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Retail

RESEARCH

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ACCUMULATE

## Huiyin Household Appliance (01280.HK)

### Revenue Beats Expectation, Earnings Largely in Line

**Financial highlights**

(Rmb mn)	2008A	2009A	2010A	2011E	2012E
<b>Turnover</b>	<b>988</b>	<b>1,248</b>	<b>1,784</b>	<b>2,875</b>	<b>3,927</b>
( +/- )	97.5%	26.3%	43.0%	61.1%	36.6%
<b>Gross Profit</b>	<b>121</b>	<b>206</b>	<b>320</b>	<b>491</b>	<b>687</b>
( +/- )	42.7%	70.6%	55.5%	53.1%	40.0%
<b>Net Profit</b>	<b>38</b>	<b>92</b>	<b>92</b>	<b>125</b>	<b>167</b>
( +/- )	-12.1%	139.6%	0.2%	35.9%	34.4%
<b>Recurrent Net Profit</b>	<b>38</b>	<b>97</b>	<b>117</b>	<b>145</b>	<b>179</b>
( +/- )	-12.1%	155.1%	20.4%	23.3%	24.1%
Fully Diluted Shares (mn)	1,048	1,048	1,048	1,048	1,048
Diluted Recurrent EPS(HK\$)	0.04	0.11	0.13	0.17	0.21
<b>PE (x)</b>	<b>24.2</b>	<b>9.5</b>	<b>7.7</b>	<b>5.9</b>	<b>4.7</b>
<b>PB(x)</b>	<b>1.9</b>	<b>1.6</b>	<b>0.9</b>	<b>0.7</b>	<b>0.6</b>
ROAE	8.3%	17.4%	11.4%	11.3%	13.5%

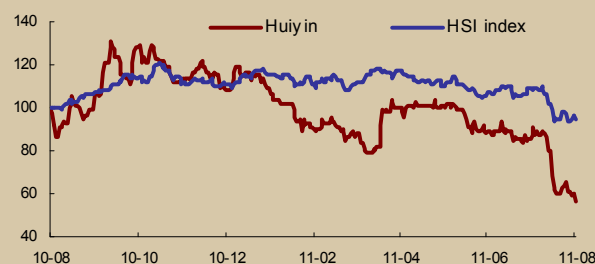
**Share information**

Bloomberg code	1280.HK
Share price	HK\$1.00
Target price	HK\$1.35
Market cap (mn)	1,048
52wk high/low	HK\$2.84/0.99
Issued shares (mn)	1,048
Free float (mn)	595
Major shareholders (%)	Mr.Cao (24.56%)

**Recent price performance**

	1W	1m	3m	YTD
Huiyin	-12.3	-34.2	-44.8	-53.3
HSI index	-4.1	-13.3	-14.4	-15.5
Sector	-0.2	-7.1	-5.0	-9.4

**52wk performance**



Source: Bloomberg, company data, CICC Research

**1H11 results largely in line**

1H11 revenue surged 83.4% to Rmb1.4bn, beating market consensus. Net profits rose 32.2% YoY to Rmb48mn, largely in line with expectations. Slower bottom line growth was largely due to integrated gross margin decline (higher wholesale proportion) and retail business expansion. We expect GM to gradually recover in 2H due to larger sales scale and rebate recognition. Excluding share options and other non-operating expenses, recurrent net profit was Rmb59mn, up 18%.

- **Strong revenue growth thanks to air conditioner sales and low-tier market boom.** Bulk distribution and retail sales grew a sharp 104.3% and 57.4%, driven by fast aircon growth (65.8% of sales, mainly from Gree, Midea, Daikin). Sales in Jiangsu and Anhui increased by 43% and 318%.
- **GM shrunk, expenses still under control.** Integrated GM was down 3.8ppt due to: 1) higher wholesale proportion; 2) less recognition of other income; 3) more sales in Anhui, rising from 5.2% to 13.8% (GP lower than that in Jiangsu); 4) cancellation of subsidies for energy-saving appliances. S&D costs jumped due to retail expansion while admin expense ratio was down 1.9ppt (no listing fee), still under control.
- **Stores opening in line.** In 1H11, Huiyin opened 13 stores (+25%), bringing the total number of self-operated stores to 63. A net four new stores were added in Anhui province.

