

Huiyin Household

Interim results preview

BUY

UNCHANGED

Target Price **HK\$2.0 (+31%)**

Prior TP **HK\$2.3**

Equity Research
Retail/ China

Fri, 15 Jul 2011

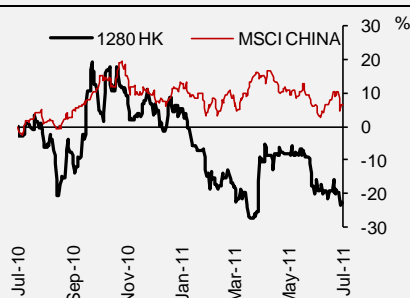
Company Update

Key Data

HKEx code	1280
Close price (HK\$)	1.53
12 Months High (HK\$)	2.48
12 Month Low (HK\$)	1.41
3M Avg Dail Vol. (mn)	3.55
Issue Share (mn)	1,048.34
Market Cap (HK\$m)	1,603.96
Fiscal Year	12/2010
Major shareholder (s)	Cao Kuan Ping (24.2%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 14/7/2011
All figures are subject to rounding

Price Chart



- 1H11 revenue +~60% yoy to beat consensus +45% yoy:** we expect 1H revenue to grow ~60% yoy, higher than consensus full year +45% yoy. It can be mainly attributed to the ~100% yoy growth of air-con distribution revenue. Huiyin is the regional distributor of major air-con brands in several cities in Jiangsu and Anhui. Besides strong air-con demand of lower-tier cities and rural market, we believe the energy saving subsidy expiry by end of May and early promotion by air-con suppliers contribute to the extreme high growth in 1H and twist the normal seasonality.
- 1H11 net profit +~25%-30% yoy to disappoint, due to segment mix change:** we estimate net profit in 1H11 to be RMB 45-50mn, or +25-30% yoy, lower than consensus full year growth +46% yoy. Despite higher than expected revenue growth, the net profit growth will be lower, as 1) the distribution business, with lower gross margin represents higher weight, and 2) higher working capital need of the distribution business increase total debt level and cause higher financial cost.
- Macro growth trend to continue. Aim to increase weight of retail in the long term:** we believe Huiyin's rapid growth will continue. The home appliance demand in Tier 3&4 cities and rural market will remain strong, given the urbanization trend and current low penetration. We understand that the company needs to maintain good relation with major air-con suppliers by supporting their sales strategy. Despite the unusual seasonality in 1H11, Huiyin plans to increase the weight of retail business by expanding its retail network to improve margin and working capital condition.
- Maintain Buy with TP HK\$2.0:** we lower our FY11E and FY12E earnings estimate by 18% and 20%, given the change of segment mix and corresponding lower gross margin and higher financial cost. However, we are positive about the long-term growth of Huiyin in the booming Tier3&4 and rural market. Maintain Buy with TP of HK\$2.0 based on 14x FY11E PE.

Exhibit 1: Investment Summary

Year to Dec (RMB mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Revenue	1,247.8	1,784.5	2,727.3	3,738.4	4,953.6
Growth (%)	26.3	43.0	52.8	37.1	32.5
Net profit	91.5	91.7	123.4	175.6	242.6
Growth (%)	139.5	0.3	34.6	42.3	38.1
Diluted EPS (HK\$)	0.110	0.106	0.141	0.201	0.278
Change to previous EPS (%)			(17.9)	(20.5)	
Consensus EPS (HK\$)			0.169	0.226	
EPS growth (%)	139.5	(3.2)	33.1	42.3	38.1
ROE (%)	15.9	8.6	10.6	13.6	16.6
ROA (%)	9.7	4.9	4.9	5.7	6.1
P/E (x)	13.9	14.4	10.8	7.6	5.5
P/B (x)	2.2	1.3	1.2	1.1	0.9

