

## MAN WAH HOLDINGS (1999 HK)

### A Leading Brand In The Recliner Sofa Market

Man Wah is a leading player in the recliner sofa market in China and is also one of the top three players in the US recliner sofa market. The continuous improvement in the property market in China and the US could benefit Man Wah. A dividend payout ratio of around 40% and frequent share repurchase could provide cushion to its share price. We initiate coverage on the stock with a BUY rating and a target price of HK\$13.50, pegged at 17.4x FY17F PE.

- Gaining market share in China and US recliner sofa markets.** Man Wah produces recliner sofas under the brand name Cheers. According to Euromonitor, Man Wah held around 30% market share of China's recliner sofa market in 2015. The brand also held around 11% of market share in the recliner sofa market in the US in 2015. In fact, Man Wah had been gaining market share in the past. In 2010, Man Wah only held 19.8% and 7.3% of the recliner sofa markets in China and US respectively.
- Favourable condition in China.** The penetration of recliner sofas in China is low when compared with the US. As a leader in the category in China, Man Wah could leverage on its brand to capture the growth of the recliner sofa market. Moreover, the property market in China had recovered since the beginning of the year which creates a favourable growth environment for Man Wah. The continuous growth in disposable income and consumption upgrade in China also benefits Man Wah.
- Generous to shareholders.** As at end Mar 16, Man Wah had HK\$1.4b of cash and outstanding borrowings of HK\$250m. Man Wah has been generous to its shareholders in the past in terms of dividend payout and repurchase of shares. In FY16, the company paid out HK\$676m worth of dividends and used HK\$297m for share repurchase. Frequent repurchase may provide cushion to the share price.
- Trading at a slight discount to peers.** The stock is trading at about 15.9x FY17F PE, which is around 15% discount to its industry peers. We peg Man Wah at 17.4x FY17F PE, which is around 10% premium to its competitor La-Z-boy, as Man Wah has a higher ROE and is in a better position to capture the China recliner sofa market. Hence, we initiate coverage on the stock with a target price of HK\$13.50.
- Risks** will come from: a) Deterioration of the property market in the US and China, b) rise in raw material price, and c) fluctuation in currencies.

### KEY FINANCIALS

Year to 31 Mar (HK\$m)	2015	2016	2017F	2018F	2019F
Net turnover	6,555	7,328	7,909	8,583	9,168
EBITDA	1,120	1,477	1,729	1,890	2,033
Operating profit	969	1,322	1,566	1,708	1,834
Net profit (rep./act.)	1,075	1,327	1,494	1,627	1,746
Net profit (adj.)	1,075	1,327	1,494	1,627	1,746
EPS (cent)	55.7	68.3	77.7	84.6	90.8
PE (x)	22.2	18.1	15.9	14.6	13.6
P/B (x)	5.5	5.1	4.7	4.3	3.9
EV/EBITDA (x)	20.7	15.3	13.0	11.8	10.9
Dividend yield (%)	9.1	2.8	3.1	3.4	3.7
Net margin (%)	16.4	18.1	18.9	19.0	19.0
Net debt/(cash) to equity (%)	(14.8)	(25.4)	(26.0)	(28.0)	(30.6)
Interest cover (x)	49.3	123.5	192.1	210.0	225.9
ROE (%)	24.3	29.1	30.2	29.8	29.0
Consensus net profit			1,512	1,712	1,867
UOBKH/Consensus (x)			0.99	0.95	0.94

Source: Man Wah, UOB Kay Hian

## BUY (Initiate Coverage)

Share Price	HK\$12.36
Target Price	HK\$13.50
Upside	9.2%

### COMPANY DESCRIPTION

The company designs, manufactures and sells recliner sofas. The company acts as an original design manufacturer, where it designs & manufactures leather sofas for exporting to third party customers. The company also manufactures and sells mattresses and bedding accessories.

GICS sector	Consumer Discretionary
Bloomberg ticker	1999 HK
Shares issued (m):	1,926.4
Market cap (HK\$m):	23,809.8
Market cap (US\$m):	3072
3-mth avg t'over (HK\$m):	34.1

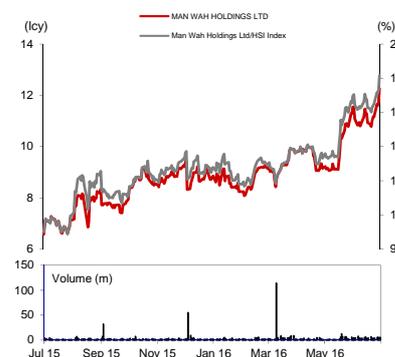
### Price Performance (%)

52-week high/low	HK\$12.38/HK\$6.50			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
9.4	26.4	40.3	76.3	35.5

### Major Shareholders (%)

Man Wah Investment LTD	63.15
CDH W-Tech LTD	4.97
Bank of New York Mellon	3.67
FY16 NAV/Share (HK\$)	2.45
FY16 Net Cash/Share (HK\$)	0.62

### PRICE CHART



Source: Bloomberg

### ANALYST

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*This report uses the closing prices of 7 July 2016*

## Company Background

Man Wah was founded in 1992 and was first listed on the Singapore Exchange (SGX) in 2005. The company was later delisted from the SGX in Sep 09 and was then listed on the Hong Kong Exchange (HKEx) in Apr 10.

The company primarily engaged in the production and sales of recliner sofas under the brands Cheers and Morewell. The company also sells bedding products under the brand of Enlanda Home. Man Wah's products are sold through distributors in Hong Kong and China. In China, there were 1,645 stores, of which 1,520 were distributor stores and 125 were self-operated stores. Man Wah plans to add 200 distributor stores in China each year and will be expanding its business into tier-3 and tier-4 cities.

For international markets, the products are exported to large chain stores such as Costco and Macy's. Since the recliner sofas exported are not sold under the Cheers brand, Ma Wah company could be viewed as an original design manufacturer (ODM). The company plans to sell stationary sofa (sofas without recliner function) in the US and will be cooperating with online stores such as Wayfair to maintain top-line growth.

Recliner sofas are sofas that have features such as extending footrests and swivel functions. Man Wah designs and markets its products as high-quality affordable luxury products which mainly target middle-class consumers in the US and target middle and high price point consumers in China.

