

Man Wah (1999 HK)

Shift into high gear by rapid store expansion

We are highly positive on Man Wah ("MW") in FY21E-22E, considering: 1) rapid store expansion ahead, 2) its competitive products and marketing under current promotional environment and 3) robust overseas order despite short-term FX pressure. Therefore, its valuation of 21x FY3/22E P/E and 1.2x 3 years PEG is still attractive, vs Jason furniture's 31x and 2.3x and Oppen Home's 32x and 2.4x.

- **1H9/21 results beat.** MW's 1H21 sales/ net profit rose by 19%/ 7% YoY, beating BBG est. (sales growth is a clear beat vs 19% consensus sales growth in FY21E). GP margin in China fell by 1.5ppt YoY, due to more renovation subsidies and sales rebates, as well as ASP drop by channel mix change. Yet, it was offset by better GP margin from other segments. Excluding losses from FX and one-off investment fair value changes, adjusted net profit would have gone up by 26%. Payout ratio was also raised to 51% in 1H21 from 44% in FY20.
- **Impressive sales growth is likely to stay in near term.** Group sales growth accelerated to 19% YoY in 1H21, from 14% YoY in 2H20, driven by: 1) 53% China sales growth (65%/ 50% for online/ offline) and 2) resilient US sales (only 1% sales decline in 1H21 even after a weak Apr-Jun 2020 where most production was halted). **We believe growth can accelerate in 2H21E**, thanks to: 1) faster store expansion amid industry consolidation, 2) more active marketing with more pop-up stores and competitive products and 3) better exports orders, as booking is already full until CNY 2021.
- **Rapid store expansion in China just started.** MW believes now is the best time to expand as more quality space in shopping mall has been freed up due to industry consolidation after COVID-19, and they are also penetrating faster into lower tier cities. 658 new stores were opened in 1H21 (~30% YoY growth), speeding up from 260 stores in 2H20 (~10% YoY growth). Management expects at least 400 new stores in 2H20E and 5,000 total stores should be achievable in three years (by FY23E).
- **New CEO to boost efficiency through digitalization.** MW recently hired a new CEO Feng Guo Hua, who was GM of the Greater China Corporate Service Department of Microsoft (China) from 2016 to 2020. Before that, he was a VP and managing partner at IBM Global Business Consulting Service Department. During the results briefing, he pointed out that MW could refine various areas through digitalization, such as: operation efficiency, customer relationship management & marketing and overseas businesses.
- **Still have room for further EPS upgrades and valuation re-rating.** We believe consensus numbers may be revised up after earnings beat, and further re-rating can be enhanced by more buying from southbound investors. According to BBG's est. the counter is trading at 21x FY20E P/E and 1.2x PEG, which is still undemanding vs industry's 23x and 2.1x.

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)	33.5	37.7	31.3
P/B (x)	8.6	8.2	7.6
Yield (%)	1.9	0.9	1.4
ROE (%)	25.8	21.9	24.4
Net gearing (%)	Net cash	47.8	29.6

Source: Company data, CMBIS estimates

NOT RATED

Current Price

HK\$13.42

China Furniture Sector

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Stock Data

Mkt Cap (HK\$ mn)	51,037
Avg 3 mths t/o (HK\$ mn)	114.95
52w High/Low (HK\$)	14.4/3.62
Total Issued Shares (mn)	3,803.0

Source: Bloomberg

Shareholding Structure

Mr. Wong Man Li & Family	62.12%
Free Float	37.88%

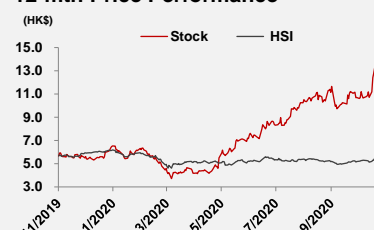
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	25.7%	16.1%
3-mth	30.8%	25.9%
6-mth	144.0%	122.0%
12-mth	156.1%	157.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

