

Company Visit

GOME Electrical Appliances Holding Ltd
Sector: Consumer Discretionary
Industry: Specialty Retail
Sub-industry: Computer & Electronics Retail

Key data	
Price (HK\$)	2.03
52wk High (HK\$)	2.03
52wk Low (HK\$)	1.01
Market Cap (HK\$m)	34,427
Market Cap (US\$m)	4,442
Shares outstanding (m)	16,959
Free float	67.6%
1M Return	95.2%
6M Return	56.2%
52wk Return	44.7%
YTD Return	78.1%
Dividend yield (FY13)	1.92%
S&P	-
HSCEI	13,988

Inst Ownership (Top 5)	
GUANGYU HUANG	32.43%
BLACKROCK	6.30%
MORGAN STANLEY	3.80%
UBS AG	3.00%
CITIGROUP INCORPORAT	2.99%

Source: Bloomberg

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国美电器 (493:HK)

王者归来

家电零售巨无霸。国美电器成立于 1987 年，是中国最具盈利潜力的家电零售商。2014 年国美收入达人民币 603.6 亿元（同比上升 7.02%），净利润达人民币 12.8 亿元（同比上升 43.5%）。其竞争对手苏宁（002024 CH）2014 年收入录得人民币 1089.3 亿元（同比上升 3.46%），净利润达人民币 8.67 亿元（同比上升 133.1%）。

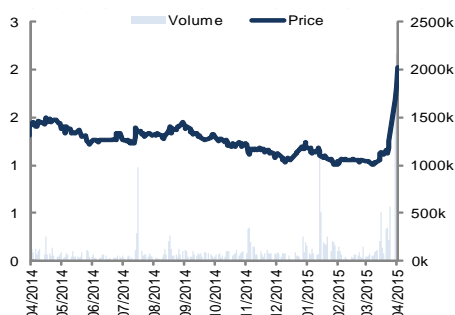
线上平台增长发力，线下收入保持稳定。2014 年国美净增门店 264 家，达到 1849 家（苏宁同期门店数量为 1650 家），覆盖超过 400 个城市。公司通过可比门店获得的收入同比增长 4.82% 达到人民币 500.8 亿元（占全部收入的 46.0%），然而其线上渠道 GMV 同比增长 84.41% 达到人民币 77 亿元，驱动收入增长。

家电领域最大的物流平台凸显价值。国美的产业链覆盖包括采购，物流，IT，金融服务以及售后服务，以支撑其线上线下销售。公司物流网络覆盖 241 个城市，提供送货上门以及安装服务等，达到了大多家电企业还未达到的水平。国美将其物流网络作为战略性优势并目标打造中国家电领域最大的物流平台。

费用率控制良好。在后台架构打造完成之后，我们期待公司保持对费用的严格控制，并且维持在当前水平。公司尤其对租金和员工费用控制较紧，低于行业平均。租金费用在 14 年下半年下降至占收入 4.55%，员工费用占比 3.13%。整体经营费用从 13 年的占收入 16.56% 下滑至 14 年的 16.29%。

微店计划印证公司全渠道营销的决心。国美计划开设十万家微店，通过国美的 App 和微信平台等，支持其线上业务在未来三年的发展。公司目标通过这些社交媒体渠道促进产品的发布，提供不间断销售及为用户量身打造的服务。

与 A 股同类公司的估值巨大差价。随着最近港股的增长，国美目前交易对应 18 倍的 15 年 PE，1.81 倍的 15 年 PB，远低于苏宁目前对应的 106 倍的 15 年 PE 和 3.21 倍的 15 年 PB。公司在过去 5 年中的平均 PE 为 16.79，平均 PB 为 1.58。



Source: Bloomberg

Financial Table

	11A	12A	13A	14A
Revenue (m)	72,060	62,819	71,161	75,973
YoY (%)	23.3%	-12.8%	13.3%	6.8%
Net income (m)	2,216	(896)	1,126	1,611
YoY (%)	-1.6%	-140.4%	-225.7%	43.1%
Diluted EPS	0.13	-0.05	0.07	0.10
YoY (%)	-4.7%	-140.3%	-226.5%	43.1%
ROE (%)	12.0%	-4.7%	5.8%	7.8%
Dividend yield (%)	1.5%	0.0%	1.4%	3.3%
Free cashflow per share	0.03	0.23	0.12	
PE (x)	13.4	-	21.1	12.0
PB (x)	1.5	0.8	1.2	0.9
EV/Ebitda	8.2	-	9.2	5.6
Debt/Equity	0.13	0.17	0.18	0.21

