14,911	20.2
Jinjiang	43,763	20,018	29.8				
Average	40,766	24,075	19.3				
China	22,698	14,053	17.3				

Sources: Jiangsu Province Statistics Year Book 2009; BNP Paribas

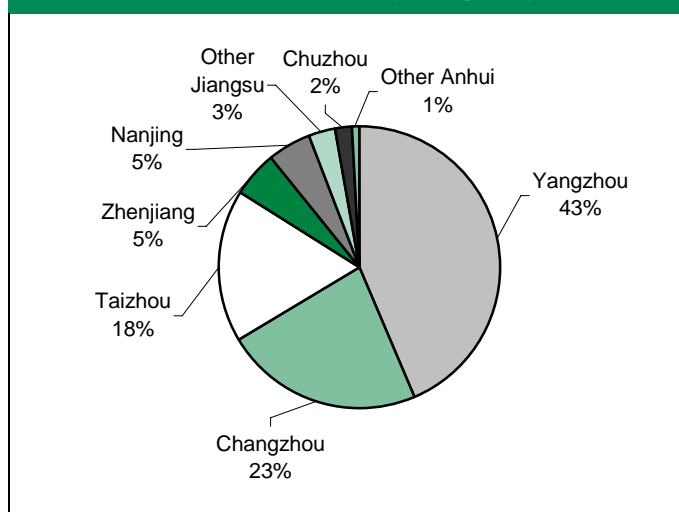
Company at a glance

**Exhibit 4: Revenue Breakdown by Products, 1H10**



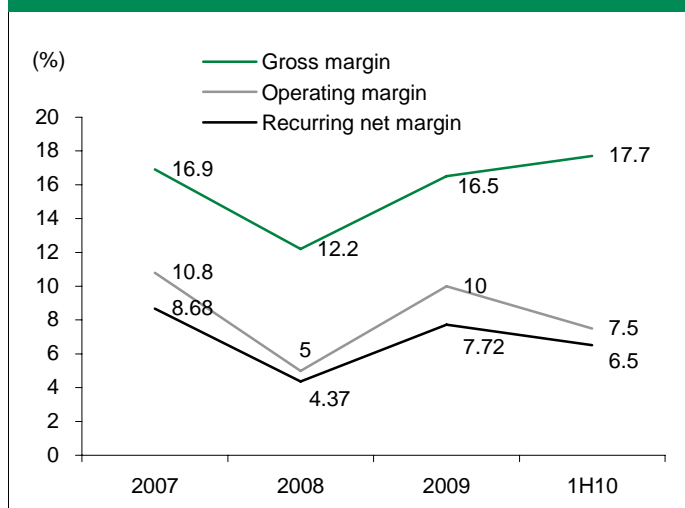
Source: Huiyin Household Appliances FY10 Interim Report

**Exhibit 5: Revenue Breakdown by Geography, 2009**



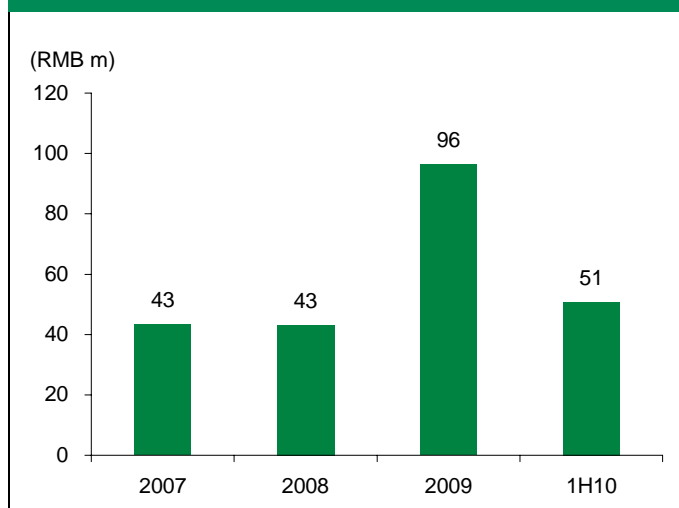
Source: Huiyin Household Appliances FY10 Interim Report

**Exhibit 6: Margin Performances, 2007-1H10**



Source: Huiyin Household Appliances Prospectus and FY10 Interim Report

**Exhibit 7: Net Profit, 2007-1H10**



Source: Huiyin Household Appliances Prospectus and FY10 Interim Report

**Exhibit 8: Key Information**

<b>Total Shares Outstanding (m)</b>	1,048	<b>Board of Directors</b>	4//2/3 (ED/Non-ED/Indep. Director)
<b>IPO Price/Date</b>	HK\$1.60/25 March, 2010	<b>Auditor:</b>	PricewaterhouseCoopers
<b>Major shareholders</b>	Cao Kuanping, Chairman (24%)	<b>Place of registration</b>	Cayman Islands
<b>FY11E P/E – recurring EPS (x)</b>	11.1	<b>FY11E P/BV (x)</b>	1.4
<b>FY11E ROE (%)</b>	13.8	<b>FY11E ROA (x)</b>	9.2
<b>FY11E dividend yield (%)</b>	1.3	<b>FY11E EV/EBITDA (x)</b>	6.1
<b>FY10 net D/E ratio (%)</b>	(24)	<b>EPS CAGR 2010-2012E (%)</b>	23

Sources: Company data; BNP Paribas estimates

## Unique business model fits for target market

Huiyin's business model is unique because it is very focused on third- and fourth-tier cities and has a much better penetration in these markets, especially in fourth-tier cities. We have discussed the tiers of cities in our sector report "Rural Market: Great leap ahead", published along with this report Exhibit 9 provides a recap of the definitions. Exhibit 9 shows that tier-4 cities account for 46% of the total consumer retail market in China.

### Exhibit 9: City Tier Definition

Tier	Definition	Cities
Tier 1	Municipalities	Beijing, Shanghai, Tianjin, Chongqing
Tier 2	Sub-provincial cities: including ten provincial capital cities and five large non-capital cities	<b>Provincial Capital Cities:</b> Harbin, Shenyang, Changchun, Wuhan, Guangzhou, Nanjing, Xi'an, Hangzhou, Jinan, Chengdu <b>Non-Capital Cities:</b> Ningbo, Shenzhen, Xiamen, Qingdao, Dalian
Tier 3A	Prefecture level cities: Type A 17 Smaller provincial capital cities	<b>Provincial Capital Cities:</b> Shijiazhuang, Taiyuan, Hohhot, Hefei, Fuzhou, Nanchang, Zhengzhou, Changsha, Nanning, Haikou, Guiyang, Kunming, Lanzhou, Xining, Yinchuan, Urumqi, Lhasa.
Tier 3B	Prefecture Level Cities: Type B 250 non-provincial capital cities	<b>Non-Capital Cities:</b> E.g., Suzhou, Yangzhou, Dongguan, Zhuhai, etc.
Tier 4	County level cities: all other cities (including surrounding rural areas)	2,016 small cities, e.g., Taixing

Sources: State Council of China; BNP Paribas

### Exhibit 10: Population and Retail Sales of Consumer Goods by City Tiers

Tier	Population					Retail Sales of Consumer Goods		
	Urban (m)	Rural (m)	Total (m)	Urban as % of total (%)	% of total China (%)	Total (RMB b)	% of total China (%)	Per capita (RMB)
Tier 1	43	12	55	78	4	1,420	11	25,815
Tier 2*	61	41	102	60	8	2,294	18	22,513
Tier 3A*	33	39	72	46	5	1,049	8	14,494
Tier 3B**	97	68	165	59	12	1,943	15	11,788
Tier 4 (Rural)	280	654	934	30	70	5,828	46	6,241
<b>Total China</b>	<b>607</b>	<b>721</b>	<b>1,328</b>	<b>46</b>	<b>100</b>	<b>12,534</b>	<b>100</b>	<b>9,438</b>

Sources: CEIC; China provincial bureaus of statistics; BNP Paribas

While GOME and Suning stores are mostly located in tier-1 and tier-2 cities, Huiyin's stores are almost entirely located in tier-3B and tier-4 cities as shown in Exhibit 6. Although looking solely at absolute numbers, Suning seems to have adequate coverage in lower-tier markets, Suning has a national scale while Huiyin's presence is restricted to the Jiangsu province, where the income growth rate is one of the highest across China.