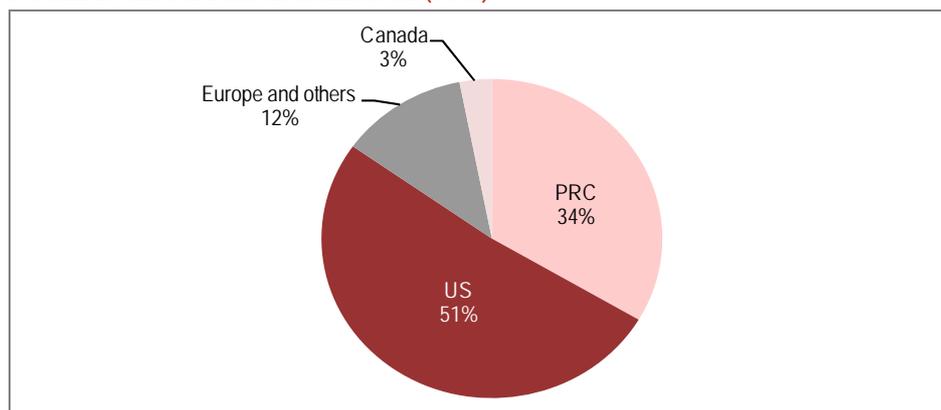
FIGURE 1: RECLINER SOFA OF MAN WAH



Source: Man Wah, UOB Kay Hian

Man Wah's revenue mainly comes from China and the US. In FY16, the US market contributed 51% of the company's overall revenue while China accounted for 34%. According to Euromonitor, an independent London-based market research firm, Cheers is the 3rd ranked motion recliner manufacturer in the US with a market share of 10.9% in 2015. According to the same institution, Cheers captured 29.5% of the motion recliner sofa market in China in 2015.

FIGURE 2: GEOGRAPHIC DISTRIBUTION (FY16)



Source: Man Wah, UOB Kay Hian

The company has production facilities located in Huizhou, Tianjin and Wujiang with an annual production capacity of 1.38m sets of sofa with a utilisation rate of around 67.6% as at 31 Mar 16. Management has no plans to increase the capacity substantially, which means that utilisation rate will ramp up gradually. The planned capex in FY17 is around Rmb400m while it was around Rmb300m in FY16.

As most of its labour and material costs were incurred in China and around 70% of revenue was not denominated in renminbi, hence, a Rmb depreciation is slightly positive to the company.

Man Wah's management has vast experience in their related fields. The Chairman and the founder of the company Mr. Wong, had shown his capability to bring Man Wah forward in the past years. With the help of senior members who are familiar with the European and the US market, the management team of Man Wah seems to be well diversified.

**FIGURE 3: MANAGEMENT TEAM**

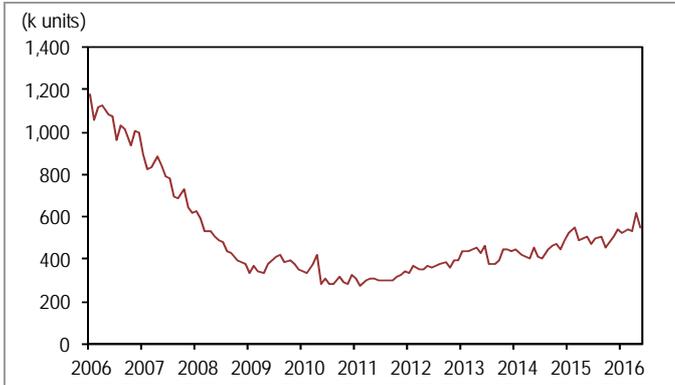
Name	Title	Experience
Wong Man Li	Chairman	Mr Wong founded the company in 1992. He has over 20 years of experience in the furniture industry. Since 2005, Mr. Wong has been the Vice-President of the China Furniture & Decoration Chamber of Commerce, the Executive Member of the China National Furniture Association and the Sofa Professional Committee Executive Chairman of the China National Furniture Association. Mr. Wong is the husband of Ms. Hui Wai Hing, an executive Director, and the father of Ms. Wong Ying Ying, an executive Director.
Hui Wai Hing	Vice President	She is the wife of Mr. Wong Man Li and the mother of Ms. Wong Ying Ying, an executive Director. She has over 20 years of experience in the furniture industry, over 19 years of which is management experience in the company.
Wang Guisheng	CFO	He received a bachelor's degree from China Institute of Finance in 1993. He completed the Senior Executive Program For China organised jointly by Tsinghua University School of Economics and Management, China Europe International Business School, Harvard Business School. He received a master's degree from China Europe International Business School in Executive Business Administration. Mr. Wang is qualified as a Certified Public Accountant with The Chinese Institute of Certified Public Accountants and has been a fellow member of The Association of Chartered Certified Accountants of England since April 2003. He is also a member of the Hong Kong Institute of Certified Public Accountants. He was the executive director and CFO of Maoye (848 HK), an executive director of Chengshang Group (600828 CH) and Qinhuangdao Bohai Logistics (000889 CH) prior joining the company.
Alan Marnie	Executive Director	Mr. Marnie has over 25 years of experience in manufacturing, retail and marketing in furniture industry. Prior to joining the Group, he was employed by Homestyle Operations Limited (Homestyle) as the managing director for Steinhoff Retail Furniture Division in the United Kingdom for 2 years from 2008 to 2010. In addition, Mr. Marnie had also worked for 19 years in Reid Furniture Limited, a company which was subsequently owned by Steinhoff, the largest furniture retailer of Scotland and Ireland at that time, and had served as its managing director and chief executive officer for 3 years and 2 years, respectively.

Source: Man Wah, UOB Kay Hian

**Industry Information**

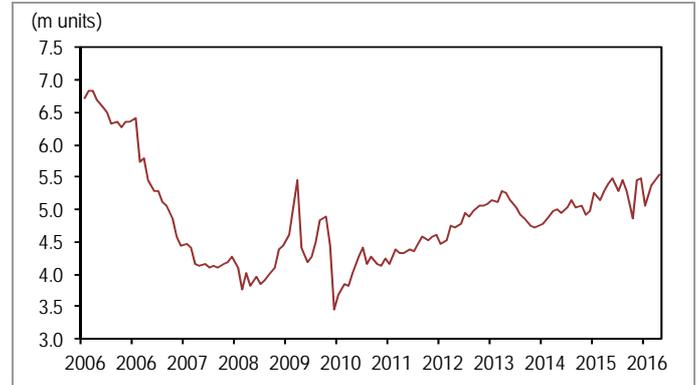
As around 85% of revenue were from the US and China in FY16, we will focus on the macro data and industry information in these two countries.

