

Huiyin Household (1280 HK)

Reborn as a regional community O2O leader

Huiyin Household (Huiyin) is striving to become a leading social district O2O in the 3rd and 4th tier markets in the Yangtze River Delta. Leveraging on the infrastructure of the existing core business, we believe its business model enables it quickly expands service coverage to a large number of sales points that it can access to, with a light capex and opex. We believe the new high-growth business justifies a revaluation and we initiate coverage with a BUY rating and an end-16 target price of HK\$3.56, implying a 22x P/E.

Aiming to be the leading Social District O2O network in YT River Delta.

Comparing to other social district O2O players, we believe the company has three key comparative advantages. 1) Low expansion cost - The unique O2O business model is effectively rent-free and only requires limited capex on hardware equipment. 2) A large potential market - By entering into an agreement with Jiangsu Silver Industry Association, Huiyin is able to set its O2O service in 15,000 home centers and 21,355 social districts in Jiangsu, which offers plenty of room for long-term growth. 3) Well established support system - Huiyin's existing logistic system and e-commerce platform is in place to be integrated into the O2O system. Three advantages will enable fast expansion with light capex needs.

O2O lottery leveraged with integrated sales network and platform.

The group obtained the licenses throughout 2H14 and is authorized to sell Sports lottery in Jiangsu, Anhui and Shanghai; welfare lottery in Jiangsu and Anhui. Huiyin positions its lottery business with O2O strategy, which leverages both its offline and online sales network and platform to maximize the sales volume. Based on the large volume it has the bargaining power to secure a higher margin comparing to other smaller lottery agents. During 4Q14, Huiyin achieved Rmb 50mn in lottery sales with a ~10% gross margin.

Growing spending on Appliance in lower tier cities drives growth.

The rising disposable income in the lower tier cities and the less penetrated rate of the air-conditioner will be the sales driver for Huiyin, who has a well developed sales network in lower tier cities in Jiangsu and Anhui, and a large volume of air-conditioner sales and distribution. The number of stores has dropped since the peak in 2011, however both the sales per self-operated and franchised stores have increased since then, indicating an improvement in store efficiencies.

Business transition leads revaluation, initiate with BUY rating.

In our view, Huiyin's transition from a matured pure appliances retailer and distributor to an O2O service provider and lottery agent will inject new growth impetus into the company and the rapidly growing revenue contribution from the two new business segments will lead to revaluation. Based on our forecasts, we estimate the net profit will reach Rmb72/161/328mn in FY 15/16/17. We use SOTP valuation method and believe the fair value of the company should be HK\$3.56 per share by the end of FY16, implying a P/E of 22x.

Figure 1: Financial Summary

	2013A	2014A	2015E	2016E	2017E
Revenue	2,849	3,093	4,368	5,688	7,665
EBITDA	(92)	173	196	340	602
Operating Profit	(123)	149	162	296	543
Underlying Profit	(150)	50	72	161	328
Underlying EPS (CNY)	(0.116)	0.043	0.057	0.127	0.258
P/E (x)	-	34.8	26.1	11.7	5.8
P/B (x)	2.8	2.2	2.7	2.6	2.1
ROE (%)	(19.5)	6.7	9.6	22.5	40.4

Source: Guosen Securities(HK)

China	Consumer Discretionary Distributors
27 May 2015	BUY
Target price	HK\$3.56
Last price (26 May 15)	HK\$1.86
Upside/downside (%)	91.1
HSI	28249.86
Mkt cap (HK\$mn/US\$mn)	2,149/277
52 week range (HK\$)	0.30 - 2.10
Avg trading volume daily (US\$mn)	5.62
Free float (%)	65.0%
Source: Bloomberg	

Performance



Performance	1M	3M	12M
Absolute (%)	109.0	204.9	601.9
Absolute (US\$, %)	108.9	205.0	602.0
Relative to HSI (%)	108.3	191.5	578.9

Source: Bloomberg

Company background

Huiyin Household Appliances Holdings Co Ltd. operates a chain or retail appliance and electronics stores and is a wholesale distributor. The Company's business focuses on retail, bulk distribution (including sales to its franchisees) and after-sales services.

Source: Bloomberg

Max Gan, CFA
SFC CE No.: BDA494
+852 2899 3145
max.gan@guosen.com.hk

汇银家电 (1280 HK)

转型成为长三角领先社区 O2O 服务提供商

汇银正努力由传统家电分销网络转型成为长三角地区三四线城市领先的社区 O2O 服务提供商。公司的业务模式能够使其轻便的，大面积的，快速的进行服务点的铺设和扩张。同时公司亦能通过其线上和线下的平台和网络来销售新开展的彩票业务。因此我们认为快速发展的新业务将为公司带来一轮价值的重估。基于预测我们决定首次覆盖公司并设立 18 个月的目标价 3.56 港币，隐含市盈率 22 倍。

致力成为长三角领先的社区 O2O 服务提供商

对比其他社区 O2O 公司，我们认为汇银的模式有三大优势：1) 较低的扩张成本。公司的服务点能够豁免社区的租金并获得政府的补贴从而降低设备投入的成本。在人力成本上亦采用收入分成的模式，因此使得服务点的扩张成本低廉。2) 大量的可设点资源。公司与江苏省老龄产业协会的合作使其能够将服务点进驻全省约 15000 个老年家居中心，并目标在全省 21335 个社区中铺设服务点。3) 现成的配套服务和系统。汇银在传统家电分销和直营便建立的物流系统将可以直接运用于 O2O 所产生的订单上。公司的电商平台可对接服务点的点单机将流量导入到平台上产生消费。这三点能够使得公司轻便的，大面积的，快速的进行服务点的铺设与扩张。

O2O 彩票模式受益于广阔的线下销售网络和线上平台

集团在 14 年下半年陆续获得江苏安徽省和上海的体彩代理权和江苏与安徽的福彩代理权。汇银将自己的彩票业务定位成线上线下互通的彩票 O2O 模式：在线下可依靠广密的销售关系网络进行设点，而线上则可以通过电商平台和移动端 APP 来扩大销售额。在销售的额度到达一定程度后公司所能获得佣金的要求能力来提高毛利率。在 14 年第四季度公司共销售 5 千万的彩票并获得约 10% 的毛利。

三四线城市居民的家电购买力增强为公司主要成长动力

中国三四线城市的可支配收入的增加和江苏与安徽相对较低的空调渗透率将成为汇银在传统业务上增长的主要动力。公司一直布局于两省三四线城市和乡镇的电器销售代理，对中小型城市和乡镇居民的购买方式和口味十分了解。三四线城市消费者的崛起对汇银无疑是一大利好。其次汇银约七成半的收入来自空调，销售数量的增加对于和厂商要价和返利也有帮助，从而提高自身的盈利能力。公司的单店盈利能力自 10 年起亦年年攀升。

转型带来价值重估，首次覆盖 16 年目标价 3.6 港元。

公司的战略转型为自己注入新的成长基因。由两个快速发展的业务所带来的营收增长为公司的价值提供重估需求。根据我们的预测公司在 15/16/17 财年的净收入将分别为 72/161/328 百万人民币。我们使用分类加总估值法为每个业务分别估值后加总，认为公司 16 财年每股合理价值为 3.56 港元，对应市盈率为 22 倍。

Figure 2: 盈利预测

截至 Dec 31 (人民币百万)	2013A	2014A	2015E	2016E	2017E
营业额	2,849	3,093	4,368	5,688	7,665
EBITDA	(92)	173	196	340	602
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市净率 (x)	2.8	2.2	2.7	2.6	2.1
净资产收益率 (%)	(19.5)	6.7	9.6	22.5	40.4

资料来源：国信证券(香港)

中国 非必需消费品
分销商

2015 年 5 月 27 日

买入

目标价	HK\$3.56
收盘价 (26 May 15)	HK\$1.86
Upside/downside (%)	91.1
恒生指数	28249.86
总市值 (HK\$/US\$mn)	2,149/277
52 周最高/最低 (HK\$)	0.30 - 2.10
日均成交额 (US\$mn)	5.62
流通量 (%)	65.0%

资料来源：彭博

股价表现



股票数据	1M	3M	12M
绝对回报 (%)	109.0	204.9	601.9
绝对回报 (US\$, %)	108.9	205.0	602.0
相对 HSI 回报 (%)	108.3	191.5	578.9

资料来源：彭博

公司简介

汇银家电(控股)是一家家用电器及电子消费品的零售连锁营运商及分销商，业务集中于从事零售、批量分销(包括向特许经营商的销售)及售后服务。

资料来源：彭博

甘中辉

证监会中央编号: BDA494

+852 2899 3145

max.gan@guosen.com.hk

Social district* O2O

Aim to be the leading integrated O2O service provider in Yangtze River Delta

The company is striving to become an online to offline (O2O) life e-commerce platform leader in the 3rd and 4th tier markets in China. Users are able to purchase goods and products from the e-commerce platform, mobile APP, WeChat Stores and the products are then shipped by Huiyin's Flying Tiger delivery team or other 3rd party logistic companies (Product flows). The company will leverage its sales network and resources in Jiangsu, Anhui and Shanghai, from the interaction of the offline social district stores, distribution channels, mobile APP and message terminals, to obtain fragmented traffic entry. The company uses the venues in the social district with no cost, but to provide complementary service and event organization to residents in the social district in return, which enables the company to develop client base and filter valuable paid users. Through analyzing client consumption data, the company will have precise targeting capability and promote products to interested parties (Information flow)

Figure 3 The integrated O2O business model of Huiyin



Source: Guosen Securities(HK) Research, Company data

*we use 'Social district O2O' and 'Community O2O' interchangeably as they describe the same kind of service in our report

A versatile O2O service point

The social district service channel is usually located beside the entry of a social district or in the social district activity center where the traffic is heavy. A typical setting of the store compromise a message terminal (with Android-based system) for users to place orders for products and other services. Two storage systems, to keep the products for pick up by customers, are standard for a store. One of the systems is cold-storage for perishable goods. A store typically operated by 2 staffs with one for door-to-door delivery.

Figure 4 The message terminal and smart locker stalls



Source: Guosen Securities(HK) Research

Not a typical online service

Unlike typical online service, the social district O2O services channel can service customers who 1) have high disposable income and accustomed to online shopping, and 2) the aging group who demand for more intimate services than the typical online channel can offer.

