

## Company Report

China Merchants Securities (HK) Co., Ltd.  
Hong Kong Equity Research

### GOME (493 HK)

#### Earnings growth to continue outperforming the industry

■ Physical stores performed well in second-tier cities and will remain the key growth drivers

■ Finance service platform established to support its omni-channel strategy and will help boost margin in the medium to long term

■ 2015-16E earnings fine-tuned by 2-3%. We maintain buy on expectation that Gome's bottom-line growth will continue to beat the industry, albeit a potential softer market.

#### What's new/ Actions

Gome's 3Q sales/net profit grew 6.7%/25% YoY, in-line with the company's previous announcement. 3Q14 gross margin was 18.1%, improved by 0.7ppt YoY on rising contributions from higher-margin service sales and products differentiation. 4Q14 SSSG so far rebounded from 3Q's 3.7% due to seasonality, and we believe FY14 management's guidance of 3%-5% SSSG is achievable.

#### Implications/ Our views

Sales contribution from Ecommerce and Integration remained limited (6% and 0.9% of 9M2014 sales respectively). The financial service platform established recently supports the company's omni-channel strategy, leads to more repeat customers, and is also positive for margin expansion in the longer term. Gome will continue to develop its financial service products organically, by equity investment and via cooperation with third parties.

#### Catalyst

Near-term share price catalysts include stronger growth momentum in 4Q14 (peak season), and continuous margin expansion on contribution from the higher-margin financial service and telecom service.

#### Valuation/ Key risks

Gome is on 12.3x and 10.8x 2014-15E P/E, vs. average forward P/E (since 2012) of 11.5x. Our new TP HK\$1.65 (from HK\$1.80) is based on a lower 14x 2015E target P/E (16x previously), in-line with its peers average, on our concern that demand growth on home appliances market has started to soften since 2H14. That said, we remain positive on Gome.

#### Financials

RMB mn	2012	2013	2014E	2015E	2016E
Revenue	47,867	56,401	61,169	65,242	71,968
Growth (%)	-20%	18%	8%	7%	10%
Net profit	-597	892	1,323	1,507	1,748
Growth (%)	-133%	-250%	48%	14%	16%
EPS (RMB)	-0.04	0.05	0.08	0.09	0.10
DPS (RMB)	0	0.03	0.03	0.04	0.04
P/E (x)	-	18.1	12.3	10.8	9.3
P/B (x)	0.9	0.9	0.8	0.8	0.7
ROE (%)	-5.5%	4.4%	7.0%	8.2%	9.7%

Source: Company data, CMS (HK) estimates

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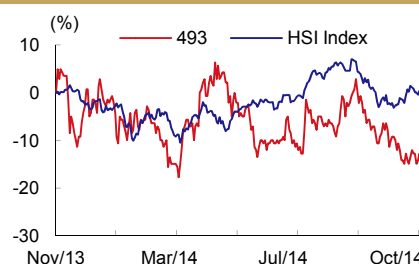
#### WHAT'S NEW

TP/estimate changes

### BUY

Previous	BUY
Price	HK\$1.17
12-month Target Price (Potential up/downside)	HK\$1.65 (+41%)
Previous	HK\$1.8

#### Price Performance



Source: Bigdata

%	1m	6m	12m
493 HK	(8.6)	(14.8)	(11.6)
HSI	3.4	4.8	3.3

#### Retail

Hang Seng Index	23797
HSCEI	10554

#### Key Data

52-week range (HK\$)	1.08-1.52
Market cap (HK\$ mn)	20400
Avg. daily volume (mn)	89.4
BVPS (HK\$)	0.94

#### Shareholdings Structure

Guangyu Huang	30.5%
BlackRock	7.09%
Bain	5.44%
No. of shares outstanding	16969
Free float	68%

#### Related Research

- 1) Gome Electrical: Starting a new journey 2013/11/25
- 2) Gome Electrical (493 HK): Expanding new sales channel, 2014/1/21
- 3) Gome Electrical (493 HK): Sales through third parties to soar 2014/7/24

