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2. Development of China Water Purifier Industry

2.5 Price

At present, the selling price of water purifiers in the market varies from several hundreds of yuan to even ten thousand yuan. In general, the household water purifiers were priced at RMB** in 2012 on average, up from RMB1,500 in 2010, with the CAGR of **%, signaling the overall market capacity was increasing and the unit price was rising. In the meantime, this indicates water treatment products are coming to a more high-end and intelligent tide. In 2013Q1, the average price of water purifiers in China hit RMB**.

Average Selling Price of Household Water Purifiers Made in China, 2010-2013 (RMB)



Source: ResearchInChina

In terms of the average selling price of homemade water purifiers by brand, the brand pattern falls into three leading categories:

- The first category, brands including Midea, **, ** are priced at below RMB1,000 on average, with high retail volume and total retail value;
- The second category, brands represented by Litree, Qlife, ** and ** are priced at between RMB1,000 and RMB**, with the average selling price soaring as the increasing sales volume of high-range products;
- The third category refers to foreign brands with the representatives including Ecowater, A.O. Smith and 3M which demonstrate flattened retail volume and total retail value thus far but orientate high range.

In 2007-2012, household water purifiers of all brands made in China witnessed an upward mobility year by year in terms of the average selling price, notably medium-and high-end brands of Litee, Paragon, and Everpure.

Average Selling Price of Household Water Purifiers Made in China by Brand, 2007-2012



Source: www.xjyd.cn; ResearchInChina

The average price of international brands sustains at a high level, mostly contributing to the three following three reasons:

- Firstly, they position as high-end products themselves and, leading to the marking up so as to gap away from homemade brands;
- Secondly, production lines of international brands are more balanced in use for civil and commercial. For example, large-and medium-sized water purifiers of international brands have more advantages over equivalents made in China;
- Lastly, since many international brands have yet to open production lines in China, import is heavily reliant, which brings tariff and transport charge influence to the selling price.

2.6 Competition Pattern

China currently has more than 3,000 water purifier producers, most of which are small and micro businesses. And only a few of them including Midea, Qinyuan and Angel occupy a lion's share. Among the top 10 water purifier brands on 2012 list, the combined market share of the top four stood up over **%. In particular, the first place came to Midea, with the market share of **%, followed by Qinyuan which made up roughly **%, and Angel which claimed **%.

In 2013H1, the brand pattern kept unchanged, with the top four continuing to be Midea, Qinyuan, Angel and Litree. In particular, the market share of Midea by retail volume declined ** percentage points over 2012 to **%, while the market share of Qinyuan rose ** percentage points to **%, placing the second slot.

Market Share of China's Top 10 Water Purifier Brands by Retail Volume, 2012-2013



Source: ResearchInChina

The competition pattern of China water purifier industry falls into two categories: the one refers to homegrown water purifier brands represented by Midea, Qinyuan, Angel, Litree; the other refers to imported brands represented by Doulton, COWAY, 3M, Everpure and TORAYVINO.

In 2012, some **% market share of water purifier series products by retail volume were occupied by homegrown brands, while the rest **% were seized by international brands. In addition, given the benign water purifier market environment, many leading household electrical appliance enterprises, such as Joyoung, Haier, TCL, and Gree, are embarking on water purifier industry, leading to intensifying competition.

4. Leading Water Purifier Enterprises in China

4.2 Shanghai Canature Environmental Products Co., Ltd. (300272)

4.2.1 Profile

	Shanghai Canature Environmental Products Co., Ltd.		
Website	http://www.canature.com	Establishment	Feb.27, 2001
Registered Capital	RMB 188.89 mln	Workforce	633
Address	Shanghai	Listing	Nov.2 2011; Shenzhen
Hit Product	water treatment equipments	Stock Code	300272