For the aging group, they offer typical consumer staples and FMCG (Fast Moving Consumer Goods) to attract traffic, including fresh vegetables, dairy, rice, cooking oils and sauces. The prices will match those at nearby supermarkets to maintain competitiveness as customers could be price sensitive on these kinds of products. The company will also promote high margin (gross margin at 20%-30%) products, such as healthy foods, health supplements and imported goods once users have developed shopping habit on its platform and enjoy the convenience brought by its service.

Revenue source

Self-operating retail lift margins

The company sell products directly to clients via its Huiyin 'Lehu' (汇银乐虎网) e-commerce platform and mobile APP. From the offline interaction with users in the social district, the staff will revert the feedback of the categories of product that users want and the company then expand the types of the products on its platform to fulfill user's needs. The platform will also select a group of popular imported products (e.g. Infant formula from Denmark, Australian Ribeye and Rice cooker from Japan) to sell on its own as retailer.

Unique O2O platform will pull in 3rd party suppliers

The company also expand the categories of products on its platform by inviting quality third party online retailers to conduct online business on its platform. The business model is similar to Alibaba(US BABA, Non rated)'s Tmall.com. In particular, when comparing to Tmall or JD, we believe the unique O2O experience offered by the company will be attractive to those online retailers selling products to their targeted clients, e.g. the retired elderlies in the social districts.

Advertisement revenue

The screen of terminal will automatically turn into an advertisement display in the standby mode. As the terminal can be placed anywhere the traffic is heavy, its wide screen is a good spot to display video commercials. The advertising revenue will become a steady source of revenue. While this may not be the major source of income, marginal cost of this service is low (i.e. margins should be high) as the terminals are there anyway.

Smart delivery service

The storage in the social district O2O points solves the issue of vacant home when the items are delivered. Fresh produces will be stored in the cold storage for pick up or to be delivered when they arrive home. The smart delivery service can be also used for delivery of other items from the company.

Travel and insurance services

The social district store is also able to make travelling arrangements for users and sell relevant insurance attached to the travel plan. The commission it receives as a distributor will also become a part of the revenue arising from the standing terminal.

Financial products and bill payments

The company also plans to distribute financial products, such as asset management products, on its platform. Users can make bill payments and top-up their phone cards on the APP or message terminal.

Comparative advantages

Strong support from the local governments and communities

As the leading e-commerce platform and a pioneer of the community O2O service in the Jiangsu Province, Huiyin have and will continuously receive support from the local government authorities. The company's O2O business is aiming to improve the aging group's living quality and health status, and enrich their daily entertainment and fulfill the need for learning and wealth management.

Huiyin's community O2O is also a venture platform to create jobs for families with financial difficulties and disables. The company has partnered with the Yangzhou Disabled Association to set up its O2O service points in recovery centers of each community and create employment opportunities for the disabled group. Such actions harmonize the society and are welcomed by the government authorities, and also create entry barriers for new entrants to enter the community O2O business.

A unique cost structure with zero rentals and low capex

The company applies and is expected to receive government grant for their O2O business and the amount is estimated to cover the capital expenditure for the hardware and software. Venues of all service points are provided to them rent-free and the company is required to organize regular social events for the community's residents, which in fact are marketing opportunities for Huiyin to promote its services and the platform. We believe the business model Huiyin adopts is superior to other social district O2O peers from the aspects of cost savings and the close relationship with community residents. The light capital investment and operating cost will reduce the burden for large number store expansion.

Well established logistic system and product support

The company already has a well-established logistic system for its appliance delivery and e-commerce platform orders shipment. Thus the delivery for orders from social district terminals will be integrated into the existing logistic system rather than building the system from scratch. The existing and proven logistic system will enable rapid expansion of O2O in a smooth manner.

An innovative way to recruit and retain customers

A major issue in many communities is the difficulty to collect the management fee from residents. Huiyin provide a solution that for those residents who paid the management fee, will receive coupons and other benefits that they can receive in the Huiyin's ecommerce platform. On the other hand, those who use Huiyin's services will accumulate points that can be used for settling strata fee or other bill payments. This innovative solution improves the property management company's income and also increases the users stickiness to its O2O ecosystem.

Promotion pipelines

Strategic co-operation with community networks

Huiyin entered into a strategic co-operation with the Jiangsu Silver Industry Association (江苏省老龄产业协会, an association involves with aged and retired people) in Dec. 2014 which allows the company to install message terminals, electronic lockers and lottery stalls in 21,355 social districts and 15,000 home centers for the aged in Jiangsu Province.

Huiyin E-commerce will also offer pre-paid card payment service for the aged in connection with online and off-line purchase of various goods and services as well as dealings with retirement funds and medical and other insurance products.

Huiyin will be able to use the venue in the social districts and home centers with no rental cost, and in return, the company will regularly organize social events which will be a good channel to promote its O2O services and e-commerce platform. For instance, the company regularly organizes and subsidizes group dancing for seniors, which is a popular social activity among the retired group in China.

Nominated staff who knows the area well

Huiyin will hire in-store staff from candidates referred by the community committee. These candidates are usually closely tied to the community and understand the needs of the aged group of the community well. The company will also consider hiring disabled employees to solve their employment issues, which is highly recognized and welcomed by the local governments. Huiyin will pay a basic compensation for the first six months and then the pay is depend on the sales performance. The intention of this mechanism is to motivate the staff to enhance their sales capability and provide a higher upside potential for their earnings. For Huiyin, it saves operating cost by lowering down the employee salary and benefit expenses.

Build a closed-loop community retirement life

As a major group of the community O2O service users are retirees, who could be less accustomed to using smartphones, Huiyin addresses the issue by promoting its community service card that the aged group can carry out all the transactions with it. Users need to pre-paid and top-up the card and enjoys all sorts of value-added services such as fixing household appliance with no cost, or trade in their old appliance for a new model at better price. The company can also promote cash management financial products for the residual cash balance in user's account.

Figure 5 Potential service points and Huiyin's prepaid membership card



Source: Guosen Securities(HK) Research

The market scale – an Rmb140bn healthy food market in Yangtze River Delta

According to Nielson's recent report on healthy eating study, <We are what we eat>, developing countries are more willing to pay a premium for food with health attributes. About 75% of the interviewed Chinese indicate they are very willing to pay more for health benefits. In China, 'No Artificial Colors'(49% of the interviewed group) and 'GMO-Free'(49%) are the two most important factor that interviewed Chinese consider, followed by 'No artificial flavors'(48%), 'All Natural'(45%) and 'Organic'(39%).

With the increase in disposable income in China, consumers start paying more attention to the health attributes from the food they purchase. From the Nielson survey, more than half of the respondents indicate they will buy more fruit (53%) and vegetables (45%) in the next six months; About 1/3 of the respondents plan to purchase more yogurt (33%), fish and seafood (31%), cereal (30%); and 1/4 will buy more nuts (24%), juice (23%), meat (22%) and mineral water (22%).

The goal of the company is to fulfill social district consumers' demand for healthy food and need for convenient shopping experience, by integrating its online platform, established logistic systems and offline smart storage and delivery system. By the end of 2014, the company has established co-operation relationship with more than 20 fresh vegetable suppliers and 43 overseas food and beverage enterprises. Huiyin also committed that the daily consumption products offered on its platform will be cheaper, or at least match the prices in supermarkets.

The market size in Yangzhou and Yangtze River Delta

The company's near term goal is to become Yangzhou's leading social district O2O service provider. Based on QF Zhang's report on the Urbanization in China, there are 400 communities and 825k households in Yangzhou by the end of 2015. Assume the annual average consumption on healthy food is Rmb 5,000 per household, and Huiyin is able to capture 10% of the market, then the total sales generated from the sales of healthy food is Rmb 412mn. As shown in Figure6, the sales will grow to Rmb990mn/1770mn/2795mn in FY16/17/18.

Figure 6 Yangzhou's geographical facts and target sales

Year	Urban social district population(mn)	No. of social district	No. of family('000)	consumption of healthy food product (Rmb)	Target O2O market share	Sales (Rmb'mn)
2015	3.5	400	825	5,000	10%	412
2016	3.8	450	900	5,500	20%	990
2017	4.1	500	975	6,050	30%	1,770
2018	4.4	550	1,050	6,655	40%	2,795

Source: Guosen Securities(HK) Research, Company data

To expand the business model to the market of the Yangtze River Delta is the long-term goal of the company. The RY Delta is a rich region in China and has superior purchasing power.

With the deterioration of the air and water quality, consumers buy more small appliances such as air and water purifiers to improve the in-house living environment. The rationale behind is similar to paying the premium for the health benefits in eating and drinking. From the geographic facts and assumption we made as shown in figure 7, the estimated total markets for the healthy food and health care electrical product will be Rmb252/288/327/378bn from 2015 to 2018, respectively. The enormous market size offers great opportunity for Huiyin's O2O business model which has a close relationship with the residents in the communities.

Figure 7 Yangtze River Delta geographical facts

Year	Urban society population (mn)	No. of family (mn)	Consumption of healthy food product (Rmb)	Total healthy food consumption (Rmb'bn)	Health care electrical Product consumption per year	Total healthy electrical product consumption (Rmb'bn)	Sum of two products sales (Rmb'bn)
2015	118	28	5,000	140	4,000	112	252
2016	123	29	5,500	160	4,400	128	288
2017	128	30	6,050	182	4,840	145	327
2018	133	31.5	6,655	210	5,324	168	378

Source: Guosen Securities(HK) Research, company information

The rising of social district O2O and Huiyin's edges over its peers

There are about 60 social district O2O companies and most of them are startups and private companies. During 2014, a few O2O companies have received their A-round or angel investment, with amount from about RMB20m to RMB100m, from well-known private equity funds to listed corporations. We notice that most social district O2O accumulate traffics through providing staples and food delivery, and/or providing in -house and out-sourced services such as laundry, cleaning and appliance repair.

We believe the logistic system is a key factor when evaluating the service quality provided by an O2O company. While many startups have to build their own logistic systems or collaborate with 3rd party logistic companies, Huiyin has the system in place and the delivery network is efficient thanks to the experience gained from the appliance delivery and e-commerce product shipment. Thus the expansion of the O2O service channel in Yangzhou will be smooth and fast for Huiyin.

