



# Huiyin Household Ap 1280 HK

CHINA / RETAILING

TARGET  
PRIOR TP  
CLOSE  
UP/DOWNSIDE

HKD2.15  
HKD2.55  
HKD1.60  
+34.4%

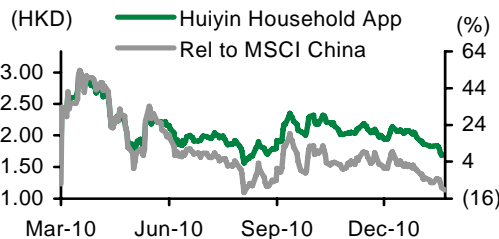
**BUY**  
UNCHANGED

## HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (HKD)	2.15	2.43	11.5
EPS 2010 (RMB)	0.12	0.12	0.0
EPS 2011 (RMB)	0.14	0.14	0.0
	Positive	Neutral	Negative
Market Recs.	2	0	0

## KEY STOCK DATA

YE Dec (RMB m)	2010E	2011E	2012E
Revenue	1,743	2,392	3,033
Rec. net profit	116	145	176
Recurring EPS (RMB)	0.12	0.14	0.17
Prior rec. EPS (RMB)	0.12	0.15	0.18
Chg. In EPS est. (%)	(2.0)	(7.3)	(8.2)
EPS growth (%)	(97.5)	16.7	21.2
Recurring P/E (x)	11.5	9.9	8.2
Dividend yield (%)	0.4	0.1	0.2
EV/EBITDA (x)	3.8	6.2	5.7
Price/book (x)	1.3	1.2	1.1
Net debt/Equity	(16.1)	17.2	15.6
ROE (%)	14.2	12.9	14.0



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(18.3)	(17.5)	-
Relative to country (%)	(12.6)	(13.4)	-

Next results	March 2011
Mkt cap (USD m)	215
3m avg daily turnover (USD m)	0.6
Free float (%)	36
Major shareholder	Cao Kuanping (24%)
12m high/low (HKD)	3.03/1.56
3m historic vol. (%)	33.1
ADR ticker	NA
ADR closing price (USD)	NA

Sources : Bloomberg consensus; BNP Paribas estimates

## RECENT COMPANY & SECTOR RESEARCH

- In a sweet spot..... 27 Sep 2010
- It's all about pricing power .....11 Feb 2011
- A 10-yr high confidence level .....10 Feb 2011

## INDUSTRY OUTLOOK ↑

## NEW INFORMATION

# A jump start in 2011

- January and CNY sales were much stronger than expected
- Lower FY10 earning forecasts due to M&A-related costs
- Cash still sufficient for expansion after land purchase
- Lower TP to HK\$2.15 based on 13.3x FY11 P/E, maintain BUY

### A jump start in 2011

Huiyin released new-year season sales numbers yesterday. The company registered 64% and 59% revenue growth in the January and Chinese New Year period. These are very strong numbers, mainly driven by contributions from new retail stores and new products in their wholesale portfolio. We raised our 2011 revenue growth forecast to 37% from 31% because the first 1.5 months sales only account for approximately 8% of full year revenue (remember around 60% of Huiyin's revenue comes from air-conditioners, which are mostly sold from May to September) so the strong year-beginning sales do not represent the full-year picture, although we believe there could be upside.



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Stock price hurt by lower FY10 EPS and land purchase  
We lowered our FY10 EPS forecast by 3% after deducting the costs related to the acquisition of a local retailer in Anhui last November. The earnings disappointment and the company's recent land acquisition in Yangzhou, which was considered negative by some investors, has put pressure on the share price in the past two months. We believe the negative news has been fully digested by the market and we suggest investors buy the stock at current low level with positive sales numbers.

Internal cash-flow sufficient to fund new store openings  
Huiyin's RMB235m land acquisition has triggered investors' concerns of future capital raising. We believe the company is unlikely to manage an equity placement at the current price level because the company's cash position and cash flow generated from operations should be sufficient to cover the land acquisition and new-store openings, according to the company's plan. Although, we believe more bank loans are likely to be incurred in 2011 to maintain a prudent financial status.

### Valuation

We maintain our BUY recommendation and lower target price to HK\$2.15 based on 13.3x FY11 P/E. We breakdown Huiyin's net profit by wholesale and retail business and use an SoTP approach, based on relevant small cap companies' P/E multiples. We believe the current 10x FY11 P/E is not demanding and that Huiyin is apparently undervalued, even compared to small-cap peers. The main risk is whether the company will be distracted by other non-core business, such as real estate; therefore, its core operations could risk slowing down.

