中国 耐用消费品

定制家具服务于家:对欧派家居首次评为中性,对尚品宅配首次评为卖出;维持买入索菲亚(摘要)

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中国定制家具行业虽然面临着房地产下行周期和竞争加剧（特别是在家具城销售渠道）的不利影响，但这个广阔而高度分散的市场蕴含着显著的整合机会。展望未来，我们预计行业领头羊将逐渐且持续地侵蚀小企业份额。我们预计拥有制造和分销优势的领军企业将从新建精装修住宅比例上升中受益，推动市场份额加速集中。

开发商渠道：为行业领头羊带来长期收入增长机会

大数据供应商奥维云网表示，中国2018年销售了约460万套精装修住宅，在整体新房销售中占比23%。根据十三五规划，预计到2020年精装修住宅销售规模将达到610万套。相比之下，中国领先的衣柜制造商索菲亚2018年只有客户60万家。因此我们认为，即便定制家具企业仅在精装住宅增势中略有斩获，也将带动销售可观增长。此外，我们预计对于产品规格、交付时间和付款周期的严格要求将主要惠及拥有出色财力和分销资源的大型企业。

首次覆盖两家领军企业；重申买入索菲亚（上行空间34%）

我们预计在橱柜市场和开发商渠道均占据主导地位的欧派家居2019-2020年收入/净利润年均复合增长率分别为16%/13%，得益于以下因素的推动：1) 品类扩张，2) 单店销售增长以及3) 为扩大制造产能持续投资。但是，由于该股当前股价与我们基于贴现EV/EBITDA估值法计算的12个月目标价格人民币82.0元基本相当（存在6%下行空间），我们对于欧派家居的首次评级为中性。广州尚品宅配因其直营店占比高以及在购物中心选址设店而在定制家具企业中独具一格，而且外包产品为公司创造了很大一部分收入。但是，考虑到其家具产品差异化较小，我们预计2019年公司收入增长将明显放缓，为当前高企的估值带来下行风险。我们对于尚品宅配的首次评级为卖出，基于贴现EV/EBITDA估值法计算的12个月目标价格人民币49.0元，隐含21%的下行空间。我们仍看好索菲亚行业领先的制造能力和分销渠道，我们重申对索菲亚的买入评级，目标价格隐含34%的上行空间。

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PM Summary: Initiating on two customized furniture manufacturers; long-term opportunity from developer’s channel

Customized furniture manufacturers primarily sell through retail channels in China. Recently they have been paying more attention to the developer’s channel amid property demand slowdown and intensifying competition in retail channels. According to AVC, only 23% of new properties sold were furbished in China in 1H18. Per the 13th Five-Year Plan, the ratio is expected to rise to 30% in 2020E driven by a combination of favorable government policies and differentiated competition strategies especially from leading real estate developers. In our view, such penetration avenues will present a significant revenue opportunity and primarily benefit leading furniture manufacturers with better financial and distributor resources. We expect Suofeiya and Oppein, the two key players in the segment, to be the major beneficiaries of the trend given their continuous investment in manufacturing capabilities and established distributor network.

Suofeiya (Buy; 12-m TP: Rmb24.4)

We continue to favor Suofeiya as a major beneficiary of a structural growth in customized furniture industry, due to its leading manufacturing capabilities and distributor network. Although, industry is facing headwinds from a short-term property downcycle (for details, refer to China Real Estate: Slower property investment in 2019; consolidation to accelerate, published on November 23, 2018) and intensified competition, we expect Suofeiya to mitigate the growth headwinds by launching more quality products and improving competitiveness of its distributors by both providing more financial support and replacing less efficient distributors. Moreover, we expect developers’ channel to contribute more to revenue growth in coming years as the company continues cooperating with large developers and investing in manufacturing facilities. We expect revenue/net profit CAGR of 19%/16% in 2019E-20E. With the stock currently trading at 15X 2019E P/E (vs. its 6-year median 12-m forward P/E of 27X), we reiterate Buy on the stock.

Oppein (Neutral; 12-m TP: Rmb82.0)

Oppein - At a glance

1. The largest player in China kitchen cabinet market by revenue size: The company derived Rmb5.4bn revenue from kitchen cabinet business in 2017, greater than the sum of No.2-No.4 listed players. Recently Oppein has been leveraging its strong brand in kitchen cabinet segment to expand into other product categories such as wardrobe, wooden door, etc.
2. One of the strongest distributor networks characterized by both extensive reach and efficiency. By 1H18, the company had 6,711 stores across different product categories and tiers of cities, the largest among all competitors. The company has the highest per store sales for kitchen cabinet and has been ramping up quickly in the wardrobe segment as of 1H18.

3. A leader in developer’s market. Oppein derived Rmb964mn from the developer’s channel in 2017, highest among its listed competitors. The company has been partnered with leading developers for a long time and has developed an experienced network distributors for developers to expand the business and alleviate cash flow risks.

Investment thesis

We expect Oppein’s revenue to be driven by both new product category penetration and channel expansion. We expect Oppein to leverage its strong brand and distributor network in kitchen cabinet segment to drive up sales in other products such as wardrobes. On the other hand, we expect Oppein to continue its expansion in both retail and developer’s channel, utilizing its strong distributor network. However, we expect the margins to gradually trend down due to higher competition and increasing share of developer revenue. Factoring in the above, we expect revenue/net profit CAGR of 16%/13% in 2019E-20E. Our 12-m target price is derived by applying a 12X exit multiple to 2021E EBITDA and discounting back to 2018E at 9% COE. With 6% downside to our TP, we initiate on Oppein with a Neutral rating.

Guangzhou Shangpin (Sell; 12-m TP: Rmb49.0)

Shangpin - At a glance

1. A Leading customized furniture manufacturer with a unique channel strategy: We expect Shangpin to derive c. 39% of its total revenue in 2018E from directly-owned stores, vs. only 2%-3% for Suofeiya and Oppein. Due to the opex-intensive nature of its channel strategy, Shangpin has had much lower profitability compared to Suofeiya and Oppein. However, since late 2017, Shangpin has started focusing on an aggressive franchise-driven strategy, recruiting multiple distributors in each city (vs. only 1 or 2 for Suofeiya and Oppein) to drive up revenue growth.
2. Shopping mall based store location + online marketing strategy: Shangpin has over 50% of its stores in shopping malls (vs. 20% for Suofeiya), which, in our view, helps it to avoid high competition in furniture malls. The company utilizes online marketing strategy including its own website and other platforms such as Baidu and Taobao to funnel customer traffic to its shopping mall stores.
3. Higher contribution from outsourced products: Shangpin is expected to derive c. 20% of revenue from sales of outsourced products in 2018E based on our estimates. (vs. 4% for Suofeiya in 2018E)

Investment thesis

We expect Shangpin’s revenue growth to be driven by increasing franchise store openings and growth of outsourced products, however, at a declining pace. We expect more store closures and slower per store sales growth as newly recruited distributors face more pressure during the industry downcycle in 2019E. On the other hand, we expect the sales growth of outsourced products to decelerate along with the sales from its customized furniture segment. On the margin side, we expect GPM to trend down due to rising share of low-margin franchise revenue and outsourced products sales.

Factoring in the above, we expect revenue/net profit CAGR of 18%/17% in 2019E-20E. Our 12-m target price is based on an 11X exit multiple applied to its 2021E EBITDA and discounted back to 2018E at 9% COE. With 21% downside, we initiate on Guangzhou Shangpin with a Sell rating.

图表 1: Global appliances, furniture and automation comp

Company	Ticker	PCY	Last closing price	Target price	Upside/ (downside)	Rating	Mkt Cap (US$bn)	18E-20E EPS CAGR	P/E				P/B				EV/EBITDA			
									2017A	2018E	2019E	2020E	2017A	2018E	2019E	2020E	2017A	2018E	2019E	2020E
China appliances																				
Midea Group	000333.SZ	CNY	38.81	50.00	29%	Buy	37.0	**14%**	14.8x	12.6x	11.6x	9.8x	3.5x	3.0x	2.6x	2.3x	10.9x	8.3x	7.6x	6.2x
Gree Electric	000651.SZ	CNY	36.80	44.00	20%	Neutral	32.1	**-2%**	9.9x	7.8x	9.0x	8.1x	3.4x	2.7x	2.3x	1.9x	4.9x	3.5x	3.8x	3.3x
Haier Electronics	1169.HK	HKD	18.54	23.90	29%	Buy*	6.6	**12%**	13.7x	12.0x	10.9x	9.6x	2.1x	1.9x	1.7x	1.5x	7.2x	6.1x	5.2x	4.2x
Little Swan	000418.SZ	CNY	45.84	47.00	3%	Neutral	4.2	**15%**	19.2x	18.9x	17.3x	14.3x	4.1x	3.7x	3.3x	2.9x	16.6x	15.3x	13.3x	10.5x
Hangzhou Robam	002508.SZ	CNY	22.08	23.40	6%	Neutral	3.0	**7%**	14.3x	13.7x	12.7x	11.9x	4.0x	3.5x	3.0x	2.7x	22.1x	9.9x	9.2x	8.2x
Median					**20%**		**6.6**	**12%**	**14.3x**	**12.6x**	**11.6x**	**9.8x**	**3.5x**	**3.0x**	**2.6x**	**2.3x**	**10.9x**	**8.3x**	**7.6x**	**6.2x**
China furniture																				
Suofeiya	002572.SZ	CNY	18.31	24.40	33%	Buy	2.5	**16%**	18.6x	16.7x	14.6x	12.5x	3.8x	3.4x	3.0x	2.6x	23.8x	10.3x	8.9x	7.5x
Oppein	603833.SS	CNY	87.67	82.00	-6%	Neutral	5.3	**13%**	28.4x	22.0x	19.9x	17.4x	5.9x	5.0x	4.2x	3.6x	26.5x	16.1x	14.2x	12.2x
GZSP	300616.SZ	CNY	62.33	49.00	-21%	Sell	1.8	**17%**	32.6x	24.4x	21.2x	17.8x	4.7x	4.2x	3.7x	3.3x	32.9x	23.2x	19.4x	14.7x
Median					**-6%**		**2.5**	**16%**	**28.4x**	**22.0x**	**19.9x**	**17.4x**	**4.7x**	**4.2x**	**3.7x**	**3.3x**	**26.5x**	**16.1x**	**14.2x**	**12.2x**
China LED lighting																				
Opple Lighting	603515.SS	CNY	27.99	32.00	14%	Neutral	3.1	**12%**	30.8x	24.6x	23.1x	19.5x	5.8x	5.0x	4.4x	3.9x	28.2x	23.9x	21.7x	17.6x
Median					**14%**		**3.1**	**12%**	**30.8x**	**24.6x**	**23.1x**	**19.5x**	**5.8x**	**5.0x**	**4.4x**	**3.9x**	**28.2x**	**23.9x**	**21.7x**	**17.6x**
Global appliances																				
Electrolux	ELUXb.ST	SEK	190	208	9%	Neutral	6.0	**19%**	9.6x	15.4x	12.2x	10.9x	2.7x	2.5x	2.3x	2.1x	6.8x	5.3x	5.4x	5.0x
Daikin	6367.T	JPY	12,240	15,000	23%	Neutral	31.6	**3%**	23.2x	18.9x	19.3x	17.9x	3.2x	2.8x	2.5x	2.2x	10.0x	10.7x	10.0x	9.0x
Panasonic	6752.T	JPY	1,068	1,800	69%	Buy	21.9	**6%**	16.6x	10.6x	9.6x	9.3x	1.6x	1.4x	1.3x	1.2x	4.6x	5.3x	3.3x	3.0x
Arcelik	ARCLK.IS	TRY	15.25	19.90	30%	Neutral	1.9	**50%**	12.2x	15.5x	8.9x	6.9x	1.5x	1.4x	1.3x	1.1x	10.3x	7.7x	6.0x	5.1x
Median					**27%**		**13.9**	**13%**	**14.4x**	**15.4x**	**10.9x**	**10.1x**	**2.1x**	**2.0x**	**1.8x**	**1.6x**	**8.4x**	**6.5x**	**5.7x**	**5.0x**
Global automation																				
Fanuc	6954.T	JPY	16,850	21,000	25%	Neutral	28.8	**-11%**	25.6x	18.0x	18.8x	22.6x	2.4x	2.2x	n.a.	n.a.	16.0x	15.4x	11.0x	11.3x
Yaskawa	6506.T	JPY	2,977	3,900	31%	Buy	7.0	**4%**	38.9x	19.9x	17.4x	18.2x	4.0x	3.4x	3.1x	2.8x	10.4x	14.3x	11.1x	11.0x
ABB	ABBN.S	CHF	19.2			Not Rated	41.5	**23%**	19.1x	17.8x	14.0x	11.8x	2.8x	2.7x	n.a.	n.a.	11.1x	8.8x	7.7x	6.9x
Median					**28%**		**28.8**	**4%**	**25.6x**	**18.0x**	**17.4x**	**18.2x**	**2.8x**	**2.7x**	**3.1x**	**2.8x**	**11.1x**	**14.3x**	**11.0x**	**11.0x**

Company	Ticker	PCY	Last closing price	Target price	Upside/ (downside)	Rating	ROE				CROCI				Dividend yield				FCF yield			
							2017A	2018E	2019E	2020E	2017E	2018E	2019E	2020E	2017A	2018E	2019E	2020E	2017A	2018E	2019E	2020E
China appliances																						
Midea Group	000333.SZ	CNY	38.81	50.00	29%	Buy	23%	23%	21%	22%	17%	15%	14%	15%	3%	4%	4%	5%	8%	10%	8%	11%
Gree Electric	000651.SZ	CNY	36.80	44.00	20%	Neutral	37%	38%	27%	26%	17%	20%	13%	11%	0%	5%	4%	5%	6%	12%	7%	6%
Haier Electronics	1169.HK	HKD	18.54	23.90	29%	Buy*	16%	15%	15%	15%	81%	44%	40%	40%	1%	2%	2%	2%	6%	2%	7%	8%
Little Swan	000418.SZ	CNY	45.84	47.00	3%	Neutral	20%	18%	17%	18%	27%	25%	27%	34%	2%	2%	3%	3%	6%	9%	9%	9%
Hangzhou Robam	002508.SZ	CNY	22.08	23.40	6%	Neutral	31%	27%	25%	24%	28%	48%	20%	33%	2%	4%	4%	4%	3%	14%	8%	8%
Median					**20%**		**23%**	**23%**	**21%**	**22%**	**27%**	**25%**	**20%**	**33%**	**2%**	**4%**	**4%**	**4%**	**6%**	**10%**	**8%**	**8%**
China furniture																						
Suofeiya	002572.SZ	CNY	18.31	24.40	33%	Buy	20%	20%	20%	21%	30%	26%	26%	25%	1%	3%	3%	4%	0%	2%	2%	2%
Oppein	603833.SS	CNY	87.67	82.00	-6%	Neutral	29%	25%	23%	22%	52%	42%	33%	30%	1%	1%	2%	2%	0%	0%	0%	2%
GZSP	300616.SZ	CNY	62.33	49.00	-21%	Sell	22%	18%	19%	20%	49%	28%	47%	49%	1%	1%	2%	2%	3%	1%	2%	6%
Median					**-6%**		**22%**	**20%**	**20%**	**21%**	**49%**	**28%**	**33%**	**30%**	**1%**	**1%**	**2%**	**2%**	**0%**	**1%**	**2%**	**2%**
China LED lighting																						
Opple Lighting	603515.SS	CNY	27.99	32.00	14%	Neutral	20%	22%	20%	21%	22%	26%	28%	33%	1%	1%	2%	2%	4%	5%	5%	5%
Median					**14%**		**20%**	**22%**	**20%**	**21%**	**22%**	**26%**	**28%**	**33%**	**1%**	**1%**	**2%**	**2%**	**4%**	**5%**	**5%**	**5%**
Global appliances																						
Electrolux	ELUXb.ST	SEK	190	208	9%	Neutral	30%	23%	20%	20%	16%	12%	12%	12%	3%	5%	5%	5%	7%	2%	4%	6%
Daikin	6367.T	JPY	12,240	15,000	23%	Neutral	14%	15%	13%	13%	14%	19%	20%	20%	1%	1%	1%	1%	6%	6%	5%	6%
Panasonic	6752.T	JPY	1,068	1,800	69%	Buy	8%	13%	13%	12%	8%	12%	12%	12%	2%	2%	3%	3%	3%	3%	7%	8%
Arcelik	ARCLK.IS	TRY	15.25	19.90	30%	Neutral	13%	9%	15%	17%	16%	11%	13%	14%	3%	2%	4%	5%	-4%	-13%	-6%	9%
Median					**27%**		**14%**	**14%**	**14%**	**15%**	**15%**	**12%**	**12%**	**13%**	**3%**	**2%**	**4%**	**4%**	**4%**	**3%**	**4%**	**7%**
Global automation																						
Fanuc	6954.T	JPY	16,850	21,000	25%	Neutral	9%	13%	11%	9%	16%	24%	17%	14%	2%	2%	5%	3%	1%	2%	5%	3%
Yaskawa	6506.T	JPY	2,977	3,900	31%	Buy	11%	18%	18%	16%	13%	17%	18%	16%	1%	1%	2%	2%	4%	3%	3%	4%
ABB	ABBN.S	CHF	19.2			Not Rated	20%	21%	22%	24%	10%	11%	12%	13%	3%	4%	6%	6%	5%	6%	8%	9%
Median					**28%**		**11%**	**18%**	**18%**	**16%**	**13%**	**17%**	**17%**	**14%**	**2%**	**2%**	**5%**	**3%**	**4%**	**3%**	**5%**	**4%**

Notes: * Denotes stock is on our regional Conviction List. TPs are on a 12-month time frame. Prices as of 12/18/2018

资料来源：Bloomberg, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Developers' channel - The long-term growth avenue

All major customized furniture companies experienced significant revenue growth slowdown in 2018, resulting in share price correction of an c.-31% vs. c.-22% for CSI 300 year-to-date. One of the key questions frequently asked by investors is whether the fast growth of customized furniture has ended. In our view, the structural growth opportunity is still valid given the overall market is vast and fragmented. We believe the current headwinds are primarily due to a short-term demand shock from property market slowdown and intensified competition in certain channels such as furniture malls. As outlined in our 2017 initiation report, we expect the leading players such as Suofeiya and Oppein to consolidate the market leveraging their advantages on manufacturing and distribution efficiency in the long term. (for details refer to Suofeiya: Opening the (wardrobe) door to growth initiate at Buy, published on Sept. 11, 2017). On the other hand, there is a growing trend of more furbished properties in new property markets, owing to the favorable government policies and competition among developers. We believe leading customized furniture companies such as Suofeiya and Oppein will look to expand their developer business to expedite market share gain.