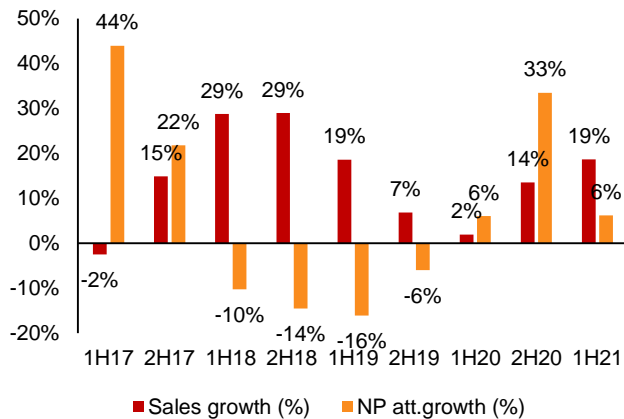
Auditor: Deloitte Touche Tohmatsu

Related Reports

1. Man Wah (1999 HK) – Robust E-commerce growth and falling costs – 18 May 2020
2. Man Wah (1999 HK) – Short term pain for long term gain - 22 May 2019
3. Man Wah (1999 HK) – NDR takeaways: better risk reward as fundamentals improve - 28 Jan 2019

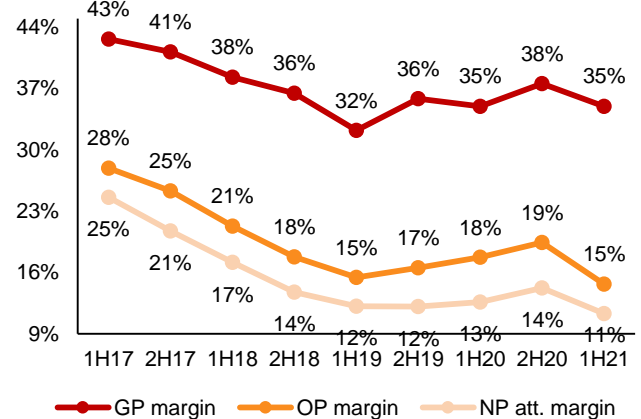
Focus Charts

Figure 1: Sales/ net profit att. growth



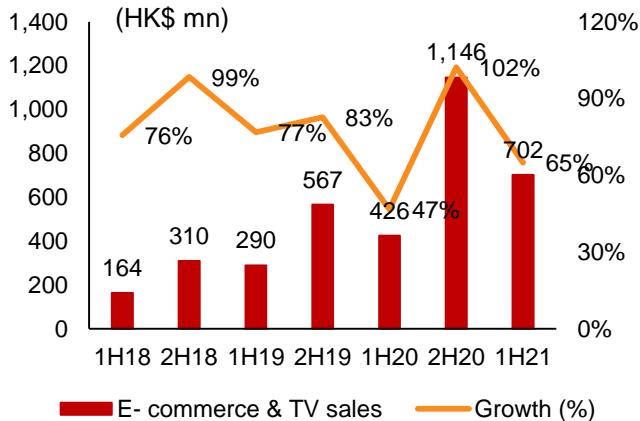
Source: Company data, CMBIS

Figure 2: GP/ OP / NP att. margin



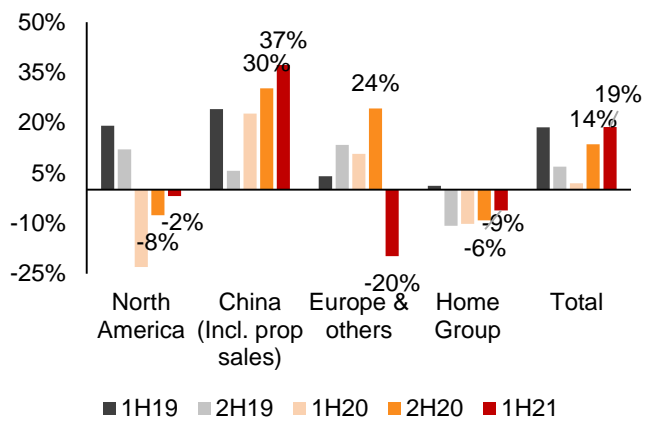
Source: Company data, CMBIS

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



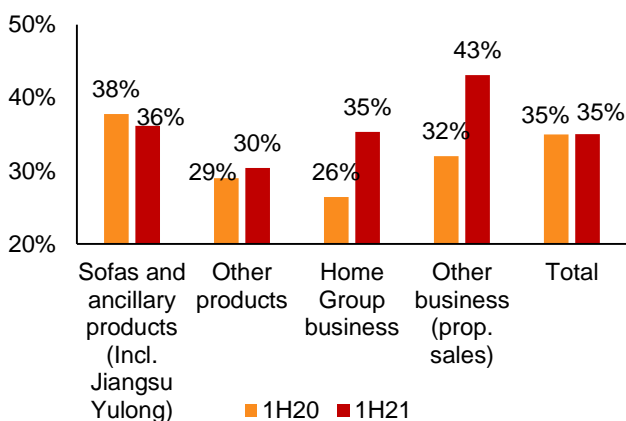
Source: Company data, CMBIS estimates

Figure 4: Sales growth by region



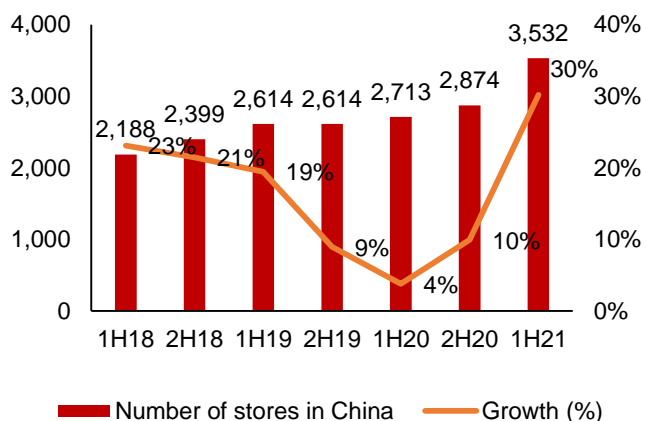
Source: Company data, CMBIS estimates

Figure 5: GP margin by segment



Source: Company data, CMBIS estimates

Figure 6: Number of stores and growth



Source: Company data, CMBIS estimates

Valuation

Figure 7: Peers valuation table

				12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
A + H shares Furniture															
Man Wah	1999 HK	NR	n/a	13.42	n/a	51,037	Mar-20	27.3	20.6	6.4	5.3	24.9	1.2	1.7	
Jason Furniture	603816 CH	NR	n/a	80.06	n/a	59,421	Dec-19	37.5	31.3	7.6	6.6	20.4	2.3	1.4	
