

JPM-pp1

Asia Pacific Equity Research

24 March 2015

Golden Eagle Retail Group Ltd (3308 HK)

Overweight

Price: HK\$9.19

20 Mar 2015

Price Target: HK\$12.50

PT End Date: 31 Dec 2015

SSS decline shows some sequential recovery in 2H but margins are weaker than expected

Golden Eagle announced weak results with FY14 sales down 6% y/y, 3% below our estimate but more importantly FY14 EBIT down 13% y/y and c11% below our estimate. This implies 2H14 decline of c17% y/y which is notably worse than our estimate. Saved by one-offs (gains on disposals and change in fair value of held for trading investments) headline net profit was down 12% y/y and higher than our estimate. Our estimates for FY14 were in line with consensus and we expect weak EBIT to disappoint the market.

- During FY14 gross sales proceeds were down 6% y/y with 5.5% decline in SSS (dragged down by Xinjiekou store's renovation and thus c12% SSS decline at this store). Gross sales proceeds declined c4% in 2H14 (vs -8% in 1H14). SSS was down c4% y/y in 2H14 which has improved vs c7% y/y decline in 1H14.
- EBIT margin for FY14 came at 8.3% down 70 bps y/y leading to 2H14 EBIT margin of 7.9%, down 130bps y/y. We were expecting some slight recovery in 2H14 EBIT margins as we built in some contribution from Xinjiekou stores in 2H14 which likely did not happen.
- The proposed final DPS as RMB0.151 per share, pointing to 48% payout ratio, up from c29% of last year but in line with our expectation.

Table 1: Golden Eagle 2H14 results vs JPM estimates

RMB mn	2H13	2H14A	y/y % chg	2H14E	Actual/Est
Gross sales proceeds	8,211	7,903	-3.8%	8,357	-5.4%
Revenue	1,829	1,848	1.1%	1,886	-2.0%
Gross profit	1,329	1,313	-1.2%	1,346	-2.5%
Gross margin	16.2%	16.6%		16.1%	
Other operating income	125	161	29.0%	138	16.4%
Total operating expenses	-702	-848	20.9%	-690	22.8%
as % of GSP	-8.5%	-10.7%		-8.3%	
EBIT	752	626	-16.8%	794	-21.1%
EBIT margin	9.2%	7.9%		9.5%	
Interest income	131	129		133	-3.0%
Interest expense	-98	-71		-101	-29.8%
Change in fair value of derivative instruments	0	0		0	
Other gains and losses	66	150		-12	
Share of profit of associate	7	7		-5	
PBT	858	840	-2.0%	807	4.2%
Tax	-253	-243	-3.9%	-267	-8.9%
Tax rate	-29.5%	-28.9%		-33.1%	
PAT	604	597	-1.2%	540	10.6%
Minority	0	-2		0	
Net profit to shareholders	604	599	-0.8%	540	11.0%
Net margin	7.4%	7.6%		6.5%	
Recurring Profit	539	465	-13.7%	563	-17.4%
Recurring margin	6.6%	5.9%		6.7%	

Source: J.P. Morgan estimates, Company data.

Table 2: Golden Eagle FY14 results vs JPM estimates

RMB mn	FY13	FY14A	y/y % chg	FY14E	Actual/Est
Gross sales proceeds	16,833	15,841	-5.9%	16,295	-2.8%

Revenue	3,660	3,625	-0.9%	3,663	-1.0%
Gross profit	2,643	2,580	-2.4%	2,613	-1.3%
<i>Gross margin</i>	15.7%	16.3%		16.0%	
Other operating income	233	285	22.2%	262	8.6%
Total operating expenses	-1,361	-1,542	13.4%	-1,385	11.4%
<i>as % of GSP</i>	-8.1%	-9.7%		-8.5%	
EBIT	1,515	1,323	-12.7%	1,490	-11.3%
<i>EBIT margin</i>	9.0%	8.3%		9.1%	
Interest income	243	260		264	-1.5%
Interest expense	-163	-160		-190	-15.9%
Change in fair value of derivative instruments	0	0		0	
Other gains and losses	100	112		-50	
Share of profit of associate	13	3		-10	
PBT	1,708	1,538	-10.0%	1,504	2.2%
Tax	-473	-458	-3.3%	-481	-5.0%
<i>Tax rate</i>	-27.7%	-29.8%		-32.0%	
PAT	1,235	1,080	-12.5%	1,023	5.6%
Minority	0	-2		0	
Net profit to shareholders	1,235	1,082	-12.4%	1,023	5.8%
<i>Net margin</i>	7.3%	6.8%		6.3%	
Recurring Profit	1,163	1,062	-8.7%	1,092	-2.7%
<i>Recurring margin</i>	6.9%	6.7%		6.7%	

Source: J.P. Morgan estimates, Company data.

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 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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20-Apr-07	N	5.83	5.00
30-Apr-07	N	5.17	5.20
17-Aug-07	UW	6.55	5.50
03-Apr-08	N	6.60	7.00
27-Aug-08	OW	6.65	8.40
26-Mar-09	OW	5.17	6.50
20-Aug-09	OW	9.03	11.60
09-Apr-10	N	15.98	15.50
22-Aug-10	N	19.00	21.00
15-Oct-10	OW	20.00	23.50
29-Mar-11	OW	17.12	24.00
17-Aug-11	OW	18.18	26.00
12-Oct-11	OW	17.82	24.00
02-Jul-12	OW	15.74	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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