



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 SUNRY	ISIN US8666331009		

Date  
13 March 2015

**Company Update**

Price at 13 Mar 2015 (HKD)	6.16
Price target - 12mth (HKD)	8.80
52-week range (HKD)	10.38 - 6.16
HANG SENG INDEX	23,798

## Key takeaways from NDR in EU

We took Sun Art to meet investors in London/Frankfurt after the FY14 results announcement. While investors agree on Sun Art's strength in offline operation under a tough macro, they care about when sssg is back to positive and the potential of Feiniu.com. Management highlighted that prepaid card remains an overhang and yet has bottomed. They are optimizing mix at both hypermarket and gallery to attract traffic. For Feiniu.com, the company aims to be the No.1 food retailer online, leveraging on strength in fresh food, offline network and supply chain, and reach breakeven in 2019 when Feiniu achieves sales of RMB20-30bn. Given the recent sell-off, we believe the current price provides an attractive entry level; we maintain our Buy rating.

### 2015: no worse, no better

SSSG is affected by prepaid card and ecommerce; turnaround depends on when decline in prepaid card will bottom and ecommerce behavior becomes rational. Mgmt expects the prepaid card portion will lower to 5-7% from the current 13% within two years. While sssg was negative, they remain the best player in the hypermarket segment. Sun Art continues to gain market share through organic growth and has a high-quality store portfolio while its peers either slowed down expansion or closed stores. There remains room for GPM improvement driven by better sourcing, mix change and rental income. The rental per sqm charged to gallery tenant sees 10% annual increase as Sun Art enjoys best traffic among peers. Management targets to maintain a stable EBITM excluding Feiniu loss.

### Feiniu – target breakeven in 2019 when sales reach RMB20-30bn

The company's ambition is to be the No.1 food retailer online. While Feiniu is a late comer to ecommerce and requires a different skill set from offline retail, mgmt is confident that their offline advantage in procurement, fresh food and supply chain will facilitate the online expansion and enjoy better margin, i.e they are able to launch online fresh business and expansion nationwide after one-year online operation. Customer acquisition faces more challenges than the tech setup. Therefore, it would be a key category to invest in 2015. In 2Q15 they plan to launch marketplace. The order growth online in Jan/Feb was 10x yoy and mgmt expects faster growth going forward given nationwide coverage since March.

### Put option is not a concern

They have extended the put option to 1 Jan 2016. The company explained that the option is just a mechanism to align interests by both parties. Ruextex has no intention to exercise.

Lydia Ling

Anne Ling

Research Analyst Research Analyst  
(+852) 2203 6181 (+852) 2203 6177  
lydia.ling@db.com anne.ling@db.com

### Stock data

Market cap (HKDm)	58,766
Market cap (USDm)	7,569
Shares outstanding (m)	9,540.0
Major shareholders	Ruextex Group (41.29%)
Free float (%)	23
Avg daily value traded (USDm)	7.721

Source: Deutsche Bank

### Key data

FYE 12/31	2014A	2015E	2016E
Sales (CNYm)	91,855	99,188	109,244
Net Profit (CNYm)	2,908.0	3,102.8	3,413.0
DB EPS (CNY)	0.30	0.33	0.36
PER (x)	24.2	15.3	13.9
Yield (net) (%)	1.8	2.8	3.1

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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