



Huiyin Household Ap 1280 HK

CHINA / RETAILING

TARGET
PRIOR TP
CLOSE
UP/DOWNSIDE

HKD2.15
HKD2.15
HKD1.72
+25.0%

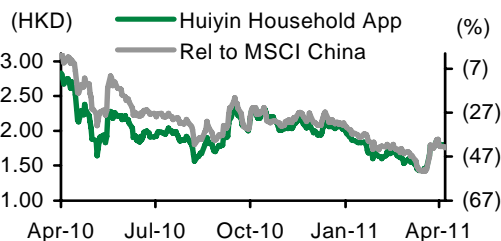
BUY
UNCHANGED

HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (HKD)	2.15	2.15	-
EPS 2011 (RMB)	0.14	0.14	-
EPS 2012 (RMB)	0.16	0.16	-
	Positive	Neutral	Negative
Market Recs.	1	0	0

KEY STOCK DATA

YE Dec (RMB m)	2011E	2012E	2013E
Revenue	2,496	3,220	4,055
Rec. net profit	145	175	230
Recurring EPS (RMB)	0.14	0.16	0.22
Prior rec. EPS (RMB)	0.14	0.17	0.21
Chg. In EPS est. (%)	(0.2)	(1.5)	2.2
EPS growth (%)	17.9	20.2	31.7
Recurring P/E (x)	10.5	8.8	6.7
Dividend yield (%)	0.2	0.2	0.3
EV/EBITDA (x)	6.7	5.9	4.7
Price/book (x)	1.3	1.2	1.0
Net debt/Equity	27.4	23.6	24.5
ROE (%)	13.0	14.0	16.3



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	12.0	(5.4)	(35.6)
Relative to country (%)	6.8	(10.8)	(45.3)

Next results	August 2011
Mkt cap (USD m)	232
3m avg daily turnover (USD m)	1.3
Free float (%)	36
Major shareholder	Cao Kuanping (24%)
12m high/low (HKD)	2.75/1.43
3m historic vol. (%)	41.8
ADR ticker	-
ADR closing price (USD)	-

Sources : Bloomberg consensus; BNP Paribas estimates

RECENT COMPANY & SECTOR RESEARCH

Pains of growing	29 Mar 2011
A jump start in 2011	16 Feb 2011
Slower in Mar after strong CNY	9 Apr 2011
Leaner and meaner	19 Mar 2011

INDUSTRY OUTLOOK ↑

NEW INFORMATION

Full of steam

- Strong 1Q operations with revenue up around 60% y-y
- New store openings still on fast track, 10 new stores in 1Q
- Proposed notes issue removes equity placement overhang
- Maintain BUY and target price of HKD2.15 unchanged

Revenue up ~60% in 1Q
We have had a general update from Huiyin's management on the company's operations in 1Q. Huiyin's preliminary numbers indicate that revenue has increased around 60% in 1Q y-y (well ahead of our ~40% forecast), driven by 10% same-store-sales growth (SSSG) and sales from new stores opened in 2H 2010. In all major categories, air conditioners took the lead with sales up 80% y-y, mainly because air conditioner penetration in Jiangsu is rapidly increasing, in our view. We believe Huiyin will benefit from high growth in air conditioners in the next 3-5 years due to its heavy skew to this category.



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Retail network expansion on fast track
Huiyin opened 10 new self-operated stores in 1Q, lifting the total number of self-operated stores to 63 from 53 at the end of 2010. Unlike 2010 when most of the new stores (19 out of 26) were opened in the second half, the early-in-the-year openings are likely to help stabilise Huiyin's margins because it gives sufficient time for new stores to break even – normally the breakeven period is six months.

RMB400m notes issuance removes placement overhang
After purchasing the Yangzhou land in January for RMB240m, Huiyin's cash position seems to be stretched, which raises investor concern that equity placement may be needed. This notes issuance, if it happens, would remove the equity placement overhang, and Huiyin should have RMB100m in hand by the end of 2011 with a net D/E ratio of 27%. In an earlier note (*A jump start in 2011* (16 February 2011)) we forecast that debt financing is likely to happen in 2H 2011 and have built in the impact of increasing interest expenses. The interest rate has yet to be determined – the benchmark rate is around 6-7% per year, which translates to RMB20m-30m a year.