**Trends to watch**

Huiyin still can benefit from fast sales growth for air conditioners and home appliances in lower-tier cities, though other categories will see growth slow down especially in tier 1 cities. Expect profitability to recover in 2H due to larger sales scale and margin improvement.

**Valuation and recommendation**

ACCUMULATE with target price HK\$1.35 on 8x 2011e EPS (6.3x 2012E). Huiyin currently trades at 5.9x 2011e & 4.7x 2012e P/E, a deep discount to other home appliance related peers (Chigo 6.5x 2011e, Haier 12.3x, GOME 19.4x). Integrated wholesale and retail business model makes it more defensive than pure manufacturers.

**Risks:** Small market cap; weak home appliance sales growth.

Figure 1: 1H11 results analysis

Rmb mn	1H09	2009A	1H10	2010A	1H11	1H10 YoY	2010 YoY	1H11 YoY	CICC Comment
<b>Turnover</b>	<b>549</b>	<b>1,248</b>	<b>786</b>	<b>1,784</b>	<b>1,441</b>	<b>43.1%</b>	<b>43.0%</b>	<b>83.4%</b>	Revenue increased by 83.4% to RMB 1.4bn. Retailing and bulk distribution growth 57.4% and 104.3% respectively
Cost of Sales	-462	-1,042	-647	-1,464	-1,229	40.0%	40.5%	90.1%	
<b>Gross Profit</b>	<b>87</b>	<b>206</b>	<b>139</b>	<b>320</b>	<b>212</b>	<b>59.2%</b>	<b>55.5%</b>	<b>52.3%</b>	increase of the employee benefit expenses, operating lease expenses and other selling and marketing expenses
Other Income	3	12	11	16	8	249.4%	38.0%	-24.2%	
Selling and Distribution Costs	-26	-51	-43	-97	-80	65.9%	89.1%	84.6%	
Administrative Expenses	-16	-41	-46	-97	-57	184.4%	134.6%	23.3%	
Other operating Expenses	-0	-0	-1	-1	-3	-	-	-	
<b>Operating Profit</b>	<b>48</b>	<b>125</b>	<b>59</b>	<b>142</b>	<b>79</b>	<b>23.3%</b>	<b>13.2%</b>	<b>34.1%</b>	
Finance Income, net	0	2	-2	-1	-8	-	-	-	More borrowings were incurred
<b>Profit Before Taxation</b>	<b>48</b>	<b>127</b>	<b>57</b>	<b>140</b>	<b>71</b>	<b>18.0%</b>	<b>10.5%</b>	<b>24.8%</b>	Effective Tax Rate
Taxation	-13	-34	-20	-46	-22	55.0%	35.3%	9.8%	
Effective Tax Rate	27.0%	27.0%	35.5%	33.1%	31.2%	8.5%	6.0%	-4.3%	
<b>Profit of Huiyin</b>	<b>35</b>	<b>93</b>	<b>37</b>	<b>94</b>	<b>49</b>	<b>4.4%</b>	<b>1.4%</b>	<b>33.1%</b>	Minority Interest
Minority Interest	-1	-1	-1	-2	-1	-	-	-	
<b>Net Profit</b>	<b>35</b>	<b>92</b>	<b>36</b>	<b>92</b>	<b>48</b>	<b>4.7%</b>	<b>0.2%</b>	<b>32.2%</b>	Recurrent net profit rose 17.7%, results in line
<b>Recurrent Net Profit</b>	<b>37</b>	<b>97</b>	<b>50</b>	<b>117</b>	<b>59</b>	<b>36.6%</b>	<b>20.4%</b>	<b>17.7%</b>	
<b>Gross Margin</b>	<b>15.9%</b>	<b>16.5%</b>	<b>17.7%</b>	<b>18.0%</b>	<b>14.7%</b>	<b>1.8%</b>	<b>1.4%</b>	<b>-3.0%</b>	Production cost increased and subsidies was cancelled; Sales percentage in Anhui increased (GP lower than that in Jiangsu)
Other Income / Turnover	0.6%	0.9%	1.4%	0.9%	0.6%	0.8%	0.0%	-0.8%	
Integrated gross margin	16.5%	17.5%	19.1%	18.9%	15.3%	2.6%	1.4%	-3.8%	
S&D Costs to Sales	4.8%	4.1%	5.5%	5.4%	5.6%	0.8%	1.3%	0.0%	
Admin Expenses to Sales	3.0%	3.3%	5.9%	5.4%	3.9%	2.9%	2.1%	-1.9%	
Operating Profit Margin	8.7%	10.0%	7.5%	7.9%	5.5%	-1.2%	-2.1%	-2.0%	
<b>Net Margin</b>	<b>6.3%</b>	<b>7.3%</b>	<b>4.6%</b>	<b>5.1%</b>	<b>3.3%</b>	<b>-1.7%</b>	<b>-2.2%</b>	<b>-1.3%</b>	Due to the lower gross margin
<b>Recurrent Net Margin</b>	<b>6.7%</b>	<b>7.8%</b>	<b>6.4%</b>	<b>6.6%</b>	<b>4.1%</b>	<b>-0.3%</b>	<b>-1.2%</b>	<b>-2.3%</b>	

