

Oriental Yuhong will take the lead in the tycoon era

—Key report points

The leading enterprises will welcome the best era

The new-type waterproof materials experienced the rapid compound growth of over 20% in sales volume from 2000 to 2014, which, on the one hand, is owing to the high investment growth speed in real estate, and on the other hand, is owing to the substitution to the traditional bituminous felt by new-type waterproof materials. Currently, though the substitution to the traditional waterproof materials has basically completed, the investment growth speed in real estate has already returned to rationality. But in recent two years, the stricter environmental-protection policy and the taxation policy reform has made small enterprises exit while the consumption upgrade (the overlapping real estate developer concentration ratio has rapidly enhanced) trend has been more and more significant. It is expected that the waterproof industry will welcome the new chance of national-standard products substituting the non-national standard products, and the effective market faced by the leading enterprises will enjoy a rapid growth. We adopt two methods to estimate the market capacity of waterproof industry is about 150 billion Yuan, wherein, the market occupancy rate of the company was only 7% in 2017, which has large development space.

The multi-directional advantage creates growth moat

Historically, the company mastered the development chances of large engineering (Olympic games), large project (high-speed train) and real estate major customers, timely adjusted and implemented its strategy in face of external environment change, and presented its wolf culture gene in management and sales management. Besides, the waterproof industry requires high capital for upstream and downstream, and its operational cash flow is not enough to maintain the fixed asset investment based on large-scale expansion. As the first listed enterprise in waterproof industry, the company has intensified its advantages through fund raising: 1) Invest in new industry to satisfy sales; 2) High equipment input capital guarantees the stability of product quality; 3) The production line establishment in multiple areas has formed multiple-area layout to guarantee the timely goods supply and save the transportation expense; 4) The stock ownership incentive and internal assessment mechanism are in place, and the wolf culture is reflected obviously. The company has distanced itself significantly from its competitors since it was listed for ten years, which may benefit most from the rapid acceleration trend of the concentration ratio of waterproof industry.

The multi-category development is necessary for the leading enterprises

The company has positively promoted the expansion of new categories (thermal insulation material, mortar, non-woven fabrics, diatom ooze and coating) and channels, which has realized the annual growth of 50% in the retail field since 2014 and is expected to retain high growth speed in 2017. The market scale of mortar, coating and thermal insulation material fields is large, and the downstream customer has overlapping feature with waterproof. In the future, Yuhong can create a further space to realize a high growth in the waterproof field in a relayed way.

Optimistic at the waterproof business growth and growth potential of other businesses of the company, as well as the purchasing rating

It is expected to realize the attributable net profit of 1.72 and 2.37 billion Yuan in 2018 and 2019, corresponding to the 24 times and 18 times of PE. The downstream real estate developer concentration ratio accelerates, the company may benefit most from it, other businesses will have development potential and the purchasing rating will be awarded.

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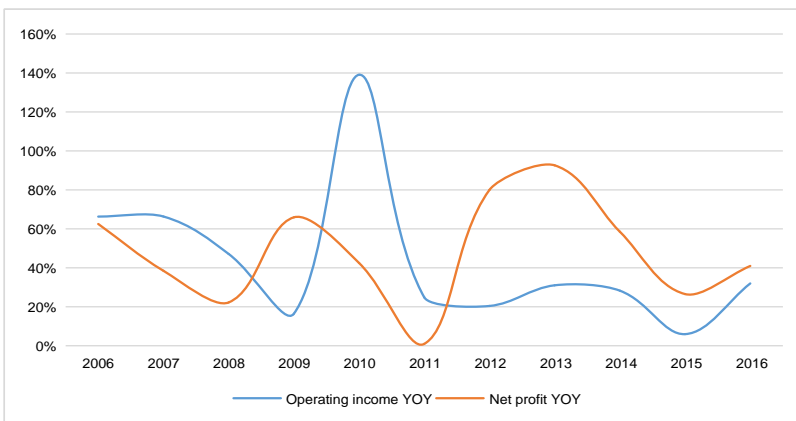
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Introduction