**FIGURE 4: NEW HOME SALES IN US (K UNITS)**



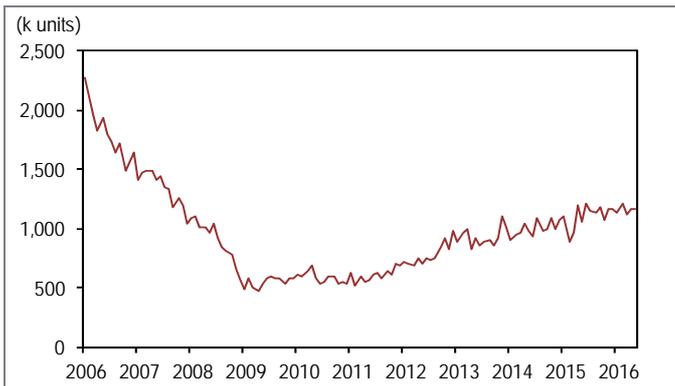
Source: Bloomberg, UOB Kay Hian

**FIGURE 5: EXISTING HOME SALES IN US (M UNITS)**



Source: Bloomberg, UOB Kay Hian

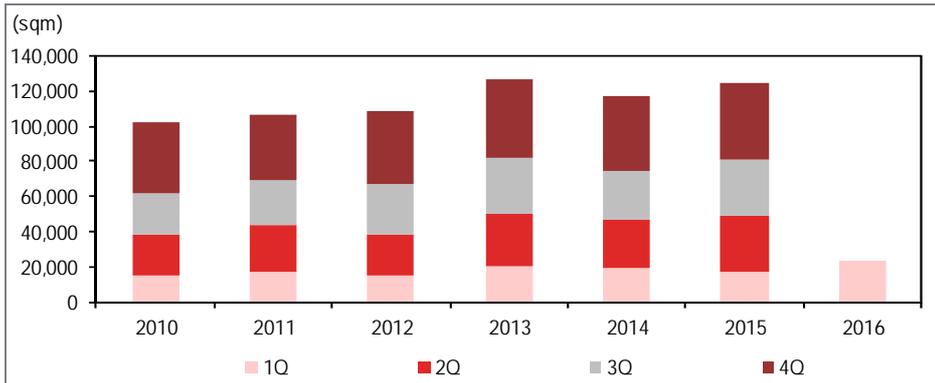
**FIGURE 6: NEW HOME STARTS IN US (K UNITS)**



Source: Bloomberg, UOB Kay Hian

In most cases, consumers will seek for sofa sets and bedding products when they move into new homes; hence, we have gathered information on the housing sector in the US and China. Figure 4 shows the number of new home sales in the US, figure 5 shows the number of existing home sales in the States and figure 6 shows the number of new home starts. The above data showed that the property market in US is recovering from the trough after the Global Financial Crisis (GFC) and the momentum is still strong. Although the Fed may be raising rates in 2016, the rate hike will be supported by economic data, which means that if the Fed does raise rates, it means that the US economy is on the right track, which is positive to Man Wah.

**FIGURE 7: PROPERTY SALES IN GROSS FLOOR AREA (SQM)**

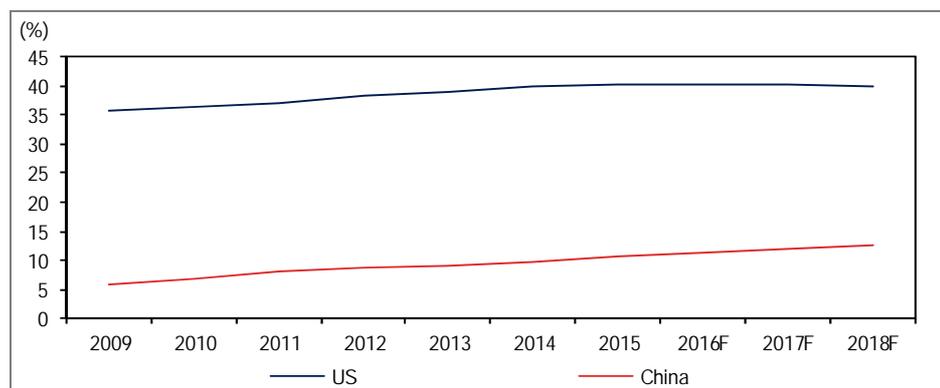


Source: Wind, UOB Kay Hian

Figure 7 shows the GFA sold in China since 2010, with 1Q16 seeing the largest amount of GFA sold in the past seven years. Although there were some measures cooling down the property market in 1<sup>st</sup> tier cities and some core tier-2 cities, the Chinese property sector is still supported by the central government as the industry contributed around 16-20% of the country's total GDP. Moreover, lowering the inventory level in low-tier cities in the property sector is also one of the objectives in the supply side reform; hence, the property sector should be able to keep its growth momentum.

With the rebound in the property sector, the amount of furniture sold (under retail sales released by the NBS) also rose on a yoy basis (figure 12), showing that Man Wah could benefit directly from the recovery of the property market in China.

**FIGURE 8: MOTION RECLINER AS PERCENTAGE OF TOTAL SOFA MARKET**



Source: Euromonitor, Man Wah, UOB Kay Hian

Figure 8 shows the market size of motion recliner sofas as percentage of the total sofa market. The figure shows that motion recliner is gaining market share in China and the large discrepancy between US and China shows that motion recliner sofas have a great market potential, which is beneficial to Man Wah.

**FIGURE 9: TOP 5 BRANDS OF MOTION RECLINER SOFAS IN US AND CHINA (2015)**

	Top 5 brands in the US	Top 5 brands in China
No.1	La-Z-Boy	Cheers
No.2	Ashley Furniture	La-Z-Boy
No.3	Cheers	Milano&Design
No.4	Catnapper	Farrell
No.5	Franklin	Natuzzi Editions

Source: Euromonitor, Man Wah, UOB Kay Hian

Figure 9 shows the top 5 brands of motion recliner sofas in the US and China market respectively. Cheers (under Man Wah) ranked the 3rd in the US market and 1st in the China market. Moreover, its market shares in both markets have continued to grow since 2010 and Man Wah should be able to leverage on its leading position to capture more market share from its competitors.