## 国美电器 (493 HK)

### 利润增长高于行业增速，维持买入评级

- 二线城市同店增长双位数，仍是未来增长重点
- 金融服务平台支撑全渠道策略，并且长期有利于毛利率的提高
- 小幅调低2015年至2016年的盈利预期2%-3%，加上较低的行业平均估值水平有所下降(14x2015P/E)，下调目标价到1.65港元。2014年下半年开始家电类需求放缓，但我们预期公司增速将持续高于行业，维持买入评级

### 事件，投资策略及建议

国美2014年前9个月的销售额与净利润分别同比增长7.2%与79%，第三季度销售额与净利润增长6.7%与25%，与公司之前的公告一致。第三季度毛利率为18.1%，与去年同期相比提高了0.7个百分点，主要是受高毛利率电信服务、金融服务类销售以及差异化产品贡献。因为销售旺季，10月份至今的同店增长率由第三季度的3.7%有所反弹，2014年全年有望完成管理层3%-5%的指引。

### 我们的解读/我们的观点

渠道整合以及电子商务销售在整体收入方面仍然较小，前9个月两者销售分别占整体销售0.9%/6%。2014年底与徽商银行合作建立的金融服务平台将有利于公司的全渠道战略，长期来看，将促进再消费，并提升毛利率。

### 盈利预测/催化剂

2014年第四季度是旺季，增长动力有望回升，受高毛利的金融服务和电子通信服务贡献增加，未来毛利率有望进一步改善。

### 估值/风险提示

国美目前估值为12.3倍的2014年市盈率，10.8倍的2015年市盈率，2012年至今的历史平均市盈率为11.5倍。我们微调2015-2016盈利2-3%，调低目标价到1.65港币，基于较低的市盈率—14倍的2015年市盈率(之前16x)，与同行估值一致，我们担心2014年下半年开始家电类需求放缓，难以支撑行业较高的估值水平，然而，基于自2013年下半年以来公司改革带来发展增速高于行业水平，我们依然维持公司股票买入评级。我们预测的风险在于公司毛利率低于预期，以及费用率高于预期。

### 盈利预测及估值

人民币百万元	2012	2013	2014E	2015E	2016E
营业额	47,867	56,401	61,169	65,242	71,968
同比增长(%)	-20%	18%	8%	7%	10%
净利润	-597	892	1,323	1,507	1,748
同比增长(%)	-133%	-250%	48%	14%	16%
每股盈利(元)	-0.04	0.05	0.08	0.09	0.10
每股股息(元)	0	0.03	0.03	0.04	0.04
市盈率(X)	-	18.1	12.3	10.8	9.3
市净率(X)	0.9	0.9	0.8	0.8	0.7
ROE(%)	-5.5%	4.4%	7.0%	8.2%	9.7%

资料来源：公司资料，招商证券(香港)预测

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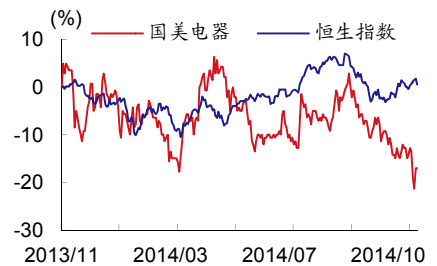
### 最新变动

目标价/EPS估值变动下调

### 买入

前次评级	买入
股价	HK\$1.17
12个月目标价 (上涨/下跌空间)	HK\$ 1.65 (+41%)
前次目标价:	HK\$1.8

### 股价表现



资料来源：贝格数据

%	1m	6m	12m
493 HK	(8.6)	(14.8)	(11.6)
HSI	3.4	4.8	3.3

### 行业：零售

恒生指数	23797
国企指数	10554

### 重要数据

52周股价区间(港元)	1.08-1.52
港股市值(百万港元)	20400
日均成交量(百万股)	89.4
每股净资产(港元)	0.94

### 主要股东

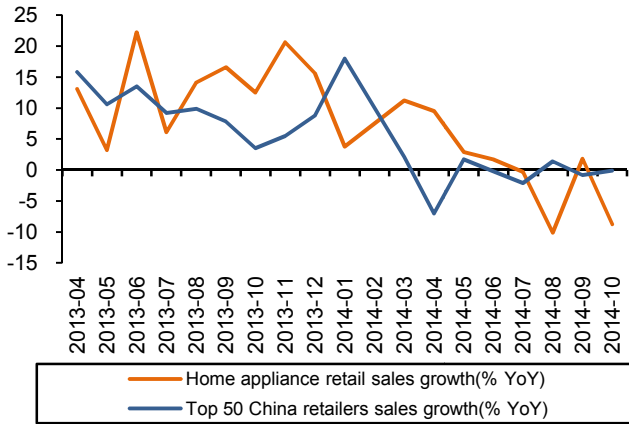
黄光裕	30.5%
Blackrock	7.09%
Bain	5.44%
Carmignac Gestion	5%
总股数(百万股)	16969
自由流通量	68%