Source: SWS Research, Bloomberg

Home appliances giant. Established in 1987, Gome Electrical Appliances Holding has become China's most profitable home appliances retailer, reporting 2014 revenue of Rmb60.36bn (+7.02% YoY) and net profit of Rmb1.28bn (+43.50% YoY). Its main competitor, Suning (002024:CH), reported 2014 revenue of Rmb108.93bn (+3.46% YoY) and net profit of Rmb867m (+133.1% YoY).

Surge in online platform and stable offline revenue. After adding 264 new stores in 2014, Gome's network reached 1,849 stores (vs 1,650 for Suning) covering more than 400 cities by end-2014. The company's sales through its comparable stores for the year grew 4.82% YoY to Rm50.08bn (46.0% of the total), while its online channels drove topline growth with online sales expanding 84.41% YoY to Rmb7.7bn in 2014.

Largest logistics network platform for home appliances. Supporting both its offline and online sales, Gome units cover procurement, logistics, information technology and financial services and after-sales service. The company's logistics network covers 241 cities across China, offering three deliveries daily to the door and offering ancillary services such as installation-on-delivery, a level of service that few other online home appliances vendors can match. Gome has pegged this as a strategic advantage and has stated that it aims to build China's largest home appliance logistics network.

Stable expense ratio. Following the completion of its back-end technology infrastructure, we expect the company to maintain close control of expenditure and to control costs at approximately current levels. In particular, the company has a relatively tight grip over rental and staff costs, which fall below the industry average. Rental expenses, as a proportion of revenue, fell to 4.55% in 2H14, while staff costs accounted for 3.13%. Overall, its operating expense ratio fell from 16.56% in 2013 to 16.29% in 2014.

Mobile micro shops. Gome plans to open c.100,000 mobile micro shops via Gome's app and WeChat platforms, supporting the development of its online business in the coming three years. The company aims to promote these channel with product launches via social media, offering round-the-clock sales and exclusive tailored services to users.

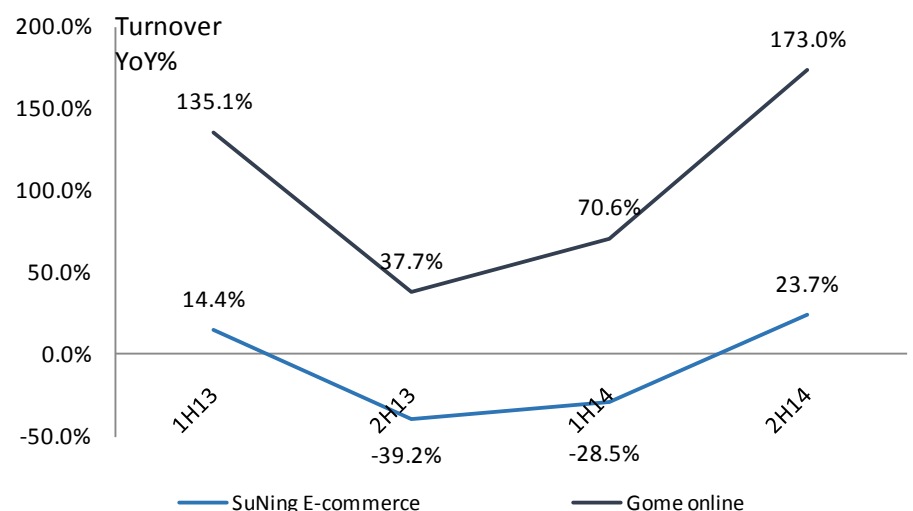
Substantial valuation gap between A-share peers. Following the recent H-share rally, Gome is now trading at an 18x 15F PE and 1.81x 15F PB, much lower than 106x 15F PE and 3.21x 15F PB enjoyed by Suning in the A-share market. The company's average valuation over the past five years was 16.79 trailing PE and 1.58 trailing PB.