The close relationship between each of Huiyin's service channels and the social district where it located will be its core edge over other peers who intend to get into the same social district. Once Huiyin is able to provide most of the daily needs of the residents in the district, then it is difficult for other players to get into, as the switching cost for users are high. Huiyin will use fresh vegetables, healthy foods and free appliance repair to attract traffic, and use its 'Lehu' e-commerce platform, APP, WeChat store, and the events organized in the social districts as its marketing pipelines for promotion, supported with its established logistic system to create its O2O eco-system.

The O2O operation forecast

By the end of May, there are ~80 community stores in operation. The company provides a guidance of 500 stores to be in operation for FY15, including 150 store in Nanjing, the capital city of Jiangsu Province. Based on the company guidance we make a conservative forecast, which assumes the total number of O2O shops will reach 350/525/800 in FY15/16/17, respectively. We believe our assumptions are reasonably conservative as we highlighted earlier that the company has a cooperative agreement covering over 21k social districts.

Figure 8 O2O business valuation

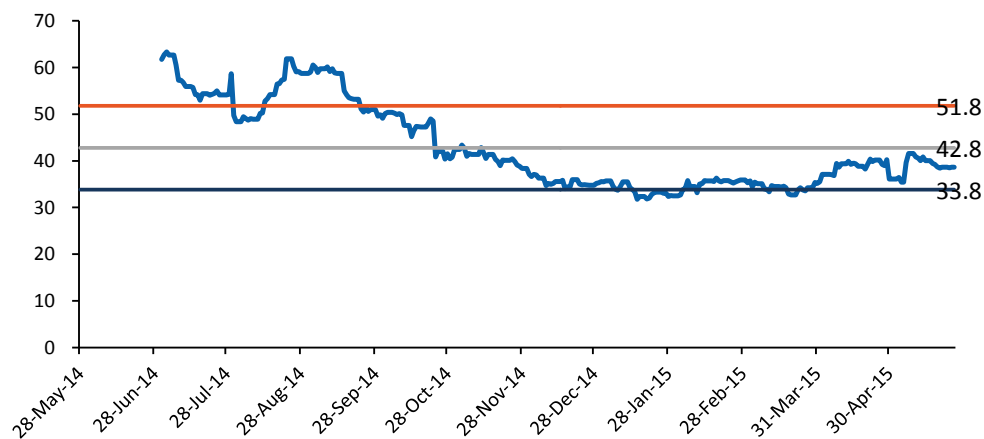
	FY15	FY16	FY17
No. of shops	350	525	800
Sales per shop(Rmb'mn)	\$1.00	\$1.35	\$1.85
Total sales(Rmb'mn)	\$350	\$709	\$1,480
Net Profit Margin%	3%	7%	10%
Net Profit(Rmb'mn)	\$11	\$50	\$148
Shares Outstanding	1269	1269	1269
EPS(cent)	0.83	3.91	11.66
Peers P/E	47	30	22
Value per share(Rmb)	0.39	1.17	2.53
Value per share(HK\$)	0.49	1.47	3.16

Source: Guosen Securities(HK) Research estimates, Bloomberg

Peer P/E comparison

We select Yelp (YELP US, non-rated) and Color Life (1778 HK) as they are also conducting O2O business and their valuation is more reasonable to justify the target P/E for Huiyin's O2O business. Figure 9 shows the average Forward P/E of the two companies, which is at 42.8x. We use 30x as a target P/E, which is a 30% discount, to justify for Huiyin's performance at early stage in the O2O business.

Figure 9 O2O peers avg historical forward P/E



Source: Guosen Securities(HK) Research, Bloomberg.

Lottery business

Leverage on the advantage of large number of offline sales spot

The company has set up a wholly owned subsidiary Jiangsu Huiyin Lottery Network Technology in 2H14 with Rmb60mn registered capital to carry out the sports and welfare lottery business as a lottery agent. The company is authorized to sell Sports lottery in Jiangsu, Anhui Province and Shanghai; and welfare lottery in Jiangsu and Anhui Province.

Unlike the traditional offline individual lottery sales point and the online lottery company 500.com (WBAI US, non-rated), Huiyin is an O2O lottery agent that can sell lottery in both its established offline sales network and also its 'Lehu' e-commerce platform and via its mobile APP. With the development of its community O2O service centers, the lottery sales business will be integrated into every sales channel that the company has, which are more than 15,000 potential spots just in Jiangsu.

The company has announced that there are 1,659 points of sales in Jiangsu Province and 686 in Anhui Province, which including self-operated shops, franchised shops and agency distribution networks. These sales points are ready to jump into the lottery business as long as the lottery sales terminal equipment is set up (which is provided by the Lottery Administration Centre and a deposit is required).

Figure 10 Lottery sales counter



Lottery ticket issuer

Lottery counter in Huiyin store

Instant lottery games

Cross-selling strategies

Message terminal

Source: Guosen Securities(HK) Research

The business model

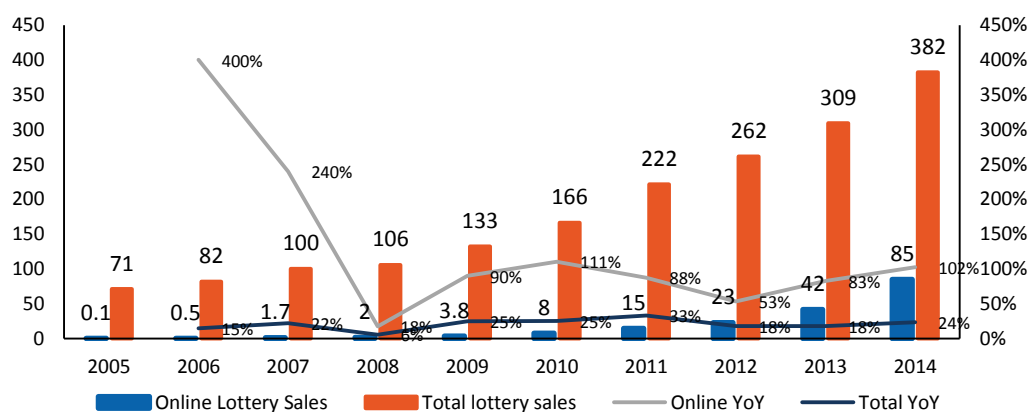
As a sales agent, Huiyin offers lottery computer tickets and instant lottery tickets, as well as other games like virtual football and high-frequency games, which comply with relevant requirements, and receives a sales commission of 9-13% depending on the agreements. Similar to the O2O venture platform model, individuals and traditional retailers are welcomed to join the lottery sales network and sharing the commission of 7% or higher, which is greater than what they would receive if they go directly to the lottery authority due to the weak bargaining power. As the scale of the lottery sales is large, Huiyin is able to receive a higher commission, and thus retain a good profit margin even after a 7% commission sharing with the 3rd party retailers.

The Lottery Industry in China

The lottery market in China is growing at different speed on different platform and regions. The total sales of lottery in China have increased from Rmb222bn in 2011 to Rmb382bn in 2014, which has been growing at a 3-year CAGR of 20%. The internet and mobile lottery have experienced a rapid growth during the same period, with a 3-year CAGR of 78% and 325%, respectively. In 2014, the internet and mobile lottery sales each accounted for 22% and 10% of the total lottery sales, and we believe the penetration rate will continuously increase in the coming years.

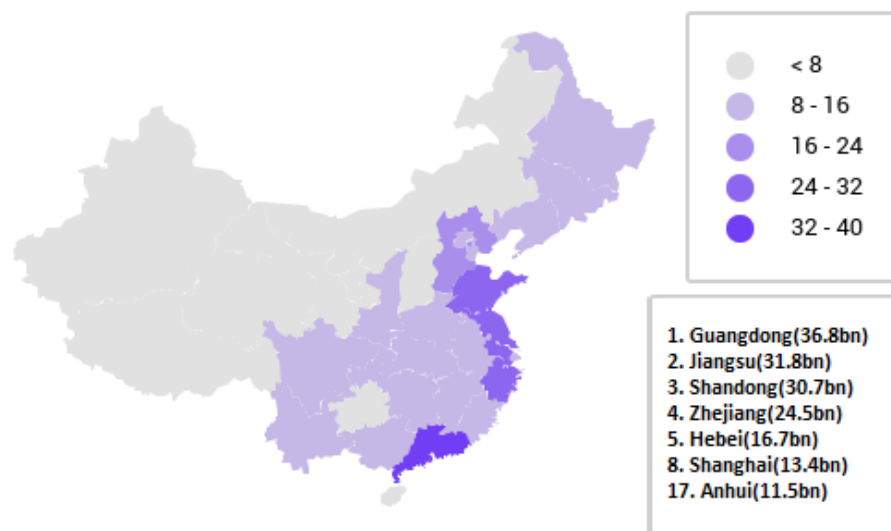
Huiyin has obtained its lottery licenses in Jiangsu, Anhui Province and Shanghai in 2H14. Over the past five years, the three region on average accounted for 10%, 3% and 3% of the total sales in China, respectively. Jiangsu has been the second largest contributor of lottery sales in the past decade and we are seeing the lottery sales in Shanghai is experiencing fast growth in the past three years, with a CAGR of 32%, higher than the national average's 20%.

Figure 11 Lottery industry scale in China(Rmb'bn)



Source: Guosen Securities(HK) Research, Ministry of Finance of PRC

Figure 12 Province Lottery Sales distribution map in 2014(Rmb'bn)



Source: Guosen Securities(HK) Research, Ministry of Finance of PRC

Jiangsu selected as the pilot province for mobile lottery after the internet lottery suspension

On 3 April 2015, the Ministry of Finance (MoF), together with 7 other key Government administrative and regulation entities, made an announcement to suspend online lottery for legal examination. The suspension commenced from the mid-January of 2015, and it is verified with the sales figure for the first quarter where the YoY growth from January to March was 45%/24%/-6%, respectively.

On 20 April 2015, the MoF announced to carry out a pilot run of mobile instant lottery in Jiangsu Province for two years from 15 May 2015. This is the first announcement to permit mobile lottery business after the suspension of internet lottery. We believe the current business environment provides a good opportunity for Huiyin to develop its lottery business based on its wide offline sales network and its own 'Lehu' online platform, as well as its Huiyin lottery APP.

