

# LESSO (2128 HK)

## Advancing Product Diversification and Overseas Expansion

China | Industry Goods | Company Update

29 April 2025

### Company Profile:

China Lesso is a leading large-scale building materials and home furnishings industry group in Chinese mainland, with a market share of approximately 20%. Its product portfolio spans piping systems, sanitary ware, integrated kitchens, profiles and doors & windows, decorative panels, fire safety equipment, and sanitary materials. These products are widely used in home renovation, civil construction, municipal water supply and drainage, energy management, power and telecommunications, gas, fire protection, environmental protection, and agriculture.

The Company operates 30 production bases across 19 regions in China and overseas. Its key clients include independent distributors, property developers, as well as public utilities and municipal departments such as water supply, electricity, telecommunications, and gas companies. As of December 31, 2024, the company had 2,978 exclusive tier-1 distributors in Chinese mainland.

### Performance Weakened by Industry Headwinds

In 2024, the Company's revenue and profit attributable to shareholders declined by 12.45% and 28.9% yoy respectively to RMB 27.026 billion and RMB 1.684 billion. Basic earnings per share stood at RMB 0.55, with a dividend payout of HKD 0.20 per share (same as 2023), and the dividend payout ratio increased from 23.7% to 34.1%.

During the period, China's economy continued to decelerate, while the real estate sector remained in a bottoming phase. The building materials and piping industries faced dual challenges of weakening demand and overcapacity, weighing on product demand.

By business segment, the Company recorded revenues of RMB 22.819 billion, RMB 2.271 billion, and RMB 1.936 billion from plastic piping, building materials & home furnishings, and other businesses respectively, representing yoy declines of -7.2%, -20.0%, and -43.8%. These segments accounted for 84.4%, 8.4%, and 7.2% of total revenue, with changes of +4.8, -0.8, and -4 ppts compared to 2023, respectively.

A further breakdown of other businesses shows that the environmental protection, supply chain service platform, and photovoltaic segments recorded revenues of RMB 277 million, RMB 930 million, and RMB 223 million, respectively, representing yoy declines of -28.4%, -38.6%, and -79.0%. These segments accounted for 1.0%, 3.4%, and 0.8% of total revenue, down 0.57, 2.76, and 3.5 ppts yoy, respectively. The decline in revenue from the supply chain service platform was primarily due to its spin-off and separate listing in May 2024, while the performance of the photovoltaic segment was severely impacted by a downturn in the PV cycle.

### Core Plastic Piping Business Remains Stable with Marginal Gross Margin Gain

Sales volume of plastic piping fell -6.2% yoy, and average selling price dropped 1.1% to RMB 9,191/ton. However, stable low raw material costs and strong operational efficiency lifted gross margin by +0.2 ppts yoy to 28.7%.

The stable profitability of the core business, coupled with a decline in the proportion of low-margin businesses, contributed to a slight increase in overall gross margin to 27.0% (+0.7 ppts yoy).

### Accumulate (Downgrade)

CMP HKD 4.14

(Closing price as at 24 April)

TARGET HKD 4.85 (+17.15%)

### COMPANY DATA

O/S SHARES (MN) :	3102
MARKET CAP (CNY MN) :	12844
52 - WK HI/LO (CNY):	5.05/ 2.44

### SHARE HOLDING PATTERN, %

New Fortune Star Limited	68.93
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### PRICE VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY23	FY24	FY25E	FY26E
Net Sales	30868	27026	28326	30179
Net Profit	2368	1684	2013	2269
EPS, CNY	0.77	0.55	0.65	0.73
P/E, x	4.9	6.9	6.0	5.3
BVPS, CNY	7.58	7.69	8.09	8.56
P/BV, x	0.5	0.5	0.5	0.5
DPS (CNY)	0.20	0.20	0.24	0.27
Div. Yield (%)	4.8%	4.8%	5.7%	6.4%

Source: Company reports, Phillip Securities Est.