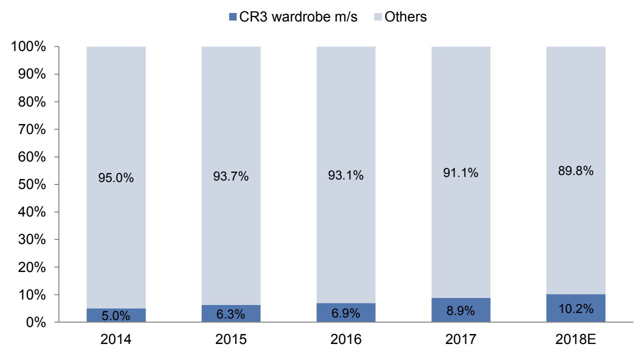
图表 2: We still see huge market size and growth potential for China customized furniture market in the future
Customized furniture market size and growth forecast

	2014	2015	2016	2017	2018E	2019E	2020E
Property purchase related demand							
GFA residential completed (M^2 mn)	809	738	772	718	625	650	669
Growth, yoy (%)	*2.7%*	*-8.8%*	*4.6%*	*-7.0%*	*-13.0%*	*4.0%*	*3.0%*
2nd hand property (M^2 mn)	242	220	285	293	281	320	360
2nd hand property as % of total GFA completed	23%	23%	27%	29%	31%	33%	35%
Average space per property (M^2)	90	90	90	90	90	90	90
Total property purchased per year (unit mn)	11.7	10.6	11.7	11.2	10.1	10.8	11.4
Furnishing ratio (%)	85%	85%	85%	85%	85%	85%	85%
Total property purchased for furnishing (unit mn)	**9.9**	**9.0**	**10.0**	**9.6**	**8.6**	**9.2**	**9.7**
Rental related demand							
Long-term rental apartment (mn)	0.3	0.5	0.7	1.0	1.7	2.9	5.0
Long-term rental apartment growth yoy	*50%*	*50%*	*41%*	*41%*	*71%*	*71%*	*71%*
Furnishing ratio (%)	85%	85%	85%	85%	85%	85%	85%
Total long-term rental furnishing demand (unit mn)	**0.28**	**0.43**	**0.60**	**0.85**	**1.45**	**2.49**	**4.25**
Refurbishing related demand							
Total existing residential property (M2 mn)	25,804	27,601	29,316	30,873	33,147	35,307	37,276
Total existing residential property growth yoy		*5.1%*	*6.2%*	*5.3%*	*7.4%*	*6.5%*	*5.6%*
Total existing residential property (unit mn)	286.7	306.7	325.7	343.0	368.3	392.3	414.2
Refurbishing ratio (%)	2.0%	2.2%	2.5%	2.6%	2.6%	2.6%	2.6%
Total refurbishing demand (unit mn)	**5.7**	**6.7**	**8.1**	**8.9**	**9.6**	**10.2**	**10.8**
Total demand (unit mn)	**15.9**	**16.2**	**18.7**	**19.3**	**19.6**	**21.8**	**24.7**
Market size							
Total market size for customized wardrobe (Rmb mn)	**66,062**	**73,378**	**89,906**	**97,938**	**104,487**	**122,491**	**146,427**
Growth, yoy (%)		*11.1%*	*22.5%*	*8.9%*	*6.7%*	*17.2%*	*19.5%*
Total market size for customized kitchen cabinet (Rmb mn)	**92,924**	**96,003**	**112,382**	**117,399**	**120,357**	**135,697**	**155,192**
Growth, yoy (%)		*3.3%*	*17.1%*	*4.5%*	*2.5%*	*12.7%*	*14.4%*
Total market size for customized wooden door (Rmb mn)	**15,594**	**20,455**	**29,219**	**34,111**	**38,322**	**46,653**	**56,953**
Growth, yoy (%)		*31.2%*	*42.8%*	*16.7%*	*12.3%*	*21.7%*	*22.1%*

Property market historical numbers and forecast based on NBS data, China Hospitality Association and GS real estate team

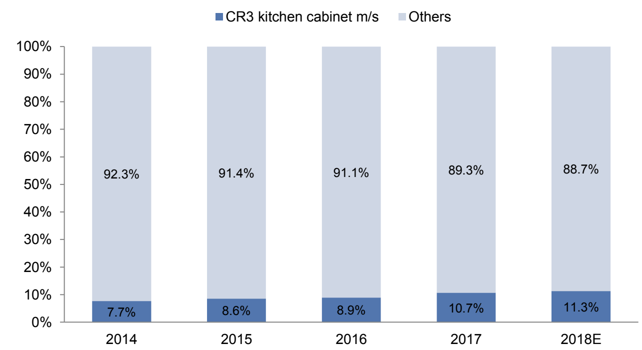
资料来源：National Bureau of Statistics, Gao Hua Securities Research, China Hospitality Association

图表 3: There is still huge potential for leading players to gain market share in customized wardrobe market...
Customized wardrobe market share (%)



资料来源：Company data, Gao Hua Securities Research

图表 4: ... as well as in kitchen cabinet market
Customized kitchen cabinet market share (%)



资料来源：Company data, Gao Hua Securities Research

Developers’ market - In its early stages of development; a huge revenue opportunity

In the past, almost all new properties sold in China were in a shell form (i.e. no furbishing or furniture included in the sold property as opposed to a furbished property). However, there has been a growing trend and an increasing portion of furbished properties driven by government policies and developer strategies. On one hand, government is aiming to reduce construction waste from re-furbishing of shell properties. In 2002, Ministry of Housing and Urban-Rural Development (MOHURD) defined that a fully furbished property should have walls painted and kitchen/sanitary ware installed. In 2017, MOHURD further noted that fully furbished property sales should reach 30% of total new properties by 2020E based on the 13th Five-Year Plan. On the other hand, we believe large developers would likely look to differentiate themselves by offering fully furbished properties as home-owners’ requirements upgrade from basic living to aesthetic needs. Moreover, developers are financially incentivized to sell more furbished properties given they have higher ASP and thus margins.

图表 5: We expect fit-in property share to gradually rise in the future, presenting significant revenue opportunities for customized furniture companies

	2014	2015	2016	2017	2018E	2019E	2020E
Total GFA sold (mn sqn)	1,206.5	1,285.0	1,573.5	1,694.1	1,728.0	1,641.6	1,641.6
Top 10 market share %	10%	11%	13%	15%	17%	21%	24%
Furbishing ratio %	50%	53%	56%	60%	65%	70%	75%
Furbished property from top 10 (mn sqn)	**63.0**	**77.7**	**110.5**	**156.3**	**190.9**	**241.3**	**295.5**
Furbished property as of total GFA sold	5.2%	6.0%	7.0%	9.2%	11.1%	14.7%	18.0%
Top 11-50 market share %	8%	9%	10%	12%	15%	17%	19%
Furbishing ratio %	20%	23%	26%	30%	33%	36%	39%
Furbished property from top 11-50 (mn sqn)	**20.0**	**25.7**	**38.9**	**62.0**	**83.1**	**97.9**	**118.9**
Furbished property as of total GFA sold	1.7%	2.0%	2.5%	3.7%	4.8%	6.0%	7.2%
Others market share %	81%	80%	78%	72%	68%	62%	57%
Furbishing ratio %	8%	9%	10%	11%	12%	13%	14%
Furbished property from rest of developers (mn sqn)	**78.4**	**92.4**	**122.6**	**135.0**	**141.9**	**133.2**	**132.0**
Furbished property as of total GFA sold	6.5%	7.2%	7.8%	8.0%	8.2%	8.1%	8.0%
Total furbished property by developer (mn sqn)	**161.4**	**195.8**	**272.0**	**353.2**	**415.9**	**472.5**	**546.4**
Total furbished property by developer (mn units)	**1.8**	**2.2**	**3.0**	**3.9**	**4.6**	**5.2**	**6.1**
Furbished property as of total GFA sold	**13.4%**	**15.2%**	**17.3%**	**20.9%**	**24.1%**	**28.8%**	**33.3%**

Furbished property market size and growth forecast based on AVC data, the 13th Five-Year Plan guidance and market share trend from GS real estate team

资料来源：National Bureau of Statistics, All View Cloud (AVC), Company data, Gao Hua Securities Research

In our view, the overall furbished property market is still at a very early stage of development characterized by low penetration and fragmented market structure. According to AVC, furbished property penetration was 23% in 1H18. Under the 13th Five-Year Plan, the ratio is expected to increase to 30% in 2020E driven by increasing adoption rate and market share concentration towards leading developers. As stated earlier, we believe leading developers such as Vanke, Country Garden and Evergrande could likely be more incentivized to provide furbished properties as they seek to enhance their product offering and differentiate from small competitors. According to AVC, adoption rates of furbished properties among the top 10 developers is much higher compared to smaller developers. On the other hand, our real estate team expects the market share to further concentrate towards large developers given their scale & brand advantage and higher operating efficiency that allows them to continuously access lower-cost of capital and achieve a higher sell-through rate for projects (refer to Sustainable growth beyond cyclicality supports higher valuations, published on December 14, 2017). In the ongoing property downcycle, they can also acquire land from small developers at lower costs. We believe market share concentration towards large developers could also expedite the overall adoption of furbished properties.

Developers’ market is still very fragmented due to varying requirements from different developers and a general lack of large-scale furniture manufacturers. For example, we expect Suofeiya’s wardrobe segment revenue from developers’ channel to only account for 3% of the total developer’s market size in 2018E. Large developers usually have various projects with different designs and it is difficult for furniture manufacturer to provide large volume products in various SKUs. On the other hand, given the huge size of large developers it is hard for a single manufacturer to fulfill the demand on its own. However, we expect developer’s market to consolidate as manufacturing capabilities improve and manufacturers’ scale grows.

Significant revenue opportunity yet potential margin and cash flow impact

In our view, there are both benefits and drawbacks associated with the growing developers’ market. On one hand, it offers significant revenue opportunity and a fast-track opportunity to gain market share. On the other hand, we expect the growing share of developer business will drag on net profit margins and operating cash flows as developers have greater bargaining power and could command much lower prices and longer credit period. Given weakening retail demand and rising customer acquisition costs, we believe manufacturers’ attitude towards developers’ channel has turned incrementally positive since 2017. We expect the companies to remain cautious on margins and cash flows, as they try to alleviate revenue growth pressure by seeking more revenue from developer clients during industry downcycle. We also believe large players such as Suofeiya and Oppein are better positioned to capitalize on the market as they are equipped with more resources to cope with developers’ high requirement on supply chain management and working capital.

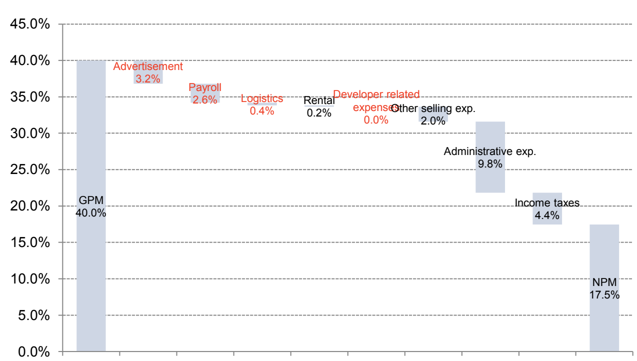
According to AVC, there are c. 4.6mn furbished new properties in 2018E, which is expected to reach 6.1mn in 2020E. In comparison, Suofeiya’s total number of wardrobe customers was at c. 0.6mn in 2018. Based on our estimates, a 1% market share gain in developer’s market would translate into 8% customer growth for Suofeiya in 2018, a meaningful increase compared to c.10% customer growth in 2017.

Developers usually have specific requirements on product designs and materials used, which is different from product offerings to retailers. Additionally, developers also have strict requirement on delivery time, asking a large volume of products to be manufactured and installed once the properties are completed. To cope with such requirements, large manufacturers usually invest in dedicated manufacturing facilities to meet this demand. For example, in 2017 Suofeiya announced that they will set up a JV with Evergrande in Henan and co-invest Rmb400mn in manufacturing facilities to provide wardrobe and other storage furniture to Evergrande in the future.

Compared to retail customers, developers usually have long payment schedules due to their long construction period and higher bargaining power. This would drag on manufacturers’ cash flow and constrain small players’ ability to take more business given their relatively weak balance sheet. In comparison, large manufacturers generally have stronger balance sheets. Some players like Oppein have been utilizing developer distributors to expand their developer channel business. When products are shipped and installed, developer distributors usually place a deposit equal to product prices with furniture manufacturers and collect the account receivables from developers later.

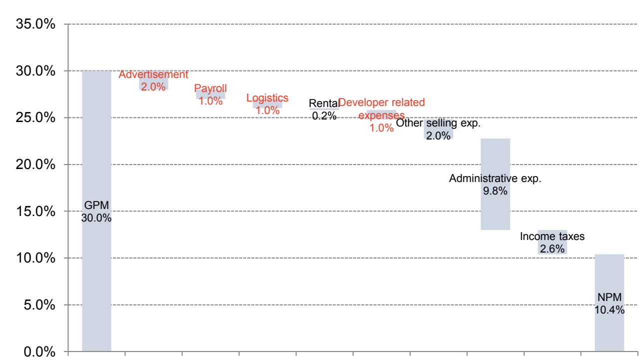
We expect rising share of developer revenue to drag on GPM but the negative impact would partly be offset by saving on opex such as marketing and personnel expenses. Products in retail and developer’s channel are usually very different in terms of design and material, making it difficult for like-for-like comparison. However, according to Suofeiya, GPM for developer’s channel is generally around 30%, compared to c. 40% for the retail channel. That said, we believe manufacturers will have to spend less on marketing and personnel expenses trying to establish brand awareness within the developers’ channel.

图表 6: Our analysis shows retail channel has higher net margin largely due to higher GPM...
Retail channel margin analysis (2018E)



资料来源：Company data, Gao Hua Securities Research

图表 7: ...while in developer channel the lower GPM is partly offset by saving on expenses
Developer channel margin analysis (in 2018E)



资料来源：Company data, Gao Hua Securities Research

Oppein: A kitchen cabinet leader and expanding into other segments, valuation seems fair, initiate at Neutral

Investment view

We expect Oppein to be one of the major beneficiaries of customized furniture industry’s structural growth in China. In our view, the company’s strength is characterized by its: 1) Dominant position in the high-barrier kitchen cabinet sector; 2) well-managed extensive distributor network; and 3) continuous investment in manufacturing capabilities to enhance efficiency. We expect the company to leverage its strong brand and distributor network in kitchen cabinets to cross-sell other products including wardrobes and wooden doors, and drive up revenue growth. We expect the above factors to translate into revenue/net profit CAGR of 16%/13% in 2019E-20E. However, we believe the growth potential has been adequately priced in its share price at current levels. We initiate on the stock at Neutral; our 12-m target price of Rmb82.0 implies 6% downside.