# RISK EXPERTS



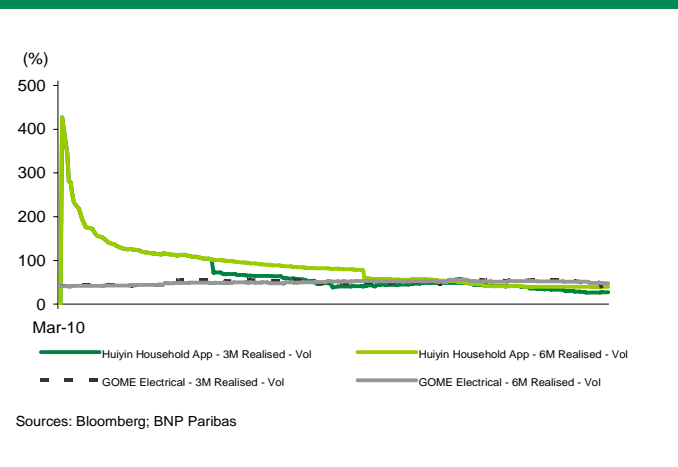
	Base		Best		Worst	
	2011E	2012E	2011E	2012E	2011E	2012E
Sales growth (%)	37	27	43	37	27	17
Recurring EPS (RMB)	0.12	0.14	0.13	0.16	0.11	0.12
Change (%)			8.0	16.1	-8.0	-16.0

**Key Earnings Drivers & Sensitivity**

- Every 10% change in sales growth assumptions would lead to around 8% in our FY11 and around 16% change in FY12 EPS estimate, respectively.

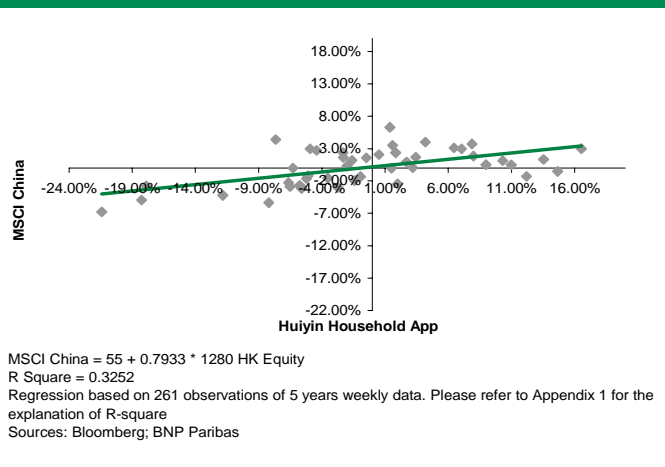
Sources: BNP Paribas estimates

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



Sources: Bloomberg; BNP Paribas

## Regression – MXCN Index to Huiyin Household App

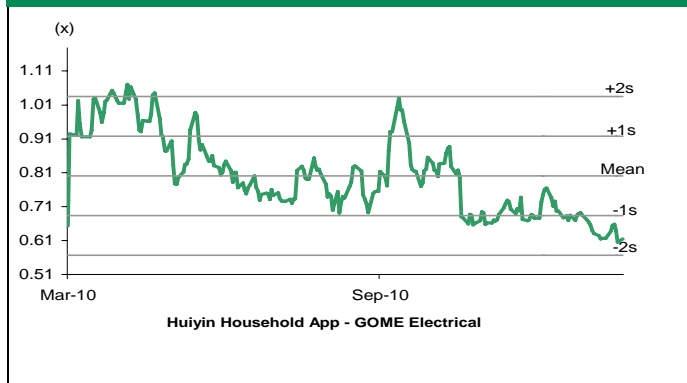


## China sector correlation matrix at 30 December 2010

	Banks	Insurance	Metals & Mining	Oil & Gas	Property	Telecoms	Utilities	Coal
<b>Banks</b>	1.00	0.80	0.77	0.83	0.74	0.75	0.64	0.79
<b>Insurance</b>		1.00	0.79	0.83	0.71	0.75	0.66	0.80
<b>Metals &amp; Mining</b>			1.00	0.82	0.72	0.71	0.63	0.85
<b>Oil &amp; Gas</b>				1.00	0.68	0.79	0.65	0.87
<b>Property</b>					1.00	0.62	0.58	0.70
<b>Telecoms</b>						1.00	0.66	0.72
<b>Utilities</b>							1.00	0.61
<b>Coal</b>								1.00

