

# SUPOR (002032.SZ)

## Sustained and steady growth can be expected

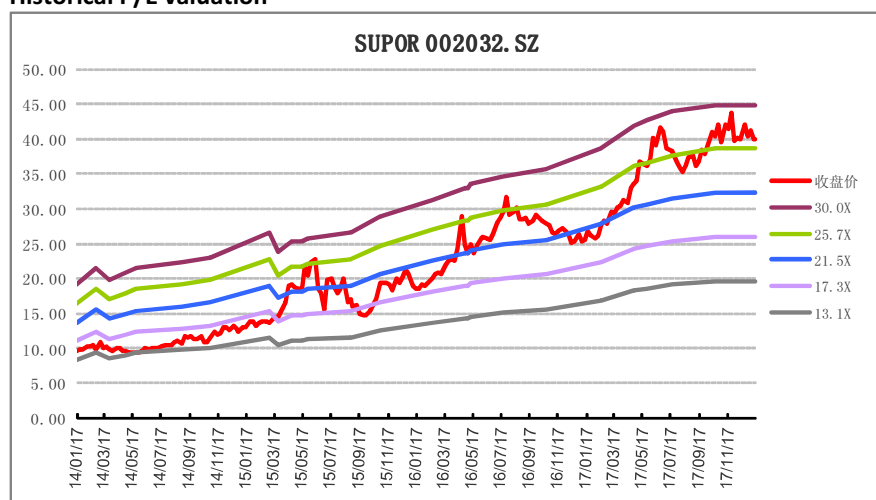
### Hong Kong | Household Electrical Appliances | Company report

18 January 2018

#### Summary of Investment

- Benefiting from the upgrading of consumption and urbanization, there is room for the increase of sales price and volume of cookware and kitchen appliances;
- With restricted equity incentive and result appraisal, sustained and steady growth can be expected;

#### Historical P/E valuation



Source: Wind, Phillip Securities(HK)Research

#### Investment Rating

SUPOR is a leading enterprise in the field of cookware and small appliances. Benefiting from its own brand and channel advantages as well as product upgrade and market expansion, the Company is expected to see sustainable and steady growth in the overall result in the future. It is expected that the Company's net profit attributable to the shareholders of the listed company will reach RMB13.04 million and RMB15.57million in year 2017-2018, equivalent to RMB1.59and 1.9 EPS, and 26.7 and 22.4 PE, respectively; the Company will achieve full coverage for the first time with the grade of Accumulate. (Closing price as at 16 Jan 2018)

#### Peer comparison

Stock code	Stock name	Market value	PE			PB
			TTM	17E	18E	
002032.SZ	苏泊尔	34864	28.3	26.58	22.02	7.03
000333.SZ	美的集团	400049	23.71	23.13	18.91	5.62
000651.SZ	格力电器	327075	16.64	15.67	13.55	5.58
600690.SH	青岛海尔	133350	19.34	19.28	16.24	4.41
002508.SZ	老板电器	50716	34.6	31.28	24.34	10.66
000418.SZ	小天鹅A	40805	33.09	31.65	25.78	6.97

Source: Wind, Phillip Securities(HK)Research

#### Accumulate

CMP: RMB 42.45  
(Closing price as at 16 Jan 2018)  
TARGET: RMB 47.50 (11.8%)

#### COMPANY DATA

O/S SHARES (MN) :	821
MARKET CAP (RMB MN) :	34864
52 - WK HI/LO (RMB):	44.25/24.17

#### SHARE HOLDING PATTERN , %

SEB	81.18
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#### PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
SUPOR	0.75	1.22	63.46
SSE	4.42	0.95	9.89

#### PRICE VS. SSE



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	10910	11947	14171	16438
Net Profit	889	1078	1304	1557
P/E,x	30.0	24.8	26.7	22.4
EPS, RMB	1.42	1.71	1.59	1.90
P/B, x	6.1	5.9	6.1	5.1
BVPS, RMB	6.99	7.19	6.92	8.28
ROE, %	20.1	23.7	23.0	22.9

Source: Company reports, Phillip Securities Est.

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## Company Overview

SUPOR, founded in 1994 and listed on the Shenzhen Stock Exchange in 2004, is headquartered in Hangzhou. It is the largest and second largest manufacturer of cooking utensils in China and around the world. The Company owns a total of five research and development bases and mainly operates in the four major areas of open-fire cookware, small kitchen appliances, kitchen appliances and home furnishing. From 2012 to 2016, the Company's revenue and net profit recorded a compound growth of 14.75% and 23.1%, respectively. In 2016, its revenue was RMB11,947 million, of which 36.5% came from cookware, 62.5% from electrical appliances, 69.7% from domestic sales and 29.4% from foreign trade. The Company has maintained the first place and the second place in the market of cookware business and markets of 9 categories of small kitchen appliances, respectively for many years.