During the suspension period, Huiyin quickly expand its instant lottery sales, which has higher margin than internet lottery, despite the volume is lower. Instant lottery has the advantage of knowing the result instantly without a time lag for lottery buyer to wait for the result, thus the turnover will be higher than other categories of offline lottery games.

Combining the instant lottery with mobile device further increases the turnover as lottery buyers now can access to the game anytime and anywhere, which is much more convenient than go to a terminal and buy the instant lottery tickets. Despite the company currently is only offering offline instant lottery, while its online platform and O2O service point is a good pipeline to effectively promote the mobile lottery once the product is ready. To achieve the goal, Huiyin could cooperate with other companies who have the technology or develop the product in-house.

Lottery business valuation

The company disclosed in its annual results announcement that up to 31 December 2014, it had realized a sales commission income of Rmb5.1mn from providing agency service for lottery sales of Rmb52.1mn since Sept. 2014. The total lottery sales in Jiangsu in 4Q14 was Rmb7,835mn, thus Huiyin has 0.7% of market share in the fourth quarter.

The company has actively layout its lottery sales network in 2015. As at the end of April, Huiyin has ~1000 lottery sales point, twice the number as of FY14, and it will continuously expand the sales network in the rest of the year. We assume the market share of lottery sales in each the three regions of the company from FY15-17 will be the figures as shown in Figure13:

Figure 13 Lottery sales market share assumption

Market share of Lottery Sales in	FY14A	FY15E	FY16E	FY17E
Jiangsu	0.66%	1.2%	2.0%	3.0%
Anhui	-	0.30%	0.50%	0.50%
Shanghai	-	0.10%	0.20%	0.30%

Source: Guosen Securities(HK) Research estimates, Company information

We also assume the lottery sales in the three regions and the national wide for FY15-17 are as following:

Figure 14 Lottery Sales in three regions

Rmb'mn	Jiangsu	YoY	%of National Sales	Anhui	YoY	%of National Sales	Shanghai	YoY	%of National Sales	Total	YoY	%of National Sales	National	YoY
2017E	¥42,926	10%	7%	¥21,653	22%	3%	¥28,860	28%	5%	¥93,440	18%	15%	¥622,935	18%
2016E	¥38,891	10%	7%	¥17,749	23%	3%	¥22,547	29%	4%	¥79,187	18%	15%	¥527,911	18%
2015E	¥35,199	11%	8%	¥14,430	25%	3%	¥17,478	30%	4%	¥67,107	18%	15%	¥447,382	17%
2014	¥31,802	12%	8%	¥11,544	21%	3%	¥13,445	61%	4%	¥56,790	23%	15%	¥382,378	24%
2013	¥28,429	-4%	9%	¥9,549	42%	3%	¥8,330	29%	3%	¥46,308	8%	15%	¥309,325	18%
2012	¥29,584	14%	11%	¥6,726	15%	3%	¥6,469	9%	2%	¥42,779	13%	16%	¥261,524	18%
2011	¥25,962	57%	12%	¥5,856	39%	3%	¥5,908	31%	3%	¥37,726	49%	17%	¥221,582	33%

Source: Ministry of Finance of PRC, Guosen Securities(HK) Research Estimates

Assume the net profit margin of the lottery business in FY15-17 are 1%/5%/7%, respectively. The NPM is lower in FY15 and FY16 because we think the expenses on promotion and marketing activities will be a large outlay in the first two years. We also use the lottery industry average PE as a metrics to provide a target value of the lottery arm of the company. Based on our assumptions, we estimate the fair value of the lottery business to be Rmb0.15/0.89/1.72 per share (or HK\$0.18/1.11/2.15 per share) for FY15/16/17, respectively.

Figure 15 Lottery business valuation

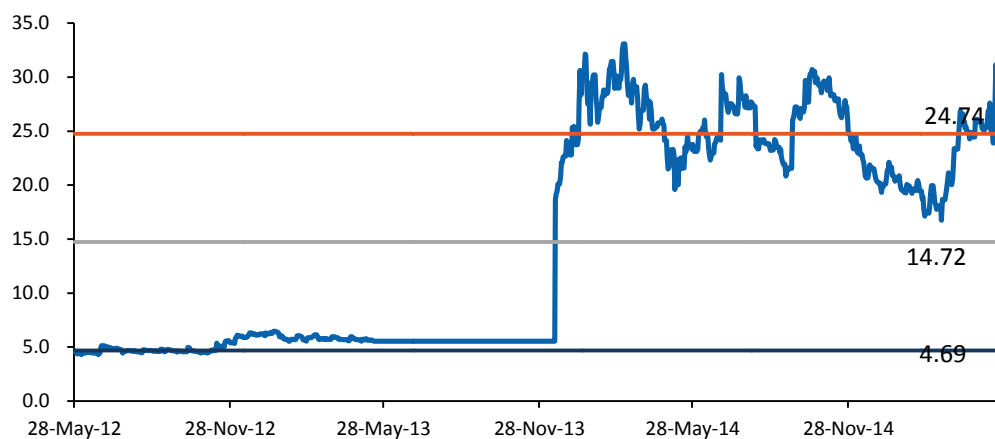
Rmb'mn	FY15	FY16	FY17
Total Lottery sales in Jiangsu	35,199	38,891	42,926
Total Lottery sales in Anhui	14,430	17,749	21,653
Total Lottery sales in Shanghai	17,478	22,547	28,860
Market share in Jiangsu	1.2%	2.0%	3.0%
Market share in Anhui	0.3%	0.5%	0.5%
Market share in Shanghai	0.1%	0.2%	0.3%
Rmb'mn			
Lottery sales in Jiangsu	422	778	1288
Lottery sales in Anhui	43	89	108
Lottery sales in Shanghai	17	45	87
	483	912	1483
Gross Margin%	10%	10%	10%
Gross Profit(Rmb'mn)	48	91	148
NPM%	1%	5%	7%
Net Profit(Rmb'mn)	4.83	45.58	103.78
Total Diluted Shares('mn)	1269	1269	1269
EPS(cent)	0.38	3.59	8.18
Peers avg historical forward P/E	38.2	24.7	21.0
Value(Rmb)	0.15	0.89	1.72
Value(HKD)	0.18	1.11	2.15

Source: Guosen Securities(HK) Research estimates, Bloomberg

Lottery peers avg historical forward P/E

We select 500.com (WBAI US, Non-rated) and China Lotsynergy (1371 HK, Non-rated) as peers to justify the target P/E for Huiyin's lottery business. From the chart below, we can see the average historical forward P/E of the two companies have been moving around 24.7x. As Huiyin started its lottery business in 2H14 and is able to conduct regular lottery sales business thus we apply the peer average P/E with no discount for valuation.

Figure 16 Lottery Peers Avg Historical Forward P/E



Source: Guosen Securities(HK) Research, Bloomberg

Household Appliance

Core household appliance business driven by sales in lower-tier cities

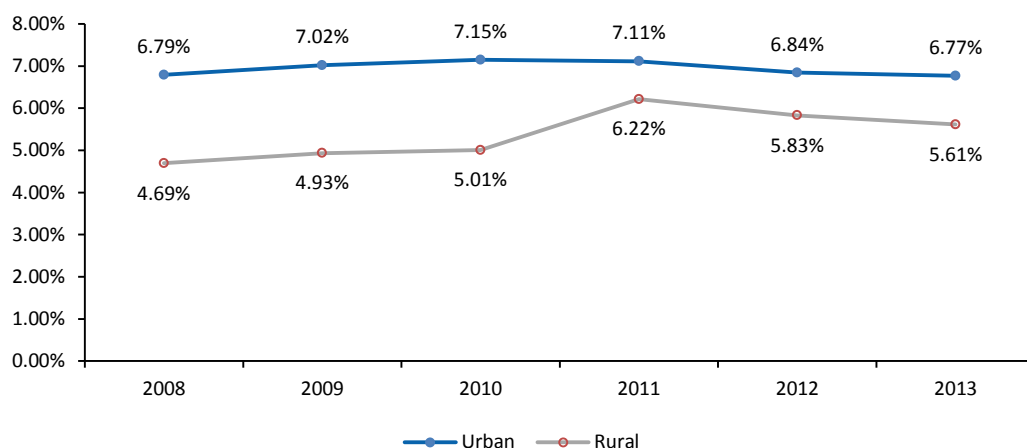
As at 31 December 2014, the company had an integrated retail network with 116 store in 20 cities/districts of Jiangsu (99 stores) and Anhui (17 stores) Provinces, where the stores are mostly in tier 3 and 4 cities. Years of operational experience and the extensive sales network enable Huiyin well understand consumers' preferences and demand in third and fourth-tier markets.

Rural residents are spending more on household appliance than before, where now they spend 1% more of their total expenditure on electronic household appliance than three years ago; the urban residents keep their spending on appliance stable at around 7%.

Another evidence that rural residents are spending more on appliance than the past is the ratio of the average annual total spending and spending on household appliance per capita in urban over rural areas. From 2008-2013, the urban/rural ratio of total spending decreased slightly from 2.2 times in 2008 to 2.1 times in 2013, while the spending on appliance decreased from 3.3 times to 2.5 times during the same period.

Hence, we believe the rising spending trend on electronic household appliances in these markets will be a favorable factor to Huiyin as it has a well-developed sales network a integrated business model in the lower tier cities.

Figure 17 %of total expenditure on household appliance of urban and rural household in Jiangsu Province



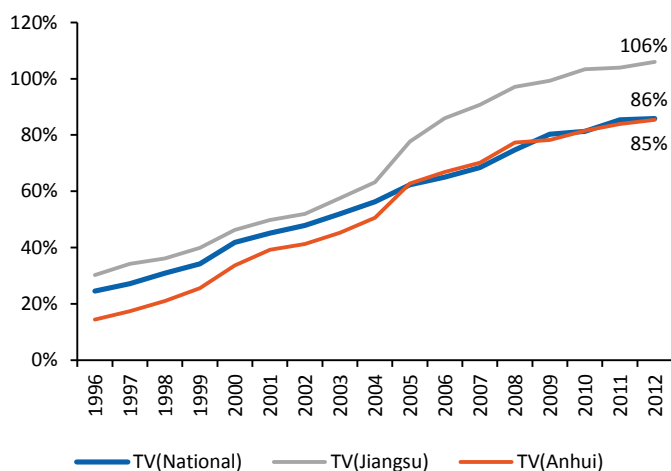
Source: Guosen Securities(HK) Research

Addressable market of air-conditioner in Anhui's rural areas

We noticed that the growth of the penetration of large household appliances in rural areas surpass the urban areas, especially for washing machine, refrigerator and air conditioner. We believe this is largely attributing to the rising disposable income of the households in rural areas and the low penetration rate of these appliances comparing to those household living in the urban area. The penetration of the large appliances in the urban areas remains stable and we believe the penetration in the rural area will continue to approach the level of urban area.