**FIGURE 10: PRICE CHANGE IN MAJOR RAW MATERIALS PRICE MAN WAH USES**

(% yoy chg.)	FY14	FY15	FY16
Leather	5.4	6.3	-11.9
Metal	-8.0	0.3	-8.2
PVC	4.6	-2.9	-13.5
Wood	-0.3	0.3	-4.3
Fabric	4.2	1.8	-7.3
Chemicals	-7.2	-1.3	-21.1

Source: Man Wah, UOB Kay Hian

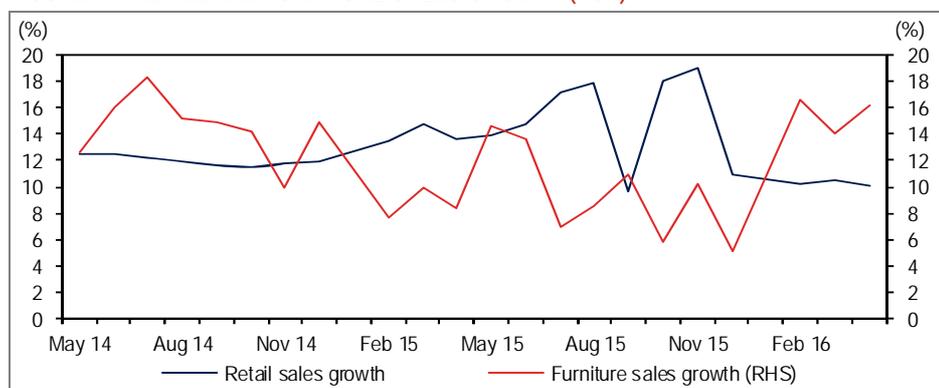
Thanks to the plunge in oil price which also dragged most of the commodity prices, the major raw materials which Man Wah uses also dropped significantly on a yoy basis. Management does not expect raw material price to record a significant rise in the coming year.

## Investment Highlights

**Benefits from the US and Chinese economy.** The US economy has been picking up pace. GDP has resumed qoq positive growth after the GFC and the unemployment rate has stayed low at around 5%, which is a level near the pre-GFC level. Together with the improvements seen in the property sector, Man Wah has benefitted, and is expected to continue benefitting as GDP is expected to record positive growth.

Although China's GDP growth rate slowed down to below 7% last year and is expected to grow at a rate near 6.5% this year, it is still one of the fastest growing countries in the world. Despite the slowdown in GDP growth rate, the growth in retail sales remains. As China's economy is transiting from an industrial-based economy to a consumption-based economy, the central government may push out more policies to support consumption, which is beneficiary to Man Wah. Figure 11 shows that the sales of furniture were growing faster than the overall retail sales growth since entering 2016. The growth in furniture sales growth is faster than the overall retail sales growth, and this can be attributed to a recovery in GFA sold in the property sector. As the property sector is expected to record positive growth, Man Wah should be able to benefit from it.

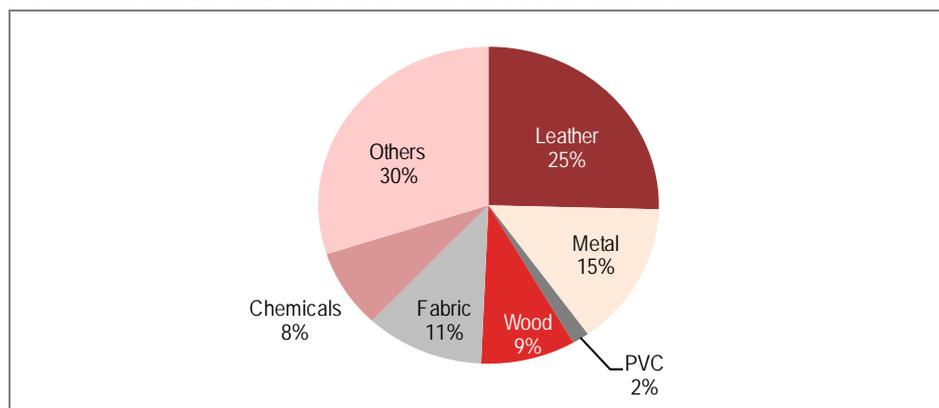
**FIGURE 11: RETAIL AND FURNITURE SALES GROWTH (YOY)**



Source: NBS, UOB Kay Hian

**Benefits from low raw material price.** Figure 12 shows percentage of raw material cost as of cost of sales in FY16. Leather is the main material used by Man Wah, followed by metal and fabric. As shown in figure 9, the price of raw materials has dropped significantly because of the slump in oil price. Man Wah benefitted from the drop in raw material cost as the overall gross profit margin (GPM) jumped around 4ppt to 39.5% in FY16 from 35.6% in FY15. The improvement in GPM was more significant in 2HFY16 as it improved to 42.1%, which is an increase of 6.79ppt on a yoy basis and an increase of 5.04ppt on a qoq basis. Management has mentioned in the results briefing that they do not expect raw material price to fluctuate much, and there should not be a significant rise in raw material cost; hence, we assume the GPM in FY17 to be at 41.5%, a rate similar to 2HFY16. Moreover, with production facilities located in China, Man Wah could enjoy competitive cost advantage which could increase its competitive strength against its peers.

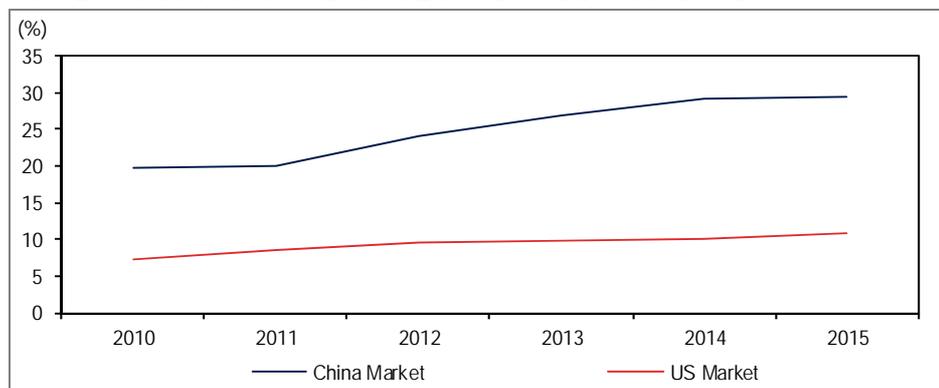
**FIGURE 12: PERCENTAGE OF RAW MATERIAL COST AS OF COGS**



Source: Man Wah, UOB Kay Hian

**Gaining market share in China and US recliner sofa markets.** As shown in figure 8, Cheers holds a significant market share in both the US and China motion recliner sofa markets. Figure 13 shows that Cheers has been winning market share in both the US and China markets since 2010.

