

JPM-pp1

Asia Pacific Equity Research

20 March 2015

Golden Eagle Retail Group Ltd (3308 HK)

Overweight

Price: HK\$9.02

17 Mar 2015

Price Target: HK\$12.50

PT End Date: 31 Dec 2015

FY14 Preview - Reporting on 23 March 2015

Golden Eagle is expected to report its FY14 result on 23 March, 2015 after market close. The company will hold its briefing around 9:30am on 24 March, 2015, Hong Kong time.

- Weak FY14 results but worst likely to be over as Xinjiekou store starts contributing:** 2014 proved to be a challenging year for Golden Eagle. In addition to overall consumer slowdown, pressure on department store sales and high base of gold sales of last year Nanjing Xinjiekou improvement works also impacted Golden Eagle's performance negatively. We expect slight improvement in 2H14 performance and look for c11% decline in net profit vs c23% decline of the 1H14 as we expect Xinjiekou store to be less of a drag. We maintain our OW rating as we expect Xinjiekou to start contributing in FY15 and low gifting base finally materializing, we expect SSS to start improve slightly in FY15. The stock is trading at c11x of FY15E earnings and we believe Golden Eagle is among the better positioned department stores in China, with its management continuously focusing on improving merchandise, brand mix, and shopping experience.
- 2H14 and 2015 outlook:** For 2H14, we expect flat SSSG for existing stores which leads to c2% top line growth for 2H14 and c5% y/y increase in EBIT (vs 9% decline in 1H14) as we expect Xinjiekou store to be less of a drag. That leaves us with a slight 2% y/y decline in EBIT for FY14. For 2015, we are building in c4% SSSG and expect to see the contribution from new Xinjiekou phase and have estimates of c19% revenue growth and 14% EBIT growth in FY15 on the back of that.
- Key issues to focus on at the results briefing:** 1) Update on the new Xinjiekou store, 2) New store opening plan or renovation plan, 3) Update on the omni-channel marketing (Goodee mobile application, Wechat, iPoints-point reward system) and electronicalised business model. 4) Update on core business and whether any pick up is observed in SSSG.

Table 1: JPM's estimates on Golden Eagle's 2H14E and FY14E results

HK\$ mn	2H13	2H14E	% chg y/y	FY13	FY14E	% chg y/y
Gross sales proceeds	8,211	8,357	1.8%	16,833	16,295	-3.2%
Revenue	1,829	1,886	3.1%	3,660	3,663	0.1%
Gross profit	1,329	1,346	1.3%	2,643	2,613	-1.1%
Gross margin (%)	16.2%	16.1%		15.7%	16.0%	
Other operating income	125	138	10.8%	233	262	12.4%
Total operating expenses	-702	-690	-1.6%	-1,361	-1,385	1.8%
as % of GSP	-8.5%	-8.3%		-8.1%	-8.5%	
EBIT	752	794	5.5%	1,515	1,490	-1.6%
EBIT margin (%)	9.2%	9.5%		9.0%	9.1%	
Interest income	131	133		243	264	
Interest expense	-98	-101		-163	-190	
Change in fair value of derivative instruments	0	0		0	0	
Other gains and losses	66	-12		100	-50	
Share of profit of associate	7	-5		13	-10	
PBT	858	807	-5.9%	1,708	1,504	-11.9%
Tax	-253	-267	5.5%	-473	-481	1.7%
Tax rate (%)	-29.5%	-33.1%		-27.7%	-32.0%	
PAT	604	540	-10.7%	1,235	1,023	-17.1%
Minority	0	0		0	0	
Net profit to shareholders	604	540	-10.7%	1,235	1,023	-17.2%
Net margin (%)	7.4%	6.5%		7.3%	6.3%	
Recurring Profit	539	563	4.6%	1,163	1,092	-6.1%
Recurring margin (%)	6.6%	6.7%		6.9%	6.7%	

Source: Company reports. Source: Company data and J.P. Morgan estimates.

Investment Thesis

We maintain our OW rating as we expect Xinjiekou to start contributing in FY15 and with the low gifting base finally materializing, we expect SSS to start to improve slightly in FY15. The stock is trading at 11x FY15E earnings and we believe Golden Eagle is among the better positioned department stores in China, with its management continuously focusing on improving merchandise, brand mix and shopping

experience.

Valuation

Our Dec-15 PT of HK\$12.5 is based on 15.5x one-year forward P/E, which is one-standard deviation below historical levels given lackluster operations.

Risks to Rating and Price Target

Key downside risks to our rating and price target include: 1) execution risks in opening and turning around new stores, 2) further decline in the concessionaire rate, and 3) further slowdown in the SSSG rate.

Consumer

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Date	Rating	Share Price (HK\$)	Price Target (HK\$)
20-Apr-07	N	5.83	5.00
30-Apr-07	N	5.17	5.20
17-Aug-07	UW	6.80	5.50
03-Apr-08	N	7.24	7.00
27-Aug-08	OW	6.65	8.40
26-Mar-09	OW	5.29	6.50
20-Aug-09	OW	10.00	11.60
09-Apr-10	N	15.98	15.50

22-Aug-10	N	18.80	21.00
15-Oct-10	OW	19.46	23.50
29-Mar-11	OW	16.50	24.00
17-Aug-11	OW	18.18	26.00
12-Oct-11	OW	17.82	24.00
02-Jul-12	OW	16.58	22.50
22-Aug-12	OW	15.86	22.20
15-Sep-12	OW	16.18	19.50
25-Mar-13	OW	14.10	16.50
01-May-13	OW	13.78	16.00
21-Aug-13	OW	12.60	14.30
19-Mar-14	OW	10.62	13.00
26-Aug-14	OW	9.90	12.50

<http://gps-app.emea.jpmchase.net:6080/server/console/chart/?shareClassId=504099&shareClassServerId=4&chartDesignation=1&actionType=C>

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