

Sector: Textile & Apparel

Shanghai Shuixing Home Textile (603365)

Performance Rating

A	Profitability & Growth
A	Use of Capital
A	Valuation
B	Stock Liquidity
B	Institutional Holdings
Hold	

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Investment Highlights

(We had made three visits to the company headquarters and main factory since Aug 1, 2019. Our analysts had discussed and interviewed with the Shanghai Shuixing's board secretary, managing director (CEO) and securities affairs representative.)

- **Year-on-year growth of Shuixing's revenue continues to lead in the industry**

For financial year 2019, Shuixing's performance grew steadily, reaching a total revenue of over RMB 3 bln, up 10.41% YoY. Its growth rate surpassed other leading companies in the home textile industry that includes Luolai Lifestyle Technology (002293) and Fuanna Bedding and Furnishing (002327). In addition, its earnings per share (EPS) reached RMB 1.19, also above the industry's average. The company's performance in Q1 2020 declined was due to the coronavirus COVID-19 outbreak, revenue down 19.95%. However, the downfall was smaller than its competitors, and it still maintained a high EPS of RMB 0.15 in that quarter. With the gradual recovery in China, the pressure on the company's offline retails will see some reliefs. Acceleration of e-commerce is expected to further improve the company's operating efficiency and economy of scale's benefits.

- **E-commerce grew rapidly, benefiting from higher concentration of bedding brands**

E-commerce business recorded a revenue of RMB 1.22 bln in 2019, with a YoY growth of 19.2%, accounting 41% of its total revenue. While maintaining the advantages of the traditional mainstream e-commerce platform, the company aggressively enters the new e-commerce social platforms such as Pinduoduo and Yunjiglobal.com. Cost-effectiveness of its BAILISI brand is highlighted online, embracing the trend towards selling into lower-tier cities. Pandemic outbreak in Q1 2020 has pivoted the company's selling platform to new online retail model, boosted by cloud store and live broadcast marketing.

- **EPS outperformed peers, maintain a high dividend in the whole year 2019**

Shuixing announced dividend pay-out in the semi-annual and annual report last year, RMB 10 per 10 shares offering a dividend yield of about 7%. Cash dividend paid out totaled more than RMB 250 mln: semi-annual reported RMB 52.97 mln and its annual dividend reported RMB 210 mln, all these account for as high as 83.22% of the company's net profit attributable to shareholders.

- **Refitted production lines to produce protective clothing during pandemic scored for corporate social responsibility**

Feb 4, Shuixing was entrusted by Shanghai municipal government to switch 10 bedding and clothing production lines to produce protective clothing. The modification was completed within 4 days, with a daily production capacity of 2,000 sets. In order to achieve the health and safety standards, the company implement a comprehensive disinfection in the production premise. Shuixing's contribution to the pandemic prevention and control scored well for its corporate social responsibility.

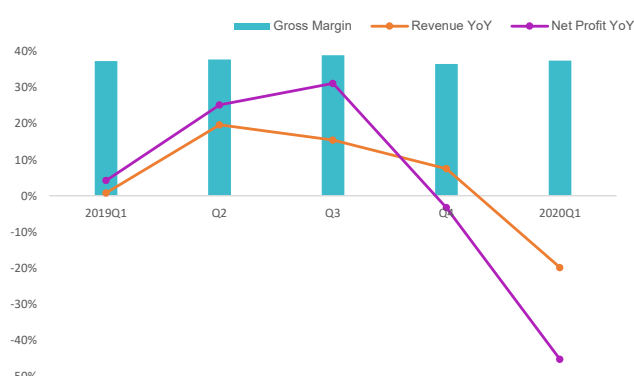
1 Profitability & Growth

Indicator (RMB)	2019FY	2019 Change YoY	2020 Q1	Q1 Change YoY
Total Revenue	30.02	10.41%	4.81	-19.95%
Operating Expense	26.72	10.91%	4.48	-15.27%
Sales Expenditure to Sales (%)	19.43%	△ 3.01%	22.57%	△ 3.65%
Gross Profit Margin (%)	37.58%	△ 2.47%	37.47%	△ 0.11%
Net Profit Attributable to Main Shareholders	3.16	10.69%	0.41	-45.38%
EPS	1.19	11.21%	0.15	-46.43%

Source: Shanghai Stock Exchange, China Knowledge, Annual Report, Company Announcements

During 2019, Shuixing's performance grew steadily, churning a total revenue of RMB 3 bln, up 10.41% YoY. Its net profit attributable to shareholders realized RMB 316 mln, up 10.69% YoY. In Q1 2020, the pandemic outbreak drove down the company's retail sales. As a result, the company achieved revenue of RMB 481 mln, down 19.95% YoY. Accordingly the net profit dropped to RMB 41.27 mln, down 45.38% YoY.