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

The waterproof material has high relation with building field. Previously, under the background of rapid growth of real estate and construction investment, it was a relatively extensive industry, wherein, the management and cost control of most enterprises were not perfect. As the downstream demand slows down gradually, the waterproof material industry is in the transition stage from growth period to mature period currently, which is owing to the common promotion of industrial policy, leading enterprises and consumption idea. We think the current stage is the resonance period: strengthen the environmental-protection rectification and standardize the taxation for replacing business tax with value-added tax; the leading enterprises constantly standardize the production and internal management in the long-term development process to better control product quality; the consumption upgrade enhances the house quality to prompt the real estate developer to use high-quality waterproof material products. Currently, the market scale of the industry is about 150 billion Yuan while the leading enterprises occupy a small proportion. In the future, it will welcome rapid enhancement of market concentration ratio and the polarization will become

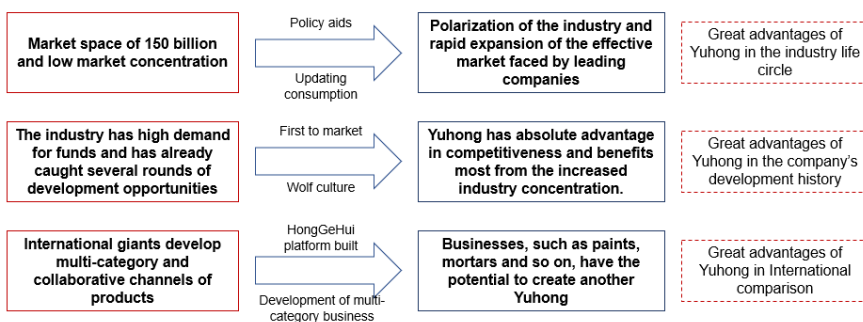
more obvious. ——**See Yuhong for the industrial life cycle: the market scale if 150 billion, the concentration ratio will be enhanced rapidly and the leading enterprises will welcome the best era.**

In this process, Oriental Yuhong may become the largest winner. In view of the development history of Yuhong, it benefits from its own excellent enterprise culture and strong execution force. It can make timely adjustment on the market environment change to avoid strategic misjudgement in operation decision and implementation. After it is listed, it enhances its own competitiveness, intensifies the advantages in capital, scale, channel, brand and management, presents obvious advantage in waterproof material field, therefore, it will have higher growth speed than the industrial growth speed in the future. ——**See the development history of Yuhong: have**

advantages in brand, capital, scale, channel and management, create growth moat.

Internationally, the international tycoons such as Sika, Saint-Gobain and Owens Corning all engage in multi-category building material products, wherein, different products have synergistic effect, besides, the companies can better give play to the advantages in management, channel and scale. Yuhong positively promotes thermal insulation material, non-woven, decorative coating and mortar to accumulate steadily, and break through its growth and ceiling value. ——**See Yuhong from an international perspective: the multi-category development is the necessary road for building material tycoon.**

Figure 2: Recommended logic of oriental Yuhong



Data source: Changjiang Security Research Institute

The leading enterprises will welcome the best era

Industrial market space: one hundred billion capacity of the market with potential enhancement

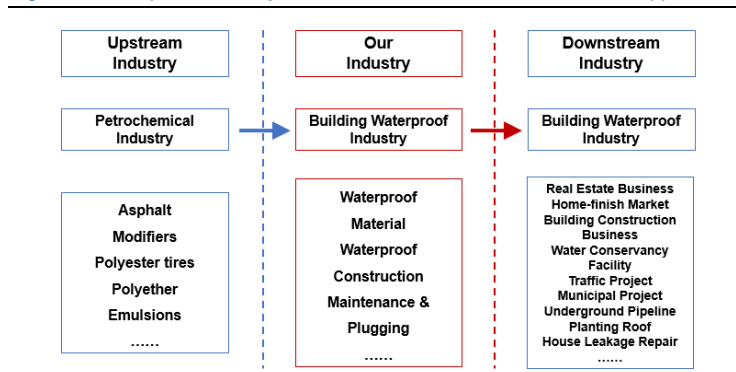
We adopt two methods to estimate the capacity of the waterproof material market

Method I:

The downstream demand of waterproof material industry is extensive, besides the house construction needs waterproof materials, the high-speed train, airport, bridge, tunnel, pipeline, rail transportation, hydraulic engineering and municipal engineering included in infrastructure construction all need waterproof materials. Wherein, the waterproof materials account for 0.5-1% for high-speed train investment while the waterproof materials account for a relatively large proportion in bridge and tunnel construction. For house construction, we consider no about the stock market, but assume the construction cost to be 2500 Yuan/square meter, and the waterproof material accounts for 1.2%.

