Oriental Yuhong will take the lead in the tycoon era

——Key report points

The leading enterprises will welcome the best era

The new-

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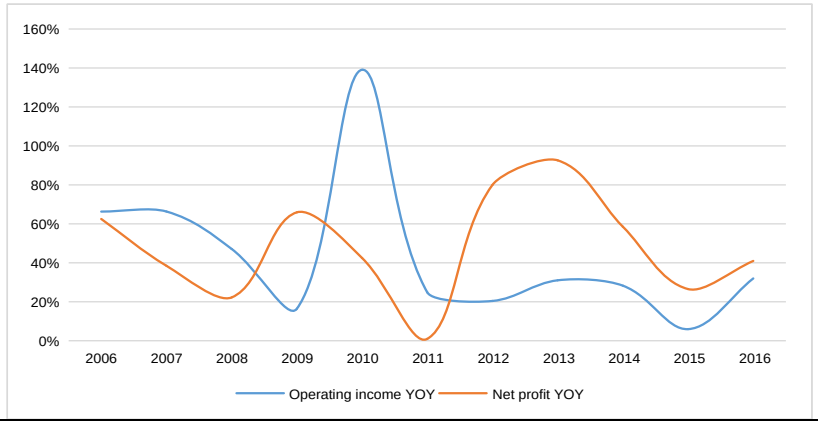
As the high-quality white horse object in the building material industry, Oriental Yuhong has been highly emphasized in the market. Since its listing in 2008, it has realized constant expansion in the sales areas (additional adding of Jinzhou, Huizhou, Tangshan and Xianyang) and sales fields (high-speed train, real estate developer cooperation, retail field) by aid of the power of capital market. From 2005 to 2016, it realized the business revenue of 40%, compound growth speed in attributable net profit of 46%, and the growth speed of net profit was lower than 20% only in 2011 and the revenue growth speed was lower than 20% only in 2015. Currently, the market concerns most about the problems including the influence of real estate industry growth speed on the company, transmission of the company in raw material price increasing and continuous growth based on scale enlargement of the company, therefore, we will give our own opinions in this report.

Figure 1 Large growth of revenue and profit based on listing



Data source: Wind, Changjiang Security Research Institute

more obvious. **See Yuhong for the industrial life cycle: the market scale if 150 billion, the concentration ratio will be enhanced rapidly and the leading enterprises will welcome the best era.**

In this process, Oriental Yuhong may become the largest winner. In view of the development history of Yuhong, it benefits from it(n)9(g)-3(,9(s)-3( )14a95.32 593(p8f03(ro)9(cv)7(e)-3l(v)7(i)-3(e)9(i)-4(t ei)-4(n)-3t-190(b)

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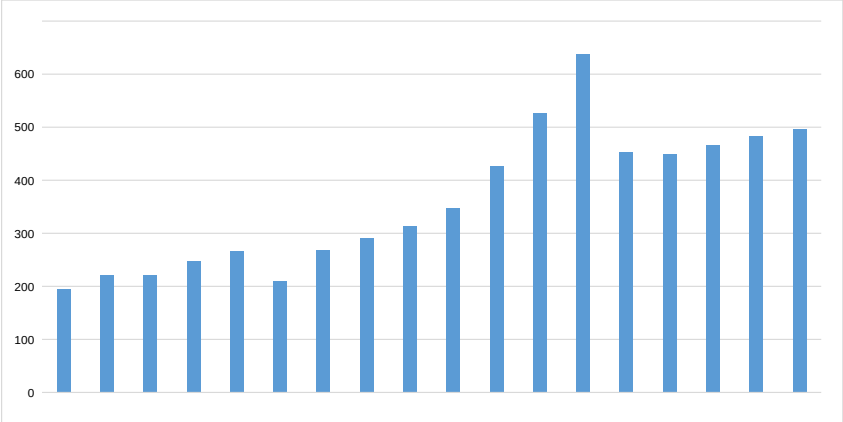
2016 was about 98.8 billion Yuan in total, involving over 560 enterprises. Considering the large number of small and medium-sized enterprises, it is estimated that the total industry scale is about 150 billion Yuan.

Figure 4: the scaled waterproof industry enterprises were 496 in October before 2015



Data source: Wind, Changjiang Security Research Institute (the caliber for scaled enterprises was adjusted

Industrial competition pattern: the waterproof market concentration ratio in our country is far lower than that in overseas

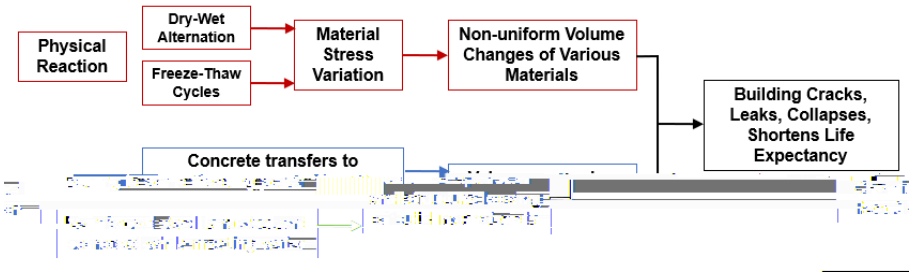
From an international perspective, the waterproof material industry concentration ratio in overseas is higher: in 2002, the total quantity of waterproof materials had reached to 1.5 billion square meters in America, but only 40 enterprises and about one hundred manufacturing enterprises were involved. The EPDM waterproof roll market having an annual output of 0.1 billion square meters was monopolized by two large companies: Xunshitong Company of over 5,000 square meters and Carlisle Companies of over 4,000 square meters. The waterproof material industry is similar in France, SOPREMA is the largest modified asphalt waterproof roll manufacturing enterprise in France, accounting for 35% of the market share in the plane house market of France.