Leading home appliances retailer

Home appliance giant. Gome was built in 1987 and has become the leading home appliances retailer in China, gaining competitive advantage to its competitor SuNing. Differentiated products the company sold including audio and visual products, refrigerator and washing machines, air-conditioners, telecommunication products, small white appliances, IT products and digital products. The company is building its terminal platform of “offline + online + mobile terminal+ other social channels” in a more open and integrated business model. At end-2014, the company has 1849 stores (SuNing: 1650) covering more than 400 cities, with 264 store net additions. Turnover from online platform increased 84.4% YoY in 2014 to Rmb7.7bn (SuNing online sales: Rmb25.8bn, -1.15% YoY).

Sales from e-commerce surge. GMV from e-commerce platform increased 84.4% YoY to Rmb7.7bn driven by the O2O integration and also some promotion activities such as Black Friday (13 March, 2014) which boost sales to grow 200% YoY from 13-15 March. Net loss is narrowing down from e-commerce to Rmb-350m. In 2014, mobile terminal users increased 97.2% YoY, and the GMV from mobile users accounts for 35.1% of Gome online GMV in 4Q14. The company also conducts big data analysis of consumer behavior to help improve consumer shopping experience.

Fig 1: Online turnover YoY change comparison within Gome and Suning

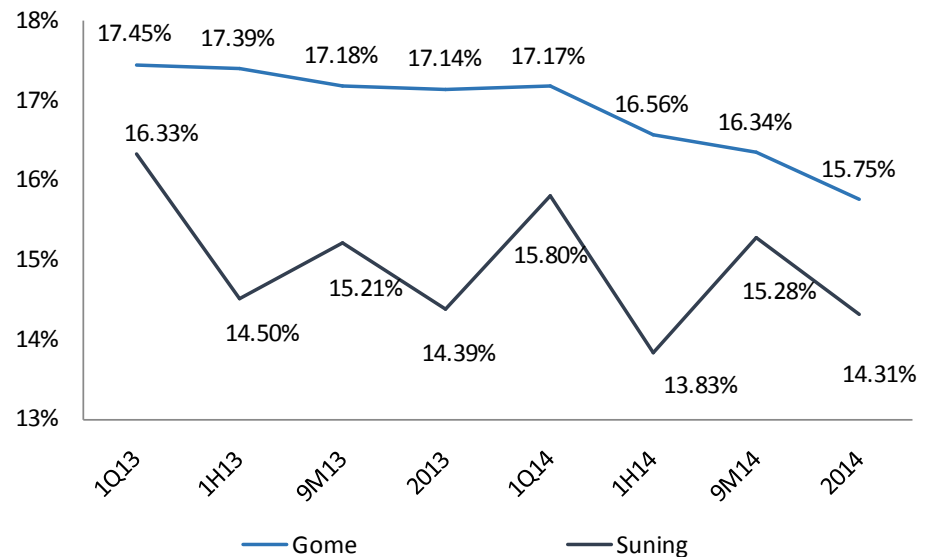


Source: Company Data, SWS Research

Largest logistics system. Logistics system is crucial to online business. The company implemented strong logistic system covering 241 cities in China which can achieve three deliveries a day, precise delivery and installation on delivery, while many other home appliance e-commerce platform hard to accomplish. Gome aims to build the largest logistics network platform for home appliances in China.

Stable expense ratio. Due to the completion of back-end technology structure, the expense will remain stable, as a result the gross profit margin and expense ratio will be in a controlled range. Also the differentiated product operation helps better profit margin. In 2014, the profit margin for the group is 14.90% (2013: 15.07%).