According to the completed floor area of 4.22 billion square meters of house construction in the end of 2016, the newly-built houses are expect to drive the waterproof material demand of 126.6 billion Yuan; In view of infrastructure construction, only consider the demands of hydraulic engineering, transportation industry and storage industry on waterproof materials, assume the waterproof materials account for 0.5% of the fixed asset investment in hydraulic engineering, transportation industry and storage industry, it is expected that the infrastructure construction will drive the demand of waterproof materials of about 26.2 billion Yuan. Therefore, the market space of waterproof material is about 150 billion Yuan.

Figure 3: waterproof industry chain: the downstream has extensive application,



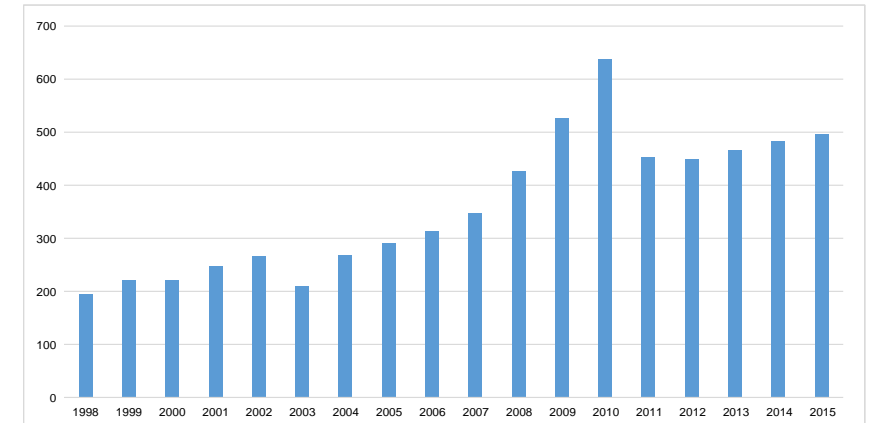
Data source: China Building Waterproof Industry Association, Changjiang Security

Method II:

Up to the end of 2015, there were 975 waterproof roll manufacturing enterprises with production licenses in total, besides, there were a large number of non-waterproof roll manufacturing enterprises and about 2000 qualified building waterproof material manufacturing enterprises. In addition, there were also a large number of unlicensed enterprises. According to the data of Building Waterproof Industry Association, the business revenue of scaled enterprises (having revenue of over 20 million Yuan) in

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

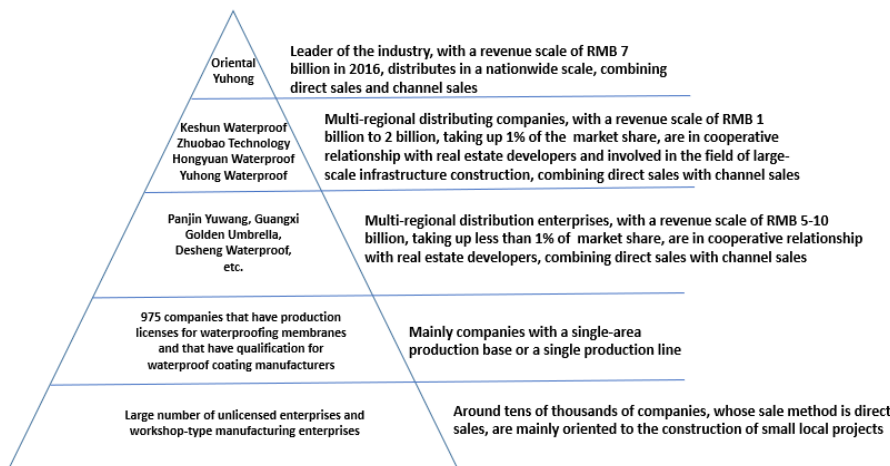
From an international perspective, the waterproof material industry concentration ratio in overseas is higher: in 2002, the total quantity of waterproof materials had reached to 1.5 billion square meters in America, but only 40 enterprises and about one hundred manufacturing enterprises were involved. 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

Yuhong with the revenue scale of 1-2 billion Yuan, which are featured with multi-area distribution, certain production scale and stable product quality; the third echelon involves Desheng, Jinyusan and Yuwang with revenue scale of 0.5-1 billion, which are in the transition stage from single area to multi-area layout; the fourth echelon includes the enterprises with production license; the fifth echelon includes a large number of small and medium-sized enterprises and even workshop-style manufacturing enterprises.