### 相关报告

- 1) 国美电器，盈利反转，重新起航 2013/11/25
- 2) 国美电器(493.HK)：积极拓展新的销售渠道 2014/1/21
- 3) 国美电器(493.HK)：第三方销售将发力 2014/7/24

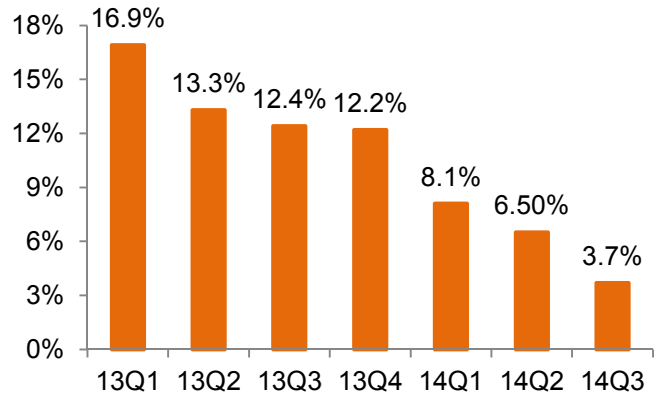
Focus charts

Figure 1: Home appliance sales slowed since 2H14



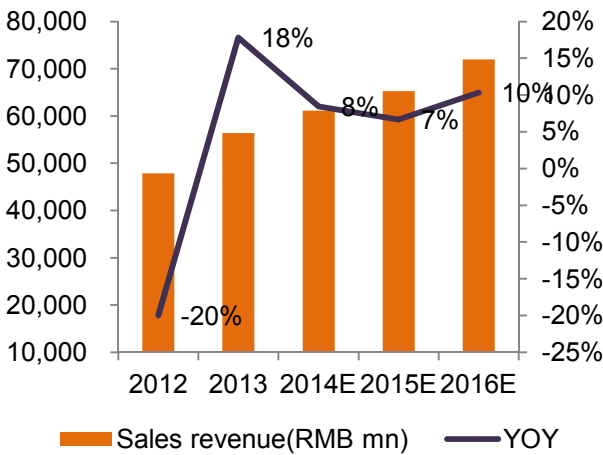
Source: NBS, CMS(HK)

Figure 2: 3Q14 SSSG slowed to 4% YoY on seasonality



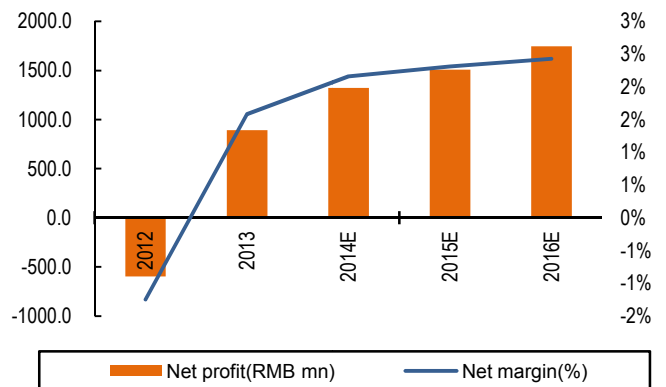
Source: Company, CMS(HK)