The waterproof material enterprises in our country is disperse in Shandong, Hebei, Hunan and Guangdong with the form of industrial cluster, besides, there exists with large number of workshop-style enterprises. According to the statistics caliber of scaled enterprises, Oriental Yuhong accounts for 7% of the market share while other enterprises occupy a small proportion. In addition to few foreign-capital manufacturing enterprises in our country, the waterproof material enterprises in our country can be divided into five competitive echelons.

The first echelon is Oriental Yuhong with its scale far larger than that of other competitors; the second echelon involves COLSON, JOABOA, Hongyuan and

The building waterproof material quality and application effect directly affect the structural effect and service life of architectural engineering. Therefore, the waterproof materials are highly emphasized by the real estate developers and constructors. Besides the main architectural structure, waterproofing is the most important part to affect house quality, and is also the “pain point” of many consumers.

Figure 6: Know the importance of waterproof materials from the perspective of waterside

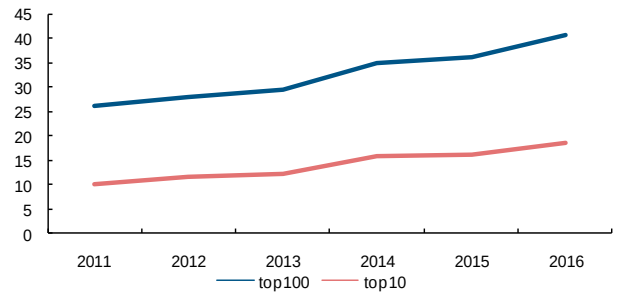


Data source: corporate report, Changjiang Security Research Institute

concentration ratio accelerated. Besides, from the perspective of land market, the concentration ratio of the top ten real estate developers is higher.

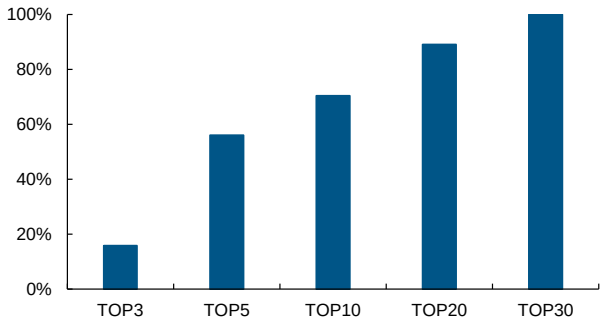
Meanwhile, as the house purchases have higher and higher requirement on house quality, the real estate developers face fiercer competition. The waterproof material occupies a small proportion in the construction cost (mainly applied in the fields of roof, external wall and basement), while the price difference between waterproof materials is within 10-20%. As the real estate developers pay more and more attention to house quality, they are not sensitive to waterproof material price.

Figure 8: The concentration ratio of real estate developers is enhancing year by year



Data source: China Index Academy, Changjiang Security Research Institute

Figure 9: The concentration ratio of TOP30 additional-adding lands of the Chinese real estate enterprises from January to October of 2017



Data source: CRIC, Changjiang Security Research Institute

The multi-directional advantage creates growth moat

We think the core competitiveness of the company comes from two aspects: firstly, the wolf culture of the company; secondly, the first-mover advantage of listing. The waterproof industry has high requirement on capital. The company firstly realized listing in 2008 and then launched new production capacity constantly to realize multi-area layout, currently, it is far stronger than its competitions in competitiveness.

Figure 10: The compeua(h)4(e)321 0 0 1 85.824 275.33 Tm0 0.333 0.529 rg0 0.333 0.5290.529

Advantage I: wolf culture and incentive system

As the tycoon with absolute competitiveness in the waterproof industry, we think the wolf culture is reflected in two aspects: firstly, the decision-making capability of management layers and the executive force of the teams; secondly, the stock ownership incentive and bonus incentive are in place. The output per capita281(a)-3(re)-3(/-4(n)-3( )-281(p)-3(l)9166 00887265..2La

expansion but also is helpful to save transportation expense and satisfy the supply timeliness to the downstream enterprises.

Form 6: Previous financing and fund raising projects since the company was listed

2008.8	2.29	First issue	The project of the waterproof roll of annual output of 10 million square meters and waterproof costing of 10,000 tons in Shanghai, the project of the waterproof roll of annual output of 10 million square meters, macromolecule waterproof roll of annual output of 5 million square meters and waterproof coating of annual output of 10,000 tons in Xuzhou

large scope to constantly its product line; in 2005, it raised the overall system solution (from roof to floor, key customer management, major engineering management), drove the sales volume to increase based on projects and made its products obtain larger advantage in cost and service optimization.

In recent ye/P /es2(,)-243(k)-6(e)-3(y)7( )-254(c16(r)13(o)-3( )-243h(e)-3((u)-3(m)6CID 6/Lang (en-US)>>BDC q0.700008871 0 595.32 841.9

enlarge the marketing network to further enrich the corporate operation structure and increase the profit sources.

Form 7: Product category expansion rhythm of the company in recent years

It is expected that the company will realize the attributable net profit of 1.72 and 2.37