### Exhibit 6: Store Location Comparison: Huiyin vs. GOME and Suning

	Total China # of cities	GOME		Suning		Huiyin			
		# of stores	% of total	Stores/city	# of stores	% of total	Stores/city	# of stores	% of total
	Cities	Stores	(%)	Stores	Stores	(%)	Stores	Stores	(%)
Tier 1	4	171	24	42.8	166	20	41.5	0	0
Tier 2	15	407	56	27.1	195	23	13.0	3	1
Tier 3A	17	91	13	5.4	86	10	5.1	0	0
Tier 3B	250	46	6	0.2	289	34	1.2	66	26
Tier 4	2,016	11	2	0.0	103	12	0.1	184	73
<b>Total</b>		<b>726</b>	<b>100</b>		<b>839</b>	<b>100</b>		<b>253</b>	<b>100</b>

\* Tier-2 and Tier-3A cities include central urban districts and counties under the administration of these cities.

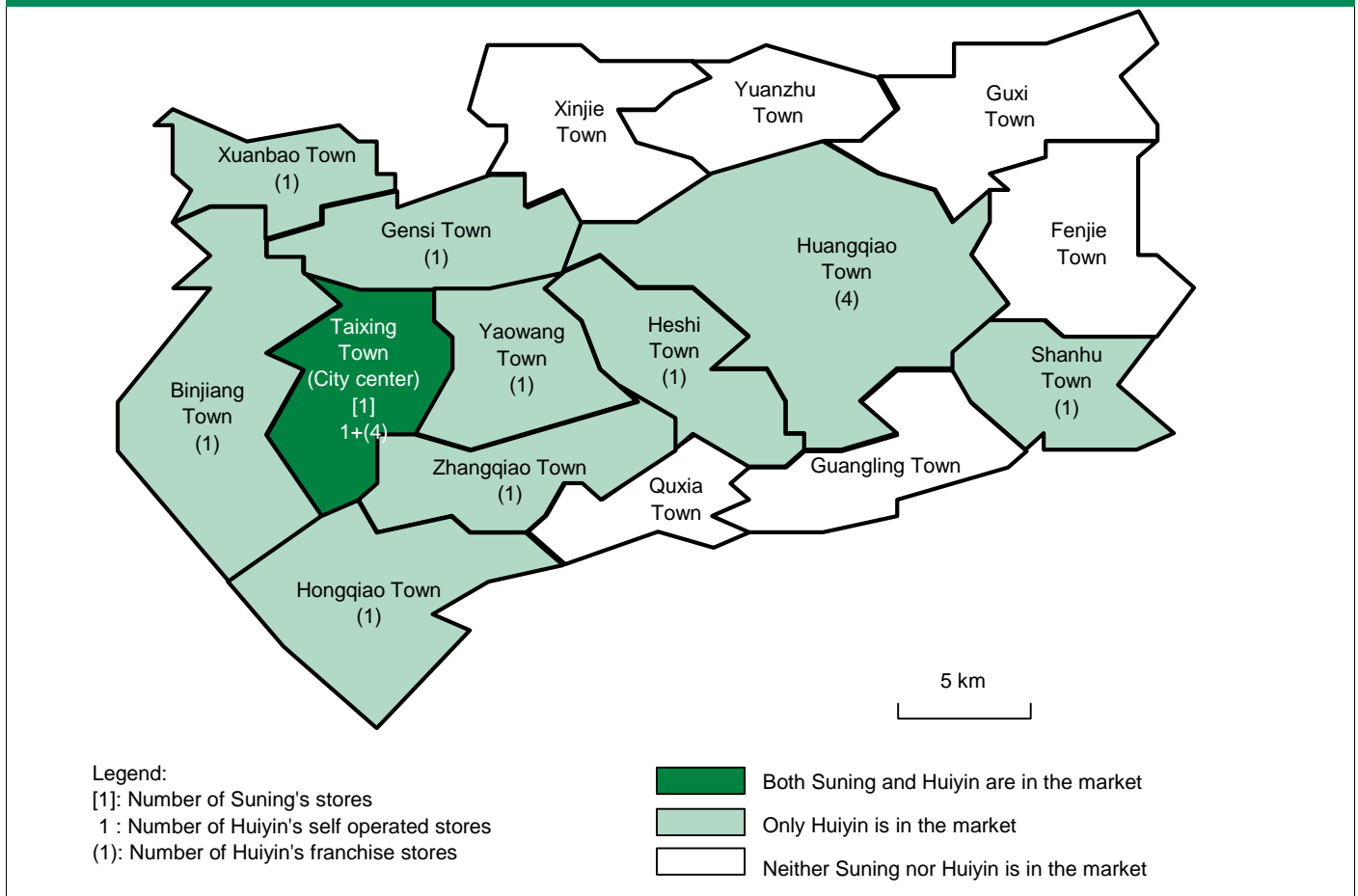
\*\* Tier-3B cities include central urban districts only

Sources: GOME Annual Report 2009; Suning company website; BNP Paribas

The difference in penetration is more obvious when we drill down to the fourth-tier city level. Below is a map of Taixing City, a tier-4 city. Nominally, both Suning and Huiyin have a presence there, but Huiyin's franchise stores are scattered into nine of the total

15 surrounding towns, usually referred as “rural areas.” Suning is only competing with Huiyin in the city centre, and is weaker than Huiyin in terms of store numbers.

**Exhibit 11: Suning and Huiyin’s Store Locations in Taixing City**



Sources: Huiyin Household Appliances; Suning Company Website

Huiyin’s strategy is to set up a self-owned store in the city centre and to subsequently develop a franchise-store network in surrounding towns. Normally a tier-4 city has only 20-30% of its population in the city centre. This strategy enables Huiyin to cover the remaining 70-80% of consumers, which contributes 60-70% of the total retail consumption.

Huiyin’s self-owned store in the city centre also acts as a local logistics centre, taking care of the shipping from the city centre to rural markets. If a customer living in, for instance, Huangqiao town, buys a refrigerator in Taixing Town (the city centre), Suning normally charges RMB50-100 per delivery. By having local stores in Huangqiao, Huiyin can offer free delivery. This is very attractive to rural customers because of cost savings. A usual practice for local customers is to visit Huiyin’s or Suning’s big stores in the town centre, decide which product to buy, then come back to their home town and buy from the local Huiyin franchisee.

The following exhibit shows that Huiyin’s coverage is much more intense than Suning’s in Tier-4 cities. Again, Suning and Huiyin are competing in the most populated area while Huiyin’s franchise stores are located in rural markets.

**Exhibit 12: Geographic Coverage in Taixing City (Tier-4 City)**

City	Population (000)	Area (sq km)	Pop. Density (pop/sq km)	Suning	Huiyin Self-owned store	Huiyin franchise store
<b>Taixing City Total</b>	<b>1,205</b>	<b>1,145</b>	<b>1,052</b>	<b>1</b>	<b>1</b>	<b>16</b>
Taixing Town (city centre)	224	75	3,006	1	1	4
Shanhu Town	53	52	1,029	-	-	1
Huangqiao Town	191	176	1,087	-	-	4
Guxi Town	60	70	859	-	-	-
Zhangqiao Town	57	62	928	-	-	1
Heshi Town	56	65	865	-	-	1
Yaowang Town	52	67	772	-	-	1
Hongqiao Town	78	108	726	-	-	1
Fenjie Town	60	71	841	-	-	-
Guangling Town	58	59	986	-	-	-
Yuanzhu Town	39	48	819	-	-	-
Xuqia Town	33	35	934	-	-	-
Xinjie Town	61	47	1,281	-	-	-
Xuanbao Town	32	32	985	-	-	1
Binjiang Town	100	130	769	-	-	1
Gensi Town	52	51	1,021	-	-	1

Sources: Huiyin Household Appliances; Jiangsu Statistics Yearbook 2009; BNP Paribas

## Barriers for GOME

**1. Single-store scale does not play well in rural markets**

Population concentration and people's purchasing power are high in first-tier cities like Beijing and Shanghai. The strong retail demand makes the revenue of a store almost linearly correlated to the sales area, while the marginal cost of employees and administration declines as the sales area increases. This is the most favourable soil for gigantic flagship stores. GOME and Suning are good examples of major players in this market.

Retail demand within a unit area drops quickly in lower-tier cities on lower per-capita disposable income and much lower population concentration (as shown in Exhibit 13). That means that the total possible retail sales in the area covered by a store are effectively capped. In this situation, the single-store sales have nothing to do with the sales area once the size goes over a certain threshold. This threshold is very small such that it is difficult to realize economies of scale in terms of savings in employee and administrative costs. It is no surprise that a lot of independent small shops show their vitalities in county-level cities.

**Exhibit 13: Per Square km Purchasing Power in Different Tier Cities**

	Nanjing	Ti Zhou	Taixing
	Tier 2	Tier 3	Tier 4
Area (sq km)	260	434	1,145
Population (thousand)	2,438	620	1,205
Population per sq km (A)	9,377	1,429	1,052
Disposable Income per capita, RMB (B)	23,123	17,198	13,228
Disposable Income per sq km (RMB m) = A x B	217	25	14

Sources: Jiangsu Bureau of Statistics; BNP Paribas

Huiyin's average wholesale value per franchise store was RMB1.6m in 2009. Assuming the franchise stores generate 20% gross margin, the retail value per franchise store in 2009 will have been around RMB2.0m, implying per-day sales of only RMB5,500 – just three or four items sold per day. This is not a viable scale for GOME.