Oppein Home	603833 CH	NR	n/a	132.40	n/a	92,665	Dec-19	38.5	31.9	7.0	5.9	19.1	2.4	0.6	
Suofeiya Home	002572 CH	NR	n/a	29.67	n/a	31,769	Dec-19	23.6	20.5	4.4	3.9	19.7	1.9	1.9	
Healthcare Co	603313 CH	NR	n/a	38.50	n/a	15,611	Dec-19	25.8	17.2	4.7	3.8	18.6	0.8	0.3	
JS Oupai	603208 CH	NR	n/a	110.73	n/a	13,653	Dec-19	28.4	21.4	6.9	5.2	28.5	0.7	0.9	
Markor Home	600337 CH	NR	n/a	4.96	n/a	10,284	Dec-19	28.7	17.5	1.7	1.6	3.1	4.2	n/a	
Shangpin Home	300616 CH	NR	n/a	60.90	n/a	14,200	Dec-19	31.8	20.9	3.2	2.8	7.5	3.6	0.7	
								Avg.	30.2	22.7	5.2	4.4	17.7	2.1	1.1
								Med.	28.5	20.8	5.6	4.5	19.4	2.1	0.9
International Furniture															
La-Z-Boy Inc	LZB US	NR	n/a	36.38	n/a	12,974	Apr-20	17.0	13.3	n/a	n/a	9.2	1.0	0.6	
Nitori Holdings	9843 JP	NR	n/a	21240	n/a	180,163	Feb-20	26.3	25.7	3.7	3.3	14.8	2.1	0.6	
Hyundai Livart	079430 KS	NR	n/a	14900	n/a	2,138	Dec-19	8.7	7.2	0.6	0.6	5.1	1.6	1.9	
Leggett & Platt	LEG US	NR	n/a	41.87	n/a	43,020	Dec-19	20.2	15.9	n/a	n/a	18.1	3.7	3.8	
Ethan Allen Inc	ETH US	NR	n/a	17.18	n/a	3,337	Jun-20	14.1	12.6	1.3	1.2	1.2	0.2	3.7	
Rh	RH US	NR	n/a	408.08	n/a	61,743	Feb-20	24.6	22.2	29.0	18.4	n/a	1.2	0.0	
								Avg.	18.5	16.2	8.7	5.9	9.7	1.6	1.8
								Med.	18.6	14.6	2.5	2.3	9.2	1.4	1.3

Source: Bloomberg, CMBIS estimates

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