Key competencies

1. Leading position in the high entry-barrier kitchen cabinet market. Oppein has a dominant position in the kitchen cabinet segment. Its revenue in 2017 was greater than the sum of No. 2 and No. 4 players in the segment. The company also has a wider distributor channel which outweighs that of competitors. In our view, Oppein is well positioned to leverage its strength in the kitchen cabinets segment to expand into other product categories, given kitchen cabinets offers the company an earlier access to customer’s decision-making in the furnishing process and has higher requirement for design and installation compared to other products such as wardrobes etc..
2. Well-managed extensive distributor network. Oppein has designed a set of measures to monitor, incentivize and manage its distributor network. Besides the large number of stores, Oppein also leads in per store sales for kitchen cabinets and is ramping up rapidly in the wardrobe segment.
3. Continuous investment in manufacturing and channel efficiency. Though still lagging Suofeiya in manufacturing automation and factory coverage, Oppein highlighted that it is planning to invest over Rmb4 billion in capex during 2019E and 2020E mainly in manufacturing upgrading and expansion. We expect the investment to improve its manufacturing efficiency and better support local distributors in the long term.

Core drivers of growth

1. We expect franchise expansion and developer’s channel to be the main growth drivers for Oppein. We expect revenue in franchise/developer channel to grow at a CAGR of 12%/33% in 2019E-20E.
2. In terms of products, we expect wardrobe segment to be a major growth driver, growing at a CAGR of 18% in 2019E-20E.

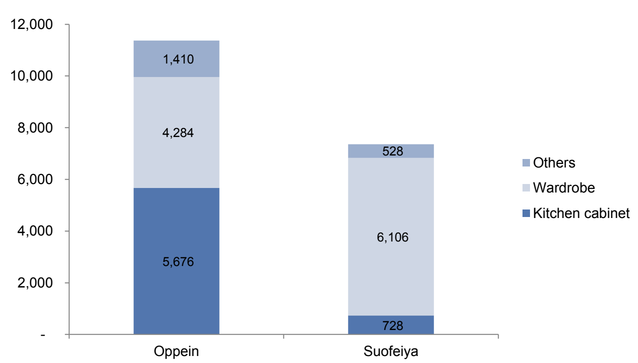
Company Overview

Oppein Home Group Inc. is the largest player by revenue in both kitchen cabinets and the overall customized furniture markets in China. The company was established in 1994 by co-founders and brothers Mr. Yao Liangsong and Mr. Yao Liangbai in Guangzhou and got listed on the Shanghai Stock Exchange (SSE) in 2017. The company has been focused on the kitchen cabinets segment, and is one of the early entrants in customized home furniture segment and has benefited from the rapid growth of the market in the past.

With a dominant position in the kitchen cabinet sector, Oppein has been proactively expanding to other product categories including wardrobe, wooden door, etc. Based on our estimates, revenue from kitchen cabinets vs. wardrobe and other products will be approximately equal in size in 2018E. With higher growth rates in other products, we expect this revenue to outweigh kitchen cabinet segment in the future, making Oppein a full-suite customized furniture manufacturer.

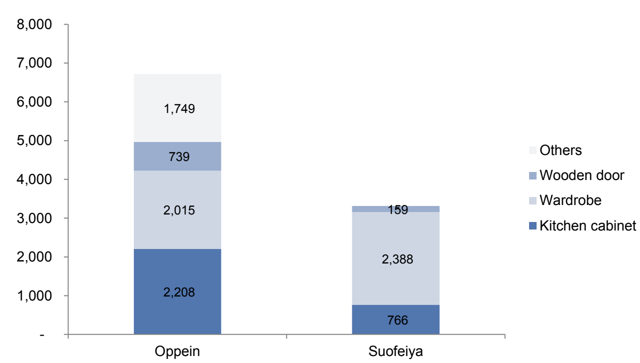
In terms of distribution channel, Oppein has both one of the strongest distributor networks and long-term partnerships with leading real estate developers. The company has the largest number of distributors across different tiered cities and various product categories. Its franchise stores have industry leading per store sales due to its effective management and support to the distributors, in our view. On the other hand, Oppein derives the highest revenue from developer’s channel due to its cooperation with leading developers.

图表 8: Oppein is the largest customized furniture player in China with c. 50% revenue from kitchen cabinet
Revenue breakdown by product category (Rmb mn in 2018E)



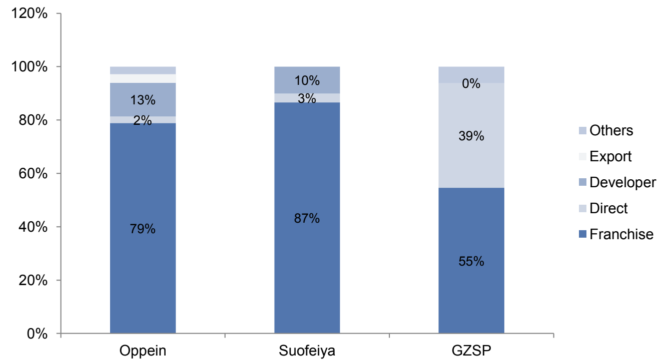
资料来源：Gao Hua Securities Research

图表 9: Oppein also has the largest number of stores across various product categories in 1H18
Number of stores comparison



资料来源：Company data

图表 10: Oppein also has the highest share of revenue from developers’ channel
Revenue composition by channel in 2018E among different players



资料来源：Company data

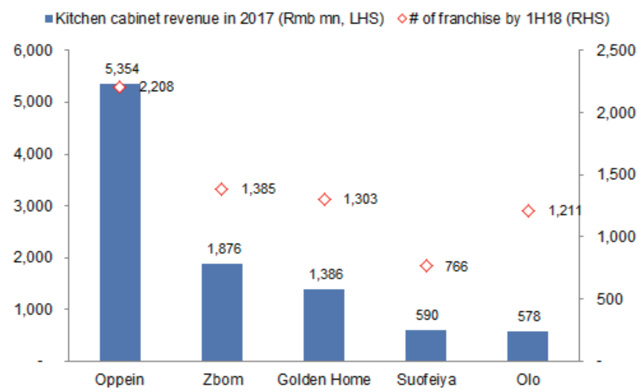
Key competency #1: Leveraging the leading position in the high entry-barrier kitchen cabinet market

In our view, Oppein is in a better position to expand into other products compared to competitors like Suofeiya given its dominant position in the high entry-barrier kitchen cabinet segment, which gives it significant scope for upscaling.

First of all, we believe the kitchen cabinet segment poses a high entry-barrier compared to the wardrobe segment due to the intensive demand in design and installations. The design and installation of kitchen cabinets often involve other products such as kitchen appliances (range hoods, gas hobs) which are sometimes separately purchased by customers. Hence, a manufacturer has to pay special attention to design and modifications. According to the company, its kitchen cabinet business has been supported by its experienced designer team and well-invested manufacturing facilities. Moreover, the company sells its in-house manufactured kitchen appliances to reduce the design/installation error rate. Recently in 2018, Oppein entered a partnership agreement with Robam, a leading kitchen appliance manufacturer in China. With such agreements, we think Oppein could optimize capital allocation without impacting customer experience.

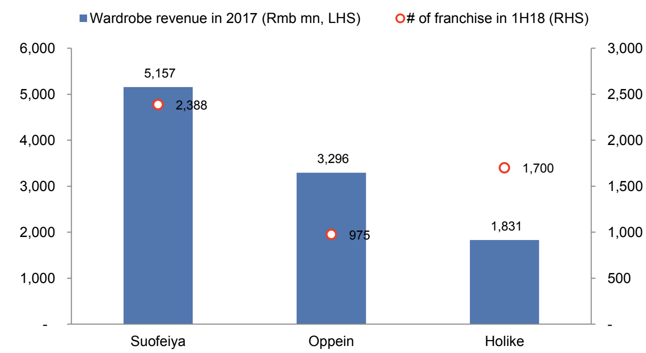
Secondly, we think Oppein is in a better position to cross sell given kitchen cabinet segment is one of the first furnishings in the home furbishing process. Previously this strategy hadn’t worked for the company as smoothly as planned because Oppein used different distributors for kitchen cabinets and wardrobes. In some cases, wardrobe distributors may not get the full benefits of upstream customer traffic, as, based on Oppein’s distributor model, kitchen cabinet distributors are incentivized to refer customers to wardrobe distributors offering the highest reference fees, which are sometimes not Oppein’s own wardrobe distributors. Oppein is now asking its distributors to position both kitchen cabinet and wardrobe stores under one roof to enhance its cross-selling opportunity.

图表 11: Oppein has a dominant position in kitchen cabinet market in terms of both revenue size and franchise number



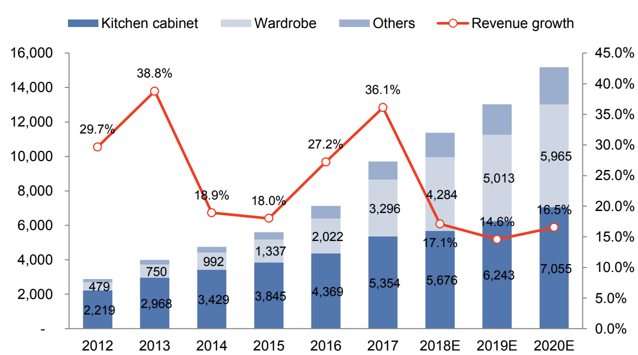
资料来源：Company data

图表 12: While in wardrobe market, Suofeiya has been closely trailed by Oppein



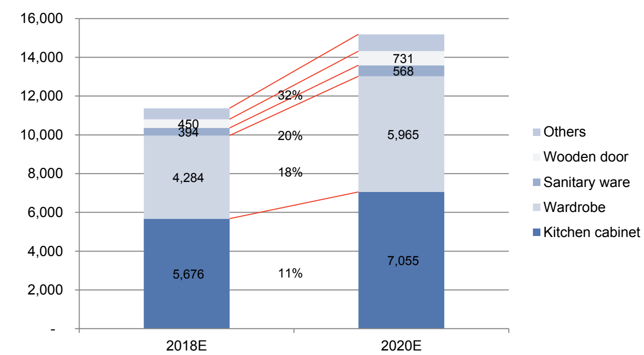
资料来源：Company data

图表 13: We expect Oppein's revenue to grow at a CAGR of 16% in 2019E-20E
Revenue in Rmb mn (LHS); growth in % (RHS)



资料来源：Company data, Gao Hua Securities Research

图表 14: ...driven by product category expansion
Revenue growth by different product category in 2018-20E



资料来源：Company data, Gao Hua Securities Research

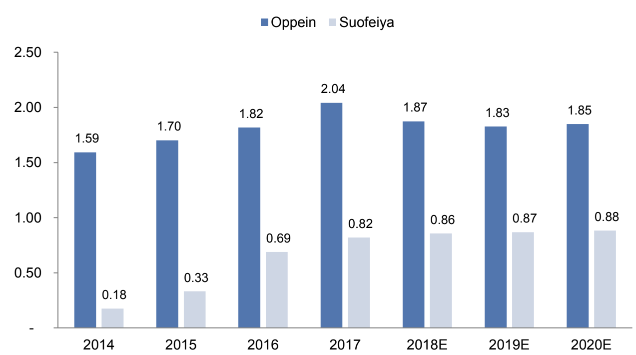
Key competency #2: Well-managed and experienced distributor network

We believe Oppein has one of the strongest distributor networks characterized by both an extensive reach and efficiency. These distributors are well incentivized and managed by the company's carefully designed measures. In our view, maintaining an experienced distributor network is becoming more critical as competition intensifies and consumers place more importance on service quality.

Similar to Suofeiya, the company adopts a distributor-orientated model to maximise scale of its business. As of 1H18, Oppein had 6,711 franchise stores widely distributed in different tiered cities in China, compared to 3,313 for Suofeiya. Oppein categorizes all Chinese cities into 9 tiers based on metrics such as consumer income and competitive landscape. The company has detailed instructions for distributors to set up stores in each of the 9 tiered cities. With the kitchen cabinets markets becoming saturated, Oppein's pace of store expansion has been slowing down. We expect its kitchen cabinet store count to reach 2,258 in 2018E, which is already a high base. Going forward, we expect the store number to grow at 4% yoy in 2019E, slightly lower than previous growth rate. For its wardrobe segment, we still expect store expansion to be at a relatively fast pace. In terms of efficiency, Oppein currently has the highest kitchen cabinet per store sales among peers due to its experienced distributor team and price premium, in our view. For its wardrobe business, although still lagging that of Suofeiya, Oppein’s per store sales grew at CAGR of 10.5% in 2014-18E (vs. 11.3% of Suofeiya), at a relatively fast pace.

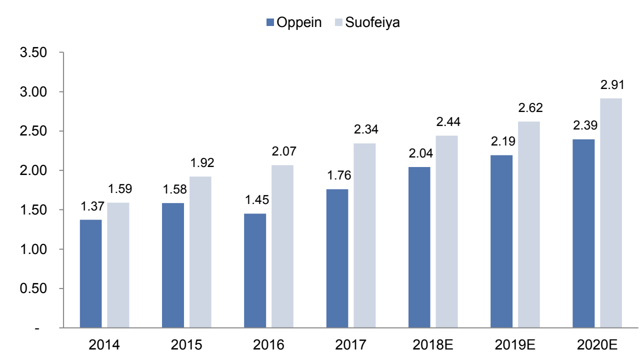
Oppein manages its network by a set of measures to incentivize, evaluate and manage distributors. The company generally uses higher ex-factory product discount to reward outperforming distributors, in addition to other measures such as training and advertisement subsidies. The company also requires its distributors to comply with its store renovation and pricing policies and has a dedicated team to inspect its implementation on a regular basis. Distributors who fail to comply with the company’s policies are subject to be penalized with lower or no product discount.

图表 15: Oppein has industry leading per store sales for kitchen cabinet...
Kitchen cabinet per store sales (Rmb mn)



资料来源：Company data, Gao Hua Securities Research

图表 16: ... and it’s ramping up rapidly in the wardrobe segment
Wardrobe per store sales (Rmb mn)



资料来源：Company data, Gao Hua Securities Research

图表 17: Oppein has a set of measures to incentivize and manage its distributors

	Description
Qualification assessment	1) Distributors are assessed by different levels of company management on metrics including industry experience, personal qualifications, team, capital, store resources and social resources. 2) Store location is selected on competition intensity, consumer traffic, and consumer preferences, etc. 3) Distributors who want to expand to lower tier market must be ranked top 40% in last year's sales, and distributors to expand to two or more areas must be ranked top 30%.
Ongoing support/management	1) Store renovation: stores are required to be refurbished every 2-3 years and the sample products are sold to distributors at a discount of 55%; 2) Advertising support: the company is responsible for national/regional advertisement and contributes partly to distributor's local advertisement; 4) Training: Oppein provides various training to distributors' new hires and experienced staff.
Discount incentive	1) Distributors are evaluated based on metrics including sales revenue, revenue growth, customer survey, etc. 2) Distributors ranked higher will get higher product discount. For kitchen cabinet, discounts range from 0 to 52%. For wardrobe, discounts range from 46% to 51%. Oppein uses high wardrobe discount to encourage distributors to sell more wardrobes.

资料来源：Company data

Key competency #3: Investing in manufacturing and channel efficiency

Oppein currently lags Suofeiya in terms of production automation and factory coverage, but it is gaining momentum with an increased capex spend. In our view, more advanced factories will help the company improve manufacturing efficiency and reduce product costs in the long term. On the other hand, we believe more factory coverage will better support local distributors in terms of less logistics costs and shorter delivery time.

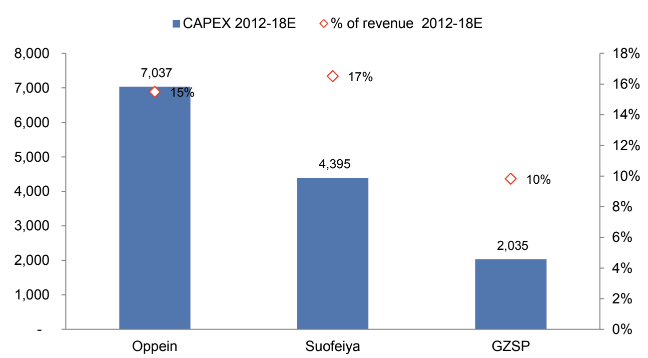
We have analyzed the importance of advanced manufacturing capabilities for customized furniture companies in Suofeiya initiation report (refer to Suofeiya: Opening the (wardrobe) door to growth　initiate at Buy). Adoption of advanced machinery will reduce labor use, making production of large number of SKUs in small batches economically viable. Given logistics costs are usually borne by distributors and there is large volume of customer orders in peak season, a nearby factory will reduce logistics costs for local distributors and shorten product delivery time in peak season, enhancing customer experience. Oppein currently has four production bases (including its Chengdu base which is still under construction), less than Suofeiya's five. However, post its IPO in 2017, the company has increased its investment in upgrading/expansion of its manufacturing facilities.