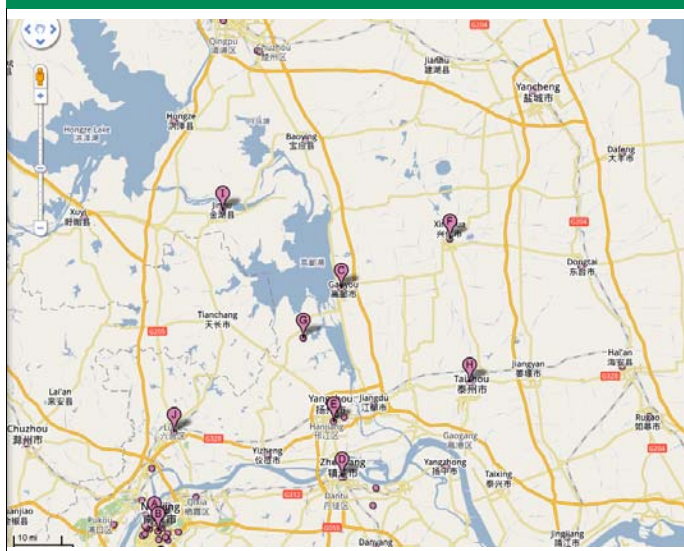
**2. Brand image down-grading**

Having been in urban markets for over a decade, GOME and Suning have built their brands as leading, home-appliance retailers who provide good shopping experiences and good after-sales service. Giving brand-usage rights to local franchisees in tier-4 cities could damage brand image due to poor operations management. However, there is the risk of losing urban customers if their brands are too much associated with “rural” or “suburban” consumers. GOME actually piloted franchise stores several years ago and has suspended this trial because the profit could not justify management costs and the company could not risk brand down-grading.

We recognize that GOME and Suning are competing with Huiyin head-to-head in the central areas of some third- and fourth-tier cities, but our analysis suggests that the vast suburban and rural markets are still out of the reach for peers.

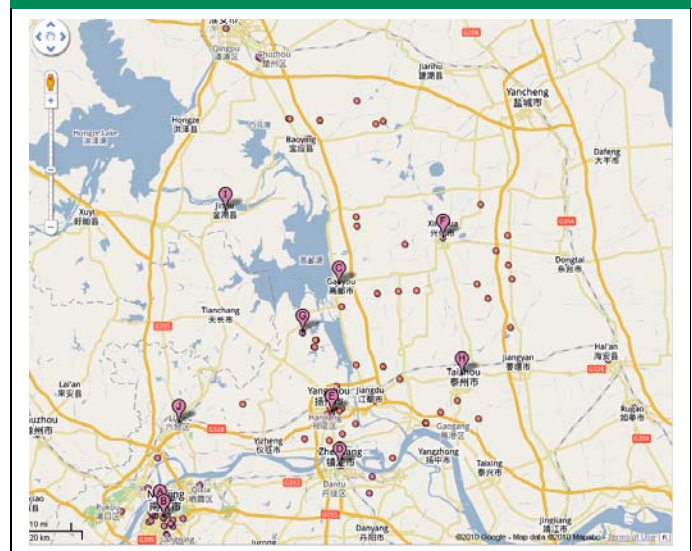
Exhibits 16 and 17 compare Suning and Huiyin stores in central Jiangsu province. A Google Map search shows Suning’s stores are mostly located in city centres, while Huiyin’s stores have developed a network in suburban and rural areas.

**Exhibit 14: Suning Stores in Central Jiangsu (Google Map)**



Note: The balloons show the locations of Suning stores while the little dots on the right show the locations of Huiyin stores, which are mainly between city centres  
Sources: Google Map; BNP Paribas

**Exhibit 15: Suning & Huiyin Stores in Central Jiangsu (Google Map)**



Note: The balloons show the locations of Suning stores while the little dots on the right show the locations of Huiyin stores, which are mainly between city centres  
Sources: Google Map; BNP Paribas

We believe Huiyin’s unique business model that combines self-operated stores and franchise stores gives the company tight control of the vast suburban and rural markets. As a seasoned local air-conditioner wholesaler, Huiyin can also leverage its local logistics network to distribute products to rural areas at low costs. In our opinion, Huiyin is able to quickly replicate its business model to areas where the company already has a wholesale business. We do see risks for Huiyin entering into new markets where it does not have a presence yet, and we have detailed this risk discussion in the section, “Devil’s Advocates: Risks.”



## Double happiness: government subsidy + booming local economy

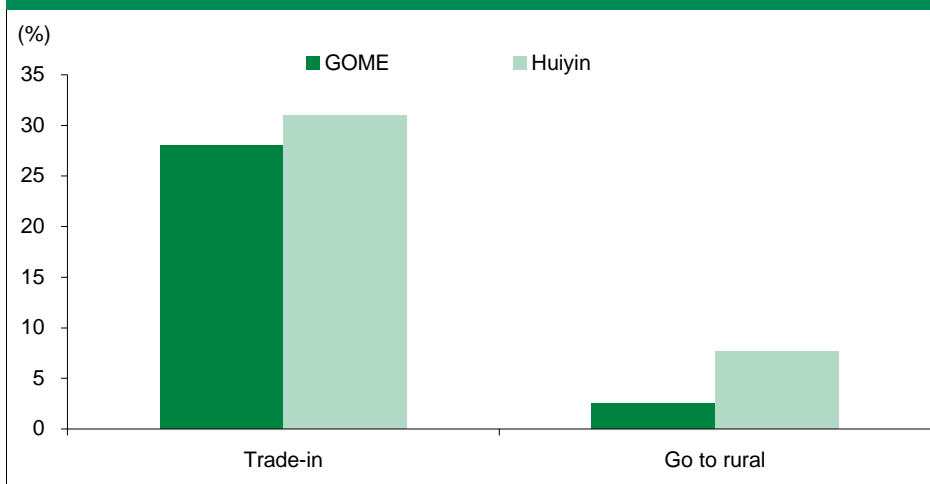
Larger exposure to government subsidy programs than urban retail players

In our sector report *“Rural market – great leap ahead,”* we have discussed two major government policies, “Home Appliances Goes To Rural” and “Home Appliance Trade-In” in detail. In our opinion, Huiyin benefits more from these programs compared with other home-appliance retailers.

The “Home Appliance Goes To Rural” program applies only to consumers with rural Hukou (residence registration). Most of these consumers live in tier-3B and tier-4 cities, where Huiyin has an intensive network. It is no surprise that the percentage of Huiyin’s sales related to the “Go to Rural” program are three times the percentage of GOME, as shown in Exhibit 16.

The government has set caps on the prices of eligible products and rebate amounts for both subsidy programs to make sure these policies favor the low-income and rural consumers. Apparently, Huiyin’s customer profile fits slightly better into this category than other urban players such as GOME. The revenue contribution from the “Trade-In” program is 31% for Huiyin vs GOME’s 28%.

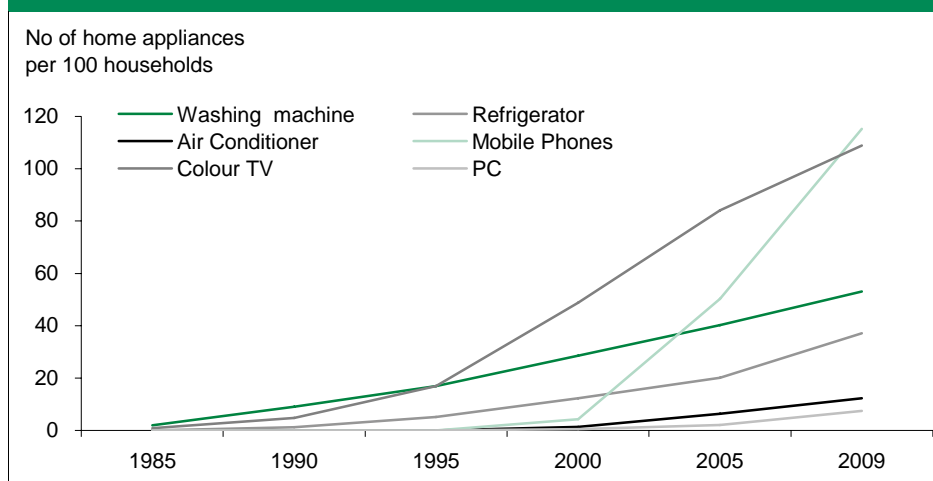
**Exhibit 16: Subsidy Programs Sales as % of Total Sales, 2009**



Sources: Company interviews; BNP Paribas

In a sweet spot for air-conditioner penetration in Jiangsu market

In our analysis, we found it very interesting that selling air conditioners in Jiangsu province actually maximizes Huiyin's growth potential in the company's current stage. We have discussed the home-appliance penetration cycle in our sector report. Normally, as household income increases, the sequence of appliances purchased is: mobile phone, TV or washing machine, refrigerator, air conditioner or PC, as shown in Exhibit 17.