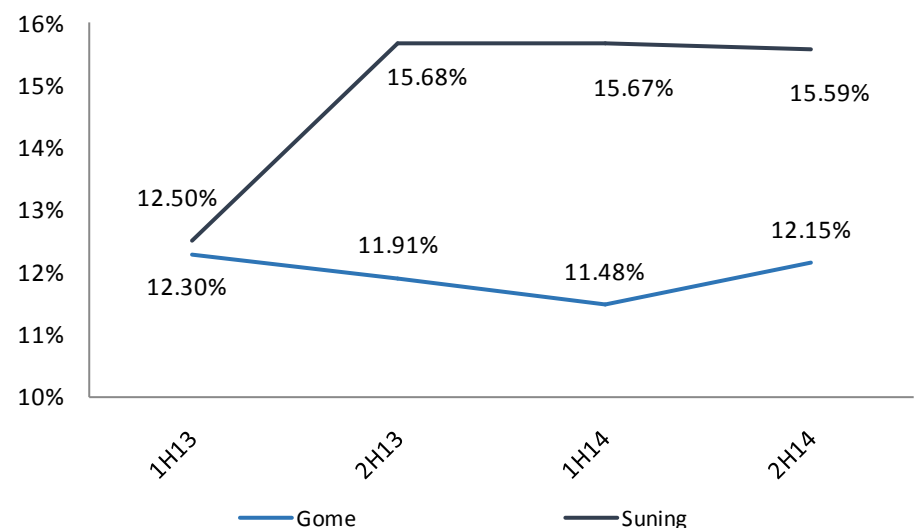
Fig 2: Gross margin of offline physical stores



Source: Company Data, SWS Research

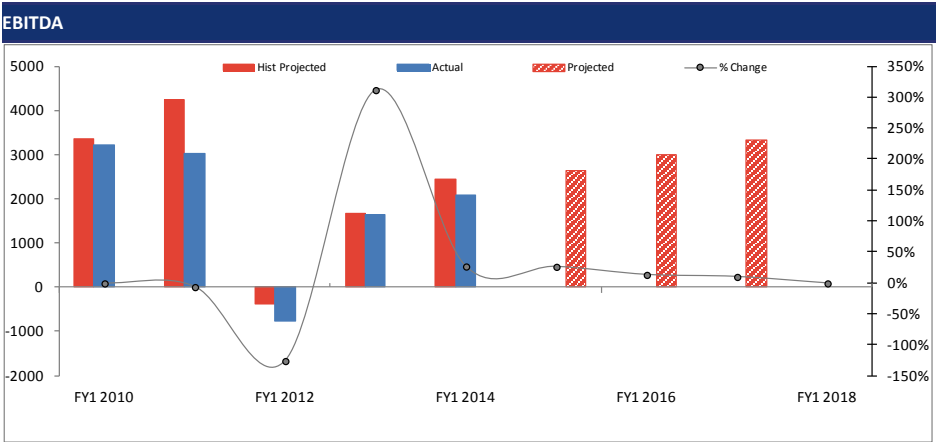
The company has a tight control over the operating expenses especially in rental and staff costs, which are below the industry average level. Rental expense ratio was down to 4.55% and staff costs ratio was at 3.13% in 2H14.

Fig. 3: Operating expenses ratio comparison (including online platform)