Figure 3: Expect sales 2014-16E CAGR of 8%



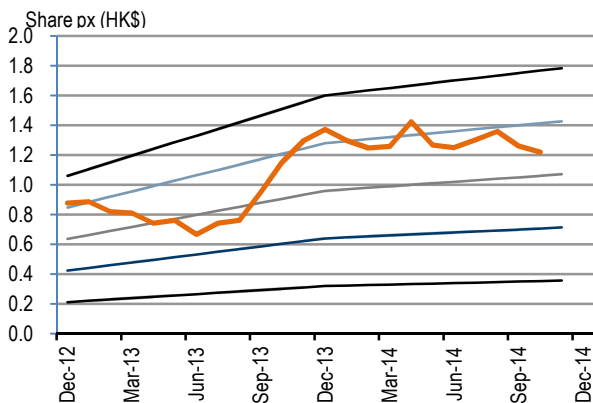
Source: Company, CMS(HK)estimates

Figure 4: Expect net margin to improve further



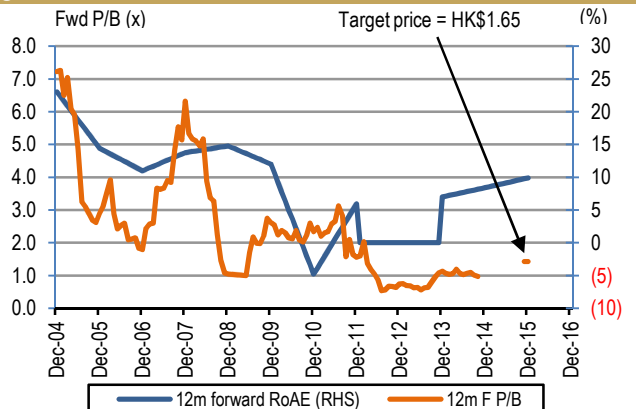
Source: Company, CMS(HK)estimates

Figure 5 : Forward P/E Band Chart



Source: Bloomberg, CMS(HK)

Figure 6 : Forward ROAE and P/B chart



Source: Bloomberg, CMS(HK)

## Physical stores: Focus on second-tier cities

Gome's 3Q SSSG reached 3.7% with 2.2%/10% growth in first-tier/second-tier cities. 42 net stores were opened from 1Q-3Q, and another 18 stores will be opened in 4Q. 60% of the new stores are in second-tier cities, where the growth potential is bigger.

Chanel integration revenue also grew by 36% QoQ to RMB185 mn in 3Q2014. 9M revenue totaled RMB406 mn, accounting for 51%-58% of the management's whole year guidance. The contribution to sales from channel integration is relatively small currently. We revised down our channel integration revenue forecast to RMB650 mn from the previous RMB800 mn for 2014 to reflect the slower than expected growth.

## Ecommerce: gross margin eroded due to product mix change

9M14 ecommerce gross margin eroded to 5.6% from 7.3% in 1H14 due to product mix shift to lower margin 3C products, but the management believed that 4Q would see more products differentiation and thus gross margin would expand to 6%. Ecommerce growth momentum continues with over 100 % YoY growth in 3Q GMV, due to the low base. Revenue from ecommerce currently accounts for 6% of the total in 9M2014. Mobile ecommerce GMV accounts for 17.2% of total GMV in 3Q14, improved from 12.4% in 3Q13.

**Singles day sales:** Gome's singles day sales grew by 580% YoY, with mobile GMV accounting for 43% of total GMV. The best-selling category is home appliance, which accounts for 55% of its total GMV. This is due to promotion launched on the Singles day (Nov. 11) and later will return to the normal level.

## Finance service platform established to complement its omni-channel strategy

Gome announced on November 11 that it will subscribe 632.5m shares of Huishang bank (3698 HK) with HK\$2.4 bn, which represents 5.7% of its issued share capital and approximately 5.41% of the issued share capital of Huishang Bank as enlarged by the issue of the subscription shares. The deal could complete on 31 December if approved by CSRC and CBRC. Gome has net cash position with nearly RMB12 bn cash in hand in 3Q14.

The market responded to this news negatively at the beginning due to concern that Gome will divest its major business, but we believe this cooperation is for strategic development, as the company has 130 mn customers, 12,000 suppliers, and RMB100 bn procurement platform. With self-built platform by equity investment and cooperation with third parties, the management believed that the company could integrate transaction, finance and data, provide precise marketing and data based marketing to consumers and improve consumer loyalty.

**Valuation not cheap but are in line with government regulation:** The purchase price equals to 1.0x2014 P/B of Huishang bank, 25% premium to Huishang bank's 2014 valuation. The management explained that this is because national asset couldn't be sold below 1x NAV according to government regulation.