Figure 5: Obvious echelon division of waterproof material enterprises



Data source: corporate notice, Changjiang Security Research Institute

Currently, there exists with large number of unlicensed manufacturing enterprises in the waterproof material industry. Theoretically, the unlicensed enterprises can not realize supply smoothly owing to filing problem in the supply engineering market, therefore, most products are supplied for civil use. But some products are mixed in the engineering end owing to the mixed industrial competition to disturb the industrial competition market. Among the scaled enterprises with standardized production, Yuhong is far superior than its competitors in the scale, regional layout and undertaken demonstration projects.

Our country is welcoming the change of rapid enhancement in concentration ratio: the policy tends to be stricter and the consumption upgrades

The policy has been more and more stricter since 2010, wherein, it strengthened its executive force in 2016.

Before 2010, the new-type building waterproof material was in the stage of increasing proportion, and the policy focused on asphalt and plastic waterproof products. As the new-type building waterproof material occupy a larger proportion and the competitiveness of main waterproof material enterprises strengthens, the national standards on waterproof material is perfecting constantly. The supervision on the new-type building waterproof material industry has enlarged since 2010, including

eliminating backward production capacity and implementing the production license policy.

Besides the production license system, the waterproof material manufacturing enterprises also need environment evaluation qualification and security evaluation qualification. While the environmental protection has been strengthened since 2016, especially Shandong and Hebei involved in the “2+26” scope, some small enterprises are still closed, which should start operation after being rectified and accepted for qualification. In addition, the measures such as replacing business tax with value-added tax, capital tightening and turning coal into gas also accelerate the exiting of small enterprises.

Form 1: The policy has strengthened attention to waterproof materials since 2010

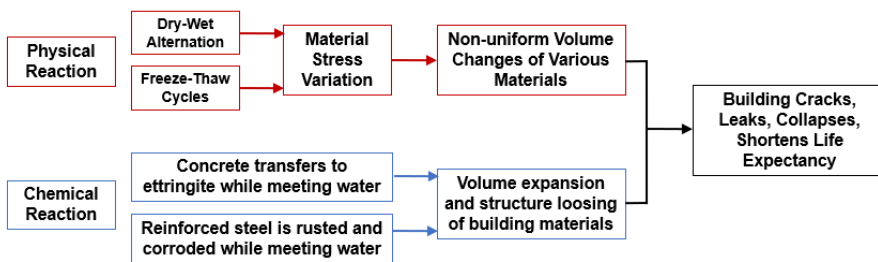
Time	Name of policy	Main content
2011.12	“12 th Five-Year” development plan of building waterproof industry	Eliminate the modified asphalt (asphalt base self-adhesion) waterproof roll production lines of below 5 million square meters per year. Realize the newly-established modified asphalt (asphalt base self-adhesion) waterproof roll production lines of over 10 million square meters/year; eliminate the macromolecule waterproof roll (TPO, PVC) production lines of below one million square meters per year; realized the newly-established macromolecule waterproof roll (TPO, PVC) production lines of over 3 million square meters/year
2013.2	Entry situation of building waterproof roll industry	Realize the single line production capacity of over 10 million square meters/year of the newly-established modified asphalt (including self-adhesion) waterproof roll project (based on the products with smallest thickness, 250 day/year and 16 hour/day); realize the single line production capacity of over 3 million square meters/year of the newly-established macromolecule waterproof roll (TPO, PVC) project
2016.9	Green building material evaluation requirements-w aterproof and sealing materials	Adopt the advanced technology encouraged by the country, don't use the eliminated or banned technology, craft, equipment and material published by the country or related departments, don't use the restricted materials out of scope; the air pollutants, sewage, sanitary wastewater of factory and noise discharge should conform to related regulations of the country or the local government, which should obtain the sewage discharge permission from the local government, and guarantee no major environmental pollution event within recent three years

Data source: official websites of all departments, Changjiang Security Research Institute

Consumption upgrade enhances the relative advantage of leading enterprises

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.

