ORIENTAL YUHONG 002271

Accelerated and changed up

Comments On 2017 Fiscal Year Financial Preview

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Guide

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

Summay

- **M rating.** The revenue increased to 10.19 billion by 45.62%; operating profit increased by 32.5%; total profits increased by 25.87%. Net profit attributed to parent company owners increased to 1.24 billion by 20.95%, and EPS was 1.41 yuan, which was in line with expectations. Compared with competitors in the same industry, Yuhong brand premium and cost transferability was reflected by its excellent performance. We maintain our EPS forecasts of 2.10 and 2.82 separately for 2018 and 2019 and the target price at 48.3.

- **The income growth rate exceeded expectations and the company has entered**
  Revenue of Q4 significantly increased to 3.22 billion by 46.3%, compared with rate 41.71%. We noticed that the revenue growth began to accelerate since 2015Q3. The growth rate of 17Q1~17Q4 was 45.91%, 48.47%, 41.71% and 46.3% respectively, maintaining more than 40%. We expect the acceleration trend of market share: 1) The market share of downstream leading real estate developers is concentrated rapidly; 2) and the layout of channel partners are improving; 3) A bright future for the multi-category mortars and coatings at the retail channel.

- **gross margin is stable and we expect an increase of net profit rate in 2018.**
  gross margin increased slightly due to sales incentive plans and other expenses compared with . We believe that the price of asphalt has basically stabilized and recently declined (the price of asphalt is often affected by infrastructure demand)
  increase (while the shareholding incentive expenses would reduce from 200 million in 2017 to 70 million in 2018), bringing performance improvement in 2018.

- **The accounts receivable is expected to decrease significantly in 18Q1 after being stable for the whole year.** We judge that the company increased the recovery of accounts receivable in Q4, with a relatively stable total amount compared to Q3. Considering that the recovery of accounts receivable is in general before the Spring Festival, we believe that the accounts receivable in 18Q1 will drop significantly.

- **Risks:** Macroeconomic Risk; Rising Raw Material Prices

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

Indicators	2015A	2016A	2017E	2018E	2019E
Operating Profit Rate (%)	15.5%	17.7%	14.4%	15.3%	14.6%
ROE (%)	17.9%				

Model updated 2018.02.27

stock research

Raw materials

Building materials

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Rating		**overweight**
	Last rating	Overweigt
Target price		**48.30**
	Last prediction	48.30
Current price		40.00

Official website:

www.yuhong.com.cn

Company profile

The company is a leading enterprise in the waterproof industry in China that integrates waterproof material R&D, manufacturing, sales and construction services. It is the only listed company in the national high

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