18 May 2020

CMB International Securities | Equity Research | Company Update

Man Wah (1999 HK)

Robust E-commerce growth and falling costs

We believe a strong China sales will offset drags from exports in FY21E, esp. when: 1) E-commerce growth remain robust, 2) China margin is higher than overseas and 3) raw material costs turn more favorable. Hence we are positive on Man Wah ("MW") 's outlook in FY21E-22E, and current valuation of 10x FY3/22E P/E (5 years avg. at 12x) and 5% FY3/22E yield is attractive in our view.

- **FY3/20 net profit beat by 7%, thanks to better margins from property sales and dividend surprise.** Man Wah's FY19 net profit rose by 20% YoY to RMB 16.4 bn, beating BBG's est. by 7%, mainly supported by higher-than-expected GP margin from its property sales at 40% (vs consensus est. of 32%), while payout ratio also surged to 44% (vs consensus est. of 34%).
- **China sales speeded up in 2H20 even with COVID-19, hence we are optimistic on its FY21E outlook.** China sales growth (ex-property) accelerated to 13% YoY in 2H20 from 12% YoY in 1H20, even with drag of COVID-19 in Feb-Mar 2020 (flattish growth was registered in Jan-Mar 2020, according to management). It implied a very strong momentum, thanks to efforts such as more live-streaming promotions. By channel, E-commerce/ offline sales grew by 83%/ 9% YoY in FY20, with ~10% store count growth. For FY21E, we are optimistic that MW's China sales growth (ex-property) will sustain at a rather rapid rate (est. ~24%), driven by 50%+ e-commerce growth and ~150 new stores (~6% YoY growth). Noted sales trend in Apr 2020 has resumed to nearly normal, according to management.
- **Exports business is highly likely to decline in FY21E.** Decline of US sales narrowed to just 7% YoY in 2H20, vs 23% drop in 1H20, thanks to the efforts of capacity shift from China to Vietnam. However, due to COVID-19, both US and EU retail sales slumped in Mar-Apr 2020, and may stay weak for a while. Hence we would not be surprised to see order cancellations or suspensions for MW in 1H21E. For FY21E, we are expecting its North Americas/ Europe & others/ Home Group sales to fall by 20%/ 13%/ 20%.
- **Fortunately, GP margin can be a bright spot.** More importantly, we find the GP margin to be a strong support for MW's earning in FY21E due to the favorable trend, driven by: 1) better region mix, China sales has a higher margin and 2) various raw materials, such as metal, chemicals, packing paper and even leather, are all falling in FY21, as oil prices trend down.
- **Potential upgrade in earnings plus an undemanding valuation.** We believe the consensus numbers may be revised up after the earnings beat, supported by: 1) more resilient China sales and 2) highly favorable raw material trend. According to BBG's est. the counter is trading at 10x FY20E P/E (vs 5 years avg. of 12x) and 5% yield, fairly attractive, in our view.

Earnings Summary

(YE 31 Mar)	FY18A	FY19A	FY20A
Revenue (RMB mn)	10,027	11,258	12,144
YoY growth (%)	28.9	12.3	7.9
Net income (RMB mn)	1,536	1,364	1,638
EPS (RMB)	0.402	0.356	0.429
YoY growth (%)	(11.9)	(11.1)	20.4
P/E (x)	15.4	12.8	12.8
P/B (x)	3.5	3.4	3.2
Yield (%)	4.5	2.2	3.4
ROE (%)	25.8	21.9	24.4
Net gearing (%)	Net cash	47.8	29.6

Source: Company data, CMBIS estimates

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NOT RATED

Current Price **HK$5.50**

China Furniture Sector

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Stock Data

Mkt Cap (HK$ mn)	20,878
Avg 3 mths t/o (HK$ mn)	43.56
52w High/Low (HK$)	6.7/3.0
Total Issued Shares (mn)	3,795.9

Source: Bloomberg

Shareholding Structure

Mr. Wong Man Li & Family	65.09%
Free Float	34.91%

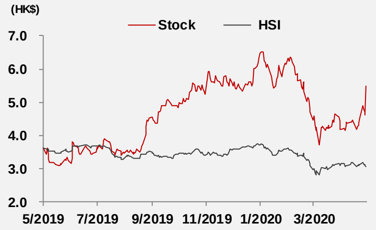
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	31.3%	32.4%
3-mth	-10.3%	4.9%
6-mth	5.0%	16.1%
12-mth	49.5%	77.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

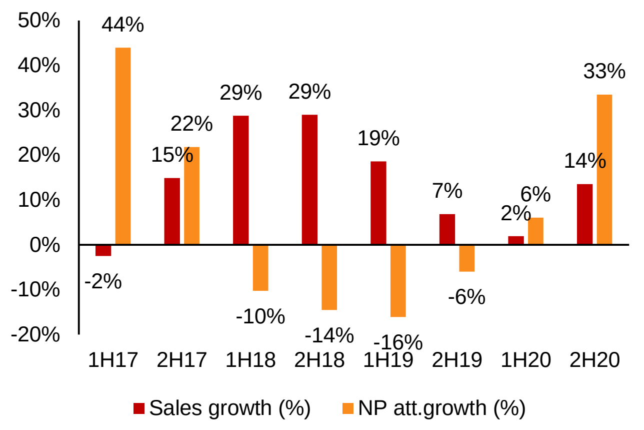
Auditor: Deloitte Touche Tohmatsu

Related Reports

1. Man Wah (1999 HK) – Short term pain for long term gain - 22 May 2019
2. Man Wah (1999 HK) – NDR takeaways: better risk reward as fundamentals improve - 28 Jan 2019