Valuation

We believe Huiyin is overly discounted given its growth profile. The stock is trading at 10.5x FY11 P/E against 23% EPS CAGR from 2010 to 2013. Sales, mainly driven by fast retail network expansion, but not SSSG means the rural home appliance market is still at land-grabbing stage which happened in urban markets several years ago. We believe Huiyin is an attractive long-term investment with its proven replicable business model. We maintain our BUY recommendation and HKD2.15 target price. The main risk is Huiyin's fast expansion may hurt its margins.

RISK EXPERTS



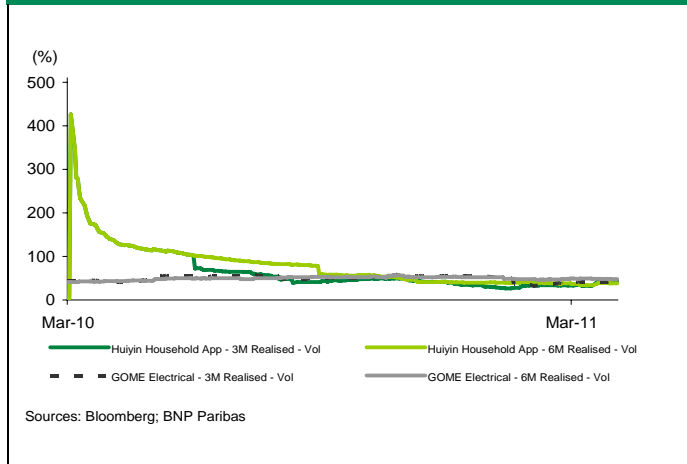
Year-end 31 Dec	— Base —		— Best —		— Worst —	
	2011E	2012E	2011E	2012E	2011E	2012E
Sales growth (%)	40	29	50	39	30	19
Recurring EPS (USD)	0.137	0.165	0.149	0.194	0.126	0.138
Change (%)	-	-	8.3	17.8	(8.3)	(16.4)