**Why Huishang bank?** Many investors are concerned that Huishang bank is only a regional bank without consumer finance license. But only three banks have the license in China and Huishang is also applying for this license at the current stage and Huishang will expand nationally in the future. Huishang bank is developing consumer finance and supply chain financing which are vital to Gome's strategic plan.

**Good for margin improvement:** With its own financial service platform, more finance service income will contribute to company's other income and boost the company's gross margin: For example, the higher margin (**GM: 80%**) warranty sales recorded 61% YoY growth in 9M14, representing 0.3% of total revenue. Gome launched warranty products with an insurance company in 2013. The company's comprehensive gross margin has been around 18% since 2013 and could improve further.

## Earnings revision

We revised down sales forecast in 2014E-2016E by 1%-7% to factor in lower than expected channel integration sales and ecommerce sales. However, considering more other income contribution from higher margin financial service and telecom service, our net profit forecast is fine-tuned by 2%-3% from 2015E/2016E. Our new TP HK\$1.65 is based on a lower P/E multiple of 14x2015P/E (16x2015 P/E previously), in-line with peers valuation. Slow demand growth of home appliance since 2H14 has led to sector derating. We still like Gome considering its above average growth rate and new business initiatives. We maintain BUY on this stock.

Figure7: Sales and earnings revision

	Actual				Revised			Old			Diff		
	2013	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
RMB mn													
Physical stores	54,001	56,701	58,315	60,177	56,320	58,257	59,931	0.7%	0.1%	0.4%			
Ecommerce	2,400	3,818	5,727	8,591	4,648	7,437	11,155	-17.9%	-23.0%	-23.0%			
Channel integration		650	1,200	3,200	800	3,200	6,400	-18.8%	-62.5%	-50.0%			
Turnover	56,401	61,169	65,242	71,968	61,768	68,894	77,486	-1.0%	-5.3%	-7.1%			
Total expense	9,340	9,848	10,439	11,227	9,945	10,816	12,010	-1.0%	-3.5%	-6.5%			
Operating profit	1,015	1,382	1,724	2,145	1,388	1,713	2,140	-0.5%	0.7%	0.2%			
Op margin	1.8%	2.3%	2.6%	3%	2.2%	2.5%	3%	0.0%	0.2%	0.2%			
Finance cost	180	171	201	255	173	212	280	-1%	-5%	-9%			
Taxation	517	437	526	647	435	523	630	0%	1%	3%			
Minority interest	-215	-200	-120	0.0	-200	-120	0.0	0%	0%	0%			
Net profit	892	1,323	1,507	1,748	1,320	1,534	1,794	0%	-2%	-3%			

Source: Company, CMS(HK)estimates

Figure 8: Quarterly results

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Revenue	12,338	14,777	14,545	14,741	13,351	15,773	15,521
YoY	18.2%	4.3%	27.1%	58.5%	8.2%	6.7%	6.7%
COGS	10,507	12,458	12,393	12,541	11,331	13,363	13,197
Gross profit	1,831	2,318	2,153	2,200	2,020	2,410	2,325
Gross margin	14.8%	15.7%	14.8%	14.9%	15.1%	15.3%	15.0%
Other income	337.4	486.4	375.2	653.1	404.0	649.4	480.2
% of sales	2.7%	3.3%	2.6%	4.4%	3.0%	4.1%	3.1%
Comprehensive gross margin	17.6%	19.0%	17.4%	19.4%	18.2%	19.4%	18.1%
Selling expenses	1,654	1,941	1,790	1,768	1,702	1,867	1,895
% of sales	13.4%	13.1%	12.3%	12.0%	12.8%	11.8%	12.2%
Administrative expenses	381.0	381.1	367.1	435.1	389.6	450.5	436.4
% of sales	3.1%	2.6%	2.5%	3.0%	2.9%	2.9%	2.8%
Other expenses	71.5	195.6	146.8	208.7	99.0	236.4	123.2
% of sales	0.6%	1.3%	1.0%	1.4%	0.7%	1.5%	0.8%
Operating costs ratio	17.1%	17.0%	15.8%	16.4%	16.4%	16.2%	15.8%
Operating profit	62.3	286.8	224.2	441.2	233.0	505.2	350.1
Operating margin	0.5%	1.9%	1.5%	3.0%	1.7%	3.2%	2.3%
Finance costs	(23.3)	(12.0)	(26.0)	(11.3)	(14.1)	(7.4)	(13.9)
Finance income	57.9	60.0	125.9	56.9	71.7	57.7	87.3
Income before taxation	96.8	335.2	275.8	486.8	290.6	555.5	423.5
Taxation	(69.4)	(142.7)	(76.2)	(228.9)	(64.8)	(182.8)	(168.5)
Profit	27.4	192.5	392.1	257.9	225.9	372.7	255.0
Minority interests	(48.9)	(53.5)	(60.5)	(52.1)	(42.2)	(51.8)	(70.2)
Income attributable to equity holders	76	246	260	310	268	425	325
YoY	n.a	n.a	n.a	33.5%	251.2%	72.6%	25.0%
Net margin	0.6%	1.7%	1.8%	2.1%	2.0%	2.7%	2.1%