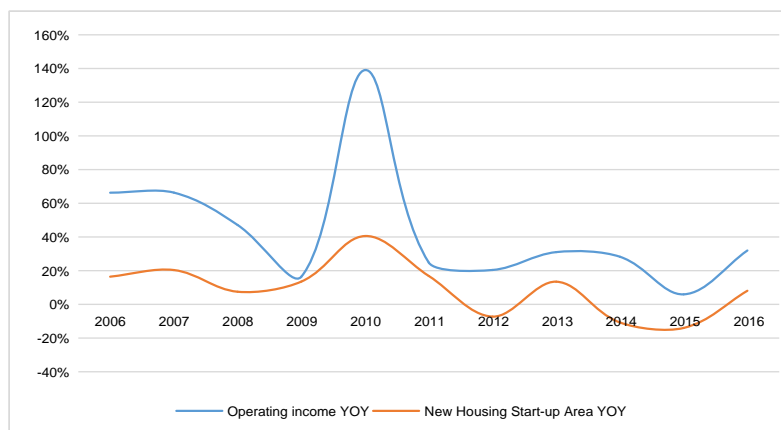
Figure 6: Know the importance of waterproof materials from the perspective of waterside



Data source: corporate report, Changjiang Security Research Institute

The real estate market occupies a larger proportion in the downstream demand of the company. Based on historical experience, the corporate revenue growth speed has large relation with the real estate market (In 2010, the high-speed train orders of the company increased rapidly owing to the concentrated construction of high-speed rails, which had certain particularity).

Figure 7: The corporate revenue growth speed has strong relation with real estate market



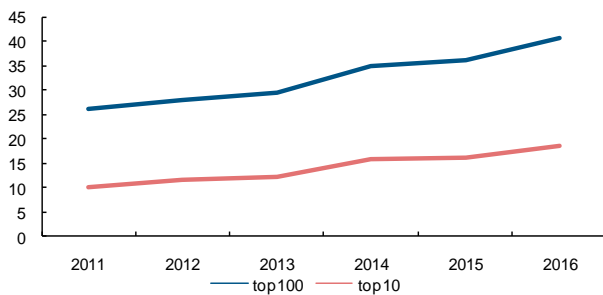
Data source: Wind, Changjiang Security Research Institute

In recent years, the concentration ratio of real estate developers has enhanced obviously. Wherein, the real estate enterprises of ten billion in 2016 reached to 131, increased by 27 compared with that in 2015, realized the sales volume of 5.7 trillion Yuan in total with the market share of nearly 50%, therefore, the industrial

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

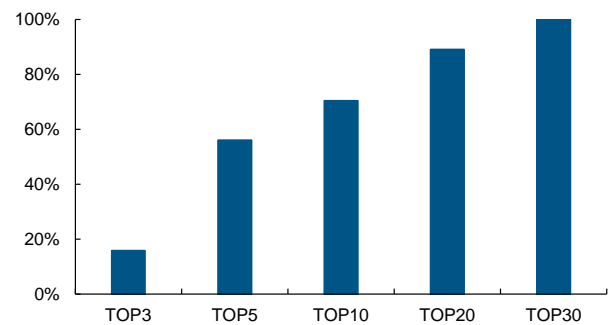
Meanwhile, as the house purchases have higher and higher requirement on house quality, the real estate developers face fiercer competition. The waterproof material occupies a small proportion in the construction cost (mainly applied in the fields of roof, external wall and basement), while the price 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

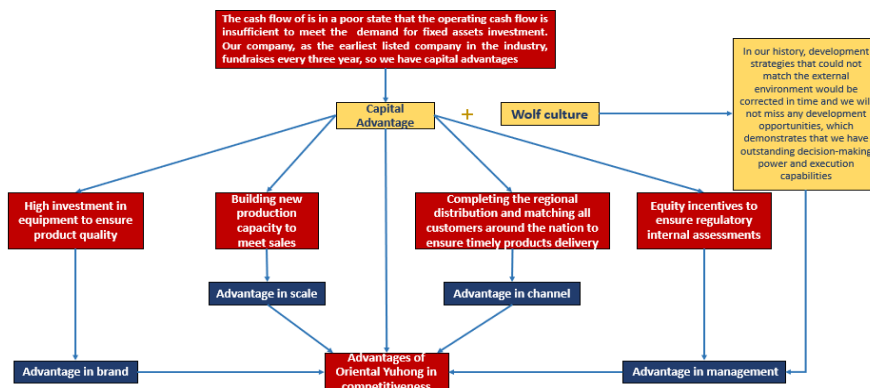


Data source: CRIC, Changjiang Security Research Institute

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 competitiveness of the company is reflected by the enterprise culture and capital



Data source: corporate report, official website of the company, Changjiang Security Research Institute

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 capita is obviously higher than that of its competitors.