Sources: BNP Paribas estimates

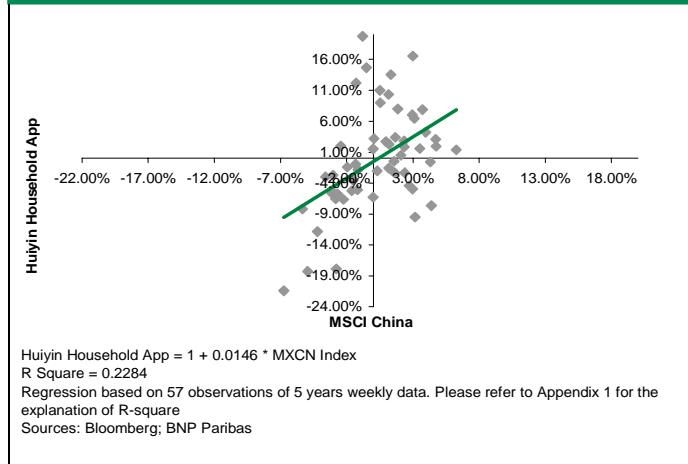
Key Earnings Drivers & Sensitivity

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

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



Regression – Huiyin Household App to MXCN Index

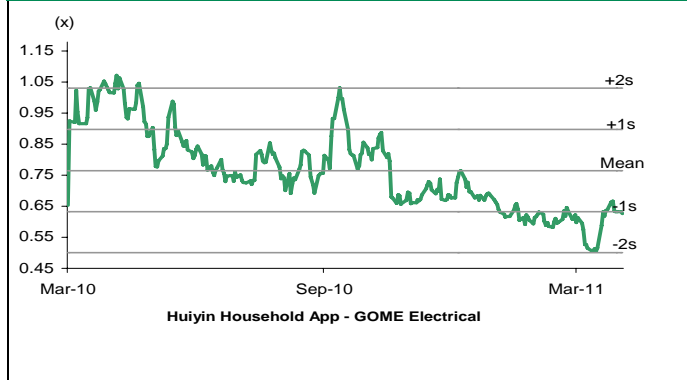


China sector correlation matrix at 31 March 2011

	Banks	Insurance	Metal & Mining	Oil & Gas	Property	Telecom	Utilities	Coal
Banks	1.00	0.77	0.78	0.81	0.73	0.71	0.61	0.78
Insurance		1.00	0.76	0.79	0.67	0.69	0.61	0.76
Metal & Mining			1.00	0.82	0.70	0.69	0.63	0.84
Oil & Gas				1.00	0.64	0.76	0.64	0.83
Property					1.00	0.55	0.54	0.67
Telecom						1.00	0.61	0.68
Utilities							1.00	0.56
Coal								1.00

Source: BNP Paribas Sector Strategy

Long/short chart



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.

Exhibit 1: Peer valuations

	BBG Code	BNPP Rating	Mkt Cap (USD m)	Share Price (LC)	PE		EV/EBITDA		P/BV		Yield	
					2011 (x)	2012 (x)	2011 (x)	2012 (x)	2011 (x)	2012 (x)	2011 (%)	2012 (%)
Home appliance retailers												
Suning Appliance	002024 CH	Unrated	14,280	13.29	17.6	14.4	12.8	10.0	4.2	3.4	0.9	1.1
GOME	493 HK	BUY	5,996	2.77	15.3	12.5	9.8	8.1	2.4	2.0	1.9	2.4
Haier Electronics Group	1169 HK	Unrated	2,821	9.72	14.8	11.4	8.0	6.2	4.8	3.3	0.7	1.0
Huiyin Household Appliances	1280 HK	BUY	232	1.72	10.5	8.7	6.7	5.9	1.3	1.2	0.2	0.2
Sector Average					16.6	13.5	11.4	9.0	3.8	3.0	1.2	1.4

Sources: Bloomberg, BNP Paribas

Exhibit 2: 12-month forward P/E band chart



Sources: Bloomberg, BNP Paribas

FINANCIAL STATEMENTS

Huiyin Household App

Profit and Loss (RMB m) Year Ending Dec	2009A	2010A	2011E	2012E	2013E
Revenue	1,248	1,784	2,496	3,220	4,055
Cost of sales ex depreciation	(1,042)	(1,464)	(2,052)	(2,639)	(3,302)
Gross profit ex depreciation	206	320	444	581	753
Other operating income	12	15	25	32	40
Operating costs	(77)	(156)	(226)	(300)	(392)
Operating EBITDA	141	180	242	313	400
Depreciation	(11)	(13)	(18)	(22)	(24)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	130	166	225	291	376
Net financing costs	2	(1)	(15)	(33)	(35)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	(5)	(24)	(12)	(3)	0
Profit before tax	127	140	197	255	342
Tax	(34)	(46)	(61)	(79)	(106)
Profit after tax	93	94	136	176	236
Minority interests	(1)	(2)	(3)	(4)	(6)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	91	92	133	171	230
Non recurring items & goodwill (net)	5	24	12	3	0
Recurring net profit	96	116	145	175	230

Financial costs are increasing from 2010 to 2013 due to debt raising

Slightly revised up revenue growth from 35% to 40%, given a strong 1Q sales

Gross margin slightly eroded due to stores acquired last year running at lower efficiency and needing time to catch up

Per share (RMB)	2009A	2010A	2011E	2012E	2013E
Recurring EPS *	4.74	0.12	0.14	0.16	0.22
Reported EPS	4.57	0.09	0.13	0.16	0.22
DPS	0.00	0.01	0.00	0.00	0.00

Growth	2009A	2010A	2011E	2012E	2013E
Revenue (%)	26.3	43.0	39.9	29.0	25.9
Operating EBITDA (%)	132.0	27.3	35.0	29.1	27.9
Operating EBIT (%)	139.2	27.9	35.2	29.5	29.4
Recurring EPS (%)	121.3	(97.5)	17.9	20.2	31.7
Reported EPS (%)	139.5	(98.0)	35.2	29.1	34.2