Source: Bloomberg, OP Research

David Yuan

Analyst

+852 2135 0212

david.yuan@oriental-patron.com.hk

Exhibit 2: Earnings revision

(RMB, mn)	FY11E			FY12E		
	New	Old	Change	New	Old	Change
Revenue	2,727	2,580	5.7%	3,738	3,762	-0.6%
EBIT	195	217	-9.9%	288	334	-13.8%
Net Profit	123	150	-17.9%	176	221	-20.5%
EPS, HKD	0.14	0.17	-17.9%	0.20	0.25	-20.5%

Source: Company, OP Research

Financial Summary

Profit and loss

Year to Dec (RMB mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Revenue	1,248	1,784	2,727	3,738	4,954
EBITDA (ex-assoc)	139	157	214	316	441
Depreciation	(14)	(16)	(18)	(29)	(36)
EBIT(ex-assoc)	125	142	195	288	405
Net interest inc/(exp)	2	(1)	(15)	(31)	(50)
Associates' profits	0	0	0	0	0
Exceptional items/others	0	0	0	0	0
Pre-tax profit	127	140	181	257	355
Tax	(34)	(46)	(54)	(77)	(106)
Minority interest	(1)	(2)	(3)	(4)	(6)
Preference dividends	0	0	0	0	0
Net profit	91	92	123	176	243
Others	0	0	0	0	0
Dividends	0	(59)	(37)	(53)	(73)
Retained earnings	91	33	86	123	170

Balance sheet

Year to Dec (RMB mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Cash & deposits	18	182	275	99	93
Trade debtors	590	1,163	1,418	1,944	2,576
Other debtors	0	0	0	0	0
Inventories	163	276	409	561	743
Other current assets	0	0	0	0	0
Intangible assets	22	59	59	59	59
Investment, associates and other LT assets	36	35	35	35	35
Fixed assets	117	141	338	408	470
Total assets	946	1,857	2,535	3,107	3,977
Trade creditors	196	527	682	935	1,238
Other creditors	0	0	0	0	0
ST debt	70	83	123	283	383
Other current liabs	65	167	161	193	233
LT borrowings	0	5	405	405	655
Deferred taxation and others	39	2	2	2	2
Other LT liabilities	0	0	0	0	0
Total liabilities	370	785	1,374	1,818	2,512
Share capital	0	7	7	7	7
Reserves	573	1,050	1,136	1,259	1,429
S'holders' funds	573	1,057	1,143	1,266	1,436
Minorities	3	15	18	23	28
Total equity	575	1,072	1,162	1,289	1,464
Net cash (debt)	(52)	93	(254)	(589)	(945)
Total cap employed	615	1,079	1,569	1,696	2,122
Cash & deposits	18	182	275	99	93

Source: Company, OP Research

Cash flow

Year to Dec (RMB mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Pre-tax profit	127	140	181	257	355
Taxes paid	(47)	30	(80)	(54)	(77)
Depreciation/amort'n	14	16	18	29	36
Associates' adj.	0	0	0	0	0
Exceptional items	0	0	0	0	0
Gross cash flow	94	186	119	231	314
Capex	(53)	(37)	(216)	(98)	(98)
Change in working cap	(176)	(356)	(233)	(425)	(510)
Free cash flow	(135)	(207)	(330)	(291)	(295)
Dividends	0	(59)	(17)	(44)	(62)
Investments	(3)	(37)	0	0	0
Disposals	0	0	0	0	0
Share issues	91	484	0	0	0
Others	(87)	(36)	0	0	0
Net cash flow	(134)	145	(347)	(335)	(356)
Net cash (debt) start	82	(52)	93	(254)	(589)
Net cash (debt) at Y/E	(52)	93	(254)	(589)	(945)
S'holders' funds + MI	575	1,072	1,162	1,289	1,464
Net debt/equity (%)	9	(9)	22	46	65