Form 2: The output per capita (ten thousand Yuan) is obviously higher than that of other enterprises

Year	Oriental Yuhong	Kellen Share	Keshun Share
2014	138.98	94.02	88.56
2015	126.65	71.03	99.63
2016	128.85	67.58	101.34

Data source: Wind, Changjiang Security Research Institute

Make decisions without hesitation and implement fast

The company owns excellent top management team and three-dimensional management architecture. In view of organizational architecture, the management tends to be flattened. For the key sales areas and key areas, the top management layers conduct direct management and control, such as Beijing Branch and Civil-use Building Material Company, which is beneficial to give play to the strong strategy execution capability of the company.

It can be seen from the development history of the company, the company can timely correct the development strategy according to actual situations, timely grasp the change in face of industrial pattern change and succeed in grasping the chances of large project construction, high-speed rail construction and cooperation with real estate developers thus to realize rapid development, which verifies its flexible decision-making capability and strong executive force.

Figure 11: The company experiences four development stages



Data source: corporate report, Changjiang Security Research Institute

The company realizes obvious enhancement in three stages in history from the perspective of market occupancy. Firstly, Olympic Games in 2006 and 2007; secondly, high-speed rail project in 2010 (in view of the sales volume of five major customers, the average sales scale was far higher than that in 2009; thirdly, the company adopted the PS strategy in 2016 to enlarge the revenue scale constantly.

Form 3: The sales volume of five major customers before 2009 and 2010

2010		2009	
Customer name	Sales volume (ten thousand Yuan)	Customer name	Sales volume (ten thousand Yuan)
Beijing-Shanghai high speed railway passenger transport line	16438.93	Taiyuan-Zhongwei (Yinchuan) railway engineering	2864.36
China Vanke Limited Liability Company	10832.47	China Vanke Limited Liability Company	2423.75
Beijing-Shijiazhuang railway passenger transport line	7845.67	Beijing Rail Traffic Yizhuang Engineering	2000.1
Shanghai-Hangzhou railway passenger transport line	4618.77	Tianjin Oriental Yuhong Waterproof Technology Co., Ltd. (agent)	1528.68
Beijing-Guangzhou railway passenger transport line	4570.48	Wuhan-Guangzhou passenger transport line	1505.4

Data source: Corporate report, Changjiang Security Research Institute

The growth in 2007 and 2010 benefited largely from the construction chances of Olympic Games and High-speed rail construction, while in 2008 and 2011, when the market environment changed (the Olympic games project in 2008 was completed and the high-speed rail order in 2011 was delayed), the company timely adjusted the competitive strategy but still realized the constantly enhancement of market occupancy, which was hard-won and reflected the comprehensive competitiveness of the company.

The stock ownership incentive attracts senior talents

The company realizes stock ownership incentive on the senior managers and main technicians in 2012 and 2016. The vesting conditions for these two stock ownership incentives were all the compound growth speed of over 25% for successive four years, especially for the incentive aiming at medium and high-level managers and technicians involving 1,112 persons in 2016.

Form 4: Previous stock ownership incentive situations of the company

Previous stock ownership incentive	Main content
The first restricted stock ownership incentive plan	The plan drafted to award the restricted stocks of 18 million, accounting for 5.24% of the total shares of 343.52 million
The second restricted stock ownership incentive plan	The plan drafted to award the restricted stocks of 65.044 million, accounting for 7.83% of the total shares of 830.6934 million

Data source: Wind, Changjiang Security Research Institute

In addition to stock ownership incentive, the bonus incentive of the company was also in place. The sales volume of the company reached to 32% in 2016 while the average salary separated from the sales volume to the salespersons was enhanced by 30% compared with that in 2015

Form 5: The salary of salespersons increased by 28.3% in 2016 on a year-on-year basis

	Total salary of salespersons (0.1 billion Yuan)	Number of salespersons	Per capita salary (ten thousand Yuan)	Year-on-year growth
2015	2.23	1281	17.44	
2016	3.33	1488	22.36	28.25%

Data source: Wind, Changjiang Security Research Institute

In addition, the company has begun to carry out the engineering channel partner system since 2016 to establish the partnership, which is helpful to motivate the enthusiasm of the distributors.