**Exhibit 17: Home Appliance Penetration in Urban Households**

Sources: National Bureau of Statistics of China, BNP Paribas

As one of the most developed provinces in China, Jiangsu's rural households have already completed the penetration cycle for "basic home appliances" – TVs, washing machines and even refrigerators. These consumers are now massively buying air-conditioners as the next addition to their home-appliance suite. With around 70% of its revenue coming from air-conditioner sales, we believe Huiyin is in a sweet spot. Exhibit 18 and 19 illustrate why it is so beneficial to sell air conditioners in Jiangsu at this time.

**Exhibit 18: Go-To-Rural Program Sales Breakdown by Province**

	All products (%)	Mobile Phone (%)	Washing mach. (%)	TV (%)	Refrigerator (%)	Air Conditioner (%)	PC (%)
Shandong	12	4	12	14	15	6	16
Henan	14	46	14	18	12	15	13
Guizhou	2	7	3	2	2	0	1
Jiangsu	5	2	4	4	4	10	4
Guangdong	2	0	2	1	1	2	3
Others	65	40	65	62	66	68	62
<b>China Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Sources: Ministry of Commerce; BNP Paribas

We have introduced a Product Preference Index (PPI) to help us understand how concentrated air-conditioner buyers are in Jiangsu. For each province, we use Jiangsu's share of sales of one product and divide it by its share of sales on all products. For example, Shandong accounts for 12.3% of the total Go-To-Rural sales but only 3.8% of the mobile phone sales in this program. Shandong's mobile phone preference index is  $3.8/12.3 = 31\%$ . A high PPI number means the sales of home appliances is more skewed to a certain product.

**Exhibit 19: Product Preference Index (PPI)**

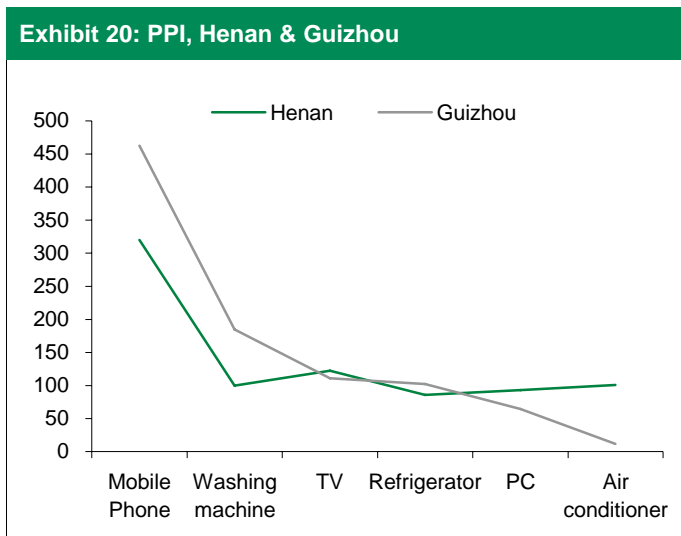
(%)	All products	Mobile Phone	Washing mach.	TV	Refrigerator	Air conditioner	PC
Shandong	100	31	101	113	120	48	131
Henan	100	320	100	122	86	101	93
Guizhou	100	463	185	111	102	12	65
Jiangsu	100	43	77	77	81	200	83
Guangdong	100	30	117	65	91	110	200
Others	100	62	99	95	101	104	95

Sources: Ministry of Commerce; BNP Paribas

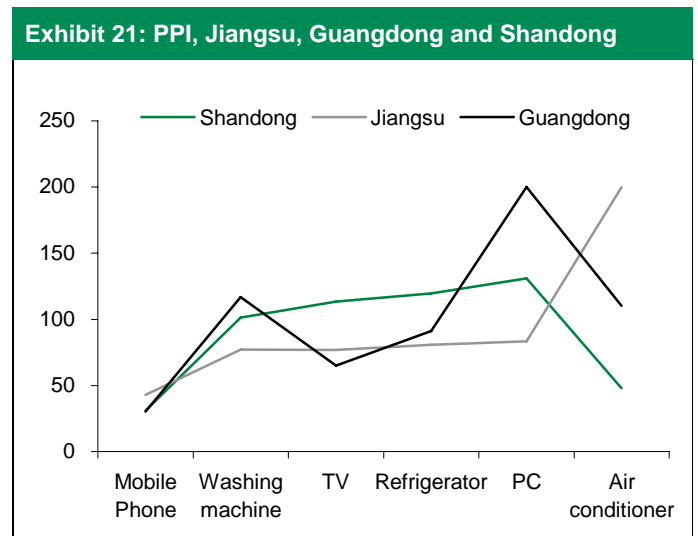
Exhibit 20 shows the sales pattern of two relatively underdeveloped provinces, Henan and Guizhou. Consumers in these two provinces rushed to buy mobile phones and some bought washing machines to fulfill their basic needs for home appliances. Very few of them seemed to have extra money for air conditioners.

Meanwhile, in the relatively affluent provinces such as Guangdong, Shandong and Jiangsu, consumers are already past the cycle of the basic home appliances and are definitely into high-end products such as refrigerators, PCs and air conditioners.

According to the Statistics Bureau of Jiangsu Province, every 100 Jiangsu rural households have 35 air conditioners and the number is rising at around 4 units per year. Our analysis suggests that Jiangsu's air-conditioner penetration in rural households is right in the middle of a rapid growth period. The strong growth is likely to be sustained for another 5-7 years until the penetration hits a number somewhere around 80. The over 10 years' commitment of Huiyin in the air-conditioner distribution business seems to be bearing fruit.



Sources: Ministry of Commerce of China, BNP Paribas

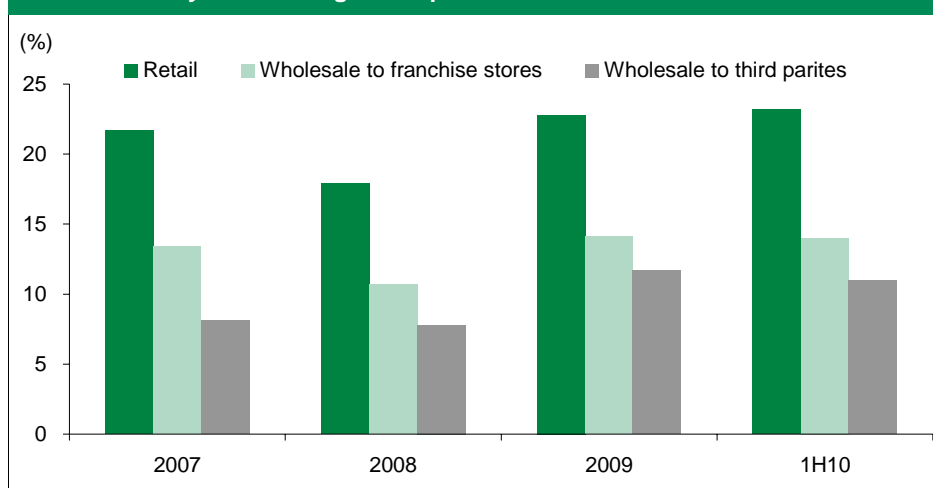


Sources: Ministry of Commerce of China, BNP Paribas

## Focusing on retail drives margin expansion

During the global economic downturn in 2008 and 2009, Huiyin's expansion weighed more on the low-risk franchise stores. Huiyin normally requires franchise stores to pay upfront fully so a fast expansion would not put too much pressure on Huiyin's cashflow. The other side of the coin is that margins in this business segment are low because it is effectively a wholesale business.

**Exhibit 22: Huiyin – GP Margin Comparison**



Sources: Huiyin Household Appliances; BNP Paribas

In 2010, the company has re-focused on self-owned store expansion to generate better margins as concerns about the economy have somewhat eased.

Strengthen the position in Jiangsu and increase exposure in Anhui

At the end of 2009, Huiyin had 27 self-owned stores with a gross floor area of 30,705 sq m. The company plans to open 16 new self-owned stores in 2010 and increase gross floor area by 29,000 sq m. During the same period, the number of franchise stores will also grow from 220 to 270. All these stores will be located in Anhui and Jiangsu.

