

Zhejiang Yasha Decoration (002375 CH)

Initiating coverage: impairment loss dragged profit; order structure adjustment could bring a performance rebound

We initiate coverage of Yasha Decoration with an **ACCUMULATE** call and PT of RMB7.75 (7.6% upside potential). 1H21 revenue came to RMB5.31bn, up 36.77% yoy, net profit was RMB99m, down 18.39%yoy, and core net profit fell 17.76%. 2Q revenue was RMB3.38bn, up 40.55% yoy, and net profit was RMB30m, down 54.67%yoy. Given the assembly and decoration industry boom, we expect its sufficient order book to sustain long-term net profit growth.

Order book focused on public installations; curtain walls/smart systems uptrend

The company signed new contracts amounting to RMB9.28bn in 1H21, up 18.90% yoy, comprising public facility installations/ residential/ decoration & design/ decoration products at RMB5.9bn/3.03bn/131m/211m. Public installations/residential orders in hand grew 24.21/10.49%. We think its focus shift to public installations was driven by worsening real estate growth. As Yasha continues to tweak its order mix, the impact of its impairment loss could weaken gradually. By segment, 1H21 revenues in architectural design & engineering/ curtain walls/ intelligent system integration grew 18%/93%/60% yoy and 4%/23%/50% from 1H19. The curtain wall and intelligent system businesses developed well.

2Q21 higher impairment loss dragged profit

1H21 total gross profit margin was 13.13% (-2.34ppt yoy), with architectural design & engineering/curtain walls GPM at 13.23%/10.05% (-2.25/-2.26ppt). 1H21 sales/ management/ R&D/ financial expense ratios were 2.98/ 3.21/ 2.84/ 0.57% (-0.55/ -0.68/ +0.27/ -0.41ppt yoy). Asset impairments and allowances came to RMB51m, accounting for 0.97% of revenue, up 0.24ppt yoy; 2Q21 asset impairments and allowances came to RMB106m, accounting for 3.15% of revenue, which was the main reason for the decline in profit. 1H21 net margin came to 2.04%, down 1.19ppt yoy. Cash ratio in 1H21 was at 104.41%, down 2.39ppt yoy; cash payment ratio was 92.78%, down 18.69ppt yoy. Cash flow: net CFO was at negative RMB1.05bn, increasing by RMB13m yoy. Balance sheet: 1H21 gearing ratio was 60.97%, up 1.44ppt yoy. 1H21 total assets turnover rate was 0.24x, an increase of 0.06x yoy.

Leader in industrial assembly market

The company has a mature operations model in the industrial assembly. Through optimization and improvements in materials, production, design, construction and other aspects, it now holds precise control over the industrial assembly supply chain. From model houses in China to contemporary Puyu projects in Chengdu, Yasha promotes industrial assembly products from city markets to regional markets. Taking into account the impact of impairment loss, we forecast 2021/22/23E net profit of RMB410m/530m/630m. Relatively to a peer PE of 16.81x in 2021E, we assign to Yasha a PE of 25x, deriving a target price of RMB7.75.

Risks include: order repayment, assembly decoration business promotion and project execution falling below expectations.

Initiation of coverage

ACCUMULATE*

Target price:	RMB7.75
Share price (2 Sep):	RMB7.20
Up/downside	7.6%

Company information

52wk High (09/03/2020)	14.75
52wk Low (08/30/2021)	6.31
P/E (Trailing 12m)	32.70
Dividend Yield	0.34
Price to Book Ratio	1.15
Price to Sales Ratio	0.79
EV / Trail 12M EBITDA	16.78
Shares Outstanding (m)	1,340.0
Market Cap (RMBm)	9,648.0

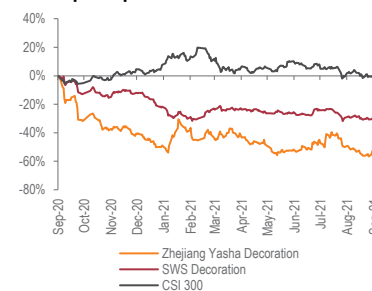
Source: Wind

Financial summary (RMB)