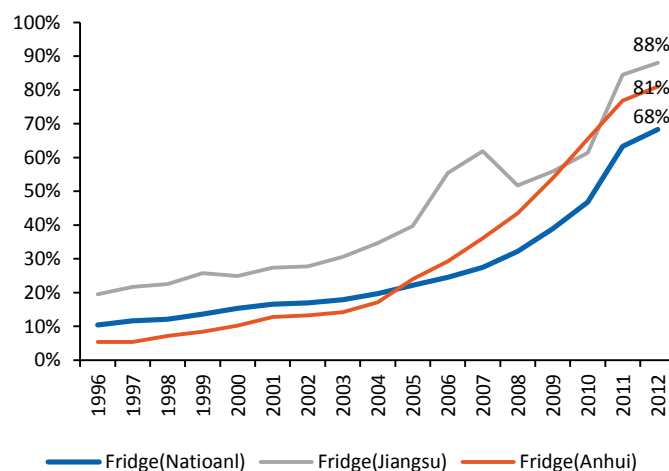
From figures 18 to 21 we see that the penetration levels of the TV sets, washing machines(WM) and refrigerators(Fridges) in Jiangsu's rural area are close to the national's urban level, where the washing machine in Anhui's rural area and the air-conditioners(AC) in both provinces are less penetrated, which indicate further growth potentials. AC accounts the majority of Huiyin's total sales revenue and the bulk shipment of AC has offered the company a stronger bargaining power over its suppliers, which is reflected in its higher gross margin

Figure 18 TV sets penetration in rural areas



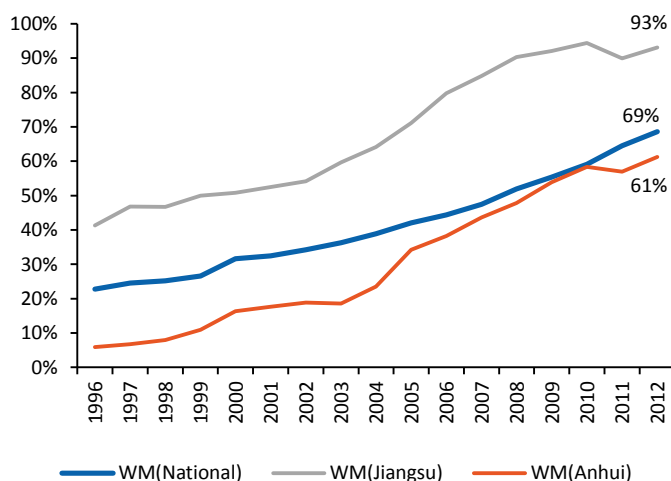
Source: Guosen Securities(HK) Research, Wind

Figure 19 Washing machines penetration in rural areas



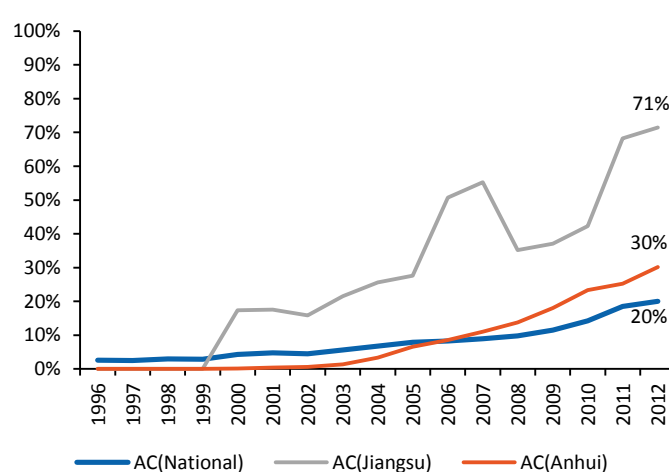
Source: Guosen Securities(HK) Research, Wind

Figure 20 Washing machines penetration in rural areas



Source: Guosen Securities(HK) Research, Wind

Figure 21 Air Conditioner penetration in rural areas

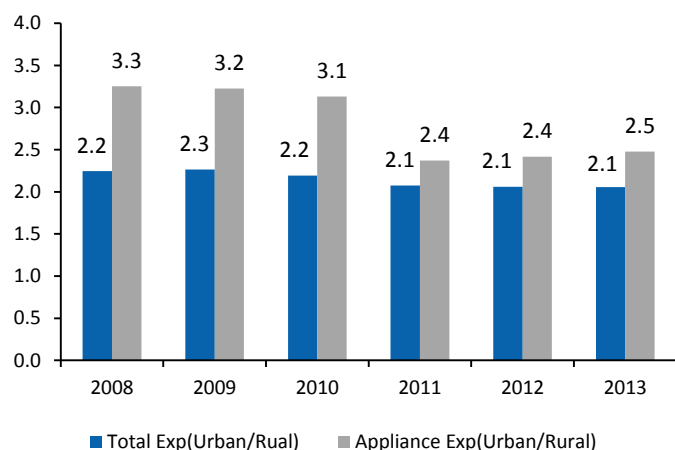


Source: Guosen Securities(HK) Research, Wind

Faster Growth of expenses on Household Appliance in Rural areas

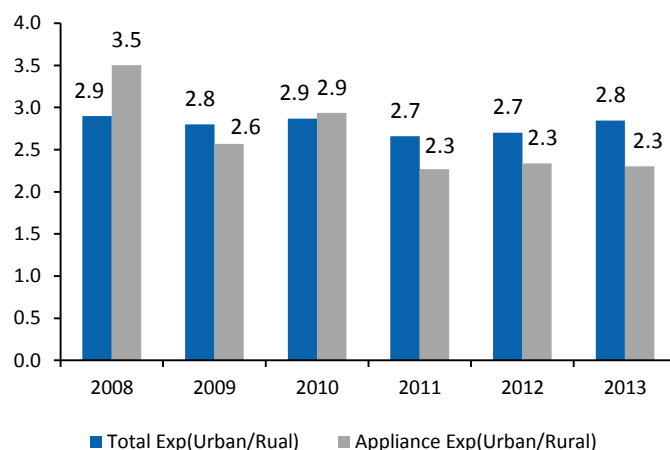
The second evidence that Huiyin will benefit from its current geographical coverage of the business is the faster growing trend on household appliance sales in rural areas than urban areas. We use the data from Jiangsu and Anhui for the analysis, as all of Huiyin's stores are located in these two provinces. The result shows that during 2008 and 2013, the total annual urban/rural expense ratio in the two provinces remains steady where Jiangsu dropped from 2.2 to 2.1 and Anhui dropped from 2.9 to 2.8. However, the household appliance expense ratio dropped dramatically from 3.3 to 2.5 and 3.5 to 2.3 in Jiangsu and Anhui, respectively. We draw conclusion that during the period, the growth of spending on household appliance of rural households in Jiangsu and Anhui has outpaced the urban households. As most of the self-operating stores of Huiyin are located in Tier3&4 cities and its distribution and sales network have well covered the rural areas in the two provinces, the rising of the purchasing power in rural households will benefit Huiyin's traditional offline household business.

Figure 22 Expenditure Ratio in Jiangsu(Urban/Rural)



Source: Guosen Securities(HK) Research, Wind

Figure 23 Expenditure Ratio in Anhui(Urban/Rural)



Source: Guosen Securities(HK) Research, Wind

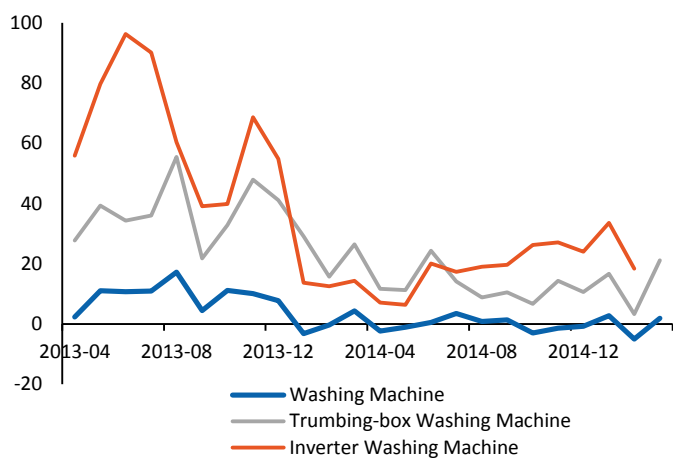
Appliance upgrade and demand for healthy living small appliance drives sales growth in urban areas

The traditional large household electronic appliance (Refrigerator, wash machine, TV and air-conditioner) are almost fully penetrated in the urban areas in China. We can see it from the flat or negative YoY growth rate chart of these general categories of appliances. However, we notice that advanced models with more functions under the general categories have experienced higher growth rate in the past two years. For example, trumbing-box washing machine and Inverter washing machine are growing around 10-20% level where the general washing machine sales remain flat. The same applies to air-conditioner and refrigerator. We believe that the demand from urban households is mainly driven by model upgrade or replacement, as people prefer more energy efficient models with advanced functions.

Huiyin captures the replacement and upgrade market by offering free maintenance for its members of the community O2O stores. In addition to those registered members from the sales in its retail and franchised stores, Huiyin can obtain the appliance model information from the free maintenance and promote appropriate products in the right time when the user's upgrade/replacement needs is high.

