

Home Furnishings - China

Tour takeaways: challenging 2024; strive growth via cross-sell and new traffic

Industry Overview

A challenging year ahead; U/P Oppein/SFY; Buy Man Wah

We flagged furniture sector's consensus revision downside and further de-rating risks in our Year Ahead 2024 report, and organized site visits with Oppein and Suofeiya in Guangzhou, as well as industry ground checks with Oppein and Man Wah franchisees.

Recent conversations with investors, companies' managements and industry experts further reaffirm our cautious view on the sector outlook: 1) sluggish home market and consumers' trading down continue to weigh on furniture demand, 2) companies are striving to sustain growth by capturing new traffic from decorators' channels and raising ticket-size via cross-sell, and 3) market consolidation is slowing post-COVID.

FAQs and key debates

Below are key FAQs and answers from the management meetings and industry experts.

- Will market consolidation play out? No meaningful consolidation seen in 2023. Instead, small/mid-sized operators who survived COVID and developers' default crisis have been grabbing traffic from leading names with lower prices.
- How companies sustain growth with new home completion decline? Euromonitor forecasts the market size of China's indoor furniture to grow by 4% YoY in 2024. 1) BofA Property team expects secondary home sales to grow 5-15% YoY (higher for transaction volume) in 2024 and account for around 40% of total; 2) leading brands are penetrating decorator channels for extra traffic (20-30%e of total orders vol), and launching "whole-home" packages for bigger ticket sizes (value-for-money products portfolio, in essence); 3) 2023-24 is digesting some pent-up furnishing demand from new homes delivered during COVID.
- Revenue and margin outlook for 2024? Oppein and Suofeiya both target 10-15% YoY revenue growth for 2024. With raw materials cost rebasing, companies expect expense optimization to sustain margins in 2024. Oppein internally targets SG&A expenses growth to be 3-5% slower than revenue's growth. We believe leading companies can still sustain growth in 2024 but view that the 10-15% revenue growth target is a bit stretched or would come at a big sacrifice of margins.
- How to capture secondary-home refurnishing demand (collaboration with Ke Holding)? Custom-furniture operators adopt two ways: 1) franchisees collaborate with property agencies, such as Beike, for traffic sharing; 2) companies supply custom-furniture products to Ke Holding's home renovation providers subsidiaries (Shengdu, Kongjian) at a discounted price. Current yearly sales to subsidiaries are ~200-300mn (LSD% of total revenue), per Oppein and Suofeiya.

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