



Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
Yonghui Superstores

Reuters 601933.SS Bloomberg 601933 CG Exchange SHH Ticker 601933

Date
1 November 2017

Forecast Change

Price at 31 Oct 2017 (CNY)	9.65
Price target - 12mth (CNY)	10.14
52-week range (CNY)	9.73 - 4.47
Shanghai Composite	3,395

2018 - store opening acceleration to deliver operating leverage; Buy

Promising in SSSg terms, with long-term store expansion story; Buy

Yonghui's strong store-opening pipeline in 4Q17/2018 gives us more confidence in its sales growth in 2018/2019F. SSSg is seeing sequential improvement with traffic resuming positive growth since 3Q. We believe this is mainly helped by its competitive fresh food segment. We also believe its cost advantage from supply chain management will help it to achieve GPM expansion over time. We have fine-tuned our 2017/2018 NP by -3%/+2% to reflect a slightly higher opex ratio in 2017 and an acceleration in store opening in 2018. We also roll over by one year to 2019 in our DCF model and raise our TP by 14% to RMB10.14. We maintain our Buy rating on this stock.

Yonghui reported NP up by 131% to RMB337m on sales up 20% to RMB15bn in 3Q17. Sales were largely in line with DBE while NP was 6% lower than DBE. The discrepancy mainly stemmed from a higher-than-expected opex ratio. We expect that SSS in 3Q was up by 1.5% vs. 0.8% in 1H17, and that Oct was even better.

We expect the company to open 106/100 new stores in 2017/2018 (gross base) and also to open another 100 Yonghui Life and 100 Super Species stores by 2017/2018 respectively. We believe its acceleration of store expansion and effective organization structures (four business units and partnership model) can help the company to continuously enjoy better-than-market performance and operating leverage. We forecast its NP for 2017/2018/2019 to grow by 47%/44%/29%, respectively.

Valuation & Risks

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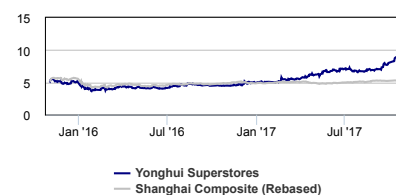
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Key changes

TP	8.90 to 10.14	↑	13.9%
Sales (FYE)	58,493 to 58,193	↓	-0.5%
Op prof margin (FYE)	3.4 to 3.2	↓	-4.9%
Net profit (FYE)	1,879.8 to 1,827.2	↓	-2.8%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	20.6	41.3	114.9
Shanghai Composite	1.4	3.7	9.5

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	9.3
Net debt/equity (%)	-56.8
Book value/share (CNY)	2.10
Price/book (x)	4.6
Net interest cover (x)	-
Operating profit margin (%)	3.2

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	41,938.3	49,012.7	58,192.9	70,104.9	81,887.1
EBITDA (CNYm)	1,671.4	2,537.6	3,001.2	4,064.3	5,075.6
Reported NPAT (CNYm)	605.3	1,242.0	1,827.2	2,638.2	3,405.7
Reported EPS FD(CNY)	0.08	0.14	0.19	0.28	0.36
DB EPS FD(CNY)	0.08	0.14	0.19	0.28	0.36
OLD DB EPS FD(CNY)	0.08	0.14	0.20	0.27	0.35
% Change	0.0%	0.0%	-2.8%	2.0%	1.9%
DB EPS growth (%)	-40.1	81.8	34.0	44.4	29.1
PER (x)	67.3	30.7	50.5	35.0	27.1
EV/EBITDA (x)	21.8	11.2	27.0	19.5	15.2
DPS (net) (CNY)	0.08	0.13	0.10	0.14	0.18
Yield (net) (%)	1.5	3.0	1.0	1.4	1.8