Source: Company data, CICC Research

Figure 2: Net profit breakdown

(Rmb mn)	1H10A	2010A	1H11A	2011E	2012E
Net Profit(Including MI)	37	94	49	125	167
Net Profit GAP					
Options	6	15	6	10	5
Listing Expenses	7	8			
Amortization on related deals			4	10	7
Total	14	23	10	20	12
Recurrent net profit	50	117	59	145	179
YoY			18%	23%	24%

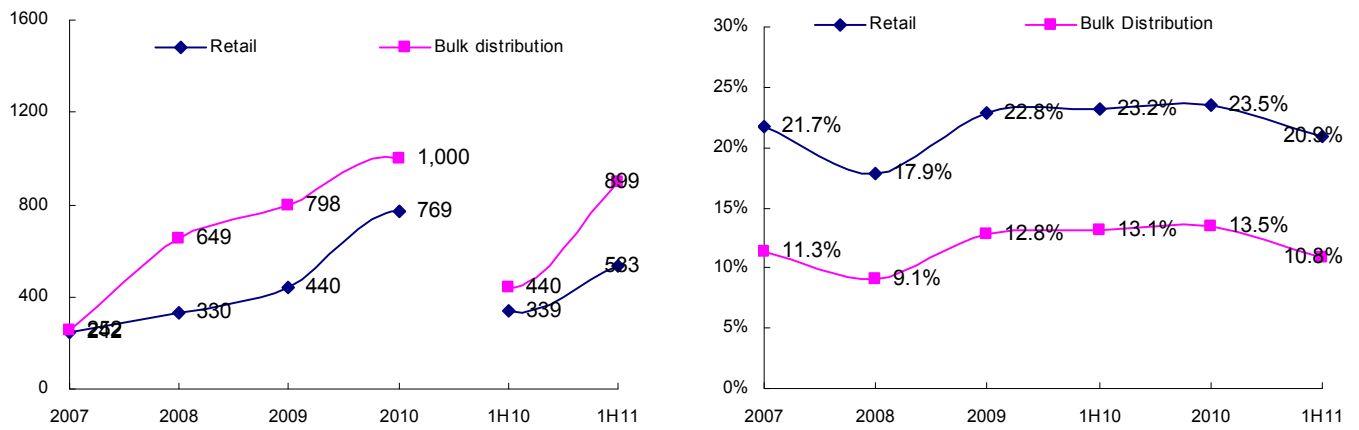
Source: Company data, CICC Research

Figure 3: Sales breakdown

Revenue	1H10		2010		1H11		1H11 YoY RMB mn
	RMB mn	% of total	RMB mn	% of total	RMB mn	% of total	
Retail Operation	339	43.1%	769	43.1%	533	37.0%	57.4%
Bulk Distribution Operation	440	56.0%	1000	56.1%	899	62.4%	104.3%
Franchisees	198	25.2%	448	25.1%	370	25.7%	87.0%
Other third parties	242	30.8%	552	30.9%	529	36.7%	118.5%
Service Income	7	0.9%	15	0.8%	9	0.6%	26.5%
<b>Total</b>	<b>786</b>	<b>100.0%</b>	<b>1784</b>	<b>100.0%</b>	<b>1441</b>	<b>100.0%</b>	<b>83.4%</b>