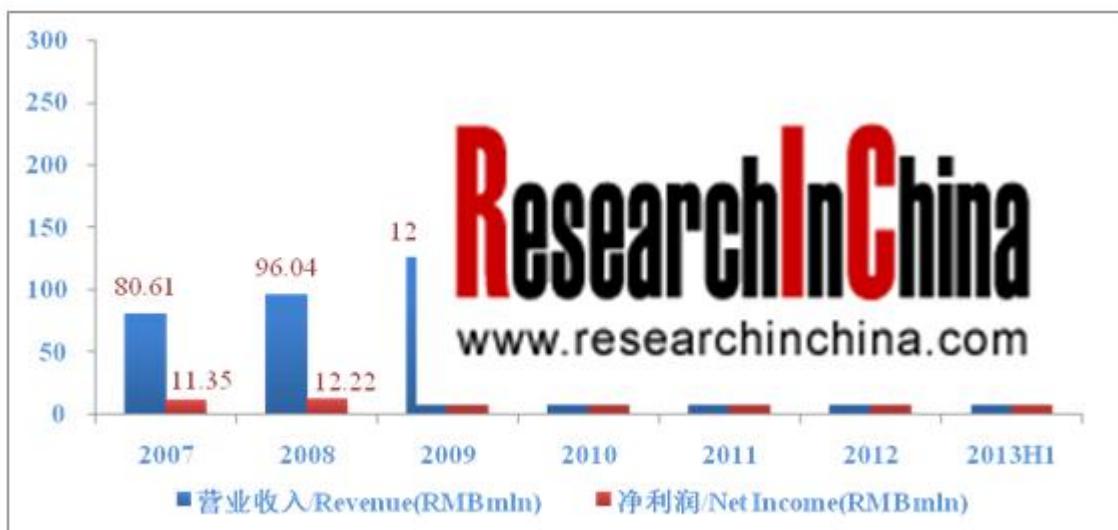
Shanghai Canature Environmental Products is a hi-tech enterprise specializing in the R&D of water environment technology and the production of water treatment equipments. Its major residential water treatment equipments include whole house water purifiers, whole house water softening plant, and commercial purified drinking water equipments, the core components of which are multi-outlet control valve, alloy filter material reactor and composite pressure vessels. In addition, the company also offers services of installment and maintenance of water treatment equipments.

4.2.2 Operation

In 2012, the revenue of the company rose by **% year-on-year to RMB** million, and the net income grew by 25.34% year-on-year to RMB** million. In 2013H1, the revenue and net income of the company increased by **% and **% year-on-year to RMB** million and RMB** million, separately.

Revenue and Net Income of Shanghai Canature Environmental Products Co., Ltd.,

2007-2013



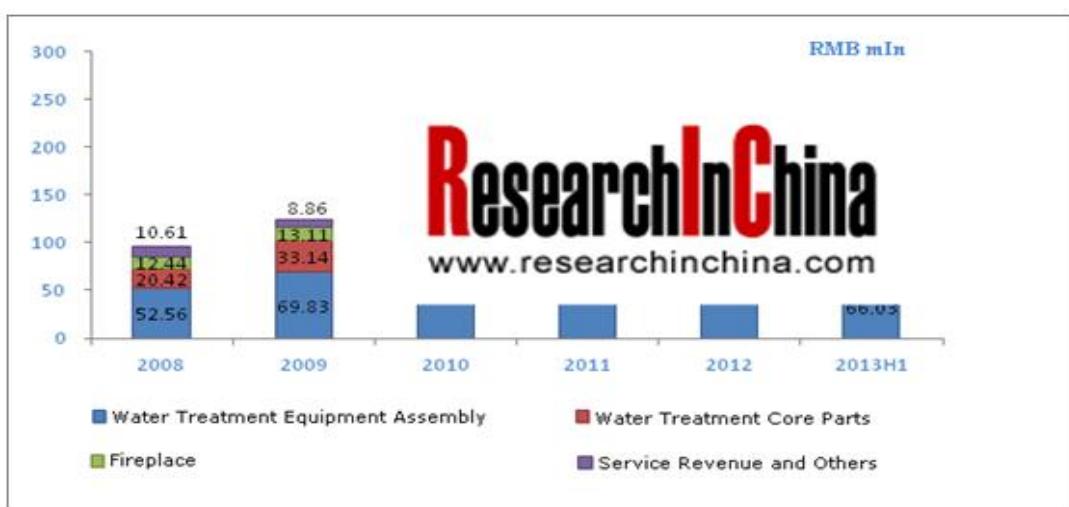
Source: Shanghai Canature Environmental Products Co., Ltd.; ResearchInChina

4.2.3 Revenue Structure

In 2012, the combined revenue from the water treatment equipment assembly and water treatment core parts of the company accounted for **% of the total. In particular, the revenue from water treatment equipment assembly climbed by **% year-on-year to RMB** million.