Huiyin normally spends RMB5m-6m in capex to open a new self-owned store and the company has budgeted RMB106m for the expansion plan in 2010.

**Exhibit 23: Self-Owned Store Capex Breakdown, 2009**

(For A 2,000 sqm store)	(RMB m)
<b>1 year rental</b>	1.0-1.5
<b>Decoration + fixed asset investment</b>	1.0-1.5
<b>Working capital for inventory</b>	3.0
<b>Total</b>	5.0-6.0

Sources: Huiyin Household Appliances; BNP Paribas

Penetrate other markets through acquisition

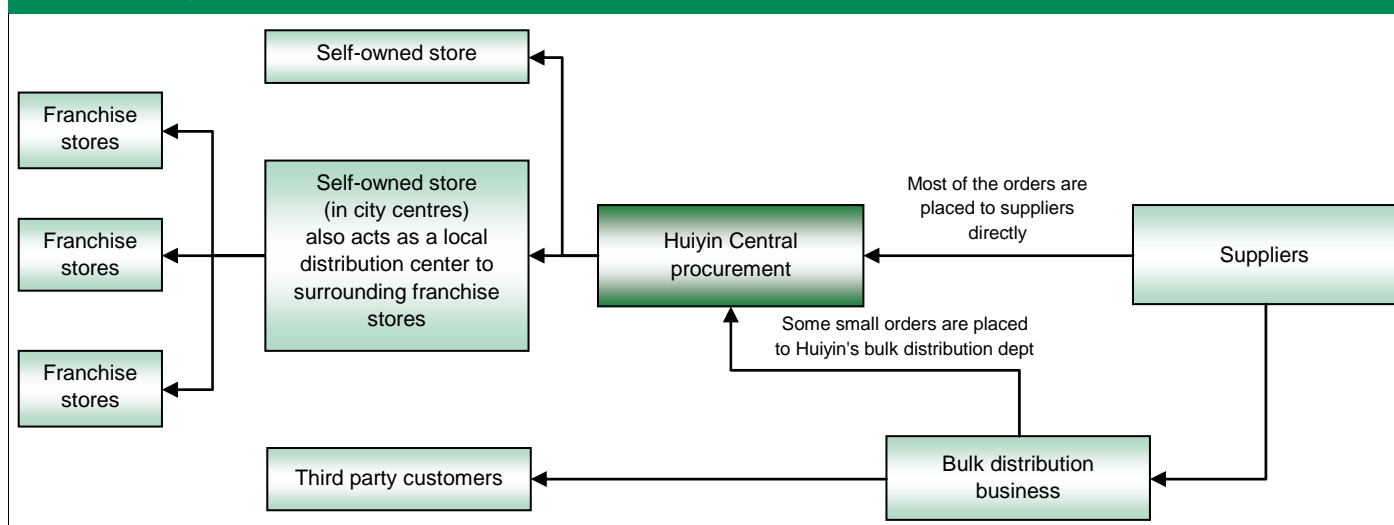
The home-appliance retail market in rural areas is still very fragmented. The market is full of independent stores and small-scale, organized retailers. Without a lot of local relationship and knowledge, we believe M&As with small local retailers will be the fastest way to expand.

Maintain self-owned stores + franchise stores

As discussed previously, we believe franchise stores will still play a vital role in rural markets. Huiyin will continue to utilize both business models and use either one where appropriate. The franchise store channel is unlikely to be abandoned in the foreseeable future.

## Operations overview

Exhibit 24: Huiyin's Operations Flow



Source: Huiyin Household Appliances

## Overview of the operations

Huiyin's business has both retail and bulk distribution. Normally the bulk distribution segment places orders from suppliers to enjoy a higher discount. In some occasions, if the retail segment needs smaller orders for certain products that run out of stock, the retail procurement department also places ad hoc orders directly from suppliers.

Huiyin's Central Procurement Department allocates inventory to each local, self-owned store. Each self-owned store also acts as a local distribution centre that supplies the franchise stores in surrounding remote areas. The Bulk Distribution Segment sells directly to third-party retailers or wholesalers.

Exhibit 25: Comparison of Operation Data, 2009

	Huiyin	GOME	Suning
Total revenue (RMB m)	1,248	42,668	58,300
Retail revenue	440	42,668	58,300
Wholesale revenue	799	0	0
Number of self owned stores	27	726	941
Number of franchise stores	220	0	0
Consolidated GP margin (%)	17.4	17.1	17.7
Operating margin (%)	10.0	3.8	6.7
AR days	30	0.5	2.2
Other receivable days	103	15	6.6
AP days	55	150	144
Other payable days	17	17	7
Inventory days	45	65	48

Sources: Huiyin Household Appliances Prospectus; GOME Annual Report 2009; Suning Annual Report 2009; BNP Paribas

## Higher margins

What strikes us first is the fact that Huiyin's gross margin and operating margin are higher than both GOME's and Suning's. If we further breakdown Huiyin's gross margin by business segment, we find that Huiyin's gross margin from the retail business in 2009 was a strong 23%.

The major reason for this is that GOME and Suning still need to purchase some merchandise from distributors. Although GOME and Suning are trying hard to deal with manufacturers directly in order to save costs, some home-appliance manufacturers have intentionally kept the third-tier, maker-wholesaler-retail model to minimize their dependence on retailers. On the contrary, Huiyin buys everything from manufacturers

directly as Huiyin itself is a distributor, so the company can shorten the supply chain and maximize the profit. Huiyin mentions that in some markets, GOME and Suning are its wholesale clients.

Huiyin has given two other reasons to explain its high margin. First, air-conditioners are one of the most profitable home appliances for the distributor. Because sales of air conditioners have the strongest seasonality of all of the home-appliance products, air-conditioner makers normally require prepayment from wholesalers to guarantee supplies in peak season. The more and the earlier repayment is made, the higher the rebate distributors tend to get afterwards. Second, rural or lower-tier city consumers are less fashion-sensitive. It is a normally the practice for GOME and Suning in urban areas to offer deep discounts to push older inventories. Huiyin does similar promotions much less often in its rural markets.

Huiyin's operating costs are also lower than GOME's because of the former's more rural locations. Huiyin's rental and salary account for only 2.4% and 1.5% of its revenue, respectively, while these ratios for GOME are 4.7% and 2.4%, respectively.

We believe this high margin is unsustainable in the long term. As China's urbanization continues, we believe competitors will penetrate into Huiyin's current market and other local, rural retailers may also emerge. Competition will likely become fierce eventually and Huiyin's margin could normalize to a level similar to that of GOME and Suning. Huiyin's production diversification could also lower its gross margin as the company will sell fewer high-margin air conditioners.

#### Relatively short AP days

Huiyin usually sources its products on a relatively short-term credit basis (ranging from 15 to 60 days). In 2009, Huiyin's total account and bill payable days was 72 days, less than half of GOME's 167 days during the same period. We believe this was due to two reasons:

- 1 Heavy exposure in air-conditioner business:** The air-conditioner market in China is one of the most concentrated among all home appliances. The top three brands (*GREE, Midea and Haier*) account for over 70% of the total market share. The suppliers have relatively strong bargaining power. In addition, sales of air conditioners have strong seasonality. As discussed previously, air-conditioner distributors normally have a short payable period or sometimes need to make prepayments to secure supplies in the peak season. With around 70% of revenue coming from air-conditioner sales, it is no surprise that Huiyin's account payables (AP) day is relatively short. As Huiyin's sales diversify, we expect the AP days to extend in the future.
- 2 Smaller scale and better supplier relationships:** Huiyin's revenue is only 3% of GOME's, thus Huiyin does not have the same bargaining power as GOME. Huiyin sacrifices its working capital days in order to build better relationships with key suppliers so that it can compete with other retailers more effectively. For example, in 2009, Huiyin obtained 31 exclusive distribution rights from well-known home-appliance brands. We believe Huiyin's AP days will lengthen as it expands and gains more bargaining power.

#### Relatively long AR days

Huiyin's 2009 account receivable (AR) days reached 30 and other receivable days (mainly prepayments to air-conditioner suppliers) reached 103. This was mainly from Huiyin's wholesale business sold to independent third parties. For wholesale sales to franchise stores, Huiyin requires full payment upfront for most clients. Its retail business has less than a one day AR period because business is almost all conducted in cash, similar to GOME. As Huiyin plans to increase its retail business, we expect the long AR days to improve as well.