Advantage II: realize listing firstly to break through the capital bottleneck

Owing to the low bargaining capability of the waterproof enterprises to the upstream and downstream enterprises, the upstream and downstream enterprises account for a large proportion of capital, most of which belong to light capital industry. But in order to enhance the degree of automation and stability of product quality, the waterproof enterprises face high capital demand in purchasing overseas equipment. It can be seen from the absolute value of the operational net capital flow of the company and Keshun Shares subtracting the fixed asset investment that the scale expansion of the waterproof enterprises will be restricted by capital, therefore, listing financing is helpful to break through the capital bottleneck.

The company has basically retained the financing once every three years for new production line investment and establishment since its listing, and currently, it has formed 18 production bases in Shanghai, Yueyang of Hunan, Huizhou of Guangdong, Jinzhou of Liaoning, Xuzhou of Jiangsu, Xianyang of Shanxi and so on, which not only moderates the production capacity bottleneck faced by the company in

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

Declaration date	Total fund raised (0.1 billion Yuan)	Fund raising mode	Newly-added production capacity based on fund raising
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
2011.1	4.72	Private placement	The project of the waterproof roll of annual output of 10 million square meters and waterproof costing of 40,000 tons in Jinzhou Economic Technology Development Area, the project of the waterproof roll of annual output of 10 million square meters and waterproof costing of 20,000 tons in Huizhou Daya Bay Industrial Development Area, the acquisition of Kunming Fengxing Waterproof Material Co., Ltd., one waterproof roll production line of annual output of 10 million square meters in Kunming and one modified asphalt roll production line of annual output of 10 million square meters in Yueyang
2014.8	12.73	Private placement	The project of the waterproof roll of annual output of 40 million square meters and waterproof costing of 40,000 tons in Tangshan, the project of the waterproof roll of annual output of 20 million square meters and waterproof costing of 40,000 tons in Xianyang, the project of the waterproof costing of annual output of 90,000 tons in Xuzhou, the project of the waterproof roll of annual output of 20 million square meters in Jinzhou, the project of the non-woven of annual output of 10,000 tons, and the project of polyester spunbond needle asphalt base cloth of annual output of 24,000 tons
2017.10	18.4	Convertible bond	The project of the waterproof roll of annual output of 20.4 million square meters in Xuzhou Woniushan, the project of polyurethane waterproofing paint of annual output of 0.1 million tons, the project of new-type building waterproof, antiseptic and thermal insulation material in Wuhu, the project of the waterproof roll of annual output of 24 million square meters, waterproof coating of 40,000 tons, mortar of 0.2 million tons, and TPO of 10 million square meters in Hangzhou Oriental Yuhong and Laixi, the project of the non-woven of annual output of 0.1 million tons in Chuzhou

Data source: Corporate report, Changjiang Security Research Institute

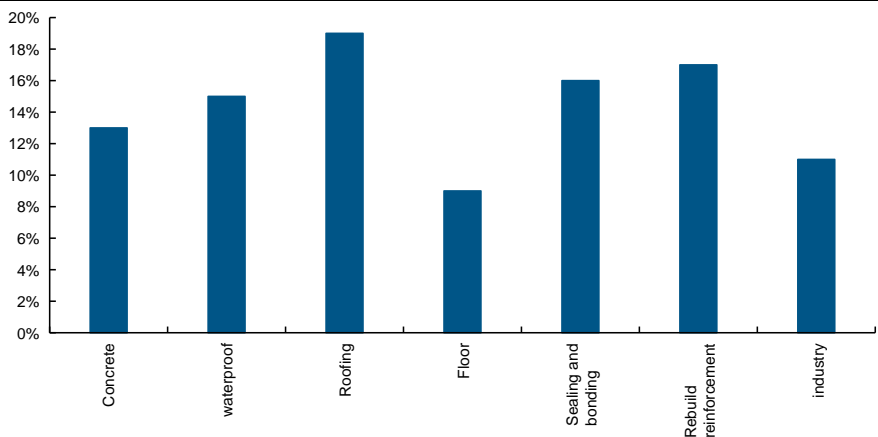
The multi-category development is necessary for the leading enterprises

