



Rating  
**Buy**

Asia  
China

Consumer  
Retail / Wholesale Trade

Company  
**Yonghui Superstores**

Reuters 601933.SS    Bloomberg 601933 CG    Exchange SHH    Ticker 601933

Date  
31 October 2018

Company Update

Price at 30 Oct 2018 (CNY)	7.30
Price target - 12mth (CNY)	8.30
52-week range (CNY)	11.58 - 7.02
Shanghai Composite	2,568

## Expecting pressure on profitability in 4Q18

### 3Q results miss due to higher losses from Yunchuang

Yonghui's 3Q18 NP fell 75% to RMB84m although sales grew 22% to RMB18bn. Sales and NP for the quarter accounted for 31% and 5% of our full-year forecasts, respectively. The 3Q18 sales figure was in-line but NP missed our expectation due to higher-than-expected losses from the Yunchuang business. To recap, its sales and NP in 3Q17 accounted for 26% and 19% of full-year 2017 sales and NP, respectively.

GPM improved 60bps while the opex ratio rose 290bps, which led to a RMB46m loss at the core EBIT level, mainly due to acceleration in store openings, particularly Yonghui Life. It opened 25 new Green Label hypermarkets, 137 new Yonghui Life stores, and 10 new Super Species, compared with 42 new Green Label stores, 85 Yonghui Life stores and 19 Super Species stores in 1H18. We estimate Yunchuang's net loss in 3Q widened to around RMB260m, from a net loss of RMB389m in 1H. Yunchuang expects to book RMB172m of share option expense during the quarter. Excluding the net loss from Yunchuang and share option costs, core earnings in 3Q would have grown 20% to RMB517m, illustrating a relatively solid growth.

### SSSg trend also sees sequential slowdown

SSSg was 2% in 3Q – weak July/Aug and strong in Sept – as it benefited from a calendar shift. We expect SSSg in Oct to normalize, but it recorded a sequential slowdown in SSSg 2H18 vs 1H18. By segment, fresh and food recorded positive growth while apparel growth dropped by a double-digit rate.

### Full-year outlook

It maintains its guidance of 135 new hypermarket/supermarket store openings. It also targets to have 500-600 Yonghui Life stores and 100 Super Species by the end of 2018. This implies further acceleration in store openings in 4Q, including 68 new hypermarket/supermarkets, another 100 Yonghui Life and around 40 Super Species. We believe the store expansion will put more pressure on its 4Q earnings. The company is focusing on gaining market share in the new retail segment. In our model, We forecast sales will grow 23% to RMB72bn while NP will decline 10% to RMB1.6bn in 2018, despite downside risks including softer SSSg, increasing NP from new retail business and failure in store expansion. We maintain buy looking beyond its 2019 and its better than industry hypermarket business.

### Valuation & Risks

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### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-10.4	-4.1	-25.0
Shanghai Composite	-9.0	-10.5	-24.3

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	8.0
Net debt/equity (%)	-22.3
Book value/share (CNY)	2.17
Price/book (x)	3.4
Net interest cover (x)	60.4
Operating profit margin (%)	2.3

Source: Deutsche Bank

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31 October 2018  
Retail / Wholesale Trade  
Yonghui Superstores