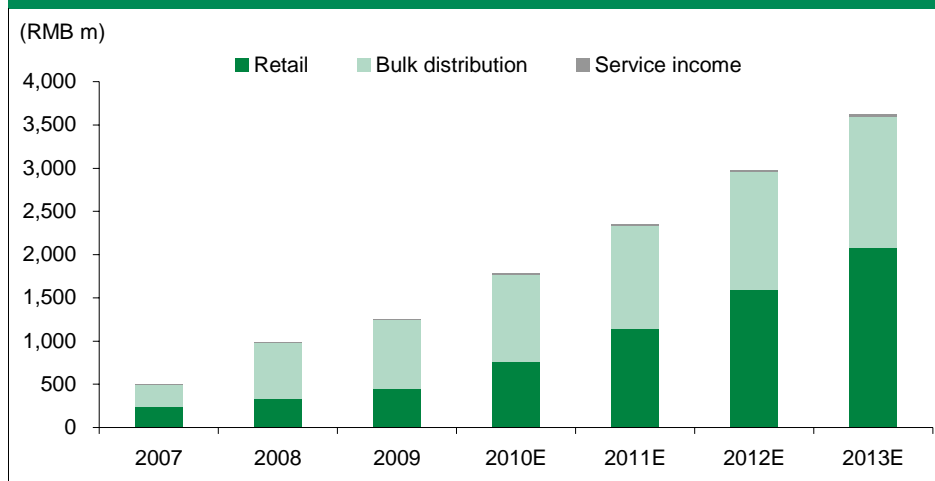
#### 1H10 results: new store opening driving top-line growth

In 1H10, Huiyin's top line was up 40% y-y, driven by new retail store openings. According to Huiyin's prospectus, the company plans to open 16 new stores by the end of 2011, and we believe this new-store-opening plan can be completed as early as the end of 2010. In 1H10, Huiyin opened eight new stores and another 8 new stores are

under improvement construction. The company is confident to reach the 16 new-stores target by the end of this year. Thanks to the fast-growing rural economy, Huiyin's 1H10 single-store sales were up 18% y-y. We believe this strong growth will slow in the future as Huiyin's stores mature.

The company is rather conservative in giving growth guidance going forward. Therefore, we keep our forecast of new-store openings in 2011 and 2012 the same as this year, i.e., 16 new stores every year. We believe the company will maintain at least 30% revenue growth y-y in 2011 and 2012, driven by retail-store expansion.

**Exhibit 26: Huiyin Revenue Forecast, 2007-2013E**



Sources: Huiyin Household Appliances; BNP Paribas estimates

**Bottom line hurt by IPO-related costs, core earnings up 30%**

Huiyin's net profit attributable to shareholders grew only 4% in 1H10 y-y. However, this was because of two IPO-related items: IPO professional costs and management option costs. The professional costs will not recur going forward, the option cost will be amortized in three years with the cost falling each year. On an apple-to-apple comparison, core earnings actually grew 30% y-y in 1H10.

Because there will be RMB9m in option costs in 2H10, we do not expect strong growth on the bottom line in FY10, but we forecast net profit will surge 51% in 2011 and 30% in 2012 with declining option cost.

## Devil's advocate: risk analysis

### Competition from large retail chains

We have discussed the sales territories between GOME/Suning and Huiyin. While it is a fact that they are competing in central districts of some tier-3 and tier-4 cities, Huiyin has a much more comprehensive penetration into rural markets, where GOME and Suning are unable to enter due to the inability to utilize their large-store business model.

GOME and Suning have been talking about "channel descending" into tier-3 and tier-4 cities for some time. In our opinion, their current focus is to enter as many tier-3 and tier-4 city centres as possible, but there is still a long way to go before they can really compete with Huiyin directly in small townships.

### Competition from other rural, home-appliance retailers

Ririshun (not listed) is an emerging, rural, home-appliance retailer also focusing on lower-tier cities and rural markets. According to the 21 Century Economy Report, Ririshun's revenue reached RMB45b in 2009 with over 6,000 retail stores. From the company's RMB45b sales, RMB30b came from the *Haier* brand. Currently, Ririshun has a strong presence in Henan and Shandong and does not have much overlap with Huiyin, but we believe Ririshun is the closest competitor to Huiyin in the long term.

Haier started Ririshun in 2003 to develop its own distribution channel in lower-tier cities. Ririshun's network expanded quickly with the franchise-store model, and it has adjusted the strategy from Haier's (not listed) exclusive distributor to include competitors' brands such as *TCL*, *Midea*, *Hisense*, *Samsung*, etc. Ririshun mostly uses the franchise-store format so it is still effectively a wholesaler and so far it has no self-owned, flagship stores.

#### Exhibit 27: Comparison between Huiyin and Ririshun

	Huiyin	Ririshun
<b>Strengths</b>	<ul style="list-style-type: none"> <li>▪ Have self-owned stores, really involved in retail business and margin is higher</li> <li>▪ Strong presence in Jiangsu</li> <li>▪ Independent – can sell all brands with minimal conflict of interest</li> </ul>	<ul style="list-style-type: none"> <li>▪ Larger scale</li> <li>▪ Strong in Henan, Shandong</li> <li>▪ Haier Group is the big shareholder two-third sales come from Haier, easy to control working capital by pushing parentco back</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>▪ Smaller scale</li> <li>▪ High working capital requirement due to short AP day</li> </ul>	<ul style="list-style-type: none"> <li>▪ Concentration of brands (Haier: 60%)</li> <li>▪ Essentially a wholesaler – lower-margin, no real retail business</li> </ul>

Source: BNP Paribas

In the short term, we believe Huiyin will focus on grabbing unoccupied markets before entering Ririshun's territory. Based on our estimate, Huiyin accounts for only 1% of the total home-appliance market in Jiangsu and there will be plenty of room to grow before Huiyin starts battling for territory.

### Small scale lacking bargaining power

Huiyin is much smaller than GOME and Suning, thus Huiyin does not have the same bargaining power. However, because of Huiyin's concentration in terms of geography and products and given Huiyin's size compared to other local players, we believe the company is indispensable for home-appliance makers. We believe Huiyin will continue to enjoy better pricing terms than other local distributors.

### Sales concentrated in air conditioner increases earning volatility

With around 70% of revenue coming from air conditioners, Huiyin is more volatile than other more-diversified, home-appliance retailers. A cool summer could have a negative impact on Huiyin's earnings.

We see this as one of the major risks to Huiyin's earnings. Opening more retail stores can help the company diversify its product portfolio but it will not change overnight.



### Highly concentrated supplier profile

In 2009, 77% of Huiyin's revenue came from five suppliers: GREE (000651 CH, CP: RMB14.20 Not rated), Midea (000527 CH, CP: RMB15.15, Not rated), Sharp (6753 JP, CP: JPY862.00, Not rated), SONY (6758 JP, CP: JPY 2,622, Not rated) and Haier (1169 HK, CP: HKD6.39, Not rated). The No. 1 supplier, namely, GREE, accounted for 33% of Huiyin's sales. Huiyin's revenue could get hit hard if the company fails to maintain a good relationship with its major suppliers. We see this as an unlikely scenario because in the local Jiangsu market, Huiyin is a relatively big and reliable distributor, and big suppliers are unlikely to fully depend on GOME and Suning, as we discussed previously.

### High gross margin is not sustainable

Huiyin enjoys a 23% gross margin in its retail business, which is higher than that of GOME and Suning. The large retail chains penetrating into lower-tier markets will likely squeeze Huiyin's margin. We agree that Huiyin's gross margin will erode as competition intensifies. Therefore, we forecast Huiyin's overall gross margin will peak in 2011, at 17.7%, due to an improvement in the channel mix, and decrease 60bp in 2012 and 30bp in 2013 due to increased competition.

### Brand image to be damaged by poorly managed franchise stores

We believe a risk to the brand image exists and that this is the trade-off for taking an aggressive approach to grasping rural market share. So far, it seems Huiyin manages its franchise stores well and, as Huiyin turns its attention more toward self-owned, retail-store expansion, this risk is decreasing.

### Competition from emerging channels such as on-line shops

On-line shops such as Taobao and 360Buy.com are increasingly becoming popular among young consumers. They could have some impact on Huiyin, but we believe it would be minimal at this stage. Firstly, online shoppers are mostly urban, young generation clients while Huiyin's customers are mostly in rural areas. Secondly, all traditional channels are affected by the emergence of on-line shops and we believe the impact to the supermarket and urban retail chains will be much stronger than on companies other than Huiyin.

## Valuation

We initiate Huiyin with a BUY rating and target price of HKD2.55 based on a target FY11E P/E of 15x. The closest comparables for Huiyin are GOME and Suning but we have decided to avoid using these two as our benchmark because GOME's valuation has a corporate governance discount and Suning's valuation has an A-share premium.

Instead, we use the average valuation of a jewelry retail chain as our benchmark, as both Huiyin and its closest peers are largely consumer-durable retailers. Using the sector average based on our own and Bloomberg consensus estimates, we reach a target FY11E P/E of 15x with a FY11 PEG of 0.6.