Source: BNP Paribas Sector Strategy

## Long/short chart



Sources: Bloomberg, BNP Paribas

## 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.

Air conditioner, refrigerator penetration rise drives revenue up  
As we expect air conditioners to continue to be a major driving force of Huiyin's revenue growth, due to low penetration in the rural market. Huiyin's air conditioner sales doubled from a year ago. Refrigerators also registered 78% revenue growth. We believe the low penetration of these home appliances will continue to drive Huiyin's revenue growth in next three-to-five years.

#### Exhibit 1: Revenue growth breakdown by product during CNY 2011

Product	Revenue growth (%)	Growth driver
Air conditioner	100	Penetration increase in rural market
Small appliances	100	Household income increase
Refrigerator	78	Penetration increase in rural market
Color TV & Digital	30	TV upgrading
Washing machine	6	
<b>Total</b>	<b>59</b>	

Sources: Huiyin Household App; BNP Paribas

Compared to retail sales, Huiyin's wholesale revenue growth was more surprising. In the past year, Huiyin has strengthened its distribution relationship with major suppliers and acquired some small local distributors, such as a Sharp TV distribution in Jiangsu. Wholesale is the main surprise compared to our forecasts.

#### Exhibit 2: Revenue growth breakdown by wholesale/retail, Jan and CNY 2011

(%)	January	CNY	Previous FY11 forecast
Retail	+48	+48	+50
Wholesale	+79	+70	+17
<b>Total</b>	<b>+64</b>	<b>+59</b>	<b>+31</b>

Sources: Huiyin Household App; BNP Paribas

Strong sales in the wholesale segment will likely lower the overall gross margin, but higher-margin products (air conditioners and small appliances), as well as a strong top-line growth could potentially fully offset the negative impact on gross profits.

#### Earnings revision and valuation

We lowered our earning forecasts by 2% in FY10 and 7% in FY11 to reflect the additional cost associated with the acquisition of Anhui retailer in FY10, and higher opening costs due to faster-than-expected new-store openings in FY11.

Huiyin has a hybrid business model (wholesale and retail); therefore, some investors believe the company should not be benchmarked against pure retail plays. Furthermore, the company is a small cap and liquidity is low, so it should not be compared against those above-20x-P/E large-cap consumer plays. We believe these are valid points and changed our valuation method to SoTP to reflect different valuations assigned to distribution and retail business.

We break down Huiyin's valuation by wholesale and retail to calculate its SoTP valuation. To appropriately reflect the "small-cap" discount, we use only companies with market cap below US\$1b in our comparison table. The table suggests that the market gives an average of 16.4x forwarding P/E to small-cap retail companies. For the wholesale benchmark, we use a small cap IT distributor VST Holdings (856 HK, not covered, CP HK\$2.70), which is trading at 6.8 x FY11, based on Bloomberg consensus. We believe this 13.3x FY11 P/E is a very conservative valuation. Even with conservative revenue assumptions in our model, this valuation gives 34% upside to Huiyin's current price. We maintain our BUY recommendation.

**Exhibit 3: Some-of-the-parts valuation**

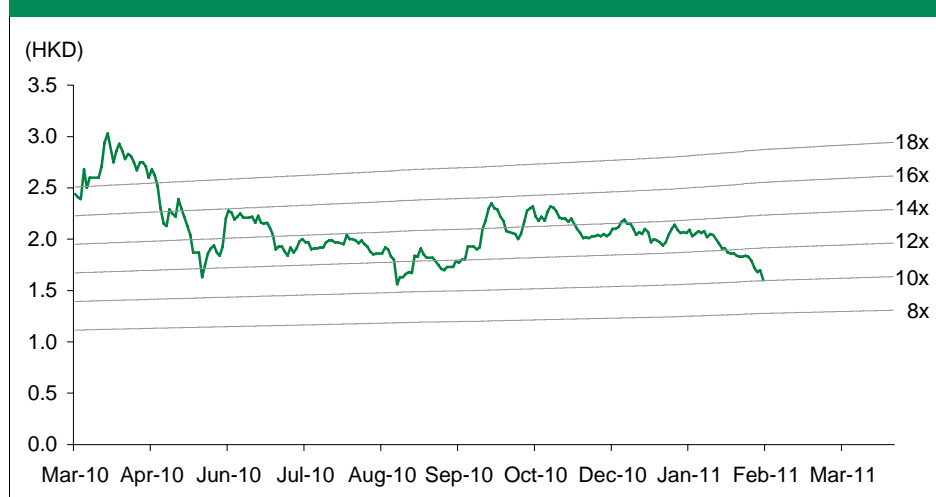
	Percentage in net profit (%)	Forwarding P/E (x) (x)	P/E contribution (x)
Retail	68	16.4	11.1
Wholesale	32	6.8	2.2
<b>Total</b>	<b>100</b>		<b>13.3</b>