**FIGURE 13: GAINING OF MARKET SHARE IN THE US AND CHINA MARKET**



Source: Euromonitor, Man Wah, UOB Kay Hian

Figure 14 shows that Cheers is closing the gap with its competitors in the US market and is enlarging its market share in the China market. We believe Cheers could continue to leverage on its strength in the recliner sofa industry and continue to gain market share in both the US and China market.

**FIGURE 14: MOTION RECLINER MARKET IN THE US AND CHINA**

	Top 5 brands in the US	Market share in 2014	Market share in 2015	Top 5 brands in China	Market share in 2014	Market share in 2015
No.1	La-Z-Boy	20.5%	19.4%	Cheers	29.2%	29.5%
No.2	Ashley Furniture	11.3%	11.5%	La-Z-Boy	7.8%	6.2%
No.3	Cheers	10.2%	10.9%	Milano&Design	1.8%	3.7%
No.4	Catnapper	8.0%	8.1%	Farrell	3.6%	2.7%
No.5	Franklin	6.6%	6.8%	Natuzzi Editions	1.6%	1.7%

Source: Euromonitor, Man Wah, UOB Kay Hian

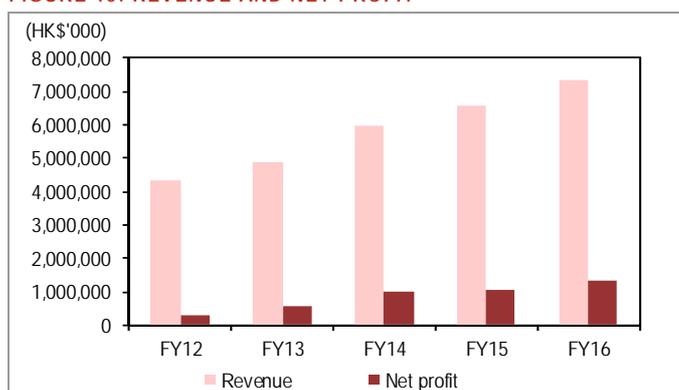
**Healthy balance sheet.** As at end Mar 16, Man Wah had HK\$1.4b of cash and outstanding borrowings of HK\$250m. Man Wah has been generous to its shareholders in the past in terms of dividend payout and repurchase of shares. In FY16, the company paid out HK\$676m worth of dividends and used HK\$297m for share repurchase. From FY12 to FY16, Man Wah had altogether paid out HK\$2.7b of dividend and used HK\$1.0b for share repurchase. As Man Wah is in a net cash position, it is capable of continuing its share repurchase if the share price drops too much, which provides a cushion for investors. Moreover, it has enough resources to perform M&As to support further growth.

**A strong set of results for FY16.** Man Wah recorded a net profit of HK\$1.32b in FY16, an increase of 23.4% yoy. The strong performance seen in FY16 was due to a drop in raw material prices which led to a higher overall GPM as revenue only grew 11.8% yoy. The company proposed a final dividend of HK\$0.19 per share and also proposed to issue 1 bonus share for every 1 share. Together with an interim dividend of HK\$0.16 per share, the full-year dividend was HK\$0.35 per share, translating to a dividend yield of around 3.2%.

## Financials

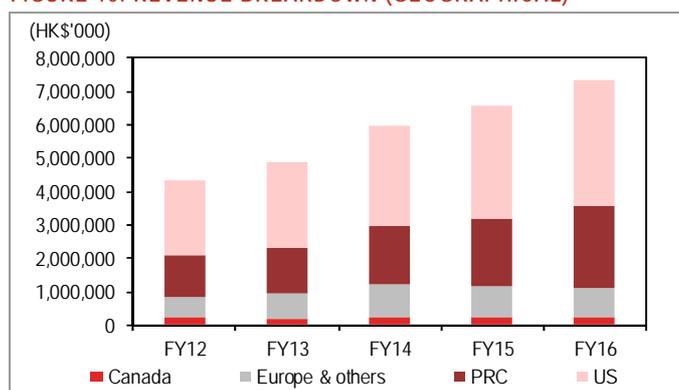
Figure 15 shows the revenue and net profit of Man Wah in the past five financial years. From FY12 to FY16, revenue grew at a CAGR of 14.0% while net profit grew at a CAGR of 44.6%. This shows that operating efficiency has improved over the past five financial years.

FIGURE 15: REVENUE AND NET PROFIT



Source: Man Wah, UOB Kay Hian

FIGURE 16: REVENUE BREAKDOWN (GEOGRAPHICAL)



Source: Man Wah, UOB Kay Hian

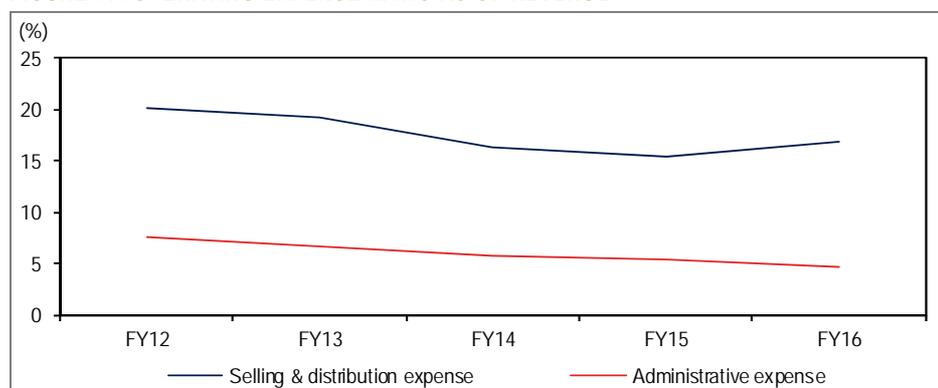
Figure 16 shows the revenue breakdown by geographic region. In FY17, we expect China will lead the growth in various markets because of the recovery of its property market. Moreover, the increase in disposable income may also trigger consumption upgrade, leading to an increase in demand for higher-end furniture. We expect revenue from China market to grow 18%/15%/10% yoy in FY17/FY18/FY19 respectively. For the US market, we prudently assume it will only grow at a rate of 5% yoy in FY17 because of the high base and a cautious tone from the management amid continuous improvement seen in the housing market. In FY18 and FY19, we prudently assume the revenue to grow 5% per year only because a rate hike and Brexit may temporarily hurt the US economy (strong US dollar) and unemployment rate should not be able to further improve significantly which may lead to a slower growth in the US market. The appointment of Mr. Ray in Feb 15 could help Man Wah's US business to maintain growth. Mr. Ray has vast experience in the furniture industry and has good relationships with US retailers which may help Man Wah to grow its business in the US market.