Revenue growth in Q4 2019 declined 7.42% YoY with revenue of RMB 984 mln. The net profit in that quarter attributable to shareholders was RMB 101 mln, down 3.32% YoY. This is mainly due to the company's initiative to postpone the delivery date of products for 2020 spring and summer after the Lunar Year Festival (usually in December). On top of these, its advertising expenses has also increased in the quarter.



Source: China Knowledge

Note: Net profit is attributable to main shareholders.

The company's revenue mainly derives from its retail outlets, accounting for 59%, as well as rapidly growing **online business** (accounting for 41%). Online sales stayed on growth trajectory during 2019, rising 19.16% to RMB 1.22 bln. Except for steady growth of traditional e-commerce platforms, the company has also entered into online sales agreement with emerging social commerce platforms, Pinduoduo, Yunjiglobal.com and Beidian.com. Such rapid development of ecommerce has enabled Shuixing's tentacles reached out across the country, especially in lower-tier cities. In this context, the company has strengthened the sales of its cost-effective brand BAILISI through online platforms. This brand's sales has surged 98.53% YoY, accounting for about 10% of the company's entire online revenue. During the shopping spree on Jun 18 and Nov 11 last year, Shuixing has ranked No.1 in term of online sales - beating its rivals Luolai and Fuanna for five consecutive years on Tmall.

Meanwhile, due to the stellar sales growth of BAILISI products with lower gross profit margin, and rising price of raw materials, the overall online gross profit margin in 2019 dropped by 2.05% to 40.41%.

Since pandemic outbreak in Q1 2020, the company's online sales stayed resilience to the depressed market offsetting its sluggish retail business. In addition, it has accelerated the expansion of new online retail business through cloud stores and live broadcasting marketing. This has achieved positive results, raising up the overall gross profit margin by 0.11%.

Retail business maintained growth steadily in 2019, rising 5.19% YoY to RMB 1.78 bln. Since 2015, Shuixing has developed one or two "star items" at higher price value every year, and there are now five of such hot selling items, contributing 20% of its revenue. With its ability to exercise competitive pricing in its large network of retail outlets, the **offline business** gross margin has stayed relatively stronger than its peers.

During the Q1 pandemic, its retail outlets suffered sales decline due to the closure of stores and the suspension of logistics. As the coronavirus COVID-19 spread eases in China, we expect the company's retail sales to return gradually. In addition, the integration of online and offline businesses will further improve the company's operating efficiency and economy of scale's benefits.



To sum up, an "A" is allocated for its profitability in coming quarters in 2020.

2 Use of Capital

Shuixing's **inventory** turnover increased slightly in 2019, nearly 2.32 times. Notably, its peers Luolai and Fuanna slowed down in inventory turnover year on year. Although this metric, like all companies, for Shuixing declined in Q1 2020, it is expected to improve after the pandemic crisis eased.

The turnover of accounts **receivable** decreased from 18.33 to 16.63 times, resulting from the rapid growth of online sales with enlarged collaboration with online retail giants JD.com, Vipshop and other major platforms.

Indicators	2019 FY	2020 Q1	Peers' Avg
Liabilities to Assets Ratio	19.23%	13.90%	25.73%
Current Ratio	4.09	5.60	2.77
Quick Ratio	2.33	2.96	1.72
ROE	14.11%	1.80%	1.81%

Source: China Knowledge, Corporate Annual/Quarterly Report

Note: The Peers' Avg is based on the data from the comparable companies, namely, Luolai Lifestyle (002293), Funanna (002327), Mendale (002397)

Shuixing has managed debt asset ratio lower than its peers from 2019 to 2020 Q1, down to 13.9%. At the same time, the company's current ratio and quick ratio are also higher than the peers. As company's current operation is affected by the pandemic, superior asset liquidity is conducive to the later capital demand and business sustainability.

Accordingly, we rate Shuixing an "A" in terms of capital utilization.

A

3 Valuation

Summary (RMB)	2019 FY	2020 Q1	2020 E	2021 E	2022 E
Total Revenue	3,002 mln	481 mln	3,074 mln	3,433 mln	3,774 mln
Net Profit	316 mln	41 mln	307 mln	360 mln	392 mln
EPS	1.19	0.15	1.15	1.35	1.47
PE	11.32	22.25	11.61	9.89	9.08

Source: China Knowledge, Company Report

Note: The closing dates of PE are the last days of Q4 2019 and Q1 2020

A

Due to the impact of the COVID-19, the whole industry is facing a sales slump. In the Q1, the sales of retail stores are greatly affected. However, with the improvement in containing the coronavirus, the sales from its physical stores will gradually recover.