Source: BNP Paribas

**Exhibit 4: Valuation Comparison Table**

Company	BBG code	Mkt cap (USD m)	Share price (LC)	P/E			EPS growth		
				2010 (x)	2011E (x)	2012E (x)	2010 (%)	2011E (%)	2012E (%)
<b>Chinese small-cap organised retail companies</b>									
Shirble Department Stores Holdings China Ltd	312 HK	462.7	1.44	14.3	12.5	10.2	22.9	14.0	22.4
Beijing Jingkelong Co Ltd	814 HK	555.4	10.50	20.2	17.6	15.8	22.6	14.5	11.7
Goodbaby International Holdings Ltd	1086 HK	620.8	4.83	24.2	17.9	14.6	-	35.0	22.2
Little Sheep Group Ltd	968 HK	615.8	4.65	20.5	16.4	13.3	19.7	25.4	23.3
<b>Market cap weighted average</b>				<b>20.2</b>	<b>16.3</b>	<b>13.6</b>			
<b>Chinese hardware distribution company</b>									
VST Holdings	856 HK	438.5	2.71	8.1	6.8	NA	20.0	19.0	
<b>Other relevant companies: Hong Kong small-cap organised retail companies</b>									
Aeon Stores Hong Kong Co Ltd	984 HK	524.5	15.70	14.3	13.0	11.7	71.1	10.0	10.7
Emperor Watch & Jewellery Ltd	887 HK	782.0	1.07	22.0	14.1	9.9	14.0	55.1	43.4
Bonjour Holdings Ltd	653 HK	528.8	1.40	20.9	16.3	12.7	13.6	28.4	27.9
<b>Other relevant company: China middle-to-large-cap home appliance distributor</b>									
Haier Electronics Group Co Ltd	1169 HK	2,317.7	8.11	21.3	15.5	14.0	82.1	37.6	10.9

Sources: Bloomberg; BNP Paribas

**Exhibit 5: Historical P/E Band**

Sources: Bloomberg; BNP Paribas

## FINANCIAL STATEMENTS

## Huiyin Household App

Profit and Loss (RMB m) Year Ending Dec	2008A	2009A	2010E	2011E	2012E
Revenue	988	1,248	1,743	2,392	3,033
Cost of sales ex depreciation	(867)	(1,042)	(1,446)	(1,987)	(2,524)
<b>Gross profit ex depreciation</b>	<b>121</b>	<b>206</b>	<b>297</b>	<b>404</b>	<b>508</b>
Other operating income	9	12	22	31	42
Operating costs	(69)	(77)	(142)	(204)	(265)
<b>Operating EBITDA</b>	<b>61</b>	<b>141</b>	<b>177</b>	<b>231</b>	<b>285</b>
Depreciation	(6)	(11)	(14)	(19)	(22)
Goodwill amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>54</b>	<b>130</b>	<b>163</b>	<b>211</b>	<b>263</b>
Net financing costs	6	2	(2)	(7)	(17)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	(5)	(5)	(25)	(12)	(3)
<b>Profit before tax</b>	<b>56</b>	<b>127</b>	<b>136</b>	<b>193</b>	<b>243</b>
Tax	(17)	(34)	(44)	(58)	(68)
<b>Profit after tax</b>	<b>39</b>	<b>93</b>	<b>93</b>	<b>135</b>	<b>175</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>92</b>	<b>133</b>	<b>173</b>
Non recurring items & goodwill (net)	5	5	25	12	3
<b>Recurring net profit</b>	<b>43</b>	<b>96</b>	<b>116</b>	<b>145</b>	<b>176</b>

Financial costs likely to increase in 2011E and 2012E due to potential increase of bank loans