图表 18: Oppein plans to further enhance its factory coverage and automation level in the future
Oppein's committed CAPEX plan

Rmb mn	CAPEX Plan						Expected 2018E CAPEX	Expected 2019E CAPEX	Expected 2020E CAPEX	Investment Amount from Raised Capital	Investment Amount from Self-raised Capital
	Project	Expected Time of Completion	Committed Amt.	Invested Amt.	% of Completion	O/S Amt.					
1	Guangzhou production line for 150,000 kitchen cabinets	12/31/2018	150	102	68%	48	48	-	-	150	-
2	Guangzhou production line for 300,000 wardrobes	12/31/2018	290	227	78%	63	63	-	-	290	-
3	Production line for 600,000 wooden doors	6/30/2019	150	28	19%	122	28	93	-	150	-
4	Production line for 500,000 range hoods and 500,000 gas stoves	12/31/2018	62	8	13%	54	54	-	-	62	-
5	Wuxi production line (part two)	12/31/2020	1,081	-	0%	1,081	-	599	481	400	681
6	Qingyuan production line (part two)	12/31/2020	835	-	0%	835	-	373	462	200	635
7	Chengdu Smart Manufacturing Project	12/31/2020	2,113	-	0%	2,113	-	1,132	981	900	1,213
	Sum		**4,681**	**365**	**8%**	**4,316**	**194**	**2,197**	**1,925**	**2,152**	**2,529**

资料来源：Company data

图表 19: Oppein still lags Suofeiya in terms of capex as % of revenue, but is ramping up
capex comparison among different players



资料来源：Company data, Gao Hua Securities Research

图表 20: Oppein will have better factory coverage and support for distributors once the factory expansion is done
Factory coverage comparison among different players

	Suofeiya	Oppein	GZSP
South China	Guangzhou (Guangdong province)	Guangzhou (Guangdong province), Qingyuan (Guangdong province, expanding)	Foshan (Guangdong province)
East China	Jiashan (Zhejiang province)	Wuxi (Jiangsu province, expanding)	Wuxi (Jiangsu Province, under construction)
North China	Langfang (Hebei province)	Tianjin	X
Southwest China	Chongzhou (Sichuan province)	Chengdu (Sichuan province, under construction)	X
Middle China	Huanggang (Hubei province, expanding)	X	X

资料来源：Company data

Financials

Revenue: We expect wardrobe segment, its largest growth driver, to grow at 30% driven by both new store openings and increasing order size in 2018E. However, we expect overall revenue growth to decelerate to 17% in 2019E , as we expect both new store opening and order size growth to slow down. In 2019E-21E, we expect total revenue to grow at 15%, largely driven by category expansion.

GPM: We expect GPM to decline in 2019E for the following reason:

1. We expect a significant GPM increase in 2018E largely due to the reduced price discounts to distributors at the beginning this year. As competition intensifies in 2019E, we expect Oppein to increase the price discounts to distributors in order to boost sales.
2. We expect faster growth of the low-margin developer's channel and ex-furniture products to drag on the overall GPM in 2018E to 2021E.

OPM: We expect OPM to decline less than GPM in 2019E due to better cost control measures by the company. As revenue growth slows down, we expect management to rein in variable expenses such as payroll, advertisement and business entertainment.

CAPEX: As discussed previously, we expect the company to continue investing significantly in upgrading its manufacturing facilities and expansion of its factories. The company expects to invest Rmb2.2bn in 2019E and a total amount of Rmb6.2bn in 2019E-21E.

Working capital: We expect the company’s cash conversion cycle to increase in 2019E due to faster growth of developer’s channel and category expansion. We expect the account receivable days to grow as developers’ credit periods are usually longer and as the company increases its exposure to the developers’ channel. We also expect inventory turnover days to be higher as the company expands its product portfolio.

Dividend payout ratio: We expect dividend payout ratio to decrease slightly due to increasing capex outlay and working capital requirements.

图表 21: Oppein’ income statement and key revenue assumptions

Major P&L items	2013	2014	2015	2016	2017	2018E	2019E	2020E
Total sales/revenues	3,995	4,751	5,607	7,134	9,710	11,370	13,027	15,182
yoy %	38.8%	18.9%	18.0%	27.2%	36.1%	17.1%	14.6%	16.5%
Gross profit	1,193	1,341	1,774	2,607	3,352	4,209	4,735	5,434
Gross margin	29.9%	28.2%	31.6%	36.5%	34.5%	37.0%	36.3%	35.8%
change (bps)		(163)	341	490	(202)	250	(68)	(55)
SG&A	(861)	(898)	(1,241)	(1,540)	(1,933)	(2,367)	(2,691)	(3,077)
As % of sales					19.9%	20.8%	20.7%	20.3%
EBITDA	328	539	653	1,225	1,617	2,132	2,452	2,872
EBIT (operating profit)	328	444	530	1,058	1,408	1,832	2,043	2,357
yoy %	22.7%	35.5%	19.4%	99.6%	33.1%	30.1%	11.5%	15.4%
EBIT margin	8.2%	9.3%	9.5%	14.8%	14.5%	16.1%	15.7%	15.5%
Net income to shareholders	239	385	488	950	1,300	1,671	1,856	2,121
yoy %	23.6%	60.9%	26.8%	94.4%	36.9%	28.5%	11.1%	14.3%
EPS - basic	0.64	1.03	1.31	2.54	3.09	3.98	4.42	5.05
EPS - fully diluted (analyst)	0.64	1.03	1.31	2.54	3.09	3.98	4.42	5.05
Dividend payout ratio					32%	30%	30%	30%

Key assumptions	2013	2014	2015	2016	2017	2018E	2019E	2020E
Kitchen cabinet	2,968	3,429	3,845	4,369	5,354	5,676	6,243	7,055
Wardrobe	750	992	1,337	2,022	3,296	4,284	5,013	5,965
Sanitary ware	144	140	148	242	303	394	473	568
Wooden door	52	85	121	208	321	450	585	731
Others	82	104	155	293	436	566	713	863
Group revenue	**3,995**	**4,751**	**5,607**	**7,134**	**9,710**	**11,370**	**13,027**	**15,182**
% yoy								
Kitchen cabinet	33.8%	15.5%	12.1%	13.6%	22.5%	6.0%	10.0%	13.0%
Wardrobe	56.4%	32.4%	34.7%	51.2%	63.0%	30.0%	17.0%	19.0%
Sanitary ware	21.3%	-2.5%	5.9%	63.1%	25.5%	30.0%	20.0%	20.0%
Wooden door	251.2%	63.8%	42.3%	71.7%	54.2%	40.0%	30.0%	25.0%
Others	71.7%	27.5%	49.3%	88.2%	48.8%	30.0%	26.0%	21.0%
Group gross revenue	**38.8%**	**18.9%**	**18.0%**	**27.2%**	**36.1%**	**17.1%**	**14.6%**	**16.5%**
GPM								
Kitchen cabinet	30.5%	29.0%	32.0%	38.1%	36.7%	39.7%	39.2%	38.7%
Wardrobe	31.1%	28.7%	33.4%	36.8%	34.7%	37.7%	37.2%	36.7%
Sanitary ware	18.6%	13.9%	17.0%	19.4%	19.3%	22.3%	21.8%	21.8%
Wooden door	-3.4%	4.0%	16.3%	17.0%	15.9%	20.9%	20.4%	20.4%
Others	36.1%	38.6%	32.9%	39.0%	30.5%	27.8%	27.8%	27.8%
Group GPM	**29.9%**	**28.2%**	**31.6%**	**36.5%**	**34.5%**	**37.0%**	**36.3%**	**35.8%**
By channel								
Franchise	3,182	4,032	4,697	6,002	8,040	8,965	9,862	11,144
Direct	227	176	192	238	258	276	290	304
Developer	418	376	466	572	964	1,446	1,952	2,538
Export	146	148	190	211	300	360	414	477
Others	21	20	62	112	148	323	509	720
Group revenue	**3,995**	**4,751**	**5,607**	**7,134**	**9,710**	**11,370**	**13,027**	**15,182**
Channel growth								
Franchise	45.5%	26.7%	16.5%	27.8%	34.0%	11.5%	10.0%	13.0%
Direct	-23.2%	-22.8%	9.3%	23.8%	8.6%	7.0%	5.0%	5.0%
Developer	41.2%	-10.2%	24.2%	22.7%	68.5%	50.0%	35.0%	30.0%
Export	87.6%	1.4%	28.0%	10.9%	42.6%	20.0%	15.0%	15.0%
Others	2.4%	-6.1%	211.3%	79.9%	31.5%	118.8%	57.7%	41.3%
Group revenue	**38.8%**	**18.9%**	**18.0%**	**27.2%**	**36.1%**	**17.1%**	**14.6%**	**16.5%**
% of sales								
SG&A	21.5%	18.9%	22.1%	21.6%	19.9%	20.8%	20.7%	20.3%
Sales expense	10.1%	9.7%	11.9%	11.4%	9.8%	9.9%	9.7%	9.4%
.. A&P	0.0%	4.0%	4.5%	4.4%	3.7%	3.7%	3.7%	3.7%
.. Warehousing & transportation	0.0%	3.4%	4.2%	4.1%	3.8%	3.9%	3.7%	3.5%
.. Other sales expense	10.1%	2.3%	3.2%	3.0%	2.3%	2.3%	2.3%	2.3%
Admin. expense	10.6%	8.4%	9.4%	9.2%	9.2%	10.1%	10.1%	10.0%
.. R&D expense	3.9%	4.4%	4.2%	3.5%	3.3%	3.3%	3.3%	3.3%
.. Other admin. expense	6.8%	4.0%	5.3%	5.7%	5.9%	6.8%	6.8%	6.7%

资料来源：Company data, Gao Hua Securities Research

图表 22: Oppein's balance sheet

Balance sheet	2013	2014	2015	2016	2017	2018E	2019E	2020E
Cash and equivalents	701	982	902	1,145	3,219	2,539	2,043	1,961
Net receivables	121	111	98	171	244	317	399	507
Inventory/stocks	352	362	480	757	787	906	1,071	1,286
Other current assets	97	62	77	126	556	556	556	556
Current assets	**1,271**	**1,517**	**1,558**	**2,199**	**4,806**	**4,318**	**4,070**	**4,309**
Net PP&E/Fixed assets	853	1,115	1,458	2,113	3,397	5,298	7,145	8,799
Net intantigibles	704	747	755	1,025	1,035	1,017	1,002	990
Total investments	1	1	1	1	16	102	196	296
Other long-term assets	44	87	155	211	416	416	416	416
Total assets	**2,873**	**3,466**	**3,928**	**5,548**	**9,670**	**11,151**	**12,829**	**14,810**
Accounts payable	658	779	963	1,353	1,819	2,049	2,373	2,789
Short-term debt and current portion of long-term debt	420	220	212	103	100	100	100	100
Other current liabilities	573	831	751	1,080	1,381	1,462	1,517	1,597
Current liabilities	**1,651**	**1,830**	**1,926**	**2,537**	**3,300**	**3,611**	**3,990**	**4,486**
Long-term debt	-	-	-	20	-	-	-	-
Other long-term liabilities/creditors	43	67	63	109	144	144	144	144
Total long-term liabilities	43	67	63	129	144	144	144	144
Total liabilities	**1,694**	**1,896**	**1,989**	**2,666**	**3,444**	**3,755**	**4,134**	**4,630**
Common stock	374	374	374	374	421	421	421	421
Retained earnings	154	539	908	1,858	3,158	4,328	5,627	7,112
Other common equity	650	650	650	651	2,951	2,951	2,951	2,951
Total common equity	1,178	1,563	1,932	2,882	6,226	7,396	8,695	10,180
Minority interest (balance sheet)	2	7	6	1	0	0	0	0
Total shareholders funds/equity	1,180	1,570	1,939	2,883	6,226	7,396	8,695	10,180
Total liabilities and equity	**2,873**	**3,466**	**3,928**	**5,548**	**9,670**	**11,151**	**12,829**	**14,810**

资料来源：Company data, Gao Hua Securities Research

图表 23: Oppein cash flow statement

Cashflow statement	2013	2014	2015	2016	2017	2018E	2019E	2020E
Income pre-preferred share dividends	239	385	488	950	1,300	1,671	1,856	2,121
Minority interest add-back	7	0	(6)	(6)	(1)	-	-	-
Depreciation and amortization add-back	-	95	123	167	209	300	409	514
Net income from associates and jointly controlled entiti	-	-	-	-	-	-	-	-
Net loss/(gain) on asset sales	-	(2)	3	1	(35)	-	-	-
(Increase)/decrease in working capital :	-	413	1	381	346	38	76	94
Accounts receivable	-	268	(70)	247	217	(73)	(82)	(108)
Inventory	-	(10)	(118)	(277)	(30)	(119)	(166)	(215)
Accounts payable	-	155	189	411	158	230	324	416
Other operating cash flow items	490	15	15	4	60	-	-	-
Cash flow from operations	**736**	**906**	**625**	**1,497**	**1,878**	**2,009**	**2,341**	**2,729**
Capital expenditure	(386)	(439)	(569)	(1,222)	(1,784)	(2,183)	(2,241)	(2,156)
(Acquisitions)/divestitures	(30)	3	0	6	0	-	-	-
Investments	(29)	42	52	11	(271)	(86)	(95)	(99)
Other investment cash flow items	-	-	-	-	-	-	-	-
Cash flow from investing	**(444)**	**(394)**	**(517)**	**(1,205)**	**(2,055)**	**(2,269)**	**(2,335)**	**(2,255)**
Dividends paid (common and preferred)	(100)	(374)	-	-	-	(421)	(501)	(557)
Share repurchase/issue (change In common stock)	334	5	5	-	2,310	-	-	-
Increase/(decrease) in short-term debt	-	-	-	39	-	-	-	-
Increase/(decrease) in long-term debt	45	(200)	(8)	(89)	(24)	-	-	-
Increase/(decrease) in preferred shares	-	-	-	-	-	-	-	-
Change in minority interest	-	-	-	-	-	-	-	-
Other financing cash flow items	(67)	336	(185)	(6)	(19)	-	-	-
Cash flow from financing	**212**	**(232)**	**(188)**	**(56)**	**2,267**	**(421)**	**(501)**	**(557)**
Effect of foreign exchange rate changes	(0)	0	1	7	(16)	-	-	-
Total cash flow	**504**	**280**	**(79)**	**243**	**2,074**	**(680)**	**(496)**	**(83)**

资料来源：Company data, Gao Hua Securities Research

Valuation and key risks:

Our 12-m target price is based on a 2021E discounted EV/EBITDA valuation approach, in accordance with Suofeiya. We prefer this valuation methodology, as it:

1. Captures the long-term growth potential of the customized furniture market. Currently the market is facing short-term headwinds largely impacted by property cycle. Going into 2H19 and beyond, we expect property policies to gradually ease and demand to recover.
2. Disregards the difference in depreciation methods. As we discussed previously, customized furniture is a capex intensive industry and sometimes difference in depreciation methods distorts P/E.

We derive our 12-month target price for Oppein by:

1. Applying a 12X exit multiple (derived from our industry regression model) to 2021E EBITDA to arrive at the equity value in 2021E.

1. Discounting the 2021E equity value back to 2019E using cost of equity at 9%, which we use for A-share companies within our coverage based on market risk and required rate of return.

Our net profit estimates are currently 1%/-8%/-13% vs. consensus (WIND) estimates for 2018E-20E, reflecting our view that overall revenue growth is going to slow down and margin will face increased pressure. Our 12-m target price of Rmb82.0 implies 6% downside.

