
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 enterpris(e)9(a)-3(i)9(n)-83()11(w)15(a)-3(te)-5(rp)-3(ro)-3(o)-9(f)9(i)9(n)-3(d)-3(u)9(s)-6843(m)

Contents

Introduction 3

The leading enterprises will welcome the best era..... 4

 Industrial market space: one hundred billion capacity of the market with potential enhancement5

 Industrial competition pattern: the waterproof market concentration ratio in our country is far lower than that in overseas6

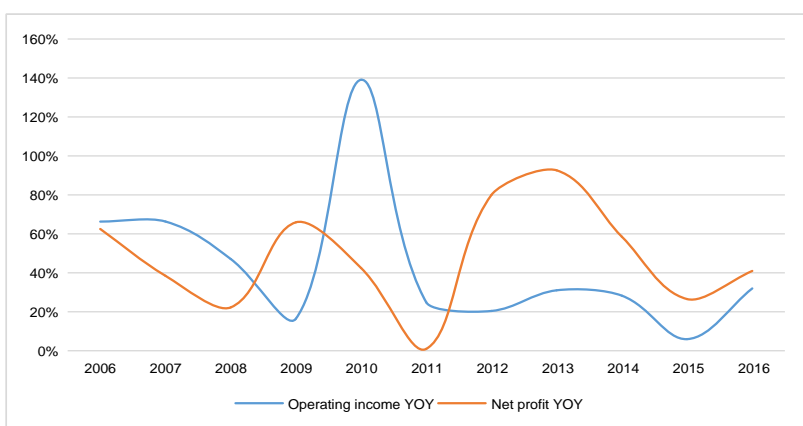
The multi

Form 2: The output per capita (ten thousand Yuan) is obviously higher than that of other enterprises.....	11
Form 3: The sales volume of five major customers before 2009 and 2010	12
Form 4: Previous stock ownership incentive situations of the company	13
Form 5: The salary of salespersons increased by 28.3% in 2016 on a year-on-year basis.....	13
Form 6: Previous financing and fund raising projects since the company was listed	14
Form 7: Product category expansion rhythm of the company in recent years	16

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 and the leading enterprises will welcome the best era.**

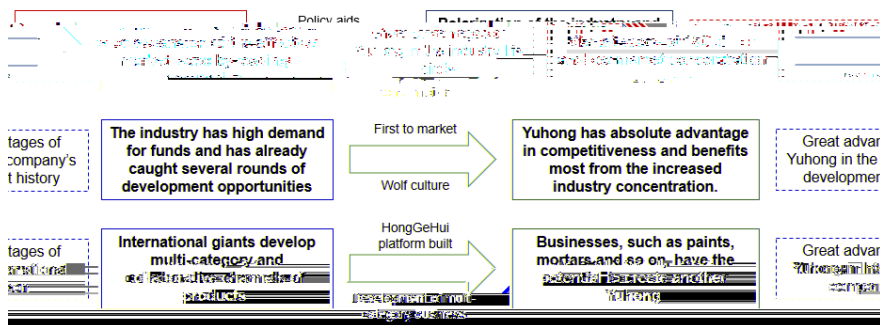
In this process, Oriental Yuhong may become the largest winner. In view of the development history of Yuhong, it benefits from its own excellent enterprise culture and strong execution force. It can make timely adjustment on the market environment change to avoid strategic misjudgement in operation decision 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 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

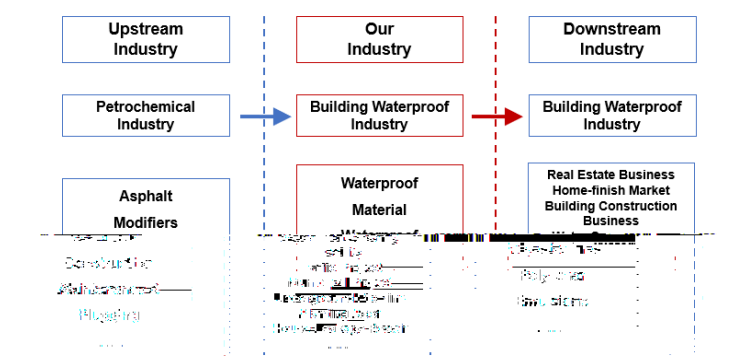
We adopt two methods to estimate the capacity of the waterproof material market

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,



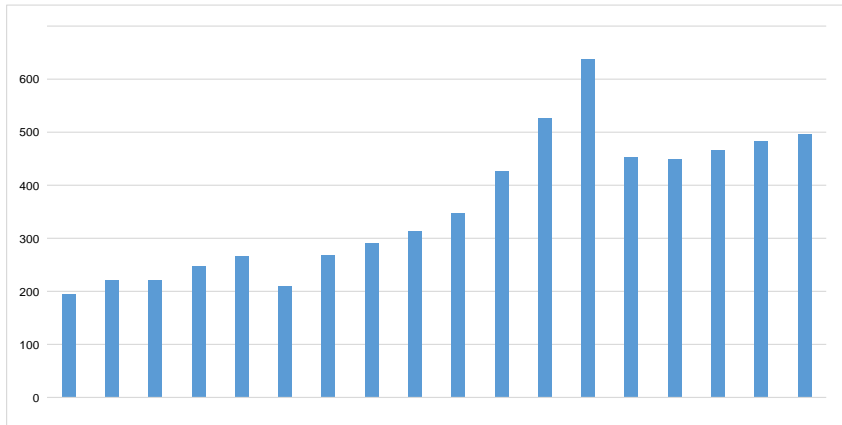
Data source: China Building Waterproof Industry Association, Changjiang Security