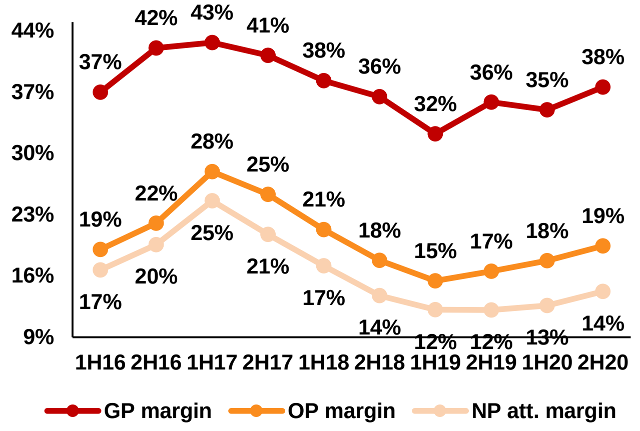
Focus Charts

Figure 1: Sales/ net profit att. growth



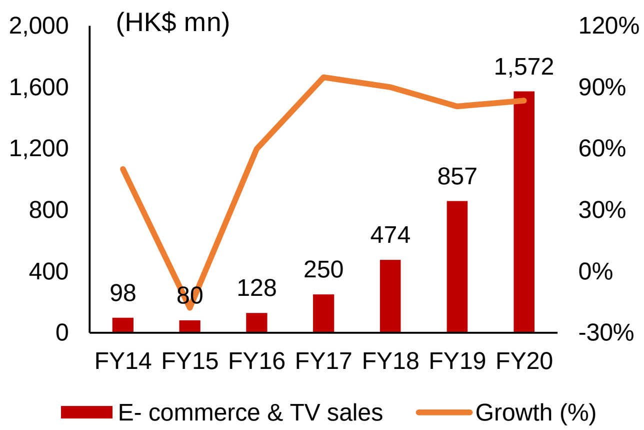
Source: Company data, CMBIS estimates

Figure 2: GP/ OP / NP margin



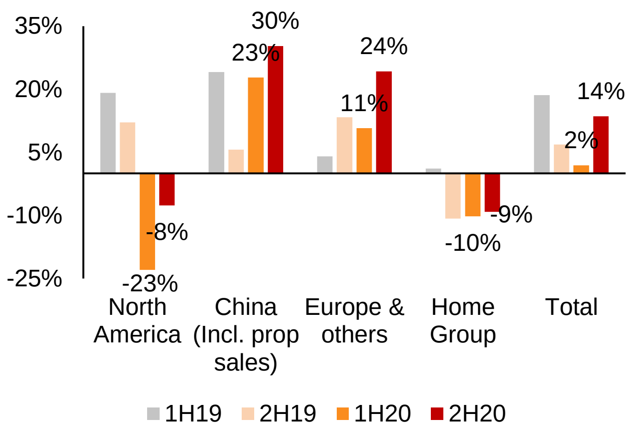
Source: Company data, CMBIS estimates

Figure 3: China's e-commerce sales and growth



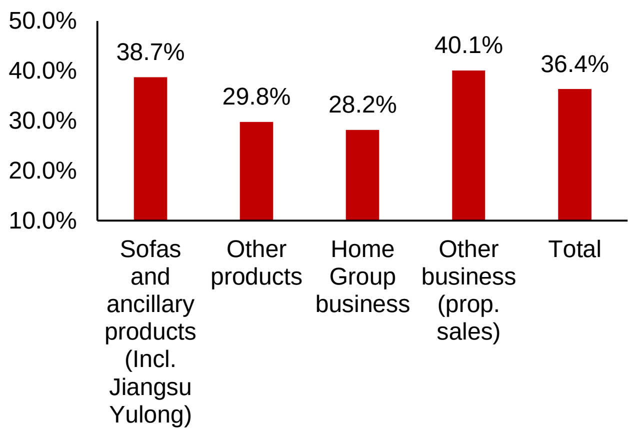
Source: Company data, CMBIS estimates

Figure 4: Sales growth by region



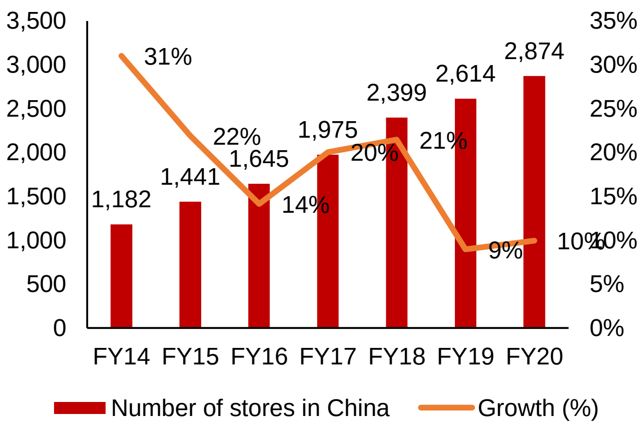
Source: Company data, CMBIS estimates

Figure 5: GP margin by segment



Source: Company data, CMBIS estimates

Figure 6: Number of stores and growth



Source: Company data, CMBIS estimates

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