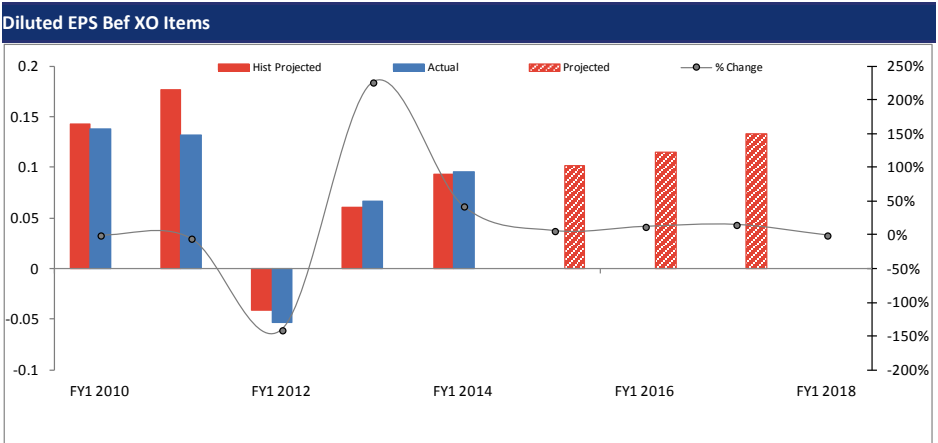


Source: Company Data, SWS Research

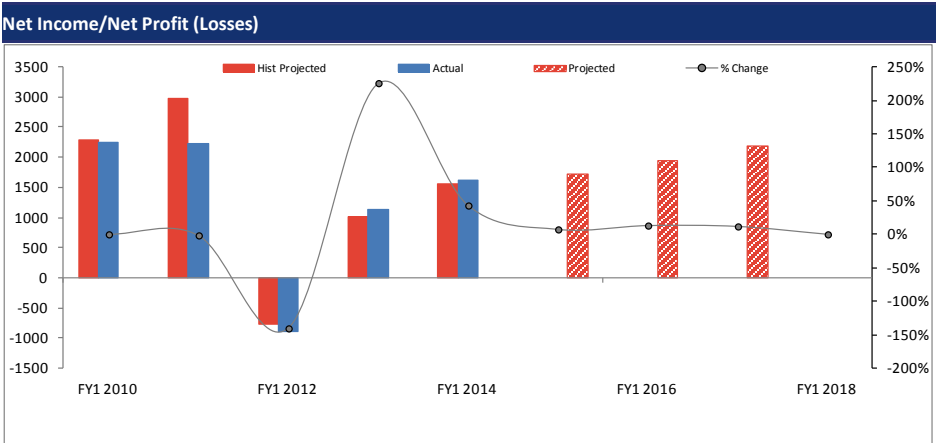
Mobile Micro Shops. The company plans to open around 100,000 mobile micro shops support the development of Gome online by 2015 and double the fans base by 2017, connecting O2O, and data terminal to create a thorough consumer experience. Gome will leverage on the social media and focus on one to one information sharing to launch and share various products, completing cross-categories, cross-brands and round-the-clock sales, and offer exclusive customised services to consumers.