Source: Deutsche Bank estimates, company data

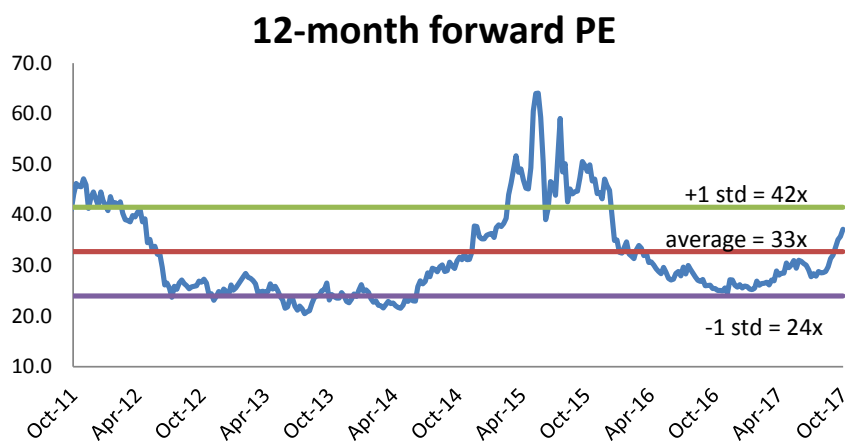


Lifting TP by 14% to RMB10.14 as we roll over our forecast year in DCF

We have fine-tuned our 2017/2018 NP by -3%/+2% to reflect a slightly higher opex ratio in 2017 and an acceleration in store opening in 2018 (from the original 77 store openings to 100 new store openings). We also like its new retail initiatives, i.e. Super Species and Yonghui Life stores, and expect that this business segment can generate RMB300m sales in 2017. We model 50%/20% growth in 2018/2019F for these new formats, although it will be hard to make profit in the near term. We roll over to a new DCF year and thus raise our TP by 14% to RMB10.14/share (vs. RMB8.9 previously). Our new TP implies PE 37x/29x 2018/2019, respectively.

Our primary valuation methodology is DCF, employing 9.5% COE, a 1.0 beta and a 1.5% TGR, which is in line with the 1-2.5% range we apply to the consumer sector. Downside risks: 1) failure to achieve its three-year plan; 2) M&A capability (having control as the second largest shareholder); 3) challenges in the multi-channel strategy; and 4) challenges in nationwide expansion and investment in the supply chain.

Figure 1: 12-month forward PE



Source: Deutsche Bank, Bloomberg Finance LP, closing price as of 27 Oct 2017. Note: EPS is estimated EPS each year.

Figure 2: DB forecasts vs. market consensus

RMBm	Current forecast			Previous forecast			Market forecast			% change vs. previous			% change vs. market		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Sales	58,453	70,418	82,253	58,754	69,721	81,642	58,099	68,316	79,568	-0.5%	1.0%	0.7%	0.6%	3.1%	3.4%
EBIT	1,868	2,856	3,808	1,974	2,791	3,730	1,889	2,506	3,222	-5.4%	2.3%	2.1%	-1.1%	14.0%	18.2%
Net profit	1,827	2,638	3,406	1,880	2,587	3,343	1,806	2,373	2,988	-2.8%	2.0%	1.9%	1.2%	11.2%	14.0%

Source: Deutsche Bank estimates, Bloomberg Finance LP. Note: sales number are gross sales, which is comparable with market consensus number.

Better SSSg and more store openings from 4Q17 onwards



Yonghui reported NP up 131% to RMB337m on sales up 20% to RMB15bn in 3Q17. Sales were largely in line with DBE, while NP was 6% lower than DBE. The discrepancy mainly stemmed from the higher-than-expected opex ratio.

We expect that SSS was up by 1.5% in 3Q, which shows an improvement compared with 0.8% in 1H17. Oct saw a further improvement in SSSg on a sequential basis, with positive growth from both in-store traffic and ticket price. To recap, it reported negative growth in traffic in 1H17. By category, **fresh food (40% of sales) has experienced sales acceleration since the beginning of 2H, when compared to 1H**, which is the major driver for SSSg. We believe CPI recovery will benefit food retailers like Yonghui but the benefit might only be meaningful when CPI is above 2%, according to management.