	21E	22E	23E
Revenue (m)	12,763	14,645	16,541
YoY Growth (%)	18.31	14.75	12.94
EBITDA (m)	1,087	1,378	1,595
Net profit (m)	410	531	625
YoY Growth (%)	29.23	29.42	17.72
EPS (price/share)	0.31	0.40	0.47
P/E Ratio (x)	23.06	17.82	15.14
Price to Book Ratio (x)	1.07	1.01	0.96
Price to Sales Ratio (x)	0.74	0.65	0.57
EV/EBITDA (x)	5.63	3.93	3.24

Source: Tianfeng Securities estimate

Share price performance



Source: BigData

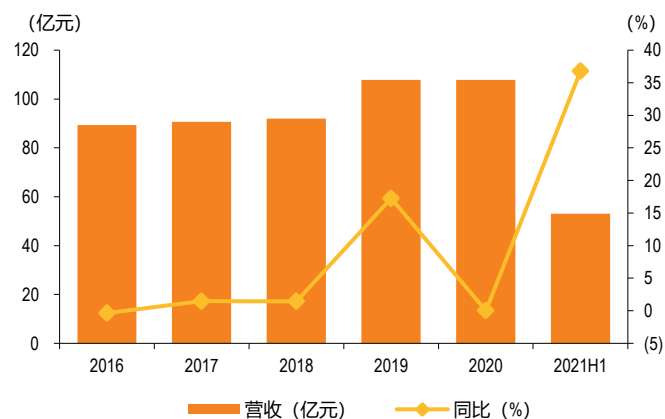
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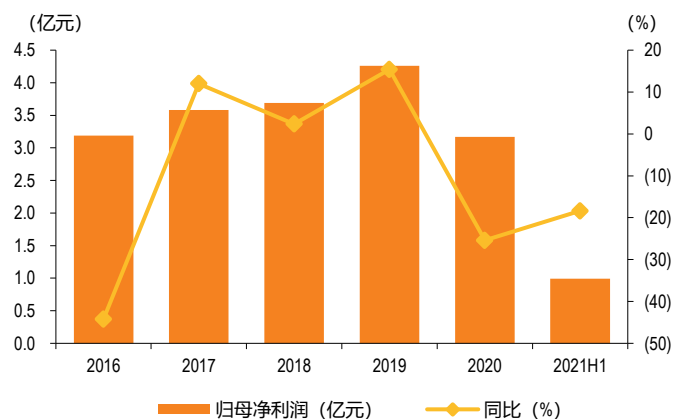
Operational data and peer valuations

Chart 1: Revenue trend 2016-1H2021



Source: Wind, Tianfeng Securities

Chart 2: Net profit trend 2016-1H2021



Source: Wind, Tianfeng Securities

Table 1: Peer valuation comparison

Ticker	Company	Market Cap (RMB100m)	Share price (RMB)	EPS (RMB)				PE (x)			
				2020	2021E	2022E	2023E	2020	2021E	2022E	2023E
002541 CH	Anhui Honglu Steel Construction (Group)	293.95	55.98	1.52	2.16	2.80	3.50	36.79	25.87	20.01	16.02
002949 CH	Shenzhen Capol International & Associates	31.31	15.97	0.88	1.16	1.52	1.94	18.07	13.76	10.54	8.23
603030 CH	Shanghai Trendzone Construction Decoration Group	19.96	3.71	0.25	0.34	0.45	0.54	14.98	10.79	8.22	6.81
	Average							16.81	12.92	10.35	
002375 CH	Zhejiang Yasha Decoration	94.60	7.06	0.24	0.31	0.40	0.47	29.80	23.06	17.82	15.14

Source: Wind, Tianfeng Securities

Note: Share price as of 1 Sep 2021; Zhejiang Yasha Decoration 21-22 EPS are from Tianfeng Securities estimates, other companies 21-22 EPS are based on Wind consensus.