Moreover, the potential cooperation with online retailers (eg Amazon and Wayfair) may help Man Wah to sustain growth in the US. The sale of stationary sofas in the US could also be another growth driver in the future but the process is slow, according to management.

For the European market, we expect the revenue to drop 5% each year in FY17/FY18/FY19 because of the slow recovery seen in the European economy and the unknown butterfly effect because of Brexit. For the Canadian market, we assume there to be no growth and revenue to stay flat at HK\$220m, a similar level in the past five financial years. By incorporating the above assumptions, we expect the revenue in FY17/FY18/FY19 to grow to HK\$7.91b/HK\$8.58b/HK\$9.17b respectively. We have not factored in any additional revenue from potential M&As and new product categories launched.

We expect GPM to fall gradually in the coming years. As oil price has started to rebound, we believe the prices of raw materials will also follow, and hence drag down GPM. Management mentioned that they do not expect raw material price to increase significantly in FY17. Moreover, the company is transforming self-operated stores into distributor stores, and this will put a drag on GPM but could also lower operating cost ratio. On the other hand, as management does not expect to see substantial increase in capacity in the coming 2-3 years, the ramp-up of utilisation rate may help to partially offset the increase in raw material prices in the future. Last but not least, the GPM of the products sold in China is a bit higher than those exported; hence, the increase in proportion of income from China could help to stabilise overall GPM. We expect GPM to have peaked in 2HFY16, and hence assume GPM in FY17/FY18/FY19 to slightly drop to 41.5%/41%/40.5% respectively.

FIGURE 17: OPERATING EXPENSE RATIO AS OF REVENUE

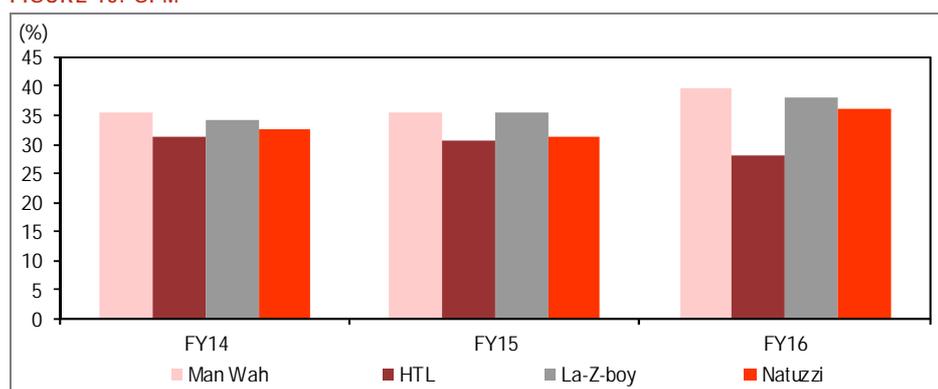


Source: Man Wah, UOB Kay Hian

Figure 17 shows the selling & distribution expense and administrative expense as of revenue in the past five financial years. Operating expense ratio dropped from 27.8% in FY12 to 21.5% in FY16. We expect this ratio to drop gradually because of a decrease in number of self-operated distributing stores. Moreover, advertising expense in FY16 was double that of FY15. We expect advertising expense to remain at a similar level in the coming two years as the company is expected to put in more advertising resources in China to capture the fast growing market. We expect the operating expense ratio to be 21.7%/21.1%/20.5% in FY17/FY18/FY19 respectively, from 21.5% in FY16. By assuming an effective tax rate of 12.0% and by combining the above assumptions, we expect net profit to grow to HK\$1.49b/HK\$1.63b/HK\$1.75b in FY17/FY18/FY19 respectively.

We have picked out sofa manufacturers HTL International (HWP SP), La-z-boy (LZB US) and Natuzzi (NTZ US) to compare with Man Wah. As the companies do not have the same financial year end, we have selected the most recent three full financial years to make comparisons with. (Man Wah year end: 31 March, La-Z-boy year end: 30 April, HTL and Natuzzi year end: 31 December)

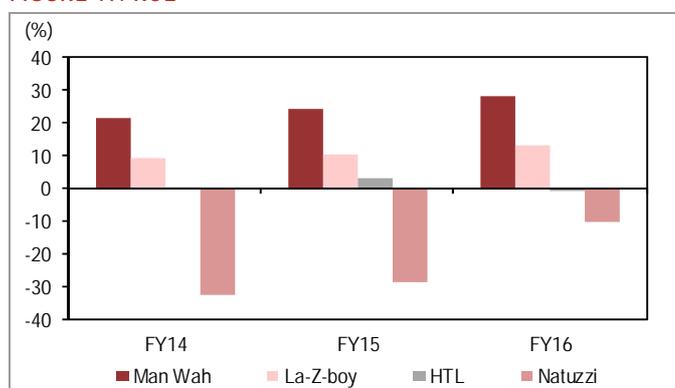
FIGURE 18: GPM



Source: Bloomberg, UOB Kay Hian

In terms of GPM, Man Wah is performing slightly better than its peers. This can be explained by bulk purchasing of materials (bigger players have a higher GPM) and a relatively lower labour cost (Man Wah's factories are located in China). Moreover, Man Wah concentrates in the manufacture of recliner sofas which could help the company to improve efficiency. Except for HTL, La-Z-Boy and Natuzzi recorded an improvement in GPM which could be explained by a drop in raw material price.

FIGURE 19: ROE



Source: Respective companies, UOB Kay Hian

FIGURE 20: DUPONT ANALYSIS

	Man Wah	La-Z-boy	HTL	Natuzzi
Tax burden	89.1%	67.0%	-64.7%	103.6%
Interest burden	116.3%	102.4%	-96.9%	208.2%
Operating income margin	17.5%	7.2%	-0.6%	-1.6%
Assets turnover	129.8%	184.0%	149.3%	139.8%
Leverage ratio	119.8%	145.3%	175.1%	217.6%

Source: Respective companies, UOB Kay Hian

In terms of ROE, Man Wah is leading its peers and Figure 20 provides a breakdown of the ROE by using the DuPont analysis. The main difference in Man Wah and its peers lies in operating income margin, which was derived by EBIT/Sales. The higher number experienced by Man Wah means that the operating expense to revenue is lower than its peers.