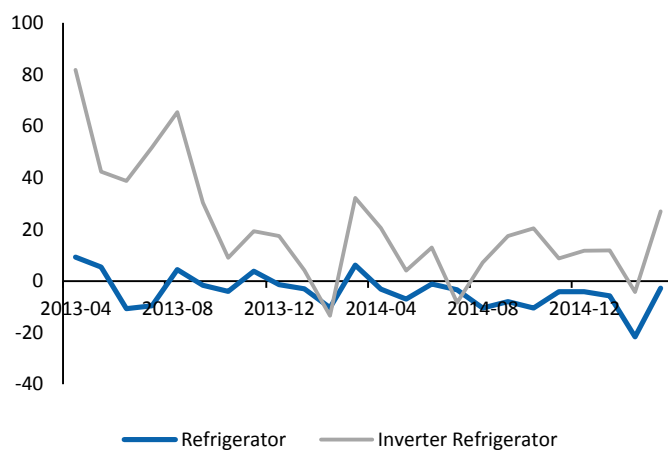
The second demand driver in urban areas is the deterioration of water and air quality in the cities. Small household appliances such as water and air purifier are popular items being sold during the past two years thanks to the rising concerns of the living environment. Small appliances have higher gross margins (20-30%) comparing to the large pieces. Although we can see the growth of water purifier is slowing down as the penetration reaches a higher level, we believe rural areas will offer the next wave of growth as penetration remains low for these products.

Figure 24 Washing Machine Sales YoY%



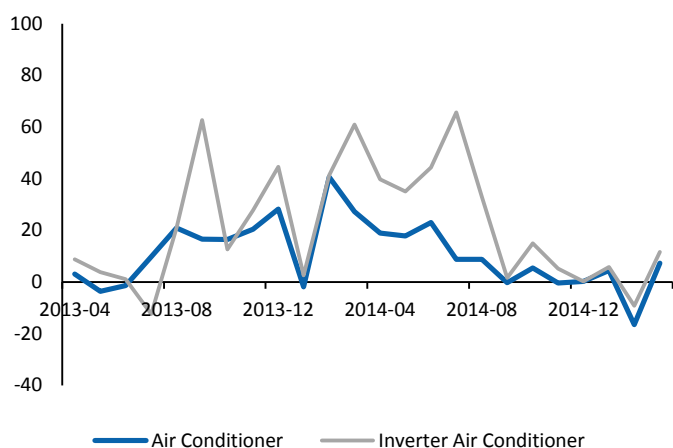
Source: Guosen Securities(HK) Research, Wind

Figure 25 Refrigerator sales YoY%



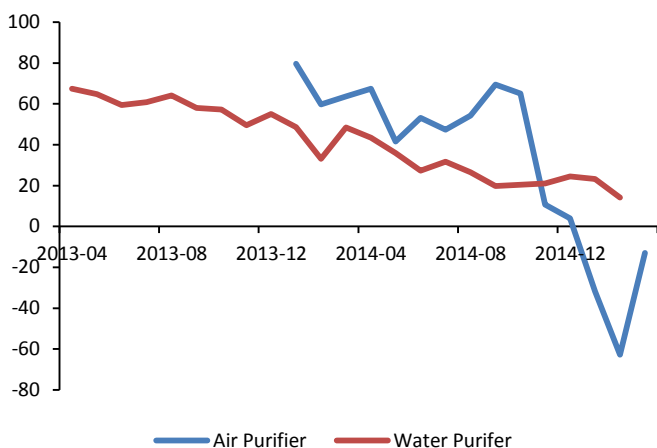
Source: Guosen Securities(HK) Research, Wind

Figure 26 Air Conditioner Sales YoY%



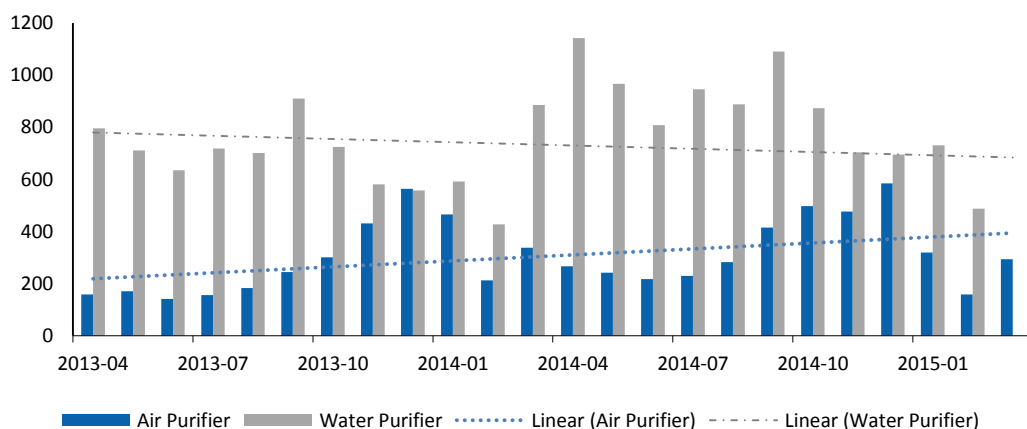
Source: Guosen Securities(HK) Research, Wind

Figure 27 Air and Water Purifier Sales YoY%



Source: Guosen Securities(HK) Research, Wind

Figure 28 Monthly Sales of Air and Water Purifier(Thousand Unit)



Source: Guosen Securities(HK) Research, Wind

Appliance Business Valuation:

Three year CAGR at 15% for appliance sales revenue from FY14-17

We make 3-year CAGR assumptions for each categories based on their penetration level and historical growth pattern. We also assume the net profit margin remains stable as in FY14. The target P/E is resulted from the consensus P/E of GOME (493 HK, non-rated) with a discount of 20% for the smaller scale. The forecast sales in FY15-17 are shown in figure29.

Figure 29 Appliance Sales business forecast and valuation

RMB'mn	2014	2015E	2016E	2017E	CAGR
Air-conditioners	2256	2662	3142	3707	18%
TV sets	298	268	241	217	-10%
Washing machines	197	217	239	263	10%
Refrigerators	159	175	193	212	10%
Others	161	194	232	279	20%
Rendering of services	16	18	21	24	15%
Total revenue	3088	3535	4068	4702	
Total revenue YoY%		14.5%	15.1%	15.6%	
Net Profit Margin	1.6%	1.6%	1.6%	1.6%	
Net Profit	49.9	57.1	65.8	76.0	
Total shares Outstanding(mn)	1269	1269	1269	1269	
EPS(RMB)	0.04	0.05	0.05	0.06	
Forward P/E of GOME		21	19	17	
Target P/E		17	15	14	
Value per share(RMB)		0.76	0.78	0.82	
Value per share(HK\$)		0.95	0.98	1.02	

Source: Guosen Securities(HK) Research

Our target PE of 15x is also at discount to the historical average forward PE of GOME, which is at 17.4x. While Huiyin is smaller but we expect its appliance division to grow faster at 15% earnings CAGR with about 10% for GOME based on consensus forecasts. We believe our target PE assumption is conservative given the discount and faster growth. SUNING (002024 CH, non-rated) is also a close peers but its triple-digit PE makes it too aggressive for our comparison.

Figure 30 GOME Forward P/E Chart



Source: Guosen Securities(HK) Research, Bloomberg

SOTP Valuation

We use SOTP valuation method to estimate the total value for the company. Based on the estimated figure of each business segment, we believe the fair value per share for Huiyin for FY16-17 should be HK\$3.56 and \$6.33, and implying forward P/E of 22x and 11x, respectively.

Figure 31 SOTP Valuation

Value per Share	FY15	FY16	FY17
Appliance sales (Rmb)	0.76	0.78	0.82
O2O business (Rmb)	0.39	1.17	2.53
Lottery (Rmb)	0.15	0.89	1.72
Total (Rmb)	1.30	2.84	5.06
HK\$/CNY	1.25	1.25	1.25
Value per share (HKD)	1.63	3.56	6.33
Implied P/E with TP HK\$3.56	-	22x	11x

Source: Guosen Securities(HK) Research Estimates

Financial Analysis

Revenue

Air-conditioner will remain the major revenue contributor in appliance sales

The air-conditioner sales are the major revenue contributor, which reached Rmb2.26bn and accounted for 73.4% of the total revenue in FY14. As the penetration of air-conditioner in both Jiangsu and Anhui provinces are relatively low comparing to the other large piece appliances, we believe the sales of air-conditioner will keep growing at a CAGR of 18% from FY15-17.

TV-sets sales expected to drop due to the full penetration in the rural areas in both provinces

As we see from the figure18, the TV penetration in rural areas in Jiangsu is even higher than the national urban level, thus we believe the growth potential in Jiangsu is limited. The sales will be more likely from replacement and upgrade demand, which will be slower than new purchase.

Washing machine and refrigerator sales expect to grow at a steady pace

Penetration in these two categories in the two provinces remains below 100%, which should lead to mild growth of sales in the next three years. We believe sales will be a mix of new purchase and needs for model upgrade or replacement.

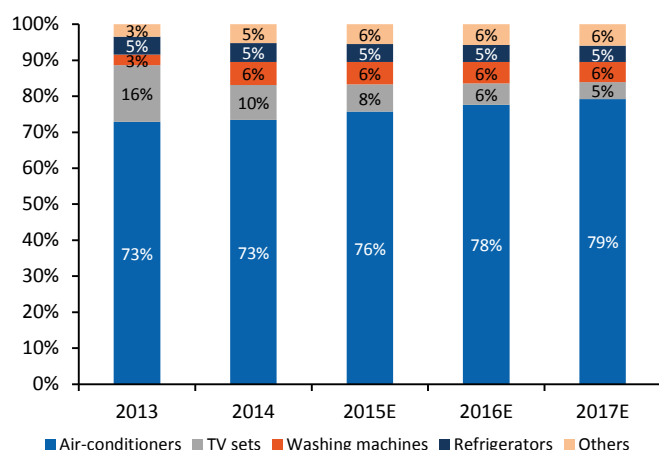
Minor revenue contribution from rendering of services

The company also generates revenue from providing maintenance and installation services (classified as rendering of service on financial statement), despite the portion is minor comparing to the appliance sales, the margin is as high as 75% in FY14. Huiyin also record lottery sales starting from 4Q14 and, due to the low base effect, we believe contribution will keep increasing in a rapid pace from FY15. The revenue from rendering of services was Rmb21mn and Rmb13mn in FY14 and FY13, respectively.