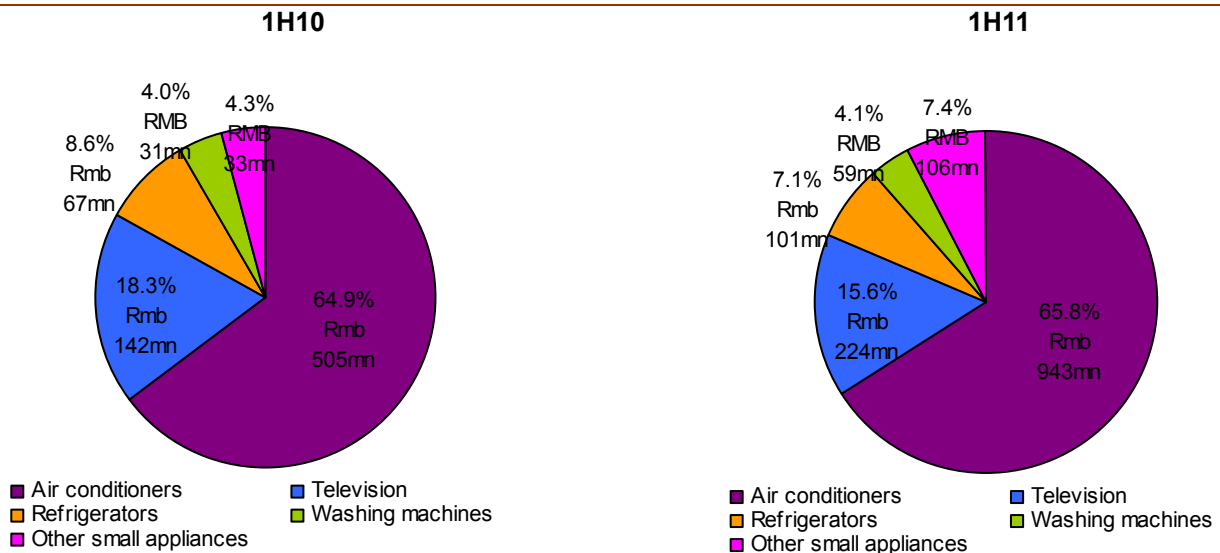
Source: Company data, CICC Research

Figure 4: Sales and gross margin breakdown



Source: Company data, CICC Research

Figure 5: Sales breakdown by product category



Source: Company data, CICC Research

Figure 6: Fast expansion of self-operated stores

	2009	2010	1H11	Change	Change %
Self-operated stores	27	53	63	10	19%
Franchised stores	220	227	224	-3	-1%
After-sale service centers	126	135	132	-3	-2%