图表 24: Our 12-m TP of Rmb82.0 is based on discounted EV/EBITDA, implying 6% downside

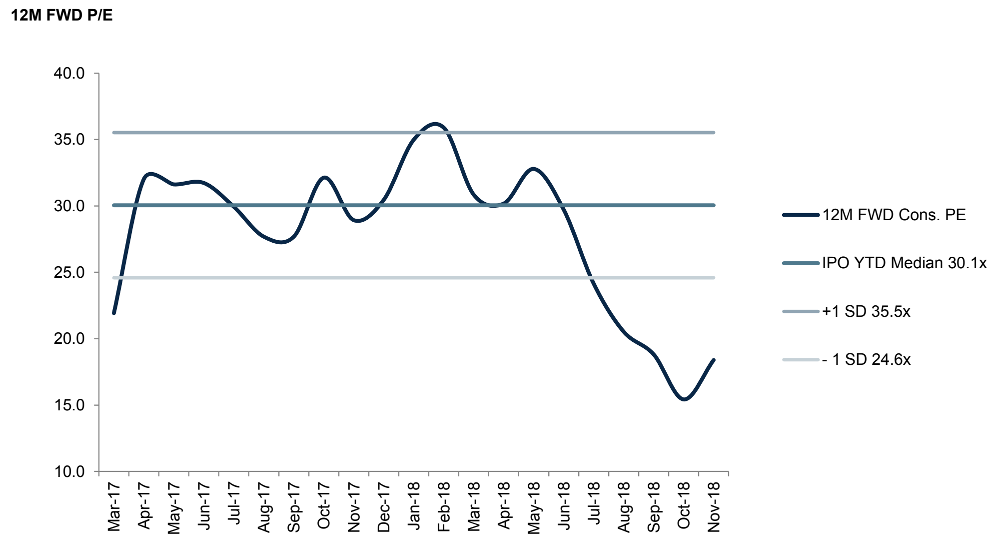
Oppein		**2017**	**2018E**	**2019E**	**2020E**	**2021E**
EPS	Rmb	3.09	3.98	4.42	5.05	5.78
% yoy		21.6%	28.6%	11.1%	14.3%	14.5%
EBITDA	Rmb mn	1,617	2,132	2,452	2,872	3,321
% yoy		32.0%	31.9%	15.0%	17.1%	15.6%
Target multiple	EV/EBITDA					**12**
EV	Rmb mn					38,186
Plus: cash	Rmb mn					2,552
Less: debt	Rmb mn					(100)
Less: minority interests	Rmb mn					(0)
Equity value	Rmb mn					40,638
Cost of equity						9%
12m TP	Rmb/share					**82.00**
Current price	Rmb/share					**87.67**
As of	19-Dec-18					
Implied upside/(downside)						-6%

Current price implied multiples		2017	2018E	2019E	2020E	2021E
P/E	(x)	28.4	22.0	19.9	17.4	15.2
P/B	(x)	5.9	5.0	4.2	3.6	3.1
EV/EBITDA	(x)	20.9	16.1	14.2	12.2	10.4
Dividend yield	%	1%	1%	2%	2%	2%
FCF yield	%	0%	0%	0%	2%	4%

Target price implied multiples		2017	2018E	2019E	2020E	2021E
P/E	(x)	26.5	20.6	18.6	16.2	14.2
P/B	(x)	5.5	4.7	4.0	3.4	2.9
EV/EBITDA	(x)	19.4	15.0	13.3	11.4	9.6
Dividend yield	%	1%	1%	2%	2%	2%
FCF yield	%	0%	-1%	0%	2%	4%

资料来源：Company data, Gao Hua Securities Research

图表 25: Oppein is currently trading below its average P/E since IPO



资料来源：WIND

图表 26: Our net profit estimates are 1%/-8%/-13% vs consensus for 2018E-20E, reflecting our slower revenue growth forecast

Oppein		**2018E**	**2019E**	**2020E**
Revenue				
.. Wind consensus	Rmb mn	11,780	14,306	17,191
.. GH Corp	Rmb mn	11,370	13,027	15,182
...... Above/(below) consensus by	%	**-3%**	**-9%**	**-12%**
Net profit				
.. Wind consensus	Rmb mn	1,660	2,023	2,427
.. GH Corp	Rmb mn	1,671	1,856	2,121
...... Above/(below) consensus by	%	**1%**	**-8%**	**-13%**
Net margin				
.. Wind consensus	Rmb mn	14.09%	14.14%	14.12%
.. GH Corp	Rmb mn	14.70%	14.25%	13.97%
...... Above/(below) consensus by	bps	**61**	**11**	**-15**

资料来源：WIND, Gao Hua Securities Research

Upside and downside risk:

We see the following as key risks to our investment thesis and price target for Oppein.

Downside risks

- Further slowdown in property market would negatively impact overall demand and lead to intensifying price competition. Our real estate research team expects total residential GFA sold in 2019E to decline by 5%, dragged by slowdown in property sector in the low-tier cities. This could further impact overall demand and lead to more price competition. However, the team expects completed GFA to increase in 2H19, compared to the decline in two consecutive years (2017 and 2018E). In our view, more GFA completion will likely help mitigate the downside risk from the property market.

- Worse-than-expected margin erosion from developers’ channel: Based on our analysis, rising share of developer’s channel will dilute overall GPM. If Oppein aggressively expands developer’s business in 2019E to mitigate a revenue slowdown, overall GPMs may decline faster than we expected.
- Execution risk in terms of the company’s strategy to become a full-suite home furniture manufacturer: We are generally positive on Oppein’s strategy to expand into other furniture categories given its strong brand in kitchen cabinets segment and distributor advantages. However, category expansion requires additional investment in manufacturing facilities and balancing distributor’s interests for different products. If not implemented properly, this could drag on the company’s capital return.

Upside risks

Better-than-expected demand from property policy loosening.

Although government reiterated that it will continue with its current property policy tightening, our China real estate team expects that a loosening mortgage policy is the most effective policy to stimulate demand on a sustainable basis. (Refer to “China Real Estate: Nov NBS sales rebound but not likely to sustain, expect more easing needed“, published on December 16, 2018). Based on recent news articles there is a wider expectation among investors of a marginal loosening if the overall economy slows down at an accelerating pace. In this case, overall demand may be better than our expectation, leading to a faster revenue growth.

M&A framework: An unlikely target due to relative size and blocking stake held by controlling shareholders

We examine the probability of Oppein being an acquisition target by applying our regional M&A framework, which takes into consideration both quantitative and qualitative factors to evaluate the potential that a certain company could be acquired at a premium to the current stock price.

We assign an M&A score as a means of ranking companies under coverage from 1 to 3, with 1 representing high (30%-50%) probability of M&A activity, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. An M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

We believe Oppein is an unlikely target given its relatively large size, the blocking share held by controlling shareholders as well as a lack of guidance from the management on being acquired. We accordingly assign an M&A rank of 3.

We believe M&A is most likely among companies that have the ability (Can, i.e., where market size, ownership structure and regulation are not prohibitive), are attractive assets (Should, i.e., offer strong growth potential and opportunities for cost improvement at reasonable valuations), and are willing (Would, i.e., management is open to M&A). We highlight the key factors being considered for Oppein below:

Can

- Size (market cap, US$): Companies that are very large in market cap are less likely to be M&A targets. We assign a low score (of 3) to Oppein as it is among the largest home furniture companies in China.
- Ownership (% free float): Blocking stakes by controlling shareholders are a meaningful barrier against M&A activity. We assign a low score (of 3) to Oppein as the co-founders and controlling shareholders, Mr. Yao Liangsong and Mr. Yao Liangbai, currently hold 77.3% of total outstanding shares combined.
- Regulatory risk (low/medium/high): Dominant players, particularly in oligopolistic markets or industries that are more state-controlled, e.g., tobacco, have higher regulatory risk. We rank the home furniture sector as medium (a score of 2) as it is not heavily regulated in China, and we believe regulators are generally open to mergers and acquisitions within the sector.

Should

- Growth potential (EBITDA FY0-FY3 CAGR): Companies with strong EBITDA growth are more attractive targets. We assign a high score (of 1) to Oppein as we expect its EBITDA to grow at a CAGR of 21.1% in 2017-20E (1^{st} quartile) versus the average of 4% among our Asia consumer & retail coverage.
- Industry positioning (e.g., leader, oligopoly?): Dominant positioning makes a company more attractive as a target, particularly in competitive markets where regulatory risk is relatively low. We assign a high score (of 1) to Oppein as it is a leading player in China's home furniture sector by revenue.
- Cost synergies (low/medium/high): We rank cost structures based on the potential for improvement, by our assessment. We assign a high score (of 1) for Oppein as it has one of the largest scales in the sector and thus a cost advantage over competitors.
- Valuation (EV/EBITDA): We assess EV/EBITDA to evaluate asset attractiveness. We assign a low score (of 3) for Oppein as its 2018E EV/EBITDA is 14.7 and is above the average of 14 among our Asia consumer & retail coverage.

Would

- Strategic appeal (low/medium/high): Some companies own assets, e.g. brands or distribution networks that have strategic appeal for acquirers. We assign a high score (of 1) for Oppein as we believe its brands and distribution networks are appealing assets in the home furniture sector.

- Management stance (low/medium/high): We believe management’s stated and demonstrated willingness to M&A is an important factor. We assign a low score (of 3) for Oppein based on its past acquisition record, and considering that controlling shareholders/management have never expressed a willingness to sell down shares or being acquired by another company.

Within this context, we have assigned Oppein an M&A rank of 3, primarily due to its relatively large size, ownership structure and management stance on M&A. As such, we do not incorporate any M&A component into our 12-month target price for Oppein.

Guangzhou Shangpin: High valuation not justified by differentiated business model, initiate at Sell

Investment view

Compared to peers such as Suofeiya and Oppein, Guangzhou Shangpin adopts a unique business model characterized by: 1) higher number of directly-owned stores; 2) majority of stores located in shopping malls and Central Business District (CBD) with customers funneled from its online marketing platform; and 3) higher portion of revenue growth contributed by sales of outsourced products. While its differentiated channel strategy avoids intensified competition in furniture malls and increases store efficiency, it also resulted in lower profit margin. Moreover, we see significant downside risk for both its revenue growth and profit margin as the short-term boost from its aggressive channel and product category expansion is expected to fade in 2019E. The stock currently trades at the highest multiple within our furniture coverage. We initiate the stock with a Sell rating. Our 12-m target price of Rmb49.0 implies 21% downside.

Differentiated business model

1. Historically reliant on direct-owned stores but now shifting to an aggressive franchise-based model. Until 2017, GZSP derived 43.2% of its revenue from direct-owned stores (vs. only 3% of Oppein/Suofeiya). The directly-owned store strategy helped the company achieve high per store sales yet at a much lower profit margin. Since late 2017, the company shifted to an aggressive franchise expansion strategy. Despite the apparent short-term revenue boost, we remain cautious about the sustainability of the strategy in the long term because new distributors with limited relevant industry experience would result in a high closure ratio and varying service levels which could negatively impact growth.
2. Online marketing + shopping mall/CBD located store strategy: Over 50% of Shangpin’s stores are located in shopping malls or CBD areas. Interested customers are directed from its website to such offline stores. We believe this store strategy helps Shangpin achieve high per store sales by avoiding fierce competition at furniture malls.
3. Growth contributed by outsourced products: A significant portion of Shangpin’s revenue growth has been contributed by sales of outsourced products. Despite the short-term revenue boost, we remain cautious about the sustained growth and its negative impact on GPM in the long term.

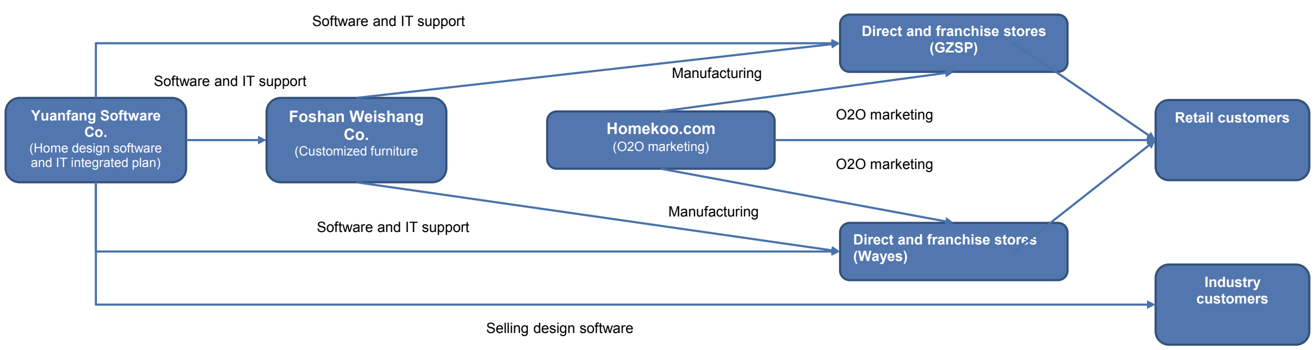
Core growth drivers

Franchise expansion and sales of outsourced products are two major growth drivers for Guangzhou Shangpin. As competition intensifies, we expect new store openings and per store sales growth to decelerate in 2019E. In the meantime, we also expect sales growth of outsourced products to slow down as it hinges on the sales of customized furniture products. Accordingly, we expect revenue/net profit for Guangzhou Shangpin to grow at a CAGR of 18%/17% in 2019E-20E, below WIND consensus at 28%/31%.

Company Overview

Compared to competitors such as Suofeiya and Oppein, Guangzhou Shangpin is differentiated in both its founders’ background and unique business model. The company was co-founded by Mr. LI Lianzhu and Mr. ZHOU Shuyi, two ex-university lecturers. By comparison, Suofeiya and Oppein’s founders are from manufacturing or trading background. The company’s unique business model comprises: 1) Yuanfang Software, its in-house interior design software company; 2) Homekoo.com, its in-house online marketing platform; 3) Foshan Weishang, which manages its manufacturing facilities; and 4) its distribution channel consisting of both directly-owned and franchise stores under Shangpin and Wayes brands.

图表 27: Shangpin adopts a unique business model integrating design software, online marketing and manufacturing



资料来源：Company data

As part of the company’s integrated business model, a customer visits Homekoo.com and chooses desired interior design and products from Shangpin’s catalog. The website then directs the customer to one of Shangpin’s offline stores. The designers in the store use the company’s Yuanfang software to design the furniture based on the customer’s preferences, post which the order is sent to the Foshan Weishang facility for production. In comparison, Suofeiya and Oppein don’t have their own website but have historically used 3rd party platforms such as Taobao and Tmall. However, we note Suofeiya and Oppein have now started developing in-house software to integrate the production process with its physical stores.

Alongside this integrated business model, Shangpin also has its unique channel and product strategy, which we explain in detail below.

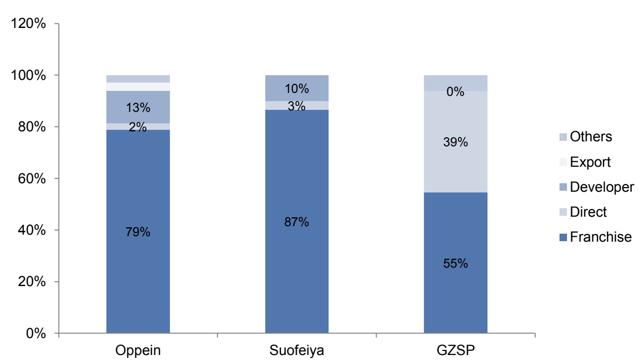
Key differentiation #1: Direct-owned store orientated strategy now shifting towards an aggressive franchise-driven strategy

Shangpin historically derived a much higher portion of revenue from its directly-owned stores than its peers. Given the high opex in operating such stores, Shangpin witnessed much lower profit margin compared to key players such as Suofeiya and Oppein. Starting late 2017, Shangpin began to implement an aggressive franchise expansion strategy, recruiting multiple distributors within cities, in an attempt to rapidly drive up revenue growth at a lower expense. However, we expect the short-term revenue boost to fade quickly as new distributors are more vulnerable when competition intensifies.

Historically, Shangpin derived c. 50% of revenue from its own stores. In 2017, the share declined to 43%, still much higher than 2%-3% for Suofeiya and Oppein. According to the management, with more directly-owned stores, they can better implement their strategy and compete with competitors. For example, management mentioned that they faced significant resistance from distributors when they decided to open more stores in high-rental shopping malls. According to the company, compared to franchise stores directly-owned stores have higher per store sales. However, since all direct-owned store related expenses including payroll and A&P are borne by Shangpin, its operating profit margin is much lower compared to Suofeiya and Oppein.

