



Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
CRE Alert

Reuters 0291.HK	Bloomberg 291 HK	Exchange HSI	Ticker 0291
ADR Ticker CRHKY	ISIN US16940R1095		

Date
3 March 2015

Company Update

Price at 3 Mar 2015 (HKD)	16.44
Price target - 12mth (HKD)	19.70
52-week range (HKD)	24.20 - 15.22
HANG SENG INDEX	24,887

Profit warning as expected

A loss in FY14

The company expects to record a consolidated loss and underlying consolidated loss for FY14 mainly due to the integration of Tesco China. It expects the consolidated underlying profit in retail segment will decrease by HKD2bn.

HKD800m provision in retail segment made in 4Q14

This was mainly for closure of less efficient stores and stores with poor prospects, including asset impairment and compensation for early termination of the shop leases. It will continue to review the store portfolio in retail segment.

Profitability suffers in short to medium term

Given additional time and costs for the integration of retail JV, its profitability continues to be affected in the short to medium term. Tesco is required to inject HKD4.3bn to fund the restructuring, of which HKD2.3bn for general business purposes within the JV and HKD2bn by discretion of the mgmt.

Loss cut and efficiency improvement are top priority

This includes 1) costs saving from integration of back office & supply chain and economies of scale in merchandising. 2) development of global sourcing, private label, CRM and ERP. 3) gradual setup of retail ecommerce business. 4) expansion of smaller stores and slowdown of new hypermarkets.

Deutsche Bank view

The profit warning is within expectation. The loss is mainly due to Tesco China, which was integrated since May 2014. The amount of provision in retail segment is higher than our expectation given further deterioration in retail environment in 4Q14 and store closure. To recap, it recorded underlying loss of HKD101m in 3Q14, leading to underlying NP of HKD567m in 9M14. The company targets to turnaround the JV within three years.

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Stock data

Market cap (HKDm)	39,407
Market cap (USDm)	5,081
Shares outstanding (m)	2,397.0
Major shareholders	China Resources Hldg (51.46%)
Free float (%)	48
Avg daily value traded (USDm)	10.771

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (HKDm)	146,413	172,985	195,200
Net Profit (HKDm)	1,908.0	148.4	543.4
DB EPS (HKD)	0.80	0.06	0.23
PER (x)	31.7	266.7	72.8
Yield (net) (%)	1.1	0.1	0.5

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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