Source: Company data, CICC Research

Figure 7: Historical and forecast financial data

(Rmb mn)	2007A	2008A	2009A	2010A	2011E	2012E
Turnover	500	988	1,248	1,784	2,875	3,927
Cost of Sales	-416	-867	-1,042	-1,464	-2,384	-3,240
Gross profit	85	121	206	320	491	687
Other Income	13	9	12	16	30	41
Distribution costs	-28	-42	-51	-97	-157	-227
Administrative expenses	-16	-39	-41	-97	-156	-221
Other Operation Expense	0	0	-0	-1	-3	-8
Operating profit	54	49	125	142	204	272
Finance Income	-1	6	2	-1	-20	-25
Profit before taxation	53	56	127	140	184	247
Taxation	-9	-17	-34	-46	-57	-77
Profit after taxation	43	39	93	94	127	170
Minority Interest	0	-0	-1	-2	-3	-3
Net profit	43	38	92	92	125	167
<b>Cash Flow (Rmb mn)</b>	<b>2007A</b>	<b>2008A</b>	<b>2009A</b>	<b>2010A</b>	<b>2011E</b>	<b>2012E</b>
Operating cashflow	-131	-46	-101	-143	-225	83
Investment cashflow	-50	30	-24	-30	-23	-23
Financing cashflow	294	-23	62	339	100	30
<b>Balance Statement (Rmb mn)</b>	<b>2007A</b>	<b>2008A</b>	<b>2009A</b>	<b>2010A</b>	<b>2011E</b>	<b>2012E</b>
<b>Current Assets</b>						
Cash	121	82	18	182	31	118
Pledged deposits	135	98	134	207	207	207
A/R receivables	242	299	456	956	1,291	1,574
Inventories	74	161	163	276	358	441
	572	640	771	1,621	1,887	2,341
<b>Non-current Assets</b>						
Fixed assets, net	69	73	117	141	111	52
Intangible assets and others	21	28	22	59	57	55
	123	128	174	235	204	142
<b>Total Assets</b>	<b>695</b>	<b>768</b>	<b>946</b>	<b>1,857</b>	<b>2,091</b>	<b>2,483</b>
<b>Current Liabilities</b>						
ST bankloans	21	0	70	50	150	180
Payables to suppliers	176	178	196	527	536	728
Other Payables	40	72	61	87	87	87
Taxation payable	9	17	4	80	80	80
	246	267	331	777	886	1,110
<b>Non-current Liabilities</b>						
LT bankloans/CB	0	0	0	0	0	0
	6	19	42	22	22	22
<b>Total Liabilities</b>	<b>252</b>	<b>286</b>	<b>373</b>	<b>800</b>	<b>909</b>	<b>1,133</b>
<b>Total Equity</b>	<b>443</b>	<b>481</b>	<b>573</b>	<b>1,057</b>	<b>1,182</b>	<b>1,351</b>

