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Equity Research

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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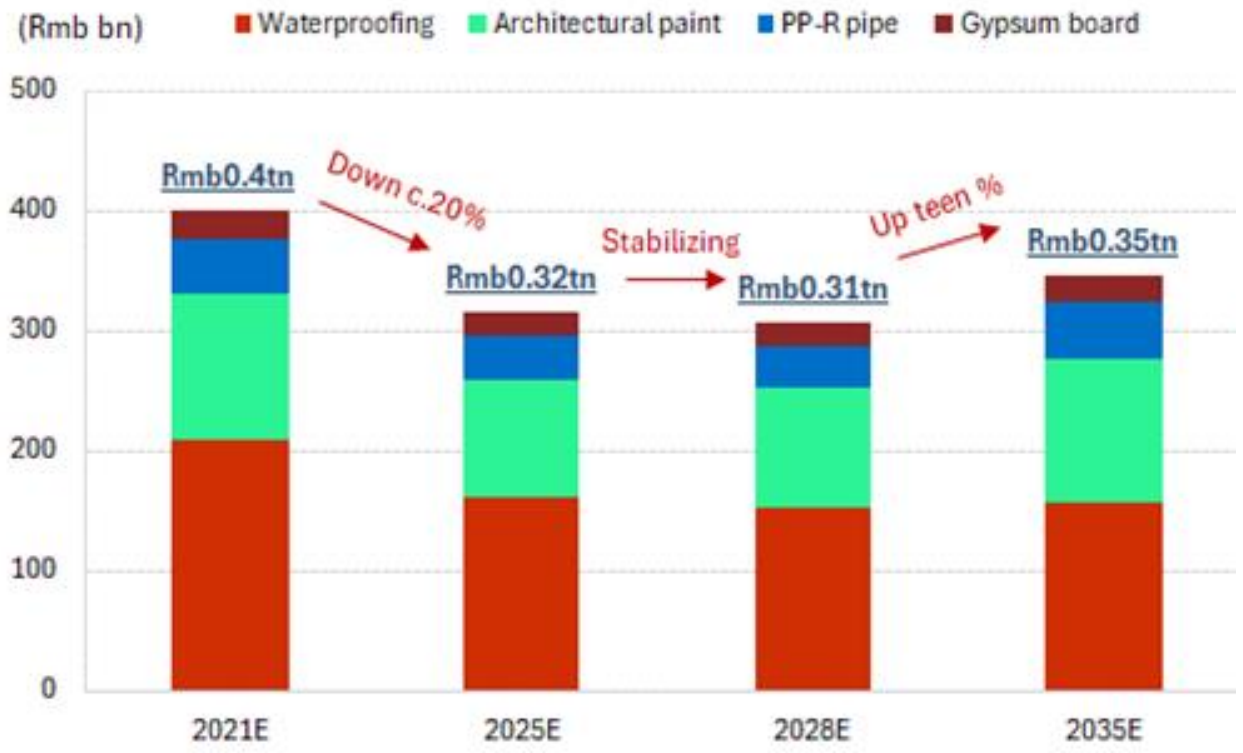
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TAM outlook

Stabilizing industry TAM driven by rising renovation demand offsetting new builds contraction

Following a 20% contraction in industry TAM (vs. 70% erosion in market cap for our 4 covered BM companies, Yuhong, Skshu, Vasen and BNBM) between 2021-25, our analysis now suggests a N-T pivot with record pent-up demand and increasing secondary sales to support a stabilizing TAM outlook. In the long run, we anticipate a return to peak TAM levels, to provide tailwind for both earnings growth and multiple expansion.