In terms of cash conversion cycle, Man Wah is also performing better than its peers. Man Wah performed better than its peers in all three items (Inventory days, account receivable days and account payable days) to determine the cash conversion cycle. The difference was mainly in the accounts receivable days. For clients in China, Man Wah will not grant credit days to its distributors. Hence, an increase in proportion of income from China will help to further improve its cash conversion cycle in the future.

FIGURE 21: CASH CONVERSION CYCLE

	Man Wah	LZB	HTL
FY12	57.0	86.3	132.6
FY13	65.3	85.8	135.0
FY14	63.7	80.2	121.0
FY15	70.7	79.8	108.9
FY16	65.0	85.0	104.6

Source: Bloomberg, UOB Kay Hian

## Valuation

Man Wah is now trading at around 15.9x FY17F PE, which is lower than its international peers, especially QuMei and Markor, which are both listed on the Shanghai Stock Exchange. As the SZ-HK Stock Exchange is expected to be opened in 2016, Man Wah may become a potential stock which will be liked by China investors because it owns the well-known sofa brand Cheers and has a relatively cheap valuation compared with its Chinese listed peers.

Besides its relatively cheaper valuation vs peers, it is also very generous to its shareholders, carrying out frequent repurchase of stocks and pursuing a dividend payout ratio of around 40%. With the excess cash on hand and no plans for significant capacity expansion, we assume the company to hold pay out 45% of net profit in FY17/FY18/FY19. The payout ratio may be higher if Man Wah does not need to repurchase shares from open market if the stock price is performing strong. In view of an expected FY17 EPS of HK\$0.776 and by pegging Man Wah at 17.4x FY17F PE, which is around 10% premium to its competitor La-Z-boy, given that Man Wah has a higher ROE and is in a better position to capture the China recliner sofa market, we initiate coverage on the stock with a target price of HK\$13.50.

FIGURE 22: PEER COMPARISON

Company	Ticker	Share Price (lcy)	Market cap (US\$m)	-----P/E-----			-----P/B-----			Divd Yield FY16F (%)
				FY15 (x)	FY16F (x)	FY17F (x)	FY15 (x)	FY16F (x)	FY17F (x)	
Man Wah Holdings	1999 HK	12.36	3,072	18.1	15.9	14.6	5.1	4.7	4.3	3.1
La-z-boy	LZB US	27.54	1,347	17.8	15.8	14.1	2.5	2.2	2.0	1.6
Ekornes Asa	EKO NO	92.25	402	17.7	9.3	9.0	2.5	2.3	2.1	5.7
<b>Average of sofa peers</b>				<b>17.8</b>	<b>12.3</b>	<b>11.6</b>	<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	<b>3.7</b>
Ethan Allen	ETH US	32.84	911	23.3	17.5	15.5	2.5	2.3	2.2	1.8
Hooker Furniture	HOFT US	21.67	250	14.4	10.8	9.6	1.5	1.3	1.2	n.a
Temper Sealy*	TPX US	54.61	3,327	17.1	14.0	12.0	11.7	7.5	4.6	n.a
Herman Miller	MLHR US	30.12	1,804	13.9	13.1	12.0	2.9	2.8	2.3	n.a
Yotrio Group*	002489 CH	7.81	2,540	32.5	22.3	19.1	5.2	n.a	n.a	n.a
Suofeiya Home Collection*	002572 CH	55.80	3,678	53.7	39.0	29.1	10.5	8.4	6.9	1.1
Markor Furniture*	600337 CH	13.41	1,295	29.2	22.2	17.6	2.8	2.6	2.5	1.9
Qumei Holdings*	603818 CH	16.80	1,216	64.6	n.a	n.a	6.7	n.a	n.a	n.a
Yihua Lifestyle*	600978 CH	11.45	2,538	27.3	21.1	16.8	2.5	2.3	2.1	1.3
Xilinmen Furniture*	603008 CH	17.55	826	28.8	21.8	17.0	4.1	3.5	3.0	0.8
<b>Average of furniture peers</b>				<b>30.5</b>	<b>20.2</b>	<b>16.5</b>	<b>5.0</b>	<b>3.8</b>	<b>3.1</b>	<b>1.4</b>
<b>Average</b>				<b>28.4</b>	<b>18.8</b>	<b>15.6</b>	<b>4.6</b>	<b>3.5</b>	<b>2.9</b>	<b>2.0</b>

Source: Bloomberg, UOB Kay Hian \*Year end: 31 Dec

## Risks

- Deterioration of the property markets in the US and China.
- Rise in raw material price.
- Fluctuation in currencies.

FIGURE 23: PROFIT & LOSS

Year to 31 Mar (HK\$'000)	2015	2016	2017F	2018F	2019F
Revenue, net	6,554.8	7,327.6	7,909.0	8,583.0	9,167.7
Operating expenses	(1,364.2)	(1,574.2)	(1,716.3)	(1,811.0)	(1,879.4)
<b>EBIT</b>	<b>968.6</b>	<b>1,321.8</b>	<b>1,566.0</b>	<b>1,708.0</b>	<b>1,833.5</b>
Net interest income/(expense)	(22.6)	(12.0)	(9.0)	(9.0)	(9.0)
<b>Pre-tax profit</b>	<b>1,258.7</b>	<b>1,490.0</b>	<b>1,714.9</b>	<b>1,867.6</b>	<b>2,003.7</b>
Tax	(174.8)	(150.2)	(205.8)	(224.1)	(240.4)
<b>Net profit(rep./act.)</b>	<b>1,075.2</b>	<b>1,327.2</b>	<b>1,494.0</b>	<b>1,627.1</b>	<b>1,745.6</b>
Net profit(adj.)	1,075.2	1,327.2	1,494.0	1,627.1	1,745.6
Deprec. & amort.	151.1	155.4	162.9	181.8	199.2
<b>EBITDA</b>	<b>1,119.7</b>	<b>1,477.2</b>	<b>1,728.9</b>	<b>1,889.8</b>	<b>2,032.7</b>
<b>Per share data (HK\$ cent)</b>					
EPS - diluted	54.2	67.8	75.8	82.6	88.6
Reported EPS - diluted	54.2	67.8	75.8	82.6	88.6
Book value per shares (BVPS)	225.9	243.3	265.6	290.0	316.2
Dividend per share (DPS)	113.0	35.0	38.8	42.3	45.3