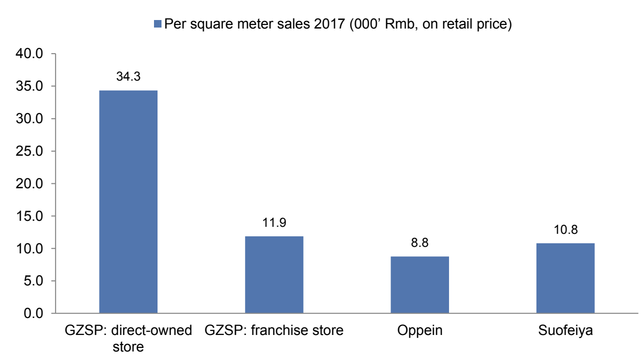
Since late 2017, to expedite franchise expansion, the company began to recruit multiple distributors within each city, compared to only one or two for Suofeiya and Oppein. Based on our channel checks, some of its new distributors have relatively limited experience in customized furniture industry. Despite the apparent short-term revenue boost, we see significant drawbacks of the expedited franchise expansion, such as: 1) New distributors are usually smaller and more vulnerable during market downturn. In comparison, most distributors of Suofeiya and Oppein have been with the company for many years and some of them have revenues of hundreds of millions in Rmb per year. Shangpin’s franchise store closure number has been increasing in the 9M18; and 2) These new distributors usually provide varying service quality to consumers and sometimes may have a negative impact on corporate image and long-term revenue growth.

图表 28: We expect Guangzhou Shangpin to derive 39% revenue from its own stores in 2018E, much higher than Suofeiya and Oppein
Revenue breakdown by channel in 2018E



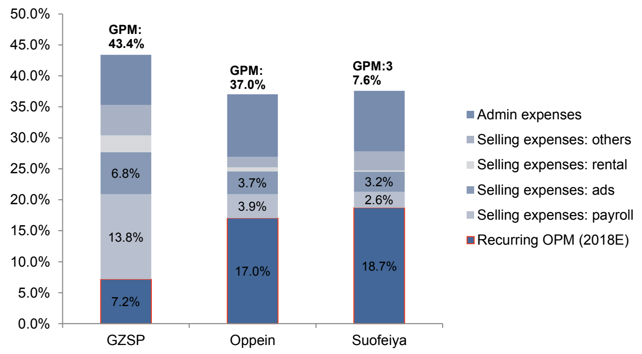
资料来源：Company data, Gao Hua Securities Research

图表 29: Despite much higher per square meter sales within Shangpin’s directly-owned stores...



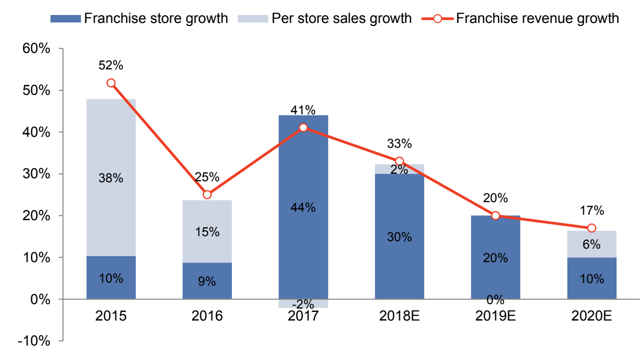
资料来源：Company data

图表 30: ...its operating margin is much lower, dragged by high selling expenses such as payroll, advertisement, etc.
GPM breakdown for selected companies in 2017



资料来源：Company data

图表 31: Despite aggressive channel expansion, we expect franchise revenue growth to decelerate due to slower store openings and per store sales growth



资料来源：Company data, Gao Hua Securities Research

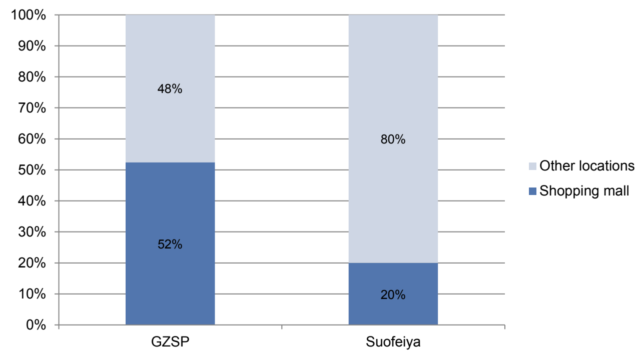
Key differentiation #2: Online marketing + shopping mall based store strategy

As outlined earlier, Shangpin has a unique business strategy of channeling online customers to its physical stores. In our view, this is a successful differentiating factor as it generates higher sales while avoiding increasing competition at furniture malls. However, as Suofeiya and Oppein open more stores in similar locations, we expect Shangpin to face stiffer competition going forward.

Compared to Suofeiya and Oppein, Shangpin has higher portion of stores located in shopping malls. According to the management, this is intended to avoid the increasing competition at furniture malls and better leverage its online marketing strength. Although all furniture companies try to have a presence in furniture malls to gather share of wallet among consumers, shopping malls see much lesser competition as there are fewer sellers despite higher customer traffic. Shangpin utilizes its online marketing platform to channel customer traffic to shopping mall based stores. We believe this strategy has helped the company generate higher per square meter sales compared to its stores located in furniture malls.

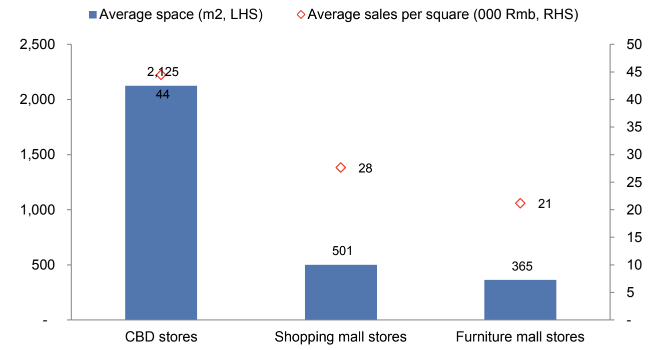
Going forward, we expect increasing competition in shopping malls as competitors including Suofeiya and Oppein seek to open more stores in similar locations.

图表 32: Majority of Shangpin's stores are located in shopping malls
Store location distribution as of 1H18



资料来源: Company data

图表 33: Shangpin's per square meter sales in CBD/shopping mall stores are significantly higher than in furniture mall given less competition and its online marketing strength (2016)



资料来源: Company data

Key differentiation #3: High revenue contribution from low-margin outsourced products

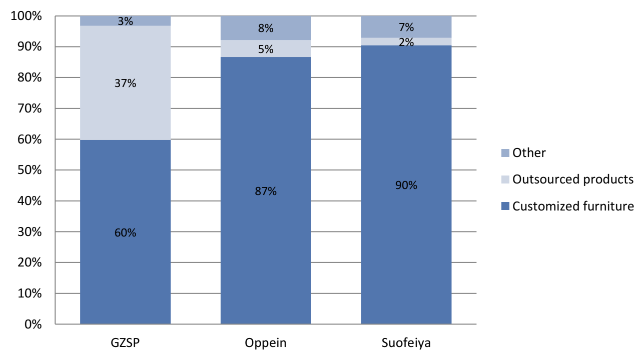
In comparison to Suofeiya and Oppein which emphasize on in-house manufacturing capabilities, Shangpin pursues a product category expansion strategy with focus on outsourced products. In 2017, c. 15% of the company's revenue came from sales of outsourced furniture such as sofa, beds, etc. Since late 2017, the company began to sell building materials such as paint and tiles by partnering with small furnishing companies. While sales of such products could boost revenue in the short term, we think long-term revenue growth still hinges on customized furniture products. We believe an increase in the share of outsourced products will also dilute the overall GPM for the company as a result.

We believe Shangpin's strategy is to leverage its strength in design software to provide customers with comprehensive design plan and cross selling opportunities. Shangpin has historically invested less in manufacturing capabilities and has emphasized more on outsourced products. This strategy has been working well with outsourced products growing by over 40% in 2017-18E. In late 2017, Shangpin announced that it will build a platform where small furnishing companies could use its project management software and design software to improve working efficiency. Moreover, according to management, Shangpin plans to leverage its scale advantage to purchase building materials at discount and re-sell to small furnishing companies. Such initiatives so far have generated fast revenue growth for Shangpin from sales of building materials.

However, we remain cautious on the sustainability of outsourced product segment driven growth in the long term. Based on the sales of its customised furniture, we believe most customers still prefer Shangpin for its customized furniture products rather than its outsourced products. We believe the current rapid growth of outsourced products could largely be a short-term boost from cross-selling. Hence, If Shangpin is not able to offer differentiated products through its customized furniture segment, we believe the sales of outsourced products will fade quickly. In 2018, Shangpin has lagged behind competitors in terms of new product launches. For example, competitors including Suofeiya, Oppein and Holike have been pushing for products made of formaldehyde-free board and baked painting boards and have upgraded their offerings based on changing aesthetic tastes. Without further product innovation, we expect Shangpin’s customized furniture revenue growth to decelerate and result in slower outsourced product sales in the future.

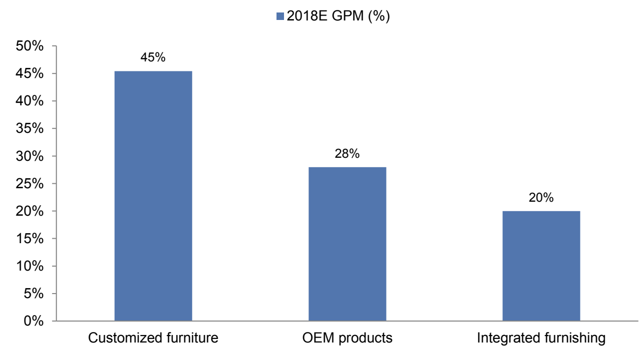
图表 34: We expect 37% of revenue growth for Shangpin to be contributed by outsourced products, much higher than Suofeiya and Oppein

Revenue growth contribution by different products in 2018E



资料来源：Company data, Gao Hua Securities Research

图表 35: However, we expect the rising share of outsourced products to drag on overall GPM



资料来源：Company data, Gao Hua Securities Research

Financials:

Revenue: We expect revenue growth to decelerate from 27% in 2018E to 17% in 2019E, based on: 1) a slowdown in both new franchise store openings and per store sales growth. As discussed earlier, we expect Shangpin’s new recruited distributors to be more vulnerable amid intensifying competition, and 2) decelerating revenue growth for both customized furniture and outsourced products due to relatively lower product differentiation.

GPM: We expect GPM to decline by 0.7ppt in 2019E as: 1) we expect more discounts on customized furniture products as competition intensifies; and 2) rising share of the low-margin franchise sales and out-sourced product sales.

OPM: We expect OPM to drop less than GPM as we expect the company to implement tighter cost controls on expenses such as payroll and advertisement amid slower revenue growth.

CAPEX: We expect Shangpin to invest c. Rmb2.7bn in capex during 2018E-21E. Among others, we expect construction of a new factory in Wuxi to draw investment of c. Rmb900mn in 2018E-19E.

Working capital: We expect Shangpin’s cash conversion days to increase in the future due to the company’s franchise and category expansion. Account receivables is expected to increase as the company partners with more furnishing companies who tend to have longer payment periods. On the other hand, we also expect inventory days to increase as Shangpin takes more outsourced products inventory as it expands the business.

Dividend payout: Given Shangpin’s balance sheet strength and considering its disclosed capex plan, we expect the company to maintain its historical 35% dividend payout ratio in the future.

图表 36: Guangzhou Shangpin’s income statement and key growth drivers in 2013-20E

Major P&L items	2013	2014	2015	2016	2017	2018E	2019E	2020E
Total sales/revenues	1,175	1,912	3,088	4,026	5,323	6,755	7,912	9,355
yoy %	58.4%	62.7%	61.5%	30.4%	32.2%	26.9%	17.1%	18.2%
Gross profit	552	857	1,388	1,860	2,401	2,931	3,380	3,955
Gross margin	47.0%	44.8%	45.0%	46.2%	45.1%	43.4%	42.7%	42.3%
change (bps)		(219)	13	123	(108)	(172)	(68)	(44)
SG&A	(414)	(707)	(1,232)	(1,540)	(2,003)	(2,509)	(2,905)	(3,359)
As % of sales					37.6%	37.1%	36.7%	35.9%
EBITDA	148	168	188	360	462	514	618	795
EBIT (operating profit)	137	149	153	315	391	421	474	596
yoy %	49.9%	8.1%	3.0%	105.9%	24.1%	7.6%	12.8%	25.6%
EBIT margin	11.7%	7.8%	5.0%	7.8%	7.3%	6.2%	6.0%	6.4%
Net income to shareholders	117	130	140	256	380	508	583	695
yoy %	53.6%	11.4%	7.2%	83.1%	48.7%	33.8%	14.7%	19.2%
EPS - basic	0.80	0.89	0.96	1.75	1.91	2.56	2.93	3.50
EPS - fully diluted (analyst)	0.80	0.89	0.96	1.75	1.91	2.56	2.93	3.50
Dividend payout ratio				0%	52%	35%	35%	35%

Key assumptions	2013	2014	2015	2016	2017	2018E	2019E	2020E
Customized furniture	969	1,549	2,400	3,278	4,281	5,137	5,907	6,911
OEM products	130	276	565	592	785	1,178	1,413	1,724
Integrated furnishing	-	-	-	-	2	139	209	251
Others	76	87	123	157	255	302	382	468
Group revenue	**1,175**	**1,912**	**3,088**	**4,026**	**5,323**	**6,755**	**7,912**	**9,355**
% yoy								
Customized furniture	59.6%	59.8%	54.9%	36.6%	30.6%	20.0%	15.0%	17.0%
OEM products	53.0%	111.9%	105.0%	4.6%	32.8%	50.0%	20.0%	22.0%
Integrated furnishing						6000.0%	50.0%	20.0%
Others	53.2%	15.6%	40.2%	28.1%	62.7%	18.1%	26.8%	22.5%
Group revenue	**58.4%**	**62.7%**	**61.5%**	**30.4%**	**32.2%**	**26.9%**	**17.1%**	**18.2%**
GPM								
Customized furniture	46%	44%	46%	47%	46%	45%	45%	44%
OEM products	27%	32%	31%	29%	27%	28%	28%	27%
Integrated furnishing	0%	0%	0%	0%	20%	20%	20%	20%
Others	93%	93%	92%	91%	84%	80%	80%	80%
Group gross margin	**47%**	**45%**	**45%**	**46%**	**45%**	**43%**	**43%**	**42%**
By channel								
Direct	-	787	1,391	1,902	2,300	2,645	2,804	3,224
Franchise	-	1,037	1,574	1,968	2,775	3,691	4,429	5,182
Others	-	87	123	157	249	420	680	949
Group revenue	**1,175**	**1,912**	**3,088**	**4,026**	**5,323**	**6,755**	**7,912**	**9,355**
Channel growth								
Direct			76.7%	36.7%	21.0%	15.0%	6.0%	15.0%
Franchise			51.7%	25.0%	41.0%	33.0%	20.0%	17.0%
Others			40.2%	28.1%	58.4%	68.9%	61.8%	39.7%
Group revenue	**58.4%**	**62.7%**	**61.5%**	**30.4%**	**32.2%**	**26.9%**	**17.1%**	**18.2%**
% of sales								
SG&A	35.2%	37.0%	39.9%	38.2%	37.6%	37.1%	36.7%	35.9%
Sales expense	23.2%	25.6%	30.0%	27.9%	27.8%	28.1%	28.1%	27.7%
.. A&P	0.0%	7.5%	6.2%	5.8%	6.7%	6.8%	6.9%	7.0%
.. Warehousing & transportation	0.0%	10.5%	14.3%	13.9%	13.7%	13.8%	13.5%	13.1%
.. Other sales expense	23.2%	7.6%	9.4%	8.2%	7.4%	7.6%	7.7%	7.6%
Admin. expense	11.1%	10.5%	9.1%	9.2%	8.8%	8.1%	7.7%	7.3%
.. R&D expense	2.9%	2.7%	2.5%	3.5%	3.7%	3.7%	3.7%	3.7%
.. Other admin. expense	8.2%	7.8%	6.5%	5.7%	5.1%	4.4%	4.0%	3.5%