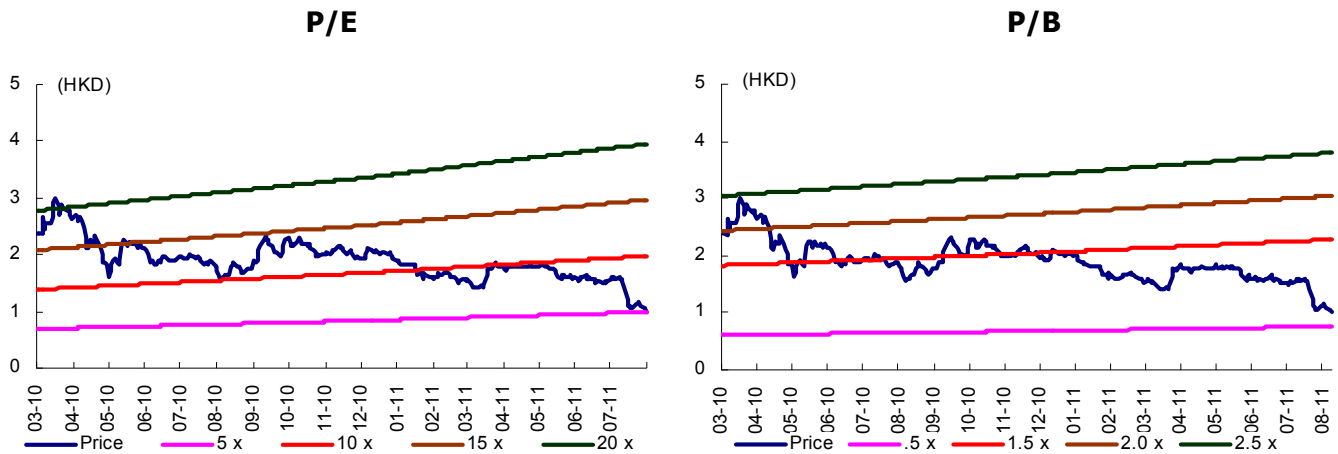
Source: Company data, CICC Research

Figure 8: Valuations of comparables

Sub-Industry Classification	Ticker	Company	Price	Mkt cap (mn)	Net Profit						EPS			P/E			10 End - 12 End Net Profit CAGR	PEG	
					2010A	YoY	2011E	YoY	2012E	YoY	2010A	2011E	2012E	2010A	2011E	2012E			
<b>Department Store Listcos</b>																			
Cross-Regional Players	600694.CH	Dashang	44.01	12,927	122	-	420	245.3%	661	57.2%	0.41	1.43	2.25	106.1	30.7	19.6	133.0%	0.2	
	600859.CH	Wangfujing	43.74	20,225	430	19.4%	707	64.5%	931	31.6%	0.93	1.53	2.01	47.0	28.6	21.7	47.1%	0.6	
	002419.CH	Rainbow Dept. store	24.80	19,845	485	36.3%	670	38.1%	892	33.2%	0.61	0.84	1.11	40.9	29.6	22.2	35.6%	0.8	
	3368.HK	Parkson	10.00	28,105	992	8.9%	1132	14.1%	1,338	18.2%	0.41	0.49	0.60	24.4	20.4	16.8	16.2%	1.3	
	825 .HK	New World	5.24	8,835	578	5.5%	685	18.6%	818	19.4%	0.34	0.41	0.48	15.3	12.9	10.8	19.0%	0.7	
Midwest and Northeast	000417.CH	Hefei Department Store	21.34	11,101	316	46.3%	432	36.7%	586	35.7%	0.61	0.83	1.13	35.1	25.7	18.9	36.2%	0.7	
	600778.CH	Youhao	14.49	4,514	105	73.9%	184	74.8%	274	49.0%	0.34	0.59	0.88	42.9	24.6	16.5	61.4%	0.4	
	000501.CH	Wuhan Dept. store	19.16	9,719	294	22.9%	374	27.5%	504	34.7%	0.58	0.74	0.99	33.1	26.0	19.3	31.0%	0.8	
	600729.CH	Chongqing Dept. Store	47.73	17,808	527	30.5%	701	33.0%	936	33.4%	1.41	1.88	2.51	33.8	25.4	19.0	33.2%	0.8	
	600697.CH	Eurasia	29.23	4,650	132	18.5%	165	25.0%	215	26.2%	0.83	1.04	1.35	35.3	28.2	21.6	27.7%	1.0	
	600785.CH	Xinhua Dept.	27.99	5,806	215	12.3%	259	20.2%	314	21.2%	1.04	1.25	1.51	27.0	22.4	18.5	20.7%	1.1	
	002277.CH	Your-mart	23.48	8,199	216	44.5%	301	39.2%	408	35.6%	0.62	0.86	1.17	37.9	27.3	20.1	37.4%	0.7	
	600858.CH	Yinzuo	22.79	6,585	111	-39.3%	193	74.0%	244	26.2%	0.38	0.67	0.84	59.4	34.1	27.0	48.2%	0.7	
	600828.CH	Chengshang	12.78	5,608	138	8.2%	208	50.2%	284	27.2%	0.32	0.47	0.60	40.5	27.0	21.2	38.2%	0.7	
	000564.CH	Xian mingsheng	6.86	2,088	59	21.8%	72	21.2%	91	26.1%	0.20	0.24	0.30	35.2	29.0	23.0	23.6%	1.2	
Beijing an Guangzhou	600827.CH	Bailian(Merge)	18.40	31,694	1082	30.9%	1385	28.0%	1804	30.2%	0.63	0.80	1.05	29.3	22.9	17.6	29.1%	0.8	
	600628.CH	Shanghai New World	9.06	4,818	199	10.1%	219	10.0%	256	17.2%	0.37	0.41	0.48	24.3	22.0	18.8	13.5%	1.6	
	600655.CH	Yuyuan	11.90	17,104	673	39.7%	812	20.7%	976	20.2%	0.47	0.57	0.68	25.4	21.1	17.5	20.5%	1.0	
	1833.HK	Intime	11.60	22,231	513	54.8%	702	36.8%	913	30.1%	0.31	0.45	0.60	43.5	26.0	19.5	33.4%	0.8	