Source: SWS Research, Bloomberg

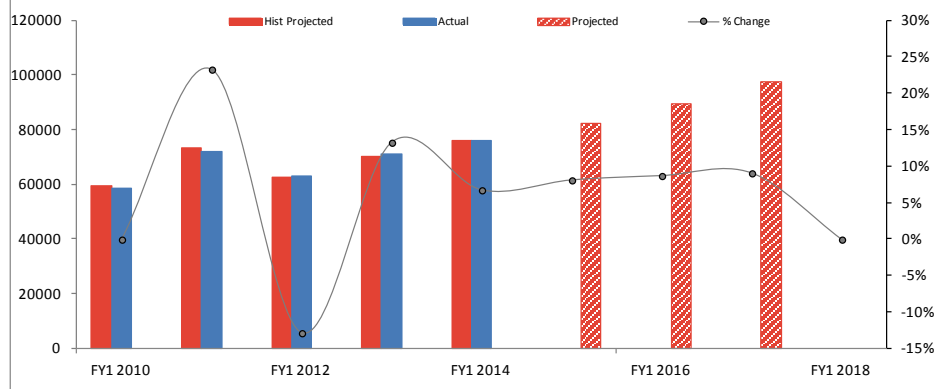


Source: SWS Research, Bloomberg



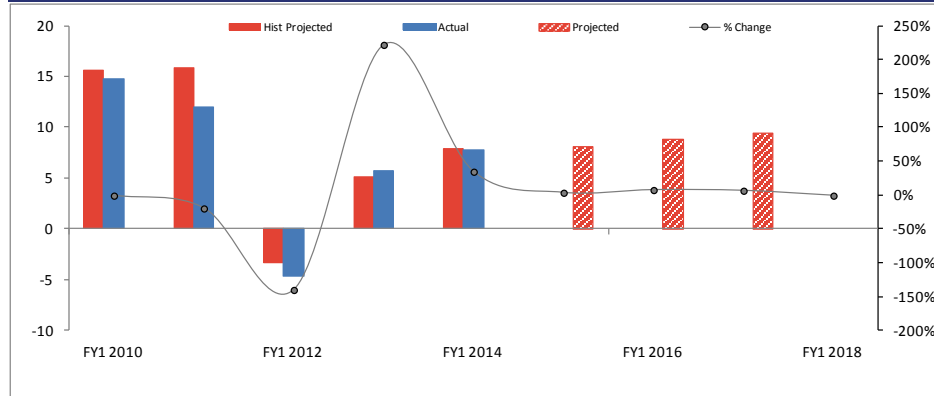
Source: SWS Research, Bloomberg

Sales/Revenue/Turnover



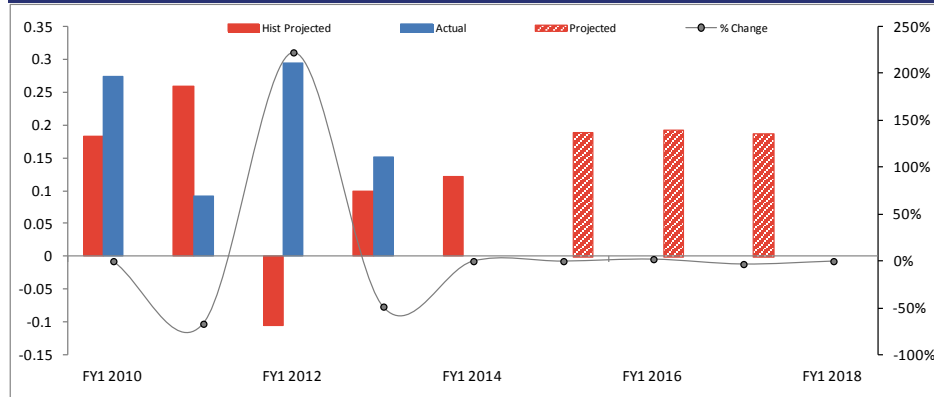
Source: SWS Research, Bloomberg

Return on Equity



Source: SWS Research, Bloomberg

Cash Flow per Share



Source: SWS Research, Bloomberg

Appendix

Income Statement

HK\$	2011	2012	2013	2014
Revenue	72,060.34	62,818.78	71,161.03	75,973.12
Operating Income	2,542.43	(1,378.88)	911.16	1,356.04
Pretax Income	2,980.79	(933.13)	1,507.33	1,988.88
Income bef XO Items	2,169.91	(1,157.94)	854.74	1,281.54
Net Income	2,216.31	(895.62)	1,126.04	1,610.81
Basic EPS Before XO Items	0.13	(0.05)	0.07	0.10
Basic EPS	0.13	(0.05)	0.07	0.10
Diluted EPS Before XO Items	0.13	(0.05)	0.07	0.10
Diluted EPS	0.13	(0.05)	0.07	0.10
Dividends per Share	0.03	-	0.02	0.04
Ebitda	3,032.03	(771.58)	1,638.08	2,085.19
Return on Common Equity	11.99	(4.70)	5.76	7.80

Source: Bloomberg

Balance Sheet

HK\$	2011	2012	2013	2014
Total Current Assets	29,690.55	30,237.27	33,751.51	38,831.99
Total Long-Term Assets	16,205.43	16,644.45	16,626.90	16,225.87
Total Assets	45,895.97	46,881.72	50,378.41	55,057.85
Total Current Liabilities	26,156.46	28,427.32	30,534.31	34,824.92
Total Long-Term Liabilities	114.61	218.24	220.73	203.61
Total Liabilities	26,271.07	28,645.56	30,755.04	35,028.52
Total Shareholders' Equity	19,624.91	18,236.16	19,623.37	20,029.33
Shares Outstanding	16,873.56	16,875.06	16,875.06	16,959.23
Book Value per Share	1.17	1.11	1.21	1.25
Tangible Book Value / Sh	0.86	0.03	0.10	0.70
Shareholder Equity/Total Liab	42.76	38.90	38.95	36.38

Source: Bloomberg

Cash Flow Statement

HK\$	2011	2012	2013	2014
Net Income	2,216.31	(895.62)	1,126.04	1,610.81
Depreciation and Amortisation	489.60	607.30	726.92	729.16
Change in Working Capital	(1,322.72)	(1,753.59)	1,351.95	870.16
Cash - Operating Activities	1,534.45	4,958.23	2,555.66	-
Capital Expenditures	(1,037.71)	(997.94)	(550.01)	-
Cash - Investing Activities	(886.82)	(816.35)	(413.72)	-
Cash - Financing Activities	(961.97)	(3,338.46)	316.45	-
Net Changes in Cash	(314.34)	803.43	2,458.39	-
Free Cash Flow	496.74	3,960.29	2,005.66	-
Free Cash Flow / Basic Sh	0.03	0.23	0.12	-
Free Cash Flow / Diluted Sh	0.03	0.23	0.12	-
Cash flow per Share	0.09	0.29	0.15	-

Source: Bloomberg

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