The company opened 33 new stores (excluding Super Species and Membership stores) in 3Q and **net opened 84 stores as of 30 Oct, according to its company website**. We therefore believe it will be able to open 100+ stores on a full-year basis, which is at the high end of its target (80-100 store openings). In 2018, it plans to open a similar number of new stores as this year. Among all the regions, Sichuan and Zhejiang will be the main focus, as it achieves better growth momentum and profitability in those regions. It also opened nine Super Species and 102 Yonghui Life stores (previously called membership stores) by the end of Sep. It **plans to open 100 Yonghui Life stores by end-2017 and 100 Super Species by 2018**.

GPM improved 0.4ppt to 20.1%, mainly benefiting from the supply chain optimization (direct sourcing from farmers) and strong bargaining power with suppliers along with economy of scale. Currently, **directly sourcing accounts for 60% of fresh food, which enables it to enjoy a ~10% cost saving vs. peers**. In 1H17, the GPM of fresh food was 13.3%. We estimate GPM expansion will continue in the next few years.

Opex as % of sales was 0.3ppt higher, mainly due to more store openings during this quarter vs. one year ago, in our view. We believe that in the long run, the company can consistently enjoy operating leverage thanks to its efficient “partnership” management organization. In fact, no. of staff per store has been consistently reduced.

The company has restructured its organizational structure since the beginning of the year and divided business units (please refer to our report [China Food Retailing - New retail shaping up, observed from store visits and channel checks](#) published on 10 Oct 2017). Four senior managers' resignations in Oct further streamlined the structure and this gave more flexibility, resources and decision-making to front-line operators. We believe this will enable Yonghui to speed up its development in the new retail arena.

It also plans to beef up its **private label business, which accounted for 2%-3% in 2016 and it expects to be 5%-6% this year**. It acquired 40% ownership of Daman International in 1H17, an international sourcing company that may help to better develop its private label business. **Eventually, it targets that private labels can contribute 40%-50% sales, as experienced by some of the global food retailers.**



Figure 3: Quarterly results highlights

YE Dec RMBm	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17e
Sales	13,416	11,102	12,497	12,216	15,261	13,055	14,991	15,145
Gross Profit	2,682	2,175	2,429	2,436	3,140	2,547	2,958	3,019
SG&A and others	(2,124)	(1,870)	(2,183)	(1,940)	(2,236)	(2,254)	(2,633)	(2,674)
EBIT	551	259	237	220	848	249	292	327
NPAT	472	198	146	427	744	311	337	435
GP margin	20.0%	19.6%	19.4%	19.9%	20.6%	19.5%	19.7%	19.9%
EBIT margin	4.1%	2.3%	1.9%	1.8%	5.6%	1.9%	1.9%	2.2%
NP margin	3.5%	1.8%	1.2%	3.5%	4.9%	2.4%	2.2%	2.9%
Sales yoy%	20%	15%	18%	14%	14%	18%	20%	24%
Gross Profit yoy%	23%	16%	21%	15%	17%	17%	22%	24%
SG&A and others yoy%	25%	13%	14%	-3%	5%	20%	21%	38%
EBIT%	30%	80%	88%	97%	54%	-4%	23%	49%
NPAT%	30%	21%	106%	5100%	58%	58%	131%	2%

Source: Deutsche Bank estimates, company data



Model updated: 01 November 2017

Running the numbers

Asia
China
Retail / Wholesale Trade

Yonghui Superstores

Reuters: 601933.SS Bloomberg: 601933 CG

Buy

Price (31 Oct 17) CNY 9.65

Target Price CNY 10.14

52 Week range CNY 4.47 - 9.73

Market cap (m) CNYm 92,355
USDm 13,933

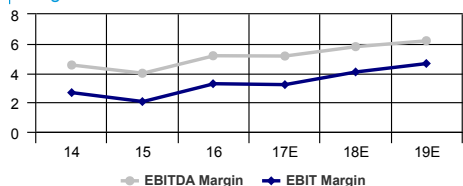
Company Profile

With its first store established in 1995, Yonghui Superstores (Yonghui) is principally engaged in the operation of chain supermarkets. The company sells fresh meat products, agricultural products, processed foods, daily necessities, clothing and imported goods, among other items.