Operating performance	2009A	2010A	2011E	2012E	2013E
Gross margin inc depreciation (%)	15.6	17.2	17.1	17.4	18.0
Operating EBITDA margin (%)	11.3	10.1	9.7	9.7	9.9
Operating EBIT margin (%)	10.4	9.3	9.0	9.0	9.3
Net margin (%)	7.7	6.5	5.8	5.4	5.7
Effective tax rate (%)	27.0	33.0	31.0	31.0	31.0
Dividend payout on recurring profit (%)	0.0	4.6	1.8	1.9	1.9
Interest cover (x)	-	119.1	14.9	8.8	10.8
Inventory days	56.8	54.8	56.9	56.2	56.0
Debtor days	19.9	27.6	28.7	27.8	26.9
Creditor days	65.5	90.1	112.1	116.1	117.6
Operating ROIC (%)	19.2	16.4	14.5	14.4	16.3
Operating ROIC – WACC (%)	8.2	5.4	3.4	3.3	5.3
ROIC (%)	17.2	14.8	13.1	13.2	15.1
ROIC – WACC (%)	6.2	3.8	2.1	2.1	4.1
ROE (%)	18.3	14.2	13.0	14.0	16.3
ROA (%)	11.2	8.5	7.1	7.2	8.0

* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (RMB m)	2009A	2010A	2011E	2012E	2013E
Retail	440	769	1,119	1,634	2,291
Wholesale to Franchisees	350	448	589	662	722
Wholesale to Third Parties	449	552	766	899	1,011
Service Charges	9	15	21	25	31

Sources: Huiyin Household App; BNP Paribas estimates

Huiyin Household App

Cash Flow (RMB m)					
Year Ending Dec	2009A	2010A	2011E	2012E	2013E
Recurring net profit	96	116	145	175	230
Depreciation	11	13	18	22	24
Associates & minorities	1	2	3	4	6
Other non-cash items	7	(23)	(9)	2	5
Recurring cash flow	116	108	157	203	265
Change in working capital	(217)	(220)	(177)	(118)	(241)
Capex - maintenance	0	0	0	0	0
Capex – new investment	(29)	(17)	(374)	(48)	(51)
Free cash flow to equity	(130)	(129)	(394)	37	(27)
Net acquisitions & disposals	0	(59)	(46)	0	0
Dividends paid	0	(41)	(18)	(27)	(34)
Non recurring cash flows	5	(95)	0	0	0
Net cash flow	(126)	(324)	(458)	10	(62)
Equity finance	0	438	0	0	0
Debt finance	62	57	379	(12)	52
Movement in cash	(64)	171	(79)	(2)	(9)

Mainly used to acquire Yangzhou new flagship store land and remaining payment of Anhui retail store acquisition in 2010

Per share (RMB)					
Recurring cash flow per share	5.78	0.11	0.15	0.19	0.25
FCF to equity per share	(6.52)	(0.13)	(0.38)	0.03	(0.03)

Balance Sheet (RMB m)					
Year Ending Dec	2009A	2010A	2011E	2012E	2013E
Working capital assets	753	1,440	1,876	2,245	2,770
Working capital liabilities	(261)	(727)	(987)	(1,238)	(1,522)
Net working capital	492	712	889	1,007	1,248
Tangible fixed assets	117	141	497	523	550
Operating invested capital	609	853	1,386	1,530	1,798
Goodwill	0	0	0	0	0
Other intangible assets	33	71	114	110	106
Investments	0	0	0	0	0
Other assets	25	24	23	22	22
Invested capital	667	948	1,523	1,662	1,925
Cash & equivalents	(18)	(182)	(103)	(101)	(91)
Short term debt	70	50	429	416	469
Long term debt *	0	0	0	0	0
Net debt	52	(132)	326	316	377
Deferred tax	39	2	2	2	2
Other liabilities	0	5	5	5	5
Total equity	573	1,057	1,171	1,316	1,512
Minority interests	3	15	19	23	29
Invested capital	667	948	1,523	1,662	1,925