source: Company, CMS(HK)

Figure 9: Home appliance chains peers valuation

Company	Stock ticker	Market cap	Share price	P/E (x)			P/B (x)		EV/EBITDA (x)	ROE	ROA	Dividend yield
		(US\$ m)	(x)	13 (x)	14E (x)	15E (x)	14E (x)	15E (x)	14E (x)	14E (%)	14E (%)	14E (%)
<b>HK</b>												
Gome Electrical	493 HK	2,602	1.2	18	12.3	10.8	0.8	0.8	12.7	7.0	2.7	2.4
Haier Electrical	1169 HK	6,941	20.1	18.8	17.5	14.5	5.1	4.0	12.8	26.3	10.3	0.5
<b>China</b>												
Suning Commerce	002024 CH	9,388	8	N.A	N.A	N.A	2.1	2.1	42.8	(3.7)	(1.4)	-
<b>US</b>												
Target	TGT US	43,175	68	N.A	N.A	N.A	3	3	9	12	5	3
Bestbuy	BBY US	12,408	35.5	16.2	15.3	13.4	2.7	2.6	5.9	19.6	6.1	2.0
Amazon	AMZN US	151,783	327.8	N.A	171.9	88.2	14.6	12.7	37.0	2.6	0.5	-
Wal-Mart	WMT US	267,340	83.0	n.a	n.a	15.8	3.2	2.9	9.0	20.0	7.9	2.3

Source: Bloomberg, CMS(HK)



## Financial Summary

### Balance Sheet

RMB million	2012	2013	2014E	2015E	2016E
<b>Current Assets</b>	24324	26345	27797	29983	33409
Inventory	7779	8221	8984	9583	10570
Trading investments	0	0	0	0	0
ST bank deposits	6240	6407	6407	6407	6407
Trade receivables	3046	2579	2757	2774	2803
Other receivables	191	123	123	123	123
Cash	7067	892	676	656	783
Other current assets	0	0	0	0	0
<b>Non-current assets</b>	13389	12978	13109	13226	13332
Investment property	918	949	949	949	949
Property, Plant & Eq.	4379	4095	4225	4343	4448
Intangible assets	437	424	424	424	424
Other non-current assets	618	501	501	501	501
<b>Total assets</b>	<b>37713</b>	<b>39324</b>	<b>40906</b>	<b>43209</b>	<b>46741</b>
<b>Current liabilities</b>	22868	23834	24734	26180	28567
Bank loans	2434	2683	2000	2000	2000
Trade payables	18017	18077	19475	20771	22913
Prepaid accounts	1722	2047	2233	2382	2627
Other liquid liabilities	694	1027	1027	1027	1027
<b>Long term Liabilities</b>	176	172	172	172	172
Loans	0	0	0	0	0
Others	176	172	172	172	172
<b>Total Liabilities</b>	23043	24007	24907	26352	28739
Issued capital	422	422	422	422	422
Others	0	0	0	0	0
Reserves	14643	15064	15858	16762	17811
Minority interests	(395)	(610)	(810)	(930)	(930)
Dividends	0	441	529	603	699
<b>Total equity and liabilities</b>	<b>37713</b>	<b>39324</b>	<b>40906</b>	<b>43209</b>	<b>46741</b>