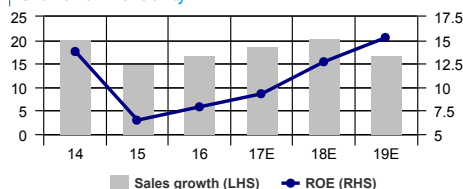
Price Performance



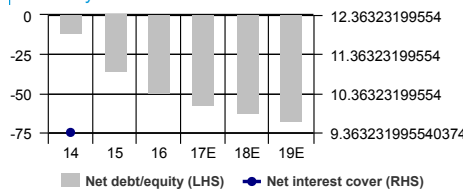
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec 2014 2015 2016 2017E 2018E 2019E

Financial Summary

DB EPS (CNY)	0.13	0.08	0.14	0.19	0.28	0.36
Reported EPS (CNY)	0.13	0.08	0.14	0.19	0.28	0.36
DPS (CNY)	0.08	0.08	0.13	0.10	0.14	0.18
BVPS (CNY)	2.0	3.0	2.0	2.1	2.2	2.4
Weighted average shares (m)	6,509	7,725	8,719	9,570	9,570	9,570
Average market cap (CNYm)	22,538	40,760	38,086	92,355	92,355	92,355
Enterprise value (CNYm)	21,830	36,385	28,547	80,948	79,108	76,953

Valuation Metrics

P/E (DB) (x)	26.5	67.3	30.7	50.5	35.0	27.1
P/E (Reported) (x)	26.5	67.3	30.7	50.5	35.0	27.1
P/BV (x)	2.14	1.65	2.45	4.59	4.31	3.99
FCF Yield (%)	2.6	0.5	1.8	2.8	3.4	4.2
Dividend Yield (%)	2.2	1.5	3.0	1.0	1.4	1.8
EV/Sales (x)	0.6	0.9	0.6	1.4	1.1	0.9
EV/EBITDA (x)	13.1	21.8	11.2	27.0	19.5	15.2
EV/EBIT (x)	22.4	42.2	17.8	43.3	27.7	20.2

Income Statement (CNYm)

Sales revenue	36,551	41,938	49,013	58,193	70,105	81,887
Gross profit	7,044	8,153	9,721	11,665	14,262	16,838
EBITDA	1,661	1,671	2,538	3,001	4,064	5,076
Depreciation	687	809	934	1,133	1,208	1,268
Amortisation	0	0	0	0	0	0
EBIT	975	862	1,604	1,868	2,856	3,808
Net interest income/(expense)	-104	25	74	267	308	344
Associates/affiliates	-5	-89	-121	40	78	87
Exceptionals/extraordinary	219	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,084	797	1,556	2,175	3,242	4,239
Income tax expense	232	197	343	435	681	933
Minorities	1	-5	-28	-87	-77	-99
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	852	605	1,242	1,827	2,638	3,406
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	852	605	1,242	1,827	2,638	3,406

Cash Flow (CNYm)

Cash flow from operations	1,775	1,521	2,108	4,042	4,702	5,495
Net Capex	-1,198	-1,313	-1,440	-1,455	-1,542	-1,638
Free cash flow	577	209	668	2,588	3,159	3,857
Equity raised/(bought back)	0	5,704	6,357	0	0	0
Dividends paid	-405	-513	-611	-914	-1,319	-1,703
Net inc/(dec) in borrowings	531	-1,444	0	0	0	0
Other investing/financing cash flows	-707	-1,733	-1,251	195	0	0
Net cash flow	-4	2,223	5,163	1,869	1,840	2,155
Change in working capital	386	124	-242	1,066	764	756