ZhangJing (+ 86 021-62116537)

zhangjing@phillip.com.cn

By geography, overseas revenue saw a smaller decline (-10.5% yoy) but with a sharper gross margin drop (24.98%, -2.02 ppts yoy), while domestic revenue declined more (-12.63% yoy) yet gross margin improved (27.28%, +1.07 ppts). The South China region accounted for the largest share of revenue at 45.9%, with regions outside South China at 45.6% and overseas at around 8.5%.

### Increased Expense Ratio, Lower Impairment

In 2024, Lesso's operating expense ratio rose to 19.3%, up +1.2 ppts yoy, mainly due to reduced revenue scale weakening the ability to dilute fixed expenses. The selling, administrative, and R&D expense ratios were 5.9%, 6.0%, and 3.9% respectively, representing yoy changes of +0.83, +0.62, and -0.15 ppts. The finance expense ratio declined slightly to 3.5%, down 0.08 ppts yoy, primarily due to a reduction in total debt (down RMB 1.05 billion yoy) and an optimized debt structure.

The primary reasons for profit decline were an RMB 828 million drop in gross profit and a RMB 220 million reduction in the share of associates' profits. This was partially offset by a 36.2% yoy decrease in impairment provisions (RMB 547 million).

### Advancing Product Diversification and Overseas Expansion

Amidst a dynamic market, Lesso actively expanded into diverse downstream application areas, achieving breakthroughs with the launch of polyethylene (PE) piping and fittings for nuclear power plants. It also focused on high-growth segments such as hydrogen and oil transportation pipelines, and agriculture-specific pipes, to increase market share.

The Company is also optimizing its customer mix and deepening strategic partnerships with government departments and leading state-owned infrastructure enterprises. Through active participation in national and municipal engineering and renovation projects, the company continues to reinforce its market leadership.

Internationally, Lesso is prioritizing development in Southeast Asia, Africa, and North America. It has established production bases in Indonesia, Thailand, Malaysia, Cambodia, Vietnam, Africa, and the U.S., with additional bases under development in the Philippines and Bangladesh. At the same time, it is accelerating the build-out of its warehousing and logistics network across Southeast Asia. We believe that the relatively low urbanization rates in these regions like Southeast Asia and Africa present significant growth opportunities for Lesso's overseas business, with profitability expected to benefit from economies of scale.

## Investment Thesis

While the domestic real estate market remains sluggish, infrastructure is expected to benefit from proactive fiscal policy and rapid deployment of debt-swapping funds. Recently, the Chinese government has accelerated the construction of water conservancy projects and provided subsidies for urban underground pipe network infrastructure, which will benefit piping materials companies.

We expected diluted EPS of the Company to RMB 0.65, 0.73 for 2025/2026. And we accordingly gave the target price to HKD 4.85, respectively 7/6.2 x P/E, 0.6/0.5 x P/B for 2025/2026. "Accumulate" rating. (Closing price as at 24 April)

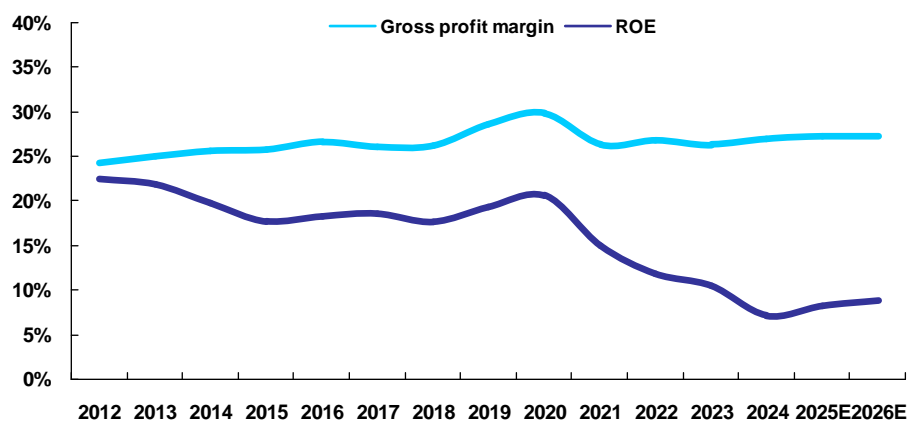
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### Production Bases of LESSO



