CHINA PROPERTY: BUILDING MATERIALS

Stabilizing TAM and strategic pivots to seize renovation demand key to support growth/valuation recovery; Buy Yuhong and Skshu

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We believe building materials stocks' medium to long-term earnings outlook are mainly driven by industry TAM, channel penetration and price-to-raw material cost ratio (price-raw). **TAM:** following a 20% contraction in industry TAM between 2021 and 2025, the four leading building material companies (**Yuhong**, **Skshu**, **Beijing New Building Materials** and **Vasen**) saw an average market cap erosion of 70% from their peaks—a decline that far outpaced the actual impact on earnings. The replacement cycle typically buffers renovation demand against new-build cyclicality, but consumer headwinds have stalled this trend. Our analysis now suggests a near-term pivot; record pent-up demand and increasing secondary home sales are expected to unlock significant market momentum. This supports a stabilizing TAM outlook, which we view as a critical catalyst for valuation multiples to bottom out. In the long run, we anticipate a return to peak TAM levels, providing a structural tailwind for both earnings growth and multiple expansion. **Channel:** to navigate the structural shift to renovation demand, the four companies are adopting three primary strategies: **1)** aggressively expanding 2C retail operations; **2)** deepening penetration into lower-tier and rural markets; and **3)** broadening product portfolios to maximize channel efficiency. We estimate these initiatives will drive almost the entire topline growth through 2025 to 2028E, with the greatest impact projected for Skshu. Beyond these shared strategies, Yuhong has demonstrated solid execution in international markets; we forecast its overseas expansion to deliver a 73% revenue CAGR and represent average 19% of its total revenue (and 76% of topline growth) during the 2026E-28E period. **Price-raw:** could improve for the sector as one of the benefits from shifting channel to retail business. Building materials prices (especially waterproofing and paint) have already started to increase on recent cost inflation but raw materials are starting to rollover turning that price into margin.

The building materials sector's trading correlation with the developer sector has been on a declining trend especially since 2025, whilst rising with the consumer discretionary sector, reflecting their declining exposure to the developer sector and a more consumer spending driven earnings outlook. As the above mentioned strategic pivots gain traction, we expect profitability and CROCI for the sector to bottom out in 2026E, with Skshu positioned for the strongest recovery and Vasen the most modest. Overall, we expect 9-29% EPS CAGRs for the four names over 2026E-2028E vs. on median -8% in 2025. We use EV/GCI vs. CROCI as our valuation framework and our 12-month target prices imply 13%-53% upside for the sector.

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