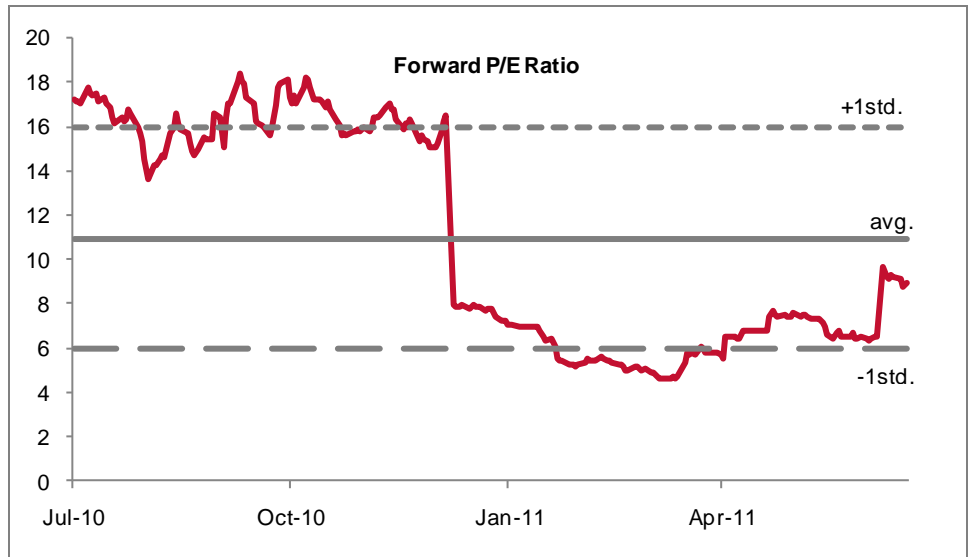
ROE decomposition

	FY09A	FY10A	FY11E	FY12E	FY13E
EBIT margin (%)	10.03	7.95	7.17	7.70	8.17
Pre-tax/EBIT (x)	1.01	0.99	0.92	0.89	0.88
Net profit/pre-tax (x)	0.72	0.65	0.68	0.68	0.68
Asset turnover (x)	1.32	0.96	1.08	1.20	1.25
Assets/equity (x)	1.64	1.73	2.18	2.41	2.72
ROE (%)	15.90	8.55	10.62	13.63	16.56

Statistics and ratios

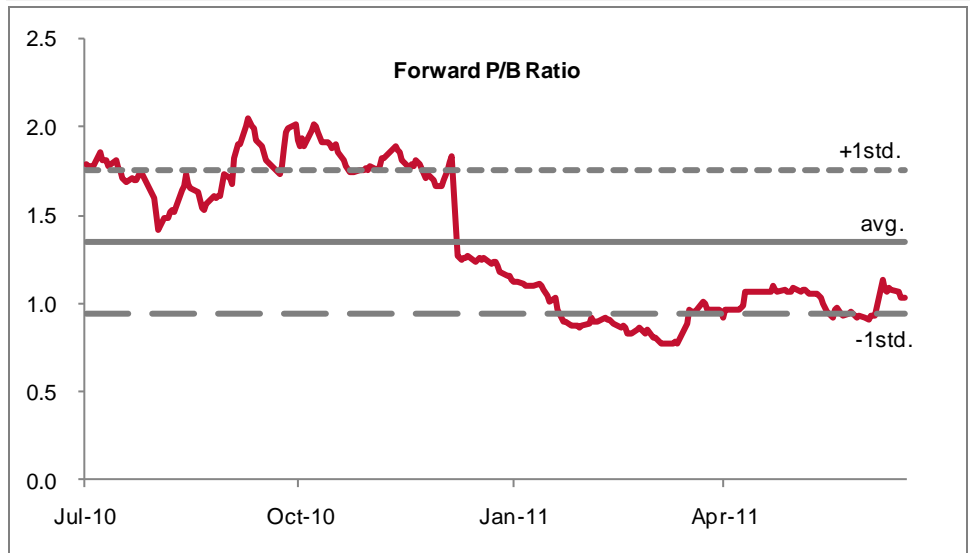
Year to Dec (RMB mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Growth rate (%)					
Revenue	26	43	53	37	33
EBITDA (ex-assoc)	136	13	36	48	39
EBIT (ex-assoc)	154	13	38	47	41
Net profit	139	0	35	42	38
Fully diluted EPS	139	(3)	33	42	38
Margins (%)					
EBITDA (ex-assoc)	11	9	8	8	9
EBIT (ex-assoc)	10	8	7	8	8
Other ratio					
Effective tax rate (%)	27	33	30	30	30
Payout ratio (%)	0	64	30	30	30
Net ROE (%)	16	9	11	14	17
Net gearing (%)	9	(9)	22	46	65
ROA (%)	10	5	5	6	6
Interest coverage (x)	43	28	11	8	8
Debtors (days)	173	238	190	190	190
Creditors (days)	57	108	91	91	91
Stock (days)	48	57	55	55	55