### Cashflow Statement

RMB million	2012	2013	2014E	2015E	2016E
<b>Operating cash flow</b>	4137	1702	2037	2231	3069
Profit before tax	(654)	1195	1560	1914	2395
Deprec & Amort.	451	553	469	483	494
Finance costs	(214)	(180)	(171)	(201)	(255)
Working capital chg	4277	411	642	830	1370
Others	276	(277)	(463)	(795)	(935)
<b>CF from IA</b>	(721)	(430)	(600)	(600)	(600)
Capital expenditure	(783)	(430)	(600)	(600)	(600)
Other investments	62	0	0	0	0
Others	0	(1828)	39	33	36
<b>CF from FA</b>	(2666)	188	(753)	(60)	(60)
Borrowings	(34)	249	(683)	0	0
Share capital	422	422	422	422	422
Changes of reserves	(884)	422	794	904	1049
Dividends	0	(441)	(529)	(603)	(699)
Others	(2170)	(462)	(756)	(783)	(831)
<b>Net cash flow</b>	750	1460	683	1571	2409

Source: Company data, CMS (HK) estimates

### Profit & Loss Statement

RMB million	2012	2013	2014E	2015E	2016E
<b>Revenue</b>	47867	56401	61169	65242	71968
Other income	1541	1852	2000	2300	2500
COGS	(41664)	(47899)	(51932)	(55390)	(61101)
Selling expenses	(1541)	(1852)	(2000)	(2300)	(2500)
administrative expenses	(1423)	(1564)	(1652)	(1827)	(1943)
Others	0	0	0	0	0
Other expenses	(419)	(623)	(551)	(522)	(648)
<b>Op profit</b>	(902)	1015	1388	1713	2140
Finance costs	(228)	(61)	(70)	(60)	(60)
<b>Other income</b>	(441)	(241)	(242)	(261)	(315)
Non-operating income	0	0	0	0	0
Net loss of CB	34	0	0	0	0
<b>PBT</b>	(654)	1195	1560	1914	2395
Taxation	(156)	(517)	(437)	(526)	(647)
<b>PAT</b>	(810)	677	1123	1387	1748
Minority interests	(213)	(215)	(200)	(120)	0
Net profit	(597)	892	1323	1507	1748
<b>EPS (RMB)</b>	-0.04	0.05	0.08	0.09	0.10

### Financial Ratios

	2012	2013	2014E	2015E	2016E
<b>YoY growth rate</b>					
Revenue	-20%	18%	8%	7%	10%
Op profit	-139%	-213%	37%	23%	25%
Net profit	-133%	-250%	48%	14%	16%
<b>Profitability</b>					
Gross margin	16%	18%	18%	19%	19%
NP margin	-1.2%	1.6%	2.2%	2.3%	2.4%
ROE	-5.5%	4.4%	7.0%	8.2%	9.7%
ROIC	-5.5%	2.7%	3.7%	4.7%	5.8%
<b>Liquidity</b>					
Debt to Asset	164%	164%	164%	164%	163%
Net Debt to Equity	-74%	-83%	-83%	-88%	-96%
Liquid ratio	1.1	1.1	1.1	1.1	1.2
Quick ratio	1.5	1.5	1.5	1.5	1.5
<b>Operating efficiency</b>					
Asset turnover	1.3	1.4	1.5	1.5	1.5
Inventory turnover	0.02	0.02	0.02	0.02	0.02
AR turnover	0.02	0.02	0.02	0.02	0.02
AP turnover	1.7	1.5	1.4	1.5	1.4
<b>Per share ratios (RMB)</b>					
EPS	-0.04	0.05	0.08	0.09	0.10
CFPS	0.24	0.10	0.12	0.13	0.18
BPVS	0.86	0.90	0.94	0.99	1.06
DPS	0.00	0.03	0.03	0.04	0.04
<b>Valuation ratios</b>					
P/E	0.0	18.1	12.3	10.8	9.3
P/B	0.9	0.9	0.8	0.8	0.7
EV/EBITDA	0.0	14.2	12.7	10.7	8.9

## Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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