Summary of TAM by four building material sectors



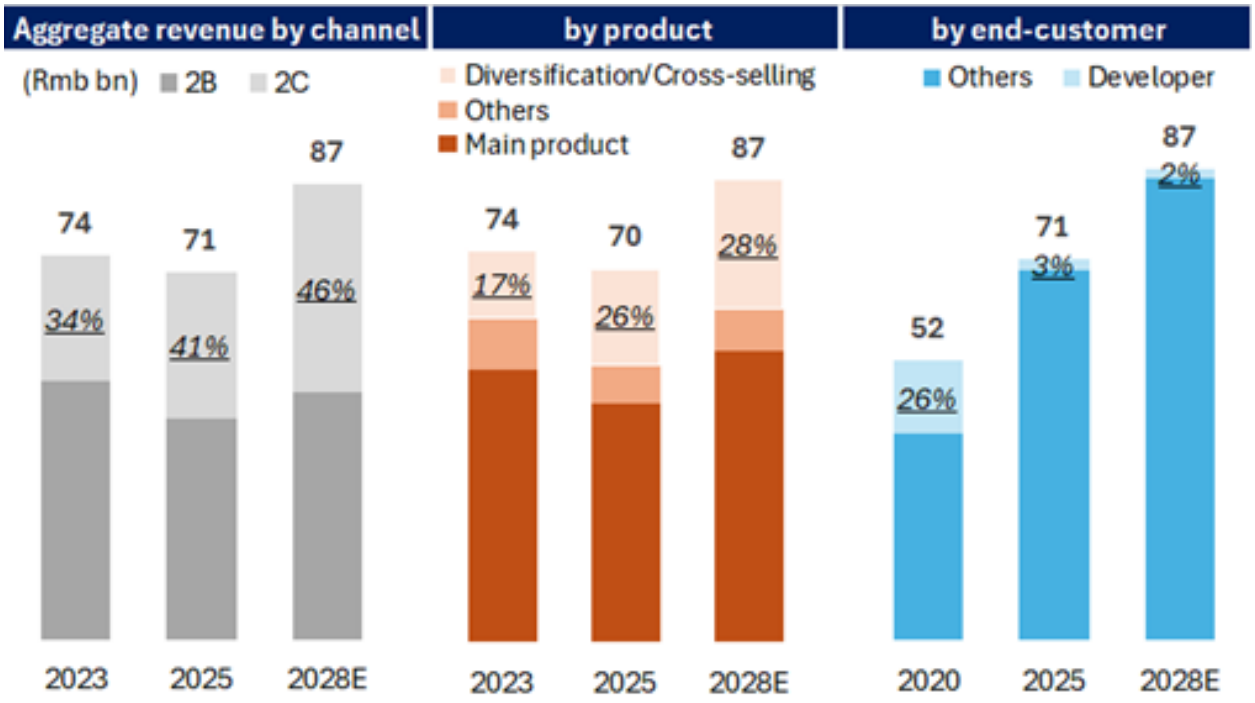
Source: Goldman Sachs Global Investment Research

Channel shifts

Aggressive 2C retail expansion, deepened lower-tier/rural penetration, and overseas exploration

The four BM companies are adopting three primary strategies: 1) aggressive 2C retail expansion; 2) deepening penetration into lower-tier and rural markets; and 3) broadening product portfolios. We estimate these initiatives will drive almost the entire topline growth through 2025-28E, with the greatest impact projected for Skshu. In addition, Yuhong has demonstrated solid execution in international markets.