We believe Jingkelong is another good comparable for Huiyin. Although Jingkelong is a supermarket play, the company is small (USD500 market cap) and also about 50% of its revenue comes from the wholesale business. We believe our target 15x FY11E PE for Huiyin is appropriate compared with Jingkelong's 17x (on Bloomberg consensus) because food retailers usually enjoy higher multiples than home-appliance specialty retailers.

### Exhibit 28: Peer Valuation Comparison

Company	BBG code	Share price (LC)	Target price (LC)	Rec	Market cap (USD m)	P/E			EPS growth			PEG	CAGR '10E/'12E	EV/EBITDA		P/BV		ROE	
						2010E (x)	2011E (x)	2012E (x)	2010E (%)	2011E (%)	2012E (%)			2011E (x)	2012E (x)	2011E (x)	2012E (x)	2011E (%)	2012E (%)
Huiyin	1280 HK	1.90	2.55	BUY	256	13.7	11.1	9.1	NA	23.4	22.4	0.4	22.9	4.3	6.1	1.6	1.4	14.5	13.8
Huiyin at TP	1280 HK	2.55			352	18.4	14.9	12.2	NA	23.4	22.4	0.6	22.9	5.1	7.9	2.1	1.9	14.5	13.8
<b>Home appliance retail</b>																			
Suning	002024 CH	15.40	NA	NR	16,475	27.7	21.5	17.3	33.1	28.7	24.9	0.8	26.8	14.9	13.2	5.8	4.9	23.3	23.9
GOME	493 HK	2.38	2.65	BUY	5,105	15.2	14.9	12.3	17.2	16.6	19.4	0.9	18	9.6	8.4	2.3	2.0	14.6	14.2
<b>Jewellery retail</b>																			
Hengdeli	3389 HK	4.04	3.75	HOLD	2,092	23.9	19.3	15.5	42.6	23.9	24.1	0.8	24.0	14.5	11.5	3.5	3.1	17.1	17.4
Luk Fook	590 HK	15.68	NA	NR	1,112	-	13.3	11.0	-	-	20.5	-	NA	-	9.9	-	4.2	-	34.5
Emperor	887 HK	0.75	NA	NR	544	16.2	11.6	9.8	16.3	40.0	18.6	0.3	28.8	9.1	6.8	2.1	1.9	14.3	17.9
Mcap Wtg. Avg.						23.1	15.3	13.9	43.9	28.7	21.7	0.5	25.2	14.6	8.5	3.4	4.0	16.8	26.2
<b>Supermarkets</b>																			
Dairy Farm	DFI SP	7.37	NA	NR	10,745	25.9	23.2	23.4	13.6	11.7	(0.9)	2.0	5.2	15.9	14.1	15.5	11.7	62.1	54.3
Wumart	8277 HK	18.00	NA	NR	2,933	35.7	28.3	22.5	21.9	26.2	25.8	1.1	26.0	16.1	12.5	6.1	5.4	21.0	21.5
Lianhua	980 HK	32.65	NA	NR	2,490	26.9	22.3	18.7	22.8	20.9	18.8	1.1	19.8	(3.9)	(4.2)	5.9	5.0	23.0	23.7
Jingkelong	814 HK	10.02	NA	NR	499	18.6	15.9	13.5	21.2	17.2	17.6	0.9	17.4	-	-	2.2	2.0	12.3	13.8
Aeon	984 HK	14.34	NA	NR	524	14.2	12.9	11.7	71.1	10.0	10.7	1.3	10.4	2.9	2.1	3.2	2.8	23.6	23.0
Mcap Wtg. Avg.						28.1	23.8	22.1	21.9	16.8	7.8	-	12.2	11.5	9.9	10.4	8.2	43.9	39.7

Prices as at 27 September 2010

Sources: \* BNP Paribas estimates, all others (Not rated) are Bloomberg consensus estimates

To cross-check our target price for Huiyin with a DCF analysis, where we assume a WACC of 9.7% and terminal growth of 2%. This gives us a valuation of HKD2.83 per share. We believe our HKD2.50 target price is undemanding and prices in the operational risk for a small company.

### Risks to our target price

We see two major downside risks to our target price.

- 1 Revenue of new stores may not ramp-up as quickly as we forecast. Currently, we assume a new self-owned store can generate one-third of normal revenue in the first six months of its opening. As we do not know the exact timing of new-store openings, the new stores may generate lower revenue than we expect.
- 2 Cannibalization between self-owned stores and franchise stores may be worse than we expect. Huiyin's wholesale-to-franchise store grew only 6% y-y in 1H10. The company attributes this to the cannibalization from its newly opened, self-owned stores. We forecast 16% growth in the franchise-store business in 2010 and this number could be over-estimated if cannibalization worsens.

The upside is that our current forecast is based entirely on organic growth and does not consider any M&A impact. However, the company is in negotiation with some local retailers and expects some M&As to be completed in 2H10. Any M&As will give further upside to our earning forecasts.

**Exhibit 29: P/E Band Chart**



Sources: Bloomberg; BNP Paribas estimates

# RISK EXPERTS



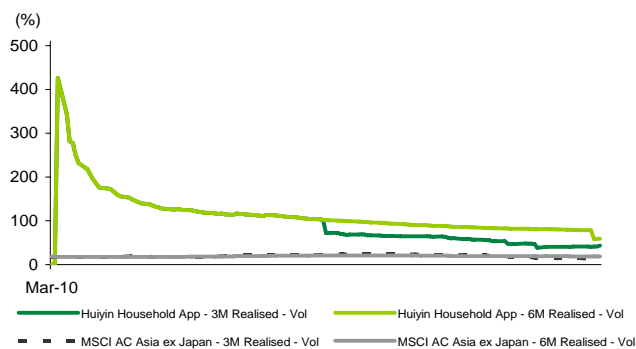
## Key Earnings Drivers & Sensitivity

Every 10% change in sales growth assumptions would lead to around 7.5% change in our FY10 EPS estimate and 15.5% change in our FY11 EPS estimate.

	Base		Best		Worst	
	2010E	2011E	2010E	2011E	2010E	2011E
Huiyin Household Ap						
Sales growth (%)	43	31	53	41	33	21
Recurring EPS (RMB)	0.12	0.15	0.13	0.17	0.11	0.12
Change (%)			7.4	15.5	(7.8)	(15.5)

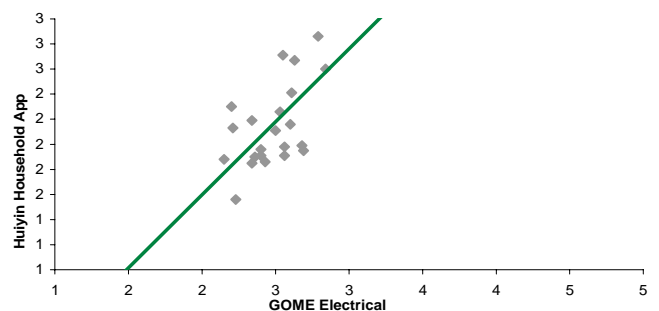
Source: BNP Paribas estimates

## Huiyin Household App and MSCI AC Asia, ex Japan, (3M and 6M Realised-Vol)



Sources: Bloomberg; BNP Paribas

## Regression – Huiyin Household App Rel to GOME Electrical



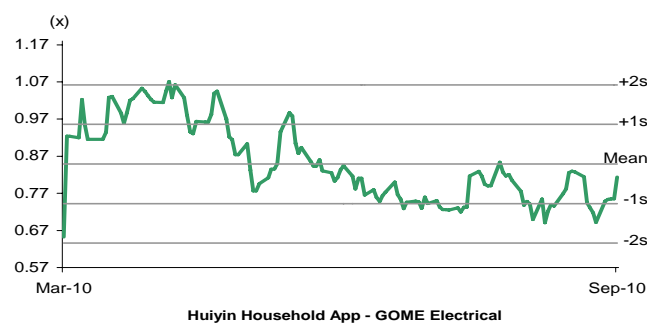
Huiyin Household App =  $2 + 0.07 * 493 \text{ HK Equity}$   
 R Square = 0.4555  
 Regression based on 27 observations of 5 years weekly data. Please refer to Appendix 1 for the explanation of R-square  
 Sources: Bloomberg; BNP Paribas

## China Sector Correlation Matrix at 15 July 2010

	China Banks	China Coal	China Insurance	China Metals & Mining	China Oil & Gas	China Property	China Telcos	China Utilities
China Banks	1.000	0.849	0.868	0.809	0.882	0.724	0.845	0.663
China Coal		1.000	0.829	0.881	0.912	0.735	0.797	0.684
China Insurance			1.000	0.832	0.859	0.760	0.826	0.669
China Metals & Mining				1.000	0.858	0.770	0.774	0.666
China Oil & Gas					1.000	0.718	0.858	0.721
China Property						1.000	0.658	0.594
China Telcos							1.000	0.690
China Utilities								1.000