E-commerce platform sales experienced rapid growth in FY14

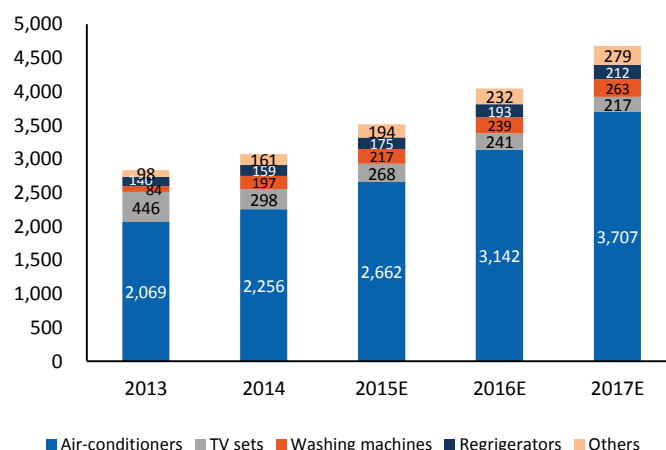
The company disclosed the revenue contributed from its Huiyin 'Lehu' e-commerce platform reached Rmb 116.8mn in FY14, representing an increase of 95% YoY.

Figure 32 Appliance sales revenue structure



Source: Guosen Securities(HK) Research, company information

Figure 33 Total sales revenue from FY13-17(Rmb'mn)



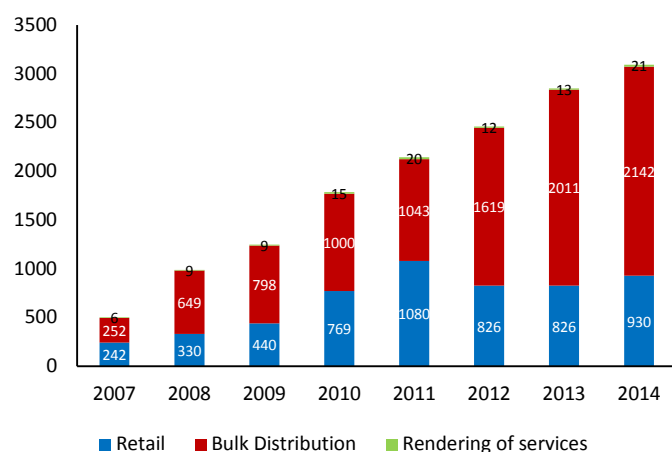
Source: Guosen Securities(HK) Research, company information

Distribution vs retail revenue and margins

Higher margin in self-operated stores

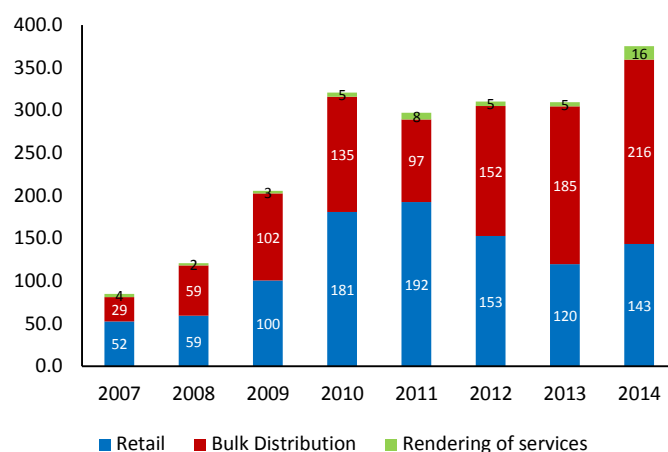
Huiyin's appliance sales revenue can be also broken down into retail, bulk distribution and rendering of services. From the historical revenue and gross margin data in 2007-2014, the sales from retail on average has contributed 38% of the total revenue and 51% of the total gross profit, in contrast, revenue generated from distribution has contributed 61% of the total revenue but 47% of the total gross profit. This is due to the lower gross margin level in sales from distribution, which was 11% on average, versus 19% of retail, during 2007 and 2014.

Figure 34 Revenue by sales channel(Rmb'mn)



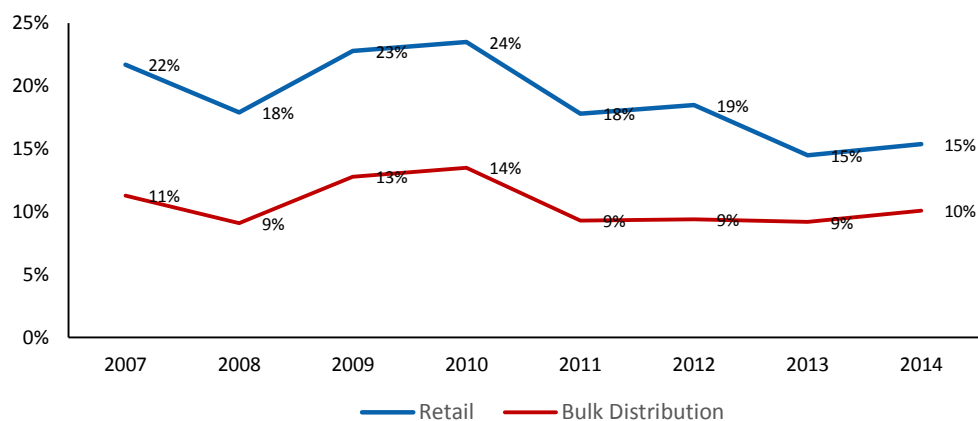
Source: Guosen Securities(HK) Research, Company information

Figure 35 Gross profit by sales channel(Rmb'mn)



Source: Guosen Securities(HK) Research, Company information

Figure 36 Historical Gross Margin levels for retail and distribution



Source: Guosen Securities(HK) Research

Average sales per store increases from 2009 to 2014

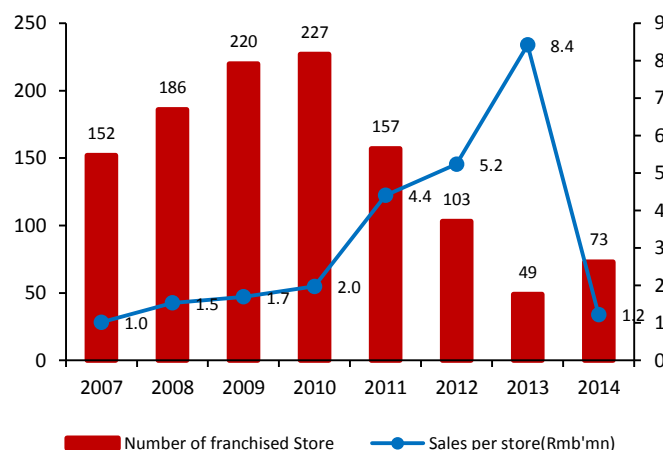
From the figure 37 and 38 we can see that the average sales from both self-operated stores and franchised stores have increased from 2009, provided the number of stores has dropped since then, indicating the sales capability is improving. The sale per franchised store is also on a rising trend from 2007. The sharp drop of sales per store 2014 is due to the reclassification of sales.

Figure 37 Sales per self-operated store(Rmb'mn)



Source: Guosen Securities(HK) Research

Figure 38 Sales per franchised store(Rmb'mn)



Source: Guosen Securities(HK) Research

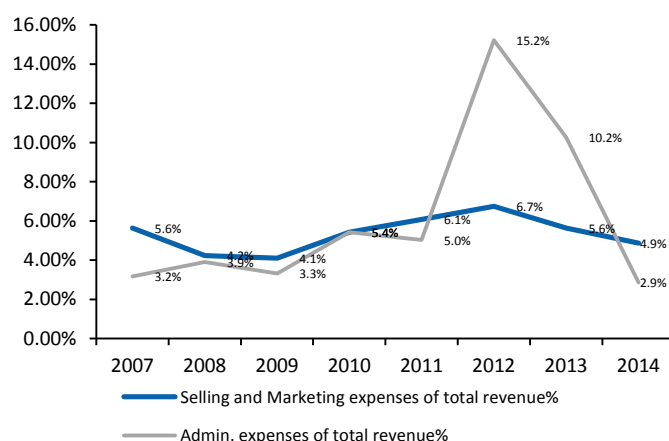
Operating Expenses

High admin expenses ratio in FY12-13 due to slow settlement of rebates from suppliers

From Figure 39 we can see the selling and marketing expenses ratio remains steady and varies around the average of 5.34% from 2007 to 2014. The administration expenses climbed to 15.22% and 10.25% from the average of 3.95% if we exclude the two abnormal years from 2007 to 2014. The two ultra high ratio was due a high provision for impairment of receivables, which is caused by the slow settlement of rebates receivable from the suppliers such as those air-conditioner vendors. The increased operating pressure of upstream companies in the appliance industry since 2H12 was the major factor attributing to the late rebates.

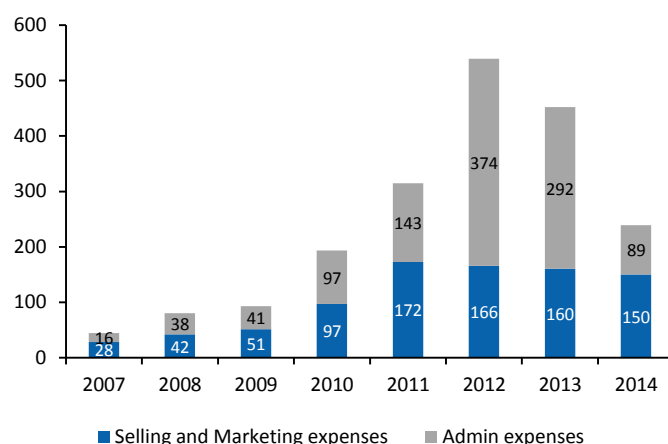
However, the rebates was delayed but has been settled, as we see a reversal of provision in FY14 and the admin expense ratio dropped back to the normal level.