Revised up revenue growth from 31% to 37% with ~60% sales increase in January 2011 and Chinese New Year

Per share (RMB)	2008A	2009A	2010E	2011E	2012E
Recurring EPS *	2.14	4.74	0.12	0.14	0.17
Reported EPS	1.91	4.57	0.09	0.13	0.16
DPS	0.00	0.00	0.01	0.00	0.00

Growth	2008A	2009A	2010E	2011E	2012E
Revenue (%)	97.5	26.3	39.7	37.2	26.8
Operating EBITDA (%)	5.8	132.0	25.6	30.2	23.7
Operating EBIT (%)	0.9	139.2	25.5	29.4	24.6
Recurring EPS (%)	(1.2)	121.3	(97.5)	16.7	21.2
Reported EPS (%)	(12.0)	139.5	(98.0)	35.8	29.8

Operating performance	2008A	2009A	2010E	2011E	2012E
Gross margin inc depreciation (%)	11.6	15.6	16.2	16.1	16.0
Operating EBITDA margin (%)	6.2	11.3	10.2	9.6	9.4
Operating EBIT margin (%)	5.5	10.4	9.4	8.8	8.7
Net margin (%)	4.4	7.7	6.7	6.1	5.8
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)	-	-	72.3	31.6	15.3
Inventory days	49.4	56.8	48.5	48.2	49.9
Debtor days	14.4	19.9	25.7	25.9	26.8
Creditor days	74.4	65.5	58.9	59.0	61.0
Operating ROIC (%)	11.9	19.2	16.0	14.0	13.6
Operating ROIC – WACC (%)	3.1	10.5	7.3	5.3	4.9
ROIC (%)	10.2	17.2	14.7	12.9	12.6
ROIC – WACC (%)	1.4	8.5	6.0	4.1	3.8
ROE (%)	9.3	18.3	14.2	12.9	14.0
ROA (%)	5.3	11.2	9.5	8.5	8.9

\* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (RMB m)	2008A	2009A	2010E	2011E	2012E
Retail	330	440	729	1,090	1,462
Wholesale to Franchisees	285	350	401	443	498
Wholesale to Third Parties	364	449	599	839	1,049
Service Charges	9	9	14	19	23

Sources: Huiyin Household App; BNP Paribas estimates

## Huiyin Household App

<b>Cash Flow (RMB m)</b>					
<b>Year Ending Dec</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Recurring net profit	43	96	116	145	176
Depreciation	6	11	14	19	22
Associates & minorities	0	1	1	2	2
Other non-cash items	15	7	(22)	(9)	1
<b>Recurring cash flow</b>	<b>65</b>	<b>116</b>	<b>109</b>	<b>157</b>	<b>201</b>
Change in working capital	(108)	(217)	(207)	(113)	(141)
Capex - maintenance	0	0	0	0	0
Capex - new investment	(5)	(29)	(35)	(359)	(45)
<b>Free cash flow to equity</b>	<b>(48)</b>	<b>(130)</b>	<b>(133)</b>	<b>(315)</b>	<b>15</b>
Net acquisitions & disposals	(9)	0	(41)	(46)	0
Dividends paid	0	0	(47)	(14)	(20)
Non recurring cash flows	41	5	7	0	0
<b>Net cash flow</b>	<b>(16)</b>	<b>(126)</b>	<b>(214)</b>	<b>(374)</b>	<b>(5)</b>
Equity finance	0	0	444	0	0
Debt finance	(23)	62	16	180	1
<b>Movement in cash</b>	<b>(39)</b>	<b>(64)</b>	<b>246</b>	<b>(195)</b>	<b>(4)</b>

Large capex in 2011 for the land acquisition in Yangzhou

<b>Per share (RMB)</b>					
Recurring cash flow per share	3.23	5.78	0.11	0.15	0.19
FCF to equity per share	(2.42)	(6.52)	(0.14)	(0.30)	0.01