Financial forecast summary

Balance Sheet (RMBm)	2019	2020	2021E	2022E	2023E	Income statement (RMBm)	2019	2020	2021E	2022E	2023E
Cash and Cash Equivalents	3,165.98	3,432.56	4,061.08	4,660.11	5,263.32	Revenue	10,785.63	10,787.35	12,762.56	14,645.09	16,540.80
Trade, Notes and Other receivables	12,192.25	4,941.73	14,556.62	14,977.66	19,206.66	Cost of Sales	9,237.29	9,249.29	10,831.55	12,340.92	13,919.44
Prepayments	265.93	268.94	392.99	361.18	489.45	Business Taxes and Surcharges	44.69	39.47	46.70	53.59	60.52
Inventories	1,983.83	1,794.95	3,019.08	2,397.21	2,783.91	Operating Expenses	305.83	277.32	328.10	376.50	425.23
Other Current assets	761.55	8,142.51	974.10	859.22	1,185.39	Administrative Expenses	269.94	301.13	344.59	380.77	413.52
Total Current Assets	18,369.54	18,580.70	23,003.86	23,255.38	28,928.74	R&D Expenses	281.57	323.26	382.88	439.35	496.22
Long-Term Equity Investments	178.46	187.42	197.42	207.42	217.42	Financial Expense	89.90	72.02	90.00	99.00	110.00
Non-Current Assets	796.68	869.92	877.14	898.37	913.95	Impairment Losses	(72.00)	87.24	(200.00)	(260.00)	(300.00)
Construction-In-Progress	103.29	20.09	48.06	76.83	76.10	Gain/(loss) of Fair Value Change	60.65	45.59	20.00	20.00	20.00
Intangible Assets	253.14	243.82	219.75	196.05	182.35	Net Investment Income	43.70	(14.16)	(30.00)	(30.00)	(30.00)
Other Current assets	1,929.02	2,305.54	1,916.39	2,055.10	2,053.93	Other Current assets	(18.58)	(5.35)	420.00	540.00	620.00
Total Non-Current Assets	3,260.58	3,626.80	3,258.76	3,433.78	3,443.77	Operating income	542.64	411.53	528.74	684.97	805.86
Total Assets	21,630.13	22,280.49	26,286.95	26,721.60	32,415.76	Non-Operating Revenue	2.23	0.92	0.30	0.10	0.10
Short-Term Loan	1,839.02	1,645.37	1,897.01	1,992.69	2,338.75	Non-Operating Expenses	2.05	3.47	2.01	3.00	3.00
Trade Payables and Other Payables	9,762.51	10,108.98	13,058.51	13,337.35	17,710.73	Profit Before Tax	542.82	408.99	527.03	682.07	802.96
Other Current assets	1,647.63	1,747.06	1,999.09	1,633.85	1,978.11	Income Taxes	100.55	77.35	99.68	129.00	151.87
Total Current Liabilities	13,249.16	13,501.42	16,954.61	16,963.89	22,027.59	Net Profit	442.27	331.63	427.35	553.07	651.09
Long-Term Loan	59.50	99.80	134.23	50.00	87.71	Net Profit Attributable to NCI	16.60	14.16	17.09	22.12	26.04
Bonds Payable	0.00	0.00	0.00	0.00	0.00	Net Profit Attributable to The Parent	425.67	317.47	410.26	530.94	625.05
Other Current assets	53.01	100.05	59.76	70.94	76.92	EPS (RMB)	0.32	0.24	0.31	0.40	0.47
Total Non-Current Liabilities	112.51	199.85	193.99	120.94	164.63						
Total Liabilities	13,361.68	13,701.27	17,148.59	17,084.82	22,192.22	Financial ratio	2019	2020	2021E	2022E	2023E
Non-Controlling Interest	250.29	272.25	289.34	311.46	337.51	Growth					