资料来源：Company data, Gao Hua Securities Research

图表 37: Guangzhou Shangpin's balance sheet in 2013-20E

Balance sheet	2013	2014	2015	2016	2017	2018E	2019E	2020E
Cash and equivalents	241	410	511	848	647	447	365	731
Net receivables	17	29	36	31	42	71	105	150
Inventory/stocks	190	241	312	297	401	556	684	830
Other current assets	37	44	40	40	2,284	2,284	1,784	1,284
Current assets	**485**	**724**	**899**	**1,216**	**3,373**	**3,358**	**2,937**	**2,994**
Net PP&E/Fixed assets	107	232	466	749	852	1,234	2,044	2,505
Net intantigibles	15	84	82	80	120	151	178	202
Total investments	-	-	-	-	-	184	386	598
Other long-term assets	82	101	147	105	221	221	221	221
Total assets	**690**	**1,142**	**1,595**	**2,150**	**4,566**	**5,148**	**5,766**	**6,519**
Accounts payable	100	240	353	546	882	1,154	1,368	1,630
Short-term debt and current portion of long-term debt	-	-	-	-	-	-	-	-
Other current liabilities	242	429	630	770	1,061	1,040	1,067	1,106
Current liabilities	**342**	**669**	**983**	**1,315**	**1,943**	**2,195**	**2,435**	**2,736**
Long-term debt	-	-	-	-	-	-	-	-
Other long-term liabilities/creditors	6	1	1	0	3	3	3	3
Total long-term liabilities	6	1	1	0	3	3	3	3
Total liabilities	**348**	**671**	**984**	**1,316**	**1,946**	**2,198**	**2,438**	**2,739**
Common stock	81	81	81	81	110	110	110	110
Retained earnings	225	355	494	718	1,098	1,428	1,807	2,259
Other common equity	35	35	35	35	1,572	1,572	1,572	1,572
Total common equity	341	471	611	834	2,619	2,950	3,329	3,781
Minority interest (balance sheet)	-	-	-	-	-	(0)	(0)	(0)
Total shareholders funds/equity	341	471	611	834	2,619	2,950	3,329	3,780
Total liabilities and equity	**690**	**1,142**	**1,595**	**2,150**	**4,566**	**5,148**	**5,766**	**6,519**

资料来源：Company data, Gao Hua Securities Research

图表 38: Guangzhou Shangpin's cash flow statement in 2013-20E

Cashflow statement	2013	2014	2015	2016	2017	2018E	2019E	2020E
Income pre-preferred share dividends	117	130	140	256	380	508	583	695
Minority interest add-back	-	-	-	-	-	(0)	(0)	(0)
Depreciation and amortization add-back	11	20	35	45	71	94	144	199
Net income from associates and jointly controlled entiti	-	-	-	-	-	-	-	-
Net loss/(gain) on asset sales	0	(1)	(2)	(1)	(29)	-	-	-
(Increase)/decrease in working capital :	82	249	257	362	399	87	52	71
Accounts receivable	2	(21)	(6)	(0)	(8)	(30)	(34)	(45)
Inventory	(79)	(50)	(71)	15	(104)	(155)	(128)	(146)
Accounts payable	159	321	334	347	511	272	214	262
Other operating cash flow items	12	18	26	56	58	-	500	500
Cash flow from operations	**222**	**416**	**455**	**718**	**879**	**689**	**1,279**	**1,465**
Capital expenditure	(110)	(251)	(355)	(352)	(402)	(507)	(981)	(683)
(Acquisitions)/divestitures	0	(286)	(600)	(651)	(5,776)	-	-	-
Investments	1	290	604	653	3,565	(184)	(202)	(212)
Other investment cash flow items	-	-	-	-	-	-	-	-
Cash flow from investing	**(110)**	**(247)**	**(350)**	**(349)**	**(2,612)**	**(690)**	**(1,183)**	**(895)**
Dividends paid (common and preferred)	(81)	(81)	-	-	-	(199)	(178)	(204)
Share repurchase/issue (change In common stock)	-	-	-	-	1,541	-	-	-
Increase/(decrease) in short-term debt	-	-	-	-	3	-	-	-
Increase/(decrease) in long-term debt	-	-	-	-	-	-	-	-
Increase/(decrease) in preferred shares	-	-	-	-	-	-	-	-
Change in minority interest	-	-	-	-	-	-	-	-
Other financing cash flow items	81	81	(5)	(32)	(12)	-	-	-
Cash flow from financing	**-**	**-**	**(5)**	**(32)**	**1,533**	**(199)**	**(178)**	**(204)**
Effect of foreign exchange rate changes	-	-	-	-	(1)	-	-	-
Total cash flow	112	169	101	337	(201)	(200)	(82)	366

资料来源：Company data, Gao Hua Securities Research

Valuation and key risks:

Our 12-m target price is based on a 2021E discounted EV/EBITDA valuation approach, in accordance with Suofeiya and Oppein.

We derive our 12-month target price of Shangpin by:

1. Applying a 11X exit multiple (15% discount applied to the 13X multiple derived from our industry regression model for relatively lower quality growth) to 2021E EBITDA to arrive at the equity value in 2021E
2. Discounting the 2021E equity value back to 2019E using a cost of equity of 9%, which we use for A-share companies within our coverage based on market risk and required rate of return.

Our net profit estimates for 2018E-20E are currently -2%/-14%/-22% vs. consensus (WIND) estimates, potentially reflecting our expectations of slowing overall revenue growth and increasing pressure on margins. Our 12-m target price of Rmb49.0 implies 21% downside. We think the current stock price is not fully pricing in the downside risk and initiate at Sell.

图表 39: Our 12-m TP of Rmb49.0 is based on discounted EV/EBITDA, implying 21% downside

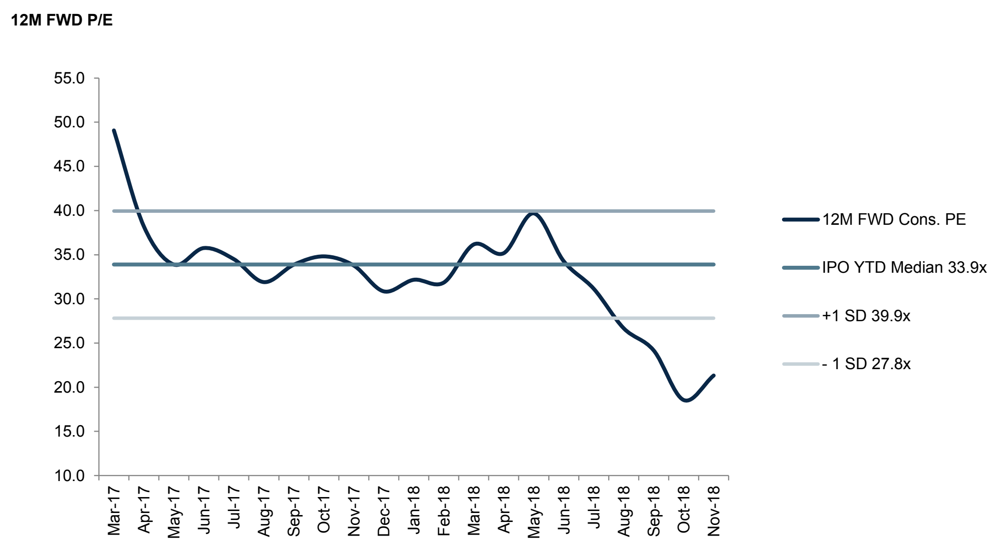
Guangzhou Shangpin		**2017**	**2018E**	**2019E**	**2020E**	**2021E**
EPS	Rmb	1.91	2.56	2.93	3.50	4.06
% yoy		9.1%	33.8%	14.7%	19.2%	16.1%
EBITDA	Rmb mn	462	514	618	795	951
% yoy		28.2%	11.4%	20.2%	28.7%	19.6%
Target multiple	EV/EBITDA					**11**
EV	Rmb					10,512
Plus: cash	Rmb					821
Less: debt	Rmb					-
Less: minority interests	Rmb					0
Equity value	Rmb					11,334
Cost of equity						9%
Discount periods	Years					2.0
12m TP	Rmb/share					**49.00**
Current price	Rmb/share					**62.33**
As of	19-Dec-18					
Implied upside/(downside)						-21%

Current price implied multiples		2017	2018E	2019E	2020E	2021E
P/E	(x)	32.6	24.4	21.2	17.8	15.3
P/B	(x)	4.7	4.2	3.7	3.3	2.9
EV/EBITDA	(x)	25.4	23.2	19.4	14.7	12.2
Dividend yield	%	2%	1%	2%	2%	2%
FCF yield	%	4%	1%	2%	6%	4%

Target price implied multiples		2017	2018E	2019E	2020E	2021E
P/E	(x)	25.6	19.2	16.7	14.0	12.1
P/B	(x)	3.7	3.3	2.9	2.6	2.3
EV/EBITDA	(x)	19.7	18.1	15.2	11.3	9.4
Dividend yield	%	2%	2%	2%	2%	3%
FCF yield	%	5%	2%	3%	8%	6%

资料来源：Company data, Gao Hua Securities Research

图表 40: Guangzhou Shangpin is currently trading below its historical average P/E since IPO



资料来源：WIND

图表 41: We are -2%/-14%/-22% below WIND net profit consensus

Guangzhou Shangpin		2018E	2019E	2020E
Revenue				
.. Wind consensus	Rmb mn	6,989	9,006	11,410
.. GH Corp	Rmb mn	6,755	7,912	9,355
...... Above/(below) consensus by	%	**-3%**	**-12%**	**-18%**
Net profit				
.. Wind consensus	Rmb mn	518	681	888
.. GH Corp	Rmb mn	508	583	695
...... Above/(below) consensus by	%	**-2%**	**-14%**	**-22%**
Net margin				
.. Wind consensus	Rmb mn	7.41%	7.57%	7.78%
.. GH Corp	Rmb mn	7.52%	7.37%	7.43%
...... Above/(below) consensus by	bps	**11**	**-20**	**-35**

资料来源：WIND, Gao Hua Securities Research

Key risks

We see the following as key upside risks to our investment thesis and price target for Guangzhou Shangpin.

Better-than-expected revenue growth from marketing strategy and contribution of outsourced products: Historically, Shangpin’s revenue growth has largely been driven by its marketing strategy. Although we believe long-term growth is more driven by quality products, it’s possible that short-term growth may exceed our expectation if Shangpin manages to launch one or two successful marketing campaigns.

Better-than-expected margin performance due to expense control: Shangpin historically has faced challenges in controlling its of selling expenses. However, if Shangpin is able to drastically cut its investment in directly-owned stores and relevant expenses, there could be upside to our margin forecast estimate.

Loosening of current property market tightening policies: Any positive change of property policy would increase overall demand for furniture and likely result in higher revenue growth for Guangzhou Shangpin.

What would make us more positive

1. Focus more on in-house product development: In our view, Shangpin has been a leader in marketing strategy yet lagging in product differentiation. As competition intensifies, we expect consumers to place more attention on product and service quality than marketing strategies. We would expect an improving long-term growth prospect if Shangpin could focus more on in-house product development and launch more better quality customized furniture products in the future.
2. Be more prudent in franchise expansion: Although generally positive about Shangpin shifting to franchise-driven model, we think its current strategy is too aggressive and could face significant risk in industry downturn. Turning more prudent, though resulting in slower growth in the short-term, will generate sustainable growth in the long term.
3. Policy loosening in property market. Property market turnaround will generate more demand and thus benefit all major furniture players. In this case, even if Shangpin does not change its strategy, we would expect less industry headwinds and better revenue growth.

M&A framework: An unlikely target due to blocking share held by controlling shareholders

We examine the probability of GZSP being an acquisition target by applying our regional M&A framework, which takes into consideration both quantitative and qualitative factors to evaluate the potential that a certain company could be acquired at a premium to the current stock price.

We assign a M&A score as a means of ranking companies under coverage from 1 to 3, with 1 representing high (30%-50%) probability of M&A activity, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. An M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

We believe GZSP is an unlikely target given the blocking share held by controlling shareholders as well as a lack of guidance from the management on any potential M&A. We accordingly assign an M&A rank of 3.

We believe M&A is most likely among companies that have the ability (Can, i.e., where market size, ownership structure and regulation are not prohibitive), are attractive assets (Should, i.e., offer strong growth potential and opportunities for cost improvement at reasonable valuations), and are willing (Would, i.e., management is open to M&A). We highlight the key factors we consider for GZSP below:

Can

- Size (market cap, US$): Companies that are very large in market cap are less likely to be M&A targets. We assign a low score (of 3) to GZSP as it is among the largest home furniture companies in China.
- Ownership (% free float): Blocking stakes by controlling shareholders are a meaningful barrier against M&A activity. We assign a low score (of 3) to GZSP as the co-founders and controlling shareholders, Mr. Li Lianzhu and Mr. Zhou Shuyi, currently hold 32.28% of total outstanding shares combined.
- Regulatory risk (low/medium/high): Dominant players, particularly in oligopolistic markets or industries that are more state-controlled, e.g., tobacco, have higher regulatory risk. We rank the home furniture sector as medium (a score of 2) as it is not heavily regulated in China, and we believe regulators are generally open to mergers and acquisitions within the sector.

Should

- Growth potential (EBITDA FY0-FY3 CAGR): Companies with strong EBITDA growth are more attractive targets. We assign a high score (of 1) to GZSP as we expect its EBITDA to grow at a CAGR of 19.9% in 2017-20E versus the average of 4% among our Asia consumer & retail coverage.
- Industry positioning (e.g., leader, oligopoly?): Dominant positioning makes a company more attractive as a target, particularly in competitive markets where regulatory risk is relatively low. We assign a high score (of 1) to GZSP as it is a leading player in China’s home furniture sector by revenue.
- Cost synergies (low/medium/high): We rank cost structures based on the potential for improvement, by our assessment. We assign a high score (of 1) for GZSP as it has cost advantages over competitors.
- Valuation (EV/EBITDA): We assess EV/EBITDA to evaluate asset attractiveness. We assign a low score (of 3) for GZSP as its 2018E EV/EBITDA is 24.1 in the highest 1st quartile among our Asia consumer & retail coverage.

Would

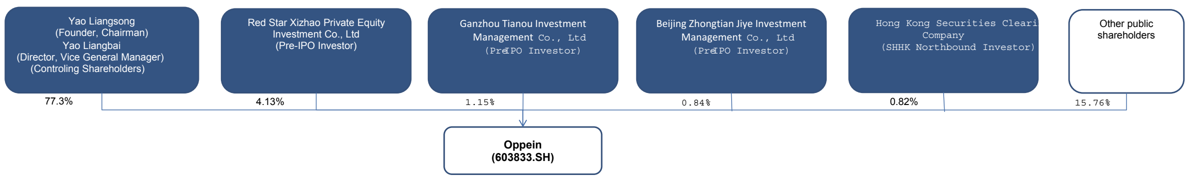
- Strategic appeal (low/medium/high): Some companies own assets, e.g. brands or distribution networks that have strategic appeal for acquirers. We assign a high score (of 1) for GZSP as we believe its advantages in software, O2O marketing and high portion of direct-owned stores in shopping malls are appealing assets in the home furniture sector.
- Management stance (low/medium/high): We believe management’s stated and demonstrated willingness to M&A is an important factor. We assign a low score (of 3) for GZSP based on its past acquisition record, and considering that controlling

shareholders/management have never expressed a willingness to sell down shares or being acquired by another company.

Within this context, we have assigned GZSP an M&A rank of 3, primarily due to its relatively large size, ownership structure and management stance on M&A. As such, we do not incorporate any M&A component into our 12-month target price for GZSP.

Appendix

图表 42: Oppein’ s shareholding structure (as of June 2018)



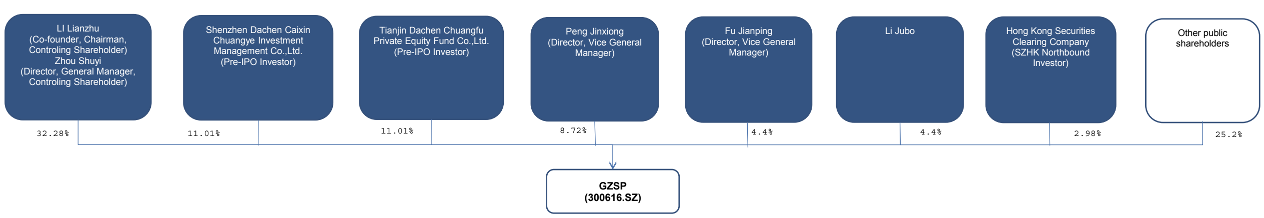
资料来源：Company data

图表 43: Oppein’ s board of directors’ bio

Name	Position	Background	
Mr. YAO Liangsong	Founder/Chairman	Previous roles	Management roles in several mechancial engineering institutions in aviation industry in Jiangxi and Shaanxi and founder and management roles in several furniture-related companies in Guangzhou.
		Other roles	Executive Chairman of China Furniture & Decoration Chamber of Commerce (CFDCC) Committee, Chairman of Guangzhou Chamber of Commerce, etc
Mr. ZHANG Jinliang	Deputy Chairman/General Manager	Previous roles	Worked in several aviation-related institutions as engineer and sales manager before joining Oppein.
Mr. TAN Qinxing	Deputy Chairman/Vice President	Previous roles	Worked in mechanical engineering insitution in Jiangxi as senior engineer before joining Oppein.
Mr. YAO Liangbai	Director/Vice General Manager	Previous roles	Worked in Guangdong Polytechnic Normal University before joining Oppein.
Ms. ZHONG Shuqin	Independent director	Auditing manager at Guangzhou Dawei Accounting Firm	
Mr. QIN Shuo	Independent director	Founder and CEO of Shanghai Nalati Technology Co., Ltd	
Mr. CHU Xiaoping	Independent director	Professor and doctoral advisor at College of Lingnan of Sun Yat-sen University.	