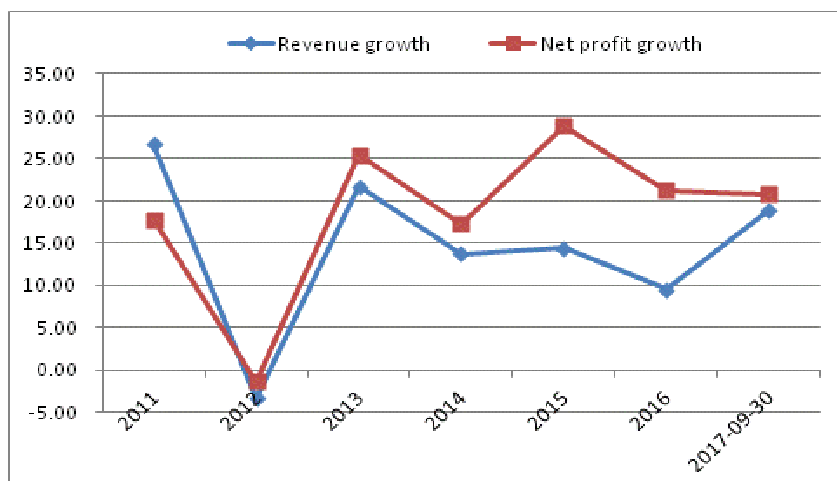
In 2006, SEB Group in France became SUPOR's controlling shareholder and currently holds 81.17% stakes in SUPOR. SEB Group has more than 150 years of operating history and its market share of cookware and small appliances ranks the first in the world. The strategic cooperation with SEB has brought stable export sales market to SUPOR. The cookware and small electrical appliances produced by the Company are sold to 51 countries and regions in the world through SEB Group. In addition, the two parties are engaged in further cooperation in R&D, management and other fields and the overall coordination effect has facilitated continued improvement in the Company's core competitiveness.

## Main businesses witness steady growth and cash flow is sound

In the first three quarters of 2017, the Company's revenue reached RMB10,497 million, a year-on-year increase of 18.85%, and the net profit attributable to the parent company was RMB896 million, a year-on-year increase of 20.78%, up by 23.31% yoy excluding non-recurring items, equivalent to an EPS of RMB1.09, up by 20.77% yoy. The Company forecasts the annual growth of net profits attributable to the parent company was 0-30%, equivalent to RMB1,077 million -1,400 million.

In the first three quarters, the revenue was 39.46 / 29.63 / 35.87, respectively; the net profit was 3.66 / 2.30 / 2.99, respectively; taking into account the sales seasons in the fourth quarter such as Double 11 and the Spring Festival, the annual growth is expected to fall in the middle and high growth range. In addition, the net operating cash flow was RMB822 million during the period, up by 35.07% yoy, and the cash backflow was sound.

### 2011-2016 Growth of SUPOR

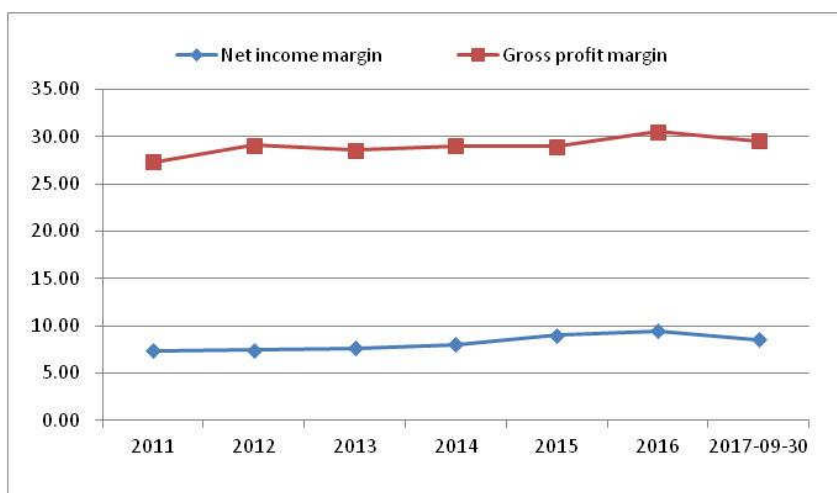


Source: Wind, Phillip Securities(HK)Research

### The gross margin is slightly affected by the cost of raw materials

The cost rate for the first three quarters was 18.78%, down by 0.13pct yoy, of which the financial expenses increased by 96.27% yoy due to the loss of exchange. However, due to the small base in the previous year, the overall impact was limited. Affected by the rising cost of raw materials, the overall gross margin fell by 0.97pc to 29.56% yoy, and the net profit margin fell by 0.94pct to 8.55% yoy. Specifically, the single-quarter gross margin of the third quarter was 28.6%, down by 1.13pct yoy. With external raw material prices rising, the Company has focused on improving internal operational efficiency, accelerated the process of product standardization, effectively transferred cost pressures and reduced the volatility of gross margin.