Share Capital	1,340.00	1,340.00	1,340.00	1,340.00	1,340.00	Revenue	17.24%	0.02%	18.31%	14.75%	12.94%
Capital Reserves	1,908.84	1,912.33	1,912.33	1,912.33	1,912.33	Operating income	17.97%	-24.16%	28.48%	29.55%	17.65%
Retained Earnings	6,868.89	7,140.98	7,509.02	7,985.32	8,546.03	Net Profit Attributable to The Parent	15.41%	-25.42%	29.23%	29.42%	17.72%
Other Current assets	(2,099.56)	(2,086.33)	(1,912.33)	(1,912.33)	(1,912.33)	Profitability					
Total Equity	8,268.45	8,579.22	9,138.35	9,636.77	10,223.54	Gross Profit Margin	14.36%	14.26%	15.13%	15.73%	15.85%
Total Equity and Liabilities	21,630.13	22,280.49	26,286.95	26,721.60	32,415.76	Net Profit Margin	3.95%	2.94%	3.21%	3.63%	3.78%
						ROE	5.31%	3.82%	4.64%	5.69%	6.32%
						ROIC	8.09%	7.47%	9.98%	11.55%	14.08%
						Solvency					
Cash Flow Statement (RMBm)	2019	2020	2021E	2022E	2023E	Debt to Asset Ratio	61.77%	61.49%	65.24%	63.94%	68.46%
Net Profit	442.27	331.63	410.26	530.94	625.05	Net Debt Ratio	-15.12%	-16.75%	-21.17%	-25.91%	-26.77%
Depreciation & Amortization	70.26	82.60	67.89	73.69	78.84	Current Ratio	1.39	1.38	1.36	1.37	1.32
Financial Expense	95.31	87.72	90.00	99.00	110.00	Quick Ratio	1.24	1.25	1.18	1.23	1.19
Investment Gain/(Loss)	(43.70)	14.16	30.00	30.00	30.00	Operation					
Change of Working Capital	295.85	(7,727.12)	(98.53)	97.67	(334.47)	Receivable Turnover Ratio	0.88	1.26	1.31	0.99	0.97
Others	(431.43)	7,765.18	37.09	42.12	46.04	Inventory Turnover Ratio	5.79	5.71	5.30	5.41	6.39
Cash Flows from Operating Activities	428.56	554.18	536.71	873.43	555.47	Asset Turnover Ratio	0.51	0.49	0.53	0.55	0.56
CapEx	(20.63)	9.80	119.29	88.82	74.02	Indicator Per Share					
Long Term Investments	12.81	8.96	10.00	10.00	10.00	EPS	0.32	0.24	0.31	0.40	0.47
Other Current assets	227.38	(32.45)	(209.63)	(256.93)	(224.84)	Operating Cash Flow Per Share	0.32	0.41	0.40	0.65	0.41
Cash Flows from Investing Activities	219.56	(13.69)	(80.34)	(158.11)	(140.81)	Net Asset Per Share	5.98	6.20	6.60	6.96	7.38
Proceeds from Issuance of Debt	1,915.53	1,995.86	2,126.22	2,163.57	2,526.46	Valuation					
Proceeds from Issuance of Equity	(280.62)	(51.81)	84.01	(99.00)	(110.00)	PE	22.22	29.80	23.06	17.82	15.14
Other Current assets	(2,024.83)	(2,105.47)	(2,038.08)	(2,180.86)	(2,227.90)	PB	1.18	1.14	1.07	1.01	0.96
Cash flows from financing activities	(389.92)	(161.43)	172.14	(116.29)	188.56	EV/EBITDA	4.29	7.18	5.63	3.93	3.24
Impact of FX	0.00	0.00	0.00	0.00	0.00	EV/EBIT	4.53	7.74	6.00	4.15	3.41
Net increase (decrease) in cash, cash equivalents and restricted cash	258.20	379.06	628.52	599.03	603.22						

Source: Company data, Tianfeng Securities estimate

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