Sika was founded in 1910 by relying on its waterproof mortar business; in the 1970s, the company was trapped in dilemma to realize diversified transformation under the background of economic depression, and succeeded in entering the industrial cementing compound field in 1980 by aid of building cementing compound thus to open a new business field; in the 1990s, it integrated its core business owing to fierce competition and increasing raw material price, and it began to realize acquisition in a

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 years, it has constantly enriched and upgraded its product line through R&D and acquisition, concentrated its objection on seven businesses of the building and industrial fields: concrete, waterproof, roof, terrace, sealing and adhesion, overhaul and reinforcement and industry (the automobile field). Wherein, the revenue proportion of all businesses was not over 20% with even layout.

Figure 12: The revenue proportion layout of various businesses of Sika was even



Data source: Bloomberg, Changjiang Security Research Institute

The company has begun to accumulate diversified businesses since 2011 to lay a foundation for long-term development.

In August of 2011, The company established the mortar production line of 0.4 million tons in the Woniushan production base of Xuzhou, started the production, sales and service of special mortars including glue for tile, joint mixture and diatom ooze, and all were put into operation in 2013;

In July of 2014, the company established the thermal insulation material graphite polystyrene board production line of 0.8 million steres in the Wuhu production base of Anhui, started the production, sales and service of thermal insulation materials, and some have been put into operation currently;

In April of 2015, it formally established Huashazi Company to mainly engage in sales of mortar products, wherein, glue for tile was the core product for key development;

In May of 2015, Huashazi Company acquired Changsha Luodi, expanded the diatom ooze market and enlarged the sales network to nine provinces including Guangdong, Fujian, Shanxi, Shannxi and so on.

In December of 2016, the company acquired DAWASIA and expanded the decorative coating business. Besides, the company will establish the production base and

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

Type of newly-added products	Product usage and performance	Production capacity situation
Glue for tile	It is mixed by concrete, graded joint sand and polymer additive, substituting the traditional cement mortar bonding mode to plaster tiles and stones, which saves labor, material and space, safe and reliable, not easy to fall off, has low cost in unit area	The company has engaged in the production and sales businesses of glue for tile and decorative mortar since 2013. Currently, it has production capacity of 0.4 million tons, will realize the production capacity of 0.4 million tons
Decorative mortar (diatom ooze)	The diatom ooze taking kieselguhr as the main raw material has good decoration and function, which is the indoor decoration material to substitute the wallpaper and emulsion varnish. It has the functions of formaldehyde removal, air purification, adjusting humidity to release negative oxygen ion, fire and flame retardance, self-cleaning of wall, disinfection and deodorization	
Thermal insulation material	The graphite polystyrene board is mainly used for external wall insulation and has the characteristics of good fireproof performance and low heat conductivity coefficient, good breathability, low cost under same thermal insulation effect and good environmental protection performance in the production process	The company has begun to establish the thermal insulation material production line since 2015 and has 0.8 million steres of production capacity under construction (some have been put into operation)
Decorative coating	The company acquires DAW, carries out decorative coating businesses and orientates at the medium and high-end market	The company acquired DAW ASIA in 2016

Data source: Corporate announcements , Changjiang Security Research Institute

Profitability prediction and investment suggestions

The waterproof industry has entered the rapid enhancement stage of concentration ratio since 2016 (concentration ratio enhancement in the downstream+environmental protection eliminating the small enterprises), and the revenue growth speed of the company has enhanced, which shows that the industrial competition pattern is optimizing rapidly. In 2017, the company realized the business volume of 10.194 billion Yuan with a year-on-year increasing of 46.2%; the attributable net profit of 1.244 billion Yuan with a year-on-year increase of 20.95%. It is expected to present the phenomenon of polarization in 2018 and the high revenue growth speed of the company will be realized; in 2017, the net interest rate declined owing to the raw material price increasing and stock ownership incentive expense. In 2018, the company considers to increase the price, reduce the stock ownership incentive expense and dilute the expense based on enlarged scale, and it is expected to increase in performance.

It is expected that the company will realize the attributable net profit of 1.72 and 2.37 billion Yuan in 2018 and 2019, corresponding to the PE of 24 times and 18 times. The concentration ratio of downstream real estate is enhanced, the company may benefit most, its other businesses have development potential, and the purchasing rating is conducted as well.