Source: BNP Paribas Sector Strategy

## Long/Short Chart



Source: BNP Paribas estimates

## 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.

## FINANCIAL STATEMENTS

## Huiyin Household App

Profit and Loss (RMB m) Year Ending Dec	2008A	2009A	2010E	2011E	2012E
Revenue	988	1,248	1,788	2,351	2,976
Cost of sales ex depreciation	(867)	(1,042)	(1,482)	(1,935)	(2,467)
<b>Gross profit ex depreciation</b>	<b>121</b>	<b>206</b>	<b>306</b>	<b>415</b>	<b>509</b>
Other operating income	9	12	23	30	42
Operating costs	(69)	(77)	(147)	(206)	(261)
<b>Operating EBITDA</b>	<b>61</b>	<b>141</b>	<b>182</b>	<b>239</b>	<b>290</b>
Depreciation	(6)	(11)	(14)	(17)	(20)
Goodwill amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>54</b>	<b>130</b>	<b>168</b>	<b>223</b>	<b>269</b>
Net financing costs	6	2	(2)	(2)	(1)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	(5)	(5)	(22)	(12)	(3)
<b>Profit before tax</b>	<b>56</b>	<b>127</b>	<b>143</b>	<b>209</b>	<b>265</b>
Tax	(17)	(34)	(46)	(63)	(74)
<b>Profit after tax</b>	<b>39</b>	<b>93</b>	<b>97</b>	<b>147</b>	<b>191</b>
Minority interests	0	(1)	(1)	(2)	(2)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
<b>Reported net profit</b>	<b>38</b>	<b>91</b>	<b>96</b>	<b>145</b>	<b>189</b>
Non recurring items & goodwill (net)	5	5	22	12	3
<b>Recurring net profit</b>	<b>43</b>	<b>96</b>	<b>119</b>	<b>157</b>	<b>192</b>

**Per share (RMB)**

Recurring EPS *	2.14	4.74	0.12	0.15	0.18
Reported EPS	1.91	4.57	0.10	0.14	0.18
DPS	0.00	0.00	0.01	0.00	0.00

**Growth**

Revenue (%)	97.5	26.3	43.3	31.5	26.6
Operating EBITDA (%)	5.8	132.0	28.8	31.7	21.0
Operating EBIT (%)	0.9	139.2	29.1	32.8	21.0
Recurring EPS (%)	(1.2)	121.3	(97.5)	23.4	22.4
Reported EPS (%)	(12.0)	139.5	(97.9)	40.7	30.2

**Operating performance**

Gross margin inc depreciation (%)	11.6	15.6	16.3	17.0	16.4
Operating EBITDA margin (%)	6.2	11.3	10.2	10.2	9.7
Operating EBIT margin (%)	5.5	10.4	9.4	9.5	9.1
Net margin (%)	4.4	7.7	6.6	6.7	6.4
Effective tax rate (%)	30.9	27.0	32.0	30.0	28.0
Dividend payout on recurring profit (%)	0.0	0.0	4.7	1.3	1.4
Interest cover (x)	-	-	74.4	135.4	197.6
Inventory days	49.4	56.8	48.0	47.5	45.3
Debtor days	14.4	19.9	25.5	23.9	22.4
Creditor days	74.4	65.5	58.3	60.3	61.0
Operating ROIC (%)	11.9	19.2	17.2	19.0	19.7
Operating ROIC – WACC (%)	-	-	-	-	-
ROIC (%)	10.2	17.2	15.9	17.8	18.7
ROIC – WACC (%)	-	-	-	-	-
ROE (%)	9.3	18.3	14.5	13.8	15.0
ROA (%)	5.3	11.2	9.6	9.2	9.5

\* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (RMB m)	2008A	2009A	2010E	2011E	2012E
Retail	330	440	755	1,138	1,588
Wholesale to Franchisees	285	350	405	446	490
Wholesale to Third Parties	364	449	614	748	876
Service Charges	9	9	14	18	22

Sources: Huiyin Household App; BNP Paribas estimates

We expect margins to erode in the long term due to an increase in the competition

## Huiyin Household App

Cash Flow (RMB m)					
Year Ending Dec	2008A	2009A	2010E	2011E	2012E
Recurring net profit	43	96	119	157	192
Depreciation	6	11	14	17	20
Associates & minorities	0	1	1	2	2
Other non-cash items	15	7	(20)	(9)	0
<b>Recurring cash flow</b>	<b>65</b>	<b>116</b>	<b>114</b>	<b>166</b>	<b>214</b>
Change in working capital	(108)	(217)	(173)	(85)	(146)
Capex - maintenance	0	0	0	0	0
Capex - new investment	(5)	(29)	(27)	(35)	(45)
<b>Free cash flow to equity</b>	<b>(48)</b>	<b>(130)</b>	<b>(86)</b>	<b>45</b>	<b>23</b>
Net acquisitions & disposals	(9)	0	(1)	0	0
Dividends paid	0	0	(47)	(14)	(22)
Non recurring cash flows	41	5	7	0	0
<b>Net cash flow</b>	<b>(16)</b>	<b>(126)</b>	<b>(127)</b>	<b>31</b>	<b>1</b>
Equity finance	0	0	444	0	0
Debt finance	(23)	62	16	74	20
<b>Movement in cash</b>	<b>(39)</b>	<b>(64)</b>	<b>333</b>	<b>105</b>	<b>21</b>

We expect cash flow to remain positive

Per share (RMB)					
Recurring cash flow per share	3.23	5.78	0.12	0.16	0.20
FCF to equity per share	(2.42)	(6.52)	(0.09)	0.04	0.02

Balance Sheet (RMB m)					
Year Ending Dec	2008A	2009A	2010E	2011E	2012E
Working capital assets	558	753	1,047	1,248	1,530
Working capital liabilities	(267)	(261)	(382)	(498)	(633)
<b>Net working capital</b>	<b>291</b>	<b>492</b>	<b>665</b>	<b>750</b>	<b>897</b>
Tangible fixed assets	73	117	129	148	172
<b>Operating invested capital</b>	<b>364</b>	<b>609</b>	<b>795</b>	<b>898</b>	<b>1,069</b>
Goodwill	0	0	0	0	0
Other intangible assets	28	33	32	31	29
Investments	0	0	0	0	0
Other assets	27	25	24	23	22
<b>Invested capital</b>	<b>419</b>	<b>667</b>	<b>851</b>	<b>952</b>	<b>1,120</b>
Cash & equivalents	(82)	(18)	(344)	(449)	(470)
Short term debt	0	70	86	160	180
Long term debt *	0	0	0	0	0
<b>Net debt</b>	<b>(82)</b>	<b>52</b>	<b>(258)</b>	<b>(288)</b>	<b>(290)</b>
Deferred tax	18	39	39	39	39
Other liabilities	0	0	0	0	0
Total equity	481	573	1,066	1,196	1,363
Minority interests	1	3	4	6	8
<b>Invested capital</b>	<b>419</b>	<b>667</b>	<b>851</b>	<b>952</b>	<b>1,120</b>

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

Per share (RMB)					
Book value per share	24.07	28.65	1.02	1.14	1.30
Tangible book value per share	22.68	26.99	0.99	1.11	1.27

Financial strength					
Net debt/equity (%)	(16.9)	9.0	(24.1)	(24.0)	(21.2)
Net debt/total assets (%)	(10.6)	5.5	(16.3)	(15.2)	(13.0)
Current ratio (x)	2.4	2.3	3.0	2.6	2.5
CF interest cover (x)	-	-	(25.2)	49.9	50.7

Valuation					
	2008A	2009A	2010E	2011E	2012E
Recurring P/E (x) *	0.8	0.3	13.7	11.1	9.1
Recurring P/E @ target price (x) *	1.0	0.5	18.4	14.9	12.2
Reported P/E (x)	0.9	0.4	16.7	11.9	9.1
Dividend yield (%)	0.0	0.0	0.3	0.1	0.2
P/CF (x)	0.5	0.3	14.1	10.4	8.0
P/FCF (x)	(0.7)	(0.3)	(18.7)	38.1	74.1
Price/book (x)	0.1	0.1	1.6	1.4	1.3
Price/tangible book (x)	0.1	0.1	1.7	1.5	1.3
EV/EBITDA (x) **	(0.9)	0.1	4.3	6.1	5.0
EV/EBITDA @ target price (x) **	(0.7)	0.2	5.1	7.9	6.5
EV/invested capital (x)	(0.1)	0.1	1.7	1.5	1.3

\* Pre exceptional, pre-goodwill and fully diluted

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

Sources: Huiyin Household App; BNP Paribas estimates

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