Summary of revenue breakdown by four building material companies



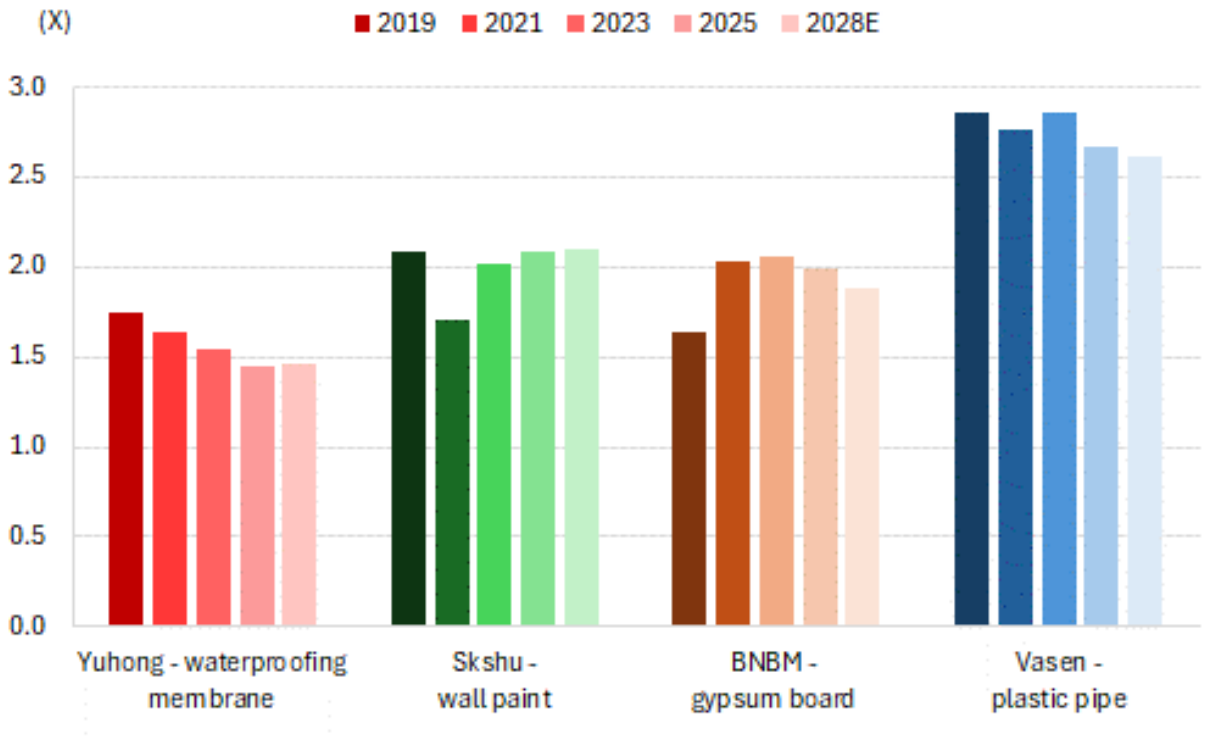
Source: Company data, Goldman Sachs Global Investment Research

Price-raw ratio

Improving 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. We expect GPM for the four BM companies to remain stable or expand through 2027E, driven by favorable mix shift toward the 2C segment, and we forecast a coverage-wide GPM improvement of 1~3pp from 2025 to end-28E.

Price-to-raw-material cost ratio for the four companies



Note: Gypsum board price-raw ratio benchmarked by BNBM's mid-lower brand (Wanjia) unit economics
Source: Company data, Goldman Sachs Global Investment Research

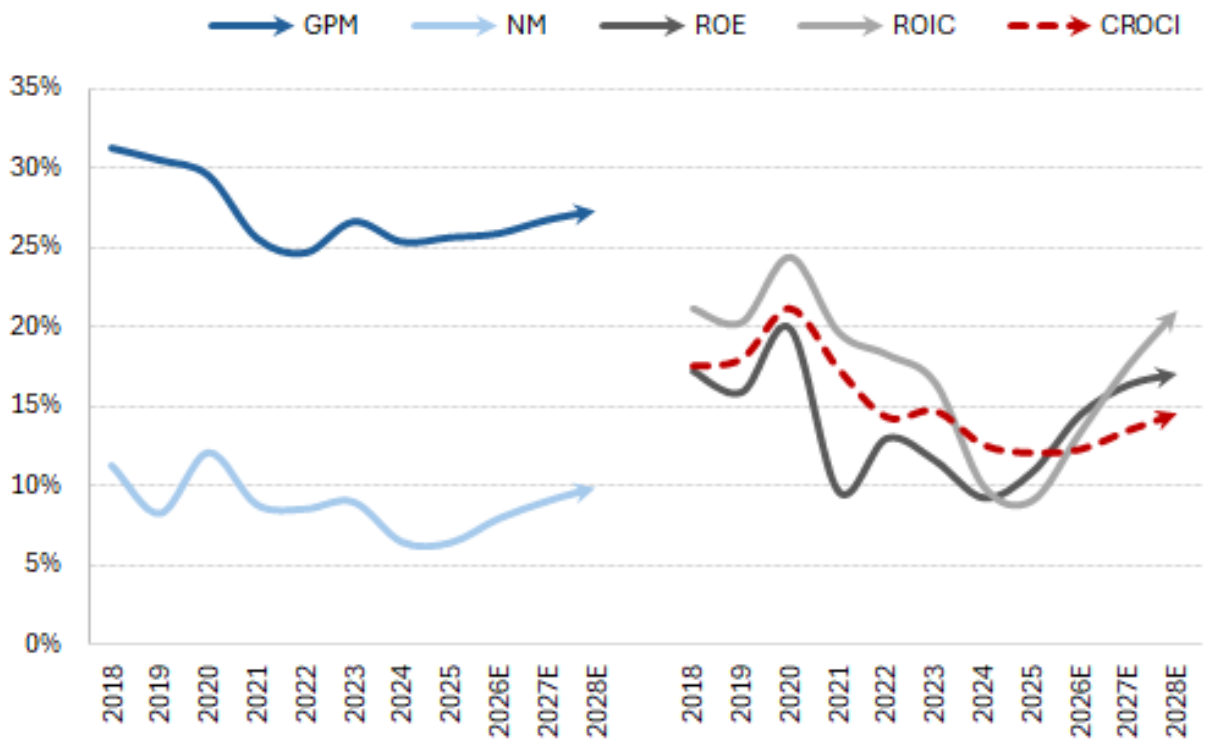
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Profitability trend