Figure 39 SG&A expenses of total revenue%



Source: Guosen Securities(HK) Research

Figure 40 SG&A expenses from FY07-14(Rmb'mn)

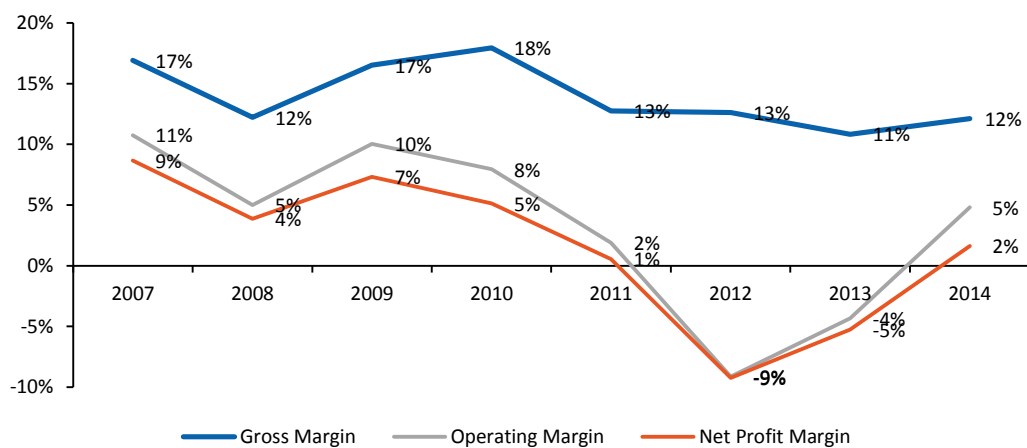


Source: Guosen Securities(HK) Research

Historical Margins

The gross margin remains steady at the 11-13% level in the past four years, where the operating and net profit margin shows weakness during 2011 and 2013. The primary reason being the impairment loss against goodwill and intangible asset, and receivable provision mentioned above during the period, which affected by external factors and macroeconomic condition of China.

Figure 41 Historical Margins from FY07-14



Source: Guosen Securities(HK) Research, company information

Risks

O2O service channel expansion process slower than expected

The company expect the number of service channel will reach 450 in Jiangsu and 50 stores in Shanghai in the first year, where there are about 100 stores already in operation as at the end of April. The expansion process is much depending on the offline business development in the social districts. Our estimates are based on a more conservative number with 350 stores in operation in the first year. Thus if the expansion process is slower than our forecasts, or the average profitability of each store is lower, then the results will be lower than our forecasts.

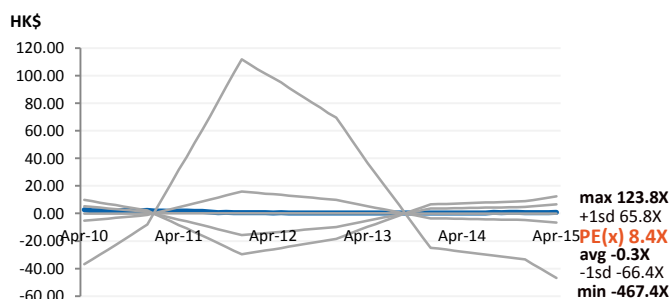
Regulatory uncertainties in online and mobile lottery business

The online lottery industry is still at a premature stage where the regulations are not clearly defined. In the past few years, the MoF has suspended the selling of online lottery four times with the last one from the beginning of 2015. Every suspension caused a sharp drop of lottery sales which has negative impact on lottery companies' revenue. The regulator's action is difficult to forecast thus it will become an uncertainty for players in the lottery business.

Slower growth in appliance sales

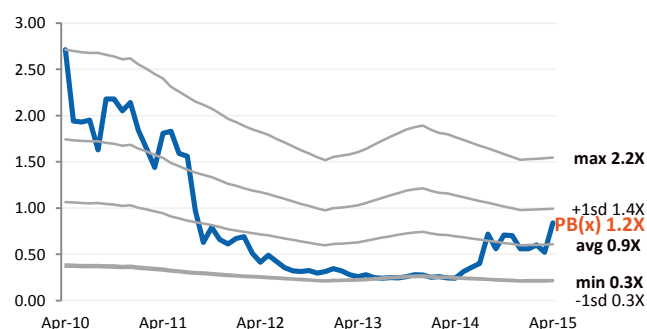
The slowing down of the economic growth and real estate market in China has negative impact on the sale of household appliances. The competition arising from other players such as Gome and Suning, as well as competing E-commerce platforms, such as JD.com and Tmall, and the self-operated platforms set up by the appliance brands, will lead to a more competitive environment for Huiyin, specially when the penetration of the traditional large appliances in rural areas is about to reach the levels in urban areas.

Figure 42 12 months forward PE band chart



Source: Bloomberg, Guosen Securities(HK) Research

Figure 43 12 months forward PB band chart



Source: Bloomberg, Guosen Securities(HK) Research

Summary financial statements

Profit & Loss (RMBmn)	2013A	2014A	2015E	2016E	2017E
Revenue	2,849	3,093	4,368	5,688	7,665
Revenue growth (%)	15.9	8.6	41.2	30.2	34.7
Cost of sales	(2,540)	(2,718)	(3,840)	(4,955)	(6,595)
Gross profit	309	375	527	733	1,070
Other income/(expense)	20	13	0	0	0
Operating expenses	(452)	(239)	(365)	(437)	(527)
Operating profit	(123)	149	162	296	543
Operating profit growth (%)	(45.2)	(221)	9.1	82.2	83.4
Other non operating inc/(exp)	0	(7)	0	0	0
Finance income	35	42	53	61	70
Finance expenses	(63)	(80)	(100)	(115)	(133)
Associates & JCE	0	0	0	0	0
Profit before taxation	(151)	104	115	242	480
Taxation	8	(46)	(35)	(73)	(144)
Non-controlling interests	(6)	(8)	(8)	(8)	(8)
Net profit	(150)	50	72	161	328
Other Adjustments on UP	0	0	0	0	0
Underlying Profit	(150)	50	72	161	328
Underlying profit growth (%)	(33.9)	(133)	44.9	122	104
EPS (RMB)	(0.116)	0.043	0.057	0.127	0.258
Underlying EPS (RMB)	(0.116)	0.043	0.057	0.127	0.258
Underlying EPS growth (%)	(39.6)	(137)	33.5	122	104
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
DPS growth (%)	0.0	0.0	0.0	0.0	0.0

Source: Guosen Research estimates

Balance Sheet (RMBmn)	2013A	2014A	2015E	2016E	2017E
Fixed assets	187	223	223	223	223
Associates & JCE	0	0	0	0	0
Others	215	484	226	226	226
Non-current assets	402	707	450	450	450
Inventories	678	414	572	560	747
Debtors & prepayments	1,090	1,264	1,475	1,668	1,958
Bank deposits & cash	1,118	1,011	638	1,128	998
Others	0	0	0	0	0
Current assets	2,886	2,689	2,685	3,355	3,704
Bank & other borrowings	542	1,048	949	1,089	1,258
Trade & payables	937	950	937	1,229	1,272
Taxation	98	128	147	169	195
Others	373	421	352	537	490
Current liabilities	1,949	2,547	2,386	3,023	3,214
Bank & other borrowings	608	0	0	0	0
Others	3	3	3	3	3
Non-current liabilities	611	3	3	3	3
Net assets	727	847	746	778	936
Share capital	7	8	8	8	8
Premium & reserves	684	794	693	725	883
Shareholders' funds	692	802	701	733	891
Non-controlling interests	36	45	45	45	45
Total equity	727	847	746	778	936
BVPS (RMB)	0.5	0.7	0.6	0.6	0.7

Source: Guosen Research estimates

Financial Ratios	2013A	2014A	2015E	2016E	2017E
Gross profit margin (%)	10.8	12.1	12.1	12.9	14.0
Operating profit margin (%)	(4.3)	4.8	3.7	5.2	7.1
Underlying profit margin (%)	(5.3)	1.6	1.7	2.8	4.3
Net debt/equity (%)	4.7	4.6	44.4	(5.2)	29.1
Net debt/total assets (%)	1.0	1.1	9.9	(1.0)	6.2
Current ratio (%)	148	106	113	111	115
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Interest cover (x)	(2.0)	1.9	1.6	2.6	4.1
Dividend cover (x)					
Acct. receivable turnover days	36.4	14.9	12.0	10.6	9.1
Acct. payable turnover days	108.3	126.7	89.7	79.8	69.2
Inventory turnover days	76.5	73.3	46.9	41.7	36.2
Cash cycle days	4.7	(38.4)	(30.8)	(27.5)	(23.9)
Dupont Analysis	2013A	2014A	2015E	2016E	2017E
Tax burden (%)	99.0	48.0	62.9	66.6	68.3
Interest burden (%)	123	69.9	71.0	81.7	88.4
Operating profit margin (%)	(4.3)	4.8	3.7	5.2	7.1
Asset turnover (x)	0.9	0.9	1.3	1.6	1.9
Leverage ratio (x)	4.2	4.5	4.3	4.8	4.9
ROA (%)	(4.7)	1.5	2.2	4.6	8.2
ROE (%)	(19.5)	6.7	9.6	22.5	40.4

Source: Guosen Research estimates

Cashflow (RMBmn)	2013A	2014A	2015E	2016E	2017E
Operating profit	(230)	31	16	127	348
Depreciation & amortization	32	24	34	44	59
Interest income	0	0	0	0	0
Change in working capital	(147)	(140)	(320)	488	(250)
Tax paid	(11)	(14)	(35)	(73)	(144)
Other operating cashflow	221	41	0	0	0
Operating activities	(136)	(59)	(305)	587	13
Purchase of non-current assets (Capex)	(31)	(29)	(121)	(158)	(213)
Free cash flow	(167)	(87)	(426)	429	(199)
Disposal of non-current assets	2	0	0	0	0
Associates & JCE (net)	0	0	0	0	0
Interest received	26	23	53	61	70
Dividends received	0	0	0	0	0
Other investing cashflow	0	(8)	0	0	0
Investing activities	(4)	(14)	(69)	(97)	(143)
New loans raised	826	274	0	0	0
Repayment of loans	(965)	(383)	0	0	0
Dividends paid	0	0	0	0	0
Other financing cashflow	357	54	0	0	0
Financing activities	217	(54)	0	0	0
Inc/(dec) in cash	77	(127)	(373)	490	(129)
Cash at beginning of year	1,040	1,138	1,011	638	1,128
Foreign exchange effect	0	0	0	0	0
Cash at end of year	1,118	1,011	638	1,128	998

Source: Guosen Research estimates

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