Balance Sheet (CNYm)

Cash and other liquid assets	2,152	4,375	9,538	11,407	13,247	15,401
Tangible fixed assets	5,926	6,343	6,827	7,148	7,483	7,853
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	1,237	1,955	1,986	1,831	1,909	1,996
Other assets	6,164	7,631	11,088	11,849	13,456	15,045
Total assets	15,480	20,304	29,438	32,235	36,094	40,295
Interest bearing debt	1,444	0	0	0	0	0
Other liabilities	7,572	8,023	10,197	12,167	14,784	17,381
Total liabilities	9,016	8,023	10,197	12,167	14,784	17,381
Shareholders' equity	6,438	12,228	19,199	20,112	21,431	23,134
Minorities	26	54	43	-44	-121	-220
Total shareholders' equity	6,464	12,281	19,241	20,068	21,310	22,914
Net debt	-708	-4,375	-9,538	-11,407	-13,247	-15,401

Key Company Metrics

Sales growth (%)	20.2	14.7	16.9	18.7	20.5	16.8
DB EPS growth (%)	13.7	-40.1	81.8	34.0	44.4	29.1
EBITDA Margin (%)	4.5	4.0	5.2	5.2	5.8	6.2
EBIT Margin (%)	2.7	2.1	3.3	3.2	4.1	4.7
Payout ratio (%)	57.3	100.8	92.5	50.0	50.0	50.0
ROE (%)	13.8	6.5	7.9	9.3	12.7	15.3
Capex/sales (%)	3.3	3.1	2.9	2.5	2.2	2.0
Capex/depreciation (x)	1.7	1.6	1.5	1.3	1.3	1.3
Net debt/equity (%)	-11.0	-35.6	-49.6	-56.8	-62.2	-67.2
Net interest cover (x)	9.4	nm	nm	nm	nm	nm

Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Yonghui Superstores	601933.SS	9.65 (CNY) 31 Oct 2017	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg, and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>. Aside from within this report, important conflict disclosures can also be found at <https://gm/db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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Historical recommendations and target price. Yonghui Superstores (601933.SS)

(as of 10/31/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	04/28/2016	Buy, Target Price Change CNY 11,60 Richard Rui-Huang**	4.	04/14/2017	Buy, Target Price Change CNY 6,50 Mark Yuan
2.	06/03/2016	Buy, Target Price Change CNY 5,80 Richard Rui-Huang**	5.	07/18/2017	Buy, Target Price Change CNY 8,20 Anne Ling
3.	08/28/2016	Buy, Target Price Change CNY 5,70 Richard Rui-Huang**	6.	10/09/2017	Buy, Target Price Change CNY 8,90 Anne Ling



Equity Rating Key

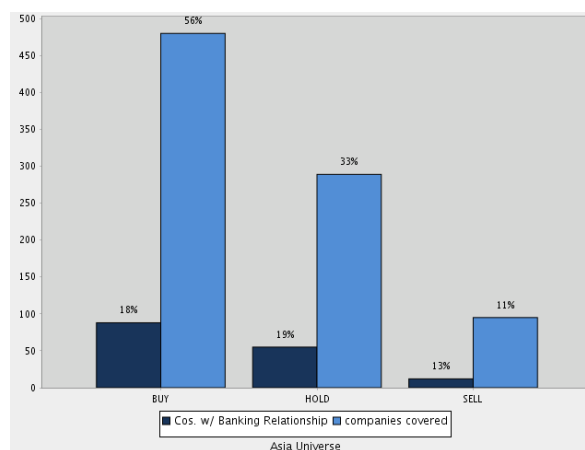
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships





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