



Building Materials

ORIENTAL YUHONG (002271)

Accelerated and changed up

Comments On 2017 Fiscal Year Financial Preview

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Guide:

According to the preview for 2017 fiscal year, the revenue growth of the fourth quarter is faster than expected, we believe it will gain a higher market share in 2018~2019.

Summary:

- **Maintain "Overweight" rating.** The revenue increased to 10.19 billion by 45.62%; operating profit increased by 32.5%; total profits increased by 25.87%. Net profit attributed to parent company owners increased to 1.24 billion by 20.95%, and EPS was 1.41 yuan, which was in line with expectations. Compared with competitors in the same industry, Yuhong's brand premium and cost transferability was reflected by its excellent performance. We maintain our EPS forecasts of 2.10 and 2.82 separately for 2018 and 2019 and the target price at 48.3.
- **The income growth rate exceeded expectations and the company has entered the "leading empire age".** Revenue of Q4 significantly increased to 3.22 billion by 46.3%, compared with Q3's revenue growth rate 41.71%. We noticed that the revenue growth began to accelerate since 2015Q3. The growth rate of 17Q1~17Q4 was 45.91%, 48.47%, 41.71% and 46.3% respectively, maintaining more than 40%. We expect the acceleration trend of Yuhong's market share: 1) The market share of downstream leading real estate developers is concentrated rapidly; 2) Yuhong's own brand's influence and the layout of channel partners are improving; 3) A bright future for the multi-category mortars and coatings at the retail channel.
- **The Q4's gross margin is stable and we expect an increase of net profit rate in 2018.** Q4's gross margin increased slightly due to sales incentive plans and other expenses compared with Q3's. We believe that the price of asphalt has basically stabilized and recently declined (the price of asphalt is often affected by infrastructure demand), and the 2018's net profit rate is expected to increase (while the shareholding incentive expenses would reduce from 200 million in 2017 to 70 million in 2018), bringing performance improvement in 2018.
- **The accounts receivable is expected to decrease significantly in 18Q1 after being stable for the whole year.** We judge that the company increased the recovery of accounts receivable in Q4, with a relatively stable total amount compared to Q3. Considering that the recovery of accounts receivable is in general before the Spring Festival, we believe that the accounts receivable in 18Q1 will drop significantly.
- **Risks:** Macroeconomic Risk; Rising Raw Material Prices

Summary (million)	2015A	2016A	2017E	2018E	2019E
Revenue	5,304	7,000	10,193	14,160	19,822
(+/-)%	6%	32%	46%	39%	40%
Operating Profit	823	1,238	1,466	2,165	2,888
(+/-)%	14%	50%	18%	48%	33%
Net Profit	730	1,029	1,244	1,854	2,484
(+/-)%	27%	41%	21%	49%	34%
EPS	0.83	1.17	1.41	2.10	2.82
Dividend Per Share	0.00	0.00	0.10	0.10	0.10

Indicators	2015A	2016A	2017E	2018E	2019E
Operating Profit Rate (%)	15.5%	17.7%	14.4%	15.3%	14.6%
ROE (%)	17.9%	20.7%	20.3%	23.5%	24.1%
Return on Invested Capital	17.8%	25.0%	20.0%	25.0%	27.5%
EV/EBITDA	36.0	25.1	21.7	14.6	10.8
PE	48.3	34.3	28.3	19.0	14.2
Dividend Yield (%)	0.0%	0.0%	0.3%	0.3%	0.3%

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Rating: Overweight

Last Rating Overweight

Target Price: 48.30

Last Prediction: 48.30

Present Price: 40.00

2018.02.27

Market Data

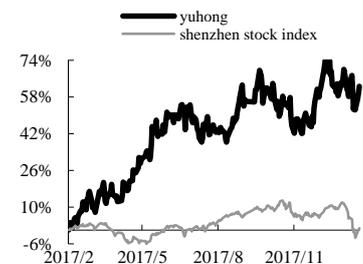
52W low/High (Yuan)	24.83-44.40
Total Equity (Million Yuan)	35,274
Total share capital /A-Shares outstanding	882/570
Outstanding B-shares/H-shares	0/0
Tradable share ratio	65%
Average daily turnover (millions of shares)	5.33
Daily average transaction value(million yuan)	209.55

Financial Summary

Equity (Million Yuan)	6,238
Net assets per share	7.07
PB	5.7
Net debt ratio	9.70%

EPS (Yuan)	2016A	2017E
Q1	0.06	0.09
Q2	0.35	0.47
Q3	0.40	0.43
Q4	0.35	0.42
Whole Year	1.17	1.41

52w share price



Increase(%)	1M	3M	12M
Absolute increase	-5%	14%	57%
Relative index	2%	15%	53%

Relative Reports

"Continued high revenue growth, Q4 earnings growth is expected to rebound"

2017.10.24

"In the fast lane, constantly exceeding expectations" 2016.10.19

"Performance growth exceeded expectations again" 2016.10.10

"New growth and renewing" 2016.08.19

"Reinvigorating equity incentives, unprecedented scale" 2016.07.01

Model updated: 2018.02.27

stock research

Raw materials

Building materials

ORIENTAL YUHONG (002271)