Source: Man Wan, UOB Kay Hian

FIGURE 24: BALANCE SHEET

Year to 31 Dec (HK\$'000)	2015	2016	2017F	2018F	2019F
Cash/Near cash equiv.	1,599.0	1,411.6	1,470.6	1,651.0	1,893.7
Accounts receivable/debtors	622.1	590.6	632.7	686.6	733.4
Other current assets	1,181.9	836.3	882.0	956.1	1,020.4
<b>Current assets</b>	<b>3,403.0</b>	<b>2,838.5</b>	<b>2,985.3</b>	<b>3,293.8</b>	<b>3,647.5</b>
Fixed assets	1,987.7	2,033.8	2,271.1	2,489.4	2,690.2
Other non-current tangible assets	701.1	771.0	767.3	766.2	765.2
<b>Total non-current assets</b>	<b>2,692.7</b>	<b>2,806.6</b>	<b>3,038.4</b>	<b>3,255.6</b>	<b>3,455.4</b>
<b>Total assets</b>	<b>6,095.7</b>	<b>5,645.1</b>	<b>6,023.7</b>	<b>6,549.4</b>	<b>7,102.9</b>
Accounts payable/creditors	280.6	266.5	276.8	300.4	320.9
Short-term debt/borrowings	937.9	250.0	200.0	200.0	200.0
Other current liabilities	419.8	414.9	435.5	469.2	498.4
<b>Current liabilities</b>	<b>1,638.3</b>	<b>931.5</b>	<b>912.3</b>	<b>969.6</b>	<b>1,019.3</b>
Long-term debt	0	0	0	0	0
Other non-current liabilities	5.1	3.3	5.0	5.0	5.0
<b>Total non-current liabilities</b>	<b>5.1</b>	<b>3.3</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>
<b>Total liabilities</b>	<b>1,643.4</b>	<b>934.8</b>	<b>917.3</b>	<b>974.6</b>	<b>1,024.3</b>
Minority interest - accumulated	56.6	(2.0)	0.0	0.0	0.0
<b>Shareholders' equity</b>	<b>4,395.8</b>	<b>4,712.3</b>	<b>5,106.4</b>	<b>5,574.8</b>	<b>6,078.7</b>
<b>Liabilities and shareholders' funds</b>	<b>6,095.7</b>	<b>5,645.1</b>	<b>6,023.7</b>	<b>6,549.4</b>	<b>7,102.9</b>

Source: Man Wan, UOB Kay Hian

FIGURE 25: CASH FLOW

Year to 31 Dec (HK\$'000)	2015	2016	2017F	2018F	2019F
<b>Operating cashflows</b>	<b>789.6</b>	<b>1,644.5</b>	<b>1,379.9</b>	<b>1,513.0</b>	<b>1,629.5</b>
Pre-tax profit	1,258.7	1,490.0	1,714.9	1,867.6	2,003.7
Tax	(169.1)	(158.8)	(205.8)	(224.1)	(240.4)
Deprec. & amort.	151.1	155.4	162.9	181.8	199.2
Working capital changes	(209.4)	246.0	(235.1)	(250.3)	(266.0)
Others	(241.6)	(88.4)	(57.0)	(62.0)	(67.0)
<b>Cash from investing activities</b>	<b>(561.8)</b>	<b>(302.6)</b>	<b>(310.0)</b>	<b>(305.0)</b>	<b>(300.0)</b>
Capex	(600.2)	(227.2)	(400.0)	(400.0)	(400.0)
Others	38.3	(75.5)	90.0	95.0	100.0
<b>Cash from financing activities</b>	<b>(1,010.1)</b>	<b>(1,563.1)</b>	<b>(1,031.0)</b>	<b>(1,047.5)</b>	<b>(1,106.8)</b>
Dividend payments	(1,220.8)	(563.7)	(747.0)	(813.5)	(872.8)
Issue of shares	0	0	0	0	0
Proceeds from borrowings	399.7	(687.9)	(50.0)	0.0	0.0
Others/interest paid	(189.0)	(311.6)	(234.0)	(234.0)	(234.0)
Net increase/(decrease) in cash	(782.4)	(221.3)	38.9	160.4	222.7
Beginning cash	2,362.5	1,599.0	1,411.6	1,470.6	1,651.0
Changes due to forex impact	19.0	33.9	20.0	20.0	20.0
<b>End cash</b>	<b>1,599.0</b>	<b>1,411.6</b>	<b>1,470.6</b>	<b>1,651.0</b>	<b>1,893.7</b>

Source: Man Wan, UOB Kay Hian

FIGURE 26: KEY METRICS

Year to 31 Dec (%)	2015	2016	2017F	2018F	2019F
<b>Growth</b>					
Turnover	9.4	11.8	7.9	8.5	6.8
EBITDA	16.4	31.9	17.0	9.3	7.6
Pre-tax profit	9.1	18.4	15.1	8.9	7.3
Net profit	10.1	23.4	12.6	8.9	7.3
Net profit (adj.)	10.1	23.4	12.6	8.9	7.3
EPS	8.7	25.0	11.9	8.9	7.3
<b>Profitability</b>					
EBITDA margin	17.1	20.2	21.9	22.0	22.2
EBIT margin	14.8	18.0	19.8	19.9	20.0
Gross margin	35.6	39.5	41.5	41.0	40.5
Pre-tax margin	19.2	20.3	21.7	21.8	21.9
Net margin	16.4	18.1	18.9	19.0	19.0
ROE	24.3	29.1	30.4	30.5	30.0
ROA	17.6	22.6	25.6	25.9	25.6
ROIC	15.2	22.5	26.2	26.5	26.1
RONTA	17.1	24.6	27.8	28.1	27.7
<b>Leverage</b>					
Interest cover (x)	49.6	123.5	192.1	210.0	225.9
Debt to total capital (%)	21.1	5.3	3.9	3.6	3.3
Debt to equity (%)	21.3	5.3	3.9	3.6	3.3
Net debt/(cash) to equity	(14.8)	(25.4)	(24.9)	(26.0)	(27.9)
Current ratio (x)	2.1	3.0	3.3	3.4	3.6

Source: Man Wah, UOB Kay Hian

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