Exhibit 3: Forward P/E Ratio on consensus estimates



Source: Bloomberg, OP Research

Exhibit 4: Forward P/B Ratio on consensus estimates



Source: Bloomberg, OP Research

Exhibit 5: Peer Group Comparison

	bloomberg code	Year End	Mkt Cap (HKD mn)	Price (HKD)	FY10A	PER (x) FY11E	FY12E	FY10A	P/B (x) FY11E	FY12E	Yield (%) FY10A FY11E FY12E		
Traditional Media													
GOME ELECTRICAL	493 HK	12/2010	57,327	3.40	23.3	18.4	15.0	3.3	2.8	2.4	1.2%	1.6%	2.0%
HAIER ELECTRONIC	1169 HK	12/2010	22,667	9.70	18.0	13.5	10.3	7.2	4.8	3.4	0.0%	1.8%	2.4%
SUNING APPLIAN-A	002024 CH	12/2010	108,858	15.56	23.8	17.3	14.3	5.0	3.9	3.1	0.7%	0.9%	1.1%
Average					21.7	16.4	13.2	5.2	3.8	3.0	1.0%	1.4%	1.8%
Median					23.3	17.3	14.3	5.0	3.9	3.1	0.7%	1.6%	2.0%

Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
14-Jul-11	Solar Sector Update	-	Wafer prices reversed downtrend	N/A	Antony Cheng
13-Jul-11	China 33 Media Group	8087	Interim results preview	BUY	Yuji Fung/ David Yuan
13-Jul-11	China All Access	633	Interim results preview	BUY	Yuji Fung/ David Yuan
12-Jul-11	TCL COMM	2618	1H11 Shipments in line	BUY	Yuji Fung
12-Jul-11	GCL-Poly Energy	3800	Interim results preview	BUY	Antony Cheng
12-Jul-11	EVA Precision Industrial	838	Interim results preview	BUY	Create Lee
11-Jul-11	YGM Trading Limited	375	Road Show Takeaway	BUY	Godfrey Leung
08-Jul-11	TCL COMM	2618	Profit Surprise, Everything is on track	BUY	Yuji Fung
08-Jul-11	Comtec Solar	712	Interim results preview	HOLD	Antony Cheng
07-Jul-11	The Alternative Financing Industry	-	Update on PBOC's rate hike	N/A	Antony Cheng
06-Jul-11	Oriental Watch	398	Road Show Takeaway ASP raise and discount narrowing	BUY	Godfrey Leung
05-Jul-11	Tianneng Power	819	Strong result ahead	BUY	Create Lee
30-Jun-11	YGM Trading Limited	375	FY11 result update - good result, revitalization follows	BUY	Godfrey Leung
29-Jun-11	China 33 Media Group	8087	High-speed media company with high growth	BUY	Yuji Fung/ David Yuan
29-Jun-11	YGM Trading Limited	375	FY11 result first take	BUY	Godfrey Leung
28-Jun-11	ERA Mining Machinery	8043	Are we in the same ERA?	BUY	Create Lee
27-Jun-11	ERA Holdings	8043	Share placement abandoned	BUY	Create Lee
27-Jun-11	China Corn Oil	1006	Positive profit alert	BUY	Godfrey Leung
27-Jun-11	Oriental Watch	398	Precious Time	BUY	Godfrey Leung
23-Jun-11	YGM Trading Limited	375	Upward earnings revision	BUY	Godfrey Leung
22-Jun-11	Singamas Container	716	A good entry opportunity	BUY	Antony Cheng
20-Jun-11	SIM Tech	2000	1H11 Profit Warning	SELL	Yuji Fung
13-Jun-11	China alternative financing Industry	-	The critical lifeline to SMEs	N/A	Antony Cheng
08-Jun-11	Chinasoft	354	Introduction of Hony Capital as strategic investor	BUY	Yuji Fung/ David Yuan
07-Jun-11	YGM Trading	375	Overlooked fundamental change has taken place	BUY	Godfrey Leung
07-Jun-11	ERA Holdings	8043	Another giant into client mix	BUY	Create Lee
30-May-11	Lead acid battery	-	Consolidation favours large players	BUY	Create Lee

