



Rating  
**Buy**

Asia  
China

Consumer  
Retail / Wholesale Trade

Company  
**SUN ART RETAIL  
GROUP Alert**

Reuters 6808.HK	Bloomberg 6808 HK	Exchange HSI	Ticker 6808
ADR Ticker SURRY	ISIN US8666331009		

Date  
1 March 2015

**Results**

Price at 27 Feb 2015 (HKD)	6.96
Price target - 12mth (HKD)	10.00
52-week range (HKD)	10.38 - 6.75
HANG SENG INDEX	24,823

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## FY14 results slightly miss; nil earnings growth in 2H14

### 4.8% rise in net profit to HKD2.9bn on 6.6% growth in sales to RMB91.8bn

A further slowdown happened in 2H14 with flat earnings despite 5.1% sales growth. In 4Q14, while top line grew by 5.4%, bottom line declined by 5% yoy. EBIT rose by 3% in FY14. The company declared a final dividend of RMB0.13 (vs. RMB0.22 in FY13), equivalent to 42.4% payout vs. 75.9% in FY13. Net cash has declined to RMB5.48bn vs. RMB7.05bn by end 2013.

#### Key highlights of results

- New openings of 49 stores to a total of 372 by end 2014.
- SSSG was -1.6% vs. 2% in FY13. The decrease was mainly due to weak consumption sentiment, diversified shopping channel and lack of new stimulus for spending. To recap, sssg was around -1% in 3Q14 and flat in 1H14.
- Rental income grew by 22% (20% in 2H14) driven by the new openings and better management of tenant mix in existing stores.
- GPM improved by 1.3ppt to 22.9% (+1.4ppt in 2H14 to 23.9%) attributed to category optimization and economies of scale.
- Staff cost ratio increased by 0.7ppt to 7.96% (+0.9ppt in 2H14). But average number of staff per store declined by 5% on efficiency improvement. Rental expense ratio rose by 0.18ppt to 2.55% (+0.18ppt in 2H14). The increase was mainly due to network expansion and development of ecommerce. The loss of Feiniu.com was around RMB162m.
- ETR declined by 0.9ppt to 27.9% due to utilization of previously unrecognized tax losses. Minority interests declined by 20%.

#### Stock data

Market cap (HKDm)	66,398
Market cap (USDm)	8,562
Shares outstanding (m)	9,540.0
Major shareholders	Ruextex Group (41.29%)
Free float (%)	23
Avg daily value traded (USDm)	7.298

Source: Deutsche Bank

#### Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	86,195	91,784	103,549
Net Profit (CNYm)	2,775.0	2,947.2	3,350.6
DB EPS (CNY)	0.29	0.31	0.35
PER (x)	30.3	18.2	16.0
Yield (net) (%)	2.5	2.2	2.5

Source: Deutsche Bank

#### Deutsche Bank comments

While sales were in line, net profit was 1.3%/1.6% below DB and market forecast due to a bit higher than expected opex. This was partly offset by lower ETR. The company will have an analyst briefing at 9am on 2 March.

Figure 1: Sun Art P&L

YE Dec RMBm	1HFY12F	2HFY12	1HFY13	2HFY13	1HFY14	2HFY14
Turnover	39,416	38,435	44,515	41,680	48,038	43,817
YOY % Growth	14.4%	14.3%	12.9%	8.4%	7.9%	5.1%
Gross Profit	8,066	8,084	9,231	9,382	10,523	10,475
GPM	20.5%	21.0%	20.7%	22.5%	21.9%	23.9%
EBIT	1,874	1,344	2,115	1,680	2,304	1,623
EBITM	4.8%	3.5%	4.8%	4.0%	4.8%	3.7%
Net Profit	1,373	1,036	1,576	1,199	1,710	1,198
NPM	3.5%	2.7%	3.5%	2.9%	3.6%	2.7%
YOY % Growth	75.1%	27.0%	14.8%	15.7%	8.5%	-0.1%

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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