资料来源：Company data

图表 44: Guangzhou Shangpin’ s shareholding structure (as of June 2018)



资料来源：Company data

图表 45: Guangzhou Shangpin’s board of directors’ bio

Name	Position	Background	
Mr. LI Lianzhu	Co-founder/Chairman	Previous roles	Co-founded Yuanfang Software Co., Ltd in 1999 and GZSP in 2004.
		Other roles	Executive Director and General Manager of Yuanfang Software Co., Ltd
Mr. ZHOU Shuyi	Director/General Manage	Previous roles	Co-founded Yuanfang Software Co., Ltd in 1999 and GZSP in 2004.
Mr. PENG Jinxiong	Director/Vice General Manager	Previous roles	Worked as vice general manager of Yuanfang Software Co., Ltd
Mr. FU Jianping	Director/Vice General Manager	Previous roles	Worked as director of Guangdong Landbond Furniture Group Co.,Ltd and joined the firm in 2006.
Mr. XIAO Bing	Director	Director at Shenzhen Dachen Chuangye Investment Co., Ltd.	
Mr. FU Zhonghong	Director	Supervisor at Shenzhen Dachen Chuangye Investment Co., Ltd. And Shanghai Xiquan Industry Co., Ltd	
Mr. ZENG Ping	Independent director	Professor and doctoral advisor at College of Business Administration at South China University of Technology	
Ms. HU Pengxiang	Independent director	Deputy Director at School of Law of Jinan University	
Mr. PENG Shuolong	Independent director	Deputy Professor and master advisor at South China University of Technology	

资料来源：Company data

Suofeiya - Attractive valuation for an industry leader, reiterate Buy

Investment thesis

Suofeiya remains our top pick in the China customized furniture industry, due to: 1) its industry leading manufacturing capabilities, 2) well-managed extensive distributor network and 3) attractive valuation. We expect its revenue growth to be driven by: 1) Continuous share gain in wardrobe related market, and 2) expansion into other sectors such as kitchen cabinet and wooden doors.

In our view, the revenue growth slowdown for wardrobe since 2H17 was due to a combination of overall market slowdown and company specific reasons such as price hikes, slower new product launch, etc. The company has taken measures to address such issues by: 1) readjusting product prices and giving more promotional offers, and 2) launching more new products at faster pace. Moreover, the company has been active in developer’s channel, resulting in 146% yoy revenue growth in 9M18.

We expect expansion into kitchen cabinet would be difficult for Suofeiya given it is expanding from downstream to upstream in the furnishing process. However, we expect kitchen cabinet revenue growth to improve as the company launches more new products and promotions in the sector. Moreover, Suofeiya has provided more incentives to distributors selling kitchen cabinet. According to Suofeiya, if a distributor has high kitchen cabinet revenue, (s)he could also get higher discount for wardrobe products. Given Suofeiya’s kitchen cabinet factory is currently operating at sub-optimal level, we also expect the utilization ratio and thus GPM for kitchen cabinet to improve as the revenue grows.

Factoring the above, we expect Suofeiya revenue/net profit to grow at CAGR of 19%/16% in 2019E-20E. The stock now trades at 15X 2019E P/E, well below both its 6-year average P/E of 27X and the median of 19X for our covered companies. We reiterate our Buy rating on the stock.

Valuation and key risks:

Our new 12-month target price of Rmb24.4 is based on an unchanged discounted EV/EBITDA valuation approach. We apply 11X multiple (unchanged) to 2021E EBITDA to derive an enterprise value and discount it back to 2018E with an unchanged 9% cost of equity. Key risks: 1) property market slowdown to impact sales; 2) continued price competition impacting margins; and 3) expansion into B2B business eroding margins.

图表 46: Suofeiya income statement and key revenue growth drivers in 2013-20E

Major P&L items	2013	2014	2015	2016	2017	2018E	2019E	2020E
Total sales/revenues	1,783	2,361	3,196	4,530	6,161	7,363	8,715	10,391
yoy %	46.0%	32.4%	35.4%	41.8%	36.0%	19.5%	18.4%	19.2%
Gross profit	661	882	1,208	1,656	2,352	2,767	3,201	3,780
Gross margin	37.1%	37.4%	37.8%	36.6%	38.2%	37.6%	36.7%	36.4%
change (bps)		31	44	(123)	160	(59)	(86)	(35)
SG&A	(386)	(499)	(612)	(839)	(1,192)	(1,468)	(1,718)	(2,035)
As % of sales	21.7%	21.1%	19.1%	18.5%	19.4%	19.9%	19.7%	19.6%
EBITDA	326	450	695	964	1,363	1,583	1,847	2,199
EBIT (operating profit)	273	379	584	810	1,151	1,291	1,475	1,737
yoy %	53.6%	39.0%	54.0%	38.8%	42.1%	12.2%	14.2%	17.8%
EBIT margin	15.3%	16.1%	18.3%	17.9%	18.7%	17.5%	16.9%	16.7%
Net income to shareholders	245	327	459	664	907	1,014	1,155	1,357
yoy %	41.4%	33.5%	40.4%	44.7%	36.6%	11.8%	13.9%	17.5%
EPS - basic	0.56	0.74	0.50	0.72	0.98	1.10	1.25	1.47
EPS - fully diluted (analyst)	0.56	0.74	0.50	0.72	0.98	1.10	1.25	1.47
Dividend payout ratio	45%	47%	48%	49%	46%	46%	46%	46%

Key assumptions	2013	2014	2015	2016	2017	2018E	2019E	2020E
Wardrobe	1,724	2,306	3,074	3,926	5,157	6,106	7,077	8,306
Kitchen cabinet	-	12	87	413	590	728	869	1,014
Wooden door	-	-	-	-	73	158	291	466
Others	60	43	35	191	341	370	478	604
Group revenue	**1,783**	**2,361**	**3,196**	**4,530**	**6,161**	**7,363**	**8,715**	**10,391**
% yoy								
Wardrobe	48.5%	33.8%	33.3%	27.7%	31.4%	18.4%	15.9%	17.4%
Kitchen cabinet			604.0%	376.6%	42.9%	23.4%	19.3%	16.7%
Wooden door						116.2%	84.3%	60.1%
Others		-28.7%	-17.1%	442.1%	78.3%	8.6%	28.9%	26.4%
Group revenue	**46.0%**	**32.4%**	**35.4%**	**41.8%**	**36.0%**	**19.5%**	**18.4%**	**19.2%**
GPM								
Wardrobe	37.6%	37.5%	38.6%	40.3%	40.7%	40.5%	39.5%	39.0%
Kitchen cabinet		22.6%	9.3%	6.3%	23.0%	28.2%	29.2%	30.2%
Wooden door					25.5%	10.0%	20.0%	25.0%
Others	21.9%	32.2%	38.2%	26.1%	28.4%	19.7%	19.5%	19.4%
Group gross margin	**37.1%**	**37.4%**	**37.8%**	**36.6%**	**38.2%**	**37.6%**	**36.7%**	**36.4%**
By channel								
Franchise	1,568	2,128	2,852	3,628	4,705	5,288	5,764	6,628
Direct	68	87	112	168	186	202	218	229
Developer	88	91	110	130	267	617	1,095	1,449
Wardrobe revenue	**1,724**	**2,306**	**3,074**	**3,926**	**5,157**	**6,106**	**7,077**	**8,306**
Channel growth								
Franchise	49.6%	35.7%	34.0%	27.2%	29.7%	12.4%	9.0%	15.0%
Direct	33.5%	29.3%	28.0%	49.8%	10.8%	8.8%	8.0%	5.0%
Developer	42.9%	3.5%	20.8%	17.8%	105.2%	131.3%	77.7%	32.3%
Wardrobe revenue	**48.5%**	**33.8%**	**33.3%**	**27.7%**	**31.4%**	**18.4%**	**15.9%**	**17.4%**
% of sales								
SG&A	21.7%	21.1%	19.1%	18.5%	19.4%	19.9%	19.7%	19.6%
Sales expense	9.7%	10.4%	10.5%	9.6%	9.5%	10.2%	10.0%	10.0%
.. A&P	4.6%	4.2%	4.2%	3.4%	2.7%	3.2%	3.2%	3.1%
.. Payroll	1.7%	2.1%	2.3%	2.4%	2.7%	2.6%	2.6%	2.5%
.. Other sales expense	3.4%	4.1%	4.1%	3.8%	4.0%	4.4%	4.3%	4.4%
Admin. expense	11.9%	10.8%	8.6%	8.9%	9.8%	9.8%	9.7%	9.6%
.. R&D expense	3.3%	2.7%	1.2%	1.7%	2.3%	2.8%	2.8%	2.8%
.. Other admin. expense	8.6%	8.1%	7.4%	7.2%	7.6%	7.0%	6.9%	6.8%

资料来源：Company data, Gao Hua Securities Research

图表 47: Suofeiya balance sheet in 2013-20E

Balance sheet	2013	2014	2015	2016	2017	2018E	2019E	2020E
Cash and equivalents	1,153	1,184	997	1,387	1,813	1,778	1,708	1,626
Net receivables	75	99	89	149	294	303	382	484
Inventory/stocks	137	142	197	269	287	359	445	552
Other current assets	65	72	186	1,370	1,209	1,281	1,320	1,368
Current assets	**1,430**	**1,497**	**1,470**	**3,174**	**3,602**	**3,720**	**3,855**	**4,031**
Net PP&E/Fixed assets	487	768	1,291	1,626	2,655	3,319	4,087	4,984
Net intantigibles	121	201	221	278	523	596	682	785
Total investments	-	-	78	125	101	141	190	249
Other long-term assets	47	67	95	136	179	218	256	300
Total assets	**2,086**	**2,533**	**3,154**	**5,338**	**7,060**	**7,995**	**9,071**	**10,348**
Accounts payable	220	296	448	686	963	1,200	1,485	1,835
Short-term debt and current portion of long-term det	-	-	18	134	311	311	311	311
Other current liabilities	64	115	200	471	540	590	654	747
Current liabilities	**284**	**411**	**667**	**1,291**	**1,815**	**2,101**	**2,451**	**2,893**
Long-term debt	-	-	49	25	253	353	453	553
Other long-term liabilities/creditors	10	41	16	31	78	78	78	78
Total long-term liabilities	10	41	65	56	330	430	530	630
Total liabilities	**294**	**452**	**731**	**1,346**	**2,145**	**2,531**	**2,981**	**3,523**
Common stock	441	441	441	462	923	923	923	923
Retained earnings	520	737	1,042	1,485	2,069	2,618	3,244	3,979
Other common equity	783	809	847	1,942	1,479	1,479	1,479	1,479
Total common equity	1,744	1,941	2,304	3,888	4,471	5,021	5,646	6,382
Minority interest (balance sheet)	48	140	119	103	443	443	443	443
Total shareholders funds/equity	1,792	2,081	2,423	3,992	4,915	5,464	6,090	6,825
Total liabilities and equity	**2,086**	**2,533**	**3,154**	**5,338**	**7,060**	**7,995**	**9,071**	**10,348**

资料来源：Company data, Gao Hua Securities Research

图表 48: Suofeiya cash flow statement in 2013-20E

Cash flow statement	2013	2014	2015	2016	2017	2018E	2019E	2020E
Income pre-preferred share dividends	245	327	459	664	907	1,014	1,155	1,357
Minority interest add-back	8	4	(7)	(27)	(2)	-	-	-
Depreciation and amortization add-back	53	71	112	154	212	292	372	463
Net income from associates and jointly controlled en	-	-	-	-	-	-	-	-
Net loss/(gain) on asset sales	1	(1)	(3)	(4)	(32)	-	-	-
(Increase)/decrease in working capital :	20	83	83	425	136	156	119	141
Accounts receivable	11	(4)	(37)	(109)	(145)	(9)	(79)	(102)
Inventory	(56)	(7)	(62)	(73)	(21)	(72)	(87)	(107)
Accounts payable	65	93	182	606	302	237	285	350
Other operating cash flow items	26	(131)	187	(19)	23	(72)	(39)	(48)
Cash flow from operations	**353**	**352**	**830**	**1,193**	**1,243**	**1,389**	**1,607**	**1,913**
Capital expenditure	(240)	(415)	(646)	(602)	(1,139)	(1,068)	(1,264)	(1,507)
(Acquisitions)/divestitures	0	0	0	(3)	(6)	-	-	-
Investments	-	(200)	(730)	(1,996)	(2,961)	(41)	(49)	(59)
Other investment cash flow items	-	172	586	811	3,186	-	-	-
Cash flow from investing	**(240)**	**(443)**	**(790)**	**(1,789)**	**(920)**	**(1,108)**	**(1,313)**	**(1,565)**
Dividends paid (common and preferred)	(75)	(110)	(154)	(220)	(323)	(416)	(465)	(529)
Share repurchase/issue (change In common stock)	62	98	-	1,114	101	-	-	-
Increase/(decrease) in short-term debt	-	-	-	-	-	-	-	-
Increase/(decrease) in long-term debt	-	-	92	91	386	100	100	100
Increase/(decrease) in preferred shares	-	-	-	-	-	-	-	-
Change in minority interest	-	-	-	-	-	-	-	-
Other financing cash flow items	6	142	(163)	1	(61)	-	-	-
Cash flow from financing	**(7)**	**130**	**(225)**	**986**	**103**	**(316)**	**(365)**	**(429)**
Effect of foreign exchange rate changes	(0)	(8)	(0)	1	0	-	-	-
Total cash flow	105	31	(186)	389	426	(35)	(70)	(82)

资料来源：Company data, Gao Hua Securities Research

Prices in this report are as of December 18, 2018, unless otherwise specified.

信息披露附录

申明

本人，伊健，在此申明，本报告所表述的所有观点准确反映了本人对上述公司或其证券的个人看法。此外，本人薪金的任何部分不曾与，不与，也将不会与本报告中的具体推荐意见或观点直接或间接相关。

投资摘要

投资摘要部分通过将一只股票的主要指标与其行业和市场相比较来评价该股的投资环境。所描述的四个主要指标包括增长、回报、估值倍数和波动性。增长、回报和估值倍数都是运用数种方法综合计算而成，以确定该股在地区研究行业内所处的百分位排名。

每项指标的准确计算方式可能随着财务年度、行业和所属地区的不同而有所变化，但标准方法如下:

增长是下一年预测与当前年度预测的综合比较，如每股盈利、EBITDA 和收入等。 回报是各项资本回报指标一年预测的加总，如CROCI、平均运用资本回报率和净资产回报率。 估值倍数根据一年预期估值比率综合计算，如市盈率、股息收益率、EV/FCF、EV/EBITDA、EV/DACF、市净率。 波动性根据12个月的历史波动性计算并经股息调整。

并购评分

在我们的全球覆盖范围中，我们使用并购框架来分析股票，综合考虑定性和定量因素（各行业和地区可能会有所不同）以计入某些公司被收购的可能性。然后我们按照从1到3对公司进行并购评分，其中1分代表公司成为并购标的的概率较高(30%-50%)，2分代表概率为中等(15%-30%)，3分代表概率较低(0%-15%)。对于评分为1或2的公司，我们按照研究部统一标准将并购因素体现在我们的目标价格当中。并购评分为3被认为意义不大，因此不予体现在我们的目标价格当中，分析师在研究报告中可以予以讨论或不予讨论。

Quantum

Quantum是提供具体财务报表数据历史、预测和比率的高盛专有数据库，它可以用于对单一公司的深入分析，或在不同行业和市场的公司之间进行比较。

GS SUSTAIN

GS SUSTAIN是一项侧重于通过发现优质行业领先企业而实现长期超额收益的全球投资策略。GS SUSTAIN 50关注名单列出了我们认为凭借出色的资本回报、具有可持续性的竞争优势和对ESG（环境、社会和企业治理）风险的有效管理而有望在长期内相对于全球同业表现出色的行业领军企业。候选企业主要基于对企业在这三方面表现的综合量化分析筛选而出。

相关的股票研究范围

伊健：A股耐用消费品。

A股耐用消费品：Gree Electric Appliances Inc.、Guangzhou Shangpin Home Collection、Haier Electronics Group、Hangzhou Robam Appliances、Little Swan Co. (A)、Midea Group、Oppein Home Group、Opple Lighting Co.、Qingdao Haier Co.、Suofeiya Home Collection Co.。

信息披露

与公司有关的法定披露

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没有对下述公司的具体信息披露： Guangzhou Shangpin Home Collection (Rmb61.66)、Oppein Home Group (Rmb83.32)、Suofeiya Home Collection Co. (Rmb18.45)

公司评级、研究行业及评级和相关定义

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