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)

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

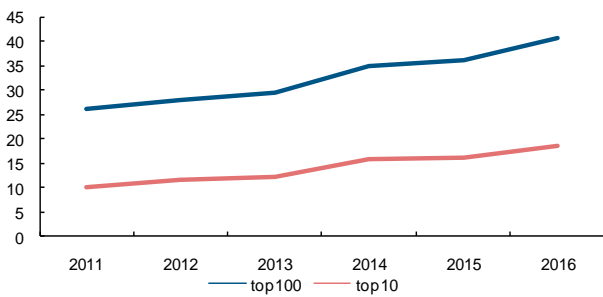
The building waterproof material quality and application effect directly affect the structural effect and service life of architectural engineering. Therefore, the waterproof materials are highly emphasized by the real estate developers and constructors. Besides the main architectural structure, waterproofing 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

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

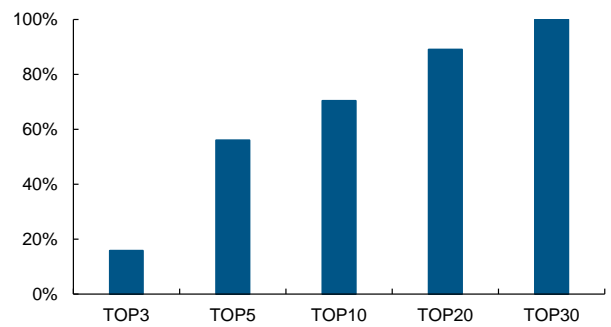
Meanwhile, as the house purchases have higher and higher requirement on house quality, the real estate developers face fiercer competition. The waterproof material occupies a small proportion in the construction cost (mainly applied in the fields of roof, external wall and basement), while the price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

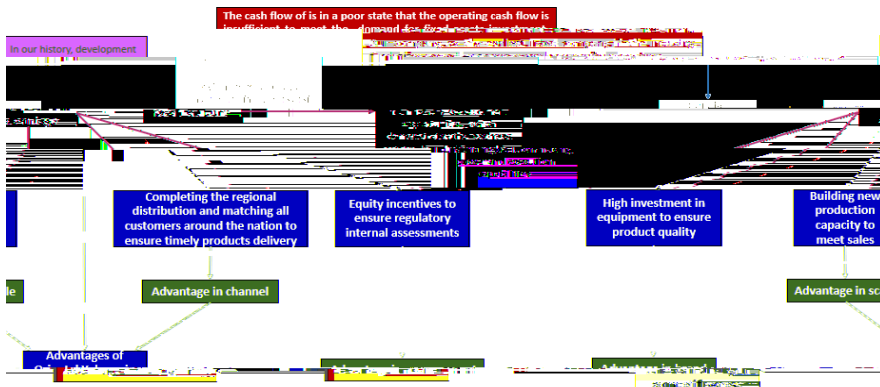


Data source: CRIC, Changjiang Security Research Institute

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

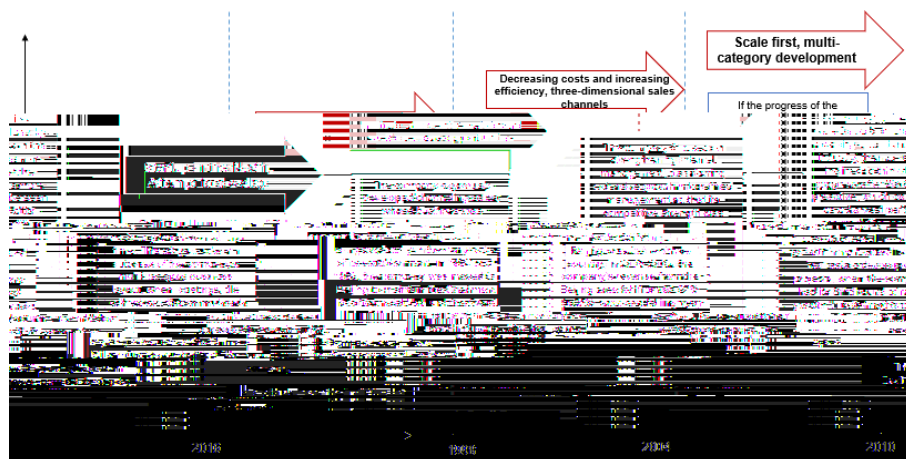
Data source: Wind, Changjiang Security Research Institute

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.

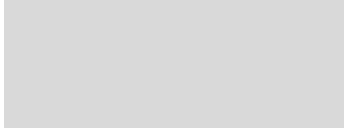
Figure 11: The company experiences four development stages



Data source: corporate report, Changjiang Security Research Institute

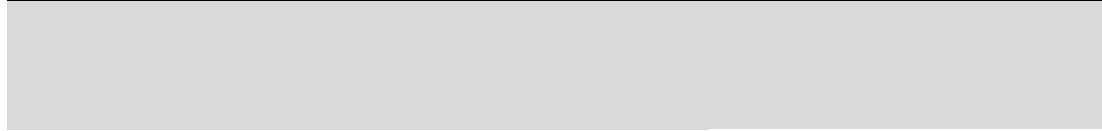
expansion but also is helpful to save transportation expense and satisfy the supply timeliness to the downstream enterprises.

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



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



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

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 c4