Because Shuixing's Q1 revenues decreased by 19.95% YoY, its net profit down was also down RMB 34.29 mln compared with the same period last year. At the same time, the company's net profit growth slowed down for three consecutive years (from 30.17% YoY in 2017 to 10.69% YoY in 2019), so we anticipate that the company in 2020-2022 should achieve revenue of RMB 3.07 bln, RMB 3.43 bln and RMB 3.77 bln, the corresponding basic earnings per share (EPS) of RMB 1.15, RMB 1.35 and RMB 1.47 respectively.

2019FY

Company Name	Stock Code	Mkt Cap (RMB bln)	PE (TTM)	EPS (RMB)	Revenue YoY	Gross Margin (%)
Shuixing	603365	4.09	12.95	1.19	10.41%	37.58%
Luolai	002293	7.55	13.80	0.66	0.98%	43.86%
Fuanna	002327	5.90	11.64	0.61	-4.44%	52.00%
Mendale	002397	3.74	43.85	0.11	12.80%	41.12%

Source: China Knowledge, Group Annual Report

Note: The closing date of Market Capitalization and TTM is 31 Dec, 2019. Other indicators are based on the annual report of listing companies.

2020Q1

Company Name	Stock Code	Mkt Cap (RMB bln)	PE (TTM)	EPS (RMB)	Revenue YoY	Gross Margin (%)
Shuixing	603365	3.60	12.78	0.15	-19.95%	37.47%
Luolai	002293	7.52	15.90	0.08	-21.94%	43.11%
Fuanna	002327	6.15	12.24	0.09	-2.02%	53.96%
Mendale	002397	3.29	55.99	0.04	-34.63%	40.42%

Source: China Knowledge, Group Quarterly Report

Note: The closing date of Market Capitalization and TTM is 30 Apr, 2020. Other indicators are based on the Q1 report of listing companies.

In addition, Shuixing's P/E came down from 12.95 times in 2019 to the current 12.78 times, lower than the industry average. On the other hand, the outbreak of COVID-19 has affected the whole industry sales and performance, the decline in Shuixing's revenue was smaller than other companies in the same industry, so we believe the company is currently undervalued.

To sum up, in terms of valuation, Shuixing home textile is rated "A".

4 Stock Liquidity

30 Mar - 30 Apr

Name	Stock Code	Amihud Illiquidity Measure (10 ⁻¹⁰)
Shuixing Home Textile	603365	0.26
Luolai Lifestyle	002293	0.20
Fuanna Bedding & Furnishing	002327	0.15
Mendale	002397	0.11

Source: China Knowledge

According to the Amihud liquidity measurement which is a widely used liquidity proxy in finance literature that uses the absolute value of the daily volume-to-return ratio to capture price impact. The larger the number, the more liquid the stock is.

Accordingly, Shuixing's liquidity proxy is 0.26, higher than the industry average, but still lower than that of other industries. The improvement of its liquidity is still of necessity. Therefore, we rate a "B".



5 Institutional Holdings

Holders' Name	Holding Shares ('000)		
	2019Q4	2020Q1	Change
Shanghai Zanjiu Mgt Consulting Co., Ltd.	3,700	3,700	-
Shuixing Home Textile Securities Account for Shares Buyback	2,138.5	3,692.1	72.65%
Endowment Insurance Fund 904	944.5	-	-
CPIC De-sheng Small Cap Selective Fund	608.3	787.7	29.49%
E Fund YiBai Intelligent Quantitative Stg Mix A	194.1	-	-
Galaxy Quantify Preferred Hybrid Fund	129.7	-	-
E Fund CSI 300 Quantitative Enhanced Index Fund	117.3	-	-
CIFM Core Growth Equity Fund	80.0	-	-
CICC Quantitative Multi Strategy Mixed Fund	74.1	-	-
Essence Made In China 2025 Shanghai&Hong Kong Mix	50.0	-	-
Galaxy HeMei Life Theme Fund	36.3	-	-
CPIC Value Preferred Equity Fund	35.0	-	-
Zheshang Security CSI Transforming Growth Index Fd	25.1	-	-
ZhongRong Quantitative Small Cap Equity Fund A	23.5	47.3	101.28%
CICC Absolute return Hybrid Fund	19.0	-	-
GF CSI Consumer Index Exchange Traded Fund	12.6	-	-
Hwabao WP S&P China A Share Div Opp Fd (LOF) A	-	844.6	New
Thamco-ICBC Tonghui Asset Management 2	-	778.0	New

Source: China Knowledge, Company Annual/Quarterly Report

In Q4 2019, Shuixing's institutional holdings included China's pension funds, but the remaining funds/institutional investors held fewer shares. In the Q1 of 2020, three funds/asset management product bought Shuixing's shares, with a relatively large positions, and we believe the attractiveness of Shuixing Home Textile to the fund companies is gradually increasing.

Therefore, in terms of institutional shareholding, Shuixing is rated "B".

B

Disclosure Appendix

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