Revenue of Shanghai Canature Environmental Products Co., Ltd. by Product,

2008-2013



Source: Shanghai Canature Environmental Products Co., Ltd.; ResearchInChina

In 2013H1, the revenue from water treatment equipment assembly and water treatment core parts of the company realized RMB** million and RMB** million, respectively, up **% year-on-year and **% year-on-year.

In 2012, the revenue of the company from the domestic market increased by **% year-on-year to RMB** million, accounting for **% of the total. In particular, the revenue from North China (notably Shanghai) achieved the highest of RMB** million, standing at **%. In 2013H1, its revenue from domestic market claimed RMB** million, of which, East China contributed RMB** million, up **% year-on-year.

Revenue and % of Shanghai Canature Environmental Products Co., Ltd. by Region,

2012-2013H1

RMB mln	2012		2013H1	
	Revenue	Proportion	Revenue	Proportion
North China	**	**	**	**
Central China	**	**	**	**
South China	**	**	**	**
West China	**	**	**	**
North China	**	**	**	**
China Subtotal	**	**	**	**
Europe	**	**	**	**
North America	**	**	**	**
Asia	**	**	**	**
Middle East	**	**	**	**
Others	**	**	**	**
Overseas Subtotal	**	**	**	**
Total	240.71	100.0%	135.33	100.0%

Source: Shanghai Canature Environmental Products Co., Ltd.; ResearchInChina

In recent years, the overseas business of the company has seen rapid development. As of late 2012, the revenue overseas grew by **% year-on-year to RMB** million, notably from Europe and North America, the combined revenue of which stood up **%. With the exception of Europe, the revenue from Asia and Middle East grew by **% and **%, respectively. In 2013H1, the overseas business of the company kept soaring, with the proportion of **%.

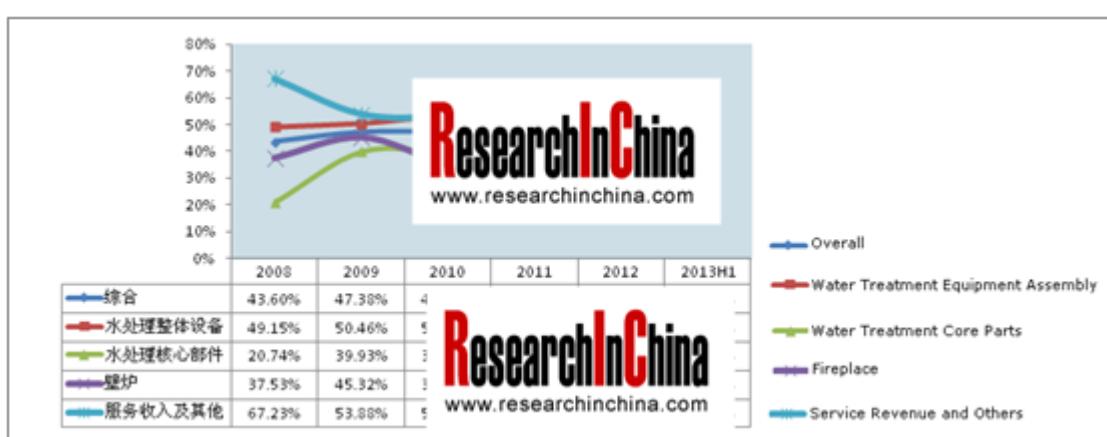
In 2012, the revenue of the company from domestic market grew by **%, while that from the overseas market increased by roughly **%. The rise came as the two following aspects: firstly, it was likely to lie in the way to make the statistics, and the revenue generated by some ODMs overseas was possibly included in the overseas business; secondly, the competition edge of Shanghai Canature Environmental Products Co., Ltd. focuses on the image and service of whole house water purifiers directly on sale in Shanghai. Nationwide, the company focuses more on the sales of terminal water purifiers in the kitchen. Therefore, the revenue of the company generated in the domestic market was relatively low in 2012.