	3308.HK	Golden Eagle (Recurrent)	17.78	34,582	959	24.9%	1208	26.0%	1536	27.1%	0.57	0.76	0.99	31.0	23.5	18.0	26.5%	0.9	
Supermarket Listcos	000987.CH	Guangzhou Friendship	22.43	8,051	327	14.7%	410	25.1%	534	30.5%	0.91	1.14	1.49	24.6	19.7	15.1	27.8%	0.7	
	600723.CH	Beijing Xidan Dept. store	14.43	9,501	239	47.9%	395	65.3%	495	25.2%	0.36	0.60	0.75	39.8	24.1	19.2	43.8%	0.5	
<b>Supermarket Listcos</b>																			
Consumer Electronics and Home Appliance Listcos	000759.CH	Zhongbai holding	12.32	8,390	251	17.6%	301	20.1%	386	28.2%	0.37	0.44	0.57	33.4	27.8	21.7	24.1%	1.2	
	600361.CH	Hualian Hypermarket	8.36	5,566	55	-9.4%	123	123.4%	185	50.3%	0.08	0.18	0.28	101.1	45.3	30.1	83.3%	0.5	
	601933.CH	Yonghui Superiores	30.03	23,060	306	20.2%	535	75.3%	762	42.2%	0.40	0.70	0.99	75.5	43.1	30.3	57.9%	0.7	
	002336.CH	Renrenle	18.22	7,288	237	3.2%	280	18.1%	348	24.4%	0.59	0.70	0.87	30.7	26.0	20.9	21.2%	1.2	
	002251.CH	BBG	26.50	7,165	171	3.4%	239	40.1%	319	33.1%	0.63	0.89	1.18	41.9	29.9	22.5	36.6%	0.8	
	002264.CH	Nhd-mart	28.29	4,535	77	26.0%	147	90.0%	185	26.0%	0.42	0.81	1.02	66.7	35.1	27.9	54.7%	0.6	
	980.HK	Lianhua	13.04	14,600	623	22.8%	767	23.2%	948	23.6%	0.65	0.84	1.06	20.2	15.6	12.3	23.4%	0.7	
	6808.HK	Sun Art	9.07	86,525	1,031	27.1%	1,527	48.1%	2,228	45.9%	0.13	0.20	0.29	72.2	46.5	31.1	47.0%	1.0	
	6808.HK	Sun Art(Recurrent)	9.07	86,525	1,376	27.1%	1,727	25.5%	2,228	29.0%	0.17	0.22	0.29	54.1	41.1	31.1	27.2%	1.5	
	814.HK	JKL	8.10	3,339	181	22.1%	226	25.0%	278	23.3%	0.51	0.67	0.84	15.9	12.1	9.6	24.1%	0.5	
	1025.HK	Wumart	18.60	23,832	530	21.0%	648	22.3%	805	24.2%	0.48	0.62	0.79	38.7	30.2	23.7	23.2%	1.3	
	Home Appliance	002024.CH	Suning	11.69	81,786	4012	38.8%	5103	27.2%	6505	27.5%	0.54	0.69	0.87	21.7	17.1	13.4	27.3%	0.6
		493.HK	GOME	3.27	55,194	1,962	40.7%	2,485	26.7%	3,024	21.7%	0.13	0.17	0.21	25.8	19.4	15.6	24.1%	0.8
1280.HK		HUIYIN HOUSEHOLD	1.00	1,048	117	20.4%	145	23.3%	179	24.1%	0.13	0.17	0.21	7.7	5.9	4.7	23.7%	0.3	
Cellphone Wholesale	000829.CH	Telling Teleco	7.92	7,499	307	63.0%	169	-38.6%	258	36.7%	0.32	0.20	0.27	24.4	39.8	29.1	-8.4%	-4.7	
<b>Shopping Mall Development</b>																			
Shopping Mall Development	600415.CH	Ccc Group	11.39	30,999	809	-11.6%	1230	52.1%	1,569	27.5%	0.30	0.45	0.58	38.3	25.2	19.8	39.3%	0.6	
	000882.CH	Hualian Department Store	6.05	5,404	49	-34.2%	119	140.8%	194	63.1%	0.06	0.13	0.22	109.6	45.5	27.9	98.2%	0.5	

Source: Bloomberg, CICC Research

Figure 9: P/E and P/B bands



Source: Company data, CICC Research

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