Rating: overweight

Last rating: Overweight

Target price: 48.30

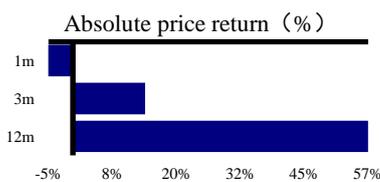
Last prediction: 48.30

Current price: 40.00

Official website:

www.yuhong.com.cn
Company profile

The company is a leading enterprise in the waterproof industry in China that integrates waterproof material R&D, manufacturing, sales and construction services. It is the only listed company in the national high-tech enterprise and China's waterproof industry. It has the industry's first national enterprise technology center and postdoctoral scientific search station. The company has the world's leading multi-purpose imported modified bitumen waterproof coil production line, cold self-adhesive asphalt waterproof Coil production line and the world's advanced environmental protection waterproof coating production line.



52w price range 24.83-44.40

Market value (million) 35,274

Financial Forecast (million)

	2015A	2016A	2017E	2018E	2019E
Income statement					
Total operating income	5,304	7,000	10,193	14,160	19,822
Operating cost	3,142	4,016	6,087	8,299	11,661
Taxes and surcharges	91	81	163	227	317
Sales expense	653	840	1,254	1,770	2,577
Management costs	595	825	1,223	1,699	2,379
EBIT	823	1,238	1,466	2,165	2,888
Change in fair value gains	0	0	0	0	0
Investment income	1	23	0	0	0
Financial expenses	27	46	54	57	23
Operating profit	728	1,097	1,370	2,071	2,795
Income tax	108	131	186	277	371
Minority shareholders' profit	-1	-2	0	0	0
Net profit	730	1,029	1,244	1,854	2,484
Balance sheet					
Currency, trading assets	624	1,611	1,019	1,416	1,586
Other current assets	41	44	41	41	41
Long-term investments	33	48	48	48	48
Total fixed assets	1,479	1,869	2,464	3,015	3,521
Intangible and other assets	560	760	855	983	1,106
Total assets	6,084	8,857	10,448	13,002	16,520
Current liabilities	1,952	3,807	4,241	5,029	6,151
Non-current liabilities	64	63	7	65	65
Shareholder's equity	4,066	4,975	6,131	7,897	10,292
Investment capital (IC)	4,034	4,391	6,388	7,521	9,149
Cash flow statement					
NOPLAT	716	1,099	1,276	1,884	2,512
Depreciation and amortization	99	149	176	225	274
Liquidity increase	-359	271	-156	-492	-1,069
Capital expenditures	-626	-702	-807	-843	-843
Free cash flow	-169	815	489	774	874
Operating cash flow	421	590	46	1,645	1,752
Investment cash flow	-595	-489	-807	-843	-843
Financing cash flow	-138	830	169	-406	-739
Net cash flow increase	-312	931	-592	397	170
Financial indicator					
growth					
Revenue growth rate	6.0%	32.0%	45.6%	38.9%	40.0%
EBIT growth rate	14.1%	50.4%	18.4%	47.7%	33.4%
Net profit growth	26.6%	41.0%	21.0%	49.0%	34.0%
Profit rate					
Gross margin	40.8%	42.6%	40.3%	41.4%	41.2%
EBIT rate	15.5%	17.7%	14.4%	15.3%	14.6%
Net profit rate	13.8%	14.7%	12.2%	13.1%	12.5%
Rate of return					
ROE	17.9%	20.7%	20.3%	23.5%	24.1%
ROA	12.0%	11.6%	11.9%	14.3%	15.0%
ROIC	17.8%	25.0%	20.0%	25.0%	27.5%
Operational capability					
Inventory turnover days	73	61	65	63	58
Accounts receivable turnover	125	129	130	115	110
Total assets turnover days	386	390	346	302	272
Net profit cash content	0.58	0.57	0.04	0.89	0.71
Capital expenditure/income	12%	10%	8%	6%	4%
solvency					
Assets and liabilities	33.1%	43.7%	41.2%	39.2%	37.6%
Net debt ratio	0.0%	-11.0%	4.8%	-4.3%	-10.8%
Valuation ratio					
PE	48.3	34.3	28.3	19.0	14.2
PB	8.2	7.1	5.8	4.5	3.4
EV/EBITDA	36.0	25.1	21.7	14.6	10.8
P/S	6.3	5.0	3.5	2.5	1.8
Dividend rate	0.0%	0.0%	0.3%	0.3%	0.3%

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Rating Definition

	Rating	Definition
1. Benchmark Index HK Hang Seng Index	Overweight	Relative Performance > 15%
	Conservatively Overweight	Relative Performance > 5%~15%
		Neutral
	Underweight	Relative Performance < -5%
2. Time Horizon 12 months after the release of this Report	Overweight	Much Better than Benchmark
	Neutral	Almost Same as Benchmark
	Underweight	Much Weaker than Benchmark

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