To access our research reports, please visit our website at:

<http://www.oriental-patron.com.hk/ops/eng/company.php>

TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

By accepting this report, you represent and warrant that you are entitled to receive such report in accordance with the restrictions set forth below and agree to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law or termination of such services provided to you.

Disclaimer

Research distributed in Hong Kong is intended only for institutional investors whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an institutional investor must not rely on this communication.

The information and material presented herein are not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Oriental Patron Securities Limited ("OPSL") and/or its associated companies and/or its affiliates (collectively "Oriental Patron") to any registration or licensing requirement within such jurisdiction.

The information and material presented herein are provided for information purposes only and are not to be used or considered as an offer or a solicitation to sell or an offer or solicitation to buy or subscribe for securities, investment products or other financial instruments, nor to constitute any advice or recommendation with respect to such securities, investment products or other financial instruments.

This research report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not to be relied upon in substitution for the exercise of independent judgment. Oriental Patron may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them. You should independently evaluate particular investments and you should consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities mentioned in this report.

Information and opinions presented in this report have been obtained or derived from sources believed by Oriental Patron to be reliable, but Oriental Patron makes no representation as to their accuracy or completeness and Oriental Patron accepts no liability for loss arising from the use of the material presented in this report where permitted by law and/or regulation. Further, opinions expressed in this report are subject to change without notice. Oriental Patron does not accept any liability whatsoever whether direct or indirect that may arise from the use of information contained in this report.

The research analyst(s) primarily responsible for the preparation of this report confirm(s) that (a) all of the views expressed in this report accurately reflects his or their personal views about any and all of the subject securities or issuers; and (b) that no part of his or their compensation was, is or will be, directly or indirectly, related to the specific recommendations or views he or they expressed in this report.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Oriental Patron, its directors, officers and employees may have investments in securities or derivatives of any companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.

General Disclosure

Oriental Patron, its directors, officers and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. Oriental Patron may, to the extent permitted by law, act upon or use the information presented herein, or the research or analysis on which they are based, before the material is published. One or more directors, officers and/or employees of Oriental Patron may be a director of the issuers of the securities mentioned in this report. Oriental Patron may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment or investment banking service to the issuers of the securities mentioned in this report.

Regulatory Disclosures as required by the Hong Kong Securities and Futures Commission

Oriental Patron (inclusive of OPSL) which are carrying on a business in Hong Kong in investment banking, proprietary trading or market making or agency broking are not a market maker in the securities of the subject companies mentioned in this report. Oriental Patron does not have any investment banking relationship with the companies mentioned in this report within the last 12 months. As at the date of this report, Oriental Patron do not have any interests in the said company/companies aggregating to a level that requires disclosure in this report.

Analyst Certification:

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

Rating and Related Definitions

Buy (B)	We expect this stock to outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
Sell (S)	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 months.
Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

Copyright © 2011 Oriental Patron Financial Group. All Rights Reserved

This report is being supplied to you strictly on the basis that it will remain confidential. Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of Oriental Patron. Oriental Patron accepts no liability whatsoever for the actions of third parties in this respect.

CONTACT

27/F, Two Exchange Square,

8 Connaught Place, Central, Hong Kong

www.oriental-patron.com.hkdavid.yuan@oriental-patron.com.hk

Tel: (852) 2135 0212

Fax: (852) 2135 0295