In terms of sales in the overseas market, the purchasing power in Europe and Americas appears to be downward mobility in the wake of European debt crisis and US debt crisis. This leads to the company's shifting its eye on Asian and North American markets, notably countries like India and Brazil.

4.2.4 Gross Margin

In 2008-2013H1, the gross margin of Shanghai Canature Environmental Products Co., Ltd. sustained above **%, and witnessed stable fluctuation. In particular, the gross margin from service business marked the highest, and saw a slight downward tide with the figure as of the first half of 2013 claiming **%. In addition, the gross margin from water treatment equipment assembly business declined from **% in 2008 to **% in 2013H1.

Gross Margin of Shanghai Canature Environmental Products Co., Ltd. by Product, 2008-2013



Source: Shanghai Canature Environmental Products Co., Ltd.; ResearchInChina

4.2.7 Water Purifier Business

The company's main household water treatment products consist of water purifying plant and water softening plant.

1. The water purifying plant made by the company employs pinchbeck alloy and activated carbon as essential filter materials, modern intelligent control technology as core control unit, and food-grade plastics as main materials of components while equipped with assistive technologies such as magnetization technology and disinfection by ultraviolet light to conduct repurified water treatment.

2. The water softening plant made by the company, consisting of whole house water softener series and bathroom water softener series, employs food-grade resin as essential filter material, modern intelligent control technology as core control unit, and food-grade plastics as main materials of components, being applied to reduce water hardness by removing the calcium and magnesium ions in the water and to prolong the life service of all water-related household electric appliances.

In 2013, the company's water treatment equipments included two series for household and commercial use, with brands of "Canature" and "Bentai". As of late 2012, it realized the capacity of whole house water treatment equipment assembly and suit of** sets (with the existing capacity of ** sets included).

Output and Sales Volume of Water Purifiers of Shanghai Canature Environmental Products Co., Ltd. by Product, 2007-2012

Sets	Water Purifier			Water Softener			For Commercial Use		
	Year	Sales Volume	Output	Sales-Output Ratio	Sales Volume	Output	Sales-Output Ratio	Sales Volume	Output
2007	9,836	9,865	99.7%	12,693	11,371	111.6%	-	-	-
2008	**	**	**	**	**	**	**	**	**
2009	**	**	**	**	**	**	**	**	**
2010	**	**	**	**	**	**	**	**	**
2011	**	**	**	**	**	**	**	**	**
2012	**	**	**	**	**	**	**	**	**

Source: Shanghai Canature Environmental Products Co., Ltd.; ResearchInChina

For now, the company's ** sets/a intelligent household whole house water treatment equipment, commercial water dispenser and related suit and supporting utility facilities are under construction, with the investment totaling RMB** million. And it is expected to achieve the full capacity by late Mar.2014, by when the company's whole house water treatment equipment assembly and suit capacity will realize ** sets.

4.2.8 Marketing Mode

Marketing Mode of Shanghai Canature Environmental Products Co., Ltd.

Marketing Mode	Products	Target Customers	Sales Area	Service
Domestic direct sales	"Canature" water treatment equipment	Medium-and high-end consumers in first-tier Chinese cities	Shanghai	The company directly offers high-quality follow-up service for terminal customers
Domestic distribution	"Bentai" water treatment equipment	Medium-range consumers in cities above county level	Nationwide	Dealers offer follow-up service for terminal customers.
Overseas distribution	Professional parts	Sales enterprises overseas with rich industrial experiences	Europe and Americas	Dealers take risks on their own.
ODM	Customized products	Product customization enterprises with brand influence or sales channels	Nationwide	Product customization enterprises take risks on their own.

Source: Shanghai Canature Environmental Products Co., Ltd.; ResearchInChina