<b>Balance Sheet (RMB m)</b>					
<b>Year Ending Dec</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Working capital assets	558	753	1,072	1,323	1,600
Working capital liabilities	(267)	(261)	(372)	(510)	(647)
<b>Net working capital</b>	<b>291</b>	<b>492</b>	<b>700</b>	<b>813</b>	<b>953</b>
Tangible fixed assets	73	117	157	497	520
<b>Operating invested capital</b>	<b>364</b>	<b>609</b>	<b>857</b>	<b>1,309</b>	<b>1,473</b>
Goodwill	0	0	0	0	0
Other intangible assets	28	33	52	96	93
Investments	0	0	0	0	0
Other assets	27	25	24	23	22
<b>Invested capital</b>	<b>419</b>	<b>667</b>	<b>933</b>	<b>1,429</b>	<b>1,589</b>
Cash & equivalents	(82)	(18)	(257)	(63)	(58)
Short term debt	0	70	86	266	267
Long term debt *	0	0	0	0	0
<b>Net debt</b>	<b>(82)</b>	<b>52</b>	<b>(171)</b>	<b>204</b>	<b>209</b>
Deferred tax	18	39	39	39	39
Other liabilities	0	0	0	0	0
Total equity	481	573	1,061	1,180	1,333
Minority interests	1	3	4	5	8
<b>Invested capital</b>	<b>419</b>	<b>667</b>	<b>933</b>	<b>1,429</b>	<b>1,589</b>

Increase debt to maintain a prudent cash position

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

<b>Per share (RMB)</b>					
Book value per share	24.07	28.65	1.01	1.13	1.27
Tangible book value per share	22.68	26.99	0.96	1.03	1.18

<b>Financial strength</b>					
Net debt/equity (%)	(16.9)	9.0	(16.1)	17.2	15.6
Net debt/total assets (%)	(10.6)	5.5	(10.9)	10.2	9.1
Current ratio (x)	2.4	2.3	2.9	1.8	1.8
CF interest cover (x)	-	-	(42.6)	7.6	4.5

<b>Valuation</b>					
	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Recurring P/E (x) *	0.6	0.3	11.5	9.9	8.2
Recurring P/E @ target price (x) *	0.8	0.4	15.5	13.3	11.0
Reported P/E (x)	0.7	0.3	14.5	10.7	8.2
Dividend yield (%)	0.0	0.0	0.4	0.1	0.2
P/CF (x)	0.4	0.2	12.2	9.0	7.1
P/FCF (x)	(0.6)	(0.2)	(9.9)	(4.5)	95.2
Price/book (x)	0.1	0.0	1.3	1.2	1.1
Price/tangible book (x)	0.1	0.1	1.4	1.3	1.1
EV/EBITDA (x) **	(1.0)	0.1	3.8	6.2	5.7
EV/EBITDA @ target price (x) **	(0.8)	0.1	4.4	7.7	6.9
EV/invested capital (x)	(0.1)	0.1	1.3	1.1	1.0

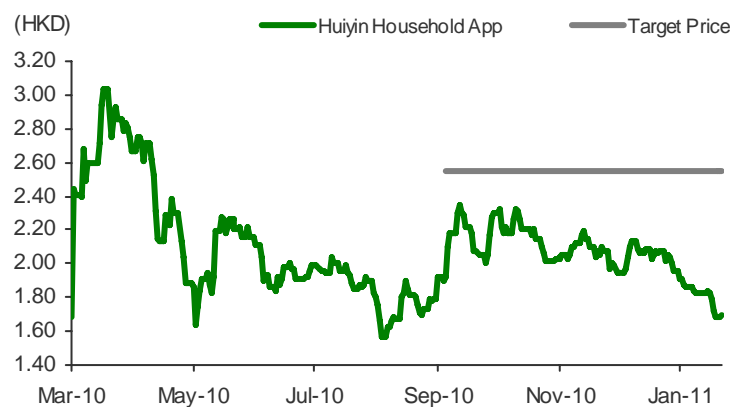
\* Pre exceptional, pre-goodwill and fully diluted

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

Sources: Huiyin Household App; BNP Paribas estimates

HISTORY OF CHANGE IN INVESTMENT RATING AND/OR TARGET PRICE

Huiyin Household Appliances (1280 HK)



Date	Reco	TP
28-Sep-10	BUY	2.55

Charlie Y Chen started covering this stock from 28 September 2010  
 Price and TP are in local currency

**Valuation and risks:** We use SoTP valuation method to give a price target of HK\$2.15, based on 13.3x FY11 P/E. Main risks of investing in this company are the company may not maintain the same growth rate going forward as they have achieved year-to-date in 2011, and the company may need to raise capital through equity placement to fund its capex plan, thus shareholders' interest may be diluted.

Sources: Bloomberg, BNP Paribas



## DISCLAIMERS &amp; DISCLOSURES

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