Source: Company, Phillip Securities Hong Kong Research

### Key margin trend



Source: Company, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY22	FY23	FY24	FY25F	FY26F
<b>Valuation Ratios</b>					
P/E (X), adj.	4.5	4.9	6.9	6.0	5.3
P/B (X)	0.5	0.5	0.5	0.5	0.5
Dividend Yield (%)	7.2%	4.8%	4.8%	5.7%	6.4%
Dividend payout ratio (%)	32.9%	23.7%	34.1%	34.2%	34.1%
<b>Per share data (RMB)</b>					
EPS, reported	0.82	0.77	0.55	0.65	0.73
EPS, adj.	0.82	0.77	0.55	0.65	0.73
DPS(HKD)	0.30	0.20	0.20	0.24	0.27
BVPS	7.02	7.58	7.69	8.09	8.56
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-4.0%	0.3%	-12.4%	4.8%	6.5%
EBIT	-11.1%	-2.4%	-18.6%	13.3%	9.5%
Net Income, adj.	-17.3%	-5.9%	-28.9%	19.5%	12.7%
<b>Margins</b>					
Gross margin	26.8%	26.3%	27.0%	27.2%	27.2%
EBIT margin	12.6%	12.2%	11.4%	12.3%	12.6%
Net Profit Margin	8.2%	7.7%	6.2%	7.1%	7.5%
<b>Key Ratios</b>					
ROE (%)	11.8%	10.46%	7.11%	8.22%	8.79%
<b>Income Statement (RMB mn)</b>					
Revenue	30,767	30,868	27,026	28,326	30,179
Gross profit	8,241	8,121	7,293	7,705	8,209
Operating profit	3,871	3,777	3,075	3,486	3,817
EBIT	3,871	3,777	3,075	3,486	3,817
Profit before tax	3,190	2,664	2,124	2,498	2,815
Tax	676	344	486	525	591
Profit for the period	2,515	2,320	1,638	1,973	2,224
Minority interests	(2)	(48)	(46)	(39)	(44)
Total capital share	3,102	3,102	3,102	3,102	3,102
Net profit	2,517	2,368	1,684	2,013	2,269

Source: PSR

(Closing price as at 24 April)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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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**Contact Information (Regional Member Companies)**
**SINGAPORE**
**Phillip Securities Pte Ltd**

250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

[www.phillip.com.sg](http://www.phillip.com.sg)

**INDONESIA**
**PT Phillip Securities Indonesia**

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

[www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**
**Phillip Securities (Thailand) Public Co. Ltd.**

15th Floor, Vorawat Building, 849 Silom Road,  
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

[www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**
**Phillip Futures Inc.**

141 W Jackson Blvd Ste 3050

The Chicago Board of Trade Building

Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

**MALAYSIA**
**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3, Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

[www.poems.com.my](http://www.poems.com.my)

**CHINA**
**Phillip Financial Advisory (Shanghai) Co. Ltd.**

No 436 Heng Feng Road, Green Tech Tower Unit 604  
Shanghai 200 070

Tel (86) 21 6211 6752 Fax: (86) 21 6091 1155

[www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**
**King & Shaxson Capital Ltd.**

3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

Level 12, 15 William Street,

Melbourne, Victoria 3000, Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**HONG KONG**
**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

[www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN**
**Phillip Securities Japan, Ltd**

4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

[www.phillip.co.jp](http://www.phillip.co.jp)

**INDIA**
**PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,  
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

[www.phillipcapital.in](http://www.phillipcapital.in)

**UNITED KINGDOM**
**King & Shaxson Ltd.**

6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA**
**Asha Phillip Securities Limited**

Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

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