### 2011-2016 Profitability of SUPOR



Source: Wind, Phillip Securities(HK)Research

## The Company has taken root in the tier-3 and tier-4 markets to enhance e-commerce operations

The Company has strong capability to develop and manufacture cookware and small appliances and led the development of the industry through continuous product innovation and category expansion. In terms of offline channels, the Company has a stable team of distributors, continued to enhance the coverage ratio and density of outlets in the tier-3 and tier-4 markets, and improved the service system of the tier-3 and tier-4 markets. In terms of e-commerce channels, the Company has continued to enhance the professional operation of e-commerce and maintained the rapid growth of e-commerce channels. The market share of the Company in major e-commerce platforms increased rapidly in the first half of 2017. It is believed that the Company still has ample room for development in the tier-3 and tier-4 markets thanks to the upgrade of consumption and urbanization.

The change in the market structure of major small appliances (2010-2016)



Source: China Market Monitor, OUZI

## SUPOR has acquired SSEAC to enhance the competitiveness of home furnishing business

In October 2017, the Company acquired 100% equity interest in SSEAC held by its controlling shareholder, SEB International, with its own funds of RMB2.74. SSEAC mainly engages in the production and export of household electrical appliances such as irons. In the first half of 2017, its revenue reached RMB154 million and the net profits were RMB5,644,200. The acquisition helps to consolidate the business landscape of the Company and its controlling shareholders in the Chinese market and enhance the competitiveness of household electrical products. At the same time, the incorporation into the consolidated financial statements will also help to enhance the Company's overall result. On the other hand, the acquisition will promote the expansion of other export businesses and domestic sales and fuel continuous expansion of foreign trade business.

## **The Company has carried out restricted equity incentive with result appraisal combined.**

The Company recently announced the restricted stock grant program and announced to grant 3.874 million restricted shares to 181 incentive subjects, involving senior management, middle management and core business persons. At the same time, the Company set the result appraisal program for incentive subjects. First, the yield of net assets should not be less than 18% during each appraisal year from 2017 to 2020. Second, according to the completion ratio of domestic sales revenue and domestic operational profits, the number of restricted stocks subject to the removal of restricted sales that incentive subjects can gain during all removal periods is determined. This incentive program will effectively stimulate the enthusiasm of the team, improve operational efficiency and achieve sustained and steady growth in result.

### **Risk Warnings**

Risk of macroeconomic fluctuations;

Risk of rising price of raw materials;

Risk of overseas market expansion;

Risk of exchange rate fluctuations;

## Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratios</b>					
Price Earnings(P/E)	39.0	30.0	24.8	26.7	22.4
Price to Book(P/B)	7.1	6.1	5.9	6.1	5.1
<b>Per share data(RMB)</b>					
EPS,Adjusted	1.09	1.42	1.71	1.59	1.90
Book Value Per Share	5.98	6.99	7.19	6.92	8.28
<b>Growth &amp; Margins(%)</b>					
<b>Growth</b>					
Revenue	13.7%	14.4%	9.5%	18.6%	16.0%
Operating income	19.4%	26.4%	15.0%	18.7%	18.7%
Net profit	17.2%	28.9%	21.2%	21.0%	19.4%
<b>Margins</b>					
Gross profit margin	29.0%	29.0%	30.5%	30.1%	30.1%
Operating profit margin	9.5%	10.5%	11.0%	11.0%	11.3%
Net income margin	7.2%	8.1%	9.0%	9.2%	9.5%
<b>Key Ratios</b>					
ROE(%)	18.2%	20.1%	23.7%	23.0%	22.9%
ROA(%)	11.2%	12.7%	14.1%	15.1%	15.2%
<b>Income Statement(RMB million)</b>					
<b>Revenue</b>	9,535	10,910	11,947	14,171	16,438
- Cost of Goods Sold	6,767	7,749	8,300	9,910	11,490
<b>Gross Income</b>	2,768	3,160	3,647	4,261	4,948
- Operating Expenses	1,786	1,924	2,259	2,630	3,044
<b>Operating Income</b>	905	1,144	1,316	1,561	1,854
- Net Non-Operating Loss	3	29	52	60	70
<b>Pretax Income</b>	908	1,174	1,367	1,621	1,924
- Income Tax Expense	143	187	234	268	317
<b>Net profit</b>	690	889	1,078	1,304	1,557

Source: Company, Phillip Securities (HK) Research Estimates  
 (Financial figures as at 16 Jan 2018)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

<b>Total Return</b>	<b>Recommendation</b>	<b>Rating</b>	<b>Remarks</b>
<b>&gt;+20%</b>	<b>Buy</b>	<b>1</b>	<b>&gt;20% upside from the current price</b>
<b>+5% to +20%</b>	<b>Accumulate</b>	<b>2</b>	<b>+5% to +20% upside from the current price</b>
<b>-5% to +5%</b>	<b>Neutral</b>	<b>3</b>	<b>Trade within ± 5% from the current price</b>
<b>-5% to -20%</b>	<b>Reduce</b>	<b>4</b>	<b>-5% to -20% downside from the current price</b>
<b>&lt;-20%</b>	<b>Sell</b>	<b>5</b>	<b>&gt;20% downside from the current price</b>

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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