Bottoming out driven by channel shift and SG&A optimization

As the strategic pivots gain traction, we expect profitability and CROCI for the sector to bottom out with average 4pp NM and 3pp CROCI expansion for 25A to 28E for the four companies 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.

Profitability margin and return indicators of the four companies' average



Source: Company data, Goldman Sachs Global Investment Research

Valuation

Our 12-m TPs imply 13%-53% upside for the sector; Buy Yuhong and Skshu

Looking ahead, we project a 12-m forward EV/GCI multiple expansion of 0.1x, supported by a 1pp improvement in CROCI relative to 2026E levels, and implying 13%-53% upside for the sector. For our Buy-rated names (Yuhong and Skshu), we anticipate more pronounced expansion of +0.3x, driven by stronger CROCI gains, and implying 47%/53% upside respectively.

Summary of valuation multiple and our target price determination

As of 7/8/2026	Oriental Yuhong	Skshu	BNBM	Vasen
Ticker	002271.SZ	603737.SS	000786.SZ	002372.SZ
Sector EV/GCI vs. CROCI (2027E)	9.1x	14.7x	9.1x	13.6x
Premium/(discount) agaisnt sector average	**0%**	**0%**	**-25%**	**-10%**
-- premium/(discount) of current trading	*-7%*	*-12%*	*-33%*	*-22%*
-- average premium/(discount) in 23A-25A	*12%*	*2%*	*-19%*	*9%*
EV/GCI vs. CROCI applied	**9.1x**	**14.7x**	**6.8x**	**12.3x**
-- as % of historical average EV/DACF	*61%*	*55%*	*65%*	*79%*
CROCI (2027E)	15.2%	25.1%	11.7%	15.3%
-- vs. average CROCI in 23A-25A	▲ *3pt*	▲ *4pt*	▼ *-2pt*	▼ *-3pt*
Implied EV/GCI	1.4x	3.7x	0.8x	1.9x
-- as % of historical average EV/GCI	*49%*	*74%*	*54%*	*59%*
12m target price (Rmb/share)	**CNY 16.6**	**CNY 35.9**	**CNY 22.4**	**CNY 9.3**
vs. prior GS TP	*-17%*	*3%*	*-34%*	*3%*
Current share price (Rmb/share)	11.3	23.4	17.4	8.2
Upside/downside potential to TP	**47%**	**53%**	**28%**	**13%**
Rating (new)	**Buy**	**Buy**	**Neutral**	**Neutral**
Rating (old)	Buy	Neutral	Buy	Sell
TP implied valuation (PE, PB)				
P/E: historical average	*47x*	*55x*	*14x*	2
26E-28E EPS CAGR	29%	27%	12%	9
26E/27E/28E	20X/15X/12X	29X/21X/18X	10X/13X/12X	18X/1
P/B: historical average	*3.2x*	*8.1x*	*1.9x*	4
26E/27E/28E	1.9X/1.8X/1.6X	9.4X/7.9X/6.7X	1.5X/1.4X/1.3X	3X/2.