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

Per share (RMB)					
Book value per share	28.65	1.01	1.12	1.26	1.44
Tangible book value per share	26.99	0.94	1.01	1.15	1.34

Financial strength					
Net debt/equity (%)	9.0	(12.3)	27.4	23.6	24.5
Net debt/total assets (%)	5.5	(7.1)	12.5	10.5	10.7
Current ratio (x)	2.3	2.1	1.4	1.4	1.4
CF interest cover (x)	-	(79.0)	(0.3)	3.6	1.7

Valuation					
	2009A	2010A	2011E	2012E	2013E
Recurring P/E (x) *	0.3	12.4	10.5	8.8	6.7
Recurring P/E @ target price (x) *	0.4	15.5	13.2	10.9	8.3
Reported P/E (x)	0.3	15.4	11.4	8.8	6.6
Dividend yield (%)	0.0	0.4	0.2	0.2	0.3
P/CF (x)	0.2	13.0	9.6	7.5	5.7
P/FCF (x)	(0.2)	(11.0)	(3.8)	41.3	(55.6)
Price/book (x)	0.1	1.4	1.3	1.2	1.0
Price/tangible book (x)	0.1	1.5	1.4	1.3	1.1
EV/EBITDA (x) **	0.1	4.1	6.7	5.9	4.7
EV/EBITDA @ target price (x) **	0.1	4.4	7.5	6.6	5.2
EV/invested capital (x)	0.1	1.5	1.2	1.1	1.0

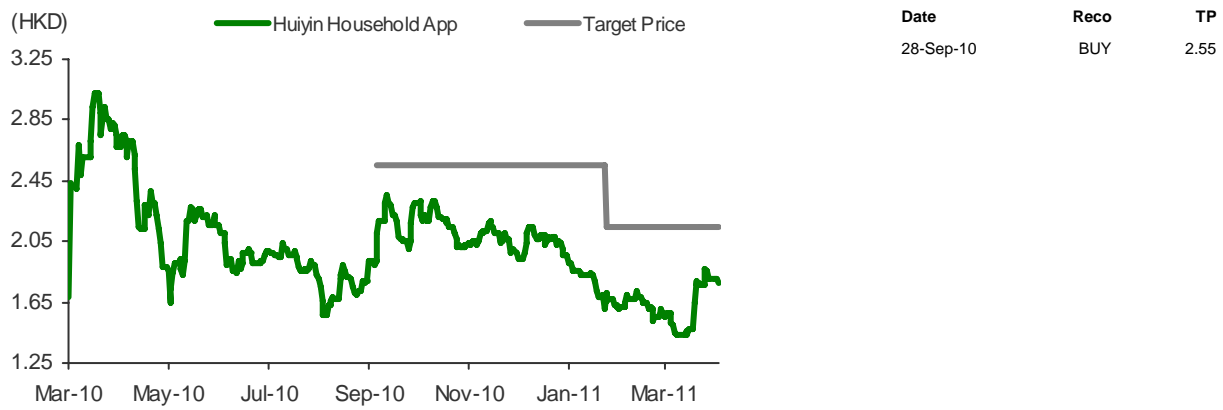
* Pre exceptional, pre-goodwill and fully diluted

** 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)



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

Valuation and risks: Key risks to our SoTP-based TP are faster-than-expected expansion and lower-than-expected margins due to large start-up costs and losses from the newly opened stores.

Sources: Bloomberg, BNP Paribas

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Huiyin Household	3

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All share prices are as at market close on 27 April 2011 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock Ratings

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Improving (↑): The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral (↔): The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Deteriorating (↓): The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

RATING DISTRIBUTION (as at 27 April 2011)

Total BNP Paribas coverage universe	568	Investment Banking Relationship	(%)
Buy	366	Buy	5.19
Hold	148	Hold	4.05
Reduce	54	Reduce	1.85

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

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