Figure 1: Quarterly results

YE Dec RMBm	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18e
Sales	13,416	11,102	12,497	12,216	15,261	13,055	14,991	15,283	18,767	15,630	18,295	19,347
Gross Profit	2,682	2,175	2,429	2,436	3,140	2,547	2,958	3,354	4,216	3,371	3,734	4,413
SG&A and others	(2,124)	(1,870)	(2,183)	(1,940)	(2,236)	(2,254)	(2,633)	(2,871)	(3,343)	(3,353)	(3,714)	(3,644)
EBIT	557	305	246	496	905	294	325	483	874	18	19	769
NPAT	472	198	146	427	744	311	337	424	748	186	85	614
Core NPAT					785	352	430	517	1,026	466	517	1,046
GP margin	20.0%	19.6%	19.4%	19.9%	20.6%	19.5%	19.7%	21.9%	22.5%	21.6%	20.4%	22.8%
EBIT margin	4.2%	2.7%	2.0%	4.1%	5.9%	2.2%	2.2%	3.2%	4.7%	0.1%	0.1%	4.0%
NP margin	3.5%	1.8%	1.2%	3.5%	4.9%	2.4%	2.2%	2.8%	4.0%	1.2%	0.5%	3.2%
Core NP margin												
Sales yoy%	20%	15%	18%	14%	14%	18%	20%	25%	23%	20%	22%	27%
Gross Profit yoy%	23%	16%	21%	15%	17%	17%	22%	38%	34%	32%	26%	32%
SG&A and others yoy%	25%	13%	14%	-3%	5%	20%	21%	48%	50%	49%	41%	27%
NPAT%	30%	21%	106%	5104%	58%	58%	131%	0%	1%	-40%	-75%	45%
Core EBIT %									22%	-11%	13%	112%
Core NPAT%									31%	32%	20%	102%

Source: Deutsche Bank, Company data

Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	49,012.7	58,381.9	71,781.3	87,212.5	102,447.8
EBITDA (CNYm)	2,537.6	3,064.0	3,113.4	4,199.4	5,370.3
Reported NPAT (CNYm)	1,242.0	1,816.8	1,632.3	2,295.4	3,075.0
Reported EPS FD(CNY)	0.14	0.19	0.17	0.24	0.32
DB EPS FD(CNY)	0.14	0.19	0.17	0.24	0.32
DB EPS growth (%)	81.8	33.3	-10.2	40.6	34.0
PER (x)	30.7	37.4	42.8	30.4	22.7
EV/EBITDA (x)	11.2	20.1	20.9	15.2	11.4
DPS (net) (CNY)	0.13	0.15	0.09	0.12	0.16
Yield (net) (%)	3.0	2.1	1.2	1.6	2.2

Source: Deutsche Bank estimates, company data



# Appendix 1

## Important Disclosures

\*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
Yonghui Superstores	601933.SS	7.30 (CNY) 30 Oct 2018	NA

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

(as of 10/30/2018)



#### Current Recommendations

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

\*\* Analyst is no longer at Deutsche Bank

1.	04/14/2017	Buy, Target Price Change CNY 6.50	Mark Yuan	5.	01/02/2018	Buy, Target Price Change CNY 10.50	Anne Ling
2.	07/18/2017	Buy, Target Price Change CNY 8.20	Anne Ling	6.	04/03/2018	Buy, Target Price Change CNY 11.40	Anne Ling
3.	10/09/2017	Buy, Target Price Change CNY 8.90	Anne Ling	7.	07/23/2018	Buy, Target Price Change CNY 8.30	Anne Ling
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31 October 2018  
 Retail / Wholesale Trade  
 Yonghui Superstores



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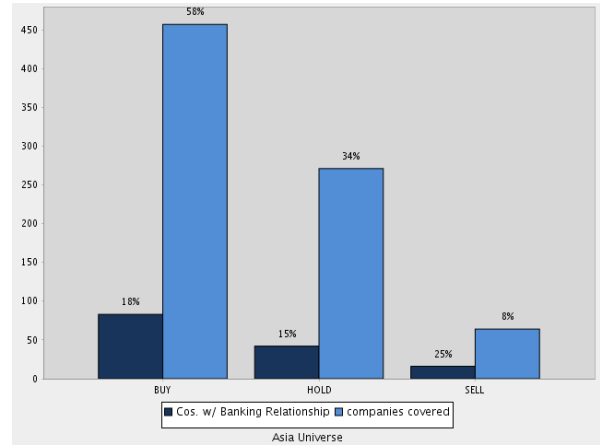
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31 October 2018

Retail / Wholesale Trade

Yonghui Superstores



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31 October 2018  
Retail / Wholesale Trade  
Yonghui Superstores



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31 October 2018

Retail / Wholesale Trade

Yonghui Superstores



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31 October 2018  
Retail / Wholesale Trade  
Yonghui Superstores



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31 October 2018

Retail / Wholesale Trade

Yonghui Superstores



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