Note: Pricing is based on market close of 8 July, 2026.
Source: Datastream, Company data, Goldman Sachs Global Investment Research



Price Target Risks and Methodologies

Company	Ticker	Ratings	Price Target Risks and Methodologies
Yuhong	002271.SZ	Buy	Our 12-m EV/GCI vs. CROCI-based target price is Rmb16.60 **Downside risks:** 1) Below-expectation overseas expansion due to miss in production capacity launch, distribution channel developments, and M&A integration synergies; 2) Below-expectation waterproof demand or execution slips in penetrating lower-tier markets; 3) Weaker-than-expected nationwide construction activities; 4) Higher-or-more-prolonged-than-expected increase in raw material prices; 5) Slower-than-expected growth of non-waterproofing businesses; 6) Larger-than-expected impairment losses relating to receivables due from risky developers customers and property collateral assets.
Skshu	603737.SS	Buy	Our 12-m EV/GCI vs. CROCI-based target price is Rmb35.90 **Downside risks:** 1) Weaker-than-expected execution in new retail businesses development, especially in Mashangzhu store count expansion and deepening Beautiful rural penetration, resulting in retail-channel topline miss; 2) weaker-than-expected product ASP and margins due to intensified competition among large peers and sluggish consumer confidence; 3) slower-than-expected SG&A expense optimization progress due to missteps in redundant salesperson headcount reduction and heavier-than-expected expenditure in promoting fast-growing retail segments; 4) an unexpected surge in raw material (over 80% of Skshu's COGS) prices driven by upstream oil price increase, leading to margin squeeze. Despite years of efforts to improve procurement and inventory management systems, Skshu still has limited bargaining power against suppliers.
Vasen	002372.SZ	Neutral	Our 12-m EV/GCI vs. CROCI-based target price is Rmb9.3 **Up/downside risks:** 1) Faster-than-expected cross-selling of waterproof coating and other new products, or slower-than-expected "concentric circles" businesses growth; 2) consumer confidence recovery which accelerates home renovation/unleash the pent-up demand for pipe replacement, or more-prolonged-than-expected consumer sentiment weakness resulting in further postponement of household pipe replacement. 3) stronger/weaker-than-expected share expansion in China's plastic pipe market especially in areas outside and lower-tier markets surrounding Vasen's traditionally strong YRD regions; 4) faster/slower-than-expected overseas business expansion, especially in South East Asia; 5) an unexpected drop/surge in raw material prices driven by upstream oil and coal prices decreases/increases; 6) faster-than-expected implementation of urban renewal, especially underground pipeline renovation on the back of intensified central government financial support, resulting in upbeat project-channel order recovery.
BNBM	000786.SZ	Neutral	Our 12-m EV/GCI vs. CROCI-based target price is Rmb22.4 **Up/downside risks:** 1) higher/lower-than-expected domestic property completions; 2) stronger/weaker-than-expected regional penetration or nationwide capacity expansion by new entrants, leading to more/less fierce price and volume competition; 3) better/worse-than-expected execution of internal realignments of gypsum board brands, in terms of coordinated price hikes and cost efficiency improvements; 4) higher/lower-than-expected revenue growth and margins delivered by new business verticals (waterproofing, coatings, metal framing), subject to stronger/weaker-than-expected cross-selling opportunity capture; 5) higher/lower-than-expected raw material and energy costs, especially in terms of paper which accounts for ~35%–40% of BNBM's gypsum board COGS, and coal and power which together make up ~15%–20% of segment COGS; 6) better/worse-than-expected operational synergies yielded by M&A integrations (especially for the Carpoly brand).

Source: Goldman Sachs Global Investment Research